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ROHR ALERT!! Friendly Data Into Friendly Fed Anticipation

1 message

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Dear Subscribers,
If the US equities needed another reason to rally in addition to the already upbeat vaccine anticipation we still doubt is a 'silver bullet', then today's economic data was just what the doctor ordered. From Chinese Industrial Production and Retail Sales into UK Employment, German and Euro-zone ZEW and the US Empire Manufacturing Index, even if Industrial Production came in quite a bit lighter.

Yet beyond that is the classical 'friendly Fed anticipation' prior to Wednesday's FOMC rate decision, projections revisions and Chair Powell's press conference. As we noted on Monday, there is pressure on Powell to be more explicit about the Fed's newly even more accommodative than previous policy shift. Yet as we also pointed out from Monday morning's FT article (https://bit.ly/33uUiwG), so many otherwise well-informed individuals are urging the Fed to back up its new policy with specific indications that we note again may not be of any economic benefit.

We (once again among others) have noted repeatedly and once again inquire what is it the Fed can actually do on the economic front if there is no stimulus from Congress? The Fed can talk about tolerating inflation as long as it wants, yet as 'code language' on some ability to stimulate it. This is the same sort of legerdemain that did not help the US economy when Chair Yellen attempted to boost it and markets by warning the previous major stimulus would create inflation in early 2015. It's Fed code language for them assisting the economy.

Which of course they cannot actually do short of some meaningful assistance from Congress engaging in tax and regulatory reform and fiscal stimulus. It is the latter which needs to be acted upon at present due to continuing pressures from the COVID-19 pandemic. Yet it seems that Congress remains deadlocked on the differences between both the amount to be spent and where it should be applied.

The further damage to the US economy is highlighted in this another Monday Financial Times article (https://bit.ly/32xFNJy) on the potential for the lower end US retail business landscape to become a 'wasteland'. While allowing (as do we) that the erratic US Congress could find grounds for compromise at any time, many qualified observers are concerned that there will be significant final demand shrinkage without a further stimulus/relief package very soon.

Former Fed Chair Bernanke is cited among the more telling comments that has been out there for a while on a topic where the Republicans seem to be extremely reticent about spending. To wit, (there could be) "*a 'significantly worse and protracted recession' if no additional federal help was given to state and local governments*." Further from the same section, "'*If we have to see states reducing spending, cutting teachers, cutting police, and other things that states and local governments do, you're really playing with fire,' said Alan*

***Blinder, a Princeton University economics professor who formerly served as Fed vice-chair...*"**

The question remains the same as we (among others now clearly articulated in the FT article) have asked previous on the US economy: How many lower-middle and lower income jobs can be eliminated from public facing businesses before it has an impact on the spending of the folks who are permanently unemployed?

And those closures with layoffs are already well documented and expanding in hospitality, dining and small retail. Those waiters and other restaurant workers, guest services staff at hotels along with cleaning staff there and in offices, etc. are not likely to find other employment suited to their skill sets anytime soon. Nobody less than Fed Chair Powell has noted this mismatch of workers' skill sets from those businesses as a major near-term issue for the US economic growth.

This is as we cited in Monday's very good 'Retirements, layoffs, labor force flight may leave scars on U.S economy' Reuters article (https://reut.rs/3bUme17.) As it also noted, "*Six months into the pandemic, evidence of longer-term damage to the U.S. labor market is emerging*…" That lack of additional federal government support this long after the July 31st end of the supplemental US unemployment insurance individual $600 per week benefit and the end of the business support from the Paycheck Protection Program is already causing many more businesses to declare their permanent closure. (See the Reuters article for much more.)

Yet the US equities have taken heart from the friendly data into classical 'friendly Fed anticipation' for Wednesday afternoon announcements and hope for more accommodation of some sort from Powell's press conference. The front month S&P 500 future is now trading up above the old February 3,400 area all-time high once again. Yet based on whether that 'friendly Fed anticipation' is fulfilled by some yet to be determined additional Fed commitment Wednesday afternoon, or disappointed by the lack of it, the US equities real decision this week is pending.

Additionally note that the next OECD Interim Economic Outlook will be presented early Wednesday morning, and is anticipated to remain fairly downbeat. While the OECD might surprise, the last time the OECD provided a decidedly weak future view followed by disappointment from a lack of new action by the Fed was back on June 10th. Please refer to that US equities activity as a context for what might occur if the 'macro' influences repeat that less than bullish context.

Also the same as Monday is how fully bifurcated overall market psychology remains in the curious context of the recent US equities recovery is that the global govvies are continuing to hold most of their impressive gains from last week. That is more of a 'risk off' psychology than the US equities would indicate.

That said, emerging currencies holding recent gains would speak of a continued 'risk on' psychology that is supportive of the upbeat US equities activity. As such, the aftermath of Wednesday's combined impact from OECD and FOMC influences remains the next window for a resolution of these contradictory cross currents.

This is the critical consideration
COVID-19 virus spread caused US equities into a DOWN Break below the front month S&P 500 future 2,600 area major up channel in early March. That seemed to indicate more of a

near-term failure. That was from the early 2016 low (as is clear on the weekly chart https://bit.ly/33xG6TM updated through Friday.)

That was then the key higher resistance subsequently violated on its mid-April push above its 2,675 trading high Tolerance from prior to the DOWN Break (also monthly MA-48.) Ergo, the rally could be sustained. The front month S&P 500 future pushing out of the broad higher range top in the 3,030-2,970 area in early June was the key to it surging to the 3,200 area. That was the next meaningful higher resistance with a 3,230 Tolerance at which it failed previously on the rally.

Yet pushing above it in late July opened the door to a retest of the February's 3,397.50 front month future all-time high. Yet after such a major rally back from the February-March debacle, it was hard to imagine it could prevent the front month S&P 500 future from at least taking a look above 3,397.50; and that has now transpired on a push above it two weeks ago into the low 3,500 area.

That was also above extended 'adjusted' weekly Oscillator range in the 3,425-30 area last week, now rising $10 per week on the MA-41 rise. That was the same threshold where it stalled in February, which we already knew from the Oscillator 'adjustment' we made after the market strength into early 2017. And the rally has called for another 'adjustment' based on the 2,875 early 2018 high Close and the subsequent 3,381 February high Close prior to the COVID-19 pandemic debacle.

That new 'extended' weekly Oscillator threshold is MA-41 plus 395-400, which was 3,495-3,500 last week and rises to 3,500-05 this week. Yet the extended key to any 'runaway' bull was a longer term topping line projected across the February 3,397.50 trading high from the April 2010 first major high after the major cyclical 2009 low. That topping line was at 3,535 last week, rising to 3,545 this week.

Aside from the sheer magnitude of the recent selloff, it was important for the establishment of a technical pattern top. With such a significant rally above the previous week's 3,504.50 Close, the drop well below it established a DOWN Closing Price Reversal (CPR) of some magnitude. Along with the topping line, that is now the key higher resistance on any sizable recovery from lower support.

The next significant support after it traded back below the February 3,397.50 previous all-time high looks like the 3,230-00 range we had previous highlighted as the rally resistance into early June, which was subsequently overrun on the rally extension into early August. On the upside, that newly established 3,504.50 DOWN CPR has a Tolerance to the previous week's 3,509.50 high (on a weekly Closing basis) and could be retested if activity above 3,400 area is sustained.

Thanks for your interest.

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