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ROHR ALERT!! OECD Into Still Friendly Fed Anticipation

1 message

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Dear Subscribers,
As noted since the beginning of this week, today is going to be the 'crunch' day for US equities. That is due to the next OECD Interim Economic Outlook being released this morning prior to the FOMC announcements, projections revisions and Chair Powell's press conference this afternoon. And while OECD indications are 'less bad' than previous, they remain a very downbeat forward view.

The Interim Outlook (https://bit.ly/2Fzh3rz) noted that global growth was a bit better than previously expected, yet would remain well below the trajectory out of late 2019 over the next two years. A bit below the opening picture the web posting includes a graph (https://bit.ly/3knSYml) which illustrates this partial 'V' rebound that stalls to varying degrees. In fact, that graph can be animated via the '*Play the story*' button to show evolution of the projections, including the potential for both over- and under-performance. It can also be compared to the somewhat more dire original projections back in June. In any event, the future remains fraught.

That was reinforced by this morning's weaker-than-expected US Retail Sales (all categories were several tenths of a percent below expectations) even after more upbeat Chinese equivalents Tuesday. That follows much weaker-than-expected US Industrial Production yesterday as well. As such, the pressure is ramping up on the Fed to 'do something' to stimulate the economy. Yet as we have noted previous, that is not really the Fed's responsibility… it falls to Congress.

In fact, the Fed is doing exactly what it should be doing, and recent statements on not raising rates until employment and inflation recover for a sustained period of time is what falls within its now more aggressively accommodative mandate. It is good that the Fed has made that clear since Chair Powell's Jackson Hole speech (https://bit.ly/3msth64) back on August 27th. The key passage there is on page 11 regarding being attendant to 'shortfalls' in employment, not just 'deviations'.

As noted since earlier this week, there was the classical 'friendly Fed anticipation' prior to today's FOMC meeting and press conference, which is now intensified by the OECD still downbeat Outlook and weaker US data. 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. While it seems Congress remains deadlocked on the differences between both the amount to be spent and where it should be applied, a proposal this week offers some hope, and that is also assisting US equities.

In fact, the Fed is doing exactly what it is capable of doing on that front as well: clearly and strongly encouraging Congress to act on fiscal stimulus that is so much more important than the Fed simply acting as a liquidity backstop for any further financial pressures. As noted Tuesday, the further damage to the US economy is noted in another Financial Times article (https://bit.ly/32xFNJy) on the potential for the lower end US retail business landscape to become a 'wasteland'.

That saw some further reinforcement in a CNBC article (https://cnb.cx/3kqCeem) this morning with an interview link that includes comments from YELP's Justin Norman, VP of Data Science. Along with the extensive discussion and graphs in the article, he notes that many businesses (especially restaurants and retail) shifted their models to adapt to COVID-19 protocols (like curbside pickup.)

However, they are finding those adjustments "...*are not enough to sustain those businesses over the long term*." The hopeful March-April adjustments are now becoming the September disappointments, with implications for the overall US employment picture noted in the FT article. Of the 32,109 business closures noted by YELP, 61% are now permanent. Consider all of that in the context of what the Fed can, or cannot, do and the potential for disappointment with FOMC releases today and Powell's press conference looms large,,, much like back on June 10th.

This is all occurring as the front month S&P 500 future hangs around in the low 3,400 area, only modestly above the previous February all-time trading high. It is also a critical area on recent near-term attempted trend bottoming activity after the DOWN Closing Price Reversal from the low 3,500 area two weeks ago.

As such, the market response to the FOMC today assumes extra importance, especially in the context of the weaker US data and the still downbeat OECD Outlook. In the meantime, the global govvies are also on hold after recent gains, also likely waiting on whatever the FOMC and Powell have to say. That said, the emerging currencies are keeping their bid on the assumption a much more accommodative Fed will still foster an overall 'risk on' psychology.

Courtesy Repeat of Tuesday's 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… ...with the latter being the critical near-term consideration

Thanks for your interest.

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