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ROHR ALERT!! Déjà vu All Over Again

1 message

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Dear Subscribers,
Yes, that is a redundancy. It comes from that Master Malapropist, the late, great Yogi Berra (1925-2015), former New York Yankees Head Coach. Yet it also relates to the current macro background as it applies to US equities' response to various fundamental factors during this week compared to the early June activity.

As noted since early week and pointedly highlighted in Wednesday morning's 'OECD Into Still Friendly Fed Anticipation' ALERT!!, the confluence of factors and technical trend developments were distinctly similar to the June 10th situation. That was on the early day release of the next OECD Interim Economic Outlook prior to the FOMC announcements, projections revisions and Chair Powell's press conference in the afternoon. Another of the old axioms we like to cite is, "*The market doesn't necessarily repeat, but it rhymes*." Yet now it's repetition.

Much like June 10th and its aftermath, the US equities held up well near the top of a rally even after a downbeat OECD Outlook, with 'friendly Fed anticipation' prior to the FOMC meeting and press conference. Yet in June as well, that led to 'Fed disappointment' when the Chair did not commit to new major steps beyond its already Brobdingnagian accommodation maneuvers. And the Bank of England holding rates steady but offering no further steps today reinforces a key element:

The central banks are already doing all they can around accommodating looser capital market conditions than seen since the 2008-2009 Housing and Credit Bust. Before we move on to the extended economic implications of the lack of further US government COVID-19 relief/stimulus measures, for the curious here are the links to the key Fed and BoE releases: The FOMC Monetary Policy Statement (https://bit.ly/3hBZJz3) and revised projections (https://bit.ly/3hGeyk2) along with Chair Powell's full press conference video (https://bit.ly/3kpR4BB) with Q&A.

And here is the Bank of England Monetary Policy Summary and Monetary Policy Committee Minutes (https://bit.ly/3kpl9RH) released just this morning. These were also very accommodative, yet without any expansion of existing programs.

Back to the FOMC, one of the best press conference questions was CNBC's Steve Liesman's inquiry on the confidence the Fed has in inflation projections getting somewhat back above 2.0% as early as 2021-2022 while the 'dot plot' of future midpoint of the federal funds rate remains almost totally down in the 0.00%-0.25% range through all of 2023. Powell fudged a very nice response on Fed confidence.

Yet our inference (much like the outside observers we have extensively cited) is that there is quite a bit of doubt the Fed can indeed encourage enough growth to foster higher inflation without the fiscal stimulus Powell has repeatedly stressed. As he noted on many previous occasions and repeated Wednesday afternoon, the Fed "...*is a lender, not a*

***spender*.” It has no mandate to provide direct payments, versus its ability to afford massive loans to ‘qualified’ borrowers. That last bit is important, as there must be some reasonable expectation the loan can be repaid.**

That is important as more of the US economy comes under pressure from the sustained spread of the COVID-19 pandemic, even if at a lower level than the worst situation earlier this Summer. For more on this we repeat our reference to Wednesday’s OECD Interim Outlook (https://bit.ly/2Fzh3rz), which was ‘less bad’ than previous, yet remains a very downbeat overall forward view.

A bit below the opening the web display is 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 projections, including the potential for both over- and under-performance. It is enlightened that it can also be compared to the somewhat more dire original projections back in June. Somewhat better now, but clearly the future remains extremely fraught.

That was reinforced by Wednesday morning’s weaker-than-expected US Retail Sales after Tuesday’s weak US Industrial Production as well. As such, pressure was ramping up on the Fed to ‘do something’ to stimulate the economy. Yet as we have noted previous, that is not the Fed’s responsibility… it falls to Congress.

While Congress has remained deadlocked on the differences between both the amount to be spent and where it should be applied, a proposal this week offers some hope. That should also be assisting US equities, yet it is not at present. Possibly that is because so many previous compromises have failed, and the markets will likely want to see the proof in this pudding prior to responding.

As noted in a Financial Times article (https://bit.ly/32xFNJy) earlier this week, there is a potential for the lower end US retail business landscape to become a real ‘wasteland’. That saw some further reinforcement in a Wednesday morning CNBC article (https://cnb.cx/3kqCeem) with an interview link including comments from YELP’s Justin Norman, VP of Data Science. Along with extensive discussion and graphs in the article, he notes that many businesses (especially restaurants and retail) shifted their models to adapt to COVID-19 (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 what is now rightful disappointment with the FOMC and Powell’s press conference Wednesday… much like back on June 10th.

That was all occurring as the front month S&P 500 future hung 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 trend bottoming attempts (more below) after the DOWN Closing Price Reversal from the low 3,500 area two weeks ago. The key difference now is that the US equities are not imploding to lower support.

Yet, the market response to the OECD, FOMC and recent data assumes extra importance. In the meantime, global govvies are now gaining ground again on the US equities weakness

indicating more of a 'risk off' psychology. And emerging currencies have lost just a bit of their recent bid on that psychological shift.

This is the critical consideration
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 (as is clear on the weekly chart https://bit.ly/33xG6TM updated through Friday.) Yet it also pushed above that out of late July.

This opened the door to a retest of the February's 3,397.50 front month future all-time high. And after such a major rally back from the February-March debacle, it was hard to imagine the old February all-time high could prevent the front month S&P 500 future from at least taking a look above 3,397.50; and that then transpired on the 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 below the February 3,397.50 previous all-time high looks like the 3,230-00 range we had previous highlighted as rally resistance into early June. On the recent attempt to stabilize at no worse than the 3,300 area, the market exhibited a couple of less than credible pattern bottoms.

The latest of those saw a lackluster 3,400 area UP Break early Tuesday morning that has failed in the wake of extended macro factors. That likely indicates last week's 3,295 trading low of the selloff will be violated on the way to lower ground. As a further technical note, the September S&P 500 future expires tomorrow, with the December S&P 500 future trading at a $10 discount. While not technically very significant, it is another burden bulls now need to shoulder in a soft psychology.

Thanks for your interest.

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