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ROHR ALERT!! WEEKEND: Volatility Rules Into Radical Week

1 message

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Dear Subscribers,
This unusual weekend analysis is in deference to our personal holiday on Monday of what may well be a very volatile week. The saving grace on a 'macro' level is deceptively light reporting Monday prior to the major late month and early month economic data… and, oh yes, Tuesday evening's US Presidential debate.

That is after a week which saw quite a bit of volatility last week. Even though it was less wild than some previous COVID-19 pandemic price swings, it has picked up again over the past couple of weeks. Yet next week raises the trend stakes once again in consideration of all the macro shifts likely to freely flow.

In response to the extreme US equities trend and trading volatility on the initial phase of the COVID-19 pandemic pressure, on March 5th we issued our 'C'mon in and Ride the Whip' ALERT!! That was during US equities radical weakness and extreme volatility into the first Fed emergency rate cut and Democratic primaries.

Revisiting our March 5th ALERT!! for context on how savvy short-term traders had already been trained to handle financial market volatility before they even existed, we return to that historic agricultural futures insight for a brief review:

"*Back in prehistoric times (before electronic screens) when we were runners on the old-old Chicago Mercantile Exchange trading floor (https://bit.ly/2Yme8aW), the place to learn about volatility was the dear departed Pork Belly futures pit. When the 'Bellies' were in very active market phases they were known for extreme intraday and day-to-day price swings. Depending on the news flow at the time, multiple limit up or limit down (1.50¢/lb.) moves were a regular occurrence.*")

"The exchange floor was also populated with no small number of aggressive traders who were also capable of wit and wisdom. During one of those very active phases there were a couple of 'newbie' exchange members observing from the side of the Belly pit as the market raced up and down. One of the more successful and sarcastic CME trading legends stepped out of the pit to update his trading cards (yes… recording trades manually) to turn into the clearing house.

"Noticing the awed expressions and somewhat scared look in the eyes of the newbies (who were surely aware of the sizable sums that were rapidly changing hands), he quipped, 'This is fun fellas… C'mon in and ride the whip.'

"*Rather than just a random reminiscence and history lesson, there are a couple of points for current markets. Early volatile market analysis prior to the existence of any financial futures at all turned out to be extremely useful training, first for the foreign exchange futures and then once the US debt futures began trading.*"

The additional anticipatory perspective on last week's S&P 500 serial $100 swings is that they may just be the ramp up for further radical price swings this week… especially in light of the macro influences (see Weekly Report & Event Calendar.)

While possibly not as radical as the early March COVID-19 pandemic 'unknowns' pressure into temporarily hopeful Fed and US election developments, it might still get much crazier out there on the natural evolution of the data and events. As we highlighted in Friday's 'It's a Wrap…' ALERT!!, much of the important economic data only unfolds after Tuesday evening's critical US Presidential debate.

Even in light of some of the other data also being impacted by the same lack of fresh US government COVID-19 relief, by far the more important influence will likely be Friday's next US Employment report for the 'month' of September, the last of this always important indication prior to the November US election.

It is important to note the basis for that report's data as a way to understand why the forward estimates are already calling for a far weaker report than the August report released back on September 4th. As noted that morning in our 'A Curious Sort of Friendly Jobs Report' ALERT!!, the interesting basis of "...*the monthly US Employment report is that it cuts off around the 18th day of the previous month. As such, the 'August' report is actually the 'second half of July through the first half of August' report*." That is extremely critical into its October 2nd release.

This is because it will be the mid-August through mid-September data. It is the first monthly period that represents the activity after the previous supplemental $600/week unemployment benefit lapsed on July 31st. As such, it is the likely culmination of what we have characterized as the cynical game Speaker Pelosi and Democrats have been playing. As noted in Wednesday's observation on this "...*ends justify the means*…" approach of the Democrats to the election influence:

"*They hope it will weaken Trump's strong economy argument among the select number of independent voters who will likely decide the presidential election in just six weeks*." And recent data would seem to indicate this 'let the people suffer in the near-term' strategy is working. We shall see if it continues into next week with anticipated further US equities weakness (also an anti-Trump development.)

Aside from any of the US political machinations, the COVID-19 pandemic fallout continued on Americans lack of ability to discipline themselves to accomplish any suppression of the infection spread. The news from Thursday's multifaceted Reuters article (https://reut.rs/3kKPGK3) includes, "...*positive cases rose in half of the 50 U.S. states this month. Ten states have reported a record one-day increase in COVID-19 cases in September, including Montana, South Dakota and Utah on Thursday*." Also, "*All Midwest states except Ohio reported more cases in the past four weeks as compared with the prior four weeks*…"

That is also globally consistent with why the overall psychology has recently turned sharply from 'risk on' to 'risk off', with European deterioration and the newly announced more draconian COVID-19 suppression protocols in the UK.

However, market analysts must be guarded about putting too much stock in 'rearview mirror' indications, and always focus more so on anticipation of what is likely coming next. Yet as the Reuters article also notes, "*The United states is currently averaging 40,000 new infections per day. Top U.S. infectious disease expert Dr. Anthony Fauci has said he would*

***like to see the number fall below 10,000 per day before flu season starts in October*." Right, October.**

Wait, what?!! October? That's just four days away. So the chance there will be anywhere near the US COVID-19 infection rate reduction consistent with any real suppression of the pandemic spread is nil… or as the old saying goes, *"Between slim and none, and Slim just left*." October 1st is also the day on which previous proscriptions on US airlines layoffs (based on their earlier relief package) lapse. Thousands of additional layoffs are expected from that previously sheltered industry… unless their additional $25 billion relief request is granted (unlikely.)

So it goes from what many hoped would be US government-supported economic recovery under the next 'new normal' (after that was how the post 2008-2009 economy was described by the estimable Mohamed El-Erian) back to what we have always suggested under COVID-19 pressures would be the 'new abnormal'.

In the meantime, US equities stabilized at last week's lower levels, and staged a December S&P 500 future rally back from 3,230-00 (Tolerance to the early June 3,185 area high weekly Close prior to a downside reaction) early Friday morning to near the 3,300 area again (the fourth such swing last week.) Whether it can hold that 3,230-00 area next week is important considering the next significant support is back in the old 3,030-2,970 area (from all the way back in early March.)

Global govvies continue their subdued yet relentless bid. And the US Dollar Index strengthened against developed currencies with an UP Break that speaks of an overall reversal of the sustained downtrend since the late March blowoff highs.

That was another bit of volatility last week from a greenback that had been having trouble gaining ground from an early September 5-month trading low. It finally also gained ground against emerging currencies that had ignored the sharp US equities initial weakness from early September new all-time highs. That reversal of the emerging currencies strength is on renewed European and UK COVID-19 infection concerns, and plays right into the overall shift to a 'risk off' psychology.

And that is what will likely be in play next week on the major combined late- and early-month economic data, quite a bit of central bank-speak, Tuesday evening 's US Presidential debate, and the next Weekly US Initial Unemployment Claims on Thursday that will surely be overshadowed by Friday's US Employment report.

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/2GiNQB1 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 late August push above it into the low 3,500 area.

Aside from the sheer magnitude of the selloff in the first week of September, it was important as 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 major DOWN Closing Price Reversal (CPR). 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 (see the September 18th 'Extended Short-Term US Equities Trend Twist' ALERT!! for a full discussion and Evolutionary Trend View fully annotated chart analysis.)

The latest of those saw a lackluster 3,400 area UP Break early Tuesday September 15th that failed in the wake of key macro factors. That suggested a previous 3,295 trading low of the selloff would be violated, as occurred late two weeks ago into lower ground. Follow-through after that Friday's temporary trading below 3,295 has seen the downtrend extend all the way to multiple tests of the 3,230-00 range last week, with a Tolerance to 3,185. Near-term resistance on any rally is in the low-3,300 area, with next significant support into that major 3,030-2,970 area.

Thanks for your interest.

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