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ROHR ALERT!! Another Round of ‘Friendly Fed Anticipation’?

1 message

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Dear Subscribers,
As we have noted on the runup to many previous FOMC meetings across many years, there tends to be a ‘Friendly Fed Anticipation’ function which buoys US equities into those announcements and press conferences. And we are bringing you this in plenty of time prior to Wednesday afternoon’s (14:00 EST) FOMC rate (non-)decision, policy statement and Chair Powell’s press conference.

Yet it is also often the case that this is in anticipation of the expansion of Fed largesse (QE), or even some new exotic Fed program (i.e. like direct equities purchases) that fail to occur. As such, especially in the wake of the Fed already being ‘all in’ on aggressive monetary accommodation, there has indeed been disappointment after no new program announcements following recent meetings.

Note how the US equities either rallied, or held up near the top of an immediately preceding rally during various recent phases into the FOMC announcement and Powell press conferences (which was also the case for his predecessors Yellen and Bernanke.) Even as US equities were recovering strongly overall after the major March 2020 COVID-19 pandemic implosion bottom, in late April the front month S&P 500 future stalled slightly back below the important technical trend and psychological 3,000 area. That lasted for the next several weeks.

After the rally above 3,000 carried up to the 3,200-30 next resistance, it stalled into that area during Powell’s presser on June 10th, and then dropped quickly back into multiple tests of the 3,000 area over the next several weeks. It was a bit different into mid-September, yet much the same in general form, Having rallied back from the sharp early September selloff that established a 3,505 weekly DOWN Closing Price Reversal, it had rallied back to the 3,400 area (old February all-time high) and held up into it during all of Powell’s September 16th presser.

Yet almost immediately upon its completion (literally within minutes) it began another sustained slide. That carried down into multiple near-term tests of the significant 3,230-00 area. In addition to the many additional historic examples, that confirms the degree to which that tendency has been sustained during the recent more volatile US equities trend. Yet in the context of the recent volatility, there is also a question over whether the Fed is indeed a primary driver, or does that emanate from elsewhere, like twists emanating from the US political weeds?

As noted in the title and analysis of our ‘Friendly Biden Anticipation’ ALERT!! a week ago today, there seems to be a sense that the incoming administration is focused on more bipartisan cooperation while still proposing aggressive stimulus and relief was heartening to the US equities. Yet the degree to which the attempt at those efforts is less than realistic in the face of Republican resistance, and even some concerns by moderate Democrats.

This is as we had warned since just after the Democrats success in the dual Georgia dual Senate runoff elections.

And now we can see where Democratic Senator Manchin as well as Independent Senator Angus King (who generally caucuses with the Dems) are questioning the size of the proposed relief checks in Biden's ARP proposal. As confirmed in Sunday's POLITICO article (http://politi.co/39hrg7V), this is as expected over a sense these payments need to be 'means tested' in some manner to make sure they are going to the most needy, and not those who don't need the money.

While we had noted the problems with the checks going to well-off folks earlier last year, our most recent pointed assessment was in our December 21st 'Relief Rally… Or What?' ALERT!! [Rather than have you hunt around to review that, here is a short-link: https://bit.ly/3bGpO0H.] As just a simple highlight, note the graph on what happened to the previously significantly low US Savings Rate after the original March CARES Program checks hit into April (https://bit.ly/2LWyB4d.)

That is a selective last three years portion of St. Louis Fed Economic Research department (FRED) longer-term graph. If you are interested, you can also access a full (mid-1959 through late-2020) interactive graph (https://bit.ly/3o2YxrK) with cursor hover specific data readings, and the active slider to adjust the time frame.

While the Biden administration and many others who sense the more pressing need of those who are suffering under the pandemic economic stresses will of course not want to wait, it will be interesting to see how that indication evolves in the wake of the December stimulus/relief package $600/person direct payments. However, in the near-term there will more likely be some form of compromise on the Biden ARP package proposal of an additional $1,400 person in order to not impede the other important aspects of the current sorely needed stimulus/relief.

As noted in Monday's 'That's a Bit More Like It' ALERT!!, the mutually agreed delay of the actual Trump impeachment trial until February 8th despite the single 'Incitement of Insurrection' Article of Impeachment being delivered by the House on Monday was a real relief. That will obviously allow time for more Biden cabinet confirmations, and of course for the possible completion and passage of the ARP program legislation prior to the Senate being tied up with the impeachment trial.

There was also another bit of 'friendly Biden' activity on Monday evening, as new Senate Minority Leader McConnell decided to remove his objections to some Democratic Party Senate operational procedures. That clears the way for new Senate Majority Leader Schumer to take full control, including installing the key Senate committee chairpersons that were previously stalled. Once again, apologies for dropping down into the US political weeds, but that is a big deal.

It is what allows all manner of the Biden-Harris agenda items to progress through a very friendly Senate committee process, as against those items possibly being tied up in committee if the Democrats had not achieved full control. Of course, in the first instance that has to so with the prospects for the ARP proposal, with all of the attendant vaccine program acceleration, aid to cities and states, assistance to schools for reopenings that are so vital to the economy getting back on track (after such extended home-schooling), help for the small businesses in the 'gathering' culture (dining, small retail, etc.) that are significantly suffering.

As such, the operative question on the current recovery of US equities is whether this morning's Regular Trading Hours opening tic up into a 3,862.25 front month S&P 500 future very modest new all-time high is 'friendly Biden anticipation' or 'friendly Fed anticipation'? It is likely we will not know which is the case until after Wednesday's FOMC announcement and Powell's press conference.

It is of note that global govvies are maintaining their recent bid despite some minor slippage despite the US equities resurgence. Yet the emerging currencies are firming a bit again after giving back recent gains. So we are back to a 'bifurcated' psychology, where they and the US equities are seeming to signal a potential return to a more definitive 'risk on' psychology, yet not the govvies.

Courtesy Repeat of Monday's critical consideration
Aside from the sheer magnitude of the selloff in the first week of September, it was also a technical pattern top. That is clear on the front month S&P 500 future weekly chart https://bit.ly/3iHKJ4U (updated through Friday.) Such a significant rally above the previous week's 3,504.50 Close and drop well below it established a major DOWN Closing Price Reversal (CPR) with a 3,510 Tolerance.

The next significant support after it traded below the February 3,397.50 previous all-time high looked like the 3,230-00 range we had previous highlighted as rally resistance into early June. After that held once again, the recent surge back above the 3,400-30 area left a burden of proof on the bears to get the market to fail back below that area. Yet instead the December S&P 500 future posting weekly Closes above first 3,505-10 and ultimately the 3,550 area looks like it is indeed again 'Risk On' Forever. This is confirmation of our estimation the US election would be a win-win for US equities, with the key accelerated bullish influence from the serial positive vaccine announcements since early November.

The near-term question was whether it could hold support at the early-September 3,587 trading high and 3,582 early November Close, with a Tolerance to the 3,575 congestion? Even though it slid below them in early-mid November on US election concerns, those issues clearing up reinstated the 'risk on' psychology.

Above that range since late November left minor congestion resistance in the 3,625-35 range. Also above that pointed to the recent 3,668 all-time high that was exceeded into the beginning of December with a 3,700 new all-time high. While it traded slightly above that into early December, the lack of a Trump signature on the COVID-19 relief package sent it back down to a very temporary late-December test of the 3,600 area. Finally more fully out above the low 3,700 area on a belated 'Santa Claus Rally' saw it up near the 3,750-3,800 resistance.

However, based on recent weekly Closes, there are elevated weekly Oscillator historic indications. Those December thresholds are the weekly MA-41 plus 520 and plus 550, and based on weekly MA-41 now rising an impressive 25 points per week, those are up to 3,880 and 3,910 this week. And as is often the case at a new extended all-time high, those are presently the only quantifiable resistances, and they are still rising $25/week based on the accelerated rise of weekly MA-41.

After the March S&P 500 future recovered back above the 3,775 area minor recent congestion, last week left it pushing up to that next new 3,860 all-time high (right into last week's lower weekly Oscillator resistance.) However, if there is pressure on the 'risk on' psychology from a stalled Biden relief package, more important psychological and technical support below the 3,800 area remains down in the 3,740 area it barely neared three weeks ago prior to rebounding.

That is the congestion level (seen on misplaced fears of a Democratic-controlled Senate three weeks ago Tuesday.) That was held despite the more far prominent lower support being the 3,700-20 area it had been trading below early that week. Those are now key near-term supports, including weekly MA-9 and MA-13.

Thanks for your interest.

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