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ROHR ALERT!! Flash Crash Trend on Steroids

1 message

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Dear Subscribers,
We had referenced the US equities price activity of May 6, 2010 in Friday's 'Flash Crash Redux?' ALERT!! And in general last week's Wednesday-Friday market conformed to those overall trend tendencies. We strongly recommend a read of that for anyone who missed its highly relevant details, and the most important aspect is that recent activity was indeed consistent with the 2010 model, except…

...days and weeks of activity was compressed into a few days during last week's Wednesday-Friday activity. This is why we are referring to it as 'on steroids'. It is fine we alerted you Wednesday to the potential for a March S&P 500 future implosion to as low as the 2,700 area, and Thursday recovery back into the low 2,800 area (where the break began) being less than reliable. And that (based on the 2010 analog) it might be an indication that the US equities were likely to trade back down to or even below Wednesday's low. That is in fact what transpired.

However, back in May 2010 it took the June S&P 500 future a full week to recover from the 1,050 area back up to near 1,180. It then trended back down over the next eight sessions into trading somewhat below the 1,050 area. Last week the equivalent price activity only took from the Wednesday afternoon low into the midday Thursday high, and back down again to new trading lows for the recent swings below the key 3,700 area by late morning Friday... breathtakingly fast!

Yet why did this happen, and what do the real reasons portend for the trend from here on the recovery into this morning? Well, there's a lot of anxiety on Gamestop and other seemingly Reddit messaging-driven volatility in some stocks. Some have cited this as the reason for the recent reversal of the 'risk on' psychology, over fears that the short-squeezed hedge funds (and others) will immediately need to liquidate major amounts of their more mainstream equities investment.

While we need to allow that the uncertainty factor from those developments might have contributed to the volatility of the US equities selloff, we cannot imagine it was a primary driver. While the financial and general media attention and the calls for Congressional hearings are very prominent, the fact is that the level of hedge fund losses are miniscule in the context of the overall market capitalization.

Senator Pat Toomey (R-PA) was on CNBC this morning (http://cnb.cx/2Mgacqw) noting that unless it comes out through investigations or hearings that some aspect of the social network-driven coordinated effort to squeeze the shorts is found to be illegal, it is unlikely and actually untoward for individual investors to attempt to impose any restrictions on the market participants. He is an unusually market savvy member of Congress, having made his money in bonds and currencies trading prior to retiring to pursue other interests and run for office.

Note that from approximately 03:10 he notes that the primary motivation of the buyers that squeezed the various stocks' short was not any falsehoods or frauds. It was more so that they were enthused about turning the tables on the larger players who are often viewed (speciously or not) as controlling 'the game'. It is also the case Toomey suggests that those princes and princesses who overstay their welcome at the ball in these sorts of somewhat fabricated trends will revert, Cinderella-like, to a scullery maid state when their recent success evaporates.

In other words, losses for the late arrivals and stubborn early buyers. That is why he notes that this does not really require any new legislation, which would also restrict the trend toward democratization of the markets. Once the current participants experience those losses, they will either be unable to engage in this activity in future, or just become more circumspect. Hopefully no individual small traders experience too much financial pain along the way to those lessons.

Yet that leaves the question of why the US equities were so vulnerable to such a significant selloff, even allowing short squeeze volatility might have contributed to the overall aggressive, erratic market activity? Well, it is as we have laid out since the Biden ARP COVID-19 stimulus/relief plan was introduced, especially on the skepticism of some aspects by more moderate Democrats (along with a large majority of Republicans.) Not just the size of the program, but also some of the relief spending details are less than amenable to total Democratic support.

As such (and as more fully explored in Friday's ALERT!!), to garner the votes of all 50 Senate Democrats necessary even for passing it by 'reconciliation', either the plan will need to be watered down in some manner, or leave the possibility open it will not pass by the time ex-President Trump's Senate impeachment trial begins next Monday. Either way, if US equities were counting the $1,9 trillion Biden ARP proposal passing in its full form, that's going to be a problem.

The other issue which looms large for intermediate-term market psychology, yet is being downplayed to some degree, is the fight against the COVID-19 pandemic. That is especially on the still less than broadly effective vaccination programs. While there is no video clip, in a deviation from the usual industry factors, CNBC Chief Economics Analyst Steve Liesman did an update on his 'Road to Recovery'.

This morning's analysis was regarding vaccination goals, progress to date, and future prospects. He noted what many of you likely already know: the goal is to achieve 75% immunity overall… proverbial much sought after 'herd immunity'. The current level of assumed immunity for those who have had the illness and either survived or never showed any previous extreme illness is 25%.

The current vaccination figure is only 6.3% based on the previously weak vaccination effort, yet with the good news that at present that the rate of vaccines shipped which actually end up being administered is up to 50% from just 20% three weeks ago. That's fairly heartening. Yet everyone allows new virus variants are a real issue, as we had highlighted in our past couple of assessments.

We especially suggest a viewing of the last week's CNN video interview of the Biden administration COVID-19 task force advisor Michael Osterholm, which we had also included on Friday (https://bit.ly/3j2xyLZ.) He particularly notes that the recent improvements in the COVID-19 statistics might be very temporary if the current easing of restrictions based on

them does not work well with the new, more infectious virus variants continuing to spread as rapidly as noted.

So here we are with highly divergent trends. The US equities seem to want to indicate that the 'Flash Crash Trend on Steroids' has compressed this 2010 analog into just a few days, and the worst is over. Yet, can that really be the case if the hopeful current easing of COVID-19 pandemic restrictions sees them reimposed in the near-term future? Also consistent with the return of 'risk on' psychology is the current volatile recovery of the emerging currencies.

However, the strength of the US dollar against the other developed currencies driving a US Dollar Index bid back up to the top of the 90.50-91.00 range is not a constructive sign. Along with that the global govvies are holding onto their recent recovery rally gains, and even seeing more of a bid in the US T-note. Those are not at all consistent with the return of a sustained 'risk on' psychology. Hmmm.

Courtesy Repeat of Friday's critical consideration
[With updated weekly chart; to be updated after today's US Close]
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/2MeAAkz (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, the pressure on the 'risk on' psychology we had warned of came home to roost on the Wednesday situation ignoring the classical 'friendly Fed anticipation' even before Powell's press conference. As noted for quite a while, the more important psychological and technical support below the 3,800 area was the interim 3,740 area.

That is the congestion level (seen on misplaced fears of a Democratic-controlled Senate three weeks ago Tuesday.) That was held previous despite the more far prominent lower support being into the 3,700-20 area it had been trading below early that week. Yet Wednesday's sharp selloff led to an immediate test of that area all in one day. It remains the more significant support this side of 3,600 area and lower levels, including weekly MA-13 moving up to low 3,700 area next week.

Thanks for your interest.

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