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ROHR ALERT!! Bad News is Bad News(??)

1 message

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Dear Subscribers,
Yes indeed, that title flies in the face of the classical counterpoint wisdom that '*bad news is good news*' or '*good news is bad news*'. The first iteration refers to the situation where current weak economic data encourages major central bank accommodation and fiscal stimulus, as was the case up until two weeks ago. While the US stimulus remains baked into the financial market equation, the improvement in near-term data over the past two weeks has brought about the latter '*good news is bad news*'. Yet recent weaker news has not been much help to US equities despite the FOMC recommitment to sustained accommodation.

How could this '*bad news is bad news*' psychology exist in a world where not just the Fed but the other major central banks are similarly disposed to sustained accommodation even if inflation should rise in the near-term? Just to be clear, they are not wholly misguided in attempting to assist economies still burdened with major segments (especially 'gathering' sectors like dining, travel and small retail) that remain significantly damaged. Quite simply, this change is on the outlook for improvement as the pandemic is addressed through vaccinations.

Once again we return to the consideration of the massive size of the stimulus (Biden's $1.9 trillion ARP proposal looks likely to pass) offsetting the pandemic, the much improved (if still challenging) pandemic progress, and serial indications from all of the central banks. That included adamant commitment from Fed Chair Powell last Tuesday and Wednesday to the idea of no base rate hike until the inflation rate has been above the Fed's 2.0% target for some period of time.

Yet the net effect of that Fed commitment to allow inflation to run 'hot' for a little while (with similar messaging from other central banks) is exactly why the global govvies have broken down so heavily (i.e. sharp surge in longer-term yields.) While we have already been noting this since last Tuesday's 'Not a Powell Put' ALERT!!, Fed Chair Powell is signaling that as a key part of curing the US employment situation (a laudable goal.) The FOMC seems unconcerned about the inflation rate spending some time up into the (let's pick a number) 2.30%.

What does that likely mean for global govvies yields and prices? Without getting into any of the complex permutations of what drives inflation expectations and how much of a 'real yield' might be attractive, that likely means a 2.50% 10-year T-note yield. And that is the sort of thing which was obviously not priced into the US equities while they were up near recent highs, and there is even a question over whether they will hold recent serial tests of a 3,802 near-term technical trend analysis Objective. Of course, the real damage has been to 'hot money' growth stocks which have benefited so greatly from the pandemic and low interest rates.

Yet this is the point where we also revisit a thought we have been sharing since last Tuesday's 'Not a Powell Put' ALERT!!, which is the present need to engage in something for which we are well-known: '*the view from 30,000 feet*'. That is to say there are times to step back from attempting to figure out the micro-implications of any of the near-term economic data or other 'macro' influences in order to better assess overriding politico-economic drivers of the intermediate-term trend.

And in this case it is that the FOMC allowance of inflation running up to 2.30%(+/-) (and other central banks doing much the same) prior to attempting to quell it will create the sustained pressure on global govvies, and the commensurate higher yields in the near-term. The old '*bad news is good news*' not working in the near-term future is how we get to '*bad news is* (or at least can be) *bad news*'.

We do not need to come up with any exotic analytic permutations to justify that: it's already happening. As already noted in Wednesday's "'Risk Off' Returns" ALERT!!, US economic data was significantly weak from the ADP Employment Change coming in at a gain of just 117,000, with ISM Services PMI also much weaker than expected. And the global govvies response? The US T-note backed off a bit from its early week rebound test of resistance (failed support.) Yet in Europe and the UK the response was a return to significant weakness.

This carries the implication of a tectonic shift in the global govvies psychology: they are trading more so on the intermediate-term economic improvement and central bank inflation forbearance potential than any of the weak near-term news. And as such, with the US 10-year yield still only up to the 1.50% area potentially on the way to (pick a number) 2.50%, there will be times this market we have noted was turning bearish since a month ago will sell off at times 'just because'.

It is one of the key elements any recent market entrants, or even those who've been around for a long while and have forgotten, need to keep in mind: bear markets can drop at any time. And that is at some points for no other reason than the broader downside objectives remain quite a bit lower, and the market decides to drop on a given day (or week) 'just because' it knows it has further to go.

As a final note, so what indeed can a Federal Reserve do about a bond market which has wrested control of the yield curve from the central bank? Well, it is now glaringly apparent to Fed Chair Powell that his serial admonitions last Tuesday and Wednesday that rates must remain low in a still pandemic ravaged economy did not do anything to control longer-term rates. So what might we expect when he speaks into lunchtime today? Well, it might be (here's a blast from the past):

Chubby Checker Time: '*C'mon Baby, Let's Do the Twist*'!! (Hal Ballard, 1956), which Checker turned into a chart-busting hit in 1960. This archival clip from the old American Bandstand TV show (https://bit.ly/2PBwmoj) gives you an idea why social conservatives considered this the next devolution into blatant obscenity. There are also the financial conservatives who consider the modern Fed balance sheet twist a bit of blasphemy: it is Fed "Operation Twist' that was used during previous phases of this type to extend the overall maturity of its balance sheet.

There was a very good Monday CNBC article (http://cnb.cx/3bchvcd) which in part covers this contingency along with other possible Fed steps. The bottom line is that the Fed selling shorter-term balance sheet holdings in order to purchase longer-term government securities does indeed smack of the Fed possibly 'monetizing' the government debt. And

that is typically frowned upon despite the degree to which it happens to some degree already. It's going to be interesting.

The other factor to consider in the Evolutionary Trend View (ETV) are the looming March contract quarterly expirations. These are often most telling in the global govvies due to the greater front month to second month spreads compared to the other futures. This is especially important for the recently very weak German Bund future, where the typical earliest expiration sees the end of the March contract on Monday. All of the global govvies futures discounts to the current front month speak of quite a bit of bearish anticipation (which is not always the case.) And the Bund's very steep discount will be reviewed on Friday.

Another Courtesy Repeat of Tuesday's critical consideration
[To be updated after Friday's US Employment report]
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/2PoeJlz (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 and ultimately above the 3,750-3,800 resistance.

On recent form, March S&P 500 future dropping below key near-term 3,880 area congestion support was a near-term Head & Shoulders Top DOWN Break. It is of note that the nominal 3,802 Objective was seen twice late last week prior to this week's significant recovery. Also of note is the 3,931 Tolerance of that DOWN Break, which was seen last Wednesday prior to the Friday slide back down to the 3,800 area. Whether 3,931 can be definitively exceeded is the near-term market activity key, along with whether there is a sustained drop back below 3,880.

If the weakness returns, the more prominent supports if global govvies continue to exert pressure for a break below the 3,800 area are in the 3,700 area (held during the GameStop volatility), the 3,600 area, and even down into the 3,500 area… the Negated September CPR top and weekly MA-41 into next week.

Thanks for your interest.

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