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ROHR ALERT!! Good News is… Whatever

1 message

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Dear Subscribers,
As noted in Thursday's 'Bad News is Bad News(??)' ALERT!!, earlier this week the markets hit a point where even near-term weak economic data was not going to rally global govvies that have overarching reasons for continuing their bearish trend (i.e. higher yields.) And in the wake of the previous 'good news is bad news' psychology that had been driving yields higher to a degree which was a problem for US equities (and others), that continuing global govvies weakness on the recent weak data was a bit of a surprise, except for the overall medium-term view.

Please see Thursday's ALERT! for our revisit to the in-depth perspective on the interest rates and their impact on other asset classes. While we will be returning to the important discussion of the quarterly expiration of the fixed income future we had promised yesterday, it is first important to cut to the market activity chase in the wake of a much better than expected Nonfarm Payrolls (NFP) number as part of this morning's US Employment report, with other less positive aspects.

As experienced analysts we know it is necessary to wait a little while after a major report to see the markets' full response, and this is most interesting today in the return to a 'bifurcated' psychology. US equities have improved somewhat in the wake of that NFP gain of 379,000 jobs versus an estimate of +188,00. There was also the interesting additional good news in January's +49,000 being upgraded to a 166,000 job gain. This should be an 'It's all good' return to 'risk on' psychology.

Yet of course, there was some weak news in the form of Average Weekly Hours rather sharp drop to 34.6 from 34.9, and state and local government employment was also off markedly. The latter is part of what suggests President Biden's ARP proposal working its way through Congress is on target in providing funds to those entities to avoid further layoffs. That said, the headline number means US equities have been happy to ignore the weaker components and even the wholly predictable further surge in yields (more below.) However, it is a long day, and at least so far the March S&P 500 future recovery has only carried somewhat back above the key 3,800 area, and that is in a zone of 3,800-20 from back in February.

Prior to getting back to the key Evolutionary Trend View (ETV) aspects of the global govvies, the foreign exchange activity is worth noting insofar as it is more so indicating more of a 'risk off' psychology. That is why we are suggesting the current broad indications are more so a bifurcated psychology rather than the overt 'risk on' today's NFP might have indicated under other circumstances. This is also why the nominal US equities bounce to resistance bears close attention.

While today's NFP should have been a driver for the full return to the 'risk on' psychology, out of Thursday into today both more stable developed currencies and the recently more volatile emerging currencies are under pressure against the US dollar. In fact, after the US Dollar Index failed from trading (yet with no weekly Close) above the 91.00-.23 range

resistance/Tolerance back in early February, on Thursday it finally Closed above it again, and is continuing today.

That is also consistent with key drivers like EUR/USD being back below the 1.2100-1.2000 area and general weakness in emerging currencies which had initially shrugged off the yield escalation last week and in some cases into early this week. As they are an excellent barometer for 'risk appetite', we suspect they are concerned about the headwinds from continued yield escalation signaled by the exacerbation of the global govvies selloff and attendant yields surge.

Speaking of the global govvies, as noted on Thursday we will be into the March contract quarterly expirations beginning on Monday. Once again, 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 in this round for the recently very weak German Bund future, also always the typical earliest expiration that sees the end of the March contract at 11:30 GMT on Monday.

While all of the global govvies futures discounts to the current front month speak of quite a bit of bearish anticipation, that is not always the case. During more bullish previous futures anticipation phases, the second month Bund future has traded at a very substantial premium. Yet more typical of the recent expiration rollovers, June Bund future is trading at a 2.85 discount to the March contract in the 171.10 area at present (-0.30 on the day.) As such, barring any phenomenal rally out of today into Monday it will begin its front month tenure well below the next lower 173.00-172.50 congestion the March contract tested last week.

This is another key expiration rollover 'dislocation', which we have been very keen to analyze for the trend implications over many years. In this case it is a bit demoralizing that it will be so far below the 173.00-172.50 congestion that was sharply tested and rebound from last week. It also means that the market will be poised to retest the 170.50-169.75 area congestion, with the far more major lower congestion in the 168.86-.00 area from the summer 2016 previous all-time high.

That is still a long way down from current levels, yet consistent with the clear second month discounts in the other global govvies June futures (even if quite a bit less than the Bund future.) While the March T-note future has barely neared the lower 132-00 support after violating the 135-00/134-16 support Tolerance at 134-08, it also failed back into the mid 134-00 area earlier this week. Yet the June T-note future is already down into that 132-00 area, and any failure would point to interim congestion in the 130-00 area, with more major support not until 128-00.

While it does not expire until very late in the month, downside leader March Gilt future (possibly on the inflationary implications of the Brexit break with the EU) has already failed somewhat below its major congestion around its 130.50-.00 22-month trading lows since last week. Yet the typical full point discount in the June Gilt future leaves it into the mid-low 128.00 area, with next major supports not until the 126.50 and 125.50-.00 areas. Those are both also consistent with extended historic Oscillator thresholds, and it all looks negative.

It all points to higher yields to come, consistent with our recent overarching '*view from 30,000 feet*' (see Thursday's ALERT!!) Along the way that likely means more headwinds feeding the 'risk off' psychology in the near-term. That is despite the initial friendly knee-jerk NFP reaction of US equities into the early trading today.

This is the 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/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. As 3,931 could not be exceeded once again on the rally this week, the near-term market activity was likely to see the next drop back to the 3,800 area.

As that weakness has led to the violation of that 3,802 Objective and the overall drop back below the 3,820-00 congestion (prominent since the drop from those highs returns into the GameStop volatility), more prominent supports as global govvies continue to exert pressure are in the 3,700 area (the lows held during the GameStop volatility), the 3,600 area congestion, 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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