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ROHR ALERT!! So What's Wrong Now?

1 message

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Dear Subscribers,

The US equities flop back down from right near the major March S&P 500 future mid-February 3,959.25 front month future all-time high was striking on both the 'macro' factors and the Evolutionary Trend View (ETV.) Taking the latter first, we had noted that the 3,931-35 range was both a mid-February minor DOWN weekly Closing Price Reversal (CPR) from the week ending February 19th, and the Tolerance of the short-term Head & Shoulders (H&S) Top 3,881 DOWN Break.

It should ideally be the case that the Negation of the CPR DOWN signal along with the H&S Top Tolerance means the previous all-time trading high will be overrun in short order. Only getting very near it (i.e. Thursday's 3,958.50 trading high) prior to flopping back to the 3,931-35 range on the Close and weakening further today means the imminent sense that a new high will be made (including serial Closes above the old high) on renewed 'risk on' psychology is neutralized to a degree.

As far as a renewal of the 'risk on' psychology, Thursday's 'QE Lives!!' ALERT!! was focused on the degree to which the ECB had formally ensconced its more sustained and modestly broader bond buying over the intermediate-term. It was a confirmation of its commitment through 2022, and with the longer-term bond purchases also leaving a consideration that the Fed might engage in a return to similar activity seen in its previous 'Operation Twist' balance sheet adjustments.

Frankly, in the context of everything Fed Chair Powell has said (including his question response at last Thursday's Wall Street Journal Jobs Summit interview; see Thursday's ALERT!! for more), we suspect that is not going to occur at next Wednesday's FOMC meeting and press conference. However, in the wake of the ECB there should have been the potential for classical 'friendly Fed anticipation'.

Yet that is not happening. So, what's wrong now? Well, as we always counsel, it is not just a central bank meeting that is important, yet the market reaction across the next 24 hours as well. It has been the case where an accommodative Fed left the US equities strong on the day (although less so of late), yet failing on the recognition that there is a 'reason' the Fed is so supportive. Yet if that evolved of late, it is because central bank accommodation has now been seen to ignore the actual or looming inflation impact... which is reinforced by more strong data.

In the context of today's strong German, Spanish and US inflation figures (even if not much hotter than estimates), that might be the case from overnight into today. Where we had been hoping ECB action and classical 'friendly Fed anticipation' on some (however unlikely) adjustment to its balance sheet duration might bolster bearish global govies, they were under pressure less than 18 hours later.

As such, especially in the wake of weaker than expected UK Industrial Production data (even with a 'less bad' negative January GDP) from right about the time the global govies took the plunge, we must assume it is the overall dissatisfaction with the highly accommodative central banks again. That is not good with the 'other' risk factor potentially revisiting markets out of late March into mid-April.

The current global govies weakness is as was seen out of mid-February into the end of last week, where there had been even more radical weakness in European govies two weeks ago prior to a significant snap back up. Of course, this shift away from the 'risk on' psychology right into overall strong data is back to a '*good news is bad news*' psychology. Any further weakening of global govies will be another headwind for US equities as well as a 'risk off' factor for emerging currencies as well as developed currencies to a lesser degree. This is obvious from a sharp US dollar rebound today after its recent slide... will it continue?

Yet none of this central bank accommodation 'PTL' (Perverse Trend Logic) begins to touch on what might be the more significant culprit behind any near-term US equities weakness and US dollar 'haven' bid over the next month or so. For more on that, please see Tuesday's 'Bright Line COVID-19 Caution' ALERT!! on the degree to which the (likely premature) individual US states dropping of COVID-19 pandemic suppression protocols is a problem in the making. That is due to only 10% US population vaccination into the spread of some more virulent variants.

That is of particular concern in the context of the broader US equities ETV. This is because failure of the March S&P 500 future very near that mid-February 3,959.25 front month future all-time high has left potential for a major Double Top pattern. We need to allow that bona fide 'Double' patterns are rare. That is because the nature of trends is that once a market gets that close to a previous major low or high, it is more likely to push through. Yet they do occur from time to time.

In this case it is particularly daunting because the intervening low between the highs was last Friday's post-US Employment report 3,720 midsession trading low prior to the substantial recovery back above that key 3,820-00 area. This means that even to complete the 'Double Top' the front month S&P 500 future would need to drop back through all of the congestion noted above to hit 3,720 again.

While that would only likely be on some factor not yet built into the market psychology, it is why we are still looking closely at that COVID-19 potential into what is at present upbeat vaccination program sentiment. And the Objective of the Double Top on a DOWN Break below 3,720? Just below 3,500. Hmmm.

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/38gNaas> (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, the March S&P 500 future flop back down from right near the major mid-February 3,959.25 front month future all-time high was very striking. The 3,931-35 range was the mid-February minor DOWN weekly DOWN Closing Price Reversal (CPR) from the week ending February 19th as well as the key Tolerance of the short-term Head & Shoulders (H&S) Top 3,881 DOWN Break.

It should ideally be the case that the Negation of the CPR DOWN signal along with the H&S Top Tolerance means the previous all-time trading high will be overrun in short order. Only getting very near it (i.e. Thursday's 3,958.50 trading high) prior to flopping back to the 3,931-35 range on the Close and weakening further today means the abiding sense a new high is imminent (including serial Closes above the old high) on renewed 'risk on' psychology is neutralized to a degree.

The further decision is whether the front month S&P 500 future (September contract into the end of next week) will be able to stabilize and see a resurgence that carries well above that mid-February 3,959.25 all-time high. The alternative is that the 'risk off' psychology returns, which would be indicated by serial failures back below the recent (seemingly Negated) 3,881 H&S Top DOWN Break and congestion, and the previously critical and still prominent 3,820-00 congestion.

Thanks for your interest.

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