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ROHR ALERT!! HUZZAH!! Monster Growth with No Inflation

1 message

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Dear Subscribers,
And if you happen to be one of the souls inclined to believe that, I have a friend who can arrange for you to buy a toll bridge at a very affordable price. It is not like the Fed hasn't engaged in fairy tales before. It is just disconcerting to hear Jay Powell indulge in them when he is supposed to be a fresh wind of rational assessment due to his background in the markets. It now just doesn't seem so.

The last time we went through anything remotely resembling the Fed talking down inflation into what were clear sustained inflation expectations and the real thing was back during the late 1970s G. William Miller Fed. While we are not suggesting anything like double digit inflation and rates is on the way anytime soon, the same sort of significantly assumptive statements on the inflation only being a temporary 'blip' was prevalent then. It is also a bit scary now considering the market reaction: the Wednesday yield drop reversing up to a new high today.

To put a bit more meat on that general comment, the June T-note future hit a low of 131-15 earlier Wednesday, yet rallied back to the low 132-00 area on Powell's sanguine inflation view. Yet without any particularly strong economic data today and still more accommodative communication after a Bank of England no action on its 0.1% base rate (https://bit.ly/3s0xyzX for the Monetary Policy Summary and Monetary Policy Committee meeting minutes) the global govvies are back under significant pressure. June T-note future becomes front month Monday, and more weakness from 132-00 area after stalling there on Wednesday's rally looks bad.

For a better view of that Evolutionary Trend View implication, just take a look at the front month future weekly continuation chart (https://bit.ly/3rNMUHO updated through last Friday.) While the March contract has only just today neared 132-00 area, the June contract full point discount leaves it well below it. That speaks of the likelihood it can reach at least the 130-00 interim support, or more prominent 128-00 recent (mid-late 2019) and historic congestion for quite a bit higher yields. (2.0% would not be a surprise. See our February 23 'Not a Powell Put' ALERT!!)

We view this as the natural reaction to Fed Chair Powell declaring there will be outstanding growth yet still playing down the inflation that is already glaringly apparent as a transitory blip. That also seems to have been part of the overall FOMC perspective, as communicated in its Statement (https://bit.ly/3eUIT1Y), the revised projections (https://bit.ly/3bZB3kI), and with Powell very adamant about these views at his press conference (http://bit.ly/3vAoKTr.) He appears to us like a man who is attempting to stuff a very determined genie back into the bottle.

Wednesday's 'Failure Swing into FOMC' ALERT!! (repeated below) assumed too much about atypical US equities weakness into the FOMC announcement and press conference. It was the case that weakish US equities were able to respond well to Powell's aggressive

growth statement along with that sanguine inflation view the global govvies have rejected this morning. Yet even with longer-term yields now at new highs for this short-term cycle, the US equities are holding up rather well along with not too terribly much emerging currencies weakness after their Wednesday Powell statement rally extension. Still a bit of 'risk on' in the air.

However, even as the current 'risk appetite' seems to classically shake off the yield increase during an early return to growth phase, our continued concern is whether myopic focus on yields is the market pulling off a bit of psychological sleight of hand? We have been very attuned to the recently suppressed yet still resilient COVID-19 pandemic. Going back to our March 9th 'Bright Line COVID-19 Caution' ALERT!! and much subsequent analysis, this is still a burgeoning threat.

While yields can be partially ignored for now, any reversion to much higher new COVID-19 cases and especially the economic and personal health restrictions recently shed by so many US states is not 'priced in' to the current psychology. The near-term US equities Evolutionary Trend View (ETV) psychology is going to be most interesting into Friday's weekly Close. After what is now at least a partial 'failure swing' above that mid-February front month S&P 500 future 3,959 all-time high, the June S&P 500 future $10 discount has it currently in the 3,950 area. It is also the case the expiring front month March contract Closed at 3,942 last week.

As such, it is a fine line decision into this week's Close whether the June S&P 500 future remains higher on week even if not above the key 3,960-70 area, or Closes below 3,942. Any lower Close exhibiting a weekly DOWN Closing Price Reversal (CPR) will also be a matter of by what degree? Only modestly lower would be of limited importance as a trend reversal signal. Yet any debacle between now and Friday (on worsening headline COVID-19 news?) could signal a more durable top.

Courtesy Repeat of Wednesday's 'Failure Swing into FOMC' ALERT!!
Given the cautions expressed in Tuesday's 'Bifurcation Contention' ALERT!! (repeated below), we actually do not have too much more to say. That includes the degree to which we remain skeptical of any return to a Fed 'Operation Twist' even after expectations were boosted by ECB QE adjustments. As Madame Lagarde noted at last Thursday's post-rate decision press conference, the rapid escalation of Bund yields into a still weak European economy was fostered by the US yield spike, and is unrelated to European economic and inflation conditions.

As such, it is probably reasonable for the ECB to extend its buying further out on the yield curve. However, this is not the case for an FOMC where US economic indications (at least until the last couple of days' softer data) have been stronger than expected. It was obvious Fed Chair Powell is aware of that, and expressed some very specific reticence on shifting the Fed's bond buying into longer-term maturities as recently as a week ago Thursday at the WSJ Jobs Summit.

While there might have been some expectation for a Fed 'Operation Twist' during the modest improvement in global govvies prices earlier this week, the pressure returning today even prior to the FOMC announcement at 14:00 EDT and Chair Powell's press conference 30 minutes later means markets are also discounting the potential for any surprise 'Operation Twist' announcement this afternoon.

Our additional historic observation on that is no amount of central bank buying has ever solely reversed a sustained down trend in global govvies. It might buffer it to some degree,

yet there is classically no amount of purchases by any party that can stop a trend to higher yields (i.e. lower government bond prices) when inflation expectations are rising. As we have noted many times over the years, global govvies trade on a 'real yield' (the bond returns after deducting inflation erosion of the returns.) See our extended discussion of this in the February 23rd 'Not a Powell Put' ALERT!! thoughts on what inflation above 2.0% might mean.

In the meantime, there is a key near-term factor even outside of the renewed yield push higher in the form of another surge: the potential for premature individual US states reopenings fomenting a resurgence of the COVID-19 pandemic; and especially if the new variants already very prominent in the Florida 'Spring Break Central' are broadly communicated among a very partially vaccinated country.

So for now renewed yield surge is the driver for the US equities weakening after what should have been a more durable 'jailbreak' above the mid-February front month S&P 500 future 3,959.25 previous all-time high. Yet there is a possibility this will obscure the vision of market participants, who should also be concerned about the potential for the recent US reopenings being reversed if the pandemic starts expanding once again (as is now the case in Europe.) While that will not be clear after the FOMC today, it bears watching over the next couple of weeks.

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/3vtARSu (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 was 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 last week from right near the major mid-February 3,959.25 front month future all-time high was very striking in possibly leaving a 'Double Top'. Yet today's push to new high ground mostly eliminates that. More important now is a key weekly Oscillator threshold associated with the ground slightly

above the old high into the 3,970 area. That is the previous prominent Oscillator extensions from August and November 2020.

Those are 425 and 450 above weekly MA-41. The higher of them translates into a slightly rounded up 3,970 for the front month S&P 500 future on weekly Closing this week. So, in fact the slight push above the February 3,959.25 previous high is not as yet convincing for an upside jailbreak pending the weekly Close. The other factor on the weekly Oscillator is both good and yet still challenging for the bulls.

On one hand, if the market should escape the current resistance, the next Oscillator thresholds are not until $100 higher. That's into the 4,040 and 4,070 levels this week, and MA-41 is still moving up $20 per week. It is the case however that this is also a factor which leaves the near-term Oscillator thresholds up into 3,965 and 3,990 next week. This means any weekly Close above 3,970 this week (if indeed it occurs) will still need to push above the 4,000 area into next week in order to reinforce upward momentum, and the 'big penny' psychology.

However, should the front month S&P 500 future fail to sustain activity above the old high, the lower supports revert to interim 3,931-35 area Negated resistance, which is interestingly a bit below last week's 3,942 front month S&P 500 future weekly Close. As such, and failure below it late this week would be a fresh weekly DOWN Closing Price Reversal, even if that will be a matter of degree. The next lower support is the 3,881 Negated Head & Shoulders Top DOWN Break, with the key 3,820-00 H&S Objective and congestion (think GameStop) below those.

Thanks for your interest.

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