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ROHR ALERT!! Powell-O-Rama

1 message

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Dear Subscribers,

Is it just us, or does it seem that Fed Chair Powell is all over lately like... well, you know what. There will be testimony on the Coronavirus Aid, Relief, and Economic Security Act (the official name for Biden's ARP legislation) at the Senate Banking Committee today and House Financial Services Committee tomorrow, and that is after his post-FOMC rate decision and projections press conference Wednesday.

And we can expect more of the same confident assertions on strong economic growth with only the most temporary inflation. He will be backed up over the next two days by former Fed Chair and current Treasury Secretary Janet Yellen. Yet it is the case that the Fed Chair and also FOMC at large are allowing that inflation is going to run above its 2.0% target for an extended period of time. Sound like a bit of a contradiction? Well, as long-time observers of the Fed we can tell you there are significant periods when the Fed is not only capable of legerdemain... it is its major stock in trade when trying to finesse the rates versus economic leadership.

How many times did Alan Greenspan refuse to hike rates during a strong growth phase, and also leave them stubbornly high in an economy which was obviously already suffering? The answer: more often than not. Why would the Fed that is supposed to lead the economy with preemptive rate adjustments leave them on hold under such obvious conditions? That is due to the Fed learning the lesson of letting the bond market do its work for it, especially in the modern era.

That is relevant for the highly accommodative policies that have included the Fed allowing its balance sheet to balloon by Brobdingnagian proportions as a means of stimulating borrowing and lending into weak economies. It means that the Fed is now rightfully concerned about signaling any policy change prior to the bond market already having prepared the markets for a change. While it was the most logical and incremental policy only projected in a forward view, former Fed Chair Bernanke's May 2013 testimony the Fed would reduce its bond purchases caused an immediate sharp upsurge in longer-term rates and US equities selloff.

That was a key consequence of the Fed being viewed as the savior of the US equities and economy, with concerns over it seeming to abandon accommodation too soon for many folks. Since then it has been back to a much more classical Greenspanesque approach of letting the bond market ease or tighten conditions, with the allegedly market leading Fed coming in with after-the-fact confirmation.

The problem at present is that the Fed signaling such a sanguine inflation view of late has not been good for actually keeping interest rates down at the longer end of the yield curve... in fact, quite the opposite. As noted as far back as a month ago (February 23rd 'Not a Powell Put'), the Fed seeming to want to ignore the inflation rise due to its need to

reinvigorate the still suffering parts of the US economy has naturally fomented a sustained rise in longer-term yields.

Also back in that 'Not a Powell Put' ALERT!! we explored the meaning of a Fed which is committed to letting inflation run above 2.0% on the 10-year Treasury yield (still back well below 1.50% at that time.) Of course, the higher yields since that time have reinforced our view that a sanguine Fed continuing to push the position that inflation is not a problem will also continue to create concerns for the longer-term global govies regardless of how adamant the Fed might be.

Yet even the anticipation of the additional Powell testimony and Yellen support has created a 'bifurcated' market once again. Yet as noted in Monday's 'Anatomy of a Failure Swing' ALERT!!, the Fed encouragement last Wednesday classically wore off after not more than 24 hours (literally into lunchtime Thursday, see below for much more.) Yet the bifurcation has been apparent in the US equities recovery rally being in conjunction with a really in global govies, likely influenced by the anticipation of more sanguine inflation indications from a Fed that is however still signaling it expects it to see some sustained indications above 2.0%.

However, it is important to note the Evolutionary Trend View (ETV) in the various asset classes to consider what might transpire after Powell and Yellen testimony and Q&A are finished into approximately 15:00 EDT Wednesday. The friendly encouragement for the global govies has so far only left them rallying back to key resistance areas (i.e. failed significant support levels.) For the June T-note (front month since Monday) that is the major weekly chart 132-00 congestion.

The June T-note has only recovered to test that exact area at present. In its early month expiration rollover major European sister June Bund future had gapped below (discounted price expiration displacement) the important 173.00-172.50 congestion, and ranged right down toward the next 170.50-169.75 support area prior to recovering back up not quite to the 172.50 area. This sets up a real test for the global govies in the wake of whatever Powell and Yellen have to say. Whatever else transpires, we can bet they will be asked about not just the inflationary impact of Biden's ARP, but also major future spending plans.

As far as the US equities trend, Monday's 'Anatomy of a Failure Swing' ALERT!! reviewed all of the lack of response to 'friendly Fed influence' after Wednesday's FOMC announcements and Chair Powell's press conference. That incremental view of how it all evolved is repeated below as a courtesy to anyone who missed it on Monday. The key is the fresh 3,942 DOWN Closing Price Reversal (CPR) which was barely retested on Monday's rally. Yet it is also important that the Tolerance of that DOWN CPR is the previous week's high, which is 3,958.50, right near 3,960 again that had been such a struggle for the previous two weeks.

The other 'risk on' psychology indication from foreign exchange is holding up OK at present, yet also showing some signs of stress. In the developed currencies the US Dollar Index is pushing back above its own weekly 91.98 DOWN CPR from two weeks ago after only sagging to the mid-91.00 area. While stalling into the historic 92.30 area back then, any Close above that previous current rally high would Negate the DOWN signal even if the next resistance is in the 92.75 area.

That is a sign there is concern over the global economy, and possibly even more so the current reimposition of COVID-19 restrictions in Europe just as calendar concerns (i.e. Spring Break looseness and Easter travel) also spread in the US. While giving back a

modest degree of recent gains, emerging currencies have held up well so far (outside of central bank psychology challenged Turkish lira.)

However, any sign recently (some would say prematurely) removed US COVID-19 suppression protocols need to be reimposed could send a chill through non-US currencies along with the US equities. That said, this would potentially also be a bit of a near-term fillip for the recently suffering global govies. We shall see.

Courtesy Repeat of Monday's 'Anatomy of a Failure Swing' ALERT!!

While it was not fully apparent until late Friday activity, US equities finally confirmed their near-term failure despite serial rallies under various influences. As noted in Friday morning's 'A Matter of Degree' ALERT!! and previous analysis over the past two weeks, the less than confident price activity in US equities had been flashing warning signs. That was initially on the lack of any new all-time high above mid-February's 3,959.25 previous all-time high two weeks ago after Negating the 3,931-35 dual resistance. That said, any 'failure swing' confirmation could only come after the typical 'friendly Fed influence' last Wednesday.

To facilitate full discussion we suggest a look at the annotated short-term June S&P 500 future chart into very early trading this morning (<https://bit.ly/3lDwdfW> in fact the electronic trade opening Sunday evening.) And it is important to note that until Friday's expiration March contract was 'front month future' at roughly \$10 higher than the displayed June contract prices. Again noting the 3,931-35 dual resistance, that was both the mid-February 3,931 weekly DOWN Closing Price Reversal followed by a short-term Head & Shoulders Top right shoulder Tolerance at the same level. While not displayed on this chart, they were very important.

This is due to near-term performance of those two indicating the mid-February 3,959.25 previous all-time high was possibly a durable high for a bigger selloff. However, the March S&P 500 future only ranged temporarily (one day) below the 3,820-00 area prior to recovering in the wake of initial 'good news is bad news' activity after the March US Employment report. That left the door open to retesting the higher resistances. Along with other factors, the ECB confirmation of its 'QE Forever' on March 11th left the US equities buoyant again above those noted resistances. That should have signaled a swing well above the old high.

Yet that was clearly not the case into that week's stall into the old high, and then US equities struggled to sustain activity above 3,959.25 previous all-time high by more than \$10 (both a natural rule of thumb and key weekly Oscillator level) through all of last week. This was the further indication that Negation of the 3,931-35 dual resistance might be more of a 'failure swing' than full bullish signal.

There was even atypical weakness into the FOMC announcements and Chair Powell's press conference last Wednesday (14:00 EDT and after.) In fact, it was only on revised economic projections that the March S&P 500 future pushed back above the old 3,960 area high, further encouraged by Powell's statement that US growth was likely to be very strong and any inflation would be very transitory. That not only caused a further push higher during Regular Trading Hours, but fomented a new March contract overnight 3,989 all-time trading high that evening.

Yet then various factors conspired to drop it back into the 3,960 area Thursday. Might that have been the renewed weakness of global govies to new near-term trading lows (higher yields) after they bounced on the Powell inflation perspective on Wednesday? Or was it the

renewed COVID-19 pandemic spread risk we had noted for weeks in the wake of quite a few US states lifting pandemic suppression measures (very likely prematurely)? The latter was reinforced by the return to more draconian measures in Europe that had reopened too early as well as the press coverage of the increasing US Spring Break mayhem into late last week.

In any event, the June S&P 500 future held not too much worse than 3,960 area through Thursday morning, and temporarily spiked back up to it into lunchtime (March contract was of course trading \$10 above it.) However, by right after lunch it fell sharply back not just from that area, but also below the previous week's 3,942 weekly Close. As discussed previous (Friday's ALERT!! and other analysis leading into it), it was important it also fell below there due to that establishing a fresh weekly DOWN Closing Price Reversal (CPR.) Of note that has a Tolerance at the previous week's high, most interestingly 3,958.50, right near 3,960 again.

Of course, the strength of that DOWN signal was as noted in Friday's ALERT!! title: 'A Matter of Degree'. As noted there, after a temporary spike down below the lower 3,881 previously Negated Head & Shoulders DOWN Break it was recovering into midsession near the 3,920 area interim congestion. Had it recovered much further on Friday, it would have been a very questionable weekly DOWN CPR.

It would have run from an overnight front month future 3,989 new all-time trading high (\$47 higher on the week) back down to less than \$20 lower on the week. However, finishing Friday under pressure into a 3,900 weekly Close (which was \$42 lower on the week) left a more prominent DOWN CPR from 3,942 level. Along with its Tolerance to the 3,960 area, it is now once again a significant stumbling block to any bull trend extension, and full resumption of the 'risk on' psychology.

While this transpired well beyond the proverbial 'Ides of March', there is another cautionary view worth revisiting: beware the 'friendly Fed psychology'. While it was not apparent this time, there is often an anticipatory FOMC bid in the US equities, last week shows this can also occur right on the event of the FOMC announcements or press conference. The rule of thumb for healthy skepticism on Fed (or any other central banks') missives is that a knee jerk response to central bank influence can be wrong. There is typically a 24 hour window to allow any participants who want to buy into the central bank perspective to 'buy in'.

What is striking in this case is the 'influence' window having been just about exactly 24 hours prior to the central bank missives wearing off prior to the market reflecting the broader trend influences we noted above. We suggest another look at the short-term chart (link above) to see just how the critical Evolutionary Trend View (ETV) went from the potential to maintain higher ground on the week (and therefore not exhibit any weekly DOWN CPR at all) and again rechallenging the mid-February 3,959.25 previous all-time high. Yet the late Thursday drop led to the front month future (June on Friday) 3,942 weekly DOWN CPR into Friday.

It reminds us of an old adage, which relates to being patient and making sure the full ETV has developed prior to drawing too many price signal conclusions. It is not the case in American baseball that there is a clock ticking, versus a system based 'outs' (failure of the batting team to get on base.) And there is a chance for a somewhat miraculous rebound late in any game, especially even as late as the ninth (final unless there is a tie) inning. As the late-great New York US baseball player and manager (and Master of Malapropism) once noted on this quirk of the game, "*It ain't over 'til it's over.*" Sometimes the markets are that way as well.

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/3f37L6s> (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 stalled into the old high, and then US equities struggled to sustain activity above the 3,959.25 previous all-time high by more than \$10 (both a natural rule of thumb and key weekly Oscillator level) through all of last week. This was the further indication that Negation of the 3,931-35 dual resistance might be more of a 'failure swing' than full bullish signal.

There was even atypical weakness into the FOMC announcements and Chair Powell's press conference last Wednesday (14:00 EDT and after.) In fact, it was only on revised economic projections that the March S&P 500 future pushed back above the old 3,960 area high, further encouraged by Powell's statement that US growth was likely to be very strong and any inflation would be very transitory. That not only caused a further push higher during Regular Trading Hours, but fomented a new March contract overnight 3,989 all-time trading high that evening.

Yet then various factors conspired to drop it back into the 3,960 area Thursday. Might that have been the renewed weakness of global govies to new near-term trading lows (higher yields) after they bounced on the Powell inflation perspective on Wednesday? Or was it the renewed COVID-19 pandemic spread risk we had noted for weeks in the wake of quite a few US states lifting pandemic suppression measures (very likely prematurely)? The latter was reinforced by the return to more draconian measures in Europe that had reopened too early as well as the press coverage of the increasing US Spring Break mayhem into late last week.

In any event, the June S&P 500 future (front month as of Friday) held not too much worse than 3,960 area through Thursday morning, and temporarily spiked back up to it into lunchtime. However, by right after lunch it fell sharply back not just from that area, but also well below the previous week's 3,942 weekly Close. [Please see the fully annotated short-term June S&P 500 future chart into very early Monday morning trading (<https://bit.ly/3IDwdfW> in fact Sunday evening.)]

That was important insofar as it established a 3,942 weekly DOWN Closing Price Reversal (CPR.) Of note that has a Tolerance at the previous week's high, most interestingly 3,958.50, right near 3,960 again. Finishing Friday under pressure into a 3,900 weekly Close (which was \$42 lower on the week) left a more prominent DOWN CPR from 3,942 level. Along with its Tolerance to the 3,960 area, it is now once again a significant stumbling block to any bull trend extension, and full resumption of 'risk on' psychology that will become a problem if it continues.

Thanks for your interest.

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