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ROHR ALERT!! Strong Data Hits Govvies

1 message

ROHR Alert <rohralert@gmail.com> Tue, Mar 30, 2021 at 11:59 AM
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Dear Subscribers,
And of course global govvies weakness is spilling over into other asset classes in a way that is reviving a 'risk off' psychology, even if that is only having a marginal impact on US equities so far. Yet the focus on higher yields is affecting foreign exchange in a significant enough manner to highlight the degree to which there is a return of 'risk off' psychology. And that is rightful on a '*good news is bad news*' influence, especially in the context of not just stronger economic data but also stronger Spanish and Italian inflation indications earlier this morning.

That sets the stage for the additional French, Italian and Euro-zone CPI release tomorrow along with other important economic data in a holiday shortened week that continues on Thursday. This is in an Evolutionary Trend View (ETV) that had seen the global govvies recovery rally fail at key resistance (violated support) out of late last week into a far more active selloff into the very beginning of this week.

The most obvious spillover into other markets is in foreign exchange, where the US Dollar Index has overrun some key 92.00-.30 recent and historic resistance last week, including Negating a weekly DOWN CPR from just two weeks earlier. This week it has pushed above the key higher 92.75-.85 resistance (including weekly MA-41), with the next resistance not until the 94.00 area meaning it can rally further… seemingly the antithesis of restoring the 'risk on' psychology.

However, it is of note that emerging currencies are not back under any sustained pressure after their recent weakening from the previous rally. That would speak of the potential to return to the 'risk on' psychology in the face of the 'haven' bid in the US dollar, yet with the alternate 'haven' Japanese yen weakening below its USD/JPY 110.00 resistance after already rallying such a long way (from below 103.00 since its January lows.) This indicates even more of a US dollar 'haven'.

And we still feel that the limited weakness in the US equities under the higher yield influence might be ignoring other looming risk factors. The most obvious is President Biden's scheduled Wednesday infrastructure speech in Pittsburgh. While the additional major spending might seem a fillip for the economy and US equities, the sheer expectation of a further, admittedly necessary, $4.0 trillion spending will also bring rightful concerns about the now sprawling deficit.

The expectation is that this will bring a proposed $3.0 trillion in tax increases, ostensibly on big businesses and the ultra-wealthy. The dual problem there is that there aren't enough 'ultra-wealthy' to pay that bill, and the corporate tax hike to 28% (from the current 21%) risks the return of corporate relocations out of the US to more tax-friendly countries. The significant degree of this trend away from US domicile removing tax revenues and jobs was a driver of previous tax reduction.

Yet the bigger threat to US equities which is wholly separate from the seemingly less than burdensome yield increase (which is at least partially expected on the economic improvement) is the resurgence of the COVID-19 pandemic. While the recent rise is relatively modest so far, the real question is whether they will top out sometime soon or return to more troubling levels. As noted on Monday's "...just because it wants to" ALERT!!, "...*the indications are at least somewhat troubling on the most recent indications from the Centers for Disease Control.*

"Note their most recent indication through last week (https://bit.ly/3u3XU4F) on ...daily news cases and the data-smoothing of the 7-day moving average. As context for the current situation, note at the height of the previous surge last July (prior to the far more major Winter problem) new cases peaked somewhat above 75,000 with a 7-day average of 67,377. The recent sharp fall left indications back below that to some degree, at an average of 53,570 on 40,369 new cases back on March 14th. Yet since then those are back to an average of 60,425 on daily new cases of 71,593 on March 26th. Viewing this as a trend, it is important to consider whether the recent fall was a 'cleanout' pending an up trend resumption.

"This is why the most prominent US epidemiologists are warning that the recent wholesale abandonment of the COVID-19 pandemic suppression protocols is potentially a major problem. And they have the experience of Europe having to return to restrictions (most aggressively in Italy and France) to inform their view on the risks. Rather than count on our sporadic perspectives on the CDC data, you can follow it yourself via this daily updated short-link: https://bit.ly/3rw4eAb."

Using that CDC link it was the case that while the 'new cases' had dropped a bit over the weekend, the 7-day average continued to climb. Whether the latter tops out in the near term or continues to rise up to and above that July 2020 peak will be a key indication. That is not just for the raw pandemic data, yet even more so for the US equities on whether there needs to be any reinstatement of COVID-19 pandemic suppression measures. After all of the enthusiasm for many states completely (and others partially) removing suppression measures, it seems that any reimposition of 'gathering' economy restrictions is not priced into markets.

In summary, there seems to be a 'bifurcated' psychology once again on the risk appetite being weaker in the developed currencies on the back of higher yields. Yet to this point that is muted in the US equities and emerging currencies, and outside of the global govvies weakness there is the resurgent US COVID-19 factor to watch for any negative influence which might 'blindside' positive expectations.

Courtesy Repeat of Monday's 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/31ACyiU (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 govvies 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/3lDwdfW 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 above both of those levels was odd due to that 'risk on' psychology not being reflected elsewhere (see above), and now it will be important to see if it maintains the trend above those levels or reverts to more bearish activity once again. If the latter, there are lower supports into the 3,880-70 range with lower support at 3,820-00.

Thanks for your interest.

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