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ROHR ALERT!! It's a 'Bifurcated' Wrap… Sort Of

1 message

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Dear Subscribers,
With the Good Friday closure of most of the developed economy markets outside of Asia, it would be easy to say 'it's a wrap' for the trading week... But wait!

The fools (with all due respect) at the US BLS are going to perform their (typical benighted) trick of releasing the US Employment report on the first Friday of the month regardless of the fact markets everywhere from New Zealand through the US and Canada will be Closed. Back when the bulk of the trading was performed by open outcry on the trading floors, the exchanges used to have everyone come in on the holiday for an abbreviated trading session. Well, Friday will still see that, yet electronically (much better) on Chicago Mercantile Exchange until 11:30 CDT.

That will only be for markets most heavily impacted by the Employment report, like equities, debt and foreign exchange derivatives. It is interesting that even the NYSE that used to also force everyone to come in for these abbreviated Good Friday sessions has declined to open. Maybe exchanges are sending the BLS a message it should finally treat Good Friday like the major holiday it is throughout the entire Christian world (even though not an official government holiday.)

In any event, we will be in tomorrow morning to monitor the Employment report contents, and of course any market reaction. That said, we will only issue a fresh analysis if there is a telling market reaction to what is expected to be an already elevated addition of 640,000 new jobs in the March Nonfarm Payrolls. Some of the 'whisper' estimates have risen to the 1,000,000 area. We shall see on that.

Yet there are two other factors which are problems for the US equities bears. Firstly, the Biden infrastructure proposal was relatively well-received, and even though it extends over eight years there is quite a bit of further government spending should anything near the proposed plan passes Congress.

There is also the cyclical quarterly investment activity from timely reinvestment of dividends. This tends to create natural US equities buoyancy during the first two weeks of any quarter. US equities bulls are likely benefitting again from the combined influences, obvious in a front month S&P 500 future new all-time high.

On the other side, even allowing for a bit of a natural psychological tendency to look above the 'big penny' (4,000 in this case) once a market gets close to it, there is resistance somewhat above it into next week (see below.) That is along with a continued race between what impressive levels of US vaccination that remain somewhat limited (15%), and potential COVID-19 new cases resurgence. At least so far that has not reached threatening levels. The question is whether they will reach sustained levels triggering reimposition of pandemic restrictions.

We are keeping a close eye on that, with recent CDC indications still somewhat disconcerting on a daily news cases rise back up to 62,726, and a 7-day moving average still rising up to 62,542. While those remain below what we consider key levels of roughly 75,000 and 67,377 respectively from July 2020, they have been rising since mid-March. Based on the potential reimposition of restrictions we feel is not 'priced in' to the current US equities levels, we believe it is important to watch that factor as well despite it falling off many analysts' radar right now.

In the meantime, it will be important to monitor the sheer Evolutionary Trend View (ETV) that is so 'bifurcated' again. That is on the impressive US equities rally extension to another new all-time high along with emerging currencies gaining more strength after last week's churn. Even maintaining the seemingly strong bid in the US Dollar Index (looking like 'haven' activity once again) might be based on COVID-driven weakness of other developed currencies rather than 'crisis' buying.

However, that doesn't explain why the global govvies are rebounding so strongly today, building on the Wednesday recovery after getting hammered earlier this week into Tuesday. If everything is so 'risk on', the global govvies should be exhibiting more weakness (i.e. higher yields) to reflect the strong growth. It may just be a nervous reaction into Friday's major US Employment report. Yet if so, on that being anywhere near as strong as expected global govvies should weaken again in the important Chicago Mercantile Exchange abbreviated trading session.

Courtesy Repeat of Wednesday's 'International Crosscurrents' ALERT!!
Tuesday's 'Strong Data Hits Govvies' ALERT!! highlighted the degree to which higher than expected Spanish and Italian inflation indications continued the weakening of global govvies which began late last week. That was after a relatively strong recovery rally from the previous several weeks sharp selloff.

Despite their late Tuesday recovery, the key question was whether that was a harbinger of further weakness to come, with today's economic releases being the early arbiter of that potential. In the event there was only mixed-to-weak data this morning, which has assisted a bit of further improvement in global govvies. It is also the case that the other source of pressure on risk appetite we had previously noted remains an issue: the potential COVID-19 pandemic new cases resurgence.

For much more on that, please see Tuesday's 'Strong Data Hits Govvies' ALERT!! The bottom line was a 'bifurcated' psychology once again on the US equities resilience and emerging currencies also keeping their bid as a sign of the potential sustained 'risk on' psychology. However, weakness of the other developed currencies still leaves the US Dollar Index well above both the key 92.00-.30 resistance as well as the 92.75-.85 area (including weekly MA-41) highlighted since last week, with further upside likely.

In addition to the outlier US COVID-19 impact that should clarify into next week after a full month of pandemic suppression measure removal, there is now the troubling return of the problem in Europe. That might explain the weakness of the other developed currencies driving US dollar strength. That would therefore also allow for 'risk on' US equities strength despite the seeming US dollar 'haven' bid.

However, as also noted on Tuesday, the next stumbling block for the US equities might be President Biden's infrastructure speech in Pittsburgh this afternoon (16:20 EDT according to his published schedule.) This is of course a mixed influence into US equities and global govvies (via the activity in the US debt market.) There us upbeat expectation of additional

major government spending after the $1.9 trillion ARP program passed Congress, yet also with significantly higher taxation as a way to address what is now a yawning US deficit problem.

Will US equities be more so impressed with the higher spending, or concerned with a potential significant hike in corporate tax rates from 21% back up to 28%? (See Tuesday's ALERT!!for problems this might engender.) There will also be the global govvies reaction. If it is a fresh round of sharp weakness, might it spill over into being a more telling influence on US equities than the weakness into early this week? It will all be the next interesting insight on global 'risk appetite'.

Courtesy Repeat of Wednesday'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. 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 (also front month future) overnight 3,989 all-time trading high that evening.

Yet then various factors conspired to drop it back to the 3,960 area that Thursday. In any event, the June S&P 500 future (front month since March 19th) 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.

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 last week 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, lower supports are the 3,880-70 range with lower support at 3,820-00. However, if it remains strong, higher resistances are into 4,005-30 and 4,100-30 into next week based on the weekly Oscillator (with MA-41 still rising $20/week.)

Thanks for your interest.

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