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ROHR ALERT!! IMF WEO and Technical Signal Quirk

1 message

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Dear Subscribers,
We have repeated Monday's 'Runaway or Over-Extension?' ALERT!! below to provide easy access for our international readers who were out yesterday for the Easter Monday observation. It is important to note that this reviews the renewed significant trend extension of US equities, yet the degree to which some part of that might be driven by international buying last Friday into Monday as many non-US markets were Closed for the extended Easter weekend holidays.

That does not seem to have left any immediate weakness in the wake of those markets reopening today (see Monday's ALERT!! for more on that dynamic.) However, the issue is how the US equities will perform over the near-term future into later this week and next. While we will be getting back to the International Monetary Fund latest World Economic Outlook which was released this morning with a very informative press conference, once again we will now cut to the market chase with the discussion of that US equities technical indications quirk.

The front month S&P 500 future push above the 4,000 level 'big penny' was at least a psychological success insofar as it extended well above it. As noted on Monday and previous, there are weekly Oscillator thresholds at 4,010 and 4,035 this week that were also exceeded on the Monday surge. The full discussion of the US equities technical and psychological situation (with mention of the 'fly in the ointment' remaining COVID-19 risks) are in Monday's extensive analysis.

Yet as not to overly expand Monday's US equities perspective, we deferred a key Evolutionary Trend View (ETV) 'quirk' into today. It is quite a different technical signal on the June S&P 500 future push well above 4,000 on only the last official full trading day last Thursday and Monday's opening, versus Friday's purely electronic trading also being incorporated in the ETV. It is the difference between a strong but orderly continuous trade higher on the inclusion of the electronic trading, versus a major UP Runaway Gap if Friday is eliminated from chart data.

This is because those of us who observed the full Friday trading know that the June S&P 500 future traded up to a daily high of 4,038 prior to settling in for an abbreviated session 4,027.25 Close for the week. That means as strong as the early week push may have been in overrunning the 4,010 and 4,035 Oscillator thresholds, it was not a fresh trend signal in its own right. However, if the Friday data is eliminated, then the daily, and more importantly the weekly, trading high is Thursday's 4,015.25. On that basis, rather than Monday's 4,021 trading low being a trade in line with the best levels seen last week, it is a clean gap to a new high.

That is classically known as a 'Runaway Gap', which would not at all be the case if last Friday's 4,038 trading high is included in the analysis. And the implications are striking. If there is indeed a daily Runaway Gap, the upside Objective is an equal move up from

Monday's low to the degree of the immediately preceding 'straight line' rally. As that would be from the March 25th 3,843 selloff low to last Thursday's 4,015 trading high (172), the Objective of that signal would be 4,193.

Quite impressive, yet paling by comparison with the more compressed weekly chart swing up from the 3,720 (GameStop disruption) March 4th trading low to last Thursday's 4,015 high (295.) That Objective ('swing count' up from Monday's 4,021 trading low) would be 4,316. On that basis this week's extended established weekly Oscillator 4,110 and 4,140 thresholds look understated for a strong trend.

That said, the risk factor in either case would be any June S&P 500 future failure back below the 4,000 area. While that would be bad in any case on 'big penny' psychology and the implication of weakening back below the weekly Oscillator thresholds, it is even more pernicious if an UP 'Runaway Gap' fails. That is due to the ETV meaning a failed signal of that type morphs into an 'Exhaustion Gap'. That activity this week would both establish a DOWN signal from the previous 4,015-4,021 upward gap, and also a fresh DOWN Closing Price Reversal (CPR) on any weekly Close back below the 4,000 area, ergo below last week's 4,010 Close.

As we have noted many times, that will be a matter of degree… the farther below 4,000, the more significant any downside reversal would be. And all of that presumes it happens. Yet as we note every week at the top of the Report & Event Calendar, "*Chance favors the prepared mind*" (with thanks to Louis Pasteur.) However remote it may feel right now, this is the early warning on just how critical any June S&P 500 future reaction back down into the low-4,000 area will be.

And now back to our regularly scheduled assessment of the key 'macro' factors. This morning's IMF World Economic Outlook was most interesting, especially on the continued weight of the COVID-19 pandemic in some areas (even Europe), yet on the anticipated above-2019 projected trend growth in the US. Any of the more upbeat expectations are still on the assumption the pandemic will continue to recede, and even at an accelerated pace. Please see the extensive full WEO report (https://bit.ly/3cYwBDj), and be advised page 1 of the report is page 21 of the PDF.

There was also a very informative yet concise press conference led by IMF Chief Economist Gita Gopinath (https://bit.ly/3rZiHol.) It shared improved IMF outlooks, even if there are significant dangerous divergences both within and also between various countries. That said, the IMF does provide a rationale for the outsized rally in US equities, as at 6.4% the US will be the only country that would have a stronger 2021 GDP than 2019 pre-pandemic projections. That can be attributed to aggressive vaccination and the extent of its fiscal support not seen elsewhere.

By contrast the Euro-zone will also rebound, but at a more limited pace in part due to its less than effective vaccination program that is expected to improve across 2021. China will also continue to thrive after a very strong 2020 based on its predominance in PPE exports. Yet there will possibly be some cooling due to imbalances from growth being based on public sector support, with more private sector investment necessary to balance that out into sustained overall growth.

The press conference is a worthwhile precursor to any read of the full report, as Gopinath also makes use of many salient graphics to support her presentation prior to a very interesting Q&A (including discussions of US debt and Fed policy.)

Courtesy Repeat of Monday's 'Runaway or Over-Extension?' ALERT!!
It would be easy to assume the US equities strength on the back of Friday's very strong US Employment report indicating the addition of 916,000 Nonfarm Payroll jobs (versus the 647,000 estimate) and the Unemployment Rate dropping to 6.0% is a bona fide 'runaway' into a new bull market extension. That includes the front month S&P 500 future pushing above the psychological 4,000 'big penny' level during limited US trade Friday while the rest of the Christian world was Closed.

That particular aspect continues today, with markets outside of Asia Closed for Easter Monday from New Zealand right through Canada. (That's right US clients… it seems the rest of those markets still are better at partying than we are.) It is therefore a current question that would otherwise not be the case as to whether the US equities strength is the runaway above higher resistance (more below) it appears to be, or the over-extension mentioned in the title of today's research?

Rather than revise our Evolutionary Trend View (ETV) below, we are repeating the assessment from late last week that already anticipated the higher levels to watch into this week, and will be updating that once the markets see the additional impact from all of those combined Good Friday and Easter Monday countries' markets being back in action on Tuesday. In the meantime, we will cut to the market analysis chase with a concise discussion of the various asset classes current behavior, and the ongoing 'fly in the bull market ointment' noted previous.

On current form front month S&P 500 future appears to have decisively overrun the weekly Oscillator resistances in the 4,010 and 4,035 areas that were tested last Friday. Yet those are weekly Closing thresholds that will need to be watched later this week for any indication buyers from other countries Closed for both Good Friday and Easter Monday were not crowding in to hedge their purchases of their domestic markets which were not accessible over the past several days.

If so, that may defuse or even reverse to some degree the extreme strength seen over the past two trading days. That would be in the context of them buying their own equity markets and liquidating their hedges in the US equities. That said, if the front month S&P 500 future holds setbacks to technically and psychologically prominent low-4,000 area, it must be assumed it can maintain a bull trend for now. The next weekly Oscillator thresholds this week are the 4,110 and 4,140 areas loosely noted last week, which are back to rising approximately $25 per week (up from $20 per week) based on the recent sustained strength of the overall trend.

That said, the global govvies are not painting nearly as upbeat a 'risk on' picture insofar as that should bring price pressure (i.e. higher yields) due to stronger growth and inflation expectations. Yet after taking some pressure in Friday's US electronic trade after the strong US Employment report, they are recovering at present in the face of the extended US equities strength. Obviously, here as well we will need to wait until Tuesday to see the European activity as a context.

Foreign exchange on the other hand is reflecting more of a 'risk on' psychology, as gains in recently weak developed currencies drop the US Dollar Index back below its 92.75-.85 area, even if the lower 92.30-.00 range is more important. It is also the case that the recently stronger emerging currencies continue to gain ground in an orderly manner. All of which is subject to the influence below…

Back to the 'fly in the bull market ointment', it is the continued race between what are impressive levels of US vaccination that however remains somewhat limited (18.5%), and a potential COVID-19 new cases resurgence. At least so far that has not reached threatening levels, yet is closer on many measures at present. The question is whether the new cases (and ultimately hospitalizations) resurgence will reach sustained levels triggering reimposition of pandemic restrictions.

We are keeping a close eye on that, with recent CDC indications still becoming disconcerting on a daily new cases rise back up to 67,989 on Saturday, and a 7-day moving average still rising up to 62,542, both up from significantly lower levels into mid-March. You can monitor this via the CDC COVID-19 Data Tracker (https://bit.ly/3rw4eAb noting the April 1st new cases rise to 74,912), all of which approaches the key levels from last July we have highlighted previous.

While still just only just up to those key levels of roughly 75,000 new cases and that 67,377 7-day average from July 2020, the trend is decidedly higher. And the more interesting and troubling element is the degree to which current increases are based on the COVID-19 B.1.1.7 variant that is so much more prevalent among children and young adults in a way which was not the case during the first 10 months of the pandemic. Consider again what Dr. Osterholm has to say...

Michael Osterholm is the Director of the Center for Infectious Disease Research and Policy at the University of Minnesota, and is a member of President Biden's COVID-19 Advisory Board. While he is seen as a bit alarmist, he has also been more so right than many others (especially politicians) on the likely path of the COVID-19 pandemic. Consider for a moment our citation of what he had to say in our March 9th 'Bright Line COVID-19 Caution' ALERT!!, which was in response to more than a few US states lifting their COVID-19 suppression mask mandates:

He noted, "*Just one month ago, B.1.1.7 made up around 4% of coronavirus cases in the US, among those that have undergone genomic sequencing. Today, it's up to 30 to 40%. And what we've seen in Europe, when we hit that 50% mark, you'll see cases surge*." That was of course into just the beginning of the Spring Break flood of young people into Florida, which we (among many others) noted was THE B.1.1.7 variant US hotspot (along with Texas, California and now others.)

While he did not go so far as to specifically cite the higher contagion for the massive number of young people traveling into and back from Florida over the past month, that is implicit with the overall conditions and future warning he offered on various Sunday political shows over this past weekend.

To wit, the article on his interview by the moderate Chris Wallace on Fox News Sunday includes the link to the video (https://fxn.ws/3rQFsec.) At 02:00-05:10 he notes that while the pandemic new cases seem to have cooled in some areas, they have exploded in others, like the Upper Midwest and New England. That is consistent with how the pandemic has remained so stubbornly resilient in the past (and also in Europe), and is complicated by the current B.1.1.7 variant.

That is due to the aforementioned prevalence among children and young adults in a way which was not the case during the first 10 months of the pandemic, and calls for a reconsideration of many of the 'kids back in school' efforts that have seemed reasonable up to this point. Yet the recent resurgence is among a much higher percentage of them, consistent with B.1.1.7 also being more contagious.

It also seems to be far more damaging among that population, which had mostly avoided serious symptomatic illness during any infection from previous variants. The recent rise in hospitalizations and deaths among that population is troubling on both the consideration of their youth, and the degree to which it brings into question quite a few of the economic reopening plans based on schools opening.

While there is good news in the degree to which the current batch of vaccines seems to be effective against the B.1.1.7 variant, that is still more so limited to older members of the population, and certainly not younger folks to any degree; including those who were gathering which such abandon in Spring Break locales like the entire state of Florida. Dr. Osterholm noted all of the other nations who suffered an extensive spread of the B.1.1.7 variant have reverted to lockdowns. The problem he notes with B.1.1.7 is that it is possibly not the 'next wave' of the existing pandemic so much as a 'new pandemic' based on its major differences.

Once again, we do not want to be overly focused on one highly negative factor amidst the several positive developments. That said, much upbeat psychology in the US (which is the leading source of positive global expectations at present) is based on the 'reopening' that is gaining momentum. That optimistic psychology is ignoring sustained warnings from the epidemiologists about the still relatively low level of overall US vaccinations despite impressive program acceleration.

As such, even with all of the current improved economic data, airline and hotel bookings, restaurant reopenings, etc., there is a risk factor in the potential for a problem on renewed restrictions not being priced into the equation at present. That would likely take a new cases surge along with higher hospitalization rates, which suggests monitoring the CDC COVID-19 Tracker noted above. Yet there is also a critical factor in the degree to which any pandemic spread is also seen to be more threatening to children and young adults. While everyone wants them back in school for their own educational and socialization needs, that is not likely to be supported at the risk of them being lethally impacted by the pandemic.

This is therefore a very 'binary' market psychology, insofar as broader economic indications across many sectors appear to be benefitting from general reopening of the US economy. However, if indeed the current spread of B.1.1.7 new cases (Michigan and the Northeast for now along with California and Colorado surges) should accelerate (possibly based on that Spring Break travel), then there may be a quantum shift in the market psychology which is not 'priced in' at present.

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/3cOCa72 (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.

While that might have been a sustained top, 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, along with 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 that 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. Yet then various factors conspired to drop it back to 3,960 area that Thursday. June S&P 500 future (front month since March 19th) also fell sharply 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. However, a strong US Employment report pushed it up into higher 4,010 and 4,035 resistances. Overrunning those levels on Monday leaves next weekly Oscillator thresholds into 4,110 and 4,140 (with MA-41 now rising $25/week once again.) Yet the potential for there to have been an UP 'Runaway Gap' on this week's opening (see above) leaves low-4,000 area 'big penny' psychology more critical than usual on any near-term selloff.

Thanks for your interest.

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