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ROHR ALERT!! Risk-On Cracks?

1 message

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Dear Subscribers,
Even prior to this morning's hotter-than-expected US Producer Price Index, there were some anomalies in the recently unified 'risk on' market tendencies. That is in the context of recent foreign exchange activity reflecting that unified 'risk-on' psychology through developed currencies and emerging currencies strength against the US dollar. Yet, they were already weakening earlier this morning despite the US equities rally extension to another new all-time high. To cut right to the market activity chase again today, the US Dollar Index had slid all the way back from above its 92.75-.85 congestion back to the key 92.30-.00 area.

That is an historic congestion area as well as the key failed UP Closing Price Reversal (CPR) from last September, which was not overrun to the downside until back in late November. It also stalled into that area on the rally back up during most of March. As such, it is the key area against which any return of a 'haven' bid to the US Dollar Index would resume, if it holds there and manages to rally.

Along with that key metric for the developed currencies, some key emerging currencies have stalled after their recent rallies. Most obvious is South African rand's rally stalling on the lack of any further USD/ZAR weakness. It had dropped from the 15.00 area down to the key 14.50-.40 congestion out of early last week into early this week. That was a key area that had also been vigorously tested late last year and again in mid-late February. While not a major component of the overall US dollar trend, it has been a significant global 'risk appetite' barometer.

The other 'bifurcated' trend indication of late has been global govvies sustained upside reaction in the face of the 'risk-on' psychology being so apparent in the other asset classes. Yet as noted in Thursday's ALERT!!, "*There may not be much more upside in the global govvies which are now back up into or near higher resistance (failed support areas.)*" And they have of course been sent back into weakness by today's US PPI data. Yet at least so far that is having only a limited impact on the US equities. That is consistent with asset class counterpoint trends on various forms of good news, fiscal stimulus and central bank accommodation that we noted once again in Thursday's ALERT!! outside of COVID-19 concerns.

On that last front, beyond the significant success of the very highly accelerated vaccination program, the US news is worsening into the serious deterioration of the situation in the rest of the world. Please see Thursday's very good Associated Press article (https://bit.ly/3t6v4jR) on many new record numbers of COVID-19 cases in much of the world. Of course, that is on one hand a risk on the degree to which it might trigger the reimposition of economic restrictions outside the US.

Yet in the context of the more successful US vaccination program, that might make the US equities and economy a more attractive inward investment target in the short run. However,

the article also points out the untoward spread of the B.1.1.7 variant in the US, which is now 40% of all US new cases. We have been highlighting this for a month in the context of a heavy US Spring Break factor on the B.1.1.7 hotspots, including especially Florida along with California and Texas.

Please see Thursday's ALERT!! (repeated below for your ease of access) for much more on this. That includes a link to the key CDC graph on overall new cases that is obviously at a very critical juncture relative to the top of the new case surge last Summer. There is also a link to the state-by-state B.1.1.7 variant spread map, which shows the spread out of the key hotspots we highlighted from back in March to more aggressive expansion into the Midwest and Northeast. Additionally, the B.1.1.7 variant is more contagious and far more troubling in its ability to create symptomatic infection in previously unscathed younger people.

The bottom line is that there is still quite a bit of strong current economic data and anticipation of more US government stimulus as well as very accommodative central banks driving the continued 'risk-on' psychology. Yet, even if to a far lesser degree than last Spring, the COVID-19 monster has not been slain. It still might represent a real risk for the reimposition of economic restrictions which could affect the broader global economy and even backlash into the US.

Courtesy Repeat of Thursday's 'Friendly Data and FOMC Minutes' ALERT!!

While only it is a marginal further US equities new all-time high extension from Wednesday evening into this morning, it reinforces the view from yesterday morning's 'Steady Bid Favors Bulls' ALERT!! That builds on Tuesday's 'IMF WEO and Technical Signal Quirk' ALERT!! interesting exploration that 'quirk', and we suggest a review of that additional positive shift in the economic outlook and why the nature of the June S&P 500 future push above the 4,000 area late last week into the beginning of this week was so compelling (making 4,000 very critical.)

Yet in terms of any central bank influence, it is obvious from the March 26-27 FOMC Meeting Minutes (https://bit.ly/3uyeE49) they are sticking with maximum accommodation in light of the weakness in lower income economic implications despite the clear signs much of the US economy is recovering. There was also a very good, concise CNBC article (https://cnb.cx/3rZRSk9) with a brief video by its Chief Economic Commentator Steve Liesman on the degree to which the Fed is going to wait until it actually sees sustained inflation rather than act on forecasts.

This is of course very good news for US equities that are basing any extended further rise on there not being any tightening by the Fed, even to the degree it will begin tapering government bond and housing securities purchases. All of this is rightfully viewed as a lot of liquidity which will go directly into the US economy.

In terms of the intermarket Evolutionary Trend View (ETV), the other asset classes are either variously reinforcing or not impeding US equities sustained up trend. Foreign exchange is seeing a somewhat aggressive yet steady improvement of emerging currencies against the US dollar, with the developed currencies also gaining ground gradually against it as well. Each of those is an indication of the greenback losing its recent 'haven' bid, which is a sign of a 'risk on' psychology.

Also of note is the nominal upside reaction in the global govvies after recent rounds of pressure (i.e. rising yields.) While that may seem a bit odd in the face of the likely further stimulus and potential inflation in anticipation of phase one of the Biden infrastructure plan,

it may mean that expectation is already 'priced in'. There may not be much more upside in the global govvies which are now back up into or near higher resistance (failed support areas.) Yet, they are also not generating any external weight on the US equities at present that had been the case during their more aggressive weakness from mid-February into mid-March.

Also to the advantage of the US equities bulls is not just that weekly Oscillator thresholds are up into 4,110 and 4,140 this week based on the high end weekly Closes back in December of last year. Due to the sustained strength of the bull trend, weekly MA-41 (on which the Oscillator readings are based) is now back to rising $25/week once again (having cooled to just $20/week in March… yes that's meant as irony.) This obviously means that even the regular trend projections are for a move up into the 4,135 or even 4,165 next week prior to being 'overbought'.

That does not even address more extensive upside Objectives if the 'Runaway Gap' interpretation of the weekly front month S&P 500 future activity prevails on the 'quirk' of now to handle Good Friday's CME electronic only trading (see Tuesday's '...Technical Signal Quirk' ALERT!! for full discussion of the anomaly on the weekly chart interpretation.) Yet at present the still higher Objectives set up by that possible 'Runaway Gap' are moot with the next weekly Oscillator thresholds already up into the mid-4,100 area. It is nominally 'all good' for now.

The one remaining obvious potential proverbial 'fly in the (bull market) ointment' may be the residual COVID-18 pandemic risk from the rapid spread of the more contagious and pernicious B.1.1.7 variant. That is especially after many states with total reopenings (especially Spring Break centers like Florida, Texas and California) are B.1.1.7 hotspots. Once again, here is a link to CDC COVID-19 Data Tracker (https://bit.ly/3rw4eAb.) Even noting the April 1st new cases rise to 74,912 that approached key levels from last July, the 7-day average seems to be topping out short of last Summer's levels. If that continues to be the case, it will certainly be more US equities good news. Yet the B.1.1.7 variant is spreading to many key northern states (CDC map: https://bit.ly/3cWY0Fz) is more of a risk now.

Another Courtesy Repeat of Tuesday's critical consideration
[It is actually still all the same, and will be updated on Monday for the new week]

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.

Yet the potential for an UP 'Runaway Gap' on this week's opening (see Tuesday's ALERT!!) leaves low-4,000 area 'big penny' psychology more critical than usual on any near-term selloff. If that holds, the extended daily Objective is 4,193, with the weekly Objective (based on the rally from the 3,720 selloff low) of 4,316.

Thanks for your interest.

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