Gmail

Alan Rohrbach <ar.rohr.intl@gmail.com>

ROHR ALERT!! Non-Anticipatory Fed Boom and Problem

1 message

ROHR Alert <rohralert@gmail.com> Mon, May 3, 2021 at 11:28 AM
Bcc: ar.rohr.intl@gmail.com

Dear Subscribers,
The end result of the important conditions discussed in Friday's 'Critical Late Week 'Risk-On' Test' ALERT!! was the survival of the US equities rally despite what felt like a shabby finish to an otherwise bullish week. That was especially so in the context of the major Biden relief and stimulus plans outlined Wednesday evening, which was preceded by another round of the extremely accommodative Fed language in its Monetary Policy Statement reinforced by Chair Powell at his Wednesday afternoon press conference. Yet the late week activity was erratic.

After the US equities extended their rally overnight Wednesday into an early Thursday June S&P 500 future 4,211 new all-time high (right into a key weekly Oscillator threshold this week; more below), they dropped back down to trade into 4,168 prior to recovering near the highs into lunchtime. Yet Friday they were back down into that area again into lunchtime. However, all of that weakness was only giving back gains from earlier in the week back to the previous Friday Close.

That was the key to whether there was any real reversal of the up trend, versus just an erratic reaction. As we have noted on many occasions, it is not enough for the bears to get the market to 'break'. All markets have temporary reactions, and they often come when least expected (i.e. when the news seems 'all good'.) However, any reversal of a bull trend requires that the market not just 'break' to the next lower support, but rather demonstrates it can 'break from a break'.

And after the early Thursday new front month S&P 500 future all-time high, whether last Friday's Close was back below the previous Friday's 4,171.50 Close (and also by a goodly degree) was the 'critical' factor we shared Friday morning. Having not done so, even as Friday's Close appeared on the weak side at 4,174.50 (only nominally higher than 4,171.50), it avoided the creation of even any nominal DOWN Closing Price Reversal (CPR.) That had been the risk when it weakened again into Friday morning, and remained weak through most of the day. We have repeated the salient parts of Friday's analysis below for your ease of access.

That said, it does seem US equities have developed more of a split personality since the straight line runup during early-mid April. That might be easily ascribed to the Biden relief and stimulus plans finally needing to clarify the tax plans to pay for such Brobdingnagian government infrastructure and social programs. While the spending is of course welcomed by the US equities as a driver of near-term strength in an already recovering economy, concerns over the higher taxation is finally a more real concern… yet still a deferred economic issue.

As such, it is more likely the spending will prevail as a bullish driver for now, yet with occasional shifts into future taxation worries creating jitters from time to time (as we saw last week.) And the other key to continued encouragement for the US equities rally (and

general 'risk-on' psychology) is the very sanguine 'transitory' inflation perspective from the Fed despite a current bulge.

This fits right in with the Fed's policy shift last year to a 'full employment' priority over inflation control in its dedicated policy position. While that seemed rightful in the face of the still stubborn employment problems of lower income workers due to the COVID-19 pandemic at the time, the US recovery is progressing far faster than previously imagined. There was a very good CNBC interview of Mohamed El-Erian this morning (https://cnb.cx/3aZCChn) on the Fed's lack of willingness to use projections versus waiting to see inflation prior to acting.

Those of us who've seen this before (mid-late 1970s) know that he is right to note that by the time the inflation is stronger, it may be harder than the Fed expects to get that genie back into the bottle. He also notes the recent very modest start to a taper of their QE purchases by the Bank of Canada two weeks ago, expected to possibly be followed by the Bank of England on Thursday. Yet the Fed continues to communicate it has 'not even begun thinking about thinking about tapering' its government bond and mortgage securities purchases. Even allowing the Fed may be right that the inflation is 'transitory', the question is what happens if it is not?

As seen in previous ingrained inflation cycles, this means the FOMC would likely need to raise rates to a degree and with enough speed to create a recession (as was the case once the Fed bit the bullet into the early 1980s under Paul Volcker.) To be clear, this is not in any way a warning on near-term US equities potentials, which will likely remain very good both under the Fed's and US government's very accommodative policies. Yet it is worth considering for insight on how news of higher taxation along with near-term higher prices can feed influences which can cause near-term setbacks. The fact June S&P 500 future still Closed last week no worse than 4,171.50 reinforces it as a near-term support level for now.

That said, we like to cite the old axiom, "*The market* (which is to say equities) *is a creature of expectations*." And therefore to be successful traders, investors or analysts requires us to be '*creatures of anticipation*' in order to consider what forward expectations the markets are most likely to be discounting next. It is now the case that the Fed is refusing to use its classical powers of anticipation by choosing to wait until the future arrives instead of taking a forward view based on what should be its reasonable forecasts. It is a more problematic approach.

Courtesy Repeat of the key section from Friday's ALERT!!
The answer for the US equities (also a key barometer for the overall 'risk-on' psychology in other asset classes) is whether the June S&P 500 future holds not much worse than last week's 4,171.50 weekly Close. Any Close today below it is at least nominally a weekly DOWN Closing Price Reversal (CPR) from last week's Close (Tolerance to last week's 4,186.75 high.) As usual, it is a matter of degree.

If it is only marginally below 4,171.50, it is the sort of weak DOWN signal that is very likely to be Negated on a push back above 4,186.75. Assessing short-term charts gives the impression it would need to be at least back below 4,150-45 congestion to indicate any meaningful DOWN CPR, and also be enough weakness compared to a high up $50 on the week. If not that weak (or maybe not Closing below 4,171.50 at all), this is just a nominal setback from what the market must sense is an important hurdle, with near-term support into that 4,150-45 area.

And the same slippage in the 'risk-on' psychology is apparent in the key other asset class: foreign exchange. Both the developed currencies and emerging currencies are back under pressure, yet still within their broader up trend support parameters. Of course, that will also likely therefore be critical on the US equities indication of just how badly the 'risk-on' psychology is damaged… or not.

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/3ufmjVb 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. Even the March S&P 500 future push back above the old 3,960 area high, saw various factors conspire to drop it back to 3,960 area. 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), nominally a real top.

Of note that had a Tolerance at the previous week's high, most interestingly 3,958.50, right near 3,960 again. However, after overrunning that the previous Friday, a strong US Employment report pushed it up into higher 4,010 and 4,035 resistances. The following Monday there was a 4,015-21 UP Runaway Gap, where the Objectives are 4,193 with a higher one not until 4,316. As such, whether a push generally above 4,200 can be maintained is a key indication on that front.

It is also the case there is a weekly Oscillator threshold into 4,210 this week on the back of a $25/week rise in weekly MA-41. It appears the market anticipated this last week by leaving

a 4,211 new all-time trading high last week. Of course, this makes that level that much more critical a technical threshold on any attempt to extend the rally this week. Along with that the next threshold rises to 4,240 this week that was also set at last December's high end Closes. However, if the market makes it that far, it would also represent fully overrunning the 4,200 area, with the higher UP Runaway Gap Objective not until that 4,316 level.

Thanks for your interest.

NOTICE: The Rohr International, Inc. research team or its principals may already have entered positions or have orders working based on this view.

This Current ROHR TREND ALERT!! will be available soon via the sidebar at www.rohr-blog.com for Gold and Platinum echelon subscribers.

Please reply **'Unsubscribe'** if you no longer wish to receive these emails.

Contact: rohralert@gmail.com