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ROHR ALERT!! ‘Risk-On’ Rolls

1 message

ROHR Alert <rohralert@gmail.com> Mon, May 10, 2021 at 11:22 AM
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Dear Subscribers,
There was a short-term US equities topping attempt from Mid-April into last week. Yet June S&P 500 future overrunning a 4,185-90 Tolerance of the topping pattern last Thursday was a clear sign that ‘risk-on’ was back for the US equities bull trend overall. The proof in that pudding was sustained constructive activity last Friday after what by most measures was a distinctly weak US Employment report.

How could a major downside Nonfarm Payrolls underperformance (just 266,000 versus expectations closer to one million or more) along with other weak signs leave the US equities so strong into a new front month S&P 500 all-time high? The answer is as cited Friday morning right from the title of our “‘Risk-On’ Ignores Shabby US Employment ‘Glitch’” ALERT!! In the context of so much other constructive economic news and the continued improvement of the US COVID-19 pandemic control and reopening, the market ignored Friday’s NFP.

Aside from the sheer incongruence of Friday’s weak NFP and other indications, there is the possibility that the seasonal adjustment of the US employment situation is out of touch with the current situation. That was highlighted this morning in a CNBC interview (https://cnb.cx/3xUjdbH) of Skybridge Capital Founder and Chairman Anthony Scaramucci. Among other aspects of the possible seasonal adjustment NFP distortion, he noted it was dated in being from back in the 1970s, and that following the methodology of the professor who had created it would mean a figure more so up near the one million estimates.

Whatever one may think of his political positions (pro-Trump prior to anti-Trump from 2019 onwards), he is a very astute market and economic analyst, and the interview is worth a look. And whatever one may think about the Employment report, the markets verdict is clear: ‘risk-on’ continues to dominate the overall psychology, at least for now. For a more definitive discussion of how the June S&P 500 future temporary top had evolved and was so clearly Negated, please see Friday’s “‘Risk-On’ Ignores Shabby US Employment ‘Glitch’” ALERT!!

The opening section of that analysis also has the review of how foreign exchange is reflecting the renewed ‘risk-on’ psychology. That is both for the developed currencies strength against the greenback, with the US Dollar Index falling below 91.00-90.50 after holding against it two weeks ago and temporarily bouncing back above 91.00. Emerging currencies also have their bid back after a recent reaction.

Key indications are South African rand seeing USD/ZAR rally from near 14.00 support to heavy 14.40-.50 resistance into early last week, yet is now back down into a new recent 14.00 area low. Same for USD/MXN bounce from 19.80 to above 20.00 to the 20.30 area, yet dropping back below 20.00 nearer to 19.80 once again.

And on the overall front month S&P 500 future rally extension, it may be into some resistance even at today’s next modest 4,238.25 new all-time high. It is also the case that the rapidly rising weekly Oscillator (MA-41 up $25/week) is up to 4,230 this week, with the higher threshold set last December at 4,260. As such, a modest setback would not be a huge surprise. Yet much as when the early April 4,021-15 UP Runaway Gap signaled a fresh push higher was possible, that signal created the lower Objective at 4,193. After stalling into it for weeks, that level being overrun signals potential to extend the rally unless it is violated on a break.

The question becomes whether after the constructive response to even as weak a US Employment report as seen last Friday, what might possibly set off such a more sustained bout of weakness… and reverse a resilient ‘risk-on’ psychology? That is especially in the context of Friday’s weaker than expected NFP likely encouraging the Fed’s accommodative psychology based on its newfound focus on employment. Strong news on other fronts along with weak jobs numbers would seem a natural formula for continued Fed accommodation, and attendant assumptions around significant liquidity still finding its way into US equities.

Much as that is positive for them, it is also a key ‘risk appetite’ barometer. The key overall trend indication will be whether that overrun 4,193 Runaway Gap Objective will generally hold on selloffs. If so, it is a very bullish indication.

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/3exmtIC 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 4,230 this week on the back of a $25/week rise in weekly MA-41. It appears the market anticipated this previous by leaving a 4,211 new all-time trading high two weeks ago (when that was going to be the Oscillator threshold into last week.) This made that level that much more critical a technical threshold on any attempt to extend the rally last week, and it was overrun despite the weak Employment report.

A really interesting part of the overall equation is whether generally overrunning the 4,200 area (including that lower 4.193 Objective), just means a likely test of the higher (weekly Chart) 4,316 Runaway Gap Objective? Or does the ‘risk-on’ psychology feed on itself to also propel the front month S&P 500 future to the much higher February-March 2020 ‘swing count’ Objective at 4,621? In any event, without a selloff back below 4,200 area, the ‘risk-on’ psychology prevails for now.

Thanks for your interest.

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