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ROHR ALERT!! Waitin' on the Fed… Again

1 message

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Dear Subscribers,
As we noted since Monday, that ALERT!!'s 'Grinding Higher into the FOMC' title said it all on the US equities (and general 'risk-on' psychology) needing to wait until this afternoon's (14:00 EDT) FOMC statement, revised economic projections, and Chair Powell's press conference 30 minutes later for any resolution of the overall trend dynamic. While that has been bullish overall, there is the issue of the various markets only grinding higher rather than acting fully bullish for the past several weeks. That includes the US equities and emerging currencies, with counterpoint from the disconcertingly sustained rally in global govvies.

The latter is likely on the recently noted spread of the more threatening COVID-19 Delta variant when everyone thought it might be OK to return to 'normal'. This is already affecting the return to a fully reopened UK economy. It is also considered a threat by the US CDC, even if only closely watched so far. Yet with so many US states 'declaring victory' and fully reopening, the near-term threat is real.

While that may be somewhat responsible for the sluggish nature of the rallies in the 'risk-on' instruments, the most prominent influence in the very near-term will be the FOMC announcements and Chair Powell's press conference today. To sum it up as succinctly as possible, the Fed and Powell must signal they are watching inflation closely while not signaling any imminent plan to taper their Quantitative Easing program monthly bond purchases. While much of the financial press and certain analysts are looking for 'new news' from today's meeting, we doubt it.

The release of minutes from the FOMC April 28-29 meeting on May 19th (covered in our May 20th ALERT!! marked up version https://bit.ly/3oyED9P) showed that while Powell had demurred during that meeting's press conference, it was indeed the case that the FOMC had already begun "talking about talking about" a future taper within the context of evolving economic conditions: (page 10) "*A number of participants suggested that if the economy continued to make rapid progress toward the Committee's goals, it might be appropriate at some point in upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases*."

As such, while the financial press is saying any mention of 'taper' discussions might be a problem for the US equities and 'risk-on' psychology, they miss a key point. That is after the May 19th release of the April 28-29 meeting minutes the US equities commenced the sustained rally back from the sharp mid-May selloffs into last week's new all-time high. In our mind it is less a matter of whether the Fed is considering a taper at some point, and willing to allow it is looking at that contingency. More important is that the Fed is indeed paying attention to inflation.

And the financial press fixation on the FOMC communication and Powell's press conference mirrors the geopolitical press fixation on 'tangible' results from the Biden-Putin

summit in Geneva today. Isn't it a major pre-signaling on the likely lack of agreement on big issues that there will NOT be a joint press conference?

More likely that Biden will signal his dissatisfaction with Russia on issues like US election meddling, and especially the cyber warfare (ransomware operatives in Russia, etc.) that will come with at least tacit threats of the sort of retaliation which had been decidedly absent during the acquiescent Trump administration. There is also the likely warning on adventurism in Eastern Europe, especially on the still evolving irritant of Russia's actions in Ukraine. That is in part a sign of US support for a Europe with which it wants to show solidarity once again.

Part of that came in the form of US cooperation with Germany on not blocking the Nord Stream 2 pipeline out of Russia, which many US political operatives and observers consider a huge European mistake (on becoming more dependent on a still aggressive Russia.) Yet other forms of renewed US-EU cooperation out of the G7 summit have also been impressive, especially regarding international trade.

The biggest headline is of course agreement to suspend 17-years of the aircraft tariffs dispute for five years. There are other Biden administration developments that have reversed the cost and animus of the heavy handed Trump era tariffs. While the steel and aluminum tariffs continue for now, according to Tuesday's Reuters article (https://reut.rs/3gBzgmW) aircraft tariff waivers come in the wake of earlier agreements to drop tariffs on various foodstuffs, tobacco and spirits.

This is also bringing a forward signal that additional planned tariffs or duties increases are being waived as well. Considering the importance of international trade between the US and EU, this is an unqualified benefit on two fronts. It is obviously of benefit to both sides' exporters, and also allows both sides to get back to acting on the threat from China. Tariff competition between the US and EU has been a big distraction from a very prominent and critical Chinese challenge. This was a failure of a Trump administration that said it wanted to counter the Chinese threat, yet immediately demotivated traditional trade allies with tariffs.

On balance, the situation still appears 'risk-on' overall, and it is going to be interesting to see how markets respond to the likely mention from the FOMC and Chair Powell that the Fed is indeed "talking about talking about" a future taper. However, as much as the financial press wants to characterize that as a big deal, it is merely a continuation of what we know since the May 19th minutes release. While much more so background news, the overall international developments are the likely key to the US equities and overall 'risk-on' psychology from here.

It is important that the September S&P 500 future (officially front month as of Friday morning) is trading at a typical $10 discount to the June S&P 500 future. That leaves it marginally back below the mid-May 4,238.25 previous all-time high. As such, there is just a bit of a renewed 'burden of proof' back on the recently successful bulls to actually have US equities respond well to the Fed influence.

However, the quarterly expiration (Monday June 21st) sees the SEPTEMBER T-NOTE future at a typical full point discount, closer to that 132-00 area again. That should provide some comfort to the bears, yet is also a risk they can rally at some point to retest the 134-00 area if not quickly back below the 132-00 area.

The developed currencies are 'parked' awaiting the Fed influence, as evidenced by the US Dollar Index hanging around the low end of the 91.00-90.50 area which it had ranged slightly

above of late. However, despite emerging currencies being under some pressure of late, those are only reactions after recent strong activity.

This is the critical consideration
On previous form, the March S&P 500 future stalled into its old all-time 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. That is clear on the front month S&P 500 future weekly chart (https://bit.ly/2RTca2F updated through Friday.)

There was even atypical weakness into the mid-March FOMC announcements and Chair Powell's press conference. Even a 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 an early-April weekly Oscillator threshold into 4,230 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 the previous week (when that was going to be the Oscillator threshold into early April.) This made that level that much more critical a technical threshold on any attempt to extend the rally, and it was overrun despite the weak April 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? Yet on the recent sharp selloff it revolved around the degree to which the June S&P 500 future could hold the 4,100 Tolerance of the 4,120-10 support, or needed more of a correction.

Much below the 4,100 area the overall up trend corrected back near the early April 4,021-15 weekly UP Runaway Gap, as expected. While that was a significant further slide, it was actually very reasonable based on the straight up surge from the gap into the upper-4,100 area prior to stalling in mid-April. Yet the inflation concerns which triggered the mid-April selloffs have been addressed.

As such, June S&P 500 future pushing back above the previously tested lower early April UP Runaway Gap 4,193 (daily chart) Objective would seem to speak of it maybe being ready to extend the rally to a higher 4,316 (weekly chart) Objective. Yet that push above the 4,193 (daily chart) Objective at this point is also in line with this week's 4,215-4,240 weekly Oscillator thresholds (MA-41 rising $20/week.) 4,193 down to 4,175 should still be viewed as key near-term congestion support.

Repeatedly respecting that still leaves the door open to exceeding the early May 4,238.25 all-time high. This is in the context of the higher Oscillator levels set up at the highest weekly Closes back in December rising to the (*wait for it*) ...4,310 and 4,340 levels this week. It is also therefore a Friday Closing indication which is now fully in line with that higher

4,316 (weekly chart) Objective. As is often the case, after a significant reaction a market can extend to higher levels that would have seemed near-term overdone in the context of an earlier strong trend surge.

Thanks for your interest.

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