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ROHR ALERT!! The Powell Pause

1 message

ROHR Alert <rohralert@gmail.com> Tue, Jun 22, 2021 at 11:22 AM
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Dear Subscribers,
Here we are again… waiting on the influence from the Federal Reserve in the form of this afternoon's (14:00 EDT) Chair Powell virtual testimony 'The Federal Reserve's Response to the Coronavirus Pandemic' before the House Select Subcommittee on the Coronavirus Crisis. After the serial admissions by the Fed last week that both the US economy and inflation had run stronger than it had expected, it is going to be very interesting to hear what he has to say on that.

This will especially be important during the Q&A where more conservative members will undoubtedly grill Mr. Powell on whether the Fed is creating an inflationary bubble. The markets will need to pay attention to that along with whether that sanguine Fed inflation perspective might be a problem if it has to take more aggressive steps later. Yet the more Liberal/Progressive members will most likely press Powell to continue accommodation while the less robust quarters of the employment market lags... that's part of the inflation tradeoff.

Anyone wanting a preview of what Powell is going to say today can access it via our short link (https://bit.ly/3vLVhFa) the Fed posting of his prepared statement (also including some interesting graphs.) On current form the US equities are anticipating some upbeat influences from the Fed Chair, as evidenced by the September S&P 500 future early week recovery back above the 4,200-4,175 area violated late last week on the FOMC and Powell press conference influence.

That will remain the key area to watch after his testimony today. And it is also the case that the global govvies are back under pressure after rallying in the wake of last week's Fed missives. This saw the September T-note future rally back from its discount on Monday's June contract expiration to near 133-00 area. That was well back above the key 132-00 area it tested late last week, even if it has slumped near there in subsequent trade. That was unusual in the context of a Fed signal it might need to withdraw accommodation sooner than previously suspected.

That was similar to the September Bund future rallying back to retest the failed 172.50-173.00 congestion late last week into Monday prior weakening once again as well. It led us to believe that there might have been something more to the weakening of the 'risk-on' psychology into and after the middle of last week.

That could still be more so the COVID-19 Delta variant, even if that is going to take some time to have a more pernicious impact. Yet along with the extent of the global govvies strength was weakness of other currencies against the US dollar. While any sense there might be a further increase in already premium US interest rates might encourage US dollar buying, there was also the rather more extensive weakening of emerging currencies. While that might be part of the weakening of 'risk-on' psychology, if that is indeed on a more hawkish Fed due to a much stronger overall economy (which should include the global

economy at this point), why are they remaining so weak after the knee-jerk reaction last week?

This is why Powell's Q&A regarding the inflation issue that will certainly get a lot of review is so important. And the market reaction may tell us quite a bit more about whether the extended (literally into mid-late 2022 and beyond) Fed outlook and likely action are indeed going to be a driver for the near-term trends. It is going to be a critical inflection point for what the markets are focused on for the renewed success or continued retrenchment of the 'risk-on' psychology.

Courtesy Repeat of Monday's Occam's Razor on the Markets
...the market situation remains as convoluted in our view of the situation explored in Friday's 'Risk Appetite Test Brings Two Questions' ALERT!! This is because we see intermarket tendencies which are not consistent with the somewhat significant weakening of the 'risk-on' psychology being as clearly driven by the recently less accommodative FOMC psychology as some suggest.

Those considerations remain much as explored Friday, with the first question being "*...whether a less accommodative FOMC stance is going to be imminent enough to put significant downward pressure on the markets (including global govvies, indicating higher longer-term yields)?*" That seems a bit of a reach.

There is now a rather convoluted discussion of how the Fed's shift might affect the markets that are a reflection of major forward assumptions. That is, as even a more hawkish St. Louis Fed President Bullard volunteered in his Thursday CNBC interview (link repeated directly below.) These things are still "*far in the future*."

Can a major retrenchment that allows the tech heavy NASDAQ 100 to maintain its bid while the DJIA suffers in an assumed major reopening really be substantially due to future Fed anticipation? And if the Fed is going to be slowing things down with higher rates, why the significant rally on the long-dated global govvies?

The simplest interpretation of the recent market activity stripped of all manner of convoluted forward anticipation looks a lot more like some sort of renewed COVID-19 disruption, as seems more likely into the Fall than any Fed rate hike; both in the US (especially in the under-vaccinated South) and globally on an even more accelerated current timeline. It all acts like more of a stall in the economic reopening assumptions than based on Fed anticipation many months ahead. Under the 'Occam's Razor' protocol (https://bit.ly/3vU0NWp) a much more straightforward answer would seem to make more sense. It all acts like more of a stall in the economic reopening assumptions than based on Fed anticipation many months ahead.

Below is a full copy of the balance of Friday's analysis, with a current market update below that clarifies the most important aspects into this morning:

The second question which flows from the market reactions to Thursday's FOMC announcements and Powell's press conference is whether the Fed is indeed the primary driver for the weakness, or is there some other negative influence which the ostensible tighter Fed market impact is masking? We revisit that below.

That there is some influence from the Fed advancing its potential tightening of policy (actually more so diminishing accommodation) is obvious. In one part of the St. Louis Fed President Bullard's CNBC interview (https://cnb.cx/2S7N5RI) this morning he noted that he was one of the 'dots' that had moved from a 2023 initial rate hike to 2022. However, he

noted, "...*these are things far in the future in an environment where we've had a lot of volatility*." He also noted that his move was from early 2023 into late 2022, and pointed out a weakness of the 'dot plot':

This is that it is a 'blunt instrument' (our analogy), more so like a broadsword than a scalpel. In another segment of the interview he specifically noted that each dot signaling the potential for a full year was indeed rather broad. Much like in his case, there is no ability of the FOMC member to signal whether their indication is early in the middle, or late in that year. And we suspect the moves from 2023 into 2022 were likely (like Bullard's) less of a shift than a full year earlier.

He also reiterated the oft-cited idea that the 'dot plot' is sheerly a 'guesstimate', as we noted in Thursday's 'A Whiff of Risk-Off' ALERT!! (repeated below for your ease of further review.) That was in part due to this characterization also being offered by the estimable ex-Dallas Fed President Richard Fisher, who "...*was surprised there was any market reaction whatsoever.*"

All of that said, the likely reason the US equities, which had only been nominally lower at the time Bullard's interview began, came under further pressure while he spoke were his admissions on the economy and inflation: both had surprised the Fed to some degree on their strength into this year compared to 2020 forecasts.

The normal course of events after a bit of a hawkish FOMC meeting and press conference is for some member of the Fed's minions to come out and walk back the more aggressive comments. In fact, his observations on the economic and inflation trajectory reinforced all of the most aggressive Fed indications.

This is of real interest on the Fed being the driver for the reversal of the 'risk-on' psychology into at least a temporary 'risk-off' phase. Yet if indeed Fed tightening is behind the US equities weakness and pressure on other 'risk-on' indications (despite Bullard noting how far in the future any FOMC rate hike might be), why in the world did the NASDAQ 100 rally to a new 14,205 all-time high on Thursday?

And is only back around the recent previous 14,129 all-time high this morning? And why are banks, which also typically benefit from a higher rate environment, under significant pressure this week… it doesn't make any intermarket sense.

The received wisdom is that the tech stocks have benefited most from both the extremely accommodative Fed and the COVID-19 quarantine 'work from home' environment over the past 15 months. And they have ostensibly attracted the most investment from the Fed's Brobdingnagian largesse, with a risk in that.

If the Fed is indeed anticipated to lessen liquidity provision even well ahead of any rate hike, and the global economic reopening is fully on track (for a return to extensive on-site work and local business revival), why isn't the NASDAQ leading the way down? Why is it rather setting a new all-time high, and remaining strong?

Just to be clear, we are not experts in tech stocks and the NASDAQ 100. Yet to state the contrarian view right now, what if the pressure on US equities (and other 'risk-on' instruments) is more so from the incipient (at least so far) return of more COVID problems, which is being masked by headline news fixation on the Fed?

That would be a game changer insofar as that could foment a more sustained near-term 'risk-off' psychology. Especially regarding the B.1.617.2 COVID-19 Delta variant, it is gaining

more ground through its much higher transmissibility (with estimated 50% more contagion), and the disease it causes may be more severe.

It is already causing a slowdown in the UK 's planned reopening by a month to July 19th. As Reuters recently reported, "*On Monday, Britain recorded 7,742 new COVID-19 cases and three deaths. Johnson said the number of cases was growing by about 64% per week and the number of people in hospitals' intensive care units was rising*." This is not a good sign for a US where 'Delta' is spreading.

The bottom line from a sheer market performance perspective (as it always gets the last word) is that the now front month September S&P 500 future is down into the area of the 4,175 Tolerance of the general 4,200 area support. Much below it (as was seen into mid-May) the next support reverts to the 4,120-00 range, and the very major 4,021-15 early-April UP Runaway Gap (retested in mid-May.)

That said, being at a new recent 2-week low on a Friday and languishing into a critical support is not the best market activity, unless it recovers by later today. The global govvies, developed currencies and emerging currencies assessment remains much the same as yesterday's assessment (repeated below.)

Monday Market Assessment: After that weak September S&P 500 future Close on Friday bleo the 4,175 Tolerance of the general 4,200 area support, it is important to note that weekly MA-13 is up to 4,170 this week. That means from early in the week it will be important to see whether the market can sustain activity back above 4,200 in order to seemingly reverse the potential lapse into a weaker trend. It is of note that the DJIA is also back up into key 33,700-800 violated congestion.

It is also of note that the recently buoyant global govvies are coming back under pressure (i.e. higher yields) in another sign the 'risk-on' psychology is attempting to rescue itself after last week's post-FOMC damage. That is especially interesting on September T-note future coming (front month as of today with a full point discount to the expiring June contract), which is back near the major 132-00 area.

While emerging currencies are seeing a less convincing recovery from their recent pressure, at least on the developed currencies the US Dollar Index is fading back from its recent test of the higher 92.00-.30 congestion after overrunning the lower 90.50-91.00 area. That said, the developed currencies now have higher resistances at recently violated support like EUR/USD 1.2100-1.2000, and the emerging currencies have reestablished serial higher resistances.

**Courtesy Repeat of Friday's critical consideration (updated weekly chart)
[To be updated after Powell testimony]**

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/2SjDKGG 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 holding that support left the door open to exceeding the early May 4,238.25 all-time high, as has now transpired. This is in the context of the higher Oscillator levels set up at the strong weekly Closes back in December rising to the (wait for it) ...4,235 and 4,260 this week. The extended levels set up at the highest weekly Closes back in December rise to the 4,330 and 4,360 levels this week with both still rising $20 per week.

Yet the bigger question on the current downside reaction is whether September S&P 500 future (front month as of Friday morning) at its $10 discount to the June contract can re-establish upside momentum back above the 4,200 area from its 4,183 overnight trading low into this morning (with overall Tolerance still 4,175.)

Thanks for your interest.

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