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ROHR ALERT!! Risk-On Revival

1 message

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Dear Subscribers,
As noted in Tuesday's 'The Powell Pause' ALERT!!, markets were waiting on the estimable Fed Chair's testimony on the central bank's handling of coronavirus pandemic impacts to draw any further conclusion on the inflation threat, among other influences. Well, Powell was very clear on two points: firstly, as noted many times prior to yesterday, he is confident the recent inflation surge is temporary.

That is based on the degree to which faster than expected economic recovery is creating supply bottlenecks causing price increases for items where production is not easily expanded. For example, computer chips for automobiles that are causing production slowdowns, thereby driving the major price increases for used vehicles in recent months. Yet informed estimates say that is now ending. There are also the problems with international shipping based on a shortage of container shipment availability, especially out of China due to trade imbalances.

As we have noted many times of late, that 'supply disruption' inflation is not the far more dreaded 'demand-pull' inflation based on outsized wage increases as compared to productivity and availability of products and services. As strong as the recent wage pressures have been at the lower end of the income spectrum, they are not as yet anywhere near strong or sustained enough to create any sustained shift in 'inflation expectations' to drive truly excessive wage demands.

Secondly in that regard, Powell was very clear on both theory and his personal experience out of the 1970s that the current situation is not anywhere near that pernicious phase. It is more so incumbent on the Fed to not panic, and withdraw accommodation or raise rates prematurely in a way that will damage the recovery.

While some in Congress and the financial press are typically running around with their hair on fire warning we are back into the 1970s (already comparing the Biden administration to the disastrous Carter regime), Powell offered good examples of how this is different. In fact, he went so far on both points to explicitly state that this is NOT a 1970s-style problem as yet, and that the Fed is not planning on any aggressive tightening that might derail the US economic recovery or the markets.

While we are still keeping a close eye on the developments around the COVID-19 Delta variant that is causing a slowdown in the UK 's planned reopening (by a month to July 19th), it does not seem to be a major problem in the US as yet. However the lack of vaccinations in the US South (https://bit.ly/35P5fLc) is a risk factor which still needs to be monitored closely into the later part of this Summer.

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 that was down below the area of the 4,175 Tolerance of the 4,200 area quickly recovered this week. The critical nature of

that is intensified by weekly MA-13 (key near-term trend MA) moving up to 4,170 this week. Price activity back above 4,200 since Monday seems to have reinstated it as support, and as such revived the overall 'risk-on' psychology. It will now be the support once again if there is any setback from around the old mid-May 4,238 all-time high the market is challenging again.

It is also of note the DJIA was under quite a bit more pressure into a new 2-month trading low late last week while the NASDAQ 100 set a new all-time high last Thursday even after damaging comments from St. Louis Fed President Bullard. DJIA was below its key 33,700-800 congestion, which it is also marginally back above since Monday. Even so, the strength of NASDAQ 100 belied the idea that the Fed was about to embark on any withdrawal of liquidity that index should fear.

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 (front month as of Monday with a full point discount to the expiring June contract) dropping back nearer to the major 132-00 area.

While emerging currencies are seeing less of a recovery from recent pressure, at least they are up a bit again. On the developed currencies the US Dollar Index is fading back from its recent test of the higher 92.00-.30 congestion after pushing above 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 serial higher resistances to contend with as well.

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/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.

The question on the downside reaction was whether September S&P 500 future (front month as of last Friday morning) at its $10 discount to the June contract can re-establish upside momentum back above the 4,200 area from its weakness below the 4,175 Tolerance late last week. It was necessary to make sure that Powell provided comfort on inflation and planned Fed action on Tuesday, and that is exactly what transpired (see above.) That leaves the 4,200 area support once again if there is any setback from around the old mid-May 4,238 all-time high the market is challenging again. Immediate higher resistance is last week's 4,246 weekly DOWN Closing Price Reversal (Tolerance at previous week's 4,249 high), and the new 4,267.50 all-time high from early last week prior to the 'Fed Dread'.

Thanks for your interest.

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