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ROHR ALERT!! Wheels Back on the Bus

1 message

ROHR Alert <rohralert@gmail.com> Fri, Jul 9, 2021 at 10:35 AM
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Dear Subscribers,
In Thursday's 'Delta Dent *Déjà Vu*' ALERT!! (repeated below for your ease of review) we noted the initial similarities to the activity when the front month S&P 500 future overran the lower 4,193 UP Runaway Gap Objective back in early May. That led to the more substantial selloff to the low 4,000 area, even if still within the overall bull trend. Having overrun the higher 4,316 Objective late last week, the question became whether September S&P 500 future would now lapse into a broader correction, even if that might still possibly be within a broader bull trend?

Yet there was the clear indication that the near-term decision would rest with whether it could stabilize and rally back above 4,316-30 area for a weekly Close. That would indicate it was still overrunning this week's higher weekly Oscillator level at 4,330. The marginal 'good news' for the bears is that the Oscillator levels are still moving up $25 per week. That means next week's thresholds are 4,330 and 4,355, indicating some resistance possibly not too far above current levels.

The 'bad news' for the bears is the significantly rapid recovery from Thursday morning's drop below the lower 4,305 Oscillator threshold as well as (and more importantly) below the higher 4,316 Runaway Gap Objective. Technical Objectives are funny things. On one hand UP Objectives are targets which can often act as resistance from which markets at least react to some degree in the near-term.

On the other hand, they are much like other higher resistances in a bull market, which can act as support once they are overrun. This relates to the historic bull trend analysis (rhetorical) question, "*When is a ceiling a floor?*" Answer: once it is exceeded to any degree. That shifts the current sense of *déjà vu* more so toward the recent substantial weekly Close above the lower 4,193 UP Objective than anything seen since it was originally traded slightly above in early May.

This once again opens the door to more aggressive extension of the September S&P 500 future up trend, especially now that it has shaken off the extended US and especially global impact of the COVID-19 Delta variant. That leaves extended higher weekly Oscillator thresholds into 4,425 and 4,455 next week. There is more below on all of that, and we suggest a review for anyone who has not done so.

The other asset classes are also getting back in line with at least a nominal return of the 'risk-on' psychology. Global govvies recoveries above lower key levels had ranged up markedly toward major higher resistances. Yet they are now suffering quite a bit under the renewed 'risk-on' psychology… even if they are still well up in their recent rallies. Both developed currencies and emerging currencies are also firming against the greenback, which has seen the US Dollar Index violate the key 92.00-.30 congestion. Yet it failed to extend to key higher resistances.

Courtesy Repeat of Thursday's 'Delta Dent *Déjà Vu*' ALERT!!
Today's US equities selloff rapid reversal of the previously noted TINA (There Is No Alternative) psychology is not totally unexpected. It is a question of how long a premium house can sell for an above market price in a neighborhood where prices are deteriorating. As noted in Wednesday's 'Pause Claws' ALERT!! and quite a bit of previous analysis (ever since the FOMC announcements and Fed Chair Powell June 16th press conference), the recent activity in tech stock heavy NASDAQ 100 versus the DJIA and 'risk-on' psychology barometer emerging currencies has been more consistent with a 'pause' in the global 'reopening'.

That has finally come home to roost in the previously seemingly inoculated (both figuratively and medically) US economy that was driving the sustained bull trend in the US equities… reinforced by that tech stock leadership into the 'received wisdom' of a more imminent Fed withdrawal of accommodation making no sense.

While opinions may still differ, Wednesday's release of the June 15-16 FOMC Meeting Minutes (https://bit.ly/3efg4uX) reconfirmed there is still more of a debate than any clear timetable for reduction of the Fed's monthly bond purchase QE. However much the vigilantes want the Fed to signal a move to a more hawkish (in fact only less dovish) position, the clearest message from the minutes was also noted in yesterday's Reuters article https://reut.rs/3yxH5kW) that "*substantial further progress on the U.S. economic recovery 'was generally seen as not having yet been met,' but agreed they should be poised to act if inflation or other risks materialized*..." While they seemed to agree on formally discussing a QE taper at their next meeting, that is not any indication of when that might occur.

This is important in the context of what the slightly more hawkish Fed Governors signaled at the June Meeting. While a select number of individuals pulled their estimate of the first FOMC rate hike forward from 2024 into 2023, that is still a long way in the future. And despite his own less accommodative view, St. Louis Fed President Bullard stated that much on that Thursday along with FRB Dallas' Robert Kaplan; as had Jay Powell himself in his post-rate decision press conference. That was amongst quite a few other observers surprised by the sharp US equities selloff back then based on anticipation of a more hawkish Fed.

In fact, our recent analysis (among quite a few other informed sources) of the spread of the more highly transmissible COVID-19 Delta variant has pointed to the more likely continuation of major accommodation from the central banks. Now that we have also seen a surprise jump in US Initial Jobless Claims last week (also covered by Reuters https://reut.rs/3yxH5kW), rising to 373,000 versus an estimated drop to 350,000. While an erratic data set, this adds to the other key indication on the global Delta variant problem on a much more significant level…

...the Japanese government and International Olympic Committee agreeing to completely eliminate any fan presence during the already heavily delayed 2020 Olympic Games (details from Reuters https://reut.rs/3hKTdIx.) This is both a totem for the broader global spread of the more threatening Delta variant, and a trigger for taking the prospect of a 'pause' in the global reopening more seriously.

As we have often noted, it generally takes the combination of three factors to create a sustained reaction in US equities. In the first instance is the threat from the global slowdown which actually seemed to be helping the US equities thrive for a while. Yet that TINA psychology does have a point of diminishing returns which may have been hit. That is

in part due to today's Japanese announcements, yet also on the continued Chinese shipping problems revisited in Wednesday's 'Pause Claws' ALERT!! (repeated below for your ease of access.)

There is also now a more pronounced weakening of international economic data, especially the recent German indications on trade and Industrial Production. It is the case that the Delta variant may also be having a more profound impact on the Euro-zone economy just as unvaccinated regions in the US South and Southeast are sending up warning flares from the medical establishment on the troubling rise in cases there. It all looks like a 'Delta Dent' in the reopening psychology.

The final factor is the quick deterioration below Evolutionary Trend View technical support in the 4,305-30 Oscillator range. That even more so especially on the quick drop below the higher 4,316 Objective of the early April 4,021-15 weekly UP Runaway Gap it had exceeded at the end of last week, and pushed further above prior to today's sharp selloff. That's where the *déjà vu* factor comes into play: this is very reminiscent of the activity when the front month S&P 500 future overran the lower 4,193 UP Runaway Gap Objective back in early May. That led to the more substantial selloff to low 4,000 area, even if still within the overall bull trend.

Having overrun higher areas late last week, will September S&P 500 future now lapse into a broader correction (even if that might still be within a bull trend)? Unless it can stabilize and rally back to above the 4,316-30 area for the weekly Close, it will feel vulnerable to a more significant correction. While it might drop even further, the initial support noted previous will be back into the sustained early May through early June mid-low 4,200 area congestion. Of note, next week both weekly MA-9 and MA-13 will rise to that general area.

Also of note is that the other 'risk-on' psychology barometers which had led the way down are not suffering much with the US equities today. The US Dollar Index is not pushing much higher as developed currencies are stabilizing. And the emerging currencies are also holding up well despite their recent weakness.

That might all be pointing to the degree to which the US equities are playing 'downside catchup' with the instruments already damaged by the Delta variant global spread. To the degree that also still encourages continued central bank accommodation, it might be a factor which rescues US equities on what is still a 'TINA" situation. Let's see what the US equities have to say into the weekend.

Courtesy Abridged Repeat of Wednesday's 'Pause Claws' ALERT!!
Much as we noted in Tuesday's 'US Equities Bull Grind Continues' ALERT!!, the US equities are benefitting from some of the weaker economic signs that are actually still encouraging continued central bank largesse. That is still under the TINA (There Is No Alternative) psychology on the degree to which the US is uniquely insulated from problems that are more so affecting the rest of the world.

We suggest referencing Tuesday's ALERT!! for much more on that, and in that regard especially note review of China's renewed COVID-19 infection problems. Those are affecting international trade on which much of the rest of the world relies for their economies. That the 'risk-on' psychology is under more pressure outside of the US is clearly from the more likely 'pause' that is already apparent and spreading in the rest of the world. That includes some hard hit areas in Asia outside of China, and in the UK and increasingly in continental Europe as well.

In one of the latest reports on that, Reuters notes (https://reut.rs/3qQEDmR) this morning that the French government is warning that the "COVID Delta variant could ruin summer." Official government spokesman Gabriel Attal clearly notes, "...*COVID-19 infection rates were surging higher in 11 metropolitan regions, and that the situation was deteriorating rapidly in the Ile-de-France region around Paris, with infection rates in the capital nearly doubling over the past week*."

The article goes on to note, "*Cases in Britain are soaring, while in Spain and Portugal the accelerating infection rate has already forced authorities to impose new restrictions such as curfew measures*." While this is well below the worst previous spread, the acceleration of the current infection trend is troubling, as it is rising by couple digits each week in the affected areas. This is attributed to the higher transmissibility of the Delta variant, and lack of broad-based vaccination.

The point is that there is already a degree of 'pause' in the previously confident 'reopening' that was driving both economic and market risk appetite psychology. The broader spread of the Delta variant into areas which have a low vaccination rate likely means there will be additional pauses in various countries on top of the international shipping issues noted Tuesday. While not a reversion to a full bear psychology, it has finally allowed the bear to show some of its claws.

Yet in the near-term this is just not in the US equities right now despite Tuesday's temporary selloff into a test of overrun resistance. That is going to be interesting later this week, and the overview of the various asset classes remains the same as below. In general this gets back to the psychology we discussed was not likely fear of central bank accommodation withdrawal on the initial reaction after the June 16th FOMC announcements and Chair Powell press conference. Even at that time it felt like anticipation of the COVID-19 Delta was the more likely problem.

Courtesy Repeat of Wednesday's critical consideration (update above)
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/3hdbKNf 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 recent downside reaction was whether the September S&P 500 future ($10 discount to expiring June contract) could re-establish upside momentum back above the 4,200 area from its weakness below the 4,175 Tolerance two weeks ago. It was necessary to make sure that Powell provided comfort on inflation and planned Fed action in his testimony last Tuesday.

That is exactly what transpired. That left the 4,200 area support once again if there was any setback from around the old mid-May 4,238 all-time high. Yet instead it churned above the Immediate higher resistance at the previous week's 4,246 weekly DOWN Closing Price Reversal (CPR with 4,249 Tolerance.) The new mid-June 4,267.50 all-time high (part of the DOWN CPR) being exceeded in mid-June for another new all-time high clearly Negated that topping signal.

It is now the case that the weekly Oscillator thresholds are 4,305 and 4,330 this week, which were Closed above at the end of last week. Even though there was a reaction back to the lower of those two thresholds as well as below the 4,316 higher weekly Runaway Gap Objective, the recovery to Close back above them is a resilient sign. Those will once again be important for this week's Close, as any push above them will point to the potential to extend the bull trend to the higher Oscillator thresholds (from December) at 4,400 and 4.430 this week.

Thanks for your interest.

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