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ROHR ALERT!! Friendly Fed Keeps on Rolling

1 message

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Dear Subscribers,
Some would say that 'rolling' is the Fed regarding the dice roll on whether the now glaringly apparent US inflation is indeed temporary. Tuesday's CPI and today's PPI being well above estimate (along with UK CPI and RPI this morning) are leading some respected observers to posit that the inflation is more sticky.

However, the FOMC shift to a more employment-centric model is leaving it in a position to allow higher near-term inflation while the lower end of the US labor market catches up with the strong overall post-pandemic (or at least we should hope despite the Delta variant predations) economic recovery. While his formal semi-annual House testimony and Q&A (followed by an earlier Senate session tomorrow) is not scheduled until 12:00 EDT, Powell's formal opening remarks (https://bit.ly/3khwqH3 our marked up version) were released at 08:30 EDT.

His expectation that the admittedly hotter than expected inflation will cool is still based on the considerable impact of bottlenecks on reopening industries. To wit, he specifically notes... "*Inflation is being temporarily boosted by base effects, as the sharp pandemic-related price declines from last spring drop out of the 12-month calculation. In addition, strong demand in sectors where production bottlenecks or other supply constraints have limited production has led to especially rapid price increases for some goods and services, which should partially reverse as the effects of the bottlenecks unwind*." That is the crux of how he can justify allowing near-term inflation while lower labor market tiers catch up.

There is also of course also the renewed COVID-19 concern based on the more contagious Delta variant spread. While amidst a more dire global situation there are only some regions of the US (South and Southeast) which are being affected, the return of some pandemic restrictions is a modest negative impact. Yet it is the case that any more extensive spread in the US would be a problem on one hand: the potential return of more commercial restrictions after then hopeful reopening.

Yet on the other hand, it will also once again affect those 'gathering' industries (small retail, dining, hospitality, etc.) that would also mean a sustained impact on those lower employment market tiers; which would foster the continued Fed accommodation to which Powell already committed in today's remarks. That is also a factor in money chasing returns with many vehicles outside of US equities remaining burdened by a Delta variant impact. This is the previously discussed US equities TINA (There Is No Alternative) psychology compared to others.

Both developed currencies and emerging currencies are a bit buoyed today by the clearly still accommodative Fed communication. Yet that is only after recent weakness on their greater vulnerability to the Delta variant. And while the global govvies are mixed (with UK Gilt lower on the UK inflation numbers impact), the September T-note future is nicely higher. That this is after serial higher inflation indications is a testament to the confidence in the

Fed's ability and desire to continue its bond buying program (both Treasuries and mortgage-backeds.)

That all continues to reinforce our sentiment from Monday's 'On the Cusp of Upside Acceleration' ALERT!! (repeated below for your ease of access.) That was based in part on the September S&P 500 future pushing above the 4,355 higher Oscillator resistance from the end of last week. So far this week it only reacted back down to around it during the early part of this week, not even nearing the now overrun early-April UP Runaway Gap higher 4,316 Objective. See Monday's assessment below for much more on the classical, "*When is a ceiling a floor?*"

Any lack of weakness back below 4,355 this week (and even more so 4,316) leaves the higher Oscillator thresholds into 4,425 and 4,455 this week, and they are still rising $25 per week on the back of weekly MA-41. Of note, that will also leave the near-term Oscillator thresholds up to 4,355 and 4,380 into next week. That is going to make for a very interesting finish to this week as well after the September S&P 500 future has challenged 4,380 into this point this week.

Another Courtesy Repeat of Monday's 'On the Cusp of Upside Acceleration'
As noted in Friday's 'Wheels Back on the Bus' ALERT!!, Thursday's combined negative factors that highlighted the long-expected COVID-19 Delta variant negative implications for the global economic reopening were not enough to keep US equities under pressure. This is especially interesting in the context of the other 'risk-on' indications remaining under some pressure into this morning.

There is the renewed pressure on the developed currencies and even more so emerging currencies against the US dollar. Global govvies also getting their bid back to a limited degree after their modest selloff late last week in the wake of what had been a major midweek surge. Not much sign of 'risk-on' there, with the global Delta variant impact likely the cause, with the US somewhat immune.

It was especially telling (as noted Thursday morning) the front month S&P 500 future peak had been only somewhat above the higher 4,316 Objective 4,021-15 of the early April UP Runaway Gap. Similar activity slightly above the lower of the UP Runaway Gap 4,193 Objectives back into early May led to a major correction back below it. It also took six weeks of churn from nearly a test of that 4,021-15 UP Runaway Gap to finally fully exceed the low-mid 4,200 area three weeks ago.

Yet there are good Evolutionary Trend View reasons for the current situation to be more bullish. In the first instance, overrunning that lower 4,193 Objective left the higher 4,316 Objective as a higher resistance. That is now not the case with the reaction and rapid recovery above the 4,316 area. Also as noted previous, "*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. That was the case back in early May through late June.

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.

As also noted previous, "*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 extended US and especially global impact of COVID-19 Delta variant."* The higher weekly Oscillator thresholds into 4,330 and 4,355 this week." The S&P 500 ability to Close last week marginally above those levels puts more of a burden of proof on the bears. They need to create at least a stall into the 4,355 area once again, and overall weakness back below 4,316 or suffer a further rally.

That leads to the follow-on question of just how much further US equities might strengthen if the September S&P 500 future can indeed sustain activity above the 4,316 higher of the two Runaway Gap Objectives? Well, the next Oscillator resistances based on last December's trend extensions are into 4,425 and 4,455 this week, and they are still rising $25 per week on the back of weekly MA-41.

That reinforces the current bifurcated 'risk-on' psychology where much of the rest of the world might be suffering worse consequences while the US equities continue to attract investment. This would be the extension of the previously noted TINA effect (There Is No Alternative.) And that might be reasonable with mostly the US South and Southeast more vulnerable due to lack of vaccinations.

Yet even that US outperformance relies to some degree on the continued largesse of central banks. However, that is now more likely to be sustained in the context of the Delta variant predations. Is anyone still positing there will be a withdrawal of central bank accommodation in the same way as briefly topical in the wake of the June 16th FOMC announcements and Chair Powell's press conference.

In fact, it is just the opposite. Last Friday the PBoC eased its RRR (bank reserve requirement), as discussed in Friday's Reuters article (https://reut.rs/3r5pAWt) on the need to counter its slowing economy. That might be tied into fear over Delta variant spread impeding export activity in key ports (as also discussed previous.)

After recent signs the Fed and ECB remain committed to major accommodation, this week sees a BoE Statement and Minutes along with the Financial Stability Report (Tuesday); Wednesday's RBNZ rate decision and statement followed by the same from BoC with Governor Macklem's press conference; that is followed by Fed Chair Powell's semiannual House Monetary Policy testimony and the Fed Beige Book. Thursday brings Powell's Senate testimony into Friday's BoJ rate decision and statement followed Governor Kuroda's press conference.

In the evolved context of the Delta variant impact, are there any bets out there that any of those are going to bring central bank accommodation withdrawal? While we might end up surprised, we think not. The final piece of the accelerated bull trend puzzle already came this morning in the form of OECD Composite Leading Indicators (CLIs https://bit.ly/3i4iOw0 our mildly marked-up version.)

It is important to note again that OECD takes a conservative six month forward view, which allows a two month lag in its data analysis to ensure the indications are sound. Fair enough that this might leave it a bit behind on incorporating key influences like the recent rapid spread of the Delta variant. Their recent CLI release content has even noted, "...*persisting uncertainties might result in higher than usual fluctuations in the CLI and its components*." Very important.

Yet the title and statistical thrust of this morning's release is "*CLIs continue to expand steadily*." Once again noting this may end up being misguided, it would indicate a four month forward view that the developed and emerging economies will continue to benefit from the overall reopening, with the only negative note being, "... *whereas it continues to signal slowing growth in Brazil*." As that is based on almost total failure to address COVID-19 even prior to the Delta variant, this is not a global concern with even indications for India being 'stable growth'.

As such, with central bank accommodation likely to continue in full bloom, and Delta variant restrictions hitting harder outside the US, the TINA psychology is likely to continue. That could easily drive a positive US equities psychology even if there is less than great economic data (of which there is much) and/or early corporate earnings this week while other risk assets suffer to some degree.

Courtesy Repeat of Monday's 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/3yPQ7ts 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 was whether overrunning the 4,200 area (including that lower 4,193 Objective), just meant a likely test of the higher (weekly Chart) 4,316 Runaway Gap Objective? Yet 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 being ready to extend the rally to the higher 4,316 (weekly chart) Objective.

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 4,330 and 4,355 this week, which were Closed above at the end of last week. Even though there was a reaction last week below back to the lower of those two thresholds as well as 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 4,425 and 4.455 this week.

Thanks for your interest.

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