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ROHR ALERT!! Resiliently Risk-On

1 message

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Dear Subscribers,
While there have been modest setbacks this week to both US equities and the general 'risk-on' psychology, the damage was limited and seems to be reversing. That is evident in the renewed, if modest, US equities bid as well as the firming of emerging currencies. This while developed currencies remain weakish against the greenback on the US Dollar Index maintaining its rally above 92.00-.30.

With all of the macro background consistent with Thursday's 'Chinese Economy Losing Steam?' ALERT!! (with the emphasis on the question mark), it would seem the most useful perspective would be from the market activity in its own right.

And that is a bit of an Evolutionary Trend View quandary, even if within an overall US equities bull market. September S&P 500 future has held up into this week's 4,355 higher near-term Oscillator threshold. If that strength is generally sustained into today's Close, it leaves it well above the lower Oscillator level, and more importantly the overrun 4,316 early April UP Runaway Gap Objective. That would still indicate further upside potential despite this week's narrowly defined churn.

However, the lower Oscillator threshold moves up to 4,355 next week, and the higher near-term level is up to 4,380 (as noted previous.) It is therefore very interesting that the Tuesday-Wednesday topping activity this week was up around that 4,380 area on Wednesday's 4,384.50 new front month S&P 500 future all-time high trade. Of note on a very short-term view, after setting that high the market left a 'micro' DOWN Closing Price Reversal from the previous hour's 4,378.50, with a Tolerance of 4,380.50… and this is where the 'micro' meets the 'macro'.

Therefore, later today and all of next week it will be interesting to see whether the September S&P 500 future can push above the 4,355 area on a more sustained basis, and especially whether it can also sustain activity above 4,380. If so, the higher weekly Oscillator thresholds also rise by $25 into next week (again on the back of rising weekly MA-41) to 4,450 and 4,480 (based on December's highs.)

However, if it continues to stall into that 4,355 area, then a retest of the area around that 4,316 overrun Objective is likely.That would include the recent congestion into the 4,300 area, and even have a 'failsafe' level of the 4,280 area lows seen on last week Thursday's sharp yet very temporary selloff.

While as noted above developed currencies remain a bit challenged at present, they still have some residual support at lower levels. And the return of just a bit of a bid to emerging

currencies speaks of quite a bit of relief for the previously stressed 'risk-on' psychology. Even the COVID-19 plagued and recently political violence-stressed South African rand has recovered on the USD/ZAR temporary trading back below the 14.50-.40 range, even if stabilized in that area now.

Why the more upbeat psychology now? Well, as we had noted since early this week, central bank communication all week was likely to reinforce expectations of continued accommodation. And that is what has transpired everywhere from the PBoC and BoJ in the East through Europe and North America, with Fed Chair Powell's Wednesday-Thursday Congressional testimony sticking with the script.

In addition, economic data has been friendly on balance. The 'Chinese Economy Losing Steam?' title of Thursday ALERT!! (repeated below for ease of access) was once again meant to question that sentiment. The remainder of its data outside of a slight miss on headline GDP was very constructive. Of course, that now goes for the last major economic indication of the week, in the form of US Retail Sales well above estimates. It must be allowed that these are 'rearview mirror' indications in the face of renewed COVID-19 fears on the Delta variant.

Yet for now it would seem that 'good news is good news', pending what the markets signal into next week's lighter, yet still very important macro influences. Those include Tuesday's PBoC interest rate decision and statement (and possibly further indications on RRR), Thursday's ECB rate decision and press conference, and Friday's global Advance PMIs. It is once again going to be very interesting.

Courtesy Repeat of Thursday's 'Chinese Economy Losing Steam?' ALERT!!
The latest concerns about the global economy seem to have evolved even beyond the obvious predations of the rapid spread of the more contagious COVID-19 Delta variant. It is still part of it in a meaningful way, as it impacts global trade as it relates to operations at Chinese ports (as previously noted.) Yet there are now murmurs of the Chinese economy itself actually slowing somewhat.

This is covered in Wednesday's Reuters article (https://reut.rs/3Bfs1KW updated this morning), yet with the caveats that this is mostly on a minor miss on its GDP indications that did not show up in other data. Of note are still strong other data of late, like its Trade Balance, Industrial Production and Retail Sales. It seems the case that the fears of that Chinese slowdown are mostly based on inferences which are also impacting the US and others, especially on input cost inflation.

Of course, the current modest weakening of US equities might also be on the back of a weaker than expected US Philly Fed Survey and Industrial Production. That is in addition to the continued concerns over US and other countries' inflation as well. Wednesday's 'Friendly Fed Keeps on Rolling' ALERT!! (repeated below for your ease of access) was clear that Fed Chair Powell has reinforced the degree to which the FOMC will allow for quite a bit of 'transitory' inflation on the way to its full employment goal; including for those in the lower economic tiers.

And based on that Reuters article it appears that the Chinese central bank is also committed to delivering sustained accommodation if there is any clear near-term slowing of its economy. As National Bureau of Statistics official Liu Aihua noted at today's press conference, "*The domestic economic recovery is uneven*." (Sound familiar?) And, "*We must also see that the global epidemic continues to evolve, and there are many external instabilities and uncertain factors*."

This sounds quite a bit like the concerns for the US economy, where the possible return from upbeat full reopening to pandemic restrictions weighing on demand would also likely reinforce certain supply disruption impacts driving the inflation. That is in addition to the US Senate passing a restrictive bill regarding Chinese exports from Xinjiang on assumptions about forced labor among repressed Uyghur (and other Muslim) populations. That includes an onerous burden of proof on importers. Much more on that from Reuters at https://reut.rs/3yZnN89.

As such, this is the ultimate faceoff between the US and China on the latter's ostensibly more authoritarian system. To be clear, this is not an overt criticism of China, as its political system is its concern, and has always been more of a unified national thrust than the West… even well before the instituting of a communist government after WWII. Yet it is also the case that this is now a new economic 'cold war', with extensive implications due to it being between the world's two largest economies. That should rightfully concern the markets...

...in addition to the inflation concerns that have been reinforced by Fed Chair Powell's still sanguine 'transitory' inflation views. To this can be added the likely PBoC further accommodation after last Friday's easing of RRR (bank reserve requirements) as well as ECB largesse. These combined factors are seemingly what is now restraining the US equities from what might have been more of an upside acceleration we had noted early this week. That said, the September S&P 500 future is only back to the 4,355 higher of the near-term Oscillator thresholds.

The problem for the bulls (as noted previous) is that this rises to the 4,380 area next week on the back of the still strongly rising weekly MA-41. As such, for all that the market is resilient, there is a bit more of a burden of proof on the bulls to get the rally into a higher gear either later this week or early next week to institute any greater upside momentum. Yet at least so far it has also not seen weakness back below the key overrun 4,316 upside Objective… also an important level.

That said, the other global indications are back to a bit of 'risk-off' this morning, as outside of the inflation plagued Gilts the global govvies are maintaining their recent bid (i.e. lower yields) up closer to prominent higher resistances. And the developed currencies are weakening to some degree, with the US Dollar Index once again above the key 92.00-.30 area. Emerging currencies are also suffering a bit again, even if that is not very pronounced after their recent minor recovery… outside of the recently political violence-plagued South African rand.

Courtesy Repeat of Wednesday's 'Friendly Fed Keeps on Rolling' ALERT!!
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.

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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