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ROHR ALERT!! Will ‘Friendly ECB Anticipation’ Stick?

1 message

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Dear Subscribers,
The activity of the US equities reflects a tendency we have often expressed as ‘friendly Fed anticipation’. That is a market expectation of continued or expanded central bank accommodation being priced in through an anticipatory rally into the beginning of the FOMC meeting. The question then becomes whether the accommodative central bank communication is strong enough to fuel any further extension of the rally after the rate decision and especially the press conference.

In this case there is already a strong sense that there will be continued largesse flowing from all central banks. That is due to the COVID-19 pandemic resurgence on the more transmissible Delta variant. That is as opposed to previous concerns about some central banks reducing the degree of quantitative easing. This was especially true from the signals sent by the Bank of Canada and Bank of England.

However, that is all changed in the wake of the global Delta variant spread, now even into the previously less affected US. Consider for a moment the situation in the UK, which is still trying to force through a reopening that looks increasingly fraught on economic disruption concerns. That is all explored at length in this morning’s Reuters article (https://reut.rs/3kNpSQH) on how automated application advice to workers is hampering certain key retail supply chain activities.

As far as the degree to which significant uncertainty is also part of the Delta variant’s negative impact on the global economy. The US has long been cited as among the worst cases of deficient COVID-19 testing. And that problem as well as the attendant absence of effective modeling was highlighted in this morning’s CNBC interview (https://cnb.cx/3hUiVLW) of previous FDA chief and Pfizer board member Dr. Scott Gottlieb. He noted that there is a lack of total understanding of whether the more transmissible Delta variant will contagious even among those who are fully vaccinated. It might soon generate a fear factor which will be telling.

Once again as noted in Tuesday’s ALERT!!, “*To be clear, in the context of at least much more extensive COVID-19 vaccination, we are not suggesting anything quite as dire as last year’s 36% selloff from the early-February 3,397.50 high to the 2,174 March trading low. The equivalent would be a drop to the 2,800 area.*”

That said, also once again, “*The market* (which is to say equities) *dislikes nothing quite so much as uncertainty*.” Any return to a psychology where there is major concern about the contagion which might affect ‘gathering’ economy businesses (dining, hospitality, small retail, etc.), even if not nearly as badly as in 2020, is not currently priced into the markets. How quickly this might be the case will very possibly be reflected in the US equities activity after this morning’s September S&P 500 future test of its 4,360 DOWN CPR resistance (see below.)

Holding aside the potential transmissibility of the Delta variant even among the fully vaccinated, the good news is the impressive degree to which "Two doses of Pfizer, AstraZeneca shots effective against Delta variant" according to the title of Wednesday's Reuters article (https://reut.rs/3xVCJUQ.) This would be extremely good news on the lower potential for serious illness and death if it were not for the very significant numbers of unvaccinated folks in the US and elsewhere.

And the impact on the central banks is clear: maximum accommodation will need to be maintained. Another Reuters article (https://reut.rs/3BEF20O) highlights the degree to which an FOMC which had dropped its reference to the COVID-19 as a key weight on the global and US economy is needing to reconsider in the context of what may still be localized outbreaks… yet with some areas seeing stresses.

As the extensive article notes, this is especially the case for other central banks that had begun to play down the potential for the further COVID-19 headwinds in the face of the Delta variant. The Reserve Bank of Australia was among those which has begun its quantitative easing 'taper', only to see the country impose fresh lockdowns. If this becomes more widespread, even reimposition of mask mandates and other restrictions, it will likely affect market psychology as well.

As one top airline executive recently put it, it won't take full quarantines to create an economic setback, in his case as it might affect recently resurgent air travel. This will only take a return of public health concern where travelers (and patrons of other businesses) merely decide once again, "*I'd rather stay home than risk a potentially life threatening infection*." And US equities are the trend focus now.

This is the critical consideration
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? That is clear on the front month S&P 500 future weekly chart (https://bit.ly/2UZokbC updated through Monday.) Yet June S&P 500 future pushing back above the previously tested lower early April UP Runaway Gap 4,193 (daily chart) Objective seemed to speak of it being ready to extend the rally to the higher 4,316 (weekly chart) Objective.

The question on the previous 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. That was necessary to make sure the market felt Powell provided enough comfort on inflation and planned Fed action in his testimony at that time.

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 (still in mid-June) for another new all-time high clearly Negated that topping signal.

It was the case that weekly Oscillator thresholds were 4,355 and 4,380 last week, which were tested but Closed back below at the end of the week. In fact, Friday's weakness looked particularly problematic in being back down around the 4,316 higher weekly Runaway Gap Objective. That meant further overnight weakness into Monday was finally the first real problem for the bulls in a while. That will once again be important for this week's Close,

with its 4,300 area and its 4,275 Tolerance also being key indications after Monday's sharp selloff.

On the other hand in light of Tuesday morning's recovery back above the 4,300 area violated support from Monday's carnage, the higher resistance is last week's 4,360 DOWN Closing Price Reversal with a Tolerance to the previous week's 4,364 trading high. And it is of note that the September S&P 500 future had managed to retest that area right into the ECB press conference prior to weakening once again Thursday morning. That is the critical resistance which has been retested on the back of that 'friendly ECB anticipation', with a question of "What's next?"

That sums up the near-term contingencies, even if with prominent support lower. The more major lower support is also the 4,200 area based on the aggressive weekly UP Channel from the March 2020 pandemic-driven major cycle low (see the chart.) Of note based on previous form, there is not much below that until the 4,120-00 area. In addition to that being clear congestion, that support vacuum is also reinforced by the nature of the May and June holding actions and selloffs.

Yet if there is more of a correction based on the Delta variant predations on the global population and by extension economy, there is key lower support back into the 4,000 area based on that 4,021-15 early April UP Runaway Gap. And it will indeed be very important whether that holds or is overrun by any degree should the market weaken that far. As a gap, it should provide extra support in that area.

However, if it is overrun by any degree (below the 3,950 congestion and weekly MA-41), there could be significant further damage. To be clear, in the context of at least much greater COVID-19 vaccination, we are not suggesting anything quite as dire as last year's 36% selloff from the early-February 3,397.50 high to the 2,174 March trading low. The current equivalent would be a drop to the 2,800 area.

If the front month S&P 500 future should violate 4,000-3,950 support, the next major UP Channel is not broadly until the 3,600 area (once again link into the chart.) That may seem like a long way down even from the 4,000 area. However, note how the March 2020 failure of the 3,000 area support led to such a rapid test of the 2,600 broader UP Channel support; and that was despite the clear June-October 2019 bull trend pullback lows in the 2,855-2,728 range.

Thanks for your interest.

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