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ROHR ALERT!! The Reversal

1 message

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Dear Subscribers,
As noted by the title of Thursday's 'Grudging Inspiration' ALERT!! (repeated below for your ease of review), the delayed acquiescence to the accommodative messaging from the Fed was a sign that central bank largesse alone would not be enough to fuel any significant extension of the US equities rally. After another new September S&P 500 future 4,422.50 all-time high into midday Thursday, even from shortly after Thursday's 4,411.75 daily Close (by 17:00 EDT) it was back below the 4,400 Oscillator threshold (more below from Thursday's ALERT!!)

That was not just a reversal of the previous strength, but also a drop back to lower on the week. This means that after the new all-time high this week the further trading into today's Close will determine whether there is at least a nominal DOWN Closing Price Reversal (CPR) from last week's 4.403 Close. Considering the current recovery back up near that level, it would seem any DOWN CPR will likely be nominal, and possibly subject to being Negated (i.e. overrun) next week. Yet any lack of strength also creates an Oscillator issue…

While the end of last week brought a surge above this week's higher near-term Oscillator threshold at 4,400, as noted previous that is still moving up $25/week. That means it will be up to 4,425 next week, with the lower near-term Oscillator threshold also moving up to the 4,400 level into next week. The bottom line on the market activity is the September S&P 500 future struggling a bit more at present than at any time since the mid-May and Mid-June stall-outs prior to selloffs.

It is also of note that the softening of US equities comes along with a minor return to more 'risk-off' activity in other asset classes after minor recent improvement. The September T-note future is pushing up again despite the generally good US and international 'rearview mirror' data during the past two days heavy late month data dump (outside of a miss on Thursday's first look US GDP.) While the Gilt and Bund are more subdued, they also remain near-term bullish for now.

Foreign exchange is also seeing a bit of US Dollar Index improvement, even if only back up near its failed 92.30-.00 congestion for now. Yet it is telling that some emerging currencies are also back under a bit of pressure after Thursday strength, even if not the Russian ruble and Mexican peso which are bolstered by the continued Crude Oil strength back above its 70.00-71.00 toward 74.00-75.00.

The question in the wake of more of that on balance better 'rearview mirror' data is "What else might have changed?" That would be the perceptions around the Delta variant spread, which we had noted some folks felt would not be that much of an impediment to economic growth despite the human suffering. Yet in a US CDC report that was sadly leaked by the Washington Post instead of being formally released with a press conference, the Delta variant calculus changed.

According to Thursday afternoon's WAPO article (https://wapo.st/377cW0b), the Delta variant infection is as contagious as Chicken Pox (i.e. highly transmissible.) That means even the vaccinated experiencing few symptoms, or even when fully asymptomatic, can readily spread the virus. As they may not become either very ill or die, this might seem like a modest shift in the CDC assessment. Yet it also means that the fully vaccinated can spread the disease to the unvaccinated or those who are immunocompromised. This may be an economic game changer.

The reason is this will then affect people's perception of whether it is safe to go back to in person work if they have elderly relatives at home, and especially if they have younger children. At least so far the latter have not had any vaccine available even if parents would have them take it. There is also consideration of the Delta variant having more of an impact on younger people than previous.

The WAPO article cites his opinion in an email from Columbia University epidemiologist Jeffrey Shaman after reviewing the CDC study slideshow, "*I think the central issue is that vaccinated people are probably involved to a substantial extent in the transmission of delta. In some sense, vaccination is now about personal protection — protecting oneself against severe disease. Herd immunity is not relevant as we're seeing ...evidence of repeat and breakthrough infections*."

There was also much more discussion of this in this morning's CNBC interview (https://cnb.cx/3ydRjHl) of the former FDA chief and current Pfizer board member Dr. Scott Gottlieb. In addition to the aspects noted above, the "Gottlieb: Wouldn't be surprised if we were infecting 1 million people a day" title of the video touches on the degree to which the lack of effective testing in the US may well mean the more upbeat CDC assessments have been based on faulty data. He notes the WAPO article is consistent with Israeli and other countries' findings.

The bottom line for epidemiology as well as the markets is that the Delta variant may have morphed the COVID-19 pandemic into being endemic; except in its case on a global level instead of just among a particular population. How will that affect the overall global economy? Well, that will depend on the degree to which the current assessment leads to greater vaccination levels among the skeptics (which is already the case to a minor degree), and how the folks with vulnerable populations at home react to the news of this higher transmissibility and disease.

Yet in any event, this is 'reversal' of the CDC's previous upbeat assessment of the lack of need for the vaccinated to mask indoors. We have a sneaking suspicion the updated Delta science was previously leaked to the White House. There are coincidences in life and in politics. Yet the timing of President Biden's directives on US government employees needing to be vaccinated or wear masks does not seem to be one of them. After declaring 'independence' from the virus on the US Independence Day holiday (less than 4 weeks ago), his reversal into mandating aggressive testing for the unvaccinated and indoor masks seems more than that.

With the now still modest 'risk-off' indication seemingly back in sync, the US equities may once again be a fair risk appetite barometer for other asset classes as well. Which means that while the DOWN CPR from the 4,422.50 all-time high into midday Thursday may only be nominal even on a Close below last week's 4,403 Close, it is also that dent in the 'risk-on' armor. However, that plays right into the 4,400 area Oscillator indications this week into next. We shall see.

Courtesy Repeat of Thursday's 'Grudging Inspiration' ALERT!!
That contrarian phrase is the market reaction to Wednesday afternoon's FOMC Statement (https://bit.ly/3i7hNoi) and Fed Chair Powell's press conference into this morning's first wave of the end of month data tsunami. As the answer to Wednesday morning's 'Can the Fed Inspire US Equities?' ALERT!! title inquiry, it follows that in his own right Jay Powell was not that inspirational for US equities.

Note the September S&P 500 future weakening after an attempted push above the 4,400 weekly Oscillator threshold in the wake of Chair Powell's press conference. That was a sign that despite his commitment to full accommodation in the face of COVID-19 Delta variant impact, nobody at the meeting talking about tapering the Fed's bond purchases, and that any actual rate hike is a long way in the future, the ability of the Fed to inspire the US equities bull trend is limited at this point.

Yet any further weakening of already softening 'rearview mirror' economic data that was already occurring might foster a 'bad news is good news' psychology. What else can one infer from this morning's September S&P 500 future push back near the recent new 4,416.75 all-time high in the wake of a serious miss on the first look at Q2 US GDP (a 6.5% rise versus 8.5% expected.) So while the FOMC Statement was as expected and Powell really had nothing new to offer (other than defusing any thoughts of Fed tightening), weaker data does tend to reinforce the notion that the Fed and other central banks will continue major accommodation.

Interestingly enough, that also seems to be restoring a bit of risk on psychology elsewhere, even if the global govvies continue to maintain their recent rallies (with only a bit of retracement today.) However, foreign exchange has turned a bit more upbeat against the greenback today, with the US Dollar Index weakening back below its key 92.30-.00 on an intraday basis so far. Will this continue to signal a reversal of recent developed currency weakness against the US dollar?

The key Evolutionary Trend View aspect to watch is the EUR/USD recovery back above the 1.1815 interim support after not slipping anywhere near the 1.1700 more major level on the recent selloff. If that is the case, then another rally up into at least the 1.2000-1.2100 area is likely, with a commensurate weakening of the US Dollar Index back into low 91.00 area support (including weekly MA-13 & MA-41.)

That would be a real indication of the recently dented 'risk-on' psychology being restored after the sustained weakness of the emerging currencies as well. In that regard, even the recently vexed South African rand has seen USD/ZAR weaken back toward the 14.50-.40 range, with both the Mexican peso and Russian ruble strengthening again on Crude Oil pushing well above 70.00-71.00 congestion after recent weakness below it. This all speaks of greater global reopening success after the recent worries about the resurgence of COVID-19 on the higher transmissibility of the Delta variant… is it possible this is a passing phase?

Even with the US now being literally plagued by the major infection surge in its unvaccinated areas (substantially the South and Southeast), the question is whether that will be a major economic drag despite the human tragedy. At least at present, the markets are acting like the economic performance will not be that heavily affected. If that is actually so, there are several market implications.

The first is that the US equities may have been more forward looking than many other markets in maintaining their bid despite some short, sharp reactions from which they so

readily recovered. It also means that foreign exchange should indeed see the other currencies continue to improve against the US dollar.

And last yet by no means least, at some point sooner than not, the global govvies should begin to sense that the overall world economy will continue to improve despite regional COVID-19 problems. In that regard we are especially watching the September T-note future for any sign it is slipping convincingly back below the low end of 134-16/-00 range it has only managed to test on recent pullbacks. That might be enough to reverse the recent extended strength of the Bund, and weigh further on a Gilt that did not really rally as well as the others (and tellingly that might be on the higher UK vaccination rate despite recent COVID problems.)

With that we refer you back to Wednesday morning's 'Can the Fed Inspire US Equities?' ALERT!!, with its indications of what the Fed influence (and now the overall psychology) might mean for the late week US equities activity. That also notes the forward view on what to look for from the Oscillators into next week.

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/3BM2VDC updated through Friday.) 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.

After the downside reaction into early last week, last Tuesday morning's recovery back above the 4,300 area violated support left the higher resistance into the previous week's 4,360 DOWN Closing Price Reversal with a Tolerance to 4,364. 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 that Thursday morning. That was the critical resistance which it was successful in exceeding late last week. (See above for the higher resistance discussion.)

That sums up the near-term contingencies, even if with prominent support lower. The more major lower support is also the low 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.

That said, if the September S&P 500 future can sustain activity later this week above the 4,375 and 4,400 weekly Oscillator thresholds, those will rise another $25 into next week. That also means that by next week the higher Oscillator indications will rise from 4,470-4,500 this week to 4,495 and 4,525 next week.

However, at present the more pressing issue on this week's late weakness is whether it can recover from the early Friday weakness to exceed the 4,400 area once again. That is a twofold indication. In the first instance, can it strengthen enough to Close this week above at least the 4,400 lower near-term Oscillator threshold to maintain upside momentum, even if the higher near-term Oscillator threshold is up to 4,425 next week. It will also be an indication of whether it can avoid leaving a next DOWN Closing Price Reversal from last week's 4,403 Close. While that might be nominal, tied into the Oscillators could make it more telling.

Thanks for your interest.

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