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ROHR ALERT!! Interesting Non-US Equities Bifurcation

1 message

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Dear Subscribers,

While there are other factors influencing the recent stallout of the US equities rally last week into early this week, undoubtedly one of the very most prominent factors is the COVID-19 Delta variant spread, As noted in Monday's 'Two-Way Stretch' ALERT!! (repeated below for your ease of access), that is now every bit as bad as predicted in the US South and Southeast, and is spreading into the Northern climes. Yet any economic impact will also involve the rest of the world.

That becomes clearer by the day, with new Delta variant surges everywhere from the Pacific Rim back across Europe into the Western Hemisphere. Note this past weekend's Reuters article(<https://reut.rs/3zZEKzX>) on the now virulent spread throughout Asia, "COVID-19 surge hits Asia; Tokyo, Thailand, Malaysia post record infections." As noted on Monday, there is some hope that the Delta variant has a natural 'arch' which exhausts its rampant individual country spread.

However, what has been observed in the UK may not be representative of what will occur elsewhere. That would be due to the fact that the UK has done a much better job at vaccination than most of the rest of the planet. And even the sudden shift to more US vaccination acceptance may be a case of 'too little too late'.

That is due to the vaccinations not providing immediate protection... It takes approximately several weeks to a month after the first dose. And that is in the face of the extreme infection spike (as in worse than a 'surge') in the vulnerable regions in the US. Louisiana just recorded its highest daily infections since the start of the pandemic (much worse than last Winter.) It is both completely out of ICU capacity, and seeing many more infections among younger victims.

This is also the case (or nearly as bad) in a select number of other states in the US South and Southeast, especially Florida that is now responsible for every bit of 20% of new US COVID-19 cases. Governor Ron DeSantis has also just issued an executive order proscribing mask mandates in local school districts. While it is contentious, one must wonder what will happen if the situation worsens?

Considering how that may affect the 'back to school' push into the middle of this month, this may be a major economic influence on parents' (especially women's) ability to be available for work out of the home. We shall see. Yet what we do know (due in large measure so far to the situation in the South and Southeast) is the overall US COVID-19 infection rate is at a critical juncture. After improving so well through the Spring and early Summer, since the middle of July total new US COVID-19 infections have spiked back up to key mid-2020 and early 2021 levels.

As is apparent in the latest CDC chart (<https://bit.ly/3rOGtoR>) as of Sunday, both daily new infections and 7-day average exceeded the highest levels in the 69,000 area (for the more

important 7-day average) seen on the way down back in April. That is very important due to it being the key July 2020 level that was retested on the temporary resurgence back in April. On a short-term view it appears that the daily cases and 7-day average have both retreated from the 'blip' above 69,000.

However, it is important to note that throughout this data set there is a tendency to see a weekly drop from Sunday into Monday (due to slack reporting), with the real trend only becoming obvious from the Tuesday-Friday data. As such, in addition to this week being a major reporting week with much to follow from Wednesday through Friday, it will also be a critical US COVID-19 indications week on all of the aspects mentioned above; especially any spread into the North.

That is all the preamble to our thoughts on the 'Interesting Non-US Equities Bifurcation'. The US equities weakening (at least insofar as upward momentum seems stalled into the key 4,400-25 area) along with global govies extending their already impressive up trends should be part of a 'risk-off' psychology. However, the issue in that otherwise unified psychology is some degree of nominal strength coming back to the other currencies against the US dollar.

While developed currencies are flagging a bit again with the US dollar Index back up into its recently violated 92.00-.30 range, emerging currencies are indeed getting the bid back. The Russian ruble and Mexican peso have both improved of late despite Crude Oil dropping back from the 74.00-75.00 area to around 70.00. There is also the recently beleaguered South African rand seeing USD/ZAR drop back from the 14.70 area to below 14.50-.40. By all rights any global reversion to 'risk-off' should engender the same emerging currency weakness as past phases.

Therefore, it is reasonable to ask, *"Why the US dollar weakness against the emergings at this time, with both US equities and global govies signally more of a 'risk-off psychology'?"* The only thing we can imagine at present (which may or may not pan out) is an aversion to the US dollar on the latest COVID-19 surge.

Courtesy Repeat of Monday's 'Two-Way Stretch' ALERT!!

As noted in Friday's 'The Reversal' ALERT!!, there are both psychological and technical reversals in process at present. There is the very mild September S&P 500 future weekly DOWN Closing Price Reversal (CPR) next modest attempt to at least temporarily reverse the longstanding up trend from the previous week's 4,403 Close (with a Tolerance to the previous week's 4,408 trading high.)

While that may seem to already be problematic on this morning's push back up near last week's 4,422.50 trading high, the full confirmation of the rejection of the latest DOWN signal will not likely be confirmed unless there is sustained activity above that high. The reason is (also previously extensively explored) that the near-term weekly Oscillator thresholds rise to 4,400 and 4,425 this week.

As such, the sense that the US equities up trend was also feeling a bit stale into the very quiet new trading high last week (after the previous week's strong surge) is supported by the technical indications. While trading back up near last week's high during overnight trading into this morning, it has stalled not much better than last week's 4,408 trading high since Regular Trading Hours began today.

There are also other asset classes to consider based on more questionable US equities trend activity last week. The global govies are maintaining their bid, with the September T-

note future pushing above the high end of the 134-00/-16 which it temporarily probed the low end of last week. That is also now inspiring the Gilt and Bund to renew their respective rallies which had recently stalled.

Even though the foreign exchange activity is more problematic, the US Dollar Index has stabilized not too far below its key 92.00-.30 range. And while the emerging currencies have strengthened again a bit of late, they are now only testing some of their important higher resistances (i.e. US dollar support.)

What could be behind this renewed sense of 'risk-off' activity (most especially in the global govies)? Quite simply, the COVID-19 Delta variant, even as that will likely fuel the major continued central bank accommodation reconfirmed by the FOMC and especially Fed Chair Powell's press conference last Wednesday. However, just how bad that might become in the US is still the wild card factor which will potentially still represent the downside of the 'two-way stretch'.

Just to be clear, whatever transpires with the governmental response to this next phase if the pandemic may be less important than the visceral public perception. There are already more than a few state level proscriptions on any measures to limit the pandemic spread in the more conservative places like Florida, and a general aversion to restrictive mandates even in the more liberal regions.

As such, it may more so boil down to whether the negative stories surrounding the Delta variant will create an aversion to 'gathering' activities even among the fully vaccinated population. On the other hand, those same horror stories have encouraged more extensive vaccination among even the most highly resistant US individuals, even in the very vulnerable South and Southeast. That gets us to the 'two-way stretch' between current surge and possible medical and cultural cure.

In another CNBC interview this morning (<https://cnb.cx/2VnBejJ>) with former FDA chief and current Pfizer board member Dr. Scott Gottlieb, he notes again that the weakness in the US Covid-19 testing regime means there are likely up to possibly one million new infections a day. Yet he also notes with 90 million unvaccinated US citizens with 50 million eligible, there is hope on the recent vaccination surge.

While cases in the South are still rising, the place is slowing. That is also a sign there may be some sign of the Delta variant surge reaching a natural endpoint sometime soon despite its more highly transmissible nature. What is not included in this interview video clip is his mention of the degree to which the major Delta surges in both India first and then the UK lasted about six weeks prior to abating.

This is further explored in a major way in today's David Wallace-Wells' New York Magazine 'Intelligencer' article (<https://nym.ag/3C6aB3G>), "The U.K.'s Delta Surge Is Collapsing. Will Ours?" As his inference from part of a discussion he had with Eric Topol of Scripps he suggests, *"What is happening in Britain now seems very clear, and matches the shape of other pandemic surges elsewhere — including the Delta surge in India, where cases spiked for six weeks and then collapsed without the benefit of widespread vaccines, but primarily, it seems, through immunity acquired through infection..."* Could this happen in the US?

That would almost seem too much to ask in the context of the horrific headlines. With the Delta variant spread now still very bad in the South and Southeast just as children are headed back to school, it is also moving into the northern tier of the nation. It must be

allowed that serious illness and fatalities among the major vaccinated population are going to be much less than during last Winter's surge.

However there is also a much greater vulnerability among young people than with the previous variants. Therefore, as noted above, the public perception of the risk to both the children and any vulnerable folks at home from a variant which seems to readily infect the vaccinated (even if in an asymptomatic manner where they can spread the disease) is going to be a driver for future US economic activity.

While we would like to declare a clear decision on the Delta variant and the US economy as the key influences for the markets, it is more convoluted than that. However, at the very least the situation seems to be more challenging for the US economy and the markets than the recent US equities 'risk-on' psychology has been reflecting, even when some other asset classes have recently behaved in a more problematic manner. Yet sustained strength in the global govies speaks volumes about the risks which are still facing the US economy and markets.

Courtesy Repeat of Friday's 'The Reversal' ALERT!!

As noted by the title of Thursday's 'Grudging Inspiration' ALERT!! (we suggest review for anyone not already done so), delayed acquiescence to 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 (much more below.)

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/3ydRjHI>) 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.

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/3fl1RNk> 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 resistance which it was successful in exceeding.

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 4,400 and 4,425 weekly Oscillator thresholds, it will be a sign of continued strength after they rose another \$25 into this week. That also means that this week the higher Oscillator indications will rise to 4,495 and 4,525.

However, the more pressing issue on last week's late weakness was whether it could recover from early Friday weakness to exceed the 4,400 area once again. That was a twofold indication. In the first instance, could it strengthen enough to Close last week above at least the 4,400 lower near-term Oscillator threshold to maintain upside momentum, and now whether it will exceed it this week.

That is also with the higher near-term Oscillator threshold up to 4,425 this week. That will also be an indication of whether it can convincingly Negate last week's 4,403 next DOWN Closing Price Reversal, even if that was ostensibly a very mild DOWN signal. Even so, with it being tied into the Oscillators this week, that could make it more telling in terms of an extended bull trend that is feeling stale.

Thanks for your interest.

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