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ROHR ALERT!! Great Numbers, Mixed Response

1 message

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Dear Subscribers,
As we had advised in Thursday's 'BoE Reconfirms Maximum Accommodation' ALERT!! (repeated below for your ease of access), "*It is also of note that the ADP figures have been significantly out of line with the ensuing US Employment report's Nonfarm Payrolls (NFP) numbers of late*." And that is once again the case, to an even more extensive degree than the previous recent releases.

Today's US NFP showed a gain of 943,000, which was in line with the early week estimates prior to the slight downgrade after Wednesday's weak ADP (private payrolls) Employment Change number. Yet it is still considered a very good number, especially with the significant upgrade of the June NFP from 850,000 to 938,000 along with a more modest increase for May. Along with the strong +4.0% monthly Average Hourly Earnings, this has to be considered as very positive.

That is along with a slight further gain in the Labor Force Participation Rate to 61.7%, and on another front the same for the Canadian Employment Report; even if its job gains were a disappointing 94,000 rise (versus a 177,500 estimate.) However, the market responses have been mixed, perhaps due to better data already being priced into the mix, or the degree to which the US numbers were based on readings prior to the worst Delta variant impact from mid-July onward.

As a reminder, the current monthly US Employment report release data actually is cut off in the middle of the reference month, and runs back through the middle of the preceding month. As such, today's report is more so the 'mid-June through mid-July' Employment report rather than the July Employment report. It is taken by many as a sign (as heard in the electronic financial press this morning) that "...*the US economy is learning to cope with even a strong COVID-19 resurgence*."

That proposition will be tested in coming months after the recent predations of the Delta variant. There is also the degree to which things are as bad (or even worse) on the global COVID-19 Delta variant impact. This further complicates the overall economic issue for the US as well, based on what might become supply chain issues. That is especially the case for the current Delta surge in China.

As far as market responses, it is still convoluted in the context of the old axiom, "*The market* (which classically means equities) *is a creature of expectations*." Considering the US Employment should be such a wholly positive forward indication, why is the September S&P 500 future still stalled against the 4,425 high end of this week's near-term weekly Oscillator indications? If the idea that today's NFP is a preview of further significant US hiring is correct, shouldn't they be quite a bit above the top end of a range they have stalled into for two weeks?

It is going to be very interesting to see how that evolves into the weekly Oscillator thresholds still rising $25 per week, to 4,425 and 4,450 next week. On the other hand, the combination of overall maximum central bank accommodation being reinforced by the previously more problematic Bank of England on Thursday (see below), the strong US job gains and other positive data has the global govvies back under more pressure below key levels than seen in a couple of weeks.

That includes September T-note future back down to the low end of previously violated 134-00/-16 range major congestion; September Bund future slipping back well below the low end of the 177.00-.50 range it had recently rallied into; and the weak sister September Gilt future dropping well back below the low end of the 130.00-.50 range it had only recently squeezed up into. All of this is more reasonable on the assumption of stronger employment indications while central banks are maintaining loose monetary policy on anticipatory pandemic caution.

Yet foreign exchange is not as yet reflecting that more upbeat global 'risk-on' psychology, as the US Dollar Index pushes back above the key 92.00-.30 range. This can be interpreted as a sign that the global reopening is still not going to proceed as constructively as hoped. That might be reinforced by the recently weaker European economic data also pressuring EUR/USD back below the interim 1.1815 area as well as weakness in other developed currencies. On the other hand, might it simply be a 'yield differential' preference for the greenback on some sort of major forward anticipation the US will now raise rates first?

With no rate hikes envisioned until later on in 2022, we find that last bit somewhat of a reach. Yet market psychology is a funny thing, and the current weakening of emerging currencies as well reinforces more of a 'risk-off' sentiment despite the strength of today's US Employment report. The overall market response looks like a global 'risk-on' influence in the global govvies, yet with that not being fully reflected in US equities, and foreign exchange looking quite the opposite on a preliminary basis. Whether non-US currencies weaken further into next week, and the fate of US equities from current levels will be the major indication next week.

Courtesy Repeat of 'BoE Reconfirms Maximum Accommodation' ALERT!!
As noted in Wednesday's 'Very Much the Same into BoE Thursday' ALERT!!, today's BoE rate decision and statement, Meeting Minutes, and quarterly Monetary Policy Report (https://bit.ly/3lvtWWc overview with links to extended content) along with Governor Bailey's classical ensuing press conference (https://bit.ly/37oK57I) was the next major 'macro' influence inflection point. Fortunately for the US equities (and others) bulls, the Bank did not disappoint in its commitment to continued accommodation despite a current inflation surge.

This brought the typical press conference questions about inflation, which will rise further prior to abating; GDP growth that will continue on the back of greater UK and now global vaccination rates despite near-term concerns; balance sheet reduction that will begin slowly with the Bank ceasing reinvestment of proceeds from current holdings, yet not actually reducing its stock until it raises the base Bank Rate to 0.50%. This is all consistent with the other major central banks' indications, and in that regard delivered no untoward market surprises.

It also indicated that risks remained to the downside, especially in the wake of the recent impact of the COVID-19 Delta variant it indicated might explain quite a bit of the recent labor market 'friction'. That's fancy language for the degree to which employment is being affected by some folks' lack of desire to return to work. It is much the same as the far less

well-vaccinated US, with the coda that quite a few folks in the UK might have chosen to return to full-time education during the 2020 recession, and are still committed to that for now in search of higher wages later.

Quite a few more highlights and specific citations from the Bank can be found in this mornings' very timely CNBC article (https://cnb.cx/3yqFgXh.) CNBC cites the inference from BlackRock Investment Institute's chief UK investment strategist Vivek Paul, "*This implies* (the Bank) *now expects the next policy tightening cycle to be far more gradual — and to a lower end-point — than in the past*." This is once again completely consistent with the other major central banks, whereas prior to the Delta variant BoE had seemed more inclined to tighten sooner.

All the rest remains the same as previous as we head into the US and Canadian Employment reports on Friday. Outside of some limited European economic data, North America will be the 'macro' influence focus into the weekend. And the US Employment report in particular is very contentious this time. As noted on Wednesday, the ADP Employment Change only coming in at a gain of 330,000 against a 695,000 estimate was versus a very strong US ISM Services PMI.

It is also of note that the ADP figures have been significantly out of line with the ensuing US Employment report's Nonfarm Payrolls (NFP) numbers of late. And as it was much weaker last month (+680,000 versus an actual NFP of +850,000), there is room for US employment bulls to have room for a lot of hope into tomorrow.

All of this is still in the context of the continued predations of the COVID-19 Delta variant in the US, and the question of whether that impact will spread from the very beleaguered South and Southeast into the Northern climes (which already seems to be the case on a preliminary basis.) The obvious bottom line we have previously reviewed at length is not so much the sheer pandemic resurgence, yet rather more so whether it takes an economic toll once again in the near-term.

In the meantime (as noted again on Thursday), it is reflected in the 'risk appetite' psychology bifurcation in the various asset classes. The September S&P 500 future is less upbeat in stalling into the 4,400-25 weekly Oscillator threshold. That is consistent with the rally extensions in global govvies, even as they give back a bit of their recent rallies' new highs in the wake of Wednesday's US ISM Services.

Yet foreign exchange remains a more convoluted picture of less than impressive developed currencies gains against the US dollar, as the US Dollar Index remains parked back up in the important, recently violated, 92.00-.30 range. Yet it is the emerging currencies showing quite a bit more strength, which would normally be associated with a resumption of a global 'risk-on' psychology. However, that is neither apparent in the US equities nor especially the global govvies at present.

Courtesy Repeat of Tuesday's 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/3fI1RNk 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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