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ROHR ALERT!! The Grind Higher Succeeds

1 message

ROHR Alert <rohralert@gmail.com> Fri, Aug 13, 2021 at 10:52 AM
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Dear Subscribers,
While we have noted the sluggish nature of the US equities rally, it has also been noteworthy that there has been no violation of near-term lower support over the past several weeks. That was the September S&P 500 future 4,425 area higher weekly Oscillator threshold last week that it only exceeded late week. As noted often of late, weekly MA-41 is still rising $25 per week. As such, exceeding that higher near-term level last week left the higher level up to 4,450 this week.

Therefore, the move above 4,450 late this week confirms that at least in the near term the 'US Equities Grind Higher' (title of Thursday's ALERT!! repeated below for your ease of access) has succeeded in sustaining the bull trend. That is important with such a lack of immediate aggressively bullish response to the very strong US Employment report last Friday. Yet, as like all recent weeks, those Oscillator thresholds move up another $25 into next week. That puts the lower end up to 4,450 and the higher end up to 4,475, creating the next challenge.

The other challenges are the degree to which the other asset classes are not fully participating in the US equities indication of a return to 'risk-on' psychology after that had weakened a couple of weeks ago. While there are quite a few more specifics in Thursday's ALERT!! below, in a nutshell foreign exchange is seeing only a modest weakening of the 'haven' bid in the US dollar, as represented by the orderly US Dollar Index retracement from near its 93.30-.40 resistance.

It is also of note that the global govvies are holding in rather well on their reaction from key higher resistance levels. The full review of those resistances and how elevated the govvies are compared to their lower supports is all in the repeat of Thursday's analysis below. Yet there are also the telling COVID-19 Delta variant impacts covered extensively of late, which are becoming more prominent.

For one thing, the now typical early US return to primary and secondary schools at present (soon to accelerate) is seeing the sort of problems regarding the Delta variant's higher transmissibility we (among others) have discussed at length. However much there was hope that the same sort of young person immunity which was prevalent with previous variants would apply now, it is not the case.

This article from the local Biloxi, Mississippi news channel (https://bit.ly/3ilnadl) lays out what is now the problem in that local school district. That is also the case throughout the US South and Southeast, which is about to be repeated in any of the other states and especially in those where the Governors are weighing in against local 'mask mandates' (Florida, Texas, etc.) As the article notes, the Mississippi Department of Health "...*defines an outbreak in a school setting as three or more individuals who have been diagnosed with COVID-19 in the same group within a 14-day period. So three people in one classroom would be the same group*." Several Mississippi schools are now closed for two weeks.

It is the sad case that the Mississippi situation is going to be repeated throughout the 'anti-masking' and 'anti-vax' communities in the South and elsewhere. It is a sign of how backward things are in the US that all of these folks who were obsessed with the 'state' not dictating that their children should be forced to wear masks to return to school are now seeing their kids forced back into in remote learning due to the highly transmissible nature of the Delta variant.

As a reminder, even all of the concern about illness is less of a market influence than the US economic impact. That has to do with two major aspects. The first is the ability of parents to be fully available for out-of-home work instead of having to mind younger children. As noted on Thursday, "*There is also a still struggling labor hiring market based on employee resistance (including whether kids will indeed be safe going back to school) despite the very strong headlines...*"

Yet the other aspect we have been concerned about of late is the overall impact of the still aggressive Delta variant spread on general public psychology. Among the first signs of cracks in the recently upbeat US consumer psychology were the US airlines announcements on deceleration of close-in booking and acceleration of close-in cancellations (see the Southwest Airlines announcement coverage in Wednesday's ALERT!!) Now the next shoe has fallen this morning...

… in the form of a much weaker than expected Michigan Consumer Sentiment report coming in at 70.2 versus an estimate of steady at 81.2 from last month. While 'current conditions' were not all that weak, worse still was the drop in 'expectations' from 79.0 to just 65.2. That is likely the broader Delta variant concern beginning to seep into the public psychology on continued full-fledged participation in the recently strong reopening of the 'gathering' economy.

Further evidence of the Delta variant concerns impacting the future expectations for a return to 'normal' for those 'gathering' businesses came from Thursday's Facebook announcement of delay in returning to the office for all of its staff until January 2022 (see the CNN article https://cnn.it/3xJYkOX.) Once again, this will likely have less of an impact than the major shutdowns of late 2020 into early this year, However, many dining, hospitality and retail shops will still be affected.

The bottom line is that the US equities feeding off of strength in non-gathering businesses, and the degree to which the weak spots in the data may encourage sustained central bank accommodation, may likely still grind higher. Yet the reasons to doubt the continued aggressive economic reopening are out there in both the Delta impact on primary and secondary schools, and the now more prominent signs of rising public reticence due to the Delta variant.

Courtesy Repeat of Thursday's 'US Equities Grind Higher' ALERT!!

While it has been every bit of the 'Lackluster Jailbreak' noted in Tuesday's ALERT!! headline, much like the previous couple of weeks the US equities are maintaining the minimum upward momentum to respect the rising weekly Oscillator thresholds. On one hand that reinforces overall 'risk-on' psychology even as it is less apparent elsewhere in a way that is troubling. On the other hand, lack of any US equities failure below near-term support is a positive indication.

While the sluggish nature of the US equities rally is still troubling, that it has managed to continue seems to be providing renewed support to the 'risk-on' psychology elsewhere. While foreign exchange has seen recent weakening of both developed currencies and emerging currencies against the US dollar, that has reversed to a modest degree over the past several trading sessions.

That said, US Dollar Index remains well above the violated 92.00-.30 resistance after not quite reaching the key 93.30-.40 higher resistance both in mid-July and earlier this week. That 'haven' bid in the greenback speaks of more of a 'risk-off' psychology than expressed by the US equities. And much like the US Dollar Index not knocking out resistance, as previously noted EUR/USD has held its recent selloff into the key 1.1703 late-March 9-month trading low. That also has a lot to do with whether its Head & Shoulders top (https://bit.ly/3jvPI9E weekly chart through Friday) is a bona fide signal for a move to lower levels. We shall see.

Another interesting indication on whether there is more of a 'risk-on' psychology returning is the global govvies reaction to generally elevated inflation numbers over the past week or so. While they are high outside the US as well (everywhere from Asia through Europe this week), Wednesday's somewhat better US CPI being followed by new all-time high PPI today is troubling. While it is always a question whether that flows to CPI, it is not an encouraging development overall.

However, in the wake of all of this inflation pressure, the September T-note future is holding up in the mid 133-00 area. That is only a bit below the 134-00/-16 area it recently traded above, and still well above the key lower 132-00 area it recovered above after slippage in March and repeated tests through June. The weak sister September Gilt future is holding in the mid 129.00 area, only a bit below the major 130.00-.50 area it recently traded into; still well above the key lower 128.00 area it only recently recovered above after slippage throughout March into all of June.

Then there is also co-strong sister September Bund future holding the mid 176.00 area, only a bit below the 177.00-.50 area it recently traded above. That leaves it still well above the key lower 175.50-.00 it

pushed above in mid-July after a more telling violation of the 172.00-.50 area it had stalled into through all of June.

The question here is, of course, with the Cassandras fretting over the recently sustained higher inflation indications (including some central bank officials), why aren't global govvies that were seeming to reflect more 'risk-on' until early July back under more pressure? Their resilience seems to speak of reasons to doubt the recently strong global reopening 'risk-on' psychology will continue. We have reviewed quite a few Delta variant reasons for this in recent analyses.

And the broader electronic 'finance-o-tainment' press is also coming around to our more definitive perception of the real market impact. Even in the context of the recent strong data (US Employment and inflation), CNBC's Senior Economics Reporter Steve Liesman said this morning that the next set of numbers (i.e. the August indications released in September) will be a key to assessing the Delta variant impact on the US economy. This is a 'given' buffering near-term decisions.

Of course, as many of those will be released prior to the next major September 21st FOMC announcement, they will also be a significant influence on Fed policy perceptions… even more so than the Jackson Hole Symposium in two weeks. That also obviously has to do with the timing of the announcement and the fact of any Fed QE tightening through reduced monthly bond purchases. And on that point there now seems to be an atypical strong split among FOMC members.

Dallas Fed President Kaplan has been very vocal of late on the FOMC needing to announce the QE taper in September, and actually purchasing fewer bonds as early as October. He is the most hawkish along a spectrum that extends to Fed Chair Powell remaining very accommodative. And that is where the Delta variant pressures come into play. Those include cancelled events and weakening airline reservations (see below), which might be a sign of broader consumer reticence.

There is also a still struggling labor hiring market based on employee resistance (including whether kids will indeed be safe going back to school) despite the very strong headline 'rearview mirror' data in many areas. Along the way US equities have seen September S&P 500 future 'grind higher'. That is with a question late this week over whether they will pull off the same strong finish to end up above the higher 4,450 weekly Oscillator threshold after exceeding that level at 4,425 late last week. Yet as the lower level moves up to 4,450 next week (with weekly MA-41 still rising $25 per week), it is once again very important this week. All of that said, only weakness at least back below 4,425 would appear troubling.

Courtesy Repeat of Thursday'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/3xwOLTt 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 early July downside reaction the 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. It is of note the September S&P 500 future had managed to retest that area right into the ECB press conference prior to weakening once again the following Thursday morning.

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, the September S&P 500 future sustaining activity later last week above the 4,400 and 4,425 weekly Oscillator thresholds was a sign of continued strength after they rose another $25 into last week. That also means the higher Oscillator indications rise to 4,545 and 4,575 next week. As such, the Oscillator indications remain important on the at least so far 'lackluster jailbreak' from late last week, with the key levels rising to 4,450 and 4,475 next week (on weekly MA-41 up $25.)

Thanks for your interest.

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