
ROHR ALERT!! Reaction Reflection

1 message

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Dear Subscribers,

While it admittedly took a couple of weeks, the US equities unconvincing stall into recent new all-time highs has finally resulted in a more telling reaction. It is worth reflecting on the nature of the selloff so far after this week's return to major volatility, and revisiting what to look for next, as was already fully explored in Thursday's 'Minutes Mayhem' ALERT!! (repeated below for your ease of review.)

The question now is whether this is another of the recent serial short-term sharp corrections, which recovered so quickly after testing lower key support? Or is it more so the prelude to a much more significant downside reaction? As always, the market gets the final word, and the proper way to consider trend dynamics is to understand the technical structure into the key Evolutionary Trend View (ETV) price levels. As we like to remind, technicals are the trend analysis Rosetta Stone.

For US equities it is much as we discussed in Thursday's analysis of September S&P 500 future key trend projections. That means the violated 4,425 congestion above and the 4,380-65 congestion below, yet with the more critical 4,345-40 area trend support below as a far more critical psychological decision area next week.

All of the ETV dynamics on those were explored at length in Thursday's analysis, and we refer you back to that for the full discussion. The September S&P 500 future recovery so far late Thursday into today from the significantly lower 4,345 area is impressive. Yet the proverbial 'proof in the pudding' will be how it finishes the week later today. While a Close below 4,425 will look 'weakish', only a finish below that 4,380-65 congestion will set up an immediate 4,345 test next week.

All of that said, other asset classes are still reflecting a more definitive 'risk-off' psychology than during the churn of the previous couple of weeks. While the global govies are not pushing much higher at present, they are holding recent gains into key higher resistance ranges from which they had reacted previous.

Foreign exchange remains a greater reflection of the 'risk-off' psychology being back in gear. That is especially for the emerging currencies, yet with weakness in the developed currencies as well. That is especially for the quiet yet sustained EUR/USD weakness below the 1.1703 late-March trading low (full discussion and annotated chart below.) Yet the far greater weakness is in emerging currencies.

As also noted on Thursday, the South African rand weakness has been reflected in USD/ZAR strength above the 15.09 late March 8-month trading high, with next resistance not until the mid-15.00 area. The same is true now to a similar degree in the Mexican peso on USD/MXN back above 20.00 after recent serial tests of the 19.80 area. While on Thursday it was not above the hefty 20.25 area congestion, (also tied into the 20.10 weekly MA-41), it is well above it today with the interim congestion not until 20.65. Along with WTI Crude Oil falling further below its 71.00-70.00 congestion and even 65.00 area support, it all feels like 'risk-off'.

This is pointing toward the market realization of the reimposition of COVID-19 pandemic economic and social restrictions on the virulent spread of the Delta variant due to far higher transmissibility. As glaringly apparent in several lightly symptomatic cases among US senators this week, that is for the fully vaccinated with the unvaccinated suffering to a much greater degree. The silver lining to this latest COVID-19 horror is the recent sharp rise in the US vaccination rate.

Yet as the old axiom notes, "*The market* (which is classically to say equities) *is a creature of expectations.*" And the near-term expectations are eroding markedly on the current news, which relates to

some factors we have been highlighting over the past two weeks. While there is concern over inflation as it relates to sapping consumer spending due to higher retail prices, COVID is more troubling.

Yesterday's review of the key elements of Wednesday's FOMC Meeting Minutes release still stands on there being less chance of an early taper. Yet that is due to the very good reason of Fed Delta variant concerns (all easily reviewed in our modestly marked-up version at <https://bit.ly/3y0iKUe> with the comments below.) As noted in a brief Reuters article (<https://reut.rs/3j2PIEB>), even very hawkish FRB Dallas President Kaplan is reconsidering the timing of any Fed QE 'taper'.

Yet it would seem our concerns about any restrictions in China as they affect consumer sentiment and activity there, and more so the impact on their export channels for other economies is more telling. The most informed view on the trade situation is in Tuesday's Reuters article (<https://reut.rs/3kduA8F>) with an extensive discussion of the multiple restrictive measures. It cited the view from Dawn Tiura, CEO of US-based Sourcing Industry Group that, *"China's zero tolerance policy is good for the pandemic but bad for the supply chain."*

This is just as we had repeatedly expressed over the past couple of weeks. Additionally the article notes just how much worse the problem has become over that period as COVID-19 infection levels and attendant restrictions rise.

There is also a subtle current intermarket indication from US equities. Note that NASDAQ 100 which was the weaker sister on the US equities push to new highs two weeks ago is back to being the stronger sister against the DJIA, which has suffered quite a bit after leading the way into Monday's new all-time high. This is indicative of the shift back from some hope the cyclical would lead once again on the continued global reopening, with the tech stocks getting their edge back from anticipation the 'remote' economy might return to being a necessity.

Also implicit in this 'reflection' is the warning US equities are not on any way a critical overall 'risk appetite' barometer. In the context of the now more likely continued central bank accommodation (versus early QE 'taper'), it is possible US equities will once again take on a TINA (There Is No Alternative) psychology. While that might create even more radical risk for US equities down the road, any near-term strength will not likely reverse the 'risk-off' psychology elsewhere.

Courtesy Repeat of Thursday's 'Minutes Mayhem' ALERT!!

We found it more than a bit interesting that the US equities took such a major fall after the highly anticipated Fed release of the July 27-28 FOMC Meeting Minutes early Wednesday afternoon (14:00 EDT, and access our modestly marked-up version at <https://bit.ly/3y0iKUe>.) While there were quite a few concerns over the potential for an earlier than expected Fed QE 'taper', there was in fact not much evidence of that. What the minutes did signal was the budding confluence of negative factors was as real as we have cautioned over the past two weeks.

In that regard they were more of an 'inflection point' for crystallization of the already apparent factors. This is what we sometimes refer to as an 'event horizon' to borrow a phrase from physics (in the simplest sense of being within bounds that can affect an object in motion <https://bit.ly/3y169jw> and also the page 17 note and Figure 2:4 in Hawking's 'Brief History of Time' <https://bit.ly/3k58wgh>), even if a market 'event horizon' is a planned event that can intersect trend psychology.)

We will be brief on the way into an important timely update of our Evolutionary Trend View (ETV.) The first of the key summary passages in the always extensive meeting minutes was the top of page 7 summary of international developments as it relates to resurgent COVID-19 pandemic spread on the highly transmissible Delta variant. Citing the previous success of the global reopening, they noted, *"The improvements were concentrated in the advanced foreign economies and China, supported by vaccine rollouts, the unwinding of public health restrictions, economic adaptation to the virus, and the re-opening of the services sector."*

Especially the focus on China and the services sector success applies to areas currently reversing under the Delta variant spread. As the same section of the minutes notes, *"In addition, the increased prevalence of new virus variants, particularly the Delta variant, underscored the continued uncertainty about the foreign outlook."* This is in addition to our extensive analysis of that aspect of both the international and especially the US developments on Delta's impact.

Please see Monday's and Tuesday's ALERT!!s for much more on Delta variant's impact on the international situation and especially in the US. That is along with Tuesday's reference to last Wednesday's 'Moderating Inflation into Consumer Reticence' ALERT!! on the signs of consumer reticence on lower close-in airline reservations and accelerating cancellations. For both the economies at large and the markets, the reversal of what had become buoyant public sentiment is bad.

The modest silver lining behind that dark cloud is the degree to which Delta variant concerns will also very likely keep central banks more accommodative than the recent 'rearview mirror' economic releases (now weakening as well) would normally indicate. Our more extensive highlighted section from the bottom of column 1 on page 12 includes the FOMC observations on, *"...preparations for reducing the pace of asset purchases should encompass the possibility that the reductions might not occur for some time and highlighted the risks that rising COVID-19 cases associated with the spread of the Delta variant could cause delays in returning to work and school and so damp the economic recovery."*

Interesting note on hampering the return to school as important, even if it did not carry through the logic to how this might be a specific factor interfering with the return to work by part of the labor force as well. In addition to the indeterminate increase in consumer reticence to participate in the recently buoyant 'gathering' economy activities (also see Monday and Tuesday's analyses on that), this paints a US and international picture inconsistent with a sustained 'risk-on' psychology.

The market manifestations are now more obvious as well. As noted above, our surprise is more so related to the timing of the current additional damage to the previous 'risk-on' psychology waiting until after the release. Yet there are times when a pending 'macro' release forestalls the actualization of market responses, even where the confluence of factors is clearly leaning in a particular direction. Possibly the FOMC minutes were the 'proof in the pudding' on negative factors.

In any event, the US equities straining against overbought (albeit rising) weekly Oscillator thresholds for the past couple of weeks was not as yet any sign of reversal until early this week. However, September S&P 500 future slipping well back below the 4,450 lower near-term Oscillator threshold on various swings early this week was the warning sign. And Wednesday afternoon's extensive and sustained immediate post-minutes weakness below the 4,425 congestion was the sign that the negative 'macro' confluence of factors was taking hold of the trend.

As noted on Wednesday morning, the next lower support was into the recent 4,380-65 congestion range. This happens to be one of those instances where the 'big penny' at 4,400 was only psychological, with no particular technical trend importance after the late-July through early-August active churn above and below that level. In fact, below the 4,425 area, the lower end of that churn in the 4,380-65 range was always the likely next stop, with that also now obviously violated.

Yet as also noted Wednesday morning, into next week the front month S&P 500 future weekly MA-13 moves up to approximately 4,340 (\$5 lower than noted yesterday due to the impact of the current selloff.) It is also of note the more aggressive weekly UP Channel is up to around that level into next week as well (which can be seen on the weekly chart <https://bit.ly/3AYivej> through last Friday.)

And lo and behold, note where the market held at the bottom of the sharp selloff in overnight trading, prior to the now substantial recovery into Regular Trading Hours this morning. Yet even the recovery back above the 4,380-65 range raises the question of what comes next now that sustained activity up into and above the Oscillator thresholds (4,450 and 4,475 this week) seem to be over. That gets back to the importance of the 4,340 area held so far, and what happens next week.

As also noted on Wednesday morning, the recent large, temporary, front month S&P 500 future selloffs were of similar (or larger) magnitude than that seen out of late Monday afternoon until today. Those were the mid-July \$160 selloff from the front month future 4,384 all-time high to the following week's 4,224 trading low. Selloffs of a similar magnitude (more or less) from all-time highs had also occurred in mid-June and mid-May, with rapid recoveries as well.

What was the key to the up trend sustaining and recovering so quickly after such significant temporary selloffs? The fact was that in each case the front month S&P 500 future held against (mid-May) or did not spend too much time below weekly MA-13 prior to a weekly Close well back above it. We have often cited

weekly MA-13 across many markets as a key trend following indication, and a quick look at the front month September S&P 500 future chart reinforces that.

While all of this means the US equities situation will be more critical next week, the signs from the other asset classes were already bringing the durability of the 'risk-on' psychology into question. That includes the global govies only reacting back down in a minor way after their recent strength, despite the recent inflation indications and some of the stronger economic data (especially US Employment.)

While not making much further progress today, upside leader September T-note future is holding up into its key 134.00/-16 range. And recent much weaker sister September Gilt future is in the 130.00-.50 range it has stalled into since mid-July. Co-strong sister September Bund future is up into the 177.00-.50 area it recently traded above... all of which is stronger than a 'risk-on' psychology should allow.

Foreign exchange is a more troubling indication for 'risk-on' psychology on the weakening of both developed currencies and emerging currencies against the greenback, with the US Dollar Index up to a new recent high above the key 93.43 late-March 9-month trading high. While the next interim resistance is as nearby as 93.90, the more major resistance is not until up around the 94.74 September 2020 13-month trading high. It all reinforces a burgeoning US dollar 'haven' bid, which is also inconsistent with a 'risk-on' psychology on an extended global reopening.

While some of the emerging currencies are suffering more than the developed currencies, the key indication on the latter is the EUR/USD trend. That is due to the higher levels of vaccination in the developed economies which should be reinforcing a more upbeat outlook. Yet attempting to hold its late-March 1.1703 trading low has not failed, and that reinforces a choppy weekly Head & Shoulders Top 1.1800 area DOWN Break (<https://bit.ly/3iOKPJy>.) Especially of note are the previous holding actions in that area, and this week's rally failure right at 1.1800.

Emerging currencies are no better, and have even been a bit worse of late in line with diminished global economic expectations, also reflected in WTI Crude Oil weakness back below both 70.00-69.00 and now the 65.00 area held exactly on the selloff into mid-July. This is especially so for the South African rand on USD/ZAR strength above the 15.09 late March 8-month trading high, with next resistance not until the mid-15.00 area. The same is true to a lesser degree for the Mexican peso on USD/MXN back above 20.00 after recent serial tests of the 19.80 area. However, that has yet to breach the recent hefty 20.25 area congestion, which is also tied into the 20.10 weekly MA-41. Also all interesting 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/3AYivej> 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.

And the September S&P 500 future sustaining activity later last week above the 4,425 and 4,450 weekly Oscillator thresholds was a sign of continued strength after they rose another \$25 into last week. As such, the Oscillator indications remain important on the still 'lackluster jailbreak' after the previous outstanding US Employment report. With the market dropping back below the 4,450 level early this week (on weekly MA-41 up \$25), there seemed to finally be some real risk.

That is with the key lower interim levels into the recent 4,425 area congestion that has now been violated, and the 4,380-65 area bottom of that range which it also has traded below. Yet the far bigger level is the 4,340 area on both weekly MA-13 into next week (loosely held on all recent sharp reactions), and the significant aggressive weekly UP Channel from the major 2,174 March 2020 cycle low.

Thanks for your interest.

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