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ROHR ALERT!! Friendlier Focus

1 message

ROHR Alert <rohralert@gmail.com> Tue, Aug 24, 2021 at 11:39 AM
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Dear Subscribers,
While in Friday's Reaction Reflection ALERT!! we outlined the case for a continued 'risk-off' psychology in any of the asset classes outside of the resurgent US equities, some recent developments have created the 'friendlier focus' noted in today's title. That revolves around the latest COVID-19 pandemic Delta variant news as well as the positive forward looking US FDA full approval of the Pfizer-BioNTech vaccine from previous EUA (Emergency Use Authorization.)

That is very important for both its psychological influence on those who've been reluctant to get the vaccination, and it is suspected that similar approvals for the Moderna and Johnson & Jonson vaccines will also be forthcoming fairly soon. Well beyond that is the legal protection it will in all likelihood provide entities which were already inclined to require employee vaccination, yet were worried about both image and especially legal ramifications. This is gone now, and the highest profile case is the immediate requirement for all US military members.

Yet that is for future protection, even though it will likely play well with other vaccination proponents in still challenged environments. That is especially for teachers unions during the current return to school in still heavily affected areas of the US South and Southeast. As a sign of the risks on that very important front (affecting older individuals in the households as well), there are already a not insignificant number of students and teachers in quarantine in the affected areas.

Even going back a week ago for the news on what was happening in the districts with an early return to Fall classes (with a much heavier flow into the end of this month), there was a very good USA today article (https://bit.ly/3slbbAk) noting all of the quarantines which included teachers as well. Without being political about it at all, it would seem that the anti-masking public officials along with quite a few parents have triggered a return to remote learning… and not just in the South.

Along with that problematic development is an international indication of the positive nature of pandemic suppression measures… "For first time since July, China reports no new local COVID-19 cases" was the title of an early Monday Reuters article (https://reut.rs/2Wecjj1.) It is as we noted in Friday's Reaction Reflection ALERT!! (repeated below for your ease of access) comment from a very prominent supply chain specialist, "*China's zero tolerance policy is good for the pandemic but bad for the supply chain*" ...and is expected to continue.

Monday's article cites Oxford University Professor of Epidemiology Chen Zhengming's view, "*Although China's current (COVID containment) policy is characterised by a high degree of disruption as well as cost, a suite of effective measures has been established, which I don't think will be abandoned easily*." Considering the dissent on basic measures in the US and elsewhere, some may wonder how this can be maintained as the Chinese pandemic suppression.

Professor Chen is cited again later in the article on this point saying, "*Ordinary people are basically used to the measures without having too many complaints. And the effectiveness (of those measures) is discernible - case numbers recently have significantly declined*." That said, he doubted whether China could afford to impose such measures in the long run, and that's going to be interesting.

Yet the market indications on these two related developments are to create a bit more of an upbeat psychology where it was already the case… most particularly in the US equities surge back from last week's early selloff. The September S&P 500 future setting a new 4,492 all-time high today (after already exceeding last week's 4,476.50 on Monday.) However, after last week's early selloff it is important to note this week's Oscillator levels are 4,470 and 4,495. As such, the powerful rally is right back into the near-term weekly Oscillator thresholds this week.

This is also in the context of the other asset classes not having fully returned to the previously lapsed 'risk-on' psychology. While the global govvies have been back under a bit of pressure, the recent economic releases have been mixed at best (from previous overall strength.) That has left the September T-note future only back down around the low end of the important 134-00/-16 area. The Gilt and the Bund are also only down around the low end of their key technical areas.

Foreign exchange is also seeing more strength in the developed currencies and emerging currencies against the US dollar, yet not in a decisive manner. In the developed currencies the most important indication is EUR/USD recovering back above its 1.1703 late-March low, yet not able to yet push above the recent 1.1800 DOWN Break (https://bit.ly/3mBagR4.) This correlates very well with the recent US Dollar Index major weekly down channel 92.70 UP Break (https://bit.ly/3yjUEE8.)

And in the emerging currencies there has been more of a lack of confirmation of the reversal of the recent 'risk-off' psychology. While they have rallied quite a bit from the depths of last week's selloff, USD/ZAR is only back down to the 15.00 area, and USD/MXN is only around the important recently violated 20.25 area. Further activity in both of those two items will be critical later this week.

Courtesy Repeat of Friday's Reaction Reflection ALERT!!
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!! (we suggest a 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 govvies 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 cyclicals 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 in 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 Previous critical consideration (notes above, updated chart)
[Analysis to be updated after Wednesday's further key European and US data.]
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/3sKIoMU 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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