
ROHR ALERT!! Slow Roll Risk-On

1 message

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Dear Subscribers,

Markets have backed off a bit from the 'risk-on' psychology strength prevalent into the end of last week, even as that was less of a bullish rocket than a slow motion climbing freight train. As noted in Friday's 'Problematic US Numbers' ALERT!! (repeated below for your ease of access), "*The miss of roughly 500,000 additional Nonfarm Payrolls jobs at +235,000 in this morning's US Employment report is indeed problematic...*", which is as opposed to catastrophic. For more on those particulars, see below on the significantly mixed messages there.

The crux of the matter is the degree to which weaker economic data also provides the central banks greater latitude to continue their QE programs at the current still massive levels prior to announcing or enacting any 'taper'. Friday's US report seems to have taken any 'date certain' for the Fed to announce its taper program specifics, and there was more from the Reserve Bank of Australia today in the statement (<https://bit.ly/3l0rKUJ>) accompanying its steady 0.10% rate decision.

To wit from Governor Lowe, "*The recovery in the Australian economy has, however, been interrupted by the Delta outbreak and the associated restrictions on activity. GDP is expected to decline materially in the September quarter and the unemployment rate will move higher over coming months.*" Even allowing that Australia has been harder hit by the Delta variant than most other developed economies, the overall manta is the same as form most other central banks.

This is why this week's return to more central bank influence is so interesting in the context of still weakening 'rearview mirror' macro data releases. Outside of the much improved August Chinese trade numbers this morning (which should be a good sign for the global economy), the rest of the recent global data has been particularly disappointing of late. Indeed, this might explain part of the limited softening of the 'risk-on' psychology into this morning.

However, for the balance of the week there will very likely be more effusive expressions of central bank support. That will be from the Bank of Canada on Wednesday morning followed by the Fed's Beige Book in the afternoon, and especially from the ECB on Thursday. The latter must also now contend with the

weakening of Angela Merkel's conservative bloc as she nears the end of her political career. As today's Reuters article (<https://reut.rs/3n9ps8p>) notes, the combined approval for the challengers might mean a profligate government coming into power soon... which might also explain quite a bit of the recent weakness of the German Bund beyond the current inflation concerns.

The overall weaker data brings the likelihood of a significant extension of the current central bank largesse. Whether the softer data is indeed due to the Delta variant predations (or at least partially so) is problematic. Yet the assumption that is the case is likely enough to fuel market expectations of more money flowing at a time when productive investment remains challenging. As such, there is the greater likelihood it will end up in equities as a way to achieve yield. For more on specific markets, please see Friday's analysis below with updated charts.

Courtesy Repeat of Friday's 'Problematic US Numbers' ALERT!!

The miss of roughly 500,000 additional Nonfarm Payrolls jobs at +235,000 in this morning's US Employment report is indeed problematic. It is both a sign the economy is not growing as strongly as earlier this Summer, and the higher monthly Hourly Earnings at +0.6% looks quite inflationary. Yet rather than being interpreted more broadly as any less of a global reopening market indication, it seems to be more of a US 'country' implication than global influence so far.

Prior to proceeding with the balance of that, we are also advising you that we will be taking the day off for the US Labor Day holiday on Monday. With all US and Canadian markets closed for their respective holidays, we are not expecting any significant market activity short of some major exigent influence. It is also a day of limited economic data elsewhere, almost exclusively from Europe.

Back to the US Employment report, it is more so 'problematic' than an outright disaster for several reasons. The first is that average job gains over the past several months are still strong. Secondly, this is the last report which is impacted by the enhanced US Unemployment Benefits, which end this weekend. As such, next month's report will be the back half of August into the first half of September (a US Employment vagary we have discussed at length in previous analysis.)

It is further reasonable to imagine beginning in early October and increasingly through the balance of the year, these reports will reflect the more aggressive job acceptance on the part of job seekers than might have been seen over the past several months. The higher than expected monthly Hourly Earnings also reflect still aggressive hiring, which should proceed into the Fall... all other things equal.

The potential for inequality in the overall US employment equation still rests with the future path of the COVID-19 pandemic, and especially progress in

handling the recently dominant Delta variant. As discussed in Thursday's 'The Longer View' ALERT!! (repeated below for your ease of access) and previous analysis, the corporate move toward more vaccination mandates despite some employee resistance will likely improve those numbers across time. That is the significant hope for 'the longer view' which is assisting the 'risk-on' psychology at present.

The caveat is that this will still not do much to lessen the pandemic headwinds over the near-term. That is especially apparent in the subsets of today's US Employment report. There were 28,500 job losses in the Retail sector. And there were no job gains at all in the previously much more buoyant Leisure and Hospitality sector. Both reinforce the weakening 'gathering' economy tendencies we have reported over the past month, including airline reservation cancellations and depressed fresh bookings, with the same for hotels and restaurants.

The somewhat distended 'silver lining' psychology behind this dark cloud is that the weaker data (as has been the case of late) leaves the Fed able to defer any announcement of a date certain for its QE taper. Whereas some were expecting a definitive calendar at the September meeting, that is now likely on hold.

And in market terms, while the US equities have seen September S&P 500 future fall back from the higher 4,545 Oscillator threshold for next week, it held the 4,520 lower one so far on today's reaction. As such, unless there is more weakness later today into the weekly Close, it is reasonable that US equities are maintaining their upside momentum... even if still more subdued than the bulls would prefer.

Global 'risk-on' psychology also does not seem to have reversed to any great degree on this weaker US 'macro' indication. It is most interesting that the higher inflation indication from the Hourly Earnings is once again weighing more so on the other global govies far more than the US T-note. In fact, the September Bund future has dropped all the way to the bottom of its 175.50-.00 lower support (after failing 177.50-.00 just last week.) While holding might give a sense of support, next Wednesday's September Bund expiration will be on the December Bund trading at a full 3.00 discount... and there is a lot of inflation expectation there.

There is also the further weakening of the US Dollar Index below its 92.70 major weekly down channel UP Break (see the weekly chart updated through last Friday <https://bit.ly/3zunumD>.) While they are on two totally different projections (i.e. not just a mirror image of each other), this correlates very well with euro currency strength on squeezing back above its 1.1800 major weekly Head &

Shoulders Top DOWN Break (see the weekly chart through last Friday <https://bit.ly/3gJ1c98>.)

This has just become more prominent through the course of this week after a month of trying to maintain the overall negative trend momentum. As we noted over the past couple of days, “(it) *feels bad for the bears on the overall ‘trend flow’ after the previous weakness.*” The next indication will be whether those foreign exchange indications remain the same on any retest of those levels.

As noted yesterday, that is also being maintained in emerging currencies. It is especially the case for the previously vexed South Africa rand seeing USD/ZAR slide from a spike high above it 15.40-.50 congestion two weeks ago down to below 14.50-.40 at present. This is along with other emerging currency indications that reopening expectations are back despite near-term pandemic headlines.

Courtesy Repeat of Friday’s critical consideration (updated chart)

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. That is clear on the S&P 500 future weekly chart (<https://bit.ly/3DW6W9M> updated through Friday.) 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 subsequently sustaining activity above the 4,425 and 4,450 weekly Oscillator thresholds was a sign of continued strength as they were still rising \$25 per week. As such, the Oscillator indications remain important after what was the ‘lackluster jailbreak’ after the previous outstanding US Employment report. With the market dropping back below the 4,450 level two weeks ago (on weekly MA-41 up \$25), there seemed to finally be some real risk.

Yet even below the key lower interim levels into the recent 4,425 area congestion and the 4,380-65 area bottom of that, it also held key lower support two weeks ago looking forward into last week. That bigger level was 4,340 on both weekly MA-13 (loosely held on all sharp reactions) into last week, and the significant aggressive weekly UP Channel from the major 2,174 March 2020 cycle low.

In the event, the recent late week recovery back above the 4,425 area pointed to the strength of the psychological recovery as well as exceeding the key technical resistance areas. That led to the new all-time highs last week above the previous week’s 4,476.50 trading high (prior to the temporary selloff.) That again left the near-term Oscillator thresholds into 4,495 and 4,520 areas this week (on the rising MA-41), rising to 4,520 and 4,545 next week... hence the importance of 4,520.

Also of note at this point is that into next week the extended (all-time high from last December) Oscillator thresholds will rise to 4,615 and 4,645. Those will then be right into the longer-term upside 4,621 'swing count' (see chart) based on the radical selloff extent into the major cyclical March 2020 2,174 trading low.

That seemed an awful long way off when the old February 2020 3,397.50 high was finally convincingly overrun in early November 2020 (on the Pfizer-BioNTech vaccine efficacy announcement), it is much nearer at hand now. This is why the nearer-term Oscillator thresholds remain important this week. For as far as the US equities have come, any sustained activity above them will leave the higher thresholds and that major swing count Objective as the only resistances.

Thanks for your interest.

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