
ROHR ALERT!! Reaction or Reversal?

1 message

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Dear Subscribers,

As noted in Tuesday's 'Slow Roll Risk-On' ALERT!! (repeated below for your ease of access), "*Markets have backed off a bit from the 'risk-on' psychology strength prevalent into the end of last week...*" As that has carried a bit further today, the question becomes whether this a reaction, or a more important trend reversal?

There are quite a few reasons to suspect it might be a reversal based on the still weakening 'rearview mirror' economic releases. That tendency has continued into this morning except for slightly better than expected Japanese GDP. It is also the case that outside of Monday's German Factory Orders and Tuesday's Chinese Trade numbers, the data has been roundly disappointing over the last two weeks.

So why wouldn't the markets be ready to anticipate more 'risk-off' than 'risk-on' where the recent, and presumed future, predations of the COVID-19 Delta variant seem to be at work? Well, for one thing, the shock of the Delta variant ripping through the US South and Southeast is finally making a difference in the relative anti-vaccination sentiment in those areas. Vaccination rates are quite improved.

However, as discussed previous, those near-term increased vaccination rates are not going to solve the problem insofar as they take up to a couple of months to achieve full protection. There is also the US problem of mask wearing having been highly politicized, with a major anti-masking faction refusing to cooperate in what many medical professionals consider a major public health necessity.

On the other hand (as also recently explored at length), the weaker economic data is supporting the 'doves' at the main central banks. They insist the extended economic drag from the Delta variant's impact requires continued QE. It is the case that yesterday the Reserve Bank of Australia confirmed this (see below), and just this morning the Bank of Canada also maintained its accommodative stance after holding its base rate steady at 0.25%. In fact, its accompanying statement (<https://bit.ly/3zPYmGZ>) notes "...low-wage workers – are still disproportionately affected" by Delta damage (much like Powell), and

projections suggest that its 2.0% inflation target will not likely be achieved until “...the second half of 2022.”

And then there will be the Fed’s Beige Book this afternoon to illuminate us on its thinking on the way into its major September 21-22 meeting (i.e. including all of the staff and member projection updates.) While this can change based on the additional interim economic indications, it is likely if the near-term ‘macro’ data releases remain weak, it will support the doves in their support for continued QE.

We can also only imagine that the ECB will maintain the near-term QE program support regardless of any talk of the need to ‘taper’ its efforts ‘at some point’. While there have been some adjustments to the various ECB programs over the past several months, these have all tended to support even more extended QE.

This then all gets back to what markets are saying about a potential sustained reversal of the ‘risk-on’ psychology, as after all they get the final word. The US equities have seen the September S&P 500 future early week test of the 4,545 higher of the two near-term weekly Oscillator thresholds fail. Yet at least so far on the selloff the market has held not too far below the 4,520 lower threshold. It has been the case for weeks the stallouts into the higher threshold have seen selloffs, yet without ability of the bears to sustain weakness below the lower threshold.

That is also going to make for an interesting indication through the course of the central bank influences, and return to international inflation readings. That is for China on Thursday, with German CPI and US PPI on Friday. Those are going to be interesting for the global govies that have been under more pressure again of late (in another nominal indication of the ‘risk-on’ psychology impacting them.)

That is going to be especially of note for the December Bund future, which just took over as front month Bund future on the expiration of the September contract at 12:30 CET today. The major 3.00 December contract discount is a sign of inflation anticipation, and leaves it not just below the 175.50-.00, but also below the 173.00-172.50 next significant support. That could point toward a test of the next major support in the 170.00-169.50 unless there is a recovery back above the 173.00-172.50 area (see the weekly chart for more <https://bit.ly/3BOoqCO>.)

While Germany is also facing a bit of a political shift, informed sources tell us that this is not as yet part of any fears for German interest rates. However, even if the weak Bund activity (recently the downside leader) is only on inflation fears, it speaks volumes on the degree to which inflation anticipation is now ingrained.

This takes us over to foreign exchange, where the weakness of the US Dollar Index over the past couple of weeks from its previous sustained strength has also supported the 'risk-on' psychology. That is insofar as it is a sign of no 'haven' bid in the greenback on fears elsewhere. That said, there might also be a bit of aversion toward the US dollar due to the country being so much more plagued by the Delta variant than previous, and compared to its European peers.

Yet at least so far, strengthening of the US Dollar Index this week only amounts to a reaction back up to a key failure level. That is the mid-August 92.70 major down channel UP Break (see the weekly chart <https://bit.ly/3tly0KH> for a view of that.) While the weakness back below that level last week was relatively nominal, it does shift the burden of proof back onto the bulls to reassert the up trend.

The mirror image trend on the EUR/USD weakening is that much more telling insofar as its squeeze above the key resistance is on a totally different technical pattern; even if concurrent with US Dollar Index activity. That is the inability of the EUR/USD bears to maintain the early August 1.1800 weekly Head & Shoulders Top DOWN Break (<https://bit.ly/3hac0xj>) despite a month of churning below it.

Of particular note, this also has EUR/USD back above weekly MA-9 and MA-13 in that same 1.1800 area. This intensifies the importance of that 'burden of proof' on bears attempting to reinstitute the 'risk-off' psychology that was still in place in foreign exchange (despite sustained US equities strength) until two weeks ago.

And it is much the same for emerging currencies, which were under even more pressure until two weeks ago prior to their current 'risk-on' resurgence. This is especially the case for the South African rand, which had seen USD/ZAR rally up through the mid-15.00 area. Yet since then it has dropped back below 15.00-.10, 14.80-.70 and even 14.40-.50 area to test the 14.20 next key congestion this week. While holding that, only back above 14.40-.50 would indicate any 'reversal'.

Courtesy Repeat of Tuesday's 'Slow Roll Risk-On' ALERT!!

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!! (we suggest a read if not done already), "*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.

This is the critical consideration

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 recent new all-time highs 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 4,545 and 4,570 next week... hence the importance of 4,545 now, especially after it was the rough trading high last week and again early this week.

Also of note at this point is that this 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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