
ROHR ALERT!! Two Down... Three To Go

1 message

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Dear Subscribers,

BoJ sees continued Japanese economic recovery, even though exports volumes are under pressure and (according to this morning's Reuters article) "...*weakness in consumption in July through August, when infection cases surged, was 'somewhat unexpected'.*" Sound familiar? It is the same mantra as heard from all of the central banks of late ...near-term pressure, yet still good future prospects.

Prior to that the first bit of expected yet still constructive news this morning was the PBoC holding its base rate steady at 3.85%, and also injecting another \$14.0 billion into its now weakening economy. Whether that was a direct response to the travails of China's Evergrande conglomerate is unknown. What is known, according to a very good Reuters article (<https://reut.rs/3hW4432>), is that the troubled firm negotiated a deal to avoid default on its yuan bonds due today.

It goes on to note what we (among other observers) have repeatedly noted on the lack of any potential for Evergrande's situation to trigger a global financial crisis. There is little chance of 'global financial contagion' when (as the article notes, "*Only some \$20 billion of \$305 billion outstanding debts is owed offshore, according to Refinitiv data.*" As such, Western banks' solvency is not at risk.

However, the psychological test for markets is not resolved based on Evergrande addressing its yuan-bond interest payment. As the article notes, it also still has "...\$83.5 billion in dollar bond interest payments due on Thursday." That is likely less amenable to whatever negotiation worked out on its yuan-bond payments.

With the PBoC and BoJ already factored into the market psychology, that is just two down and three to go. We are now focused on the FOMC rate decision and updated economic projections this afternoon (14:00 EDT), and Fed Chair Powell's press conference 30 minutes later. As important as the Fed's influence may be, the extended influence of the Evergrande situation into Thursday along with the SNB rate decision followed by the (somewhat more important) BoE decision and statement means the overall market trend decisions will evolve into tomorrow.

While there is every expectation SNB and the BoE will remain accommodative under current circumstances, there has been some talk of the Fed moving toward a more active QE 'taper' discussion. That is reasonable within the current sustained inflation environment, even if it is expected to ease into next year. There was more on that in Tuesday's 'Compressed Rout and Recovery' ALERT!! (repeated below for your ease of access.) In essence, all of the central banks remain stuck in the COVID-19 Delta variant versus the elevated inflation switches.

As far as the market activity into midweek, the US equities are obviously shaking off the sharp 'risk-off' selloff reaction to the initial Evergrande news coming in from the weekend. That is obvious in the December S&P 500 future resilience in not Closing much below the key 4,348 mid-August reaction low, even though it traded so far below it on Monday before its late session recovery. Along with the newly established 4,410 major channel DOWN Break, that will remain important into the end of this week... subject to Evergrande and central bank influences.

Monday's price swings in the other asset classes were less pronounced, and so are the counterpoint reactions at present. Previously suffering global govies had a very nice 'risk-off' bounce, yet not anywhere near key higher resistances. It was also the case that developed currencies did not see the US Dollar Index strengthen any further this week after last week's push back above its previously

Negated 2.70 major down channel UP Break. Yet as the weekly continuation chart (<https://bit.ly/3tZLcFp>) shows, that has stalled again only up into the key 93.43 late-March trading high, where it also stalled in both July and August.

That is also a reflection of the weakness of EUR/USD back below its nominally Negated 1.1800 Head & Shoulders Top DOWN Break. However, here as well there is a further 'proof in the pudding' on whether it also fails the important 1.1700 area late-March trading low, which it loosely held back in mid-August (as seen on its weekly continuation chart <https://bit.ly/39mpRwa> updated through Monday.)

While each of these is a nominal 'risk-off' indication on the return of a US dollar 'haven' bid, they each need more follow through to reinforce that. If not, they are also just possibly the bears 'last hurrah' prior to a return to 'risk-on' psychology.

Emerging currencies are more of a country affair at present, which is somewhat heavily influenced by the energy market activity. That leaves USD/ZAR strong again above 14.20 and also pushing above 14.40-.50 into the 14.70-.80 area. However, USD/MXN is less weak on its push back up from 19.80 to somewhat above 20.00, yet not even testing the 20.25-.30 area. And the energy-centric Russian ruble has seen USD/RUB still stuck in lower 73.00-72.50 area support.

Courtesy Repeat pf Tuesday's 'Compressed Rout and Recovery' ALERT!!

As noted in Monday's 'Risk-Off Rout' SPECIAL ALERT!!, there were key US equities price levels below which there would be further immediate weakness. While that is indeed what transpired, the December S&P 500 future late session recovery actually left the market back up in the area of that violated key support.

This is most interesting in the context of the broader perspective also shared on Monday regarding the lack of any reason for a sustained major US equities (and general 'risk-on' psychology) reversal at present. Especially noted in Monday's 'Risk-Off Rout' SPECIAL ALERT!! (we suggest a review of that) were the reasons why the Chinese conglomerate Evergrande's problems (and possibly some among its peers) were not cause for 'global financial contagion' concern.

There was also some very good news on the potential address of the COVID-19 pandemic, that is not as immediate as the current worries over the situation in China, or the more general concerns on supply bottlenecks and stubborn global inflation affecting all businesses. And there was a further typically thoughtful and thorough review of the prospects for the global economy early this morning.

That was the Organization for Economic Cooperation and Development's (OECD) Interim Economic Outlook (<https://www.oecd.org/economic-outlook/>), which also has a link to the press conference along with its PowerPoint presentation. It is very encouraging that OECD still sees the situation as one of continued growth, even if somewhat slower in 2022. This is similar to many other assessments that see bottlenecks and inflation as problems that will ease into next year, and the overall COVID-19 pandemic impact being addressed across time. It once again gets back to 'The Longer View' psychology maintaining a 'risk-on' psychology.

Even after Monday's major US equities selloff, the psychology remains the same for the balance of the week into significant central bank activity (see below.) Greater sustained US equities failure looked assured around midday Monday on the extensive December S&P 500 future weakness below the front month future mid-August pullback 4,348 trading low. Yet the late session recovery left it back up in that area. As expressed on Monday, the real test will be whether it Closes the week below that area, which is going to be most interesting.

That is due to the looming impact of central bank decisions and statements (and press conferences) on Wednesday (PBoC, BoJ and FOMC) and Thursday (SNB and BoE.) While stubborn COVID-19, remaining product sourcing issues and inflation headwinds are significant, the degree to which they weaken the interim economic outlook also empowers continued central bank accommodation. So it will be interesting not just to hear what the central banks have to say, yet also how the markets respond to what is most likely to be continued accommodation.

Particularly of note on this week is the lack of anything more than a partial recovery of global govies after the recent rout (especially in the Gilt and Bund.) There is also the return of the near-term US dollar 'haven' bid, which we discussed in Monday's ALERT!! as well... will it continue?

Courtesy Repeat of Tuesday's 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/3Cv1TLF> updated through Monday.) 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 4,380-65 area bottom of that, it also held key lower support in mid-August looking forward into the following week. That bigger level was 4,340 on weekly MA-13 (loosely held on all sharp reactions) at that time, 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 4,515 and 4,540 areas last week (on the rising MA-41), which it failed to maintain two weeks ago, fomenting the reaction.

This led to the violation of the 4,492 interim daily chart congestion after trading around it previous, with the more prominent 4,462 area also being violated two weeks ago. And while it traded back above that as well early last week, recent softening below it spoke of an ability to trend lower in the near term. That left the more major 4,420-10 area as next support on both weekly MA-13 as well as that significant aggressive weekly UP Channel from the major March 2020 low.

Having tested that area into last week's Close and violating it from the very beginning of this week was a fresh 4,410 DOWN Break. That fed further weakness which was already anticipated from the negative fundamental influence flowing out of China. As usual there is a Tolerance below that (as seen on selloffs in both June and July) down to the 4,350 area lower congestion developed during the temporary July topping activity, and retested on the mid-August sharp temporary reaction to a 4,347.75 trading low. While that may seem to be a broad berth, on past form only below the 4,350 area does the market signal a full reversal.

Yet as always with these matters, the weekly Close will be more important than temporary trading weakness below it. At least so far the December S&P 500 future has held against interim low-4,300 support, yet with the more major support not until the 4,250-25 May-June congestion. That includes a couple of subsequently violated weekly DOWN Closing Price Reversals as well as the significant 4,224 mid-July sharp selloff trading low. Hence the importance of the 4,348 decision later this week on the near-term US equities prospects.

Thanks for your interest.

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