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ROHR ALERT!! Growth Hitting Its Head

1 message

ROHR Alert <rohralert@gmail.com> Tue, Oct 12, 2021 at 11:34 AM
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Dear Subscribers,
There's quite a bit to unpack on the way back in from Monday's US Columbus Day holiday and Canadian Thanksgiving. There was of course US electronic trading as well as the NYSE trading floor open on Monday, and that seemed to all back up our view that there is more of a 'risk-off' psychology at present than seen in quite a few months. The reason behind that was revisited again in Friday's extensive 'US Employment Trend Push' ALERT!! (repeated below for your ease of access.)

Most of all is the sustained inflation that is nowhere near as transitory as the Fed and other central banks would have liked. The latest shot across the bow of more sanguine, accommodative central banks has come from the Bank of England that is particularly burdened by extreme UK energy price surges and shortages. In a Reuters article over the weekend (https://reut.rs/3mGzVq6) BoE policymaker Michael Saunders is quoted as telling households to get ready for "*significantly earlier*" interest rate rises as inflation pressure mounts in the British economy.

The article also notes that, "(he along with) *Deputy Governor Dave Ramsden voted to halt the BoE's government bond purchases ahead of schedule*." It is the equivalent of FOMC members bucking Chair Powell's 'it will calm down next year' narrative to push for an early QE taper. Yet in this case it comes along with an explicit warning the first BoE hike (not on the table at the Fed) is already being priced in by the markets for February, with a chance it might come in December.

Given that, much the same as for the rest of the world, the driver for that higher inflation is energy prices, it is worth noting the Evolutionary Trend View for WTI Crude Oil. For quite a while we have noted the importance of the front month Crude Oil future resistance from historic congestion and the May DOWN Closing Price Reversal (CPR) in the low 75.00 area. While that had a Tolerance of the 76.22 level, the trading highs both this year and into the October 2018 high being just below 77.00 area left that as the overall key resistance. Having exceeded that last week, next historic resistance is not until the 2010-2013 84.00-86.00 congestion.

This is a problem on there being no expectation that energy prices are coming down anytime soon. Producers who were burned by the 2020 price implosion being quite a bit more cautious about expanding production (and also enjoying the current great profitability.) A forward outlook on how this is affecting also surfaced today in the form of the next monthly release of the Organization for Economic Cooperation and Development's (OECD) Composite Leading Indicators (CLIs https://bit.ly/3lAvuxW for our somewhat heavily marked-up version.)

As the title of this net four month outlook (six month view delayed by two months to confirm data accuracy) says, "*CLIs continue to point to a moderating pace of expansion in economic activity*." While it notes the current leveling off is mostly at above trend levels, these appear (see the graphs) to be the classic growth tops which lead to at least temporary weak economic phases. Note that Russia continuing to rise is likely a subset of the sharp energy price increase, having little to do with the contrary effects on the rest of the global economy.

And our concerns over the Asian economy were reinforced over the weekend by the Saturday posting of the very timely PBoC Q3 Entrepreneur Survey Report (https://bit.ly/2YKbm32.) This shows the degree of slowing in the entrepreneurial aspect of the Chinese economy, reinforcing recent trade and sales figures and the weight of recent government headwinds. While year-on-year comparisons with 2020 still seem upbeat, this is against one of the pandemic recovery periods.

As noted again Friday, "...*as far as the US equities have come back on the ostensible 'relief rally' with the December S&P 500 future back above the 4,348 area, it is only up around the 4,410 significant weekly channel DOWN Break*…" (see the chart as of last Friday's Close https://bit.ly/3IuzmAm.) That was also congestion from the August-September topping activity, reinforced by 4.427 weekly MA-13. That was therefore only a partial recovery from the previously noted 'Risk-Off Trend Evolution', and weakened again later on Monday. Back in the 4,350 area leaves that as the important interim level this side of 4,300 area.

Last week's Closes were also pernicious for global govvies which had tried to hold on against the previous week's key low levels. Most important was the December T-note future back below the low end of its 132-00/131-16 support, and even the 131-07 trading low from the previous week. That opens the door to a test of the 130-00/129-16 congestion not reached during the February-March selloff. Also important were the failures in the Bund and Gilt into the end of last week.

It is much the same for the foreign exchange loss of any 'risk-on' psychology. There is only a partial, selective recovery in emerging currencies, and the other developed currencies are still weak against the recently revived 'haven' bid in the US dollar. However, the improved psychology from any temporary US debt ceiling deal seems more the relief of an immediate stressor than any reason to look for a more upbeat overall psychology, as the 'macro' picture remains weak overall.

Courtesy Repeat of Friday's 'US Employment Trend Push' ALERT!!
This morning's US Employment report was definitely a shocker on the Nonfarm Payrolls (NFP) rising only 194,000 versus estimates in the 500,000 area. It is in fact a mixed blessing despite the headline number's weakness. In the context of our Thursday 'Debt Relief' ALERT!! view that a very strong number might have been a case of '*good news is bad news*', that is definitely not happening today.

To pick through the various subsets in an orderly fashion, the August NFP was also revised higher by 131,000 to 366,000. There were also 317,000 private payroll jobs added, and the headline number was dragged down by the loss of 123,000 government jobs. And most curious on that front is the loss of 144,200 local education jobs!!? (see highlighted table https://bit.ly/3FulNsz extracted from Table B-1 on page 33 of the report https://www.bls.gov/news.release/pdf/empsit.pdf.)

This makes no sense, as the prime job commencement period for local education is August into September. We have heard some folks attribute this statistic to a typical Bureau of Labor Statistics 'seasonal adjustment', whereby the extreme lack of 2020 hiring due to the pandemic has affected this year's figure. In any event, the degree to which US equities are not weakening anywhere nearly as much as a second month in a row of weak NFP might suggest speaks of the degree to which the markets are not taking that number too seriously right now.

There is also the 'Fed Factor' of that second month in a row of weak NFP seeming to justify the Fed remaining more accommodative than otherwise, if it had been a very strong September NFP. A 'Goldilocks' number might have been along the lines of a slight miss of low-400,000 area against that 500,000 estimate. It would have provided more encouragement toward still strong growth that today's NFP definitely did not accomplish. And there are also some negatives in the subsets.

The 0.6% monthly Hourly Earnings versus an 0.4% estimate raises fears for wage inflation once again. While we have heard some analysts say this is a positive sign on the ability of consumers to keep up with rising prices, it is also a negative in the context of inflation expectations. That is turning up in further weakening of the global govvies. As reviewed in Thursday's ALERT!!, the December T-note future was back below the low end of its 132-00/131-16 support, testing the 131-07 trading low from last week… and barely hanging on at that level si far today.

December Gilt future continues to lead the way down on sustained UK inflation concerns, especially elevated energy prices. Having wiped out its mid-126.00 historic congestion early last week, it is back down to the low key 124.00 area it had bounced from on Wednesday. Next interim congestion is in the 123.00 and 122.00 areas, yet with the major low end of the full 2018 range not until 120.00. The

December Bund future is also below the low end of its 170.00-169.50 support, after holding it since early last week yet failing on the bounce around 170.00.

All of this global govvies weakness points toward the sort of higher yields which were pernicious into last week prior to the substantial US equities bounce, and modest improvement in both emerging currencies and to a lesser degree developed currencies against the US dollar. After that recent bounce, the lack of any further upside follow through in those items seems to speak of continuation of the 'risk-off' psychology we have noted of late. Somewhat confusing subsets of today's US Employment report may leave the markets in a 'push' into next week on any bigger Evolutionary Trend View decisions on key economic data.

That includes quite a bit of developed economy inflation data, and the Chinese Trade Balance and inflation data next Wednesday and Thursday (respectively) as they return from this week's Golden Week holiday. Speaking of holidays, Monday is both the US partial market closure (i.e. trading floors other than NYSE) for Columbus Day, and Canadian Thanksgiving day... making it more interesting.

Courtesy Repeat of Thursday's 'Debt Relief' ALERT!!
We are of course not referring to any debt being forgiven, but rather the surprise turnaround in Republican Party resistance to providing Democrats any breathing room in fraught efforts to raise the US debt ceiling. Minority Leader McConnell came to Majority Leader Schumer Wednesday with the offer of a temporary debt ceiling hike, which would tide the government over until early December. Yet it is clear this 'olive branch' from McConnell was in no way any actual agreement with Democrats' aims, as noted in today's Reuters article (https://reut.rs/3oHxW7I.)

He is still insisting that they develop any major debt ceiling increase on their own, with Senate Republicans still filibustering any attempt to pass a hike on a simple majority vote. As noted in Wednesday's 'Risk-Off Trend Evolution' ALERT!! (repeated below for your ease of access), any requirement the Dems instead pass it through 'reconciliation' would cost them quite a bit more time and effort. That would effectively accomplish what many feel is McConnell's real purpose (see Wednesday's analysis) of distracting them from their goal of passing Biden's major 'social infrastructure' plan. That amounts to an immense dual burden.

And as far as the US equities have come back on the ostensible 'relief rally' with the December S&P 500 future back above the 4,348 area, it is also only up around the 4,410 significant weekly channel DOWN Break from two weeks ago (see the chart as of last Friday's Close https://bit.ly/3FkeW58.) That is also congestion from the August-September topping activity, reinforced by 4.427 weekly MA-13. This is therefore only a partial recovery from the previously noted 'Risk-Off Trend Evolution', pending whether it can indeed recover well above the low-4,400 area.

It is much the same for the foreign exchange loss of any 'risk-on' psychology. There is only a partial, selective recovery in emerging currencies, and the other developed currencies are still weak against the recently revived 'haven' bid in the US dollar. However, the improved psychology from any temporary US debt ceiling deal seems more the relief of an immediate stressor than any reason to look for a more upbeat overall psychology, as the 'macro' data still has some weak notes.

Both year-on-year German Industrial Production and Italian Retail Sales were much weaker than expected. And US Challenger Job Cuts were elevated again despite Wednesday's improvement in the ADP Employment Change. The latter bodes well for Friday's US Employment report, projected to gain nearly 500,000 jobs after a disappointing 235,000 gain in August. It's going to be interesting.

That is also because the global govvies remain under pressure despite slightly weaker macro data. That is on an incipient 'stagflation' perspective, which allows for sustained high inflation despite any weakening of the global economy. It is therefore also possible that any strong US Employment report Friday might also be a classic case of '*good news is bad news*'. After sagging below the low end of its 132-00/131-16 support into the middle of last week, the December T-note future bounced slightly above the top of it early this week. Yet despite the recent weak macro data, it is back to the low end at

present. Any sustained weakness back below it late this week would indicate a resumption of the overall yield surge.

December Gilt future continues to lead the way down on sustained UK inflation concerns, especially elevated energy prices. Having wiped out its mid-126.00 historic congestion last week, it did manage to rebound from the low 124.00 area this week. Any sustained weakness below that area points to interim congestion in the 123.00 and 122.00 areas, yet with the major low end of the full 2018 range (it is already sagging into) not until the 120.00 area (weekly MA-41 minus 9.00!!)

Yet the other issue we highlighted of late is the travails of the Chinese property market, both outright performance and its extremely fraught financial position. See previous analyses repeated below for more of our recent assessment along with links to external information sources citing the degree to which this problem goes well beyond the Evergrande debt and interest payment problem. On top of that there are potential extended effects back into the Chinese economy, which include classical dispersed sources of funding for the local governments as well.

This is highlighted in this morning's Reuters article (https://reut.rs/3iGXFsT) on the knock-on effects of what are now weaker land sales. While there was always a sense that the Chinese property market would need to cool off at some point, the fact the central government is leaning into it at present makes this the inflection point where lower expectations are now ingrained into the market. And that is likely to hurt funding for local governments which are dependent on those sales.

This central government mucking with the real estate market is reminiscent of US government tax reform in the mid-1980s: the Tax Reform Act of 1986 ('TRA86'.) This was not necessarily an overall negative act in its own right, as it lowered the top marginal tax rate from 50% to 28% (see the WIKI https://bit.ly/3oH4qic.)

Yet note the section slightly below the halfway down in that WIKI on 'Passive losses and tax shelters'. As the article notes, "*This contributed to the end of the real estate boom of the early-to-mid 1980s, which in turn was the primary cause of the U.S. savings and loan crisis*." Not noted in the article is this was applied retroactively (!!) to all passive investment; This meant elimination of deductions from previous investments, leading to a dearth of real estate investment.

That in turn led to major property price declines from what had previously been unrealistically elevated levels. Across time the weight on the economy from the extended effects (weaker construction and local business receipts, less general investor spending, etc.) of weakness in this important sector translated into the long 1989-1991 US recession (see the St. Louis Fed graph https://bit.ly/3oCiyJH.)

That took some time to develop, as the full impact of 'TRA86' was not necessarily immediately clear, due to many developers, real estate syndication firms offering 'tax advantaged' investments and investors trying to minimize the net effect. Yet it is that much more apparent in the Chinese property market due to the high profile offshore borrowing by the sector. Might this be mitigated by some sort of central government bailout? Possibly. Yet that would fly in the face of President Xi's current drive to equalize what has been lopsided wealth accumulation into the next major Chinese Communist Party Congress just one year from now.

That is compounded by the degree to which so much of the Chinese middle class has quite a bit of its wealth, and some degree of its current well-paid employment, tied into the Chinese property market and its developers. That said, any bailout which seems to rescue the wealthy senior managements of these companies is not likely an acceptable alternative, leaving quite a bit of risk in their economy.

Yet in the wake of the temporary US debt ceiling deal, removal of that near-term stressor leaves the immediate fate of markets with how they respond to Friday's US Employment report (and to a lesser degree its Canadian counterpart.) In case the numbers are as strong as the ADP Employment Change and US Weekly Initial Jobless Benefits Claims indicate, we suggest close observation of the global govvies for any sign of a '*good news is bad news*' psychology taking hold.

Courtesy Repeat of Previous critical consideration (updated chart)
[To be fully updated after Wednesday's German and US CPI]
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/3luzmAm 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 remained important after what was the 'lackluster jailbreak' after the previous outstanding US Employment report. With the market dropping back below the 4,450 level (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 (on the rising MA-41), which it failed to maintain in early September, 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 the Close three weeks ago and violating it from the beginning of last 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 trend reversal.

Yet as always with these matters, the weekly Close was more important than temporary trading weakness below it. And the December S&P 500 future held overall against interim low-4,300 support, and ended the week back above the low 4,400 area. The extent of the temporary selloff means that it needed to be treated as a 4,410 weekly up channel DOWN Break. Yet that also means the Close back above it established it as a Negated DOWN Break, and therefore a support area. That is also consistent with weekly MA-13 moving up to the 4,430 area this week.

That said, the 4,348 area had reverted to the key support again last week on renewed pressure. And much like previous, it was temporarily violated early last week. The difference is that the daily 'trend flow' is a bit different, where the previous week it was seriously violated on Monday and churned around it on Tuesday prior to recovering so well. Last week it slipped on Tuesday, and was churning around ot early Thursday with much less slippage.

Yet it ultimately failed even worse than the previous week, and the late week Merck news only left it retesting that failed 4,348 support. The lower supports are into the 4,235-00 range May-June congestion it surmounted in late June. If that should fail to hold, there is also prominent congestion back into the low-4,100 area, with weekly MA-41 in the mid-4,100 area along the way.

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