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ROHR ALERT!! Beige is the New Red Hot

1 message

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Dear Subscribers,

Well, Wednesday afternoon's Fed Beige Book (<https://bit.ly/2Z9W8EK> for our PDF page 5 National Summary markup) disappointed neither those expecting more economic strength, nor those concerned about inflation and the supply chain bottlenecks that are driving it in some significant measure. It is on one hand a typical economic rebound phase situation, yet more troubling in the degree to which some Fed Districts are "*...expecting price (sic) to remain high or increase further while others expected prices to moderate over the next 12 months.*"

Higher still? From the current US annualized 5.4% CPI rise? That would not be good for the Fed's 'patient' approach, and many believe it is already significantly behind the curve. The Beige Book Summary also noted, "*The majority of Districts reported robust wage growth.*" With that contributing to higher costs in addition to the materials shortages, there is a looming threat of the 'wage-price spiral' we have cautioned was the driver for the rampant 1970s 'inflation expectations'.

While it is too early to confirm that has officially occurred, the prospect of continued inflation based on elevated energy prices (which filters through in many ways into all products) and further wage increases raise the spectre of 'stagflation' not seen since the 1970s. That is a term which has been resurrected at various points along the way, yet never seeing it in its full blown form.

However, as pointedly noted in Wednesday's 'Mixed Inflation Indications' ALERT!! (repeated below for your ease of access), "*...the headline efforts to improve the US ports situation are not going to be an 'instant' remedy.*" While there have been some modest changes to begin to address the problems, those also include the inland aspect of the issue. That will require the expansion of the truck driving and warehousing work forces, which is not easy to accomplish in the near term as it requires both intensive training and employees willing to take on those tasks.

All of that effort to attract more employees to engage in those strenuous and at times dangerous jobs will require the same changes seen at the low end of the service economy labor market: much higher wages, even for roles like food service and retail workers. The Beige Book noted, "*The majority of Districts reported robust wage growth.*" Regardless of how much folks are impressed with the recent return of 'risk-on' psychology to US equities and other asset classes, the recent and continued wage increases are what is 'red hot' right now.

As noted in Tuesday's 'Not Much New to Say' ALERT!! (also repeated below for your ease of access), "...surprisingly strong Q3 corporate earnings reports this month..." have underpinned the bullish sentiment in US equities as well as the general return to an upbeat global 'risk-on' psychology. Yet as wages continue to climb along with inflation on other inputs, there is question over how long the 'risk-on' psychology and higher earnings expectations can continue. That said, the late year positive seasonal is about to begin again, and that is likely to inspire US equities buying from the end of this month... also a 'hot' influence now, even if subject to being cancelled if the holiday season seems weaker than expected. Some projections are for lower-middle income families to cut back this year.

It is also going to be very interesting to see how the Beige Book positive overall sentiment that includes inflation and labor problems plays out in Friday's global Advance PMIs releases. The estimates are already for some weakening in Europe and the UK, with a mixed picture in the US. In addition to being the last major economic data this week, those are going to be a very interesting bellwether for whether the sentiment among manufacturers is remaining healthy on balance.

Courtesy Repeat of Wednesday's 'Mixed Inflation Indications' ALERT!!

This morning saw mixed inflation indications in what are some of this week's most important 'macro' influences. In order of appearance the UK CPI was a bit lower than expected, yet with a curious uptick in the Retail Price Index. It also saw mixed Producer Price Index indications. However, German PPI was quite a bit higher than expected prior to the as expected Euro-zone CPI. And then Canadian CPI was higher than expected. All of that said, the global govies are just a bit higher today (i.e. lower yields), reflecting the same sort of reaction seen after the recent in line US and German CPI on a "sell the rumor, buy the fact" reaction.

Now we await the Fed Beige Book this afternoon (14:00 EDT), with its likely signs the US economy remains in good shape overall despite the stubborn weakness at the low end of the labor market. On one hand, that is likely part of the reason the US equities have been able to shake off the headwinds we had noted in Tuesday's 'Not Much New to Say' ALERT!! (repeated below for your ease of access) and other recent analysis (some of which is also repeated below for your benefit.)

This is also the case for emerging currencies remaining strong, even if on a 'country' basis with the Turkish lira still lagging. The less dynamic developed currencies are holding their recent modest bid, even if that still only has the weakening of the 'haven' US Dollar Index rally only reacting back down from its test of 94.35-.72 to the important 93.70 area over the past week. It all speaks of the return to a 'risk-on' psychology noted since last week's US equities strength.

However, as we always note, it takes three different headwinds to reverse any sustained 'risk-on' psychology in US equities... and that still seems to be the case at present, which makes sustained improvement somewhat problematic. There are the higher yields, which have no reason to reverse based on inflation indications and still stimulative central banks. While we have noted the recent releases being in line with estimates have fomented near-term upside reactions in bearish global govies, overall inflation levels are well above central bank targets.

The second headwind is the stubborn resilience of the COVID-19 pandemic, even if there has been some improvement in the under-vaccinated US of late. As noted on Monday, "...new US COVID-19 infections have fallen. Yet that is in the context of extreme levels seen as recently as early September, with the 50% drop being to around 90,000 from a peak of

near 180,000. Not really very good yet, and in the further context of new vaccinations remaining comparatively low.”

Even with continued steady improvement, US vaccination rates have fallen quite a bit overall with the level of full vaccination only reaching 57.6% of late. It is still a risk factor as we head into colder Winter weather over the next sixty days out into the next three months. For perspective, Dr. Anthony Fauci has consistently said throughout the pandemic that until US new infections drop below the 10,000 level there is a risk of the pandemic resurging. This is also an economic risk, even if some will promote the idea any quarantine will drive more goods sales, much as what transpired during the early pandemic into this past Summer.

As a sign this can also still impact the international economy, Russian President Putin just ordered a “Week Without Work” to combat the most recent rampant outbreak over there. With the problems already apparent in the supply chain out of China, there is the risk that any resurgence there will lead to more trouble. Clearly the third headwind into ‘risk-on’ is slow delivery of Asian goods into US West Coast ports. The necessary yet rigid Chinese regional quarantines were at least partially responsible. As we have already reviewed, the headline efforts to improve the US ports situation are not going to be an ‘instant’ remedy.

As such, the December S&P 500 future serial push above 4,400-10 and its 4,435 Tolerance led to the violation of the 4,470 late-September rally high. It has now also recovered back above the modest 4,510 early-September congestion, which only leaves the early September 4,549.50 front month S&P 500 future all-time high as resistance. As noted on Tuesday, the key weekly Oscillator thresholds for the next levels are up into the 4,625-50 area (also in line with the major ‘swing count’.)

Tuesday’s note also explored key Evolutionary Trend View (ETV) considerations for the overall trends and key price levels for global govies. We suggest a review of that for potential important reactions there and in foreign exchange after this afternoon’s Beige Book. Could this end up a ‘*good news is bad news*’ impact?

Courtesy Repeat of Tuesday’s ‘Not Much New to Say’ ALERT!!

Given the lack of economic releases, there is literally not much new to say today after Monday’s ‘Incremental Risk-On Shift’ ALERT!! (repeated below for your ease of access along with other previous research.) That said, current economic data continues to disappoint, which makes the return of the ‘risk-on’ psychology at this time rather ironic. Is this classic ‘*bad news is good news*’ on the likelihood central banks will remain more accommodative than recently anticipated?

Well, we might know more about that tomorrow afternoon on the Fed’s Beige Book release in anticipation of the November 2-3 FOMC meeting. Yet prior to that there will be a major array of inflation numbers released from the Euro-zone, the typical full UK monthly indications for CPI, PPI and RPI along with Canadian data as well. This is particularly important at this time after the global govies have demonstrated last week’s rally was temporary, returning to weakness late week. That has spilled over into a fresh front month T-note future 20-month trading low below its early-April 130-255 level, with 130-00/129-16 always more important.

That implies a yield push back up to the 1.74% last seen at the end of March. However, in the context of the significant August 2019 through February 2020 range, the more major support is not until the 128-00 area, which might imply a push to a new 22-month high yield above 1.74%. The next yield threshold is the 1.93% last seen in December 2019. Why is this

so important to the renewed 'risk-on' psychology? Quite simply because prominent supply chain problems and elevated energy prices still represent a headwind for the global economy.

Also of note on the global govies is the December Gilt future weakening right back to the 124.00 historic congestion. That is the exact Close from two weeks ago, and after trading below it early last week it left a weekly UP Closing Price Reversal (CPR.) Yet if that were to be quickly Negated on a weekly Close below that level this week, it would point to next support that is until the 122.00 area.

That is in the context of its 10-year cash yield of 1.15% already at a new 28-month high, and the previous threshold being around 1.50% from 2017-2018. The front month Bund future is already below last week's minor 169.22 UP CPR, and once again nearing its 168.00-167.50 historic congestion. While only trading around its 168.29 May low last week and this week, if it manages to crack 168.00-167.50 the next support is not until around the 166.50 area. As such, Wednesday's inflation numbers loom large, with not much else in that vein for the balance of the week.

However, even with this week's return to higher yields after last week's temporary reactions, the US equities and foreign exchange are demonstrating more of that restored 'risk-on' psychology. The December S&P 500 future above the 4,435 Tolerance of the 4,400-10 resistance is continuing to rally. It is now strong in exceeding the 4,472 late-September previously failed rally trading high. That leaves those lower levels as support, and with only the 4,510 September congestion along the way points to a possible test of the early-September 4,549.50 all-time high. That is also now a key weekly Oscillator threshold, with the next levels up into the 4,625-50 area (also in line with the major 'swing count'.)

The developed currencies rally is a bit subdued insofar as the US Dollar Index has only reacted back down from the 94.40-.70 range to the lower key 93.70 congestion so far on weakening of the previous 'risk-off' US dollar 'haven' bid. And while the emerging currencies remain a 'country' affair (with the Turkish lira still under pressure), recent interesting recoveries of the South African rand and somewhat weaker Mexican peso speak of the return of the 'risk-on' psychology.

And all of that is also underpinned by surprisingly strong Q3 corporate earnings reports this month. The question then becomes whether those reflect the lower inflation and yields which were prevalent last quarter, and can that continue into supply chain problems and higher inflation. The latter is based on energy prices which only extended gains as of the beginning of this quarter two weeks ago. There is also little expectation either of those influences are going to abate any time soon (regardless of what some politicians might be saying or hoping.)

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/3vldECh> 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 three weeks ago. And while it subsequently traded back above that as well, 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 mid-September Close and violating it from the beginning of the following week was a fresh 4,410 DOWN Break. That fed further weakness which was already anticipated from the negative 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 of late 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, with last week's rally back above the low-4,400 area. Holding above the 4,430 area Tolerance of the 4,400-10 resistance for a weekly Close also above weekly MA-9 and MA-13 in the 4,435-45 area looks more bullish again. It indicates a 'risk-on' sentiment once again.

The next higher resistance was at the 4,472 late September trading high from which it previously dropped to the 4,300 area. That being exceeded on Monday's Close was a further strong sign, which has not surprisingly led to the December S&P 500 future also pushing above the next minor early-September congestion in the 4,510 area. That only leaves the early September 4,549.50 front month S&P 500 future all-time high as resistance. The key weekly Oscillator thresholds for next levels are up into the 4,625-50 area (also in line with the major 'swing count'.)

Thanks for your interest.

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