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ROHR ALERT!! The Biden Bipartisan Bonanza?

1 message

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Dear Subscribers,

In Friday's 'Synergistic Breakthroughs' ALERT!! (repeated below for your ease of access), we explored the synergistic nature of the Pfizer announcement on its high efficacy COVID-19 self-administered therapeutic pill even prior to the strong US Employment report. See below for the full review. In the event, the US equities were already up into a new all-time high prior to the release of a US report that was better than already elevated estimates... complementary 'risk-on' forces.

However, even all of that might have been influenced by the degree to which the US House was very likely to finally pass the bipartisan infrastructure bill, which had already passed the Senate back on August 10th. While it did not pass until after markets closed on Friday, we suspect anticipation made this the third leg of a 'risk-on' stool which boosted 'risk-on' market sentiment during the day.

Many questions remain over why the Progressives in the House did not see the advantage in passing this additional \$550 billion of spending over the next 10 years sooner, despite wanting their 'social infrastructure' bill to be passed at the same time. The 'received wisdom' is that some of them saw the degree to which the Democratic Party bickering was weighing on their electoral prospects, as was already reflected in much weaker liberal voter turnout in recent off-year elections.

Whatever the case may be, some components of that bipartisan bill may be contributing to the US equities sense of euphoria. That is because there is now a sense that the worst effects of the COVID-19 pandemic will be suppressed in the future, which may solve the conundrum of major employee resistance to the current vaccine mandates (much more on that Friday as well.) At the same time, the US economy may be seeing more sustainable near-term earnings potential.

This is a major '*good news is (indeed) good news*' for a change. Yet the fly in the proverbial ointment is the question over why the global govies should have seen such a sharp rally if indeed the other 'synergistic' factors are creating so much stronger an economy in an already inflationary environment? As noted on Friday, there seems only one way to view it in the context of that "*...should be weighing on global govies. The only squaring of that circle might be that the therapeutic developments might assist in clearing the supply chain congestion, due to more workers being available once the COVID-19 concerns are more fully addressed.*"

The Pfizer therapeutic (and potentially others to follow) eliminating much more of the workplace or schoolroom risk of COVID-19 may free up more of the workforce, which could buffer some of the current upward pressure on wages. However, the greater inflationary influence over recent months has been the very significant port congestion. That will not be solved by the additional tonnage coming on line in 2022 Madame Lagarde mentioned at the ECB press conference.

The US bipartisan infrastructure bill's major spending also does not provide any near-term inflation relief. The bill expends \$42 billion on airports, waterways and port infrastructure, and invests \$110 billion in roads and bridges. Yet that does not occur by magic wand, as it takes quite a bit of time to deploy federal funding.

So with neither immediate inflation relief from the employment aspect of the Pfizer therapeutic nor the extended spending on the ports, roads and bridges (as also noted Friday), *"It is counterintuitive, to say the least, that the December T-note future is back up near the 132-00 area, with the Gilt well above 126.00 and Bund above 169.50-170.00."* It would seem those who are hopeful on the US bipartisan bill being counter-inflationary have the cart out in front of the horse.

In the first instance is it adding fiscal largesse just as central bank largesse is being reduced, which is sensible in the broader picture. Yet it will not weigh on an economy which is already recovering nicely from the recent pandemic dip on the Delta variant impact over the Summer. Possibly the weekend has given the global govies a chance to reconsider their wild end of week rally. The December T-note future is a half point back below the 132-00 area. While the Gilt and Bund have not weakened as much, that may be due to the current European COVID-19 surge.

As far as what to look for next in US equities, this was also noted at the end of last week regarding the higher front month S&P 500 future Oscillator thresholds. Those stand as the outlook into any further rally. We have updated them for this week based on weekly MA-41 now rising \$25/week once again. The next (ultimate) thresholds this week are from back near the top of the rally in December 2020, at 4,755 and 4,785. As such any sustained escape above the 4,685 and 4,710 area current thresholds at the end of this week points to 3,780 and 3,810 this week.

Of note, along the way is the major 'topping' line from the 3,587 August 2020 high across the 4,232 May 2021 high and the 4,550 August 2021 high into the 4,740 area this week. That is a 'delimiter' on any attempt to escape the low 4,700 area..

Similarly in foreign exchange, the US Dollar Index is maintaining its recent bid without having retested (much less failed below) its key 93.70 area. This is a reflection of weakness in the other developed currencies, and most especially the euro that may also be related to the recent European COVID-19 resurgence.

It is also the case that emerging currencies have only reacted back up somewhat modestly from their recent selloffs. That has been most impressive on the South African rand seeing USD/ZAR dropping back below 15.00 after its recent test of the 15.40-.50 area. That will need to be closely watched after the December WTI Crude Oil future recovered from a brief dip below 80.00 to the 82.00 area again.

Courtesy Repeat of Friday's 'Synergistic Breakthroughs' ALERT!!

After a couple of months of ostensibly sluggish US jobs growth, today's US Employment report addition of 531,000 jobs was not unexpected. Yet at 81,000 more than estimated, it was a breakthrough nonetheless as compared to the previous two months. It is also the case that the previously weak September Nonfarm Payrolls (NFP) were revised up 118,000, from 194,000 to 312,000, which is a much more encouraging number overall in what had been a weaker quarter.

For quite a bit more of the detail we refer you to a very good CNBC article (<https://cnb.cx/3bL1RE8>) that drills down into the various key sector jobs gains. That the

Leisure and Hospitality sector was a leading jobs gainer at 154,000 was very impressive on the continued reopening. Yet related to that in a major way is that all of it would possibly not have been quite as impressive in its own right, if it were not for the next COVID-19 pandemic self-administered therapeutic news.

While quite a bit of today's further US equities gain after the positive response to the Fed Wednesday and BoE Thursday has been attributed to the US Employment report, well ahead of its release the December S&P 500 future traded up \$15 to the 4,687 area by 07:00 EDT. In that regard it is of note that prior to today's opening Pfizer CEO Albert Bourla was on the major networks with the announcement that his company's trial of its COVID-19 self-administered therapeutic pill ended early.

That was due to the trial showing 89% efficacy in preventing damaging COVID-19 effects in those who took the pills within three days of diagnosis. As regular readers know, we had still been a bit skeptical of the Merck therapeutic pill only having an efficacy of 50%. This makes the Pfizer pill a bona fide 'game changer'.

It was a precursor-afterburner for the stronger than expected US Employment report, as it points to the degree to which COVID-19 gathering economy (dining, hospitality, travel, etc.) hesitancy can now be fully addressed into likely no later than early 2022. The US equities psychological impact is similar to the original Pfizer-BioNTech vaccine efficacy announcement almost exactly one year ago.

Back at that time the front month S&P 500 future had been churning around the old 3,397.50 February 2020 all-time high after falling back from a new 3,587 high in early September. Spending the next two months stuck in the 3,200-3,500 range might have raised some concerns over the trend. Yet the Pfizer-BioNTech vaccine announcement saw it surge up to a new 3,668 all-time high. In that case vaccine news was a game changer from which the US equities never looked back.

While today's announcement is at a much higher level, at least in the near-term it is likely to drive a further 'risk-on' psychology for US equities during an already advantageous seasonal phase. That will be on stronger expectations for the US economy if COVID-19 hesitancy recedes further. As previous FDA head Dr. Scott Gottlieb said in another CNBC interview (<https://cnb.cx/3wkb7sf>) this morning, this means that the end of the COVID-19 pandemic is 'in sight'. While Gottlieb has previously been hopeful at times, that represents a more definitive statement. However much bad phases might remain, the overall situation is constructive.

As an aside, it is going to be interesting to see this play out in the US, where the Biden administration vaccine mandate for federal contractors (which is a very wide net) is meeting with significant blowback. Many other organizations and governments have followed the federal lead, with similar resistance. Quite a few first responders (like New York City firefighters and police) are refusing to get vaccinated, as have many hospital workers. Just to be clear, the vaccine is the more effective prevention against COVID-19 hospitalization or death.

However, if as it appears there will be an effective self-administered therapeutic that can prevent the more serious impact of the disease, will the US federal and local governments and companies stand down their vaccination requirement? This is problematic only due to major companies and governmental agencies being resistant to reversing their positions on critical issues. On the other hand, the vaccine mandates are driving some of the labor shortages in key areas.

As such, the availability of the easily administered, readily available therapeutic would address the tediously hard task of squaring that circle. While it will still leave a partisan divide on whether the anti-vaxxers were right to resist, practical implications for the global jobs markets and economies will be very positive.

That gets to the issue of what to look for next on the US equities that have seen the front month S&P 500 future blow out the major upside 'swing count' 4,621 Objective after stalling into it early this week? In fact, the next weekly Oscillator thresholds set up on the rally into August-November 2020 are the 4,680 and 4,705 levels into next week... with the market already straining against the higher level.

The next (ultimate) thresholds next week are from back near the top of the rally in December 2020, at 4,755 and 4,785. As such any sustained escape above the low 4,700 area at the end of this week that is sustained into next week points to those mid-upper 4,700 levels. Of note, that (not surprisingly) correlates with the major 'topping' line from the 3,587 August 2020 high across the 4,550 August 2021 high.

Yet if the US equities psychology is so strong on major economic improvements to come, why are the global govies extending what was already a substantial recovery both to and above key resistance at previously failed supports? It is counterintuitive, to say the least, that the December T-note future is back up near the 132-00 area, with the Gilt well above 126.00 and Bund above 169.50-170.00.

Similarly in foreign exchange, the US Dollar Index is maintaining its recent bid, which is a reflection of weakness in the other developed currencies. It is also the case that emerging currencies have only reacted back up modestly from their recent selloffs, which may also be related to Crude Oil recovering above 80.00.

This is a real quandary on whether there is still residual 'risk-off' sentiment out there despite the positive COVID-19 therapeutic news... which doesn't really make a lot of sense. Or is it the US leading the way up on what will indeed be a better global recovery? That is harder to imagine in the inflationary environment that therefore should be weighing on global govies. The only squaring of that circle might be that the therapeutic developments might assist in clearing the supply chain congestion, due to more workers being available once the COVID-19 concerns are more fully addressed. That will need to be closely monitored.

Courtesy Repeat of Thursday's 'Central Bankers Thread the Needle' ALERT!!

It seems that the Fed QE 'taper' is indeed not a problem for the markets, as the US equities rally extension as well as the global govies buoyancy dismiss any notion there has been a 'taper tantrum'. Even prior to Powell's press conference, the FOMC Statement (<https://bit.ly/3q1c8oa>) noted that despite the slightly more aggressively lower Fed US bond and MBS purchases beginning right away this month, the Fed is leaving itself latitude to adjust that plan based on conditions.

This is something Powell also emphasized in an answer to the specific press conference (<https://bit.ly/3k6itea>) question about the somewhat earlier than expected lowering of QE purchases from later this month. It is now clear that this is at least addressing the need to react to the higher and sustained inflation at the same time as it leaves the Fed flexible if the economy should weaken for any reason (especially on the potential for any COVID-19 pandemic resurgence.)

That explains a lot about US equities extending their rally despite the 'taper', which was never going to be a major weight on the US equities in the first place. As Powell noted in another answer at his press conference, this is a totally different, much stronger US economy than back during the Bernanke regime 'taper tantrum' in mid-2013. In Wednesday's 'Here Comes Mr. Powell' ALERT!! (repeated below for your ease of access) we also discussed the degree to which that tantrum was more so a bond market dislocation than a US equities problem. That is the background against which the current taper can best be assessed.

Then along comes the Bank of England this morning with a lack (on a 7-2 vote) of what some had expected would be a 'base rate' hike from 0.10% to 0.25% based on the degree of the major inflation surge in the UK. It also left its Asset Purchase Facility at £895 billion overall (on a 6-3 vote)... so no taper there.

During the Monetary Policy Report (<https://bit.ly/3BlwCUH> summary page link with further links to all other content) press conference Governor Bailey and his minions indulged in the same sort of legerdemain as the other central bankers have employed of late: the indication that even with inflation as high as it is, and looking to rise, in the UK it is still 'transitory' without defining that horizon.

In fact, Bailey and his minions raised the central bank sleight of hand to a new height (which we say with a degree of admiration) by focusing on the degree to which nobody can know what the future path of inflation might be. That is based substantially on the degree to which the energy price increases in the UK have been so massive, yet might be transient... defined as into sometime in 2022.

It is also of note they have an idea that higher prices will also be self-correcting as they encourage higher production in some industries that are at the heart of the global shortage-driven inflation at present. That is for items like in computer chips, which they rightfully noted no actions by central banks can address. It is also the case that untoward rate hikes might worsen the situation by weakening the economy to a degree which suppresses capital investment. Of course, in the UK it is a further problem insofar as mortgage rates are tied to the base rate.

All in all it was a yeoman's performance by the Fed Chair and Governor Bailey (and his minions) in a situation which was a bit fraught. Especially the lack of any inflation fighting hike by the BoE this morning still likely contributing to global govvies buoyancy is interesting. Yet with US equities trading up into another front month S&P 500 future new 4,673 all-time high, it is important to ask whether the 'bifurcated' extensive bid in the global govvies is reflecting a less upbeat economic outlook into later this year despite the strong US equities seasonal.

There are also questions for the 'risk-on' psychology in foreign exchange. Why is the US Dollar Index back up well above 94.00 again without having even tested its important lower 93.70 support? That said, the more volatile emerging currencies have recovered somewhat from their recent extended slides. Yet they are also only near important higher resistances. Possibly the lack of that somewhat expected BoE hike has encouraged those yield sensitive items. However, energy prices have also rebounded after December WTI Crude Oil future weakened from the 85.00 area this week to the low end of the key 81.00-80.00 range. While only back up to just above 81.00 at present, that still speaks of elevated prices overall.

And while we still feel the COVID-19 pandemic represents more of a risk into the Northern Hemisphere Winter than the current ubiquitous 'post-pandemic' banter suggests (see Tuesday's ALERT!! below for the full assessment), there was some good news on that front today. As reported by Reuters (<https://reut.rs/3mJ8tJq>) this morning, the UK has approved Merck's molnupiravir therapeutic treatment for those with an early phase of the COVID-19 infection. That has demonstrated 50 percent effective suppression of the worst symptomatic effects of the disease.

The UK approval comes with some caveats, such as it only being prescribed for folks with high risk of hospitalization and death. Yet that includes anyone with *"...at least one risk factor for developing severe illness, such as obesity, older age diabetes, and heart disease."* As such, a very wide net that includes many people above the age of 50, as well as those younger folks with any type of disease that represents a respiratory or immune deficiency. This is clearly a blessing for the UK that is seeing a resurgence of the pandemic despite being highly vaccinated.

The problem for the significantly under-vaccinated US (leveled off at 58.1%) is that the availability of a therapeutic will encourage the anti-vaxxers and vaccine hesitant to continue to avoid getting the shots. While having easily administered oral therapeutics is a blessing, that it is indeed only 50%(+/-) effective will still leave a significant number at risk of hospitalization and death. So maybe even more so in the US than the UK (or other more highly vaccinated countries) the risk factors are still very prominent. (See Tuesday's ALERT!! for more.)

Courtesy Repeat of Wednesday's critical consideration (updated chart)

[Brief current comments above; to be updated Tuesday morning]

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/3BUQCDY> updated through Friday.) It is of note September S&P 500 future had managed to retest that area right into the ECB press conference prior to weakening 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 was a Tolerance below that (as seen on selloffs in both June and July) down to 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 seemed a broad berth, on past form only below the 4,350 area does it 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 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 on the then renewed pressure. And much like previous, it was temporarily violated. The difference is that the daily 'trend flow' was quite a bit different with the 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 the at that time weekly MA-9 and MA-13 in the 4,435-45 area looking more bullish 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 last week 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 left the early September 4,549.50 front month S&P 500 future all-time high as resistance. Now that it has been exceeded, the 4,621 major 'swing count' is the next key threshold, with the next key weekly Oscillator thresholds up into the 4,660-85 area this week (rising \$30 per week.)

Thanks for your interest.

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