Gmail

Alan Rohrbach <ar.rohr.intl@gmail.com>

ROHR ALERT!! NEW HIGH!!(??) Despite Underlying Problems

1 message

ROHR Alert <rohralert@gmail.com>
Bcc: ar.rohr.intl@gmail.com

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Dear Subscribers,
The 'financotainment' media are touting a 'new high' in the S&P 500 Index, which is to say it has traded above the old high settlement price. This is of course an 'apples and oranges' metric, where the front month S&P 500 future actually stalled this morning $7.50 short of its February 3,397.50 trading high as well.

We suppose it's the old media adage, "*You can't sell newspapers* (or web page views or app clicks) *with the headline "The House Is <u>Not</u> Burning*." So we need to be a bit charitable to our financotainment media brethren and sisters, who have been hyperventilating over the potential for a new US equities high outside of the heavily tech-driven NASDAQ for weeks now. It doesn't seem much of a surprise that they would jump the gun, and declare a false victory, and 'go home' for now.

Yet two key conditions remain: the lack of the bona fide high in the broader S&P 500 Index, and what lies beyond if it manages to accomplish that feat. This is not in any way to detract from the accomplishment of coming back from the massive February-March $1,200 implosion to anywhere even near the old 3,400 area highs. However, the cautionary word we always attempt to provide is to remember the broader trend context, and always keep an eye on the next technical levels.

And not surprisingly, that is only marginally above the old high. This is because the February high was up to a major 'adjusted' weekly Oscillator threshold prior to the ensuing debacle. To be clear, this was not just because the market had topped into that February extension above weekly MA-41 (340 points above it.) That was a calculation we extracted when the strength into early 2017 forced us to 'adjust' classical Difference Oscillator thresholds that had worked for years.

Using 1998-2000 Dot.Com Bubble equivalents we were able to extend the old Oscillator readings to compare with early 2017 readings to set up a percentage expansion (1.75 ratio) for the classical Oscillator thresholds. Based on that the February 2020 S&P 500 future trend 'stretch' above weekly MA-41 was into the maximum premium of $340… which we had already projected based on the 1998-2000 versus 2017 comparison. This is why in addition to the 'macro' context in January, we were able to note that the US equities were 'priced for perfection'.

So, what does that mean for any new high in the front month S&P 500 future? Obviously weekly MA-41 had been dragged down by the massive February-March selloff, and has only recovered recently in the wake of the equally massive rally. First of all, it is unusual to see such significant movement in both directions in anything as long-term as a 41-week Moving Average (see chart below.)

Yet the other message from technicals (which are the Rosetta Stone that helps us 'listen' to price 'communication') is that weekly MA-41 is back up to only slightly higher than the level

it was at into February. As such, even if the front month S&P 500 future manages to Close above the February 3,397.50 all-time high, the next Oscillator threshold is as nearby as the (*wait for it*)... the 3,410 area this week.

That is most interesting in its own right, and on the degree to which markets sometimes force a push above the 'big penny' (major round number level) and then demonstrate some exhaustion. In the first instance, any violation of that 3,410 level needs to be by a classical minimum Tolerance of at least $10; and the Oscillator threshold is rising $7.0/week on the serial elevation of weekly MA-41.

While there is much more to discuss on the 'macro' factors that continue to be the key negative aspect of the 'bifurcation' of the US equities psychology versus the real economy, we will update that on Wednesday prior to the FOMC minutes afternoon release (14:00 EDT.) The serial weakness in many areas continues, outside of the US city abandonment-driven Housing Starts and Home Sales and DIY vendor sales verified again in all recent data. That includes questions over a next US COVID-19 relief package, small retail, dining and commercial property.

In the meantime, US equities slipped to lower on the day, even if only to a very nominal degree… nothing that would imply any overall trend reversal which would bring into question their ability to continue up to that new all-time high. Global govvies are maintaining their bid, even if as yet nowhere near their highs prior to the US inflation indications pressure that developed early last week.

And foreign exchange is seeing nothing less than renewed aggressive secular US dollar weakness. The US Dollar Index is now below the 92.50 area it held for the past three weeks after its DOWN Acceleration out of an already aggressive down channel from the March 102.00 area highs. That is in large measure on weakness against developed currencies, especially the euro. Yet it is also weak against emerging currencies, which often weaken against the US dollar when the global economic situation is flashing the warning signs we continue to see at present. (See Monday's ALERT!! for more on the weak global economic perspective.)

Courtesy Repeat of Monday's critical consideration
COVID-19 virus spread caused US equities intermediate-term bull psychology to 'crack'. Early March already saw front month S&P 500 future back below key congestion around the mid-2019 3,030-00 previous all-time high congestion. That was below support from the push above the multi-year topping line at 3,070 as well, and left a late-February intermediate-term up channel 2,970 DOWN Break.

The subsequent DOWN Break below the front month S&P 500 future 2,600 area major up channel seemed to indicate more of a near-term failure. That was from the early 2016 low (https://bit.ly/3h5ruRg updated through Friday.) That was then the key higher resistance subsequently violated on its mid-April push above its 2,675 trading high Tolerance from prior to the DOWN Break (also monthly MA-48.)

The front month S&P 500 future pushing out of the broad higher range top in the 3,030-2,970 area in early June was the key to it surging to the 3,200 area. That was the next meaningful higher resistance with a 3,230 Tolerance at which it failed previously on the current rally. Yet pushing above it in late July opened the door to a retest of the February 24th major gap down from the February 21st 3,339.25 weekly Close it has managed to Close above once again two weeks ago.

The only nominal resistance above that is February's 3,397.50 front month future all-time high. Along the way is a minor 3,381 DOWN Closing Price Reversal (CPR) from that topping week (Tolerance 3,388.50.) Yet that CPR is so minor in the face of a major rally back from the February-March debacle, it is hard to imagine it can prevent the front month S&P 500 future from at least taking a look above 3,397.50.

That is also just above the extended 'adjusted' weekly Oscillator range, with the next (all-time) Oscillator range not until the 3,405-10 area this week. That is the same threshold at which it stalled in February. It's going to be very interesting. Does classical over-extension take its toll, or do US equities just power higher?

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