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ROHR ALERT!! Intermediate Intermarket Indications

1 message

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Thu, Nov 12, 2020 at 11:17 AM

Dear Subscribers,

Wednesday's ALERT!! explored the key recent trend implications from Tuesday's 'On the Yin-Yang' extension of the US equities trend, and their relationship with the global govies. However, that does not necessarily suffice as a guide to the key Evolutionary Trend View (ETV) across the intermediate-term. Needless to say, there have been glaringly 'bifurcated' market psychologies over the past couple of years, which have left some observers confused on intermarket activity.

Yet before we proceed with any further discussion of the key activity to look for in the intermediate-term, it is important to update the event schedule regarding a 'macro' influence today. That is the ECB's Lagarde, BoE's Bailey and Fed Chair Powell virtual policy panel participation (with moderator Q&A) at the ECB Central Banking Forum. That was originally scheduled for a bit earlier this morning, yet now seems to be proceeding at 11:45 EST (10:45 CST; 16:45 GMT.) While we are not expecting any surprises, when three of the leading Western accommodative central bankers are all speaking at once, it likely means we should pay attention.

Also in the fundamental mix this morning is significantly weaker than expected US October CPI (0.0% month-on-month vs 0.2% both estimated and previous.) Along with some weakness in other international data and a slight slippage in the US equities, that is buoying the global govies a bit this morning. In fact, the December T-note future is back up into the low end of the key 138-16/-00 area.

However, unless it can once again surpass that threshold, it will only be a test of resistance that is consistent with the previously discussed more extensive return of a 'risk on' psychology. The two-way price swings are not any surprise, as we noted in both the title and discussion of Tuesday's 'On the Yin-Yang' ALERT!! Today bringing more truly bad news on the COVID-19 pandemic infection spread situation (especially in the US) was always going to be the key influence which could counter the 'risk on' expectations for vaccines into next year.

As noted at the end of Wednesday's revisit to the overall situation, "*One of the most telling recent comments on the vaccine impact came from former FDA head Dr. Scott Gottlieb. Being pressed by an interviewer on the issue of even the projected large number of doses into next year not being enough to vaccinate more than possibly 35% of the developed world population, he responded, "But that will make it "manageable".' It seems the markets are now trending on that.*"

And if the 'risk on' psychology is indeed sustained, with the extended implication of 'normal' economic activity and growth into mid-late bringing some inflation, that will inform the market trend activity over the intermediate-term. While that may be subtle for a while, it will show up in the overall market trends.

That means that the sheer US equities rally extension to higher levels above the December S&P 500 future 3,505-10 DOWN Closing Price Reversal (which is seeming to be Negated this week) will now likely be more of a key driver for any further weakening of the global govies. The sustained market psychology 'bifurcation' of the past couple of years has seen serial phases where the global govies did not weaken on strong US equities (and others) sustained rallies.

The most recent examples of the global govies marching to their own drummer are also among the most obvious. Coming out of 2017, the 'Trump tax cuts' raised fears of enough growth to trigger inflation into 2018. Yet after the late-2017 through late-2018 down trend proved to be more anticipation than inflation reality, all of the global govies bottomed for an extended rally resumption. That was despite the US equities recovery from a short sharp (central bank fear-induced) December 2018 implosion, and rallying through all of 2019 into early 2020.

Yet 2019 saw significant rallies in all of the global govies, even if there were varying degrees of partial late year givebacks. The lesson was that the better economic and US equities performance was not a key driver for the global govies psychology as long as the inflation outlook remained subdued.

And to focus strictly on the US for a moment, consider the T-note performance into and after the US equities February-March implosion. Of course the much weaker US and global COVID-19 pandemic-driven psychology triggered a global govies upside explosion into March. The front month T-note future went from trading in the already historically rich 130-00 area (give or take a couple of percent) to temporarily above 140-00. After that early March 140-24 all-time trading high, it left a DOWN Closing Price Reversal (CPR) from 138-01 that week.

Along the way, the extreme low of 2,174 was hit by the front month S&P 500 future in late March... the perfect complement to the T-note strength. Yet since then the front month S&P 500 future rallied back in phases above serial key resistances in the 3,000 and 3,200 areas, ultimately pushing through the previous February 3,398 all-time high at the end of August. The front month T-note future response? It never traded for any length of time back below the 138-16/-00 DOWN CPR signal range (except for an early June kerfuffle on a surprisingly strong US PPI release.)

This is why the current somewhat sustained front month T-note future weakness below 138-16/-00 is such an impressive psychological shift. It did not remain under pressure last week Tuesday once the US election result seemed to defuse the prospects for the Democratic Blue Wave (i.e. more profligate US government.) However, the Pfizer/BioNTech vaccine announcement along with further advances in therapeutics seems to have been more of a game changer, based on the market response seeming to accept a more durable 'risk on' psychology into 2021.

What history has taught us is that significant trend reversals in the global govies occur only gradually at first. Longstanding psychology on attraction of nominal higher yields of the longer-dated instruments have a long tail. And any trend reversal is like turning a supertanker, rather than the rapid speedboat type of turns which can occur at times in the US equities and others. Yet under currently evolving circumstances, a more classical intermarket counterpoint should be in evidence if markets are going to continue to believe in the 2021 return to 'normal'.

As such, it will be more likely that the next round of gains in the US equities will bring more pressure onto global govies than has been the case since the March highs, from which the global govies have been so resilient overall. We shall see, and will be watching closely to see if those tendencies are indeed apparent.

Another Courtesy Repeat of Tuesday's critical consideration

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 rally (as is clear on the weekly chart <https://bit.ly/3eMWhle> updated through Monday.) Yet it also pushed above it out of late July.

This opened the door to a retest of the February's 3,397.50 front month future all-time high. And after such a major rally back from the February-March debacle, it was hard to imagine the old February all-time high could prevent the front month S&P 500 future from at least taking a look above 3,397.50; and that then transpired on the late August push above it into the low 3,500 area.

Aside from the sheer magnitude of the selloff in the first week of September, it was important as a technical pattern top. With such a significant rally above the previous week's 3,504.50 Close, the drop well below it established a major DOWN Closing Price Reversal (CPR) with a 3,510 Tolerance. Along with the 3,540 topping line, that was key resistance after a recent sizable recovery from lower support.

The next significant support after it traded below the February 3,397.50 previous all-time high looks like the 3,230-00 range we had previous highlighted as rally resistance into early June. On the early September attempt to stabilize no worse than the 3,300 area, the market exhibited a couple of less than credible pattern bottoms with key failures in the 3,400 area (see our September 18th ALERT!! for a full discussion and Evolutionary Trend View fully annotated chart analysis.)

Yet it held that 3,230-00 area once again. And recently surging back above the 3,400-30 area left a burden of proof on the bears to get the market to fail back below that area. In the meantime, whether the December S&P 500 future can post serial weekly Closes above first 3,505-10 and ultimately the 3,550 area will decide if it is indeed again 'Risk On' Forever. After violating the key 3,380 Tolerance of the 3,400 area (now including weekly [MA-9](#) & [MA-13](#)) it also traded below 3,280.

That was important as the Tolerance of the interim 3,330-00 range. Yet it held brief tests of the far more major 3,230-00 area heavy congestion support, and then had an impressive rebound back above 3,300-30 once again on election day and now also 3,400-30 area and the 3,505-10 area as well as 3,550 at the beginning of this week. This is confirmation of our estimation the US election would be a win-win for US equities, and the accelerated bullish influence from positive vaccine news.

The question now is whether it can indeed hold the low 3,500 area (Tolerance to the 3,480 congestion) to see if the early September 3,505 DOWN Closing Price Reversal is being Negated. On classic form, that would open the door to an extended rally to the 3,750-3,800 area prior to becoming 'overbought' once again.

Thanks for your interest.

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