



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

ROHR ALERT!! Intermarket Insights

1 message

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

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Dear Subscribers,

There are quite a few cross currents at present, and they are likely causing some folks to misinterpret what is driving recent trends in the various asset classes. However, this has clarified on the extended intermarket activity this week. In the first instance, as noted over the past couple of days and revisited in Tuesday's 'Continued Uncertainty' ALERT!!, the US equities are entitled to have a downside reaction after last week's "Democrats control the US government" euphoria.

We strongly suggest a read of our recent analysis for more on the 'Democratic Sweep NOT a Blue Wave' idea of the slim nature of the Democratic legislative majority in both houses of Congress. That is part and parcel of the large number of party moderates who allowed them to take the House in 2018 because they won in 'purple' districts (closely split between 'red' and 'blue' constituents.) Those folks will need to tread carefully on spending and other plans, and at present that less euphoric realization is weighing a bit on US equities.

There is also the post-Georgia Senate runoff Democrat election success weighing on the global govies, indicating higher longer-term interest rates than we have seen for a while. Yet the concerns over the sheer interest rate increases are less than critical for the US equities... at least at this phase. The typical misimpression is that any rise in rates is going to spell the end of the previous US equities bull.

Yet historically this is not the case. It is most often interpreted in counterintuitive fashion that the slight interest rate rise from low levels is a sign of improved economic performance... which is actually friendly for the 'risk on' psychology. That is the case right now, where the operating margins of successful companies will only be very marginally impacted by the limited interest rate rise to date.

The more important consideration is how quickly intermediate- to longer-term interest rates will continue to rise. And that is a critical consideration in both the US and Europe this week based on the technical structure of the futures markets. As recently reviewed, the March T-note future selloff has breached the important Area Gap in the 136-24 area from back during the volatile rally and reaction in the March 2020 COVID-19 pandemic-driven price surge. The 136-16 quarter point Tolerance of that gap was overrun into Tuesday, yet with the market recovering back above it at present. That will warrant close attention into the weekly Close.

Similarly the March Bund future had slipped back below its durable 177.50-.00 congestion (going all the way back to its major Summer 2019 all-time high.) It had also slipped well below it into Tuesday, yet has ratcheted back above it at present. This is another indication that will bear close attention into the weekly Close.

Possibly this is due to some weaker economic data coming through this week in both Europe and the US. However, the overall global govies tendency seems more so linked to

the anticipated greater US government spending under a Biden administration that also controls Congress, and that will likely continue. It is also the case right now that additional concerns surround the less than optimal US vaccination program are encouraging less optimistic near-term anticipation.

That said, after the early fits and starts, the US vaccination program is improving a bit right now, and is further expected to improve markedly under Biden who has already alluded to mobilizing a major national effort which was never attempted by the Trump administration. Once again, that is not a political comment on our part, as it only reflects the realpolitik of an administration that overall was always happier to shift front line responsibility to the states. Whether one wants to consider that a failure or support for 'states rights' is up to that individual.

Yet any acceleration of the US vaccination program (along with other key nations, like the UK) will reinvigorate expectations for a better US and global economy into the second half of 2021. Recent communication from vaccine manufacturers along with a shift to various governments' more aggressive vaccination policies has increased anticipation of 'herd immunity' still timely not too far into 2021.

This is of course also an aggressive economic improvement implication, with the typical influences back into the markets overall. That likely also includes further upward pressure on interest rates, with the attendant global govies weakness.

The foreign exchange implication is a somewhat better US economy attracting a bit more support for the US dollar. However, as COVID-19 pandemic suppression will foment a broad global economic recovery, the idea that the greenback will experience any secular strength based on US improvement is a bit far-fetched. More likely is the potential for the US dollar to suffer under major US government spending programs of the Democrats. Once again, that is not a political comment, and quite a bit of that spending is likely indeed well-founded based on the repair the US economy will need in the wake of the massive COVID-19 damage.

All the same, there is no reason for an improved US economy to attract inward investment flows any faster than its peers. The US Dollar Index dodged a bullet this week on higher US interest rates squeezing the bears after the extended bear trend slipped below the top of the 89.50-.00 area. Yet it would need to rally above 90.50-91.00 historic congestion (also top of the mid-December rallies) and sustain it on weekly Closes to hint at a reversal of its longer term down trend. It is also the case that after rather sizable recent (since last week's interest rate rise) short-term downside reactions, emerging currencies are getting their bid back.

Getting back to the US equities, at least so far March S&P 500 future is holding no worse than minor recent congestion in the 3,775 area. However, more important psychological and technical support remains down in the 3,740 area. That is the congestion level (seen on misplaced fears of a Democratic-controlled Senate last week Tuesday) likely to hold on a further selloff below 3,800 despite concerns. That was held despite the more prominent lower support being the 3,700-20 area it had been trading below early last week. Those are now key near term supports.

This is the critical consideration

Aside from the sheer magnitude of the selloff in the first week of September, it was also a technical pattern top. That is clear on the front month S&P 500 future weekly chart <https://bit.ly/39pEsqa> (updated through Friday January 8.) Such a significant rally above the

previous week's 3,504.50 Close and drop well below it established a major DOWN Closing Price Reversal (CPR) with a 3,510 Tolerance.

The next significant support after it traded below the February 3,397.50 previous all-time high looked like the 3,230-00 range we had previous highlighted as rally resistance into early June. After that held once again, the recent surge 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. Yet instead the December S&P 500 future posting weekly Closes above first 3,505-10 and ultimately the 3,550 area looks like it is indeed again 'Risk On' Forever. This is confirmation of our estimation the US election would be a win-win for US equities, with the key accelerated bullish influence from the serial positive vaccine announcements since early November.

The near-term question was whether it could hold support at the early-September 3,587 trading high and 3,582 early November Close, with a Tolerance to the 3,575 congestion? Even though it slid below them in early-mid November on US election concerns, those issues clearing up reinstated the 'risk on' psychology.

Above that range since late November left minor congestion resistance in the 3,625-35 range. Also above that pointed to the recent 3,668 all-time high that was exceeded into the beginning of December with a 3,700 new all-time high. While it traded slightly above that into early December, the lack of a Trump signature on the COVID-19 relief package sent it back down to a very temporary late-December test of the 3,600 area. Finally more fully out above the low 3,700 area on a belated 'Santa Claus Rally' late last week, saw it up near the 3,750-3,800 resistance.

However, based on recent weekly Closes, there are elevated weekly Oscillator historic indications. Those December thresholds are the weekly MA-41 plus 520 and plus 550, and based on weekly MA-41 now rising an impressive 30 points per week, those are up to 3,800 and 3,830 this week. And as is often the case at a new extended all-time high, those are presently the only quantifiable resistances, and they are rising over \$30/week based on the accelerated rise of weekly MA-41.

And following up on our previous observations, last Monday's drop from a new all-time high above the end of December 3,749 weekly Close left a potential for a weekly DOWN Closing Price Reversal. However, last week's recovery from early week jitters negated that potential, with higher resistances more prominent. And this week's straight down drop does not establish any technical top in its own right, with the lower supports more so critical on any further pressure.

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Thanks for your interest.

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Contact: rohralert@gmail.com

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