



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

ROHR ALERT!! Flash Crash Redux?

1 message

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

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Dear Subscribers,

In Thursday's 'The Alvy Singer Market' ALERT!! we led with, "*You can't say we didn't warn you that certain of the major 'risk on' assumptions driving the continued bid in US equities and emerging currencies were in flux.*" Due to those same factors remaining prominent at present, we still advise caution. That is despite the rebound in US equities and also the emerging currencies out of Thursday into today, accompanied by renewed global govies weakness.

Under ordinary circumstances that would imply a return to a 'risk on' psychology. However, in this case there are near-term influences that may explain the current price activity in all asset classes that are not indicative of the intermediate-term influences which will return to weigh on the 'risk on' psychology. While we will return to those below, for now simply consider the immediate weakening of US equities after the substantial Thursday bounce back from Wednesday's debacle.

Near-term weakness of some global govies and emerging currencies strength can be readily attributed to economic data out of Asia across Europe turning around from the weaker early week indication to stronger than expected today. While that is still on the weak side overall, it created a bit of a better psychology today, now abetted by better than expected US and Canadian economic releases.

However, that leaves the inability of US equities to participate in this recovery an interesting development after it had recouped all of Wednesday's major trading losses (even a bit more) into midday Thursday before slipping. On a prospective view it is reminiscent of the May 6, 2010 Flash Crash and its aftermath.

The DJIA was the widely watched US equities benchmark at that time, and had been holding up into new all-time highs between 11,000 and 11,200. Even though there had been some 'macro' headwinds brewing which had stalled it into the 11,200 area, for no apparent reason around 14:32 EDT it began a precipitous decline from somewhat below 11,000 to as low as 9,870. That was over just the next 36 minutes (for more on this see the Wikipedia article <http://bit.ly/2YttFGq>.)

It then began a sharp recovery. Even though naturally lower volatility in that previous time meant sharp price swings might take a bit longer than at present, over the next several days (into mid-week the following week) it rallied all the way back to just below 11,000. For all that many folks had characterized the sharp selloff on May 6th as a radical technical dislocation, over the next two weeks into late May the DJIA fell back to and below the 9,870 May 6th trading low.

That was accompanied by a front month S&P 500 future drop from the 1,220-1,180 area down to a 1,056 trading low. Yeah, we know... it's hard to believe that a \$125 drop was considered so radical. Yet in percentage terms it was more than a ten percent drop in one

day. The current equivalent would have meant an S&P 500 spill from 3,820 to the mid-3,400 area. In the event back in 2010, much like the DJIA the front month S&P 500 future recovered to near 1,180 into midweek the following week. It also then trended in a more orderly fashion back below the early low, to as low as the 1,050-40 area prior to returning to a bull trend.

Once again, this was because the background macro factors were already eroding the previous 'risk on' psychology below the previously bullish surface. There are factors regarding potential impacts on the current 'risk on' trend from the possible dilution of President Biden's ARP stimulus/relief proposal in order to get it passed timely. See Thursday's 'The Alvy Singer Market' ALERT!! for more on how things could very likely go from tolerably 'miserable' back to 'horrible' under current circumstances. Of course that includes the current permutations of the COVID-19 pandemic calculus that might still be a bit too upbeat at present.

This takes us back to the reason we can be as negative as we are on the US equities at present. That is even though we suspect that after an overdue more substantial correction they can remain in a bull trend overall. As we have already noted the issues with the very tight timeline if any Biden ARP program is going to pass Congress (meaning the Senate) prior to February 8th (see much more in Thursday's analysis), it is time to get back to the less upbeat pandemic issues.

That is the 'fly in the (upbeat economic outlook psychology) ointment'. It is as we had noted in Thursday's ALERT!! on the assessment from Dr. Michael Osterholm. In the first instance, Osterholm is an epidemiologist of long standing reputation as the director of the Center for Infectious Disease Research and Policy at the University of Minnesota, and has also been a member of President Biden's COVID-19 Advisory Board since immediately after the US election. He has also been right about the risks and likely path of the pandemic, where others have been less critical of overly accommodative state and local government policies.

His latest recently repeated message is that there is too much optimism on the current modest improvement in the pandemic statistics, and this is leading to more forbearance on pandemic suppression protocols which will likely lead to the worst problems yet. While we also dislike playing Cassandra as much as the good Dr. Osterholm, it reminds us of our January 27th ALERT!! warning on the impact of the 5-day asymptomatic COVID-19 contagion being a real problem.

As we noted Thursday, on him saying the serial easing of protocols which had to be followed by reimposition of restrictions, "*We are always very good (as has been demonstrated by the previous several rounds) at being more cautionary after we've smashed the car into the tree.*" For more from him on the implications of the new COVID-19 variants that many are now downplaying as not being a significant problem, please see the key segment from his Wednesday interview on CNN (<https://bit.ly/3j2xyLZ>.) Apologies for this being on Twitter, but that seems to be how CNN prefers to share these sorts of important video segments(??)

In addition to his fears on premature lifting of restrictions, new more infectious and possibly more virulent virus variants will likely create even a higher level of cases that will reverse the current nominal improvement. Note his comments on how new cases may surge to levels that will finally overwhelm the hospital systems in ways that were only narrowly avoided previous. Each new surge in cases has trended toward higher record levels without getting back below the previous high end totals. Intriguingly, it looks much like a sustained market trend.

Most damaging in his somewhat iconoclastic view is that even in the context of the more accelerated US vaccination goals, the percentage of the total populace that will be immunized is wholly insufficient to beat the pandemic. With a few notable exceptions, that is the same for much of the rest of the world. He is very concerned about the more infectious nature of the new COVID-19 variants.

As such, we still recommend a read of Thursday's ALERT!! for the more in-depth discussion of issues with the 'three pillars' of the current 'risk on' psychology. That means especially with the pandemic 'light at the end of the tunnel' becoming dimmer on the recent developments regardless of whether Biden's ARP program is passed timely... and if not, that will be another 'risk off' factor, along with whether it needs to be significantly diluted to assure passage by February 8th.

Yet the overly upbeat assumptions about any return to something akin to an economic 'normal' in the face of further pandemic developments is the ultimate fly in the 'risk on' psychology ointment. As Fed Chair Powell was quick to point out early in his post-FOMC rate announcement press conference, the future of the economy and markets is not under the Fed's control at present where, *"The path of the economy continues to depend significantly on the course of the virus."*

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/3iHKJ4U> (updated through Friday.) 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' 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 25 points per week, those are up to 3,880 and 3,910 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 still rising \$25/week based on the accelerated rise of weekly MA-41.

After the March S&P 500 future recovered back above the 3,775 area minor recent congestion, last week left it pushing up to that next new 3,860 all-time high (right into last week's lower weekly Oscillator resistance.) However, the pressure on the 'risk on' psychology we had warned of came home to roost on the Wednesday situation ignoring the classical 'friendly Fed anticipation' even before Powell's press conference. As noted for quite a while, the more important psychological and technical support below the 3,800 area was the interim 3,740 area.

That is the congestion level (seen on misplaced fears of a Democratic-controlled Senate three weeks ago Tuesday.) That was held previous despite the more far prominent lower support being into the 3,700-20 area it had been trading below early that week. Yet Wednesday's sharp selloff led to an immediate test of that area all in one day. It remains the more significant support this side of 3,600 area and lower levels, including weekly MA-13 moving up to low 3,700 area next week.

Thanks for your interest.

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