Gmail

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

ROHR ALERT!! Govvies Win the Two-Way Stretch

1 message

Dear Subscribers,
This still relates back to assumptions in Tuesday's 'Not a Powell Put' ALERT!!, because ultimately the global govvies continued yield escalation in the wake of sustained strong economic data and sentiment indicators was the more telling influence on US equities than those improved 'macro' factors. The past couple of weeks was a textbook illustration of a shift from '*bad news is good news*' on anticipated low rates and a positive spin from central bank accommodation into a '*good news is bad news*' consideration of inflation fears and higher interest rates.

As also revisited in Thursday's 'Two-Way Stretch' ALERT!!, after the important March S&P 500 future 3,881 short-term Head & Shoulders DOWN Break (see the annotated chart from Monday https://bit.ly/3qL75FM), it ranged down near that pattern's 3,800 Objective early Tuesday. However, it spent the balance of the day Tuesday recovering back up into the 3,881 DOWN Break area and exceeded it Wednesday, likely encouraged by Chair Powell's second round of testimony.

While this was impressive, the 'Tolerance' of that pattern top is the 3,931 high of the Right Shoulder that it only passingly tested Thursday morning before failing below 3,881 once again on the negative higher yield influence. Of course, this is also a measure of overall 'risk appetite' as reflected in other markets. That is especially so for the emerging currencies, which had spent the past couple of weeks attempting to shake off the damage to the 'risk on' psychology from recent near-term weakness in US equities. Yet as of Thursday there was more sustained emerging currencies weakness, reflecting a significant 'risk appetite' reduction.

So, what now? Well, the clear Objective of that March S&P 500 future Head & Shoulders 3,881 short-term DOWN Break is 3,802. It is most interesting that the aggressive early Tuesday and late Thursday selloffs have only left the market testing that area. This might leave some folks feeling the selloff is over in the wake of the 'objective' being hit. Yet these technical objectives are minimum projections, with more possible depending on market circumstances.

Further, the 'objective' then acts as a loose additional Evolutionary Trend View signal level, with any sustained market activity below it (in the case of downside objectives) acting as a *de facto* fresh DOWN signal. That would mean a not insubstantial further selloff would become likely. How much further down might the front month S&P 500 future go? Any sustained weakness below the 3,800 area (also weekly MA-13 into next week) has previous congestion at lower levels.

Those are into the 3,700 area (tested during GameStop volatility), the 3,600 area that held on the late-2020 post-election US relief package nervousness, and most importantly the 3,500 area. The latter is the Negated September topping activity (major DOWN Closing Price Reversal.) It is psychologically important insofar as it was only exceeded on the early November Pfizer/BioNTech vaccine efficacy announcement. After so much time in a distended US equities up trend on '*bad news is good news*' anticipation, a retest of 3,500 over the next couple of weeks would represent a 'reversion to the mean' insofar as it will also be weekly MA-41. The last time that was tested prior to the extended rally was back in late June.

And while we once again do not normally review the Evolutionary Trend View (ETV) for the global govvies in our 'macro' assessment, they are now obviously a key factor in their own right. However much the March T-note future has been the more resilient, it has also followed the UK and European downside leadership.

While the intermediate-term (5-year) weekly continuation charts we include in extended analysis only show a bit of minor support from March 2020 in the mid 134-00 area, there is much more. The longer-term view also includes the significant 2012 highs and congestion in the mid 135-00 area into heftier mid 134-00 area congestion. As that has now been significantly violated, the next historic support is not until the mid-low 132-00 area.

This is even more so the case for UK and European govvies. While their general 10-year yield levels are well below the US (currently 1.50% versus UK Gilt 0.80% and German Bund -0.26%), this has meant their bond market price activity has been that much worse. The front month Bund future has fallen from the 178.00 area in late January to below the key 175.50-.00 congestion. It had temporarily fallen below its 173.00-172.50 support prior to rebounding, with the next major lower support not until the 170.50-.00 area. Next week is going to be interesting, and any more 'good news' like that seen this week will not likely be helpful.

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/3aloWb6 (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 and ultimately above the 3,750-3,800 resistance.

Based on previous weekly Closes, there are elevated weekly Oscillator historic indications. Those December thresholds are weekly MA-41 plus 520 and plus 550. Based on weekly MA-41 now rising an impressive 25 points per week, those are up to 3,975 and 4,005 this week (Friday Close-based.)

Yet those are now less realistic near-term targets with the March S&P 500 future dropping below the key near-term 3,880 area congestion support on a near-term Head & Shoulders Top DOWN Break. While that has a nominal Objective in the 3,800 area, that is a minimum which will need to be closely watched. The more prominent supports if global govvies continue to exert pressure are in the 3,700 area (held during the GameStop volatility), the 3,600 area, and even down into the 3,500 area… the Negated September CPR top and weekly MA-41 into next week.

Thanks for your interest.

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