Gmail

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

ROHR ALERT!! Who’s Afraid of the Big Bad Inflation?

1 message

ROHR Alert <rohralert@gmail.com> Thu, May 13, 2021 at 11:06 AM
Bcc: ar.rohr.intl@gmail.com

Dear Subscribers,
Of course our title today is a parody of “Who’s Afraid of the Big Bad Wolf?” This was not just as noted in Wednesday’s ‘C.P.y-I-kes!!’ ALERT!! title, but also that today’s heading could have as easily been ‘PPI Too!’. That is on this morning’s release showing monthly headline US PPI at 0.6% and Core at +0.7%... both well above estimates, with the same for annualized figures. In the context of the recent inflation worries having hit US equities so hard, exacerbated by the Colonial Pipeline ransomware shutdown ‘exigent’ event, this could have been a disastrous influence this morning. Yet US equities are rebounding nicely.

It is possible that the Colonial Pipeline situation being substantially resolved is contributing to the sense of relief? There is also the additional inflation impact anticipation which was built into the PPI release this morning due to the severe nature of the CPI overshoot Wednesday morning. That would be a classical instance of “*sell the rumor and buy the fact*.” And it is going to be interesting from here on the US equities only bouncing back to the June S&P 500 future failure levels in the low-4,100 area. While that would seem to make this morning’s bounce into the 4,110-20 range (late-April and ‘Yellen Yin-Yang’ lows from last Tuesday) problematic, the question is what will provide additional pressure?

It is not just the fact we are already through with the US influences today, there was also no European economic influence today due to it being the Ascension Day holiday in much of Europe. Also of note is the lack of much international data Friday morning prior to extensive important US releases, including Retail Sales, Industrial Production & Capacity Utilization, and Michigan Consumer Sentiment.

As such, the US equities and other asset classes get to trade on pure psychology until Friday morning US time. And for all of the recent weakness, the psychology still appears to be ‘risk-on’ except for the inflation fear selloff. At the very least, US equities have demonstrated they are a ‘two-way street’ by not reacting worse to a second day of disconcertingly high inflation indications. In the event, the overnight low (near 04:00 EDT) on negative follow-on psychology from the previous two day’s sharp selloff only dropped the June S&P 500 future back near the early-April 4,021-15 UP Runaway Gap. That is ultimately a good sign, and for a clear picture of the overall trend we suggest review of the weekly chart below.

There is quite a bit more to discuss on the dynamics of that UP Runaway Gap psychology, and we will do so if the market drops back near that area. Yet for now it is merely important to note that as long as the gap remains open (i.e. no trading down to or below the 4,015 low end), the higher 4,316 Objective (based on the weekly chart projection) remains intact… indicating it is still a bull market.

That might feel like a bit of a reach after the volatility of the recent selloff and the now prominent (mid-April to early-May) congestion above the market in both the 4,110-20 and 4,180-4,200 areas. Yet this sort of tendency has been apparent in this overall US equities

bull trend previous. Similarly daunting looking selloffs which saw it come back to push above resistance have occurred last September, into early-November, and again in February and March. This is not to say that the June S&P 500 future is necessarily ready to push back above the 4,110-20 area it is currently testing. Maybe, and maybe not. Yet it is clearly not a meltdown.

That this is a 'two-way street' lends credence to the idea the UP Runaway Gap can also still fully hold up (i.e. remain open) even if there is a subsequent selloff from no better than the higher 4,180-4,200 congestion (assuming it even manages to Close above 4,120 at present.) This is also consistent with the other 'risk-on' psychology indications from the other asset classes stabilizing after a couple of days of pressure. That includes the global govvies not recovering much of their recent losses (i.e. still reflecting an overall higher yield environment), and both developed currencies and emerging currencies holding against the US dollar.

Courtesy Repeat of Wednesday's 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/3exmtlC 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.

While that might have been a sustained top, the December S&P 500 future posting weekly Closes above first 3,505-10 and ultimately the 3,550 area was indeed again 'Risk On' Forever. This is confirmation of our estimation the US election would be a win-win for US equities, along with 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.

On recent form, the March S&P 500 future stalled into the old high, and then US equities struggled to sustain activity above the 3,959.25 previous all-time high by more than $10 (both a natural rule of thumb and key weekly Oscillator level) through all of that week. This was the further indication that Negation of the 3,931-35 dual resistance might be more of a 'failure swing' than full bullish signal.

There was even atypical weakness into the FOMC announcements and Chair Powell's press conference. Even the March S&P 500 future push back above the old 3,960 area high, saw various factors conspire to drop it back to 3,960 area. June S&P 500 future (front month since March 19th) also fell sharply below the previous week's 3,942 weekly Close. That was important insofar as it established a 3,942 weekly DOWN Closing Price Reversal (CPR), nominally a real top.

Of note that had a Tolerance at the previous week's high, most interestingly 3,958.50, right near 3,960 again. However, after overrunning that the previous Friday, a strong US Employment report pushed it up into higher 4,010 and 4,035 resistances. The following Monday there was a 4,015-21 UP Runaway Gap, where the Objectives are 4,193 with a higher one not until 4,316. As such, whether a push generally above 4,200 can be maintained is a key indication on that front.

It is also the case there is a weekly Oscillator threshold into 4,230 this week on the back of a $25/week rise in weekly MA-41. It appears the market anticipated this previous by leaving a 4,211 new all-time trading high two weeks ago (when that was going to be the Oscillator threshold into last week.) This made that level that much more critical a technical threshold on any attempt to extend the rally last week, and it was overrun despite the weak Employment report.

A really interesting part of the overall equation is whether generally overrunning the 4,200 area (including that lower 4.193 Objective), just means a likely test of the higher (weekly Chart) 4,316 Runaway Gap Objective? Yet on the current sharp selloff it revolves around the degree to which the June S&P 500 future can hold the 4,100 Tolerance of the 4,120-10 support, or needs more of a correction.

Much below the 4,100 area the overall up trend may need to correct back near or into the early April 4,021-15 weekly UP Runaway Gap. While that is seemingly a significant further slide, it is actually very reasonable based on the straight up surge from the gap activity into the upper-4,100 area prior to stalling in mid-April.

Thanks for your interest.

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