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ROHR ALERT!! PMI Friday Locks the Door

1 message

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Dear Subscribers,

...and the door that had slammed shut on the bears in the wake of US equities shaking off the sharp 'inflation conturbation' selloffs since the US CPI and PPI last week (noted since Tuesday's anticipation of further inflation concerns) now seems locked. While this morning's global Advance PMIs have been a bit mixed, they were mostly a bit better than estimates. Along with the US outperforming on both Manufacturing and Services, there is the general tendency that sometimes gets lost in the fine line economic 'tea leaf reading': They are all well above the 50.00 reading, indicating there is a broad and hearty global expansion in place.

That forward view does not even reflect other near-term (albeit 'rearview mirror') economic indications. The past couple of days saw outperformance as well in other data, some of it substantial like Thursday's Euro-zone Construction Output and Canadian ADP Employment, and this morning's Australian, UK and Canadian Retail Sales, and Italian Industrial Sales. So yes, there's going to be some 'supply disruption' inflation on the way back from major layoffs and temporary holidays, but, as noted for days, that is not the more pernicious 'demand-pull' inflation.

This producer level inflation and the problematic nature of whether the fears over that will indeed turn into consumer inflation was reviewed in Thursday's 'More Inflation Conturbation Volatility' ALERT!! based on the overshoot in annualized German PPI. Yet the Reuters article cited (and linked) in that research notes the informed views that this is that 'supply disruption' inflation. It was the same in Wednesday's UK inflation numbers being worse for PPI yet not as yet CPI.

For the edification of anyone who is not intrinsically aware, or who missed the Tuesday historic inflation economics review, the 'Inflation Conturbation' ALERT!! opening discussion on that topic is again repeated below. It's an important part of why it was so important to remain bullish last week into this week as the overly anxious inflation concern was the only reason US equities sold off, even as other 'risk-on' psychology assets were not that bothered... the market has spoken.

Yet with the June S&P 500 future back up well above the 4,120-00 congestion after nearing the far more important 4,021-15 UP Runaway Gap last week (on the serial hotter than expected US CPI and PPI), the up trend has been maintained. The problem for US equities bears (and by extension the 'risk-on' psychology skeptics) was always the need to not just drop below the 4,100 area, but to also get the market to '*break from a break*' to Negate that low 4,000 area UP Runaway Gap very bullish signal overall. Failing that, they are being punished once again.

This raises the issue of what to look for next, both for US equities in their own right and as a barometer of 'risk appetite'. Well, in the first instance, after what have been *de facto*

interim DOWN signals below the June S&P 500 future 4,120-00 congestion, that area is likely reinstated as support on any setback.

Especially note how after last week's significant sharp selloff on the US inflation numbers, Thursday's annualized German PPI overshoot (in overnight trading at 02:00 EDT) only brought the most temporary selloff (literally 3 hours) below the 4,120-00 area. It was a sign that the previous inflation concerns were abating.

And the next higher resistance after such sharp directional price swings was not until back up in the 4,180-4,200 area June S&P 500 future is beginning to retest at present. It is not just the recent congestion, as some weekly Oscillator thresholds also rise to the 4,175 and 4,200 levels next week (MA-41 rising \$20 per week.)

While there is also congestion near last week's new 4,238.25 all-time high, that was also the minor new weekly high prior to last week's Close below the previous week's 4,225 level. That created a weekly DOWN Closing Price Reversal (CPR), albeit a minor one that would seem to lend itself to Negation with any sustained activity back above the top of the 4,180-4,200 congestion. So what then? It is the case that the low 4,000 area UP Runaway Gap remaining intact leaves its higher (weekly chart) 4,316 Objective also still in force (see the weekly chart link below.)

After overrunning and reacting back below the lower (daily chart) 4,193 Objective over the past couple of weeks, any sustained activity back above 4,200 would also speak of a more significant extension above it. And the 4,316 Objective also loosely includes Oscillator threshold indications as well. The higher Oscillator levels set up at the highest weekly Closes back in December rise to the 4,270 and (*wait for it*) ...4,300 levels next week. As is often the case, after any significant reaction a market can extend to higher levels that would have seemed overdone in the near-term context on the earlier phase of a substantial trend surge.

It is the same in a much more measured way for the other 'risk-on' psychology indications from key foreign exchange area. While developed currencies are only gaining ground again on the US dollar in a nominal fashion, maintaining their overall bid is enough for now. However, the emerging currencies are back to being well bid (outside of the vexed Turkish lira), pushing back toward recent highs after some recent reactions. It all reinforces the 'risk-on' psychology.

Another Courtesy Repeat of Tuesday's 'Inflation Conturbation' ALERT!!

(for its perspective on the big difference in key forms of inflation)

It is clear now that fears of inflation can create some market disorder, yet that appears to be in the context of some inflation being expected within the current US economic reopening. And as such, while fears of overheating can weigh on the US equities and by extension the entire 'risk-on' psychology, the strength of the factors driving the higher consumer and commercial spending are going to be a positive factor overall unless and until inflation gets out of control.

It is much as noted in Friday's "From 'C.P.y-I-kes!!' to All Okay" ALERT!! on the 'macro' psychology creating a whiplash from near-term 'risk-off' right back to 'risk-on', and the drivers for those distinct influences are worth revisiting. This is in fact just as it evolved out of Wednesday's 'C.P.y-I-kes!!' into Thursday's 'Who's Afraid of the Big Bad Inflation?' ALERT!!, which was most telling insofar as it could have easily been 'PPI Too!' that morning... except for the fact US equities were rebounding nicely. And while we gave the

immediate reasons for the bounce back then, they are worth revisiting as the context for the 'macro' psychology.

While the Colonial Pipeline ransomware shutdown 'exigent' event and its upward pressure on gas prices may have been a psychological factor early last week, that being substantially resolved was contributing to a sense of relief. And there was also additional inflation impact anticipation built into the PPI release Thursday morning due to the severe nature of Wednesday's CPI overshoot. That seems to have been a very classical instance of "*sell the rumor and buy the fact.*"

However, US CPI rising a monthly 0.8% and 4.2% on an annualized basis with the equivalent PPI being +0.6% and +6.2% look like daunting levels of inflation. It is all well and good for the Fed (along with the ECB and other central banks) to shrug it off as 'temporary' distortions due to the post-pandemic reopening. Yet it is also at levels that might be disturbing across the time frame the Fed considers just temporary. In the current context that means quarters not just months.

On both an academic and practical level, how can the Fed and others remain so sanguine on this threat to future growth, and the potential for it to ultimately tighten up to a degree that might cause a contraction? The academic level is easy to understand, as the Fed can rightfully cite anticipated (and now real) production bottlenecks during such a rapid reopening where many mid-supply chain firms had to shut down so fully due to either lack of demand or pandemic quarantine health-based constraints. It takes a bit more time than many expect to reopen.

While the practical level may seem like it should be more straightforward, it is more so rife with contradictions which take some insight to understand. The fact is central banks have a sense of history, including previous economic phases. This sort of collective corporate intelligence seems to abide despite the partial replacement of some members from time to time. That is due to only selecting new members who are clearly knowledgeable on the bank and economic history.

That definitely applies to their knowledge of the drivers of inflation, and informs our view of why they are so focused on whether 'inflation expectations' remain well anchored despite any near term 'temporary' increases. Only if and when the average person sees a strong enough economy across time as well as prices rising on a sustained basis does inflation become the sort of 'ingrained' problem which requires central bank activity. That is due to a situation seeing higher wage demands with full employment creating pernicious 'demand-pull' inflation.

However, as strong as US employment has become over recent months, it is still only replacing jobs lost during the early-mid 2020 pandemic restrictions. And it is also the case that the higher prices for many of the intermediate goods in the PPI are based on industry constraints. Lumber is an excellent example where there is an abundance of raw material, but the mills having shut during the pandemic are finding it hard to reopen to a degree necessary to fulfill strong housing demand.

Even shortages of other items, like computer chips, are on a lack of production capacity for industries that have recovered faster than expected during the deep depths of the pandemic damage a year ago. There is also the fact that auto sales had remained strong once folks decided the expense for personal transportation was worth it once there was infection concern about using public transportation.

Yet all of this is still related to 'supply disruption' inflation. And the experienced folks at the Fed and other central banks know that this can be temporary, even if that extends over several quarters. Within sustained economic recovery it is assumed that businesses will want to take advantage of those higher prices by producing more of those goods. The problem now is so many of the intermediate goods being up in price also increase the price for creating the new production... like steel and lumber for construction and copper for plumbing and wiring.

This creates a hurdle for companies looking to take advantage of higher prices for their products. Yet that will likely be overcome across time, and the supplies will come online and prices will weaken to some degree. We feel that is the Fed's (and other central banks') calculus now in not moving more strongly to restrain the current round of inflation... as long as they see the need for further economic expansion during the post-pandemic recovery, and not 'demand-pull' inflation.

What is the point of this little central bank economics lesson for the markets? Well, that should be obvious from last week's 'macro' whiplash: inflation can seem bad enough to create a scare. Yet to the degree it is to be expected in the context of an economic reopening after a severe disruption, economic growth will likely still carry the day for the US equities and the overall 'risk-on' psychology.

Unless and until there are more signs of 'demand-pull' inflation, the Fed will likely tolerate what would normally be historically unacceptable levels of inflation. It is more so whether there are any signs that labor conditions are strong enough for workers to go out on strike. If that were due to consumer inflation anticipation being so strong that they felt they had no other choice, it could create the sort of vicious circle the US and world saw from the late 1970s into the early 1980s.

Even though there seems to be somewhat of a US worker shortage at present, whether encouraging folks to get back to work will require high enough wages to assume that inflation expectations have become 'unmoored' (to use a term made famous by Alan Greenspan) is problematic. And from a market perspective, the US equities along with other currencies against the US dollar are seeing it more so of a continued 'risk-on' environment at present. Especially note the June S&P 500 future recovery from so near the critical early-April 4,021-15 UP Runaway Gap early last Thursday (chart link below), moving back above the 4,100-20 area.

Courtesy Repeat of Thursday's critical consideration

(see above for the extended US equities psychology into next week)

On previous form, the March S&P 500 future stalled into its old all-time 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. That is clear on the front month S&P 500 future weekly chart (<https://bit.ly/3eY9k5q> updated through Friday.)

There was even atypical weakness into the mid-March FOMC announcements and Chair Powell's press conference. Even a 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 an early-April weekly Oscillator threshold into 4,230 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 the previous week (when that was going to be the Oscillator threshold into early April.) This made that level that much more critical a technical threshold on any attempt to extend the rally, and it was overrun despite the weak April 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 recent sharp selloff it revolved around the degree to which the June S&P 500 future could hold the 4,100 Tolerance of the 4,120-10 support, or needed more of a correction.

Much below the 4,100 area the overall up trend corrected back near the early April 4,021-15 weekly UP Runaway Gap, as expected. While that was a significant further slide, it is actually very reasonable based on the straight up surge from the gap into the upper-4,100 area prior to stalling in mid-April. Having recently been above 4,100-20 again of late and now back below it sets up another potential test of that key 4,021-15 gap, with the key factor being whether it remains open.

Also of note is the front month S&P 500 future weekly MA-13 moving up from last week's 4,030 area to 4,044, further reinforcing the importance of the 4,021-15 UP Runaway Gap as an Evolutionary Trend View area and psychological indication.

Thanks for your interest.

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