



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

ROHR ALERT!! Still Buying the Central Banks' Line

1 message

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

Thu, Jun 10, 2021 at 10:13 AM

Dear Subscribers,

Today's highly anticipated US CPI was once again above estimates at +0.6% (versus an 0.4% estimate) headline and core at +0.7% (versus an 0.4% estimate.) As expected, that was right into Madame Lagarde's also still very accommodative ECB press conference (<https://youtu.be/ChuPTLUT1YQ> actually beginning about 10:00 into the video.) Right from the opening Monetary Policy Statement (<https://bit.ly/354KlRh>) she was clear that the monthly bond purchases would continue at €20 billion "as long as necessary", along with various bank support programs, until the ECB sees the economy is nearing the point where it is strong enough to consider raising its base rate from the current 0.0%.

This is of course right in line with the Fed's extended inflation forbearance in the context of still weak employment at the lower end of the labor market. The ECB is also even allowing several months of slight increase in core inflation (ex-food and energy), yet saying due to weak wage growth that would likely end by early 2022.

All in all the more accommodative FOMC and ECB (versus the slightly less so BoE and especially Bank of Canada) are asking the public and the markets to allow for some near-term inflation that they assure will wane in 2022. And the market responses today are indeed 'buying the central banks' line in that regard, as opposed to the sharp concerns a month ago on the initial round of the US CPI overshoot (at +0.8% headline and +0.9% core.) As we assume everyone recalls, the concerns over central bank lassitude fomented a major US equities selloff.

Yet as we also noted at that time and subsequent, as long as the inflation is seen to be 'supply disruption' driven (due to reopening pressures and dislocations) rather than the more pernicious 'demand-pull' excessive wage demand form, the central banks can assert it will be transitory. While there are some clear wage pressures in the US and elsewhere, at least so far they are also being attributed to the reopening pressures: folks who have moved into other roles leaving a lack of lower end employees (especially in food service, hospitality, travel, etc.), and those who have younger children in schools that have not fully reopened.

On current form (into the end of the ECB press conference at 09:30 EDT) the US equities are higher, instead of under pressure like a month ago. That said, June S&P 500 future (front month until the end of next week) was only modestly above the early May 4,238.25 all-time high. Yet that is also in the context of bears not being able to foment anything more than modest selloffs this week after two weeks of retests of the important 4,193-75 area. While not as forceful as previous rallies at this point, it is possible an extended phase of a bull trend can churn.

Rather than the explosive 'Roman Candle' style activity seen from mid-2020 into earlier this year (as recently as after the early April UP Runaway Gap), the front month S&P 500 future might act more like toothpaste being squeezed out of the top of the last several week's

constrained trading tube. That would be at least until it possibly shows more sustained activity above the 4,238.25 all-time high, at which point it might develop more momentum toward the 4,316 higher Objective of the early April weekly UP Runaway Gap (see the annotated chart link below.) The only hurdle will be the higher weekly Oscillator rising to 4,260 next week.

There are also the other 'risk-on' psychology indications that are conforming to "buying the central banks' line", like the emerging currencies regaining their bid after a nervous (pre-US CPI?) downside reaction on Wednesday. There is also some pressure returning to the global govies that have rallied so nicely over the past several weeks. Yet that is in the context of recoveries from major selloffs out of February into early April (and even May in the case of the European govies.)

The one other aspect Madame Lagarde raised as a possible risk factor is the resurgent COVID-19 with the new Delta variant. As noted in Wednesday's 'OECD CLI versus COVID-19' ALERT!! (repeated below for your ease of access), this is likely the concern that created the recent 'bifurcated' psychology: US equities and emerging currencies up, yet global govies getting an extended bid. As she rightly noted, COVID-19 uncertainties are especially regarding travel and tourism along with domestic activity. Yet at least for now, that is not a major influence... ..however with our repeated admonition to especially keep an eye on China.

Courtesy Repeat of Wednesday's 'OECD CLI versus COVID-19' ALERT!!

This month's Organization for Economic Cooperation and Development (OECD) Composite Leading Indicators (<https://bit.ly/3csVDtx> for our mildly marked-up version highlighting some key factors) are as upbeat as we suspected. After all, why would they have weakened in the global economic reopening environment coming out of the full year of COVID-19 pandemic lockdowns and restrictions? Just as a reminder, this is a four month forward view: a six month projection released on a two month delay to ensure veracity of the economic indications.

Beyond headline indications, the breadth of global recovery is striking. As noted, "*The CLIs have continued to increase steadily in the United States, Japan, Canada and in the euro area as a whole, including Germany and Italy. Although remaining below trend, the CLIs for the United Kingdom and France now also signal a steady expansion.*" Only COVID-19 plagued India and Brazil seem to lag.

And as has been the case for months, as the earliest to heavily clamp down on the early COVID-19 outbreak which originated there, China has seen the most impressive sustained recovery (as is obvious in the graphics.) In this way it is important for the global recovery, with lower than expected Chinese exports reported on Monday, yet stronger imports. While it is hard for us to admit, leading the way out of global cyclical contractions used to be the US role compared to the always weaker recoveries in Europe and Japan. Now it seems to be China.

Of course, that is in part due to China's top-down control society, where the extent of the early COVID-19 quarantines were on a level that is just not possible in the open Western countries. Just to be clear, this is not stated as a criticism of China, but rather an observation on COVID-19 pandemic response. It is also in part due to the command economy's ability to overproduce key goods. That was especially the case for critical PPE for medical purposes during the pandemic.

We will leave whether this is evidence of Chinese 'conspiracy' to political pundits and security specialists, as it makes no difference to markets. What is becoming more relevant once again is the arrival of the COVID-19 'Delta' variant in China. According to a well-rounded CNBC article (<https://cnb.cx/3v6O7Lh>), this is a more infectious variant first identified in India as the B.1.617.2 mutation. No surprises that a mostly unvaccinated open economy of 1.36 billion would be the source of COVID-19 variants. The virologists are right on the need for global vaccination. (On the other hand, we are still big fans of ramping up therapeutics production.)

The problem for the global economy as this more highly infectious and possibly vaccine resistant variant has also spread to other countries. Might the economic reopening be at least partially derailed? From a straight market perspective, it is of note that even as the US equities quietly churn up to the front month S&P 500 future 4,238.25 early-May all-time, the global govies have recently shown some relentless strength of their own. That is typically a sign of trouble to come, even if their rallies are in the context of previous heavy February into April pressure.

The further sign of a 'bifurcated' psychology is the continued strength of many emerging currencies against the US dollar. While this has been in fits and starts of late on the leadership rotation, the overall strength has been impressive since some downside reactions on the mid-May US equities weakness. As such, while we remain bullish US equities at present, we will be monitoring the COVID-19 Delta variant progression, and especially near-term market reactions. That will be even over and above the obvious impact of Thursday's early US CPI (recall last month's volatility) and the ECB announcement and press conference (08:30 EDT.)

This is the critical consideration

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/3wcAk7r> 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 was actually very reasonable based on the straight up surge from the gap into the upper-4,100 area prior to stalling in mid-April. Yet the inflation concerns which triggered the mid-April selloffs have been addressed.

As such, June S&P 500 future pushing back above the previously tested lower early April UP Runaway Gap 4,193 (daily chart) Objective would seem to speak of it maybe being ready to extend the rally to a higher 4,316 (weekly chart) Objective. Yet that push above the 4,193 (daily chart) Objective at this point is also in line with this week's 4,215-4,240 weekly Oscillator thresholds (MA-41 rising \$20/week.) 4,193 down to 4,175 should still be viewed as key near-term congestion support.

Repeatedly respecting that still leaves the door open to exceeding the early May 4,238.25 all-time high. This is in the context of the higher Oscillator levels set up at the highest weekly Closes back in December rising to the (*wait for it*) ...4,310 and 4,340 levels this week. It is also therefore a Friday Closing indication which is now fully in line with that higher 4,316 (weekly chart) Objective. As is often the case, after a significant reaction a market can extend to higher levels that would have seemed near-term overdone in the context of an earlier strong trend surge.

Thanks for your interest.

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Contact: rohralert@gmail.com

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