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ROHR ALERT!! Much the Same on Delta Variant

1 message

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Wed, Jul 21, 2021 at 10:19 AM

Dear Subscribers,
While it would be easy to be impressed with Tuesday's US equities sharp recovery, that was only regaining some of the ground it lost on the Friday-Monday sharp selloff. It is also inconsistent with the continued 'risk-off' psychology in the other asset classes. As such, we are tending to not trust the US equities as a barometer for the overall market response to the Delta variant predations.

In addition, we need to allow that there is higher US equities resistance not immediately covered in Tuesday's 'How Bad Might It Become?' ALERT!! (repeated below for your ease of access to the Evolutionary Trend View key lower price levels contingencies.) That is last week's front month S&P 500 future weekly DOWN Closing Price Reversal (CPR) from the previous week's 4,360 Close (with a Tolerance to its 4,364 trading high), yet with the 4,316 Objective still important.

That indicates a lot of room for more of a near-term rally that would still leave a topping signal in place. Recent strength could be part of the previously resilient US equities psychology, where sharp selloffs needed to be bought very quickly to avoid missing the best bull trend entry levels (except for the more extensive early May selloff, which also recovered timely.) As such, performance around the 4,316 area will be important, along with the 4,300 and 4,270 areas later this week.

And in addition to the forward looking weight on the global economic reopening psychology from the extensive Delta variant spread (see Monday's 'Olympian Failure' ALERT!! for much more on all of that), the headline 'rearview mirror' economic data is now also weakening. Today's much weaker than expected Japanese Merchandise Trade Balance, Australian Westpac Leading Index and Retail Sales, and Italian Industrial Sales means those general previously strong indications for the global economy might be reversing into weak current data.

The silver lining in that darkening previous bright cloud might be the degree to which it justifies the central banks' continued extensive accommodation; which many had come to question while the outlook was more upbeat. Yet that central bank largesse was never in doubt for informed observers, as according to Fed Chair Powell the situation was not improving enough to justify any significant accommodation withdrawal anytime soon. Even various FOMC members pulling their rate hike expectations forward were mostly from 2023 into 2022.

Further indications of continued accommodation came from the PBoC holding steady Tuesday at 3.85%, and this morning's BoJ meeting minutes (more in this Reuters article https://reut.rs/3rqArKN) also highlighting continued weakness amidst the inflationary pressure actually being a deflationary influence overall. That may sound a bit perverse, yet the producer inflation is a headwind for an economy where levels of consumption will still suffer from the Delta variant.

That likelihood for the global reopening to hit more headwinds as the more highly transmissible Delta variant takes hold (now even in the previously blessed US) means the economic prospects are waning to some degree as well. It is now the case that the churn in the other currencies against the US dollar has turned decidedly weak (more below.) And while the global govvies are weakening a bit after their recent significant rallies, they will need to slide a bit further to reinforce any sense of real economic strength; like the September T-note future back below the low end of the 134-00/-16 range, and September Bund future below 175.50-.00.

And the next test of the central banks' influence will come with Thursday's ECB rate decision and press conference, which was always going to be one of the more important inflection points during an otherwise more subdued reporting and events week. That will be followed by Friday's global Advance PMIs, with their further indication of how much market trend influence still resides with the central banks and 'rearview mirror' data versus the Delta variant spread.

Courtesy Repeat of Tuesday's 'How Bad Might It Become?' ALERT!!
That's a very good question. And as we noted again in Monday's 'Olympian Failure' ALERT!!, "...*the market gets the final say*." This is why it is now so important to crystalize the Evolutionary Trend View of especially the US equities along with select other markets. The September S&P 500 future has specifically finally dropped back toward key trend support levels that the front month future seemed to avoid reaching on any reactions since the last significant selloff.

That was the bout of nerves which drove the wide sideways September-October price churn into last November's US general election. While at various points since the late-October 3,225 trading low the week before the election the front month S&P 500 future has retested the key weekly MA-13 trend indications, it never quite got back down to the more aggressive UP Channel from the major 2,174 March 2020 pandemic implosion trading low. That support projection is dictated by the topping activity into June and September (link to chart below.)

While slightly missing it back on the late June reaction, early this week that 4,210 area UP Channel support was neared on Monday's drop to 4,224. As usual, we are also interested in any confluence of technical trend factors which reinforce the critical nature of a seemingly important trend decision area. In this case there is also weekly MA-13 at 4,240, which means any sustained violation of the 4,200 area would speak of at least a near-term trend reversal for more of a correction.

Yet as also noted on Monday, one of the striking aspects of the current selloff is the degree to which it is an analog for the early-May overrunning of the lower 4,193 early April UP Runaway Gap Objective. That not being sustained led to a significant downside correction. And after attempting to overrun the higher 4,316 UP Runaway Gap Objective over the past several weeks, any violation of near-term trend support would speak of a similar potential for the current selloff.

It is also of note that the 4,200 area (i.e. around that old 4,193 Objective) is an interim congestion area. On the other hand in light of this morning's near-term recovery from Monday's carnage, the 4,300 area is violated support, with its violated 4,265-80 congestion Tolerance as more immediate resistance. That sums up the near-term contingencies, even if with more prominent support lower.

That is of course into the 4,200 area noted above, and not much below that until the 4,120-00 area. In addition to that being clear congestion, that support vacuum is also reinforced by the nature of the May and June holding actions and selloffs. Yet if there is more of a correction based on the Delta variant predations on the global population and by extension economy, there is key lower support back into the 4,000 area based on that 4,021-15 early April UP Runaway Gap. And it will indeed be very important whether that holds or is overrun by any degree should the market weaken that far. As a gap, it should provide extra support in that area.

However, if it is overrun by any degree (below the 3,950 congestion and weekly MA-41), there could be significant further damage. To be clear, in the context of at least much greater COVID-19 vaccination, we are not suggesting anything quite as dire as last year's 36% selloff from the early-February 3,397.50 high to the 2,174 March trading low. The current equivalent would be a drop to the 2,800 area.

However, if the front month S&P 500 future should violate 4,000-3,950 support, the next major UP Channel is not broadly until the 3,600 area (once again link into the chart below.) That may seem like a long way down even from the 4,000 area. However, note how the March 2020 failure of the 3,000 area support led to such a rapid test of the 2,600 broader UP Channel support; and that was despite the clear June-October 2019 bull trend pullback lows in the 2,855-2,728 range.

That sums up both the near-term and broader contingencies facing US equities on this reaction to the more troubling Delta variant surge noted for a while. It is somewhat like last February-March, when neither positive 'rearview mirror' data nor the splashing out of central bank largesse were able to restore the 'risk-on' psychology once the initial COVID-19 spread was deemed a global catastrophe.

The US equities view is also more important now that 'risk appetite' is back into more correlation between asset classes. While they had been detached from the US equities more upbeat sentiment for a while, both the developed currencies and emerging currencies seem to be under pressure on the latest shift to more of a 'risk-off' psychology. This is apparent in the strength of the US Dollar Index, as noted in Monday's 'Olympian Failure' ALERT!! (repeated below for your ease of access) along with the assessment of the extended global govvies strength.

The operative 'macro' question from Monday remains: How can the sustained less upbeat COVID-19 Delta variant influence possibly be reversed if the broadly expected upbeat reopening psychology remains under near-term pressure?

Courtesy Repeat of Tuesday's 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/2UZokbC updated through Monday.)

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 was whether overrunning the 4,200 area (including that lower 4,193 Objective), just meant a likely test of the higher (weekly Chart) 4,316 Runaway Gap Objective? Yet June S&P 500 future pushing back above the previously tested lower early April UP Runaway Gap 4,193 (daily chart) Objective seemed to speak of it being ready to extend the rally to the higher 4,316 (weekly chart) Objective.

The question on the previous downside reaction was whether the September S&P 500 future ($10 discount to expiring June contract) could re-establish upside momentum back above the 4,200 area from its weakness below the 4,175 Tolerance. That was necessary to make sure the market felt Powell provided enough comfort on inflation and planned Fed action in his testimony at that time.

That is exactly what transpired. That left the 4,200 area support once again if there was any setback from around the old mid-May 4,238 all-time high. Yet instead it churned above the Immediate higher resistance at the previous week's 4,246 weekly DOWN Closing Price Reversal (CPR with 4,249 Tolerance.) The new mid-June 4,267.50 all-time high (part of the DOWN CPR) being exceeded (still in mid-June) for another new all-time high clearly Negated that topping signal.

It was the case that weekly Oscillator thresholds were 4,355 and 4,380 last week, which were tested but Closed back below at the end of the week. In fact, Friday's weakness looked particularly problematic in being back down around the 4,316 higher weekly Runaway Gap Objective. That meant further overnight weakness into Monday was finally the first real problem for the bulls in a while. That will once again be important for this week's Close, with its 4,300 area and its 4,275 Tolerance also being key indications after Monday's sharp selloff.

As the nature of the extended lower supports like the 4,200 area have been thoroughly reviewed in today's opening discussion, we strongly suggest a review of that and the lower contingencies for anyone who has not done so already.

Thanks for your interest.

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