
ROHR ALERT!! Moderating Inflation into Consumer Reticence

1 message

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Wed, Aug 11, 2021 at 10:54 AM

Dear Subscribers,

While the US equities are finally pushing further above the recent key resistance, that remains less than impressive, as was already noted in previous analyses and especially in Tuesday's 'Lackluster Jailbreak' **ALERT!!** (repeated below for your ease of review.) The reason for this may well be that the better than expected 'rearview mirror' economic data is being countered by the Delta variant cross currents due to the rampant US spread (see Tuesday) as well as elsewhere.

As we have repeatedly noted, the issue is not the pure new infection rate so much as the impact on public perception. Whether folks are less inclined to participate in the 'gathering' activities which have so decidedly driven success to this point of the global 'reopening' is the real issue. And a very significant sign of that has just surfaced this morning, in the form of a profits warning from US carrier Southwest Airlines. This morning's timely Reuters article (<https://reut.rs/2VDQbik>) lays out the key details, like Southwest becoming "*...the first big U.S. carrier to warn of a hit from the more infectious Delta variant of the coronavirus...*"

Even more detail on the nature and extent of the Southwest warning was shared in CNBC airlines expert Phil LeBeau's report (<https://cnb.cx/3xJNadi>) on the Southwest situation being driven by "*...a real deceleration in close-in bookings and also seeing acceleration of close-in cancellations.*" He notes this is all the more striking after an interview just three weeks ago where Southwest CEO Gary Kelly was adamant that the Delta variant was not having any effect on Southwest. The same was indicated last week by Frontier Airlines, also based on the public's renewed fears likely also applying to other activities (dining, hospitality, etc.)

On the other hand, the global inflation numbers came in about as expected today, which is somewhat of a win for markets and the central bankers on no additional upside surprises that had been the case over the past several months. And one of the key items there was the leveling off of US used car prices that had previously been up so sharply. Obviously this is also a bit of a fillip for US equities insofar as it reinforces the central bankers ideas on inflation (hopefully) being transitory.

As that will also assist them in maintaining full accommodation, it is once again a bit surprising that it has not created even more radical US equities strength. However, this will need to be monitored later this week for any sign September S&P 500 future will be able to surmount not just the lower 4,425 weekly Oscillator threshold, but also the higher end 4,450 area (just as it rose above the higher of the two 4,425 level at the end of last week.) It's going to be interesting again.

Along with that it must be allowed that the other asset classes are reflecting a bit of a repaired 'risk-on' psychology. The global govies may have stabilized a bit after recent weakness, yet are not regaining any significant ground from their selloffs late last week. That's a bit of a 'risk-on' indication along with both the developed currencies and emerging currencies firming against the US dollar. Especially note that at least so far EUR/USD has defended its key 1.1700 support.

Courtesy Repeat of Tuesday's 'Lackluster Jailbreak' **ALERT!!**

As noted in Friday's 'Great Numbers, Mixed Response' **ALERT!!** (repeated below for your ease of access), the over the top US Employment report did not drive the sort of overt US equities strength that might have been expected. In fact, in light of the significant increases in the previous Nonfarm Payrolls numbers, it should have been the basis for a US equities explosion, and general 'risk-on' response.

On that broader psychology it was even more of a disappointment to the 'risk-on' bulls that the US equities muted push above resistance that is still stalled into early this week. While the global govies

have come under some pressure (more so in the US at present) after their recent rally, foreign exchange has seen marked damage to the 'risk-on' psychology in both developed currencies and emergings.

Of particular note is EUR/USD recovering from activity in the somewhat critical mid-July test of the 1.1750 area to back above its interim 1,1815 congestion two weeks ago. Yet by late last week it was back down into that mid-1,1700 arena with slippage this week establishing a fledgling weekly Head & Shoulders (H&S) Top DOWN Break (see the weekly chart through Friday (<https://bit.ly/3jvPI9E>).

That is based on violation of the Neckline (solid blue line) across reaction trading lows last November and again in late March. Yet that leaves if it at least posts a weekly Close below the important late-March 1.1700 area trading low. As that is the low between the Head (H) and Right Shoulder (RS), its violation is always a key indication of whether the H&S Top is a bona fide pattern reversal. With it already very near that level into today, its activity later this week is both important in its own right for EUR/USD, and as a sign of the overall 'risk appetite'.

In a further sign of the damage to risk appetite, recently more buoyant emerging currencies are back under quite a bit of pressure. USD/ZAR is back up from below 14.50-.40 area to above 14.70, and USD/MXN is back from its next vigorous test of the 19.80 area to well above 20.00 toward the 20.30 resistance. There is also the weakness of Crude Oil, back from a rally retest of 74.00-75.00 resistance to below 70.00-69.00 on another selloff (same as two weeks ago) near 65.00 next support.

Why all of this global market review as it relates to the US equities? It is because the September S&P 500 future still being stalled against the 4,425 high end of last week's near-term weekly Oscillator indications managed to push up through it, yet only marginally for last week's 4,429.50 Close. Considering it had been stalled against in a narrow range (\$60) for two weeks, it might have been expected to perform much better on the resistance violation than a 'lackluster jailbreak'.

While that is finally seeing a bit more progress so far today (up to the 4,436 area), it is going to be very interesting to see how that evolves into the weekly Oscillator thresholds still rising \$25 per week, to 4,425 and 4,450 this week. Overall various asset classes are painting a less than positive 'risk appetite' picture. As we are always quick to remind, the markets get the final word on the interpretation of the 'macro' fundamental factors, and are always 'creatures of expectation'.

Amidst all of the relatively positive economic releases and clear central bank indications of maximum accommodation being maintained for now (even if a bit less so on the recent strong US data), what might the problem be? Kids! In the context of the impact of whether children will be fully back in school this fall having a significant impact on the workforce (obviously quite a bit more so on female workers), there are significant questions over the impact of the Delta variant on the current and even greater near-term future return to school.

Whether full-time in person learning will actually be a success, especially in the context of the Delts variant risks to children and teens and their families, is also going to be an economic factor. As we have often noted regarding COVID-19 and now especially the Delta variant which seems more troubling for younger folks, it is not the new case numbers which are important in their own right... yet rather the economic impact as the infections and illness affect the overall economy.

That said, sheer infection levels in the US are back to being daunting at present. Last week we noted that the daily new cases were surging, and especially the 7-day average was up near the key July 2020 and March 2021 69,000 level from both before and after the major Winter surge. The question for healthcare and the general economy (given the potential reimposition of pandemic restrictions) was whether things would worsen in a way that was avoided this Spring into what has been a blessedly more benign early summer? Well, the answer is it is back!!

The latest CDC data on new daily infections (<https://bit.ly/3Cw3Vfj>) during the second half of last week was consistently above 120,000, with the 7-day average above 100,000... far exceeding that important 69,000 threshold. While many informed sources are hoping that this latest Delta variant surge will 'flame out' as it seemed to do in India and the UK (see Monday's CNBC interview video of the estimable Dr. Scott Gottlieb <https://cnb.cx/3xzounE> for much more), there is no guarantee, and the situation in US primary and secondary schools is of concern.

For quite a bit more on the full picture, please see Monday's very extensive and insightful Washington Post article (<https://wapo.st/3yBLDXZ>.) In addition to the children and any vulnerable individuals in their families, there are also concerns among the teachers as more than a few US state Governors are attempting to prevent any local level mask mandates. There is also growing animosity toward the unvaccinated among the vaccinated who are pushing for employer mandates.

All of that said, the ultimate influence to finally implement mandatory vaccination (whether government or employer) will have to do with the fate of the school kids. It is likely that only explosive growth in the cases of severe illness, or tragically even death, among the children themselves will drive any change. Once again, this is only relevant to the markets in the degree to which it affects the inability of parents to be available for the labor force due to any decisions to keep children at home rather than send them to schools which are viewed as too risky.

As this is not something anybody really wants, and based on any labor market restrictions may actually drive more wage inflation among the restricted pool of available workers, any situation like that (along with any renewed overall public reticence due to infection fears) may be short-lived. However, we surmise that any renewed economic disruption due to the Delta variant is not currently priced into the US equities... even as it does seem apparent in foreign exchange.

Courtesy Repeat of Tuesday's critical consideration

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? That is clear on the front month S&P 500 future weekly chart (<https://bit.ly/3xwOLTt> updated through Friday.) 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.

After the early July downside reaction the recovery back above the 4,300 area violated support left the higher resistance into the previous week's 4,360 DOWN Closing Price Reversal with a Tolerance to 4,364. It is of note the September S&P 500 future had managed to retest that area right into the ECB press conference prior to weakening once again the following Thursday morning.

That sums up the near-term contingencies, even if with prominent support lower. The more major lower support is also the low 4,200 area based on the aggressive weekly UP Channel from the March 2020 pandemic-driven major cycle low (see the chart.) Of note based on previous form, there is 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.

That said, the September S&P 500 future sustaining activity later last week above the 4,400 and 4,425 weekly Oscillator thresholds was a sign of continued strength after they rose another \$25 into last week. That also means this week the higher Oscillator indications rise to 4,520 and 4,550. As such, the Oscillator indications remain important on the at least so far 'lackluster jailbreak' from late last week.

Thanks for your interest.

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