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ROHR ALERT!! The Delta Glitch?

1 message

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Mon, Aug 16, 2021 at 10:29 AM

Dear Subscribers,
While on Friday our ALERT!! title was 'The Grind Higher Succeeds', we have consistently highlighted the residual threats to the US equities 'risk-on' psychology from the extended implications of the COVID-19 Delta variant. That is in part on the epidemiological more aggressive highly transmissible spread. However even more so for any market impact was the potential social and especially economic impact. Those are of course related to the likelihood of any economic restraints being reimposed after the success of the recent reopening.

Even beyond select recently enacted government protocols (New York City, California, etc.), there is the drop in consumer sentiment (as in Friday's Michigan number) that may be related to the return of public reticence regarding the Delta variant transmissibility we have highlighted previous. Yet there is also a specific direct economic impact as it regards the resurgence of COVID-19 in China. It is suspected that this morning's announcement of much lower than expected Chinese Industrial Production and Retail Sales is a COVID-related function.

For more on this see this morning's Reuters article (https://reut.rs/2XwFDC4 including a brief video clip.) It cites the perspective from one well-informed analyst that due to "...*China's 'zero tolerance' approach to Covid, future outbreaks will continue to pose significant risk to the outlook*." That is despite 60% of the population being vaccinated, as the Chinese government is in a unique position to enforce stringent lockdowns. This also raises the specter of delayed shipments from Chinese manufacturers to global retailers, and also for parts deliveries to US, European and even Asian manufacturing industries.

There is also the impact on the US labor situation from the current extended outbreak among younger children as the US increasingly heads back to school over the next couple of weeks. As that was reviewed at length on Friday, we refer to the analysis below for more details. That said, ex-FDA head and Pfizer board member Dr. Scott Gottlieb was interviewed on CNBC (https://cnb.cx/3g8gns7) this morning, and what he had to say was disturbing. That was insofar as the US that has invented many of the COVID-19 tests remains well behind many of its peers in testing and tracing. This is especially a problem in identifying even the extent of the COVID-19 infections among children during the rapid Delta variant spread.

He suspects it is very much worse than the current headlines suggest. And as we have noted previous, this is an issue for the return to work of parents of younger children, especially in states where authorities have instituted proscriptions against the local imposition of 'mask mandates'. The good news may be that the locals are going against their state level officials in some cases. The bad news is that the spread of the symptomatic form of the disease to many more younger children than seen with earlier variants is already creating serious disruption.

We always note that any sustained US equities downside reaction in a bull trend must be based on more than one problem. Yet at present there is the dual Delta variant problem of the direct impact on global manufacturing through the combination of individual country constraints, and the overall impact of any export constraints in China due to lockdowns (which the Chinese government has been so effective in enforcing.) Then there are also the current inflation fears.

Intermarket indications between various asset classes are also not supporting a return to the previously weakened 'risk-on' psychology at present. With the US leading the way, the global govvies have the bid back. The September T-note future is up into the high end of its 134-00/-16 key congestion after the recent dip below it. The Bund and Gilt are also hanging around just below key areas.

Foreign exchange is a more nuanced picture, yet with the developed currencies in a decisive phase after last week's EUR/USD weekly Head & Shoulders Top fledgling 1.1800 area DOWN Break (https://bit.ly/3iOKPJy.) Whether it can push well above that area soon, or ends up slipping below the 1.1700 area March low it defended last week will be a key sign for the overall global 'risk appetite'.

Emerging currencies remain weakish against the US dollar overall despite their recent rebound from previous pressure. And the final indication is a Crude Oil market that continues to see WTI weak below the 70.00-69.00 arena, which is also a sign of lack of confidence in the global economy continuing to reopen.

This all comes around to the often more upbeat US equities in the form of September S&P 500 future slipping back below the 4,450 area that it managed to claw its way above later on last week. That was the high end of the weekly Oscillator levels last week, which has become the low end of the near-term Oscillator thresholds this week (on weekly MA-41 continuing to rise $25/week.)

As such, an inability to reassert its rally at least back above that level later this week (and also ultimately push above 4,475) would represent a loss of near-term upside momentum. That said, (as noted previous) 'stalling' does not represent a 'reversal' unless lower support is broken. At this point the immediate level to keep in sight is the recent 4,425 congestion it could not stay below last week, with the more prominent congestion back into 4,380-65 area (also weekly MA-9.)

Courtesy Repeat of Friday's 'The Grind Higher Succeeds' ALERT!!
While we have noted the sluggish nature of the US equities rally, it has also been noteworthy that there has been no violation of near-term lower support over the past several weeks. That was the September S&P 500 future 4,425 area higher weekly Oscillator threshold last week that it only exceeded late week. As noted often of late, weekly MA-41 is still rising $25 per week. As such, exceeding that higher near-term level last week left the higher level up to 4,450 this week.

Therefore, the move above 4,450 late this week confirms that at least in the near term the 'US Equities Grind Higher' (title of Thursday's ALERT!! repeated below for your ease of access) has succeeded in sustaining the bull trend. That is important with such a lack of immediate aggressively bullish response to the very strong US Employment report last Friday. Yet, as like all recent weeks, those Oscillator thresholds move up another $25 into next week. That puts the lower end up to 4,450 and the higher end up to 4,475, creating the next challenge.

The other challenges are the degree to which the other asset classes are not fully participating in the US equities indication of a return to 'risk-on' psychology after that had weakened a couple of weeks ago. While there are quite a few more specifics in Thursday's ALERT!! below, in a nutshell foreign exchange is seeing only a modest weakening of the 'haven' bid in the US dollar, as represented by the orderly US Dollar Index retracement from near its 93.30-.40 resistance.

It is also of note that the global govvies are holding in rather well on their reaction from key higher resistance levels. The full review of those resistances and how elevated the govvies are compared to their lower supports is all in the repeat of Thursday's analysis below. Yet there are also the telling COVID-19 Delta variant impacts covered extensively of late, which are becoming more prominent.

For one thing, the now typical early US return to primary and secondary schools at present (soon to accelerate) is seeing the sort of problems regarding the Delta variant's higher transmissibility we (among others) have discussed at length. However much there was hope that the same sort of young person immunity which was prevalent with previous variants would apply now, it is not the case.

This article from the local Biloxi, Mississippi news channel (https://bit.ly/3iInadl) lays out what is now the problem in that local school district. That is also the case throughout the US South and Southeast, which is about to be repeated in any of the other states and especially in those where the Governors are weighing in against local 'mask mandates' (Florida, Texas, etc.) As the article notes, the Mississippi Department of Health "...*defines an outbreak in a school setting as three or more individuals who have been diagnosed with COVID-19 in the same group within a 14-day period. So three people in one classroom would be the same group*." Several Mississippi schools are now closed for two weeks.

It is the sad case that the Mississippi situation is going to be repeated throughout the 'anti-masking' and 'anti-vax' communities in the South and elsewhere. It is a sign of how backward things are in the US that all of these folks who were obsessed with the 'state' not dictating that their children should be forced to wear masks to return to school are now seeing their kids forced back into in remote learning due to the highly transmissible nature of the Delta variant.

As a reminder, even all of the concern about illness is less of a market influence than the US economic impact. That has to do with two major aspects. The first is the ability of parents to be fully available for out-of-home work instead of having to mind younger children. As noted on Thursday, "*There is also a still struggling labor hiring market based on employee resistance (including whether kids will indeed be safe going back to school) despite the very strong headlines...*"

Yet the other aspect we have been concerned about of late is the overall impact of the still aggressive Delta variant spread on general public psychology. Among the first signs of cracks in the recently upbeat US consumer psychology were the US airlines announcements on deceleration of close-in booking and acceleration of close-in cancellations (see the Southwest Airlines announcement coverage in Wednesday's ALERT!!) Now the next shoe has fallen this morning...

… in the form of a much weaker than expected Michigan Consumer Sentiment report coming in at 70.2 versus an estimate of steady at 81.2 from last month. While 'current conditions' were not all that weak, worse still was the drop in 'expectations' from 79.0 to just 65.2. That is likely the broader Delta variant concern beginning to seep into the public psychology on continued full-fledged participation in the recently strong reopening of the 'gathering' economy.

Further evidence of the Delta variant concerns impacting the future expectations for a return to 'normal' for those 'gathering' businesses came from Thursday's Facebook announcement of delay in returning to the office for all of its staff until January 2022 (see the CNN article https://cnn.it/3xJYkOX.) Once again, this will likely have less of an impact than the major shutdowns of late 2020 into early this year, However, many dining, hospitality and retail shops will still be affected.

The bottom line is that the US equities feeding off of strength in non-gathering businesses, and the degree to which the weak spots in the data may encourage sustained central bank accommodation, may likely still grind higher. Yet the reasons to doubt the continued aggressive economic reopening are out there in both the Delta impact on primary and secondary schools, and the now more prominent signs of rising public reticence due to the Delta variant.

This is the 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 4,425 and 4,450 weekly Oscillator thresholds was a sign of continued strength after they rose another $25 into last week. That also means the higher Oscillator indications rise to 4,545 and 4,575 this week. As such, the Oscillator indications remain important on the still 'lackluster jailbreak' after the previous outstanding US Employment report. With the market dropping back below the lower 4,450 level early this week (on weekly MA-41 up $25), there seems to be some real risk again, with key lower levels into the recent 4,425 area and the 4,380-65 area.

Thanks for your interest.

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