
ROHR ALERT!! Reverse Bifurcation

1 message

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Dear Subscribers,

As noted since late last week, the US equities previous 'risk-on' psychology upside leader has reverted to weakness while the other asset classes are now reflecting a bit more risk appetite. The operative term there is 'a bit', as the decisions elsewhere are still pending in this heavy economic release week.

There also the market conditions that saw the US equities maintain the 'risk-on' psychology continue their churn higher in the face of both weakening economic news and continued COVID-19 Delta variant problems. While that ended with the failure of the September S&P 500 future to maintain trading into weekly Oscillator thresholds (4,515 and 4,540) last week, the current most sizable correction of the past month has been very orderly. It is less of the short-term implosions seen over the past four months than a gradual selloff toward more significant support.

As noted in Monday's 'Risk Shift' ALERT!! (repeated below along with Tuesday's 'Inflation Salvation?' ALERT!! for your ease of access), that is into the low 4,400 area (including weekly MA-13) with a Tolerance to the mid-4,300s. And the two-way activity around the violated congestion areas (4,492 and 4,462) speaks of the orderly nature of the selloff, with a better chance of holding lower support.

There are certainly good 'macro' reasons for US equities to be more concerned at present than until last week. While Tuesday's US CPI was a bit cooler, indications elsewhere are not encouraging... especially today's overshoot of already elevated UK inflation data estimates. There is also much weaker than expected Chinese Industrial Production and Retail Sales data. While seen previous as a sign of the strength of China's COVID-19 suppression effort, that is now not working well.

In any event, it is as noted in our August 20th 'Reaction Reflection' ALERT!! on a statement from Dawn Tiura, CEO of US-based Sourcing Industry Group, "*China's zero tolerance policy is good for the pandemic but bad for the supply chain.*" It is the case therefore that today's weaker Industrial Production figure will not just affect Chinese manufacturers, yet also international companies as well. (You can revisit the full Reuters article at <https://reut.rs/3kduA8F>.)

And the degree of the weakness was striking. As noted in this morning's Reuters article (<https://reut.rs/3nNpsLV>) "...*(with) output and sales growth hitting one-year lows as fresh coronavirus outbreaks and supply disruptions.*" Not mentioned in the article was neither that the data was significantly below already diminished estimates, nor the current rolling regulatory crackdown on many sectors.

As such, the correction in US equities must anticipate continued COVID-19 problems as well as the second largest global economy slowing. That said, at least so far the correction is very orderly, and that is in the face of much fear and loathing on the weak US equities seasonal factors that classically take hold from (very specifically) September 17th. Of course, we are not big fans of seasonal influences, as their 'average' tendencies turn out to be useless much of the time.

There is also the activity in the other asset classes, which are not reverting to the weaker indications which the US equities shrugged off until last week. In foreign exchange, the recent emerging currencies reaction seems to have run its course without violating any significant trend support. While that is a nominal recovery so far, it must be respected as a sign the overall reopening psychology maintains.

And while the developed currencies have been stuck in some critical trend areas, the most recent indications are that there is no 'haven' bid indicative of a 'risk-off' psychology in the US dollar at present. There is more in Monday's ALERT!! (below) on that, and we suggest a review for anyone who has not done so already.

Courtesy Repeat of Tuesday's 'Inflation Salvation?' ALERT!!

Even as US equities give back some of the earlier morning knee-jerk gains, the 'risk-on' psychology should probably send today's slightly softer than expected US CPI numbers a nice big gift. This near-term victory for 'Team Transitory', will surely leave the still very dovish central bankers feeling vindicated in their accommodative stance. Yet that benefit to their program being based on the economic predations of Delta variant also diminishes inflation moderation joy.

That is due to the degree to which by August those Delta variant headwinds were part of what was impacting consumer prices. Especially note the 9.1% drop in airline fares, which is linked to the sharp increase in cancellations and drop in future bookings. As discussed extensively from early August, this is indicative of 'consumer reticence' in the face of the aggressive spread of the Delta variant despite higher US vaccination levels that are still below desired levels due to vaccination skepticism. It also reflects drags on dining and hospitality as well.

As such, the August CPI data (see the official Bureau of Labor Statistics release <https://bit.ly/3tGk9yC> for the full detail) is more so a central bank victory in a skirmish (not even a full battle) in the inflation war. The dilemma is twofold. In the short-term, there is quite a bit more inflation data this week. There are anticipated still elevated UK numbers Wednesday along with some European indications, even if the Canadian numbers are estimated to moderate a bit. There's not much of it on Thursday into the headline full Euro-zone numbers Friday morning.

The slightly longer-term consideration is that today's US release may indeed reflect economic weakness due to the Delta variant impact on consumers. It was also the case that recently hot used car prices also dropped 1.5%. The question therefore becomes what happens as and when the COVID-19 pandemic is once again tamed to some degree, and consumers come back with more spending in the 'gathering' economy? If that is with current reopening supply bottlenecks also easing, it might not be an inflation spur. Yet if not, inflation will be back.

The other key monthly release this morning that is right in line with the US CPI indications is the next monthly Organization for Economic Cooperation and Development (OECD) Composite Leading Indicators (CLI <https://bit.ly/3nxve3S>.) As it once again notes this month, the previous strong growth indications (and this means the netted four month forward view) is 'moderating'. This is a sign its August indication was prescient, as it saw the Delta variant impact coming.

Yet that it is not bearish in only seeing 'moderation' rather than reversal of recent economic growth, and is consistent with a position we took in early September on the markets taking a 'longer view'. That is allowing for the Delta variant speed bump, yet with the overall reopening still continuing across time. It is also of note that the OECD sees the Chinese economy still experiencing better growth than its international peers. Yet its limited additional COVID-19 Delta variant outbreaks are troubling, due to the degree to which they are there despite heavy lockdowns.

Consider for a moment the degree to which the current outbreaks are coming in key tourist and shipping hubs right into what is normally a very active holiday week in early October. In today's Reuters article (<https://reut.rs/2XqQPR1>) this is noted as of concern that one of the heavy control regimes with a strong economy still seems incapable of eliminating the threat. As one key observer notes, the 'new normal' might just be dealing with repeated COVID-19 waves.

That is yet to be seen, and at least for now US equities initial positive response to the August CPI would seem to create a buffer against extended weakness based on a central bank monetary policy shift. That proposition will of course be tested on the further inflation numbers throughout this week. On the overall 'risk-on' psychology, the developed currencies have seen more reinforcement from a bit of US Dollar Index weakness while still being stuck in the critical 92.70 area.

There is more on that in Monday's 'Risk Shift' ALERT!! (repeated below for your ease of access.) That includes the return of some EUR/USD strength after its vigorous retest of the key 1.1800 Head & Shoulders Negated DOWN Break area (with the link to both of those charts below.) Yet the key now is whether renewed US Dollar weakness and other developed currency strength, along with emerging currencies, can gain more traction? That is the issue for the rest of this week.

Courtesy Repeat of Monday's 'Risk Shift' ALERT!!

It is of note that on an otherwise very light reporting day both the Japanese and German PPI were a bit lower than expected. That is in line with the central bank positions on how they can still provide significant levels of accommodation despite current elevated inflation levels. And the central banks are in unison on the need for that in the face of still strong COVID-19 Delta variant headwinds.

While Western central banks were the focus last week, especially the ECB's 'twist' on its PEPP (see below), it was less well reported that China's PBC had extended more liquidity for MSMEs (micro, small and medium-sized enterprises.) In its statement (<https://bit.ly/2Xbhtxg>) it notes that "...as a special monetary tool designed by the PBC to support financial institutions to issue MSB (micro and small business) loans, has yielded positive results." Of course, this is quite a bit like the ECB's TLTROs and various Fed programs from during the pandemic.

The interesting part is China is extending that as the pandemic is supposed to be winding down. Yet based on the recent impact of the Delta variant on China which led to renewed restrictions, that is not really the case. In one of his regular 'Road Back Barometer' segments (<https://cnb.cx/3tDOIKL>) CNBC's Steve Liesman highlighted the problems created by the Delta variant spread in US schools.

This is the downside of some US state governors banning mask mandates, and substantially in the under-vaccinated South and Southeast (although a bit in the Northeast now as well) schools are needing to close due to the sharp rise in children testing positive. As Liesman pointedly noted 1,700 schools are closed for an average of 8 days, and that is up 21% in the past week (see the associated graphic <https://bit.ly/399NJ5X> that does not indicate the closures had been up 100% the previous week.) This is also not just an education problem.

As we have highlighted previous, when younger children are not back in school, at least one parent is not available to work outside the home. This has been at least part of current labor shortages. With enhanced unemployment benefits ending this month, it will also represent additional pressure on those families, even if sporadically during limited-time school closures. This is not good for the future path of consumer spending where Delta has already created headwinds.

Possibly this is all part of central bank rationale pending further economic and inflation data, where we are going to see quite a bit of the latter this week. And it importantly includes Tuesday's US CPI to kick off that influence. It is especially important that it is projected to moderate just a bit, and how that turns out may be a key market influence. While the markets have given central banks quite a bit of slack on their continued heavy accommodation, there will need to be some sign that inflation is at least topping out fairly soon to avoid market consequences.

In another CNBC report this morning (<https://cnb.cx/2YH7m3p>), the CEO of 3M commented on this key industrial and consumer products provider seeing three kinds of inflation at present: "*raw material, labor and logistics*", and that the inflation trends look likely to continue. In our view (along with other seasoned observers), the most pernicious is labor cost inflation due to its potential to raise inflation expectations. That has historically been the source of ingrained inflation that has the further potential to turn into the 'stagflation' last seen in the 1970s.

This might be a good reason why US equities might be under more pressure at present than seen since mid-August. However, much as at that time, there are lower supports after the September S&P 500 future failed to maintain its upward momentum by Closing last week below the 4,545 weekly Oscillator threshold. While it also violated the next interim support at 4,462 late last week, it is above that this morning... which will be interesting later this week. That said, even if that goes by the

wayside, the more important near-term support is into the low 4,400 area (including weekly MA-13) with a Tolerance to the upper 4,300s.

This is consistent with support that held on the temporary sharp US equities reactions over the past four months. The difference from the past several weeks is a slightly diminished 'risk-on' psychology in other asset classes. Whether this is the beginning of a more extensive retracement or just a near-term aberration will likely become clear later this week after the key economic data releases.

For right now the key areas to watch are the US Dollar Index limited push back above its 92.70 failed weekly chart major channel UP Break (see the annotated weekly chart <https://bit.ly/3k27UJr> updated through Friday.) The Evolutionary Trend View (ETV) corollary to this is EUR/USD weakening a bit below its Negated weekly Head & Shoulders Top 1.1800 area DOWN Break (<https://bit.ly/2Xg4IAR>.) It will be important whether those are just vigorous retests or something more.

This is the critical consideration

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. That is clear on the S&P 500 future weekly chart (<https://bit.ly/3C50knt> updated through Friday.) 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.

And the September S&P 500 future subsequently sustaining activity above the 4,425 and 4,450 weekly Oscillator thresholds was a sign of continued strength as they were still rising \$25 per week. As such, the Oscillator indications remain important after what was the 'lackluster jailbreak' after the previous outstanding US Employment report. With the market dropping back below the 4,450 level two weeks ago (on weekly MA-41 up \$25), there seemed to finally be some real risk.

Yet even below the key lower interim levels into the recent 4,425 area congestion and 4,380-65 area bottom of that, it also held key lower support in mid-August looking forward into the following week. That bigger level was 4,340 on weekly MA-13 (loosely held on all sharp reactions) at that time, and the significant aggressive weekly UP Channel from the major 2,174 March 2020 cycle low.

In the event, the recent late week recovery back above the 4,425 area pointed to the strength of the psychological recovery as well as exceeding the key technical resistance areas. That led to the recent new all-time highs above the previous week's 4,476.50 trading high (prior to the temporary selloff.) That again left the near-term Oscillator thresholds into 4,515 and 4,540 areas last week (on the rising MA-41), which it failed to maintain later on last week, fomenting the reaction.

This led to the violation of the 4,492 interim daily chart congestion after trading around it last week, with the more prominent 4,462 area also being violated late last week. And while it traded back above that as well early this week, Tuesday's softening below it speaks of an ability to trend lower in the near term. That leaves the more major 4,420-10 area as next support on both weekly MA-13 as well as that significant aggressive weekly UP Channel from the major March 2020 low.

As usual there is a Tolerance below that (as seen on selloffs in both June and July) down to the 4,350 area lower congestion developed during the temporary July topping activity, and retested on the mid-August sharp temporary reaction. While that may seem to be a broad berth, on past form only below the 4,350 area does the front month S&P 500 future (December as of Friday) violate enough support to signal any meaningful reversal. Of note, the December S&P 500 future is trading \$10 below the September contract, which is going to be interesting.

Thanks for your interest.

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