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ROHR SPECIAL ALERT!! Risk-Off Rout

1 message

ROHR Alert <rohralert@gmail.com> Mon, Sep 20, 2021 at 10:29 AM
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Dear Subscribers,
The impact of the problems of Chinese conglomerate Evergrande Group have spilled over into the broader market psychology. While the potential problems with China's highly leveraged property companies have been lurking in the background for years, there has never been an overt threat of failure of any of them until now. As this morning's Reuters article (https://reut.rs/3tXZRRs) notes, there is a real chance that Evergrande will miss payments on some of its $305 billion of loans beginning Thursday of this week and again next Wednesday.

Part of the previous sanguine psychology has been the idea that there was a Chinese government 'put' in place on solvency of any of these large companies, due to the possible problems a default might trigger in the broader economy. However, in recent days there have been signals from some official government news sources that Evergrande was not 'too big to fail' (like the US banks and financial institutions in the wake of the 2008 Credit and Housing Bust.)

As such, there is a fairly good chance Evergrande will default, leading to a major restructuring of uncertain proportions. That uncertainty factor, and what it may mean to the broader Chinese property sector is likely vexing markets at present on the old axiom (which we have revisited many times), "*The market* (which classically means equities) *dislikes nothing quite so much as uncertainty*."

That said, uncertainty can also drive over-reactions that do not have much to do with the broader international economy and financial instruments other than a sharp market reaction. In this case the question must be whether any Chinese property-intensive conglomerate melting down will have a broader international impact other than a partial weakening of the Chinese economy. This is a key consideration, due to Western investors having been excluded from much of the normal investment in China… especially Western banks that are not exposed.

As such, this is not likely a sustained major issue for the broader global economy after the dust settles on the current panic selling due to seemingly classical financial 'contagion' concerns. The US equities activity has only been to extend their recent selloff to the test of previously articulated low end support. There is more on that below, as we already noted in Friday's 'A Whiff of Risk-Off' ALERT!! (repeated for your ease of access.) This is a classical 'exigent influence'.

It is also ironic it is also hitting after very good US 'rearview mirror' economic data last week, and also right into some of the best US (and global) COVID-19 vaccination news. That is the report this morning from Pfizer-BioNTech of the very high efficacy and low adverse reaction rates for its reduced dosage COVID-19 vaccine in tests on 5-11 year olds. In another very good Reuters report this morning (https://reut.rs/39Il0LL) the pharmaceutical firm is quoted on tests having "*...induced a robust immune response in 5 to 11 year olds…*" and "*...the vaccine was well-tolerated...*" It plans to ask the FDA for an EUA very soon.

As regular readers know, we have been concerned about the degree to which the vulnerability of younger school age children is also a broader economic impact. That is due to the influence it exerts on the employment potential for parents.

That is where schools have been forced back into remote learning due to Delta variant COVID-19 outbreaks, as has been the case in quite a bit of the US South and Southeast (yet also a bit in the Northeast as well.) While the extension of an Emergency Use Authorization for 5-11 year olds would not be a 'magic bullet' immediate cure, it will significantly improve prospects into early 2021.

And as we have noted since our early month 'Longer View' ALERT!!, the overall 'risk-on' psychology resilience can only be interpreted as markets being inclined to presume the current COVID-19 Delta variant travails will pass. Solving what has been a new problem which had not been prevalent in the earlier COVID-19 infection spread would go a long way toward that general positive psychology.

Aside from other near-term stressors, like US debt ceiling negotiations and the fortunes of broader Biden infrastructure plans, taming of the COVID-19 pandemic remains a key economic consideration. The silver lining behind the Evergrande dark cloud is the degree to which the sharp market weakness will encourage the continued central bank accommodation messaging in a week that gets us back to nothing less than a round of Central Bank-O-Rama. That is for minutes releases as well as Wednesday's PBoC, BoJ and FOMC rate decisions followed Thursday by the SNB and BoE, as well as some press conferences over those two days.

This means a sharpening of the weaker influences (some country data as well as mixed COVID-19 developments) versus the liquidity provision encouragement from central banks for the equities and the overall 'risk-on' psychology, which has come under pressure over the past two weeks. As a barometer for the overall psychology, the return of more classical intermarket relationships means the US equities can once again provide the benchmark for the 'risk-on' fortunes.

As noted on Friday (see below), the ultimate Tolerance for the December S&P 500 future (front month since Friday's September expiration) on a weekly Close is the mid-August 4,350 area low; specifically the August 19th 4,347.75 daily low. While it has already traded slightly below that this week, the weekly Close will be the more telling indications, with next major support not until the mid-low 4,200 area.

There are also important levels for the global govvies on their knee-jerk rally from previous inflation-driven weakness (after last week's less than encouraging data.) Foreign exchange also is seeming like more of a 'risk-off' psychology for now on the US Dollar Index pushing back above its previous failed 92.70 major weekly down channel UP Break (https://bit.ly/3k27UJr chart from Friday September 10.)

That is also on EUR/USD back below its previously violated 1.1800 weekly Head & Shoulders DOWN Break (https://bit.ly/2Xg4IAR chart from Friday September 10.) Both of those charts are from a week earlier due to our desire to provide updated charts (on the US equities and global govvies as well) after today's US Close, in order to display the full Evolutionary Trend View after today's important activity.

Courtesy Repeat of Friday's 'A Whiff of Risk-Off' ALERT!!
It seems that the concerns over 'macro' economic developments which have been weighing on US equities have migrated over to the other asset classes which had been immune to those pressures until Thursday. For more on those influences please see Wednesday's 'Reverse Bifurcation' ALERT!! (repeated below for your ease of access.) [We are of course referencing Wednesday's analysis due to our being out on a one-day personal break on Thursday.]

That runs the gamut of still stubborn COVID-19 Delta variant spread, even in a China that is imposing significant quarantines in a limited number of areas again. And despite the weaker Chinese Retail Sales and Industrial Production early this week, that is not just China's economic issue. The slowdowns at Chinese ports, and in their production of intermediate goods for international manufacturers makes its slowdown and quarantines a problem for the global economy.

That said, the US 'rearview mirror' economic releases this week have significantly outperformed expectations. That is especially so for Thursday's Philadelphia Fed Survey and Retail Sales; yet with the latter seeing similarly large downgrades to the previous month's strong indications. All of this flies in the face of the recent US equities more so 'risk-off' activity on front month S&P 500 future weakness back below interim 4,492 congestion, and its churn either side and now below the more prominent 4,462 area this week. On the December S&P 500 future taking over as the front month today (at a $10 discount), it is down to the 4,430 area.

As noted previous, this may also be psychological on the ostensible start of the weakest seasonal period for US equities literally beginning today. As noted on Wednesday, "...*we are not big fans of seasonal influences, as their 'average' tendencies turn out to be useless much of the time*." Yet that does not completely eliminate the 'fear and loathing' factor until we see how it plays out next week.

On current form the US equities reaction is actually quite a bit more orderly than the short, sharp reactions of the past four months. That bodes well for their future into the more prominent lower support. As noted of late, it is the low 4,400 area, including heftier July-August congestion and weekly MA-13. While that is quite a ways down, it extends into the upper 4,300 area congestion, with an ultimate Tolerance of the mid-August 4,350 area trading low. 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 violate enough support to signal any sustained meaningful reversal.

Getting back to the degree to which the front month S&P 500 future failed to maintain the pace of the higher near-term Oscillator thresholds, those lower levels get back to similarly important thresholds. Both the low 4,400 area and the mid-4,300 area are going to be lower key Oscillator thresholds into next week, still on weekly MA-41 rising $20 per week. That remains a bullish indication overall.

That said, the 'risk-on' indications have become more mixed in the other asset classes for now. The continued weakness of global govvies is a passing 'risk-on' indication at present. Of note, the December Gilt future is not the official lead contract until September 28th, yet is now the lead trading contract (i.e. it has all of the trading volume.) While the September contract remains only down into 128.00 area support, the classical pre-expiration 1.00 discount in a second month means the December contract is well below it; nearer to the 126.00-125.50 major support.

Foreign exchange is seeing a return of 'risk-off' on the return of a 'haven' bid to the US dollar, with US Dollar Index pushing back above its 92.70 previously failed UP Break. This is consistent with EUR/USD weakening back below its 1.1800 area Head & Shoulders Top DOWN Break, seemingly Negated on the recent rally yet needing to be respected again at present. (See Monday's 'Risk Shift' ALERT!! below for the links to the weekly charts for both of those trend indications.)

Emerging currencies are also seeing some weakness against the greenback again, even if the most glaring example is the notoriously volatile South African rand seeing a USD/ZAR surge (possibly in part on Crude Oil strength.) That said, other emerging currencies are much less weak, with the Crude Oil-advantaged Russian ruble having USD/RUB remain in the lower 73.00-72.50 range.

The operative question into next week would seem to be whether this is a real reversion to economic weakness, with the global reopening being at risk from the stubborn resilience of the COVID-19 Delta variant spread? Or is it simply a late week extension of 'risk-off' psychology anticipation of the US equities seasonal weakness spilling over into other markets? Yet if the latter is the case, why are the global govvies weakening further when they should be strengthening on any lack of the stronger, inflation-creating growth? The only other explanation might be that we have already entered a troubling 'stagflation' era (not seen since the 1970s), where economic weakness will be accompanied by stubborn inflation.

In any event how these tendencies play out into next week and beyond is going to be very interesting. That will be especially for the US equities more gradual than previous selloff into support. While that should speak of a greater potential to hold and rally back, there are of course no guarantees. Foreign exchange will also be very interesting on whether the current 'risk-off' tendencies will maintain.

Courtesy Repeat of Wednesday's 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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