
ROHR ALERT!! Risk Limbo

1 message

ROHR Alert <rohralert@gmail.com>
Bcc: ar.rohr.intl@gmail.com

Fri, Sep 24, 2021 at 10:42 AM

Dear Subscribers,

As noted in Thursday's 'Delta Dependent' ALERT!! (repeated below along with other previous analysis for your ease of access), the central banks are all acknowledging the continued growth, yet are citing the stubborn resilience of the COVID-19 Delta variant as grounds to remain accommodative for now. That is a variegated situation with, for example, lower infection rates in a few countries encouraging lifting of pandemic restrictions, yet higher infections elsewhere.

That is still with higher new cases among the less vaccinated nations, and better results elsewhere. Yet it is adding to the uncertainty on individual country GDPs and international trade, which justify the continued central bank largesse. It is also the case that the 'rearview mirror' economic data has also weakened of late. This week that includes Thursday morning's weaker global Advance PMIs, and this morning's German IFO Surveys. This is another aspect of the global picture (even if also driven by the COVID-19 pandemic) supporting central bank largesse.

Then there is mitigation of the influence from Evergrande's situation, even though it missed a dollar-bond interest payment Thursday (more below.) The swing from 'the Agony' of the international economic and financial fears into midday Monday to 'the Ecstasy' of Wednesday's post-FOMC rally was palpable (with apologies again to Irving Stone for borrowing his novel's title.) It was already becoming apparent this is not a 'contagion' crisis regarding (as we noted on Monday) "*...this is not likely a sustained major issue for the broader global economy after the dust settles on the current panic selling...*" ...not enough Western exposure.

Along with the very limited Western exposure, that is in line with the fact noted yesterday that the interest payment (along with the one due next Wednesday) has a 30-day grace period before Evergrande is in default on those payments... hence today's 'Risk Limbo' title. In part this is a period for Evergrande to consider all of its payment options and ready cash sources. That is going to be very interesting.

However, it is also a period for the Chinese government to consider the domestic financial implications along with the social fallout. As this morning's very good Reuters article (<https://reut.rs/2WcxWRg>) notes, "*The conundrum for China's leaders is how to impose financial discipline without fuelling social unrest, since an Evergrande collapse could crush a property market which accounts for 40% of Chinese household wealth...*" It is also a major sector for the Chinese economy.

Given that impact on both the Chinese economy and its social compact, that is another important aspect. That is due to the Chinese central government already signaling local governments they should prepare for the financial fallout and even social unrest if Evergrande fails. And now there may be other problems in the property sector, where many have paid substantial amounts for homes yet to be built. As such, the markets are likely in for a further phase of 'thrills and spills' on the evolution of Evergrande itself, and the overall Chinese property sector.

However, at least so far US equities response to the 'grace period' realization has been to fully recover from Monday's radical weakness. December S&P 500 future has rallied all the way back above 4,400-20 range trend support cited last week.

Global govvies back under pressure after Monday's temporary squeeze from previous weakness is a sign of renewed 'risk-on' psychology, even if some inflation influence must be allowed. That is with

the previously resilient front month T-note future seeing the September contract rally back to the 134-00 area just prior to its Tuesday expiration, yet just three days later seeing the discounted December contract fall all the way down to lower major 132-00 area congestion.

Foreign exchange is a more mixed picture. The developed currencies are a bit stuck with the US Dollar Index in the 93.40 area, and EUR/USD in the 1.1700 area (more below, with chart links.) Emerging currencies are still under pressure, and this may be due to the China uncertainty factor having more of an impact there.

Courtesy Repeat of Thursday's 'Delta Dependent' ALERT!!

An anti-global government conspiracy theorist would be within their rights to imagine that, at least as far as central banks are concerned, it is already the case. While there are still many intergovernmental policy disputes, central banks have been of one voice of late. We allow there are good reasons for communication and policies to seem more 'mantra' than independent central bank assessments.

As noted in Wednesday's 'Two Down... Three To Go' ALERT!! (repeated below for your ease of access), *"While stubborn COVID-19, product sourcing issues and inflation headwinds are significant, the degree to which they weaken the interim economic outlook also empowers continued central bank accommodation."* It is the case on the additional three central bank decisions and other communication since Wednesday morning's assessment, that this has been wholly reinforced.

First there was Wednesday afternoon's FOMC Statement (<https://bit.ly/3zFhHJT>) and updated projections (<https://bit.ly/39B7eEI>), which showed a few more of the 'dots' (member indications of when they think rates will rise) moving into 2022. However, as communicated previous by many Fed officials, the 'dot plot' is a very loose estimation, and subject to change as conditions evolve. All of this was followed by Chair Powell's press conference (<https://bit.ly/3u7n4jS>), stressing the degree to which the obviously stronger US economy still has quite a ways to go.

When the Fed was in limbo due to uncertain economic conditions, it used to be said the Fed was 'data dependent'. The updates to the US and global COVID-19 situation based on the stubborn spread of the Delta variant means the Fed and other central banks are now 'Delta dependent'. This is especially true for the US, where politicized vaccine reticence continues to take a heavy toll. This is now an issue for the Fall back-to-school drive, due to associated labor market impacts.

And the same message was not surprisingly apparent in this morning's Swiss National Bank Monetary Policy Assessment (<https://bit.ly/3ENTqFg>.) It assumes global pandemic containment measures will continue to ease due to successful vaccination efforts. Yet it must be noted that the US had its lowest vaccination rate in many weeks last week. And despite its further upbeat SNB medium-term outlook, the headline of the SNB statement was, *"Swiss National Bank maintains expansionary monetary policy."* That is the key near-term indication.

It is as with the other central banks, where the message seems to be, *"It is all good, with future growth back to pre-pandemic levels almost assured. Yet we need to deal with the near term Delta variant 'speed bump', which means there still needs to be sustained accommodation until we are sure things are on track."*

The SNB was followed by the BoE, with much the same message. While there is no press conference today (now only with the Quarterly Monetary Policy Report), the Monetary Policy Summary and minutes of the Monetary Policy Committee meeting (<https://bit.ly/3zAqvRm>) communicated the same reasons for near-term continued accommodation. In all cases this is despite elevated inflation, which they ascribe to reopening bottlenecks they suggest will clear up into next year.

All of this continued unified central bank accommodation is the support for the 'risk-on' psychology we expected might be on the way into this week. As such, it is not surprising the US equities have recovered from their short-term Monday debacle on the fears over Evergrande, from which they had partially recovered by the daily Close. And the lack of any systemic global risk from what the Chinese government is warning might be Evergrande's 'demise' (according to a Reuters article citing Wall

Street Journal reporting <https://reut.rs/3ISTzik>) is apparent in the US equities and other asset classes shedding Monday's 'risk-off' tendencies.

Yet there is the 'fudge' here in a classical 'kick the can down the road' function: As the article notes regarding both the \$83.5 million dollar-bond interest payment due today and another \$47.5 million dollar-bond payment due next Wednesday, *"Both bonds would default if Evergrande fails to settle the interest within 30 days of the scheduled payment dates."* Well, a 30 day grace period is certainly grounds to ignore the ostensible immediate problem while Evergrande, its creditors, local governments, and possibly the Chinese central government review the problem.

That is in addition to the degree to which Evergrande (and most other Chinese property companies) do not represent a serious risk to Western banks and other investors, due to relatively nominal loan amounts, or investments held by them (see below for more details.) Yet it might still be a modest psychological influence at some point. And further support for central bank accommodation instincts were also clear in this morning's weaker European, UK and US Advance PMIs.

All of it has added up to a renewed 'risk-on' psychology driving US equities back to higher on the week, most prominently in the form of the December S&P 500 future above last week's 4,406.50 Close. That is also back above the aggressive weekly up channel 4,410 DOWN Break (see the weekly continuation chart updated through Monday <https://bit.ly/3Cv1TLF>), and is also back above trend-significant weekly MA-13 at 4,423. This works hand-in-glove with the global govies coming back under pressure, especially the previously resilient T-note future, where the September contract expired still in the 134-00 area on Tuesday only to see the December contract back down closer to the major 132-00 support late this week.

It's the same story in foreign exchange, where the US Dollar Index eked out a Close above its key 93.40 area Wednesday. That was in the wake of some feeling the Fed had been less accommodative (??), yet still with the overall 'risk-on' psychology taking the wind out of any US dollar 'haven' bid into this morning. That is consistent with EUR/USD also recovering from its minor slippage back below the key 1.1700 area (chart links for both in Wednesday's ALERT!! below.)

It is much the same in emerging currencies, where even the recently vexed South African rand (likely on the strong energy market influence) has seen USD/ZAR weaken back below the 14.70-.80 area. While that is only a modest recovery so far, it speaks of an easing of the 'risk-off' influences from earlier this week.

Courtesy Repeat of Wednesday's 'Two Down... Three To Go' ALERT!!

BoJ sees continued Japanese economic recovery, even though exports volumes are under pressure and (according to this morning's Reuters article) *"...weakness in consumption in July through August, when infection cases surged, was 'somewhat unexpected'."* Sound familiar? It is the same mantra as heard from all of the central banks of late ...near-term pressure, yet still good future prospects.

Prior to that the first bit of expected yet still constructive news this morning was the PBoC holding its base rate steady at 3.85%, and also injecting another \$14.0 billion into its now weakening economy. Whether that was a direct response to the travails of China's Evergrande conglomerate is unknown. What is known, according to a very good Reuters article (<https://reut.rs/3hW4432>), is that the troubled firm negotiated a deal to avoid default on its yuan bonds due today.

It goes on to note what we (among other observers) have repeatedly noted on the lack of any potential for Evergrande's situation to trigger a global financial crisis. There is little chance of 'global financial contagion' when (as the article notes, *"Only some \$20 billion of \$305 billion outstanding debts is owed offshore, according to Refinitiv data."*) As such, Western banks' solvency is not at risk.

However, the psychological test for markets is not resolved based on Evergrande addressing its yuan-bond interest payment. As the article notes, it also still has *"...\$83.5 billion in dollar bond interest payments due on Thursday."* That is likely less amenable to whatever negotiation worked out on its yuan-bond payments.

With the PBoC and BoJ already factored into the market psychology, that is just two down and three to go. We are now focused on the FOMC rate decision and updated economic projections this afternoon (14:00 EDT), and Fed Chair Powell's press conference 30 minutes later. As important as the Fed's influence may be, the extended influence of the Evergrande situation into Thursday along with the SNB rate decision followed by the (somewhat more important) BoE decision and statement means the overall market trend decisions will evolve into tomorrow.

While there is every expectation SNB and the BoE will remain accommodative under current circumstances, there has been some talk of the Fed moving toward a more active QE 'taper' discussion. That is reasonable within the current sustained inflation environment, even if it is expected to ease into next year. There was more on that in Tuesday's 'Compressed Rout and Recovery' ALERT!! (repeated below for your ease of access.) In essence, all of the central banks remain stuck in the COVID-19 Delta variant versus the elevated inflation switches.

As far as the market activity into midweek, the US equities are obviously shaking off the sharp 'risk-off' selloff reaction to the initial Evergrande news coming in from the weekend. That is obvious in the December S&P 500 future resilience in not Closing much below the key 4,348 mid-August reaction low, even though it traded so far below it on Monday before its late session recovery. Along with the newly established 4,410 major channel DOWN Break, that will remain important into the end of this week... subject to Evergrande and central bank influences.

Monday's price swings in the other asset classes were less pronounced, and so are the counterpoint reactions at present. Previously suffering global govies had a very nice 'risk-off' bounce, yet not anywhere near key higher resistances. It was also the case that developed currencies did not see the US Dollar Index strengthen any further this week after last week's push back above its previously Negated 92.70 major down channel UP Break. Yet as the weekly continuation chart (<https://bit.ly/3tZLcFp>) shows, that has stalled again only up into the key 93.43 late-March trading high, where it also stalled in both July and August.

That is also a reflection of the weakness of EUR/USD back below its nominally Negated 1.1800 Head & Shoulders Top DOWN Break. However, here as well there is a further 'proof in the pudding' on whether it also fails the important 1.1700 area late-March trading low, which it loosely held back in mid-August (as seen on its weekly continuation chart <https://bit.ly/39mpRwa> updated through Monday.)

While each of these is a nominal 'risk-off' indication on the return of a US dollar 'haven' bid, they each need more follow through to reinforce that. If not, they are also just possibly the bears 'last hurrah' prior to a return to 'risk-on' psychology.

Emerging currencies are more of a country affair at present, which is somewhat heavily influenced by the energy market activity. That leaves USD/ZAR strong again above 14.20 and also pushing above 14.40-.50 into the 14.70-.80 area. However, USD/MXN is less weak on its push back up from 19.80 to somewhat above 20.00, yet not even testing the 20.25-.30 area. And the energy-centric Russian ruble has seen USD/RUB still stuck in lower 73.00-72.50 area support.

Courtesy Repeat pf Tuesday's 'Compressed Rout and Recovery' ALERT!!

As noted in Monday's 'Risk-Off Rout' SPECIAL ALERT!!, there were key US equities price levels below which there would be further immediate weakness. While that is indeed what transpired, the December S&P 500 future late session recovery actually left the market back up in the area of that violated key support.

This is most interesting in the context of the broader perspective also shared on Monday regarding the lack of any reason for a sustained major US equities (and general 'risk-on' psychology) reversal at present. Especially noted in Monday's 'Risk-Off Rout' SPECIAL ALERT!! (we suggest a review of that) were the reasons why the Chinese conglomerate Evergrande's problems (and possibly some among its peers) were not cause for 'global financial contagion' concern.

There was also some very good news on the potential address of the COVID-19 pandemic, that is not as immediate as the current worries over the situation in China, or the more general concerns on supply bottlenecks and stubborn global inflation affecting all businesses. And there was a further typically thoughtful and thorough review of the prospects for the global economy early this morning.

That was the Organization for Economic Cooperation and Development's (OECD) Interim Economic Outlook (<https://www.oecd.org/economic-outlook/>), which also has a link to the press conference along with its PowerPoint presentation. It is very encouraging that OECD still sees the situation as one of continued growth, even if somewhat slower in 2022. This is similar to many other assessments that see bottlenecks and inflation as problems that will ease into next year, and the overall COVID-19 pandemic impact being addressed across time. It once again gets back to 'The Longer View' psychology maintaining a 'risk-on' psychology.

Even after Monday's major US equities selloff, the psychology remains the same for the balance of the week into significant central bank activity (see below.) Greater sustained US equities failure looked assured around midday Monday on the extensive December S&P 500 future weakness below the front month future mid-August pullback 4,348 trading low. Yet the late session recovery left it back up in that area. As expressed on Monday, the real test will be whether it Closes the week below that area, which is going to be most interesting.

That is due to the looming impact of central bank decisions and statements (and press conferences) on Wednesday (PBoC, BoJ and FOMC) and Thursday (SNB and BoE.) While stubborn COVID-19, remaining product sourcing issues and inflation headwinds are significant, the degree to which they weaken the interim economic outlook also empowers continued central bank accommodation. So it will be interesting not just to hear what the central banks have to say, yet also how the markets respond to what is most likely to be continued accommodation.

Particularly of note on the markets so far this week is the lack of anything more than a partial recovery of global govies after the recent rout (especially in the Gilt and Bund.) There is also the return of the near-term US dollar 'haven' bid, which we discussed in Monday's ALERT!! as well... will it continue?

Courtesy Repeat of Tuesday'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/3Cv1TLF> updated through Monday.) 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 two weeks ago, fomenting the reaction.

This led to the violation of the 4,492 interim daily chart congestion after trading around it previous, with the more prominent 4,462 area also being violated two weeks ago. And while it traded back above that as well early last week, recent softening below it spoke of an ability to trend lower in the

near term. That left 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.

Having tested that area into last week's Close and violating it from the very beginning of this week was a fresh 4,410 DOWN Break. That fed further weakness which was already anticipated from the negative fundamental influence flowing out of China. 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 to a 4,347.75 trading low. While that may seem to be a broad berth, on past form only below the 4,350 area does the market signal a full reversal.

Yet as always with these matters, the weekly Close will be more important than temporary trading weakness below it. At least so far the December S&P 500 future has held against interim low-4,300 support, yet with the more major support not until the 4,250-25 May-June congestion. That includes a couple of subsequently violated weekly DOWN Closing Price Reversals as well as the significant 4,224 mid-July sharp selloff trading low. Hence the importance of the 4,348 decision later this week on the near-term US equities prospects.

Thanks for your interest.

NOTICE: The Rohr International, Inc. research team or its principals may already have entered positions or have orders working based on this view.

This Current ROHR TREND ALERT!! will be available soon via the sidebar at www.rohr-blog.com for Gold and Platinum echelon subscribers.

Please reply 'Unsubscribe' if you no longer wish to receive these emails.

Contact: rohralert@gmail.com

This review of market positions and all other information is strictly for educational purposes. This information is provided without consideration of portfolio requirements, suitability for financial risk, or psychological state of any recipient. Any use of this information to implement actual trades or investments is the sole responsibility of the individual or entity authorizing that decision. This waives your right to any claim of explicit or incidental liability for financial loss or forgone profit against Rohr International, Inc. and any informational contributors under all circumstances. Information contained herein may have already been disseminated to others who may have acted upon it. Implicit in the Rohr educational services is the understanding that principals or employees of Rohr may have already taken positions. By review of the Rohr Alerts and/or Rohr Views and all attendant information you confirm receipt of them as educational content, as well as agreement with all of the stipulations articulated above.

A service of Rohr International, Inc.

© 2021 All international rights reserved. Redistribution strictly prohibited without written consent