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**ROHR ALERT!! On the Cusp**

1 message

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Thu, Sep 30, 2021 at 10:41 AM

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**Dear Subscribers,**

**As should be very apparent from our Wednesday 'US Equities *Déjà Vu*' ALERT!! (repeated below for your ease of access), the interplay between global govies and the other asset classes is a key Evolutionary Trend View (ETV) influence. Considering how far yields have risen (and prices have fallen) since early last week, the extended selloffs in both the emerging currencies as well as the more recent weakening of developed currencies should not be a surprise at this point.**

**As noted repeatedly in previous analysis, while they tend to be more insulated against initial inflation concerns due to higher pricing options, the US equities have also been under a bit more pressure of late. While last week that was due to the exigent factor of China's Evergrande problems, this week it seems to be more so on weaker data and higher yields. The latter has naturally affected the high flying tech NASDAQ more than mainstream stocks in the S&P 500 and DJIA.**

**That said, both last week and again this week we have been very keen to note the importance of the 4,348 front month S&P 500 future mid-August trading low as a key weekly Close level. Being generally back down into that area since Tuesday leaves the ETV there 'on the cusp'. That actually looks better than yield-impacted emerging currencies that have been significantly weaker of late (except for the Crude Oil-advantaged Russian ruble.) Even developed currencies have seen more of a US dollar 'haven' bid of late on the concerns over 'reopening' global growth.**

**Yet lo and behold, this is all also with the additional pernicious influence of the higher yields, most clearly expressed in recent weakness in the previously more resilient US T-note. As also noted previous, the front month US T-note future (September until last Tuesday's expiration) had churned not too far below its key 134-00 area for two months. Yet after it expired last Tuesday, December T-note future fell to the 132-00/131-16 support, which it traded slightly below this week.**

**That it has held not much worse than the low end of that range since Tuesday is a key ETV that leaves it 'on the cusp', with implications for the other asset classes. That is due to the degree to which the decision by global govies has potential to spill over into further weakness by both the US equities and other currencies against the US dollar. Beat down emerging currencies (i.e. outside of the resilient Russian ruble) are either right against, or even slightly below, key lower supports.**

**Key developed currencies like the euro have failed support over the past couple of days, leaving them vulnerable to more weakness as well if US yields should escalate further. The 'good news' under a classical "*bad news is good news*" psychology is that the 'rearview mirror' economic data has weakened a bit of late. That was capped off for today with a higher than expected levels of US Initial Jobless Benefits Claims. Maybe weaker data points have had some influence on the T-note holding against the low end of its once again critical current support, as well as the beleaguered December Bund future holding its 170.00-169.50 area.**

**Yet this is not just driven by near-term data, as the broader inflation expectations can also be a factor regardless of what the near-term data may communicate. The latest Fed view on that was in Chair Powell's comments at Wednesday's ECB central banking forum. As noted in a Reuters article (<https://reut.rs/2Y2qqJ8>), he noted, "... (among) *his biggest concerns right now... ...is the possible clash between the Fed's two goals of stable prices and full employment, a situation that could force the Fed to make trade-offs between the two by raising interest rates to tame prices at a time when it still wants to encourage job growth.*"**

Yet along with that he reiterated his view that the current inflation problem is substantially driven by economic reopening production ‘bottlenecks’, and not by any of the far more pernicious ‘wage-price spiral’ leading to stubbornly higher inflation expectations. As such, while economies may continue to strengthen overall, the Fed still expects a ‘normalization’ which will also cool inflation.

That is yet to be seen, and is always an issue insofar as it can also tend to ingrain inflation even in a slowing economy, as was seen in 1970s ‘stagflation’. Based on the current Fed view allowing more inflation, it has bought itself more time before it needs to act. Yet that is only as long as global govvies trends do not weaken further in a way that leaves the Fed looking like it is well ‘behind the curve’.

Contrary to much popular belief, neither the Fed nor other central banks control interest rates at the longer end of the curve. That is regardless of how aggressive their government bond buying QE programs may be at any point. Having seen multiple yield cycles, rising official rates are often only confirmation of what the bond market has dictated, regardless of what central bankers would like to see.

We’ve previously quoted, and return to a citation from the estimable Democratic political consultant James Carville. In response to the necessity for the Clinton administration to raise tax rates due to deficit worries driving higher yields back in 1994 he quipped, *“I used to think that if there was reincarnation, I wanted to come back as the president or the pope or as a .400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody.”*

That vintage view seems very apropos in the context of so many markets being ‘on the cusp’ of their further trend decisions after such interesting recent swings.

Courtesy Repeat of Wednesday’s ‘US Equities *Déjà Vu*’ ALERT!!

Quite a bit is exactly the same as explored in Tuesday’s ‘Powell Drives Inflation Psychology’ ALERT!! (repeated below for your ease of access.) That is allowing that the change from maintaining nominal ‘risk-on’ psychology until last week has now reversed into clear ‘risk-off’ mentality we have explored at length since the shift became apparent in both emerging currencies and then global govvies.

That was discussed in Monday’s ‘Inflation Bifurcation’ ALERT!! (also repeated below for your ease of access), the clear indication became not just divergence between the emerging currencies on the impact of the energy price surge, yet also the broader inflation looking stubbornly durable, as even Fed Chair Powell had to admit in his Tuesday testimony. Of course, this was also more palpable on the renewed aggressive yield rise after quite a hiatus through late Summer.

That is also what drove US equities weakening after they had recovered so well from last Monday’s Evergrande global ‘financial contagion’ worries. Those have turned out to be less troubling in the near term than suspected early last week. That is due to the interest payment grace periods which have allowed Evergrande concerns to be put on ‘hold’ for now. They might return, just not at present.

That said, as the old axiom suggests, *“The market doesn’t repeat, but it rhymes.”* In a modified way, the December S&P 500 future 4,348 area has reverted to the key support again this week on the renewed yield escalation pressure. And much like last week, it was temporarily violated relatively early this week, and is now churning around it. The difference is that daily ‘trend flow’ is not quite the same.

Where last week it was seriously violated on Monday and churned around it on Tuesday prior to recovering so well. This week it slipped on Tuesday, and is churning around it today with much less slippage. Will this see another late week recovery? We suggest watching the key US T-note support on that potential. There is quite a bit more on that below, along with the key Evolutionary Trend View (ETV) for the other global govvies as well as the foreign exchange markets.

Courtesy Repeat of Tuesday’s ‘Powell Drives Inflation Psychology’ ALERT!!

As noted in Monday’s ‘Inflation Bifurcation’ ALERT!!, the previously noted impact of the energy price surge is only *“...part of broader inflation which is now looking more stubbornly durable.”* Rather than

just focusing on the obvious influence of higher energy prices on the significant bifurcation of emerging currencies trends (as we cited from late last week), it was obvious that the higher prices as well as yields were a combined negative which is driving the greater divergence there.

Please see Monday's analysis for our initial assessment of that more pernicious influence on those trends, which was also clear confirmation of the inflation psychology shifting into a higher gear based on the price activity in the various asset classes. We explore that further below, and especially for global govies which historically spend quite a bit of time consolidating, then in straight-line moves which do not allow for the ebb and flow of 'normal' trending activity.

As noted Monday, the front month US T-note future (September until its expiration last Tuesday) had continued to churn not too far below its key 134-00 area for the past month-and-a-half. Yet after it expired at midday Tuesday, December T-note future fell to the top of the 132-00/131-16 support it is now slipping below.

That December T-note future weakness is particularly telling both in the context of how quickly it weakened into that area, and the next historic support not being until the 130-00 area (as it tends to run in two point increments.) That is allowing that the previous sharp selloff into early April held at 130-255, essentially not any sort of historic congestion. This opens the door to a 10-year yield swing to a new high above the April-May 1.70-1.75% area, after which it might react back down.

On the other hand, the previous downside leader December Bund future Monday drop into its 170.00-169.50 range key support has not seen any further weakness below that area, representing a yield rally to -0.20%. While that may sound low to others, it is up from nearly -0.50% as recently as mid-August. Its importance is highlighted by this being the key support this side of the 168.00-167.50 range. However, much like the T-note, its selloff into May did not quite reach that area.

That said, front month Gilt future (officially December today), which had been the weak sister previous, failed to hold its 128-00 support last week on the September contract selloff. With the typical full point discount at expiration in the 'second month' December Gilt future, it is back to well below its 126-00 support. That is striking in being so far back below the 126.86 May trading low (March-May high yields near 0.90%), and insofar as the cash rate is now into the psychologically important 1.00% with the next futures support not until the 124.30-123.60 range.

As such, even considering how far global govies prices have fallen and yields have risen, the 'straight-line' factor means they may have further to go prior to any stabilization or counterpoint reaction. That anticipation is driving the 'risk-off' psychology in the vulnerable emerging currencies, and even more of a US dollar 'haven' bid at present in the developed currencies. While that bid may also be partly on the basis of the recent surge in US yields, that is historically less of a significant factor compared to the prospects for inward investment overall.

Yet the market activity is clear on the US Dollar Index rising above 93.40 area once again. Also above the August 93.72 trading high makes this a new 10-month trading high, with next resistance not until the 94.30-74 Fall 2020 trading highs. That is also the case for the EUR/USD weakening again below the 1.1700 key level below its August 1.1800 area weekly Head & Shoulders DOWN Break.

However, unlike the minor new high in the US Dollar Index, EUR/USD is still holding slightly above its 1.1664 mid-August trading low. Yet this still leaves the burden of proof on bulls to create an immediate return to strength, even if next lower support is as nearby as the 1.1600 area Fall 2020 trading lows. (Please see Monday's ALERT!! for links to each of those markets' previous weekly charts.)

And further reinforcement for all of the inflation psychology based on what is a strong yet still disjointed US economy comes from Fed Chair Powell's testimony today, extending the comments from his prepared testimony released Monday afternoon (<https://bit.ly/3m5okAL> for our marked-up version.) This noted again that the Fed still sees inflation being based on reopening supply bottlenecks, and it coming back down into the Fed's two percent target range across time.

That is something many folks are questioning, especially due to extended wage increases which have the potential to foster more pernicious 'wage-price spiral' inflation expectations. In any event, Powell allowed Fed inflation expectations to date were a bit more sanguine than the real world seems to allow at present.

In response to a question from the financially savvy Senator Toomey (R-PA and successful ex-foreign exchange and derivatives trader), Powell confirmed that "...*inflation has not only not gotten better, on the supply disruptions it has gotten worse.*" Yet once again he cited 'supply disruptions' instead of rising wages(??)

That additional spending power of the US working class may explain why the US equities have been able to at least partially withstand the pressure which has so heavily affected some of the other financial markets. As noted on Monday this is less of a critical issue for corporate profits "...*while companies can pass along higher input prices.*" Of course, that is also tied into 'real wages' after allowing for a certain degree of spending power erosion due to inflation. As such, it is of note this morning that after such a sharp December S&P 500 future recovery from last week's early 'Evergrande debacle', it is back below the 4,420-00 range to nearer the still important 4,347.75 mid-August trading low. It's going to be interesting.

Courtesy Repeat of Monday's 'Inflation Bifurcation' ALERT!!

While we had inferred that the significant divergence in foreign exchange on the difference between the developed currencies and the emerging currencies was due to continued elevation of energy prices, it is now apparent that is only part of the broader story. The full perspective on a renewed energy market price surge is that it is part of broader inflation which is now looking more stubbornly durable.

Why is this important for broader market psychology where 'risk-on' psychology had been able to ignore the inflation implications until now? It is more prominent on the current front month WTI Crude Oil future (November) pushing back above the 70.00-71.00 area to the key 75.00 area. That is important July-November 2018 topping activity (ultimate high 76.90) of the trend up from the 26.05 early 2016 low.

Retested in early July, there was a fresh 75.15 DOWN Closing Price Reversal (CPR) with a Tolerance 76.22. This is very important for inflation, where Europe is already vexed by more immediate energy price inflation than the US. While there is no assurance it will occur, if front month WTI Crude Oil future should overrun the general 75.00 area (ultimately the highs around 77.00), that would be a new seven year high with the next prominent resistance not until the 85.00 area.

The important issue for broader psychology is this now being more glaringly apparent in the global govies yields, as apparent in their futures miserable performance after rallying early last week on Evergrande implosion fears. Yet that proved very temporary, with cooling of the immediate debt default fears (see Friday's 'Risk Limbo' ALERT!! repeated below) leading to global govies reverting to a focus on the previously almost completely ignored inflation indications.

That has seen the 10-year US T-note yield pushing up above a recent key 1.37% area to around 1.50% not seen since late June. That leaves the December T-note future back below the top of the key 132-00/131-16 area, also not seen since then. Similarly for December Bund future, the drop back to the top of the 170.00-169.50 range key support has not been seen since around the same time, representing a yield rally to -0.22%. While that may sound low to others, it is up from near -0.50% as recently as mid-August. It may also be influenced by the looming change of government since the more liberal and profligate SPD won the recent election.

Recent reaffirmation of central bank accommodation along with stronger US data will likely support the US equities for now. And higher yields are consistent with a 'risk-on' psychology, and rarely any cause for skepticism while the companies can pass along higher input prices. That seems to be the case for now based on recent corporate earnings reports in spite of much higher wages for workers.

Yet that is the US and the other developed countries, and much less so for the more highly indebted and export earnings dependent emerging economies. Hence the full bifurcation being more so between the developed currencies and emerging currencies on the current surge in energy prices, inflation and global yields. Examples abound in the 'steady' activity in developed currencies, like the US Dollar Index stalling above 92.70 resistance into only the next key 93.40 area.

This is closely correlated with EUR/USD slipping below its Head & Shoulders Top 1.1800 DOWN Break. Yet it is holding around its next lower 1.1700 support despite recently retesting that support, which was also seen in mid-August. While they are on a different projection basis, you can see both of those annotated weekly charts updated through last week Monday (US Dollar Index <https://bit.ly/3tZLcFp> and EUR/USD <https://bit.ly/39mpRwa>) for that clear indications of 'steady' activity.

Those were updated last Monday instead of the previous Friday's end-of-week developments due to the SPECIAL ALERT!! nature of the research update, which is the same today on the recent bifurcation of the trend indications.

The full 'bifurcation' is far more apparent between various emerging currencies, based on their sensitivity to energy prices and yields. The South African rand is suffering the most, as evidenced by the USD/ZAR swing from an encouraging drop below 14.50-.40 and 14.20 to a surge above 14.70-.80 and now even 15.00.

Similarly the Turkish lira has seen recent strong sister activity on USD/TRY trending steadily lower into the 8.30 area turn into a push above the mid-June 8.7918 previous all-time high. That is very weak in both cases, taking away from any sense a full return to a 'risk-on' psychology can maintain in the near term.

The middling activity is the Mexican peso, which has weakened on USD/MXN pushing back up again from 19.80 area to above 20.00. Yet any weakness there is likely buffered to some degree by higher energy prices. Yet the real obvious winner of the stronger Crude Oil prices is (not surprisingly) the Russian ruble, which has USD/RUB stuck in the lower 73.00-72.50 support range for weeks.

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/3ickAw2> 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 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 the Close two weeks ago and violating it from the beginning of last 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 trend reversal.

Yet as always with these matters, the weekly Close was more important than temporary trading weakness below it. And the December S&P 500 future held overall against interim low-4,300 support, and ended the week back above the low 4,400 area. The extent of the temporary selloff means that it needs to be treated as a 4,410 weekly up channel DOWN Break. Yet that also means the Close back above it establishes it as a Negated DOWN Break, and therefore a support area. That is also consistent with weekly MA-13 moving up to the 4,430 area this week.

That said, the 4,348 area has reverted to the key support again this week on the renewed pressure. And much like last week, it was temporarily violated early this week, and is now churning around it. The difference is the daily 'trend flow' is not quite the same. Where last week it was seriously violated on Monday and churned around it on Tuesday prior to recovering so well. This week it slipped on Tuesday, and is churning around it today with much less slippage. Will this see another late week recovery? We suggest watching the key US T-note support on that potential.

Thanks for your interest.

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