



ROHR ALERT!! Risk-On Revival?

1 message

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Dear Subscribers,

As we noted again earlier this week, the market always gets the last word on the Evolutionary Trend View decisions. And despite the reservations we expressed in Thursday's 'Incremental Heartening' ALERT!! (repeated below for your ease of access), stronger aspects of the news seem to have inspired a significant return of risk appetite missing since the US equities early September new all-time highs.

Yet the question mark at the end of today's title hints at the degree to which the current return of a 'risk-on' psychology still leaves room for those negative factors to affect the trends. That said, after this morning's better than expected US Retail Sales figures, the further US equities upside follow through is not much of a surprise. The interesting aspect will be whether the December S&P 500 future maintains strength above the 4,430-35 Tolerance of the 4,400-10 previous DOWN Break into today's weekly Close. In addition, the next higher threshold is the late September 4,472 high of the last month, with the 4,550 all-time high above that.

The dilemma for the bulls is that there are still some dark clouds in front of the US Retail Sales and no worse than expected international inflation numbers seen through this week. The stronger US Retail Sales need to be assessed in the context of the inflation indications. Are they actually that strong on a unit basis, or at least in some good measure a reflection of higher prices? And what is the prospect for inflation to eat away at consumer activity in the context of the still strong energy prices, which we have discussed at length (see below.)

On that front, it is not a surprise that global govies which had rallied back from lower congestion levels to key failed supports are now back under pressure. It is going to be interesting to see how the other asset classes react to any renewed yield escalation if the global govies remain under pressure. Along with that there is the issue of how much a major headline consumer consumption number like this morning's release affects the Fed's 'taper' decision and action. Likely what we have just seen will encourage a November start to the long-awaited QE taper.

Also mentioned in passing Thursday was the potential impact of further Chinese property sector problems on the global economy, especially in the form of the possible acceleration of problems with Evergrande; yet with that as a bellwether for the overall sector and Chinese economic and financial issues. And, lo and behold, what should we see this morning? A Reuters 'exclusive' flash that...

"Evergrande's \$1.7 bln Hong Kong headquarters sale flops as buyer withdraws" (<https://reut.rs/3DJdS93>), as "...Chinese state-owned Yuexiu Property has pulled out..." of that deal. Well, even state-owned entities do not want to touch the Evergrande 'third rail'. While it is working hard to raise money from asset sales, as noted in our October 5th 'The Clock is Ticking' ALERT!! "...the 'grace period' for its September 23 missed interest

payment lapses on Saturday, October 23.” As previously noted, any Chinese property sector problems are more likely a domestic matter than any possible global ‘financial contagion’, due to the lack of major international exposure. Yet it would still represent a global economic drag that could spill over into the US and European economies down the road.

That said, for now the US equities are indicating that more risk appetite is back. That is also being reflected to some degree in foreign exchange, even though the US Dollar Index is only back toward its key 93.70 area without any indication it is looking to violate it right now. The return of ‘risk-on’ is more prominent on a country basis in emerging currencies outside of the still beleaguered Turkish lira (down to another all-time low today.) The recoveries in both the Mexican peso and South African rand speak of a level of confidence not seen in recent weeks.

Courtesy Repeat of Thursday’s ‘Incremental Heartening’ ALERT!!

There has been a shift over the last twenty-four hours in the relative risk appetite. That is based on multiple factors which may, or may not, signal a full restoration of the recently lapsed ‘risk-on’ psychology. The dilemma is that quite a few of the most recent indications and events carry some negative aspects as well. While those are very broad-based, we will attempt to concisely review them below.

As noted in Wednesday’s ‘Inflation Anticipation’ ALERT!! (repeated below for your ease of access), *“Having already ‘priced in’ today’s near estimated (inflation) figures, the global govies are rallying a goodly bit.”* That rally has continued in the wake of Wednesday afternoon’s FOMC September 21-22 meeting minutes (<https://bit.ly/2YL39f9>) release. Those were very far flung and even contradictory on so many fronts, yet highlighted the degree to which the Fed will be pursuing a ‘taper’ of its major government bond and mortgage-backed securities program.

For a more expansive analysis of the full FOMC discussion we suggest yesterday evening’s Forbes article (<https://bit.ly/3IGHWvX>), which explores many of the very complex issues affecting upcoming Fed decisions. As we have also highlighted of late (along with many others), the inflation situation is a major consideration., However, before we explore that further, there is still a COVID-19 Delta variant hangover in the US, which ranks poorly compared to other developed economies in its overall levels of vaccination: 66%+/- one dose and 57%+/- fully vaccinated.

That is as compared to Europe where the lowest levels are near 80% and range up to above 90%, with 78.6% having had a single dose and 85.5% being fully vaccinated in the UK. This not only leaves the US significantly behind Europe in protection levels, but is even worse due to the prospect it will continue along that path in the context of the US politicization of the issue. While there is more hope on the recent Federal contractor vaccination mandate (including all of the major airlines and many other businesses), there are those still resisting this effort.

As an example, note this morning’s Reuters article (<https://reut.rs/3BVYAxy>) on the anti-vaccination resistance by US religious leaders and advocacy groups. This is even after the degree to which the US South and Southeast were ravaged by the Delta variant even over typically more infection benign Summer months.

While not prominently featured in the article, this is fairly well-ingrained in some folks’ psychology, due to the 2020 claims that COVID-19 is a hoax perpetrated in a Left wing plot to subjugate Americans. That anyone believes this is shocking, and goes to the degree to

which the US may lag behind the rest of the world and fall well short of any 'herd immunity' threshold for the foreseeable future. That is especially relevant as the colder Winter weather will be more troubling as well.

This then comes around to impact the US labor market, as some folks are still hesitant to engage in onsite employment due to the COVID-19 pandemic risks which have already created part of the current stubborn hiring problems. It is also the case that this is exacerbating wage increases in a troubling inflation outlook.

As also noted Wednesday, the current in-line inflation numbers were calculated prior to the recent energy price spike to new 7-year highs at the end of last week, which is not likely to abate anytime soon (see below.) As such, after the current relief from those numbers that include today's Chinese figures, Spanish CPI and US PPI not being more elevated than expected, the 'inflation anticipation' game will be afoot in the markets after the current 'Incremental Heartening' into today.

There is quite a bit of hope (or hype, as the case may be) flowing from President Biden's latest somewhat enlightened efforts to slash the Gordian Knot of the highly pernicious supply bottlenecks. The approach outlined in his Wednesday speech seems enlightened in concentrating on the major port delays in the first instance, followed by ground transport and warehousing issues as well.

As this morning's very good Reuters article's (<https://reut.rs/3FK0rHL>) title notes, "U.S. supply chain too snarled for Biden Christmas fix, experts say." Aside from the degree to which the ports are indeed backed up due to higher US consumer goods orders during and after pandemic lockdowns, the labor pool may not be able to provide any relief. As the article pointedly notes "*...there is no evidence of experienced workers sitting on the sidelines - US transportation and warehousing are employing more people now than they did before the pandemic started...*"

As scary as that may be, there is also the impact on wages of the dock workers themselves, who are not going to work extended shifts (the overnight 'graveyard shift', etc.) without extended compensation. While not mentioned anywhere in the news coverage, it is certain wages for them as well as any similar effort involving transportation and warehouse workers will see much the same wage increases. Whether this is a situation which can spin into an unconstructive wage-price spiral is yet to be seen, higher US earnings are partly behind the strong demand.

In that regard, inflation still represents a headwind despite being based on strong demand, as the higher wages necessary to keep workers engaged are eroded by the inflation impact on 'real wages'. And this is not just a US anomaly, as another Reuters article this morning (<https://reut.rs/3BHLq79>) is titled "Price pinch: global economy caught in perfect storm" into a full international review of the situation, including, "*Even in Japan, where weak growth has meant that prices of many things - as well as wages - have not risen much in decades, consumers and businesses are facing a price shock for basics such as coffee and beef bowls.*"

For years central bankers were cautioning on the previously depressed inflation soon returning to their target levels. And they were proclaiming this would be a sign of success in their battle against seemingly permanent weak economies and ingrained weak price tendencies. Well, isn't that a great example of the old adage, "*Be careful what you wish for*"? Therefore, despite 'Incremental Heartening' on the return to less of a near-term 'risk-

off' psychology, it is going to be interesting to see how this unfolds over the coming days and weeks as these factors evolve.

At least so far the improvement is indeed 'incremental'. US equities have seen December S&P 500 future recover from the key interim 4,348 area once again, yet also once again only up into the 4,400-10 range and its higher Tolerance in the 4,430-35 range. That remains very important due to the mid-September 4,410 significant weekly up channel DOWN Break, which was on the China Evergrande problem coming to light. 4,430-35 also remains important after being retested in each of the subsequent weeks, and on weekly MA-9 and MA-13 being in that area.

And as it relates to the Evergrande citation, we had warned late last month that 'grace periods' for it to make the nominally missed international bond (versus domestic Chinese loans) interest payments meant the problem was only on hold until late this month. Another very good Reuters article (<https://reut.rs/2XfJmEk>) this morning notes, "(Evergrande) *missed a third round of interest payments on its international bonds this week.*" We weren't even aware that was due, and will add to 'grace period' deadlines in the near future. That is in addition to the article noting, "...*municipal officials in Changchun said Evergrande has yet to make a \$28 million payment for land it acquired in the northeastern city earlier this year.*"

Whoa... so while insolvency loomed the group was still keeping up its major buying spree, possibly to keep up appearances? As we have noted previous, this is unlikely to develop into a major international 'financial contagion' problem, due to the limited exposure of Western banks and investors to the Chinese property sector... thank you 'Xi & Company' for the xenophobic restrictions on foreign investment in that sector (another example of 'be careful what you wish for'?)

Yet any further slowing of a Chinese economy already grappling with weakening entrepreneurial zeal (see Tuesday's link to the PBoC Q3 Entrepreneur Survey Report) may be a significant drag on the global economy. The recent inflation indications there have moderated just a bit, yet are at levels leaving little room for substantial central bank easing to support a beleaguered property sector.

Similarly in other asset classes there is only 'Incremental Heartening' so far after recent pressure. December T-note future is only back up to the low end of the failed 132-00/131-16 congestion. And it is much the same for Bund and Gilt.

Foreign exchange has also seen a weakening of the US Dollar Index 'haven' bid back to very near the key 93.70 area. That is mostly against the developed currencies rally, and some select 'country' improvement in emerging currencies.

Yet the real driver we (along with quite a few others) have highlighted remains a pernicious factor: the continued sustained rise of energy prices. That is still on the front month WTI Crude Oil future above the significant 75.00-77.00 resistance (and now also holding above 80.00) with the 84.00-86.00 area next resistance.

Courtesy Repeat of Wednesday's 'Inflation Anticipation' ALERT!!

Heightened concern over still rising inflation has been a driver for the recent 'risk-off' psychology. With even the previously sanguine central bankers now allowing that it will be sustained for longer than previously anticipated, and that is based on continued supply 'bottlenecks', those fears seem well-founded. It is even the case that a select number of central bankers are pointing to the need for early rate hikes. Weekend comments by the

BoE's Saunders on the public should get ready for "*significantly earlier*" interest rate rises was reviewed in Tuesday's 'Growth Hitting Its Head' ALERT!! (repeated below for your ease of access.)

As such, today's September German CPI coming in at the expected 4.1% YOY, and US 5.4% CPI only a hair higher than the estimate were likely a bit of a comfort despite the still elevated levels. After all, as we have often noted on the old axiom, "*The market is a creature of expectations.*" And the recent drubbing of the global govies was likely in part on the anticipation of just such elevated inflation data.

Having already 'priced in' today's near estimated figures, the global govies are rallying a goodly bit. That is especially good activity in the Bund and Gilt, which remain weaker than the T-note in already sagging to important lower supports. However sharp their rallies today, the December Bund future Closing below the low end of its 170.00-169.50 area last week had already slipped to near next key support in the 168.00-167.50 range. Downside leader front month Gilt future that Closed right into 124.00 support last week (after being down 4.00 in three weeks) has recovered above it after trading down into the mid-123.00 area on Monday.

That also speaks of what might transpire on any weaker economic outlook, yet has been markedly absent in the form of any global govies rally. That was even during the recent weaker US equities and non-US dollar foreign exchange trading. It smacks of a "*sell the anticipation and buy the fact*" inflation psychology, as long as the fact is not any worse than expected... as was the case with this morning's inflation numbers. Yet it is also the case at present that the lower yields are neither inspiring any overt strength in the US equities nor any major rally in non-US dollar foreign exchange. Possibly further 'inflation anticipation'?

The only problem with today's quasi-sanguine (even of still elevated) inflation numbers is that they are the typical 'rearview mirror' indications. As explored at length in Tuesday's analysis (see below), the front month Crude Oil future above the 75.00-77.00 area is most likely headed the 2010-2013 84.00-86.00 congestion. For all of today's weakening back below the 80.00 'big penny', it is in no way a key Evolutionary Trend View decision (ETV) threshold. Only back below the 75.00 area would it signal potential energy price weakness to any significant degree.

As such, after the 'knee-jerk' global govies relief rally on today's 'as expected' numbers, as investors, traders or analysts we are charged with 'anticipation' of what the inflation influences as well as other developments are going to mean into next month. That includes the further oscillations on the COVID-19 pandemic Delta variant developments, including the US confrontations over various local, state and federal rulings. It also will be interesting to see various US government fiscal and political efforts evolve, along with the same in Europe and the UK.

US equities are seeing the December S&P 500 future weaken from the key 4,348 area after last week's rally back to retest the low-4,400 area. That brings the interim 4,300 area back into focus with the 4,235-00 range below that. And while the developed currencies have quietly regained some small measure of previous losses, they remain below more significant supports against the US dollar.

And in the emerging currencies we still see 'country' responses based in good measure on sensitivity to inflation and energy prices. As the Mexican economy is vulnerable to US economic weakness, it is not that surprising to see USD/MXN above 20.45 into its 20.75

June trading high resistance despite the Crude Oil component of its economy. Similarly the Turkish lira has seen USD/TRY surge up into a 9.1030 new all-time high today, also a key weekly Oscillator threshold (MA-41 plus 0.90.) If it should be exceeded on this week's Close, the 0.04 rise of MA-41 projects next week's threshold into the 9.30 area (MA-41 plus 1.05-1.10.)

It all adds up to inflation anticipation into today not exacerbating what was expected with worse inflation numbers. More important is what needs to be anticipated if energy prices remain elevated enough to foster more inflation fears through what is anticipated to be a fairly strong corporate earnings season.

Courtesy Repeat of Tuesday's 'Growth Hitting Its Head' ALERT!!

There's quite a bit to unpack on the way back in from Monday's US Columbus Day holiday and Canadian Thanksgiving. There was of course US electronic trading as well as the NYSE trading floor open on Monday, and that seemed to all back up our view that there is more of a 'risk-off' psychology at present than seen in quite a few months. The reason behind that was revisited again in Friday's extensive 'US Employment Trend Push' ALERT!! (repeated below for your ease of access.)

Most of all is the sustained inflation that is nowhere near as transitory as the Fed and other central banks would have liked. The latest shot across the bow of more sanguine, accommodative central banks has come from the Bank of England that is particularly burdened by extreme UK energy price surges and shortages. In a Reuters article over the weekend (<https://reut.rs/3mGzVq6>) BoE policymaker Michael Saunders is quoted as telling households to get ready for "*significantly earlier*" interest rate rises as inflation pressure mounts in the British economy.

The article also notes that, "(he along with) *Deputy Governor Dave Ramsden voted to halt the BoE's government bond purchases ahead of schedule.*" It is the equivalent of FOMC members bucking Chair Powell's 'it will calm down next year' narrative to push for an early QE taper. Yet in this case it comes along with an explicit warning the first BoE hike (not on the table at the Fed) is already being priced in by the markets for February, with a chance it might come in December.

Given that, much the same as for the rest of the world, the driver for that higher inflation is energy prices, it is worth noting the Evolutionary Trend View for WTI Crude Oil. For quite a while we have noted the importance of the front month Crude Oil future resistance from historic congestion and the May DOWN Closing Price Reversal (CPR) in the low 75.00 area. While that had a Tolerance of the 76.22 level, the trading highs both this year and into the October 2018 high being just below 77.00 area left that as the overall key resistance. Having exceeded that last week, next historic resistance is not until the 2010-2013 84.00-86.00 congestion.

This is a problem on there being no expectation that energy prices are coming down anytime soon. Producers who were burned by the 2020 price implosion being quite a bit more cautious about expanding production (and also enjoying the current great profitability.) A forward outlook on how this is affecting also surfaced today in the form of the next monthly release of the Organization for Economic Cooperation and Development's (OECD) Composite Leading Indicators (CLIs <https://bit.ly/3lAvuxW> for our somewhat heavily marked-up version.)

As the title of this net four month outlook (six month view delayed by two months to confirm data accuracy) says, "*CLIs continue to point to a moderating pace of expansion in*

economic activity.” While it notes the current leveling off is mostly at above trend levels, these appear (see the graphs) to be the classic growth tops which lead to at least temporary weak economic phases. Note that Russia continuing to rise is likely a subset of the sharp energy price increase, having little to do with the contrary effects on the rest of the global economy.

And our concerns over the Asian economy were reinforced over the weekend by the Saturday posting of the very timely PBoC Q3 Entrepreneur Survey Report (<https://bit.ly/2YKbm32>.) This shows the degree of slowing in the entrepreneurial aspect of the Chinese economy, reinforcing recent trade and sales figures and the weight of recent government headwinds. While year-on-year comparisons with 2020 still seem upbeat, this is against one of the pandemic recovery periods.

As noted again Friday, “...as far as the US equities have come back on the ostensible ‘relief rally’ with the December S&P 500 future back above the 4,348 area, it is only up around the 4,410 significant weekly channel DOWN Break...” (see the chart as of last Friday’s Close <https://bit.ly/3luzmAm>.) That was also congestion from the August-September topping activity, reinforced by 4.427 weekly MA-13. That was therefore only a partial recovery from the previously noted ‘Risk-Off Trend Evolution’, and weakened again later on Monday. Back in the 4,350 area leaves that as the important interim level this side of 4,300 area.

Last week’s Closes were also pernicious for global govies which had tried to hold on against the previous week’s key low levels. Most important was the December T-note future back below the low end of its 132-00/131-16 support, and even the 131-07 trading low from the previous week. That opens the door to a test of the 130-00/129-16 congestion not reached during the February-March selloff. Also important were the failures in the Bund and Gilt into the end of last week.

It is much the same for the foreign exchange loss of any ‘risk-on’ psychology. There is only a partial, selective recovery in emerging currencies, and the other developed currencies are still weak against the recently revived ‘haven’ bid in the US dollar. However, the improved psychology from any temporary US debt ceiling deal seems more the relief of an immediate stressor than any reason to look for a more upbeat overall psychology, as the ‘macro’ picture remains weak overall.

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/3luzmAm> 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 remained important after what was the ‘lackluster jailbreak’ after the previous outstanding US Employment report. With the market dropping back below the 4,450 level (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 (on the rising MA-41), which it failed to maintain in early September, 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 three 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 needed to be treated as a 4,410 weekly up channel DOWN Break. Yet that also means the Close back above it established 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 had reverted to the key support again last week on renewed pressure. And much like previous, it was temporarily violated early last week. The difference is that the daily 'trend flow' is a bit different, where the previous week it was seriously violated on Monday and churned around it on Tuesday prior to recovering so well. Last week it slipped on Tuesday, and was churning around it early Thursday with much less slippage.

Yet it ultimately failed even worse than the previous week, and the late week Merck news only left it retesting that failed 4,348 support. While last week's rally brought it back to the low-4,400 area, it weakened again after that. Now back below the 4,348 area leaves 4,300 interim support, yet with the more major lower support into the 4,235-00 range May-June congestion it surmounted in late June. If that should fail, there is also prominent congestion again back into the low-4,100 area, with weekly MA-41 in the upper-4,100 area along the way.

Thanks for your interest.

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