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## ROHR ALERT!! Incremental Risk-On Shift

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Dear Subscribers,

**As revisited in Friday's 'Risk-On Revival?' ALERT!! (repeated below for your ease of access), the market always gets the last word on the Evolutionary Trend View decisions. And despite our recent reservations, 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. That said, there still seem to be some key factors making the most recent improvement a bit suspect.**

Many of the reasons remain the same, including the cooling Chinese economy and especially the travails of its property sector. On the former, consider this morning's 'miss' on major economic releases like September GDP, Industrial Production and Fixed Asset Investment. We had foreshadowed the potential for some real weakness in China being reinforced by the previous Friday's release of the PBoC Q3 Entrepreneur Survey Report (<https://bit.ly/2YKbm32>.) As we noted in last Wednesday's extensive analysis, *"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."*

Thus the weakening of the overall Chinese economy, which has also had effective pandemic suppression measures that are good for its overall health, yet not good for either the domestic economy or especially international shipments (i.e. port activity and other shipments.) While Chinese and US Retail Sales figures were good, consumers are often the last indication of overall economic weakening. Note that this morning's US Industrial Production and Capacity Utilization were also significant downside disappointments. Ergo our continued suspicions.

We also revisited the unfolding of more layers of the Chinese property market problem on Friday (see below.) That is on further signs that Evergrande may not topple next week, yet is having problems with asset sales that inform our view of the overall problems in that sector. There are many official and private sources attempting to characterize Evergrande's problems as an isolated company, and cite the relatively small portion of the overall Chinese property sector and bond market which it represents. They are missing the point.

In our October 7th 'Debt Relief' ALERT!!, we cited a very extensive Reuters article (<https://reut.rs/3iGXFst>) on *"...the knock-on effects of what are now weaker land sales. While there was always a sense that the Chinese property market would need to cool off at some point, the fact the central government is leaning into it at present makes this the inflection point where lower expectations are now ingrained into the market."* The failure of Evergrande to secure more asset sales is also a worrying sign for other developers who are missing interest payments.

Those who are playing down the degree to which this may be a bigger problem for China as the government is (at least so far) refusing to intervene in a major way sound quite a bit like

Fed Chair Bernanke discussing what a small portion of the overall US debt market was exposed to subprime mortgages back in 2007. Rather than the degree to which one company has a problem there is the degree to which many are affected by a now sluggish real estate market.

That is not even to mention the extent of Evergrande's overall commitments, even beyond its headline \$300 billion in international debt. According to a September 21st New York Time article, "*Angry home buyers are waiting on as many as 1.6 million apartments to be completed. Suppliers of cement, paint and rebar are owed more than \$100 billion in payments. Workers are panicking that loans they made to their employer cannot be repaid.*" Also explored in our October 7th ALERT!! was the similarity to the US government messing with real estate finance in the 'Tax Reform Act of 1986' (passed in 1987) leading to a major market slide.

The balance of our still somewhat skeptical view remains much the same as our last Thursday and Friday assessments, including the remaining concerns about the stubbornly low US COVID-19 vaccination levels. There has been a lot of hoopla of late about how far new US COVID-19 infections have fallen. Yet that is in the context of extreme levels seen as recently as early September, with the 50% drop being to around 90,000 from a peak of near 180,000. Not really very good yet, and in the further context of new vaccinations remaining comparatively low.

Also reviewed at the end of last week is the degree to which the US and global supply bottlenecks and shipping congestion are as easily resolved as quickly as some politicians' pronouncements would tend to indicate. US President Biden noted that some US West Coast ports had already been operating on a 24/7 schedule for months. The reality is that there is only a pilot program at one of those ports running Monday through Thursday at one pier. The current informed assessment is that reaching the level of coordinated shipping improvement necessary from shippers and warehouses will take quite a bit of time.

All of that said, the December S&P 500 future managed to finish last week above the 4,430 area Tolerance of the 4,400-10 resistance. That includes a weekly Close above weekly MA-9 and MA-13 in the 4,435-45 area. This indicates a US equities sentiment that is passingly 'risk-on' once again, pending whether it can hold any near-term tests of the 4,410-00 area. And the next higher resistance is at the 4,472 late September trading high from which it previously dropped to the 4,300 area.

**Courtesy Repeat of Friday's 'Risk-On Revival?' ALERT!!**

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!! (we suggest a read), *"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 important 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/3BVYAxv>) 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.

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/3vldECh> 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 three weeks ago. And while it subsequently traded back above that as well, 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 mid-September Close and violating it from the beginning of the following week was a fresh 4,410 DOWN Break. That fed further weakness which was already anticipated from the negative 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 of late 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, with last week's rally back above the low-4,400 area. Holding above the 4,430 area Tolerance of the 4,400-10 resistance for a weekly Close also above weekly MA-9 and MA-13 in the 4,435-45 area looks more bullish again. It indicates a US equities sentiment that is passingly 'risk-on' once again, pending whether it can hold any near-term tests of the 4,410-00 area. And the next higher resistance is at the 4,472 late September trading high from which it previously dropped to the 4,300 area.

Thanks for your interest.

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