Gmail

Alan Rohrbach <ar.rohr.intl@gmail.com>

ROHR ALERT!! Mixed Inflation Indications

1 message

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

Wed, Oct 20, 2021 at 10:44 AM

Dear Subscribers,
This morning saw mixed inflation indications in what are some of this week's most important 'macro' influences. In order of appearance the UK CPI was a bit lower than expected, yet with a curious uptick in the Retail Price Index. It also saw mixed Producer Price Index indications. However, German PPI was quite a bit higher than expected prior to the as expected Euro-zone CPI. And then Canadian CPI was higher than expected. All of that said, the global govvies are just a bit higher today (i.e. lower yields), reflecting the same sort of reaction seen after the recent in line US and German CPI on a "*sell the rumor, buy the fact*" reaction.

Now we await the Fed Beige Book this afternoon (14:00 EDT), with its likely signs the US economy remains in good shape overall despite the stubborn weakness at the low end of the labor market. On one hand, that is likely part of the reason the US equities have been able to shake off the headwinds we had noted in Tuesday's 'Not Much New to Say' ALERT!! (repeated below for your ease of access) and other recent analysis (some of which is also repeated below for your benefit.)

This is also the case for emerging currencies remaining strong, even if on a 'country' basis with the Turkish lira still lagging. The less dynamic developed currencies are holding their recent modest bid, even if that still only has the weakening of the 'haven' US Dollar Index rally only reacting back down from its test of 94.35-.72 to the important 93.70 area over the past week. It all speaks of the return to a 'risk-on' psychology noted since last week's US equities strength.

However, as we always note, it takes three different headwinds to reverse any sustained 'risk-on' psychology in US equities… and that still seems to be the case at present, which makes sustained improvement somewhat problematic. There are the higher yields, which have no reason to reverse based on inflation indications and still stimulative central banks. While we have noted the recent releases being in line with estimates have fomented near-term upside reactions in bearish global govvies, overall inflation levels are well above central bank targets.

The second headwind is the stubborn resilience of the COVID-19 pandemic, even if there has been some improvement in the under-vaccinated US of late. As noted on Monday, "*...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.*"

Even with continued steady improvement, US vaccination rates have fallen quite a bit overall with the level of full vaccination only reaching 57.6% of late. It is still a risk factor as we head into colder Winter weather over the next sixty days out into the next three months. For perspective, Dr. Anthony Fauci has consistently said throughout the pandemic that

until US new infections drop below the 10,000 level there is a risk of the pandemic resurging. This is also an economic risk, even if some will promote the idea any quarantine will drive more goods sales, much as what transpired during the early pandemic into this past Summer.

As a sign this can also still impact the international economy, Russian President Putin just ordered a "Week Without Work" to combat the most recent rampant outbreak over there. With the problems already apparent in the supply chain out of China, there is the risk that any resurgence there will lead to more trouble. Clearly the third headwind into 'risk-on' is slow delivery of Asian goods into US West Coast ports. The necessary yet rigid Chinese regional quarantines were at least partially responsible. As we have already reviewed, the headline efforts to improve the US ports situation are not going to be an 'instant' remedy.

As such, the December S&P 500 future serial push above 4,400-10 and its 4,435 Tolerance led to the violation of the 4,470 late-September rally high. It has now also recovered back above the modest 4,510 early-September congestion, which only leaves the early September 4,549.50 front month S&P 500 future all-time high as resistance. As noted on Tuesday, the key weekly Oscillator thresholds for the next levels are up into the 4,625-50 area (also in line with the major 'swing count'.)

Tuesday's note also explored key Evolutionary Trend View (ETV) considerations for the overall trends and key price levels for global govvies. We suggest a review of that for potential important reactions there and in foreign exchange after this afternoon's Beige Book. Could this end up a '*good news is bad news*' impact?

Courtesy Repeat of Tuesday's 'Not Much New to Say' ALERT!!
Given the lack of economic releases, there is literally not much new to say today after Monday's 'Incremental Risk-On Shift' ALERT!! (repeated below for your ease of access along with other previous research.) That said, current economic data continues to disappoint, which makes the return of the 'risk-on' psychology at this time rather ironic. Is this classic '*bad news is good news*' on the likelihood central banks will remain more accommodative than recently anticipated?

Well, we might know more about that tomorrow afternoon on the Fed's Beige Book release in anticipation of the November 2-3 FOMC meeting. Yet prior to that there will be a major array of inflation numbers released from the Euro-zone, the typical full UK monthly indications for CPI, PPI and RPI along with Canadian data as well. This is particularly important at this time after the global govvies have demonstrated last week's rally was temporary, returning to weakness late week. That has spilled over into a fresh front month T-note future 20-month trading low below its early-April 130-255 level, with 130-00/129-16 always more important.

That implies a yield push back up to the 1.74% last seen at the end of March. However, in the context of the significant August 2019 through February 2020 range, the more major support is not until the 128-00 area, which might imply a push to a new 22-month high yield above 1.74%. The next yield threshold is the 1.93% last seen in December 2019. Why is this so important to the renewed 'risk-on' psychology? Quite simply because prominent supply chain problems and elevated energy prices still represent a headwind for the global economy.

Also of note on the global govvies is the December Gilt future weakening right back to the 124.00 historic congestion. That is the exact Close from two weeks ago, and after trading below it early last week it left a weekly UP Closing Price Reversal (CPR.) Yet if that were to

be quickly Negated on a weekly Close below that level this week, it would point to next support that is until the 122.00 area.

That is in the context of its 10-year cash yield of 1.15% already at a new 28-month high, and the previous threshold being around 1.50% from 2017-2018. The front month Bund future is already below last week's minor 169.22 UP CPR, and once again nearing its 168.00-167.50 historic congestion. While only trading around its 168.29 May low last week and this week, if it manages to crack 168.00-167.50 the next support is not until around the 166.50 area. As such, Wednesday's inflation numbers loom large, with not much else in that vein for the balance of the week.

However, even with this week's return to higher yields after last week's temporary reactions, the US equities and foreign exchange are demonstrating more of that restored 'risk-on' psychology. The December S&P 500 future above the 4,435 Tolerance of the 4,400-10 resistance is continuing to rally. It is now strong in exceeding the 4,472 late-September previously failed rally trading high. That leaves those lower levels as support, and with only the 4,510 September congestion along the way points to a possible test of the early-September 4,549.50 all-time high. That is also now a key weekly Oscillator threshold, with the next levels up into the 4,625-50 area (also in line with the major 'swing count'.)

The developed currencies rally is a bit subdued insofar as the US Dollar Index has only reacted back down from the 94.40-.70 range to the lower key 93.70 congestion so far on weakening of the previous 'risk-off' US dollar 'haven' bid. And while the emerging currencies remain a 'country' affair (with the Turkish lira still under pressure), recent interesting recoveries of the South African rand and somewhat weaker Mexican peso speak of the return of the 'risk-on' psychology.

And all of that is also underpinned by surprisingly strong Q3 corporate earnings reports this month. The question then becomes whether those reflect the lower inflation and yields which were prevalent last quarter, and can that continue into supply chain problems and higher inflation. The latter is based on energy prices which only extended gains as of the beginning of this quarter two weeks ago. There is also little expectation either of those influences are going to abate any time soon (regardless of what some politicians might be saying or hoping.)

Courtesy Repeat of Monday's 'Incremental Risk-On Shift' ALERT!!
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 onion 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.

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/3vIdECh 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.

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