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ROHR ALERT!! Technical Issues Delay Research

1 message

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Mon, Oct 25, 2021 at 10:38 AM

Dear Subscribers,

We apologize for the issue with our ISP that is delaying our macro analysis and Evolutionary Trend View (ETV) update this morning. That includes the inability to update the weekly charts. The latter is quite important right now, especially in the US equities after the front month S&P 500 future left what is the first significant Double Top in quite a while. In fact, that is going to be the theme of our next ALERT!!, which we are confident will be Tuesday morning after our technical issues are resolved later this afternoon when the storms are also due to pass.

In the meantime, we can share the basic thought on that even prior to being able to update the front month S&P 500 future weekly chart. After nearly a \$200 selloff from the early September 4,549.50 all-time high, last Friday's December S&P 500 future 4,551.50 nominal new all-time high looks tantalizingly like a Double Top.

However, preliminary nominal multiple topping patterns (sometimes triple or even quadruple) suffer from the tendency for them to be only temporary stall outs of a continuing up trend (or conversely down trend in a bear market, as are the other considerations.) The test of a nominal Double Top being bona fide is whether the market subsequently at least violates next lower meaningful technical support.

For the December S&P 500 future evolution of the front month S&P 500 future weekly chart, that would be the 4,510 early September congestion that we noted as the last resistance for the rally on the way back to the previous all-time high. Only back below that area does the Double Top gain more credence as a possible sustainable top for the US equities trend. Short of that failure, it is more so likely only a matter of time before a more extensive new all-time high is established.

There is much more to explore on this topic regarding the broader downside and upside potentials, which we will pursue in Tuesday's ALERT!! Suffice to say for now that the US equities defied the weaker economic data for a full week last week, and this major end of month economic data week (into Wednesday-Friday) has begun the same way. The Japanese Leading Economic Index, German IFO and the US CFNAI have all come in weaker than expected, even if the Dallas Fed Manufacturing Business Index beat its estimate. And December S&P 500 future is climbing back toward Friday's new all-time high... another threat for the bears.

Also in the meantime, please find a repeat of Friday's 'Mixed PMIs' ALERT!! below (along with other previous analysis), with its articulation of the various macro factors which might still spell trouble for the 'risk-on' psychology. However, at least so far a more positive than expected corporate earnings season has supported the great risk appetite along with upbeat vaccine expectations.

Courtesy Repeat of Friday's 'Mixed PMIs' ALERT!!

After the positive overall Federal Reserve assessment of the US economy (with key reservations) reviewed in Thursday's 'Beige is the New Red Hot' ALERT!! (repeated below with other previous analysis), today's global Advance PMIs were going to be the next critical anticipatory economic release to close out the week. However, rather than clear indications on somewhat weaker expectations, they were quite mixed. Especially as it concerns the manufacturing sector, which has been such a major positive in recent months, they were significantly divergent.

Japan, the UK and Germany were stronger than expected, even if the latter eased slightly from the September reading. While Australia was weaker than expected, it was still up a bit on the month, with the US also showing some disappointment in the manufacturing number at 59.2. That is lower than the 60.3 estimated slight slippage from last month's 60.7 final... some cracks finally showing there?

The Services Advance PMIs were generally in good shape, which is not a surprise based on the continued consumer boom in the US on the back of government subsidies. Its figure was 58.2, which was quite a bit better than the 55.1 estimate that was already an improvement on last month's 54.9. So it is now Services underpinning the 'risk-on' psychology. Of particular interest was the strong surge in UK Services, yet with a big miss on September Retail Sales. It raises a question on whether UK purchasing managers are engaging in classic 'hope over reality'?

The other good US news is the FDA nearing approval for the Pfizer-BioNTech COVID-19 vaccine for 5-11 year olds. That is based on efficacy of its latest trials. As noted in Thursday's Reuters article (<https://reut.rs/3ni68o7> updated just this morning), "...(the vaccine showed 90.7% efficacy against the coronavirus in a clinical trial of children 5 to 11 years old..." Of course, this is not just exciting for the protection of the children, yet also for education overall and the labor market.

As we (among others) have discussed in recent months, the lack of protection for children in their own right and as potential transmitters of the disease to those vulnerable people in their households has been a significant economic drag. However much as some folks posited that this was over with the return to school this Fall, the reality is that outbreaks at some schools are still causing reversion to remote learning in the vulnerable (i.e. under-vaccinated) areas. As such, some members of families with primary school children are still not in the workforce.

Yet the assumption a primary school child vaccine will fully address this still leaves a dark cloud which raises questions in front of the silver lining. As we noted earlier this week, the US still lags vaccination rates in the 80%-90% range for Europe and the UK, with only 57.6% fully vaccinated. At this point this is much more so on vaccine hesitancy than any lack of availability. And that means there will be parents who are averse to having their children vaccinated as well. If that is the case, the reality will be quite a bit less than full school-age protection.

And the confirmation that the vaccine-hesitant or fully resistant population is not going to take advantage of this protection is in vaccination rates trending lower once again after the most recent uptick into earlier this month. It is likely that the recent vaccination surge was due to corporate vaccine mandates that pushed it back above one million doses per day. It is now down to less than half that, which raises questions about the uptake of any 5-11 year-old vaccinations. The recent surveys (CNBC this morning) show 43% of parents in resistant areas oppose any mandate, with 95% of unvaccinated parents opposing vaccination for their kids.

The question which the markets are (somewhat rightfully) ignoring in the wake of this nominally positive news is whether a primary school children's vaccine that only gets 60% uptake will be effective enough to provide the expected benefits? The politicized environment in the US on COVID-19, vaccinations and masks will add to the uncertainty after any initial positive reaction when a children's vaccine is actually rolled out. It's not going to be as clear cut as it likely should be.

That said, it is a future concern that does not seem to be bothering the markets right now, with the December S&P 500 future pushing up very near the front month S&P 500 future (September contract at the time) early September 4,549.50 all-time high. That was to be expected once the 4,400-10 late-September weekly up channel DOWN Break was fully overrun last week. Of note, that DOWN Break was at least in part on the Evergrande debt default scare, which was noted as being partially addressed with a delayed payment being available this morning.

Emerging currencies are also maintaining their recent 'risk-on' psychology (outside of the beleaguered Turkish lira), shaking off the higher energy price and yields that might normally be expected to derail their rally. Speaking of which, even the still weak global govies are managing a modest recovery today, which is defusing just a bit of the recent new high yields trend from earlier this week.

Courtesy Repeat of Thursday's 'Beige is the New Red Hot' ALERT!!

Well, Wednesday afternoon's Fed Beige Book (<https://bit.ly/2Z9W8EK> for our PDF page 5 National Summary markup) disappointed neither those expecting more economic strength, nor those concerned about inflation and the supply chain bottlenecks that are driving it in some significant measure. It is on one hand a typical economic rebound phase situation, yet more troubling in the degree to which some Fed Districts are "...*expecting price (sic) to remain high or increase further while others expected prices to moderate over the next 12 months.*"

Higher still? From the current US annualized 5.4% CPI rise? That would not be good for the Fed's 'patient' approach, and many believe it is already significantly behind the curve. The Beige Book Summary also noted, "*The majority of Districts reported robust wage growth.*" With that contributing to higher costs in addition to the materials shortages, there is a looming threat of the 'wage-price spiral' we have cautioned was the driver for the rampant 1970s 'inflation expectations'.

While it is too early to confirm that has officially occurred, the prospect of continued inflation based on elevated energy prices (which filters through in many ways into all products) and further wage increases raise the spectre of 'stagflation' not seen since the 1970s. That is a term which has been resurrected at various points along the way, yet never seeing it in its full blown form.

However, as pointedly noted in Wednesday's 'Mixed Inflation Indications' ALERT!! (repeated below for your ease of access), "...*the headline efforts to improve the US ports situation are not going to be an 'instant' remedy.*" While there have been some modest changes to begin to address the problems, those also include the inland aspect of the issue. That will require the expansion of the truck driving and warehousing work forces, which is not easy to accomplish in the near term as it requires both intensive training and employees willing to take on those tasks.

All of that effort to attract more employees to engage in those strenuous and at times dangerous jobs will require the same changes seen at the low end of the service economy

labor market: much higher wages, even for roles like food service and retail workers. The Beige Book noted, “*The majority of Districts reported robust wage growth.*” Regardless of how much folks are impressed with the recent return of ‘risk-on’ psychology to US equities and other asset classes, the recent and continued wage increases are what is ‘red hot’ right now.

As noted in Tuesday’s ‘Not Much New to Say’ ALERT!! (also repeated below for your ease of access), “*...surprisingly strong Q3 corporate earnings reports this month...*” have underpinned the bullish sentiment in US equities as well as the general return to an upbeat global ‘risk-on’ psychology. Yet as wages continue to climb along with inflation on other inputs, there is question over how long the ‘risk-on’ psychology and higher earnings expectations can continue. That said, the late year positive seasonal is about to begin again, and that is likely to inspire US equities buying from the end of this month... also a ‘hot’ influence now, even if subject to being cancelled if the holiday season seems weaker than expected. Some projections are for lower-middle income families to cut back this year.

It is also going to be very interesting to see how the Beige Book positive overall sentiment that includes inflation and labor problems plays out in Friday’s global Advance PMIs releases. The estimates are already for some weakening in Europe and the UK, with a mixed picture in the US. In addition to being the last major economic data this week, those are going to be a very interesting bellwether for whether the sentiment among manufacturers is remaining healthy on balance.

Courtesy Repeat of Wednesday’s ‘Mixed Inflation Indications’ ALERT!!

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 govies 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 govies, 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 govies. 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 Thursday’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/3vldECh> updated through a week ago Friday.) It is of note September S&P 500 future had managed to retest that area right into the ECB press conference prior to weakening 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 'risk-on' sentiment once again.

The next higher resistance was at the 4,472 late September trading high from which it previously dropped to the 4,300 area. That being exceeded on Monday's Close was a further strong sign, which has not surprisingly led to the December S&P 500 future also pushing above the next minor early-September congestion in the 4,510 area. That only leaves the early September 4,549.50 front month S&P 500 future all-time high as resistance. The key weekly Oscillator thresholds for next levels are up into the 4,625-50 area (also in line with the major 'swing count'.)

Thanks for your interest.

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