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ROHR ALERT!! Funny Old Risk-On Psychology

1 message

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Dear Subscribers,

First of all, apologies for the lack of research on Tuesday. That was due to the stubborn ISP problem, which has now been addressed. Thanks for your patience.

Overall market activity across asset classes gets back to the cautionary word we provided in our 'Mixed Inflation Indications' ALERT!! a week ago today. That was the repeat of our classical view that *"...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."* While US equities were able to overrun the front month S&P 500 future early September 4,549.50 all-time high on Monday after stalling late last week, the performance of the other asset classes was not at all consistent with renewed strength... hence the 'funny old' risk-on psychology.

[The potential S&P 500 Double Top contingencies were reviewed in Monday's 'Technical Issues Delay Research' ALERT!!, repeated below for your review.]

One of the key headwinds noted last Wednesday was *"...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.'*" New cases are now down to another key level.

That is the 65,000-70,000 range we had highlighted from July 2020 and again back in April of this year as the pandemic was waning. Even if it should slip a bit below that, yet stabilize at that high level, it will indicate a greater likelihood of another pandemic surge into the Winter. One of the optimists countervailing perspectives is that the recent US approval of 5-11 year-old vaccinations will sharply improve the education environment, and relieve the associated labor market constraints.

This is all part of the current broad assumption that any virus and associated pandemic which has been around for 18 months must surely be on the verge of dissipating into a less impactful form. The degree to which we have heard the phrase 'post-pandemic world' in the past couple of weeks is striking. That is seemingly not in touch with the latest global news. Russian has just launched its most draconian lockdowns, as it spreads again in Eastern Europe as well.

While there has been real improvement in Germany, the UK is seeing its worst surge since July. There are also repeated outbreaks in Asia, which means China is under threat again along with a more extensive spread in New Zealand. All of this is prior to a typical Winter increase in new cases due to higher transmission.

Getting back to that positive assumption about the potential panacea that the US children's vaccine approvals might represent, the problem is going to be parents. Recent polls show 24% will 'definitely not' get their children vaccinated, with an additional 34% indicating a 'wait and see' attitude. This is also consistent with the vaccination rates for 12-18 year olds in the various US regions.

However much anyone might agree or disagree with parents' opinion on the vaccination of their 5-11 year-olds, the idea that only 32% of that age group will be vaccinated anytime soon significantly diminishes the overall positive impact of the children's vaccine approval. That will affect both school attendance, and be a key labor force impact through parental (and teacher) employment choices.

In other words, the highly anticipated return to a 'new normal' that loosely approximates the pre-pandemic global economic situation in a 'post-pandemic' world might be a classical *'triumph of hope over reason'*. In addition to those US exposures despite the progress in children's vaccines, the potential for new COVID-19 quarantines in China (where they are always more draconian) present the prospect of further drags on the already challenging supply chain situation.

Whatever the Chinese renewed pandemic surge response might be, that supply chain problem is going to remain an issue in the US regardless of what some US politicians and administration officials might say. We also reviewed the specifics of that in last Wednesday's ALERT!! To wit, *"...headline efforts to improve the US ports situation are not going to be an 'instant' remedy."* As one port official who was enthusiastic about Biden administration pressure noted, it is a process, rather than throwing a light switch, especially with other land-based services.

Last, but by no means least, is the overall performance of the Chinese economy, which is now beset by risks and potential drags from a flailing property sector. Even though Evergrande caught up on a recently missed dollar-bond interest payment, there remains real concern over its ability to continue to service its rather massive debt. And as we had previously noted, while some have pointed to how limited an impact Evergrande's overall debt represents in the global or even Chinese debt market, that fails to take into account the overall Chinese sector... much akin to officials talking down the US blended MBS risks back in 2007.

A very good Reuters article this morning (<https://reut.rs/3CnAStU>) extensively reviews the recent meeting between Chinese regulators and financial authorities and the key property developers who are under threat of default. It is most interesting that not just Evergrande but also some other sizable developers have missed major offshore bond interest payments this month. It pointedly notes, *"Some Chinese property developers have proposed extending their offshore bond maturities or undertaking a debt restructuring..."* That's all fine and good, except for the fact it would need to occur with offshore lender participation.

That article noted that the involvement of the Chinese state might make it easier for more solvent developers to renegotiate loan covenants. Yet the article also quotes Alexander Aitken, partner at Herbert Smith Freehills in Hong Kong, on the reality that, *"The extension of maturities in bonds isn't an easy process, especially not if they are widely held. In practice it may be very difficult to do so."*

While not necessarily a risk factor for this week or next, the continuing travails of the Chinese property sector represent a late year risk (read the article on that.) And market

tendencies are back to that bifurcated US equities being delinked from the activity elsewhere. Here we are with the December S&P 500 future still out above that early September 4,549.50 previous all-time high, having ranged up nearer to the 'front month' 4,621 major 'swing count' on Tuesday prior to reacting.

However, that extension of the 'risk-on' psychology is not being reflected at all in the other asset classes. After a week of defying overall weak 'rearview mirror' economic releases, non-US dollar foreign exchange is back under pressure. It was the case that the developed currencies never strengthened to a degree that fully reversed the previous US dollar 'haven' bid. In general that was apparent from the only modest US Dollar Index slippage back below the key 93.70 area.

While some of the emerging currencies had strengthened more markedly, their recent activity was a clear sign they were unable to extend a 'risk-on' psychology. That is especially so for the upside leader South African rand that saw USD/ZAR weaken from a high above 15.00 two weeks ago to below the 14.80-.70 area into a retest of its 14.50-.40 support last week. Yet after not dropping back below the 14.80-.70 area on US equities strength earlier this week, it is back above 15.00.

The Mexican peso that had seen a USD/MXN drop from a high in the 20.90 area two weeks ago had also fallen all the way to its 20.25-.20 support (with all of the key weekly MAs just below that area), and has held it so far. This could be the influence of the sustained high energy prices, also benefiting the Russian ruble.

Yet even beyond foreign exchange, there is the significant renewed bid in the global govies, which had recently weakened markedly into lower supports on another yield surge. However, at present the December T-note future is back up from a test of the key 130-00 area to around the 131-00 area. Similarly in the December Bund future, holding last week's multiple tests of the 168.00 area have seen it push up once again to the low end of the failed 170.00-169.50 support.

Even the December Gilt future that struggled to not slip too far below its key 124.00 area support over the past several weeks is back up to 125.76, which is into the previously failed 126.00-125.50 area support. On balance, coordinated global govies strength speaks of weakening economic expectations, which is also consistent with the other currencies losing ground to the US dollar.

As such, the US equities latest surge to a sustained (at least at this point) new all-time high seems another of the 'bifurcated' risk-on psychology phases we have seen so often during their extended bull run. Pending how they and the other markets evolve over the near term, their strength now seems more of a preference for the US over other locales that are developing problems again.

Within the context of a still accommodative central bank psychology (with more to come from the ECB on Thursday), this could hint at the return of a US equities TINA (There Is No Alternative) psychology. That is the only current inference which makes sense with the other currencies weakening against the US dollar. There is also global govies staging such a sharp rebound, which is completely inconsistent with any major near-term international economic improvement.

Courtesy Repeat of Monday's 'Technical Issues Delay Research' ALERT!!
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.

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/3pAKE8A> updated through 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 last week 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 left the early September 4,549.50 front month S&P 500 future all-time high as resistance. Now that it has been exceeded, the 4,621 major 'swing count' is the next key threshold, with the next key weekly Oscillator thresholds up into the 4,645-600 area this week (rising \$30 per week.)

Thanks for your interest.

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