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ROHR ALERT!! Here Comes Mr. Powell

1 message

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Wed, Nov 3, 2021 at 12:07 PM

Dear Subscribers,

FOMC decision days are always interesting, especially now that every rate decision and statement are followed by a Fed Chair press conference. It is now Mr. Powell's duty today to explain what the Fed is going to do about tapering its now heavily extended \$120 billion QE bond and MBS purchasing programs.

That is into the face of the lower end of the labor market taking longer to recover than was expected, yet an overall strong hiring environment. There is also the strong US equities performance in the wake of another quarter of above-estimate corporate earnings. That suggests more extensive monetary stimulus may not be accomplishing much more than supporting elevated equities valuations.

Yet after so many months of signaling the QE would be gradually diminished, it is far less likely this round of lower Fed purchases will trigger anything resembling the 'taper tantrum' in the wake of Chair Bernanke's May 2013 discussion of the Fed seeing it might be time to cut back its QE purchases back then. Putting that in context, it was the first time the Fed had ever provided quite as much liquidity, which was to offset the carnage of the 2008-2009 Credit and Housing Bust.

Also of note is that the actual damage was in the bond market, which spilled dramatically into July. Yet the US equities only reacted modestly from their new all-time high, dropping 8% into a late June low prior to returning to their major bull trend. At that time as well, the strength of the economy was a key factor in limiting the losses. Yet corporate executives are now warning on the current strong earnings, where supply chain glitches and inflation are ongoing problems.

While any Fed QE taper may be a constructive influence on the latter, there is an acceptance now that these will persist. According to a Forbes article last week, Chair Powell himself noted at a virtual conference, *"Supply constraints and elevated inflation are likely to last longer than previously expected and well into next year."* This echoes what we reported the ECB's Lagarde said last Thursday.

This has left those corporate executives warning that the increased profits are now dependent on their ability to continue to push higher costs out in the form of higher prices to the consumer. At some point this is a very dicey proposition.

While there is no video clip, Monday's CNBC retail outlook segment included Matthew Shay, President of US National Retail Federation. While expecting strong overall retail growth this year as the pandemic headwinds continue to abate, he also noted the inflation component of the stronger than expected 2020 full year numbers. While up 8.2%, that included a 6.5% inflation increase component.

This is something we questioned on the October release of US Advance Retail Sales for September (+0.7% versus a -0.2% estimate.) As such, the more telling influence on the

future US equities trend will likely be the path of economic data after the strong corporate earnings influence lapses. Regarding that, there is also the consideration of how much 'rearview mirror' economic releases have been weakening of late, and anticipation of a strong US Nonfarm Payrolls on Friday. However much current data improves, there is also the pandemic to consider.

As explored extensively in Tuesday's 'Bifurcation Boundary?' ALERT!! (repeated below for your ease of access), the swing into Winter in the Northern Hemisphere is not a good influence after recent improvement. Please see Tuesday's research for how this improvement is at a critical juncture at a still elevated level of new cases, and the comparison with what happened in Australia over its Winter (both of which include links to very instructive graphs on the pandemic tendencies.)

And lo and behold, what is now happening in the assumed original COVID-19 outbreak country? This morning's Reuters article (<https://reut.rs/3mEJAyv>) notes that while the raw number of cases is comparatively low, the impact of China's 'zero tolerance' policy can still bring heavy restrictions. To wit, *"Of the flights scheduled on Wednesday at Beijing Daxing Airport, 60.4% have been cancelled as of the morning, while 49.8% of flights at Beijing Capital International Airport have been scrapped."* This once again illustrates the resilience of the pandemic even as so many folks are globally discussing the 'post-pandemic' environment.

And as the title and overall discussion on Tuesday's 'Bifurcation Boundary?' ALERT!! indicated (along with an early chart link), the major front month S&P 500 future 4,621 'swing count' Objective was finally hit (and temporarily traded above) this week. It is no surprise that the December S&P 500 future is churning in that vicinity prior to the FOMC announcement and Powell's press conference. That is quite important into later this week. This is due to the next weekly Oscillator thresholds having moved up to the 4,660 and 4,685 levels this week.

Foreign exchange paints a less upbeat picture, as the US Dollar Index continues to hold its recovery back above the key 93.70 level temporarily violated last week prior to a sharp recovery. Emerging currencies continue to suffer after reversing what had been a significant rally until the later part of last week. Global govies have come back under a bit of pressure, yet only after important recoveries from major lower supports that speaks of concerns over the current economic bounce.

Courtesy Repeat of Tuesday's 'Bifurcation Boundary?' ALERT!!

Well, it's been a long haul, but the front month S&P 500 future has finally made it up to the major 'swing count' Objective set up by the February-March 2020 initial COVID-19 pandemic wave economic implosion. There's nothing like multiple levels of uncertainty to drive fear and loathing in US equities and elsewhere.

Just to clear for those who do not regularly review our annotated chart views, our weekly continuation chart annotations (<https://bit.ly/3ExSKTE>) have featured that for quite a while. This is the measurement of the early 2020 selloff's 1223.50 drop from the then current 3,397.50 February 2020 all-time high to the 2,174 implosion trading low hit at the late March bottom. That projects the 4,621 Objective that seemed so far away even once the 3,397.50 high was exceeded in August 2020.

After all of the other significant price Objectives and temporary reversal signals (most prominently the 4,410 channel DOWN Break Negated into mid-October), the December S&P 500 future is finally up testing that far more major 4,621 Objective. This is also coming at a

time (mentioned in Monday's 'Technical Issues' ALERT!!) when 'rearview mirror' macro data is weakening again, and into global challenges of the still resilient COVID-19 pandemic spread despite the likely US approval of a school-age children's vaccine sometime very soon. That factor will have to do with the degree to which resistant parents actually get the kiddies vaccinated.

In current polling, there are only approximately 28% of parents motivated to get their children vaccinated right away. And the roughly 30% that likely also skipped the vaccine themselves are saying they will never get their children vaccinated; the remainder are taking a 'wait and see' attitude. Our concerns on that remain the same as Friday's 'Indications Bifurcation' ALERT!! (repeated again below) where we also shared Australia's recent seasonal Winter experience (see below.)

This is instructive on the 'post-pandemic' issue we find a bit disturbing for a US that has only 58% of its population fully vaccinated. As opposed to many other developed countries, it also now has aversion to additional vaccination based on resistance to the Biden administration's attempt to impose a mandate on all federal contractors (a very wide net.) While it is just part of the picture, the politicized nature of the issue in the US is highlighted in today's Reuters article (<https://reut.rs/3CFLaWG>) on worker resistance that may cost them their jobs.

As noted previous, this is with US new cases having dropped markedly on a percentage basis, yet also remaining very high in the 65,000-70,000 range. Aside from the sheer level of new cases, this was only back to the key new cases level (see the CDC graph <https://bit.ly/3w9FdP5> for the full history) which was important on the way up in July 2020 and again on the way down in April 2021.

That new daily cases and the important 7-day average are moving back up at present from that level is not a propitious sign into the Northern Hemisphere Winter being about to bite into that 'post-pandemic' attitude suggesting more than a bit of complacency. How this will play out in the US and other economies is yet to be seen. However, unless there is a change, it is not constructive.

This is as compared to the full vaccination rate in Australia being close to 80%, yet with a real problem in their Winter that is now ending. From late July onward the spike in cases is dramatic (<https://bit.ly/3nKb2dG>.) Once again these were significantly lower new case numbers than the US and previous levels in Europe. However, the proportional suggestion if the Winter outbreak in the US is even a modest percentage of what was seen in Australia is a daunting prospect.

That is in addition to the other factors, like the further slowing of the Chinese economy along with the problems of their property developers, and the very likely continuation of the combined shipping bottlenecks and inflation they are driving. Recent communication from politicians is less than encouraging in that regard, and central bankers have led us to believe they see these problems as more ingrained than previously suspected... possibly lasting well into 2022.

Along the way, the US equities strength represents a bifurcated divergence from what is occurring elsewhere. There is the recent resilience of the global govies indicating concerns over economic strength once again. Developed currencies have stalled in their recent rally, with the US Dollar Index recovering back above its 93.70 level. Emerging currencies have retreated from recent rallies into a significant bout of weakness as well. Not a lot of 'risk-on' out there right now.

That said, our final word on that major front month S&P 500 future 4,621 'swing count' Objective is that these sorts of major targets are rarely bright line technical trend levels. Rather than stalling outright into that area (which it has indeed already modestly exceeded), it will be important to see how it performs overall.

Is this just another bull trend way station, or might it become a more significant 'bifurcation boundary' prior to a more significant trend correction or reversal?

Courtesy Repeat of Friday's 'Indications Bifurcation' ALERT!!

In Thursday's 'Post-WHAT?' ALERT!! (repeated below for your ease of access) we once again revisited the asset class trend bifurcation, with US equities strength versus less of a 'risk-in' psychology elsewhere. Yet based on the key economic and inflation indications in today's 'rearview mirror' data release tsunami, there are now more prominent divergent trends within asset classes as well.

The most prominent of these is the global govies split between the US T-note and the German Bund. The greater resilience of the T-note (and to some degree the UK Gilt as well) versus the Bund is apparent in the December T-note future only slipping back part of the way to its 130-00 recently tested support. That is while the December Bund future is already back down into its also recently tested major 168.00-167.50 range after this week's rally back into the 169.50-170.00 support that failed three weeks ago. This is a serious inflation concern signal.

The problem for the Bund (which has been the downside leader at various points since the Spring) gets back to something Madame Lagarde said at Thursday's ECB press conference. In response to a question over whether the Euro-zone might have entered a 'stagflation' phase, she responded that this was not possible at present. That is because in the first instance there would need to be 'stagnation', which is definitely not the case in a still strong Euro-zone economy.

That seems to have been borne out by stronger than expected overall Euro-zone and individual country Q3 GDP numbers this morning, even if (as in the US) they were much weaker than Q2 indications. Yet today's inflation numbers continued to also reinforce what she said on inflation being worse and lasting longer than had previously been hoped. While she (along with most other central bankers) still projects it coming back down to less extreme levels, her view on that is this will happen during 2022... with no indication that this would be early in the year.

There are also the supply chain issues which Lagarde noted are going to take some time to address, possibly well into next year. Those came home to roost this morning with a real impact on a key corporate earnings report (where they have generally been supportive): Apple. CEO Tim Cook explained that sales had missed expectations while supply chain issues had cost the company \$6 billion.

See this morning's CNBC article (<https://cnb.cx/2Zy096e>) for more on the overall situation, where chip shortages are still a key issue that is not likely to be cured anytime soon. In another CNBC report it was acknowledged that many companies were seeing higher sales, yet lagging profits. The question in a world with higher production costs is just how long can they continue to raise consumer prices?

As to the overall bifurcation of the 'risk-on' psychology, the US equities strength versus less upbeat indications elsewhere remains. While the December S&P 500 future remains nominally out above the early September 4,549.50 front month S&P 500 future all-time high,

that has become a churn since Tuesday's rally to a new 4,590 all-time high. That said, sustained activity no worse than the 4,549.50 September high speaks of a continued bull trend and 'risk-on' psychology.

On the other hand, foreign exchange that had reversed any US dollar 'haven' bid of late is back to weakness on non-US dollar currencies. Developed currencies are a bit more subdued, yet with the recent US Dollar Index slippage below its 93.70 support being reversed today with a rally back into that area. And the always more volatile and sensitive emerging currencies losing more ground to the greenback after their rally (significant in some cases) prior to the later part of last week. The only exception is the energy-advantaged Russian ruble.

It all speaks of continued risk factors that US equities seem able to ignore. That is possibly on the previously discussed TINA (There Is No Alternative) psychology in a world awash with central bank liquidity. Yet there are other risks as well.

As noted extensively in the repeated research below, there is the continued risk of a COVID-19 pandemic resurgence, even if recently the term 'post-pandemic' has become a media cliché. Given the approach of the much more challenging Winter phase in the Northern Hemisphere, this assumption is possibly misguided.

That is not just on the seasonal factor, as was the case in Australia's recent very bad Winter experience. That saw a significant two-month surge in new cases to a record high of 2,744 per day by early this month, falling to 1,800(+/-) at present. That is as opposed to April and August 2020 peaks of 400 and 600 respectively. While much lower than many other countries (especially the US and parts of Europe), this tendency still represents a problem. And as noted previous, there is likely too much hope being placed on the US approval of children's vaccines.

There is also the steady drip-drip-drip of the Chinese property developer's issues, which go beyond the sheer Brobdingnagian size of the offshore debt. There are 1.6 million apartments for which Evergrande has taken deposits, and one must wonder where it is going to get the funds to actually build them. There is also the degree to which other sizable Chinese developers have recently missed offshore loan interest payments. While there is a strong interest from the state in avoiding a disorderly situation, there is a real question over what it can do. Does it even have latitude to intervene with the new 'people oriented' policies? While a slowly evolving situation, it will become more pointed late this year into early 2022.

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/3ExSKTE> 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 was a Tolerance below that (as seen on selloffs in both June and July) down to 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 seemed a broad berth, on past form only below the 4,350 area does it 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 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 on the then renewed pressure. And much like previous, it was temporarily violated. The difference is that the daily 'trend flow' was quite a bit different with the 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 the at that time weekly MA-9 and MA-13 in the 4,435-45 area looking more bullish 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 last week 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 4,660-85 area this week (rising \$30 per week.)

Thanks for your interest.

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