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**ROHR ALERT!! Rationale Retread**

1 message

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**Dear Subscribers,**

**First of all, apologies for the lack of a research update, as our ISP had a significant problem with all internet and cable TV signals down. Yet as we have noted since the beginning of the week, today was going to be the more important horizon on both major inflation data and a key economic outlook (more below.)**

**As noted since the end of last week, there seemed to be a 'buy everything' market rationale in the wake of combined positive influence of the deft performances of the Fed and BoE, US Employment, the high efficacy announcement for the Pfizer COVID-19 therapeutic pill, and even some anticipation of the US House finally passing an already Senate-approved bipartisan infrastructure bill. There was quite a bit of 'good news', yet a question over the euphoric market response.**

**As we noted in Monday's 'The Biden Bipartisan Bonanza?' ALERT!! (repeated below for your ease of access), the improvement in the US equities and non-US dollar currencies was understandable. However, if all of the news was pointing to a much stronger US and global economy, what were the global govies doing extending an already significant rally? It was clear 'something's gotta give'.**

**And that became more apparent on the subsequent influences which returned to our recent revisit to the way in which only tripartite negative influences are sufficient to deliver any sort of weakness in a strong US equities market. And there was especially a question over whether the US equities were the true indication for the extended trend, or was it the signal from the global govies?**

**In market terms that had at least been partially resolved by the December S&P 500 future stalling this week into the higher of the near-term weekly Oscillator thresholds at 4,710; where it also stalled into new all-time highs late last week. That has led to at least temporary slippage below the lower near-term Oscillator threshold at 4,685 (both still rising \$25 per week.) Even if this develops into a more extensive selloff, the overrun 4,621 major 'swing count' Objective will loom large a the lower area critical for any more extensive selloff to continue.**

**The three items on which we have recently focused for any 'risk-on' psychology problem are inflation, the chance of a COVID-19 pandemic resurgence, and risks to the Chinese economy from its highly over-leveraged property developers. However much many observers would like to downplay those influences, they are recently more prominent and posing a greater threat to US equities and both the developed currencies and emerging currencies. And while there is some pressure on global govies today from the surprisingly high US CPI, it is of note the Bund is weakening much less than the T-note, with the Gilt somewhere in between.**

Those only work hand-in-glove if not just the US but also prospects for the global economy appear to be dimming. Let's begin with the US CPI that saw an already still elevated 0.5% monthly rise come in at 0.9%; with an annual figure of 6.2% versus a 5.3% estimate. While early recovery inflation can be viewed as a positive sign, we are now into worries about ingrained inflation. As noted previous, while companies have passed along materials price increases, that may not continue.

Then there is the threat from the over-extended Chinese property developers, and whether they can continue to make payments on their loans; especially offshore debt that cannot be easily stretched out. According to a Tuesday Reuters article updated just this morning (<https://reut.rs/2YzmGPX>), *"Some bondholders of cash-strapped China Evergrande Group have not received coupon payments by the end of 30-day grace periods at the close of Asia business on Wednesday"*, which was for a \$148 million. This threatens contagion into other hard-pressed property developers. The concern is that this will affect the Chinese economy.

Up to this point there has been a sense that the financial press can often be in a somewhat self-serving hyper-excitabile mode... the old adage is, *"You can't sell newspapers (or online clicks) with the headline 'The House Is NOT Burning'."* This is fair enough, except for the fact that it is becoming more of a reasonable concern that any weakness spreading from developer layoffs on project failures will have an outsized impact on broader Chinese economic activity, as well as the broader Chinese financial markets through investors turning risk averse.

And lo and behold, who should now weigh in on that potential and its possible spillover to at least some degree for the global economy: none other than the US Federal Reserve. In Monday's extensive semiannual Financial Stability Report (<https://bit.ly/3wC0NMG> for our very lightly marked-up version) notes, *"Financial stresses in China could strain global financial markets through a deterioration of risk sentiment, pose risks to global growth, and affect the United States."* It is something that many had previously played down, yet now here's the Fed.

That is from page 60 in the "Near-Term Risks to the Financial System" section that begins on the previous page. We suggest a read of that highlighted section, yet note that the Fed indication is that, *"Given the size of China's economy and financial system as well as its extensive trade linkages with the rest of the world, financial stresses in China could strain global financial markets through a deterioration of risk sentiment, pose risks to global economic growth, and affect the United States"* ...along with the rest of the global economy we have noted.

Yet beyond a now heightened risk from a weaker Chinese economy that might be exacerbated by its property developers woes and inflation that might crimp consumer sentiment and corporate profits, there is the threat from the resurgent COVID-19 pandemic. In a somewhat surprising development, that is even for well-vaccinated countries. While the surging case numbers in an unvaccinated Eastern Europe are not that much of a surprise, the fact Germany is experiencing a real problem again highlights the resilience of the virus and pandemic.

Even allowing regional under-vaccination in the US, the latest new case counts are very troubling. That this could still be an issue though many were playing it down has been highlighted since our October 28th 'Post-WHAT?' ALERT!! It was the case that the psychology had been co-opted by ubiquitous 'post-pandemic' communication from both the regular and financial press. There were a lot of assumptions that the recent improvement from what were once again horrific levels of new US cases meant it was

alright to anticipate the end of the pandemic. Yet the real statistics were always refuting that overly optimistic assumption.

As we have done from time to time, once again take a look at the CDC New US COVID-19 Cases graph (<https://bit.ly/3BYKtGB>.) As we have noted previous, the key is the 7-Day Average so far only dropping back to the 65,000-70,000 area. During the course of the pandemic in the US it is the key level at which new cases stalled on the way up in July 2020 prior to easing off before a massive Fall-Winter surge; it was also where the temporary case increase stalled in April 2021 on the way down to more constructive levels. Yet having atypically surged to major levels again over the Summer, that it is no lower than that level is troubling.

So there we have the three part concern for the 'risk-on' psychology. There is the worsening inflation that can be a direct threat to both consumer activity and corporate profits at this point (as opposed to earlier in the recovery.) There is now also a prominent risk of exacerbation of recent Chinese economic weakness in the wake of problems at their property developers. Just to be clear, it is not just Evergrande that is the poster child for problems of debt service and overall performance that is endemic in many other developers with offshore debt.

And now we have the resurgence of the COVID-19 pandemic that was supposed to be tamed in the 'post-pandemic' world. It is also striking that this is occurring in the early Fall on the way into what is presumed to be a worsening of conditions once again. It must be allowed the seasonal tendency did not act as expected this Summer, and possibly there will be a milder than expected Winter surprise.

Yet in the context of the normal pattern, this is quite a bit of 'hope over reason'. We allow that pandemic progressions cannot be tracked and predicted with the same assumptions that assist in predicting market price movements. That said, consider that the latest new case count on Monday is back up to 134,072, and unless something changes quickly the prognosis is not good. We must also allow that new cases may not be as troubling in a vaccinated environment.

That said, for whatever reasons that are not extensively discussed in any of their releases of these analyses, the Organization for Economic Opportunity and Development (OECD) released their latest monthly Composite Leading Indicators (CLI <https://bit.ly/3bZRYCM>.) As its "OECD Composite Leading Indicators Suggest Economic Growth Approaching Post-Pandemic Peak" title notes, there is a better chance than not the global economy will weaken from the already weakening tendencies highlighted in the previous month's release. [Keep in mind this is a net 4-month forward view based on a 2-month delay of a 6-month outlook.)

It specifically notes, "*Signs of a possible upcoming peak in the growth of economic activity have emerged in the United States, Japan, Germany and the United Kingdom.*" And it also cautions at the bottom of its statement, "*Despite the gradual lifting of COVID-19 containment measures in some countries and the progress of vaccination campaigns, persisting uncertainties may result in higher than usual fluctuations.*" Uncertainties indeed, and note that 'post-pandemic' term turns up here as well despite the warnings about unusual fluctuations.

Here we are into lunchtime in the US with global govies back under pressure, yet not on indications of being driven by global growth. It is more so a manifestation of the inflation fears. Similarly, both the developed currencies and emerging currencies are back under

pressure after a recent attempt to strengthen against the US dollar. That the US Dollar Index is up against recent highs near the 94.74 16-month trading high is a sign of a renewed 'haven' bid. Next resistance if that is violated is not until the upper-95.00 to mid-96.00 area. And it is much the same for emerging currencies that are no less than getting 'trashed' after their recent rally.

**Courtesy Repeat of Monday's 'The Biden Bipartisan Bonanza?' ALERT!!**

In Friday's 'Synergistic Breakthroughs' ALERT!! (repeated below for your ease of access), we explored the synergistic nature of the Pfizer announcement on its high efficacy COVID-19 self-administered therapeutic pill even prior to the strong US Employment report. See below for the full review. In the event, the US equities were already up into a new all-time high prior to the release of a US report that was better than already elevated estimates... complementary 'risk-on' forces.

However, even all of that might have been influenced by the degree to which the US House was very likely to finally pass the bipartisan infrastructure bill, which had already passed the Senate back on August 10th. While it did not pass until after markets closed on Friday, we suspect anticipation made this the third leg of a 'risk-on' stool which boosted 'risk-on' market sentiment during the day.

Many questions remain over why the Progressives in the House did not see the advantage in passing this additional \$550 billion of spending over the next 10 years sooner, despite wanting their 'social infrastructure' bill to be passed at the same time. The 'received wisdom' is that some of them saw the degree to which the Democratic Party bickering was weighing on their electoral prospects, as was already reflected in much weaker liberal voter turnout in recent off-year elections.

Whatever the case may be, some components of that bipartisan bill may be contributing to the US equities sense of euphoria. That is because there is now a sense that the worst effects of the COVID-19 pandemic will be suppressed in the future, which may solve the conundrum of major employee resistance to the current vaccine mandates (much more on that Friday as well.) At the same time, the US economy may be seeing more sustainable near-term earnings potential.

This is a major '*good news is (indeed) good news*' for a change. Yet the fly in the proverbial ointment is the question over why the global govies should have seen such a sharp rally if indeed the other 'synergistic' factors are creating so much stronger an economy in an already inflationary environment? As noted on Friday, there seems only one way to view it in the context of that *"...should be weighing on global govies. The only squaring of that circle might be that the therapeutic developments might assist in clearing the supply chain congestion, due to more workers being available once the COVID-19 concerns are more fully addressed."*

The Pfizer therapeutic (and potentially others to follow) eliminating much more of the workplace or schoolroom risk of COVID-19 may free up more of the workforce, which could buffer some of the current upward pressure on wages. However, the greater inflationary influence over recent months has been the very significant port congestion. That will not be solved by the additional tonnage coming on line in 2022 Madame Lagarde mentioned at the ECB press conference.

The US bipartisan infrastructure bill's major spending also does not provide any near-term inflation relief. The bill expends \$42 billion on airports, waterways and port infrastructure,

and invests \$110 billion in roads and bridges. Yet that does not occur by magic wand, as it takes quite a bit of time to deploy federal funding.

So with neither immediate inflation relief from the employment aspect of the Pfizer therapeutic nor the extended spending on the ports, roads and bridges (as also noted Friday), *"It is counterintuitive, to say the least, that the December T-note future is back up near the 132-00 area, with the Gilt well above 126.00 and Bund above 169.50-170.00."* It would seem those who are hopeful on the US bipartisan bill being counter-inflationary have the cart out in front of the horse.

In the first instance is it adding fiscal largesse just as central bank largesse is being reduced, which is sensible in the broader picture. Yet it will not weigh on an economy which is already recovering nicely from the recent pandemic dip on the Delta variant impact over the Summer. Possibly the weekend has given the global govies a chance to reconsider their wild end of week rally. The December T-note future is a half point back below the 132-00 area. While the Gilt and Bund have not weakened as much, that may be due to the current European COVID-19 surge.

As far as what to look for next in US equities, this was also noted at the end of last week regarding the higher front month S&P 500 future Oscillator thresholds. Those stand as the outlook into any further rally. We have updated them for this week based on weekly MA-41 now rising \$25/week once again. The next (ultimate) thresholds this week are from back near the top of the rally in December 2020, at 4,755 and 4,785. As such any sustained escape above the 4,685 and 4,710 area current thresholds at the end of this week points to 3,780 and 3,810 this week.

Of note, along the way is the major 'topping' line from the 3,587 August 2020 high across the 4,232 May 2021 high and the 4,550 August 2021 high into the 4,740 area this week. That is a 'delimiter' on any attempt to escape the low 4,700 area..

Similarly in foreign exchange, the US Dollar Index is maintaining its recent bid without having retested (much less failed below) its key 93.70 area. This is a reflection of weakness in the other developed currencies, and most especially the euro that may also be related to the recent European COVID-19 resurgence.

It is also the case that emerging currencies have only reacted back up somewhat modestly from their recent selloffs. That has been most impressive on the South African rand seeing USD/ZAR dropping back below 15.00 after its recent test of the 15.40-.50 area. That will need to be closely watched after the December WTI Crude Oil future recovered from a brief dip below 80.00 to the 82.00 area again.

**Courtesy Repeat of Friday's 'Synergistic Breakthroughs' ALERT!!**

After a couple of months of ostensibly sluggish US jobs growth, today's US Employment report addition of 531,000 jobs was not unexpected. Yet at 81,000 more than estimated, it was a breakthrough nonetheless as compared to the previous two months. It is also the case that the previously weak September Nonfarm Payrolls (NFP) were revised up 118,000, from 194,000 to 312,000, which is a much more encouraging number overall in what had been a weaker quarter.

For quite a bit more of the detail we refer you to a very good CNBC article (<https://cnb.cx/3bL1RE8>) that drills down into the various key sector jobs gains. That the Leisure and Hospitality sector was a leading jobs gainer at 154,000 was very impressive on the continued reopening. Yet related to that in a major way is that all of it would possibly



**not have been quite as impressive in its own right, if it were not for the next COVID-19 pandemic self-administered therapeutic news.**

**While quite a bit of today's further US equities gain after the positive response to the Fed Wednesday and BoE Thursday has been attributed to the US Employment report, well ahead of its release the December S&P 500 future traded up \$15 to the 4,687 area by 07:00 EDT. In that regard it is of note that prior to today's opening Pfizer CEO Albert Bourla was on the major networks with the announcement that his company's trial of its COVID-19 self-administered therapeutic pill ended early.**

**That was due to the trial showing 89% efficacy in preventing damaging COVID-19 effects in those who took the pills within three days of diagnosis. As regular readers know, we had still been a bit skeptical of the Merck therapeutic pill only having an efficacy of 50%. This makes the Pfizer pill a bona fide 'game changer'.**

**It was a precursor-afterburner for the stronger than expected US Employment report, as it points to the degree to which COVID-19 gathering economy (dining, hospitality, travel, etc.) hesitancy can now be fully addressed into likely no later than early 2022. The US equities psychological impact is similar to the original Pfizer-BioNTech vaccine efficacy announcement almost exactly one year ago.**

**Back at that time the front month S&P 500 future had been churning around the old 3,397.50 February 2020 all-time high after falling back from a new 3,587 high in early September. Spending the next two months stuck in the 3,200-3,500 range might have raised some concerns over the trend. Yet the Pfizer-BioNTech vaccine announcement saw it surge up to a new 3,668 all-time high. In that case vaccine news was a game changer from which the US equities never looked back.**

**While today's announcement is at a much higher level, at least in the near-term it is likely to drive a further 'risk-on' psychology for US equities during an already advantageous seasonal phase. That will be on stronger expectations for the US economy if COVID-19 hesitancy recedes further. As previous FDA head Dr. Scott Gottlieb said in another CNBC interview (<https://cnb.cx/3wkb7sf>) this morning, this means that the end of the COVID-19 pandemic is 'in sight'. While Gottlieb has previously been hopeful at times, that represents a more definitive statement. However much bad phases might remain, the overall situation is constructive.**

**As an aside, it is going to be interesting to see this play out in the US, where the Biden administration vaccine mandate for federal contractors (which is a very wide net) is meeting with significant blowback. Many other organizations and governments have followed the federal lead, with similar resistance. Quite a few first responders (like New York City firefighters and police) are refusing to get vaccinated, as have many hospital workers. Just to be clear, the vaccine is the more effective prevention against COVID-19 hospitalization or death.**

**However, if as it appears there will be an effective self-administered therapeutic that can prevent the more serious impact of the disease, will the US federal and local governments and companies stand down their vaccination requirement? This is problematic only due to major companies and governmental agencies being resistant to reversing their positions on critical issues. On the other hand, the vaccine mandates are driving some of the labor shortages in key areas.**

As such, the availability of the easily administered, readily available therapeutic would address the tediously hard task of squaring that circle. While it will still leave a partisan divide on whether the anti-vaxxers were right to resist, practical implications for the global jobs markets and economies will be very positive.

That gets to the issue of what to look for next on the US equities that have seen the front month S&P 500 future blow out the major upside 'swing count' 4,621 Objective after stalling into it early this week? In fact, the next weekly Oscillator thresholds set up on the rally into August-November 2020 are the 4,680 and 4,705 levels into next week... with the market already straining against the higher level.

The next (ultimate) thresholds next week are from back near the top of the rally in December 2020, at 4,755 and 4,785. As such any sustained escape above the low 4,700 area at the end of this week that is sustained into next week points to those mid-upper 4,700 levels. Of note, that (not surprisingly) correlates with the major 'topping' line from the 3,587 August 2020 high across the 4,550 August 2021 high.

Yet if the US equities psychology is so strong on major economic improvements to come, why are the global govies extending what was already a substantial recovery both to and above key resistance at previously failed supports? It is counterintuitive, to say the least, that the December T-note future is back up near the 132-00 area, with the Gilt well above 126.00 and Bund above 169.50-170.00.

Similarly in foreign exchange, the US Dollar Index is maintaining its recent bid, which is a reflection of weakness in the other developed currencies. It is also the case that emerging currencies have only reacted back up modestly from their recent selloffs, which may also be related to Crude Oil recovering above 80.00.

This is a real quandary on whether there is still residual 'risk-off' sentiment out there despite the positive COVID-19 therapeutic news... which doesn't really make a lot of sense. Or is it the US leading the way up on what will indeed be a better global recovery? That is harder to imagine in the inflationary environment that therefore should be weighing on global govies. The only squaring of that circle might be that the therapeutic developments might assist in clearing the supply chain congestion, due to more workers being available once the COVID-19 concerns are more fully addressed. That will need to be closely monitored.

Courtesy Repeat of last Wednesday's critical consideration (updated chart)

[Brief current comments above; to be updated Thursday morning]

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/3BUQCDY> 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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