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

ROHR ALERT!! Back to Bifurcation with More Twists

1 message

ROHR Alert <rohralert@gmail.com> Tue, Nov 23, 2021 at 12:11 PM
Bcc: ar.rohr.intl@gmail.com

Dear Subscribers,
As we have articulated since late last week, including Friday's 'Reality Bites' ALERT!! (repeated below for your ease of access), the price movements across all asset classes had indicated more of a 'risk-off' psychology than previously was the case on assumptions of continued central bank largesse. Much has changed since then, but the overall sense is that 'risk-off' remains the way forward with variations, substantially on pandemic resurgence assumptions.

We will be exploring the once again 'bifurcated' divergent market psychologies below along with their recent shifts. Yet first it is important to consider how the 'macro' background has evolved to create further aggressive price moves and their reversals in some cases. In the first instance, Chairman Powell's Monday reappointment first sent the US equities higher. This seemed counterintuitive, as compared with a new possible Fed Chair Brainard he is more likely to tighten.

That is a standard assumption on the history of new Fed Chairs being hesitant to throw any more stumbling blocks in front of the US economy than absolutely necessary, as has been the case across multiple appointments. And lo and behold, right into Monday's Close the December S&P 500 future weakened from a new 4,740 front month S&P 500 future all-time high to 15.00 lower daily Close. While that could be the start of a weekly DOWN Closing Price Reversal (CPR), it will need to be monitored for degree into the end of this holiday truncated week.

The expected 'macro' weakening of the global economy in the face of a resurgent COVID-19 pandemic was also put paid by this morning's global Advance PMIs, which are substantially a barometer of businesses confidence in their ability to grow into the coming month. This morning's data was almost wholly better than the expected weakness, outside of a slightly weaker US Services PMI. That these remain stronger in Europe where COVID-19 is rampant again is quite a surprise.

On to the markets, that may explain why the global govvies are extending their recent losses. While in the first instance the slightly more hawkish Powell's Monday reappointment may have triggered the initial selloff, historically much better economic expectations are the more telling influence. In any event, the December T-note future that had been rallying once again from the key 130-00 area it had held since first testing it in mid-October. While rallying back up to the 132-00 area tested in the wake of the BoE's less hawkish than expected indication three weeks ago, that failed support was also resistance. Now below 130-00 is a new current trend trading low, with the 128-00 area as the next major support.

The December Bund future stood out in being at a significant new recovery high last week, likely due to the renewed pandemic fears. Having been back up into the more major 172.50-173.00 area (also weekly MA-41), it is now failing from that area nearer to the previously failed 170.00-169.50 support. While there is also a near-term 170.50 support, weekly MA-9 is down at the top of the 170.00-169.50 range, adding to its importance as a key level after holding it earlier this month. The more major lower support remains the 168.00 area held since mid-October.

The December Gilt future is more so like the T-note insofar as it is back below the 126.00 area it recovered from trading below early last week. However, that weak sister had also already traded down into and below the lower major 124.50-.00 support into mid-October prior to recovering. On the whole, if the current global govvies weakness is a matter of inflation fears, then it could still be consistent with our COVID-19 pandemic-based global economic headwinds thesis.

However, if it is a sign that the global economy will remain stronger than we suspect despite the pandemic resurgence, that will call for some reconsideration of what the overarching market psychology might be. And at least to this point, there are also 'macro' indications which suggest that global weakness is still the operative psychology. That is especially for the previously strong WTI Crude Oil front month future weakening from its 85.00 resistance below 80.00 to 75.00 area.

That is also consistent with the general global economic weakness reflected to a goodly degree in the developed currencies against the US dollar, and the extreme weakness of some emerging currencies. On the developed currencies note the US Dollar Index has extended its escape above the key full year 94.74 September 2020 trading high to the high end of its low-mid 96.00 historic congestion. On the pandemic-driven weakness of the Euro, as discussed previous this may be more of a 'shift to the less bad' than a true 'haven' bid. Yet it is real for now, and the next resistance if the mid-96.00 area is exceeded is not until the upper-97.00 area.

Yet the real signs of extended weakness are in the emerging currencies. It has been most interesting to watch their psychology shift from the mid-October still passingly 'risk-on' during what was still an expectation there would soon be a 'post-pandemic' world. As the COVID-19 resurgence progressed from that time into early November, they saw serial abandonment of that optimistic view in a loose sequence, incorporating 'country' factors as well as COVID-19 fears.

Among the most telling bellwether trends is always the South African rand, where USD/ZAR had weakened to 14.35 again (rand strength) from serial Summer-Fall tests of the 15.30 area. Yet that was the final stage of the formation of a 'complex' yet very credible Inverse Head & Shoulders (H&S) Bottom (see the weekly chart as of last Friday https://bit.ly/3kWkUjS.) That the 15.25 UP Break after a couple of weeks of stalling was in conjunction with a major down channel is a strong sign.

There is also always the issue of whether an H&S Breakout will follow through previous congestion. In this case there is the very clear cut 15.65 January trading high, which is also the highest point in the Inverse H&S pattern. Yet along with the 15.56 March trading high that forms part of the 'Neckline' of the H&S bottom, those are already in line with important 2018 and 2019 congestion highs. As such, there is not much at all between the 15.65 and 15.25 levels and the higher historic levels which begin with the 16.07 September 2020 trading low into the 16.30 area.

Yet the hands down 'biggest loser' of the emerging currencies follies of the past several weeks is the Turkish lira. As is a apparent on the USD/TRY weekly chart through Friday (https://bit.ly/3FDiZss.) It had already Accelerated UP through the 'return line' of the major channel (broader chart indication) from the March 2018 last trading low prior to the upward explosion to the 6.40 Close and 7.10 high.

Of note, quite a bit of lira weakness at that time was driven by Turkish President Erdogan's misguided philosophy that high interest rates cause inflation. Well, with Turkish inflation close to 20%, he is at it again, influencing the head of its central bank to likely drop its base rate from 16% to 15% in the near-term future. Let's see, if we are already only providing a negative real short-term yield of 4% and we drive that down to negative 5%, what might happen to our currency?

Of note, that 10.60 UP Acceleration level from last week was also very near the old all-time maximum plus 2.20 Oscillator threshold from 2018. No surprises there, as the longer term channel return lines and Oscillator levels are often two takes on the same overall conditions. Yet, the question out into a new all-time high that surpasses a maximum historic Oscillator threshold is what to do next?

Well, as indicated on the chart annotation (and as we have successfully done in other markets), it is reasonable to consider the ratio between the conditions prevalent at the previous high, and adjust them for the difference in values into a new situation. Adjusting using the USD/TRY 10.60 level at which old Oscillator maximum was exceeded, we used the weekly 6.40 August 2018 Close that had indicated the plus 2.20 all-time Oscillator high at that time. Based on that, the 1.67 2021 to 2018 ratio indicated an extended Oscillator threshold of 3.68.

As noted in the chart annotation, adding that to last week's MA-41 projected an expanded Oscillator threshold of 12.20. That comes with the caution that weekly MA-41 is now rising 0.10 per week, which is a torrid pace for any indicator of that periodicity (just take a look at the chart.) All fine and good, except for one minor detail: USD/TRY has gone from Monday's 11.37 Close up to a 13.35 new all-time trading high today prior to slipping back to 12.74 at present (17:35 GMT.)

It is a clear indication of what happens when a previously weak and misguided monetary policy meets the commitment to push it even further. Yet in that regard the Turkish lira is more so burdened with obvious 'country' factors that are not part of global economic performance. For that we will continue to focus on more stable emerging currencies, the developed currencies and global govvies.

Courtesy Repeat of Friday's 'Reality Bites' ALERT!!
As noted in Thursday's 'Like Charming a Cobra' ALERT!!, outside of the emerging currencies' extensive weakness strongly suggesting the 'risk-off' psychology was going to carry the day, the developed currencies, global govvies and US equities were all a bit stuck. It was like staring down a threatening situation while not necessarily knowing for sure how it was going to evolve in the near term.

Yet getting back to our longtime precept, the markets always get the final analytic word regardless of what analyst inferences might have suggested along the way. Today is one of those ultimate instances where the market activity across all of the asset classes has resolved the contention between the 'risk-on' and 'risk-off' camps along the lines of what the emerging currencies had already suggested over the past couple of sessions; and for the 'risk-on' camp, reality finally bites.

As we have already reviewed all of the background on tripartite headwinds for the global economy (necessary to create any substantial slowdown) in Thursday's 'Like Charming a Cobra' and Wednesday's 'ECB Financial Stability Review and More' ALERT!!s (repeated below for your ease of access), we will only update the most salient aspects here… primarily the strong COVID-19 pandemic resurgence.

With any significant impact from Chinese weakness forestalled by its stronger economic numbers early this week, and inflation concerns offset by still strong corporate earnings, those constructive 'rearview mirror' influences are being overshadowed by the anticipatory fears from the resurgent COVID-19 spread.

And as we often revisit from another long standing precept, "*The market is a creature of expectations*." The shift from the mid-October 'post-pandemic' psychology that was so prevalent in the mainstream and financial press to the current negative global pandemic resurgence fears is striking. It is most likely what has made the difference between the bid in non-US dollar currencies and extended global govvies weakness into mid-October now fully reversed.

The US Dollar Index had reacted this week, yet is now back above its key 95.70 area after already pushing back up to test the low-mid 96.00 area. And that is just a reflection of its 'shift to the least bad' form of a 'haven' bid against the other developed currencies. The emerging currencies are another matter altogether, reflecting the extended inflation and COVID-19 fears with significant weakness.

As an example, the South African rand is seeing USD/ZAR challenging its 15.65 January full year trading high, much above which there is not much until at least the September 2020 16.07 trading low. Yet more substantial congestion from March-November 2020 trading range into higher levels is not until 16.30-.35 area. On top of that is a very credible weekly Head & Shoulders Bottom, with its 15.25 UP Break just this week, and an Objective of 17.45. Of note, the mid-17.00 area is next 2020 congestion at the top of the range for which 16.30-.35 is the low end.

Similarly Mexican peso has USD/MXN back near its 20.97 8-month trading high that was also challenged two weeks ago. Much above that the next resistance is not until the March 20.30-.40 DOWN CPR, and that week's 21.63 trading high.

Within that it is still the case that despite near-term selloffs the US equities have mostly maintained their bid, even if seemingly constrained for now. December S&P 500 future has repeatedly sold off from the low 4,700 area resistance, yet not below the mid-4,600 area even in the wake of today's more troubling global COVID-19 spread news. Yet that seems to reinforce TINA (There Is No Alternative) psychology once again, and it might remain in a world of its own.

This is most interesting in a world where global govvies are finally getting a full bid back. That is after weeks where they have had so much trouble fully shaking off the weakness (i.e. reflection of higher yields) experienced during the major September-October 'post-pandemic' psychology. Weak sister December Gilt future that had been trading below its key 126.00 area is now well back above it.

The December T-note future is rallying once again from the key 130-00 area it has respected since first testing it a month ago. That is even though it is not back up to the 132-00 area it tested in the wake of the BoE's less hawkish than expected indication two weeks ago. 132-00 is now also the area of weekly MA-13.

Yet it is the December Bund future that stands out in being at a significant new recovery high this week. After sagging slightly below its 168.00 support in late October it has been back above the previously failed 170.00-169.50 support since the post-BoE rally two weeks ago. However, it is now back up near the more major 172.50-173.00 area at which it stalled for a month on the way up in June of last year. Of note, weekly MA-41 is now just below that 172.50-173.00 area, which will make it an even more important area in the Evolutionary Trend View.

And as a further sign that is often ingrained in the typically early quarterly Bund future expiration (admittedly still not until Wednesday, December 8th), the March Bund future is trading up near 174.00 (more than a 1.50 premium to the December contract.) These fairly extensive premiums and discounts in the 'second month' are different from what are mostly standard more modest expiration 'rollover' discounts in the other global govvies. They are regular and mostly credible indications of the forward psychology, which now appears negative for Europe. Unless the March Bund future drops by 1.50, it is a negative psychological sign.

The question we have repeatedly posed of late on the resurgent pandemic was crystalized again in Tuesday's 'Critical Cross Current Choices' ALERT!! It is the 'choice' the markets and their participants would need to make on whether the return of much higher new case counts would be a major economic headwind, or would it be benign despite that pandemic resurgence? Much of that would have to do with both any renewed government restrictions, and also the general public sentiment on the 'gathering' economy which has suffered so greatly at times.

Consider the coverage from Reuters (https://reut.rs/3DB9M38) in this morning's "Austria angers many with full lockdown and Germany may follow suit." There is also the return of confusion for the German public and other countries on the cross currents. That is on the German foreign minister being adamant that there will not be a national lockdown, which was not too long after the health minister announced the country is in a national emergency on the COVID-19 spread.

Hmmm, now what should we make of that? Well, for right now we are going to assume it means that the 'post-pandemic' psychology is dead, and the issue is now the degree to which resurgent COVID-19 elicits government restrictions.

However, for the US as well in the wake of next week's massive Thanksgiving travel and many family gatherings, there is the issue of how troubling the new case levels will be as it regards public sentiment. We have noted repeatedly of late that the CDC graph (https://bit.ly/3DpHyIH) of New US COVID-19 cases has never seen a substantial recent drop below the key 65,000-70,000 level, and the 7-Day Average is headed up from that area now. It's going to be very interesting.

Courtesy Repeat of Previous critical consideration (updated chart)
[To be updated Wednesday morning prior to US Thanksgiving holiday]

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/3oSjmIL 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. After that was exceeded, a 4,621 major 'swing count' was the next key threshold, with the next key weekly Oscillator thresholds up into 4,705 and 4,730 this week (still rising $20 per week.) After stalling into the lower one two weeks ago, there was finally a reaction... yet only down to near 4,621.

Thanks for your interest.

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