
ROHR ALERT!! Holiday Notice and Some Clarity

1 message

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Dear Subscribers,

After the unseemly bifurcated intermarket activity explored in Tuesday's 'Back to Bifurcation with More Twists' ALERT!! (repeated below for your ease of access), there is a much more unified psychology in the wake of recent 'macro' influences. While we directly return to that, first of all this is our holiday notice for the US Thanksgiving holiday tomorrow. It is not always possible to take advantage of our US holidays due to international data. Yet tomorrow's limited releases seem to allow this, even with ECB Meeting Accounts due out at 12:30 GMT (07:30 EDT.) That said, we will definitely be in the office Friday morning to close out the week.

As far as that higher clarity goes, there has been quite a bit of market response to the current economic data that informs our view. As we have noted since the beginning of the week, today was going to be a particularly important release day due to the bringing forward some major US 'rearview mirror' economic data due to the Thanksgiving holiday. And it sure was. Just about everything was as strong as expected outside of headline German IFO and US Durable Goods Orders.

However, even each of those seemed to suffer from supply chain drags while the actual orders remain strong. In the US there was a problem with automobile sales as well as the very volatile airliner orders, which might be due to concerns over deliverability. Note that the ex-Transportation figure was still firm, as estimated. All other US indications on this highly accelerated economic release day were as strong as expected or higher, like the important Personal Income and Spending.

So how are the US equities reacting... well, to sell off of course. Along with the renewed pressure on global govies (see Tuesday's analysis) that bring higher yields after recent strong economic indications, there is lingering concern that the strong 'rearview mirror' economic indications and strong corporate earnings do not reflect the way forward through the balance of this quarter. Of note, the December S&P 500 future has only dropped once again to the interim 4,660 congestion from earlier this month, which it also vigorously tested yesterday.

It will be interesting to see how that evolves into the end of this week. As we have noted repeatedly since late last month, if there is a bull trend 'fly in the ointment' it is the resurgent COVID-19 pandemic. While the severe conditions in Europe and the UK seem more prominent at present, the US is also getting worse now.

As our parting shot on that prior to the US holiday weekend (during which we do not expect any further updates) is yet another update of CDC's New US COVID-19 Cases graph (<https://bit.ly/3cKdwDH>) as of Monday. Yes, that's right, the new cases are up to a new recent high of 162,204. As we had cautioned during the late-October 'post-pandemic' optimism, the drop had only been back to the key 65,000-70,000 levels, leaving room for severe deterioration of the situation.

And once again, this is all into the Thanksgiving travel and gathering surge, where it is hard to believe that further increases in the new case counts will not occur into early-December. That will be when anyone infected during travel into early next week will become symptomatic. It is going to be very interesting.

We shall see, and that also includes whether the renewed COVID-19 surge will be more so strictly a medical and hospital issue, or spill over into any extensive economic weakness. Many feel that somehow the economies are better able to withstand any COVID-19 resurgence, and higher levels of

vaccination may indeed help insulate them from any significant weakness. However, as we have noted previous, that will have to do with official government restrictions (as we have seen in parts of Europe) as well as general 'gathering economy' public sentiment.

In the meantime, there is that mostly strong data weakening the global govies, which is spilling over into some of the pressure on US equities. It is of particular note that with the exception of December Bund future holding the interim 170.50 area (with the more major support into 170.00-169.50), the others are all below the recently cited supports. That includes December T-note future below 130-00 for the first time in the current trend, opening a door to testing the major 128-00 area.

As far as foreign exchange goes, the US Dollar Index 'haven' (or maybe more so 'shift to the least bad') bid has extended above the key low-mid 96.00 area. That opens the door to a test of next resistances in the 97.80 and mid-98.00 areas. This is very interesting in the context of the heavy weighting of the Euro in that index, where EUR/USD has an H&S Top 1.1090 Objective. The next higher US Dollar index resistance would be in line with that, with its higher levels meaning EUR/USD would likely overrun that Objective. It's going to be interesting.

And also still very interesting is the emerging currencies extended weakness, which has been our recent bellwether for the return of a 'risk-off' psychology despite that misguided, overly optimistic October 'post-pandemic' sentiment. While we reviewed a couple of the key indications there on Tuesday (see below), it is now the Mexican peso that is under pressure on USD/MXN pushing up to a new 8-month high. That is into a March 21.30-.40 topping signal, with that period's 21.63 trading high being a critical level. Much above it, look for at least 22.00.

This is similar to recent sustained USD/ZAR strength above its full year 15.65 trading high, reinforcing next resistances not until various levels above 16.00. And while the (admittedly outlier) Turkish lira has recovered somewhat on the USD/TRY drop back from Tuesday's astounding surge to a 13.35 new all-time high (up 2.14 on the week at that point), it is only back down to the 12.30 area of the 'extended' weekly Oscillator for this week. For the discussion on that please see Tuesday's ALERT!!, also including annotated charts of the rand and lira.

The bottom line is that US equities are still defying gravity to a goodly degree on the continued strong data, and likely also on hopes the current COVID-19 surge will not have any major economic implication. Whether that ends up being the case, especially in the wake of Thanksgiving travel, is yet to be seen. Yet it is also the case that there is now higher inflation and yields to worry about, which is already having a distinct impact on global govies and foreign exchange.

Courtesy Repeat of Tuesday's 'Back to Bifurcation with More Twists' ALERT!!

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 govies 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 govies 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 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 govies.

This is the critical consideration

[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/3oSjmlL> 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 4,725 and 4,750 this week (still rising \$20 per week.) After stalling into them on Monday, there is finally a reaction... yet only down to 4,660 interim support so far.

Thanks for your interest.

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