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ROHR ALERT!! Certain Uncertainty

1 message

ROHR Alert <rohralert@gmail.com> Mon, Nov 29, 2021 at 11:21 AM
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Dear Subscribers,
Getting back to the classical market axiom we cited again in Friday's 'Variant Vicissitudes' ALERT!!, "*The market* (which is to classically say the equities) *dislikes nothing quite so much as uncertainty*." And as noted, "...*right now it has it in truckloads on the two existing and newly discovered COVID-19 fronts*."

Today's title brings to mind Winston Churchill's 1936 opposition speech on the paradoxes of Prime Minister Baldwin's coalition government, with its tendency to vacillate due to its far-flung composition. As part of pointing out the changeable nature of government positions, among other similar witticisms Churchill noted it was extremely strong on being changeable: "...*resolved to be irresolute*…"

That is similar to market psychology right now in its inability to make up its mind in the near term due to the unknown nature of the Omicron COVID-19 variant. Yet prior to exploring that further, it is important to revisit the market tendencies on this morning's continued volatility, this time on the US equities and emerging currencies upside recovery, and global govvies return to weakness.

The December S&P 500 future drop of over $100 on Friday was based on many factors. Any new low for a given week on a Friday is bound to be exacerbated to some degree by a stale psychology: Why buy it then into likely margin calls on current leveraged bulls if not already long? There is also the matter of it being the Friday of the US Thanksgiving weekend, with thinner volumes on all markets.

However, the issue of whether this morning's recovery could be 'trusted' was highly problematic, as the rally only carried back up to the 4,660 key interim congestion which we cited last week. As such, it was not to be believed. It is now more important to observe how it does overall from the 4,621 major upside 'swing count' it had sunk back below on Friday. As noted, the next interim support below that is the 4,535 area, with major support not until the mid-low 4,400 area.

As far as foreign exchange goes, many people still accept the false notion that central banks and short term interest rates drive the developed currencies trends. Au contraire, it is actually inward investment, which brings more sustained flows. Yet the received wisdom on Friday seemed to be that Omicron would leave the Fed more accommodative once again, defusing the US Dollar Index rally above the major 96.50 area. Once again however, here it is this morning gaining back its bid without ever seriously threatening to fall back below the key 95.70 area.

Last week's rapid deterioration of emerging currencies significantly reinforced our sustained recent suspicion that more of a 'risk-off' psychology was forming. There are times when we are accurate in our assessment to a degree that is surprising even to us. Yet in this case that was for a reason we would rather have not seen develop. There is no joy in another round of fresh pandemic fears, even if it pushed the emerging currencies to levels we were expecting…

...even if nowhere nearly as fast as they proceeded. That said, the other reason some near-term reaction may be reasonable early this week is the degree to which they have already reached those more significant price thresholds. That is both for the South African rand seeing USD/ZAR surge above the 16.07 one-off low right up to the 16.30 area congestion, and the Mexican peso having USD/MXN push up so rapidly to the 22.00 area prior to reacting back down a bit today.

And while the global govvies are coming back under some pressure, they are so far above their recently tested key lower supports there seems little chance of a major failure which would indicate new highs for interest rates. For the US that is consistent with the imminently expected Fed announcement of a faster QE 'taper' now being on hold at least until the Omicron dynamics clarify. Also of note is the Bund rally with the recently noted major premium in the March contract into the December contract expiration next week Wednesday. Lower by almost half a point today, the March Bund future is still well above key 172.50-173.00 congestion, putting pressure on the bears even if the market should sell off later this week.

And the uncertainty is still palpable, even under what is considered a near-term 'best case scenario' for the Omicron variant. As this morning's Reuters article (https://reut.rs/3riEHOs) notes (and as we and others had already surmised last week), "*Many questions remain, including whether Omicron will evade vaccine protection and whether it will cause serious illness. But such characteristics would be far less concerning if the new variant remains relatively contained*."

Yet from a market standpoint into what was already going to be a challenging 'old month into new' week (check your calendars), this simply means greater volatility on the sustained uncertainty. As the Reuters article also notes, the timeline for the assessment of Omicron severity of disease, susceptibility to being prevented by current vaccines, and transmissibility (a key issue on whether it will supplant Delta as the primary variant) is "... *days into weeks*." Weeks? Not at all definitive.

That also goes for the comfort from the vaccine manufacturers. They sound very confident that they can adapt the new mRNA type vaccines to rapidly address any fresh mutations. While that is comforting to some degree, and current vaccines likely offer some defense (even if to an unknown degree), that is still months away if indeed new variations of the vaccines need to be developed.

As we have noted for some time, the two key factors are government responses, especially as it regards any return to full shutdowns and any partial quarantines. That is now already the case for recently reopened international travel, which has seen the reimposition of quarantines on the way into other countries and the way back into your own. Hey, who'd like to go on holiday where you quarantine in your hotel room on the way out, and quarantine in your home on the way back in?

Which gets us back around to the other key: public perception of the 'gathering' economy, where services suffered so heavily on the earlier pandemic response. While also still a work in progress during the initial assessment of Omicron, this will be a key to whether the external dining, travel and hospitality businesses can maintain their recent recovery, or slip back into duress, meaning workers as well.

While the New US COVID-19 Cases 7-day Average we have been closely watching dropped quite a bit (94,333 to 73,962) over previous days into last Friday, that is not a reliable measure. This is because of the drop in reportage over the US Thanksgiving holiday; there were only three days of normal reporting.

That means that the regular weekend drop in reporting was extended into the normally heavy Thursday-Friday period last week. In any event, we have been stressing for some time and revisited in Friday's 'Variant Vicissitudes' ALERT!! (repeated below for your ease of access), the real key will be the period ten days out from today's end of heavy holiday travel and gatherings (into December 10th.)

Courtesy Repeat of Friday's 'Variant Vicissitudes' ALERT!!
The specific clearing of previously more muddled market psychology explored in Wednesday's 'Holiday Notice and Some Clarity' ALERT!! was substantially on the degree to which US equities were still ignoring a weaker global economic picture. That is based on the still strong 'rearview mirror' US economic data, and much stronger than originally expected Q3 corporate earnings announcements.

And the combination of factors which allowed for global govvies weakness right into major foreign exchange signs of that global weakness were the combined sustained inflation plus the COVID-19

pandemic resurgence into Europe and elsewhere in the world. There was a real question over whether that deterioration would also spread once again into the Americas, where the US was suffering a significant rise in new cases (even if that was on a critical regional basis.)

And along comes the new South African variant, with its higher transmissibility and the potential to evade current vaccine protections. For anyone who might have been in a coma right up to this moment, an extensive Reuters article just updated this morning (https://reut.rs/3p1Lyt0) highlights all of the various country responses, and the degree to which there is anticipatory caution at work.

While the US that has no identified cases as of this morning is waiting, many other countries have imposed full or partial travel bans from southern Africa. However much the WHO is cautioning against untoward action, based on the previous initial lax response to the ultimately pernicious Delta variant, countries are rightfully imposing cautionary bans. However, WHO spokesperson Christian Lindmeier also said, "*It would take several weeks to determine the variant's transmissibility and the effectiveness of vaccines against it*." So why risk it?

Known aspects of the new variant (B.1.1.529) that are most troubling are that it has (very high) more than 30 mutations to a key spike protein. This is of special concern due to it being how it manages to infect cells, and is also the specific mechanism by which the vaccines attack the virus. As such, the fears of higher contagion are compounded by questions over the viability of current vaccines.

Yet these are indeed still questions. Nobody knows, even if they must fear the worst based on current form for both the Delta variant as well as the new variant. What we know for certain is that it's officially R.I.P. for the misguided late October 'post-pandemic' psychology. That has now shifted into the full market disruption of something we always remind ourselves of, "*The market* (which is to classically say the equities) *dislikes nothing quite so much as uncertainty*." And right now it has it in truckloads on the two existing and newly discovered COVID-19 fronts.

As we had already been stressing right into the face of the recent very good 'rearview mirror' US data and even the near-term global Advance PMIs, those were no guarantee that the strength would continue through Q4 into next year. Despite the seemingly healthy US holiday sales, the overall inflation stresses on consumers might bite into early 2022. Further, any future government restrictions were only part of a picture that was going to rely on continued public confidence.

That has been a key component of the services economy recovery after a near collapse into mid-2021. This is of course on the renewed confidence in public activity that supports the 'gathering' economy (restaurant dining, travel and hospitality) at present. Even prior to the new COVID-19 variant, there were the troubling signs in the US we have noted of late. Based on the Delta variant and previous outbreaks, Thursday Washington Post article (https://wapo.st/3nVyHsS) cites Wednesday's view from Pan American Health Organization Director Carissa F. Etienne, "*Time and again, we've seen how the infection dynamics in Europe are mirrored here several weeks later*." That compounds an already bad US situation.

As noted above, this is regional to some degree, yet no less troubling for that. Another Thursday WAPO article (https://wapo.st/3FPeif9) title says it all on, "A flood of covid patients causes 'almost unmanageable' strain in Michigan as cases rise nationwide." While experts note it may be milder than 2020, "*The growing caseload across the country has raised the specter of another surge this winter*." This is as we have been cautioning of late, and before any new variant impact.

Some have taken comfort in the overall US New US COVID-19 Dases rate leveling off at a 95,000 7-Day Average. Yet that is well above the 65,000-70,000 figure we have noted as being critical since July 2020. As noted in Wednesday's analysis, recent daily cases have risen to the 150,000 level (+/-) once again. And also once again, it was prior to this holiday weekend's massive travel and gathering holiday.

As that does not wrap up until early next week, our repeated cautionary word is that the real 'event horizon' is the new cases into the end of the first full week in December (on the 10th.) By that time any constructive situation despite the heavy Thanksgiving travel, or really troubling fresh US pandemic surge, should be very apparent… with the commensurate impact through either threatened or actual state and local government action, and the equally important public perception.

As far as the markets go on today's extreme volatility, the US equities have finally succumbed to the greater threat they seemed willing to blithely ignore during the previous upbeat 'rearview mirror' economic releases. However, that must be seen as only partial so far despite the extent of their drop. December S&P 500 future falling back from low 4,700 area again is not necessarily a surprise. Yet trading below the previously overrun 4,621 major 'swing count' upside Objective may be more telling. It is going to be very interesting to see how that evolves later today, and in trading into next week. The next substantial support is not until overrun 4,535 congestion, which also happens to be weekly MA-13 into next week.

The global govvies are indeed on an unsurprising major upside squeeze on various COVID-19 related factors. On one hand, much of their previous weakness was based on a return to pre-pandemic economic strength and the sustained inflation it might indicate. On the other hand was the confirmed prospective removal of central bank accommodation. While any pandemic resurgence may not ease the inflation, it might provide central banks to be a bit more circumspect in curtailing their QE programs. The key Evolutionary Trend View (ETV) levels to watch remain the same as reviewed in Tuesday's ALERT!! (repeated below.)

Foreign exchange indications remain the same as Wednesday's 'Holiday Notice and Some Clarity' ALERT!!, with the interesting development that the US Dollar Index has weakened a bit. That is not to any degree which fully reverses its recent 'haven' bid. Yet as we have noted, with the US also having its share of problems after the strong 'rearview mirror' data is discounted, maybe that has been more so the 'shift to the less bad' bid. The one real change against the developed currencies is the strength of the Japanese yen, indicating a real 'haven' swing.

In any event, we still believe the real 'forward' trend psychology will rest with pandemic developments into early December. Yet the shift to a full 'risk-off' psychology has already been apparent in emerging currencies over the past couple of weeks. Those were reviewed at length in Wednesday's and Tuesday's ALERT!!s, with annotated USD/ZAR (rand) and USD/TRY (Turkish lira) weekly chart links in Tuesday's analysis. Those have not surprisingly moved into more critical extended trend decision levels. We will be updating all of that Monday, as we need to see today's weekly Closes to properly update the key trend views.

Courtesy Repeat of Wednesday's critical consideration (updated chart)
[To be updated after Tuesday's heavy additional end of month data]
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/3D3pV08 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.)