
ROHR ALERT!! On the Yang Today

1 message

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Wed, Dec 1, 2021 at 11:34 AM

Dear Subscribers,

In the classic representation of yin-yang, yang is the force of light that it seems the markets are experiencing today after the darker influences which held sway on Tuesday's reversal of Monday's 'risk appetite' gains. That's fair enough on the current influences, yet with the caution that they are either anecdotal or are the classic 'rearview mirror' representations we have warned of in the past.

Even today's upbeat global Manufacturing PMIs (outside of a disappointing US Markit figure) were based on activity and opinions prior to a very recent onset of COVID-19 Omicron variant concerns. Also there is once again anecdotal news on Omicron possibly being less transmissible and virulent than previously thought. There is even a guess out there that current vaccines will still be highly effective despite what has been indicated by the vaccine makers, as shared in Tuesday's 'On the Omicron Yin-Yang' ALERT!! (repeated below for your ease of access.)

There is also this morning's 'A Balancing Act' latest quarterly OECD Interim Economic Outlook: (<https://www.oecd.org/economic-outlook/>), also without any mention of the Omicron variant. There was neither a single mention, nor any reference to the resurgence of the Delta variant. There were only references to the previous Delta drags and those waning since the Spring-Summer surge in many economies, with no mention of the current resurgence in the US and Europe.

That may be reasonable under the circumstances, where OECD is always more circumspect, and reviews the data at length prior to taking any definitive fresh economic view. As we often note, its monthly Composite Leading Indicators is a net 4-month forward view as a 6-month projection delayed by two months to ensure the accuracy of the statistical foundation. Yet today's analysis highlights continued supply bottlenecks and heightened inflation into strong demand.

No surprise there, as informed observers are now noting that Omicron is less of a definitive problem than Delta never going away!! Note the problems in Europe, and after the US Thanksgiving holiday we are seeing a return to regular new case reporting as of Monday. As we cautioned of late on the CDC New US COVID-19 cases graph (<https://bit.ly/3lsyCeU>), the new cases and 7-Day Average drop were based on suppressed holiday reporting from last Thursday through the weekend.

The return back up to 119,000 new cases on Monday is also a bit problematic in consideration of whether this might be some 'catch-up' from a holiday weekend. In any event, as we have noted for some time, the real indications on the current US Delta resurgence are going to be the figures into next week. Those will include any heightened problems from the major travel and gathering holiday weekend.

The more telling intermediate-term concerns remain elevated inflation, which was reinforced by Fed Chair Powell's Tuesday Senate testimony, and the potential for that to remain the case if there is any further COVID-19 pandemic spread. That is regardless of whether it is Delta or the new Omicron variant, as either way there can be continued supply chain problems triggered by these. And the extended problem is that this can be the case even under a weaker economic scenario.

Also noted with a more explicit image link on Tuesday was the degree to which financial asset values are currently more than a bit elevated relative to their long-term average. That was from the November 17th ECB Financial Stability Review, and we suggest a look for anyone who has not some so already.

The rest of our mostly quite negative review of the likely Omicron impact remains the same as Tuesday despite renewed positive anecdotal news. The December S&P 500 future recovery from below the 4,621 major 'swing count' Objective is going to be interesting later this week; especially after Monday's failure up into the interim 4,660 congestion below which it had failed so badly on Friday.

Global govies are back under pressure after testing key higher resistances, which it was very interesting to see them reach in the first place (see Tuesday's analysis for much more.) And foreign exchange remains very interesting on the US Dollar Index volatile churn between the significant 96.50 and 95.70 levels.

Yet the emerging currencies are among the most interesting in having extended their 'risk-off' psychology with a collapse in the face of the Omicron news on Friday, only to be seeing significant recoveries after testing major lower supports. While this is not normally necessarily surprising, the extent of the current swings are outside the norm. For example, the Mexican peso has seen USD/MXN surge through 21.00, 21.30-.40 and 21.70 into the low 22.00 area last week, only to see a drop back below most of it toward 21.00 this week. That's unusual even for an emerging currency, and has been the case for others in that class as well.

Courtesy Repeat of Tuesday's 'On the Omicron Yin-Yang' ALERT!!

The anticipation of both uncertainty and attendant volatility in a suppressed risk appetite environment we suggested would be the case in Monday's 'Certain Uncertainty' ALERT!! is, well, certainly here. That is once again on one of our favorite market axioms, "*The market* (which is to classically say the equities) *dislikes nothing quite so much as uncertainty.*" In addition to the rapid shifts in the still preliminary Omicron information, it is mostly on the negative side.

While we will return to articulating the full context below, a quick look at the market tendencies is warranted. The US equities saw a sharp recovery of some of last Friday's losses on Monday. That was substantially on some anecdotal South African observations that the Omicron variant might only induce a less virulent form of the COVID-19 symptoms. Fair enough. Yet this is in no way any reliable measure of what will actually transpire based on any solid clinical information.

As such, the more negative announcements into this morning from very credible sources (more below) have seen the attempted return to a 'risk-on' psychology hit hard. It is therefore not a surprise that the December S&P 500 future only rallied back to the 4,660 key interim congestion we highlighted since early last week prior to coming back under pressure... with the major assist from the news.

Similarly global govies which had rallied back so strongly from major supports last Friday dropped back on Monday's somewhat less threatening psychology. However, there as well the current more troubling news has seen the extension of their rally (i.e. weakening yields again.) The December T-note which was back up into the 131-00 area last Friday is now testing the more prominent 132-00 area.

Weak sister December Gilt future that had pushed up into the low end of its substantial 127.50-128.00 congestion last week has only pushed up a bit further toward the high end. That is also important now as weekly MA-41. And stronger sister December Bund future (likely on the earlier Delta variant worries) had already rallied last week from its key lower interim 170.50 congestion to the bottom of the 172.50-173.00 range. While it remains in that area now, there is consideration on its typical early front month future expiration next Wednesday.

The March Bund future is currently trading at 174.25, which is a 1.70 premium to the December contract. Radical premiums and discounts are the norm for the 'second month' Bund future whenever there is a shifting future sentiment; as opposed to typical modest discounts in the T-note and Gilt future expirations. Therefore, barring any sharp 'macro' psychological improvement (not very likely) by next Wednesday, the burden of proof will be on the bears to knock the March Bund future back below 173.00-172.50; which is currently a long way down.

Foreign exchange is both radical and far more disjointed this week, following on developments from last week. The already accelerated weakness of emerging currencies saw a radical weakening on last Friday's news. However, as noted on Monday, even though out to significant new recent lows against the US dollar, they have for the most part hit their next major supports, and are recovering a bit.

The exception is of course Turkish lira, which is suffering from wholly misguided government policy that is being foisted onto its central bank. As noted in last Wednesday's ALERT!! (when the lira was in the initial phase of its current implosion well beyond any other emerging currencies weakness), *"President Erdogan's misguided philosophy that high interest rates cause inflation."*

While developed economies central banks and even the emerging economies are far from it, Turkey is a cautionary reminder of what happens to a currency when its political masters have a country with a 20% inflation rate and demand a 1.0% base rate cut to 15%. How about that 5% negative real yield as an influence? However, this means the lira is not indicative of any broader FX tendencies.

The developed currencies are a bit more of a quandary for us insofar as the US Dollar Index has weakened since Omicron became an influence. At present the greenback should still be a 'haven' (or at least in a 'shift to the least bad') in the context of the worse Delta variant and now the Omicron infections elsewhere. However, it has weakened from above 96.50 back down to the 95.70 lower end of major mid-2018 through mid-2020 congestion it only penetrated two weeks ago.

However, it appears some market participants are still focused on central banks and short-term rates as the key arbiter of foreign exchange trends. We have felt for a long time it is more so inward investment, with its more stable flows into or out of a country. Yet the central bank psychology can still influence these markets at times, and this might be one of those. While Fed Chair Powell was upbeat in his prepared statement (released Monday) prior to today's CARES Act Senate testimony (<https://bit.ly/3rkMECT> for our mildly marked-up version), he added a cautionary word near the end on the Omicron unknowns which could affect that.

To wit, *"The recent rise in COVID-19 cases and the emergence of the Omicron variant pose downside risks to employment and economic activity and increased uncertainty for inflation. Greater concerns about the virus could reduce people's willingness to work in person, which would slow progress in the labor market and intensify supply-chain disruptions."* While some of this concerns inflation, the general interpretation seems to be more so concerned about the economy that may forestall the broadly anticipated QE tightening and any rate hikes. That could be what is weighing on the US Dollar Index at present. We shall see.

Back to the 'macro' considerations, there is a significant disconnect once again between pandemic reality and the political class steps. That is due in part with the public revulsion regarding any reimposition of strong anti-transmission steps. Allowing that many previously agreeable folks are rightfully 'sick to death' of any business restrictions and mask mandates, that may still be the best way forward. Also note that there is a not very agreeable audience that are COVID deniers along with anti-vaxxers and anti-maskers. As an example, even the US that has had such strong government encouragement is only 59.3% fully vaccinated.

This also goes to the other factor we have often noted on the economic impact beyond government restrictions: broader public psychology on the 'gathering' economy, including external dining, small retail, travel and hospitality. All of those (especially travel) are already predicting diminished business due to Omicron.

Yet politicians by nature must appear to 'do something', even if the current drive to expand the number of first time vaccinations, second shots and now boosters is a bit misguided in the context of what is already known about Omicron. This is with the caveat that there will likely be at least some protection (even at a lower level) from current vaccines. However, the latest indications are not propitious.

There is caution from the vaccine manufacturers themselves that their current shots will be less effective against the Omicron variant. Yet both they and the politicians are upbeat on the ability to develop new Omicron specific vaccines in a very short time. In historical terms that may be true, compared to the years of development prior to the advent of the new mRNA vaccines into late 2020.

However, the likely weakness of the current vaccines in preventing serious illness and the new vaccine timeline are not encouraging. This morning's Reuters article (<https://reut.rs/3lIYB7E>) cites Moderna CEO Stephane Bancel as saying, *"I think it's going to be a material drop. I just don't know how much because we need to wait for the data. But all the scientists I've talked to . . . are like 'this is not going to be good'."* And even rapid approval by health authorities is going to take time.

According to another Reuters article this morning (<https://reut.rs/3rnPFCs>), any EU approval of an Omicron-adapted vaccine is still likely to take 3-4 months, and this is pretty much the same for the US FDA and other countries' approvals. However much the new vaccines can be deployed at 'light speed' compared to the old years-long process, it still takes quite a bit of time in epidemiological terms for a highly transmissible virus. 3-4 months? A really extensive risk factor.

And the hits just keep on coming. What we also heard this morning was another cautionary word shared in that very same Reuters article on the likely lower effectiveness of therapeutics. We are not surprised, due to the changes in the key Omicron 'spike protein', with a very high number of mutations within that single new variant. The article notes, *"Regeneron Pharmaceuticals said its COVID-19 antibody cocktail and other similar antiviral treatments could be less effective against the latest variant."* And similar communication came from Eli Lilly.

The question at present would seem to be less of why the 'risk appetite' is under pressure, and more so why it is only under the degree of pressure seen so far? While the newly developed responses to the COVID-19 pandemic means this is a less dire situation than we highlighted when we heard of the 5-day asymptomatic transmission period in late-January 2020, it is likely more troubling than many observers are allowing at present (much like back then.) Having recently gotten back to a degree of normalcy, there is likely a degree of 'normalcy bias' right now.

However, along with epidemiological challenges, there is a question of the degree to which asset valuations are at least close to 'priced for perfection'. We already highlighted this in our November 17th ECB Financial Stability Review and More ALERT!!, with a link to the ECB analysis (<https://bit.ly/2YUAnsW>) and especially our recommendation to scroll down to their 'presentation slides'. Page seven of those has a graph (<https://bit.ly/3lhvsuU>) on the deviation of a basket of financial assets from their long-term average. Of note is the degree to which they appear to be as extended to the upside now as they were depressed at the bottom in 2009.

Of course, these sorts of indications are quite general, and cannot and should not be used as any near-term trend indicator. However, the general psychology behind assets being at extended upside values should be kept in mind during the appearance of any new stressors. Many of the larger trend reversals by nature start in a modest fashion, yet are often from unsupportable extended valuations.

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/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.) 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 last week (still rising \$20 per week.)

After stalling into them early last week, there was finally a reaction that was still only down to 4,660 interim support on Wednesday. However, the Omicron news into Friday immediately knocked it back below that area down below the 4,621 previously exceeded upside Objective as well. After Monday's rally back up to 4,660 failed it dropped closer to interim 4,535 support prior to rallying back into the 4,621 area; which will all remain very interesting into the end of this week.

Thanks for your interest.

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