
ROHR ALERT!! Reopening versus Resurgence

1 message

ROHR Alert <rohralert@gmail.com>
Bcc: ar.rohr.intl@gmail.com

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Dear Subscribers,

There is not really that much more to say after this week's dissection of the various most relevant and less than meaningful market influences. Among the previously considered major factors, the Fed is the least likely to affect the markets, as we revisited briefly in Thursday's "OECD Says 'Not So Fast'" ALERT!! (repeated below for your ease of access.) That is due to it likely adjusting its action to respect the US economic evolution into the other cross currents.

We will know more about that after next Wednesday's last FOMC announcements that include the next round of staff and member projections. While those hold some risk of a surprise, with the previous sanguine inflation expectations already jettisoned by Chair Powell and other members, this is not likely. In any event, the Fed Chair will finesse any of that at his post-rate (non) decision press conference.

That left the new Omicron variant as a possible key influence, until its threat was roundly dismissed by the Pfizer-BioNTech announcement on its current vaccine likely being effective for anyone who is fully boosted. And therein lies the rub, especially for the under vaccinated US that still only has roughly 60% of its folks fully vaccinated. While the Omicron 'news' is still prominent in both the financial and mainstream press, it is actually the Delta variant that is responsible for the recent pandemic 'resurgence', and will be the key factor into any renewed concerns about the recently restored economic 'reopening' psychology.

Consider for a moment the latest US CDC New COVID-19 Cases graph update (<https://bit.ly/3GvXw51> posted on its typical 2-day delay.) While the numbers have improved after Monday's explosive reading (possibly some catch-up from the typically lighter weekend reporting), at well above 100,000 they are not good. However, as we had cautioned into and after the US Thanksgiving travel and gathering weekend, the full impact of that exposure would only be clear on the numbers into the end of this week... which we will know early next week.

As such, it is not surprising that the 'reopening' versus 'resurgence' battle in the market psychology is also on hold at present after the December S&P 500 future has stalled on its vigorous test of the recent 4,695 weekly DOWN Closing Price Reversal (even though it ranged above that level closer to its 4,724 Tolerance.) However, at least so far, it has not dropped below the next lower 4,660 congestion that we had already prominently noted prior to the late-November selloff. It is therefore a 'push' into this weekend, with the full answers more likely available there and in the other asset classes next week... we shall see.

Courtesy Repeat of Thursday's "OECD Says 'Not So Fast'" ALERT!!

As we have been alerting since the beginning of the week, today's next monthly Organization for Economic Cooperation and Development Composite Leading Indicators (<https://bit.ly/3IDvYge> for our marked-up version) was going to be more important than usual. That is due to the degree to which the previous two months' releases were already indicating growth slowing. For the unfamiliar we always note that this is a net four month forward view, based on a six-month projection with a two-month delay to confirm the veracity of the various studies data.

Of course, that fits right in with the US equities forward anticipation, and tends to ignore any minor data anomalies along the way. As such, the 'Not So Fast' is a play on words both cautioning those who have an overly optimistic view into the early part of 2022, and the actual indication for future

global economic growth. Notable in its analysis is, “...signs of a possible upcoming peak in the growth of economic activity in the United States, Japan, Germany and the United Kingdom. Similar signals have now emerged in Canada and the euro area as a whole, including Italy.” With similar signs for China (as we have already been noting for some time), the question becomes what specific indications are critical now.

As we have stressed both in and well prior to Wednesday’s ‘Monte Winner!’ ALERT!! (repeated below for your ease of access), the Fed is a non-factor now joined by the lowered threat expectations from the COVID-19 Omicron variant. That is after Wednesday’s Pfizer-BioNTech fully boosted vaccine very high efficacy announcement. That was already the case on Omicron’s initial lower observed virulence. As such, our guess of how the Delta variant resurgence plays out in the various global economies seems the way to view the situation now.

As a further note on overall asset class tendencies, it was and now remains most interesting how Wednesday’s highly constructive Pfizer-BioNTech announcement defusing the Omicron threat led to a more classical coordinated market response. The strength of US equities was accompanied by strength in all non-US dollar currencies, and weakness in all global govies. As a reminder, this is after so many recent ‘bifurcated’ intermarket trend phases for many months.

Yet it seems this ‘good news’ response also applies to more of the ‘bad news’ psychology that has returned today. That is most interesting in the context of the ‘rearview mirror’ economic releases being rather upbeat over the past several days (especially in the US.) There are reports of US consumer concerns about early 2022, yet also with indications they are planning robust holiday spending.

With such seemingly constructive economic background, why are the US equities weakening, the US Dollar Index getting some ‘haven’ bid back after the latest dip back near the 95.70 key low end of its recent churn, and the global govies which had weakened so much on Wednesday recovering so nicely? It has been highly problematic for months to rely on the US equities as a bellwether of the overall ‘risk-on’ psychology, as they have often remained resilient while other asset classes reflected more of a ‘risk-off’ psychology. While they have succumbed as well at times, they have not led any shift to more of a ‘risk-off’ psychology.

However, with the current seemingly synchronized trends, we will look at them for the overall tone after this week’s extension of their recent major recovery stalled in the key resistance. As also reviewed in Wednesday’s ‘Monte Winner!’ ALERT!! (and early week analysis), March S&P 500 future (front month future on December 17th) at a \$7 discount to the December contract has only tested the key 4,694.50 weekly DOWN Closing Price Reversal (CPR) from two weeks ago. That has a Tolerance of the previous week’s 4,723.50 previous all-time high. On recent historic form, even a market that came back over \$200 from the Omicron scare 4,492 front month future trading might still manage to stall into resistance.

As noted above, today’s weakness is reinforced by the strength of non-US dollar currencies and the global govies significant rebound. Whether today’s incipient ‘risk-off’ indications continue will likely depend on the forward view that is going to be at least partially determined by the public sentiment regarding the resurgent Delta variant. The key there will be whether there is any significant reversion to ‘gathering’ economy aversion if the news becomes much worse in the near-term.

While there is a bit of ‘good’ news today in Tuesday’s drop back to ‘just’ 119,895 CDC reported US New Cases from Monday’s explosion to 190,298, the rest of this week remains a very critical horizon. That is on the full indications for how bad any Thanksgiving travel and gathering surge might become in the key two weeks later time frame. As noted, Monday might have been some typical ‘catch-up’ from the lighter weekend reporting, as we saw during much of November. Yet if the new cases remain elevated back toward 200,000 later this week, it’s a problem.

Courtesy Repeat of Wednesday’s ‘Monte Winner!’ ALERT!!

Well, for at least part of our multifaceted assessment of what to look for in the late-year market psychology, it seems we had guessed right. Once again like the degree to which our skepticism of the 'risk-on' psychology got an unexpected boost two weeks ago from the Omicron new COVID-19 variant news, there was a not totally unexpected bit of positive news this morning: the Pfizer-BioNTech announcement that their 'boosted' vaccination was effective against Omicron.

CNBC interviewed Pfizer CEO Albert Bourla (<https://cnb.cx/3yerAzq>) this morning on the specifics of what its most recent studies have told us (with further results pending into the end of this month), and it is worth reviewing for more details. Overall, this is undoubtedly great epidemiological news, and we should all be very happy. We also picked the right card in terms of the overall 'reopening' versus 'resurgence' psychology, insofar as Omicron really doesn't mean much.

As we extensively explored in Tuesday's 'Variant Three Card Monte' ALERT!!, (to paraphrase a recent Scott Gottlieb quote) "...*Delta never went away.*" Which is as we have counseled since late October, and continued to advise regarding the nominally weak US New COVID-19 New Cases reporting from the CDC into and after the heavy Thanksgiving travel and gathering weekend. As revisited again in Tuesday's analysis (repeated below along with other assessments), the real key will be the levels into later this week. That should provide more of an impact on the US and global economy from Delta than Omicron ever likely will.

And here comes the full week later (the key timeframe) post-Thanksgiving CDC US New Cases graph (<https://bit.ly/3lzzckz>), with its indications that the heavy travel and gatherings might have indeed triggered another massive surge. It is possible that this is the sort of 'Monday catch-up' after the weekend seen through much of November. Yet that was not the case last week, and anything less than an implosion in new case levels from Monday's explosion close to near the 200,000 level peak back in early September will not look very good. Once again, especially consider the 65,000-70,000 Daily and 7-Day Average New Case level they never dropped below in late October, with the 7-Day now back up to 117,000.

And in the context of protection against Delta variant or even the latest hopeful indication on the ability to counter Omicron with full 3-shot boosted vaccination, the weak overall US vaccination levels likely remain a problem. While we have recently highlighted some key aspects, there was a CNBC graphic this morning on the major metrics (<https://bit.ly/306BDtH>.) While a surge in vaccinations has occurred in the wake of the Omicron scare, it is still only 60.1% fully vaccinated.

In the context of the rightfully upbeat reporting on the Pfizer announcement this morning, it is important to recall that this was for the 'boosted' vaccination that is only possible for the 60.1% of US individuals who are fully vaccinated. It is also the case that the additional 11.0% who have had just one dose will need both their second dose and the months long waiting period (for Pfizer and Moderna mRNA vaccines) prior to being 'boosted'. That leaves quite a bit of vulnerability for them and the US 'gathering' economy, which might see public sentiment weaken again.

While we hate playing Cassandra, this warning is especially necessary at this time due to the recent major improvement in the 'risk-on' psychology driving US equities higher, and being reflected in other asset classes as well. As we noted in Tuesday's analysis, for all of the Fed fixation, it remains a minor influence. That is due to the degree to which any QE 'taper' acceleration will only occur if the US economic reopening and recovery remains strong. And in that case tightening by the Fed may become a counterintuitive sign of strength for the markets.

The other key 'card' is the actual economic performance, which has seen some weakening of late in Europe and Japan even as the US remains strong overall. However, the post-Thanksgiving period is likely a significant indication for future public sentiment on the 'gathering' economy (dining, travel, hospitality, etc.) into the key Christmas holiday period. As such, we will continue to closely monitor both the CDC New US COVID-19 Cases and any public response to that (as indicated by reports from those key industries) to see if the major services sector rebound will indeed continue into late this year, or abort at least in the near term.

As far as market psychology, while the US equities have strengthened markedly, the March S&P 500 future (front month future on December 17th) at a \$7 discount to the December contract is still near the key 4,694.50 weekly DOWN Closing Price Reversal (CPR) from the 4,740.50 new all-time two weeks ago. That has a Tolerance of the previous week's 4,723.50 previous all-time high (see below for more details.) The operative question is whether a market that came back \$200 from the Omicron scare 4,492 front month future trading low might still manage to stall into resistance created during the early part of that scare? On historic form the answer is "yes", at least temporarily based on many recent market swings.

And what of the weakening of the US Dollar Index against developed currencies along with the strengthening of emerging currencies? Again, this is reasonable on the resumption of 'risk-on' psychology into the resumption of the 'reopening' trade on reduced psychological stress from less of an Omicron threat. Yet it is the case the Delta impact is still out there and looking to possibly worsen, which will be the more telling card the market Three Card Monte dealer will be playing. It is possible however that the US dollar will not benefit as much as in a typical global crisis, if indeed the level of stress seems greater in the US than elsewhere.

And the weakening of global govies on today's positive Pfizer Omicron news? Second months (March) of the T-note and especially the Gilt are indeed into or below some key support (T-note 130-00 and Gilt well below 128.00) on their discounts to the December contracts. However, their expirations are still quite a ways off (T-note on the 21st and Gilt not until the 29th), and their trend decisions still leave room to be affected by the further evolution of the pandemic. And while dropping quite a bit today, the March Bund future is only backing off from near its 175.00-.50 resistance, and is still well above 172.50-173.00 historic congestion the December contract stalled into prior to today's typical early-month expiration.

This is the critical consideration (updated and consolidated)

After the early September 4,549.50 new all-time high, the SEPTEMBER S&P 500 FUTURE violation of the 4,492 interim daily chart congestion after trading around it previous led to the violation of the prominent 4.462 area as well. And while it temporarily traded back above that, subsequent softening below it spoke of an ability to trend lower in the near term as is obvious on the weekly continuation chart updated through last Friday: <https://bit.ly/3rFcSd3>.

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's Evergrande situation.

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 signaled a near-term trend reversal.

Yet as always with these matters, the weekly Close was more important than temporary trading weakness below it. And after the December S&P 500 future became the front month future it held against interim low-4,300 support, and ended the week back above the low 4,400 area. Yet the extent of the selloff means that it needed to be treated as a 4,410 weekly up channel DOWN Break.

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 was 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 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, and ultimately the early September 4,549.50 front month S&P 500 future all-time high.

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, which it stalled into in mid-November. That finally precipitated a reaction that was still only initially down to 4,660 interim support. However, the Omicron news knocked it back below that area, and below the 4,621 previous upside Objective as well.

This created a weekly DOWN Closing Price Reversal CPR) from the previous week's 4,694.50 Close after the subsequent pre-Thanksgiving 4,740.50 new all-time high. This has a Tolerance of the previous week's 4,723.50 previous all-time high (as also highlighted on the weekly chart.) With December S&P 500 future already above the interim 4,660 congestion, that remains a key lower support along with the 4,621 overrun upside 'swing count' Objective along with the temporarily violated lower 4,535 congestion (also still weekly MA-13.).

Whether it can sustain activity above the 4,723.50 Tolerance of that DOWN CPR signal is going to be the arbiter of market psychology into the end of this week. Much above it (meaning the 4,740.50 all-time high as well) the weekly Oscillator thresholds into next week are as nearby as 4,775 and 4,800 (still rising \$20 per week with weekly MA-41), with extended levels another \$100 higher. However, into next week the \$7 discounted March contract will become important as well.

Thanks for your interest.

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