
ROHR ALERT!! Does Santa Get Mugged?

1 message

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

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Dear Subscribers,

Interesting when the typical Santa Claus Rally (actually ‘Santa Portfolio Manager’ as revisited below) might be derailed by a mugger that turns out to be the major central banks. Curiouser and curiouser in a year that has already seen some of the most curious developments on record. While the definition of the Santa Claus Rally period is between US Thanksgiving (actually the Black Friday sales blast) and Christmas Eve, it often begins earlier in November on investor anticipation.

However, it then mostly continues into Christmas in years when the market is in any sort of strong rally like this year (once again, more below.) It all seemed to be going like clockwork on the recovery from the weak October seasonal cycle until the Omicron variant ‘Grinch’ pulled presents from under the tree on Black Friday.

Yet after that, better news on some aspects of the ability to fight the Omicron variant led to resumption of the rally. That was back to the weekly DOWN Closing Price Reversal (CPR) high end resistance (4,695 to its 4,723.50 Tolerance set during Thanksgiving week) at the beginning of this week prior to the over the top US PPI numbers. That is as thoroughly reviewed in Tuesday’s ‘Inflation Now the Bears Friend’ ALERT!! (repeated below for your ease of access.) While concern over central banks becoming less accommodative had been temporarily set aside into last week, US PPI raised a spectre of it returning the late part of this week.

As also noted Tuesday, this is especially on how heavy a shift to inflation fighting might actually occur in this afternoon’s FOMC announcement, revised projections and Fed Chair Powell’s press conference. And beside the sheer inflation increase now apparent in today’s broad UK inflation data and US Import-Export Prices (with Europe and Canada a bit more benign), there are other troubling factors for the US equities. Today’s US November Retail Sales were a total bust on the surface, coming in even worse than already significantly weaker estimates.

And it must also be considered that strong inflation numbers should be flattering any weaker consumer data. Yet in this case the cycle that normally continues into December pre-holiday shopping season may have peaked very early on all of the earlier significant supply chain retail product availability scares. That is also in the context of the weakness of US Real Earnings despite the major worker compensation increases, with more below on how those have been more fully eroded by inflation. We suggest a read of Tuesday’s analysis for more on that as well, with its link to the latest US BLS Real Earnings report. This is also hinting at the potential for a ‘wage-price spiral’ not seen since the early 1980’s recessions.

However, even with all of that extended anticipation, the more immediate threat to the US equities later this week is the shift to more central bank inflation fighting, and therefore a more aggressive withdrawal of accommodation. It is reasonable to believe that due to Chair Powell and other Fed members already signaling their concern with more sustained than expected inflation, this might be built into the US equities and other asset classes. Maybe so. Yet that does not incorporate the degree to which they are going to need to fight stronger ‘inflation expectations’ into a possible slowing economy if the pandemic resurgence remains strong.

That seems to be the definitive case in the US, Europe and even over in China. Tuesday’s most interesting Reuters article (<https://reut.rs/3DXoscm>) title says it all with “COVID-19 rattles major Chinese manufacturing province.” This is an indication that even though the number of cases looks

relatively minor by Western standards, China is known for draconian short-term measures to fully suppress any wider outbreak. As such, and very much unlike the West, when the Chinese government says, “You’re Closed!”, companies are actually fully closed.

Take a look at it for the major list of companies which are components suppliers to others outside of China, and consider the further supply chain indications. It is also the case for China that it wants to completely stamp out incipient COVID-19 spread well ahead of typically heavy Chinese New Year travel for the two weeks beginning on February 1st. Of course that also overlaps Beijing hosting the 2022 Winter Olympics from February 4-20. While it should be hoped the current typical draconian measures will work, they won’t help the global supply chain problems.

That is along with the heavily predicted rapid spread of the COVID-19 Omicron variant, which is already apparent in the UK (40% or more of current new cases.) And the current US New Cases surge is surely on the Delta variant. Once again we provide the current CDC US New Cases graph (<https://bit.ly/327lpQj>), which once again has seen a major Monday explosion. While last week saw the Daily cases calm down to a 120,000 7-Day Average, this is still nowhere near the key lower levels seen through last year into earlier this year. That’s not good.

And based on the higher number of US unvaccinated (also see below) who might have had some protection from previous variant infection, the Omicron variant represents a ‘clear and present danger’. That is because the antibodies from the previous variants have been shown to not be effective against Omicron. As we already reviewed the details on Tuesday, we suggest a read for more details. However, on a simplistic view, it is possible any aggressive Omicron spread in the US will cut through the unvaccinated like scythe through a wheat field.

And even though it is a most ‘curious’ year, we still provide our classic ‘Santa’s Already in Town’ annual seasonal post below for its sheer perspective. This is from last year’s evolution (with COVID-19 references) of the original 2013 post:

And back to the title tendency, there is that ‘Santa Claus Rally’ seasonal factor. As this tendency goes back through many years of our late year seasonal analysis, we are very comfortable repeating our assessment from years gone by (originally posted Monday, December 23, 2013) with adjustments to reflect this year’s unique factors and current market tendencies...

One of the key aspects which many market participants expect to be critical at this time of year is whether or not there will be a classical ‘Santa Claus’ equity market rally into the end of the year. And we say there is a certain element of *humbug* inherent in any such assumption.

A ‘very merry’ disposition is apparent in the recent major extension of the EQUITIES rally that is reinvigorated by better prospects for COVID-19 vaccine efficacy into next year and the previously noted long-delayed US Congressional action on a COVID-19 relief package. However, the question remains “*Who is this capitalistic, market profit-oriented ‘Santa Claus’?*” Of course, there is a question of whether anyone really believes ‘Santa Claus’ exists in a market context in the first place, regardless of any desire to believe or not in their personal life.

In fact, the idea there is a Santa Claus which visits the broad market indices in December is at least a bit of a misnomer. In truth, as we have noted each year, any benefits to the broader market into December are more so due to ‘Santa Portfolio Manager’.

The key is whether or not he decides to provide joy from his remaining cash hoard to the other market participants. And his tendencies in that regard are rather more very self-serving than altruistic. He must assess whether it looks smarter to be holding cash or holding stocks.

And that has to do with market indices position relative to their highs or lows of the current year. The further below their highs of the year (or indeed closer to their lows like 2018) stock indices are trading into December, the less inclined ‘Santa’ is to provide gifts to the other participants.

Those would be in the form of further purchases. Sort of a “Scrooge’s Scrooge” in those sorts of already trying times. In fact ‘Santa’ would be more likely to sell to establish ‘tax losses’ under those circumstances rather than be charitable to the other market participants.

However, the closer the equity indices are to their highs of the year, the more so ‘Santa Portfolio Manager’ is inclined to provide cash to the market in the form of stock purchases to end up fully invested at the calendar year-end... regardless of whether his overall returns for the year have been spectacular or second-rate.

To wit (and to the tune of *Santa Claus is Coming to Town*)...

Verse:

*He buys them when they're lower,
He buys them when they're high.
Can't have any cash on the books
When New Year's Day is nigh.*

Refrain:

*No need to pout,
No need to cry.
He'll only shout,
"Buy, Buy, Buy."*

*Santa Portfolio Manager's
Coming to town.*

Courtesy Repeat of Tuesday's ‘Inflation Now the Bears Friend’ ALERT!!

It may be getting to be that ‘strong news’ is bad news, as actual data that is well above the already hefty estimated increases in US PPI seems to raise the spectre of even more sustained inflation; and with it the prospect of more aggressive withdrawal of central bank accommodation. While we will know more on that after Wednesday afternoon's FOMC rate announcement, revised economic and interest rate projections and Fed Chair Powell's press conference, the markets already seem to be reflecting central banks' need to focus more strongly on inflation.

And at least for now, that prospect has assisted the US equities bears in breaking some key interim technical support. That is the front month S&P 500 future (still December until Friday) 4,660 congestion that had been violated on a couple of previous selloffs; and sold off back then into vigorous tests the key lower 4,535 area (in fact holding multiple tests of the 4,500 area.) It is as noted in the title of Monday's ‘Burden on the Bears’ ALERT!! (repeated below for ease of access.)

The dilemma for the US equities bears after that previous early December spill was the retest of the higher late-November 4,695 weekly DOWN Closing Price Reversal (CPR), and especially its 4,724 Tolerance. While that rally did indeed stall early this week after that strong finish above 4,695 late last week, there is a big difference between a bull trend stalling temporarily on the upside, and any real return of weakness. We suspect the latter could still be the case on the COVID-19 pandemic resurgence discussed in Monday's analysis, and now inflation.

In any event that still leaves the distilled ‘macro’ vectors being the previously noted ‘reopening’ versus the ‘resurgence’ (all reviewed below.) Yet now add to that potential for more aggressive central bank (especially the Fed's) withdrawal of largesse as an additional US equities and general economic risk factor.

And this is becoming a market concern right into the major Wednesday-Thursday Central Bank-O-Rama, beginning with the Fed tomorrow afternoon (US time), followed by the SNB, ECB and BoE coming into a holiday season compressed rate decision meeting schedule over just the next 15 hours. And except for the BoE, they are each followed by a central bank head's press conference.

With the exception of the ECB, each of the others are expected to be a bit more hawkish (or less dovish, take your pick.) That plays right back into the inflated inflation numbers (pardon the pun),

which is a global phenomenon affecting all economies; especially on the back of energy prices and supply chain disruptions which are not expected to abate anytime soon. As this morning's Reuters article (<https://reut.rs/3oRQ7qK>) headline resurrects the oft-misused 'stagflation' term regarding the German economic outlook, the central banks are under pressure.

And it notes the latest pandemic surge only complicates matters with, "*Activity in the services sector will likely slow as Germany faces renewed curbs aimed at breaking its fourth wave of COVID infections, while supply bottlenecks for microchips especially in the car industry hamstring manufacturing...*" It is also the case that the inflation surge will weigh on net consumer purchasing.

Yet the issue in the US is also the degree to which rising wages are not keeping pace with the seemingly inexorable rise of inflation. Much as in early November, the latest US BLS Real Earnings (<https://bit.ly/3oo2ucV> released on December 10th) showed a worsening tendency, with an annualized drop of 1.9%. This is the more pronounced problem encouraging even further wage demands, which can turn into the rightfully dreaded 'wage-price spiral' (and maybe already has.)

This is something which has not been seen since the 1970s, and is very hard to tame with only modest steps. While it will be compounded by any fresh pandemic resurgence we still feel is a major factor, it is also pernicious unto itself. That is because wages can only rarely be reduced once they have risen. The companies cannot say to workers that because prices are rising more slowly once again, the workers should take a pay cut... it just doesn't work that way, especially in a US where the labor compensation had so seriously lagged corporate profitability.

The bottom line is the only way to get worker concessions is to make them more fearful of losing their jobs than somewhat lower compensation. Historically the only way to do that is for the central banks to tighten to a degree that triggers a fairly deep recession. My dear, long-departed father-in-law was an attorney and Depression-era guy (and very sharp poker player, much akin to being in court) who had developed a sharp sense of various aspects of the human condition.

His take on the Business-Labor Compact was that, "*The employer's job is to pay the worker just enough so that they don't quit; and the employee's job is to work just hard enough that they don't get fired.*" The problem in the current lopsided US economy is demand for labor exceeds supply by enough to keep a continually rising bid in the wages, which is never enough to catch up with rising inflation.

These are classic conditions for a 'wage-price spiral'. It is therefore reasonable that US equities and other asset classes should fear the prospect of continued inflation, which can indeed trigger stronger central bank tightening across time. That would include not just further potential weakness of US equities, yet also some return to global govies weakness that is already in gear on the back of this morning's US PPI. And also as part of this week's highly accelerated pre-holiday economic release calendar, there are major global inflation indications releases all through Wednesday and Thursday, with the global Advance PMIs Thursday.

With high, yet still only as expected, US CPI out from the end of last week, the next key indications are likely to be Wednesday's pre-FOMC UK and broad European inflation data, followed by Friday's German PPI and overall Euro-zone inflation indications (where the latter are surprisingly expected to ease a bit.)

Courtesy Repeat of Monday's 'Burden on the Bears' ALERT!!

The market trends seem to be at an even a more critical inflection point on the same core battle (with other factors offsetting each other) as highlighted in Friday's 'Reopening versus Resurgence' ALERT!! (repeated below for your ease of access.) As noted then, there was not really that much more to say after last week's dissection of both most relevant and less than critical market influences.

While central banks are important this week along with accelerated pre-holiday economic releases (check your report and event calendars), it all still boils down to the pandemic 'resurgence' versus the 'reopening' psychology. While we will return to some of the key updates on those 'macro'

developments below, it is first important to respect the markets' activity that is more critical into early this week.

That is after the very strong US equities finish last week. This is due to the front month S&P 500 future activity, which remains the December contract until late this week, with the slightly discounted (\$8) March S&P 500 future taking over on Friday morning. As we had highlighted since the initial Friday, November 26th Omicron outbreak selloff, the December S&P 500 future left a 4,695 weekly DOWN Closing Price Reversal (CPR) with a 4,724 Tolerance (previous week's high.) Yet it had failed to weaken back below the next lower 4,660 congestion later on last week after a couple of previous selloffs below it to the key lower 4,535 area.

And while hanging around the 4,695 area most of Friday, toward the Close it firmed up above the 4,700 area for the daily and weekly Close. This was a nominal violation of the DOWN CPR, which left the market in a stronger position into early this week. Yet the operative term there is 'nominal', as the market will also need to post Closes (especially a weekly Close) above that 4,724 Tolerance in order to fully Negate the DOWN CPR. That would indicate a new all-time high above the current, close at hand, late-November 4,740.50 high from that DOWN CPR week.

If that should occur, the higher weekly Oscillator thresholds are 4,780 and 4,805 this week (still moving up \$20 per week), with the next levels up into the 4,875 and 4,905 areas. This upside potential sharpens the 'burden of proof' now on bears to once again find a rationale for front month S&P 500 future to once again at least violate the next lower 4,660 interim congestion again sometime soon. That is due to that congestion having been fairly well-established since the upside churn into mid-November. With upside momentum still intact now, unless near-term support is violated sometime soon, US equities are more likely to extend the overall rally.

However, in the context of the COVID-19 Omicron variant spreading as quickly as had been feared, and the Delta variant resurgence again on the march, there is reason to consider a 'reopening' trade might still be at risk (more on that below.) That is consistent with the weakening of the non-US dollar currencies against the greenback and the bid coming back into the global govies, even if the latter have been beaten down a bit on the more upbeat psychology and Fed 'taper' fears.

That also informs our view of why the US equities decision is more critical now. That is due to it very possibly once again being the arbiter of the overall 'risk-on' psychology after previous 'bifurcated' phases between various asset classes.

The renewed synchronization of the psychology between the different markets (outside of the still domestically challenged Turkish lira) is as we have noted since last week. While this can change at any time, it is the working assumption for now in the face of the key 'macro' reopening and resurgence influences. Weakness after this morning's US equities test of the higher resistance can be construed as the 'resurgence' at least temporarily gaining the upper hand once again, which is reasonable in the global 'macro' context. As this morning's very good Reuters article (<https://reut.rs/31UeOdB>) notes, having just the standard two-dose initial mRNA vaccination is not very effective against Omicron.

While only a partial study requiring more follow-up, it comes right into the UK announcing that the highly transmissible variant seems responsible for 40% of the new cases, and it has occurred even amongst the 'fully vaccinated' across all age ranges. There was also the first UK death from the variant. PM Johnson is quoted elsewhere as saying, "*I think the idea this is somehow a milder version of the virus - that's something we need to set on one side.*" This brings with it the potential for government restrictions, or even potential renewed public reticence on engaging in the 'gathering' economy, as we have regularly cautioned previous.

The good news is the surge in vaccinations by a freshly fearful public, which is finally taking hold to some degree in the vaccination resistant US. That said, as the trend has been for any European pandemic tendencies to make it over to the US, the outlook is still not that good. We once again share

the latest CDC New US COVID-19 Cases graph (<https://bit.ly/3dKqemz>), critically updated through the end of last week that we had consistently highlighted as the key post-holiday period.

While as seen in most of November, the Monday surge in cases had lapsed back into somewhat lower new cases. Yet as noted on Friday, Monday's surge was to the horrific 190,000 level once again, and the real key would be if they continued to weaken further after Tuesday's drop. Yet that was not the case, as while they were lower than Monday they trended up during the week from the 120,000 level back to 150,000. That is not a good sign, even if vaccinations finally picked up.

Yet those levels as well are not yet at all comforting in the US, where the 'fully vaccinated' percentage finally breached the 60% level. Yet if indeed the Omicron variant can only be fought with the fully boosted vaccination, that is still only 16% of the US population, with 27.5% remaining unvaccinated. That leaves a major potential for both the Delta resurgence to become worse (now in many Northern states), and leaves a wide berth for Omicron to have a very negative impact.

Consider that the path for those with only a single dose, and especially those who are completely unvaccinated, is many months away from effective Omicron variant protection. While we do not relish the prospect in any way, it is also important to consider the more important aspect of the overall pandemic weight on the US and global economy. Rather than government quarantine or selective mandates and restrictions, it is going to be back down to public perception.

That was more important during the initial response to the pandemic during the early phase in early 2020. It will remain the key to whether many 'gathering' economy services businesses are going to experience another round of heavy weakness after being such a major part of the recent strength. That goes for external dining, domestic travel and especially international, where restrictions are already coming back, hospitality along with that, and small retail, etc.

This is the critical consideration

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/3ykHJmR>.

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 recently above the interim 4,660 congestion, that remains a key congestion area along with the 4,621 overrun upside 'swing count' Objective (also weekly MA-9) and the temporarily violated lower 4,535-00 congestion.

While the better benign central bank anticipation assisted in challenging the 4,723.50 Tolerance of that DOWN CPR signal on Monday, the bad US inflation data created more angst for the later part of this week. Much of whether the lower supports noted above will hold (especially the current retest of 4,621) likely rests with the central banks. That is from the Fed this afternoon through Europe and the UK Thursday morning. If all those supports should fail, there is still the lower October weak seasonal congestion at 4,440 into 4,410, with 4,300-4,260 below.

Thanks for your interest.

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Contact: rohralert@gmail.com

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