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**ROHR ALERT!! Powell Threads the Needle**

1 message

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**Dear Subscribers,**

The answer to Wednesday's 'Does Santa Get Mugged?' ALERT!! title question is obviously, "NO!", at least for now. After Wednesday afternoon's FOMC Statement (<https://bit.ly/3sqAOrx> for our fully marked up version of the highlights) fully confirming an accelerated QE 'taper' and member and staff Revised Projections (<https://bit.ly/320d02J>) with their more aggressive rate increase indications, Mr. Powell obviously did a masterful job of striking exactly the right balance.

He took a three part approach at his press conference (<https://bit.ly/3sfsCtQ>.) That was substantially confirming an accelerated QE 'taper' ending as early as March, and highlighting the strength of the US economy. However, much as in the statement, he still left the Fed flexibility under what is still a threat from the resurgent COVID-19 pandemic on both the still more prominent Delta variant in the US, and the new Omicron variant. As explored in Wednesday's 'Does Santa Get Mugged?' ALERT!! (repeated below for your ease of access), the more major Omicron threat has to do with the highly unvaccinated status of the US public.

Before we get to the further central bank influences, it is important to revisit the nature of that US COVID-19 resurgence (still on the Delta variant with no major Omicron influence so far.) And we once again provide our marked-up version of the CDC COVID-19 US New Cases graph (<https://bit.ly/3GPyqOI> as of Tuesday on the typical two day reporting delay.) While much like last week it has seen a significant reduction from Monday's explosion to around 200,000, it has also once again only dropped back toward the recent 120,000 7-Day Average New Cases.

The dilemma here for the US economic bulls is that this remains well above the key levels seen back into a July 2020 peak and lull prior to the Winter explosion, and the temporary bulge into a drop to what were encouraging levels (anything around 10,000) prior to this past Summer's renewed new cases explosion. It is the situation since then which seems so challenging once again in never getting back down to anywhere near 10,000, even on the improvement into October. As we noted at that time, the broadly disseminated (both mainstream and financial press) 'post-pandemic' psychology was folly once case numbers failed to fall back below the key 65,000-70,000 range (see the graph for that recent indication.)

Before we get back to the mostly still obviously accommodative central bank influences, another aspect of this wild (accelerated pre-holiday release) week were the global Advance PMIs. Those were mixed, yet with some very curious weakness in some Services readings where the central bankers are expecting further improvement in this key area. That is along with weaker US Manufacturing along with other US data after Wednesday's ugly miss on Retail Sales.

Might all of this be the leading edge of the COVID-19 pandemic resurgence (or initial surge in the case of Omicron) weighing on consumer psychology? As we have noted on many occasions, government pandemic suppression measures are likely less important (outside of China, see Wednesday's analysis) than the overall consumer sentiment regarding the 'gathering' economy (external dining, travel where international restrictions are back, hospitality, and in person retail.)

Therefore, the central bankers' indication they remain flexible in the face of what might still be pandemic-related economic challenges is a bit of an interesting aspect, if indeed those steps are necessary. In that regard, there is more than a bit of a *non sequitur* in the US equities bull logic based on that potential sustained central bank accommodation where tightening had been expected.

This is because any extended COVID-19 pandemic spread that is rapid enough to trigger an easier central bank policy will also be economically damaging enough to weigh on the US equities. This is also especially interesting in the wake of the other central bank activity today. In order of appearance, that was the Swiss National Bank leaving its base rate unchanged at -0.75%, which maintains what is a very accommodative stance, as confirmed in its Monetary Policy Assessment.

See the Reuters article <https://reut.rs/30vKrcE> for the key passages and a full discussion of just how accommodative its policy remains despite sustained high current and anticipated inflation. As it notes, *"...inflation was unusually high in both the US and the euro area. In addition to supply chain problems, higher energy prices also played an important role in this respect."* That is likely what was at least partially behind this morning's BoE rate hike from 0.10% to 0.25%, where energy prices are a major concern into what has so far been a mild Winter.

Yet the cautionary COVID-19 indications in its Monetary Policy Statement and Meeting Minutes (<https://bit.ly/3mc8dlz>) fly in the face of raising rates at present. That is except for the degree to which UK inflation has been particularly strong over the past several months, and the hope that the already rapidly spreading Omicron variant will be less pernicious, and thereby less of an economic impact.

Yet the shift shortly after that this morning to the ECB holding rates steady and continuing a still very accommodative policy was very interesting, if indeed it was totally expected. This comes through from release at the same time as the rate announcement in its Monetary Policy Statement (<https://bit.ly/3yuDAgl>.) While it notes some lessening of its QE program, it is also the case that it *"...will maintain net asset purchases under the APP at a monthly pace of €20 billion for as long as necessary to reinforce the accommodative impact of its policy rates."* As such and as opposed to the Fed, there is no timeline for Euro-zone rate increases.

Asked at her press conference (<https://bit.ly/3yAFSdU>) about the declarations of the strength of the Euro-zone economy while maintaining such accommodative policy steps, Madame Lagarde responded that the Omicron variant was still such a major issue. While not specifically mentioning the current Delta resurgence, it is likely she is also aware of how this is affecting both the Euro-zone and some very nearby areas (such as Eastern Europe.) She also gave a most interesting answer to a question on the inflation problem, with a climactic component.

She noted that two-thirds of the current inflation problem and assumed future sustained higher prices was due to the underperformance of the green energy initiatives so strongly pursued in the Euro-zone economy. She noted the lack of energy production this year was due to a lack of wind and hydro power output. This in turn fomented more demand for fossil fuels for energy production with attendant higher prices, in addition to worse than expected supply bottlenecks.

It sounds like the ECB is looking for a climatological cure for its inflation problem in lieu of exerting the interest rate pressure normally used to quell inflation. It is also the fact of the Fed apparently remaining on balance more accommodative overall after concerns it might become quite a bit more hawkish. Yet all of this needs to be viewed through the prism of the classical 'Friendly Fed' (and ECB) influence that typically does not have much more than a 48-72 hour impact.

And what this has wrought in the wake of the Fed and then the other central banks' basically still accommodative (sounding) positions is a truly wild US equities upside swing (love those accommodative central banks.) Yet the activity in the other asset classes makes that a return to the 'bifurcated' trends seen at other times when US equities defied less propitious indications elsewhere.

The front month S&P 500 future (still nominally December contract until the early Friday official expiration) had not exhibited any sustained weakness below the key 4,621 major 'swing count' Objective we have highlighted since it exceeded it back in early November. By halfway through Chair Powell's press conference it was already back above the interim 4,660 congestion, and had overrun the 4,695 DOWN Closing Price Reversal (CPR) and its 4,723.50 Tolerance (from the Omicron impact Thanksgiving week) overnight into this morning for a new 4,752.50 high.

All of that overrunning of a previous well-established top should be pointing to the further extension of the rally into more new all-time highs. Yet it has most curiously dropped back to well below those previous resistances and topping activity at this time (10:30 CST.) While this does not mean it has definitely topped out again, it is a less propitious sign into the March S&P future becoming the front month early Friday morning at an \$8 discount to the December contract.

And that works hand in glove with the fact that the global govies did not reflect the more upbeat attitude of the US equities, even after weakening a bit initially on the Fed influence (i.e. stronger economic and inflation outlook.) The March T-note future at a half point discount to the December contract (and front month on the December expiration next Tuesday) has rallied back from nearer the major lower 130-00 congestion to the 131-00 area. This just doesn't fit with enough economic improvement to sustain a further US equities advance, possibly on the influence of the pandemic Delta resurgence and new Omicron threat. In any event, for all the wild US equities swings, we will likely know more into the end of this week.

**Courtesy Repeat of Wednesday's 'Does Santa Get Mugged?' ALERT!!**

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-Thursdays 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 Wednesday's critical consideration (current update above)

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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