



RESEARCH NOTE

Monday, December 20, 2021

Another Form of 'Normalcy Bias', Quick Take, Calendar

What can we say after cautioning from mid-to-late October that the ubiquitous 'post-pandemic' blather from both the mainstream and financo-tainment press was highly misguided. For the most pointed summary version of that please see our October 28th 'Post-WHAT?' research note, with its observations on other matters. That included some more enlightened central bank indications from the ECB on the supply chain problems lasting longer than expected, as well as the pandemic.

While we could not possibly have had any idea that the Omicron variant would represent such a major evolution of the situation into late November, (as reviewed at length in previous analysis) even the Delta variant situation was never good enough to warrant assumptions on an imminent 'post-pandemic' phase.

Just to update it without the usual CDC US New Cases graph (the most recent was in Friday's 'Whatta Week' research note Repeated with other analysis below), the new cases pushed back consistently up 150,000 late last week... still very high.

And our expected continuing deterioration in that area is the most likely path even on the Delta variant, with the new Omicron variant now in tandem creating a truly disconcerting situation. While there are some bits of good news reviewed below, informed sources are beginning to speak of new case numbers that are going to possibly significantly exceed the worst levels near 200,000 seen into early September, and again in Monday readings over the past two weeks.

To get back to the real point beyond the medical statistics, the economic impact is more important. This was specifically noted by Fed Chair Powell in his post-rate decision press conference last Wednesday. As we have counseled for some time, the influence on public perception is the key to the near-term economic performance for the recently improved 'gathering' economy.

And you are more than likely aware of all of the major show and sporting event cancellations, and in fact any sort of meetings that require international travel (like Davos as of today.) That is on higher transmissibility of the Omicron variant, which is also affecting local economies to a recently unanticipated degree.

While there is some good news, it is not likely to be of much assistance in the very near term for either the economies or the US EQUITIES. One of our most trusted sources for pandemic information is ex-FDA head (and Pfizer board member) Dr. Scott Gottlieb.

He was on CNBC this morning (<https://cnb.cx/3slpdttr>) with his view that regardless of any lower Omicron variant 'virulence' (still a problematic consideration), it is going to move more quickly... and is going to create a problem for the next 4-6 weeks on both the health system, public perceptions and other issues.

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In addition to any 'gathering' economy reticence by the public, what about the restaurants who cannot get enough staff because they cannot open if they have a major number of employees testing positive (lower virulence notwithstanding.) And that is just one 'gathering' economy example, with travel, hospitality and small in-person retail close behind on both staffing and traffic issues.

The same issue will now impact the stubbornly resilient supply chain issues in a way not expected as recently as a month ago. That is now also outside of China, which we have highlighted has good reason for regional draconian quarantines.

All of that is in addition to the health system impact of an allegedly less virulent syndrome, yet with such high overall numbers it may still be a problem. It must also be remembered that many areas in the US are struggling with the extended phase of the Delta variant resurgence. That remains the most likely driver of those recent elevated CDC US New Cases indications, and they might still be increasing further in the wake of major Thanksgiving travel and gathering.

That is also interesting in how it likely affects the current 'risk-off' US EQUITIES psychology, that the 'anticipatory' nature of the markets means this 6-week outlook is likely to have a real near-term effect. There just isn't enough of the necessary protection out there in the US as yet. To fold that into the 'silver lining' aspects behind this dark cloud, according to this morning's Reuters article (<https://reut.rs/3sIs7hP>), Moderna is saying that a booster of its mRNA vaccine significantly boosts antibody levels for those with the two previous doses.

It seems in fact that for those who got just those two vaccinations, there are, "...*low neutralizing antibodies against the Omicron variant, but a 50 microgram booster dose increased neutralizing antibodies against the variant 37 fold.* However, for those who jumped in prior to the FDA recommendation of that booster dose (this analyst included), "*A higher, 100 microgram booster dose of the same vaccine drove antibody levels even higher - more than 80 times...*"

And that excess of antibodies has been deemed the key to defeating Omicron (or possibly even other variant) virulence. Great, huh? Well, sort of, yet not really any sort of comfort for the looming very challenging next 4-6 weeks. That is because (as we have stressed for a long time) the significant under-vaccination of the US population. That has seen the 'fully' vaccinated total finally climb above 60% to 61.4% on recent Omicron fear-driven vaccine demand. There is now an additional community (beyond the fully vaccinated) of 11.9% with at least a single dose.

Indeed great! Except for the fact that leaves the latter camp along with the 26.7% of unvaccinated individuals at least seven months from fully 'boosted' protection (under the assumption the protocol will remain the booster must be delayed until 6 months after the second dose one month after dose one.) All of which does no good for effective address of the current Delta-Omicron pandemic resurgence.

This all gets back to the central bank accommodation withdrawal plans being poorly timed at present, as their liquidity provision is not the primary driver for the current supply chain-driven inflation. Yet in a classic sense of their mandate, they need to appear to 'do something'. Along with that previous (now weakened) 'post-pandemic' psychology, this is back to the sort of 'normalcy bias' we have heavily criticized in the past... especially regarding central banks' expositions.

For that we refer you back to our www.Rohr-Blog.com criticism of the Fed that began in early 2015, based on its insistence that its major QE program would soon restore economic growth and hit its inflation target. That even saw an end of year Commentary: Fed's 'Normalcy Bias' Continues post (<https://bit.ly/3J5pw1r>.)

That is shared here as open source information, even though it is still restricted to Gold and Platinum subscriber access on the blog. That is due to its importance as a summary of what was wrong with the Fed assumptions, likely driven by criticisms that the QE program had in fact NOT restored economic growth. It is simply the case that no amount of liquidity provision and balance sheet growth can stimulate an economy into feared regulatory hurdles and elevated taxes.

That is due to the lack of business investment and hiring, there is no momentum provided to the economy even at historically low interest rates. This shows up in the Velocity of the US Monetary base, which is regularly updated by the National Bureau of Economic Research, and provided by St. Louis Fed's FRED economic data service. As the graph updated for Q1 2015 (<http://bit.ly/2CNQ2ZY>) shows, the 'turnover' of money in the US economy imploded after the 2008-2009 Crisis.

For those who are interested, there is also a brief discussion of the nature of 'normalcy bias' (page 2), which goes well beyond the financial markets and central banks. In the real world, there are cases of natural disasters and airline crashes where many perished due to their 'suspension of belief' that what was clearly happening around them could be real. It was too far removed from their 'rational expectations', and they hoping things would get back to 'normal'

Unfortunately, for many of the COVID-19 deniers and vaccine skeptics, this seems to be their position at present. On one hand we suppose they are entitled to the 'freedom of thought'. On the other hand, it leaves them putting the health, lives, and economic success of everybody else at risk. While not the economic growth 'normalcy bias' of the central banks (also a problem for the ECB), it is related back to the economic fortunes in a way that is palpable once again.

NOTICE: As Tuesday is our last day in the office prior to our annual holiday break until January 3rd, we are going to only update the Evolutionary Trend View (ETV) for all markets after today's US Close. However, the FRONT MONTH S&P 500 FUTURE weekly chart has been updated as of Friday's Close in order to show last week's weekly DOWN Closing Price Reversal (CPR) from the previous 4,710 Close.

That has led to the next failure below the 4,660 congestion and (*wait for it*) the 4,621 'swing count' Objective once again. That opening the door to another test of the 4,535 congestion with recent lows in the 4,500 area (in fact the early December 4,492 trading low.) Much below that the 4,440 congestion or 4,410 Negated weekly channel DOWN Break (from the initial Evergrande dislocation) might be tested, or even lower levels. As part of our broad ETV update, we will be providing broader than usual technical levels (much like succeeded back during the 2018 holidays) to address any hypervolatile moves while we are on holiday.

Courtesy Repeat of Friday's 'Whatta Week' research note

It seems our cautionary discussion in Thursday's 'Powell Threads the Needle' research note (repeated below with other recent analysis for your ease of access) that "...classical 'Friendly Fed' (and ECB) influence ...typically does not have much more than a 48-72 hour impact..." has indeed been the case.

Just to be clear, this does not mean in any way the US EQUITIES swings of the past two days have been easy to handle. It has been an example of risk management being paramount.

Just to summarize on a definitive market review, the DECEMBER S&P 500 FUTURE (still the nominal front month future until this morning's official expiration) was down around the overall (i.e. general) key 4,621 major 'swing count' Objective prior to Wednesday afternoon's FOMC announcements and Fed Chair Powell's press conference. At first it did not react to the FOMC Statement (link below) on the Fed remaining flexible in the face of the pandemic resurgence.

However, once Powell shared his view that on balance the US economy was quite strong and also that the Fed would indeed temper removal of accommodation to adjust to any economic weakness (presumably from increased pandemic spread), the bulls took it as a 'green light' to think the Fed was still in full 'easy mode'. It is also likely the case that there were too many aggressive bears around who had been expecting a more hawkish FOMC message (in part true on the 2022 'dot plot' rate outlook), and less flexible talk from the Fed Chair due to inflation.

When the opposite proved to be the case, the bears were 'run out' of the market on the serial short-term rally extensions above 4,660, the 4,695 DOWN CPR from Thanksgiving week, and its 4,723.50 Tolerance... all of it leading to a new 4,752.50 all-time high overnight early Thursday morning!! But what happened after that?

Well, the soon to be front month MARCH S&P 500 FUTURE (at an \$8 discount to December future) holds around the 4,695 weekly DOWN CPR signal level into mid-morning Thursday (US Central time.) Yet once Madame Lagarde's still very accommodative ECB press conference is fully done (14:30 GMT; 09:30 EST), it reverts back to slipping below it and hanging around the interim 4,660 congestion until into this morning, when it slips back below (*wait for it*) the 4,621 'swing count' Objective once again.

The kicker after Thursday's nominal new 4,752.50 all-time high slightly above the Thanksgiving week 4,740.50 old high, is any Close this week below last week's 4,711 strong finish is a fresh weekly DOWN Closing Price Reversal (CPR.) With it currently over \$100 below, a fresh weekly DOWN CPR is a very likely outcome.

The 43 hours since the end of Powell's press conference brings to mind Dick the Butcher's suggestion in Henry VI Part II (Act IV, Scene 2), "*The first thing we do, let's kill all the lawyers*" (for knowledgeable folks this is actually a compliment to the honorable members of the bar.)

Except in a market context it seems the US EQUITIES decided, "*The first thing we do, let's kill all the overly aggressive bears; and then we'll come back and kill all of the 'Friendly Fed' overly influenced and overconfident bulls.*" Whatever else anyone thinks about the intermediate-term prospects for US EQUITIES, that is definitively exactly what transpired near term.

However, there were also the 'macro' stressors we have highlighted for weeks that were going to be a problem for the US EQUITIES. In fact, one of the consistent perverse parts of any central bank indications about remaining 'easy' or reverting to 'robust accommodation' is that there are reasons they feel the need to do that. Those are never as economically constructive as what bulls would like to infer about central banks maintaining or adding liquidity means for the US EQUITIES.

We have explored the extended 'macro' factors so thoroughly of late, we are hesitant to repeat all of them here. Please refer to the past several days' analysis below for the full assessment with external content links. What we will share here is that the CDC COVID-19 US New Cases graph update today (through Wednesday on the typical 2-day delay) shows the same pattern as last week. That is falling back again from Monday's explosion (201,768), yet only to around the 120,000 7-Day Average.

As previously explored at length, this is nowhere nearly as good as it needs to be to signal any real progress. It is also still on the Delta variant, with the Omicron impact now looming. On the latter, there is quite a bit of hope this more highly transmissible variant is also less virulent.

Yet as Dr. Anthony Fauci cautioned in a CNBC interview this morning (and as we have repeatedly noted), the extensive number of US unvaccinated makes that far more problematic than elsewhere. There is also the degree to which COVID-19 outbreaks are causing concern that goes beyond sheer numbers into the more important economic impact.

We have also highlighted this of late, and for anyone who has not done so already we suggest a review of Chinese COVID-19 suppression actions in its manufacturing sector over the past week or so explored in Wednesday's research note. That is another complicating factor for global inflation, as it drives critical supply chain issues.

That inflation is part of what drove the BoE into its surprise Thursday rate hike. Even if to only 0.25% (from 0.10%), that it occurred at all caught quite a few observers (present company included) by surprise into the UK experiencing what is one of the worst global Omicron variant surges. Once again, this may prove to be a passing problem. Yet the rate hike at this time shows that central banks are needing to deal with inflation even if the COVID-19 surge accelerates further.

That also now seems to be for Bank of Canada, as discussed in this morning's Reuters article (<https://reut.rs/3IY4bal>.) As with many of the other central banks, higher headline inflation has been tolerated for a while until now, yet with a broader concern of "...if they think inflation expectations are starting to become unanchored, that will be their primary concern," according to Andrew Kelvin, chief Canada strategist at TD Securities. It is, as always, about expectations.

And there is one other expectation that regards the already weakening Chinese economy, which can only be characterized as "*the hits just keep on coming*." According to another Reuters article this morning (<https://reut.rs/3F6kXSp>), "*China Evergrande Group was officially declared in default by credit rating agency S&P Global on Friday after the sprawling firm missed a bond payment earlier this month.*" There is not much of a surprise here, yet it is still telling.

This does not seem very critical in a week with so many other influences, and the Chinese government has taken steps to isolate any impact. However, there is no telling how this might play out after the central bank focus wanes into next week.

Courtesy Repeat of Thursday's 'Powell Threads the Needle' research note

The answer to Wednesday's 'Does Santa Get Mugged?' research note 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?' research note (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 again in never getting back down to anywhere near 10,000, even on the improvement into October.

As we noted at that time, the ubiquitous (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 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 interesting, 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, the Swiss National Bank left its base rate unchanged at -0.75%, which maintains what is a very accommodative stance, 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 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. However, 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 the release at the same time as the rate announcement in its Monetary Policy Statement (<https://bit.ly/3yuDAqI>.) 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 we have seen in the wake of the Fed and other central banks' basically still very accommodative 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 recently important 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 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 500 FUTURE becoming the front month early Friday morning at an \$8 discount to December.

And that works hand in glove with the fact that the GLOBAL GOVVIES 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 since the Fed announcements, we will likely know more into the end of this week.

Courtesy Repeat of Wednesday's Quick Take (current chart) [To be updated Tuesday morning prior to our annual holiday]

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/3E73dF6>.

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.

Courtesy Repeat of Wednesday's Evolutionary Trend View
[To be updated Tuesday morning prior to our annual holiday]

The path of **FRONT MONTH T-NOTE FUTURE** has been very interesting since late September. Since back in August the **SEPTEMBER T-NOTE FUTURE** had been sagging a bit below the significant 134-00 area, even if only slightly up until its September 21st expiration.

However, the **DECEMBER T-NOTE FUTURE** at a 24/32nds discount was already down into the low 133-00 area, and slipped for a vigorous test of the more important 132-00/131-16 area (as exhibited on the weekly chart through Friday <https://bit.ly/3dOLVlg>.)

As noted previous, **DECEMBER T-NOTE FUTURE** weakness is particularly telling both in the context of how quickly it weakened into that area, and the next historic support not being until the 130-00 area. That is allowing that the previous sharp selloff into early April held at 130-255, essentially not any sort of historic congestion.

After a brief mid-October rally, it had finally weakened below that level and was at new lows after not being able to Close back above it on an interim rally. Yet some combination of negative sentiment factors, such as serial weak economic releases and COVID-19 resurgence at the time had rallied it back up to the 131-00 area prior to stalling once again.

That said, the previous selloff was consistent with a 10-year yield swing to 1.66%, as expected. That was near levels seen during the April-May 1.70-1.75% range surge. The next support below the 130-00 area is not until the more major congestion area at the low end of the August 2019 through February 2020 range in the 128-00 area, which would be consistent with yields above the 1.70-1.75% range.

However, the more recent rally was fomented by a more dovish than expected BoE that again sent it back up to a test of the 132-00 area prior to the subsequent US and other countries' inflation data had it back down near 130-00 before stabilizing. While the recent strong data and inflation indications had dropped it to a new trading low for the overall selloff below that level, the Omicron shock sent its fully back up for another test of the 132-00 area.

Yet that rally has fizzled along with the Omicron fears dwindling on the confidence current full vaccination can counter its worst effects, and also on the renewed inflation fears. So for all of the rapid shifts over the past several weeks, this is a trading market for now in the 132-00 to 130-00 range. That lower boundary is especially important into the half point discounted **MARCH T-NOTE FUTURE** becoming front month when the December contract expires next week Tuesday (December 21st.)

While the **MARCH 2020 BUND FUTURE** remained above 173.00-172.50 congestion, as expected it was a bit demoralizing that the **JUNE BUND FUTURE** was so far below it when it became front month future (seen in the weekly chart through Friday <https://bit.ly/3GvWoyu>.) That left it more so poised to retest the 170.50-169.75 area congestion that had reached prior to the current recovery rally, with the far more major lower recent and historic congestion in the 168.86-.00 area from the summer 2016 previous all-time high.

However, it was more important on the previous recovery whether it could once again sustain activity back above the 173.00-172.50 congestion. Yet after only rallying into that area on the previous general GLOBAL GOVVIES recovery, this previous weak sister had been back under pressure toward 170.50-169.75 area congestion on stronger European inflation indications. That was despite rallies on previous central banker assurances regarding inflation, which have now been jettisoned in the face of inflation clearly being more stubborn.

Yet it is most interesting that after being the downside leader since early this year and again into this Fall, the FRONT MONTH BUND FUTURE has recovered back above the 173.00-172.50 congestion once again on the current MARCH BUND FUTURE taking over from the December contract early this month. That is on the 2.00 premium of the MARCH BUND FUTURE to the December contract that saw above the 173.00-172.50 area again, with the 175.00-.50 range as the next higher resistance that it has already stalled near since the end of last week.

As the co-downside leader the **FRONT MONTH GILT FUTURE** (possibly on the inflationary implications of the Brexit break with the EU) was already failing somewhat below major 130.00 congestion as early as February. While initially it was able to bottom without fully reaching its mid-126.00 historic congestion, it also saw only more grudging rallies than either the volatility of BUND or the greater resilience of the T-NOTE.

And on the expiration of the June contract the **SEPTEMBER GILT FUTURE** was actually a typical full point below. While only modestly back above the 128.00 area, the Summer rally under the influence of UK COVID-19 Delta variant spread had it back up into to the 130.50-.00 range prior to backing off. It was interesting that even as the Delta variant continues to impact the UK and global economy. In that regard, the GILT not rallying any further than a retest of the high end of the 130.50-.00 area was a warning, even if it was maintaining that rally into higher resistance until mid-September.

Yet on the subsequent weakening back below 130.50-.00 area the next support was still 128.00. And the **DECEMBER GILT FUTURE** that was already trading down below that was actually closer to the 126.00-125.50 major congestion. As the FRONT MONTH GILT FUTURE had been the weak sister previous, it failed to hold its 128.00 support even on the September contract selloff into expiration late that month. With the typical full point discount at expiration in the 'second month' DECEMBER GILT FUTURE, it was back to well below its 126.00 support.

That is striking in being so far back below the 126.86 May trading low (March-May high yields near 0.90%), and insofar as the cash rate was then above the psychologically important 1.00%. The next futures support was not until the recently tested low 124.00 area. Any sustained weakness below that area pointed to interim congestion in the 123.00 and 122.00 areas, yet with the major low end of the full 2018 range (it was sagging into) not until the 120.00 area.

However, after several weeks of sagging below it into mid-October, it was very interesting to see it scramble back above the 124.00 area. And here as well some combination of negative sentiment factors, such as serial weak economic releases and the COVID-19 pandemic resurgence, had rallied it back above the 126.00 area failed support.

After churning above and below that area through much of November, the Omicron shock sent it up temporarily above 128.00 area until that threat waned. Yet along the way this year and especially recently, the 127.00 area has been established as a new interim congestion area, which may become more important as we head toward the late month expiration of the December contract with the MARCH GILT FUTURE already near that level.

In **FOREIGN EXCHANGE** the **DEVELOPED CURRENCIES** had also seen massive shifts from the Spring of 2020 prior to quieting down once again. As noted extensively throughout the year, even though the **US DOLLAR INDEX** had a 'haven' bid into mid-February 2020, it then came under extensive pressure against the other **DEVELOPED CURRENCIES** on the more upbeat global recovery outlook with the COVID-19 vaccination success despite near-term setbacks.

However, recent problems elsewhere and the stronger US economic data and corporate earnings have developed into a 'haven' bid in the greenback. And the mid-year higher yield anticipation was driving the 'risk-off' psychology in the vulnerable **EMERGING CURRENCIES** on a 'country' basis, even if a resilient if quieter US DOLLAR 'haven' bid had survived a modest rally in the **DEVELOPED CURRENCIES**.

It currently seems prospects are better in the US than the rest of the world despite the US still having an elevated COVID-19 new case rate related to its weak vaccination levels compared to other developed economies. That has led to the **US DOLLAR INDEX** developing a curious 'haven' bid into a new 16-month high... possibly also in part as the 'least bad' alternative.

The **US DOLLAR INDEX** back above 93.30-.40 area in August was a key trend indication, even though it temporarily weakened back below it to the recently (since September 2020) important 92.00 area. However, sustained activity back above 93.30-.40 in late September led to a vigorous retest of the 94.30 and 94.74 late 2020 trading highs; the latter of which was also a 16-month trading high at the time (see weekly chart through Friday <https://bit.ly/3ypF8bd>).

And above that major 94.74 16-month high the next resistance was not until 95.74 that was readily exceeded on a swing to test the higher resistance at the low end of the major mid-2018 through mid-2020 range. While unable to sustained activity above the 96.50 area after the late Thanksgiving week Omicron initial impact, it also has held with only temporary slippage back below 95.74. If there is more sustained activity above the 96.50 area, next historic congestion is not until into the 97.80 July 2020 18-month trading high.

EUR/USD below back below 1.2000-1.2100 range in mid-August also saw the 1.1900 area interim support violated on the way to weakness below the 1.1815 interim support. That left the 1.1700 area more major lower support, which correlated well with the **US DOLLAR INDEX** 93.30-.40 area. While much below that the next more major support is not until the 1.1600 area, the early September recovery back above the 1.1815 interim support meant that was once again the area to closely watch.

And the previous sharp failure put the 1.1800 area back in play as a weekly Head & Shoulders H&S) Top Neckline (see the weekly chart through Friday <https://bit.ly/3s061kV>), which it had dropped below on a fresh mid-August 1.1800 DOWN Break. Did that mean the 1.1100 Objective would be hit? Well, long before that would happen it was important to see if it saw greater weakness below the important late-March 1.1700 area trading low than the temporary mid-August weekly Close slightly below it.

That was the low between the Head (H) and Right Shoulder (RS), the violation of which is always a key indication of whether the H&S Top is a bona fide pattern reversal, and fulfills at least the minimum bear trend definition of a "lower low after a lower high" (as the right shoulder by definition always is.) And the subsequent late-September weakness back below 1.1700 was definitively more bearish once again.

After EUR/USD also dropped below the Summer-Fall 2020 1.1600 area trading lows, the next interim support was around 1.1500, yet with the major support not until the 1.1400 area last seen in July 2020. Even though a temporary return to a 'risk-on' psychology saw it churn back above the 1.1600 area, renewed early November pressure on the non-US DOLLAR DEVELOPED CURRENCIES under the weight of the resurgent COVID-19 pandemic (especially in the UK and parts of Europe) had seen it not back below up the 1.1600 area, but also obliterate the previously untested 1.1400-1.1370 area.

Below that set off a heavier break with a test of the next major historic congestion in the 1.1200 area, which it has now weakened back near once again. Much below that there is also major congestion into 1.1000, with the H&S Top 1.1090 Objective along the way. While the Omicron influence fostered a squeeze, that only carried up to the low end of 1.1400-1.1370 area so far.

GBP/USD has held up much better against the US DOLLAR than some other DEVELOPED CURRENCIES (especially the EURO) in the wake of the Brexit vote finally confirming its exit from the EU. After stalling into the interim low-1.4200 area through May, it was churning increasingly below the 1.3750-1.3800 area next support, ranging down into the historic support in the 135.00 area through September.

While still looking much better than EUR/USD, it finally violated 1.3500 area in early November for a swing down below the 1.3350 area, yet only to the 1.3200 area that it remains slightly above so far. While the next interim support is the 1.3000 'big penny', the next major historic congestion is not until the 1.2850-00 range with next lower interim support in the 1.2650 area.

AUD/USD has also been more resilient than EUR/USD since earlier this year despite the sometimes draconian Chinese COVID-19 suppression steps and fallout from relationship issues between China and Australia. That should all affect the normally heavy Australian industrial exports into China. Yet after failing below the key .7600 and .7500 area out of June into July and the .7350-.7400 area as well, it only traded temporarily below the interim .7200 area in August prior to recovering from a .7106 trading low.

That is important due to that low being the intervening low of a major 17-month weekly Head & Shoulders (H&S) Top. While it rallied for the next two months, that only carried back up to a test of the .7500 area that was also the completion of the Right Shoulder of the H&S Top. Its rapid selloff since early November saw the .7150 DOWN Break from that pattern top (i.e. weekly Close below the Neckline across the November 2020 and August 2021 lows.)

While that led to a new 13-month trading low, it bottomed without knocking out the significant .7000 area September-November 2020 trading lows (also left side of the Neckline projection.) And with it recently back slightly above the .7150 DOWN Break, there should be a decision soon on whether that remains a *bons fide* DOWN signal or turns into a 'false' DOWN Break.

USD/JPY was the *prima facie* example of the extreme mid-February 2020 'haven' bid in the US DOLLAR, as the typical fellow 'haven' currency YEN came under heavy pressure on the USD/JPY surge above 110.00 for the first time since May 2019, leading to an immediate rally to the prominent 112.00-.50 area into the end of that week.

Yet here as well, once the US DOLLAR came under pressure on its loss of 'haven' status due to the COVID-19 spread in the previously safe US, at the end of February it 'crashed' back below the 110.00 area to Close into 108.00 again. Yet that did not hold since early March began on weakness that carried below the interim 106.00 area and once again below the 105.00-104.50 range (39-month trading low with major tests in March 2018, January 2018 and August 2019.)

On recent form it had been churning either side of 110.00 (109.00 to 111.00) from May through September prior to pushing up once again. While there are more Japanese 'country' issues at work, this indicates no overt 'haven' bid in the other typical global crisis haven currency.

And it is now the case this has progressed further on the USD/JPY rally extension above the historically prominent 112.00 area to test the even more major 114.50 2017-2018 congestion prior to weakening a bit again of late. Yet its ability to hold without even reaching the 112.00 area is a further sign of the overall lack of a global 'haven' psychology.

That said, the late-November selloff from a 115.51 trading high created a weekly DOWN Closing Price Reversal (CPR) from the previous week's 113.96 Close it is now back to testing on the recent rally. That has a Tolerance of the 114.69 mid-October previous trading high of the rally, which will need to be closely watched for a sign of whether the rally might extend beyond its recent high.

And **EMERGING CURRENCIES** have become wide-ranging volatile markets, which are repeating their mostly similar tendencies under the recent stresses. That includes the extreme weakness of the outlier TURKISH LIRA, even as there is major volatility against the US DOLLAR on various 'macro' influences like inflation and the COVID-19 resurgence.

SA RAND had seen **USD/ZAR** failing and then rallying back through key levels of late, yet generally reflecting a weaker picture versus the US DOLLAR. While from late 2020 that was substantially in the range between 14.30 and the mid-15.00 area (with a brief Spring diversion down to 13.35), those various 14.50-.45, 14.70, 15.00 and heavier 15.55-.65 area (January and March 2021 trading highs) have been exceeded.

The mid-November push above both the 15.40-.50 area as well as the key higher level above at the January 15.65 12-month trading high (at that time) also left a 15.30 full year Inverse Head & Shoulders (H&S) UP Breakout. That has a 17.40 Objective.

Yet first there was the next resistance initially at the 16.07 September 2020 trading low, yet with heavier congestion the 16.30 area that has stalled the rally for now. For more of a view, please see the weekly continuation chart from several weeks ago Friday (<https://bit.ly/3kWkUjS>), which also includes the Inverse Head & Shoulders pattern. This highlights the degree to which the US DOLLAR downside reaction is only a partial reaction after its recent strength.

Even when other EMERGING CURRENCIES have reacted to the downside at times, the **RUSSIAN RUBLE** has seen **USD/RUB** weaken at times on the back of sustained CRUDE OIL strength, and vice versa. For the past year it has essentially been a broad trading affair between 77.00 at times when CRUDE OIL is especially weak, and the 73.00-72.50 area except during the temporary drop below 70.00 on the October WTI CRUDE OIL surge above 80.00.

The recent CRUDE OIL weakness had seen USD/RUB back up to slightly above 75.00 in late November prior to backing off again toward 73.00-72.50 area, and those are likely to remain the key congestion areas.

USD/MXN had also been a ranging affair for the past year between 20.90 congestion and the major lower heavily tested 19.70-.65 area, with interim areas at 20.75, 20.45, 20.25 and the 20.00 area along the way. Yet that was with a temporary March surge to the 21.63 area, and the recent explosive rally above 20.90 through that high to a 22.15 high (above the nominal 21.97 resistance at the November 2020 trading high.)

Having now also fallen back below those levels to near the 20.75 violated congestion leaves it in a critical position, yet recovering to above 20.90 again at present. While what is a broad 'Rounding Bottom' allowed for slippage to 20.75 or a bit lower, anything too far back below it (also weekly MA-13) would look like a failure back into the full lower range.

What is there to say about a **TURKISH LIRA** that has imploded to the downside on the misguided direction from President Erdogan? Since **USD/TRY** exceeded the higher Oscillator threshold at 9.95 (MA-41 plus 1.51 still rising 0.15 per week now) only seen on the November 2020 surge, it transcended into upside hypervolatility.

All of the previous Oscillator projections became moot in late November, as the hands down 'biggest loser' of EMERGING CURRENCIES follies since then had been the TURKISH LIRA, as is apparent on the USD/TRY weekly chart through two weeks ago (<https://bit.ly/3FDiZss>.)

It had already Accelerated UP through 10.60 'return line' of the major channel (broader chart indication) from the March 2018 last trading low prior to the upward explosion to the 6.40 Close and 7.10 high. Of note, that 10.60 UP Acceleration was also very near the old all-time maximum plus 2.20 Oscillator threshold from 2018. No surprises there, as the longer term channel return lines and Oscillator levels are often two takes on the same overall conditions.

Yet, the question out into a new all-time high that fully surpasses a maximum historic Oscillator threshold is what to do next? Well, as indicated on the chart annotation (and as we have successfully done in other markets), it is reasonable to consider the ratio between the conditions prevalent at the previous high, and adjust them for the difference in values into a new situation.

Adjusting using the USD/TRY 10.60 level at which old Oscillator maximum was exceeded, we used the weekly 6.40 August 2018 Close that had indicated the plus 2.20 all-time Oscillator high at the time. Based on that, the 1.67 ratio of 2021 to 2018 prices projects extended Oscillator threshold of 3.68.

As noted in the previous chart annotation, adding that to the previous week's MA-41 projected an expanded Oscillator threshold of 12.20. That came with the caution that weekly MA-41 was then rising 0.10 per week, which is a torrid pace for that indicator (just take a look at the chart.)

All fine and good, except for one minor detail: USD/TRY had gone from that Monday's 11.37 Close up to a 13.35 new all-time trading high prior to slipping back to 12.20 area, and has now overrun all of that on a sustained swing up near 14.00, and now well above it. As a nominal update, the new all-time high early December Oscillator threshold was MA-41 plus 4.875, which it is now well above.

As there is no way to analyze the overall trend dynamic into these conditions, we only offer the very short-term insight that recent trading has left some congestion into the 13.45-.35 area. Interestingly, the lower end of that was the original weekly upside runaway high from during the extended late November upside explosion.

Reports & Events (updated for this week)

Attached please find the next two week's Weekly Report & Event Calendar, which we hope you find easy to access. If you experience any problems, please let us know. It is also already available on **Rohr-Blog** via the right-hand sidebar link. We hope you find this helpful.

This is our annual two-week version of the normal weekly calendar to address our holiday from after Tuesday's (December 21st) US close of business until our return on Monday, January 3rd. That will also be the date of the next calendar along with our market research.

While there are still some interesting report releases and events over the next two weeks, there are also the typical holiday period market trading hours and trading days interruptions. That goes along with the much thinner markets due to so many folks either being away, or from the self-fulfilling lack of volume. This means that any analysis is less reliable and less useful to our clients based on their diminished market involvement.

Given the international nature of our clientele, for the reasons noted above this is also the only two week period where their lack of market involvement means that we can take a full break for a real holiday. Anyone who develops a critical need for assistance should still feel free to ring our cell phone (number below), and leave a message if we are not available.

In the meantime, we suggest a thorough review of the two-week calendar for the specific holiday indications. That is especially with Christmas Day and New Year's Day occurring on Saturdays, and observances varying widely; with the old British Commonwealth countries extending holidays into the following week... even early January.

The actual reports and events are a bit more subdued after last week's highly accelerated pre-holiday economic releases, and central bank decisions and press conferences. It is a quiet Monday outside of the PBoC rate decision expected to be steady at 3.85%. It is also typical that there is almost no central bank-speak during the holiday period, which lowers the possibility of any surprises on that front. Tuesday remains a bit less critical, with only some European and Canadian economic releases.

Things pick up on Wednesday, especially with UK and US GDP and associated indications. Thursday is the biggest economic release day of the next two weeks, with Japan's Leading Economic Index, the German Import Price Index, and US Durable Goods Orders along with Personal Income & Spending and associated indications into Michigan Consumer Sentiment and Canadian GDP. There are selective early US market Closes into Friday's holiday.

Along with the US, the Euro-zone has Friday as A Christmas Eve-Christmas Day Observance that is not the case elsewhere... like those old British Commonwealth countries that defer the Christmas Day observation into a Monday (December 27th) national holiday, and the same for the traditional Boxing Day holiday that Tuesday. And that Christmas to New Year's Eve week also sees many fewer critical economic releases, with a notable exception...

...the typically early release of the Chinese January Manufacturing and Services PMIs on the December 31st New Year's Eve Euro-zone and US New Year's Day observation (much the same as the Christmas Eve-Day holiday the previous Friday.)

That's also into the disjointed PMI releases in early January, due to the selective extended holidays into that period. As the comedy writers of the old Monty Python's Flying Circus used to quip, "And now for something really different." And all of that is outside of the massive COVID-19 resurgence.

Of course, the troubling resilience of the COVID-19 pandemic on the continued Delta variant spread and now the Omicron variant explosion continues to offset more upbeat recent vaccination developments. Yet some of the US economic data remains healthy, providing encouragement to the bulls. Based on those cross currents, we are obviously maintaining our recent advice that was fully vindicated by last week's radical central bank market responses: Keep those seat belts firmly fastened.

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