



## RESEARCH NOTE

Monday, June 15, 2020

### **Colossal Cross Current Complexity, Quick Take, Calendar**

Hypervolatile price swings in US EQUITIES seem to be justified by the flip-flops in major 'macro' factors. And those will continue to buffet the markets. Yet over the near-term they are becoming more nuanced; their complexity is also becoming as colossal as the major factors in a very critical market phase. And that complexity means this is a more extensive research note than we have published for a while in order to delve into those subtleties.

The question that hangs in the balance is whether the US EQUITIES rally extension two weeks ago was the 'real' trend, or just a near-term upside 'aberration' in a bear market rally? The answer to that question will not just be critical for the next major US EQUITIES trend decision into this summer.

Whether there is a general 'risk on' or 'risk off' psychology will also be very significant for the GLOBAL GOVVIES. Note their sharp recoveries in the past week on US EQUITIES weakness after those same GOVVIES were the weakest they had been in a while on the early June US EQUITIES strength.

And to the degree GLOBAL GOVVIES did not fail below key lower supports, they had already continued to hint at more economic weakness to come. While recently strong EMERGING CURRENCIES had eluded any return of a 'risk off' psychology into the middle of last week, Thursday it returned for the first time in several weeks.

As to our previous broad range of analysis last week, Friday's 'And So It Goes' research note communicated that we had already reviewed the major areas of concern outside of specific COVID-19 developments. This included Monday's 'Social Shift or Just a Blip?' research note exploring whether prominent US anti-discrimination protests were encouraging a significant political change into the November general election.

It was followed by Wednesday morning's 'OECD Rains on Friendly Fed Party', which shared OECD's very downbeat World Economic Outlook prior to the FOMC announcement and Fed Chair Powell's press conference (<https://bit.ly/2XSw2mU>.) Therefore it was already the case that the OECD had set the table in a major way for Powell to be less than optimistic (<https://bit.ly/3hg8mAz>.) As we had observed Wednesday morning, the third OECD page panel includes the graphic (and link to animation) on just how weak the global economy is going to be even without any COVID-19 resurgence (with much more from many other OECD links.)

What was clear even from later Wednesday (i.e. prior to the Thursday US EQUITIES debacle) was US EQUITIES disappointment with Powell's downbeat view yet with no further immediate stimulus. Hence Thursday's research note title (ostensibly the question from US EQUITIES to the Fed) 'So, What Have You Done For Me Lately?'

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As we noted Wednesday morning, insofar as the US EQUITIES were entertaining potential for a push through higher resistance they are *“...vulnerable to hoping the Fed will also announce some additional stimulus this afternoon...”* Once that did not occur, the psychology became stale. After the US EQUITIES sharp selloff back to lower major support (more below), they as well as other asset classes are left with a critical psychology into this coming week.

And on top of all that was news out of Wednesday into the end of last week on rising COVID-19 infections. That last bit may be the most toxic of all in the context of various ways it might undermine the US economic reopening. However, this is another area where the news is not completely clear at this time (more below.)

These cross currents are indeed colossal insofar as a US political change along with how the stabilized economic situation evolves after various US and other government support programs lapse, and also the path of progress against COVID-19 contagion, all have potential to foster agony or ecstasy on the US and global economy and markets. We are therefore especially watching US EQUITIES.

Yet the manner in which the macro factors are evolving across all of these fronts is becoming more complex, and requires nuanced analysis. First are COVID-19 issues, where rising infections have elicited heightened concerns. There are three critical factors, the first of which is at least so far this does not appear to be a resurgence in the hardest hit areas like the US northeast corridor. There is also the consideration of states which avoided significant infections in the original ‘first wave’ are now seeing them rise... likely more so a first wave extension.

And governors of states anxious to reopen are rightfully pointing out that the major increase in testing was bound to uncover higher levels of infection. This is all fine and good. Yet as we have noted previous, a heavy splurge of unprotected (i.e. sans masks and social distancing) activity in many precincts around the US Memorial Day holiday leaves this coming couple of weeks the horizon for when greater infections based on renewed contagion could be the case.

We shall see. As of this weekend there are 21 states which are showing seriously heightened levels of COVID-19 infection. Those especially include the southwest (Texas and Arizona) and west (California.) Yet problems are as bad or worse elsewhere.

Alabama, Oregon and South Carolina are states with the biggest increases, where Alabama saw a 92 percent change in its seven-day average, Oregon’s seven-day average was up 83.8 percent and South Carolina’s was up 60.3%. Hospitalizations are up as well, with Arkansas seeing a 120.7 percent increase in hospitalizations, from 92 cases to 203, since Memorial Day. Health officials warn mass gatherings of any type could worsen the spread of the virus, as the 2020 election heats up (Trump returns to holding rallies now as well) and nationwide protests stretch into their third week.

Yet those statistics mask another key reality: the job losses that will stem from sharply curtailed ‘community’ retail activity even where governments lift the very damaging quarantines and ‘shelter at home’ orders. The relative virus avoidance psychology (prior to development of a vaccine) of those at risk will have more to do with stabilized business and economic activity than any government edict.

News on sustained contagion levels will undoubtedly affect a major percentage of the older more well-to-do consumers (i.e. the vulnerable population over 60 years of age), and their relative level of comfort getting back to many activities. If they are not comfortable returning to leisure (including dining) and hospitality (including hotel stays and travel), the stabilized economic turnover will be depressed.

This is likely what Chair Powell was referring to responding to a reporter's inquiry on why the US Unemployment Rate was going to remain up around 10.0% into the end of 2020. Think about all the restaurant and hotel workers and ancillary airline services where the same number of jobs are just not viable if business income is going to shrink by 20% to as low as 50%.

Powell's specific response was "...into the millions of people who don't get to go back to their old job and there may not be a job for them for some time." As noted previous, he articulated the reason as the need for them to train for a job in a whole different industry.

As that may mean there will be a return to work for those folks at some point, it is likely not going to be timely to create a full 'V-shaped' recovery the cheerleaders (including Mr. Trump's minions) are promoting. While even the OECD allows there will be a 'V-shaped' recovery, the amplitude of that economic bounce is going to be less robust than a full recovery limited (see the OECD report.) In fact, they say the global economy will not be back to 2019 growth levels for at least two years.

And this is not an original perception. For some time prior to, and intensely into, the week before the full COVID-19 meltdown began (due to the asymptomatic contagion we had noted since January), we had been in agreement with the estimable and often prescient Mohamed El-Erian. In our February 18th research note we noted his CNBC interview (<https://cnb.cx/2vGtrAK>) comments from earlier that morning on the likely worse than expected 'Wuhan Virus' impact.

He returned to his theme (from 01:45 into the segment) that central banks had '*deeply conditioned*' market participants to react to even exigent shocks as being "...*containable, temporary and reversible...*", and yet that this was not likely to be the case this time... which now applies to the economy.

And the most telling COVID-19 impact at present may be the US surge in new infections and hospitalizations in some states based on the recent reopenings. Yet another, in its way even more troubling, factor has resurfaced: new COVID-19 infections in China that have caused authorities there to restrict activity in parts of Beijing.

According to a current Reuters article (<https://reut.rs/2zvBHFU>) there are school shutdowns as well as a major number of temperature checks at all manner of crowded venues as well as round-the clock checkpoints. Why would a resurgence in China make a difference to western financial markets?

Quite simply because China was the first major impact of COVID-19, and it had been assumed its extreme suppression measures had managed to fully contain it. At least that was the official message. If it is now obvious this is not the case, it does not bode well for other global areas which are now loosening restrictions. This is another reason why the US overall reopening into the Memorial Day holiday creates a critical horizon over the next two weeks.

Against the recent economic implosion and the stale outlook is the massive US (and other) government support programs. Here as well, the situation is more nuanced than the initial major government funded 'relief' response to economic weakness that had never been witnessed before in such a short time.

Little doubt the literally trillions of dollars committed by the US Congress with the blessing of the Treasury, and expansion into programs offered by the Federal Reserve, have been a buffer against total economic collapse. Yet, they do not run businesses which will need to decide if they are viable under the new protocols.

One of the key US efforts has been the Paycheck Protection Program (PPP) which encouraged businesses to keep folks on payrolls to avoid them landing on the Unemployment rolls. While there were some early glitches, this has helped many businesses to continue to pay their staff.

Yet the month-long quarantines and 'shelter at home' orders flew in the face of those businesses earning the money to sustain that employment beyond the eight weeks of the original PPP. After quite a bit of feedback on this, in an atypically enlightened move, last week Congress forwarded, and President Trump signed the PPP Flexibility Act.

That will allow businesses to apply the PPP loans across 24 weeks, up from the original less than productive 8 weeks. It also allows for lower paycheck PP fund usage, down to 60% from the previous 75% requirement. In addition to other enlightened changes, keep in mind that satisfying those program requirements means the loans will be converted into grants... basically a gift from the federal government.

The bad news is that this is yet another in a series of shifts that has worried small business owners enough to have many of them send back the loans. Just as we noted above, they are worried about their actual level of business in what will still be a restricted environment after the program ends on June 30th.

As noted by the New York Times' Stacy Cowley last Wednesday, one such concerned individual is spa owner Caren Griffin. *"Refitting her spa to comply with new safety guidelines will be expensive, and no one knows when customers will be willing to get high-touch services like massages and facials. Ms. Griffin, who is 63, wonders if she would be better off closing the business and retiring."*

Cowley reports Ms. Griffin says, *"I'm running through a dozen different scenarios for what our cash-flow structure might look like if we reopened with changes in our hours and services..."* *"We won't go back to normal. That's clear."* As of last Tuesday, \$130 billion was still unclaimed by potential borrowers. For us that speaks volumes about real world concerns of many businesses which may close.

Just this morning CNBC reported on YELP business closure data (even this is partial) in an interview of its Vice President of Data Science, Justin Norman (<https://cnb.cx/3d0bNbf>.) While 23% of retail had closed, only 27% of those closures were permanent. On the other hand it was as we and many others had feared for restaurants where only 17% had closed, yet of those a whopping 48% were permanent. In general YELP has seen over 143,000 business closures, with 35% of those being permanent.

Specifically on restaurants there were quite a few weaker capitalized operations (which tends to be the case) closed immediately in April. Late-May brought a second wave of closures for those who have survived for a while, yet realized their business model was not viable across time. Total restaurant closures since March 1st is 24,974. Multiply that by the average number each of them employed, and consider other businesses which are not viable at lower income levels.

This is a stark reinforcement for warnings from OECD on the global economy, as a socially distanced 'new normal' is anything but normal in our view. As noted on more than a few recent occasions, it will become more of a 'new abnormal' until there is more definite confidence provided to at-risk communities, which means a proven safe and broadly available vaccine.

In the meantime it also reinforces Chair Powell's confidence that the US economy will not be back to anywhere near 'normal' on a sustained 10% Unemployment Rate this year. And that is once again regardless of any state government decisions to continue the reopenings.

The final market driver is the US political landscape, which remains the least well-defined influence for now. The dilemma there is twofold. In the first instance last Monday's 'Social Shift or Just a Blip?' research note title summed up the degree to which any changes will only be determined by the outcome of the November US general election.

Will the current economic weakness and anti-discrimination usher in a 'Blue Wave' of democratic Party victories with VP Biden winning the Presidency that heralds major policy changes? Or will there be a continuation of the Trump regime if the economy manages to recover better than expected?

And even if Biden does appear to be succeeding, will the fears over more social spending and higher taxes bring the US EQUITIES down? Market expectations on what US election results mean have been wildly misguided in some recent circumstances.

Look at the 2016 pre-election commentary by the Trump haters that if he was elected the economy and the US EQUITIES would implode. It was much the same on the inexperienced Bill Clinton back in 1992.

Yet even through the late-1960s Lyndon Johnson Great Society massive social spending years, the US economy managed to thrive on the sharply higher wages and personal spending until inflation became bad into the mid-1970's. Yet here as well, a high degree of uncertainty remains despite VP Biden's recent polling gains (see our favorite RealClear Politics for more (<https://bit.ly/2XBFTqL>.) However it may now be now the case (possibly encouraged by Biden's recent gains) that a wing of the Democratic Party is doing what is necessary to 'snatch defeat from the jaws of victory'.

According to another current Reuters article (<https://reut.rs/3d77hrk>), the far more Progressive than the party at large DNC "*council on climate change irked party leadership when it published policy recommendations...*" "*...calling for up to \$16 trillion in spending to shift the U.S. economy away from fossil fuels while banning hydraulic fracturing and oil and gas exports.*" This is just the sort of job killing environmental overreach that the party fears could restore Trump's recently diminished election prospects.

So where does that leave us? US EQUITIES have had quite a short-term spill, yet only back to key support so far back on Thursday and into this morning. The GLOBAL GOVVIES are obviously benefitting, and are back above some key technical hurdles they had recently slipped below on the US EQUITIES rally extension.

The US DOLLAR is regaining some ground on renewed concerns about other DEVELOPED ECONOMIES, and EMERGING CURRENCIES are extending their recent return to weakness on the concerns over a weaker outlook based on COVID-19 resurgence. In general it seems like a shift back to a 'risk off' psychology that had lapsed into mid-May.

### **Market Quick Take**

COVID-19 virus spread caused US EQUITIES intermediate-term bull psychology to 'crack'. FRONT MONTH S&P 500 FUTURE was already back below key congestion around the mid-2019 3,030-00 previous all-time high congestion. That was below support from the push above the multi-year topping line at 3,070 as well, and left a late-February intermediate-term up channel 2,970 DOWN Break. Isn't it interesting that the next significant decision is back in that area now.

The subsequent DOWN Break below the FRONT MONTH S&P 500 FUTURE 2,600 area major up channel seemed to indicate more of a near-term failure. That was from the early 2016 low (<https://bit.ly/3hrXDTC> updated through Friday.) That was the key higher resistance it had violated on its Mid-April push above its 2,675 trading high Tolerance from prior to the DOWN Break (including monthly MA-48.)



As such, it is reasonable the JUNE S&P 500 FUTURE will now treat the low 2,600 area (with a Tolerance to the mid-2,500 area) as support, with interim levels at 2,850 and 2,750 that were important in the recent up trend. And the FRONT MONTH S&P 500 FUTURE pushed out of the broad higher range top in the 3,030-2,970 area three weeks ago and sustained it, with the 3,200 area the next higher meaningful resistance that has a 3,230 Tolerance.

That is obviously what the market knew once it exceeded the 3,030 area, as it rallied directly to 3,200 by late last week. Yet it then stalled into all three days early last week right up against that 3,230 Tolerance with no sign it was going to push further. Especially after Wednesday's friendly Fed communication yet with no additional stimulus announcement into a still weak economic situation (see above), the market was disappointed.

While it was not that much lower in the context of recent hypervolatility, this opened the potential to retest that more prominent confluence of technical indications factors in the 2,970-3,030 range despite the recent strength. [Friday Note: The drop into the middle of that range actually occurred later on Thursday.] That congestion is reinforced by the manner in which the market churned up against the low end of it into May.

### ***Evolutionary Trend View***

Moving on now to a critical market assessment in the wake of the US EQUITIES recovering back above the 2,600 channel DOWN Break from the early-2016 FRONT MONTH S&P 500 FUTURE 1,800 area lows (projected from (from the 2,313 late 2018 low.)

GLOBAL GOVVIES strength into early March was temporarily significantly reversed on the prospect of the major global fiscal stimulus likely weighing on those markets as well. And the recent US EQUITIES strength was finally reinstating much more pressure for than previous on what was a more upbeat economic outlook even if there is still little expectation there will be any inflation anytime soon. Yet the OECD and the Fed have pulled that punch bowl for now, with the GLOBAL GOVVIES returning to strength and EMERGING CURENCIES weakening.

The **MARCH T-NOTE FUTURE** surging into a new all-time high into mid-March (i.e. shortly prior to its expiration) above the 134-00/-08 summer 2016 previous high was understandable (weekly chart through Friday <https://bit.ly/2MWmcKn>.)

As we had based our future expectation on its historic weekly Oscillator activity likely extending its rally at least into the 135-16/136-00 area (MA-41 plus 06-00/-16), which was violated in early March. Sustained activity above that zone pointed to the next Oscillator resistance into the 138-00/-16 area (MA-41 plus 08-00/-16) it was already testing back then into its parabolic extension to the weekly Oscillator resistance in the 139-16/140-00 area (MA-41 plus 09-16/10-00) into mid-March prior to its sharp setback.

In fact, the sharp selloff later that week created a DOWN Closing Price Reversal (CPR) back below the 138-00 area (Tolerance the previous week's 138-16 high.) That is now resistance which has been repeatedly tested on the initial push above it and again in recent recoveries. 140-08/-24 area was next Oscillator resistance this side of the mid-March 140-24 all-time high (and trading high of that recent DOWN CPR.)

Even though it had been under pressure back below that 138-00/-16 area into early April, it is currently pushing back above it despite US EQUITIES strength. This reinforces the NEGATION of that mid-March 138-00/-16 DOWN CPR, which should indicate higher ground to come.

The next resistance is at near-term congestion in the 139-00 area it has churned around for the past several weeks prior to recent repeated mild selloffs back to test the 138-00/-16 area. And that didn't last very long before the recent next push back above the 139-00 area. Beyond that next resistance is the 140-24 mid-March all-time trading high.

Even though the recent drop back below the 138-00/-16 area left the door open to a test of the overrun mid-2012 previous 135-16/-00 area all-time high, the recent less upbeat economic indications from the OECD and the Fed have seen it rebound fully back above the 139-00 area.

Similarly, the previous strong sister **BUND FUTURE** had seen the MARCH CONTRACT rally back to fully test and exceed its 177.00-.50 resistance from last summer (weekly chart updated through Friday <https://bit.ly/2XXC9pQ>.) Much above that next resistance was not until 178.50 congestion from back then it hit prior to a week ago Friday's expiration, with a DOWN CPR at 179.20 (Tolerance at 179.67 all-time high) above.

Yet there was a twist here on the typical very early expiration of the MARCH CONTRACT that Friday with the JUNE BUND FUTURE trading almost 3.00 lower. Once the JUNE BUND FUTURE became front month in March it also dropped below the next lower 173.25-.00 support, and even back below the previously staunch 170.50-.00 NEGATED early November DOWN Break support that had been tested extensively over the winter.

It was a clear sign of how concerned the BUND was about the necessary fresh fiscal largesse necessary to counter the heavy European COVID-19 impact. Next lower support was not until back in the major 168.58-.00 area from during the summer 2016 previous all-time high congestion that it held on the sharp selloff into mid-March prior to the bounce back above the 170.50-.00 area.

The extended weak economic psychology had recently boosted it back up into the important 173.00-.50 range once again prior to renewed weakness. As such, the JUNE BUND FUTURE back above the 173.00-.50 range then dropped back slightly below the more major 170.50-.00 congestion next lower support shortly prior to its expiration last Monday.

The biggest recent news in Europe has been German agreement to participate in a very major pan-European COVID-19 relief fund. At €750 billion it far outstrips any individual country rescue package to date. As such, the secular weight on the BUND is more so from what appears to be a change in the draw on the German treasury from a broader European spending program. This is the sort of thing they have resisted for years, along with the thought of any deficit spending fiscal stimulus.

That additional pressure on the German treasury goes some way to explaining why the JUNE BUND FUTURE failed below key 173.50-.00 support while the others held equivalent levels. Yet there was a key 'technical' event looming into last Monday: the early quarterly expiration of the front month BUND FUTURE. And these have seen serial major premiums and discounts in the second month which are far beyond what is experienced in the other long-dated bond futures. In this case SEPTEMBER BUND FUTURE was trading at a 3.00 premium to the June.

The recent 'risk-on' psychology had seen JUNE BUND FUTURE drop slightly below the low 170.50-.00 area again. Even with the 3.00 SEPTEMBER BUND FUTURE premium, it was also just a bit below the 173.50-.00 area on Friday's Close two weeks ago. Yet the less than encouraging economic data and outlook from both the OECD and the Fed last Wednesday saw it surge back above the 173.50-.00 area to retest the low end of 173.00-.50 resistance again. Continued areas of concern even saw it ramp up into and above the 175.00-.50 last week.

As far the MARCH **GILT FUTURE** was concerned, also at new all-time highs like the T-NOTE saw it overrun the September 2019 135.26 weekly DOWN Closing Price Reversal (Tolerance to 135.87) back in early March. That also overran some historic weekly Oscillator resistance at 137.00-.50 (MA-41 plus 4.00-.50.)

This left the next weekly Oscillator resistance at 139.00-.50 (MA-41 plus 6.00-.50) it had already tested and overran temporarily in early March. And much like the T-NOTE, its selloff into mid-March left a DOWN CPR from the previous week's 139.00 area Close.

The Tolerance of that DOWN CPR is right there as well due to that Close being at the high of the week. Not only did the MARCH GILT FUTURE fall back down into the 137.00 area, but the full point discount in the JUNE GILT FUTURE left it back below the 135.26 violated weekly DOWN Closing Price Reversal support.

That also saw the JUNE GILT FUTURE below the 130.00-.50 FRONT MONTH GILT FUTURE support into next historic low-128.00 congestion it hit temporarily on its sharp mid-March dislocation prior to the major rebound above the mid-low 135.00 area which held as support back into early April.

The recent weaker economic expectations had boosted it back above 137.00 area congestion that had held on recent tests, with 139.00 area above that restraining the recent rally prior to the dip back into the 138.00 area. Even though recently back below the 137.00 area, the recent 'macro' perspectives from the OECD and the Fed have seen it push back above it and 138.00 toward the 139.00 area once again.

In **FOREIGN EXCHANGE** the **DEVELOPED CURRENCIES** had also seen massive shifts over the past three months prior to quieting down once again. As noted previous, even though the **US DOLLAR INDEX** had a 'haven' bid as into mid-February, it then came under extensive pressure against the other **DEVELOPED CURRENCIES** (including the recent atypical depression of the other 'haven' **JAPANESE YEN**.)

Yet the recent concerns about how poorly the other countries might fare under the extended COVID-19 impact had seen a partial 'haven' bid return to the greenback until the recent US DOLLAR INDEX stalling around the 100.00 area and dropping once again into and now even below the 98.00 area. While there is some interim congestion in the 97.00 area, the next major congestion is in the 96.00 area; reinforced by the weekly UP Closing Price Reversal from back during the wild early-March selloff and recovery.

While the volatility in this area was also historically extreme prior to current stabilization, previous **US DOLLAR INDEX** weakness was not a surprise with COVID-19 is spreading in the previously 'safe' United States. Yet that was reversed on worse impacts elsewhere leading to a wild rally to 103.00 prior to settling back into the 99.00 area.

Firmer US economic data had assisted the US DOLLAR INDEX last summer in finally fully overrunning the mid-upper 97.00 resistance. That inspired the push above the April-May 98.37 area trading highs early last August prior to lapsing back into near-term weakness. Next levels were the interim 99.00 area, yet with the more prominent area not until the 99.50-100.00 'big penny' historic congestion.



After weakening in the end of February it failed back below 98.37-.00 (also important cluster of weekly MAs in the upper 97.00 area) on its way to also cracking the 96.50-.00 well-established congestion range support held at the end of last year.

With the previous COVID-19 flight to US safety reversed, it was retesting the longer-term congestion in the 96.00-95.84 area (12-month trading low.) Much below that is the interim congestion into the recently tested 95.00 area it held into mid-March, with the more major 94.00-93.70 area below.

Yet the previous return of more pointed concerns elsewhere had seen it surge back above the 98.37-.00 area, and even above previously tested (February high) 99.50-100.00 and interim 101.30 into the mid-March retest of the more significant 102.00-.25 (late-2016/early-2017) congestion. Yet it then settled back temporarily below 100.00-99.50.

Even though there was a late-March retest of 98.37-.00, it had been back up retesting 100.00-99.50 and slightly higher levels after a late April retest of the 99.00 interim congestion area it has now slipped below once again along with the 98.00 area on the current selloff.

As noted above, there is some interim congestion in the 97.00 area, yet with the next major congestion in the 96.00 area it was recently testing. That is reinforced by the weekly UP Closing Price Reversal from back during the wild early-March selloff and recovery. Yet the resurgent COVID-19 concerns are weighing on other DEVELOPED CURRENCIES once again, with the US DOLLAR INDEX back up toward the 97.00 area.

European currencies had been under pressure again versus the US DOLLAR. **EUR/USD** was under pressure previous early this year due to its still weak economy, the initial response to the COVID-19 spread there took it to 33-month lows below last October's 1.0878 trading low prior to the subsequent sharp recovery.

The EURO was then strengthening very much against the temporarily weak US DOLLAR due to previous 'greenback avoidance'. The US DOLLAR losing its haven bid had seen EUR/USD surge back above 1.0800 and even the more prominent 1.1000 area as well as the heavy 1.1250-00 area. That was the next lower support, yet with the greenback surging once again it was readily violated.

It then failed back below it as well as the interim 1.1100 area and even the more prominent 1.1000-1.0950 area. It was also back below last October's 1.0878 trading low once again. It also weakened below the more prominent historic and recent congestion in the 1.0800 area with a buffer to the weekly chart gap higher from a mid-April 2017 1.0722 weekly Close it weakened below prior to a recent recovery to the 1.1000 area.

Since early April it has seen serial swings between the 1.0800 and 1.1000 areas with it now pushing above the higher end of that range and even the higher 1.1200-50 resistance. Next higher interim resistance is in the 1.1400 area it recently tested and stalled, yet with the major historic congestion resistance not until the 1.1500 area.

Of course, the EURO seems to be benefitting from the German agreement to participate in a very major pan-European COVID-19 relief fund. At €750 billion it far outstrips any individual country rescue package to date. This is the sort of thing they had previously resisted for years, along with the thought of any deficit spending fiscal stimulus.

**GBP/USD** had already held up much better against the US DOLLAR than other DEVELOPED CURRENCIES in the wake of the Brexit vote finally confirming its exit from the EU. While failing from 1.3500 again in December as well as back below the interim 1.3200 congestion, it only worked its way gradually into the historically important 1.3000-1.2800 range. Even on the late February US DOLLAR surge, GBP/USD only dropped to a Close near the bottom of that range.

However, the BoE leading the emergency rate cut efforts spooked the POUND bulls, leaving it back below 1.2800. Since then it Closed below 1.2500-1.2450 in late-April and even the interim 1.2200 area and previous major 1.2000-1.1960 September 2019 3.5 year low.

It was recently even below the October 2016 post-Brexit political crisis 1.1711 35-year trading low prior to the current rebound above it near the 1.2500-1.2450. While it sounds like a long way down, due to the nature of the aggressive 1984-1985 selloff and recovery, next support is not until the 1.1000 area.

Yet even that is also relatively minor congestion from that 1984-1985 swing down into and recovery from the 1.0345 February 1985 all-time low. Thankfully it had rebounded back above the 1.2200 area, even if only stalling back into the 1.2500-1.2450 area previous despite the mid-April very temporary blip above it. Recent strength above that area has created a new interim resistance at the recent 1.2650 area highs, with next interim resistance into the 1.2700-50 range it is now testing, and more prominent resistance still into that broad 1.2800-1.3000 range.

And despite the previous US-China rapprochement on the Phase I trade and tariffs agreement not encouraging much **AUD/USD** strength, it is recovering now on the heavier diminished East Asian COVID-19 impact. That is only as expected, yet it is still from well below the .7000 area held in early-May of last year.

Minor squeezes temporarily back above the .7000 area were only a prelude to slipping more definitively below it last July. Next lower major support was the .6825 area early-2016 10-year trading lows it also slipped below around the same time.

That is important after it slipped below next interim support at .6690-77 in early February on COVID-19 driven weak Chinese economic concerns. The .6500 area was the next support it slipped below along with violating the .6250 area next support. That was the last interim congestion this side of the now also violated .6000 area October 2008 17-year trading low.

The 'good' news here was that there is somewhat substantial 1998-2003 congestions at .5720, even if it washed out below temporarily in mid-March (trading low .5510) prior to the recovery back above the .6000 area it is holding back above at present and even exceeding that .6250 area violated support.

Recently trading only somewhat above the .6500 area after previous slippage below it, the current rally has extended well above it and the hefty .6690-77 congestion. That leaves the next congestion resistance into the .7000-50 range it is most interesting it only challenged in the wake of strength in the other DEVELOPED CURRENCIES, and is now slipping back from at present. This is possibly the fallout from the continued confrontation between China and US (and clearly allies like Australia) as well as the resurgent COVID-19 infections in China.

**USD/JPY** was the prima facie example of the extreme mid-February '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 very prominent 105.00-104.50 range (39-month trading low with major tests in March 2018, January 2018 and August 2019.)

Next lower congestion was not until the interim 102.50 area that USD/JPY traded below recently prior to and recovering back above the low 105.00 area as well as 108.00 and recently even the 110.00 area once again prior to the current weakness.

Higher resistances remain in the 112.00-.50 and 114.00-.50 areas even if it sagged back below the 108.00 area of late toward 106.00 prior to the recent recovery back above the key historic and recent 108.00 congestion area. Yet it is back below it once again on the current reversal of the 'risk on' psychology in the wake of the recent OECD and Fed communication.

And **EMERGING CURRENCIES** that had been under pressure had been recovering to some degree in February prior to coming back under pressure. The **SA RAND** has seen **USD/ZAR** overrun 15.40-.50 and even the 15.69 September 2018 high prior to pulling back previous.

Even though it sagged all the way to 15.20 in early March, it was back above 15.40-.50 and the 15.69 resistance a week later. Then it surged above the 16.00 and 16.30 next higher congestion resistances all the way into violating the 16.95 resistance in mid-March.

The weak economic outlook caused it to exceed the major January 2016 17.94 all-time high it has set back markedly from in the wake of the US rescue package. The recent improved sentiment on US EQUITIES had it back below that Oscillator threshold area into the middle of April. Yet it then surged well above them, setting up a potential RAND failure after the sharp early April USD/ZAR 19.00 DOWN Closing Price Reversal (CPR) with a Tolerance to the 19.08 high of the previous week.

After vigorously testing that resistance in late-April, it is even more critical going forward. There is also the 19.33 all-time high of that DOWN CPR week. It is also of note that the recent sharp slide of USD/ZAR from that 19.00 area only sagged to the very top of the near-term 18.00-17.80 recent congestion support prior to getting the bid back.

As such, the near-term aggressive up trend was not in any way threatened. There was also the recent sharp upsurge in the wake of US EQUITIES previous near-term slide, yet with USD/ZAR finally dropping well back below the 18.00-17.80 area into mid-May after it had previously tested it and held.

This is a further sign of how much central bank and government supports have encouraged a more upbeat outlook, whether that proves to be the case across time. The recent drop below the 17.75 weekly MA-13 left the next short-term congestion support back into the 17.55-.50 range it had recently also slipped below, along with more prominent historic congestion into 17.15-16.90 range from the USD/ZAR early 2016 spike higher.

While recently below that as well, it is of note that it barely reached the next historic interim congestion into the 16.30 area prior to the current rebound (i.e. not nearing heavier support in the 16.00 and 15.70-.60 areas.) It is important to watch how it does after today's crossing back above that prominent historic 17.15-16.90 congestion. Next short-term congestion remains back into the 17.55-.50 area.

The RUSSIAN RUBLE had seen **USD/RUB** push above 66.50-67.00 on weak Crude Oil as well (economic weakness driven) prior to dropping back on short-term EQUITIES and CRUDE OIL recovery. Back out above it last week left the bigger resistance not until 69.00-70.00 it began this week pushing sharply above.

And historically there is not much resistance again until the 75.00 area (early 2016 congestion) which it tested into early March prior to pulling back nearer to the interim 71.00 area. Yet here as well the return of economic stresses had seen it rally back up above 75.00 of late on the previous hope for the global economy and (at long last) some reasonably significant Crude Oil improvement on the Russo-Saudi pumping truce.

That said, after recent USD/RUB strength again back above the 75.00 area, it has recently slipped somewhat below it on the Crude Oil stabilization and rally. Next interim support was previous congestion and recent trading lows into the 73.00-72.70 area it has violated. The more major support was still into the 71.00-70.00 area it had recently dropped below along with the next interim congestion into the 68.00 area. Now back above the lower area leaves 71.00-70.00 the key higher area it is retesting at present.

Even the previously more resilient MEXICAN PESO saw **USD/MXN** surge above the 20.25 resistance in early March leading to an explosive rally. Here as well PESO weakness continued on the COVID-19 North American impact, with next resistances at 20.50 and 20.65 sharply overrun into mid-March on the way to also violating the 20.96 June 2018 high (also congestion) on the way to surging above the 22.03 January 2017 all-time high as well.

And the return of the economic stresses and weak Crude Oil prices had seen it surge to a new 24.62 all-time high out of mid-March, which had been exceeded on the US rescue package worries leading to another new 25.44 all-time high in late March prior to setting back around the mid-low 23.00 area. That left a weekly DOWN CPR from 24.40 (Tolerance 24.62) as new near-term resistance, yet which was NEGATED on last week's push higher (and Closing above it.)

Despite the Russo-Saudi pumping truce not fomenting a Crude Oil rally, there was also another round of USD/MXN weakening from the early April 25.76 new all-time high. That left yet another weekly DOWN CPR from 24.96 (Tolerance 25.04) the critical elevated near-term topping signal key resistance now after it pushed above that mid-24.00 area.

Much like USD/ZAR stalling from its 19.00 retest, USD/MXN falling back from the 25.00 area critical resistance below the low-24.00 area was a positive PESO sign. Lower support was the recent congestion in the low 23.00 area it neared in early April and has now violated on the current selloff.

That also overran weekly the Oscillator threshold (MA-41 plus 2.30) that is up into the 22.85, leaving it more critical into overrun historic 22.00 area January 2017 previous 37-month all-time high. While recently back below that support with the next lower interim congestion in the 21.00 area, the recovery above 22.00 needs to now be closely observed.

The TURKISH LIRA had been relatively steady through all of the EMERGING CURRENCY turmoil elsewhere. Yet it has been under pressure since **USD/TRY** held key 5.50-5.45 support and pushed back above 5.65-.60 range along with last July's 5.7871 high from after the central bank governor dismissal. Key resistance at 5.90-5.93 was also exceeded again in January.

USD/TRY even strengthened above the 6.00 area that seemed to point to a retest of interim 6.15 area that was also exceeded on the way to a test of the May 2019 crisis 6.25 area 17-month trading high. Compared to the weakness of other EMERGING CURRENCIES this previously left the LIRA a bastion of stability.

Yet above the 6.25 area since mid-March left the door open to a test of the higher September 2018 6.45-6.55 congestion it had exceeded again prior to the temporary subsequent setback into that area later on in March. Since mid-April it has rallied above extended higher resistances at 6.72 and 6.83. That left the 7.10 area previous 2018 crisis all-time high it has now exceeded.

That put it up above the high end of some key weekly Oscillator resistance (MA-41 plus 75-85) at 6.90-7.00 this week, with the decision now more critical since it recently traded above that previous 7.10 area all-time high prior to the current slide back below the Oscillator projections. Now weakening further below that Oscillator range looks good for the LIRA.

If it should push up strongly again, the 2018 thresholds are not until much higher: 7.85 and 8.35 (MA-41 plus 1.70 and 2.20.) However, at least so far it has loosely defended the Oscillator resistance up to near that 7.10 area previous 2018 crisis all-time high. Next lower support is into that old 6.72 area already tested over the past several weeks which it is now firming above, with weekly MA-13 into that area and next support into that September 2018 6.45-6.55 congestion. However, it is of note that it is only back up into the 6.83 area at present.

### ***Reports & Events***

While still obviously less relevant (as we have been noting for some time and is most glaringly apparent again at present) on the standard report releases in the midst of more major global trade and political cross currents, the Weekly Report & Event Calendar (accessible for Sterling and higher level subscribers) is available via the [www.rohr-blog.com](http://www.rohr-blog.com) sidebar. As we have been noting for some time in our research notes, regularly scheduled releases are obviously less relevant in the face of the COVID-19 'macro' factors. That said, there are still some very important economic releases and central bank influences again this week.

After a relatively quiet Monday that featured still weak Chinese data and Euro-zone Trade Balance, Tuesday picks up with central bank influences that include the RBA Meeting Minutes, and a BoJ rate decision and press conference prior to Fed Chair Powell's Semiannual Monetary Policy Report to Congress before the Senate Banking Committee. The most important other influences along the way are UK Employment and US Retail Sales and Industrial Production. Wednesday sees various Euro-zone and UK data into only the US Housing Starts but with the second half of Fed Chair Powell's Semiannual Monetary Policy Report to Congress before the House Financial Services Committee.

Thursday shifts back to central bank influences once again, beginning with the RBA Bulletin followed by a SNB Rate Decision and press conference, the ECB Monthly Bulletin and the next BoE rate decision, Meeting Minutes and Monetary Policy Summary. Along the way we will also see Australian Employment, the still important US Weekly Jobless Claims and various important Canadian data. Friday wraps up the week with BoJ Monetary Policy Meeting Minutes, UK and Canadian Retail Sales, and an economic speech by the Fed's Quarles and a discussion with the Fed's Powell.

And due to the vagaries of the COVID-19 volatility, we still maintain our recent classic advice that was fully vindicated this week: Keep those seat belts firmly fastened.

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