



RESEARCH NOTE

Tuesday, June 22, 2021

The Powell Pause, Quick Take, Calendar

Here we are again... waiting on Federal Reserve influence in the form of today's (14:00 EDT) Chair Powell virtual testimony 'The Federal Reserve's Response to the Coronavirus Pandemic' before the House Select Subcommittee on the Coronavirus Crisis. After the serial admissions by the Fed last week that both the US economy and inflation had run stronger than it had expected, it is going to be very interesting to hear what he has to say on that.

This will especially be important during the Q&A where more conservative members will undoubtedly grill Mr. Powell on whether the Fed is creating an inflationary bubble. The markets will need to pay attention to that along with whether that sanguine Fed inflation perspective might be a problem if it has to take more aggressive steps later. Yet the more Liberal and Progressive members will most likely press Powell to continue accommodation while the less robust quarters of the employment market lags... that's part of the inflation tradeoff.

Anyone wanting a preview of what Powell is going to say today can access it via our short link (<https://bit.ly/3vLVhFa>) the Fed posting of his prepared statement (including some interesting graphs.) On current form the US EQUITIES are anticipating some upbeat influences from the Fed Chair, as evidenced by the SEPTEMBER S&P 500 FUTURE early week recovery back above 4,200-4,175 area violated last week on FOMC and Powell press conference influence.

That will remain the key area to watch after his testimony today. And it is also the case that the global govies are back under pressure after rallying in the wake of last week's Fed missives. This saw the SEPTEMBER T-NOTE FUTURE rally back from its discount on Monday's June contract expiration to near 133-00 area. That was well back above the key 132-00 area it tested late last week, even if it has slumped near there in subsequent trade.

That was unusual in the context of a Fed signal it might need to withdraw accommodation sooner than previously suspected. And it was similar to the SEPTEMBER BUND FUTURE rallying back to retest the failed 172.50-173.00 congestion late last week into Monday prior weakening once again as well. It led us to believe that there might have been something more to the weakening of the 'risk-on' psychology into and after the middle of last week.

That could still be more so the COVID-19 Delta variant, even if that is going to take some time to have a more pernicious impact. Yet along with the extent of the global govies strength was weakness of other currencies against the US dollar.

While any sense there might be a further increase in already premium US interest rates might encourage US DOLLAR buying, there was also the rather more extensive weakening of EMERGING CURRENCIES. While that might be part of the overall weakening of 'risk-on' psychology, if that is indeed on a more hawkish Fed due to a much stronger overall economy (which should include the global economy at this point), why are they remaining so weak after the knee-jerk reaction last week?

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This is why Powell's Q&A regarding the inflation issue that will certainly get a lot of review is so important. And the market reaction may tell us quite a bit more about whether the extended (literally into mid-late 2022 and beyond) Fed outlook and likely action are indeed going to be a driver for the near-term trends. It is going to be a critical inflection point for what the markets are focused on for the renewed success or continued retrenchment of the 'risk-on' psychology.

Courtesy Repeat of Monday's Occam's Razor on the Markets

...the market situation remains as convoluted in our view of the situation explored in Friday's 'Risk Appetite Test Brings Two Questions' research note. This is because we see intermarket tendencies which are not consistent with significant weakening of the 'risk-on' psychology being as clearly driven by the recently less accommodative FOMC psychology as some suggest.

Those considerations remain much as explored Friday, with the first key question being "...whether a less accommodative FOMC stance is going to be imminent enough to put significant downward pressure on the markets (including global govvnies, indicating higher longer-term yields)?" That seems a bit of a reach.

There is now a rather convoluted discussion of how the Fed's shift might affect the markets that are a reflection of major forward assumptions. That is even as the more hawkish St. Louis Fed President Bullard volunteered in his Thursday CNBC interview (link repeated directly below.) These things are still "*far in the future.*"

Can a major retrenchment that allows the tech heavy NASDAQ 100 to maintain its bid while the DJIA suffers in an assumed major reopening really be fully due to future Fed anticipation? And if the Fed is going to be slowing things down with higher rates, why the significant rally on the long-dated GLOBAL GOVVIES?

The simplest interpretation of the recent market activity stripped of all manner of convoluted forward anticipation looks a lot more like some sort of renewed COVID-19 disruption, as seems more likely into the Fall than any Fed rate hike; both in the US (especially the under-vaccinated South) and globally on an even more accelerated current timeline.

Under the 'Occam's Razor' protocol (<https://bit.ly/3vU0NWp>) a more straightforward answer seems to make more sense. It all acts like more of a stall in the economic reopening assumptions than based on Fed anticipation many months ahead.

Below is a copy of the balance of Friday's analysis, with a current market update below clarifying the most important aspects into this morning:

One of them is why the NASDAQ 100 is so strong under the auspices of a tighter Fed policy, while DJIA is at a new two-month low? Does this really make sense in the context of the 'liquidity trade' driving tech stocks? We return to that below.

There is little doubt after Thursday's US EQUITIES selloff (and other key 'risk-on' indications coming under significant pressure) that there is a significant test of whether this is just another near-term correction. Will that be shaken off very soon, or will there be a more sustained return to at least a temporary 'risk-off' psychology?

The first of two questions which flow from that are whether a less accommodative FOMC stance is going to be imminent enough to put significant downward pressure on the markets (including global govvnies, indicating higher longer-term yields)?

The second question which flows from the market reactions to Thursday's FOMC announcements and Powell's press conference is whether the Fed is indeed the primary driver for the weakness, or is there some other negative influence which the ostensible tighter Fed market impact is masking? We revisit that below.

That there is some influence from the Fed advancing its potential tightening of policy (actually more so diminishing accommodation) is obvious. In one part of the St. Louis Fed President Bullard's CNBC interview (<https://cnb.cx/2S7N5RI>) this morning he noted that he was one of the 'dots' that had moved from a 2023 initial rate hike to 2022.

However, he noted, "...these are things far in the future in an environment where we've had a lot of volatility." He also noted that his move was from early 2023 into late 2022, and pointed out a weakness of the 'dot plot':

That it is a 'blunt instrument' (our analogy), more so a broadsword than a scalpel. In another segment of the interview he specifically noted that each dot signaling the potential for a full year was indeed rather broad. Much like in his case, there is no ability of the FOMC member to signal whether their indication is early in the middle, or late in that year. And we suspect the moves from 2023 into 2022 were likely (like Bullard's) less of a shift than a full year earlier.

He also reiterated the oft-cited idea that the 'dot plot' is sheerly a 'guesstimate', as we noted in Thursday's 'A Whiff of Risk-Off' research note (repeated below for your ease of further review.) That was in part due to this characterization also being offered by the estimable ex-Dallas Fed President Richard Fisher, who "...was surprised there was any market reaction whatsoever."

All of that said, the likely reason the US EQUITIES, which had only been nominally lower at the time Bullard's interview began, came under further pressure while he spoke were his admissions on the economy and inflation: both had surprised the Fed to some degree on their strength into this year compared to 2020 forecasts.

The normal course of events after a bit of a hawkish FOMC meeting and press conference is for some member of the Fed's minions to come out and walk back the more aggressive comments. In fact, his observations on the economic and inflation trajectory reinforced all of the most aggressive Fed indications.

This is of real interest on the Fed being the driver for the reversal of the 'risk-on' psychology into at least a temporary 'risk-off' phase. Yet if indeed Fed tightening is behind the US EQUITIES weakness and pressure on other 'risk-on' indications (despite Bullard noting how far in the future any FOMC rate hike might be), why in the world did the NASDAQ 100 rally to a new 14,205 all-time high on Thursday?

And is only back around the recent previous 14,129 all-time high this morning? And why are banks, which also typically benefit from a higher rate environment, under significant pressure this week... it doesn't make any intermarket sense.

The received wisdom is that the tech stocks have benefited most from both the extremely accommodative Fed and the COVID-19 quarantine 'work from home' environment over the past 15 months. And they have ostensibly attracted the most investment from the Fed's Brobdingnagian largesse, with a risk in that.

If the Fed is indeed anticipated to lessen liquidity provision even well ahead of any rate hike, and the global economic reopening is fully on track (for a return to extensive on-site work and local business revival), why isn't the NASDAQ leading the way down? Why is it rather setting a new all-time high, and remaining strong?

Just to be clear, we are not experts in tech stocks and the NASDAQ 100. Yet to state the contrarian view right now, what if the pressure on US EQUITIES (and other 'risk-on' instruments) is more so from the incipient (at least so far) return of more COVID problems, which is being masked by headline news fixation on the Fed?

That would be a game changer insofar as that could foment a more sustained near-term 'risk-off' psychology. Especially regarding the B.1.617.2 COVID-19 Delta variant, it is gaining more ground through its much higher transmissibility (with estimated 50% more contagion), and the disease it causes may be more severe.

It is already causing a slowdown in the UK 's planned reopening by a month to July 19th. As Reuters recently reported, "*On Monday, Britain recorded 7,742 new COVID-19 cases and three deaths. Johnson said the number of cases was growing by about 64% per week and the number of people in hospitals' intensive care units was rising.*" This is not a good sign for a US where 'Delta' is spreading.

The bottom line from a sheer market performance perspective (as it always gets the last word) is that the now front month September S&P 500 future is down into the area of the 4,175 Tolerance of the general 4,200 area support. Much below it (as was seen into mid-May) the next support reverts to the 4,120-00 range, and the very major 4,021-15 early-April UP Runaway Gap (retested in mid-May.)

That said, being at a new recent 2-week low on a Friday and languishing into a critical support is not the best market activity, unless it recovers by later today. The global govies, developed currencies and emerging currencies assessment remains much the same as yesterday's assessment (repeated below.)

Monday Market Assessment: After that weak September S&P 500 future Close on Friday bleo the 4,175 Tolerance of the general 4,200 area support, it is important to note that weekly MA-13 is up to 4,170 this week. That means from early in the week it will be important to see whether the market can sustain activity back above 4,200 in order to seemingly reverse the potential lapse into a weaker trend. It is of note that the DJIA is also back up into key 33,700-800 violated congestion.

It is also of note that the recently buoyant global govies are coming back under pressure (i.e. higher yields) in another sign the 'risk-on' psychology is attempting to rescue itself after last week's post-FOMC damage. That is especially interesting on September T-note future coming (front month as of today with a full point discount to the expiring June contract), which is back near the major 132-00 area.

While emerging currencies are seeing a less convincing recovery from their recent pressure, at least on the developed currencies the US Dollar Index is fading back from its recent test of the higher 92.00-.30 congestion after overrunning the lower 90.50-91.00 area. That said, the developed currencies now have higher resistances at recently violated support like EUR/USD 1.2100-1.2000, and the emerging currencies have reestablished serial higher resistances.

**Courtesy Repeat of Friday's Quick Take (updated chart)
[To be updated after Powell testimony]**

Overrunning the previous 3,960 area JUNE S&P 500 FUTURE (front month since March 19th) resistance into the very beginning of April on the Good Friday strong US Employment report pushed it up into higher 4,010 and 4,035 resistances. The following Monday there was a key 4,015-21 UP Runaway Gap (as annotated on the weekly chart (<https://bit.ly/2SjDKGG> updated through Friday), where the Objectives are 4,193 with a higher one not until 4,316. As such, whether a push generally above 4,200 could be maintained was a key indication on that front.

It is also the case there is an early-April weekly Oscillator threshold into 4,230 on the back of a \$25/week rise in weekly MA-41. It appears the market anticipated this previous by leaving a 4,211 new all-time trading high the previous week (when that was going to be the Oscillator threshold into early April.) This made that level that much more critical a technical threshold on any attempt to extend the rally, and it was overrun despite the weak April Employment report.

A really interesting part of the overall equation is whether generally overrunning the 4,200 area (including that lower 4,193 Objective), just means a likely test of the higher (weekly Chart) 4,316 Runaway Gap Objective? Yet on the mid-May sharp selloff it revolved around the degree to which the JUNE S&P 500 FUTURE could hold the 4,100 Tolerance of the 4,120-10 support, or needed more of a correction. Much below the 4,100 area the overall up trend corrected back near the early April 4,021-15 weekly UP Runaway Gap, as expected. While that was a significant further slide, it was actually reasonable based on the straight up surge from the gap to the upper-4,100 area prior to stalling in mid-April. Yet inflation concerns which triggered the mid-April selloffs have been addressed, and have obviously become much less of a concern.

As such, JUNE S&P 500 FUTURE pushing back above the previously tested lower early April UP Runaway Gap 4,193 (daily chart) Objective would seem to speak of it maybe being ready to extend the rally to a higher 4,316 (weekly chart) Objective. Yet maintaining that push above the 4,193 (daily chart) Objective was also contingent upon 4,193 down to 4,175 being respected as important near-term congestion support.

Repeatedly holding that support left the door open to exceeding the early May 4,238.25 all-time high, as has now transpired. This is in the context of the higher Oscillator levels set up at the strong weekly Closes back in December rising to the (wait for it) ...4,235 and 4,260 this week. The extended levels set up at the highest weekly Closes back in December rise to the 4,330 and 4,360 levels this week with both still rising \$20 per week.

Yet the bigger question on the current downside reaction is whether SEPTEMBER S&P 500 FUTURE (front month as of Friday) at its \$10 discount to the June contract can re-establish upside momentum back above the 4,200 area from its 4,183 overnight trading low into this morning (with overall Tolerance still 4,175.)

Courtesy Repeat of Evolutionary Trend View (updated charts)

There was a renewed 'risk-on' psychology into the previous US EQUITIES early April all-time high near the 4,000 area, which was a sustained major influence back into 'risk on' psychology spreading into FOREIGN EXCHANGE as most tellingly reflected in EMERGING CURRENCIES.

The prospect of further US government stimulus/relief has created a psychology where the GLOBAL GOVVIES had reverted to overall weakness to a greater degree than seen during anything previous since the last bear market. Yet they are now recovering to a goodly degree on the central bank assurances that any inflation will be transitory and possibly over the COVID-19 Delta variant concerns.

While the March US NFP release along with other 'good' news turned out to actually be supportive of US EQUITIES (rather than a drover for any Fed tightening), the weaker April NFP and other data along with higher inflation was not playing well after the US EQUITIES test of higher resistance. However, the JUNE S&P 500 FUTURE recovery back above the 4,100-20 area after nearing the early April UP Runaway Gap in the 4,021-15 range was a positive sign.

The question then (after the substantial mid-May correction) was whether it could also overrun the 4,238 all-time high, as has now transpired. Yet the current FOMC influenced selloff will test the proposition of this remaining a 'risk-on' psychology into lower supports.

The **FRONT MONTH T-NOTE FUTURE** slipped back below previously violated 139-20/-24 heavy congestion from the previous four months in early October (as apparent on the weekly chart through Friday <https://bit.ly/2TNSKqh>.) However, the NEGATED DOWN Closing Price Reversal top from early March was in the 138-16/-00 range not revisited until recent trading. While the key weekly Moving Averages are still in the mid 139-00 area, only the failure back below that 138-16/-00 range reinstated the downside momentum.

That had changed on the early November response to the Pfizer-BioNTech announcement of the extreme efficacy of their COVID-19 vaccine. In last our Monday November 9th research note we also briefly reviewed the importance of the first ever mRNA vaccine.

The more upbeat longer term US economic outlook left the next minor support below the 138-16/-00 range into the 136-24 weekly area gap, yet with more significant support down into the 135-00/134-16 area.

While the 136-16 classical quarter point Tolerance of that 136-24 weekly area gap seemed to be violated on the weakness into mid-January that was reversed on the following week's ratchet back above 136-16, yet with the market back down testing those areas last week. Violating it from the opening last week opened the door to a test of major 135-00/134-16 historic support.

That is reinforced by the broader price history showing mid-low 135-00 congestion around the mid-2012 previous all-time high in addition to the more recent 134-16 area. While that was significantly violated last week, it never got very near the next historic support in the mid-low 132-00 area prior to rebounding.

Failing back up to the mid 134-00 area on recent rallies leaves that as resistance on a sign they were likely headed lower. While March contract had not really challenged the mid-low 132-00 area support, the discounted JUNE T-NOTE FUTURE was only back to trading somewhat above it. The next key decision into mid-low 132-00 area was the March contract expiration last week Monday after the JUNE T-NOTE FUTURE failure on the rally into that area.

Even as it recovered then, the bounce back above that area had failed again, with the lower support still down into the interim 130-00 area, and major support not until 128-00 area (2019-2020 congestion.) Yet the recent sanguine Fed attitude along with COVID-19 Delta variant concerns seems to be supporting the JUNE T-NOTE FUTURE in its recovery back above 132-00. That opened the door to the retest of the historically prominent 134-00 area seen of late.

However, the looming quarterly expiration (Monday June 21st) sees the SEPTEMBER T-NOTE at a typical full point discount, back below the 132-00 area once again on the FOMC reaction. That should provide some comfort to the bears, yet is also a risk they can rally at some point to retest the 134-00 area if they do not remain below the 132-00 area.

Similarly, the previous strong sister **BUND FUTURE** has reversed into the weak sister for quite some time. This is likely due to its yield coming up from negative ground, despite the fact that the US economic data has been that much stronger. With as accommodative a central bank as the Fed, there is also matter of the inflation concerns being that much greater if it turns out to be less transitory than the central banks are currently hoping.

Looking back, the GLOBAL GOVVIES story on further near-term late-2020 economic weakness was reflected in Europe as the MARCH BUND FUTURE 2.30 premium to DECEMBER BUND FUTURE on a typically early expiration. That left it temporarily back above the very prominent 177.00-.50 congestion full year high (as seen in the weekly chart updated through Friday <https://bit.ly/3d5BcTw>.) Yet that was the 'last hurrah' of the bull trend prior to the COVID-19 situation improving, and the attendant better economic expectations.

After that it fell back quite a bit from above the 178.01 area, with the push at that time for much more Euro-zone stimulus leaving it below the 177.50-.00 support once again. It had been violated several times since mid-January, with the market back below it despite previous temporary recoveries. Then below next major support at the 175.00-.50 congestion, it also vigorously retested the 173.00-172.50 congestion into early March.

While the MARCH BUND FUTURE remained above it, as expected it was a bit demoralizing that the JUNE BUND FUTURE was so far below the 173.00-172.50 congestion when it became front month future. 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 recent 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 recent general GLOBAL GOVVIES recovery, this current weak sister had been back under pressure toward 170.50-169.75 area congestion on stronger European inflation indications despite rallies on central banker assurances regarding inflation.

Even its recent recovery from temporary slippage below 170.50 left it only up into the existing 173.00-172.50 congestion once again. While that leaves a long way back down to the key recently tested 170.50-169.75 area, even in the wake of the FOMC pressure it is only marginally back below that 173.00-172.50 congestion at present.

As the co-downside leader the **MARCH GILT FUTURE** (possibly on the inflationary implications of the Brexit break with the EU) was already failing somewhat below major 130.00 congestion. That was also with the typical full point discount in the **JUNE GILT FUTURE**. That left next support into the mid-low 128.00 area it was recently below prior to rebounding. Even though back above it once again, it remained vulnerable along with the rest of the GLOBAL GOVVIES. If it should slide further, the next major supports are not until the 126.50 and 125.50-.00 areas.

Yet central banker assurances inflation will be transitory had it recently rallying back into the upper 128.00 area of late. While the prominent resistance remains in that 130.50-.00 range congestion (violated previous 22-month trading lows), weekly chart congestion, MA-13 and the gap down from the March contract expiration all point to resistance in the low-mid 129.00 area into which it has indeed stalled.

And the GILT FUTURE expiration sees the opposite picture from the premium in SEPTEMBER BUND FUTURE. The **SEPTEMBER GILT FUTURE** is actually at a typical full point discount to the JUNE GILT, back down into the 128.00 area at present. We ascribe this to the economic differential between the fully reopened UK economy versus some residual drags in Europe, and in any event the typically late expiration is not until June 28th.

In **FOREIGN EXCHANGE** the **DEVELOPED CURRENCIES** had also seen massive shifts in 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.

The problems in the US COVID-19 response had left it under sustained pressure. Yet the 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 US DOLLAR INDEX stall on its late September temporary push above the key 94.00-.30 area.

While this was previously likely also at least partially tied to the US EQUITIES renewed 'risk on' psychology, there is also the degree to which the US has a more troubling COVID-19 pandemic problem than the rest of much of the world, and the Democratic presidential election victory fomenting fiscal concerns.

It is of note that even the Democrats 'Blue Wave' psychology dissipating into the middle of the week after the US election only saw US DOLLAR INDEX rally back to the top of the 94.00-.30 range prior to dropping repeatedly back to the 92.50-.24 range once again. As that was violated in late November, the Evolutionary Trend View for the greenback was a continued down trend even though it had already tested lower support and temporarily rebounded into early February.

However, the subsequent yield escalation created more of a 'risk off' psychology had restored the bid to the greenback. Whether that is merely a 'haven' bid or a reflection of a better US economy driving anticipation of premium US interest rates is moot.

In the event the US DOLLAR INDEX strength above the 91.00-.23 resistance pointed to higher levels, which had seen it overrun the more major 92.00-.30 area and even the higher 92.75-.85 area that it fully weakened from back below along with 92.30-.00.

In fact, DEVELOPED CURRENCIES exhibiting more strength have the US DOLLAR INDEX failing the 91.70 Tolerance of the 92.30-.00 range, and dropping below the 91.00-90.50 congestion. Even though it was back up into the low end of it on the previous weakening of the 'risk-on' psychology, it had churned below it again in recent trading with the 89.50-.00 range the next prominent lower support it barely brushed to top of back in late May. Yet in the wake of the FOMC move to a seemingly more aggressive tightening, it is back up toward 92.30-.00.

US DOLLAR INDEX inability to sustain activity back above the low 94.00 area top of the violated historic congestion had seen it drop below 92.50-.24 in late November. The more major supports were down in the 91.00-90.50 area tested and held since early December prior to being violated (as evident on the weekly chart from Friday <https://bit.ly/3hamGel>.)

As the 90.00 'big penny' is only psychological at this time, after 91.00-90.50 was violated the next lower support was not until the 89.50-.00 area already barely being tested again (after the January test) in recent trading with the 88.25 6-year low below that.

That said, the recovery from the 89.50-.00 area had carried up in February into the high end of the 91.00-90.50 area. That said, the December rally failures back up at the top of that area had a Tolerance to the early December 91.23 trading high.

Strength above the 91.00-.23 resistance pointed to higher levels, yet with it stalling into the violated September 92.30 UP Closing Price Reversal that had held until late-November. The selloff at that time from the 92.50 trading high created a fresh DOWN Closing Price Reversal from the previous week's 91.98 Close (Tolerance of that week's 92.19 high.)

That had been Negated by the rally to the new high for that rally into early April. Yet the subsequent slide back below 92.85-.75 on DEVELOPED CURRENCIES exhibiting more strength had the US DOLLAR INDEX failing the 91.70 Tolerance of the 92.30-.00 range, and dropping into the 91.00-90.50 congestion prior to recovering temporarily up above the top of that range this week prior to slight slippage once again.

After it has failed to remain out above the 91.00-.23 range in recent trading, next lower support in the 91.00-90.50 area was violated prior to the recent squeeze back up to that area which ultimately failed again over recent weeks. That still leaves historic 89.50-.00 area support tested during December through February and just missed in late May as the lower support. Yet in the wake of FOMC moving to a seemingly more aggressive tightening, it is back toward 92.30-.00.

With **EUR/USD** below 1.2000 again, there seemed to be more of a 'risk off' psychology again into early March, which was then independent of the strength of EMERGING CURRENCIES. Lower supports were back down into those 1.1815 and 1.1700 areas. That reinforced the potential for more US DOLLAR strength. The next lower EUR/USD support into 1.1815 had been violated in late March, with next support into the 1.1700 area subsequently tested prior its subsequent rapid push back above the 1.1800 area.

That was extended as EUR/USD rallied above 1.2000 again, and even churned above the top of the 1.2000-1.2100 range prior to temporary slippage back below the top end of that range in recent trading. The next significant resistance above is back into the recently tested 1.2200-50 area at the bottom of the early 2018 major range, with next resistances above into the 1.2400 area interim 2018 congestion, and 1.2550 top of that range. Yet in the wake of FOMC moving to a seemingly more aggressive tightening, it is back below 1.2000-1.2100 range with 1.1900 area interim support, and the 1.1815 and 1.1700 areas still the more major lower supports.

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 early December, once it recovered the next resistance was not until the 1.3600-50 range it had rallied to in the wake of the Brexit agreement prior to reacting back down toward the 1.3500 area in January.

Next interim resistance was as nearby as the 1.3750-1.3800 area it exceeded into early February, and loosely held on the subsequent selloff. While this might be in part due to the higher UK interest rates, it is interesting to see how it has evolved in the context of recent US DOLLAR weakness assisting in pushing it above major 1.4000 area congestion since mid-May. That has held despite any minor US DOLLAR bounces, also now including weekly MA-9 and MA-13 trend supports.

The next resistances are not until the interim low-1.4200 area it recently tested prior to slipping somewhat back below it, and the more major 1.4350-76 congestion that includes the April 2018 nearly five year trading high. Yet in the wake of FOMC moving to a seemingly more aggressive tightening, it is back below the 1.4000 area congestion with 1.3750-1.3800 area next support.

The **AUD/USD** early-November through December surge back above .7200, .7350-.7400 congestion as well as interim .7500 area was a strong sigh that led to temporary strength even above the .7650-.7700 resistance the subsequently fizzled. The next interim resistance was as nearby as the recently exceeded .7800 area it was churning around prior to the resumption of recent weakness, with lower supports back into the interim .7500 area, .7350-.7400 congestion and the .7200 area once again.

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 previously churning below 105.00-104.50 as recently as January prior to pushing aggressively back above both 106.00 and 108.00 into early March. That it was above both 106.00 and even 108.00 despite US DOLLAR strength is in line with the strength of other DEVELOPED CURRENCIES, and is thereby another 'risk-on' indication.

The bid leaving the other 'haven' currency reinforces the secular US DOLLAR weakness on the violation of higher USD/JPY resistance into 110.00 being temporarily violated into early April prior to weakening back down to hold a test of the 108.00 area. Yet that lack of any 'haven' bid is once again reflected in USD/JPY stabilizing back up above the 110.00 area, which runs counter to any shift to a 'risk-off' psychology on the lack of a 'haven' bid.

And **EMERGING CURRENCIES** that had been under pressure had been recovering to some degree last February prior to coming back under pressure. While stronger over the Summer, they were back under pressure on the 'macro' view deteriorating into the COVID-19 'risk off' once again until the recent 'risk on' revival on US DOLLAR weakness that has reversed for now.

While that was previously except for the TURKISH LIRA, even that had recovered to a goodly degree on recent renewed global 'risk on' psychology creating secular US DOLLAR weakness, even if that has reversed a bit on higher US yields of late.

That contrarian US DOLLAR rally in the wake of the ostensibly more profligate Democratic regime expectations had left all of the EMERGING CURRENCIES back under some pressure into the early part of the year. While that had substantially reversed over subsequent trading, it was back a bit again on the recent weakening of the 'risk on' psychology and the evolving sentiment focused on the recent GLOBAL GOVVIES yield escalation.

However, even as the GLOBAL GOVVIES weakened again in March trading prior to their April recovery, EMERGING CURRENCIES resilience spoke of some degree of global 'risk appetite' being maintained, and will continue to be a key indication. This was apparent during the sharp mid-May US EQUITIES downside reaction, where the EMERGING CURRENCIES managed to only react a bit in their overall bull trends, and had strengthened again prior to the latest FMOC shift to a possibly more aggressive stance.

Yet the question must be whether that is on the sheer interest rate differential back into the US DOLLAR, or is it over concerns the global 'risk-on' reopening is threatened by any early shift to a less accommodative Fed policy? There is also the issue of just how damaging the recently discovered COVID-19 Deltas variant might be within the cross currents.

SA RAND had seen **USD/ZAR** failing in early April on renewed 'risk on' psychology violating the next interim support in the 14.70 area (part of the major range from late-2018 through early-2020), even if there was more major support into the 14.50-.45 area it had tested and held back in December through February. While the previous US DOLLAR rallies had seen USD/ZAR ratchet back above the 15.00 area to vigorously test the 15.40-.50 range again, it ultimately reverted to weakness.

That left 14.70 area (in the overall major range from late-2018 through early-2020) next support that had been violated more completely in late March. While that also opened the door for a test of more major support into 14.50-.45 area seen in both December and February, only on the mid-April weakness was that area violated on a weekly Close. Back below the important 14.50-.45 area again overall left USD/ZAR nearer to the 14.00 area, and the more prominent historic congestion into the upper 13.00s (including the very important 13.81 July 2019 26-month trading low.)

A new round of weakness in late April set in motion to a new 27-month trading low below the July 2019 13.81 trading low. That left the next interim support at 13.55-.50 which was temporarily overrun into early June, and the 13.23 February 2019 33-month trading low as the next major level that was not quite reached. Yet in the wake of FOMC moving to a seemingly more aggressive tightening, it is back above the 13.80 and 14.00 areas, with next interim resistance into recent 14.20 congestion. Yet more major resistance is not until 14.40-.50.

Even when other EMERGING CURRENCIES have reacted to the downside of late, the **RUSSIAN RUBLE** had seen **USD/RUB** weaken on the back of sustained CRUDE OIL strength. The recent USD/RUB drop back below 75.00 since late April has seen it even slip below the 73.00-72.50 area, where it remains at present despite US sanctions and the weakness of the other EMERGING CURRENCIES in the wake of Wednesday's FOMC announcements and Chair Powell's press conference. Lower support is the 72.00-71.75 interim area (albeit still at a 10-month trading low) with the next major support still into the 71.00-70.00 area.

The **MEXICAN PESO** saw **USD/MXN** selloff after the early-mid March surge quickly violated the lower interim 20.90 congestion, with the interim 20.65 congestion also violated on the way to the broad berth next support in the 20.25 area. That included an important 20.30-.10 weekly chart gap from on the way up in March of last year that had already been violated last November.

It then failed once again into a retest of the additional significant historic congestion (2018-2019) in the 19.80 area, with the next hefty historic congestion as nearby as the recently very vigorously tested 19.65-.50 area. The overall bottom of the very significant late-2018 through early-2020 range is not until the 18.50-.40 range, even allowing there are interesting interim supports at 19.30 and into the 19.00-18.90 range. That said, the current rally back above 19.80 was more critical even after the previous failure as nearby as the 20.25 -.30 area.

Yet in the wake of FOMC moving to a seemingly more aggressive tightening, it is back above the 19.80 and 20.00 areas, and even the hefty 20.30 congestion. Yet at least so far it has only tested the higher 20.65 congestion with the higher level being the 20.90 congestion once again.

The **TURKISH LIRA** had been back under pressure since **USD/TRY** pushed back above the 8.00 hefty late 2020 congestion back in March. That left the LIRA as the outlier weak sister, with the inability of USD/TRY to drop below 8.00 turning into another bout of strength back above recent 8.20-8.23 short term congestion.

While it was slightly below that until mid-April, the recent weaker indication was a late April daily DOWN Closing Price Reversal from 8.3750, which left 8.40 as a general Tolerance that needed to be watched into May. Above that again in line with the other EMERGING CURRENCIES weakening on the temporarily diminished 'risk-on' psychology into mid-May reversed into USD/TRY strength once again.

While that left the door open to a full retest of last November's 8.5146 all-time high weekly Close, with only the 8.5765 coincident all-time high above that. While the LIRA seemed to firm on the mid-May return of the 'risk-on' psychology, that did not even bring a USD/TRY drop back to the 8.23-8.20 range. And while it did drop back near that lower interim congestion last week, it is now surging back up near the recent 8.7424 all-time high.

Weekly Oscillator indications into next week suggest that will be a critical threshold for the weekly Close. The higher Oscillator resistances are not until the 8.90 area and well above that on the extended 2018 and late 2020 indications.

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 sidebar.

Even though we are only nearing the late month economic release window, there is quite a bit of that US data into late this week. There are also quite a few pointed developments from the Fed that go beyond the normal mid-late month output. After a slow Monday that still included the as expected PBoC 3.85% 'no change' rate decision into Tuesday morning's US Existing Home Sales, there will still be Fed Chair Powell's 'The Federal Reserve's Response to the Coronavirus Pandemic' House testimony and Q&A this afternoon (14:00 EDT.)

That leads into a robust Wednesday featuring the global Advance PMIs along with quite a bit of central bank-speak. Thursday continues the central bank focus with the ECB Monthly Bulletin into German IFO Surveys, followed by the BoE Rate Decision, Minutes and Monetary Policy Summary. Yet that is all the prelude to that significant raft of US economic data along with the typical Thursday Initial and Continuing Jobless Claims, and (wait for it)...

The Federal Reserve's release of both sets of the annual Bank Stress Tests. Friday wraps up with limited yet still important Asian and European economic data into more of that seemingly earlier than usual US late month economic data.

Of course, the troubling emergence on the near-term vagaries of the COVID-19 pandemic now includes news of the new Delta virus variant that had been lurking in the background becoming more prominent in recent days. As such, you will likely not be at all surprised that we obviously maintain our recent strong advice that has been fully vindicated again of late: Keep those seat belts firmly fastened.

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