RESEARCH NOTE

Friday, August 20, 2021

Reaction Reflection, Quick Take, Calendar

While it admittedly took a couple of weeks, the US EQUITIES unconvincing stall into recent new all-time highs has finally resulted in a more telling reaction. It is worth reflecting on the nature of the selloff so far after this week's return to major volatility, and revisiting what to look for next, as was already fully explored in Thursday's 'Minutes Mayhem' research note (repeated below.)

The question now is whether this is another of the recent serial short-term sharp corrections, which recovered so quickly after testing lower key support? Or is it more so the prelude to a more significant downside reaction? As always, the market gets the final word, and the proper way to consider trend dynamics is to understand the technical structure into key Evolutionary Trend View (ETV) price levels. Once again, technicals are the trend analysis Rosetta Stone.

For US EQUITIES it is much as we discussed in Thursday's analysis of SEPTEMBER S&P 500 FUTURE key trend projections. That means the violated 4,425 congestion above and the hefty 4,380-65 congestion below, yet with the more critical 4,345-40 area trend support below as a far more critical psychological decision area next week.

All of the ETV dynamics on those were explored at length in Thursday's analysis, and we refer you back to that for the full discussion. The SEPTEMBER S&P 500 FUTURE recovery so far late Thursday into today from the significantly lower 4,345 area is impressive. Yet the proverbial 'proof in the pudding' will be how it finishes the week later today. While a Close below 4,425 will look 'weakish', only a finish below that 4,380-65 congestion will set up an immediate test of the more critical intermediate-term 4,345 support next week.

All of that said, other asset classes are still reflecting a more definitive 'risk-off' psychology than during the churn of the previous couple of weeks. While the GLOBAL GOVVIES are not pushing much higher at present, they are holding recent gains into key higher resistance ranges from which they had reacted previous.

FOREIGN EXCHANGE remains a greater reflection of the 'risk-off' psychology being back in gear at present. That is especially for the EMERGING CURRENCIES, yet with weakness in the DEVELOPED CURRENCIES as well. That is especially for the quiet yet sustained EUR/USD weakness below the 1.1703 late-March trading low (full discussion and annotated chart below.) Yet the far greater weakness is in EMERGING CURRENCIES.

As also noted on Thursday, the SOUTH AFRICAN RAND weakness has been reflected in USD/ZAR strength above the 15.09 late March 8-month trading high, with next resistance not until the mid-15.00 area. The same is true now to a similar degree in the MEXICAN PESO on USD/MXN back above 20.00 after recent serial tests of the 19.80 area. While on Thursday it was not above the hefty 20.25 area congestion, (also tied into the 20.10 weekly MA-41), it is well above it today with the interim congestion not until 20.65. Along with WTI CRUDE OIL further below 71.00-70.00 congestion and even 65.00 area support, it all feels like 'risk-off'.

This is pointing toward the market realization of the reimposition of COVID-19 pandemic economic and social restrictions on the virulent spread of the Delta variant due to far higher transmissibility. As glaringly apparent in several lightly symptomatic cases among US senators this week, that is for the fully vaccinated with the unvaccinated suffering to a much greater degree. The silver lining to this latest COVID-19 horror is the recent sharp rise in the US vaccination rate.

Yet as the old axiom notes, "*The market* (which is classically to say equities) *is a creature of expectations*." And the near-term expectations are eroding markedly on the current news, which relates to some factors we have been highlighting over the past two weeks. While there is concern over inflation as it relates to sapping consumer spending due to higher retail prices, COVID is more troubling.

Yesterday's review of the key elements of Wednesday's FOMC Meeting Minutes release still stands on there being less chance of an early taper. Yet that is due to the very good reason of Fed Delta variant concerns (all easily reviewed in our modestly marked-up version at **https://bit.ly/3y0iKUe** with the comments below.) As noted in a brief Reuters article (**https://reut.rs/3j2PlEB**), even very hawkish FRB Dallas President Kaplan is reconsidering the timing of any Fed QE 'taper'.

Yet it would seem our concerns about any restrictions in China as they affect consumer sentiment and activity there, and more so the impact on their export channels for other economies is more telling. The most informed view on the trade situation is in Tuesday's Reuters article (**https://reut.rs/3kduA8F**) with an extensive discussion of the multiple restrictive measures. It cited the view from Dawn Tiura, CEO of US-based Sourcing Industry Group that, "*China's zero tolerance policy is good for the pandemic but bad for the supply chain*."

This is just as we had repeatedly expressed over the past couple of weeks. Additionally the article notes just how much worse the problem has become over that period as COVID-19 infection levels and attendant restrictions rise.

There is also a subtle current intermarket indication from US EQUITIES. Note that NASDAQ 100 which was the weaker sister on the US EQUITIES push to new highs two weeks ago is back to being the stronger sister against the DJIA, which has suffered quite a bit after leading the way into Monday's new all-time high. This is indicative of the shift back from some hope the cyclicals would lead once again on the continued global reopening, with the tech stocks getting their edge back from anticipation the 'remote' economy might return to being a necessity.

Also implicit in this 'reflection' is the warning US EQUITIES are not on any way a critical overall 'risk appetite' barometer. In the context of now more likely continued central bank accommodation (versus early QE 'taper'), it is possible US EQUITIES will once again take on a TINA (There Is No Alternative) psychology. While that might create even more radical risk for US EQUITIES down the road, any near-term strength will not likely reverse the 'risk-off' psychology elsewhere.

Courtesy Repeat of Thursday's 'Minutes Mayhem' research note

We found it more than a bit interesting that the US EQUITIES took such a major fall after the highly anticipated Fed release of the July 27-28 FOMC Meeting Minutes early Wednesday afternoon (14:00 EDT, and access our modestly marked-up version at **https://bit.ly/3y0iKUe**.)

While there were quite a few concerns over the potential for an earlier than expected Fed QE 'taper', there was in fact not much evidence of that. What the minutes did signal was the budding confluence of negative factors was as real as we have cautioned of late.

In that regard they were more of an 'inflection point' for crystallization of the already apparent factors. This is what we sometimes refer to as an 'event horizon' to borrow a phrase from physics (in the simplest sense of being within bounds that can affect an object in motion **https://bit.ly/3y169jw** and also the page 17 note and Figure 2:4 in Hawking's 'Brief History of TIme' **https://bit.ly/3k58wgh**), even if a market 'event horizon' is a planned event that can intersect trend psychology.)

We will be brief on the way into an important timely update of our Evolutionary Trend View (ETV.) The first of the key summary passages in the always extensive meeting minutes was the top of page 7 summary of international developments as it relates to resurgent COVID-19 pandemic spread on the highly transmissible Delta variant. Citing the previous success of the global reopening, they noted…

"*The improvements were concentrated in the advanced foreign economies and China, supported by vaccine rollouts, the unwinding of public health restrictions, economic adaptation to the virus, and the re-opening of the services sector*."

Especially the focus on China and the services sector success applies to areas currently reversing under the Delta variant spread. As the same section of the minutes notes, "*In addition, the increased prevalence of new virus variants, particularly the Delta variant, underscored the continued uncertainty about the foreign outlook*." This is in addition to our extensive analysis of that aspect of both the international and especially the US developments on Delta's impact.

Please see Monday's and Tuesday's research notes for much more on Delta variant's impact on the international situation and especially in the US. That is along with Tuesday's reference to last Wednesday's 'Moderating Inflation into Consumer Reticence' research note on the signs of consumer reticence on lower close-in airline reservations and accelerating cancellations.

For both the economies at large and the markets, the reversal of what had become buoyant public sentiment is bad. The modest silver lining behind that dark cloud is the degree to which Delta variant concerns will also very likely keep central banks more accommodative than the recent 'rearview mirror' economic releases (now weakening as well) would normally indicate.

Our more extensive highlighted section from the bottom of column 1 on page 12 includes the FOMC observations on, "...*preparations for reducing the pace of asset purchases should encompass the possibility that the reductions might not occur for some time and highlighted the risks that rising COVID-19 cases associated with the spread of the Delta variant could cause delays in returning to work and school and so damp the economic recovery.*"

Interesting note on hampering the return to school as important, even if it did not carry through the logic to how this might be a specific factor interfering with the return to work by part of the labor force. In addition to the indeterminate increase in consumer reticence to participate in the recently buoyant 'gathering' economy activities (also see Monday and Tuesday's analyses), this paints a US and international picture inconsistent with a sustained 'risk-on' psychology.

The market manifestations are now more obvious as well. As noted above, our surprise is more so related to the timing of the current additional damage to the previous 'risk-on' psychology waiting until after the release. Yet there are times when a pending 'macro' release forestalls the actualization of market responses, even where the confluence of factors is clearly leaning in a particular direction. Possibly FOMC minutes were the 'proof in the pudding' on negative factors.

In any event, the US EQUITIES straining against overbought (albeit rising) weekly Oscillator thresholds for the past couple of weeks was not as yet any sign of reversal until early this week. However, SEPTEMBER S&P 500 FUTURE slipping well back below the 4,450 lower near-term Oscillator threshold on various swings early this week was the warning sign.

And Wednesday afternoon's extensive and sustained immediate post-minutes weakness below the 4,425 congestion was the sign that the negative 'macro' confluence of factors was taking hold of the trend. As noted on Wednesday morning, the next lower support was into the recent 4,380-65 congestion range.

This happens to be one of those instances where the 4,400 'big penny' was only psychological, with no particular technical trend importance after the late-July through early-August active churn above and below that level. In fact, below the 4,425 area, the lower end of that churn in the 4,380-65 range was always the likely next stop, with that also now obviously violated.

Yet as also noted Wednesday morning, into next week the FRONT MONTH S&P 500 FUTURE weekly MA-13 moves up to approximately 4,340 ($5 lower than noted yesterday due to the impact of the current selloff.) It is also of note the more aggressive weekly UP Channel is up to around that level into next week as well (which can be seen on the weekly continuation chart **https://bit.ly/3AYivej** through last Friday.)

And lo and behold, note where the market held at the bottom of the sharp selloff in overnight trading, prior to the now substantial recovery into Regular Trading Hours this morning. Yet even the recovery back above the 4,380-65 range raises the question of what comes next now that sustained activity up into and above the Oscillator thresholds (4,450 and 4,475 this week) seem to be over.

That gets back to the importance of the 4,340 area held so far, and what happens next week. As also noted on Wednesday morning, the recent large, temporary, FRONT MONTH S&P 500 FUTURE selloffs were of similar (or larger) magnitude than that seen out of late Monday afternoon until today.

Those were the mid-July $160 selloff from the front month future 4,384 all-time high to the following week's 4,224 trading low. Selloffs of a similar magnitude (more or less) from all-time highs had also occurred in mid-June and mid-May, with rapid recoveries as well.

What was the key to the up trend sustaining and recovering so quickly after such significant temporary selloffs? The fact was that in each case the FRONT MONTH S&P 500 FUTURE held against (mid-May) or did not spend too much time below weekly MA-13 prior to a weekly Close well back above it. We have often cited weekly MA-13 across many markets as a key trend following indication, and a look at the FRONT MONTH S&P 500 FUTURE chart reinforces that.

While all of this means the US EQUITIES situation will be more critical next week, the signs from the other asset classes were already bringing the durability of the 'risk-on' psychology into question. That includes the GLOBAL GOVVIES only reacting back down in a minor way after their recent strength, despite the recent inflation indications and some of the stronger economic data (especially US Employment.)

While not making much further progress today, upside leader SEPTEMBER T-NOTE FUTURE is holding up into its key 134-00/-16 range. And recent much weaker sister SEPTEMBER GILT FUTURE is in the 130.00-.50 range it has stalled into since mid-July. Co-strong sister SEPTEMBER BUND FUTURE is up into the 177.00-.50 area it recently traded above… all of which is stronger than a 'risk-on' psychology should allow.

FOREIGN EXCHANGE is a more troubling indication for 'risk-on' psychology on the weakening of both DEVELOPED CURRENCIES and EMERGING CURRENCIES against the greenback, with the US DOLLAR INDEX up to a new recent high above the key 93.43 late-March 9-month trading high. While the next interim resistance is as nearby as 93.90, the more major resistance is not until up around the 94.74 September 2020 13-month trading high. It all reinforces a burgeoning US DOLLAR 'haven' bid, which is also inconsistent with a 'risk-on' psychology.

While some of the emerging currencies are suffering more than the developed currencies, the key indication on the latter is the EUR/USD trend. That is due to the higher levels of vaccination in the developed economies which should be reinforcing a more upbeat outlook. Yet attempting to hold its late-March 1.1703 trading low has not failed, and that reinforces a choppy weekly Head & Shoulders Top 1.1800 area DOWN Break (**https://bit.ly/3iOKPJy**.) Especially of note are the previous holding actions in that area, and this week's rally failure right at 1.1800.

EMERGING CURRENCIES are no better, and have even been a bit worse of late in line with diminished global economic expectations, also reflected in WTI Crude Oil weakness back below both 70.00-69.00 and now the 65.00 area held exactly on the selloff into mid-July.

This is especially so for the SOUTH AFRICAN RAND on USD/ZAR strength above the 15.09 late March 8-month trading high, with next resistance not until the mid-15.00 area. The same is true to a lesser degree for the MEXICAN PESO on USD/MXN back above 20.00 after recent serial tests of the 19.80 area. However, that has yet to breach the recent hefty 20.25 area congestion, which is also tied into the 20.10 weekly MA-41. Also all interesting into next week.

Courtesy Repeat of Thursday's Quick Take

A really interesting part of the overall equation was whether overrunning the 4,200 area (including that lower 4,193 Objective), just meant a likely test of the higher (weekly Chart) 4,316 Runaway Gap Objective? That is clear on the FRONT MONTH S&P 500 FUTURE weekly chart (**https://bit.ly/3AYivej** updated through Friday.) Yet JUNE S&P 500 FUTURE pushing back above the previously tested lower early April UP Runaway Gap 4,193 (daily chart) Objective seemed to speak of it being ready to extend the rally to a higher 4,316 (weekly chart) Objective.

The question on the previous downside reaction was whether the SEPTEMBER S&P 500 FUTURE ($10 discount to expiring June contract) could re-establish upside momentum back above the 4,200 area from its weakness below the 4,175 Tolerance. That was necessary to make sure the market felt Powell provided enough comfort on inflation and planned Fed action in his testimony at that time.

That is exactly what transpired. That left the 4,200 area support once again if there was any setback from around the old mid-May 4,238 all-time high. Yet instead it churned above the Immediate higher resistance at the previous week's 4,246 weekly DOWN Closing Price Reversal (CPR with 4,249 Tolerance.) The new mid-June 4,267.50 all-time high (part of the DOWN CPR) being exceeded (still in mid-June) for another new all-time high clearly Negated that topping signal.

After the early July downside reaction the recovery back above the 4,300 area violated support left the higher resistance into the previous week's 4,360 DOWN Closing Price Reversal with a Tolerance to 4,364. It is of note the SEPTEMBER S&P 500 FUTURE had managed to retest that area right into the ECB press conference prior to weakening once again the following Thursday morning.

And the SEPTEMBER S&P 500 FUTURE sustaining activity later last week above the 4,425 and 4,450 weekly Oscillator thresholds was a sign of continued strength after they rose another $25 into last week. As such, the Oscillator indications remain important on the still 'lackluster jailbreak' after the previous outstanding US Employment report. With the market dropping back below the 4,450 level early this week (on weekly MA-41 up $25), there seemed to finally be some real risk.

That is with the key lower interim levels into the recent 4,425 area congestion that has now been violated in an initially choppy selloff, and the 4,380-65 area bottom of that range which it also has traded below. Yet the far bigger level is the 4,340 area on both weekly MA-13 into next week (loosely held on all recent sharp reactions), and the significant aggressive weekly UP Channel from the major 2,174 March 2020 cycle low.

Courtesy Repeat of Thursday's Evolutionary Trend View

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 had 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 recently recovered to a goodly degree on the central bank assurances that any inflation will be transitory and possibly over 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 driver 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 had recently transpired prior to the return of a bout of 'Fed Dread'.

Yet that FOMC influenced selloff vigorously tested the proposition of this remaining a 'risk-on' psychology into lower supports, and it survived. That was substantially reinforced by the subsequent Chair Powell pandemic response testimony, which continued into his recent reiterations of full accommodation prior to the resurgent COVID-19 Delta variant concerns.

It is now far more interesting again to see if US EQUITIES that were into a far more grudging upward trend for the last few new all-time highs can hold the general 'risk-on' psychology which is clearly under pressure in the other asset classes.

Or is something more extensive on the downside in store due to the change in the Delta variant calculus on the latest shift in the CDC perspectives and the general news on the return of consumer reticence regarding travel, leisure and other activities? We shall see on the extended US equities trend into next week.

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/2Xzaa2h**.) 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 were 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 our Monday November 9th research note we also briefly reviewed the importance of the first ever mRNA vaccine.

The more upbeat long-term US economic outlook left the next minor support below 138-16/-00 range into the 136-24 weekly area gap, with significant support in 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 subsequent. Violating it from the opening the following week opened the door to a test of major 135-00/134-16 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 that was significantly violated back in February. Yet it took until late March for it to hit the next historic support in the mid-low 132-00 area prior to rebounding. Failing back up to the mid 134-00 area on subsequent 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 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 subsequent sanguine Fed attitude along with COVID-19 Delta variant concerns seemed to be supporting 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 quarterly expiration saw the SEPTEMBER T-NOTE at a typical full point discount, even if it recovered nicely from recent activity back below the 132-00 area once again on the FOMC fears. While that should provide comfort to the bears, it was also a risk they could rally to retest the 134-00 area if they did not remain below 132-00. That recovery has transpired in the context of the recent COVID-19 Delta variant spread, with a rally well above 134-00.

That it is also still likely abetted by the consistent FOMC commitment to continued bond purchases, which has led to the push above the 134-00/-16 congestion from March 2020, with the next resistance as nearby as the 135-00 area into recently tested weekly MA-41 that has now dropped to the upper 134-00 area. Yet the more major DOWN Channel resistance (from the 140-235 March 2020 all-time high) is not until the mid-136-00 area.

However, in the wake of all of this inflation pressure, the SEPTEMBER T-NOTE FUTURE was holding up in the mid 133-00 area. That is only a bit below the 134-00/-16 area it recently traded above, and still well above the key lower 132-00 area it recovered above after slippage in March and repeated tests through June.

As recently noted, the question here with the Cassandras fretting over the recently sustained higher inflation indications (including more than a few major central bank officials), why aren't GLOBAL GOVVIES that were seeming to reflect more 'risk-on' until early July back under more pressure?

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/3AGNIlZ**.) 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 previous 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 after fading from the contrarian FOMC bounce it was only somewhat back below that 173.00-172.50 congestion. And that lack of any downside momentum left it hanging around the low end of that important 173.00-172.50 congestion of late, with the recent recovery back above 174.00 looking more so like a retest of the 175.00-.50 area was possible under the influence of the recent COVID-19 Delta variant spread.

And now that even that resistance has been exceeded on the extended Delta variant influence, with next congestion back in the 177.50-.00 congestion area that is being vigorously tested at present. Next resistance is as nearby as 178.00 congestion, yet with the extended level in that area being the 178.77 December trading high, and its gap lower from the 178.68 high Close that same week.

This co-strong sister SEPTEMBER BUND FUTURE holding the mid 176.00 area was only a bit below the 177.00-.50 area it recently traded above, and is now back into in the wake of the FOMC meeting minutes. That leaves it still well above the key lower 175.50-.00 it pushed above in mid-July after a more telling violation of the 172.00-.50 area it had stalled through all of June.

Once again, the question here with the Cassandras fretting over the recently sustained higher inflation indications (including some central bank officials), why aren't GLOBAL GOVVIES that were seeming to reflect more 'risk-on' until early July back under more pressure?

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 pointed to resistance in the low-mid 129.00 area into which it indeed stalled into early June.

And the GILT FUTURE expiration saw the opposite picture from the premium in SEPTEMBER BUND FUTURE. The **SEPTEMBER GILT FUTURE** was actually a typical full point below the June contract when it expired. While it was recently back down below the 128.00 area, we ascribed this to the economic differential between the previously fully reopened UK economy versus some residual drags in Europe.

While recently only modestly back above the 128.00 area, the current rally under the influence of recent UK COVID-19 Delta variant spread had it back up into to the 130.50-.00 range prior to recently backing off. It is interesting that even as the Delta variant continues to impact the UK and global economy, the GILT has not rallied any further than a retest of the high end of the 130.50-.00 area, even if it is maintaining its rally into that range at present.

Next resistance is back up into the 132.00 area, with the mid-February weekly 131.93-131.49 gap lower reinforcing that on any approach to that area for this GLOBAL GOVVIES weak sister.

Even the weak sister SEPTEMBER GILT FUTURE was holding in the mid 129.00 area, only a bit below the major 130.00-.50 area it recently traded into, and is back into in the wake of the FMOC meeting minutes. That is still well above the key lower 128.00 area it only recently recovered above after slippage throughout March into all of June.

And again the question here is, the question here with the Cassandras fretting over the recently sustained higher inflation indications (including some central bank officials), why aren’t GLOBAL GOVVIES that were seeming to reflect more ‘risk-on’ until early July back under more pressure?

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 that 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 was merely a ‘haven’ bid or a reflection of a better US economy with anticipation of higher 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 had 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 failed back up into the low end of it on the weakening of the ‘risk-on’ psychology, it had recently pushed back into that 92.00-.30 area for a test of 93.30-.40.

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 through Friday **https://bit.ly/3g6mehR**.)

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.

It also dropped 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 above that area. That still left historic 89.50-.00 area support tested during December through February and just missed in late May as lower support.

Yet in the wake of FOMC moving to a seemingly more aggressive tightening, it was back into 92.30-.00 area once again, which it had recently overrun. While the recent focus was back on 91.00-.50 area (including weekly MA-41) that it could not weaken back below of late, the higher interim resistances above the 92.00-.30 range are into the already violated 92.60 and the next congestion in the 93.30-.40 area (including the March 93.43 8-month trading high.)

When the US DOLLAR INDEX slipped below the 92.30-.00 range once again on a partially restored ‘risk-on’ psychology, next lower support reverted to the 91.20-.00 area. However, it had not dropped anywhere near that (or even the key weekly MAs in the mid-91.00 area) prior to recovering even above the 92.00-.30 range for a test of 93.30-.40 area including the key 93.43 late-March 9-month trading high. While the next interim resistance is as nearby as 93.90, the more major resistance is not until up around the 94.74 September 2020 13-month trading high.

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 (now refuted), it was back below 1.2000-1.2100 range with 1.1900 area interim support being violated overall on the way to the current weakness below the 1.1815 interim support. That left the 1.1700 area more major lower support, which correlates 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 recovery back above the 1.1815 interim support means that was once again the area to closely watch.

And the sharp failure late last week put the 1.1750 area back in play as a weekly Head & Shoulders H&S) Top Neckline (as evident on the atypical one-off weekly chart through Friday **https://bit.ly/3iOKPJy**), which it is quietly slipping below on a fresh 1.1800 DOWN Break.

Does that mean the 1.1100 Objective will be hit? Well, long before that would happen it will be important to see if it at least posts a weekly Close below the important late-March 1.1700 area trading low. That is 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.

That is based on whether it is fulfilling at least the minimum bear trend definition of a "lower low after a lower high" (as the high of the right shoulder by definition always is.) I hast already traded below it this week after failing at the 1.1800 DOWN Break on the rally

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 Brexit agreement prior to reacting back down.

That was back 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 had evolved in the context of recent US DOLLAR weakness assisting in pushing it above major 1.4000 area congestion since mid-May. That had previously held despite any minor US DOLLAR bounces, also now including weekly MA-9 and MA-13 trend supports.

The next resistances were not until the interim low-1.4200 area it recently tested prior to slipping 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 (even if now refuted), it is back below the 1.4000 area congestion with 1.3750-1.3800 area next support that had also been violated after previously being tested and holding.

That had a Tolerance down to the hefty March-April 1.3700-1.3670 area 5-month pullback lows congestion (including weekly MA-41) which had also been recently violated. After the recovery back up to near 1.4000 prior to weakening once again left the 1.3750-1.3800 area reinstated as next support, which has already been violated. That brings the 1.3700-1.3670 area back into focus, with the next interim support in the 135.00 area, and the more major congestion not until the 1.3300 area,

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.

That left lower supports back into the interim .7500 area it previously dipped modestly below and then sagged further below again. The key lower supports are the recently neared congestion in the .7350-.7400 area and the .7200 area once again.

While recent stability had left it back up near .7500 once again, the COVID-19 Delta variant impact had it back down below .7350-.7400 area, with next interim support back into the .7200 but with the major support not until the .7000 area once again (as back in the Fall of 2020.) However, that leaves the current selloff back below the .7350-.7400 area after the failure to reach .7500 next resistance on the rally, with it back below the .7200 area once again and next support not until the .7000 area.

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 reinforced the previous 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 not much worse than the 110.00 area, which runs counter to any shift to a 'risk-off' psychology on the lack of a 'haven' bid in the alternate 'haven' currency.

And **EMERGING CURRENCIES** that had been under pressure had been recovering to some degree in February 2020 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' again until a previous 'risk on' revival on US DOLLAR weakness that then reversed.

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 CURRENICES 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? As noted of late, it seemed the more telling issue is just how damaging the rapidly spreading COVID-19 Delta variant might be within the cross currents.

And that is now clearly the more telling influence in the context of consistent Fed messaging on its desire to NOT withdraw any accommodation just yet. It is now also more uniform on some of the EMERGING CURRENCIES not responding well to the renewed weakness of CRUDE OIL.

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 14.50-.45 area again overall left USD/ZAR nearer to the 14.00 area, and the 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 was back above the 13.80 and 14.00 areas, with next interim resistance into recent 14.20 congestion it also pushed above prior to the recent retest.

Yet more major influence is now likely further COVID-19 Delta concerns. After its inability to sustain weakness back below the 14.20, next resistance was into 14.40-.50 area. That was vigorously tested again of late, and was finally exceeded on South African pollical violence adding to its already substantial COVID-19 woes.

Even though the violence has abated, the RAND remains weak after a churn around the higher interim resistance is into the 14.70 area (with weekly MA-41 at 14.72.) However, that is with the more prominent recent and historic congestion into the 15.00-.10 area it is now above, with the next congestion in the mid-15.00 area.

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 prior to the recent recovery back above it.

That recent break was despite US sanctions and the weakness of other EMERGING CURRENCIES in the wake of the previous FOMC announcements and Chair Powell's press conference prior to recovering last week.

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 that was temporarily violated on the combined temporary US EQUITIES weakness and OPEC negotiations disarray. However, after the recent OPEC disruption USD/RUB has rallied back above 73.00-72.50 area to nearer the 75.00 area prior to weakening once again to retest 73.00-72.50 area. After that held, weakening CRUDE OIL process have seen it rally back up nearer 75.00 once again..

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.

That was 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. Now slightly back above 20.00 leaves that as the near-term consideration on a weakening 'risk-on' psychology despite what seems to be some support from sustained CRUDE OIL strength.

While higher hefty congestion is the 20.30 area, there is also the higher 20.65 congestion it traded very temporarily above in mid-June prior to weakening below 20.00 again. While next higher resistance is the 20.90 congestion, the focus shifts more so to the 20.00 and 20.30 congestion areas once again after its recent inability to fail on serial tests of the 19.80 area.

Despite the recent CRUDE OIL slippage back below the 75.00-74.00 area leaving USD/MXN weakening back below 20.00, the extended CRUDE OIL weakness below even 71.00-70.00 nearer to 65.00 support prior left USD/MXN back up above 20.00 area to nearer 20.25-.30. However, the restrengthening of CRUDE OIL had USD/MXN back down into the 19.80 area, which it has interestingly held despite the partial return to CRUDE OIL weakness.

Yet the extended energy market drop has seen it back above 20.00 after recent serial tests of the 19.80 area. However, that has yet to breach the recent hefty 20.25 area congestion, which is also tied into the 20.10 weekly MA-41.

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 recently did drop back near that lower interim congestion last week, it was then surging back up to somewhat above the late-May 8.7424 all-time high.

However, there has been a contrarian LIRA rally last week into this week on USD/TRY slipping back slightly below the late-May 8.7424 all-time high. That said, the more important near-term lower support is now the recent 8.52-8.45 area congestion it had slipped below nearer to that 8.23-8.20 range earlier this week prior to recovering into the 8.52-8.45 area once again. Yet it is now the case that weekly MA-13 and MA-9 have moved up into the 8.58 range, reinforcing resistance around that 8.5764 previous major November 2020 all-time high.

And the weekly Oscillator indications suggest that this is also now a near-term weekly Oscillator threshold, Yet the more critical thresholds (reinforced by recent topping into the minor new highs) are into June's current 8.7917 all-time high, and a very minor new high at 8.91 and then not until well above that on the extended rally indications from 2018 and late 2020.

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.

While there are still some important economic releases and central bank missives this week, for the most part it is generally the depths of the Summer Doldrums. While there is some of that as well next week, the August 26-28 Kansas City FRB Jackson Hole Symposium next week will create anticipation of greater influence then, and into the following week's major early month economic releases. That will bring a return to business as usual.

Monday kicks off with major Chinese economic data and the NY Empire State Manufacturing Index along with the BoC Senior Loan Officer Survey. Tuesday is a more critical day on the major UJ employment indicators, quite a bit of Euro-zone and US data including Retail Sales figures in the latter.

Wednesday sees quite a few Asian economic indications into UK, Euro-zone and Canadian inflation data along with US Housing Starts. Thursday sees Australian Employment into various US and Canadian releases. It all wraps up on Friday with Japanese CPI, UK and Canadian Retail Sales and almost nothing in the US.

Of course, as good as the resilient 'risk-on' psychology may still appear in the US equities grind higher and the return to a bit more of a 'risk-on' psychology in the other asset classes, the still troubling aggressive spread of the COVID-19 Delta variant represents an ongoing global risk factor. As such, you will not be surprised that we obviously maintain our recent advice that has been vindicated again of late: Keep those seat belts firmly fastened.

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