RESEARCH NOTE

Wednesday, September 15, 2021

Reverse Bifurcation, Quick Take, Calendar

As noted since late last week, the US EQUITIES previous 'risk-on' psychology upside leader has reverted to weakness while the other asset classes are now reflecting a bit more risk appetite right now. The operative term there is 'a bit', as the decisions elsewhere are still pending in this heavy economic release week.

There also the market conditions that saw the US EQUITIES maintain the 'risk-on' psychology continue their churn higher in the face of both weakening economic news and continued COVID-19 Delta variant problems. That ended with the failure of the SEPTEMBER S&P 500 FUTURE to maintain trading into weekly Oscillator thresholds (4,515 and 4,540) last week.

However, the current most sizable correction of the past month has been very orderly. It is less of the short-term implosions seen over the past four months than a gradual selloff toward more significant support.

As noted in Monday's 'Risk Shift' research note (repeated below along with Tuesday's 'Inflation Salvation?' research note for your ease of access), that is into the low 4,400 area (including weekly MA-13) with a Tolerance to the mid-4,300s. And the two-way activity around the violated congestion areas (4,492 and 4,462) speaks of the orderly nature of the selloff, with a better chance of holding lower support.

There are certainly good 'macro' reasons for US EQUITIES to be more concerned at present than until last week. While Tuesday's US CPI was a bit cooler, indications elsewhere are not encouraging… especially today's overshoot of already elevated UK inflation data estimates. There is also much weaker than expected Chinese Industrial Production and Retail Sales data. While seen previous as a sign of the strength of China's COVID-19 suppression effort, that is now not working well.

In any event, it is as noted in our August 20th 'Reaction Reflection' research note on a statement from Dawn Tiura, CEO of US-based Sourcing Industry Group, "*China's zero tolerance policy is good for the pandemic but bad for the supply chain*." It is the case therefore that today's weaker Industrial Production figure will not just affect Chinese manufacturers, yet also international companies. (You can revisit the Reuters article at **https://reut.rs/3kduA8F**.)

And the degree of the weakness was striking. As noted in this morning's Reuters article (**https://reut.rs/3nNpsLV**) "...(with) *output and sales growth hitting one-year lows as fresh coronavirus outbreaks and supply disruptions*."

Not mentioned in the article was neither that the data was significantly below already diminished estimates, nor the current rolling regulatory crackdown on many sectors. As such, the correction in US EQUITIES must anticipate continued COVID-19 problems as well as the second largest global economy slowing.

That said, at least so far the correction is very orderly, and that is in the face of much fear and loathing on the weak US EQUITIES seasonal factors that classically take hold from (very specifically) September 17th. Of course, we are not big fans of seasonal influences, as their 'average' tendencies turn out to be useless much of the time.

There is also the activity in the other asset classes, which are not reverting to the weaker indications which the US EQUITIES shrugged off until last week. In FOREIGN EXCHANGE, the recent EMERGING CURRENCIES reaction seems to have run its course without violating any significant trend support. While that is a nominal recovery so far, it must be respected as a sign the overall reopening psychology maintains.

And while the DEVELOPED CURRENCIES have been stuck in some critical trend areas, the most recent indications are that there is no 'haven' bid indicative of a 'risk-off' psychology in the US dollar at present. There is more in Monday's research note (below) on that, and we suggest a review for anyone who has not done so already.

Courtesy Repeat of Tuesday's 'Inflation Salvation?' research note

Even as US EQUITIES give back some of the earlier morning knee-jerk gains, the 'risk-on' psychology should probably send today's slightly softer than expected US CPI numbers a nice big gift. This near-term victory for 'Team Transitory', will leave still very dovish central bankers feeling vindicated in their accommodative stance. Yet that benefit to their program being based on the economic predations of Delta variant also diminishes inflation moderation joy.

That is due to the degree to which by August those Delta variant headwinds were part of what was impacting consumer prices. Especially note the 9.1% drop in airline fares, which is linked to the sharp increase in cancellations and drop in future bookings. As discussed extensively from early August, this is indicative of 'consumer reticence' in the face of the aggressive spread of the Delta variant despite higher US vaccination levels that are still below desired levels due to vaccination skepticism. It also reflects drags on dining and hospitality as well.

The August CPI data (see the official Bureau of Labor Statistics release **https://bit.ly/3tGk9yC** for the full detail) is more so a central bank victory in a skirmish (not even a full battle) in the inflation war. The dilemma is twofold. In the short-term, there is quite a bit more inflation data this week. There are anticipated still elevated UK numbers Wednesday along with some European indications, even if the Canadian numbers are estimated to moderate a bit. There's not much of it on Thursday into the headline full Euro-zone numbers Friday morning.

The slightly longer-term consideration is that today's US release may indeed reflect economic weakness due to the Delta variant impact on consumers. It was also the case that recently hot used car prices also dropped 1.5%. The question therefore becomes what happens as and when the COVID-19 pandemic is once again tamed to some degree, and consumers come back with more spending in the 'gathering' economy? If that is with current reopening supply bottlenecks also easing, it might not be an inflation spur. Yet if not, inflation will be back.

The other key monthly release this morning that is right in line with the US CPI indications is the next monthly Organization for Economic Cooperation and Development (OECD) Composite Leading Indicators (CLI **https://bit.ly/3nxve3S**.) As it once again notes this month, the previous strong growth indications (and this means the netted four month forward view) is 'moderating'. This is a sign its August indication was prescient, as it saw the Delta variant impact coming.

Yet that it is not bearish in only seeing 'moderation' rather than reversal of recent economic growth, and is consistent with a position we took in early September on the markets taking a 'longer view'. That is allowing for the Delta variant speed bump, yet with the overall reopening still continuing across time.

It is also of note that the OECD sees the Chinese economy still experiencing better growth than its international peers. Yet its limited additional COVID-19 Delta variant outbreaks are troubling, due to the degree to which they are there despite heavy lockdowns.

Consider for a moment the degree to which the current outbreaks are coming in key tourist and shipping hubs right into what is normally a very active holiday week in early October. In today's Reuters article (**https://reut.rs/2XqQPR1**) this is noted as of concern that one of the heavy control regimes with a strong economy still seems incapable of eliminating the threat. As one key observer notes, the 'new normal' might just be dealing with repeated COVID-19 waves.

That is yet to be seen, and at least for now US EQUITIES initial positive response to the August CPI would seem to create a buffer against extended weakness based on a central bank monetary policy shift. That proposition will of course be tested on the further inflation numbers throughout this week.

On the overall 'risk-on' psychology, the DEVELOPED CURRENCIES have seen more reinforcement from a bit of US DOLLAR INDEX weakness while still being stuck in the critical 92.70 area. There is more on that in Monday's 'Risk Shift' research note (repeated below for your ease of access.)

That includes the return of some EUR/USD strength after its vigorous retest of the key 1.1800 Head & Shoulders Negated DOWN Break area (with the link to both of those charts below.) Yet the key now is whether renewed US DOLLAR weakness and other DEVELOPED CURRENCY strength, along with EMERGING CURRENCIES, can gain more traction? That is the issue for the rest of this week.

Courtesy Repeat of Monday's 'Risk Shift' research note

It is of note that on an otherwise very light reporting day both the Japanese and German PPI were a bit lower than expected. That is in line with the central bank positions on how they can still provide significant levels of accommodation despite current elevated inflation levels. And the central banks are in unison on the need in the face of COVID-19 Delta variant headwinds.

While Western central banks were the focus last week, especially the ECB's 'twist' on its PEPP (see below), it was less well reported that China's PBC had extended more liquidity for MSMEs (micro, small and medium-sized enterprises.) In its statement (**https://bit.ly/2Xbhtxg**) it notes that "...*as a special monetary tool designed by the PBC to support financial institutions to issue MSB* (micro and small business) *loans, has yielded positive results*."

Of course, this is quite a bit like the ECB's TLTROs and various Fed programs from during the pandemic. The interesting part is China is extending that as the pandemic is supposed to be winding down. Yet based on the recent impact of the Delta variant on China which led to renewed restrictions, that is not really the case. In one of CNBC Steve Liesman's his regular 'Road Back Barometer' segments (**https://cnb.cx/3tDOIKL**) highlighted the problems created by the Delta variant spread in US schools.

This is the downside of some US state governors banning mask mandates, and substantially in the under-vaccinated South and Southeast (although a bit in the Northeast now as well) schools are needing to close due to the sharp rise in children testing positive. As Liesman pointedly noted 1,700 schools are closed for an average of 8 days, and that is up 21% in the past week (see the graphic **https://bit.ly/399NJ5X** where closures had been up 100% the previous week.)

This is also not just an education problem. As we have highlighted previous, when younger children are not back in school, at least one parent is not available to work outside the home. This has been at least part of current labor shortages. With enhanced unemployment benefits ending this month, it will also represent additional pressure on those families, even if sporadically during limited-time school closures. This is not good for the future path of consumer spending where Delta has already created headwinds.

Possibly this is all part of central bank rationale pending further economic and inflation data, where we are going to see quite a bit of the latter this week. And it importantly includes Tuesday's US CPI to kick off that influence.

It is especially important that it is projected to moderate just a bit, and how that turns out may be a key market influence. While the markets have given central banks quite a bit of slack on their continued heavy accommodation, there will need to be some sign that inflation is at least topping out fairly soon to avoid market consequences.

In another CNBC report this morning (**https://cnb.cx/2YH7m3p**), the CEO of 3M commented on this key industrial and consumer products provider seeing three kinds of inflation at present: "*raw material, labor and logistics*", and that the inflation trends look likely to continue. In our view (along with other seasoned observers), the most pernicious is labor cost inflation due to its potential to raise inflation expectations. That has historically been the source of ingrained inflation that has the further potential to turn into the 'stagflation' last seen in the 1970s.

This might be a good reason why US EQUITIES might be under more pressure at present than seen since mid-August. However, much as at that time, there are lower supports after the SEPTEMBER S&P 500 FUTURE failed to maintain its upward momentum by Closing last week below the 4,545 weekly Oscillator threshold. While it also violated the next interim support at 4,462 late last week, it is above that this morning… which will be interesting later this week. That said, even if that goes by the wayside, the more important lower near-term trend support is into the low 4,400 area (including weekly MA-13) with a Tolerance to the upper 4,300s.

This is consistent with support that held on the temporary sharp US EQUITIES reactions over the past four months. The difference from the past several weeks is the now slightly diminished 'risk-on' psychology in other asset classes. Whether this is the beginning of a more extensive retracement or just a near-term aberration will likely become clear later this week after the key economic data releases.

For right now the key areas to watch are the US DOLLAR INDEX limited push back above its 92.70 failed weekly chart major channel UP Bream (see the weekly chart **https://bit.ly/3k27UJr** updated through Friday.) The Evolutionary Trend View (ETV) corollary to this is EUR/USD weakening a bit below its Negated weekly Head & Shoulders Top 1.1800 area DOWN Break (**https://bit.ly/2Xg4IAR**.) It will be important later this week whether those are just vigorous retests or something more.

Market Quick Take

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. That is clear on the FRONT MONTH S&P 500 FUTURE weekly chart (**https://bit.ly/3C50knt** updated through Friday.) 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 subsequently sustaining activity above the 4,425 and 4,450 weekly Oscillator thresholds was a sign of continued strength as they were still rising $25 per week. As such, the Oscillator indications remain important after what was the 'lackluster jailbreak' after the previous outstanding US Employment report. With the market dropping back below the 4,450 level two weeks ago, there seemed to finally be some real risk.

Yet even below the key lower interim levels into the recent 4,425 area congestion and 4,380-65 area bottom of that, it also held key lower support in mid-August looking forward into the following week. That bigger level was 4,340 on weekly MA-13 (loosely held on all sharp reactions) at that time, and the significant aggressive weekly UP Channel from the major 2,174 March 2020 cycle low.

In the event, the recent late week recovery back above the 4,425 area pointed to the strength of the psychological recovery as well as exceeding the key technical resistance areas. That led to the recent new all-time highs above the previous week 's 4,476.50 trading high (prior to the temporary selloff.) That again left the near-term Oscillator thresholds into 4,515 and 4,540 areas (on the rising MA-41), which it failed to maintain later on last week, fomenting the reaction.

This led to the SEPTEMBER S&P 500 FUTURE violation of the 4,492 interim daily chart congestion after trading around it last week, with the more prominent 4.462 area also being violated late last week. And while it traded back above that as well early this week, Tuesday's softening below it speaks of an ability to trend lower in the near term. That leaves the more major 4,420-10 area as next support on both weekly MA-13 as well as that significant aggressive weekly UP Channel from the major March 2020 low.

As usual there is a Tolerance below that (as seen on selloffs in both June and July) down to the 4,350 area lower congestion developed during the temporary July topping activity, and retested on the mid-August sharp temporary reaction. While that may seem to be a broad berth, on past form only below the 4,350 area does the FRONT MONTH S&P 500 FUTURE (December as of Friday) violate enough support to signal any meaningful reversal. Of note, the DECEMBER S&P 500 FUTURE is trading $10 below the September contract, which is going to be interesting.

Evolutionary Trend View

While the FRONT MONTH T-NOTE FUTURE (March at the time) 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 (as apparent on the weekly chart through Friday **https://bit.ly/394vJKw**.) 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 in the mid 133-00 area. That is still only a bit below the 134-00/-16 area it subsequently traded above, and still well above the key lower 132-00 area it recovered above after slippage in March and repeated tests through June. This is all the more interesting as the pressure on the other global govvies seems to stem in part from US inflation indications. And the SEPTEMBER T-NOTE had finally been weakening a bit below the 134-00 area, even if only slightly so far.

While the **MARCH BUND FUTURE** remained above 173.00-172.50 congestion, as expected it was a bit demoralizing that the JUNE BUND FUTURE was so far below it when it became front month future (as seen in the weekly chart updated through Friday **https://bit.ly/395ncXv**.) 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 has been vigorously tested in recent trading. Next resistance was 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.

On the current return to weakness below 177.00-.50 area the key lower remains the 175.50-.00 area it pushed above in mid-July after a more telling rally above the 172.00-.50 area. Yet it was now already back down into the low end of the 175.50-.00 range. While holding might have given some folks a sense of support, that was also violated into early this week.

And that was only the prelude to today's SEPTEMBER BUND FUTURE typically early month expiration with the DECEMBER BUND FUTURE trading at a full 3.00 discount. And that is with the December contract also below the 173.00-172.50 area, which seems to point to quite a bit of inflation expectation there. It also points to the potential test of the next major 170.00-169.50 congestion unless there is a recovery back above the 173.00-172.50 area.

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.

In that regard, the GILT not rallying any further than a retest of the high end of the 130.50-.00 area was a warning, even if it was maintaining that rally into higher resistance until the recent return of pressure. Yet on the current weakening back below 130.50-.00 area the next support remains 128.00. While quite a ways off, the September contract expiration currently sees a DECEMBER GILT FUTURE that is already trading down below that lower congestion.

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

After the **US DOLLAR INDEX** had 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 above that area (as evident on the weekly chart through Friday **https://bit.ly/3k27UJr**.) 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.

That is along with a fresh major weekly 92.70 down channel UP Break (see the chart.) While recently above the next congestion in the 93.30-.40 area (including the March 93.43 8-month trading high), back below it the 92.70-.60 area will remain a key consideration.

Failing below it over the past couple of weeks was a negative sign. This is also tied into the **EUR/USD** decision back into its recently Negated 1.1800 weekly H&S Top DOWN Break.

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 meant that was once again the area to closely watch. And the recent sharp failure 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/2Xg4IAR**), which it quietly slipped 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 sees greater weakness below the important late-March 1.1700 area trading low than the temporary weekly Close slightly below it two weeks ago.

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, and fulfills at least the minimum bear trend definition of a “lower low after a lower high” (as the right shoulder by definition always is.)

Yet on current form, the sheer ‘trend flow’ for the past several weeks looks bad for the bears. Having a sizable weekly pattern DOWN Break show some progress only to not exhibit downside ‘follow through’ on a selloff two weeks later feels like that overall DOWN signal that is not performing to reinforce the overall trend reversal. Into last week it was all coming down to whether the bears could defend the 1.1800 area overall despite the recent buoyant price activity, and that was not the case. Yet the current retest of that area with not much strength so far leaves a question yet to be resolved.

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 was 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 now already violated once again.

That brought the 1.3700-1.3670 area which was temporarily violated two weeks ago back into focus, with the next interim support in the 135.00 area, and the more major congestion not until the 1.3300 area, Yet the current squeeze back above the 1.3750-1.3800 area looks at important as the EUR/USD decision, with the weekly MAs also all in that area meaning it will be a significant decision once it is resolved.

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.

While it was recently back below the .7200 area once again with next support not until the .7000 area, the current rally back above both the .7200 area leaves it back near the 7350-.7400 area with the.7500 area as next resistance 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 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 is now more critical on its recent slippage.

And **EMERGING CURRENCIES** have now diverged to a greater degree than in recent memory, due to 'country' factors. That has seen the SOUTH AFRICAN RAND weaken to a greater degree, and the previously beleaguered TURKISH LIRA hold more of a bid than seen in a while. However, in general they remain a good general indication of 'risk appetite' due to their economies' sensitivity to overall economic conditions. That seems to also be especially as it relates to the headwinds from the COVID-19 pandemic.

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 had abated, the RAND remained weak after a churn around the higher interim area around 14.70 area (with weekly MA-41 at 14.72 at that time.) However, that is with the more prominent recent and historic congestion into the 15.00-.10 area it was recently above, only stopping into the next congestion in the mid-15.00 area.

Yet the renewed risk appetite has been very prominent in USD/ZAR, with the slide since early last week dropping back below 15.00-.10 area, 14.80-.70 and even the 14.40-.50 area, leaving 14.20 once again as the next key congestion (early-August trading low.) While that has held of late, only sustained activity back above 14.40-.50 it is currently retesting would signal a reversal. The next lower support is loosely 14.00 into the 13.90-.85 range.

Even when other EMERGING CURRENCIES have reacted to the downside of late, the **RUSSIAN RUBLE** had seen **USD/RUB** weaken at times on the back of sustained CRUDE OIL strength. The 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 was 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 WTI CRUDE OIL prices had seen it rally back up nearer 75.00 once again prior to stalling. However, the recent major WTI CRUDE OIL recovery back above 70.00 has seen it drop back slightly below the 73.00-72.50 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.

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 that had seen it back above 20.00 after recent serial tests of the 19.80 area is now reversed. However, after breaching the recent hefty 20.25 area congestion (also tied into the 20.10 weekly MA-41 at that time) it is back below it. Now also back below the 20.00 area (also weekly MA-9 and MA-13) brings the 19.80 area back into consideration 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 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 stalled up into the 8.54-8.57 range, reinforcing resistance around that 8.5764 previous major November 2020 all-time high.

And the weekly Oscillator indications suggest that it was up against near-term weekly Oscillator thresholds prior to the recent more prominent selloff. While the more critical thresholds (reinforced by recent topping into the minor new highs) are into June's current 8.7917 all-time high, those moot after the current two-month selloff.

The recent USD/TRY weakness has left it more so down vigorously testing the early-August 8.2960 and early-June 8.2832 trading lows, with the more prominent support down into the 8.00 area (including weekly MA-41.)

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.

The significant amount of central bank influence last week reinforced their tendency toward maintaining full accommodation in the face of the COVID-19 economic headwinds. It is now the case that US EQUITIES are reacting while the other asset classes continue to reflect their reversion to 'risk-on' psychology. That is going to make this week's events more important.

While Monday is an all-around light reporting day, Tuesday sees quite a bit of Asian data into UK Employment, and Spanish and US CPI along with OECD Composite Leading Indicators. Wednesday brings quite a bit of Chinese economic data along with an NBS press conference into extensive Euro-zone, UK and Canadian inflation indications. That is along with the US Empire Manufacturing Index followed by Industrial Production and Capacity Utilization.

Thursday begins with quite a bit of Asian data again, including the Australian Employment report as well as Japanese International Trade numbers, followed by the same from Italy and the Euro-zone. There are a major number of US releases, including Retail Sales, the Philadelphia Fed Survey, and Business Inventories. Friday is a much lighter reporting day, yet still including UK Retail Sales, Euro-zone CPI and US Michigan Consumer Sentiment.

Of course, the troubling resilience of the COVID-19 pandemic on the continued Delta variant spread is still offsetting some of the more upbeat recent vaccination developments. Yet even as this seems to finally be taking a toll on US EQUITIES, ither asset classes remain resilient/ As such, you will likely not be at all 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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