RESEARCH NOTE

Tuesday, September 21, 2021

Compressed Rout and Recovery, Quick Take, Calendar

As noted in Monday's SPECIAL ALERT!! 'Risk-Off Rout' research note, there were key US EQUITIES price levels below which there would be further immediate weakness. While that is indeed what transpired, the December S&P 500 future late session recovery actually left the market back up in the area of that violated key support.

This is most interesting in the context of the broader perspective also shared on Monday regarding the lack of any reason for a sustained major US EQUITIES (and general 'risk-on' psychology) reversal at present. Especially noted in Monday's SPECIAL ALERT!! 'Risk-Off Rout' research note (repeated below for your ease of access) were the reasons why the Chinese conglomerate Evergrande's problems (and possibly some among its peers) were not cause for 'global financial contagion' concern.

There was also some very good news on the potential address of the COVID-19 pandemic, which is not as immediate as the current worries over the situation in China, or the more general concerns on supply bottlenecks and stubborn global inflation affecting all businesses. And there was a further typically thoughtful and thorough review of the prospects for the global economy early this morning.

That was the Organization for Economic Cooperation and Development's (OECD) Interim Economic Outlook (**https://www.oecd.org/economic-outlook/**), which also has a link to the press conference along with its PowerPoint presentation. It is very encouraging that OECD still sees the situation as one of continued growth, even if somewhat slower in 2022. This is similar to many other assessments that see bottlenecks and inflation as problems that will ease into next year, and the overall COVID-19 pandemic impact being addressed across time. It once again gets back to 'The Longer View' psychology maintaining a 'risk-on' psychology.

Even after Monday's major US EQUITIES selloff, the psychology remains the same for the balance of the week into significant central bank activity (see below.) Greater sustained US EQUITIES failure looked assured around midday Monday on the extensive DECEMBER S&P 500 FUTURE weakness below the front month future mid-August pullback 4,348 trading low.

Yet the late session recovery left it back up in that area. As expressed on Monday, the real test will be whether it Closes the week below that area, which is going to be most interesting. That is due to the looming impact of central bank decisions and statements (and press conferences) on Wednesday (PBoC, BoJ and FOMC) and Thursday (SNB and BoE.)

While the stubborn COVID-19 Delta variant spread, remaining product sourcing issues and inflation headwinds are significant, the degree to which they weaken the interim economic outlook also empowers continued central bank accommodation. So it will be interesting not just to hear what the central banks have to say, yet also how the markets respond to what is most likely to be continued accommodation.

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Particularly of note on the markets so far this week is the lack of anything more than a partial recovery of GLOBAL GOVVIES after a recent rout (especially in the GILT and BUND.) There is also the return of the near-term US DOLLAR 'haven' bid, which we discussed in Monday's research note as well… will it continue?

Courtesy Repeat of Monday's 'Risk-Off Rout' research note

The impact of the problems of Chinese conglomerate Evergrande Group have spilled over into the broader market psychology. While the potential problems with China's highly leveraged property companies have been lurking in the background for years, there has never been an overt threat of failure of any of them until now.

As this morning's Reuters article (**https://reut.rs/3tXZRRs**) notes, there is a real chance that Evergrande will miss payments on some of its $305 billion of loans beginning Thursday of this week and again next Wednesday. Part of the previous sanguine psychology has been the idea that there was a Chinese government 'put' in place on solvency of any of these large companies, due to the possible problems a default might trigger in the broader economy.

However, in recent days there have been signals from some official government news sources that Evergrande was not 'too big to fail' (like the US banks and financial institutions in the wake of the 2008 Credit and Housing Bust.)

As such, there is a fairly good chance Evergrande will default, leading to a major restructuring of uncertain proportions. That uncertainty factor, and what it may mean to the broader Chinese property sector is vexing markets at present on the old axiom (revisited many times), "*The market* (which classically means equities) *dislikes nothing quite so much as uncertainty*."

That said, uncertainty can also drive over-reactions that do not have much to do with the international economy and financial instruments other than a sharp market reaction. In this case the question must be whether any Chinese property-intensive conglomerate melting down will have a broader international impact other than a partial weakening of the Chinese economy. This is a key consideration, due to Western investors having been excluded from much of the normal investment in China… especially Western banks that are not exposed.

As such, this is not likely a sustained major issue for the broader global economy after the dust settles on the current panic selling due to seemingly classical financial 'contagion' concerns. The US EQUITIES activity has only been to extend their recent selloff to the test of previously articulated low end support. There is more below, as we already noted in Friday's 'A Whiff of Risk-Off' research note (repeated for ease of access.) This is a classical 'exigent influence'.

It is also ironic it is also hitting after very good US 'rearview mirror' economic data last week, and also right into some of the best US (and global) COVID-19 vaccination news. That is the report this morning from Pfizer-BioNTech of the very high efficacy and low adverse reaction rates for its reduced dosage COVID-19 vaccine in tests on 5-11 year olds.

In another very good Reuters report this morning (**https://reut.rs/39Il0LL**) the pharmaceutical firm is quoted on tests having "...*induced a robust immune response in 5 to 11 year olds*…" and "...*the vaccine was well-tolerated*..." It plans to ask the FDA for an EUA very soon.

As regular readers know, we have been concerned about the degree to which the vulnerability of younger school age children is also a broader economic impact. That is due to the influence it exerts on the employment potential for parents. That is where schools have been forced back into remote learning due to Delta variant COVID-19 outbreaks, as has been the case in quite a bit of the US South and Southeast (yet also a bit in the Northeast as well.)

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While the extension of an Emergency Use Authorization for 5-11 year olds would not be a 'magic bullet' immediate cure, it will significantly improve prospects into early 2021. And as we have noted since our early month 'Longer View' research note, the overall 'risk-on' psychology resilience can only be interpreted as markets being inclined to presume the current COVID-19 Delta variant travails will pass. Solving what has been a new problem which had not been prevalent in the earlier COVID-19 variant infection spread would go a long way toward that general positive psychology.

Aside from other near-term stressors, like US debt ceiling negotiations and the fortunes of broader Biden infrastructure plans, taming of the COVID-19 pandemic remains a key economic consideration. The silver lining behind the Evergrande dark cloud is the degree to which the sharp market weakness will encourage the continued central bank accommodation messaging in a week that gets us back to nothing less than a round of Central Bank-O-Rama.

That is for minutes releases as well as Wednesday's PBoC, BoJ and FOMC rate decisions followed Thursday by SNB and BoE, as well as some press conferences over those two days.

This means a sharpening of the weaker influences (some country data as well as the mixed COVID-19 developments) versus liquidity provision encouragement from central banks for EQUITIES and the overall 'risk-on' psychology, which has come under pressure over the past two weeks. As a barometer for overall psychology, the return of more classical intermarket relationships means US EQUITIES once again provide the benchmark for the 'risk-on' fortunes.

As noted on Friday (see below), the ultimate Tolerance for the DECEMBER S&P 500 FUTURE (front month since Friday's September expiration) on a weekly Close is the mid-August 4,350 area low; specifically the August 19th 4,347.75 daily low. While it has already traded slightly below that this week, the weekly Close will be the more telling indications, with next major support not until the mid-low 4,200 area.

There are also important levels for the GLOBAL GOVVIES on their knee-jerk rally from previous inflation-driven weakness (after last week's less encouraging data.) FOREIGN EXCHANGE also is seeming like more of a 'risk-off' psychology for now on the US DOLLAR INDEX pushing back above its previous failed 92.70 major weekly down channel UP Break (**https://bit.ly/3k27UJr** chart from Friday September 10.)

That is also on EUR/USD back below its previously violated 1.1800 weekly Head & Shoulders DOWN Break (**https://bit.ly/2Xg4lAR** chart from Friday September 10.) Both of those charts are from a week earlier due to our desire to provide updated charts (on the US EQUITIES and GLOBAL GOVVIES as well) after today's US Close, in order to display the full Evolutionary Trend View after today's important activity.

Courtesy Repeat of Friday's 'A Whiff of Risk-Off' research note

It seems that the concerns over 'macro' economic developments which have been weighing on US EQUITIES have migrated over to the other asset classes which had been immune to those pressures until Thursday. For more on those influences please see Wednesday's 'Reverse Bifurcation' research note (repeated below for ease of access.) [We are of course referencing Wednesday's analysis due to our being out on a one-day personal break on Thursday.]

That runs the gamut of still stubborn COVID-19 Delta variant spread, even in a China that is imposing significant quarantines in a limited number of areas again. And despite the weaker Chinese Retail Sales and Industrial Production Tuesday, that is not just China's economic issue. The slowdowns at Chinese ports, and in their production of intermediate goods for international manufacturers makes its slowdown and quarantines a problem for the global economy.

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That said, the US ‘rearview mirror’ economic releases this week have significantly outperformed expectations. That is especially so for Thursday’s Philadelphia Fed Survey and Retail Sales; yet with the latter seeing similarly large downgrades to the previous month’s strong indications.

All of this flies in the face of recent US EQUITIES more so ‘risk-off’ activity on FRONT MONTH S&P 500 FUTURE weakness back below interim 4,492 congestion, and its churn either side and now below the more prominent 4,462 area this week. On DECEMBER S&P 500 FUTURE taking over as the front month today (at a $10 discount), it is down to the 4,430 area.

As noted previous, this may also be psychological on the ostensible start of the weakest seasonal period for US EQUITIES literally beginning today. As noted on Wednesday, “...*we are not big fans of seasonal influences, as their ‘average’ tendencies turn out to be useless much of the time*.” Yet that does not completely eliminate the ‘fear and loathing’ factor until we see how it plays out next week. On current form the US EQUITIES reaction is actually quite a bit more orderly than the short, sharp reactions of the past four months. That bodes well for their future into the more prominent lower support. As noted of late, it is the low 4,400 area, including heftier July-August congestion and weekly MA-13.

While that is quite a ways down, it extends into the upper 4,300 area congestion, with an ultimate Tolerance of the mid-August 4,350 area trading low. 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 violate enough support to signal any sustained meaningful reversal.

Getting back to the degree to which the FRONT MONTH S&P 500 FUTURE failed to maintain the pace of the higher near-term Oscillator thresholds, those lower levels get back to similarly important thresholds. Both the low 4,400 area and the mid-4,300 area are going to be lower key Oscillator thresholds into next week, still on weekly MA-41 rising $20 per week. That remains a bullish indication overall.

That said, the ‘risk-on’ indications have become more mixed in the other asset classes for now. The continued weakness of the GLOBAL GOVVIES is a passing ‘risk-on’ indication at present. Of note, the DECEMBER GILT FUTURE is not the official lead contract until September 28th, yet is now the lead trading contract (i.e. it has all of the trading volume.) While the September contract remains only down into 128.00 area support, the classical pre-expiration 1.00 discount in a second month means the December contract is well below it; nearer to the 126.00-125.50 major support.

FOREIGN EXCHANGE is seeing a return of ‘risk-off’ on the return of a ‘haven’ bid to the US DOLLAR, with US DOLLAR INDEX pushing back above its 92.70 previously failed UP Break. This is consistent with EUR/USD weakening back below its 1.1800 area Head & Shoulders Top DOWN Break, seemingly Negated on the recent rally yet needing to be respected again on the weakness below it at present. (See Monday’s ‘Risk Shift’ research note below for the links to the weekly charts for both of those trend indications.)

EMERGING CURRENCIES are also seeing some weakness against the greenback again, even if the most glaring example is the volatile SOUTH AFRICAN RAND seeing a USD/ZAR surge (maybe in part on Crude Oil strength.) That said, other EMERGING CURRENCIES are much less weak, with the Crude Oil-advantaged RUSSIAN RUBLE having USD/RUB remain in the lower 73.00-72.50 range.

The operative question into next week would seem to be whether this is a real reversion to economic weakness, with the global reopening being at risk from the stubborn resilience of the COVID-19 Delta variant spread? Or is it simply a late week extension of ‘risk-off’ psychology anticipation of the US EQUITIES seasonal weakness spilling over into other markets?

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Yet if the latter is the case, why are the GLOBAL GOVVIES weakening further when they should be strengthening on any lack of the stronger, inflation-creating growth? The only other explanation might be that we have already entered a troubling 'stagflation' era (not seen since the 1970s), where economic weakness will be accompanied by stubborn inflation.

In any event how these tendencies play out into next week and beyond is going to be very interesting. That will be especially for the US EQUITIES more gradual than previous selloff into support. While that should speak of a greater potential to hold and rally back, there are of course no guarantees. FOREIGN EXCHANGE will also be very interesting on whether the current 'risk-off' tendencies will maintain.

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/3Cv1TLF** updated through Monday.) 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 two weeks ago, 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 previous, with the more prominent 4.462 area also being violated two weeks ago. And while it traded back above that as well early last week, recent softening below it spoke of an ability to trend lower in the near term. That left the more major 4,420-10 area as next support on both weekly MA-13 as well as that significant aggressive weekly UP Channel from the major March 2020 low.

Having tested that area into last week's Close and violating it from the very beginning of this week was a fresh 4,410 DOWN Break. That fed further weakness which was already anticipated from the negative fundamental influence flowing out of China. 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 to a 4,347.75 trading low. While that may seem to be a broad berth, on past form only below the 4,350 area does the market signal a full reversal.

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Yet as always with these matters, the weekly Close will be more important than temporary trading weakness below it. At least so far the DECEMBER S&P 500 FUTURE has held against interim low-4,300 support, yet with the more major support not until the 4,250-25 May-June congestion. That includes a couple of subsequently violated weekly DOWN Closing Price Reversals as well as the significant 4,224 mid-July sharp selloff trading low. Hence the importance of the 4,348 decision later this week on the near-term US equities prospects.

Courtesy Repeat of Wednesday's Evolutionary Trend View (Updated Charts)
[To be updated Wednesday morning prior to FOMC announcements]

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 Monday **https://bit.ly/3lHplid**.) 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 Monday **https://bit.ly/2VZ3XMx**.) 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.

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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.

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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. (Friday addendum: It is now closer to the major 126.00-125.50 major 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 Monday **https://bit.ly/3tZLcFp**.) 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 Monday **https://bit.ly/39mpRwa**), which it quietly slipped below on a fresh 1.1800 DOWN Break.

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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.

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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.

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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.

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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.

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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 (updated for this week)

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 last week saw some very mixed data (US strong with weakness elsewhere), this week reverts to a major round of Central Bank-O-Rama. That begins quietly on Tuesday's release of the minutes of the September 7th RBA rate decision meeting. Yet Tuesday morning sees the next OECD Interim Economic Outlook (links in calendar), followed by Wednesday's PBoC, BoJ and FOMC rate decisions into Thursday's calls by the SNB and BoE.

Along the way there will be limited inflation indications this week (which the US equities and global govvies will likely find amenable.) Yet it also sees the next round of global Advance PMIs on Thursday into Friday's Japanese CPI and German IFO Surveys.

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 and other asset classes, this week will be a test of the notion that we are at the beginning of a very negative US equities seasonal.

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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