RESEARCH NOTE

Friday, September 24, 2021

Risk Limbo, Quick Take, Calendar

As noted in Thursday's 'Delta Dependent' research note (repeated below along with other previous analysis for your ease of access), the central banks are all acknowledging the continued growth, yet are citing the stubborn resilience of the COVID-19 Delta variant as grounds to remain accommodative for now. That is a variegated situation with, for example, lower infection rates in a few countries encouraging lifting of pandemic restrictions, yet higher infections elsewhere.

That is still with higher new cases among the less vaccinated nations, and better results elsewhere. Yet it is adding to the uncertainty on individual country GDPs and international trade, which justify the continued central bank largesse. It is also the case that the 'rearview mirror' economic data has also weakened of late. This week that includes Thursday morning's weaker global Advance PMIs, and this morning's German IFO Surveys. This is another aspect of the picture (even if also driven by the COVID-19 pandemic) supporting central bank largesse.

Then there is mitigation of the influence from Evergrande's situation, even though it missed a dollar-bond interest payment Thursday (more below.) The swing from 'the Agony' of the international economic and financial fears into midday Monday to 'the Ecstasy' of Wednesday's post-FOMC rally was palpable (with apologies again to Irving Stone for borrowing his novel's title.) It was already becoming apparent this is not a 'contagion' crisis regarding (as we noted on Monday) "...*this is not likely a sustained major issue for the broader global economy after the dust settles on the current panic selling*…" That IS due to not enough Western exposure.

Along with the very limited Western exposure, that is in line with the fact noted yesterday that the interest payment (along with the one due next Wednesday) has a 30-day grace period before Evergrande is in default on those payments… hence today's 'Risk Limbo' title. In part this is a period for Evergrande to consider all of its payment options and ready cash sources. That is going to be very interesting.

However, it is also a period for the Chinese government to consider the domestic financial implications along with the social fallout. As this morning's very good Reuters article (**https://reut.rs/2WcxWRg**) notes, "*The conundrum for China's leaders is how to impose financial discipline without fuelling social unrest, since an Evergrande collapse could crush a property market which accounts for 40% of Chinese household wealth*..." It is also a major sector for the Chinese economy.

Given that impact on both the Chinese economy and its social compact, it is another important aspect. That is due to the Chinese central government already signaling local governments they should prepare for the financial fallout and even social unrest if Evergrande fails. And now there may be other problems in the property sector, where many have paid substantial amounts for homes yet to be built. As such, the markets are likely in for a further phase of 'thrills and spills' on the evolution of Evergrande itself, and the overall Chinese property sector.

However, at least so far US EQUITIES response to the ‘grace period' realization has been to fully recover from Monday’s radical weakness. DECEMBER S&P 500 FUTURE has rallied all the way back above 4,400-20 range trend support cited last week.

GLOBAL GOVVIES back under pressure after Monday’s temporary squeeze from previous weakness is a sign of renewed ‘risk-on’ psychology, even if some inflation influence must be allowed. That is with the previously resilient FRONT MONTH T-NOTE FUTURE seeing the SEPTEMBER CONTRACT rally back to the 134-00 area just prior to its Tuesday expiration, yet just three days later seeing the discounted DECEMBER CONTRACT fail all the way down to lower major 132-00 area congestion.

FOREIGN EXCHANGE is a more mixed picture. The DEVELOPED CURRENCIES are a bit stuck with the US DOLLAR INDEX in the 93.40 area, and EUR/USD in the 1.1700 area (more below, with chart links for both.) EMERGING CURRENCIES are still under pressure, and this may be due to the China uncertainty factor having more of an impact there.

Courtesy Repeat of Thursday’s ‘Delta Dependent’ research note

An anti-global government conspiracy theorist would be within their rights to imagine that, at least as far as central banks are concerned, it is already the case. While there are still many intergovernmental policy disputes, central banks have been of one voice of late. We allow there are good reasons for communication and policies to seem more ‘mantra’ than independent central bank assessments.

As noted in Wednesday’s ‘Two Down… Three To Go’ research note (repeated below for your ease of access), “*While stubborn COVID-19, product sourcing issues and inflation headwinds are significant, the degree to which they weaken the interim economic outlook also empowers continued central bank accommodation*.” It is the case on the additional three central bank decisions and other communication since Wednesday morning’s assessment, that this has been wholly reinforced.

First there was Wednesday afternoon’s FOMC Statement (**https://bit.ly/3zFhHJT**) and updated projections (**https://bit.ly/39B7eEI**), which showed a few more of the ‘dots’ (member indications of when they think rates will rise) moving into 2022. However, as communicated previous by many Fed officials, the ‘dot plot’ is a very loose estimation, and subject to significant change as economic conditions evolve.

All of this was followed by Chair Powell’s press conference (**https://bit.ly/3u7n4jS**), stressing the degree to which the obviously stronger US economy still has quite a ways to go.

When the Fed was in limbo due to uncertain economic conditions, it used to be said the Fed was ‘data dependent’. The updates to the US and global COVID-19 situation based on the stubborn spread of the Delta variant means the Fed and other banks are now ‘Delta dependent’.

This is especially true for the US, where politicized vaccine reticence continues to take a toll. This is now an issue for the Fall back-to-school drive, due to associated labor market impacts.

And the same message was not surprisingly apparent in this morning’s Swiss National Bank Monetary Policy Assessment (**https://bit.ly/3ENTqFg**.) It assumes that global pandemic containment measures will continue to ease due to successful vaccination efforts.

Yet it must be noted that the US had its lowest vaccination rate in many weeks last week. And despite its further upbeat SNB medium-term outlook, the headline of the SNB statement was, “*Swiss National Bank maintains expansionary monetary policy*.” That is the key indication.

It is as with the other central banks, where the message seems to be, "*It is all good, with future growth back to pre-pandemic levels almost assured. Yet we need to deal with the near term Delta variant 'speed bump', which means there still needs to be sustained accommodation until we are sure things are on track*."

The SNB was followed by the BoE, with much the same message. While there is no press conference today (now only with the Quarterly Monetary Policy Report), the Monetary Policy Summary and minutes of the Monetary Policy Committee meeting (**https://bit.ly/3zAqvRm**) communicated the same reasons for near-term continued accommodation. In all cases this is despite elevated inflation, which they ascribe to reopening bottlenecks they suggest will clear up into next year.

All of this continued unified central bank accommodation is the support for the 'risk-on' psychology we expected might be on the way into this week. As such, it is not surprising the US EQUITIES have recovered from their short-term Monday debacle on the fears over Evergrande, from which they had partially recovered by the daily Close.

And the lack of any systemic global risk from what the Chinese government is warning might be Evergrande's 'demise' (according to a Reuters article citing Wall Street Journal reporting **https://reut.rs/3lSTzik**) is apparent in the US EQUITIES and other asset classes shedding Monday's 'risk-off' tendencies.

Yet there is the 'fudge' here in a classical 'kick the can down the road' function: As the article notes regarding both the $83.5 million dollar-bond interest payment due today and another $47.5 million dollar-bond payment due next Wednesday, "*Both bonds would default if Evergrande fails to settle the interest within 30 days of the scheduled payment dates*."

Well, a 30 day grace period is certainly grounds to ignore the ostensible immediate problem while Evergrande, its creditors, local governments, and possibly the Chinese central government review the problem.

That is in addition to the degree to which Evergrande (and most other Chinese property companies) do not represent a serious risk to Western banks and other investors, due to relatively nominal loan amounts, or investments held by them (see below for more details.)

Yet it might still be a modest psychological influence at some point. And further support for central bank accommodation instincts were also clear in this morning's weaker European, UK and US Advance PMIs.

All of it has added up to a renewed 'risk-on' psychology driving US EQUITIES back to higher on the week, most prominently in the form of the DECEMBER S&P 500 FUTURE above last week's 4,406.50 Close. That is also back above the aggressive weekly up channel 4,410 DOWN Break from the beginning of this week (see the weekly continuation chart updated through Monday **https://bit.ly/3Cv1TLF**), and above trend-significant weekly MA-13 at 4,423.

This works hand-in-glove with the GLOBAL GOVVIES coming back under pressure, especially the previously resilient T-NOTE FUTURE, where the SEPTEMBER CONTRACT expired still holding in the 134-00 area on Tuesday only to see the DECEMBER CONTRACT back down closer to the major 132-00 support late this week.

It's the same story in FOREIGN EXCHANGE, where the US DOLLAR INDEX eked out a Close above its key 93.40 area Wednesday. That was in the wake of some feeling the Fed had been less accommodative (??), yet still with the overall 'risk-on' psychology taking the wind out of any US DOLLAR 'haven' bid into this morning. That is consistent with EUR/USD also recovering from its minor slippage back below the key 1.1700 area (chart links for both in Wednesday's research note below.)

It is much the same in EMERGING CURRENCIES, where even the recently vexed SOUTH AFRICAN RAND (likely on the strong energy market influence) has seen USD/ZAR weaken back below the 14.70-.80 area. While that is only a modest recovery so far, it speaks of an easing of the 'risk-off' influences from earlier this week.

Courtesy Repeat of Wednesday's 'Two Down… Three To Go' research note

BoJ sees continued Japanese economic recovery, even though exports volumes are under pressure and (according to this morning's Reuters article) "...*weakness in consumption in July through August, when infection cases surged, was 'somewhat unexpected'*." Sound familiar?

It is the same mantra as heard from all of the central banks of late ...near-term pressure, yet still good future prospects. Prior to that the first bit of expected yet still constructive news this morning was the PBoC holding its base rate steady at 3.85%, and also injecting another $14.0 billion into its now weakening economy.

Whether that was a direct response to the travails of China's Evergrande conglomerate is unknown. What is known, according to a very good Reuters article (**https://reut.rs/3hW4432**), is that the troubled firm negotiated a deal to avoid default on its yuan bonds due today.

It goes on to note what we (among other observers) have repeatedly noted on the lack of any potential for Evergrande's situation to trigger a global financial crisis. There is little chance of 'global financial contagion' when (as the article notes, "*Only some $20 billion of $305 billion outstanding debts is owed offshore, according to Refinitiv data*." As such, Western banks' solvency is not at risk.

However, the psychological test for markets is not resolved based on Evergrande addressing its yuan-bond interest payment. As the article notes, it also still has "...*$83.5 billion in dollar bond interest payments due on Thursday*." That is likely less amenable to whatever negotiation worked out on its yuan-bond payments.

With the PBoC and BoJ already factored into the market psychology, that is just two down and three to go. We are now focused on the FOMC rate decision and updated economic projections this afternoon (14:00 EDT), and Fed Chair Powell's press conference. As important as the Fed's influence may be, the extended influence of the Evergrande situation into Thursday along with the SNB rate decision followed by the (somewhat more important) BoE decision and statement means the overall market trend decisions will evolve into tomorrow.

While there is every expectation SNB and the BoE will remain accommodative under current circumstances, there has been some talk of the Fed having a more active QE 'taper' discussion. That is reasonable within the current sustained inflation environment, even if it is expected to ease into next year.

There was more on that in Tuesday's 'Compressed Rout and Recovery' research note (repeated below for your ease of access.) In essence, all of the central banks remain stuck in the COVID-19 Delta variant versus the elevated inflation switches.

As far as the market activity into midweek, the US EQUITIES are obviously shaking off the sharp 'risk-off' selloff reaction to the initial Evergrande news from the weekend. That is obvious in the DECEMBER S&P 500 FUTURE resilience in not Closing much below the important 4,348 mid-August reaction low.

Even though it traded so far below it on Monday, the late session recovery was a bit of 'the cavalry to the rescue'. Along with the newly established 4,410 major channel DOWN Break, that will remain important into the end of this week… subject to Evergrande and central banks.

Monday's price swings in the other asset classes were less pronounced, and so are the counterpoint reactions at present. Previously suffering GLOBAL GOVVIES had a very sharp 'risk-off' bounce, yet not anywhere near key higher resistances.

It was also the case that DEVELOPED CURRENCIES did not see the US DOLLAR INDEX strengthen any further this week after last week's push back above its previously Negated 92.70 major down channel UP Break. Yet as the weekly continuation chart (**https://bit.ly/3tZLcFp**) shows, that has stalled again only up into the key 93.43 late-March trading high, where it also stalled in both July and August.

That is also a reflection of the weakness of EUR/USD back below its nominally Negated 1.1800 Head & Shoulders Top DOWN Break. However, here as well there is a further 'proof in the pudding' on whether it also fails the important 1.1700 area late-March trading low, which it loosely held back in mid-August (seen on its weekly continuation chart **https://bit.ly/39mpRwa** updated through Monday.)

While each of these is a nominal 'risk-off' indication on the return of a US DOLLAR 'haven' bid, they each need more follow through to reinforce that. If not, they are also just possibly the bears 'last hurrah' prior to a return to 'risk-on' psychology.

EMERGING CURRENCIES are more of a country affair at present, which is somewhat heavily influenced by the energy market activity. That leaves USD/ZAR strong again above 14.20 and also pushing above 14.40-.50 into the 14.70-.80 area. However, USD/MXN is less weak on its push back up from 19.80 to somewhat above 20.00, yet not even testing the 20.25-.30 area. And the energy-centric RUSSIAN RUBLE has seen USD/RUB still stuck in lower 73.00-72.50 area support.

Courtesy Repeat of Tuesday's 'Compressed Rout and Recovery' research note

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 easing 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.

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 Tuesday's 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.

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

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 up until its September 21st expiration. However, even after the recent bounce, the DECEMBER T-NOTE FUTURE was still at a 24/32nds discount, which is now leaving it down into the low 133-00 area. That said, more important support remains down into the 132-00 area.

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.

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. And on the recent rally it only reached the 172.00 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, and closer to the major 126.00-125.50 major congestion prior to the recent bounce. Only back into the mid-128.00 area.

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 the recent fresh major weekly 92.70 down channel UP Break (see the chart.) While recently slightly 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 was a key consideration. Failing below it prior to the current recovery was a negative sign which has been mitigated on the rise back above it. Whether that maintains, and whether it can invigorate stronger activity back above the 93.30-.40 area will be the ley current trend indications.

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.

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 weakness back below that area leaves a question yet to be resolved, and makes the 1.1700 area more critical once again.

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, The current weakness back below the 1.3750-1.3800 area looks as important as the EUR/USD decision, with the weekly MAs also all in that area meaning it will be a significant decision along with the current vigorous test of the 1.3700-1.3670 area.

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

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

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

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 left it back near the 7350-.7400 area prior to the current weakness. The.7500 area remains next higher 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 until its current weakness. 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, activity back above 14.40-.50 area has left it testing the 14.70-.80 resistance. The next higher resistance is the 15.00 area once again.

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 had seen it drop back slightly below the 73.00-72.50 area prior to stabilizing in that range once again.

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

It then failed once again into a retest of the additional significant historic congestion (2018-2019) in the 19.80 area, with the next hefty historic congestion as nearby as the recently very vigorously tested 19.65-.50 area. The overall bottom of the very significant late-2018 through early-2020 range is not until the 18.50-.40 range.

That was even allowing there are interesting interim supports at 19.30 and into the 19.00-18.90 range. That said, the current rally back above 19.80 was more critical even after the previous failure as nearby as the 20.25-.30 area. Now slightly back above 20.00 leaves that as the near-term consideration on a weakening 'risk-on' psychology despite what seems to be some support from sustained CRUDE OIL strength.

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

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

Yet the extended energy market drop 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. Recently back below the 20.00 area (also weekly MA-9 and MA-13) brought the 19.80 area back into focus prior to the push back above 20.00. Yet it has not yet breached the 20.20-.25 area as yet.

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 had 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.) Yet the current weakening of EMERGING CURRENCIES has seen USD/TRY surge back above the 8.50 area (also still weekly MA-13 and MA-9) back nearer the congestion around the late-May 8.7424 all-time high.

Reports & Events

While still obviously less relevant (as we have been noting for some time and is most glaringly apparent again at present) on the standard report releases in the midst of more major global trade and political cross currents, the Weekly Report & Event Calendar (accessible for Sterling and higher level subscribers) is available via the **www.rohr-blog.com** sidebar.

While 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.

The Rohr-Blog Research Team

info@rohr-blog.com

