RESEARCH NOTE

Monday, September 27, 2021

SPECIAL ALERT: Inflation Bifurcation, Quick Take, Calendar

While we had inferred that the significant divergence in FOREIGN EXCHANGE on the difference between the DEVELOPED CURRENCIES and the EMERGING CURRENCIES was due to continued elevation of energy prices, it is apparent that is only part of the broader story. The full perspective on a renewed energy market price surge is that it is part of broader inflation which is now looking more stubbornly durable.

Why is this important for broader market psychology where 'risk-on' psychology had been able to ignore the inflation implications until now? It is more prominent on current FRONT MONTH WTI CRUDE OIL FUTURE (November) pushing back above the 70.00-71.00 area to the key 75.00 area. That is important July-November 2018 topping activity (ultimate high 76.90) of the trend up from the 26.05 early 2016 low.

Retested in early July, there was a fresh 75.15 DOWN Closing Price Reversal (CPR) with a Tolerance 76.22. This is very important for inflation, where Europe is already vexed by more immediate energy price inflation than the US.

While there is no assurance it will occur, if FRONT MONTH WTI CRUDE OIL FUTURE should overrun the general 75.00 area (ultimately the highs around 77.00), that would be a new seven year high with the next prominent resistance not until the 85.00 area.

The important issue for broader psychology is this now being more glaringly apparent in the GLOBAL GOVVIES yields, as apparent in their futures miserable performance after rallying early last week on Evergrande implosion fears. Yet that proved very temporary, with cooling of the immediate debt default fears (see Friday's 'Risk Limbo' research note repeated below) leading to GLOBAL GOVVIES reverting to a focus on the previously almost completely ignored inflation indications.

That has seen the 10-year US T-NOTE yield pushing up above a recent key 1.37% area to around 1.50% not seen since late June. That leaves the DECEMBER T-NOTE FUTURE back below the top of the key 132-00/131-16 area not seen since then. Similarly for DECEMBER BUND FUTURE, the drop back to the top of the 170.00-169.50 range key support has not been seen since around the same time, representing a yield rally to -0.22%.

While that may sound low to others, it is up from near -0.50% as recently as mid-August. It may also be influenced by the looming change of government since the more liberal and profligate SPD won the recent election.

Recent reaffirmation of central bank accommodation along with stronger US data will likely support the US EQUITIES for now. And higher yields are consistent with a 'risk-on' psychology, and rarely any cause for skepticism while the companies can pass along higher input prices. That seems to be the case for now based on recent corporate earnings reports in spite of impressively higher wages for workers.

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Yet that is the US and the other developed countries, and much less so for the more highly indebted and export earnings dependent emerging economies. Hence the full bifurcation being more so between the DEVELOPED CURRENCIES and EMERGING CURRENCIES on the current surge in energy prices, inflation and global yields. Examples abound in the 'steady' activity in DEVELOPED CURRENCIES, like the US DOLLAR INDEX stalling above 92.70 resistance into only the next key 93.40 area.

This is closely correlated with EUR/USD slipping below its Head & Shoulders Top 1.1800 DOWN Break. Yet it is holding around its next lower 1.1700 support despite recently retesting that support, which was also seen in mid-August. While they are on a different trend projection basis, you can see both of those annotated weekly charts updated through last Monday (US Dollar Index **https://bit.ly/3tZLcFp** and EUR/USD **https://bit.ly/39mpRwa**) for that clear indications of 'steady' activity.

Those were updated last Monday instead of the previous Friday's end-of-week developments due to the SPECIAL research note nature of the research update, which is the same today on the recent bifurcation of the trend indications. That is true for other charts to be updated after today's Close, outside of US EQUITIES where the chart below has been updated to display last week's very radical swing.

The full 'bifurcation' is far more apparent between various EMERGING CURRENCIES, based on their sensitivity to energy prices and yields. The SOUTH AFRICAN RAND is suffering the most, as evidenced by the USD/ZAR swing from an encouraging drop below 14.50-.40 and 14.20 to a surge above 14.70-.80 and now even 15.00.

Similarly the TURKISH LIRA has seen recent strong sister activity on USD/TRY trending steadily lower into the 8.30 area turn into a push fully above the major mid-June 8.7918 previous all-time high. That is very weak in both cases, taking away from any sense a full return to a 'risk-on' psychology can maintain in the near term.

The middling activity is the MEXICAN PESO, which has weakened on USD/MXN pushing back up again from 19.80 area to above 20.00. Yet any weakness there is likely buffered to some degree by higher energy prices. Yet the real obvious winner of the stronger Crude Oil prices is (not surprisingly) the RUSSIAN RUBLE, which has USD/RUB stuck in the lower 73.00-72.50 support range for weeks.

Courtesy Repeat of Friday's 'Risk Limbo' research note

As noted in Thursday's 'Delta Dependent' research note (we suggest a review for anyone who has not done so already), 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.

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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.

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/3ickAw2** updated through Friday.) It is of note the SEPTEMBER S&P 500 FUTURE had managed to retest that area right into the ECB press conference prior to weakening once again the following Thursday morning.

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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 the Close two weeks ago and violating it from the beginning of last 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 was more important than temporary trading weakness below it. And the DECEMBER S&P 500 FUTURE held overall against low-4,300 support, and ended the week back above the low 4,400 area. The extent of the temporary selloff means that it needs to be treated as a 4,410 weekly up channel DOWN Break. Yet that also means the Close back above it establishes it as a Negated DOWN Break, and therefore a support area. That is also consistent with weekly MA-13 moving up to the 4,430 area this week.

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 last 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.

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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 last 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.

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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.

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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 seen on the weekly chart **https://bit.ly/3tZLcFp** through last Monday.) 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 last 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.

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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.

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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.)

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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.

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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.

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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 (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 the end of two weeks of Central Bank-O-Rama on serial rate decisions and some press conferences, they still represent a significant influence this week due to Fed speeches and testimony and quite a few instances of other banks' events. Yet it is also the important last week of the month economic release phase right into Friday's important global Manufacturing PMIs. The one lighter than usual top of the month influence is the absence of the US Employment report on Friday, where the BLS usually demures when the first Friday of the month is the first day of the month.

Monday was always going to be a calmer day, with the only critical data being a much better than expected US Durable Goods Orders report, which is driving further inflation expectations after last week's global govvies weakness. However, that is the lull before the storm, which picks up just a bit again on Tuesday with mostly US data, yet also with Fed Chair Powell's 'Coronavirus and CARES Act' testimony before the Senate Banking Committee.

The real onslaught begins on Wednesday, with only Japanese Retail Trade in Asia leading into the usual raft of late month data in Europe, and the ECB's "Beyond the pandemic: the future of monetary policy" forum. Thursday sees the typically earlier than other country Chinese release of its NBS Manufacturing PMI and the Non-Manufacturing PMI along with the other major global end of month data, including the final US Q2 GDP update. As noted above, there is no US Employment report Friday. Yet along with the global Manufacturing PMIs it sees German Retail Sales, French Trade numbers, and US Personal Income and Spending prior to its Michigan Sentiment and Construction Spending data.

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 seemed to take a toll on US equities, the current markets seem more so concerned with inflation that had not been quite as prominent a factor until last week in the global govvies and foreign exchange.

As such, you will likely not be at all surprised that we obviously maintain our recent advice that has been fully vindicated again of late: Keep those seat belts firmly fastened.

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