ROHR

RESEARCH NOTE

Friday, October 8, 2021

US Employment Trend Push, Quick Take, Calendar

This morning's US Employment report was definitely a shocker on the Nonfarm Payrolls (NFP) rising only 194,000 versus estimates in the 500,000 area. It is in fact a mixed blessing despite the headline number's weakness. In the context of our Thursday 'Debt Relief' research note view that a very strong number might have been a case of '*good news is bad news*', that is definitely not happening today.

To pick through the various subsets in an orderly fashion, the August Nonfarm Payrolls was also revised higher by 131,000 to 366,000. There were also 317,000 private payroll jobs added, and the headline number was dragged down by the loss of 123,000 government jobs. And most curious on that front is the loss of 144,200 local education jobs!!? (see the highlighted table **https://bit.ly/3FulNsz** extracted from Table B-1 on page 33 of the full Employment report **https://www.bls.gov/news.release/pdf/empsit.pdf**.)

This makes no sense, as the prime job commencement period for local education is August into September. We have heard some folks attribute this statistic to a typical Bureau of Labor Statistics 'seasonal adjustment', whereby the extreme lack of 2020 hiring due to the pandemic has affected this year's figure. In any event, the degree to which US EQUITIES are not weakening anywhere nearly as much as a second month in a row of weak NFP might suggest speaks of the degree to which the markets are not taking that number too seriously right now.

There is also the 'Fed Factor' of that second month in a row of weak NFP seeming to justify the Fed remaining more accommodative than otherwise, if it had been a stronger September NFP. A 'Goldilocks' number might have been a slight miss of low-400,000 area against that 500,000 estimate. It would have provided more encouragement toward still strong growth that today's NFP definitely did not accomplish. And there are also some negatives in the subsets.

The 0.6% monthly Hourly Earnings versus an 0.4% estimate raises fears for wage inflation once again. While we have heard some analysts say this is a positive sign on the ability of consumers to keep up with rising prices, it is also a negative in the context of inflation expectations. That is seen in the further weakening of GLOBAL GOVVIES. As reviewed in Thursday's research note, the DECEMBER T-NOTE FUTURE was back below the low end of its 132-00/131-16 support, testing last week's 131-07 trading low… and is barely hanging on at that level so far today.

DECEMBER GILT FUTURE continues to lead the way down on sustained UK inflation concerns, especially elevated energy prices. Having wiped out its mid-126.00 historic congestion early last week, it is back down to the low key 124.00 area it had bounced from on Wednesday. Next interim congestion is in the 123.00 and 122.00 areas, yet with the major low end of the full 2018 range not until 120.00. The DECEMBER BUND FUTURE is also below the low end of its 170.00-169.50 support, after holding it since early last week yet failing on the bounce around 170.00.

All of this GLOBAL GOVVIES weakness points toward the sort of higher yields which were pernicious into last week prior to the substantial US EQUITIES bounce, and modest improvement in both EMERGING CURRENCIES and less so DEVELOPED CURRENCIES against the US DOLLAR. After that recent bounce, the lack of any further upside follow through in those items seems to speak of continuation of the 'risk-off' psychology we have noted of late. Somewhat confusing subsets of today's US Employment report may leave the markets in a 'push' into next week on any bigger Evolutionary Trend View decisions on key economic data.

That includes quite a bit of developed economy inflation data, and the Chinese Trade Balance and inflation data next Wednesday and Thursday (respectively) as they return from the Golden Week holiday. Speaking of holidays, Monday is both a US partial market closure (i.e. trading floors other than NYSE) for Columbus Day, and Canadian Thanksgiving Day.

Courtesy Repeat of Thursday's 'Debt Relief' research note

We are of course not referring to any debt being forgiven, but rather the surprise turnaround in Republican Party resistance to providing Democrats any breathing room in fraught efforts to raise the US debt ceiling. Minority Leader McConnell came to Majority Leader Schumer Wednesday with the offer of a temporary debt ceiling hike, which would tide the government over until early December.

Yet it is clear this 'olive branch' from McConnell was in no way any actual agreement with Democrats' aims, as noted in today's Reuters article (**https://reut.rs/3oHxW7l**.) He is still insisting that they develop any major debt ceiling increase on their own, with Senate Republicans still filibustering any attempt to pass a hike on a simple majority vote.

As noted in Wednesday's 'Risk-Off Trend Evolution' research note (repeated below for your ease of access), any requirement the Dems instead pass it through 'reconciliation' would cost them quite a bit more time and effort. That would effectively accomplish what many feel is McConnell's real purpose (see Wednesday's analysis) of distracting them from their goal of passing Biden's major 'social infrastructure' plan. That amounts to an immense dual burden.

And as far as the US EQUITIES have come back on the ostensible 'relief rally' with the DECEMBER S&P 500 FUTURE back above the 4,348 area, it is also only up around the 4,410 significant weekly channel DOWN Break from two weeks ago (see the weekly continuation chart as of last Friday's Close **https://bit.ly/3FkeW58**.)

That is also congestion from the August-September topping activity, reinforced by 4.427 weekly MA-13. This is therefore only a partial recovery from the previously noted 'Risk-Off Trend Evolution', pending whether it can indeed recover well above the low-4,400 area.

It is much the same for the foreign exchange loss of any 'risk-on' psychology. There is only a partial, selective EMERGING CURRENCIES recovery, and other DEVELOPED CURRENCIES are still weak against the recently revived 'haven' bid in the US DOLLAR.

However, the improved psychology from any temporary US debt ceiling deal seems more the relief of an immediate stressor than any reason to look for a more upbeat overall psychology, as the 'macro' data still has some weak notes. Both year-on-year German Industrial Production and Italian Retail Sales were much weaker than expected.

And US Challenger Job Cuts were elevated again despite Wednesday's improvement in the ADP Employment Change. The latter bodes well for Friday's US Employment report, projected to gain nearly 500,000 jobs after a disappointing 235,000 gain in August. It's going to be interesting. That is also because the GLOBAL GOVVIES remain under pressure despite slightly weaker macro data.

That is on an incipient 'stagflation' perspective, which allows for sustained high inflation despite any weakening of the global economy. It is therefore also possible that any strong US Employment report Friday might also be a classic case of '*good news is bad news*'.

After sagging below the low end of its 132-00/131-16 support into the middle of last week, the DECEMBER T-NOTE FUTURE bounced slightly above the top of it early this week. Yet despite the recent weak macro data, it is back to the low end at present. Any sustained weakness back below it late this week would indicate a resumption of the overall yield surge.

Weak sister DECEMBER GILT FUTURE continues to lead the way down on sustained UK inflation concerns, especially elevated energy prices. Having wiped out its mid-126.00 historic congestion last week, it did manage to rebound from the low 124.00 area this week. Any sustained weakness below that area points to interim congestion in the 123.00 and 122.00 areas, yet with the major low end of the full 2018 range (it is already sagging into) not until the 120.00 area (weekly MA-41 minus 9.00!!)

Yet the other issue we highlighted of late is the travails of the Chinese property market, both outright performance and its extremely fraught financial position. See previous analyses repeated below for more of our recent assessment along with links to external information sources citing the degree to which this problem goes well beyond the Evergrande debt and interest payment problem.

On top of that there are potential extended effects back into the Chinese economy, which include classical dispersed sources of funding for the local governments as well. This is highlighted in this morning's Reuters article (**https://reut.rs/3iGXFsT**) on the knock-on effects of what are now weaker land sales.

While there was always a sense that the Chinese property market would need to cool off at some point, the fact the central government is leaning into it at present makes this the inflection point where lower expectations are now ingrained into the market. And that is likely to hurt funding for local governments which are dependent on those sales.

This central government mucking with the real estate market is reminiscent of US government tax reform in the mid-1980s: the Tax Reform Act of 1986 ('TRA86'.) This was not necessarily an overall negative act in its own right, as it lowered the top marginal tax rate from 50% to 28% (see the WIKI **https://bit.ly/3oH4qic**.)

Yet note the section slightly below the halfway down in that WIKI article on 'Passive losses and tax shelters'. As the article notes, "*This contributed to the end of the real estate boom of the early-to-mid 1980s, which in turn was the primary cause of the U.S. savings and loan crisis*."

Not noted in the article is this was applied retroactively (!!) to all passive investment; This meant elimination of deductions from previous investments, leading to a dearth of real estate investment. That in turn led to major property price declines from what had previously been unrealistically elevated levels.

Across time the weight on the economy from the extended effects (weaker construction and local business receipts, less general investor spending, etc.) of weakness in this important sector translated into the long 1989-1991 US recession (see the St. Louis Fed historic graph **https://bit.ly/3oCiyJH** of US recessions.)

That took some time to develop, as the full impact of 'TRA86' was not necessarily immediately clear, due to many developers, real estate syndication firms offering 'tax advantaged' investments and investors trying to minimize the net effect. Yet it is that much more apparent in the Chinese property market due to the high profile offshore borrowing by the sector.

Might this be mitigated by some sort of central government bailout? Possibly. Yet that would fly in the face of President Xi's current drive to equalize what has been lopsided wealth accumulation into the next major Chinese Communist Party Congress just one year from now.

That is compounded by the degree to which so much of the Chinese middle class has quite a bit of its wealth, and some degree of its current well-paid employment, tied into the Chinese property market and its developers. That said, any bailout which seems to rescue the wealthy senior managements of these companies is not likely an acceptable alternative, leaving quite a bit of risk in their economy.

Yet in the wake of the temporary US debt ceiling deal, removal of that near-term stressor leaves the immediate fate of markets with how they respond to Friday's US Employment report (and to a lesser degree its Canadian counterpart.) In case the numbers are as strong as the ADP Employment Change and US Weekly Initial Jobless Benefits Claims indicate, we suggest close observation of the GLOBAL GOVVIES for any sign of a '*good news is bad news*' psychology taking hold on a drop to new recent lows below key support.

Courtesy Repeat of Wednesday's 'Risk-Off Trend Evolution' research note

Sometimes we revert to our concept that in the opinion sweepstakes the markets get the final say on the trend decision. And of late the price activity has reversed from the previous 'risk-on' psychology into a 'risk-off' tendency across the board. That means not just US EQUITIES, but both the DEVELOPED CURRENCIES and EMERGING CURRENCIES, with the inflation driven weakness of the GLOBAL GOVVIES adding to the mix.

That inflation factor being linked to the supply bottlenecks even most sanguine central bankers now allow will last longer than previously hoped is an ongoing negative factor. Yet the degree to which it might be in the context of a weakening global economy as well makes it the first bona fide 'stagflation' potential since the 1970s (as previously reviewed.) The risk of a slower economy is focused on the possibility the US fiscal stimulus in the form of infrastructure spending might be further delayed, and the potential for Chinese property problems to balloon.

On the former, there is a natural drag from the now very prominent disagreement between Democratic Party moderates wanting immediate passage of bipartisan 'classical infrastructure' legislation versus progressives who want that to only succeed if their more expansive 'social infrastructure' plan is passed. And even that contentious intraparty divide is exacerbated by the debt ceiling problem.

Democratic Senator Chris Coons was interviewed on CNBC this morning, and was whining about the Republicans invoking the filibuster to block Dems from readily passing a debt ceiling hike on a simple majority vote. And Republican Senate Minority Leader Mitch McConnell repeatedly saying the Democrats can easily pass the debt ceiling hike is more than a bit specious. He knows Coons' complaint that using 'reconciliation' to pass it by a simple majority is a far more time consuming process is true, and needs to be done by next Thursday.

Then the real truth (yes, every once in a while it slips out even in Washington DC) came from Coons: (paraphrased) "*McConnell's real purpose in forcing us to use time consuming and labor intensive reconciliation is to distract us from working on President Biden's more major $3.5 trillion 'social infrastructure' legislation*." Which is to say spend more time in the fraught negotiations between Democratic moderates and progressives currently at loggerheads on the individual program specifics and total funding.

Gee, a minority party using all tools at its disposal to hamper the agenda of the majority? STOP THE PRESSES for this breaking news!! Or not. This is not just the tactics seen many times before in the US… It is a universal political axiom, and it is surprising to hear Coons gripe about the time it is going to take.

That is amplified by the fact that McConnell had signaled the Democrats almost three months ago that he would insist the Democrats pass the debt ceiling hike on their own as long as they pursued the far more major ‘social infrastructure’ spending. His position is that the Democrats would already be well along in the reconciliation process if they had started back then.

The bad news for Democrats is that they are going to need to take time away from those very fraught negotiations between their moderates and progressives on finally passing the bipartisan $1.2 trillion classic infrastructure deal, which will require a meeting of the minds on far more expansive ‘social infrastructure’.

That is with a self-imposed end of October deadline (pushed from September 27th) for the vote on the ‘classical infrastructure’ bill looming large. It is looking much more challenging in the context of critical debt ceiling reconciliation talks… Trick or Treat! It is still likely some sort of infrastructure deal will be cobbled together by Democrats, as going back to their constituents with nothing to show for the first year of a Presidential administration would create more weakness into the already challenging 2022 midterm elections where they are vulnerable.

Yet the longer it is delayed, the more so it looks like the Democratic majority (even allowing how slim it may be) is having trouble governing. Along with the various hits to President Biden’s poll rankings on quite a few fronts, that is a real risk for them. The delay also means any government largesse flowing to their constituents is already significantly delayed, with less positive impact.

Then there is the Chinese property market and finance situation. As we have already reviewed in some depth in Tuesday’s ‘The Clock is Ticking’ research note (repeated below for your ease of access.) And we still recommend a read of that analysis, and especially linking into the Reuters article that has so much more information on the broader aspects of the Chinese property market problems.

There is review of at least several other companies’ problems outside of the obvious Evergrande missed interest payment issues… as it turns out they are not alone in recent ir anticipated international debt interest payments. Once again, which this is not likely to turn into an international financial crisis (too little exposure among Western banks and investors), any significant weakening of the Chinese economy will still be an issue for the rest of the world.

Regarding the market getting the final say on the trend evolution, the US EQUITIES reaction from the early September FRONT MONTH S&P 500 FUTURE 4,549.50 last new all-time has lasted over a month. That is compared to previous ‘quick hiccups’ in May, June, July and August that were basically all in one week, with subsequent recovery to and through the previous all-time highs not too long after that.

This is the tendency as well for DEVELOPED CURRENCIES and EMERGING CURRENCIES, which (outside of the Crude Oil-advantaged RUSSIAN RUBLE) have been under sustained pressure for approximately the same length of time. And in each case the inability to recover back above previously violated support is an earmark of a more sustained near-term bear trend. Does that equate to a major trend reversal?

That cannot be known until the markets reach lower, more major supports. Yet it is the case that those lower levels are more likely to be seen under the auspices of the degraded ‘macro’ influences noted above along with other influences.

Using the US EQUITIES as a benchmark for when the trend becomes more critical for the overall 'risk appetite', we suggest the DECEMBER S&P 500 FUTURE failing into no better than roughly the violated 4,348 support could easily see the lower 4,235-00 range or even the low 4,100 area.

That would equate to further weakness in the NON-US DOLLAR FOREIGN EXCHANGE, and potentially be exacerbated by any further weakness in the GLOBAL GOVVIES on inflation indications remaining bad.

Courtesy Repeat of Monday'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/3FkeW58** updated through Friday.) It is of note the SEPTEMBER S&P 500 FUTURE had managed to retest that area right into the ECB press conference prior to weakening once again the following Thursday morning.

And the SEPTEMBER S&P 500 FUTURE subsequently sustaining activity above the 4,425 and 4,450 weekly Oscillator thresholds was a sign of continued strength as they were still rising $25 per week. As such, the Oscillator indications remained important after what was the 'lackluster jailbreak' after the previous outstanding US Employment report. With the market dropping back below the 4,450 level, 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 in early September, 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 three weeks ago and violating it was a fresh 4,410 DOWN Break the following week. That fed further weakness 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 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 needed to be treated as a 4,410 weekly up channel DOWN Break.

Yet that also means the Close back above it established it as a Negated DOWN Break, and therefore a support area. That is also consistent with weekly MA-13 moving up to the 4,425 area last week. That said, the 4,348 area had reverted to the key support again last week on renewed pressure.

And much like previous, it was temporarily violated early last week. The difference is that the daily 'trend flow' is a bit different, where the previous week it was seriously violated on Monday and churned around it on Tuesday prior to recovering so well. last week it slipped on Tuesday, and was churning around early Thursday with much less slippage.

Yet it ultimately failed even worse than the previous week, and the late week Merck news only left it retesting that failed 4,348 support. The lower supports are the 4,235-00 range May-June congestion it surmounted in late June. If that should fail, there is also prominent congestion back into the low-4,100 area, with weekly MA-41 in the mid-4,100 area along the way.

Courtesy Repeat of Thursday'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 continuation chart through Friday **https://bit.ly/3oBhupg**.) 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. That left it down into the low 133-00 area, and slipping for a vigorous test of the more important 132-00/131-16 area.

As noted above, DECEMBER T-NOTE FUTURE weakness is particularly telling both in the context of how quickly it weakened into that area, and the next historic support not being until the 130-00 area (as it tends to run in two point increments.) That is allowing that the previous sharp selloff into early April held at 130-255, essentially not any sort of historic congestion. This opens the door to a 10-year yield swing to a new high above the April-May 1.70-1.75% area, after which it might react back down.

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 (seen in the weekly chart through Friday **https://bit.ly/3Bl32VW**.) 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.

That said, previous downside leader DECEMBER BUND FUTURE Monday drop into its major 170.00-169.50 range key support has not seen any further weakness so far. The overall drop represents a yield rally to -0.20%. While that may sound quite low to others, it is well up from nearly -0.50% as recently as mid-August. Its importance is highlighted by this being the key support this side of the 168.00-167.50 range. However, much like the T-NOTE, its selloff into May did not quite reach that area. Whether it can now maintain the low end of its 170.00-169.50 support will be critical to its near-term trend.

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. That said, FRONT MONTH GILT FUTURE (as of Tuesday), which had been the weak sister previous, failed to hold its 128-00 support last week on the September contract selloff.

With the typical full point discount at expiration in the ‘second month’ DECEMBER GILT FUTURE, it is back to well below its 126.00 support. That is striking in being so far back below the 126.86 May trading low (March-May high yields near 0.90%), and insofar as the cash rate is now slightly above the psychologically important 1.00%. The next futures support was not until the recently tested low 124.00 area. Any sustained weakness below that area points to interim congestion in the 123.00 and 122.00 areas, yet with the major low end of the full 2018 range (it is already sagging into) not until the 120.00 area (weekly MA-41 minus 9.00!!)

As such, even considering how far GLOBAL GOVVIES prices have fallen and yields have risen, the 'straight-line' factor means that if the current support fails they may have further to go prior to any stabilization or counterpoint reaction. That will be very interesting later this week.

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.

Yet the current higher yield anticipation is driving the 'risk-off' psychology in the vulnerable EMERGING CURRENCIES, and even more of a US DOLLAR 'haven' bid at present in the DEVELOPED CURRENCIES. While that bid may also be partly on the basis of the recent surge in US yields, that is historically less of a significant factor compared to the prospects for inward investment overall in the context of economic prospects. It currently seems those are better in the US than the rest of the world.

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/2YoCKn4** through Friday.) 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.

Yet the market activity is clear on the US DOLLAR INDEX rising above 93.40 area once again. Also above the August 93.72 trading high makes this a new 10-month trading high, with next resistance not until the 94.30-74 Fall 2020 trading highs. That is also the case for the EUR/USD weakening again below the 1.1700 key level below its August 1.1800 area weekly Head & Shoulders DOWN Break. However, unlike the minor new high in the US DOLLAR INDEX,

With **EUR/USD** below 1.2000 again, there seemed to be more of a 'risk off' psychology again into early March, which was then independent of the strength of EMERGING CURRENCIES. Lower supports were back down into those 1.1815 and 1.1700 areas. That reinforced the potential for more US DOLLAR strength.

The next lower EUR/USD support into 1.1815 had been violated in late March, with next support into the 1.1700 area subsequently tested prior its subsequent rapid push back above the 1.1800 area.

That was extended as EUR/USD rallied above 1.2000 again, and even churned above the top of the 1.2000-1.2100 range prior to temporary slippage back below the top end of that range in recent trading. The next significant resistance above is back into the recently tested 1.2200-50 area at the bottom of the early 2018 major range, with next resistances above into the 1.2400 area interim 2018 congestion, and 1.2550 top of that range.

Yet in the wake of FOMC moving to a seemingly more aggressive tightening (now refuted), it was back below 1.2000-1.2100 range with 1.1900 area interim support being violated overall on the way to the current weakness below the 1.1815 interim support. That left the 1.1700 area more major lower support, which correlates well with the US DOLLAR INDEX 93.30-.40 area.

While much below that the next more major support is not until the 1.1600 area, the recovery back above the 1.1815 interim support meant that was once again the area to closely watch. And the recent sharp failure put the 1.1750 area back in play as a weekly Head & Shoulders H&S) Top Neckline (as evident on the atypical one-off weekly chart through Friday **https://bit.ly/3DfeyTs**), 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.

However, unlike the previous minor new high in the US DOLLAR INDEX, EUR/USD was still holding slightly above its 1.1664 mid-August trading low until dropping to the 1.1600 area Fall 2020 trading lows last week. That leaves the next interim support around 1.1500, yet with the major support not until the 1.1400 area last seen in July 2020.

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 violated 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 was a significant decision along way to also violating the 1.3700-1.3670 area.

That left important lower support into the 1.3500 area which has already been violated for a fresh 8-month trading low (below the 1.3571 July trading low) prior to the recent bounce, with the next support into the 1.3350 and 132.00 areas not seen since late 2020.

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. Yet now back blow .7200 opens the door to the first test of the .7106 August spike selloff low, with the more major .7000 area historic congestion below that.

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 was recently more critical on slippage below that level.

Yet the surge above it has also reinforced the degree to which there is no 'haven' bid in the yen, and encourages the idea that the current overall 'risk-off' weakness might still be reversed if the GLOBAL GOVVIES weakness abates in the near term.

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, and their reversion to weakness has illustrated the degree to which 'risk-off' is now the major psychology.

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 had held previous, activity back above 14.40-.50 area had left it challenging the 14.70-.80 resistance.

Woth that violated it has also pushed above the significant 15.00 area congestion. On historic form that does not leave and resistance until recent trading highs in the 15.40 area initially, yet more significantly into the 15.55-.65 area (January and March 2021 trading highs.) That said, the current drop back below 15.00 leaves the 14.80 area prominent 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 near 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. While it pushed up a bit earlier this week on the general EMERGING CURRENCIES weakness, it was recently right back into that range. Sustained WTI CRUDE OIL strength now leaves it below that range, with next support into the 71.00-70.00 area 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.

Having now breached the 20.20-.25 area as well has seen it push above the August 20.45 trading high. The next resistance is the 20.75 June trading high it temporarily exceeded earlier this week and remains near, with the higher significant congestion above that not until the 21.00 and 21.40-.50 range..

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 weakening of EMERGING CURRENCIES has seen USD/TRY surge back above the 8.50 area (also still weekly MA-13 and MA-9) and even back above congestion around the late-May 8.7424 all-time high. Also now above the June previous 8.79 all-time high sees it up near a key 8.90 weekly Oscillator threshold, with any even more important threshold into the 9.00 area.

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.

As wild as the market influences have been over the past two weeks, this week brings more of the intense pressures, culminating in Friday's US and Canadian Employment reports. It is a bit of a quieter start on Monday due to Australian and Chinese holidays. The latter's Golden Week runs through Thursday.

Yet Monday still brings Euro-zone Sentix Investor Confidence and US Factory Orders. Tuesday is a much bigger day with Tokyo CPI, Australian inflation and trade numbers as well as the RBA rate decision and statement. Yet even all of that is the prelude to the global Services PMIs.

Wednesday is a far lighter day, yet still includes German Factory Orders, Euro-zone Retail Sales and the US ADP Employment Change. Thursday picks up with limited Asian data into German Industrial Production, Italian Retail Sales and ECB release of its Meeting Accounts.

It all wraps up on Friday beginning with some significant Asian data that includes the holiday delayed Caixin Services PMI and the RBA Financial Stability Review. Then it's onto Europe for the German Trade Balance and BoE Financial Policy Summary and Record followed by its Q3 Quarterly Bulletin. After that it's US and Canadian Employment reports followed by US Wholesale Inventories along with the often more important Wholesale Trade Sales. And all of that is into a US partial long weekend on selective Monday closures for Columbus Day.

Of course, the troubling resilience of the COVID-19 pandemic on the continued Delta variant spread continues to offset more upbeat recent vaccination developments. Along with that the recent weakening of international data with higher yields means we are maintaining our recent advice that has been fully vindicated: Keep those seat belts firmly fastened.

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