



RESEARCH NOTE

Monday, October 18, 2021

Incremental Risk-On Shift, Quick Take, Calendar

As revisited in Friday's 'Risk-On Revival?' research note (repeated below for your ease of access), the market always gets the last word on the Evolutionary Trend View (ETV) decisions. And despite our recent reservations, stronger aspects of the news seem to have inspired a return of risk appetite missing since US EQUITIES early September new all-time high.

That said, there still seem to be some key factors making the most recent improvement a bit suspect. Many of the reasons remain the same, including the cooling Chinese economy and especially the travails of its property sector. On the former, consider this morning's 'miss' on economic releases like September GDP, Industrial Production and Fixed Asset Investment.

We had foreshadowed the potential for weakness in China being reinforced by the previous Friday's release of the PBoC Q3 Entrepreneur Survey Report (<https://bit.ly/2YKbm32>). As we noted in last Wednesday's extensive analysis, *"This shows the degree of slowing in the entrepreneurial aspect of the Chinese economy, reinforcing recent trade and sales figures and the weight of recent government headwinds."*

Thus the weakening of the overall Chinese economy, which has also had effective pandemic suppression measures that are good for its overall health, yet not good for either the domestic economy or especially international shipments (i.e. port activity and other shipments.)

While Chinese and US Retail Sales figures were good, consumers are often the last indication of overall economic weakening. Note that this morning's US Industrial Production and Capacity Utilization were also significant downside disappointments. Ergo our continued suspicions.

We also revisited the unfolding of more layers of the Chinese property market problem on Friday (see below.) That is on further signs that Evergrande may not topple next week, yet is having problems with asset sales that inform our view of the overall problems in that sector.

There are many official and private sources attempting to characterize Evergrande's problems as an isolated company, and cite the relatively small portion of the overall Chinese property sector and bond market which it represents. They are missing the point.

In our October 7th 'Debt Relief' research note, we cited a very extensive 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."*

The failure of Evergrande to secure more asset sales is also a worrying sign for the other developers who are missing interest payments, and might have to pursue asset sales to raise capital at just the wrong time in the cycle.

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Those who are playing down the degree to which this may be a bigger problem for China as the government is (at least so far) refusing to intervene in a major way sound quite a bit like Fed Chair Bernanke discussing what a small portion of the overall US debt market was exposed to subprime mortgages back in 2007. Rather than the degree to which one company has a problem there is the degree to which many are affected by a now sluggish real estate market.

That is not even to mention the extent of Evergrande's overall commitments, even beyond its headline \$300 billion in international debt. According to a September 21st New York Time article, *"Angry home buyers are waiting on as many as 1.6 million apartments to be completed. Suppliers of cement, paint and rebar are owed more than \$100 billion in payments. Workers are panicking that loans they made to their employer cannot be repaid."* Also explored in our October 7th research note was the similarity to the US government messing with real estate finance in the 'Tax Reform Act of 1986' (passed in 1987) leading to a major market slide.

The balance of our still somewhat skeptical view remains much the same as our last Thursday and Friday assessments, including the remaining concerns about the stubbornly low US COVID-19 vaccination levels. There has been a lot of hoopla of late about how far new US COVID-19 infections have fallen. Yet that is in the context of extreme levels seen as recently as early September, with the 50% drop being to around 90,000 from a peak of near 180,000. This is not very good in the further context of new vaccinations remaining comparatively low.

Also reviewed at the end of last week is the degree to which the US and global supply bottlenecks and shipping congestion are as easily resolved as quickly as some politicians' pronouncements would tend to indicate. US President Biden noted that some US West Coast ports had already been operating on a 24/7 schedule for months. The reality is that there is only a pilot program at one of those ports running Monday through Thursday at one pier. The current informed assessment is that reaching the level of coordinated shipping improvement necessary from shippers and warehouses will take quite a bit of time.

All of that said, the DECEMBER S&P 500 FUTURE managed to finish last week above the 4,430 area Tolerance of the 4,400-10 resistance. That includes a weekly Close above weekly MA-9 and MA-13 in the 4,435-45 area. This indicates a US EQUITIES sentiment that is passingly 'risk-on' once again, pending whether it can hold any near-term tests of the 4,410-00 area. And the next higher resistance is at the 4,472 late September trading high from which it previously dropped to the 4,300 area.

Courtesy Repeat of Friday's 'Risk-On Revival?' research note

As we noted again earlier this week, the market always gets the last word on the Evolutionary Trend View (ETV) decisions. And despite the reservations we expressed in Thursday's 'Incremental Heartening' research note (repeated below for your ease of access), stronger aspects of the news seem to have inspired a significant return of risk appetite missing since the US EQUITIES early September new all-time highs.

Yet the question mark at the end of today's title hints at the degree to which the current return of a 'risk-on' psychology still leaves room for those negative factors to affect the trends. That said, after this morning's much better than expected US Retail Sales figures, the further US EQUITIES upside follow through is not much of a surprise.

The interesting aspect will be whether DECEMBER S&P 500 FUTURE maintains its strength above the 4,430-35 Tolerance of the 4,400-10 previous DOWN Break into today's weekly Close. In addition, the next higher threshold to watch is the late September 4,472 high of the last month, with the 4,550 all-time high above that.

The dilemma for the bulls is that there are still some dark clouds in front of the US Retail Sales and no worse than expected international inflation numbers seen through this week. The stronger US Retail Sales need to be assessed in the context of the inflation indications.

Are they actually that strong on a unit basis, or at least in some good measure a reflection of higher prices? And what is the prospect for inflation to eat away at consumer activity in the context of the still strong energy prices, which we have discussed at length (see below.)

On that front, it is not a surprise that GLOBAL GOVVIES which had rallied back from lower congestion levels to key failed supports are now back under pressure. It is going to be interesting to see how the other asset classes react to any renewed yield escalation if the GLOBAL GOVVIES remain under pressure.

Along with that there is the issue of how much a major headline consumer consumption number like this morning's release affects the Fed's 'taper' decision and action. Likely what we have just seen will encourage a November start to the long-awaited QE taper.

Also mentioned in passing Thursday was the potential impact of further Chinese property sector problems on the global economy, especially in the form of the possible acceleration of problems with Evergrande; yet with that as a bellwether for the overall sector and Chinese economic and financial issues. And what should we see this morning? A Reuters 'exclusive' flash that...

"Evergrande's \$1.7 bln Hong Kong headquarters sale flops as buyer withdraws" (<https://reut.rs/3DJdS93>), as "...Chinese state-owned Yuexiu Property has pulled out..." of that deal. Well, even state-owned entities do not want to touch the Evergrande 'third rail'. That said, it is working hard to raise money from asset sales.

However, as noted in our October 5th 'The Clock is Ticking' research note "...the 'grace period' for its September 23 missed interest payment lapses on Saturday, October 23..." with quite a few more payments and grace periods to follow.

As previously noted, any Chinese property sector problems are more likely a domestic matter than any possible global 'financial contagion', due to the lack of major international exposure. Yet it would still represent a global economic drag that could spill over into the US and European economies down the road.

That said, for now the US EQUITIES are indicating that more risk appetite is back. That is also being reflected to some degree in FOREIGN EXCHANGE, even while the US DOLLAR INDEX is only back toward its key 93.70 area without any indication it is looking to violate it right now.

The return of 'risk-on' is more prominent on a country basis in EMERGING CURRENCIES outside of the still beleaguered TURKISH LIRA (down to another all-time low today.) However, the recoveries in both the MEXICAN PESO and SOUTH AFRICAN RAND speak of a level of confidence not seen in recent weeks.

Courtesy Repeat of Thursday's 'Incremental Heartening' research note

There has been a shift over the last twenty-four hours in the relative risk appetite. That is based on multiple factors which may, or may not, signal a full restoration of the recently lapsed 'risk-on' psychology. The dilemma is that quite a few of the most recent indications and events carry some negative aspects as well. While those are very broad-based, we will attempt to concisely review them below.

As noted in Wednesday's 'Inflation Anticipation' research note (repeated below for your ease of access), "*Having already 'priced in' today's near estimated (inflation) figures, the global govvies are rallying a goodly bit.*" That rally has continued in the wake of Wednesday afternoon's FOMC September 21-22 meeting minutes (<https://bit.ly/2YL39f9>) release.

Those were very far flung and even contradictory on so many fronts. Yet THEY highlighted the degree to which the Fed will be pursuing a 'taper' of its major government bond and mortgage-backed securities program.

For a more expansive analysis of the full FOMC discussion we suggest yesterday evening's Forbes article (<https://bit.ly/3IGHWvX>), which explores many of the very complex issues affecting upcoming Fed decisions. As we have also highlighted of late, the inflation situation is a major consideration. However, before we explore that further, there is still a COVID-19 Delta variant hangover in the US, which ranks poorly compared to other developed economies in its overall levels of vaccination: 66%+/- one dose and 57%+/- fully vaccinated.

That is as compared to Europe where the lowest levels are near 80% and range up to above 90%, with 78.6% having had a single dose and 85.5% being fully vaccinated in the UK. This not only leaves the US significantly behind Europe in protection levels, but is even worse due to the prospect it will continue along that path in the context of the US politicization of the issue.

While there is more hope on the recent Federal contractor vaccination mandate (including all of the major airlines and many other businesses), there are those still resisting this effort. As an example, note this morning's Reuters article (<https://reut.rs/3BVYAxv>) on the anti-vaccination resistance by US religious leaders and advocacy groups.

This is even after the degree to which the US South and Southeast were ravaged by the Delta variant even over typically more infection benign Summer months. While not prominently featured in the article, this is fairly well-ingrained in some folks' psychology, due to the 2020 claims that COVID-19 is a hoax perpetrated in a Left wing plot to subjugate Americans.

That anyone believes this is shocking, and goes to the degree to which the US may lag behind the rest of the world and fall well short of any 'herd immunity' threshold for the foreseeable future. That is especially relevant as the colder Winter weather will be more troubling as well.

This then comes around to impact the US labor market, as some folks are still hesitant to engage in onsite employment due to the COVID-19 pandemic risks which have already created part of the current stubborn hiring problems. It is also the case that this is exacerbating wage increases in a troubling inflation outlook.

As also noted Wednesday, the current in-line inflation numbers were calculated prior to the recent energy price spike to new 7-year highs at the end of last week, which is not likely to abate anytime soon (see below.) As such, after the current relief from those numbers that include today's Chinese figures, Spanish CPI and US PPI not being more elevated than expected, the 'inflation anticipation' game will be afoot in the markets after the current 'Incremental Heartening' into today.

There is quite a bit of hope (or hype, as the case may be) flowing from President Biden's latest somewhat enlightened efforts to slash the Gordian Knot of the highly pernicious supply bottlenecks. The approach outlined in his Wednesday speech seems enlightened in concentrating on the major port delays in the first instance, followed by ground transport and warehousing issues as well.

As this morning's very good Reuters article's (<https://reut.rs/3FK0rHL>) title notes, "U.S. supply chain too snarled for Biden Christmas fix, experts say." Aside from the degree to which the ports are indeed backed up due to higher US consumer goods orders during and after pandemic lockdowns, the labor pool may not be able to provide any relief. As the article pointedly notes "...there is no evidence of experienced workers sitting on the sidelines - US transportation and warehousing are employing more people now than they did before the pandemic started..."

As scary as that may be, there is also the impact on wages of the dock workers themselves, who are not going to work extended shifts (the overnight 'graveyard shift', etc.) without extended compensation. While not mentioned anywhere in the news coverage, it is certain wages for them as well as any similar effort involving transportation and warehouse workers will see much the same wage increases. Whether this is a situation which can spin into an unconstructive wage-price spiral is yet to be seen, higher US earnings are partly behind the strong demand.

In that regard, inflation still represents a headwind despite being based on strong demand, as the higher wages necessary to keep workers engaged are eroded by the inflation impact on 'real wages'. And this is not just a US anomaly, as another Reuters article this morning (<https://reut.rs/3BHLq79>) is titled "Price pinch: global economy caught in perfect storm" into a full international review of the situation, including, *"Even in Japan, where weak growth has meant that prices of many things - as well as wages - have not risen much in decades, consumers and businesses are facing a price shock for basics such as coffee and beef bowls."*

For years central bankers were cautioning on the previously depressed inflation soon returning to their target levels. And they proclaimed this would be a sign of success in their battle against seemingly permanent weak economies and ingrained weak price tendencies. Well, isn't that a great example of the old adage, *"Be careful what you wish for"*?

Therefore, despite 'Incremental Heartening' on the return to less of a near-term 'risk-off' psychology, it is going to be interesting to see how this unfolds over the coming days and weeks as these factors evolve.

At least so far the improvement is indeed 'incremental'. US EQUITIES have seen DECEMBER S&P 500 FUTURE recover from the key interim 4,348 area once again, yet also once again only up into the 4,400-10 range and its higher Tolerance in the 4,430-35 range. That remains very important due to the mid-September 4,410 significant weekly up channel DOWN Break, which was on the China Evergrande problem coming to light. 4,430-35 also remains important after being retested in each subsequent week, with weekly MA-9 and MA-13 also in that area.

And as it relates to the Evergrande citation, we had warned late last month that 'grace periods' for it to make the nominally missed international bond (versus domestic Chinese loans) interest payments meant the problem was only on hold until late this month. Another very good Reuters article (<https://reut.rs/2XfJmEk>) this morning notes, *"(Evergrande) missed a third round of interest payments on its international bonds this week."*

We weren't even aware that was due, and will add to 'grace period' deadlines in the near future. That is in addition to the article noting, *"...municipal officials in Changchun said Evergrande has yet to make a \$28 million payment for land it acquired in the northeastern city earlier this year."*

Whoa... so while insolvency loomed the group was keeping up its major buying spree, possibly to keep up appearances? As we have noted previous, this is unlikely to develop into major international 'financial contagion', due to the limited exposure of Western banks and investors to the Chinese property sector... thank you 'Xi & Company' for the xenophobic restrictions on foreign investment in that sector (another example of *'be careful what you wish for'*?)

Yet any further slowing of a Chinese economy already grappling with weakening entrepreneurial zeal (see Tuesday's link to PBoC Q3 Entrepreneur Survey Report) may be a significant drag on the global economy. The recent inflation indications there have moderated a bit, yet are at levels leaving little room for substantial central bank easing to support a beleaguered property sector.

Similarly in other asset classes there is only 'Incremental Heartening' so far after recent pressure. DECEMBER T-NOTE FUTURE is only back up to the low end of the important failed 132-00/131-16 congestion. And it is much the same for BUND and GILT.

FOREIGN EXCHANGE has also seen a weakening of the US DOLLAR INDEX 'haven' bid back to very near the key 93.70 area. That is mostly against the Developed Currencies rally, and some select 'country' improvement in EMERGING CURRENCIES.

Yet the real driver we (along with quite a few others) have highlighted remains a pernicious factor: the continued sustained rise of energy prices. That is still on the FRONT MONTH WTI CRUDE OIL FUTURE above the significant 75.00-77.00 resistance (and now also holding above 80.00) with the 84.00-86.00 area next resistance.

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/3vldECh> 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 into the mid-September Close and violating it from the beginning of the following week was a fresh 4,410 DOWN Break. That fed further weakness which was already anticipated from the negative 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 it signal a full trend 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 against interim 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 4,430 area this week.

That said, the 4,348 area had reverted to the key support again of late 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, with last week's rally back above the low-4,400 area. Holding above the 4,430 area Tolerance of the 4,400-10 resistance for a weekly Close also above weekly MA-9 and MA-13 in the 4,435-45 area looks more bullish again. It indicates a US equities sentiment that is passingly 'risk-on' once again, pending whether it can hold any near-term tests of the 4,410-00 area. And the next higher resistance is at the 4,472 late September trading high from which it previously dropped to the 4,300 area.

***Courtesy Repeat of Previous Evolutionary Trend View (updated charts)
[To be updated after Wednesday morning important inflation data]***

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/3BXGeMo>.) 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. 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/3AS5GkY>.) 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 now drops fully into that lower support after avoiding it over the past several days is going to be very interesting.

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 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 after the bounce from into and somewhat below that area earlier 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** on a 'country' basis, and a resilient if quieter **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/2XnLSsd> 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 key 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 weekly chart through Friday <https://bit.ly/3phT5Wb>), 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 the subsequent selloff felt 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 temporarily not the case. Yet the current weakness back below that area and now the 1.1700 is more bearish 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. 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. While recently back below .7200 opened the door to the first test of the .7106 August spike selloff low, the recent recovery has it back up into the 7350-.7400 area.

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 was once again reflected in USD/JPY stabilizing not much worse than the 110.00 area, and now surging up above the 112.00-.50 area with the next resistance into the 114.50-115.50 range once again.

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 recover to some degree, and the previously beleaguered TURKISH LIRA giving up its recent bid to weaken to a serious new all-time low. 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 political 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.

With 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 as surging above the August 20.45 trading high. The next resistance is the 20.75 June trading high it temporarily exceeded early last 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 previous topping into the minor new highs) were into June's 8.7917 all-time high, those moot after the recent two-month selloff. The subsequent 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 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 into a 9.1030 new all-time high today. This is also a key weekly Oscillator threshold (MA-41 plus 0.90.) If it should be exceeded on this week's Close, the rise of MA-41 projects next week's threshold into the 9.30 area (MA-41 plus 1.05-1.10.)

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.

The week begins with Sunday's conclusion of the weeklong IMF/World Bank Annual Meeting in Washington DC, with a possible communique into Monday morning. And despite it being another generally light Monday, there are significant Chinese releases and an NBS press conference prior to US Industrial Production. Tuesday is also fairly light, yet still includes the RBA Meeting Minutes into US Housing Starts.

Wednesday picks up the pace with various Euro-zone inflation numbers along with the typical UK full array and the same from Canada into an important afternoon Fed Beige Book release. Thursday's limited Euro-zone indications lead into US Weekly Jobless Claims and the Canadian ADP Employment Change as well US Existing Home Sales. It all wraps up on Friday with UK and Canadian Retail Sales along the way of the global Advance PMIs release.

Of course, despite recent positive vaccination announcements, the troubling resilience of the COVID-19 pandemic on the Delta variant spread in the US continues to weigh on future prospects due to the deficient overall US vaccination levels. That said, recent controlled (if still elevated) inflation numbers have counteracted the more negative news on supply chain problems and the potential problems in China's property sector. As such, we maintain our recent advice: Keep those seat belts firmly fastened.

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