



RESEARCH NOTE

Friday, October 22, 2021

Mixed PMIs, Quick Take, Calendar

After the positive overall Federal Reserve assessment of the US economy (with some key reservations) reviewed in Thursday's 'Beige is the New Red Hot' research note (repeated below with other previous analysis), today's global Advance PMIs were going to be the next critical anticipatory economic release to close out the week. However, rather than clear indications on somewhat weaker expectations, they were quite mixed. Especially as it concerns the manufacturing sector, which has been such a major positive in recent months, they were significantly divergent.

Japan, the UK and Germany were stronger than expected, even if the latter eased slightly from the September reading. While Australia was weaker than expected, it was still up a bit on the month, with the US also showing some disappointment in the manufacturing number at 59.2. That is lower than the 60.3 estimated slight slippage from last month's 60.7 final... some cracks finally showing there?

The Services Advance PMIs were generally in good shape, which is not a surprise based on the continued consumer boom in the US on the back of government subsidies. Its figure was 58.2, which was quite a bit better than the 55.1 estimate that was already an improvement on last month's 54.9. So it is now Services underpinning the 'risk-on' psychology. Of particular interest was the strong surge in UK Services, yet with a big miss on September Retail Sales. It raises a question on whether UK purchasing managers are engaging in classic '*hope over reality*'?

The other good US news is the FDA nearing approval for the Pfizer-BioNTech COVID-19 vaccine for 5-11 year olds. That is based on efficacy of its latest trials. As noted in Thursday's Reuters article (<https://reut.rs/3ni68o7> updated just this morning), "...*(the) vaccine showed 90.7% efficacy against the coronavirus in a clinical trial of children 5 to 11 years old...*" Of course, this is not just exciting for the protection of the children, yet also for education overall and the labor market.

As we (among others) have discussed in recent months, the lack of protection for children in their own right and as potential transmitters of the disease to those vulnerable people in their households has been a significant economic drag. However much as some folks posited that this was over with the return to school this Fall, the reality is that outbreaks at some schools are still causing reversion to remote learning in the vulnerable (i.e. under-vaccinated) areas. As such, some members of families with primary school children are still not in the workforce.

Yet the assumption a primary school child vaccine will fully address this still leaves a dark cloud which raises questions in front of the silver lining. As we noted earlier this week, the US still lags vaccination rates in the 80%-90% range for Europe and the UK, with only 57.6% fully vaccinated. At this point this is much more so on vaccine hesitancy than any lack of availability. And that means there will be parents who are averse to having their children vaccinated as well. If that is the case, the reality will be quite a bit less than full school-age protection.

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And the confirmation that the vaccine-hesitant or fully resistant population is not going to take advantage of this protection is in vaccination rates trending lower once again after the most recent uptick into earlier this month. It is likely that the recent vaccination surge was due to corporate vaccine mandates that pushed it back above one million doses per day. It is now down to less than half that, which raises questions about the uptake of any 5-11 year-old vaccinations. The recent surveys (CNBC this morning) show 43% of parents in resistant areas oppose any mandate, with 95% of unvaccinated parents opposing vaccination for their kids.

The question which the markets are (somewhat rightfully) ignoring in the wake of this nominally positive news is whether a primary school children's vaccine that only gets 60% uptake will be effective enough to provide the expected benefits? The politicized environment in the US on COVID-19, vaccinations and masks will add to the uncertainty after initial positive reaction when a children's vaccine is actually rolled out. It's not going to be as clear cut as it likely should be.

That said, it is a future concern that does not seem to be bothering the markets right now, with the DECEMBER S&P 500 FUTURE pushing up very near the FRONT MONTH S&P 500 FUTURE (September contract at the time) early September 4,549.50 all-time high. That was to be expected once the 4,400-10 late-September weekly up channel DOWN Break was fully overrun last week. Of note, that DOWN Break was at least in part on the Evergrande debt default scare, which was noted as being partially addressed with a delayed payment being available this morning.

EMERGING CURRENCIES are also maintaining their recent 'risk-on' psychology (outside of the beleaguered TURKISH LIRA), shaking off the higher energy price and yields that might normally be expected to derail their rally. Speaking of which, even the still weak GLOBAL GOVVIES are managing a modest recovery today, which is defusing just a bit of the recent new high yields trend from earlier this week.

Courtesy Repeat of Thursday's 'Beige is the New Red Hot' research note

Well, Wednesday afternoon's Fed Beige Book (<https://bit.ly/2Z9W8EK> for our PDF page 5 National Summary markup) disappointed neither those expecting more economic strength, nor those concerned about inflation and the supply chain bottlenecks that are driving it in some significant measure. It is on one hand a typical economic rebound phase situation, yet more troubling in the degree to which some Fed Districts are "...*expecting price (sic) to remain high or increase further while others expected prices to moderate over the next 12 months.*"

Higher still? From the current US annualized 5.4% CPI rise? That would not be good for the Fed's 'patient' approach, and many believe it is well behind the curve. The Beige Book Summary also noted, "*The majority of Districts reported robust wage growth.*"

With that contributing to higher costs in addition to the materials shortages, there is a looming threat of the 'wage-price spiral' we have cautioned was the driver for the rampant 1970s 'inflation expectations'.

While it is too early to confirm that has officially occurred, the prospect of continued inflation based on elevated energy prices (which filters through in many ways into all products) and further wage increases raise the spectre of 'stagflation' not seen since the 1970s. That is a term resurrected at various points along the way, yet never seeing it in its full blown form.

However, as pointedly noted in Wednesday's 'Mixed Inflation Indications' research note (repeated below for your ease of access), "...*the headline efforts to improve the US ports situation are not going to be an 'instant' remedy.*" While there have been some modest changes to begin to address the problems, those also include the inland aspect of the issue.

That will require the expansion of the truck driving and warehousing work forces, which is not easy to accomplish in the near term. That is due to it requiring both intensive training and employees willing to take on those tasks.

All of that effort to attract more employees to engage in those strenuous and at times dangerous jobs will require the same changes seen at the low end of the service economy labor market: much higher wages, even for roles like food service and retail workers.

The Beige Book noted, "*The majority of Districts reported robust wage growth.*" Regardless of how much folks are impressed with the recent return of 'risk-on' psychology to US equities and other asset classes, the recent and continued wage increases are what is 'red hot' right now.

As noted in Tuesday's 'Not Much New to Say' research note (also repeated below for your ease of access), "...*surprisingly strong Q3 corporate earnings reports this month...*" have underpinned the bullish sentiment in US EQUITIES as well as the general return to an upbeat global 'risk-on' psychology. Yet as wages continue to climb along with inflation on other inputs, there is question over how long the 'risk-on' psychology and higher earnings expectations can continue.

That said, the late year positive seasonal is about to begin again, and that is likely to inspire US equities buying from the end of this month... also a 'hot' influence now, even if subject to being cancelled if the holiday season seems weaker than expected. Some projections are for lower-middle income families to cut back this year.

It is also going to be interesting to see how positive overall Beige Book sentiment that includes inflation and labor problems plays out in Friday's global Advance PMIs releases. The estimates are for some weakening in Europe and the UK, with a mixed picture in the US. In addition to being the last major economic data this week, those are going to be a very interesting bellwether for whether the sentiment among manufacturers is remaining healthy on balance.

Courtesy Repeat of Wednesday's 'Mixed Inflation Indications' research note

This morning saw mixed inflation indications in what are some of this week's most important 'macro' influences. In order of appearance the UK CPI was a bit lower than expected, yet with a curious uptick in the Retail Price Index. It also saw mixed Producer Price Index indications.

However, German PPI was quite a bit higher than expected prior to the as expected Euro-zone CPI. And then Canadian CPI was higher than expected. All of that said, the GLOBAL GOVVIES are just a bit higher today (i.e. lower yields), reflecting the same sort of reaction seen after the recent in line US and German CPI on a "*sell the rumor, buy the fact*" reaction.

Now we await the Fed Beige Book this afternoon (14:00 EDT), with its likely signs the US economy remains in good shape overall despite the stubborn weakness at the low end of the labor market. On one hand, that is likely part of the reason the US EQUITIES have been able to shake off the headwinds we had noted in Tuesday's 'Not Much New to Say' research note (repeated below for your ease of access) and other recent analysis (some of which is also repeated below for your benefit.)

This is also the case for EMERGING CURRENCIES remaining strong, even if on a 'country' basis with the TURKISH LIRA still lagging. The less dynamic DEVELOPED CURRENCIES are holding their recent modest bid, even if that still only has the weakening of the 'haven' US DOLLAR INDEX rally only reacting back down from its test of 94.35-.72 to the important 93.70 area over the past week. It all speaks of the return to a 'risk-on' psychology noted since last week's US EQUITIES strength.

However, as we always note, it takes three different headwinds to significantly reverse any sustained 'risk-on' psychology in US EQUITIES... and that still seems to be the case at present, which makes sustained improvement somewhat problematic.

There are the higher yields, which have no reason to reverse based on inflation indications and still stimulative central banks. While we have noted the recent releases being in line with estimates have fomented near-term upside reactions in bearish GLOBAL GOVVIES, overall inflation levels are well above central bank targets.

The second headwind is the stubborn resilience of the COVID-19 pandemic, even if there has been some improvement in the under-vaccinated US of late. As noted on Monday, "...*new US COVID-19 infections have fallen. Yet that is in the context of extreme levels seen as recently as September, with the 50% drop being to around 90,000 from a peak of near 180,000. Not really very good yet, and in the further context of new vaccinations remaining comparatively low.*"

Even with continued steady improvement, US vaccination rates have fallen quite a bit overall, with the level of full vaccination only reaching 57.6% of late. It is still a risk factor as we head into colder Winter weather over the next sixty days out into the following three months.

For perspective, Dr. Anthony Fauci has consistently said throughout the pandemic that until US new infections drop below the 10,000 level there is a risk of the pandemic resurging. This is also an economic risk, even if some will promote the idea any quarantine will drive more goods sales, much as what transpired during the early pandemic into this past Summer.

As a sign this can also still impact the international economy, Russian President Putin just ordered a "Week Without Work" to combat the most recent rampant outbreak over there. Further, with the problems already apparent in the supply chain out of China, there is the risk that any resurgence there will lead to more trouble.

Clearly the third headwind into 'risk-on' is slow delivery of Asian goods into multiple US West Coast ports. The necessary yet rigid Chinese regional quarantines were at least partially responsible. As we have already reviewed, the headline efforts to improve the US ports situation are not going to be an 'instant' remedy.

As such, the DECEMBER S&P 500 FUTURE serial push above 4,400-10 and its 4,435 Tolerance led to the violation of the 4,470 late-September rally high. It has now also recovered back above the modest 4,510 early-September congestion, which only leaves the early September 4,549.50 FRONT MONTH S&P 500 FUTURE all-time high as resistance. As noted on Tuesday, the key weekly Oscillator thresholds for the next levels are up into the 4,625-50 area (also in line with the major 'swing count'.)

Tuesday's note also explored key Evolutionary Trend View (ETV) considerations for the overall trends and key price levels for GLOBAL GOVVIES. We suggest a review of that for potential important reactions there and in foreign exchange after this afternoon's Beige Book. Could this end up a 'good news is bad news' impact?

Courtesy Repeat of Tuesday's 'Not Much New to Say' research note

Given the lack of economic releases, there is literally not much new to say today after Monday's 'Incremental Risk-On Shift' research note (repeated below for your ease of access along with other previous research.) That said, current economic data continues to disappoint, which makes the return of the 'risk-on' psychology at this time rather ironic.

Is this classic '*bad news is good news*' on the likelihood central banks will remain more accommodative than recently anticipated? Well, we might know more about that tomorrow afternoon on the Fed's Beige Book release in anticipation of the November 2-3 FOMC meeting.

Yet prior to that there will be a major array of inflation numbers released from the Euro-zone, the typical full UK monthly indications for CPI, PPI and RPI along with Canadian data as well. This is particularly important at this time after the global govies have demonstrated last week's rally was temporary, returning to weakness late week.

That has spilled over into a fresh FRONT MONTH T-NOTE FUTURE 20-month trading low below its early-April 130-255 level, with 130-00/129-16 always more important. That implies a yield push back up to the 1.74% last seen at the end of March.

However, in the context of the significant August 2019 through February 2020 range, the more major support is not until the 128-00 area, which might imply a push to a new 22-month high yield above 1.74%. The next yield threshold is the 1.93% last seen in December 2019. Why is this so important to the renewed 'risk-on' psychology? Quite simply because prominent supply chain problems and elevated energy prices still represent a headwind for the global economy.

Also of note on the GLOBAL GOVIES is the DECEMBER GILT FUTURE weakening right back to the 124.00 historic congestion. That is the exact Close from two weeks ago, and after trading below it early last week it left a weekly UP Closing Price Reversal (CPR.) Yet if that were to be quickly Negated on a weekly Close below that level this week, it would point to next support that is until the 122.00 area.

That is in the context of its 10-year cash yield of 1.15% already at a new 28-month high, and the previous threshold being around 1.50% from 2017-2018. The FRONT MONTH BUND FUTURE is already below last week's minor 169.22 UP CPR, and once again nearing its 168.00-167.50 historic congestion. While only trading around its 168.29 May low last week and this week, if it cracks 168.00-167.50 the next support is not until the 166.50 area. As such, Wednesday's inflation numbers loom large, with not much else in that vein for the balance of the week.

However, even with this week's return to higher yields after last week's temporary reactions, the US EQUITIES and FOREIGN EXCHANGE are demonstrating more of that restored 'risk-on' psychology. The DECEMBER S&P 500 FUTURE above the 4,435 Tolerance of the 4,400-10 resistance is continuing to rally. It is now strong in exceeding the 4,472 late-September previously failed rally trading high. That leaves those lower levels as support, and with only the 4,510 September congestion along the way points to a possible test of the early-September 4,549.50 all-time high. That is also now a key weekly Oscillator threshold, with the next levels up into the 4,625-50 area (also in line with the major 'swing count'.)

The DEVELOPED CURRENCIES rally is a bit subdued insofar as the US DOLLAR INDEX has only reacted back down from the 94.30-.74 range to the lower key 93.70 congestion so far on weakening of the previous 'risk-off' US DOLLAR 'haven' bid. While EMERGING CURRENCIES remain a 'country' affair (with the TURKISH LIRA still under pressure), recent recoveries of the SOUTH AFRICAN RAND and somewhat weaker MEXICAN PESO speak of the return of the 'risk-on' psychology.

And all of that is also underpinned by surprisingly strong Q3 corporate earnings reports this month. The question then becomes whether those reflect the lower inflation and yields which were prevalent last quarter, and can that continue into supply chain problems and higher inflation. The latter is based on energy prices which only extended gains as of the beginning of this quarter two weeks ago. There is also little expectation either of those influences are going to abate any time soon (regardless of what some politicians might be saying or hoping.)

Courtesy Repeat of Thursday'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/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.

The next higher resistance was at the 4,472 late September trading high from which it previously dropped to the 4,300 area. That being exceeded on Monday's Close was a further strong sign, which has not surprisingly led to the DECEMBER S&P 500 FUTURE also pushing above the next minor early-September congestion in the 4,510 area. That only leaves the early September 4,549.50 FRONT MONTH S&P 500 FUTURE all-time high as resistance. The key weekly Oscillator thresholds for next levels are up into the 4,625-50 area (also in line with the major 'swing count'.)

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/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 previous, 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. After a brief rally last week, it has finally weakened below that level and is at new lows for the week after not being able to Close back above it on an early week rally.

This is consistent with a 10-year yield swing to the current 1.66%, very near levels seen during the April-May 1.70-1.75% range. The next support below the 130-00 area is not until the more major congestion area at the low end of the August 2019 through February 2020 range in the 128-00 area, which would be consistent with yields above the 1.70-1.75% range.

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. Now that it is dropping very near that lower support after avoiding it last week, it is more critical. While next support is as nearby as the mid-166.00 area, that would indicate the 10-year yield had risen back above the 0.00% threshold since May of 2019.

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 (which is developing at present) 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 into the end of 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. Yet the recent weakening of the **US DOLLAR** 'haven' bid has left it struggling to hold the 93.70 area once again.

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. However, on the recent ‘risk-on’ psychology revival it has churned back above the 1.1600 area.

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 1.3200 areas not seen since late 2020. Yet the current return to more of a 'risk-on' psychology has left it back above both the 1.3500 and also the 1.3700-1.3670 areas once again, and even just a bit above the 1.3750-1.3800 area.

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

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

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

While it was recently back below the .7200 area once again with next support not until the .7000 area, the current rally back above both the .7200 area left it back near the 7350-.7400 area prior to the current weakness. 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 a significant degree, while the previously beleaguered TURKISH LIRA gave 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 left the 14.80 area prominent once again. Violating that also saw the 14.40-.50 area give way prior to the current bounce back into that area.

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 currently tested 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. Yet while it was a delayed reaction, sustained CRUDE OIL strength has now seen it weaken back below the 20.75 and 20.45 levels once again into the 20.20-.25 area.

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 projected this week's threshold into the 9.30-9.35 area (MA-41 plus 1.05-1.10.) Now above that the higher Oscillator thresholds into next week are not until 9.80 (MA-41 plus 1.51) only seen on the November 2020 surge.

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.

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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