



RESEARCH NOTE

Thursday, October 28, 2021

Post-WHAT? Quick Take, Calendar

Today's title refers to the degree to which Madame Lagarde's ECB post-rate decision press conference was really just more of the same from another central bank that is using the near term COVID-19 pandemic dislocations to maintain an overall accommodative stance.

While the Bank of Canada announced the end of its outright QE purchases on Wednesday (<https://bit.ly/3EoMf5t> for its press release on the policy shift), it will maintain reinvestment of bond proceeds.

The ECB press conference (<https://bit.ly/3nvJskq> skip the first 11:00 opening) was unremarkable in observations on inflation and the supply chain issues remaining well into 2022, yet continued confidence they will abate after that. This is of course very similar to the Fed maintaining its accommodative stance due to the near-term economic drags despite stubborn inflation looking more pernicious.

What Madame Lagarde had to say about the supply chain bottlenecks relief was very enlightened. As opposed to what some US politicians are saying about any early resolution of that problem, she holds that a goodly part of the solution is the additional shipping tonnage that is being created at present by major cargo ship manufacturers.

Of course, this takes many months. As opposed to the Biden administration promises, this means the issue will remain for many months. Also note that the provision of more cargo transportation will not resolve the US West Coast port congestion problem... it might actually worsen it.

She also noted the energy component of inflation is a multifaceted issue revolving around low inventories, lack of wind power in Europe (aggressive environmentalists should be duly chastened), strong Chinese demand, and Russian control of critical natural gas supplies for Europe. Based on that, this will also last quite a while.

So it was not much of a 'post' rate decision discussion, as it was more so a continuation of the same stance where decisions were not taken. For more on the overall context, see Lagarde's typical opening Monetary Policy Statement (<https://bit.ly/3GtjOoR>) with an outline of each key area, and the earlier 'decisions' release (<https://bit.ly/3mmBRVO>) highlighting the steady nature of its QE efforts.

This is more of a lack of real news, with PEPP to continue through at least March 2022, and the latitude to extend any of its QE efforts if financial and economic conditions should warrant.

Yet the ECB is also confident that the wage increases which are also part of the current inflation (as is the case elsewhere as well) will not continue to become 'second round effects'. That is the ECB's pet term for the rightfully dreaded 'wage-price' inflation feared by all central bankers.

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The other “Post-WHAT?” issue that is prominent once again is the still stubborn spread of the COVID-19 pandemic, even if on a more subdued path. This is as we explored in Wednesday’s ‘Funny Old Risk-On Psychology’ research note (repeated below for your ease of access along with some other research.)

We are quite concerned about the upbeat expectations for a ‘post-pandemic’ world, which has been a ubiquitous phrase in recent general and financial news coverage.

Certainly there should be some cheer on the very likely US approval of the Pfizer-BioNTech and Moderna vaccines for children (ages 5-11.) Yet for all of the reasons discussed Wednesday, this is not likely to be a panacea either for the return to normal education or relief for all of the workforce constraints that the overall vulnerability of children and their families has fomented. Much as with the adults, it’s more so a matter of actual shots in arms (full discussion below.)

There are also the issues of the overall path of the pandemic in even highly vaccinated countries, and whether that will accomplish the full return to normal (or a ‘new-normal’) global economy. Added to that are the major Chinese property developer concerns (also more below.)

Even if that may be more so a Chinese economic problem if it worsens into late this year, the second largest economy in the world weakening further cannot be considered a good thing for the rest of us.

The markets are reflecting this in the strength of US EQUITIES not being matched by activity in other asset classes. While the US Dollar Index is finally weakening below the 93.70 area just this morning, the other developed currencies are still up against higher resistances. While emerging currencies are getting a bit of a bid this morning, they have been under pressure during the recent bifurcated ‘risk-on’ psychology shift (i.e. even though US EQUITIES set a new all-time high.)

And the recent sharp recovery of global govies from important lower supports (more on that below as well) is another sign that the strong growth which the ‘post-pandemic’ psychology envisions may be less than assured. While global govies are under some pressure today despite a much weaker than expected US Q3 GDP first look, they have seemed to defuse any surge to higher interest rates on a failure below the recently tested lower support prior to the recent recovery.

Courtesy Repeat of Wednesday’s ‘Funny Old Risk-On Psychology’ research note

Overall market activity across asset classes gets back to the cautionary word we provided in our ‘Mixed Inflation Indications’ research note a week ago today. That was the repeat of our classical view that “...it takes three different headwinds to reverse any sustained ‘risk-on’ psychology in US EQUITIES... and that still seems to be the case at present.”

While US EQUITIES were able to overrun the FRONT MONTH S&P 500 FUTURE early September 4,549.50 all-time high on Monday after stalling late last week, the performance of the other asset classes was not at all consistent with renewed strength... hence the ‘funny old’ risk-on psychology.

One of the key headwinds noted last Wednesday was “...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 early 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.’” New cases are now down to another key level.

That is the 65,000-70,000 range we had highlighted from July 2020 and again back in April of this year as the pandemic was waning. Even if it should slip a bit below that, yet stabilize at that high level, it will indicate a greater likelihood of another pandemic surge into the Winter. One of the optimists countervailing perspectives is that the recent US approval of 5-11 year-old vaccinations will sharply improve the education environment, and relieve the associated labor market constraints.

This is all part of the current broad assumption that any virus and associated pandemic which has been around for 18 months must surely be on the verge of dissipating into a less impactful form. The degree to which we have heard the phrase 'post-pandemic world' in the past couple of weeks is striking.

That is seemingly not in touch with the latest global news. Russian has just launched its most draconian lockdowns, as it spreads again in Eastern Europe as well.

While there has been real improvement in Germany, the UK is seeing its worst surge since July. There are also repeated outbreaks in Asia, which means China is under threat again along with a more extensive spread in New Zealand. All of this is prior to a typical Winter increase in new cases due to higher transmission.

Getting back to that positive assumption about the potential panacea that the US children's vaccine approvals might represent, the problem is going to be parents. Recent polls show 24% will 'definitely not' get their children vaccinated, with an additional 34% indicating a 'wait and see' attitude. This is also consistent with the vaccination rates for 12-18 year olds in the various US regions.

However much anyone might agree or disagree with parents' opinion on the vaccination of their 5-11 year-olds, the idea that only 32% of that age group will be vaccinated anytime soon significantly diminishes the overall positive impact of the children's vaccine approval. That will affect both school attendance, and be a key labor force impact through parental (and teacher) employment choices.

In other words, the highly anticipated return to a 'new normal' that loosely approximates the pre-pandemic global economic situation in a 'post-pandemic' world might be a classical '*triumph of hope over reason*'. In addition to those US exposures despite the progress in children's vaccines, the potential for new COVID-19 quarantines in China (always more draconian) present the prospect of further drags on the already challenging supply chain situation.

Whatever the Chinese renewed pandemic surge response might be, that supply chain problem is going to remain an issue in the US regardless of what some US politicians and administration officials might say. We also reviewed key specifics of that in last Wednesday's research note. To wit, "...*headline efforts to improve the US ports situation are not going to be an 'instant' remedy.*" As one port official who was enthusiastic about Biden administration pressure noted, it is a process, rather than throwing a light switch, especially with other land-based services.

Last, but by no means least, is the overall performance of the Chinese economy, which is now beset by risks and potential drags from a flailing property sector. Even though Evergrande caught up on a recently missed dollar-bond interest payment, there remains real concern over its ability to continue to service its rather massive debt. And as we had previously noted, while some have pointed to how limited an impact Evergrande's overall debt represents in the global or even Chinese debt market, that fails to take into account the overall Chinese sector... much akin to officials talking down the US blended MBS risks back in 2007.

A very good Reuters article this morning (<https://reut.rs/3CnAStU>) extensively reviews the recent meeting between Chinese regulators and financial authorities and the key property developers who are under threat of default. It is most interesting that not just Evergrande but also other sizable developers have missed major offshore bond interest payments this month.

It pointedly notes, "*Some Chinese property developers have proposed extending their offshore bond maturities or undertaking a debt restructuring...*" That's all fine and good, except for the fact it would need to occur with offshore lender participation.

That article noted that the involvement of the Chinese state might make it easier for more solvent developers to renegotiate loan covenants. Yet the article also quotes Alexander Aitken, partner at Herbert Smith Freehills in Hong Kong, on the reality that, "*The extension of maturities in bonds isn't an easy process, especially not if they are widely held. In practice it may be very difficult to do so.*"

While not necessarily a risk factor for this week or next, the continuing travails of the Chinese property sector represent a late year risk (read the article on that.) And market tendencies are back to that bifurcated US EQUITIES being delinked from the activity elsewhere. Here we are with the DECEMBER S&P 500 FUTURE still out above that early September 4,549.50 previous all-time high, having ranged up nearer to the 'front month' 4,621 major 'swing count' on Tuesday prior to reacting.

However, that extension of the 'risk-on' psychology is not being reflected at all in the other asset classes. After a full week of defying significant overall weak 'rearview mirror' economic releases, NON-US DOLLAR FOREIGN EXCHANGE is back under pressure. It was the case that the developed currencies never strengthened to a degree that fully reversed the previous US DOLLAR 'haven' bid. In general that was apparent from the only modest US DOLLAR INDEX slippage back below the key 93.70 area.

While some of the EMERGING CURRENCIES had strengthened more markedly, their recent activity was a clear sign they were unable to extend a 'risk-on' psychology. That is especially so for the upside leader SOUTH AFRICAN RAND that saw USD/ZAR weaken from a high above 15.00 two weeks ago to below the 14.80-.70 area into a retest of its 14.50-.40 support last week. Yet after not dropping back below the 14.80-.70 area on US EQUITIES strength earlier this week, it is back above 15.00.

The MEXICAN PESO that had seen a USD/MXN drop from a high in the 20.90 area two weeks ago had also fallen all the way to its 20.25-.20 support (with all of the key weekly MAs just below that area), and has held it so far. This could be the influence of the sustained high energy prices, also benefiting the RUSSIAN RUBLE.

Yet even beyond FOREIGN EXCHANGE, there is the significant renewed bid in the GLOBAL GOVVIES, which had recently weakened markedly into lower supports on another yield surge. However, at present the DECEMBER T-NOTE FUTURE is back up from a test of key 130-00 area to around the 131-00 area. Similarly in the DECEMBER BUND FUTURE, holding last week's multiple tests of the 168.00 area have seen it push up once again to the low end of the failed 170.00-169.50 support.

Even the DECEMBER GILT FUTURE that struggled to not slip too far below its key 124.00 area support over the past several weeks is back up to 125.76, which is into the previously failed 126.00-125.50 area support. On balance, coordinated GLOBAL GOVVIES strength speaks of weakening economic expectations, which is also consistent with the other currencies losing ground to the US dollar.

As such, the US EQUITIES latest surge to a sustained (at least at this point) new all-time high seems another of the 'bifurcated' risk-on psychology phases we have seen so often during their extended bull run. Pending how they and the other markets evolve over the near term, their strength now seems more of a preference for the US over other locales that are developing problems again.

Within the context of a still accommodative central bank psychology (with more to come from the ECB on Thursday), this could hint at the return of a US EQUITIES TINA (There Is No Alternative) psychology. That is the only current inference which makes sense with the OTHER CURRENCIES weakening against the US DOLLAR. There is also the GLOBAL GOVVIES staging such a sharp rebound, which is completely inconsistent with any major near-term international economic improvement.

Courtesy Repeat of Wednesday'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/3pAKE8A> 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 last week 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 left the early September 4,549.50 front month S&P 500 future all-time high as resistance. Now that it has been exceeded, the 4,621 major 'swing count' is the next key threshold, with the next key weekly Oscillator thresholds up into the 4,645-600 area this week (rising \$30 per week.)

Evolutionary Trend View

While the FRONT MONTH T-NOTE FUTURE (March at the time) contract had not really challenged the mid-low 132-00 area support, the discounted JUNE T-NOTE FUTURE was only back to trading somewhat above it (as apparent on the weekly chart through Friday <https://bit.ly/3jBmHKJ>.) 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 mid-October rally, it had finally weakened below that level and was at new lows after not being able to Close back above it on an interim rally. Yet some combination of negative sentiment factors, such as the recent serial weak economic releases and COVID-19 resurgence, has rallied it back up to the 131-00 area.

That said, the previous selloff was consistent with a 10-year yield swing to 1.66%, as expected. That was near levels seen during the April-May 1.70-1.75% range surge. 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/3pHKkox>.)

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 0.00% for the first time since May of 2019. However, some combination of negative sentiment factors, such as the recent serial weak economic releases and the COVID-19 pandemic resurgence, has rallied it back up into a test of the 170.00-169.50 failed support.

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 was very interesting into the end of last week, when it when it scrambled back up to the 124.00 area after weakening below that area as late as Thursday of last week. And here as well some combination of negative sentiment factors, such as the recent serial weak economic releases and the COVID-19 pandemic resurgence, has rallied it back up near the 126.00 area failed support.

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 was driving the 'risk-off' psychology in the vulnerable **EMERGING CURRENCIES** on a 'country' basis, even if a resilient if quieter **US DOLLAR** 'haven' bid has survived a modest rally 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 despite the US still having an elevated COVID-19 new case rate.

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 previous squeeze above that area (as seen on the weekly chart <https://bit.ly/3pCyFrc> 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. the recent weakening of the US DOLLAR 'haven' bid left it struggling to hold the 93.70 area once again, which it is now somewhat below. Yet the weakening of other DEVELOPED CURRENCIES under the weight of the resurgent COVID-19 pandemic (especially in the UK and parts of Europe) has enabled it to only slip quietly below that area so far.

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/3mljvoi>), 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. Yet the continued pressure on the non-US DOLLAR DEVELOPED CURRENCIES under the weight of the resurgent COVID-19 pandemic (especially in the UK and parts of Europe) has seen it only churn back up toward the interim 1.1700 area so far.

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 1.3500 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. Yet the weakening of the non-US DOLLAR DEVELOPED CURRENCIES under the weight of the resurgent COVID-19 pandemic (especially in the UK and parts of Europe) has seen it stall back into that area for now, also with weekly MA-41 at 1.3835.

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 above the 7350-.7400 area into a test of the .7500 area.

Yet the weakening of the non-US DOLLAR DEVELOPED CURRENCIES under the weight of the resurgent COVID-19 pandemic has seen it stall back into that area, also with weekly MA-41 in the .7540 area it is currently testing. While the pandemic is resurgent in the UK and parts of Europe, Australia has also seen a significant two-month surge in new cases to a record high of 2,744 per day earlier this month, falling to around 1,800 at present. That is as opposed to April and August 2020 peaks of 400 and 600 respectively. While much lower than many other countries (especially the US and parts of Europe), this still represents a problem.

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 tested once again over the past two weeks.

In fact, last week's new 114.69 rally high followed by a lower weekly Close below the previous week's 114.22 Close was a weekly DOWN Closing Price Reversal (CPR.) As with all DOWN CPR's, its Tolerance is that previous week's 114.45 trading high. The lack of any strength in the alternate 'haven' currency indicates the lack of any crisis. As such any continued resilience of the US DOLLAR is more so on secular strength driven by concerns elsewhere.

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 did 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 recent drop back below 15.00 left the 14.80 area prominent once again. Violating that also saw the 14.40-.50 area being vigorously tested. However, the rally that began last week has quickly carried back above those levels to see it back into 15.00-.10, with the 15.40-.50 area once again the next resistance.

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 recently pushed up on general EMERGING CURRENCIES weakness, it was recently right back into that range. Sustained WTI CRUDE OIL strength has left it below that range, with next support into the 71.00-70.00 currently being vigorously tested for the first time since June 2020 and even some early week slippage toward 69.00. Yet the more major support is into the 68.00 area low from earlier that month, with a weekly 68.66 weekly UP Closing Price Reversal along the way.

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. That is also very important on all of the weekly MAs (including MA-41) being just below the 20.20 level, which it has held since the middle of last week.

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 last week's threshold into the 9.30-9.35 area (MA-41 plus 1.05-1.10.) Above that on last week's Close meant the higher Oscillator threshold into this week is not until 9.80 (MA-41 plus 1.51 still rising 0.05 per week) only seen on the November 2020 surge. Having neared it on Monday's spike higher prior to dropping back down to the 9.60 area leaves the 9.85 area as the higher threshold next week.

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.

Back to an end of month data tsunami, along with key central bank rate decisions this week from the Bank of Canada, BoJ and ECB. While Monday typically begins kind of quietly in an end of month week, it still holds the Japanese Leading Economic Index, German IFO and a couple of US Fed surveys. Tuesday continues on the light side with mostly US data.

Wednesday sees a marked pickup with Australian CPI, quite a few releases out of Europe, and US Durable Goods Orders into a Bank of Canada rate decision and press conference. Thursday continues the heavy influences from the BoJ rate decision and press conference along with Japanese Retail Trade into significant Euro-zone economic releases, surveys and the ECB rate decision and press conference along with US GDP and associated indications.

It all wraps up on a big Friday, kicking off with Japanese inflation numbers and other data into Australian Retail Sales and PPI. That is followed by a full range of Euro-zone GDP numbers along with other data into US Personal Income and Spending along with much other data into a weekend that sees Europe and the UK shift back onto Standard Time.

Of course, the troubling resilience of the COVID-19 pandemic on the continued Delta variant spread continues to offset more upbeat recent vaccination developments, even the likely US approval of a children's vaccine. Along with that, the recent weakening of the international economy along with higher yields means we are obviously maintaining our recent advice into this week's round of important inflation numbers: Keep those seat belts firmly fastened.

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