



## RESEARCH NOTE

Wednesday, December 15, 2021

### **Does Santa Get Mugged? Quick Take, Calendar**

Interesting when the typical Santa Claus Rally (actually 'Santa Portfolio Manager' as revisited below) might be derailed by a mugger that turns out to be the central banks. Curiouser and curiouser in a year that has already seen some of the most curious developments on record. While the definition of the Santa Claus Rally period is between US Thanksgiving (actually the Black Friday sales blast) and Christmas Eve, it often begins earlier in November.

However, it then mostly continues into Christmas in years when the market is in any sort of strong rally like this year (once again, more below.) It all seemed to be going like clockwork on the recovery from the weak October seasonal cycle until the Omicron variant 'Grinch' pulled presents from under the tree on Black Friday.

Yet after that, better news on some aspects of the ability to fight the Omicron variant led to resumption of the S&P 500 rally. That was back to the weekly DOWN Closing Price Reversal high end resistance (4,695 to its 4,723.50 Tolerance set during Thanksgiving week) at the beginning of this week prior to the over the top US PPI numbers. That is as thoroughly reviewed in Tuesday's 'Inflation Now the Bears Friend' research note (repeated below for your ease of access.) While concern over central banks becoming less accommodative had been temporarily set aside into last week, US PPI raised a spectre of it returning the late part of this week.

As also noted Tuesday, this is especially on how heavy a shift to inflation fighting might actually occur in this afternoon's FOMC announcement, revised projections and Fed Chair Powell's press conference. And beside the sheer inflation increase now apparent in today's broad UK inflation data and US Import-Export Prices (with Europe and Canada a bit more benign), there are other troubling factors for the US EQUITIES. Today's US November Retail Sales were a total bust on the surface, coming in even worse than already significantly weaker estimates.

And it must also be considered that strong inflation numbers should be flattering any weaker consumer data. Yet in this case the cycle that normally continues into December pre-holiday shopping season may have peaked very early on all of the earlier significant supply chain retail product availability scares. That is also in the context of the weakness of US Real Earnings despite the major worker compensation increases, with more below on how those have been more than fully eroded by inflation. We suggest a read of Tuesday's analysis for more on that as well, with its link to the latest US BLS Real Earnings report. This is also hinting at the potential for a 'wage-price spiral' not seen since the early 1980's recessions.

However, even with all of that extended anticipation, the more immediate threat to the US EQUITIES later this week is the shift to more central bank inflation fighting, and therefore a more aggressive withdrawal of accommodation. It is reasonable to believe that due to Chair Powell and other Fed members already signaling their concern with more sustained than expected inflation, this might be built into the US EQUITIES and other asset classes.

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Maybe so. Yet that does not incorporate the degree to which they are going to need to fight stronger 'inflation expectations' into a possible slowing economy if the pandemic resurgence remains strong. That seems to be the definitive case in the US, Europe and even over in China.

Tuesday's most interesting Reuters article (<https://reut.rs/3DXoscm>) title says it all with "COVID-19 rattles major Chinese manufacturing province." This is an indication that even though the number of cases looks relatively minor by Western standards, China is known for draconian short-term measures to fully suppress any wider outbreak.

As such, and very much unlike the West, when the Chinese government says, "You're Closed!", companies are actually fully closed. Take a look at it for the major list of companies which are components suppliers to others outside of China, and consider further supply chain indications. It is also the case for China that it wants to completely stamp out incipient COVID-19 spread well ahead of typically heavy Chinese New Year travel for the two weeks beginning on February 1st. Of course that also overlaps Beijing hosting the 2022 Winter Olympics from February 4-20. While it should be hoped the current typical draconian measures will work, they won't help the global supply chain problems.

That is along with the heavily predicted rapid spread of the COVID-19 Omicron variant, which is already apparent in the UK (40% or more of current new cases.) And the current US New Cases surge is surely on the Delta variant. Once again we provide the current CDC US New Cases graph (<https://bit.ly/327lpQj>), which once again has seen a major Monday explosion. While last week saw the Daily cases calm down to a 120,000 7-Day Average, this is still nowhere near the key lower levels seen through last year into earlier this year. That's not good.

And based on the higher number of US unvaccinated (also see below) who might have had some protection from previous variant infection, the Omicron variant represents a 'clear and present danger'. That is because the antibodies from the previous variants have been shown to not be effective against Omicron. As we already reviewed the details on Tuesday, we suggest a read for more details. However, on a simplistic view, it is possible any aggressive Omicron spread in the US will cut through the unvaccinated like scythe through a wheat field.

And even though it is a most 'curious' year, we still provide our classic 'Santa's Already in Town' annual seasonal post below for its sheer perspective. This is from last year's evolution (with COVID-19 references) of the original 2013 post:

And back to the title tendency, there is that 'Santa Claus Rally' seasonal factor. As this tendency goes back through many years of our late year seasonal analysis, we are very comfortable repeating our assessment from years gone by (originally posted Monday, December 23, 2013) with adjustments to reflect this year's unique factors and current market tendencies...

One of the key aspects which many market participants expect to be critical at this time of year is whether or not there will be a classical 'Santa Claus' equity market rally into the end of the year. And we say there is a certain element of *humbug* inherent in any such assumption.

A 'very merry' disposition is apparent in the recent major extension of the EQUITIES rally that is reinvigorated by better prospects for COVID-19 vaccine efficacy into next year and the previously noted long-delayed US Congressional action on a COVID-19 relief package. However, the question remains "*Who is this capitalistic, market profit-oriented 'Santa Claus'?*" Of course, there is a question of whether anyone really believes 'Santa Claus' exists in a market context in the first place, regardless of any desire to believe or not in their personal life.

In fact, the idea there is a Santa Claus which visits the broad market indices in December is at least a bit of a misnomer. In truth, as we have noted each year, any benefits to the broader market into December are more so due to 'Santa Portfolio Manager'.

The key is whether or not he decides to provide joy from his remaining cash hoard to the other market participants. And his tendencies in that regard are rather more very self-serving than altruistic. He must assess whether it looks smarter to be holding cash or holding stocks.

And that has to do with market indices position relative to their highs or lows of the current year. The further below their highs of the year (or indeed closer to their lows like 2018) stock indices are trading into December, the less inclined 'Santa' is to provide gifts to the other participants.

Those would be in the form of further purchases. Sort of a "Scrooge's Scrooge" in those sorts of already trying times. In fact 'Santa' would be more likely to sell to establish 'tax losses' under those circumstances rather than be charitable to the other market participants.

However, the closer the equity indices are to their highs of the year, the more so 'Santa Portfolio Manager' is inclined to provide cash to the market in the form of stock purchases to end up fully invested at the calendar year-end... regardless of whether his overall returns for the year have been spectacular or second-rate.

To wit (and to the tune of *Santa Claus is Coming to Town*)...

Verse:

*He buys them when they're lower,*

*He buys them when they're high.*

*Can't have any cash on the books*

*When New Year's Day is nigh.*

Refrain:

*No need to pout,*

*No need to cry.*

*He'll only shout,*

*"Buy, Buy, Buy."*

*Santa Portfolio Manager's*

*Coming to town.*

### **Courtesy Repeat of Tuesday's 'Inflation Now the Bears Friend' research note**

It may be getting to be that 'strong news' is bad news, as actual data that is well above the already hefty estimated increases in US PPI seems to raise the spectre of even more sustained inflation; and with it the prospect of more aggressive withdrawal of central bank accommodation. While we will know more on that after Wednesday afternoon's FOMC rate announcement, revised economic and interest rate projections and Fed Chair Powell's press conference, the markets already seem to be reflecting central banks' need to focus more strongly on inflation.

And at least for now, that prospect has assisted the US EQUITIES bears in breaking some key interim technical support. That is the FRONT MONTH S&P 500 FUTURE (still December until Friday) 4,660 congestion that had been violated on a couple of previous selloffs; and sold off then into vigorous tests the key lower 4,535 area (in fact holding multiple tests of 4,500 area.)

It is as noted in the title of Monday's 'Burden on the Bears' research note (repeated below for ease of access.) The dilemma for the US EQUITIES bears after that previous early December spill was the retest of the higher late-November 4,695 weekly DOWN Closing Price Reversal (CPR), and especially its 4,724 Tolerance.

While that rally did indeed stall early this week after that strong finish above 4,695 late last week, there is a big difference between a bull trend stalling temporarily on the upside, and any real return of weakness. We suspect the latter could still be the case on the COVID-19 pandemic resurgence discussed in Monday's analysis, and now inflation.

In any event that still leaves the distilled 'macro' vectors being the previously noted 'reopening' versus the 'resurgence' (all reviewed below.) Yet now add to that potential for more aggressive central bank (especially the Fed's) withdrawal of largesse as an additional US EQUITIES and general economic risk factor.

And this is becoming a market concern right into the extensive Wednesday-Thursday Central Bank-O-Rama, beginning with the Fed tomorrow afternoon (US time), followed by the SNB, ECB and BoE coming into a holiday season compressed rate decision meeting schedule over just the next 15 hours. And except for the BoE, they are each followed by a central bank head's press conference.

With the exception of the ECB, each of the others are expected to be a bit more hawkish (or less dovish, take your pick.) That plays right back into the inflated inflation numbers (pardon the pun), which is a global phenomenon affecting all economies; especially on the back of energy prices and supply chain disruptions which are not expected to abate anytime soon.

As this morning's Reuters article (<https://reut.rs/3oRQ7qK>) headline resurrects the oft-misused 'stagflation' term (with many previous misfires on inferences it might have been returning) regarding the German economic outlook, the central banks are under pressure.

And it notes the latest pandemic surge only complicates matters with, "*Activity in the services sector will likely slow as Germany faces renewed curbs aimed at breaking its fourth wave of COVID infections, while supply bottlenecks for microchips especially in the car industry hamstring manufacturing...*" It is also the case that the inflation surge will weigh on net consumer purchasing.

Yet the issue in the US is also the degree to which rising wages are not keeping pace with the seemingly inexorable rise of inflation. Much as in early November, the latest US BLS Real Earnings (<https://bit.ly/3oo2ucV> released on December 10th) showed a worsening tendency, with an annualized drop of 1.9%. This is the more pronounced problem encouraging even further wage demands, which can turn into the rightfully dreaded 'wage-price spiral' (and maybe already has.)

This is something which has not been seen since the 1970s, and is very hard to tame with only modest steps. While it will be compounded by any fresh pandemic resurgence we still feel is a major factor, it is also pernicious unto itself. That is because wages can only rarely be reduced once they have risen. The companies cannot say to workers that because prices are rising more slowly once again, the workers should take a pay cut... it just doesn't work that way, especially in a US where the labor compensation had so seriously lagged corporate profitability.

The bottom line is the only way to get worker concessions is to make them more fearful of losing their jobs than somewhat lower compensation. Historically the only way to do that is for the central banks to tighten to a degree that triggers a fairly deep recession. My dear, long-departed father-in-law was an attorney and Depression-era guy (and very sharp poker player, much akin to being in court) who had developed a sharp sense of various aspects of the human condition.

His take on the Business-Labor Compact was that, “*The employer’s job is to pay the worker just enough so that they don’t quit; and the employee’s job is to work just hard enough that they don’t get fired.*” The problem in the current lopsided US economy is demand for labor exceeds supply by enough to keep a continually rising bid in the wages, which is never enough to catch up with rising inflation.

These are classic conditions for a ‘wage-price spiral’. It is therefore reasonable that US EQUITIES and other asset classes should fear the prospect of continued inflation, which can indeed trigger stronger central bank tightening across time. That would include not just further potential weakness of US EQUITIES, yet also some return to global govies weakness that is already in gear on the back of this morning’s US PPI. And also as part of this week’s highly accelerated pre-holiday economic release calendar, there are major global inflation indications releases all through Wednesday and Thursday, with the global Advance PMIs Thursday.

With high, yet still only as expected, US CPI out from the end of last week, the next key indications are likely to be Wednesday’s pre-FOMC UK and broad European inflation data, followed by Friday’s German PPI and overall Euro-zone inflation indications (where the latter are surprisingly expected to ease a bit.)

### **Courtesy Repeat of Monday’s ‘Burden on the Bears’ research note**

The market trends seem to be at an even a more critical inflection point on the same core battle (with other factors offsetting each other) as highlighted in Friday’s ‘Reopening versus Resurgence’ research note (repeated below for your ease of access.) As noted then, there was not really that much more to say after last week’s dissection of both most relevant and less than critical market influences.

While central banks are important this week along with accelerated pre-holiday economic releases (check your report and event calendars), it all still boils down to the pandemic ‘resurgence’ versus the ‘reopening’ psychology. While we will return to some of the key updates on those ‘macro’ developments below, it is first important to respect the markets’ activity that is more critical into early this week.

That is after the very strong US EQUITIES finish last week. This is due to the FRONT MONTH S&P 500 FUTURE activity, which remains the December contract until late this week, with the slightly discounted (\$8) MARCH S&P 500 FUTURE taking over on Friday morning. As we had highlighted since the initial Friday, November 26th Omicron outbreak selloff, the DECEMBER S&P 500 FUTURE left a 4,695 weekly DOWN Closing Price Reversal (CPR) with a 4,724 Tolerance (previous week’s high.) Yet it had failed to weaken back below the next lower 4,660 congestion last week after a couple of previous selloffs below it to the lower 4,535 area.

And while hanging around the 4,695 area most of Friday, toward the Close it firmed up above the 4,700 area for the daily and weekly Close. This was a nominal violation of the DOWN CPR, which left the market in a stronger position into early this week. Yet the operative term there is ‘nominal’, as the market will also need to post Closes (especially a weekly Close) above that 4,724 Tolerance in order to fully Negate the DOWN CPR. That would indicate a new all-time high above the current late-November 4,740.50 high from that DOWN CPR week.

If that should occur, the higher weekly Oscillator thresholds are 4,780 and 4,805 this week (still moving up \$20 per week), with the next levels up into the 4,875 and 4,905 areas. This upside potential sharpens the ‘burden of proof’ now on bears to once again find a rationale for FRONT MONTH S&P 500 FUTURE to once again at least violate the next lower 4,660 interim congestion again sometime soon.

That is due to that congestion having been fairly well-established since the upside churn into mid-November. With upside momentum still intact now, unless near-term support is violated sometime soon, US EQUITIES are more likely to extend the overall rally.

However, in the context of the COVID-19 Omicron variant spreading as quickly as had been feared, and the Delta variant resurgence again on the march, there is reason to consider a 'reopening' trade might still be at risk (more on that below.) That is consistent with the weakening of the non-US dollar currencies against the greenback and the bid coming back into the global govies, even if the latter have been beaten down a bit on the more upbeat psychology and Fed 'taper' fears.

That also informs our view of why the US EQUITIES decision is more critical now. That is due to it very possibly once again being the arbiter of the overall 'risk-on' psychology after previous 'bifurcated' phases between various asset classes.

The renewed synchronization of the psychology between the different markets (outside of the still domestically challenged TURKISH LIRA) is as we have noted since last week. While this can change at any time, it is the working assumption for now in the face of the key 'macro' reopening and resurgence influences.

Weakness after this morning's US EQUITIES test of the higher resistance can be construed as the 'resurgence' at least temporarily gaining the upper hand once again, which is reasonable in the global 'macro' context. As this morning's Reuters article (<https://reut.rs/31UeOdB>) notes, having just the standard two-dose initial mRNA vaccination is not effective against Omicron.

While only a partial study requiring more follow-up, it comes right into the UK announcing that the highly transmissible variant seems responsible for 40% of the new cases, and it has occurred even amongst the 'fully vaccinated' across all age ranges. There was also the first UK death from the variant. PM Johnson is quoted elsewhere as saying, "*I think the idea this is somehow a milder version of the virus - that's something we need to set on one side.*"

This brings with it the potential for government restrictions, or even potential renewed public reticence on engaging in the 'gathering' economy, as we have regularly cautioned previous.

The good news is the surge in vaccinations by a freshly fearful public, which is finally taking hold to some degree in the vaccination resistant US. That said, as the trend has been for any European pandemic tendencies to make it over to the US, the outlook is still not that good.

We once again share the CDC New US COVID-19 Cases graph (<https://bit.ly/3dKqemz>), critically updated through the end of last week that we had consistently highlighted as the key post-holiday period. While as seen in most of November, the Monday surge in cases had lapsed back into somewhat lower new cases. Yet as noted on Friday, Monday's surge was to the horrific 190,000 level once again, and the real key would be if they continued to weaken further after Tuesday's drop. Yet that was not the case, as while they were lower than Monday they trended up during the week from the 120,000 level back to 150,000. That is not a good sign, even if vaccinations finally picked up.

Yet those levels as well are not yet at all comforting in the US, where the 'fully vaccinated' percentage finally breached the 60% level. Yet if indeed the Omicron variant can only be fought with the fully boosted vaccination, that is still only 16% of the US population, with 27.5% remaining unvaccinated.

That leaves a major potential for both the Delta resurgence to become worse (now in many Northern states), and leaves a wide berth for Omicron to have a very negative impact. Consider that the path for those with only a single dose, and especially those who are completely unvaccinated, is many months away from effective Omicron variant protection.

While we do not relish the prospect in any way, it is also important to consider the more important aspect of the overall pandemic weight on the US and global economy. Rather than government quarantine or selective mandates and restrictions, it is going to be back down to public perception. That was more important during the initial response to the pandemic during the early phase in early 2020. It will remain the key to whether many 'gathering' economy services businesses are going to experience another round of heavy weakness after being such a major part of the recent strength. That goes for external dining, domestic travel and especially international, where restrictions already apply, hospitality along with that, and small retail, etc.

### Market Quick Take

After the early September 4,549.50 new all-time high, the SEPTEMBER S&P 500 FUTURE violation of the 4,492 interim daily chart congestion after trading around it previous led to the violation of the prominent 4.462 area as well. And while it temporarily traded back above that, subsequent softening below it spoke of an ability to trend lower in the near term as is obvious on the weekly continuation chart updated through last Friday: <https://bit.ly/3ykHJmR>.

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's Evergrande situation.

As usual there was a Tolerance below that (as seen on selloffs in both June and July) down to 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 seemed a broad berth, on past form only below the 4,350 area signaled a near-term trend reversal.

Yet as always with these matters, the weekly Close was more important than temporary trading weakness below it. And after the DECEMBER S&P 500 FUTURE became the front month future it held against interim low-4,300 support, and ended the week back above the low 4,400 area. Yet the extent of the selloff means that it needed to be treated as a 4,410 weekly up channel DOWN Break.

The 4,348 area had reverted to the key support again on the then renewed pressure, and much like previous it was temporarily violated. The difference is that the daily 'trend flow' was quite a bit different with the 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 the (at that time) weekly MA-9 and MA-13 in the 4,435-45 area was looking 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 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, and ultimately the early September 4,549.50 front month S&P 500 future all-time high.

After that was exceeded, a 4,621 major 'swing count' was the next key threshold, with the next key weekly Oscillator thresholds up into 4,725 and 4,750, which it stalled into in mid-November. That finally precipitated a reaction that was still only initially down to 4,660 interim support. However, the Omicron news knocked it back below that area, and below the 4,621 previous upside Objective as well.

This created a weekly DOWN Closing Price Reversal CPR) from the previous week's 4,694.50 Close after the subsequent pre-Thanksgiving 4,740.50 new all-time high. This has a Tolerance of the previous week's 4,723.50 previous all-time high (as also highlighted on the weekly chart.) With DECEMBER S&P 500 FUTURE recently above the interim 4,660 congestion, that remains a key congestion area along with the 4,621 overrun upside 'swing count' Objective (also weekly MA-9) and the temporarily violated lower 4,535-00 congestion.

While the better benign central bank anticipation assisted in challenging the 4,723.50 Tolerance of that DOWN CPR signal on Monday, the bad US inflation data created more angst for the later part of this week. Much of whether the lower supports noted above will hold (especially the current retest of 4,621) likely rests with the central banks. That is from the Fed this afternoon through Europe and the UK Thursday morning. If all those supports should fail, there is still the lower October weak seasonal congestion at 4,440 into 4,410, with 4,300-4,260 below.

### ***Evolutionary Trend View***

The path of **FRONT MONTH T-NOTE FUTURE** has been very interesting since late September. Since back in August the SEPTEMBER T-NOTE FUTURE had been sagging a bit below the significant 134-00 area, even if only slightly up until its September 21<sup>st</sup> expiration. However, the DECEMBER T-NOTE FUTURE at a 24/32nds discount was already down into the low 133-00 area, and slipped for a vigorous test of the more important 132-00/131-16 area (as exhibited on the weekly chart through Friday <https://bit.ly/3dOLVlg>.)

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 serial weak economic releases and COVID-19 resurgence at the time had rallied it back up to the 131-00 area prior to stalling once again.

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.

However, the more recent rally was fomented by a more dovish than expected BoE that again sent it back up to a test of the 132-00 area prior to the subsequent US and other countries' inflation data had it back down near 130-00 before stabilizing. While the recent strong data and inflation indications had dropped it to a new trading low for the overall selloff below that level, the Omicron shock sent its fully back up for another test of the 132-00 area.

Yet that rally has fizzled along with the Omicron fears dwindling on the confidence current full vaccination can counter its worst effects, and also on the renewed inflation fears. So for all of the rapid shifts over the past several weeks, this is a trading market for now in the 132-00 to 130-00 range. That lower boundary is especially important into the half point discounted MARCH T-NOTE FUTURE becoming front month when the December contract expires next week Tuesday (December 21<sup>st</sup>.)



While the **MARCH 2020 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/3GvWoyu>.) 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 previous 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 previous 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. That was despite rallies on previous central banker assurances regarding inflation, which have now been jettisoned in the face of inflation clearly being more stubborn.

Yet it is most interesting that after being the downside leader since early this year and again into this Fall, the FRONT MONTH BUND FUTURE has recovered back above the 173.00-172.50 congestion once again on the current MARCH BUND FUTURE taking over from the December contract early this month. That is on the 2.00 premium of the MARCH BUND FUTURE to the December contract that saw above the 173.00-172.50 area again, with the 175.00-.50 range as the next higher resistance that it has already stalled near since the end of last week.

As the co-downside leader the **FRONT MONTH GILT FUTURE** (possibly on the inflationary implications of the Brexit break with the EU) was already failing somewhat below major 130.00 congestion as early as February. While initially it was able to bottom without fully reaching its mid-126.00 historic congestion, it also saw only more grudging rallies than either the volatility of BUND or the greater resilience of the T-NOTE.

And on the expiration of the June contract the **SEPTEMBER GILT FUTURE** was actually a typical full point below. While only modestly back above the 128.00 area, the Summer rally under the influence of UK COVID-19 Delta variant spread had it back up into to the 130.50-.00 range prior to backing off. It was 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 mid-September.

Yet on the subsequent weakening back below 130.50-.00 area the next support was still 128.00. And the **DECEMBER GILT FUTURE** that was already trading down below that was actually closer to the 126.00-125.50 major congestion. As the FRONT MONTH GILT FUTURE had been the weak sister previous, it failed to hold its 128.00 support even on the September contract selloff into expiration late that month. With the typical full point discount at expiration in the 'second month' DECEMBER GILT FUTURE, it was 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 was then 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 pointed to interim congestion in the 123.00 and 122.00 areas, yet with the major low end of the full 2018 range (it was sagging into) not until the 120.00 area.

However, after several weeks of sagging below it into mid-October, it was very interesting to see it scramble back above the 124.00 area. And here as well some combination of negative sentiment factors, such as serial weak economic releases and the COVID-19 pandemic resurgence, had rallied it back above the 126.00 area failed support.

After churning above and below that area through much of November, the Omicron shock sent it up temporarily above 128.00 area until that threat waned. Yet along the way this year and especially recently, the 127.00 area has been established as a new interim congestion area, which may become more important as we head toward the late month expiration of the December contract with the MARCH GILT FUTURE already near that level.

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 with the COVID-19 vaccination success despite near-term setbacks. However, recent problems elsewhere and the stronger US economic data and corporate earnings have developed into a 'haven' bid in the greenback.

And the mid-year 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 had survived a modest rally in the **DEVELOPED CURRENCIES**. It currently seems prospects are better in the US than the rest of the world despite the US still having an elevated COVID-19 new case rate related to its weak vaccination levels compared to other developed economies. That has led to the US DOLLAR INDEX developing a nominal yet curious 'haven' bid into a new 16-month high... possibly also in part as the 'least bad' alternative.

The **US DOLLAR INDEX** back above 93.30-.40 area in August was a key trend indication, even though it temporarily weakened back below it to the recently (since September 2020) important 92.00 area. However, sustained activity back above 93.30-.40 in late September led to a vigorous retest of the 94.30 and 94.74 late 2020 trading highs; the latter of which was also a 16-month trading high at the time (see weekly chart through Friday <https://bit.ly/3ypF8bd>).

And above that major 94.74 16-month high the next resistance was not until 95.74 that was readily exceeded on a swing to test the higher resistance at the low end of the major mid-2018 through mid-2020 range. While unable to sustained activity above the 96.50 area after the late Thanksgiving week Omicron initial impact, it also has held with only temporary slippage back below 95.74. If there is more sustained activity above the 96.50 area, next historic congestion is not until into the 97.80 July 2020 18-month trading high.

**EUR/USD** below back below 1.2000-1.2100 range in mid-August also saw the 1.1900 area interim support violated on the way to weakness below the 1.1815 interim support. That left the 1.1700 area more major lower support, which correlated 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 early September recovery back above the 1.1815 interim support meant that was once again the area to closely watch.

And the previous sharp failure put the 1.1800 area back in play as a weekly Head & Shoulders H&S Top Neckline (see the weekly chart through Friday <https://bit.ly/3s061kV>), which it had dropped below on a fresh mid-August 1.1800 DOWN Break. Did that mean the 1.1100 Objective would be hit? Well, long before that would happen it was important to see if it saw greater weakness below the important late-March 1.1700 area trading low than the temporary mid-August weekly Close slightly below it.

That was 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.) And the subsequent late-September weakness back below 1.1700 was definitively more bearish once again.

After EUR/USD also dropped below the Summer-Fall 2020 1.1600 area trading lows, the next interim support was around 1.1500, yet with the major support not until the 1.1400 area last seen in July 2020. Even though a temporary return to a ‘risk-on’ psychology saw it churn back above the 1.1600 area, renewed early November 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) had seen it not back below up the 1.1600 area, but also obliterate the previously untested 1.1400-1.1370 area.

Below that set off a heavier break with a test of the next major historic congestion in the 1.1200 area, which it has now weakened back near once again. Much below that there is also major congestion into 1.1000, with the H&S Top 1.1090 Objective along the way. While the Omicron influence fostered a squeeze, that only carried up to the low end of 1.1400-1.1370 area so far.

**GBP/USD** has held up much better against the US DOLLAR than some other DEVELOPED CURRENCIES (especially the EURO) in the wake of the Brexit vote finally confirming its exit from the EU. After stalling into the interim low-1.4200 area through May, it was churning increasingly below the 1.3750-1.3800 area next support, ranging down into the historic support in the 135.00 area through September.

While still looking much better than EUR/USD, it finally violated 1.3500 area in early November for a swing down below the 1.3350 area, yet only to the 1.3200 area that it remains slightly above so far. While the next interim support is the 1.3000 ‘big penny’, the next major historic congestion is not until the 1.2850-00 range with next lower interim support in the 1.2650 area.

**AUD/USD** has also been more resilient than EUR/USD since earlier this year despite the sometimes draconian Chinese COVID-19 suppression steps and fallout from relationship issues between China and Australia. That should all affect the normally heavy Australian industrial exports into China. Yet after failing below the key .7600 and .7500 area out of June into July and the .7350-.7400 area as well, it only traded temporarily below the interim .7200 area in August prior to recovering from a .7106 trading low.

That is important due to that low being the intervening low of a major 17-month weekly Head & Shoulders (H&S) Top. While it rallied for the next two months, that only carried back up to a test of the .7500 area that was also the completion of the Right Shoulder of the H&S Top. Its rapid selloff since early November saw the .7150 DOWN Break from that pattern top (i.e. weekly Close below the Neckline across the November 2020 and August 2021 lows.)

While that led to a new 13-month trading low, it bottomed without knocking out the significant .7000 area September-November 2020 trading lows (also left side of the Neckline projection.) And with it recently back slightly above the .7150 DOWN Break, there should be a decision soon on whether that remains a bona fide DOWN signal or turns into a ‘false’ DOWN Break.

**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 churning either side of 110.00 (109.00 to 111.00) from May through September prior to pushing up once again. While there are more Japanese 'country' issues at work, this indicates no overt 'haven' bid in the other typical global crisis haven currency. And it is now the case this has progressed further on the USD/JPY rally extension above the historically prominent 112.00 area to test the even more major 114.50 2017-2018 congestion prior to weakening a bit again of late.

Yet its ability to hold without even reaching the 112.00 area is a further sign of the overall lack of a global 'haven' psychology. That said, the late-November selloff from a 115.51 trading high created a weekly DOWN Closing Price Reversal (CPR) from the previous week's 113.96 Close it is now back to testing on the recent rally. That has a Tolerance of the 114.69 mid-October previous trading high of the rally, which will need to be closely watched for a sign of whether the rally might extend beyond its recent high.

And **EMERGING CURRENCIES** have become wide-ranging volatile markets, which are repeating their mostly similar tendencies under the recent stresses. That includes the extreme weakness of the outlier TURKISH LIRA, even as there is major volatility against the US DOLLAR on various 'macro' influences like inflation and the COVID-19 resurgence.

**SA RAND** had seen **USD/ZAR** failing and then rallying back through key levels of late, yet generally reflecting a weaker picture versus the US DOLLAR. While from late 2020 that was substantially in the range between 14.30 and the mid-15.00 area (with a brief Spring diversion down to 13.35), those various 14.50-.45, 14.70, 15.00 and heavier 15.55-.65 area (January and March 2021 trading highs) have been exceeded.

The mid-November push above both the 15.40-.50 area as well as the key higher level above at the January 15.65 12-month trading high (at that time) also left a 15.30 full year Inverse Head & Shoulders (H&S) UP Breakout. That has a 17.40 Objective.

Yet first there was the next resistance initially at the 16.07 September 2020 trading low, yet with heavier congestion the 16.30 area that has stalled the rally for now. For more of a view, please see the weekly continuation chart from several weeks ago Friday (<https://bit.ly/3kWkUjS>), which also includes the Inverse Head & Shoulders pattern. This highlights the degree to which the US DOLLAR downside reaction is only a partial reaction after its recent strength.

Even when other EMERGING CURRENCIES have reacted to the downside at times, the **RUSSIAN RUBLE** has seen **USD/RUB** weaken at times on the back of sustained CRUDE OIL strength, and vice versa. For the past year it has essentially been a broad trading affair between 77.00 at times when CRUDE OIL is especially weak, and the 73.00-72.50 area except during the temporary drop below 70.00 on the October WTI CRUDE OIL surge above 80.00.

The recent CRUDE OIL weakness had seen USD/RUB back up to slightly above 75.00 in late November prior to backing off again toward 73.00-72.50 area, and those are likely to remain the key congestion areas.

**USD/MXN** had also been a ranging affair for the past year between 20.90 congestion and the major lower heavily tested 19.70-.65 area, with interim areas at 20.75, 20.45, 20.25 and the 20.00 area along the way. Yet that was with a temporary March surge to the 21.63 area, and the recent explosive rally above 20.90 through that high to a 22.15 high (above the nominal 21.97 resistance at the November 2020 trading high.)

Having now also fallen back below those levels to near the 20.75 violated congestion leaves it in a critical position, yet recovering to above 20.90 again at present. While what is a broad 'Rounding Bottom' allowed for slippage to 20.75 or a bit lower, anything too far back below it (also weekly MA-13) would look like a failure back into the full lower range.

What is there to say about a **TURKISH LIRA** that has imploded to the downside on the misguided direction from President Erdogan? Since **USD/TRY** exceeded the higher Oscillator threshold at 9.95 (MA-41 plus 1.51 still rising 0.15 per week now) only seen on the November 2020 surge, it transcended into upside hypervolatility.

All of the previous Oscillator projections became moot in late November, as the hands down 'biggest loser' of EMERGING CURRENCIES follies since then had been the TURKISH LIRA, as is apparent on the USD/TRY weekly chart through two weeks ago (<https://bit.ly/3FDiZss>.)

It had already Accelerated UP through 10.60 'return line' of the major channel (broader chart indication) from the March 2018 last trading low prior to the upward explosion to the 6.40 Close and 7.10 high. Of note, that 10.60 UP Acceleration was also very near the old all-time maximum plus 2.20 Oscillator threshold from 2018. No surprises there, as the longer term channel return lines and Oscillator levels are often two takes on the same overall conditions.

Yet, the question out into a new all-time high that fully surpasses a maximum historic Oscillator threshold is what to do next? Well, as indicated on the chart annotation (and as we have successfully done in other markets), it is reasonable to consider the ratio between the conditions prevalent at the previous high, and adjust them for the difference in values into a new situation.

Adjusting using the USD/TRY 10.60 level at which old Oscillator maximum was exceeded, we used the weekly 6.40 August 2018 Close that had indicated the plus 2.20 all-time Oscillator high at the time. Based on that, the 1.67 ratio of 2021 to 2018 prices projects extended Oscillator threshold of 3.68.

As noted in the previous chart annotation, adding that to the previous week's MA-41 projected an expanded Oscillator threshold of 12.20. That came with the caution that weekly MA-41 was then rising 0.10 per week, which is a torrid pace for that indicator (just take a look at the chart.)

All fine and good, except for one minor detail: USD/TRY had gone from that Monday's 11.37 Close up to a 13.35 new all-time trading high prior to slipping back to 12.20 area, and has now overrun all of that on a sustained swing up near 14.00, and now well above it. As a nominal update, the new all-time high early December Oscillator threshold was MA-41 plus 4.875, which it is now above this week. As there is no way to analyze the overall trend dynamic into these conditions, we only offer the very short-term insight that recent trading has left some congestion into the 13.45-.35 area. Interestingly, the lower end of that was the original weekly upside runaway high from during the extended late November upside explosion.

### ***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 political and pandemic cross currents, the Weekly Report & Event Calendar (accessible for Sterling and higher level subscribers) is available via the [www.rohr-blog.com](http://www.rohr-blog.com) sidebar.

This is a very robust week of economic releases and central bank influences, even though there are only a few central banker speeches. Yet, that is due to the abundance of major central bank rate decisions and statements along with quite a few press conferences, during which the individual central bankers tend to demure from individual expressions.

Even Monday that begins with mostly only Japanese Tankan surveys and German Wholesale prices also wraps up with the BoE Financial Stability Report, the FPC Statement & Meeting Minutes of its previous decision, and the Solvency Stress Test 2021. Tuesday is a bit heavier, with some key Asian figures into UK employment data, Euro-zone Industrial Production, and OECD Quarterly National Accounts into US NFIB Small Business Optimism and PPI.

Then, Wednesday and Thursday are massive reporting days. While we have not reviewed all of the specifics, this is likely in part based on some economic releases being brought forward due to the agencies typically wanting to avoid too heavy a release schedule right into or during the Christmas-New Year holiday week. Just to loosely summarize, Wednesday begins with significant Chinese data that ends in an NBS press conference, leading into UK, French, Italian and Spanish inflation data, followed by US Retail Sales, Canadian CPI, and...

...the early afternoon FOMC Rate Decision, Statement and the last Economic Projections revisions for the year followed by Chair Powell's press conference. And that is just the first round of central bank influence that sees another three decisions Thursday by (in order of appearance) the SNB, ECB and BoE with press conferences after the first two.

Thursday also brings the global Advance PMIs with Australian Employment and Japanese, Italian and Euro-zone trade numbers, a whole range of US economic data and Canadian Wholesale Sales. Friday kicks off with a BoJ rate decision and press conference into UK Retail Sales, German Ifo Surveys, and more Euro-zone and German inflation numbers and the BoE Quarterly Bulletin with nothing from the US.

Of course, the troubling resilience of the COVID-19 pandemic on the continued Delta variant spread continues to offset more upbeat recent vaccination developments, yet with the US economic data remaining healthy providing encouragement to the bulls. Based on those cross currents, we are obviously maintaining our recent advice into this week's very important forward release of some regular monthly indications: Keep those seat belts firmly fastened.

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