8/1/2021: The Monthy Signal...,

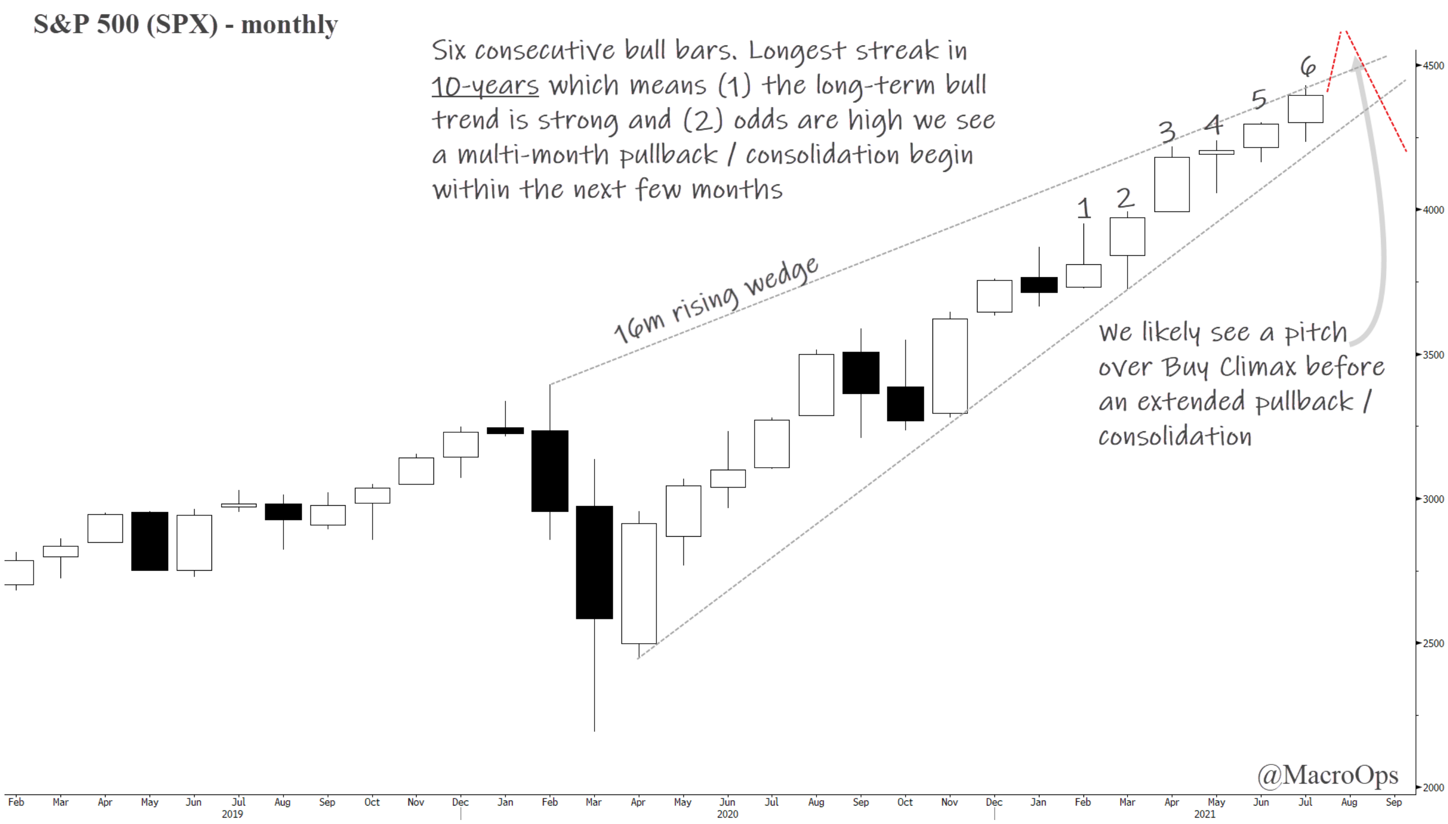
The start of a new month brings us new monthly charts to scan through.

Pulling back in time frame is incredibly useful as the noise-to-signal levels fall the further up in time we go, making it easier to see where the larger supply/demand imbalances (aka. Trends) are.

We do our bar-by-bar analysis and *Look Left For Context* to see (1) whether the asset is trending and in which direction it's headed (2) if momentum is accelerating or decelerating and (3) is the move over-extended from its longer-term average.

Let's go through some of the latest stand-out charts and then I want to discuss some interesting developments in the US dollar.

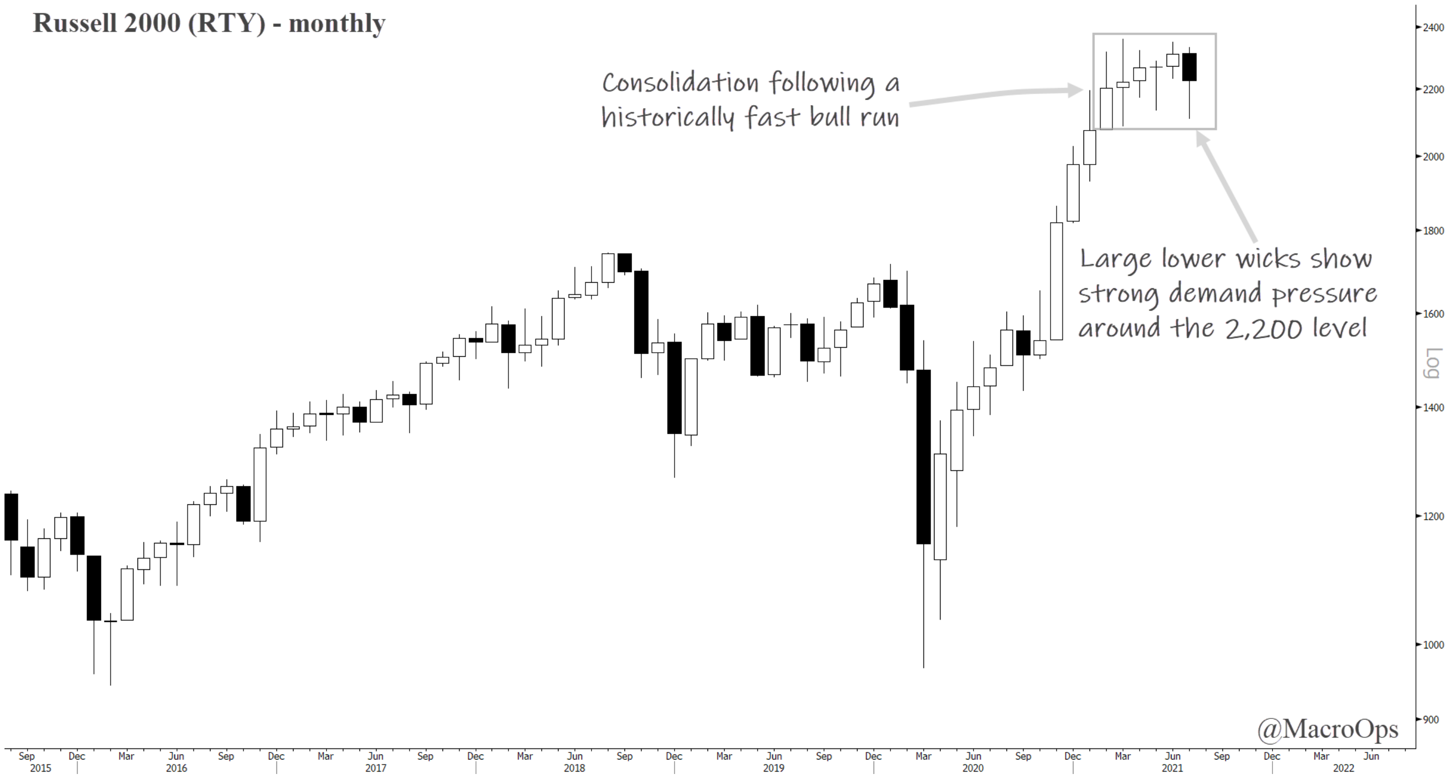
Starting with the SPX. The S&P is nearing the apex of its 16-month rising wedge. It's formed 6 consecutive bull candles, which is quite rare. In fact, that's **its longest bull streak in 10 years**.



We can take away two things from this **(1)** this bullish impulse is strong and long-term demand clearly outstrips supply and **(2)** historically, we begin to see profit-taking around these levels, meaning 1-3 months of price correction.

Because we saw a fairly strong close for July, it's likely we see the market pitch over the top of its wedge before correcting. And since the bulls have been in such strong control, we should expect any correction to get bought and thus be relatively short-lived (ie, 1-3 months).

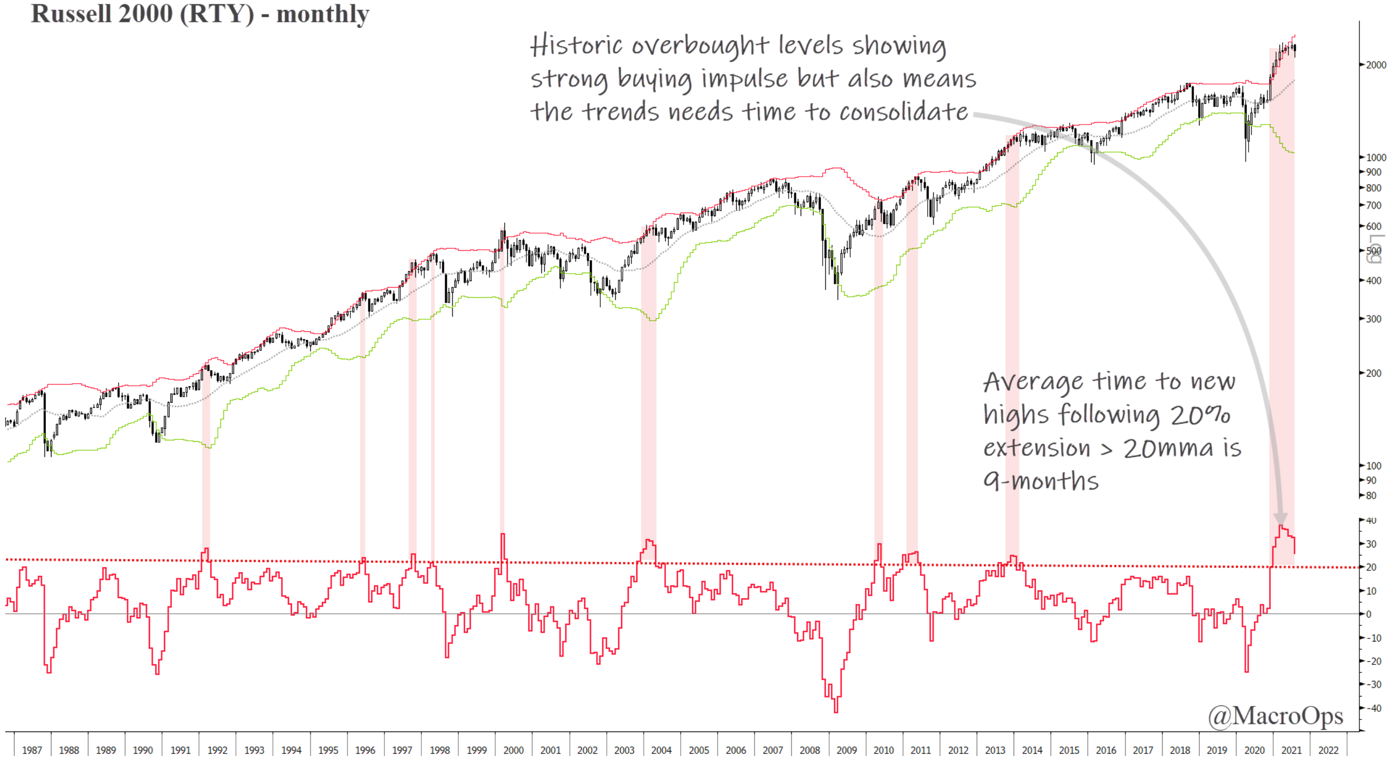
Bulls were able to come in and save small caps from putting in a bearish close for July — notice the lower wick is longer than July's body. The long lower tails on the monthly candles within its consolidation show a strong willingness from buyers to come in around the 2,200 level and bid.



RTY's sideways consolidation is to be expected following the extreme levels of overbought it hit earlier in the year. Buyers don't like to buy *too* far away from the averages, which is why mean reversion exists.

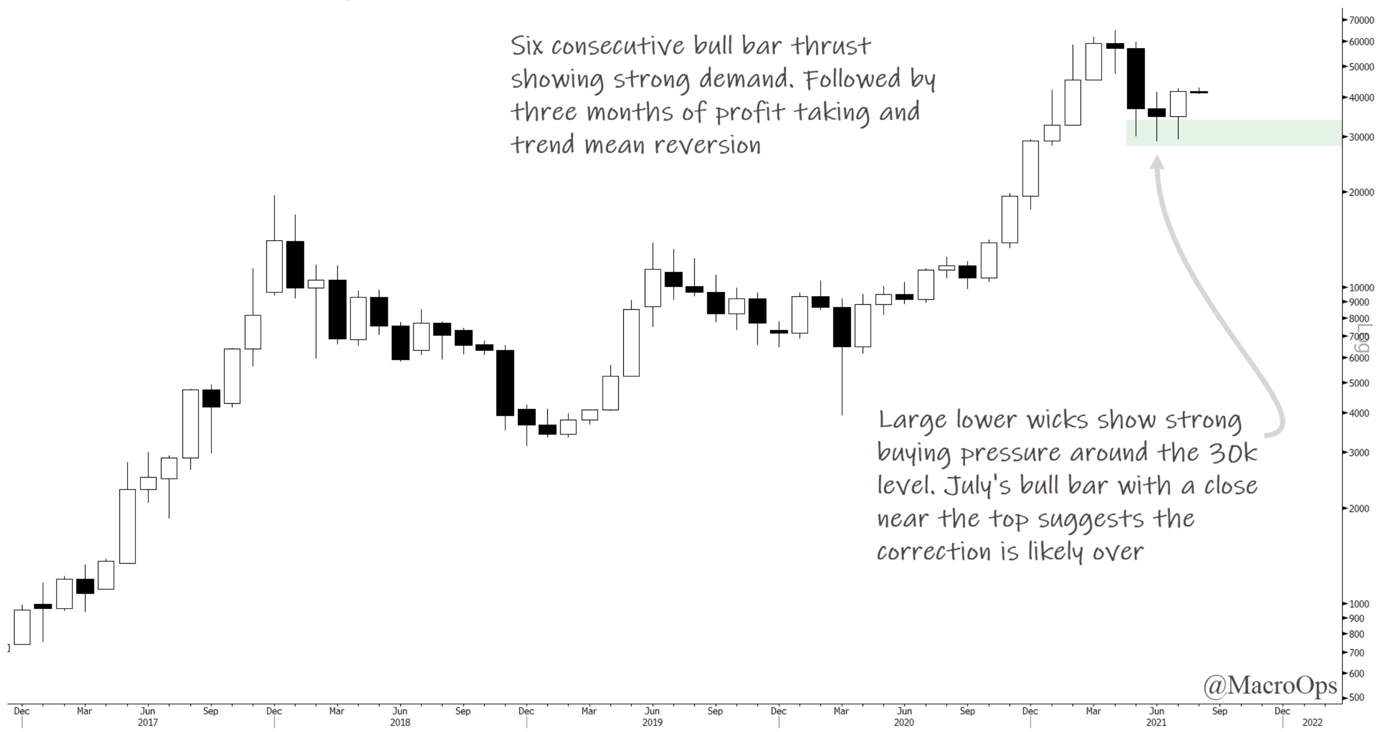
Historically, when RTY rises 20%+ above its 20-month moving average it takes an **average of 9-months before the index hits new highs again**. It just finished month 6 of its consolidation.

Russell 2000 (RTY) - monthly



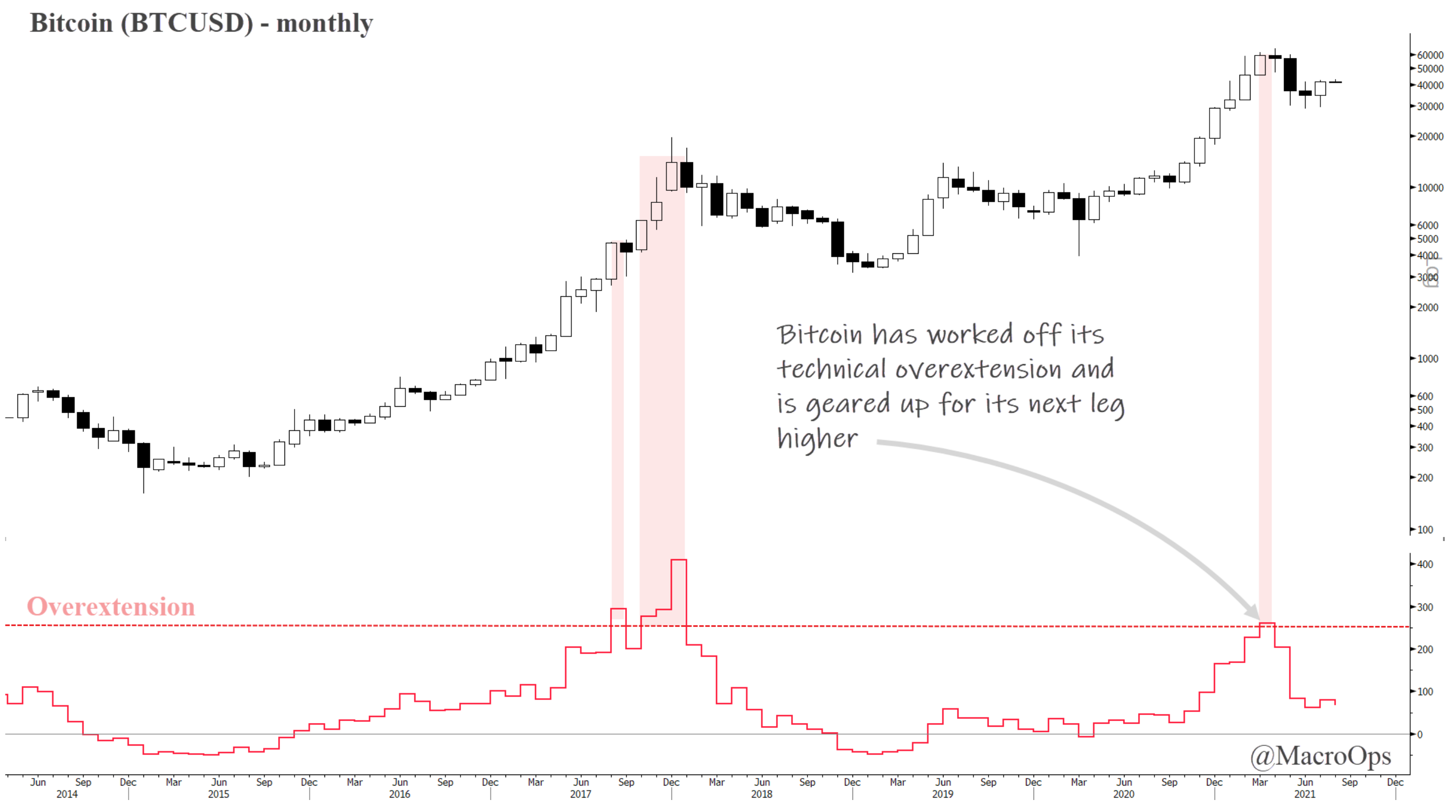
Bitcoin and Ethereum have probably the two most compelling monthly charts right now of any asset. Bitcoin has completed a 3-month correction following a strong 6 consecutive bar bullish impulse.

Bitcoin (BTCUSD) - monthly



The large lower wicks on the last three months combined with July's bullish close suggest it's high odds this correction is over.

This correction has worked off bitcoin's technical overextension. And it's now poised for the next leg up. We have a 5% position in the Grayscale Ethereum Trust (ETHE). We'll add to this if given the technical entry points to do so.



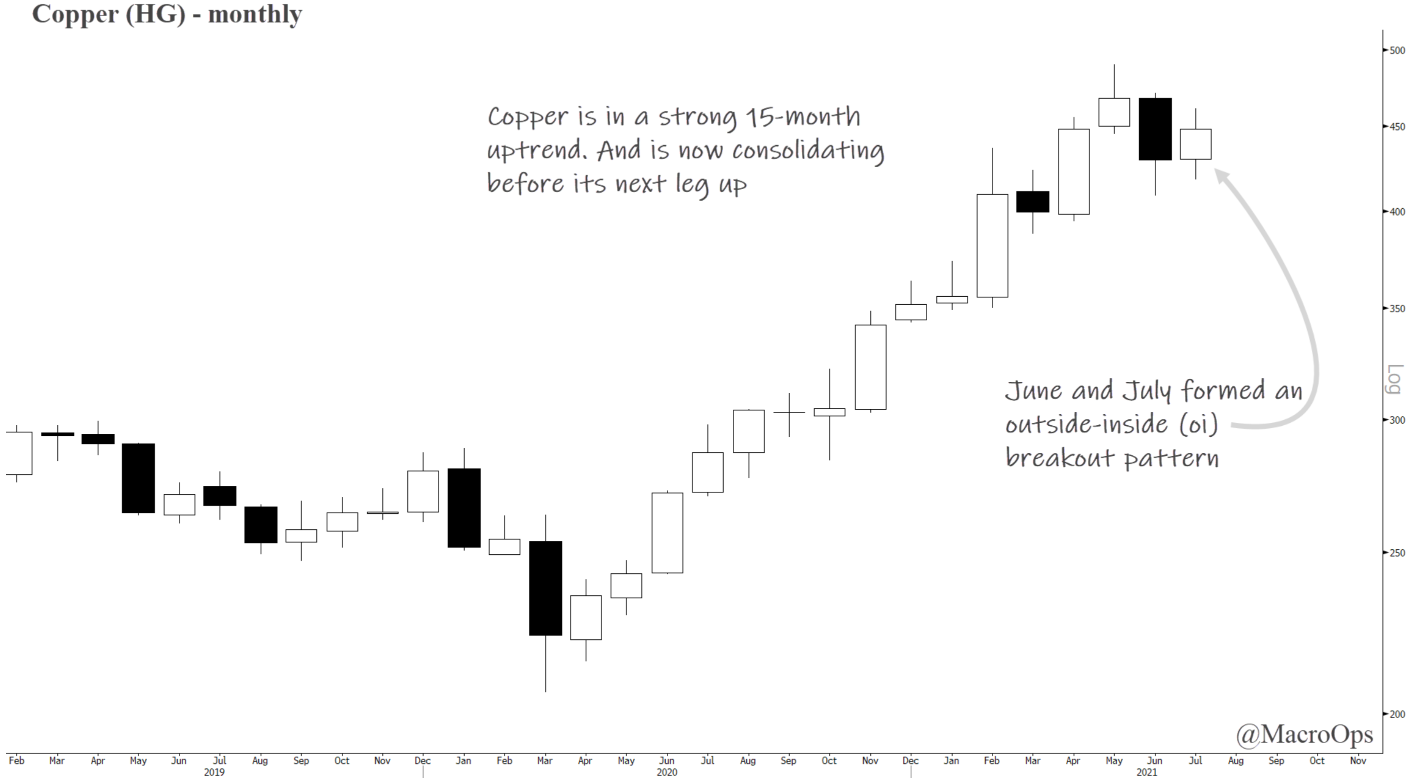
Precious metals put in neutral bars for the month of July. As the below chart of silver shows, PMs remain in corrective patterns following their large bullish impulses last year.

The longer-term charts remain constructive as do the fundamentals. But positioning and technicals still need some more work on their end. We should expect a couple of more months of ranging action before the next leg up.

Silver (SI) - monthly

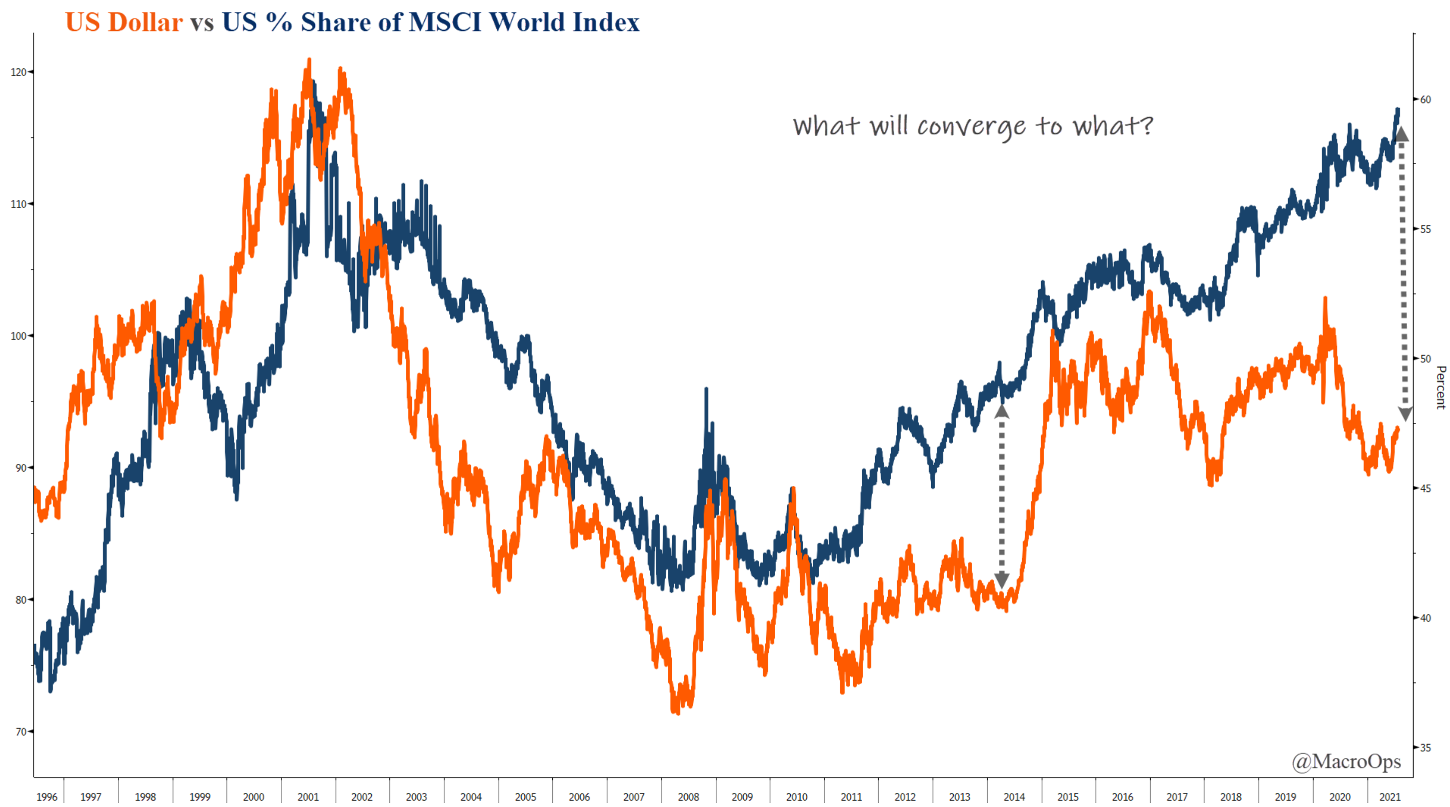
Copper has formed an outside-inside (oi) breakout pattern. The long-term trend is strongly up and a monthly close above July's high would confirm the oi breakout and the start of the next leg higher.

Copper (HG) - monthly



Now the dollar.

This chart is of a lot of interest to me. It shows the US % shares of the MSCI World Index (blue line) and the trade-weighted dollar (orange line). Essentially, it's another way of looking at relative market performance and global positioning flows.



They track each other over time because of the inherent feedback loops between the two, which I discussed here in *Soros' Currency Arrows*.

Currently, **the US % share of the MSCI World Index is 59.8%. Its all-time record was 60.669%**, made briefly in 2001 before quickly falling along with the collapse of the dot-com bubble.

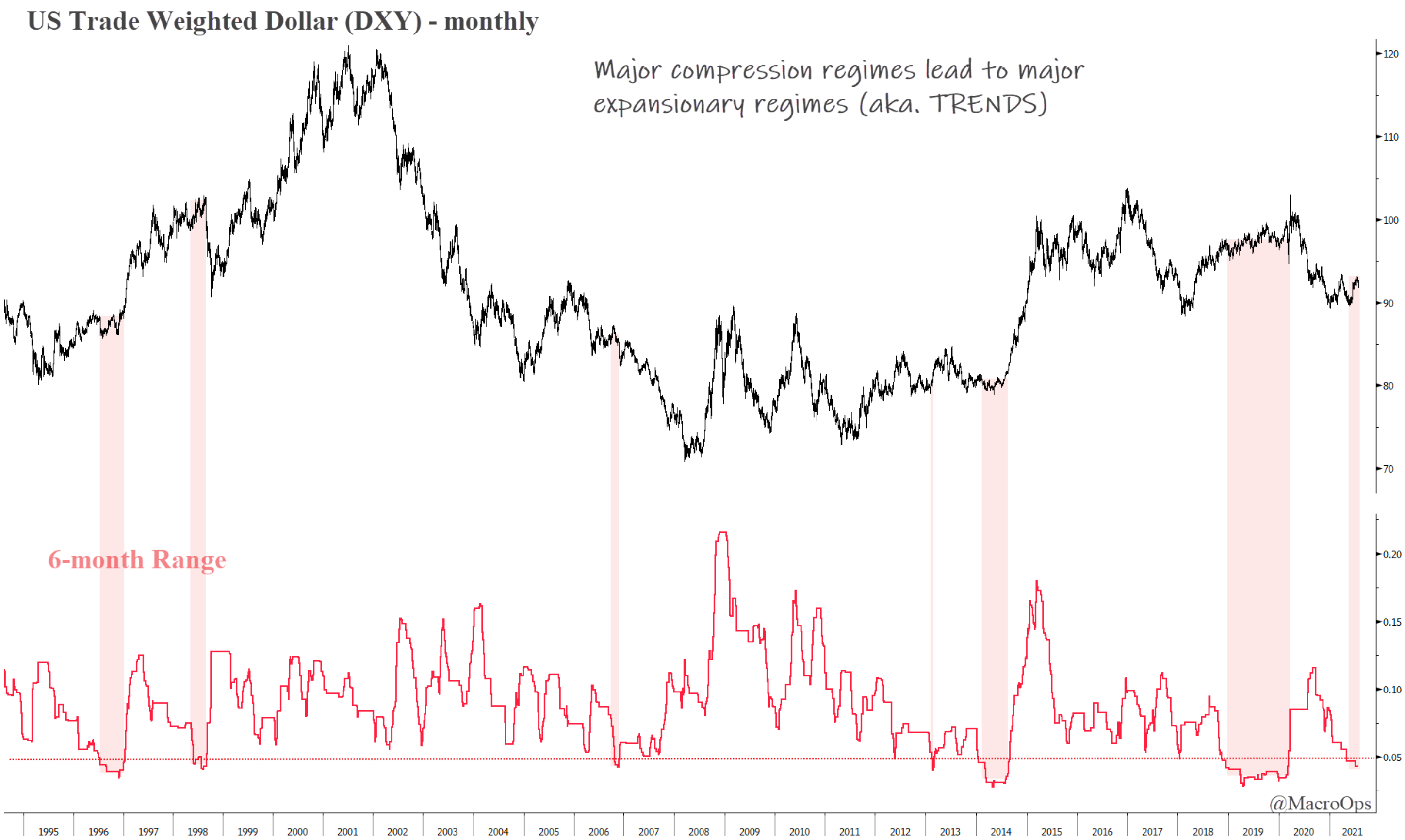
Large divergences like those we're seeing now are highly unusual and don't tend to persist for very long.

So this tells us that either (1) relative US equity outperformance will soon end or (2) the US dollar is about to seriously catch upwards.

The DXY's technicals also give weight to the idea we're nearing a *major* inflection point.

We regularly discuss how compression regimes lead to expansionary regimes (ie, big trends). This is the coiled rubber band idea. Similar to how a coiled band builds up latent kinetic energy that's released once it's unbound, charts show a similar phenomenon. This has been well documented (we discussed this Squeeze phenomenon in more detail in my note last week *A VBO In The HG_U*.

With that in mind, the US dollar is showing significant compression. Its 6-month range has fallen to levels **only seen five other times over the last 25-years**. Each instance preceded a large move.



The monthly charts shows DXY put in a bear bar for July after getting rejected by its 100-month moving average and the upper bound of its 7-month sideways range.

My bias is that the band snaps and the DXY breaks lower once this Buy Climax in US equities ends. I outlined the fundamental reasons behind this bias in this note here.

US Trade Weighted Dollar (DXY) - monthly

But… this is just my bias. A strong opinion, weakly held, and all that.

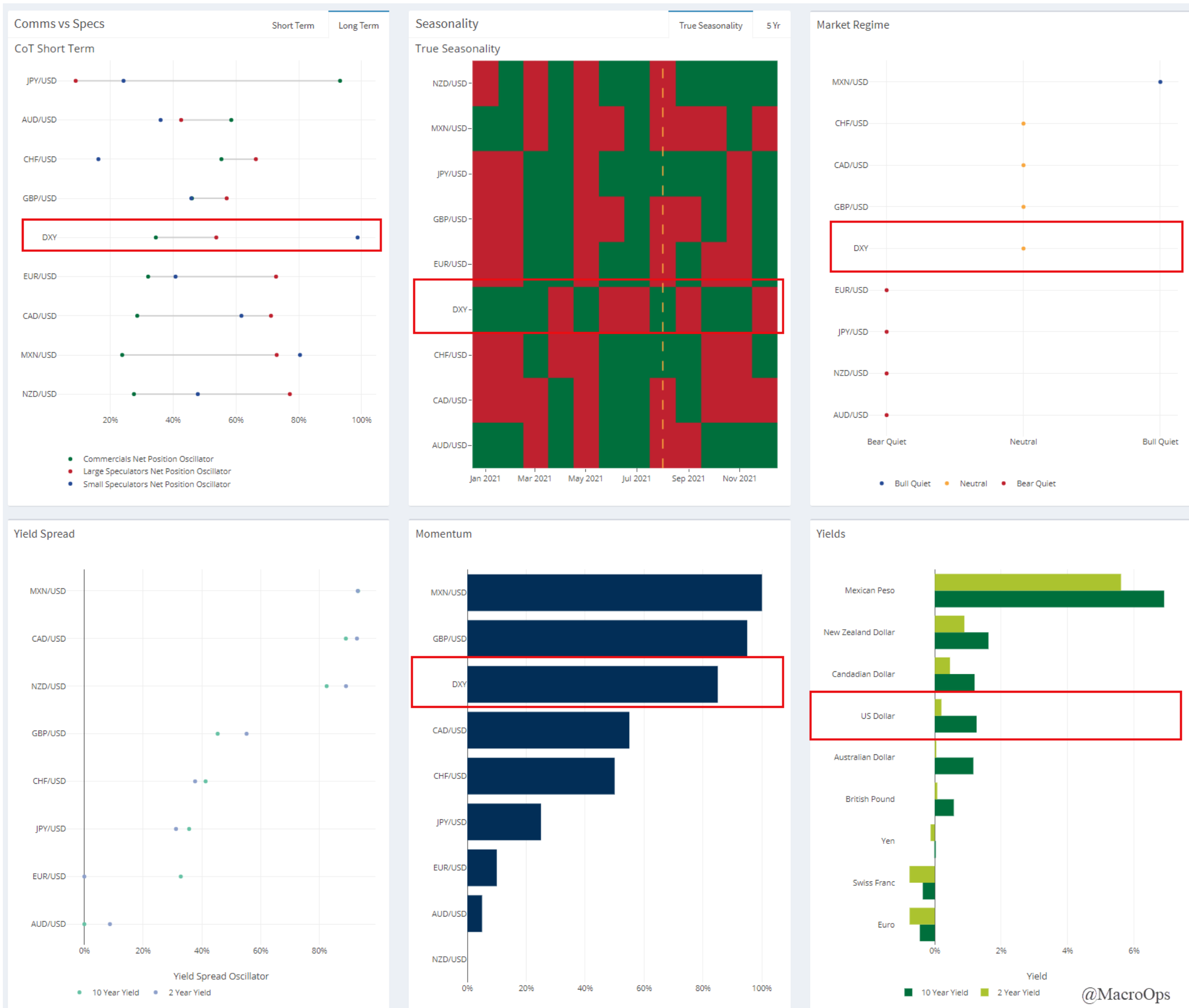
One could also make a reasonable argument for a large bullish thrust in the dollar here. It'd look something like a China-induced risk-off event that impacts EM's growth outlook while stimulus and inflation concerns drive US growth and rate expectations higher — basically an acceleration in what we're seeing now.

I'm watching the above two support and resistance levels closely as they'll likely dictate the next few months + of macro. The reflation trade is still quite crowded so perhaps we see a USD-led multi-month fakeout higher before the big turn and another bearish leg down?

I don't know but that'd certainly hurt the majority of players and as Bruce Kovner often points out, the market has a tendency to be a cruel mistress like that…

One additional interesting thing of note is that spec positioning turned net bullish last week for the first time in a long while. Below is a snapshot from the FX page of our HUD (link here). Small spec net long positioning is now in the 99th %tile and Large specs are 54% after both being strongly net short for the better part of the last year.

Historically it's been a bullish development when net positioning flips after an extended period of crowding on the short side. Momentum still favors some more upside in the dollar and US rates should start rising again soon… so maybe we get that pain trade fakeout higher after all?



That's it for today… I'm working on a refresh of our secular bull semiconductor thesis and hope to get that report out in the coming days. Our long trade in AMD is off to a good start and I'll be pitching another semi stock that I strongly believe has 3x potential over the next 2-3 years.

Until then, stay safe and keep your head on a swivel!

Hit me up in the CC if you have any questions or comments.

Your Macro Operator,

Alex