



# ***Weekly Inter-market Technical Report***

## Summary Comments

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### **Ten-Year Notes:**

Notes hold in a precarious position - gently balanced between key support and resistance. There's a neutrality between the (bearish) weekly chart and the (bullish) daily chart and pure neutrality from the monthly chart.

### **S&P 500:**

We stand at a very critical moment in the market for 2009. The expectation is for resistance to hold at the 1,014 area, though we're already above that, so a continued move up next week would invalidate all bearishness and send prices testing the 1,100 as a likely play.

### **Gold:**

Gold remains in a lengthy triangle and prediction is unwise in these patterns. Wait for a confirmed break before taking action - a close above \$1,000 will likely send prices to \$1,200 if not beyond though a close beneath \$900 would likely set up a thrust move back down to \$700 at a minimum.

### **Crude Oil:**

Just like stocks, Crude Oil remains precociously situated at overhead resistance at the \$75 level. A close above \$76 next week will overcome expected resistance, though until that happens, the bias remains bearish.

### **US Dollar Index:**

The Dollar Index also remains balanced at an expected support level, however a slight movement down would break support and call for continued downward price action - such is the trend on all major timeframes.

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Remember, a DECLINING Dollar (Index) is BULLISH for Stocks and Commodities and is BEARISH for Bond Prices

A RISING Dollar (Index) is BEARISH for Stocks and Commodities and is BULLISH for Bond Prices.

Yields generally follow in the direction of the stock market and are always inverse bond/note prices.

# Corey's Comments

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It's not usual we get such wide-spread inflection points across 4 of the 5 major markets we follow!

However, just because price is at an inflection point does not mean markets will magically stop at these levels and reverse. Mark Douglas - in *Trading in the Zone* - made famous the concept of "Inflection Zones" and how we should behave at them. He says the goal of any trading system should be to find a point where the market cannot stay, and has to make a move either up or down from an 'inflection point.' And that markets move from inflection point to inflection point. That is the goal of these reports - to give you the current structure, current expectations, and current targets both to play for as a profit and to place as a stop-loss. These reports come from a "Technical Purism" standpoint, which is designed to be a unique compliment to your existing form of analysis.

The implication is to identify key support/resistance areas using non-correlated methods and higher timeframes to put the odds in your favor from an accuracy (prediction) standpoint. However, the key to long-term trading is in the risk-management - that's exactly why trading "inflection points" and knowing them is so helpful.

Inflection points allow you to place a relatively tight stop (your risk) in relation to a much larger target (your reward) in the event that your decisions made from careful analysis 'come true.' In this sense, you combine the "Accuracy Edge" with the "Monetary Edge (or "Risk/Reward" Edge).

This does not mean you 'win' on every trade, but that over time, your relative winners - be it on a position, swing, or intraday basis (all of which are applicable from this report) will be larger than your relative losers. That is why we trade.

I wanted to provide additional broad commentary to call your attention to the special balance all markets face at this time as defined in this report.

There is a blessing and a curse to the Intermarket Model of Analysis. Let's say you trade only the S&P 500 futures. You can become an expert in the technical structure of the S&P 500 and do well, but you would likely have a broader perspective/viewpoint if you analyzed related markets - like bonds, crude oil, gold - to give you clues on what to expect for the path ahead for the S&P 500 - which would likely enhance your profits. If you're bullish on the S&P 500, you also want to see Crude Oil's chart in a bullish position or perhaps forming a bullish pattern/structure. You would also want to see the US Dollar Index or the Bond market forming a bearish pattern. That is how you use intermarket analysis to enhance your results in the market you're trading - through depth of perception and early 'leading' turning points.

The Curse of Intermarket Analysis is the fact that if you form an "Intermarket Opinion" based on the markets described here, then you'll almost always either be 100% right in your analysis or 100% wrong. That's because markets share correlations - positive and negative.

For example, IF all markets inflect off 'inflection' zones as noted using classic technical analysis - that the S&P 500 and Crude Oil fall due to overhead resistance and the US Dollar and Bond/Note markets will rise due to their Elliott Patterns and support zones - then you could make money in all markets provided you bet on the current technical structure reversing.

However, if all markets continue as they have been in their current and prevailing trends, then you would lose money in all markets - the S&P 500 and Crude would continue to rise while the Dollar and 10-Year Notes continued to fall. As such, the Intermarket Model is not diversification across asset classes.

Please keep this in mind when reading this report, doing your own analysis, forming your own conclusions, and putting on your own positions depending on your risk tolerance (conservative or aggressive), timeframe (swing, position, or intraday), and account size.

With markets at key inflection points, it's like a wall has been put up in front of the prevailing trends that could have the power to stop all markets in their tracks. However, the markets might just be powerful enough to shatter this wall as if it never existed.

# 10-Year Treasury Notes (\$UST – Price)

## Monthly



The notes are in the same precarious position they've been since the last few weeks - that of trapped between support and resistance (as we'll see in lower charts).

For now, the 38.2% Fibonacci monthly retracement since 2000 rests at \$116.50... which is just under where price sits currently. We have resistance at \$117.50 via the 20 month EMA.

The larger structural trend is up, but we will need a break beneath \$115 to expect further downside in bonds or a break above \$118 to expect a challenge of the \$120 to \$125 level over the next few months.

The monthly chart yields a neutral to slightly upward bias... but let's get more specific with the lower frames.

## Weekly



We see exactly the tight balancing act that Bond/Note prices are experiencing at the moment. Just overhead, we have the confluence of the 20 and 50 week EMA (along with the 20 month EMA) about the \$118 to \$118.50 level, which has served as excellent short-sale entries (as I've highlighted here) for a quick play to test the \$114.50 support.

It would appear such an entry is playing itself out for aggressive traders here, as price is failing to overcome the confluence resistance area at the \$118 price zone.

\$114.50 holds the 61.8% Fibonacci retracement along with the prior price support levels shown here and on the daily chart.

For now, we're neutral bonds unless we see a break and close above \$120 or a break and close beneath \$114 (and especially \$112 - a close beneath \$112 will likely send price down to the \$104 level... which would imply continued upside for stocks).

## Daily



The daily chart gives us a nice picture of the current structure. I mentioned in last week's report that odds were quite high that we would see a swing-up to challenge the \$118.50 level and we did get this price action up into the 38.2% Fibonacci retracement area and we had a large down session in the 10-Year Price on Friday... though we currently sit at a critical daily support zone - that of the \$117 level.

Notes could be forming a Double Bottom Pattern here (which would be bullish as Crude Oil could be forming a Double Top resistance pattern) so we need to be aware that we COULD be seeing an early trend change in the formation to the upside, though structurally we are in a consolidation range and the expectation is for price to chop between \$118 and \$114 until a clearer direction emerges.

Luckily, we can turn to related markets to see in which direction that price move is favored.

I would suggest a neutral to cautiously bullish stance on bond/note prices, though the 'next likely swing' could be a down-move in the middle of the current consolidation zone.

As seen on last week's report - bonds/notes could be completing a 5-wave pattern down into the double bottom formation to end a fractal Wave 5 into support, which would be bullish unless price broke beneath \$114).

# US S&P 500 (\$SPX)

## Monthly



The S&P 500 gave short-sellers/bears another headache this week, as price closed the week Friday with an up move that took price beyond the expected resistance levels I have been discussing - mainly the 1,014 level which reflected the confluence resistance of the 200 month SMA and the 38.2% Fibonacci retracement. Should price continue rising on this frame, the next two levels to watch would be the 1,050 level (20 month EMA) and the 1,121 level (50% Fibonacci retracement) along with the 1,150 (50 month EMA).

I would suggest 1,030 is the "Line in the Sand" which would give price enough room to "run or gun" the stop-losses from the short-sales that were placed beneath 1,014 (and they were placed with the odds and small stop in their favor). A close above 1,030 would indicate that something more powerful than simple stop-loss running is going on, and would be a major turning point - in other words, the bears are running out of levels to call resistance. If this is a new bull market, then bears will 'throw in the towel' at different levels.

For now, let's still take a neutral to bearish position so long as price remains beneath 1,030, but realize that a break and close above 1,030 will set-up nice targets of 1,050, 1,120, and 1,150 to play for from the long-side.

## Weekly



Probably like so many other analysts, I expected price to remain beneath 1,014 or 1,020 and fail at resistance. So far, this is not happening. I would argue the position/bias would be the following:

**Strong short** anywhere beneath 1,014 to target 875 (minimum)

**Neutral** above 1,018 to wait and see if we close above 1,030 or beneath 1,000 for guidance.

**Long for a scalp** to target 1,100 above 1,030

We're seeing a negative momentum divergence on the recent swing up in the weekly chart and somewhat of a volume non-confirmation (divergence) with new prices at well - both of which are bearish. We can't deny that price is very overextended given the 45%+ rally off the March lows. I think the strength and resilience of the bulls is absolutely shocking to everyone - even the bulls.

## Daily:



There's interesting cross-currents setting up in the S&P 500. First, price is so grossly overextended and appears to be forming an "Arc" pattern that could either be setting up a Bull Trap or a Failure (busted) pattern depending on whether price continues to rise or breaks down from here. Should price break downwards from here next week, odds favor that the move will be more violent/exaggerated than normal because price would have lured in fresh longs (buyers) who will now be forced to liquidate (added supply) in the event of a down-move (the classic definition of a "Trap").

One cross-current is that we're seeing increased relative volume on the price rises and then lower/declining volume on the price 'pullbacks' and consolidations - that's bullish. Other than the fact that we just rose to a fresh 2009 high, the overwhelming technical (chart) evidence is pointed bearish - in terms of a negative momentum divergence, negative breadth/internal divergence, price sitting at overhead (major) resistance, the overextended stretch in price, etc.

However, markets/price moves to the tune of supply and demand, and not the charts (or even the fundamentals short-term), so the advantage charting gives us is in recognizing key levels to watch, zones to place stop-losses, zones to play for as targets, overall trend structure (bias), and much more.

I have to admit that the structure is changing to the bullish side as prices continue to rise and take out resistance levels.

One thing to watch out for is the tendency for the market to "trick" everyone. By this, I mean that the market has been "tricking" the bears by overcoming the Head and Shoulders Pattern in July, overcoming the current arc formation, overcoming divergences/non-confirmations - all as price has risen. Even quantitative analysis models are showing bearish results with the expectation of lower prices due to complex statistical models (that are shown gross price overextensions).

With the market at these levels, the possibility exists that the majority will then flip to be bullish, thinking there's no way the market could fall (given the resiliency we've seen here) and then right when that happens, the market WILL fall and start "tricking" the bulls by breaking expected support levels in the same manner that it tricked the bears all the way up.

Focus on the edge, probability, risk/reward and make informed decisions the best you can with the evidence you have at the moment.

Realize that there are times to play by the rules and to break the rules. In short, the market appears not to be following the "rules" right now (which is common due to the lower volume in the summer - prices can be pushed further because there are fewer participants) so as long as this condition exists, it could be best to be sidelined or long despite your bias, feelings, or even chart patterns.

# Gold

## Monthly



Gold remains unchanged structurally, so please refer back to the prior two weeks' reports, which dig a little deeper into the structure of Gold.

For now - and unless we get a close above \$1,000, the bias from an Elliott Purism standpoint is that a "C" Wave down is expected.

I recommend combining multiple forms of analysis, and to note that the trend is still up and strong provided we remain above \$900. A close beneath \$900 would trigger a possible play to the \$750 area... but let's not get too far ahead of ourselves yet.

A close above \$1,000 would trigger a momentum move that could take price as far as \$1,300.

Right now, we're dealing with a triangle consolidation pattern, so let's take a look at that before trying to set long-term targets.

## Weekly



The Weekly chart shows the key levels to watch from a position or swing-trading standpoint.

A grand opportunity to profit should be coming up very soon, as price is nearing the apex of the triangle, which should lead to a trend/momentum range-expansion move that would hit upper targets near \$1,200 if an upwards break occurs or \$800 to perhaps \$700 if a downward break occurs.

Keep in mind that many traders are aggressively bullish gold (they refuse to hear any bearish account of gold prices) so in the event that gold does manage to break the triangle to the downside, their stop-losses and selling would create a larger than normal momentum move down as they liquidate positions.

For now, the bias should be neutral from an objective standpoint and wait to play the 'edge' that will come from a range expansion move (play the break with a stop-loss on the opposite side of the triangle).

The range is now \$50, so we could see a breakout of the triangle this week.

## Daily



Using traditional technical analysis, we would measure the height of the triangle (roughly \$200) and then ADD that to the upper trendline in the event of an upwards break (target \$1,170) or SUBTRACT that from the lower trendline in the event of a downwards break (\$730).

Until then, moving averages and Fibonacci are irrelevant - the dominant structure is the triangle and you're allowed to scalp intraday or even quick-swing as price bounces between these levels, but due to the range being so narrow, the best play is likely to wait for a confirmed break to occur and play the expected range expansion move as price ejects from the \$950 value area.



This chart simply 'zooms in' on the triangle consolidation pattern for closer reference of the range and structure.

# WTI Crude Oil (\$WTIC)

## Monthly



The current structure (in terms of a likely Elliott Count) remains unchanged, but will come in doubt in the event that a sustained price rise takes us beyond the \$80 level. For those new or unfamiliar with Elliott Wave, I use EW to anticipate structure and quantify price swings. I find it beneficial for that reason and also to know levels where - should price achieve - a count would be wrong and the opinion would need to be changed at that price. This goes for all charts using Elliott Wave as an input variable for decision making - it's often helpful to have a primary and alternate count. This is the primary count until proven otherwise.

Like the Stock Market, the common wisdom in the analytical community is for price to find resistance at the \$75 level, which reflects confluence monthly EMA resistance as well as the 200 week SMA and upper Bollinger Band on the daily frame (as well as a possible double-top formation and negative momentum divergence here).

A close above \$80 would invalidate that view, though a close above \$75 would tell us earlier that the bearish viewpoint was likely to fail. As such, watch the week ahead closely for a solid close above \$75 and we'll stay bearish under \$75, neutral from \$76 to \$79, and bullish above \$80.

## Weekly



We see the 200 week SMA forming an iron curtain above price on both attempts in 2009.

A negative momentum divergence has formed, although last week gave us a bullish engulfing candle that bounced off the 50 week EMA as support - that's a possible early bullish warning that many bears are missing.

The expectation is still for \$75 to hold as resistance, though a close higher in the week ahead - particularly above \$77 to \$80 - would tell us that we might have entered a new bull market - so \$75 remains the line in the sand and the demarcation line to watch - bulls and bears are watching it very, very closely.

Stocks and Crude are - of course - positively correlated and then crude oil is negatively correlated with the US Dollar Index and - in part - to bond/note prices.

## Daily



Until we get a close above \$75, the dominant technical pattern in Crude Oil is that of a Double Top (bearish) reversal pattern, and we have to hold that as dominant unless we get a close above \$75 or \$76.

Until then (in which case we shift bullish), odds still favor the structure that has been discussed in the last few weeks' reports - that of an expectation of a down-move to challenge the \$60 area at a minimum and the \$45 area as a moderate target and the \$40 area as a maximum potential target.

All these targets vanish with a solid close above \$80 so watch Oil very closely over the next two weeks.

# US Dollar Index (\$USD)

## Monthly



The Dollar Index remains at critical levels where a small price push either way will likely clear a path for either a reversal off current levels or a continuation downward.

On the monthly frame, price remains in a powerful downtrend and is beneath all key EMAs, and these EMAs are in the most bearish orientation possible - that is the larger structure heading back to 2001.

The only near-term level to watch is the \$80 level which is the 20 month EMA, though as you'll see from lower frames, price is at a critical turning point that could find resolution in the week ahead.

## Weekly



Price has technically fulfilled a 5-wave fractal down-move into the 61.8% Fibonacci level at \$78, which is the "Line in the Sand" to watch for the week or month ahead. If we get a price reversal off this level, then it would dramatically shift the intermarket picture as expected using classical models. However, should price break sharply beneath \$78, it would argue for a continuation of current price moves through critical inflection points, shattering them all.

For now, the key level is \$78 for expected support, though a break beneath this level would set-up an eventual potential test of the \$76 level (prior price support) or even as far as a retest of the \$72 level.

A price rise off this level is likely to encounter resistance first at the \$80 level (50% Fibonacci) and the \$81 level (confluence weekly EMAs).

It won't take much to know for sure if this level will hold- that's where technical analysis and charting can be very helpful. For aggressive traders, you might want to consider a long ETF position (or related position in the FOREX pair you trade) with a tight stop beneath the \$78 equivalent, or for conservative traders, you might want to wait until we break beneath \$77.50 to get short or above \$79 to scalp long to try for \$80 or \$81.

## Daily



We now see the 5-wave fractal (which could have further room to play to the downside) has completed the requirements to 'count' as a 5-wave move. There is critical support at the \$78 level so watch this closely for either a break or support.

We see that last week, price was unable to overcome the key resistance of the falling 50 day EMA at the \$80 level. Such is the expectation in a down-trend. Structurally, price is beneath all EMAs on the daily frame and these levels are expected to hold as resistance.

From a Trend Analysis perspective, the US Dollar Index price is beneath the 200, 50, and 20 period moving averages in ALL timeframes (Monthly, Weekly, and Daily) and these moving averages are respectively in the most bearish orientation possible on all frames. It could be that the weight of the trend and structure will shatter resistance at \$78, but we need to note that the possibility exists that support could rise from this level.

Remember, should the dollar rise at \$78, then Stocks and Crude Oil would Fall at their resistance level. It would be expected that bonds would rise were this to play out.

The opposite is true if Dollar Bulls lose the battle to hold \$78. Stocks and Crude Oil would rise, and bonds would fall.

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