



## ***Weekly Inter-market Technical Report for Sunday, July 19, 2009***

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### Quick Summary Sheet:

#### **10-Year Yields:**

Watch confluence support about \$114 and also confluence resistance overhead at \$117. Price seems to want to head lower to test the \$115 support on lower timeframes so odds seem to favor a swing down - a reversal up here would not come off a technical level.

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

Strength came in this week thanks to the 'tri-star' doji at confluence support and short-covering as shocked bears were forced to cover. Watch overhead resistance at 960. Odds favor a retracement against last week's strength but conservative traders might want to wait for this to materialize, though aggressive traders will find a very low-risk, high reward opportunity right here.

#### **Gold:**

Tricky - is in a 'range within a range.' Trapped between S/R at \$910/\$940 within broader S/R at \$870/\$1,000. A triangle consolidation is forming and perhaps it is best to wait for a break to play a move in gold. Otherwise, edge is difficult to find.

#### **Crude Oil:**

We got the bounce up we expected last week, but now we're back into confluence resistance. Odds seem to favor lower prices as the "C" Wave down kicks in. A close above \$70 would be unexpected.

#### **US Dollar Index:**

Still within its tight consolidation. Odds seem to favor one more fractal swing down to the \$79 or \$78 level, but - like gold - it's best to wait until the range is broken before getting aggressive and trying to 'predict' the break.

***A Rising Dollar is BULLISH for Bond Prices though is BEARISH for Stocks, Commodities, and Bond Yields.***

***A Falling Dollar is BULLISH for Stocks, Commodities, and Bond Yields, though is BEARISH for Bond Prices.***

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

## Monthly



On the monthly frame of T-Note Prices (inverse yield), we see price has pulled back to the \$114 level and bounced up off monthly confluence support about the \$114 level. Price was also in an oversold condition and ripe for an upwards bounce. Last week was a pure down week, and price has failed to hold above the 20 month EMA at \$117. Note that there is a minor level of Fibonacci Confluence at the \$117 level which reflects two zones of recent Fibonacci grids - this appears to be serving as resistance as price is yet beneath this level currently, after a quick pulse through it earlier in July.

If the stock market falls from the levels it resides now, bond prices will rally (yields will fall) and it might be easier to have a stronger focus on stocks to get clues for what could happen next in bonds at the moment. Structurally, bond prices are still in a confirmed uptrend and the moving average orientation is quite bullish, though I would like to see prices above the 20 week EMA. The upward trend holds the probabilities (for higher prices) until proven otherwise.

## Weekly



Bond/Note prices bottomed just over 2 years ago near July 2007 - three months prior to the Stock Market top in October 2007. Bond prices tend to lead stock prices at turning points (inverse) so many people look at the bond market as a leading indicator of stocks.

Structurally, we bounced off the 61.8% retracement of the 2007 low to the 2008 high and, as mentioned in last week's report, the likely short-term target was the EMA convergence ("cradle") at \$119 and price has inflected down off this level. Should the stock market find continued strength, the 10-Year Note will test the 61.8% retracement once again at \$114, and a break beneath this level (should stocks rally beyond 1,000 to 1,100 in the SP500) will trigger a retest of the \$112 level which reflects the 2008 lows.

We could be experiencing a simple 'wave 4' pullback or at least the path seems to favor another test of the \$115 lows if this downside momentum and "cradle trade" expectation continues.

## Daily



Zooming in, we see the positive divergence that preceded this recent rally of the last few weeks (as stocks have suffered) but as stocks rallied sharply last week, bonds suffered as well - dealing a set-back to the positive structure that was developing (in terms of breaking above the 20 and 50 day EMA bullishly). We are now back beneath these levels on a journey that could take us short-term back to \$115.

Once again, if stocks weaken this week, note/bond prices will rise, but taking a singular look at these charts, it would appear the next play would be down to \$115 to test prior support. Follow this market closely each day as this is not a hard prediction.

# US S&P 500 (\$SPX)

## Monthly



The monthly chart has not changed in structure from last week, though July has now turned 'bullish' and is up 2% so far.

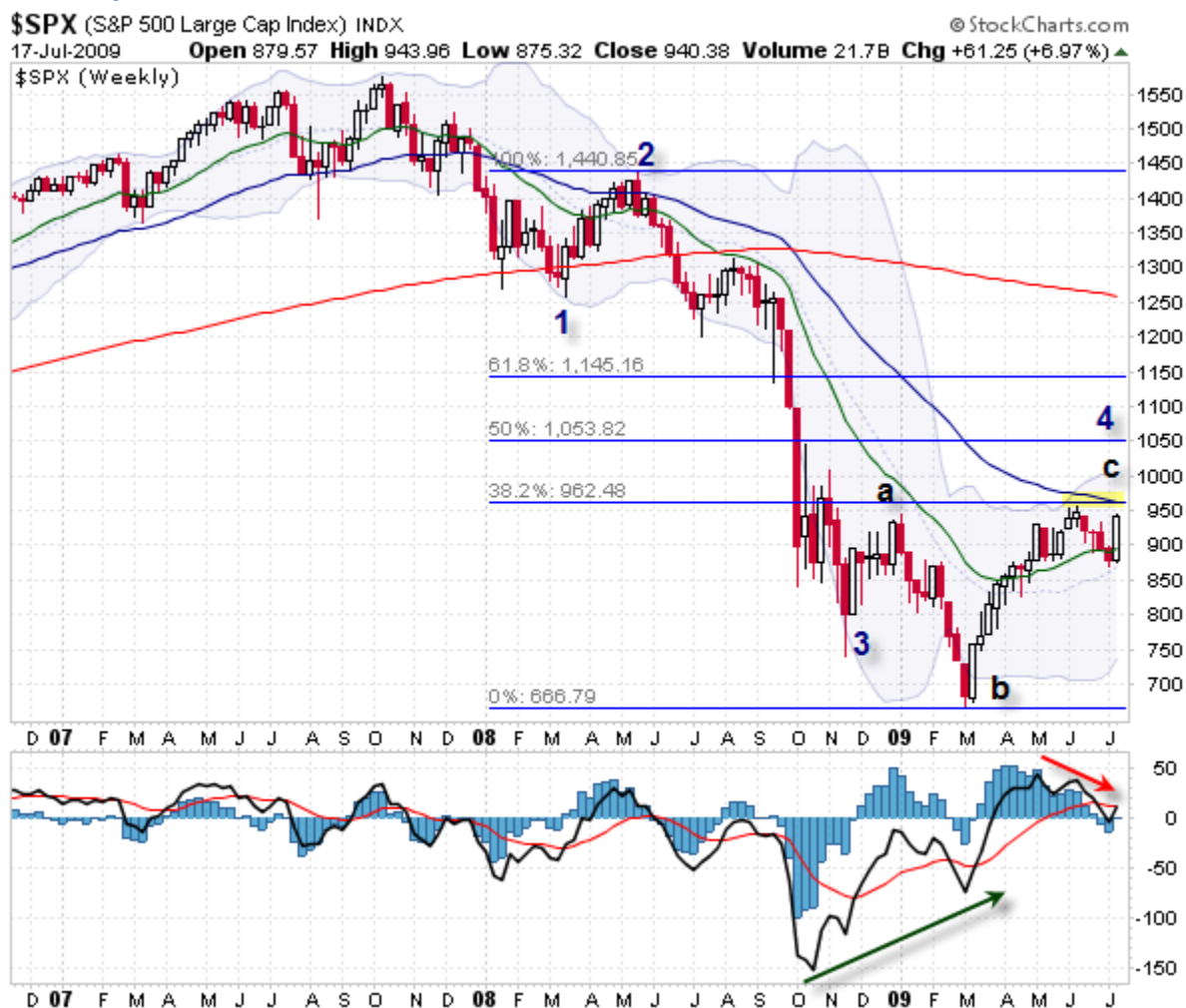
The larger "Elliott" picture is displayed, which places us at the final stages of the Primary fourth wave up of a larger Cycle C Corrective Wave (please see last week's S&P 500 update for full Elliott Notation which is unchanged).

The 38.2% Fibonacci retracement comes in at 963 (using closing prices from the May 2008 highs to 2009 lows) and we fell just shy of this level on the June 11th highs. It is expected to hold as possible resistance and an unexpected break above this level would prove to be very bullish.

Momentum made a significant new low in March 2009, hinting that lower prices are longer-term yet to come which fits with the Elliott Wave 'terminal wave' projection prior to the end of this bear market so \*longer term\* it seems more likely to expect an eventual re-test or breaking of the March lows of 666... but the market will have intermediate and short-term swings in both directions along the way as we have seen from the current rally.

Any close above 1,100 would call this long-term view into question.

## Weekly



The "Battle for 950" is on! As I expected might happen last week, bulls held the critical 875 support level with overwhelming force - it was their last chance. A break beneath that would have triggered massive selling. Instead, because the sellers were thrown off balance, a lot of this week's strength was short-covering.

The Battle now takes place around 965. This level reflects confluence resistance with the 38.2% Fibonacci retracement from the May 2008 highs to March 2009 lows as well as the 50 week EMA. It would also break the June 2009 high of 956 and would certainly trigger new short-sellers to cover as well as driving new buyers into the market on that strength.

So, aggressive traders who believe this current confluence resistance level will hold can put on a nice position here with a tight stop above confluence to play for a very low risk, very high reward play. There's no guarantee resistance will hold here (there are no guarantees ever), but in terms of risk/reward, you would risk 50 Points to play for over 300 perhaps (if not more).

A negative momentum and volume divergence has formed which hints that overhead resistance will hold, but more conservative traders still might want to wait for a clean break beneath 875 for 'proof' that the bulls have lost the upper hand. Until we break above 965 (doing so would trigger a 'magnet trade' up to 1,000 at a minimum that you could play), odds still favor downside action.

## Daily:



As I mentioned, the "Tri-Star" doji pattern at confluence support was plenty of warning that odds favored a short-term rally, particularly since sentiment was so negative and traders were 'convinced' the Head and Shoulders would hold - their stop-losses fueled this rally in the market up to resistance in short-order.

Even with the rally, volume was not entirely impressive, only slightly breaking above the 20 day SMA of volume (not breaking above a 50 day SMA of volume) and the downward trend (in volume) is still in-tact.

The 950 area gives us significant resistance just from prior price highs, so here would be a low-risk (tight stop) entry to play for a downward move, particularly since Friday formed a doji. There is NO guarantee price will go down, so all we can focus on is structure and risk-reward. Your stop would be around 965 and scalp target would be a minimum of 875 and then perhaps a break-down play if the 875 level is broken. We turn bullish though with a close above 965.

# Gold

## Monthly



Of all the markets, I think the most people - myself included - are having trouble playing/interpreting gold right now. We'll see the consolidation on the lower timeframes, but there is a serious debate among many experts as to whether we are going to experience hyper-inflation (which would send gold prices surging beyond \$1,300) due to the Government's mis-management of money... or a deflationary period where the recession intensifies (double-dip) and commodity prices collapse similarly as they did in mid-2008 (which would send gold down to a minimum of \$700 if not lower). These are longer-term debates and are economic in nature.

The chart is showing a possible Elliott Wave count of a "C" Wave corrective structure yet to come, which would fit in with the deflationary scenario (which personally, I have trouble accepting - I side with the inflationary camp... but as a technical purist, we have to be open to what the charts tell us). A "Wave C Correction Down" theory would be destroyed with a solid close above \$1,000... or really with any upward move from here (which is what I would prefer to see). Gold is still in a solid monthly uptrend, and the moving average structure is as bullish as possible and price is above all averages, so even if you are bearish on gold, odds are quite strongly against you until we break beneath \$850 at a minimum... with gold trapped beneath \$1,000 and \$900... it's probably best to wait to put on a long-term trade.

## Weekly



The more we step down the timeframes, the more we see the hideous consolidation taking hold of gold prices at the moment, reflecting the intense battle between hyper-inflationists and deflationists.

We're picking up Fibonacci Confluence at \$845 which would come into play only with a break of \$900.

The simple take-away on gold on all timeframes is this: "Wait to get long upon a break above \$1,000 and wait to get short with a break beneath \$900." Anything else in this tight range is pure speculation without much edge.

Again, the moving average and trend structure places us in a solid uptrend but it looks like we are forming a type of symmetrical triangle consolidation (visually observe how the price swings are narrowing off the February highs).

It's very, very difficult to find edge trades in a consolidation, and the play is almost always to wait for a breakout to enter a trade to play with the "Expansion/Contraction" Price principle instead of trying to be a hero and guess the exact breakout direction (which can devolve into a fool's game).

The picture is the same on the weekly chart - the 50 week EMA rests just shy of \$900 and we're just now back above the 20 week EMA. There is strong Fibonacci confluence at \$850 and weak confluence at \$800.

## Daily



The range technically exists between \$1,000 and \$870 as seen on the daily chart. We're slightly in the upper zone above that range... gold had a good week along with the S&P 500 and other commodities last week. For whatever reason, gold appears to be short-term correlated with the stock market in a sense.

The next swing could be a down-one, only because we're failing to rise above the 61.8% Fibonacci retracement at \$937 and have formed two doji-style reversal candles at this level. \$950 also gave gold trouble in late June.

Beyond the larger \$1,000/\$870 consolidation, we see a more immediate contraction range from \$945 to \$910. Short-term active traders perhaps should wait for a break of one of these levels to play for the respective \$1,000 upside or \$870 downside target.

Until then, trading will be as choppy and difficult as it has been. Don't worry if you're having trouble - the picture will eventually become clearer.

# WTI Crude Oil (\$WTIC)

## Monthly



Crude Oil is still falling in my expectation for a more likely downside move than upside move above \$70. I'm saying Corrective Wave B up that began in early 2009 has ended at the \$70 level (which long has been my upside target) and odds seem now to favor downside action (which would pull other commodity prices along with the stock market lower if this plays out). If we do get a full Wave C, then price will retest the \$40 level at a minimum which assumes that the Stock Market will test its March lows.

A close above \$75 and especially \$80 would invalidate this view along with the significant confluence resistance from Fibonacci and moving averages around the \$75 area.

## Weekly



Continuing the theme from the weekly chart, we appear to be in a down-swing in Crude Oil. I was correct last week in the short-term view that we would almost certainly have a bounce-up this week - the chart clearly highlighted that possibility. We successfully bounced off the 20 week EMA and are now 'trapped' between the 20 and 50 week EMAs. Odds seem to favor that the bounce is over, but of course watch the \$66.50 index area for signs of unexpected upward strength.

We see better that odds favor that Corrective Wave B has completed (it has fractalized into a three-wave affair) into confluence resistance on multi-timeframes. This means that if sellers can push price back down beneath the 20 week EMA at \$61.00, then we would see a 'magnet trade' down to \$50 and we would be expecting a continuation move lower, though we will always need to monitor the progress along the way.

A close back above \$70 calls this view into question and a close above \$75 (and especially \$80) would invalidate it.

## Daily



Here we see the internal fractalization of the Corrective Phase up since the January lows.

If Wave B has ended at the \$73 level, then we are perhaps in the First wave (fractal) of a 5-wave move down to retest the lows. I highlighted last week that it was quite likely that fractal Wave 4 had ended at support, particularly with three dojis (just like the stock market) in a row (Tri-star doji) and so odds almost overwhelmingly favored an upward retracement to the daily and monthly EMA structure. With that correction complete into resistance (50 day EMA) at \$65, odds seem to favor lower prices yet to come.

However, again if the stock market continues its rise, crude oil will also rise, so that's why inter-market analysis is so critical - never look at a single market in isolation.

# US Dollar Index (\$USD)

## Monthly



Much like Gold, the US Dollar Index is trapped between long-term resistance and support. However, unlike Gold, the Dollar is in a long-term, multi-year downtrend which has yet to be broken with a higher low or higher high. The EMA structure is 'as bearish as it gets' and price is beneath all averages - the trend structure favors lower prices until proven otherwise - that is our structural backdrop.

Price retraced to the 38.2% Fibonacci retracement in early 2009 and inflected back down, confirming the down-move.

There is overhead resistance via monthly moving averages and 'open air' beneath, so let's also keep that in mind as we view the lower frame charts.

## Weekly



This is just one count, but it's one that 'feels' right, given that the move in early 2009 felt very corrective as opposed to impulsive. Remember that "B" Waves can exceed prior highs (which puzzles many new to Elliott counting) but it's more important to discern what is corrective and what's impulsive (impulse waves take a 5-wave form and corrective waves either take 3-wave forms or have significant overlap).

As such, the move off the \$89 level (note the divergence and doji) has been impulsive (down-trend) as evidenced by the power of the down-moves and the angular/overlapping corrections up against the down-move.

We appear to be in one of those corrective moves now (as evidenced by a 'flat' correction). A new momentum low has formed into the May lows, hinting at lower prices yet to come. This would fit into the "ABC" wave theory which would bring price back down in a final 5th wave down to \$78 at a minimum.

KEEP IN MIND that IF we see a down-move in the Dollar, then this would be bullish for stocks and commodities (crude oil and gold). Another possibility is that price will continue this correction and retrace up to the "Cradle" confluence at \$81.70. Either way, \$81,70 will be VERY difficult for dollar bulls to overcome.

## Daily



We are looking inside price to discern the internal structure as it unfolds. On the daily chart, we see a pervasive downtrend that I have fractalized.

Price and the moving averages are in the most bearish position possible, which hints at lower prices ahead (see weekly chart) and that EMA resistance overhead comes in at \$80 and \$81.

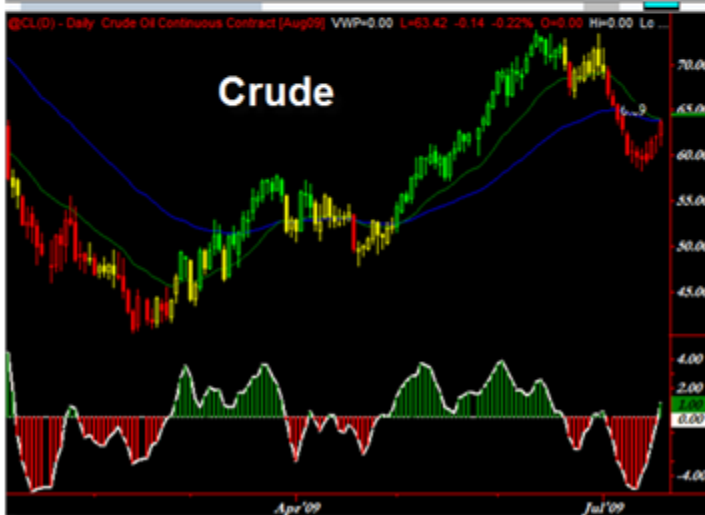
\$79 could hold as a support shelf, though price would defy the odds to do so. Also, price has not necessarily respected the falling 20 day EMA so do not place any short-sale stops above that. The 50 EMA seems more appropriate to trail a stop if you're still short (or long an inverse ETF).

We're probably in a 'flat' correction, and just like gold, tight consolidations are very, very difficult to trade. It might be best to wait for a break of \$81 to get long or \$79 (or even \$78 more appropriately) to get short.

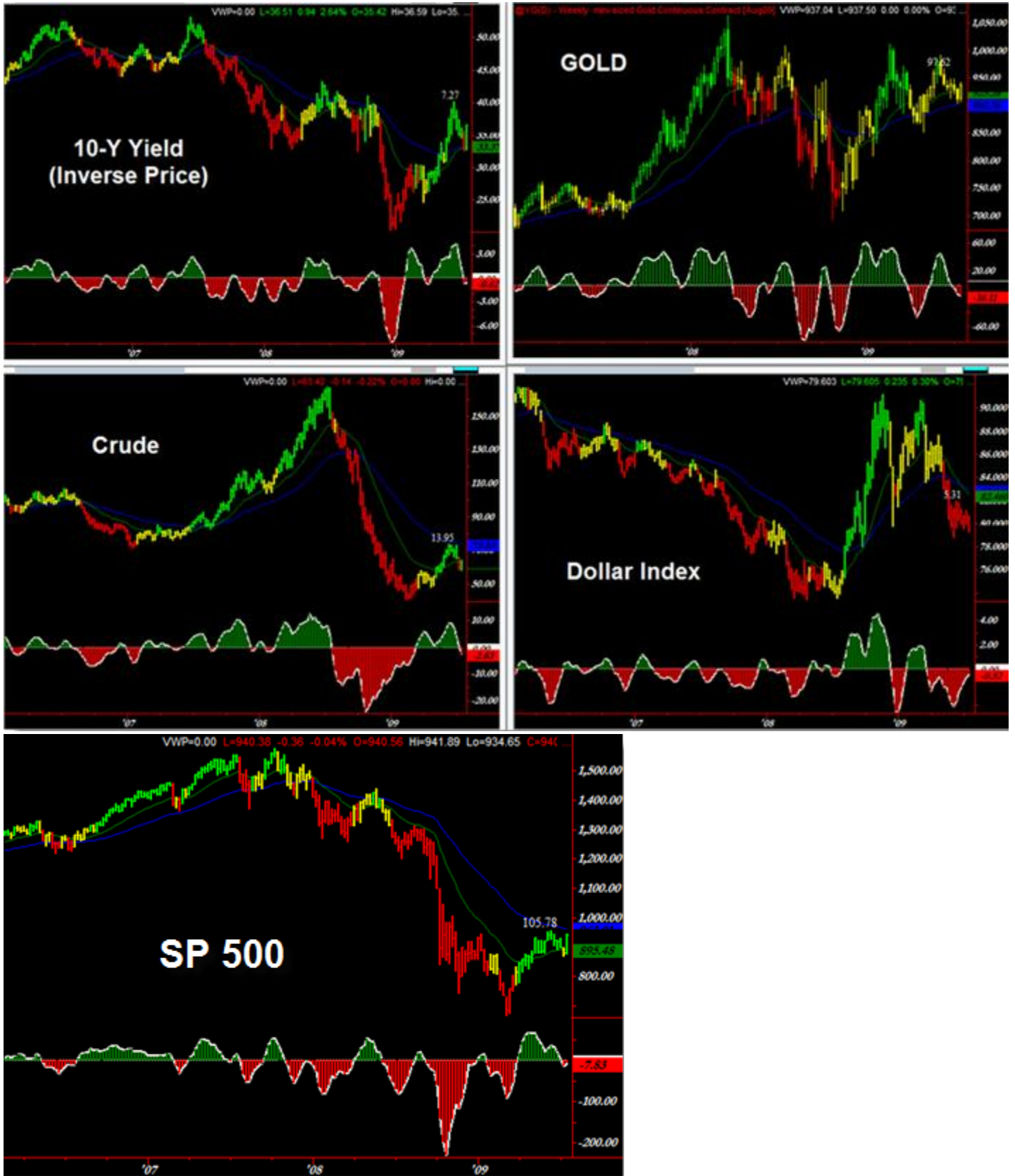
If the Dollar Index RISES (strengthens), then that would indicate that the Stock Market along with Crude Oil and Gold would Fall while Bonds/10-Year Notes would Rise (Yields would fall). This is the dominant scenario until proven otherwise.

If the Dollar Index FALLS (weakens), then the Stock Market would continue its rise, Commodities (Crude and Gold) would also rise against expectation, and Bonds would fall (yields would rise).

Color Chart DAILY View



Color Chart WEEKLY View



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