



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes:

We are hovering at a key Fibonacci level at \$116.70, so we need to watch a break above or beneath this level. Short-term, odds seem to favor a down-swing to test \$114/\$115.

S&P 500:

Bulls won a major victory last week, pushing price above expected resistance at 954 and throwing sellers off balance, adding fuel to the bullish fire with short-sellers covering rapidly. The "Magnet Trade" as mentioned last week now kicks in with all eyes focusing on a likely move to test 1,000 - but the overextended conditions hint that risk is to the upside and reward is to the downside... but bears must be cautious and wait for a signal.

Gold:

Gold is now clearly forming a symmetrical triangle consolidation pattern - best to wait until the internal level breaks and then monitor price as it challenges \$1,000 again or \$850 - a break through either of those should lead to a continuation move but it's best NOT to play 'hero' in a consolidation like we have.

Crude Oil:

Crude's monthly chart remains clear (until proven otherwise) and price is challenging a critical resistance level that - if broken - would be a set-back to sellers and major victory for buyers. I highlight key levels to watch.

US Dollar Index:

The dollar continues to creep lower, though we are coming up on possible support that needs to be broken for a firmer respect for the downside motion.

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.

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

Monthly



There are two key levels to watch on the 10-Year Note Price Chart: First, there is Fibonacci and 50 month EMA support at \$116.60 - price is hovering at that level now, and appears to be wanting to re-challenge the second level to watch at \$113.50, which is a confluence of a larger Fibonacci retracement with the rising 50 week EMA.

Though odds seem to favor a pullback to this area, keep in mind that the longer-term trend is still up, as confirmed by higher highs and higher lows, as well as the bullish orientation of the 20 and 50 month EMAs.

Let's drop to the lower frames for more information.

Weekly



I have overlaid a possible Elliott fractal count on the note chart that seems to indicate that price wants to revisit the \$114 level, which was prior support and again we see the 61.8% Fibonacci retracement coming in at this level. June was a down-month for notes and July so far has been choppy, though there is a small space of 'open air' down to the \$114 level.

A drop in note/bond prices suggests the stock market rally has slightly further to go to the upside and that yields would be expected to rise in this shorter-term swing.

We see the trend as up, but the 20 and 50 week EMAs have now crossed bearishly, forming the "Cradle Sell" trade that I highlighted in a prior report (price has indeed inflected as expected downwards off this level). The cradle calls for a retest of the lows at \$114 at a minimum, though a possible test of the rising 200 SMA (and prior support) at \$112 is eventually not out of the question.

Daily



The daily chart actually shows a down-trend in prices, which could lack a final swing down to challenge again the \$114 price level.

Price is underneath all EMAs and the EMAs are all in the "Most Bearish Orientation Possible." Until price breaks solidly above \$118 (and especially makes a new high above \$119), then we will have to assume from a technical purist standpoint that price will fill the open-air to the downside to challenge a minimum of \$115 and perhaps \$114 or lower as the next likely swing.

US S&P 500 (\$SPX)

Monthly



The Monthly structure remains unchanged from many prior reports here, as we are still in a "C" Wave down which is giving us a powerful 4th wave counter-rally.

The Monthly Chart identifies POWERFUL resistance at the 1,000 level (1,020) which reflects the 200 month simple moving average as well as the 38.2% Fibonacci retracement of the 2007 high to the March 2009 lows.

This becomes the expected play or eventual target for price - I had mentioned last week that if price broke through resistance (which many expected to hold), then we would get a powerful "Magnet Trade" to the upside as stops were taken out and buyers flooded the market - this is exactly what happened and we had a powerful move up (up 4%) in the S&P as a result of bears being thrown off balance yet again.

Until proven otherwise, the monthly chart seems to be indicating a pull to test 1,000 is highly likely, but it's not worth it from a position or swing trader's standpoint to take the risk to play for that level - the downside risk far outweighs the upside, though bulls are ceding no ground.

Weekly



We're seeing the same thing on the weekly chart, only price was powerfully able to defy all expectations and break solidly above the 38.2% Fibonacci retracement from the May 2008 highs as well as the falling 50 week EMA - that 'surprise' move took out many stop-losses and drew new buyers into the market.

The 40+% move off the March lows is grossly overextended, but that is NOT a reason to short or bet against the market. If you want to play short, WAIT for a down-move to materialize and confirm (by breaking key support, particularly beneath 875) before getting on board. Due to the overbought conditions, risk is again to the upside (but that does NOT mean price has to fall from these levels) and reward is to the downside (in terms of probability) but again, this is no time to "play hero" with so much demand coming in.

We again see a nice, logical upside target of 1,000 which could provide resistance and draw in sellers. If you don't have a position on and are considering when to enter to play for the next likely swing, the next likely (big) swing should be to the downside but it is NOT safe to enter until we get confirmation of the downside move unless you are an aggressive trader who knows the risk and knows how to manage money/the position.

Caution now is the name of the game - it's probably too late to buy to play for such a small target, but it's also probably too early to get short here. Newer traders should use extreme caution and not get caught up either in your opinion ("Price HAS to go down" or... "It's gone so far without me - Price HAS to go up!")

Daily:



I've mentioned the "megaphone" pattern on the blog last week, and the Megaphone (or more commonly, the "Broadening [Top] Formation") has a target just above 1,000 which is swiftly being reached (only 20 points away).

As a technical purist steeped in odds and probabilities, the odds clearly favor a downside move - it would be inappropriate to enter long here, even though price still might continue slightly higher, even up to 1,100. This would be the realm of the day-trader, not swing or position trader to get long on such a grossly extended condition. Odds favor buying PULLBACKS, not overbought conditions (tests consistently reveal this result).

However, there is no 'short-sale' signal to take - in this environment, you need to WAIT for confirmation and play conservatively for an entry short - short sellers have been brutally demoralized in July, as a price breakdown in the famous "head and shoulders" pattern failed (knocking out stops) and also highly likely resistance at 954 did not hold. With that occurring, sellers are likely to be more cautious and bulls - who have won a decisive victory this week - might be more aggressive. CAUTION is key. **Don't be a hero by trying to call the top of this swing** - it's not worth the losses.

Gold

Monthly



Gold continues to defy, but it's clear we're forming a consolidation pattern, which helps explain why conditions have been tricky.

We see a clean up-trend in both price and the EMA structure (as well as momentum) which hints that higher prices are ahead, but a nasty negative momentum divergence has formed into the 2009 highs (which are slightly lower than the \$1,000 level).

The play on the monthly chart is to watch for a break beneath 870 (20 EMA) to short and a clean (not a weak) break (confirmed with volume and perhaps news) above \$1,025 to get long.

Until then, there is no position/long-term trade to take from a technical standpoint. Swing traders should be aware of the consolidation and wait for a break, though day/short term traders can play the contracting swings, but even for them, waiting for a break (see lower timeframe levels) offers better risk/reward/trading opportunity.

Weekly



The weekly chart of gold probably shows the (apparently) symmetrical triangle consolidation the best, as clean levels are drawn from two swing highs and two (perhaps three) swing lows.

I've drawn the Fibonacci grids in, which aren't affecting price or the next likely swing - the play is the same as the monthly: Long above \$1,000 on a clean break; short beneath \$850 (even better \$825) to play for \$700 again.

The upper short-term trendline (see daily chart) comes in around \$975 while the lower trendline appears to be intersecting at \$925 - that's a \$50 point range that perhaps is best left to the day or quick swing traders. Position traders need wait until clarity returns in gold (which could be a few weeks to perhaps two months at the most).

According to the Price Alternation Principle, it's best to WAIT for the break instead of trying to be a hero and guess the direction of the break.

Daily

\$GOLD (Gold - Continuous Contract (EOD)) INDX

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24-Jul-2009

Open 949.10 High 954.30 Low 947.10 Close 951.50 Chg +2.70 (+0.28%) ▲

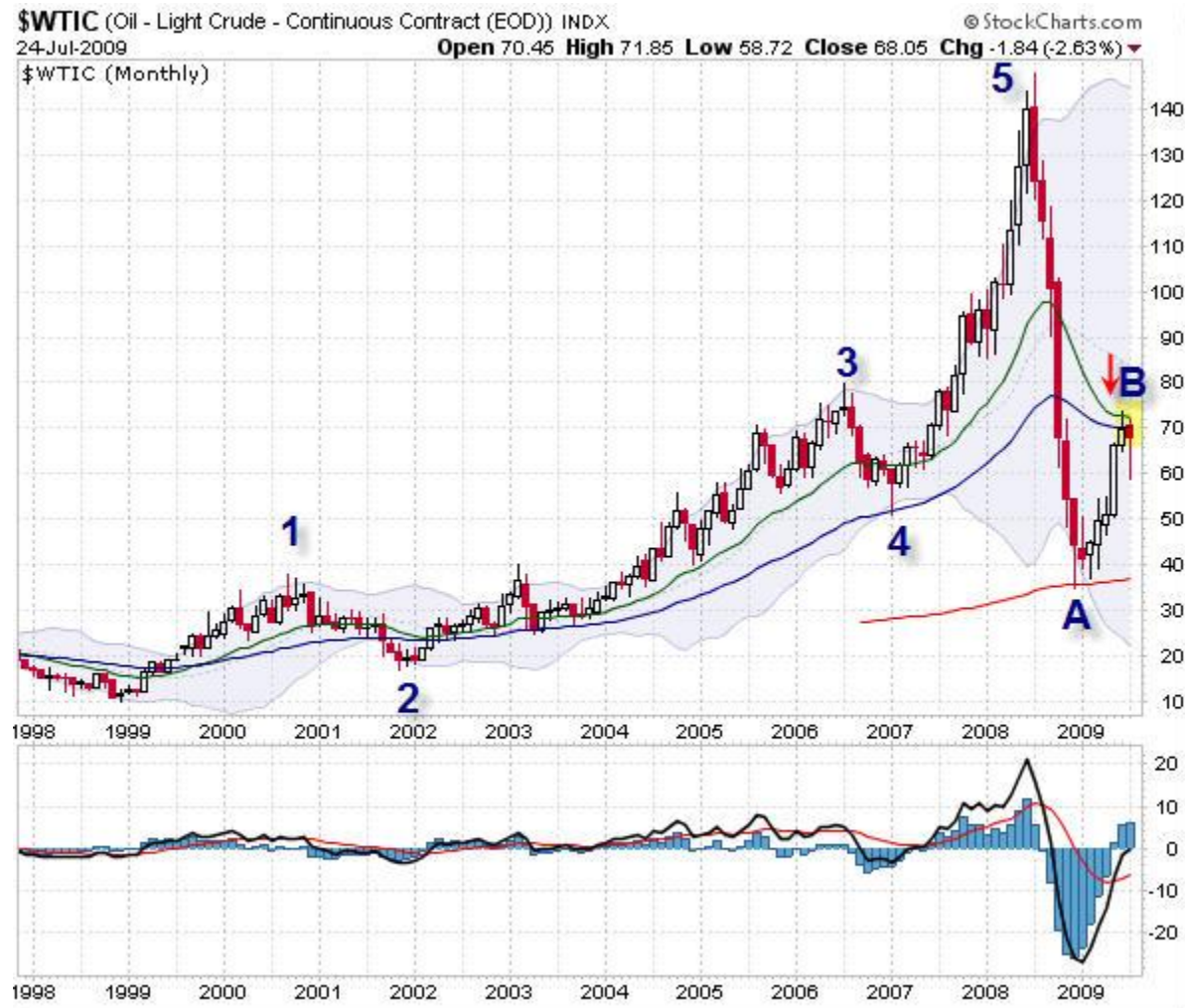


We see the symmetrical (or slightly ascending) triangle form clearer on the daily chart. One note I'm seeing is that with the dojis and upper shadows of last week and failure to close strongly above \$950, odds favor a move down at least to \$930 or even (more likely) to test the rising bottom trend channel around \$925 - again, not enough profit for the risk (the stop would be an equal distance to your profit for a one-to-one risk to reward... with about a 50% chance of being right - that's a coin-toss. You do best to trade ONLY when you have the edge - you'll get the edge from a breakout trade of this triangle you see.

Remember, as technicians, we deal in probabilities and edge - never certainties. We also overlay time-tested price principles. Markets are coming into balance and when price expands out of balance (consolidation), then studies show it's best to enter in the direction of a confirmed breakout - not until.

WTI Crude Oil (\$WTIC)

Monthly



To me, Crude Oil is giving a clean pattern on the monthly chart which is still holding up as valid (and will do so unless we get a close above \$75 or especially \$80).

The Elliott Count appears to be holding up, and calling for a "C" Wave down back to test the \$40 level within the next few months or into 2010. This is the expected monthly play (which can be favorable to longer-term ETF traders) which would require a stop close to, or above \$80 (on the index - please consult your ETF for appropriate entry/management decisions).

If price begins to fall in the week ahead, we will have a POWERFUL candle on a closing basis on the monthly chart which would catch the attention of many technical traders and could precipitate a down-move in price.

Weekly



The weekly chart shows us what I highlighted two weeks ago - that price was likely to bounce upwards off the rising 20 week EMA (along with the 38.2% Fibonacci as seen on the daily chart).

Price has inflected upward as expected, though it's gone up through the 50 EMA, signaling more power than perhaps expected as the stock market rallied strongly this week - Crude was up 5.3% while the S&P 500 was up 4%.

Crude Oil is currently positively correlated with the S&P 500 and is inversely correlated to the US Dollar Index.

Let's look at the daily chart for additional clues.

Daily



The Fibonacci grid from the 2009 lows to the 2009 highs has contained price as expected (and as I mentioned) at the 38.2% level near \$60 per barrel - we are in an up-move off this level (notice the "Tri-Star" Doji pattern that also formed on the S&P 500 which foreshadowed this rally).

I expected price to have trouble overcoming the 20 EMA, though it has done so and with force. I've drawn a small (green) Fibonacci grid from the \$60 low to the \$74 high which shows we are currently bumping up against the 61.8% Fibonacci retracement of that move - it could hold as support.

Notice also that we're slightly above the closing support of the June 2009 lows which could morph into resistance now - though we'd have to see a down-move immediately or else this signal (tendency) will be a false signal.

The rally is forming what looks to me to be a bear flag, and keep in mind that we just made a new momentum low for 2009 which hints that lower prices are yet to come. We're at the point where the bear flag needs to resolve (break down) to the downside which would mean a close beneath \$65 would trigger a nice short-sell swing or even position trade.

In Elliott fashion, we could also be seeing a 1, 2, 3, 4 move down, but it concerns me that the recent "wave 4" rally took us above the lows of the first fractal wave - a general penetration on futures is acceptable, but no more than we have here.

US Dollar Index (\$USD)

Monthly



The monthly chart of the US Dollar Index remains unchanged - that of a strong downtrend which is now trapped between key resistance at \$90 and support at \$70. Price nipped just beneath \$80 - placing it right in the middle.

The trend structure guides us, and price is beneath all EMAs and continues to make lower lows and lower highs. Unless we see immediate strength here that breaks us back above the 20 or 50 EMA, then the trend will likely draw prices lower (which would be inflationary for commodities and likely bullish for the US Stock Market).

Remember, if the Dollar Falls, then it's BULLISH for stocks and commodities but bearish for Bonds.
 If the Dollar RISES, then it's BEARISH for stocks and commodities but bullish for Bond (prices).

Weekly

\$USD (US Dollar Index (EOD)) INDXX
24-Jul-2009

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Open 79.46 High 79.53 Low 78.42 Close 78.75 Chg -0.76 (-0.96%)



We see price challenging again the 61.8% Fibonacci retracement from the 2008 lows to the 2009 (absolute) highs.

It still feels to me that the move in late 2008 was an "A" swing down with the rally to new highs in 2009 being a "B" corrective rally, and that we're now in a 5-wave "C" swing down to challenge \$78 or lower. This seems to be the structure to watch.

The 20 and 50 week EMAs overhead are forming a bearish cross at the \$81.50 level, so this further confirms that lower prices are expected. However, price could find support at the \$78 level so watch that closely for a possible bounce.

Breaking down beneath \$78 would be a very, very bearish signal and could set-up a long-term swing back down to the 2008 lows within the next few months to years, as there is "open air" beneath price on the weekly and monthly charts but plenty of resistance overhead (again, this does not guarantee price heading lower, but it would be a stellar bearish development).

Daily



We see the expected down-move that formed in the Dollar Index mentioned last week in a continuation move lower which probably is a 5th wave fractal of a larger "C" Wave (primary count).

One word of caution to sellers - there have been two bullish candles - a doji and a bullish engulfing/hammer at the \$78.50 lows, so an up-move here is certainly not out of the question, but doing so would violate the odds (which hint at lower prices yet to come as price rolls ever so slightly lower... almost creeps lower).

Should price begin to rise here, watch the \$79.70 level (20 day EMA) and closely watch a bullish surge through \$80 which would target \$81. An eventual break above \$81 would be quite bullish for the dollar.

Remember, a falling dollar (index) is BULLISH for stocks and commodities (and yields) but BEARISH for bond/note prices.

WEEKLY Color Structure Charts



DAILY Color Structure Charts



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