



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Notes continue to hold their precarious position at \$118, and we see the early 'seeds' for a rally upwards... that would not take much for bears to crush any bullish hope of a reversal here.

S&P 500: The S&P 500 remains grossly overbought, hitting a resistance level, forming negative momentum, volume, and breadth divergences... though buyers/bulls don't seem to be phased in the slightest. The week ahead is expected to be a down-week, as described in the daily chart, but don't be surprised if bulls manage to trigger even more short-sellers' stop losses next week.

Gold: With all eyes focused on the \$1,000 level and bullish optimism running at extremes, the best play could be to wait to see if this was all a bear trap. However, a break to new highs should trigger more buying/short-covering but watch the opposite side as a prudent contrarian looking to take advantage of broken expectations (and the downward price movement it would almost certainly cause)

Crude Oil: Crude Oil has now formed a daily chart triangle, and it might be best to play the breakout which seems to have higher odds of a downward break, but again the edge comes from the price break and expansion itself, not from predicting who will win the supply/demand battle.

US Dollar Index: Bulls have one last chance to turn the short or intermediate trend around here, thanks to weekly and daily dojis on the lower Bollinger Bands with positive momentum divergences. If not, then the higher timeframe trends will continue to push the Dollar Lower down to the \$71 level again.

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

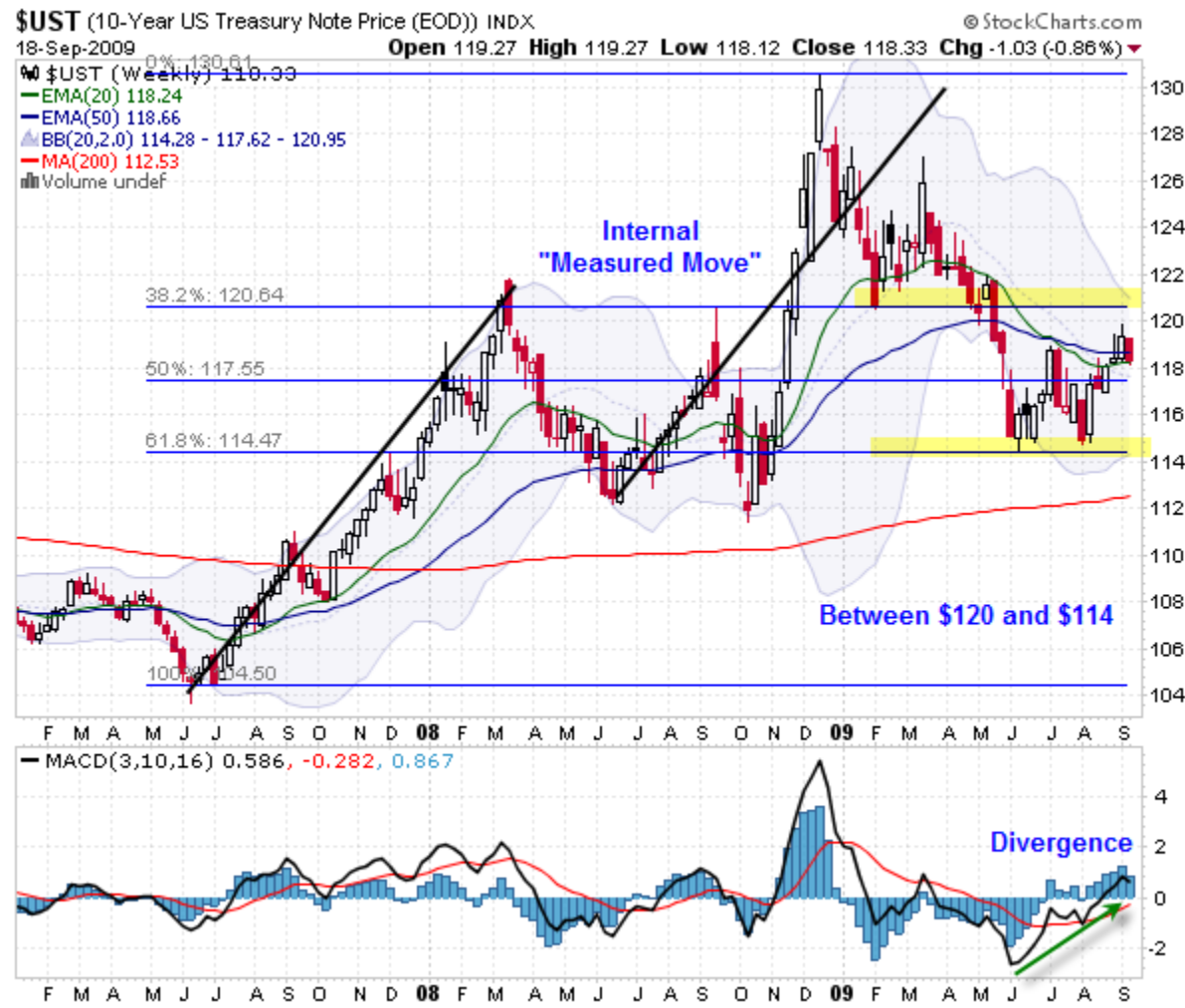


I'm adding an extra pattern to this week's monthly Ten-Year Price Chart - that of the "Measured Move" or "AB=CD" pattern (holding that price resistance/reversal comes in at the exact 'measured move' of a prior impulse... similar to a bull flag). That has happened both in form and price structure (the "ABC" notations are not Elliott Wave notations, but just showing the 'mirror image' or repetition of the prior impulse pattern in similar detail).

That being said, returning to classic technical analysis, Notes/Bonds are still in an uptrend as evidenced by the higher highs and higher price lows as well as price being (tentatively) above all key moving averages, and these averages being in the most bullish orientation possible. As such, from a classic point of view, higher prices for bonds/notes (lower yields) are expected.

The \$117.50 level should provide support on any pullback, and we must remain bullish provided price stays above \$115... which we'll see is very important on the lower frames.

Weekly



We see another 'not as perfect' measured move (AB=CD) pattern on the weekly charts, and note how price has fallen from the price projection point of \$130 (target).

A dominant Fibonacci grid is drawn, with the main areas to watch being the \$120 level (38.2% retracement - a break above here would be undeniably bullish for bond/note prices) and \$114.50 (61.8% retracement - a break below here would be a devastating blow to bulls and could send prices back down to \$112 at a minimum... failing at \$112 could send price back to \$104).

Price is regaining ground, as we have made a higher price high, slight higher price low, and have broken back above the 20 and 50 EMAs which are converging at the \$118 level. Price is supporting currently on the 50EMA and any weakness ahead (next week) could be a trigger for lower prices if this level fails to hold.

Until support is broken, we must expect it to hold, and we have more reasons to expect that as seen on the daily chart.

Daily



The Daily 50 and 20 EMAs are converging as well at the \$118 level, meaning it should be watched carefully as high-probability support here. As of Friday's close, price was sitting on the rising 20 day EMA which is above the 50 EMA - an ever so slightly bullish positioning.

We would expect a break beneath this level (close under \$118) to send us back down to the \$116 or \$115 level, though until that happens, the odds slightly favor the bulls in expectation of higher bond/note (lower yield) prices ahead.

It might be too aggressive to play anything in this area unless you're willing to risk a tight stop under \$117.50 or \$117. Otherwise, a break above \$120 and then \$121 would give us the confidence to expect higher prices ahead and a reversal back to the upside (which, presumably, would be negative for stocks and commodities).

US S&P 500 (\$SPX)

Monthly



I'll be showing two versions of the monthly frame in the S&P 500. First, the standard chart shows price cracking above the 20 month EMA at 1,055 into 'open air' until the 1,100 (round number) area or the 50 period EMA at 1,160. When higher timeframe charts show 'open air,' then we turn to lower timeframe charts for a better understanding, knowing that there's little on the higher timeframe to thwart prices.

The volume divergence is very pronounced and obvious. It's hard to see, but look at the volume from early 2003 until late 2004 during the similar "straight up" period. Volume stayed flat through most of the year as opposed to declining as clearly as this 'straight up' rally has done.



On this chart, we see the 20 month SIMPLE moving average resting at 1,067, which is something to watch. Beyond that, the RSI indicator is showing a pullback to the 50% level which has been known to be support & resistance (buy and sell signals) in powerful trends (such as our down-trend). This is something to concern the bulls.

In addition, the lower panel shows the "NYSE McClellan Oscillator" which is a breadth measure of stocks (advancers & decliners). It has been showing a distinct negative divergence throughout the whole of the upward rally, which is concerning also to bulls. That's bearish. However, notice the high spike above 75 which last occurred at the start of the 2004 bull market - that same spike has occurred again and the question is "has that spike occurred at the start of a NEW 2009 bull market?" Price will have to overcome resistance at the 1,100 level to be sure, but for now, odds seem to favor a short-term or intermediate term retracement/pullback as opposed to higher prices surging through all this resistance and bearish non-confirmations (volume, breadth, price overextension,) seen here.

Weekly

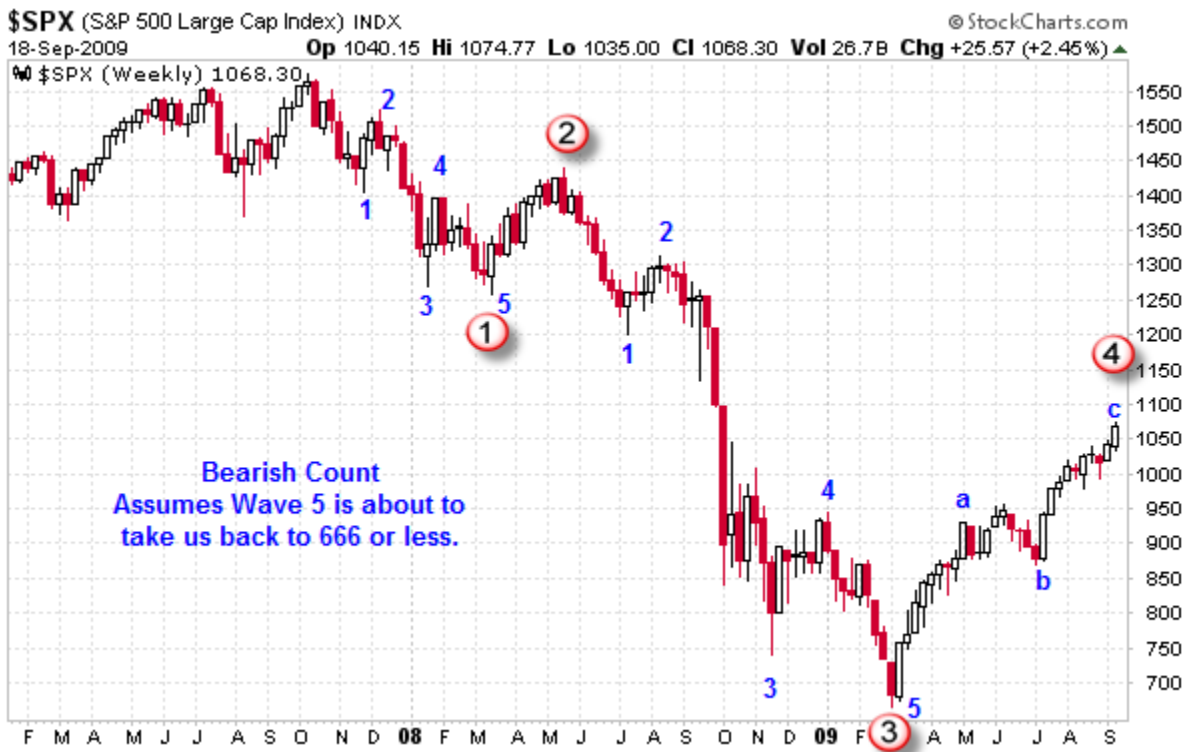


Looking only at the weekly frame (Fibonacci grid), we see "Open Air" until the 1,121 (or 1,100 which is 'psychological' resistance) area, though price is 'riding' the upper channel of the Bollinger Band (not necessarily a sell signal) again on declining volume (though last week saw a distinct 'pick-up' in volume as the Summer "doldrums" come to an end).

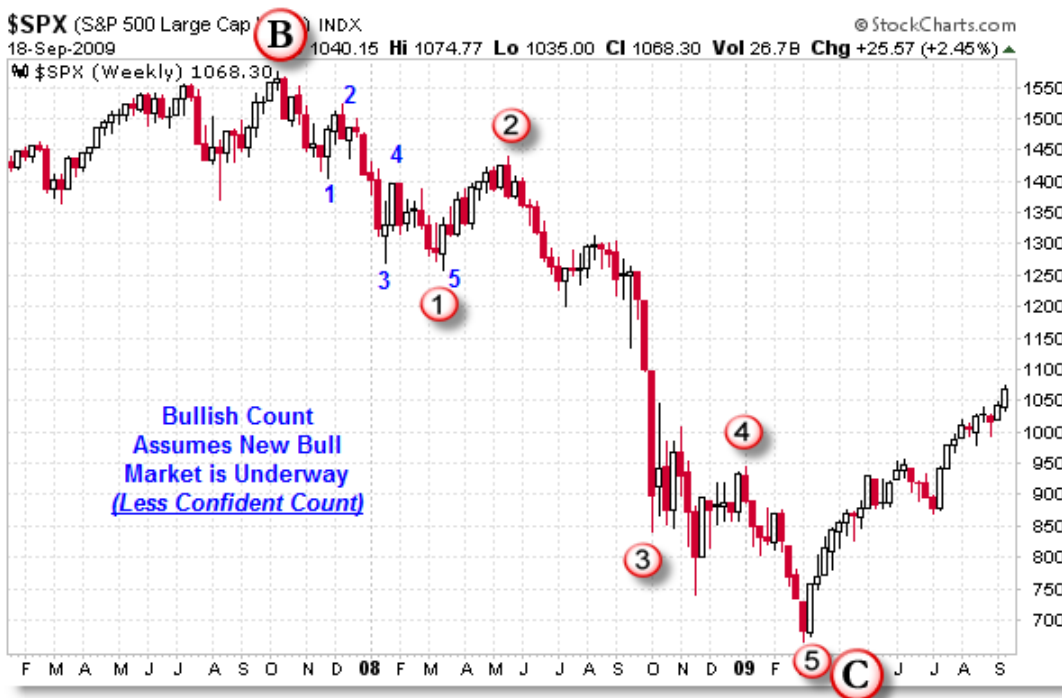
The 3/10 Oscillator (momentum) is showing a slight flatline momentum divergence which is not as bullish for price as it could be. It would also appear we are forming a 3-wave "abc" type 'corrective' structure to the upside.

Until we break above 1,100/1,121 (50% Fib), then we'll still classify this rally as a 'correction,' albeit a powerful one.

If you have not done so already, compare this rally with the 1929 and 1938 post-crash recoveries (I did so in a recent blog post: <http://blog.afraidtotrade.com/a-look-at-the-1929-1938-and-current-recoveries/>)



This is a quick possible "Elliott Wave" Count which shows the larger structure and the power of the 4th wave rally which had a target of 1,100 that is now being achieved. This structure is still dominant though I'd abandon it with a close above 1,200 anytime soon. It is calling for a return or retest of the lows into the near future.



I'm LESS confident in this potential Elliott Count which assumes the Bear Market (C Wave) is over. I don't like the 'shortness' of the Primary (large-scale) fractal 4th and 5th waves into the March lows. That being said, this is not necessarily an invalid count, just a lower-probability one. See a May 2009 post for more details here:

<http://blog.afraidttrade.com/sp500-elliott-wave-update-competing-interpretations/>

I would advise not getting too caught up in the Elliott Counts, and suggest monitoring the larger picture as it develops.

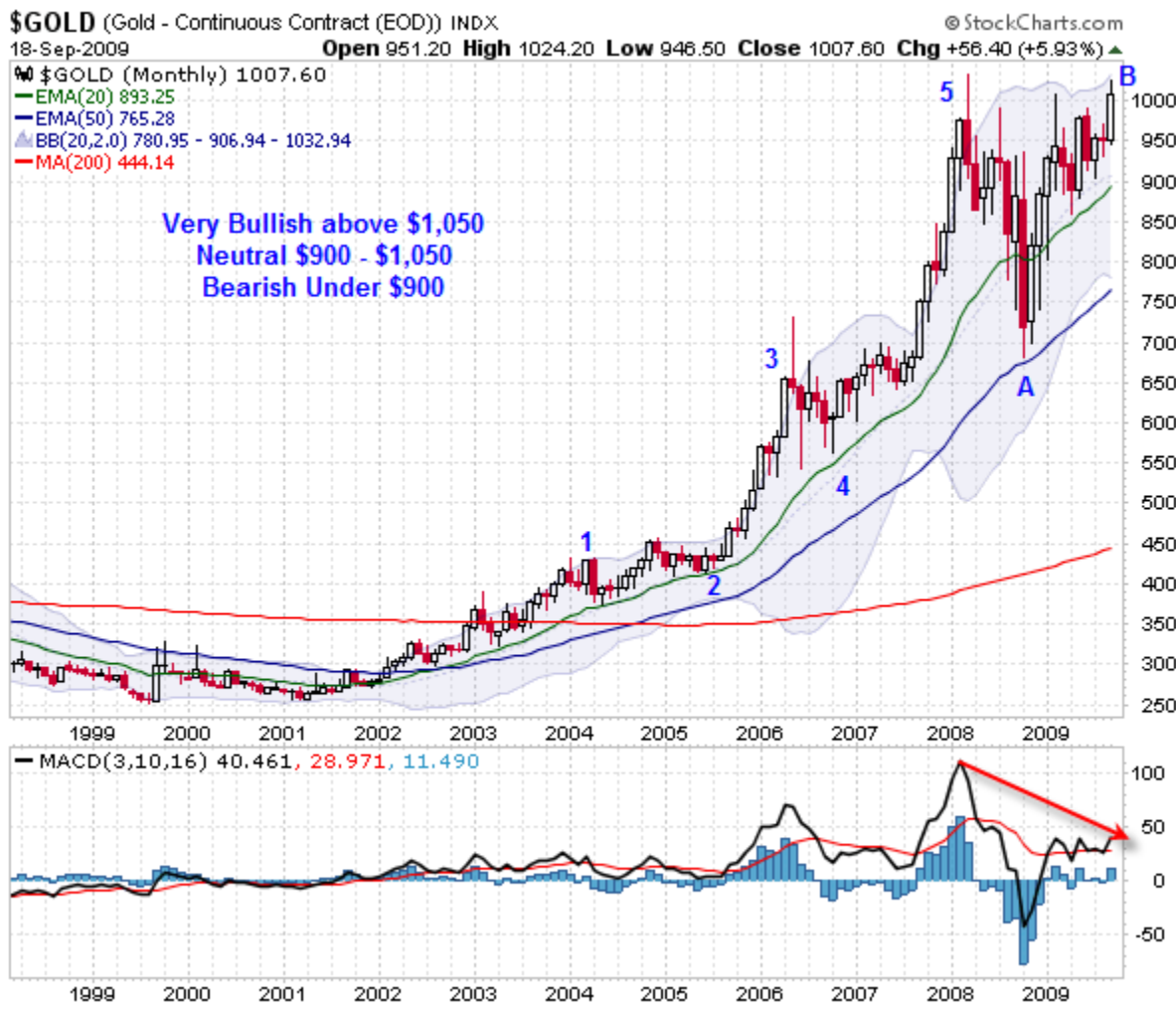
Daily:



Bulls should be very worried about the current short-term technical structure, which places price at the upper daily (and weekly) Bollinger Bands with two 'doji' candles in a row forming on Thursday and Friday. A negative momentum divergence has also developed on these highs. This would call for a short-term pullback to challenge lower support levels at a minimum, which continue to rise (weekly and daily EMAs). However, the trend/technical 'structure' overwhelmingly favors the bulls in terms of price being above the daily and weekly EMAs. The bulls have been massively dominant in the supply/demand equation (which ultimately moves prices) and have shown resilience over all technical sell signals. Notice the multiple dojis in a row at the end of August that only produced one meaningful 'down-bar' and break of the rising 20 EMA (a classic sell-signal) before price rallied almost nine days in a row solid, taking out many short-sellers' stop-losses along the way. This type of price movement essentially sidelines most participants, as they cannot fathom 'getting long' at such overextended levels, but they also know that any short-sell they try will likely be met with another stop-loss. It won't always be this way, so do use caution until we work off this overbought condition.

Gold

Monthly



Gold has yet to break to a new price high above the \$1,035 high made in early 2008. A break above this level will trigger stop-losses and likely create a flood of new long (buyers) entries which should push the price much higher to achieve the \$1,150 (triangle) and \$1,300 (inverse head and shoulders) targets. UNTIL THEN, I would recommend caution and not getting caught up in the bullish euphoria until these levels break - mainly because this could be an insidious 'bull trap' that would lure aggressive bulls into the market and then with any sort of downside action, would knock them all out which would create further downward pressure IF price starts to fall in any meaningful way. With these two 'lines drawn,' it might be to your advantage if you're not committed to a position already to wait and see which side of the supply/demand equation wins and then join that side for a breakout move similar to that which took us from \$950 to \$1000 in a very short time.

Otherwise, the monthly trend structure looks good, though I've always felt that the rally through 2009 felt like a corrective pattern which is labeled a "B" wave and I'll have that view until price breaks above \$1,050 which would disconfirm that count. The next two weeks in gold will be critical for bulls and bears and should help determine the direction for the upcoming intermediate period - watch closely.

Weekly

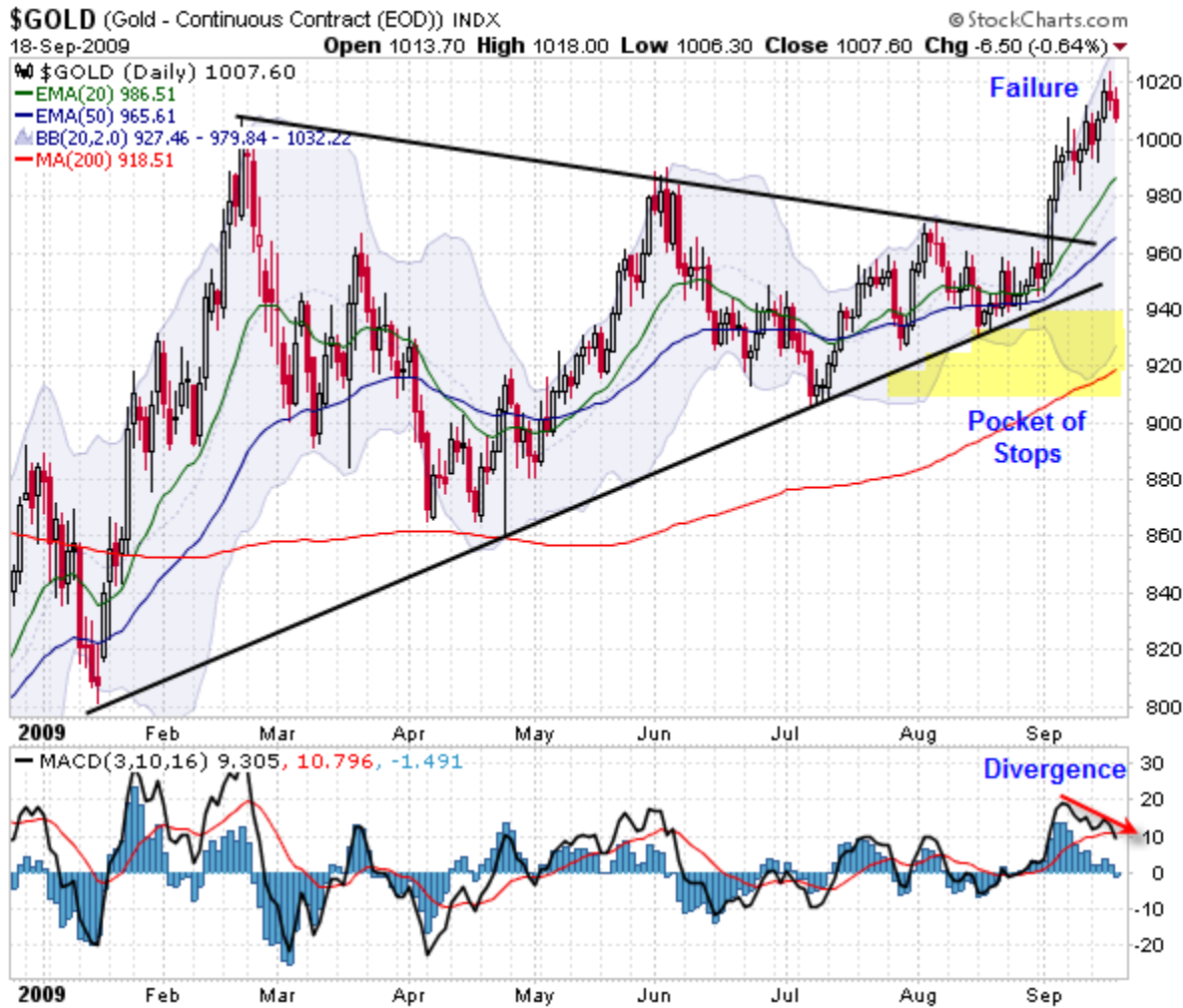


The oft-mentioned "inverse head and shoulders" pattern better resembles a "V-Shape" pattern as drawn above, or a near identical "Mirror Image" which has met its upside target into resistance. IF this is a mirror image, then the next move will be to the downside. A break above \$1,040 would disconfirm this pattern.

Otherwise, the Inverse Head and Shoulders along with the Triangle break (through 2009) have bullish implications and targets for the market, but price is required to break to a new high before playing for either of these targets.

It all comes down to the \$1,040/\$1,050 level (or rounded to \$1,000). A price break above should trigger a large price expansion move to the upside. However UNTIL that happens, realize that people buying in ADVANCE of this break would be turned immediately into sellers (driving price lower) in the event that price fell beneath \$900 which would create a powerful (and unexpected for most people) down-move. Sometimes it's the unexpected which creates the better opportunities and we can't know in advance which large price expansion move will occur - that's why we must be prepared and try to avoid over-encompassing biases (which- when thwarted-create these big moves).

Daily



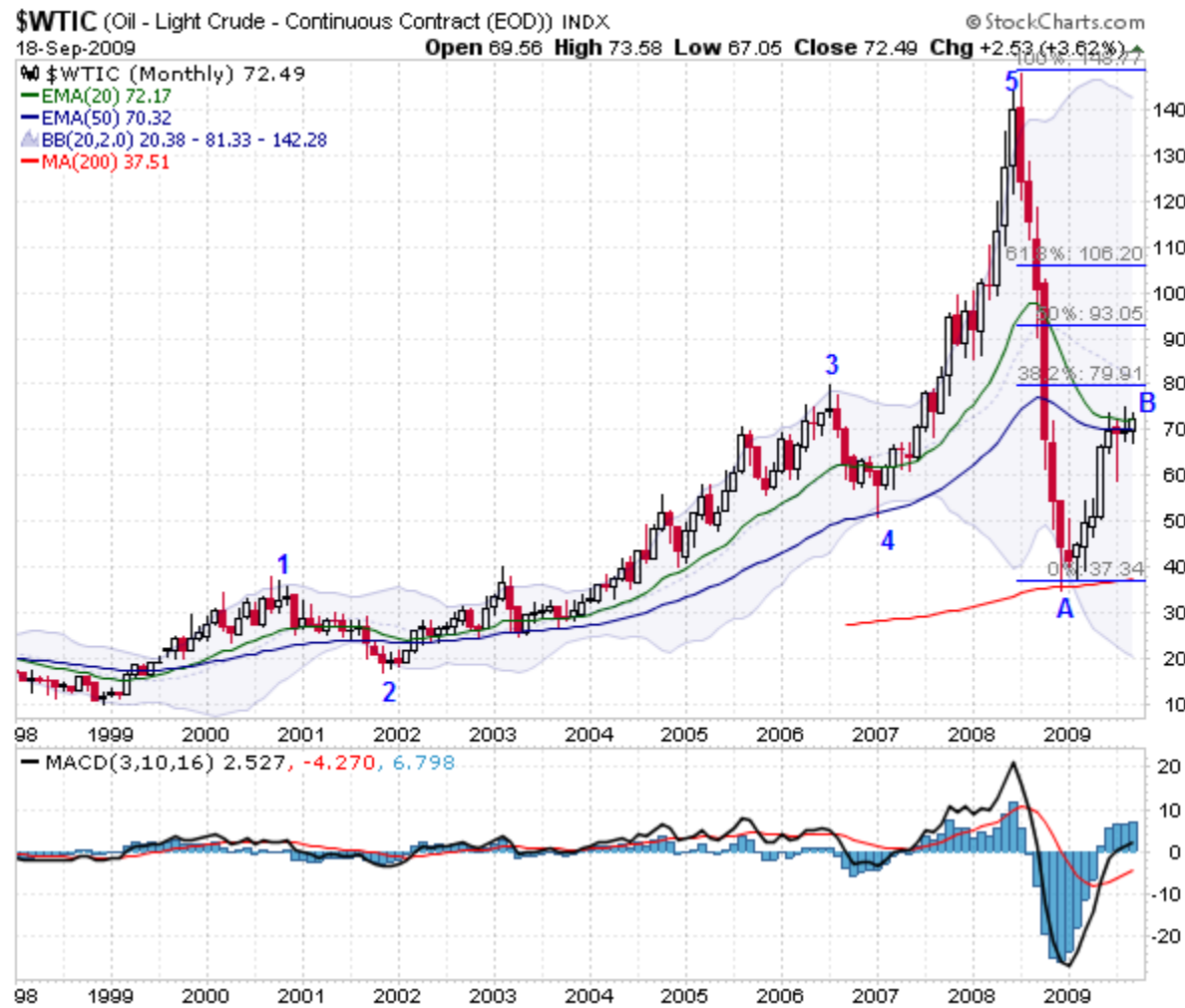
The main take-away here is that the triangle pattern IS broke to the upside but bulls are having trouble - as of this writing - to push price to new highs which would trigger more buying. Upper shadows and a doji/shooting star-like candle (as well as a bearish candle on Friday) have formed which is not what you would want to see if playing for a large-scale price expansion to the upside. A negative momentum divergence has formed.

The main takeaway is not to predict with exact accuracy what's the precise next move in gold - it's about reading expectations (so many people are 100% convinced gold is going to skyrocket that they can't see anything else) and seeing whether those are met (if we break \$1,050, there very likely will be the expected large-scale price move to the upside) or if those expectations are thwarted (if we break beneath \$940, we'll start hitting 'pockets' of stop-losses and if we break \$900, it will likely invoke panic in all the people who bought long at the highs... creating a powerful downward impulse as these old longs become new sellers).

Temper your biases and follow price day-by-day in such a situation with powerful feelings on both sides. Remember - we're here to make money, not prove our opinions correct.

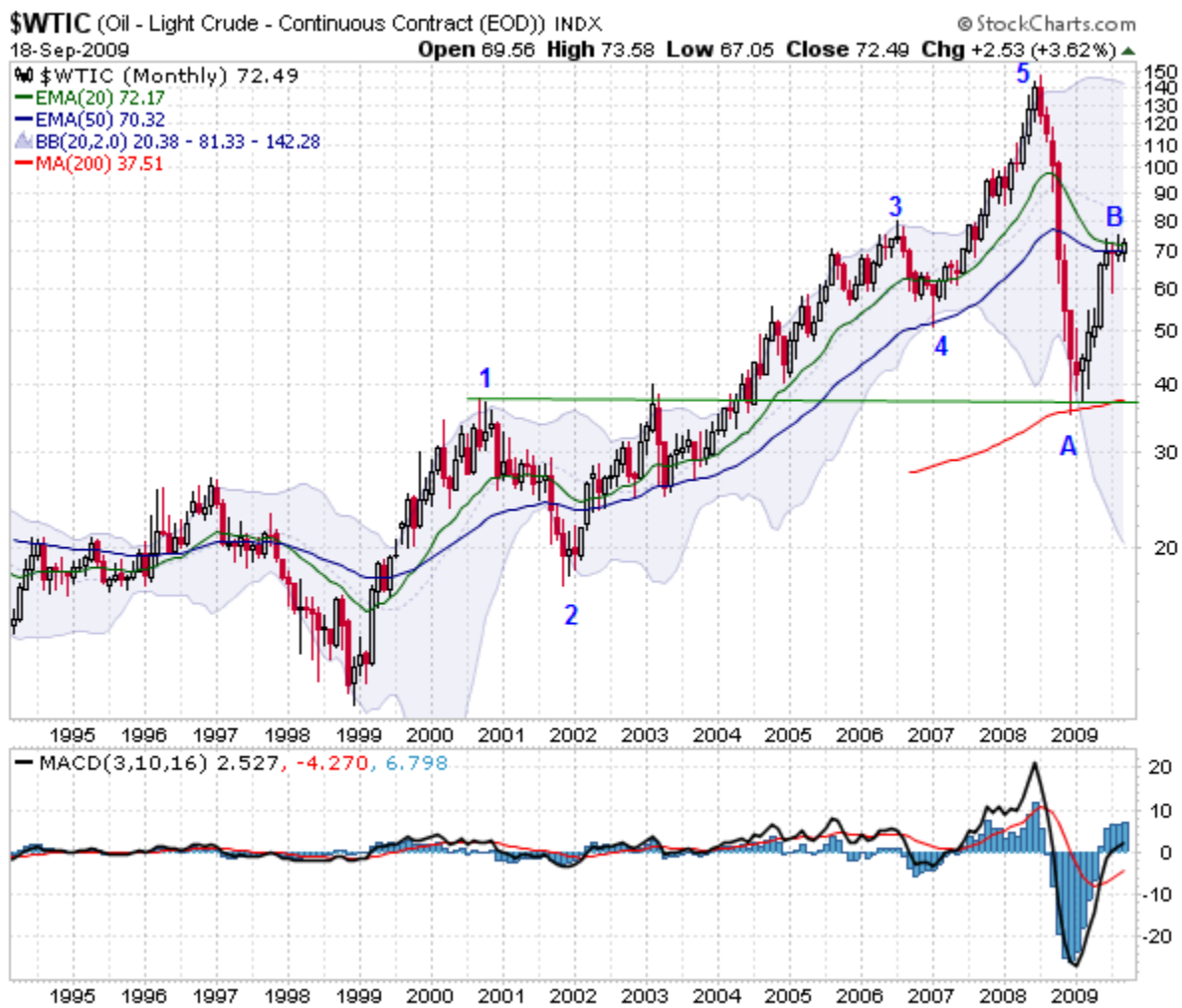
WTI Crude Oil (\$WTIC)

Monthly



No change in the structure of Crude Oil in the last few weeks - price continues to languish at the \$75 level, which is the convergence of the 20 and 50 month EMAs (as seen above at \$72 and \$70 respectively) along with the 38.2% Fibonacci retracement at \$80. Until proven otherwise, I'm still calling this a 'corrective' rally to 'correct' the steep down-move from \$147 to \$35. This could be a longer-term 'dead cat bounce,' particularly if the overhead resistance (and prior target for an up-move) holds at the \$75 level.

Like gold, a move above \$75 and then above \$80 would confirm that a new bull market was in force for crude oil but until that happens, the dominant technical structure shows expected resistance at these levels in anticipation of some sort of down-move ahead.



This just shows the longer term structure on a logarithmic chart for clarity.

Weekly



The 200 week SMA rests at \$75.18, which has contained price like a lid since testing this level in early June.

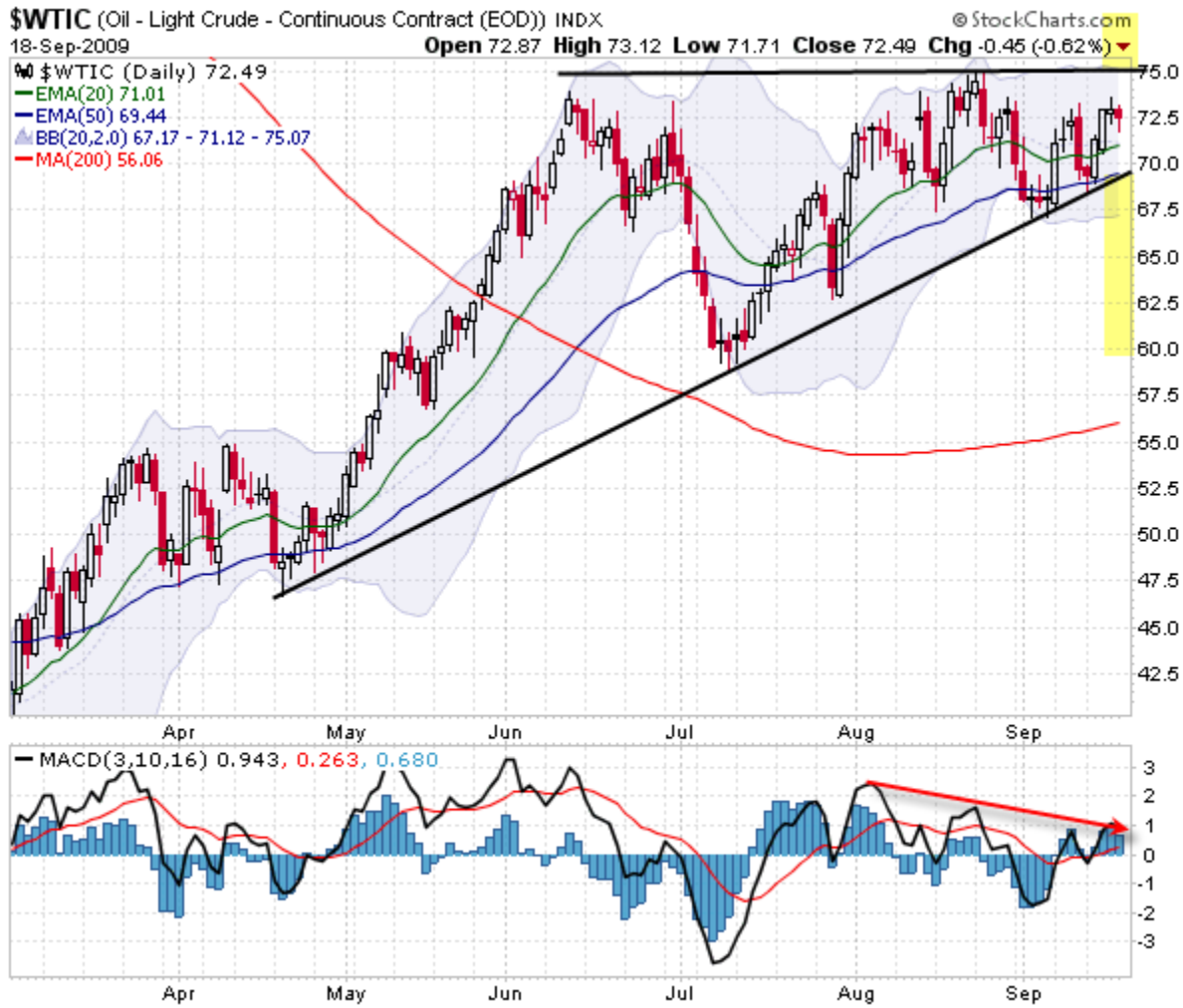
A price break above \$75 would allow for a 'scalp' trade to test the \$80 level, but until then, it might be best to take a 'neutral' position on crude oil with a slightly bearish bias until either

- A: \$75 level and then \$80 level are broken to the upside
- B: \$67 and the \$65 is broken to the downside

The 20 and 50 week EMAs rest at \$67 which also have provided support on the way up.

Watch the weekly chart for clues for crude oil going forward.

Daily



Like gold before it, Crude Oil has been forming a distinct triangle, only this time the triangle is an "Ascending Triangle" which is generally bullish, but I treat triangles as consolidation patterns and wait to play the 'expansion' move that often arises from a consolidation pattern... and try to be neutral on the direction of the expansion.

A short and intermediate negative momentum divergence has formed on the new 2009 price highs, and price is forming a trading range in a 'value area' about the \$71 per barrel level.

A break beneath \$67 would be expected to lead to a quick test (trade) of the \$60 level, and any downside momentum under \$60 would validate the "B-Wave" hypothesis which would place us in a "C" Wave down to test - at a maximum - the \$40 lows from early 2009.

However, it might be best to wait for a price break in either direction instead of trying to position here - scalpers/day-traders might want to participate in the expected momentum move above \$75 or beneath \$68/\$70 as the triangle is nearing completion (break-out).

US Dollar Index (\$USD)

Monthly



No major change on the US Dollar Index - though I would recommend watching the daily chart for clues as the likely move ahead.

As such, the monthly structure continues to call for lower prices for the dollar in terms of the trend structure (lower lows and lower highs) along with the EMA structure (price is beneath them all, and they are in the most bearish orientation possible). This trend structure should dictate the course of the dollar, but bulls have a major opportunity to flip the price structure in the short or intermediate timeframe, so I would not recommend shorting just yet until we see how powerful bulls are in a possible retracement swing to the upside, as described on lower timeframes.

Weekly



Though the trend structure is similar to the monthly chart, and price is beneath all EMAs (and they're in the most bearish orientation possible), short-sellers must be cautious for the following:

Price formed a doji last week at the lower Bollinger Band on a positive momentum divergence off of a possible 5-wave terminal fractal structure (see daily chart).

If bulls are going to have any hope of pushing the Dollar higher, it's here. If they fail and lose \$76 as they lost the \$77 level, then odds will overwhelmingly shift for a retest of the \$71 level as the dominant trade/play.

Daily



We see a possible 5-wave fractal count that has formed on a lengthy positive momentum divergence.

On top of this, we see a similar doji and bullish candle formation (Friday) off of the lower Bollinger Band. The odds continue to dip for expectation of higher prices for the dollar with each lower low, but I would deem this the last chance for bulls to make a difference, which means if you are aggressive, you can scalp long here perhaps to \$77 or \$78 with a tight stop under \$76 (or the equivalent in the futures contract or ETF).

A solid break above \$78 would argue for a new uptrend (intermediate trend) in the Dollar Index, though anything less argues for a continuation of lower prices.

If the dollar reverses and turns up from here, Commodity and Stock Market prices would almost certainly fall.

If the dollar continues falling and making new lows, Commodity and Stock Market prices would continue their rise here.

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