Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Note prices pulled back/retraced as expected, working off an overbought conditions and now have pulled back into key support levels to watch.

S&P 500: The S&P 500 fell 2 points shy of testing the 1,121 50% retracement level, which is the line in the sand to watch to be bullish (above) or bearish (beneath). Look at lower timeframe charts for upcoming targets.

Gold: The headline news from last week was on gold's sudden (though not unexpected) fall. Watch $1,150 for a possible bounce, but if no bounce can materialize, target $1,100 and if beneath that, then $1,000.

Crude Oil: Crude Oil still remains difficult to call, as it is in a type of trading range, though $80 is the clear 'line in the sand' between bull and bear, and take a particular look at the broken support on the daily chart currently.

US Dollar Index: The Dollar surged on Friday, threatening to reverse (at least temporarily) its downtrend, which would be confirmed with a solid close above $76 and especially $77.

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

Note prices pulled back as expected after working off an overbought and overextended condition (as mentioned in last week's report).

More details on the lower timeframes, but on the monthly structure frame, watch $118.00 (20 month EMA) for initial support, and note the rising trendline that will take us to the $117.50 area. The 50 month EMA resides at the $115 level, and the 38.2% Fibonacci retracement lies at $116.50. Watch all of these for initial support levels, and if they are broken, short-term traders can play for a move down to the next expected level of support, but until proven otherwise with a move under $115, the trend and moving average structure on the monthly frame remains to the upside.

Weekly

We see that price failed to hold a tiny breakout above the $121 level as initial resistance. For now, the 38.2% retracement from the June 2007 lows to the December 2008 highs rests at $120.64, and this area held as resistance (it was also the upper Bollinger Band).

A bearish engulfing candle formed at this resistance level (see prior highs in March 2008 and September 2008 as price could not overcome this barrier then either). Thus, the $121 area is the critical 'line in the sand' for determining whether or not to enter to play for higher prices, or treat it as support and exit longs/consider shorts at this level.

For now, the weekly 20 and 50 EMAs converge at the $118.75 level, so any move under that would likely send price to $117.50 at least (prior support and 50% Fibonacci) and breaking beneath that would send price down to $114.50 most likely.

Daily

Bond prices on the 10-Year Notes appear now to be forming a rising trend channel instead of the original rectangle consolidation as previously expected. The upper boundary remains $121 while the currently rising trendline lower boundary exists at $118.

Beneath that, we have prior price support from the September and October lows at the $117 level, and any move under $117 would likely trigger a fall back to challenge $115.

However, any move above $121 would clear the way for a breakout (possible strong trend) move higher. Watch these boundaries as price is expected to trade within them.

For the short term move, watch to see if price supports at the recent fall back to $119, which was the expected play from last week's report which has hit/exceeded its short-term target.

For those trading bonds, the TLT is most often the choice of those swing trading or hedging with bonds.

It would appear that a possible bearish head and shoulders has formed since September, with the head at $100 and neckline at $92. This would mean that if price broke beneath the $92 level soon - or failed to support on it within the next week - then the lower price target would be the $84 level, which is $92 minus $8. I would suspect we could see a possible bounce or attempt at support at the prior swing lows of $89 and $86.

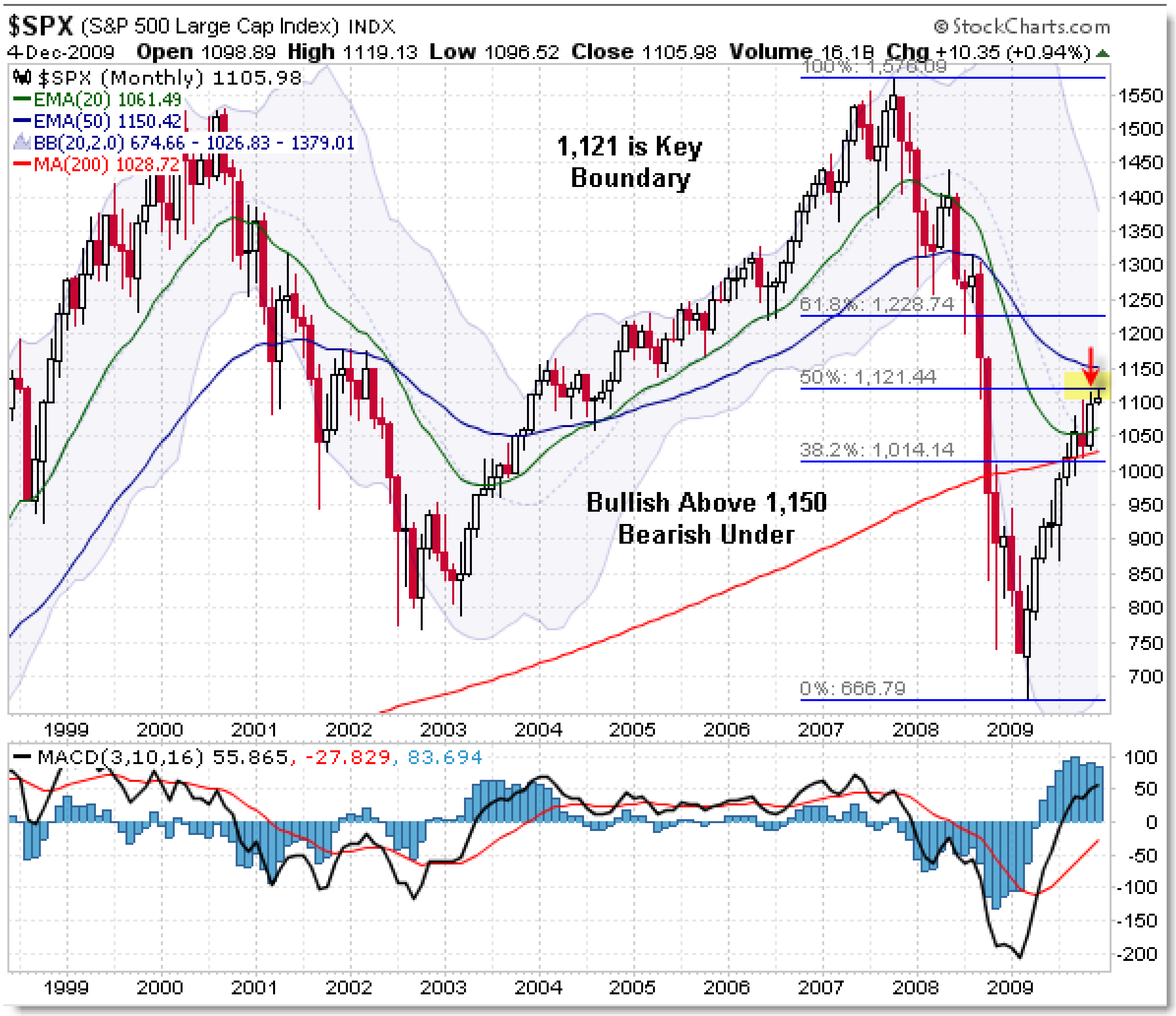
There is an upper trendline that exists at $97.

The bottom line is that price remains in a trading range/contraction, so trade within those boundaries and be ready to position (entry or exit) on any break of the established range.

Any sudden move above $97 should target $100 at a minimum though any downside break beneath $92 should target $89, $86, or $84 depending on how aggressive sellers are.

US S&P 500 ($SPX)

Monthly



The S&P 500 has come two points under testing the major overhead resistance level at 1,121 which is the 50% Fibonacci retracement of the entire bear market. Any move above this level would likely trigger short-covering which would result in an upward burst suddenly, and any move above 1,150 - the 50 month EMA - would similarly trigger more upside momentum that could carry quickly to 1,200.

Until that happens, the odds favor that resistance will hold and price will correct downwards from this level. This level is very important to watch, because it provides two opportunities - the widespread expectation is for a down-move off this level, so that calls for a short-sale with a tight stop above 1,125, and if price does rise above 1,125, then odds then shift to favor further upside as short-sellers will be covering their positions (hitting stop losses) which will trigger more upside momentum that you can profit from as the 'line in the sand' would be broken for the sellers.

If you don't usually watch the S&P 500 (if you are more of a commodity trader, perhaps), you should watch it very closely this week, as all markets will be affected by a potential turn down in stocks here... and similarly by a continued and 'unexpected' rise in stock prices above this critical boundary area.

Weekly

I say odds favor downside action from here because price has retraced into overhead resistance at the upper Bollinger Band, forming two prior weeks of 'upper shadows' (candles) at the 50% "Bear Market" Fibonacci retracement level of 1,121. Price has done so on a distinct and obvious negative volume divergence along with a negative momentum divergence - this all adds up to a bearish picture where the bulls must overcome all this evidence with further demand/buying to overcome the bears/sellers shorting at these levels... or buyers taking profits who bought at lower levels.

For now, the move down could be contained to the 1,050 (20 EMA) level or even the 1,010 level, but any move under 1,000 would be a strong and obvious sell-signal to market participants that the move down was deeper than expected. For now, shorting here is an aggressive maneuver with a stop above 1,125, while waiting for a breakdown under 1,000 to short would be a conservative maneuver (it's difficult to fade strong up-trends while price is above key EMAs).

Daily:

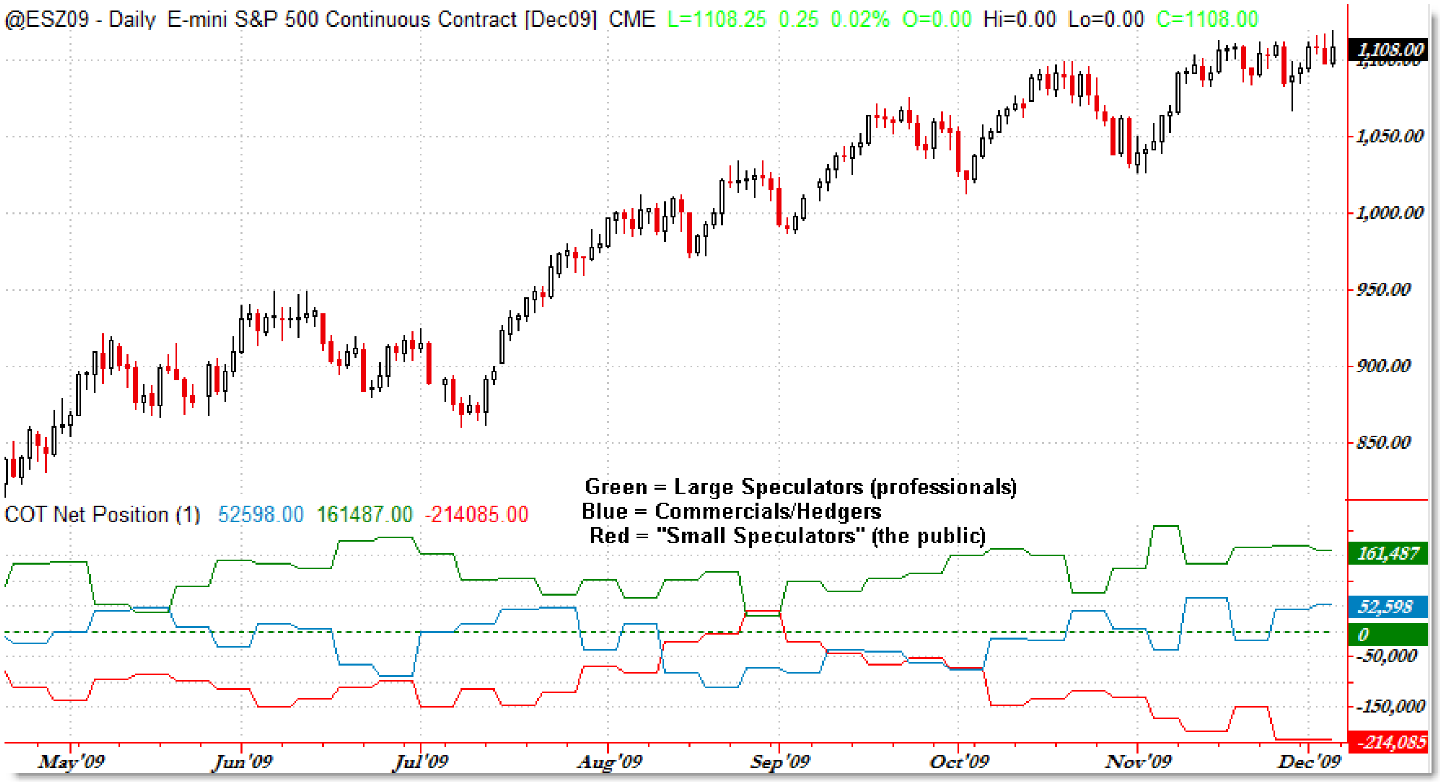
The daily chart shows a repeating pattern to prices at key swing highs since the July lows. The current swing has lasted longer than the four other 'topping' swings and so far has supported each time to the rising 20 period EMA, currently at the 1,095 level. Volume declined into the Thanksgiving holiday, but has since returned this week, however the 3/10 oscillator has been on a near-term downtrend and forming negative momentum divergence since the mid-November peak. That's not to say price is 'required' to fall - look back at early August for a similar pattern that produced only a quick, two-day retracement instead of a full trend reversal - divergences hint at retracements ahead, though many reversals are preceded by divergences, especially multi-swing divergences.

The key levels to watch and trade would be any break above 1,121 to produce at least a short-term burst higher due to short-sellers taking stop losses at those levels to target 1,150 at a minimum, and any move above 1,150 should reach 1,200. However, any breakdown beneath the rising 20 EMA at 1,095 would likely produce a move back to the 50 EMA at 1,080... and any move under 1,080 would be expected to target the prior swing lows at 1,030. Remember, price is in an uptrend, so any down move would be considered to be a 'retracement' until prior support was broken. Any move under 1,020 and especially 1,000 would argue in favor of a price/trend reversal to target the 880 level at a minimum.

We should have better clues as to the next likely move in price early next week if the current trend channels are broken - bullishly above 1,120 (so far, any move above 1,110 has produced a "Bull Trap" as bulls did not continue to buy to sustain the breakout) or bearishly under 1,085.

There is a distinct negative momentum divergence that has formed on each new 2009 price high - this is NOT the picture of strength right now.

Short-term odds favor a downside move at least to 1,085, but ANY upside move above 1,121 would result in what I call "Popped Stops" which - in part - has happened on the prior three pushes above the upper trendline (short covering/short squeeze). That's bearish because it is evidence prices are being artificially pushed higher by the sellers stopping out (creating 'demand') rather than buyers stepping in to buy ('demand'). So, the 'demand' has come from the sellers. To keep prices rising, buyers are going to have to step in here, or else price will fall.



Some of you wrote that you enjoyed me showing the "Commitments of Traders" indicator in TradeStation, and it is giving the same signal it did last time.

The Green Line reflects the "Professionals" while Blue reflects "Commercials/Hedgers" (not as useful to us) and the Red Line reflects the "Public" or what is 'left over' in terms of outstanding contracts for those who are not required to declare their positions (resulting in this data).

Remember, we can track exactly how many futures contracts are outstanding, and this report seeks to categorize them.

How do we interpret this?

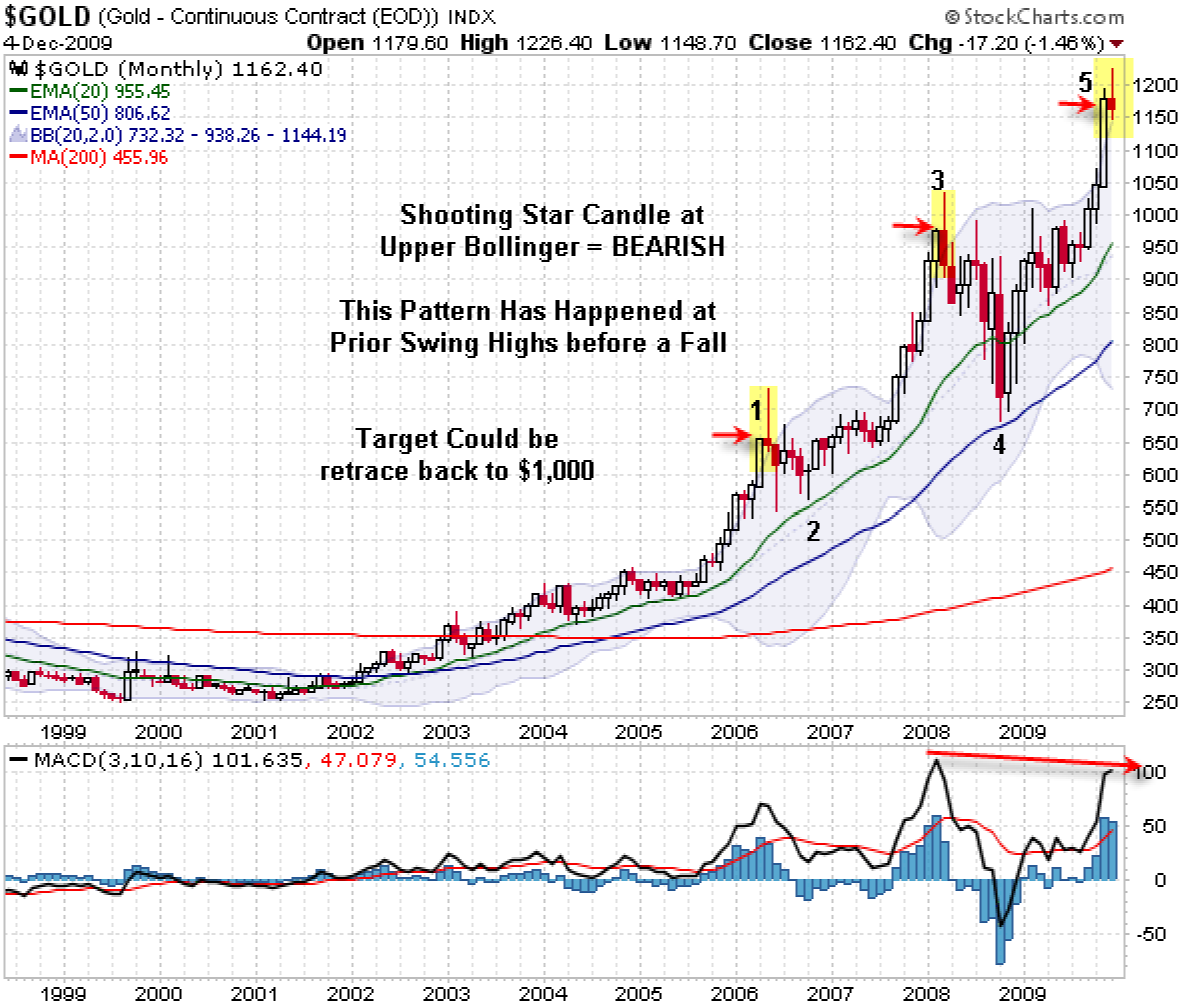
The "Public" is net short 214,085 contracts while the "Professionals" (large speculators) are net long 161,487. I don't have to remind you that - historically - the professionals are right and the public is wrong - case in point, with the exception of an 'equal reading' in late August, the Professionals have been net long the market through the whole rally (even before the March 2009 bottom) while the public has been and remains net short.

This tells us that the public has been - in essence - shorting all the way up while the professionals have been getting net long.

The implication is that, as long as this reality continues, the uptrend should continue higher, busting through overhead resistance levels as short positions are covered. This type of analysis speaks more to the 'reality' of the market in terms of supply and demand, so let's see if the 'signals' from the CoT data continue to push the market higher despite all the bearish indicators/chart data we are seeing.

Gold

Monthly



The big news this week came from Gold, losing at one point $60 intraday Friday and $50 overnight during the Thanksgiving holiday. That underscores the risk inherent in holding long a grossly overextended market that has reached price pattern targets. Declines come suddenly.

For now, look back at the early 2006 peak and the early 2008 peak to show the last two times the Gold market prices went 'too far, too fast' and then pulled back for the rest of the year. We could be seeing this pattern repeat as 2010 begins. What you're seeing now for December's candle is just under 5 days of data, so we can't officially call it a shooting star monthly candle, but for now, the signal is bearish as price is overextended on a negative momentum divergence after a 5-wave impulse (the alternative count places us in Wave B). This isn't to say that gold is going to collapse, but it is to say that odds as we interpret them now favor at least a retracement/pullback to the 1,000 level over the next few weeks/months to work-off the overbought condition.

Otherwise, the long-term trend is clearly higher and it's rare to find a gold bear in the world right now.

Weekly

I'm showing again the chart I showed last week which argued for a correction down in gold this week because overhead price targets - namely the $1,175/$1,200 target from the 2009 symmetrical triangle have been hit.

Unlike the monthly candle which will take all of December to form, the bearish shooting star above the upper Bollinger Band on the weekly chart is permanent and does give a high probability sell signal that favors a pullback at least to $1,050 over the next few weeks. See March 2008, July 2008, and March 2009 for the last times price reached outside the upper Bollinger and continued with a retracement lower.

Any bearishness is broken with a move back above $1,200 and especially the high of $1,225, as price would get more overextended, but for now, the risk is higher for a correction down than a sudden return to further price extension higher.

Daily

Dropping down to the shorter frame, we see that - although the weekly chart seems to suggest that gold will pull suddenly back to $1,050 without pausing, we see a different pathway on the daily chart. We could see a short-term bounce up off the $1,150 price which reflects the 20 period EMA, and then after an upward short-term bounce, we could see a further pullback to the $1,100 area, where we would need to watch closely to see if price can regain its uptrend from there... or fall into a daily downtrend after breaking under $1,100.

The most recent high of $1,225 completed on a negative momentum divergence and a complete fractal 5-wave count as labeled with a shooting star candle on the daily chart prior to Friday's sudden drop.

Unless price can break above $1,225 this or next week, the overarching bias would be for a downside corrective move (not the 'end of the world' in gold), especially if price breaks under $1,150.

Here is a bonus 'internal' look at the fall in Gold prices (mini-gold futures) which shows a complete Elliott Wave 5-wave impulse move lower that finished on both an external (multi-swing) and internal (direct swing) positive momentum divergence.

As such, odds do favor a retracement move higher perhaps to the $1,170/$1,180 level as the next IMMEDIATE swing in gold, but if buyers cannot produce an upward move off this structure above, then gold will have strong odds to fall further down to hit the 1,100 target.

WTI Crude Oil ($WTIC)

Monthly

Crude Oil has yet been unable to clear above the critical $80 price level, which remains the "Line in the Sand" for clues to whether to expect a move back to $90 (yes, if price is above) or back down to $70 at a minimum or even the $60 level (yes if under $80).

The monthly possible Elliott Count places us in a corrective rally up, which is the dominant bias as long as price remains under $80. Keep in mind that $80 is roughly the 38.2% Fibonacci Retracement (see weekly chart) of the 'entire' bear market since mid-2008.

Weekly

We see that price has been forming six-weeks of upper shadows at the $80 level which is bearish, and a lengthy negative momentum divergence has formed under price - adding to odds favoring a downward move from here.

However, the weekly EMAs have aligned at the $70 per barrel level, and the recent price pullback last week terminated at the rising 20 EMA at $73, so we would need to see price break under $70 to expect lower targets.

For now, Crude Oil is trading in a tight range with a bearish bias.

The 38.2% Fibonacci retracement rests just under $80... which again is the "Line in the Sand."

If price can close above $81 solidly, then the $92 level would be the next likely target to play for.

Any move under $70 would set $65 and then $60 as likely price targets.

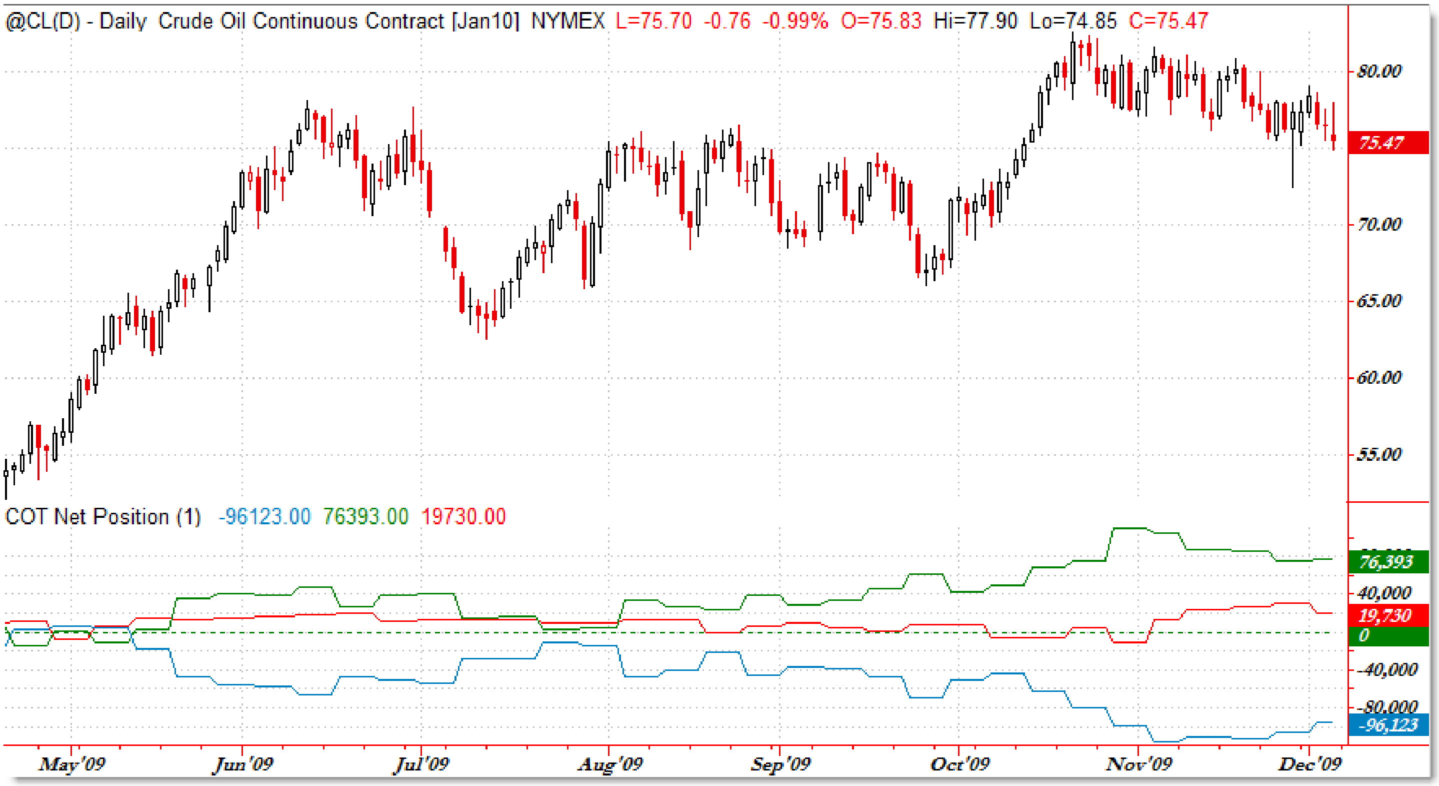
Daily

There are two ways to interpret the recent trendline move as shown above - first is bullish, calling it a "Bull Flag," which would trigger entry long on a close above $80 with a price projection target upwards to at least $90 under standard flag targets. I think this is the lesser probability structure, but I at least need to mention it to stay unbiased.

The odds seem to favor that, if price can break under $75 per barrel, that price will fall back down to the $70 level at a minimum, and if $70 is broken, then we would look to prior swing lows that come in at $65 and the lower $60s.

Price is under both the 20 and 50 day EMA, as located at $77.40 and $76.20 respectively.

Much like stocks - remember Crude Oil and stocks currently have a positive correlation - any upward movement would trigger short-covering and push prices higher, as the generally expected bias is for a down move to come next.



For those interested in the CoT Data for @CL Crude Oil futures, we see a tightening of the spread between the Professionals - net long 76,393 contracts (green) and Retail net long 29,730 contracts (red).

We generally don't pay much attention to the blue line or 'commercials' outstanding contracts because these funds/companies are using the futures market for its intended purpose, instead of speculating on the price of Crude Oil like we as traders do. Commercials reflect oil producing and consuming companies that hedge against price swings in crude oil to have stable prices (instead of speculators/traders, hoping to capitalize on quick moves).

Both the public/retail speculators and professionals/large speculators are net long while the commercial companies are net short 96,000 contracts.

This isn't as helpful as the @ES data, but still shows that the professionals are long crude oil contracts while the public (non-reportables) ... also are (less) long crude oil.

US Dollar Index ($USD)

Monthly

We're seeing - so far - the third positive month for the Dollar Index in 2009 - up so far 1.31% in December (one week).

One week does not reverse a trend, but let's watch the lower frames for additional clues.

A failure for the index to reverse higher here would continue the index lower to the prior 71 level as the larger multi-year clearly remains down.

Weekly

It would seem the Index might find a short-term low at the $74 level, or technically the $75 level on a closing basis, which reflects prior price support from late 2007 and early 2008. A lengthy positive momentum divergence - which I have been highlighting every week - still is in play and is creating positive tension on prices.

A bullish engulfing candle formed last week which is often a 'trigger' for traders to enter.

Because of the Carry Trade (funds shorting the dollar and buying commodities/other higher yielding currencies) being so 'crowded' (so many funds are short dollars), if the carry trade were to unwind, it might do so suddenly as large funds scramble to buy dollars/cover short positions (and sell stocks/commodities) which could result in a powerful burst to the upside in the index.

Be aware of this possibility of a sudden burst higher in the index, which would be confirmed if levels on the daily chart are broken. Upper resistance levels (to target long) on the weekly chart include $77 and $79 (20 and 50 EMA respectively).

Daily

The big news Friday was that the Dollar Index AND the stock market index rose in tandem strongly after the "Jobs Report..." though the stock market gave back a large portion of its early gains.

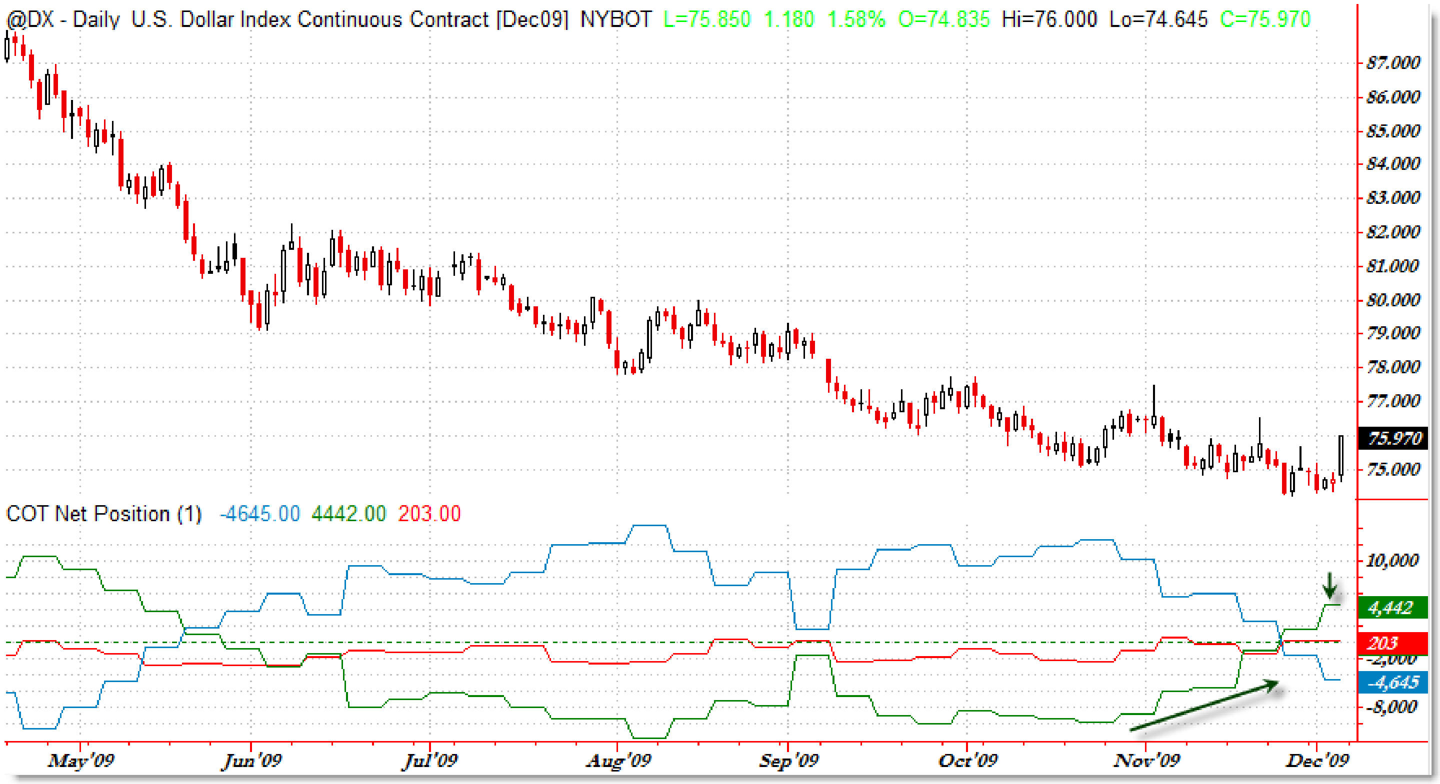
Still, upper retracement targets in a downtrend are always the 20 and 50 EMA, and the line in the sand - or early signal of trend reversal - comes when price breaks solidly above the 50 day EMA... which would happen on a close above $76.

Watch for that to occur early next week and be prepared to shift bullish if so. A lengthy positive momentum divergence has formed .

Upper short-term targets include the $77 and $77.50 prior swing highs, though the distinct possibility exists for a stronger retracement or even a price reversal to the upside to rise to $80 or beyond - but focus now on whether buyers can capitalize on the recent momentum from Friday.

As usual, any move back under $75 and especially under $74.50 would erase this bullish bar as a vicious 'bull trap.'

The chart here updates the 5-wave Elliott Fractal count on the Dollar, showing a terminal 5-wave phase has completed, which argues for an upward move from here (confirmed on a break above $77).



I would put less emphasis on this CoT data due to the fewer participants/net outstanding contracts (9,000 total).

Still, we do see bullish insights in the data, in that the Professionals/Large Speculators (green) have for the first time since May flipped and are now net long (4,442 contracts) while the red line (small/non-reportable speculators) have general not contributed much to the outstanding contracts ('commercials' have taken the other side of the professionals in most cases this year).

Still, the Large Speculators/Professionals flipped from being net short the US Dollar Index to being now net long at the highest levels since the May highs.

This adds to the probability that the US Dollar Index will be heading higher in the next few weeks if the Large Speculators are correct in their bullish bets.

Disclaimer: