



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Notes remain caught in a trend channel as shown on all timeframes, with \$120 as the upper boundary and \$115 as the lower boundary to watch for a breakout.

S&P 500: The S&P 500 - and other US Indexes - face a critical turning point, as all have moved into resistance and we have the 'line in the sand' forming between expecting lower prices ahead which odds seem to favor strongly... or abandoning bearish expectations in favor of a new bull market on further upside from here.

Gold: Gold is caught in a few cross-currents as described, but for now watch long above \$1,070 and short under \$1,000.

Crude Oil: Crude Oil had wild swings last week, but the \$80 to \$81 area remains the line in the sand to watch long above \$81 and short under \$80.

US Dollar Index: The Dollar Index continues to show a battle between basic technicals (downtrend) and advanced technicals (all of which show odds favoring a reversal to the upside). Watch \$75 for the trend to continue and \$77 for the trend to reverse.

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



The treasury market is perhaps the most difficult to forecast right now, as it is in a trading range and in between a key Fibonacci confluence... and has formed two consolidation dojis on the monthly charts.

In a trading range, it's often best to wait for a break up or down from the range, and the treasury notes/bonds have major forces acting upon them - Government debt threatening to push yields up/prices lower and then fears that the current rally may be coming to an end which threatens to push prices up/yields lower if people start selling stock and buying bonds/notes.

The 10-year note boundaries are roughly \$115 and \$120, as we'll see from lower timeframes.

Weekly



The closest Fibonacci grid is shown above, with \$114.50 as the lower boundary and \$120.65 as the upper boundary. The moving averages are given no help in determining support and resistance in the current trading range.

The momentum oscillator is showing a positive slope, but still it would be best to wait for a break upwards above \$120 (which would occur perhaps if the stock market falls from here) or beneath \$114 (in the event that inflation continued in terms of rising stocks, rising commodities, and falling dollar).

There's a more precise channel to watch on the daily chart as seen below.

Daily



There is an up-sloping trend channel as shown above, with the upper boundary being at the \$120 level (which also is the 200 day SMA at \$119.75) and the lower boundary just above \$115.

I've drawn a smaller line that ends at the \$117 area, which is also the lower Bollinger Band zone which could act as support as volatility continues to compress.

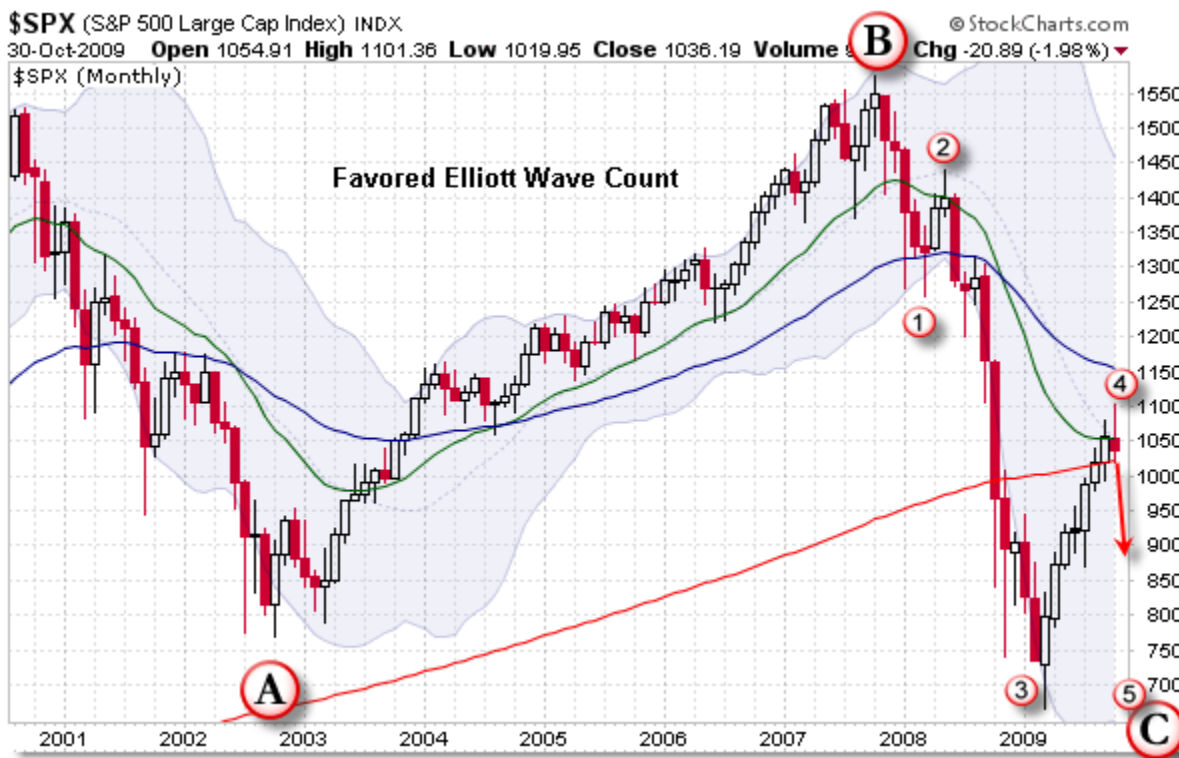
Again, as long as bonds/notes remain within this range (since the June lows), long-term positioning will be difficult.

US S&P 500 (\$SPX)

Monthly



A key development happened this week in the Stock Market - all four major US Indexes closed lower for the first time in the seven-month rally off the March lows. The S&P 500 so far has found resistance at the 1,100 level and the 20 week EMA at 1,052. As seen in the Russell 2000 chart, price failed with long upper shadows (bearish) at the 50 month EMA at 662. The Russell - comprised of Small Capitalization stocks that often have a 'leading' characteristic over the Dow and S&P 500 - suffered the largest monthly decline - down almost 7% on the month. This all bodes poorly for the broader markets as long as price remains beneath key resistance levels (10,000 in the Dow; 1,100 in the S&P 500; 620 in the Russell; 2,200 in the NASDAQ). It would be prudent to exit long positions/enter fresh short positions as long as these four indexes remain under the levels described here, as we'll see in the additional charts.



This is the same Elliott Wave preferred count I've been showing - which is taking on an added significance with the "Shooting Star" candle that formed on the monthly chart - this is a classic technical analysis major sell-signal which has become locked in place as October has come to a close. Any move above 1,150 would serve to invalidate a bearish stance on the market, given that buyers would have broken above resistance, but until that happens, from a risk/reward standpoint, one has to be at worst neutral on the market here (waiting for a break beneath 1,000 to put on a short-sale position) or at best shorting here for aggressive entries with tighter stops (stops above 1,150).



Weekly



Beyond what we see on the weekly chart, we see negative volume and momentum divergences which serve as non-confirmations of the strong 50%+ rally off the March 2009 lows (as price continued to rise, volume and momentum trailed lower).

The 50% Fibonacci retracement of the entire Bear Market rests at 1,121, so any move above this level would be quite bullish though the classic expectation is for this level to hold as resistance, particularly since it corresponds with the upper Bollinger Band (1,124) and the 'psychological' resistance area of 1,100 (round number).

Watch to see how price reacts to the confluence EMA possible support at 1,000, though any close beneath 1,000 will trigger a powerful short-sale signal that will be in effect as long as price is underneath this key level. Initial targets to the downside include 900, 850, and any break of 850 would trigger a final target of a retest of or beneath the 666 lows, particularly if the Elliott Count shown above is indeed the correct/dominant count.

Daily:



Moving to the daily frame, we see inside the negative volume and momentum divergences as price has continued its pathway higher. As expected and as mentioned in last week's report, price failed to support at the 20 EMA and fell strongly to test the 50 day EMA at the 1,040 level. Officially with Friday's close, the 50 day EMA has been broken, which is another defeat for buyers (sell signal), and any further downside action will further increase the odds that a deeper pullback/retracement is the likely course for price ahead into which you should perhaps position.

There is a chance for buyers to support price at the 1,000 level, as the TV personalities are calling this yet another "buy the dip" retracement, but I see "open air" underneath price as long as the index remains beneath 1,000.

Volume has risen relative to the past as the price has fallen during this down-phase, which confirms the downside action and further tips the probabilities to the downside.



I've updated the RSI Chart showing the lengthy triple-swing negative divergence which correctly forecast this down-swing in price as I have mentioned. I described the negative Breadth divergences last week which have also resolved to the downside. I'm now showing the OBV - on balance volume - indicator which shows a negative divergence (as price pushed to a new high at 1,000, volume failed to confirm that high).

Again, any further downside action here would put us into at least an intermediate swing to the downside.



I showed this chart on the blog, which highlights negative "Market Internals" in terms of Breadth and Volume (differentials). See post for further explanation:

<http://blog.afraidttrade.com/daily-market-internals-now-failing-to-confirm-rally-from-march-lows/>

We see a long-term and a short-term negative divergence in market internals... and we also are seeing a concentration of lower internals (highlighted) which serve as a confirmation of lower prices with an expectation of even lower prices yet to come (as internals deteriorate, price is expected to fall in the direction of the internals).

Friday's "Bearish Engulfing" Candle also adds to the downside bias/probabilities.

Gold

Monthly



As a general statement, gold generally moves in the direction of the stock market (moderate positive correlation), so if the thesis is correct that stocks have higher odds of falling than rising from here, then logic would follow that gold (and crude oil) would also fall (and - as an aside - the US Dollar Index would rise along with bonds/notes). Gold is in part driven by inflation and economic fears. In the event inflation is the dominant force, then gold will continue to surge. However, if it is shown that the US and Global economies are actually NOT in recovery phases, or that another "leg down" is expected in the economies, then gold will likely fall in line with stocks and crude oil.

So much of the Inter-market balance right now is driven by the assumption that "We are on solid Economic Ground and the Global Economies are Recovering from Recession." If this is true, then we will see higher stock prices, higher gold prices, higher oil prices, lower bond prices, and a lower US Dollar Index.

However, at the moment, all of the cross-markets are at key turning points that will help determine the future course of prices for some time to come. If it is shown or implied that we face a "double dip" or "next shoe to drop" or any hint that the economic recovery is in danger... then we will see a reversal of current cross-market trends.

Weekly

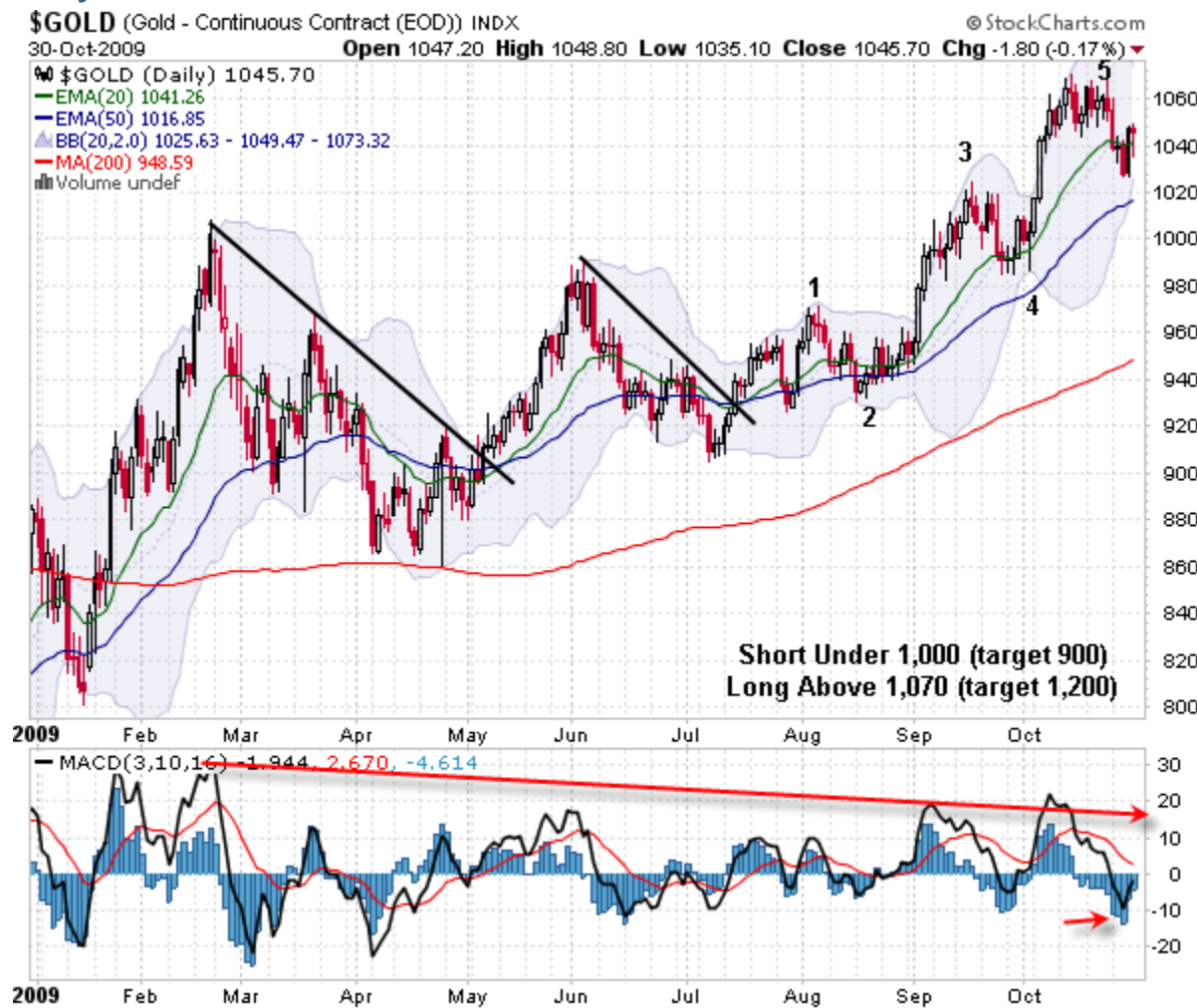


Weekly gold is flashing a technical (chart) sell signal, given that two dojis have formed on the prior two weeks and this week brought us a 'hanging man' or otherwise bearish candle... all of which have occurred at the upper weekly Bollinger Band. That's bearish and argues for a decline at least to test \$1,000 as the immediate 'next swing' in price.

A close above 1,070 would invalidate this view, and argue that gold was likely to travel upwards to \$1,100 or even the targets of \$1,200 (triangle) or \$1,300 (inverse head and shoulders).

A negative momentum divergence has set in under the recent price highs, which serves as a non-confirmation, and a rising 'arc' formation has (or is) completed which is addressed in the daily charts.

Daily

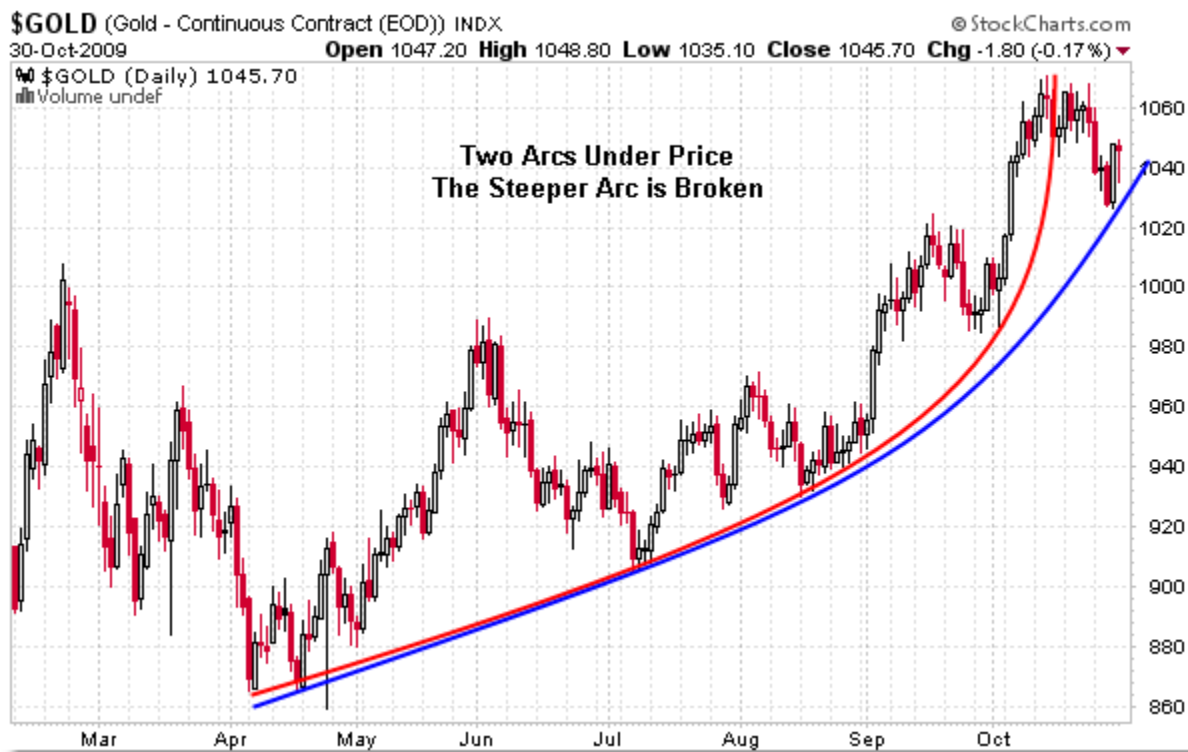


The \$1,000 level would appear to be a defining level of support, and any move under \$1,000 would likely be met with further selling down to the \$950 or even \$900 level.

We see a 5-wave fractal move into the recent highs before price pulled back from the \$1,070 area. Also, price broke beneath the 20 day EMA last week at the \$1,040 level but has since risen and closed above that level on Friday.

Any move under \$1,040 would trigger a short-term target down of \$1,020 for support if not \$1,000.

Anything else - any up move from here - would trigger a long/buy bias as long as price is above \$1,070 and especially \$1,100.



We see the dual arcs on gold.

The red arc - as mentioned last week - was broken officially as price began an exponential and possibly unsustainable move higher.

However, there is the possibility that the blue arc will hold, which we need to watch objectively during the next week. Any break under the \$1,020 area or even \$1,040 would violate the rising arc to the downside, so watch for any down movement beneath that level.

WTI Crude Oil (\$WTIC)

Monthly



Crude Oil traders experienced an extremely volatile week! The week - and month - closed under the critical \$80 per barrel level (specifically the \$79.30 50% Fibonacci level from the 1999 lows as well as the \$79.89 level - the 38.2% Fibonacci retracement from the 2009 lows). This confluence Fibonacci level is critical to watch, as it will help determine the pathway of prices ahead. Any move above \$80 should lead to higher prices, but - as of now - it seems a higher probability that price will move lower and this is the bias/assumption as long as price does remain under \$80 per barrel.

Like gold, any positive economic news would be bullish for Crude Oil; in the event that the idea takes hold that the global economy is poised to experience a 'double-dip' recession, then Crude Oil will fall perhaps sharply from these highs.

The Elliott Count remains unchanged, which calls for a decline lower in the price structure.

Weekly



Price rose up to the critical \$80 level, breaking it last week, and closing under it this week. We'll stay short crude as long as price is under \$80; neutral from \$80 - \$81; and would consider being long above \$81.50.

Until then, the structure hints that a down-swing is the more likely outcome for price, given that the 38.2% Fibonacci retracement rests at \$80.00 and the upper Bollinger Band (weekly) rests at \$79.85.

A negative momentum divergence has set in (like gold) with the recent 2009 price highs which serves as a non-confirmation.

Watch the 20 and 50 EMAs which are situated about the \$70 level for possible support... and any move under these levels could accelerate a down-move upon the break.

Upside targets on any move above \$81 include \$93 - the 50% Fibonacci retracement or the "round number" price of \$100.

Daily



We see the lengthy daily ascending triangle in Crude Oil, which shows a powerful confluence support zone at the \$75.00 per barrel level. Price also rests gently above the rising 20 day EMA at \$76.81. Any move under \$76 would target the \$74 support level so watch these as the immediate term targets in price.

Any move under \$73 would trigger a possible move down to \$70 and then \$65. Any eventual break of \$65 would trigger "open air" to \$60... and a move under \$60 - should that occur - would open the odds for a retest of \$47.50.

Again, the levels to watch for stops and targets and for positioning swing or position trades include \$81 (would be bullish above \$81) and \$74 (would be short under \$74 and especially short under \$70).

US Dollar Index (\$USD)

Monthly



No change in the monthly structure, other than October formed a doji on the monthly frame.

For clues on the dollar, we'll need to watch the lower frames.

Overhead resistance rests at \$80 and then \$82.50 via the 20 and 50 EMAs, as well as a prior support zone from late 2004 at \$80.

Weekly



The weekly doji at the lower Bollinger Band I described last week preceded this week's upward movement off of the lower support zone at \$75, also described from prior support in late 2007.

A positive momentum divergence has also formed underneath price, and we can count a complete - even fractal as seen on the daily chart - five-wave move down into the recent 2009 lows.

However, as I've been saying for the last few weeks, it's a battle between the "basic" technical analysis (in that "The Trend is Down") and the more advanced analysis (Elliott Wave, Momentum Divergences, Reversal Candles). The Trend is down, but no trend lasts forever. Advanced technicals can help forecast likely endings of trends, but that is more for advanced traders/investors.

Aggressive investors/traders can position long here in anticipation of a possible trend reversal with a stop under \$74/\$75 while more conservative traders can wait until overhead resistance - particularly at \$77 or \$78 - is broken to the upside before positioning long, in essence, waiting for "proof" of a trend change.

Daily



The Daily chart shows a completed 5-wave Elliott fractal move - with the final wave being sub-divided into its own 5-wave structure. For those not familiar with Elliott Wave, this would imply that the odds favor the end of this downtrend here (again, advanced technicals).

As long as price remains underneath the 50 day EMA, odds from the trend analysis favor lower prices.

However, any break and sustained move above \$77 and particularly above \$78 would send an early signal that odds favored that the down trend had reversed, and that we would be seeing higher prices ahead for the US Dollar Index... which would imply lower stock, gold, and oil prices ... and higher bond/note prices (lower yields).



This chart of the Euro Index just shows the inverse structure of the US Dollar Index.

The Euro is experiencing a lengthy negative momentum divergence and the opposite 5-wave fractal move into the highs.

A break under index value 146 would imply (early) that the trend has ended, though the up-trend remains valid as long as price is above 146.

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