



## ***Weekly Inter-market Technical Report***

### Summary Comments

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**Ten-Year Notes:** Notes still have an 'upward drift' bias to them, and a likely move back up to the \$121 level as the next likely play, particularly if minor resistance is cleared at \$119.50.

**S&P 500:** The S&P 500 - along with other US Equity Indexes - remain at critical overhead resistance levels on negative momentum and volume divergences. Classical charting techniques argue strongly in favor of a downward move here, but the CoT data and the changed landscape due to Bailouts and Economic Stimulus argue that that higher prices could come, particularly if the 1,121 price level is taken out to the upside.

**Gold:** Gold's monthly and weekly chart argue for a deeper retracement yet to come, but view the daily chart for the possible support bounce at the current \$1,100 level, which remains the key to the next swing in gold.

**Crude Oil:** Crude Oil has rallied up as expected into a critical overhead resistance level at \$76 and could be forming a bear flag. We should know next week how price resolves this set-up which - like gold's \$1,100 level - should clue us in as to what the next likely swing is in Crude - downside targets include \$70 and then \$65.

**US Dollar Index:** The US Dollar Index continues its strong rally as expected after a pervasive downtrend has been in place. Price has broken critical resistance levels and is shy of overhead price targets to the \$79/\$80 level.

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Remember, a DECLINING Dollar (Index) is BULLISH for Stocks and Commodities and is BEARISH for Bond Prices

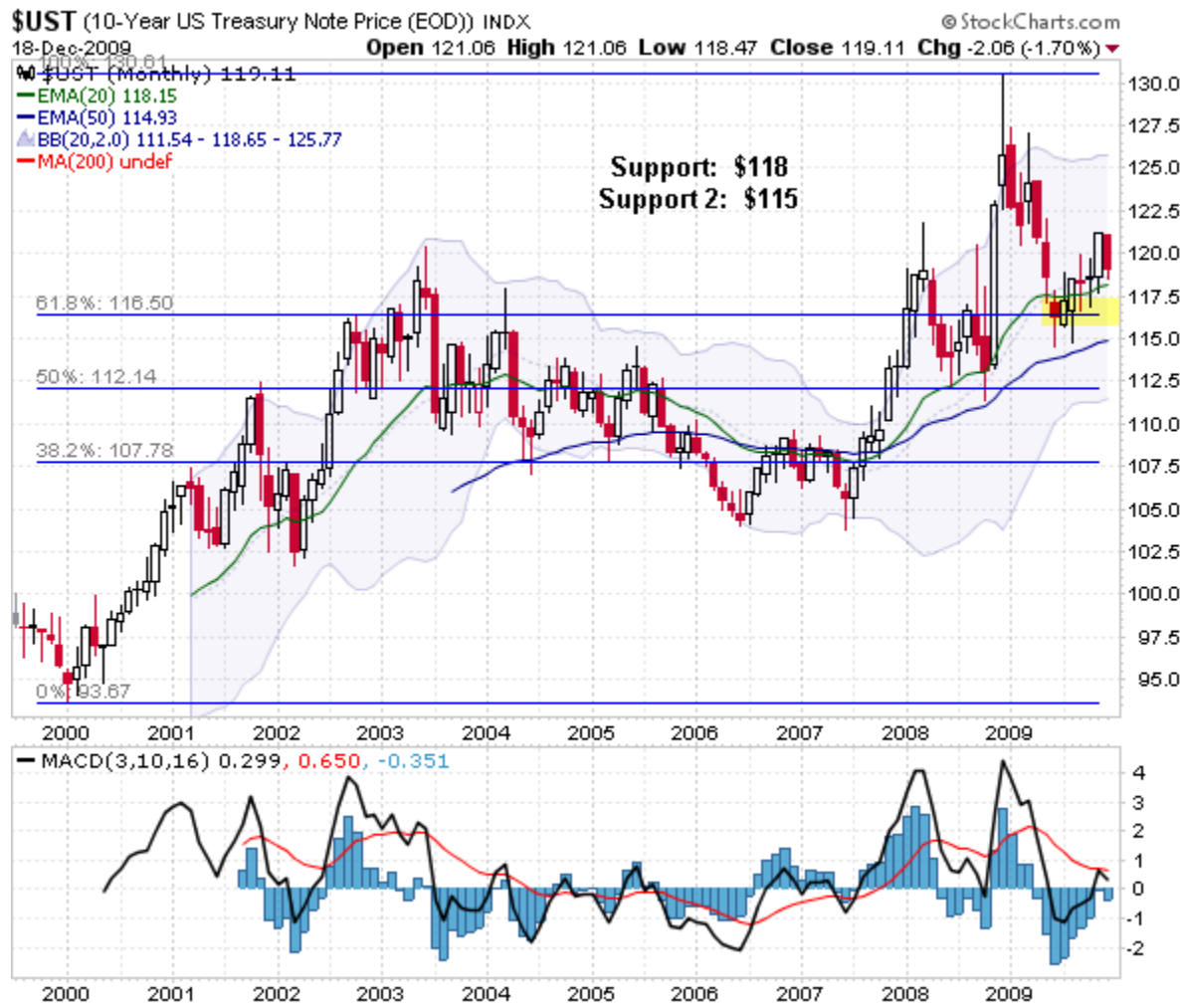
A RISING Dollar (Index) is BEARISH for Stocks and Commodities and is BULLISH for Bond Prices.

Yields generally follow in the direction of the stock market and are always inverse bond/note prices.

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

## Monthly



Structurally, 10-year Notes remain in an uptrend, with key support levels to watch including \$118.15 and - under that - \$116.50. Should price break \$116.50, watch \$115.00 for support.

The 20 month EMA has been providing recent support, so if this level fails to hold, then expect a move to lower support levels mentioned above.

Should stocks fall, bonds would be expected to rise, so that is why it is important to watch bond prices even if you do not trade them.

## Weekly



Looking closer, we can see that the \$117.13 level has provided critical support through the latter part of 2009 - continue watching that area.

For now, the convergence of the 20 and 50 week EMA resides almost exactly at \$118.80, so any move under this level would signal that odds shift to favor a retest of the \$117 support area... and any move under there will set-up a play to the \$114 area.

Price is technically in a short-term consolidation pattern, but until proven otherwise, the trend remains slightly bullish (higher highs and higher lows - see daily chart).

## Daily



Here we get a clearer picture of note prices, which remain in an upward sloping trendline channel, with upper boundary \$121.50 (upside target) and \$118.50 (prior support as highlighted in last week's report and the expected 'support' move occurred last week).

As such, watch these two levels for price to trade within them, and expect a range expansion move on any break above resistance or under support.

Odds favor a move up to the prior high and even perhaps beyond (to target \$121.50).

There is a horizontal trendline I've drawn at the \$119.75 level, so if price can rise above this level, then that would be the confirmation we need to expect a continuation move to higher levels (which would be bearish for stocks).

# US S&P 500 (\$SPX)

## Monthly



Price fell 2 points shy of testing the exact 50% Fibonacci retracement at 1,121.44. Until proven otherwise, classic charting techniques would expect a pullback or at least pause/retracement at this level. As such, it is imperative that you watch or trade around this level. Any move above 1,125 would likely lead to an immediate move up to 1,150, and then with price clear of the 1,150 level, odds would strongly favor higher prices to challenge the 1,200 or even 1,225 level - this range expansion move could occur quickly so be prepared to reposition. Otherwise, the negative volume and momentum divergence as price has retraced to the 50% Fibonacci level argues in favor of a move lower from here - at least in terms of a pullback or more if specific levels mentioned here are broken.

## Weekly



The weekly chart shows exactly the retracement up into the 50% Fibonacci line at 1,121 and the buyers' inability (so far) to push beyond this level. We also see the negative volume and momentum divergence that shows weakness/non-confirmation with the higher prices, but that does not mean a pullback is mandatory. That's why we watch these levels in advance to see which direction the supply/demand balance will break. Again, any move above 1,125 should lead to a range expansion move up to the 1,200/1,250 area while any down move from here would result in a minimum pullback to test the 1,00 level. A break under 1,000 would argue for possible pullback deeper to the 900 level.

It's impossible to predict in advance which direction price will break, and the stop-losses of the 'wrong' side of the market will help propel price to these targets mentioned here.

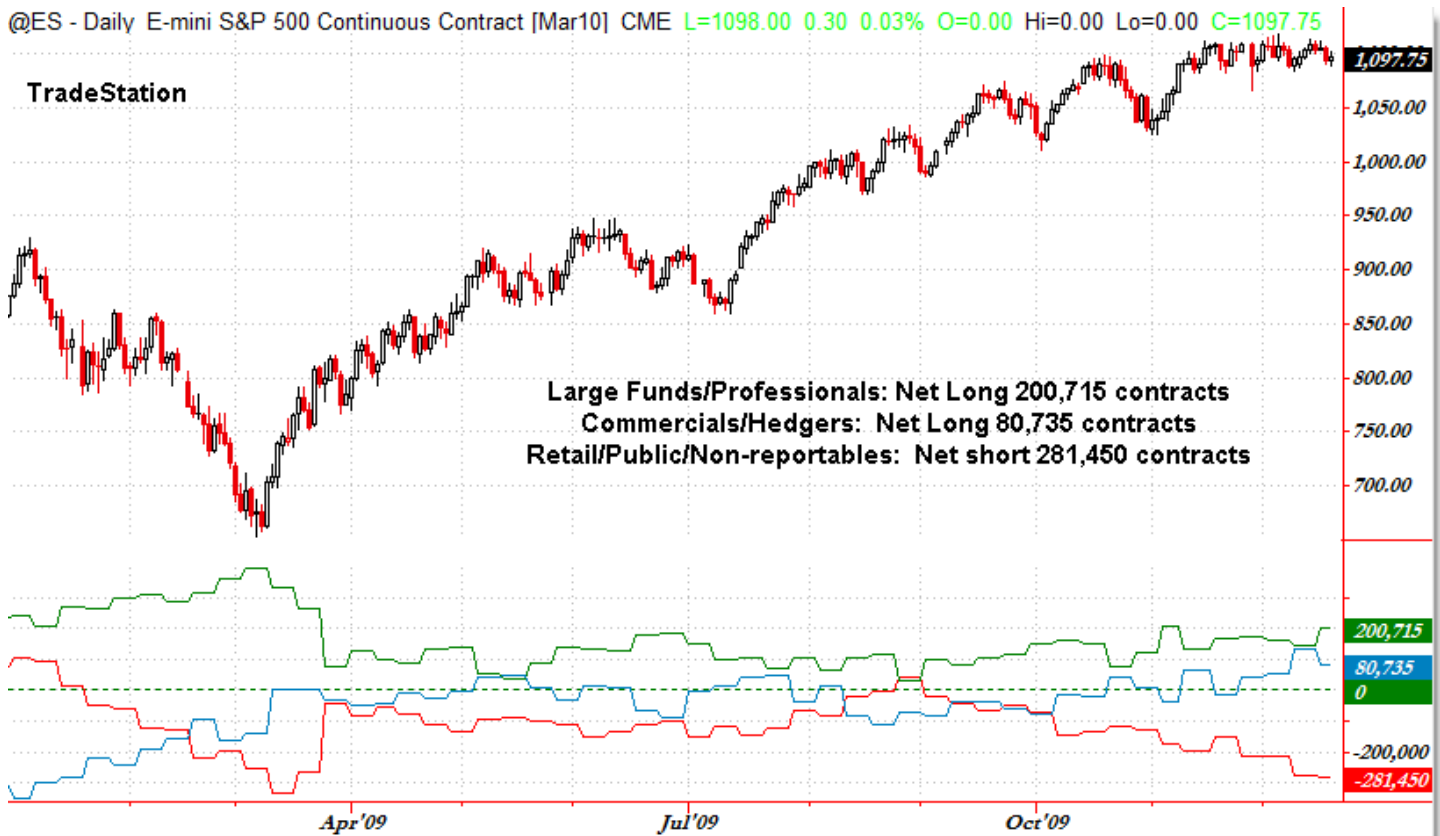
## Daily:



I'm adding a Fibonacci grid to the daily chart to show possible support levels to the downside, though the 1,020 level is the most logical confluence support zone (prior price lows and 38.2% Fibonacci). Any move under 1,000 would argue for a deeper than expected retracement, that could target 960 or even back to the 900 level.

Again, any move higher from here would cause sellers to stop-out (there is a large pocket of stop-losses... buy orders... above 1,125) which would be expected to propel prices up to 1,150 and even 1,200. **Do not get caught short-selling above 1,125 as price is rising.**

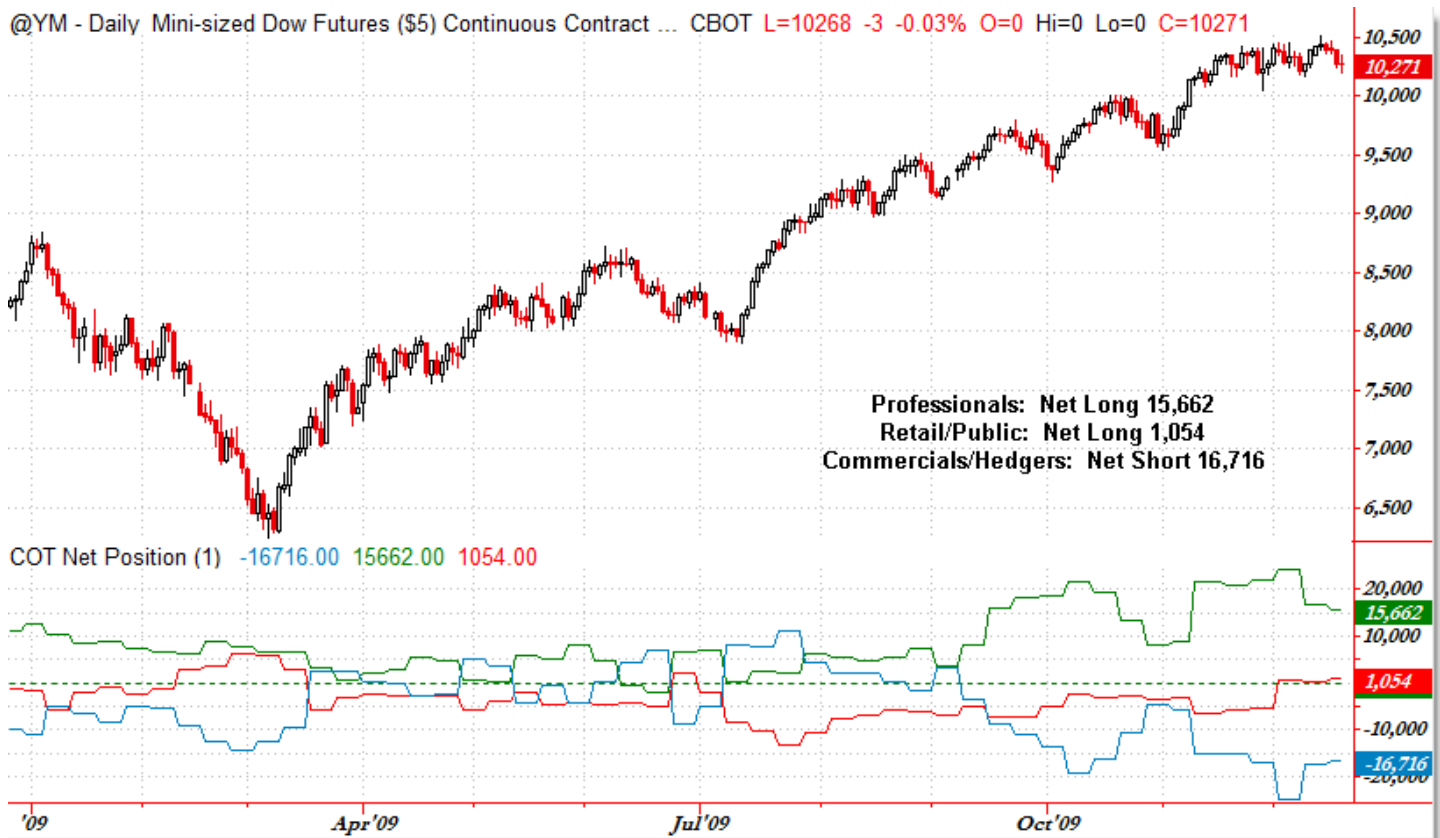
Otherwise, price remains in a trading range, and may be inside this 40 point range until 2010 begins as big funds are not willing to sell positions, as they want to record a large profit for their accounts as the 2009 year closes in late December. Late December is also a 'bullish bias' seasonality with reduced volume.



Like last week, the "Professionals" (funds with positions large enough to be required to report their outstanding contracts) are net long 200,000 @ES Futures contracts while the "Public" or those small enough that they are not required to report their positions remain net short 281,000 @ES futures contracts, according to the Commitment of Traders weekly data.

This would argue 'behind the scenes' for a bullish upside break. It argues that the "public" is expecting the resistance levels to hold, so they are short futures, while the professionals expect resistance to break, so they are net long.

Remember, markets/price are ruled by supply and demand - not charts. Charts are helpful in assessing supply and demand as well as giving us objective buy and sell points, targets, and stop-losses. Everything we do as investors and traders comes down to edge and probability - not perfect forecasting of the future.



The lesser traded Dow Jones 'mini futures' shows a similar but not as diverse difference.

Professionals hold 15,662 @YM contracts long while the retail public hold 1,054 net contracts long.

Commercials/Hedgers (blue) hold the brunt of the shorts and may be doing so to 'hedge' their long (buy) portfolio using futures contracts instead of options.

When analyzing COT data, it's often best to compare the Green Line (Professional Speculators) with the Red Line (what's left over, or commonly "retail" public with small accounts not required to report).

Rely less on the implications drawn from this chart than that of the @ES S&P mini contract.

# Gold

## Monthly



Gold prices continued their slide this week, and the monthly chart may give the best look into the future if the pattern I've highlighted here repeats.

View early 2006, early 2008, and now early(ish) 2010 - price rallied roughly \$300 almost straight up, surged outside the upper Bollinger Band, formed a long topping shadow, and then retraced downward to test the 20 month EMA (and in 2008, the 50 month EMA) as the next swing in price. If the pattern repeats, then this is the larger pathway for the price of gold over the next few months. This pattern would be broken with any move back over \$1,200.

Until that happens, the larger structure for gold seems to be hinting at a decline.

That's not to say gold will fall straight down without pauses, but that the larger trend argues for a corrective/pause phase. The larger term or long-term (Primary) trend for gold remains up as long as price remains above the 20 and 50 EMA.

## Weekly



Gold's weekly chart seems to be indicating odds favor a pullback to challenge the lower support levels of the 20 week EMA at \$1,062, and any move under \$1,060 would argue for a pullback to target the confluence support zone (critical support) at the \$1,000 level, from the 50 week EMA, 38.2% Fibonacci line, and prior resistance zone (as well as 'psychological' round number support).

Thus, \$1,000 becomes a target on any breaking of \$1,050. Any move under \$1,000 and especially \$950 threatens to change the intermediate term trend to down. The trend still remains up, and technically, the move down here would be a counter-trend retracement. That's not to say you can't profit from shorting as price falls, but that - as long as price remains above \$1,000, odds favor buying gold at support with tight stops under support levels to capitalize on the strong up-trend.

A move under \$1,000 could trigger additional selling, so you would want to wait until price began to rise back above \$1,000 for further buying strategies.

There is a critical test of the \$1,100 level, which should clue us in for what to expect for the next short-term move in gold. See the daily chart for details.

## Daily



I mentioned last week that the \$1,100 level was both an expected target and a critical support zone to watch. It will be important to trade the next move in gold. Price has odds of finding support here, or at least putting on a low-risk (tight stop) trade for swing traders, as the \$1,100 level is the 50 day EMA (actually \$1,110), 38.2% Fibonacci (\$1,098), and 'round number' support.

Price could rally as high as \$1,150, however, ANY move under \$1,100 would trigger stop-losses and would likely send gold down to the \$1,060 level quickly to test the 50% Fibonacci line along with prior price resistance from October. Any move under here would argue for a further pullback to test \$1,000 as mentioned in the weekly chart.

Thus, the clue to the next likely swing in gold - to \$1,150/\$1,175 if support holds or \$1,050/\$1,000 if support breaks is clearly the \$1,100 level.

# WTI Crude Oil (\$WTIC)

## Monthly



Crude Oil remains within the tight boundary of the \$80 overhead resistance level and \$70 confluence support level.

The monthly chart shows the range - being \$80 from the 38.2% Fibonacci (see weekly) and prior price resistance from mid-2006.

This is also the critical 'line in the sand' between whether to expect a 'new bull market' higher... or a resistance/retracement swing back down to test lower levels.

The Elliott Structure places this rally as a "B" Counter-wave move, so lower prices are expected.

The alternate count is for this to be a "1" rally up of a new bull market, which also would argue for a "2" wave down to the \$60 or even \$50 level, so both the primary and alternate counts are temporarily in alignment.

## Weekly



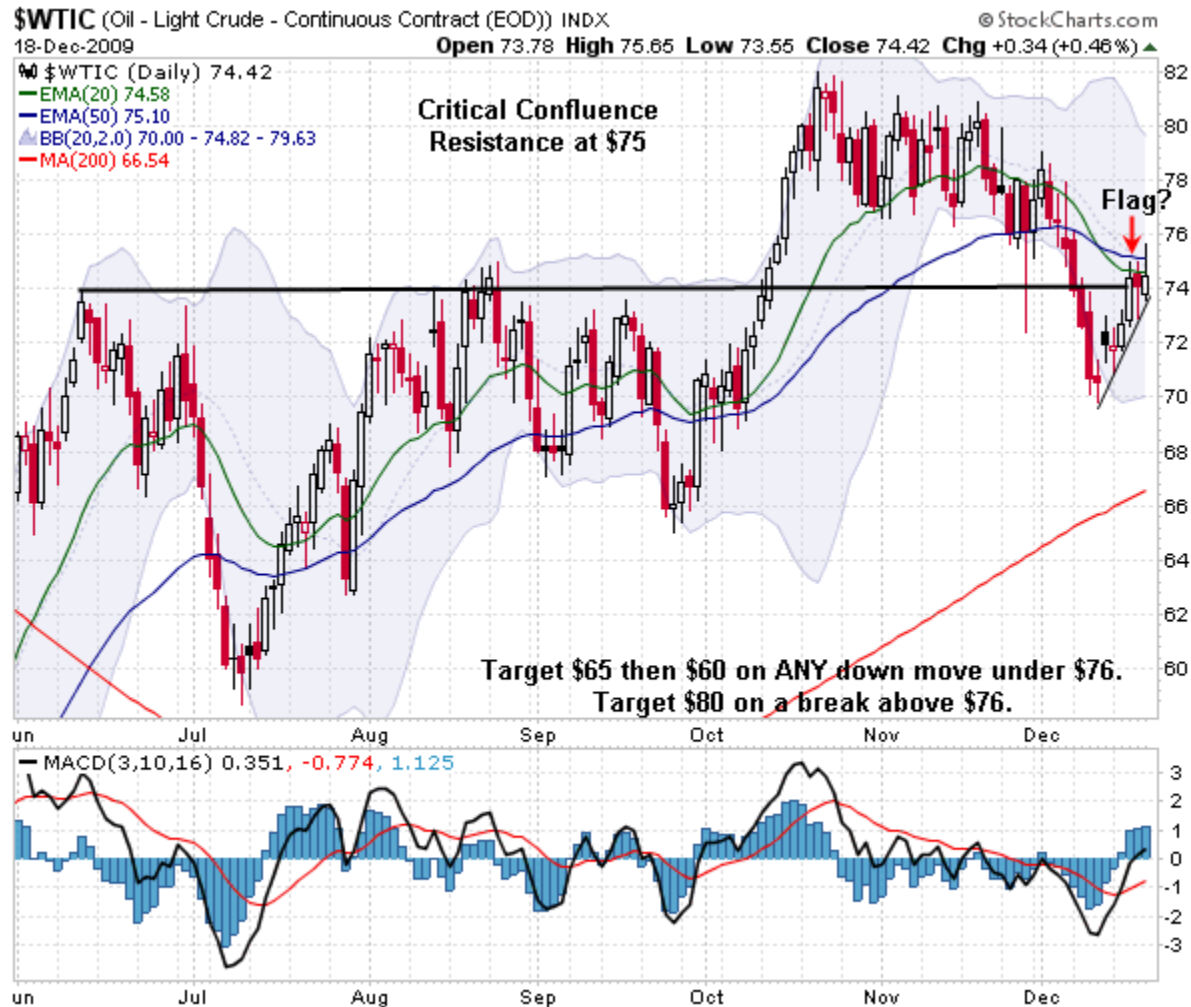
The 38.2% "Bear Market" Fibonacci retracement rests just under \$80 per barrel - and price has been forming multiple weeks of upper shadow 'dojis' at this level, which is a bearish sign and 'short-sale' signal.

Otherwise, both the monthly and weekly EMAs align at the \$70.00 level as confluence support, and that's exactly where price has been finding recent support.

As such, crude oil remains in a trading range ... with bearish overtones... between these levels. Watch for a break above \$80 to argue for a bullish play to the \$92 level, otherwise any break under \$70 should lead to a move to \$65 and \$60 at a minimum - see daily chart.

Price has also formed a negative momentum divergence on the weekly frame with the recent rally into October's new 2009 highs.

## Daily



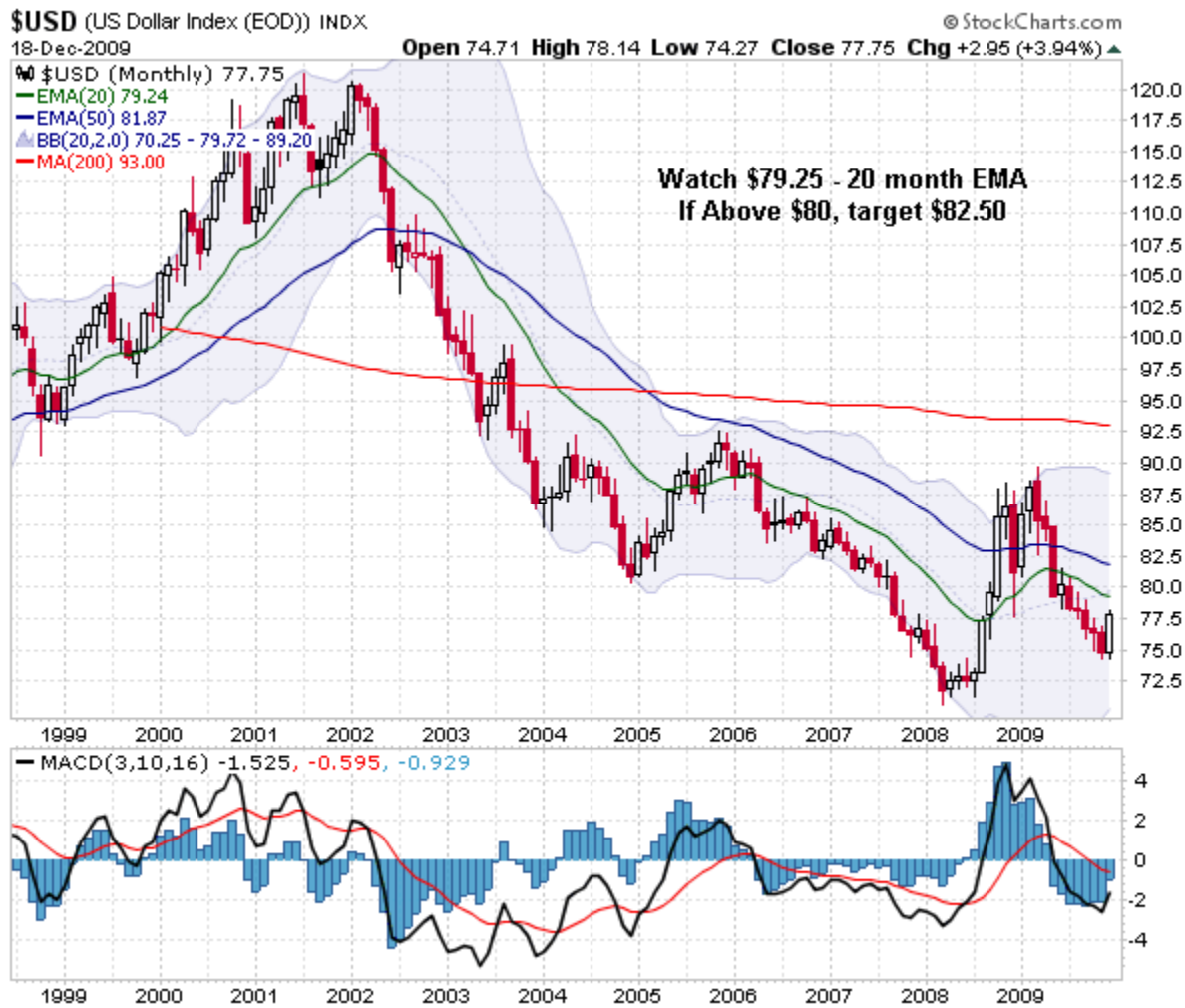
Last week, I wrote that we were likely to see a swing back up to the confluence EMA resistance level at \$75 and that is exactly what happened. Now that we are at that critical resistance level, the resolution here will give us a clearer signal as to what to expect next. If shorting, place stops above \$76 as in playing for a potential bear flag to form. Or, wait for a break under \$74 (lower trend channel) to get short to target a move back to the \$66 level.

Any move over \$76 will argue that the bear flag failed, and that a move to \$80 would be expected, though if we see ANY downside move from current levels, it would argue in favor of the bear flag and in favor of a short-term trend reversal down which could send price quickly back to \$65 or even deeper back to \$60.

Most likely, whichever direction the S&P 500 breaks, so will crude oil break in that direction.

# US Dollar Index (\$USD)

## Monthly



The monthly dollar index shows the recent month's powerful rally. Four percent may not seem like a lot, but it was a long-expected rally and could be the start of a much larger move... but let's not get ahead of ourselves yet. Let's play this move one swing at a time.

For now, watch for possible overhead resistance... and a price target... at the \$79.24 level. Any move above \$79.25 argues for a higher target of the \$82.00 level as seen on the monthly frame.

Technically, any rally in the dollar is a counter-trend move against the Primary Trend which is down... though again that does not mean you cannot make money on counter-rallies.

## Weekly



I have been arguing in these reports that odds strongly favored an up-move in the Dollar and I hope you have been profiting from this expected move. Or at least I hope you were not remaining short during this rally when odds strongly favored a rally to emerge at any point.

For now, the critical \$77 level has been broken, which - as mentioned - argues for a larger than normal retracement up.

Watch the \$79.00 (\$78.77) level for possible resistance from the 50 week EMA and upper Bollinger, and then beyond that, watch \$81.00.

Any move beyond \$81 would argue for a potential trend reversal (intermediate trend) in the making.

Otherwise, continue to watch/trade this upward movement play out as long-since hinted by the multi-month positive momentum divergence.

## Daily



The 'overdue' rally in the dollar is materializing, and breaking critical overhead resistance levels as forecast by the multi-month positive momentum divergence. I'm showing prior price highs that have been broken, including the 20 and 50 day EMAs which have now crossed "bullishly" and would be expected to hold as support on any down move into this level.

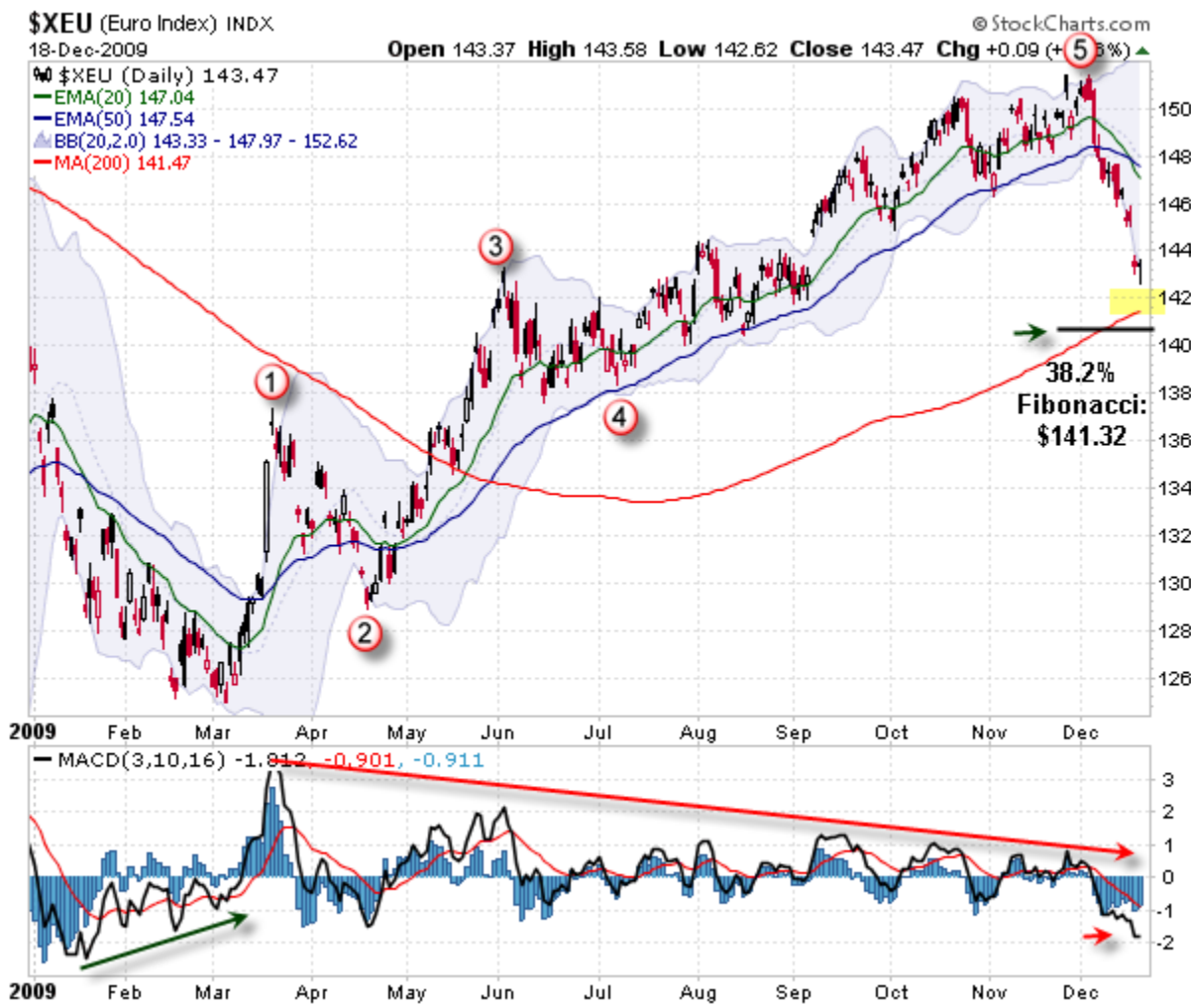
Price has also formed a new momentum high which further argues for higher prices yet to come.

Watch the \$79 level again (prior resistance) and then \$79.50 both as targets to play for, and possible overhead resistance levels - particularly if divergences start to form at these levels.



This is an updated long-term chart of the Dollar Index with the Elliott Wave count I have been using in these reports. This chart also shows the multi-month positive momentum divergence which began in March and argues for a stronger than normal retracement up, which we see occurring.

The 200 day SMA rests just under \$80, so we are seeing various confluence resistance points at the \$79/\$80 level. This could serve as a short-term resistance level for a pullback, though any move above \$80 would argue that we're seeing the start of a short to intermediate term trend reversal back up... which would have implications across all markets (bearish in general for stocks and commodities).



The Euro Index is negatively correlated with the US Dollar Index, and sometimes it's helpful to see a chart "in reverse" to make better sense of it.

We see the exact same structure - just in an up-trend instead of a downtrend - in the Euro.

The \$141 level seems to be a good target to expect a possible retracement back up to challenge the "Cradle" crossover of the 20 and 50 day EMA at the \$147 level.

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