



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

### Summary Comments

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**Ten-Year Notes:** Notes have gained a generally bullish undercurrent, though prices still remain in a lengthy trading range with clear levels to watch for a breakout.

**S&P 500:** No major change in the S&P 500, other than the negative volume, breadth, and momentum divergences have become more pronounced. The 1,121 level is going to be critical to watch to determine a future bullish or bearish bias... but until that level is broken, odds favor bullish caution and bearish aggression.

**Gold:** Gold continues on its arc movement and range expansion to the upside from prior-discussed patterns. Watch the current moves closely, as price is grossly overextended, and look for current upward targets and lower support levels.

**Crude Oil:** Crude Oil has been very volatile over the last few weeks, as the struggle between buyers and sellers intensifies. The \$81 and \$80 levels are key to watch in determining bull or bear biases, though there are plenty of lower-frame support zones to watch (or play for as targets on any down move from here).

**US Dollar Index:** No major change on the Dollar Index - the \$75 level remains key to watch as the simple trend technicals argue for lower prices while the more complex technicals still argue for a reversal... the simple technicals continue to win out it seems.

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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.

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

## Monthly



Ten Year note prices remain on a bullish price and moving average structural bias as seen on the monthly chart, but remain locked in a trading range on the lower frames.

Focusing on the monthly chart as a guide, we see the 20 month EMA resting at the \$117.80 level and price has closed above this level for the past three months so continue to watch it closely for any upwards movement from here... or a breakdown of these levels.

Price continues to form higher highs and higher lows, and again the EMA structure (orientation) is bullish/positive so that tips the odds slightly in favor of higher prices yet to come unless we start seeing support breakdowns on the lower frames.

The 50 EMA resides at the \$115 level, and has provided prior support at the end of 2008 and also in mid-2009 so watch this level should price break beneath the rising 20 month EMA at any time.

## Weekly

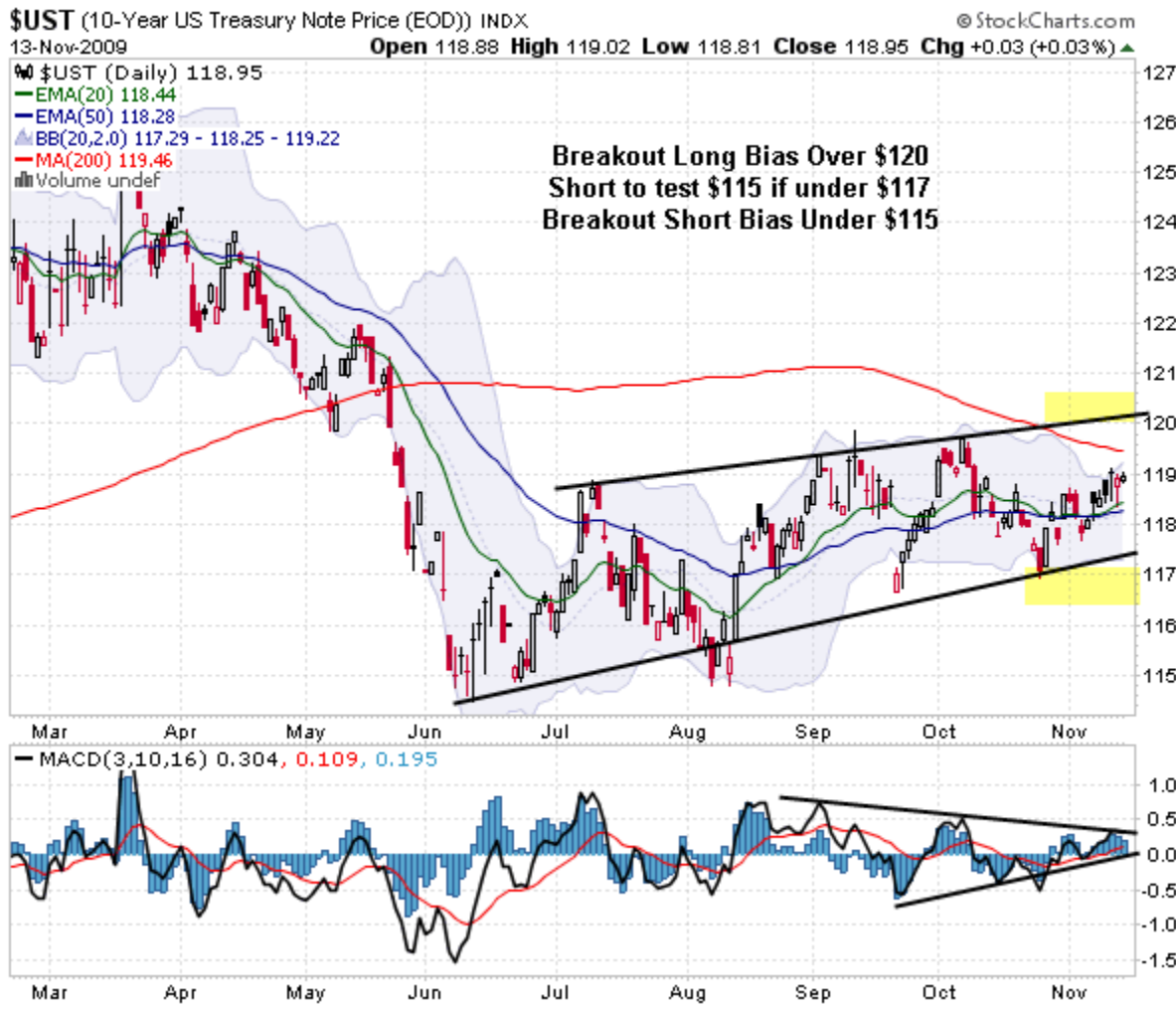


As we drop to the weekly frame, we see the price compression taking place in price - specifically between the \$120 level and the \$114.50 level - which happens to coincide with the dominant Fibonacci grid from the 2007 lows to the 2008 highs.

The upper Bollinger Band also comes in at the \$120 price level. To make matters even more compressed, the last few months have seen price close above the 50% Fibonacci retracement - which is bullish - but it's as if price is hanging off a cliff at these levels.

On any breakdown from \$117.50, there would be a short-term tradeable opportunity to play for a retest of the \$114 support area, but for now, odds seem to be hinting at higher prices - at least to the \$120 level which would call for an important test of buying pressure.

## Daily



Note prices remain 'trapped' within a dominant rising trendline as shown above - with lower boundaries about the \$117.50 area and upper boundaries near \$120.

The momentum oscillator is 'compressing' as shown by the converging trendlines, so we could be setting up for a possible range expansion move.

It would make sense that if the Stock Market found resistance at the 1,100 area and began to turn lower, or accelerate to the downside, the bond prices in general would rise as a result (along with a strengthening Dollar Index).

In an interesting non-confirmation, with the new 2009 price highs in the Stock Market, we are NOT seeing new lows in the Bond market.

In general, in our current environment, bonds and stocks are inversely correlated (along with commodities). So, strength in stocks from here (breaking above resistance) would argue for lower bond/note prices; while a turndown in equities should argue for further upside - even an upside price breakout - in bond prices.



While you can't necessarily trade a Bond/Note index (except with futures), there are ETFs that allow for direct investment/trading - such as the IEF, which closely tracks the 10-Year Note prices that I show in these reports.

We see the same structures developing on the weekly chart, though the specific price areas to watch are the \$90 level for expected support, above \$92 for a confirmed bullish breakout, and beneath \$90 for a 'play' (trade) down to test prior support at the \$87 level. A move under \$87 - which would likely coincide with rising equity prices - would argue for a trend reversal down in bond/note ETFs/prices.

# US S&P 500 (\$SPX)

## Monthly



The S&P 500 remains at a critical 'testing ground' that will help determine whether to expect even more higher prices from here, or to find a pause or retracement at best and reversal at worst developing from overhead confluence levels.

I've been highlighting the 1,121 area as the 50% Fibonacci Retracement - many eyes are on this level so any bullish move above 1,121 would be seen as a major breakthrough... but we're not there yet, and until prices rise above this level, the dominant technical expectation is - again - for a retracement down at best and a trend reversal back to the downside at worst.

Coinciding with the 50% level, a descending trendline originating from the 2007 highs comes in just above 1,100 (better seen on the weekly charts).

Aggressive traders would be entering short-sale positions here (if not already) while conservative traders might wisely wait for a breakdown of lower timeframe moving averages - especially under 1,000 - before getting aggressively short or out of the market in anticipation of a retracement move from here.

## Weekly

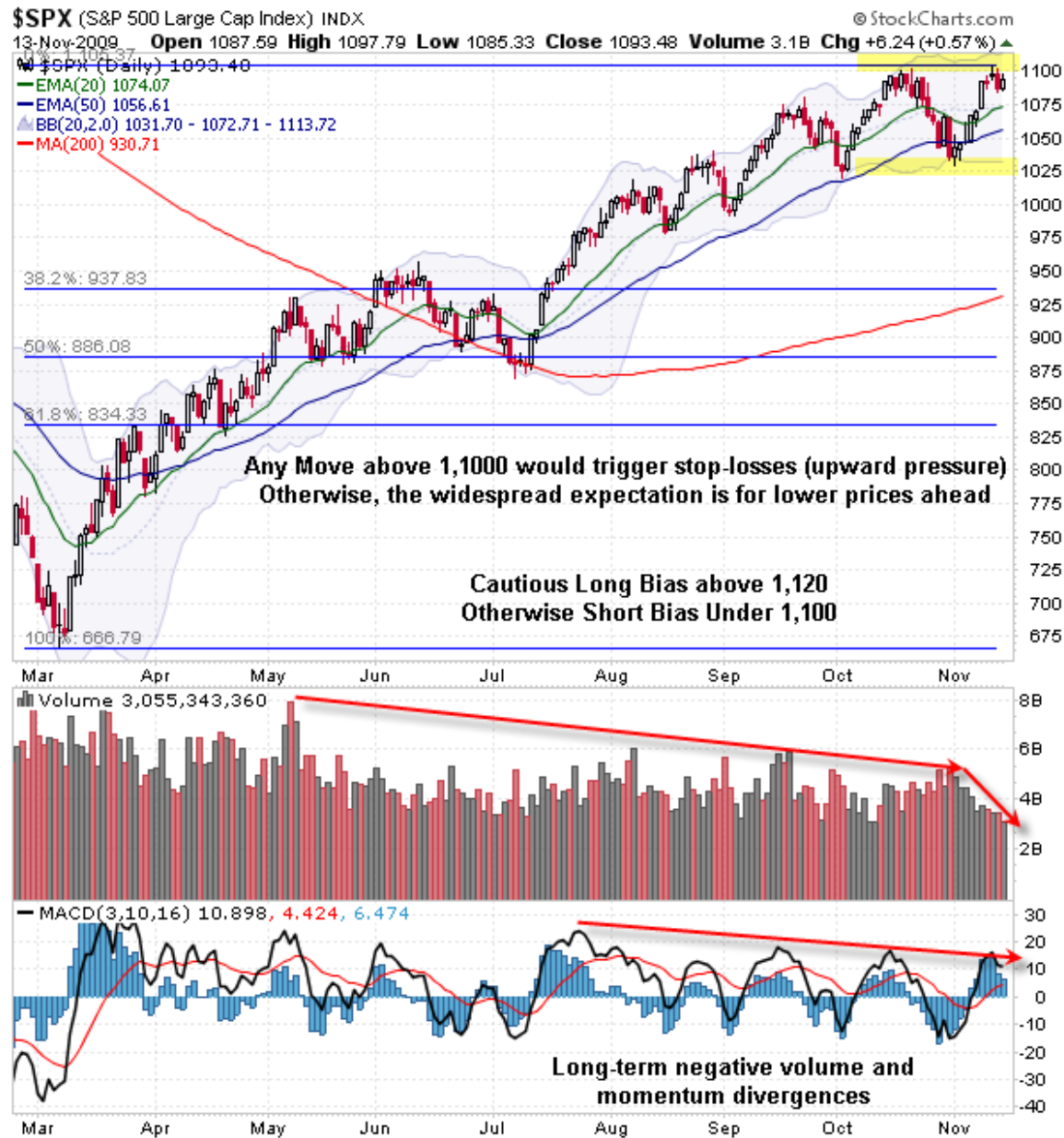


If it were as easy as saying "Price has hit a confluence resistance level on declining volume and a negative momentum divergence and will thus begin to fall from here," then we would all be rich. However, investing and trading are dependent upon supply and demand patterns in the market, along with odds and probabilities based on historical outcomes extrapolated into the future (present).

As long as price remains under 1,100 and especially 1,121 - the charting odds are overwhelmingly in favor of a down move from here - particularly in coming with the lengthy negative volume and breadth divergences I've been mentioning which get more extended with each new high in price. Though a price decline is by no means guaranteed, holding long

here to capture the last few points of a rally is a very risky proposition. If you are long-biased, it might be a good idea to collect profits here and then see whether buyers or sellers wins the epic "Battle of 1,100" in the S&P 500. A move solidly above 1,150 would mean that sellers/bears were defeated and would clear the way for higher prices into the end of the year. Until that happens, the technical odds and structure seem to favor taking a neutral stance here at best and a bearish stance if aggressive. Any breakdown of 1,100 would tip the odds overwhelmingly to the sellers.

## Daily:



This chart shows the entirety of the rally off the March 2009 lows which has been very impressive from a pure price and trend standpoint. The 1,100 level reflects a critical level for buyers to overcome with price in an already extended state. It won't be impossible to overcome - especially with unprecedented government stimulus helping to boost a faltering economy (bailouts, tax credits, homebuyer incentives, 'cash for clunkers,' etc).

Do watch the 1,121 level as a critical turning point between bull (above) and bear (underneath).

The anemic volume on the recent rally into new highs argues overwhelmingly in favor of a pullback in prices, as it serves as a non-confirmation. In addition to the negative volume divergence in the month of November, we have a longer-term negative volume divergence since May (aggregate volume) which is a 'rot' underneath the otherwise strong-looking rally. I would recommend avoiding aggressive long positions unless buyers can push price above 1,150 and to watch the 1,025 area and especially the 1,000 area - possible support zones - as a trend reversal confirmation if price breaks under these levels.



A quick look specifically at volume and breadth (McClellan Breadth Oscillator) - both of which are showing non-confirmations and negative divergences under price.



Commitment of Traders Report Chart overlaid with @ES S&P 500 Futures.

Traditional analysis of "COT" Data looks at the 'professionals' (those with large enough size to be required to report their activity) and the 'general public' which is not required to report their positions each week - and is the difference between total contracts outstanding minus professionals and commercial (hedgers). I'm not showing the 'commercials' in the above chart - just "reportables" (pros) and non-reportables (the public).

Main idea - the Pros (green) were net short at the top (their line was under zero) and net long at the exact bottom (surprise) and now remain net long while the public remains net short.

Under objective analysis, this would/could **argue for higher equity prices**, as the 'take-away' is that the professionals are net long while the 'public' still is short - and have been net short since early 2009. In fact, the public have been 'ramping up' their short positions since early September while professionals have remained steadily net long.

# Gold

## Monthly



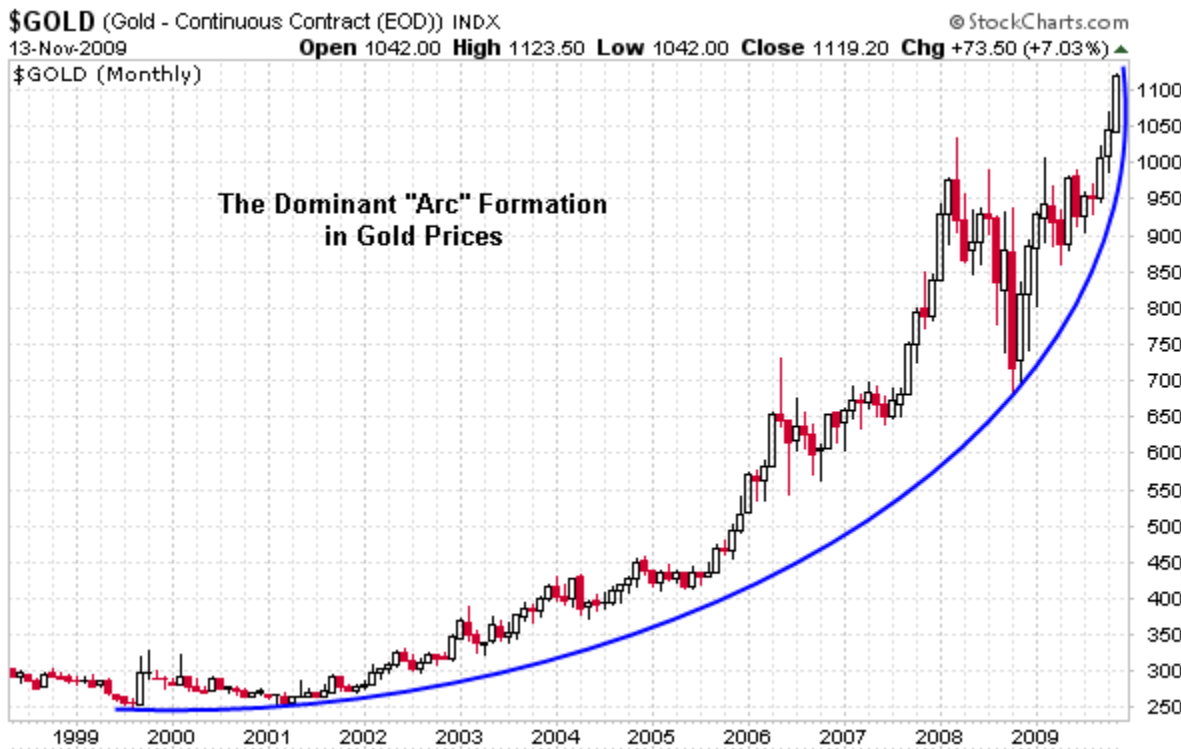
One consequence of virtually unrestrained government spending, bailouts, and 'quantitative easing' is the threat of inflation as a result... and that is showing up with higher gold prices and a continuously falling US Dollar Index.

The last 2 1/2 months have seen relentless monthly increases in gold, moving up \$150 (15%) from \$950 to \$1,100 in less than three months - November is showing a 7% gain with half the month complete.

Gold had consolidated and broken upwards from a compression triangle and - arguably - an inverse head and shoulders and we are seeing the 'range expansion' move as a result of those technical breakouts - particularly as the \$1,000 per ounce level was broken (those short gold were forced to cover as new buyers entered the market eagerly).

Speaking from a chart purism perspective, this is perhaps the most bullish price structure - in terms of higher highs and higher lows - along with the positive EMA structure (orientation).

Two words of caution on the monthly frame - price is well-extended above the upper Bollinger Band on a negative momentum divergence. Look back to mid-2006 and early 2008 to see the last two strong spikes above the upper Bollinger Band and the subsequent 'snap-back' decline in prices as a result.



A visual look at the 'arc' formation in gold prices and how price growth has respected this logarithmic growth... which is reaching a potential apex.



Gold is showing both a 'long term' (monthly) and 'short term' (daily) arc.

## Weekly



I'm revisiting the patterns as have been described in many prior reports.

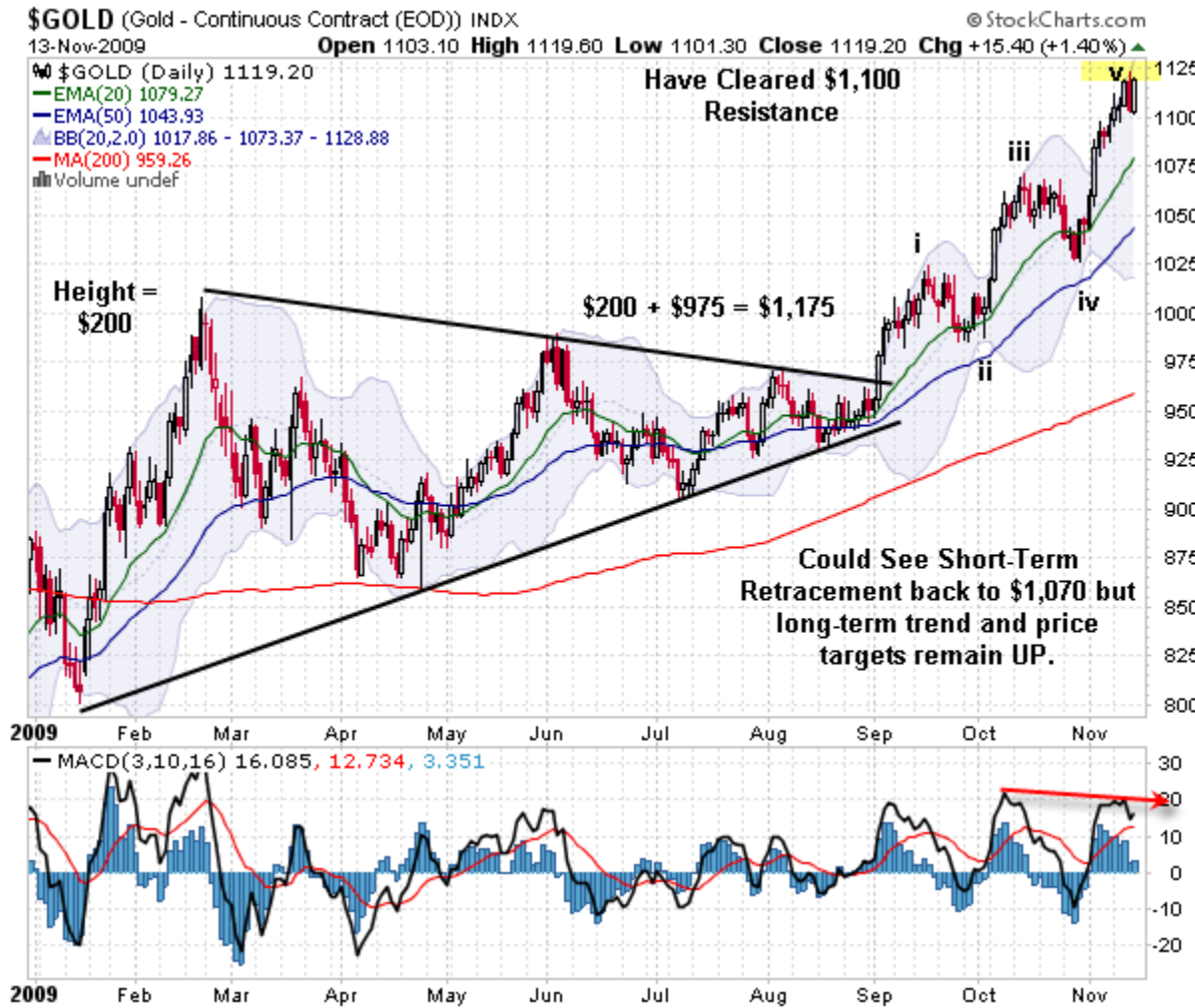
The Inverse Head and Shoulders launches a price target to the \$1,275 - \$1,300 range while the shorter-term triangle (see daily chart) targets the \$1,175 - \$1,200 level.

These will be expected resistance/targets for price.

As another caveat - the same as on the monthly chart - price is overextended above the upper Bollinger (which can continue for weeks - as seen in the late 2007 run-up in price as well as early 2008) - but it's doing so on a slight negative momentum divergence which is a cause for caution.

Markets in breakout modes can continue further than people expect due to the 'positive feedback' environments, so continue watching gold closely. Strength in the stock market would generally be bullish for gold while weakness in stocks could have a dampening effect on gold prices.

## Daily



Another word of potential caution - gold has formed a short-term 5-wave fractal move upwards from the previously mentioned triangle formation. That's not cause to panic, but it is cause to watch prices a little closer and to trail stops up tighter in the event of a short-term retracement from current prices (especially given that a slight negative momentum divergence has also set-in as price has arched above the upper Bollinger Band).

While the long-term trend for gold remains solidly up, that does not mean that every day or every month will be positive - and that the best places to enter long are on pullbacks to support... in other words, this would be a time for potential caution rather than rampant bullishness at these overextended conditions.

Finally, I reiterate the "Triangle" price projection target to \$1,175 (only \$50 away) which I have been highlighting in many prior reports) and show the logic/math behind the pattern as defined above.

# WTI Crude Oil (\$WTIC)

## Monthly



No change in the structure of Crude Oil, which appears to be forming a consolidation/pausing pattern at recent highs.

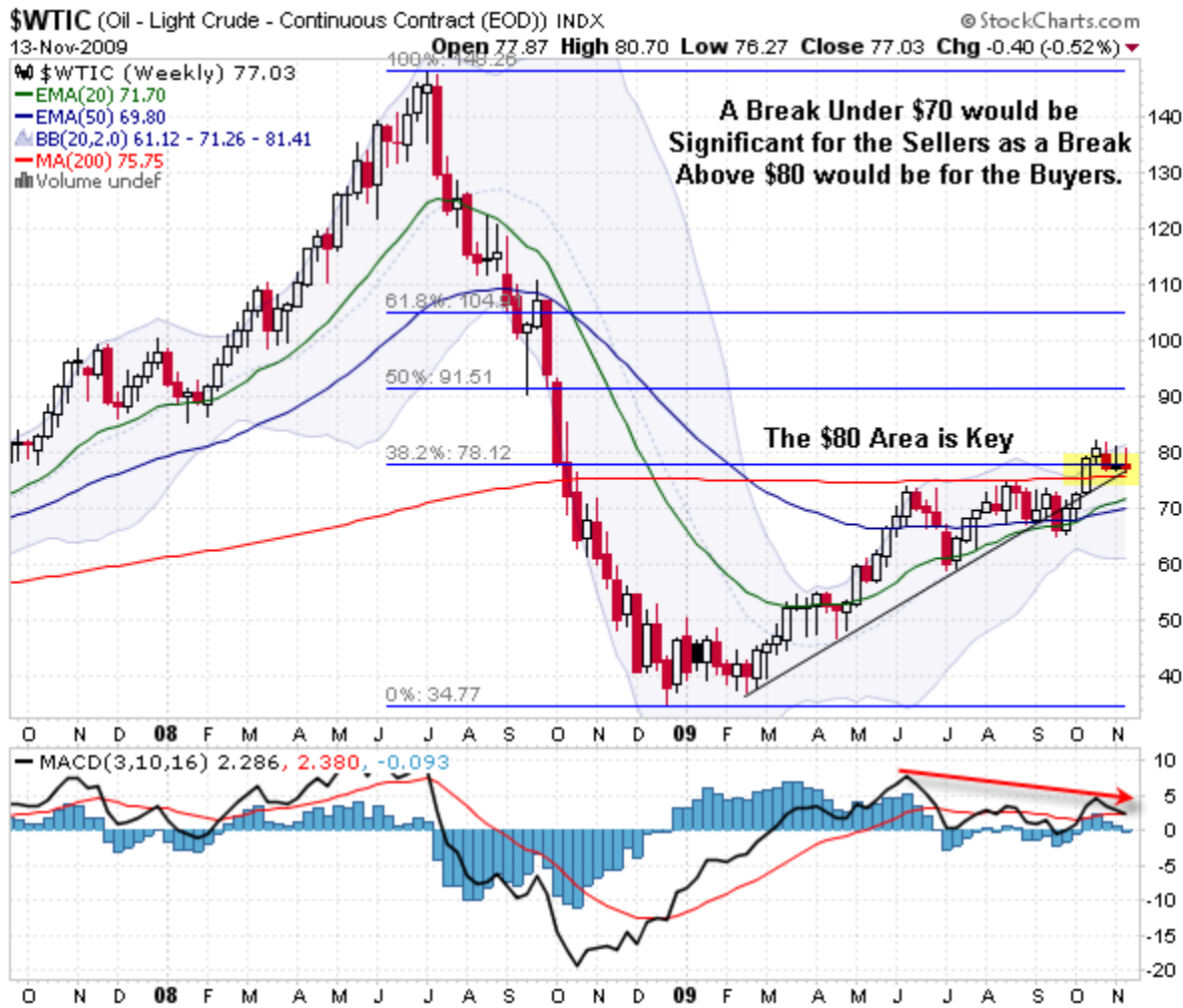
Last month's surge above EMA resistance (after three months of dojis) was a powerful force that overtook expected resistance - and the stop-losses from sellers/bears at that level helped contribute to higher prices.

Whether or not that was just a short-squeeze before a decline, or the start of a much more powerful breakout is yet to be determined, and for now, as long as price remains under \$80, the structure is more muted than bullish.

Any move above \$80 would dispel most bearish interpretations and argue for higher prices to the \$90 at least.

For now, there are various support levels underneath price to watch.

## Weekly



We see why the \$80 area is key. The 38.2% "spike high to spike low" retracement resides at \$78.12 (which could act as support now that it is broken - a move above \$80 and \$81 would confirm this as being the case, and give us a price target of \$91.50 to play for - the 50% Fibonacci level).

I'm also showing a long-term trendline beginning in February (see daily chart for closer view) which could also be support, along with the 200 week SMA at \$75.75. All of these levels are converging near the \$75 level - so ANY move underneath \$75 would argue for a short-term move back down to \$70 at a minimum, and any move beneath \$70 would argue for a retest of the \$65 price support and then \$60 level as potential intermediate term targets.

A negative momentum divergence has formed under the recent price highs as a non-confirmation.

The last two weeks have formed indecision dojis - and the price of Crude Oil has been VERY volatile the last few weeks - swinging as much as 5% in single days, highlighting the extreme indecision of future prices and the 'battle' between buyers and sellers.

Any further recovery in stocks and the economy would lead to higher crude oil prices... but a reversal down in the stock market or news that "the economy isn't as sound as we believe it is" will send crude oil to lower support levels.

## Daily



The daily chart shows a longer-term and shorter term trendline.

Price broke the long-term trendline Friday - so watch for a short-term move back to test the \$75 level. A move under \$73 - the short-term trendline - would send price careening to test lower levels including \$70 and \$65 for the next likely support zone.

Buyers need to get price back above \$78 and especially \$80, as buyers have now 'lost' the support of the 20 day EMA at \$78.00.

Short-term, watch the daily chart for clues as to the near-term future of crude oil prices, but again, you could just as easily watch the stock market (positive correlation) and the US Dollar Index (negative correlation).



A zoomed-in chart of daily prices showing 'broken' support at the \$78 level which was a defeat for buyers.

Any move under \$74 would argue for a deeper than normal retracement, but until then, the trend structure is still up - higher highs and higher lows and a bullish EMA structure.

# US Dollar Index (\$USD)

## Monthly



The US Dollar Index has been a victim of "quantitative easing" and "easy money" (so far successful) policies designed to prop up markets and the economy. As I've been saying in these reports - it's a battle between the simple "technical" (as in "The trend and moving averages are down") and more complex ways to look at the market (positive divergences, Elliott Wave, etc) which are bearish.

The next target for the US Dollar Index is a return to early 2008 levels of \$71 if the trend continues.

Lower timeframe charts hint at the possibility of a reversal at the \$75 level... but these so far have failed to produce more than a minimum retracement to the 50 day EMA... which was quickly met with more selling.

A weak dollar index is bullish for stocks and commodities (and bearish for bonds).

A reversal in trend would reverse all markets - stocks would fall, crude oil would fall, gold would likely fall, and the bond market would rally. That's why it's important to pay close attention to the Dollar Index even if you don't use futures, FOREX, or any of the ETFs (like UUP) to trade it.

## Weekly



Four weeks ago, the Dollar Index gave a very powerful buy signal - a doji at the lower Bollinger Band on a positive momentum divergence on a 5-wave Elliott pattern starting with the March 2009 highs.

Price rallied quickly and strongly from \$75 to \$77... and then fell to another low.

Despite this, price made a lower low this week and broke the \$75 level intra-week (though we're above it currently).

Price has formed yet another doji-like (hammer-like) candle at the lower Bollinger Band on an even greater positive momentum divergence on an even more extended wave count.

I would suggest this is one of the last chances buyers have to push the index higher as the battle between simple charting (trend and moving averages) and complex charting continues. We can't ignore these more 'complex' technicals arguing in favor of some type of retracement back up, but at the same time, as long as price remains under the daily EMAs (and even weekly EMAs), then we must conclude that simple odds favor lower prices.

The \$75 level is key to anticipate a possible 'bottom' and to visualize a reversal up, but any move under \$75 lets us believe that the price could make its way back down to \$71.

As long as the government continues to flood the markets with a loose money policy, the Dollar Index will decline.

## Daily



No change in the Wave count, or in the momentum oscillator - both of which argue conclusively in favor of a 'bottom' at the \$75 level.

Against that backdrop of bullishness is a strong wall of bearishness - coming from the descending 20 and 50 day EMA - which have been effective in thwarting any buying pressure in the US Dollar Index. Simple divergences argue for price retracements back to EMAs. It is up to buyers to overcome the selling pressure (sell signals) that occur at these EMA target prices - and so far the sellers have repelled very single attempt to rise above these levels.

Remember that the downtrend cannot go down forever, and that eventually price will have to reverse (or jokingly if the Dollar Index does go to zero, we'll have more to worry about than the stock market). However, calling the exact bottom can lead to losses, though aggressive traders (who enter long at lows) can profit from doing so.

My stance is to wait for confirmation of a move solidly above the 50 day EMA - currently at \$76.30 - or more appropriately a move above \$77 - to start re-positioning and calling for a reversal in trend. This is more akin to technical purism (waiting for the "Weight of the Evidence" to change - as Martin Pring describes it) and safety in investing - or waiting for objective confirmations.

Remember, should the Dollar Index reverse and rise from here, then stocks and commodities would generally fall.

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