



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

### Summary Comments

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**Ten-Year Notes:** No major change in notes, as they bounced slightly higher as expected off the \$115.50 key support level. Any move under \$115.00 should lead to further downside action, so watch that level closely.

**S&P 500:** Stocks continued to new recovery highs with upper resistance targets at 1,200 (round number) and more importantly 1,225. Pay special attention to the massive divergences that have developed.

**Gold:** Gold "busted" a sell-signal and thus rallied sharply higher as a result, so watch \$1,150 for a continuation buy signal to target \$1,225 at a minimum if not higher. \$1,100 and \$1,080 are key supports.

**Crude Oil:** The BIG news this week came from the sharp rally in Crude Oil, also busting the Head and Shoulders and "Rounded Arc" pattern as shown on the daily chart. Any break above \$85 (solidly) targets \$92.50.

**US Dollar Index:** The dollar continues to challenge the \$82.00 level as critical resistance, so pay very close attention to this level. The dollar declined last week into support, so watch what happens at the key support levels mentioned. The dollar will fall if oil and gold (and stocks) continue their march to new recovery highs... and vice versa.

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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



After last week's sharp decline, 10-year note prices remained above the critical \$115.00 support area as shown.

The main thing to know about bonds here is that \$115.00 reflects key support, and should the economy continue to show signs of recovery, interest rates will likely continue to rise, driving bond prices lower. A break under \$115.00 would be a key technical signal to rotate from bonds to stocks for most investors, but until that happens, price remains within the trading range as shown on lower frames.

## Weekly



The weekly chart clarifies the descending triangle formation that appears to be the dominant pattern, with overhead resistance at \$118.00 and lower channel support at the \$115.00 level as mentioned earlier (50 month EMA).

A descending triangle is usually bearish and the expectation is for a break to the downside, but it often helps to take a more 'neutral' approach until one of the dominant trendlines are broken.

To play devil's advocate, an upside break above \$118.00 would correspond with a sharp decline in stocks and commodities (and rally in the dollar), but that is the lesser probability outcome.

The prevailing wisdom is that bond prices will continue to fall as yields continue to rise as the economy continues to show signs of improvement, taking away the 'safety play' from bonds.

## Daily



The shorter-term pattern I highlighted in the last two weeks has been the symmetrical triangle as shown above, which broke sharply to the downside last week into the critical support at the \$115.50 level, and as expected, we had a short-term bounce/rally in prices last week.

Now, we stand at \$116.00 with overhead resistance on the daily chart at \$117.00 and at \$118 on the weekly chart (both having to do with moving averages).

Again, any downside break of \$115.00 is a short for those so inclined, and would be a firm exit and rotate signal for most investors.

# US S&P 500 (\$SPX)

## Monthly



As I've been highlighting in prior reports, any break above 1,150 puts price in "Open Air" which means that there is no dominant resistance (save for the 'hidden' level at 1,175 and 'round number' resistance at 1,200) until the next confluence at 1,225 (seen on weekly frame).

On the monthly chart, we see no dominant resistance in terms of moving averages or prior support areas, though 1,200 is a logical target and beyond that is of course 1,225.

Volume rose relatively last month after forming diverging patterns through 2009. The monthly chart shows an 'all clear.'

## Weekly



As mentioned before, the thing to keep in mind here is the upper target of 1,225, which is the next logical confluence resistance target that the market is expected to gravitate towards unless anything majorly unexpected occurs, so that will be the dominant expectation, particularly if price can clear the 'round number' resistance at 1,200.

As you can see from the chart, volume has been declining in each of the last four weeks where price has scraped its way to a new high - which would serve as a 'non-confirmation' under most circumstances, but the market has continued to rally on negative divergences, rendering them less important in the analysis of the charts. The market continues in a "rally at any cost" mode.

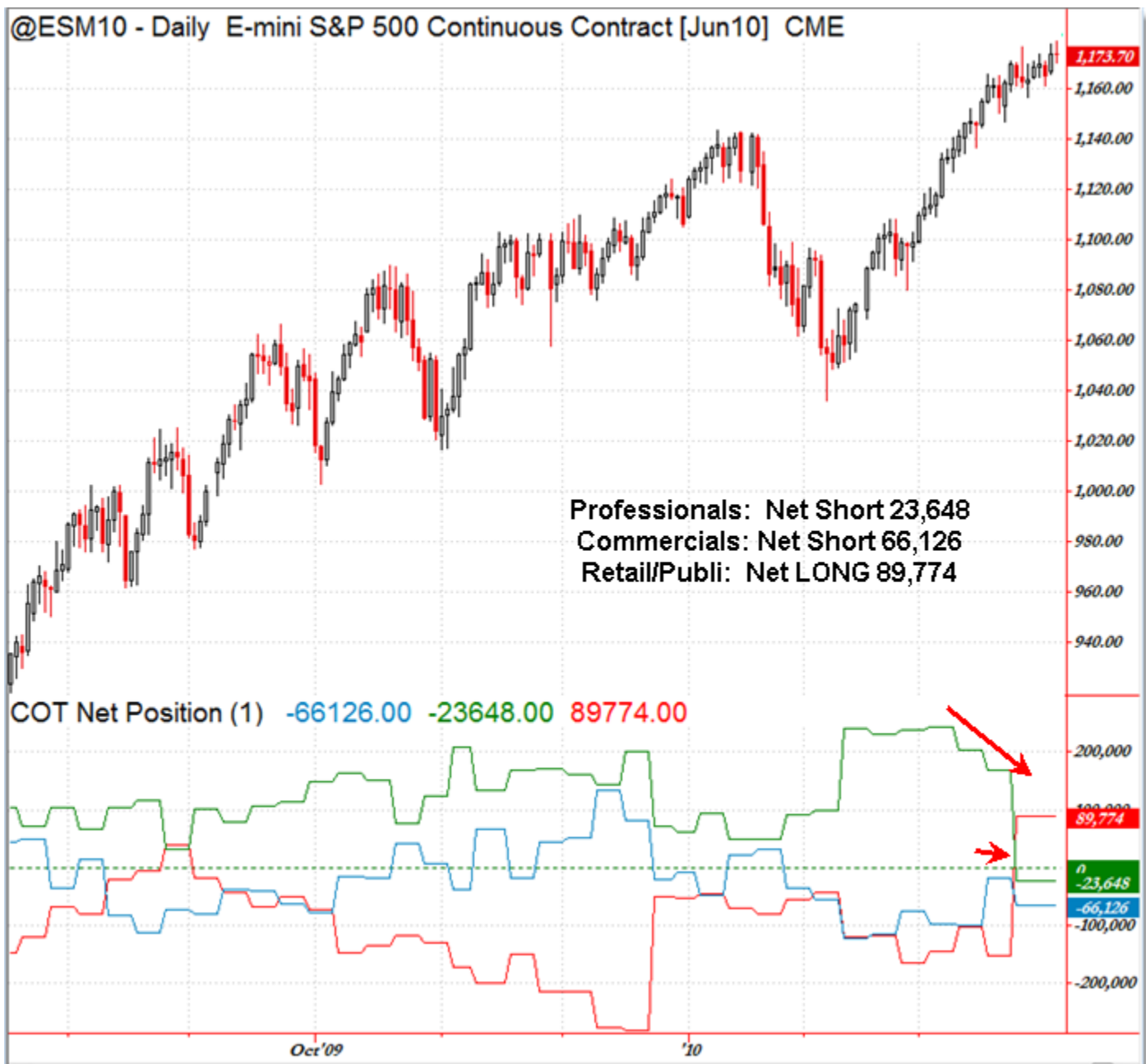
## Daily:



We see the negative volume and momentum divergence that has formed under price clearer on the daily chart, but that has not stopped the rally. The dominant bias has been "Open Air" and "Popped Stops" rally mode if above 1,150, and that has been the case as expected once buyers cleared 1,150. It remains the expectation now.

Any move next week above 1,180 should be met with further buying and further 'short squeeze' rallies (bears covering), both of which will drive prices higher to test 1,200 most likely, and any move above 1,200 should be met with a continuation move to target the ultimate 1,225 level for a challenge of that level.

On the other hand, any move under 1,160 should target the support at the 1,140 level, and any break under 1,135 would be an unexpected development, sending price back to test the 1,100 level... but we're not there yet.

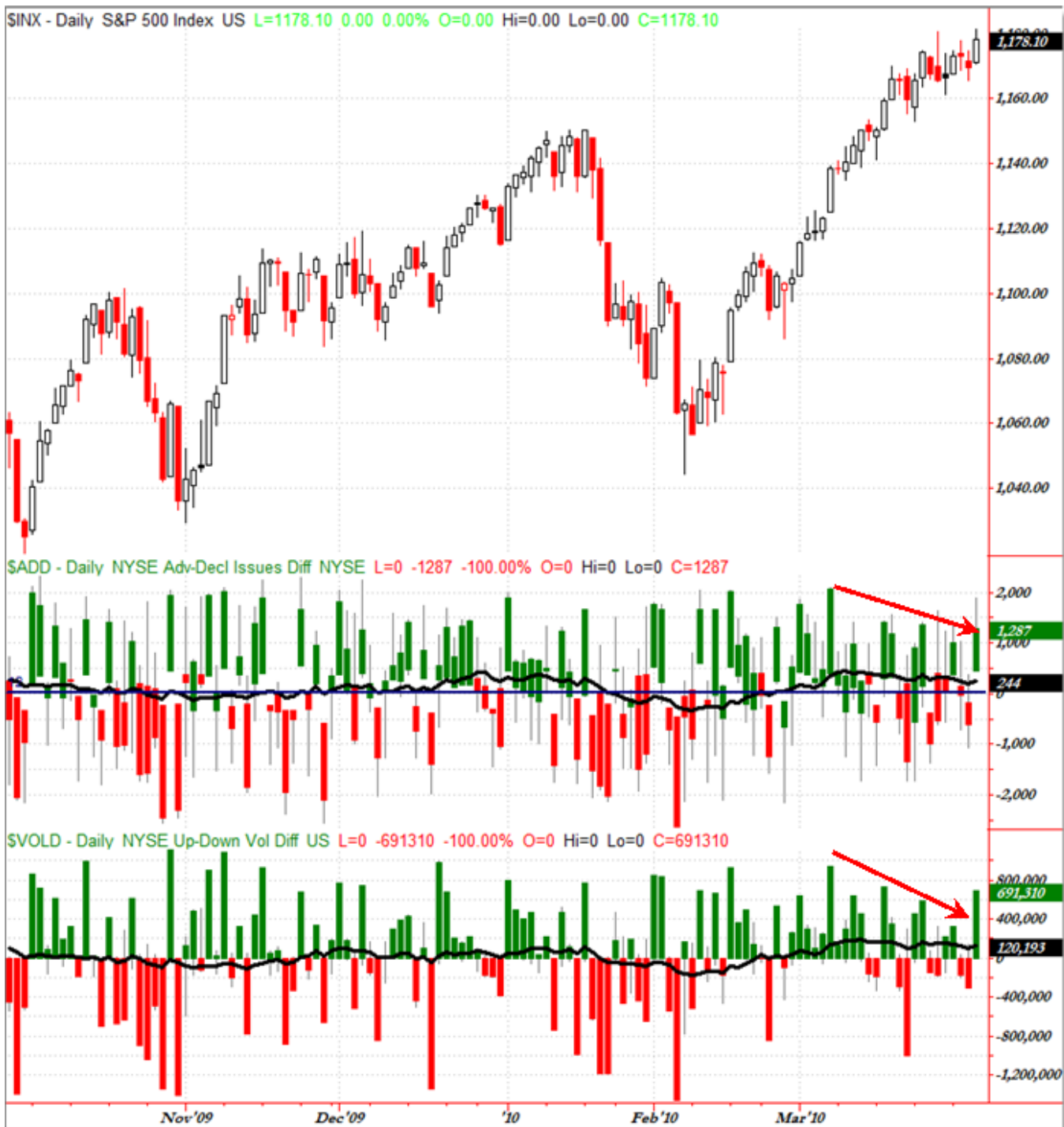


I mentioned the surprising development in last week's report in regard to the CoT data (commitment of traders) and there has been no change since then in the data.

That means that - using the data as a guide - we imply that larger/professional traders now remain net short the @ES contract while retail traders (small) are now net long (for more than a week) for the first time since just before the March 2009 bottom. There's usually a lag time before we see a change of signal here at the absolutely market top or bottom. Review last week's CoT data chart that took us back to the 2009 bottom.

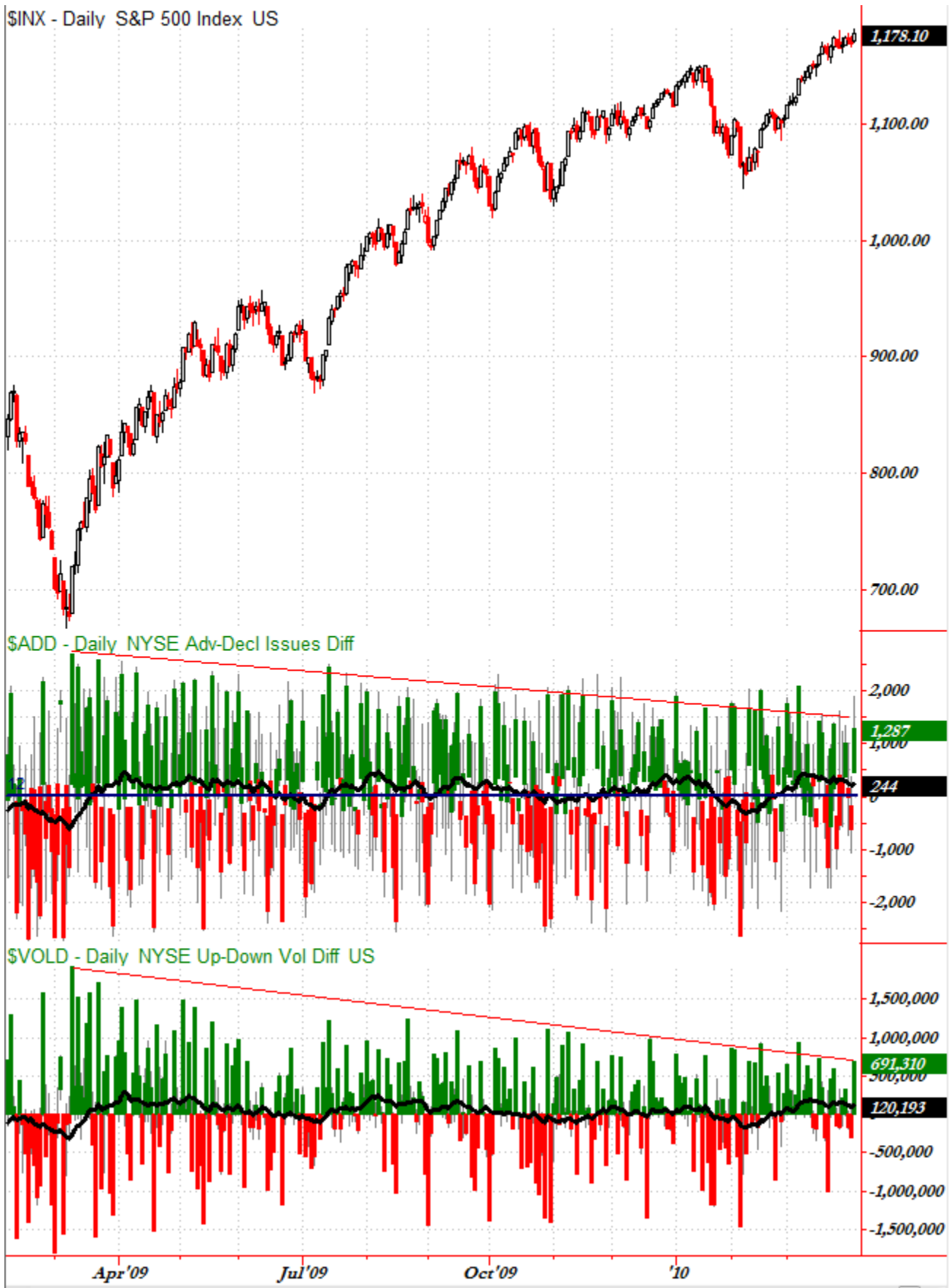
Keep in mind that professionals have been lightening (selling) positions since early March as seen by the red arrow.

If this data is to be believed and the signal proves true, then we could be looking for a sell-off in price or a potential top to form within the next few weeks/months.



In another bit of evidence to the power of the current rally, the market continues to rally on lower volume, breadth, momentum, and internals. Usually, divergences in breadth, volume, momentum, etc forecast a top, but so far the market has continued its rally despite these 'bearish' omens or signals.

Look closely at the month of March with the price rally to see a deterioration in Breadth (Advancers minus Decliners) as well as VOLD (Volume Difference of volume flowing into advancers minus volume flowing into decliners). The rally has continued despite these severe negative confirmations, reminding us that 'price is king' but that traders are remiss as to how to position themselves - if long, we could see a reversal down at any day (top), but if short, we could continue with this slow creeping march to new highs, so realize that risk is high for both longs and shorts at the current moment.



This chart shows the Breadth and Volume Difference peaks (each day) from the March '09 lows - **massive divergence**.



In another 'non-confirmation' that may or may not matter (eventually, non-confirmations DO catch-up with the market, but we cannot know exactly when price will snap-back as expected), we see the percentage of stocks above the 10 day simple moving average (indicator in TradeStation).

Throughout March, we've seen declines in this indicator, showing that more stocks are breaking down beneath their 10 day moving average, hinting that the rally is sustained with fewer and fewer stocks. That's a very bearish sign which shows that the market clearly lacks broad participation at the highs, and suggests that the "few large stocks" are keeping the index prices up while the smaller stocks are breaking down.

Less than half (48%) of the NASDAQ stocks are above their 10d SMA.

This highlights the difficulty for swing and position traders now: On one hand, the rally has been non-stop and perhaps will continue as signs emerge that the economy is improving.

On the other hand, what we are seeing from the technical/charting perspective shows massive internal divergences in virtually all measures, suggesting that we could be seeing a top at any point in time here, or at least that it is risky to be long due to the divergences and non-confirmations. When you're seeing such massive divergences, **caution is key**.

# Gold

## Monthly



Gold's monthly chart remains in one of the most impressive uptrends/rallies in recent history.

Price along with the EMAs remain in the "most bullish orientation" possible.

However, looking back to recent history, after price has formed a large spike outside the upper Bollinger Band, price has retraced back (at least) to the 20 EMA, which currently rests at the \$1,000 level, so if history is a guide, we could expect at least a pullback there, but we turn to the lower timeframes for clues.

## Weekly

**\$GOLD** (Gold - Continuous Contract (EOD)) INDX

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1-Apr-2010

Open 1106.70 High 1127.90 Low 1102.00 Close 1126.80 Chg +19.70 (+1.78%) ▲



I mentioned in last week's report that gold had formed a bullish doji candle at the confluence \$1,100 level which is 'round number' support and the rising 20 EMA - and we saw a rally this week in gold prices as a result of a successful price 'test' of this level. That's bullish, but we'd need to see a break above \$1,150 to expect a retest of the high at \$1,225, which would be the dominant expectation with price clearing above the prior high at \$1,140 and \$1,150 (see daily chart).

Like the monthly chart, the trend and bias remains to the upside, though any sudden/unexpected break under \$1,100 should send price back to test either lower trendline as drawn above at \$1,050 or finally to \$1,000.

## Daily



The daily chart shows the clearer picture, which resembles a bullish "Rounded Reversal" (scallop bottom) pattern that would be confirmed with a break back above \$1,150 and then \$1,160 which would be an 'open air' buy signal (continuation) to target the prior swing high at \$1,225 and beyond.

Support rests at the \$1,080 level, so any break under \$1,080 (stop-losses) would likely trigger a move down to test \$1,050 at a minimum if not a full move back to \$1,000.

Gold will likely rise if stocks and oil continue to rise, so we always keep a close watch on those correlated markets, regardless of our trading positions.



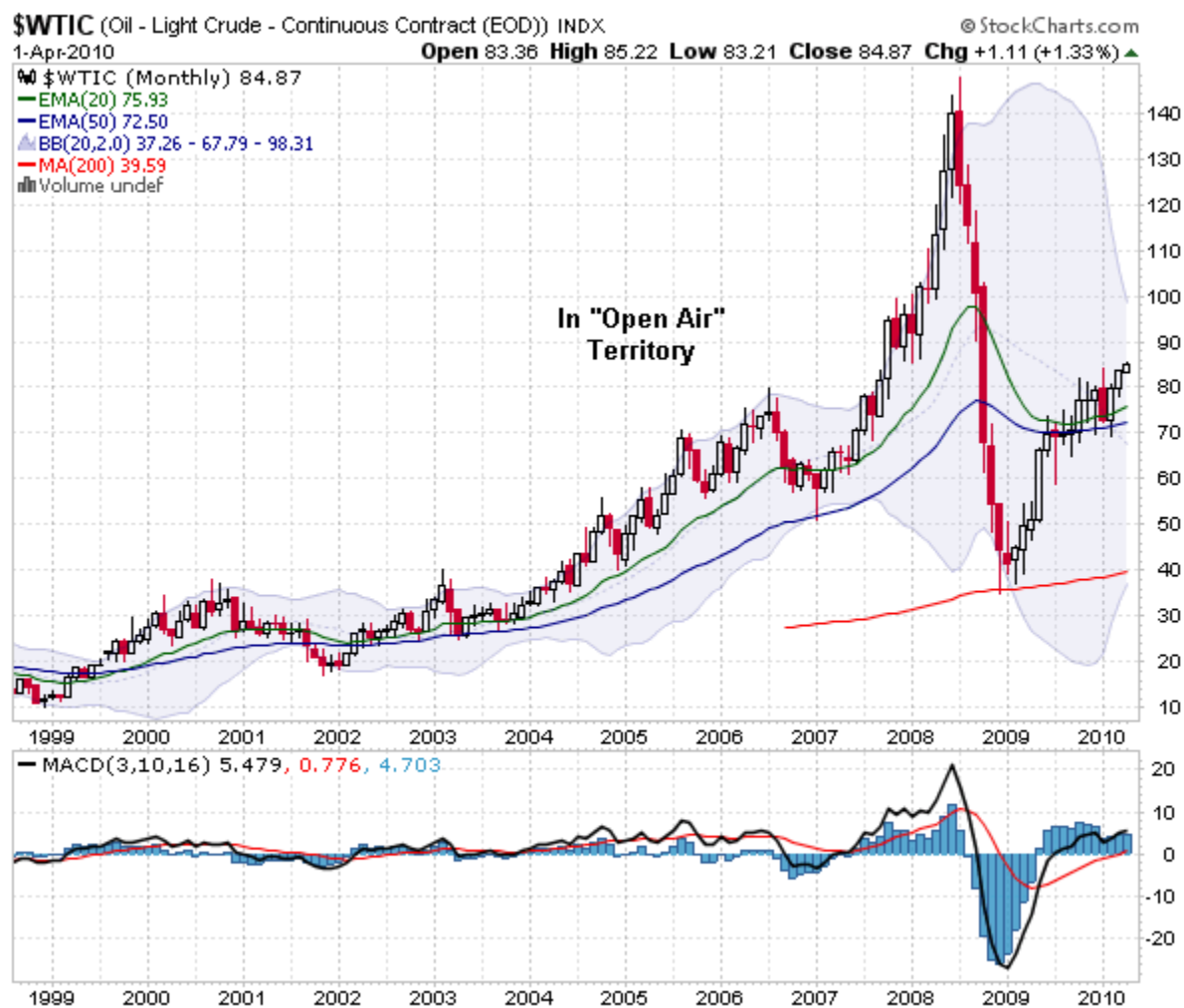
Last week, gold 'busted' a Head and Shoulders pattern (Failed Patter) which led to a stronger than expected rally as a result. Busted patterns often lead to bigger rallies in the opposite direction as those who entered are forced to cover quickly.

The breakdown under \$1,100 occurred on a massive positive momentum divergence which served as a non-confirmation that preceded the rally.

For now, watch the upper resistance levels as shown especially \$1,145 for clues as to the future - very bullish above, neutral between, and bearish (not for a trend reversal) under \$1,080.

# WTI Crude Oil (\$WTIC)

## Monthly



While the week before had the major action in bonds (collapse), this week the major action was in Crude Oil, surging all through the week .

Keep in mind that the key level to watch is the \$85.00 level, and we would simply expect a bullish continuation and potential break-out to send price to challenge \$92.00 in a short amount of time.

Any sudden downside action next week will indicate a vicious bull trap, but as long as crude oil remains at new recovery highs, the bias and expectation is for price to continue making higher highs yet to come.

## Weekly



Like stocks, crude oil has experienced a lengthy negative momentum divergence all the way up, yet that has not stopped prices from rising to new recovery highs all the way up, including this week.

The bias remains for price to challenge the \$92.50 level on any solid (not just by a few cents) break to new high, and the bias would be to target \$92.50 on any solid break above \$85.00.

Like gold, crude oil 'busted' a rounded reversal pattern, and as such, we are seeing the 'larger than expected' breakout/rally once price/bulls formed a busted pattern and short-squeeze (as seen on the daily chart).

## Daily



The dominant bias for crude oil has been for price to remain within the boundaries of the \$82/\$84 level as resistance and \$70 as support. However, next week could change all that and shift us into a great buying opportunity with a low-risk (tight stop) opportunity.

Because price has been in a contraction mode, any breakout would be a break from consolidation and would likely lead to an expansion play, so any solid break above \$85.00 is a buy opportunity with a stop under \$84.00 (or lower depending on your risk tolerance).

From a technical standpoint, price 'bounced' off the confluence support at \$80.00 and the rising 50 EMA along with the lower Bollinger Band from a doji candle - a buy signal - and we see the sharp rally that emerged. Price also broke or 'busted' the Rounded Reversal AND potential Head and Shoulders pattern forming, and as mentioned previously, busted patterns often lead to larger than expected moves in the OPPOSITE direction (to the upside here) so keep that in mind and position accordingly if you invest, hedge, or trade in crude oil.

The bias is for an 'open air' (no resistance) play if price can solidly break above \$85.00.

# US Dollar Index (\$USD)

## Monthly



The dollar index has been challenging the key overhead resistance level at the \$82.00 level for the last few weeks, and we may have gotten our sell signal this week - or at least a 'caution going forward' signal.

The main idea is that \$82.00 holds as key overhead resistance after being a price target on the way up. The 50 month EMA is \$81.66, and price formed a spinning top candle last month at this level.

The weekly chart shows us more resistance there.

## Weekly



Continuing our thought that "\$82.00 is key resistance in the Dollar Index," we see the 50.0% Fibonacci Level is intersecting (or did so last week) the upper Bollinger Band at the \$82.00 level. We also see a negative momentum divergence forming on the 'weak' new price high that just formed.

Again, should gold and the dollar (and stocks) continue their rallies, we would expect the dollar to find resistance here.

However, if the dollar continues to rally, breaking solidly above \$82.00, we would expect the dollar to continue its rally to the \$84.00 level at least, sending gold, stocks, and crude oil lower.

## Daily



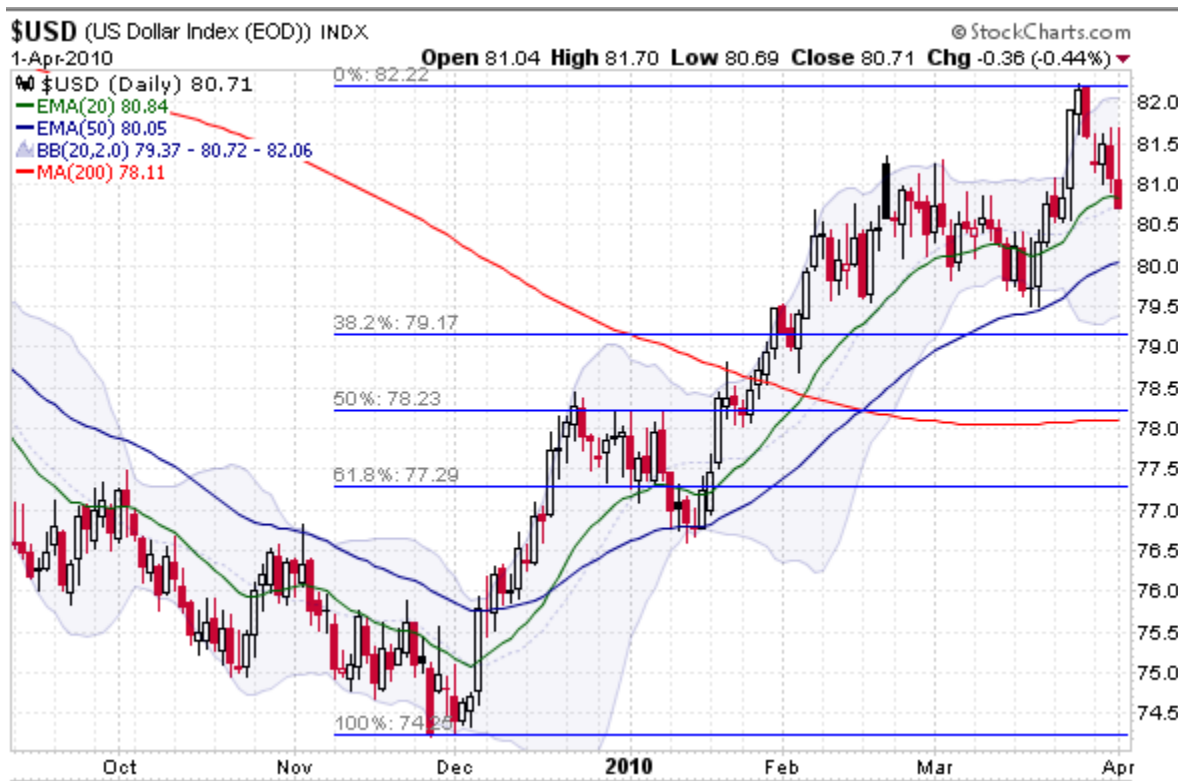
The daily chart shows us the entirety of the rally, which has unfolded in a 5-wave progression so far, with the 50 day EMA being the 'line in the sand' and key rising support (one can now draw a trendline that ends currently at the \$80.50 level). The 50 EMA currently rests at \$80.05, so we would need to watch that level very closely to see if buyers can support price there. However, a break under \$79.50 indicates that the dollar will likely fall further, at least to the \$78.00 level.

The final chart shows the Fibonacci Retracement Levels to watch for any deeper pullback under the \$80.00 level.

\$79.17 is the 38.2% level which \$78.25 is the 50% level, which intersects just above the 200 day SMA (along with prior resistance from the December high).

Remember, should the dollar strengthen here, it would send commodities (gold and oil) along with stocks lower.

A dollar that breaks EMA support and travels under \$79.50 would be in line with a continued rally in oil, gold, and stocks.



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