



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Notes may be completing their rally into resistance, so watch for an inflection down from the 118 level, as a break under 117.50 confirms a downward bias. Watch until that happens.

S&P 500: Stocks appear to be in a counter-retracement up into resistance, which exists at 1,080/90, but any move above 1,100 shifts the balance to the bullish side. For now, the expectation is a downward resolution.

Gold: Gold, S&P, and Oil all appear to be forming a similar retracement rally into resistance, so they all should resolve up (through resistance) or down (pro-trend move down) in alignment, so watch them all together.

Crude Oil: Watch for any break above \$76 to target \$80, though any resolution here should target \$70.

US Dollar Index: The Dollar has hit a bull flag target and faces confluence resistance (and a negative divergence) at the \$80.50 level. A downward resolution in the dollar will break commodities higher, though if the dollar breaks resistance, commodities will continue their retracement rallies higher. Thus, the key this week will be watching how the dollar reacts to \$80.50.

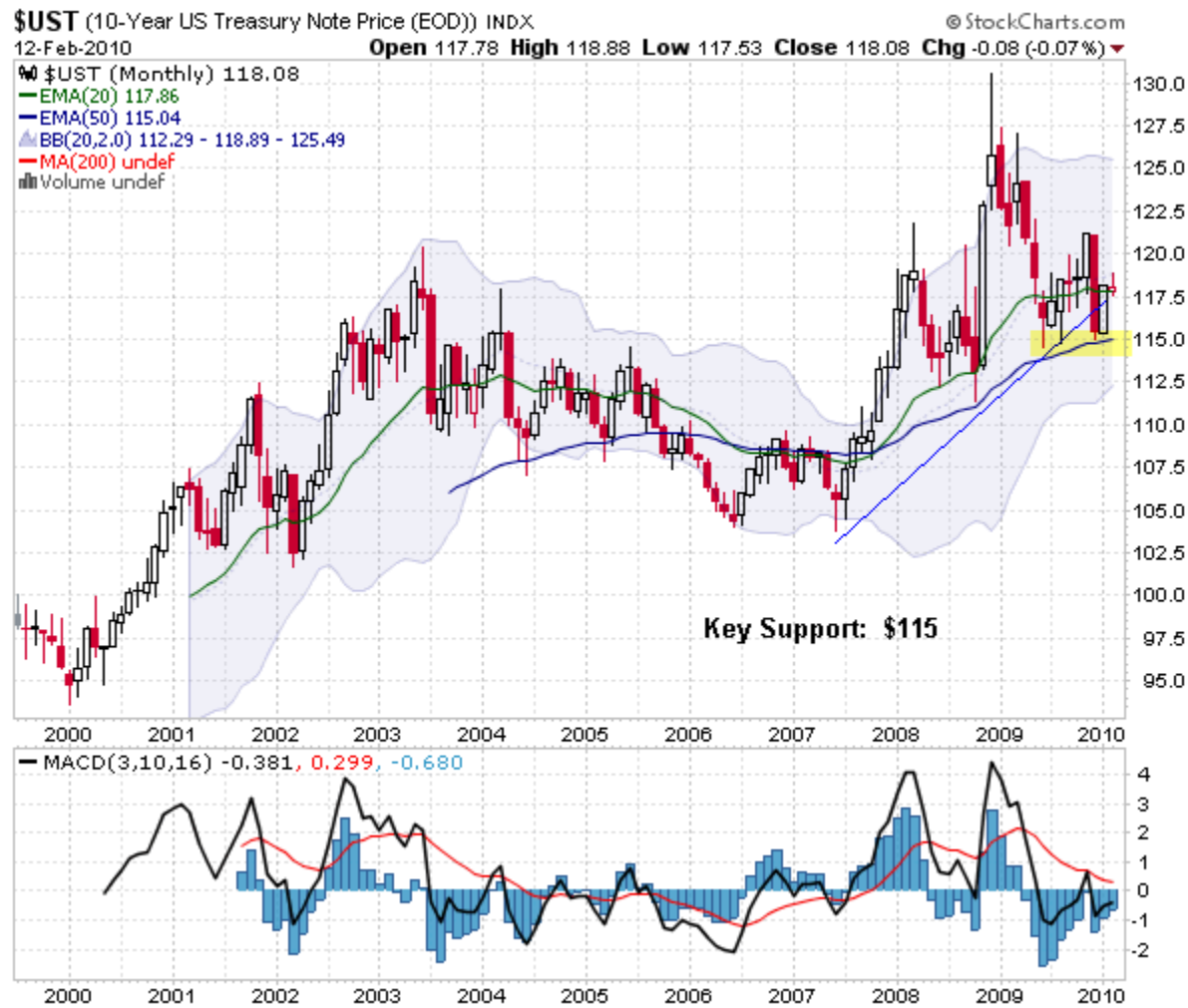
Remember, a DECLINING Dollar (Index) is BULLISH for Stocks and Commodities and is BEARISH for Bond Prices

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



10-Year notes structurally remain in an uptrend, as evidenced by higher price highs and higher price lows, along with a positive EMA structure and price being above the 50 (and at the 20) EMA. It's a tenuous structure, but still an uptrend, so that is the backdrop currently with which we should interpret note prices, unless price breaks under the 115 area.

As such, 115 remains the key line in the sand to watch between bull and bear, with investors being bullish above and bearish (stop losses) beneath.

Weekly



The weekly chart shows a distinct trading range between 120.50 and 114.50, as evidenced not just by the Fibonacci Retracement grid I have drawn, but the "Polarity Principle" of support and resistance at these key levels (going back to 2008).

As such, we would have a neutral bias (neither bullish nor bearish) while we are in-between these levels, but bullish above for a retest of the highs (which only would happen with a melt-down in the Stock Market) and bearish beneath (with a firming or stabilizing rally occurring in stocks).

With a neutral bias on the weekly chart, we turn to the daily chart for clues.

Daily



There are many analysts calling for a collapse (downward move) in bonds and that may very well be the case, but as of this report, we've yet to see that materialize. It could develop next week if price breaks under the critical daily support at 117.50, which would clue us in to play for a retest of the 115 level (opportunity), or otherwise the retracement rally could continue and bounce off support (20 and 50 EMA) at the 118 level.

Any break above 119 would be expected to continue to retest the 121 level - which would be the likely play if stocks continued their decline, but any move under 117.50 should expect to target 115 which would be the case if stocks rallied higher from here.

US S&P 500 (\$SPX)

Monthly



This 'bearish' Elliott Wave count remains dominant (preferred) unless we see a move in the next few weeks that takes price back above 1,150. The count calls for a bearish resolution of a primary 5th wave down, which would be confirmed with any move under the essential support zone of 1,000. This count is aided by a lengthy negative volume (and momentum - see weekly chart) divergence and 'corrective' structure to the rally.

For now, watch 1,150 as overhead resistance and 1,050 as support - both lines in the sand - as any move under 1,050 puts price on a bearish slide, while a move under 1,000 makes it clear that odds would overwhelmingly favor a downside resolution. For now, take a neutral to slightly bearish posture while price is under 1,150.

Weekly



It's no surprise to see a bounce off support this week, as price tested the 50 week EMA at 1,050 and formed a weekly doji. The rally moved less than 1% last week, and lower support levels remain the 1,042 level (50 week EMA) and 38.2% retracement (1,014). Any move lower than 1,000 places the odds firmly to expect a downside test of 850 at a minimum if not a full retracement to 700. Notice the negative volume and momentum divergence and "three wave" corrective structure to the rally.

Main idea - neutral to bearish bias while under 1,100 and 1,150; strong bearish bias under 1,000.

Daily:



The daily chart shows a bear flag structure to the counter-trend rally into the 1,080 resistance level. Any move next week over 1,080 should target the 1,090 level (20 EMA) and then the key 1,100 level (50 day EMA), but is not expected to rally beyond these resistance areas - it would be surprising if so, which would trigger the stop-losses above, which would create a burst move higher if above 1,100 - be prepared if that happens.

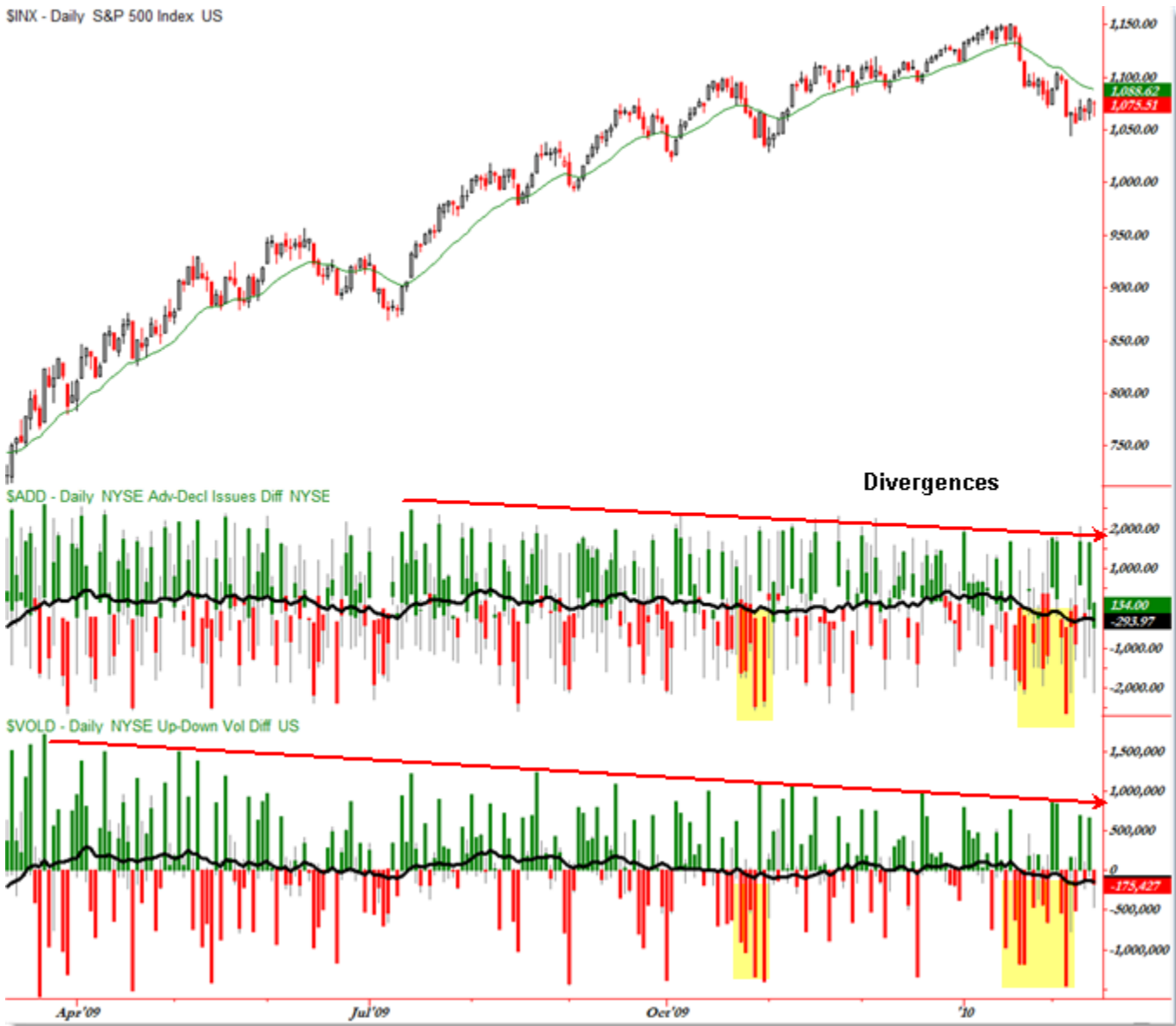
Otherwise, due to the decline in volume and 'flag-like' rally, we would expect a downside resolution that would be expected to test the 1,020/30 level in the next few weeks. As always, be prepared/on guard for either possibility, though the chart odds seem to hint at a downside resolution.



Strangely there's almost no change whatsoever in this week's COT data, with the professionals (large speculators) remaining net long almost 100,000 @ES futures contracts while the public (small speculators/unreportables) remain net short 42,000 contracts. That's 'bullish' for the market from the perspective that we should 'follow' the Professionals (who are long) and 'fade' the small specs (which are short).

Note carefully that the Professionals have been selling off their positions (taking profits) as evidenced by the green line dropping from over 200,000 to the present 100,000 value - so that is considered 'bearish' for the market (professionals are selling) while the "net short" line has risen in the red line - the small speculators (moving from 280,000 contracts short now to only 42,000... so the public is 'buying' or covering their short positions with stop-losses).

Notice the movement since December and November to present.



A quick take on the Market Internals (long-term) shows the lengthy negative divergence in both Breadth (\$ADD) and Volume Difference (\$VOLD). That's a bearish development. Notice the start of the rally (March) had the highest 'internal' differentials while the recent 1,150 highs had some of the lowest 'peak' differentials. That's a negative divergence.

Notice also how internals have built two lower "pockets" of negative values (late October and present).

The picture from Market Internals is bearish going forward.

Gold

Monthly



Gold's monthly structure chart remains unchanged, as it expects a retest back to the rising 20 month EMA (minimum) at the \$1,000 level, as evidenced by the recent pullbacks that followed 'bursts' outside the upper Bollinger Band (2006 and 2008).

Structurally, gold remains in an uptrend so any down move would thus be labeled a "counter-trend correction," though as you can see, those can last up to a year.

Weekly



The weekly chart also supports the view that gold could see \$1,000 per ounce, particularly if the \$1,050 level fails to hold as support.

For now, this still remains a counter-trend retracement, and it would be labeled that as long as price is above \$1,000. \$1,000 is a likely target, however to correct some of the \$500 rally in 2009.

The potential exists for a bull flag to form, which would be confirmed with any break of the upper trendline at \$1,100 and \$1,125... but we're not there yet.

For now, we're working off the bear flag I've been mentioning in the last few reports, which is evident on the daily frame.

Daily



The downside projection for the bear flag was just above \$1,000, and price could still see that achieved. Price tested the 61.8% Fibonacci level at \$1,040 and now has bounced in a rally mode back to the underside of the 20 and 50 EMAs with the declining trendline (blue) as drawn.

Thus - logically - \$1,100 is the dividing line between bull and bear. An upside break cleanly above \$1,120 should lead to a retest of \$1,160 if not a break eventually to new highs in the next few months.

For now, the doji at the \$1,100 resistance level is a sell-signal, and caution should be warranted.

Should price fall from here and break \$1,040, it would be almost inevitable to test \$1,000.

@YG(D) - 120 min NYSEL 02/12/10



Like the S&P, gold 'appears' to be forming a corrective rally into resistance \$1,100.

WTI Crude Oil (\$WTIC)

Monthly

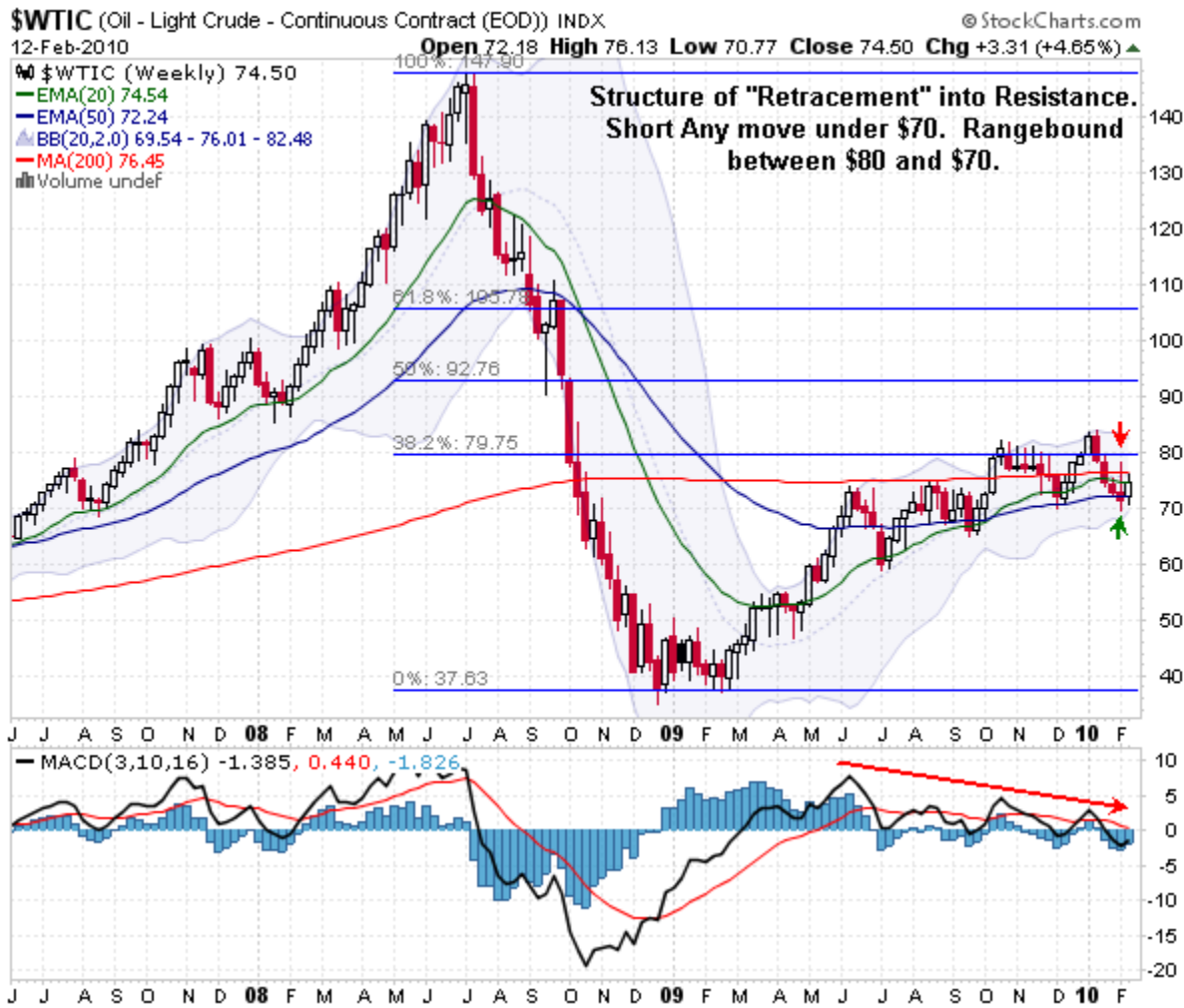


No change in the monthly structure of Crude Oil. This count places oil in a corrective "B" rally into resistance - like the \$80 level.

However, there is a distinct 'flag' rally that began in 2009, so watch the \$70 which is the lower portion of the trendline and the \$80 level, which is a key Fibonacci retracement level.

A break above \$80 and \$83 should trigger a move higher to at least \$90, but the expectation is for the \$70 to break, resulting in a down-swing at least to \$60 if not lower.

Weekly



We see the importance of the \$70 (support) and \$80 (resistance) levels. \$80 reflects not only prior price highs, but the 38.2% Fibonacci retracement.

\$70 reflects trendline support, the lower Bollinger Band, and the 50 week EMA.

The negative divergence in the 3/10 Oscillator hints at a downside resolution of the trading range, but technically, we should be neutral biased while price remains between the \$80 and \$70 bands.

Daily



Should price break above \$76 - which reflects a downward sloping trendline and the convergence of the 20 and 50 EMA - then we would have an open air trade to play for a retest of \$82.

However, Friday's bearish candle hints at a downside resolution into resistance, and the \$70 would be the likely downside target.

Notice that there is NO floor under \$70, so any move under \$70 should trigger a tradable momentum move lower at least to \$65, \$60, and then perhaps lower.



Much like Gold and the S&P 500, Oil also formed a 'flag-like' retracement in February which is ending on a three-push negative divergence. That's bearish, so any move lower from \$74 and then \$73 opens the door to a quick move down to \$70. There would be stops placed above \$76, so exit any short there and aggressive traders can scalp to \$78 or higher.

US Dollar Index (\$USD)

Monthly



The Dollar is facing a very important juncture here at the \$80.50 level, which is best illustrated by the weekly chart.

Technically, the structure remains bearish while price is under the 20 and 50 EMAs, so any move above \$82.50 would switch the monthly structure slightly to the bullish case. Until then, watch lower timeframes with a cautious bias.

Weekly



The weekly chart is perhaps the best for forecasting the next move in the US Dollar Index.

We have a critical conjunction of resistance at the \$80.50 level (200 week SMA + 38.2% Fibonacci zone). Also, a doji candle formed at this level, hinting that we could now see a downside retracement here.

However, any move above \$81 that breaks this barrier would target \$82 if not \$84 and hint that there was much more strength in the US Dollar Index that we're seeing now, which would send commodities (Gold, Oil) breaking their retracements and plunging lower.

That's why it's very important to watch what the Dollar does here - if we do inflect down, then we would expect gold and oil (and the S&P) to rally, breaking resistance, but if we see the Dollar slice through resistance, we would expect downside resolutions as expected in Gold, Oil, and the S&P 500.

Daily



The daily chart shows a total resolution as expected of the Bull Flag I have been mentioning that targeted \$80.50. Now that we have that resolution, we are seeing a negative momentum divergence along with a complete 5-wave fractal of the 'measured move' portion of the Flag (beginning in January). That's bearish, when taken together, and argues for a downside reaction in the dollar index, which would again be bullish for gold, oil, and the S&P 500.

Watch \$80.50 VERY closely next week as a result. Initial support on a down-swing would be \$79 and then \$78.

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