



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

## Summary Comments

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**Ten-Year Notes:** As long as stocks fall, Notes/Bonds will continue their rally after breaking overhead resistance. Watch the \$120 level as a potential zone of confluence resistance on any further upward movement.

**S&P 500:** Were it not for the sharp rally on Friday's close, I would be calling for an almost certain continuation move back down to 1,020 or 1,000. Pay attention to this week's SP500 report and the definitions I use between "reversal" and "retracement" and why the 1,000 level will make all the difference.

**Gold:** Similar to stocks, were it not for Friday's bounce off the \$1,045 level (as shown), I would be calling solidly for a return to \$1,000. Should price fall back under \$1,040, this would be the case, but watch for potential strength to target \$1,080 ahead.

**Crude Oil:** Crude Oil plunged to test the critical \$70.00 level which remains important support going forward. Any break of \$70 opens the door to a quick fall to the \$65 then \$60 level.

**US Dollar Index:** It's always amazing when price 'follows the script' and behaves exactly as expected, which was the case the past few weeks with the US Dollar Index Bull Flag... which hit its target this week and began to retrace. Continue watching if the \$81.50 level holds as resistance, and if it does, then it would send shockwaves across the inter-market picture, which would be bullish for stocks, gold, and crude oil. Should the dollar break through \$80.50 next week... watch for these markets to hit all downside targets mentioned.

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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.

# Corey's Comments

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First, I wanted to welcome the new members to the report and write an introductory summary on how best to use these weekly updates.

These reports are designed to complement your analysis and investment/trading activity with a technical purism approach that focuses on key levels to watch, target for profit, exit with a stop if broken, or confirm a turn in trend. We take a multi-timeframe approach to gather the larger picture, not just of the market in which you are investing or trading, but in how 'all the gears work' across the inter-market spectrum.

It is important to include intermarket analysis in your research and trading plan because it provides a multi-dimensional view of how the broader US and global markets are interconnected - namely in trend, patterns, and support/resistance levels.

I approach the analysis in these reports with an unbiased method of technical purism - letting the charts and structure speak for itself rather than any inherent bullish or bearish bias I might have as an analyst. Flexibility is important as an investor and trader, as it can prevent remaining in a losing position long after the market has signaled clearly that a key level was broken, or the trend might be in a state of reversing. That is one of the main benefits of this report - I highlight key levels across all markets that will reflect definitive changes in trend, or a clearly broken support or resistance level upon which the larger investors and funds will act, thus creating price movement and reversing or perpetuating the trend.

I also highlight price targets to play for in a trade or an investment, along with levels to watch on the larger scale that, if broken unexpectedly, reflect a time to stop-out. I don't provide exact "enter here, exit there" statements as a rule (most of the time) due to the readers of the report being fund managers, private swing traders, and even intraday traders - a specific command to buy or sell would not be appropriate for all readers, but key turning points, broken levels, or broad opportunities would be.

Supplement the levels I highlight as an addition to the research you do already - whether this report reflects the only technical work that you do that accompanies your fundamental research. The goal of these reports is to provide unbiased assessments/analyses of the broad markets so as to assist your decision and investment/trading program and broaden your awareness of opportunities/structure of markets outside of those you trade on a daily or weekly basis. I also want to highlight to you how the markets are intricately - though not concretely - connected.

I try to keep the report free of 'technical jargon' and highlight the most important price levels and targets with a minimal amount of text, allowing you to see what you need to know quickly just by looking at the chart, but having the text as a tool to assist you in the event you would like something on the chart explained. Keep in mind that investment and trading is an exercise in probabilities - never certainties - and these reports are designed to give you highly probable forecasts, but your long-term investment or trading success will come from your ability to take small losses when a key level is broken and hold for larger gains when your assessment of the opportunities are correct and price is moving towards an expected target.

Always feel free to email me with questions and thank you for being a member.

Corey

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

## Monthly

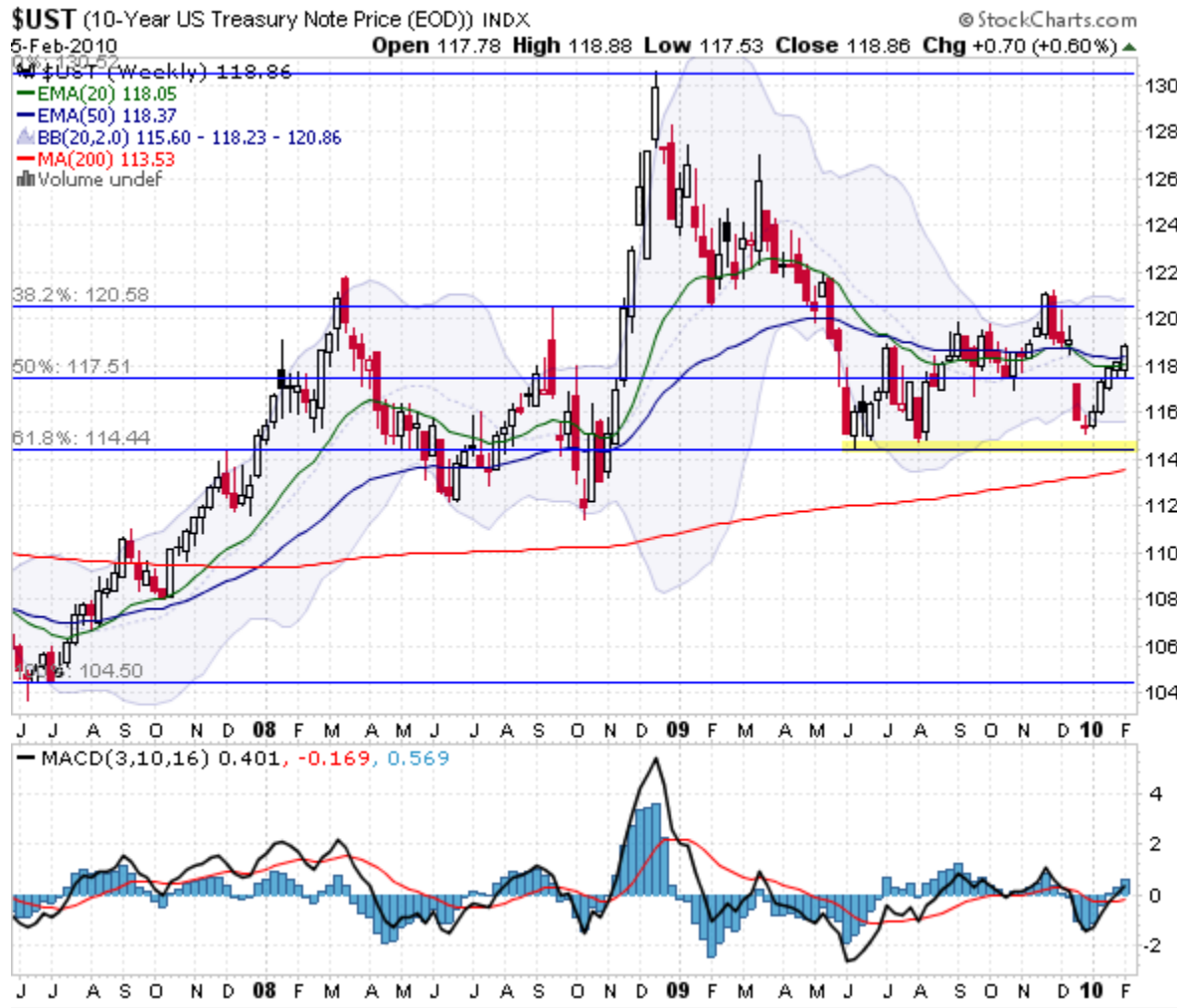


The key to understanding bond/note prices at the moment - whether you are trading them, investing in them (using actual bonds or an ETF like TLT), or just watching them - is to note the inverse relationship currently between the stock market and bond prices. Bonds reflect stability and safety, and should the stock market continue falling, odds favor a rise in the price of bonds.

That's not the only force affecting bond prices, but I've often found the S&P chart as being easier to 'predict' than those of bonds.

As such, notes supported as expected off the critical \$115.00 level I've been highlighting, and now price is above the 20 month EMA in a bullish structure. There's no overhead resistance noted on the monthly chart, so we'll need to turn to the lower frames for additional clues. The key take from the monthly chart is that odds are good for a continued rally in note prices, as long as stocks continue falling. Should stocks begin rising, we would expect to see a sell-off in bonds which have been quite strong over the last two weeks.

## Weekly



The \$115.00 level reflected monthly EMA support, prior price support, and the 61.8% Fibonacci Level. That's why we watch confluences as the focal point of these reports.

For now, we see no clear overhead resistance until the \$120.50 area (38.2% retracement) or the \$121.00 region (prior high from November 2009).

Again, as long as investors and traders fear a deeper correction in the stock market, then we should expect a continued rally in bonds. Resistance or no resistance, we would expect a down-swing in bonds should stocks begin rallying from here.

## Daily



The daily chart shows a resistance zone at the \$119.50 area from the August, September, and October swing highs.

At first glance, it appears likely that note prices are forming a bear flag pattern/correction, but the strength Thursday and Friday calls that into question (in terms of the impulse rallies for those two days). Bonds tend to do well when there is economic uncertainty and instability, and we are seeing a return to a focus on the underlying risks in global markets and in equities after a 10-month rally from the March lows.

I've drawn a trendline that ends currently at the \$120.00 level, so we need to monitor price as it relates to this trendline.

Technically - bonds are in a trendless trading range on the Daily and Weekly chart, but remain in a tenuous uptrend on the Monthly chart, so this tips the odds slightly in favor of higher prices, but with a very cautious bias.

Keep in mind that the \$119.00 level was the same price of March 2008, and - with the exception of the December 2009 surge into early 2009 (when stocks found their bottom) - price has traded within an upward sloping range of \$112 to \$121.

# US S&P 500 (\$SPX)

## Monthly



I have been highlighting the bearish engulfing candle 'sell signal' at the 1,150 overhead resistance level and price target that has been achieved. We are seeing an expected (and long overdue) retracement/pullback in prices here just above the 50% retracement level (1,121). Technically, price remains in a downtrend on the Monthly chart (given that this rally was a single swing and the moving average structure remains bearish, but price is in-between the 20 and 50 EMAs).

The key level to watch on the Monthly chart is of course 1,150 - a break back above this level would trigger massive stop-losses and call into question the dominant bearish projections, but for now, it appears we are in a **corrective retracement** at best and an **impulsive Wave 5 birth to the downside** at worst. For potential monthly support, watch the 200 month SMA at 1,034 and the 20 month EMA (green) at 1,063 (we closed Friday at 1,066 after testing 1,044).

## Weekly



By any definition, the rally from the March lows - while powerful - did not resemble a standard impulsive rally. By that I mean the entire swing comprised a lengthy negative divergence starting in March (where the highest volume readings were recorded) and a lengthy negative 3/10 Momentum Divergence starting in August. Lengthy negative divergences do not a bull market make. Price exceeded most targets and gently overshot the 50% Retracement at 1,121 to peak at 1,150. For now, price has broken solidly under the 20 week EMA at 1,078 and supported strongly Friday at the 50 week EMA at 1,041, so we suspect a bounce is likely to occur here which should not take price back above 1,100 for long.

Thought this may be the start of a much deeper correction, using classic and objective technical analysis, we must classify this decline from 1,150 to 1,050 as a 'counter-trend corrective retracement to support.' Should price break under 1,00 (the 61.8% retracement and 'round number' support), then we would lean stronger to the "This is an Impulsive Move Down" camp, which is favored by the Elliott Wave count I have drawn on the chart which favors a retest of the 850 level and potentially the 670 March low over time. This count has not been confirmed yet, but will be with a break under 1,000.

## Daily:



It's always difficult - using classical analysis which seeks to be objective - to call exact tops and bottoms, due to the "weight of the evidence" argument (which usually comes in the form of new swing lows, new momentum lows, and breaking of key support levels), but often worth it because waiting for 'proof' helps prevent whipsaws and overreactions and unnecessary rebalancing. For now, the odds are shifting dramatically to the "1,150 is a major top and perhaps an end to the intermediate uptrend" camp, but I'd like to see a break of the 1,040 level along with 1,000 to declare the official end of the rally (which would have formed the classic "three step" official reversal of a lower low, lower high, and then a break of the prior lower low).

Keep in mind that price bounced solidly off the 38.2% Fibonacci retracement from the July low - we can't be officially calling the death of an upward advance while price is supporting on the 38.2% level, so that's again why 1,000 is the critical line in the sand because it would break not only psychological support, but the 50% retracement as shown above (and the 200 day simple moving average - a key line large institutions watch who don't follow technical analysis - they

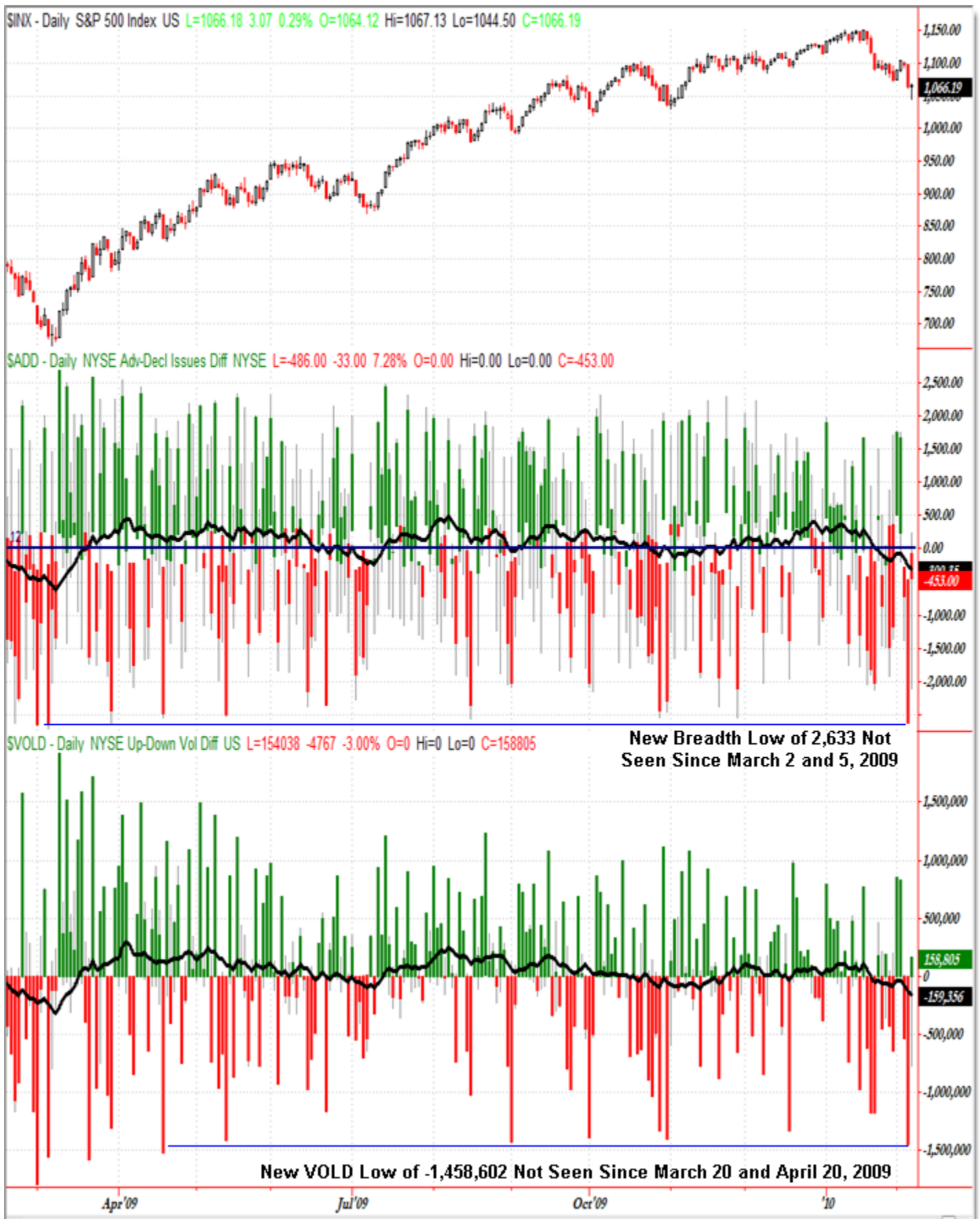
often classify bull or bear by the position of price to the 200 day SMA). I've also highlighted in prior reports how the 1,040 level was both a target to play for short (for traders) and a key support level. We're at that level currently and should expect a bounce - perhaps as high as 1,100 but not far beyond - to commence off this level.

There would be a need for portfolio readjustment - if you have not done so already - on a clean break of 1,000 from an intermediate and position trading standpoint.



This week's Commitment of Traders chart shows little change from the last few weeks, where the Retail Public (small speculators) remain net short the @ES futures and professionals/large speculators remain net long. We generally discount the 'commercials' input in the data, and try to assess what the broader public is doing (they're net short, and have been since early 2009) when compared to the professionals (they're net long - and have been since early 2009).

Unsurprisingly, we interpret this data as bullish, but with a more neutral stance due to the professionals selling (net) from 200,000 down to the 75,000-100,000 level since December and the retail public buying (or covering shorts with losses) from the 250,000 to the 50,000 level (still short). This reflects selling from the professionals and covering/buying from the retail side, so it's more bearish now that it has been as the market participants converge on the number of outstanding contracts. I would deem this the most helpful chart to keep a bullish bias for the end of 2009 despite the negative divergences in volume, momentum, and other indicators - all of which continued giving false sell-signals the whole way up.



I showed the chart on the previous page to highlight the Breadth (ADV - DECL) and Volume Differential (Up-Vol minus Down-Vol) to highlight something very startling in the data.

Thursday's sell-off and portfolio repositioning day registered the lowest extreme in Breadth and Volume seen in almost a full year - since the Market found its bottom in March 2009. That's very bearish and it hints that the character of the market is changing and is a potential sign that further selling or a change in trend is likely.

Pay attention to the last time this happened, which was late March when we started to see new high extremes in Breadth and VOLD, signaling the birth of a new uptrend and the end of the down-trend due to the powerful strength/buying (short covering) entering the market. Now, we're seeing the opposite.

On Thursday, 2,633 more NYSE stocks declined on the session than advanced, which was the largest (extreme) difference since March 2nd and 5th 2009 (at the end of the Bear Market).

The new VOLD (volume difference) low of 1,458,602 also was the largest extreme seen since April 20th and March 20th, 2009. We should interpret this as a "Shot Across the Bow," and for those who follow Wyckoff methods, we would call this a "Wyckoff Sign of Weakness" which is often the first signal that odds have shifted to favor a trend reversal instead of trend continuation.

We don't want to get caught up in thinking that the world is about to end and panic, because we then might miss any signal that this is just a pullback instead of the trend reversal so many people are expecting, so be aware that the technical conditions are severely deteriorating now, so take action if you feel you need to do so (in terms of investment/position trading standpoints), otherwise shorter term swing and intraday traders should be closely monitoring the swings to profit from both directions and not be too biased in thinking a certain outcome must occur.

It would be very difficult to defend the bullish camp - if not impossible - if price broke under 1,000, and would equally be difficult to defend the bearish camp with a break and sustained move above 1,120 and especially above 1,150.

# Gold

## Monthly



I've been highlighting this same chart for a few weeks now, indicating that odds favor a swing back to the \$1,000 level as indicated on the monthly chart.

That's because the two prior times price has 'popped' outside the upper Bollinger Band so violently - mid-2006 and early 2008 - gold prices were met with a \$250 decline at a minimum and a retest of the 20 month EMA (50 EMA in 2008). December's sell-off gave us the evidence we needed - along with the successful hitting of the \$1,175/\$1,200 projection target - to expect a similar sell-off.

That remains the dominant expectation until proven otherwise.

## Weekly



With price under the 20 week EMA at \$1,080, that has also tipped the charting odds to favor a swing back to the 50 week EMA which happens to intersect the \$1,000 critical support level as highlighted.

Keep in mind that the US Dollar Index has hit its target of \$80.50 and could pull back from that level, and if so, then we would expect Gold to rally from here in-between support levels. Sometimes the market does not operate exactly according to plan but gold has followed a stable, predictable script so far in its "bear flag" pattern descent from the \$1,200 target.

I would suggest watching the daily chart and Monday/Tuesday's action for clues as to what to expect going forward - there's a minor support level at \$1,040 that just might hold... but if price falls back to under \$1,040, then the odds overwhelmingly continue to be a retest of \$1,000.

## Daily



The \$1,000 lower target also comes in the form of the Bear Flag I have been describing and which triggered in January (with a sell-signal) on a break of \$1,120. The expected move is a completion of the flag which targets \$1,000.

However, Friday's sudden end-of-day surge complicates the structure short-term, given that price found support exactly at the 61.8% Fibonacci Retracement at \$1,044 per ounce. What does that mean? It's an interesting development - one of which makes charting 'fun,' and could throw a monkey wrench in the \$1,000 target.

The simple explanation is to expect a continuation move back to \$1,000 should price fall on Monday and Tuesday under \$1,040 and trade the move to that level.

However, Friday's close produced a long-legged dragonfly doji (bullish reversal candle) at the 61.8% Fibonacci support line at the same time that the US Dollar Index hit its daily Bull Flag target as expected... so this might preclude the full target for gold.

The bottom line to watch in the week ahead is for a break back above \$1,080 to favor a move to the overhead resistance at \$1,100, and any break above \$1,120 to favor a 'busted' move to send price higher to \$1,160, but until that happens, the dominant expectation is for the price to fall under \$1,040 and target \$1,000.



I'm showing you the pure price pattern in this chart without the bear flag or Fibonacci lines drawn for reference.



The intraday chart shows even more precise levels to watch.

Watch for a swing up to the \$1,080 level to end there at prior support and the moving averages.

The new momentum low hints that lower price lows are yet to come (similar to that signal given on December 6th) so again be prepared to short any move under the \$1,045 lows as a confirmation that the Fibonacci level is broken and the path is clear to test \$1,000.

# WTI Crude Oil (\$WTIC)

## Monthly



There's been no change in the monthly structure and expectations on the Monthly Crude Oil chart (which is a good thing - monthly charts set up the probabilities/biases to be played out on the lower timeframes).

In summary, we expect the \$80.00 level to provide critical resistance and see the rally from the March lows as a "counterwave" which - upon a breakdown under \$70.00 - should lead to a test of \$60 and perhaps lower.

The critical levels to watch here include \$80 and \$70 (the 50 week EMA is \$71.21).

## Weekly



Like Stocks, crude oil has rallied sharply (actually doubling in price) on weakening momentum (negative divergences) which causes the 'impulsive' nature of the rally to be in doubt. That doesn't mean price can't rally, but each higher price high on a lower momentum reading is a non-confirmation signal that forecasts at least a correction at best or a reversal at worst.

Still, we see the \$70.00 level as confluence support, being the 50 week EMA and prior price swing low from December.

Again, the \$80.00 level is critical, being the 38.2% Fibonacci retracement which was gently breached in a "Bull Trap" in January.

Any break under \$70 should meet further selling and push price back to test the \$65 and \$60 level as the next target, but watch objectively if buyers can find support at the critical \$70 level.

## Daily



The summary is that "\$70 is key - any break under \$70 sends crude oil lower to test \$65 and \$60."

I've drawn two trendlines, both of which are broken to the downside. Notice also the obvious negative momentum divergence that forecast the sharp retracement from the \$84 level - a confirmed Bull Trap.

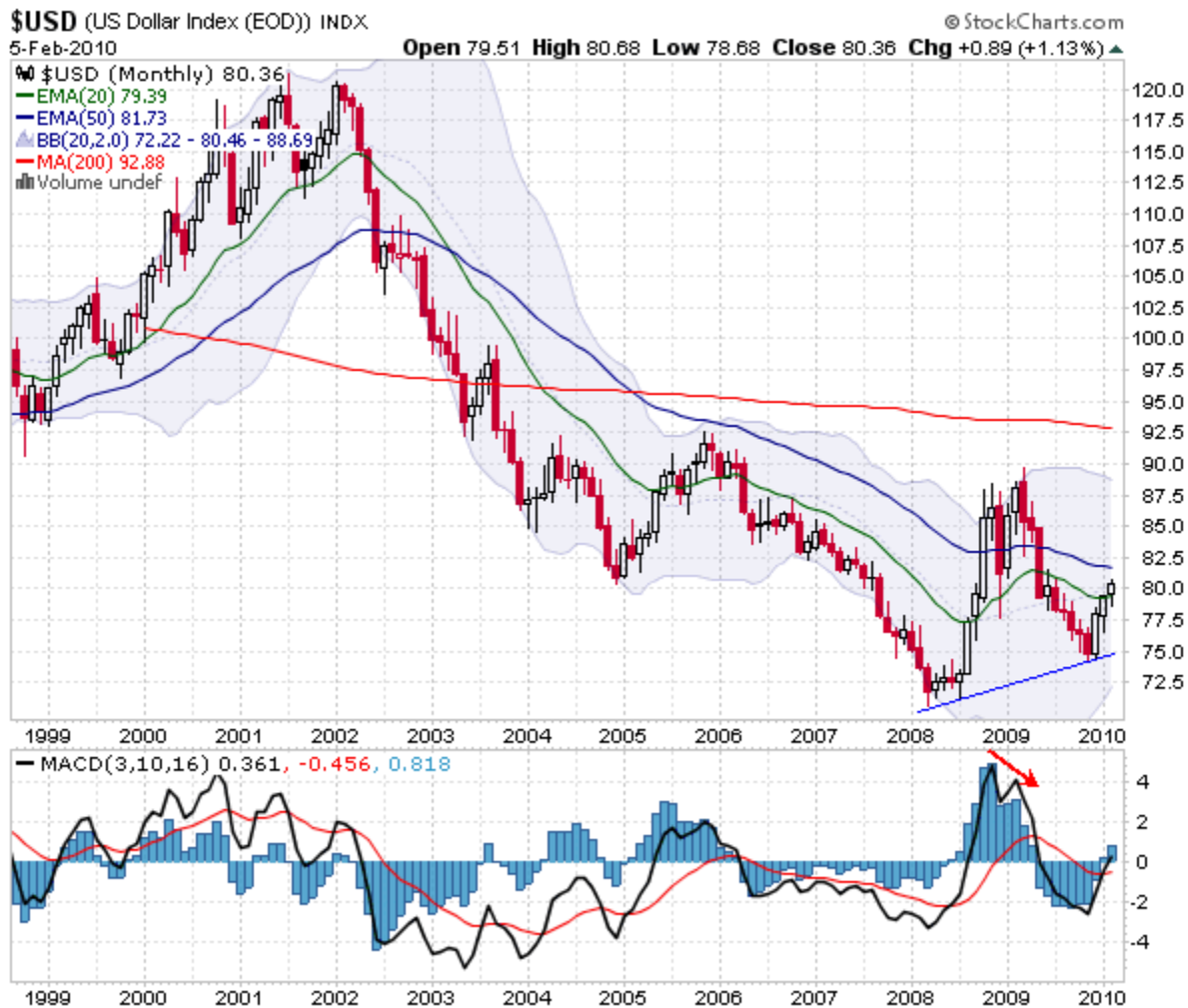
Bull Traps often precede larger than normal reaction swings, as is the case here.

Friday saw oil sell off viciously to \$70 but bounce just as sharply off the absolutely critical support level, so we need to respect this and position accordingly.

The bias is "Trading Range environment between \$70 and \$80. Bearish Under \$70. Bullish Above \$82." These levels should guide your positioning in ETFs or futures.

# US Dollar Index (\$USD)

## Monthly



The monthly Dollar Index chart is in transition mode currently, but officially (objectively) remains in a longstanding downtrend. The higher low at \$75 is significant and could be the beginning of a trend change, but price has remained under the 20 and 50 month EMAs since early 2009 while the averages remain in the bearish position.

We need to turn to the lower frames for guidance.

## Weekly



The Dollar Index also is following the script, in terms of forming a bottom slightly later than expected in a 5-wave structure on a lengthy positive momentum divergence.

Price broke the 20 EMA, stalled at the 50 EMA, and now is challenging the resistance of the 200 week SMA at \$80.50, which also happens to be the bull flag target I have been highlighting the last few weeks in the reports.

We would expect this level to hold as (at least temporary) resistance, so this might be a good place to take profits if need be.

Remember, if the Dollar Index does fall here, then we would expect a bounce higher in Oil, Stocks, and Gold.

Should the Dollar Break the \$80.50 target and resistance, we would expect for Gold to meet its bear flag target, the S&P 500 to target the 1,000 level, and Crude Oil to fall back under \$70 in a significant break.

## Daily



This simple chart show how the US Dollar index hit its expected Bull Flag target of \$80.50 (slightly exceeding it before pulling off last Friday).

A negative divergence has formed which is a bearish non-confirmation of the higher highs, and for now the price structure is tracing out an "ABC" corrective "bull flag" three-wave rally, so we'll need to keep watching to see if price rallies above \$81.00, in which case we will need to count this as an impulsive rally (marking this rally as a 3rd wave instead of a terminal C) which would make a world of difference... hinting that we are seeing the birth of a new bull rally in the dollar which would correspond with bear reversals/retracements in stocks, oil, and gold.



This chart highlights the overhead resistance not just from the Bull Flag target, but from prior July highs at the \$80.50/\$81.00 level.

#### *Disclaimer:*

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