



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Bonds gapped down again this week then spent the week in rally mode. \$115.00 is the key between expectations to remain inside the current trading range, or beneath for a downside break play.

S&P 500: Stocks continued the 'rally that will never end' and now we challenge the 1,200 level with weaker internals, breadth, and momentum. If above 1,200, then we're almost certain to see 1,225. Above 1,225 is a bullish game-changer.

Gold: Gold confirmed a bullish breakout this week, confirming the "rounded reversal" or scallop pattern and breaking above a weekly flag trendline. If above \$1,160, then we'll almost certainly see \$1,225 again or beyond.

Crude Oil: While gold rallied, crude fell. It now sits at a key buy-in support level at \$84.00, and any move back above \$87.00 sends us almost certainly to \$92.00. Under \$84, and we target \$80... then back inside the trading range.

US Dollar Index: The dollar still faces multiple timeframe resistance at the \$82.00 level as shown. Should stocks, gold, and oil continue their rally, the dollar will break support and could trigger a major sell signal. Until then, watch the 20 day EMA and lower trendline that currently rests at the \$80.50/\$81.00 level for the key.

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



Bonds held key support at \$115.00, which is the boundary between bull and bear. It's a multi-timeframe support zone, being the 50 month EMA (\$115.15) and lower timeframe support levels as well (prior price support zones).

The monthly chart officially shows us as being in an uptrend, so keep that in mind, while any price break under \$115.00 will call that into question. The lower timeframes as usual give guidance.

Weekly



We still remain within a dominant and 2-year long trading range (potentially a very large head and shoulders pattern) which remains confirmed with boundaries between \$115 and \$121. While price is between these levels, expectations favor that price will bounce between these levels.

Be on the lookout for a breakdown beneath \$115.00 and then under \$114.00. We would expect to see a downside breakdown (which is the dominant expectation of many analysts) if the economy continued to strengthen and yields continued to rise.

The basic formula is ... higher interest rates = lower bonds.

Better economy = higher stock prices and commodity prices = higher interest rates = lower bonds

Worse economy = lower stock prices and commodity prices = fear/panic = higher bond prices (lower yields)

Daily



As expected, we got a bounce this week off the \$115.00 level. Monday began with another vicious gap down but the rest of the week was a bounce/rally off that level in similar fashion to the prior downside gap bounce into late March.

\$116.50 and \$116.00 will be expected resistance, and \$115.00 is critical support.

Short/unhedge under \$115.00. Otherwise, expect the trading range to continue.

US S&P 500 (\$SPX)

Monthly



The bias remains the same as it has for the last few weeks - IF we are above 1,150, THEN target 1,225.

That's exactly what's happening and there's no point in overcomplicating or overthinking that. The debate is whether to call this a "bear market rally/retracement" or a "New Bull Market," and I would suggest the boundaries between the two are clarifying... it would be difficult if not impossible to make a bearish case as long as we're above 1,225... but while we're under 1,225, the bears have one last shot at forming a top here.

The lower timeframes help give clarity... as there's nothing to stop price on the monthly frame.

Weekly



The upside target - if buyers can push beyond the simple 'round number' resistance level of 1,200 - is clearly 1,225, and many people are aware of this level, so it's likely the market will travel there like a magnet if we can get a clean break above 1,200.

Yes, there is a massive negative volume divergence, even looking back the last 5-weeks as price has rallied six weeks in a row. This is the same price behavior/action we saw off the March 2009 low and then the 'busted' head and shoulders pattern in July 2009.

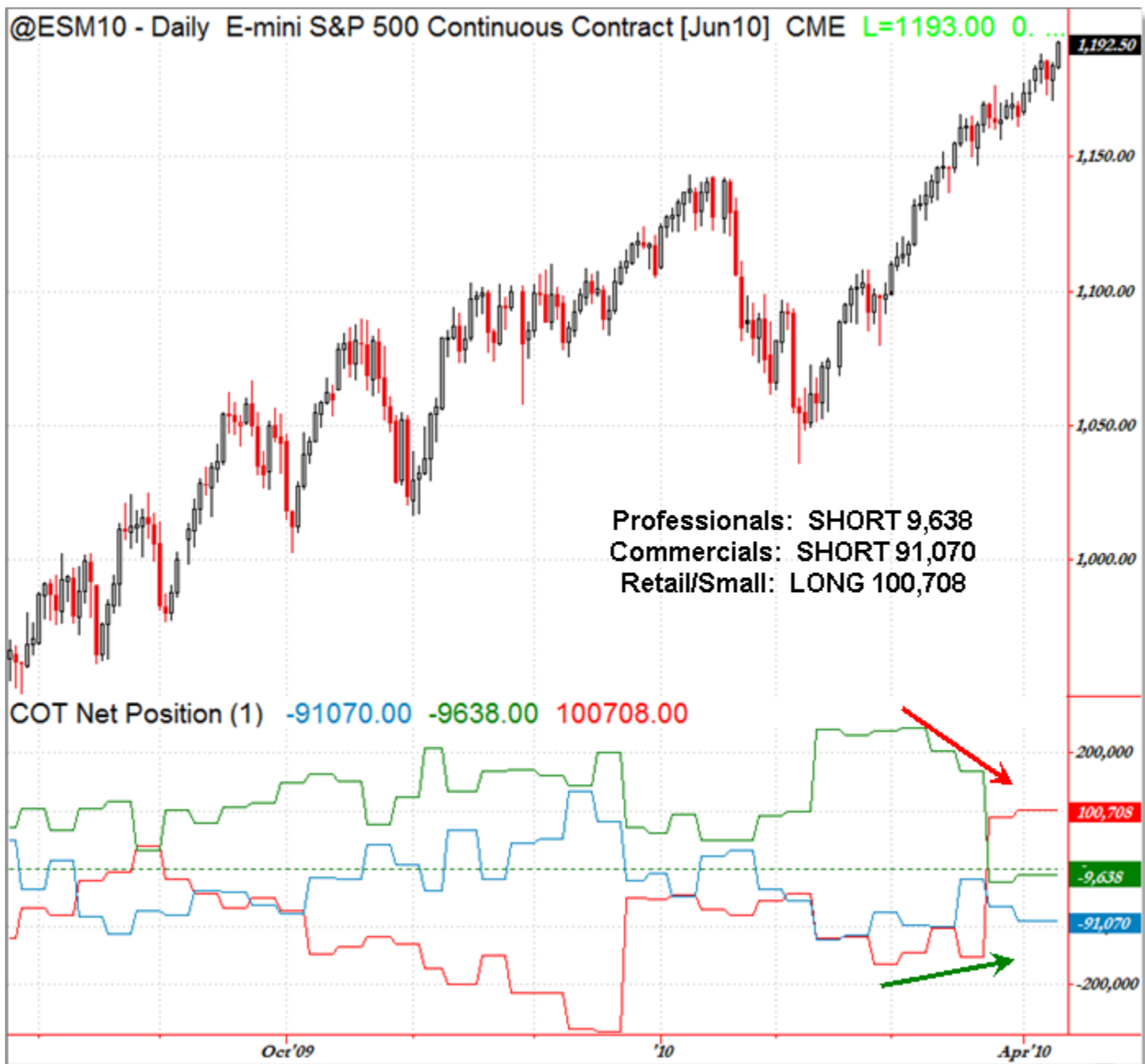
It is the dominant expectation that price will test 1,225, and what happens there will be monumental for the market. Bears will be (likely) forced to throw in the towel (capitulate) if above, which would certainly continue the rally. We will discuss what happens at 1,225 when and if we get there - the dominant view now is that we will get there.

Daily:



As you'll see from later breadth charts, divergences haven't stopped the charge of the bulls, but divergences DO eventually catch up with markets/price, so it's generally NOT a good idea to put on long/buy swing or position trades when you see an overextended rally complete with negative divergences. It's more of a "Hold your position" signal unless you see either strengthening in momentum and volume (get long signal) or - more likely - a breakdown through lower trendlines and moving averages (the 1,170 level) which would be a 'take profits' signal. I would recommend shorting ONLY under 1,140 or even 1,100 unless you are an aggressive investor/swing trader or hedger who wants to protect or profit from a potential turn... but we have NOT NOT NOT been given a short-sale signal yet (it will come in the form of broken trendlines and moving averages and NOT just because price is 'overbought and diverging').

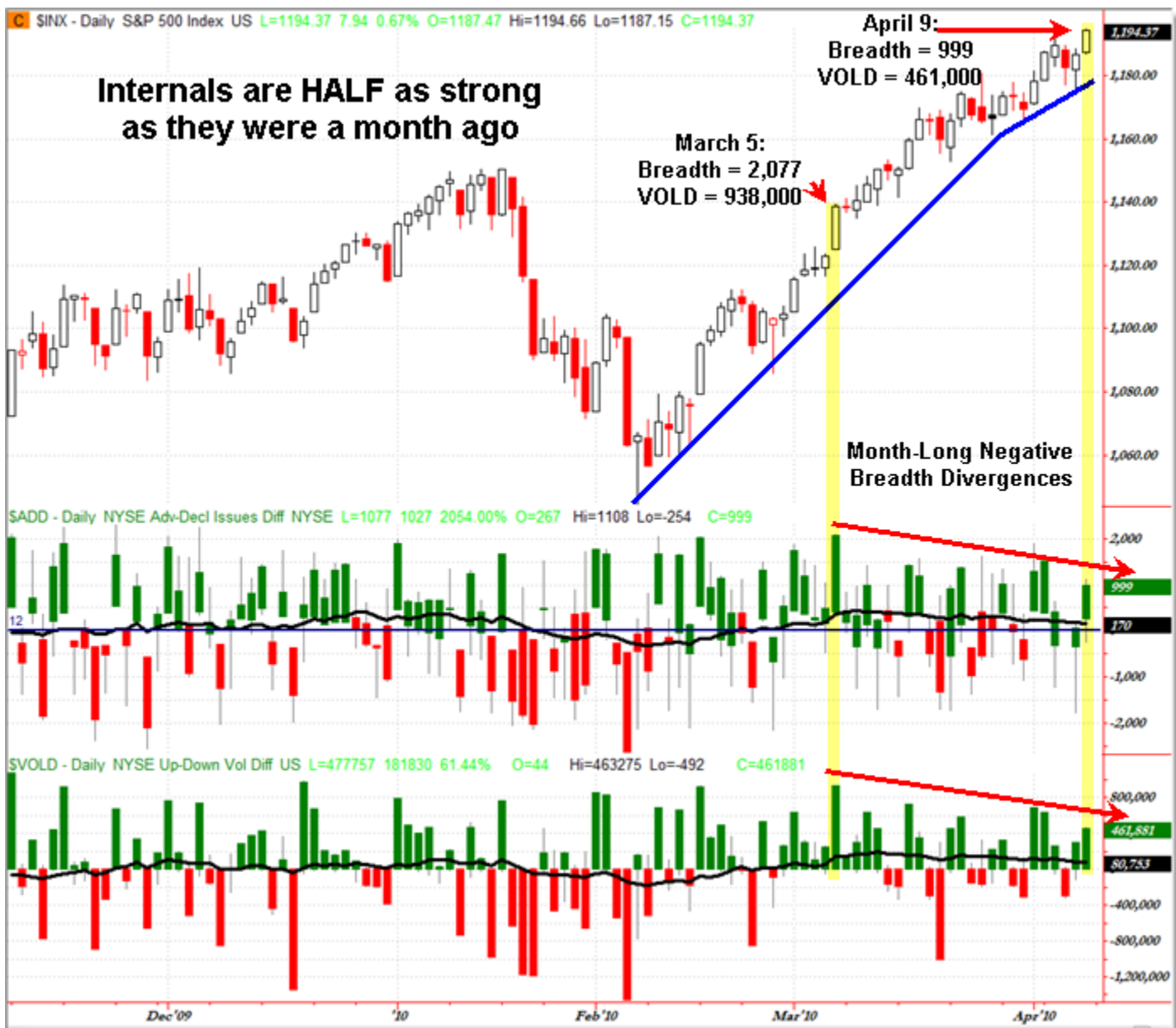
You should only short here if you're willing to take a tight stop-loss as price continues higher. It seems we're very likely to test 1,200, and if we're above 1,200, then we're very likely to test 1,225. And above 1,225... not much of anything.



The CoT data remain 'bearish' in that Professionals (green) remain (slightly) net short the @ES futures, holding almost 10,000 contracts short while the retail public or 'small speculators' (those not large enough or required to report their positions) remain net long 100,000 contracts... the first time they've been net long since flipping net short in January 2009, two months prior to the March 2009 bottom (... professionals often call them the 'dumb money').

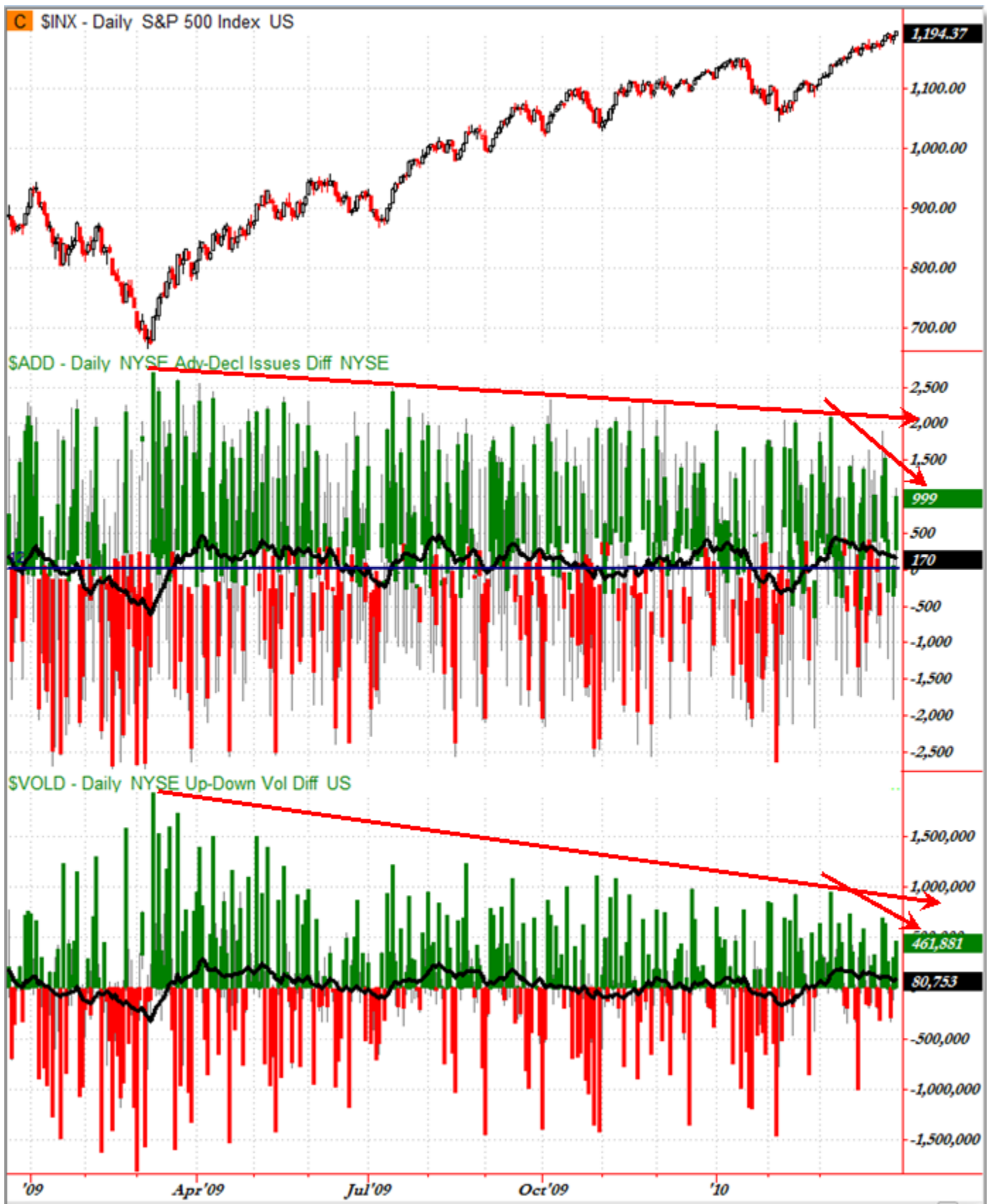
If that signal continues to be true, then we're potentially a month or more away from a major turn or top in the market, so while this is a "caution" sign that could precede a top or turn in the market, it's not YET a "rush for the exits and panic" signal.

I'll continue to keep a close watch on the data for you and always alert you to changes - for now, this is an important change to pay attention, but not a 'panic' sign **yet**.



The chart above shows one of the most important principles in short-term trading. In the early stages of a rally, we often see spikes in market internals (here I'm showing Breadth and VOLD or Volume Difference of Breadth). We saw that in early February, but now that price has rallied near non-stop for a month, internals have been 'trailing off' or reaching lower highs/peaks - that's a divergence or non-confirmation. Divergences and non-confirmations occur just prior to a reversal... but they are just warning signals, not "rush out and sell short" signals. Internals diverge at the latter stages of the swing in price, which is what we're seeing now, but we have NOT (I repeat NOT) been given any sort of short-sell signal in terms of a break under a rising trendline OR 20 day EMA, so the market can continue the rally, but it does so on weakening internals. Either internals are going to have to start picking up (rising) or - more likely - we are going to start seeing price fall soon, perhaps as the index tests the 1,200 "round number" level or the 1,225 "confluence resistance" level.

From a probability standpoint, it is a very bad idea (statistically speaking) to get long here if you're not already, with price grossly overextended and forming negative internal divergences... but you also should not be shorting to play a retracement until we break lower trendlines (at a minimum).



A specific focus on the Breadth and VOLD (Volume Difference) Divergences since the March 2009 low. We started the rally with internal readings in the 2,500 and 1,750,000 area and now are seeing the 1,250 and 500,000 area.



The advanced "Gann" chart (grid showing the "Square of Nine" numbers) reveals the next price being 1,212 after price rallied above the 1,178 level.

The short-story is that once one level is broken, odds favor a move up to the next level for a test of resistance, then lower levels often serve as support, etc.

The current levels are 1,178 and 1,143 (along with 1,110) under price with 1,212 and 1,247 as upper targets (neither of which form a tight convergence... with the closest converging being 1,225).

Gold

Monthly



Gold took a bullish turn this week, completing a short-term breakout and rounded reversal pattern.

The monthly chart shows one of the most powerful uptrends possible, as exemplified by the failure of bears/sellers to push price back to test the \$1,000 level or the 20 month EMA as has been the case in the past.

It takes us back to TA 101's underlying principle:

"Trends, once established, have greater odds of continuing than of reversing."

Levels to watch on the monthly chart include the prior swing high at \$1,225 and then the rising 20 month EMA currently at \$1,006 as support.

Weekly



I have been mentioning two potential price patterns on the higher timeframes, both of them bullish, and both of them appear to be triggering bullishly (breakout buys) this week.

The first pattern is the bull flag (not drawn specifically) above, and price broke the upper boundary of that flag (or trendline) at the \$1,125 level this week on a solid and confirmed breakout candle, triggering the stop-losses of the sellers and rising prices as new buyers entered.

There is no major resistance above price on the weekly frame save the target of \$1,225 from December 2009's high.

Like the monthly chart, the weekly chart is showing the most powerful uptrend possible (higher highs; higher lows, bullish orientation to the moving averages).

Unless we break under \$1,100 anytime soon, odds strongly favor a move back to \$1,225 at a minimum, if not a break to new highs beyond \$1,300 as the dominant expectation.

Daily



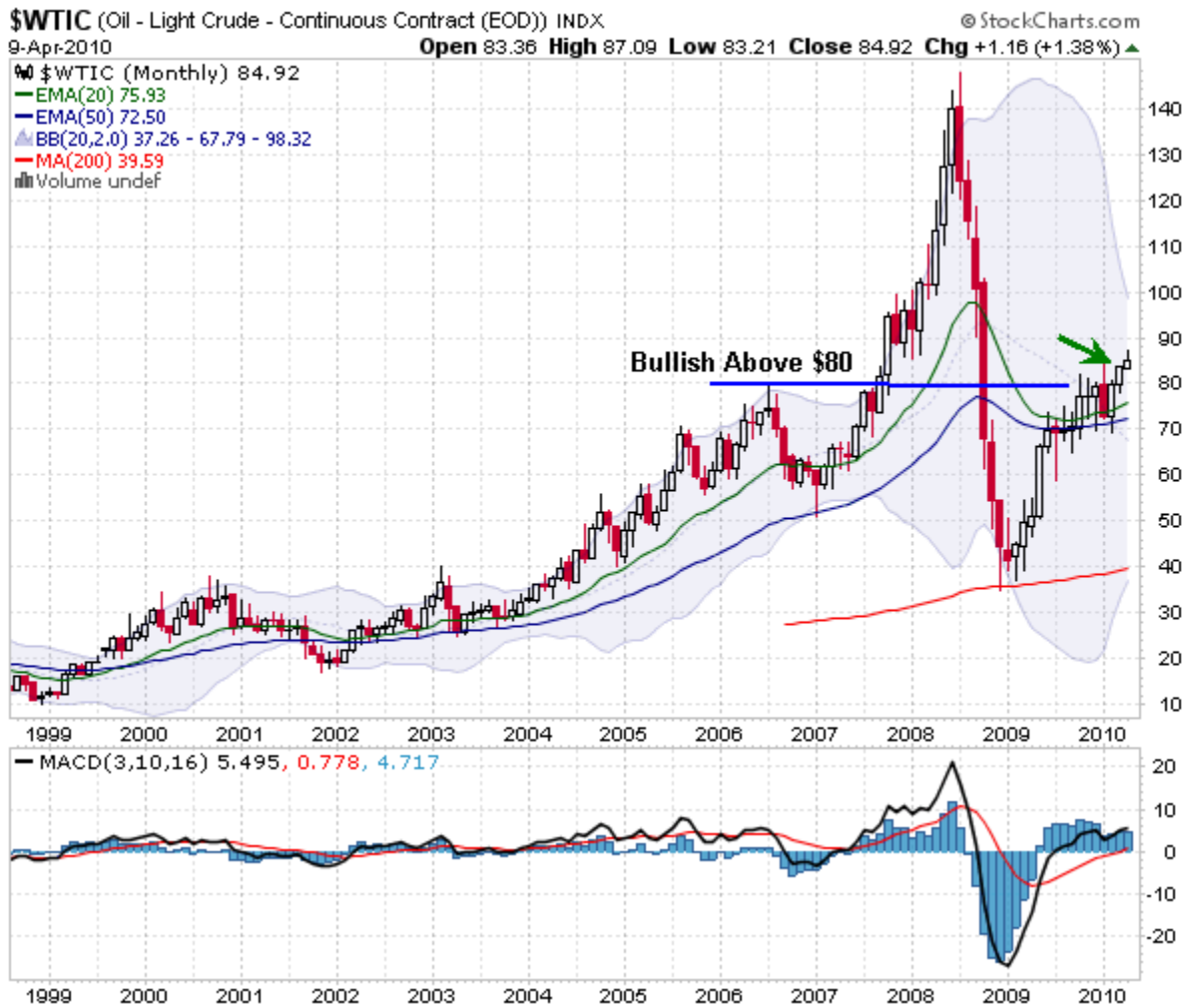
While the bull flag pattern is best seen on the weekly chart (larger pattern), the "Rounded Reversal" or "Bullish Scallop" is best seen here on the daily chart, as I've been pointing out in prior weekly updates.

The breakout was confirmed this week with majorly bullish action, taking price above the \$1,140 level and testing the \$1,160 level. If buyers can continue the rally beyond \$1,160, then odds would strongly favor a return to test or exceed the \$1,225 December 2009 high, so position accordingly. You should be NOT short above \$1,160.

In the event price finds resistance here, we would expect a move to return price back to the \$1,080 level in a return to the trading range environment, but as long as price remains above \$1,160 (or breaks above it), then the target should unequivocally be \$1,225 or beyond.

WTI Crude Oil (\$WTIC)

Monthly



While gold broke strongly to the upside, we saw a pullback all week in Crude Oil, as best seen on lower timeframes.

The monthly chart shows that odds favor bullish prices/bias above \$80, which was the 2006 high and 'round number' support.

There's no major features on the monthly chart that provide resistance (it's open air above \$80) so let's turn to the weekly chart for tighter targets.

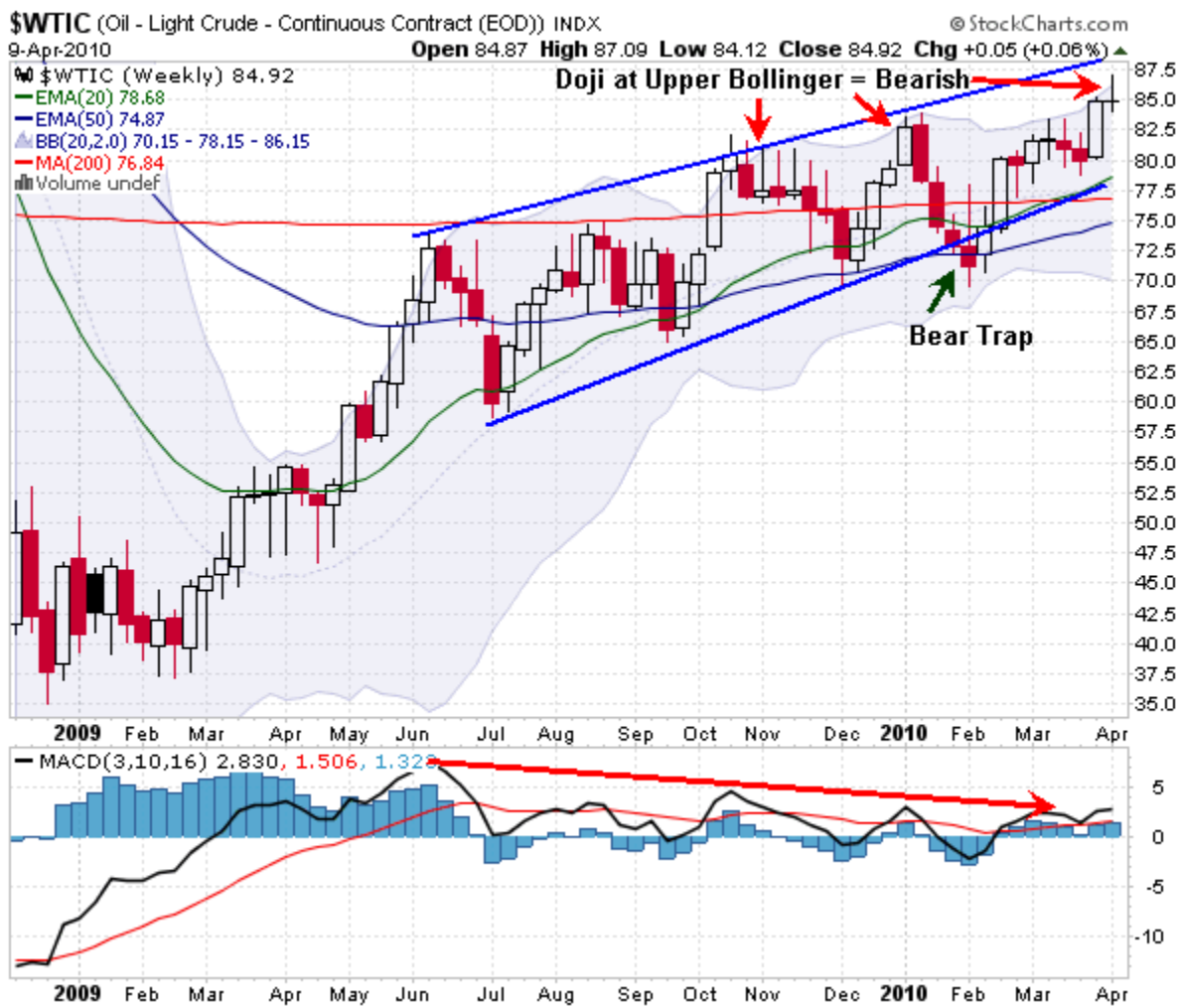
Weekly



I've long said that if buyers can push crude oil to new highs, then the next logical target would be the \$92.00 level which is the 50% Fibonacci retracement as shown above.

Bulls have had to contend with a negative momentum divergence, but those seemingly 'false signals' are common in a strongly trending market (meaning we pay less attention to momentum in a steadily rising market as we see here ... we pay more attention to moving averages as support and buy entry signals).

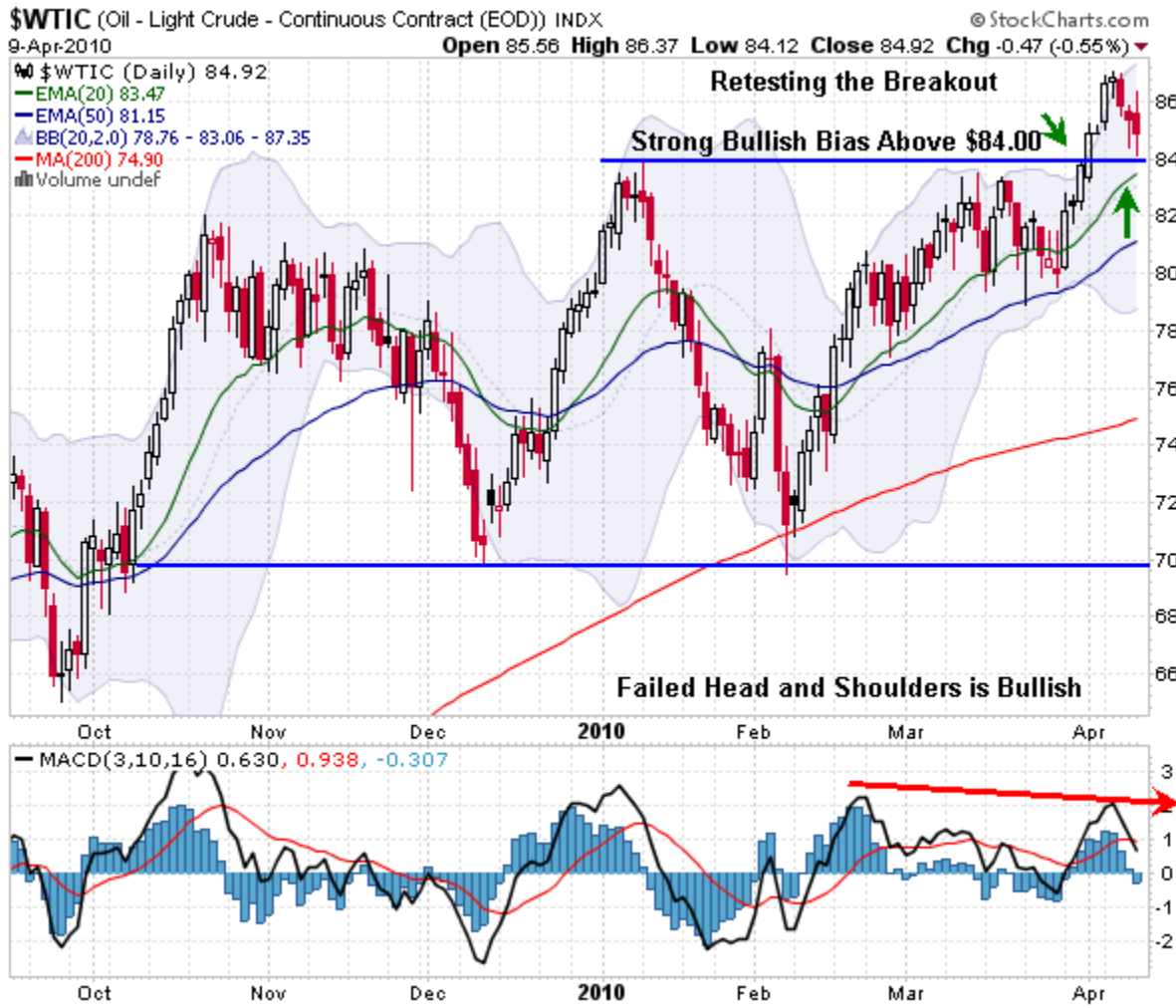
The weekly chart formed a doji candle this week, as seen in the zoomed in chart, so we'd need to see a break to new highs above \$87.00 to feel safe about a buy, but aggressive traders can position themselves accordingly into a potential support zone at \$84.00 (currently) as seen on the daily chart.



Zooming in on the rally, we see the dominant trendlines which have served quite well in containing the price trend of crude oil.

We're currently at (or just beneath) the upper trendline, and we see a doji candle forming there which is a classical 'take profits' or sell signal (notice what happened last times - red arrows). It's probably a caution signal, and the daily chart gives us more clarity as to what the next swing should be.

Daily



This is a classic "breakout and retest the breakout" signal, making the current price a buy-signal with a tight stop at the \$83.00 level to play for a breakout to new highs to test \$92.00 going forward.

Should sellers take price under \$84 (the horizontal support line and rising 20 day EMA), then we would expect an almost immediate test of the \$82.00 level (prior resistance and the 50 day EMA), though any move under \$80.00 should bring us BACK into the trading range as shown here and will be labeled a vicious BULL trap, so be prepared for that as a possibility.

However, the dominant expectation - if price bounces off support here and especially if price breaks to a new high - is for price to continue its positive feedback/breakout mode to test \$92.00... and perhaps beyond if the economy continues to show improvement.

US Dollar Index (\$USD)

Monthly



With all going well so far for commodities and stocks, the US Dollar Index is in a 'not so great' situation, facing overhead resistance on multiple timeframes, including \$81.67 from the falling 50 month EMA as shown above.

Unlike everything else, the Dollar remains on a persistent downtrend, and that is the dominant assumption unless we see a solid move above \$82.50 and \$83.00. If so, we might be in the midst of a bullish trend reversal but UNTIL THEN, we have to assume that the larger timeframe trend is down and should be biased as such.

Weekly



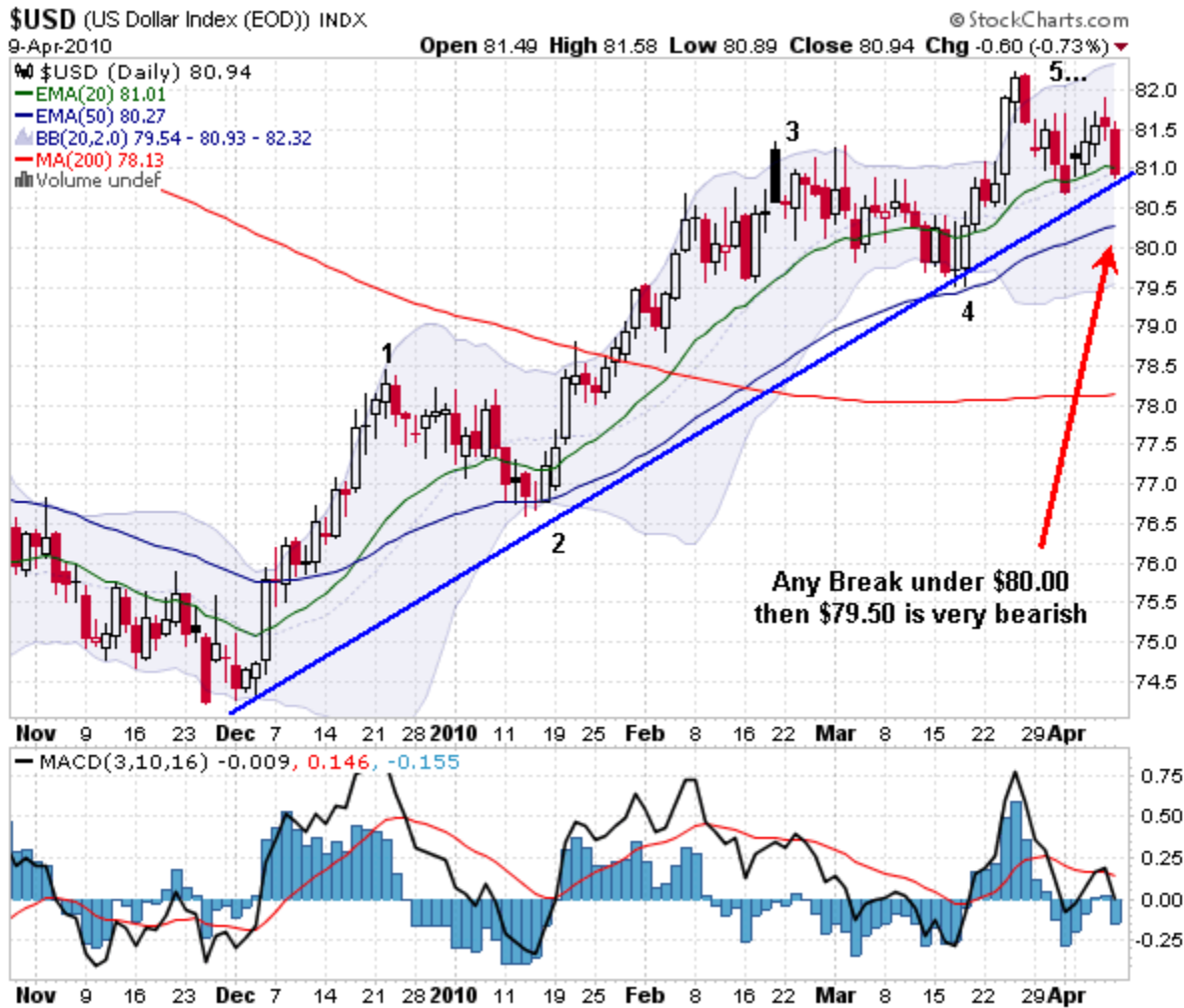
The 50% Fibonacci retracement as drawn rests at \$82.26, which was the recent spike high in March 2010 as price has formed three weeks of upper shadow candles - that's bearish.

A negative momentum divergence has developed too - also bearish - so until proven otherwise with a break above \$82.50 and \$83.00, we have to assume that the dollar will find resistance here and potentially head lower to test the confluence support at the \$79.50 level.

Any break under \$79.50 is a major sell-signal (which would likely correspond with breaks to new highs in gold and new 'recovery' highs in crude oil and stocks) so watch for that in the next few weeks.

Otherwise, a break above \$82.50 would be very bearish for stocks/commodities and could send price to the \$84.00 level.

Daily



We see a short-term "Elliott Wave" five-wave fractal ending potentially in March as labeled, though we could see a swing to new highs if the 5th wave is only subdividing (which could be the case).

Elliott Wave aside, we see the dominant and most important pattern being the rising trendline (blue) and the rising 50 day EMA - both of which are at the \$81.00 and \$80.50 area respectively, which could provide key support for price. However, IF price breaks under \$80, then under \$79, we would expect a reversal to the downside and a continuation of the prevailing downtrend... sending stocks, gold, and oil higher.

Any break above \$82.00 would have the opposite effect, sending stocks, gold and oil lower, but for now, the dominant view appears to be stronger commodities combined with a weaker dollar... but let's see these play out on the charts instead of inserting a strong personal bias either way. PRICE is key - not our opinions or analysis.

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