



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Note prices supported off the critical \$115 level (Line in the Sand) and now face a challenge of overhead resistance to clue us in for what to expect ahead. Next week will be pivotal.

S&P 500: Negative volume, momentum, and breadth divergences permeate the new highs, but buyers continue to push price higher. The 1,150 level will be key in letting us know the next likely move - if price is above, then target 1,225. If beneath, then watch for lower support levels and a strong retracement to come into play.

Gold: Gold has the potential to form a break from a daily bear flag as shown to target lower levels. We should know this week whether to expect a test of \$1,000 or \$1,200 as the next likely up or down target.

Crude Oil: I warned in last week's report of the potential for a vicious bull trap to form and that is exactly what happened. After breaking above the critical \$82 level, price fell sharply and now appears set to test \$75 or lower if the \$77 level fails to provide support.

US Dollar Index: Unlike gold, the Dollar is forming a daily bull flag with an upper target in the \$80.50 area, though its clear support areas are discussed as well.

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

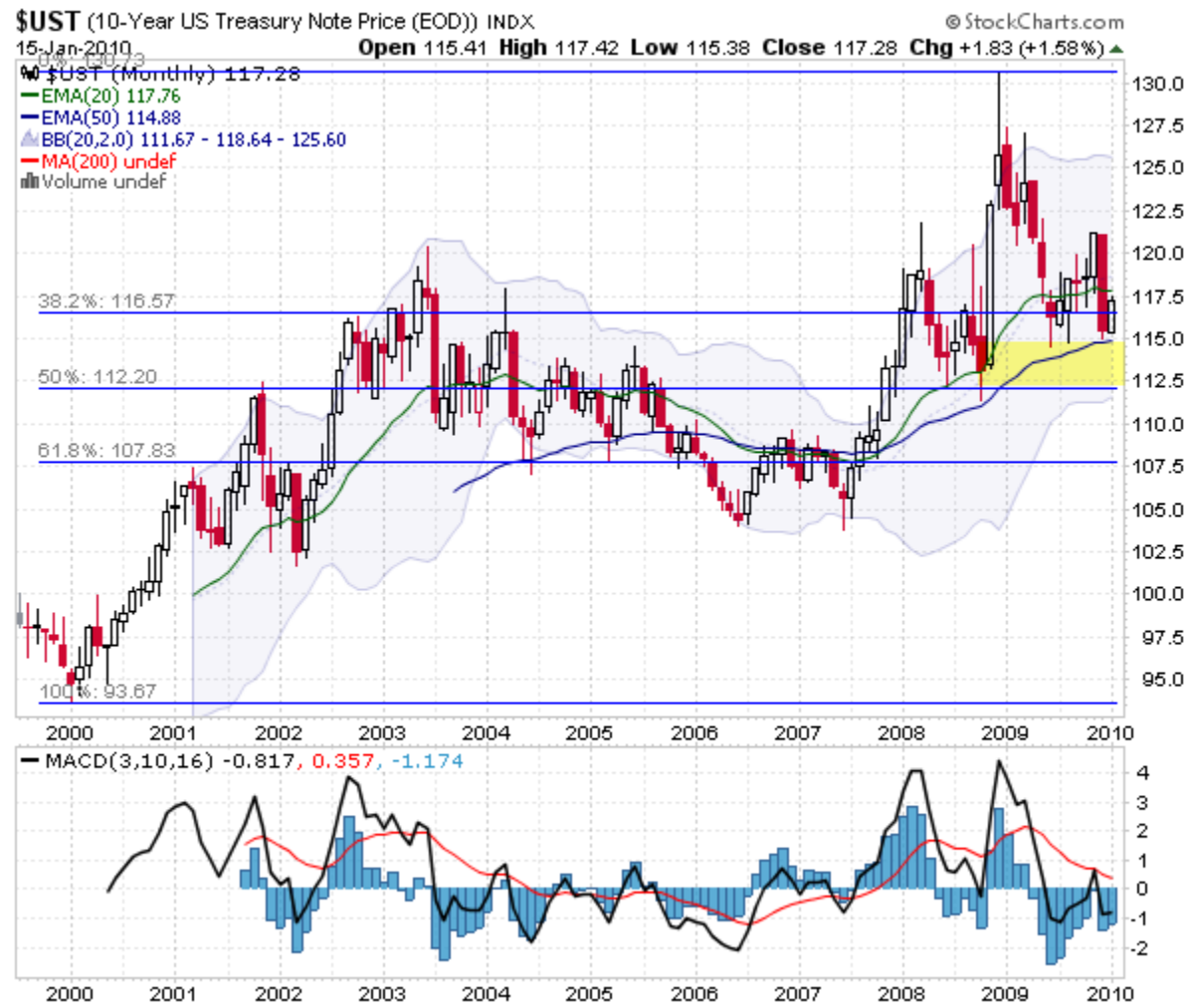
A RISING Dollar (Index) is BEARISH for Stocks and Commodities and is BULLISH for Bond Prices.

Yields generally follow in the direction of the stock market and are always inverse bond/note prices.

(Note - these relationships are subject to change in the current environment)

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

Monthly



As was the probable outcome, bonds/note prices bounced off the critical \$115.00 area, or the critical "Line in the Sand" as I discussed in last week's report.

Now, price faces a similar overhead resistance challenge which we'll see on the lower frames.

On the monthly chart, we see the 50 EMA at the \$114.88 level - off of which price has formed support. Use it as the key reference to divide 'bull and bear' assumptions in bond prices.

A break under \$115.00 targets the \$112.50 level immediately.

Weekly



Price supported off the \$115 inflection point as expected and is now challenging an overhead resistance area at the \$117.50/\$118 level as seen above.

The 20 and 50 EMAs converge at the \$118 level, while the 50% Fibonacci line resides at \$117.60. \$118 is an upside target and overhead resistance level to watch. Should price rise above, then odds favor a retest of the \$120 level, but the bias is that resistance will hold, but we need to watch this closely.

Daily



Price rallied off the 'triple bottom' support zone (three swing lows) and is now facing key overhead resistance from the declining 50 day EMA at \$117.50 along with the rising "flag" trendline at the \$118.50 zone.

Any move above \$118.00 and \$118.50 is extremely bullish, as it would break the expected resistance level here.

US S&P 500 (\$SPX)

Monthly



The monthly chart is critical in showing the 'final' line of resistance for the market before challenging the 1,225 area. The 50 month EMA currently is exactly 1,150 - which is where price appears to be making (at least) a short-term retracement against this important resistance area.

We still have a negative volume divergence (non-confirmation) moving into this level, so caution is advised while we are still under 1,150.

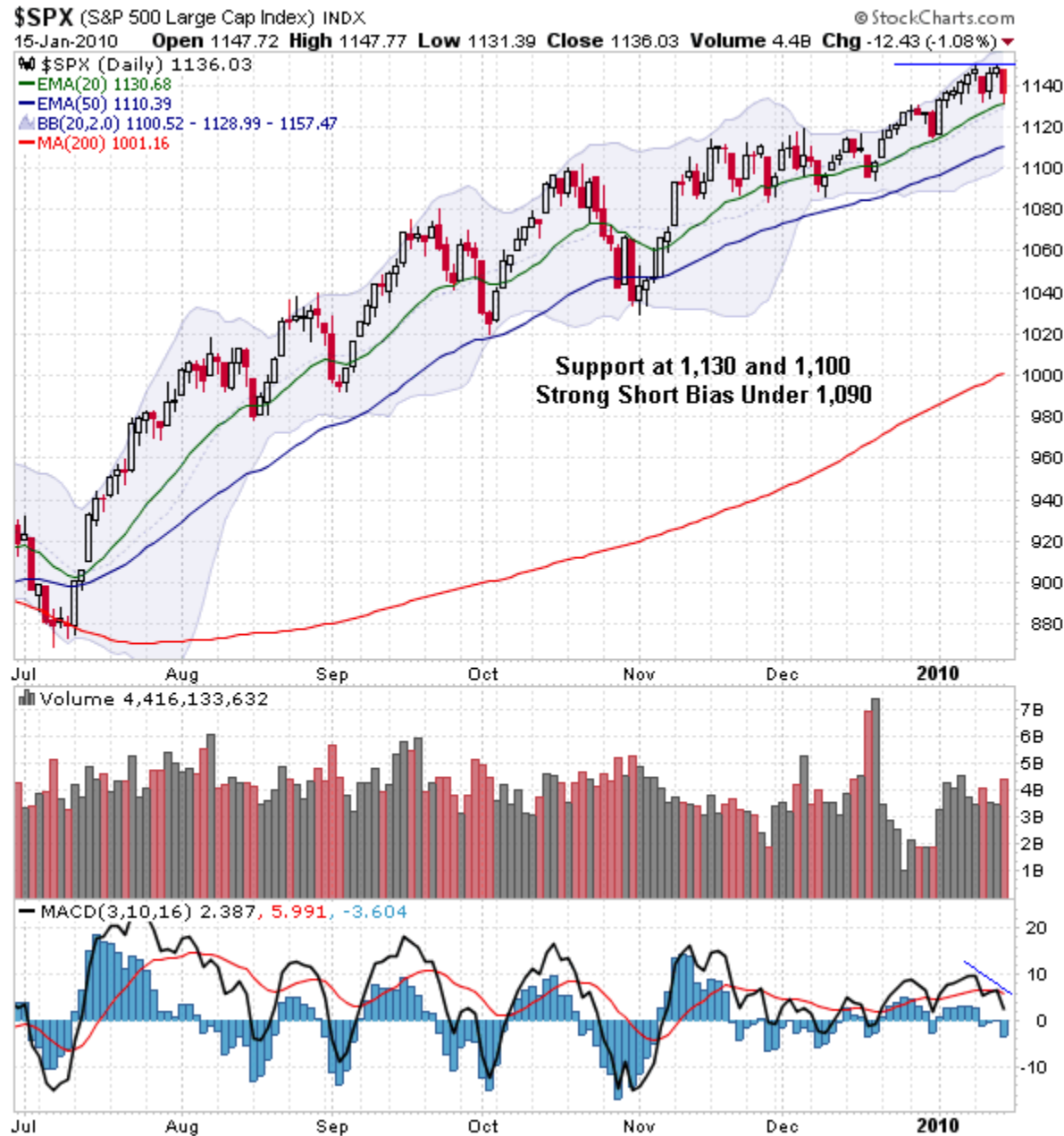
Weekly



The weekly chart shows the negative volume divergence clearer, along with a negative (weekly) momentum divergence - both non-confirmations of higher prices.

Otherwise, we see price above the critical 1,121 level and set to challenge the next 'confluence' resistance level at 1,225. The only barrier between here and 1,225 is the 1,150 resistance level here, so watch closely on any down-move from here. Be ready to continue trading long if price cleanly clears 1,150, but otherwise, expect resistance to hold, and consider taking profits if any lower support zone (see daily chart) is broken.

Daily:



The daily chart shows key support levels (daily) at 1,130 and 1,110 (20 and 50 EMAs respectively).

Beneath these, any move under 1,100 would be confirmation that we would be expecting (and trading) a move lower to test the 1,030 prior swing low if not the 1,020 level. Again, any move under 1,100 sets up a target to the 1,030/1,020 level. Otherwise, price has supported on these levels consistently for the duration of the whole rally (except June).

See the 120 min chart for more clues as to levels to watch.



There is initial (critical) short-term support at the 1,130 level (this is the @ES futures contract so the level is slightly different than the index itself). Under that, we see the Fibonacci retracement grid as shown. As price reached new highs, we saw a distinct negative momentum divergence, and now we see a new momentum low which argues that odds favor lower prices yet to come, but with this bullish onslaught, you need to wait for confirmation of bearish signals because all prior signals have failed and resulted in 'stop-covering' (short-squeeze) rallies and it certainly could happen again.

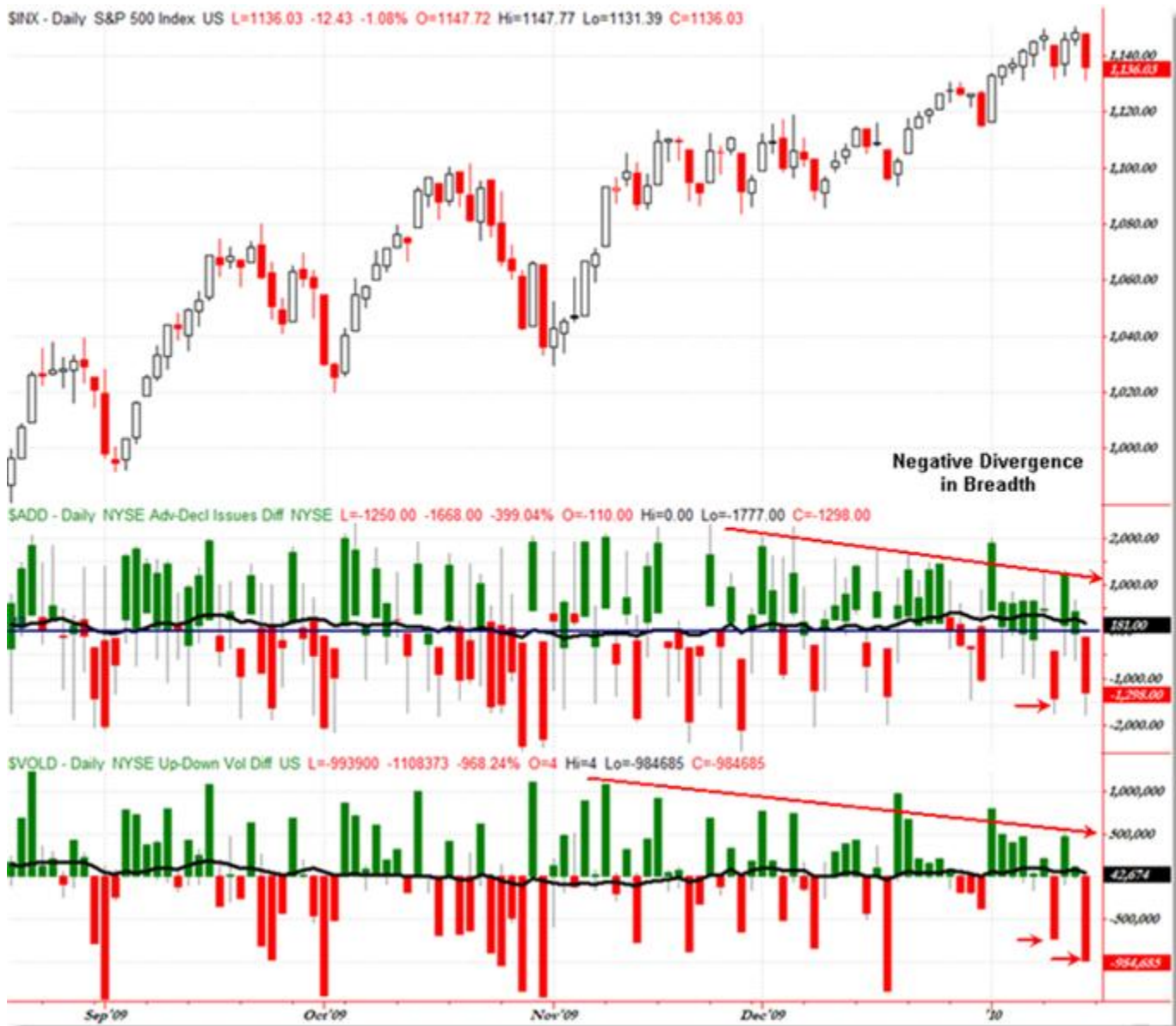


Here is an update of the COT (Commitment of Traders) report - it remains slightly unchanged since last week's report.

Professionals (Large Specs) are net long almost 50,000 contracts (hedgers - of little importance to this point of view - are net long 20,000), while the retail public (small speculators/non-reportables) are net short almost 70,000 contracts.

That's still bullish (from this point of view - that of "Go WITH the professionals and AGAINST the retail public") but less so than the extreme reading in December when the public was net short almost 300,000 contracts and the 'smart' professionals were net long 200,000 contracts (the professionals are often more correct about the future of price than the public).

These numbers are coming more into alignment... which could be interpreted as Professionals are now SELLING while the retail public/small speculators are becoming bullish or are now BUYING (at least more than they did). This argues for potential correction down or reversal in price in the near future from THIS particular indicator.



A quick update on Market Internals (Breadth - top line and Volume Difference on the bottom line).

Breadth is deteriorating (diverging) as the index makes its higher highs (very bearish signal) while the Volume Difference (\$VOLD) is also diverging sharply and is making new swing lows - both of which are bearish omens.

These are not bullish signals, and argue that odds are increasing to favor a downside action... or at least that the higher highs in the indexes are being made on fewer stocks making strong positive readings.

It's very difficult to call exact tops and bottoms, but you can get clues from a variety of sources. Odds are shifting to begin questioning the strength or continuity of this rally, but we would need conclusive downside action (breaking under 1,080) to expect a reversal - wait for confirmation instead of trying to exit (or short) an exact price. Watch for trendline breaks as the first sign that odds are overwhelmingly shifted to favor downside action. Trying to call a top in this market - even if this is the exact top here - has proven terribly damaging to trading accounts so far.

Gold

Monthly



There are two clear forces working on gold prices at the moment - the powerful, prevailing uptrend that began in 2001... and the 'chart pattern' or historical development that has happened each time gold has stretched above the upper Bollinger Band in a \$250 to \$300 point swing (price has retraced back to the monthly 20 EMA directly after). These points are highlighted.

Odds favor a pullback to the 20 EMA on the higher timeframe to 'correct' or 'retrace' part of the recent advance, which means we have an intermediate term target of \$1,000 for gold... which is also prior support from the 2008/2009 period.

A negative divergence has also formed under the recent swing to new highs. Unless we see a move back solidly above \$1,150 and then \$1,200, the next likely target for gold is the \$1,000 level.

Weekly



As I've been highlighting, price has supported on the rising 20 week EMA and now faces a critical 'test' at the \$1,150 level. If price can close solidly above \$1,150, then we would expect a continuation move back to the \$1,200 level and beyond.

But until that happens, price is in a retracement mode with the 20 EMA as support, which is now at the \$1,080 level.

Any break of the 20 EMA sets up an immediate lower test of the \$1,000 level, which again is the monthly likely target.

Any move over \$1,150, \$1,175 and then \$1,200 of course invalidates this view.

Daily



I wanted to highlight the potential for a bear flag forming in gold, which sets a price projection target - interestingly enough - to the \$1,000 level which is also the rising 200 day SMA.

We will know that this is the expected play when (and if) price breaks under the 50 day EMA at the \$1,115 level and especially the \$1,100 level. A break under the December low of \$1,075 places the next target - with high odds - at \$1,000 so position accordingly (or trade accordingly) on any move lower from here, particularly if the bull flag pattern in the US Dollar Index breaks to the upside.

Otherwise, there will be stop-losses above \$1,160 that could help trigger a move back to \$1,200 on any upside break from here.



The 120-min frame gives a 'trading' perspective on the recent down-swing and upward correction.

I've drawn an Elliott 'fractal' and note that a potential 'head and shoulders' is forming on the right side of the chart.

Still, watch for a break down beneath \$1,120 to confirm that odds favor a downward move at least to test support at \$1,080 and then any move under \$1,080 should trigger a move back to \$1,000.

This view is invalidated - with a 'flip and reverse' on any move above \$1,160 as shown above.

WTI Crude Oil (\$WTIC)

Monthly



As I mentioned in my special update note last week, we either faced the possibility of a breakout here above the \$81 level... or a vicious bull trap, and so far, the market is in "vicious bull trap mode," as price broke slightly above this level and then plunged back under it violently, trapping all those who bought at the higher level in true 'trap' mode.

As a matter of experience, 'traps' can produce larger than expected moves in the opposite direction (meaning, down in this case) so be on guard for that possibility.

As such, we see no change in monthly structure, with the \$81 level remaining the critical line in the sand between a bull and bear resolution.

If above \$82, then the target is \$92. If beneath, then we look to plenty of lower support targets, such as the \$75 level.

Weekly



Last week was a 5% down-week that served as a major 'trap' for buyers, as it occurred at the upper Bollinger Band level on a clear (now seemingly three-push) negative momentum divergence.

Price is currently underneath the key \$81 level, and thus a bearish to neutral bias remains under this level.

The 20 week EMA rests at \$75 - a likely downside support target.

Daily



Should price break beneath the rising 50 day EMA - currently at \$77.50 - then the next logical 'stopping point' or target is the \$75 area, which reflects confluence support.

Price formed the Bull Trap as I mentioned in last week's report as a possibility, and when a trap occurs, a larger than expected move often triggers in the opposite direction.

Should price fail to support at the \$78 level, then the next target is the \$74 to \$75 level, and any move under \$74 targets the \$70 level.



The 60-min chart shows the divergences that preceded this week's downward retracement.

We could see support at the \$77 level (61.8% Fibonacci Retracement) and multi-swing positive divergences are now forming at the new price lows, so - for now - watch support at \$77 but any move under \$77 should lead to a retracement back to challenge the \$74 level as mentioned previously.

US Dollar Index (\$USD)

Monthly



The monthly chart remains the same, with price in a technical 'counter-trend' rally to challenge the underside of the 20 (or perhaps 50) month EMA - at the \$79.07 and \$81.70 levels respectively.

The \$79 level reflects multi-timeframe resistance, as we will see on the lower frames.

Weekly

\$USD (US Dollar Index (EOD)) INDX

15-Jan-2010

Open 77.47 High 77.47 Low 76.60 Close 77.24 Chg -0.22 (-0.28%)

USD (Weekly) 77.24

EMA(20) 77.22

EMA(50) 78.60

BB(20,2.0) 74.68 - 76.56 - 78.44

MA(200) 80.69



The 50 week EMA and upper Bollinger Band rest at \$78.60 and \$78.44 respectively, serving as an overhead resistance level.

In terms of support, the 20 week EMA rests at \$77.22, which is where price has formed a hammer candle into this potential support zone.

These are the levels to watch on the weekly frame - a break under \$77 clues us to expect further downside action while a break above \$79 tells us to expect a move perhaps to the confluence resistance at the \$80 level.

Daily



Much like daily gold prices, we are seeing the potential for an intermediate term bull flag to form and reach its upper target on the Dollar Index.

This trade is currently bouncing off 'support (the 50 EMA) after forming a doji on Thursday and then a strong candle on Friday. If price breaks above \$77.50 and then above \$78 (confirmation), then this would be a strong clue that odds favored a price move up to the \$80.50 area (that's the 38.2% Retracement and 200 SMA on the weekly chart).

Any move lower - beneath \$76.50 would invalidate the flag and clue us in that odds favored a move back down to the \$74.50 level, but for now, the bull flag is the dominant pattern and expectation going forward until proven otherwise.



The 120 min chart shows the rally off the December lows and the subsequent bull flag that appears to be setting up on the daily chart as described previously.

A break above \$78 officially triggers the flag breakout trade, otherwise, traders might consider being long-biased while price is greater than the \$77 line (38.2% retracement - short term).

Any move under \$76.50 and of course \$76 invalidates this set-up and clues us that odds favor a retest of the \$74.50 level.

Also, note the positive momentum divergence forming since the January oscillator low.

Disclaimer:

All information is from sources deemed to be reliable, but there is no guarantee to the accuracy. Information is for educational purposes only and is not intended to give specific trading advice. Past performance is no guarantee of future performance. Investment/ trading carries significant risk of loss and you should consult your financial professional before investing or trading. Your financial advisor can give you specific financial advice that is appropriate to your needs, risk-tolerance, and financial position. Neither Corey Rosenbloom nor Afraid to Trade was compensated in any way by any of the broad markets, stocks, or securities discussed in this report. Corey Rosenbloom is compensated by the sale of this report and not by any underwriter or dealer associated with these markets. Opinions are based on widely-accepted methods of technical analysis including the Elliott Wave Principle, Oscillators/Indicators, Candle-charting analysis, Volume, Fibonacci, and other methods of analysis. No specific recommendation is given to buy, hold, or sell any of these markets/securities or exchange traded funds related to these markets. Neither Corey Rosenbloom nor Afraid to Trade is a Registered Investment Advisor. Long-term investment success relies on recognizing probabilities in price action for possible future outcomes, rather than absolute certainty – risk-management is critical for success. Error and uncertainty are part of any form of market analysis.