



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: As long as stock prices continue to fall, it is expected that note/bond prices will continue to rise, thus the relationship remains as expected. Watch for potential resistance areas here, but if broken, the bond rally will continue perhaps to test prior highs.

S&P 500: The S&P 500 closed last week still in 'sell-off' mode, taking out the key 1,080 level. Any further move down could occur quickly to challenge 1,040, though watch closely the movement early next week.

Gold: Gold may be the most interesting market to study this week, as price remains at a critical support zone at \$1,075 with a positive divergence forming. Any move under \$1,075 clues us that odds favor a move back to \$1,000 but watch if buyers can reclaim the price to push higher from here.

Crude Oil: Like Gold, crude oil sits at a critical support level that is balanced precariously over a cliff. Should buyers not be able to push price higher from the \$72.50 support, then look for a move to \$70... and any move under \$70 is a major bearish omen that forecasts lower prices to \$65, \$60 or beyond.

US Dollar Index: The dollar continues its bull flag pattern with an upper projection target to \$80.50. All signs are a 'go,' but watch for any sudden signs of weakness, particularly if the stock market rallies next week and gold/crude oil bounce off their support levels. If not, then the dollar will likely hit \$80.50 soon.

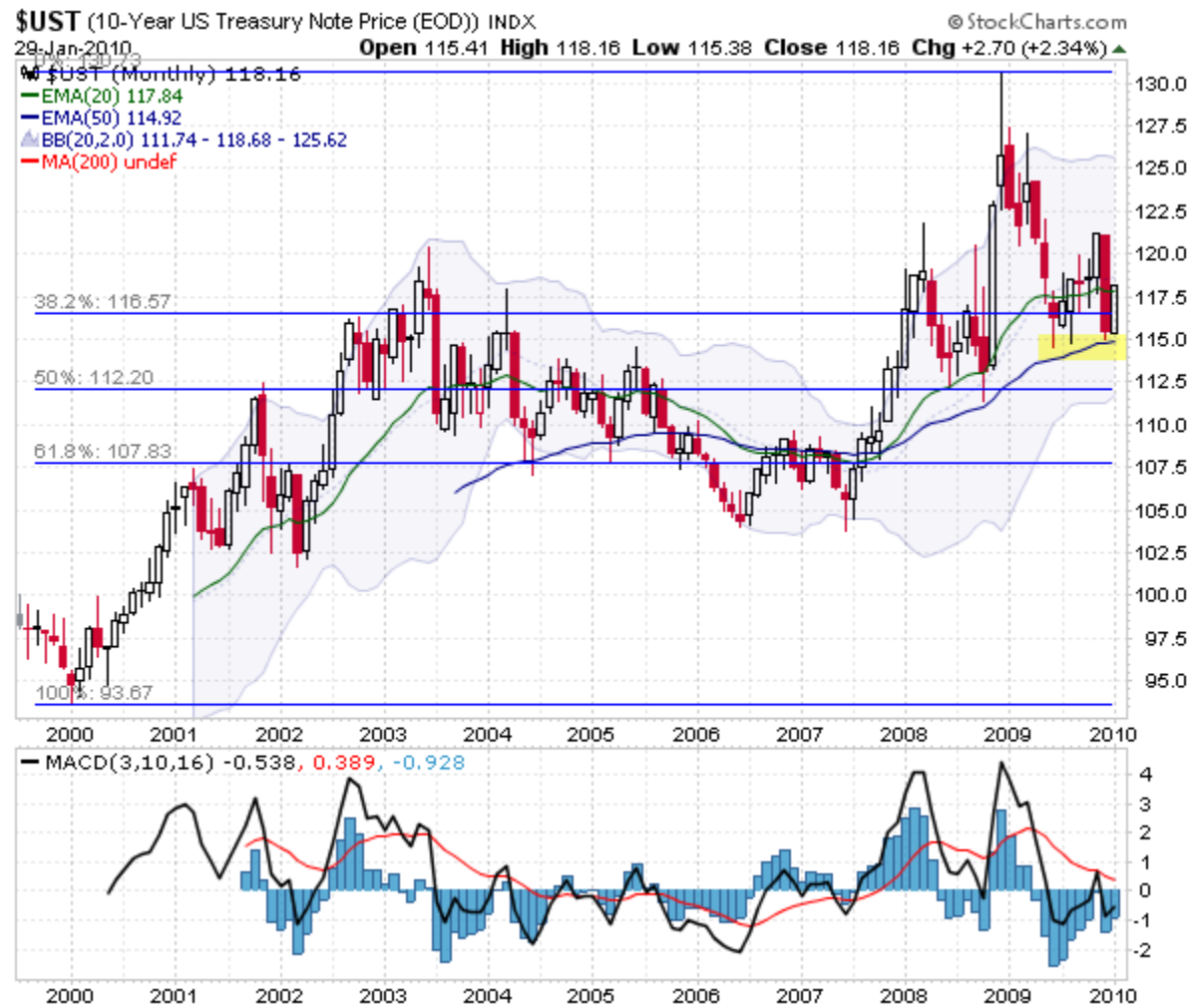
Remember, a DECLINING Dollar (Index) is BULLISH for Stocks and Commodities and is BEARISH for Bond Prices

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



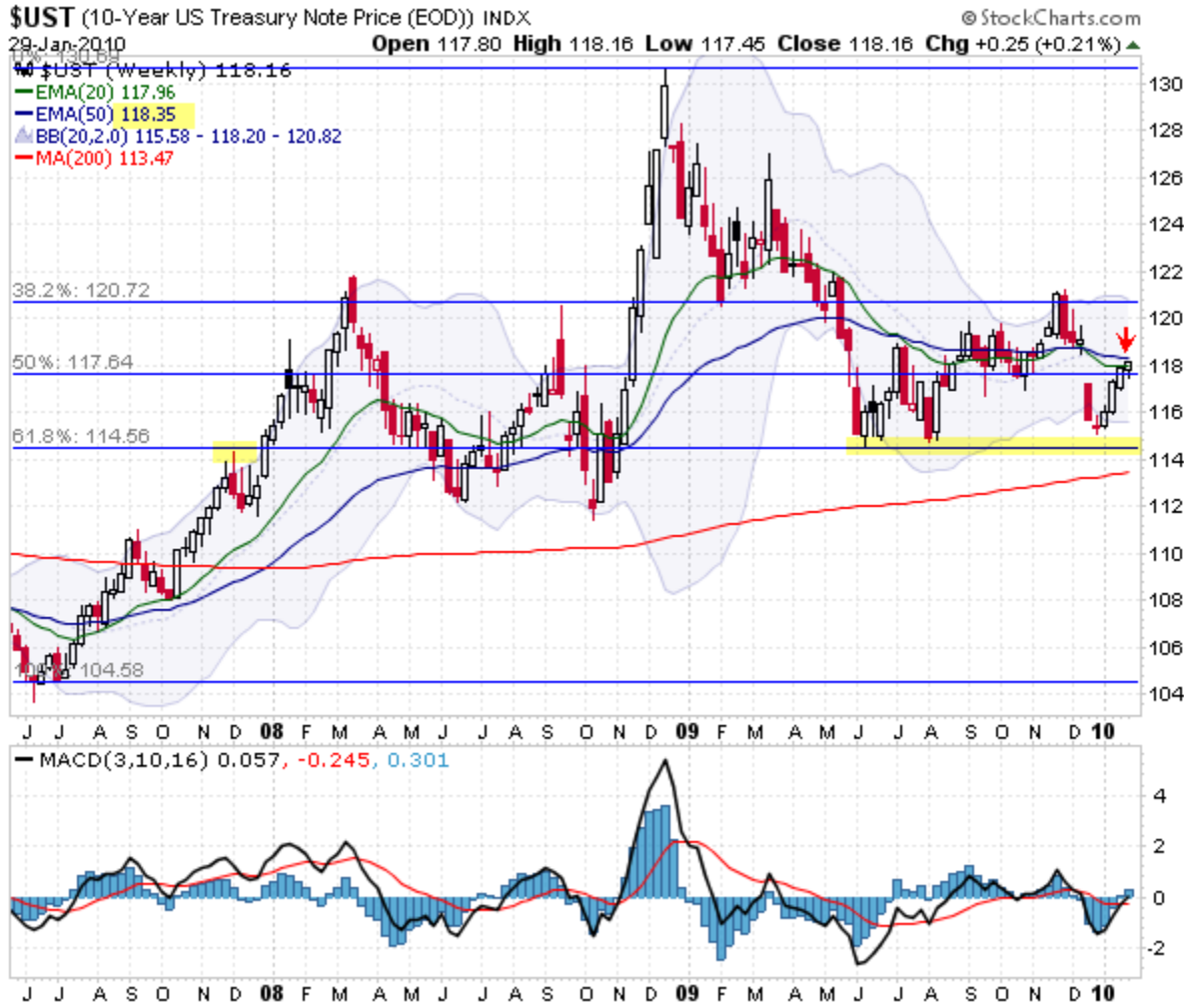
Note/bond prices continue to rise as stock prices fall - that is the current inter-market expected relationship - so these markets are currently moving in their expected pathways.

We see that monthly 10-year note prices bounced sharply recently off the \$115.00 support line (50 EMA) and now rest just above the resistance of the 20 month EMA at \$117.84 (price closed January at \$118.16).

It would be very bullish if prices could continue their rally above this resistance level, and would hint that we could be seeing a move back to \$120/\$122 at least.

For now, watch to see if lower timeframe resistance can be cleared.

Weekly



Notes also have EMA resistance (50 week) at \$118.35 - just under where price closed January. A break above \$118.50 clues us in to expect a continuation of this expected rally which could take price back to the \$121 highs - particularly if the stock market continues selling off.

Otherwise, price could see a correction down from here if we see a short-term recovery early next week in stocks.

For reference, \$114.50 remains the key level to watch between bullish/neutral bias (above) and bearish bias (if beneath) so position accordingly.

Daily



In keeping with the 'overhead resistance' theme, the 200 day SMA rests at \$118.18. Again, a price breakthrough (continuation) to the upside would clue us in to expect a move that could stretch as far as the November \$121 high.

Also note that the 50% Fibonacci retracement of the recent down-move rests also at \$118.13 - marking a multi-timeframe confluence of resistance at the \$118 level.

Again, any further push higher hints that the upper target is the \$121 level - otherwise we should expect a potential pullback at the resistance level - especially if stocks rally on Monday (or a breakthrough resistance if stocks continue falling).

US S&P 500 (\$SPX)

Monthly



The monthly chart has officially closed with a bearish engulfing candle that inflected exactly off the 1,150 key resistance level I've been highlighting - 50 month EMA and measured move projection off the lows. A negative volume divergence has also accompanied the 2009 push to new recovery highs which serves as a non-confirmation and 'warning signal.'

For reference, the 20 month EMA is expected support at 1,063... but we would look next to the weekly chart for a more logical support target.

Weekly



Price just broke under the 20 month EMA at the 1,080 level, leaving the next support target (via moving averages) at the 1,050 level (50 week EMA). Watch for the possibility of a sudden move down to this price.

The weekly chart shows us the insides of the negative volume and momentum divergence, which are bearish non-confirmation signals. Also, volume is beginning to rise as price is selling-off which is a bearish confirmation.

If this move down is similar to the June/July 2009 move, then we would expect a 75 point retracement which would take price down to the 1,075 level (where we are now). Watch 1,050 as a key level as seen on the weekly chart along with 1,014 and especially the round-number 1,000 as expected support levels on this pullback in an uptrend.

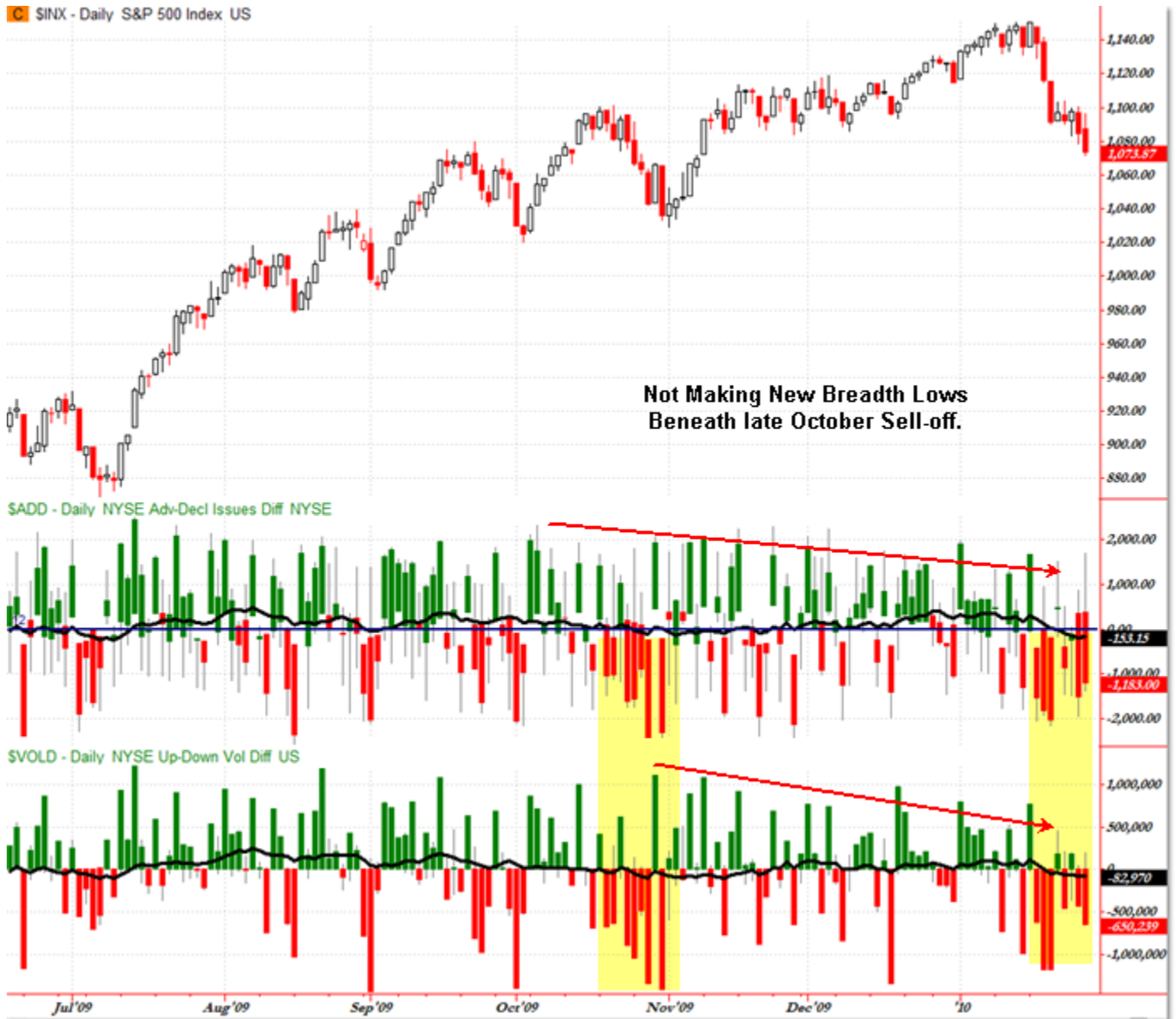
Any move under 1,000 would flip the structure solidly to the bearish side, arguing for a deeper pullback to continue to push price to 850 or lower - we'll continue monitoring these levels as they develop each week.

Daily:



Though we have potential EMA support at the 1,050 level (weekly chart), we see no further support via the daily chart until we reach the 1,040 level, which is the 38.2% retracement and the November price lows (1,030). It is expected that 'open air' is beneath the 1,080 support level down to the 1,040 area unless buyers can push price off a higher timeframe support zone.

The picture is turning more bearish, with the new momentum low and rise in volume as price moves deeper into the current retracement. We are officially in the 'neutral' mode, as price has broken the 1,100 level (stop-loss and new short-sale entry) and broken the 1,080 level, but the picture has turned bearish but late to enter a new short here as price is nearing a support target. It may be best - if not positioned already - to wait to see if price can test the 1,040 level and then position for a bounce off support or otherwise bearish protection position should the 1,040 level fail to hold.



While we are seeing a concentration of lower readings in our Breadth and Volume Indicators, we are NOT seeing new breadth/volume difference lows here - the readings are not falling under the levels seen at the end of November 2009. While that is some comfort to the bulls/buyers (meaning that price is not in a panic-mode sell-off yet), it is certainly something to continue watching to see if we do get new breadth lows next week, which would forecast lower price lows and a deeper retracement yet to come.

For now, we are not seeing 'panic sell' signals in internals as seen above (in fact, we are seeing slight positive breadth divergences as noted on Friday's sell-off day - internals did not make new lows).

@ES - Daily E-mini S&P 500 Continuous Contract [Mar10] CME



Continuing the thought that 'internals are not as bearish as price may have you believe,' we see a steady picture and even a 'strengthening' of positions by the Large Speculators (market professionals) who added net longs in the @ES mini-futures contracts last week (I would have suspected there would be a sell-off of professionals here).

Instead, the picture remains Professionals net long 92,000 contracts while the 'retail' or small-speculator (public) remains short 56,000 contracts. This means that the 'strong hands' are buyers of the market and the weak hands or 'small speculators' are net sellers... and more times than not, the professionals make the right move while the small speculators make the wrong move... and this is a bullish sign from a "commitment of traders" standpoint (until the data 'flips' where the professionals become net short and the public becomes net long).

Incidentally, the big change this week was in the commercials/hedgers that went from roughly 40,000 contracts long to 36,000 contracts net short.

Gold

Monthly



Gold monthly prices continue their slide to the likely \$1,000 target as seen above.

It bears repeating that each of the prior two times price has spiked outside the upper Bollinger Band, a move back down to the 20 EMA has materialized - and this time that would take us to the \$975/\$1,000 level if history repeats.

Also, \$1,000 is a key psychological support level, so it remains the higher timeframe target until proven otherwise.

Weekly



There is one level that can prevent sellers from pushing gold prices to the \$1,000 target - and that level is here at the \$1,075 area, which is the 20 week EMA (\$1,082) and the 50% Fibonacci retracement as seen on the daily chart.

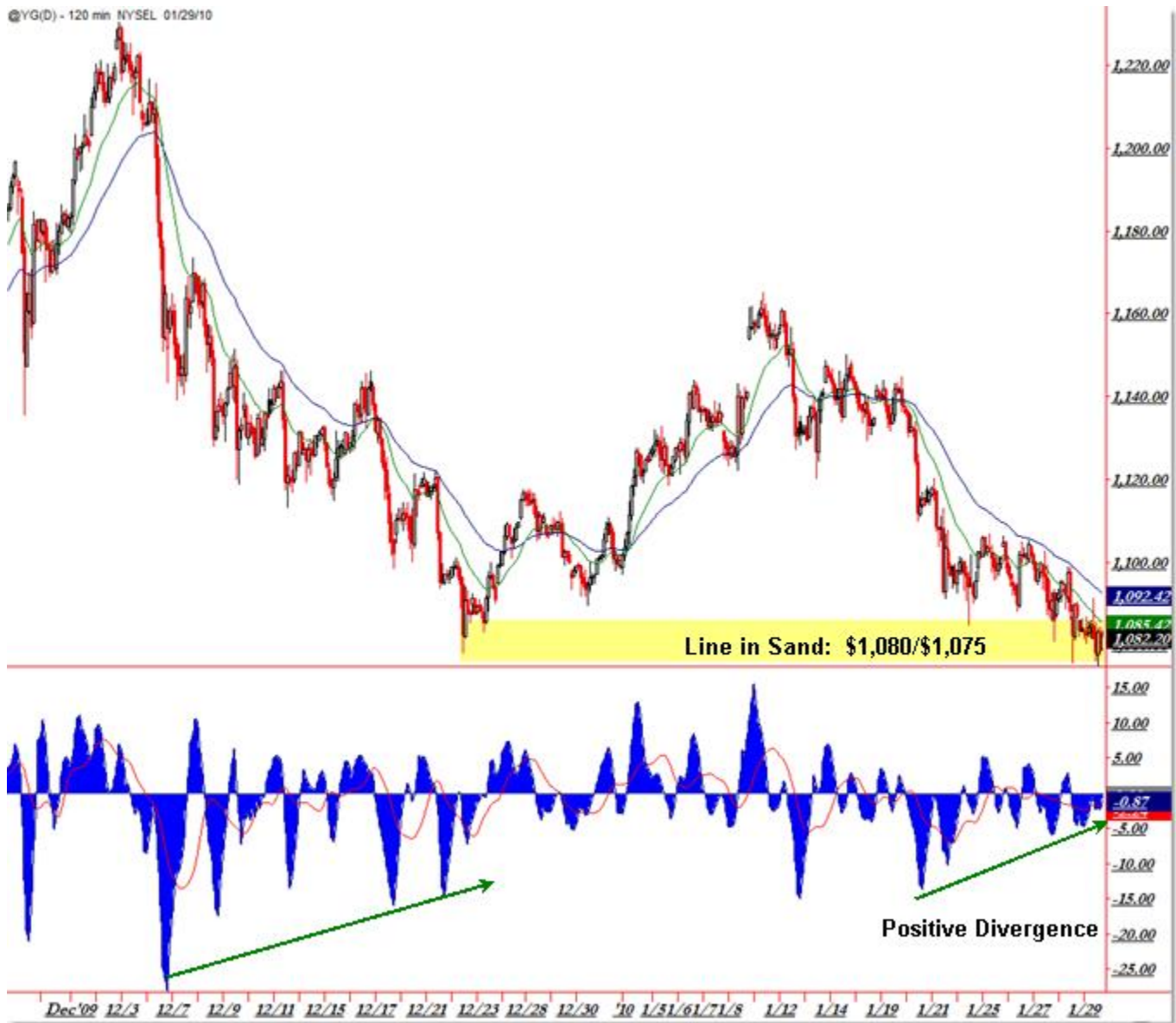
Otherwise, a break under \$1,075 would solidly place the odds in favor of a swift move back to the confluence \$1,000 support level (38.2% Fibonacci as seen above and daily 50 EMA).

Daily



I've been highlighting for the last few weeks of the potential Bear Flag formation which now has triggered and is officially on trajectory to test the \$1,000 level for a price projection target (which is also the 200 day SMA).

Again, the only level that can 'thwart' this target is the present level at \$1,075 - the 50% Fibonacci and prior price support level (see 120 chart below).

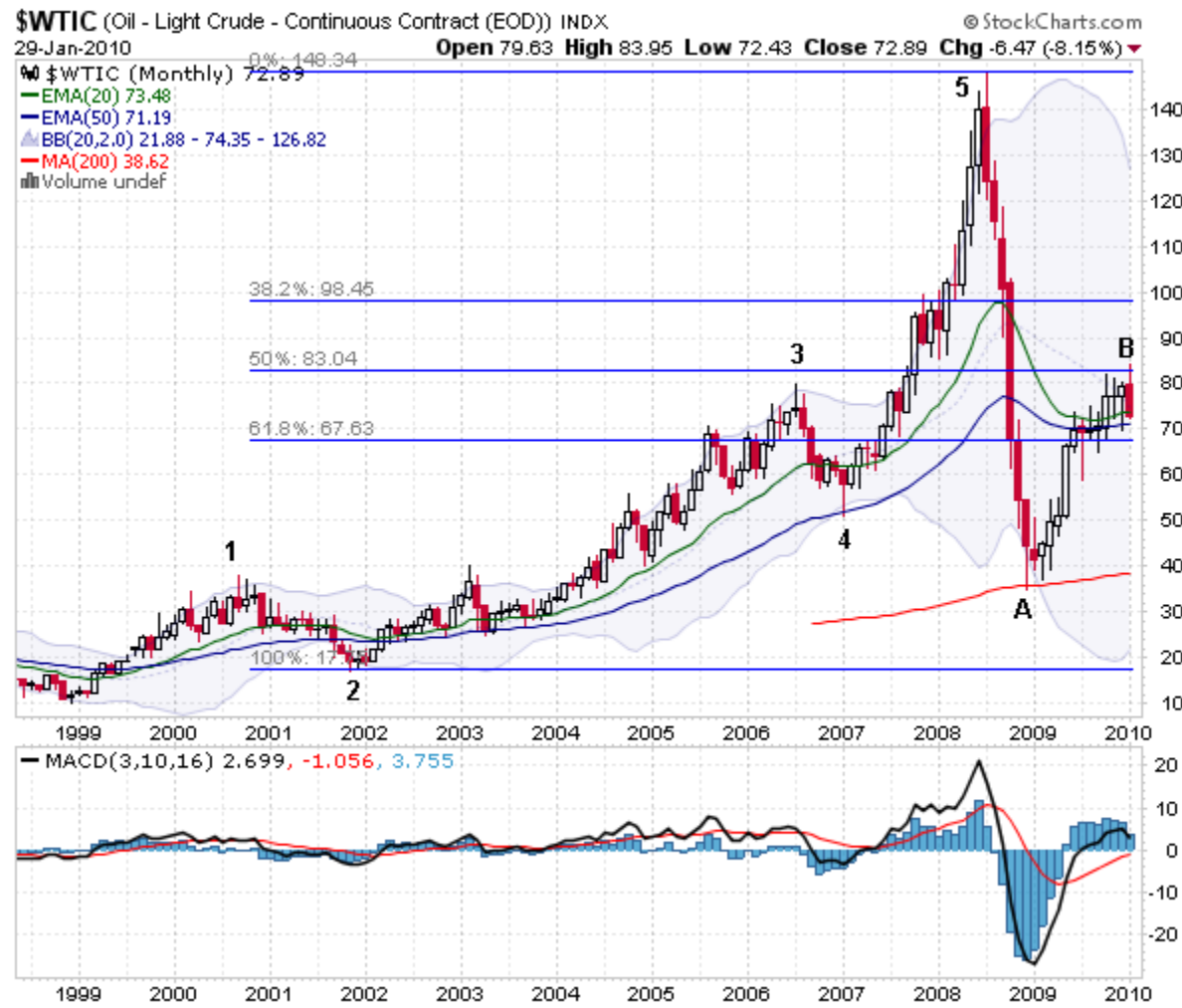


The line in the sand - therefore - remains the \$1,075 level as seen above as prior price support.

Momentum is forming a positive divergence as price tests this critical "Line in the Sand" area, and we could realistically see a bounce next week off this level, but if we don't, then a positive feedback environment (those who are long will stop out under this level and those who are not yet short will likely get short - creating a downside momentum move) to take price down to the expected \$1,000 target over time.

WTI Crude Oil (\$WTIC)

Monthly



Crude Oil inflected downwards off the critical \$82 level (the 'line in the sand between bull and bear') and is now suffering a downside move as expected with the recent failure to overcome this critical multi-timeframe level.

This candle is a bearish engulfing candle at resistance, and we do have key support levels under price here (including \$71.19 the 50 month EMA) along with other lower timeframe levels.

Any move under the \$65 zone would argue for a deeper sell-off that could take price as low as the \$40 area - provided the stock market continues to fall from its levels currently.

Weekly



The two major levels to watch on weekly crude oil prices include the \$82 level (overhead resistance) and the \$70 level (lower support). A break of either level would be very significant, and at the moment, we are testing the lower \$70 support line (the 50 week EMA is actually \$72.19).

A triple-swing negative divergence has set-in under price, which argues for a deeper retracement that normal on a resolution of the declining momentum environment we are seeing now as price 'scrapes' its way to new recovery highs.

For now, watch \$72 and \$70 for support going forward, but be prepared to trade short any move that drops beneath \$70.

Daily



We see another reason why the \$72.50 level here is important - and it's the lower trendline I've been drawing on recent update charts. A break under this trendline would be a sharp downside (bearish) development that would likely immediately test the \$70.00 level... and any break under \$70 creates an "open air" condition where price is likely to continue falling in 'positive feedback' (buyers stopping out while new shorts execute new positions... both selling).

As such, if the \$72.50 or \$70.00 level does not hold as a support zone and we see a bounce off these levels, be prepared to short (potentially) aggressively if not positioned already.



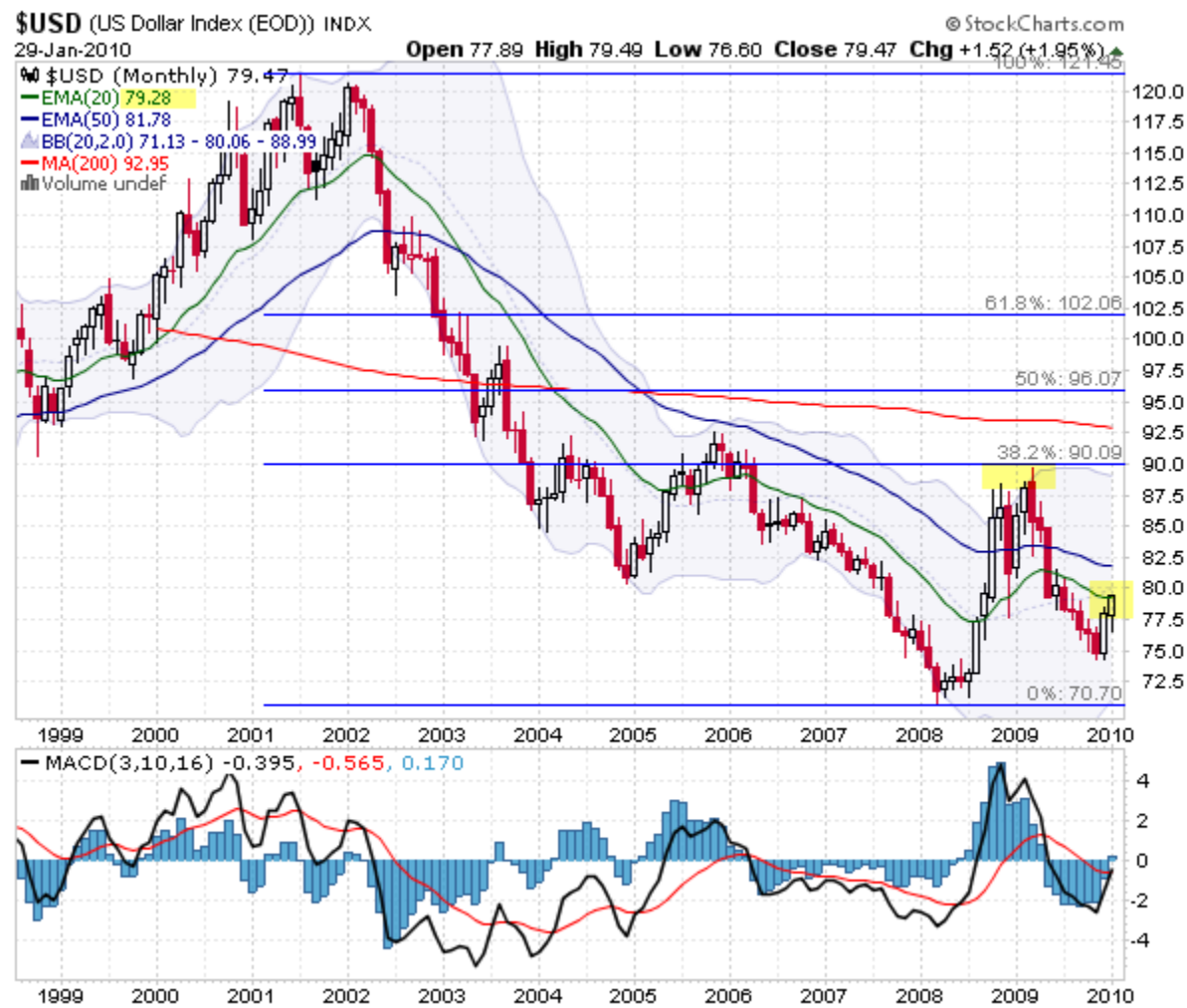
The 120 minute chart shows us the likely pathways ahead.

Either price (buyers) form a support bounce/rally (using the positive momentum divergence) at the \$72.50 level, or sellers continue pushing price through \$72.50, then we would likely see a swift move down to the \$70.00 level.

All bullish bets should be off if price cracks under \$70.00 per barrel.

US Dollar Index (\$USD)

Monthly



The monthly dollar index chart shows price is not 'respecting' overhead resistance via the 20 month EMA at \$79.28. The next overhead level to watch if the index continues rising is the \$81.75 level (50 EMA).

The trend officially remains down, so this is a counter-trend swing (technically) at the moment, but remember, trends all must reverse at some point, so it is often ambiguous at the turning points of trends on a higher frame.

Always keep the higher frame structure in mind when interpreting positions or investments as seen on the lower frame.

Weekly

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

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29-Jan-2010

Open 78.23 High 79.49 Low 78.03 Close 79.47 Chg +1.18 (+1.51%) ▲



With price firmly above the 50 week EMA at \$78.62, odds now favor a continuation move to the \$80.50 level, which doubles at the Bull Flag projection target along with the 200 week SMA at the \$80.60 level).

Notice the lengthy, multi-swing positive momentum divergence (I've been highlighting) as preceding this lengthy retracement/rally. It serves as a perfect example of how 'momentum precedes price' such that lengthy momentum divergences often precede price reversals that we can trade/position.

Daily



This chart shows the target for the daily Bull Flag pattern, which began at the \$74.50 level and ended at the \$78.50 level (\$4.00 impulse). When added to the \$76.50 flag lows (into the 50 EMA), we arrive at a price projection target of \$80.50, which appears to be the expected course that price is following in textbook fashion.

This is the bias going forward which I have been highlighting to you. Watch for any deviations from this course, and otherwise, expect the target to be hit.



I'm zooming the perspective back to show the lengthy positive divergence and logic of the projection for the bull flag.

We also see a prior resistance zone from the June/July swing highs at the \$80.50 level as converging with the flag projection target.

Again, we will assume the flag will complete with a move up to \$80.50 unless proven otherwise.



This is the same chart, only I have removed the bull flag annotation so to reveal a cleaner chart.

DX - 120 min NYBOT 01/29/10



The 120 min chart walks us inside the daily bull flag as mentioned above, and also overlays a potential Elliott Wave fractal count.

We're not seeing new momentum highs on the 3/10 Oscillator as we would like, so watch this closely for any emerging signs of weakness or price falling under \$79 next week.

Disclaimer:

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