



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Notes moved closer to the apex or breakout point of the lengthy triangle forming at \$117.50. Study the charts for the breakout play targets going forward.

S&P 500: Stocks continued in their "Popped Stops" rally as expected once buyers pushed price beyond 1,150. We're now in "open air" to 1,225, but face a challenge as the shorter timeframes formed a key sell signal Friday.

Gold: Gold fights to defend the \$1,100 level, which is the boundary between bull and bear, or specifically if expecting a move back to \$1,050 and then \$1,000 if under, or \$1,150 then \$1,225 if above.

Crude Oil: Crude Oil remains in a potential 'sell mode ahead' as described, but any move above \$84.00 breaks this sell-bias and targets \$92.00 as the next target.

US Dollar Index: The next few days will be key for the dollar to resolve whether we rallied as a correction (in which further downside is expected) or as an impulse (in which further upside is expected) and the resolution this week at \$81.50 will be key to defining the next set of expectations and trades.

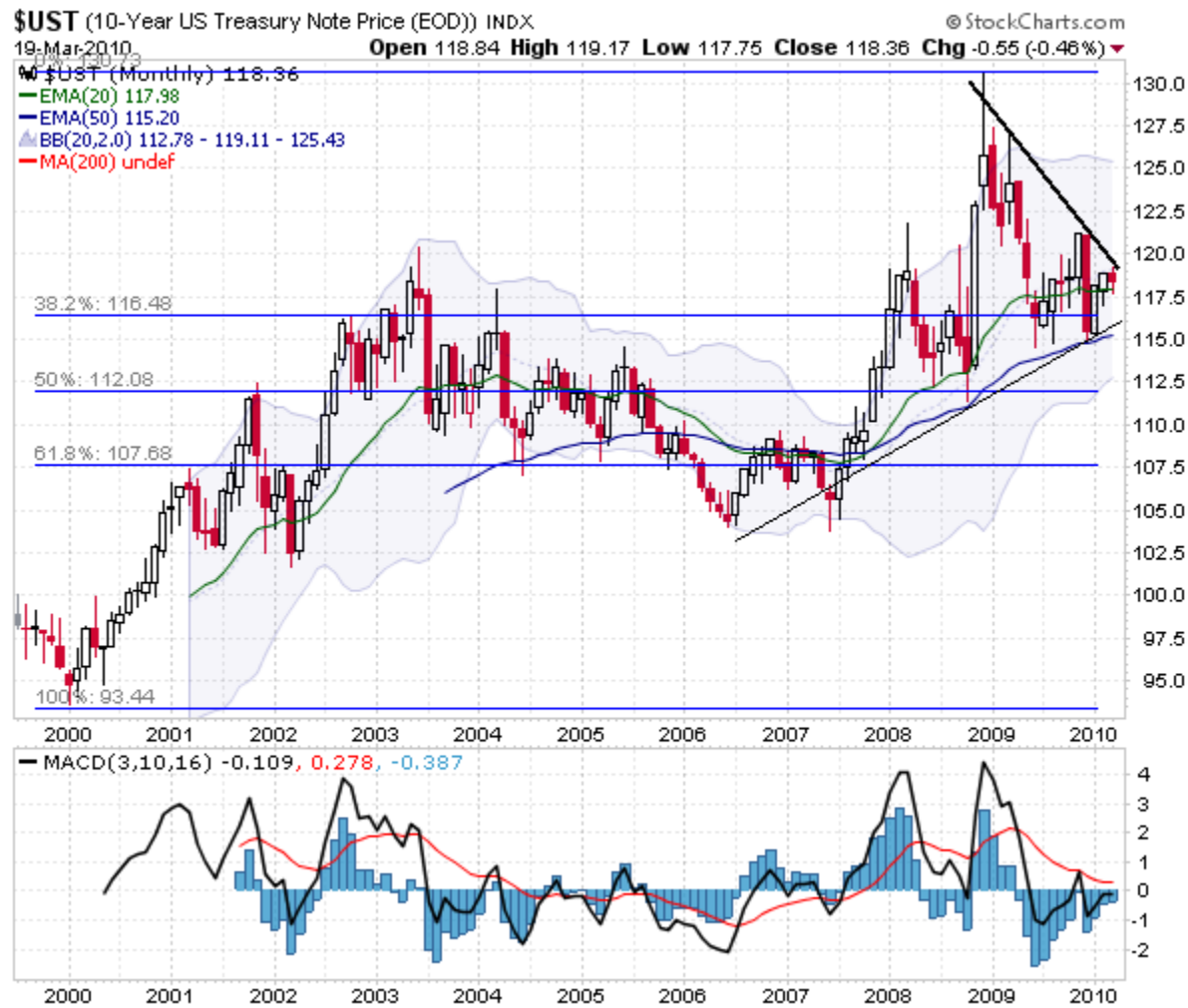
Remember, a DECLINING Dollar (Index) is BULLISH for Stocks and Commodities and is BEARISH for Bond Prices

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



Treasury Notes continued their 'triangulation' pattern this week, as seen here on the monthly frame.

The main idea with triangles is that they are compression patterns which build towards an apex - in this case \$117.50 - at which point we would expect a large range expansion move or break (bust) outside of the established trendline boundaries (which are best seen on lower timeframes).

We would expect a sharp upside break if the stock market fell sharply from here, but a potential sharp downside break to lower support levels (\$112.50 at a minimum) if the stock market continues to strengthen here.

Weekly



The triangle is best seen on the weekly frame as shown above, with the trendlines tightening about the \$117.50 level as the 'apex' or convergence point of the trendlines.

As a pattern, we cannot know in which direction price will break, we can just expect - from a "Range Alternation Standpoint" - that price will make a tradeable price impulse once price solidly breaks outside the trendlines (usually two closes outside is enough of a signal).

For now, that would be a break under \$117.00 or above \$119.00 to expect a swift move back to the \$121 high or the \$115 low... and any move beyond those intermediate boundaries would likely result in a continuation 'impulse' beyond those boundaries. Watch this market closely this week.

Daily



The daily chart shows an 'internal' or smaller triangle which has become dominant, with tight boundaries at the \$119.00 and \$118.00 level respectively.

Moving averages are of less importance in a triangle, so look to the trendlines themselves (as well as the Bollinger Bands) for trading signals.

It's possible that bonds/notes will break out of the trading range this week, so we could see some major activity in this market if not this week, then the next.

Remember, in general bonds/notes trade INVERSE to stocks, and serve as a place of financial stability ... in that bonds are in demand when stock prices fall sharply, and vice versa that bond investors will move out of bonds and into stocks if the market is seen as bullishly rising into the future.

US S&P 500 (\$SPX)

Monthly



We are now in the "Open Air" phase after having broken above the 1,150 key level and the 50 month EMA at 1,146. From a chart perspective, as long as buyers/bulls can sustain price above this level (putting bullish stop-losses under 1,150), then the 'airway' is clear for higher prices ahead, despite negative volume divergences. The 1,150 level was a major "Line in the Sand" between bull and bear, and so bears/sellers are forced to capitulate (cover their shorts) above this level, which drives prices higher. The monthly chart reflects a bullish bias IF above 1,150, a cautious/neutral bias IF between 1,025 and 1,150, and a very bearish bias if back under 1,000.

Weekly



The weekly chart shows that the next logical overhead resistance level - which serves both as a target to play for and the next 'line in the sand' - is the confluence at 1,225. Generally, when price moves above one resistance level, the play (trade) is to trade with price to the next resistance level, while placing a stop under the prior level (in this case, 1,150).

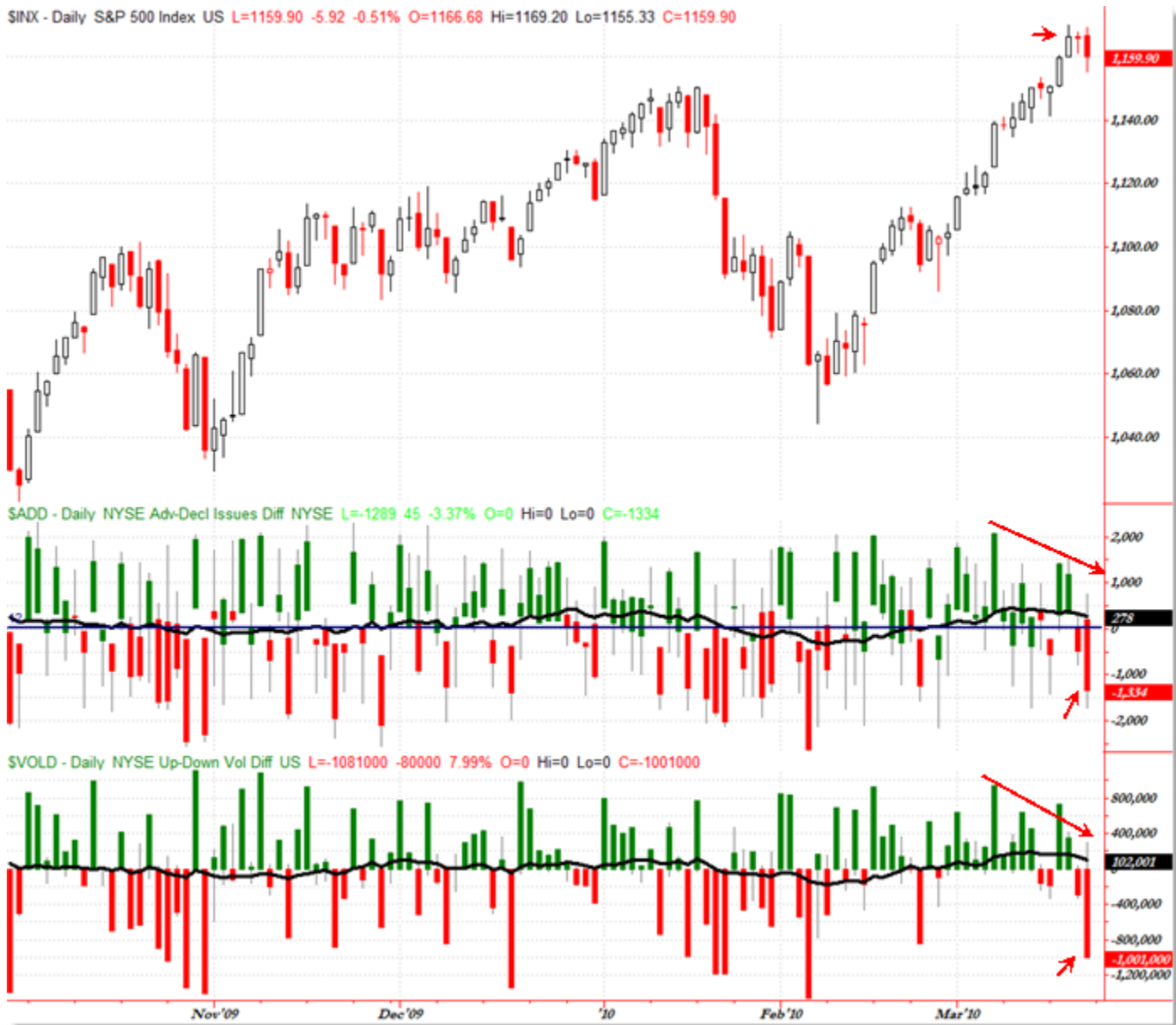
It is possible that this recent "popped stops" rally was a vicious bull trap, so it would be better (if not long already) to wait for price to overcome the 1,175 level before playing for a move up to 1,225, or seeing what the resolution of the 'sell signal' on the daily chart below becomes.

Daily:

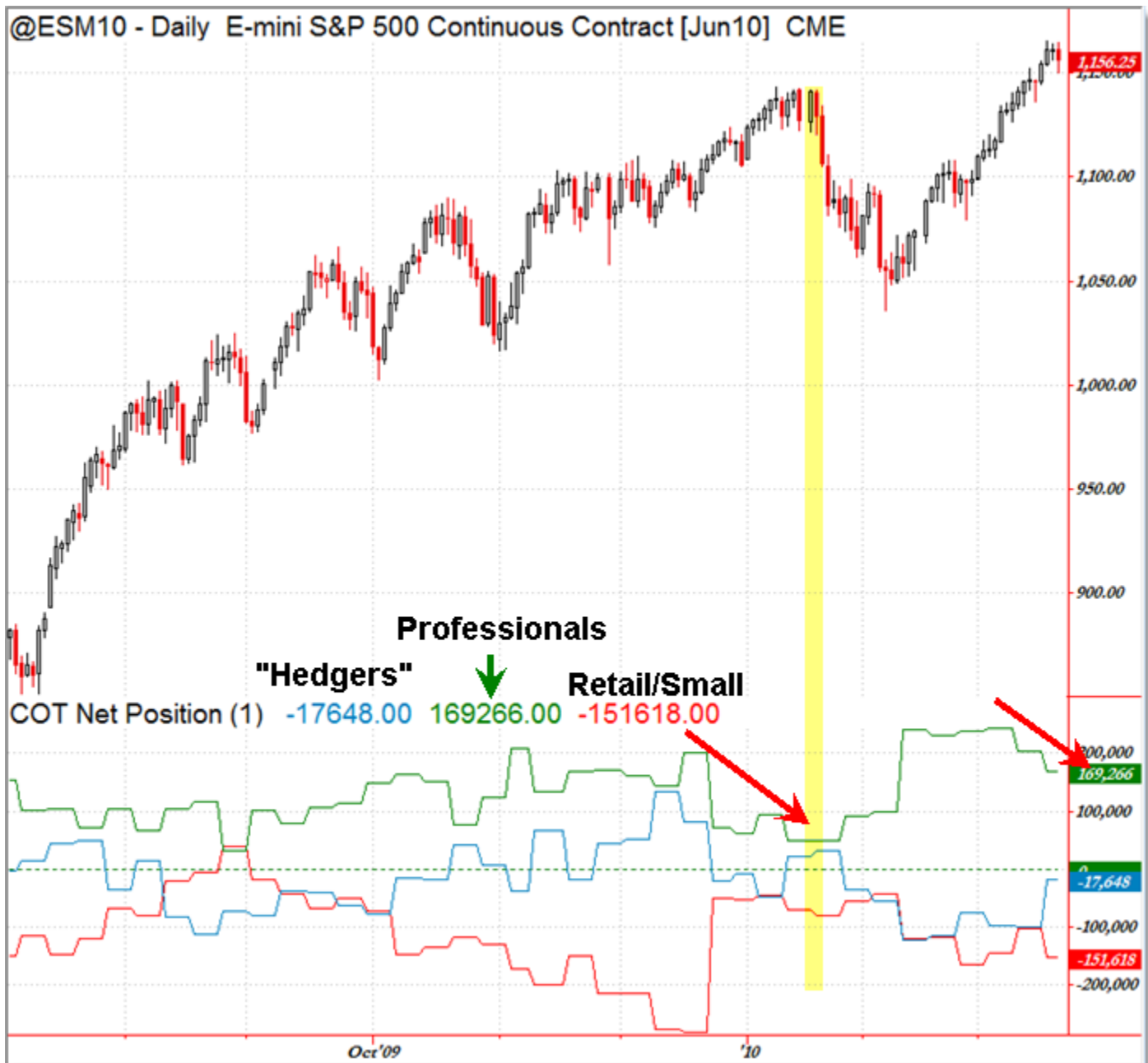


Friday formed a short-term sell-signal (take profits) in the form of a "Evening Star" candle pattern which consisted of a doji on Thursday and then a bearish engulfing pattern on Friday. We could see a retracement back to the 1,140 level (20 EMA) or as deep as 1,120 (50 EMA). If the retracement takes us under 1,100, then we would expect a move back to test 1,050.

Until then, this would just be a retracement after a grossly extended rally that took many traders by surprise and gave us the expected "Popped Stops" play once buyers broke above 1,150. We are seeing a flat-line negative divergence and a bearish volume spike (in part due to options expiration) on Friday, so it's probably best for short-term traders to take profits here and await to see if buyers can move back above 1,170 (long if yes) or if they can support price between 1,120 and 1,140 (long if a buy signal occurs). A bearish bias would develop if price broke under 1,100.



Speaking of bearish biases, we see both a negative divergence in Breadth and Volume Difference (VOLD) going into the recent high (a bearish non-confirmation), and then on Friday, we saw a spike downward in Breadth and VOLD (market internals) which could forecast a downside retracement ahead, particularly if price breaks back under 1,150.



The CoT data gave us a weaker reading this week as well, as it appears that professionals (green) are reducing their net long positions, as they are down to the 169,00 level (net long). However, the retail traders (red) also increased their net short positions, so we have a situation where professionals appear to be selling (which often happens prior to a key retracement down) while the retail trader remains net short. A very similar pattern happened in early January (see red arrow) just before the 100 point drop.

Professionals remain net long 169,266 @ES futures contracts while the 'retail' or 'small speculators' remain net short 151,618 contracts.

I honestly feel like this is the best chart you could look at for clues as to the immediate future, so pay careful attention to it.

Gold

Monthly



Gold remains to have a downside 'retracement swing' target of \$1,000 based on past history, specifically from the two prior times gold has 'spiked' outside the upper Bollinger Band and formed a reversal candle - price retraced back to the 20 (or 50) month EMA. The 20 EMA remains at the \$1,000 level, which is the expected 'pullback' target.

There's no reason to suspect a top yet in gold, as price remains in a powerful uptrend... but price is expected to form stable retracements instead of rising indefinitely.

Weekly



We see another reason to suspect that \$1,000 is a logical target, as it is the 38.2% Fibonacci retracement and just under the rising 50 EMA on the weekly frame.

In the event that price fails to support bullishly off the confluence support level of \$1,100 (20 EMA and 'round number' support) then we would play short-term for a move to test \$1,050 at a minimum if not a full retest of \$1,000.

Until then, watch how price acts at \$1,100 to see if a rally forms here, which would be expected if stocks began to rally in the week ahead up to their target of 1,225 (beyond 1,175), otherwise, if sellers drive price under \$1,100, then expect the next swing to take gold back to \$1,050 if not \$1,000.

Daily



I've drawn two dominant short-term trendlines in gold, one being the 'obvious' horizontal support at \$1,100 and the other being a connector of price highs and lows from the December \$1,225 top. This would imply that ANY break under \$1,100 should target a retest of the confluence support at the \$1,040/50 level... and any move under \$1,040 should continue lower to target the key \$1,000 support level.

Otherwise, if we see price support here, we would expect a move back to \$1,160 and if price rises above \$1,060, then for a full move back to \$1,220.

Watch those two target levels depending on how gold reacts to the key \$1,100 level at which we rest currently and adjust your positions accordingly (if using that short-time frame bias).



Another 'hidden' pattern could be the bearish head and shoulders pattern labeled here, which would be triggered with a move under \$1,100. The target would be \$1,050, which would reflect \$50 (the distance from the head to the neckline) being subtracted from the neckline, currently at \$1,100.

The new momentum low recently forecasts that we could see this, but only if a break under \$1,100 occurs soon.

WTI Crude Oil (\$WTIC)

Monthly



Strangely, no major resolution or change yet in monthly crude oil prices.

The \$80/\$84 level remains the key between bull (above) and bear (below).

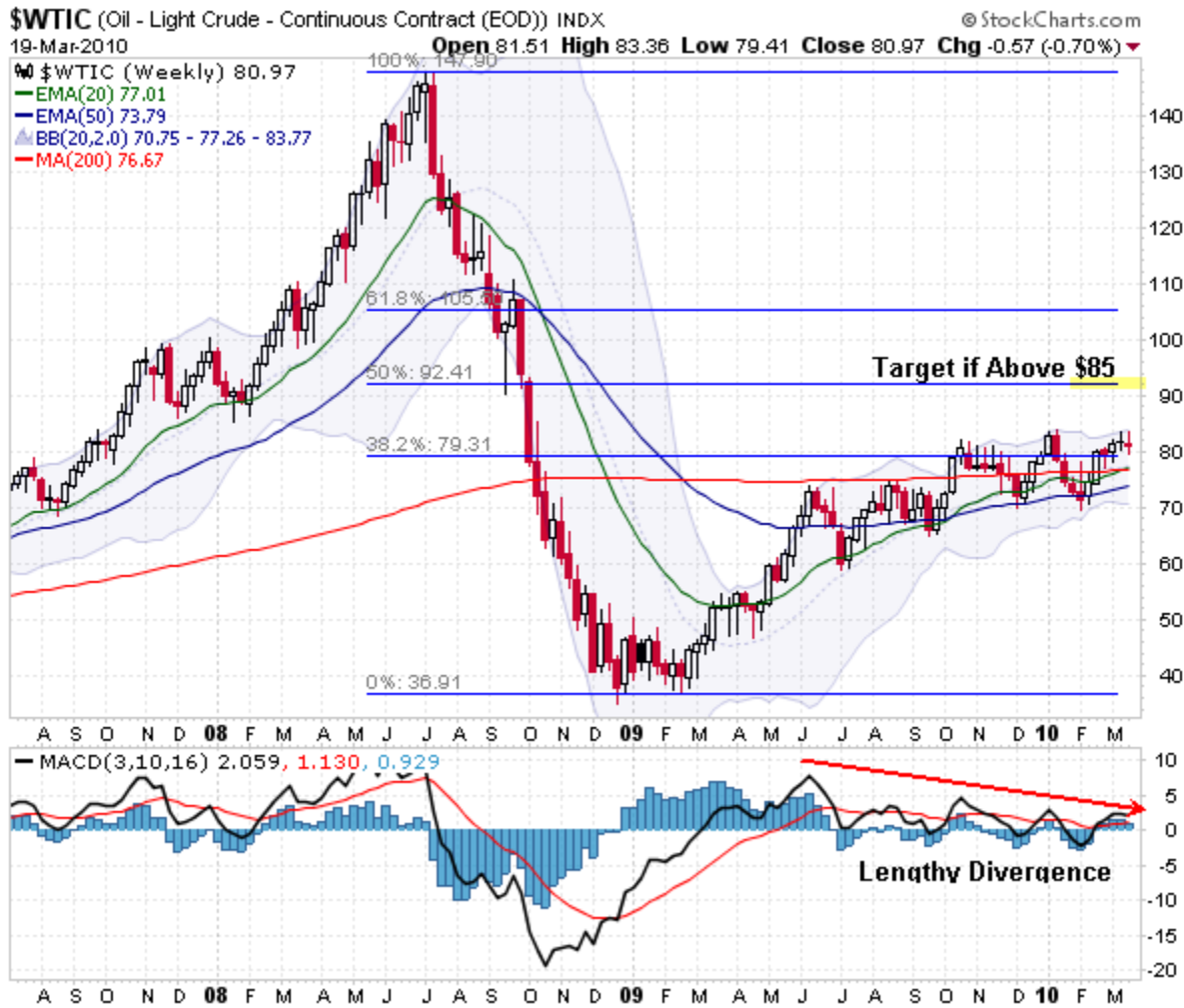
Technically, the bias on crude oil remains:

Bullish for breakout play to \$92 if above \$84

Neutral for continuation of the trading range if between \$70 and \$82

Bearish for sharp downside break if under \$70

Weekly



The situation remains the same, in that we have a steadily rising, though tightly compressed market that is bullishly making higher highs and higher lows and remains above all weekly moving averages (bullish).

However, one major non-confirmation (which has yet to affect price or be resolved) is the lengthy negative momentum divergence that undercuts the recent highs. Price is key, so we focus more on price than on any indicator, but historically, negative divergences have resolved with a price movement to the downside.

As such, price remains 'trapped' between the \$70 and \$80 level, as best seen on the daily chart... which might be making a head and shoulders pattern like gold.

Daily



Like Gold's intraday chart, crude oil's daily chart may be forming a large-scale head and shoulders pattern, so you need to be aware of this possibility and be ready to trade it if a break under \$70 occurs.

For now, the 'immediate' swing appears likely to turn to the downside, particularly if price breaks down under the rising 50 EMA at \$79. We see a negative divergence as a potential 'rounded reversal' play forms which would be expected (tradeable) to take price back to the \$70.00 per barrel level.

However, traders will be placing stops above \$84.00, so any sudden (and unexpected) break above \$84.00 (which would happen if stocks rallied sharply from here) would create another 'popped stops' play (similar to last week in stocks) wherein a breakout above \$84.00 could lead to the next upside resistance target at \$92.00.



Price broke under the rising trendline as I showed in last week's report but then came swiftly back to test the underside of the trendline - known as a throw-back - which gave a fresh 'sell short' signal (low risk). Price has since fallen sharply from that sell signal, and we would get a re-confirmation of a downside bias (trade short) if sellers took price back under \$80 and especially under \$79. The Fibonacci retracement grid shows potential downside targets for a market that sells off from here.

US Dollar Index (\$USD)

Monthly



The monthly Dollar Index chart still shows price in a lengthy downtrend and testing the underside of the falling 50 month EMA at \$81.69. This is expected resistance, and it would trigger a 'reversal buy' (popped stops) if the dollar strengthens here and breaks above \$82.00... which would signal that we could be seeing a reversal that would target the \$90.00 level... but we're not there yet.

Watch the \$81.70 monthly resistance level for clues as to what to expect going forward, and focus on lower timeframes for now.

Weekly



We see a bullish weekly EMA crossover forming at the \$79.00 level, which would be expected to be a convergence support zone going forward. Price is also just above the 38.2% Fibonacci Retracement (as drawn) at \$80.50. As such, any break to a fresh 2010 high above \$81.50 would be a major bullish sign that could forecast higher prices yet to come, at least to \$82.50 if not \$84.00 and beyond (Fibonacci levels).

Look to the daily chart for additional clues as to what levels to watch and what to expect going forward.

Daily



There is a big debate in the Elliott Wave community as to whether what we saw off the December lows was just a simple "ABC" corrective phase that took the form of a bull flag, which suggests that the downtrend will continue from here... or alternately if this was actually part of an "1,2,3" wave wherein we have just seen the 4th wave and are now in the 5th wave that will carry us to new highs. The determinant will likely resolve this week, as a break to new highs above \$81.50 places the odds strongly in the "1,2,3,4 and we are in 5th wave" camp, while any failure at the \$81.00 level places the odds back in the "ABC and then more downside" camp. As such, the week ahead will be very important to watch for this key resolution. Elliott Wave aside, we see the negative divergences resulted in the expected downside retracement, and prices formed a doji and then two strong bullish candles into the close of the week. Any break above \$81.50 should be met with further upside action (tradeable) though buyers are going to have to clear the resistance at \$81.00 to push to a higher level, so watch closely with an unbiased outlook for the resolution.

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