



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Notes remain at an overhead resistance level with bearish undertones currently, especially if stocks continue rising.

S&P 500: The S&P 500 showed strong resilience last week, as sellers were unable to move the market lower. This - along with positive data from the CoT chart - argues for a retest of 1,150 and perhaps even a move higher. A rally above 1,150 would be a significant development that could target 1,225.

Gold: Gold prices are looking more bullish than last week, with a potential break from a daily bull flag. Pay close attention to the intraday chart for key levels to watch for confirmation.

Crude Oil: Oil appears to be forming a head and shoulders daily pattern, but again, any break above \$82/\$84 would set an upside target of \$92, but if we are seeing a mirror image pattern unfold, the next immediate swing will be a down one.

US Dollar Index: The dollar looks more ready to form a retracement swing down than it did last week, as it appears to be forming a rounded reversal pattern complete with multi-time frame negative momentum divergences.

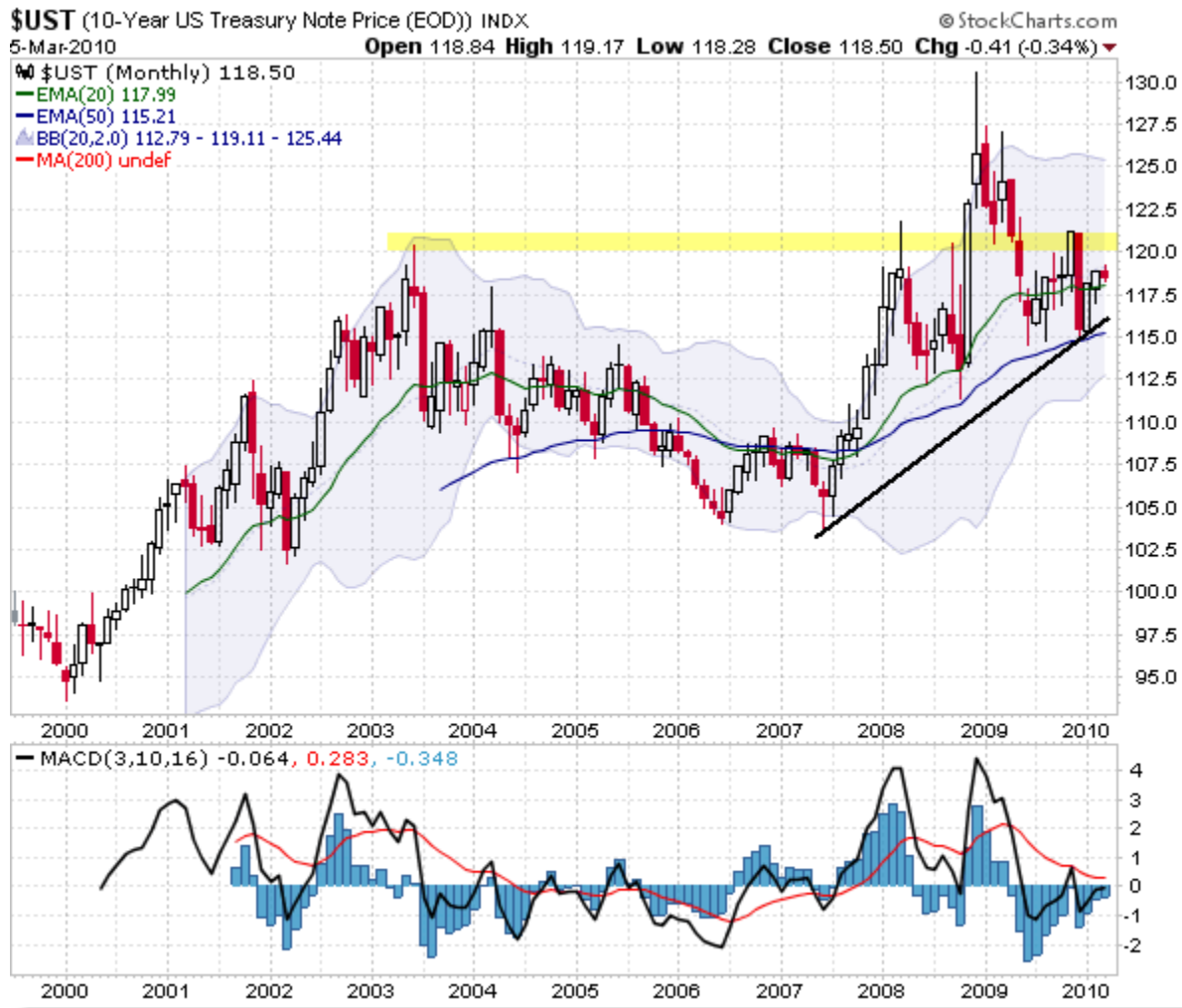
Remember, a DECLINING Dollar (Index) is BULLISH for Stocks and Commodities and is BEARISH for Bond Prices

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



The key to treasuries here is the current inverse relationship with the stock market: if stocks continue to rise and break above 1,150 (SP500), then treasury note/bond likely will fall. I often find that it's easier to make projections based on the S&P 500 than bonds, but that depends on what you invest and your experience.

For now, monthly note prices remain in an uptrend, but technically a "rising consolidation mode" which is moderately bullish. The lower timeframes tell the story of the consolidation prices and what to expect while price remains in these zones.

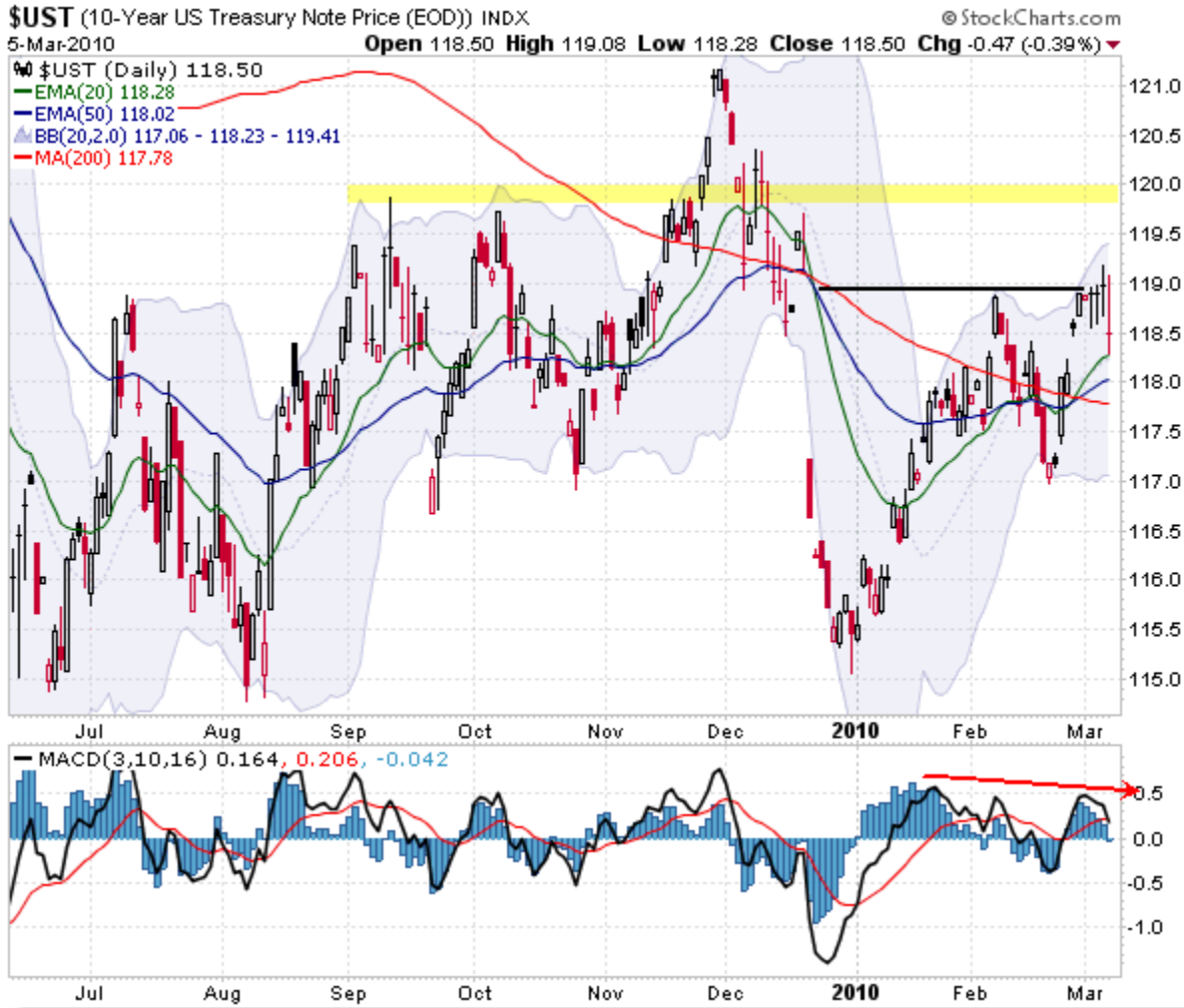
Weekly



There's been no change at all this week on note prices, as they remain within a long-term (2-year) trading range between the \$114 and \$121 level (\$114.50 and \$121.50 to be exact). The Fibonacci levels reflect these boundaries.

While price remains within these trendlines, odds favor a continuation of the consolidation, meaning bonds are not suitable for swing trading here, but would be with a break above \$112 (implying that the stock market was falling sharply) or under \$114 (implying that the stock market was rising to its upper target of 1,225).

Daily



I mentioned in last week's report how \$119 was an upper boundary resistance level, and that held true this week as stock prices rallied.

If stocks continue to rally, then expect bond/note prices to fall to test the \$117 level, though if stocks begin to fall here or fail to overcome 1,150, then expect a move back to \$119 or \$120 at the most in the coming weeks.

US S&P 500 (\$SPX)

Monthly



The S&P 500 is best explained short-term as being "trapped" between the 50 month EMA and the 200 SMA at the 1,145 and 1,038 boundaries respectively. Price still remains in a technical 'counter-rally' on declining volume (volume divergence), and this is the higher timeframe structure (counter-trend rally) until proven otherwise with a break back above the 50 month EMA (which could happen this week on a solid surge through resistance).

Structurally (officially), the monthly chart remains in the 'gray area' between an official downtrend and the birth of a new uptrend, so keep this "primary trend" structure in mind as we look to the lower frames.

Weekly



The weekly chart shows the persistent negative momentum and volume divergence, which many analysts are discussing, but it is a reality on the charts and serves as a "bearish non-confirmation" officially.

However, the weekly chart does remain in a 'simple' uptrend, as defined by higher highs and higher lows, as well as a positive 20 and 50 EMA structure. Should buyers push price above the key 1,150 resistance level (2010 high), then we would expect a (tradable) move up to the next overhead confluence of resistance at 1,225 (61.8% Fibonacci and 200 week SMA). Keep in mind that any move above 1,250 destroys the bearish case, and would argue that we would be likely eventually to see a return to 1,550 over time... but for now, that is the lower probability scenario (while we're still under 1,150 and 1,200).

Keep in mind that the markets are ruled by supply and demand (not charts), so keep an unbiased long-term view to account for the information as it becomes available... meaning a move above 1,150 targets 1,225.

Daily:



Furthering the bullish bias, I'm showing seven recent "short squeezes" or multi-day (non-stop) up rallies that have decimated bears/short sellers. Such is the reality and character of the market we trade/invest in now. Be keenly aware of this bullish bias, and adjust accordingly (filter it into your analysis).

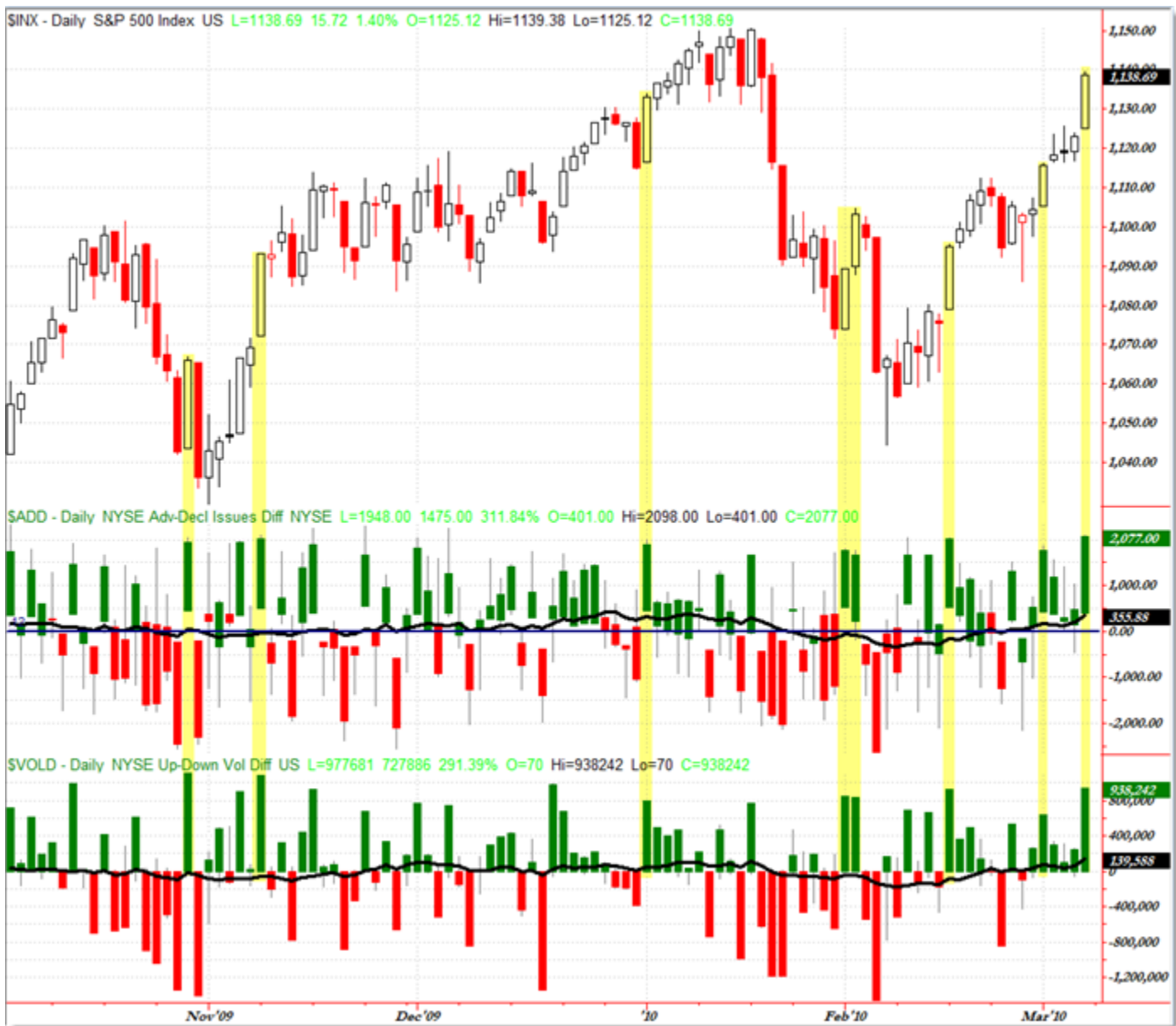
For now, watch the 1,150 as the key "Line in the Sand" between bulls and bears. The bias would be to short/expect resistance at 1,150 so you may want to put on a trade/take off a position depending on what happens. Any solid break above 1,150 should lead to a continuation rally to the next overhead target of 1,225 (do NOT hold short above 1,150), though any rejection of 1,150 (price falls), then target the 1,100 support. Any move under 1,100 targets 1,050... and we'll update as any of these targets come into focus.



As I highlighted in last week's report, the COT Data was very bullish and suggested higher prices yet to come because the professionals/large speculators have been steadily increasing their net long positions, while the retail/small speculative trader have been increasing their net short positions. Usually, the professional is right and the retail/small (red) is wrong, and that's exactly what's happening.

The message is slightly more bullish, **which suggests that prices can continue rising** because they are supported by the large investors while the 'public/retail' continues to bet against this rally and hold net short positions.

Pay close attention to these signals/data, because it - like market internals - shows you what's actually going on behind the scenes of price and usually is one of the most reliable indicators regarding the future (though nothing is perfect).



After forming a negative divergence the last few days, Breadth and Volume Difference (\$VOLD) made marginal new highs for 2010, which is a hidden sign of strength coming from internals (in that internals are making spike highs while price is not yet making a new high).

This shows a 'floor' of support under price and also argues that we could expect to see not just a retest of the 1,150 level, but a push beyond it.

I've highlighted each of the prior recent bars that show similar highs in Breadth and Volume Difference, but notice that such spike highs do NOT always lead to new highs immediately (as was the case in early February).

Nevertheless, this 'works off' the negative divergences we were seeing this week and is a confirmation sign of the higher prices - Friday changed the game from the sense of market internals, turning them from 'bearish non-confirmations' to 'confirmation' signals.

Gold

Monthly



Gold is best viewed on the lower timeframes here, as the monthly chart shows a persistent uptrend (higher highs and most bullish moving average structure possible), though to counter-act that, we've seen a spike outside the Bollinger, which - the last two times that happened - produced a move back to the 20 EMA, which rests at \$1,000.

This may be all the pullback we get in the persistent uptrend, but if not, then target \$1,000 for support. Watch the weekly chart to see if we get a bull flag break confirmed soon.

Weekly



We may have triggered a bull flag breakout here, and aggressive traders may already be long to play this bull-flag structure/breakout at the bounce off \$1,100 and break of the trendline as shown (here and on daily chart).

If this breakout and bull-flag proves to be true, it would suggest that the Dollar Index would fall, and that stocks and crude oil would rise... so it's important to watch this development closely. The target would be roughly in the \$1,300 area. The bull flag would be disconfirmed with a move back to \$1,000 (though this is a confluence support target).

The take-away is to continue watching the gold structure and trade long above \$1,150 to play for a retest of \$1,225 or beyond, as seen on lower frames.

Daily



The daily chart best shows the potential for a bull flag and bullish trendline break in mid-February (and the retest in late February at \$1,080 that was a good buying opportunity). We need to see price rise above \$1,160 to confirm that the bull flag is the dominant price pattern, which would target a move back to \$1,225 at a minimum, if not a full flag target of \$1,300.

Any break under \$1,100 calls this into question, and a move under \$1,040 invalidates the breakout, triggers stops, and sets up a quick move to target \$1,000.

Should gold fall here, it would imply that stocks and oil were failing to hold breakout levels, and that the dollar and bonds/notes would be rising.

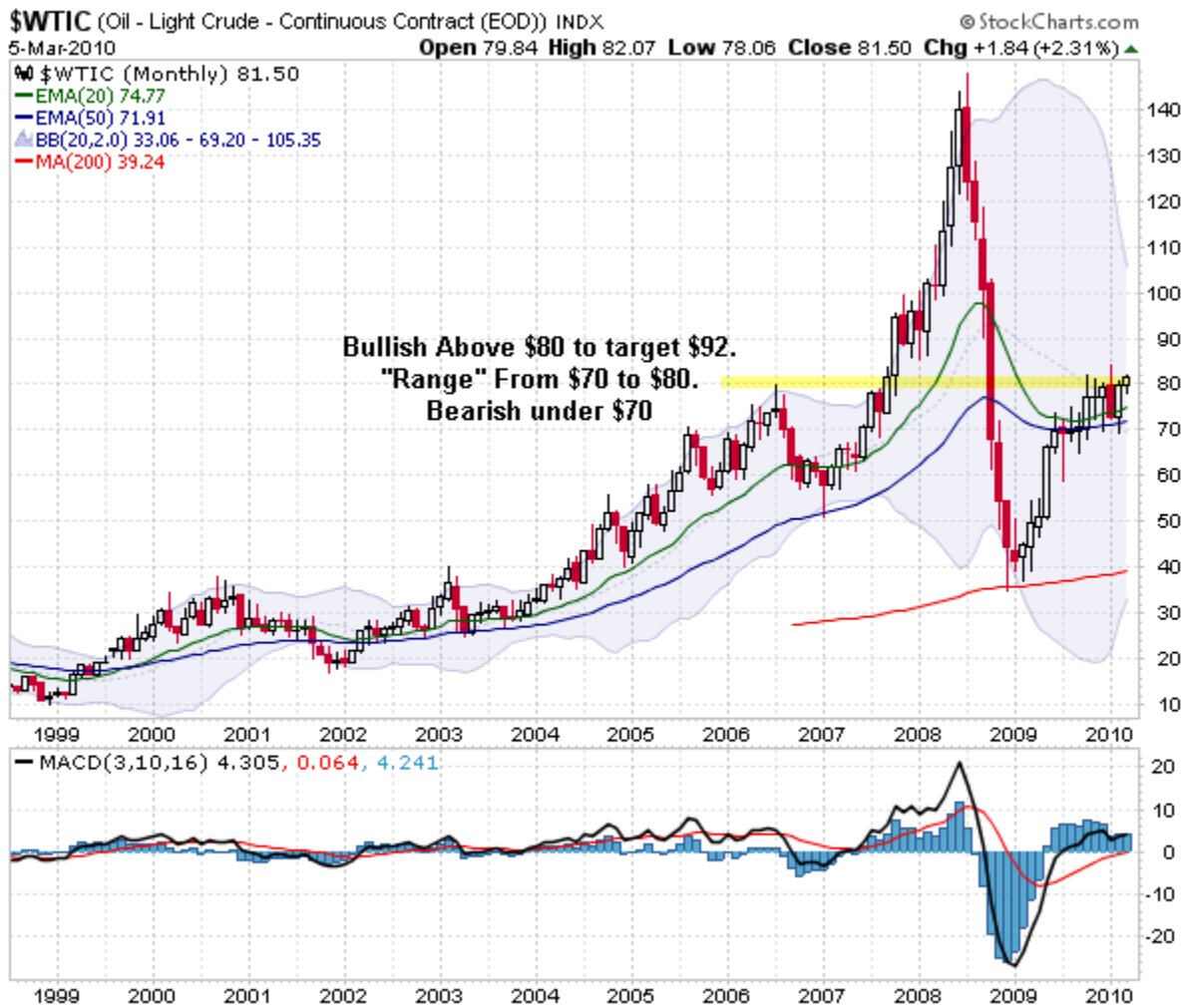


The 240 minute chart shows the entirety of the recent move.

We're forming a negative divergence here (momentum) which is a non-confirmation, so watch for a break under the \$1,120 level in the @YG (mini-gold) futures. Notice that we also may have broken bullishly out of an ascending triangle, which targets \$1,160. Any move above \$1,160 targets a tradable move to \$1,225.

WTI Crude Oil (\$WTIC)

Monthly



Crude Oil remains in the trading range between \$70 and \$82, which is frustrating to many traders (especially long-term position traders), so it may be better to wait for a confirmed break above \$84 or under \$70 to play crude oil for anything other than a swing or short-term trade.

The "IF/Then" statement goes:

"IF oil is above \$82/\$84, THEN target \$92."

"IF oil is between \$70 and \$82, THEN trade the swings within the range."

"IF oil breaks under \$70, then short to target \$65, \$60 and perhaps lower."

Weekly



The weekly chart shows that the \$92.50 level is the next likely target to play for if buyers continue to push price beyond the \$83/\$84 level - it's the 50% Fibonacci Retracement.

For now, we're seeing a negative momentum divergence with price, which is a bearish non-confirmation (similar to that of the S&P 500), but still keep your focus on price for your trading decisions.

Notice the higher highs/higher lows and support from the 50 EMA... along with the rising trading range that exists currently.

Daily



If the past is any guide, then we would expect the next move in Crude Oil to be a down-swing which targeted the \$70 level, just like if we took a "mirror image" and applied it to the future... suggesting the completion of a Right Shoulder in a Head and Shoulders pattern. Be on guard and ready to trade this - it would suggest that price was remaining in its compressed trading range as shown above.

Otherwise, a break above \$82 will target a move back to \$84, and any solid break above \$84 (along with bullish action in stocks and gold) would target the upper \$92 level, so be prepared to trade/position on the inflection up or down from the \$82 level.



A longer-term view shows that price is under a rising trendline and could inflect downwards off of it now, holding \$82.50 as resistance.

This is just a "keep this in mind" chart. A break back above \$82.50 disconfirms this trendline.



A focus on divergences (we're seeing a lengthy negative one here) in oil.

The negative divergence hints that odds favor downside price action ahead, but the price pattern breakout from an ascending triangle (almost identical to gold) hints that we could see higher prices.

With conflicting signals like that, monitor your positions very closely and do not take excess risk.

US Dollar Index (\$USD)

Monthly



The monthly Dollar Index remains at overhead resistance at the \$82.50 level (\$81.68 to be exact) which is the 50 month EMA. So far, we have a doji at this overhead level, so watch for any downside action to form on the lower frame charts as is suggested. Otherwise, a break above \$82.00 would shatter resistance and argue for higher dollar and bond prices at the expense of lower stock, oil, and gold prices.

Weekly

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

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5-Mar-2010

Open 80.42 High 81.29 Low 79.82 Close 80.46 Chg +0.09 (+0.11%) ▲



The last four weeks have produced almost identical 'candles' (long-legged dojis to be exact) at the \$81 confluence resistance level, so this would be an 'exit long' (you should have already) environment and expectation of a down-swing to begin here to target perhaps \$79.

We would expect the dollar to fall if stocks, gold, and crude oil continued to rise, so watch this closely as well.

Daily

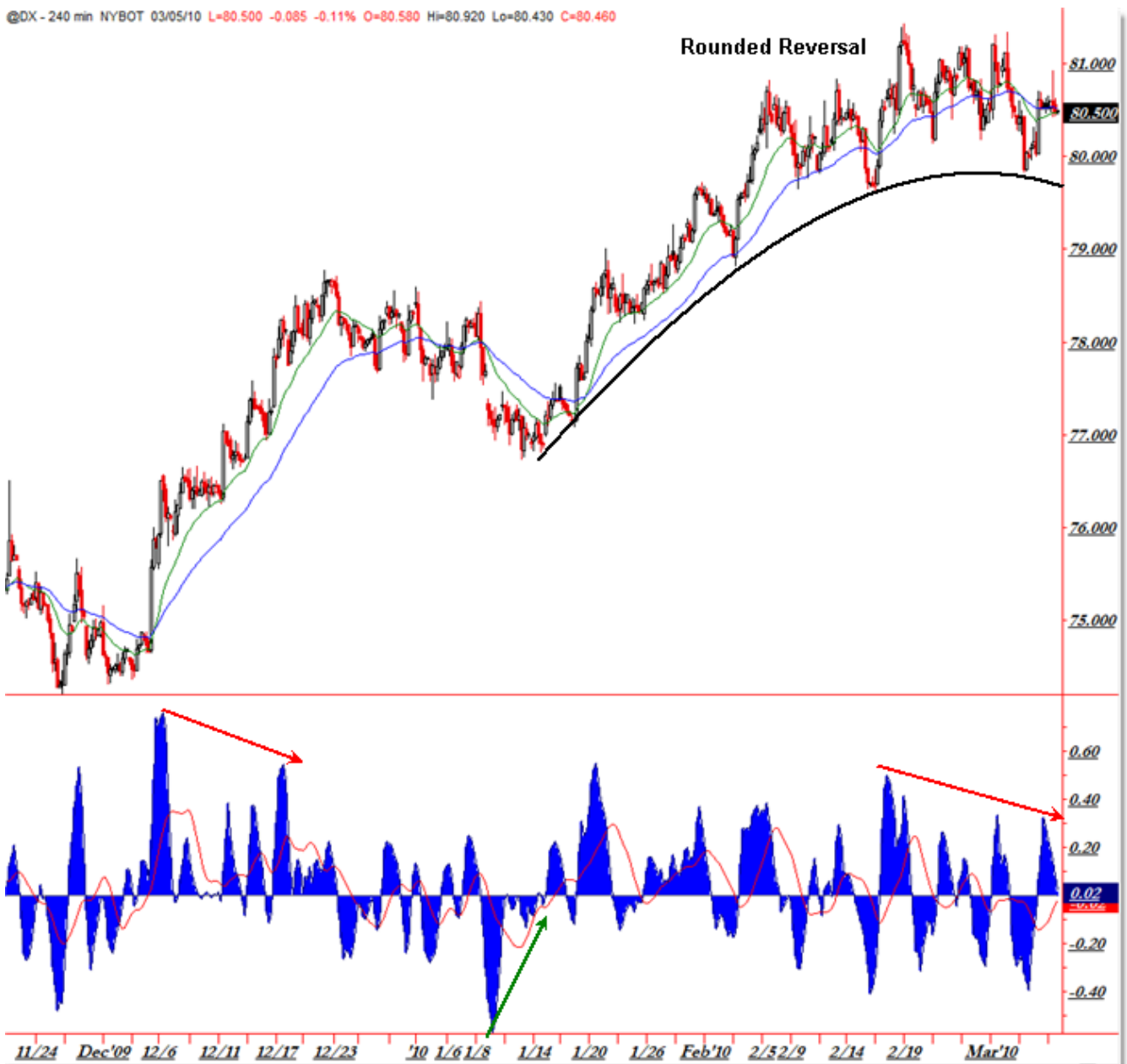


The daily chart forms the overwhelming impression that odds favor a downward move at least to target \$79 as the most likely 'next swing' in price due to the upper shadow candles, failure to break above the Upper Bollinger, "ABC" structure (I've been calling it a "Bull Flag" in these reports that completed successfully), and lengthy negative momentum divergence.

Again, should the dollar weaken here, stocks, gold, and oil would almost certainly rally... but if the dollar began rising unexpectedly, then expect stocks, oil, and gold together to fall.

@DX - 240 min NYBOT 03/05/10 L=80.500 -0.085 -0.11% O=80.580 Hi=80.920 Lo=80.430 C=80.460

Rounded Reversal



A zoomed in view of the 'bull flag' structure highlights the "Rounded Reversal" pattern complete with negative divergences, such that a move under \$81.00 would be a confirmed sell-signal to expect lower prices ahead.

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