



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Notes continue their breakout rally as stocks declined, but all markets face key turning points in the week ahead as defined below. Bonds currently are inverse stocks and oil.

S&P 500: The S&P 500 bounced - Friday - off CRITICAL Line in the Sand support at 1,050. If we see a continuation of that bounce, we could see a move back to 1,150, which would correspond with oil bouncing off its critical "line in the sand" support at \$70. If not, then we officially confirm a new downtrend and resumption of the bear market in stocks that could target a minimum of 850 if not 650 over time.

Gold: Gold is decoupling slightly from its traditional inter-market relationships, particularly in regard to the debt worries in Europe making gold more attractive while stocks continue to sell-off. Gold retraced sharply this week, which could indicate that 'things are getting better' and thus could see higher stock prices, but any form of panic will send gold right back up to new highs. Gold is marching to a 'panic' script instead of its traditional inter-market script.

Crude Oil: The main thing to know is that CRITICAL support rests at \$70 - just like stocks at 1,050. If we don't bounce here as seems to be the case, then we target \$60 then \$50 in line with stocks lower targets ahead in a confirmed downtrend if those levels are broken.

US Dollar Index: What happens to the stocks and oil at their critical support levels will affect the dollar in the opposite direction. The dollar - like gold - began retracing by the end of last week, indicating that perhaps some of the fear is leaving the system. However, if stocks and oil sell-off, the Dollar will realize upside targets of \$88 then \$89 or \$90. If stocks/oil bounce off support.. the dollar will continue its retracement to lower support.

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



While global investors are spooked by the problems of Europe, money will continue to move out of equities/risk assets and into safer assets like Treasuries. That's exactly what we see currently.

Keep in mind that if investors feel like the crisis in Europe/slowdown in China gets solved, then we will see a reversal, back out of bonds and into stocks, but so far, that hasn't happened. The main idea to realize is that stocks and bonds are negatively correlated, such that buy signals in bonds are sell signals in stocks and vice versa.

Bonds continue their rally, breaking solidly out from the triangle/trendline pattern as shown above and in the weekly frame as seen below.

Weekly



The key to 10-year notes is that price has solidly broken out of the descending triangle pattern and are in a bullish rally/breakout mode with upside targets of \$121 (which price broke last week) then \$126 then - if we see full panic - back to \$130. Don't expect the final target to be hit unless we see a massive panic/sell-off in stocks, in which case it will likely be hit.

Otherwise, if stocks continue selling off, breaking support next week, then we'll likely see \$126 in 10-year notes.

Stocks could be forming a double-bottom while bonds could be forming a double-top, so keep that in mind if we see stocks bounce, we'll see bonds decline back to \$120 or \$118.

Daily



The daily chart is a lesson in range breakouts. Price broke above the descending trendline - a buy signal I've been highlighting - in ADVANCE of the May 6th market crash - bonds sent an early warning signal. Prices broke the December high at \$121 to peak Friday at \$122, but formed a bearish reversal candle. Be on guard for a potential pullback in bonds in the week ahead, which would correspond with a rally in stocks off support.

In simple terms:

If bonds hold resistance, they will fall while stocks hold support and rally.

If stocks break under support, then bonds will break above resistance here.

US S&P 500 (\$SPX)

Monthly



The S&P 500 tested its rising 200 month SMA Friday, bouncing off the key target (just above it actually) of 1,050. 1,050 therefore remains the dividing LINE IN THE SAND between a deep retracement in an ongoing bull market or the confirmed beginning of a new bear market that will send price to 850 or even 650 over the next few months.

In simplest terms, watch what happens at 1,050 VERY closely. We expect to see a bounce/rally off the level, but if we don't, then that will be the 'final straw' that will break the bull market's back and officially confirm a bear market, setting up downside targets of 850 and 650.

Weekly



Price officially broke down from the rising parallel trend channel - and that's bearish - but supported on the rising 50 week EMA at 1,089, closing this week at 1,087. This moving average 'held up' the market in the July 2009 sell-off and it could act as support again, so don't be surprised if we bounce off this level in some sort of rally that could go to 1,150.

However, if we break back under 1,080 early next week, and then break under 1,050, that would be the last straw that confirms that we are in a new bear market and new downtrend on both the daily and weekly timeframes, as well as breaking the final moving average on the monthly chart.

Again, a close under 1,050 officially turns the daily and weekly trend to DOWN.

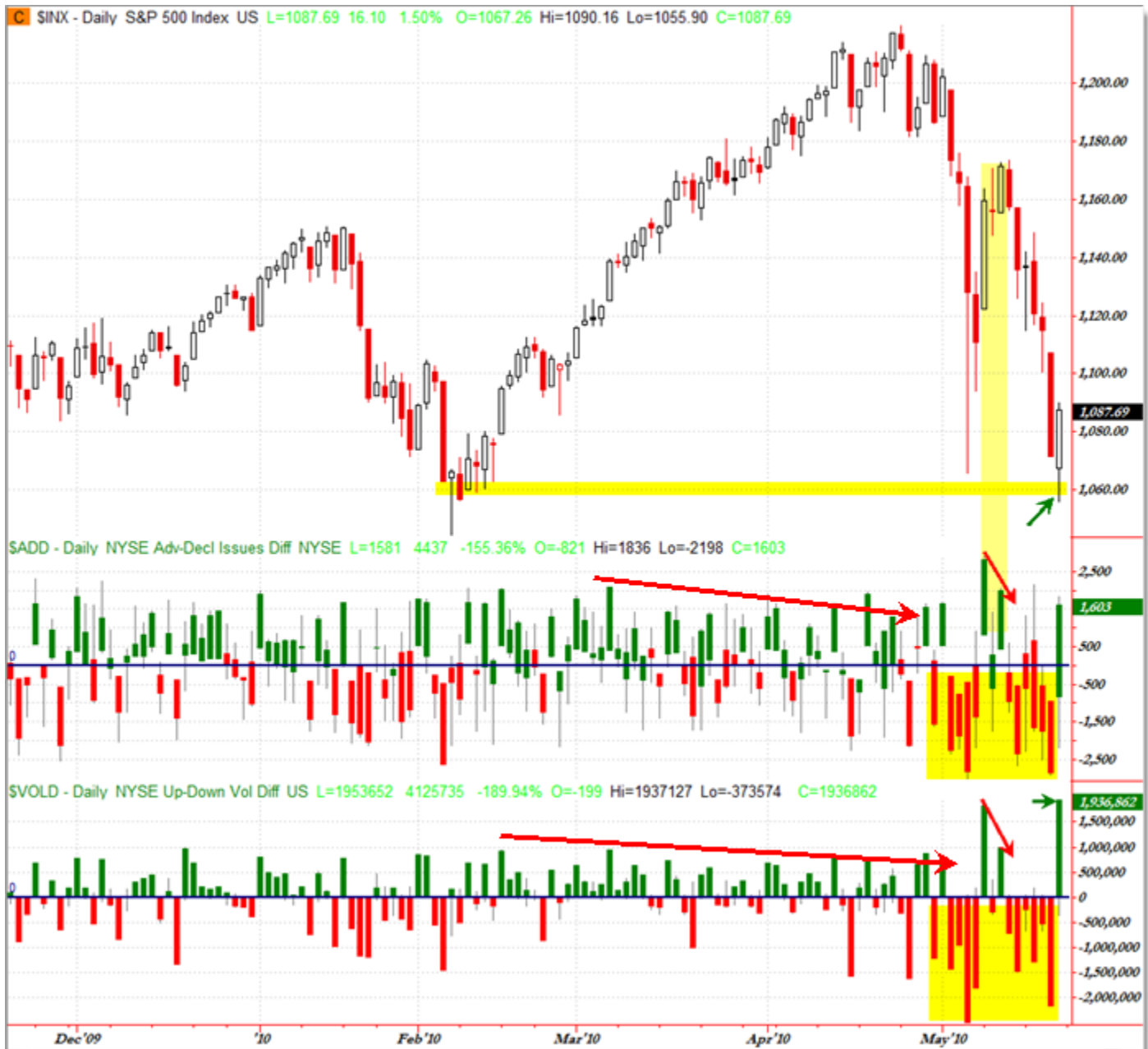
Daily:



What happens here will be absolutely critical to the definition of 'retracement' - which will be the case if support holds at 1,050 - or reversal - which will be officially confirmed on a break under 1,050 (officially 1,044). We have a large bullish reversal candle (looks like a piercing) that formed off the key closing support from the February low. That could precede a rally back to a maximum point of 1,150, so if you're swing trading short, you don't want to do so here UNLESS we are under 1,044. Odds as I see them favor a bounce, BUT IF THE BOUNCE DOES NOT FORM, then we could be headed for another market crash down that will eventually target 850 if panic seizes the market again.

In sum, expect a bounce here so be guarded as the market balances on the edge of a cliff, but if we see price under 1,050, then we've fallen off the cliff and can expect 850 or 650 ahead for the next few months.

Breadth:



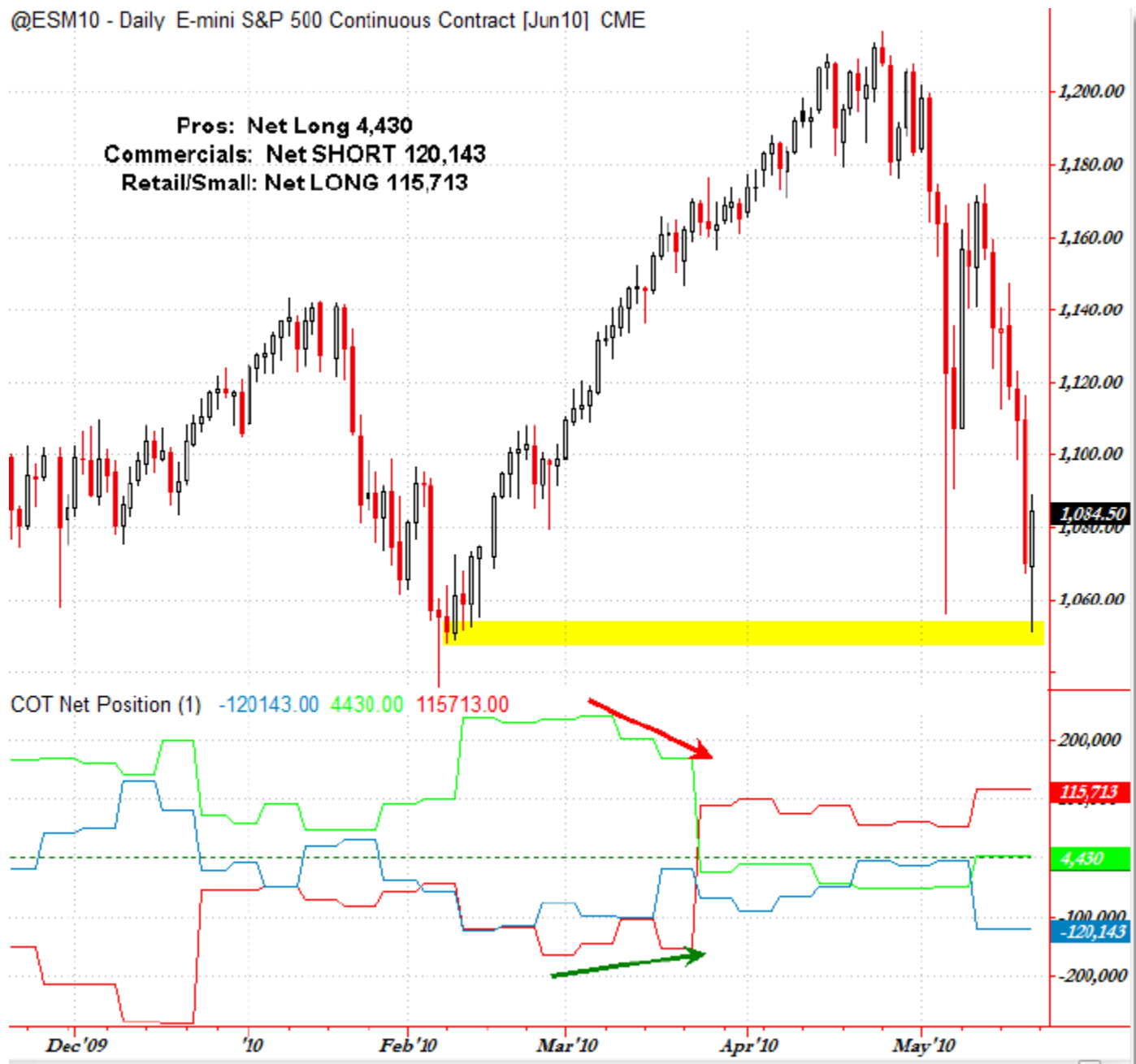
I highlighted the concentration of negative breadth readings which are indicative of strong program/fund selling (not just the retail public). The spikes in breadth are short-covering/squeezes as bears seize their profits and 'buy back' to cover.

We DID see the dead cat bounce I mentioned was the likely pattern play in last week's report, and now we could see a potential rally in the week ahead to retrace some of last week's selling.

Again, while odds favor a retracement, they don't guarantee them, and if buyers cannot force a rally (look at what happened as buyers rallied from 1,100 to 1,170), then we can expect a mass exodus from stocks (if under 1,040).

Commitment of Traders:

@ESM10 - Daily E-mini S&P 500 Continuous Contract [Jun10] CME



There was no change (no update?) in this week's CoT data chart, and so we retain the same bias as last week.

Retail/Small Speculators - 'dumb money' - remain net LONG the market (115,000 @ES contracts) which hints that we could see lower prices and the small specs just saw this retracement as a "pullback to buy"... which ... doesn't always work out the way they expect.

Professionals - smart money - are net flat/neutral right here, which doesn't tell us much, though the Commercials/Hedgers (akin to Mutual funds/big portfolio managers who don't necessarily speculate with futures alone) got net short 120,000, which indicates that they see further downside in the future and are 'buying protection' (short-selling contracts) to hedge their long-only portfolios.

Bottom line - the CoT Data remain BEARISH, hinting that the PUBLIC (dumb money) is long while professionals are short.

Gann Squares and Andrews Pitchfork Trendlines:



Price bounced this week off 1,055, which was just above a rising 'tine' trendline from the Andrews Pitchfork as drawn. This is the 'last' or lower line of pitchfork support, so if we see a move under this lower rising trendline - currently at 1,060 - then it indicates that we are seeing a trend reversal - another confirmation of a new downtrend IF it happens.

Otherwise, we have a Gann number at 1,044 which was exactly the February low, so if we break that, then again we confirm a downtrend and new official bear market. If we don't, then the market balanced literally on the edge of a knife, and did not confirm a downtrend and just had a massively deep correction in the context of a rising market. Other Gann numbers to watch include 1,077, 1,110, 1,143, and 1,178.

Gold

Monthly



So far, gold prices are forming a bearish reversal candle at the recent highs as a negative momentum divergence forms - that's bearish, but remember that the month is NOT over yet so this is NOT a complete candle.

Otherwise, the uptrend remains very strong, support could come in here at the 'arc' as drawn, and we have an 'all-clear' from the monthly frame except for the negative divergences.



The two charts above remind us of the bigger picture in gold - that of an 'arc explosion' in price that has contained price since the 2001 levels - it is the major dominant trendline (arc) to watch. If we ever break under/through this level, it would be time to take profits in gold and get defensive, but so far, that has NOT happened, and we could see a further continuation move up or acceleration in price, particularly if economic fears of countrywide default continue and the Euro continues falling.

Weekly



I highlighted prior times when gold formed a massive bearish weekly candle - we had a quick pullback or in the case of 2008, a larger pullback. The last two occasions simply took us back to the 20 or 50 week EMA or the rising trendline as drawn.

If history repeats, then we could see a fall back to \$1,150 or \$1,050. Anything less than \$1,050 is a potential game-changer, but UNTIL that happens, we will just classify this pullback - which could continue - as a retracement against a strong, prevailing uptrend.

Daily

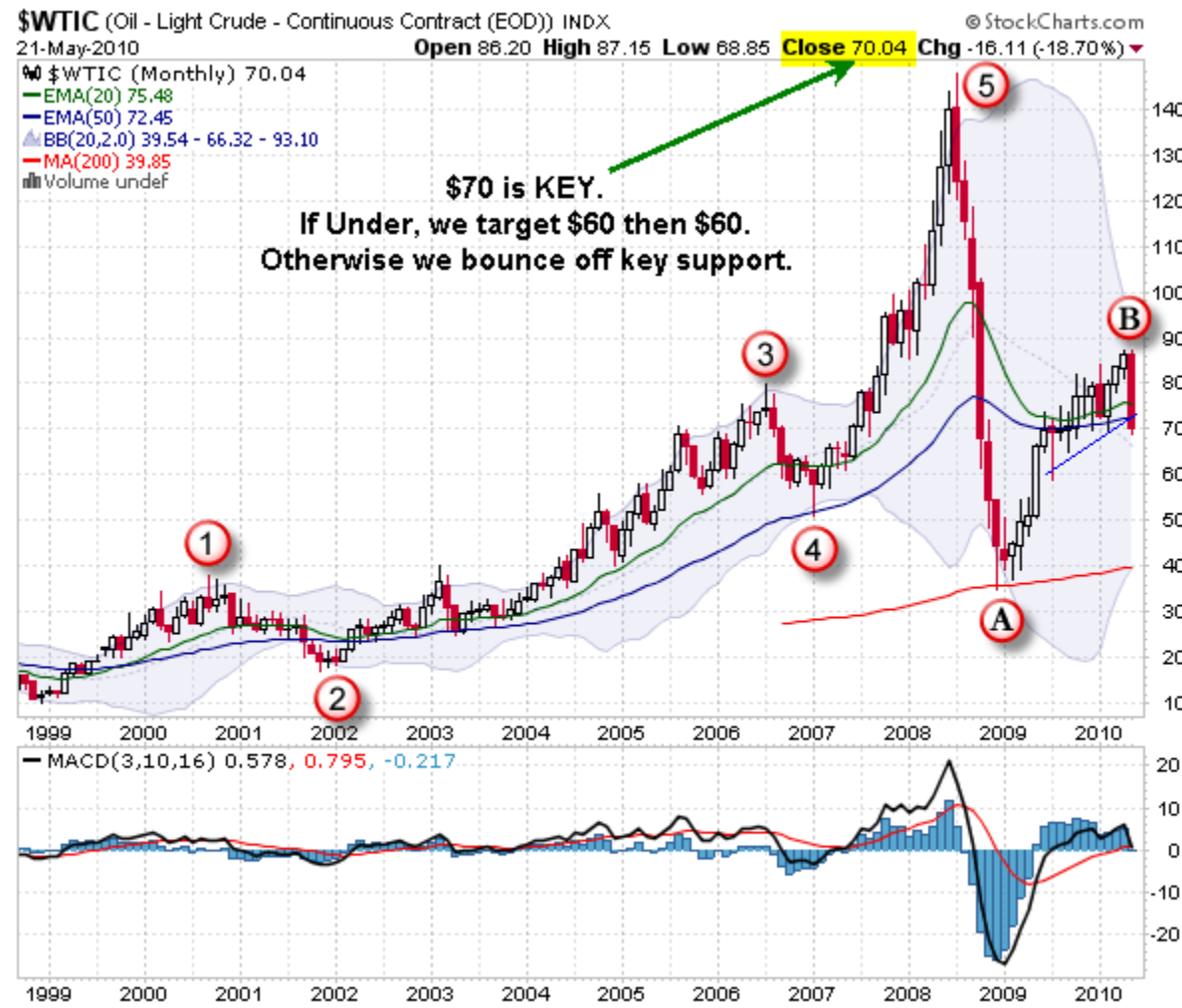


We have two reasons to expect support at \$1,170 - the 50 day EMA and the lower 'arc' short-term trendline, also at \$1,170. Short-term traders can try to position long here with a stop under \$1,160/\$1,165, as a hammer candle has formed off the confluence support zone. If support holds, then we could see a move back to and beyond the \$1,250 level.

A break under \$1,170 sends us down to target \$1,100 so don't stay too overcommitted long if we solidly break under \$1,060.

WTI Crude Oil (\$WTIC)

Monthly



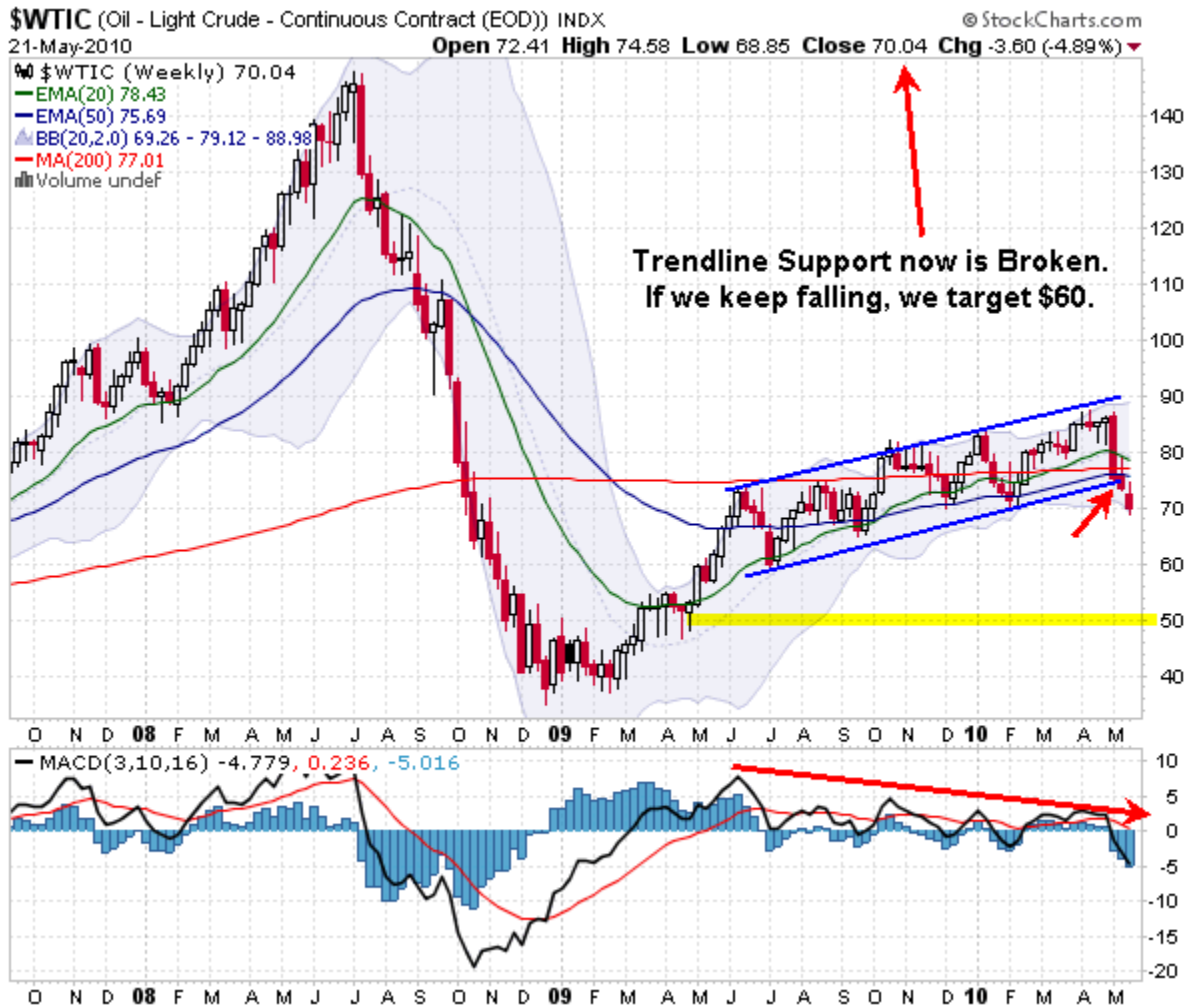
The long-term Elliott Wave count still holds as the dominant count, which corresponds with a Wave 5 Down in Stocks. Any move back above \$85 or \$90 disconfirms this view, but until then, it remains dominant.

This count implies that, if we see a break under \$70, then we would expect a "C" wave down to target \$60, \$50, or even \$40 over the next few months/year from now.

That's why \$70 will be critical to watch.

To recap, 1,050 is CRITICAL support in stocks and \$70 is CRITICAL support for oil. They will move together - either they BOTH support off these critical levels in the weeks ahead... or they both break them together. If they break them, then we set targets of \$60 then \$50 for oil.

Weekly



Main idea: \$70 is critical. If above, then we remain precariously poised again on the edge of the cliff like stocks.

If under, we confirm a new bear market has begun.

Price broke out of the rising trend channel - notice the negative divergences that hint towards a downward resolution - so for the bulls to regain the chart, we would need a move BACK into the trend channel - above \$75 - to call this swing right now a 'bear trap.' Otherwise, this is the beginning of a new bear market... or perhaps more appropriately, a continuation of the one that began in 2008.

Daily



This is it, folks. The parameters are this:

“IF under \$70, THEN target \$60 then perhaps \$50.” However, if buyers can regain price, and support off the \$69/\$70 level, then this could be labeled a vicious “bear trap” and send price back up to the \$75 level or beyond in a retracement up - bouncing in tandem with stocks making a double bottom (like oil is here... though it would be a triple bottom at \$70).

Again, IF under \$70/\$69, THEN we target lower levels in a bearish trend reversal.

A move over \$73 places the odds to confirm a retracement swing up - unless we're above \$73 - and we might see that this week - the odds favor the bears.

US Dollar Index (\$USD)

Monthly



The dollar pulled back slightly after a very sharp rally in the prior weeks.

We fell just shy of the upside targets of \$88 then \$90 from prior price resistance.

A move above \$90 puts us into a confirmed bull market for the Dollar, which would correspond with a confirmed bear market for stocks, so that will be the level to watch for the Dollar.

Weekly



The weekly chart shows that we fell slightly shy of the prior price high targets at \$88 then \$89 in the index. The weekly candle is that of a bearish shooting star candle, and look at how overextended price is from the rising 20 week EMA at \$81.50. We could easily see a downward move in the dollar in the week ahead which would correspond with a BOUNCE in oil off support at \$70 and stocks at support at 1,050. Keep in mind those relationships. Bonds would also fall if the Dollar rose.

Daily



We could easily see a continuation of the downward retracement in the context of the bull market uptrend in the dollar index, that could take us down to the 20 day EMA at \$84.50 or even the 50 day EMA at \$83.00 - depending on how much stocks and oil rally off support. The 'line in the sand' level for the dollar would be \$82, which is the line of support as drawn.

In summary for the week, our two scenarios:

If Stocks support at 1,050, then Oil will support at \$70, Bonds will Fall, and the Dollar will fall to \$84 or \$83. Gold seems to be on its own, decoupling from other assets in the midst of a financial panic.

IF stocks break back under support at 1,050, THEN oil will also break support at \$70, Bonds will continue their rally, and the Dollar will have retraced enough and begin rallying again, resuming its uptrend to target \$88 then \$89.

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