



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Note prices rallied this week as stocks tumbled, as expected. The key boundaries for investors to watch are the \$118.00 level and \$115.00 level as price 'triangulates' between these zones.

S&P 500: So far, the S&P 500 is forming a trading range with a slight downside bias as it failed - as expected - to overcome the 1,225 key confluence resistance area. Keep a neutral/bearish/range-bound bias as long as we're under 1,225.

Gold: Gold was the big winner this week as the European debt issue and uncertainty sent prices higher. There's no chart level to stop a test of the highs at \$1,225 as long as we're above \$1,160 so keep those levels in mind.

Crude Oil: Crude oil rallied sharply last week but still remains between key trendlines as drawn with the important test of the \$90 per barrel level not far away and seemingly price is on a collision course with this upper level.

US Dollar Index: The Dollar Index took a bearish posture at the \$82.50 resistance level, but keep an open mind at this level due to the support zones beneath. The index on the higher frames continues its consolidation posture.

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 inverse relationship between stocks and bonds continue - with bonds continuing their rally as volatility and downside action returned to stocks this week.

For now, the key monthly levels to watch on Bonds (10-Year Notes as a reference) are the critical \$115.00 support level (on multiple timeframes) and the \$118.00 level also on multiple timeframes.

A break above \$118.00 would suggest a sharp downside move in stocks and would argue for investment in bonds for protection, though if stocks continue their rally, we may see a breakdown through \$115.00 in bonds, suggesting that risk was still on the table in stocks as investors would sell bond positions to participate.

Price on the monthly frame remains in an uptrend with the 50m EMA serving as support, so keep this structure in mind as you view the lower timeframe charts.

Weekly



Price is actually forming a descending triangle (bearish undertones), but it's best to view triangles as compressions that precede price expansion moves (trends). As such, we would expect a break above \$118.00 (falling stock market) to send note prices at least to the \$121.00 resistance level, and even higher in the event that stocks sell off harder than that (breaking under 1,150 or lower).

Unless that happens, expect the triangle pattern to continue, trapping price between \$118.00 as resistance and \$115.00 as support. A sharp downside break under \$115.00 (rising stocks) would likely send us first to the 200 SMA at \$114.00 and then to \$111.00 - the prior low from October 2008.

Daily



The daily chart shows us that we have further to go within the dominant triangle - trendlines as shown above.

Any break above \$118.00 is likely to send us first to \$119.00, and if buyers rush to bonds, driving price above \$119.00, we could then see \$121.00.

Again, an upward move in bonds will likely correspond with a proportional sell-off in stocks.

US S&P 500 (\$SPX)

Monthly



It sure seems similar at least in structure (and repetitive up-months without a pause) that we are currently repeating the pattern off the 2003 market bottom, where price rallied 12 months higher with only a few down months as a 'pause.' We've rallied 15 months higher with only 2 down months along the way - so this rally is longer in duration and price, but still similar. That being said, if buyers push price beyond 1,225, then the pathway is officially clear for us to return in similar fashion - not straight up, but with pauses along the way - to the 1,550 highs as we did from 2004 - 2007. The key will be 1,250, with a long-term expectation that we return to the 1,550 level if we're above 1,250, and caution if we're beneath with a keen eye on the 1,150 support level for a downside reference.

Weekly



As I mentioned in last week's report, 1,225 will be absolutely critical for the market. It is confluence resistance as shown above, and we fell 2.5% this week as a result of a test of this level - this is exactly what we would have expected at such a critical overhead resistance level. How far price will fall... that is the question.

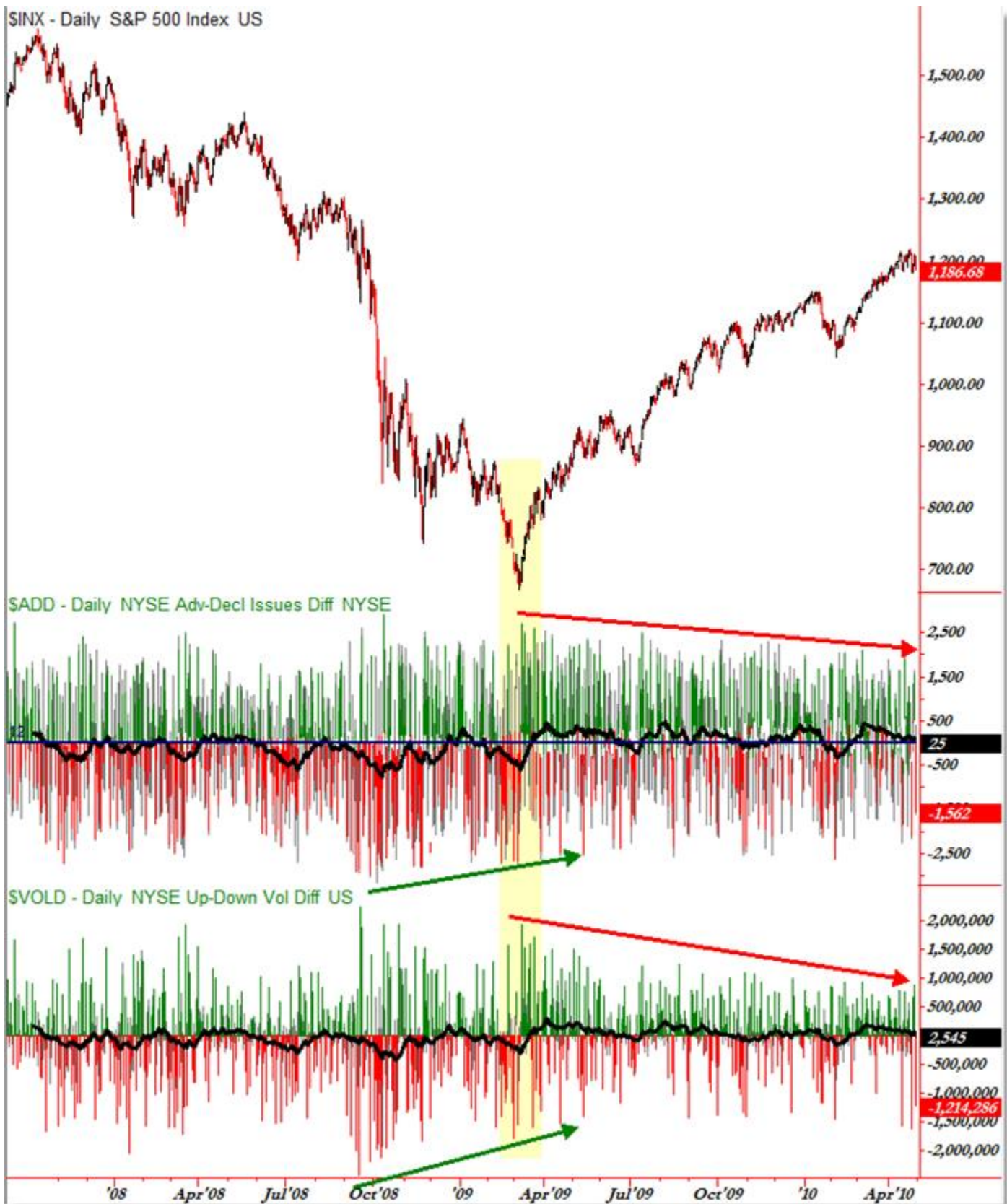
Weekly support rests at 1,150 from the 20 EMA and January price high, so that will be our reference point going forward. We may be expecting a similar downside swing to that of June/July 2009 or January/February 2010. However, any move to break to new highs above 1,225 is a game changer, arguing that price will test 1,250 and perhaps even beyond. If we're above 1,250, it would be extremely difficult to be a bear/short so I would imagine a great deal of those who remain short will 'throw in the towel' and cover with disgust, sending the market higher as a result.

Daily:



The near-term future argues compellingly for a downward reaction/swing perhaps to test 1,150, but we do have confluence support (Bollinger and 50 EMA) at the 1,170 level. There are more support levels under us than resistance levels above us - that's what happens in a 'bull market.' We do have a persistent negative momentum divergence as labeled at the key resistance at 1,220, so it would be very logical to expect a downward move. However, we could be simply repeating a very frustrating consolidation period (for a month or longer) similar to that of November/December 2009 (highlighted). So far, that's what's going on. We've bounced almost for a month now between 1,210 and 1,180, so watch for price to continue this range unless we break above it (play long to 1,250) or under it (look for a retracement to 1,150).

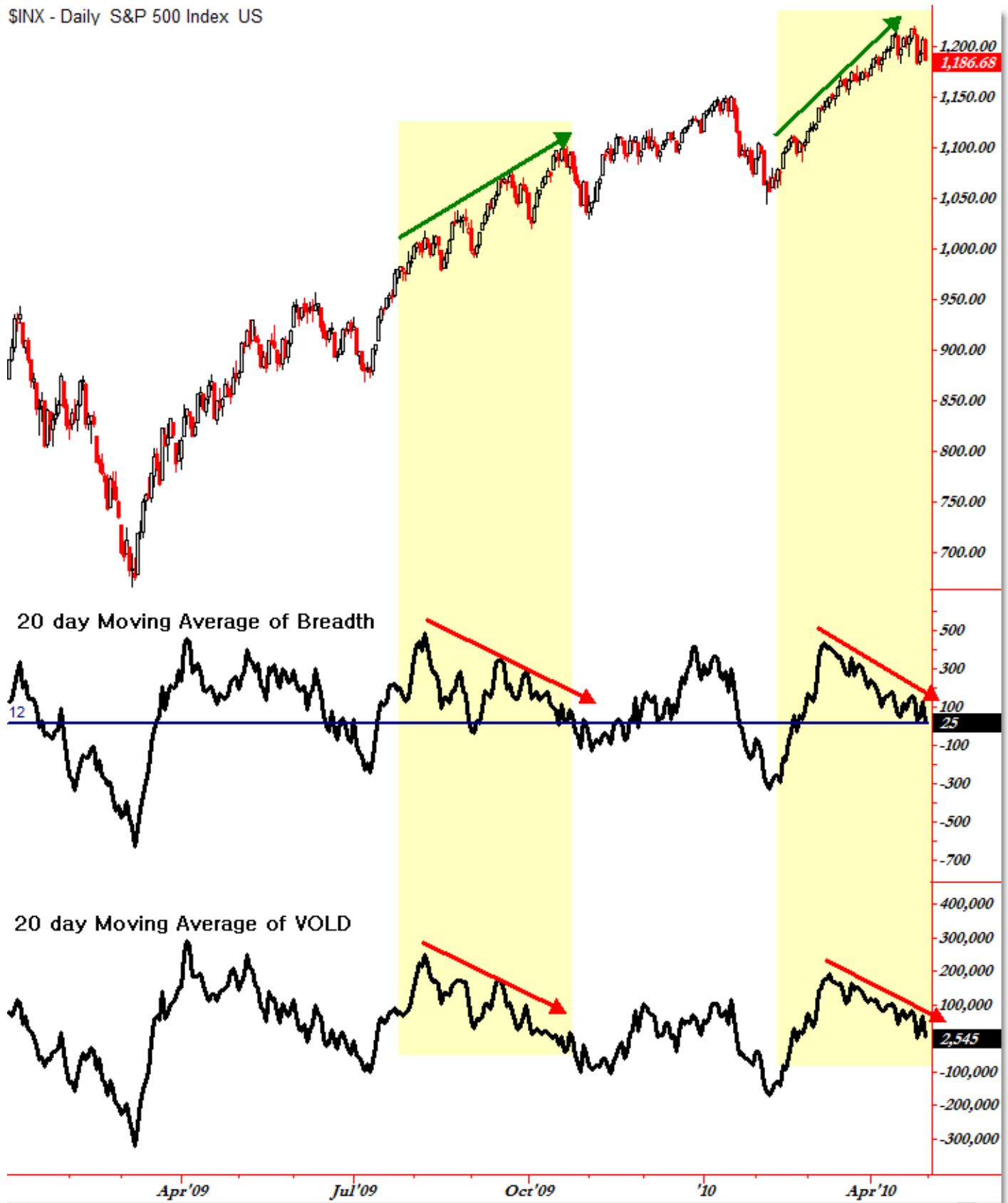
Bulls are in trouble if sellers can push price under 1,150.



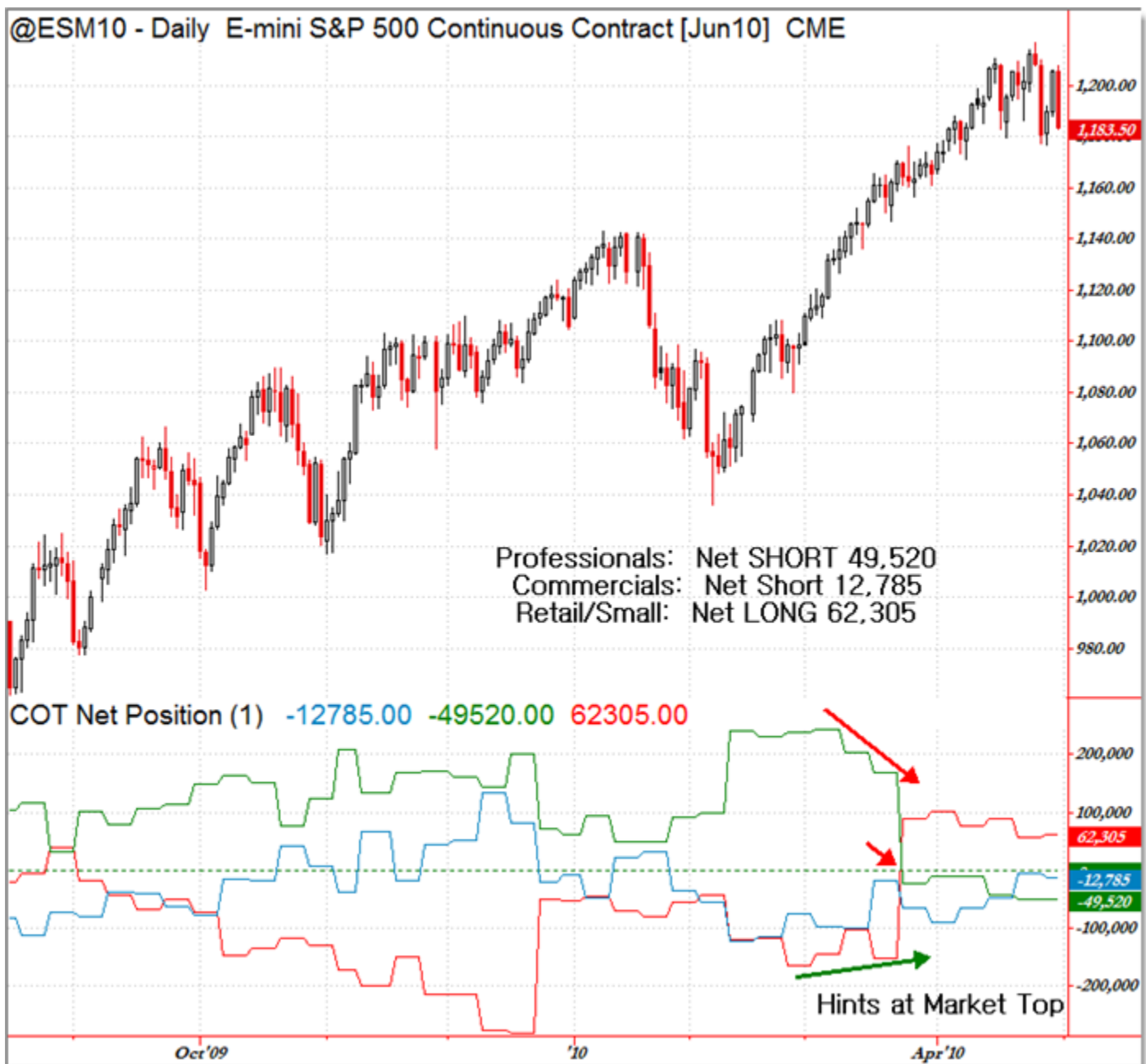
This chart shows Breadth and VOLD (internals) for the entirety of the bear market - you can use as a reference.

Notice how internals lead price with divergences. We've seen a lengthy negative divergence since the March 2009 lows.

\$INX - Daily S&P 500 Index US



This chart normalizes internals with a 20 period moving average of the high, low, close. Notice the negative divergences. Divergences are bearish non-confirmations... but the market has continuously overruled these divergences to rally higher.



Members have continued to email me to say how much they like the CoT charts I provide - I agree.

These charts show 'what is really going on' in terms of WHO is holding contracts... Professionals or the Retail public? Stated more harshly, the Smart Money (pros) or the Dumb Money (retail).

Retail traders got short JUST before the market bottom and have remained short ALL through the 2009 rally until March 2010 when they flipped, threw in the towel, and got long. Professionals got long just prior to the March 2009 low and stayed long all the way until March 2010 (last month) when they flipped, sold and are now net short.

This chart - which is simple to understand and has been rather accurate (but never guaranteed to continue to be in the future as a disclaimer) hints strongly that downside action for the market - perhaps a major turn down - is favored unless the picture flips back to the bullish side (where pros get long and retail get short). Pay less attention to the Commercials in these charts.



An update to the Gann/Andrews Pitchfork chart of the SP500 shows that we found key resistance at the 1,211 Gann number and have found support just above the lower Gann number of 1,176.

That is how to use these charts - if price breaks above one level, expect it to continue to the next level (using other forms of analysis). If it breaks under a key level, expect it to travel to support at the next lower number.

The blue Andrews lines are semi-auto trendlines for reference.

Gold

Monthly



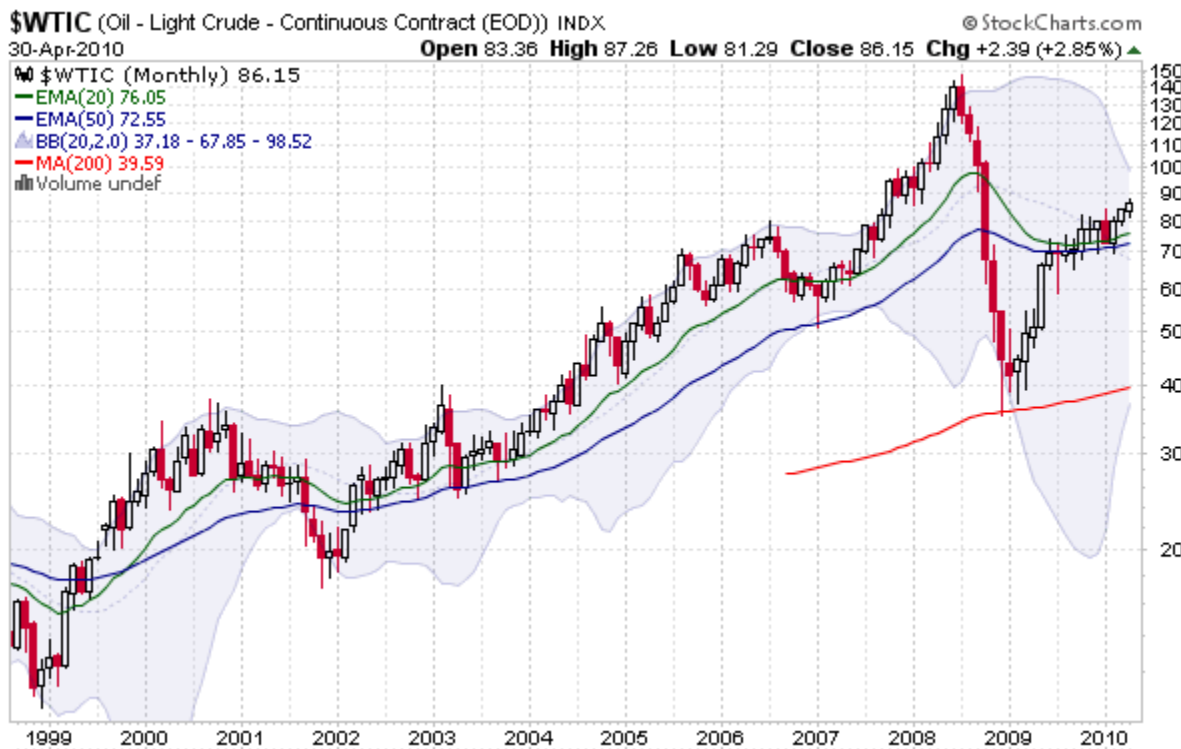
Monthly gold prices continue on their uptrend, with the most recent pullback unable (so far) to retrace to the rising 20 month EMA as originally expected.

As long as price is above \$1,160 per ounce, there is no chart resistance level stopping price from retesting the 2009 high of \$1,228, which is now the official target (a second target extends to \$1,300).

Monitor price closely on lower timeframe charts for confirmation.



The chart above shows the logarithmic scale chart of gold prices, starting with the 2001 rally to present - for a different perspective. The chart beneath shows crude oil prices also on a log-scale for reference.



Weekly



It seems as though weekly gold prices are completing a "V-Reversal" (isosceles triangle) pattern which will complete with a retest of \$1,200, or if history repeats, a continuation move to the upside on a break above \$1,220.

Weekly levels to watch include \$1,200 then \$1,228 (price resistance) and \$1,120 (20 week EMA) then \$1,060 (50 week EMA).

As long as we're above \$1,160, no chart level stands in the way of a retest of \$1,200.

Daily



The current play, as mentioned would be the case in last week's report - is long to target \$1,220 if above \$1,160. That happened this week, and that remains the expectation/bias as long as gold is above \$1,160.

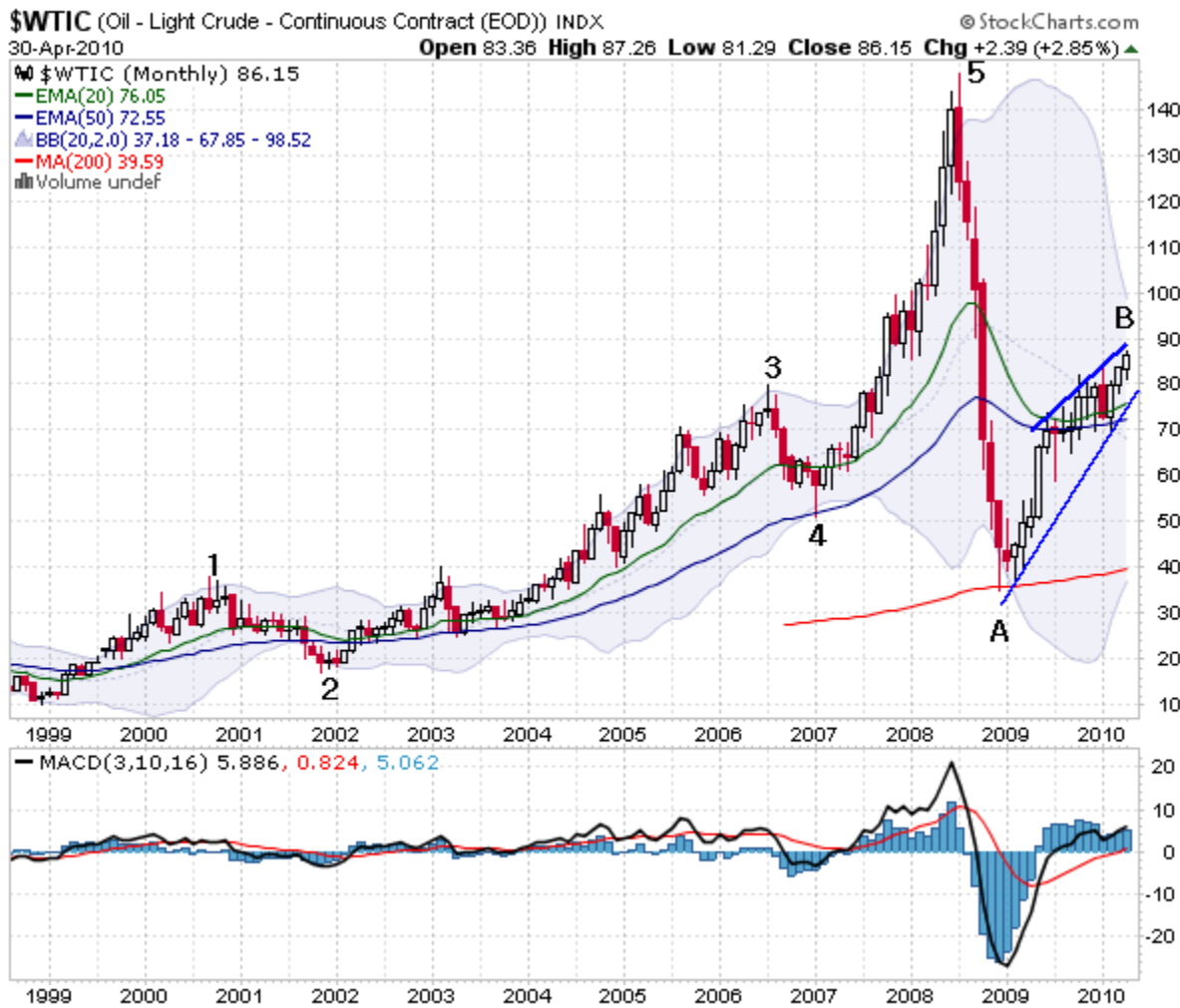
It completes the Rounded Reversal "Mirror Image" pattern as shown above.

If gold falls back under \$1,160, be very cautious on the bullish side as a bull trap may be triggered, sending prices lower as those who bought above \$1,160 are forced to sell for stop-losses.

Even still, support rests at \$1,150 then \$1,135 and of course \$1,100.

WTI Crude Oil (\$WTIC)

Monthly

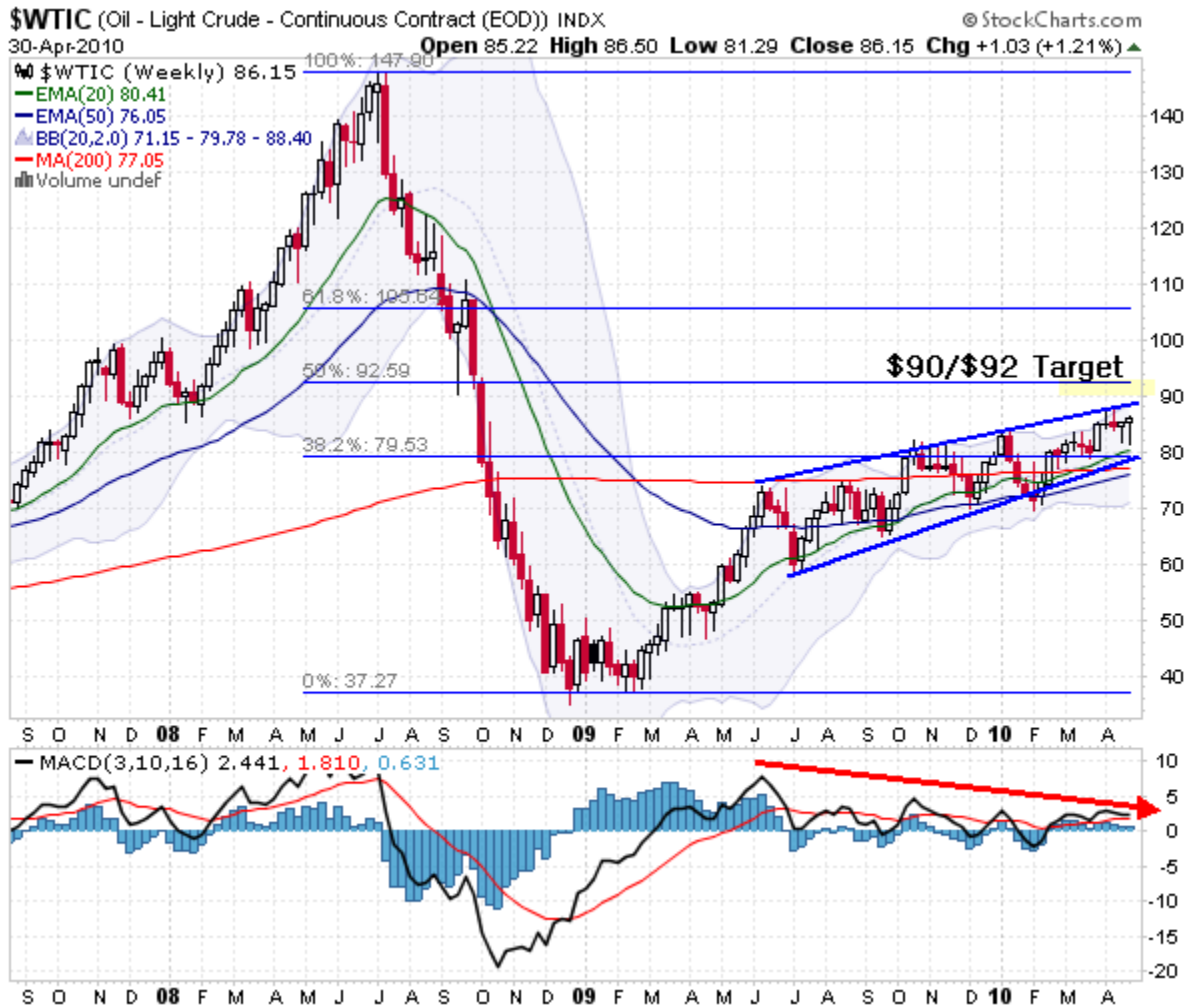


Crude Oil prices continued their up move as seen in the rising trend channel above.

The Elliott Structure remains dominant unless we see a swift move up above \$100.

For now, watch EMA support levels at \$76 and \$72.50 and overhead resistance at \$90/\$92.

Weekly



As I've been mentioning, if oil is above \$82.00, then the next logical target is \$90/\$92 - and that expectation remains dominant. Price continues rising in a corrective parallel trend channel with boundaries simply at \$80 and \$90.

A negative momentum divergence undercuts the rally, so this isn't a "long with your whole account" position to play for \$90. The best expectation for now is that this trend channel will continue with higher prices inching their way up in the continued 'creeper' trend.

Daily

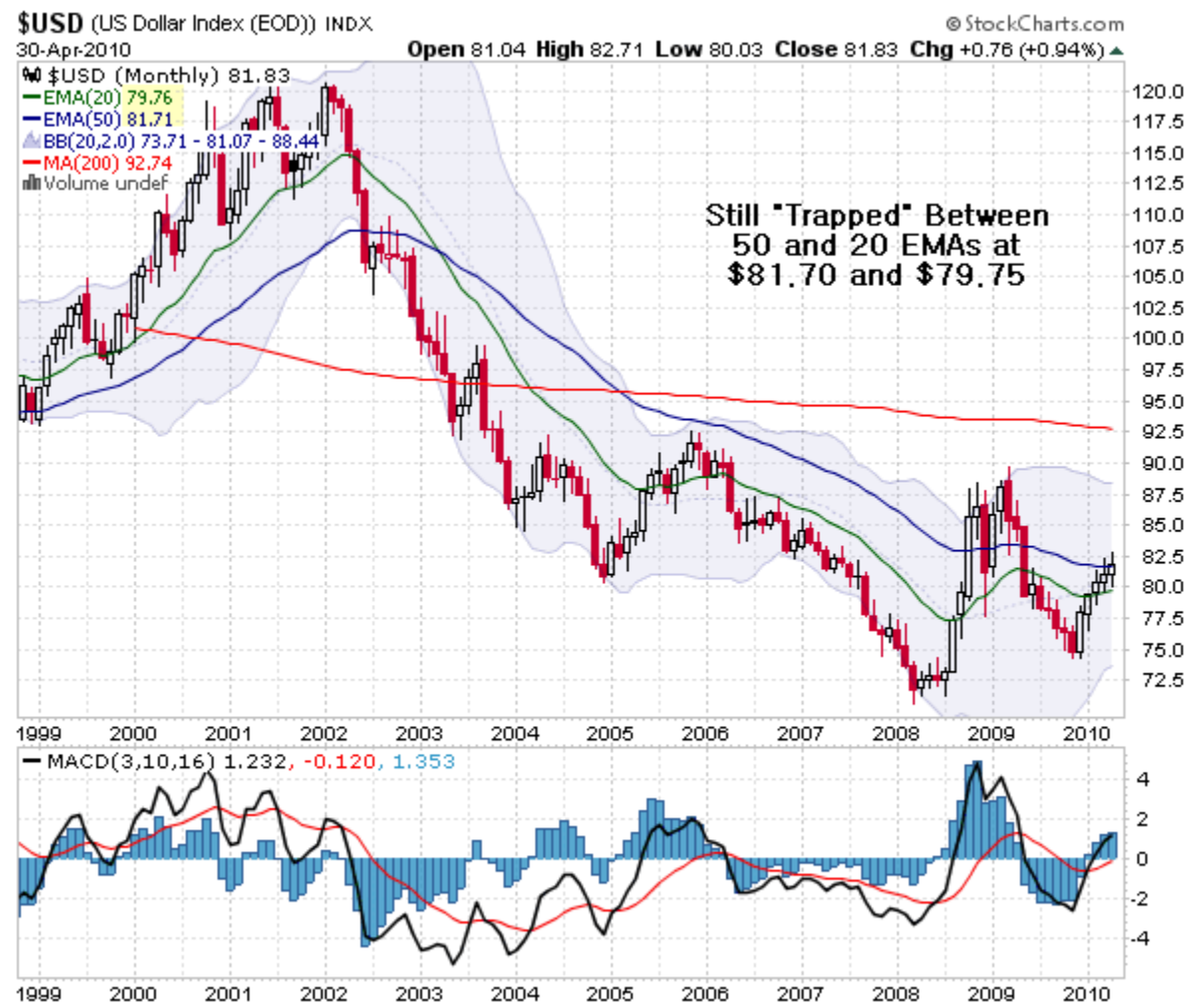


It's best to look at the current resistance at \$87.00 as a trigger - if broken - to target \$92.00, but be cautious unless we're above \$87.00.

There are plenty of lower support levels, including the key confluence of trendline, 50 day EMA, and lower Bollinger Band all between \$82.00 and \$83.00. Take a look at the weekly chart again to see the massive support confluence as well at this level.

US Dollar Index (\$USD)

Monthly



The monthly US Dollar index has remained 'trapped' between the 20 and 50 month EMAs at the \$79.75 and \$81.70 levels respectively - and also the last three months have formed spinning top 'indecision' (pausing/consolidation) candles. That's a warning sign, but not yet a sell signal.

If the index rises above \$83, then it suggests that a larger than expected rally is in store for the US Dollar Index, which would likely correspond with a falling stock market along with falling oil and gold prices.

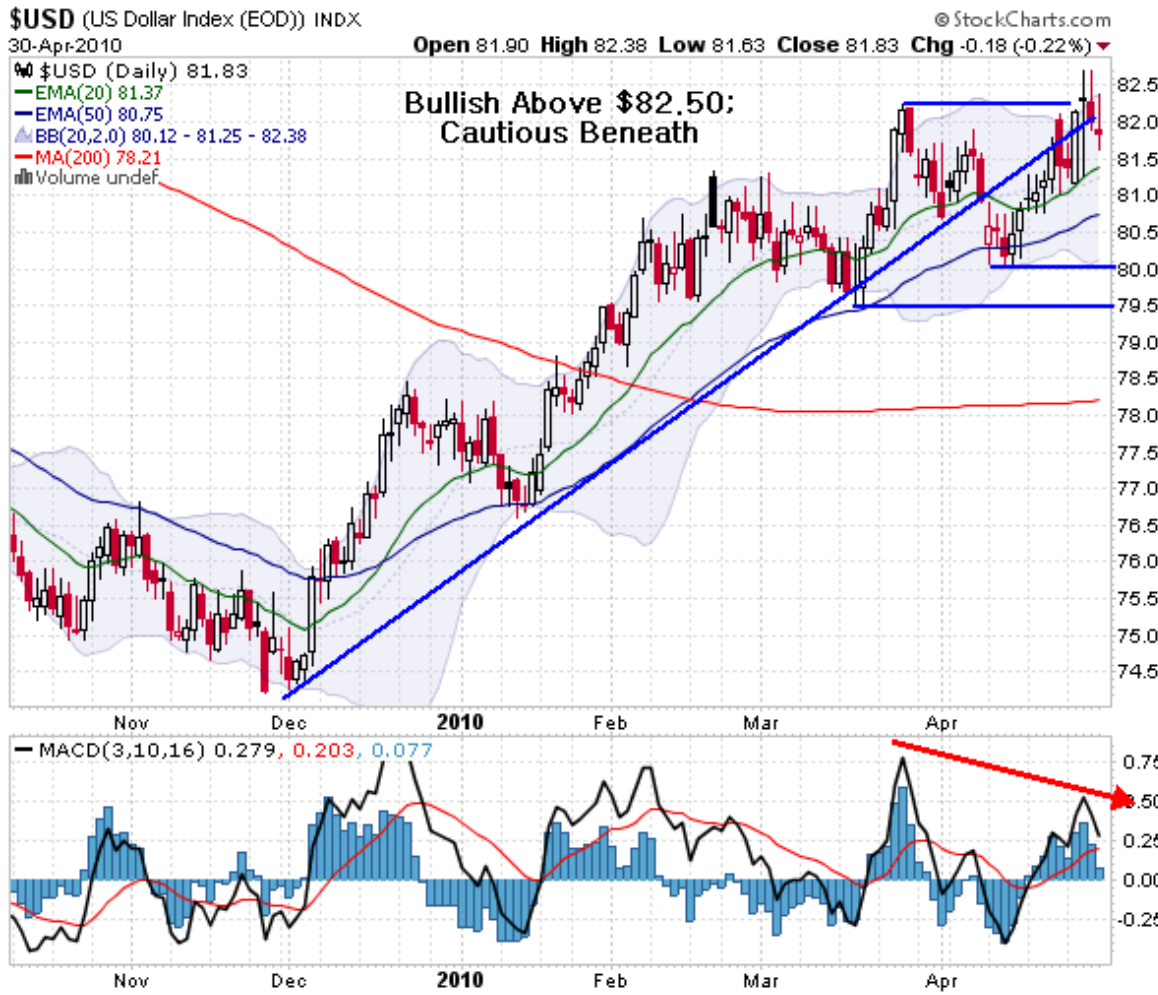
Weekly



Not surprisingly, we have another confluence of resistance at the \$82 level, this time from the 50% Fibonacci Retracement as seen previously. The upper Bollinger Band also rests at \$82.70, so therefore any clean break above \$83.00 suggests we will see a retest of the \$84.00 level, and any break above the key 'last defense resistance' at \$84.00 means that we likely have seen a trend change to the upside in the US Dollar Index.

For now, confluence support still rests at the \$80 level as seen on monthly and weekly charts. Short only under that level.

Daily



Speaking of the \$80.00 support level, we have two levels of prior price lows at \$80 and \$79.50 respectively, which serve as reference points. Otherwise, price remains above the 20 and 50 day EMAs (\$81.40 and \$80.75) underscoring the current up-trend in the Dollar (fueled in part by the sharply falling Euro).

Doji reversal candles formed last week at the \$82.50 key resistance level, so that is a bearish signal (along with the negative divergence) so watch the chart closely with an open mind for an upside break above \$82.50 or for any down move to test lower support zones as has been the case all the way up in the index.

Disclaimer:

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