Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: We still remain under the key level of 122 to define a 'flight to safety' breakout, or a 'all clear in the economy' which would mean that bonds would fall from their resistance levels.

S&P 500: The selling in the market this week was sharp, pushing price down almost 4%. We still remain above the line in the sand at 1,050/1,040 and bulls will still try anything they can to keep price above this level so be on guard.

Gold: After moving back into breakout territory, the technical position of gold has temporarily weakened and caution is warranted as described later in the report.

Crude Oil: Though Friday's rally - mostly caused by fears of a storm forming in the Atlantic Ocean - broke the sell-streak in oil, the chart still remains in a tenuous position trapped between two dominant short-term trendlines. Watch $80 as the overhead reference level for what to expect going forward.

US Dollar Index: The Dollar continued its sell-off/retracement phase last week, and now faces a critical test of support at $85. Monitor this level for clues as to which target to play for next.

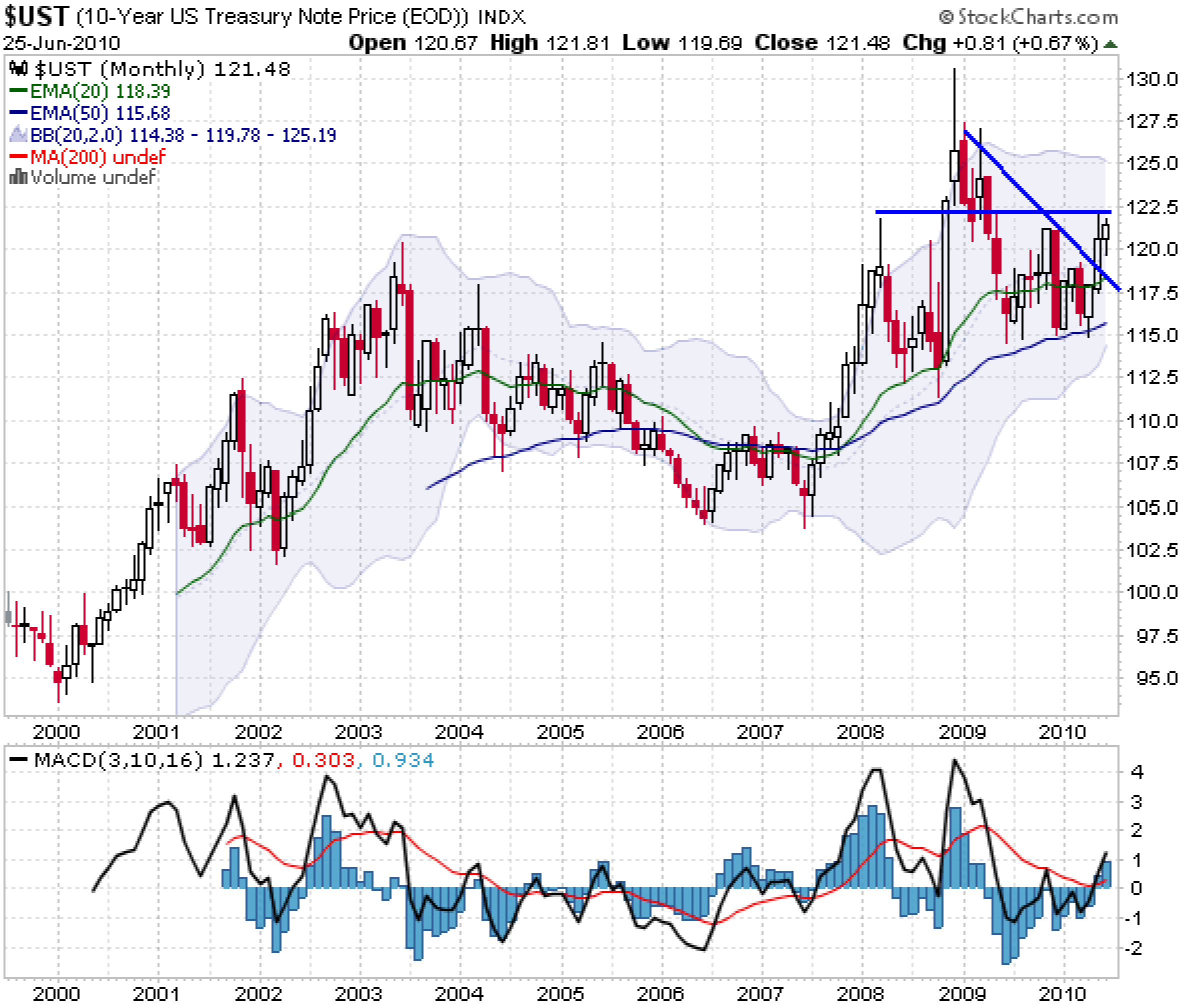
Remember, a DECLINING Dollar (Index) is BULLISH for Stocks and Commodities and is BEARISH for Bond Prices

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



No major change in the monthly Treasury Note price.

$122 remains the dividing line between an upside range expansion breakout, and an overhead resistance level.

Bonds tend to lead stocks (remember bonds broke out two days before the May 6 crash), so look for any surge higher than 122 to signal a potential crash under 1,040 in stocks.

Weekly

We still can't get through the overhead resistance at 122 - but this area corresponds with the 1,040 in the S&P 500. It also corresponds with $1,250 in Gold and $70 in Oil along with $89/$90 in the US Dollar Index. All of these prices STILL are reference levels across ALL markets that will either hold in all markets or break in all markets.

Daily

With the exception of a sharp down-day on Monday (during the stock market vicious bull trap), bond prices rose all week long, peaking again at the $121.50 level and now forming a series of slightly lower highs along the progression of the current trading range. A slight decline in momentum undercuts the highs - just like that of the US Dollar Index - so be on guard for a potential down move if we see a recovery in stocks or global economies.

As an analyst, one of my pet-peeves is hearing people call bonds in a bubble and about to crash with one breath, and then with the other breath state that they believe firmly that stocks are going to crack back to 850 or even 666. A quick look at the chart will reveal to you that - for the most part - bonds and stocks are NOT correlated - in fact, they are inversely correlated and that makes sense. Bonds are safety assets and stocks are risk assets. If people start to see the market fall, they will sell stocks and rush to buy bonds (alternatively, buy gold or hoard the money in cash).

In a prior weekly update, I stated that I can see no scenario where stocks plunge and bonds plunge too - my belief is that if stocks fall, bonds will rise. A kind member brought to my attention a scenario where both will fall... and it's a low probability but it is worth mentioning at least to be fair. If foreign governments call into question the status of the United States Treasury to repay its debts, essentially accusing us of defaulting on our bond obligations, then such news would send both stocks and bonds falling in a panic move similar to what happened in Greece. However remote this possibility, it does exist and would be the leading scenario of a cause of a bond and stock market decline... but I say the word 'decline' nicely. It would mean a collapse of the credit rating of the United States... and we won't discuss that yet.

US S&P 500 ($SPX)

Monthly

No major change in the monthly SP500 index to report. 1,050 still remains the absolutely boundary (actually 1,040) between buyers and sellers on the monthly frame, as it is the FINAL moving average on all timeframes to keep this market defined as a bull trend. The 200 month SMA rests currently at 1,048, as price has bounced off this level four times as shown. Any move and monthly close under this key average should be interpreted as the official beginning of a new bear market... or to be slightly technical... the resumption of the old bear market that began in 2007 (one swing does NOT an uptrend make... and the monthly moving averages never crossed bullishly).

Weekly

I have been referring to the price levels under 1,040 as "The Abyss" and that's exactly what I believe them to be. Any solid move under 1,040 - when confirmed with a subsequent break under 1,000 - plunges the market "Off the Cliff" and "into the Abyss" at which point traders and investors might begin to snowball a second panic selling phase that could take the market back to the July low at 875... or if the market really picks up steam to the downside if the global economies stagnate and fall back into recession... then we could see a return back to 666 or lower. But let's not get ahead of ourselves.

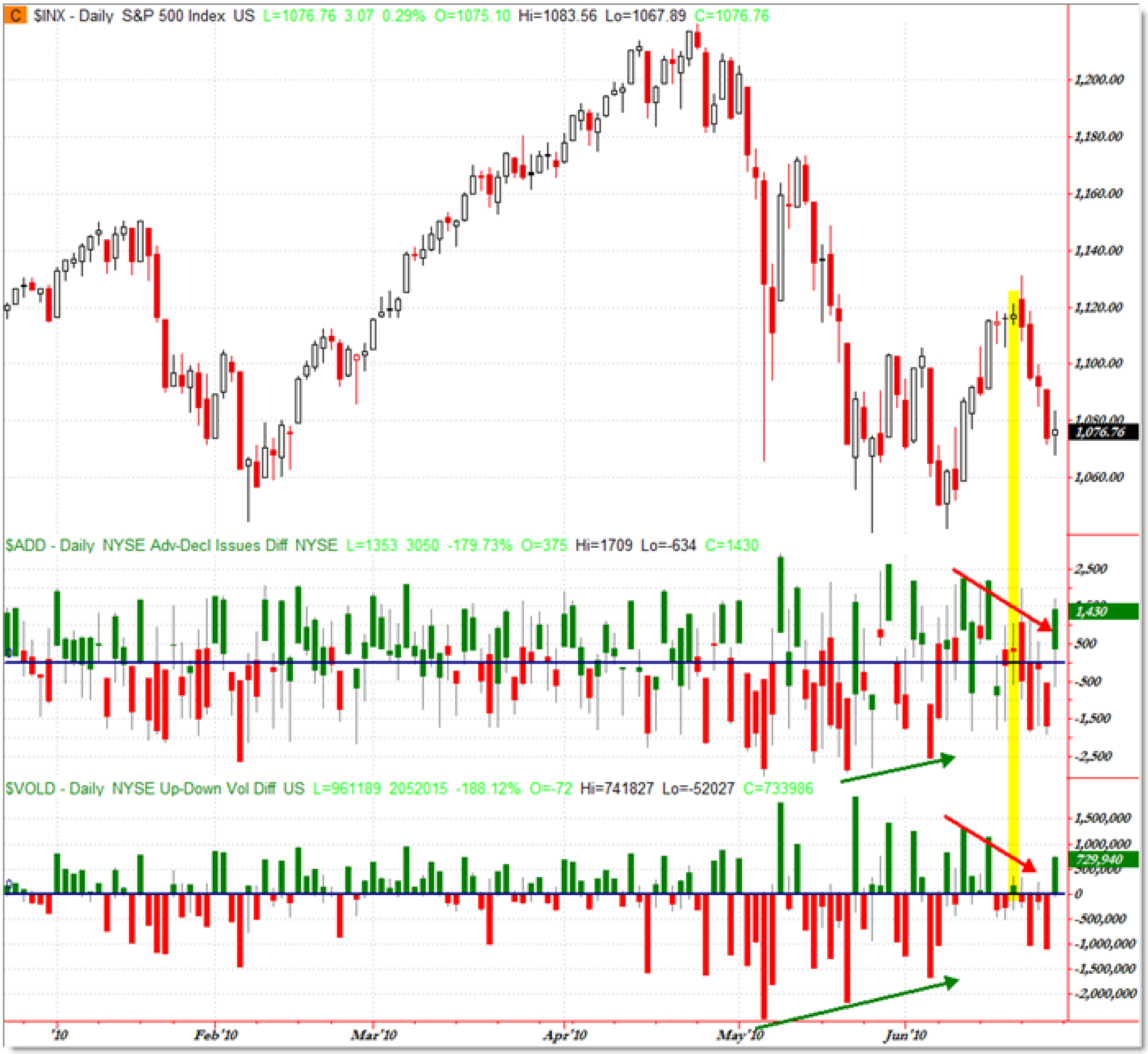
The key is to watch 1,040 as the final line in the sand support and 1,120 - the 20 week EMA - as a key overhead resistance area to watch for a bullish play. The bears hold the cards while the index is under 1,100 (particularly 1,120) so be extremely cautious. Like a dying animal, the bulls will do anything possible to keep this market from falling under 1,040 so we could easily see further short-squeezes until (unless) the index cracks solidly under 1,040. People are calling for a continuation of the Head and Shoulders pattern, and if so, we could see a move back to 1,150 so be aware of that.

Daily:

There is a short-term potential turn in the market at 1,070 as labeled. Price has had difficulty closing under this level, and this week marks "Quarter End" which is often subject to "Window Dressing" tricks and tactics of funds. Be on guard for that. The confluence of overhead resistance exists at the 1,100 and 1,115 level, so watch for those levels to contain buyers on any upward attempt. Any break above 1,120 sets the next short-term target officially to 1,150 (completing the H&S weekly pattern), but that target is off the table as long as price is under 1,100.

Again, any move under 1,040 sends the market over the edge and OFFICIALLY - via all metrics - turns the trend on the daily and weekly chart to a downtrend. While we're above 1,040, the market hangs precariously on a thin definition of uptrend, but from a classical standpoint, we are still in a price uptrend as long as we remain above the February, May, and June low of 1,040. Once price closes under that price for (at least) two days, then all bullish bets should officially be off the table.

Using our trusty CoT data chart, the grid is unchanged from last week. The signal is more muted because the participants are closer together in the reported data, but as it stands now, the CoT is flashing a bearish indication, given that the professionals (Large Speculators and Commercials/Hedgers) are net short 62,000 contracts while the small speculators/retail money are net long 62,000 contracts. Notice that the CoT Data flashed a distinct sell signal in mid-March which preceded the 'crash' of May by a month. Professionals got net long recently, but the last two weeks have remained slightly net short, while the 'commercials' or hedgers have been lightening up on their short-contract hedges. That's potentially bullish, but until we see any major change, the signal remains 'less' bearish but bearish nonetheless.



If you are a keen observer of breadth, then you know why odds were overwhelming why the market 'had' to fall this week. Price crept higher and almost every day, breadth/internals moved lower as seen with the red arrow in June. There was a positive divergence that signaled the recent rally, just as the negative divergence signaled the recent swing down.

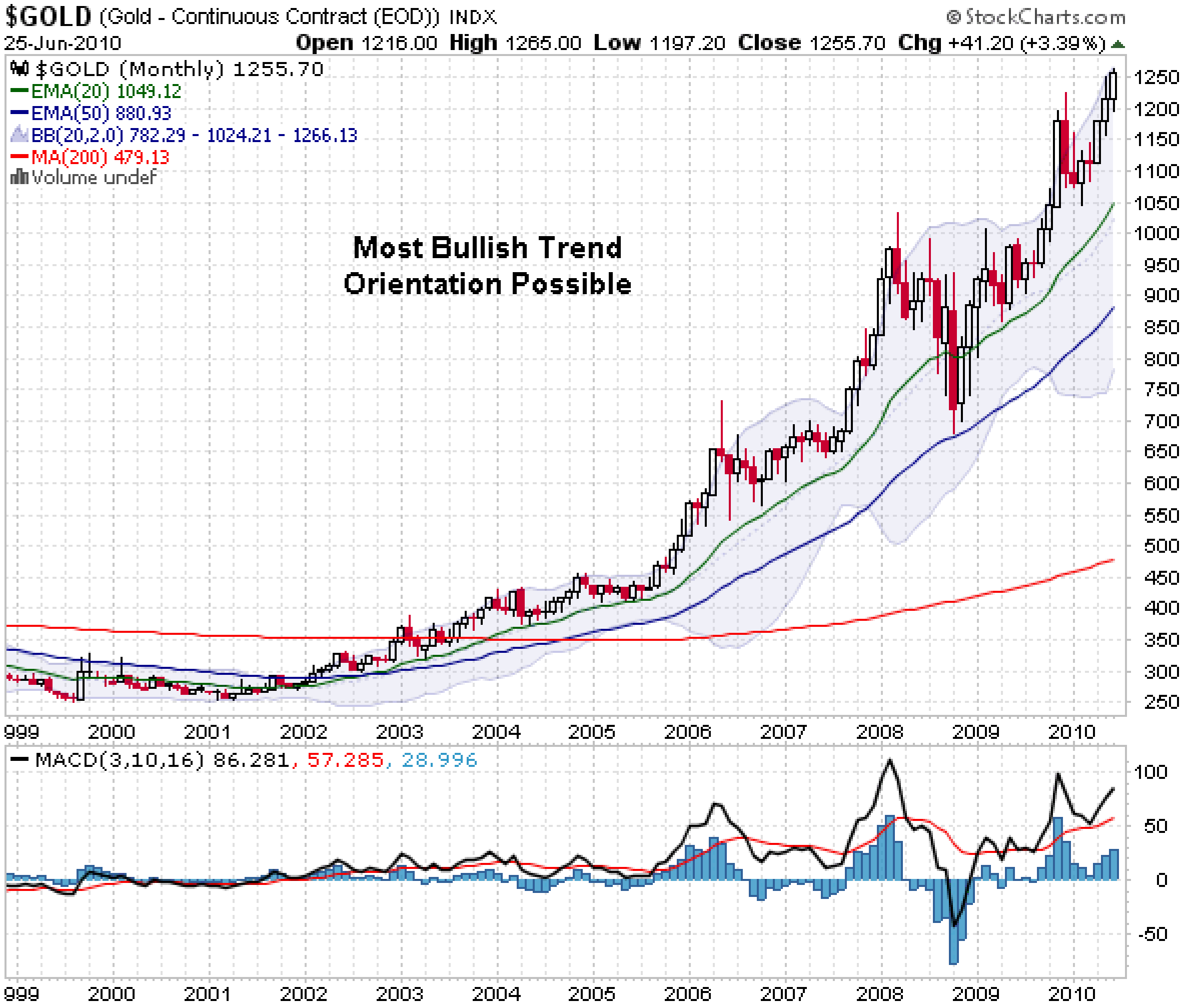
Now that we are exactly in the middle of the recent range, internals are not revealing much to us, though we see a positive sign from internals from Friday's action. No major directional bias comes from internals as seen above short-term.

For those advanced members among us, the grid above shows the same Andrews Pitchfork tool from the March lows, but there is a change to the Gann Squares numbers. In the past, I have shown Gann Squares starting with the March 2009 low of 666 as the origin for the mathematical calculation of the Gann Numbers. This is done when a market is in an uptrend as it has been. HOWEVER, if you take the stance that the 1,219 swing high in April marked the TOP of the market and now we are moving down in a new downtrend - which will be confirmed only when/if we break under 1,040, then you would use 1,219 as your origin number and reset the math to begin calculating Gann Square numbers LOWER. That is the grid I'm showing above, using 1,219 as the origin and letting the Gann math show the Gann numbers. If we rise above 1,150, I will bring out the old Gann grid using 666 as the origin, but for now, this is the new Gann numbers.

Price failed to close above the 1,117 Gann number, fell through the recent 1,084, and thus the next Gann number to watch is 1,051, under which price has not meaningfully closed since October/November 2009. 1,050/1,040 remains the dividing line between a continuation of the bull rally... and a new bear market.

Gold

Monthly



We look at the monthly charts for reference of the larger timeframe structure and levels to watch.

Until we see any major change, this chart will always register an 'all clear' signal for higher prices yet to come, given the strength of the uptrend as seen above. There is a slight negative momentum divergence, but that did not prevent price from pushing to a new high above $1,250 recently, which is where we stand now.

Weekly

The weekly chart gives us a temporary pause, or caution signal. Given, there is a powerful uptrend and upwards rally in place, but this week closed with a 'hanging man' doji candle at the upper Bollinger Band and $1,250 key resistance level... all of which formed on a negative momentum divergence as labeled.

This is probably not the time to have your whole account long in gold.

Notice the confluence support that is forming at the $1,200 level via the rising trendline and 20 week EMA. That will be the next level of support to watch for a reference. Price cannot stay between $1,200 and $1,250 forever, so it will have to break one of these two levels. The trend structure hints that we will break above $1,250 and push to $1,300 which remains the upper price target, but the negative divergence suggests that we could very well see a test of $1,200 soon. Rather than aggression, caution is warranted at this very moment.

Daily

The daily chart shows an even tighter range compression and inflection building in price. The short-term trendline actually rises to connect the ascension in price. While the weekly chart shows confluence support at $1,200, the daily chart is more aggressive, showing the same confluence support at $1,230.

If you are a short-term trader, I would prefer to wait to see the resolution of these trendlines - both at $1,230/$1,200 for support and $1,250 as resistance. Either way, we are likely to see a range expansion move carry prices up to $1,300 or $1,350, or down to test $1,150. You can see the negative momentum divergence on the daily chart as well.

Be cautious here and position or reposition on any unfavorable move against your position.

WTI Crude Oil ($WTIC)

Monthly

The monthly chart still shows key support at the $70 level and key resistance just under $90.

There is a distinct support shelf via the 20 and 50 month EMAs above $70 per barrel.

Any move that cracks price under $70 is likely to lead to a breakdown to target $60, but otherwise, price has remained within a well-defined trading range between $70 and $80.

Weekly

The structure has taken on a more bearish turn after breaking under the rising trendline as labeled. The lengthy/multi-swing negative momentum divergence still undercuts the rally in price. We can clearly see the importance of the $70 per barrel level - any break under this level would likely lead to a price target of $60 or even $50 if fears of a global recession/slowdown materialize.

Daily

The daily chart shows that price remains in a corrective-looking trend channel phase that faces a key test of overhead resistance at the $80 level. Any break above $80 is likely to lead to a continuation move to the upside (short-covering + bullish breakout buyers) so be prepared for that outcome.

In the absence of a break above $80, we can look for price to slice its way lower if we start to see the chart tick under the $75 key support level - notice all the moving averages that are converging for support at the $76/$77 level.

Price bounced Friday off the confluence of the rising trendline and 20 day EMA at the $75/$76 level. It will be expected that price will remain within the bounds of this range, but notice the resistance level at $80.

These will be the short-term levels to watch and position into accordingly.

US Dollar Index ($USD)

Monthly

The monthly dollar chart shows the index was mere points away from an official bullish trend reversal - and that still may happen with a stock sell-off - but for now, the monthly chart remains in a transition phase, but still officially a bearish trend unless we see a move above $90.

The only reference levels to watch on the monthly chart include $89 for resistance and the $82.50 level and $80.00 for support.

Weekly

As I've been mentioning in the last few reports, the $89 level is absolutely critical resistance and a key boundary between bulls and bears. It has been our price target and we have hit the target and now are falling lower in a retracement phase from this target.

On the weekly chart, the level to watch for support is $83.50/$84.00, which will be the likely target on a sustained (deep) pullback, but before you start to target $84, look closely at the daily chart to see the short-term support level that could hold... or break... but either way we should know this week.

Daily

Quite simply, the level to watch on the daily Dollar chart is $85. It represents the rising 50 day EMA - a last line of defense in the context of an uptrend - and the lower Bollinger Band (actually $84.76). If the dollar continues to weaken, we will see a break under $85 which will trigger a downside target of the 20 week EMA at $83.50. We could get a support bounce here, but the chart seems to hint at further deterioration due to the negative divergence and sharp retracement that took us under the rising 20 day EMA. Still, watch $85 as the reference between bulls and bears.

Disclaimer: