



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Notes continued their upside break, but are stalling currently at the overhead target/resistance at the \$126 level. Look for any upside break to confirm the rally, otherwise look for support to come in from the 20d EMA just under \$125. Rising bond prices tend to be bearish for stocks.

S&P 500: The S&P 500 tested support at the key 1,060 level, which is the short-term determinant. A break under 1,060 sends the target back to 1,010, while any move that breaks confluence resistance at 1,100 sets up a play to 1,130, and any shattering of 1,130 is a game-changer for the bears. Barring a move above 1,100, odds favor eventual lower prices according to the charts.

Gold: Gold continued its rally, strengthening its chart position especially on the daily frame, despite large-scale negative divergences and completed 5-wave fractal counts. Watch closely the support at \$1,200 for clues.

Crude Oil: Oil is behaving similarly to stocks, as they are highly correlated. Oil fell sharply this week and now faces a critical test of make-or-break support within the context of a broader trading range - like stocks.

US Dollar Index: The Dollar faces a very significant test of overhead resistance at \$83.50. Any breakout above \$83.50 is likely a warning sign for a trend reversal - rather than a simple retracement - and could signal lower prices ahead for stocks and oil. Keep that price in mind closely this week.

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



10-year Notes remain - as expected - in a breakout rally based on the higher-timeframe (monthly/weekly) breakout from the descending triangle pattern. We'll see from the weekly chart that price faces a critical test of overhead resistance at the \$126/\$127 area that should give us clues as to what to expect next.

Unless bonds weaken here, we can expect to see even higher prices, which especially will be the case with a potential stock market decline ahead as fear grips the investment community that a stronger than expected economic decline could be on the horizon, though most analysts are refusing to predict we will see an economic "double dip" (at least the ones on CNBC).

Weekly



The weekly chart holds the best clue as to what to expect - we've successfully hit our upside target I've been showing for weeks now at the \$126/\$127 area - which was the prior 2009 high. Think for a moment as to what that means - bonds (10-year notes) are currently priced at the same level they were when the stock market bottomed in March 2009. Clearly, stocks are not at the 666 level (they're at the 1,100 level) seen back then. If the message from the bond market is correct, then we can expect to see a further decline in stocks ahead - as the bond market tends to be a leading indicator (turning ahead) of the stock market (as I show in a specific chart).

The rise has been almost vertical, so now would **not** be the time to plunge a lot of cash into bonds if you're not already positioned (specifically from the buy signal trigger at \$121), unless bonds can break above the \$127 area, which would trigger the next likely target to be a full retest of \$130 - or higher should the stock market and economy severely decline.

Daily



Note prices have continued to break out sharply above resistance, and the picture in the 5-year and 2-year notes, and the popular IEF (7-10 year bond ETF) fund are even more dramatic in the rise. If we indeed do have a stock market crash soon, we will look back on this and say "the bond market warned us with a sharp/steady rise ahead of the crash" - this is the warning right now. We do have a test of resistance at \$126/\$127, so any further breakout above resistance should be heeded as a severe warning signal for stocks, just as any price decline in bonds should be seen as bullish for the market - the two are inversely correlated for good reason.

For the short-term, look for support to come in again at the 20d EMA at \$126, and any break under \$126 then \$123 (50d EMA) would be a big sell signal and bullish signal for stocks. Unless that happens soon, the trend structure indicates even higher prices to come - provided bond buyers can breakout above the 2009 price high at \$127.



A quick reminder - 2-year (and 10-year) Treasury **YIELDS** move in the **SAME** direction as stocks, just as **bond PRICES** move in the **opposite** direction as stocks. Bonds = safety while stocks = risk/return. Money tends to flow out of bonds (thus rising bond yields) and into stocks in good economic times and then flows out of stocks and into bonds (thus rising bond prices) during bad economic times. This relationship has been abundantly clear since 2000. However, Bonds often have a slight lead (advance turn) time over stocks, particularly at peaks. Yields peaked a few months ahead of the stock market peak in late 2000 and then peaked in mid-2006 ahead of the 2008 stock market peak.

Yields are 'supposed' to travel in the same direction as stocks, but as you can see, bond yields did NOT rise while the stock market rose throughout 2009. That's in part because the Fed kept rates abnormally low, but what we're seeing now is a plunge in bond yields across the board where the 2-year yield is making lifetime lows. 10-year note yield - while not making lifetime lows - is very close to doing so. What does that mean - is it bullish? The traditional Inter-market scenario would call this a warning sign for stocks and would NOT be bullish. There are two options for assessing the future: First, the new lows in yield FORECAST new lows (or at least an imminent downturn) in stocks yet to come. Alternately, one would assume that the traditional bond/stock relationship has broken down recently. If history is a guide - and the bond/stock relationship has not broken down in the current environment - then the signal is for lower stock market prices yet to come.

Rising yields are a sign of economic confidence which correlates with higher stock market prices; **falling yields signal the opposite.**

US S&P 500 (\$SPX)

Monthly



The monthly chart shows a severe wall of overhead resistance at the 1,020 level, which is where the market peaked recently. That's because the 1,121 level is the 50% Fibonacci retracement and 1,137 is the 50m EMA. As you'll see, the 20 week EMA is 1,097 and a Gann Squares number exists at 1,110. A major price peak resides at 1,130. The expectation is that the market cannot overcome these resistance barriers, but as a non-biased trader/investor, any such upside break above 1,130 should lead to a strong upward move due to the "popped stops" of bears/short sellers buying to cover (stop-out) their positions. As long as the market remains under the 1,130 level, odds are overwhelming for a continuation down move.

Weekly



Continuing that logic, I've added the much-discussed large-scale head and shoulders (stretching back to September 2009) price pattern that gives a price projection downside target - if price takes out the neckline at the 1,050 level (or 1,010 depending on where you draw the neckline) of a push back to the 850 level. That's a logical place to expect support for any downside move that develops under 1,000 because it's the 23.6% Fibonacci level (881) and retest of the lows from the 2009 failed Head and Shoulders pattern at the 875 level. There's also a "Gann Squares" number at 859 and 889 for reference. Pay close attention to the dominant Fibonacci Levels, particularly the 1,121 50% level (overhead) and 1,014 38.2% level - which converges with the 1,010 low from 2010 and the major number everyone is watching at 1,000. A break under 1,000 would almost certainly lead to a push back to 900 if not 850 and it could develop quickly.

Daily:



I'm outlining the dominant Elliott Wave count held by most Elliott analysts, which places us squarely in a third wave that could extend all the way down to our target of 850 to 900 over the next few weeks. Look to short any move under 1,060 to target a potentially sudden move back to 1,010, and then short any move under 1,000 to target at least 900. There's a major resistance confluence - as shown - at the 1,100 level, so expect that to hold as resistance.

As always, be prepared to stop-out and even - for short-term traders - play popped stops on a 'failure' to trade lower and breakout above 1,100 and especially 1,130. Do not get caught holding short above 1,130 as it could lead to a massive 'popped stops' unexpected breakout to the upside to target 1,170 or even 1,220 on a severe short-squeeze. Sentiment is very bearish right now, so any unexpected upside move could ignite a powerful short-squeeze rally. As long as the market remains under 1,100, and especially if the market soon breaks under 1,060, expect to see 1,010 then 900 if under 1,000.



Let me temper all my bearish chart comments above with a surprising development in the CoT data chart. Can you see it above? Professionals (green) took an unexpectedly bullish turn on the market, jumping from net short 30,000 @ES contracts now to net LONG 50,000 contracts (a swing of about 80,000 contracts). The bullish turn was met with a bearish turn from the Commercials (Hedgers) who went from about 55,000 net short down to 102,000 net short, a turn of around 60,000 contracts. The retail/small trader/investor - spooked by the recent downturn perhaps - got "less long" and now is net long 52,000 contracts - not a major change from last week's 75,000 reading. This is unexpected - at least to me - and it means you need to keep a very, very close watch on the market. **The signal from the CoT data is now muddied**, with the "professionals" net long 50,000 and the Hedgers/Commercials - also deemed "professionals" - net short 100,000. The "Dumb money" retail public is still "more long" than the professionals, but only by 2,000 net contracts. In other words, the 'dumb money' is still long (but less long) and the professionals have split their positioning where the "speculators" (those trying to make money by futures contracts themselves) are long and the professional hedgers/commercials (those 'hedging' a long portfolio by shorting futures) are net short 100,000 contracts. Be careful.



A quick glance at the updated Gann Squares (green lines) and Andrews Pitchfork (rising blue line) chart.

Gann Squares levels to watch for confluence include 1,110, 1,077, 1,044, and finally 1,012.

We're under the lower rising Andrews pitchfork line, which suggests a trend change to the downside. The lower Andrews line now appears to be serving as resistance - look closely at the recent price failure at the 1,130 level and the Andrews trendline that stopped the market.

Gold

Monthly



No change in gold's monthly structure - we still have a developed negative momentum divergence undercutting the recent highs - though the trend structure remains as bullish as it could possibly be. The lower timeframes provide guidance - and the only level to watch monthly is the 20m EMA that is nearing the \$1,100 level (downside target if we see a down-move develop).

Weekly



The weekly chart gives us a better glance of the negative momentum divergence that has developed, along with the 5-wave fractal move that has developed off the October 2008 lows (peaking in 2010). Those are the bearish components, though price is the over-ruling factor and so far we continue to see the most positive EMA structure possible along with a progressive series of higher highs and lows - arguing for higher prices to come.

The 20w EMA rests at the \$1,200 level, and one would expect it to hold as support on any down-move that would develop. However, a break under \$1,200 sets the next target for the \$1,150 level

Daily



I've labeled a potential "ABC" corrective phase count, though the alternate count - the bearish count - places a "4" where I've labeled the "A" and a terminal (final) 5th wave where I've labeled the "B". If so, then we've seen W1 down and are finishing W2 up right now with a small "abc."

That being said, momentum is strengthening and the 20/50 day EMAs form a support convergence at the \$1,200 area. On any down-move, look for initial support to come in at the \$1,200 level, and any breakdown under \$1,200 to target the \$1,160 level (prior low and 200d SMA). Any move under \$1,160 confirms the bearish Elliott count and send the intermediate target back to \$1,100. Barring that, look for price to test the \$1,250 prior resistance level, and any push/break to new highs would be a decent buying opportunity (or 'buy more' opportunity).

A break to new highs in gold most likely would correspond with a sharp breakdown in the stock market and crude oil, and a further rise in the Dollar and bonds.

WTI Crude Oil (\$WTIC)

Monthly



The large-term Elliott Count on Oil continues to place us in an "ABC" large corrective phase, specifically in the "C" wave down of the correction, as we'll see from lower timeframe charts. That's a bearish count, and it corresponds with a further decline in the stock market, should that develop.

For now, price still remains trapped within a long-term trading range between \$70 and \$85 per barrel - so unless we see a break either way, expect the short-term trend - that of a sideways range - to continue.

Like stocks, any breakdown here means the "bottom would drop out" as there is no obvious support under \$70.

Weekly



It would appear that oil is forming a long-term rounded reversal or arc pattern formation, and if so we would expect further downside price action to come. For now, watch the key support at \$70, which corresponds to the 1,000 level in the S&P 500. Any break under \$68 - and 1,000 in stocks - should be met with a corresponding, potentially swift/sharp downside to test support at the \$60 level (900 in stocks).

However, as long as we're above \$70, expect the price to continue playing ping-pong in this range. Should the news about the economy continue to get worse, crude oil almost certainly will fall along with stocks.

Daily



I've labeled the respective potential Elliott Wave count, placing us currently in a potential 3rd wave down, just as is the case with stocks. If so, we can expect swift lower prices ahead - meaning at least a retest of \$70 then \$68. For now, those levels could hold as support, so don't get overly bearish if we start to bounce off a test of \$70 then \$68, but don't get caught long under \$68 per barrel, or short above \$80 as either breakout is likely to produce a sharp continuation breakout move.

The main thesis is that oil and stocks are linked, so whatever happens to one will likely happen to the other - be it an unexpected upside breakout, or an expected downside break... or the more frustrating outcome: a continuation of this trading range we're in now.

US Dollar Index (\$USD)

Monthly



We continue to bounce sharply higher off the confluence support (target) at \$80, as seen above. The monthly chart offers no major overhead resistance until the index retests the \$90 level, as price is in the midpoint of the Bollinger Band indicator and bouncing off monthly EMAs. If the Dollar Index is building a trend reversal, we'll soon see a rally back above \$90 which would correspond with a further decline in stocks and crude oil, or vice versa, a breakdown in the Dollar if the economy 'strengthens' and stocks/oil rally.

Weekly



We've bounced higher exactly as expected off the confluence support (including Fibonacci) at \$80 - and now the index faces a very critical "make or break" test of overhead resistance here at \$83. The flat 20w EMA rests at \$82.94 (reference \$83), and the 38.2% Fibonacci retracement (on the way up) at \$83.40. Thus, a breakout above confluence resistance at the \$83.50 area should be a 'buy' trigger that forces shorts out of their position and brings in new buyers - confirming the up-move as being more likely to be a reversal up than a simple retracement up. That will be the parameter to watch next week.

Daily



Another reason to reference \$83.50 as the key turning point for the Dollar - it's both the falling 50d EMA (\$82.94) and upper Bollinger Band (\$83.41). This is either an "ABC" up or a "123" (and we're in 3 right now) push higher, and a breakout sharply above \$83.50 shifts the odds from retracement (which indicates lower prices eventually to come under \$80) or a reversal (which indicates expectations - and the trend - shifts back to expect a retest and possible breakout above \$89/\$90). We have a bounce off a positive momentum divergence and pick-up (kick-off) in momentum, so be on the lookout for a break above \$83.50 to be a trigger to expect lower stock and oil prices.

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