



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Notes hit their expected upside target at 127 - and now we expect some sort of retracement to develop. Watch 125 as key support on the daily chart that - if broken - signals a deeper retracement is favored.

S&P 500: The BIG news came this week in the stock market which hit key support at 1,040 as buyers supported the market there. The CoT data have turned bullish, so a rally is strongly favored.

Gold: Gold continues to rally, but has reached a critical resistance area near \$1,250. What happens here - in terms of an upside break to new highs - or a continuation move down - will be key to watch.

Crude Oil: Oil continues to trade in the similar method as stocks, and now faces a test of overhead resistance at the \$77 level - just as the S&P 500 faces resistance at 1,100. Watch for the outcome here.

US Dollar Index: The Dollar rallied to its expected upside target and now faces a test of resistance which will be the determinant of what to expect - look closely at the daily chart compression between support and resistance.

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.

Corey's Comments

It's becoming increasingly clear to the investment and trading community that the US Economy - and perhaps even the global economy as a whole - is slipping back into trouble. The months of August and July provided a steady flow of negative economic reports, from dismal housing data, declining consumer confidence, rising unemployment, and declining GDP. The narrative is becoming clearer that growth is slowing, unemployment is rising, and conditions are deteriorating. The big question that exists now is whether this slow-down is just a temporary decline in the context of an otherwise rising economic recovery, or whether this is just the start of the official slide into the second recession (the "Double Dip") - or worse as David Rosenberg states - THE second Depression.

Fed Chairman Ben Bernanke spoke on Friday a message that rallied the markets with the undertone being:

"Yes, we understand that economic conditions are deteriorating, but the Fed stands ready, willing, and able to do whatever it takes to prevent the US Economy from slipping back into a recession or deflation."

So, on the surface, one may conclude that "Because economic conditions are deteriorating, I need to be OUT of stocks and into safer investments like treasuries" and under normal circumstances, that is 100% the correct thing to do. Perhaps even have gold as a safety hedge. These are not normal circumstances.

The 'fly in the ointment' is the Federal Reserve and the extent to which they truly will "**do anything necessary**" to prevent a second recession that has the potential to cascade into a Depression. My guess is that they will - and they are already purchasing Treasury Notes/Bonds to keep yields (artificially) low and have pledged to buy mortgage-backed securities and other debt obligations to help support the housing market and clear off 'bad loans' from big banks and lenders - in an effort to get them to lend. However, if demand from the consumer is so low that companies, individuals, etc are not requesting loans to expand their businesses, then actions to get banks to lend again are completely futile.

"Doing whatever is necessary" may include more aggressive measures beyond the Treasury markets, which extend into stock and commodity markets - meaning the Fed in conjunction with big banks/funds - may work in the stock market to support demand and prices while they work in the Treasury market to keep yields low (and prices high).

So, in reality, the 'financial bet' and portfolio positioning you are making now and will be doing in the future comes down to this assumption and how you answer it:

"Yes, economic conditions are deteriorating, and yes I assume the Federal Reserve will inject liquidity/capital/stimulus again into the economy to support the market as much as is possible... but will it be successful?"

In other words, you need to combine **Federal Reserve action in the economy and markets** (supporting prices and sentiment) with the knowledge that **economic conditions are deteriorating**. Large funds - perversely to new investors - see really bad economic news actually as being bullish in a sense because it compels the Federal Reserve to step in and act - basically through 'quantitative easing' which means an easy-money policy that benefits banks and - hopefully - the economy. So that is why you may soon see a puzzling rally materialize in stocks while economic conditions deteriorate.

However, if the Federal Reserve - through their actions - are unable to stop the developing recessionary economic conditions/deteriorations, then we are almost certainly going to see a period of economic recession and stock market

decline that is equal or worse than conditions in 2008. **We need to go ahead and factor that they will do anything they can do to stop it** - and they very well may be successful. *But if they fail...* then we will be in for serious economic danger.

10-Year Treasury Notes (\$UST – Price)

Monthly



As we'll see in the lower frame charts, treasury prices touched their overhead target and are pulling back - so keep focused on the lower frames to see how deep this expected pullback is. The 125 area is the upper Bollinger Band on the monthly frame - otherwise there are no close levels that will come into play soon as seen on the monthly frame.

Weekly



On the weekly frame, we see a clear shooting star bearish candle that exactly hit the upside target I've been highlighting to you at the 127 level - that was a "take profits" or "sell to expect a decline" signal that would have been violated with an upside break above 127 - and because we did not see that upside break, odds favor a pullback to develop, but there is a clear daily chart level to watch to see if this is a one-week retracement or something bigger.

Daily



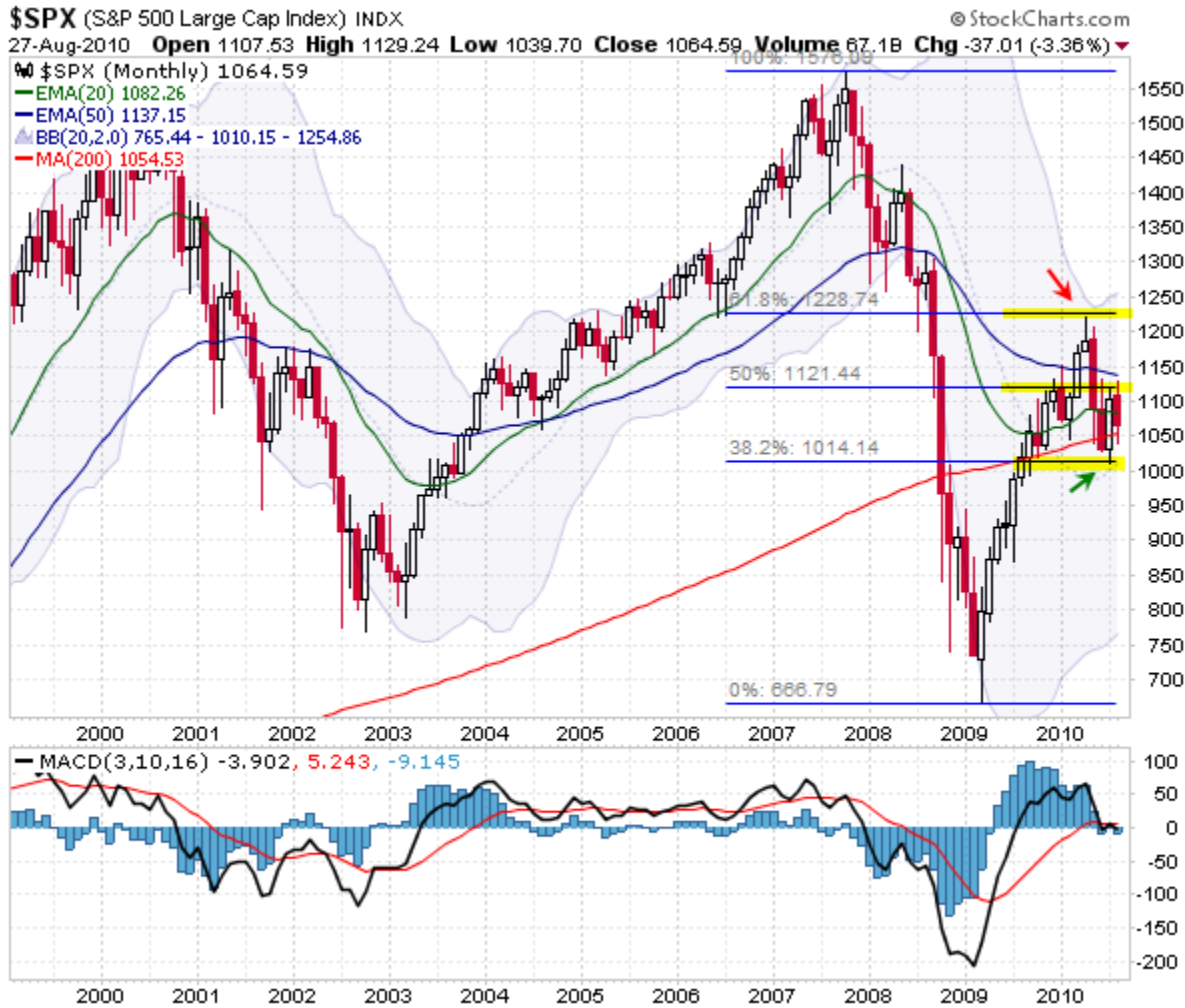
The key level on the daily chart is 125, as it's the weekly close and the rising 20d EMA (\$125.15). A break and close under 125 is a pure sell-signal trigger that would target a move back to the \$123.75 area (50 EMA as support). Any such break under the expected support at the 50d EMA signals that this rally is over and a deeper pullback to 120 would be favored. Notice the negative momentum divergence that undercut the recent high.

If bonds truly do sell-off after hitting their upside target, then we can expect a rally to materialize in stocks.

And of course, should bonds bounce off support at 125 and break above 127, it would be a supremely bearish signal for stocks (and oil).

US S&P 500 (\$SPX)

Monthly



As you can see, the S&P 500 technically is 'trapped' between many areas of reference, the most notable (which you should have memorized) is the key Fibonacci retracement prices as drawn (from the "Bear Market" move):

38.2%: 1,014 (low for 2010)

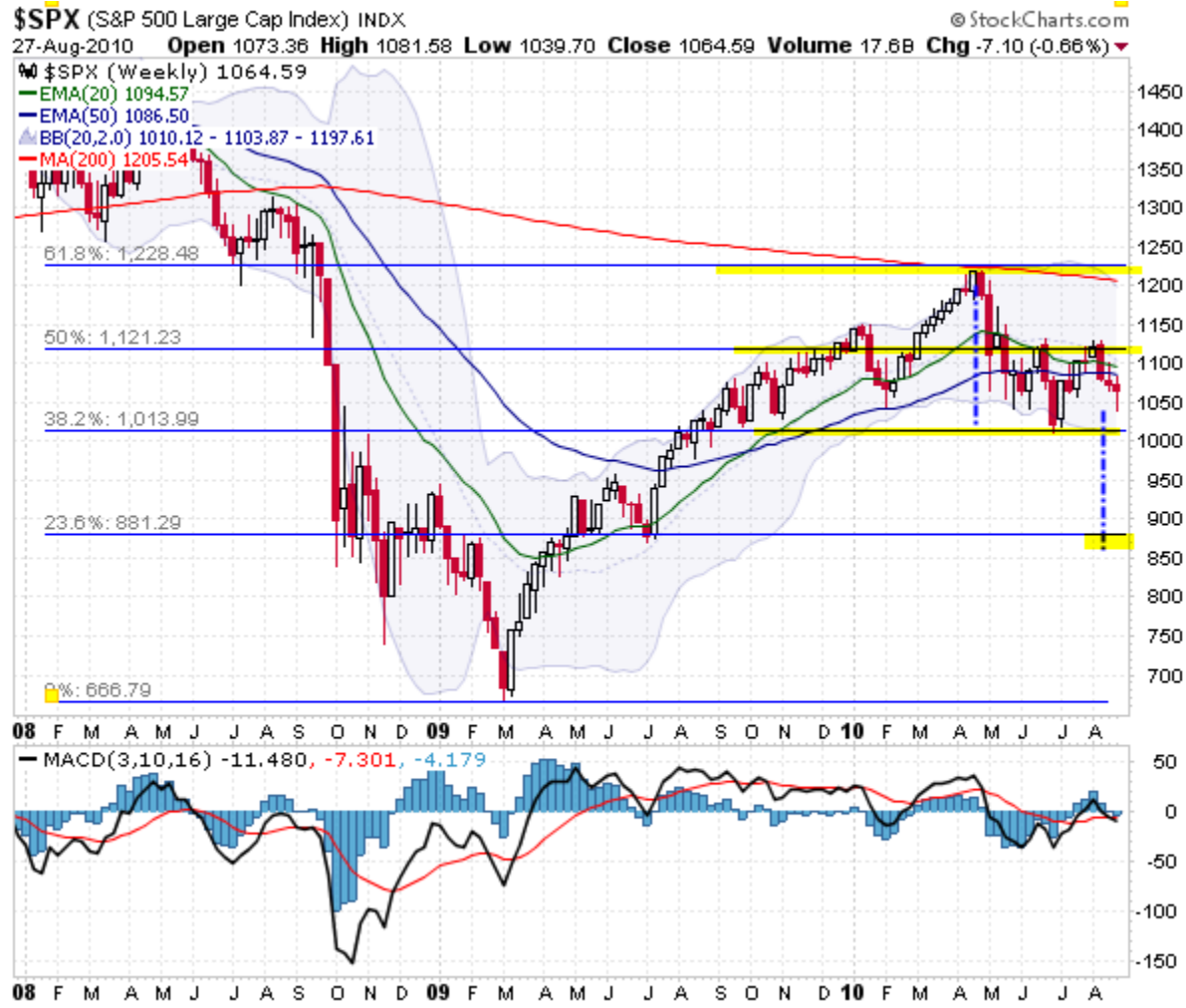
50.0%: 1,121 (midpoint resistance)

61.8%: 1,228 (high for 2010)

The parameters are clear - IF we ever break this range. If not, expect the range to continue and price to bounce frustratingly between 1,000 and 1,130/1,150 until a breakout occurs. A break above 1,150 implies a stronger rally where "The Fed Saved The Day" while a breakdown under 1,000 - which my guess is that the Federal Reserve will do anything they can to prevent from happening as it would spook the market and send prices almost certainly lower - would imply that the Fed failed to prevent a recession.

Eventual targets on a breakdown of 1,000 include 900 as the next key level, and then 650 if under 900.

Weekly



I'm showing the classic Head and Shoulders price projection low should the market break under 1,000, but UNTIL we see a clean break under 1,000, lower targets are irrelevant. Technically, the market is trapped between resistance at 1,130 and support at 1,010 and we should expect future 'ping-pong' until we see a break above one of those levels.

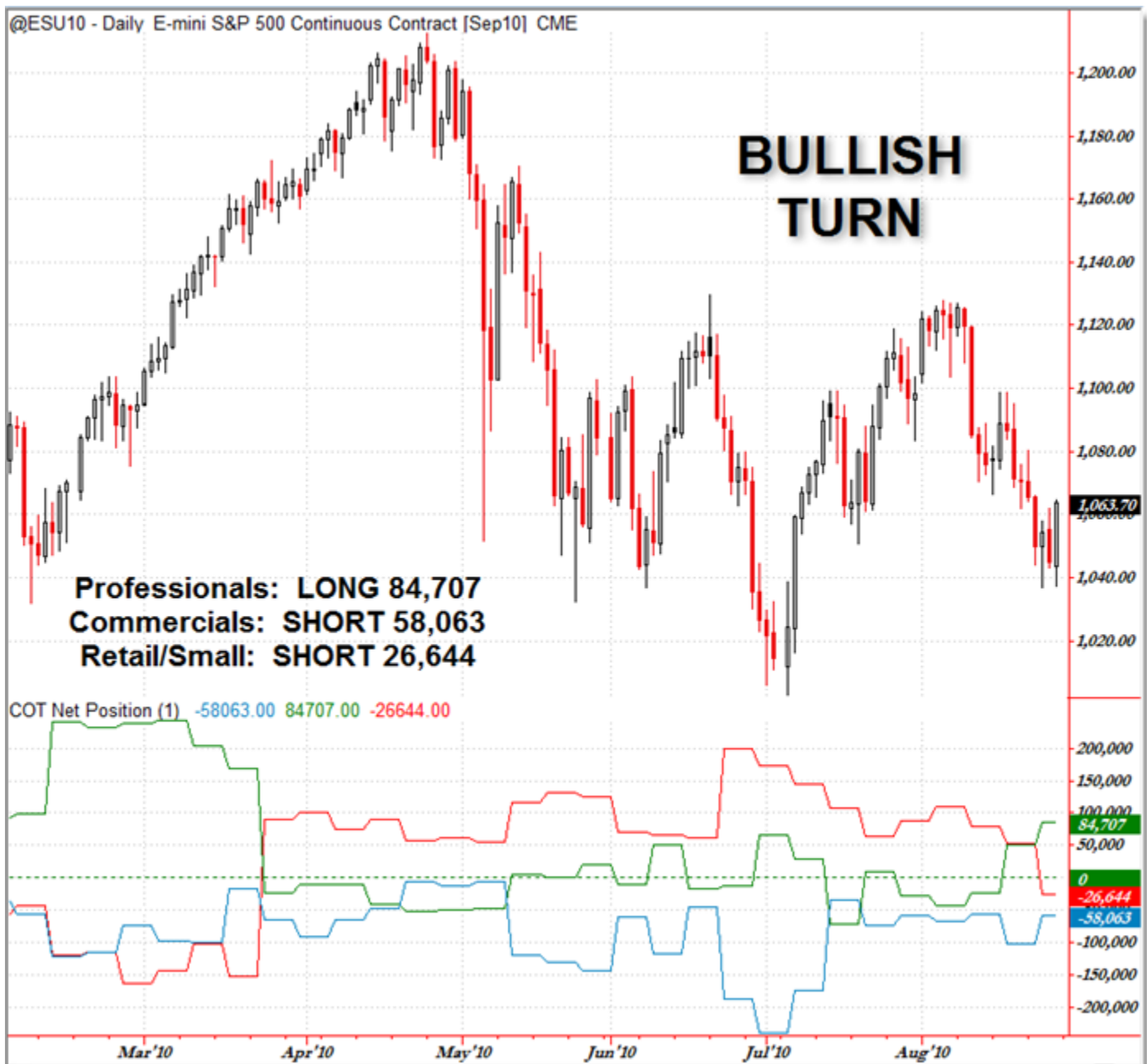
A break above 1,150 targets a retest of 1,220 while a breakdown under 1,000 targets 875... and anything under 850 implies economic/stock market collapse back to 650 or lower.

Daily:



In my daily reports, I've been describing the "Magic Mystery Buyer(s)" that have clearly and without hesitation rushed in to support the market at 1,040 four times now (with the exception of the bear trap in July). Because big buyers have stepped in to support the market at 1,040 in the past, we should now calculate that they WILL support it again - or do whatever they can to support it here. In all honesty - and the thought-process is accepted across the trading and investment community - ANY breakdown under 1,000 is a "Game Over" signal for the market that would destroy investor confidence and give a clear sell signal to anyone who is a chart-watcher (same as the Dow going under 10,000). As such, anyone/any firm/any agency who has a vested interest in keeping investor confidence high and the public owning stocks will need to -and perhaps are - do anything possible to prevent the market from breaking under 1,000. It looks like the "fire-wall" or "safety line" is 1,040 - for whatever reason. Fact is - the market has been supported by buyers on every signal test of 1,040 in 2010 - and if history repeats, then we can expect a subsequent bounce here in the weeks ahead to take us back to 1,100 at least, if not a full move back to 1,130.

I know the Elliott Waves and many other types of analysis argue for an impending and certain stock market drop - and that would be the natural and expected course of action. But for whatever reason - including perhaps the Fed's declaration they will do "whatever is necessary" to prevent a recession (supporting markets - if they have the power actually to do that - would go a long way to keeping investor confidence high and the public invested in stocks) may be preventing the sell-off that so many people are expecting. And - as I mentioned last week - if indeed the market does begin to rally here, it would shock so many bears into covering - buying back positions - that the sellers would contribute to a sharp upward "short-squeeze" rally in stocks. Do not be biased - be aware of what's happening and when to cover.



We have an abundantly clear signal from the CoT Data - and it is VERY bullish. There has been a steady current of the retail/small speculators (rudely called "Dumb Money") getting "Less Long" after being long since March. In other words, they - as a whole - got LONG at the top and now that we might be at a turning point bottom to the upside - they are rushing to sell their positions with significant losses and are now NET SHORT, betting on a future market decline.

That is the EXACT OPPOSITE of what the professionals (green line) have done. They were long ahead of the May peak, and actually got net short in late March and then - mostly - stayed short to neutral (around zero) throughout the decline. Recently - two weeks ago - they flipped net long (which surprised me but it was a fact) and this week they got "more long" - to the tune of net long 84,700 contracts. So, we have Smart Money (green) getting more long - 'very long' and Dumb Money (red) getting less long and now 'sort of' net short.

For what it's worth - and that's why I show the CoT Data - this is a **VERY BULLISH REVERSAL SIGN**.



Back to the Gann Squares chart to highlight the utmost importance of the 1,044 Gann Number and 1,012. Price has supported four times now at/near the 1,044 Gann Number, and odds are it will support there again this week, resulting in a bounce-back to the 1,077 or even 1,110 number.

On a break, however, expect a retest of the lower Gann Number for support - target - at 1,012.

Gold

Monthly



Gold remains in one of the strongest up-trends imaginable, though the recent action has been undercut by negative divergences - divergences are just warning signs, not "rush out and get short and panic" signs. They're non-confirmations, but if the Federal Reserve does go through with aggressive Quantitative Easing methods/policies, then gold will almost certainly rally as the Fed "printing money" would de-value the US Dollar and drive the value of Gold up - despite any sort of negative divergences or sell-signals on the chart.

Again - so much comes down to what the Fed is willing and able to do (print money to save the economy) and if it is successful.

If it fails, we could see a stock market crash and surge in gold. If it succeeds, we would see a higher stock market and more moderate gold market - unless the policies produced direct inflation in which gold would continue its rally.

Weekly



The short-term trendlines and moving averages all remain pointed higher, indicating the potential for future higher gold prices, particularly on a breakout above \$1,250/\$1,260. It would probably be a good idea to be or stay long on a break above \$1,260 and \$1,300 - again, despite the warnings from the negative divergences - particularly as the Fed just openly revealed its intention to do whatever it takes to save the economy - which many analysts believe will almost certainly result in higher price for gold as a consequence for the devaluation of the Dollar and increased Federal Debt of the United States.

Daily



The key technical (chart) test coming up is the price congestion target that stretches here from \$1,240 to \$1,260. We could see sellers - who got long gold in May/June and are underwater - step back in to sell gold near their entry price (break-even) which could serve as overhead resistance/supply - and we still have negative divergences.

Basically, from a chart perspective, watch out to see if the \$1,250 area becomes or remains overhead resistance that produces a sell-off in gold. Any breakout above \$1,260 is likely a signal that the gold market will continue its rally no matter what the divergences show.

In other words, the more aggressively the Federal Reserve injects printed money into the US Economy, devaluing the Dollar, the higher gold will go. That's why the Fed is reluctant to engage in further Quantitative Easing - there are severe consequences if it does... but if the consequences are more severe if it does not (as in, a Double-Dip Recession and possible Depression if it stands on the sidelines and does nothing), then it will be forced to chose the path of lesser evils - a devalued Dollar and higher Gold but most likely a higher stock market (with inflated dollars) in order to prevent a second recession.

WTI Crude Oil (\$WTIC)

Monthly



Oil still remains in its long-term trading range, and it is still highly correlated with the US Stock Market - and perhaps more so the global economy. A global economy that slides back into recession will demand less fuel/energy/oil and so prices will decline, though if the economy is saved, business expansion will result in higher demand for energy. As such, whatever the outcome of the tightrope the economy is on now, stocks and oil will likely have the same outcome.

Weekly



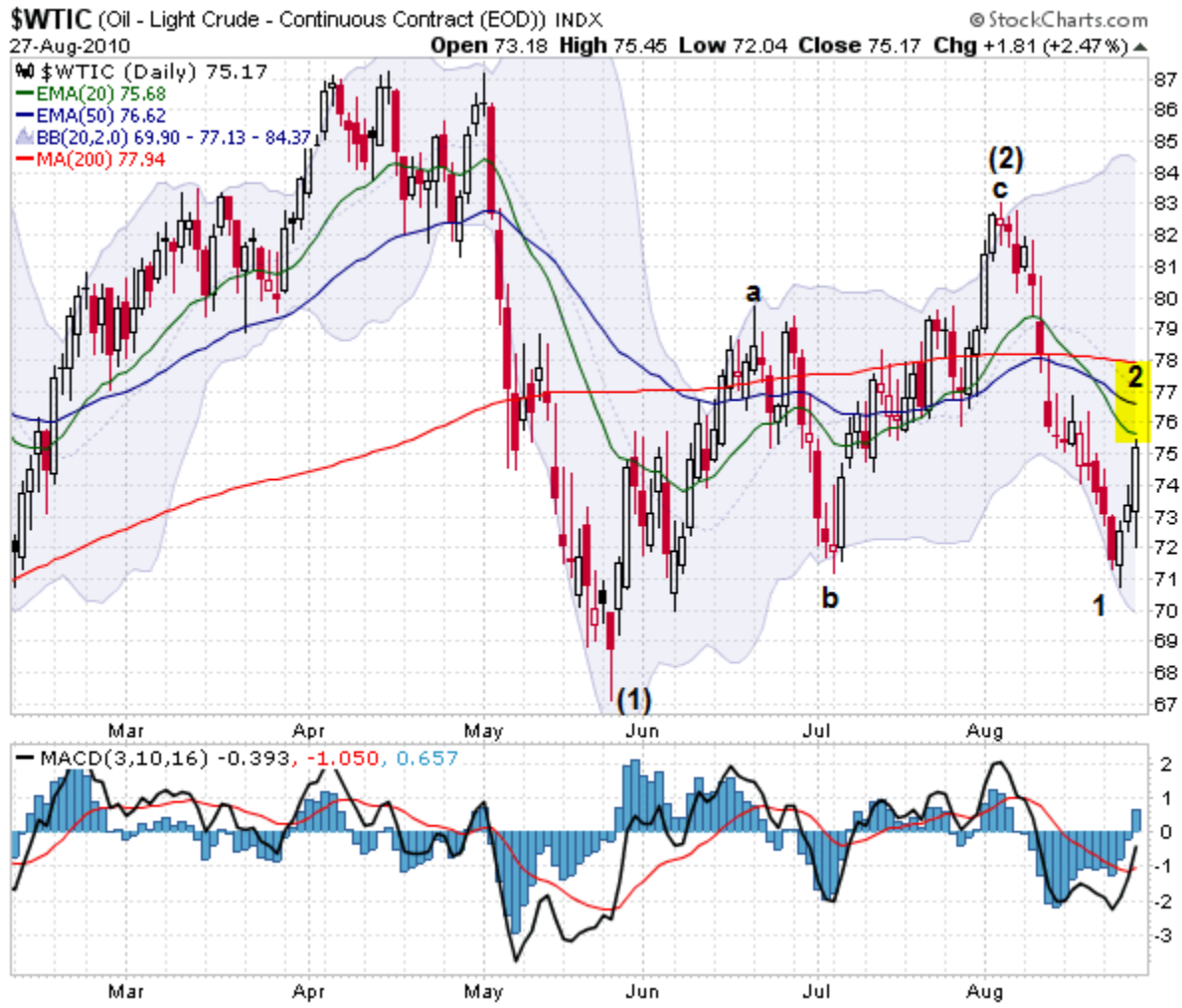
Last week I showed the Elliott Wave counts of stocks and oil - refresh last week's report for those charts that have not changed (actually this week confirmed those counts) since then.

If the count is correct, then stocks and oil remain in a short-term third wave - having gone through the first (down) and second (up) recently.

For oil, the confirmation - and point of recognition - will come with a breakdown under \$70/\$68, so look to short that to target \$60 then \$50.

However, again if stocks are saved here, crude will rally too off its \$70 level.

Daily



The main test for crude - from a chart perspective - comes at the \$76 to \$78 level - as those represent confluence EMA resistance. If we are in a fractal corrective (abc) wave up for the second wave of the larger third wave, then we could see a retest all the way back to \$80 but not above \$83. So, if we see a breakout above \$77.50, expect to see a move back up close to \$82. Anything above \$83 - which will correspond with a breakout above 1,130 in Stocks - should be bought to target a move back to \$87 or higher in the "all clear" of the economy.

However, any further downside action and especially a break under \$70 then \$68 - which will correspond almost certainly with a breakdown under 1,000 as the last line of support in stocks - should be shorted.

US Dollar Index (\$USD)

Monthly



We got our expected bounce in the US Dollar Index as expected, but now we face a critical test of overhead resistance. The lower frame charts give us the clearer picture of what to watch going forward.

Weekly



We bounced strongly as expected from the \$80 confluence support level - but now we've already hit our upside confluence resistance target at \$83 and now need to see whether resistance will hold, or whether a breakout here will be the turning point for a higher dollar (and likely lower stocks and oil).

Right now, the markets are driven by expectations of what the Fed is going to do - so their policies may take some time to 'cripple' the dollar in terms of printing dollars/quantitative easing. For now, keep following chart levels for clues as to what the broader intermarket picture reveals. Bull bias above \$83 / bear bias under.

Daily



This really is the turning point - we have the 38.2% Fibonacci retracement (\$83.35) converging with the key 50 day EMA at \$83 as the line in the sand for the dollar bulls, while the rising 20 day EMA has consistently held as short-term support. So, any move back under \$82 means this move up was just an "ABC" retracement against the main bearish trend, and that lower prices under \$80 are favored. Any break above \$83.50 then \$84 leads us to believe that this is a more powerful rally and trend reversal that has developed, and to expect a move back to \$88.50 - which most likely would correspond with a downward breakdown in stocks... just as a sharp down-move in the dollar would likely correspond with an upward break in stocks.

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