



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Notes continue their breakout as seen on the monthly frame, but face a serious test of resistance at the price target \$125 level - a break above here suggests continuation... if resistance does not hold.

S&P 500: Stocks are at a major turning point one way or the other - study the charts closely. A break above 1,130 triggers a range breakout play long, while anything else suggests much lower prices ahead - from a chart view.

Gold: Gold strengthened last week and broke key resistance as described - watch closely to see if this breakout holds, or devolves into a vicious bull trap as higher timeframe divergences cripple the bullish strength.

Crude Oil: Like gold, crude oil broke key resistance areas and has pulled back to \$80 which is key support - watch what happens at \$80 early in the week to clue you in to the next likely move - back to \$89 or down to \$77.

US Dollar Index: The most interesting thing to watch this week may be what happens at \$80 in the US Dollar Index - which is a major confluence support area and 'make or break' in terms of the recent strength. A crack under \$80 suggests that lower index prices are ahead, but a bounce off support would likely ripple through the intermarkets as explained in the text.

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



Treasury Bond/Note prices remain in "Breakout Mode" from the descending triangle two-year pattern - but now the breakout faces a critical test of resistance at the price target level of \$125. Price is testing the upper monthly Bollinger Band and prior price resistance area, as well as the 61.8% Fibonacci retracement on the weekly chart - all of which could hold as significant overhead resistance.

One would expect price to pause here at the \$125 level, but any further breakout above \$125 signifies further likely upside price pressure which is bearish for stocks in general.

Weekly



As mentioned, 10-year Notes are testing the overhead price target of the 61.8% Fibonacci retracement as drawn - at \$124.60. That could halt the rally - at least temporarily - so that will be the working hypothesis unless we see a continued breakout above \$125. In that case, look for price to re-test \$127 or - should the stock market sell off sharply here - a push all the way back eventually to \$130.

In general, strength in bonds translates into weakness for stocks.

Daily



Price consistently is bouncing upwards off the rising 20 day EMA, despite a negative momentum divergence forming. Look for this pattern to continue, and if bonds break resistance at \$125, expect a further upside surge.

Barring that, be on guard for a potential pullback at the confluence resistance at \$125.

Remember, bond prices/bond market tends to lead stock market prices at times, and this powerful surge higher in bond prices undercuts the stock market and casts a dark cloud over equity prices.

US S&P 500 (\$SPX)

Monthly



The monthly chart really does not provide much in the way of key levels to watch except for the large-scale 50% Fibonacci retracement at 1,121 and the 50m EMA at 1,139. Price is 'trapped' currently between the 20 and 50 month EMAs so those are not providing helpful reference points at the moment. For the time being, price is responding well to the large-scale Fibonacci grid as drawn - which has served as the high and low of 2010 - price is now at the midpoint of those important ranges - which gives a neutral perspective.

Weekly

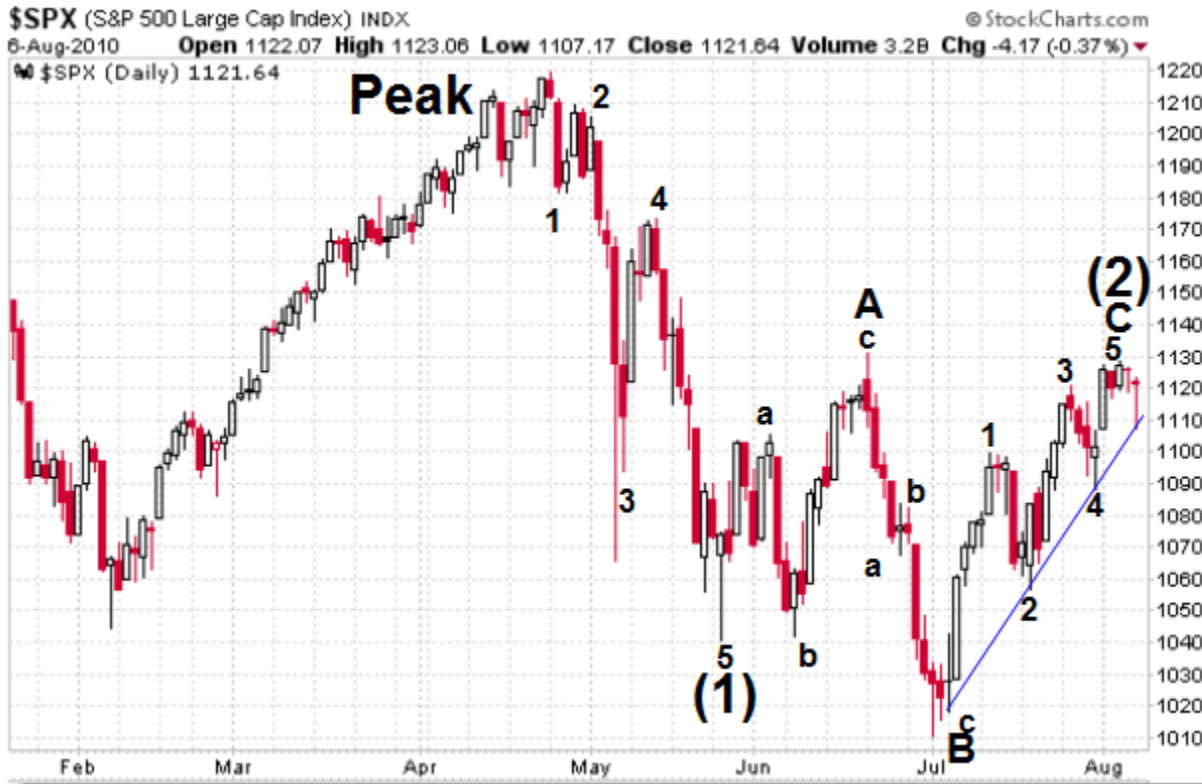


I think the big thing to watch in the week ahead is - not just the Fed Decision/announcement on Tuesday - but how price reacts to the falling 200 week SMA which is currently positioned at 1,129, along with the 50% Fibonacci retracement as drawn at 1,121. So far, price has closed exactly at the 50% Fibonacci level so it could serve as important resistance. As we'll see in a separate chart, it's possible that we officially completed the second (corrective) wave up after the impulsive Wave 1 down that began in late April. If that is the case, THEN Elliott Wave suggests that the market is about to - or currently in - a fractal Wave 3 down that could sweep prices back down to 850 over the next few months. Look for that to be the dominant expectation if we do start falling in price starting this week, and look for that to be rejected if we move above 1,170 and - officially - above 1,220. There is a classic negative volume trend developing, in part due to the summer seasonality (notice how it happened last year too) so that is more of a chart fact to watch rather than a bearish non-confirmation.

Daily:



The short-term parameters for the market are setting up a very powerful likely price breakout yet to come - only it's probably best not to try to predict the breakout direction - but instead trade/position in the direction of the break when (yes when - not if) it happens. All the chart evidence - from simple to complex methods - strongly suggest that the breakout will be to the downside, and thus that will be our working/dominant assumption. We'll look to short aggressively on a break under 1,090 and expect a move back to 1,060 quickly, if not all the way back down to 1,000 or lower. However, because the chart odds are so obvious and so many traders/investors are bearish and positioned short already, ANY bullish breakout above 1,130 is likely to trigger a rush of stop-losses from the bears and new 'breakout' buy positions from the sidelined/neutral bulls - which we would expect to trigger a positive feedback loop price breakout to target 1,170 or perhaps all the way to 1,220. When price SHOULD do something (in this case, break sharply to the downside) but does NOT do that (throwing off the market participants), then it often leads to a much larger than expected move in the OPPOSITE direction - in this case an upside break above 1,130.



Here is a very dominant, widely accepted current short-term Elliott Wave count.

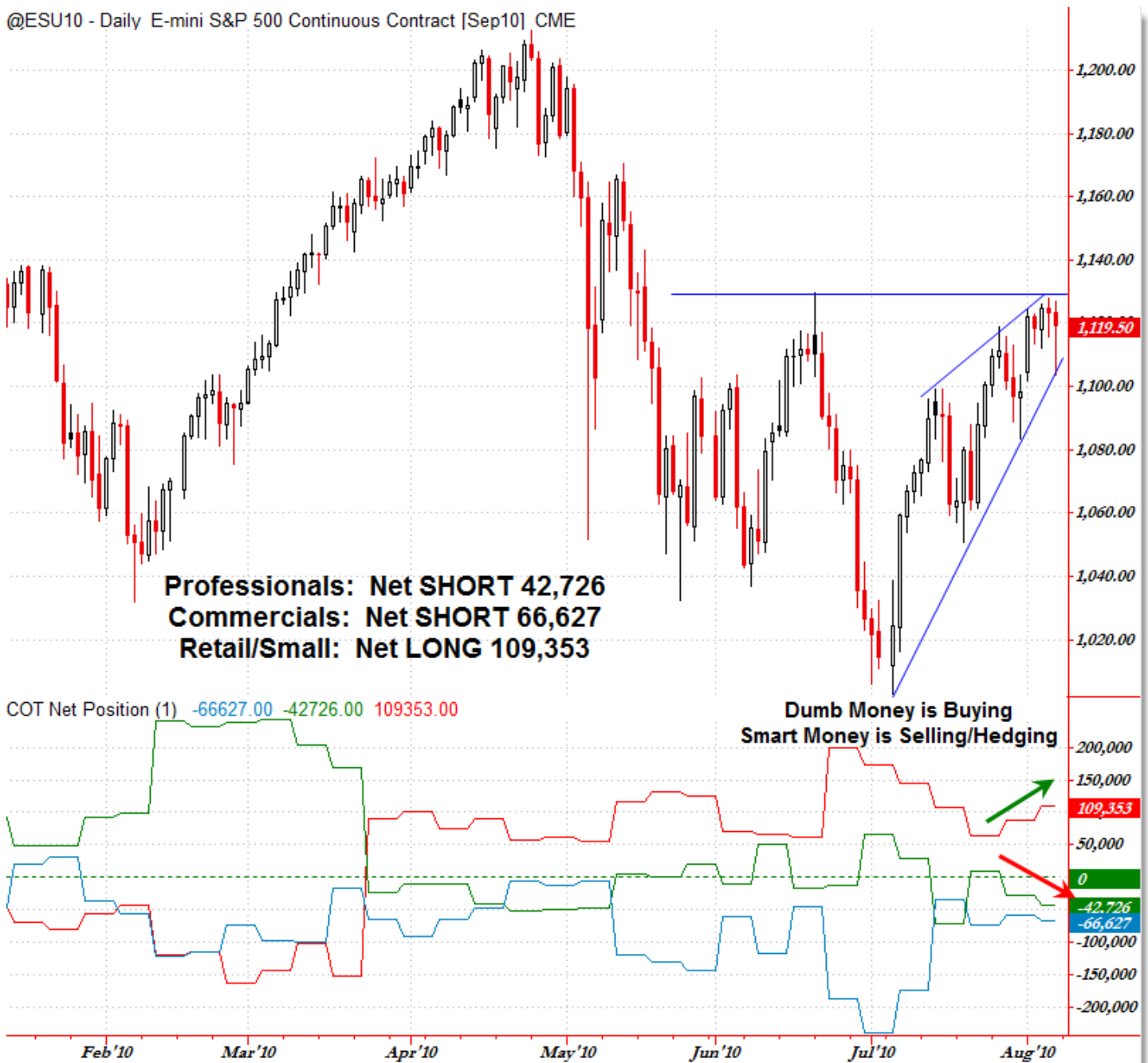
The structure counts out a full Wave 1, followed by an "ABC" expanded flat move that terminated last week with a complete 5-wave mini-fractal - an ending diagonal or bearish rising wedge - to complete the final "C" wave of Wave 2.

If this count is correct, THEN we can expect a powerful downside move yet to come as the market breaks down into an intermediate-scale Wave 3. We'll suspect that count/confirm it if price does begin to break sharply lower here, particularly undercutting 1,090, BUT because this is a widely accepted count, many Elliott traders are likely already positioned short - or are about to short aggressively here on a downside move - that an upside break above 1,130 will likely spook out many short-sellers and have them rushing for the exits/stop-losses, buying shares to cover their positions.

That is what it means to be a trader rather than a forecaster - odds overwhelmingly favor a downside move - perhaps a very powerful one - yet to come very soon. So you should be amply prepared to trade it - however, if the downside move does not materialize as perhaps the majority of traders expect, then you should also be prepared to trade the likely powerful upside breakout above 1,130 as the bearish-biased traders rush for the exits.

I stress technical/chart purism free of bias - this is a good example of how that helps you and how bias/forecasting hurts you (if you're blindly bullish, you'll suffer devastating losses if the market breaks sharply lower, just as you would suffer devastating losses if the market broke sharply higher and you were stubbornly/blindly bearish).

@ESU10 - Daily E-mini S&P 500 Continuous Contract [Sep10] CME



We are seeing a clearer picture develop in the CoT data this week - **and it is VERY bearish.**

If you will pardon my directness - the dumb money is getting "longer" and the smart money is getting "shorter."

There's a reason many professionals split the market into "dumb money" - who are usually wrong ... and "smart money" - who are usually right. If that's true - and the harsh reality is that more times than not it is - then the signal is clear: The retail public/small investors are getting bullish/buying @ES futures contracts while professionals are either shorting them or hedging their long positions with short futures positions.

Case in point: The 'dumb money' (small speculators) are net long 109,300 @ES futures contracts while the combined professionals (blue and green) are net SHORT 109,300 contracts. Given that the market is at such a key resistance area - a double top for that matter - the best thing to do is to prepare for a likely downside break that may form next week.



By request - a quick update to the Gann Squares and Andrews Pitchfork grid reveals Gann numbers to watch at 1,143, 1,110, 1,077, and 1,044.

Price is "riding" the lower Andrews Pitchfork line right now as support, and thus any price breakdown under the 1,110 level would break the Gann and Andrews lines - triggering a potential downside sweep to 1,077 or even 1,044... or 1,012 (the lower Gann number and low of 2010).

Gold

Monthly



Gold is up 2% so far as August begins, though the monthly chart still gives us caution in the form of a lengthy negative momentum divergence undercutting the recent high.

The other insight from the monthly chart - with exception to the powerful rising trend - is the 20 month EMA - a likely target should gold continue its pullback - rests currently at \$1,075.

Weekly



As was the potential outcome, Gold bounced off the 20 week EMA at the \$1,187 level last week. We would look for the 20 week EMA to hold support as it has done, so look for a continuation to form, BUT if sellers push price back under the 20 week EMA, then the next weekly confluence support level is \$1,125 which reflects the rising 50w EMA and the lower Bollinger Band.

You can also see the weekly negative momentum divergence that undercut the recent push above \$1,250, that preceded the prior month's sharp down-move. If the signal from the divergence is correct, then we have lower to go to work-off the divergence in gold that could take the price back to test \$1,000 over time.

Daily



Gold successfully bounced sharply off the 50% Fibonacci retracement at \$1,155 and we've had 9 days in a row of higher gold prices. The end of last week broke us officially above the declining trendline and 20/50 EMA confluence at the \$1,200 level - so look for ANY move here to tip the chart back to the bullish side where the \$1,200 level will serve as massive confluence daily support.

By that same token, any price break under \$1,180 - then under \$1,160 - confirms the higher timeframe bearish biases (negative divergences) and sets the likely targets \$1,120, \$1,100, \$1,160, and ultimately \$1,000.

Next week will be very important to see how price reacts - answering the question "Was this an official price breakout and reversal higher ... or is this just a mean bull trap?"

WTI Crude Oil (\$WTIC)

Monthly



Like Gold, Crude Oil is now up 2% in the month of August so far. There is a very slight change you need to be aware of - which I describe on the Daily chart text - but in terms of the weekly structure, we still remain in a one-year trading range.

Monthly EMAs are of no help in locating support or resistance, so I suggest focusing your analysis and positioning on short-term developments from daily and weekly charts.

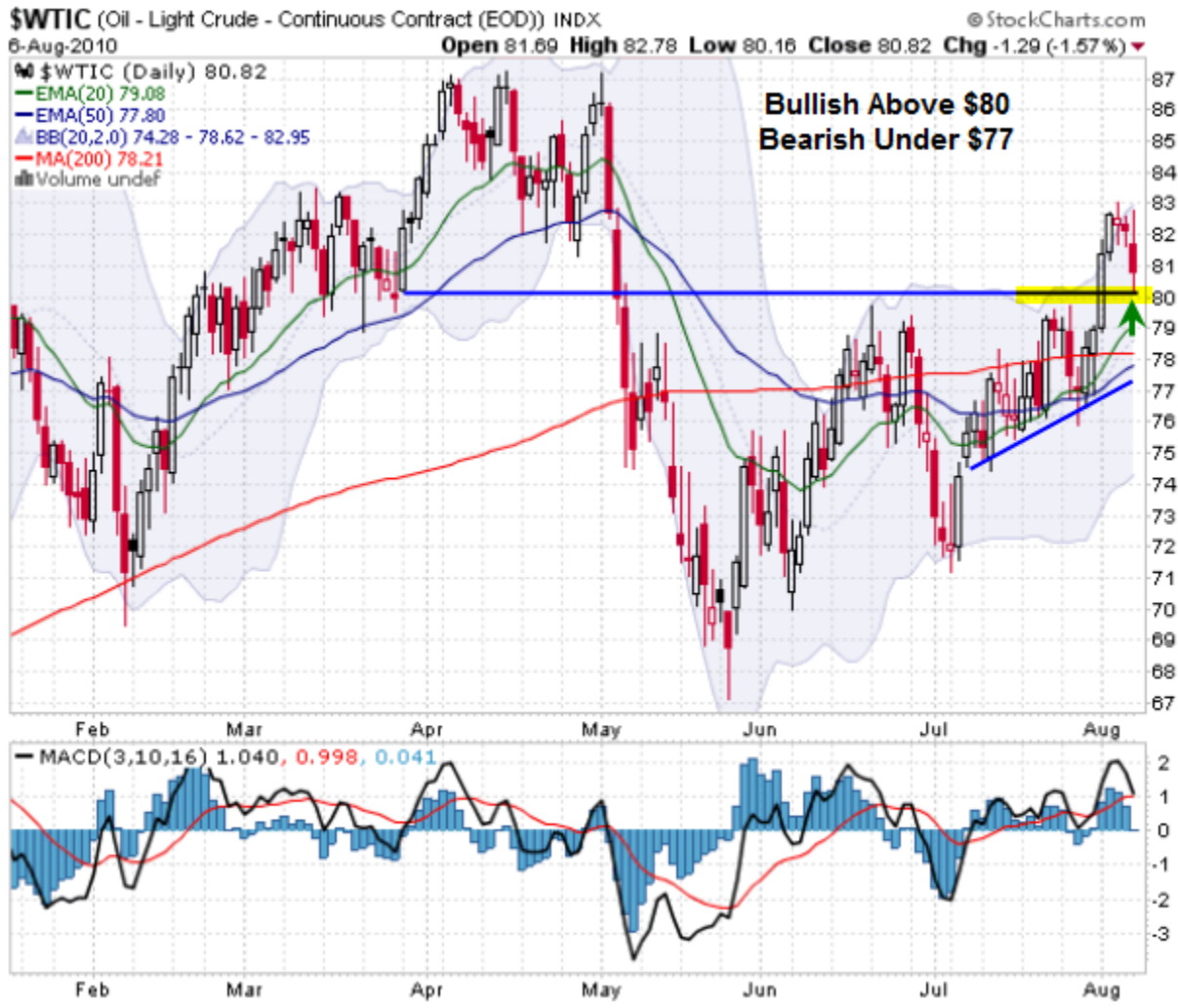
Weekly



Like the monthly chart, weekly EMAs are providing no help currently as price remains staunchly trapped in a very tight range. A lot of technical indicators merge at the \$77 level as shown - but during a trading range, these moving averages lose their value to pinpoint support and resistance - one needs to look at pure price movements without indicators in a trading range, and be on guard for an eventual breakout from the range.

Most likely, crude oil will follow the path of the stock market, so if you trade crude oil for anything other than short-term moves, I would suggest applying deeper analysis on the stock market for guidance, as both closely follow economic expectations as they develop.

Daily



This is the big development in Crude Oil prices - and it is a make-or-break (like the US Dollar). Crude Oil broke sharply above the \$80 level which reflected horizontal resistance. According to the old chart saying, Old resistance, once broken, becomes new support. We need to watch very closely early next week if that is the case, and if so, prepare to trade long for an upside breakout and potential retest of \$86 or \$87 in crude oil. Momentum confirmed the breakout, so that is a bullish development.

There's a bit of a conundrum right now in the inter-market world, specifically to oil breaking out a pulling back to key support, and stocks rallying up to critical resistance on negative divergences. It would be very unlikely that crude oil broke sharply higher and stocks broke sharply lower - so it's likely that one of these will fail soon. Either stocks will shatter resistance and breakout along with crude oil maintaining its breakout, or stocks will fall at resistance and crude oil will shatter support, falling back to test \$77. Any breakdown under \$77 should be shorted aggressively to target a move back to \$72 in oil.

As a reference, the US Dollar Index rests at critical support - and a bounce higher in the Dollar will likely correspond with a downward move in stocks and oil... though if the dollar shatters support at \$80, then we would expect an upside break in stocks and a continued breakout off support in oil.

Again - it's best not to forecast, but to trade moves that occur, so be prepared to position either way without bias.

US Dollar Index (\$USD)

Monthly



Interestingly enough, the Dollar shattered support and is down almost 1.5% in August so far - that's an unexpected development on the monthly frame, but as we'll soon see from the weekly and daily charts, the Dollar rests at critical confluence support on a "make or break" balance.

Weekly



The "Make or Break" comes from the steeper than expected, more severe (9 weeks in a row) down in the US Dollar Index. The price has retraced 61.8% (Fibonacci) of the prior rally from the 2009 lows, and now sits at confluence support from the 200 week SMA and 61.8% Fibonacci line - both at \$80.10. Keep it simple - the chart suggests that we need to expect a support bounce here, but if the index falls under \$80, look for a continuation of this sharp downside move which would perhaps forecast an upside breakout in stocks and crude oil and perhaps gold (though gold is not following the typical inter-market script at the moment - it's usually inverse the Dollar).

No need to overcomplicate this - either \$80 holds or it doesn't. A failure under \$80 is a chart game-changer.

Daily



In addition to the weekly support, we have the 200 day SMA at \$80.68. A move back to \$80 was exactly the expected movement on any failure for price to hold the 50% retracement and prior price support at \$82 - and we fell on cue as expected to \$80. Now, we have an expectation for a likely bounce off this level - and a complete 5-wave fractal move on a positive divergence adds to the expectation for a bounce. Again, as traders, we use the charts to formulate our expectations, entries, and stop-losses, and then breaks of key levels - as in a break under \$80 - triggers an "anti" position which means that sellers - despite multiple sources of bullish evidence - still shattered support and we would thus expect lower prices to come in the dollar - which you can play out with futures or ETFs. Watch closely early next week. Should the Fed announce it will be doing something expansionary to boost the economy at Tuesday's meeting, it will likely reverberate with a weaker dollar, stronger crude oil, weaker bonds, stronger gold, and stronger stocks.

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