

The goal of this product is to complement our intermediate-term technical outlooks with short-term actionable calls. In addition, we feel it's important to provide technical color and highlight technical developments as they arise, even if we do not make a call. This does not alter our intermediate and longer-term views.

SHORT-TERM UPDATE

Bottom Line: We believe we have started the final push higher over the next few days/weeks to complete the initial move from the March lows to reach our original intermediate target of ~950-980 (944 is a critical level) in the S&P 500, before we roll-over. We will inform our clients when we become confident that we are exhausting this move, since we do believe we are in the latter stages of this move. However, for the time being, in the short-term, the risk remains to the upside.

Having said that, we do believe that the next short-term peak will also become our intermediate peak, and let's be perfectly clear, while we argue for additional upside in the short-term, we remain confident that this is just a counter-trend rally.

We expected to get technical deterioration (bearish divergences etc.) by now, but our technical indicators for the most part remain healthy and constructive to the upside in the short-term. The important development over the last few days is that the market has consolidated above the breakout resistance and is holding key support at 878.

We would be proven wrong with our short-term outlook if we have a confirmed breakdown below 878 over the next few days. If this occurs, that would open the door for a quick move to ~800-820.

As we've stated several times before, we don't believe this is the beginning of a new primary bull market, and the potential for new lows in the back half of 2009 or during 2010, remains high. However, our original game plan that we are in the middle of a multi-month primary counter-trend rally (usually more powerful than the traditional bear market rally) appears to be the more likely scenario for now.

To answer a popular query that we get on a regular basis, we don't believe we will fail at the 200 day moving average, which currently sits at ~934. This moving average is too widely watched in our opinion and based on our experience price either fails short of it, or exceeds it significantly.

There are a number of reasons why we believe there is the potential for a move (potential melt-up in a new short-covering frenzy) to ~950-980 over the next few days/weeks.

1-We tested the pivotal 878 level a few times and held it perfectly (see chart below). It has consolidated above this breakout resistance level, and we now believe the market has garnered enough strength to attempt new highs.

2- The substructures of the price action over the last two weeks fit well into a minor corrective leg 4, suggesting that we have started a final minor leg 5 to the upside and the “impulsiveness” of the move yesterday combined with the strong market internals makes us more confident that this is true.

3- The technicals and price action in commodities suggest that we have additional upside. See below for a more detailed summary of what we are seeing in commodities.

4- Price action in the currencies such as the Aussie Dollar have also been highly correlated to the equity markets over the last few months, suggesting that we have additional upside left in the short-term. Our original target was for a move to ~0.8 given that it is a critical longer-term pivot level, but if we can breakout above that level, there is the potential for a move to ~0.83 where there is a confluence of Fibonacci retracement levels. We are also looking for continued weakness in the Yen in the short-term.

5- The action in our 21 day RSI index (see below) is bullish to us in the short-term. After failing at the most extreme overbought level (~64) in this bear market, it has found support from the previous ceiling/resistance during the back half of '08 (horizontal line at 53). The corrective action over the last two weeks has worked off the overbought conditions, and now this index has the strength it needs to attempt new highs. See chart below.

Commodities such as crude and copper have been closely correlated with the equity markets over the last few months, and given that we remain bullish in the short-term in commodities, we have to argue for additional upside for equities as well.

For example copper (shown below) is on the verge of breaking out higher after forming a classic consolidation pattern over the last few weeks, but we still need confirmation. Crude (shown below) has also consolidated above the breakout resistance and is holding key support levels at 55 and then at 59.5. We still believe that the call we made on March 31st that crude could reach \$72 remains on track, but once again, this is just a counter-trend move and we expect crude and other commodities to roll-over and head towards new lows longer-term once these moves are complete

For those of you seeking some exposure to commodities, we specifically like the OSX Index (Oil Services Sector). We also see upside left in the DBAGIX Index (Agriculture Sector) and the DBLCIX Index (Commodity Sector) which have both broken out above pivotal resistance levels.

Recap: On April 30th, we argued that May 7th and 8th would mark an inflection point in the market according to our cycle work, and that if we were to rally into those dates, that this could mark the end of the counter-trend rally and we recommended shorting into that

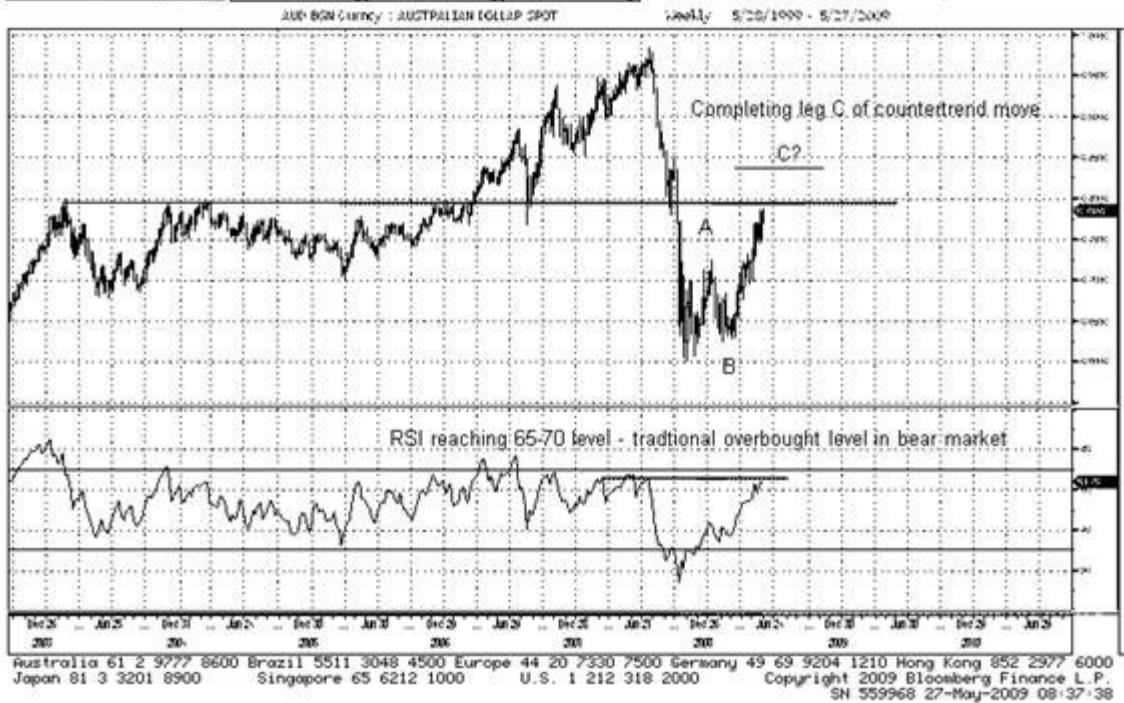
move. Then, on May 13th, given that we did not see the technical deterioration (following an analysis of the price structure and indicators) that we were accustomed to seeing at the end of major moves, we argued that we should get another push higher before we roll-over and we maintained our original intermediate upside target. Furthermore, we argued that we would go long if we were aggressive short-term traders given the good risk/reward near the 875-885 pivotal support area, but we would continue to position ourselves defensively and take advantage of the lower volatility levels to buy some protection. Well, eight trading days later and our view remains the same – the only thing that changes is that the timing for completing the initial major leg from the March lows gets pushed out. To put it slightly differently, the time for this move to complete has extended but the structure remains the same.

SPX Daily:



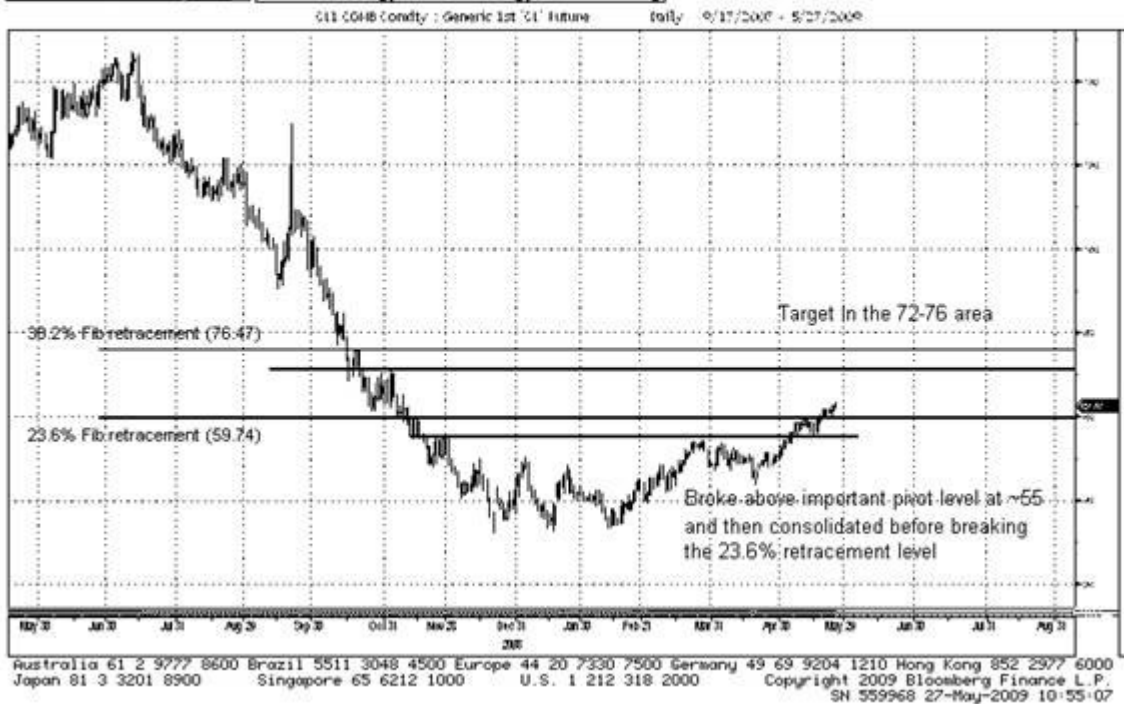
Aussie Dollar Weekly:

AUD ↓ **.7844** - **.0018** BGN .7842/.7846 BGN CurncyG
 At 8:37 Op .7862 Hi .7887 Lo .7819 Close .7862 Value 5/29/09
 AUD BGN Curncy Edit Options Bookmarks G 3 - WEEKLY RSI, MACD



Crude Oil Daily:

CL1 ↑ **62.47** +.02 S S 62.46/62.48 S ComdtyG
 DELAY 10:25 Vol 95,725 Op 62.87 Hi 63.45 Lo 62.19 Prev 62.45
 CL1 COMB Comdty Edit Options Bookmarks G 13 - DAILY W 21 RSI

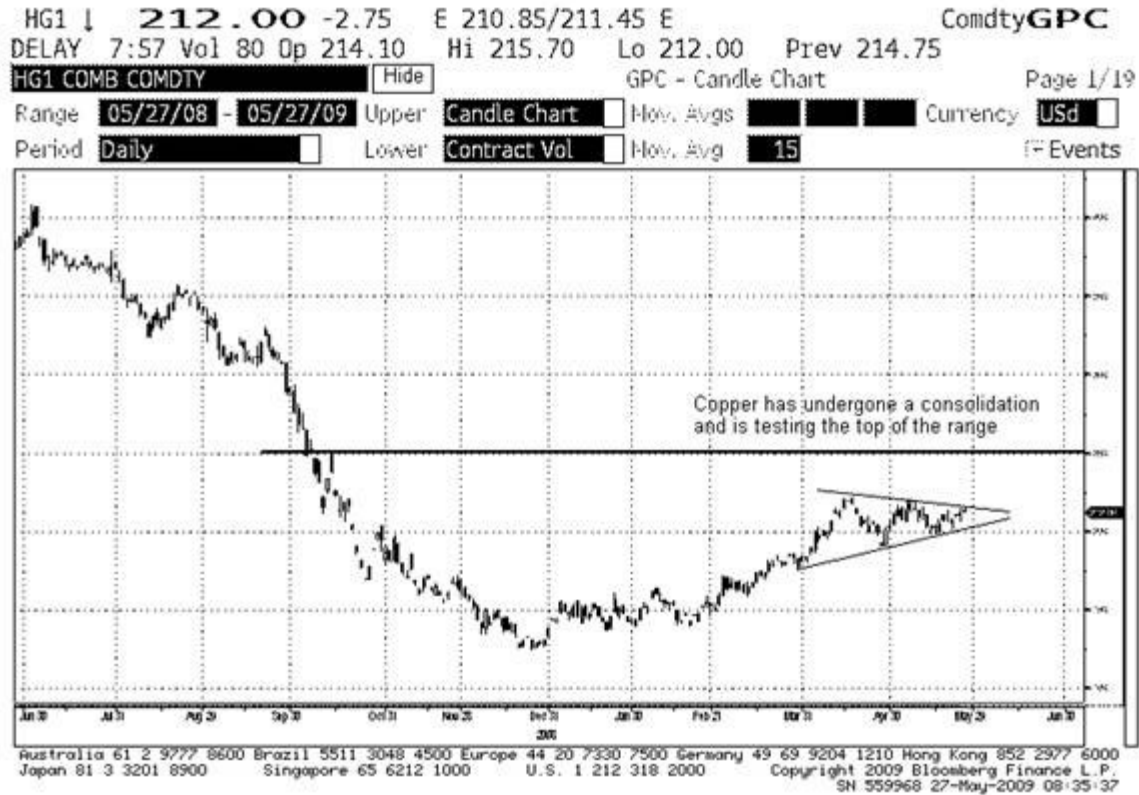


Copper Weekly:

HG1 ↑ **213.05** -1.70 E 213.30/213.50 E ComdtyG
 DELAY 10:21 Vol 182 Op 214.10 Hi 215.70 Lo 212.00 Prev 214.75
 HG1 COMB Comdty Edit Save to G G 9 - WEEKLY



Copper Daily:



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