BAYCREST

Technical Analysis
& Strategy

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Weekly Market Update
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This is a new research product where we will be providing weekly market updates, presenting interesting market observations, technical developments, and updates on where we stand in regards to our Short and Intermediate Term calls.

OVERVIEW

We saw some interesting price movements in the markets at the end of last week that give us increased confidence we are seeing the beginning of major primary bearish trends in a number of different asset classes.

In recent weeks, crude and copper did not "confirm" the new highs in equities. They both failed to make new highs and have since broken down below major support levels, and we believe they are going to lead equities to the downside.

Furthermore, treasury yields are on the verge of confirming a breakdown as well, and the dollar appears to be putting in an important "intermediate" bottom. Lastly, the Shanghai composite, which led other global markets to the upside at the beginning of the year, continues to breakdown.

We believe these are all "signs" that we are approaching the final innings of the rally from the March lows, and that in a few weeks we will start a major pullback in the equity markets. In the next two weeks, however, we do expect one final surge higher.

SPX

We continue to record extremely overbought readings in the bullish percent indices across the board (please see Charts 1, 2 and 3). In many cases, these readings are higher than they were at the top in '07.

Despite these overbought conditions, our technical structures still don't appear complete, so we continue to argue that we can reach 1100-1120 by mid October in a final surge higher that will result in fresh new highs. Last week, we made the argument to get long around 1030-1040 to play for one final surge higher. We believe we are now in the final leg (v) that will complete the move from the March lows. Chart 4 shows the price structure since the lows on July 8th.

For this to occur, we would prefer not to see a break of 1038 in the S&P. A break below 1015 would confirm that the next major intermediate move lower is underway, and 991-992 is a support area that remains of critical importance.

DOLLAR

On Sept 21st we recommended going long the dollar as a short-term trading idea, and shorting the Euro. We did this ahead of the FOMC meeting knowing that this meeting could be a potential catalyst for the dollar. For those of you that missed our report, we have attached it again for your viewing. So far, the dollar was able to stay above critical support and has reversed higher. We are also seeing some classic signs of a bullish reversal including a major surge in volume in the currency ETFs, and classic "bottoming" chart patterns on the shorter time-frames.

SHCOMP

Since Aug 21st, we have been long the US and short China as a relative trade, and we expect it to continue to work for another couple of weeks. As we discussed in our last weekly update, we have evidence that tells us we started the major intermediate move lower at the end of August in the Shanghai Composite. We continue to believe that selling should intensify in the short-term, and we expect a fast move down to the ~2500-2600 level.

10 YR YIELDS

We are on the verge of a confirmed breakdown below the support area of 3.25-3.3 in yields, which would confirm that the move from the lows late last year is over, and we have a new intermediate downtrend in place.

Our minimum downside target continues to be 2.5%, with a retest of the lows remaining a possibility.

CRUDE OIL

We have been bearish on oil since June 11th and we have been arguing over the last few weeks that despite the resilience, i.e. holding support etc in recent weeks, we believed we were on the verge of a confirmed breakdown; especially given the steady technical deterioration.

A few days ago, crude closed below the 100 day moving average for the first time in several months, and closed below the critical $67 level that we have been watching. This now opens the door for a retest of support in the $60-61 area, but we believe that support will also eventually be broken over the next few months.

We continue to argue that the move to the $75-76 area in crude was a counter-trend corrective move, and that we need one more major intermediate move lower before we get a much larger cyclical recovery.

COPPER

In our Aug 21st report, we also presented the evidence that convinced us that the rally from the lows at the end of last year was a counter-trend rally, and that we are on the verge of starting a major intermediate move lower over the next few months to complete the pattern/structure from the highs in '08. Given the compelling risk/reward we recommended initiating shorts at those levels, and we still like initiating shorts right here with stops over 290.

Copper tried to break above the critical long-term resistance level at 300 (which also coincided with a confluence of long-term Fibonacci retracement levels) on multiple occasions but failed each time with deteriorating technicals. We have since broken below the lows of the recent range, and below the 50 day moving average. It appears we have already started a new major primary bearish trend.

Chart 1: SPX Index BPI

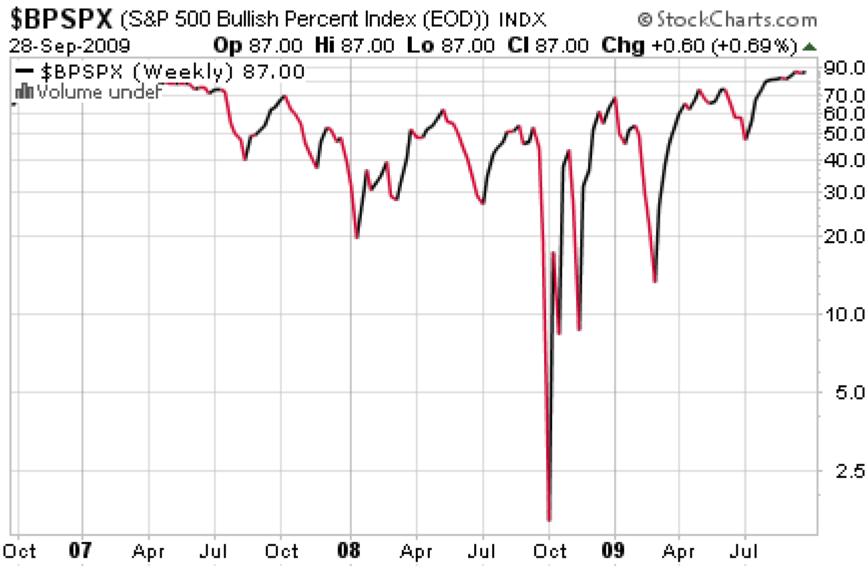

Chart 2: NYSE BPI

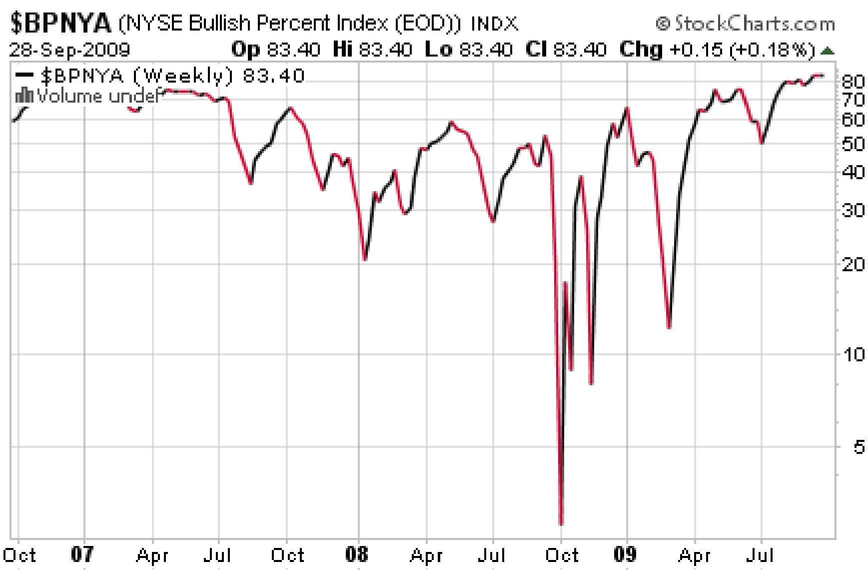

Chart 3: Nasdaq Composite BPI

Chart 4: SPX Index Daily EW

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