

Technical Price Risk Assessment - for December 2009 -

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Monthly Support and Resistance terms

- R2 = Most bullish case and or pivotal longer term resistance
R1 = Minimum monthly upside in the bullish case, and or key resistance for the bears
S1 = Minimum downside target for the bearish case and or key support for the bulls
S2 = Most bearish case and or key longer term support

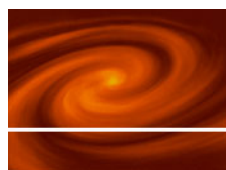
Monthly Candlesticks: analysis header color codes

Red = Bearish

Green = Bullish

Blue = Neutral

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US Dollar (DX) - Down, Bottoming ?

Still see a major cluster of long term support points into the 73.900 - 73.300 zone. Suggest get long into this zone, risking a close below 72.000 and targeting a multi-year rebound to the 92.000 area. The technical patterns suggest that 2010 will be a repeat of 2008. That means a deflation driven trend of falling prices in equities, commodities and real estate, and a rising US Dollar. And despite widespread expectations of an imminent wave of inflation there is still no economic indicators pointing to inflation.

US \$ (DX) - Monthly Support and Resistance

R2 = 76.817 as the prior high

R1 = 75.805 - 75.895 as .618 of 76.817 to 74.170 and an "a" = "c" up from 74.170

S1 = 73.900 - 73.300 as a cluster of four major wave count targets for long term support

S2 = 72.200 the 1.618 x <A> = <C> of B from 88.463

US \$ (DX) - Long Term Big Picture S & R

R = 92.000 area

S = 69.900 - 67.500

Ten Yr. Note Rates - Down

Last months key support was 3.205% and last month rates plummeted to a 3.200% low and a weak close. While the technical patterns still peg the long term trend as up, intermediate term a decisive close below the 3.205% level would still suggest a further decline to the 2.800 - 2.790 area. Still peg 2.460 as long term support but to no see that rate as within reach for this month.

Ten Year Rates - Monthly Support and Resistance

R2 = 3.670 the .618 of the 4.014 to 3.106 decline

R1 = 3.435 the .618 of 3.579 to 3.200

S1 = 3.205 the .7862 of the 3.106 to 3.579 rebound

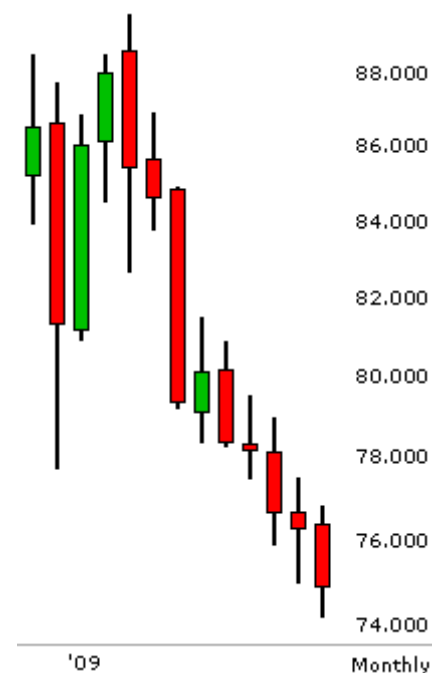
S2 = 2.815 - 2.790 as -A- = -C- = -E- of an -ABCDE- down from 4.014 and .618 of 2.038 to 4.014

Ten Year Note Rates - Long Term Big Picture S & R

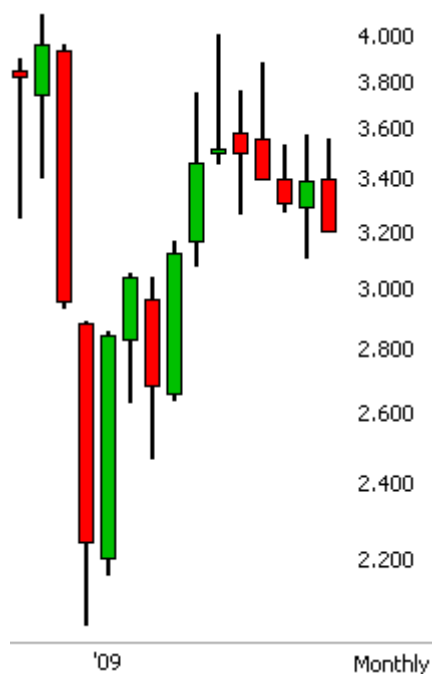
R = 10.6 %

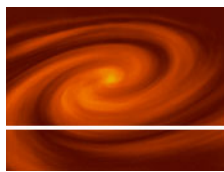
S = 2.5 %

DX Index - Bearish



10 Yr Rates - Bearish Engulfing





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Outlook for
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Gold - Up ?

Based on our wave count the minimum near term upside target is a cluster of objective into the 1216.0 to 1232.0 zone. And any next step up above 1232.0 would suggest room to the vicinity of the 1400.0 to 1500.00 area. Assuming that Gold does peak and retreat from the 1230.0 area it will then need to break below 1030.0 to look like a major top.

Gold - Monthly Support and Resistance

R2 = 1428.0 - 1436.0 as 1.618 -A- = -C- from 681.0 with 904.3 as -B- and $4.236 \times -I- = -III-$ from 865.0

R1 = 1216.0 - 1232.0 as -i- = -5- from 984.7, $2.618 -I- = -III-$ from 865.0, and -A- = -C- from 681.0

S1 = 1136.0 as .382 of a 984.7 to 1230.0 area rally

S2 = 1029.0 the .618 of a 904.8 to 1230.0 rally

Gold - Long Term Big Picture S & R

R = 2170.0

S = 635.0

Copper - Up, Peaking

The case for this advance from the 124.75 level as the bear market correction in a larger scale decline hinges on Copper peaking and reversing lower from the 312.00 to 363.00 zone as the .618 and .7862 retracements of the entire 427.00 to 124.75 decline. Last month Copper rallied to the vicinity of the .618 retracement at 319.55 with no convincing evidence of peaking action. So further upside is expected this month. However as long as Copper does not break decisively above the 363.00 level another major decline on the scale of the 2008 debacle cannot be ruled out.

Copper - Monthly Support and Resistance

R2 = 362.50 the .7862 of the entire 427.00 to 124.75 decline

R1 = 332.45 a possible -I- = -V- in % gain from 124.75

S1 = 277.00 as .7862 of the leg so far 264.90 to 319.55

S2 = 274.00 the .236 of the rally so far from 124.75 to 319.55

Copper - Long Term Big Picture S & R

R = 480.00

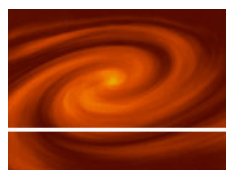
S = 113.00

Gold - Bullish Tower



Copper - Bullish





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S&P 500 Index - Up, Peaking

Still waiting to see if the SPX peaks into the 1121.00 to 1160.00 cited in last months report as a candidate for major resistance. If it does peak into that area (1140.00 midpoint) then it will take a break down below 1129.00 from there to look like a major top. Coincidentally enough 1129.00 is the level of the previous low from 02 November. On a decisive break below 1029.00 from the 1140.0 area our minimum target becomes 850.00 the area. For the bulls a decisive break out above 1160.00 would target the SPX to the 1220.00 to 1250.0 zone.

S&P 500 - Monthly Support and Resistance

R2 = 1230.0 - 1250.0 as .618 of 1576.0 to 666.79 and the 1.236 <A> = <C> from 666.79

R1 = 1122.0 - 1160.0 as 50% of 1576.0 to 666.79 and <A> = <C> from 666.79

S1 = 1047.40 as .7862 of 1029.30 to 1113.68

S2 = 1029.00 the .236 of 666.79 to yhr 1140.00 area

S&P 500 - Long Term Big Picture S & R

R = 1360.00 - 1380.00

S = 340.00

Shanghai Composite - Up, Peaking

The unmistakable and textbook perfect five wave pattern to the decline in the Shanghai Index from 6429.68 to 1749.02 means that this advance from 1749.02 is the bear market correction in a continuing decline. This fact is the bottom line and it helps out filter out about 90% of the cheer-leading that now passes for fundamental analysis. The only question is the duration and extent of this continuing bear market correction.

Shanghai Index - Monthly Support and Resistance

R2 = 4090.00 as .50 of 6429.68 to 1749.02

R1 = 3537.00 the .382 of the same

S1 = 2700.00 as .50 of 1749.02 to 3651.20

S2 = 2475.00 the .618 of the same

Shanghai Index - Long Term Big Picture S & R

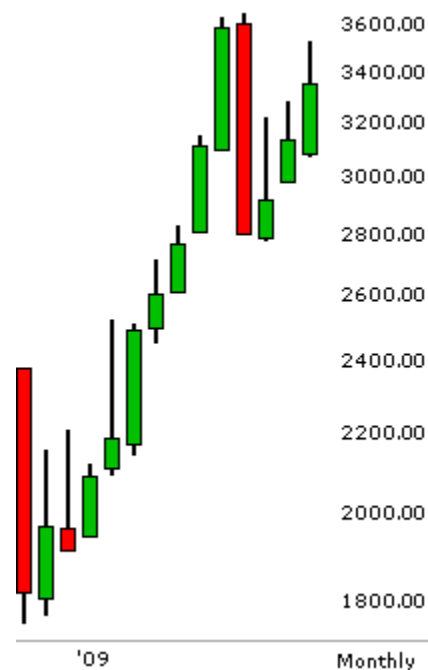
R = 4640.00

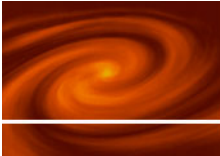
S = 1000.00

S&P 500 Index - Doji Star Top ?



Shanghai Index - Bullish





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WTI - Up, Peaking

For the past four weeks our main point has been that the now seven weeks of congestion since the 82.00 high of 21st October is NOT consistent with peaking action, and is in fact rather much more typical of a bull market rest stop. So we have been awaiting the end of this seeming interminable fuzz-ball of congestion with a break out to the upside. And considering that all the energy markets are rather over-supplied, and assuming no supply interruption, it would appear that it is going to take another leg down in the Greenback to give Oil the kick it needs to make a new high. So we continue to suggest that energy traders keep a very close eye on the DX Index.

WTI - Monthly Support and Resistance

R2 = 89.85 as .50 of 147.27 to 32.40

R1 = 82.90 - 83.55 as .618 <A> = <C> from 32.40 and the .618

(A) = (C) of -C- of <C> from 65.05

S1 = 71.50 as .618 of 65.05 to 82.00

S2 = 70.30 the .236 of the entire 32.40 to 82.00 advance

WTI - Long Term Big Picture S & R

R = 103.40

S = 23.00

Natgas 12 Mo. Strip - Peaking

The starting point for our strip analysis is the apparently textbook perfect five wave shape of the 6.202 to 4.917 decline from Oct to Nov. This five wave decline means that this rebound from the 4.917 low of 20th Nov must be the bear market correction of the decline from 6.202 and not the resumption of some longer term up trend. So our bullish case from here is congestion between 4.389 and 6.200 while our bearish case is an eventual break of the 4.389 low.

NatGas Strip - Monthly Support and Resistance

R2 = 6.500 as .236 of 13.341 to 4.389

R1 = 5.930 the .7862 of the 6.202 to 4.917 decline

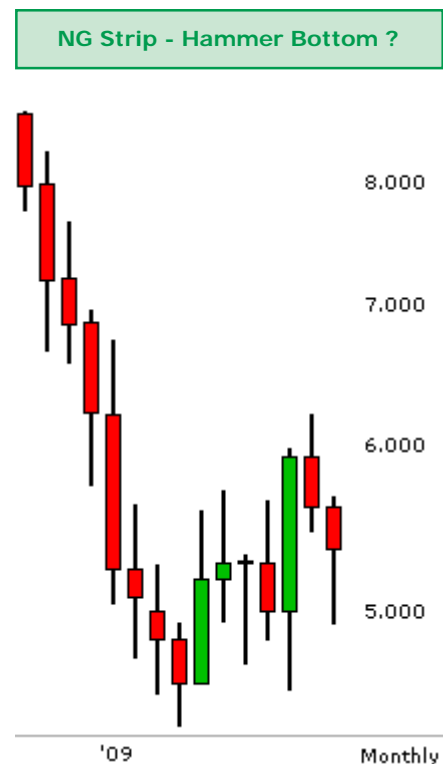
S1 = 4.780 as .7862 of 4.389 to 6.202

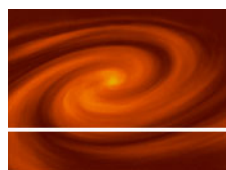
S2 = 4.660 the .852 of the same

Natgas Strip - Long Term Big Picture S & R

R = 9.920

S = 3.880





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RBOB - Up, Peaking

As is evident from the chart at left, RBOB has spent the past six months stuck within a narrowing congestion zone. While December is the epicenter of the seasonal cycle low, what meaning does a cycle low have if there was no cycle decline to precede it. The real bottom line here is that since June of 2008 the price of Gasoline has been just as much a proxy for economic expectations as the S&P 500 Index. As goes the SPX, so goes RBOB. So we suggest that Gasoline traders continue to keep a sharp eye on the SPX.

RBOB - Monthly Support and Resistance

R2 = 2.5440 the .618 of the entire 3.6310 to .7850 decline

R1 = 2.4215 the .618 <A> = <C> from .7850 with 1.6010 as

S1 = 1.7900 as .618 of 1.6010 to 2.0953

S2 = 1.6030 the .50 of a .7850 to 2.4215 advance

RBOB - Long Term Big Picture S & R

R = 3.0225

S = .5500

Corn - Up, Peaking

Corn has the same big picture wave count as RBOB and WTI, and all the major equity indices - a five wave decline from the highs and then a complex ABC type bear market correction up off the lows. In the Corn futures that makes the 2008 decline from 762'4 to 290'0 only the initial leg down in a continuing down trend. And it makes the congestion since the Dec 2008 low at 290'0 a bear market correction. And it means the longer term trend is still very much pointing down. And that makes Corn a long term scaled up sell opportunity.

Corn - Monthly Support and Resistance

R2 = 469'4 the .382 of 762'4 to 290'0

R1 = 459'6 the .618 <A> = <C> from .7850 with 1.6010 as

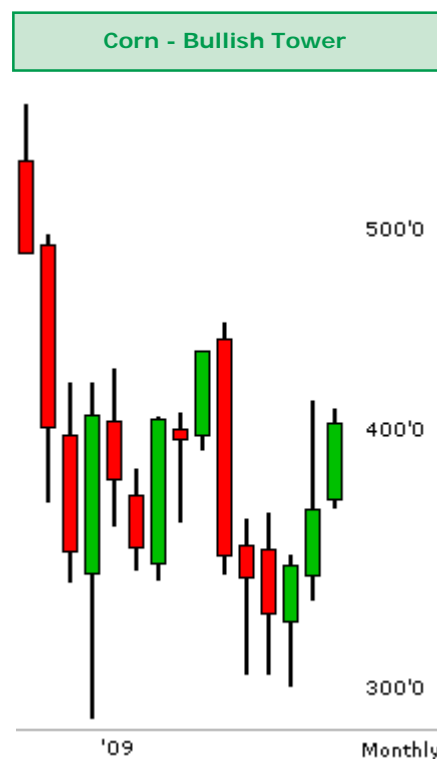
S1 = 343'0 as .618 of 300'0 to 413'0

S2 = 324'0 the .7862 of the same

Corn - Long Term Big Picture S & R

R = 580'0

S = 178'0



2Oil - Up, Peaking

There is the same bigger picture wave count here in 2Oil as in WT1 and RBOB, and Corn, and the SPX, and the Shanghai Index, and etcetera. In the 2Oil market the 4.1586 to 1.1252 decline is a textbook perfect five wave pattern. And the ensuing slog higher from the 1.1252 low has all the hall marks of a complex ABC type bear market correction. And that makes this 2Oil rally a scale up sell opportunity in a longer term down trend. And that means the critical issue is the extend and duration of the presumed bear market correction from the 1.1252 low.

2 Oil - Monthly Support and Resistance

R2 = 2.5070 as <A> = <C> from 1.1252 with 1.6585 as

R1 = 2.2425 - 2.2840 as <A> = <C> from 1.1252 and .382 of the 4.1586 to 1.1252 decline

S1 = 1.8920 as .236 of the entire 1.1252 to 2.1289 advance

S2 = 1.8380 as .618 of the 1.6585 to 2.1289 rally

2Oil - Long Term Big Picture S & R

R = 3.0000

S = .5500



Concluding Comments

Assuming our wave count models are even partially correct, to understand the next couple years we need to figure out what lower equity and commodity prices, higher Gold prices, lower interest rates, and a strong US Dollar share in common. In other words what is the scenario that encompasses all of these various trends. We can only come up with one possible scenario - and that is deflation.

The dynamic at the heart of deflation is what happens when an asset, purchased with debt, falls in value much faster than the loan can be repaid. And the main culprit in virtually every deflationary contraction has been the aftermath of a collapsed real estate bubble. By any measure the magnitude of the real estate bubble that began to deflate back in 2005

to 2006 was the largest such bubble in the history of the world. And the recent news out of Dubai shows the bubble is still deflating. So does the news from the commercial real estate market. And the still rising unemployment tells the same story.

The US Dollar carry trade has delayed the resumption of the longer term deflationary contraction. However a short term trading opportunity born of government mis-management of its own currency cannot and will not cure a Kondratieff scale economic cycle contraction. The world economy has partied on way too much debt for far too long. The hangover will last for some years to come. To think otherwise is to fall for the wishful thinking effect identified by behavioral economics. That is the real danger for today's investors.