The

Week

Ahead

A technical perspective for 15th- 21st July 2003

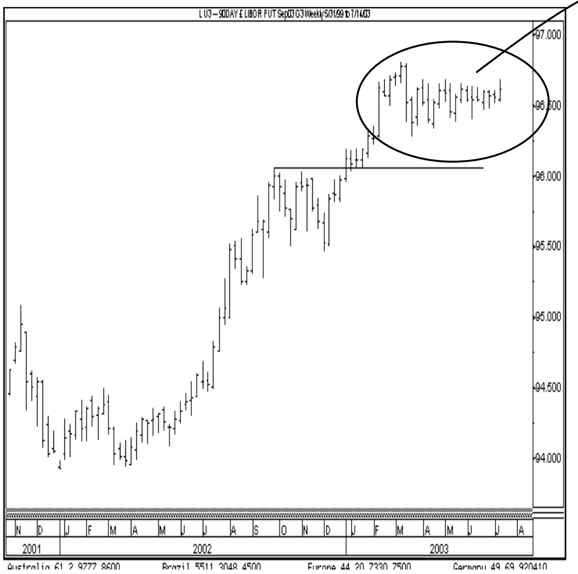
Buy the stocks with your ears pinned back

Sell the Dollar afresh

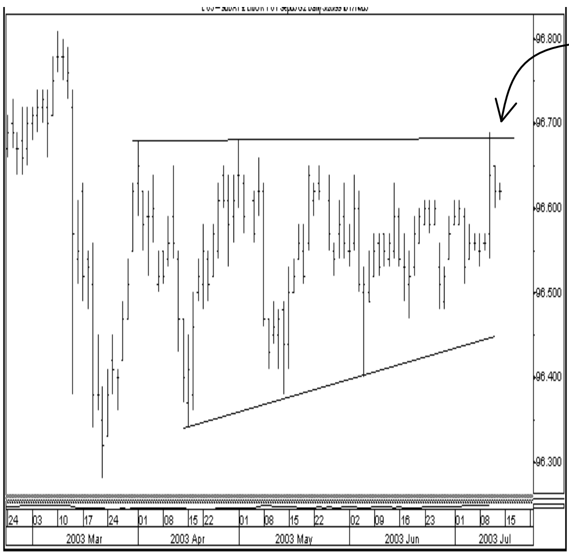
Stand aside the Eurodollars

Short Sterling

The market perked up last week. Does that weaken my feeling of gloom , especially at the long end? Not yet.
The failure of the Sept 2004 price action to break out to the highly constricted trading range it finds itself in is symptomatic of a wide ranging underlying sense of bearishness….
No top formation has been completed, but I remain pessimistic.



The market is still going nowhere.

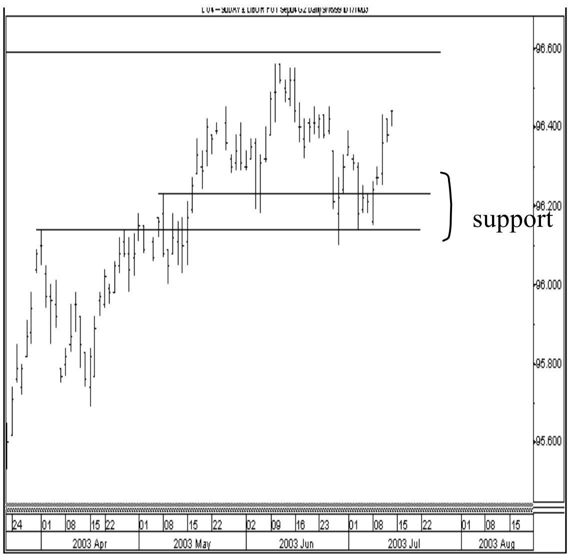


The range was not broken.
Until it has been, and the level 96.68 is the nearest parameter, there's no technical story.

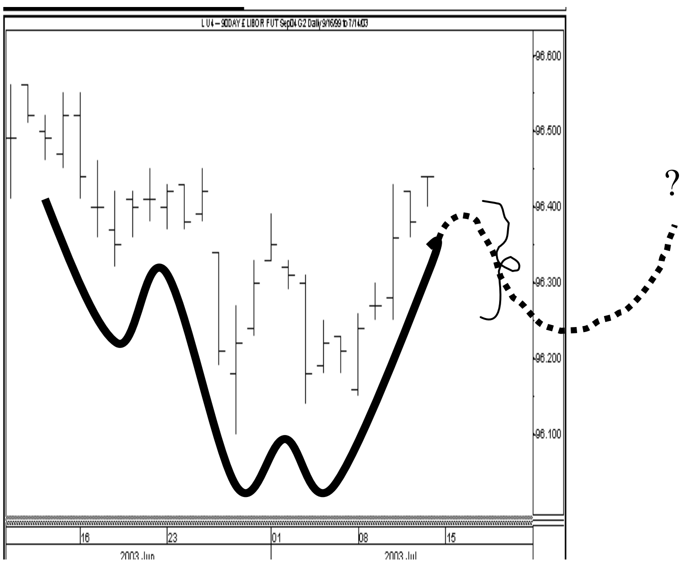
The further date: September 2004

The long run chart looks fine, all recent approaches to the long trend line have bounced hard.

But the only level that matters to the bulls is the 96.58 level – so far a double failure - by golly a break through that would set the bulls alight! Once through that level it would act as tremendous support to drive the market better.



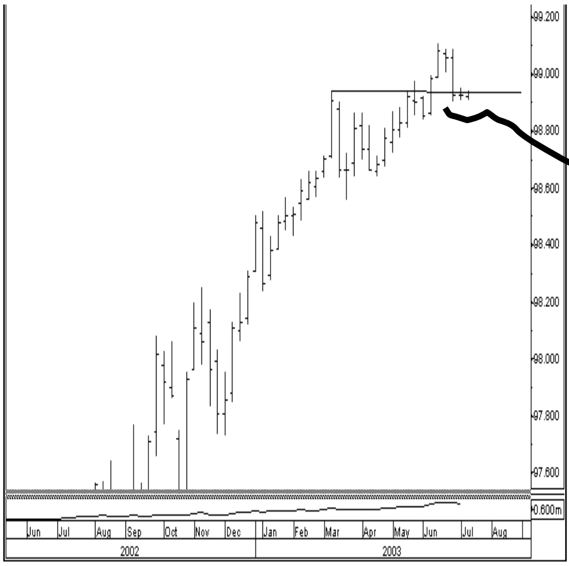
The detail : the market has three times tried to get down through the band of support derived from the horizontals at 96.14-23 that has created a good base. It's tempting now to anticipate a small double –headed head and shoulders bottom:



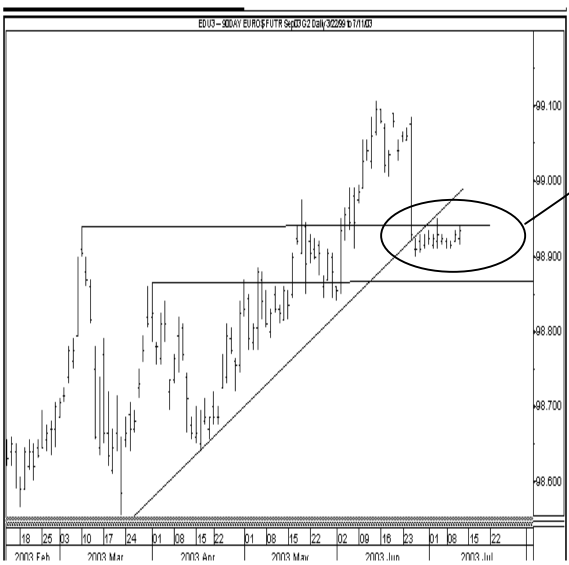
The possible head and shoulders bottom ;
Not yet formed, await events.

The Eurodollar

I have been pessimistic and then the suggested bear moves haven't happened. On the contrary , in the supposedly weakest place the longer end, the market has worked itself better.
Has the bear move been postponed merely?
I'm less sure now.
I am standing aside for the moment.

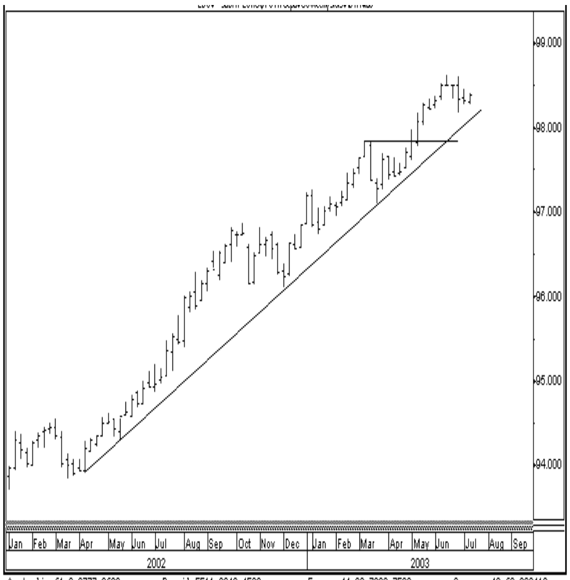


The market has fallen back and found support at the horizontal from the old high at 98.94.

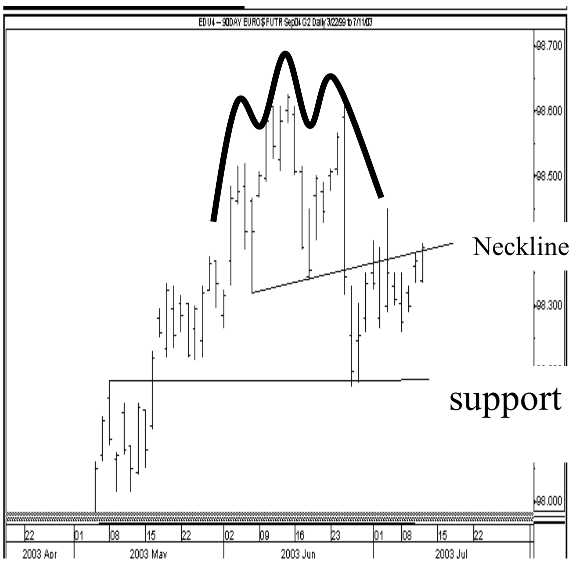


The market has paused for the last week or so, and while it has, no clear pattern has been derived. It is difficult to see what will happen next.

The further out months: September 2004



The great bull trend in the week chart.

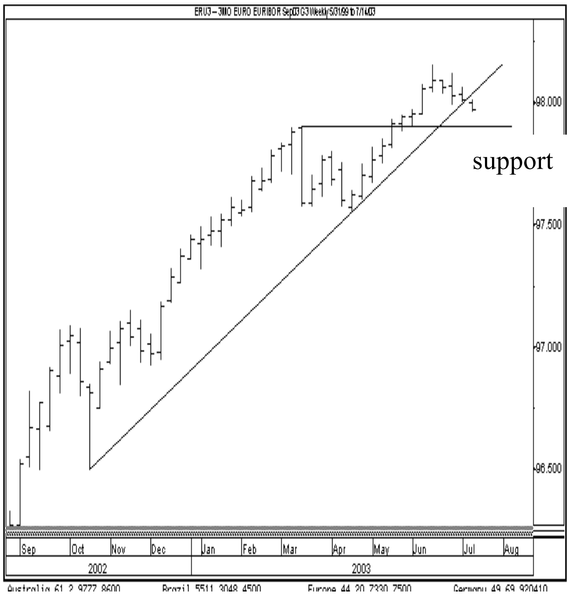


I characterised this pattern as a head and shoulders top, but the market is not really behaving in line with that interpretation; the first return to the neckline was repulsed certainly, but the second suggests altogether <u>too</u> much bull enthusiasm for the bear H&S scenario.

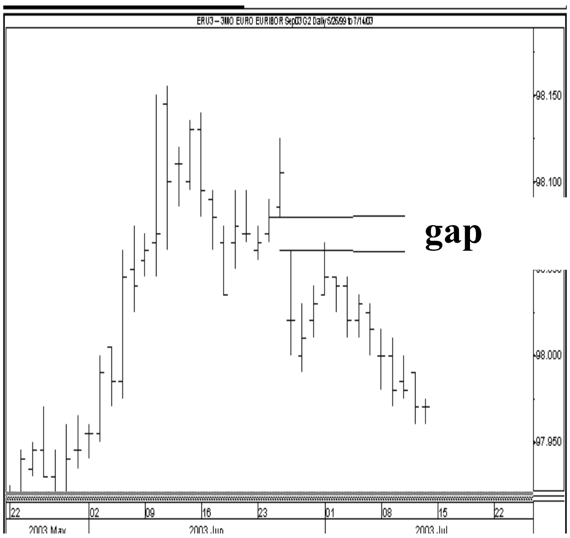
Euribor

Last week I ignored the rising diagonal support line and stressed the importance of the horizontal from the old high. That was surely correct.

But I also thought that there <u>was</u> impetus building up for a test of that horizontal especially in the longer end…but that has not been manifest. And the size and proximity of the underlying support makes the bear case less and less attractive.

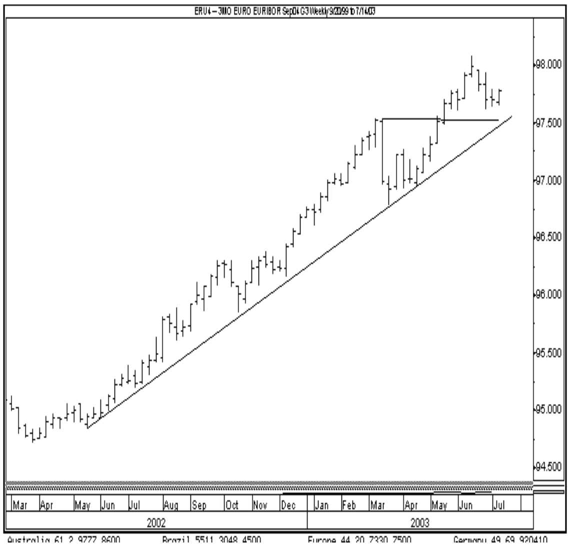


The long run weekly chart shows a break back through the long run trend line, and an imminent test of the major horizontal support at 97.90.

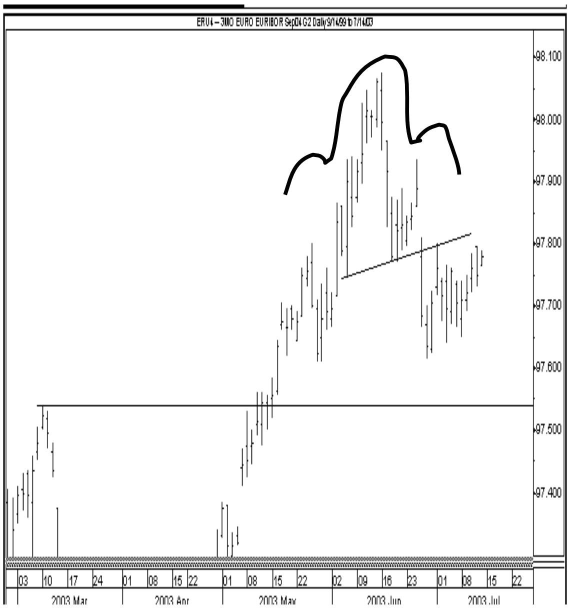


The detail of the pull-back is not terribly clear – the gap is clearly the bear factor that has prevented recovery so far…..

The further out months: September 2004



Just as with the short end: September 2003 - an approach to the supports…the conjunction of the supports is an especially critical point…



I was altogether more bearish of this last week – there was, I thought, a neatly-formed H&S top , but the market (as in the Eurodollar) has fiddled about beneath the neckline – twice approaching it - and hasn't at all fulfilled the expectations I had for it. In any event with such big support nearby makes the downside looks less and less exciting….

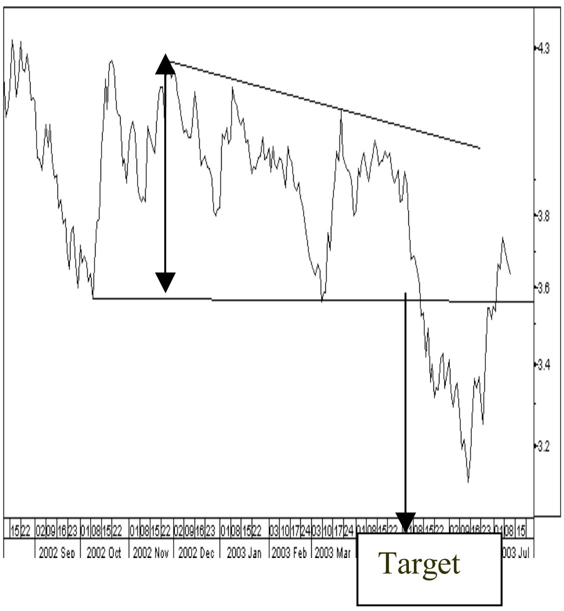
The US Treasury Bond

The case for lower yields and higher bond prices in the long run is undoubted still. More interesting for the shorter term player is that apparent failure of the market to be able to push back through the overhead resistance in the yield chart (especially in the weekly bar chart which is the only yield chart of any relevance) and underlying support in the daily price chart.

The market feels a good deal better set that last week.

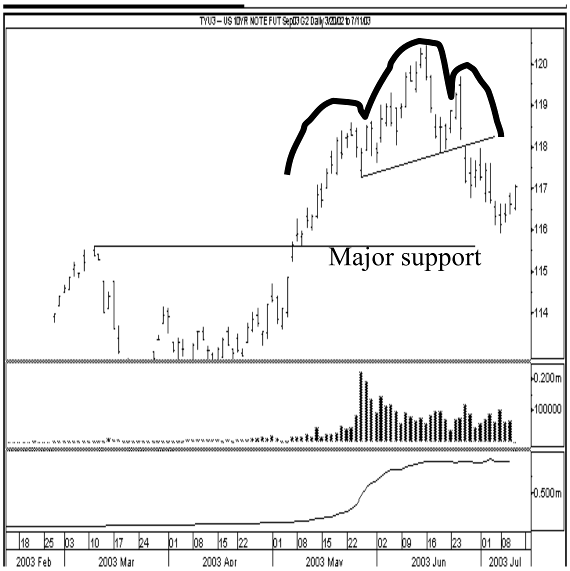
The market's long term succession of long term continuation triangles.

The recent rally has led to a test of the lower diagonal resistance…. Let's look closer…



I said last week that the speed with which the market re-entered the overhead resistance of the smaller triangle was 'totally surprising'.

It's pulled back ….but the bears (including me) are still disappointed.



Last week I pointed out that though the yield chart was a huge disappointment to the price bulls, (yield bears) the short term futures chart was rather less depressing for the bulls.

The major support – the horizontal at 115-19 - has held robustly (perhaps the test was slightly less than totally convincing) and in any event the target for the top formation already in place was scarcely much lower (115.09), not really an emphatic suggestion of a major breakdown….

There may well be another attack on the horizontal support but I shouldn't bet on it being broken.

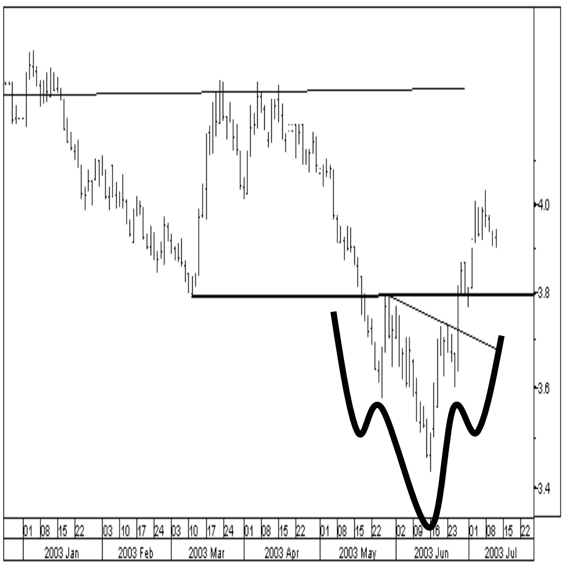
Bears should be more nervous than Bulls.

German Bund

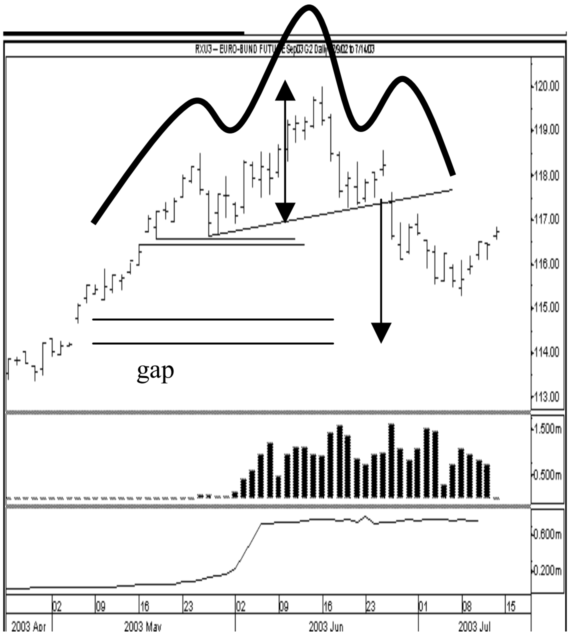
The 'short term attack' (as I characterised it last week) of the yield rally seems to have petered out. And yet for the moment there is no clear short-term reason chart-wise to buy.

The week chart of the German Bund:

1. A massive continuation triangle driving yields down.
2. The attempt to get back through the resistance from the lows failed.
3. But the recent rally has forced its way back through the resistance from the long-standing low at 3.60% and the recent one at 3.79%.



The market in the day chart shows that the impetus for the bull move through the overhead resistance from the old low derived from a well-formed H&S bottom – but note also that that impetus **might well be waning** since the target has been achieved.



The top formation in the day chart suggested a move down to 114.54.

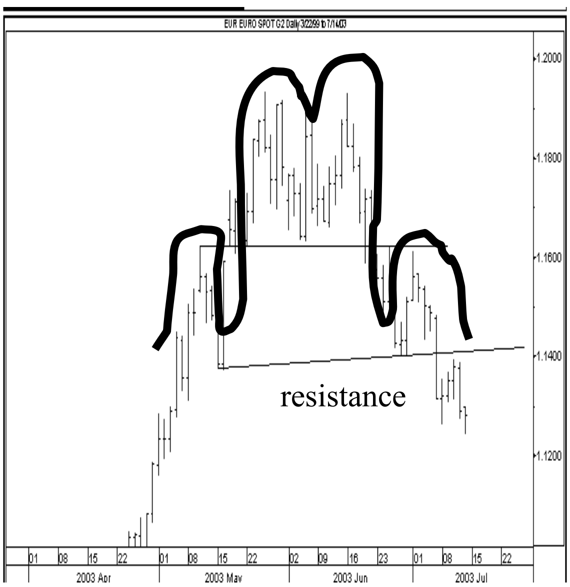
We haven't reached that yet so the bears are still encouraged…note the clear fall in the volume on the retracement from the lows further encouraging the bears. But it lacks clarity.

CURRENCY

Last week I said that I thought the strengthening of the dollar would go a good deal further yet. Sure enough I was right. , indeed the short run completion of a small top formation should ensure that the push continues yet a while.
The implication of this for the much-vaulted Cable pattern is clear. Stand aside for lower cable prices.

Dollar Euro

The week chart shows the retreat to the support at 1.1097

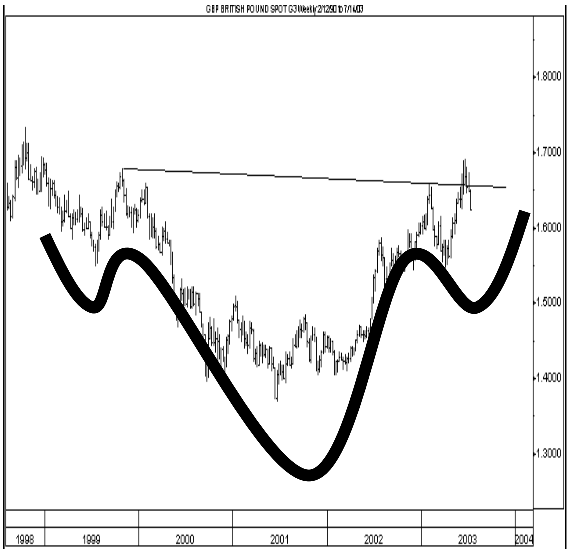


The top formation in detail.

Note the clear nested H&S formations, the latest neckline at 1.14 a clear overhead resistance to any bull move.

The target for the second latest completed H&S is 1.0874….

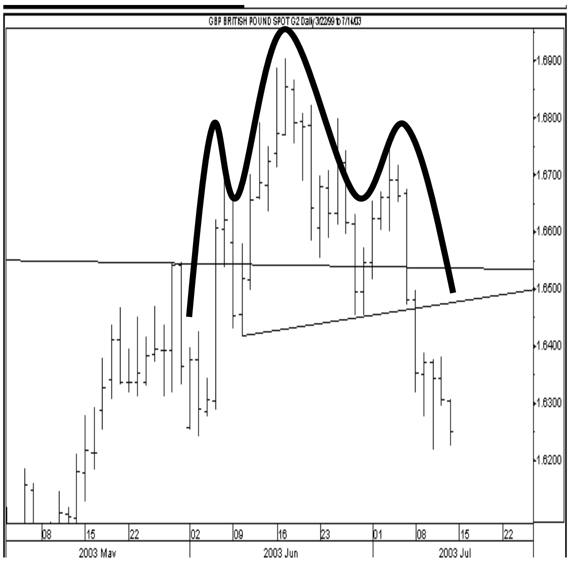
Cable



The bulls' hopes shattered.

The collapse of the large H&S formation.

Where now?

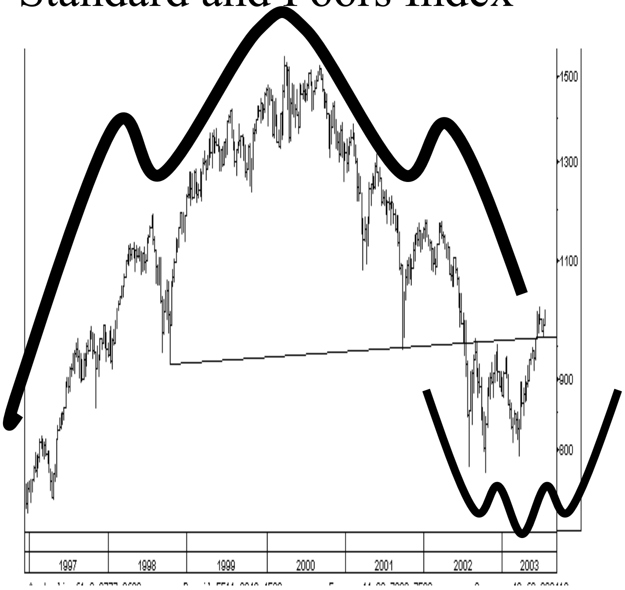


There is a top formation that is driving the market down – towards a target of 1.5995. MINIMUM.

EQUITIES

> ***My bull stance has proved triumphantly correct. The bull market is not over. The question of timing though is tricky. Use the levels I have pointed out variously. As I write this though I notice that the market has pushed up through the diagonal in the S&P day chart….***

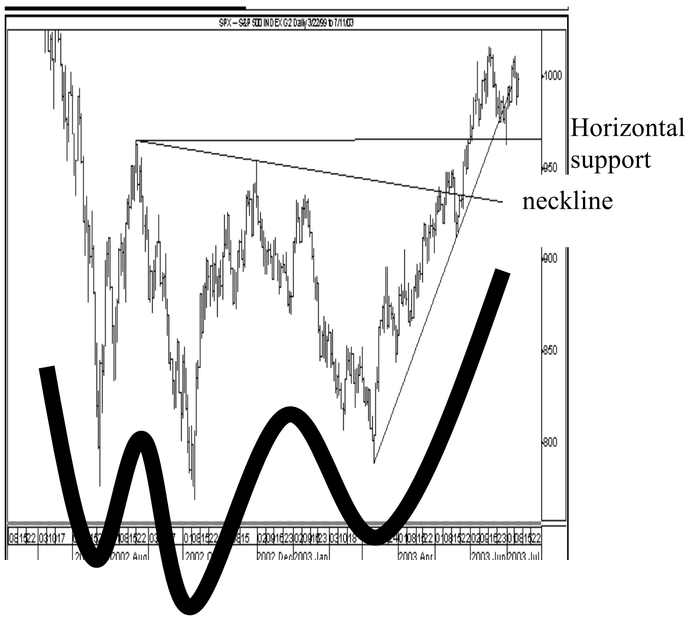
Standard and Poors Index



The well-established big bear pattern that is driving the market down to 580 minimum.

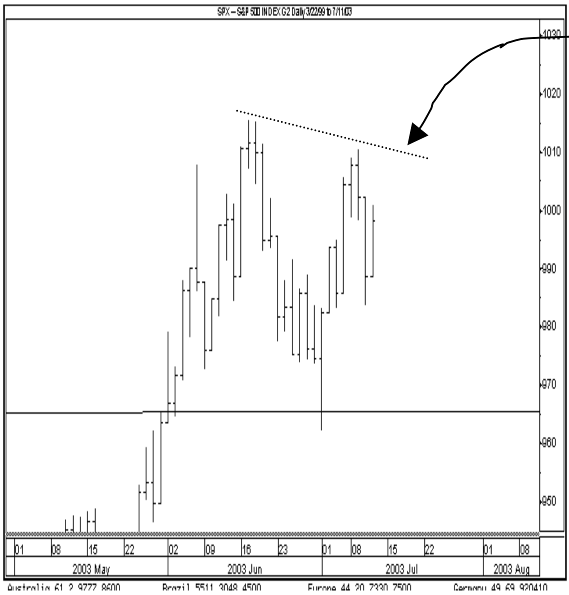
But it is under threat at the moment from a well-formed head and shoulders pattern beneath the neckline that is driving the market better short and medium term to 1180 or so…

About the height of the second shoulder.



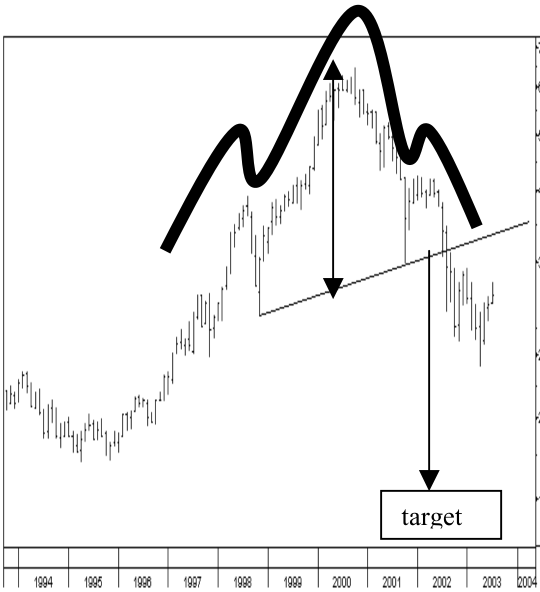
A closer look at the H&S bottom … and its subsequent pull-back to find support at the horizontal support at 965.

Watch carefully the path of the price action above that horizontal support -



Basically watch for a break through the falling diagonal drawn through the two highs … that will be the moment of excitement for the bulls….

The French CAC Index

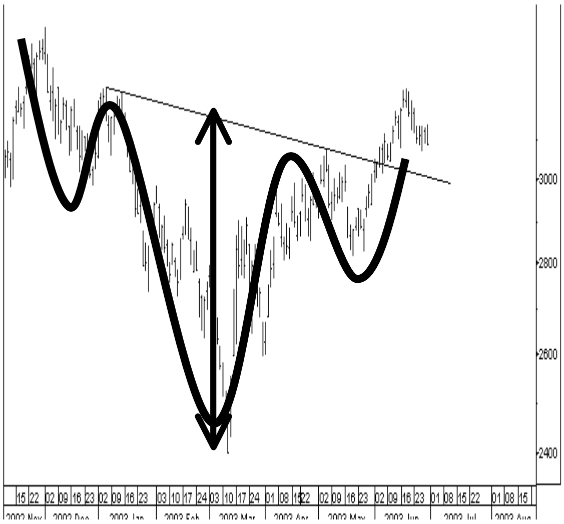


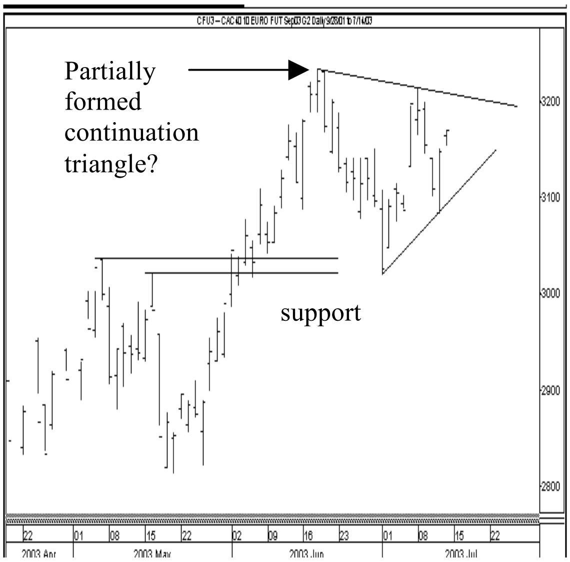
The top formation this is driving the French market down. Phew! Quite a way….

This is the short run.

The H&S formation looks to drive the market better towards 3990

(NB that is more or less the neckline level of the larger H&S formation.)



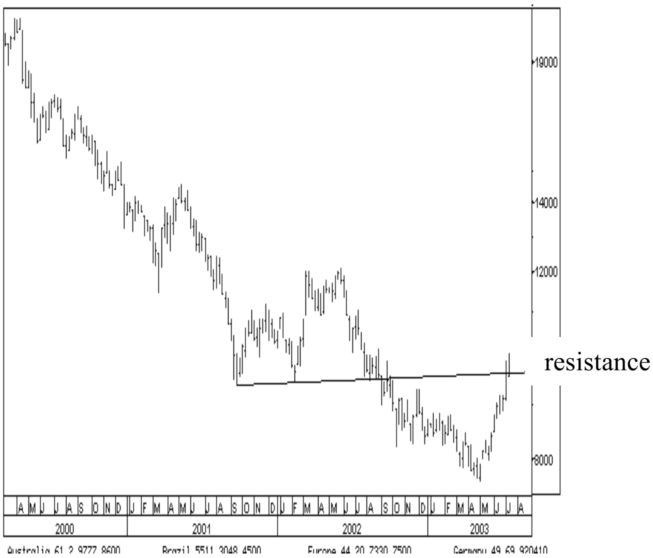


This is what the bulls are looking for.

The supports held on the pull-back.

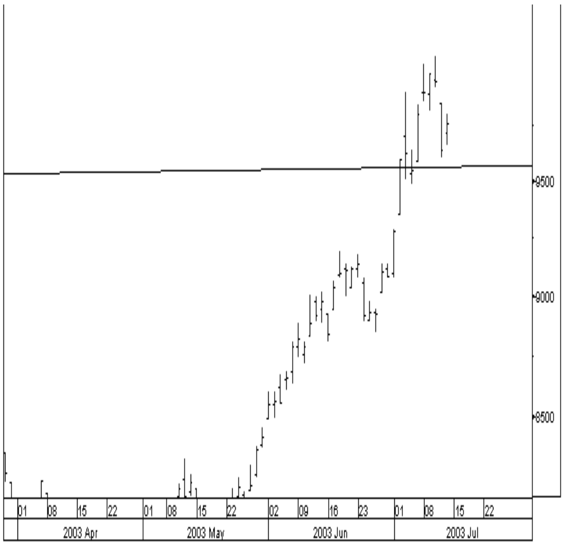
A clear continuation triangle has been set up – wait for a break of the upper falling diagonal , that will be the moment of completion…. And send the market a good deal better thereby towards 3409 or so…

The Japanese Nikkei



The long term weekly log chart of the Nikkei shows how important the overhead resistance is from the two earlier lows.

Twice the market has penetrated, **twice** it has failed to sustain the penetration. Bulls will be anxious. though they will note that it is a weekly chart



The day chart places the resistance in such a way as to be beneath the very short term price action.

That is less important than the price action itself…

Watch carefully how the shape of the market develops over the next few days…