The Week Ahead

A technical perspective for 9th- 16th February 2004

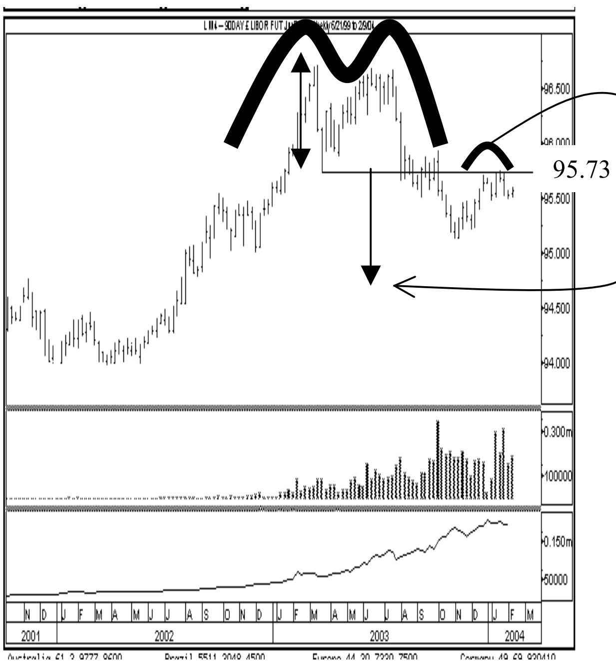
Nikkei set for further falls.

Dollar currency weakens

Eurodollar confusion

Short Sterling

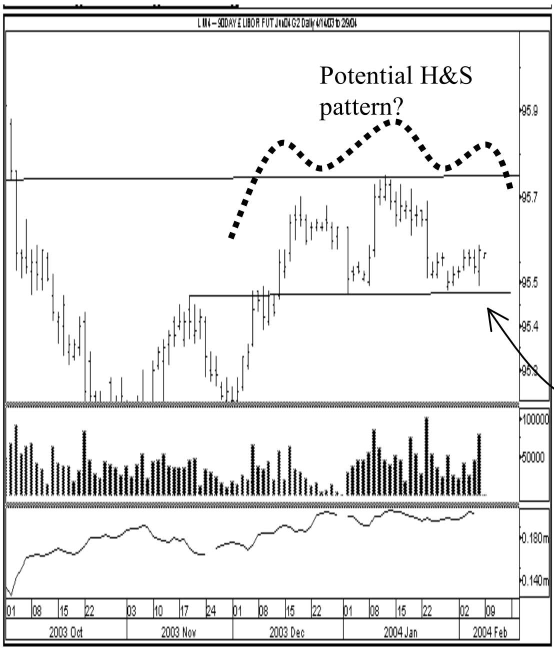
The market traded better over the week, covering the gaps that had opened up as a result of the bearishness of the week before. But nothing has changed about my medium and longer-term prediction that the market will go lower. Indeed, the pause and rise has allowed the possibility of a small Head and Shoulder top formation in the short-term charts. Watch my neckline levels carefully and join in quickly on the bear tack if they are broken.



WEEK FUTURES BAR CHART: *CHANGE OF CONTRACT: JUNE 2004*

The completed Double Top has a minimum target of 94.75.

Having completed the Double Top, the market retraced to the neckline, but has found major resistance there as one would expect – since the end of Dec 2003 it has been unable to break through 95.73, and the likelihood of a sell-off, a renewal of the original trend down towards 94.75, is increasing …



DAY FUTURES BAR CHART: A study of the price action beneath the neckline emphasizes the importance of the support from the prior high at 95.47.

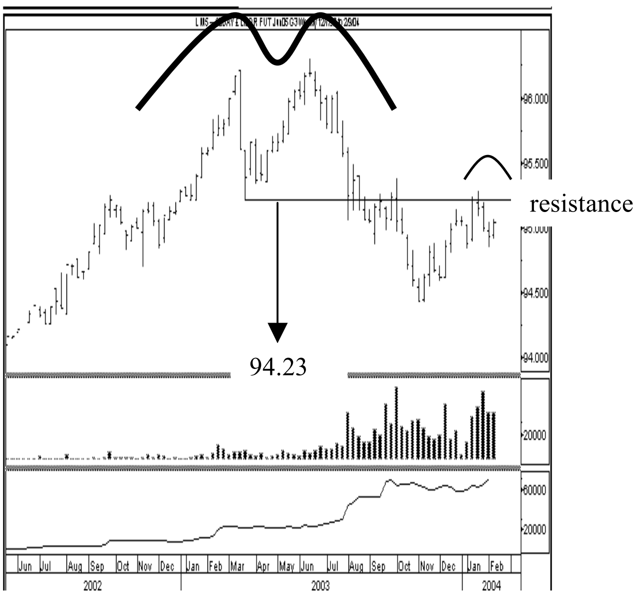
Twice the market has bounced off that level.

The result has been that a small Head and Shoulders top has formed – but not completed.

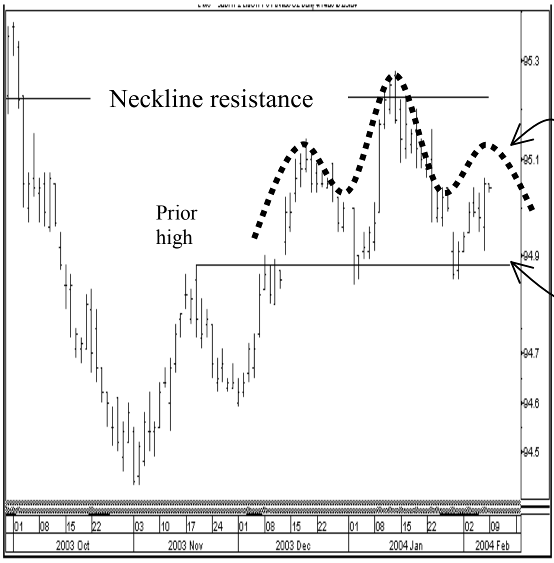
Watch carefully then for a break down through the possible neckline of 95.47.

That would trigger a move down of 30 ticks or so.

The further out dates: June 2005



WEEKLY FUTURES BAR CHART: The familiar Double Top, (whose minimum target is 94.23) and once completed, the retracement to the Neckline at 95.21, which has proved to be good resistance…



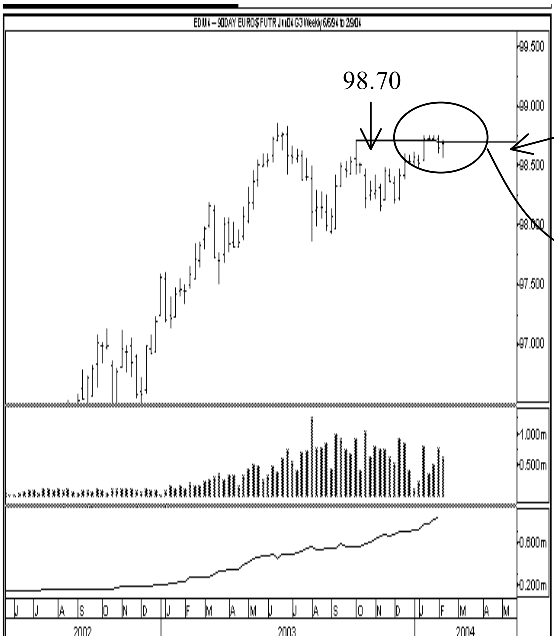
DAY FUTURES BAR CHART: The detail of the retracement.

We see good support from the prior high at 94.88, and the resulting double failure of the bears to drive the market down through that level has led to the <u>possible</u> formation of a small H&S top formation.

Wait for a confirming break down through the low at 94.85 that would complete the pattern and set in motion moves towards its minimum target of 94.41.

The Eurodollar

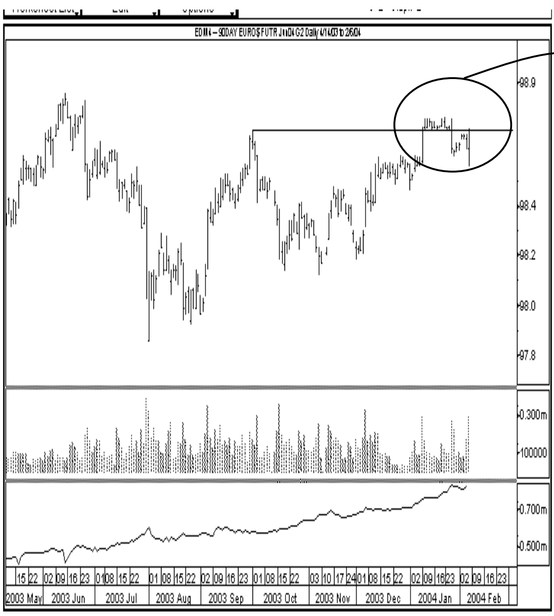
I said last week that the market was "undecided at the moment. Dealers should stand aside" That was right, and remains true. Indeed, if anything, there is even <u>less</u> of a consensus than before, and <u>greater</u> confusion - hence the wild price action.



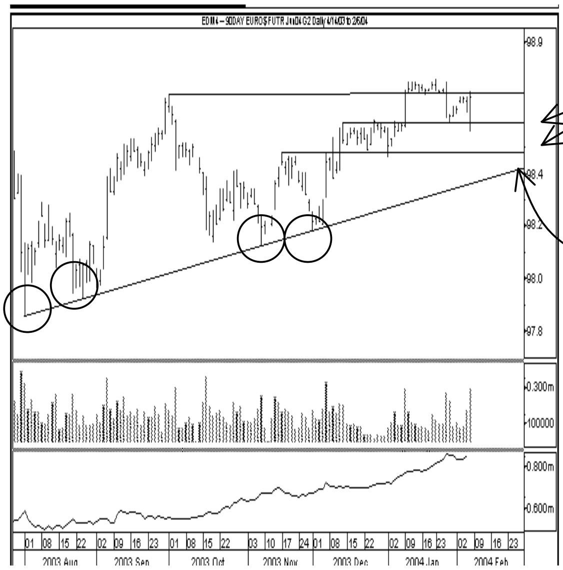
WEEKLY BAR CHART: The pattern of the market is <u>unclear</u>.

Certainly the bulls will want to the price action to prove itself robust by climbing above the prior high of 98.70 and staying there.

That it has conspicuously failed to do for the last five weeks.

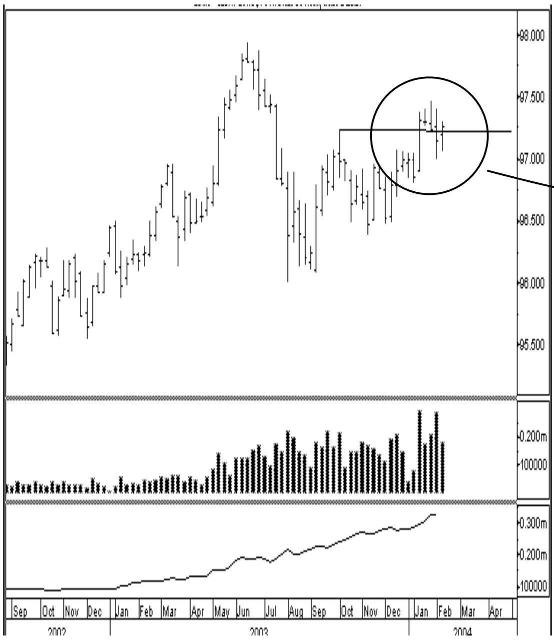


DAY FUTURES BAR CHART: The price action around the prior high is nervous and unclear.



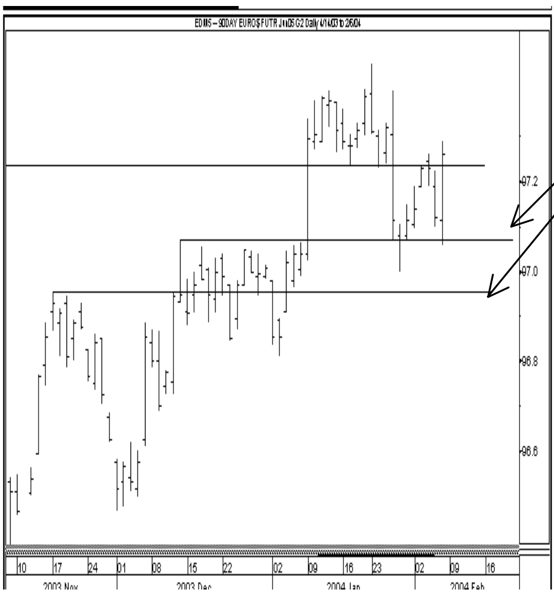
DAY BAR CHART: A number of lines of support are important: the horizontals from the old highs at 98.59, 98.48, and then, the rising diagonal from the low in early August 2003 (strongly established at four points) which lies beneath the market at 98.36 or so.

The further out months: June 2005



WEEK BAR CHART: The long run pattern of the market is unclear.

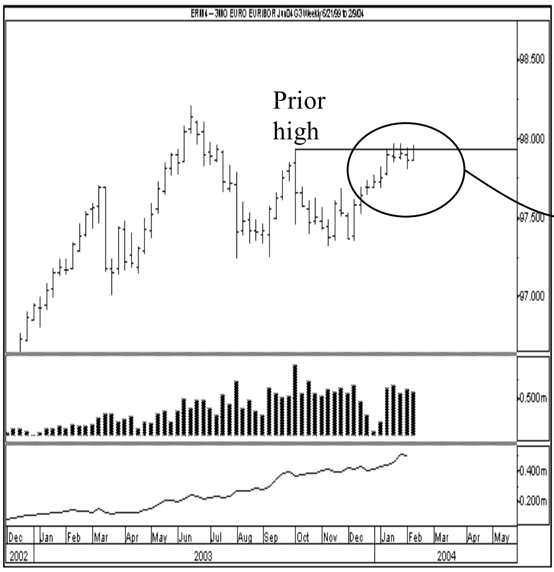
The market has striven to get above the old high of 97.23, but <u>failed</u>.



DAY BAR CHART: The levels of support are clear enough: 97.07 and 96.96.

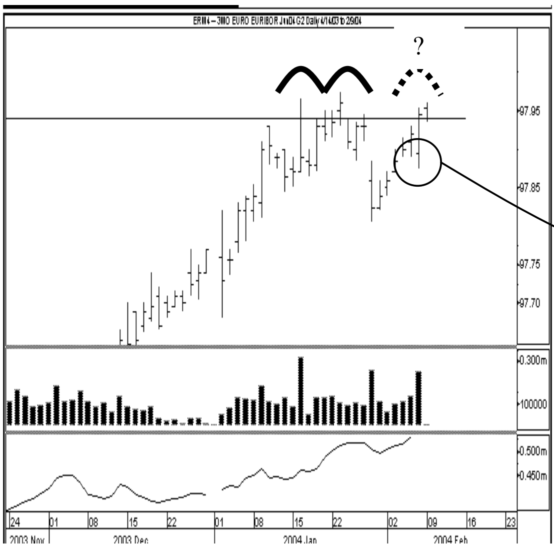
The Euribor.

I was cautiously optimistic last week I thought that the market would rise, but not necessarily quickly. But it did in the event, and now feels bullishly on track, in line with my stance over the last month with the long end of the futures curve leading the way. Having retraced so fast, there may be consolidation, but it's in good fettle, the longs are in charge.



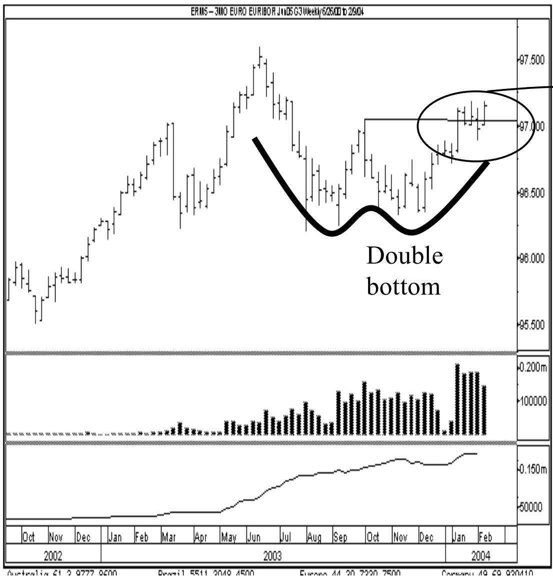
WEEK BAR CHART: CHANGE OF CONTRACT: JUNE 2004
The market appears to be struggling to get through the prior high of 97.94.

Bulls will be desperate to see that happen, because that would complete a double bottom and send the market a good deal higher.



DAY BAR CHART: And, indeed the price action around that high is spiky and unstructured for sure…a triple failure to get and stay above 97.94 would greatly encourage the bears…. Watch carefully for any sign of the market faltering from here and dropping back, say beneath 97.87.

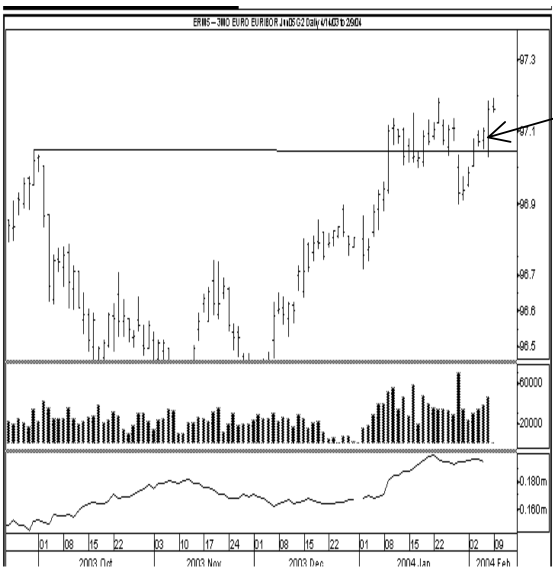
The further out months: June 2005



WEEK BAR CHART: This then is where the true hopes of the bulls reside.

The clear and unambiguous break up through the old high of 97.05 has meant the completion of a Double Bottom and set the market up for repeated moves up to a minimum target of 97.83!

The market looks very good.

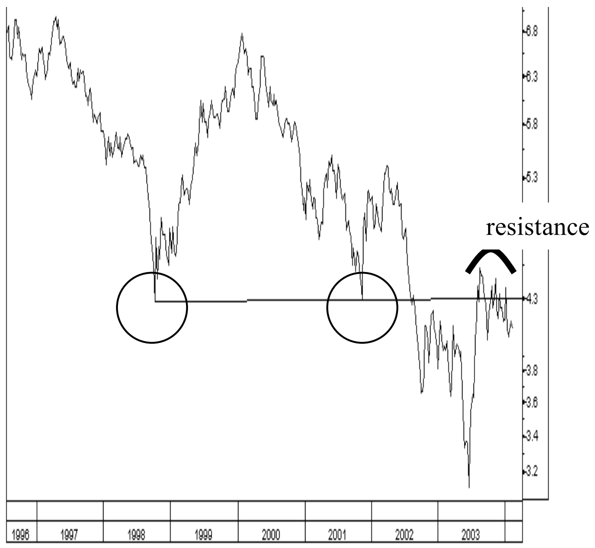


DAY BAR CHART: The detailed price action is <u>less clear</u>: bulls will certainly be excited by the outside day of Friday last, but suspect that more consolidation around these levels will be required before the market can move on unambiguously.

The US Treasury Note

I suggested standing aside and that was good advice.

For though the market traded better on the week, it was a volatile ride. Aggressive bulls may want to trade the support in the futures chart, but I prefer to wait for confirming evidence of completed patterns in the yield charts <u>as well</u> before joining in.

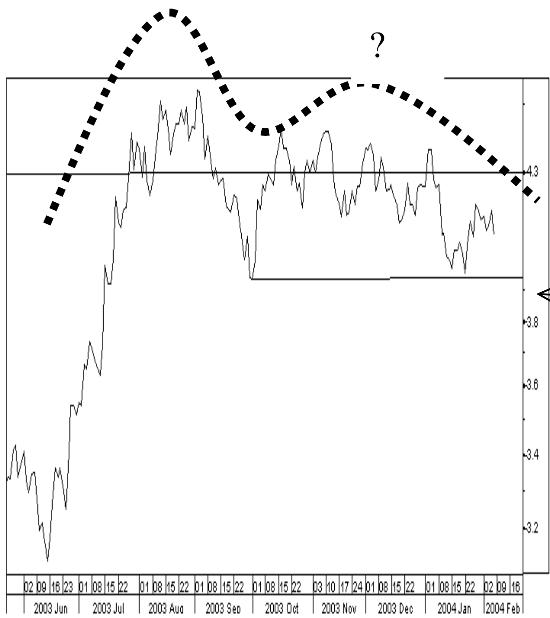


WEEK CASH YIELD CHART: The long-term yield chart of the Ten Year Note emphasizes the importance of the 4.3% yield.

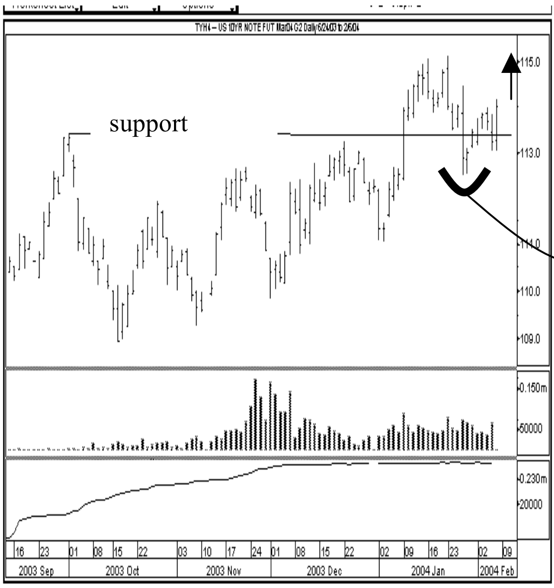
See the way the market has retraced back to that level and clearly found resistance.

The oscillation over the last five months shows the market fighting with that resistance.

Will the detail reveal a pattern within that consolidation?



DAY CASH YIELD CHART: The market needs to break down beneath the low at 3.93 before any sort of top can be said to have formed…

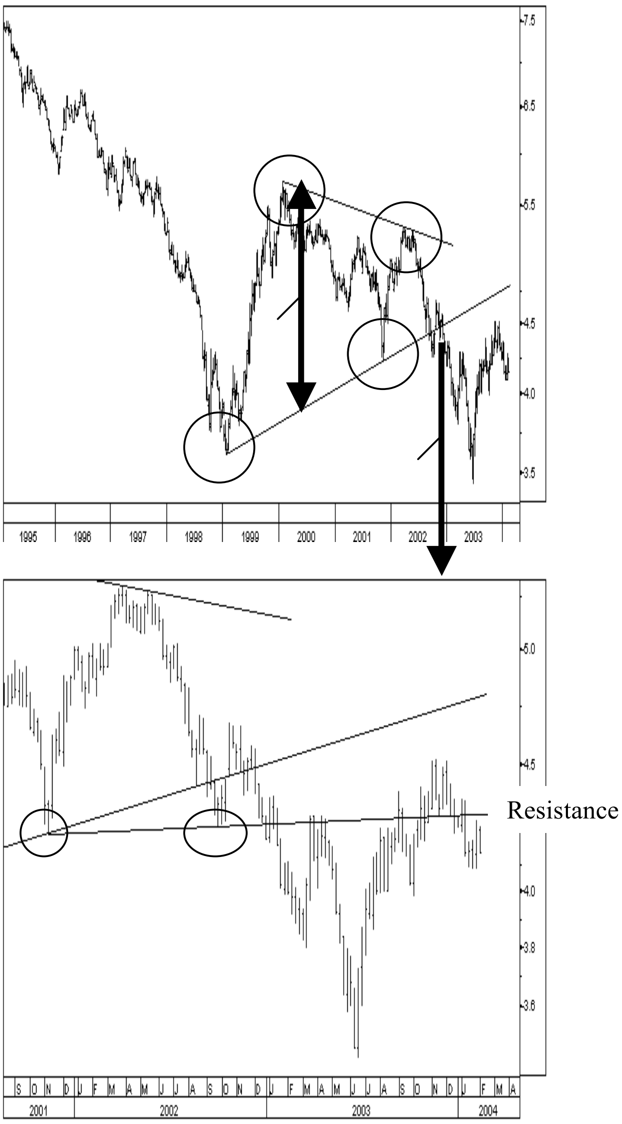


DAY FUTURES BAR CHART: This suggests <u>much more clearly</u> that the market wants to go higher in price terms (and thus lower in yield terms)

The support in the futures charts at 113-13 has held in well – surviving two attempts to push down beneath - it looks well-set.

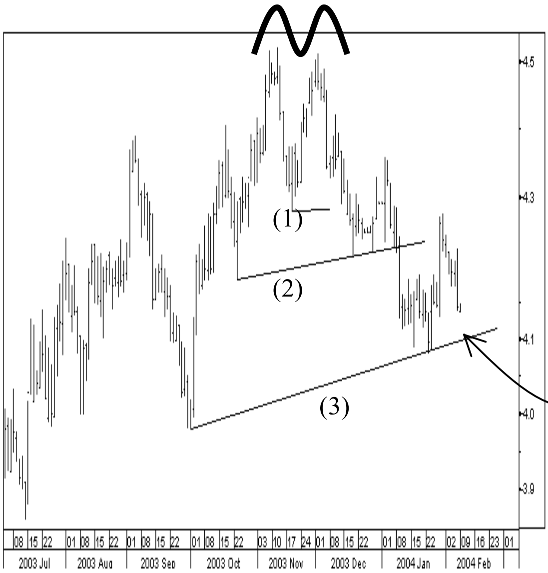
The Bund

I did say last week "there is a strong case for this being a good place to buy in the yield charts" So it proved. But now, though it still looks good, bulls should demand good price action from the market (in both the yield and price charts) before adding on. Watch my levels carefully.



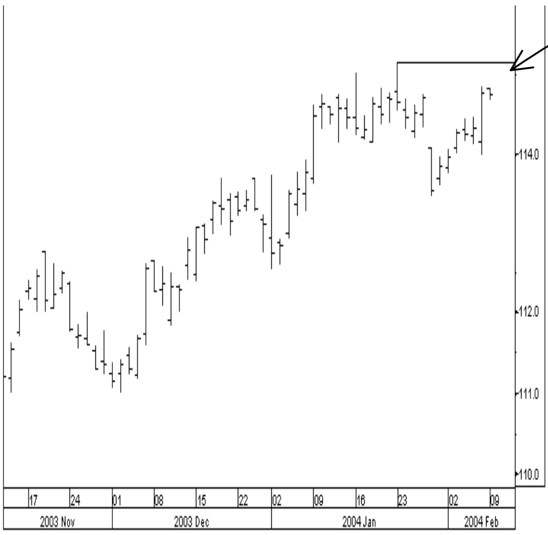
MONTHLY CASH YIELD CHART: The massive continuation triangle in the yield chart encourages the bulls that the long-term trend is for lower rates.

WEEK BAR YIELD CHART: Close inspection of the price action beneath the triangle suggests there is some resistance from the lows in 2001 and 2002 (despite some penetration at the end of 2003) …



DAY BAR YIELD CHART: This detail is very encouraging for the yield bears (price bulls).

Starting with (1) a small Double Top, there follows a succession of nested Head and Shoulders (2) and possibly (3) – watch carefully for a break down through the possible neckline at 4.098% - that would surely set the course of higher price and lower yields…



DAY YIELD BAR CHART: The corollary of that critical level in the cash yield chart would be a push in the futures market through the prior high at 115.17.

Watch carefully for that to happen.

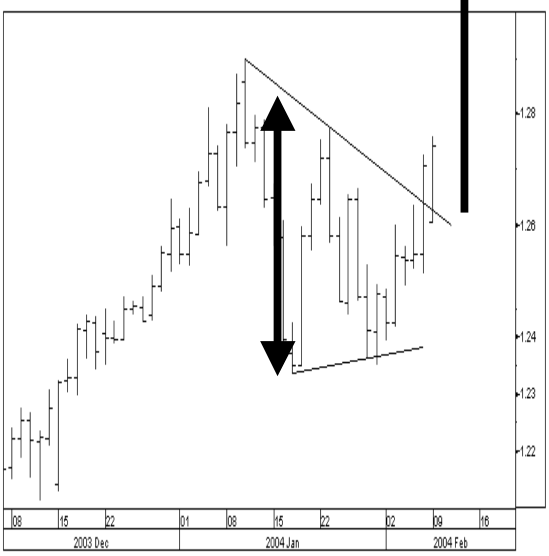
THE CURRENCIES.

Last week the Dollar had consolidated. I pointed out the possibilities saying, "stand back and watch closely" Then the break of the triangle happened at 1.27 in the $/Euro and 1.85 or so in Cable. The Dollar's off again. If already short add on; if not, start now.

Dollar Euro

WEEK CASH SPOT CHART: This extraordinary trend, whose only near support of importance is way beneath current levels at 1.20 or so, has paused over the last five weeks.

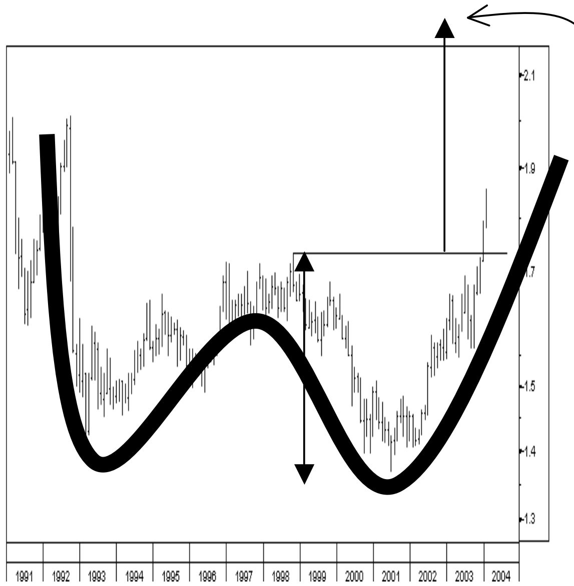
What can the detail add to this?



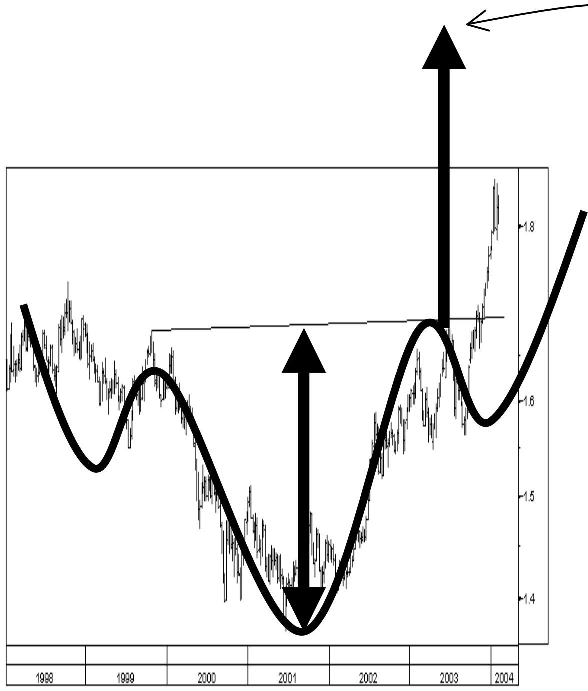
DAY CASH SPOT CHART: There never was a clearer continuation triangle. It's minimum target is easily measured….

1.3325.

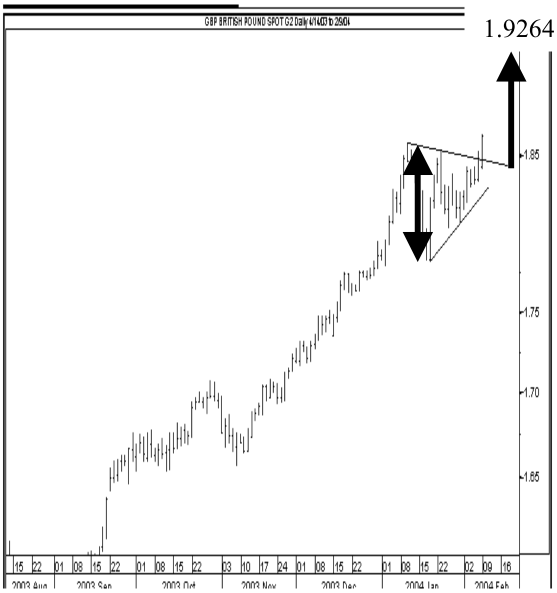
The Cable



MONTHLY CASH SPOT CHART: My Cable enthusiasm rests on the clarity of the very long-term chart – which reveals a Double Bottom. Whose target is 2.0880.



WEEK CASH SPOT BAR CHART: And the week chart reveals a large Head and Shoulder bottom, whose target is 2.08 or so.



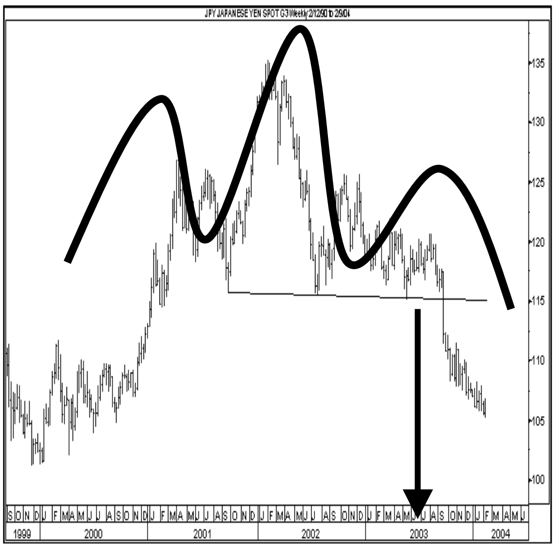
DAY SPOT CHART: The market for the last few months has been largely featureless for the lat few months except for the triangle developed recently which has just completed.

The target for the triangle?

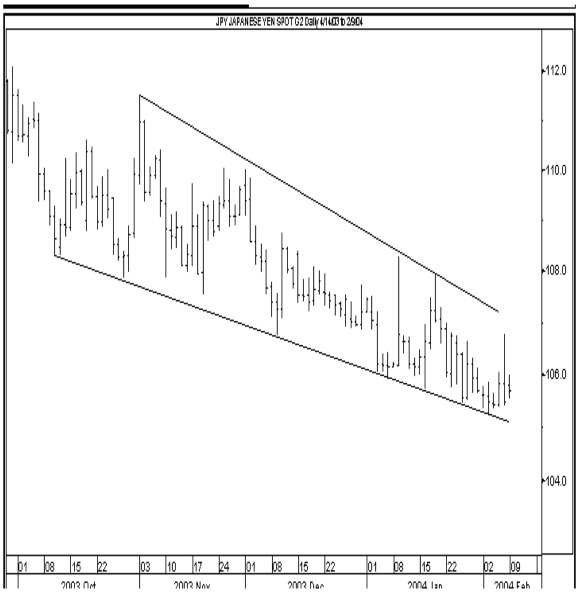
1.9264.

Buy whilst stocks last.

Dollar Japan



MONTHLY CASH SPOT CHART: The large top formation that is driving the Dollar down.
The target: 95.84.

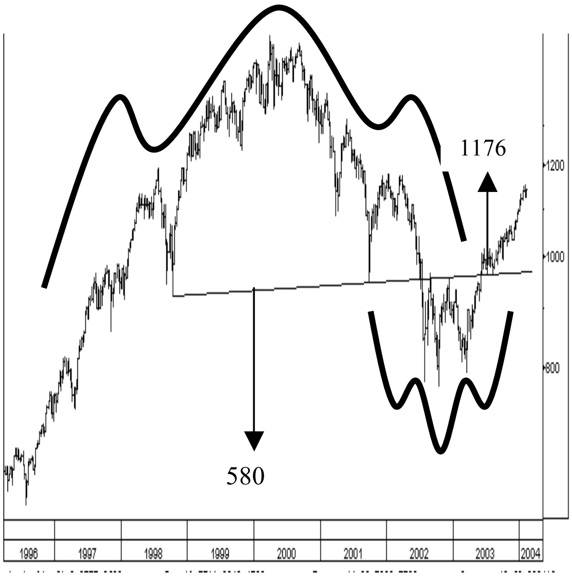


DAY CASH SPOT CHART: This is altogether <u>less clear</u>. The falling wedge is certainly clearly defined, but is really just a channel of consolidation, embracing the bear drift, without much predictive value.

EQUITIES

For a number of weeks now I have been pointing out the weakness in the Nikkei. It is clearly the best short. It looks likely to go lower in both the short and medium term. So too does the DJ Stoxx 50 look vulnerable, but wait for my levels to be broken. The S&P is consolidating, but here is no clear bear pattern forming yet.

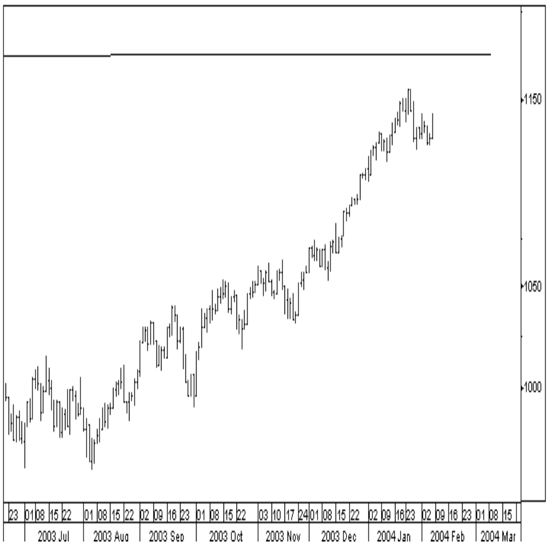
The Standard and Poors Index.



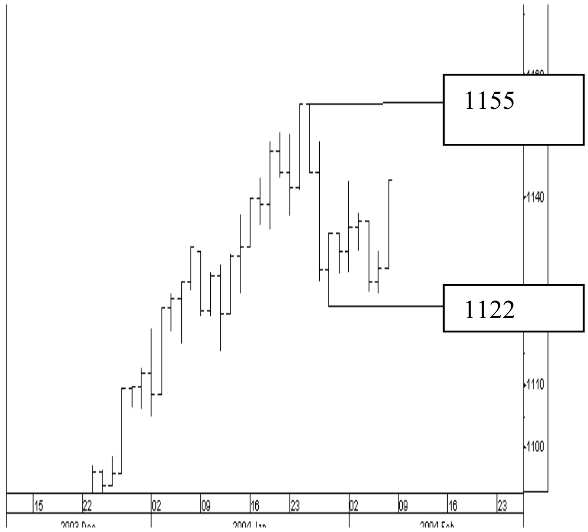
MONTHLY CASH INDEX BAR CHART: The big picture: a massive H&S top that wants to drive the market down (to 580), a smaller H&S bottom that wants to drive the market better (to 1176)

The smaller pattern's target has almost been fulfilled.

<u>If</u> it were to go further than 1176, then the bears would feel their case smashed, because that would take the market through the top of the second shoulder, a level which, it is sometimes argued, no retracement should exceed if the major bear pattern is to retain credibility… is it going to do that?



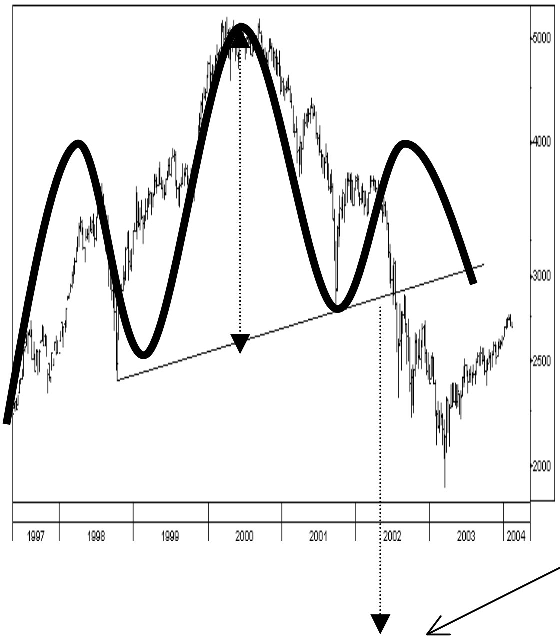
WEEK INDEX BAR CHART: The trouble is, more detailed we go, the more we find that the market is rather <u>featureless</u> – so strong and unremitting has been the bull move, until the very last few weeks…



DAY INDEX BAR CHART: Here's the consolidation over the last few days, but it's not a clear pattern of any sort, so we are forced to wait for a break of either of the boundaries: 1155.37 on the upside and 1122.38 on the downside.

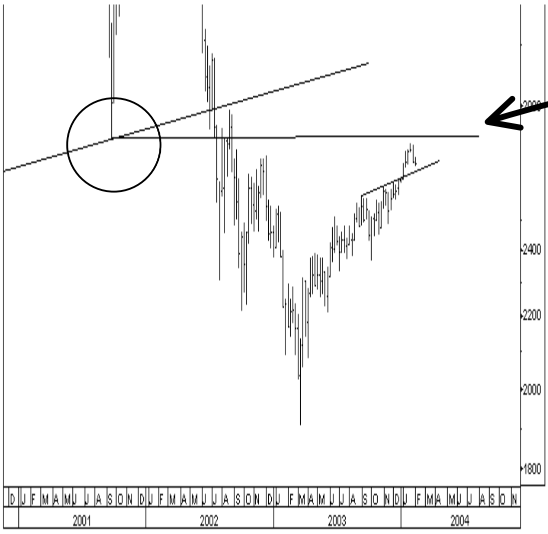
The STOXX 50

The top fifty blue chip European stocks

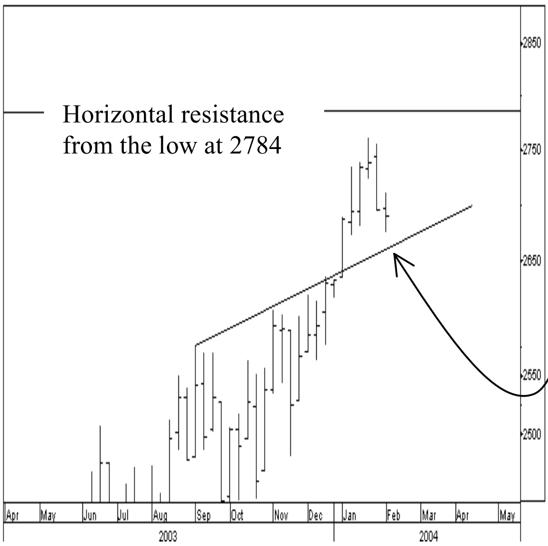


Target
1451

WEEK SPOT BAR CHART: There's no doubt that the massive top formation is pressing down on the market – it has a minimum target of **1451.**

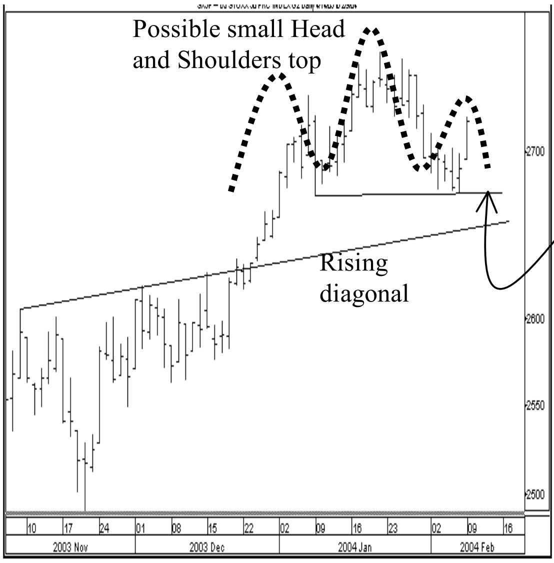


WEEK SPOT BAR CHART: The horizontal from the old low at 2784 lies just above the market and should prove to be good resistance …



DAY SPOT BAR CHART: In any event, the market has faltered just before the resistance…there may be some support at the diagonal 2660…

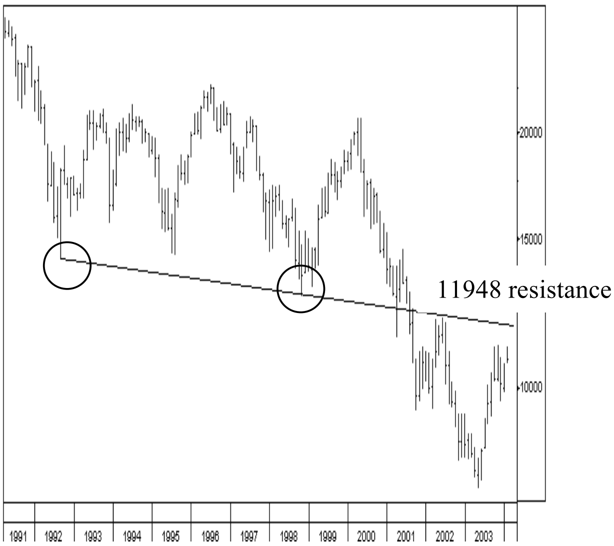
Will the market get there?



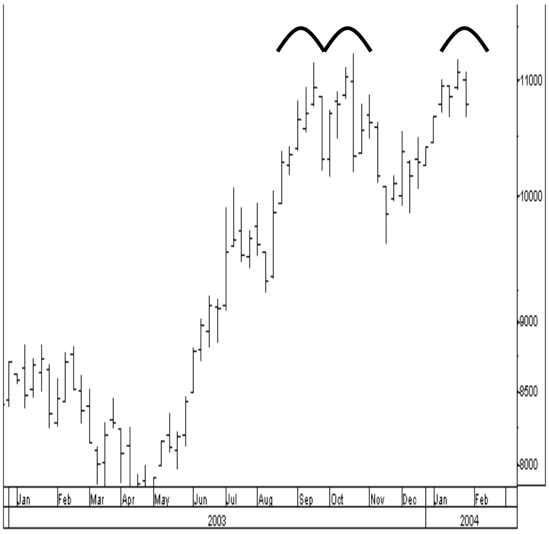
DAY SPOT BAR CHART: Possibly, but the prerequisite is pushing down through the possible neckline at 2675 – that would complete a small Head and Shoulders top that would certainly test the rising diagonal and may be further bear moves besides….

Watch the market carefully.

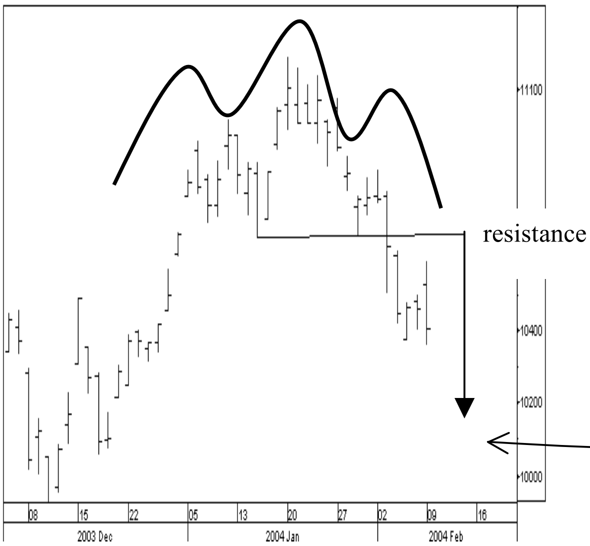
The Nikkei 225



MONTHLY SPOT BAR CHART: The massive overhead resistance of the Nikkei – the falling diagonal currently at 11948 or so.



WEEK SPOT BAR CHART: The triple failure at the 11200 level… a good bearish piece of evidence



DAY SPOT BAR CHART: Here, too, is good bear evidence: a small completed H&S top, whose neckline at 10677 is now good overhead resistance, the whole pattern set to drive the market down to **10145**.