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The Week Ahead

A technical perspective for 22nd - 29th March 2004

Bear doubts grow in Western Stocks

Bonds set to go further

Euribor set for lower rates.

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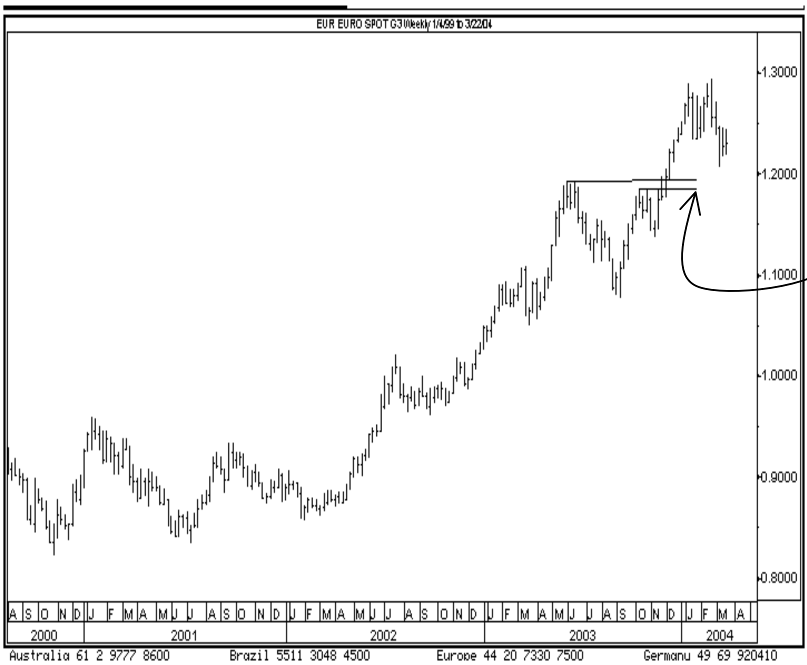
THE CURRENCIES

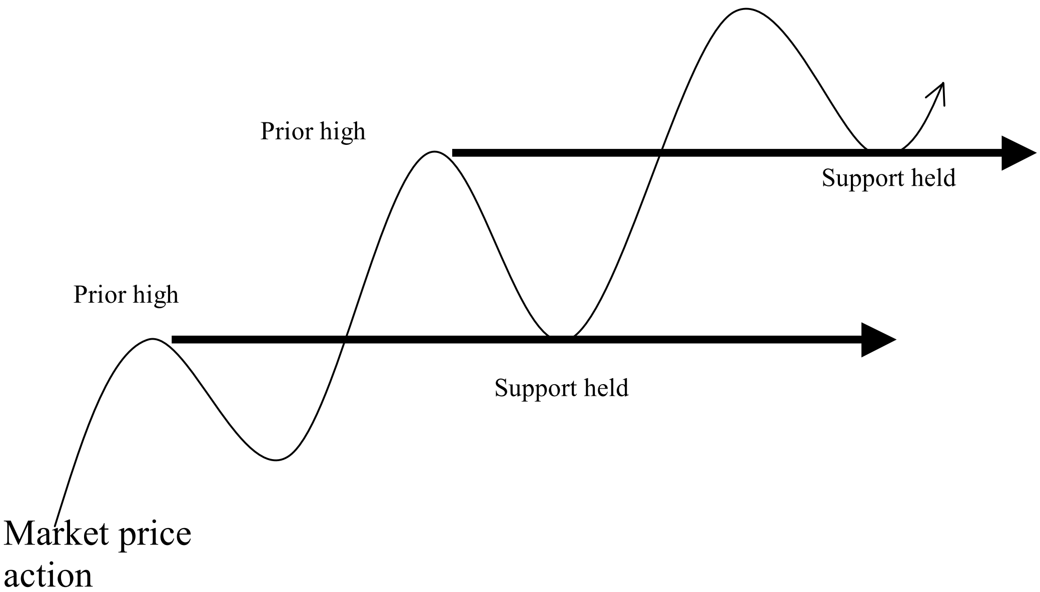
Three weeks ago the Dollar had paused in its slide and I was uncertain about the short term prospects, but remained convinced that in the medium and longer term the Dollar was still a sell. My favoured buy against it was the Pound. The subsequent price action has borne out my stance completely. The Dollar has strengthened but least of all against the Pound – the Cable rate is almost unchanged.. There is no strong evidence of a top formation in place – nor indeed of a bottom formation. The period of consolidation continues.

Dollar Euro.

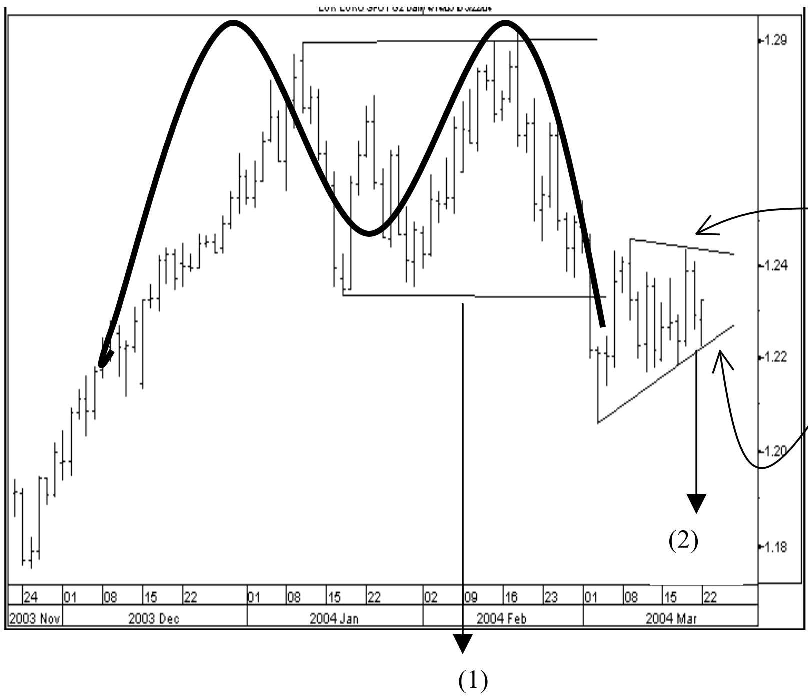


MONTH CASH SPOT CHART: The long bull run has paused and begun to pull back towards the first major support at the 1.19 level.

The market behaviour at that level will be the test of the bears' ambitions – only a break of that level will throw doubt on the integrity of the bull trend.



Trending markets are characterized by the strength of the horizontal support from prior market highs in a bull trend (or the horizontal resistance from the prior market lows in a bear market)
But note too, that if the support is broken <u>that only means that particular trend is broken</u>. There is no presumption of bearishness until **<u>either</u>** a bear trend is in place (established by the inability of the market to break back up through previous lows) **<u>or</u>** a reversal pattern has been completed such as a Head and Shoulder Top or a Double Top and so on.



WEEK CASH BAR CHART: I think there is a top formation here – a complex Double Top - it has completed, but then consolidated around the breakout level – into a continuation triangle.

Bears will be watching carefully for a break of the triangle – a push down through 1.2220 or so.

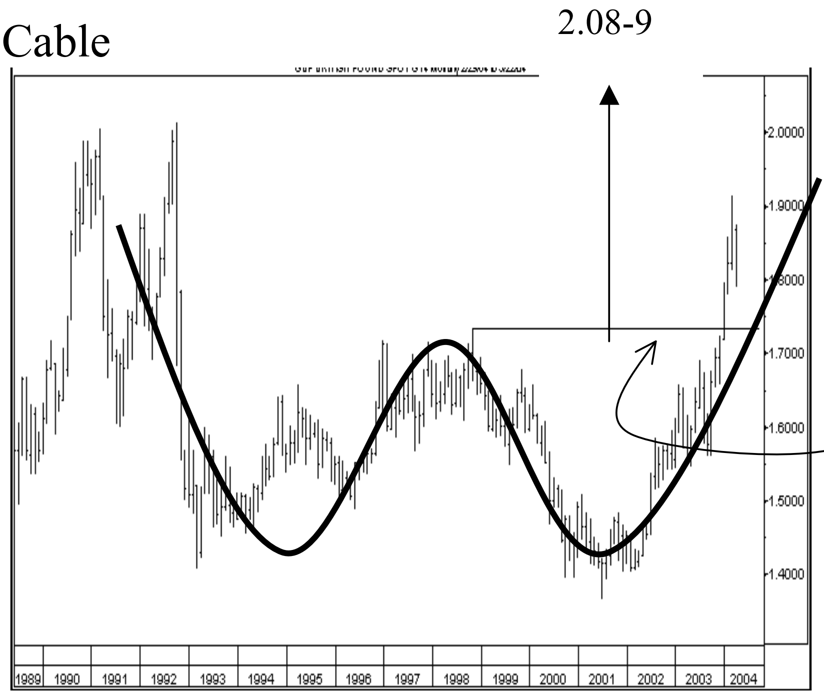
Then **two** measurable targets would be in place:

(1) The Double Top suggests a move to 1.1771.

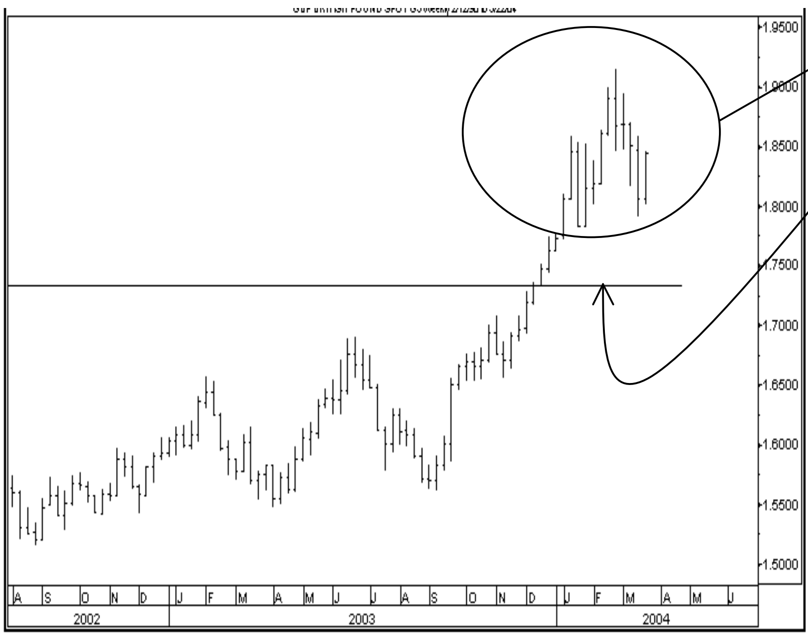
(2) The Continuation Triangle suggests a move to 1.1941.

The Double Top certainly suggests a severe test of the Major Support at 1.19, but bearing in mind the scale and depth of the support around that level, a penetration down to 1.1771 or so , if not sustained, could still be consistent with an intact Bull Trend.

Cable

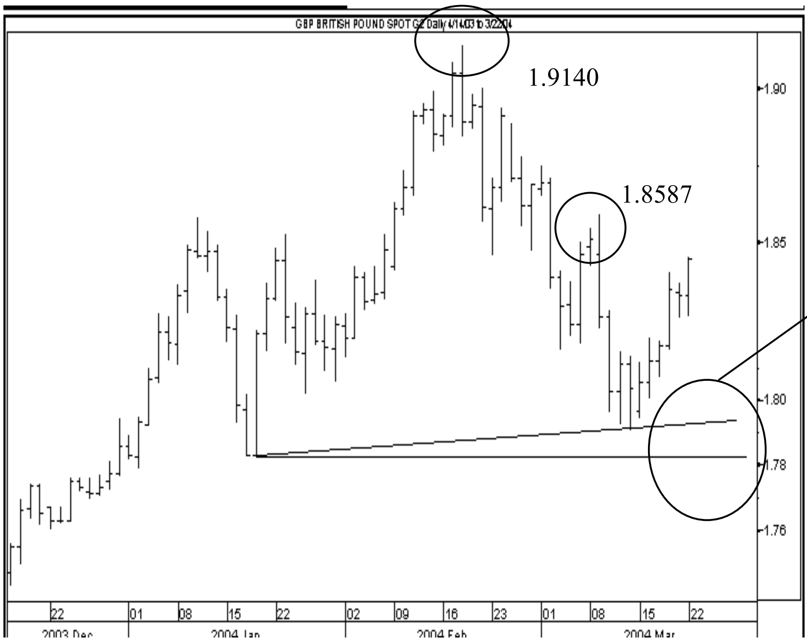


MONTH SPOT BAR CHART: The long run chart is still thrilling sight to the chartist: a massive Double Bottom (completed when the market pushed through the horizontal from the high at 1.7345) whose measurable target is 2.08-9.



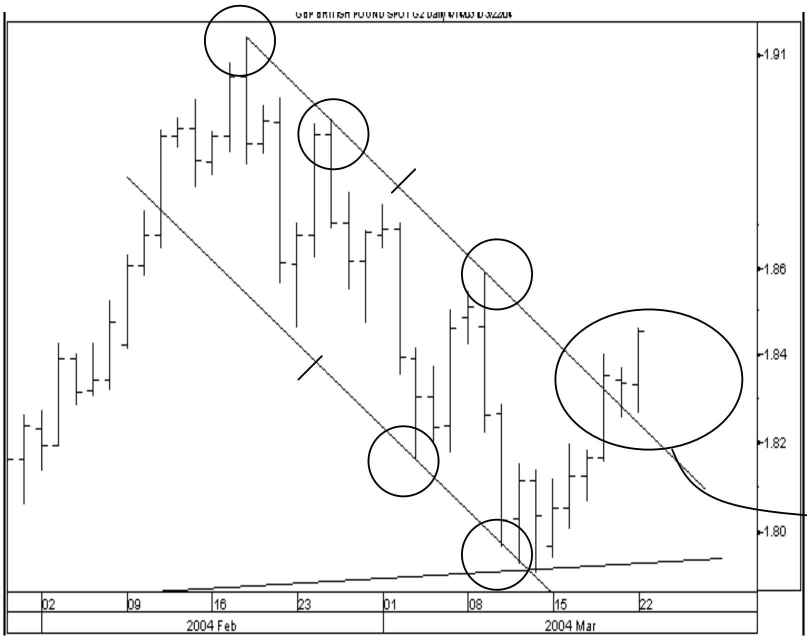
WEEK SPOT BAR CHART: But the market has paused , and then begun to drift back.

The only substantial support is the original break out level of 1.7345. Still some way beneath the market.



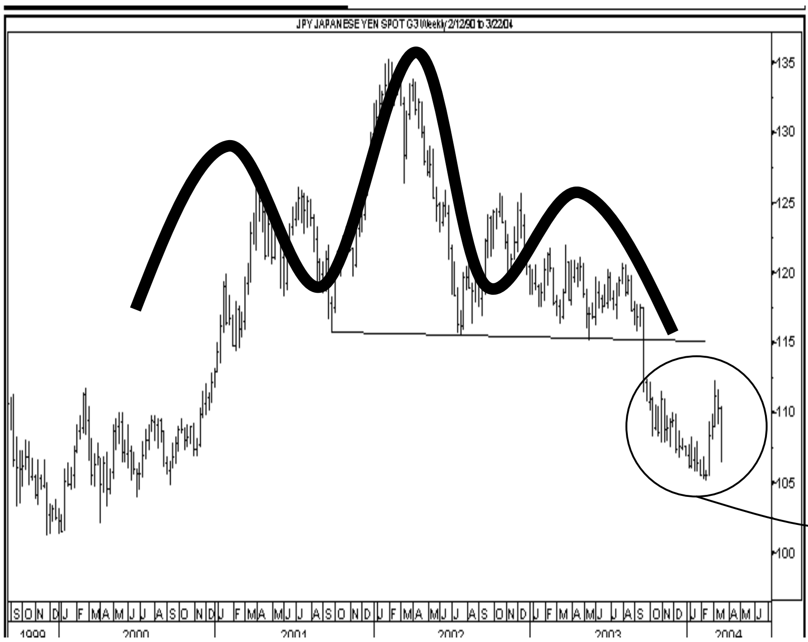
DAY SPOT CHART: The day chart is intriguing. Having bounced twice from the 1.78-80 level there is the suspicion of a Head and Shoulders Top in the making – but that is purely speculative at the moment. Only a break down through that band would trigger that pattern – and would certainly establish good overhead support and drive the market on down a good deal lower.

The bull move over the last few days needs to be sustained to push through the old high at 1.8587 to excite the bulls I feel – and indeed perhaps only a push back through the absolute high at 1.9140 would really encourage them to add onto their positions. Their confidence in the short term strength of the market will have been severely dented by the failure of the market to bounce off the horizontal from the old highs at 1.8523 and 1.8580.



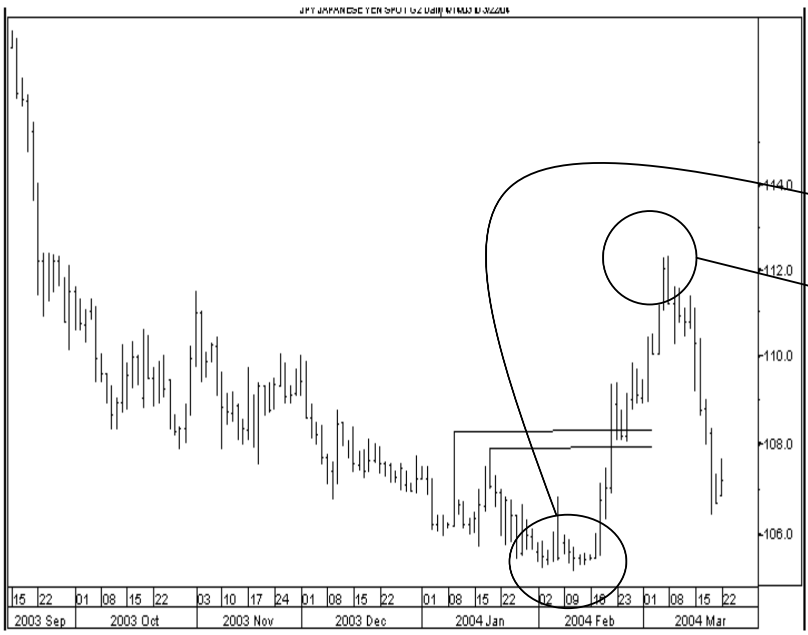
DAY SPOT CHART; The precisely defined and perfectly aligned diagonals of this bear channel do add to its importance, and add to the bulls enthusiasm due to the break out of the last tree trading days…

Dollar Japan



WEEK SPOT CHART: The massive bear Head and Shoulders formation is still in place and set to drive the market lower to 96 or so.

The fierce bear moves after the completion of the pattern have been retraced somewhat recently and then in turn the retracement has been quickly reversed inline with the long term bearishness.



DAY SPOT CHART: The detail of the violent recent oscillations: there is no clear shorter term pattern in place here, only a push through the recent absolute low would lead Bears to add on.

Bulls should wait for a push through the high at 112.34 that would signal a renewed attempt to retrace higher.

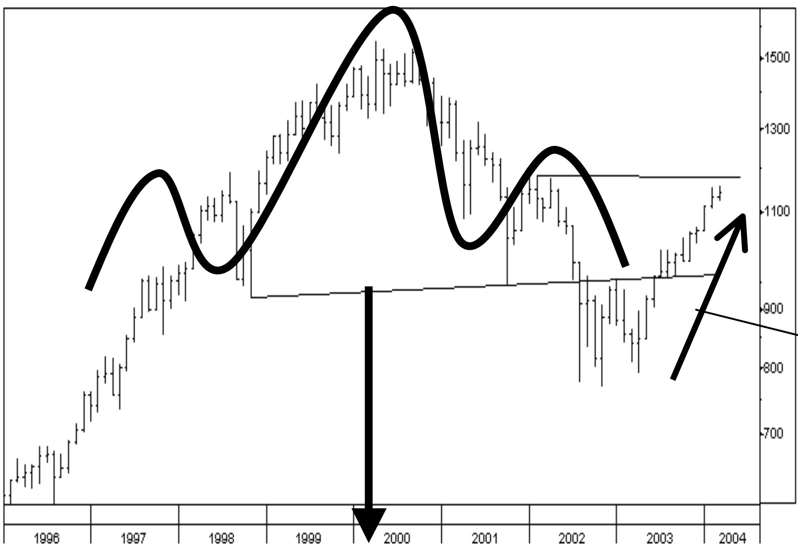
STOCKS

Three weeks ago I wrote : <u>"markets remain at tantalizing levels all around the World… the market is on a cusp. I do not believe this is an equilibrium level."</u>

That has proved to be absolutely correct. European and US markets have fallen about 6%. Small patterns are in place – and the bear case is building especially in the S&P. On the other hand, the Nikkei is has moved <u>up</u> 2.5% over the same period. It has completed a major bull pattern and looks very well set.

Can these markets diverge further? It seems likely.

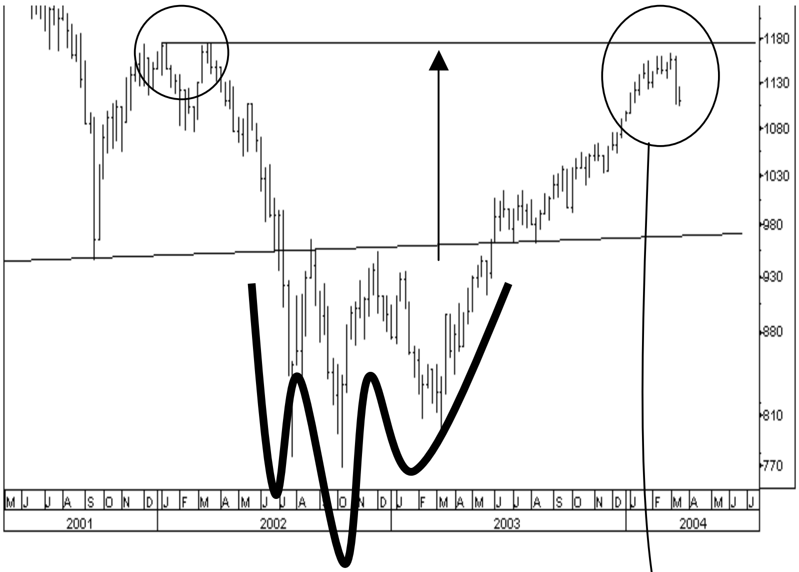
The S&P Index.



MONTH CASH INDEX CHART: The very long term pattern in the S&P chart has been striking: a massive Bear Head and Shoulders Top formation (whose eventual target is 580 or so).

Having completed in mid 2002 the market then consolidated and retraced back through the neckline.
I have long argued that this re-penetration was consistent with the long run bear pattern so long as the retracement didn't go higher than the second shoulder at 1174.

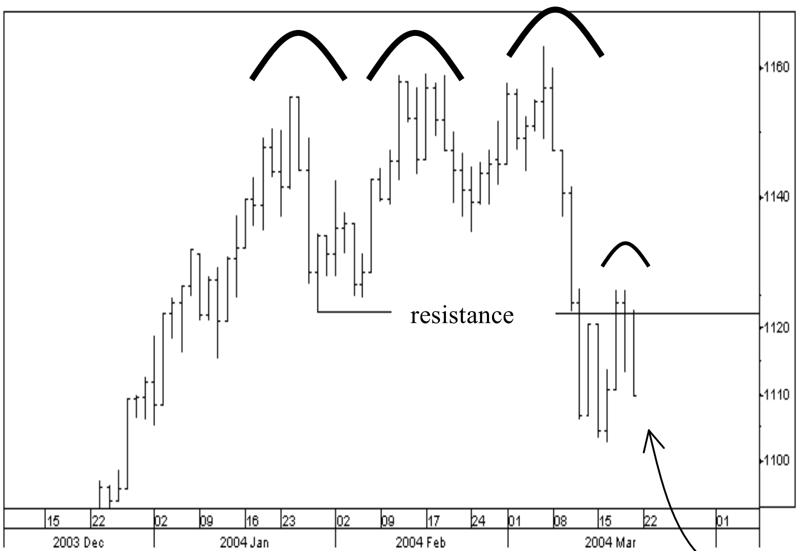
So far that hasn't happened.



WEEK CASH INDEX :The engine of the retracement has been a smaller but powerful Head and Shoulders pattern whose minimum target is 1174 – exactly the same level as the height of the larger H&S pattern 's second shoulder.

This coincidence of levels is important, as is the clear failure of the market – so far - to more closely approach that level.

The bulls would be greatly encouraged on a break through 1174. Equally, the bears should be excited while that level remains intact.

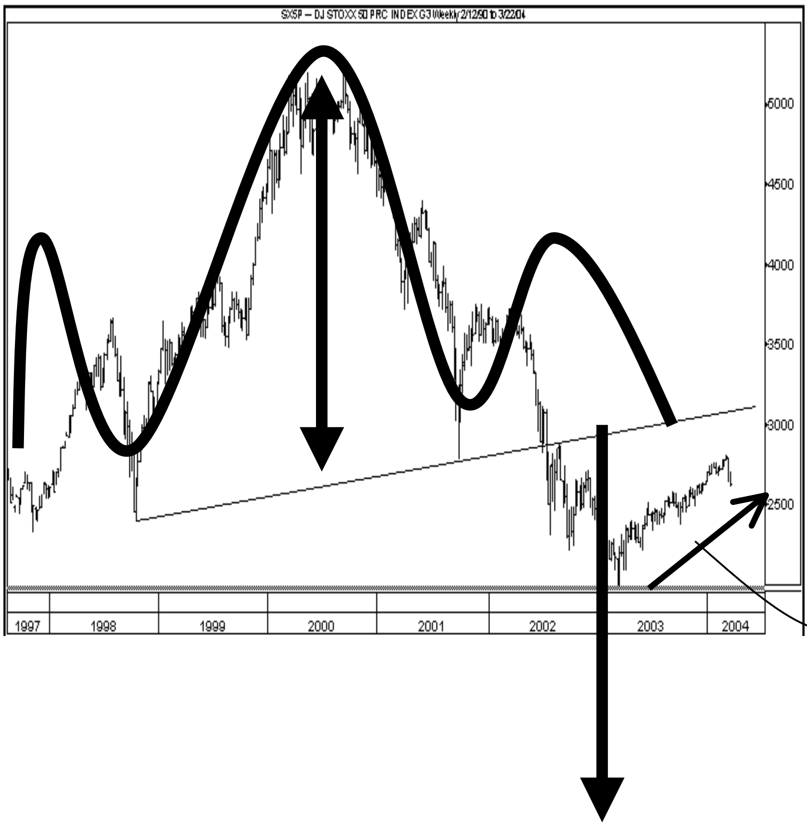


DAY CASH INDEX: The clear triple failure to push through the 1160 level has led to weakness, and a push down through the low at 1122.

Although I see no clear top pattern in place – neither a Triple Top nor, really, a Double Top - some small but significant overhead resistance has been established – the bears will be encouraged by the market's difficulty in getting back above that level.

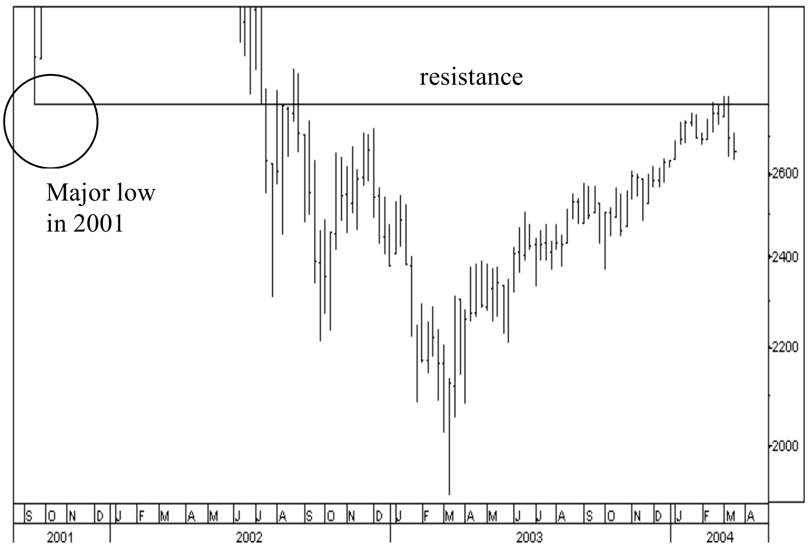
It looks weak in the very short term.

The European Stoxx 50

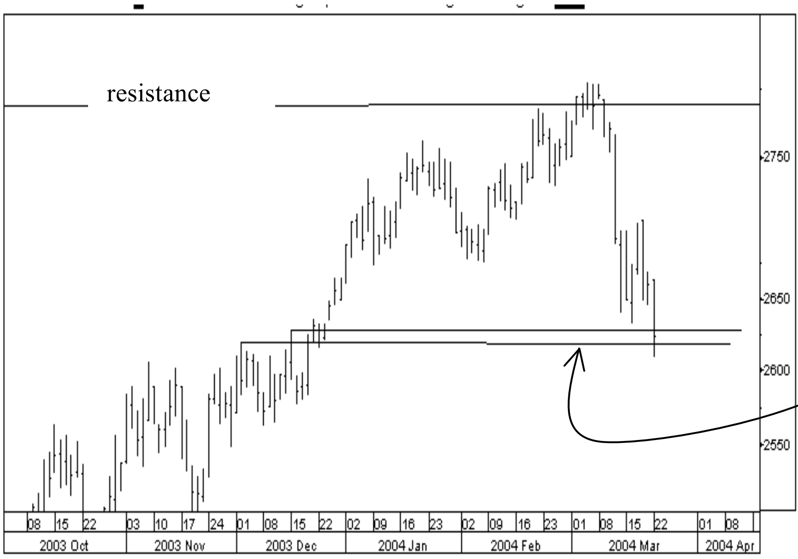


WEEK CASH INDEX BAR CHART: Again a massive Head and Shoulder formation – whose target is 1425 or so.

Over the last year there has been a retracement as with all markets, but unlike the S&P there has been no repenetration through he neckline of the major bear pattern.



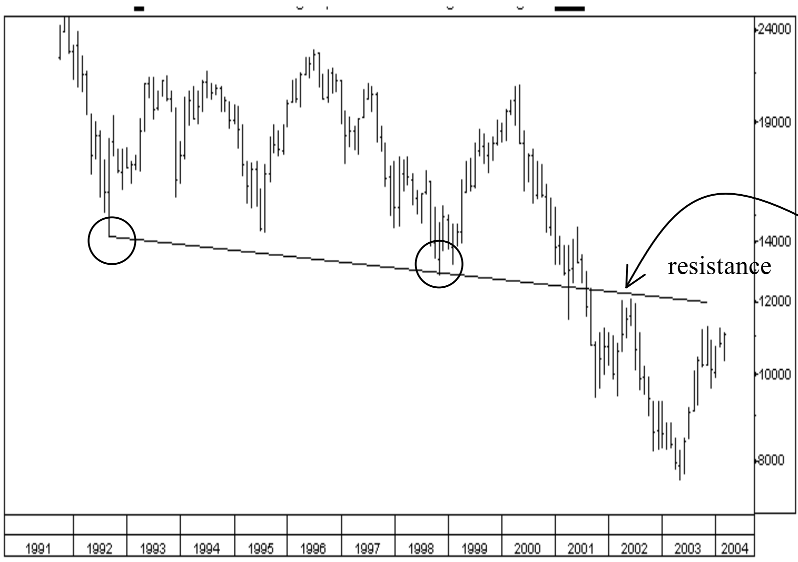
WEEK CASH INDEX BAR CHART: The horizontal s resistance from the old low at 2784 has so far halted the retracement.



DAY CASH INDEX BAR CHART: The day chart of the Stoxx price action shows the market falling back from 2784 to the clear level of support from the highs at 2618-2628 or so.

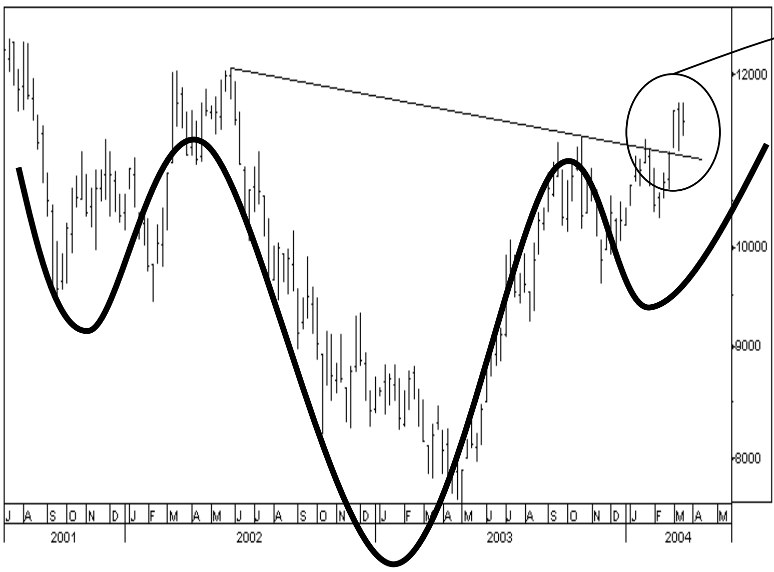
I see no clear pattern in force here, but a break of the support would encourage the bears….watch and wait for a break of either extremity of the trading range.

The Japanese Nikkei 225

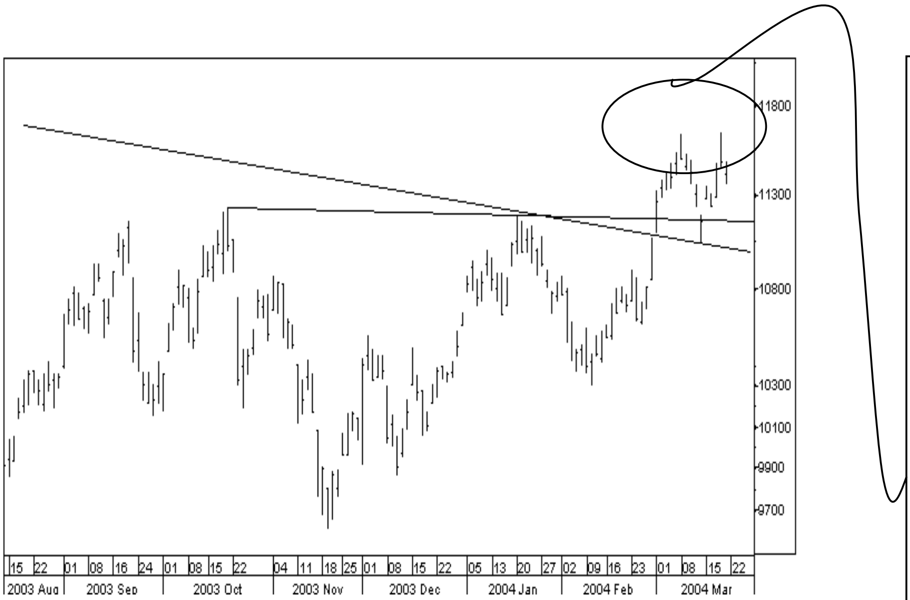


MONTHLY CASH INDEX BAR CHART: The market has been approaching the massive overhead resistance drawn from the major lows in 1992 and 1998 – lying above the market at 11957 or so.

It has failed to break back through that resistance once before …



WEEK CASH INDEX BAR CHART: But might this be a Head and Shoulders bottom? The bulls will have been very excited by this – and I think rightly so. The target suggests a push back through the long run resistance and a move up as far as 16700 or so.



DAY CASH INDEX BAR CHART: The price action around the neckline has in itself many of the characteristics of a small Head Shoulder pattern.

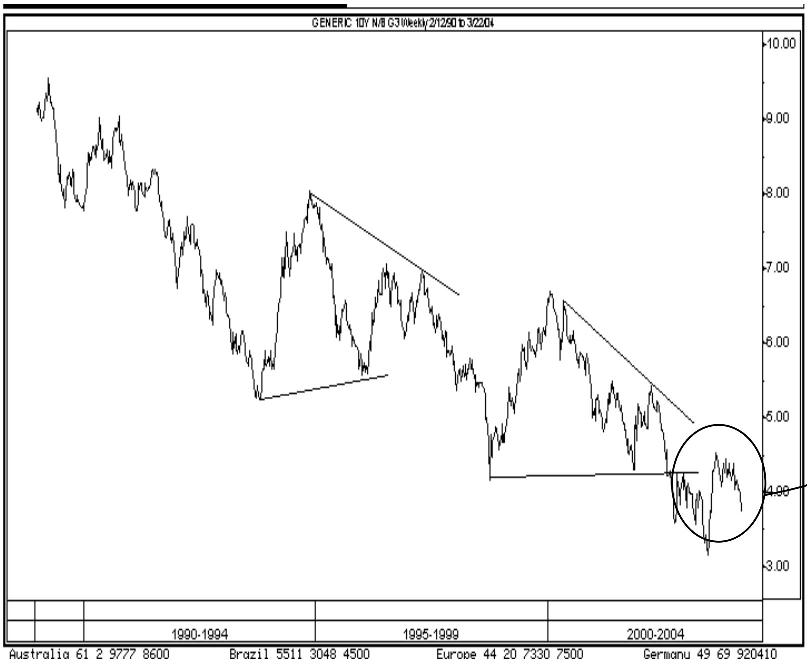
The co-incident breakthrough suffered a pull back but it was quickly reversed.

The market is well set up. Reluctant bulls should wait for a break of the near highs at 11655 or so. But it looks good anyway.

BONDS

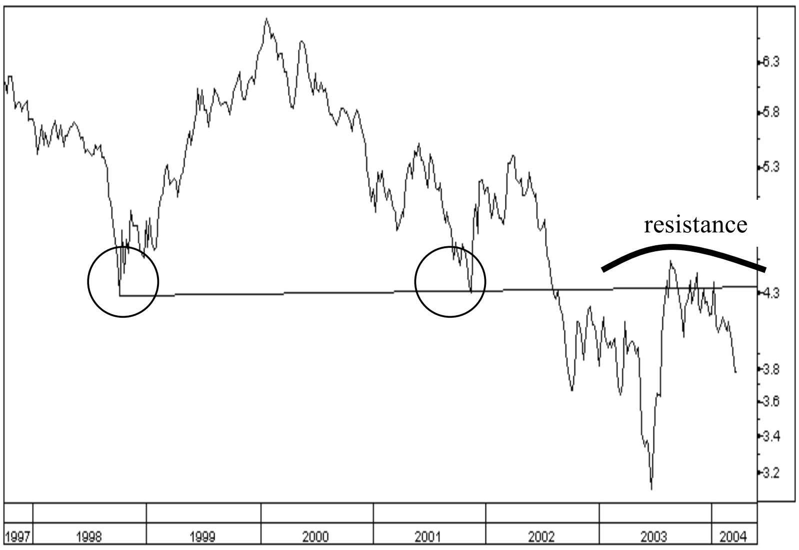
I have been bullish of the market for a good while now – especially the Bunds – over the last three weeks there has been a strong move with more likely in the near term. The long run target yield is a long way away.

The US Treasury Bond

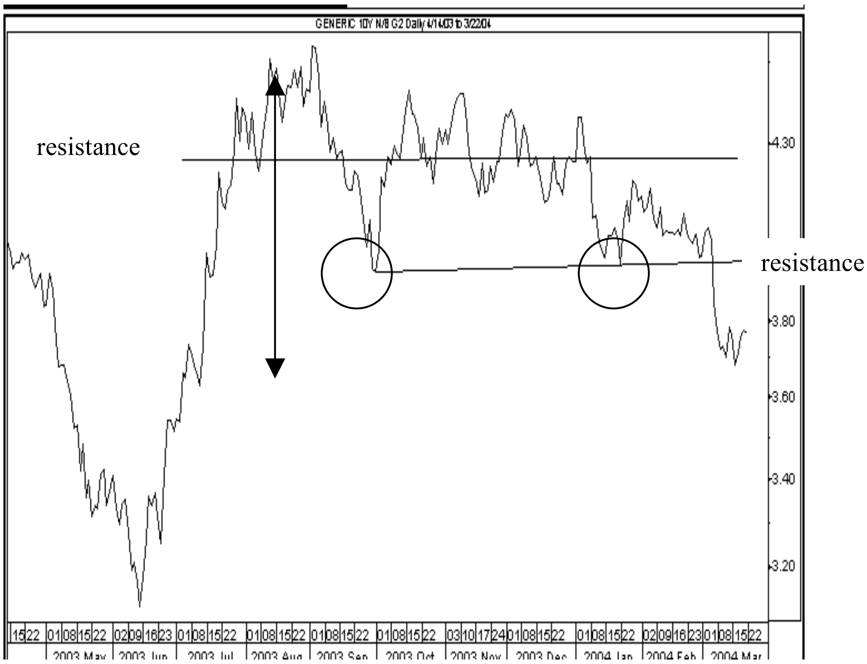


MONTHLY CASH YIELD CHART The succession of triangles driving yields lower in the US treasury market.

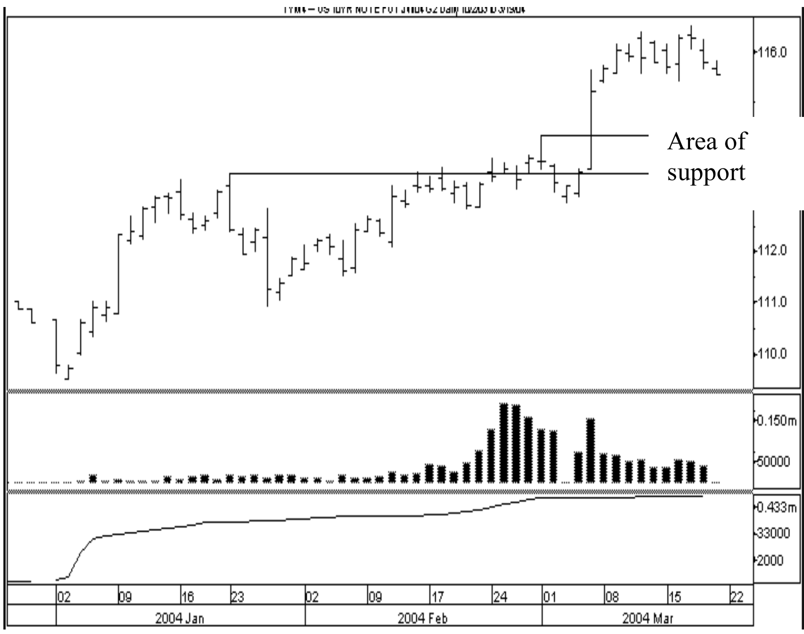
Note well how the lower diagonal of the last triangle has been good resistance to the recent drive for lower yields…



MONTHLY CASH YIELD CHART: The detail of the market failure to drive for higher yields….



WEEK CASH YIELD CHART: The market has no clear top formation in place, but having broken down through the diagonal from the twin lows around 3.94%, there is now powerful resistance above the market preventing a move to higher yields…. forcing yields lower still.



JUNE FUTURES DAY CHART: The market has ratcheted better with no clear bull pattern driving the trend, but there is now good support beneath around the 114.00 on any setback.

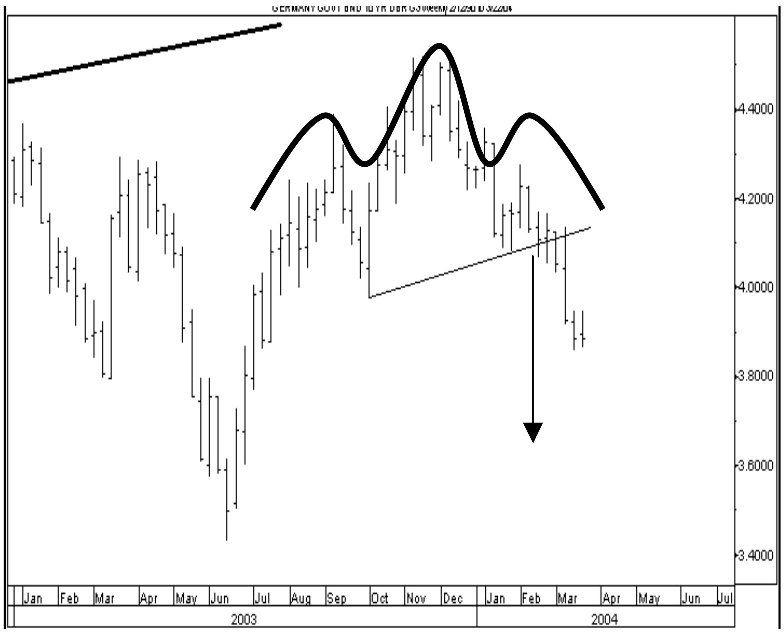
The bulls will feel secure.

The Bund

MONTHLY CASH YIELD CHART: The long term yield chart of the German bund is dominated by a massive completed bear continuation triangle that looks set to drive yields down to 1.91% MINIMUM.

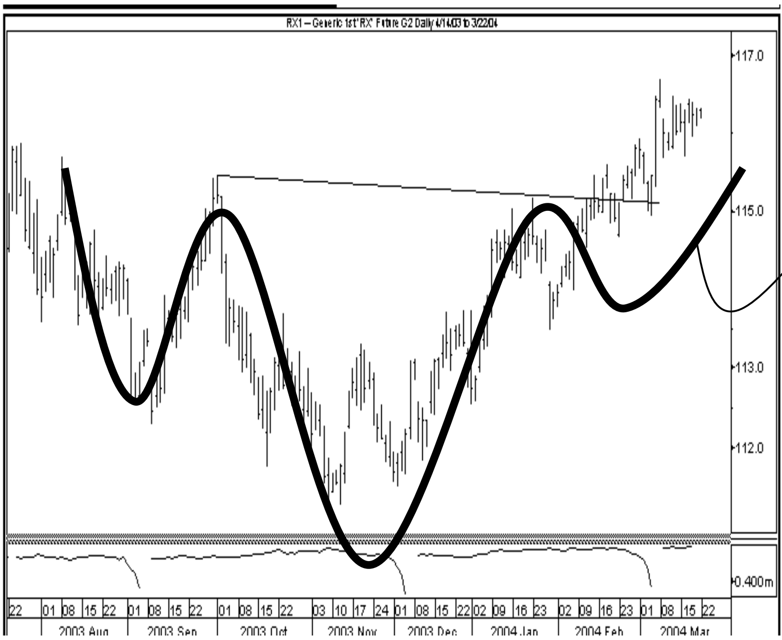
Note well the attempted retracement back to the bottom of the triangle – and the clear inability of the market to overcome the resistance there.

The bears look totally in charge – lower yields are coming.

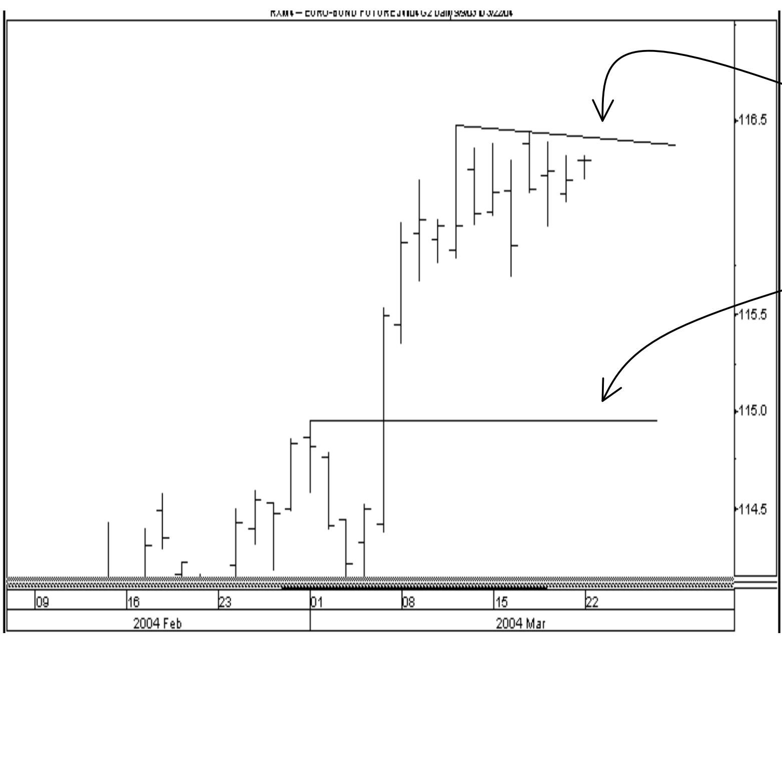


WEEK CASH YIELD CHART: Here are clear short term reasons to be bearish as well: note the completed Head and Shoulder top in the day yield chart.
The minimum target of the pattern?
3.75%

The yield bears (price bulls, of course) are in charge.



CONTINUATION FUTURES WEEK CHART: The futures market shows the mirror image of the yield chart.
There is a clear (if complex and untidy) Head and Shoulders bottom in place suggesting moves to 119 or so.



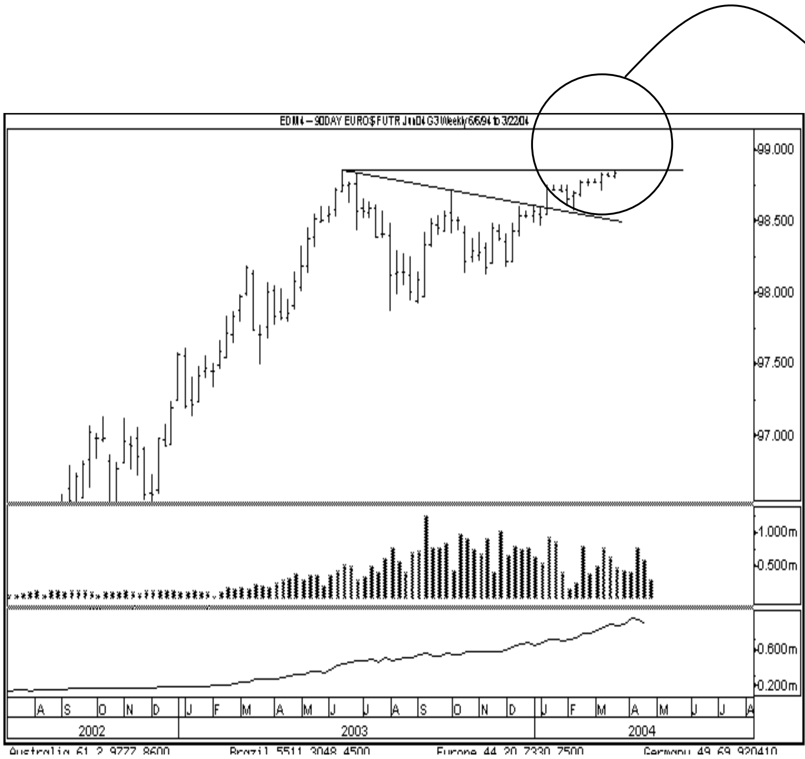
DAY FUTURES BAR CHART: But in the very short term the market has stagnated around the 116 levels.
Bulls will wait for a break of the gentle diagonal from the near high at 116.42 before adding on…

Good support lies beneath the market at the 115 level.

INTEREST RATES

Eurodollars

I have been lukewarm for the Eurodollars – and too cautions. They moved ahead strongly over the last three weeks. Part of my mistrust arose because there were clearly preferable bull short rates markets – and even though the Eurodollars outperformed the Euribor so clear are the latter's patterns I still prefer it.

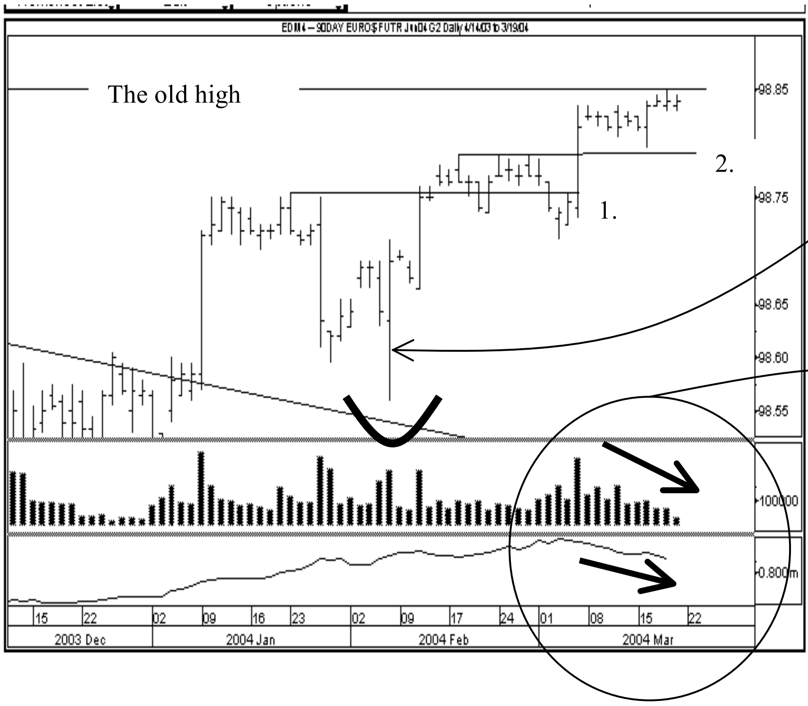


WEEK BAR CHART: The market has moved better and now teeters at the previous highest level - 98.85.

Previous highs are <u>not</u> of themselves level of resistance – but they <u>are</u> pivotal. Once the market has driven through them then the old high will act as good support to drive the market better still. This is the simple rachet effect that operates within every trending market.

The volumes are not high and open interest has paused.

Watch and wait for the market to break the prior high.

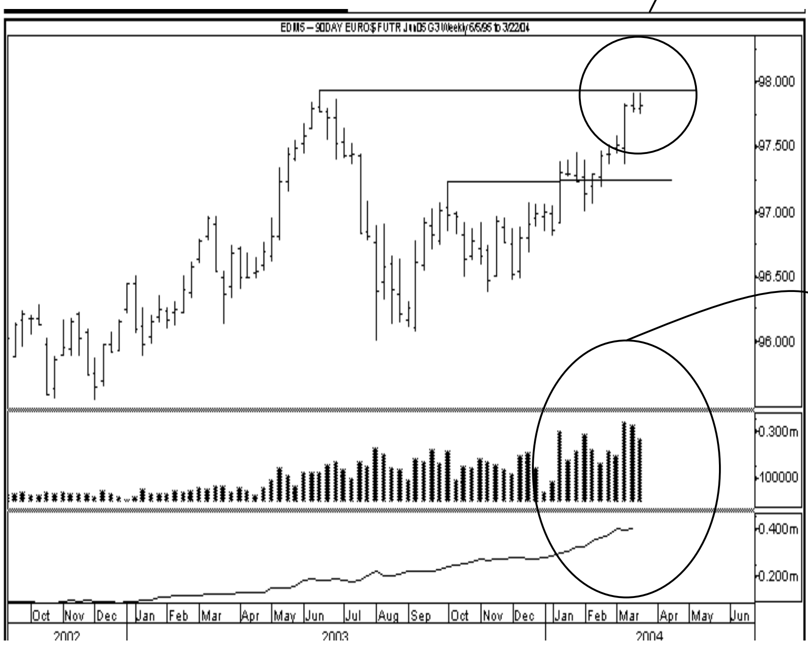


DAY BAR CHART: The day price action shows the confident bounce from the diagonal support beneath the market – led by the powerful key reversal off the lows.

Note the succession of horizontals (1&2) from prior highs that have provided good support.

But as the old high is approached, the open interest decline and the drift in volume re-emphasises the importance of a break through that level (98.85) to sustain the momentum of the market.

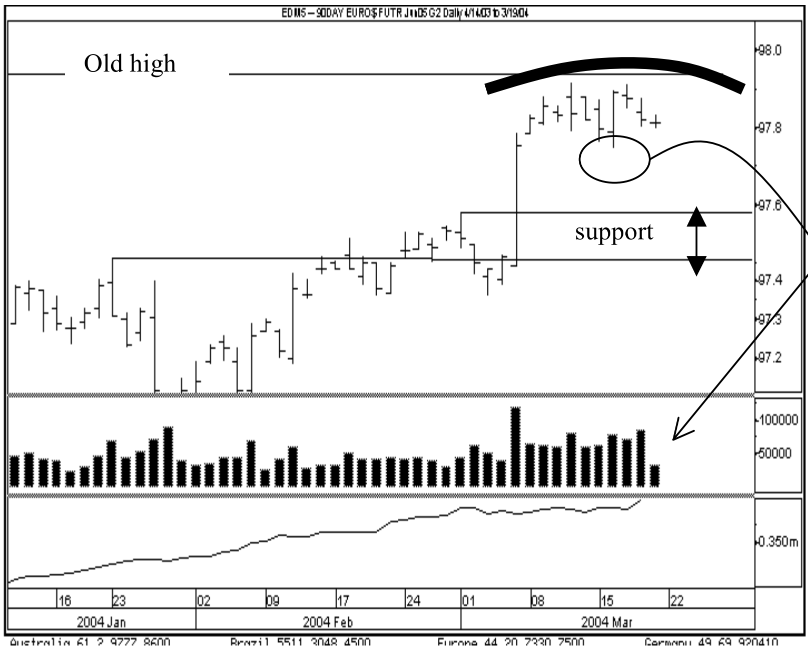
Along the futures strip: June 2005



WEEK BAR CHART: The market has paused at exactly the same chart feature as the front month - the prior high in this case at 97.935.

I see no ruling pattern – dealers should concentrate on the importance of that prior high which once breached should act as massive support to drive the market a good deal better.

Note the contrast in the volume and open interest level – both are high and sustained – altogether much more bullish indicator than those found in the near month.



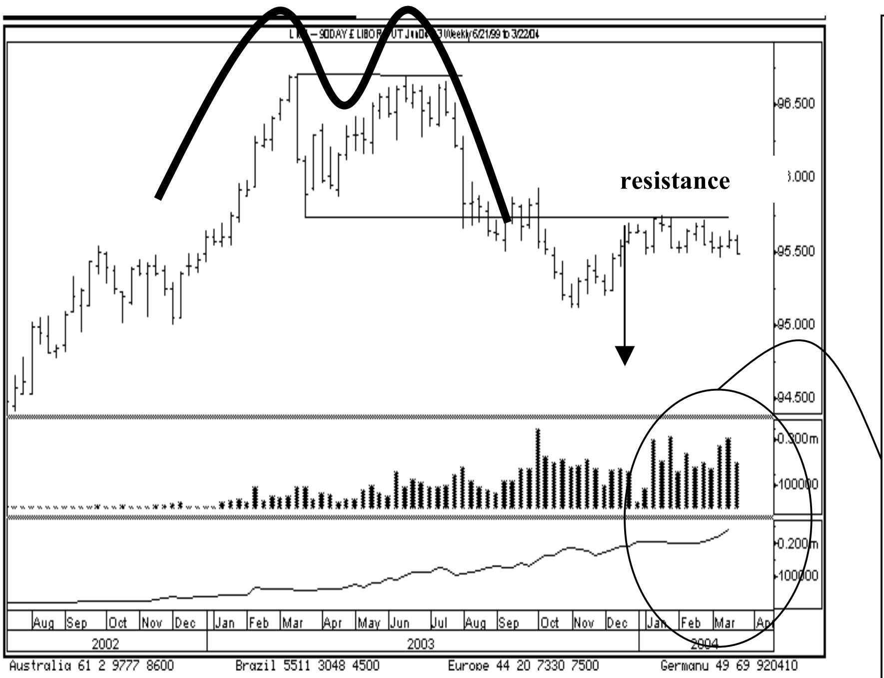
DAY BAR CHART: The market has paused beneath the old high over the last two weeks.

The bulls will be greatly encouraged by the sustained volume and open interest. They would add on to their positions if the old high were taken out. On the down side, the critical level to watch is the low at 97.74. If that were to break the market might test the good support in the area beneath between 97.45-58.

Only if <u>that</u> level were to break will the bears gain confidence in anything other than a short term set back.

The Short Sterling

The market has scarcely moved, but the big bear patterns that I have been watching remain in place, and ever more ominous for the market. The market is on the point of breaking down. Watch my levels.

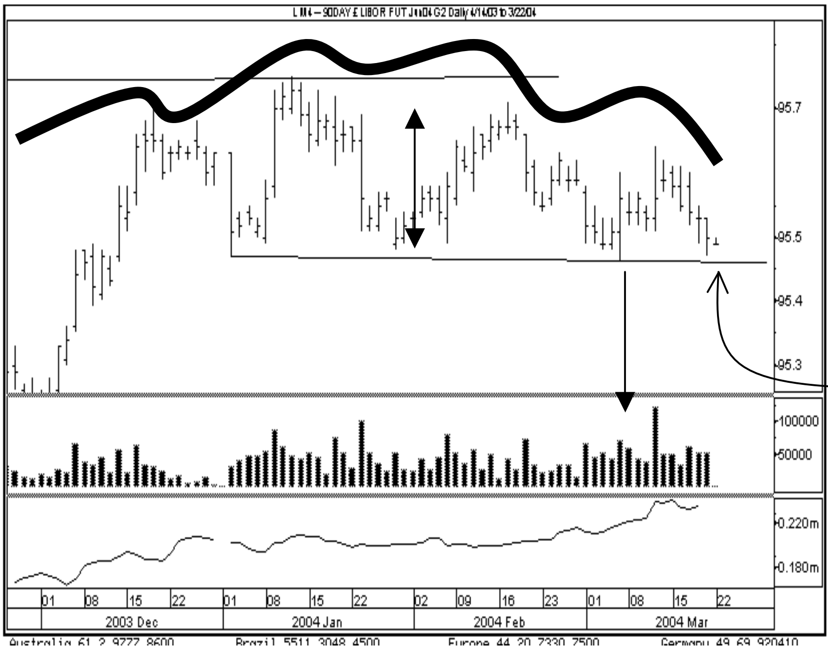


WEEK BAR CHART: This massive double top that has dominated the market over the last year continues to press down on the market with an eventual **minimum** target of 94.77.

Having completed the pattern in September 2003 the market pushed lower, and then has retraced to the completion horizontal 95.73 where it has found powerful resistance over the last three months with, ominously, **rising** volume and open interest …

Three clear bull attempts to attack the overhead resistance have failed. A test on the down side looks likely.

Look closer.

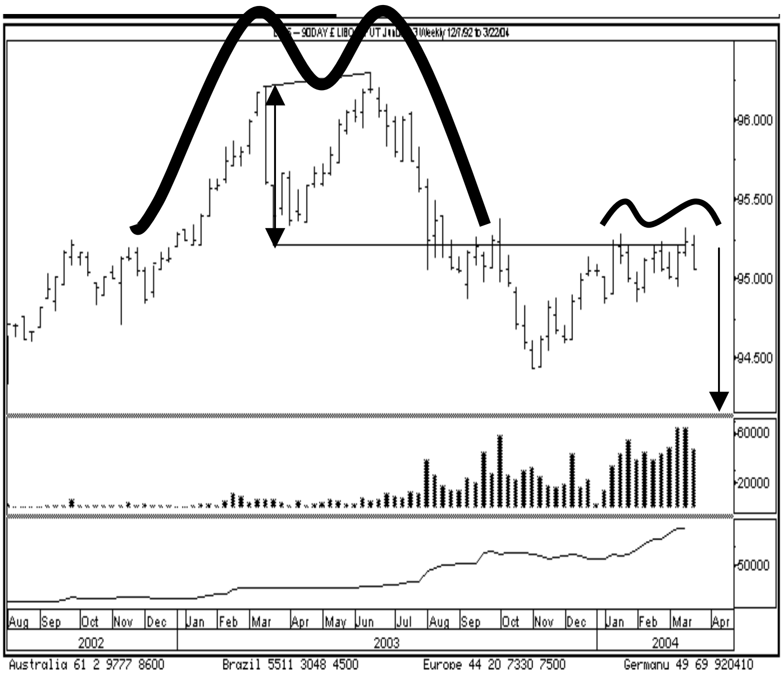


DAY BAR CHART: It is complex, the consolidation beneath the overhead resistance, but I think is best characterized as a double headed head and shoulders – this emphasizes then the importance of the potential neckline beneath the market at 95.46.

A break of that would drive the market a good deal lower towards a target of 95.19.

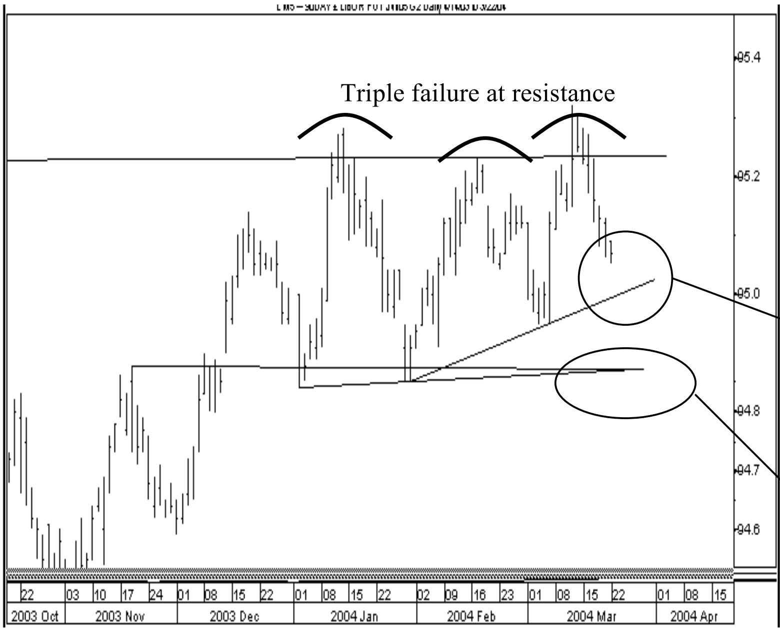
With the triple/quadruple failure to go better through the resistance, a decline is highly likely.

Further along the futures strip: June 2005



WEEK BAR CHART: As with the front month, the Double Top pattern dominating the market anticipates a move to **94.20.**

Over the last five months market has struggled to climb back through the overhead horizontal resistance created from the break out level of the double top at 95.21…. are the bulls running out of patience?



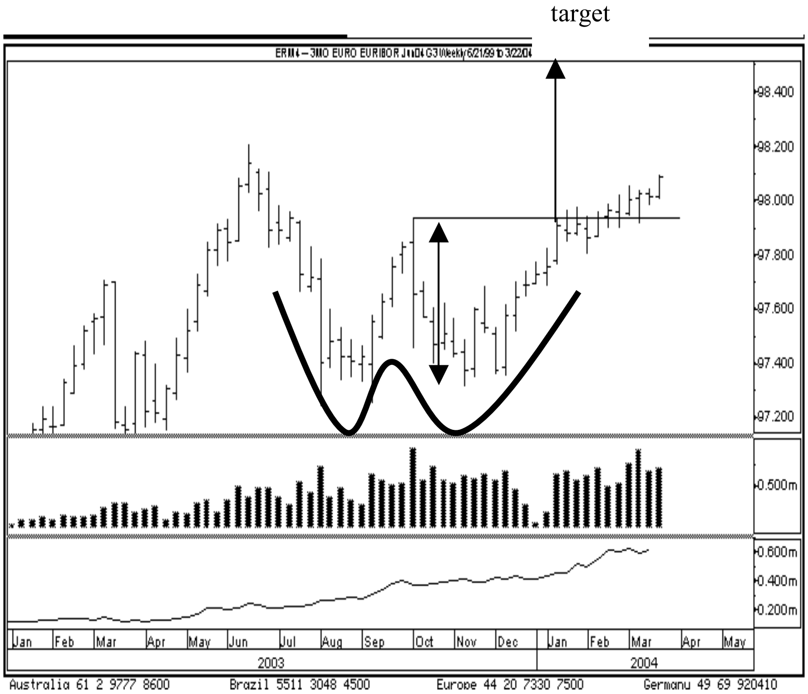
DAY BAR CHART: Certainly the market has repeatedly failed at the overhead resistance and so gives the market a bearish **aspect** but there is no clear bear pattern in place yet….

The chart levels therefore are less authoritative, but should still repay close attention: watch **first** the rising diagonal at 94.99. A break of that would suggest a test of the combined (because derived from two sources) level of support around 94.87.

Only a break of **that** support level would really excite the bears.

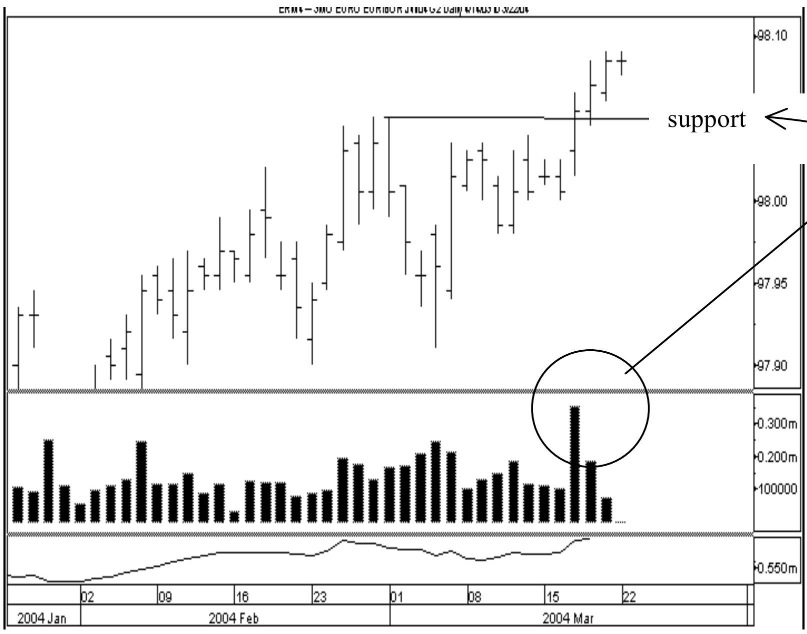
Euribor

This has been my favoured bull market. Like the Eurodollar the market is at all time highs. But the clarity of the huge bull patterns underlying the market make it the better bet still.



WEEK BAR CHART: The clearest pattern is that of a Double Bottom. It completed emphatically about a month ago and looks to drive the market a good deal better by some 67 bps to 98.60 **minimum**.

The market is very well set up.

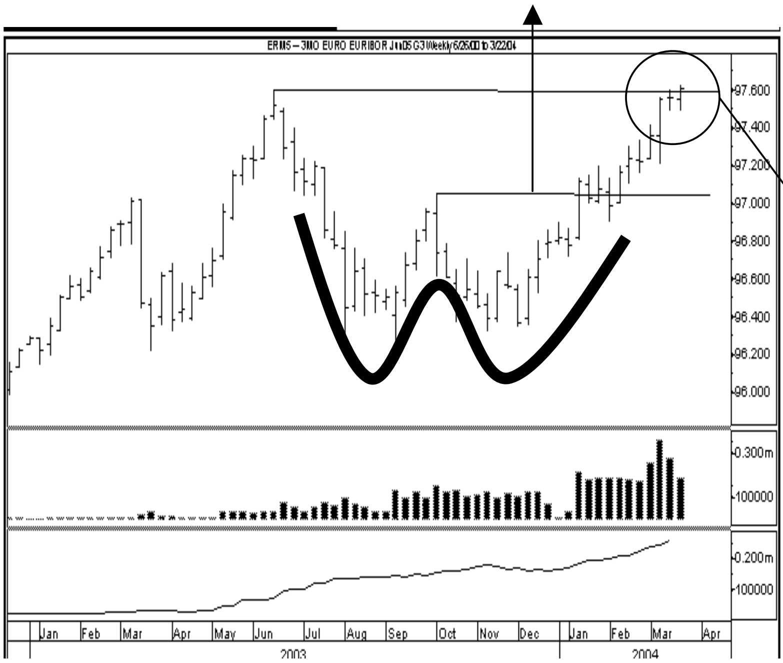


DAY BAR CHART: The critical short term break was the horizontal from the prior high at 98.05. See how the volume surged.

Expect further fast short term bull moves, with good support close beneath.

Further along the Euribor futures strip:

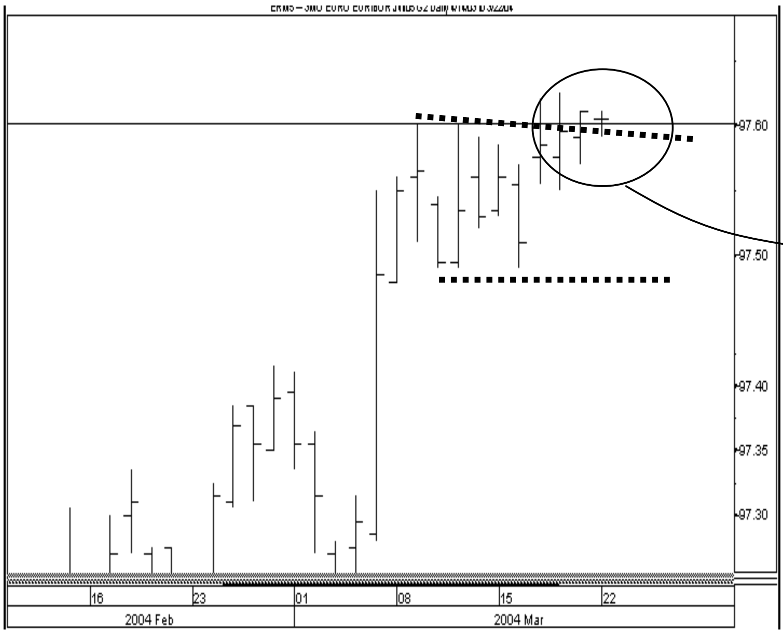
June 2005



WEEK BAR CHART: The Double Bottom is set to drive the market better to 97.82 minimum.

The bull move from the breakout level of 97.05 has gone superbly well, and there is more to go… but note well the pause at the previous high at 97.60.

Once through that level though (and it will) the market will gain a lot of momentum and push ahead quickly.



DAY BAR CHART: The consolidation beneath the old high is a continuation triangle – a pennant? (The fierce spike beforehand is typical of a pennant)

The co-incidence of the break of the triangle and the break though the old high is powerful and suggests **further fast bull moves.**