

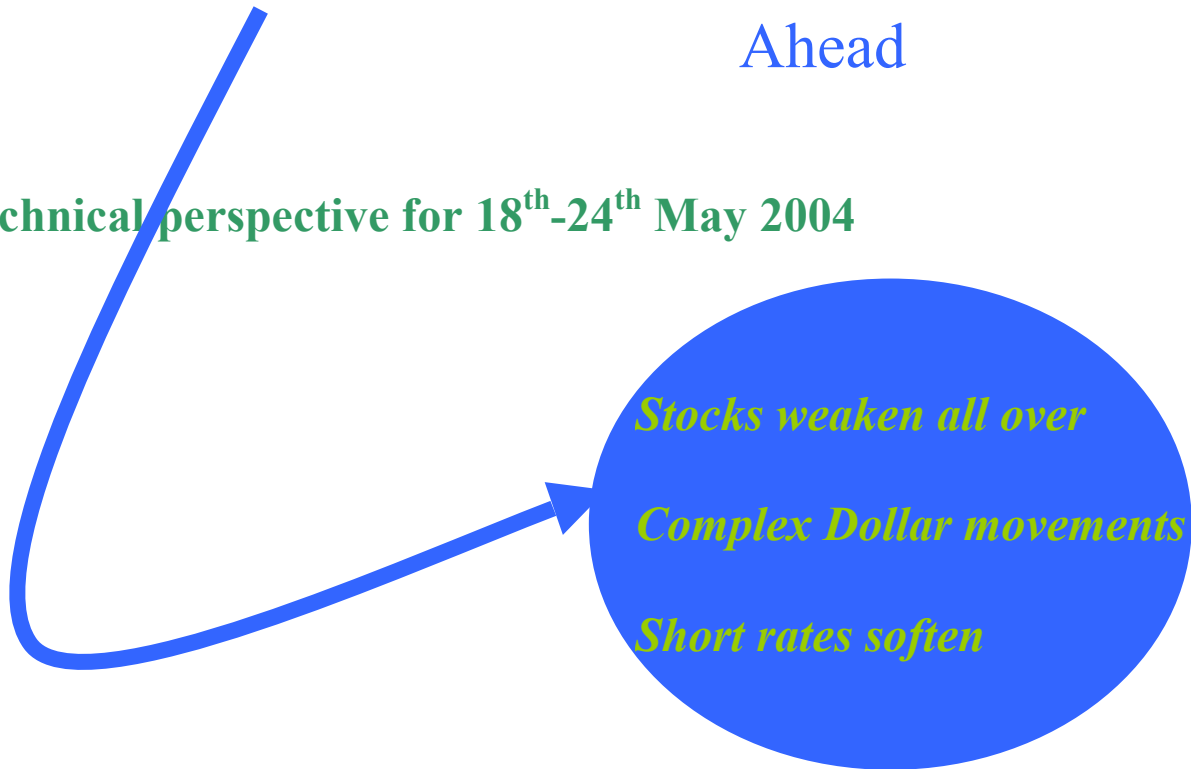
Mark Sturdy
124 Regents Park Road
London NW1 8XL
+44 (0) 207483 2375 msturdy@macunlimited.net

The

Week

Ahead

A technical perspective for 18th-24th May 2004



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CURRENCIES

It's a fascinating mixed picture: I remain a Dollar bear throughout - but where the Dollar has been strongest, it has now ground to a halt, and the Euro looks to have weathered the storm. On the other hand the Dollar remains strong against the Pound and spectacularly so against the Yen. But neither of these reveal a long term strong Dollar trend: there are good chart reasons in each case to argue that the Dollar will have great difficulty in strengthening a great deal from here.

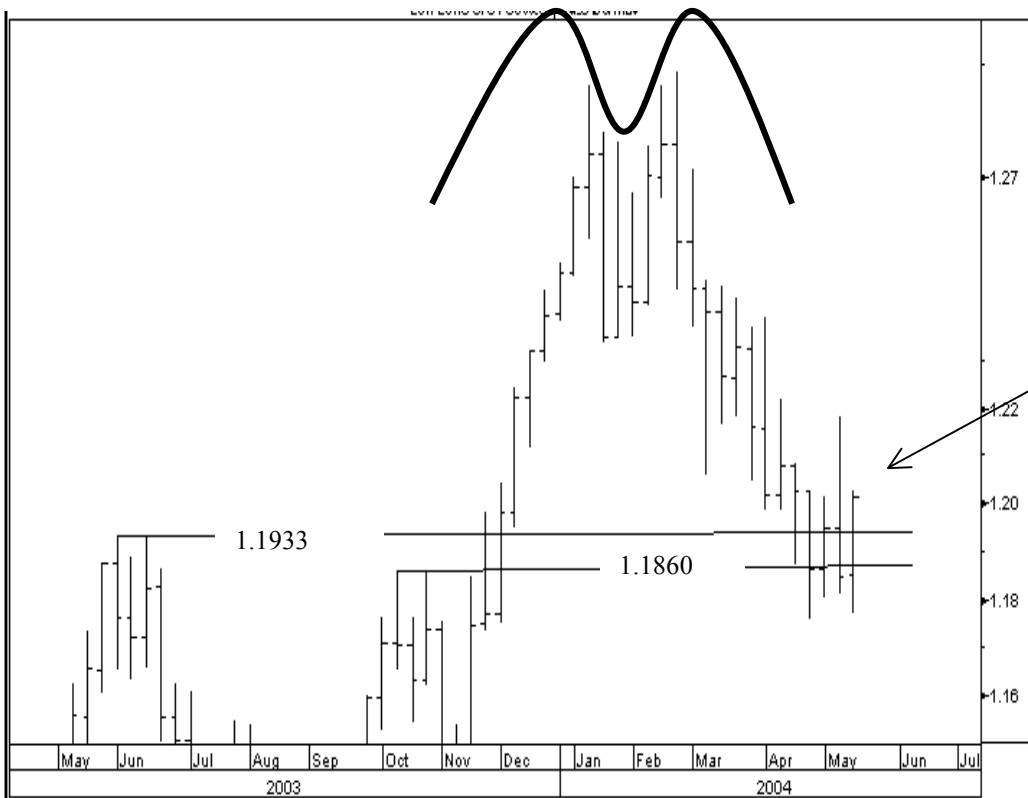
Dollar Euro



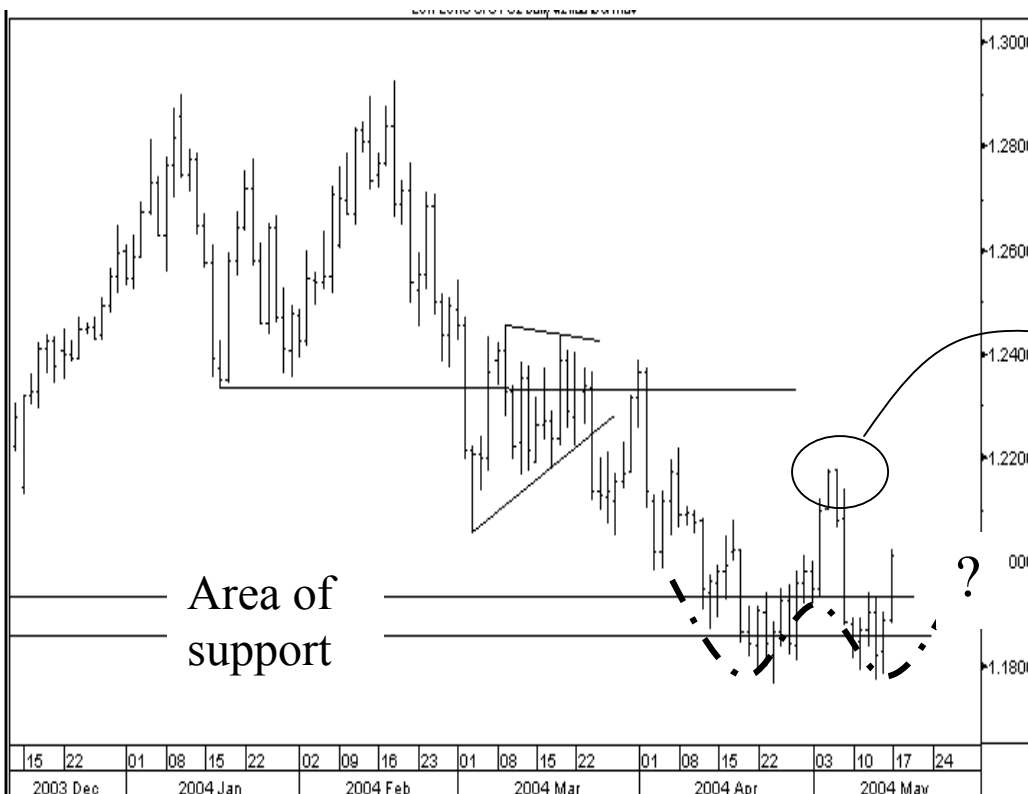
WEEKLY SPOT CASH:
The tremendous bull run of the Dollar over the last two and a half years is being tested at the twin levels of 11933 and 11860.

This area must hold for the bull trend to remain intact.

And so far it has.



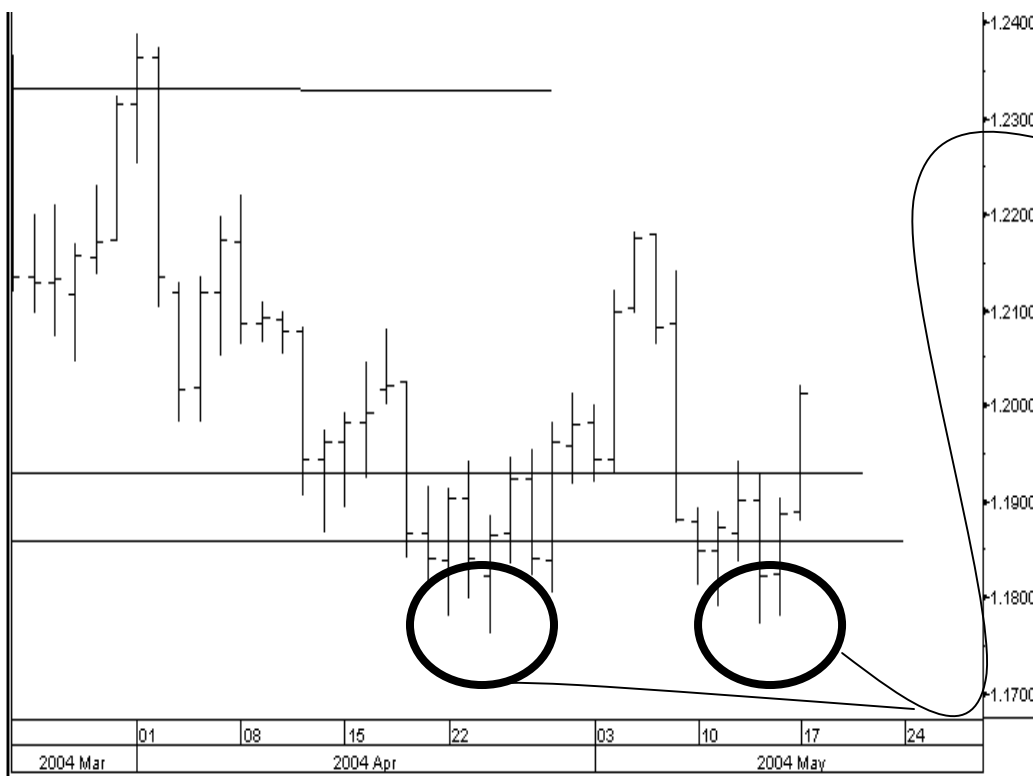
The detail of the pullback emphasises that the market, propelled by a Double Top, has tested the support level repeatedly over the last four weeks - only once closing beneath - yet closed well above at the end of the week.



DAY SPOT CHART: The detail of the retracement suggests that the day price action of the last month may become a small Double Bottom ...

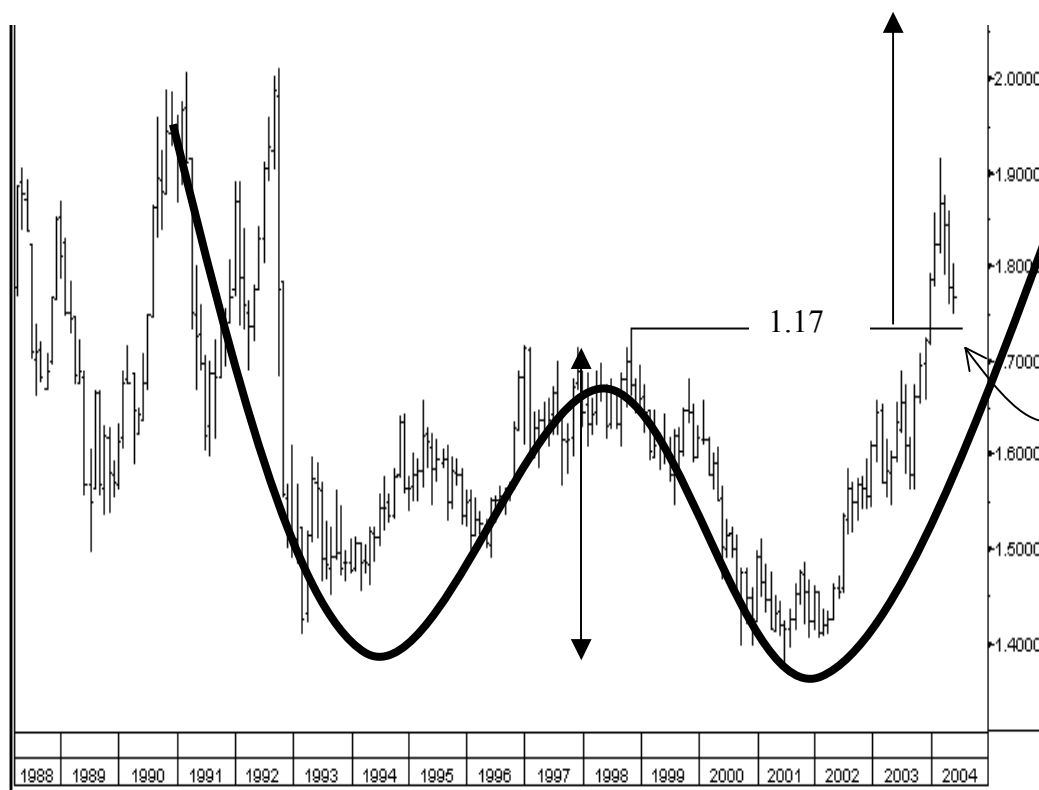
In any event a break above the high at 1.2179 is required for the bulls to get confident...

And that would probably be the completion of the Double Bottom....suggesting a Four big figure move.



DAY SPOT CHART: And, by the same token, in the short term, a push beneath the lows at 1.1761 and 1.1772 would suggest a clear short-term breakdown.

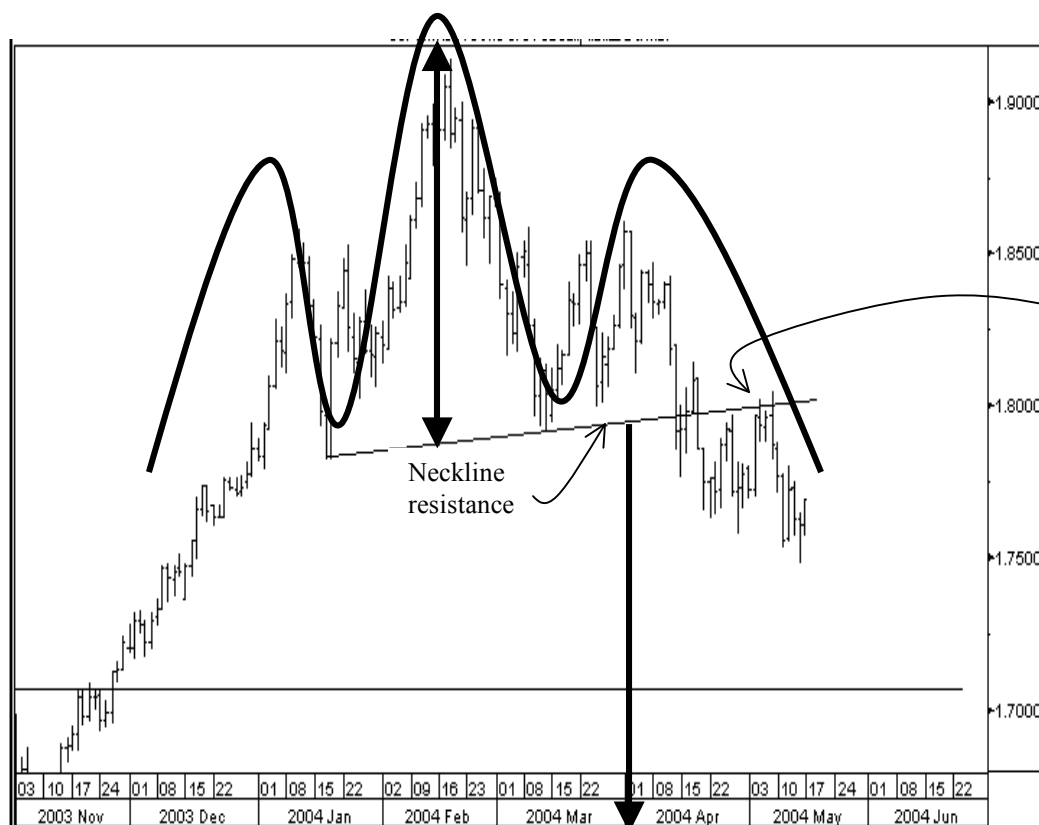
Dollar Sterling



WEEK SPOT CHART:
The long term Cable chart remains a very bullish Double Bottom whose minimum target on the upside is 2.08-9 or so – in the long term.

The recent retracement should find good support at the horizontal from the old high at 1.17.

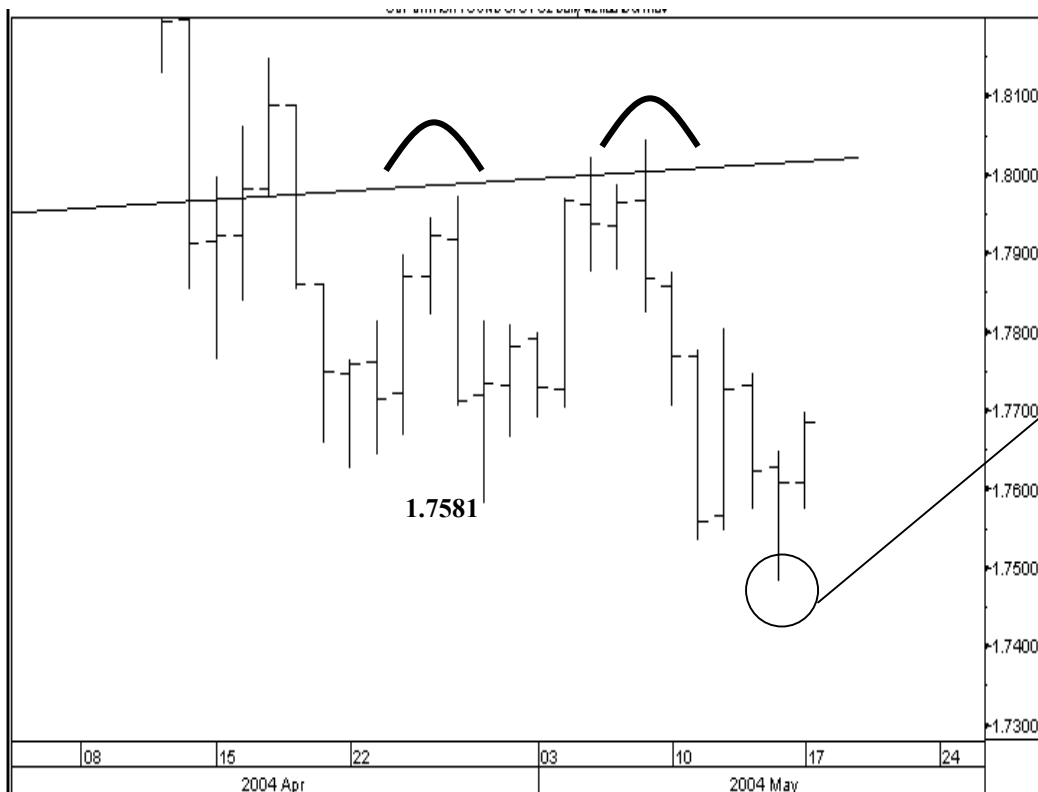
Will it get there?



DAY SPOT CHART: The medium term driver of the bear retracement is a clear Head and Shoulders Top that completed in mid April - it's minimum target is 1.68.

Twice the market has tried to penetrate back through the Neckline - and **twice it has failed.**

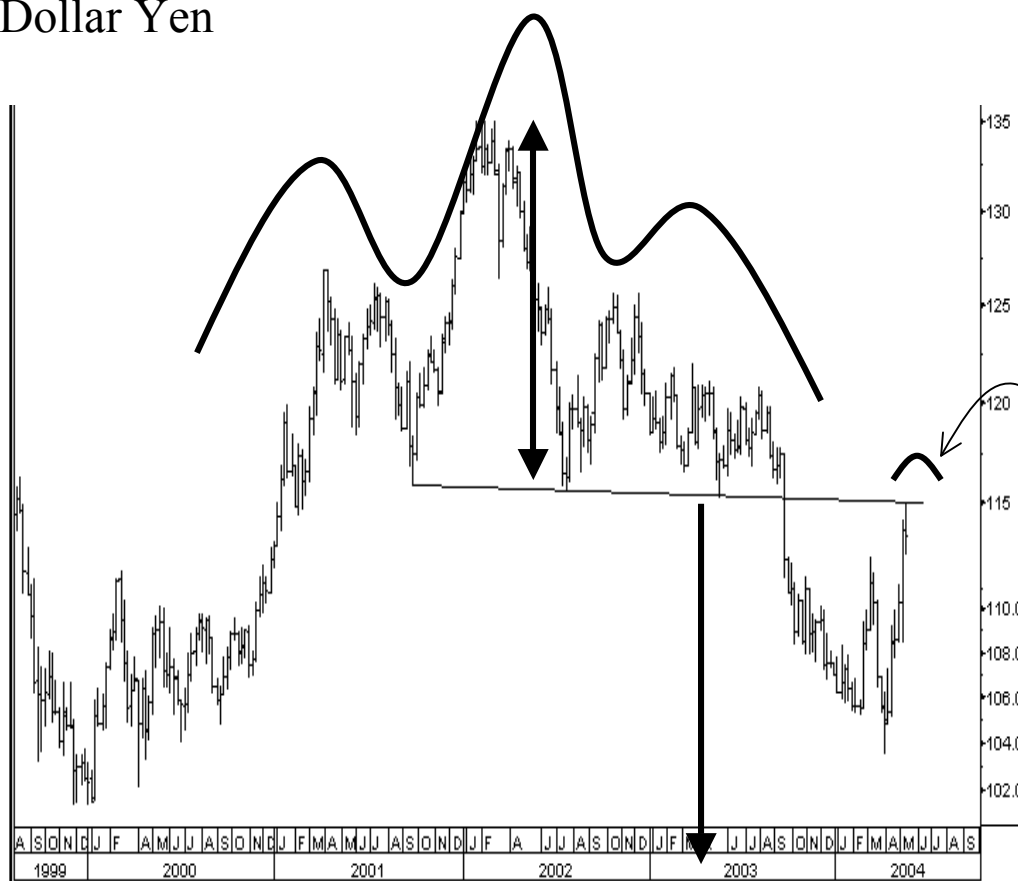
This bear pattern is powerful.



DAY SPOT CHART: Last week I pointed out that a retest of the downside was likely, and sure enough, that's what happened.

My break out point of 1.7581 was not so critical in the event, but now short-term traders will watch the recent low at 1.7481, as a break down through there would complete a small Head and Shoulders sending the market on down with some certainty.

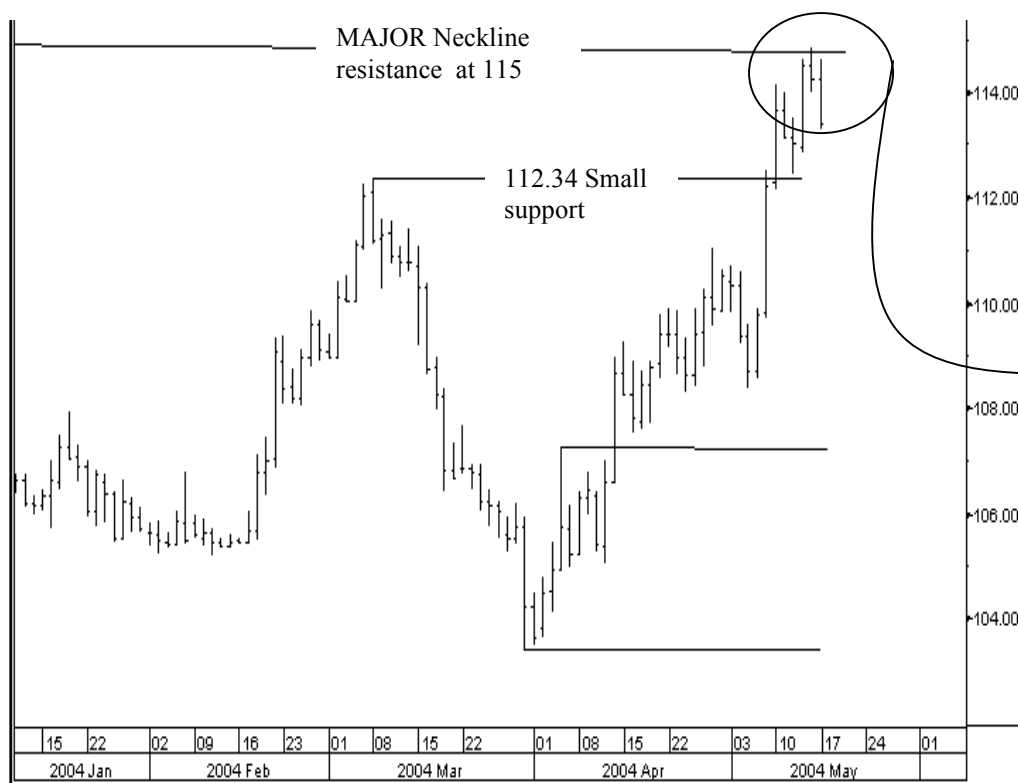
Dollar Yen



WEEK SPOT CHART:
The long-standing Head and Shoulders Top has a target of 96 or so.

Certainly, the bears have had to be quick on their feet: the retracement back to the Neckline at 115 has been violent.

But there should be good resistance there ...



DAY SPOT CHART:
The detail of the approach - the recent high at 112.34, as I suggested it might, did indeed act as support to drive the market higher...to the major resistance.

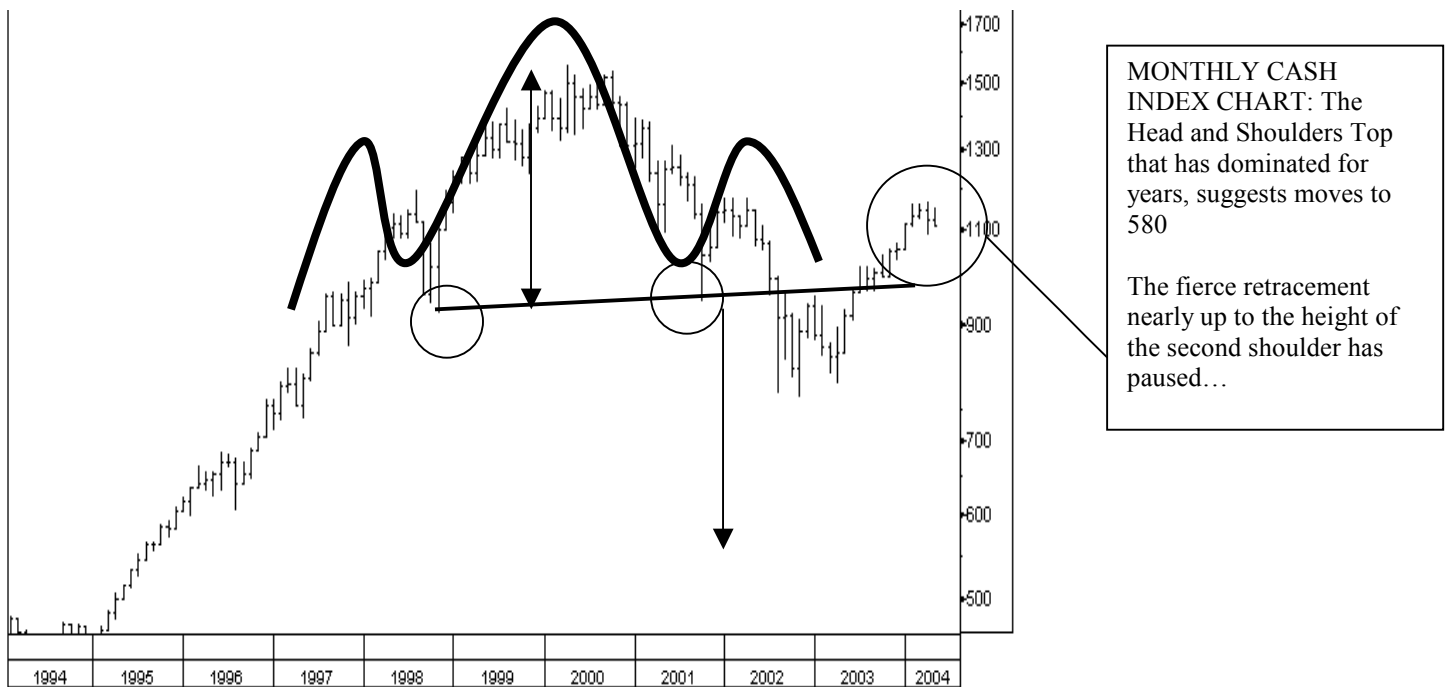
And, as I suggested as well last week, the market is indeed struggling to get through the Neckline at 115.

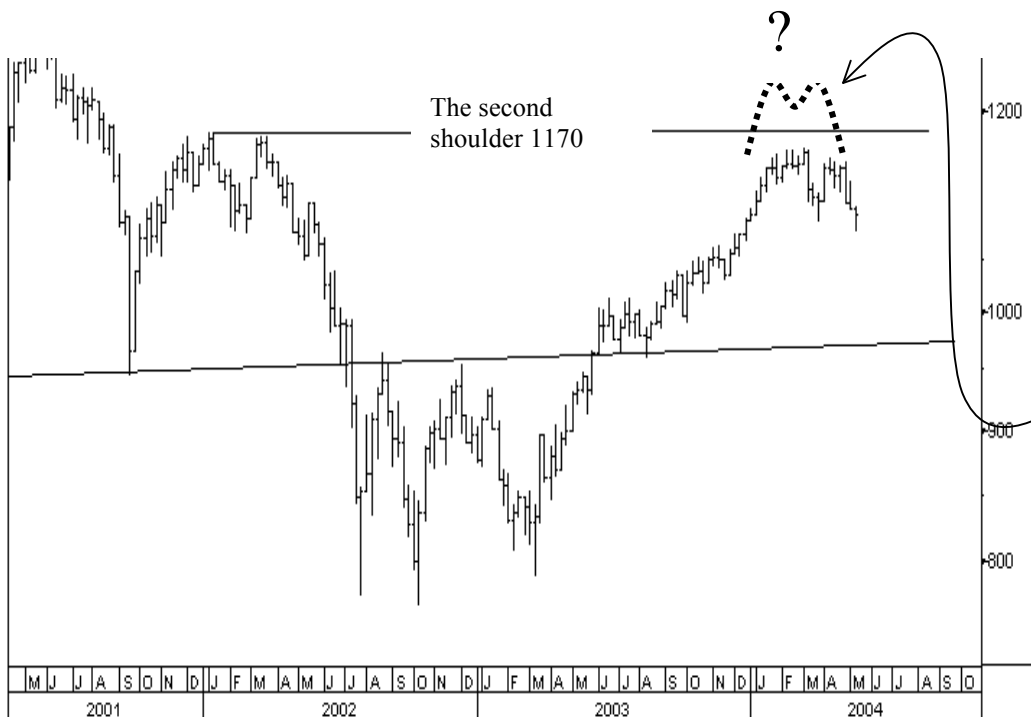
Again, aggressive bears should use this opportunity to get short....

STOCKS

The markets continue to reveal evidence of accumulating bearishness: in the West there are possible nearly-completed bear patterns very close by. In Japan, the market is struggling: it has failed to shake off the long-standing bear pressure from overhead resistance.

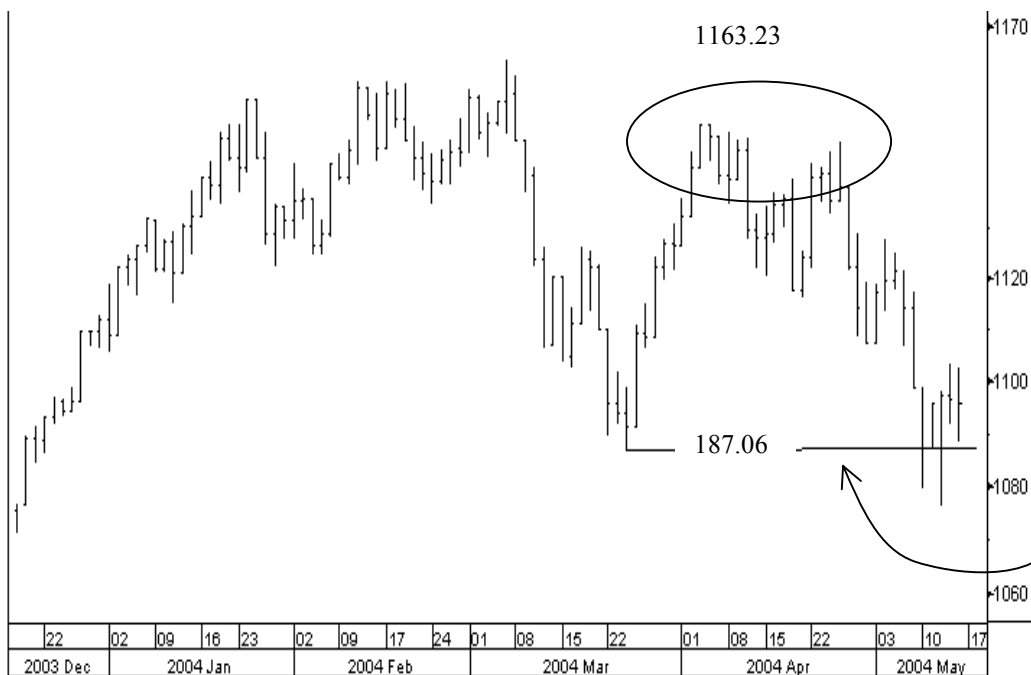
The Standard and Poors 500 Index





WEEK CASH INDEX CHART: We see the market's stumble short of the second shoulder. Had it carried on through (as it still might) I would have considered the Bear Head and Shoulders Top to have been destroyed.

The pattern created during the pause is well on the way to becoming a Double Top...

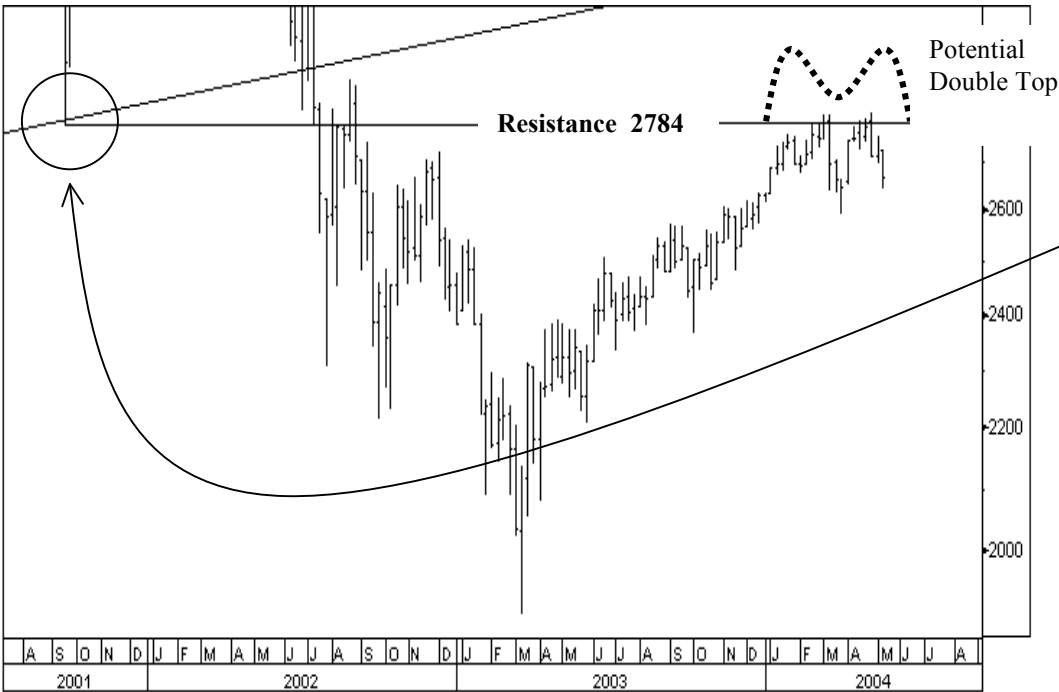
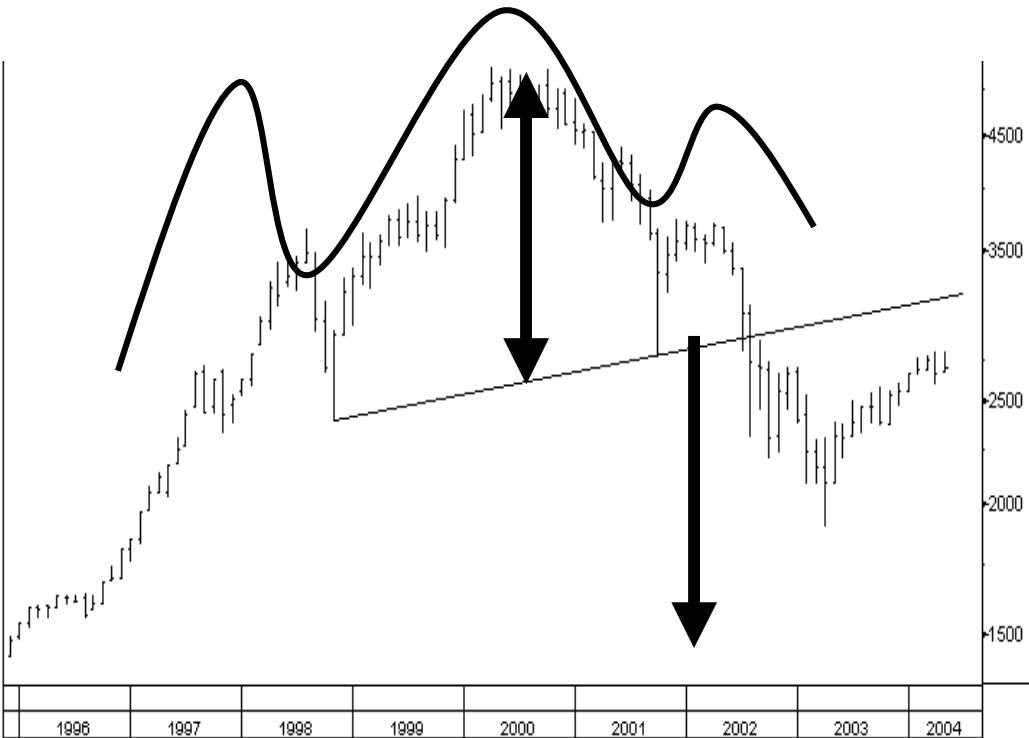


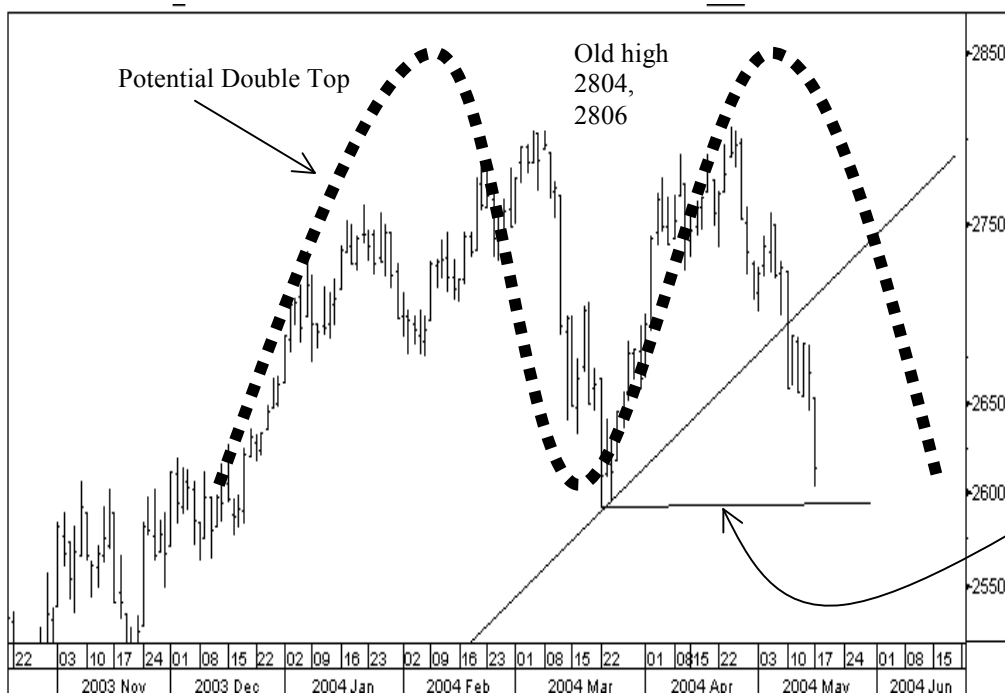
DAY CASH INDEX CHART: A close below the low at 187.06 would complete the Double Top, If that happened, the market's target would be **very much lower**.

Dealer should watch for that breakdown...

On the other hand, bulls will want the market through the recent highs around 1163.23 before they get excited.

The European DJ Stoxx 50





DAY CASH INDEX
CHART: Last week I pointed out the diagonal - not important other than as another bear signal - and the market has broken down through it ...

A close beneath the low at 2592.70 will be the critical signal for the bears - by completing a Bear Double Top....

As I remarked last week, only a break of the old highs at 2804 and 2806 could possibly encourage the bulls now... **and that looks very unlikely.**

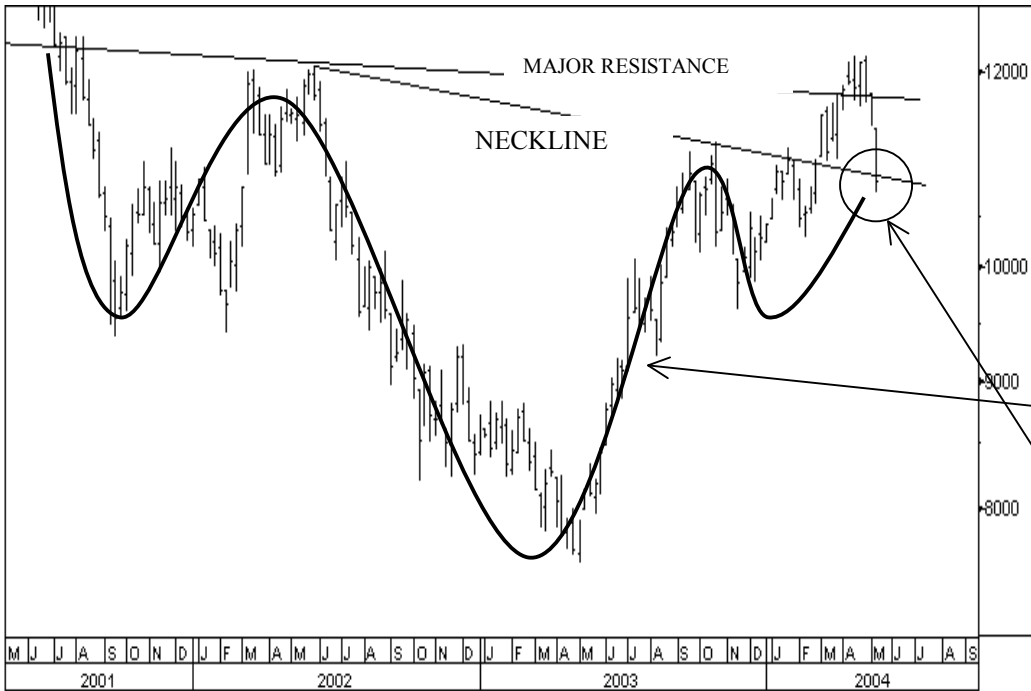
The Nikkei 225 Index



MONTHLY CASH INDEX CHART: The very long-term chart.

I have repeatedly emphasised the huge importance of the resistance at the gently sloping diagonal established over the last eleven years...

The market has still to close through that level on the month...

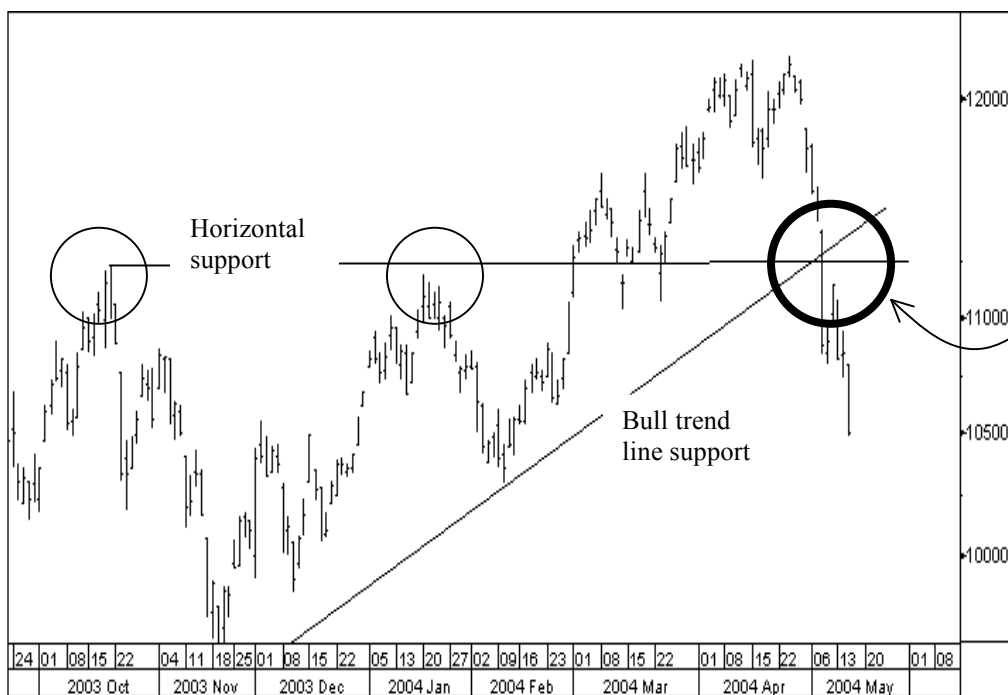


WEEK CASH INDEX CHART: And, indeed the closer one examines the chart - it looks as if the market has been unceremoniously repulsed from the Major Resistance

- and the manner of that pull back is ominous for the bulls....

Beneath the resistance there were a number of bull patterns - not least a large Bull Head and Shoulders Bottom.

Already the retracement has pulled back to sit right on the neckline of that Pattern at 109.50



DAY CASH INDEX
CHART: Moreover,
the day chart reveals a
co-incidence of
supports smashed
through: the horizontal
around 11200 and the
diagonal from the all
time low in 2003...

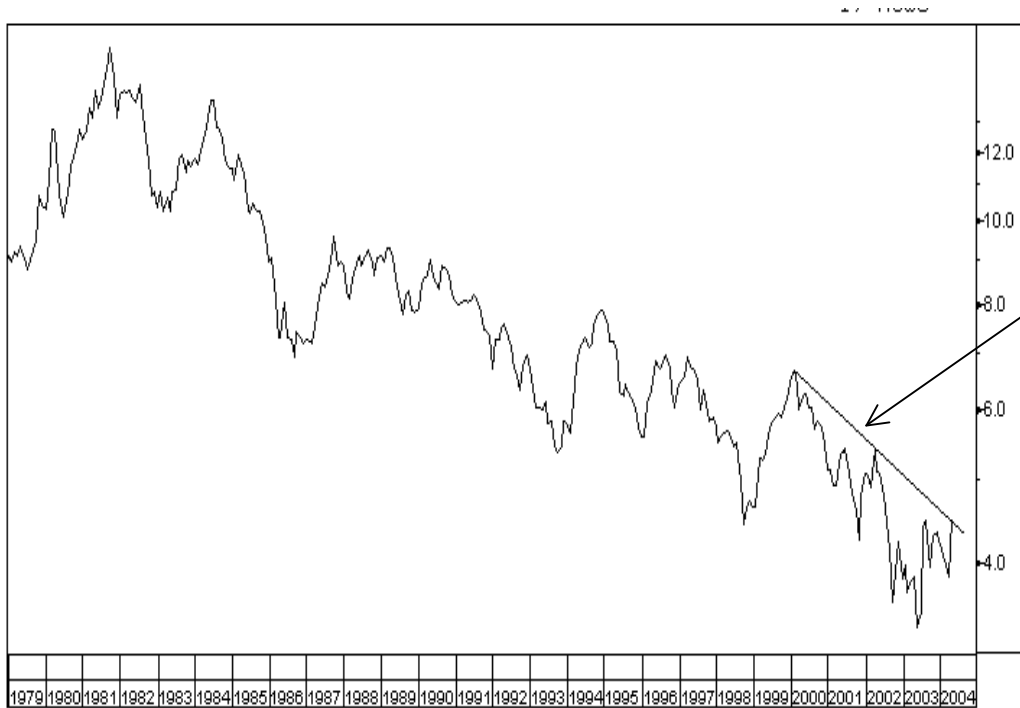
As I always repeat, co-
incidences do matter.

The bears are in
control.

BONDS

The Bonds have no long-term patterns in operation, but various trends for lower rates can clearly be seen to have broken. In the shorter-term there are good bear patterns to be found in the European and Japanese markets.

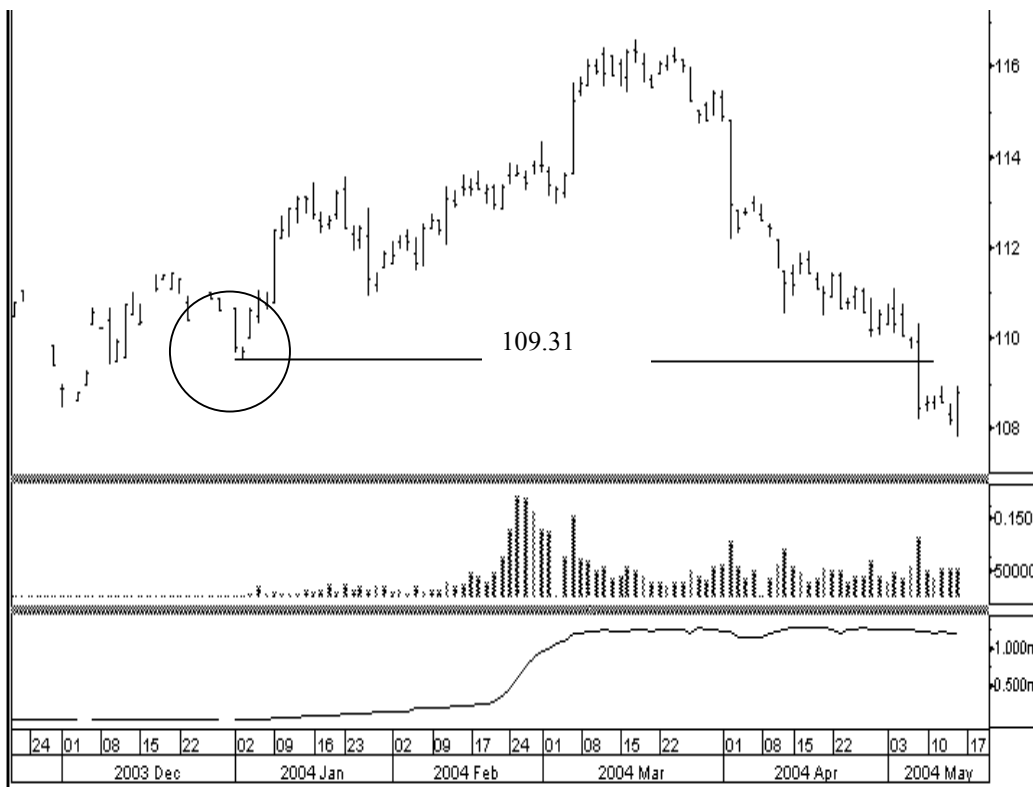
The US Treasury Note



MONTHLY CASH YIELD CHART: The yield chart of the Note: the market is pressing this trend line resistance. Look closer.



WEEK CASH YIELD CHART: The week chart suggests that the trend is broken....



FUTURES DAY CHART:
I said last week that once the 109.31 had been broken through the market would find it difficult to break back.

It has yet to be tested.

The futures price action over the last week is simply a sideways consolidation.

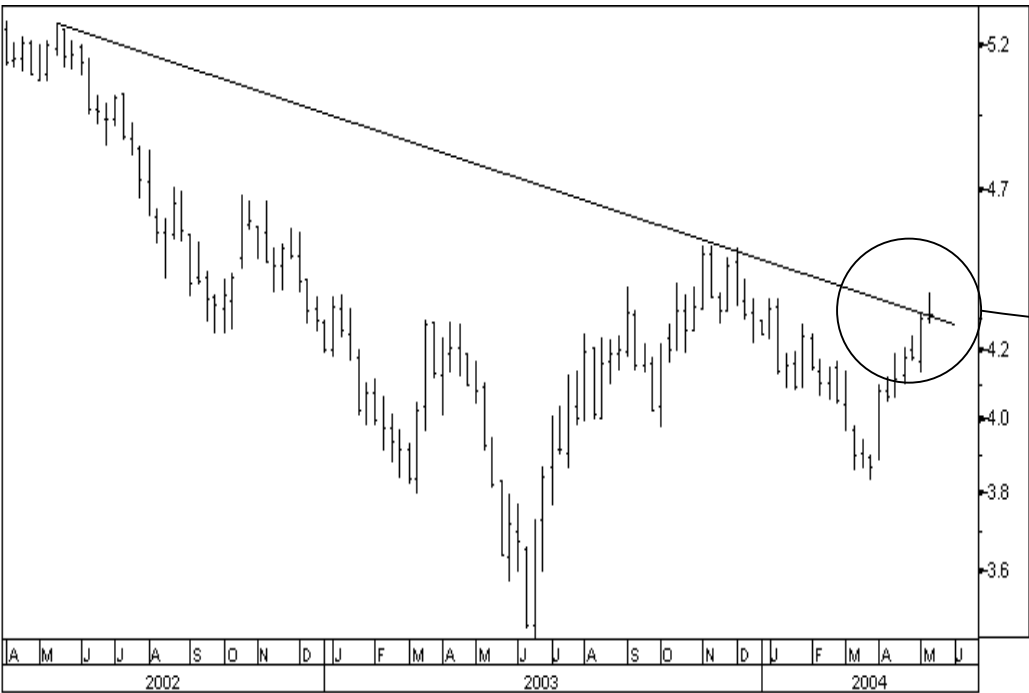
I see no pattern yet.

The European Bund.

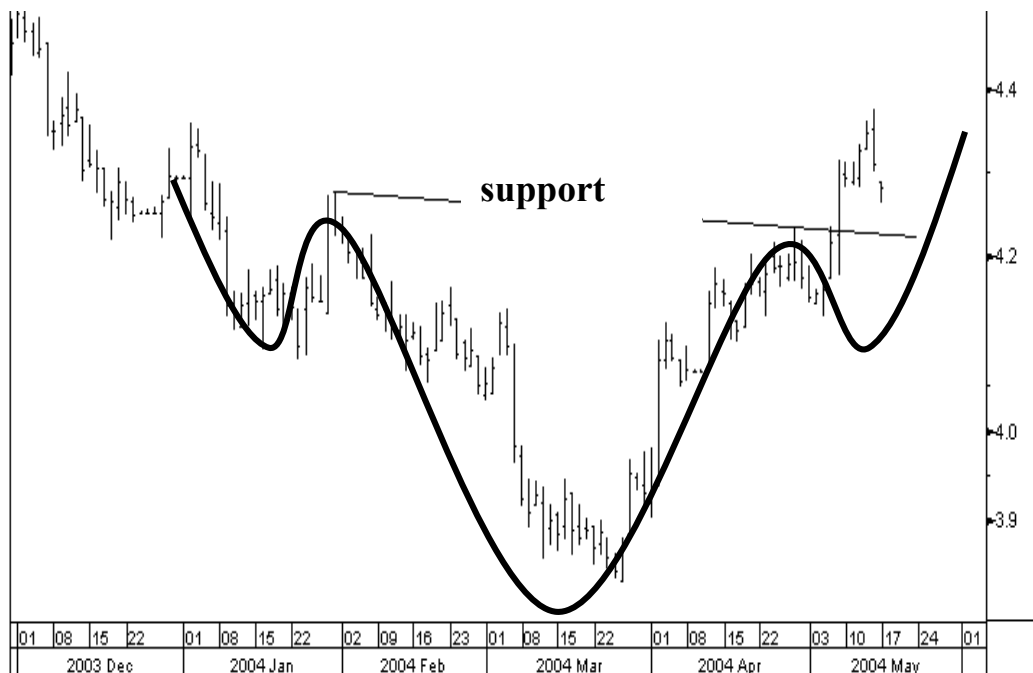


MONTHLY CASH YIELD:
The Bund yield over the last
ten years.

The market has traded
sideways over the last year.

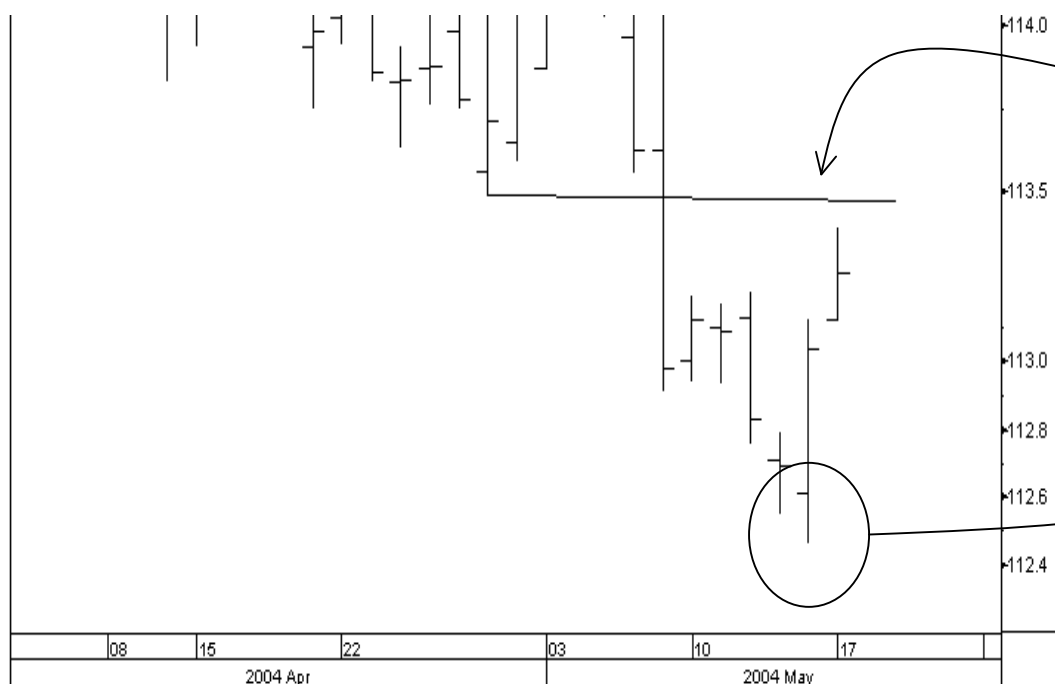


WEEK CASH YIELD: I
described this last week as
a weak diagonal - during
the week the market broke
through and held above. -
Just.



DAY CASH YIELD CHART: The day chart is altogether a good deal clearer: there is I believe a well-constructed Head and Shoulders pattern - that had broken last week...

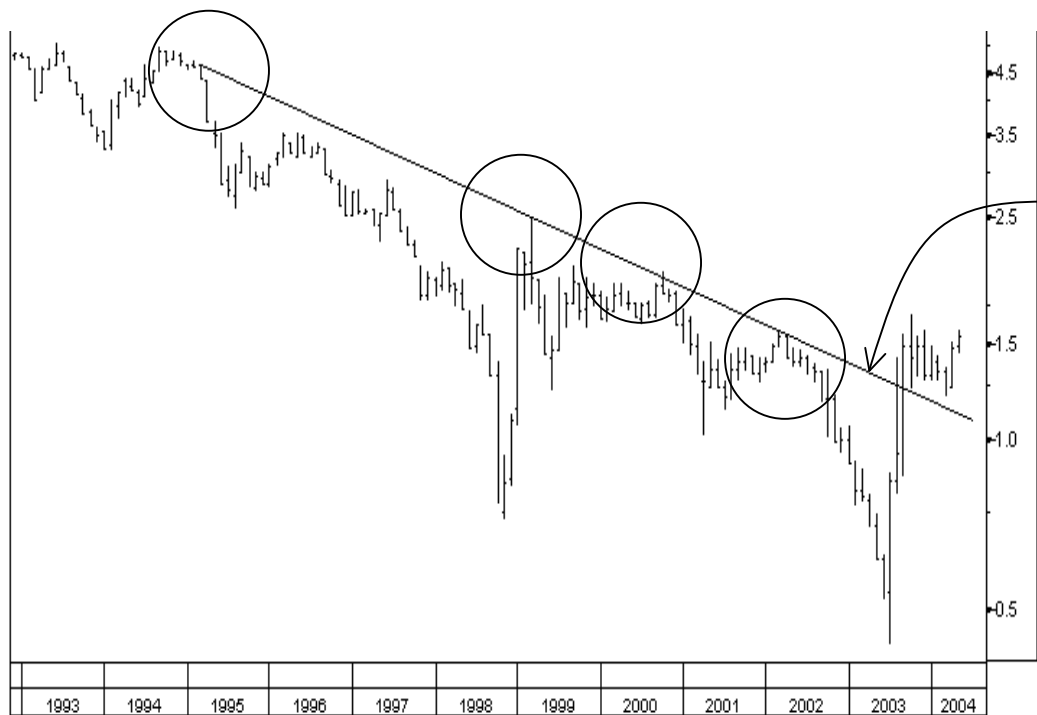
Watch the pull-back carefully, that Neckline (at 4.228%) should act as good support.



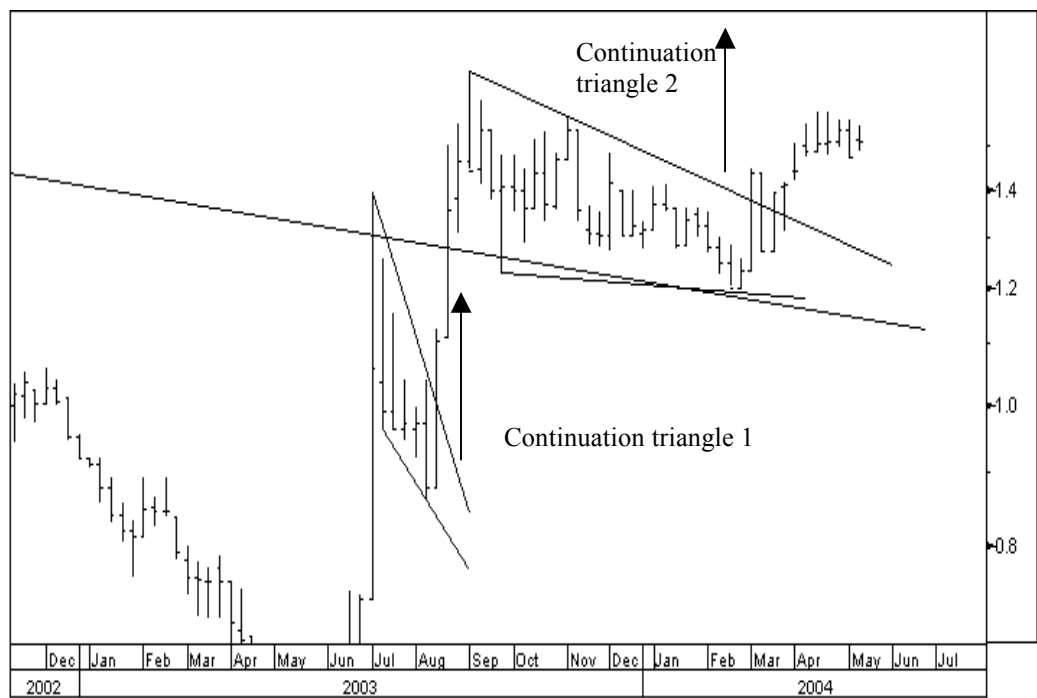
DAY FUTURES CHART: And in the futures market expect good resistance at the 113.50.

Cautious Bears will want to see the market break the low at 112.46 before selling again....

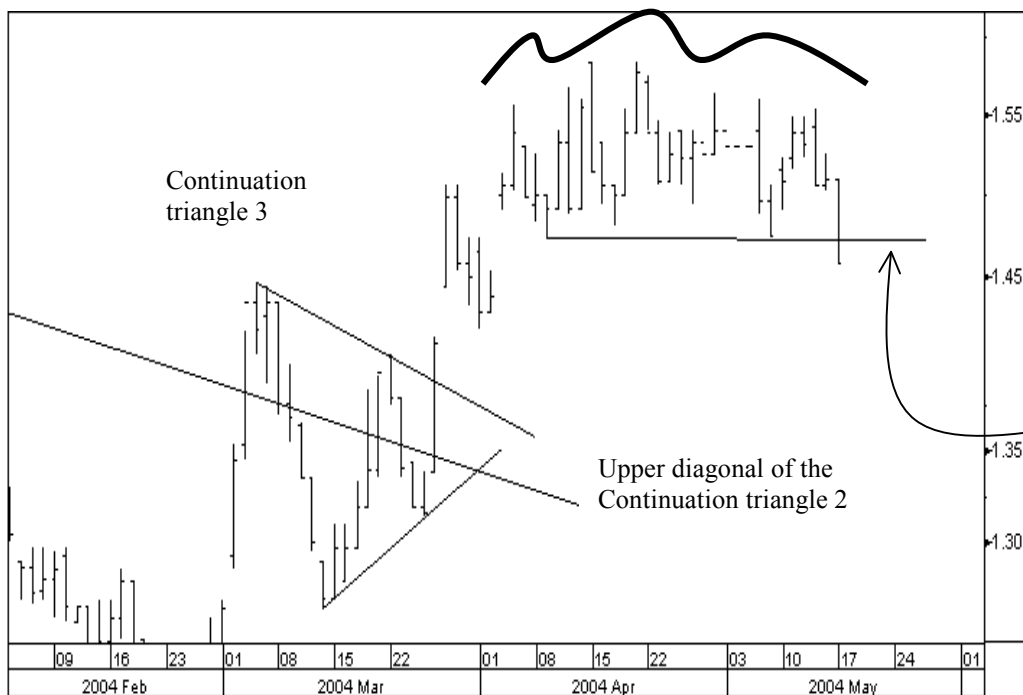
Ten Year Japanese Bond



MONTH CASH YIELD
CHART: The Japanese bond
yield chart is satisfyingly
clear: the very long-term
downtrend in yield,
established at no less than
four points, broke in mid
2003, and then moved
sideways...



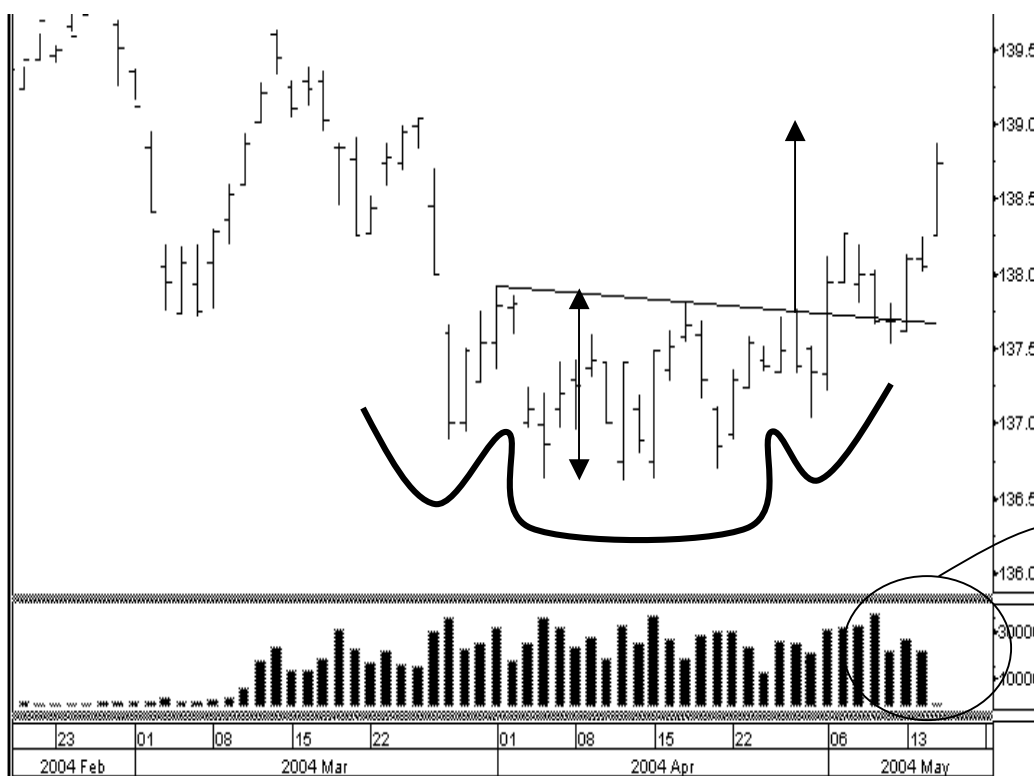
WEEK CASH YIELD
CHART: And the detail of
that breakdown is
fascinating: a series of
Continuation Triangles,
suggesting further rising
rates....



DAY CASH YIELD CHART: The break through of the long triangle was achieved by a smaller continuation triangle in the day chart.

Note well, though, the consolidation throughout April and May.

The pull-back through the 1.473% level broke the recent trading range, and may add to a move towards lower yields **in the very short term....**



DAY FUTURES CHART: The futures market shows the engine of lower yields and higher prices - a complex Head and Shoulders Bottom.

But note well that the target for the shallow bottom has already been achieved....

I see no immediate cause for very much higher prices or lower yields in the short term.

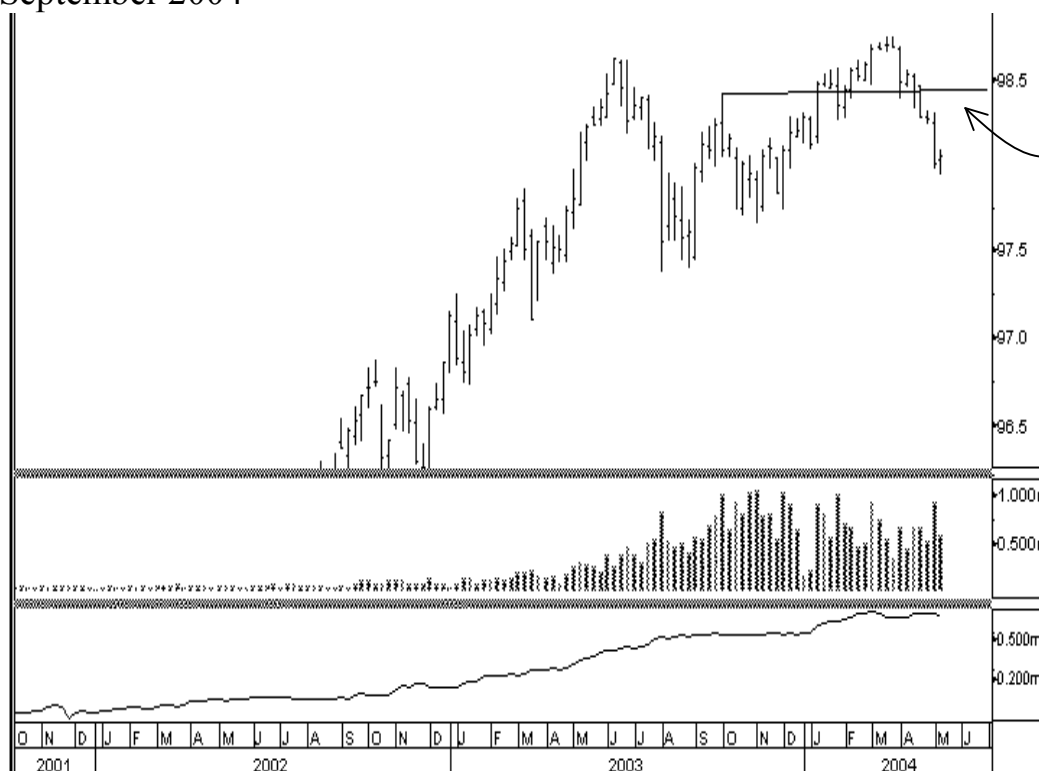
Indeed, volume is only modest, despite the violence of the recent move.

INTEREST RATES

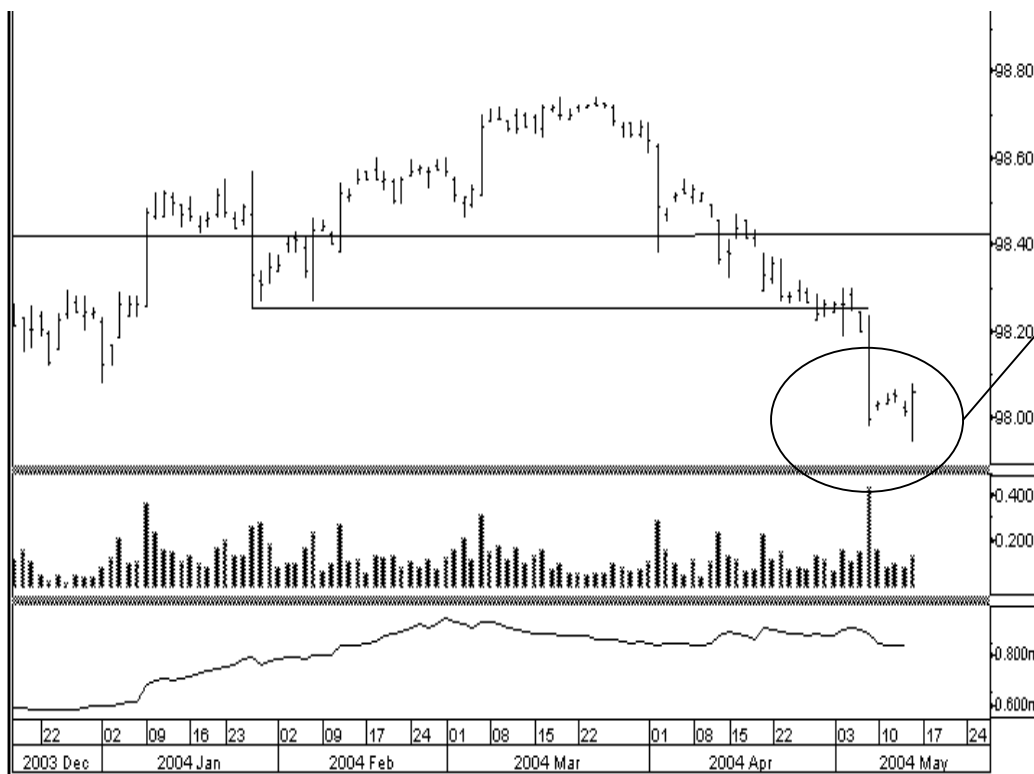
Over the last week rates softened across the board, and as a result, the bull structures remain intact in the Euribor, while it seems no more than a reprieve from the Short Sterling which remains very bearish.

Eurodollars

September 2004

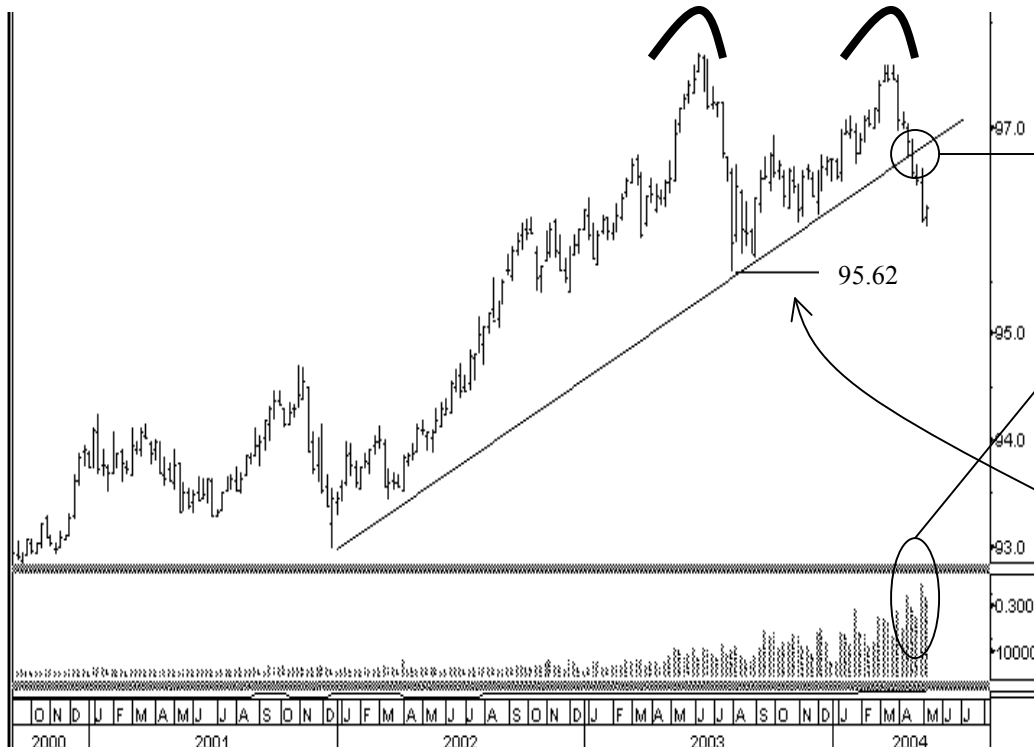


WEEK CHART: I said last week that the bulls are in retreat, mostly due to the broken horizontal at 98.42 that initiated the recent move. Though the market rose slightly over the week, the bears still seem in control.



DAY CHART: The sideways move ended in a fierce uptick....but I see no real pattern here, **the volume and open interest suggest that there is little real energy left in the market for a fierce move either way.**

Further along the Eurodollar futures strip: September 2005

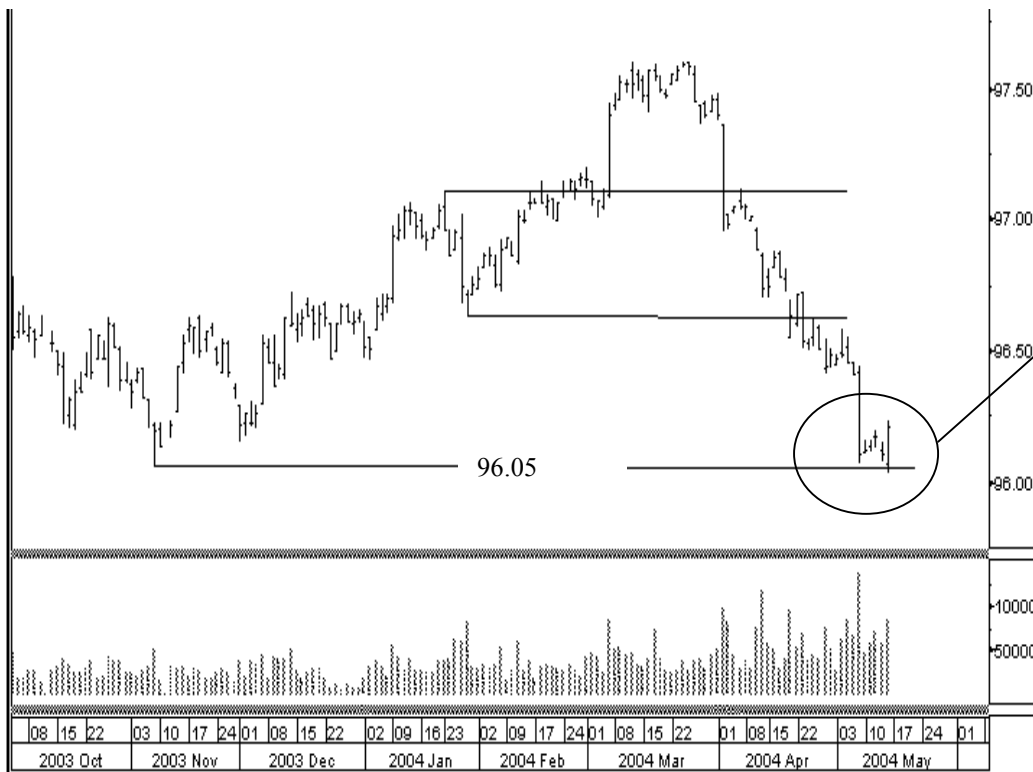


WEEK CHART: This is altogether more exciting.

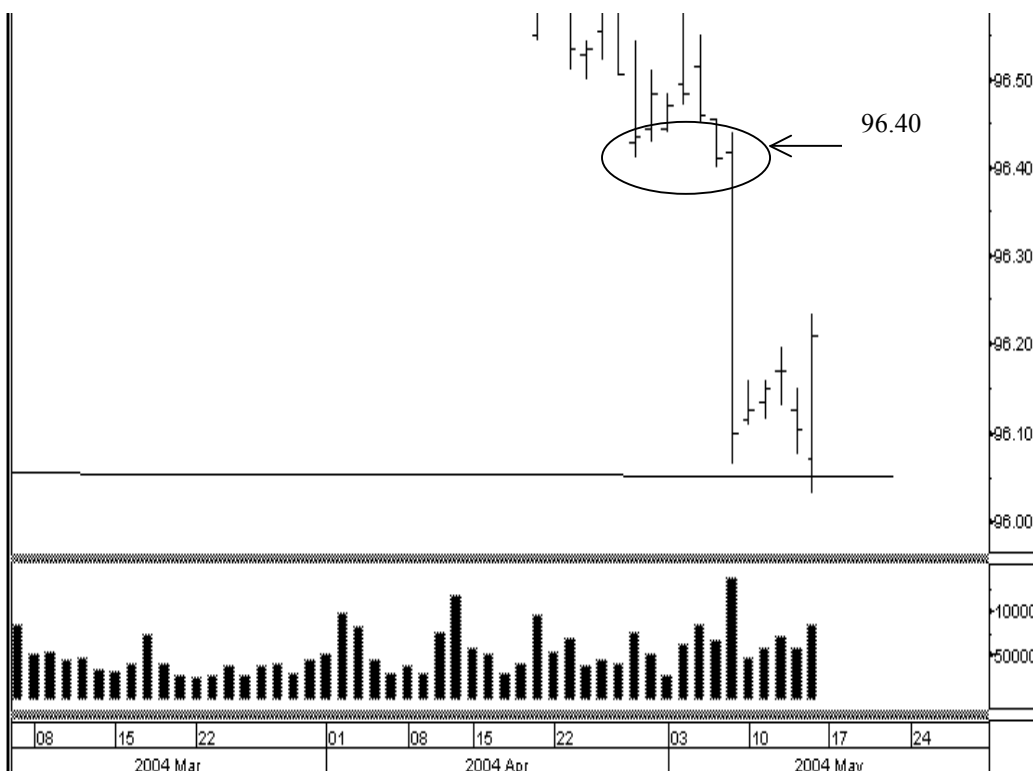
The twin tops at 97.50, the break of the long diagonal three weeks ago, and the high and rising volume suggests the bulls have only just begun to sharpen their teeth.

But long term charts require long term chart points to be broken, and the nearest of those is the horizontal from the low at 95.62.

Only a break of that will persuade the long-term traders that the trend has changed.



DAY CHART: In greater detail, last week I did identify the level 96.05 (horizontal from the old low) as critical, and sure enough, the market paused precisely there.

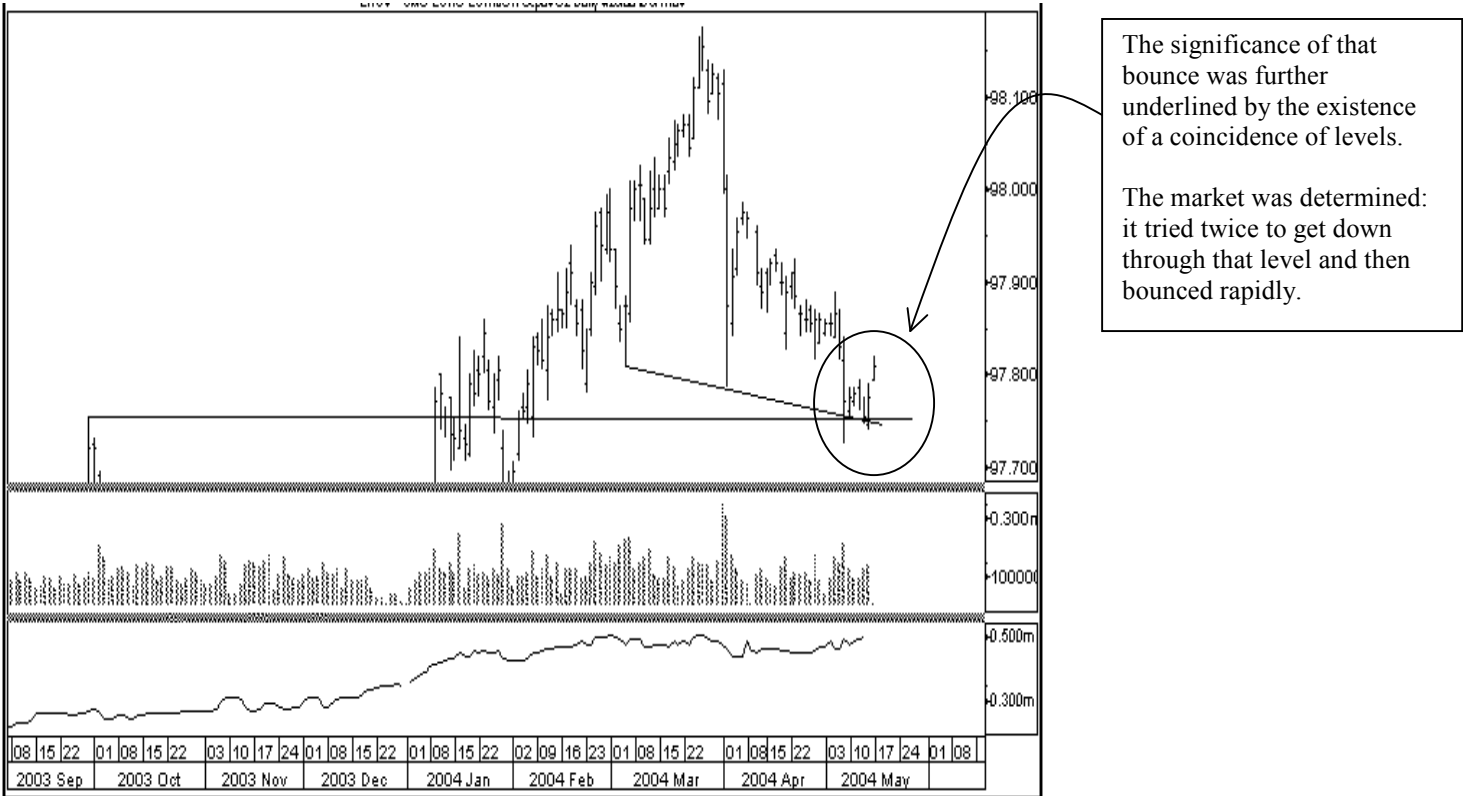
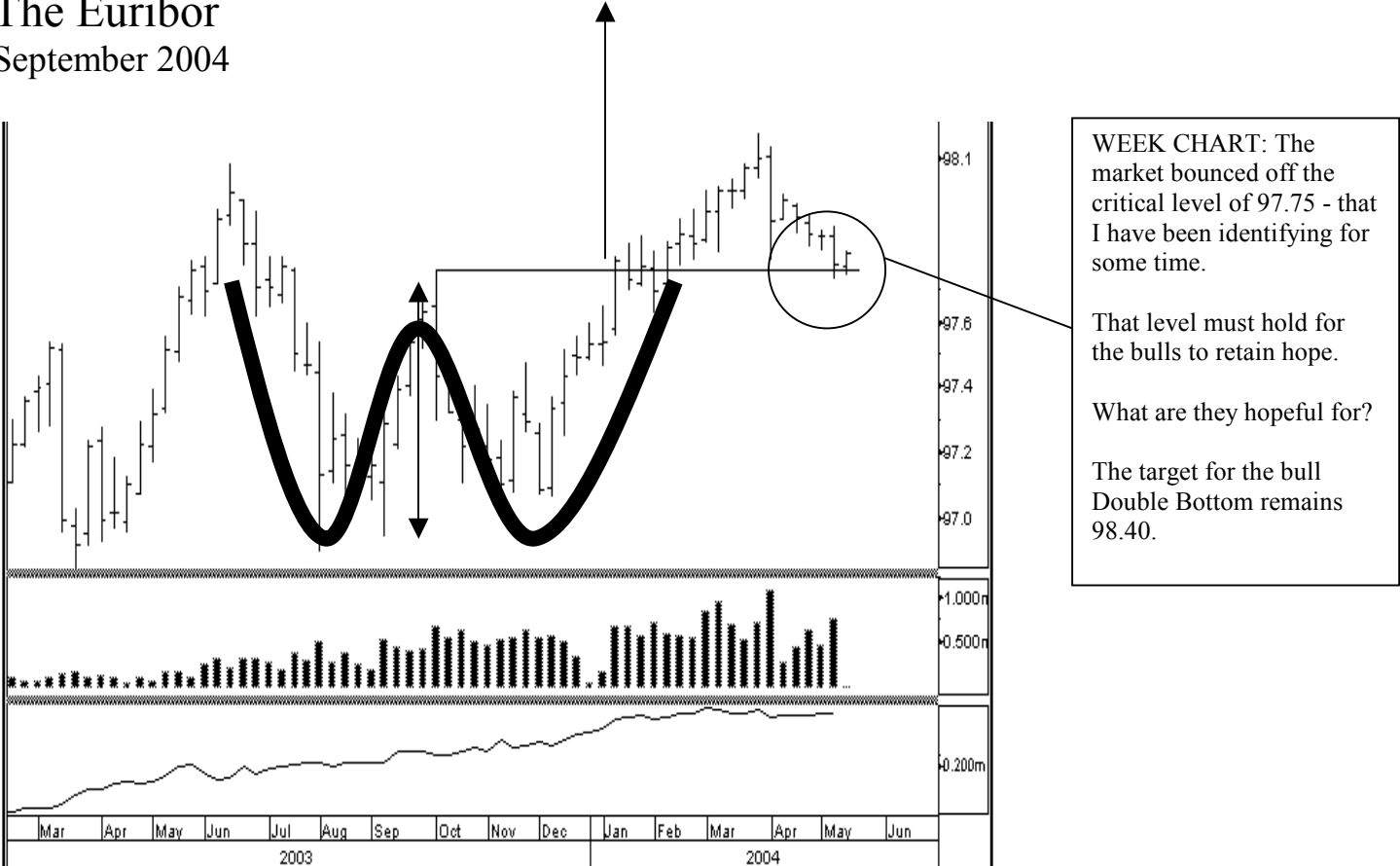


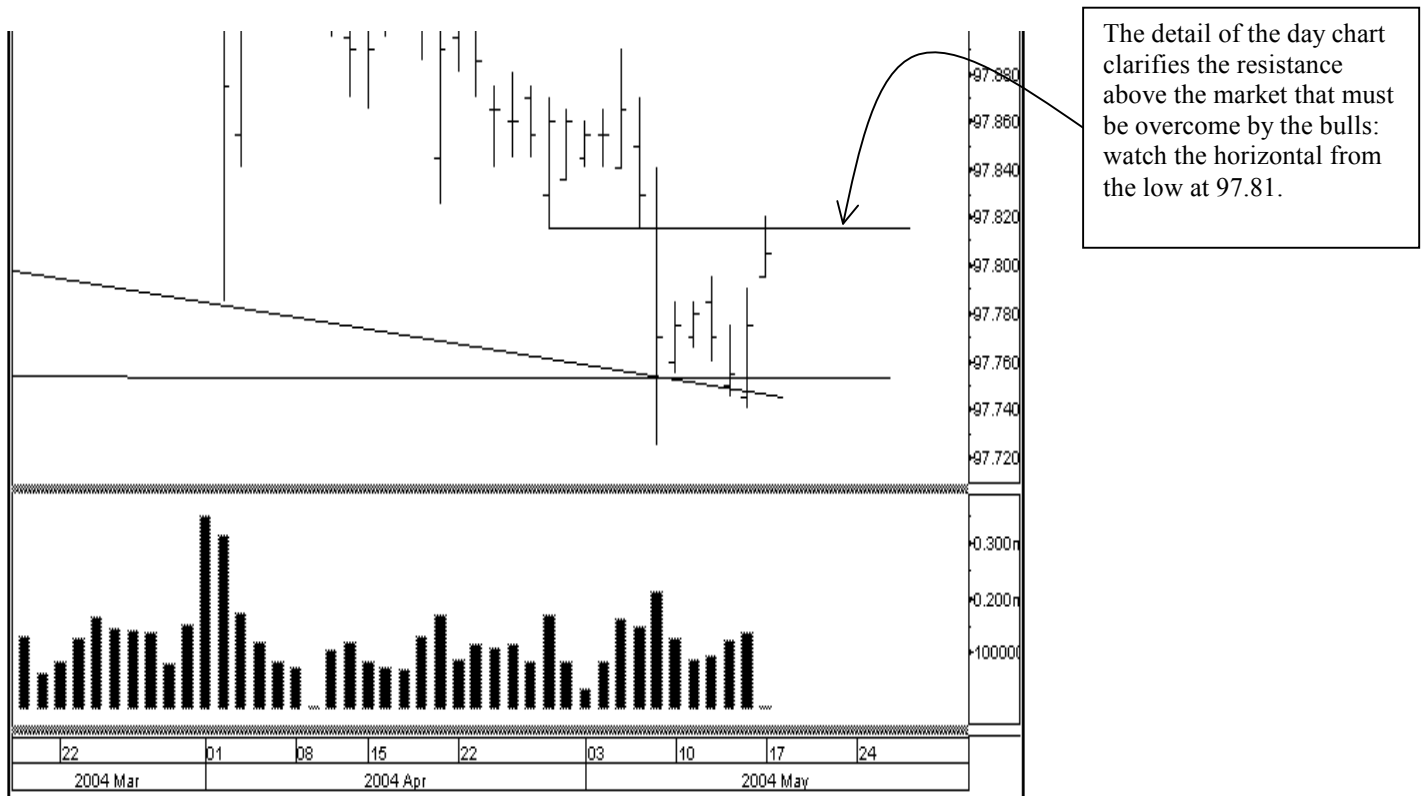
DAY CHART: The bounce from that level was spectacular - an outside day.

Resistance lies above at 96.40.

The Euribor

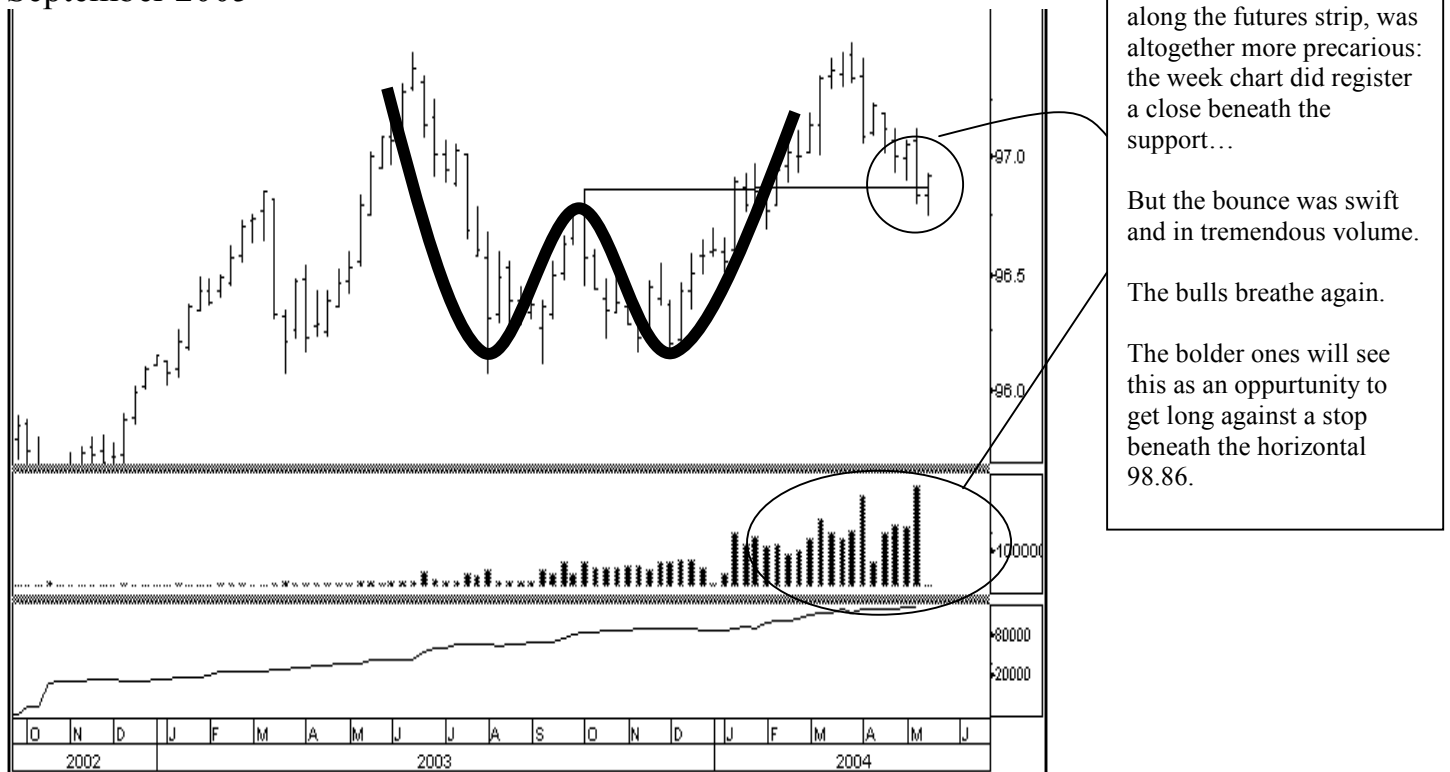
September 2004

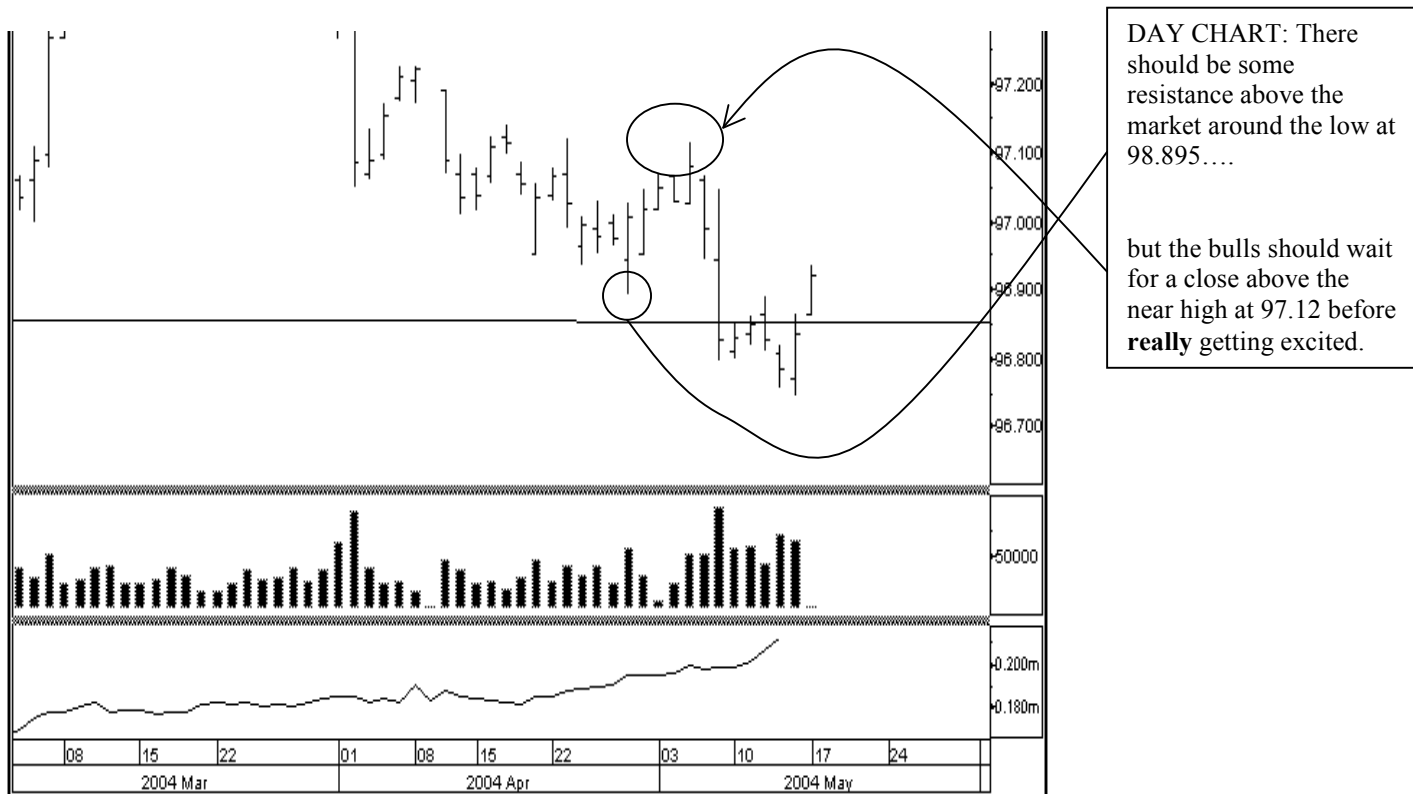




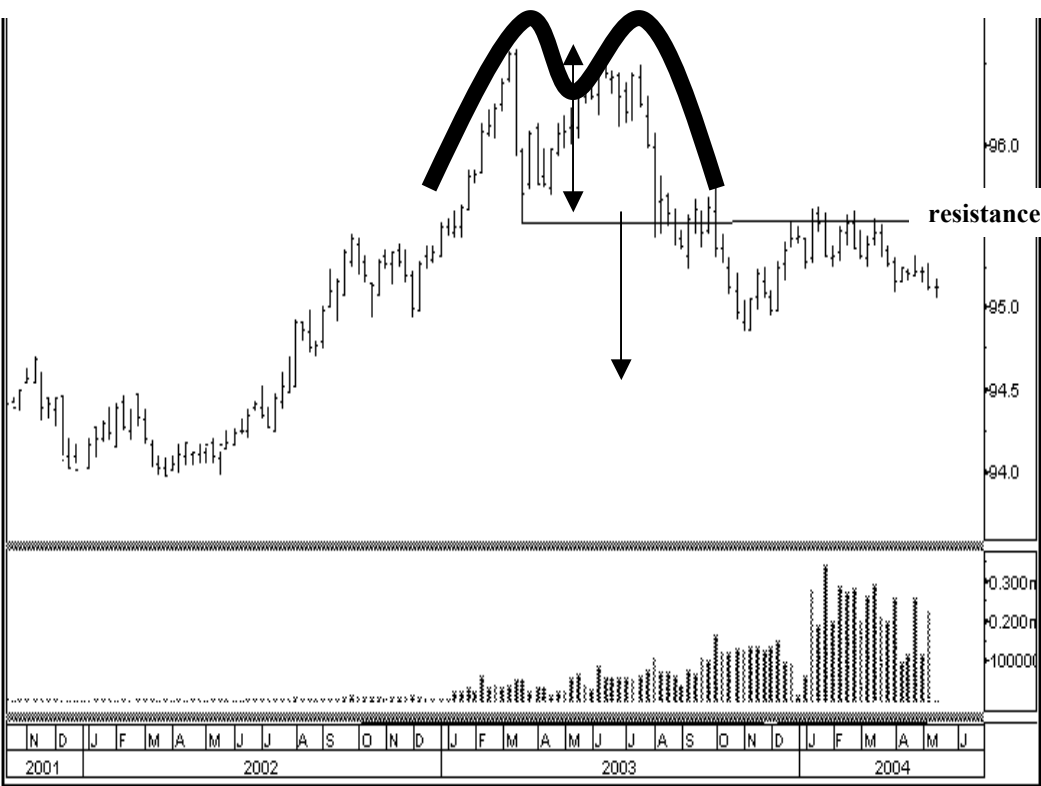
Further along the Euribor futures strip

September 2005

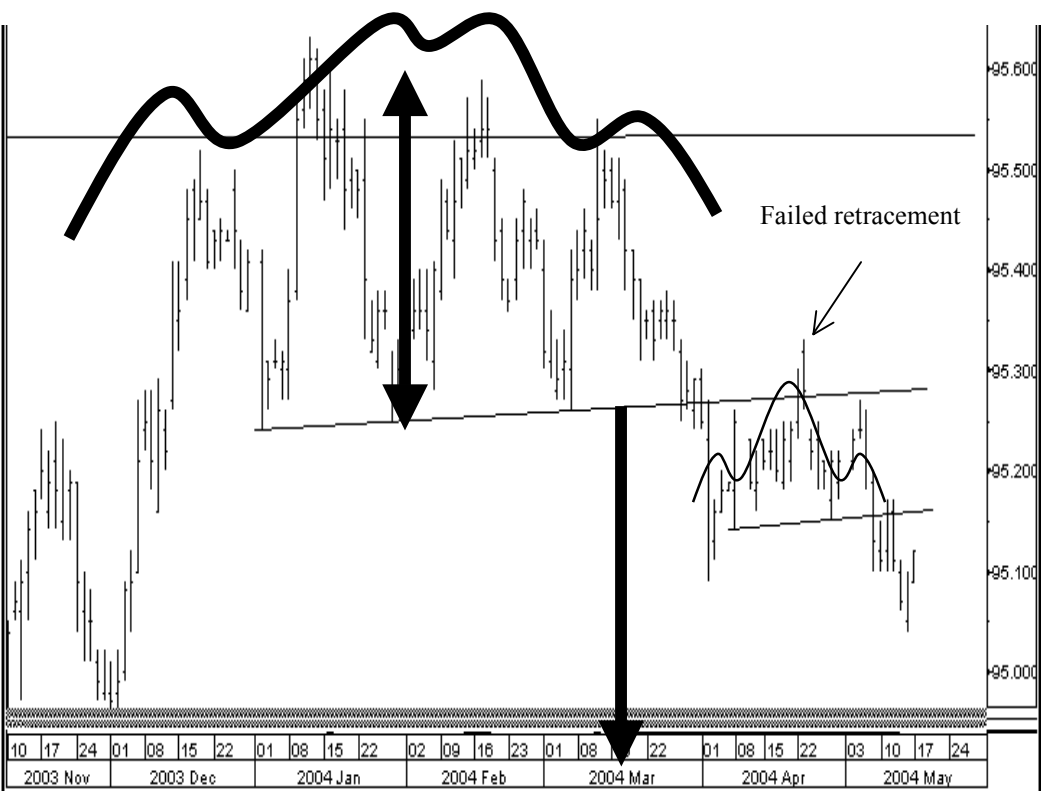




Short Sterling September 2004



WEEK CHART: The Double Top that dominates the market has a minimum target of 94.50.

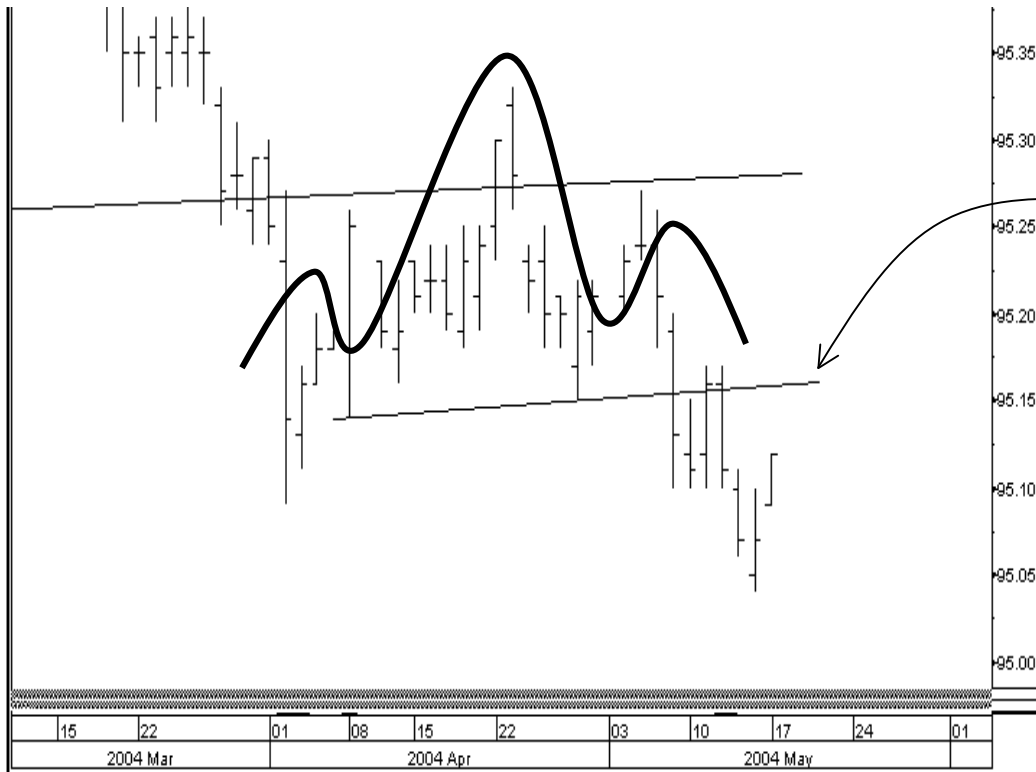


DAY CHART: The day chart is clear too: a complex Double Headed Head and Shoulders Top that wants to drive the market down below 95.00, has completed.

The market has paused beneath (attempting a retracement back through the Neckline - but failing)

The pause has created yet another pattern - a small Continuation Head and Shoulders which has competed in turn - its target is 95.00 as well..

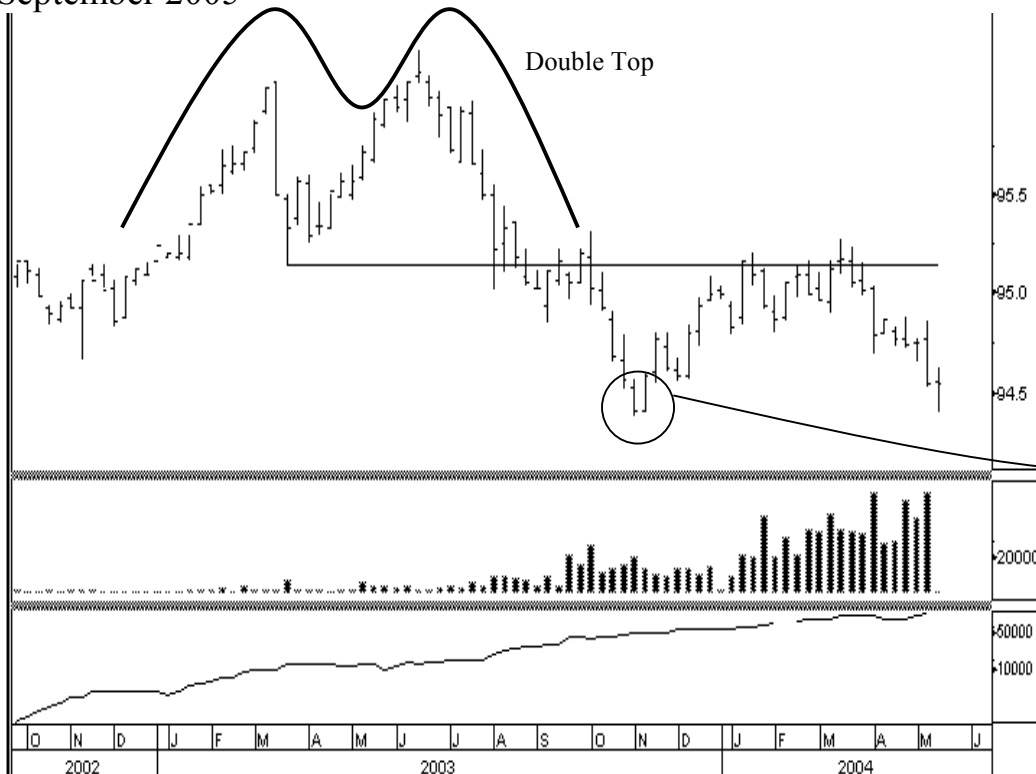
The bears are in charge.



DAY CHART: The detail of the small Head and Shoulders Continuation pattern.

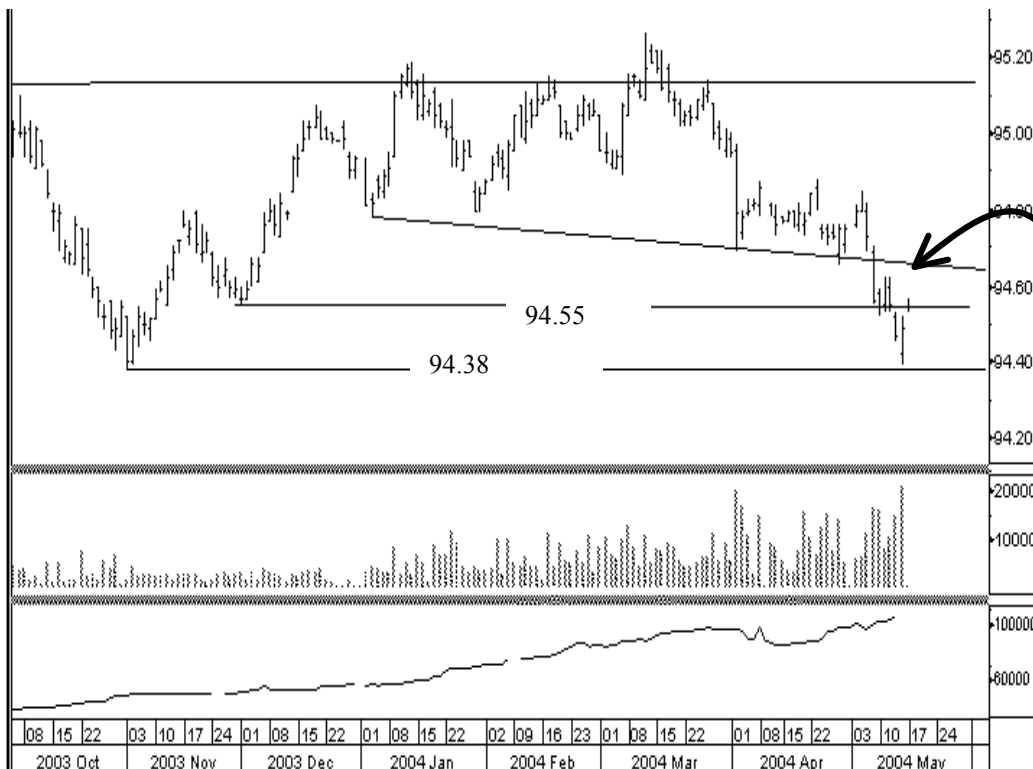
Expect resistance at 95.15 on any pull-back.

Further along the Short Sterling futures strip September 2005



WEEK CHART: The Double Top dominates: the target 94.00.

The chart in these far dates is more advanced: the market has reached the prior low of October 2003....



DAY CHART: I have struggled to find the structure of this pattern - and feel my suggestion of last week to watch the horizontals was useful.

The bounce from the low at 94.38 should find resistance at the horizontal from 94.55, and then above that there is a diagonal resistance coming in at 94.65 or so.

The Bulls are still under great pressure.