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The

Week

Ahead

**A technical perspective for 25<sup>th</sup> May –1<sup>st</sup> June 2004**



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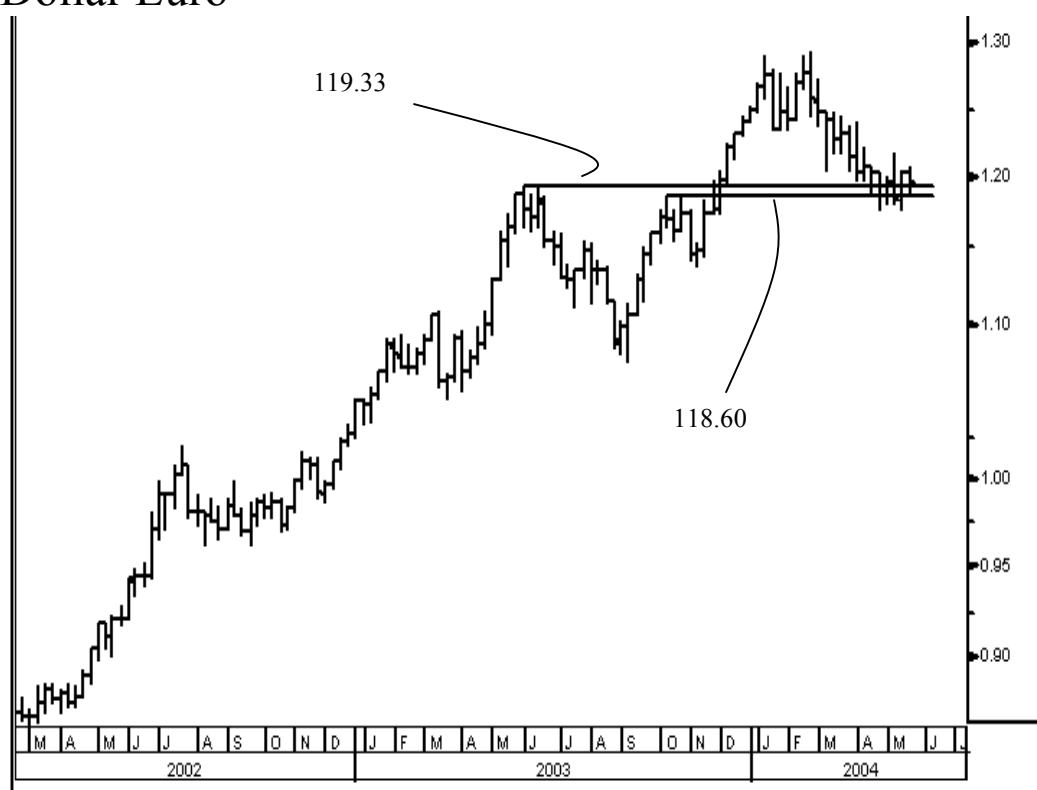
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# CURRENCIES

*The Dollar looks increasingly as if it's strengthening has been stemmed in all markets: The Euro traded sideways certainly, but the major supports remain intact, and both the Yen and Sterling strengthened, from precisely the levels that I have long pointed out they might. Things may change but in the absence of new bullish Dollar patterns, I feel the long term bear Dollar trends are going to re-impose themselves.*

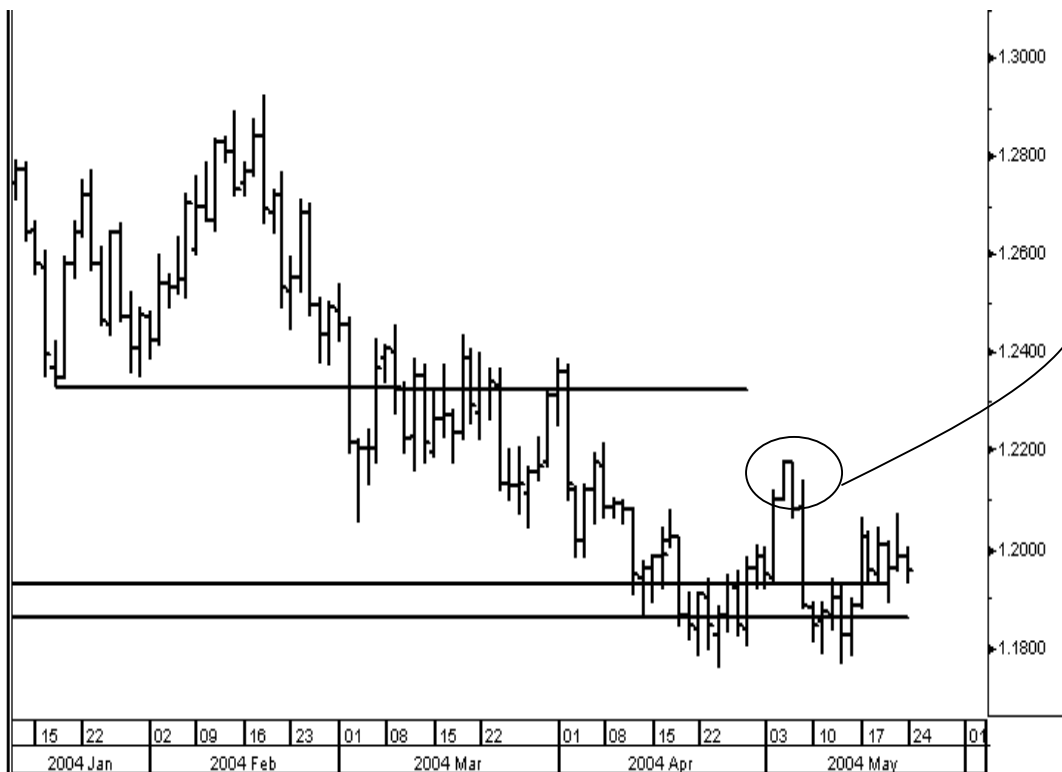
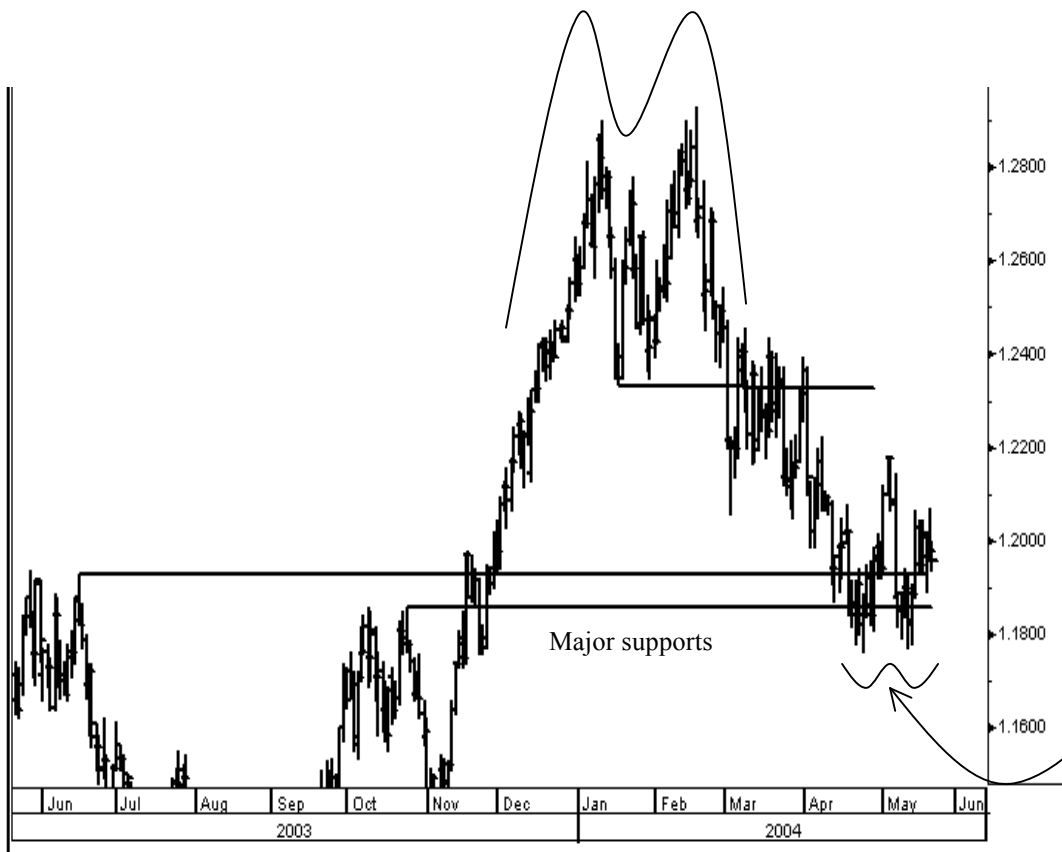
## Dollar Euro

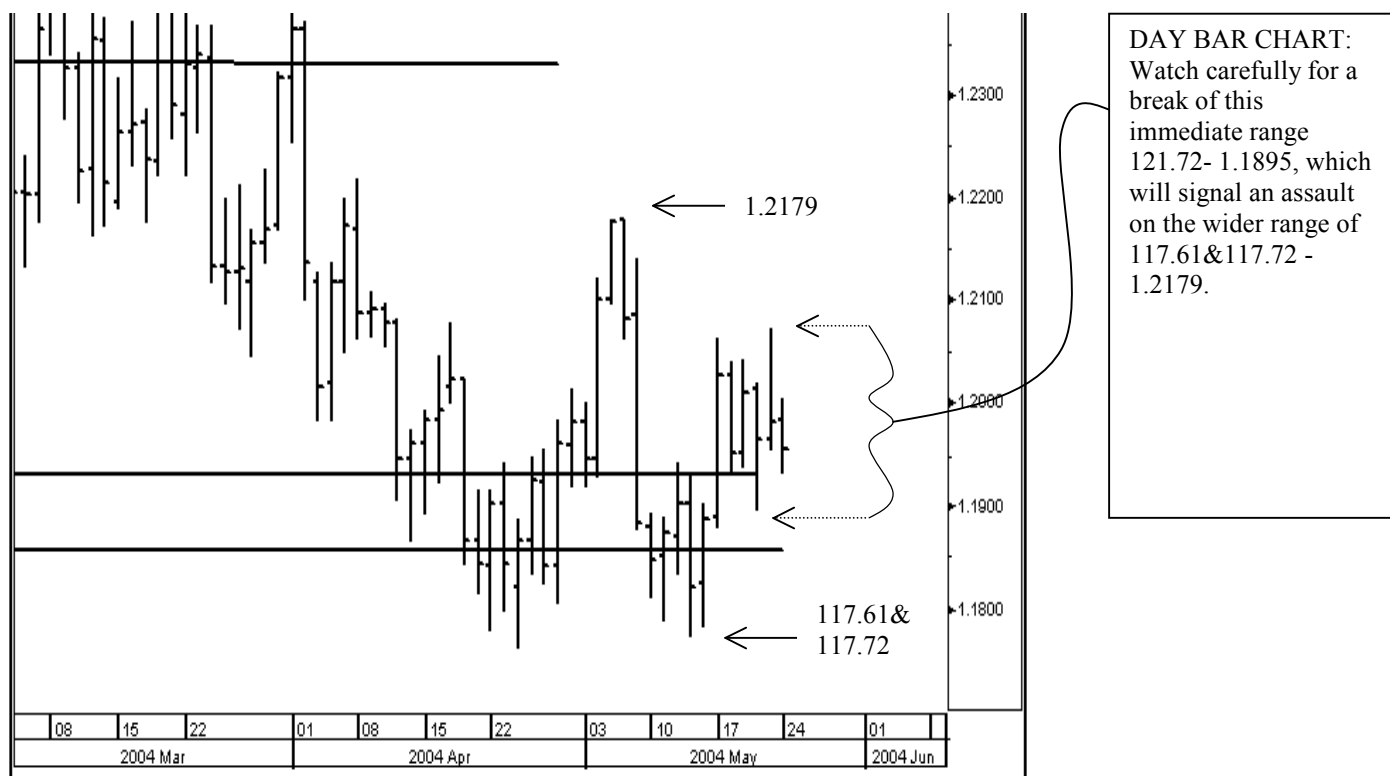


**MONTHLY BAR CHART:**  
The long run chart of the Dollar Euro remains poised at the critical horizontal level from the old highs at 11933 and 118.60.

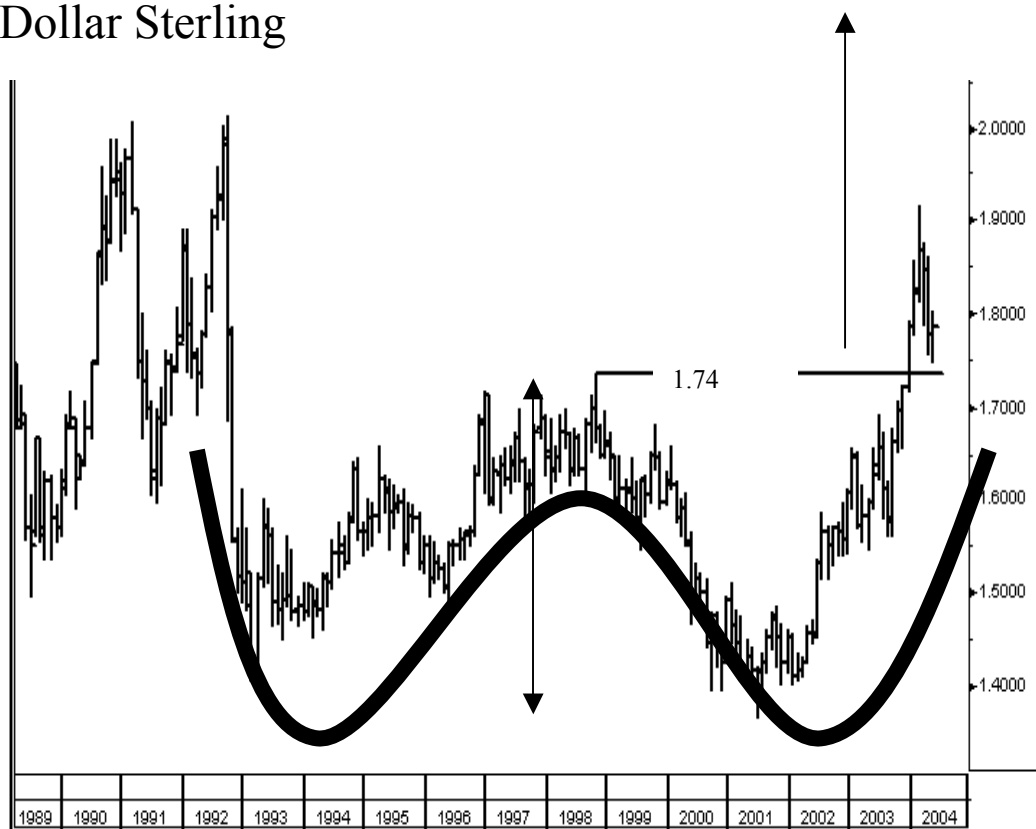
These must hold if the weakening Dollar trend is to remain intact.

So far, over the last five weeks, they have....





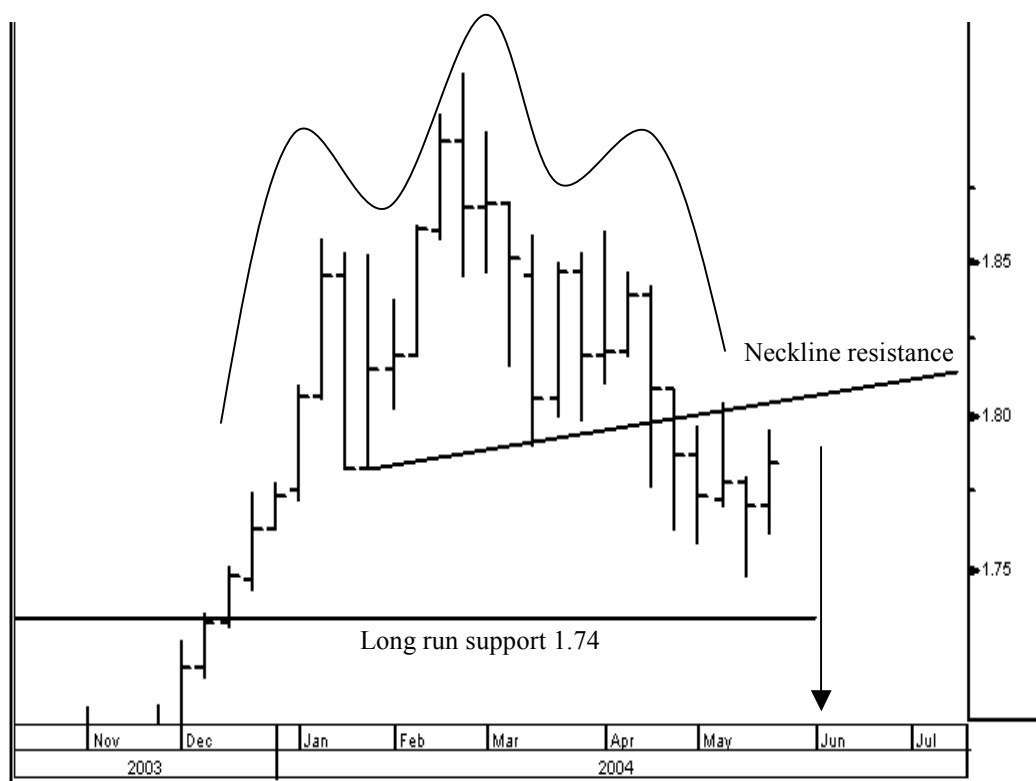
# Dollar Sterling



**MONTHLY BAR CHART:** The massive Double Bottom which completed six months ago is the dominant structure in the market and has a target of 2.08-9

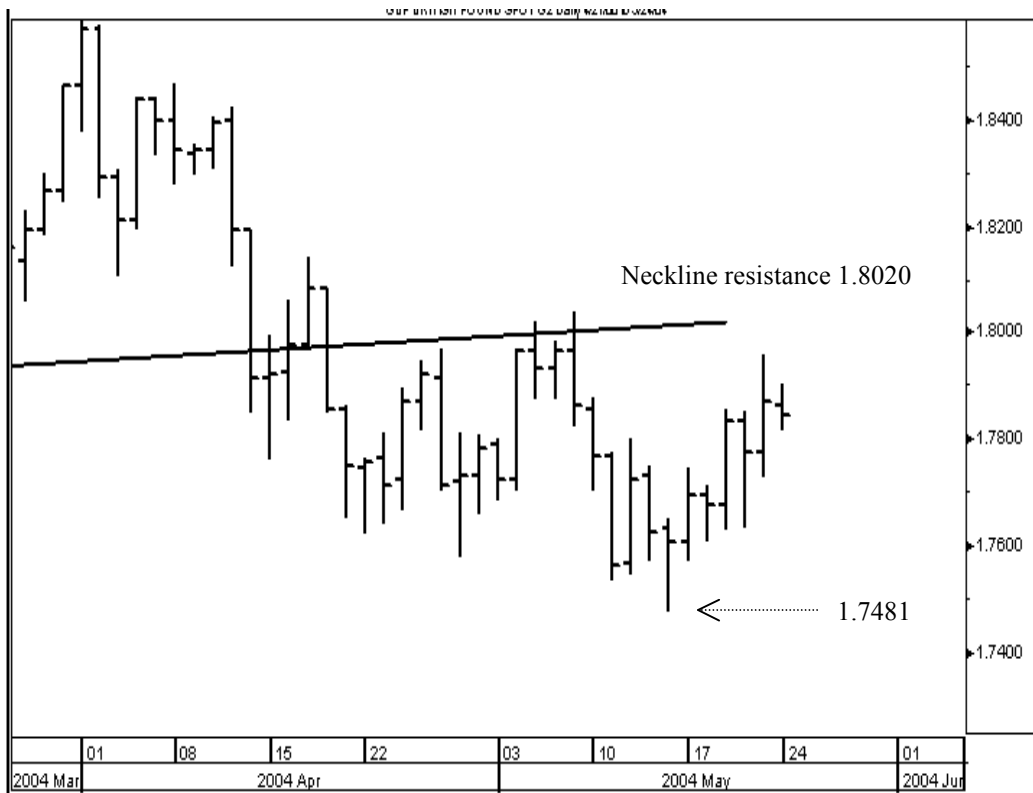
The present drift should find massive support at the horizontal from the high at 1.74.

Only a break of this level would throw the Bull (for Cable) Double Bottom into jeopardy.



**WEEK BAR CHART**  
The driving force behind the recent bear move, we can see here, is a small but well-formed Head and Shoulders Top.

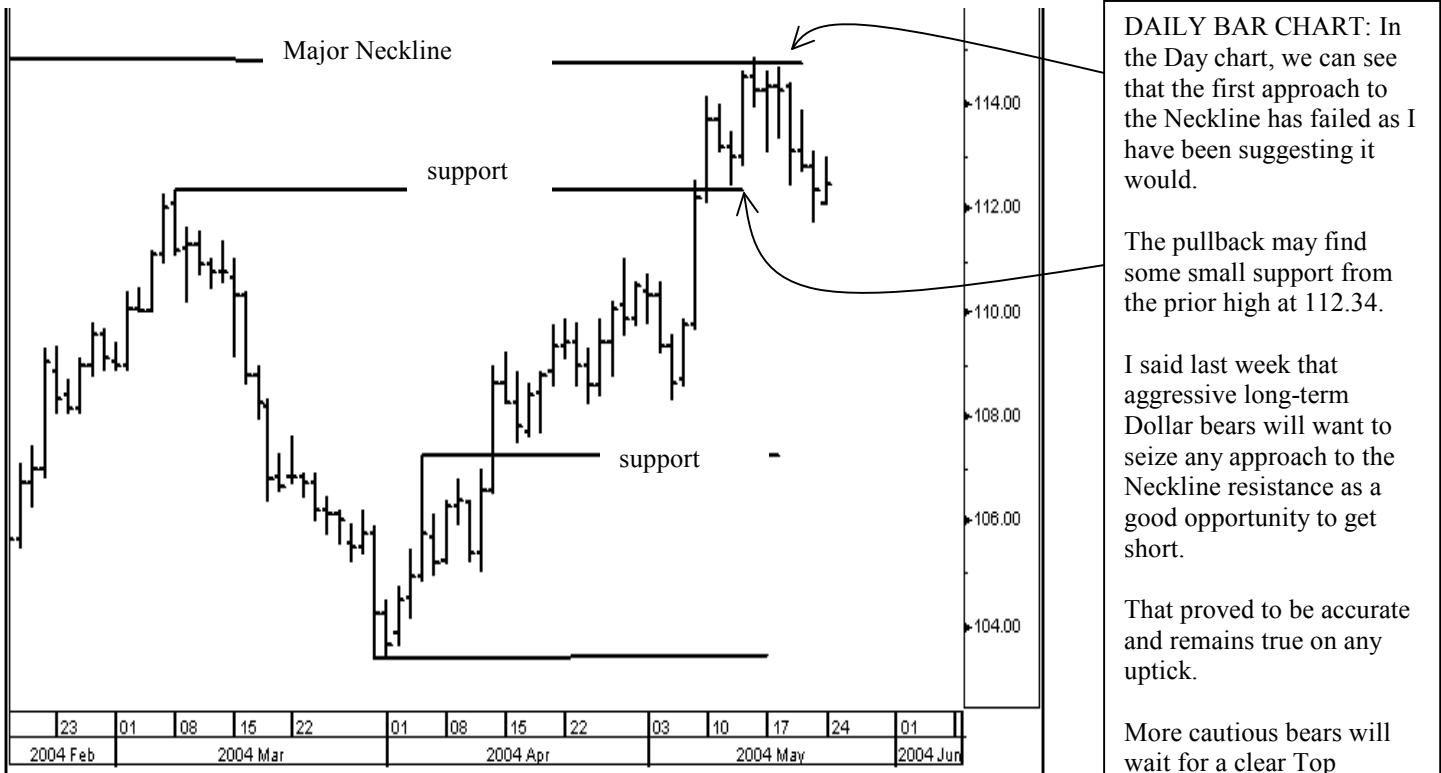
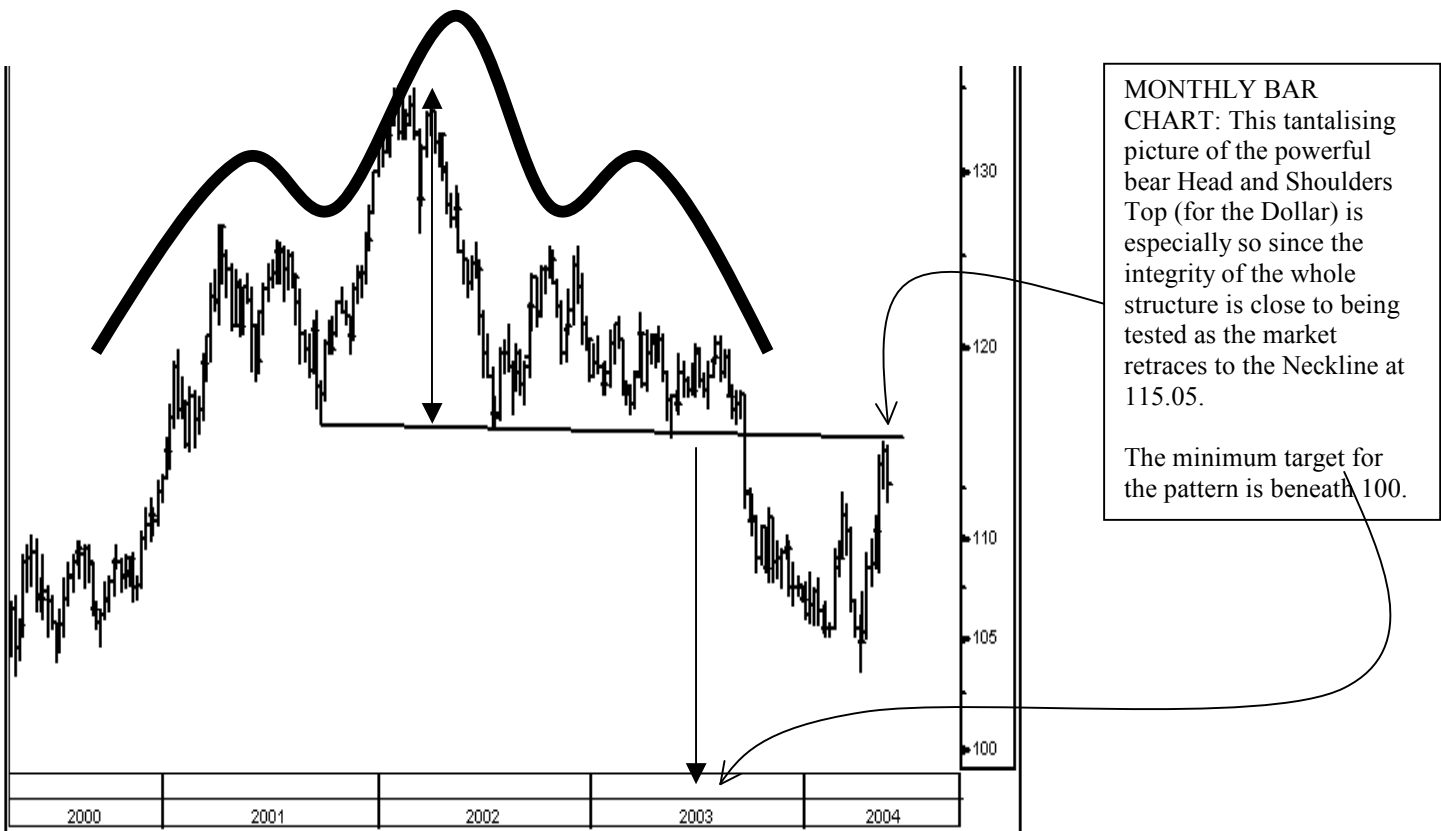
Having completed, this pattern certainly suggests an assault on the support at 1.74 since it's minimum target (1.68) is well beneath that level.



**DAY BAR CHART:** Cable strengthened over the week but above lies the Neckline that has proved good resistance already.

The Cable bulls will want to see that level (currently 1.8020) clearly broken before joining in ... and the bears should wait for a break of the low at 1.7481 for further short term bear moves, always remembering that the massive long term support lies close by at 1.74.

# Dollar Yen

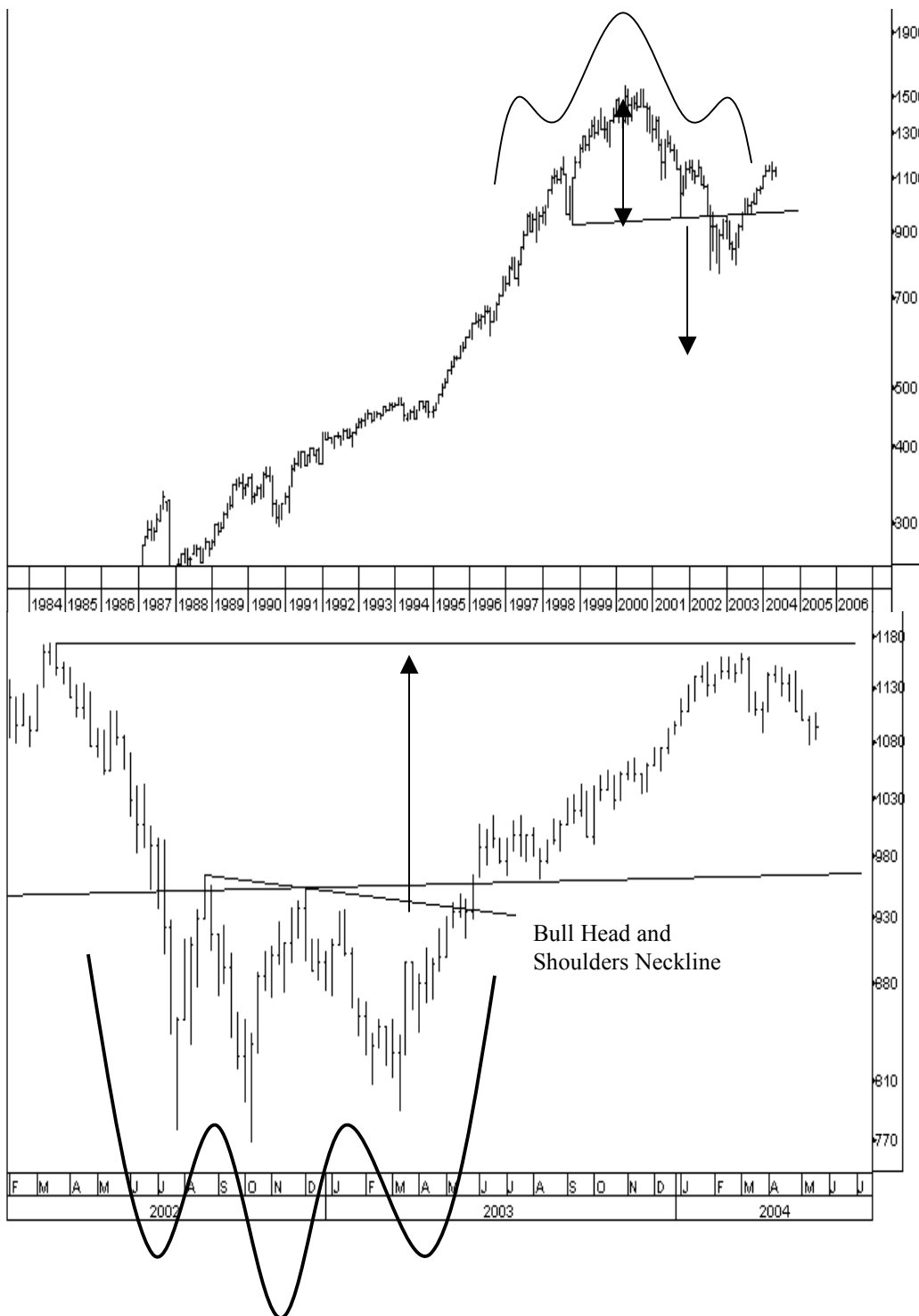




# STOCKS

*Stocks were dull over the week, moving sideways, so the nearly-completed bear patterns I wrote about last week remained just that. Levels signalling bear breakdowns lie very close by. The Japanese market was more confusing: dealers should let the long term forces from long term patterns resolve themselves before getting involved.*

## The Standard and Poors 500 Index



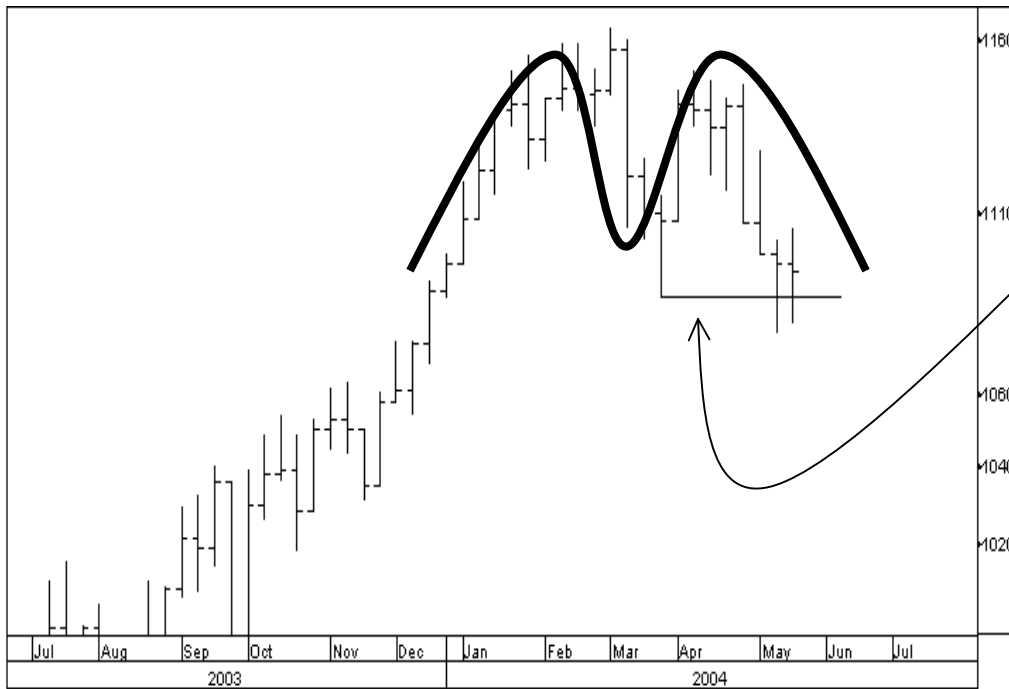
**MONTHLY BAR CHART:**  
The long-standing re-penetrated Top formation.

I have long argued that it remains intact while the market remains beneath the height of the second shoulder at 1170.

So far that remains the case. The target for the pattern is 580 or so.

A long way down.

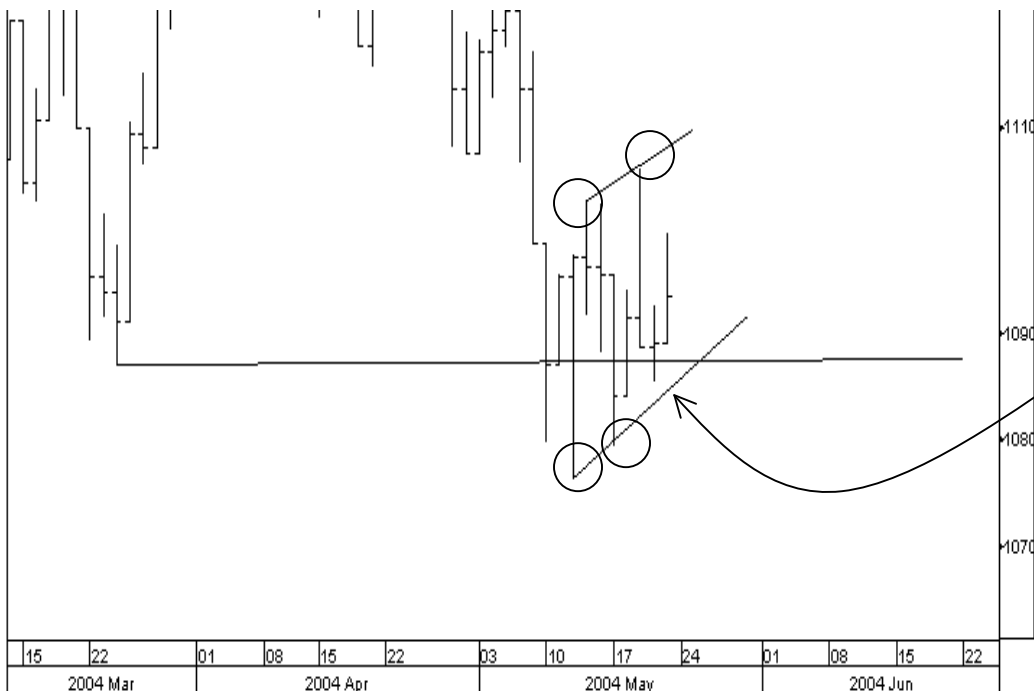
**WEEKLY BAR CHART:**  
The bull driver of the market over the last year was the completion of a smaller bull Head and Shoulders - whose target was 1170 too!



**WEEK BAR CHART:** Is there a Double Top forming?

Las week I explained that a break down through the low at 187.06 would be required for that - it happened but then tantalisingly, closed above.

So the pattern hasn't completed.

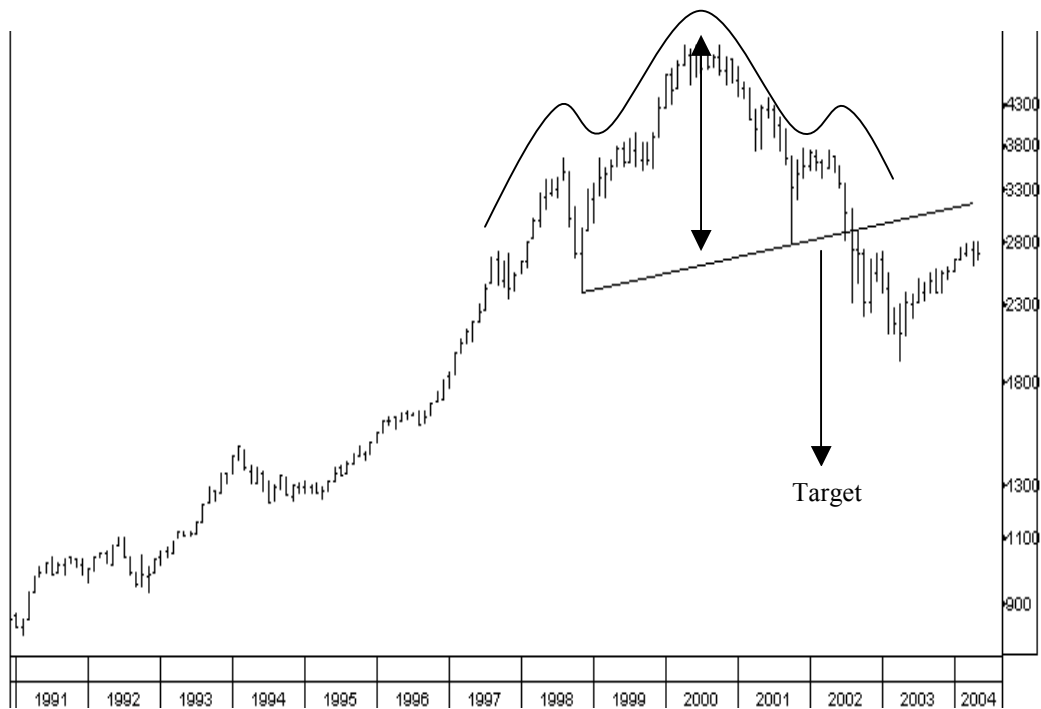


**DAY BAR CHART:** But this detail gives little comfort to the Bulls:

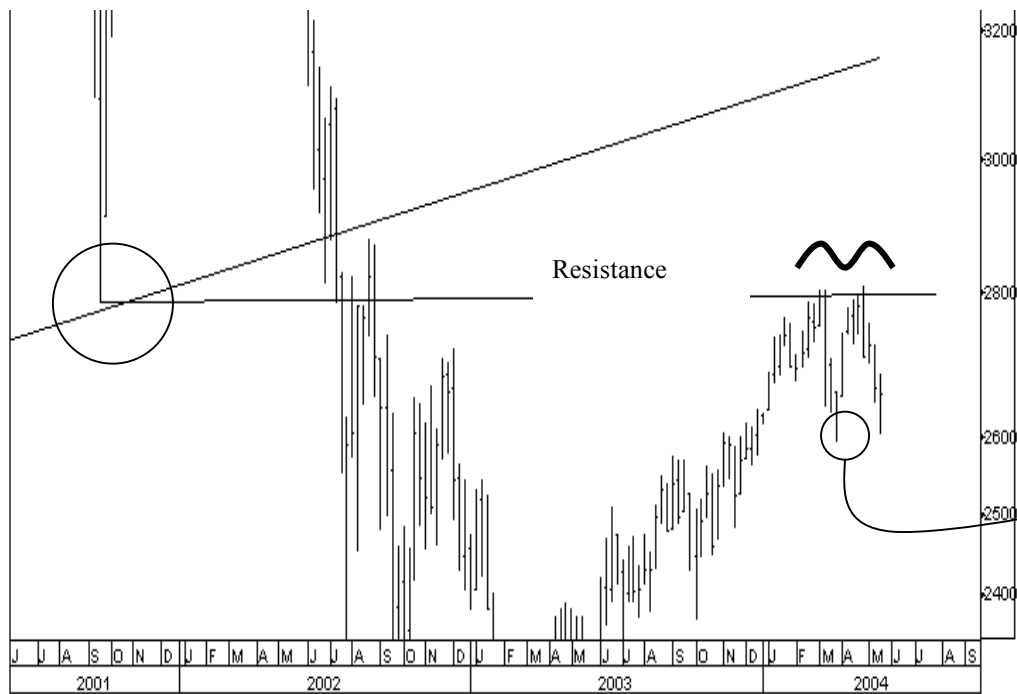
The market is teetering around that level ... without having closed beneath it yet, and in so doing, may be forming a Bear Rising Wedge... watch carefully for a break of the lower diagonal currently at 1084.52.

That would signal a further push down....

# The European DJ Stoxx 50

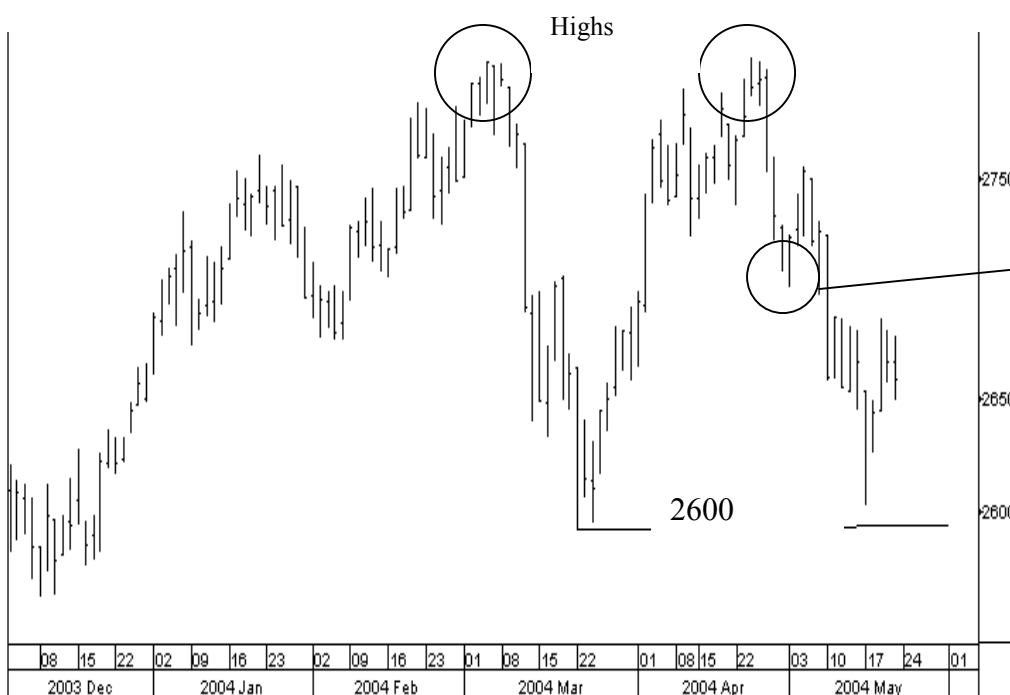
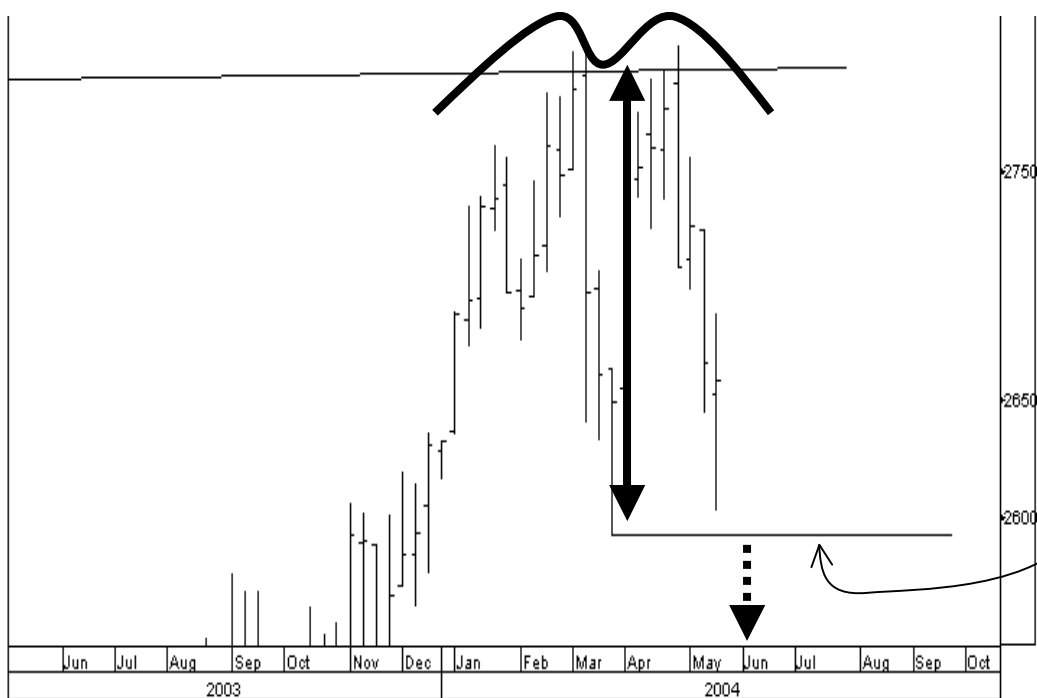


MONTHLY BAR CHART: The European blue chip stocks have formed a clear H&S Top and the retracement has been more muted (relative to the Neckline) than the S&P.



WEEK BAR CHART: The market has paused at the horizontal from the old low at 2784 - good resistance.

There has been a double failure there...and so a closer below 2592.70 would complete a Double Top...



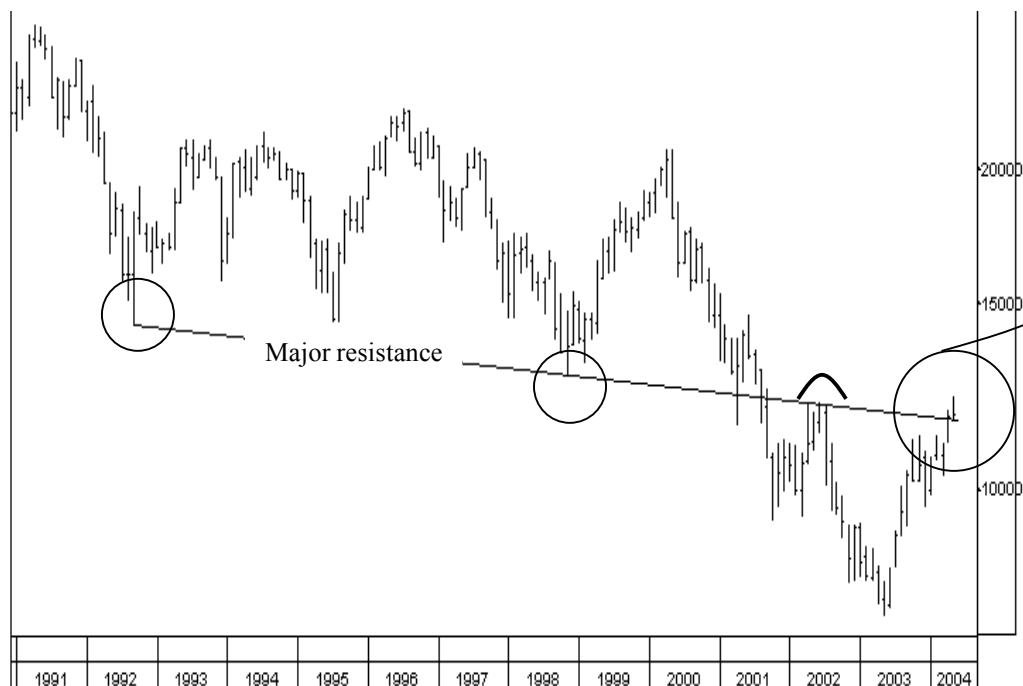
#### DAY BAR CHART:

The market ticked better over the week, away from the critical 2600 level.

The low at 2699 may act as some resistance on any bounce but the bulls will only really be relieved if the market were able to break through the highs at 2804 and 2806.

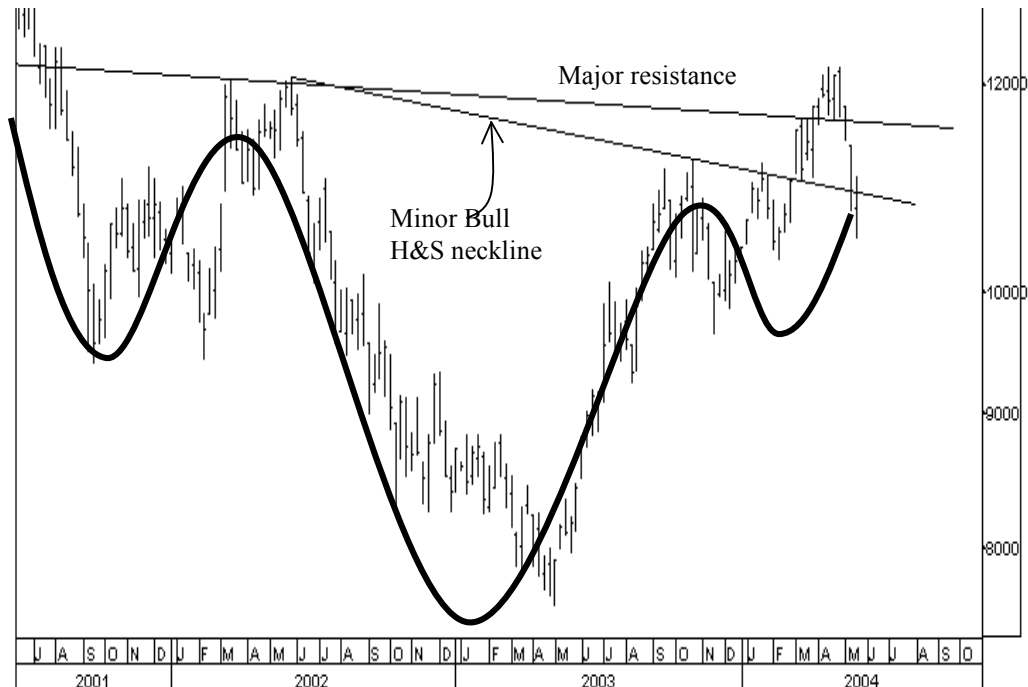
The bears should wait for a break and close beneath 2600.

# The Nikkei 225 Index



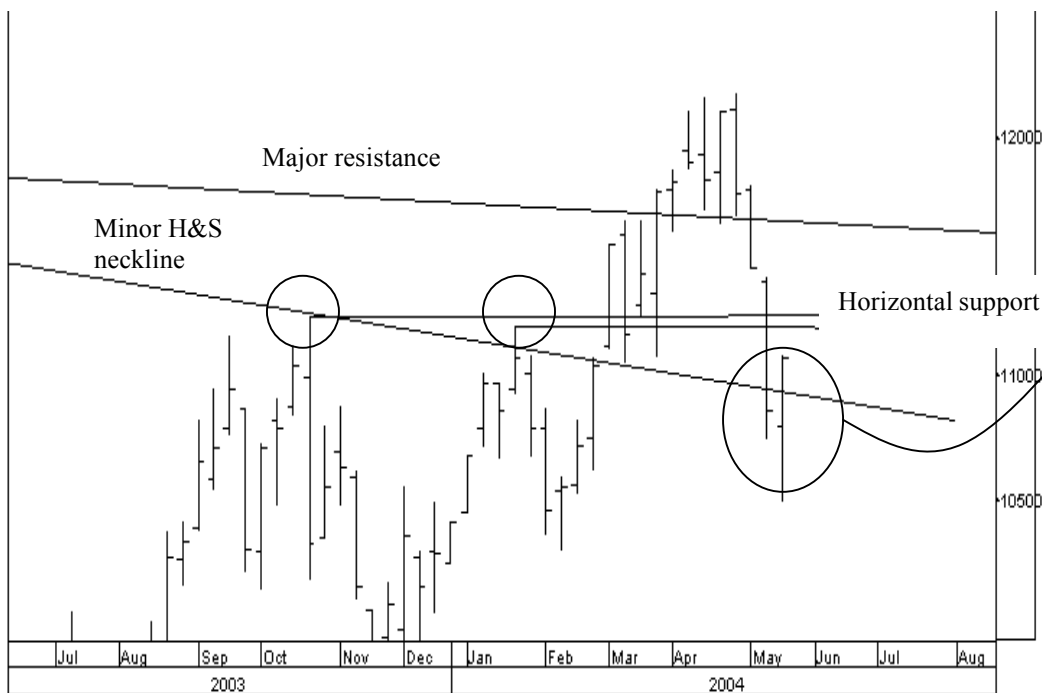
**MONTHLY BAR CHART:** The long-term chart of the Nikkei place s great emphasis on the massive overhead resistance currently at 117.19.

It looked last month as if the market has broken through, but the price action was less than convincing, and the short term charts since then reveal a good deal more...



**WEEK BAR CHART:** The market has fallen away strongly. Not just through the Major Resistance, but also through the Neckline of a clear Head and Shoulders pattern beneath the market.

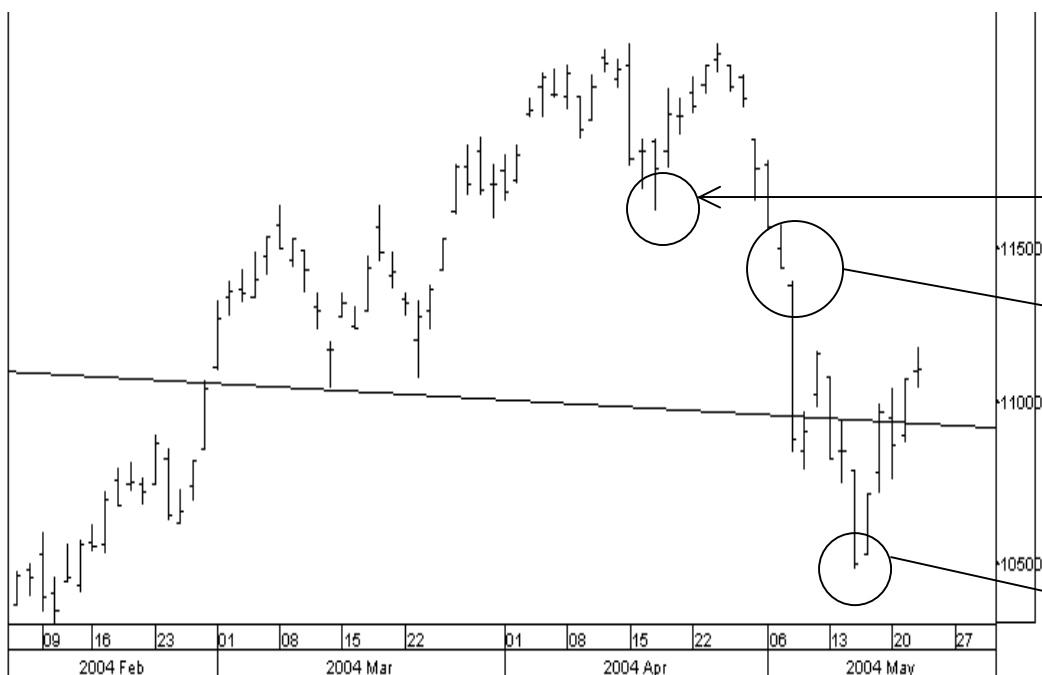
But the situation is complex...



#### DAY BAR CHART:

I said last week that the bears were in control, but in the short term the market moved better over the week and so an element of confusion has entered the chart picture :

- (1) The market's first attempt to overcome very long-standing resistance, has patently failed in the short term.
- (2) And good horizontal supports have been broken.
- (3) **But** last week's pullback has managed to close above that small Neckline.



#### DAY FUTURES CHART:

The day chart adds little to our understanding, the first resistance on any bounce will be the low at 116.23.

Note well the **Gaps** created on the way down in particular 113.98-114.38.

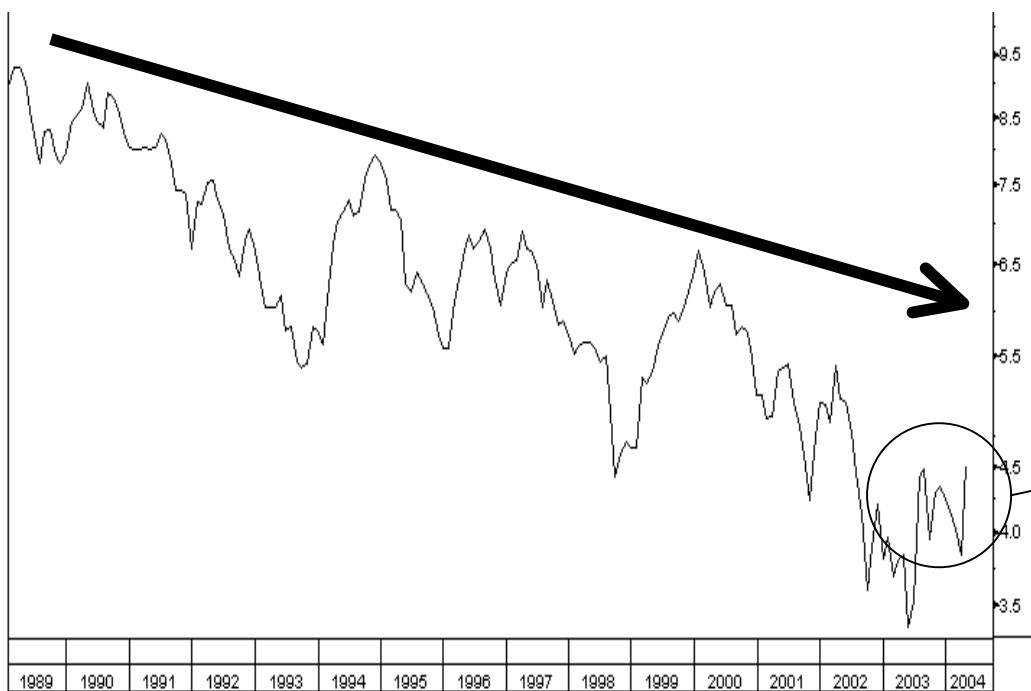
These suggest great bear energy and should act as good resistance on any bounce.

Cautious short-term bears should wait for a break down beneath the recent low at 10490.11

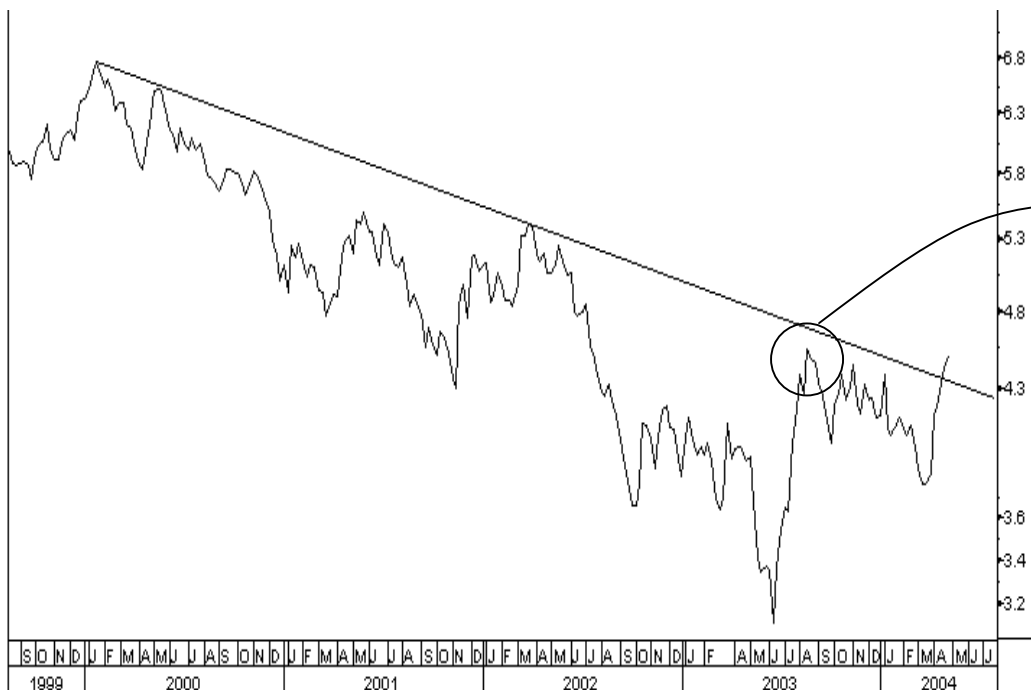
# BONDS

*The evidence for long term bear moves remains clearest in the Japanese market. The Bunds too, have good medium-term bear patterns, but the US bonds still lack any medium or long term structure structure - yet they too are bearish in the very short term.*

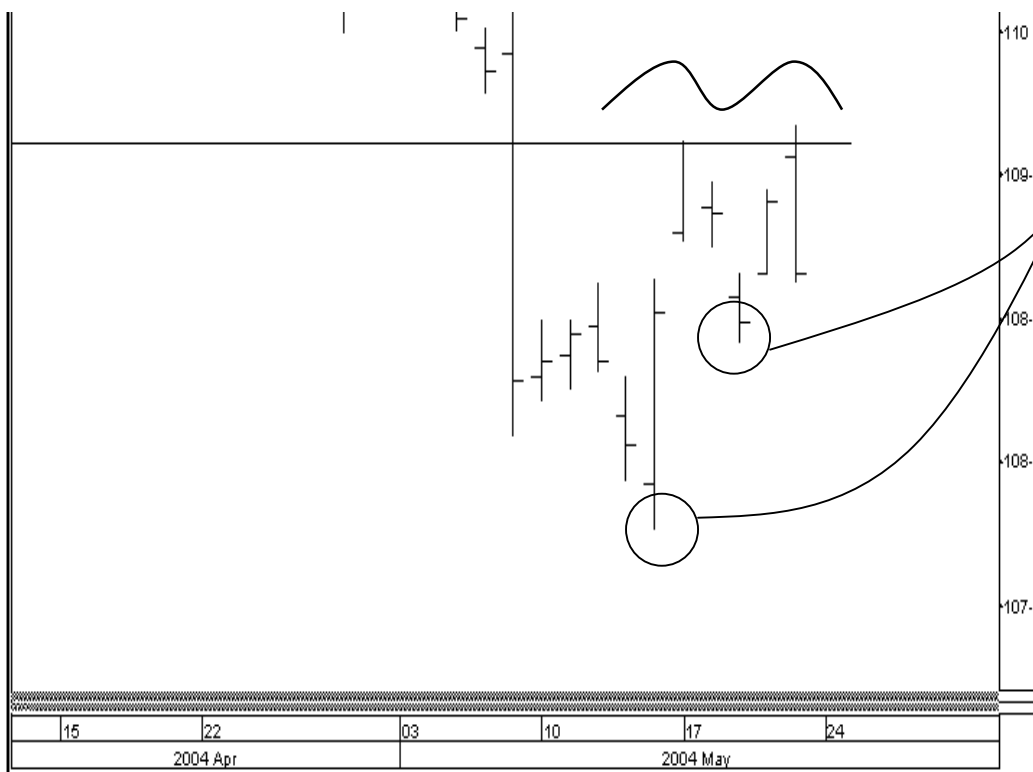
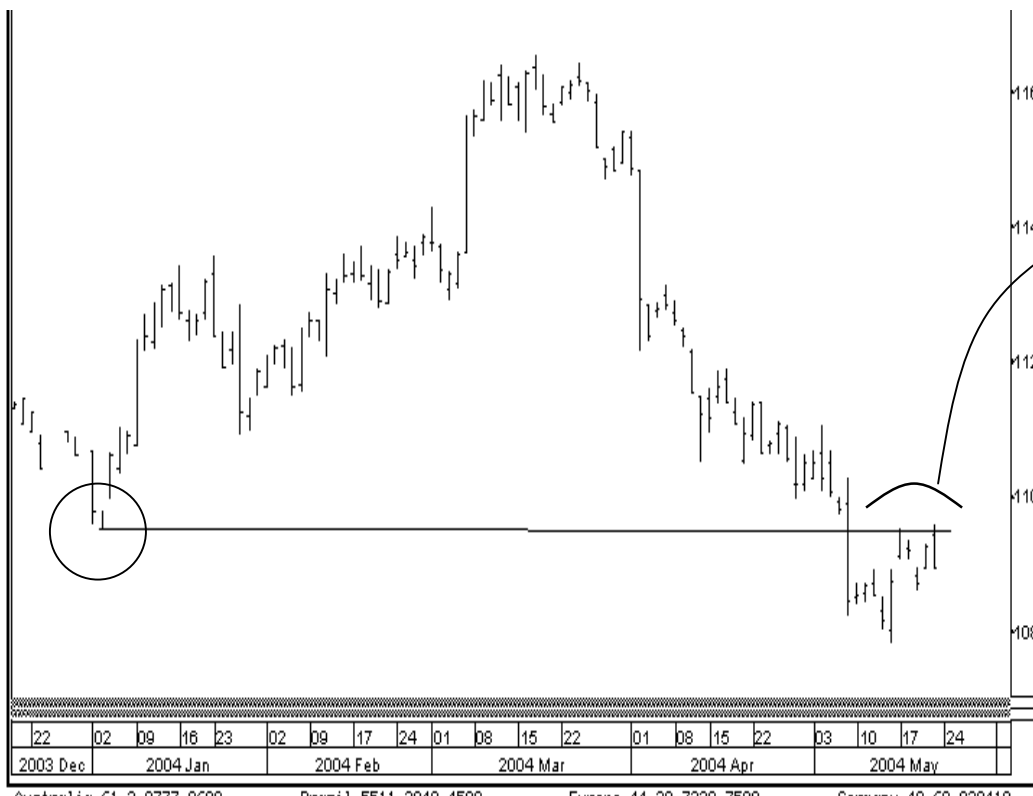
## The US Treasury Note



MONTH CASH YIELD CHART: This very long-term chart helps put the recent hardening of rates into perspective.



WEEK CASH YIELD CHART: The trend resistance established over the last four years is not especially powerful, watch carefully whether the market can push above the recent high in rates in August 2003

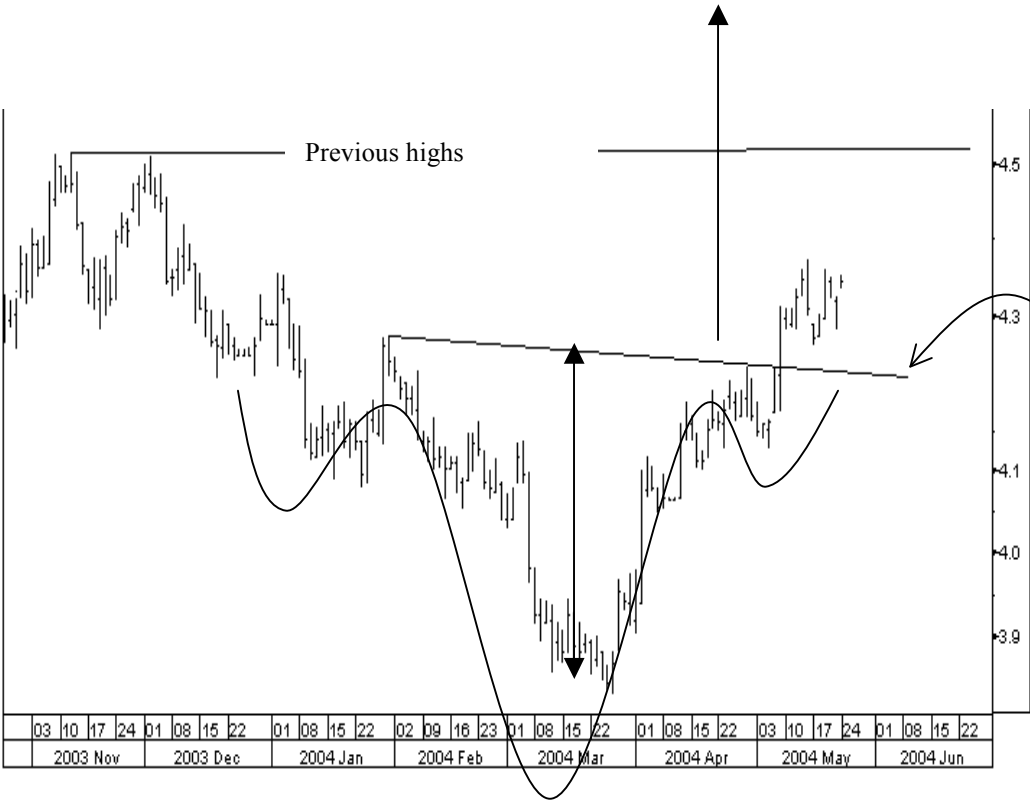




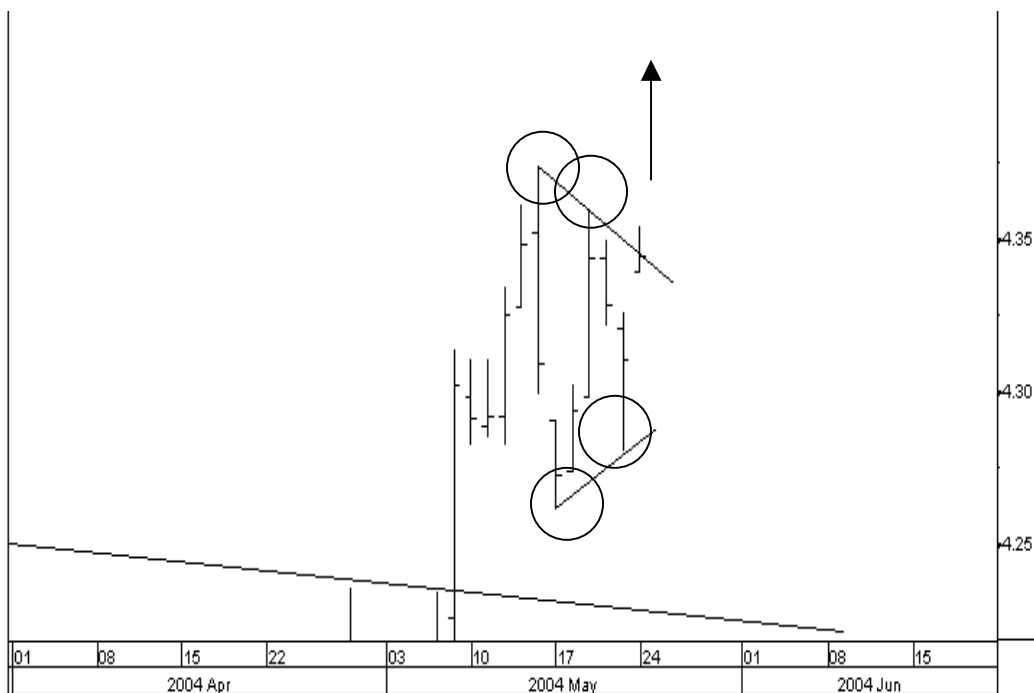
# The European Bund.



MONTHLY CASH YIELD CHART: The long-term trend of the Bund has been for lower yields.

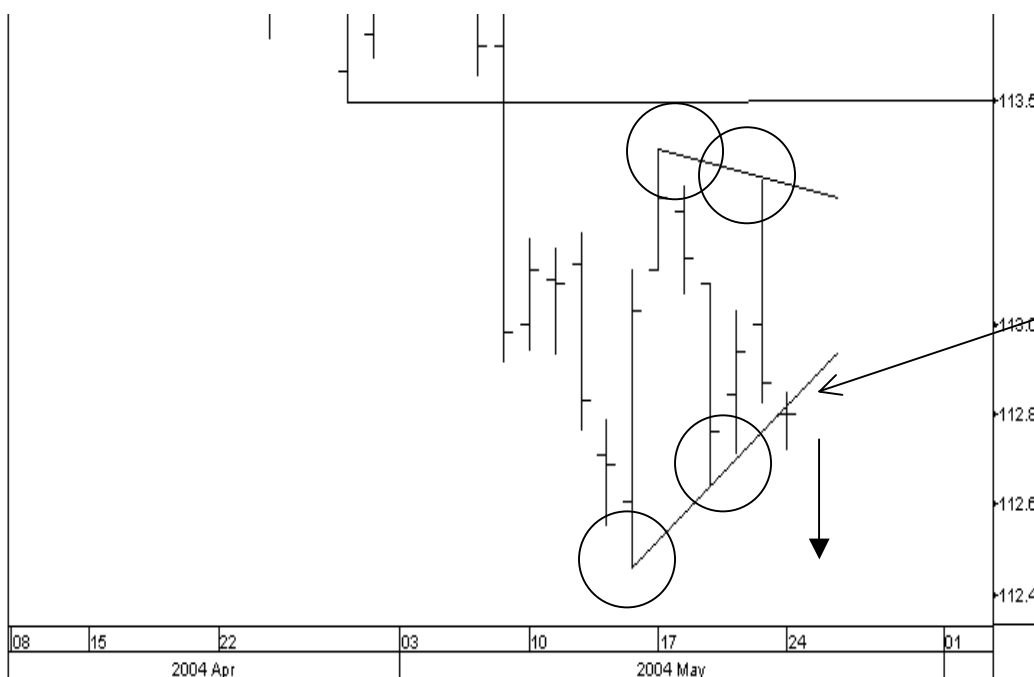


DAY CASH YIELD CHART: There is, however, a clear structure in the chart a Bull Head and Shoulders Bottom that looks likely to propel yields higher.  
Support is at the Neckline at 4.228%.  
The target of the pattern is well through the previous highs of November 2003.



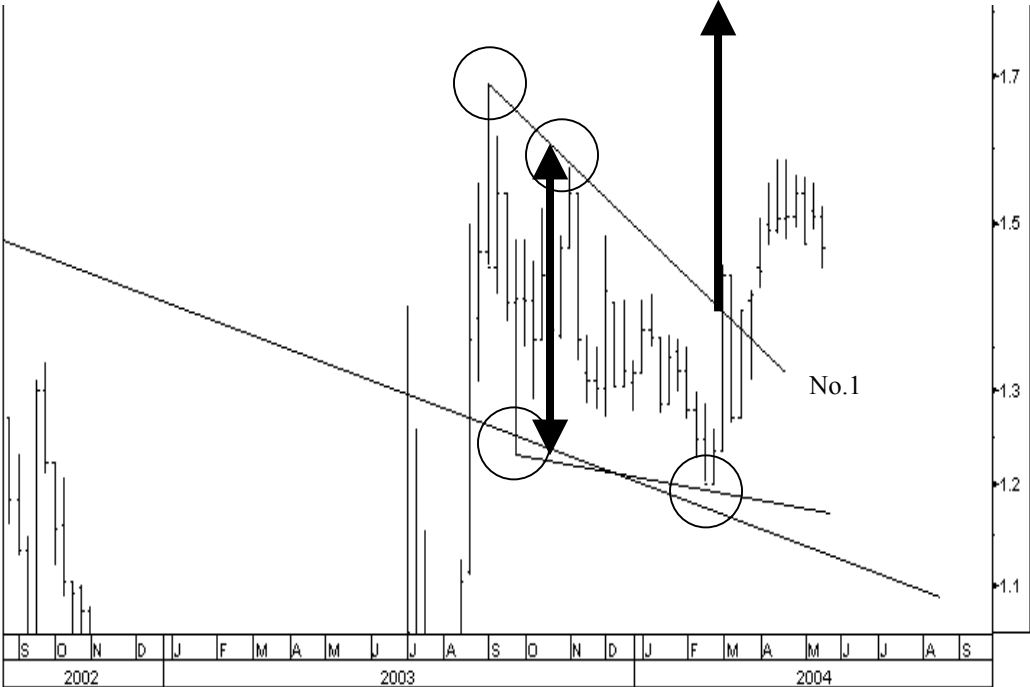
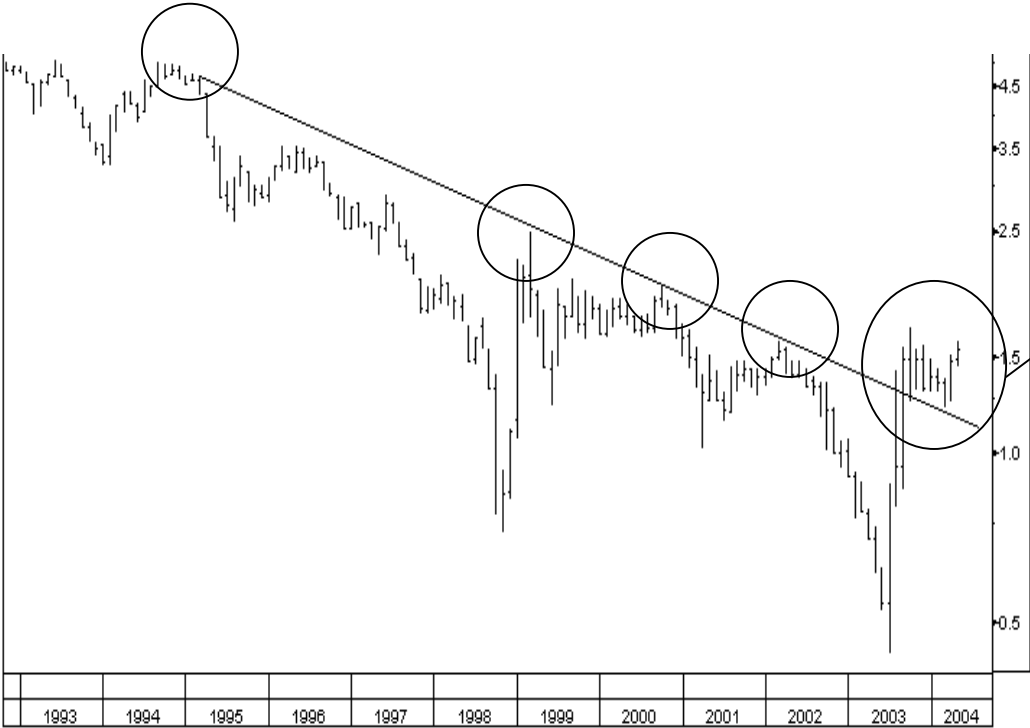
**DAY CASH YIELD CHART:** And the day chart reveals a good continuation triangle on the point of completion.

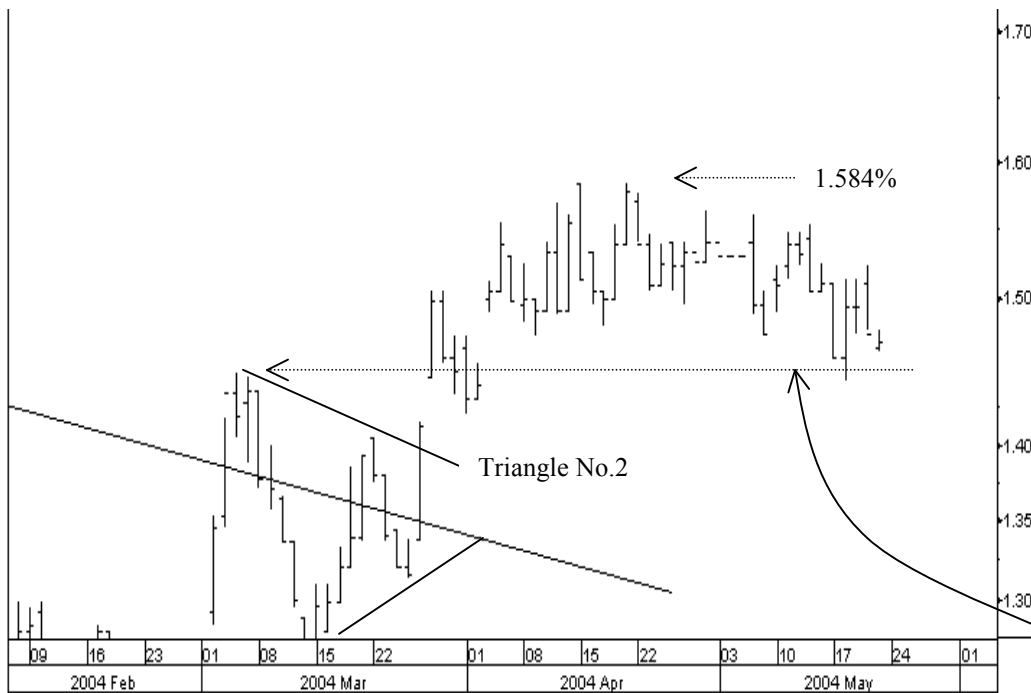
Watch for a close through that diagonal at 4.345% signalling fresh bull moves for higher rates.



**DAY FUTURES YIELD CHART:** A mirror Continuation Triangle can be found in the futures market - here a close beneath 112.82 is the key to further quick bear (price) moves.

# Ten Year Japanese Bond





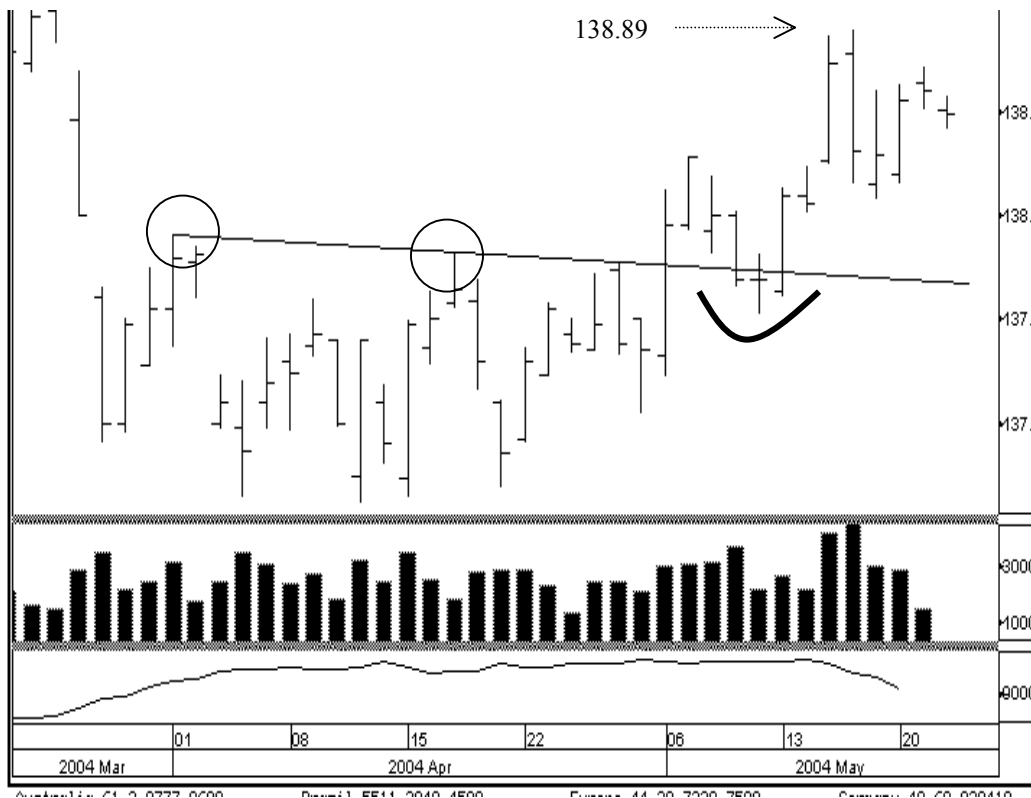
**DAY CASH YIELD CHART:** The breakout from triangle No.1 in the **week chart** was achieved by the creation of another triangle (no.2) in the **day chart**.

But the day price action since that second triangle has been rather formless: a gently rounded top.

My level of last week of 1.473% was of no help. The market traded around it.

Instead, on the upside, wait a for a break of the highs at 1.584%.

There is no clear support on the downside, perhaps the top of the small triangle that formed when the larger one was



**DAY CASH YIELD CHART:** The futures market is rather clearer: use the diagonal from the old highs as support currently at 137.60 or so. Bull should buy on any pull-back to that level, and again on a break of the recent high at 138.89.

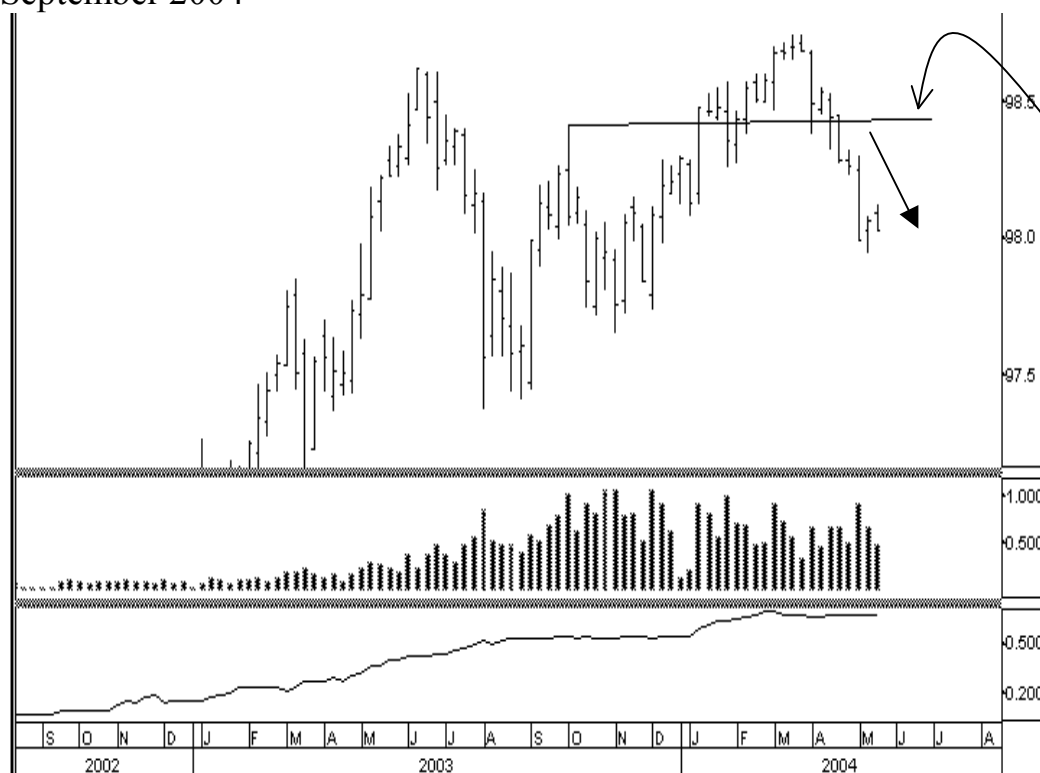
Volumes have drifted due to the sideways price action.

# INTEREST RATES

*I have been most bearish of the Short Sterling, and over last week that market continued to push for higher rates. The Euribor hardened too, led by the far end of the futures strip. The Eurodollars marked time.*

## Eurodollars

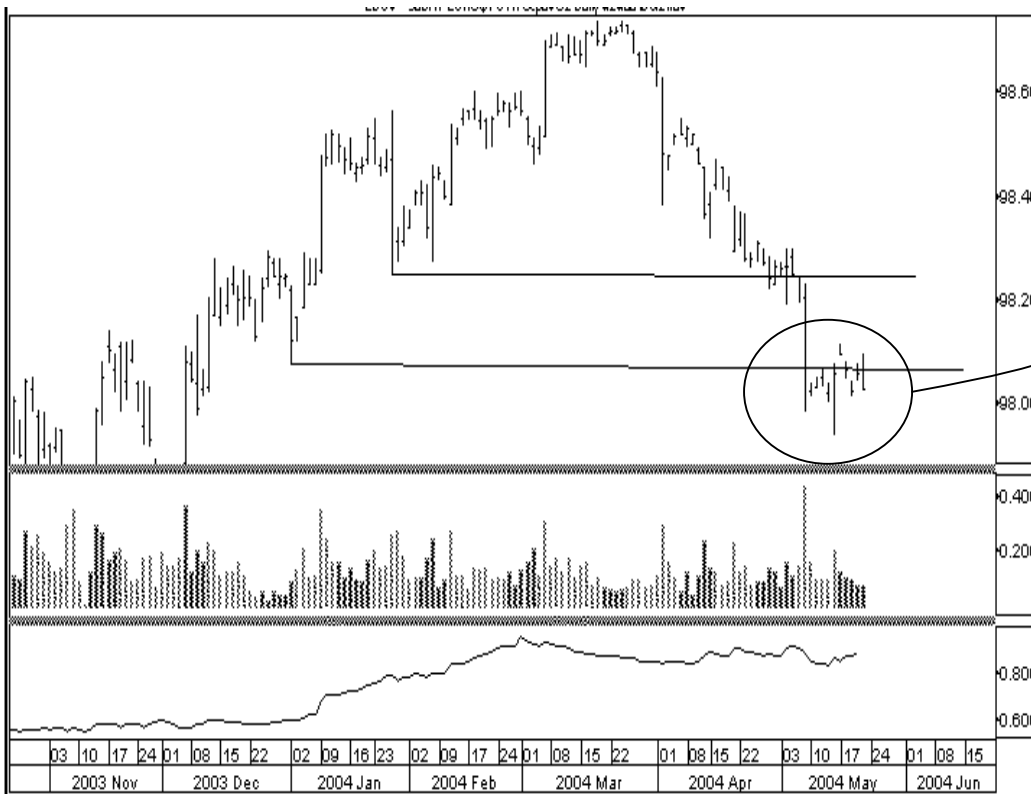
September 2004



### WEEK FUTURES

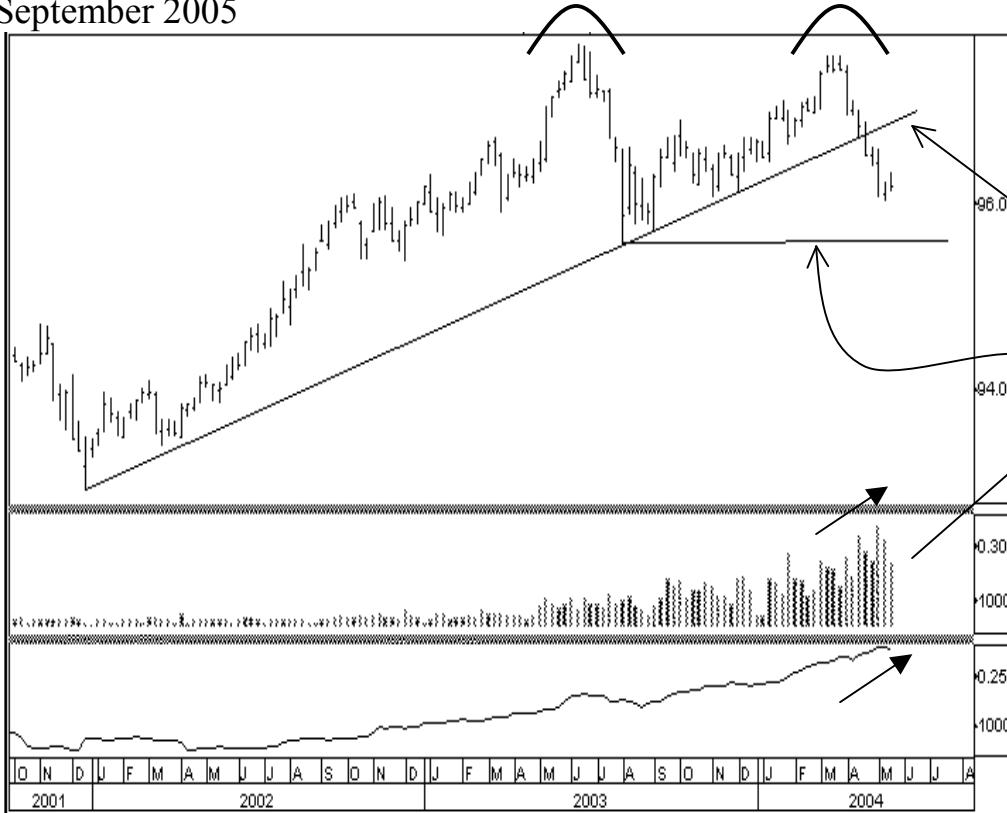
CHART: The Eurodollars have fallen back from the second high above 98.50 with some speed - once the major support at 98.42 was broken.

But there is no long term pattern dominating the market at the moment.



**DAY FUTURES CHART:**  
The price action over the last two weeks has been sideways.

## Further along the Eurodollar futures strip: September 2005



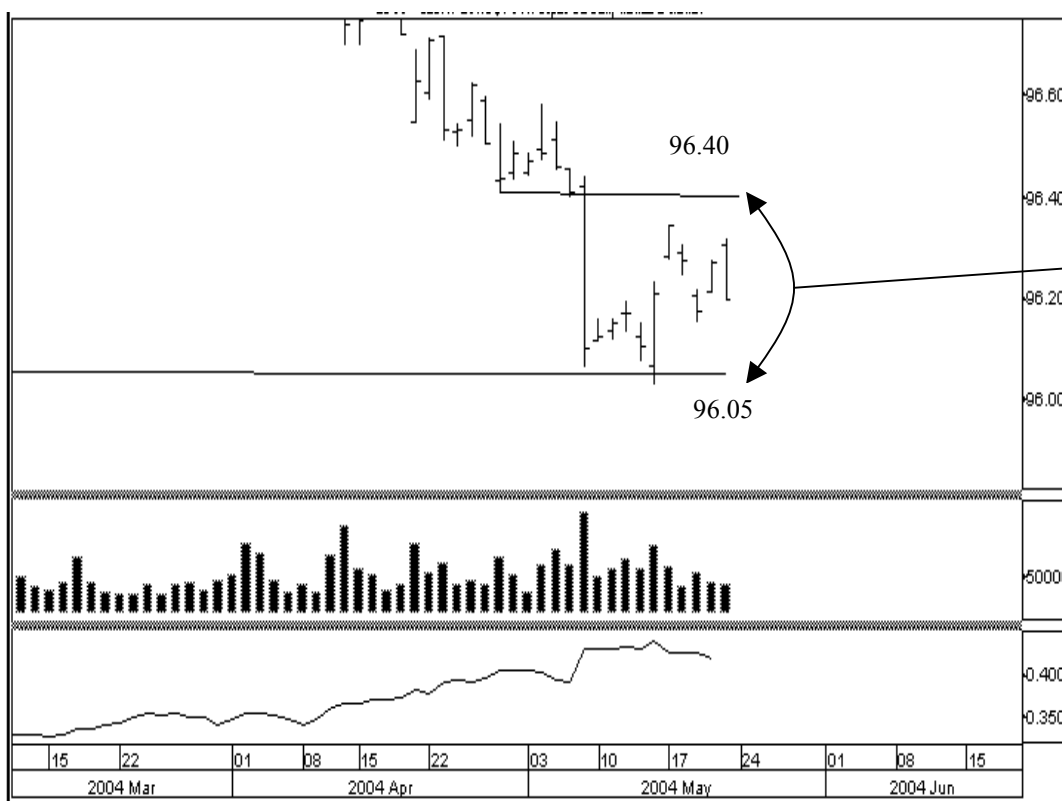
**WEEKLY FUTURES CHART:** The double failure at 97.50 adds greatly to the bearish aspect of the long term chart.

As does the break of the well- established bull trendline support.

Note too, the steeply rising volume and open interest on the bear move.

But there is no clear top formation in place... yet.

That would require a break of the horizontal from the low at 95.62.

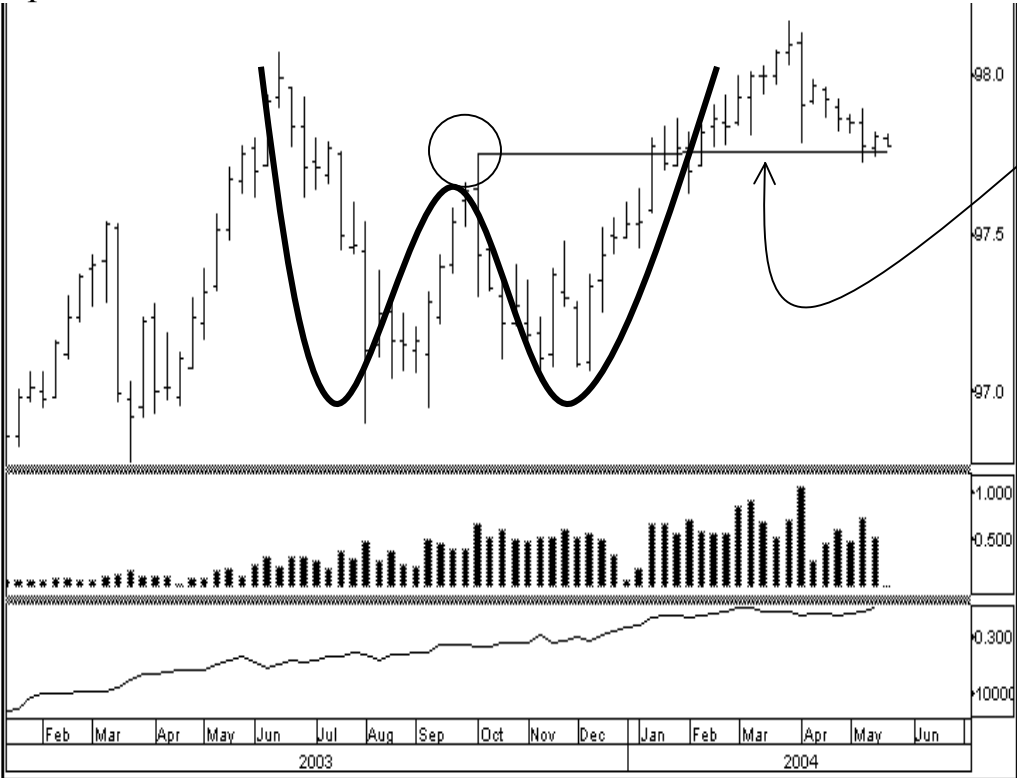


**DAY FUTURES CHART:** The price action of the last two weeks has taken place within a tight trading range.

Traders should wait for a break of either the 96.40 resistance or the 96.05 support before joining in.

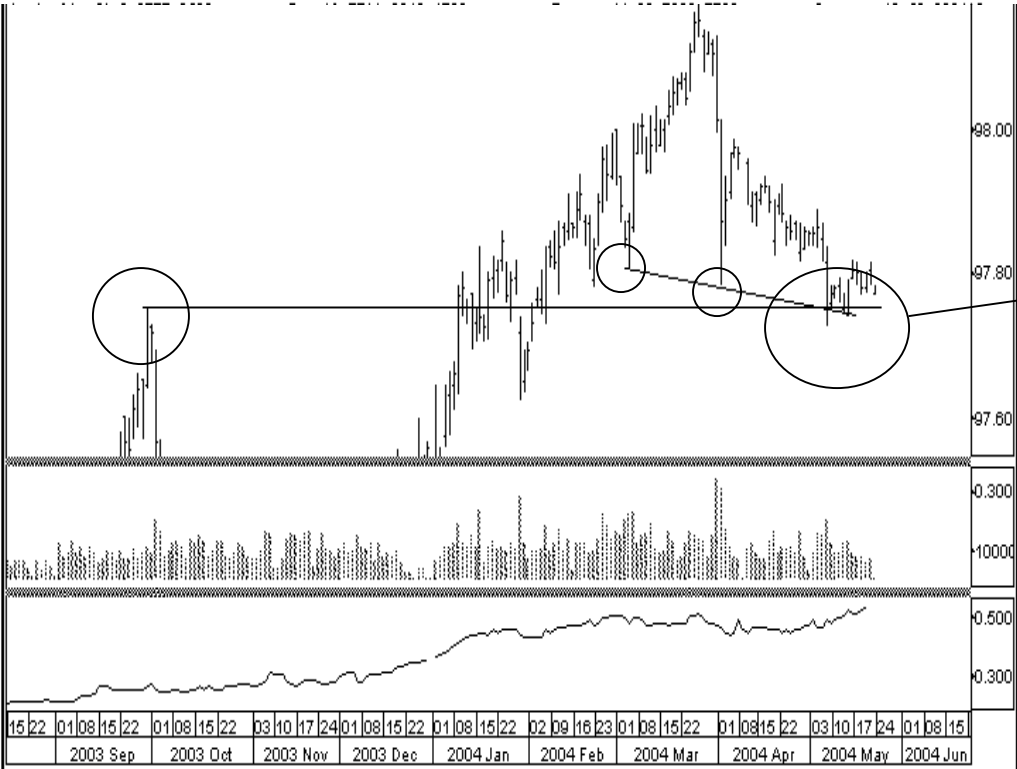
# The Euribor

## September 2004



WEEK FUTURES CHART:  
The market has found support on the horizontal from the old high at 97.75.

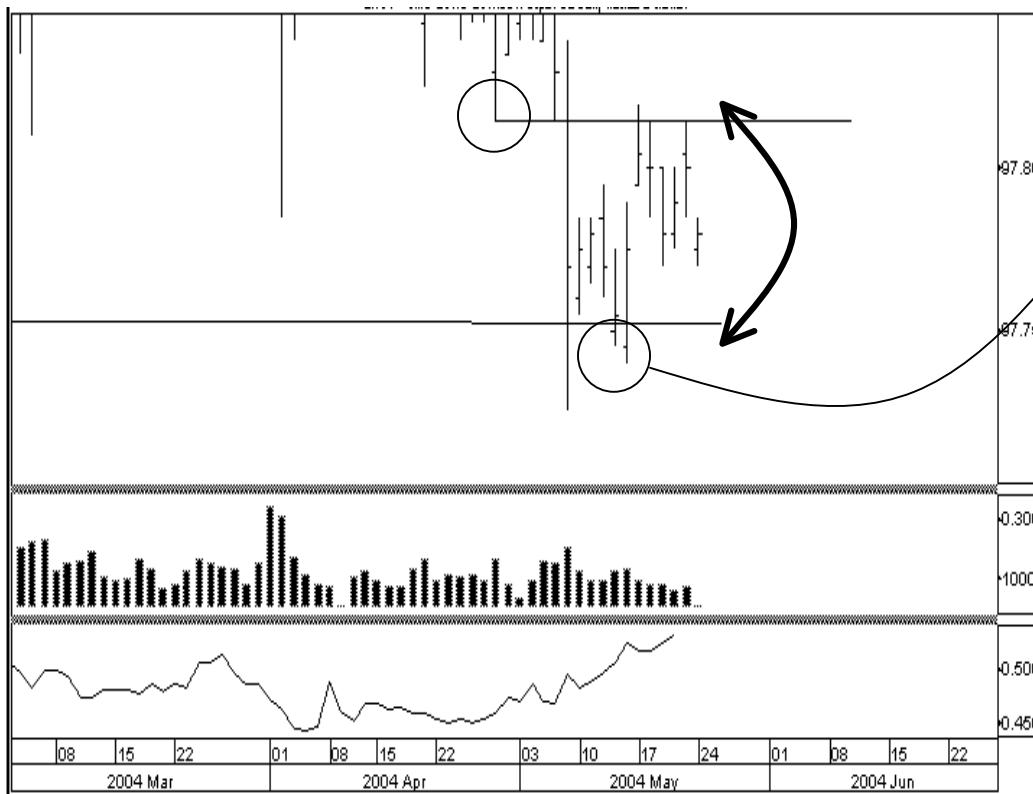
That must hold for the bull structure - a large Bull Double Bottom - to remain intact.



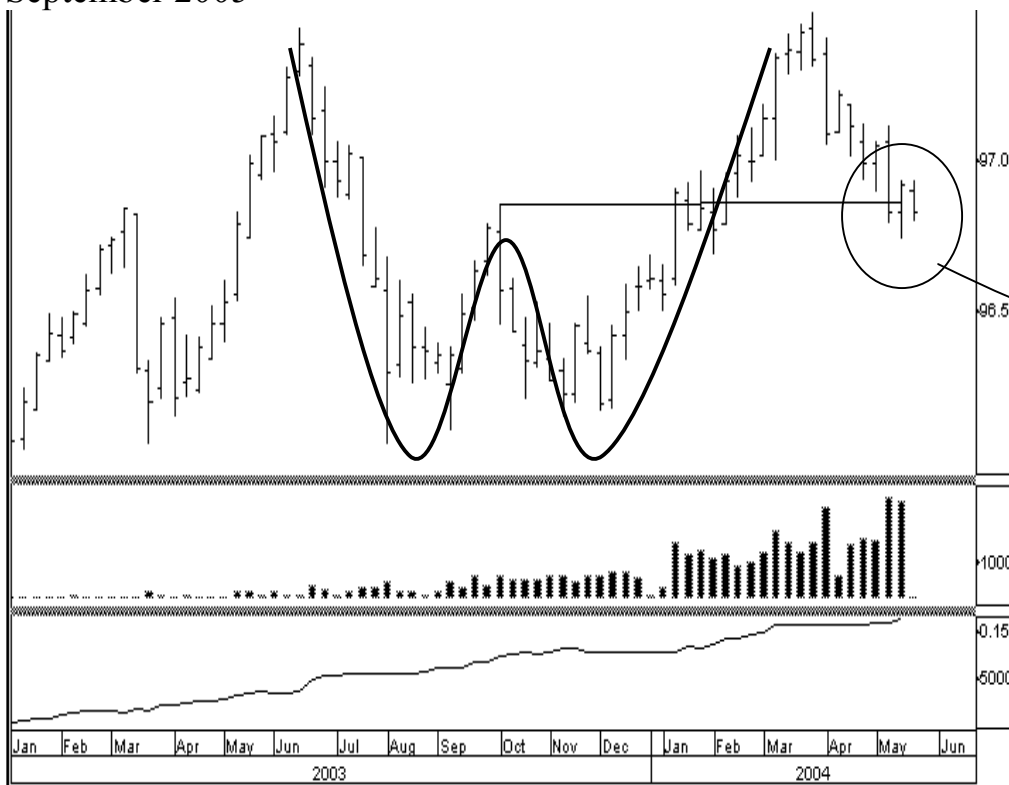
DAY FUTURES CHART:  
The pull back to that level has found some coincidence with a gentle diagonal - a break of which would have established powerful overhead resistance.

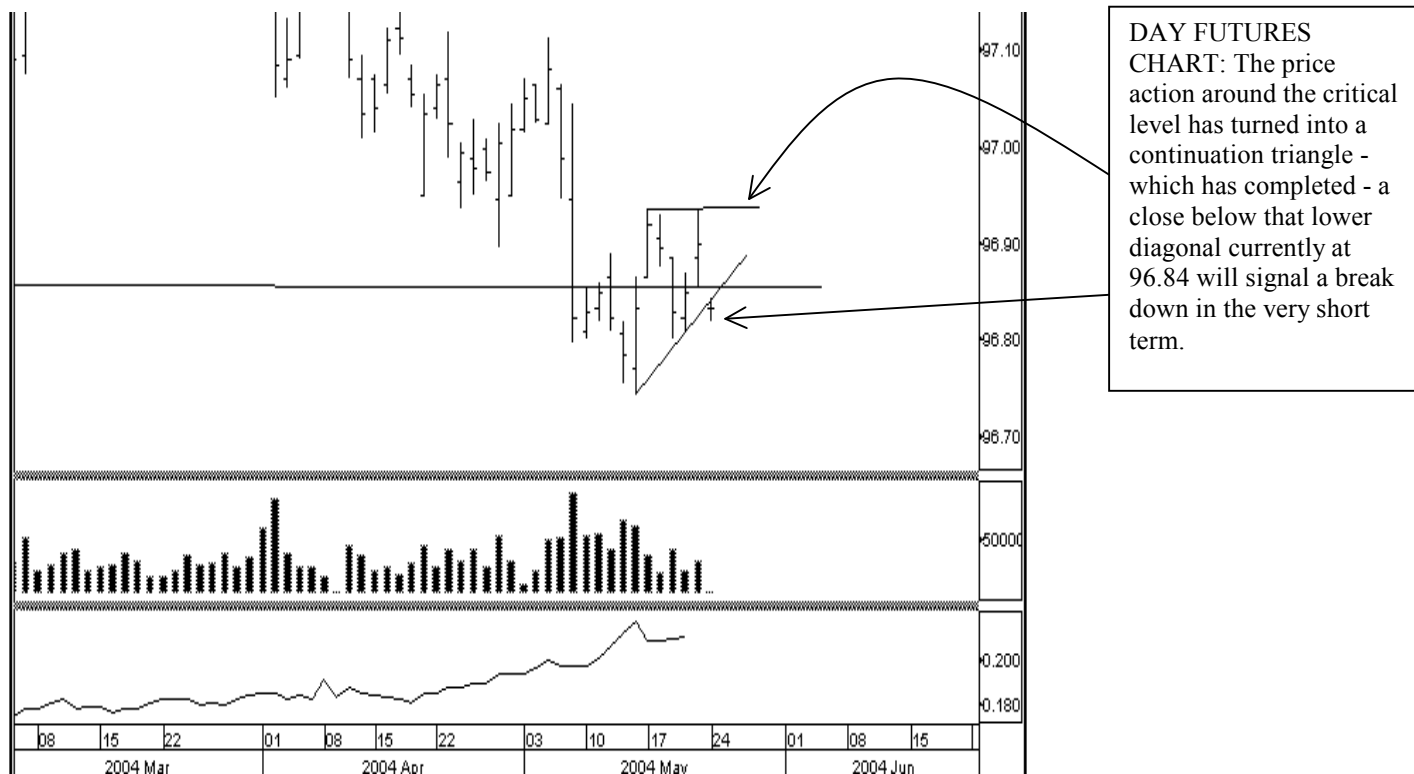
The market has tried twice to break down through that level and failed.





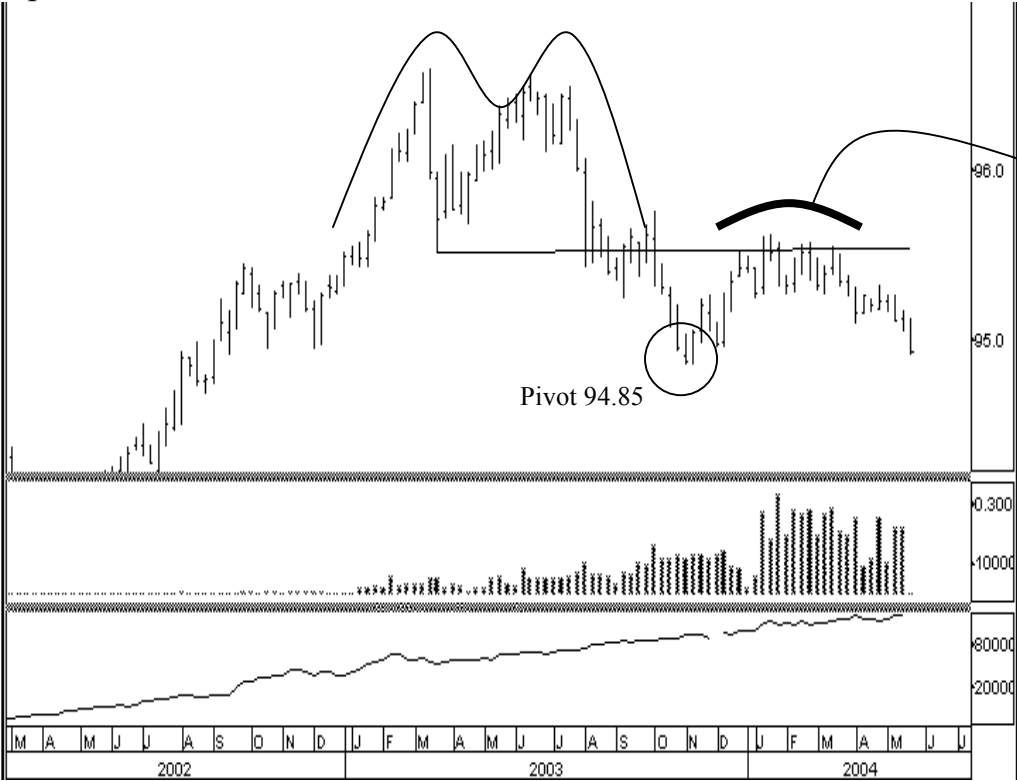
## Further along the Euribor futures strip September 2005





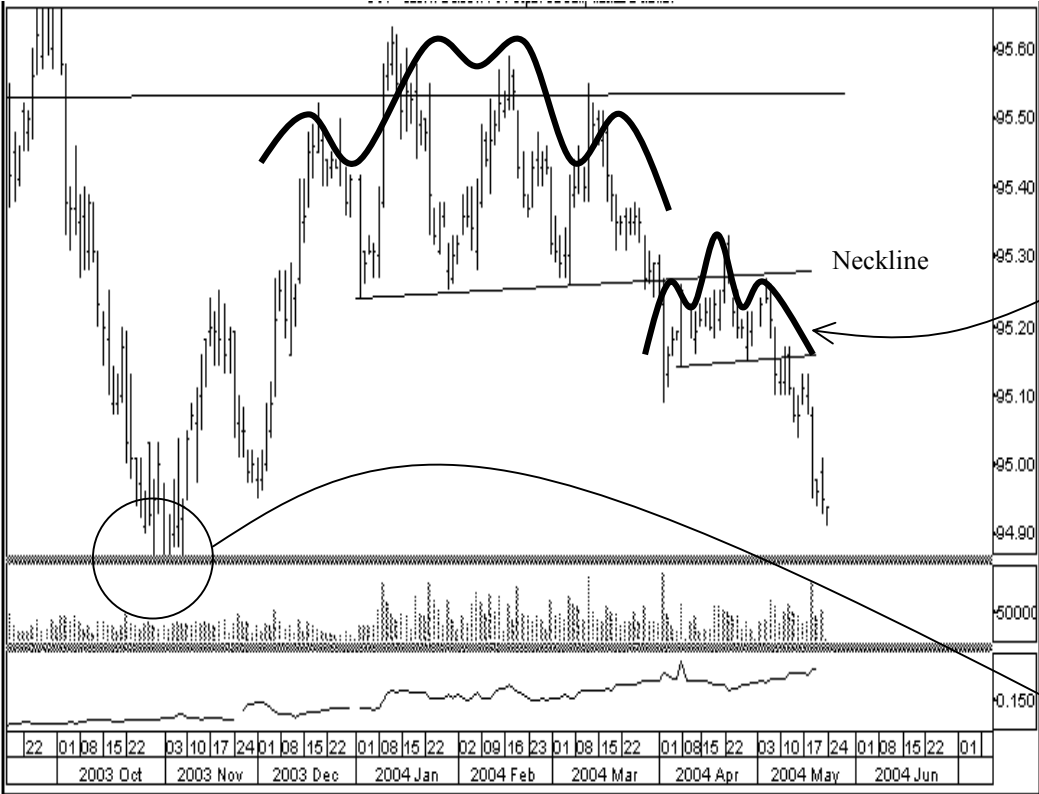
# Short Sterling

## September 2004



WEEK CHART: The Short Sterling has been bearish since the completion of the Double Top in mid 2003.

The long sideways consolidation beneath the horizontal from the low at 95.53 changed nothing....



DAY BAR CHART: And indeed itself formed a complex Head and Shoulder Top that once completed has a minimum target of 94.90.

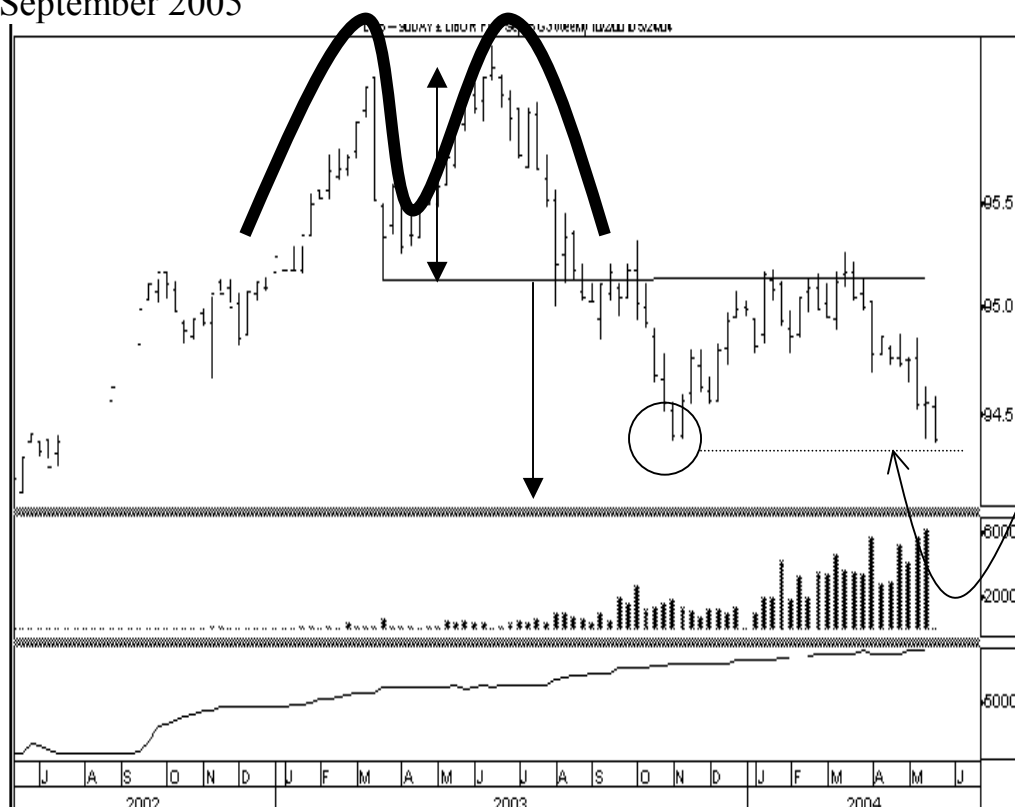
Beneath that we can see **another** Continuation H&S.

And so the bear evidence accumulated...

**But** the recent moves have achieved some of the bear patterns' targets in the short short term...so it may be that some of the **short-term** impetus has dissipated.

The critical pivot level now will be the horizontal from the long run low in October 2003 at 94.85. (Check the week chart)

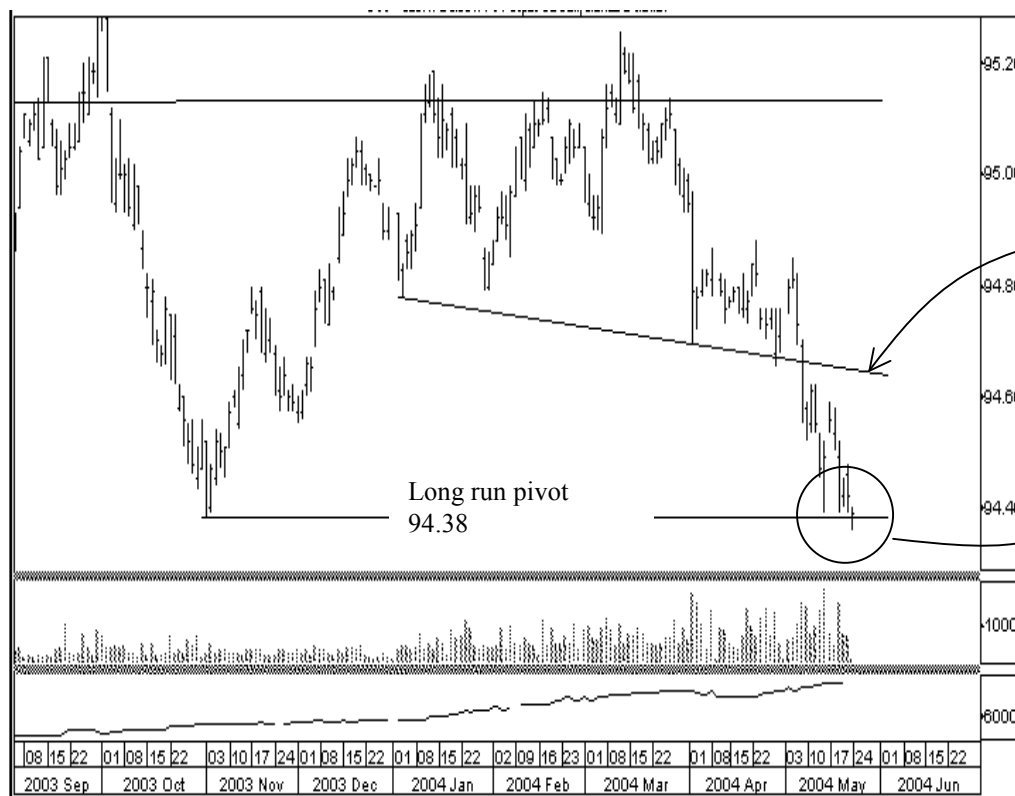
## Further along the Short Sterling futures strip September 2005



**WEEK FUTURES CHART:**  
The Double Top dominates the far dates too. It's minimum target? 94.16.

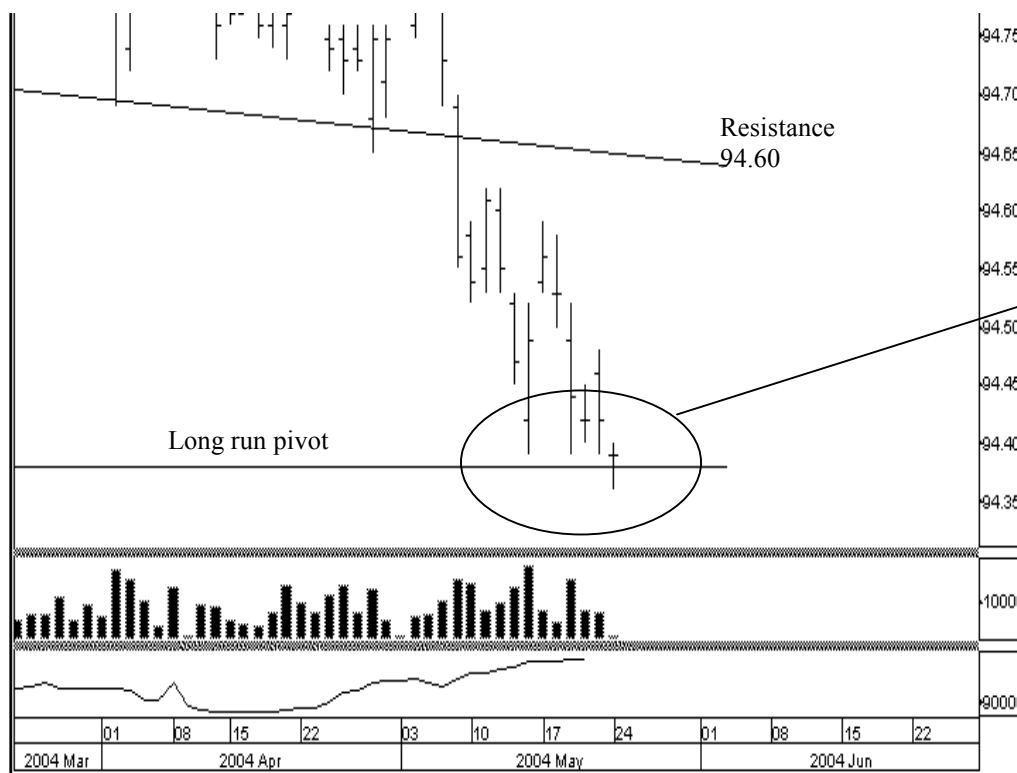
More immediately, the market is right on the horizontal level from the prior low at 95.38, closing at 95.40 on the week.

A close through that level this week would establish important overhead resistance countering any attempt to go better. Bears should wait for a close beneath that level before adding onto their positions.



**DAY FUTURES CHART:** I see no clear structure here, (possibly a very complex Head and Shoulders Top) but recognise the importance of the diagonal above the market at 94.60 or so. Any bounce will struggle to get through there on the upside.

The crucial test of the bear's ambitions remains the pivot at 94.38.



**DAY FUTURES  
CHART:** More closely  
we see the overhead  
resistance around  
94.60.

Also, here is very  
short-term resistance  
now where there are  
day lows just about the  
long run pivot point  
beneath the market