Sevendays*Ahead*

Authorized and regulated by the FSA

The Week Ahead

A technical perspective for 10th - 16th August 2004

Stocks break ranges.

Dollar returns to weakness.

Volatile surge in bonds

Mark Sturdy

124 Regents Park Road London NW1 8XL   +44 (0) 2074832375   msturdy@macunlimited.net

About Mark Sturdy

Mark Sturdy has worked in the financial markets as a trader and analyst for 23 years.

He trained in London with Rea Brothers Limited working in every area of merchant banking.

He then worked in Chicago on the floors of the CME and the CBOT with Rudolf Wolf Futures where he began to develop his charting skills.

Back in London he became a director of Gerrard & National Limited, managing an extensive team of option market makers on LIFFE, the IPE and LTOM.

Later he worked with Skandinaviska Enskilda Banken combining proprietary trading with the position of Chief Global Technical Analyst.

Since then has worked extensively as a consultant technical analyst for a number of large private investors, banks and Hedge Funds.

He has been a regular contributor to Reuters Financial Television and currently contributes to CNBC TV Europe providing chart commentary and trading recommendations.

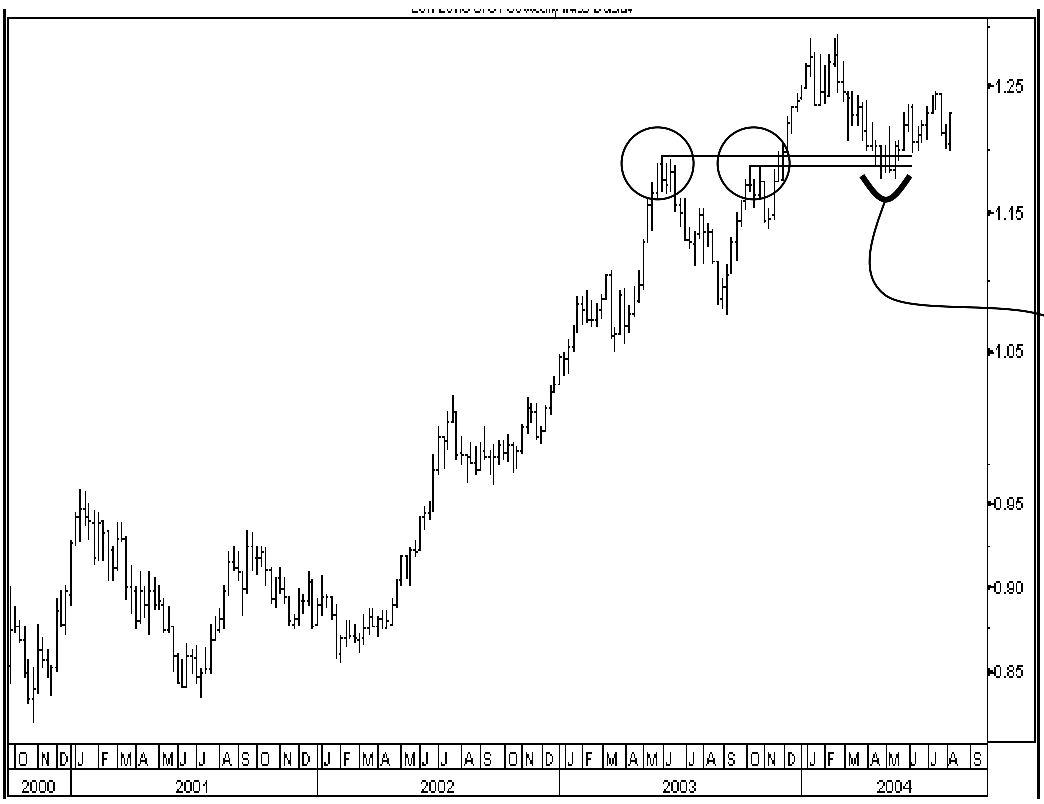
CONTENTS

CURRENCIES

I sounded a note of caution in my note about the Dollar last week - I suggested that as holiday trading volatility rose so the Major Supports against the currencies might be tested. Certainly, volatility <u>did</u> increase, but only to reinforce the long-term trend for a weakening Dollar.

But despite the volatility no new bull currency patterns have been created, the markets remain within their familiar ranges across the board.

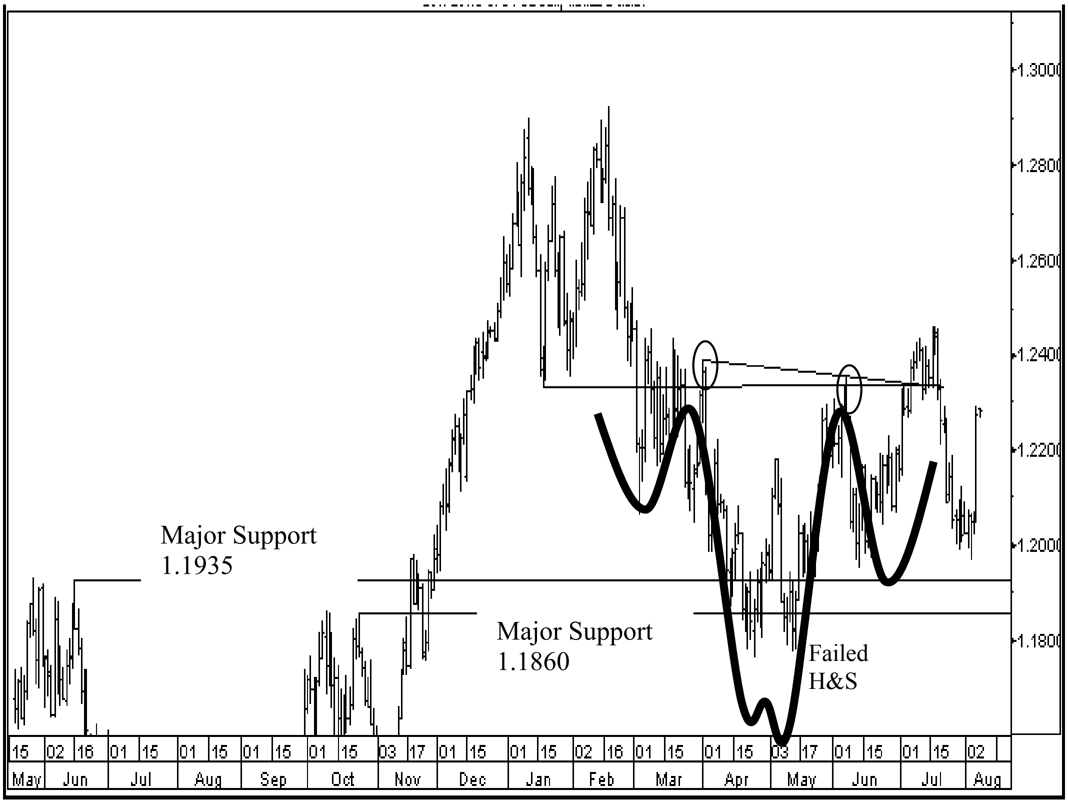
Dollar Euro



MONTHLY SPOT BAR CHART: The long chart of the Dollar Euro remains solidly bearish for the Dollar.

The trend was severely tested in March and April of this year at the horizontals from the prior highs at 1.1860 and 1.1935.

It remained intact and bounced.



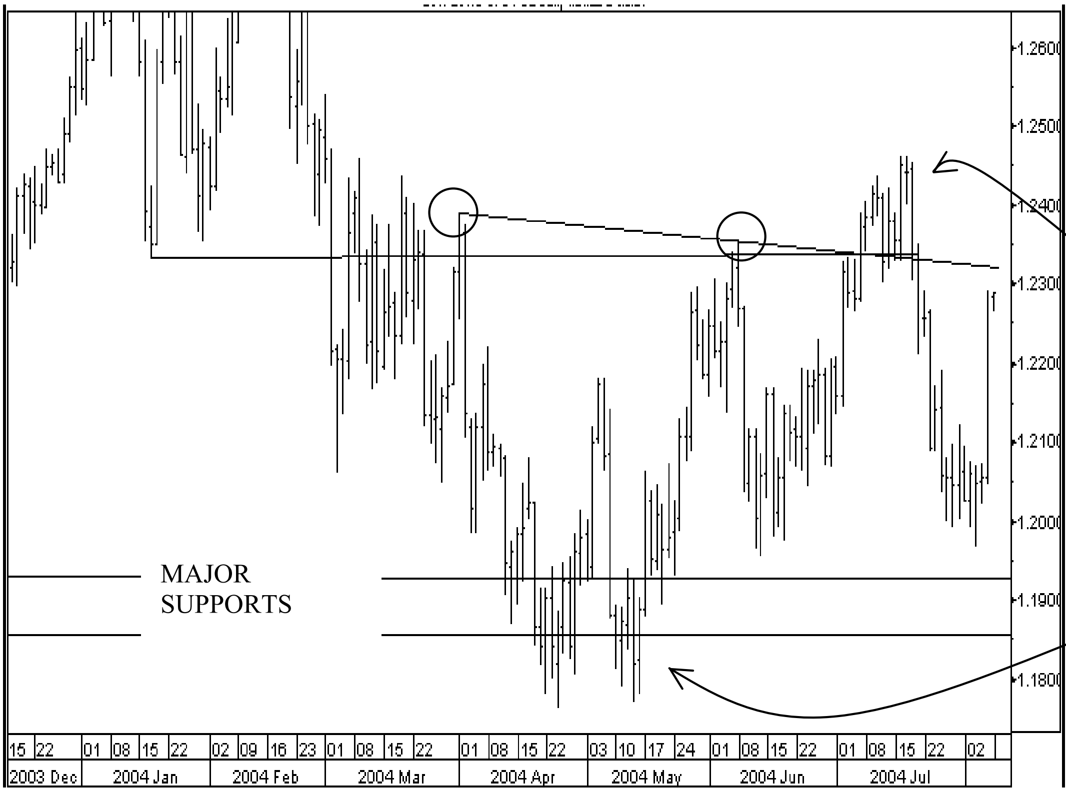
DAY SPOT CHART: The testing of the **support**s in greater detail.

I was over-optimistic for the Dollar bears and thought that a small Bull Head and Shoulders had formed in early July.

It failed.

But the pullback couldn't get back through 1.20 let alone retest the **Major Supports.**

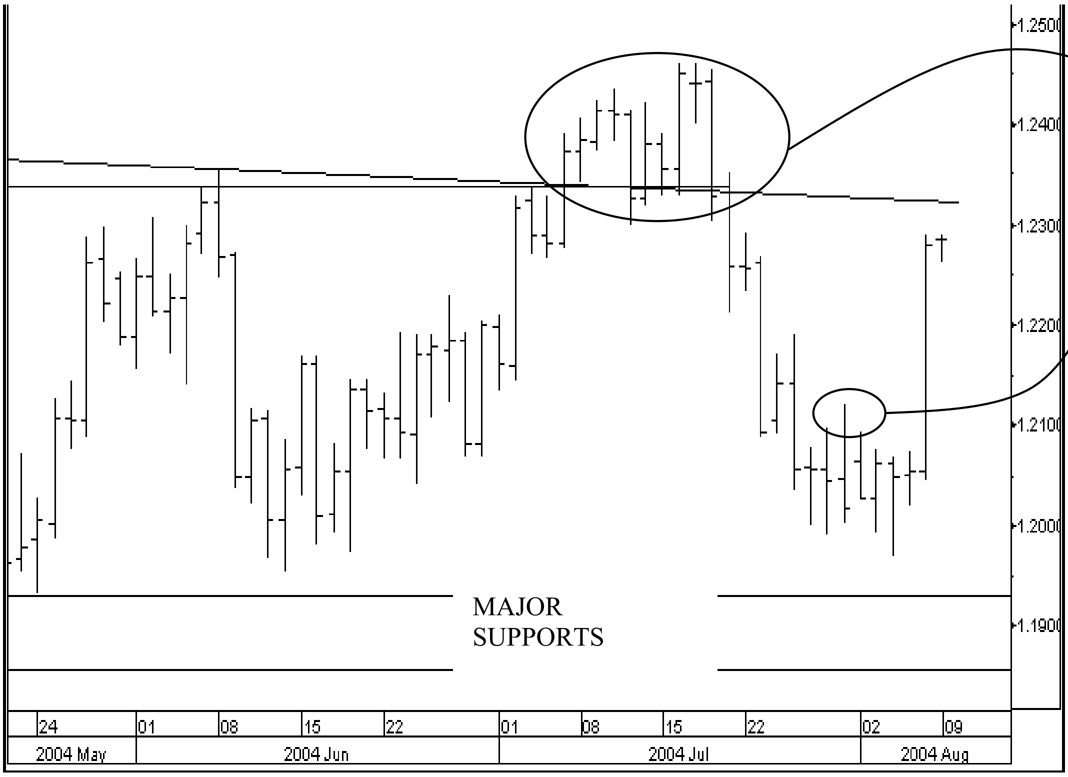
Last week I suggested that bulls might buy with a close stop. That would have been very profitable as there was a powerful move back up.



DAY SPOT CHART: Given the uncertain nature of the short and medium term structures, bulls (for the Euro) should wait for a break of the recent high now at 1.2461.

The bears have little to go for since the Major supports are so near.

The bears need them broken convincingly for example, see how the market has previously traded beneath them in the short term and then bounced.

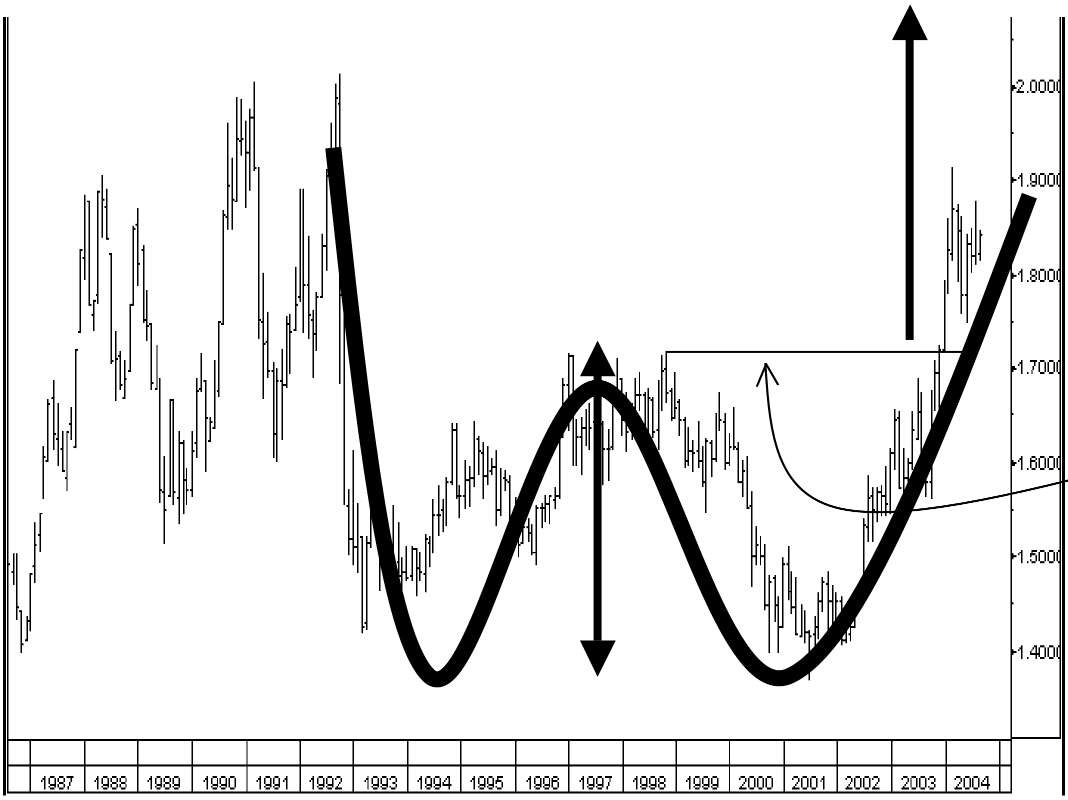


DAY SPOT CHART: In the very short term expect some **resistance** at the area of price action in early July beginning at 123.23.

Beneath, look for **support** from the consolidation at the beginning of August - around 1.2125.

Return to Contents

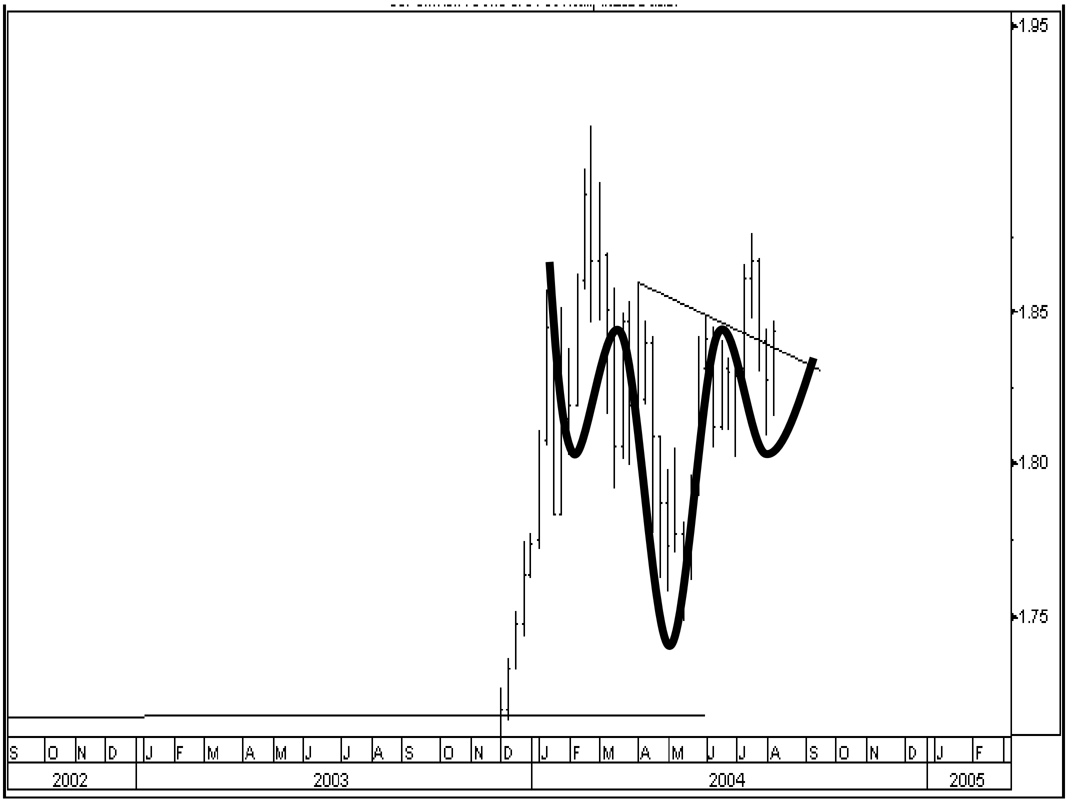
Dollar Sterling



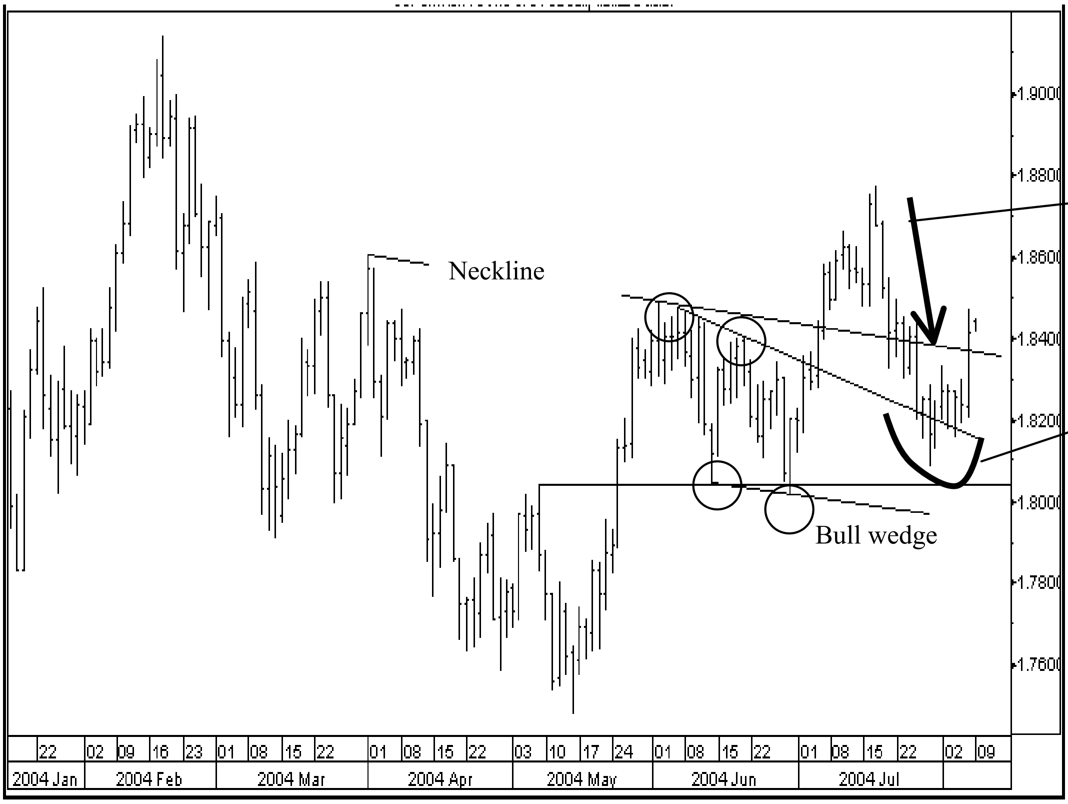
MONTHLY SPOT CHART: The massive Double Bottom that looks to drive the market as far as 2.08-9 is still the dominant influence on the market.

The completion level of 1.1750 remains the massive long run **support**.

But the market shows <u>no</u> signs of wanting to test it.



WEEK SPOT CHART: The market may have formed a Continuation Head and Shoulders…



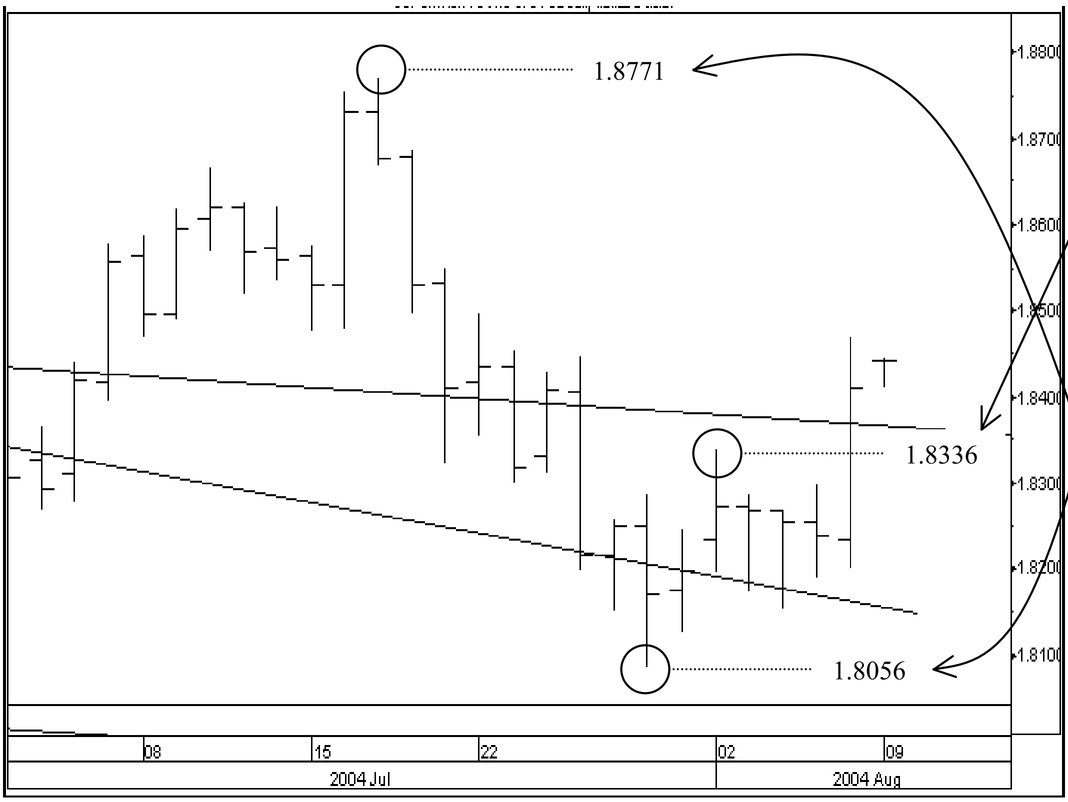
DAY SPOT CHART:
The early anticipation that this might be a Head and Shoulders Continuation pattern was confused by the pull-back through the Neckline in late July.

Some small support may have been gained from the Bull falling Wedge - encouraging the bounce last week above 1.84.

Last week I said that I remained a Sterling bull, but that the short term was unstructured. That remains true.

<u>I remain impressed by the Head and Shoulders Bottom despite the pullback.</u>

But very short-term traders should stand back for greater clarity.



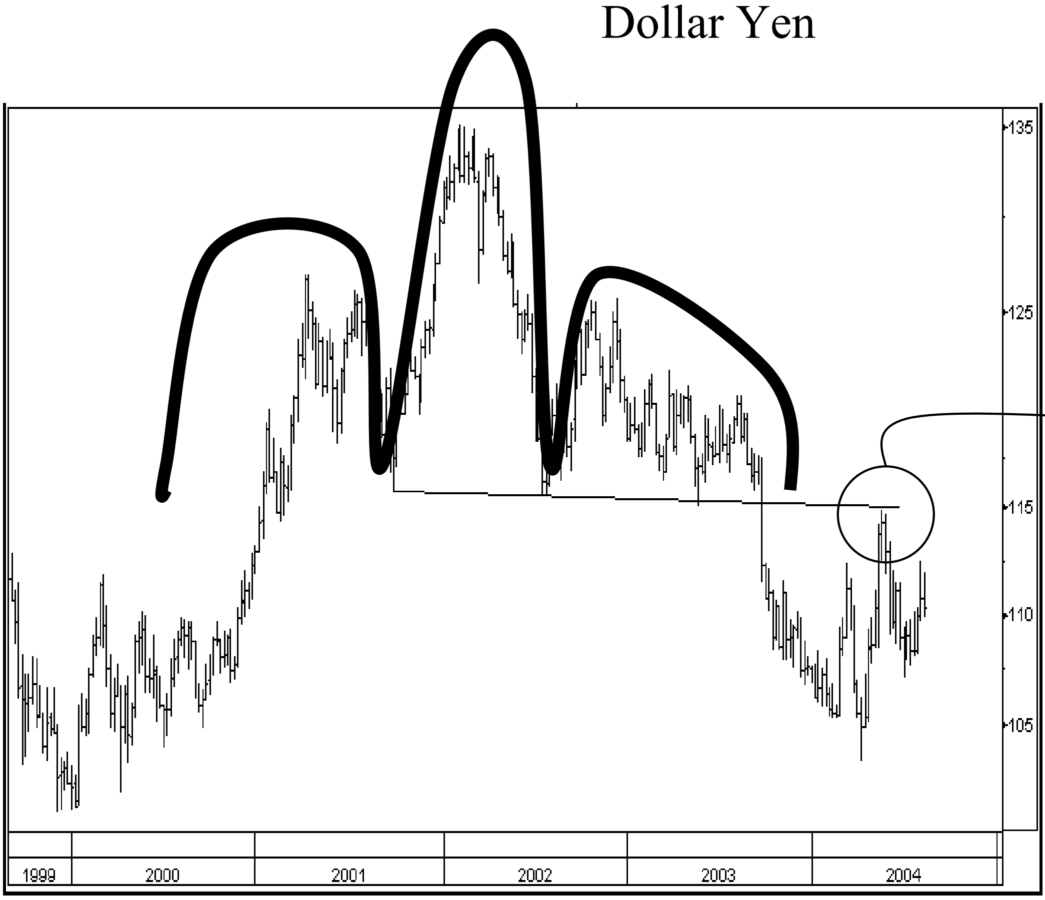
DAY SPOT CHART:
The recent high at 1.8336 is good near **support**.

Only if the market dropped through the low at 1.8056 would the bears really get encouraged.

And bulls may want to see more short-term patterns form before getting involved, or the market break back through the highs at 1.8771.

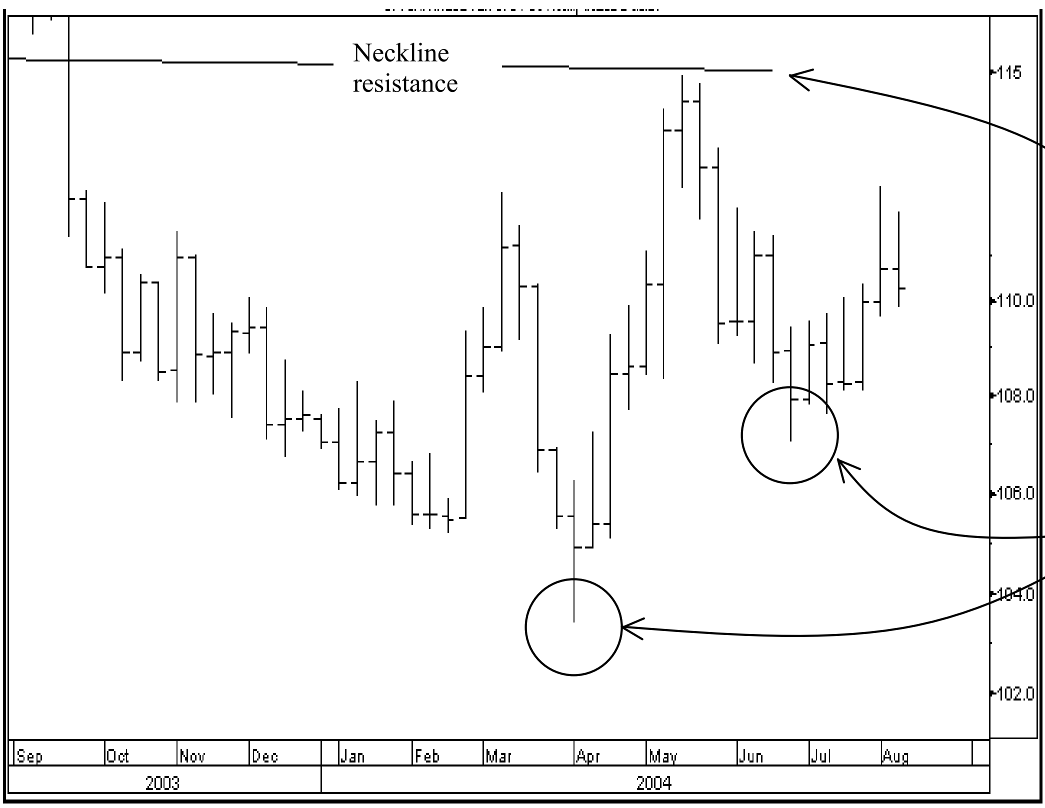
Return to Contents

Dollar Yen



MONTH SPOT CHART: The long-term chart is clear: a massive Head and Shoulders Top that is set to drive the market lower to 100 or so.

The recent failure to break back through the Neckline only encouraged the Bears.



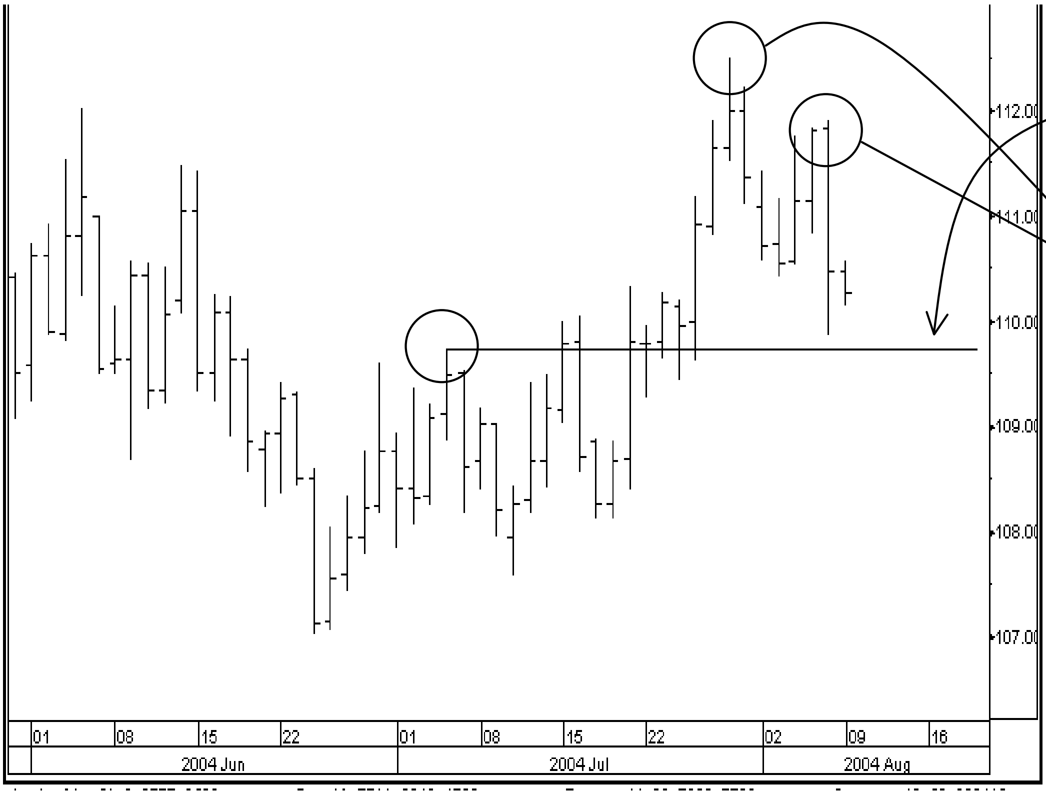
WEEK SPOT CHART: The price action beneath the Neckline is unclear.

There is no pattern only an ill-defined trading range.

Overhead the 115 level is powerful **resistance** as we have seen. Bulls must wait for that to break before buying.

The bears should look carefully at any push beneath the lows at 107.03 and 103.42.

A close beneath each would establish powerful overhead **resistance**…



DAY SPOT CHART: The important short-term **support** lies at the horizontal at 109.74.

There is no short run **resistance**, but closes above 111.90 and 112.49 would get the bulls running again, by providing good **support** for further advances.

I was right **last week** to suggest that shorter-term traders should stand aside and watch for my levels to break.

Return to Contents

STOCKS

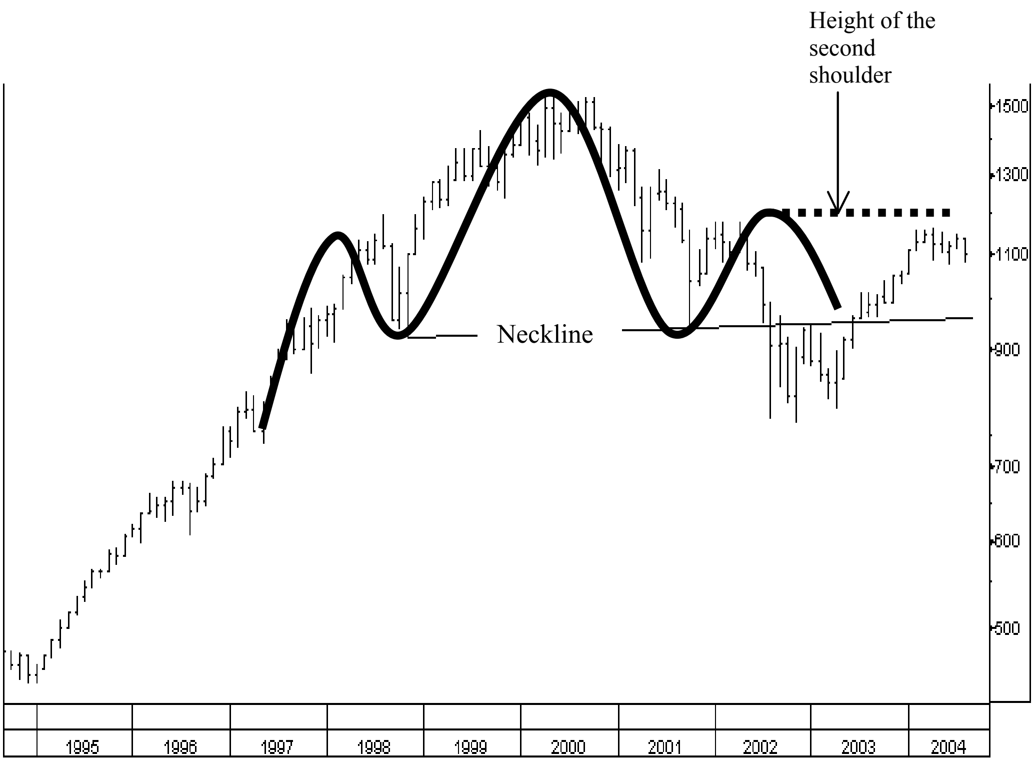
Volatility rose as in the currencies, but the accompanying moves have been more important.

The Nikkei and the European markets vie to lead the bears: the former has the clearest short-term completed pattern, but…

… the DJStoxx has a clear completed medium-term pattern that suggests a decline of 7%. The trading range of the last seven months has been broken and a clear top formation is in place.

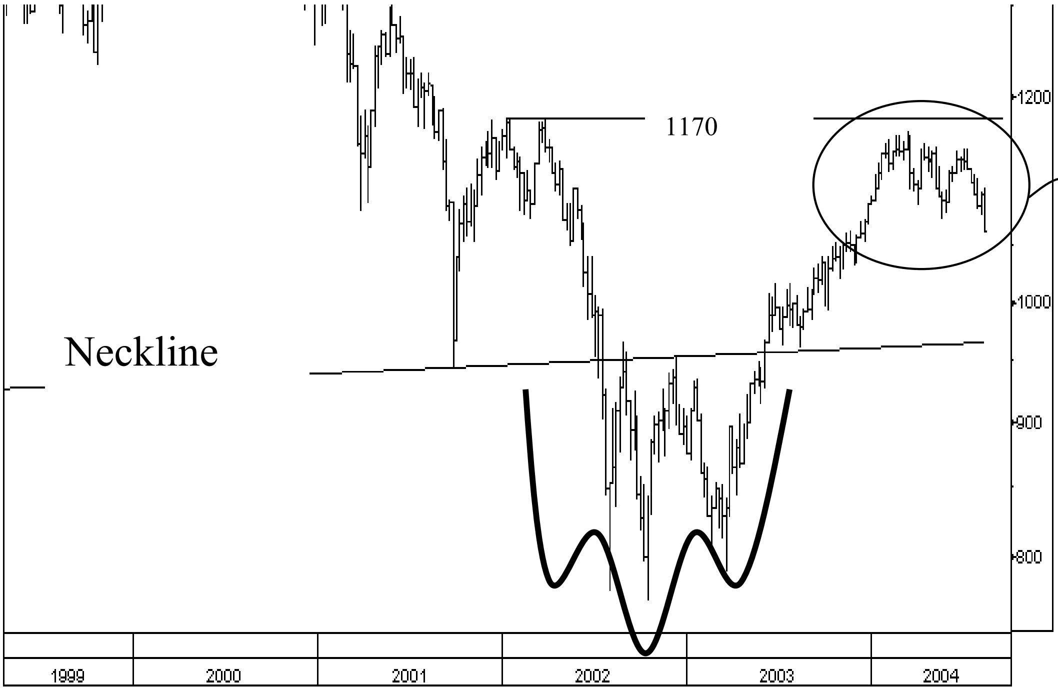
All markets are now lower than they were at the beginning of the year. Some uncertainties exist - the febrile nature of summer trading - but unless these structures are quickly unwound, the bear pressure will grow and grow.

The Standard and Poors 500 Index



MONTH CASH INDEX CHART CHART: The long term picture of the S&P is ambiguous: the re-entry of the Major Bear Head and Shoulders formation need not be fatal to the bear's hopes, but a movement above the height of the Second Shoulder at 1170 would be fatal, I believe.

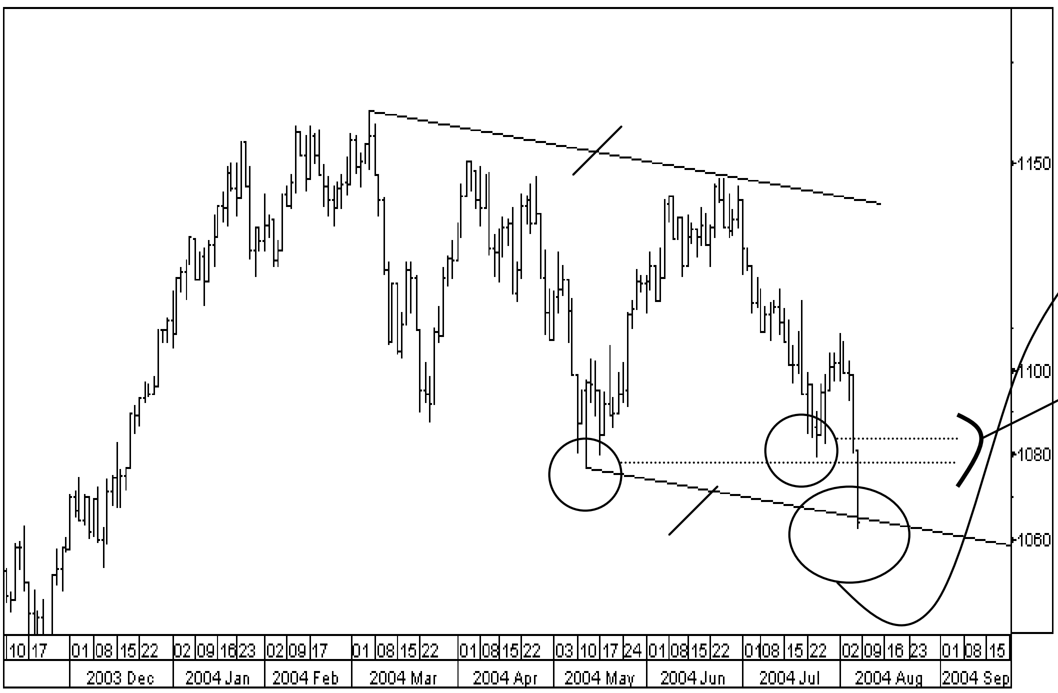
While the big Bear pattern remains intact, the market is targeted down to 580.



WEEK CASH INDEX CHART: The re-entry of the Neckline was powered by a clear Head and Shoulders bottom (whose target was the height of the Second Shoulder at 1170!)

The market has consolidated beneath the Neckline.

Look closer.



DAY CASH INDEX CHART: The sideways consolidation cannot really be defined by parallel diagonals (as in a flag) because it has closed beneath the lower diagonal….

Last week I emphasised the importance of these two lows at 1079 and said “watch the boundary at 1076 carefully”

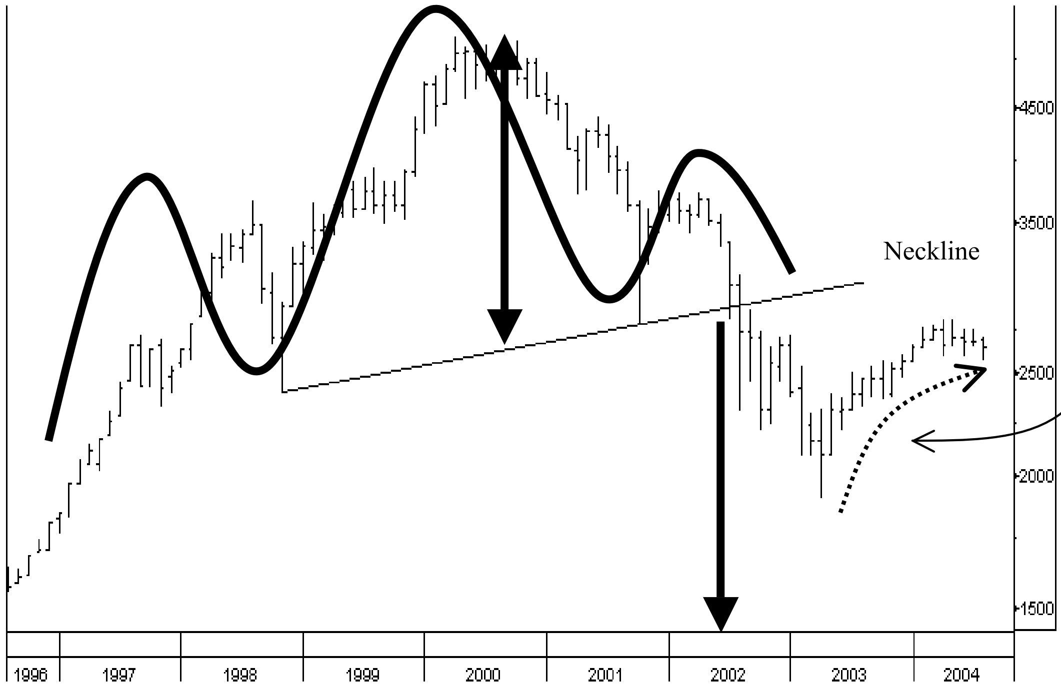
Sure enough, that was smashed.

Thus establishing powerful overhead **resistance** on any rallies.

The bears are in control. There is no clear top formation in place, but the pressure is building as more and more overhead **resistance** is created…

Return to Contents

The European DJ Stoxx 50

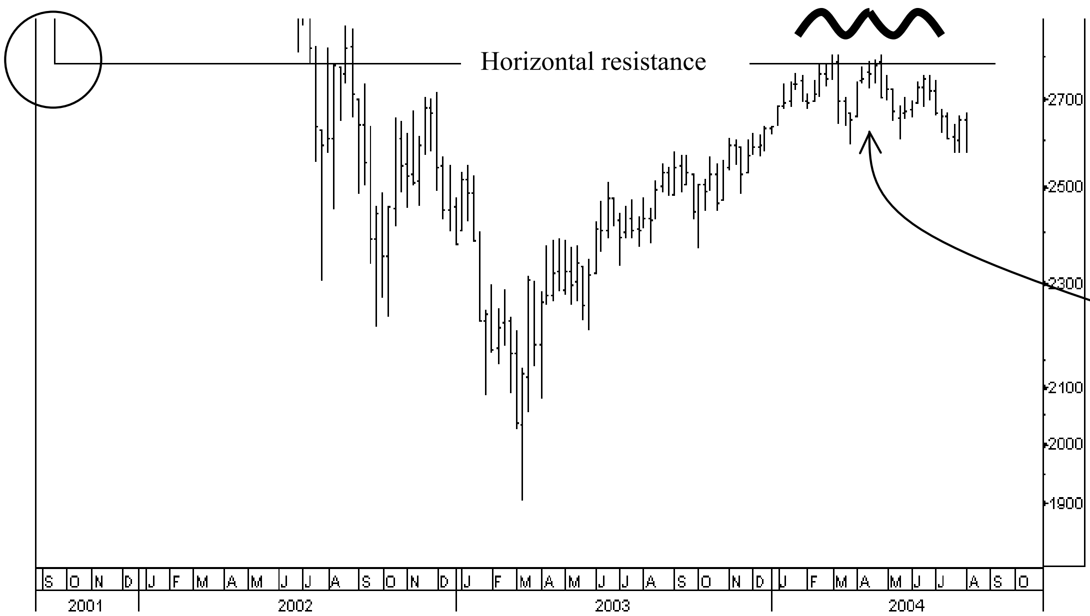


MONTH SPOT CHART: A huge Head and Shoulders Top has dominated the market since its completion in 2002.

The retracement over the last 15 months has been slow and sure.

And then pausing a long way short of the Neckline.

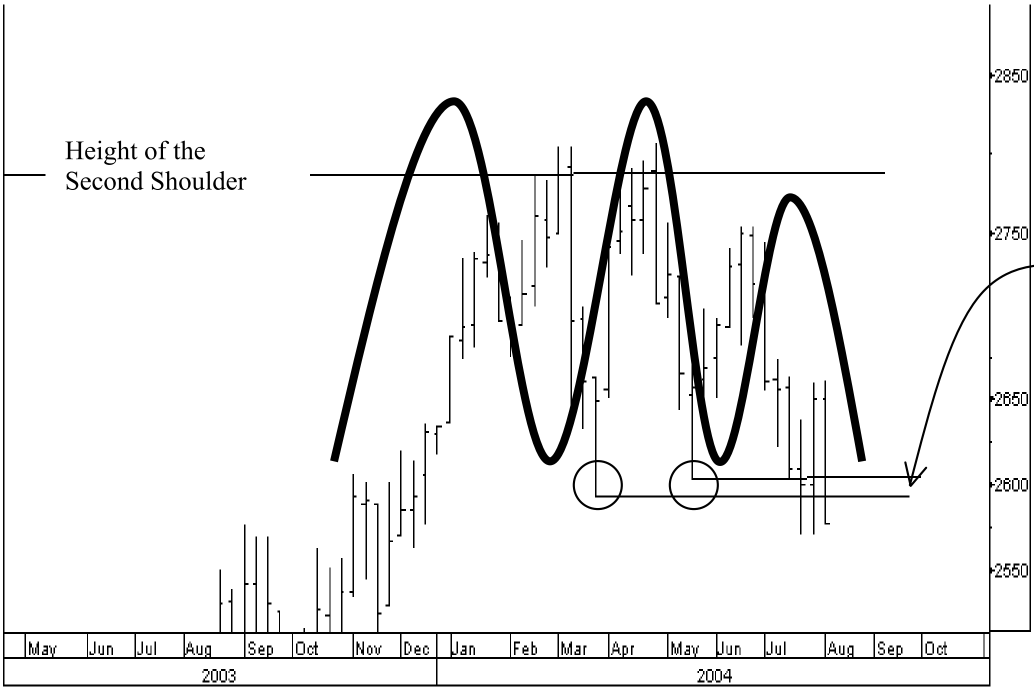
Why?



WEEK SPOT CHART: the overhead resistance from the low halted The advance at 2784.

Is there a clear shape to the consolidation?

An imperfect Triple Top?

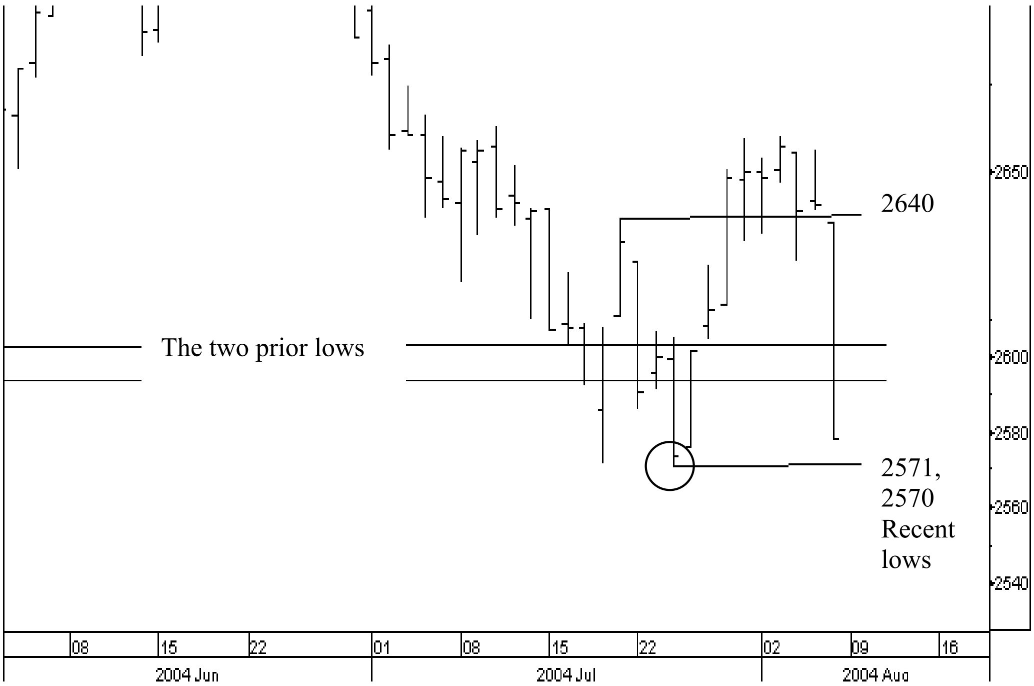


WEEK SPOT CHART: There was certainly a trading range - and it broke last week.

Now the market lies <u>beneath</u> the two lows 2592 and 2602, so huge overhead **resistance** to any rallies has been created.

A triple Top would measure the market down to <u>2410</u> or so.

The bears are in charge.



DAY SPOT CHART: Here's the detail.

The market prevaricated before closing down on the week.

Last week, sensing rejection of the lower levels at 2571; I suggested that short-term traders might buy with a close stop at 2640.

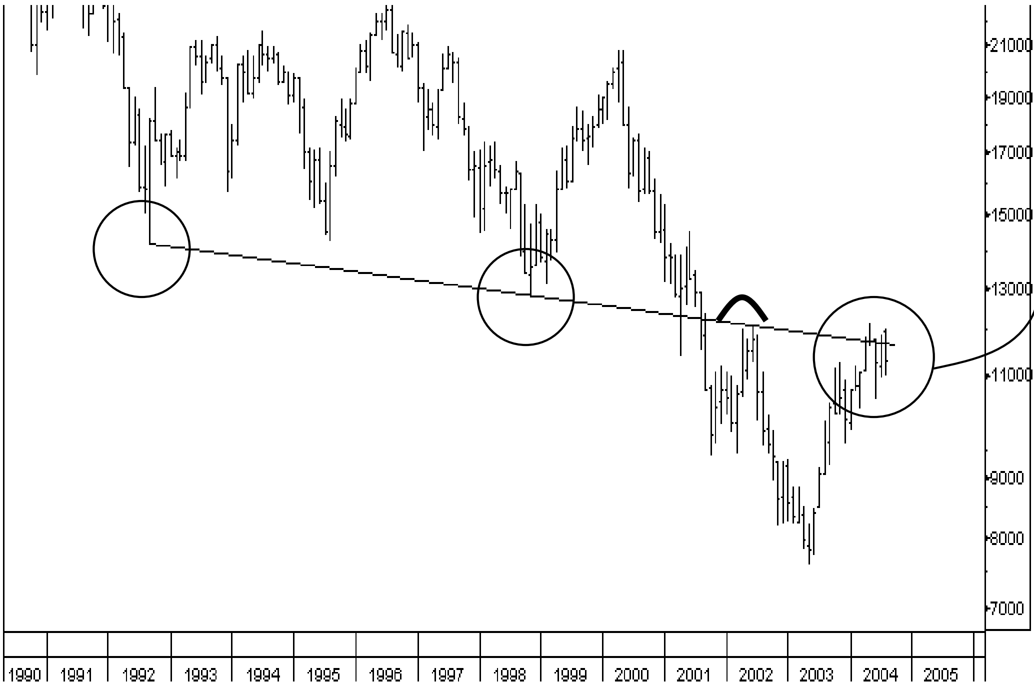
That stop was hit in the fierce sell-off.

Very short-term traders may well want to see the market push and close beneath the two recent lows at 2571 and 2570.

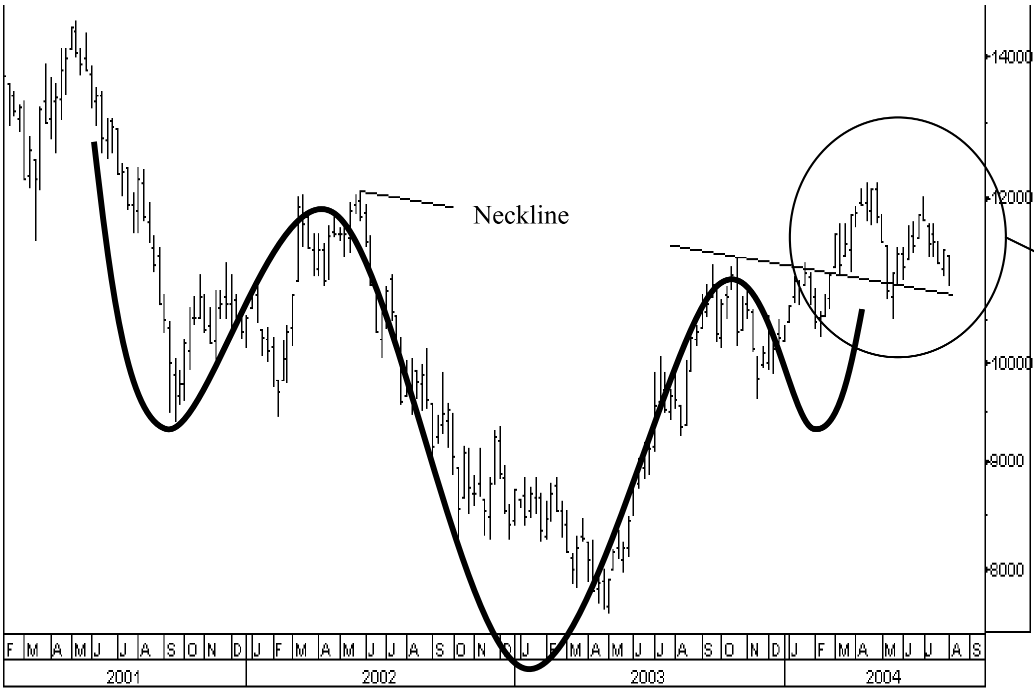
Bulls will want to see the market up through the recent high at 2660.

Return to Contents

The Nikkei 225 Index

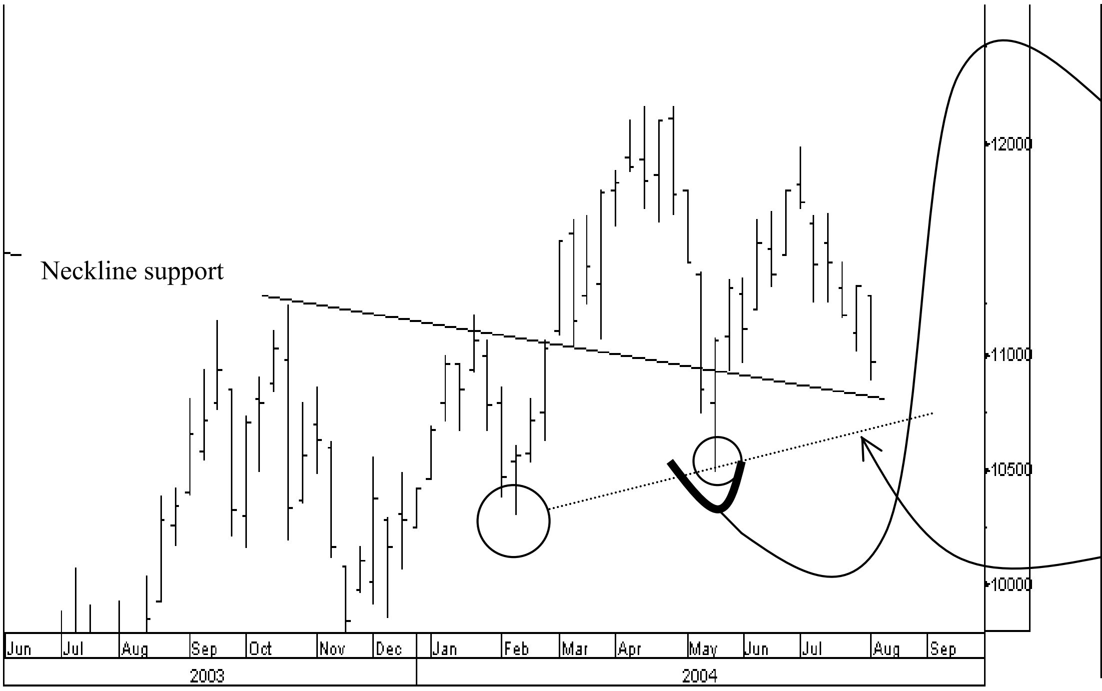


MONTH SPOT CHART: The market is struggling to get back through the area of massive long-term diagonal **resistance** currently at 11685.



WEEK SPOT CHART: But it’s a battle, because beneath the market is a well-formed Bull Head and Shoulders pattern driving the market better.

The market is hovering above the Neckline Support.



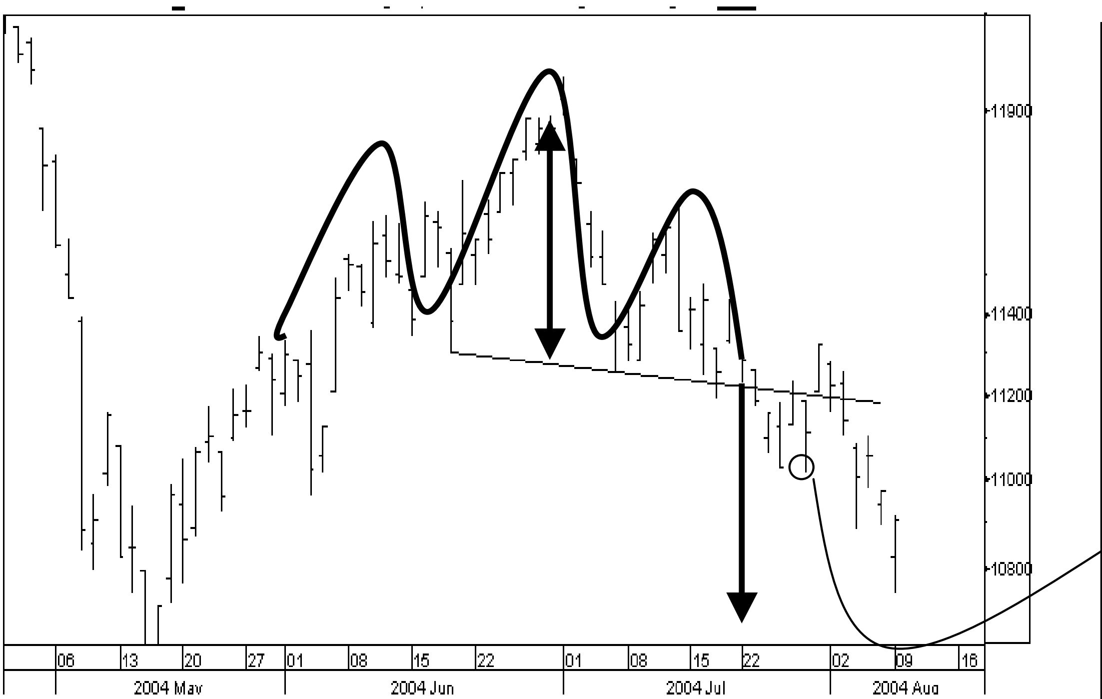
WEEK SPOT CHART:
The Neckline has held on one previous bear push…

Watch carefully to see what happens.

Note:

1.The long run overhead diagonal **resistance** is altogether more powerful because long lasting.

2. Beneath the Neckline support at 10822 there is a possible Neckline of a Bear Head and Shoulders pattern in the very short term at 10635.



DAY SPOT CHART:
The pattern driving the market down is a complex Head and Shoulders Pattern whose target is 10550.

That would be beneath the rising Neckline I noted above.

Last week I said "I remain bearish in the short term… bears should watch for a close beneath the lows of 110.18.

That was the right level.

The bears are in charge.

Return to Contents

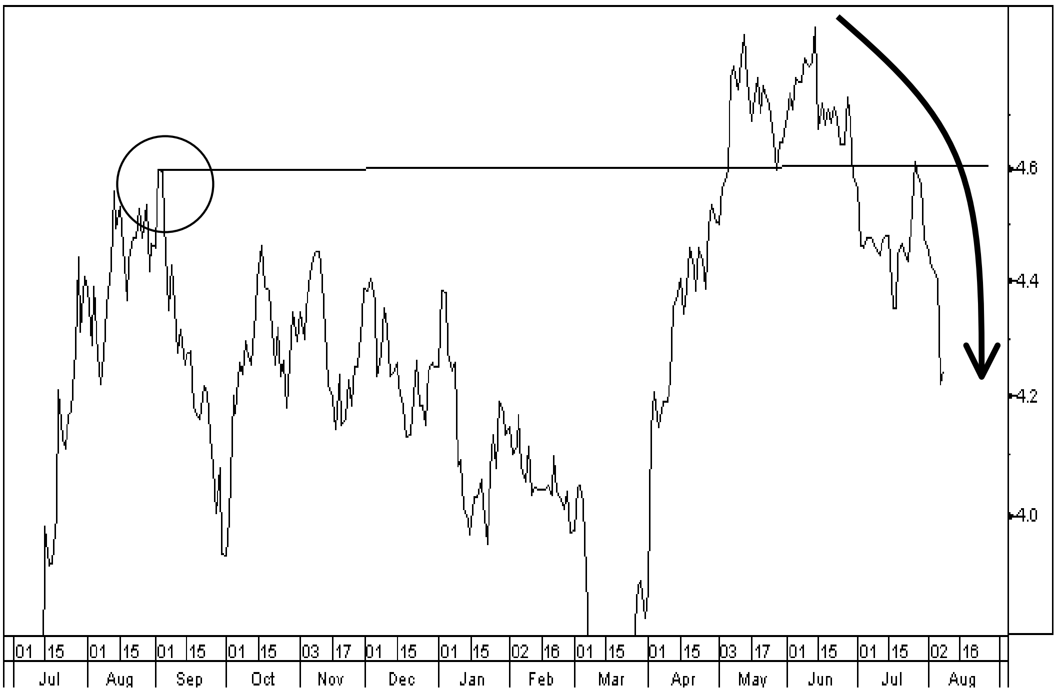
BONDS

Bonds jumped against expectations: the moves were powerful and in the case of the Bund a clear bull (lower yields) pattern of some size has been completed. The other markets are less well structured, but <u>all</u> have bull trends.

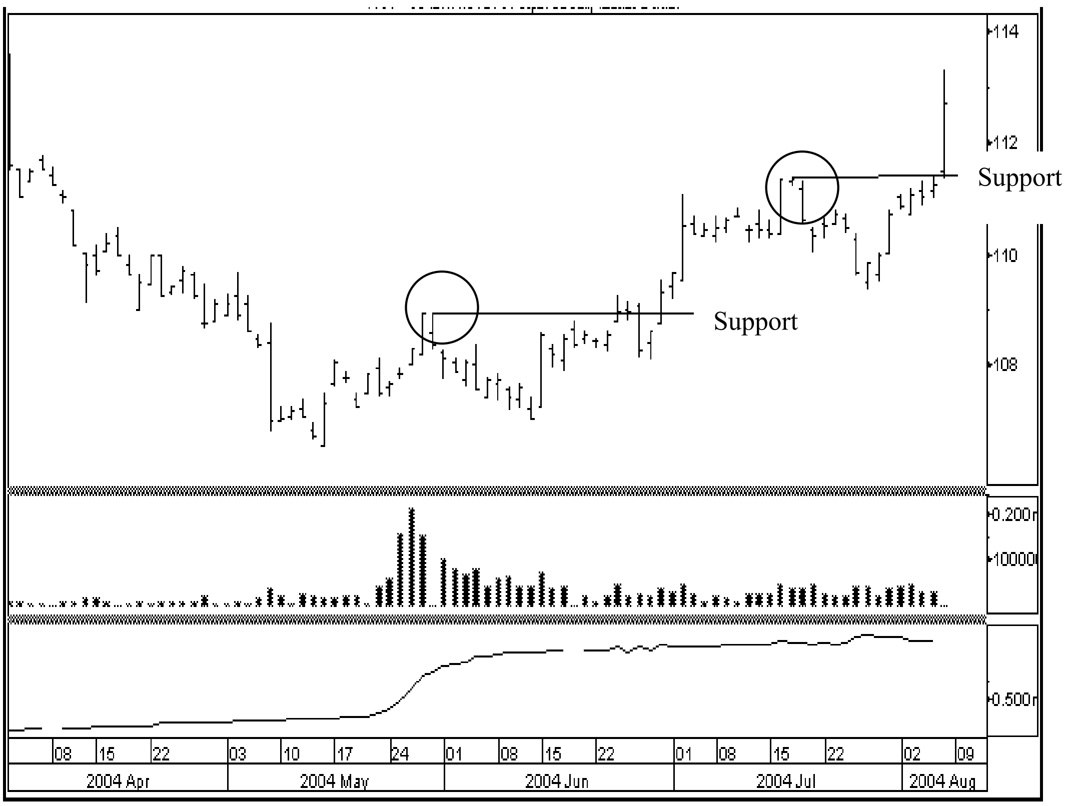
The US Treasury Note

MONTH CASH YIELD CHART: The long-term trend remains downward.

WEEK CASH YIELD CHART: And though the short-term trend has been broken, the market has pulled back sharply over the last few weeks.



DAY CASH YIELD CHART: The short-term yield chart shows the market pulling back into the trading range of much of last year.



DAY FUTURES CHART: The fall in yields has been mirrored by a rise in futures prices.

Last week I said that bulls should wait for a break of the highs around 111-13.

Well, the buy signal came dramatically.

But it is a featureless bull trend, ratcheted better by the support provided by prior highs. First **support** for the market is now at 111-13.

Return to Contents

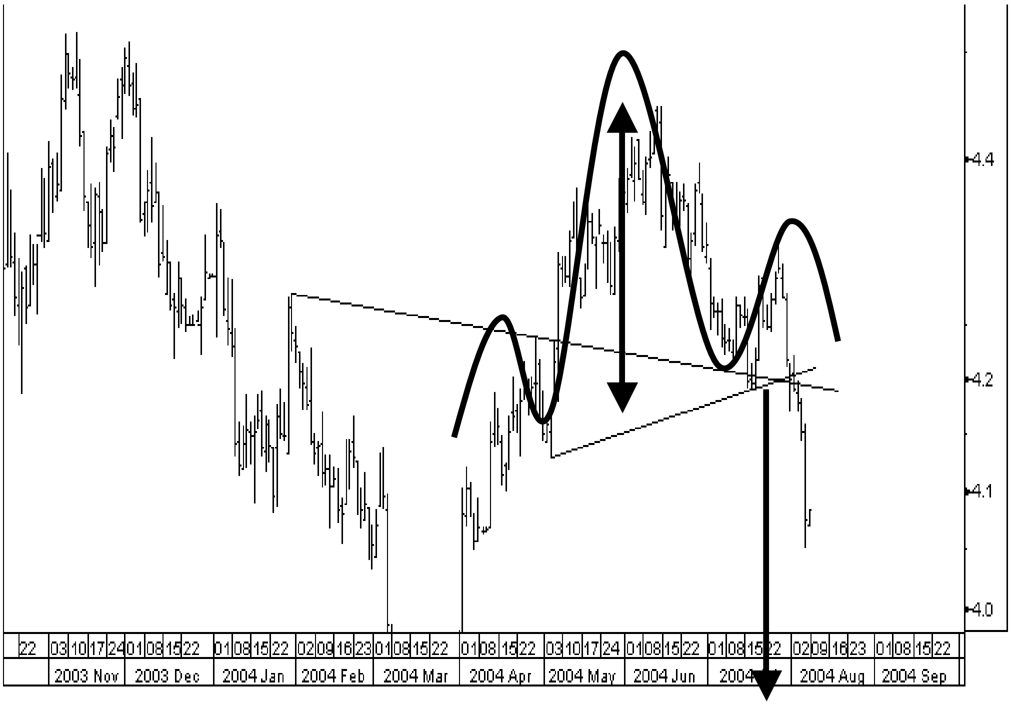
The European Bund.

MONTH CASH YIELD CHART: The long run trend remains for lower yields.

WEEK CASH YIELD CHART: So is the medium-term trend.

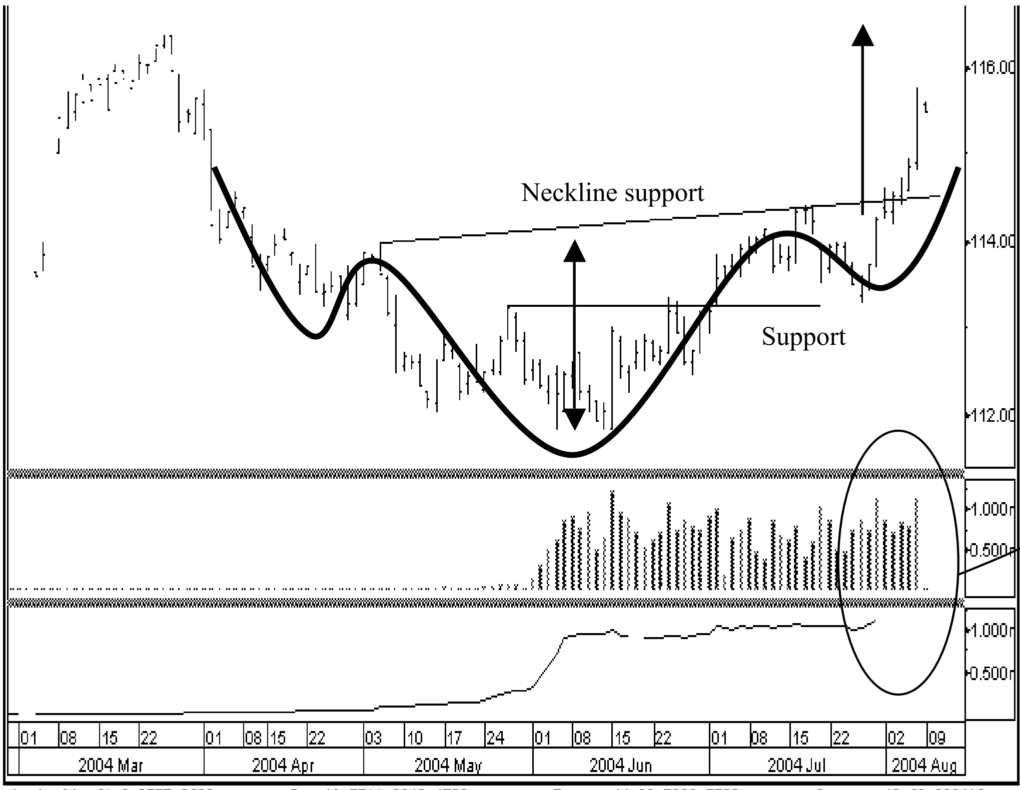
Is this a continuation triangle?

Wait for the market to break the lower diagonal at 4.05%.



DAY CASH YIELD CHART: The energy behind the recent push for lower rates is a clear Head and Shoulders Top formation.

Its target is 3.93%



DAY FUTURES CHART:

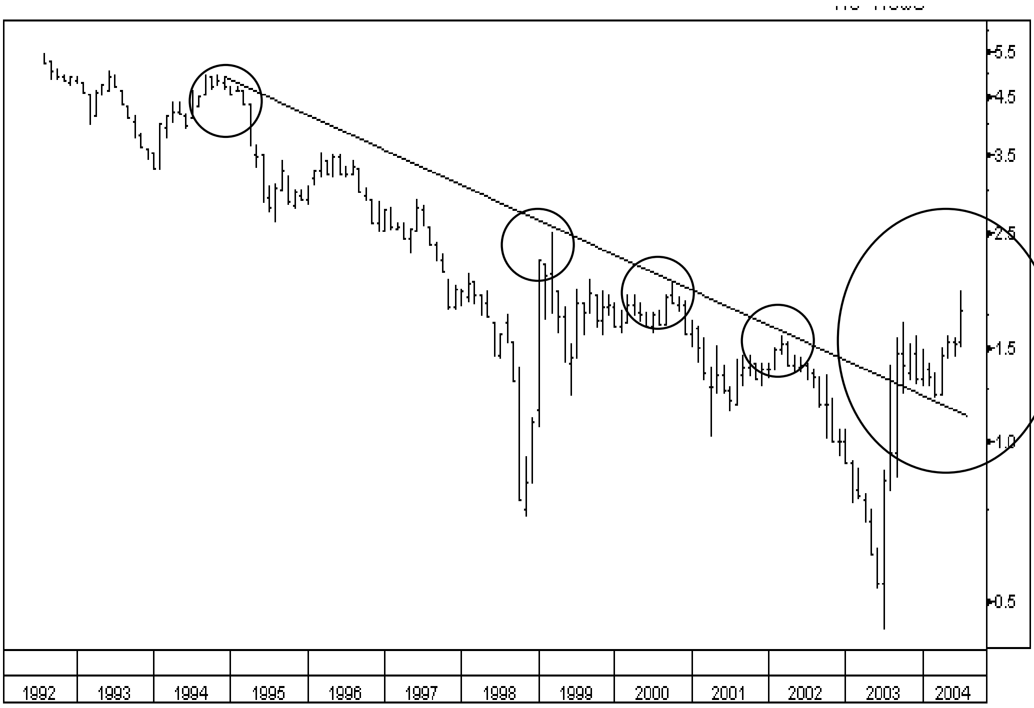
What a difference a week makes!

Suddenly there are completed patterns all around. I said **last week** that bulls should wait for a break of the previous highs at 114.42 - and that indeed was the trigger for the fast move <u>in high volume and growing open interest</u>.

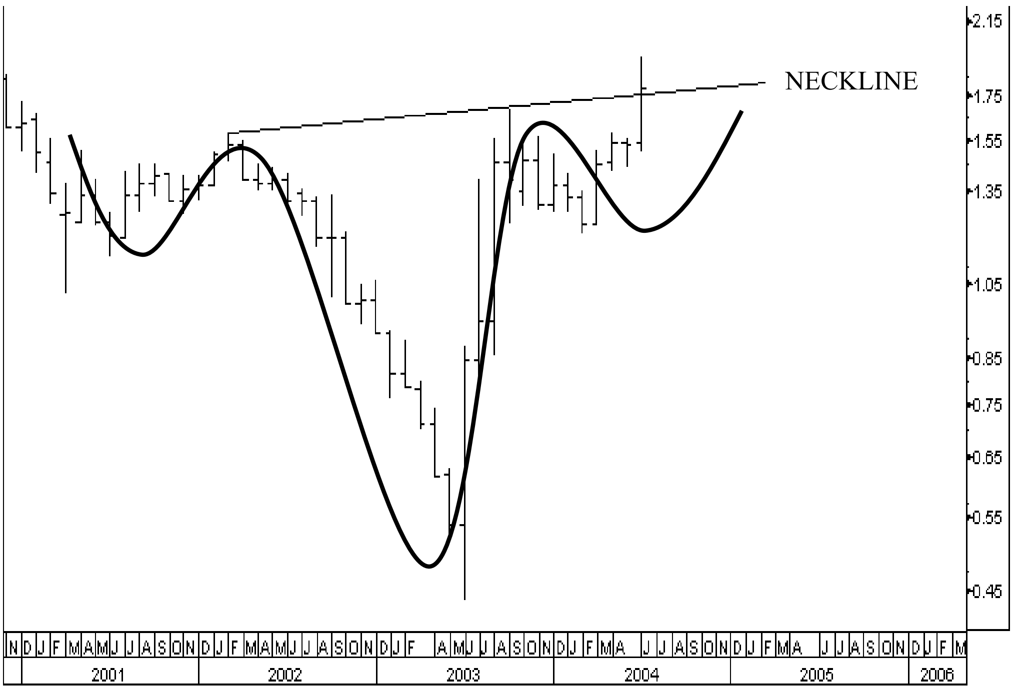
The H&S pattern in the futures chart suggests a bull move to around 117.00.

[Return to Contents](#)

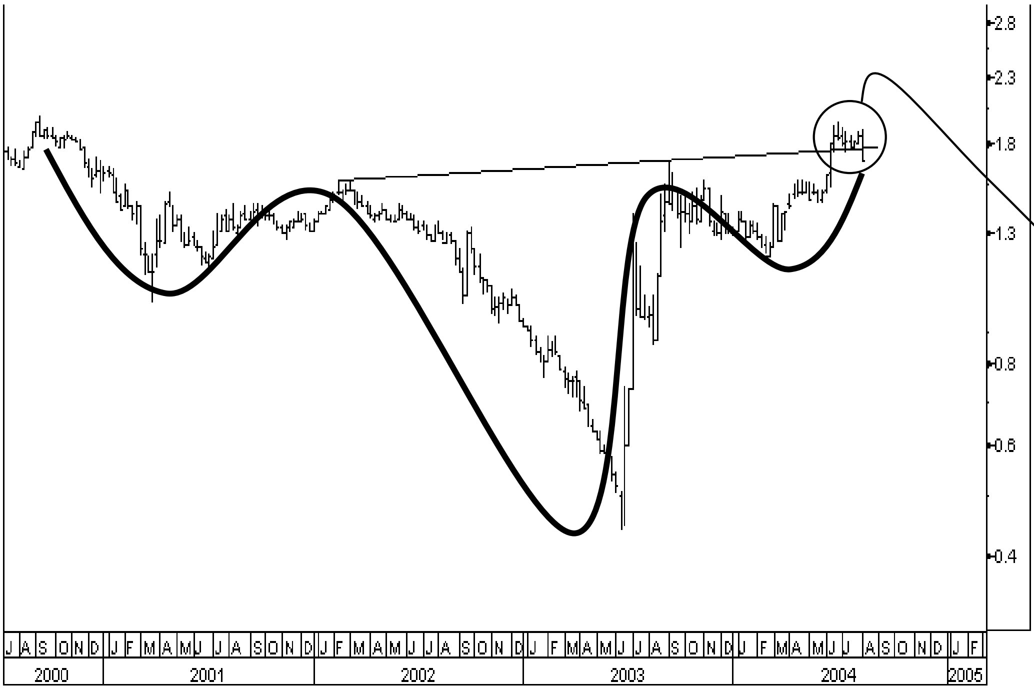
Ten Year Japanese Bond



MONTH CASH YIELD CHART: Japanese bond broke out of the long-term downtrend in late 2003.

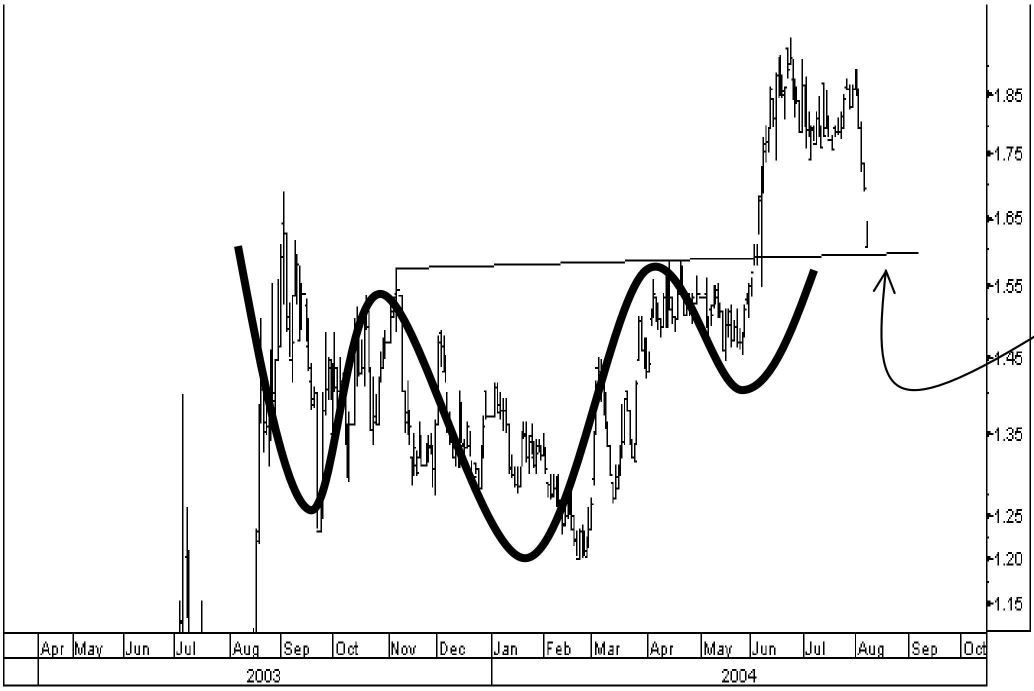


MONTHLY CASH YIELD CHART: I was excited last week by the completion of a Long run Head and Shoulders pattern.



WEEK CASH YIELD CHART: But in the week chart the price action at the end of last week punched back <u>beneath</u> the Neckline.

The movement isn't fatal to the pattern - it remains intact in the month chart above - but emphasises the difficulty of trading long-term charts with anything other than long-term positions.



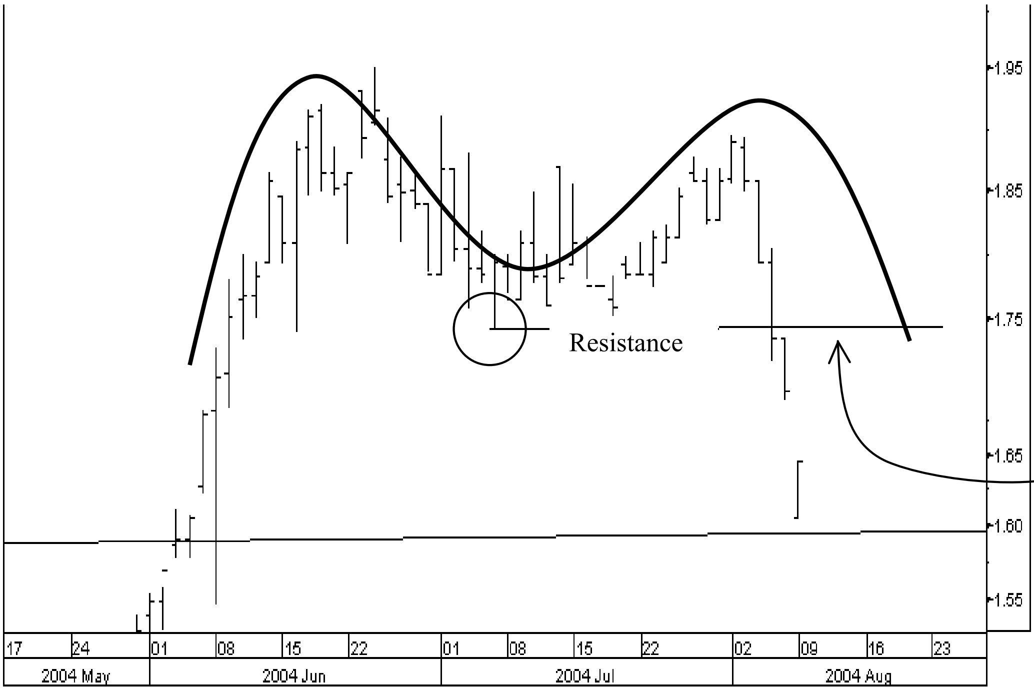
DAY CASH YIELD CHART:

I got this short-term chart wrong **last week**.

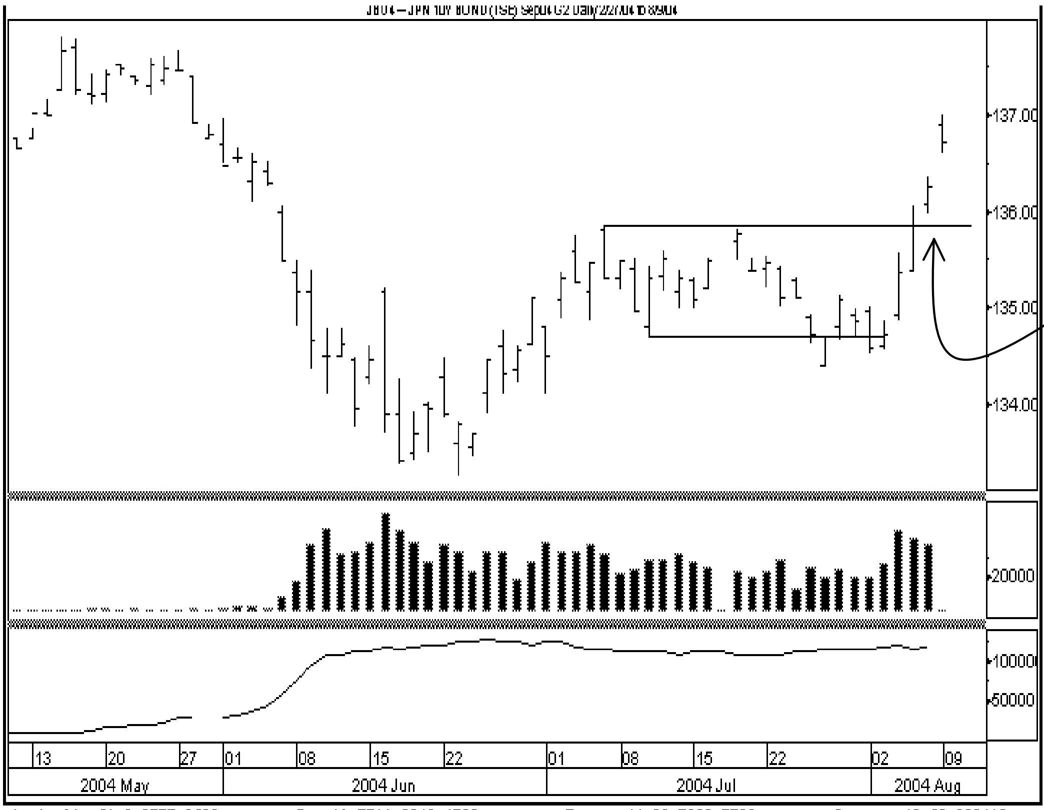
I saw in this consolidation a bull Double Bottom - but it failed spectacularly.

Nonetheless note, that there is good **support** beneath the market at the Neckline of a Bull Head and Shoulders pattern currently at1.60%

That should be powerful **support** in the short term.



DAY CASH YIELD CHART: The small Double Top that completed at 1.75% will now act as good **resistance** on any bounce.



DAY FUTURES CHART: The futures market reflects the drop in yields.

Again last week I was bearish in the very short term - seeing a small "loosely structured Double Top"

The bull move blew it out of the water.

Bears should have suffered little damage with well-placed stops.

Good support now lies beneath the market at 136.00.

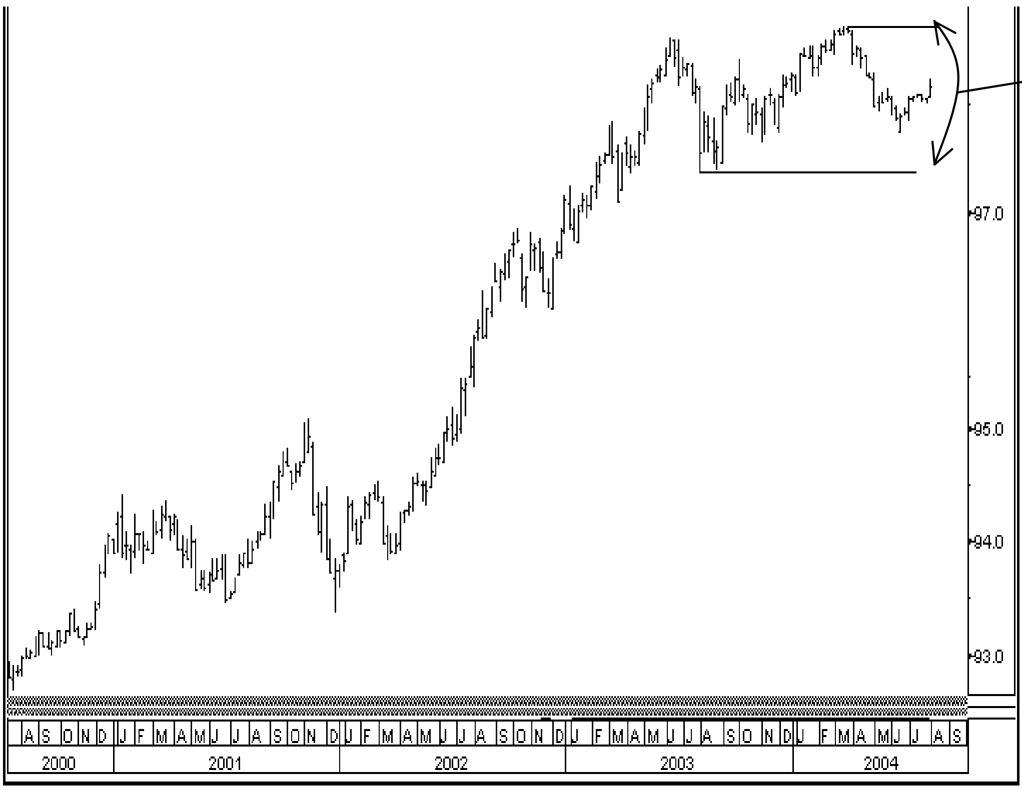
Return to Contents

INTEREST RATES

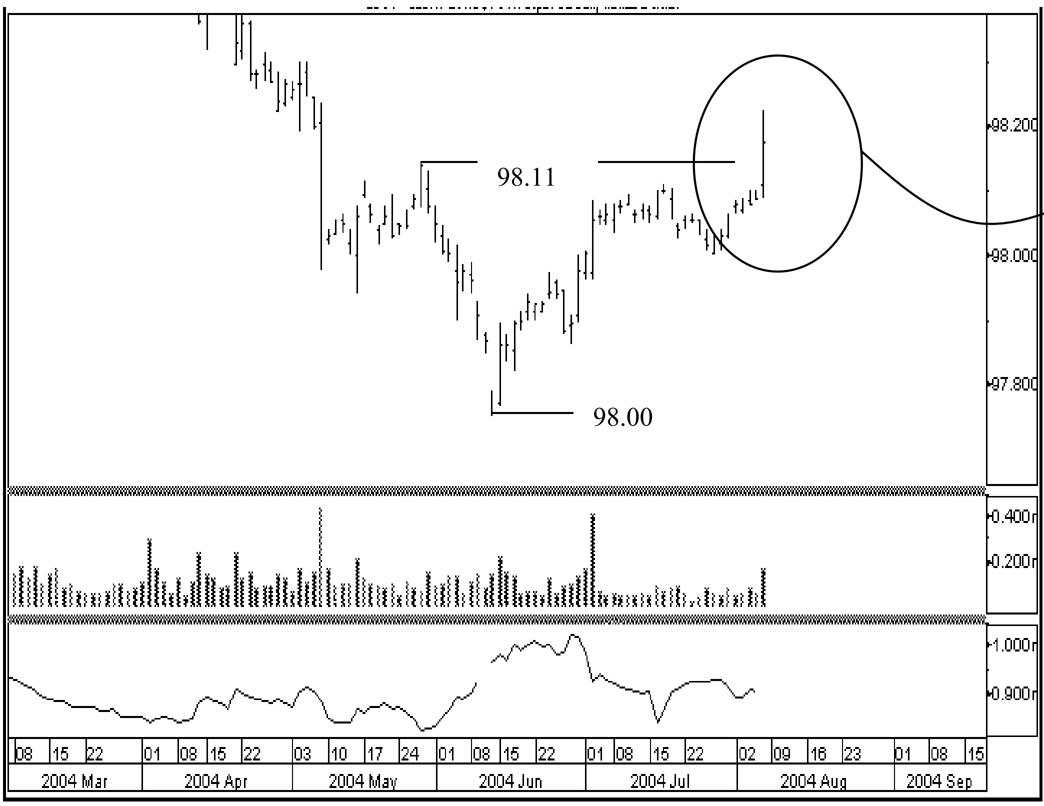
While all the markets remains stuck within large ranges as they have for many months, there are beginning to be some small completed structures within those large ranges.

In the US rates the near end of the futures strip is most bullish, whereas in Europe the far end of the strip leads the way. Short Sterling is least bullish, being dragged better but with no bottom formation in place.

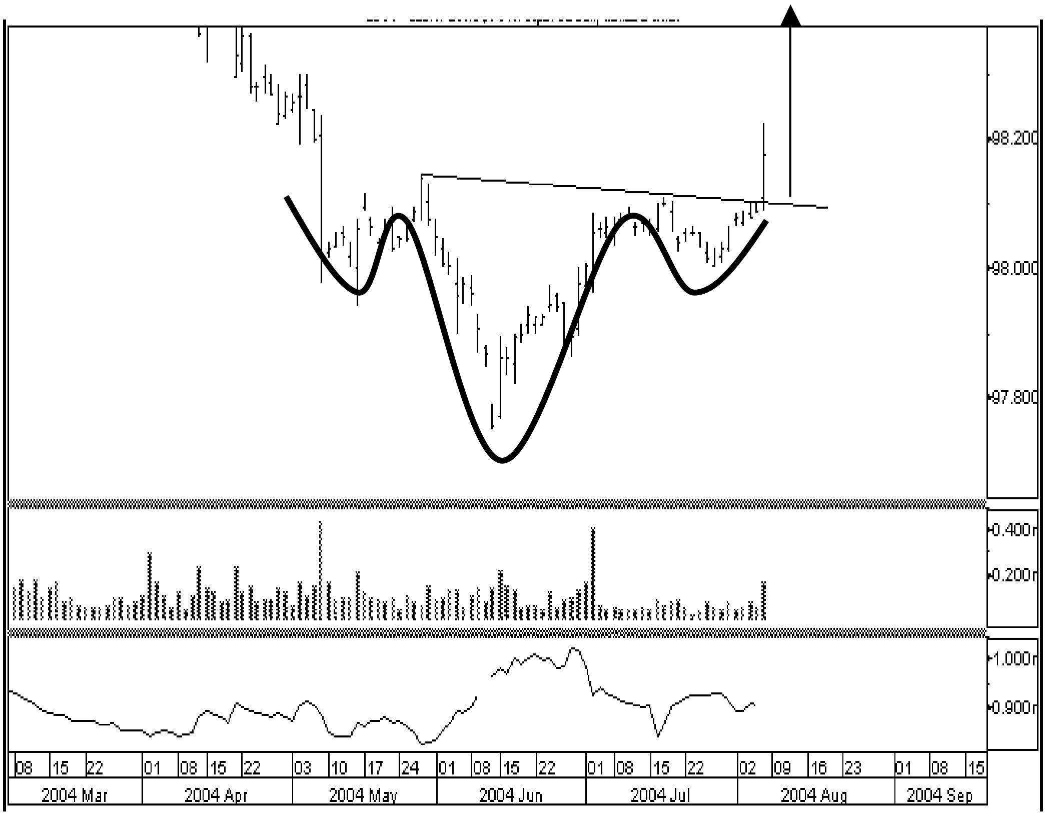
Eurodollars
September 2004



WEEK FUTURES CHART: The massive trading range established since early 2003 dominates the market.

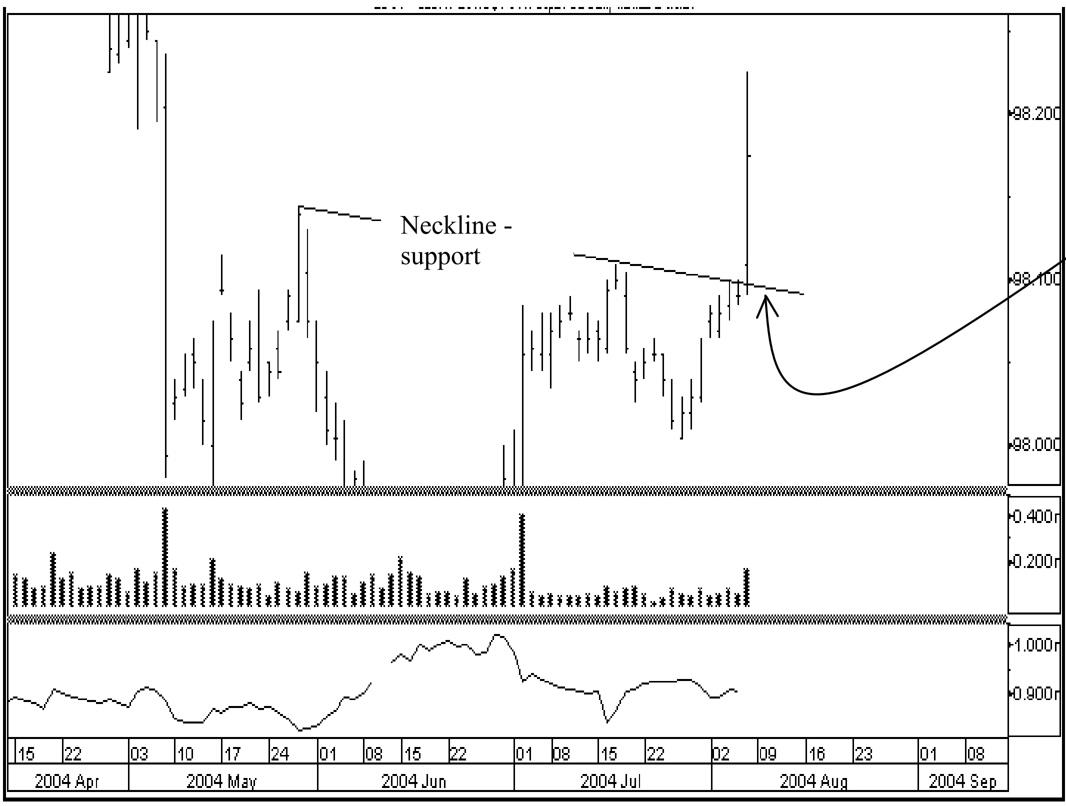


DAY FUTURES CHART: The market has, however, broken out of the near-term trading range of the summer.



DAY FUTURES CHART: And, sure enough, we can see a clear Head and Shoulders Bottom has been completed.

The minimum target is easily measured: <u>98.47.</u>



DAY FUTURES CHART:

Last week I suggested that traders should wait for a break of the trading range at 98.11.

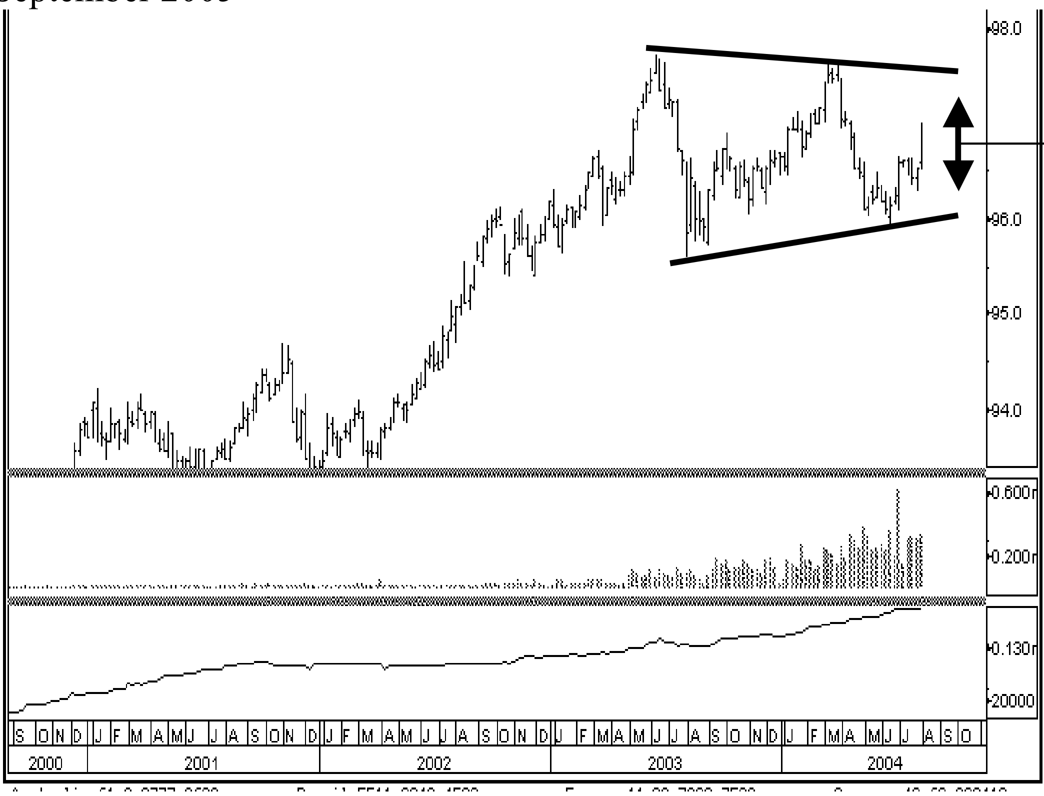
Bulls who bought on a break of that level will have enjoyed the run.

Expect the Neckline beneath the market to act as good **support** at the 98.10 level.

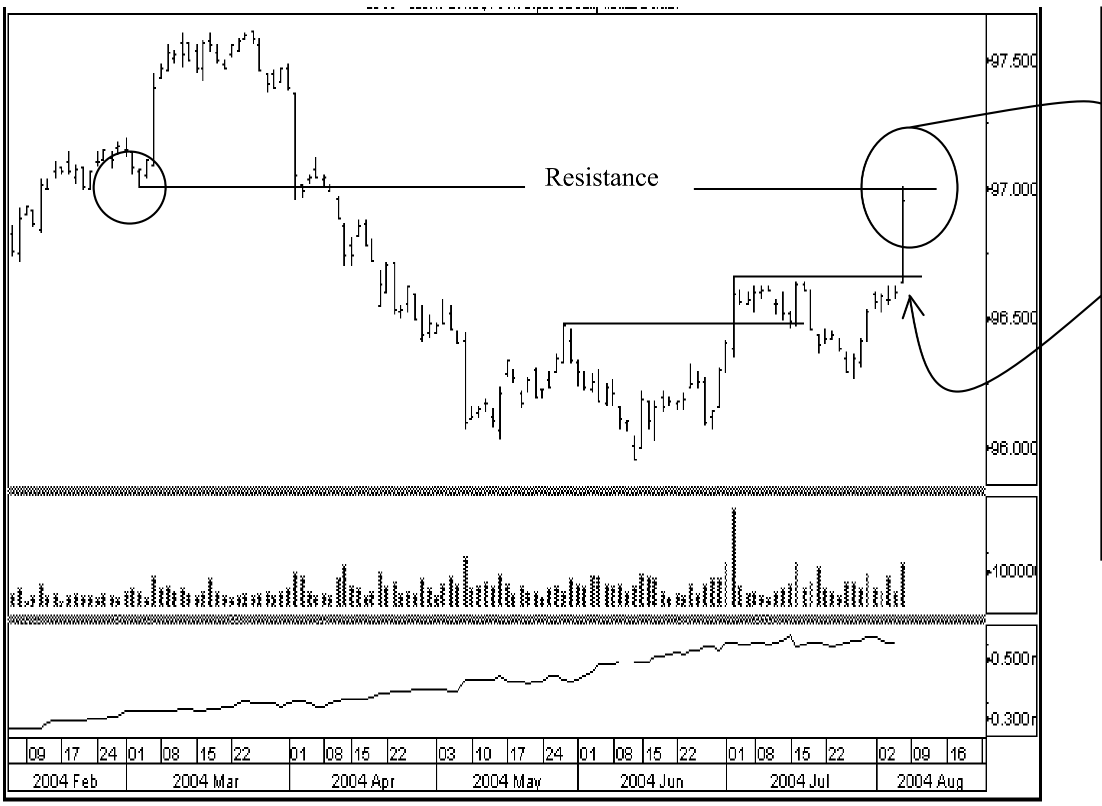
But there's a good deal more on the bull tack to come.

Further along the Eurodollar futures strip:

September 2005



WEEK FUTURES CHART: The market remains well within the wide trading range of the last year and a half.



DAY FUTURES CHART: The recent bull move has brought the market up against the first **resistance** at 97.00.

Last week I said bull should wait for a break of the 96.66 level - the near high.

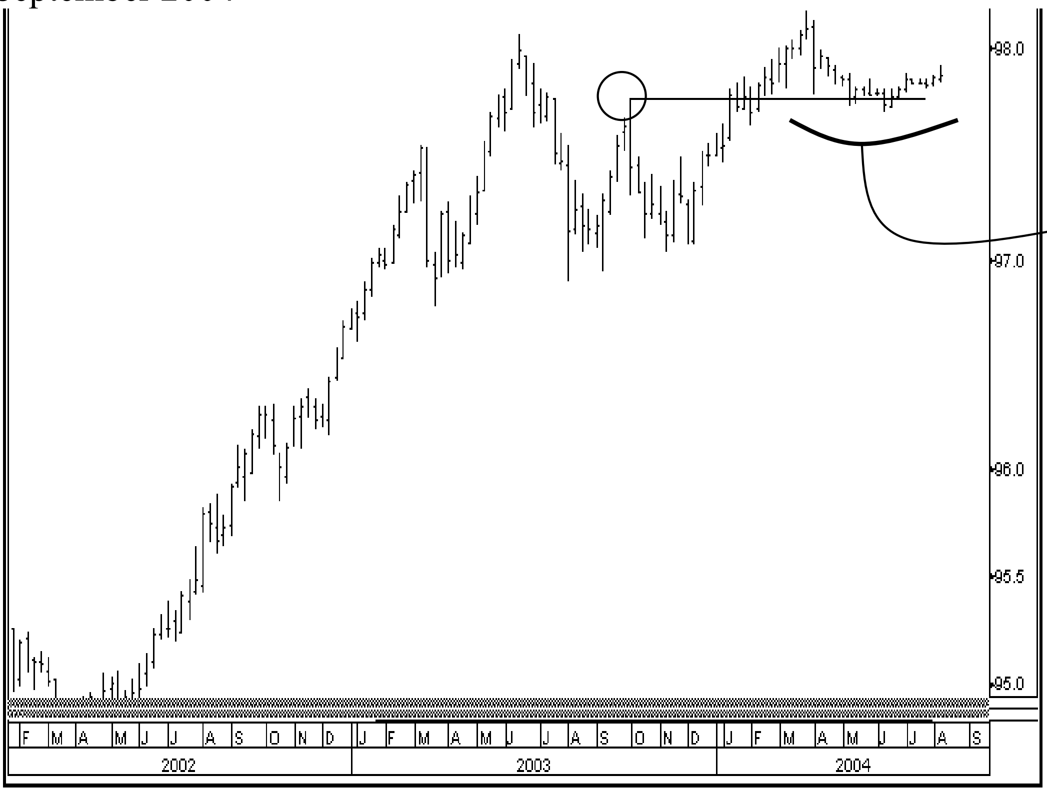
I was right. That proved to be the catalyst for the fast bull move.

Now that will act as good **support**.

Return to Contents

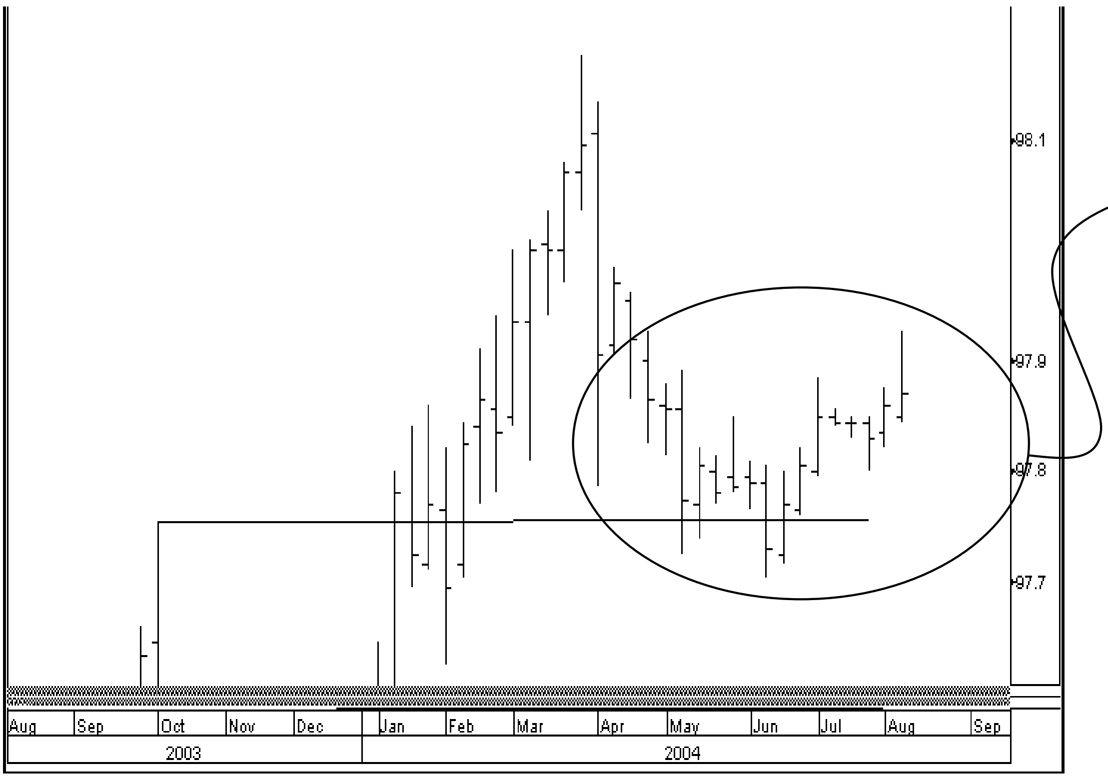
The Euribor

September 2004



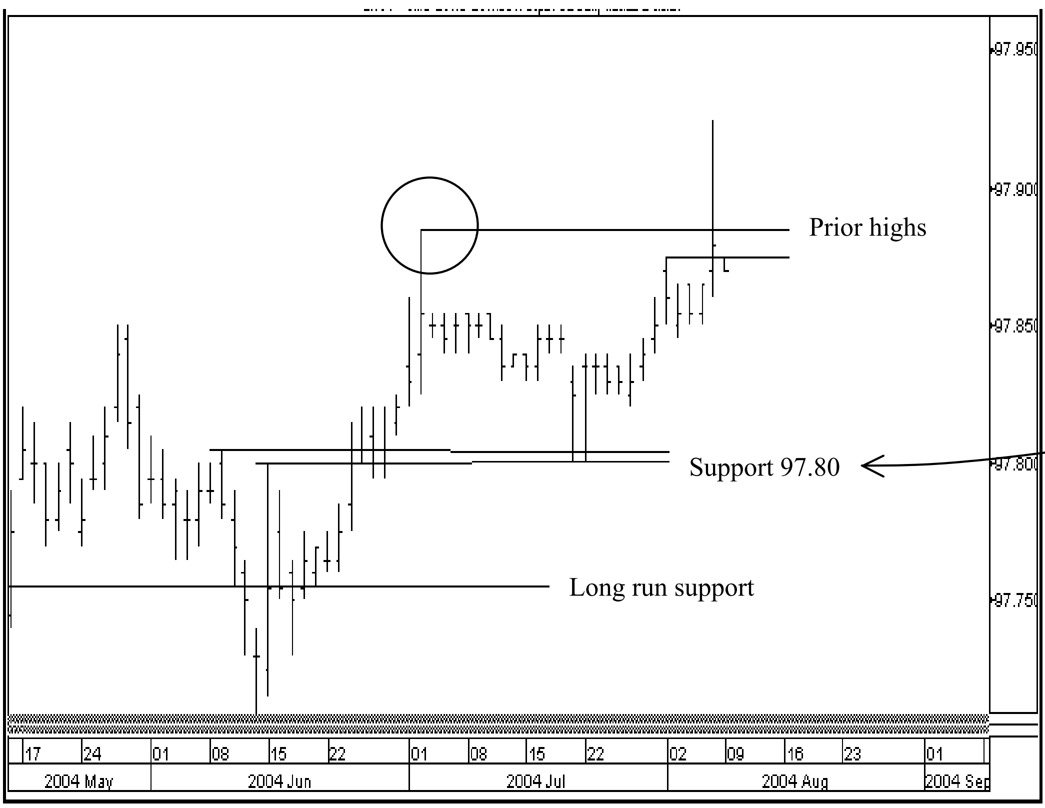
WEEK FUTURES CHART: The market has been moving sideways in a massive trading range.

But, note how the old high at 97.75 gave good **support** in April and May of this year, from there the market has edged better.



WEEK FUTURES CHART: The bounce from the support at 97.75 in greater detail.

But I see no clear bottom formation here.



DAY FUTURES CHART: Despite some wild swings, the market failed to close above the prior high at 97.86 which was my level for the bulls **last week**.

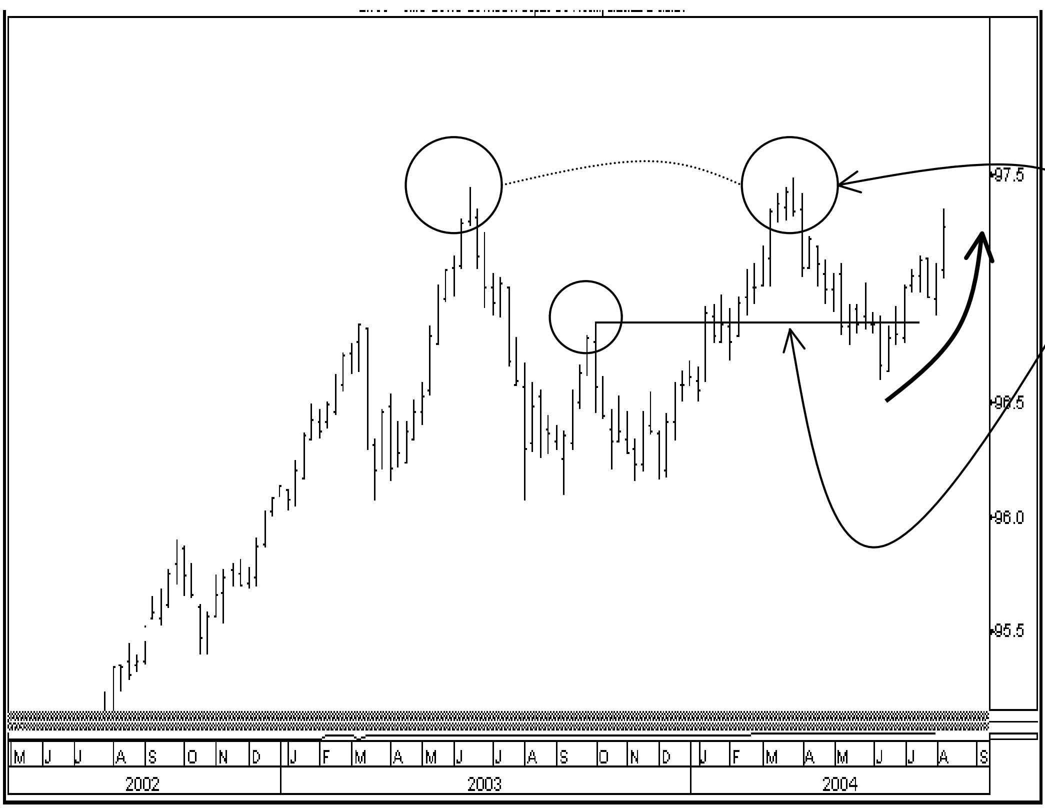
Bulls should wait for that break (and close) before adding on.

Bears should wait for a break of the **support** beneath the market at 97.80.

And even then remember, the long run **support** is close by at 97.75.

Further along the Euribor futures strip

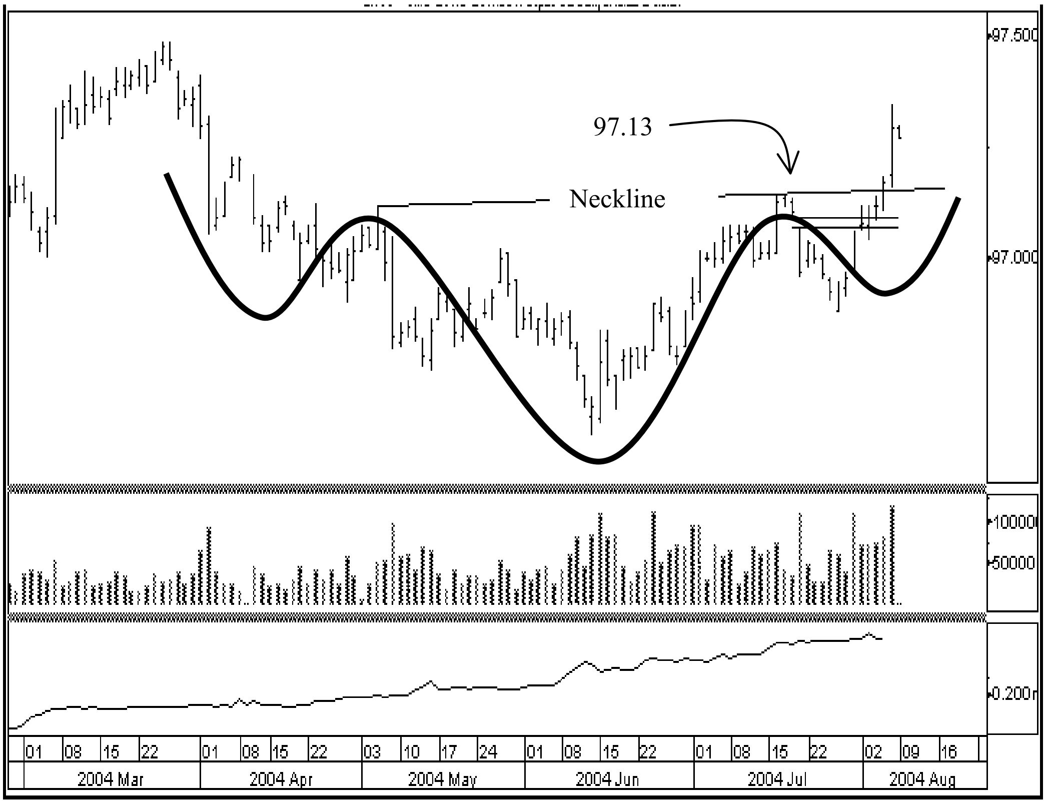
September 2005



WEEK FUTURES CHART: The market has bounced a good deal better from the penetration of the **support** at 96.85.

<u>But it still remains within a clear trading range</u>.

Long-term bulls will need a break of the highs around 97.50 before getting involved.



DAY FUTURES CHART:

Last week I said that bulls should wait for a break of the high at 97.13 before buying.

That break happened in style.

Now, is that a completed Head and Shoulders Bottom?

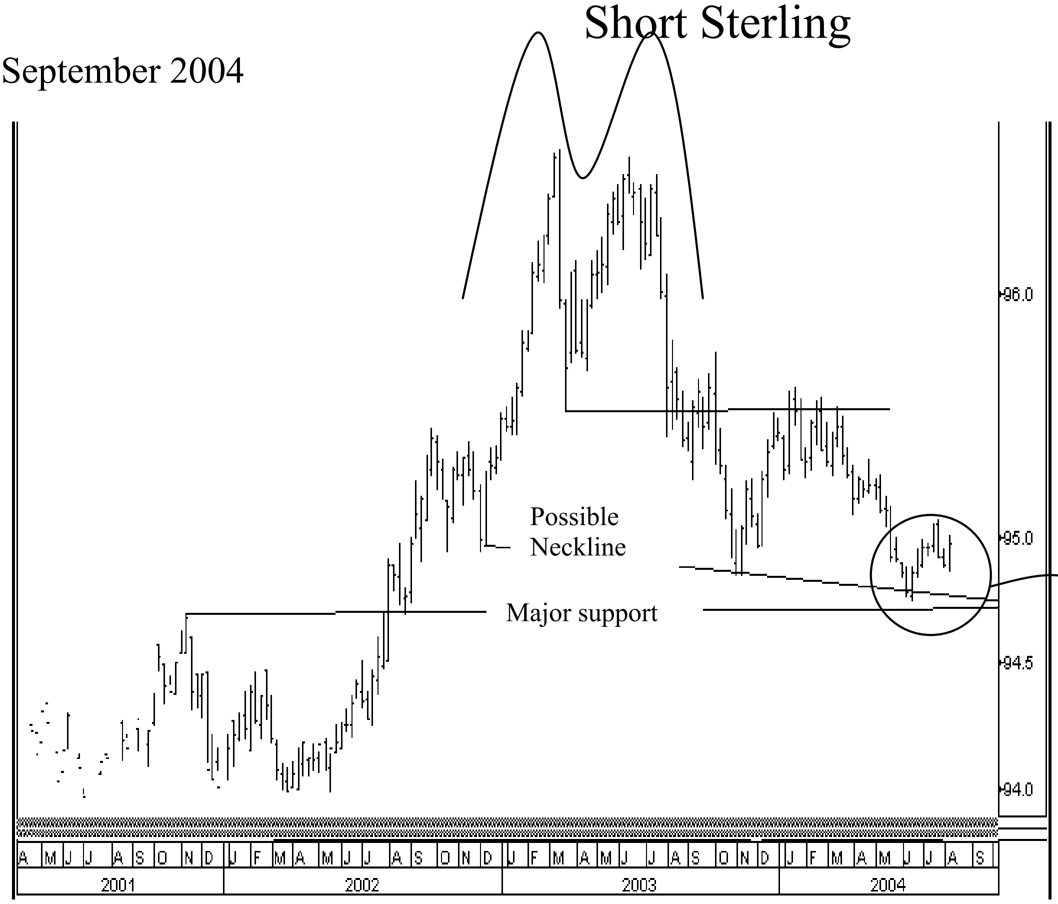
It's complex and untidy. But there's no doubt the volume figures back it up.

That Neckline at 97.13 will act as good **support** on any pull-back…but it's going better.

Return to Contents

Short Sterling

September 2004

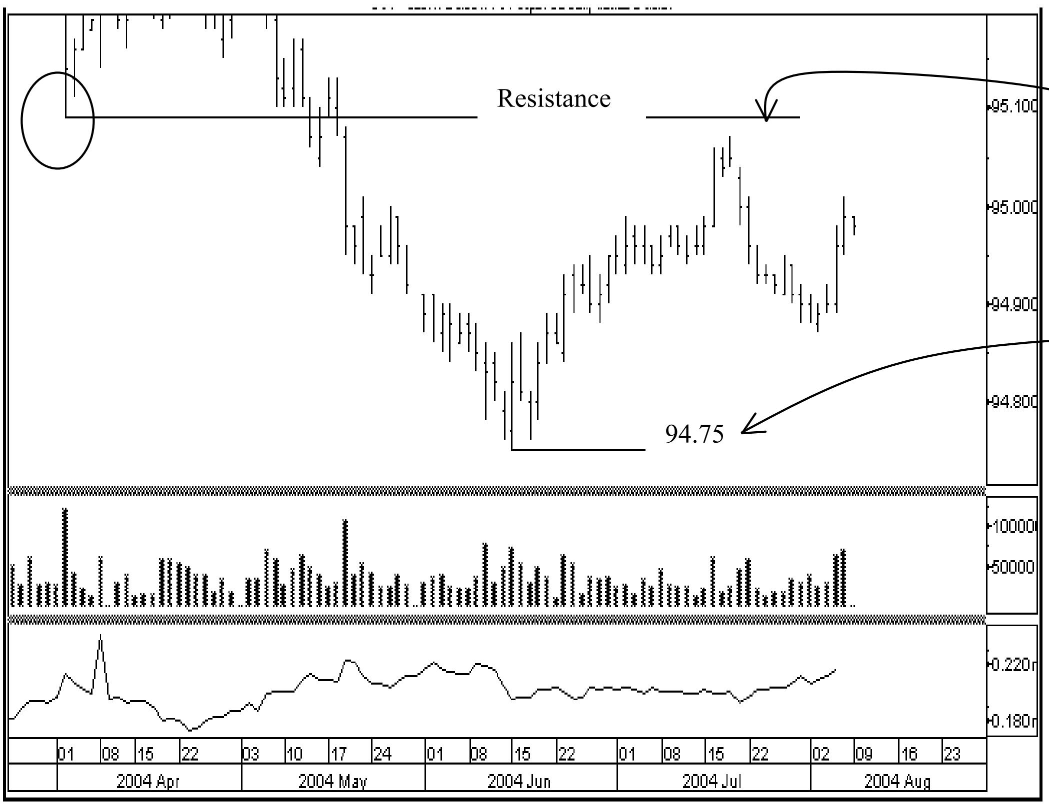


WEEK FUTURES CHART: The market has fulfilled most (but not quite all) of the implications of the large bear Double Top established in early 2003.

Two crucial levels lie beneath the market

1. A possible Neckline
2. Major support from a prior high.

But neither of these has been broken, and the market has moved away.



DAY FUTURES CHART: The bounce has been rather featureless.

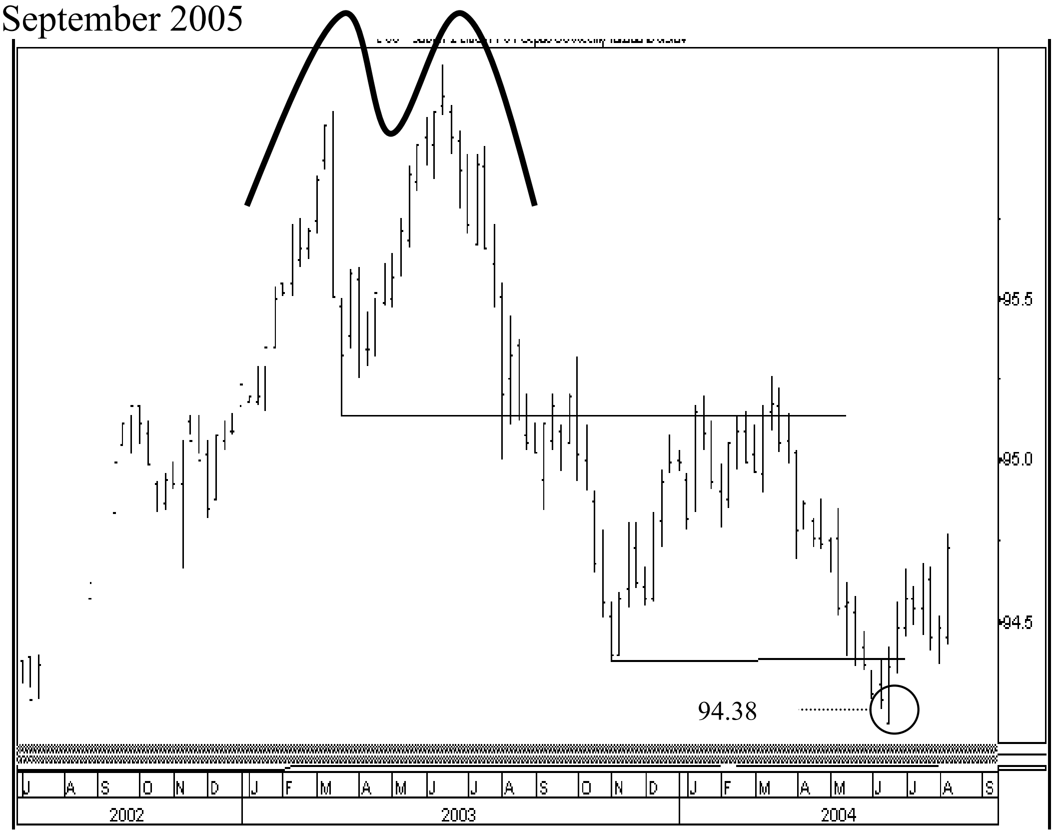
Overhead resistance lies at 95.09.

The bears won't be interested unless the lows are taken out at 94.75.

But <u>remember</u> the overwhelming importance of the Major Support 94.70 (see above) and the Possible Neckline at 94.84.

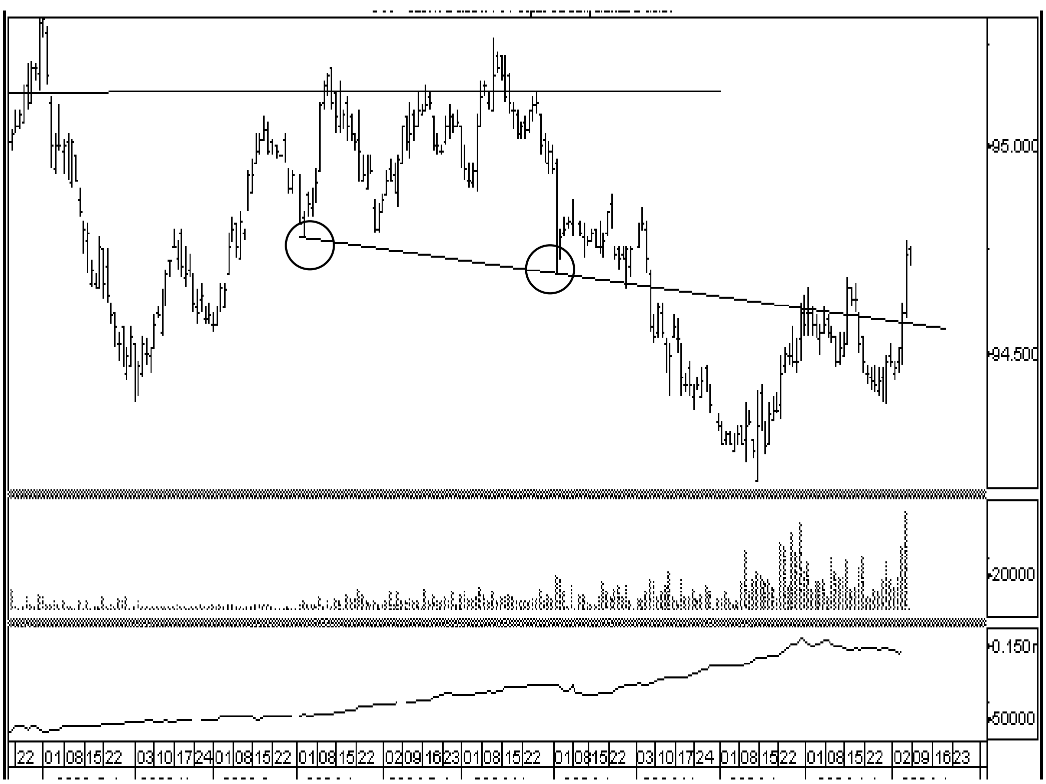
Further along the Short Sterling futures strip

September 2005

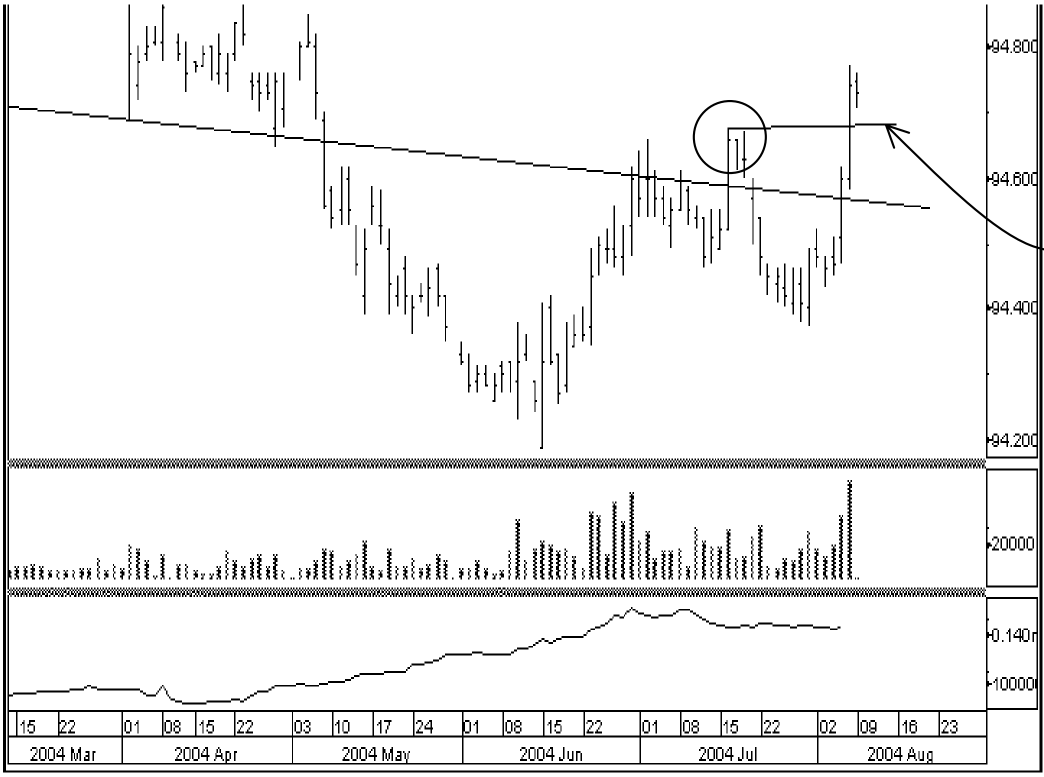


WEEK FUTURES CHART: The Double Top that drove the market down to a low of 94.19 - thereby achieving it's target - has now lost influence.

The bears will have noticed the ease with which the market traded back through the **resistance** from the low at 94.38.



DAY FUTURES CHART: The falling diagonal Neckline from the complex Head and Shoulders pattern has acted as good **resistance** in the past - but was smashed through last week



DAY FUTURES CHART:
Last week I spotted the Key Reversal that imparted some bull energy, but nonetheless demanded a close above the high at 94.68 before committing to the bull tack.

That breakout happened.

I still see no clear bottom formation at the moment - but expect good support from the horizontal from the high at 94.68.

Return to Contents