

Japanese bonds  
under pressure

Dollar under  
renewed

Oil set for  
fresh move



WEEK 9 1<sup>st</sup> – 7<sup>th</sup> March 2005

# A TECHNICAL TRADER'S GUIDE TO MAJOR MARKETS

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SEVEN DAYS AHEAD

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## ABOUT SEVEN DAYS AHEAD

Seven Days Ahead publishes a variety of trading guides suitable for experienced market operators.

## ABOUT THIS GUIDE

Mark Sturdy's unique charting approach has developed over 24 years of trading success. Each market is analysed over several time periods. With this multilayered approach, market moves can be anticipated over the next few days, the next few weeks and the next few months.

This guide uses classical bar chart analysis to identify patterns whose predictive value has been proven time and again from the very earliest days of freely-traded markets.

The Technical Guide helps traders take advantage of money-making opportunities and avoid loss-making traps in a concise and readable report.

## 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.

Working in Chicago on the floors of the CME and the CBOT with Rudolf Wolf Futures 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 he has worked extensively as a consultant technical analyst for a number of large private investors, banks and Hedge Funds.

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

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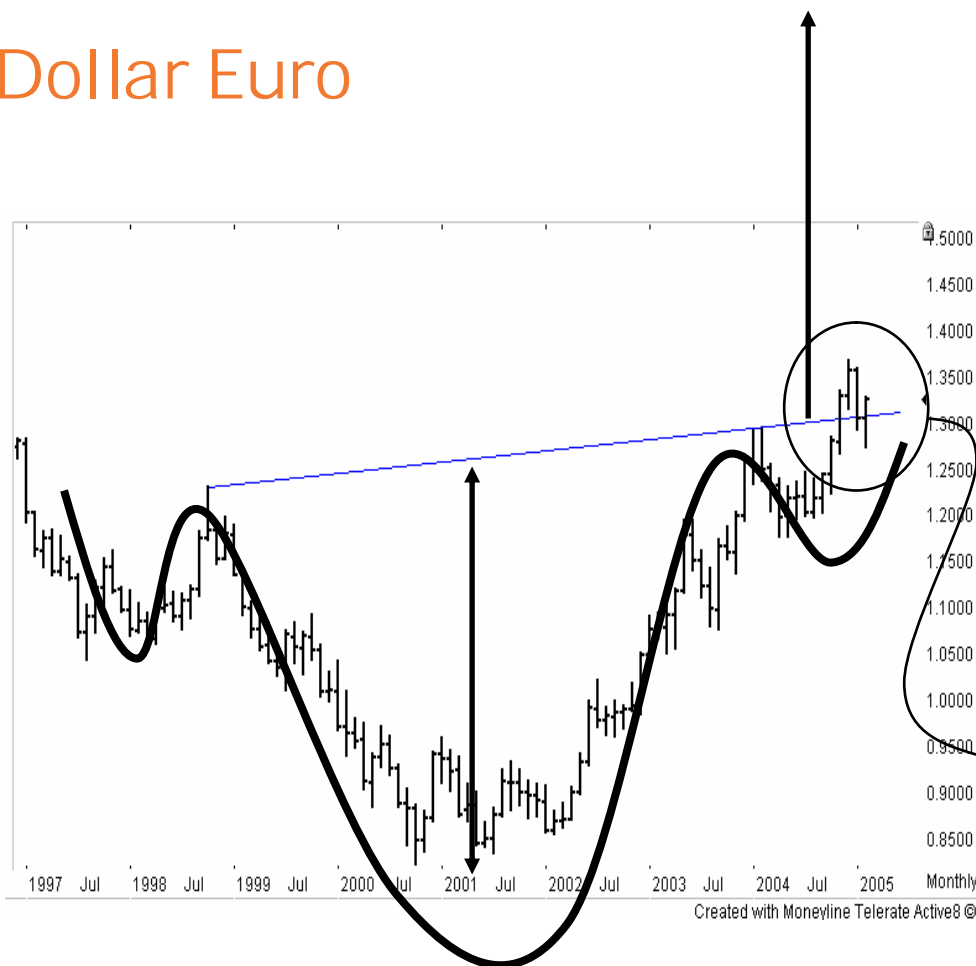
34 OIL

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# Currencies

As I predicted last week, the threat to the Currency bulls is now receding fast. With the exception of the Yen, the Dollar is on the slide again. Cable is the best and clearest of the bear Dollar charts and so remains the best buy. The Yen has been sidelined, stuck in a trading range, but even there, the long-term chart is unequivocally bearish for the Dollar.

## Dollar Euro



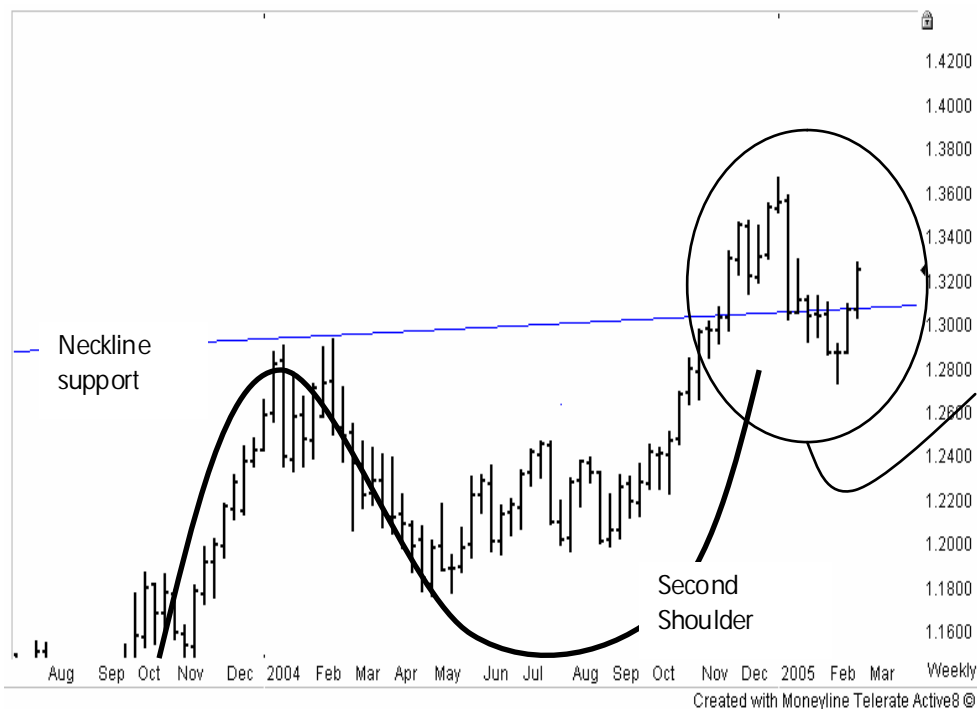
### MONTHLY SPOT CASH CHART:

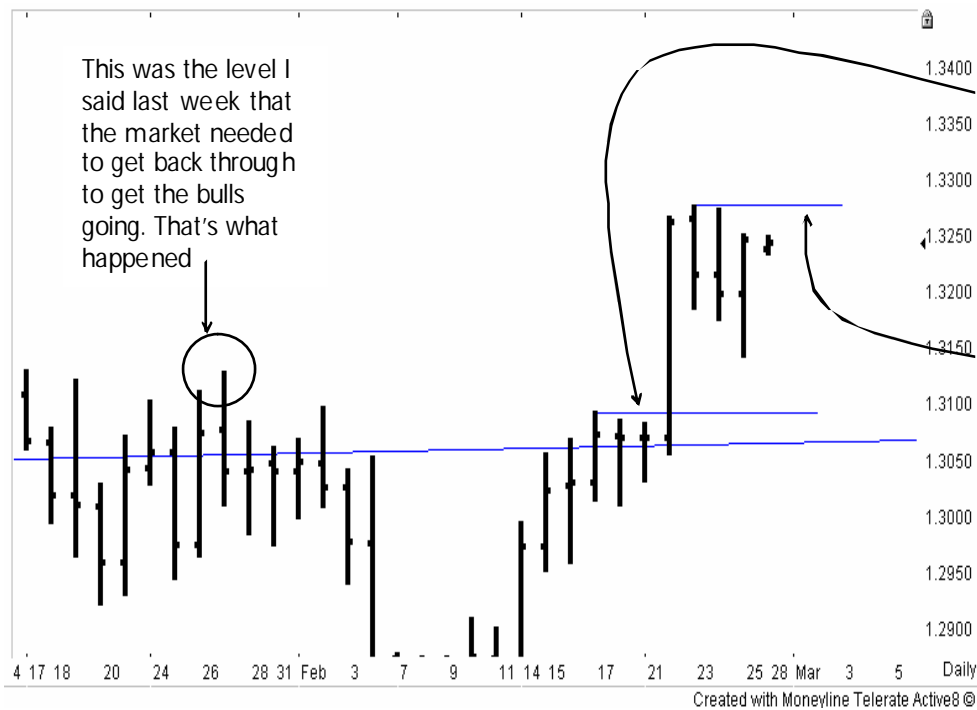
The Dollar bears are relieved. And excited.

The massive bear pattern which suggests the Dollar is going very much weaker is intact.

The critical close was that on the 28th February. I am writing at 14.51 pm on the 28th and a close above the Neckline (about 1.3050) looks assured.

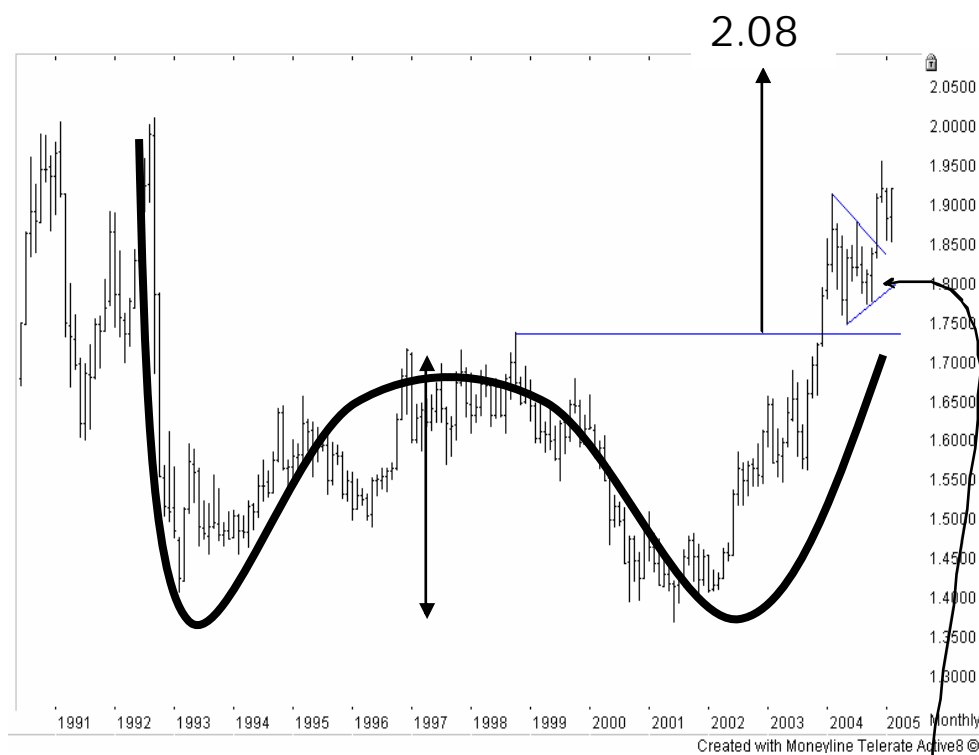
Look at the measurement of the Head and Shoulders pattern – the minimum target for the Dollar is 1.6936.





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# Dollar Sterling



## MONTHLY SPOT CASH CHART:

The big picture is unambiguously bullish for Sterling since the completion of a massive Head and Shoulders pattern in December 2003.

That pattern targets the market up as least as far as 2.0860.

Keen Dollars bears received added evidence of the strength of their position when a medium sized Continuation Triangle completed in November 2004.

That pattern targets the market up as far as 2.0008 – Minimum!

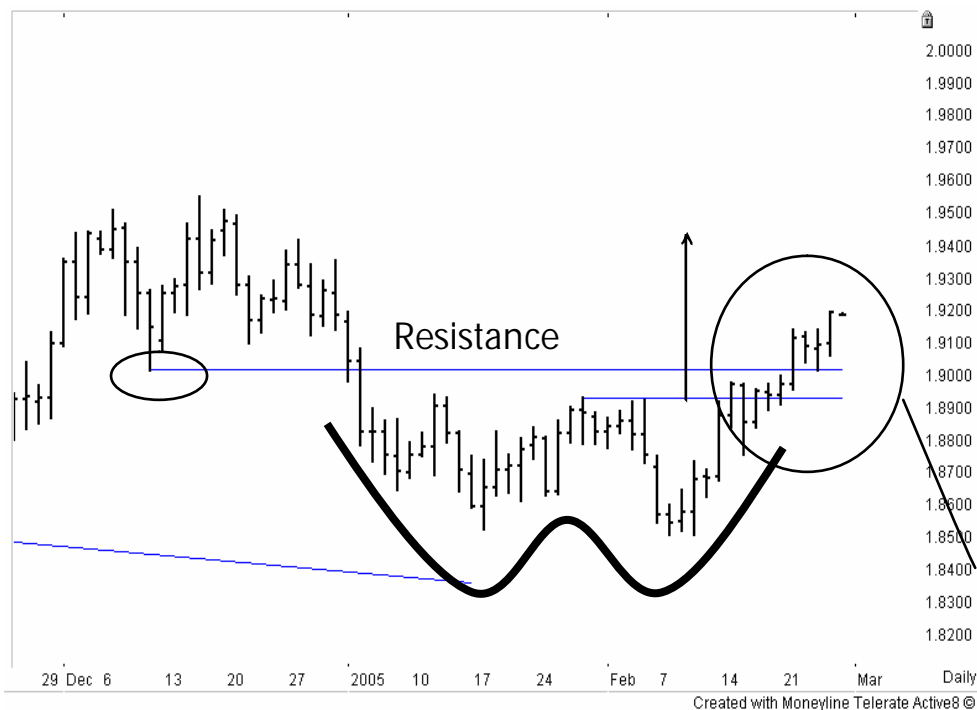


WEEKLY SPOT CASH  
CHART:  
That Continuation  
Triangle in greater detail.

Having completed, the  
market forged ahead  
and then fell back.

But it struggled to get  
back through the  
1.8600 level, bouncing  
twice from that level.

Check out the detail of  
that bounce.

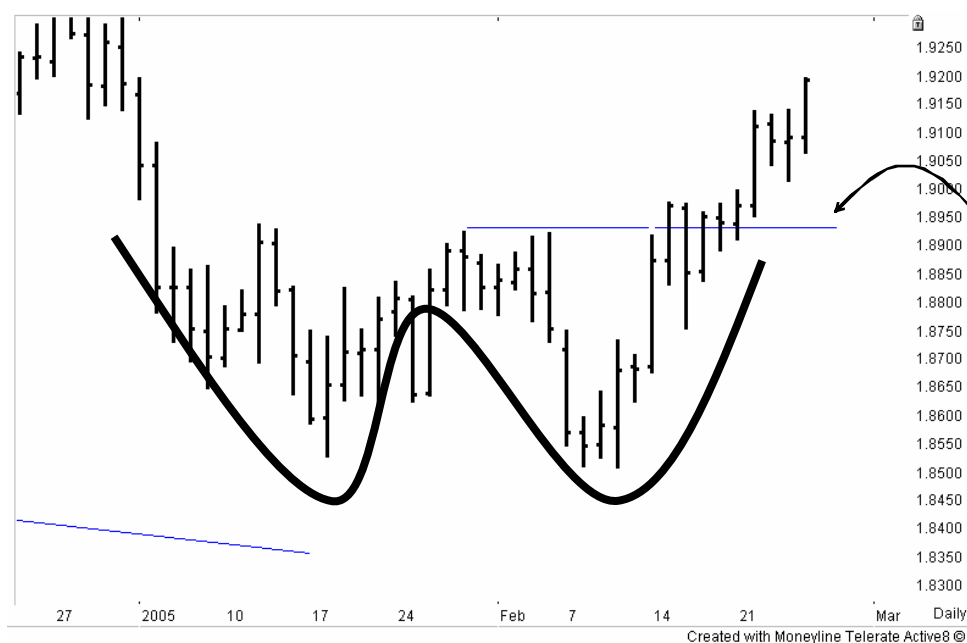


WEEKLY SPOT CASH  
CHART:  
What is happening here?  
Note first the Double  
Bottom from the 1.85  
level, and the resistance  
that lay above the  
market from the low at  
1.90. That was the key  
level for the bulls that I  
identified last week.

So it proved.

The Double Bottom has  
completed at the same  
time as the market has  
smashed through the  
overhead resistance.

The target for the  
Double Bottom is  
1.9330 or so, just short  
of the old highs of the  
market.



DAILY SPOT CASH  
CHART:  
And on any pull-back  
look for good support  
beneath the market at  
1.8928.

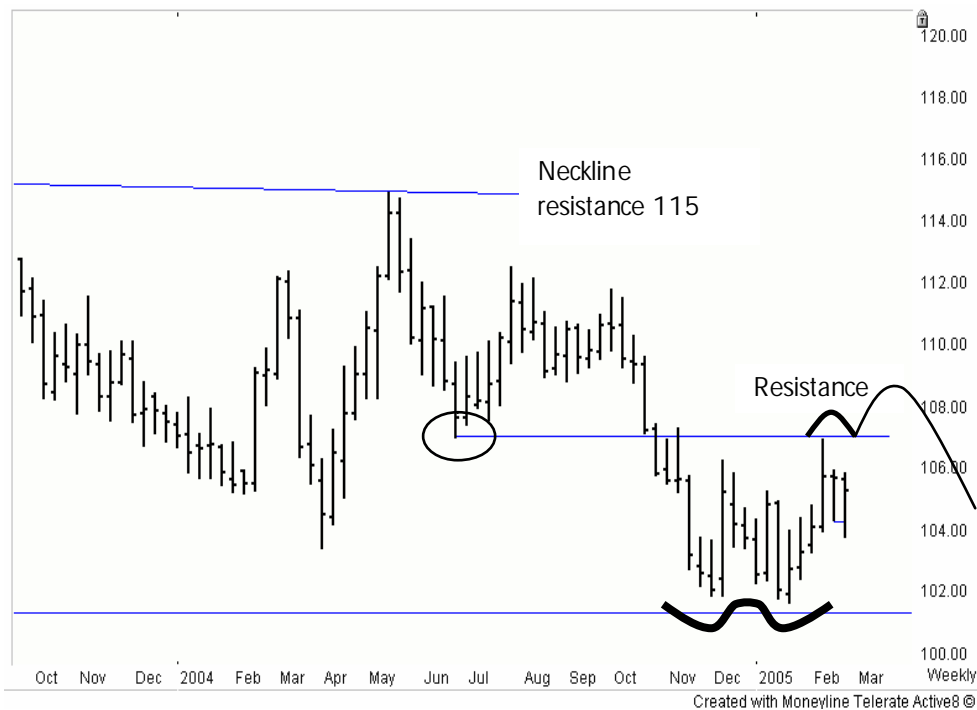
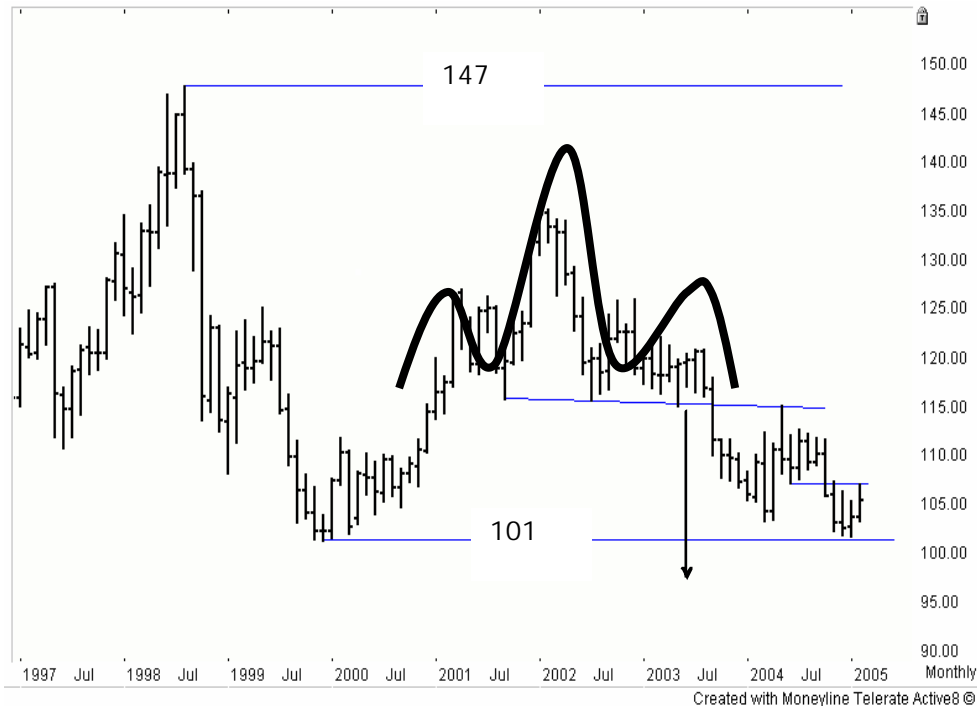
Unless that breaks, the  
Dollar bulls really have  
very little to go for.

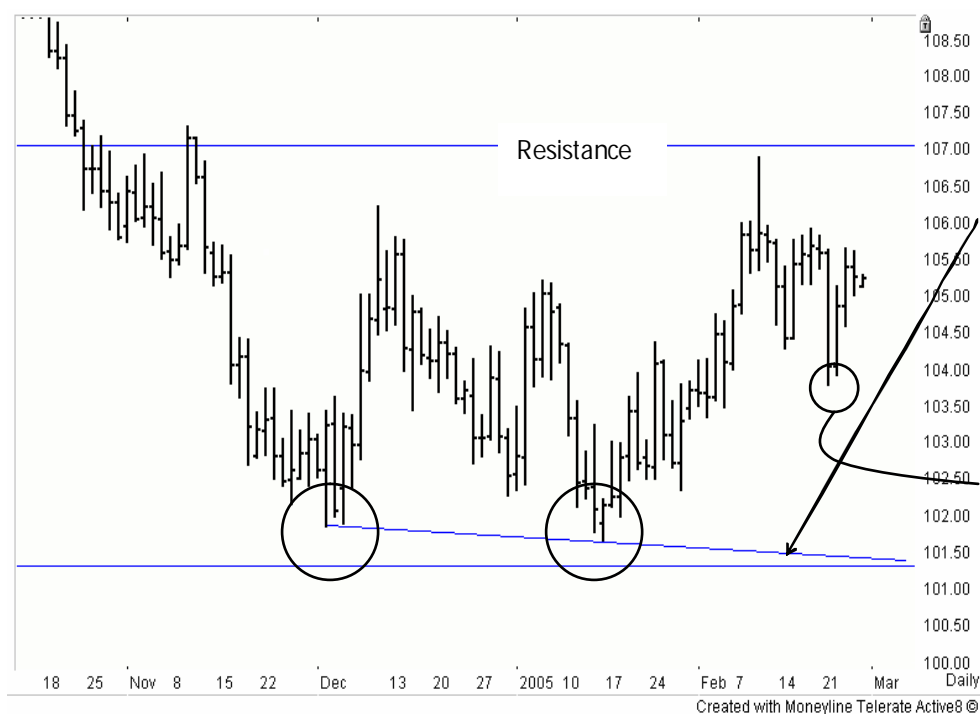
The Dollar is going  
weaker still.

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# Dollar Yen



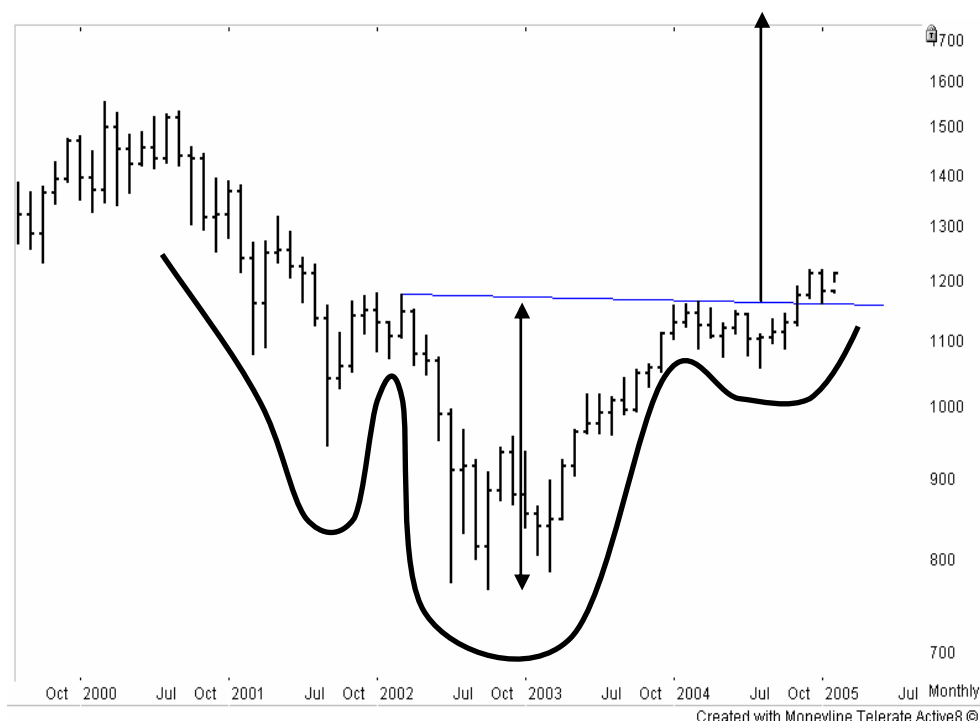


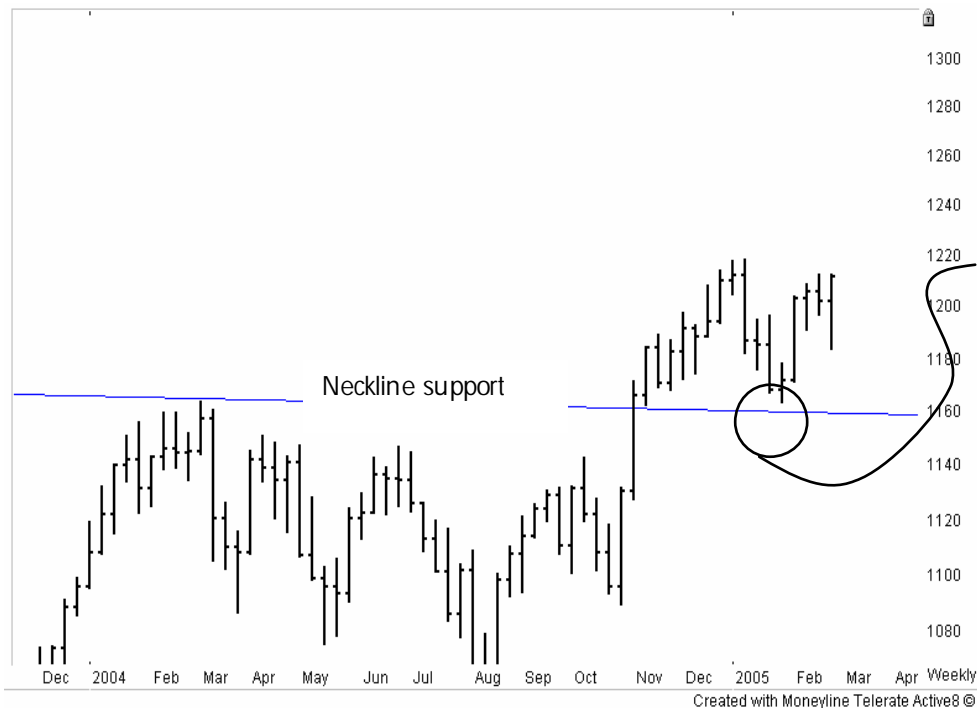
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# Stocks

I wondered whether the European markets were over extended last week and that proved to be correct: they market time or drifted. But they all look in good fettle especially the S&P whose long-term and medium-term structures remain very strong.

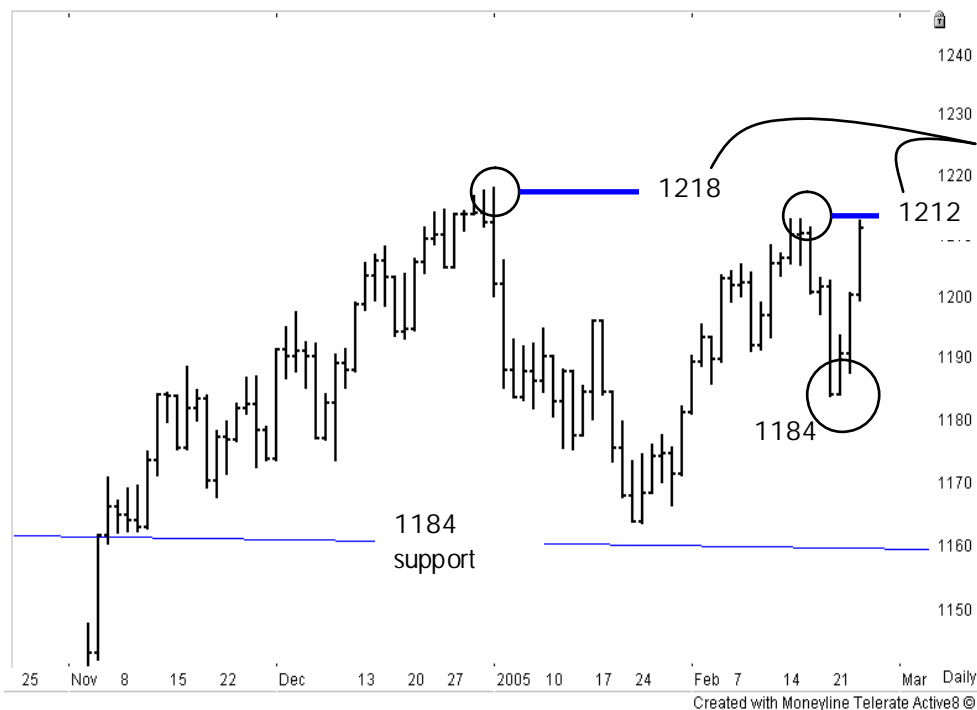
## Standard and Poors 500





### WEEKLY CASH INDEX CHART:

The market price action above the Neckline is instructive: the single attempt to pull back was repelled ....



### DAILY CASH INDEX CHART:

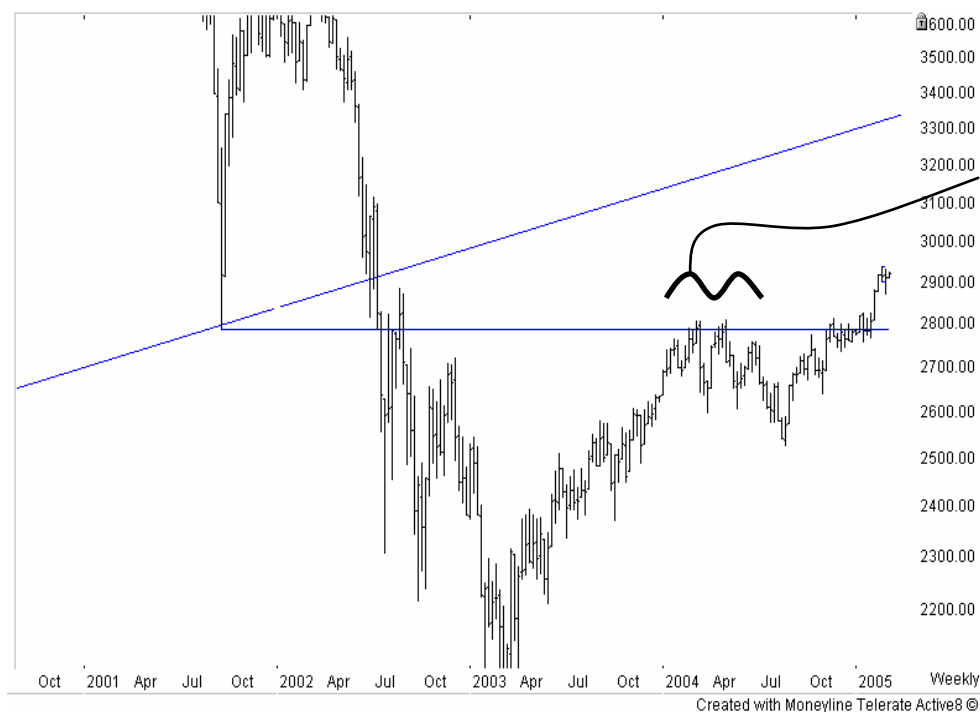
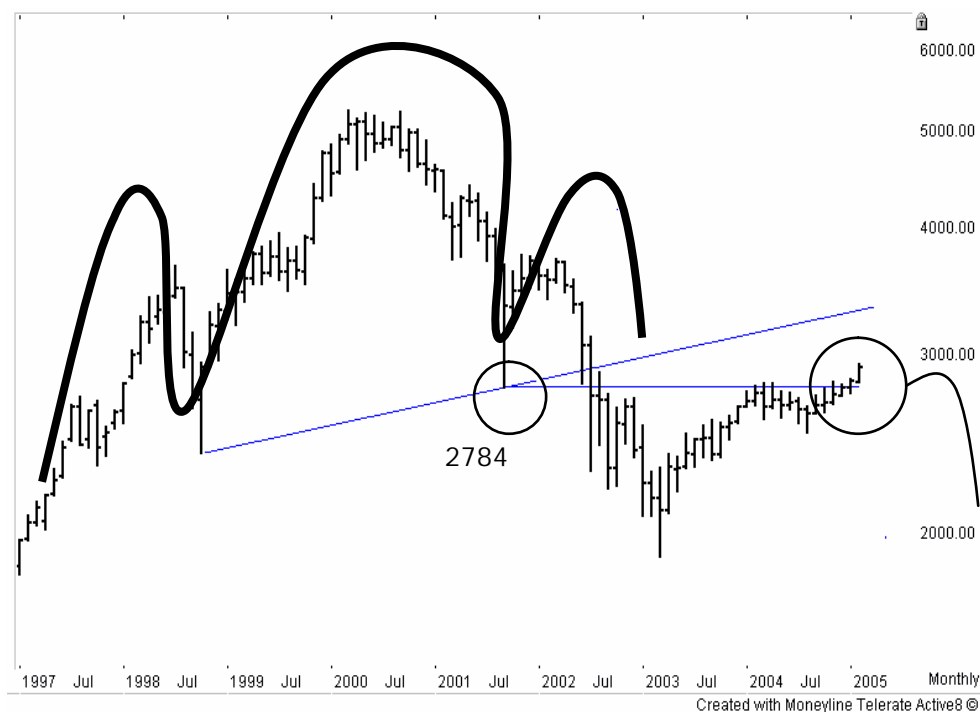
In greater detail, the crucial levels are the horizontals from the old Highs at 1218 and 1212.

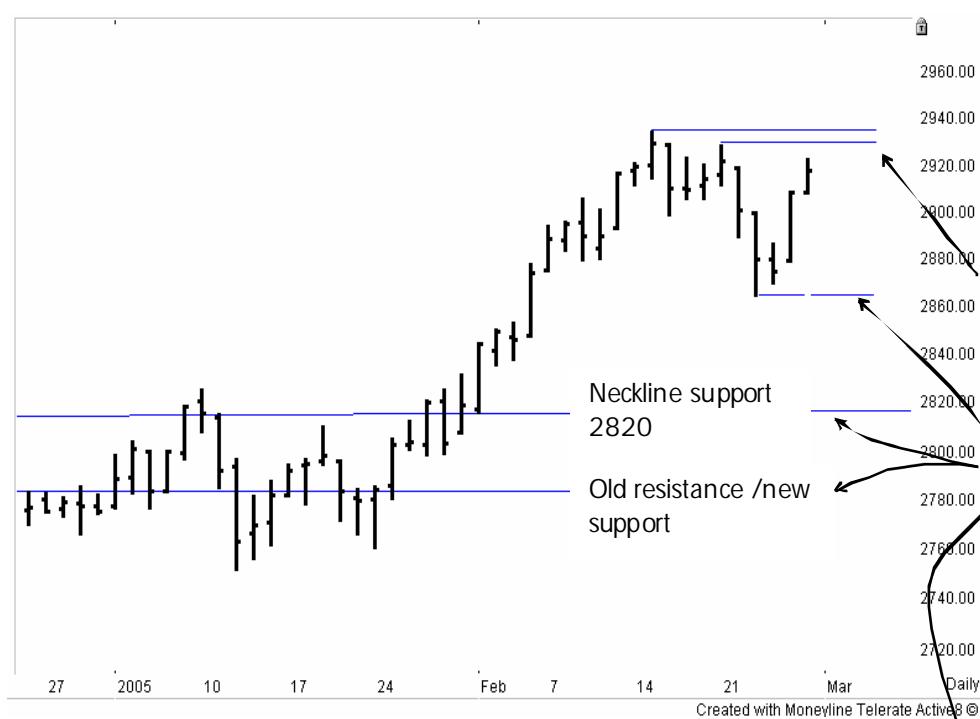
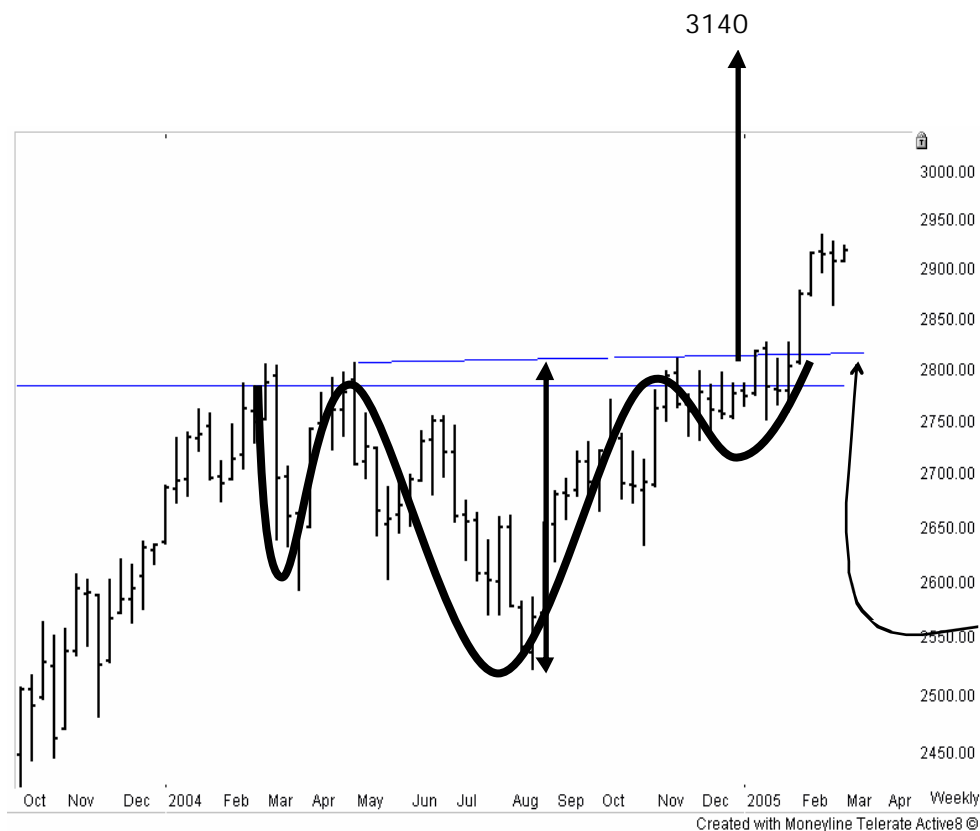
Bulls should wait for a break of those levels before getting involved.

The Bears have little to go for, at the very least a pull-back through the low at 1184 might signal a renewed test of the support at 1160, but until that is broken they can nurse no major bear hopes.

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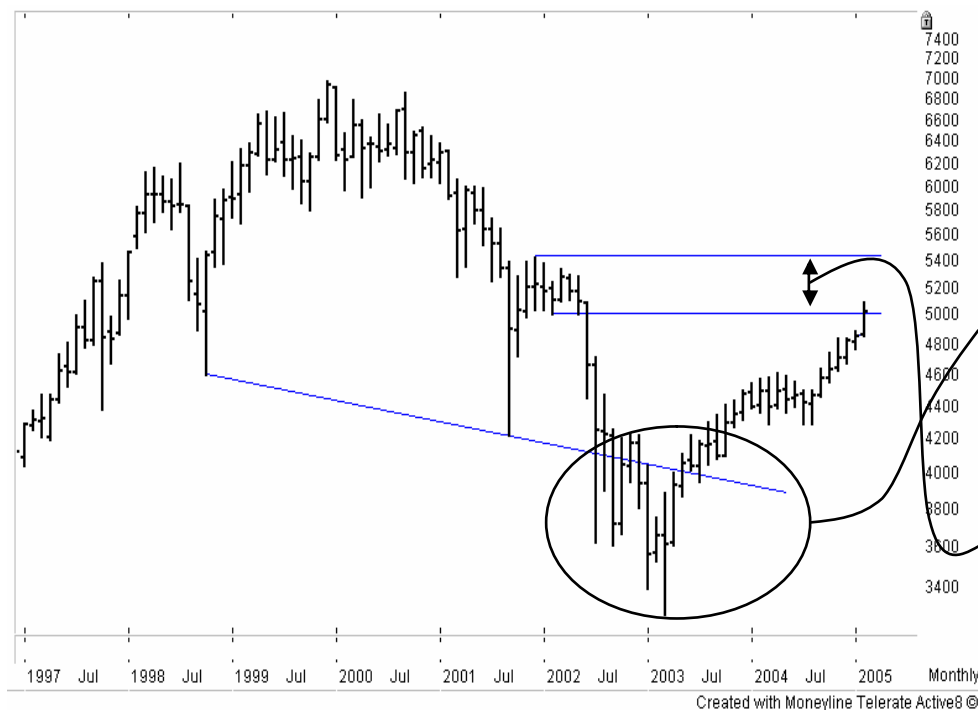
# European Dow Jones Stoxx 50





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# FTSE 100



## MONTHLY CASH INDEX CHART:

The FTSE has had a fantastic run from the lows of 2003.

But chartists will struggle to find shape and structure in the reversal prior to the bull run.

So it is difficult to derive a target for the bull run.

Note though the tight area of congestion at 5000-5400. That may well act as some resistance.



## WEEKLY CASH INDEX CHART:

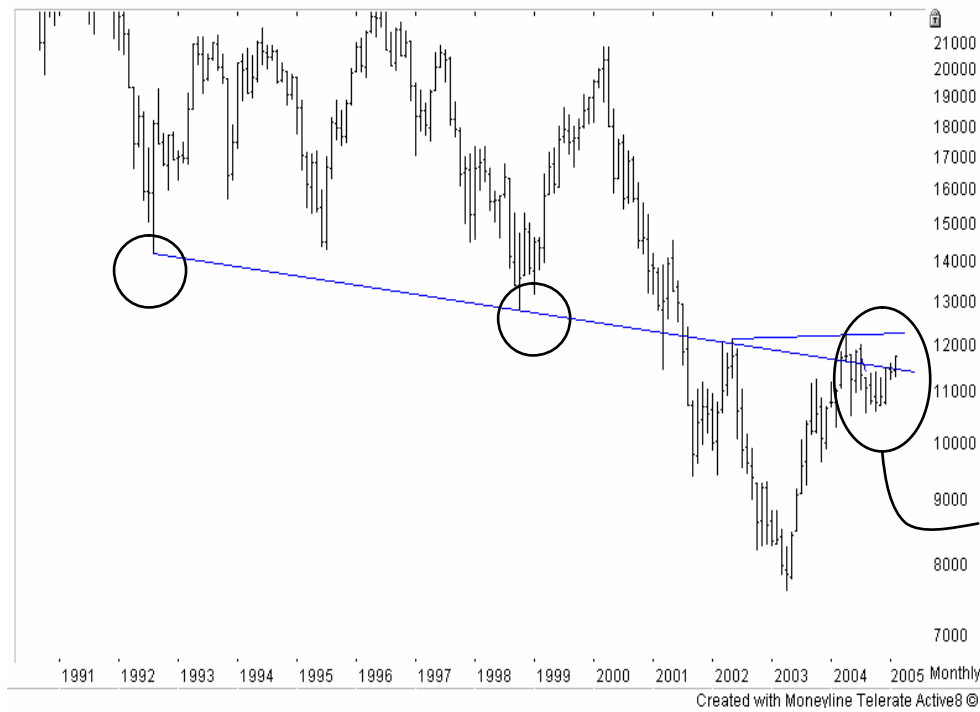
The market has just entered that area, and there are the beginnings of a pause in the bull run.



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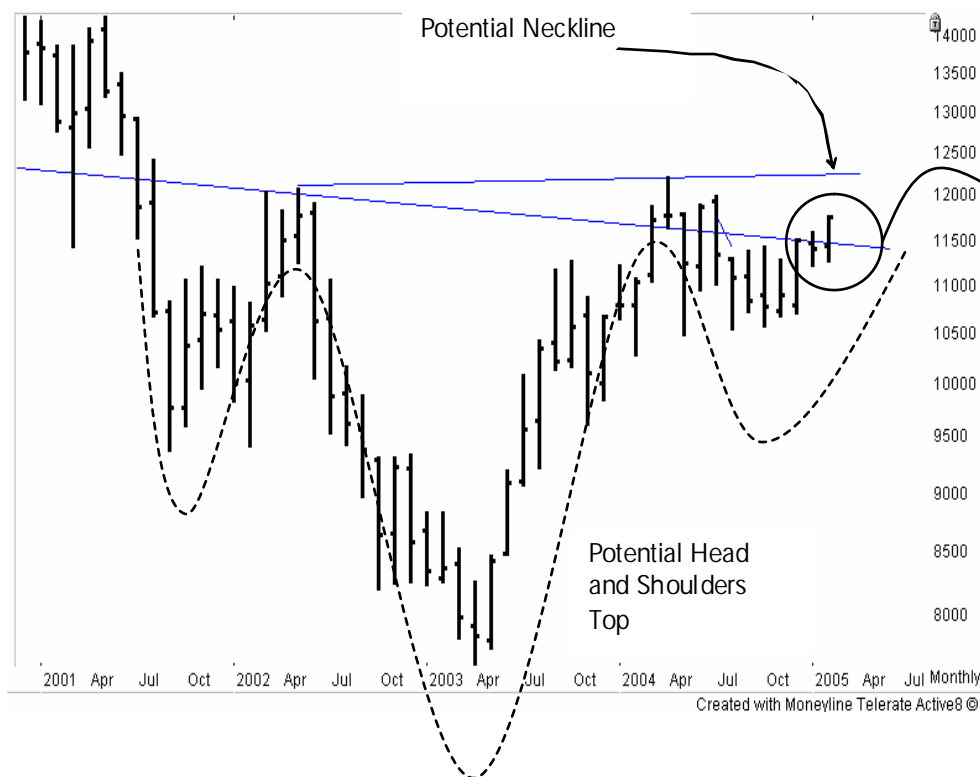
# Nikkei 225



## QUARTERLY CASH INDEX CHART:

The long term chart of the Nikkei fascinates: there is a massively important overhead resistance drawn from the lows in 1992 and 1998.

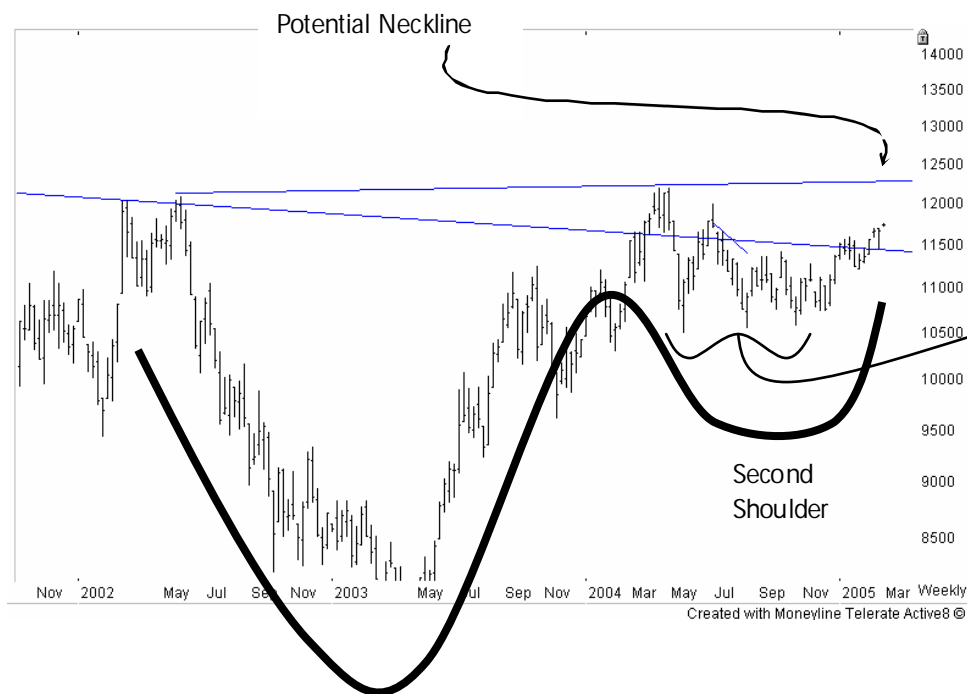
The market has struggled there before, but now looks as if it has, at last, penetrated.



MONTHLY CASH INDEX CHART: A closer look and we can see that the market has indeed penetrated the very long-term resistance – but the resistance is so long-term that a close above it can scarcely be deemed a conclusive penetration.

So, instead, watch carefully the possible creation of another pattern: a bull Head and Shoulders whose Neckline lies above the market at 12257.

If that were to break there would be a massive bull impetus....  
But we are getting ahead of ourselves. Look closely to see if the market is likely to get up there.

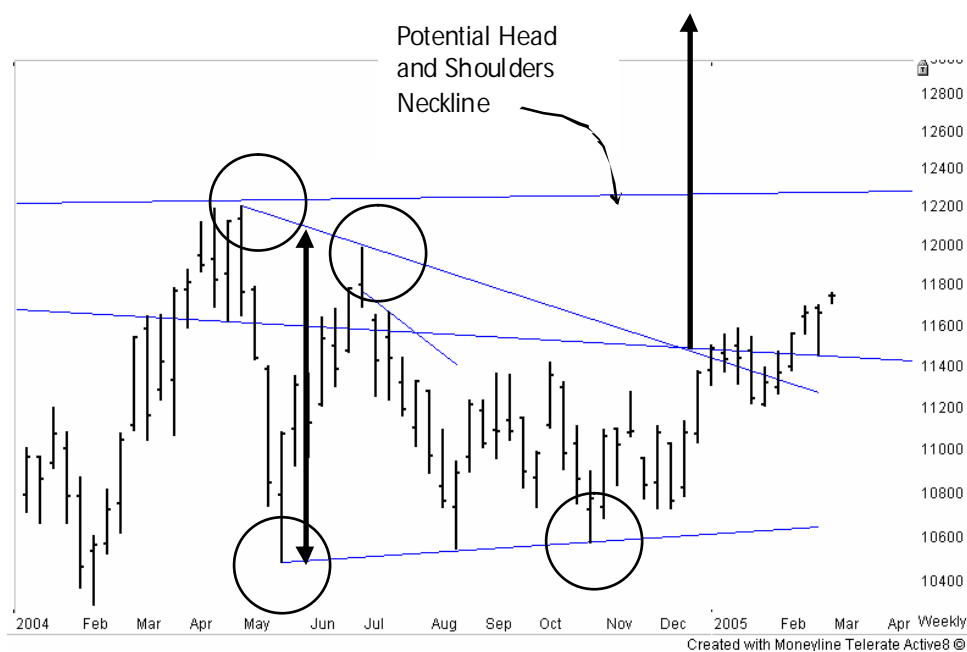


### WEEKLY CASH INDEX CHART:

I see no clear structure in the second Shoulder of the H&S pattern – although it's clear that the market has had a great deal of trouble getting down through the 10500 level.

At this level there is no clear bull engine driving the market better.

Look closer.



### DAILY CASH INDEX CHART:

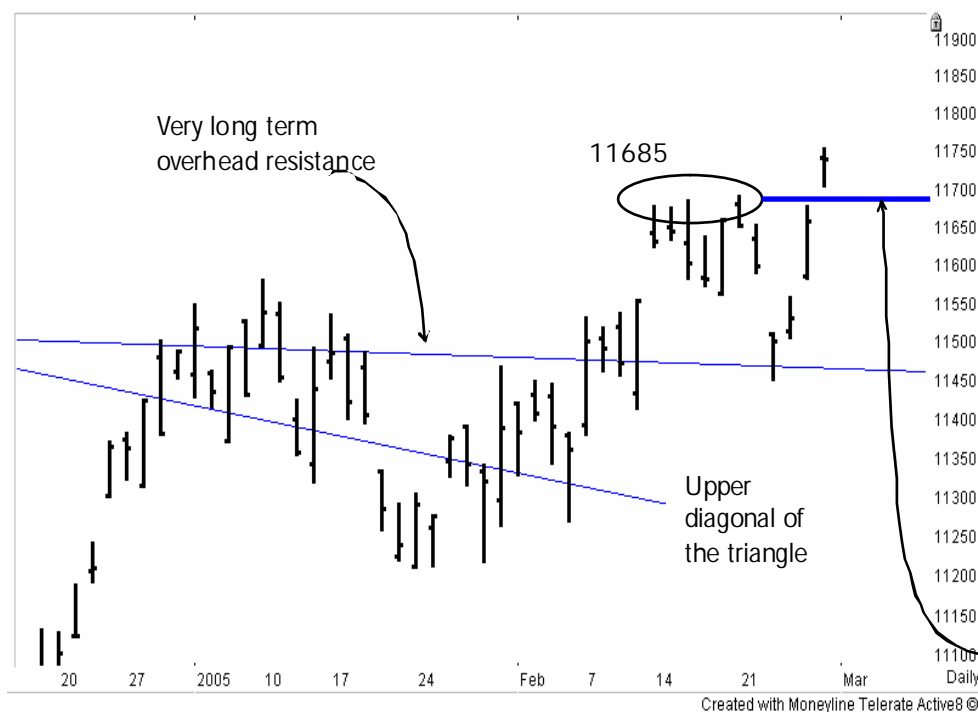
Yet here is something.

That is a completed Continuation Triangle.

It's target is very much higher, certainly through the Potential Head and Shoulders Neckline above the market.

We have discovered the means to complete the Head and Shoulders pattern.

Look closer still.



## DAILY CASH INDEX CHART:

The daily detail is difficult to unravel.

The break out and from, and thereafter the support of the top of the Triangle are clear.

In this context (the day chart) the long run resistance has little meaning.

The market is on a clear bull run, and short-term bull traders should watch the support from the near highs as the nearest test of the market's strength.

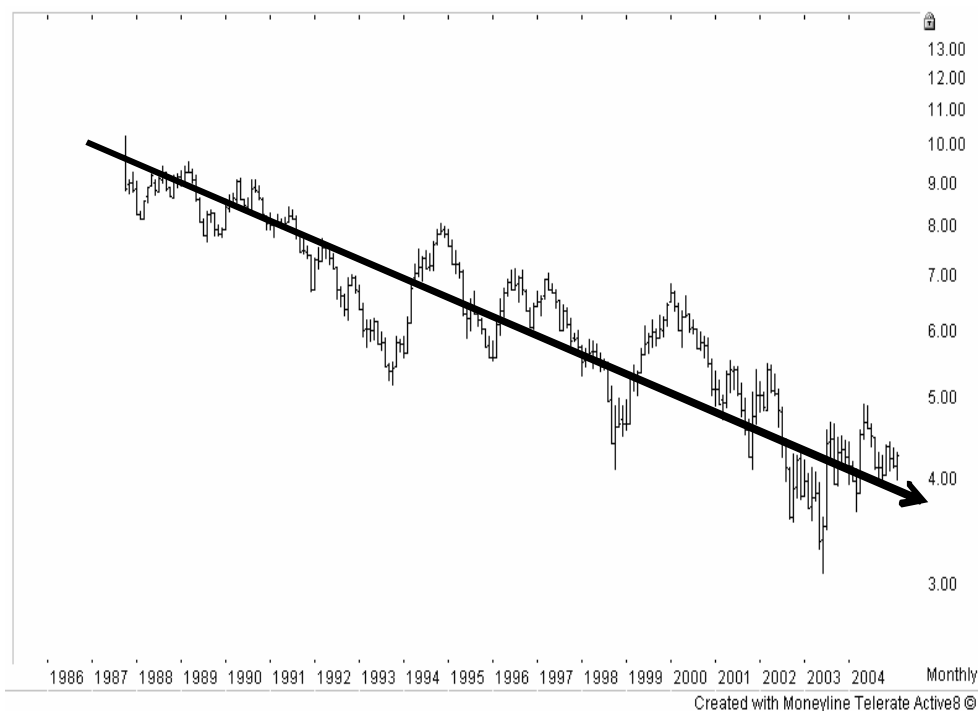
But it's difficult, because within the trend there is plenty of volatility.

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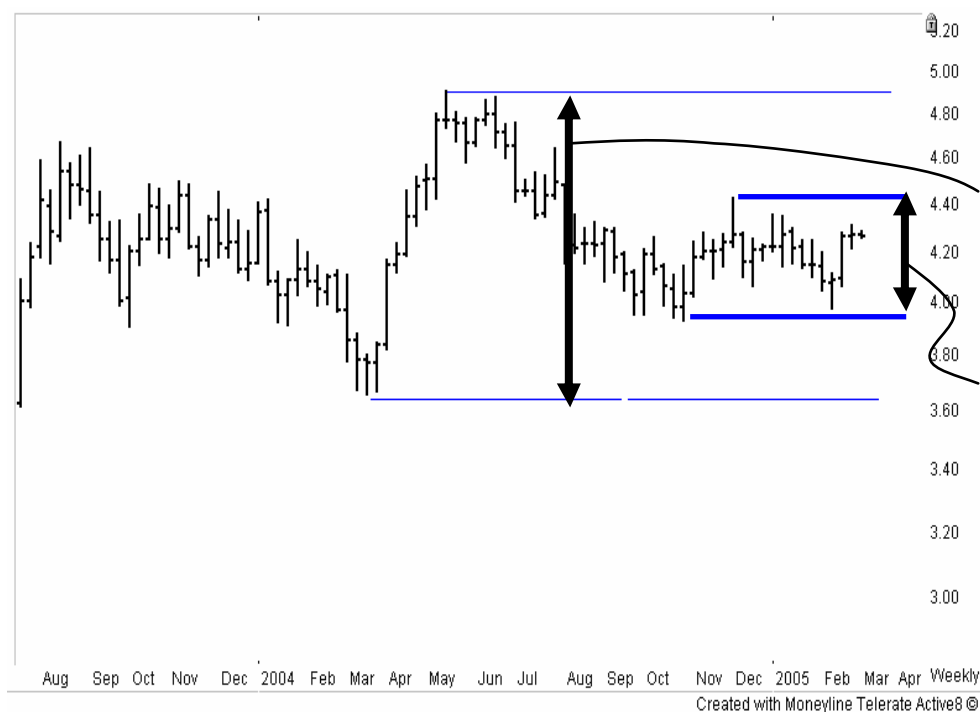
# Bonds

The US bond market remains stuck in a range, out of a sense of confusion rather than consensus. The European market paused, still within a major bull formation. The Japanese though has completed a clear short-term bear pattern and is the most clearly bearish of the markets.

## Ten Years US Treasury Note



MONTHLY CASH YIELD  
CHART:  
The long-term trend of  
the US Treasury bond is  
clearly down.

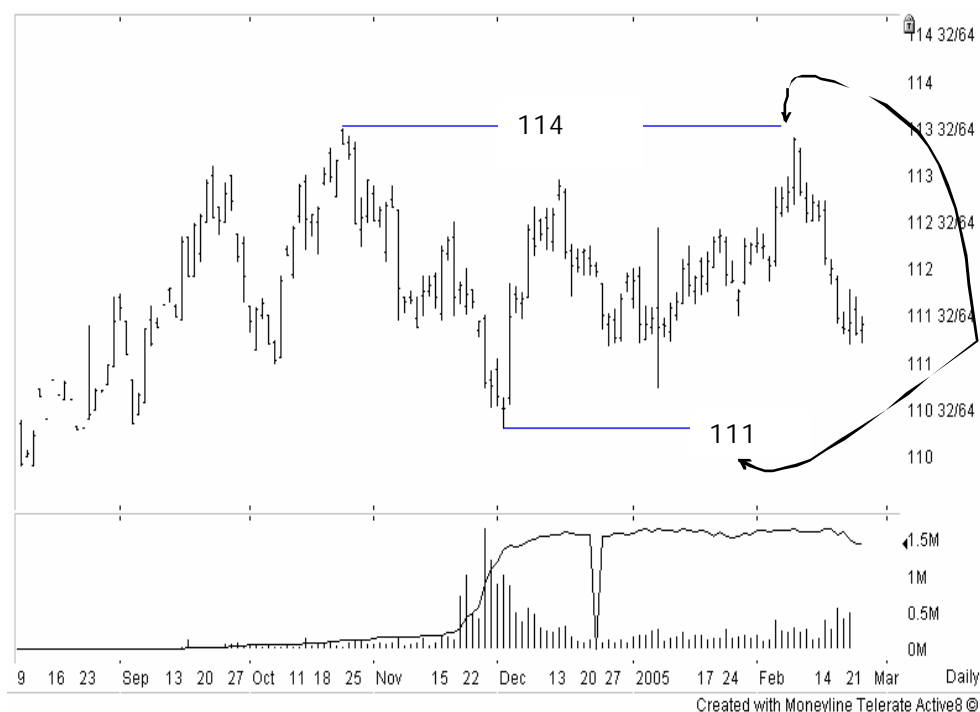


### WEEKLY CASH YIELD CHART:

But in the medium-term chart we see only consolidation between 3.6% yield and 4.9% yield for nearly two years.

And since the last quarter of 2004 the range has been even tighter: 3.9% to 4.4

Are there interesting predictive structures within that trading range of the last six months?



### DAILY FUTURES CHART: (March 2005)

And the futures market suggests there aren't.

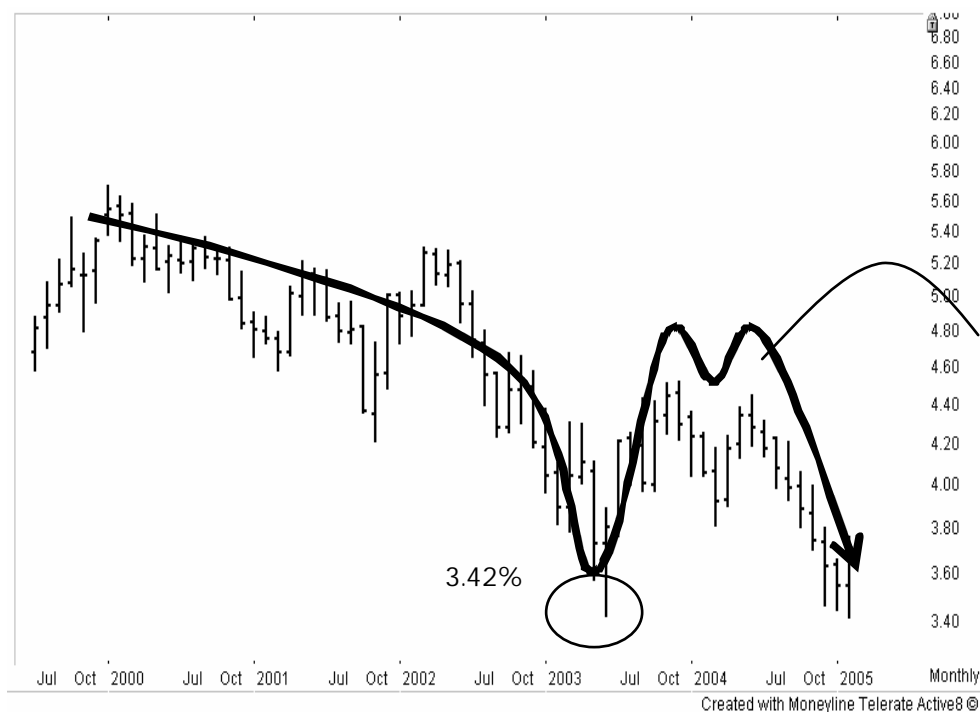
I see nothing within the range that is set to drive the market beyond the boundaries.

Only a break of those will set the bulls or the bears running.

Traders should stand back as I suggested they should last week.

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# Ten Year Euro Bund



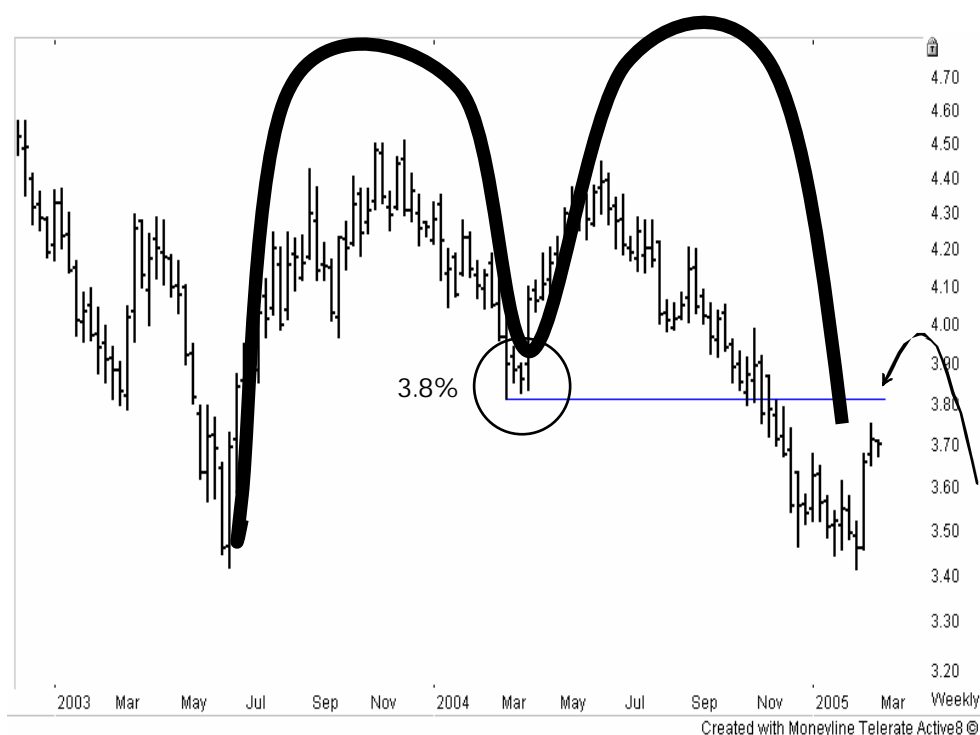
## MONTHLY CASH YIELD CHART:

The trend over the last five years is clearly down.

But traders will note the added downwards catalyst of a Double Top at the end of the trend that accelerated the drive down.

The target for the Double Top is about 3.1% - somewhat lower than the recent low at 3.42%.

But the market seems to have bounced from that level...



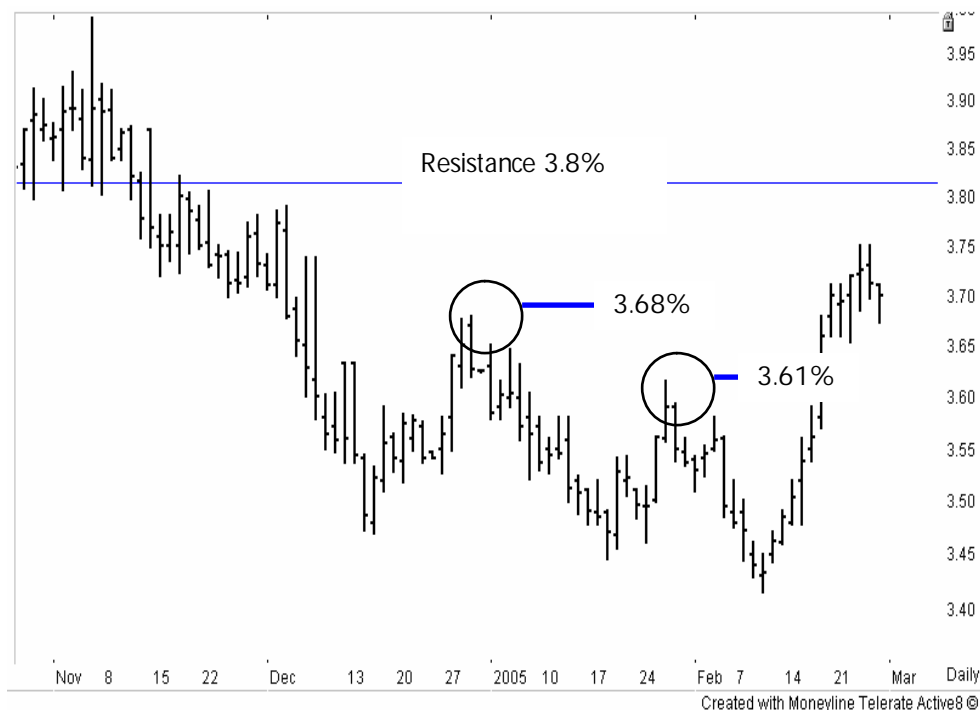
## WEEKLY CASH YIELD CHART: In all its glory.

The measured move is clear.

So too is the rejection of the recent yield low.

There's going resistance above the market at 3.8%, so the bulls may struggle.

Look closer.

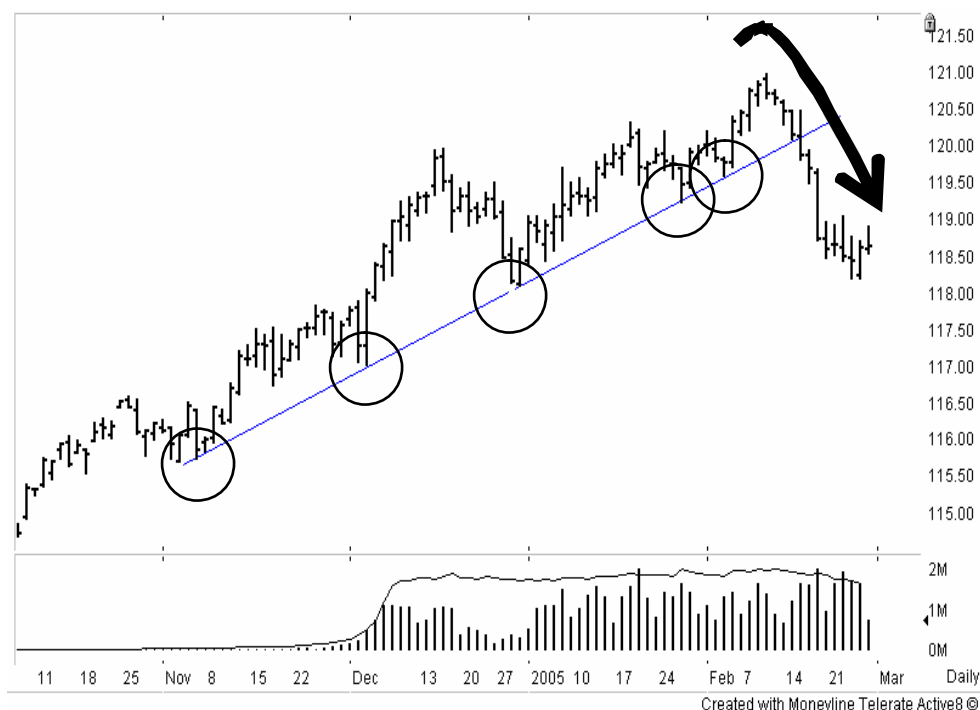


#### DAILY CASH YIELD

CHART: And not only is there very good overhead resistance, but there doesn't seem to be much firm structure to the market beneath.

I see no real supports on any pull-back – perhaps minor support from near highs (3.68% and 3.61%) but that is all.

Check out the futures market...



#### DAILY FUTURES CHART:

This is altogether more interesting ; a very well established trendline (at no less than five points) support has been unequivocally smashed

And although there is not top formation in place, I see no support of importance at all.

The bears look in control even though there is no clear bear pattern in place. But bear in mind the proximity of the support from the yield chart.

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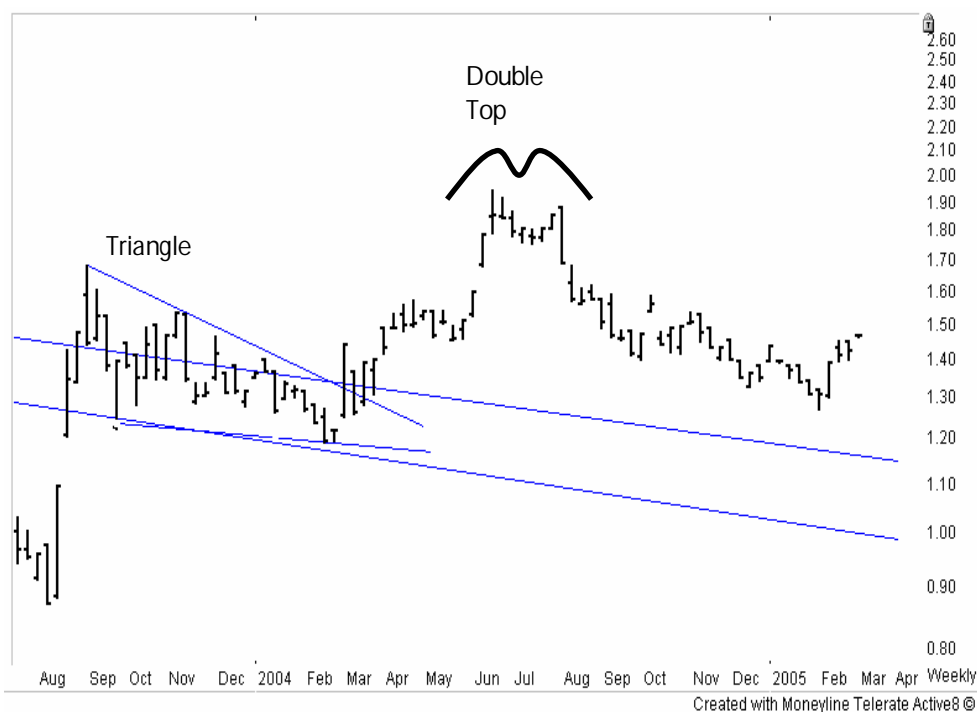
# Ten Year Japanese Bond



MONTHLY CASH YIELD CHART:

The long-term chart of falling yields.

But the trend line looks as if it was broken in late 2003.



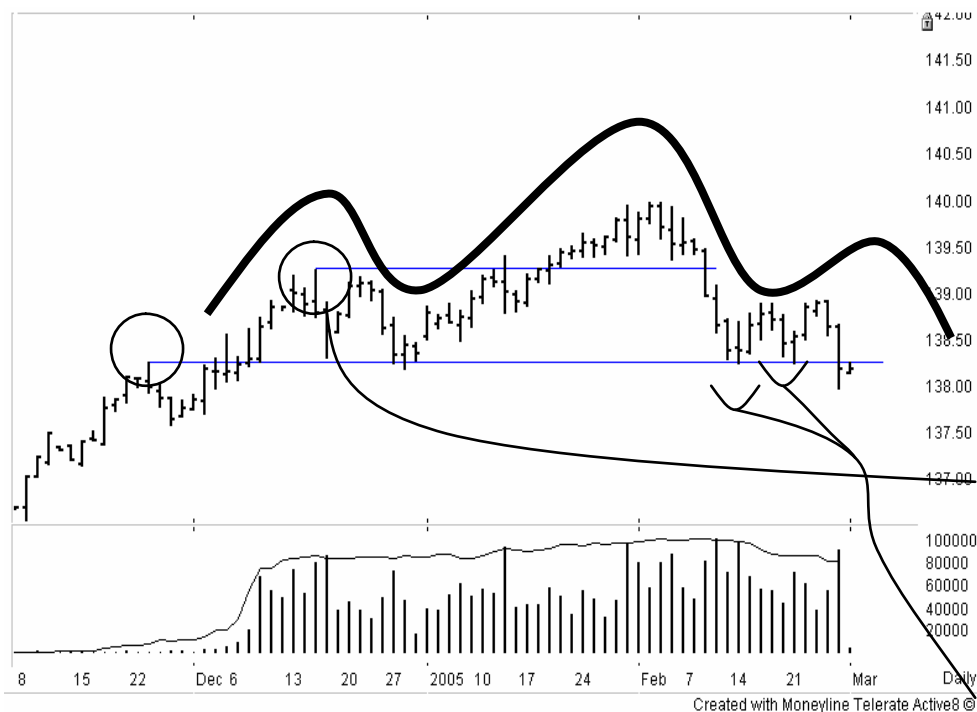
WEEKLY CASH YIELD CHART:

The break of the trendline was achieved through the completion of a Continuation Triangle.

But that bull impetus from that was quickly exhausted.

A Double Top followed and then the market drifted.

I see no clear structure within that bear drift.



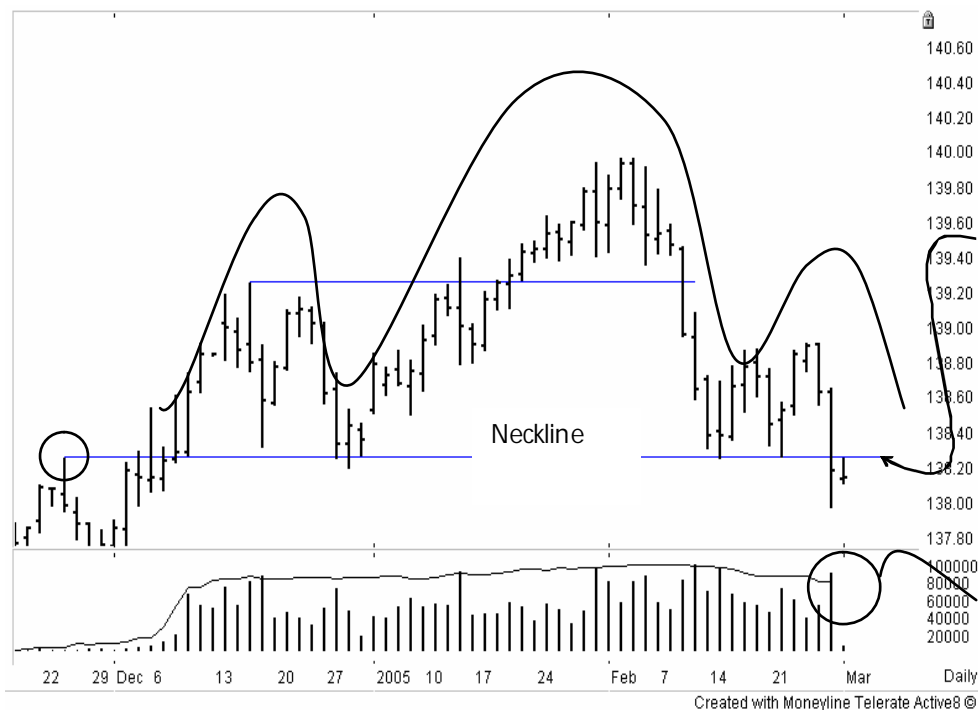
#### DAILY CASH YIELD CHART:

But within the futures  
chart something is  
happening.

There is a small top  
Head and Shoulders  
formation that has  
formed over the last  
three months.

The first horizontal from  
the high at 139.25  
should have been good  
support for the bulls, but  
it failed.

The second horizontal  
from the high at 138.25  
at first caused some  
problems for the bears  
and the market bounced  
– twice just as it did in  
December of last year.



#### DAILY FUTURES CHART:

The so now we have a clear completed Head and Shoulder Top as I said last week we would have if the 138.25 level was taken out.

The Neckline lies neatly on the horizontal at 138.25, which will be good resistance on any attempted retracement.

Note the surge in volume on the breakthrough the Neckline.

The measured minimum target is clear: 136.50.

The time scale? Within four weeks maximum but bear markets can move quickly.

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# Interest Rates

I noted last week that the technical case for higher rates the US and Europe was building. Certainly the ED led the way, and the Short Sterling followed. There are no big patterns in place yet, but short term the trends are set. The long term bullish Euribor marked time.

## Dollar Rates





## WEEKLY FUTURES

## CHART:

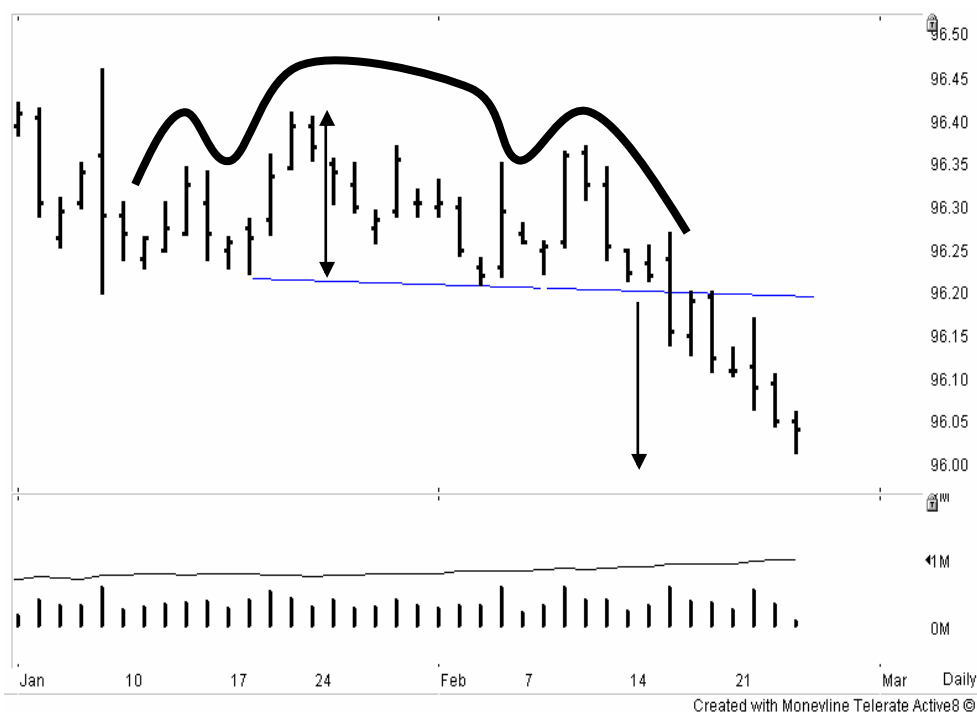
That trend since October in greater detail.

There was no reversal pattern that I can see, but the trend has structure in its own right.

(1) There is good overhead resistance above the market at the horizontals at 96.56 and 96.60.

(2) And beneath that a Completed Continuation Triangle, set to drive the market on down.

Look closer still.



## DAILY FUTURES

## CHART:

Actually, the consolidation that looked like a triangle is more usefully understood as a Continuation Head and Shoulders.

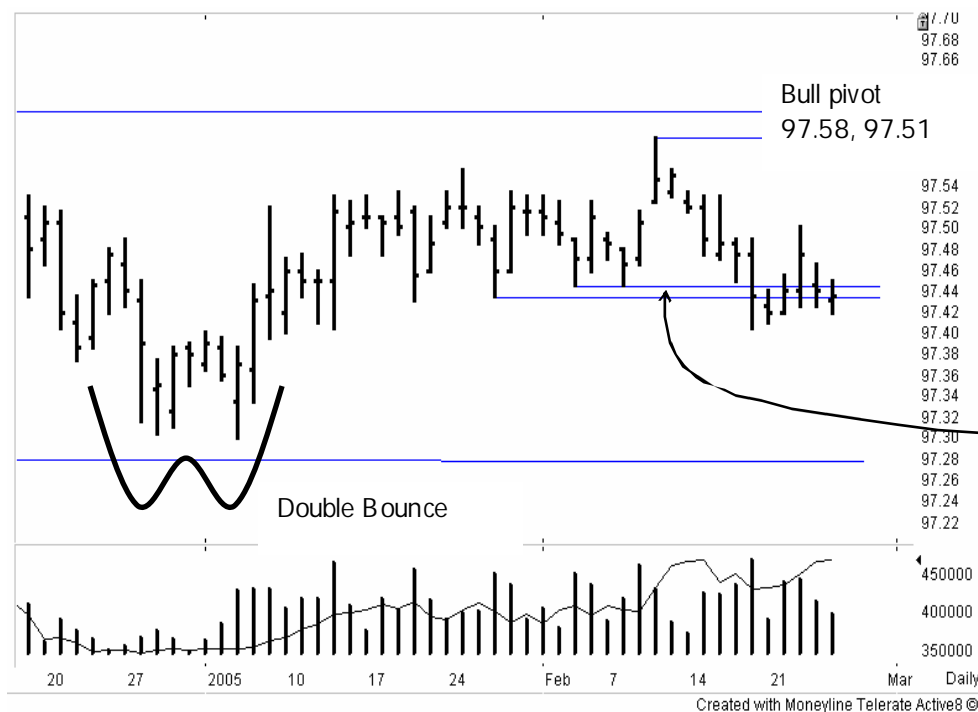
Its minimum target is about 96.00 - close by.

I was right last week to say 'the bears are in control. Stay short.'

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# Euribor Rates





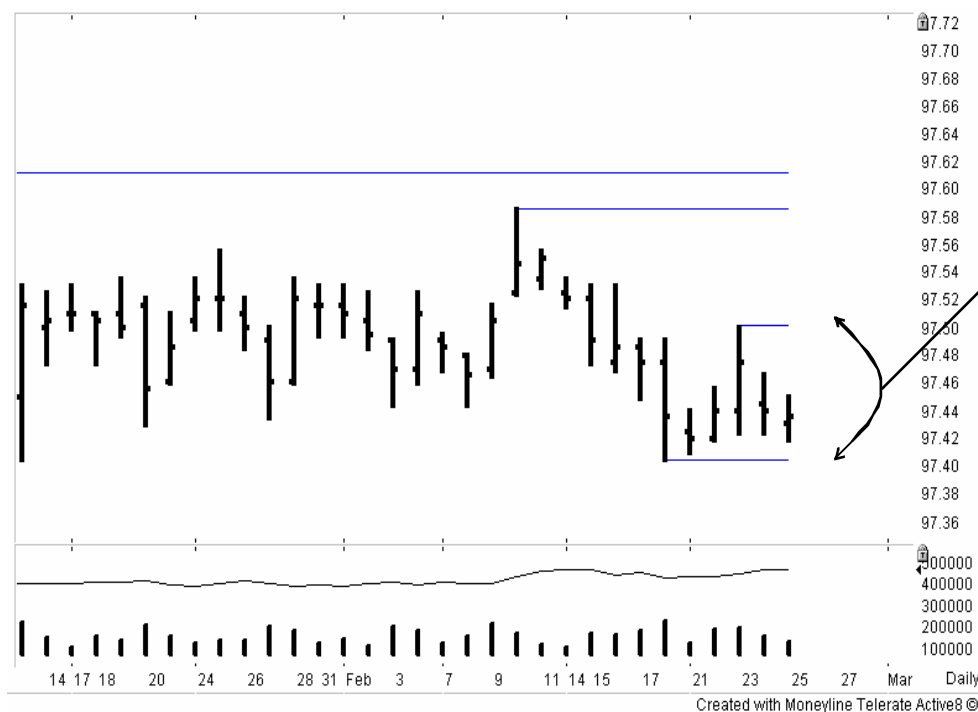
#### DAILY FUTURES CHART:

Actually the market bounced twice from the support.

And then consolidated in a fairly tight range.

Bears should the market's reaction to the horizontals from the lows at 97.43 and 97.44. Even if it breaks beneath, there's only limited scope for a bear move – as I said last week.

The Bulls should only get interested if the market can get through the old highs at the 97.58 and 97.51 band.



#### DAILY FUTURES CHART:

Shorter-term still, watch for a break in the range 97.40 and 97.50.

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# Sterling Rates







#### DAILY FUTURES CHART:

Last week I said that 'the bears are gaining the upper hand through the development of a trend'

That was right.

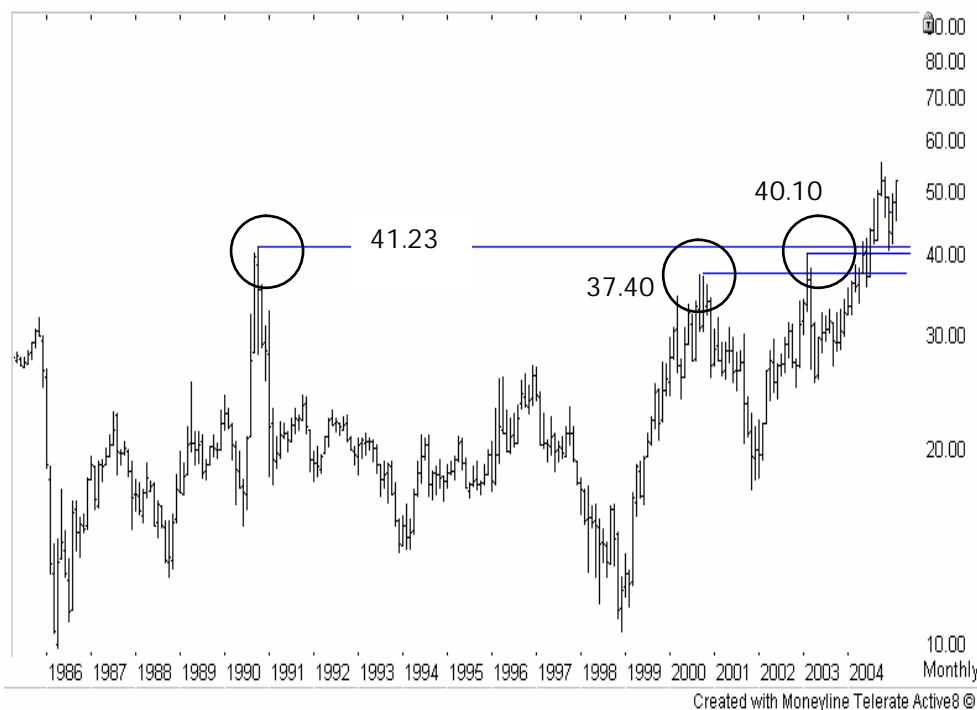
Shorter term still, the resistance at 94.97 will be a good first test of the resolve of any attempted rally.

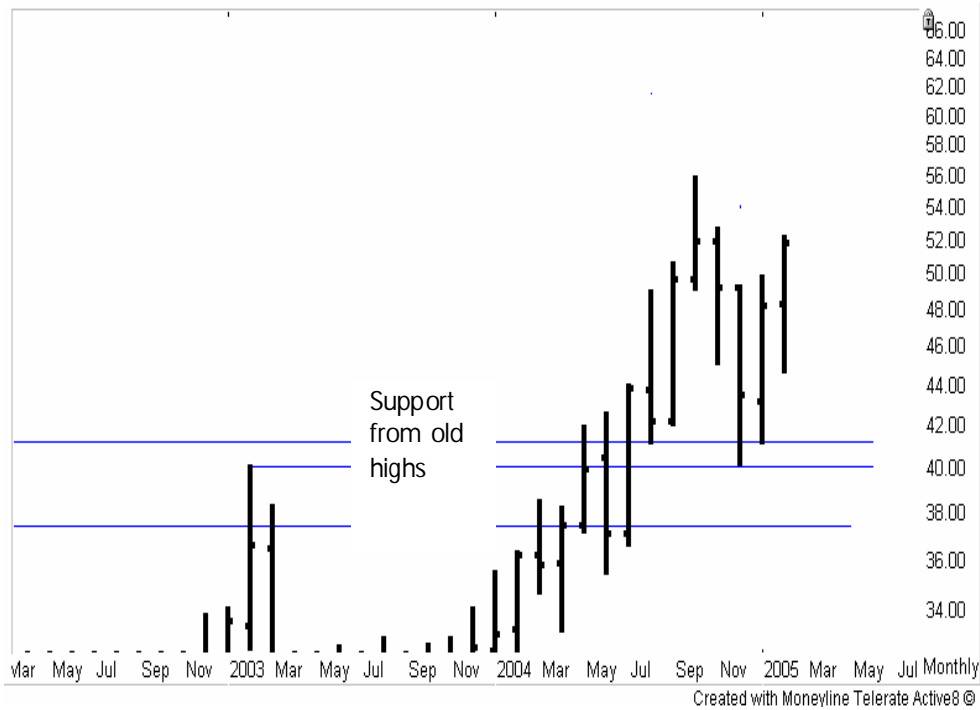
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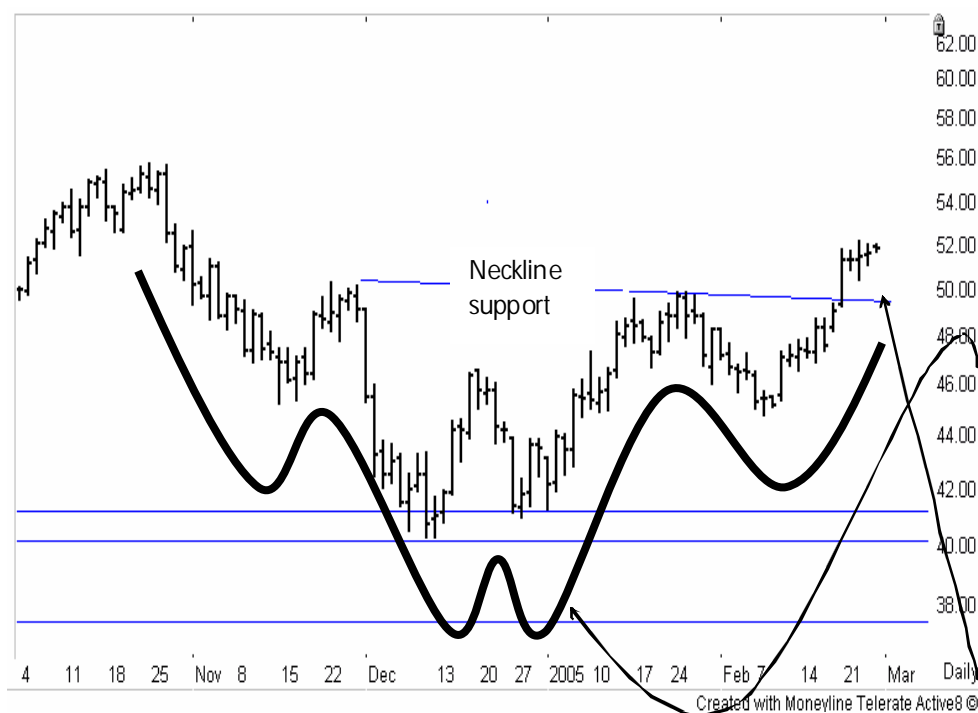
# Commodities

The good bull pattern that I pointed out last week might complete, has completed. Light Crude prices are going higher Short Medium and Long term. Gold pushed better in unconvincing fashion.

## Oil







#### DAILY SPOT CASH CHART:

This shows the same pattern in greater detail: a Double Headed Head and Shoulders whose completion I anticipated last week

Notice the double bounce from the area of support drawn from the old highs.

That might have been a Double Bottom, but the market paused and drifted from the 50 level.

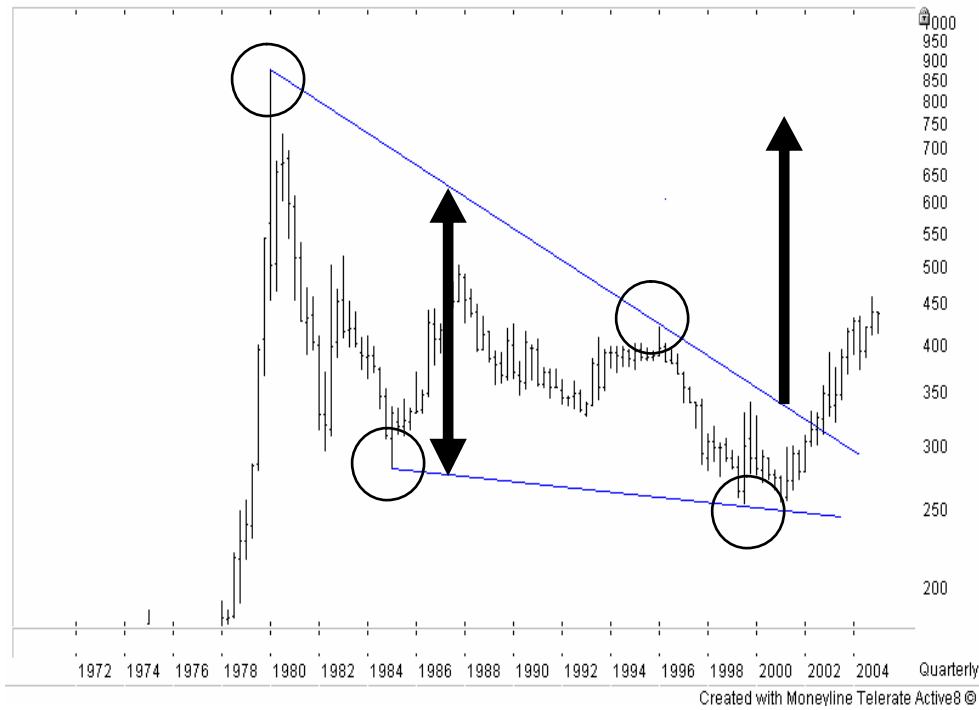
When it went ahead again it broke the gently falling diagonal at 49.48 on the 22nd February, the Bull Double Headed H&S has a minimum target of 60.50.

The timescale? Relate it to the scale of the pattern, within the next two months.

In the short term, if the market were to pull back from here, the Neckline beneath the market at 49.36 will be good support.

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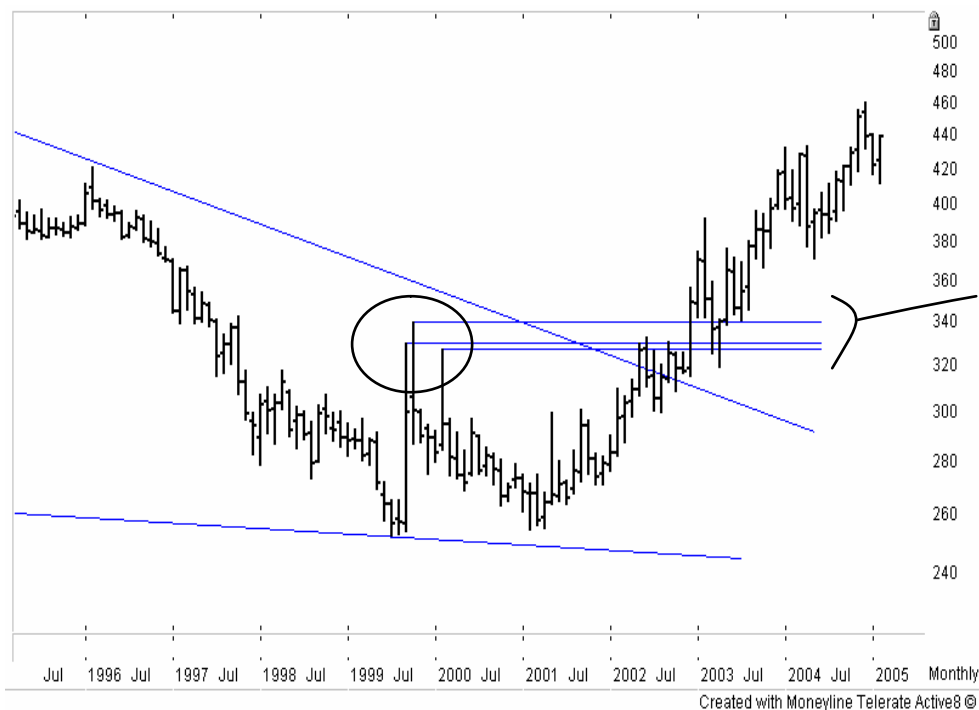
# Gold



## MONTHLY SPOT CASH CHART:

This is clear: a long term bull Triangle that targets the market very much higher about at 794.

We can see the effect the Triangle has had with the bull trend very much established above the upper diagonal of the Triangle.



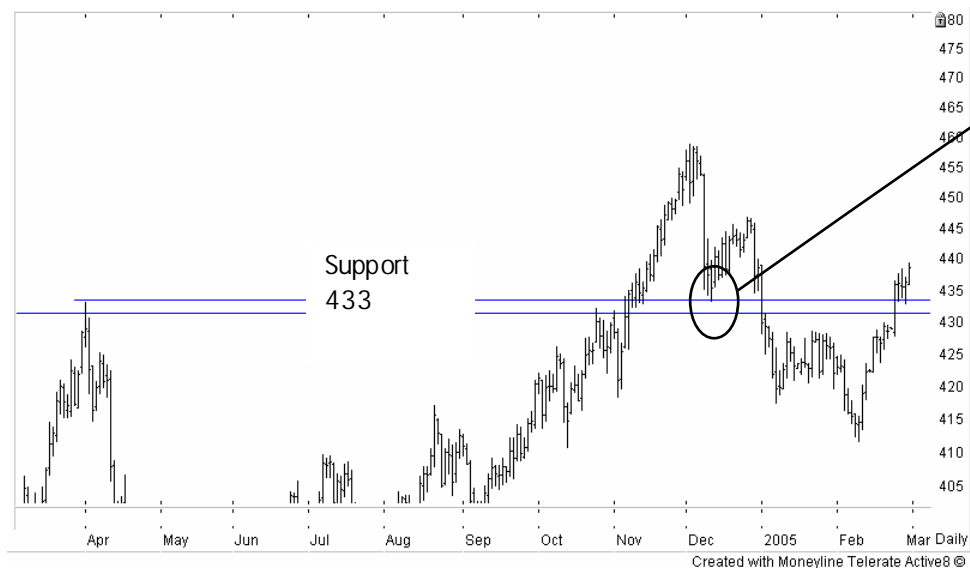
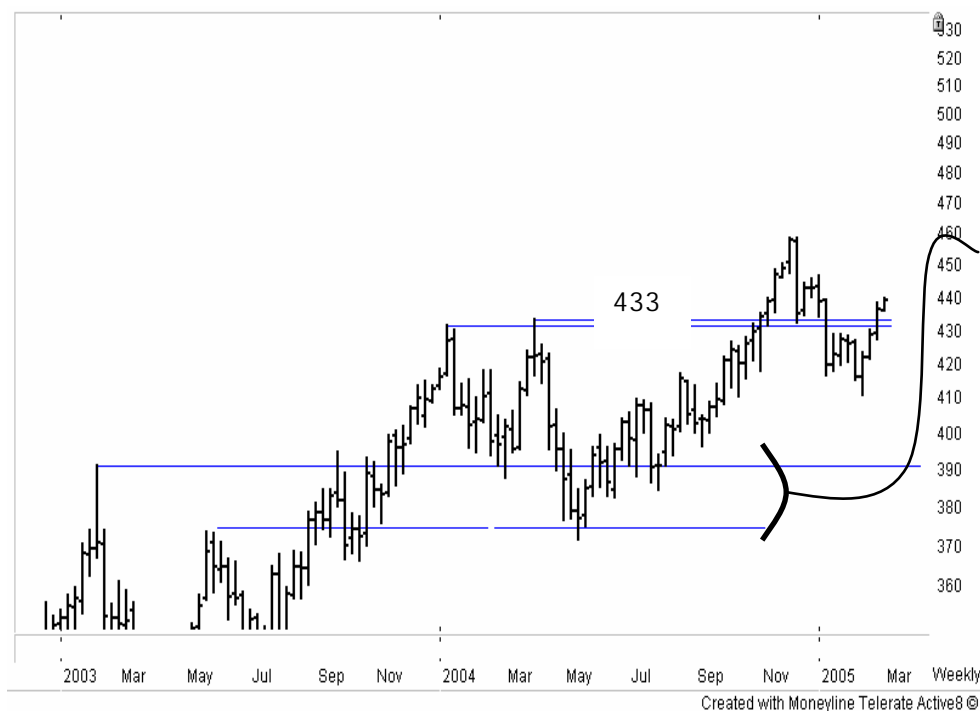
## WEEKLY SPOT CASH CHART:

The breakout of the Triangle in detail.

There's a small Double Bottom in there too, establishing support at 330-340.

The market has bounced off that once.

And thereafter forged ahead.





DAILY SPOT CASH  
CHART:  
That's clearer here.

And last week I thought that the market might have difficulty getting back through the overhead resistance at that 433 level, but it shot back through.

That will have heartened the bulls, but altogether the market lacks structure at this level, and traders should stand back and await clearer patterns.

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