Euribor leads the interest rates

Oil and Gold both underpinned

Cable: best buy



WEEK 17 26th April – 2nd May 2005

A TECHNICAL TRADER'S GUIDE TO MAJOR MARKETS

MARK STURDY

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 moneymaking 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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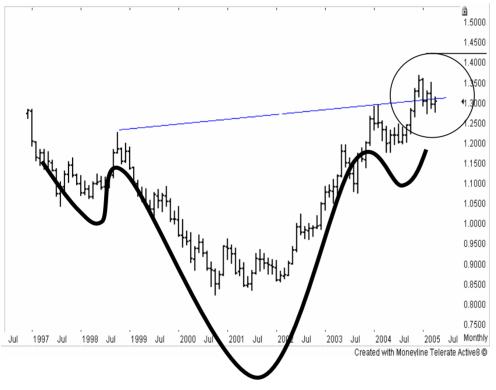
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Currencies

Over the last two weeks since I last wrote, the Dollar has weakened across the board. The clearest and most exciting effect of this has been to underline Sterling as the best technical buy against it. The Euro and Yen remain unclear since the Dollar's move has simply brought the market back within old trading ranges.

Dollar Euro



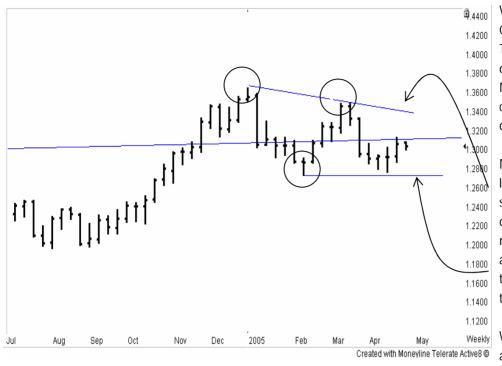
MONTHLY SPOT CASH CHART:

The market continues to teeter around the long run Neckline at 1.31.

A clear bull move above this level required for the massive Head and Shoulders pattern beneath the market to assert itself.

But long-term charts are only clear in the long term.

In the meantime, traders must look closer.



WEEKLY SPOT CASH CHART:

The shape of the oscillation around the Neckline is <u>unclear</u>, and could become many different patterns.

Nevertheless, the crucial levels for traders are shown – the falling diagonal above the market at about 1.3390, and the horizontal from the prior low – beneath the market at 1.2733.

Watch closely for an approach to either of these levels.



DAILY SPOT CASH CHART:

The structures within the consolidation are not clear.

For the moment stand back. From trading the short term.



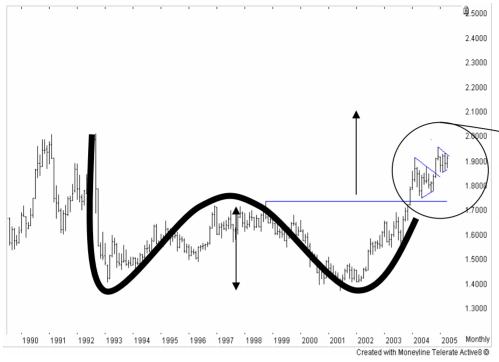
DAILY SPOT CASH CHART:

And watch carefully the market's reaction to the overhead resistance from the low at 1.3089.

The market is testing the first significant resistance to the bulls – if it can overcome this level, the way will be clear to attack the falling diagonal above the market.

Bears should only get involved if the 1.2733 pivot is broken beneath the market.

Dollar Sterling



MONTHLY SPOT CASH CHART:

The large Double Bottom that is driving the market better is clear. Target 2.07.

And so too are the two bull Continuation
Triangles that have formed in the short-term above the Double
Bottom – driving the market better independently of the larger patterns.

Look closer.



WEEKLY SPOT CASH CHART:

Here are those triangles more clearly.

The minimum target of the first triangle is 2.0008.

Bull traders should wait for the second triangle to complete before adding on – watch the 1.92 level...



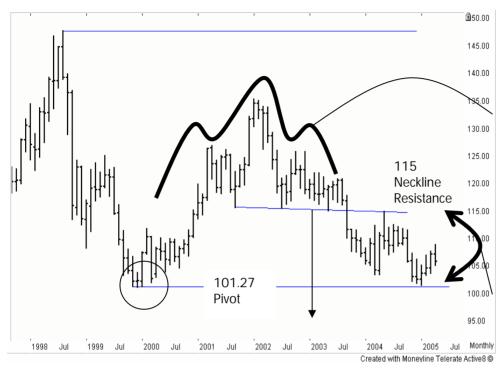
DAILY SPOT CASH CHART:

The market has paused just short of the diagonal.

Wait for a move through to complete the Second Triangle and send the market in pursuit of a new minimum target of (which would be just over 2.00 or so...)

Sterling bears have little to look for at the moment.

Dollar Yen

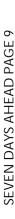


MONTHLY SPOT CASH CHART:

The long chart has been clear for a while:

A well-established Head and Shoulders Top is driving the market down – the minimum target is 96.32.

We are still some way from that level and the market seems stuck in a range between the Neckline above the market and the recent long-term low at 101.27 from Nov 1999.



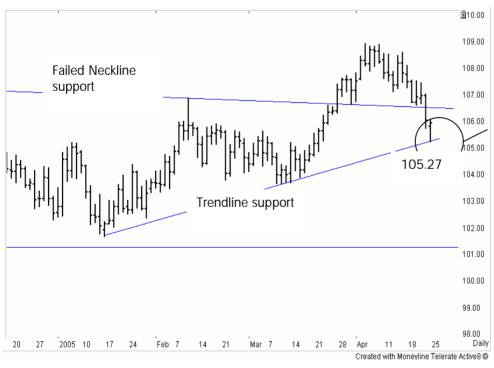


DAILY SPOT CASH CHART:

When I last wrote two weeks ago, I felt the market was well-set — after the completion of a clear Head and Shoulder Bottom — with, of course, the caveat that 'the bears have little to go for unless the Neckline were to be broken'.

It <u>has</u> since been broken and a good bull pattern has been smashed.

So the Dollar bulls have been thrown into confusion.



DAILY SPOT CASH CHART:

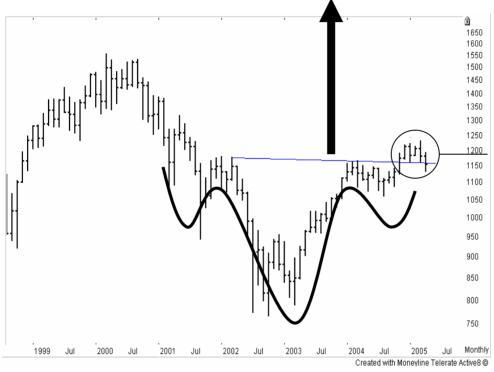
However, they should note that the bull trendline support at 105.27 has yet to break – and should wait for a close below that trendline before they give up their stance.

(Note that the Neckline has been constructed on a high trade far from closes – hence my latitude about the permissible degree of penetration)

Stocks

Stocks have been under pressure for the last four months – but there are no long or medium-term top formations in place yet, and only the S&P is truly challenging substantial support. I see no case currently to suggest a long or even medium-term turn in the markets.

Standard and Poors 500

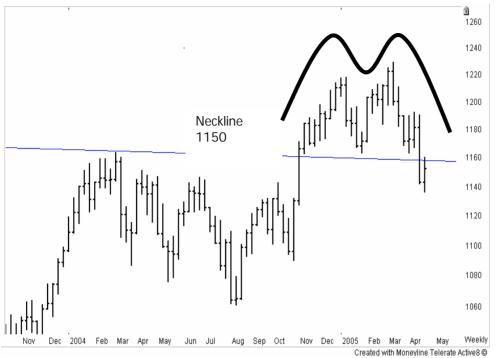


MONTHLY CASH INDEX CHART: The huge bull formation that is trying to establish

that is trying to establish itself is threatened by the market's drift back through the Neckline....currently at 1150.

But as I said two weeks ago, 'so long as the Neckline holds the pattern's integrity remains good'.



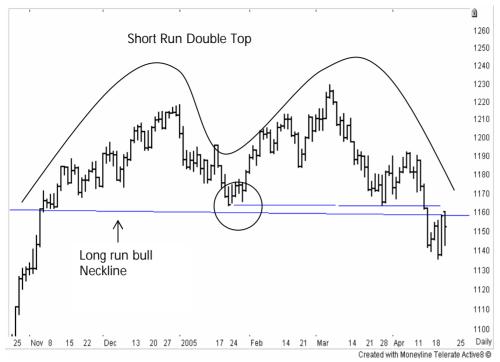


WEEKLY CASH INDEX CHART:

But the shorter term charts do suggest a re=penetration and further, the creation of a small top formation ... it looks like a Double Top.

And it has completed.





DAILY CASH INDEX CHART:

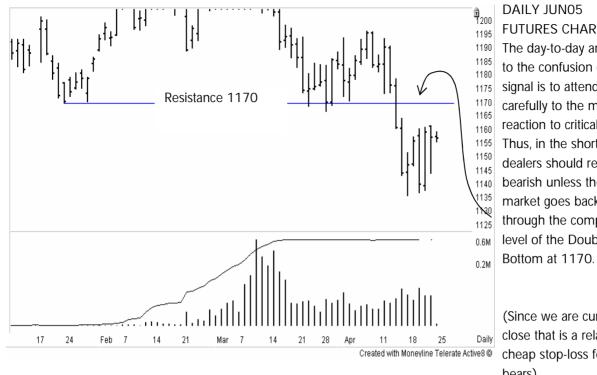
(Or conceivably a poorly constructed Head and Shoulders Top.)

<u>Either way</u> the market is under pressure, from opposing structures.

Because they are of such different scales, these opposed structures <u>can</u> be reconciled, over time:

In the short run, the Double top could push the market down to its minimum target of 1110, re-penetrating the very long run Bull H&S. But not totally destroying it – because if its size and age.

More usually though, opposed patterns conclude decisively in favour of one or other without them both completing.



DAILY JUN05 FUTURES CHART: The day-to-day answer to the confusion of signal is to attend carefully to the market's reaction to critical levels. Thus, in the short-run, dealers should remain bearish unless the market goes back through the completion level of the Double

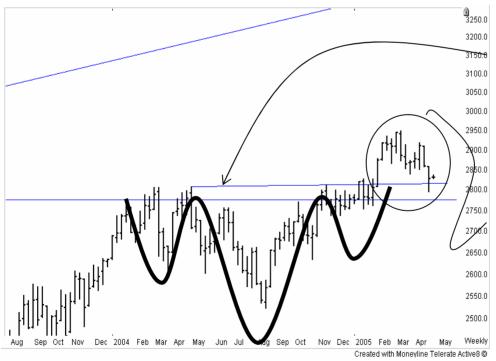
(Since we are currently close that is a relatively cheap stop-loss for the bears)

European Dow Jones Stoxx 50



MONTHLY CASH INDEX CHART:

The fierce rally from 2003 has driven up through the resistance from the low at 2784 and thereby scored a big victory for the bulls.



WEEKLY CASH INDEX

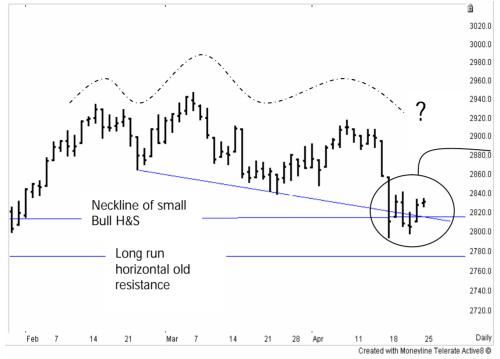
CHART: The initial hesitation at that level led to the creation of a Continuation Head and Shoulders that is still set to drive the market up as far as 3140.

But since February this year the market has paused and drifted.

So the Neckline support at 2820 is being tested.

This is the first real test of the bears' resolve for nine months.

Look closer.



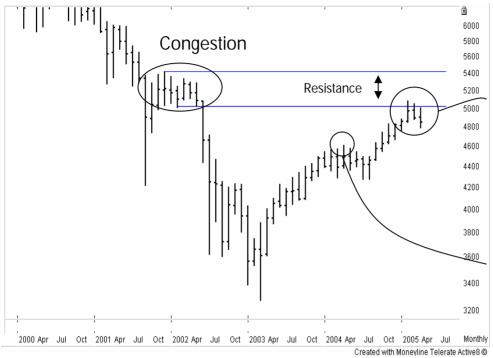
DAILY CASH INDEX CHART:

There is a bear case to be found: possibly a poorly-constructed H&S Top.

Note that the bear Neckline coincides with the bull Neckline at 2820.

Watch carefully how the market trades around that level. A push down through those levels would lead establish some good bear momentum.

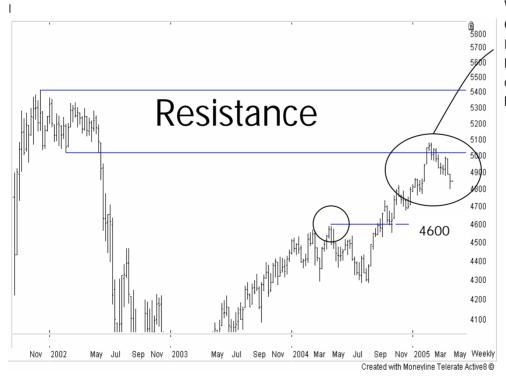
FTSE 100



MONTHLY CASH INDEX CHART:

The rally has petered out where I said it might at the overhead congestion from the price action in 2001.

The difficulty for traders trying to gauge the strength of the bears is that the first significant support is some way away at 4600 (because the recent bull run has been so strong.)



WEEKLY CASH INDEX CHART:

Nor is there a clear Reversal pattern with a downside target that can be measured.

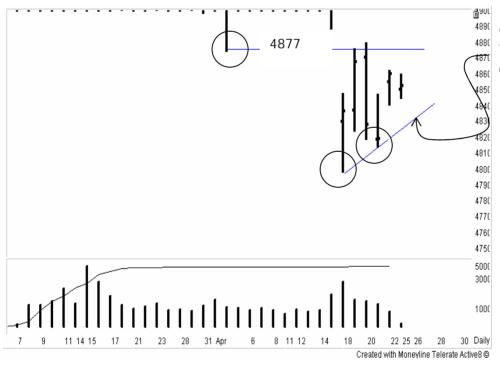


DAILY CASH INDEX CHART:

The important overhead resistance lies at 4877.

The price action beneath that level looks very much like a Triangle in the making...

Keen bears should sell here with a stop above the resistance, the more cautious will wait for a break down below the recent lows ...

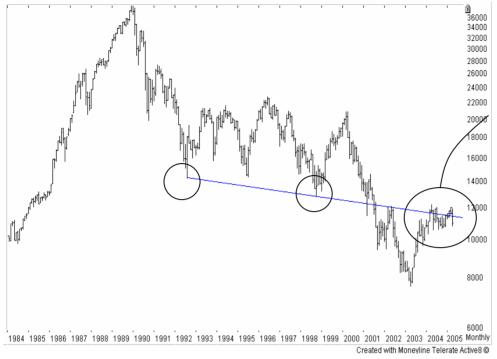


DAILY CASH INDEX CHART:

The rising diagonal is currently at 4811.

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Nikkei 225



MONTHLY CASH INDEX CHART: The long-term chart continues to fascinate: the market is still struggling to overcome the massive resistance above the market ...



MONTHLY CASH
INDEX CHART: For the
last few months, the
market's price action has
encouraged speculation
about the possibility of a
large Head and
Shoulders Bottom
completing.

And it may yet,

That requires a close above the possible

Neckline at 12260 or so.

Over the last month the market has retreated from that level – but still remains within the trading range of the last year.



WEEKLY CASH YIELD CHART:

13200

The completed
Continuation Triangle
that I have identified
over the last few weeks
is proving good support predictably - <u>but any</u>
lower trades will destroy
its integrity wholly.



WEEKLY CASH INDEX CHART:

Nonetheless, bulls should wait for a close beneath the horizontals from the succession of lows around 105 before abandoning their positions.



DAILY CASH INDEX CHART:

The day chart reveals the source of the bear energy: a well-formed and completed Head and Shoulders Top.

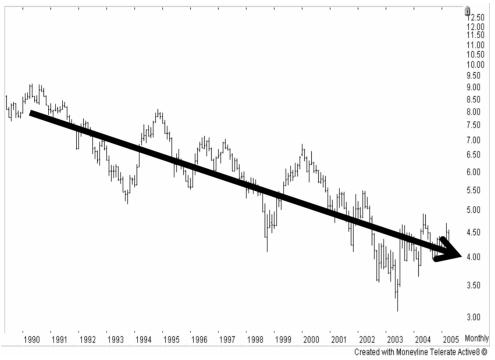
The market has a powerful momentum and has already achieved its minimum target.

Once again, wait for a break of the pivots before adding on.

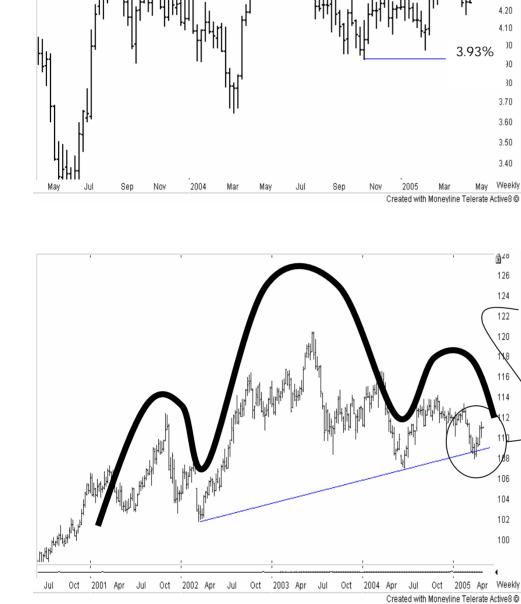
Bonds

The Japanese bond market leads the way in bullishness, closely followed by the Euro Bond market which is clearly bullish too but waits upon a move through important close levels.

Ten Years US Treasury Note



MONTHLY CASH YIELD CHART: The long trend of US dollar rates remains down.



WEEKLY CASH YIELD CHART:

1 5.10

5.00 4.90

> 4.80 4.70

> 4.60

4.50

4.40

4.30

4.20

4.10)0

30

30

3.70

3.60

3.50 3.40

Weekly

₫Zŏ 126

124

122

120

116

May

3.93%

Mar

Oct

4.9%

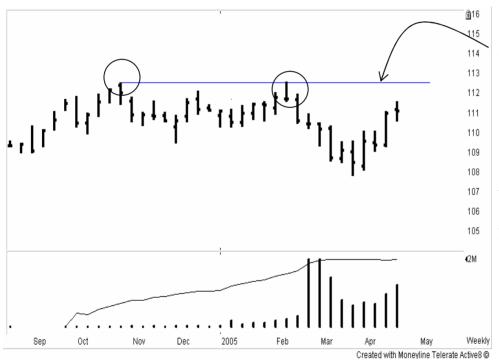
Some while ago I speculated that there was a possible higher yield breakout on the cards – but the market has fallen back into its old trading range.

Lacking clarity, traders should stand back and wait for the range to be broken.

WEEKLY CONTINUATION **FUTURES CHART:**

The futures chart reveals clearly the retreat from the critical level for the bears.





WEEKLY JUN 05 FUTURES CHART: And the Jun 06 future emphasizes the 112-32 level – an important short term pivot.

If the market can get through that level it will act as good support and drive the market on further still.



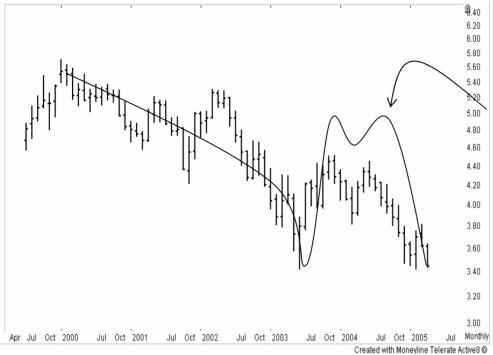
DAILY JUN 05 FUTURES CHART:

The resistance above the market that I identified two weeks ago was finally broken.

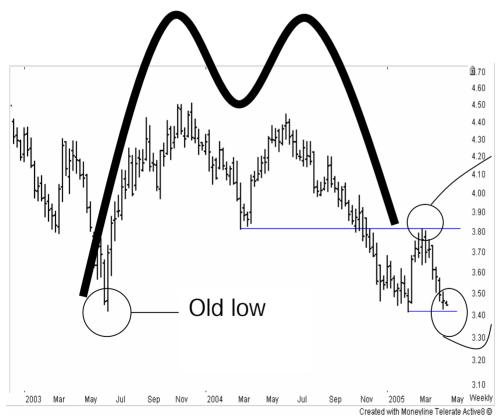
But the result has been a return into a trading range.

There is no clarity at the moment and traders should stand aside.

Ten Year Euro Bund



MONTHLY CASH YIELD CHART: The trend for falling yields is well-set, and given much greater impetus recently by the completion of a Double Top – set to drive the market on down to a minimum yield of 3.25%.

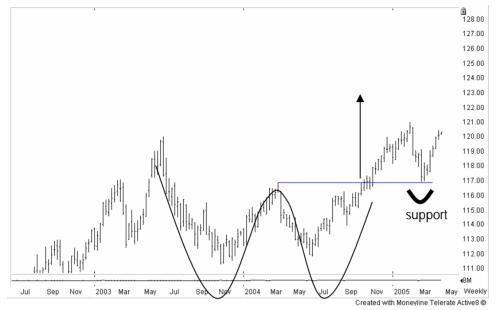


WEEKLY CASH YIELD CHART: That Double Top in greater detail.

See how the completion level was good resistance.

The market bounced off the old low at 3.43% once and has reapproached that level.

But can it break it?



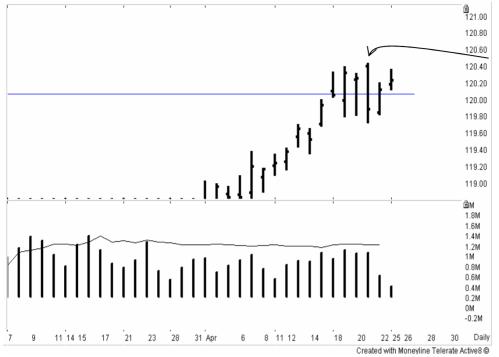
DAILY CONTINUATION FUTURES CHART: The same pattern is revealed in the futures market.

The target of the Double Bottom is 122 minimum.



DAILY JUN 05 FUTURES CHART:

The June 05 contract is rather more exciting still: having hovered at the old highs the market stayed there and looks set to drive on up...



DAILY JUN 05 FUTURES CHART:

Wait though, for a break above the near high at 120.42 in good volume.

Ten Year Japanese Bond



MONTHLY CASH YIELD CHART: The long trend is down, but chartists will have noted the break of trend in early 2004.



WEEKLY CASH YIELD CHART:

Nonetheless, the break has clearly not led to an enduring bull run.

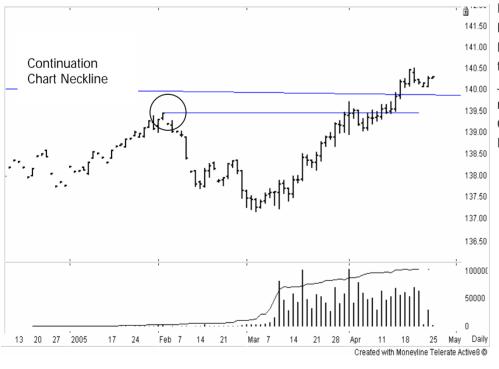
Quite the reverse, the market is on the point of completing a Head and Shoulder Top.

A close beneath the Neckline at 1.28% on the week is all that is required...

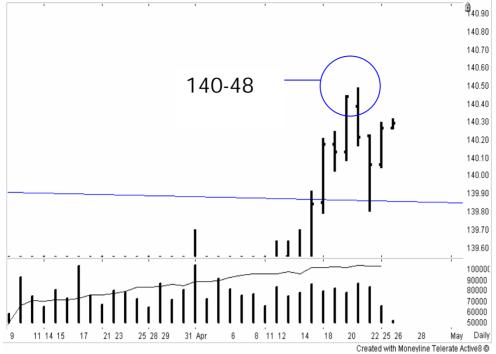


WEEKLY FUTURES CONTINUATION CHART:

The futures continuation chart reverses the pattern, (though now less clearly a Head and Shoulders perhaps more a Double Bottom) and more excitingly still, has completed – a clear close above the recent high (where the cash yield chart lagged.)



DAILY JUN 05 FUTURES CHART: Here the push through the old high from January 2005 set up the move through the Continuation chart's Neckline.



DAILY JUN 05
FUTURES CHART:
Closer still, though the market is volatile, traders should wait for a break through the near highs – at 140-48 thus virtually ensuring a second weekly close through the long-term H&S Neckline.

Interest Rates

The stunning clarity of the Euribor chart contrasts starkly with the confused pictures in the Sterling and Dollar charts.

Dollar Rates



WEEKY MAR 06 FUTURES CHART: The massive long-term triangle has been puzzling the technicians.

Triangles are primarily Continuation patterns – for a time this one looked like a Top Formation so I was skeptical and rightly emphasized the importance of the horizontal from the low at 95.39.

Saying that only if that was broken should the bears get excited.

That was right.
Instead of confirming the bear move by breaking down through that level, the market has retreated – in fact, bounced hard.
The triangle might yet after all be a continuation pattern.



DAILY MAR 06 FUTURES CHART: The detail of the bounce further encourages the bulls.

As the market struggled to re-enter the triangle, a small bull Head and Shoulders pattern was completed which drove the market better still. <u>Its minimum target is</u> 96.20.

The Neckline at 95.82 should provide good support on any pull-back. But bulls look in control.

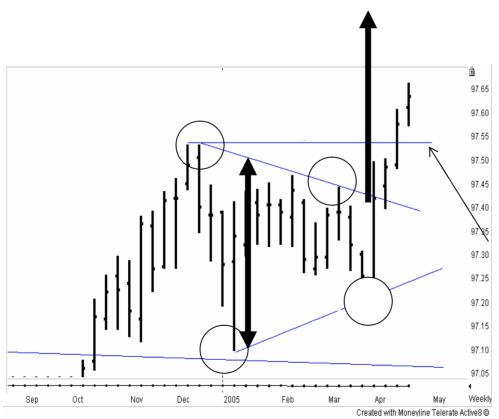
Euribor Rates



WEEKY MAR 06 FUTURES CHART: A huge bull Continuation Triangle is driving the market better.

Its minimum target is 98.64.

Once the Triangle had completed, notice how the upper diagonal acted as very good support – further emphasizing the influence of the Triangle.



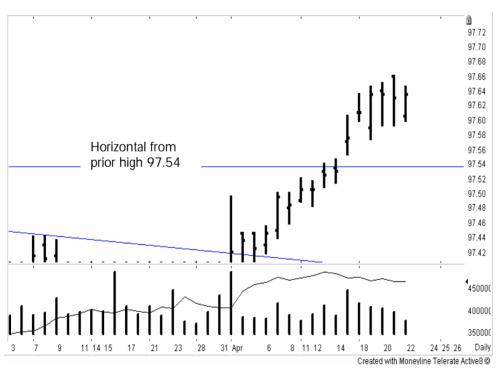
DAILY MAR 06
FUTURES CHART:
Another smaller triangle
has formed above the
other – that too has
completed and is set to
drive the market up to
97.85.

First support on any setback lies at the horizontal from the old high at 97.54.



DAILY MAR 06 FUTURES CHART: The detail of the breakout of the Triangle.

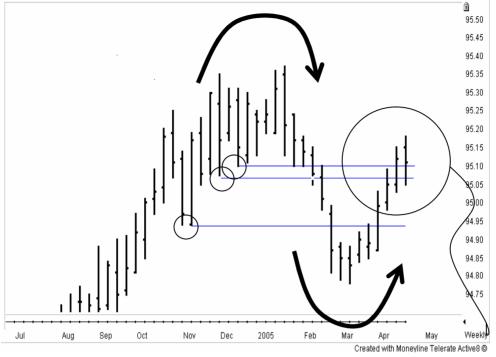
Note the Breakaway Gap. A sure sign of latent bull energy.



DAILY MAR 06
FUTURES CHART:
Despite the pause of the last few days (with falling volume and open interest) the market remains poised for further progress towards the minimum target of 97.85.

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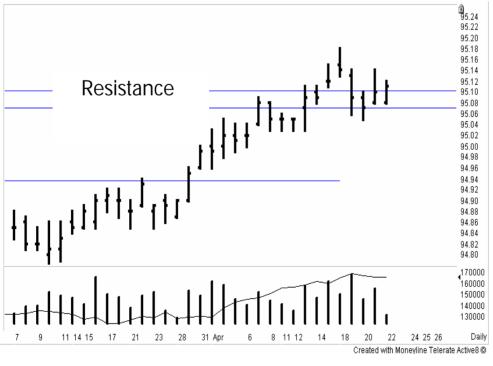
Sterling Rates



WEEKY MAR 06
FUTURES CHART:
When last I wrote two
weeks ago I thought the
market rather featureless
– neither of the recent
major turns in the
market contained a
reversal pattern ...

So I concentrated on the overhead resistances from the old price action of November and December 2005.

The market has traded into it easily.



WEEKY MAR 06 FUTURES CHART: Although detail of the price action reveals some uncertainly at the resistance.

But again, little structural clarity.

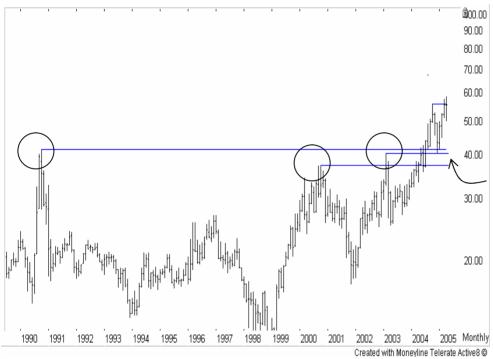
<u>Traders should continue</u> to stand aside waiting for greater clarity.

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Commodities

Both of these markets are in well-established bull trends. Gold's may be of longer standing, but the scale of the pattern behind the move suggests that there is still a long way to go. Oil is underpinned rather than driven by a large ruling pattern with a set target. Watch my levels for help with fine tuning entry to and exit from these mature trends

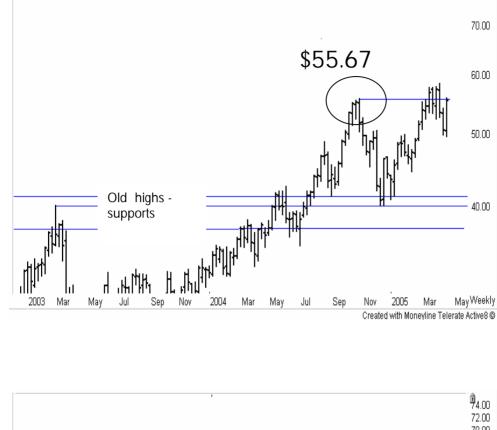
Oil



MONTHLY SPOT CASH CHART:

The market is powerfully set up.

The old highs around \$40 has provided a massive floor of support from which the market has bounced.



WEEKLY SPOT CASH CHART:

80.00

That bounce has pushed the market up to its old highs.



WEEKLY SPOT CASH CHART:

The weekly detail reveals the source of the bounce – a small completed Head and Shoulders Bottom ...

The minimum target is \$60.50.

Note how the Neckline has been good support.

The bulls remain in control.





DAILY SPOT CASH CHART:

In the short-term though, bulls should wait for the old high at \$58 to be over come before adding on...

Note the bull gap that has opened up beneath the market illustrating the latent bull energy within.

Gold



QUARTERLY SPOT CASH CHART: A massive bull continuation triangle targets the Gold market up to 794 – close to the old high at 873.

The bull trend has been neat and steady since the completion of the Triangle



MONTHLY SPOT CASH CHART:

Close inspection shows the trend is extremely well-defined over the last two years.



WEEKLY SPOT CASH CHART:

While the market has tracked sideways since December 2005, we can see that a Triangle may be forming....

Forcing attention on any approach to the falling diagonal around 440....

Bulls should wait for that to be broken before adding on.



DAILY SPOT CASH CHART:

Good clear support has been built beneath the market from the sideways price action in March and April this year.

Look for an early approach to the falling diagonal above the market.

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