

Oil surge relaxes  
the bulls

31

Short Sterling  
shakes off bear  
shock

30

Stocks rally  
from critical  
levels

9



WEEK 19 10<sup>th</sup> – 16<sup>th</sup> 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 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

# CONTENTS

## CURRENCIES

03 DOLLAR EURO

05 DOLLAR STERLING

07 DOLLAR YEN

## STOCKS

9 STANDARD AND POORS 500

12 EUROPEAN DJ STOXX 50

15 FTSE 100

17 NIKKEI 225

## BONDS

20 TEN YEAR US TREASURY NOTE

23 TEN YEAR EURO BUND

25 TEN YEAR JAPANESE BOND

## INTEREST RATES

27 DOLLAR RATES

29 EURIBOR RATES

30 STERLING RATES

## COMMODITIES

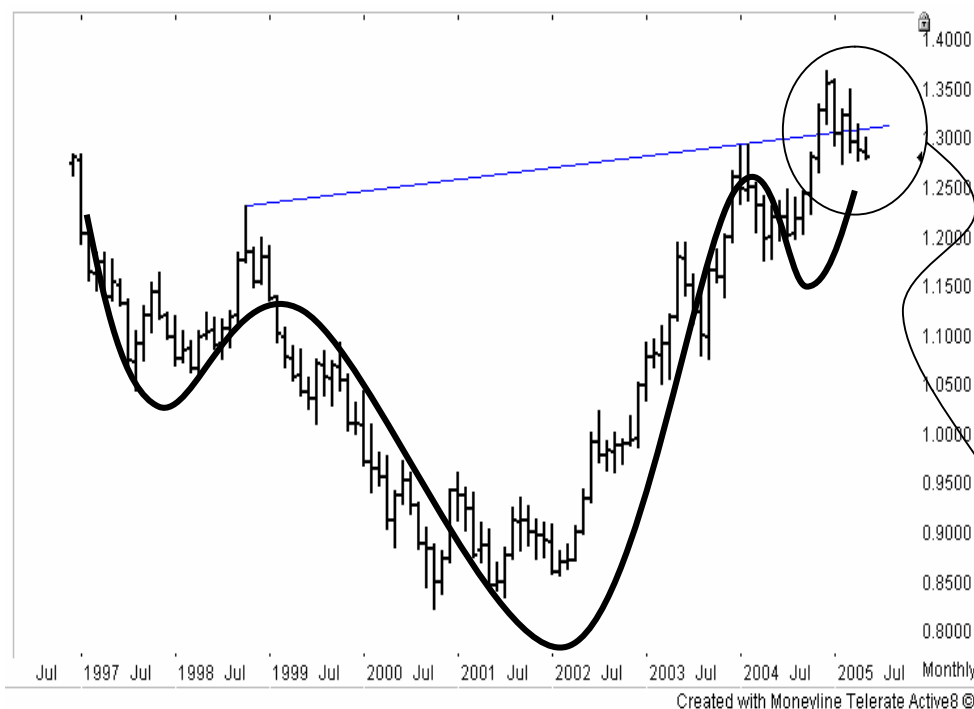
31 OIL

33 GOLD

# Currencies

The markets oscillated quite violently over the week but were left largely unchanged with a stronger Dollar trend slightly reinforced. The medium and long term patterns still point to a weaker Dollar.

## Dollar Euro



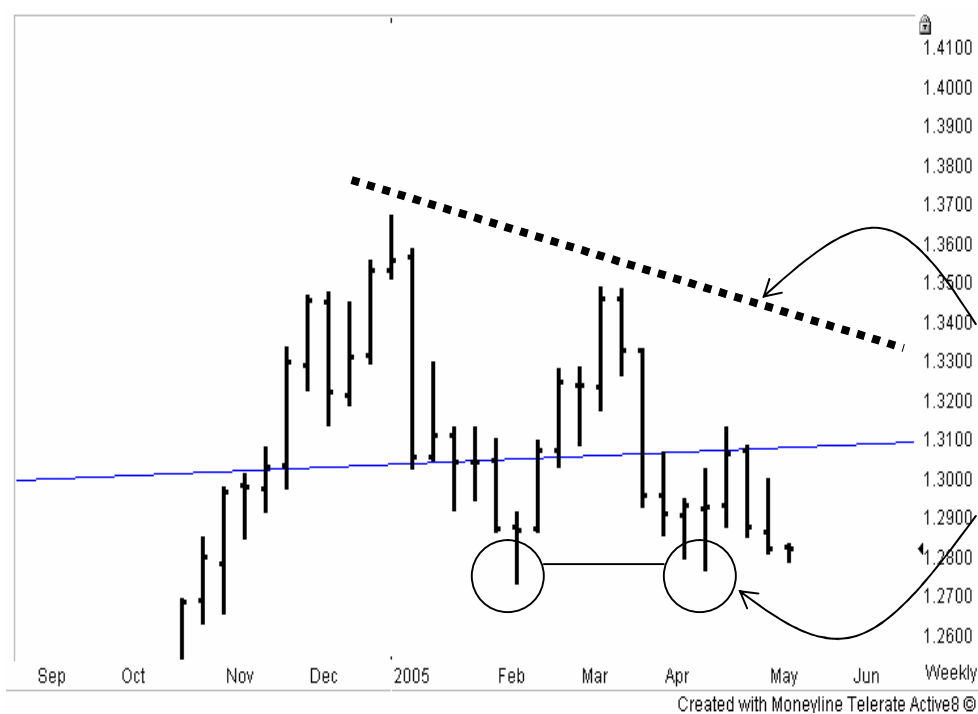
### MONTHLY SPOT CASH CHART:

The completion of the large bull Head and Shoulders pattern that has dominated the market since it first completed in November 2004 remains frustratingly unclear.

If the market can get up through the Neckline which lies above at 1.3090 currently then the bulls will be relieved.

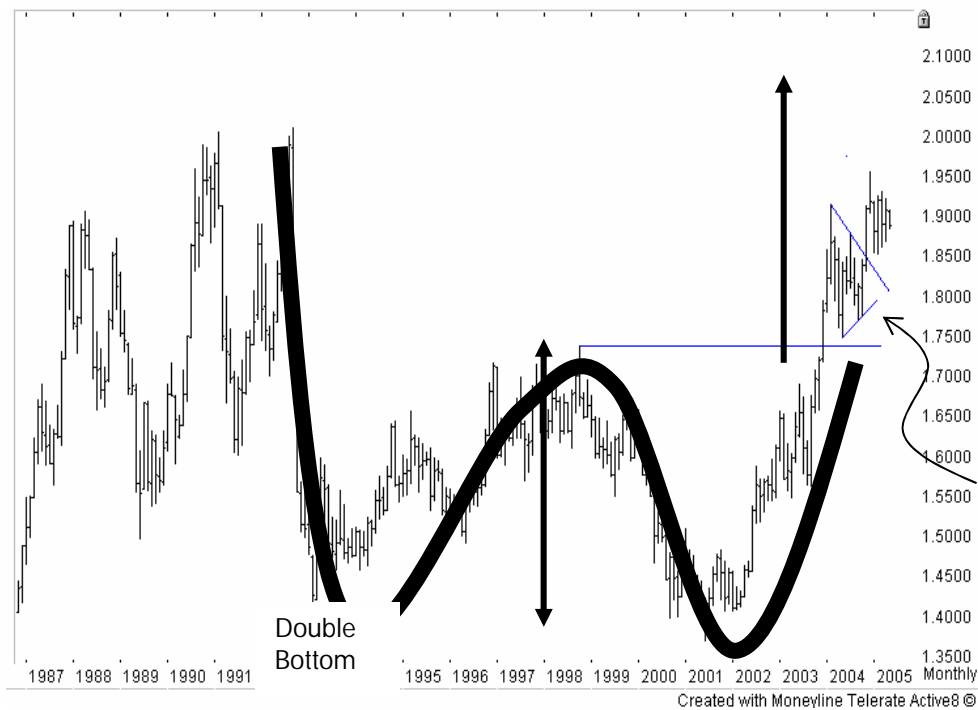
Nor can the bears take much comfort from the re=penetration beneath the Neckline – the pattern is so long-term and of such a scale that the pause and dip at the Neckline may mean nothing in the longer term.

So, traders must study the shorter term charts.



[Return to Contents](#)

# Dollar Sterling



## MONTHLY SPOT CASH CHART:

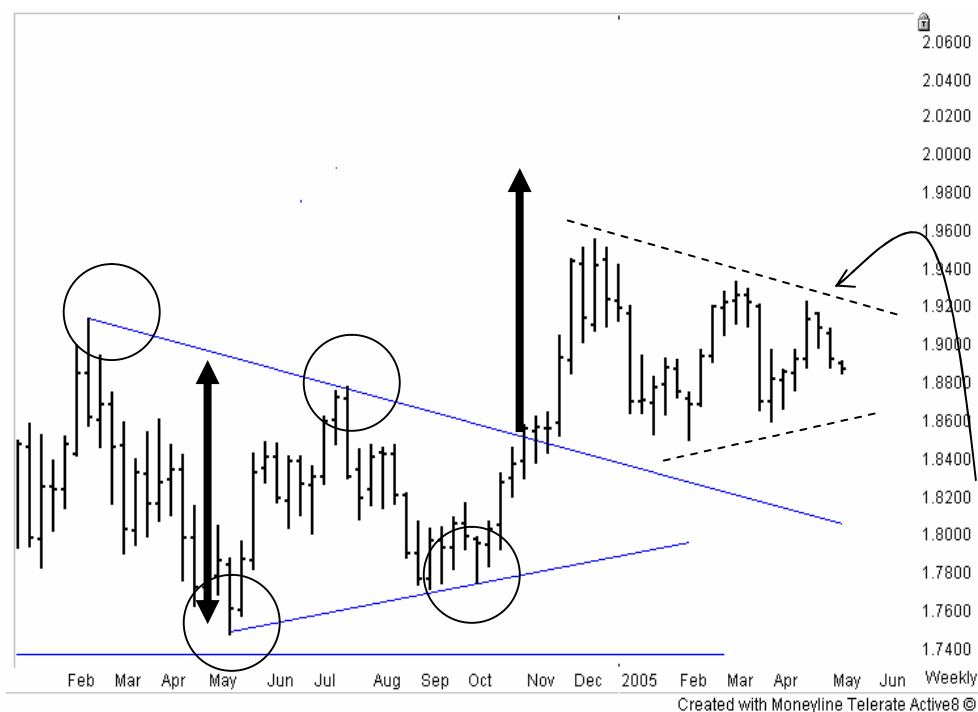
The long Sterling Dollar chart is unambiguously bullish for Sterling.

The Double Bottom suggests moves to 2.08.

Bulls are further excited because of the completion of a Bull Continuation Triangle that calls the market up to 2.008.

Both these patterns have completed, and are driving the market in the medium and long term.

What is happening in the short term?



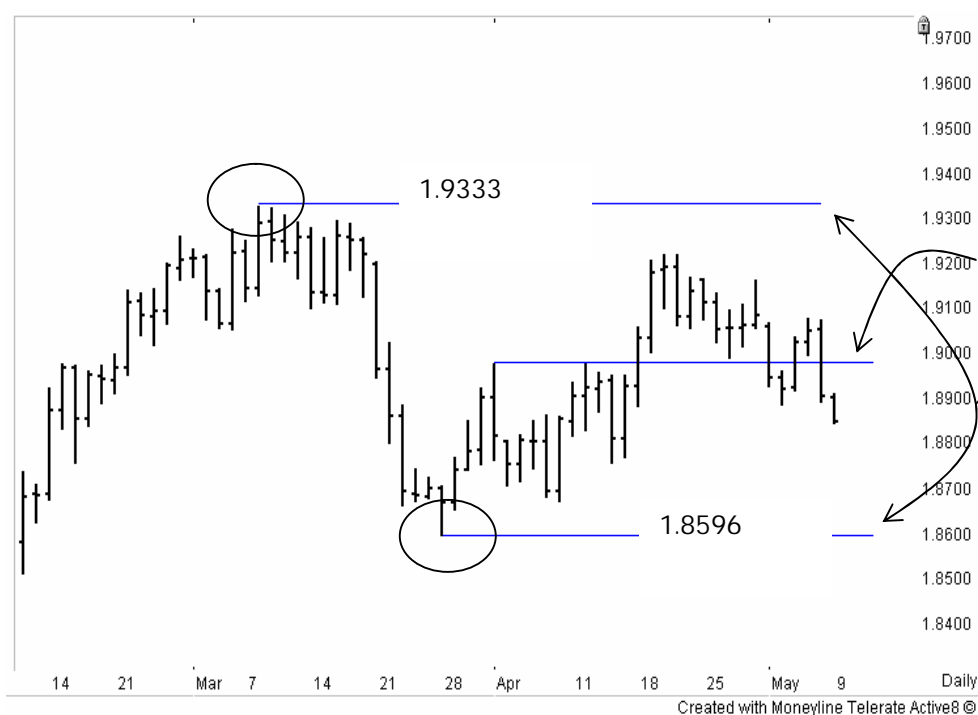
### WEEKLY SPOT CASH CHART:

The market completed the first Triangle and has tracked sideways since December 2004.

I thought last week that it looked like a second Triangle was forming and reminded traders to wait for a break of the upper Diagonal – but the market has retreated further since.

At current levels it's not at all clear what the market is about to do.

Look closer.



### DAILY SPOT CASH CHART:

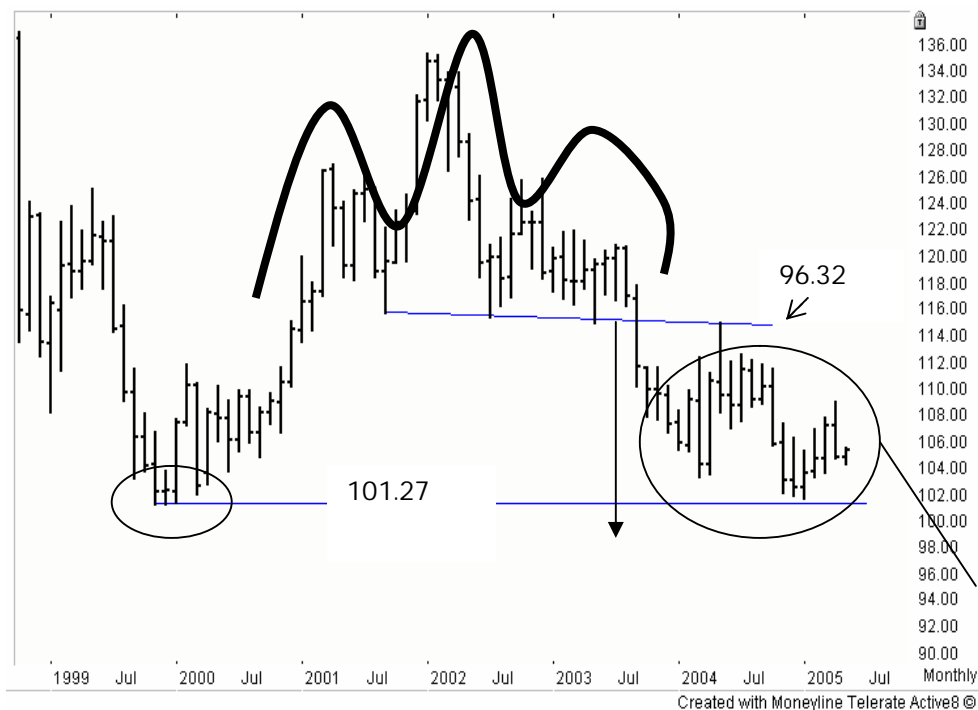
I pointed out last week that the bulls were disappointed that the market pulled through the 1.8975 horizontal.

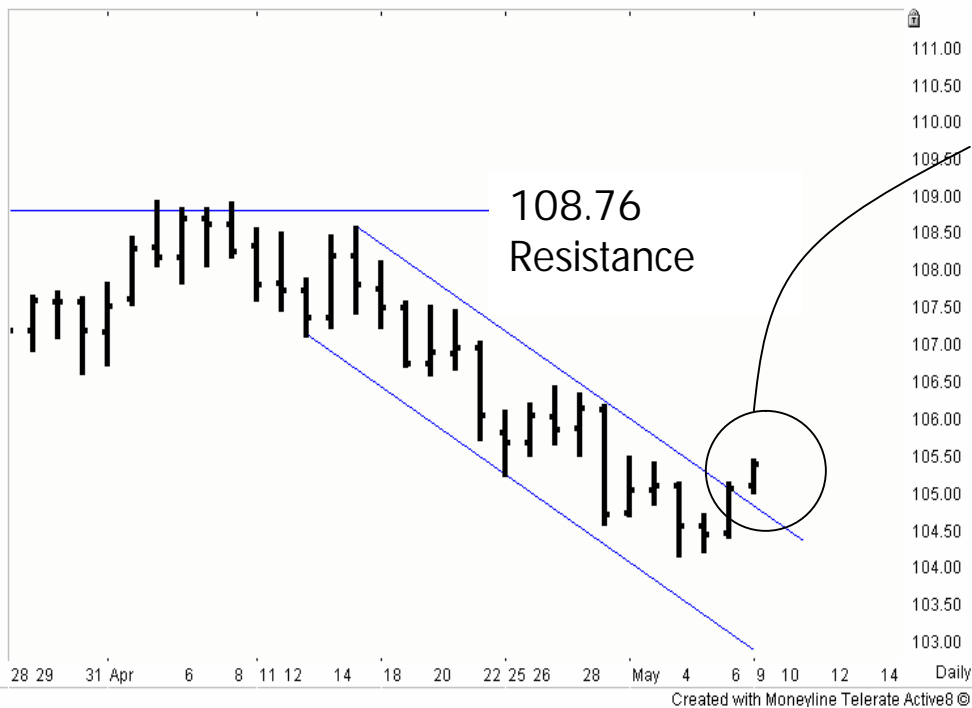
Now stand back and wait for the range to be broken.

I see no structure to guide us within that range.

[Return to Contents](#)

# Dollar Yen





#### DAILY SPOT CASH CHART:

It's been a well-defined channel – that looks to have been broken.

Dollar shorts will have been made anxious by the breakout.

But only a break back through the horizontal at 108.76 where the market failed before will really rout the Dollar bears.

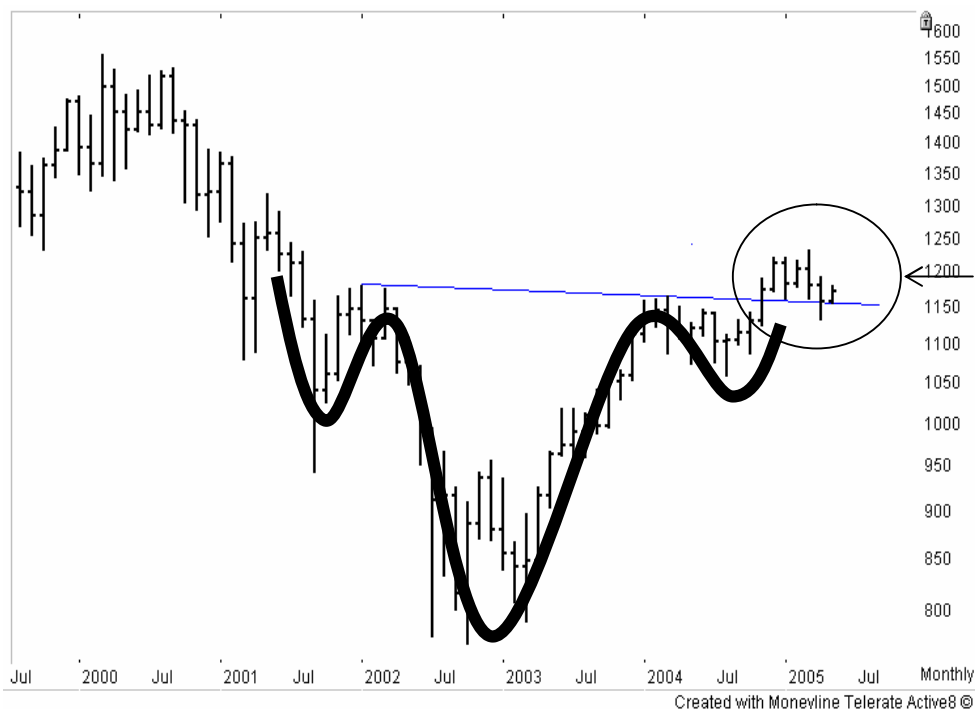
[Return to Contents](#)



# Stocks

I have been cautiously dismissive of the bears' claims with regard to stocks, and last week's price action endorsed this. The price action across the board was solidly bullish both in direction and in the completion of small but clear bull reversal patterns.

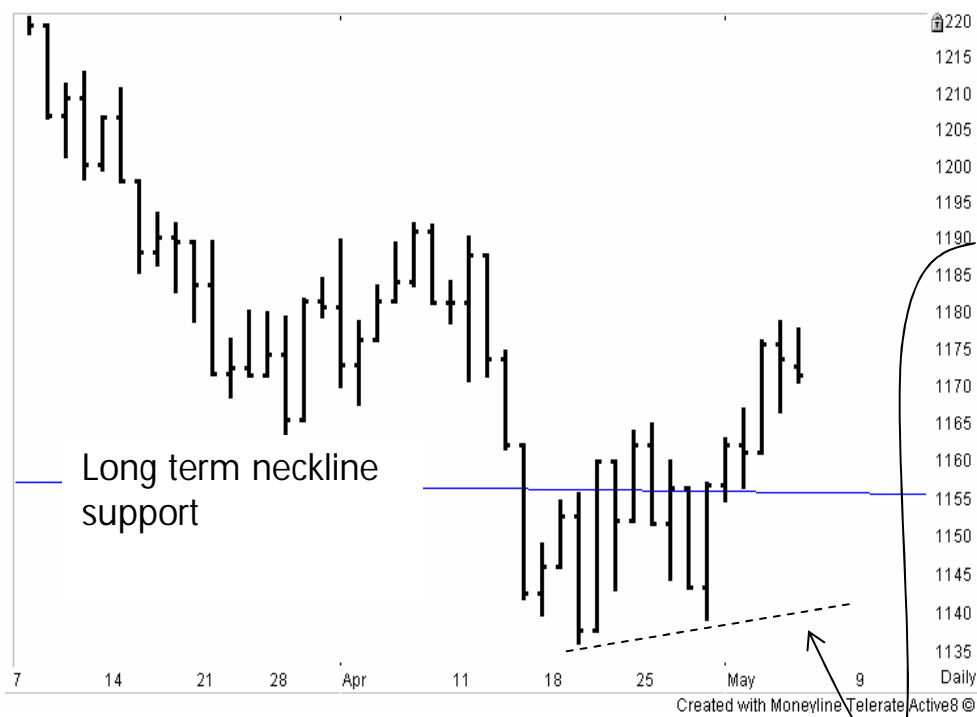
## Standard and Poors 500

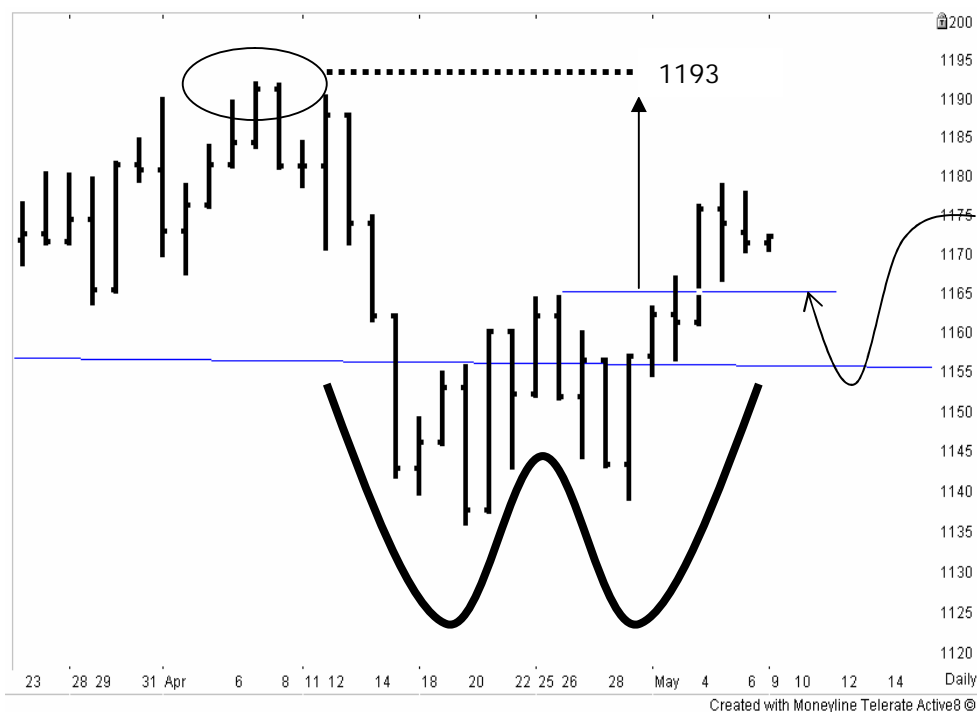


### MONTHLY CASH INDEX CHART:

The bull Head and Shoulders reversal pattern of long-standing is testing the crucial Neckline support at 1156.

This level must hold for the very long-term bull market the pattern implies to be realized.





## DAILY CASH INDEX CHART:

The minimum target is  
1193.

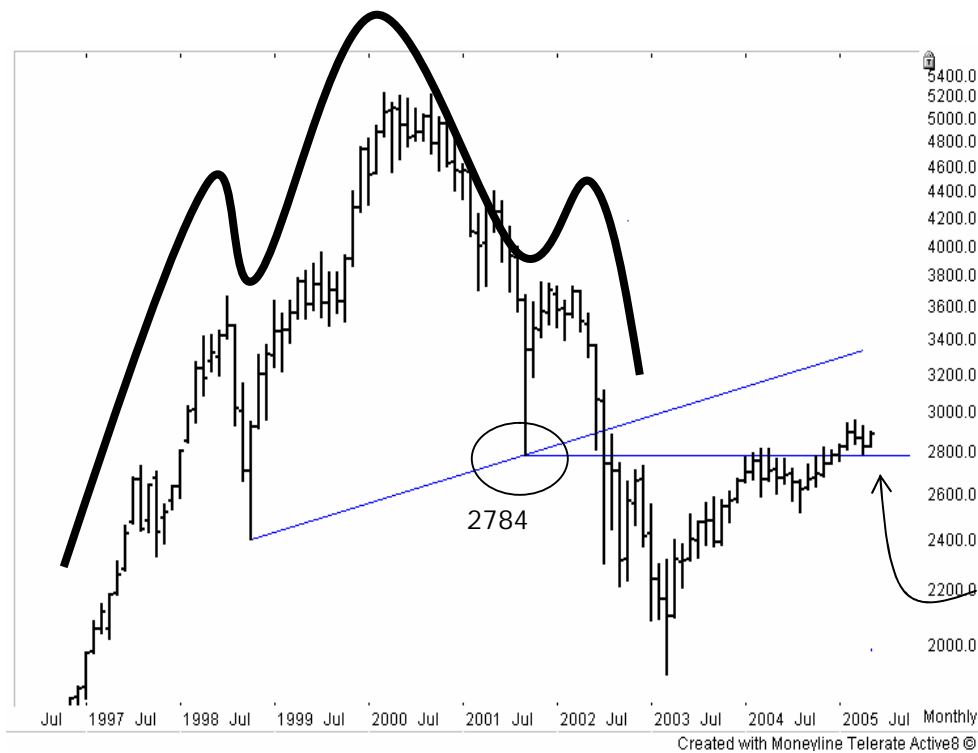
And the near support is  
1165.

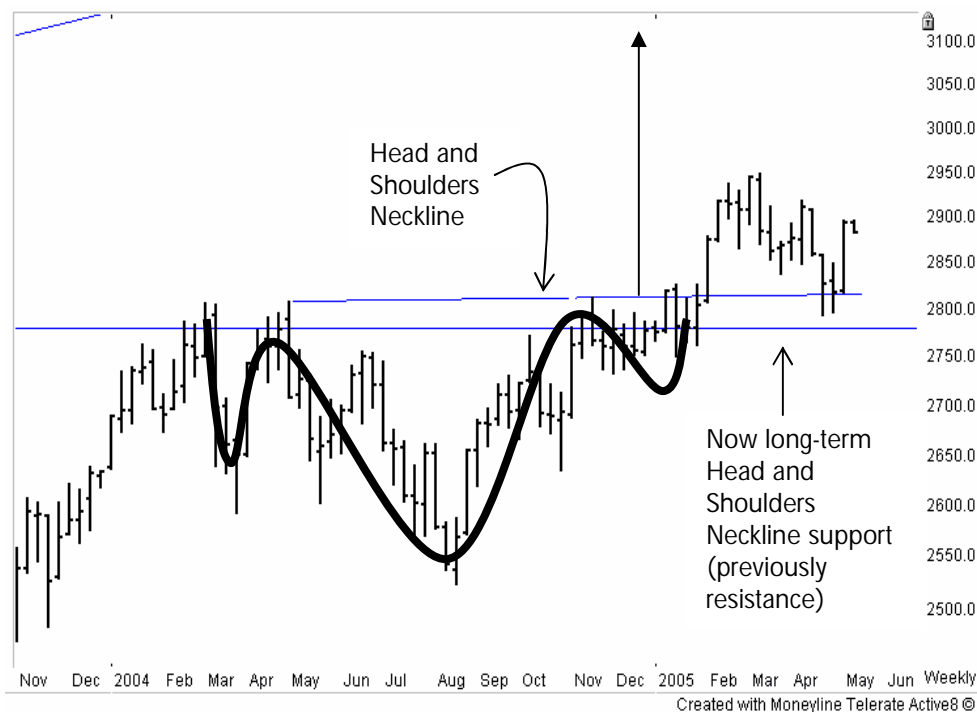
So, the market seems to  
have performed a neat  
reversal rather faster than  
I anticipated last week.

It is modestly well set up  
for the bulls – in the  
short term and the very  
long term.

[Return to Contents](#)

# European Dow Jones Stoxx 50





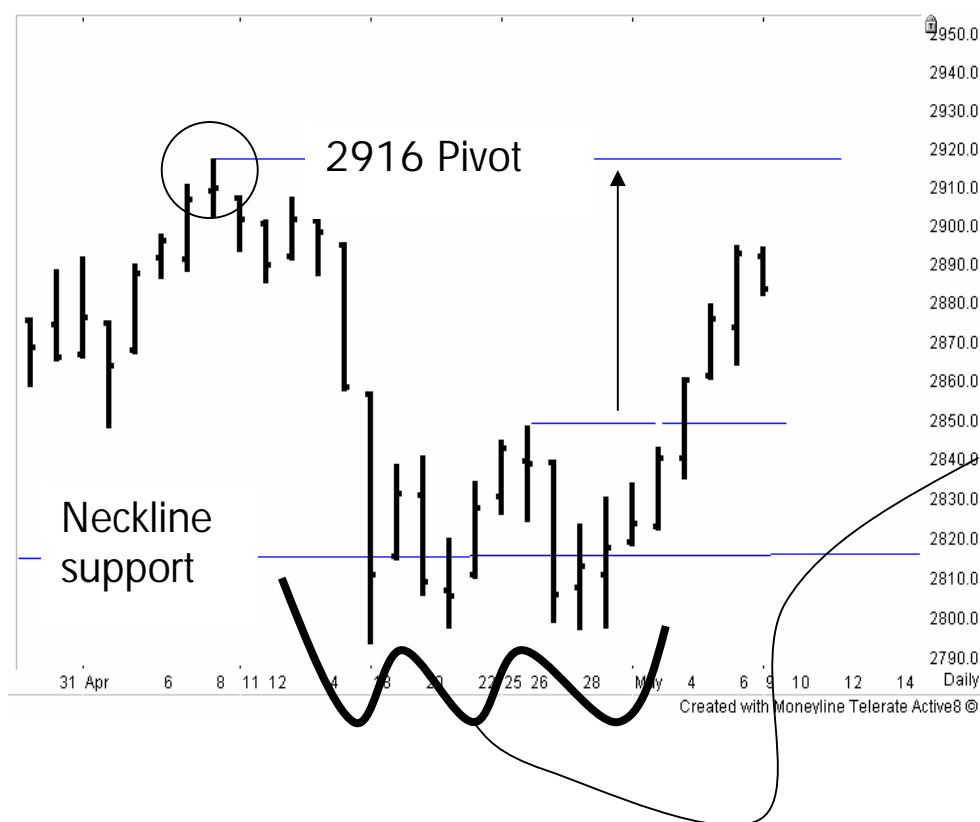
**WEEKLY CASH INDEX CHART:** The week chart reveals the source of the bull energy that drove the market up through the 2784 resistance - a Continuation Head and Shoulders pattern.

The target of that pattern is a good deal higher around 3140.

But short term, having completed the pattern, the market paused and pulled back and tested the Neckline.

And the Neckline support has held.

As I remarked on CNBC this morning, this is a massive endorsement of the Bulls' stance.



DAILY CASH INDEX  
CHART:

And closer still we see the manner and style of the market's triple failure to break back through the support at 2815 has in turn created a bull pattern – a Double or Triple Bottom that is in itself a sound base for the market to go better.

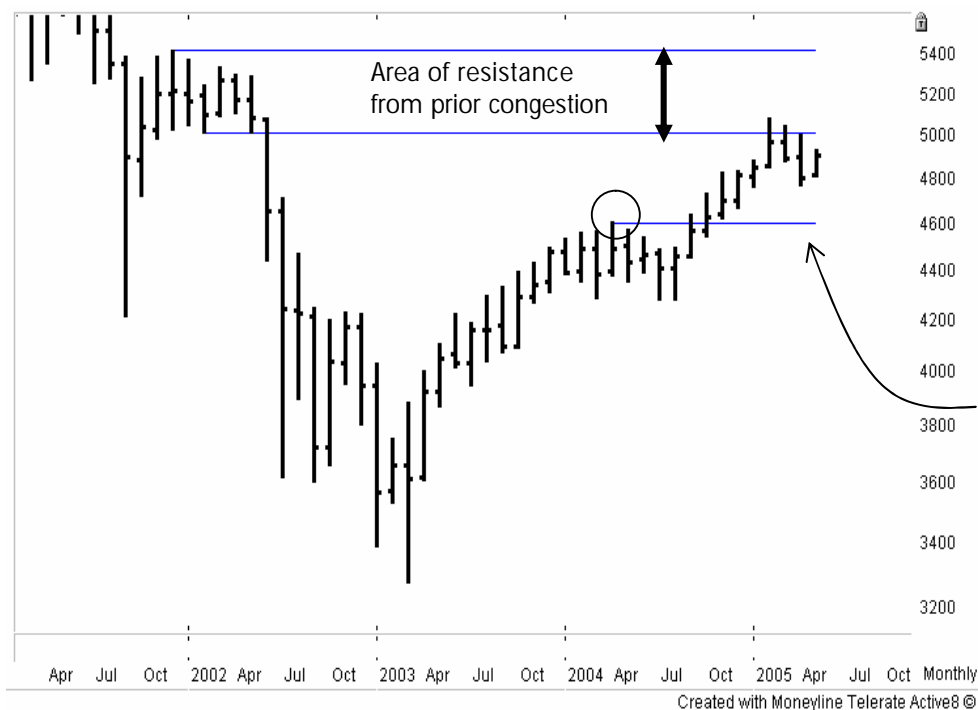
The Triple Bottom's minimum target is relatively near - about 2900 – close to the near high Pivot of 2916. Once through there the market will gain further stimulus still.

So I was right last week to be skeptical of the bear case saying that the bears really required a break down through the long term Neckline support- and that never happened.

The market's well set.

[Return to Contents](#)

# FTSE 100

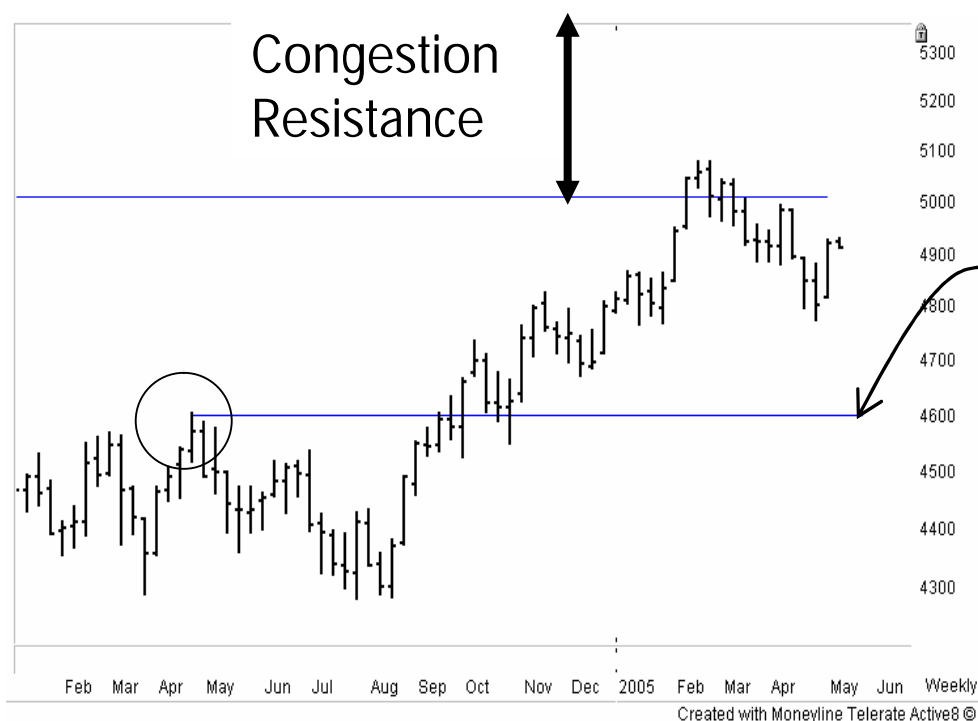


## MONTHLY CASH INDEX CHART:

The market has bounced from the lows of 2003 and finds now itself up against the old long-term congestion area of 5016-5416.

The first support is a long way below precisely because of the consistency of the trend.

Look closer.



## WEEKLY CASH INDEX CHART:

The drift off from the area of resistance and the first support is clear down at 4600.

Look closer still.



## DAILY CASH INDEX CHART:

Last week I was bearish: I saw the market ratcheting further down – but stuck to my identification of the horizontal from 4877 as the critical resistance.

I was wrong about the market but right about the critical resistance.

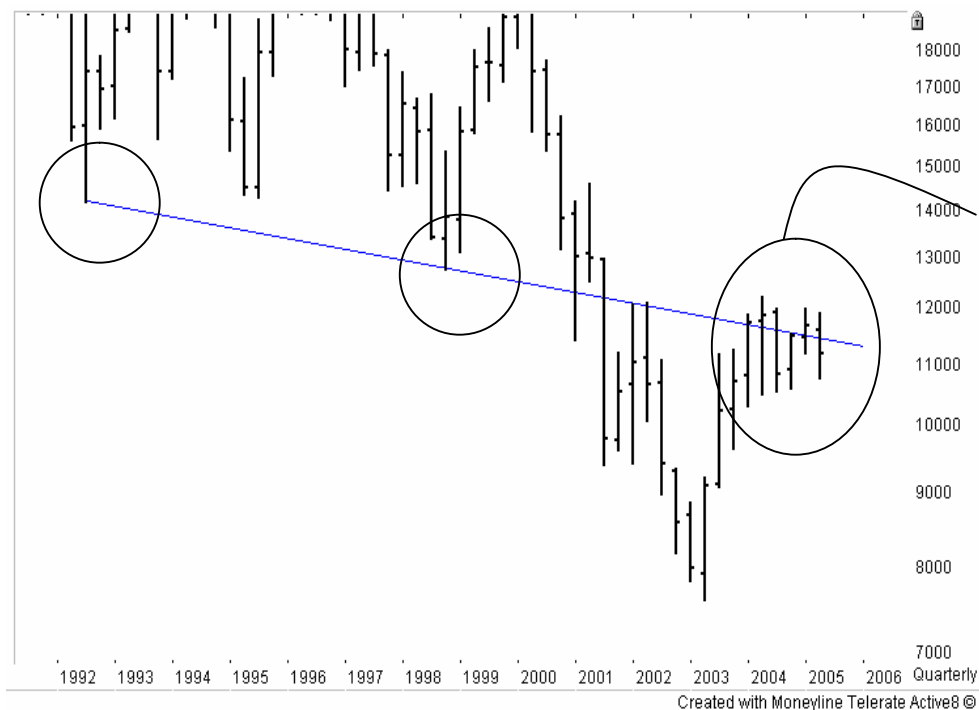
The bulls should take great comfort in the pull-back through the 4877 level. But I don't feel a good bottom formation is yet in place (though the Horizontal at 4877 will now be good support) so bulls should stand back and watch and wait.

In any event, should the market get back through the high of 4994, a good first Pivot, then (as I said on CNBC this morning) the market should go better still from there.

[Return to Contents](#)



# Nikkei 225



## QUARTERLY CASH INDEX CHART:

The very long-term chart of the Nikkei sees the market struggling at the resistance from many years back.



## MONTHLY CASH INDEX CHART:

The latest attempt to break back through that resistance has led to a sideways move beneath it for the last 14 months.

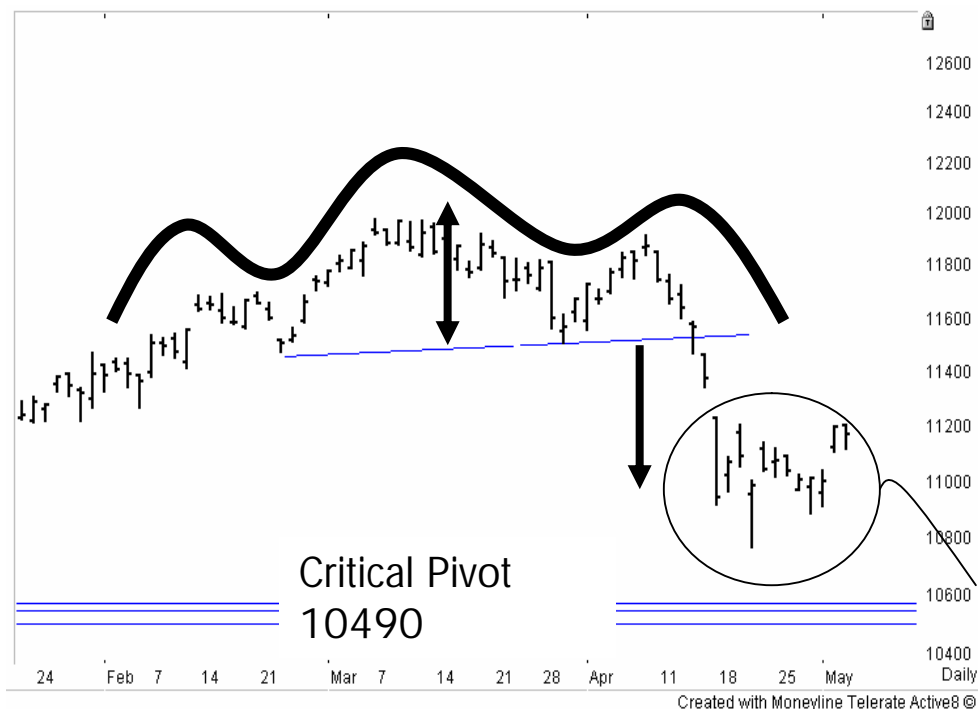


### WEEKLY CASH INDEX CHART:

And the market has fallen back for the third time in those months.

Essentially, it is in a trading range – the critical level beneath the market is the succession of horizontals from the lows around 10490.

Will the market get down there?

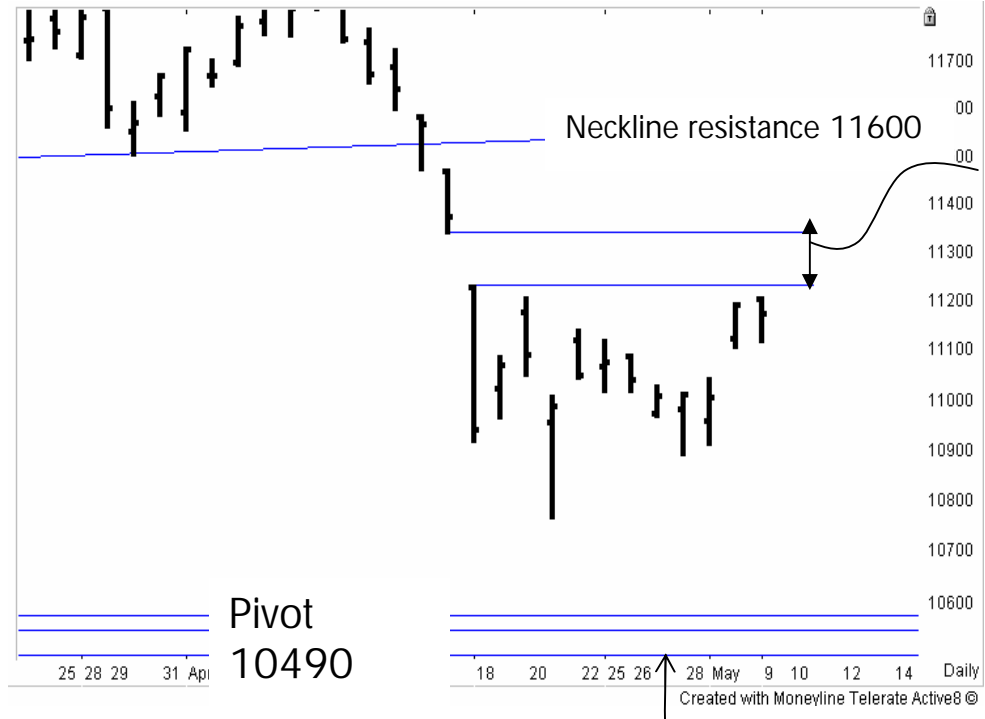


### DAILY CASH INDEX CHART:

The engine of bearishness has been the small Head and Shoulders Top formation that broke on the 14<sup>th</sup> April.

The market has reached its minimum target with ease.

But thereafter the violently oscillating price action is rather lacking in clarity...



DAILY CASH INDEX  
CHART:  
But a trade back through  
the Gap resistance at  
112.24–133.34 is  
required for the bulls  
and may be difficult.  
Gaps above the market  
are good and important  
resistance. Above that  
again there will be the  
Neckline resistance at  
11600 or so.

I feel these resistances  
will require some  
substantial bull structure  
before they can be  
overcome and that may  
take some time.

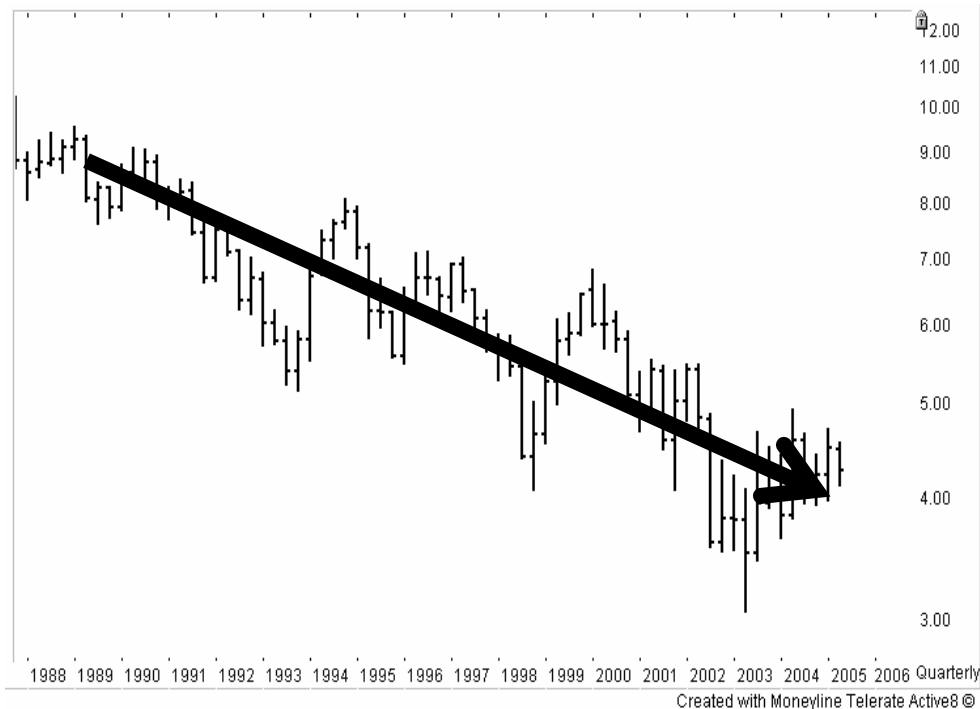
For the moment traders  
should stand aside.  
Certainly the bears (as I  
argued last week) have  
no case until the Pivot at  
10490 is broken.

[Return to Contents](#)

# Bonds

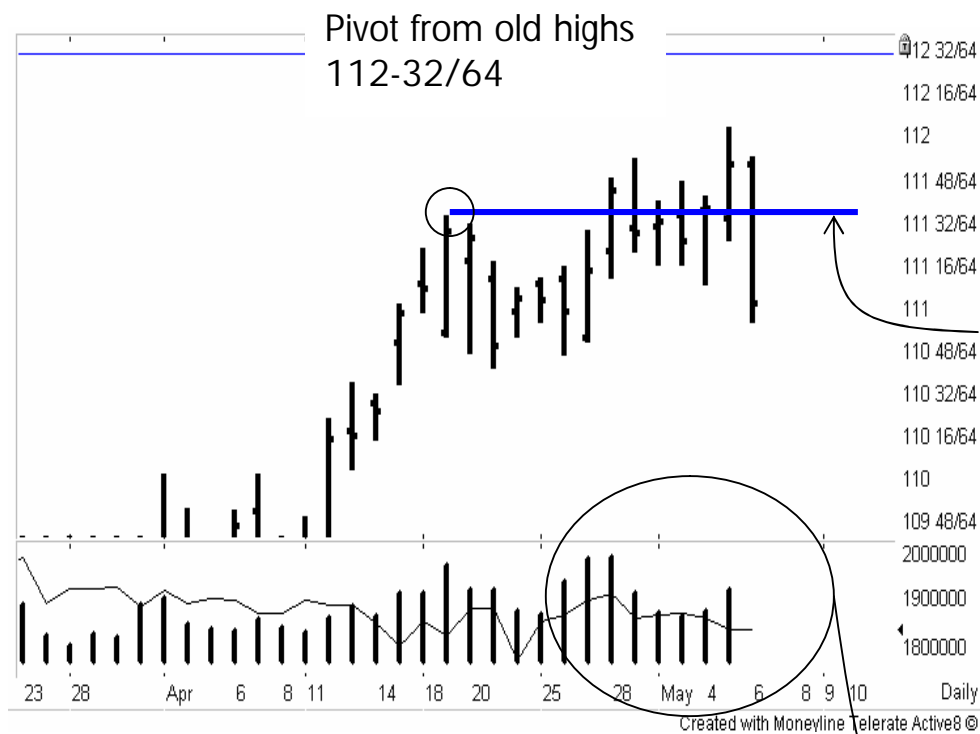
The volatility of the price action over the week should not disguise the very bullish tone that remains in the German and Japanese markets. Further substantial shocks will be required to sustain a reversal.

## Ten Years US Treasury Note



QUARTERLY CASH  
YIELD CHART:  
The long-term chart has  
been descending for  
years.





#### DAILY FUTURES JUNE 05 CHART:

The market has been approaching that level over the last few weeks – but has consistently failed to sustain itself over the horizontal from the high at 111-33/64.

I said last week that the market lacks clarity and that remains so – but the bulls will be the most disappointed over the latest price action.

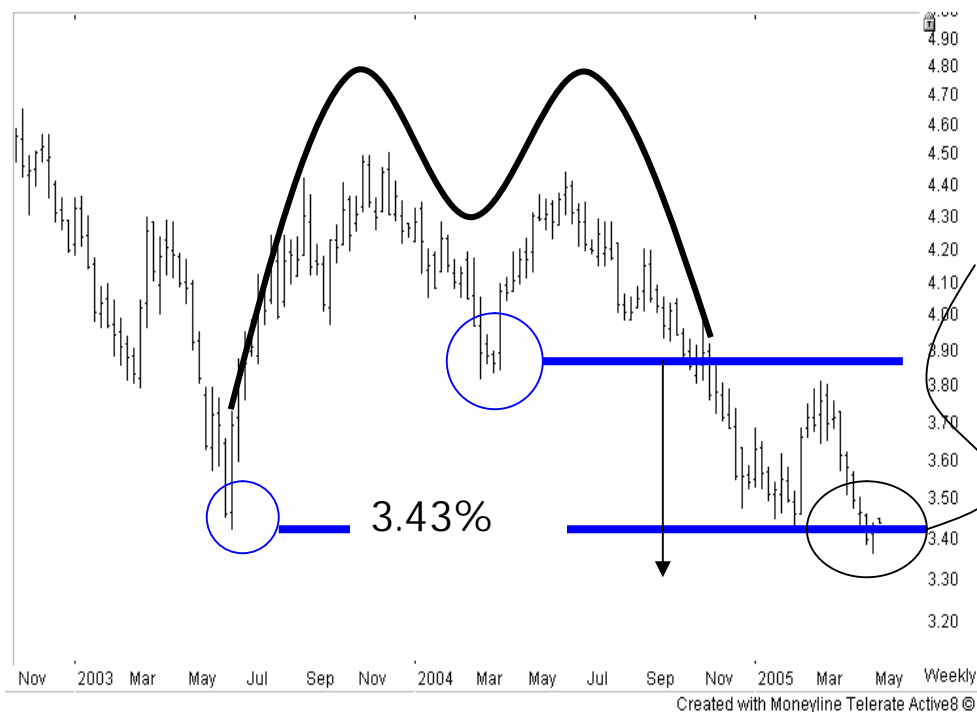
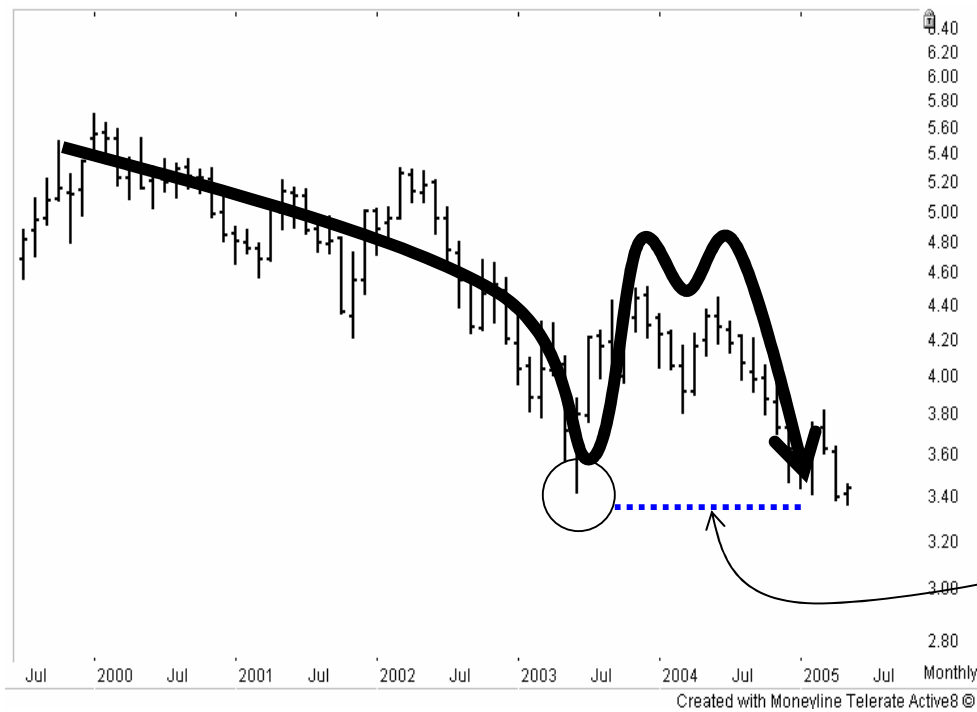
Notice how, most recently, the open interest and volume has ceased to copy the movements of the market – volume was falling or unchanged when the market last rose and increased as it fell. Open interest has fallen consistently over the last week.

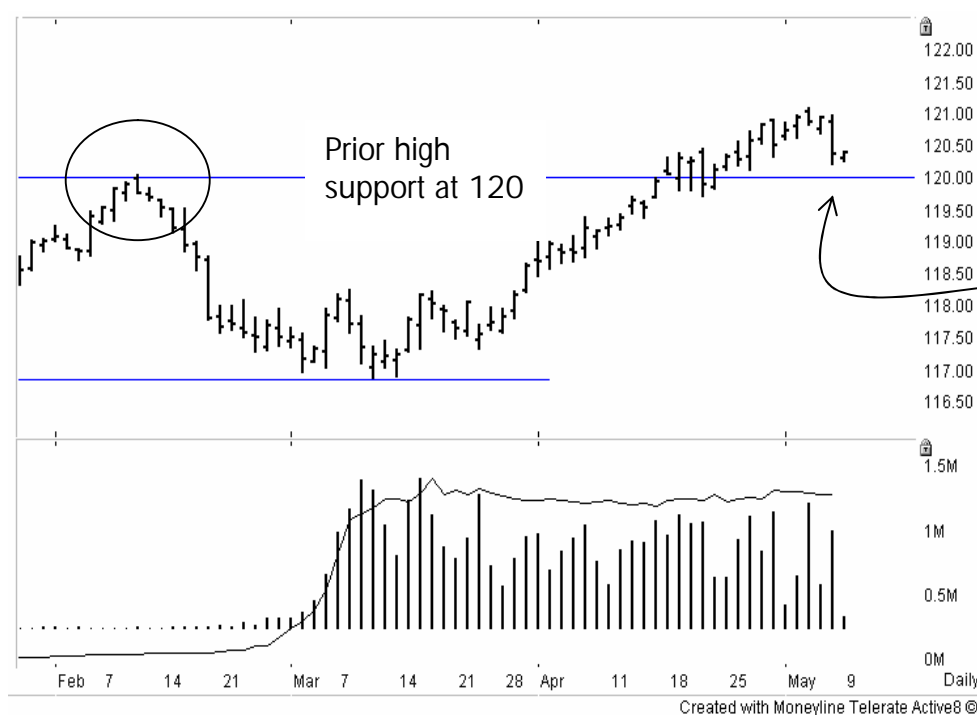
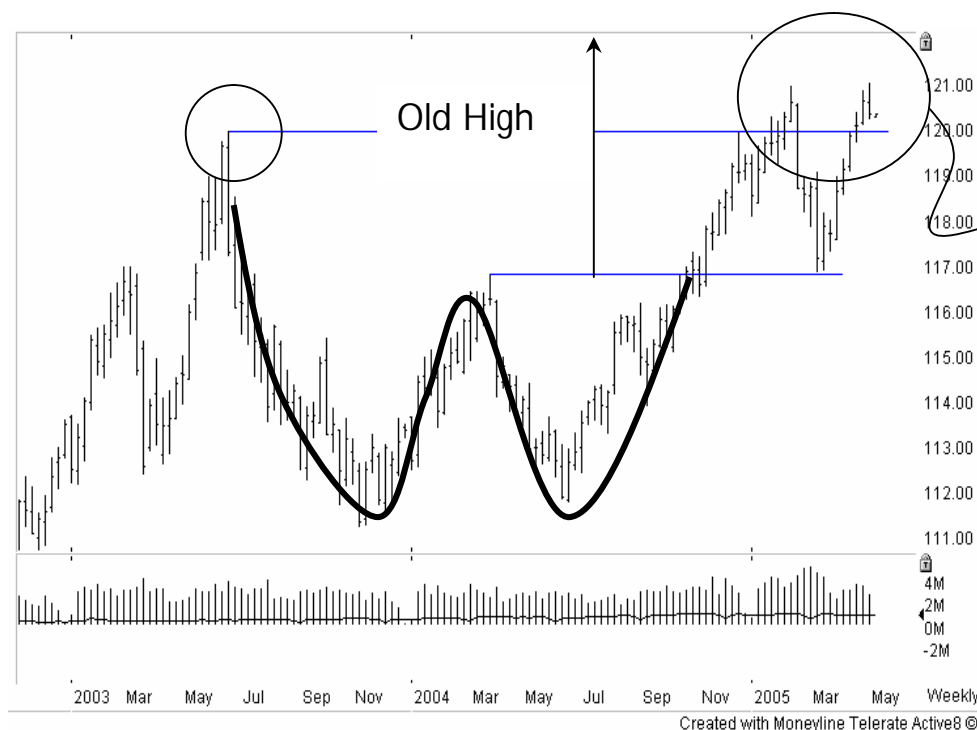
That is bearish evidence.

But, because there is a lack of clear patterns...stand aside.

[Return to Contents](#)

# Ten Year Euro Bund

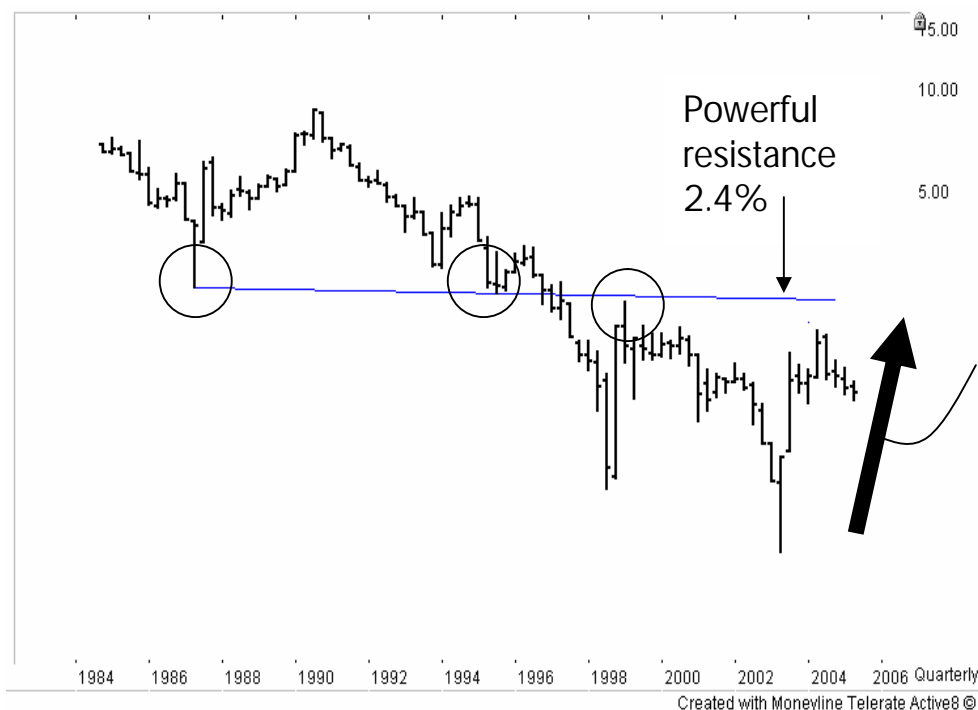




[Return to Contents](#)



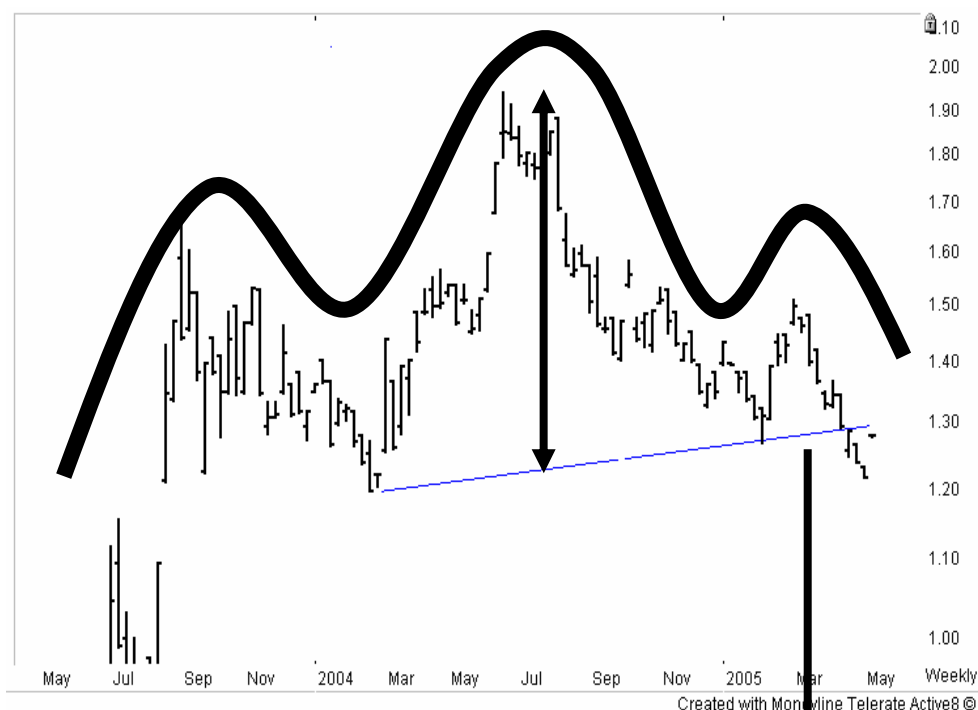
# Ten Year Japanese Bond



## QUARTERLY CASH YIELD CHART:

The very long term chart of the market emphasizes 2.4% yield as the major resistance level above the market.

The latest rally from the low of 0.44% began in 2003 - is it likely to challenge the resistance?



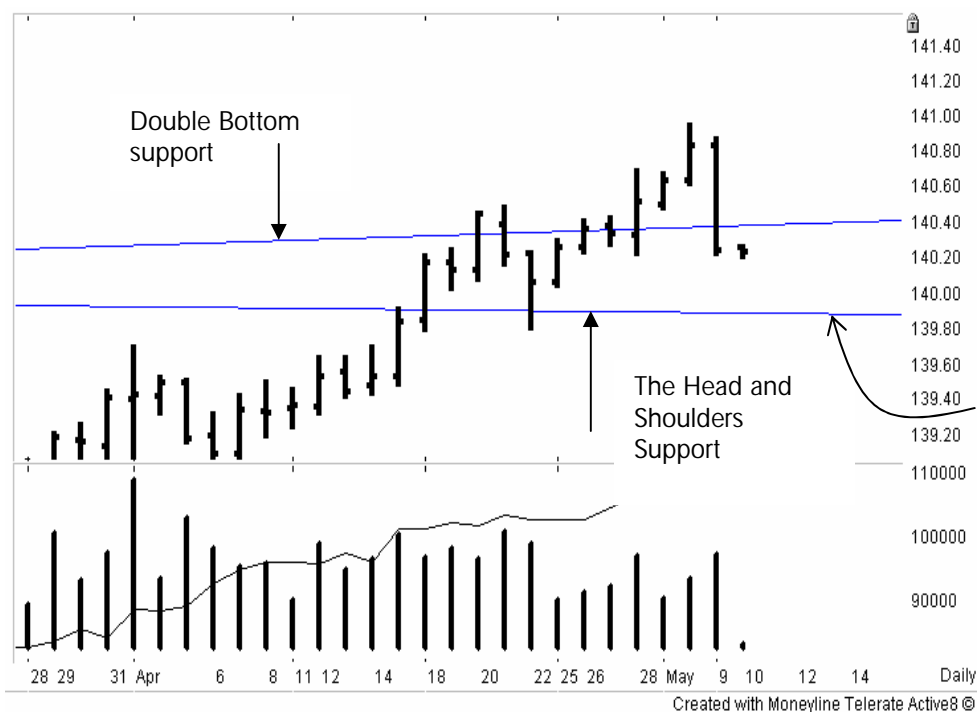
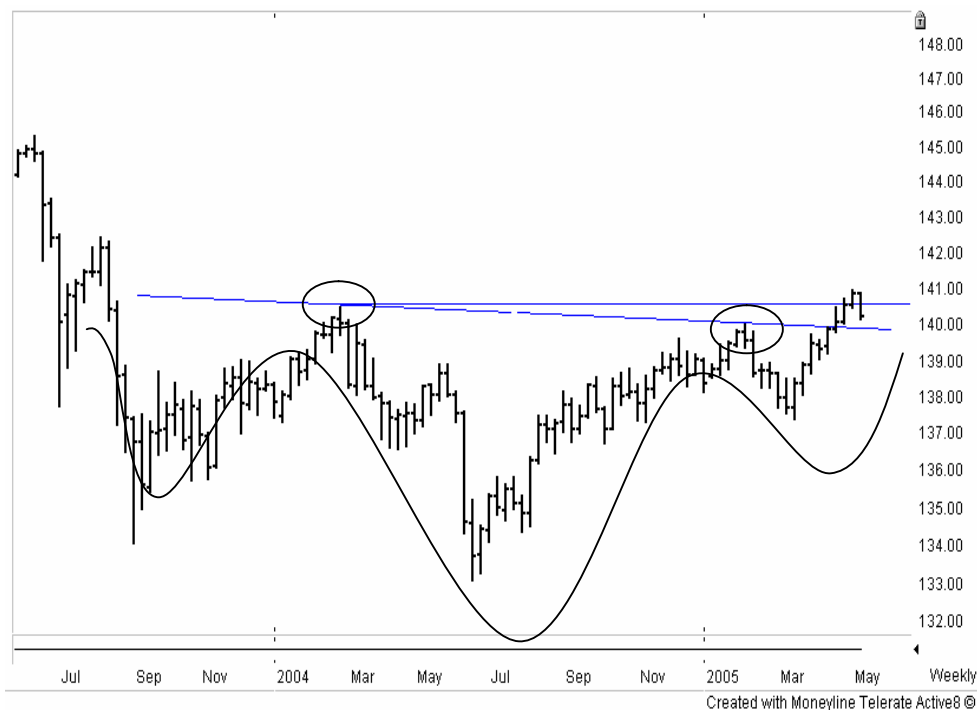
## WEEKLY CASH YIELD CHART:

This suggests not!

A perfectly described Reversal pattern has been created over the last two years which has just completed a month ago.

The target for the yield chart is very much lower: 0.84% that last traded in June of 2003.

Is the same story to be found in the futures chart?



[Return to Contents](#)

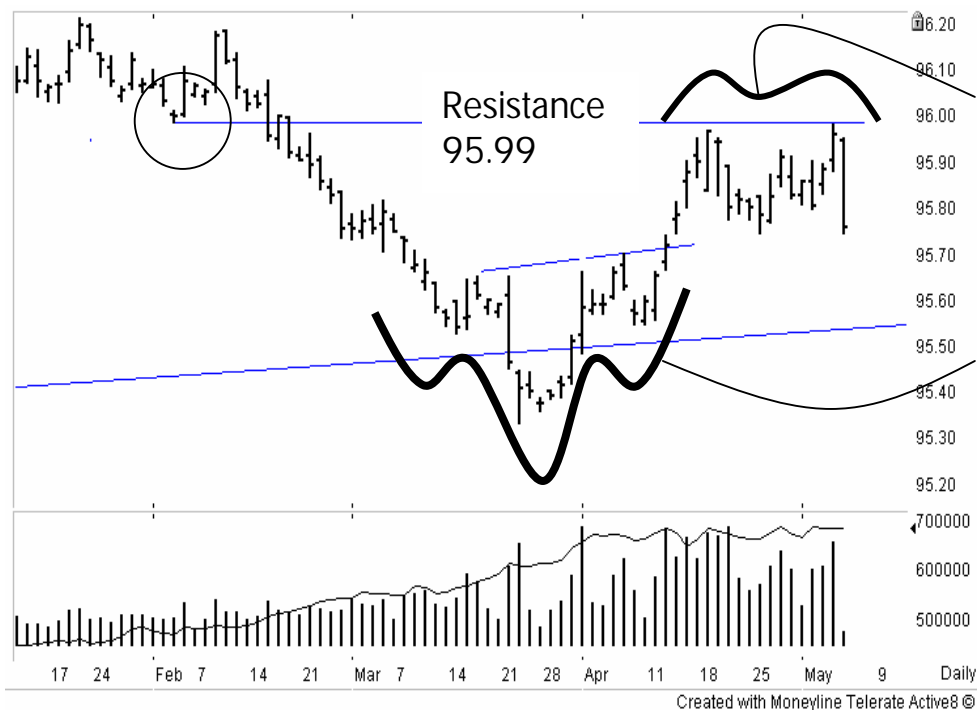
# Interest Rates

There was volatility but as yet the markets with the clearest bullish commitment seem to have shrugged off the bears.

## Dollar Rates



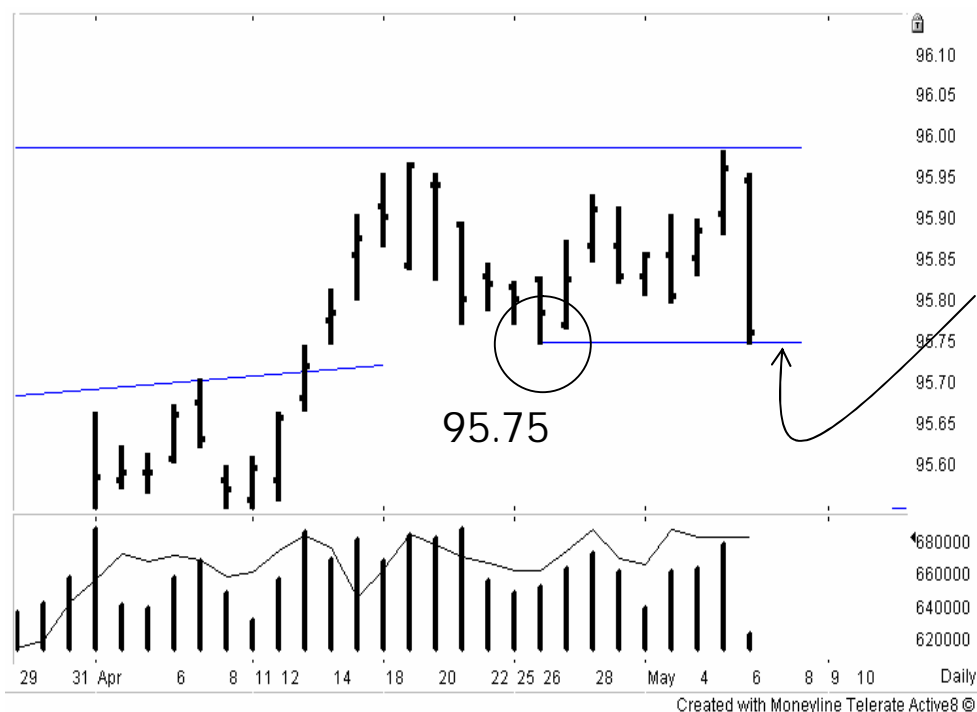
WEEKLY JUN 2006  
FUTURES CHART:  
The massive  
consolidation over the  
last two years shows no  
signs of breaking out.



#### DAILY JUN 2006 FUTURES CHART:

But the market has failed twice at the horizontal resistance from the low at 95.99.

Note that the market's reversal was achieved by the completion of a small Head and shoulders bottom



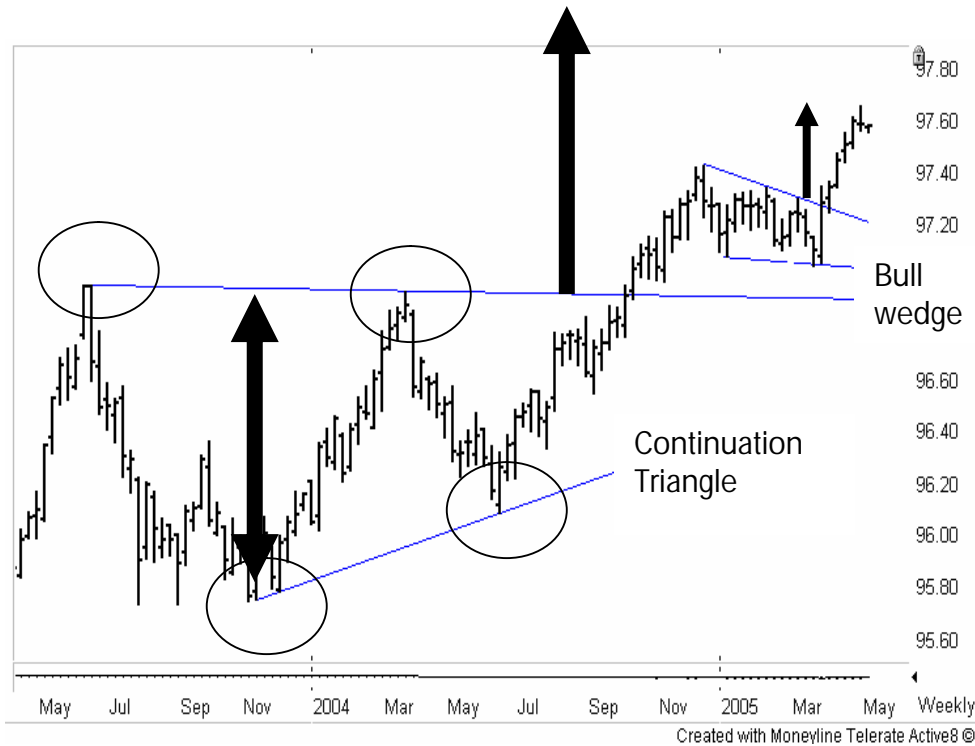
#### DAILY JUNE 06 FUTURES CHART:

Nonetheless, traders should wait for a breakdown through the horizontal from the near low at 95.75 before looking to trade on the short side.

AS I argued last week, cautious bulls should wait for a break through the twin highs at 95.99 before adding on.

[Return to Contents](#)

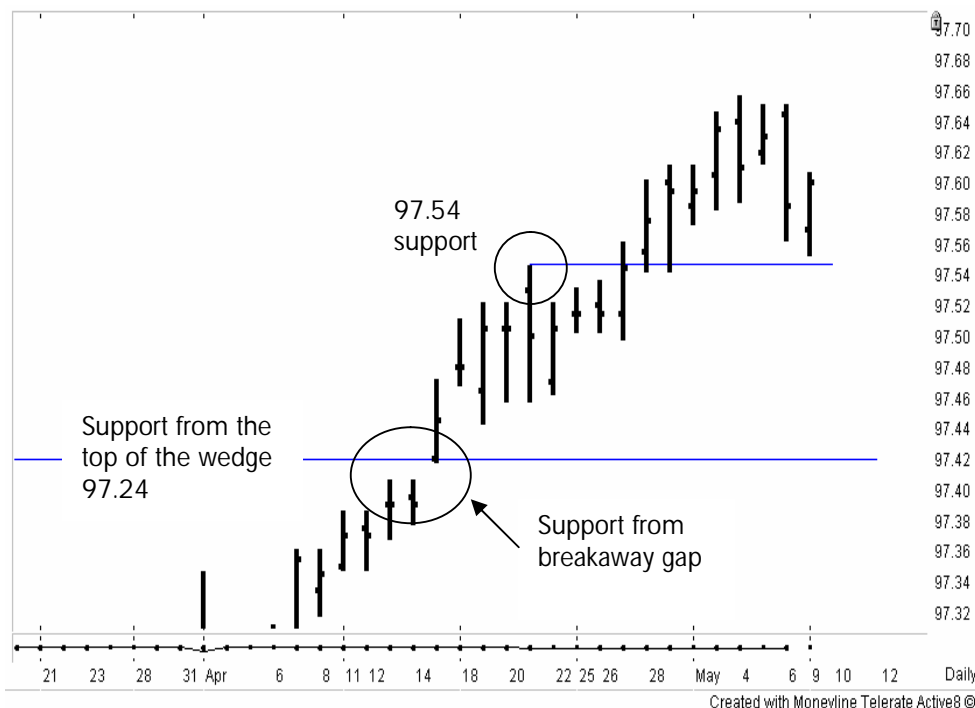
# Euribor Rates



WEEKLY JUNE 06  
FUTURES CHART:  
The long standing bull  
market – sustained by

- (1) the massive bull  
Continuation  
Pattern (calling  
the market up  
to 98.14  
minimum)
- (2) The  
Continuation  
Triangle or Bull  
Falling Wedge.

Though extended,  
the market is well  
set.



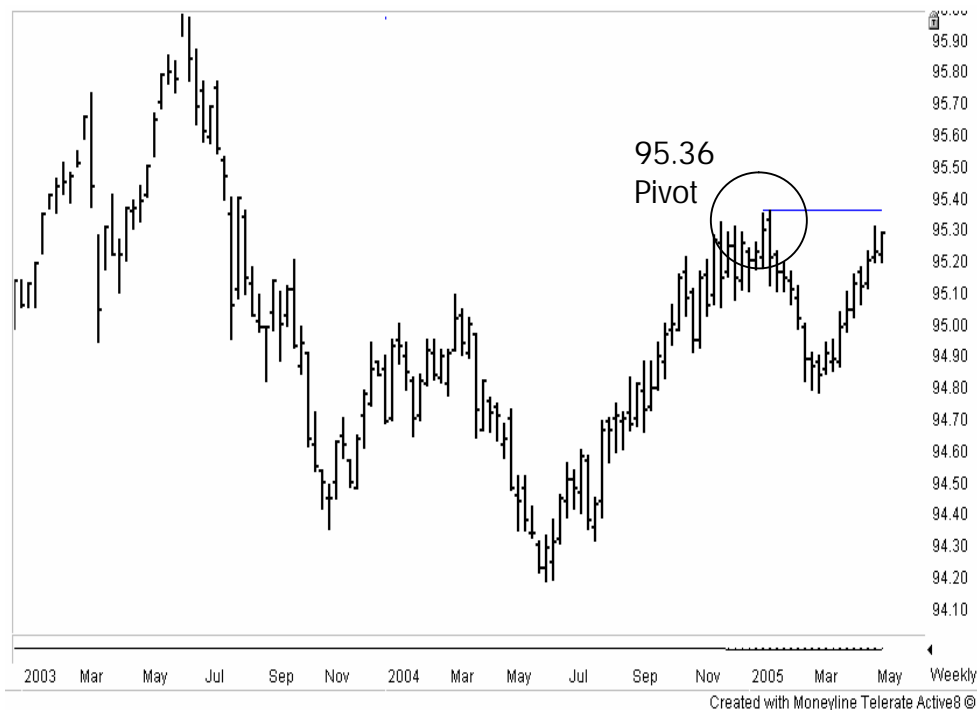
DAILY JUNE 06  
FUTURES CHART:  
The recent pause and  
pull back should be  
watched to see how the  
support from the near  
high at 97.54 holds.

Beneath that the critical  
support lies at the  
horizontal from the top  
of the Wedge at 97.24.

But so bullish is the  
wider context that a  
substantial pull-back  
seems unlikely.

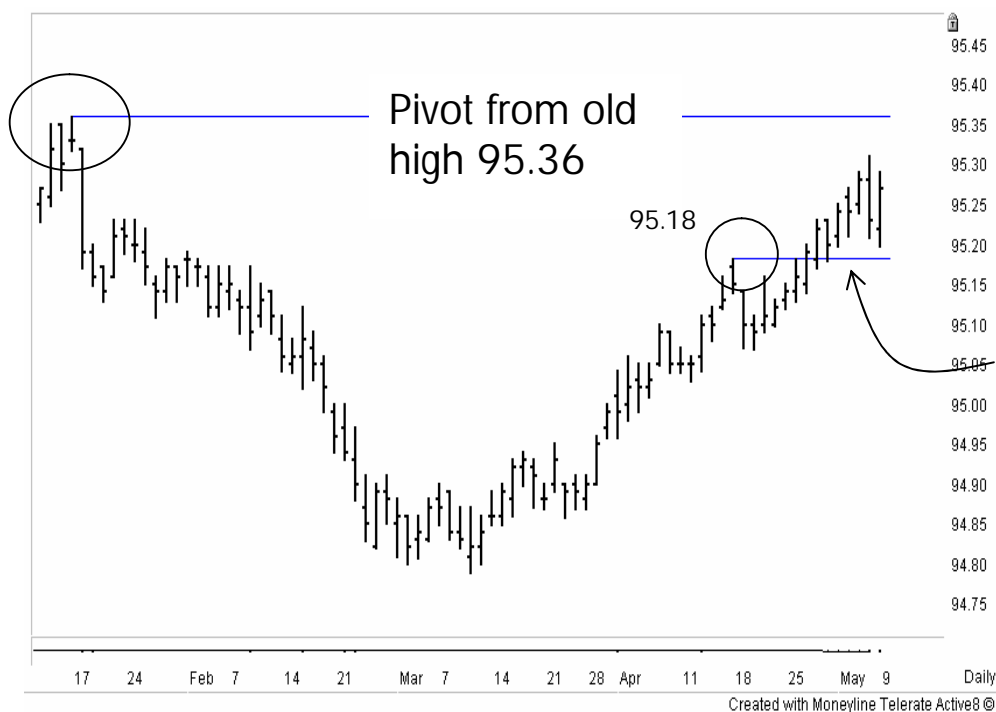
[Return to Contents](#)

# Sterling Rates



WEEKLY JUN 06  
FUTURES CHART:  
I have been explaining  
for some weeks past  
that the long-term chart  
lacks a clear structure.

But the recent approach  
to the old high at 95.36  
is important – that is a  
powerful Pivot.



DAILY JUNE 06  
FUTURES CHART:  
The market has had a  
steady - almost  
featureless trend rise  
from the beginning of  
March.

On any set-back the first  
support lies at the  
horizontal from the high  
at 95.18.

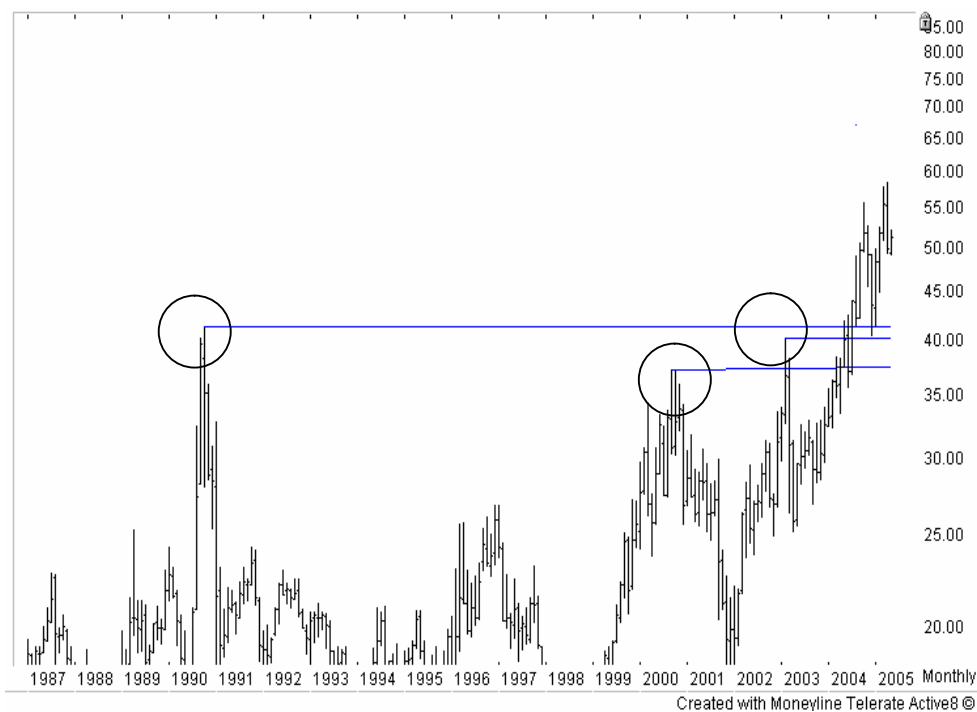
Bulls should look to buy  
close to that support or  
wait for a break of the  
horizontal Pivot at 95.36  
a break of which should  
give great added  
impetus.

[Return to Contents](#)

# Commodities

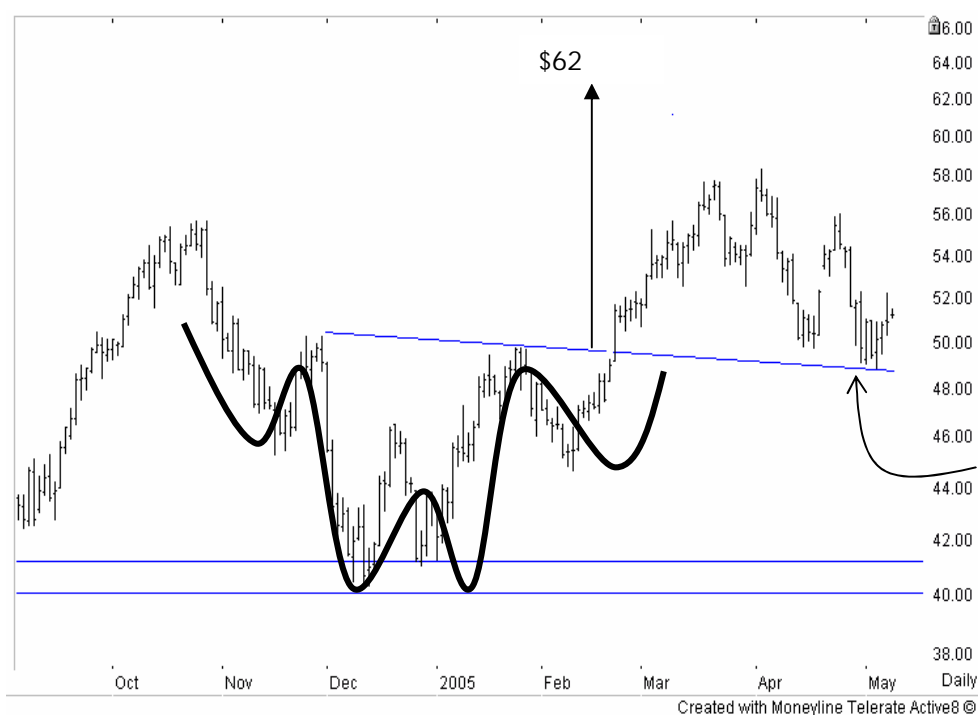
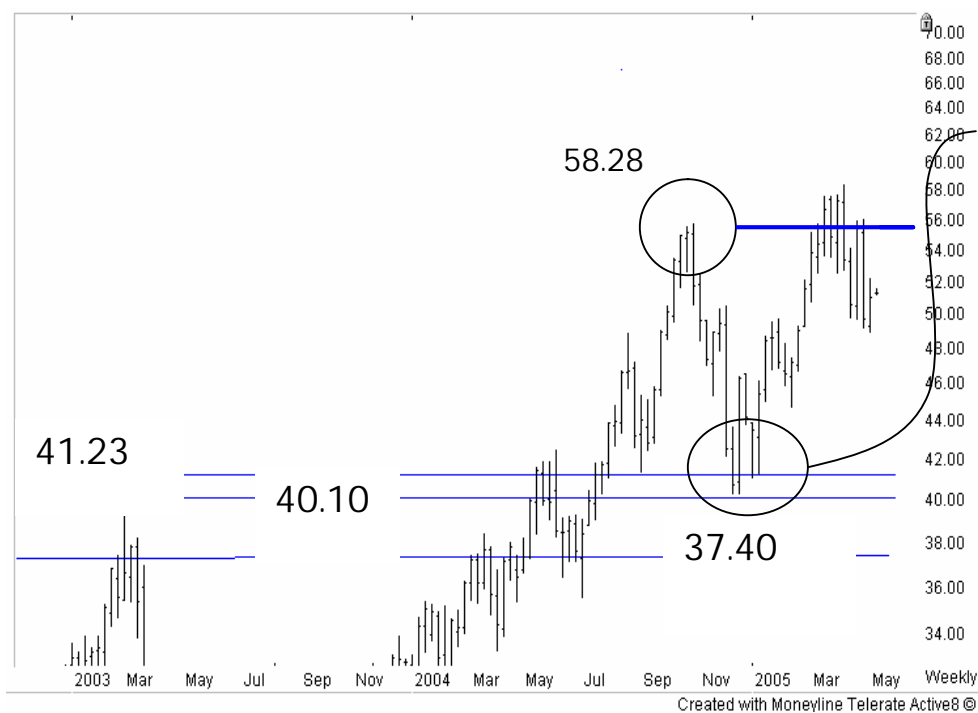
The bounce in Oil prices has further endorsed the bull structures we have been discussing over the last few weeks. Gold remains without direction – short term.

## Oil



### MONTHLY SPOT CASH CHART:

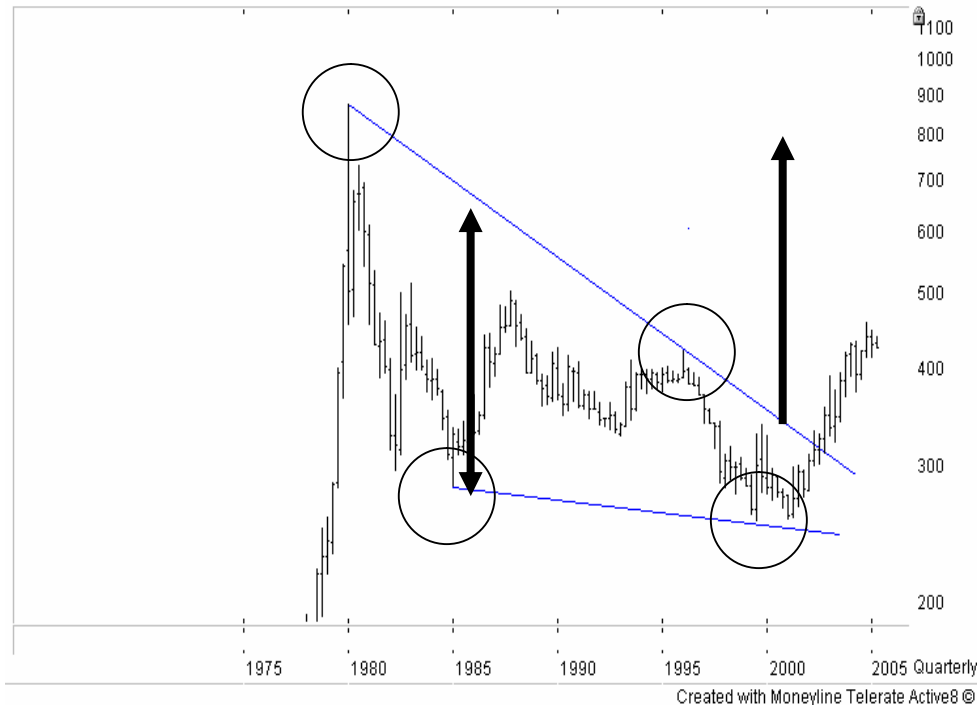
The very long term chart is unambiguous: the market has a floor at the \$40 level due to the coincidence of old Highs there.



[Return to Contents](#)



# Gold



**QUARTERLY SPOT CASH CHART:**  
This massively bullish Continuation Triangle suggests a move up as far as 794.

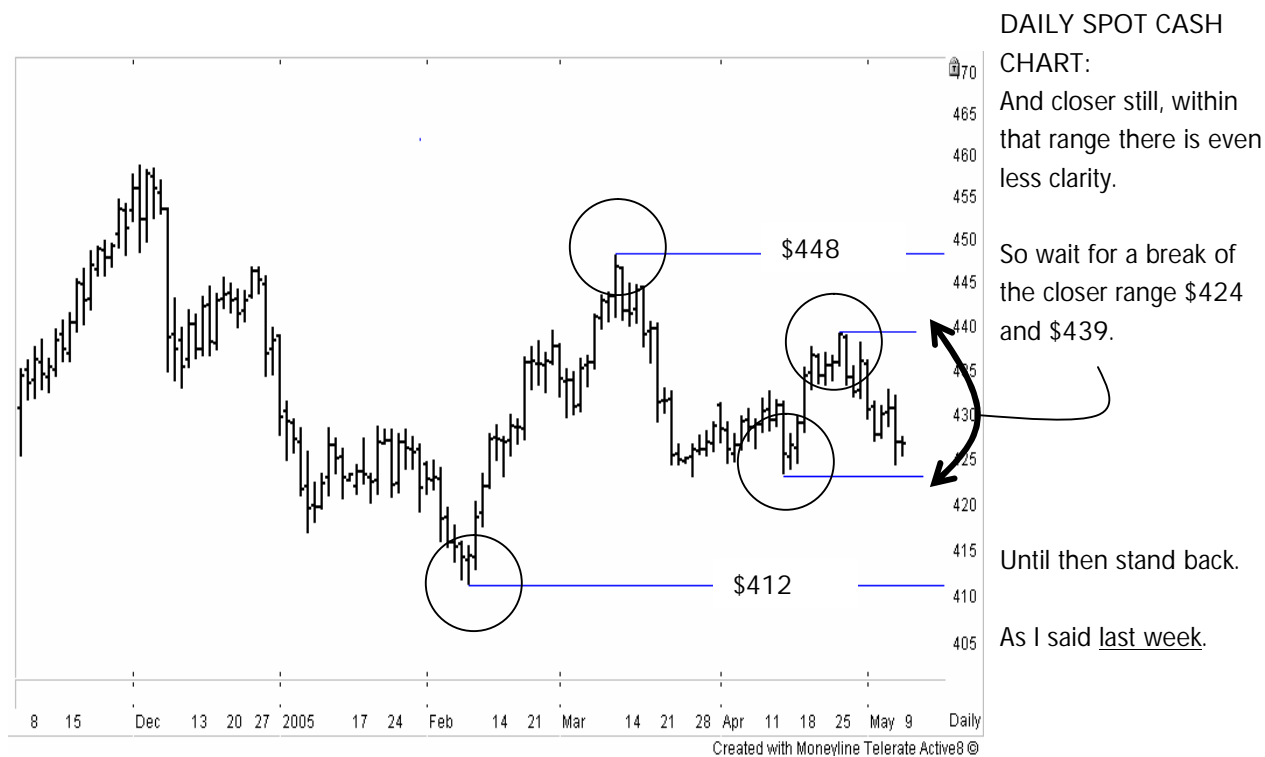
But its very long term!



**WEEKLY SPOT CASH CHART:**  
IN general the bull trend has been rather featureless.

But recently, there's been a pause in the bull run from December 2004 ...it may turn out to be a Triangle – the structure's unclear.

Stand back for the moment wait for a break of the range.



[Return to Contents](#)