

WEEK 51 20<sup>th</sup> – 29<sup>th</sup> December 2005

# A TECHNICAL TRADER'S GUIDE TO MAJOR MARKETS

MARK STURDY



## LINKS

### CURRENCIES

03 DOLLAR EURO

05 DOLLAR STERLING

07 DOLLAR YEN

08 STERLING EURO

Stay **SQUARE** but look for a break beneath 1.1904

Stay **SQUARE**

Stay **SQUARE** but look to buy as 114 support nears

Remain **SQUARE**

### STOCKS

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13 EUROPEAN DJ STOXX 50

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18 NIKKEI 225

Stay **LONG** above 1262 (Mar 06) and buy again above 1283

Stay **LONG** above 3488 (Mar06)

**SQUARE** wait for a break of 5590

Go **LONG** with close stops around the Gap support at 15010-15190

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Stay **SQUARE**

Stay **SQUARE**

Stay **SHORT** and add on a break of 135.38

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Remain **SHORT** add on break of 9501

Stay **SQUARE** and wait for a break of the low at 96.89

Stay **SQUARE**

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Stay **LONG** while \$98.25 holds

Remain **SQUARE** but go **LONG** on further weakness towards \$486

## 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.

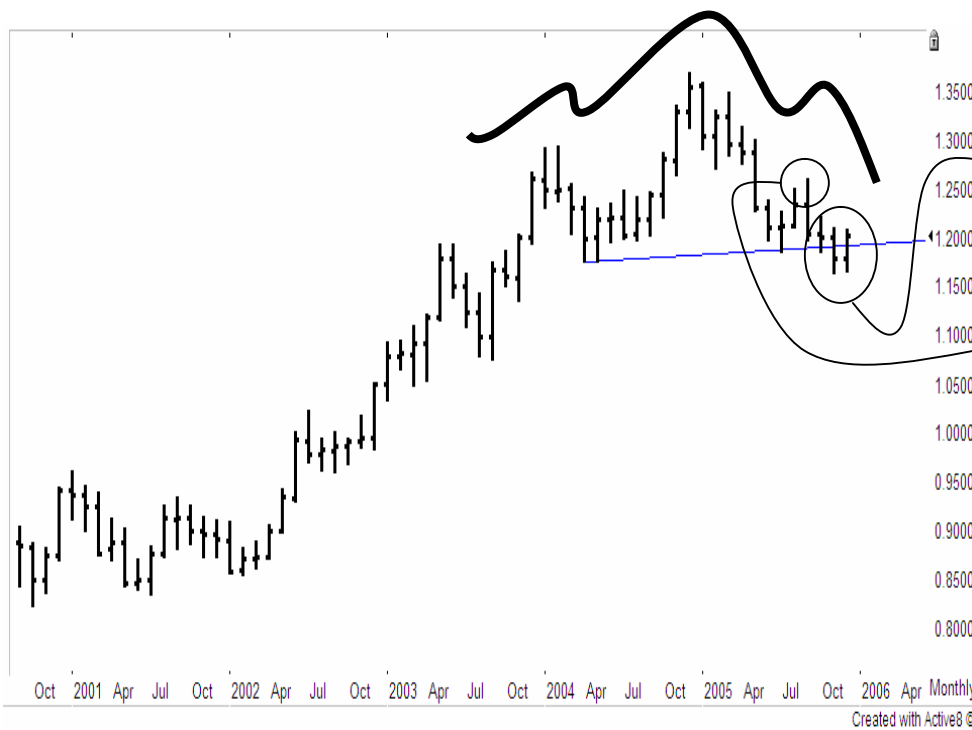
Since then he has worked extensively as a consultant technical analyst for a number of large private investors, banks and Hedge Funds.

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

# Currencies

The market has been volatile. Seasonal considerations have allowed speculators more room to push and look for stops to trigger. The result has been a successful bear attack on the Dollar that has smashed some big chart levels. But, viewed coolly, there is no evidence of a major sea change. But the volatility will remain.

## Dollar Euro

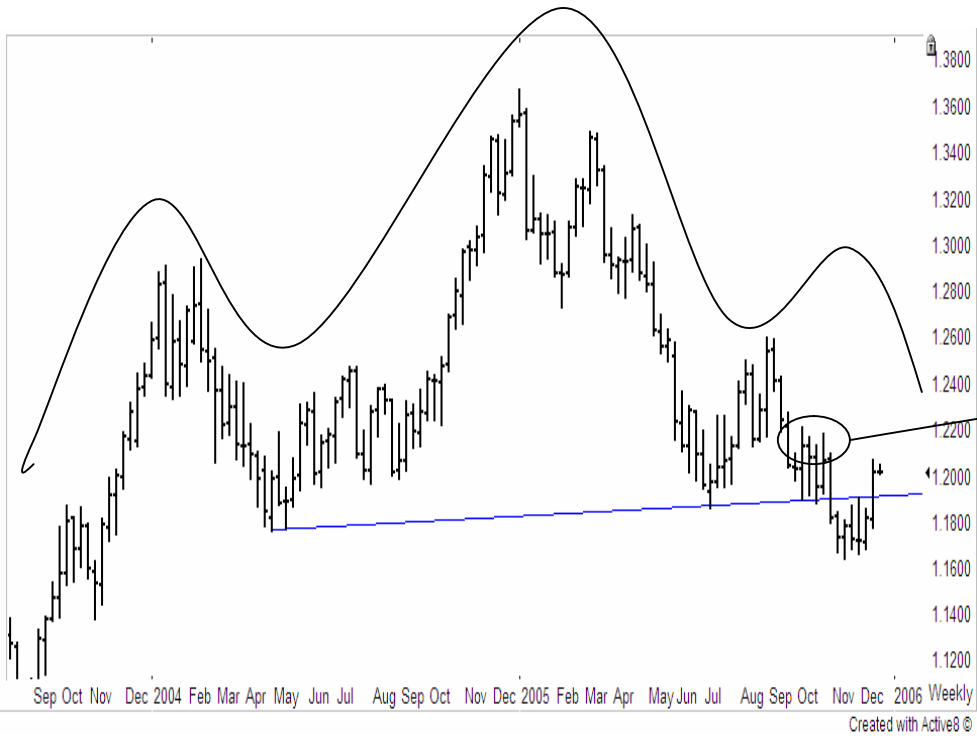


MONTHLY SPOT CASH CHART:

The market has pulled back though the Neckline resistance.

Classically, the pattern remains intact until the height of the second shoulder at 1.2590 is overcome.

But as ever with the re-penetration of powerful resistance, doubts will eat at the Dollar bulls' confidence.

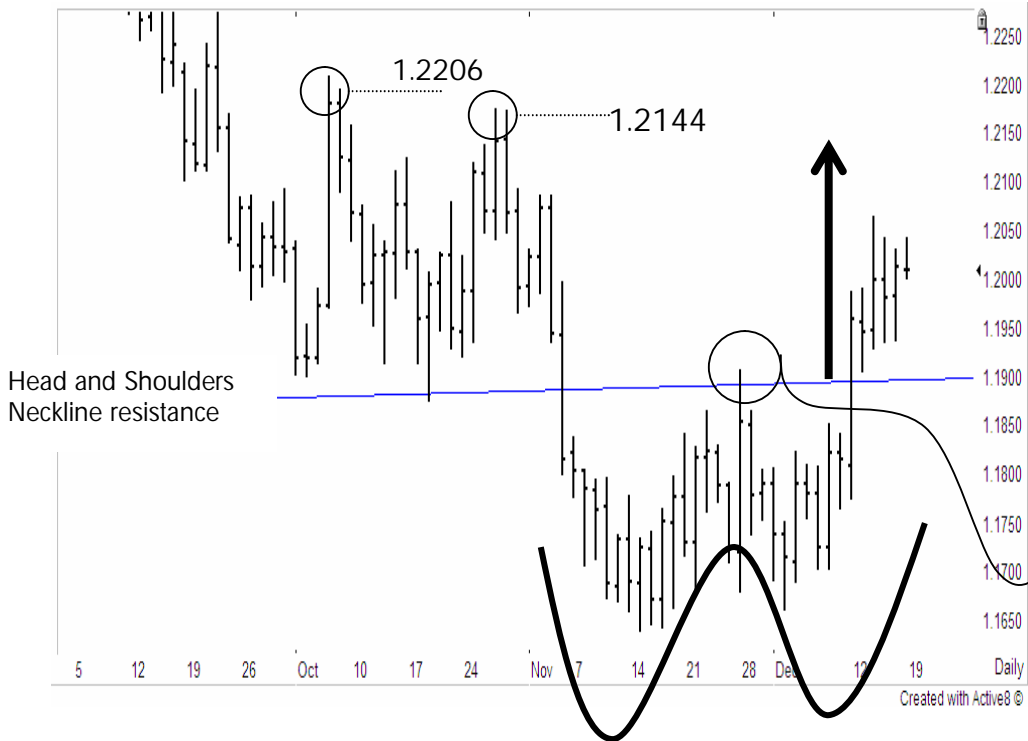


**WEEKLY SPOT CASH CHART:**

The scale of the pattern should re-assure the Dollar bulls – the degree of penetration is so far small.

Last week, we wrote in our Market Update that a move through the near highs around 1.22 would ring alarm bells short term alarm bells.

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DAILY SPOT CASH CHART:  
And we then also pointed out the creation of a small Double Bottom beneath the Neckline which may be the catalyst for a further move up.

The measured target for that pattern is just about the 1.22 level.

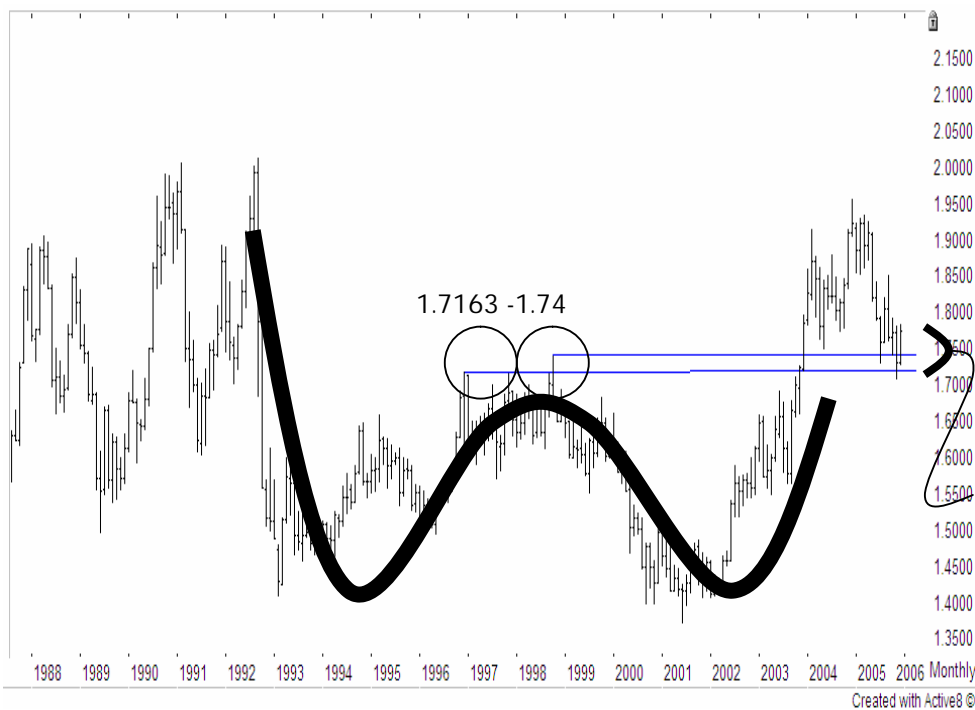
And short-term support is supplied by the completion level of the Double Bottom at the high at 1.1904.

Last week the market was beneath the resistance. When it broke up through 1.19 we went neutral, though the long term bull Dollar pattern remained intact.

That was because of the Double Bottom. It is too soon to sell the Euro – there may be higher levels, or better still, lower levels with greater certainty.

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# Dollar Sterling

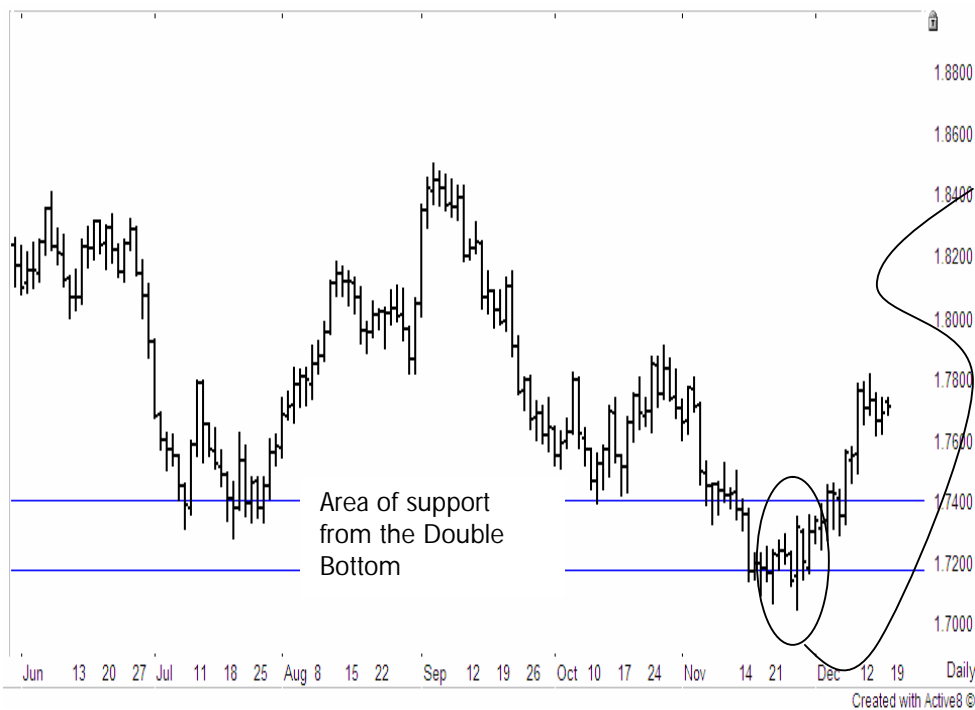


MONTHLY SPOT CASH CHART:

The market ruling pattern remains the large Double Bottom that has formed over the last thirteen years.

The Completion level of that Reversal pattern drawn from the highs at 1.7163 and 1.74 looks to be good support.

Now look closer.



DAILY SPOT CASH CHART:

The area of support from the prior highs has held, the crucial piece of price action being the creation of a Key Reversal at the very low.

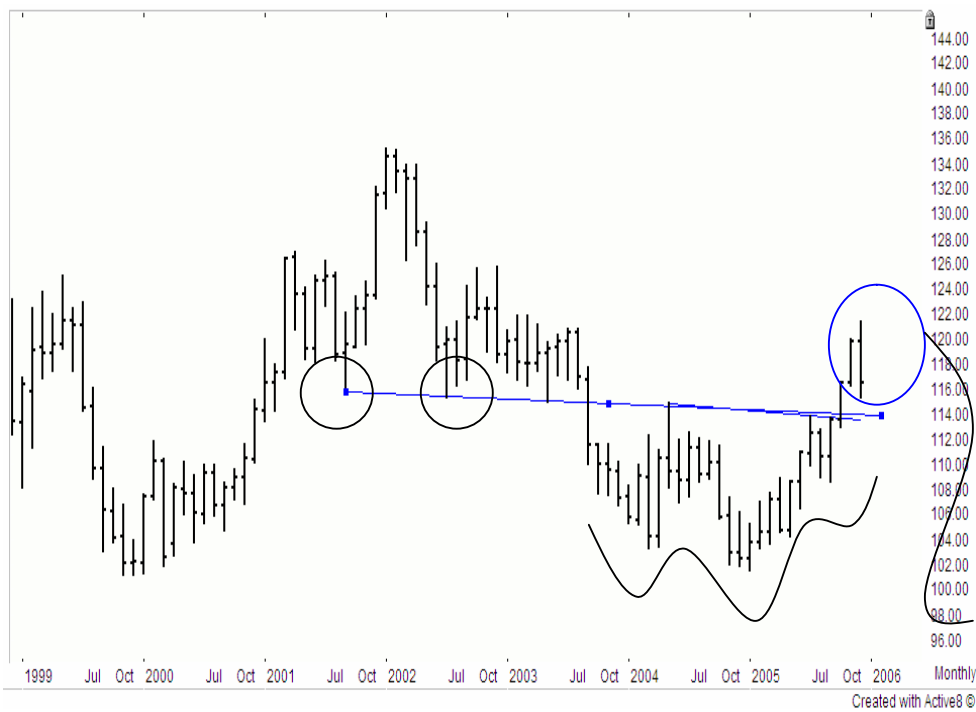
That sparked off the rally from the end of November.

But there are no more substantial bull structures in place yet.

So we await more price action to establish a shorter term springboard for the bulls.

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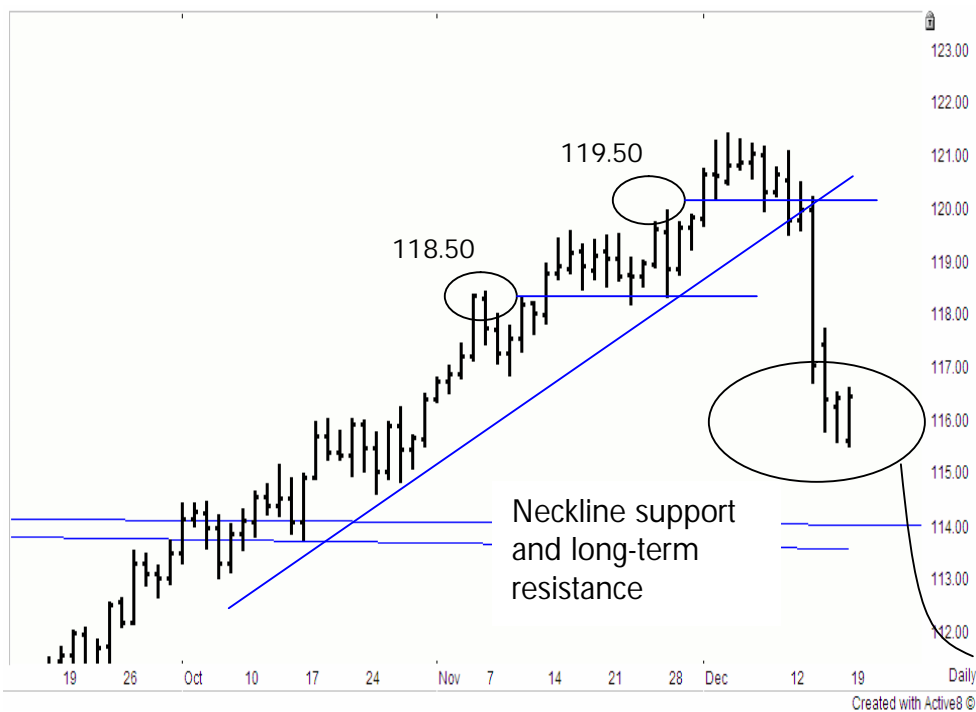
# Dollar Yen



MONTHLY SPOT CASH CHART:

The break up through the resistance from the past lows plus the completion of a clear Head and Should Bottom led to an explosive bull move over the last three months.

In that context, the swift retracement back towards the Neckline has been an unexceptional reaction.



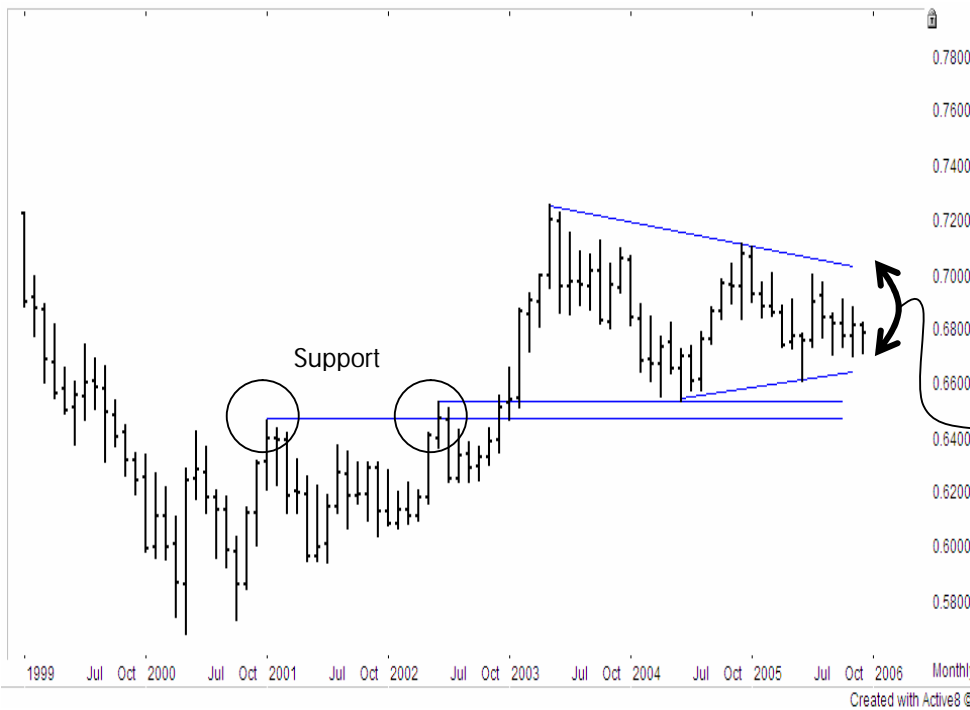
DAILY SPOT CASH CHART:

Last week we pinpointed the levels 119.60 and 118.50.

They have both been smashed – the trend as well.

The volatility dictates smaller positions but from a position of neutrality – anywhere beneath this area must be good buying levels for the Dollar against the Yen.

# Sterling Euro







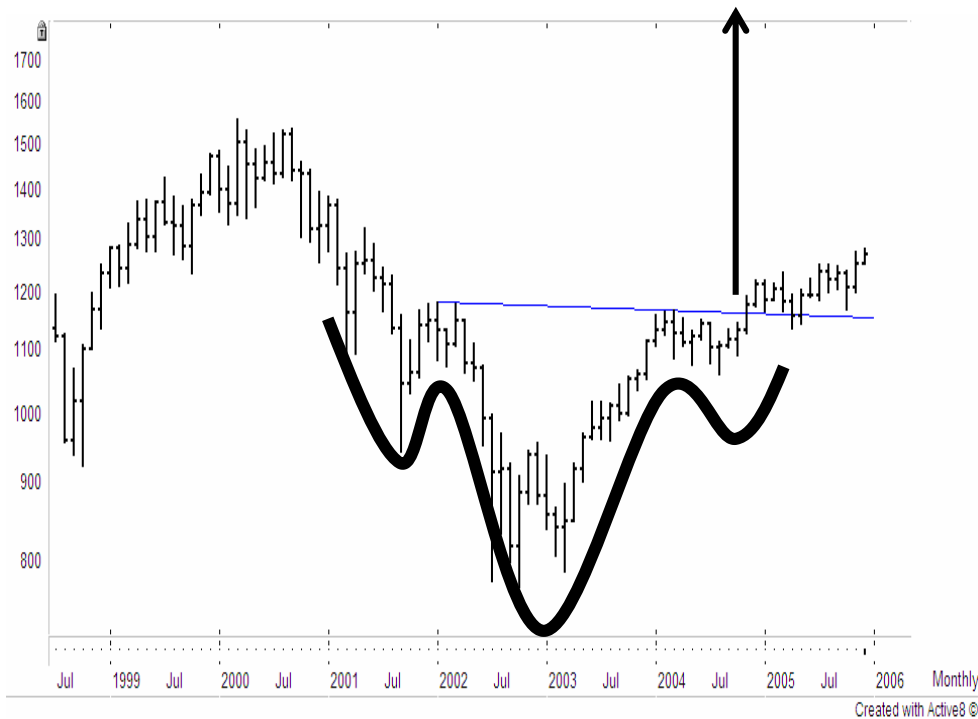
DAILY SPOT CASH  
 CHART:  
 Watch in the first place  
 for a break of the short-  
 term range 0.57 to  
 0.5850.  
Stay square.

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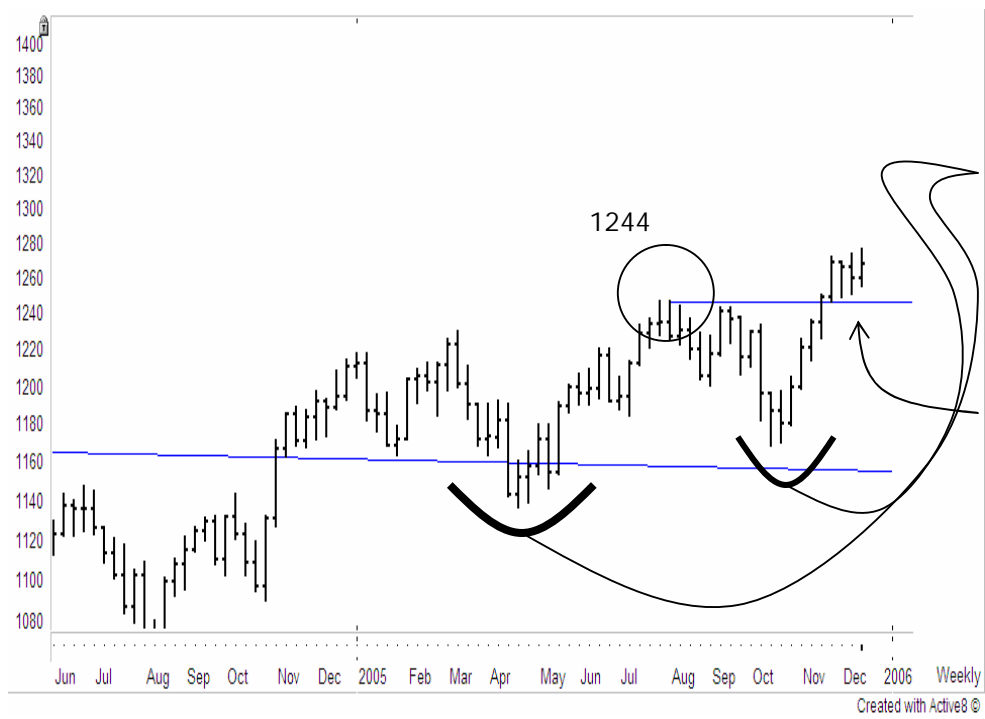
# Stocks

Last week we thought the market was poised for bullish price action, and that proved largely true. The US and Europe have been solidly bullish; the Nikkei too, initially, and then it wobbled. It has the most extended bull run and may now be feeling the need to consolidate its gains. The FTSE remains lagging. Where there are clear levels beneath the markets to protect profits, long positions must still be right. But the Nikkei has some vulnerability, if only short term.

## Standard and Poors 500



**MONTHLY CASH INDEX CHART:**  
The long view is bullish because of a powerful Head and Shoulders Bottom that has competed and is set to drive the market up as far as 1750 – in the very long-term.

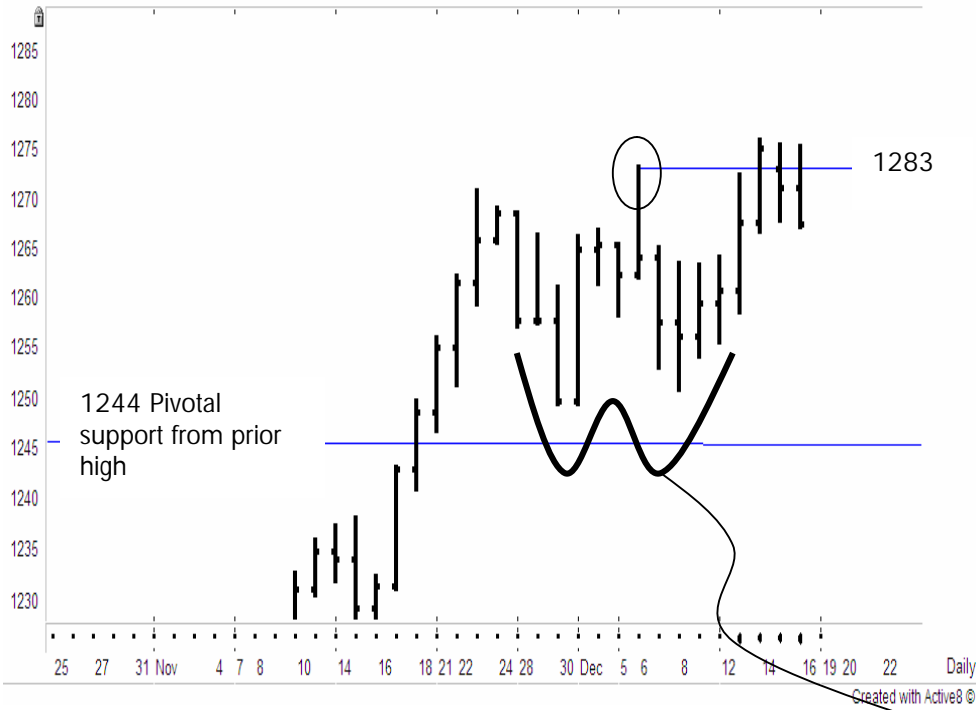


WEEKLY CASH INDEX CHART:

The market has found good support at the Neckline around 1160.

But more exciting still for the bulls, it has recently broken out of it's year low range with a push through 1244.

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**DAILY CASH INDEX CHART:**

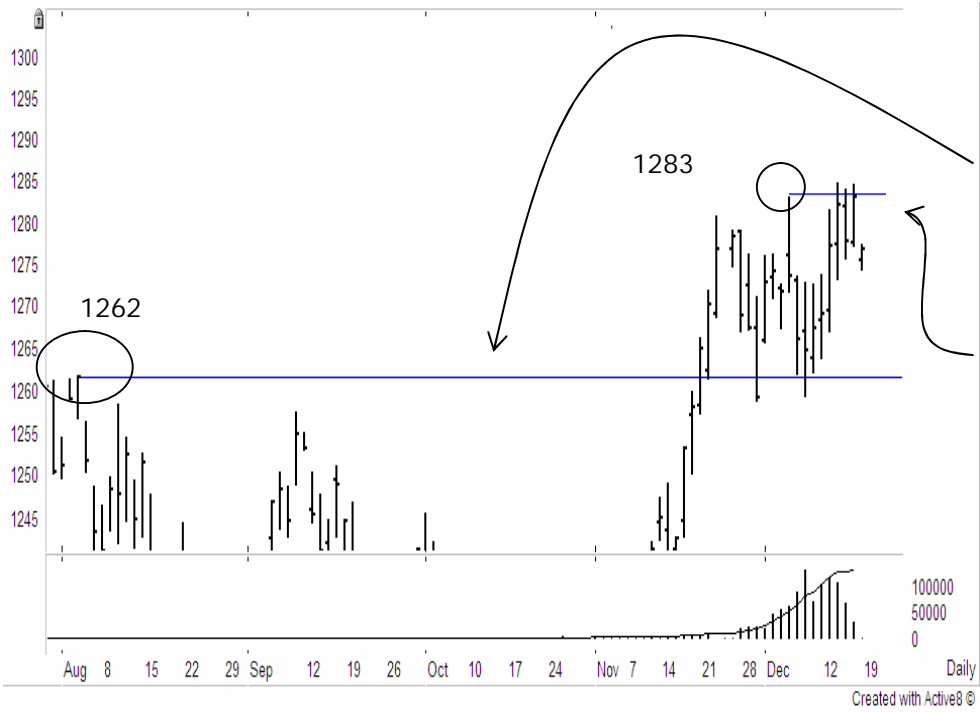
That break up is very important and may start the next leg of the bull move implied by the powerful very long term H&S pattern.

The day chart shows how the market has consolidated above the old high at 1244 (which is of course now good support).

Moreover, there is a possible small Double Bottom which looks to have formed.

That will complete on a confirmed close through the high at 1283.

The market is clearly hesitating before that break can be established... watch closely for that trigger to buy again.



DAILY MARCH 06  
FUTURES CHART:  
In the futures chart,  
1262 is the medium  
term support, and the  
critical short term  
break out level (completion  
of the Double Bottom) is  
1283.

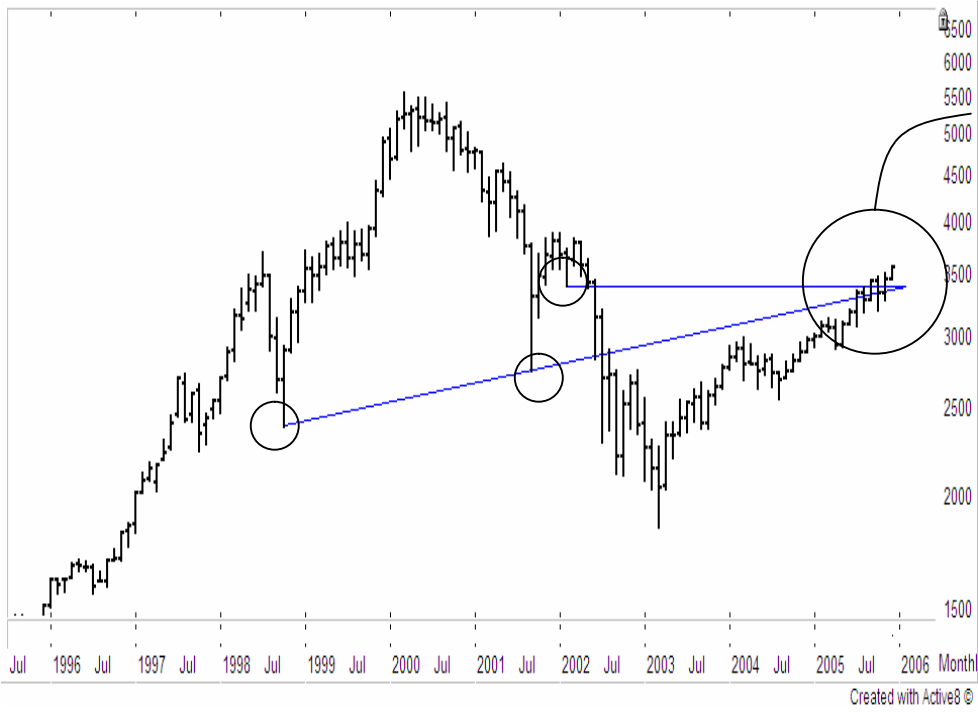
Last week the market  
was teetering at 1262.  
We then argued that  
bulls should stay relaxed  
since the logical stop  
loss was so close.

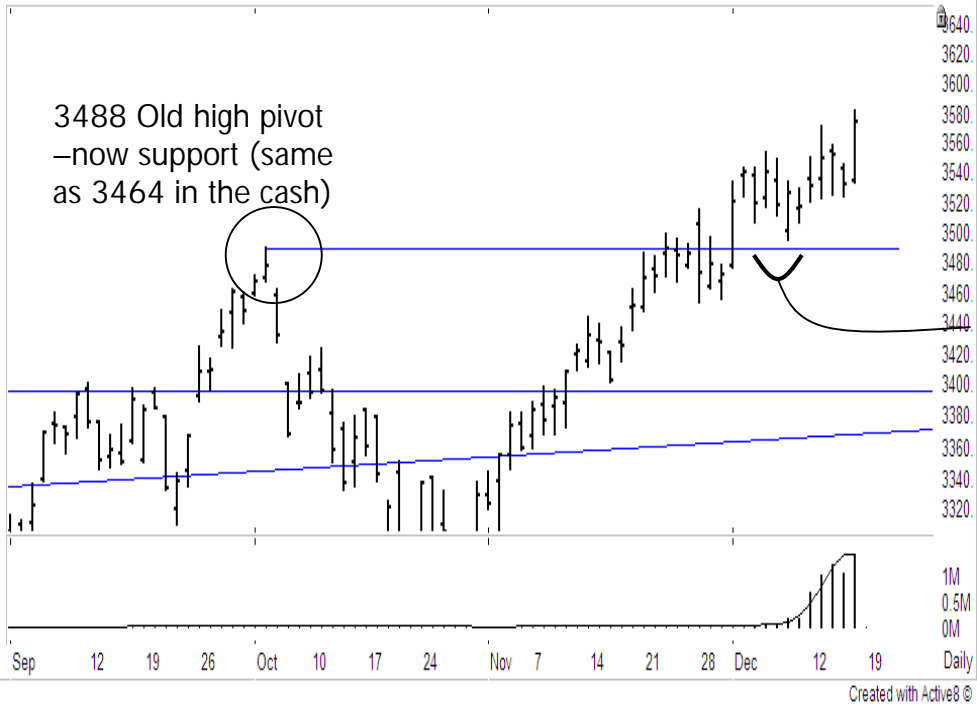
That was right. The  
market bounced.

Now add on a break of  
1283.

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# European Dow Jones Stoxx 50





DAILY MAR06  
FUTURES INDEX  
CHART:

We thought last week's lower level was a good buying level and it was.

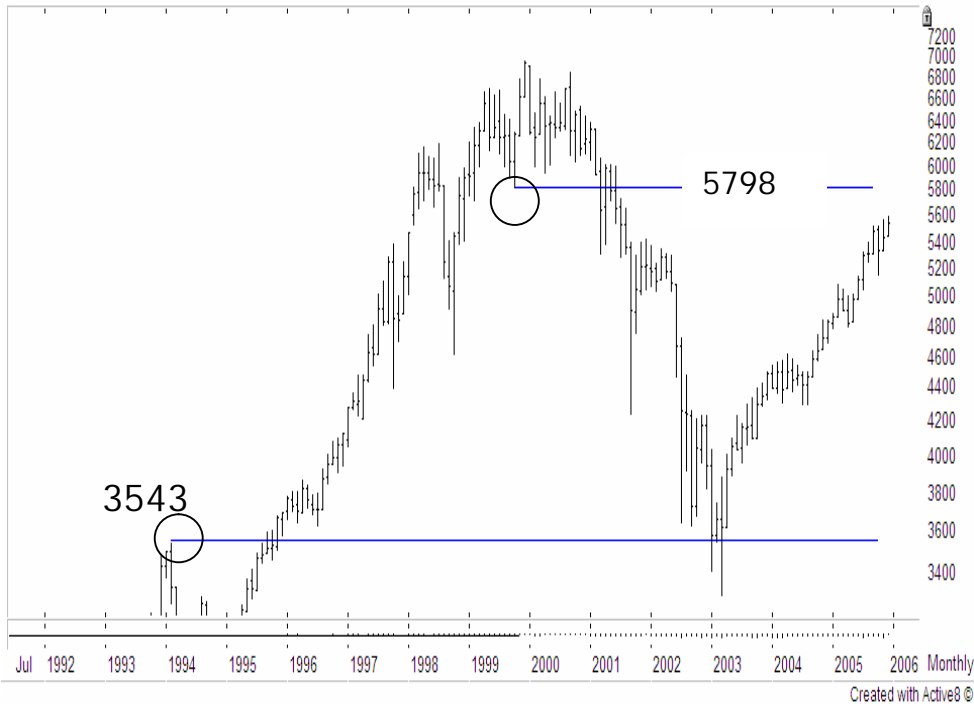
The market paused before the breakthrough and then retraced to test the strength of the support at the old high at 3488.

It is well-set.

Buy now and on a set-back, add on as close to the prior high at 3488 as possible with a stop beneath.

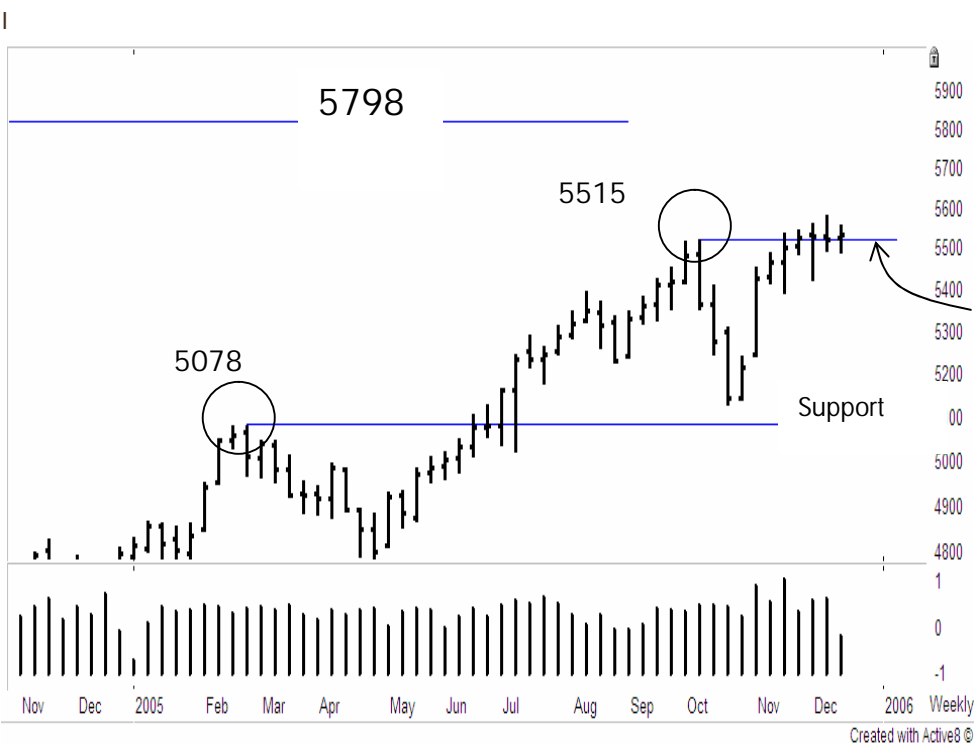
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# FTSE 100



**MONTHLY CASH INDEX CHART:**  
The market has bounced hard from the support at 3543.

The resistance above at the horizontal from 5798 is approaching though...



**WEEKLY CASH INDEX CHART:**

The market remains bullish for the time being, however.

The critical trigger for the next move is a convincing close above the near high at 5515.





DAILY MAR06 INDEX  
FUTURES CHART:

That hesitation in much greater detail (in the futures market)

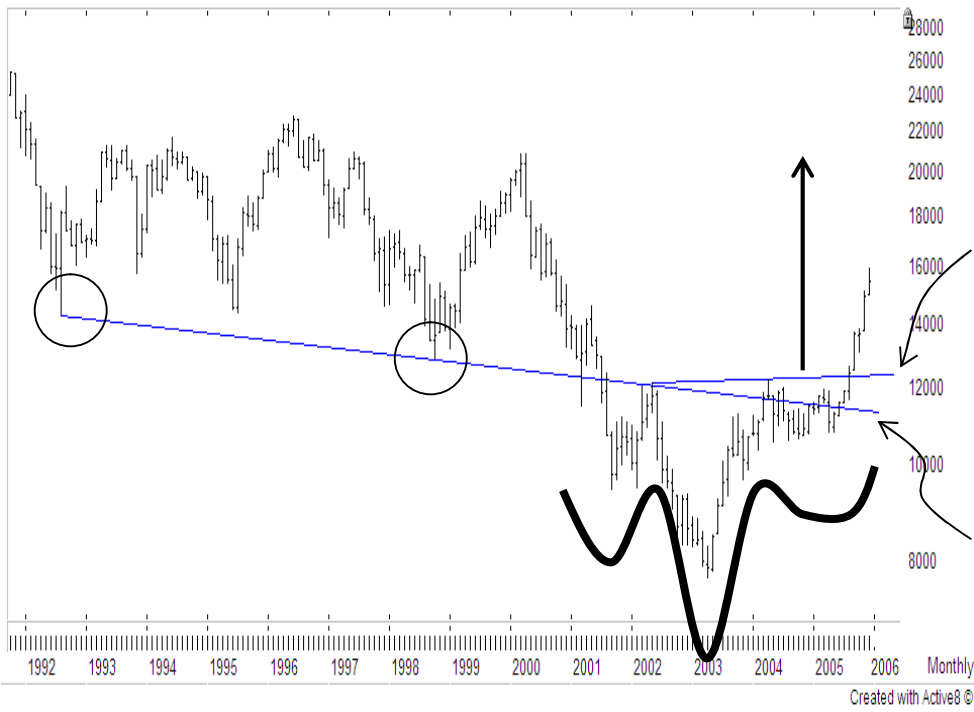
There are no clear patterns forming – but we suggest waiting for a clear break up through the near high at 5590 before joining the bulls.

Watch the low at 5440, a pull-back through that would be a heavy defeat for the bulls.

As for the last three weeks, wait for the break.

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# Nikkei 225

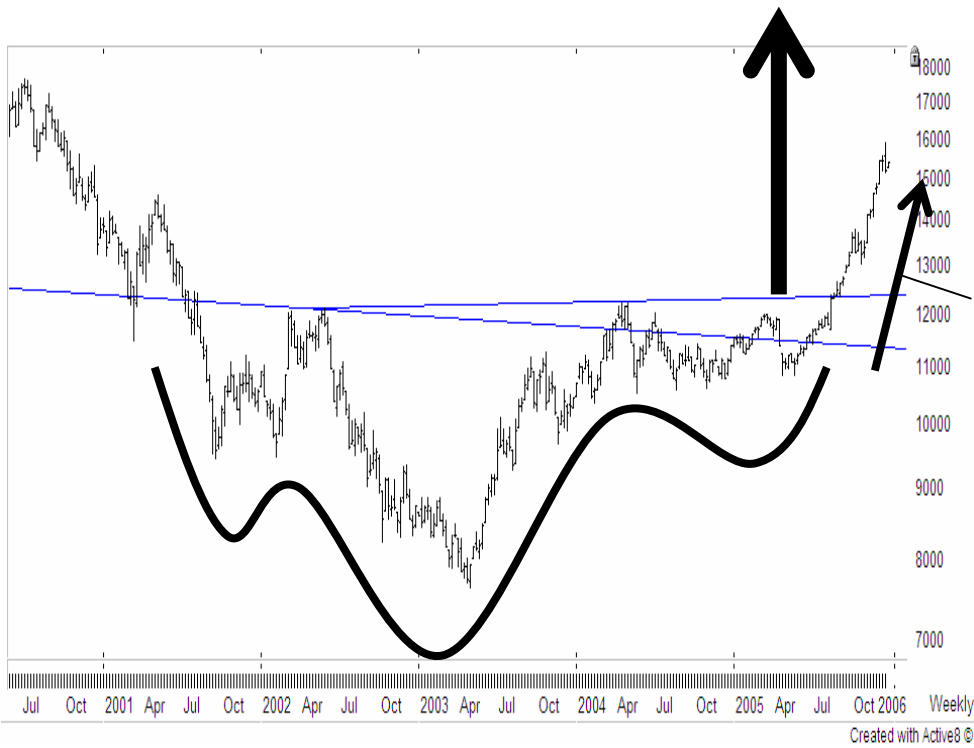


MONTHLY CASH INDEX CHART:  
The long chart continues to fascinate.

The completion of the Head and Shoulders Reversal pattern (targeting 1950) are powerful bull influences.

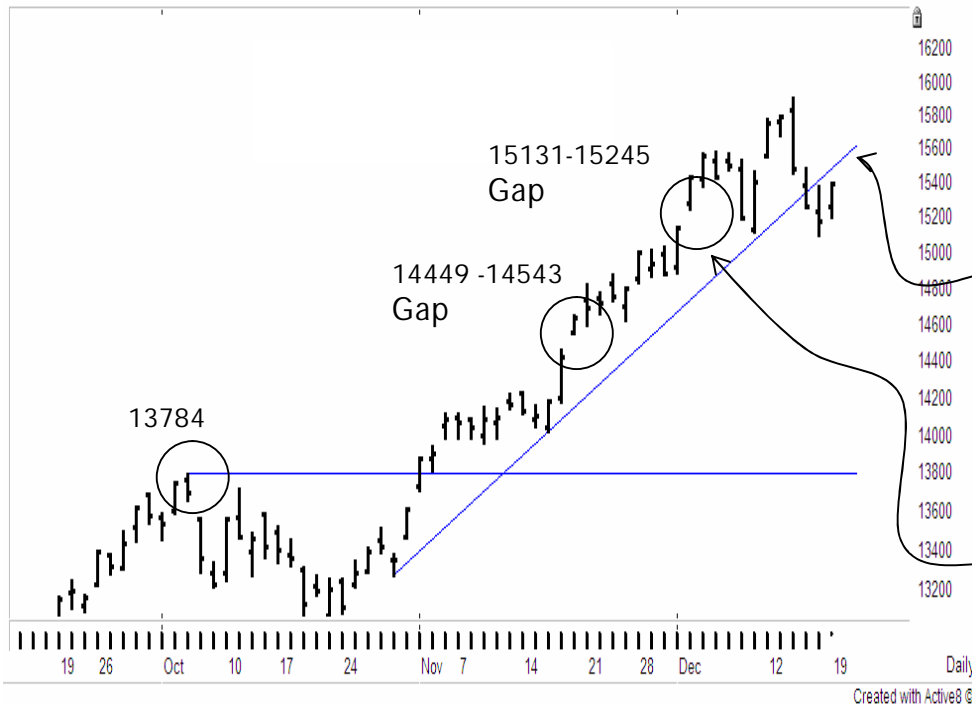
plus

the breakthrough the resistance from the lows in 1992 and 1998



WEEKLY CASH INDEX CHART:

There is a lot further to go, certainly, but the lack of hesitation or hint of retracement in the bull trend from the beginning of 2005 is extraordinary.



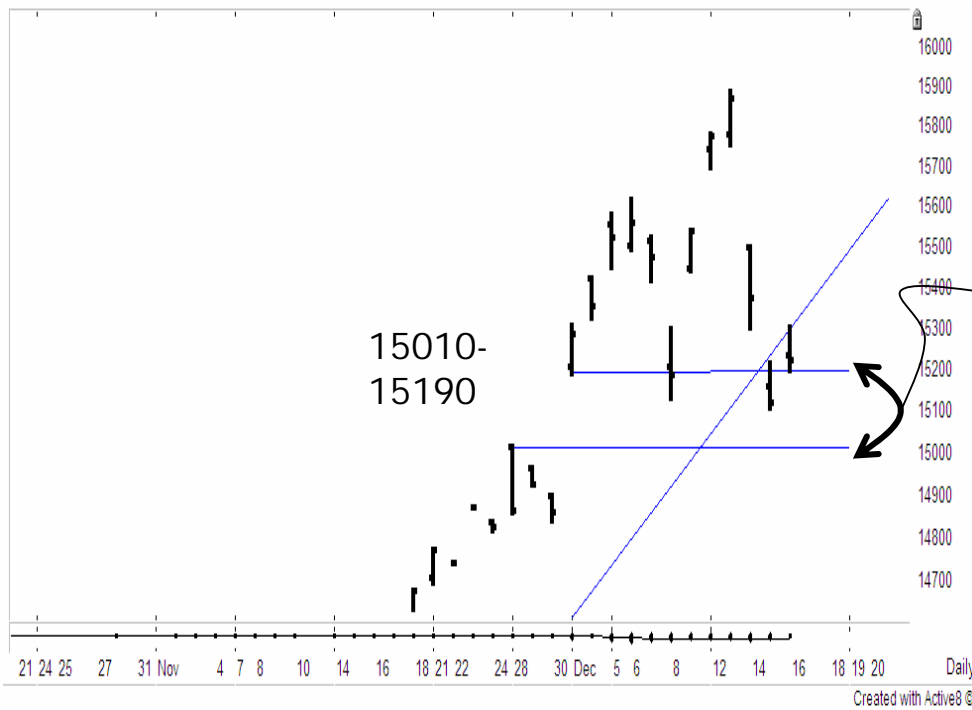
DAILY CASH INDEX CHART:

The day chart shows the most recent leg of that bull trend.

Last week we pointed out the critical levels which included the well-established trend line support.

That has now broken.

The market is sitting on good Gap support. Look closer.



WEEKLY MARCH 06 INDEX FUTURES CHART:

The Futures market is even clearer: watch for a break of the Gap support – especially if a second shoulder were to form....

Last week we had the first test of the Gap support now we have the second.

This may be a good level to buy with a close stop, but the more cautious may stand back a little longer with such an extended bull trend. More consolidation may be needed before the next leg gets going.

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# Bonds

Uncertainty remains the key feature of the bond markets. We like the bearishness of the Japanese market but have chosen to remain on the sidelines of the US and European markets.

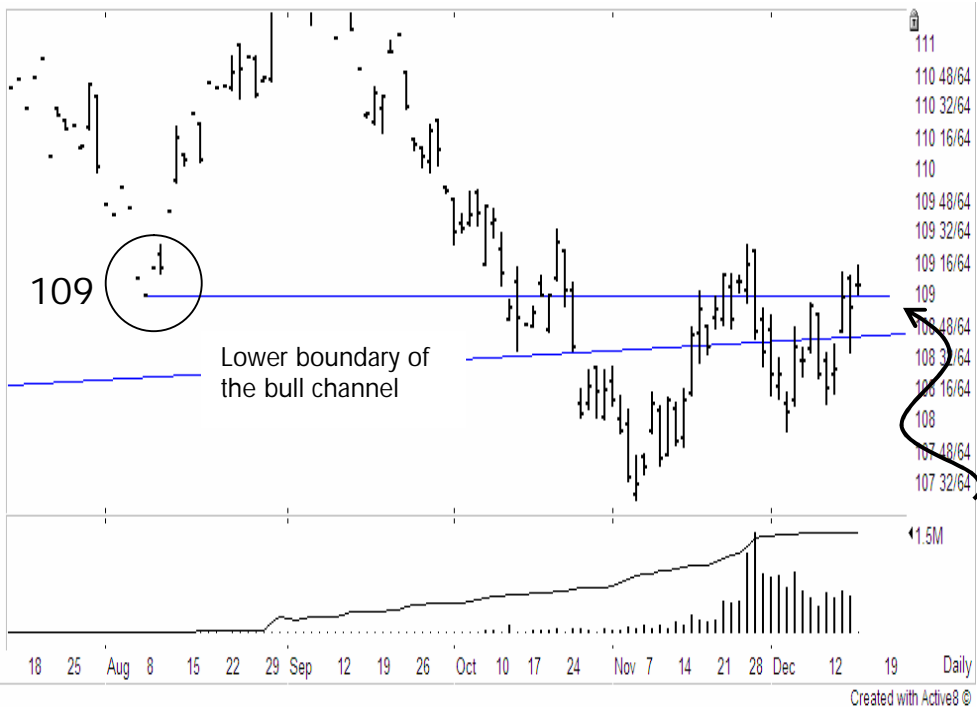
## Ten Years US Treasury Note



WEEKLY CASH YIELD CHART:  
The market has fallen back within the bear channel....



WEEKLY FUTURES CONTINUATION CHART:  
And the futures continuation chart reveals much the same story.



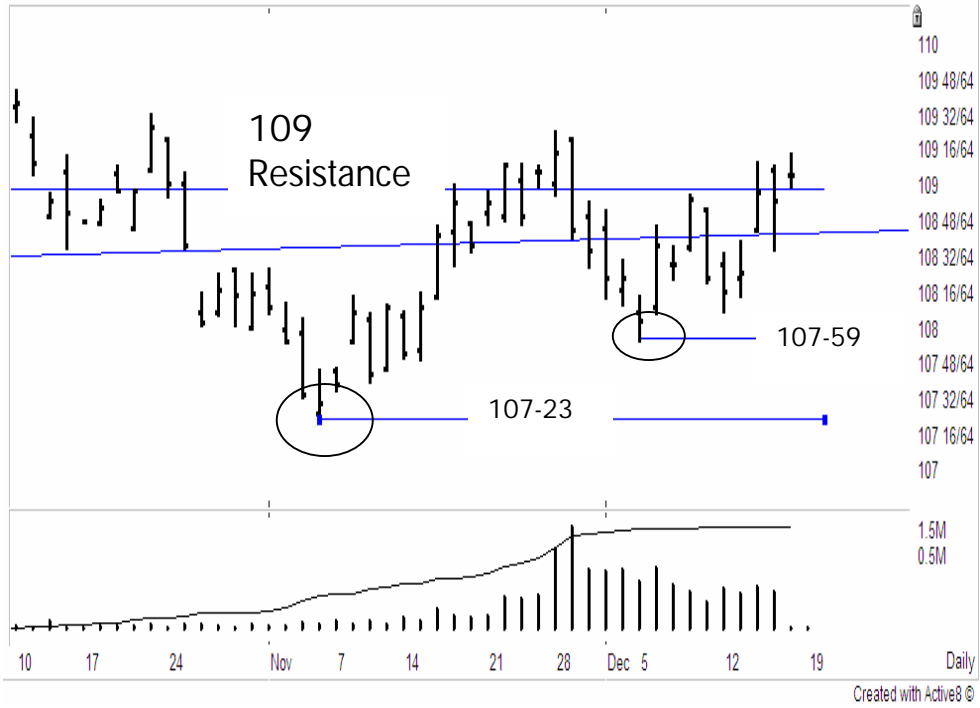
DAILY MAR 06 FUTURES CHART:  
Here then is the essential short-term detail: the market is trading around the lower boundary of the larger bull channel (shown in the Continuation Futures chart)

The critical level on the upside is the horizontal resistance from the low at 109.

Look closer.

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Created with Active8 ©

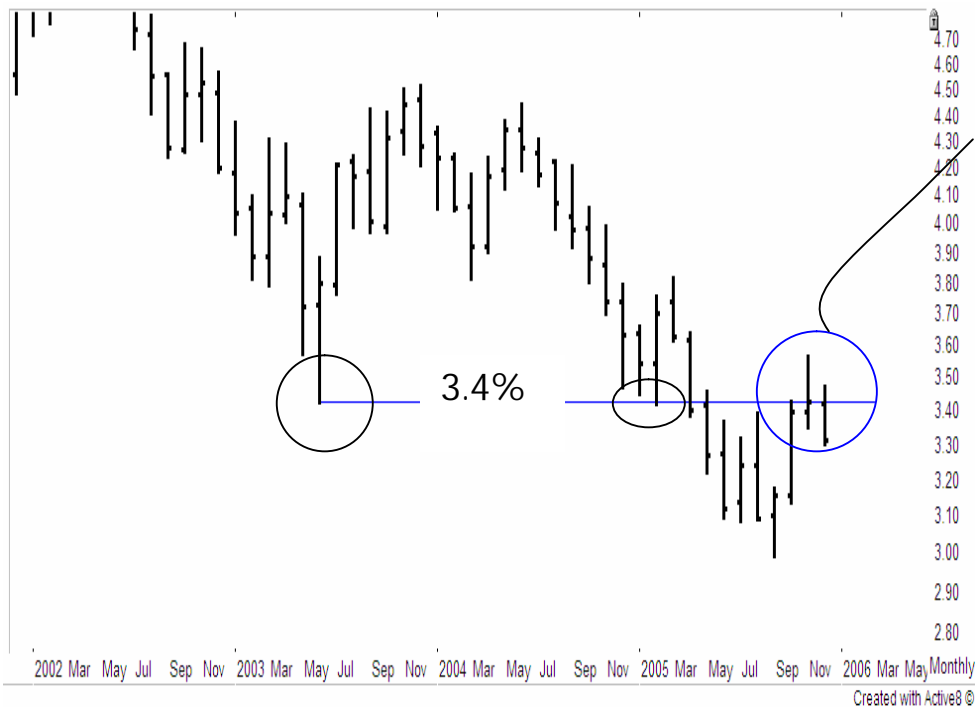


DAILY MAR06  
FUTURES CHART:  
We argued last week  
that bears should wait  
for the market to break  
the lower levels before  
selling – that was right -  
it then bounced.

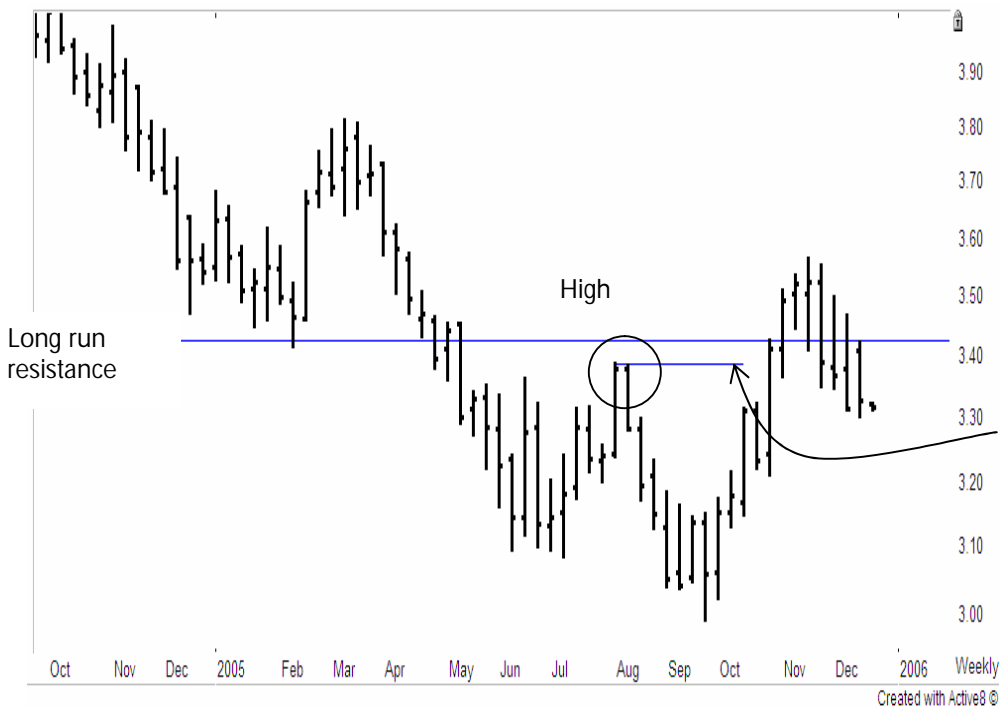
Continue to stand back  
for clarity.

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# Ten Year Euro Bund



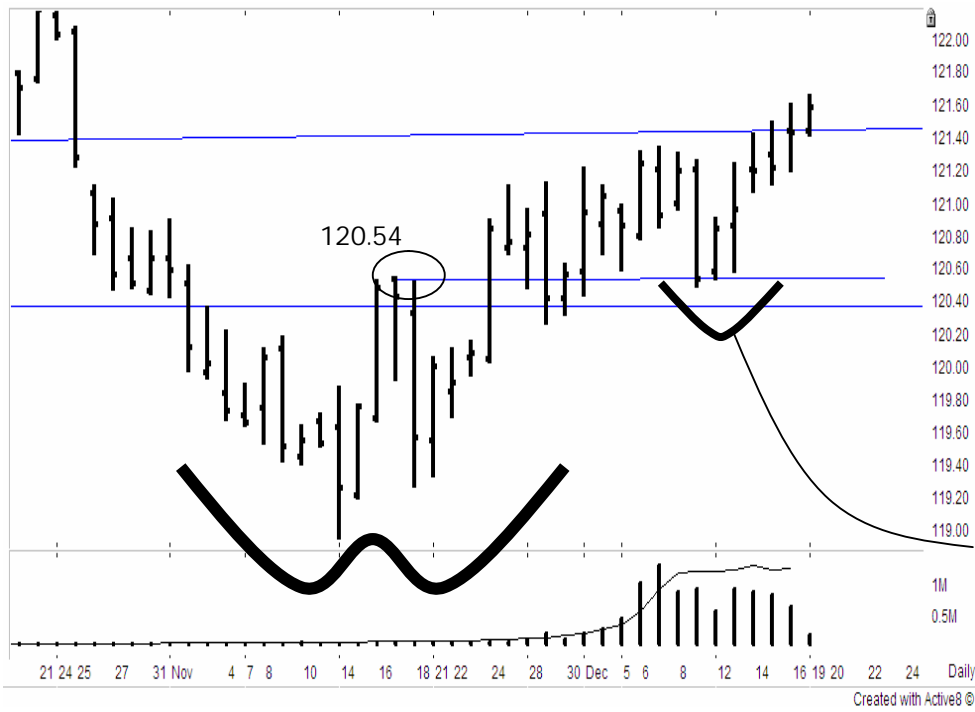
MONTHLY CASH YIELD CHART:  
 Long term yield chart shows a pull-back to the powerful resistance at 3.4% ,  
 An attempt to penetrate...  
 And after failed to close above it, an abject retreat from the attempt to achieve higher yields.



WEEKLY CASH YIELD CHART: That story of the market from the middle of September is shown here in greater detail.  
 Last week we wondered whether the market would find some support at the high at the completion level of the Double Bottom at –  
 But there was none. The market pulled back through it easily.







DAILY CASH YIELD CHART:  
Added to that was the almost simultaneous completion of a Double Bottom – not large, but sufficient to drive the market over 122 at least.

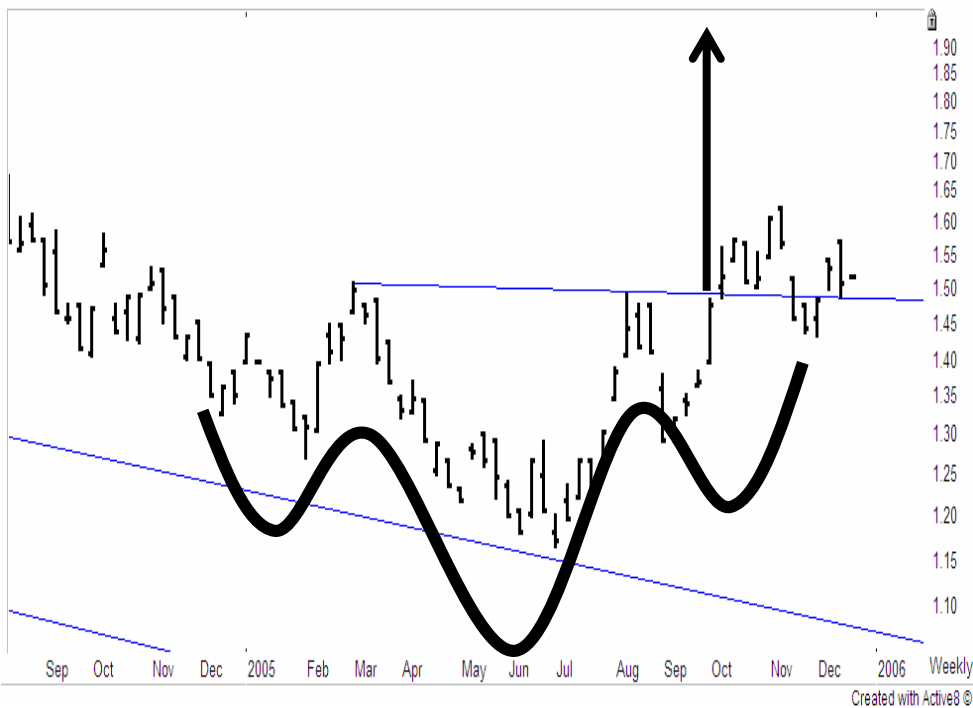
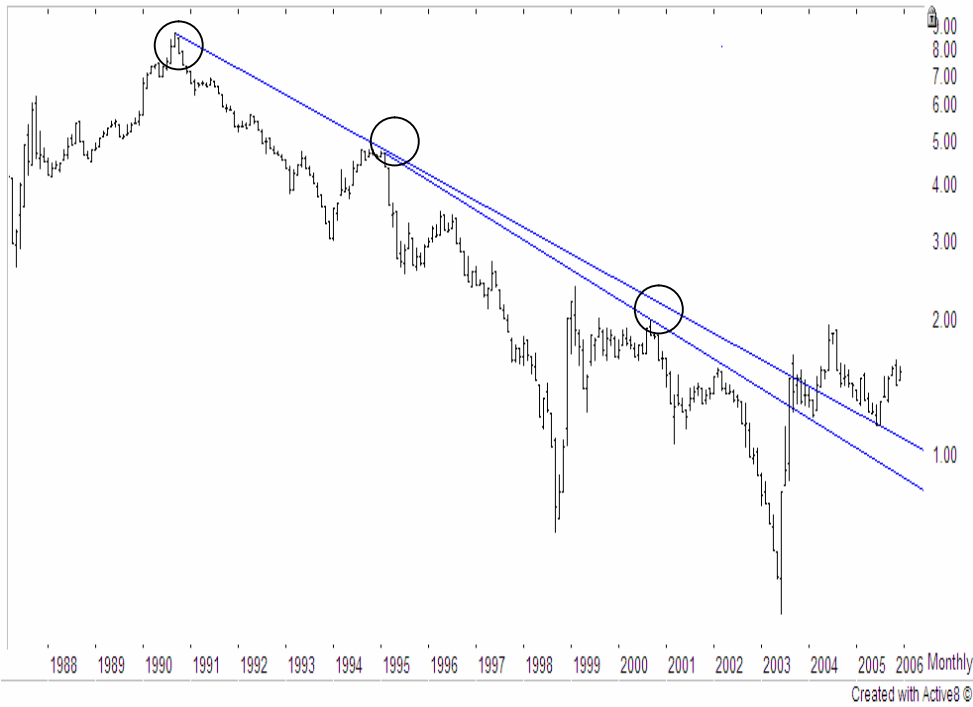
We suggested last week that dealers should watch carefully the market reaction to the horizontal support of the Double bottom at 120.54.

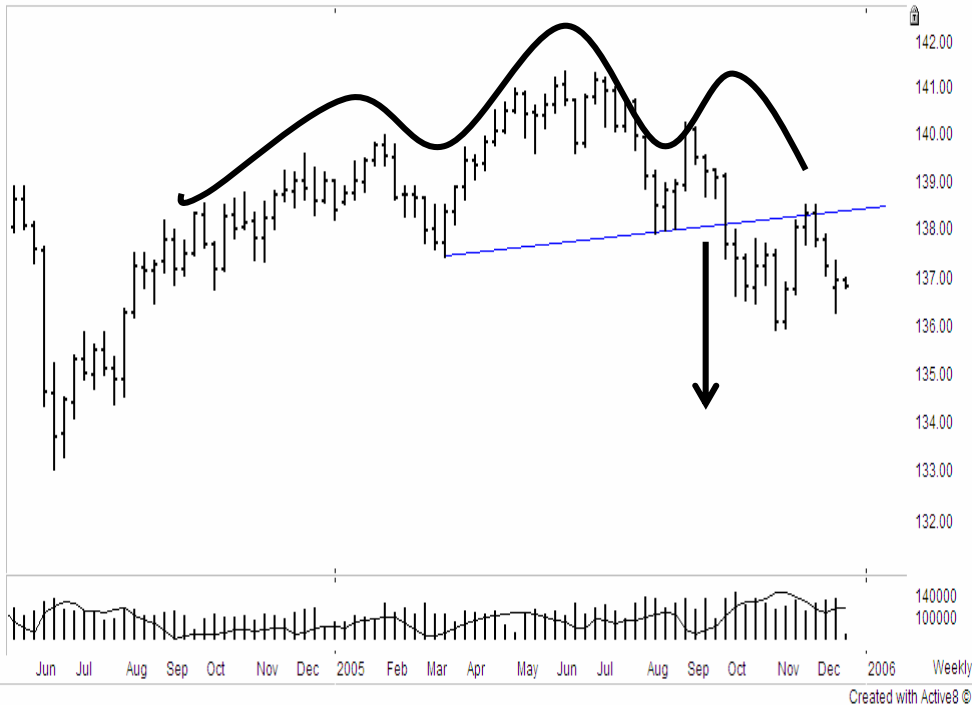
That was right. It proved powerful support.

There is some evidence of a renewed bull market – but remain standing back for clarification.

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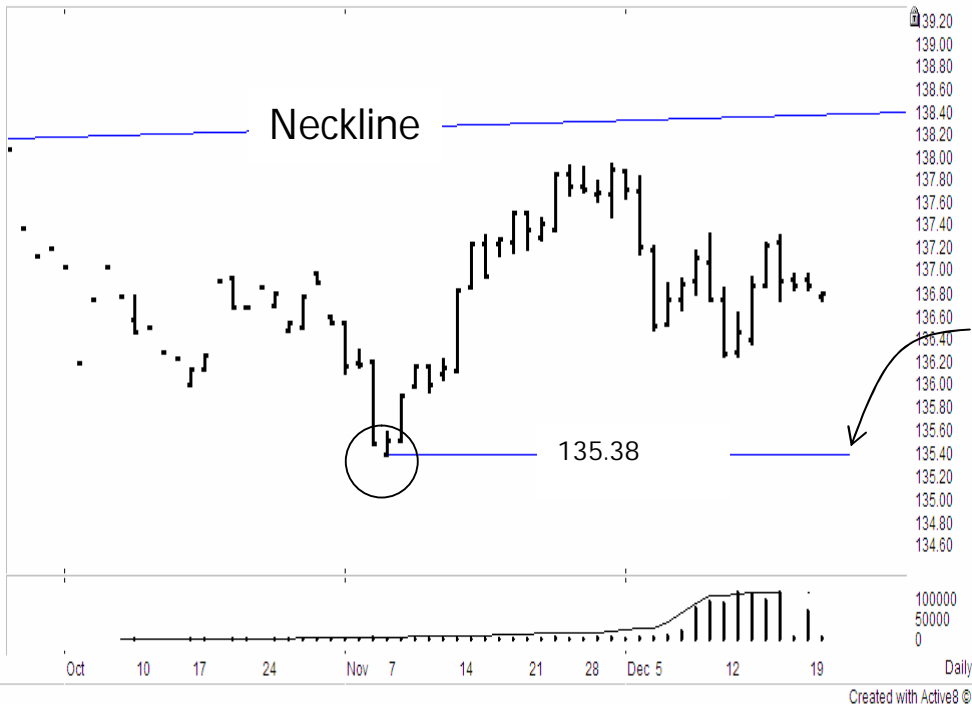
# Ten Year Japanese Bond





WEEKLY CONTINUATION FUTURES CHART:  
The same pattern can be found in the Futures Continuation chart.

This suggests a move of nearly three big figures minimum.



DAILY MAR06 FUTURES CHART:  
But the market has gone nowhere in the short term.

Last week we argued: hold shorts and add on a break of the lows.

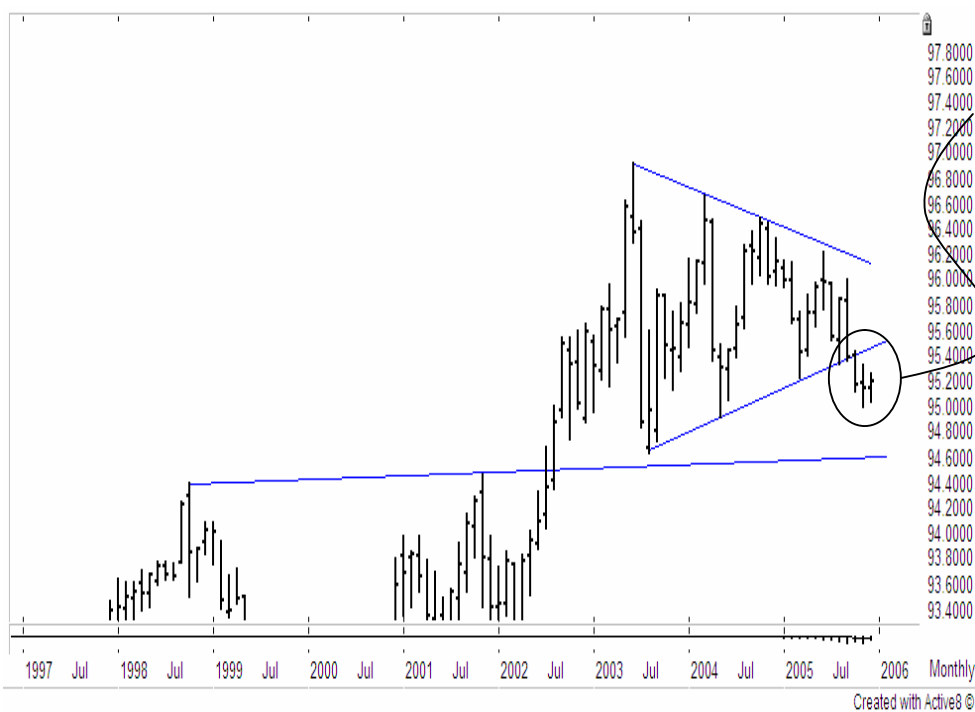
The remains the right advice.

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# Interest Rates

Markets have been tracking sideways for the last six weeks. But the prevailing structures – none of them compelling – remain bearish. None of the markets demand to be traded, so we retain our bear stance on the US and otherwise stand aside.

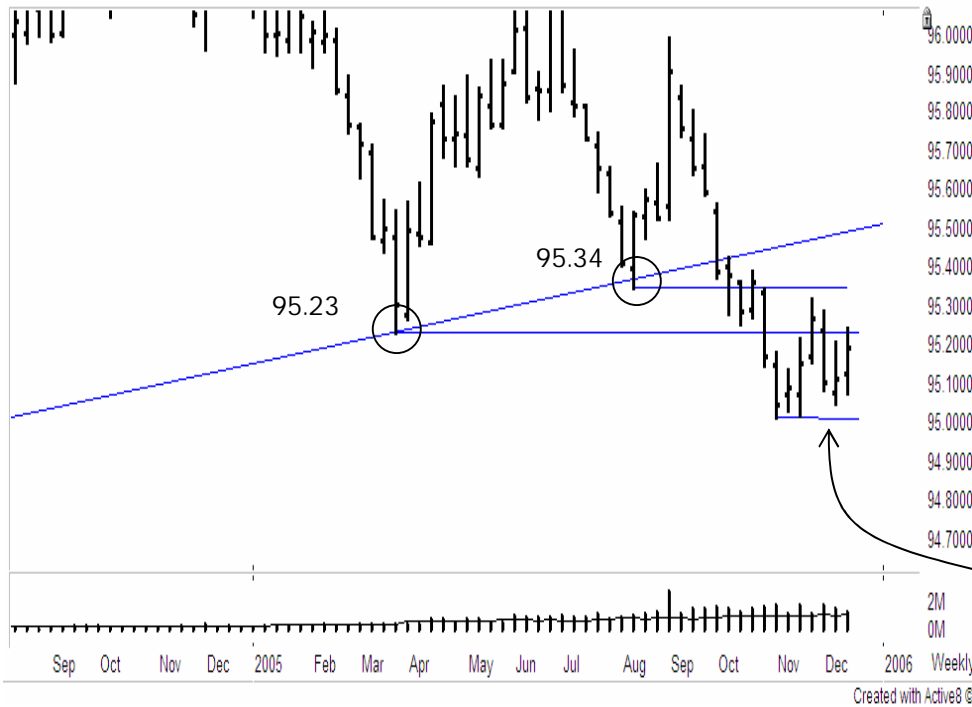
# Dollar Rates



MONTHLY SEP06  
FUTURES CHART:

The market has broken down out of a long consolidation period.

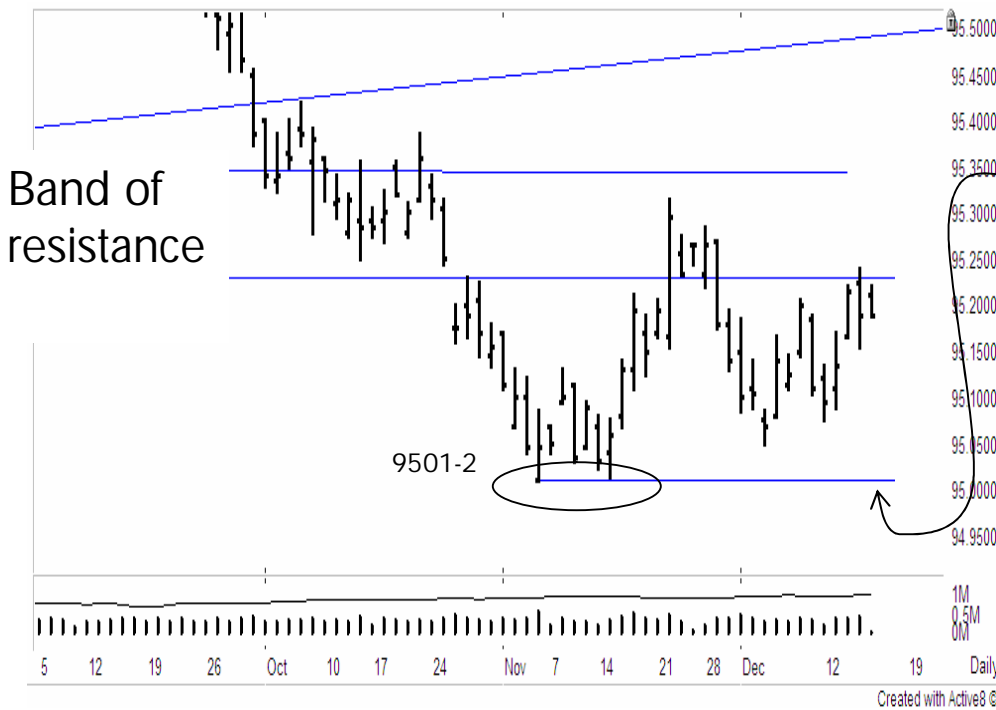
But there is clear support some way beneath the market.



WEEKLY DEC 05  
FUTURES CHART:  
And as a result there is the weight of a great deal of price bearing down on the market – driving it lower.

The band of resistance currently in play is that from the lows at 95.34 and 95.23.

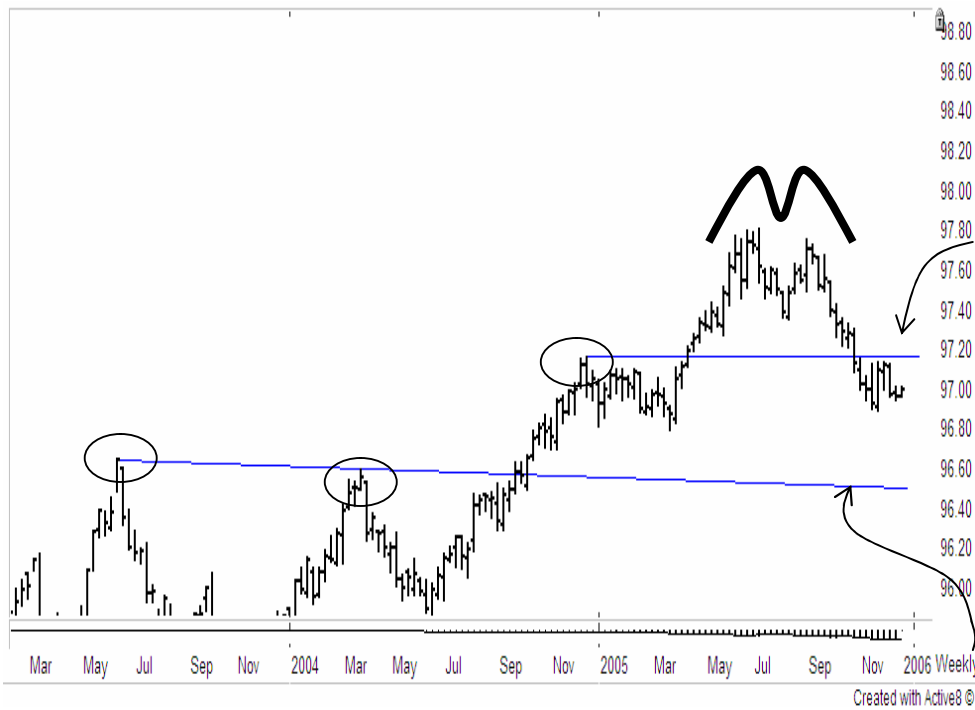
The market has failed to break up through it, but wait for a break of the lows before selling.



DAILY SEP 06  
FUTURES CHART:  
There no great shape or structure to the short term price action – only a break of the lows would convince us to sell.

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# Euribor Rate



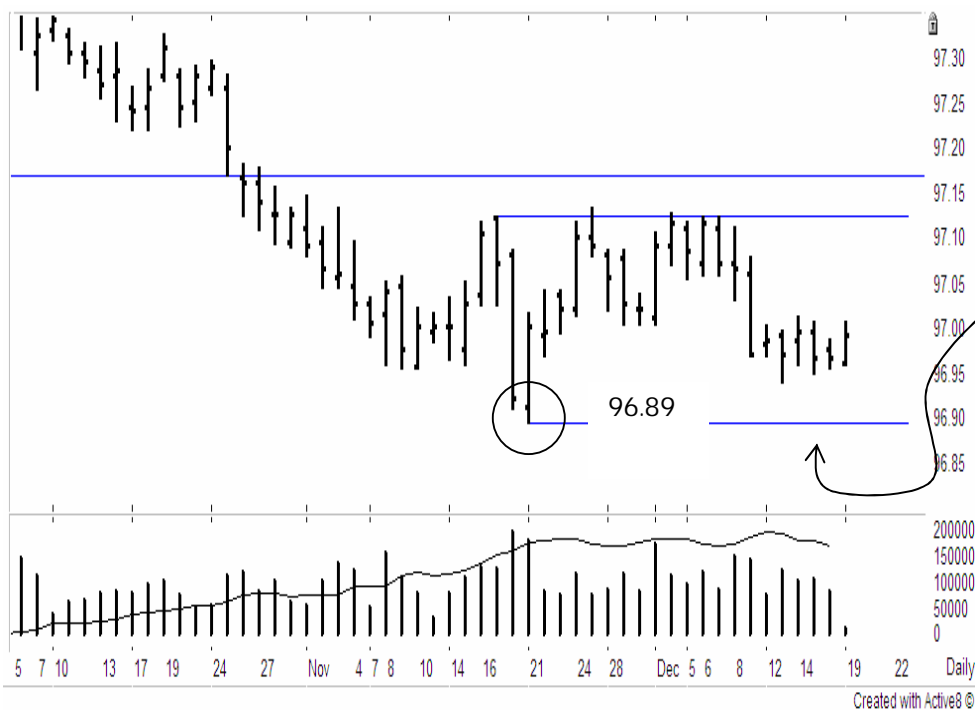
WEEKLY DEC 06  
FUTURES CHART:

The bear move from late summer was the result of the clear Double Top.

The impetus was sufficient to drive the market down through the support from the prior high at 97.16 – which has also acted as good resistance on the recent bounce.

But note well the support well-beneath the market at 96.50 or so.

But that is a little distance away.



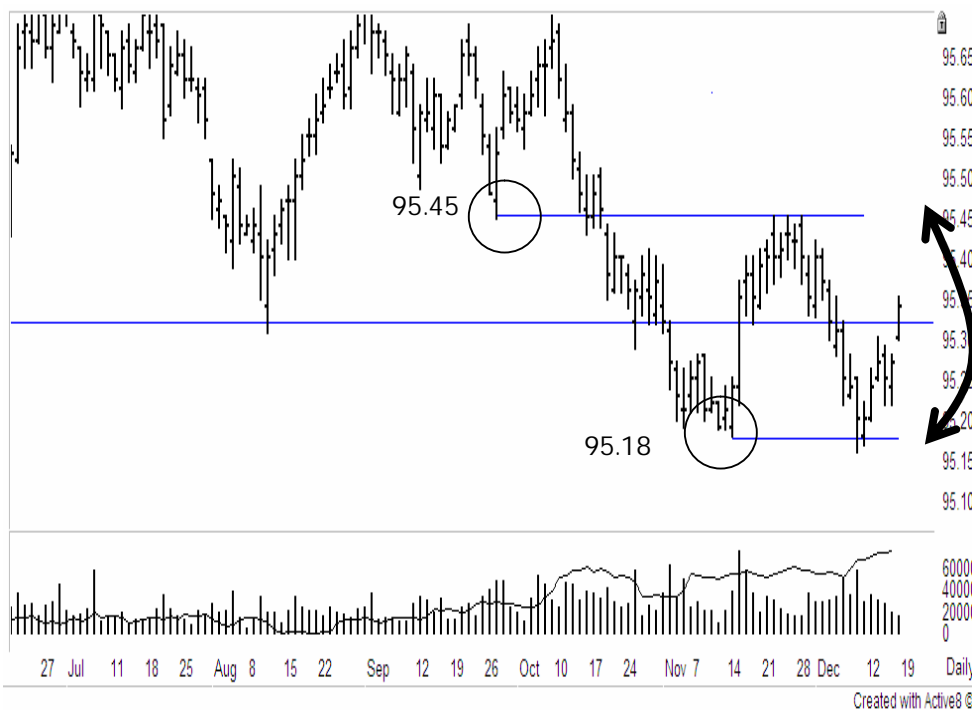
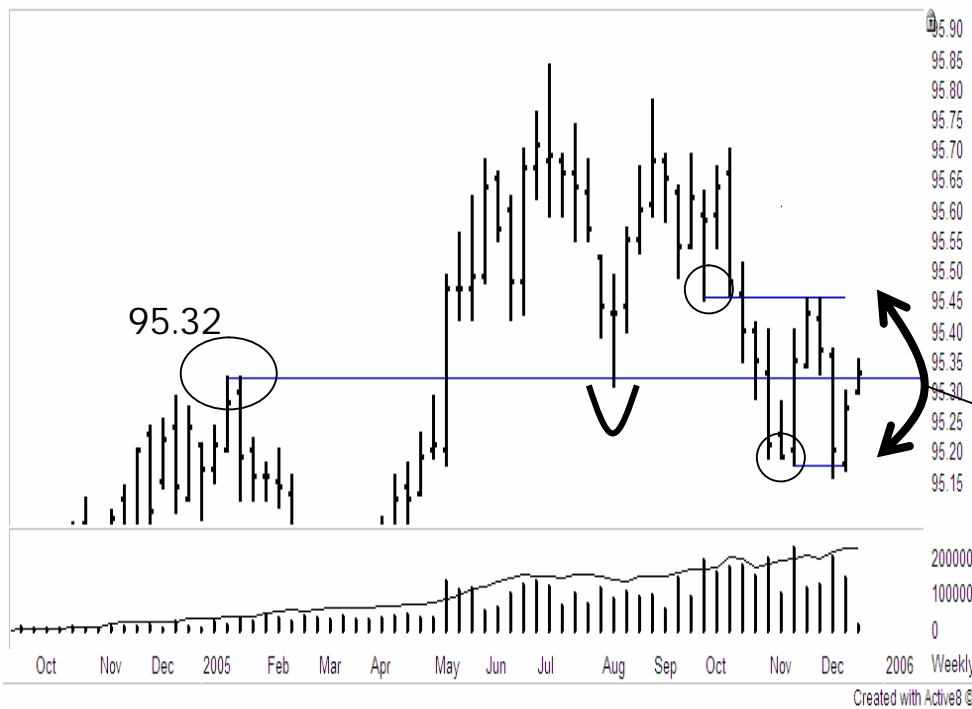
DAILY DEC 06  
FUTURES CHART:

In the short term the market has gone nowhere.

As we argued last week, the bears need a break down through the lows at 96.89 before they can get excited since there is a lack of clear structure within the sideways congestion from the middle of November.

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# Sterling Rates

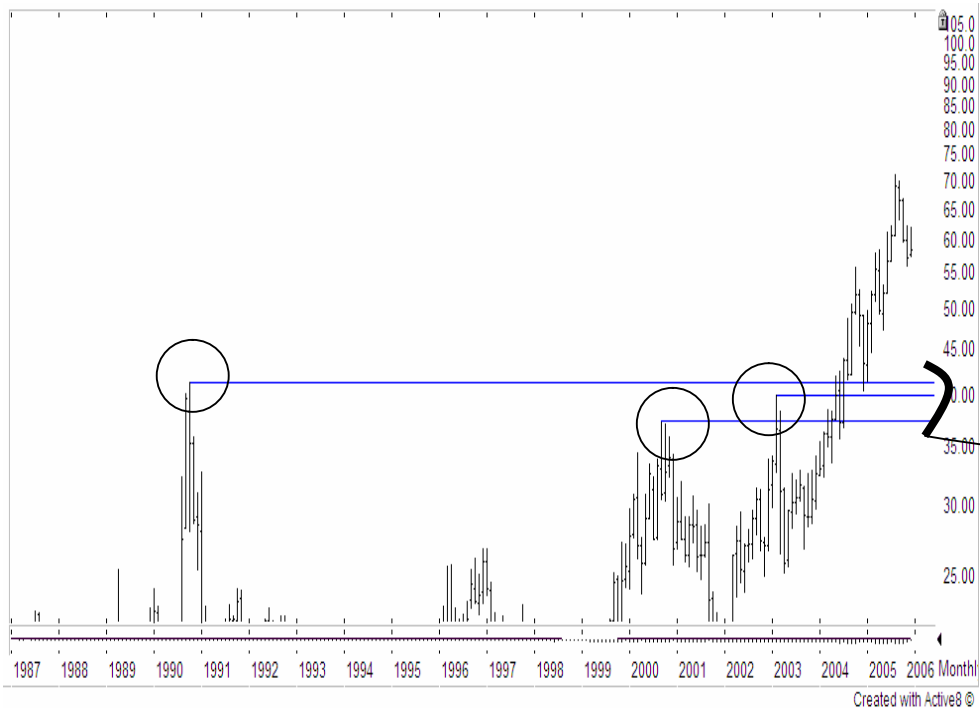


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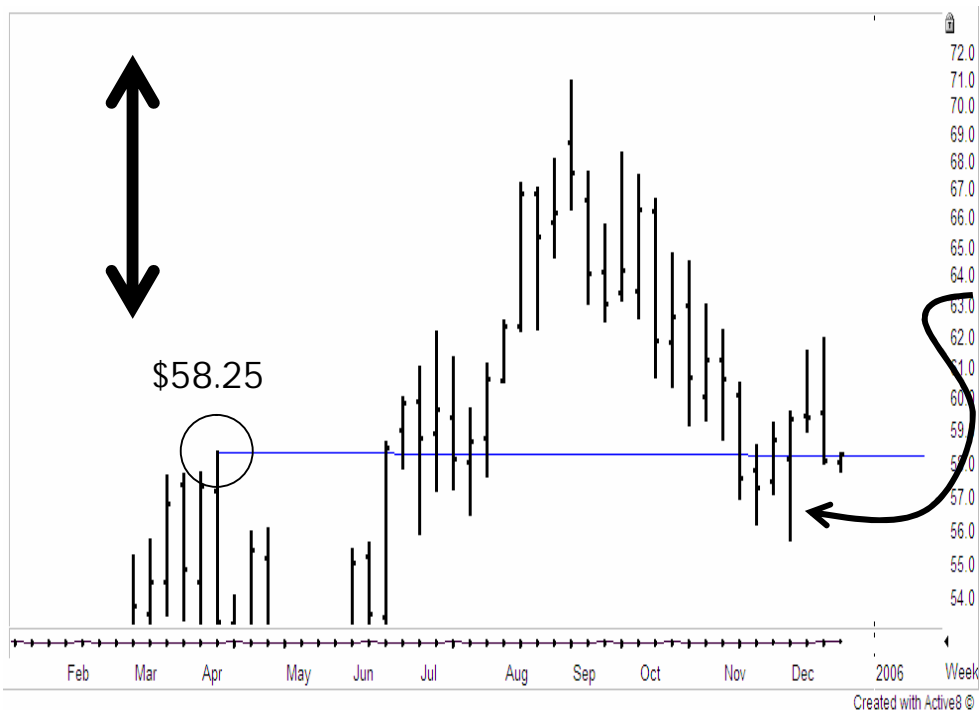
# Commodities

Oil has disappointed in the very short term but remains a good buy. Gold's gyrations, when placed in context, become more understandable and look to be providing excellent buying opportunities.

## Oil



**MONTHLY FUTURES CONTINUATION CHART:**  
The long perspective on the market is clear – the floor at \$40 is powerful and the key to the rally from that level.



**WEEKLY FUTURES CONTINUATION CHART:**  
More recently the market is testing the support at the old high at \$58.25.

The Key Reversal of three weeks ago was a powerful signal,

But the volatility of the subsequent trading has not been easy for the bulls.





DAILY MARCH 06  
 FUTURES CHART:  
We were especially excited by the bounce from \$58.25 and the break of the downtrend soon after.

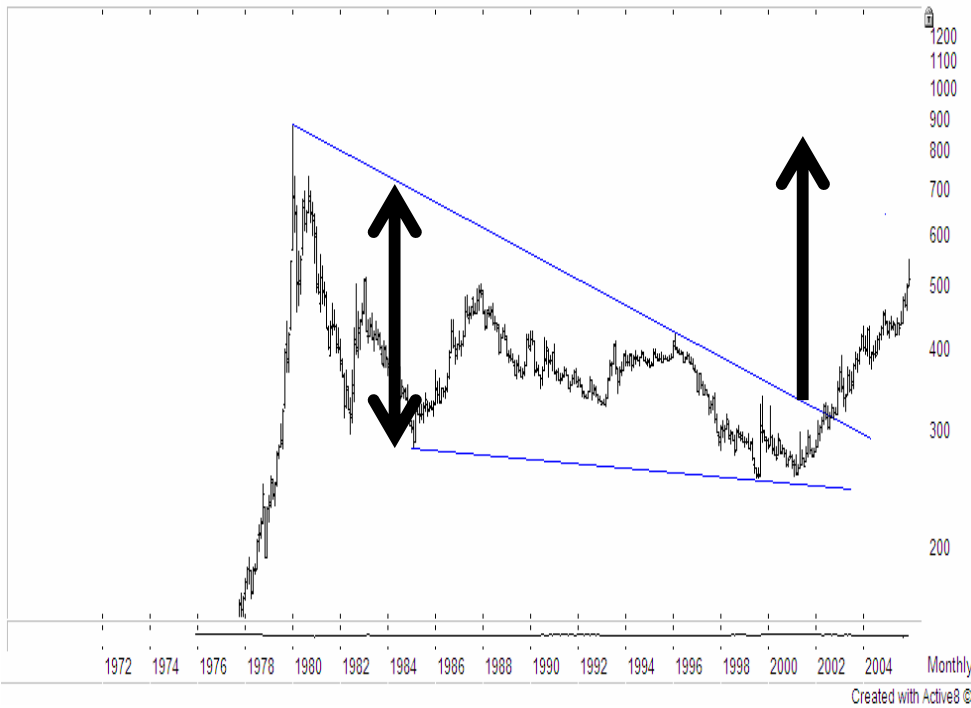
But the pull-back of the last two days has been a disappointment for the bulls.

The small support from the high at \$60.10 was easily breached.

Nonetheless we remain bullish while \$58.25 holds.

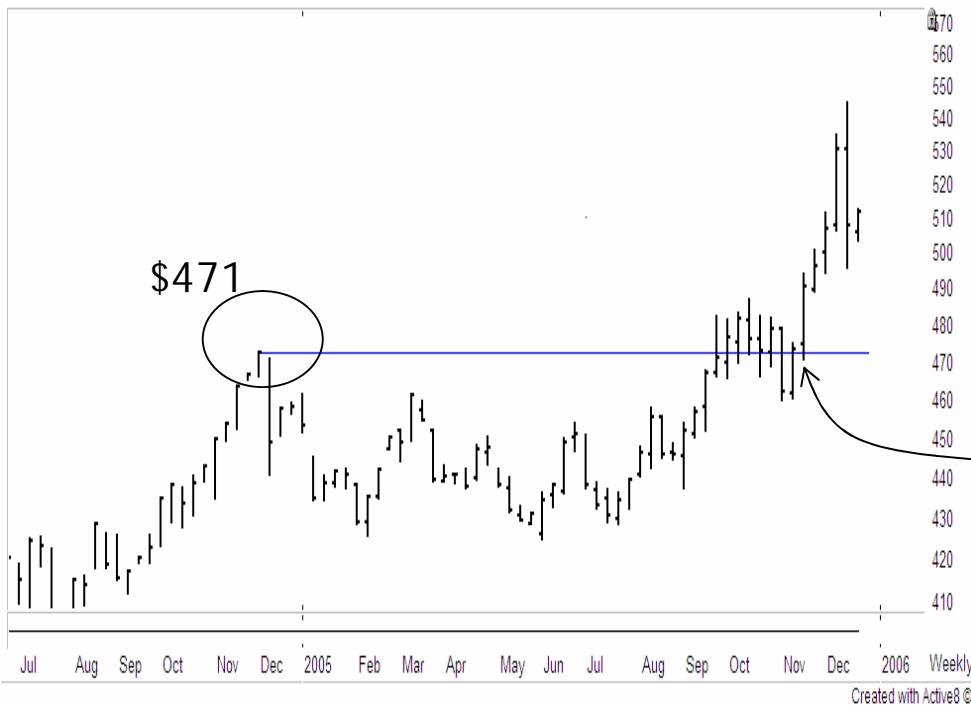
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# Gold



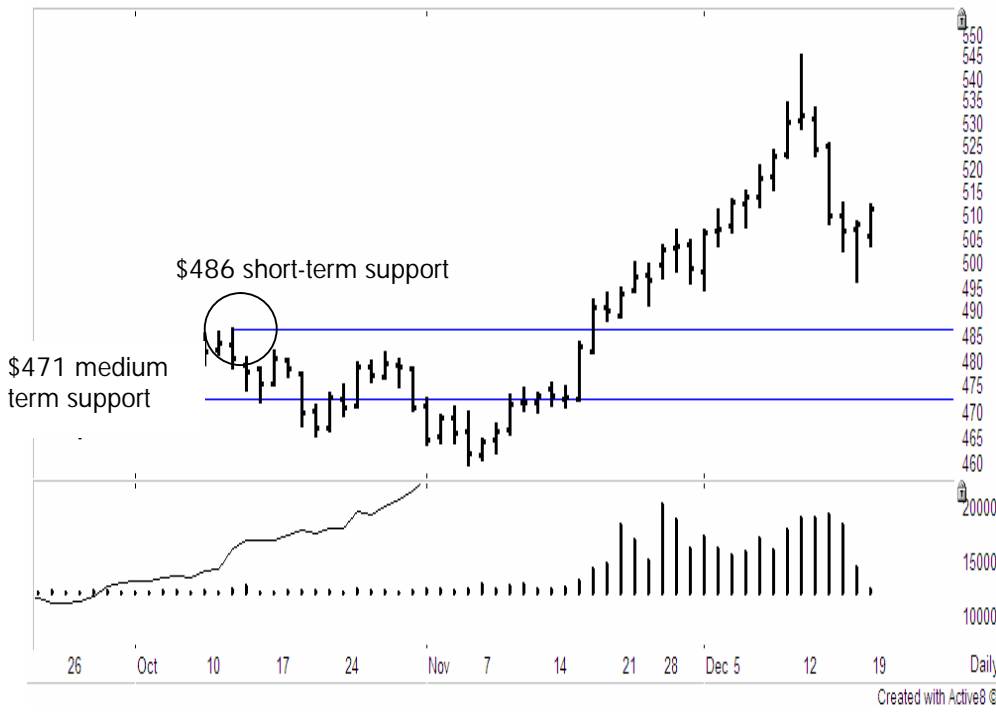
QUARTERLY COMEX  
FUTURES  
CONTINUATION  
CHART:  
The long chart is a powerful reminder of the underlying bullish energy behind the rally from 2001.

The minimum target of the big chart is \$793 or thereabouts.



MONTHLY FUTURES  
CONTINUATION  
CHART:  
Closer to the present has been the pause in the long bull market that began in late 2004 and has only recently ended...

The sideways congestion was escaped when the market broke up through the prior high of \$486



DAI LY FEB 06

FUTURES CHART:

The detailed breakout was the push through the \$486 high.

Last week we wrote that the market was not a short-term buy (though it was still a medium-term one.)

That proved absolutely correct.

This pull back has been fast.

Now we believe there is a good short term buying opportunity at these levels and below.

Use \$471-486 as a good band of support with sell stops beneath.

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