

WEEK 20 16<sup>th</sup> – 22<sup>nd</sup> May 2006

# THE TECHNICAL TRADER'S GUIDE TO MAJOR MARKETS

MARK STURDY



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Stay **LONG** above \$649 (Jun 06)

## 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.

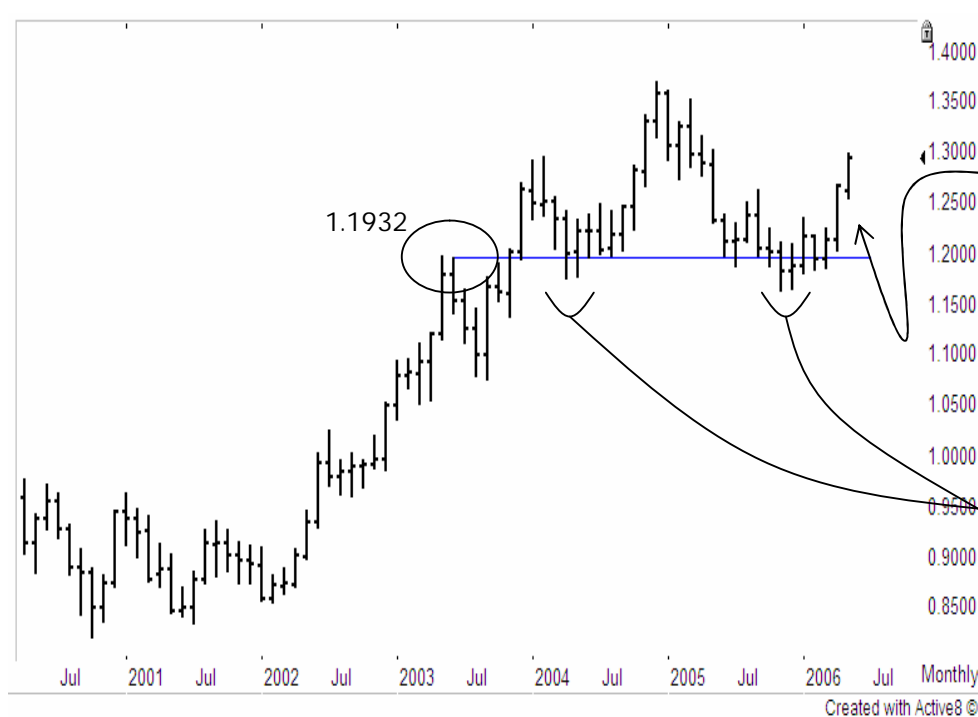
Since then he has worked extensively as a consultant technical analyst for a number of large private investors, banks and Hedge Funds.

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 weakening Dollar move has gained speed across the currencies. Technically the Euro and the Yen look most clearly structured – but Cable has moved the most! The Euro is near to achieving the target we set a few short weeks ago. But the Yen has a lot more to go for – particularly if the market can break the 101 area.

## Dollar Euro



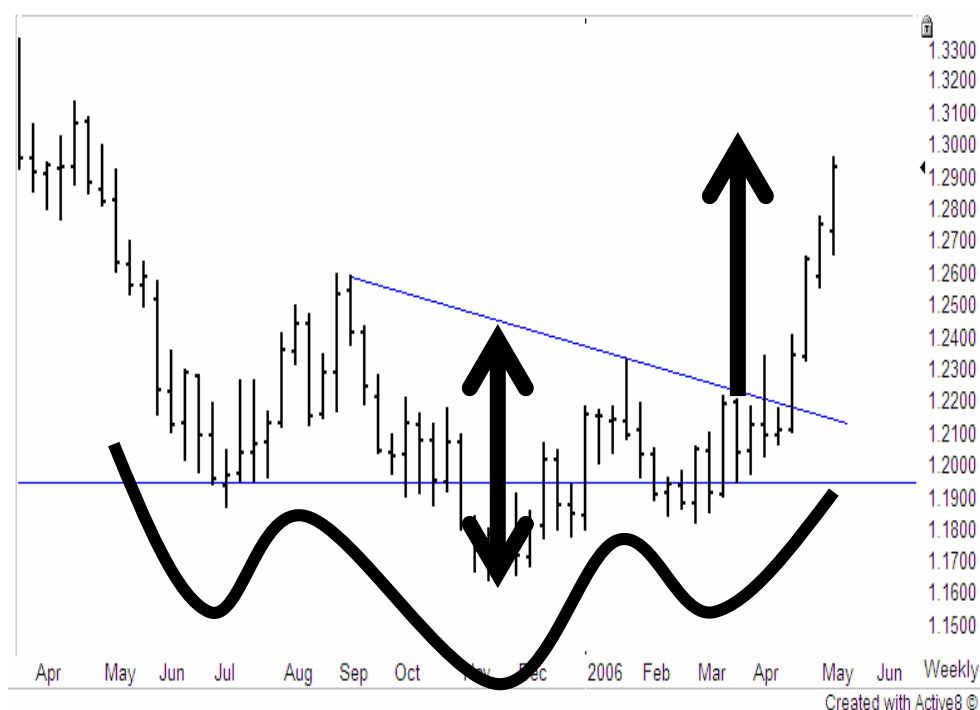
### MONTHLY SPOT CASH CHART:

Over the last two months the market has done a great deal to convince traders that the long-term weakening Dollar trend is alive and well.

The crux of the matter has always been the horizontal support from the 1.1932 high.

Though the market has driven down onto it repeatedly, it has stood firm for the last two years.

Look closer.

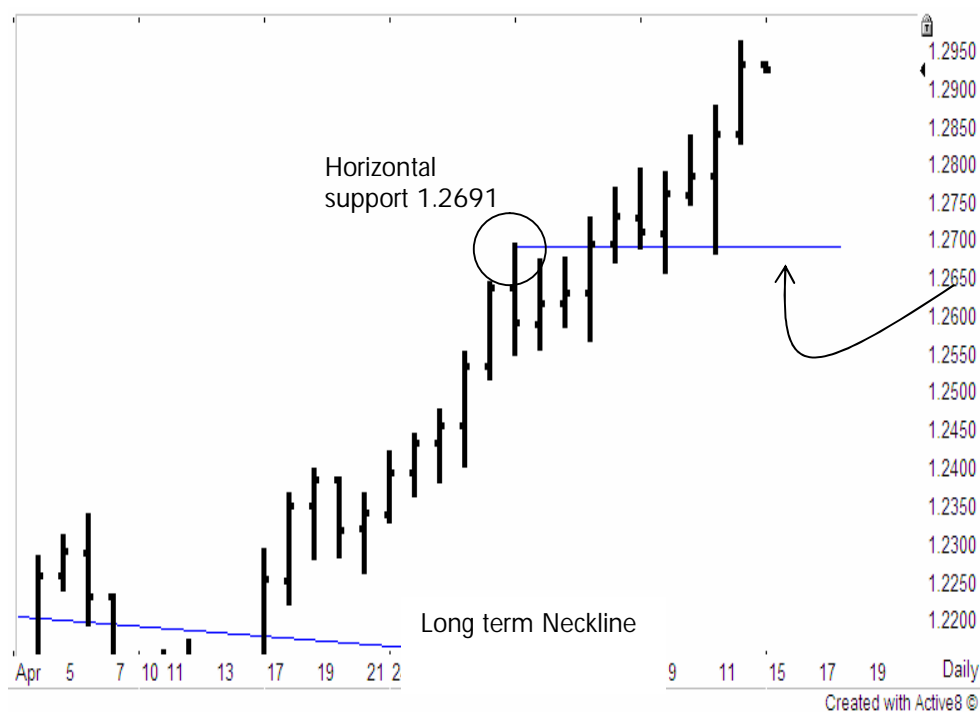


#### WEEKLY SPOT CASH CHART:

Here we can see that the completed Reversal formation - a classic Head and Shoulders Reversal – has been the major bull energy behind the Euro's appreciation.

The minimum target is 1.30.

We're nearly there.



#### DAILY SPOT CASH CHART:

So fierce has the bull move been that the market has few short-term supports – check out the horizontal at 1.2691.

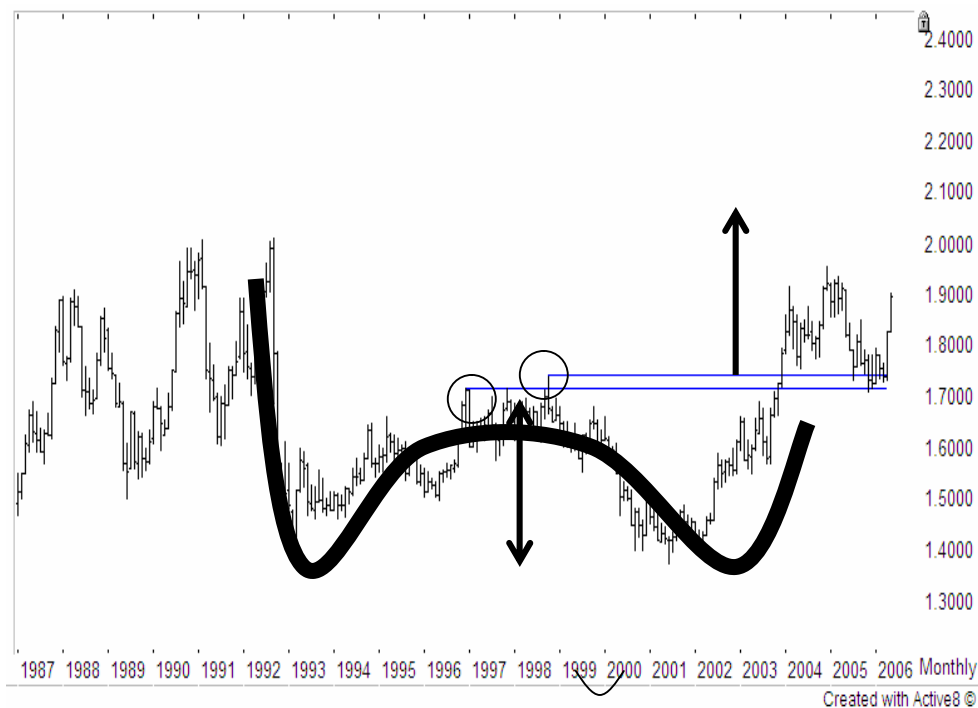
The trend is still powerfully in development.

We said last week that 'there was no sign of tiredness in the price action.'

That's still true.

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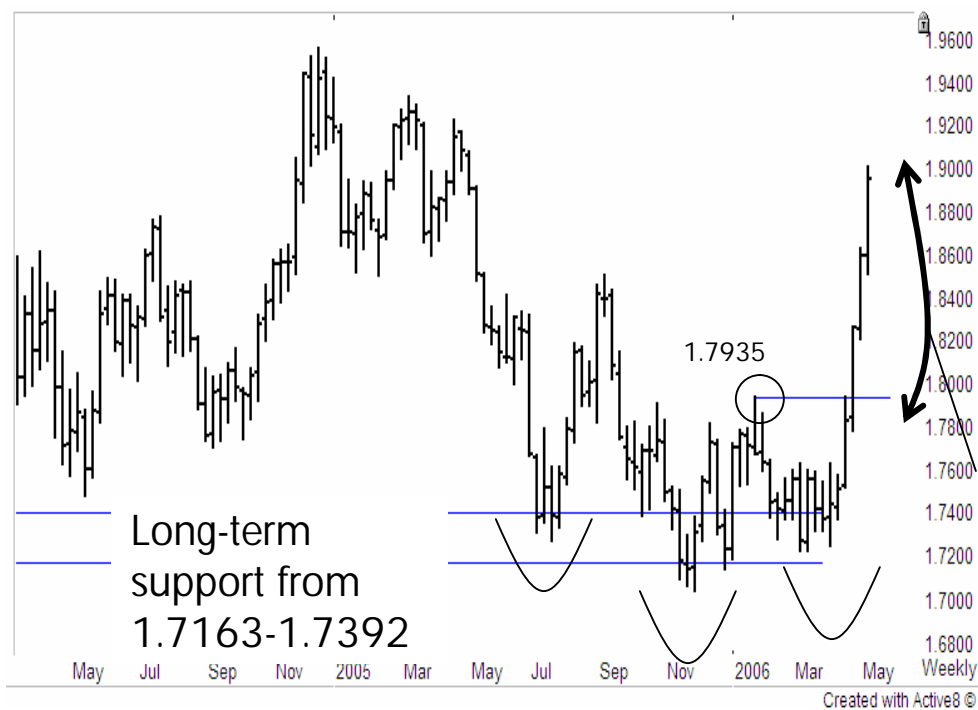
# Dollar Sterling



MONTHLY SPOT CASH CHART:

The big picture is that the market is dominated by a massive Double Bottom – it has been tested over the last year, but remains intact.

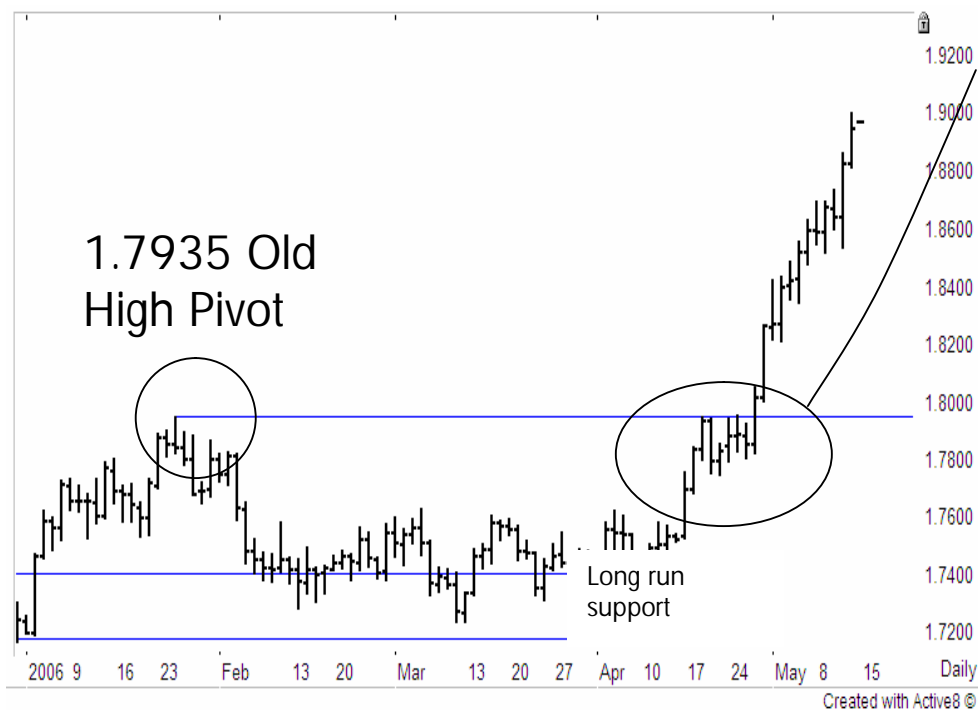
The minimum target of the Double Bottom is 2.08-9.



WEEKLY SPOT CASH CHART:

There was no clear Reversal pattern that completed, but the push back though the horizontal from the pivotal high at 1.7935 was important

And the subsequent rapid bull acceleration endorses that view.



#### DAILY SPOT CASH CHART:

See how the market hesitated at the Pivot and then, once through, accelerated away.

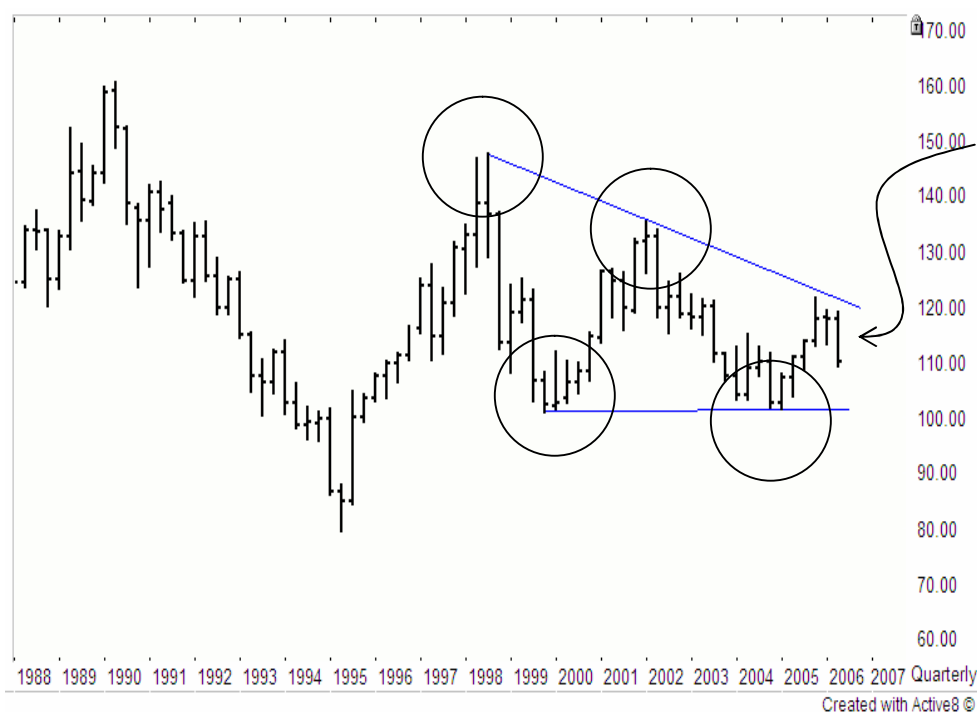
Last week we said 'buy here (then 1.86 approx) and buy any pullbacks.'

That was right. But there were no pull-backs. If you are not already in it's tough to join at these levels.

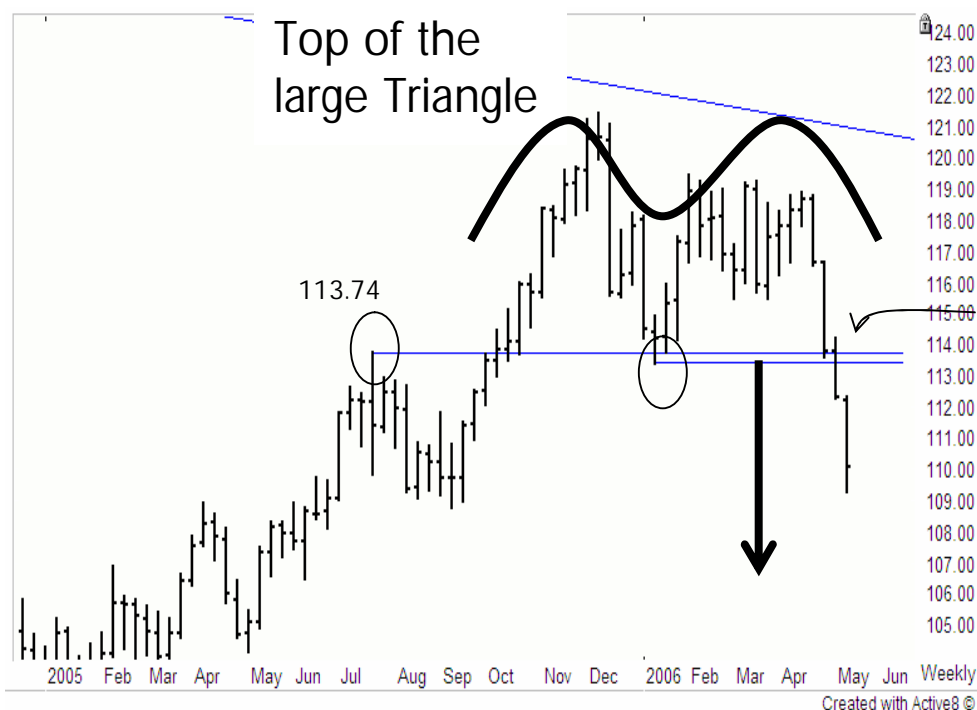
New bulls should hold back. Old bulls run close stops.

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# Dollar Yen



QUARTERLY SPOT CASH CHART:  
The market is still within a huge Triangle Consolidation.



WEEKLY SPOT CASH CHART:  
The retreat from the upper diagonal, in the last two weeks has completed a Double Top.

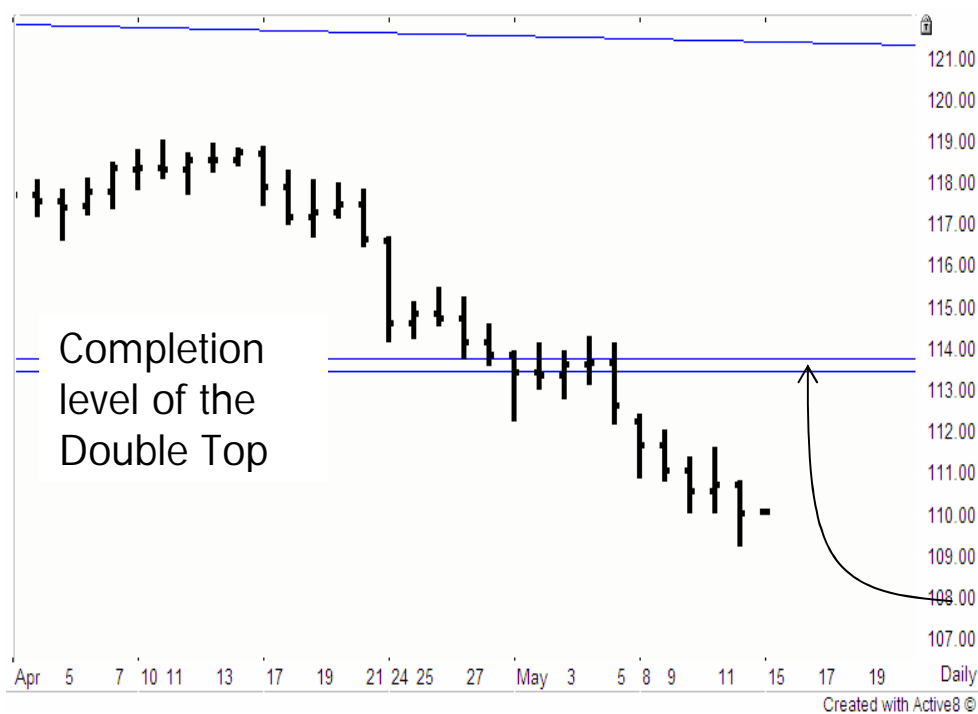
Note well that the completion of the Double Top coincided with a push back down through the horizontal support from the Old High at 113.74.

That greatly added to the bear energy.

The minimum target for Double Top?

About 106.40.

There's more to come.



#### DAILY SPOT CASH CHART:

There's little structure in the day chart to trade around – the important resistance lies above the market at 113.42-74.

We said last week that the 11342-74 pull-back was a significant break.

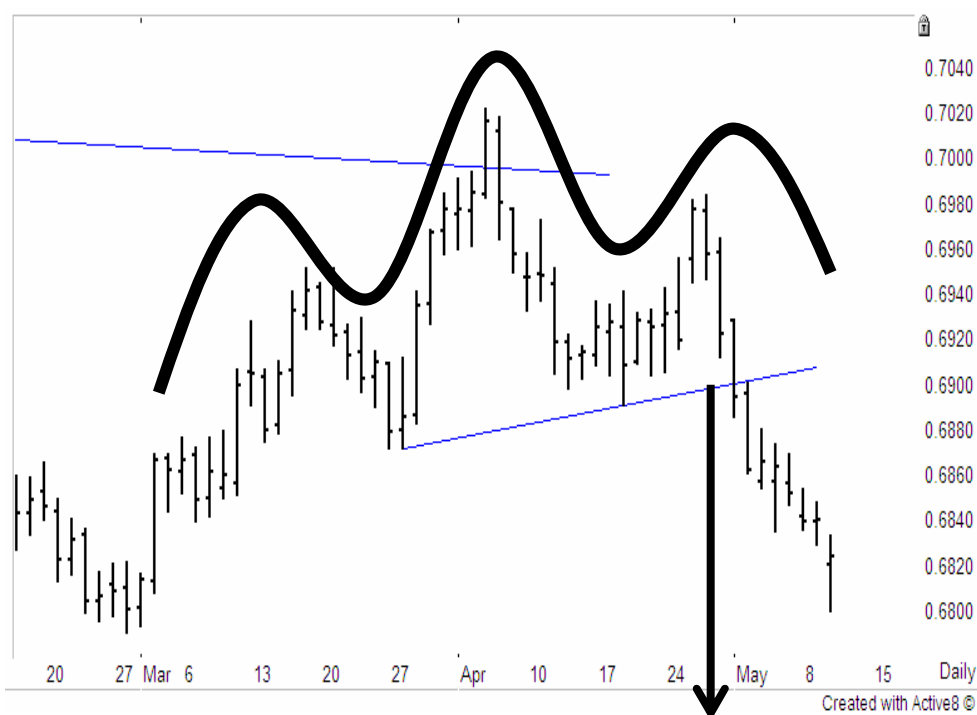
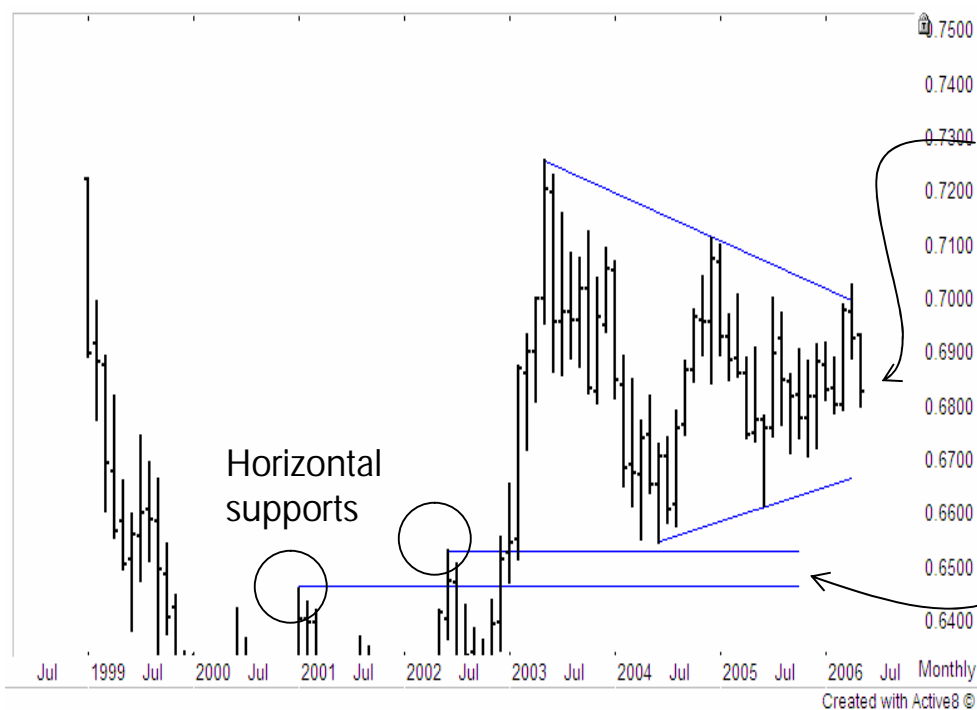
And that was right.

Sell any retracement to that level. And sell some here anyway.

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# Sterling Euro



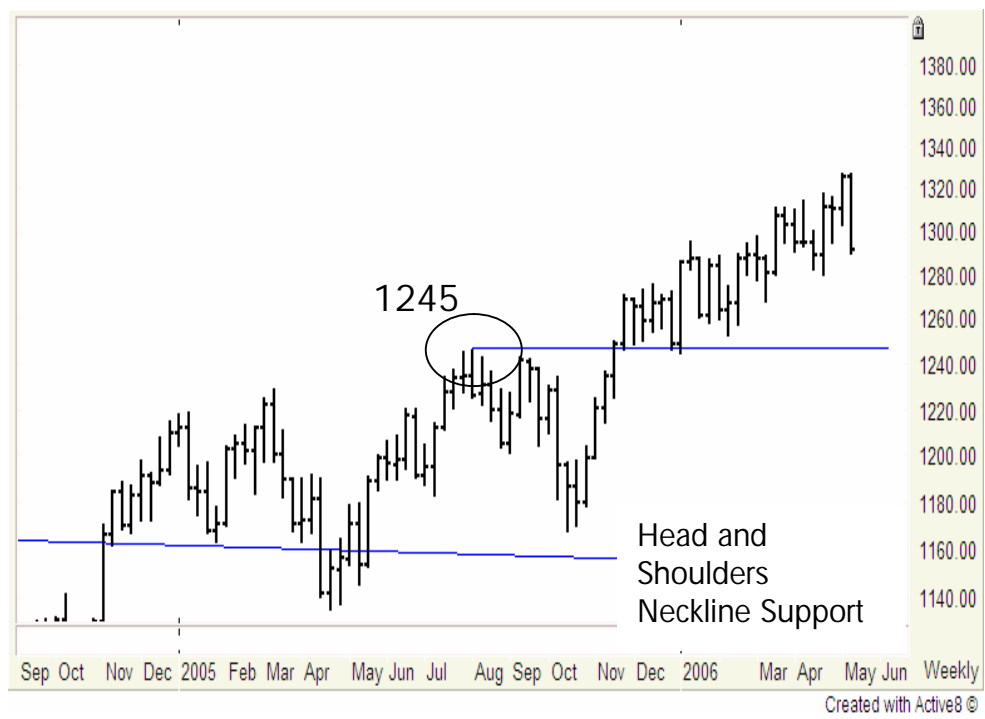
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# Stocks

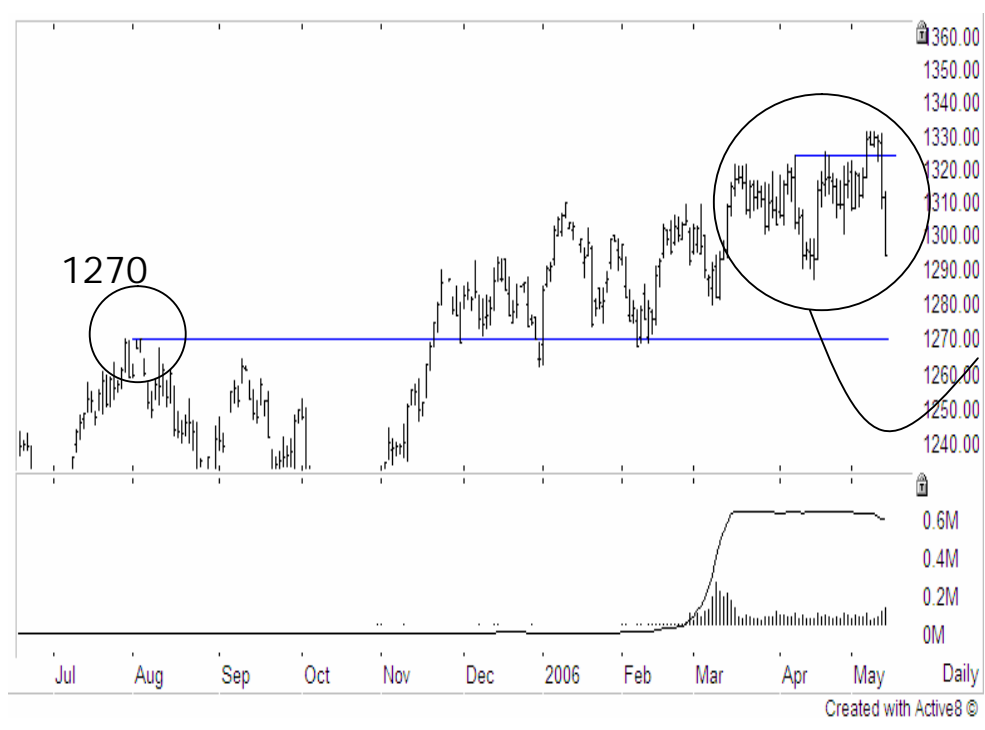
The markets have been showing signs of fragility, for while now and we have been generally cautious as a result. The steep falls of the past days may yet be purely short-term only time will tell. But our big picture charts in the DJEuroStoxx, the FTSE and even the Nikkei do give grounds for thinking that the long bull run from 2002 may be nearing an end. Having said that, there are no clear Reversal patterns in place yet, and traders should note that, for the most part, critical supports have yet to be clearly broken.

## Standard and Poors 500

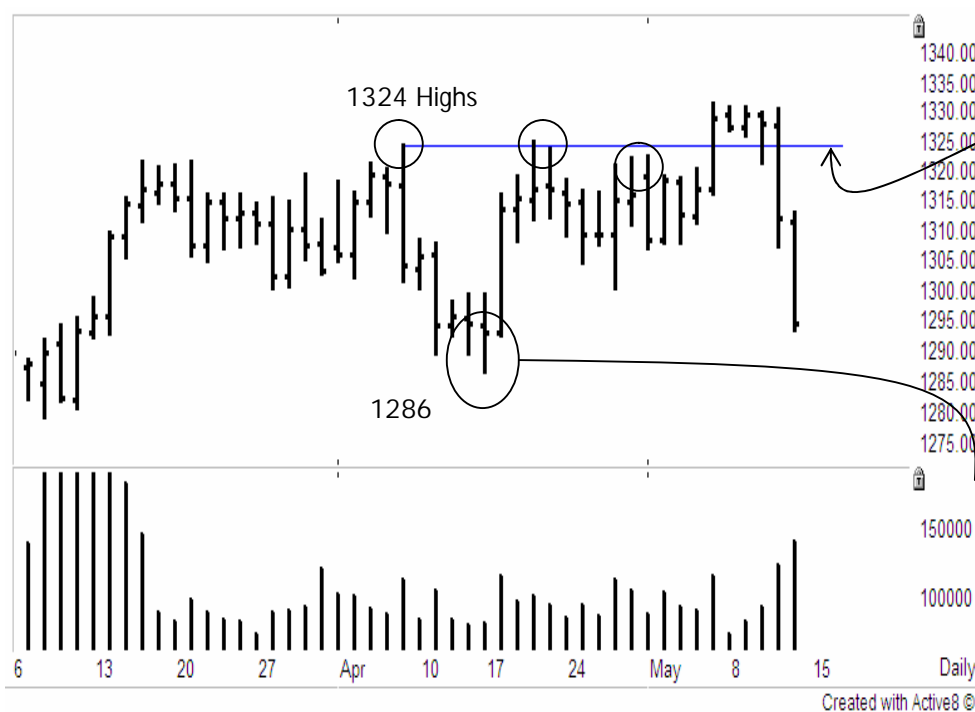




**WEEKLY CASH INDEX CHART:**  
The market has been in bull trending mode since it broke up through the high at 1245 in November last year.



**DAILY JUN06 INDEX FUTURES CHART:**  
In the futures market the crucial horizontal was that from the high at 1270.  
But look more closely at the recent price action:



#### DAILY JUN06 INDEX FUTURES CHART:

The market has broken back through the support from the succession of highs at 1324.

They should have been good support.

Watch carefully now for a push beneath the low at 1286.

That would send the market lower still.

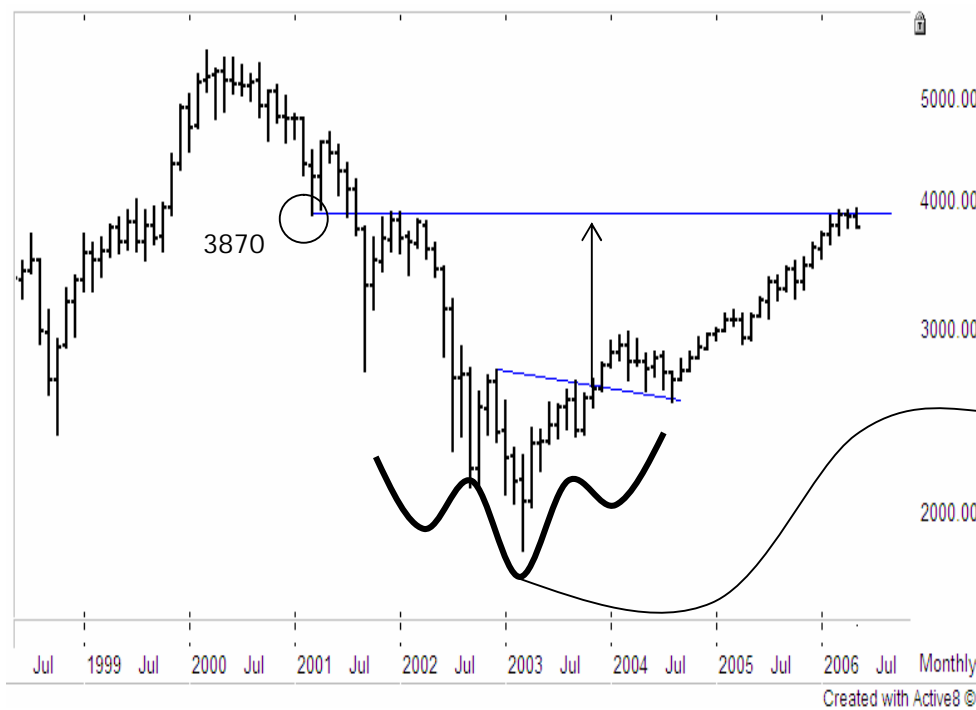
But in any event, only a break back through the horizontal support from last November at 1270 would really get the bear going.

Last week we saw the break up and suggested a buy with a close stop. That was a false break and our stop was hit.

Now remain square, stand back and watch

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# European Dow Jones Stoxx 50



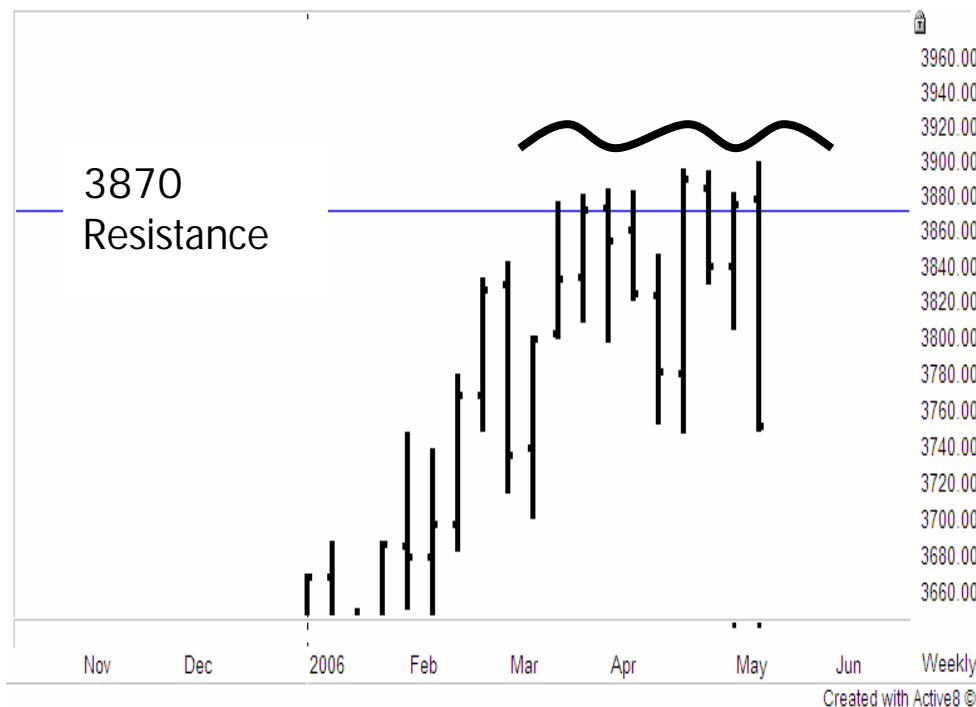
## MONTHLY CASH INDEX CHART:

The bull market has come up against the resistance from the low at 3870.

And has yet to break through.

The Head and Shoulders Bottom that drove the market better from 2003 had a minimum target of more or less this level.

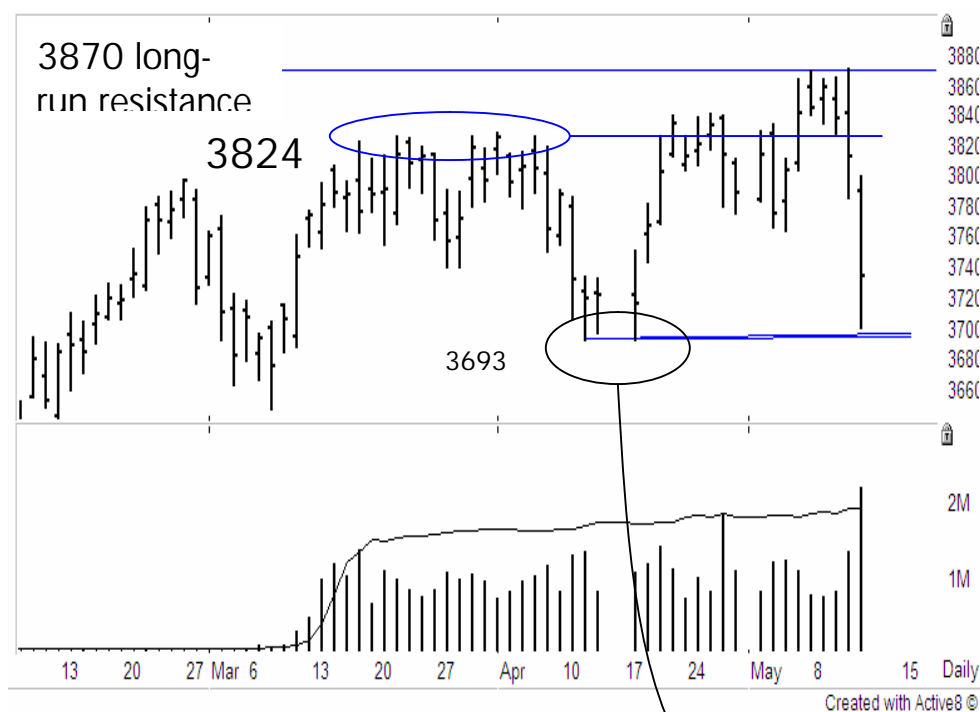
So the bull impetus is diminishing.



## WEEKLY CASH INDEX CHART:

Note the hesitations of the last nine weeks.

Plus, the price action of last week was a Key Reversal.



#### DAILY JUN06 INDEX FUTURES CHART:

Last week the futures market had pushed up through the highs at 3824.

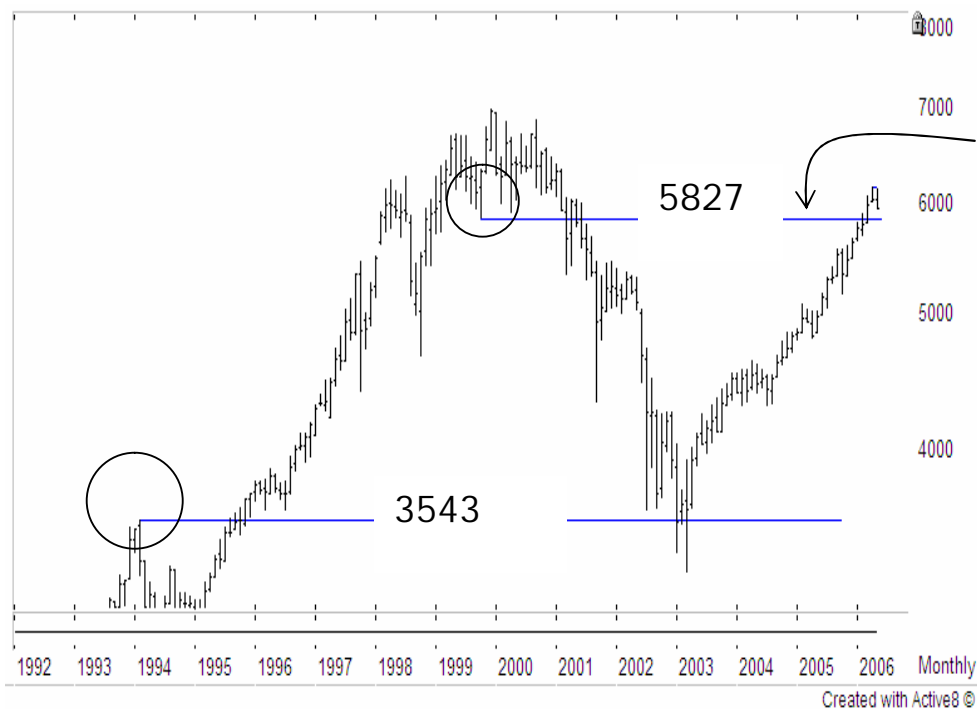
We pointed out that that was an important break, but emphasised that we didn't think it a sufficient reason to buy because of the proximity of the long term resistance (from the Cash index chart) at 3870.

We were right to remain cautious. The pull-back has been fierce.

Note that the market has yet to break down through the low at 3693.

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# FTSE 100



MONTHLY CASH  
INDEX CHART:

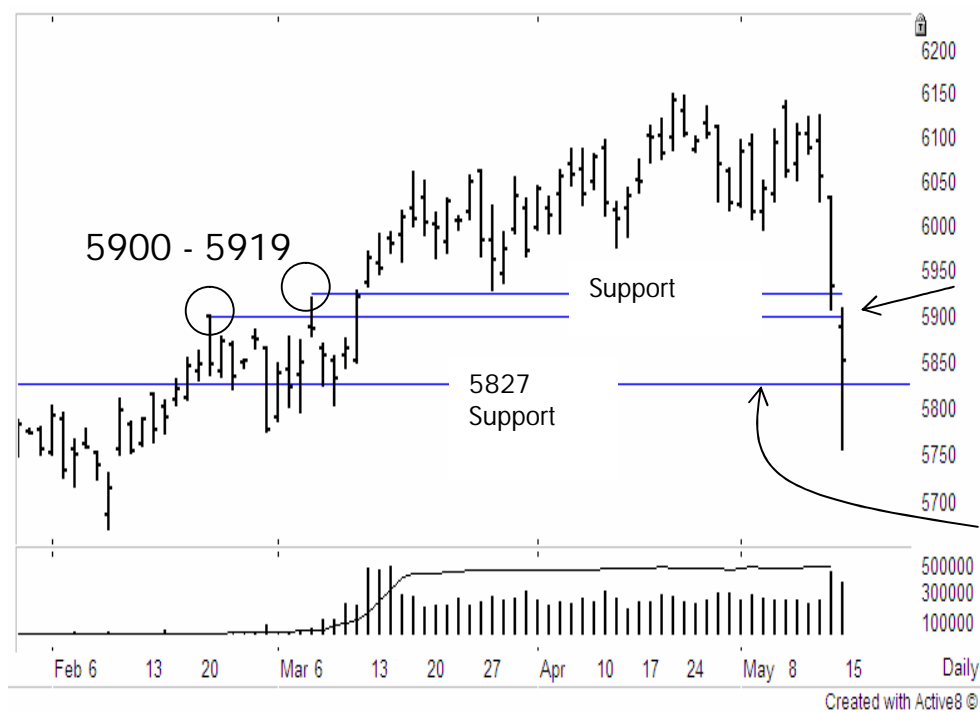
The market has  
smashed up through the  
resistance at 5827.



WEEKLY JUN06 INDEX  
FUTURES CHART:

But there has been a  
pull-back.

1. For the time  
being the  
market remains  
above the Long  
run support.
2. There is no top  
formation in  
place.
3. While (2) is true,  
the support at  
5536 is the first  
clear test of the  
trend.



### DAILY CASH INDEX CHART:

Look closely at the price action.

The market has pulled back through the support from the highs at 5900-5919.

And beneath that lies the long run support from 5827.

The first support has been smashed, but the second, so far, has held.

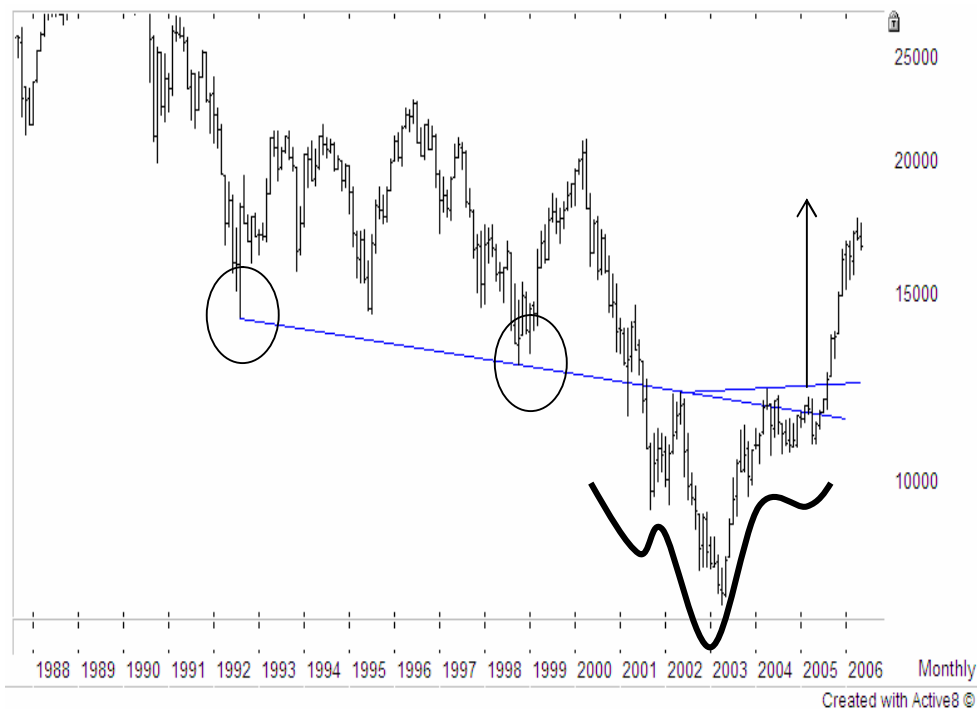
Last week we emphasises the importance of the multiple supports beneath the market that favoured the bull stance.

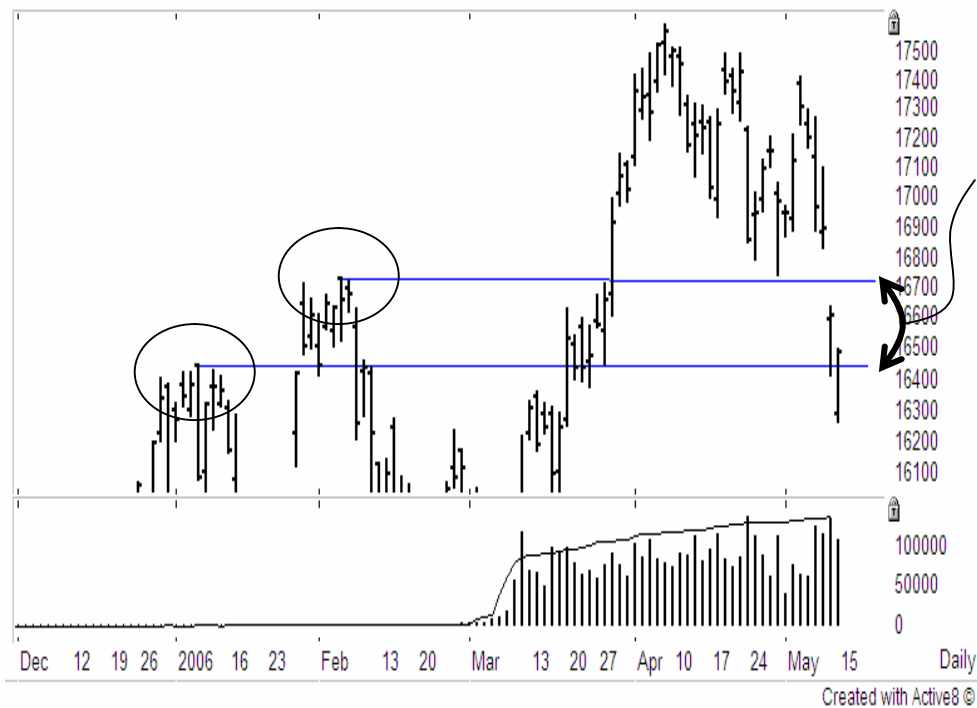
That's still true. But for the moment we favour staying out of the market.

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# Nikkei 225





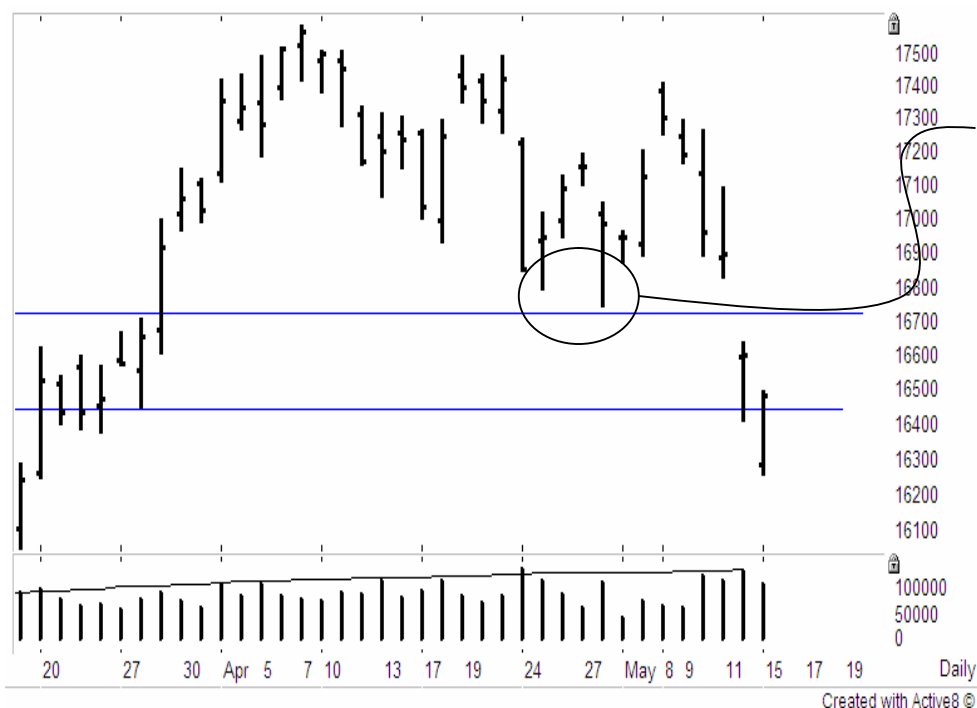
DAILY CASH INDEX  
CHART:  
That pull-back in detail.

The market finds itself in  
an area of great support  
from the horizontal from  
the old highs.

A clear break below this  
area would be poor  
news for the bulls.

We said last week:  
'watch and wait' the  
critical support we  
identified at 16080-  
16720 is being severely  
tested.

The bulls should be  
watching the price action  
with great care.



DAILY CASH INDEX  
CHART:  
Certainly there is some  
resistance above the  
market at the low at  
16740.

The bulls need the  
market to get through  
that level to gain  
confidence.

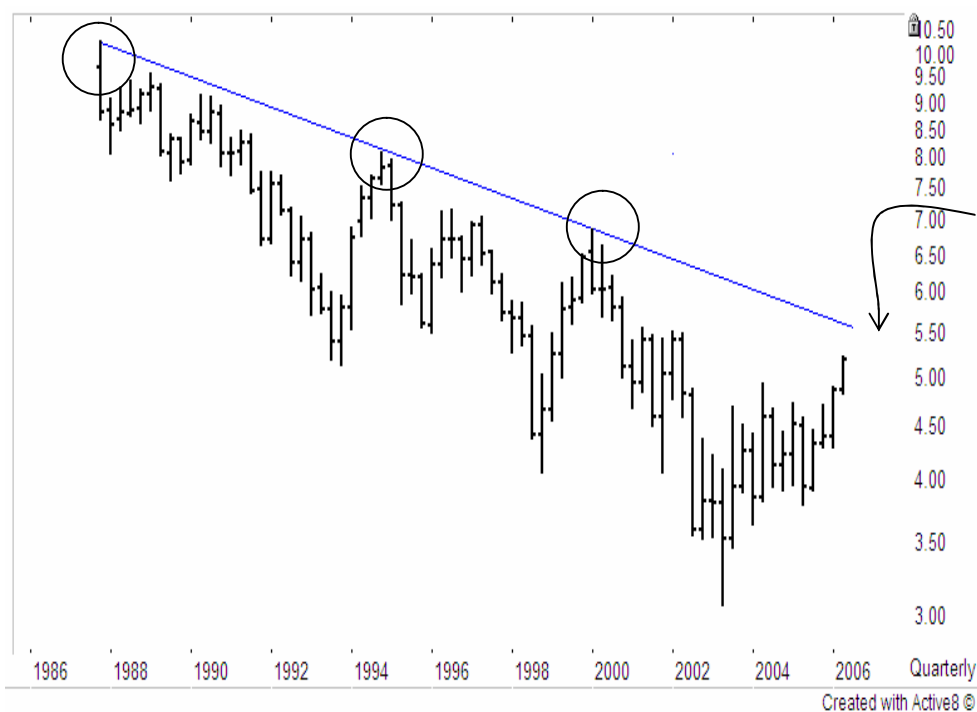
While we can clearly see  
that there is some price  
congestion that will  
weigh upon the market,  
there is no Reversal  
pattern in place yet.

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# Bonds

Bonds remain a fabulous bear market. The patterns are bearish all over, long medium and short-term. As short-term patterns come and go speculative interest switches between markets, but they are all a sell. Now the US and European markets are approaching major very long trendline supports. Watch carefully for a break of these – we think they will break with similar long-term implications as those currently playing themselves out in the Yen Bond charts.

## Ten Years US Treasury Note



### QUARTERLY CASH YIELD CHART:

The market has yet to break out of the long-term downtrend in yields.

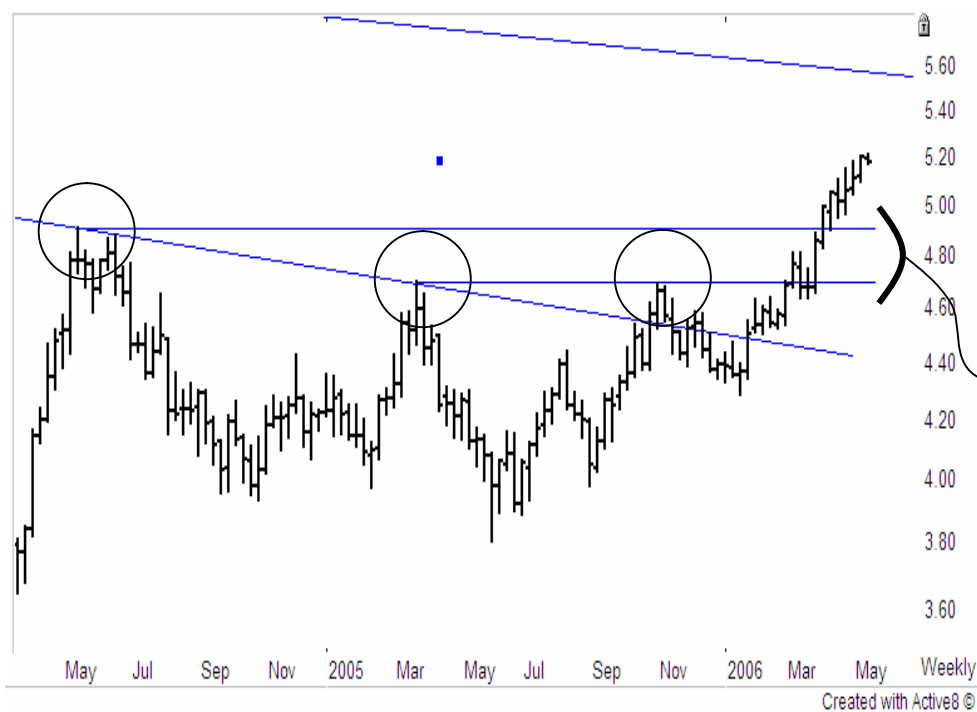
But it is approaching that trendline resistance.



# MONTHLY FUTURES CONTINUATION CHART:

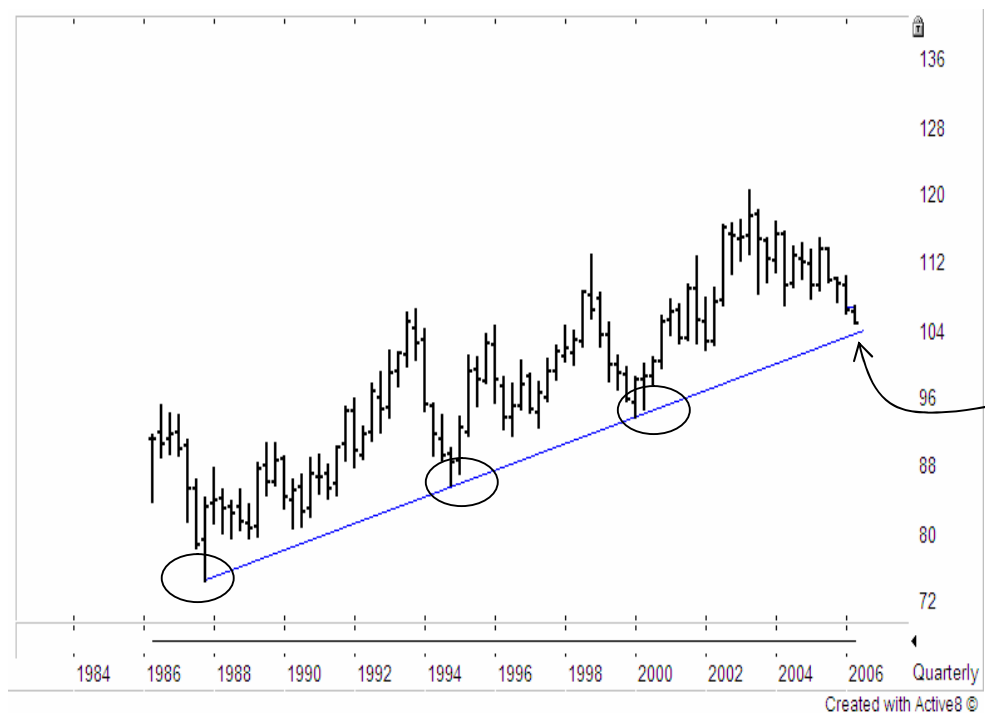
And the structure that has been driving the market is a clear Head and Shoulders pattern.

That target for that pattern is around 7.5%.

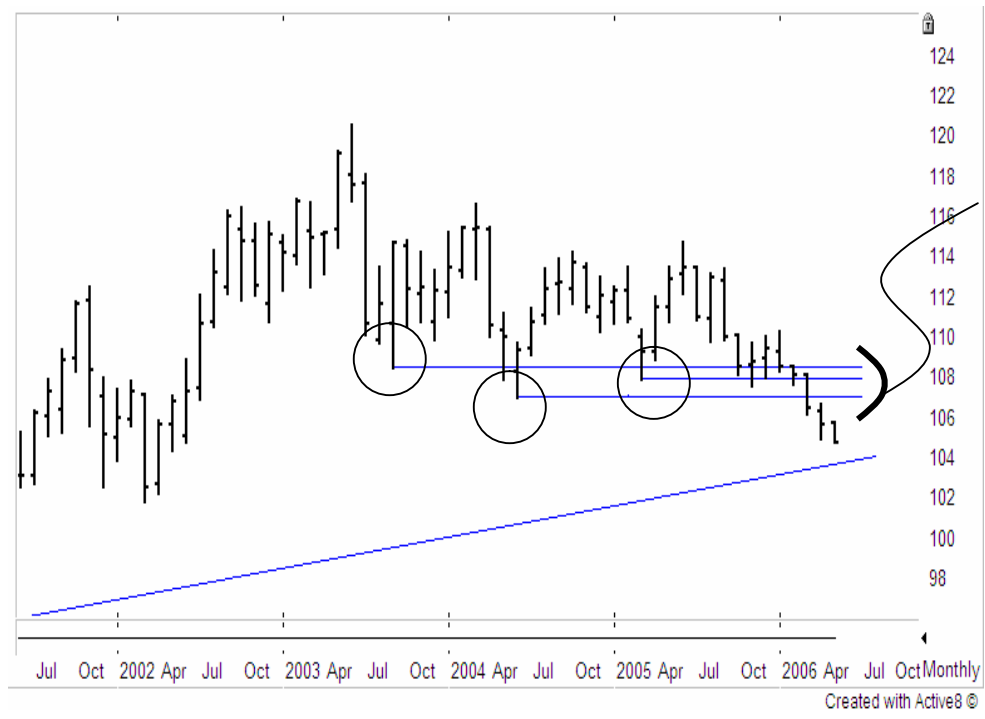


# WEEKLY MAR 06 FUTURES CHART:

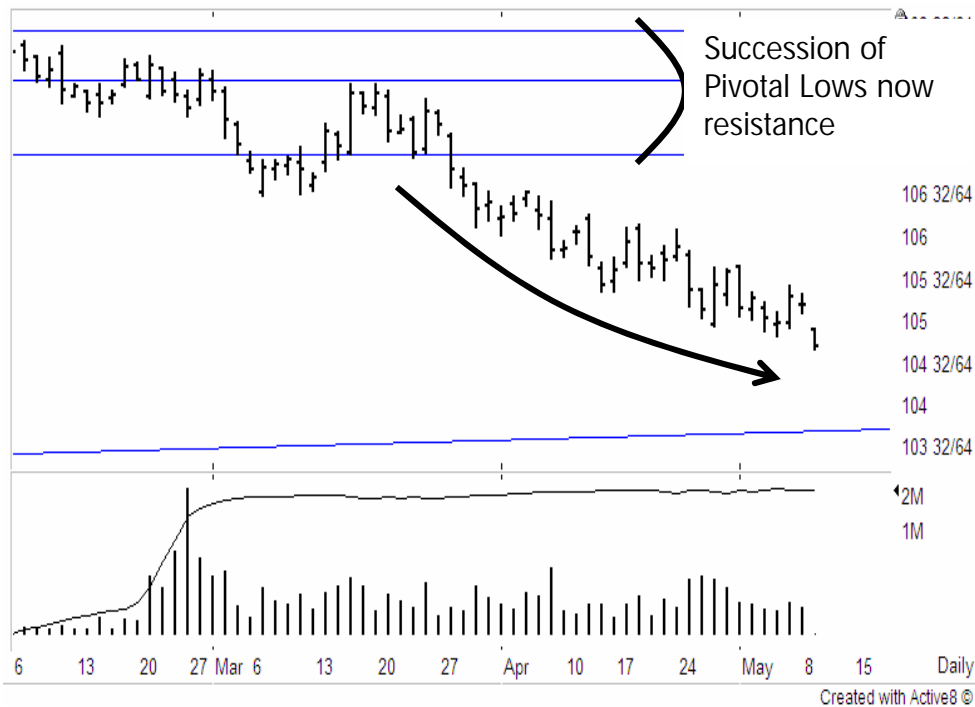
The push through the succession of old Highs between 4.7% and 4.9% has created good support beneath the market on any set-backs.



**QUARTERLY SPOT CASH CHART:**  
The futures market is closer to testing the long term trendline support currently at 104.

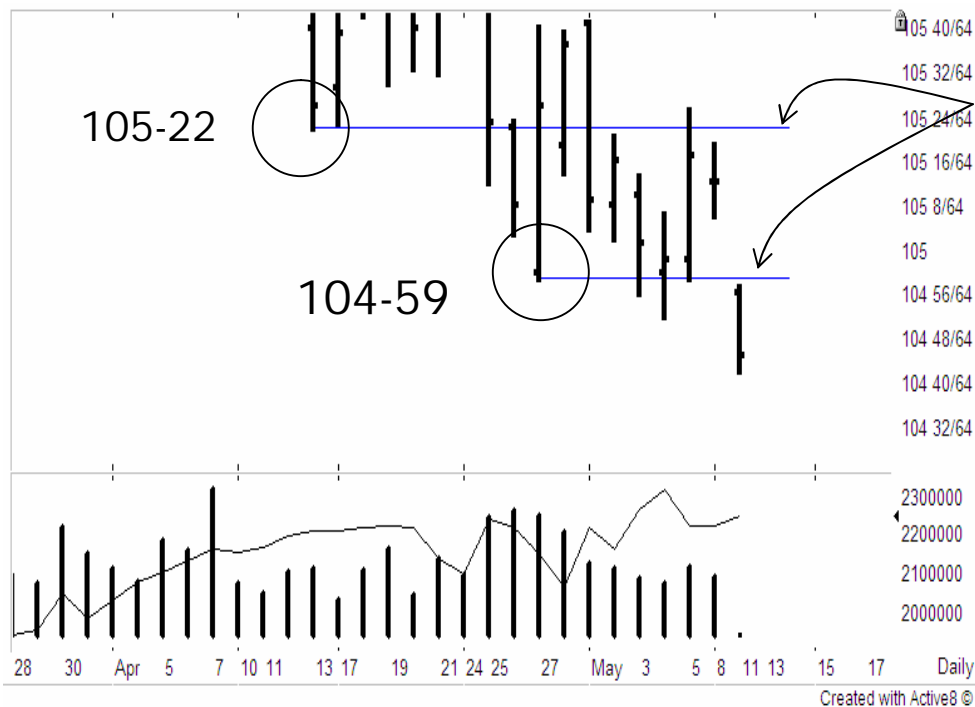


**MONTHLY SPOT CASH CHART:**  
And that move too is driven on by the market penetrating down through the Pivotal lows around 108.  
They will act as good resistance to any bounce.



#### DAILY SPOT CASH CHART:

Once through those lows the market has sold lower, consistently.



#### DAILY SPOT CASH CHART:

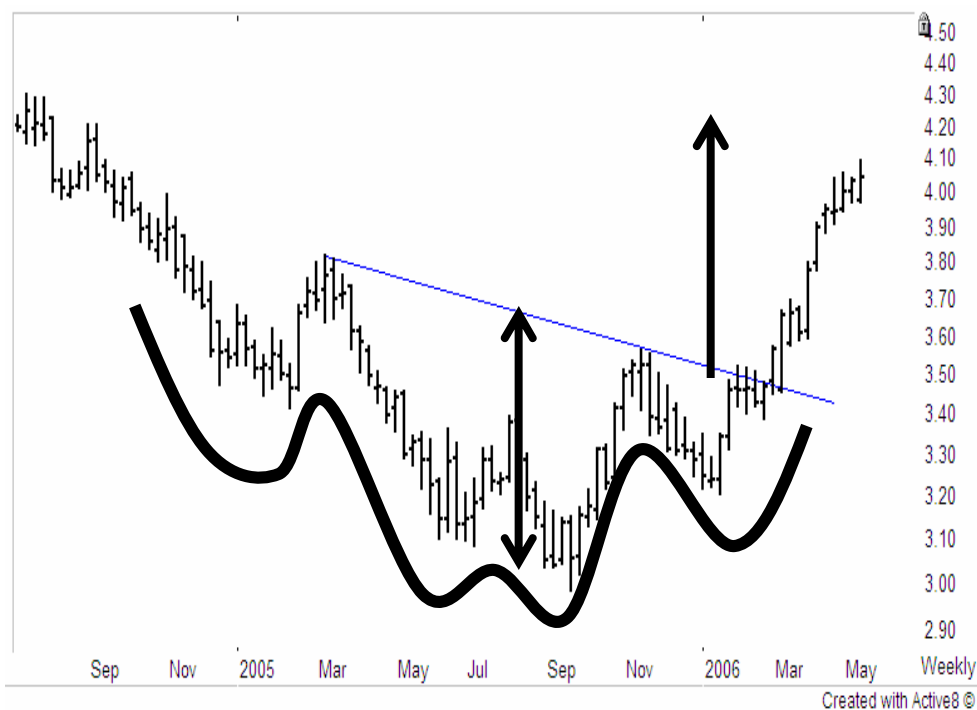
In the very short-term the important resistance levels for the bears to watch are 104-59 and 105-22.

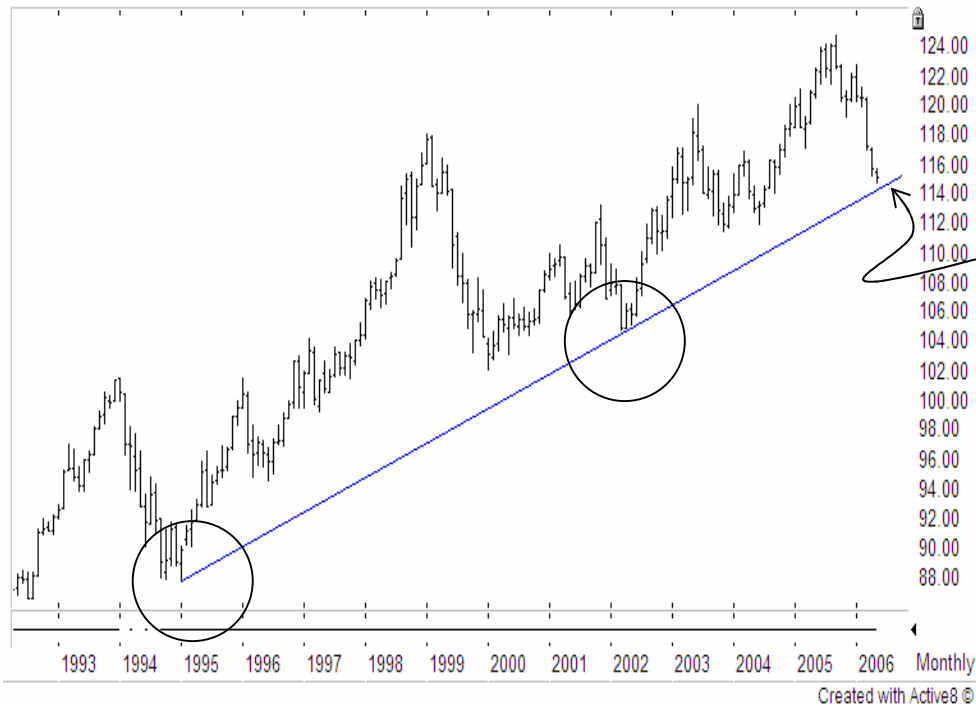
Last week said that all rallies were 'only an opportunity for the bears to get short'

That was right. We are lower again this week. Stay short. Use our horizontal levels to get shorter

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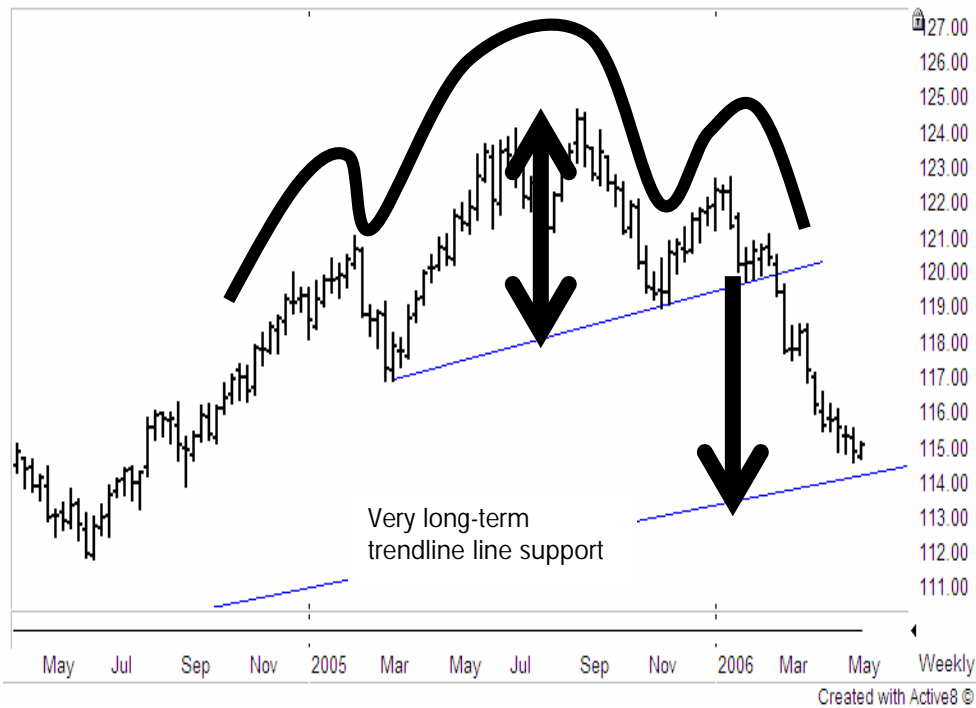
# Ten Year Euro Bund





**MONTHLY FUTURES  
CONTINUATION  
CHART:**

The futures market suggests that the long run trendline is closer to being tested that the yield charts suggest.



**WEEKLY FUTURES  
CONTINUATION  
CHART:**

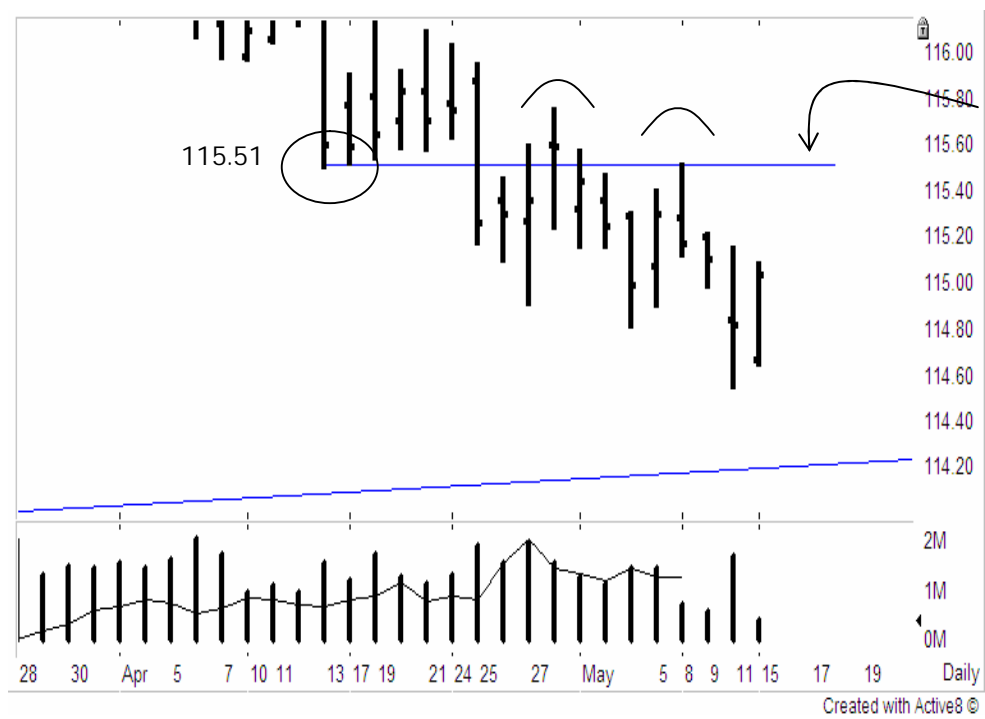
And that market too is being driven by a clear Double Headed Head and Shoulders pattern.

The minimum target?  
113 or so.





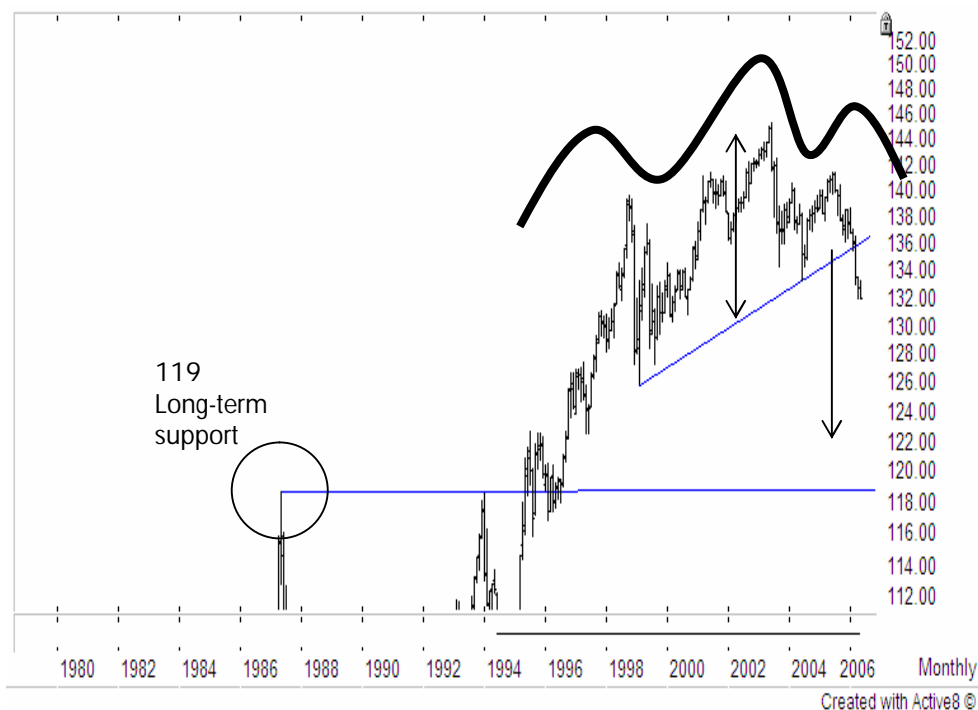
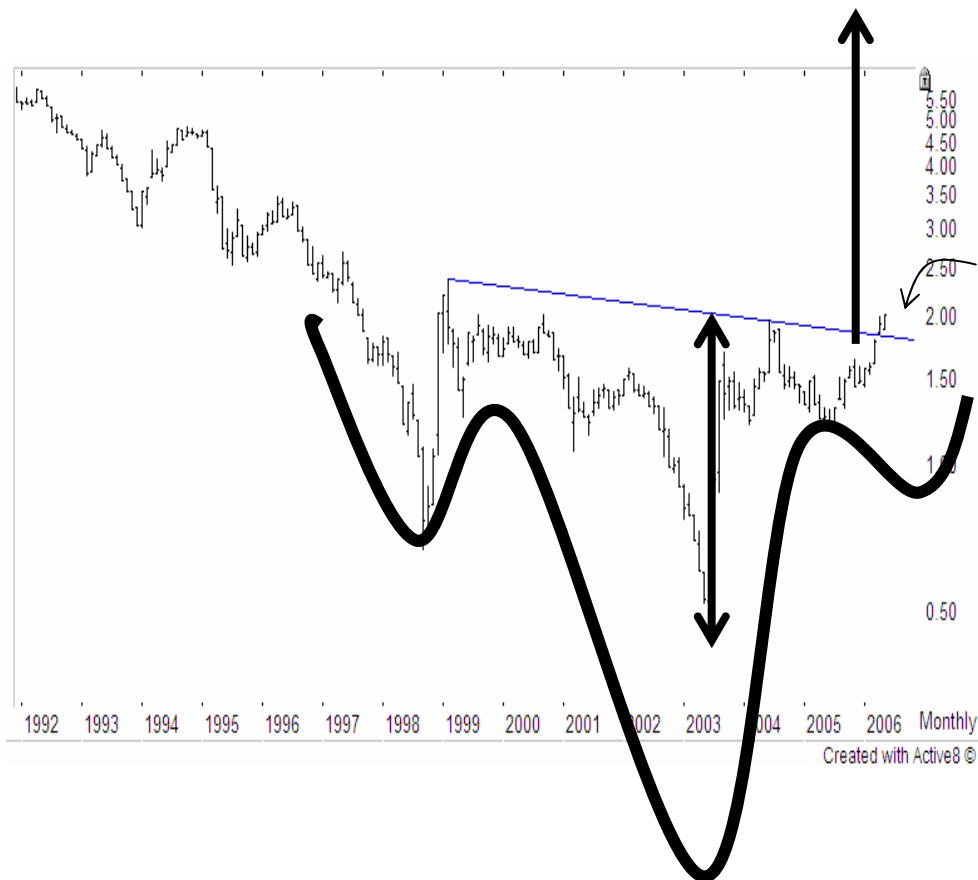
DAILY SPOT CASH  
CHART:  
The move after the  
completion of the  
Pattern has been steady  
and relentless.

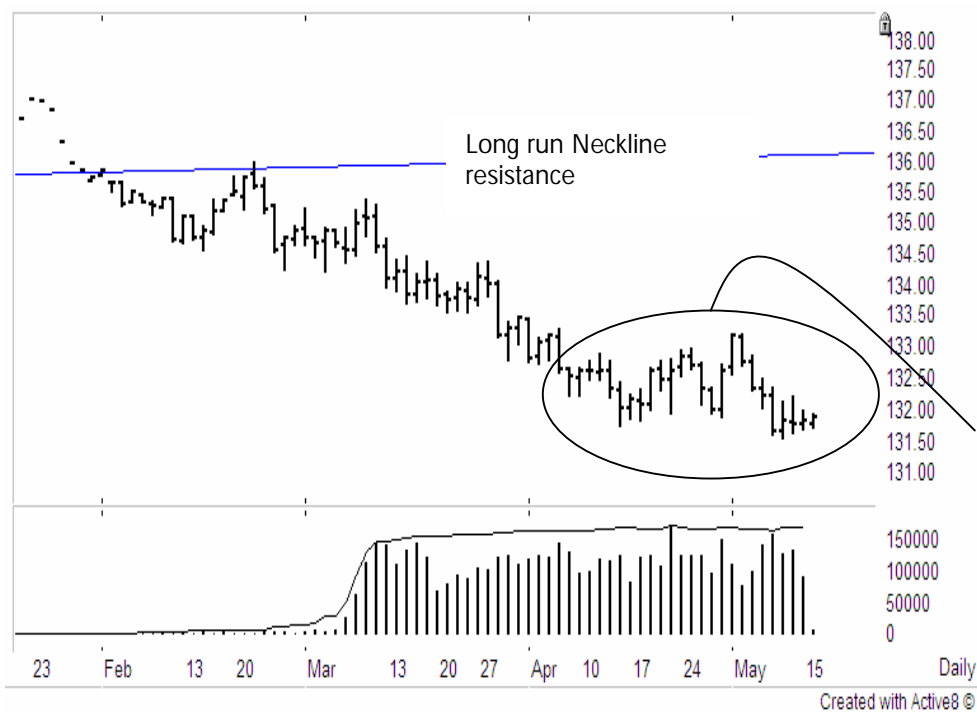


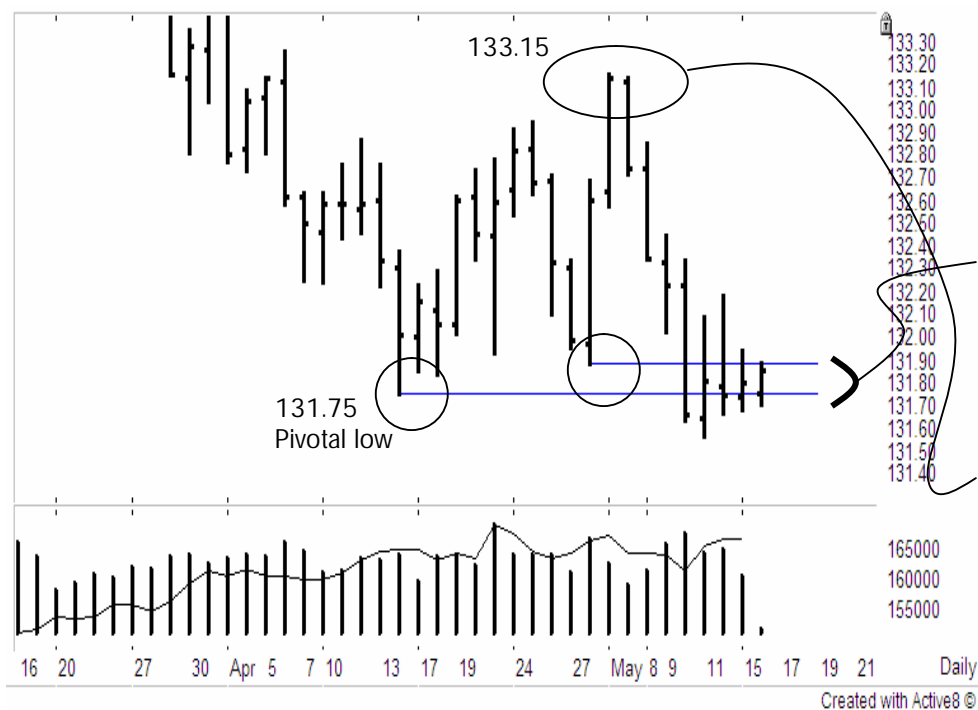
DAILY SPOT CASH  
CHART:  
The critical short-term  
resistance level for the  
bears to watch (which  
we identified last week)  
is the horizontal from  
the low at 115.51.  
  
Stay short beneath  
115.51.

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# Ten Year Japanese Bond







#### DAILY SPOT CASH CHART:

The market is trying to break down - but has yet to achieve it.

Watch carefully for a clear smash down through the lows at 131.75-88.

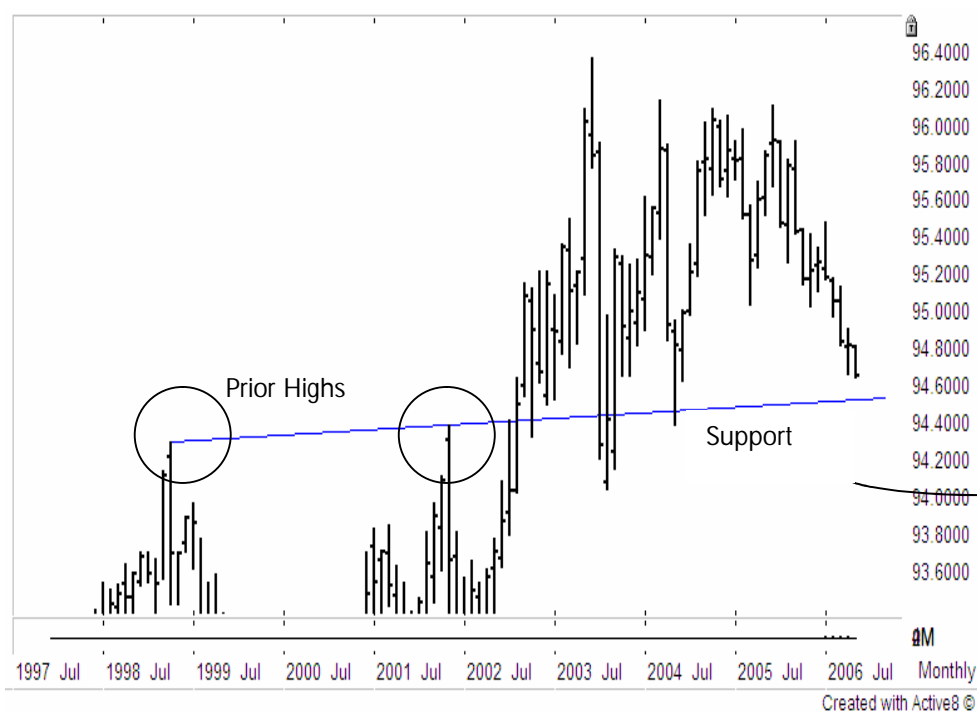
Bulls should now watch for a push back through the high at 133.15 before getting long.

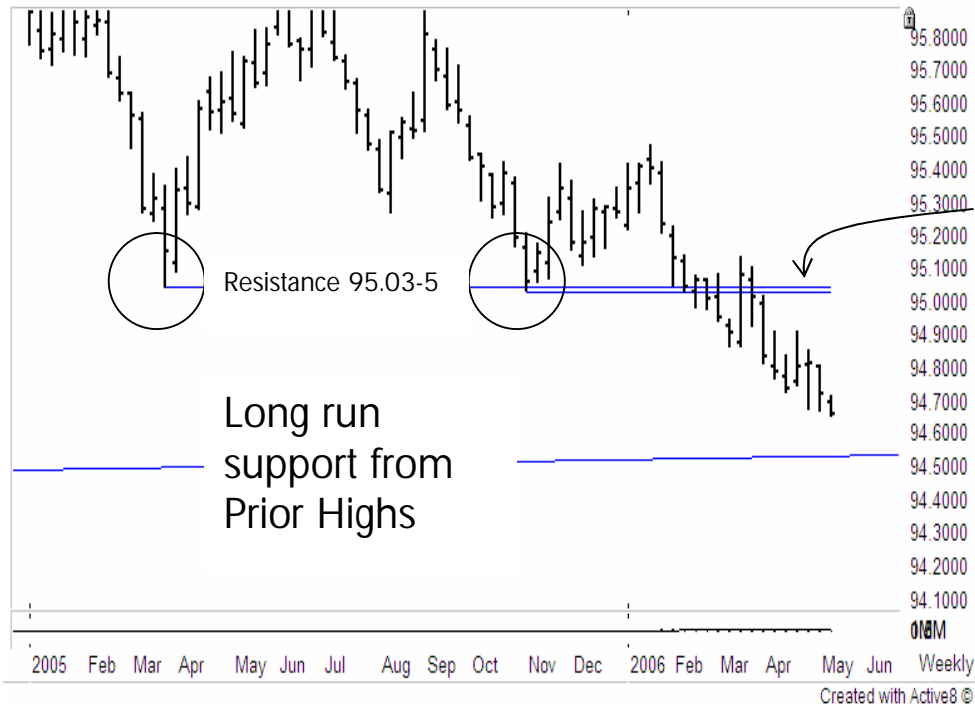
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# Interest Rates

Because of the proximity of the long term supports in the US and European markets we have been lacking speculative interest in these markets. Nothing much has changed.

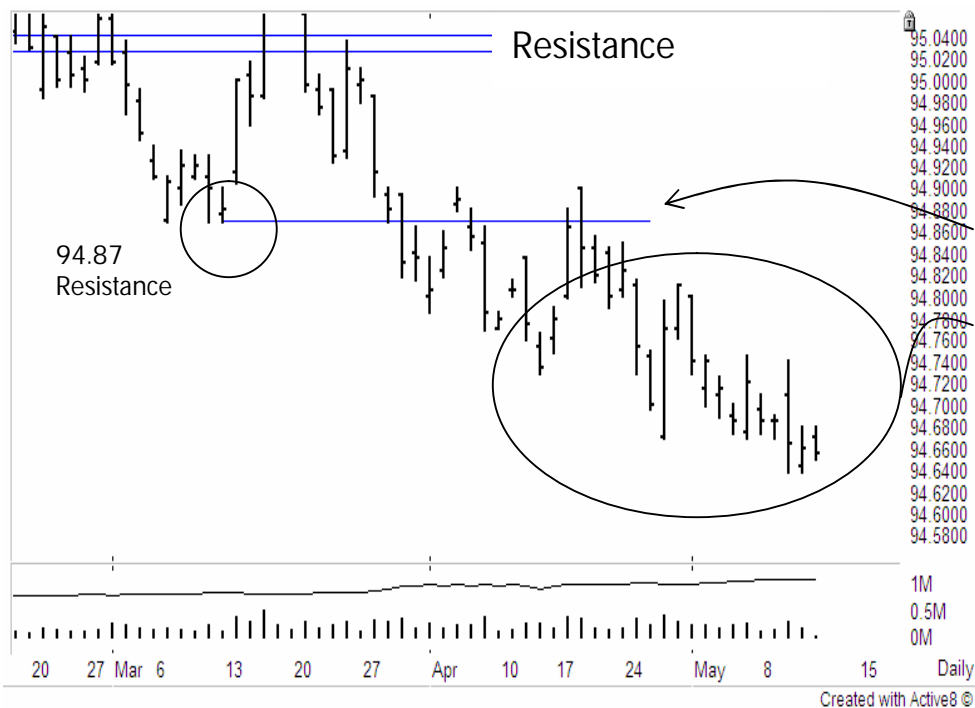
## Dollar Rates





#### WEEKLY MAR 07 FUTURES CHART:

In greater detail, there is clearly no trade for the bulls either until the market can get back through the resistance at 95.05/3.



#### DAILY MAR 07 FUTURES CHART:

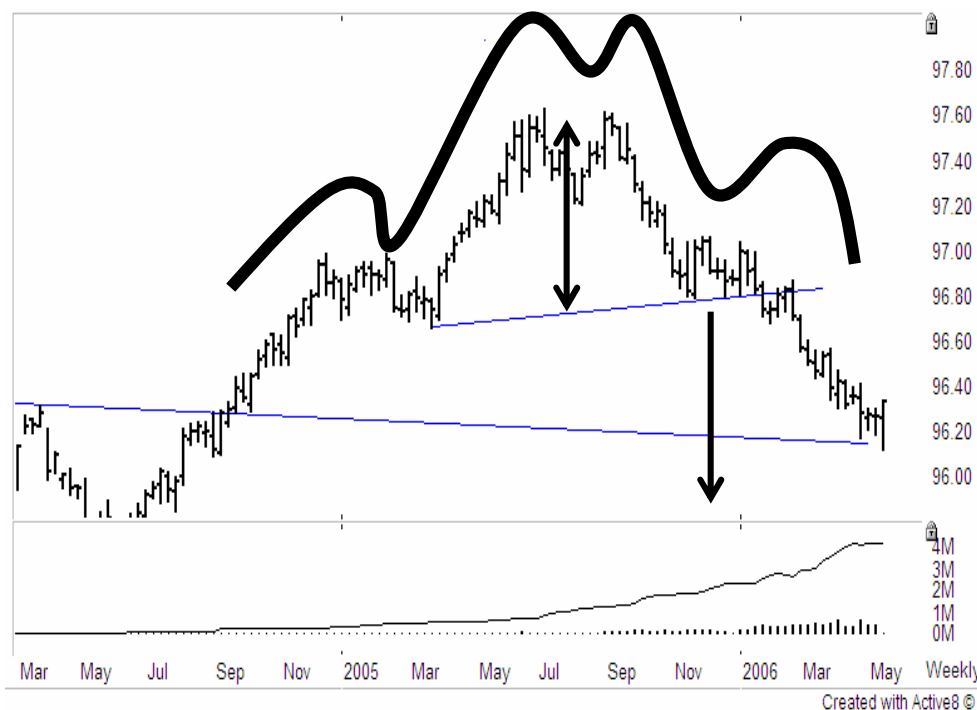
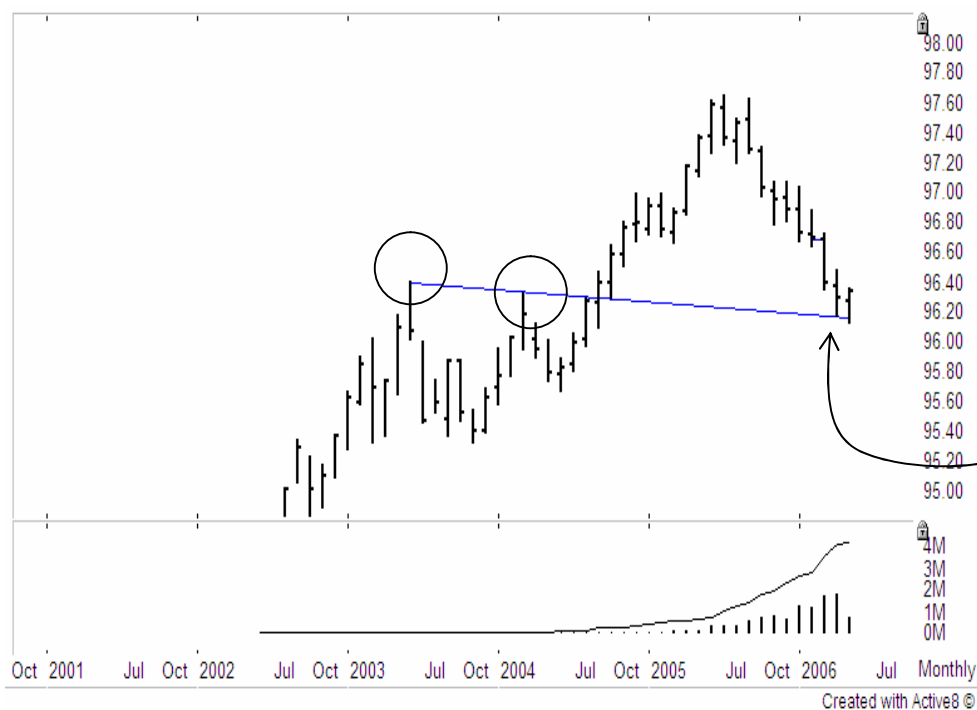
Look at the daily price action. There is a second level of resistance that matters above the market at 94.87.

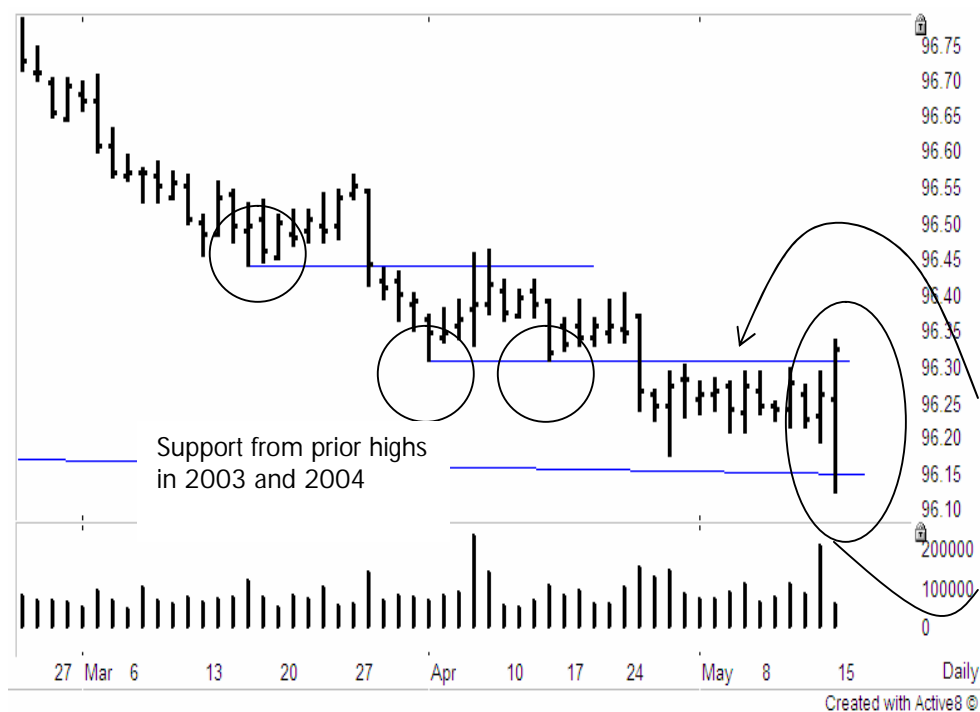
Beneath that there is a clear lack of structure.

Like last week – as we are caught between bulls and bear forces its better to stay out.

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# Euribor Rate





#### DAILY MAR 07 FUTURES CHART:

In general we can see that the market has proceeded down in a series of steps – the classic ratcheting of a trend.

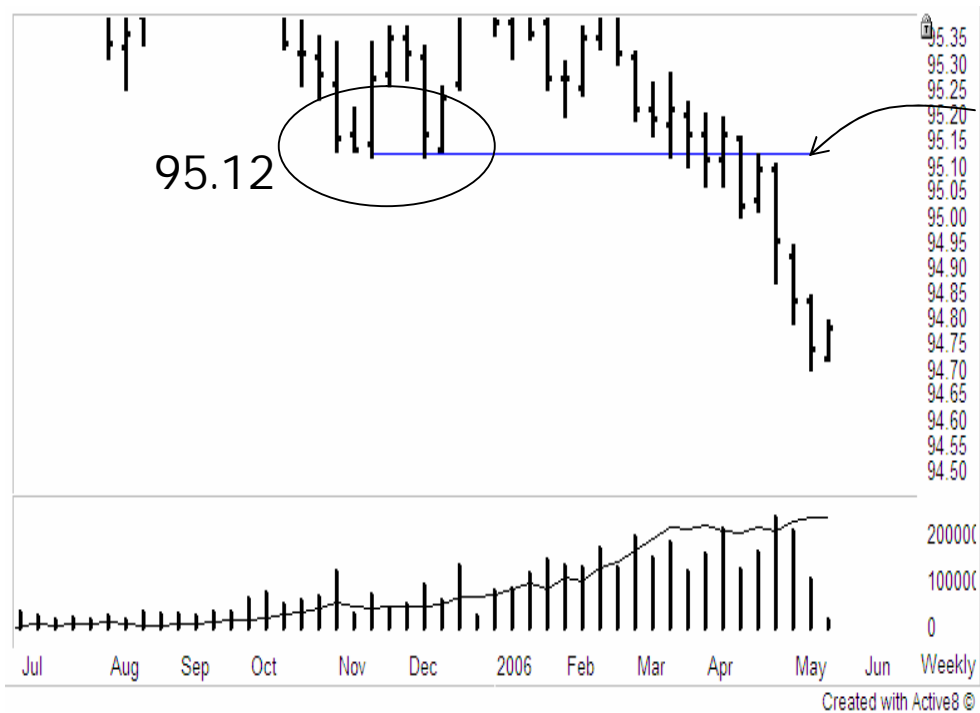
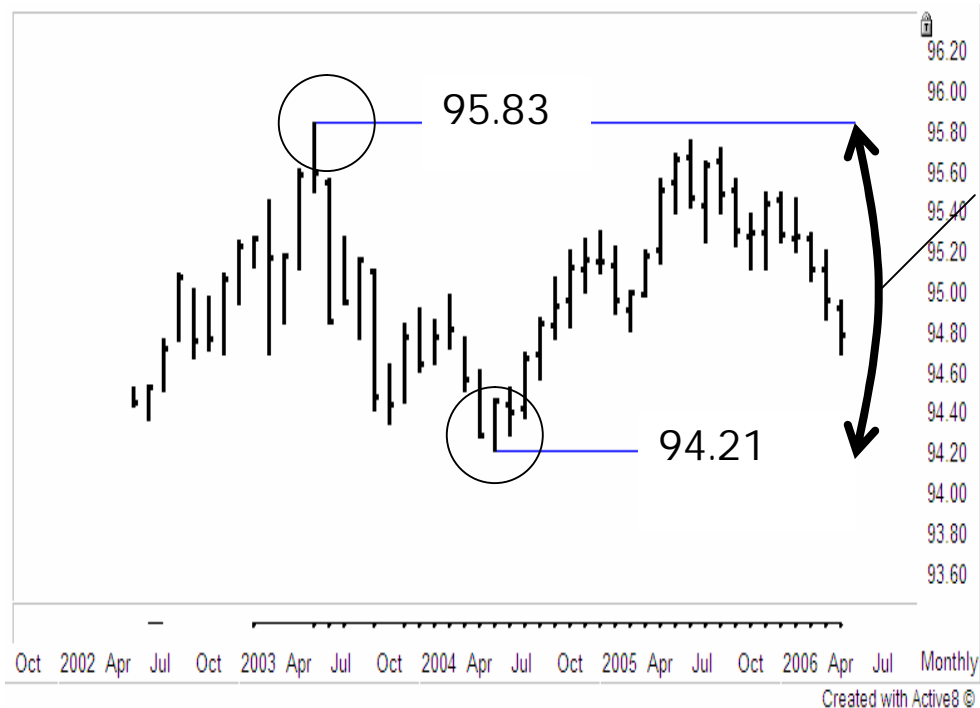
The push back through the resistance at 96.31 is important if sustained.

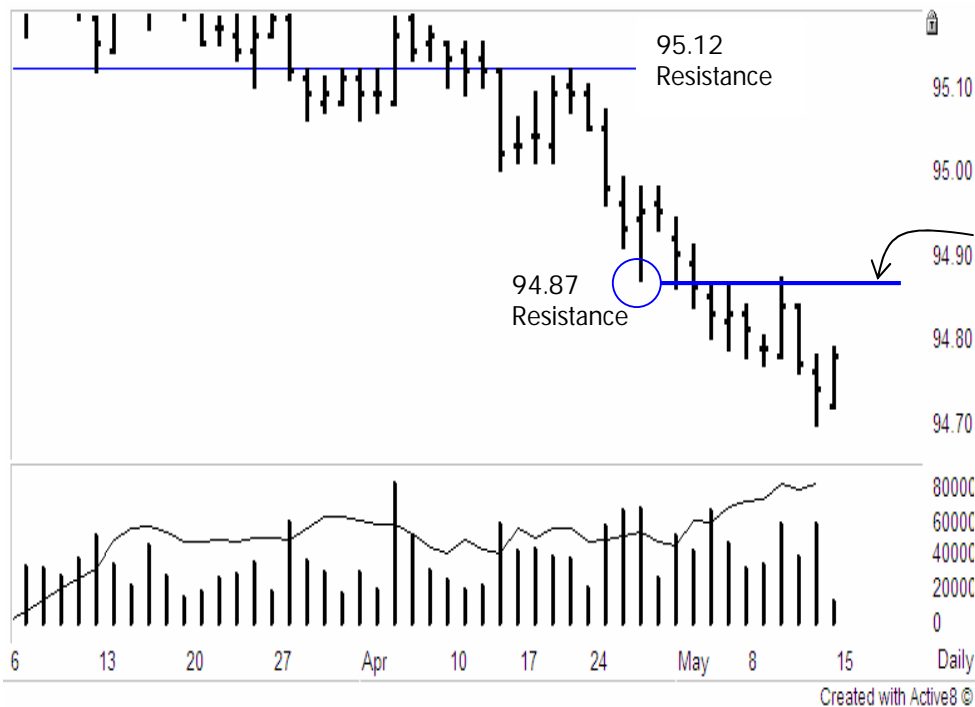
And note too the presence of both a Day Key Reversal (and a Week Key Reversal - see above)

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# Sterling Rates





# DAILY MAR 07 FUTURES CHART:

But the trend beneath that level, once it broke, is clear.

As ever the best pointers for traders are found in the market's reaction to the horizontal from prior lows.

We have been over-cautious. And having missed the bear move – remain on the sidelines.

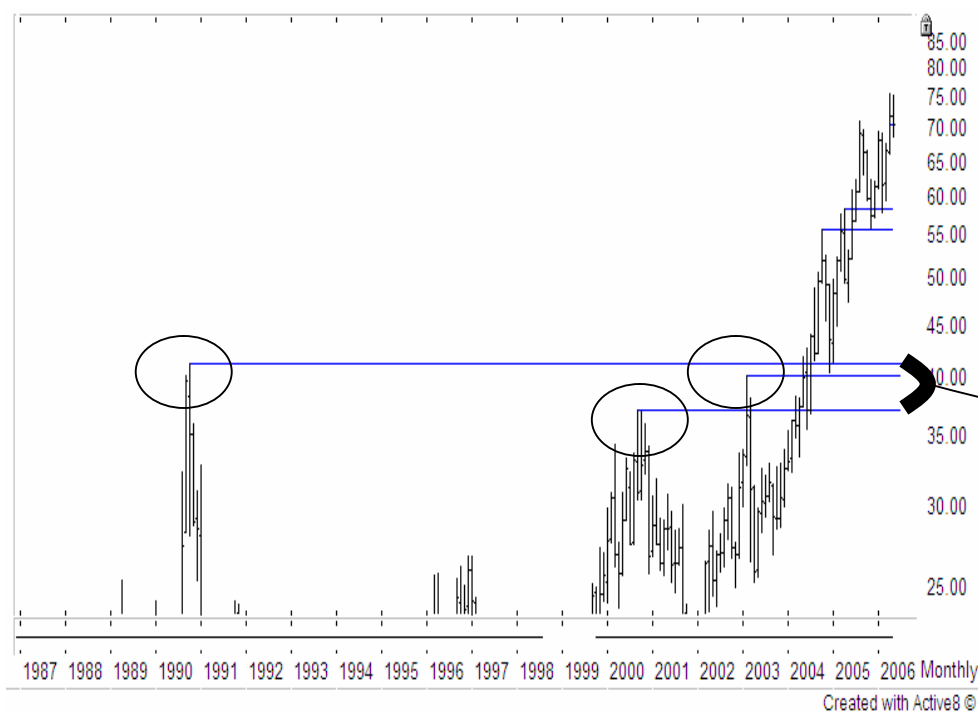
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# Commodities

These remain good bull markets – but the Oil is now a mature trend, and we are happy to have gone square after the recent soggy price action.

Gold is hot – but again – rather extended.

## Oil

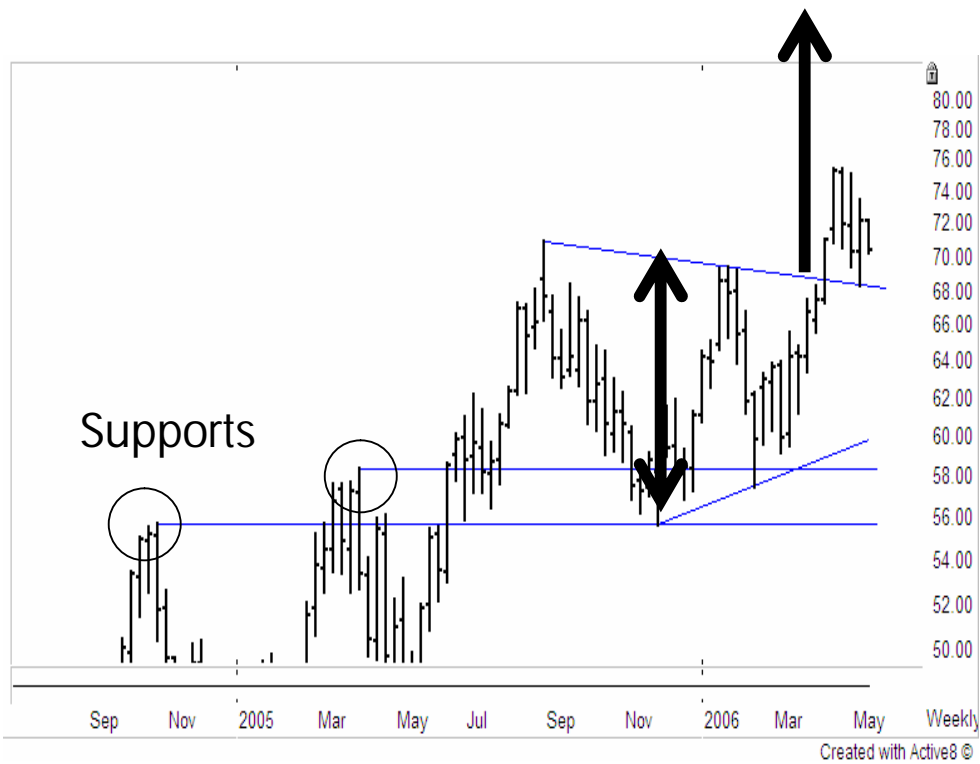


### MONTHLY FUTURES CONTINUATION CHART:

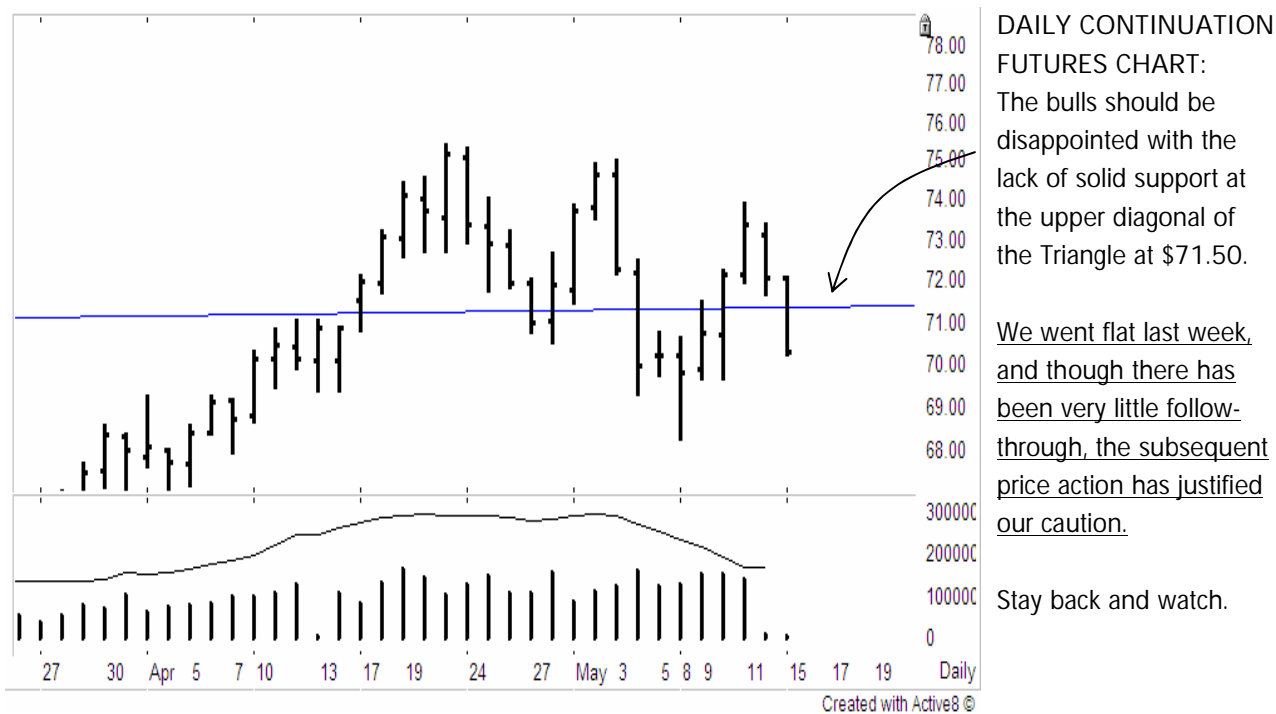
The long view of the market highlights the supports at the \$40 that the market broke up through in 2004.



WEEKLY FUTURES CONTINUATION CHART:  
Nearer term, the highs at \$58 and \$56 are clearly important support as the market has bounced off them twice.

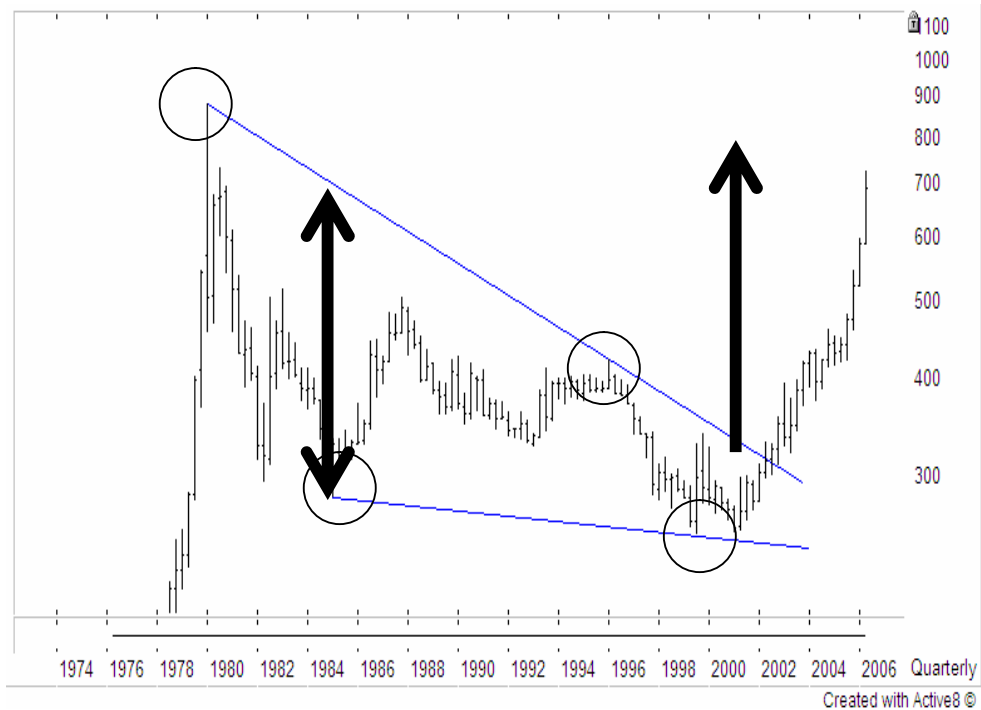


WEEKLY CONTINUATION FUTURES CHART:  
The Triangle that has formed above the supports is set to drive the market on up as far as \$88.



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# Gold

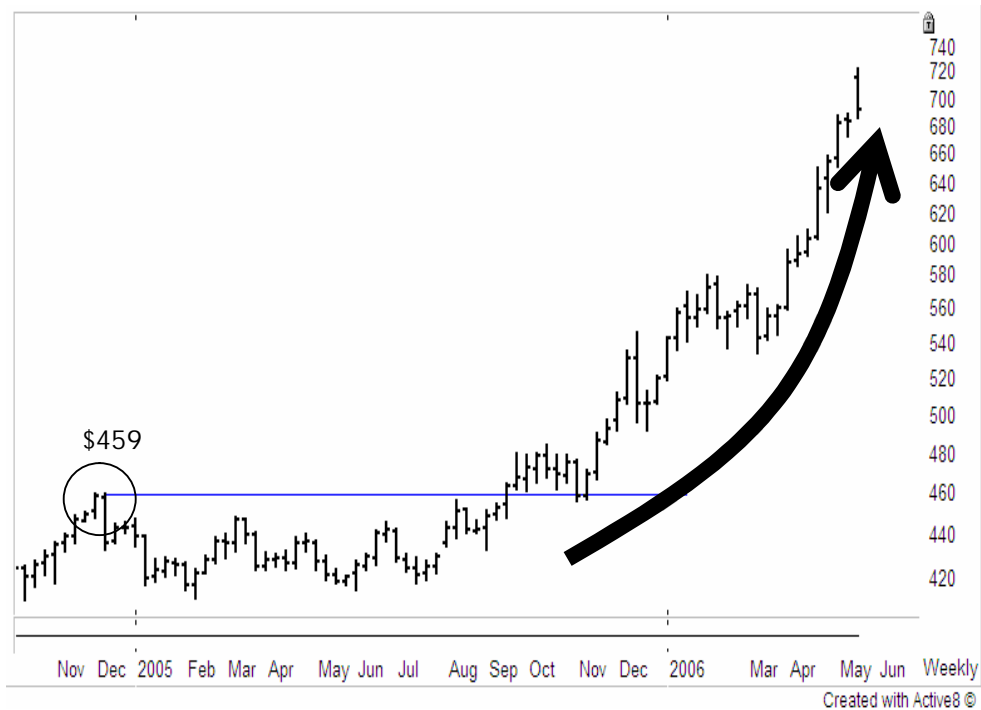


## QUARTERLY FUTURES CONTINUATION CHART:

The long chart has long been bullish.

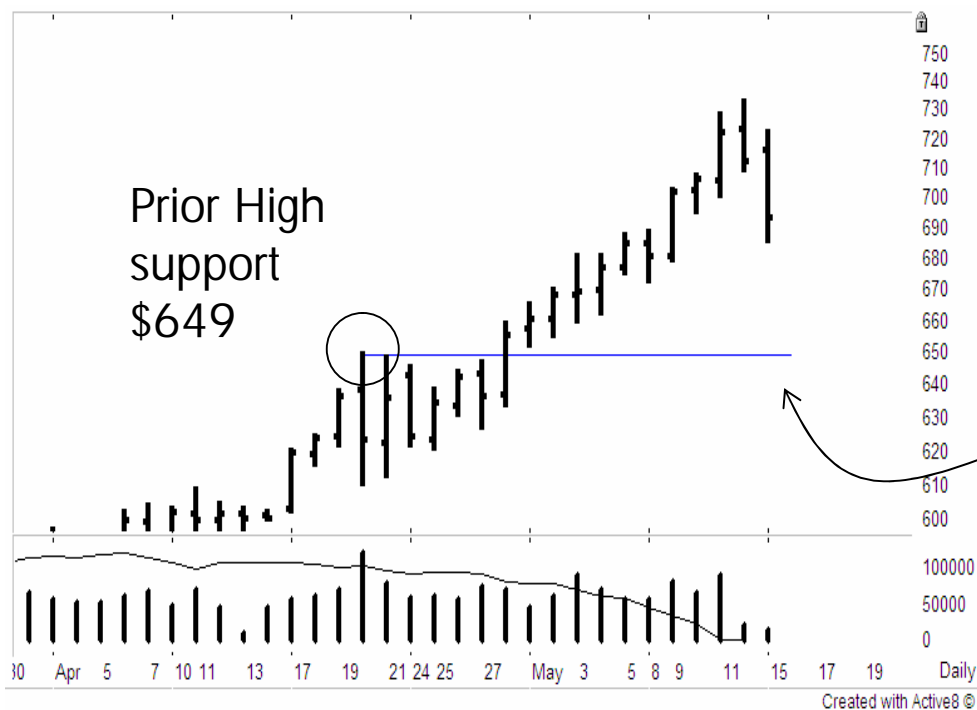
The minimum target is around \$800.

We're getting close!



## WEEKLY FUTURES CONTINUATION CHART:

The bull run has been thrilling for the bulls – with few pull-backs.



DAILY MAR 06  
FUTURES CHART:  
Until recently!

There is no top formation in place, and, moreover, until the \$650 level is broken, the bull trend cannot be said to have been tested.

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