

WEEK 42 17th – 23rd October 2006

THE TECHNICAL TRADER'S GUIDE TO MAJOR MARKETS

MARK STURDY



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Stay SQUARE

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.

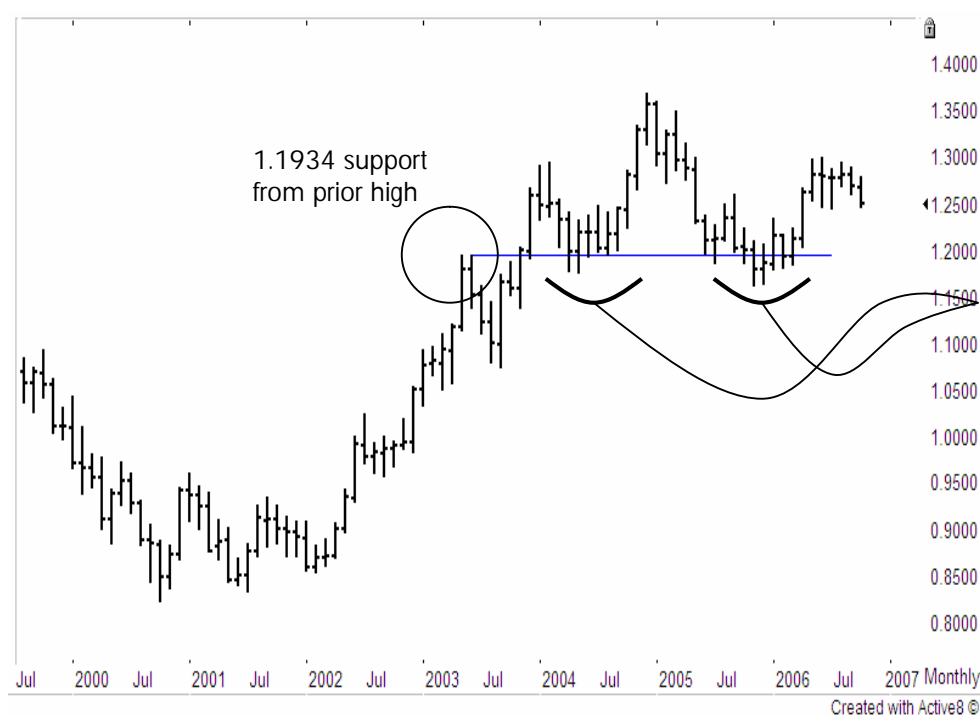
Since then he has worked extensively as a consultant technical analyst for a number of large private investors, banks and Hedge Funds.

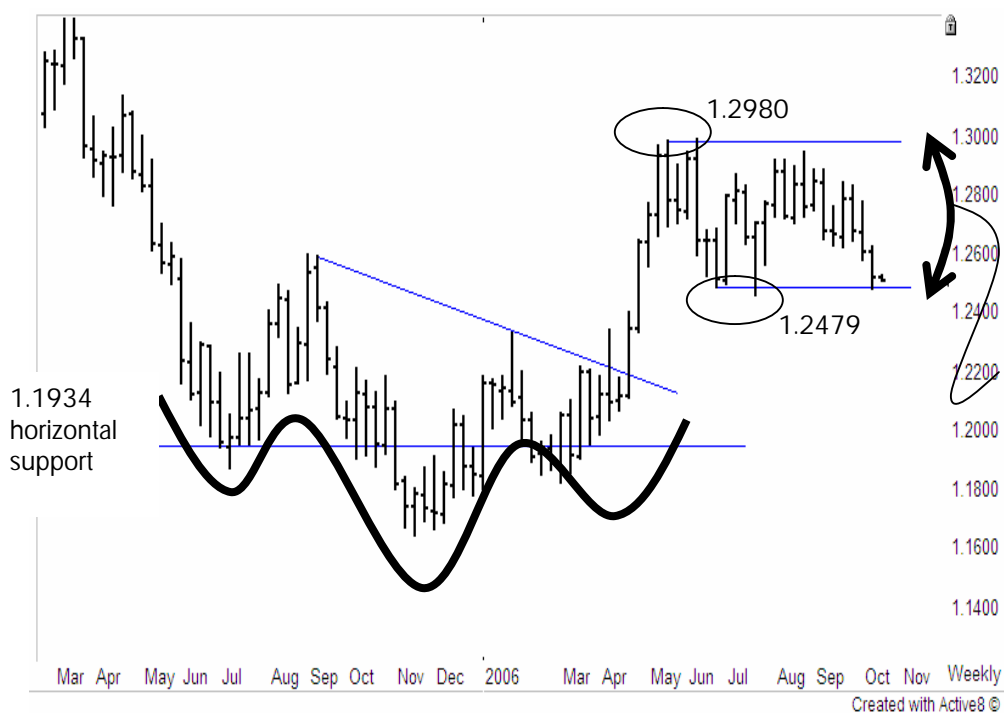
Mark has been a regular contributor to Reuters Financial Television and currently contributes to CNBC TV Europe providing chart commentary and trading recommendations

Currencies

The Dollar has continued to strengthen. Last week the strengthening achieved a good sell signal for the Yen - which worked very well for traders. Now, this week, the Dollar Euro is close to breaking a level that will give a powerful selling signal for the Euro. Only the Sterling stands proud and unbowed...so far!

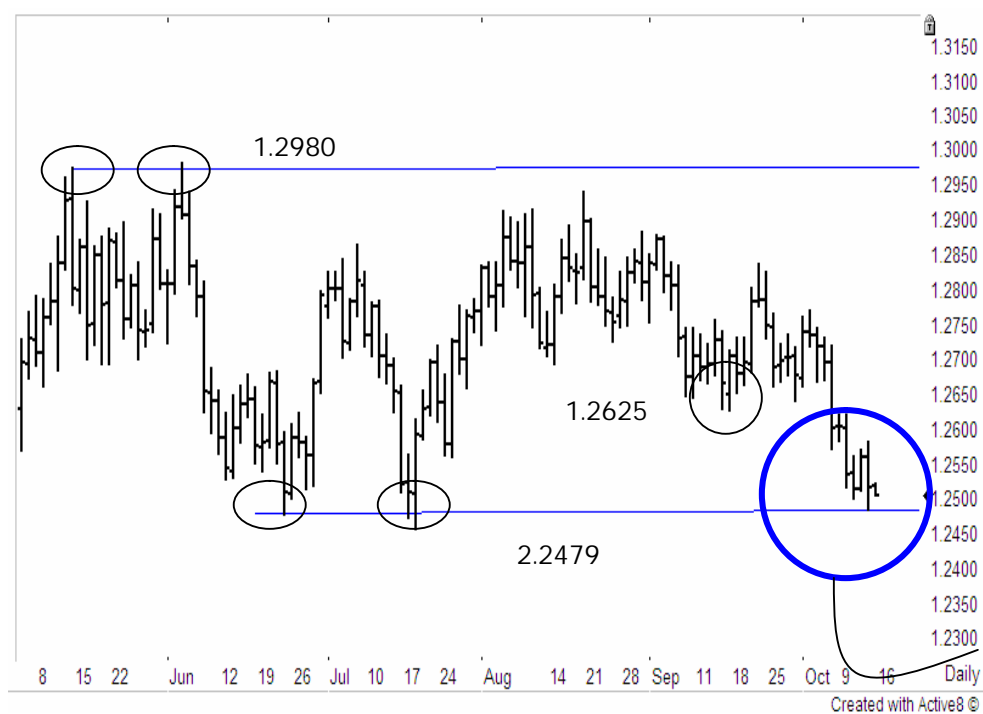
Dollar Euro





WEEKLY SPOT CASH CHART:

The market bounced off that 1.1934 horizontal - forming a Head and Shoulders Bottom which helped the bounce but then the market stagnated in a range.



DAILY SPOT CASH CHART:

And there's little structure within that range to guide the trader.

But we noticed the dip beneath the 1.2625 level last week and suggested that it might pressure the market lower - sure enough, it did.

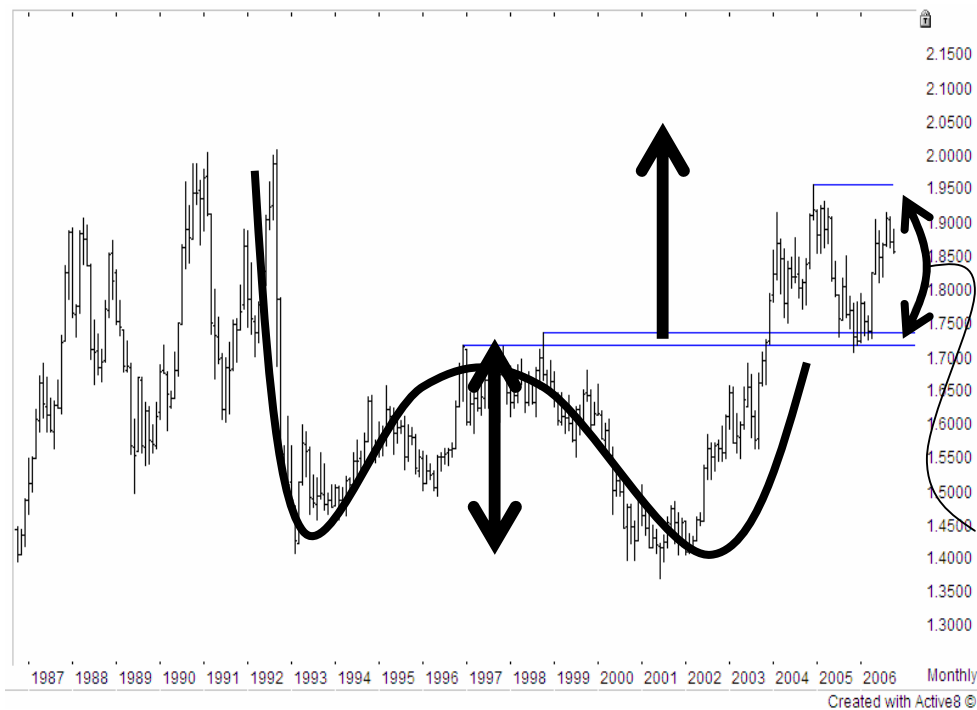
Of course, now, the close approach to the lower boundary at 1.2479 is important.

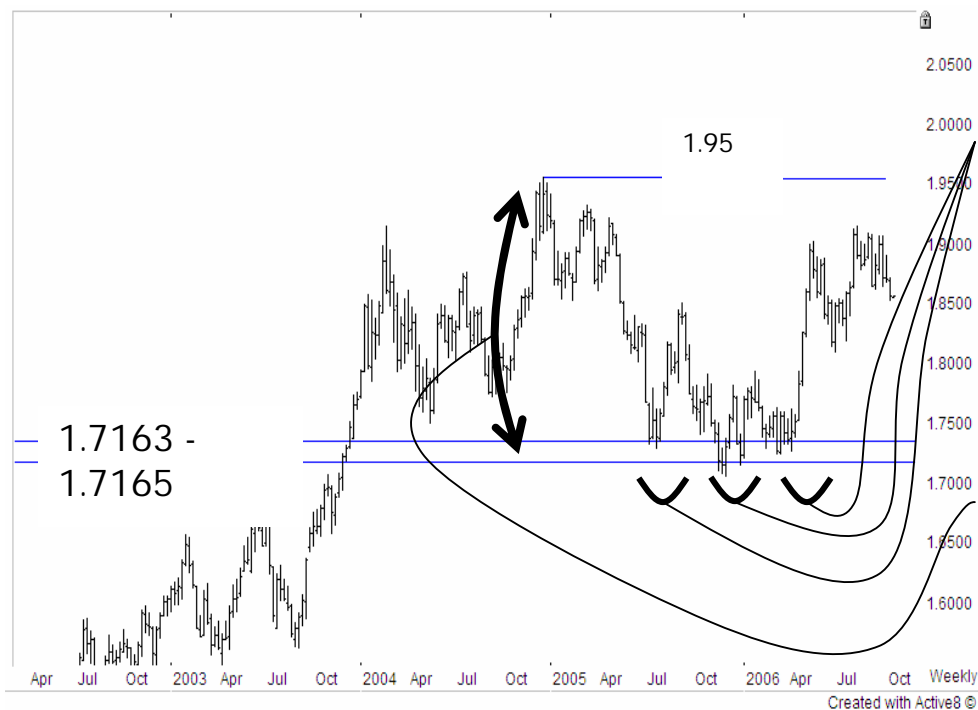
But now Euro bears should watch and wait for a break beneath.

Until then, stand back.

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Dollar Sterling





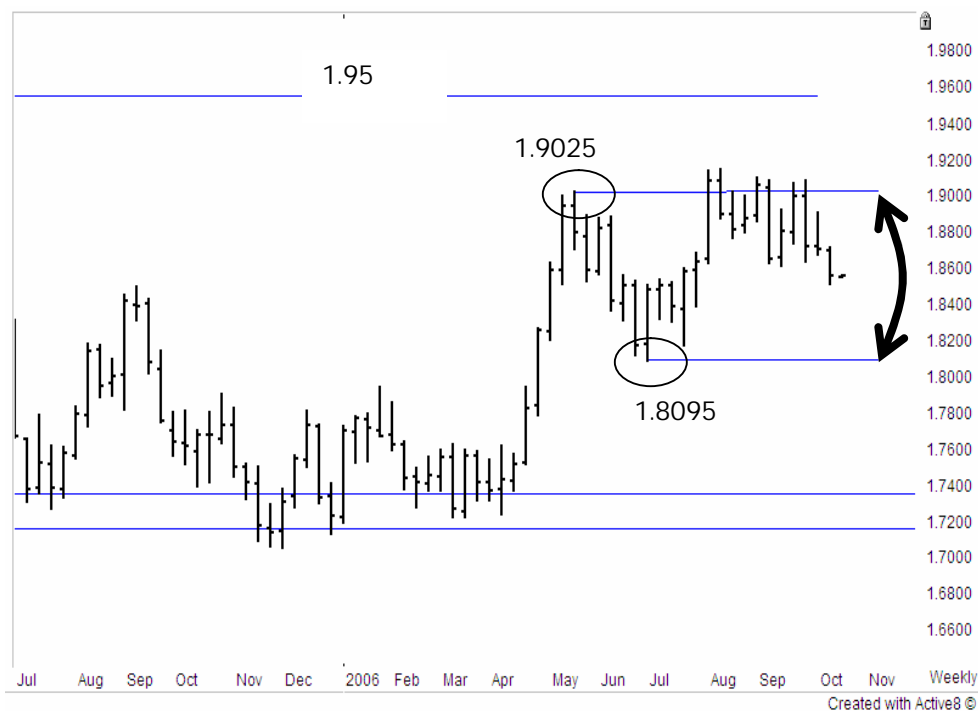
WEEKLY SPOT CASH CHART:

There were multiple attempts to get down through that support.

So the Sterling bulls should have great long-term confidence.

But where's the structure to guide the trader within the range 1.95 - 1.71?

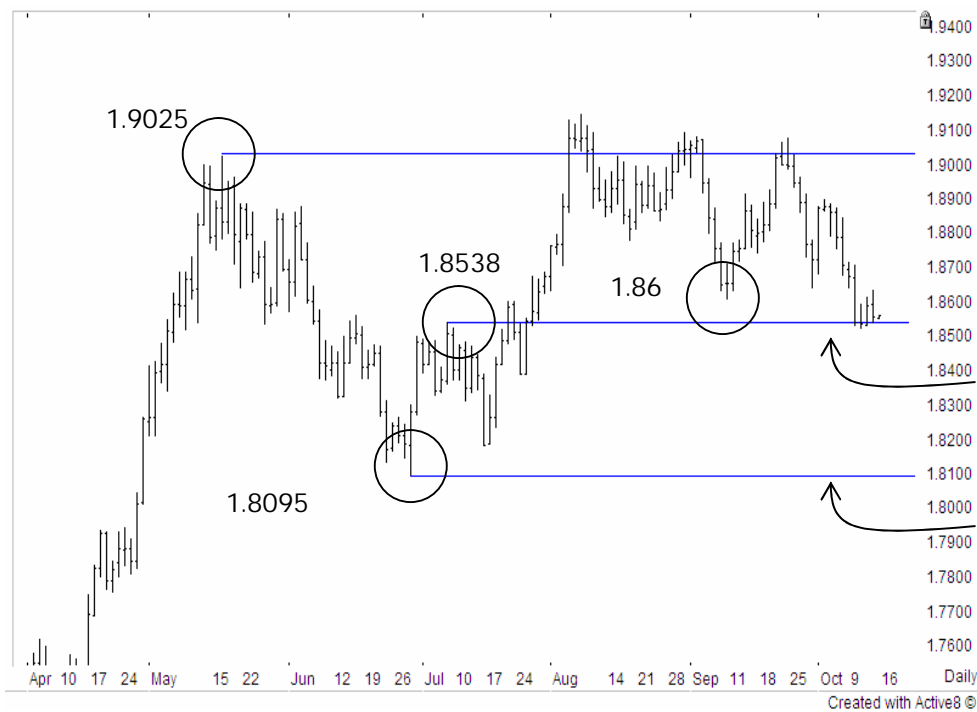
We don't see any.



WEEKLY SPOT CASH CHART:

Look at the smaller trading range within it at 1.8095-1.9025.

Will close inspection help?



DAILY SPOT CASH CHART:

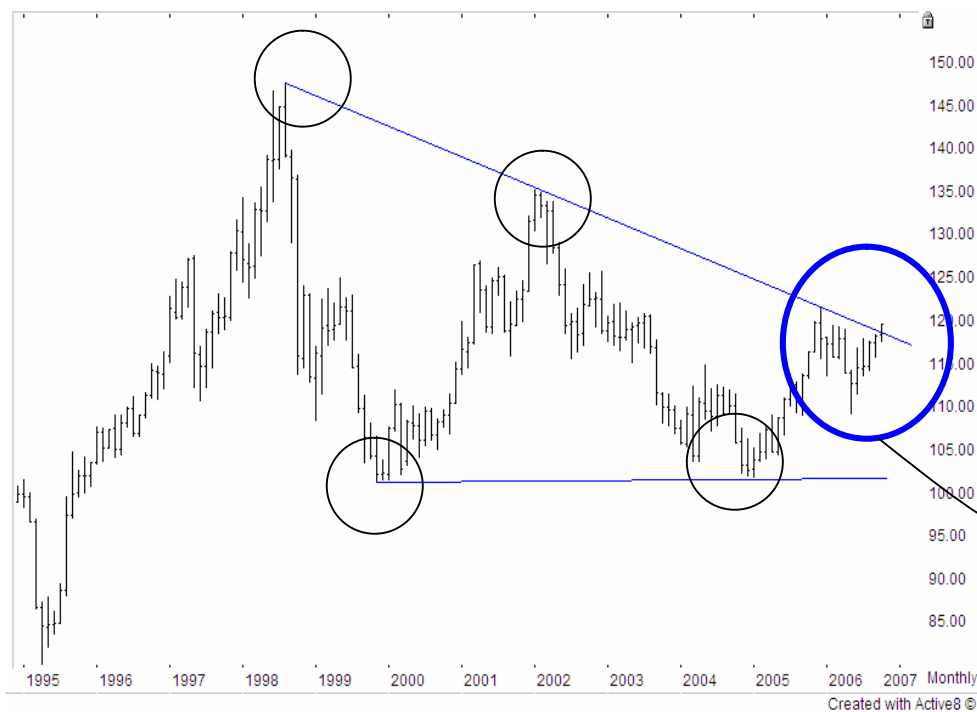
There is some structure: last week we talked about the importance of 1.86 - but watch also the market's reaction to the horizontal from the high at 1.8538.

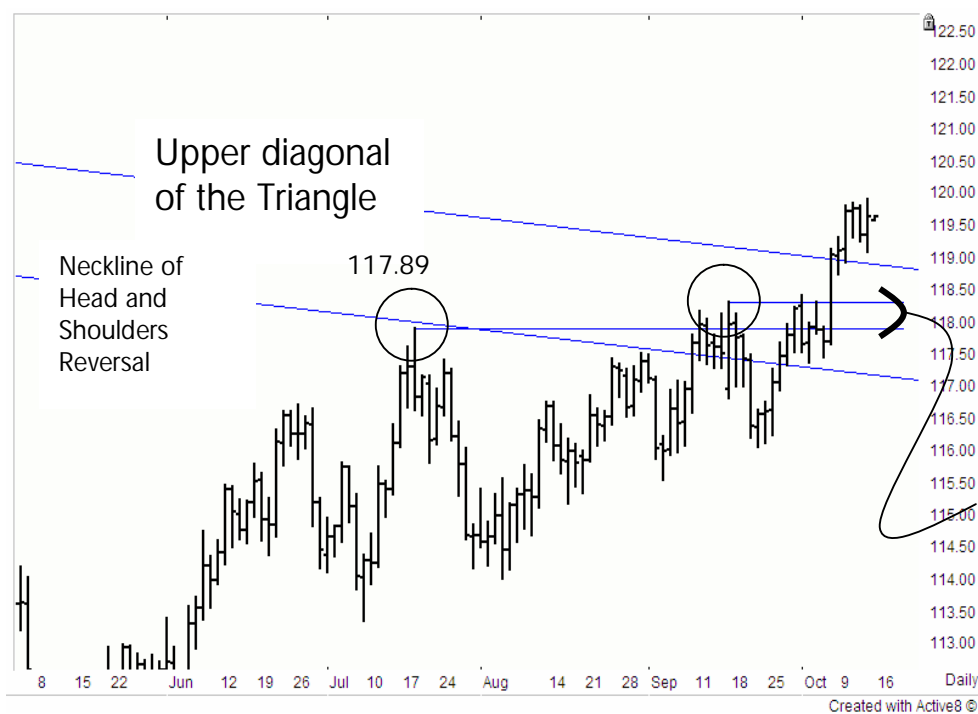
It's pausing there, and a breakdown through it will suggest a move down to the low at 1.8095.

Wait for the break.

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Dollar Yen





DAILY SPOT CASH CHART:

The detail is further encouragement for the Yen Bears.

We were excited last week and that was right. The market pushed on up.

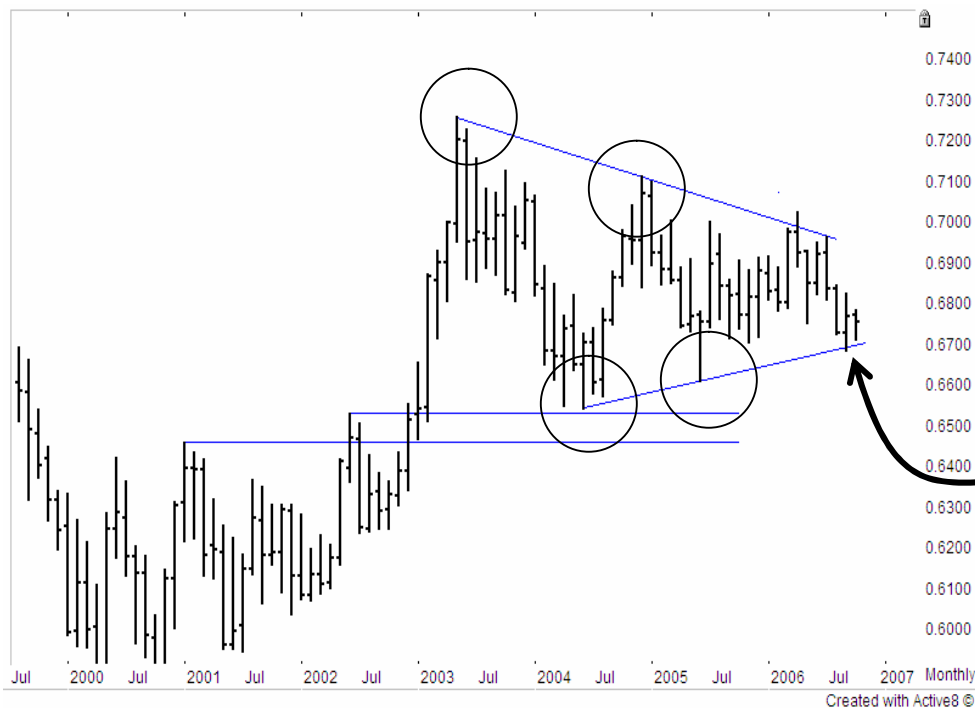
See how there is good support beneath the market at the succession of highs 117.89 and above.

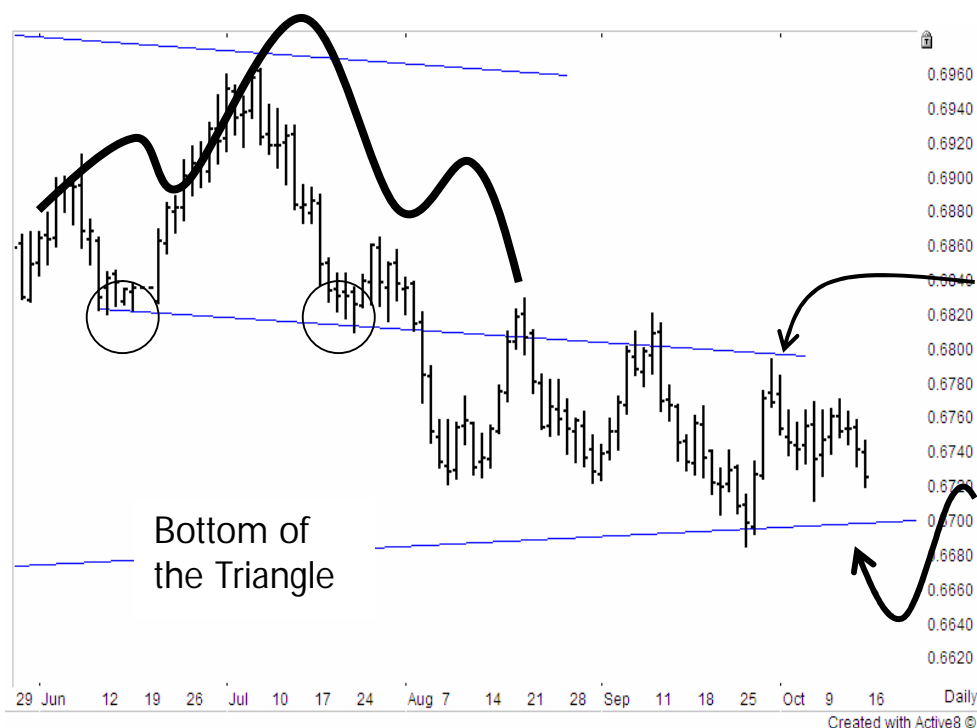
As we said last week 'this looks to be a very good break supported by the short, medium and long-term'

And it still is.

Sell the Yen.

Sterling Euro





DAILY SPOT CASH CHART:

A small Head and Shoulders Top was pressing the market down, we thought.

But though the market has remained beneath the Neckline.

The market has yet to smash down through the lower diagonal at 0.67.

Stand back - and wait for that break.

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Stocks

Stocks are in good form. The push of the European blue chips and the S&P through the near high has given them another source of support on any pull-back- and thus a powerful bull boost. FTSE remains the laggard, dragged better, still to break the highs of May. The Nikkei too, wallows far behind.

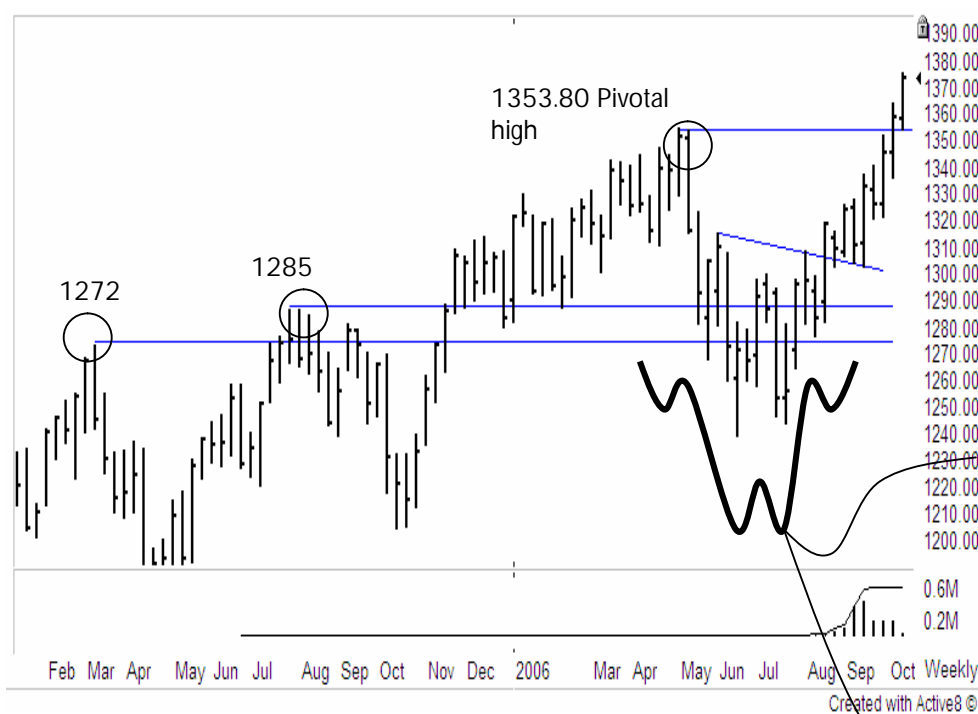
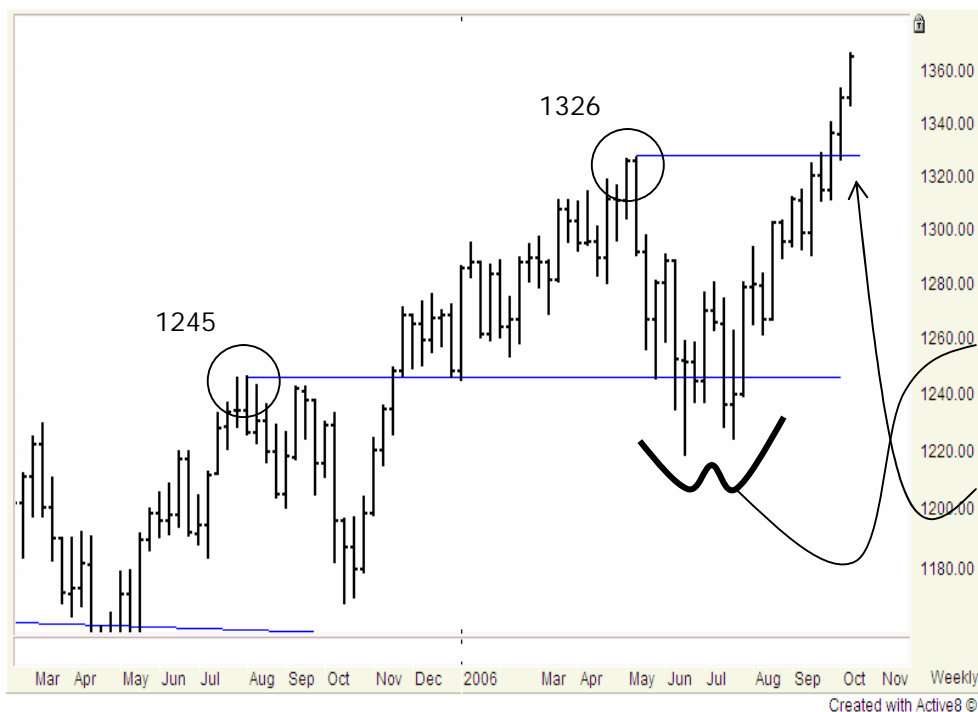
Standard and Poors 500

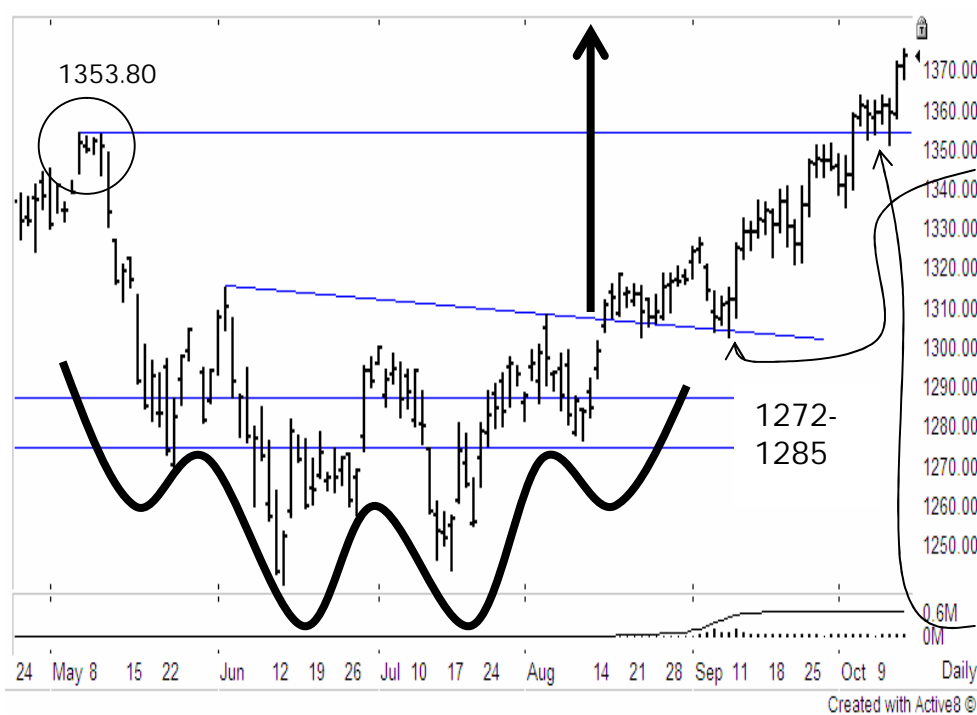


MONTHLY CASH
INDEX CHART:

The long-term chart is
bullish!

A huge Head and
Shoulders Bottom is
driving the market up
as far as 1750 in the
very long term.





DAILY DEC06
FUTURES CHART:
Now, See how the market completed the H&S pattern, in the mid-August and then found that the Neckline was powerful support.

The Target of the H&S pattern is easily measured: 1380.

Note too, how the Pivotal high at 1353.80 was good support when the market got up through it.

And so acted as a good springboard for further bull price action.

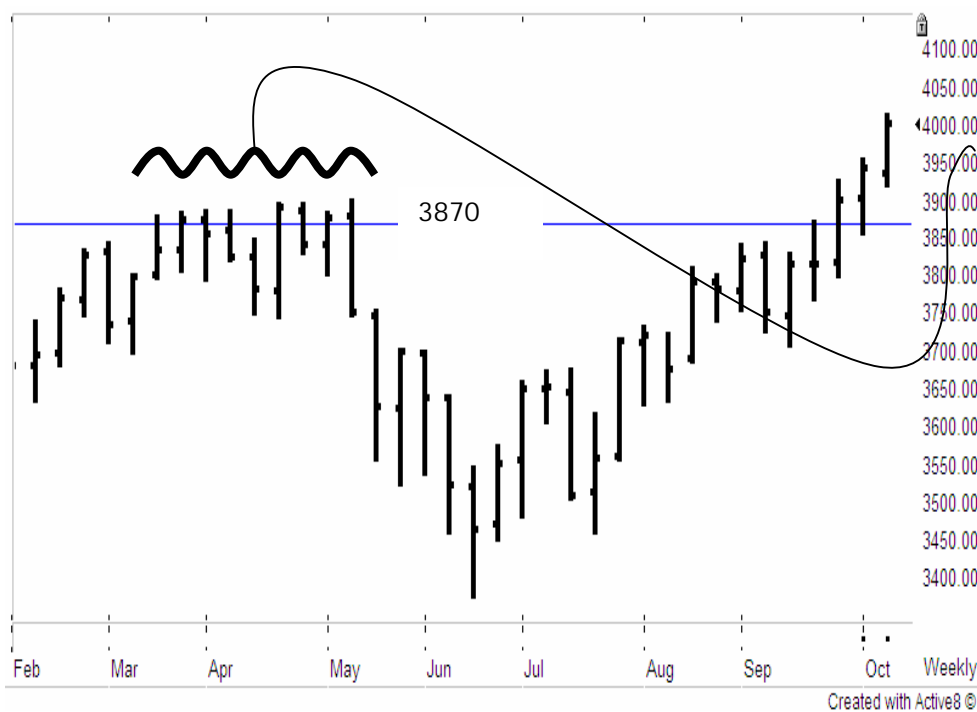
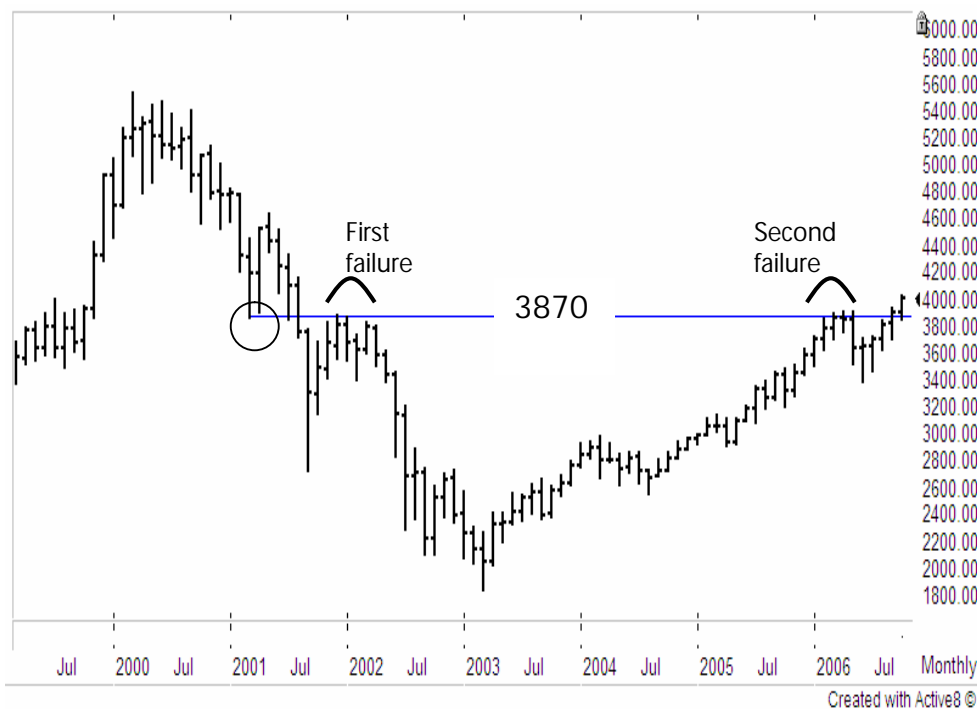
That's why, two weeks ago we said: 'stick with the market'!

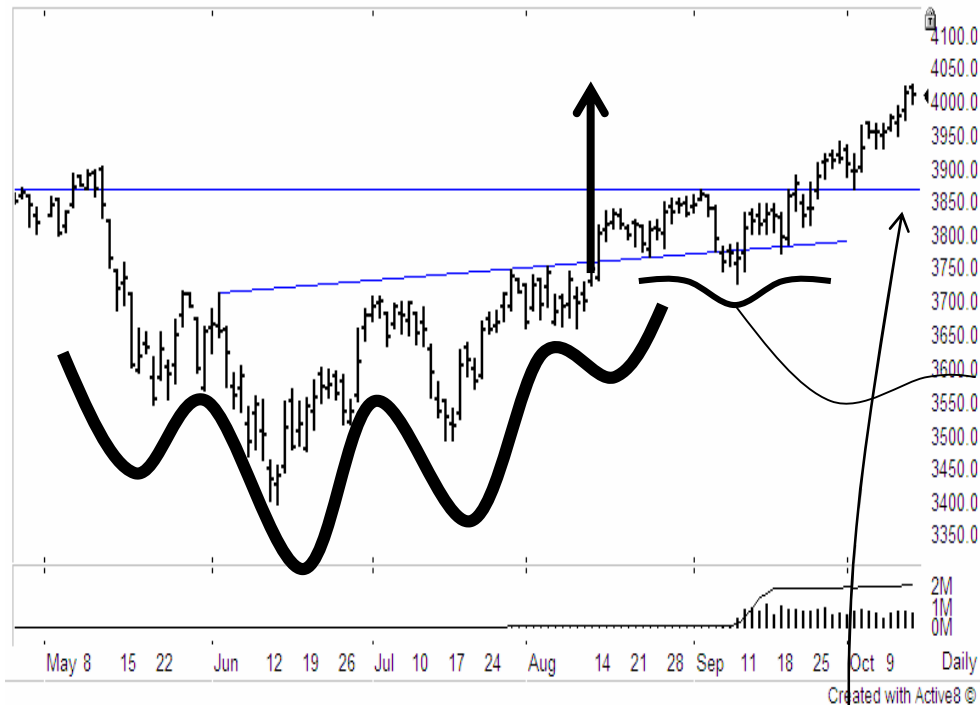
And that's still right.

(of course, there's nothing wrong with raising your Stop Loss orders to safeguard our profits - see tomorrow's Key Trades.)

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European Dow Jones Stoxx 50





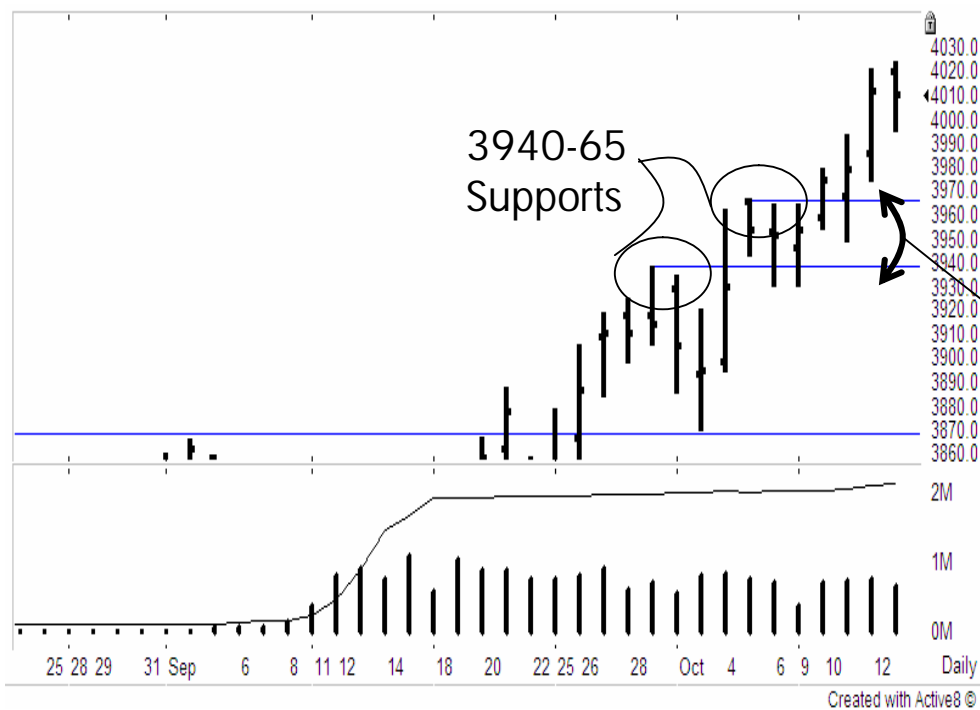
DAILY DEC06
FUTURES CHART:

And the catalyst we can now see was a complex, but discernable Head and Shoulder Bottom.

Once completed, see how the Neckline was good support.

And the Minimum Target for the H&S pattern? About where we are now. Perhaps a little higher.

But expect the 3870 horizontal to be powerful support on any pull-back.



DAILY DEC06
FUTURES CHART:

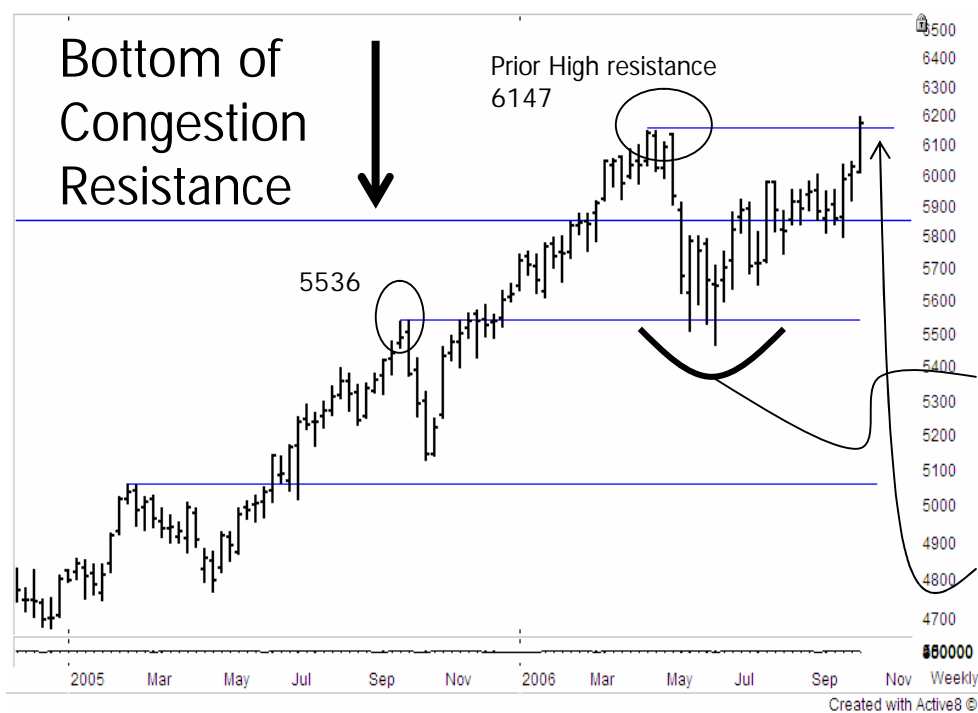
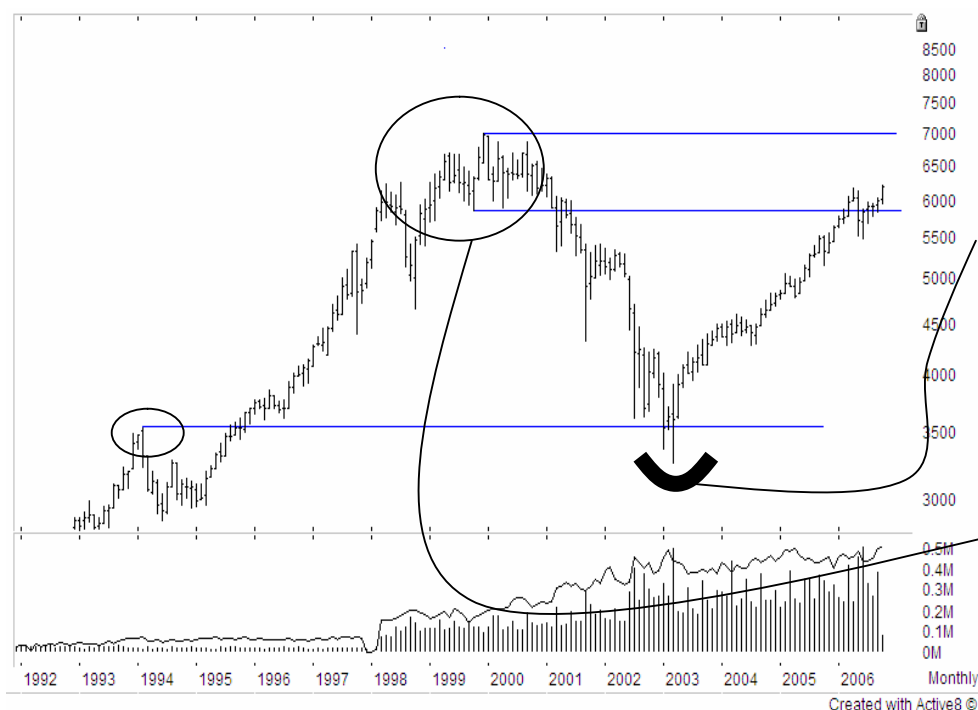
And before that, closer still, there should be good support at the 3940- 3965 area.

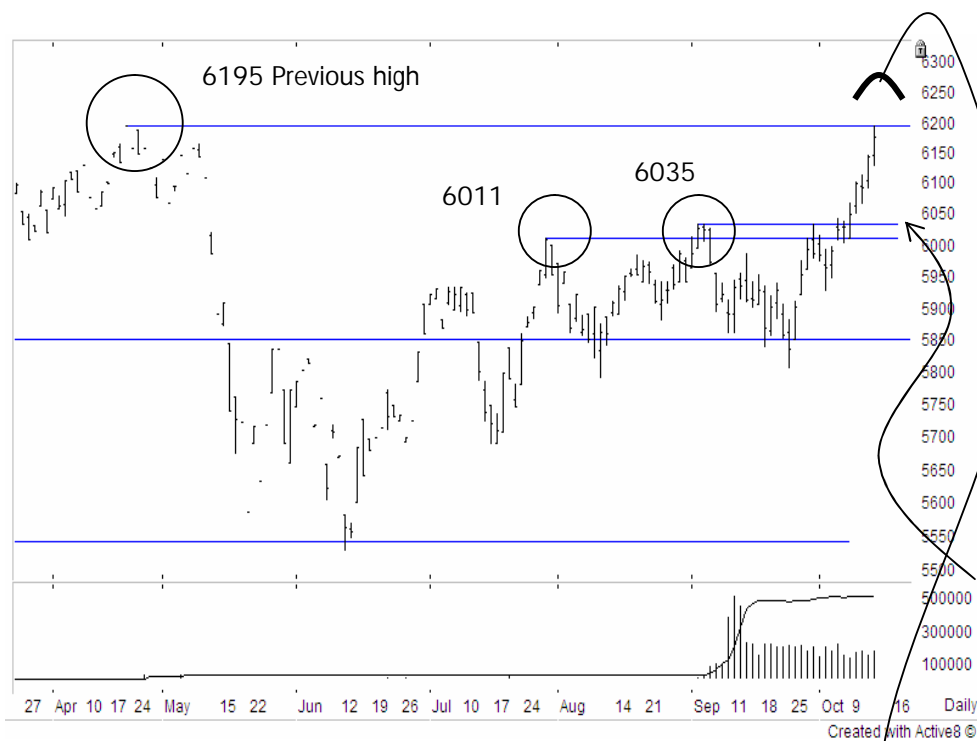
Last week the market had just bounced off the 3870 horizontal. We knew that was a good buy signal and said 'stay long'.

That was right. Stick with the market still.

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FTSE 100





DAILY DEC06 FUTURES CHART:

Look carefully at this daily detail.

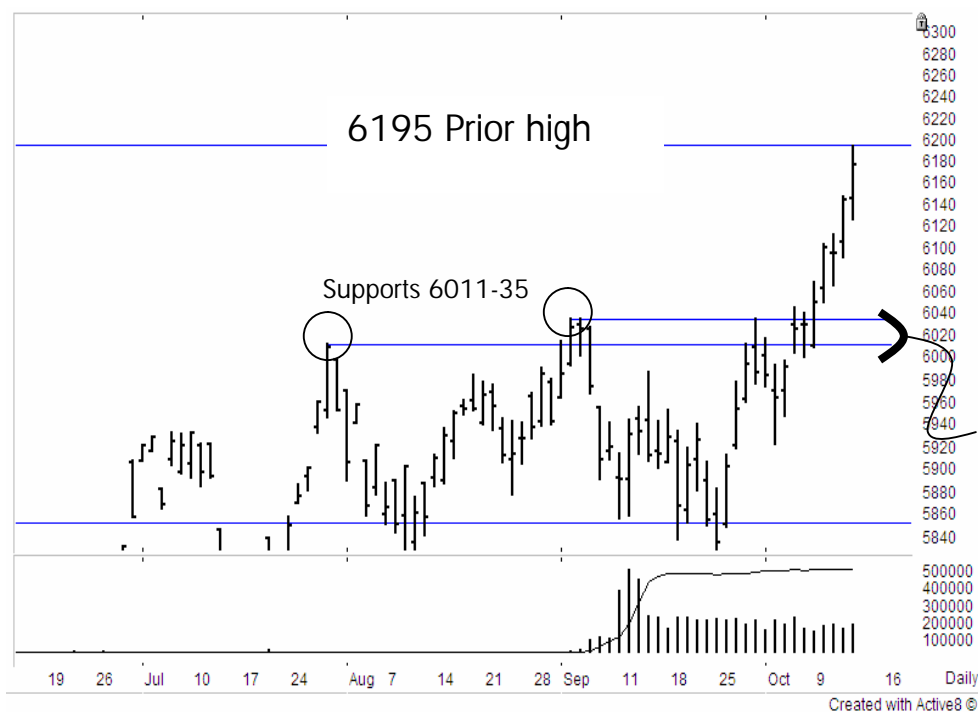
The move into the Congestion area was accompanied with great uncertainty - the price action reveals all that.

But that same uncertainty gave us a signal - the succession of highs around 6011-6035.

Once the market broke those, we can see how the bull move accelerated.

Finally the bull move has touched (but not surpassed) the Prior High at 6200.

Look closer still.



DAILY DEC06 FUTURES CHART:

The bulls should wait for a break of the Prior Pivotal High before adding.

And on any pull-back, note the support from the highs at 6011-6035.

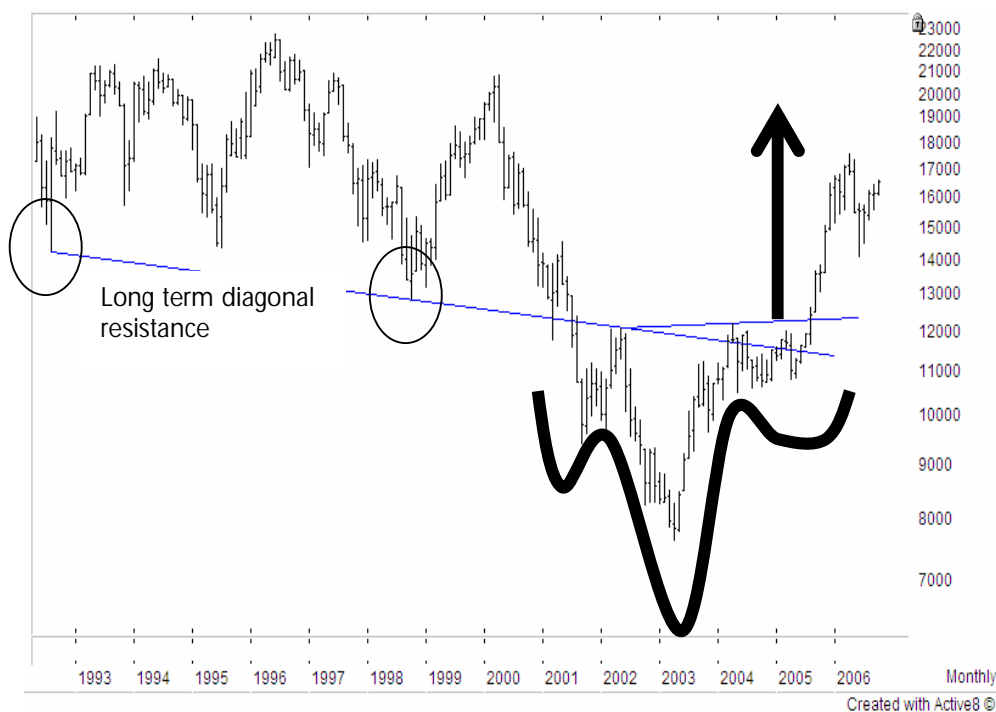
Last week we said the market was 'at a crucial juncture' and warned that any bears who were trying to profit from Sterling's underperformance on the bull tack should watch the 6035 level like a hawk.

Sure enough, the market did push up through that level and accelerated away.

But at the current level. Buyers should stand back and wait for a clear break of the 6035 level.

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Nikkei 225



MONTHLY CASH INDEX CHART:

The long-term Nikkei chart shows the origins of the bull move -

First, the break through the Down trend resistance from years back...

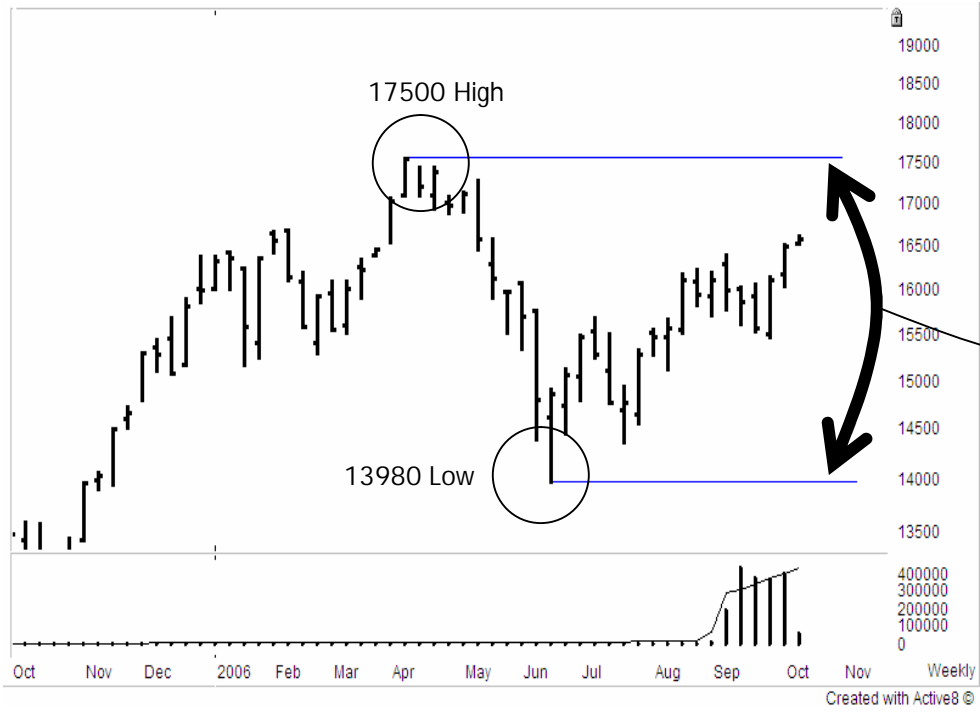
Second, the completion of a Head and Shoulders Bottom set to drive the market up as far as 1950 or so.



WEEKLY CASH INDEX CHART:

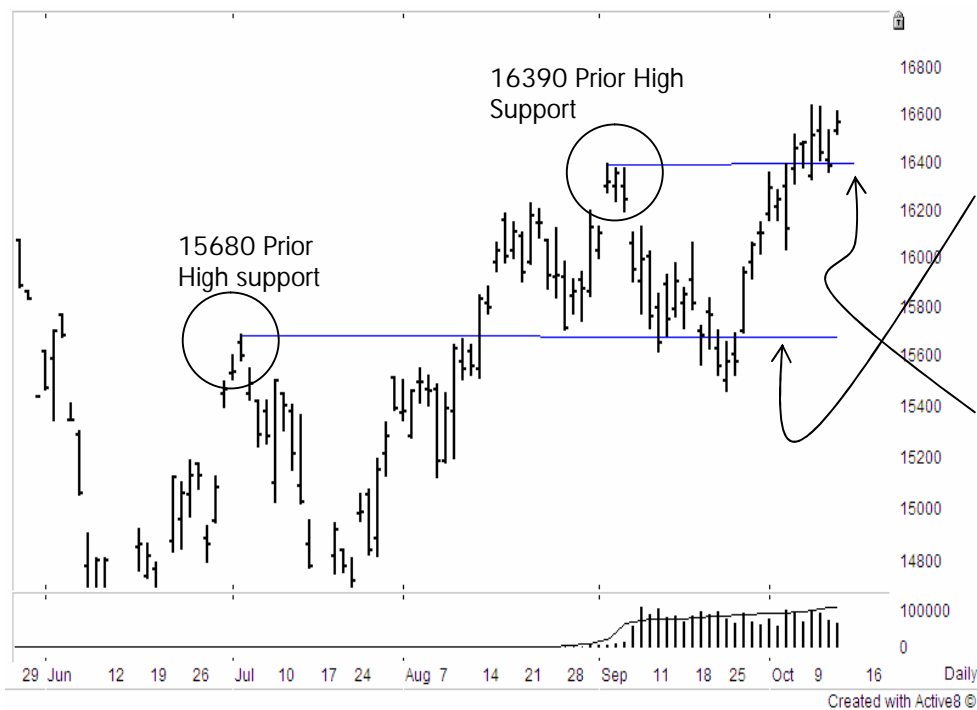
Here's that Head and Shoulders pattern in greater detail.

But though the long-term is clear, traders have had to cope with a long period of uncertain price action throughout 2006.



DAILY DEC06
FUTURES CHART:
There is a trading
range - loosely
established.

Now look within it.



DAILY DEC06

FUTURES CHART:

The bull trend has a structure - see how the market found good support at the prior High of 15680.

Note too how the market has driven up through the Pivotal Prior High of 16390.

Use that as important support - beneath which your Stop Losses should lie.

Last week we said the market was set to go better. It hasn't. The immediate support has held, but the market has largely marked time.

Bulls should watch carefully for any drift back through the 16390 support.

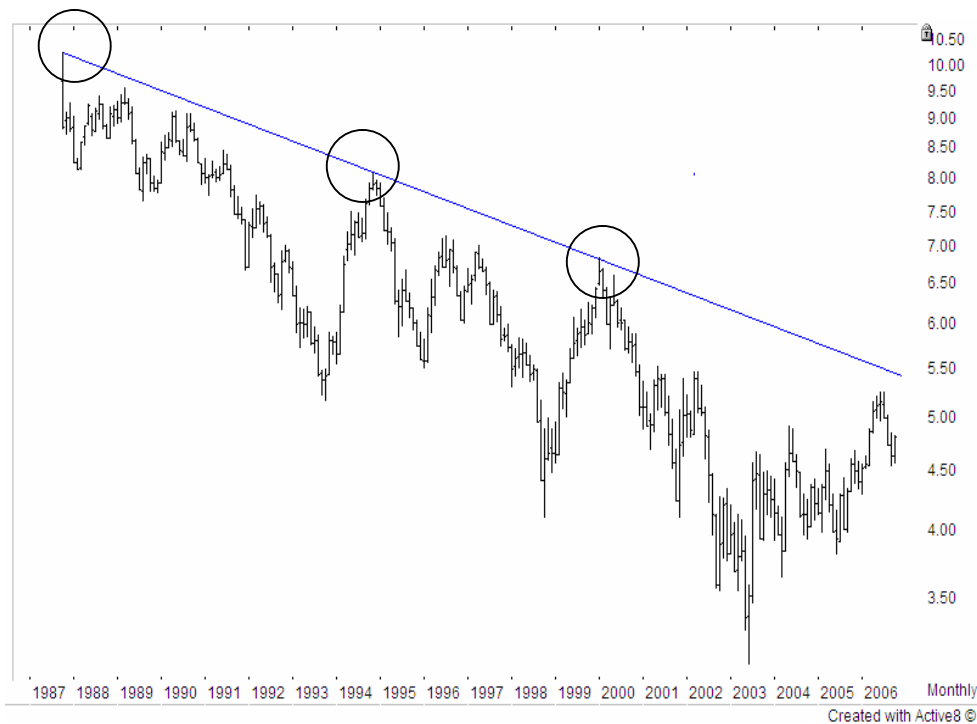
We think there are better bull markets out there.

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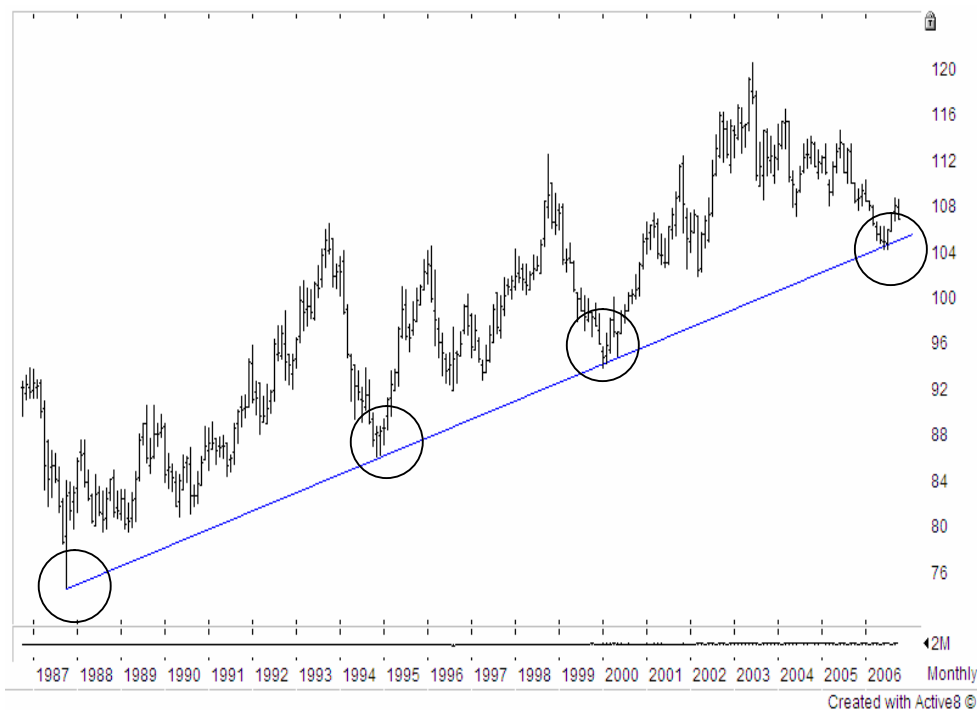
Bonds

The markets were hit hard. We already had thought the US and Japanese markets were lacking clear predictive structures. And our Stop in the Bund market was hit when it fell back through the 117.81 level. That was timely since they all fell further. The Bund may have topped out after its recent fierce bull run. These markets all exhibit complex and varied patterns at different levels of analysis. Trading has had to be short and medium-term for some while. But the long-term levels are still close...

Ten Years US Treasury Note



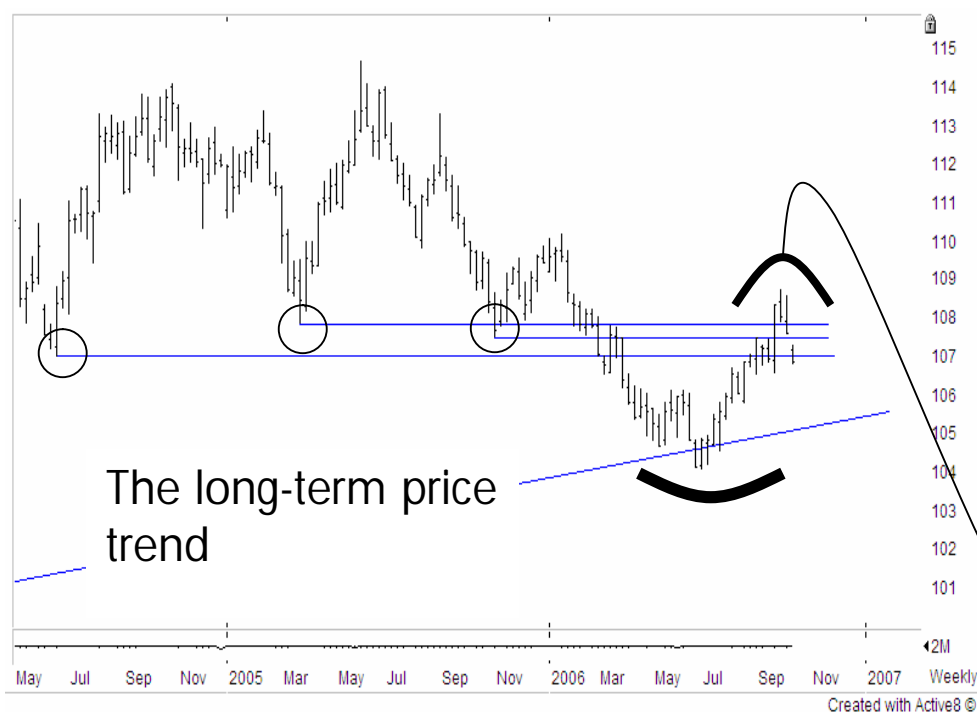
MONTHLY CASH
YIELD CHART:
The market's long-term
trend is for lower
yields and that IS
UNCHANGED.



MONTHLY FUTURES CONTINUATION CHART:

But the Continuation Futures chart is a lot closer to challenging that trend.

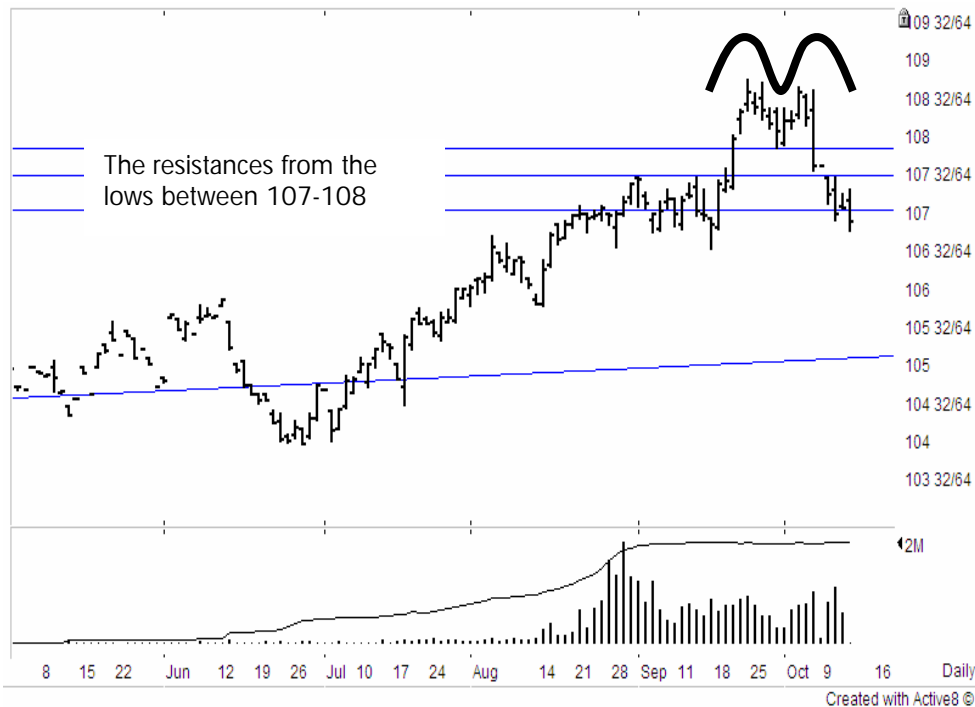
And certainly, that trend is very well established, so a break through would very significant.



WEEKLY FUTURES CONTINUATION CHART:

The latest bounce off the trend line support was strong enough to penetrate the resistances from the lows above the market between 107 and 108.

But not strong enough to keep the market there.

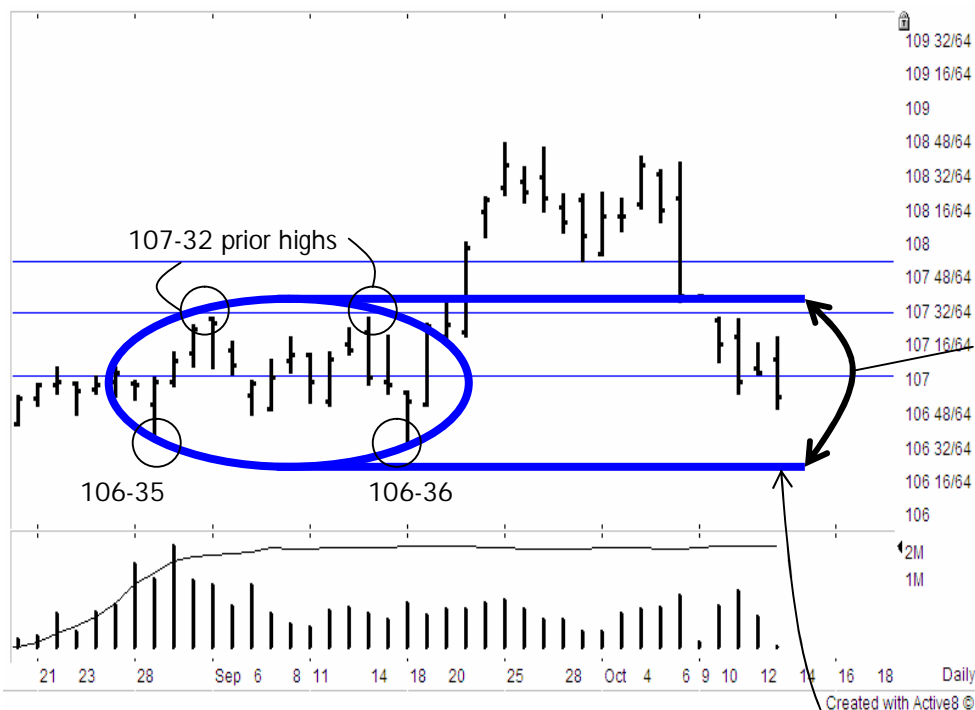


DAILY DEC06
FUTURES CHART:
The market has pulled back beneath the resistances.

The small Double Top has been the initial catalyst for the return.

Will it go further?

Look closer.



DAILY DEC06
FUTURES CHART:
Well, the bear implications of the small Double Top have already been exhausted.

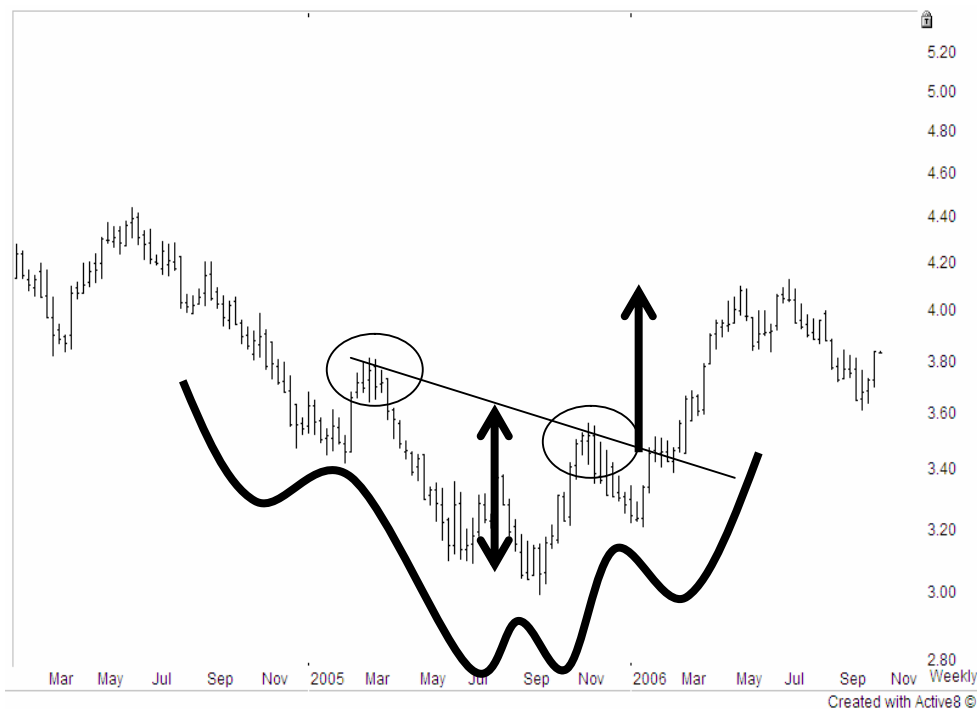
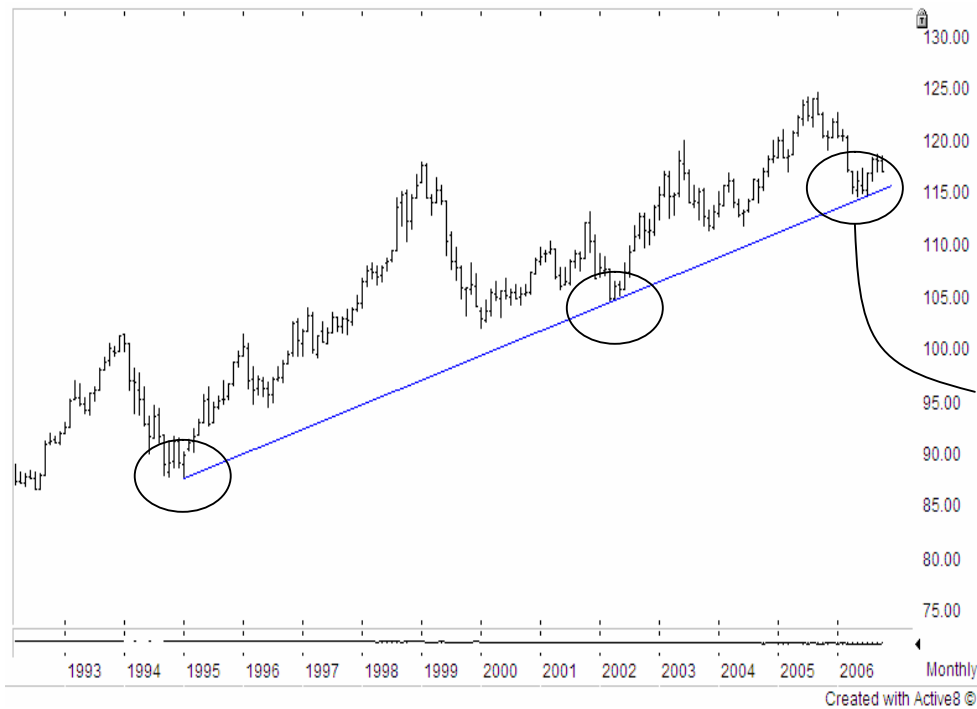
And the market has entered an historical band of consolidation.

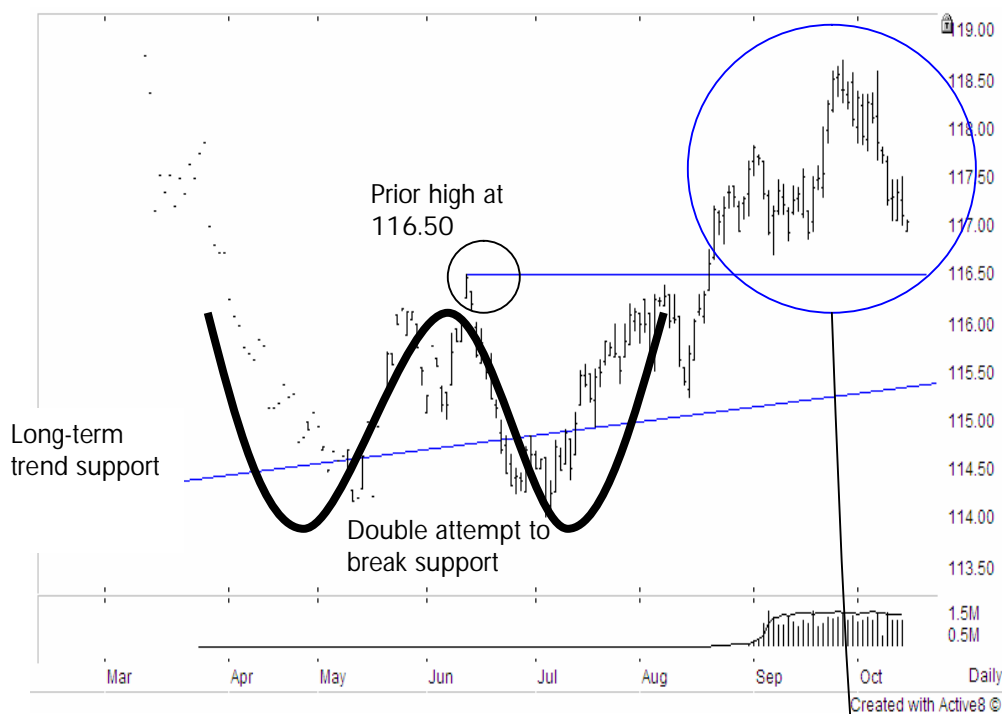
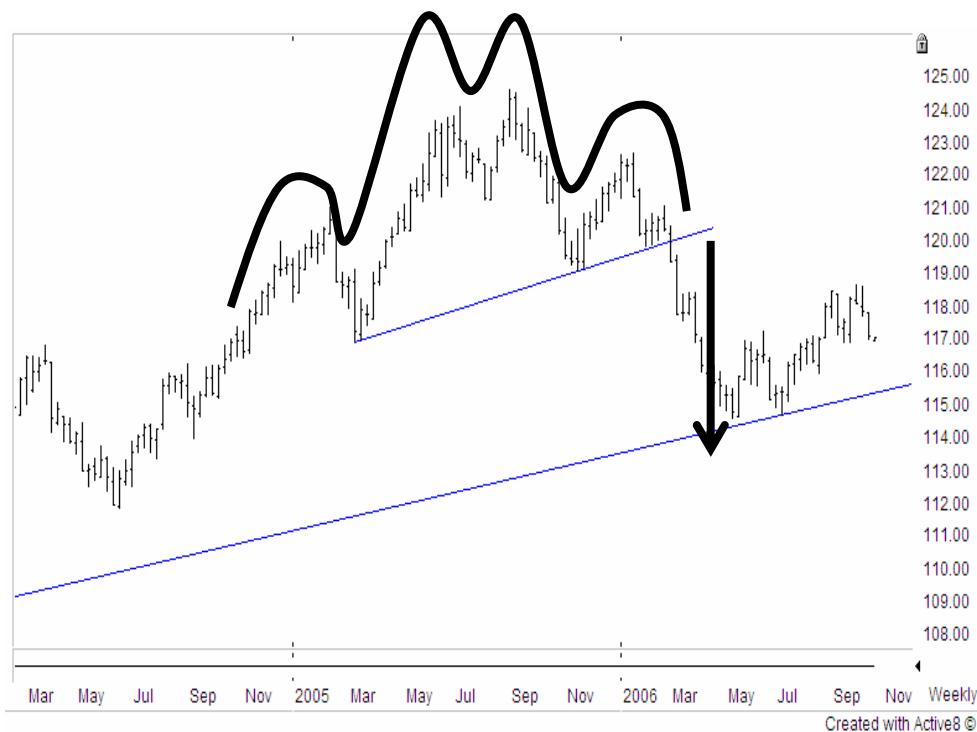
The pull-back through the near prior highs 107-32 will have been disappointing for the bulls.

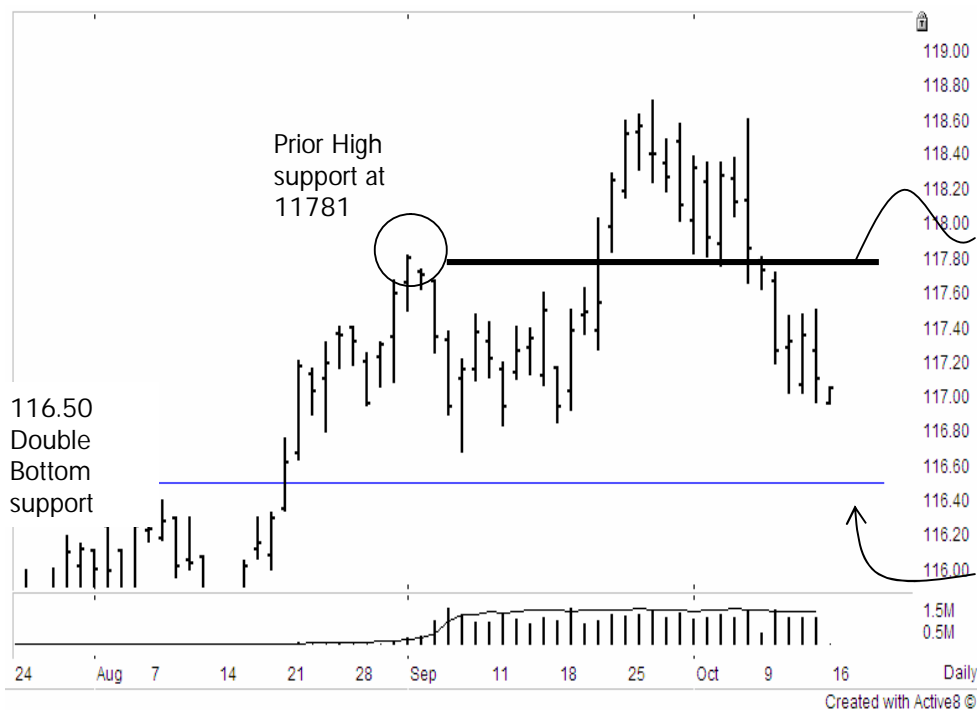
But bears should wait for a break down through the prior lows at 106-36 and 106-35.

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Ten Year Euro Bund







DAILY DEC 06 FUTURES CHART:

Nor here in the price chart.

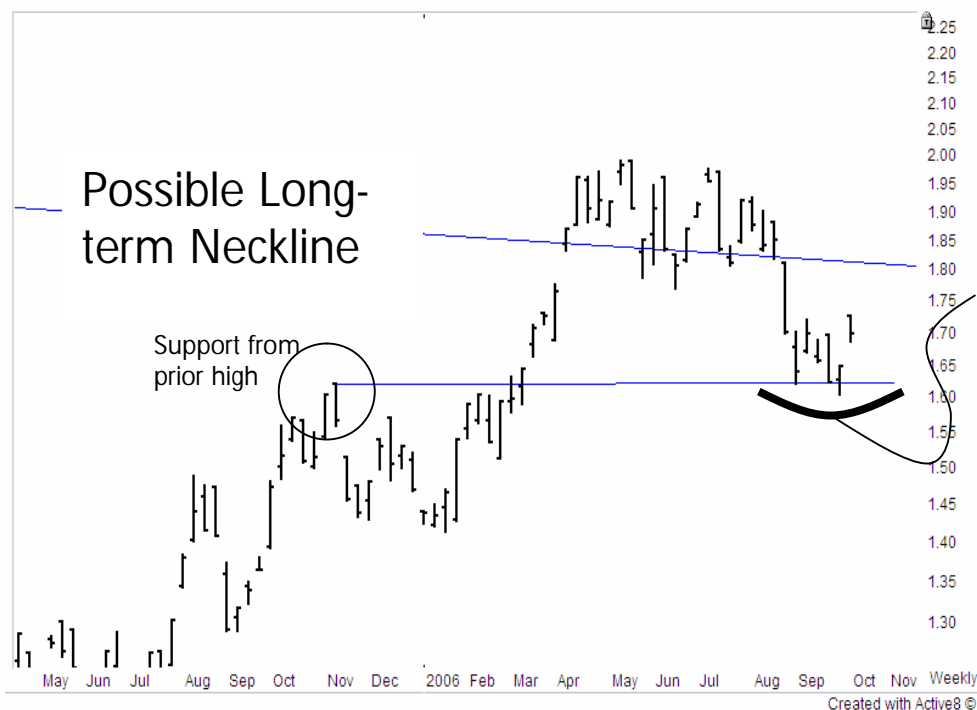
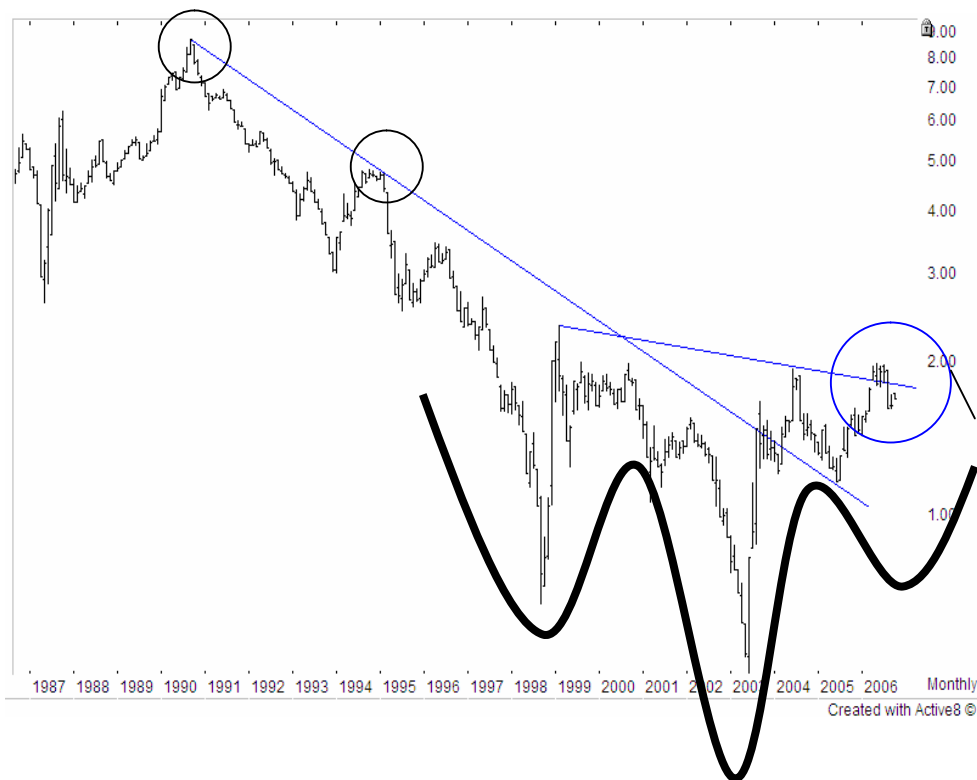
Last week we pointed out that the 117.81 was the critical one for the bulls - but the support didn't hold. The bulls should now stand aside.

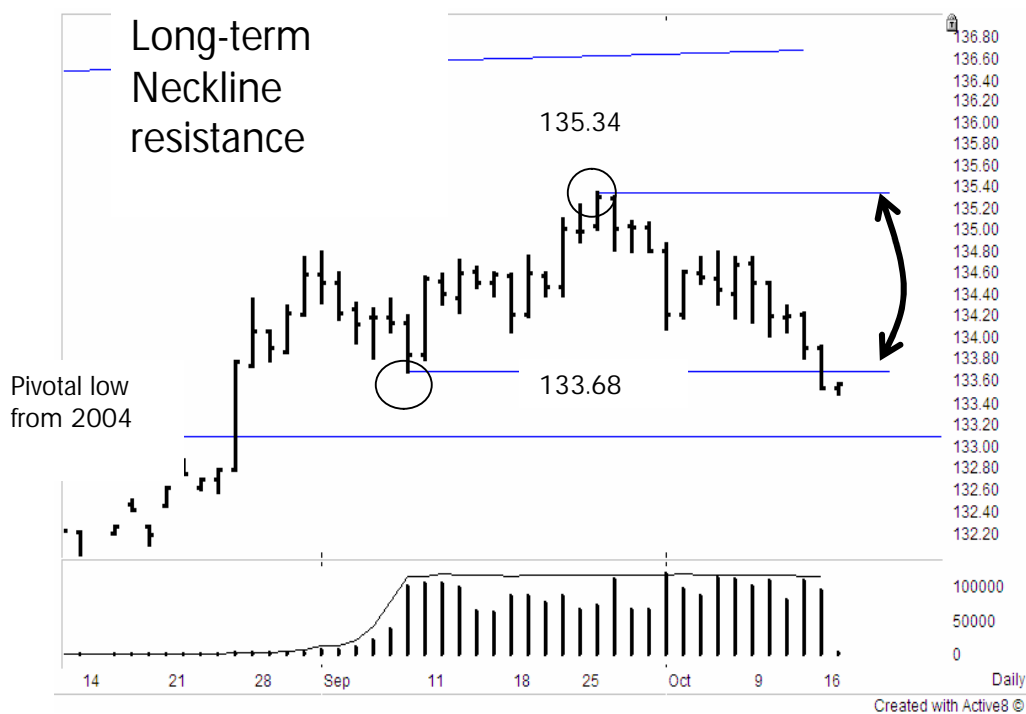
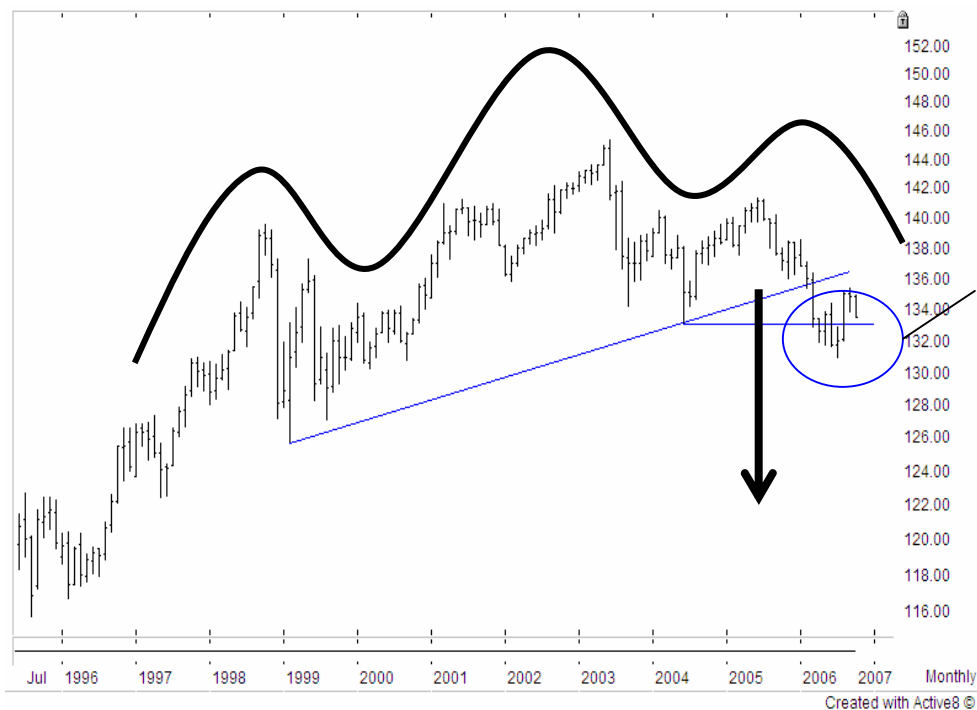
So far this H&S pattern hasn't driven the market. Watch any close approach to the major support at 116.50.

Only if that breaks will the bears get their teeth in.

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Ten Year Japanese Bond





DAILY DEC 06 FUTURES CHART:

There's no clear structure here - more's the pity.

We said the market was 'highly unreliable' last week. And in our view it remains that way.

The push beneath the low at 133.68 is interesting but not a clear bear signal.

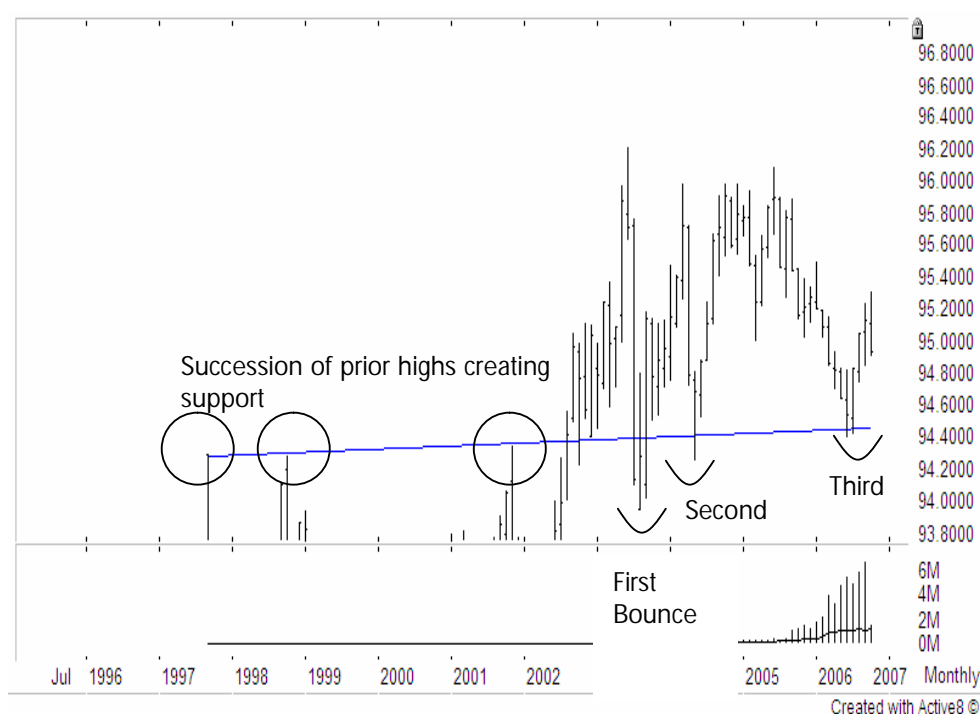
Stand back.

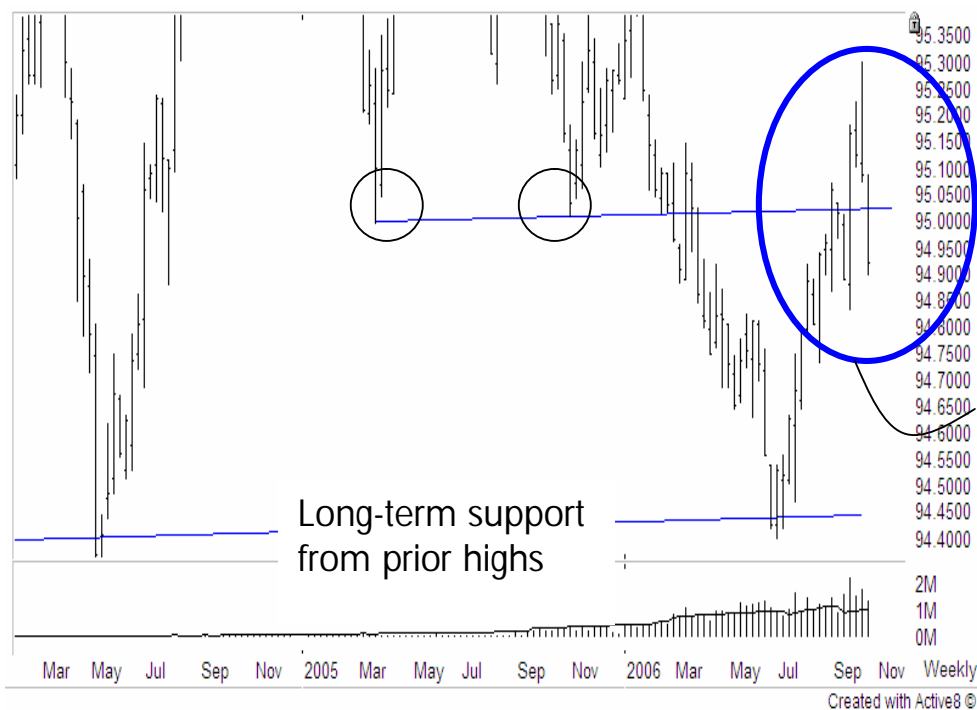
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Interest Rates

Last week saw a dramatic reversal. We have abandoned our bull stance in the Eurodollar, and may be on the verge of adopting a bear stance in the Short Sterling. Euribor is sidelined.

Dollar Rates

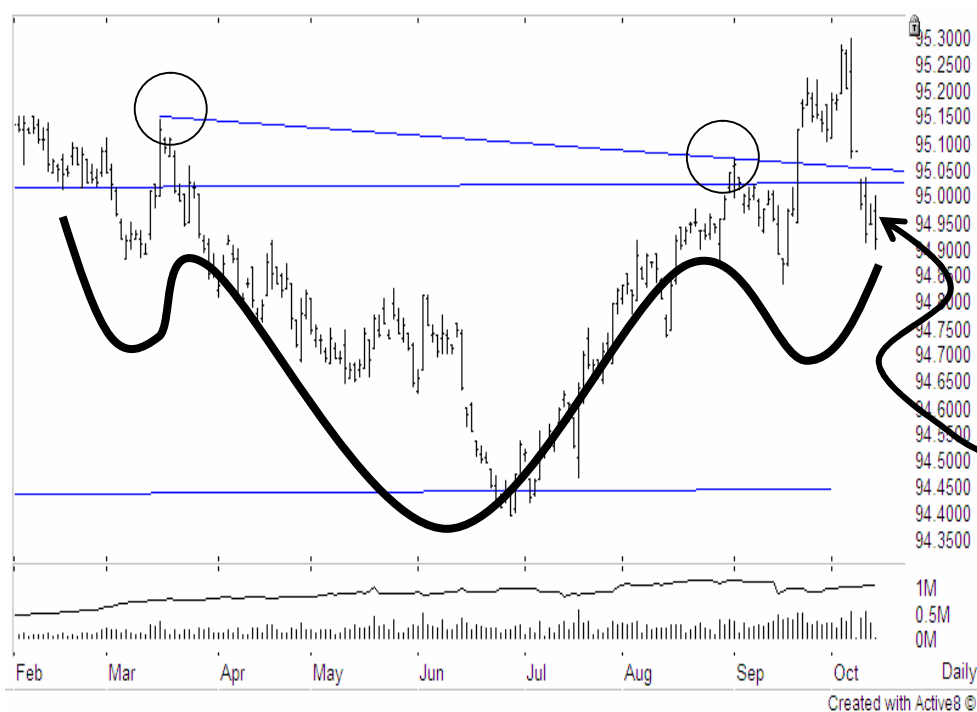




WEEKLY SEP 07 FUTURES CHART:

So strong was the bounce from the support that it drove the market up through the resistance from the lows at 95.00.

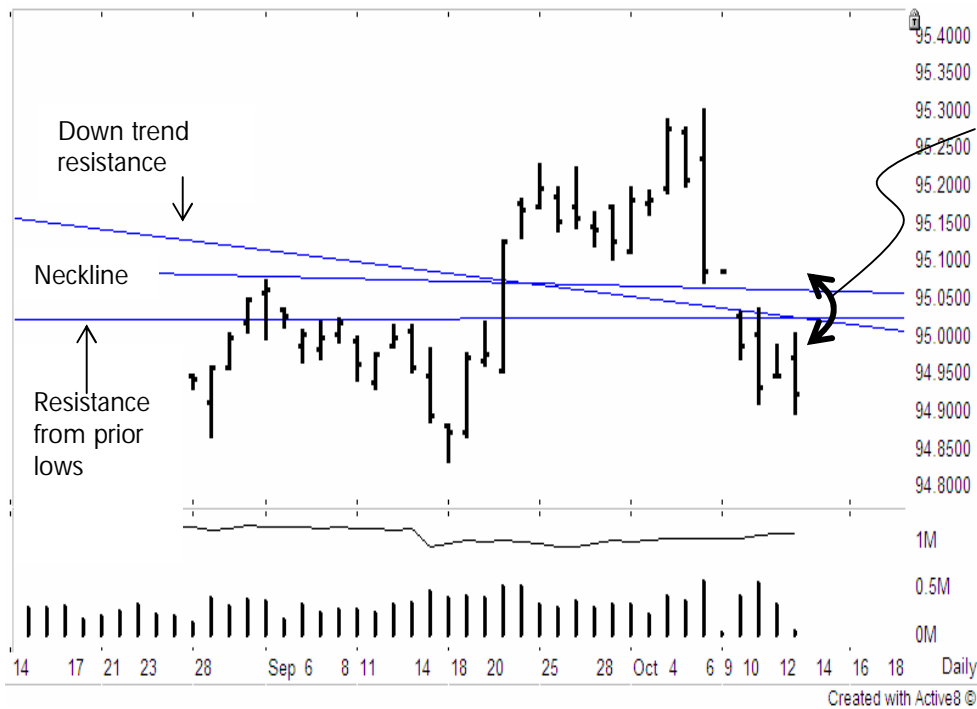
But it looks like the penetration has been short-lived.



DAILY SEP 07 FUTURES CHART:

We were bullish. But pointed out the importance of the support that coincided beneath the market at 95.05.

The way the market smashed back through them destroys the bull's hope.



DAILY SEP 07

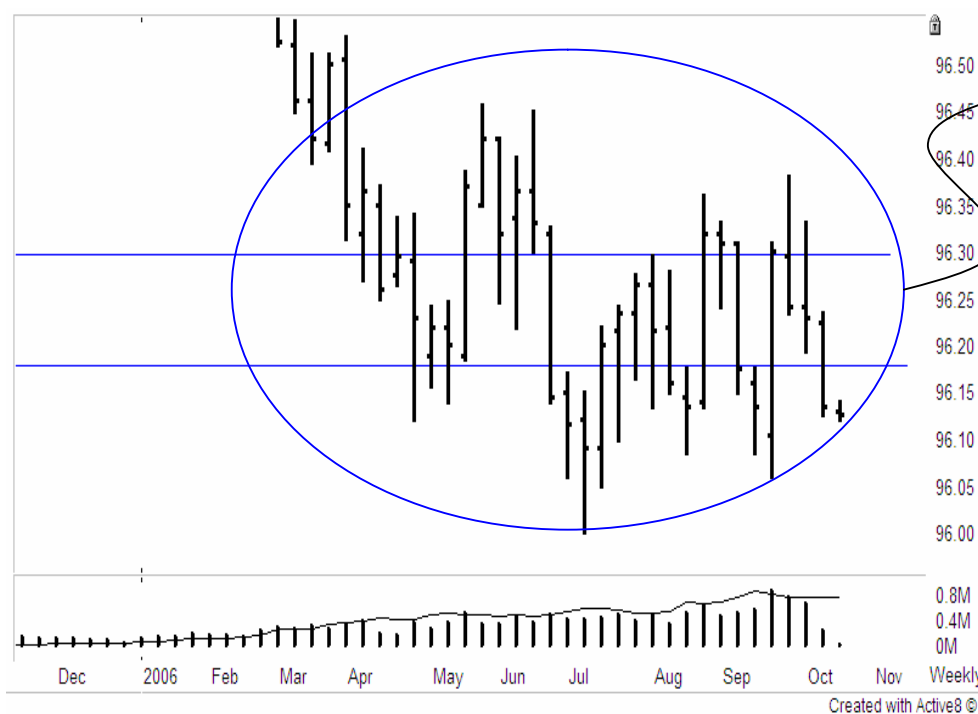
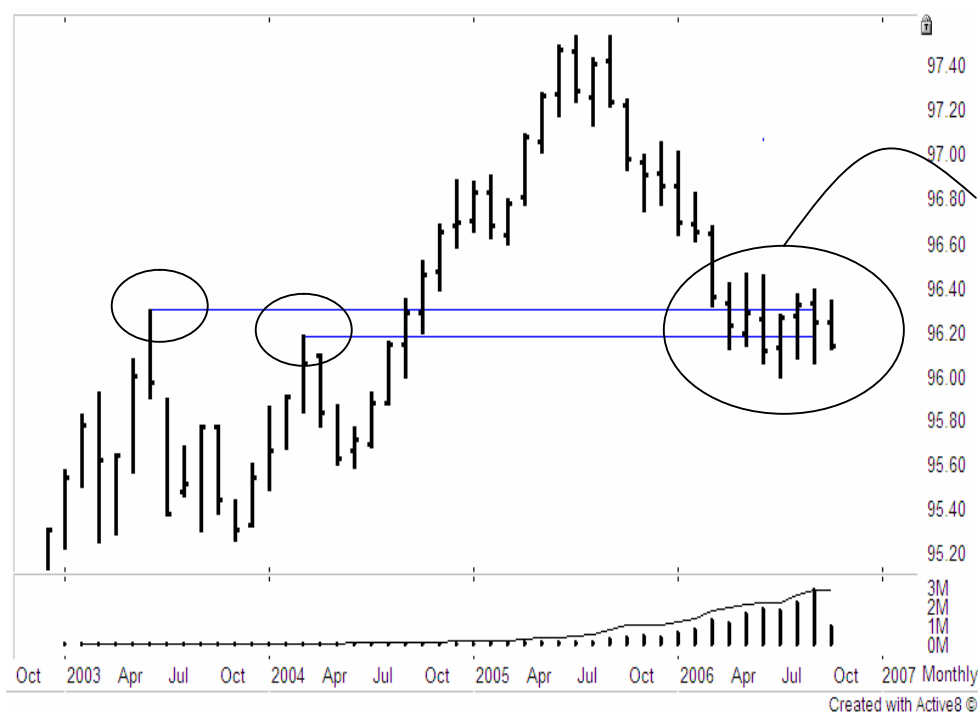
FUTURES CHART:

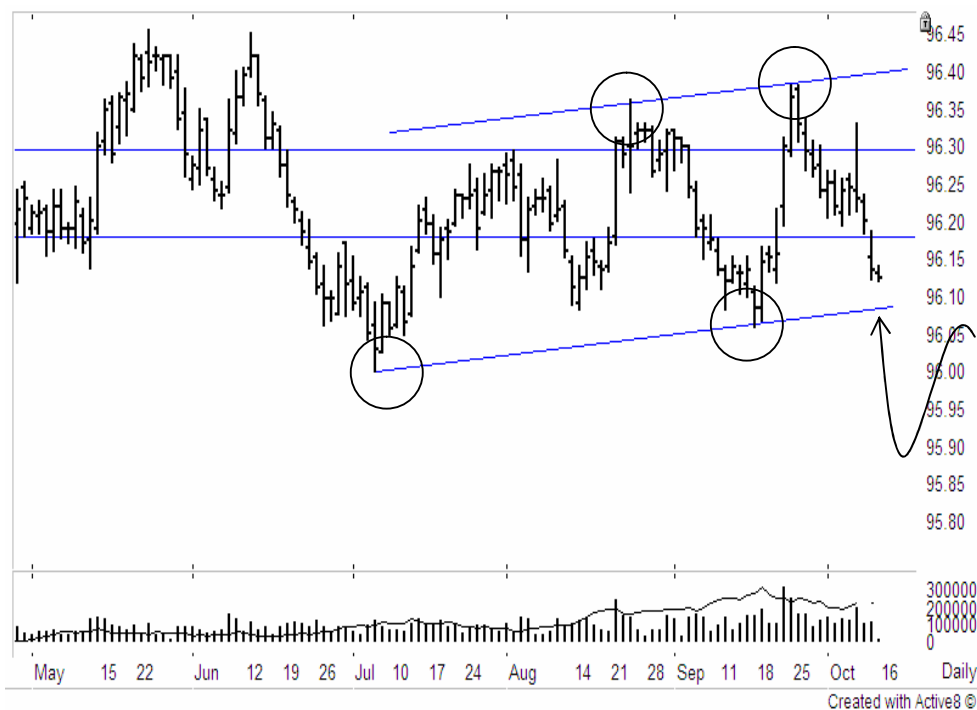
Only a bounce back through those levels could re-ignite the bull structure.

In the meantime we have abandoned our bull stance - as we said we would last week.

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Euribor Rate





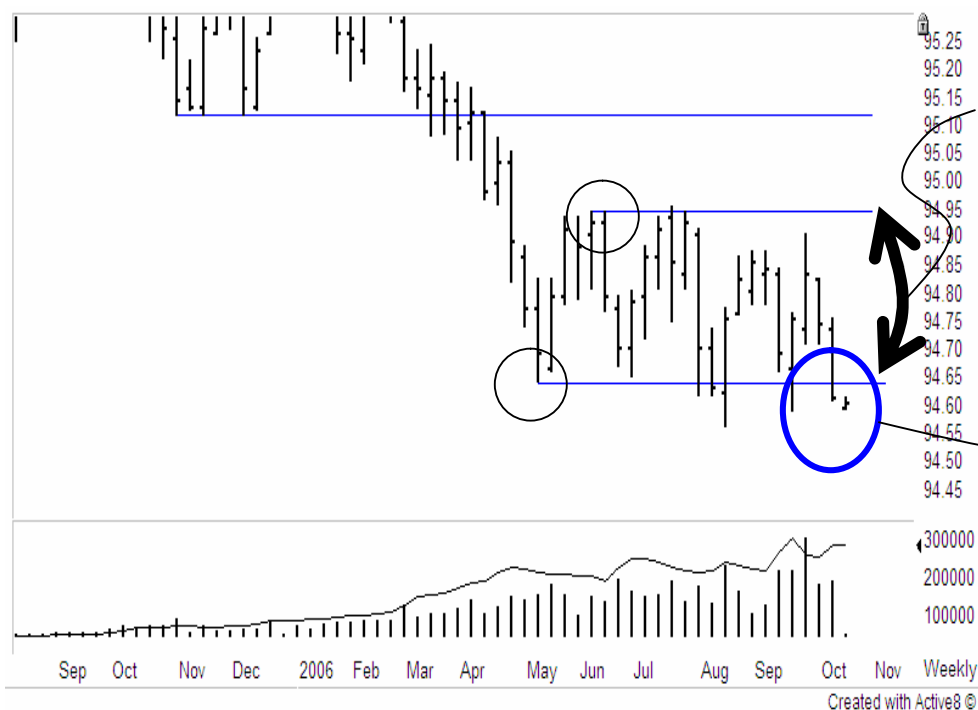
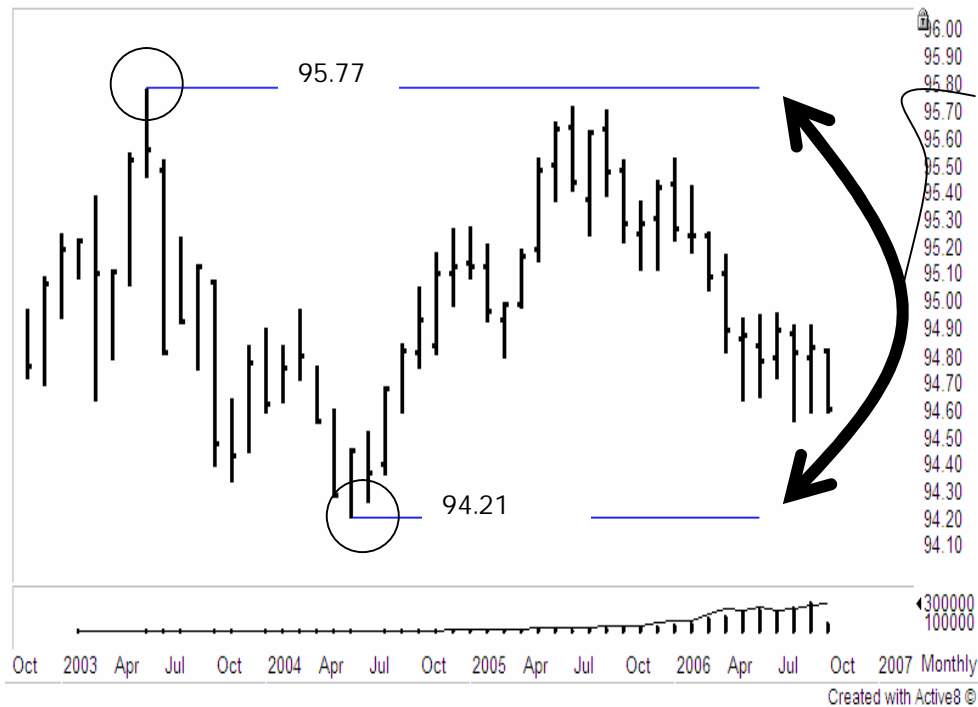
DAILY SEP 07
FUTURES CHART:
But in the detail there
is the possibility of a
bear flag.

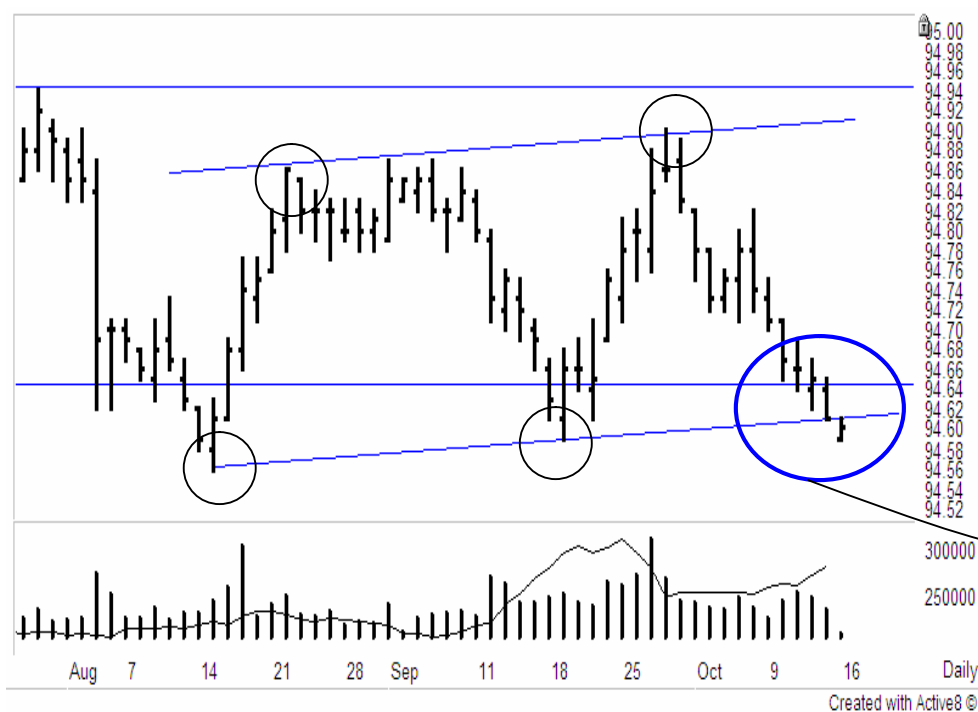
This emphasises the
importance of the
diagonal beneath the
market at 96.08.

Until that breaks, stand
aside.

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Sterling Rates





DAILY SEP 07

FUTURES CHART:

And like the Euribor, there looks to be a Flag formation, but this time the lower diagonal has been smashed.

This is more bearish than the Euribor.

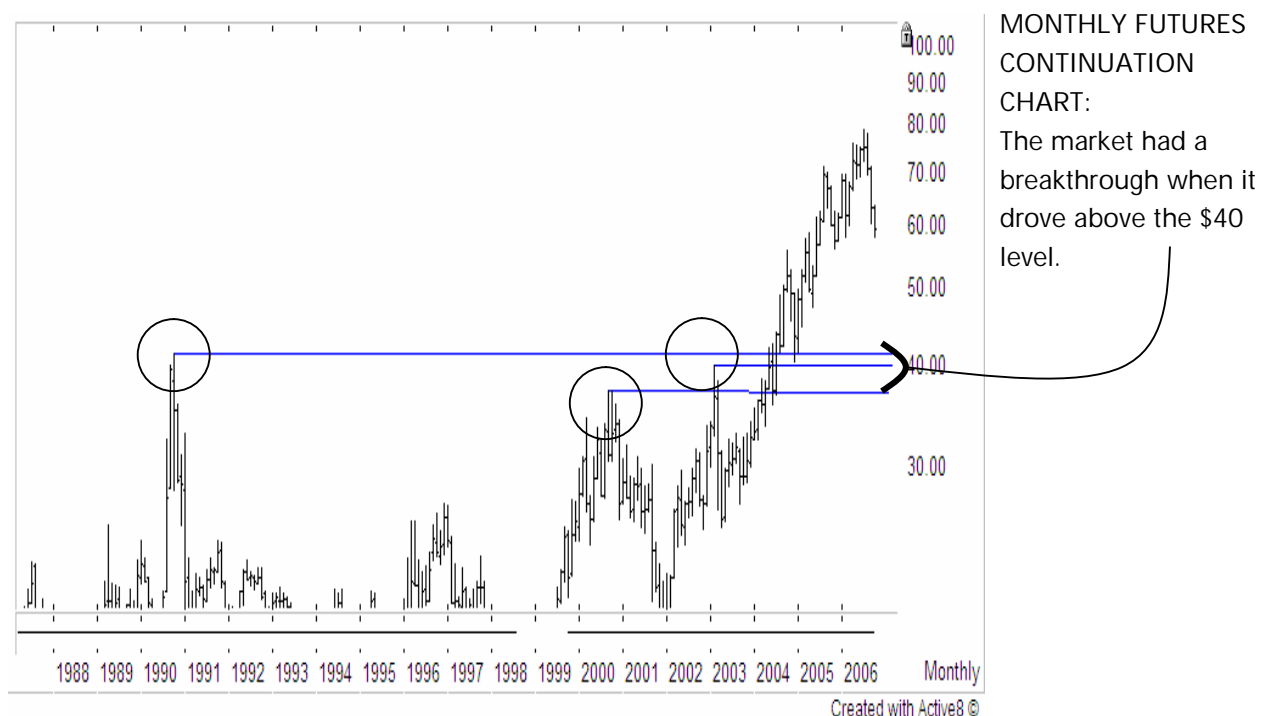
If there is a confirmed close beneath that gentle diagonal, then that will be a good bear signal.

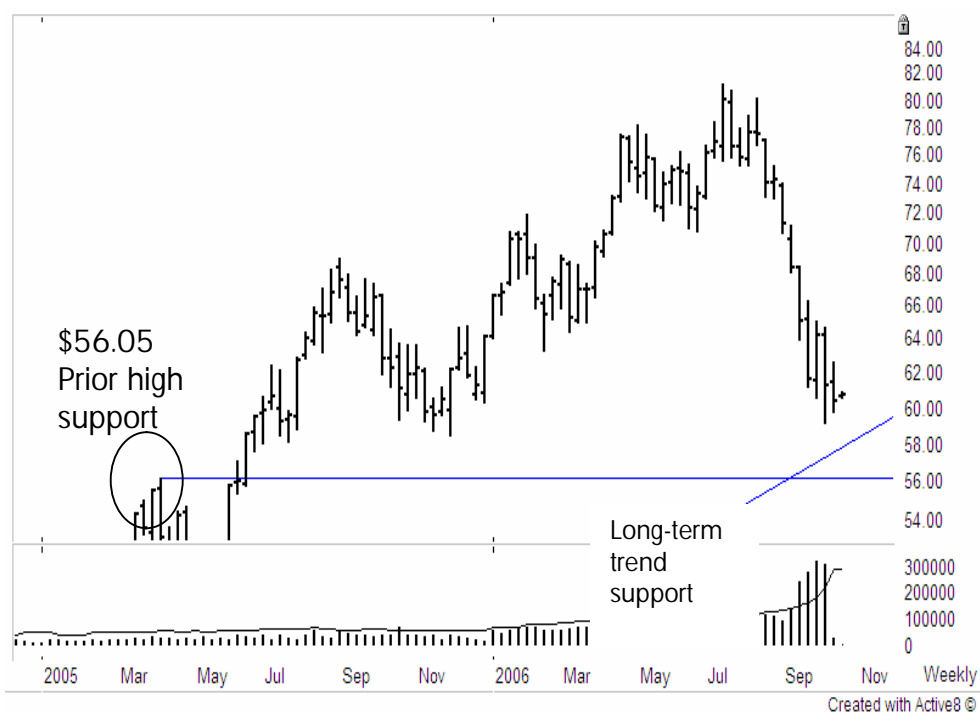
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Commodities

Oil is still going sideways, and the exciting possibilities of the Gold market are far from being realised as it short-covered higher. Neither offers a clear tradeable predictive structure at the moment.

Oil





DAILY DEC 06
FUTURES CHART:
There's no top
formation in place.

But the speed of the
decline is
unmistakable.

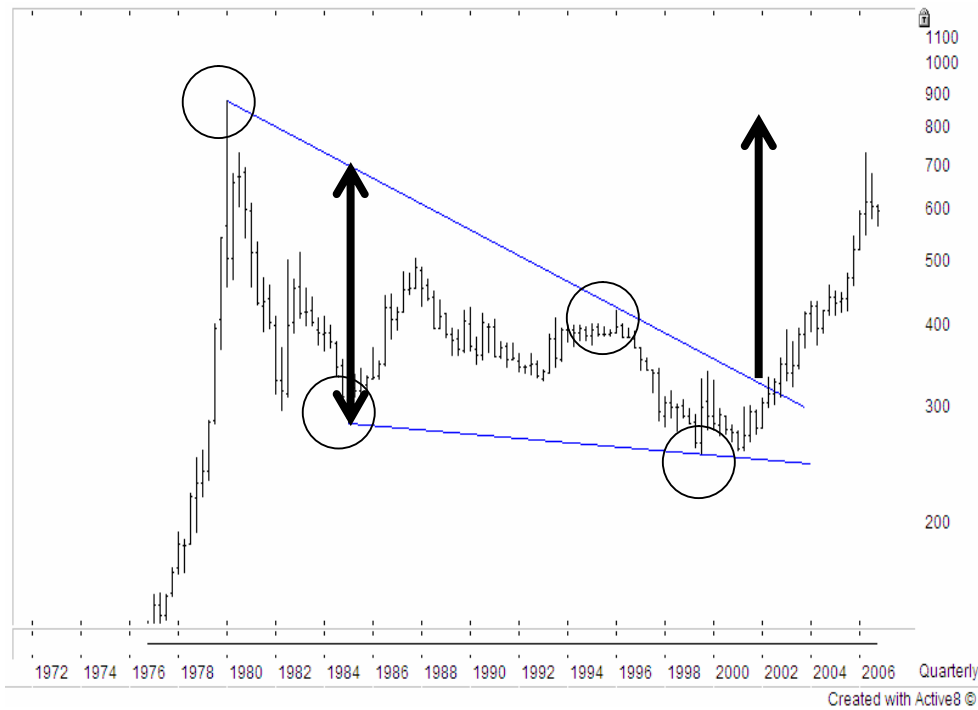


DAILY DEC 06
FUTURES CHART:
Watch the near-term
range carefully.

Like last week, we
remain bearish, but
wait for a break of the
range.

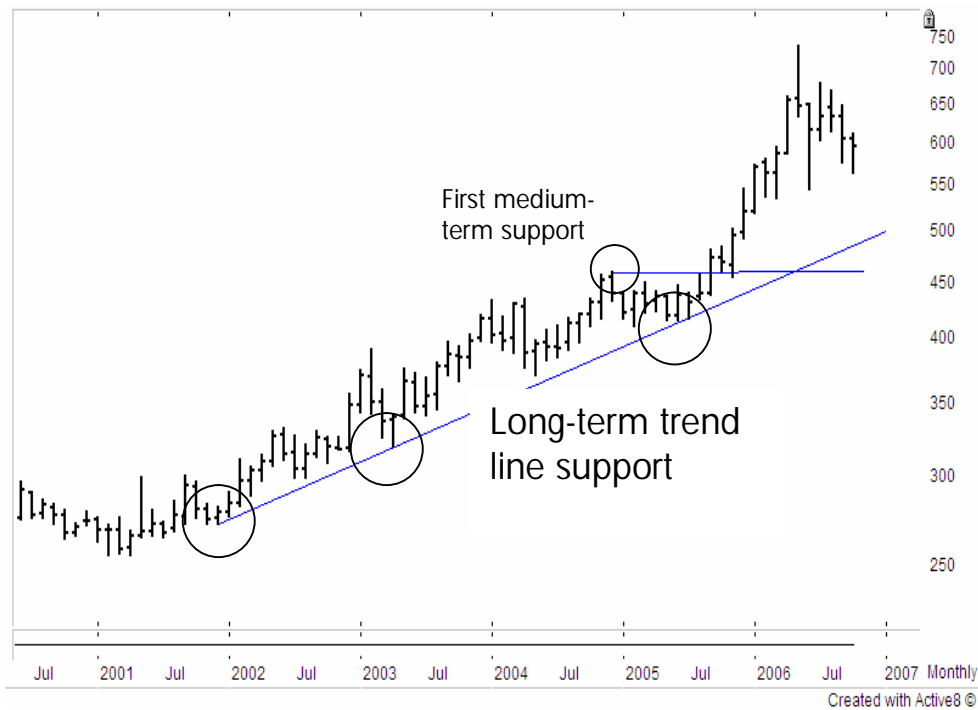
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Gold



QUARTERLY FUTURES
CONTINUATION
CHART:
The long-chart has
been bullish for a long
time.

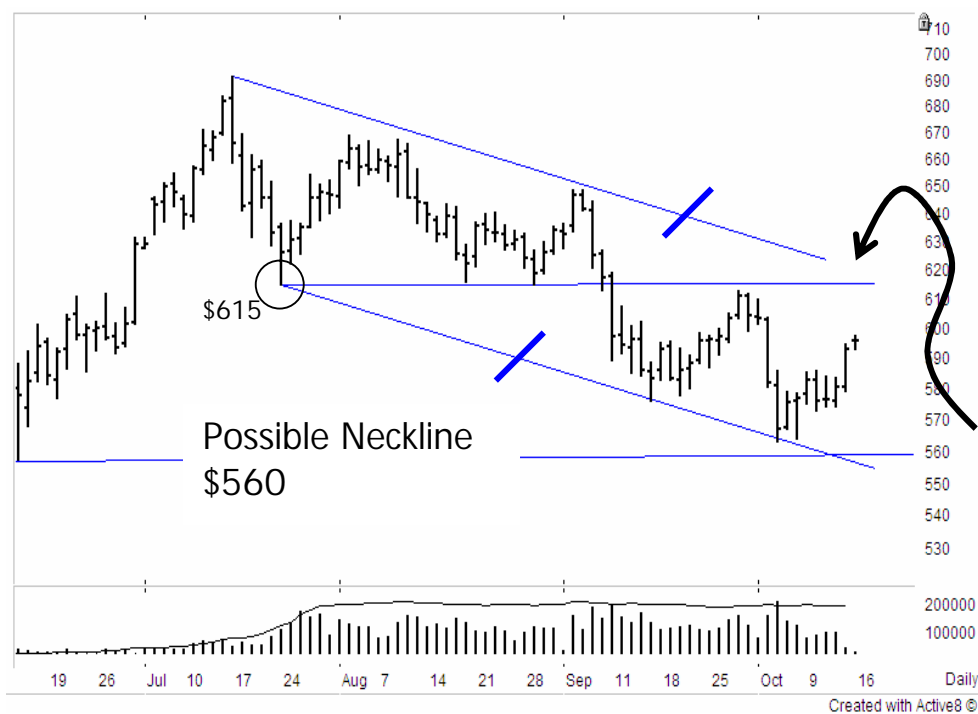
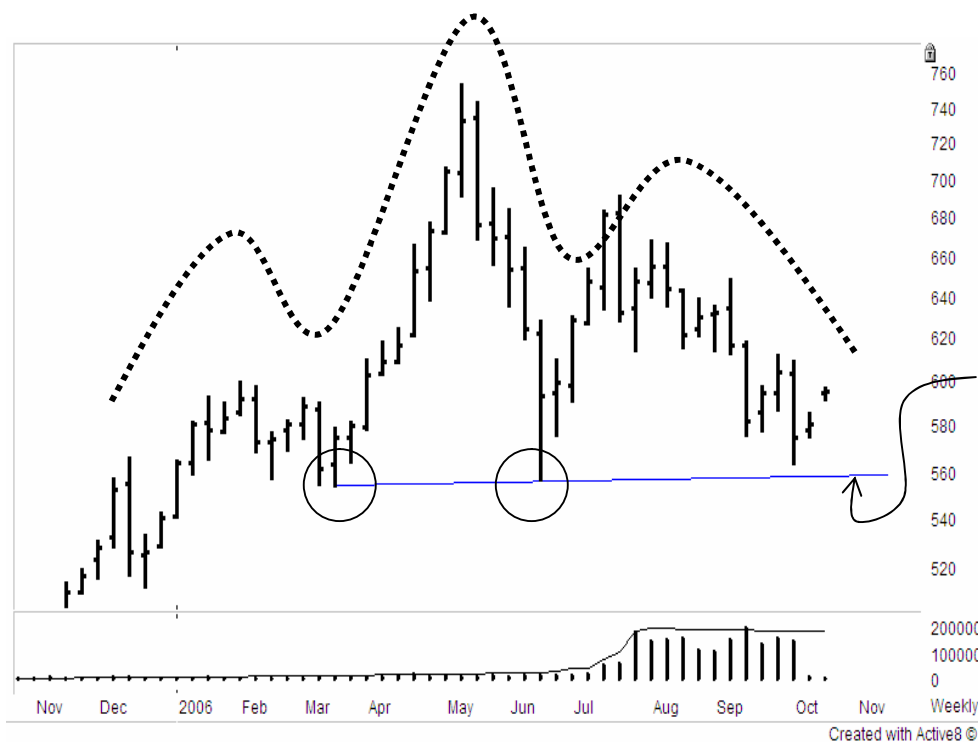
But the impetus from
the Continuation
Triangle has probably
been exhausted.



MONTHLY FUTURES
CONTINUATION
CHART:
The bull run has been
supported by a clear
trendline support that
has been well-
established.

The horizontal support
from the high at \$459 is
the first long term
support beneath the
market.

But will it get there?



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