

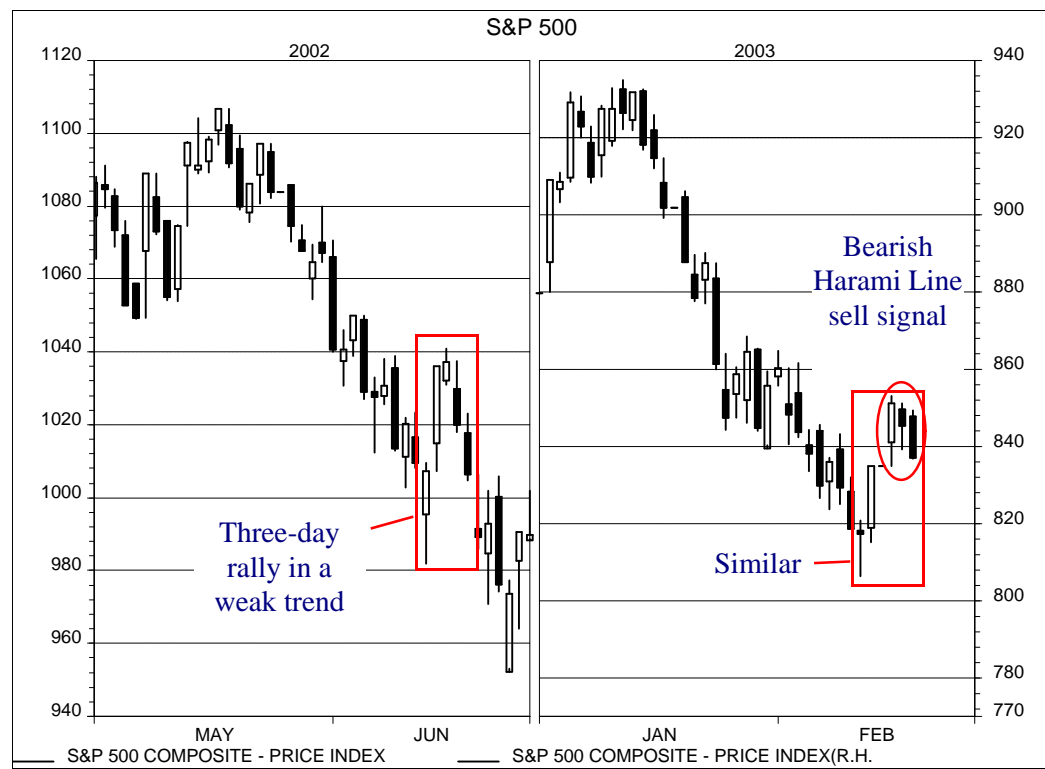
Global Markets Review (Issue 07/03 - European Focus)

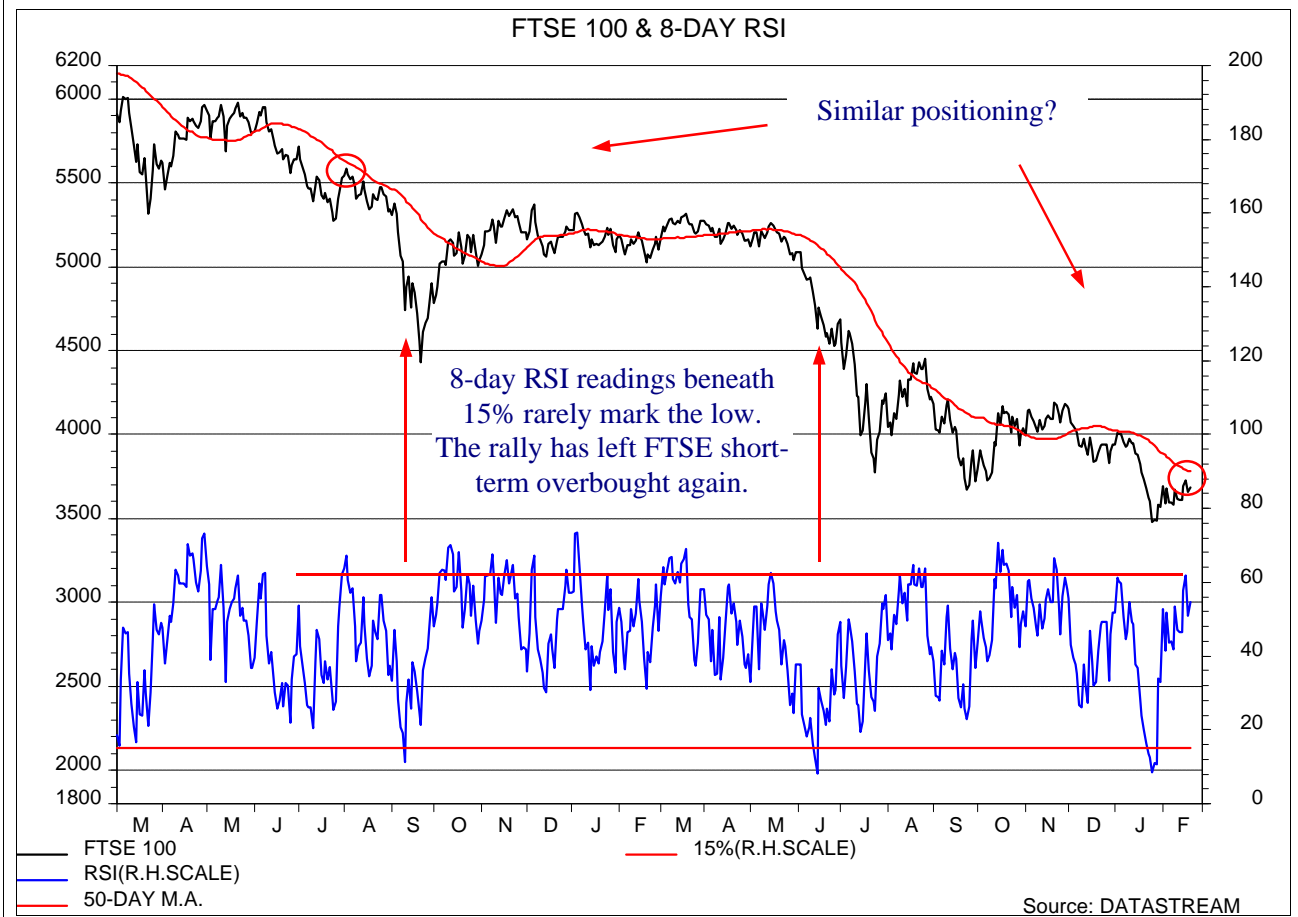
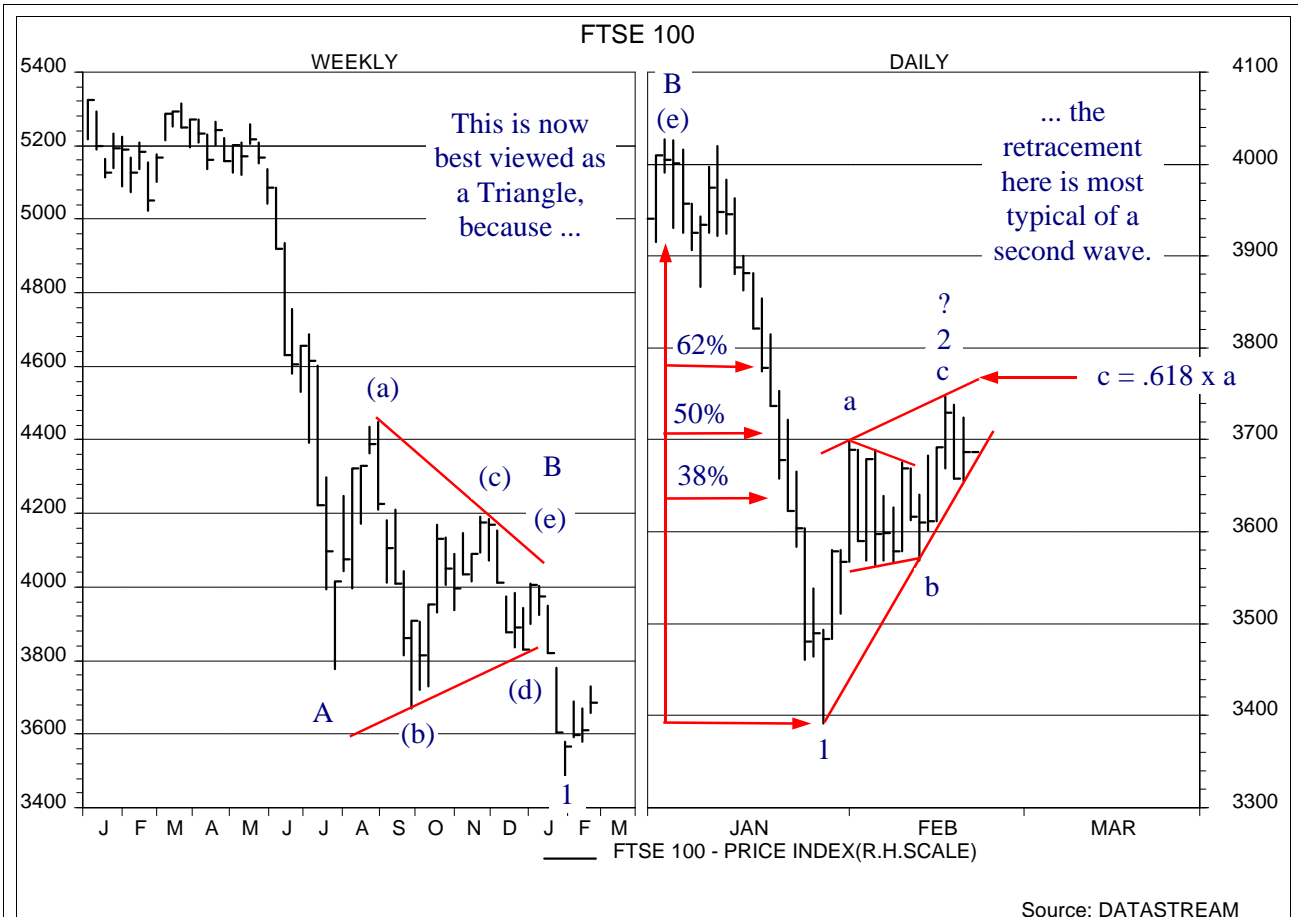
Equities markets have rallied in response to the loss of downside momentum evident a week ago, but in the US the recovery is (so far) horribly reminiscent of the brief June 2002 rally highlighted on page 2 last week. In addition, the three-day pattern circled below in the **S&P 500** is a Bearish Harami Line candlestick (short-term) sell signal. This tells us nothing about the level to which S&P is going, but the speed with which the rally has faded is consistent with our concerns that markets are still in a weak trend.

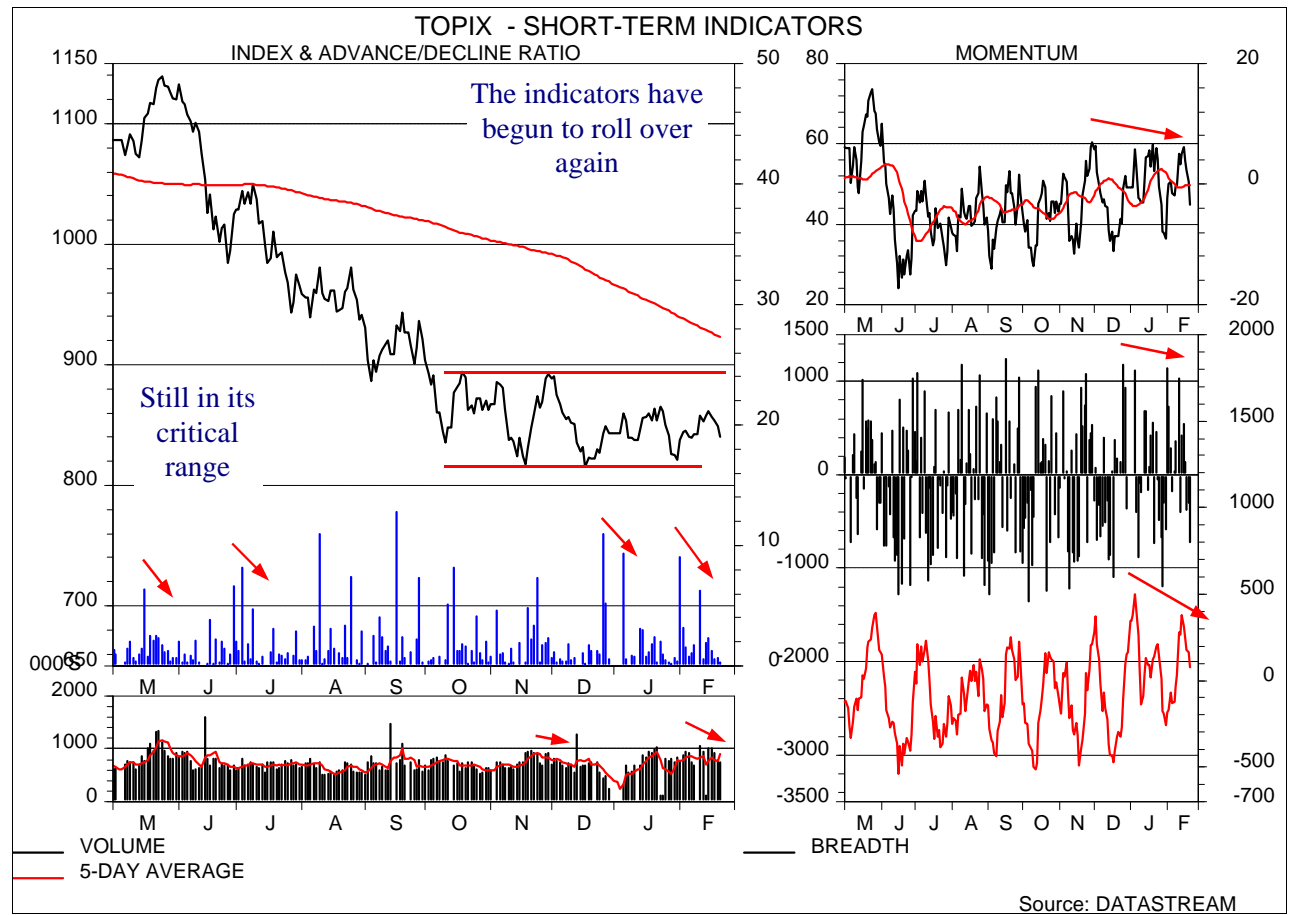
FTSE 100 (p. 2) has unwound its short-term oversold condition, and has also produced a pattern seen only in bear market rallies. The early February consolidation appears to be an Elliott Triangle, and in this position it can only be a “b” wave. This week’s recovery into the 50-62% retracement zone of January’s decline is most typical of second waves, so a break of 3,560 will signal that a sharp third wave decline has probably begun. The **Europe Focus** starts on p. 5.

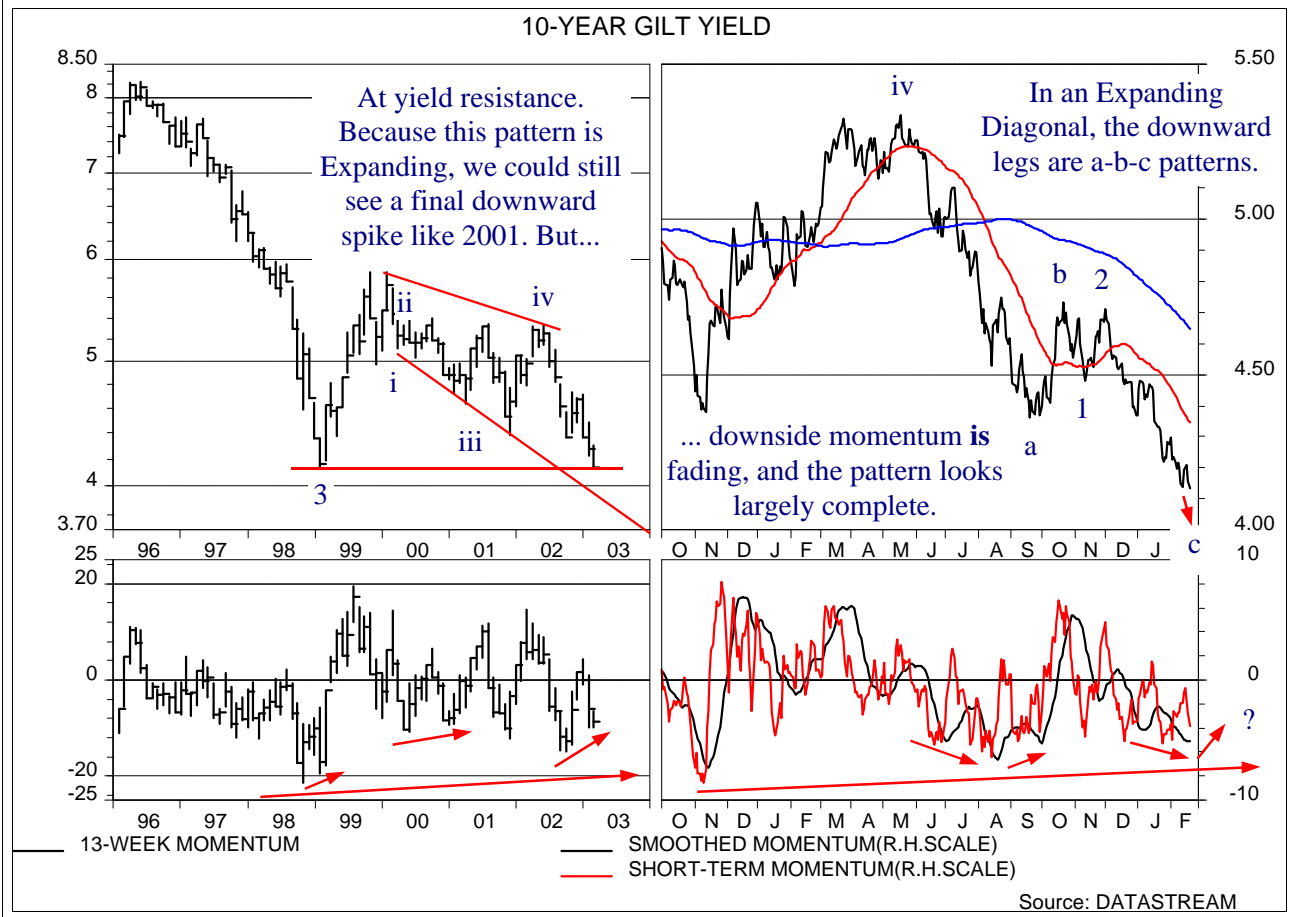
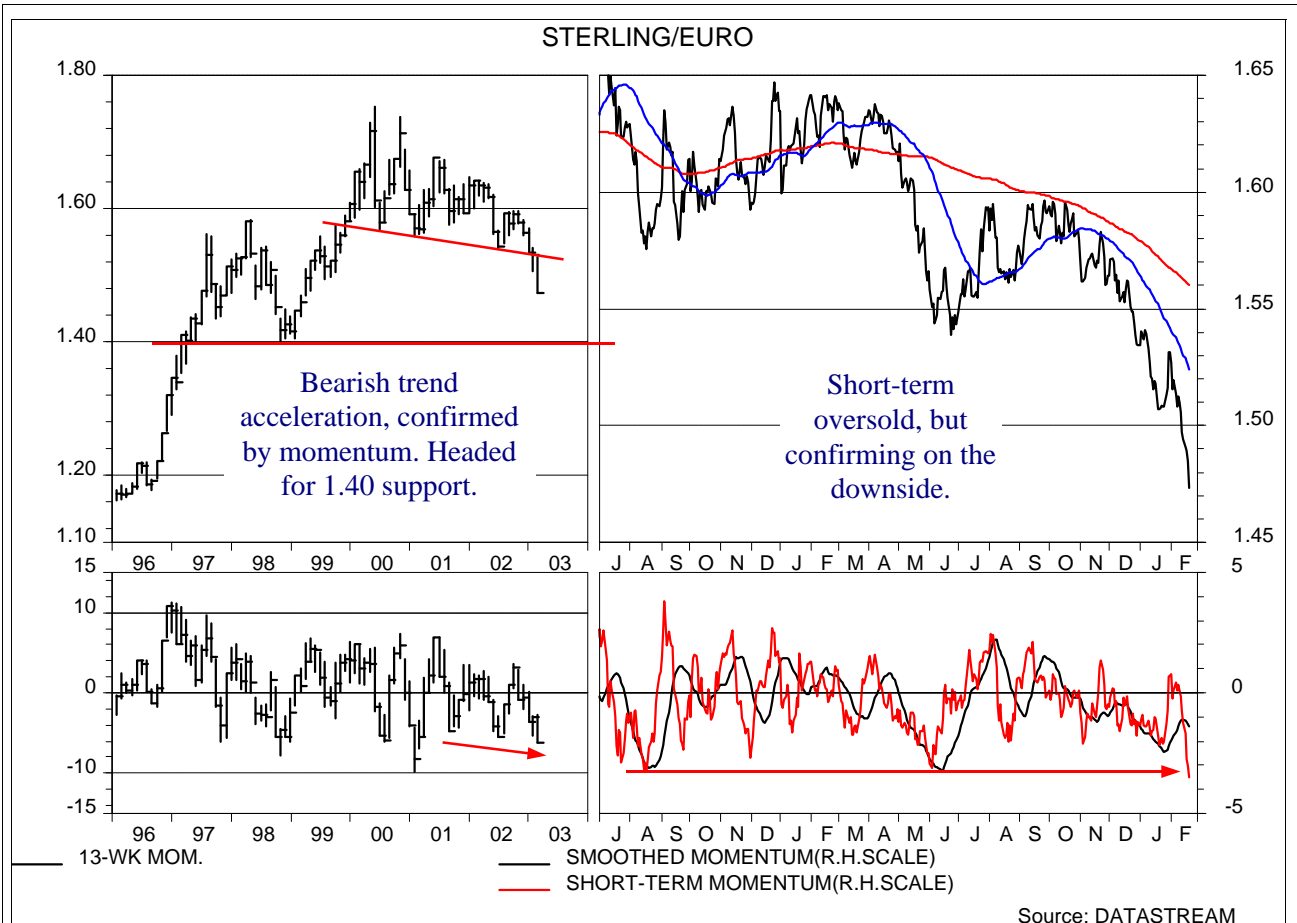
After weeks of struggling to decipher the pattern in **Topix**, we think that a bearish Fourth Wave Triangle has been forming. A close above 872 is needed in order to negate this view.

Cautionary signals are emerging in **10-year Gilt yields**.









European Markets Focus

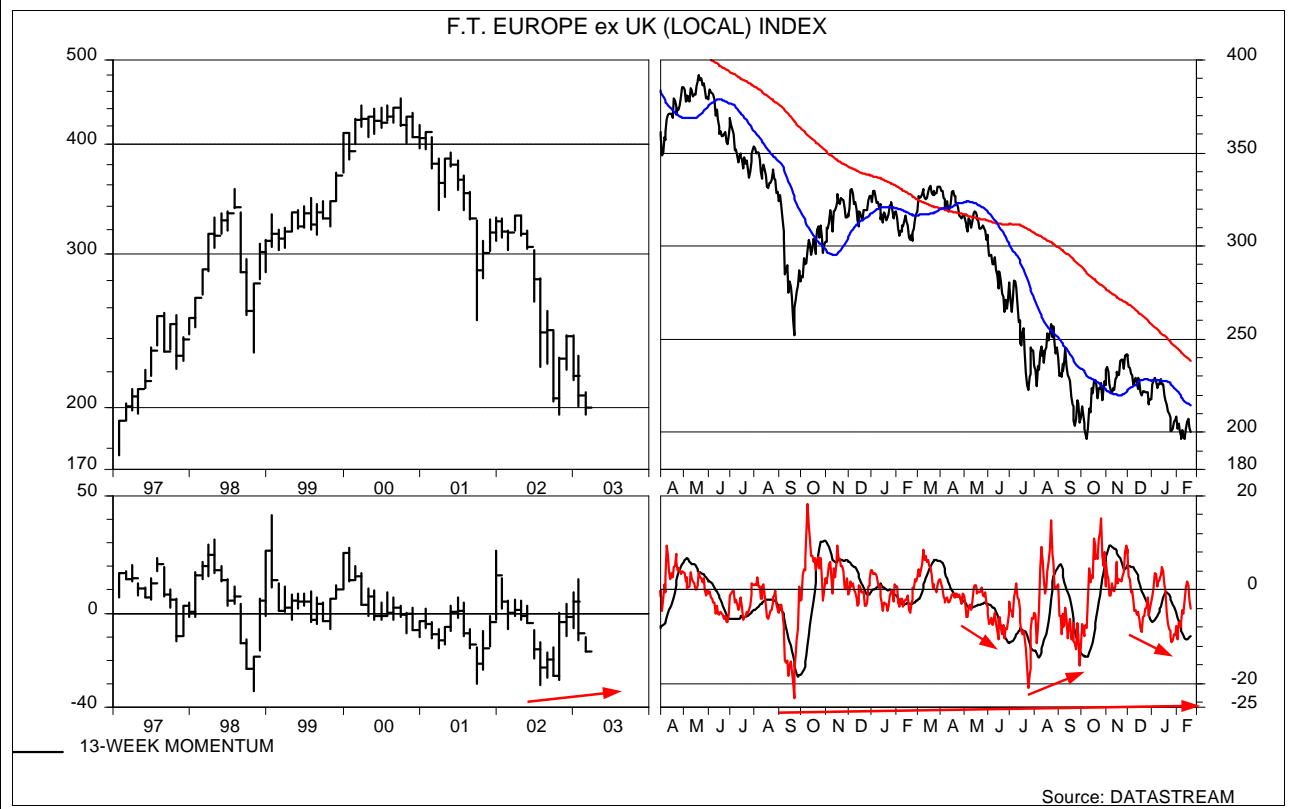
You all know that we are concerned about the coming six weeks, and even the next four months through to early July. However, the deterioration in UK gilts, which is mirrored in German yields, plus the fact that France and Germany have already endured Great Bear Market declines, makes this a good place to start talking about what is *right* with market configurations. The conditions for a bottom to occur *do* appear to be forming, although downside patterns are not yet complete.

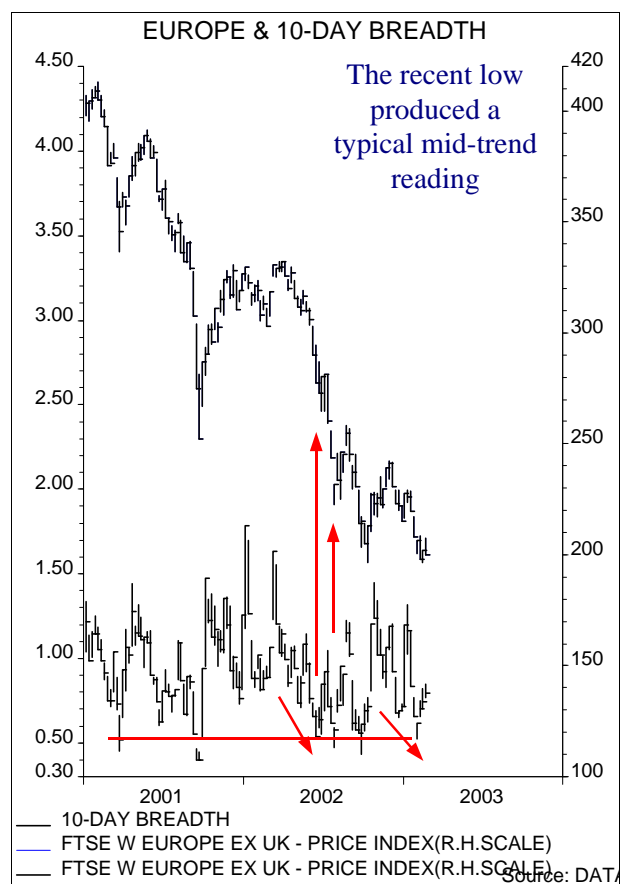
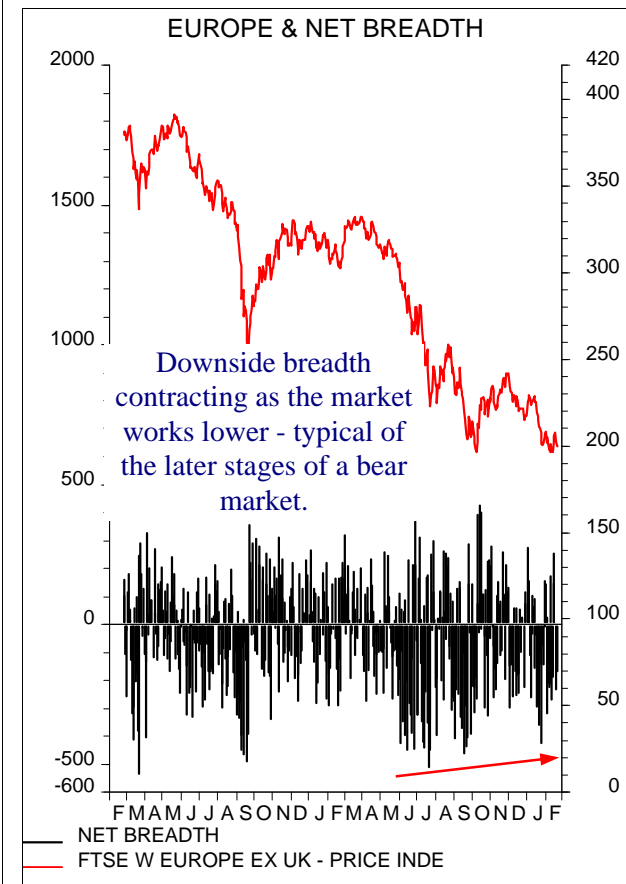
The Elliott pattern down from the November high needs at least one more 5-waver in order to finish off, and the shorter indicators (below right) are confirming on the downside, so another bear leg is still expected. In addition, as the RSI charts of France and Germany on p. 7 illustrate, bullish divergence signals can be totally swept aside by events such as 9/11. However, note there and below that momentum has *visibly* contracted on the downside, and only a totally unexpected event (which the next month could admittedly produce) will destroy the bullish configuration which is beginning to build.

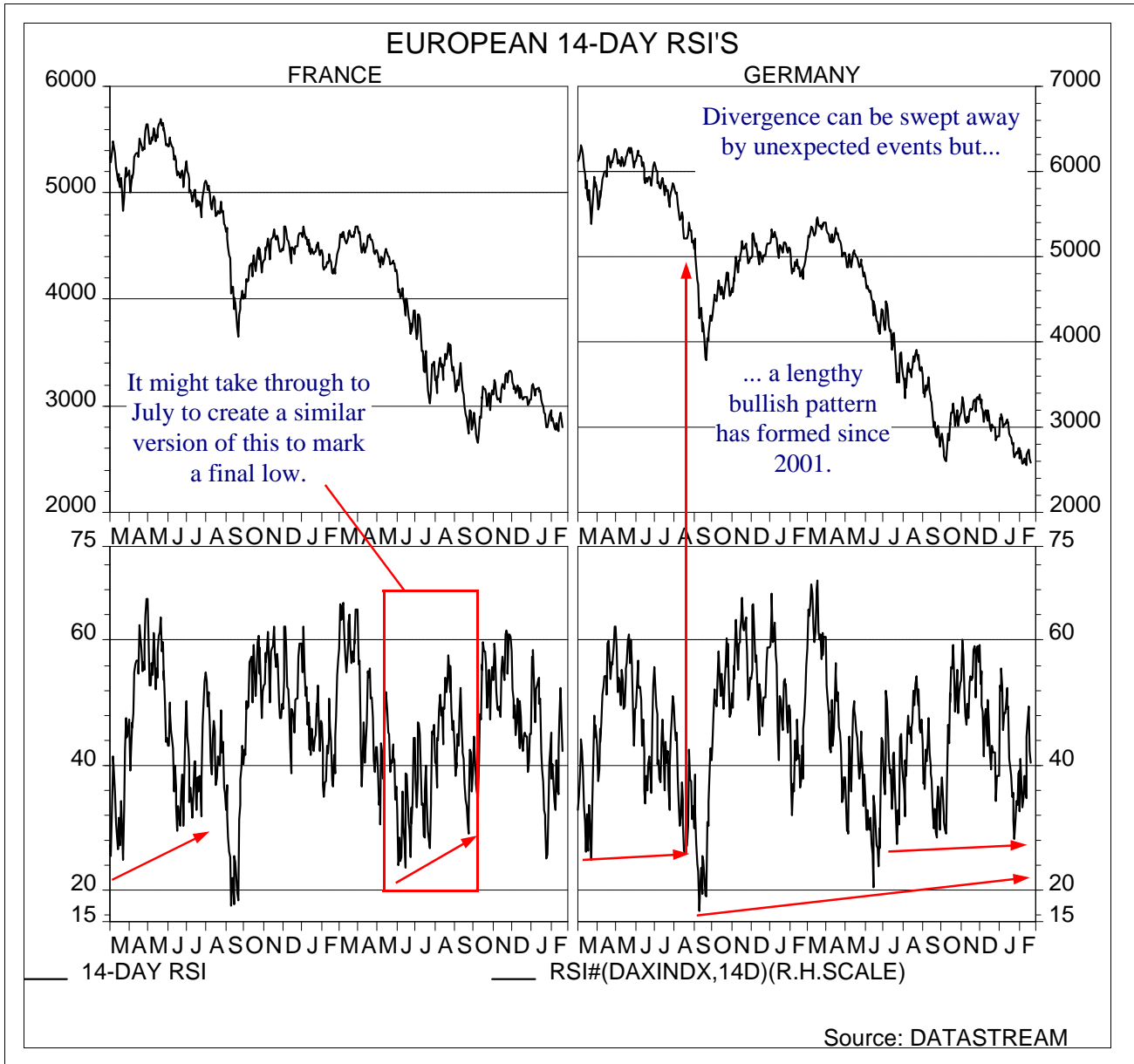
Before getting to complacent, we should point out that by late March the 13-week indicator will be measuring from late December's low at 215. The indicator would *still* be producing bullish divergence at a -30% reading, but this European index would be around 150 - 25% down!

There is also an upward bias to the breadth indicators. They are neutral to oversold, but you will see from the next page that recent levels were seen mid-trend on two occasions in 2001 and 2002. This is consistent with the incomplete wave pattern.

We are not yet ready to turn bullish, but it will be a nice change after the past three years. These charts are what we would expect to see if major low is to occur in the first half of this year.







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