

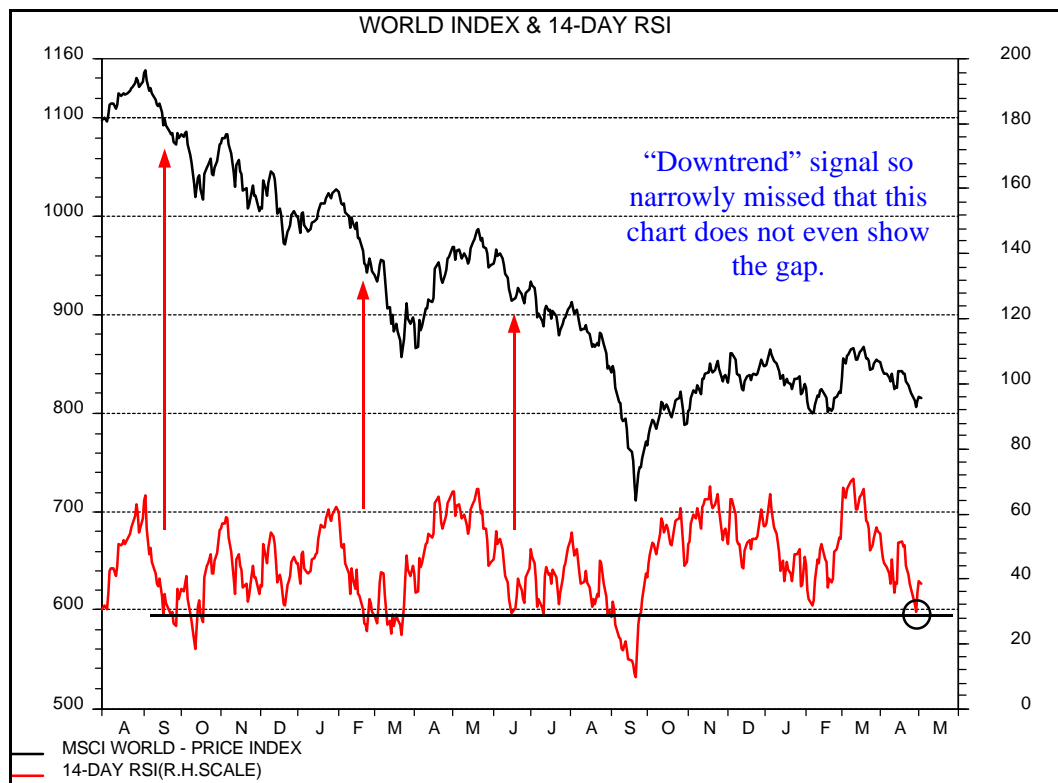
Global Markets Review (Issue 17/02 - Bond Markets Focus)

Time techniques had been suggesting a low this past week, and Monday duly obliged. However, the RSI for the **World Index** produced a new 2002 extreme, and avoided a “downtrend” signal by the merest fraction (see below). An oversold bounce has begun, but indicator signals in the US are sufficiently mixed that a lower low could still occur.

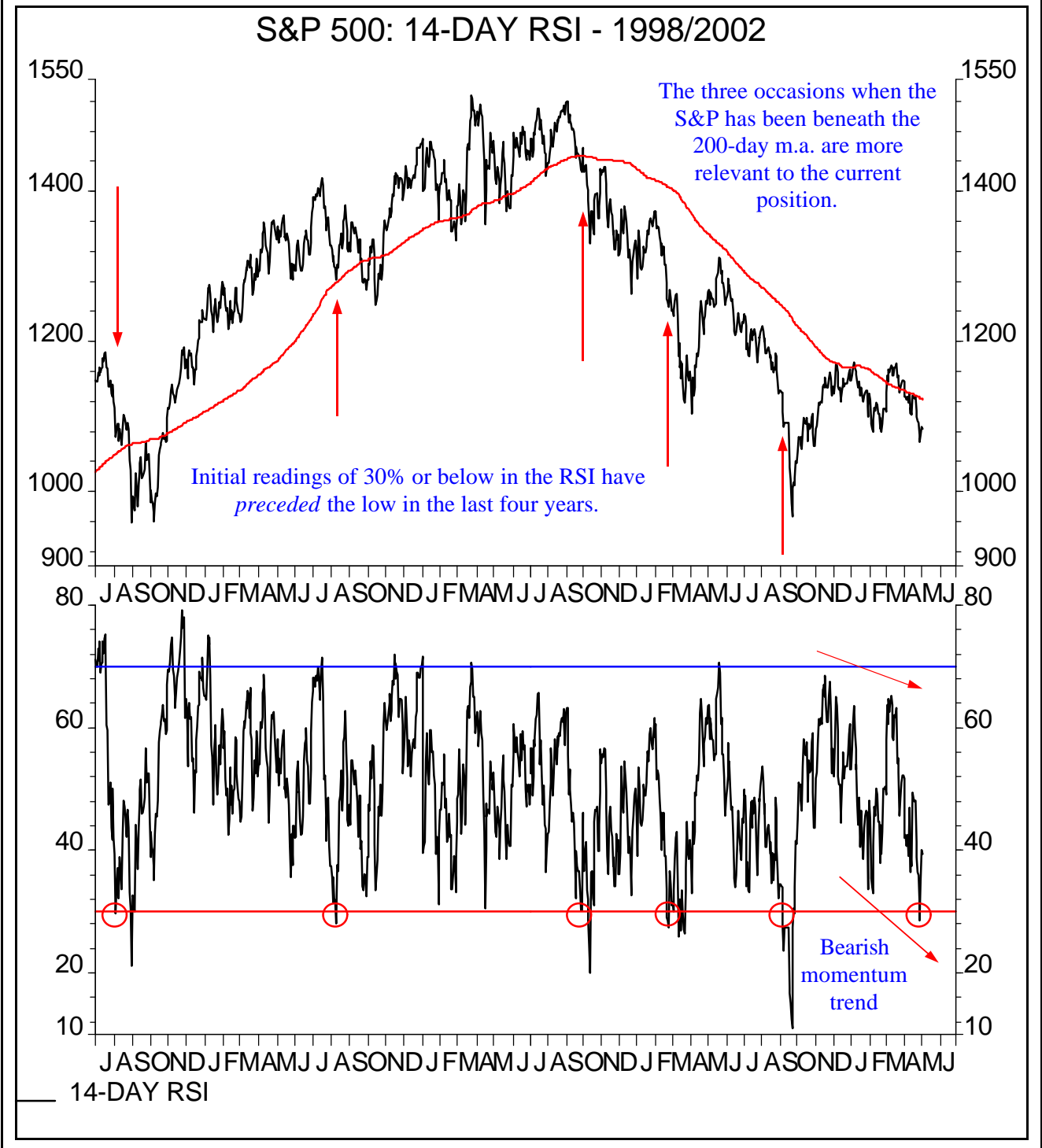
Fairly immediate new lows would produce a 5-wave decline from the March highs in some indices. In Elliott terms, that would not automatically signal that a larger decline has begun, but it would be important that the subsequent recovery produced indicator readings which were consistent with a resuming uptrend.

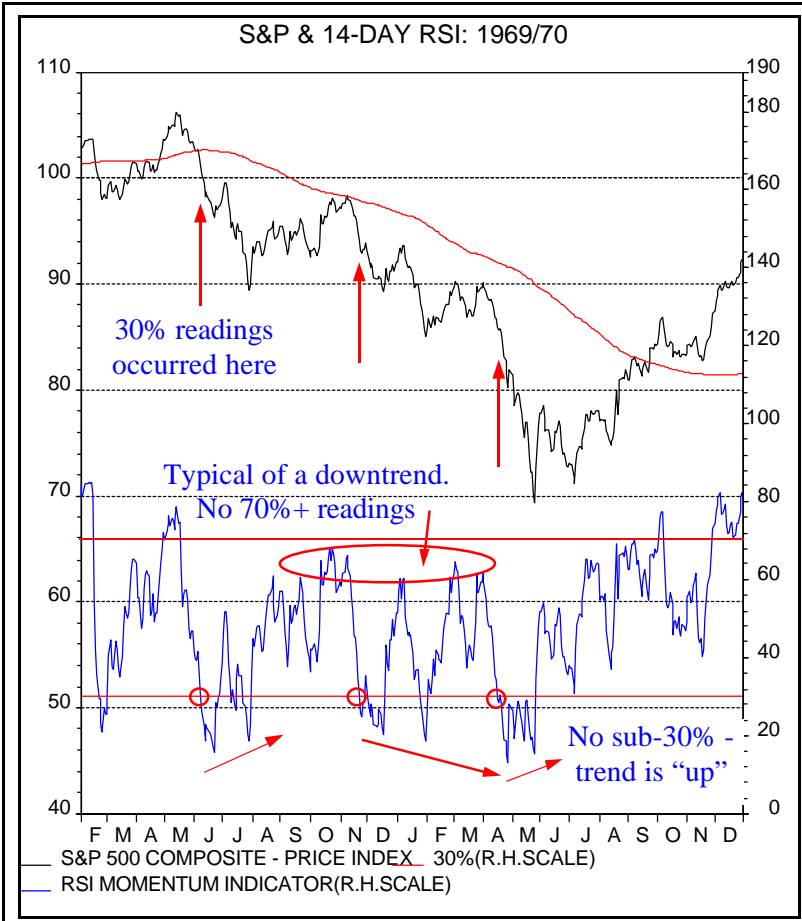
One important development of the week was that the RSI for the **S&P 500** *did* hit “downtrend” territory, and pages 2-4 are devoted to an analysis of the history of sub-30% RSI readings combined with a falling 200-day average. The conclusions are bearish, so the pattern development and indicator readings for the next rally become even more crucial.

Europe and **Japan** have held up better, and the indicators are neutral to mildly oversold, with no strong signals. Page 5 shows the opposing wave counts for Topix, and why it is important to the bull case for the 1,070 area to hold.



Whilst no one indicator is continually reliable, the recent RSI momentum signal in the **S&P 500** is worth highlighting. Long-term clients may remember that indicators usually move in different overbought/oversold ranges depending on whether the trend is bullish or bearish. In bull markets, the RSI normally ranges from the low 30's up to 90%, whereas in bear markets the readings are usually from the high 60's down to 10%. With the exception of the May 2001 reading, the RSI has traded consistently between the low 60's down to 10% since March 2000, i.e. in bear market territory. In addition, even in bull trends, many readings at 30% or below have signalled that an intermediate correction has begun. That is visible in both 1998 and 1999. The combination of these two observations suggests that the current decline has further to carry (probably after an oversold bounce), whether this is an on-going bear market or not.

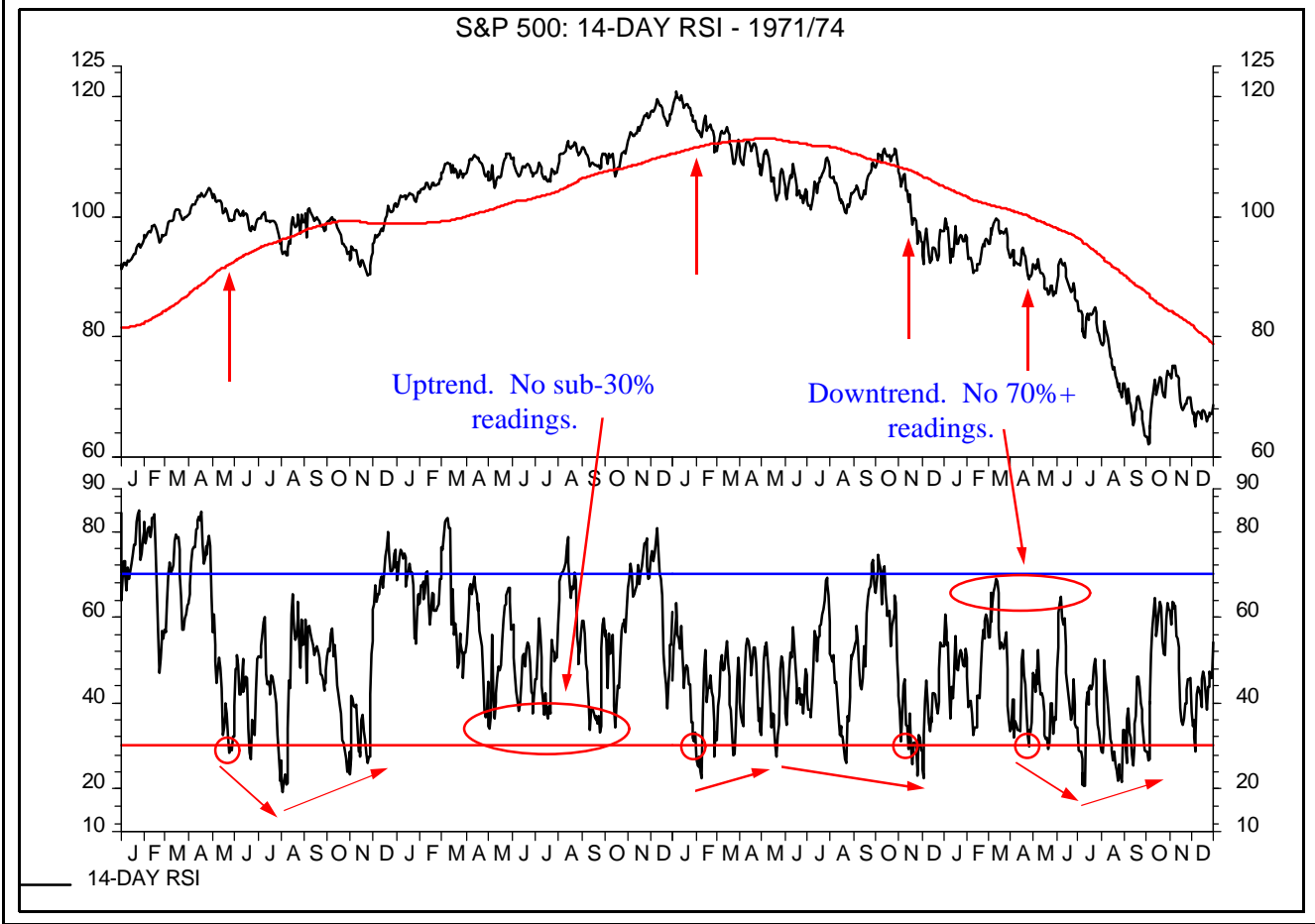


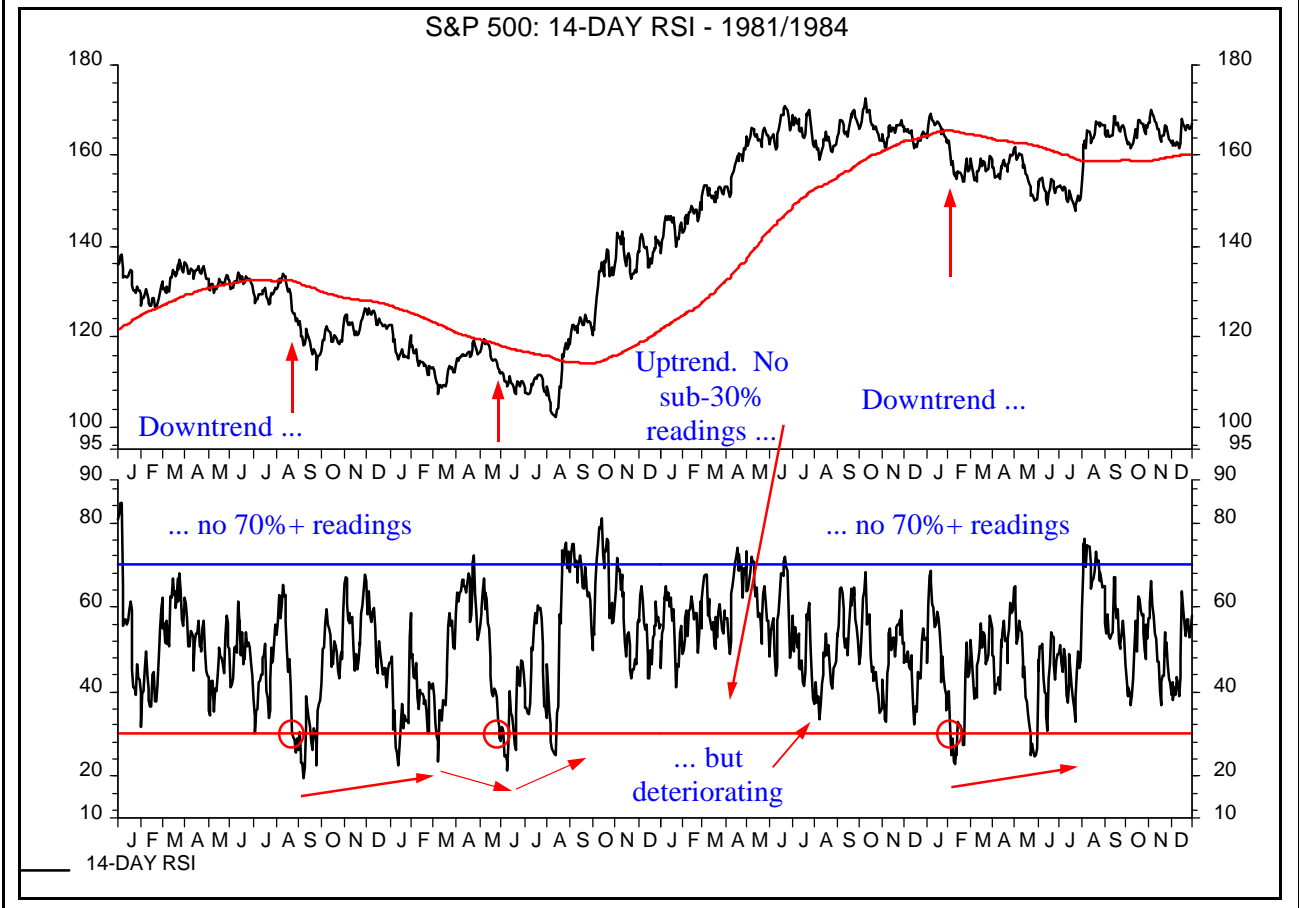
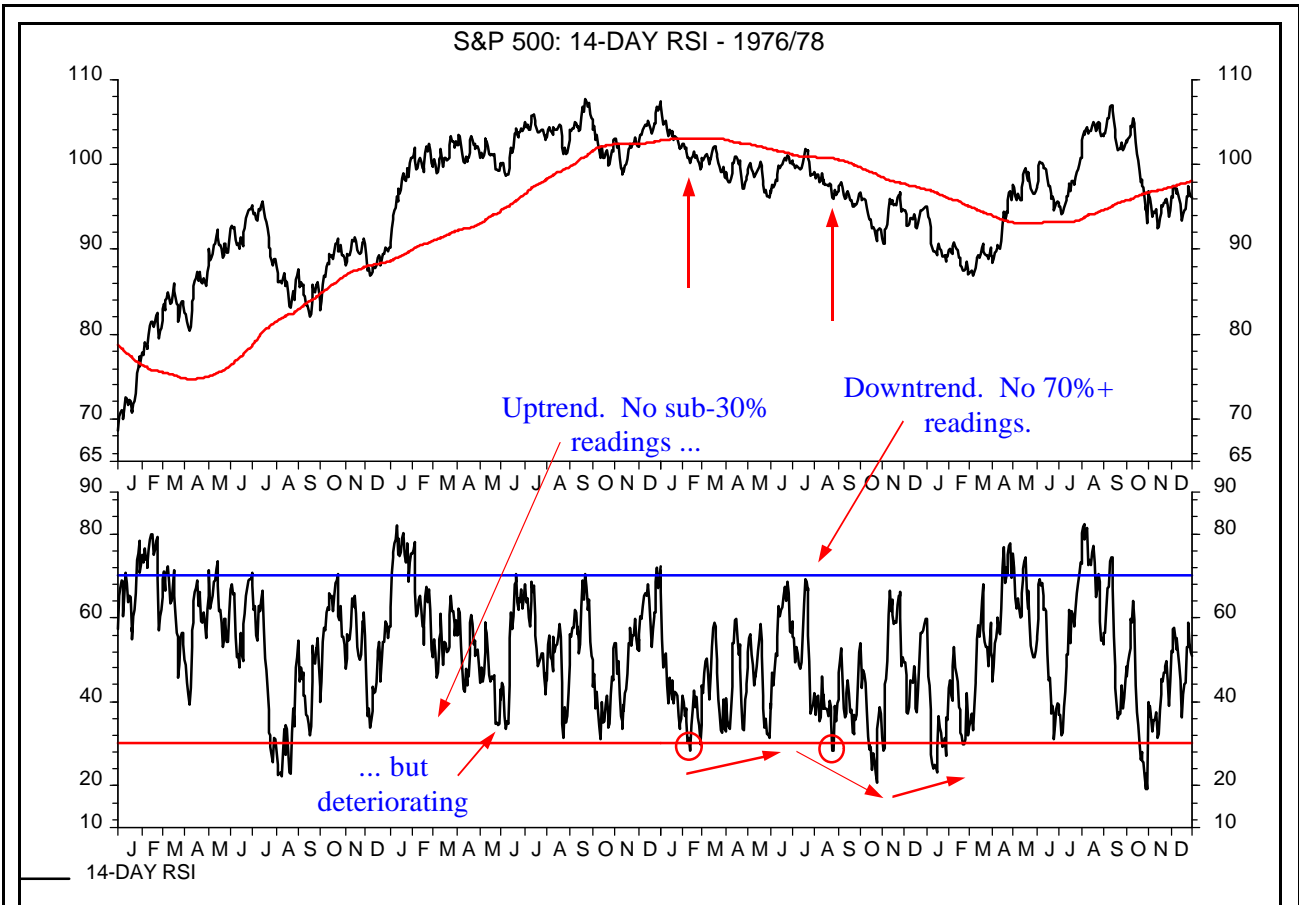


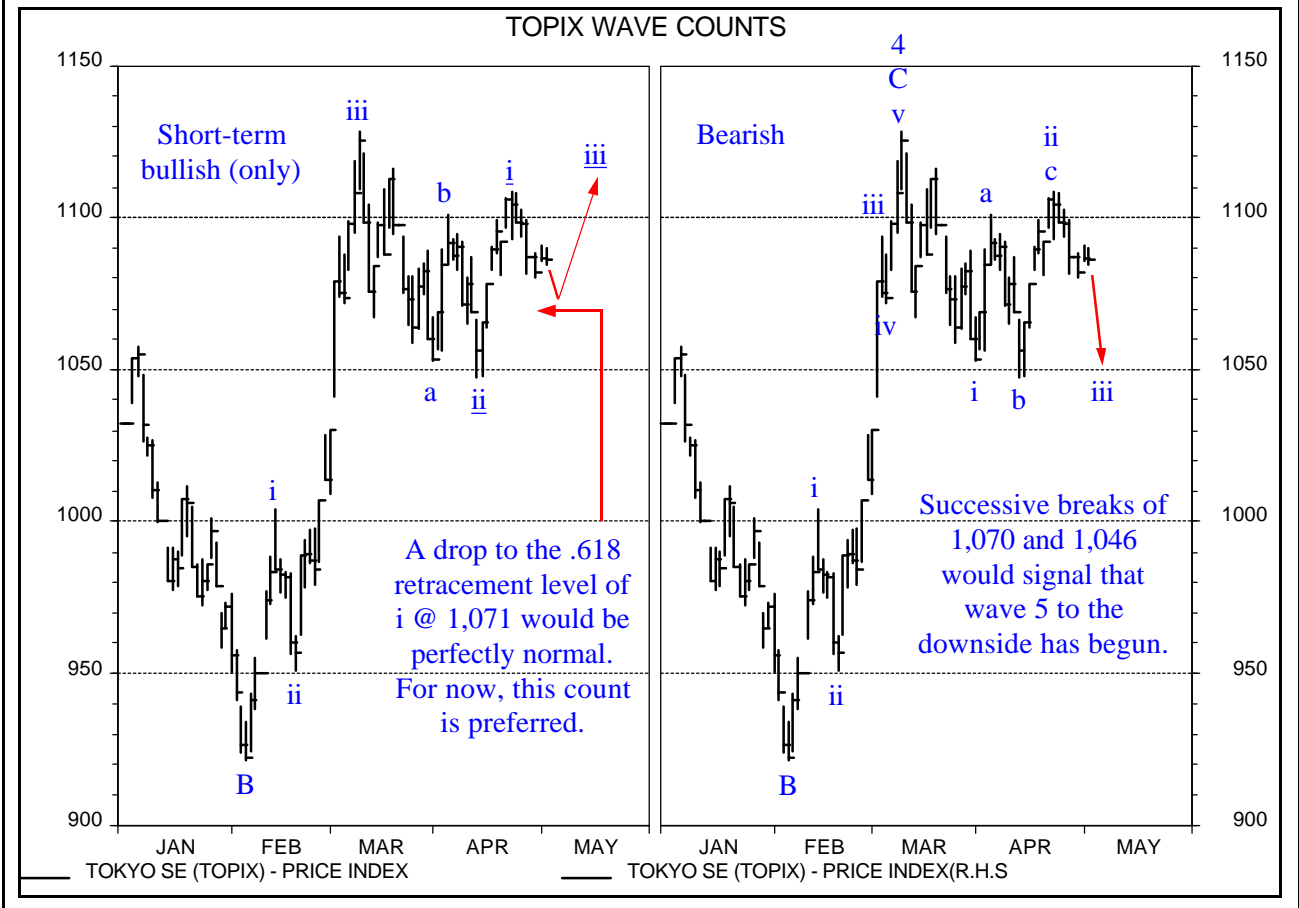
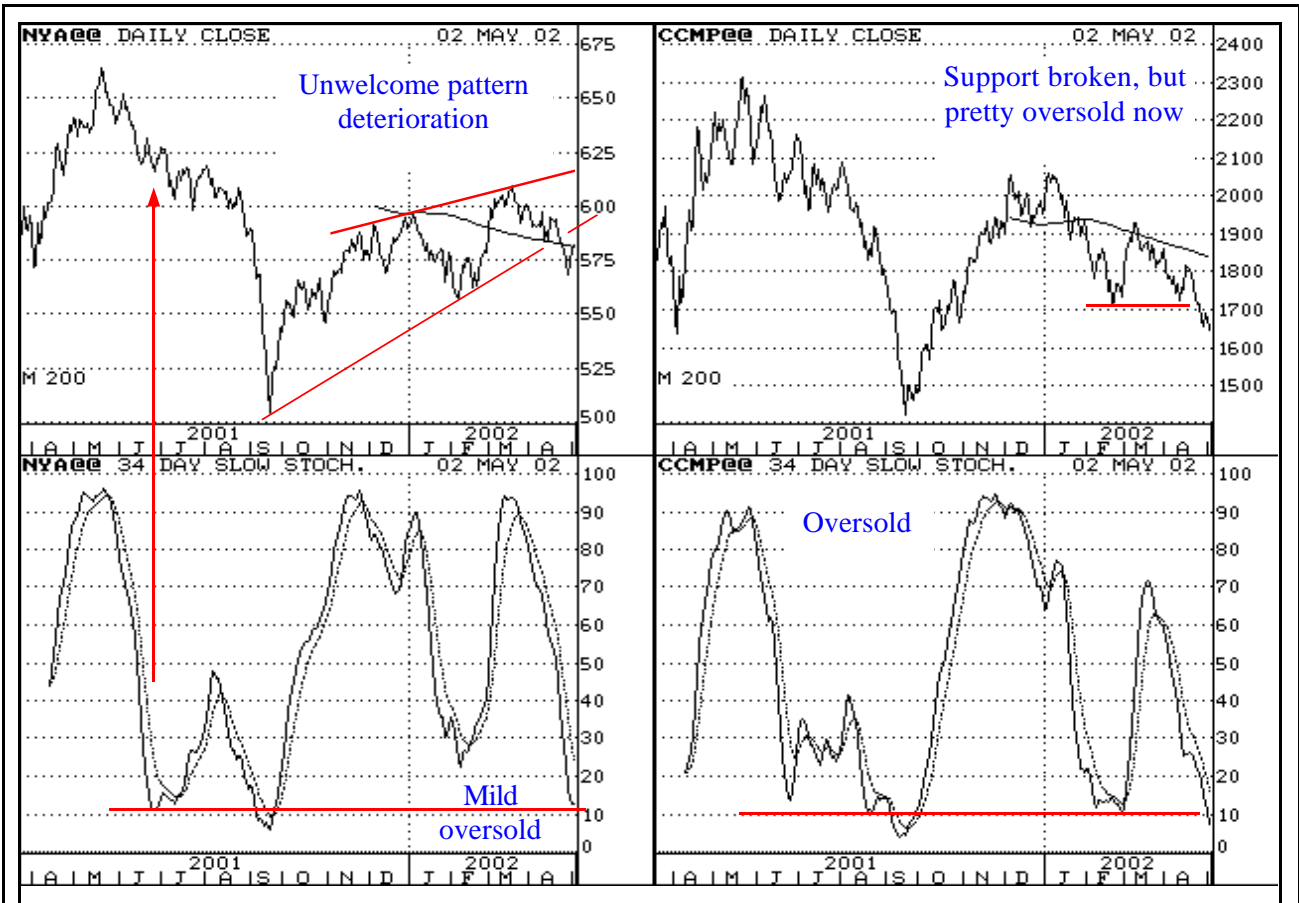
Datastream has daily S&P 500 data for 32 years, and there have not been many periods when a sub-30% RSI reading has coincided with a falling 200-day average. However, these pages do show all of them, to provide as full a history of this combination as possible.

In addition, note that the 2002 decline beneath 30% follows a rally (arguably two) which failed to produce a 70% reading. For the past 30 years, this configuration has *only* occurred in on-going downtrends.

The US indices are becoming oversold, as the Stochastics of the NYSE and NASDAQ on page 5 show. However, the weight of history warns that we should be looking for confirmation that any imminent oversold bounce is part of a resumed downtrend.





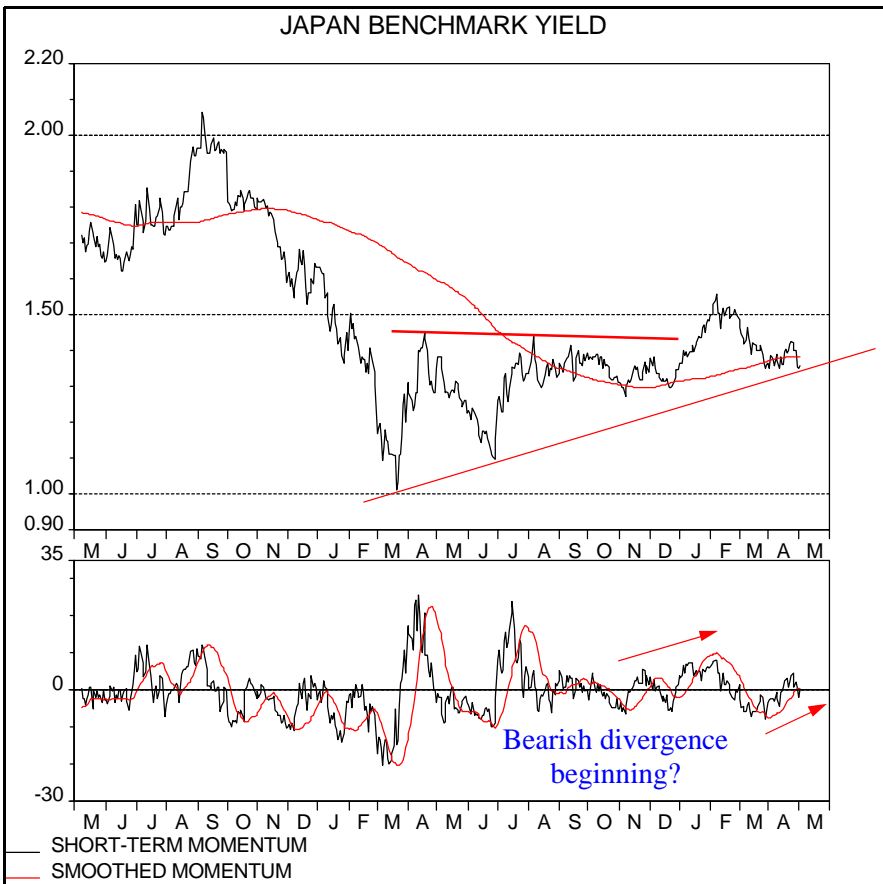


BOND MARKETS FOCUS



US 10-year Yield

- Yields have reversed from just beneath the 5.48-5.52% target area, but the a-b-c pattern off the low looks complete, so a new bull trend could well have begun from slightly lower levels than expected.
- The bullish divergence signal of last month now needs to be confirmed by a break of the January indicator low.
- A clear 5-wave decline would be an additional bull pointer.



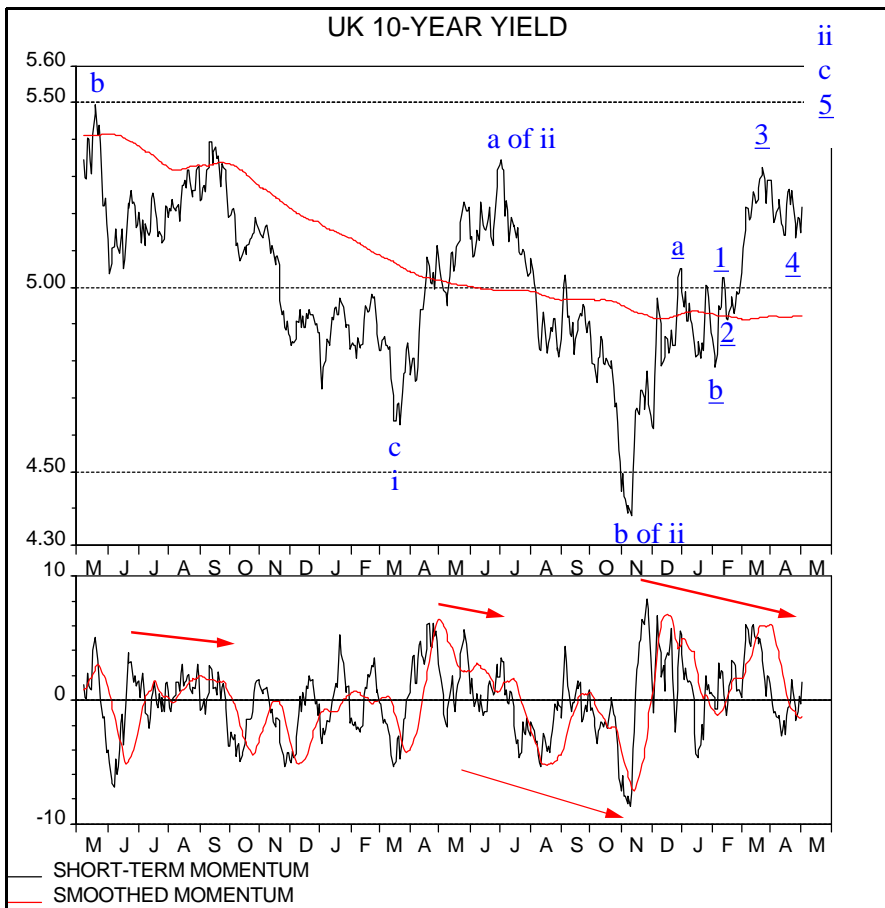
Japan 10-year Yield

- A break of 1.25% is needed in order to negate the bearish pattern target at 1.78%.
- A confirmed break of the uptrend would also help the bull case, but for now the momentum trends retain their bearish bias.



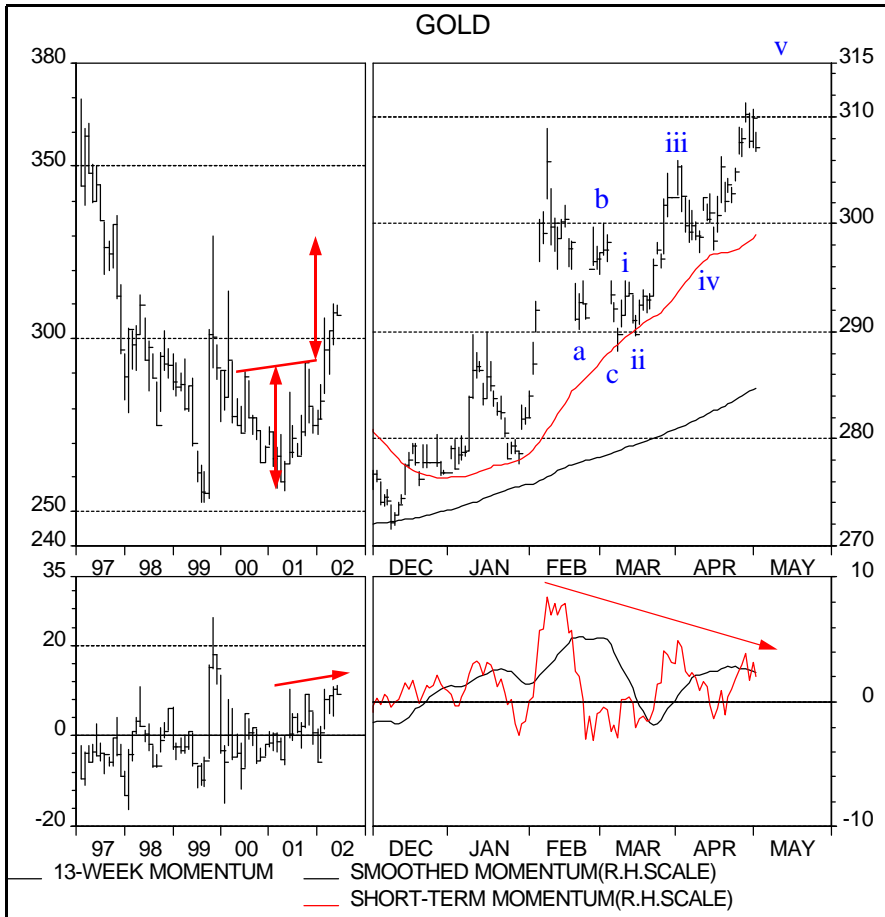
German 10-year Yield

- Upside pattern not obviously complete. The action since the late-March high looks like an a-b-c correction in an uptrend.
- If new highs do occur, the move would need to be dynamic to prevent the bullish divergence signal in the momentum indicators from getting stronger.
- The mid-5.40% area is the obvious target level (c = a).



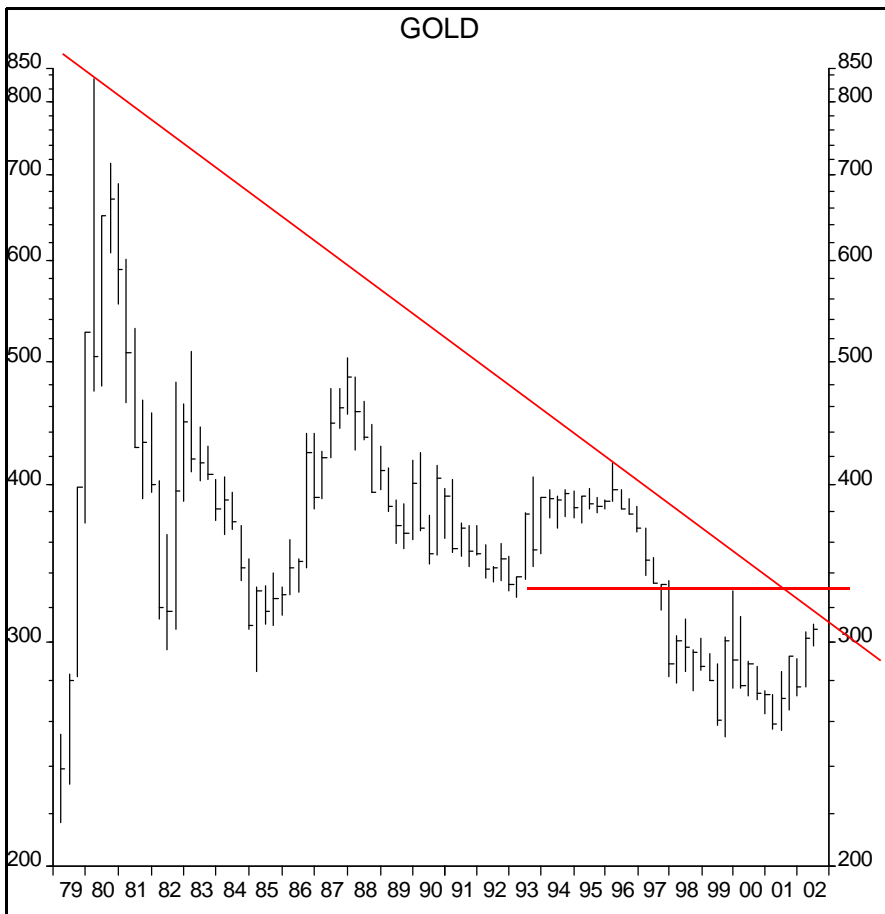
UK 10-year Yield

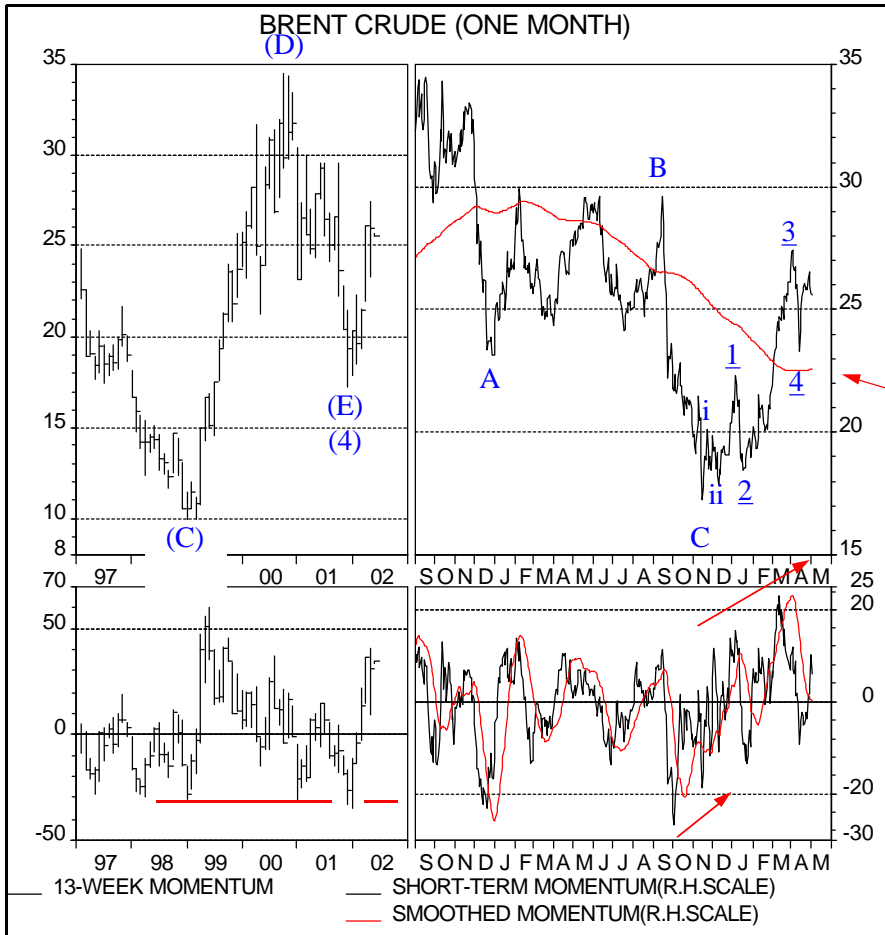
- Very similar to the above.
- There is a slightly lower target at 5.39%, where wave c would have retraced .618 of the decline from January 2000 to the low at i in Q1 last year.



Gold

- The wave patterns remain bullish with the corrections coming as three-waves and the rallies as fives.
- The 5-waver off the March low looks nearly complete and upside momentum is fading, so the conditions for a correction are beginning to appear.
- Note how a close above \$320 would break the major downtrend. If accompanied by good momentum, this would suggest that our minimum target at the 1999 high is too conservative.





Oil

- Consolidating in wave 4 of iii?
- The high momentum of Q1 is typical of the middle of third waves.
- The upturn in the 200-day m.a. is another pointer to higher prices medium term.
- All of this is consistent with the 2001 low seeing the beginning of wave (5) in the long-term Elliott count.

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