

Global Markets Review (Issue 20/01 - Pacific Basin Focus)

In this Issue

Time techniques have been pointing to a late-June or July low. Although we could see that an “oversold” rally was likely from the late March lows, markets have a time window into July where they *could* make new lows, particularly since late March produced almost nothing in the way of indicator buy signals.

The rebound to recent overbought levels had left markets vulnerable, but the 5-wave advancing pattern in the NYSE Composite suggests that merely the first wave of its final bull market advance has occurred. The logical extension of this analysis is that, in the majority of indices globally, this correction will not make new lows, and will provide a bullish opportunity prior to the stronger second half of the year which we have been expecting. If any indices do make new lows over the next month or so, the decline would need to be very dynamic in order *not* to produce the bullish divergence signals which were missing in March.

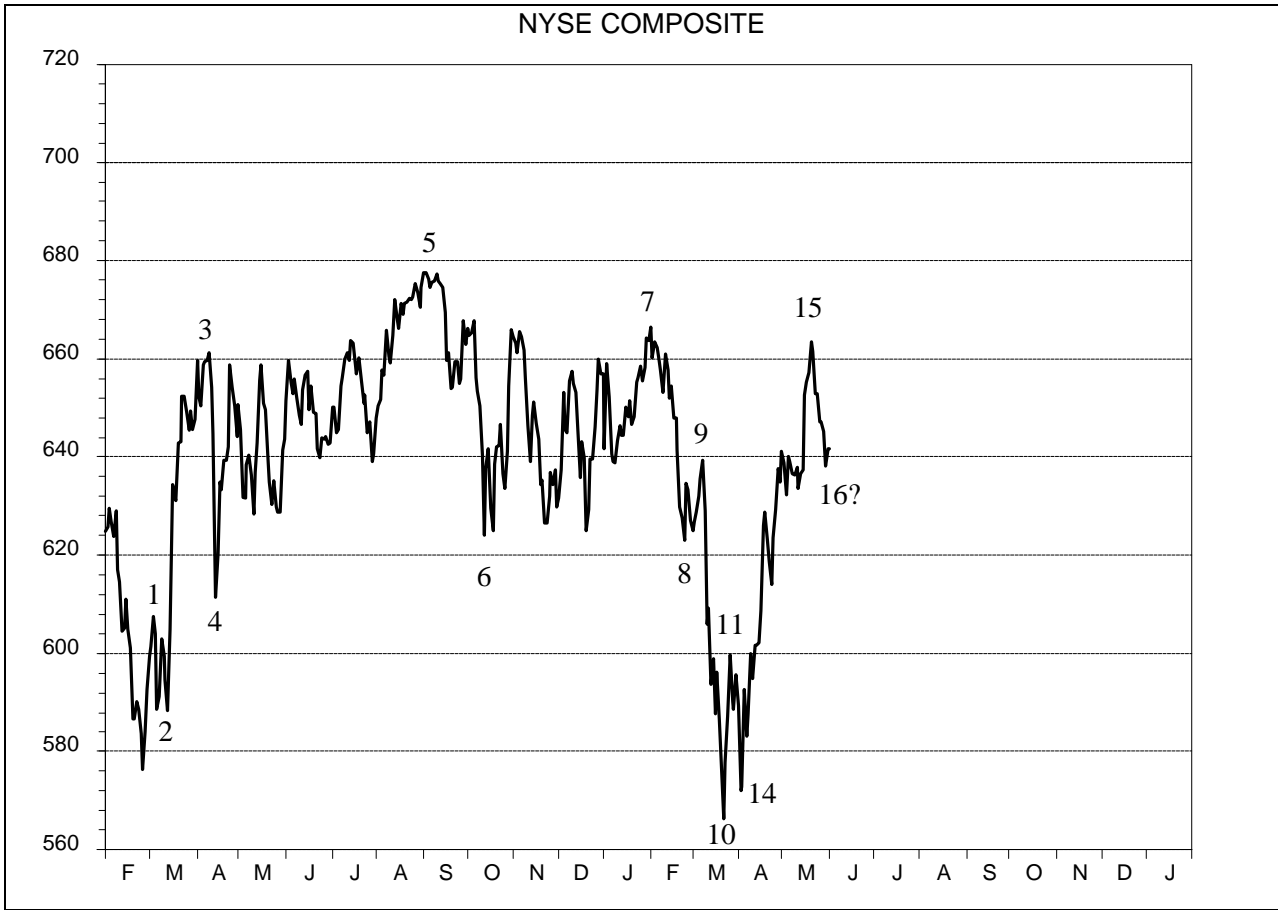
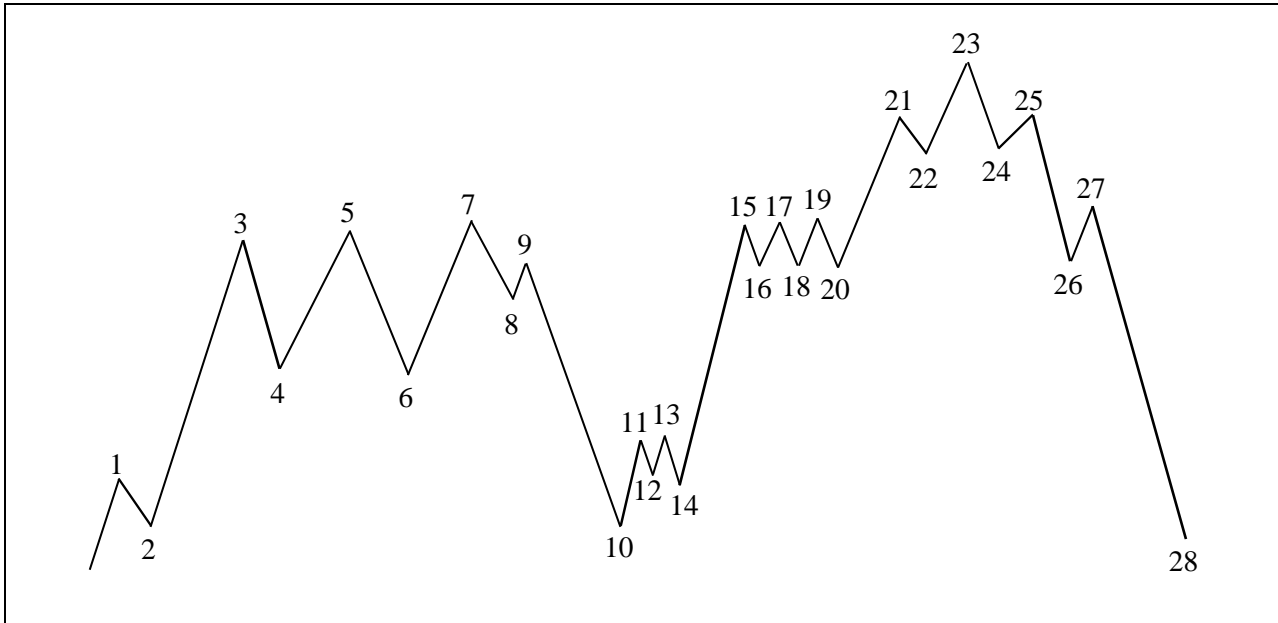
Since markets appear to be producing the “overbought” correction which the indicators were signalling, there is little new to say short term. We should also add that since several indices are already close to their 50-day averages, either a “sideways” or a “down” pattern would be equally acceptable here, but it is too early in the correction to tell which is occurring.

However, we have started with an old favourite on page 2.



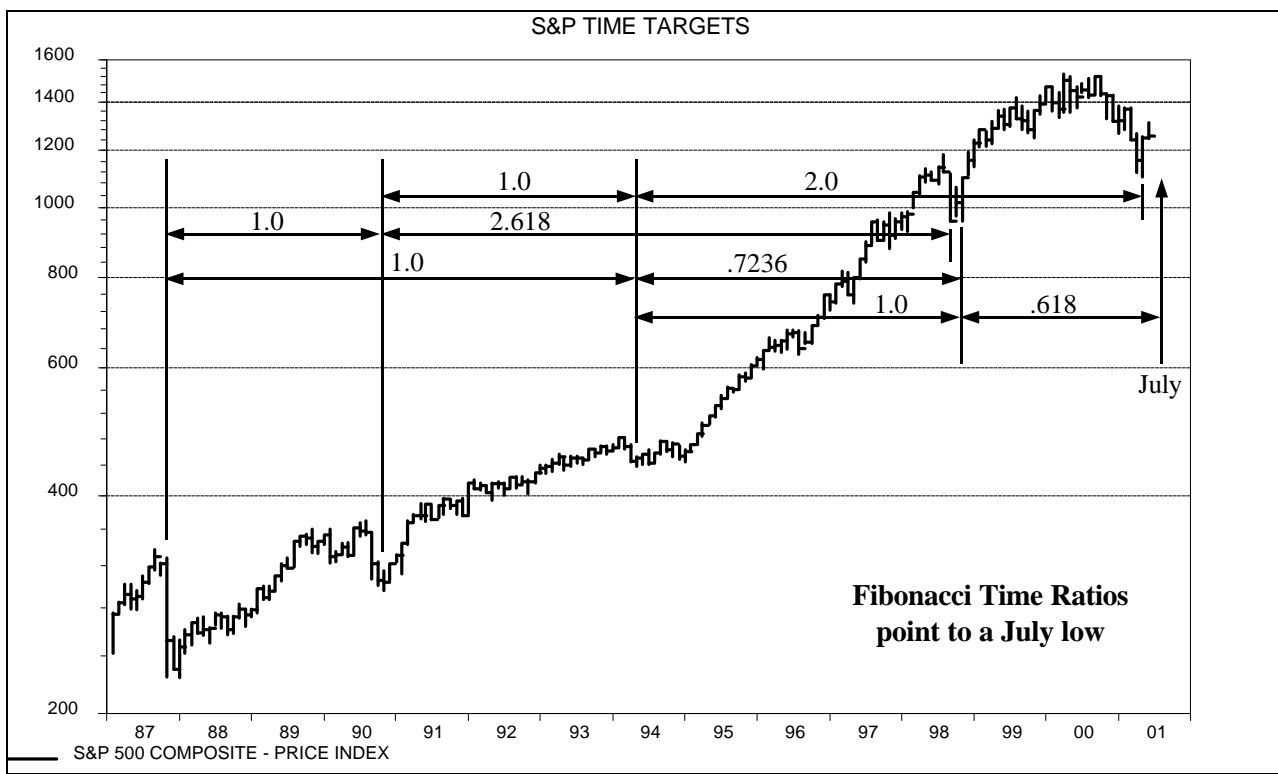
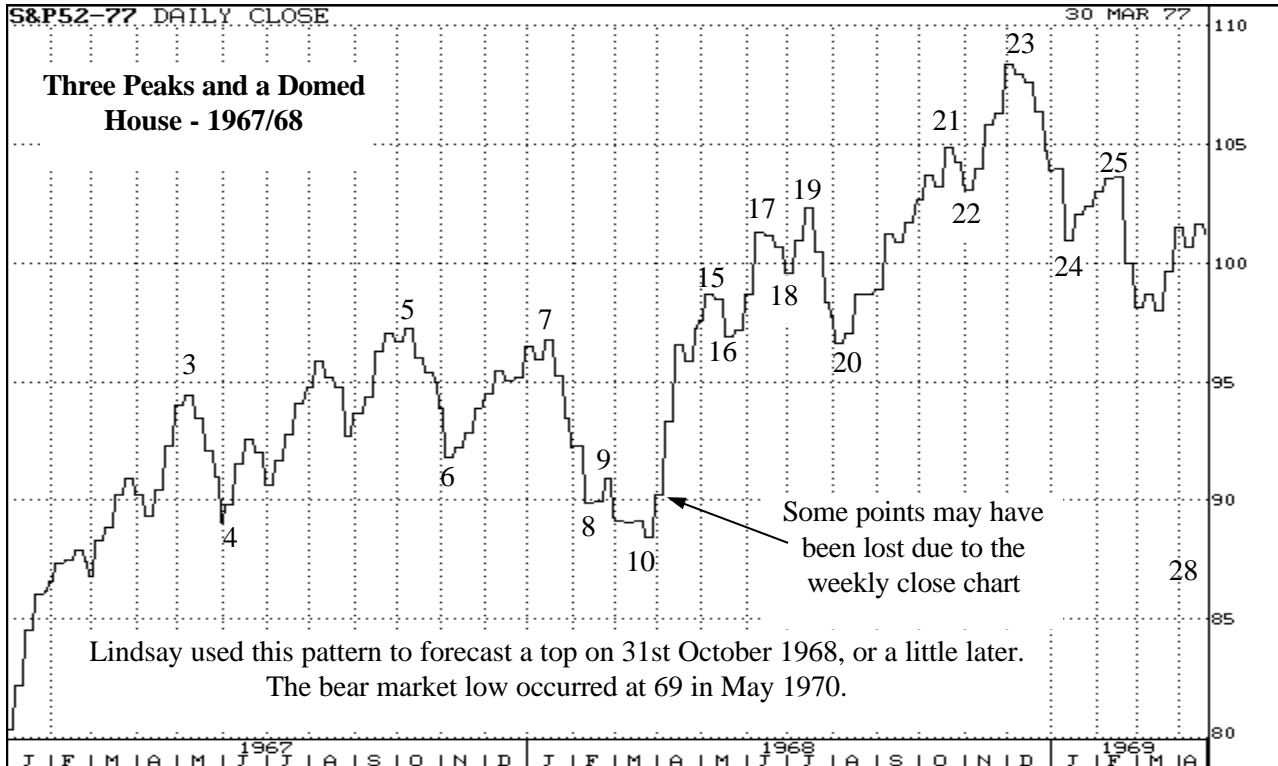
This should bring a smile to those of you who have been clients since 1990/91: *Three Peaks and a Domed House*.

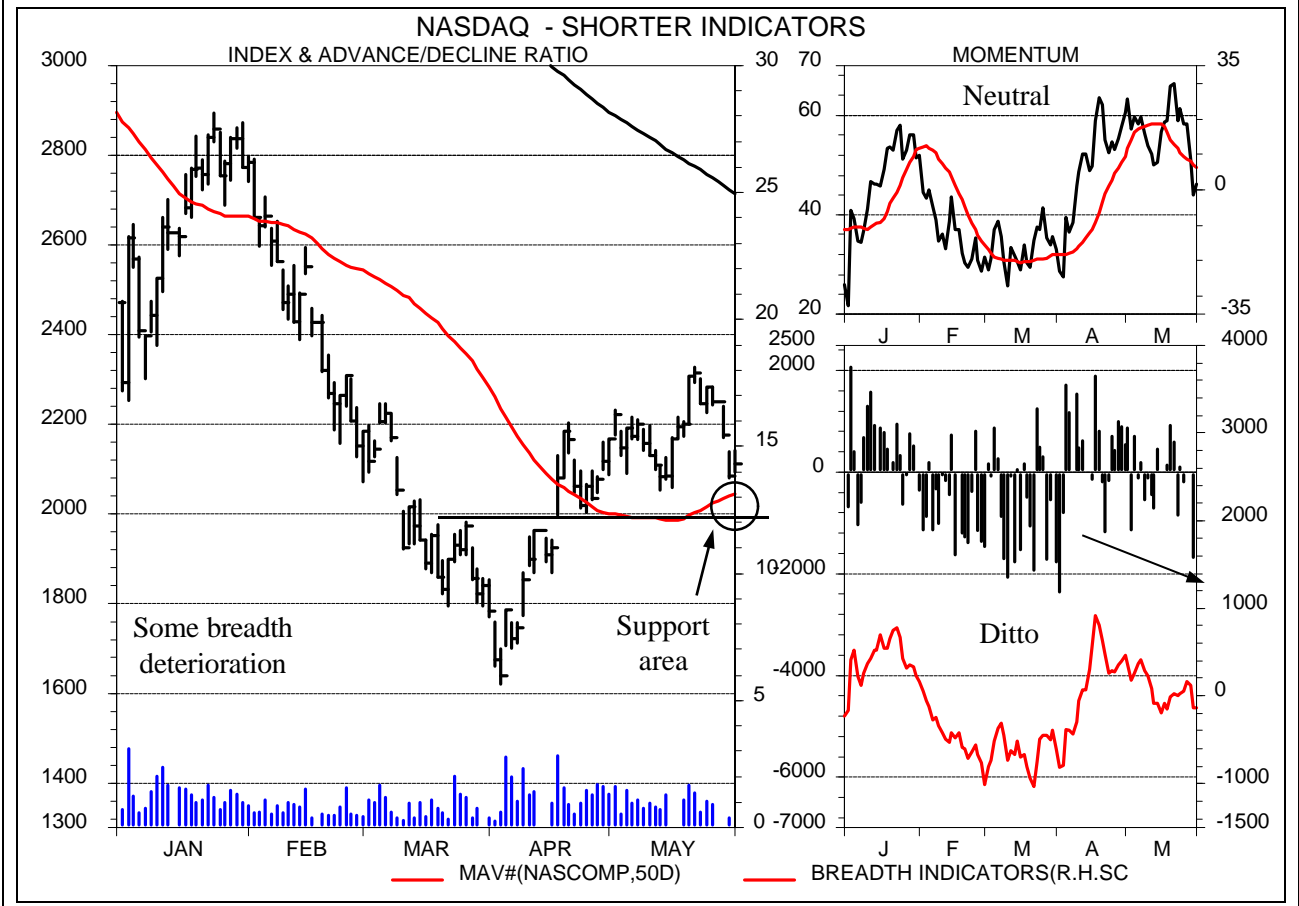
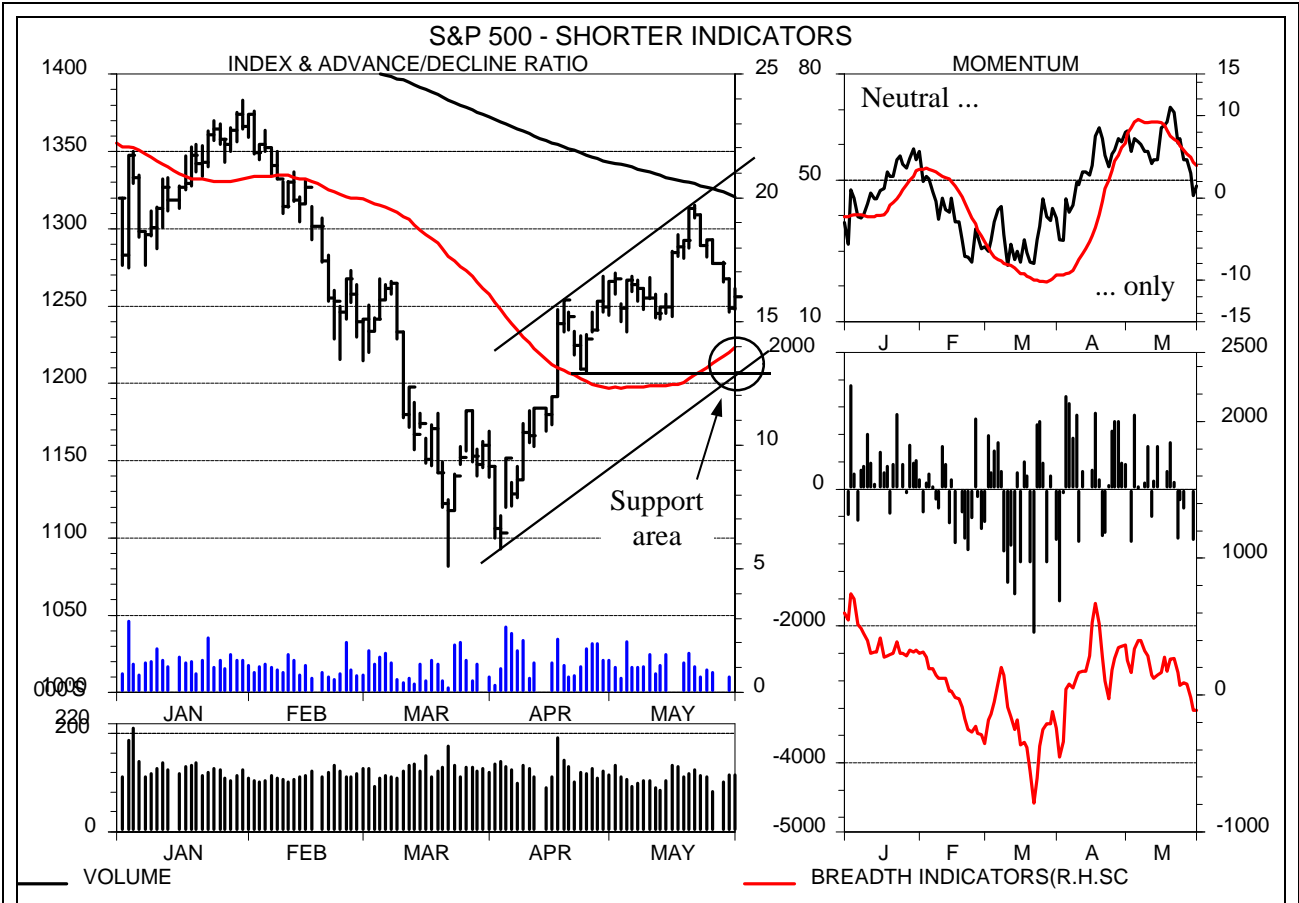
Yes, its potentially back again, but this time in the US indices, most noticeably the NYSE Composite. Identified by the late, legendary George Lindsay, this pattern appeared at bull market tops on a number of occasions between 1906 and 1968 - most famously in 1929. The diagram below illustrates its idealised form. Compare this with our numbering of the NYSE below:

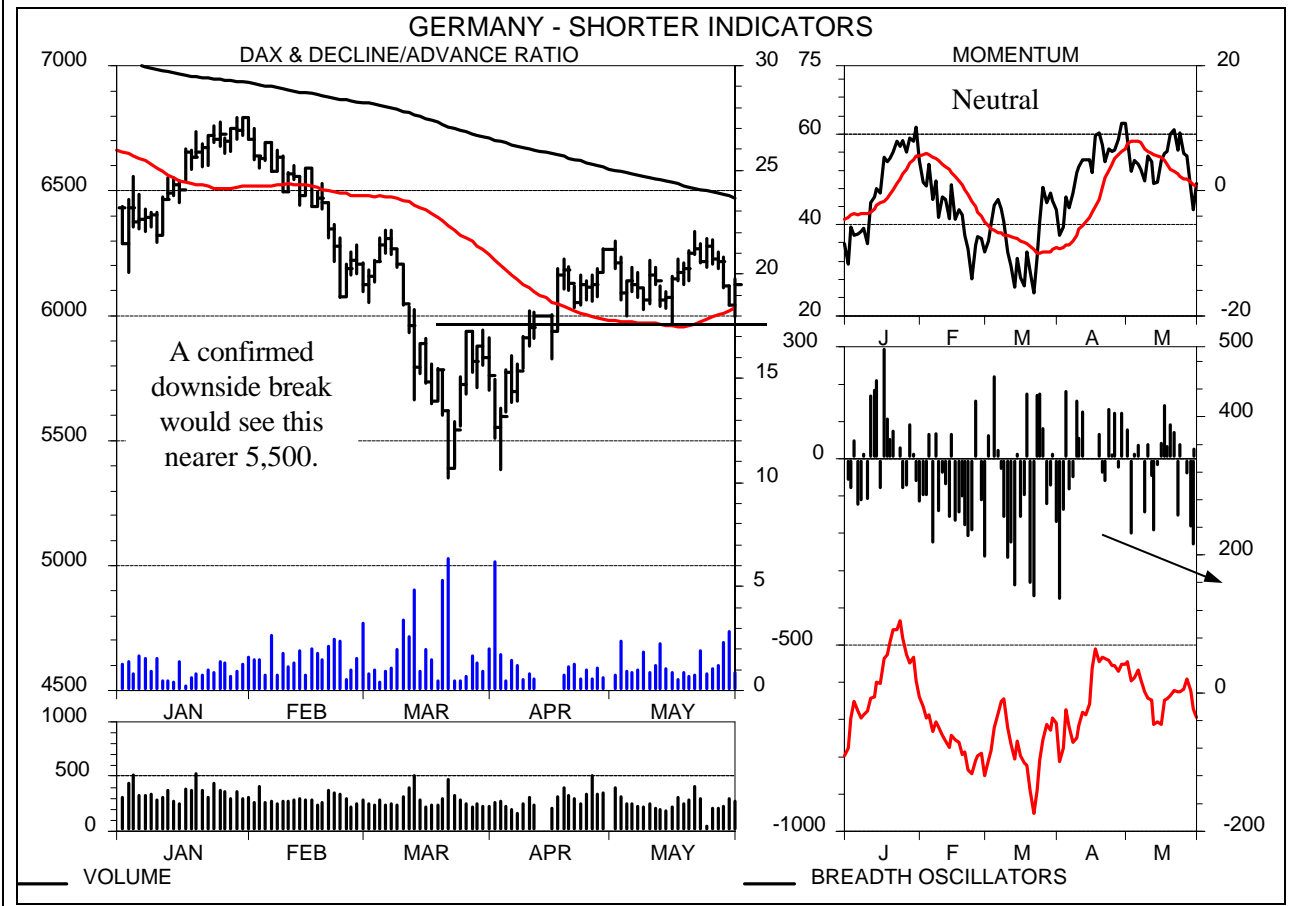
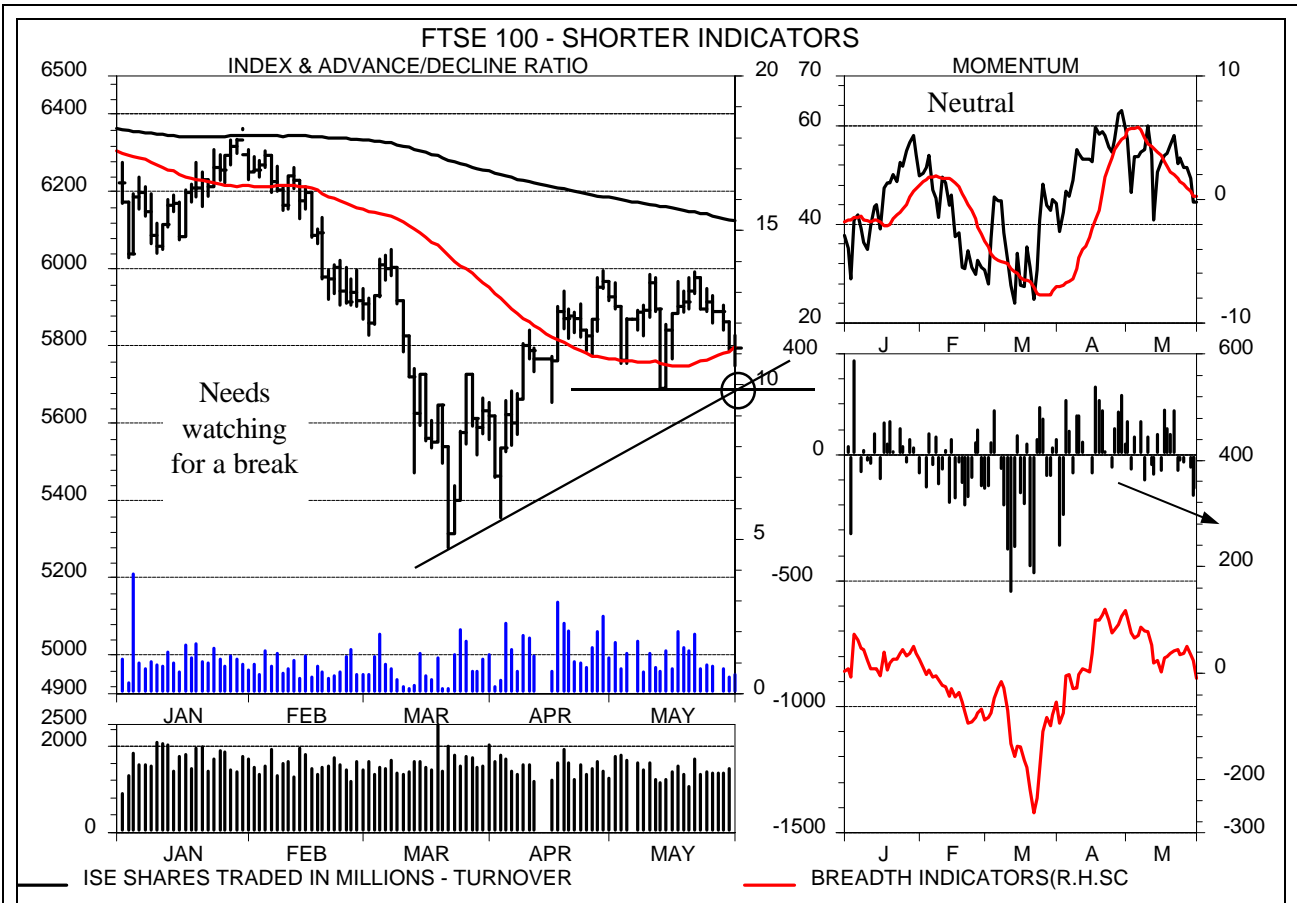


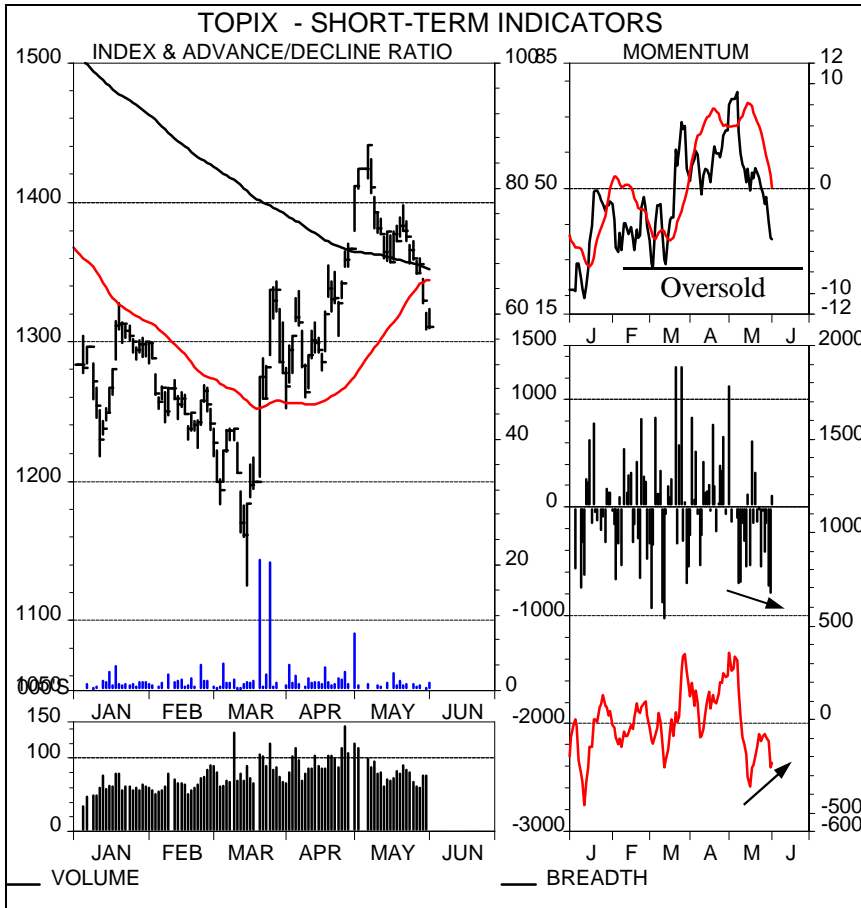
This is an interesting development for two reasons:

- It is consistent with our NYSE wave analysis that the wave (5) high - completing the post-1974 bull market - lies ahead.
- The TPDH “count” calls for a consolidation here, in line with the indicator configuration, which suggests that an “overbought” correction has begun.





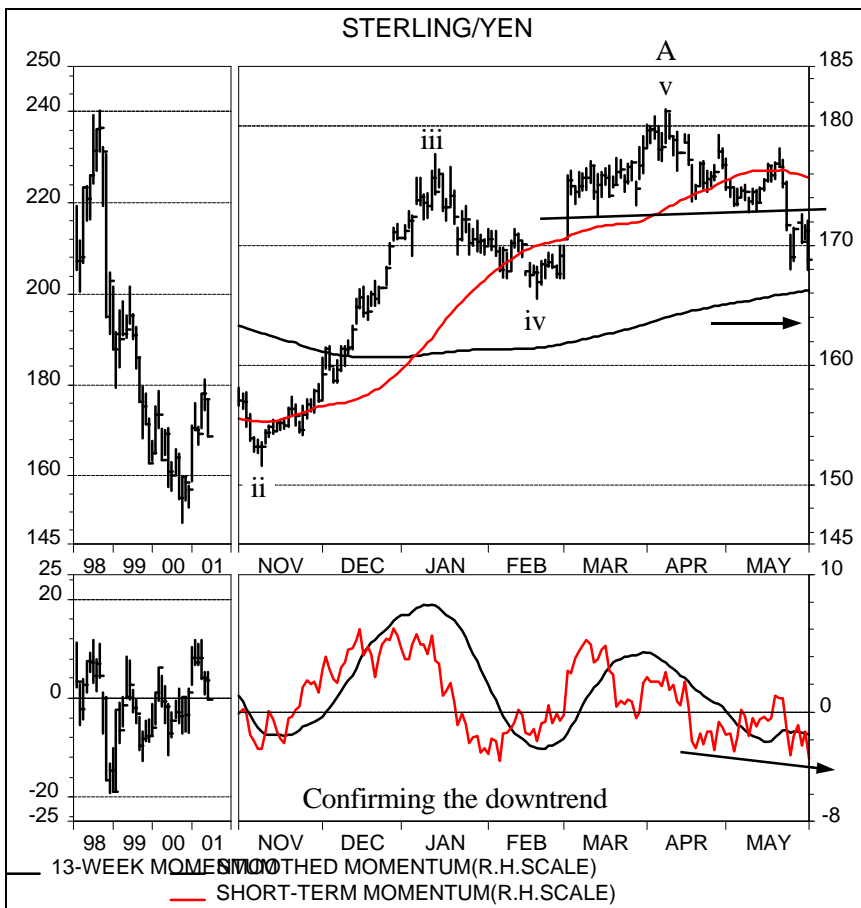




Japan (Topix @ 1,310)

The index has hit the 1,314 target area, but the decline is a little more dynamic than we had hoped. An a-b-c pattern may be completing here, but the indicator configuration is not that convincing.

We are slightly concerned that, if the US indices produce a “down” correction rather than a “sideways” consolidation, and lasting into July, Japan would probably be pushed to avoid a similar period in the doldrums. Additionally, any signs of downside acceleration in this important support area would be most unwelcome, suggesting that this is not a correction in an uptrend. Our old count, treating the March-May rally as wave iv would then resurface, and imply at least a re-test of 1,125.



For the record, the Fibonacci retracement levels of the rally are:

- 38% : 1,320
- 50% : 1,283
- 62% : 1,246

In the a-b-c scenario, 50% *should* hold, and 62% *must* hold.

Sterling/Yen (168.80)

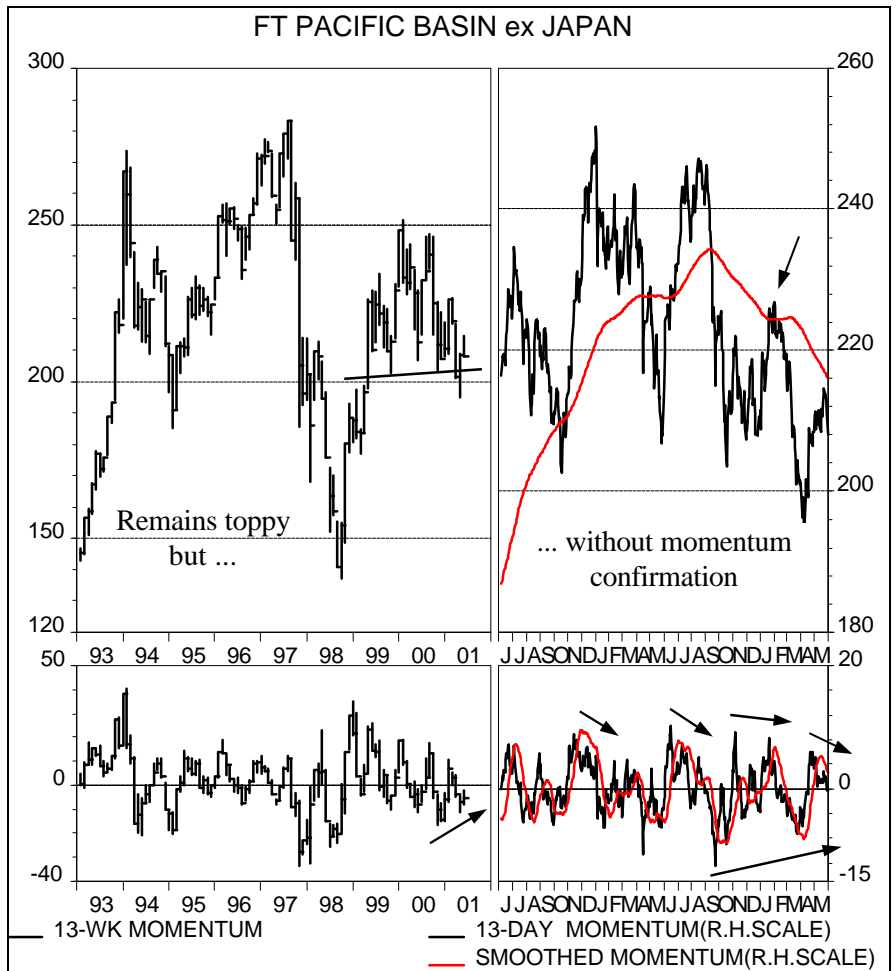
The recent Focus warned of downside risk to the mid-160’s, and this has been confirmed by the top pattern completion. The minimum objective is beneath 164 intra-day, and momentum is confirming.

Pacific Basin Focus

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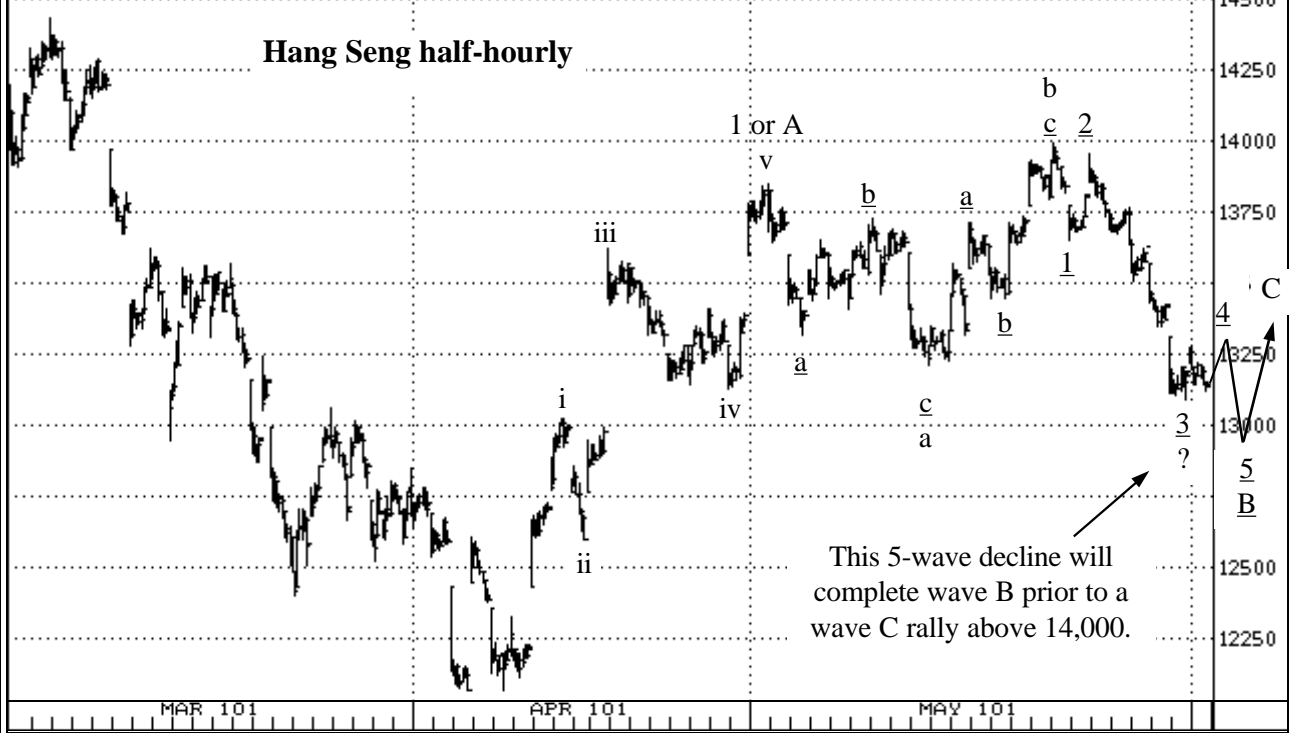
Japan: The recovery phase has extended as the indicators were suggesting at the time of the last Focus. However, yet again the index has failed to overcome its falling 200-day average, and momentum faded into the recent rally peak. In simple technical terms then, the trend is still downwards.

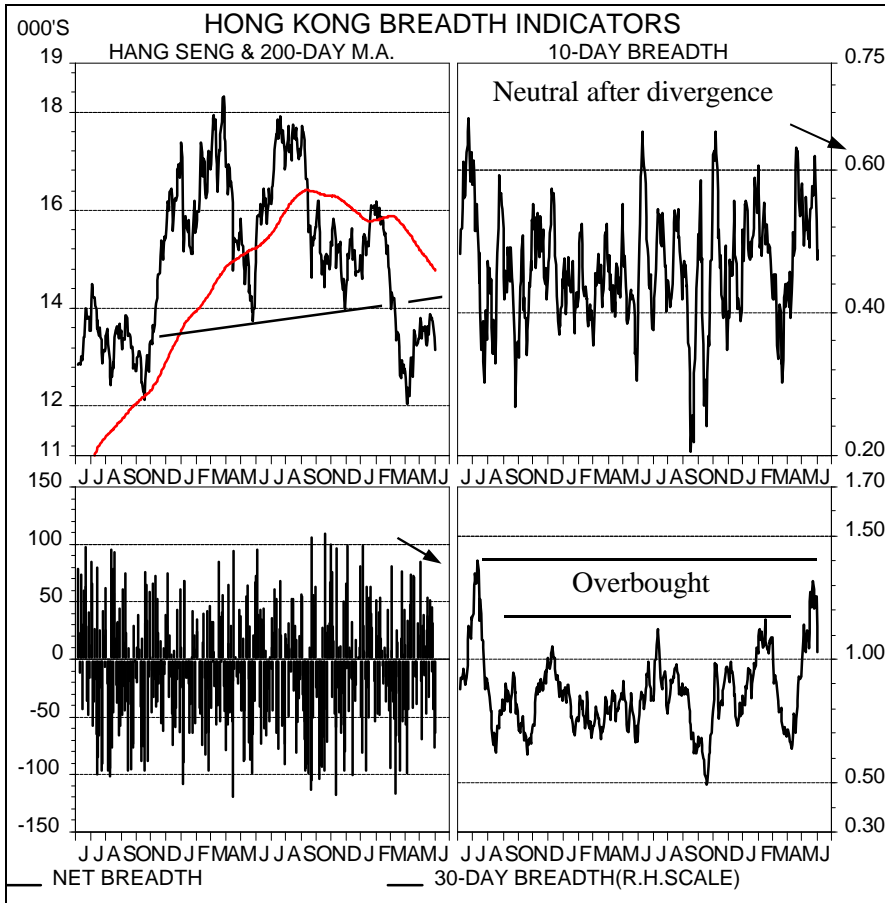
The top pattern still dominates the chart, but there was never any momentum on the downside break. On balance, we suspect that the area above 200 will turn out to be an important top, but there could be an attempt to test higher levels before major damage occurs, creating a larger pattern still.



HSENG-ID INTRA-DAILY BAR CHART

Hang Seng half-hourly



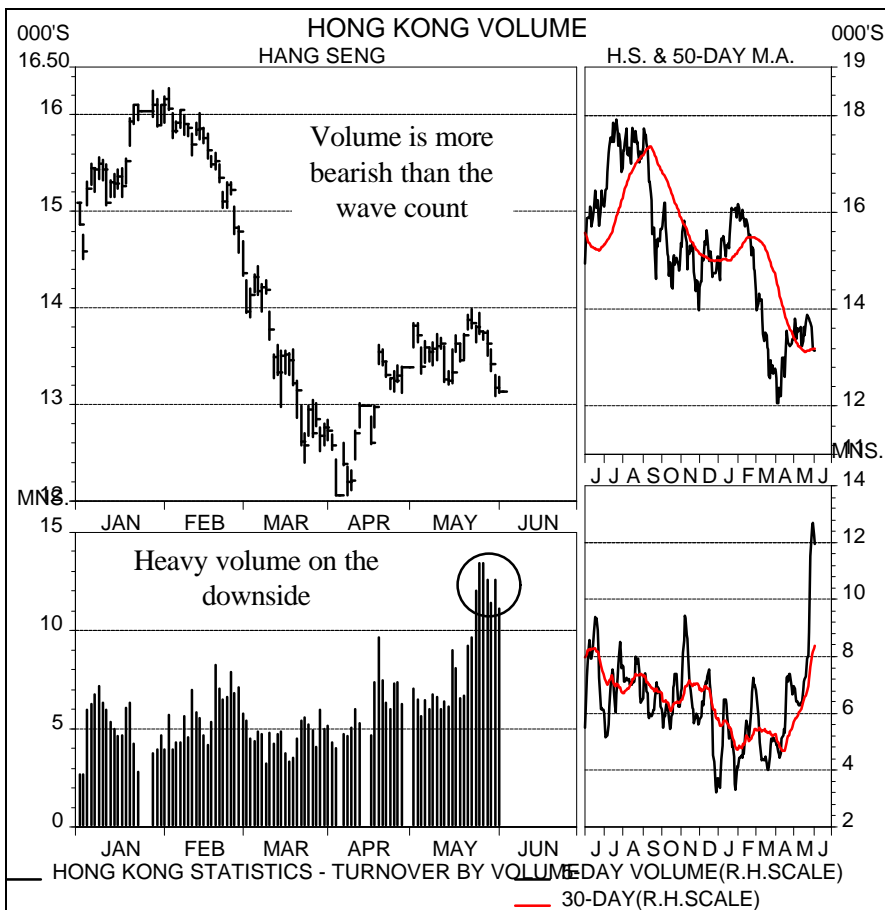


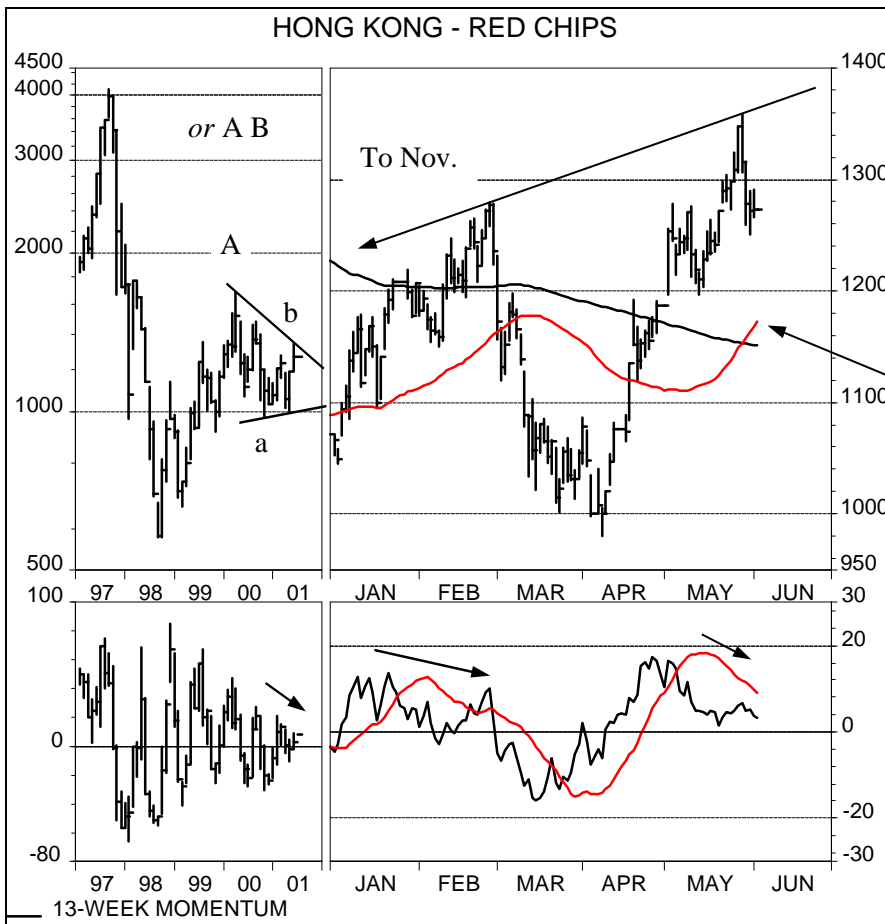
Hong Kong

Having as good as hit the 14,000-14,200 target area, the Hang Seng has acted pretty much as wave analysis was indicating over the past week. This may be providing a reliable pointer to the likelihood of a sideways consolidation phase by markets generally prior a July low.

Last week our wave analysis for our *Hong Kong Indicators* publication (see attached .pdf) suggested the risk of a sharp decline to around 13,000. Because that has occurred, it is very likely that a Flat correction began on 3rd May. That pattern may not be quite complete, but suggests that, as a minimum, another 5-wave advance is needed before the rally pattern off the April low completes.

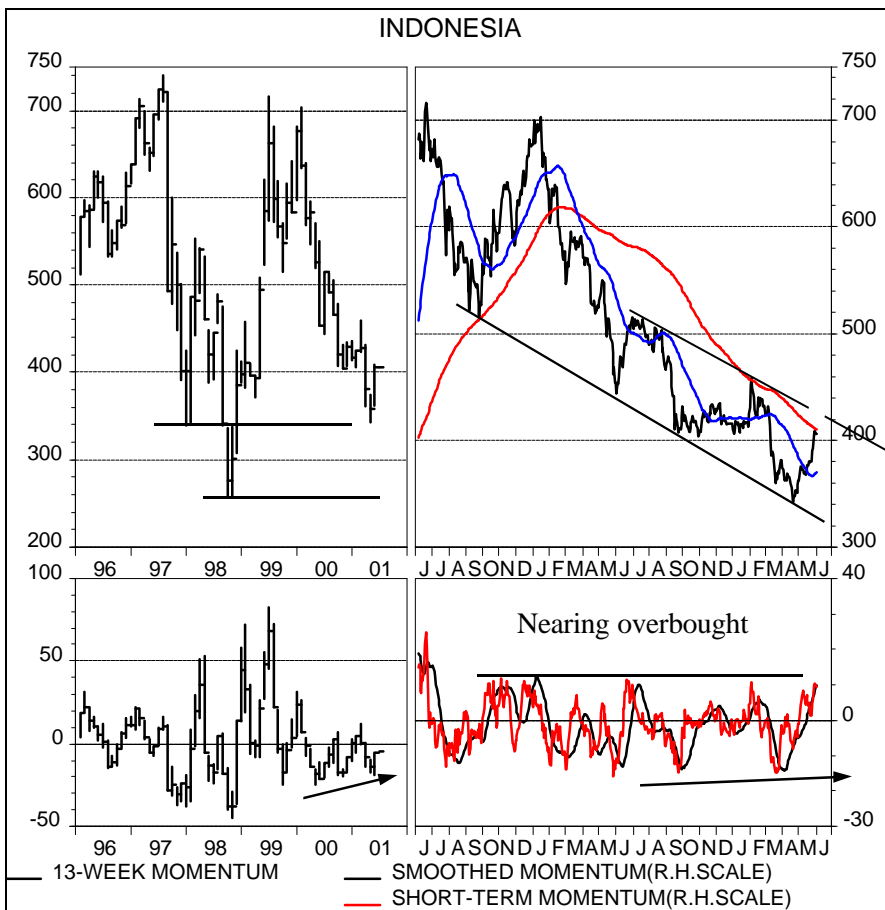
We cannot see the Hang Seng re-visiting the 14,000 area if world markets are about to drop on down into a much lower July low. However, note that a rally back above 14,000 in the near future would probably produce quite strong warning signals.





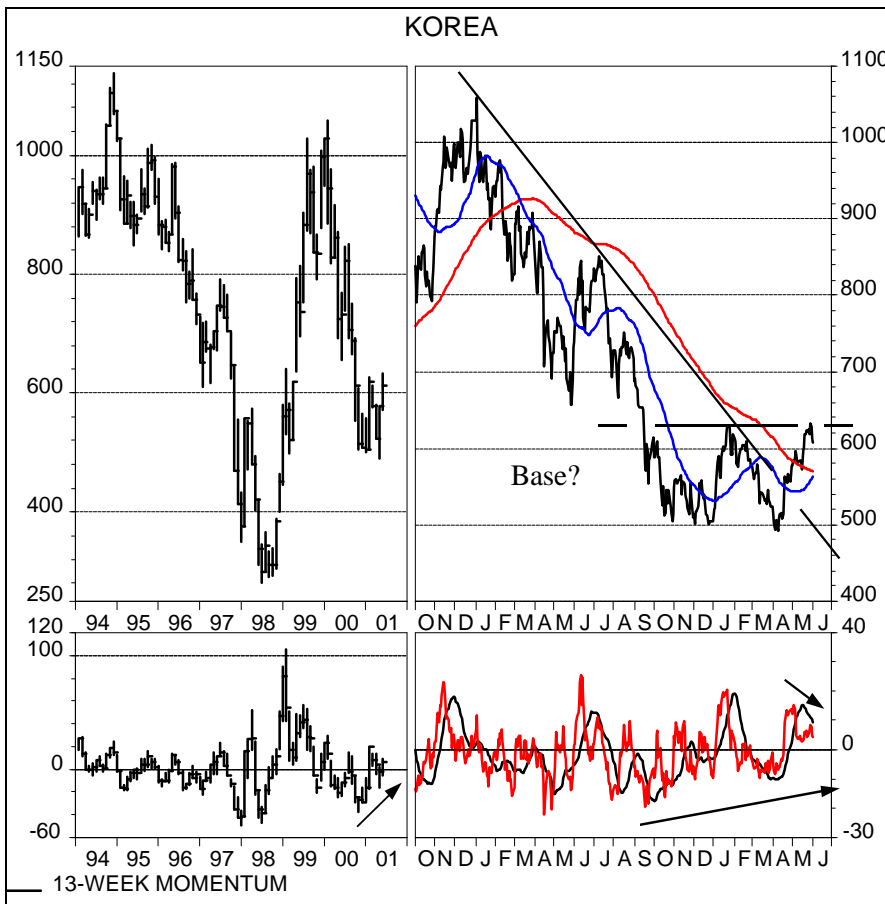
Red Chips

- The rally has halted at trend resistance dating from November's peak.
- Upside momentum has begun to fade bearishly, so expect a drop back to the 50-day average around 1,200.
- The a-b-c patterns remain most consistent with an extended sideways consolidation phase, which has further to run.



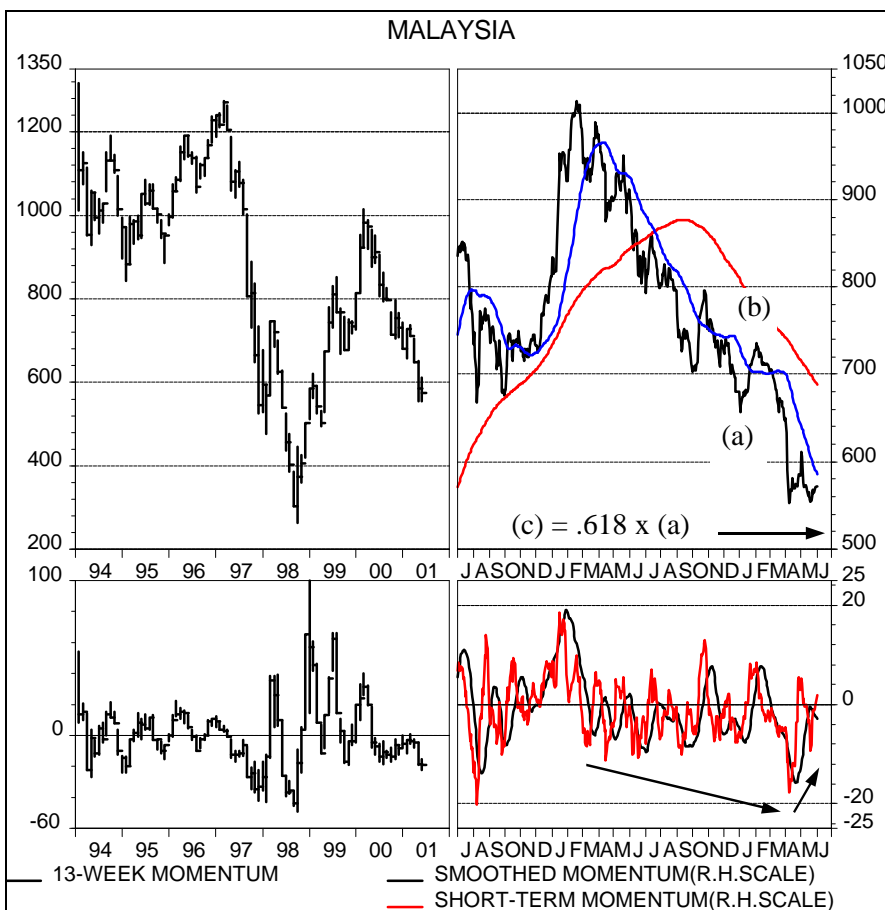
Indonesia

- The bottom-fishing signals of last month still need to be confirmed.
- A 5-wave advance, with trend and momentum breaks would be important pointers to a low in place.
- Overbought, but the momentum trends are improving.
- The 200-day m.a. is also critical resistance, as there has been only one close above it since February 2000.



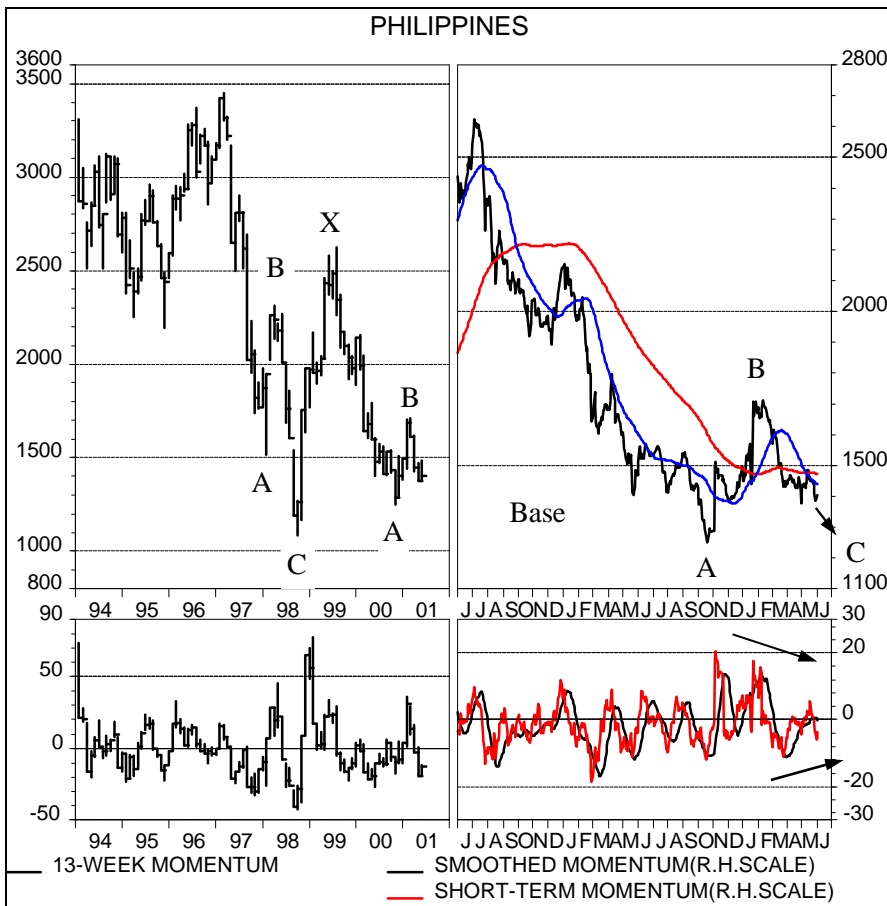
Korea

- The re-test of the 590-630 range has occurred.
- Possibly a Double Bottom is forming.
- The minor momentum warning suggests a drop back to the 50-day average, in the 570 area currently.



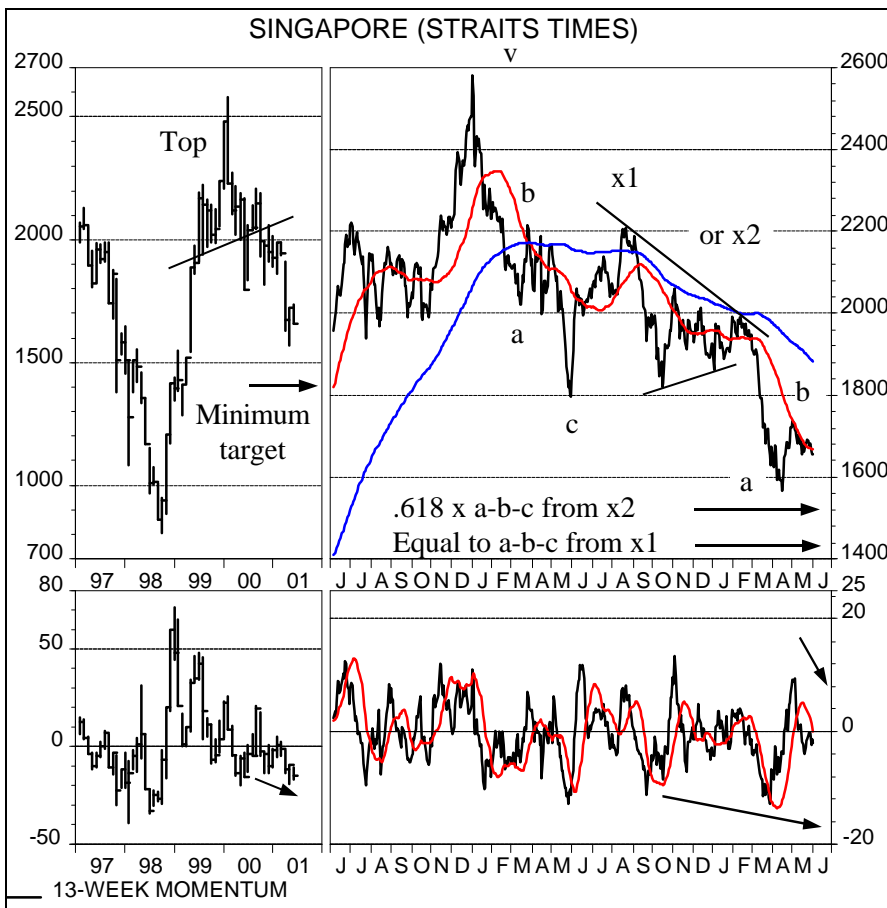
Malaysia

- Some bullish indicator divergence short term, so a consolidation or recovery phase has probably set in. However...
- The highest wave (c) target lies in the 520 area, where $.618 \times (a)$. More normal would be 380, where $(c) = (a)$.
- We need to see how things look at 520 before deciding that a bottom can occur there.



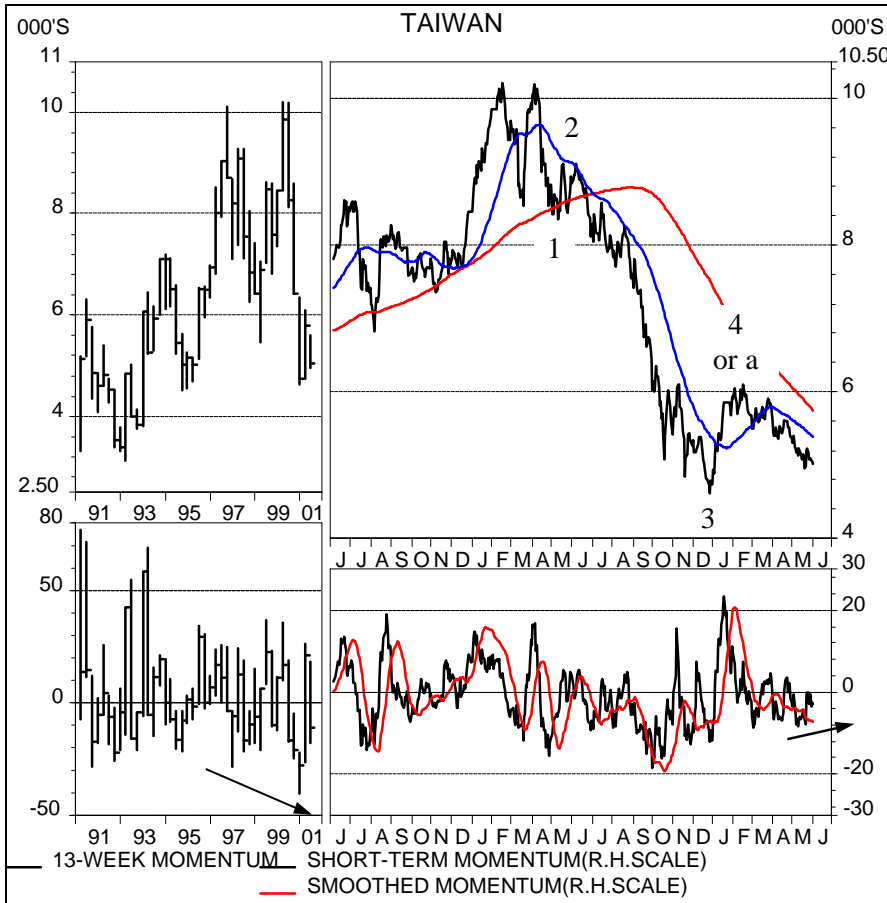
Philippines

- The depth of the decline continues to suggest that wave B has topped.
- The February-April drop was probably wave 1 of C, and may not be quite complete on the downside.
- New lows would produce bullish divergence and signal a wave 2 rally back to the 1,480-1,560 range.
- Until/unless the Q1 peak is overcome, the longer-term target area for wave C is around 900 ($C = .618 \times A$).



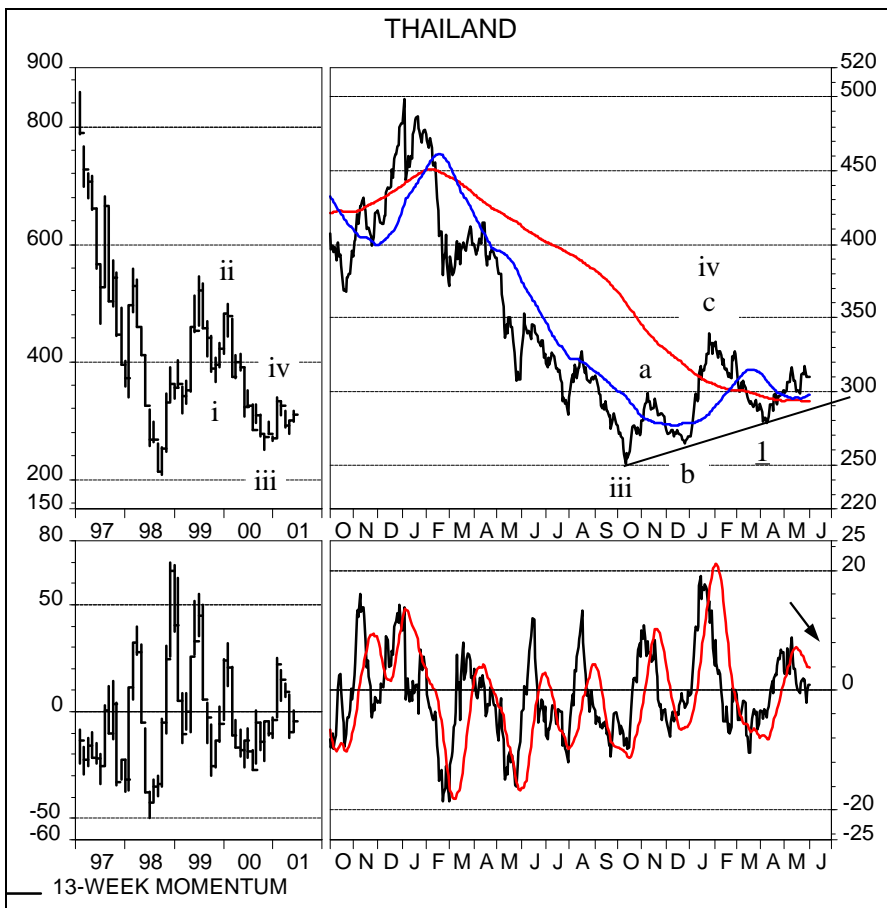
Singapore

- The pattern of the decline looks incomplete.
- The oversold condition has unwound leaving the market vulnerable again.
- Further recovery highs would produce bearish divergence warning signals.
- Downside risk is broadly 1,420-1,520 (see opposite).



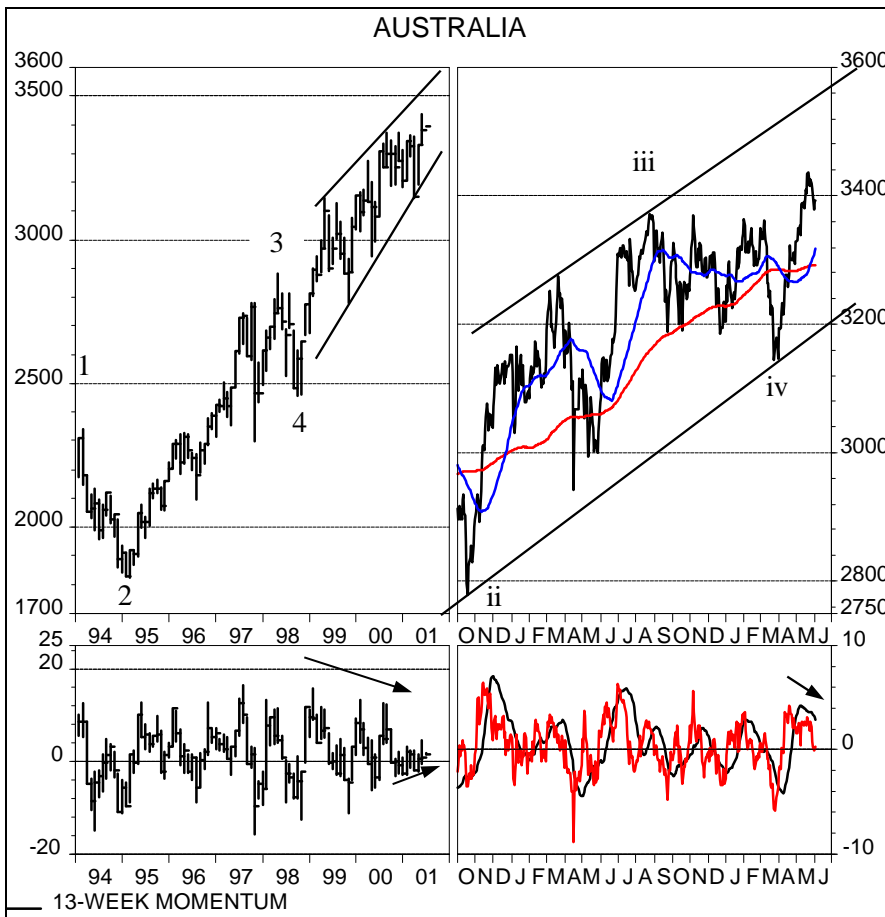
Taiwan

- Short-term wave pattern unclear. This could be either part of a “sideways” wave 4, or wave 5 on its way to new lows.
- Bullish indicator signals are unlikely prior to a clear downward break.
- The 6,400 area (.382 retracement) is still the probable maximum upside.



Thailand

- Wave 2 has made the 305-315 target area, but acceleration back through 320 is needed in order to negate the bear case.
- Initial bearish divergence warnings are appearing, so wave 2 could be peaking.
- Volume (not shown) has been weak on the recovery.
- Acceleration down through trend support 290 is needed to confirm that the downtrend is resuming.



Australia

- Overbought with a minor warning signal.
- Upside momentum trends are quite strong. Probably going higher medium term.
- The wave count is too fluid to provide worthwhile targets, but overhead trend resistance does not kick in until nearer 3,600.

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Graphs courtesy of Datastream

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