

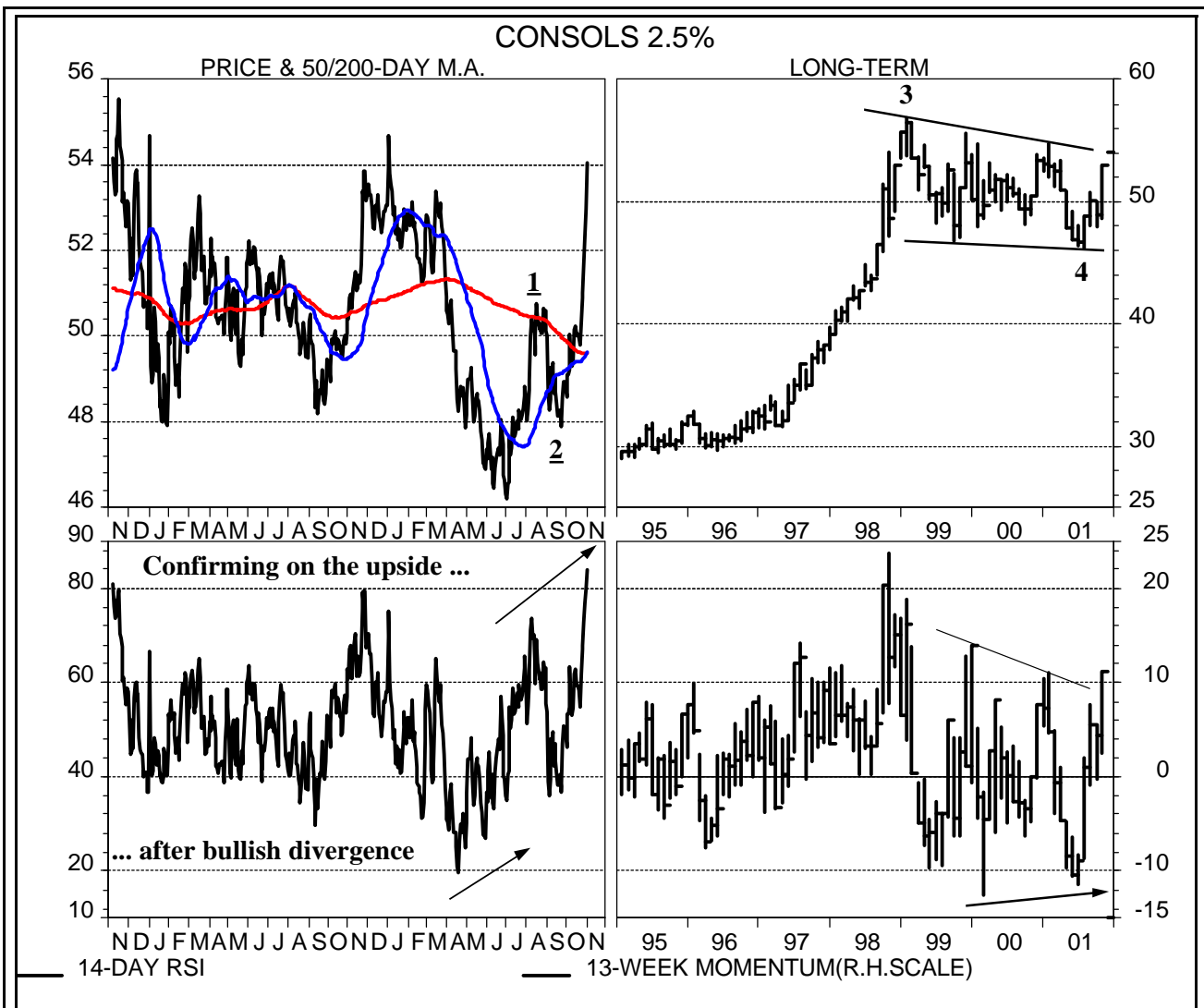
**Global Markets Review (Issue 39/01 - Currency Focus)**

Because of our global spread of clients, we normally focus on “local” currency indices. However, a small chart of the FT’s US equity index in Sterling terms appeared in their latest quarterly *Personal Finance* publication, so we thought it worth showing here. Whether you look at the NYSE Composite or this currency-adjusted index, the message is clear - US equities are headed lower medium term. For proof that these large-scale index pattern targets *do* work, you only need to look at the S&P 500 and Hang Seng indices this year. Both indices completed top patterns in March, and their minimum objectives were achieved in September (albeit with some unwelcome help).

UK investors in US equities are going to lose at least 25%, and probably nearer 40%, of their money over the coming year or so if the targets of this top pattern are achieved (and we do expect them to be). We have said before that these patterns have been giving a very clear longer-term message, and this rally is another opportunity to review investment strategy with respect to equities.

And if you wanted further evidence that bonds are where the bull market will be this decade, we have shown UK Consols 2½% at the top of page 2. Wave 5 of (3) appears to be well under way towards our targets in the 62-64 range (admittedly earlier than expected - see Issue 38 for our long-term analysis).





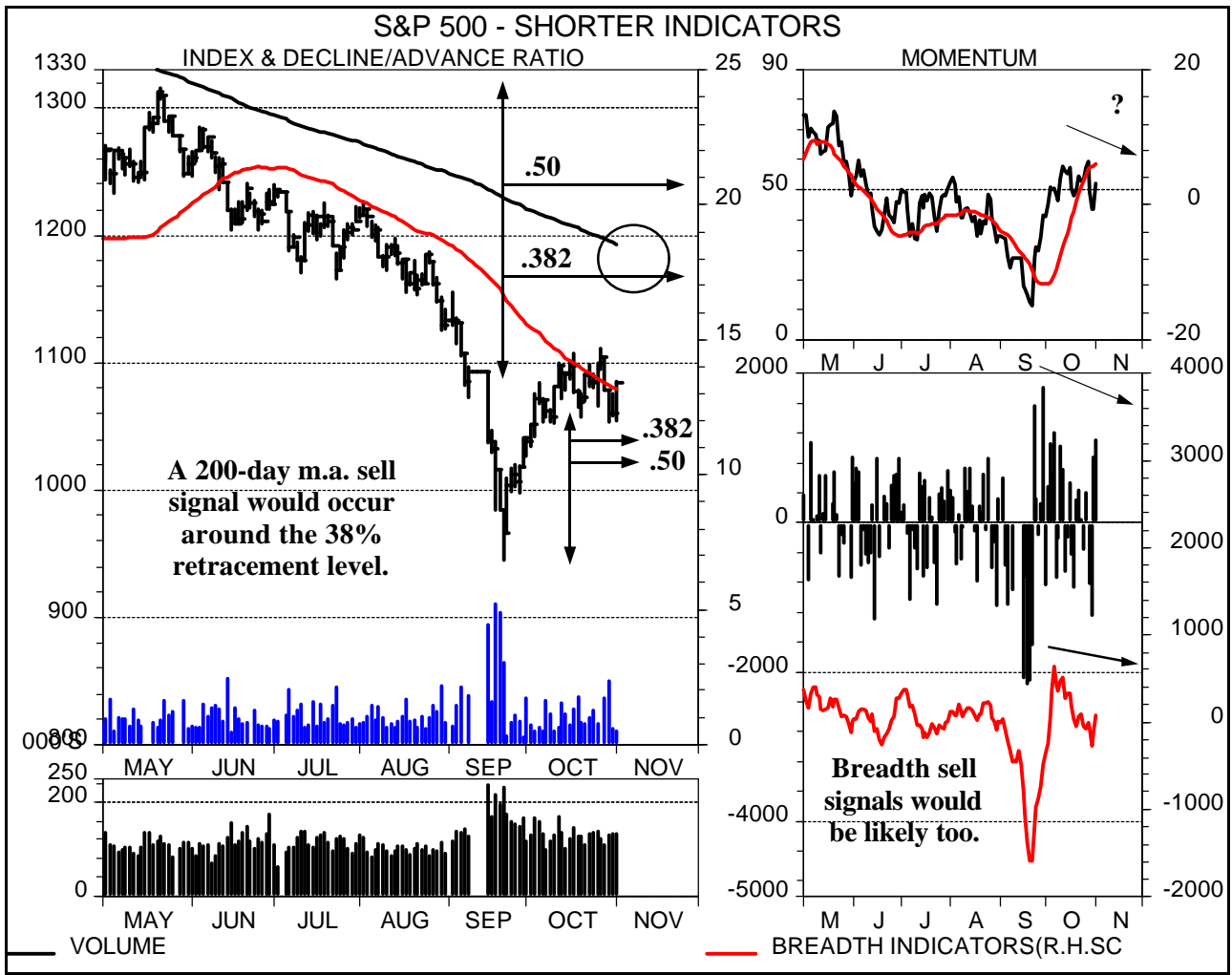
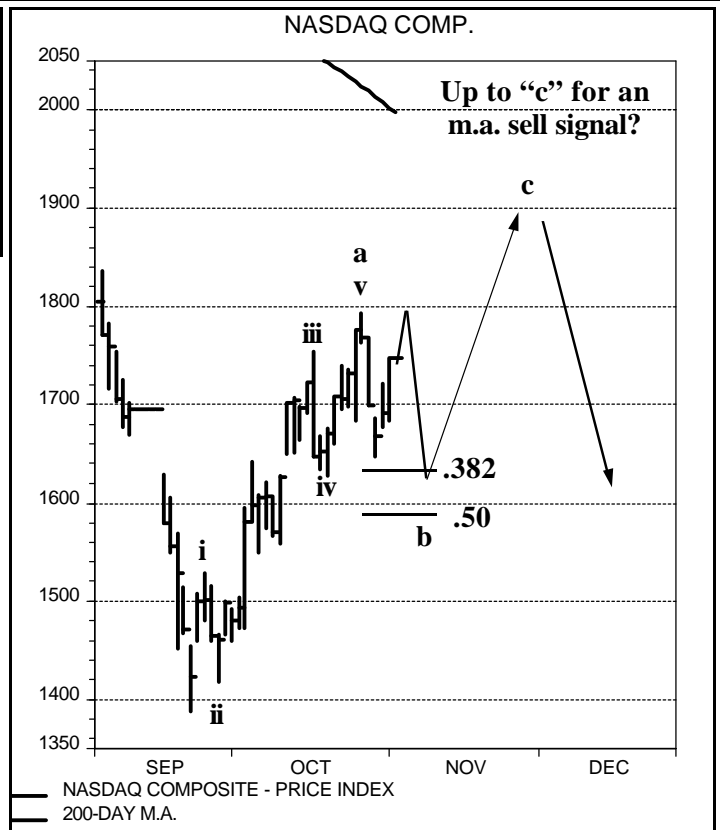
We have had positive feedback about our change of format to summary bullet points, less commentary, but with bigger annotated charts. If you do not like this and would prefer more commentary, please *do* let us know. In this issue:

- The 5-wave advance in **NASDAQ** (p. 3) confirms that the recent recovery is probably wave a of an a-b-c “rally in a downtrend”. The 2-3 week correction referred to in the last issue is also probably under way, and forming wave b down. We have shown for the **S&P 500** both the critical levels on the downside which should not be broken under this scenario, and the likely limit of the rally on the upside.
- **Topix** (p. 4) is correcting in line with recent short-term warning signals. However, the initial leg of the drop is sufficiently deep that we are concerned that the pattern target in the 1,175-1,185 area may be negated.
- **Eurotop 300** (p. 5) looks pretty similar to the US charts. Consolidation here followed by new highs risk repeating the warning signals seen at the May peak, as the charts of **France** and **Germany** also confirm.
- The **Currency Focus** begins on page 6.

**S&P 500; NASDAQ Composite: The critical levels for any further corrective action are S&P 1,027 and NASDAQ Composite 1,590. A confirmed break of these would suggest that the downtrend had resumed.**

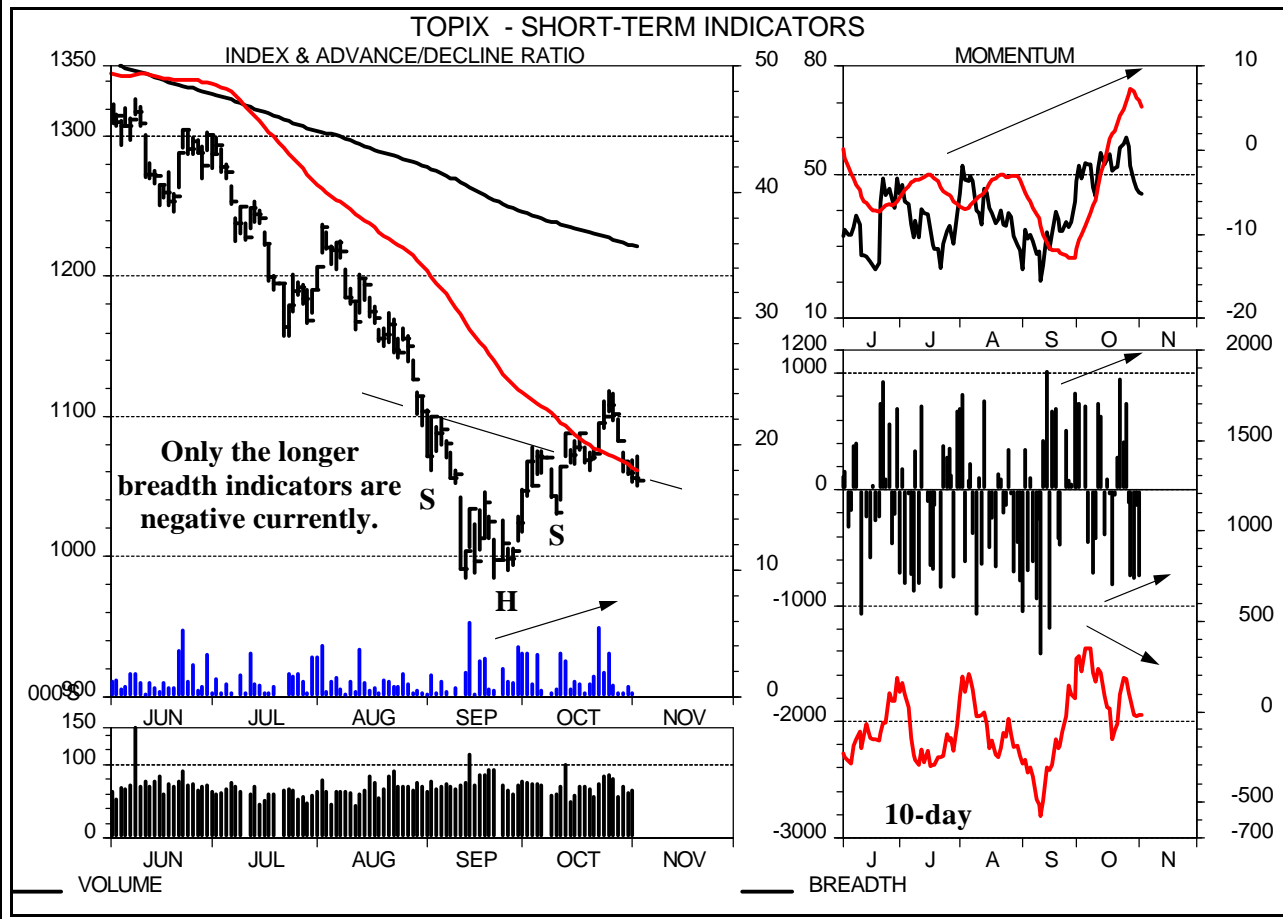
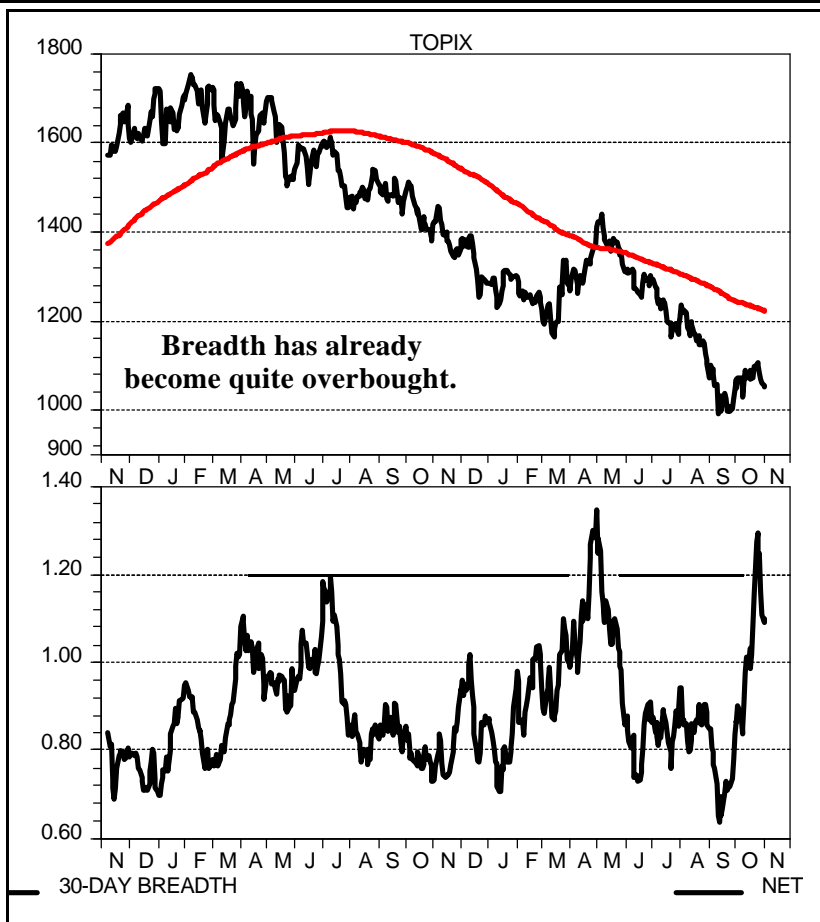
**Analysis:** *If this is an a-b-c rally pattern in progress, wave b would normally retrace 38% of wave a, possibly 50%. These levels for the S&P 500 and NASDAQ respectively are: 1,046/1,027 and 1,638/1,590. More than a 50% retracement would begin to suggest that maybe this recovery was a fourth wave.*

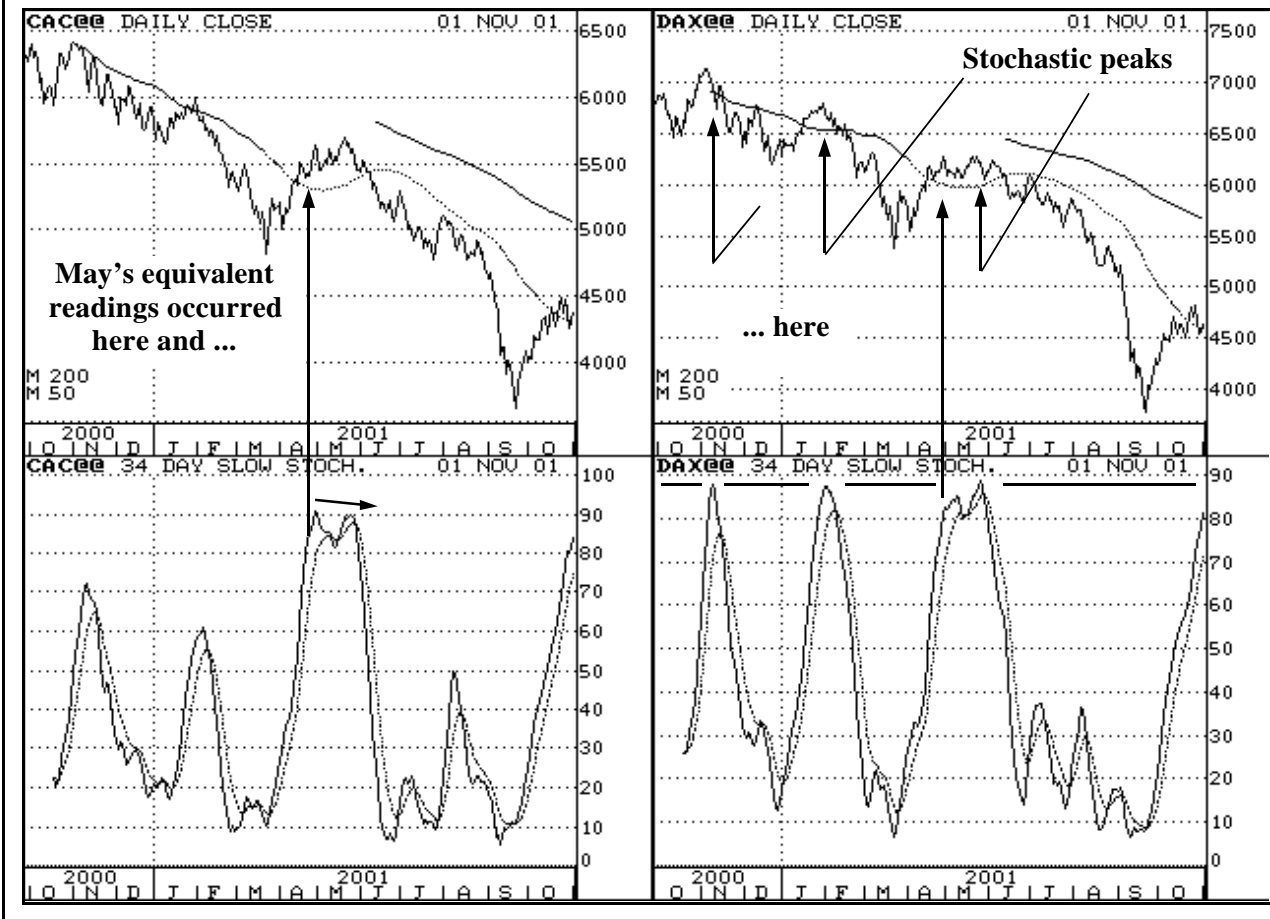
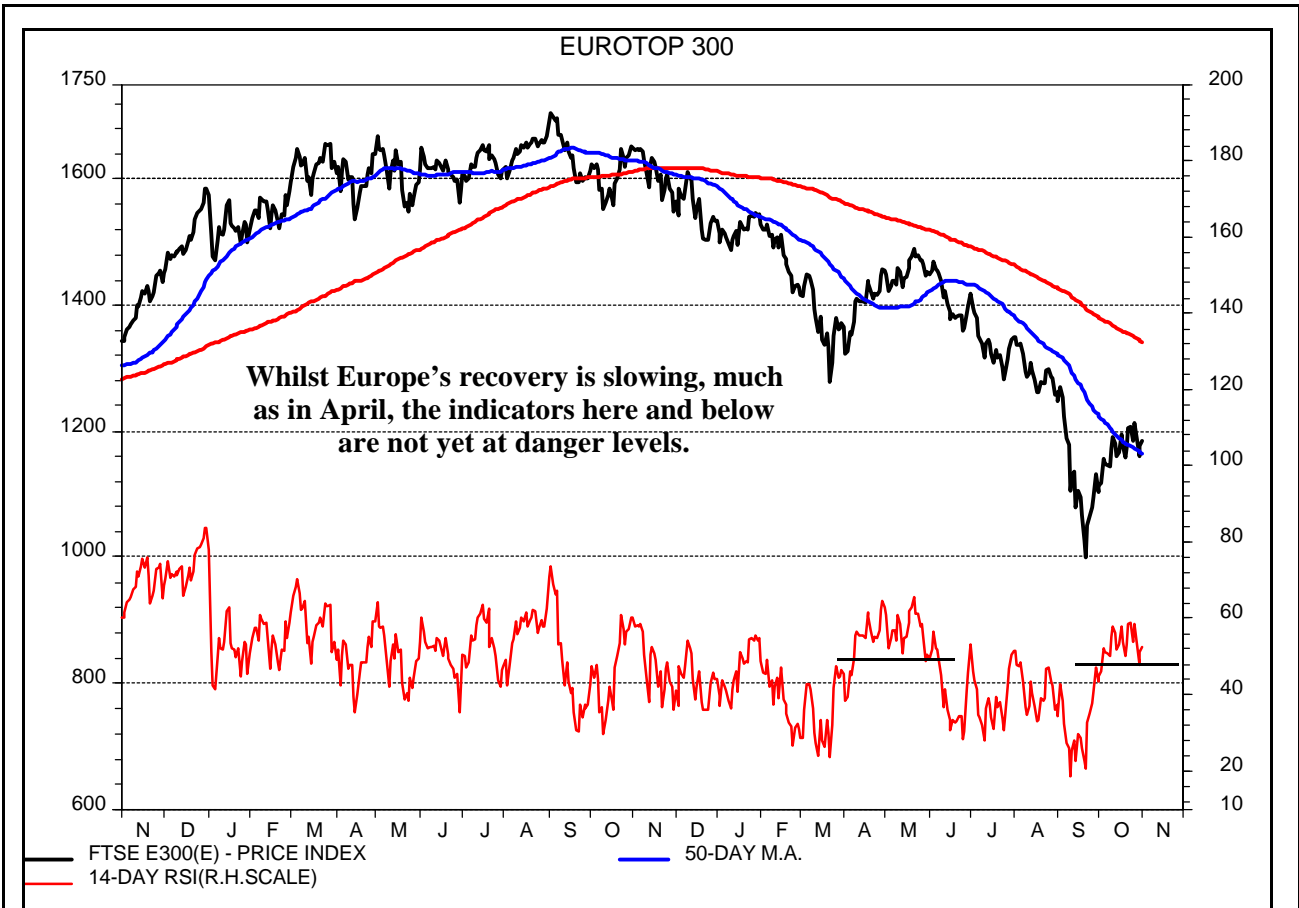
In terms of the whole decline, the 38/50% retracement levels for the S&P are 1,169/1,237, which is broadly the June/July trading range resistance area.



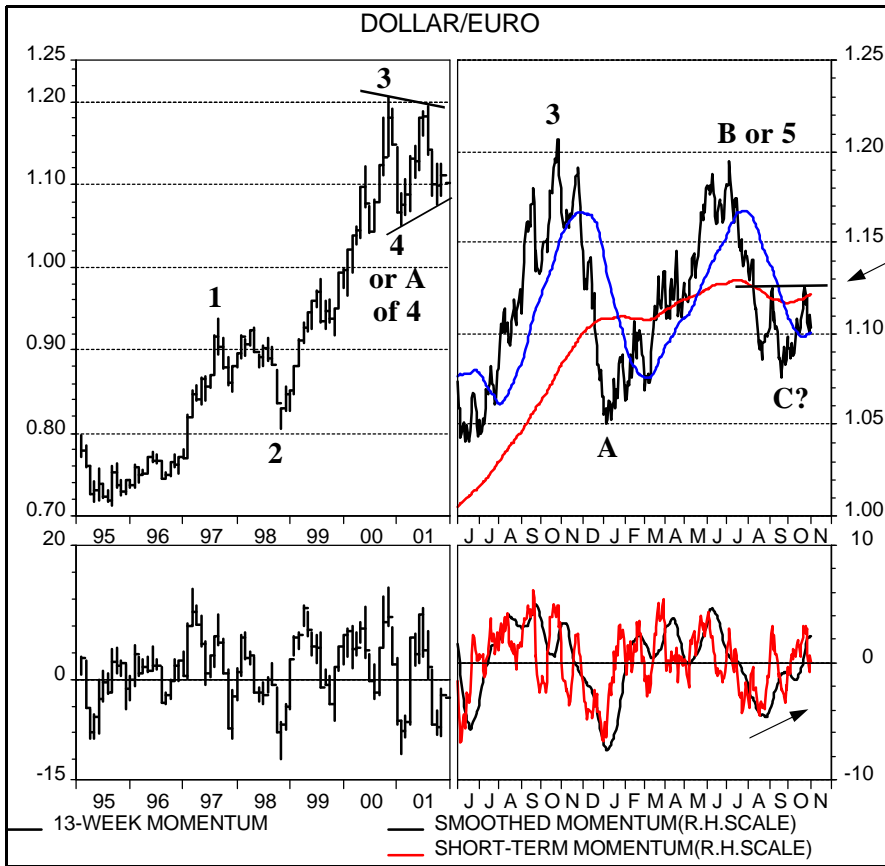
**Topix** has already retraced 50% of its advance, and merely the first leg of the correction looks complete. If a second leg down breaks the early October low just above 1,030, then the reverse Head-and-Shoulders target at 1,175-85 will be negated. Whilst this would not automatically stop our recovery range of 1,160-1,215 from being seen, it would remove the main support for that scenario.

Topix at 1,030 would also mean that more than a .618 retracement had occurred. In the wave count illustrated last week, this would signal that wave 4 was more likely to become a “sideways” pattern compared with the “up” of wave 2. It would therefore be likely to range between 980 and 1,120 rather than 980 and 1,220.



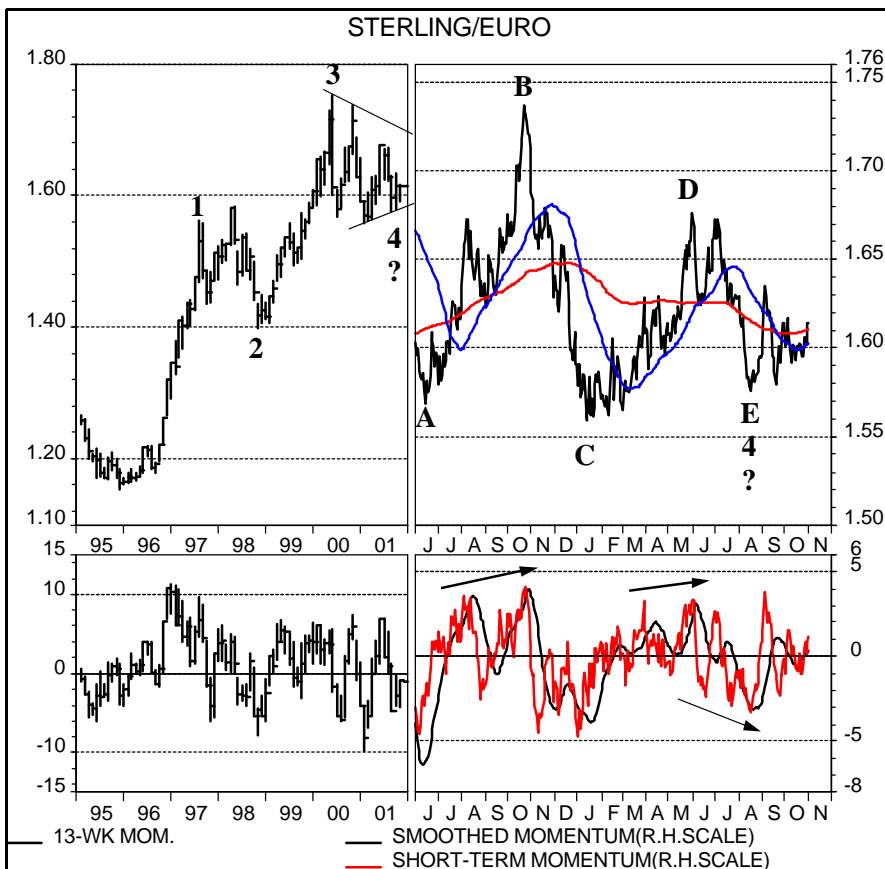


**CURRENCY FOCUS**



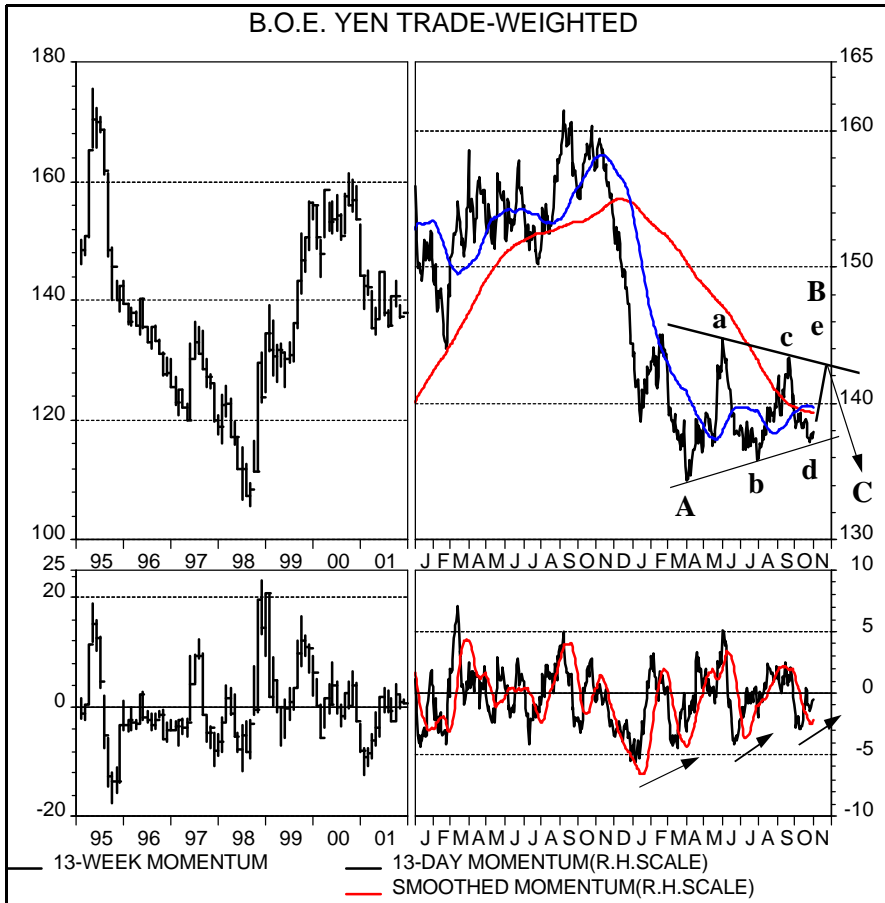
**Dollar/Euro**

- A small base pattern may be forming beneath 1.1250.
- Momentum is broadly positive, so an upward break to around 1.1750 is a distinct possibility.
- This trading range would then begin to look much more like a wave 4 Triangle.
- Only acceleration down through 1.05 would signal a Dollar top in place.



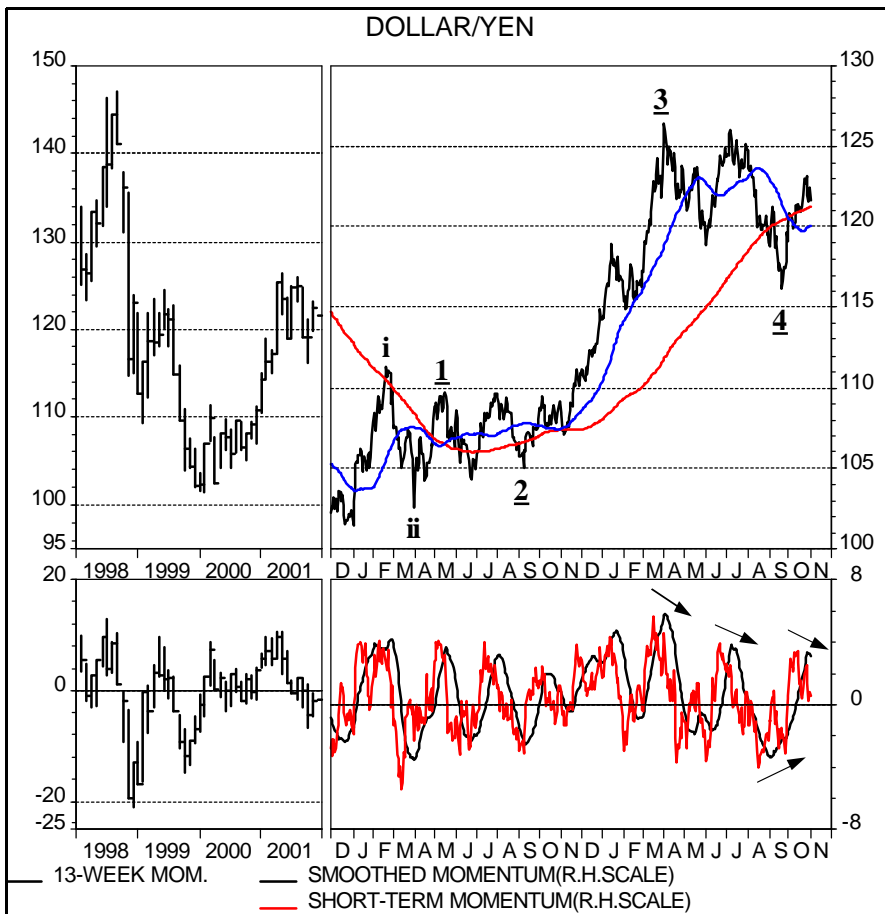
**Sterling/Euro**

- Also very Triangular.
- Still no strong indicator signals.
- The similar December lows are critical here as well. Until a confirmed break of 1.56 occurs, this pattern could represent wave 4, with one final Sterling bull leg to come.
- Unlike the Dollar though, wave 4 could now be complete, but upside acceleration is needed as confirmation.



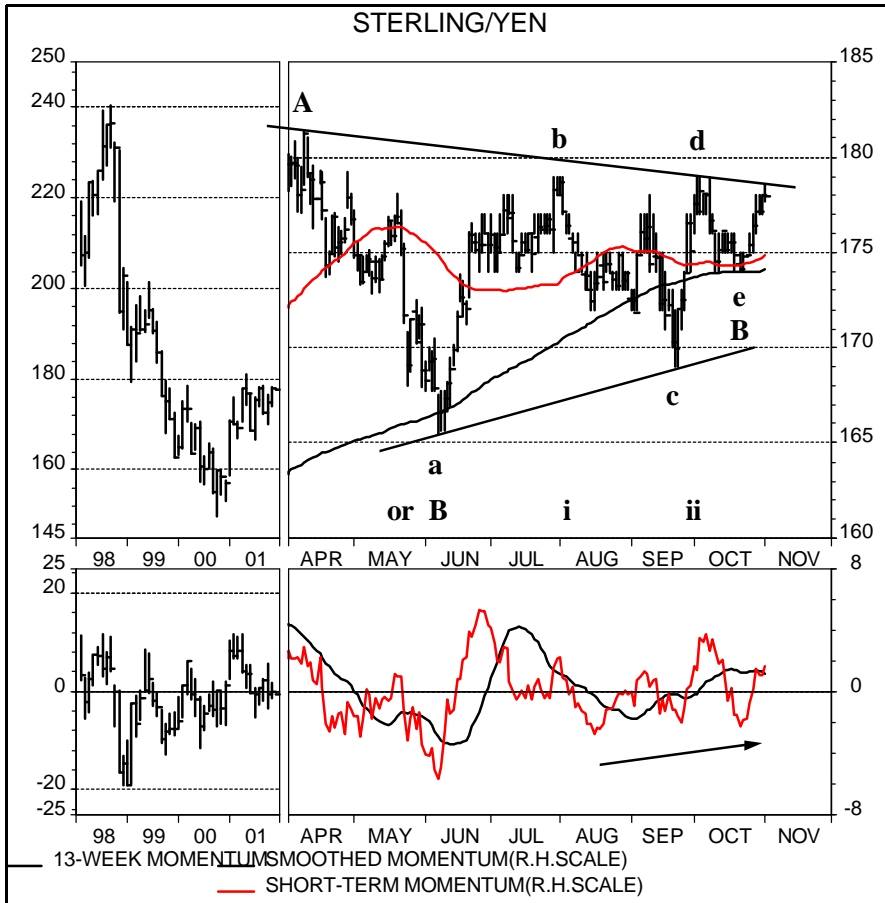
**Yen Trade-Weighted**

- This is worth including for the triangular range which is forming.
- Our analysis at the individual cross level is also consistent with further Yen weakness, after a brief rally.
- Another minor Yen rally signal is occurring, but acceleration through the peak at “c” is needed to negate the scenario as drawn.



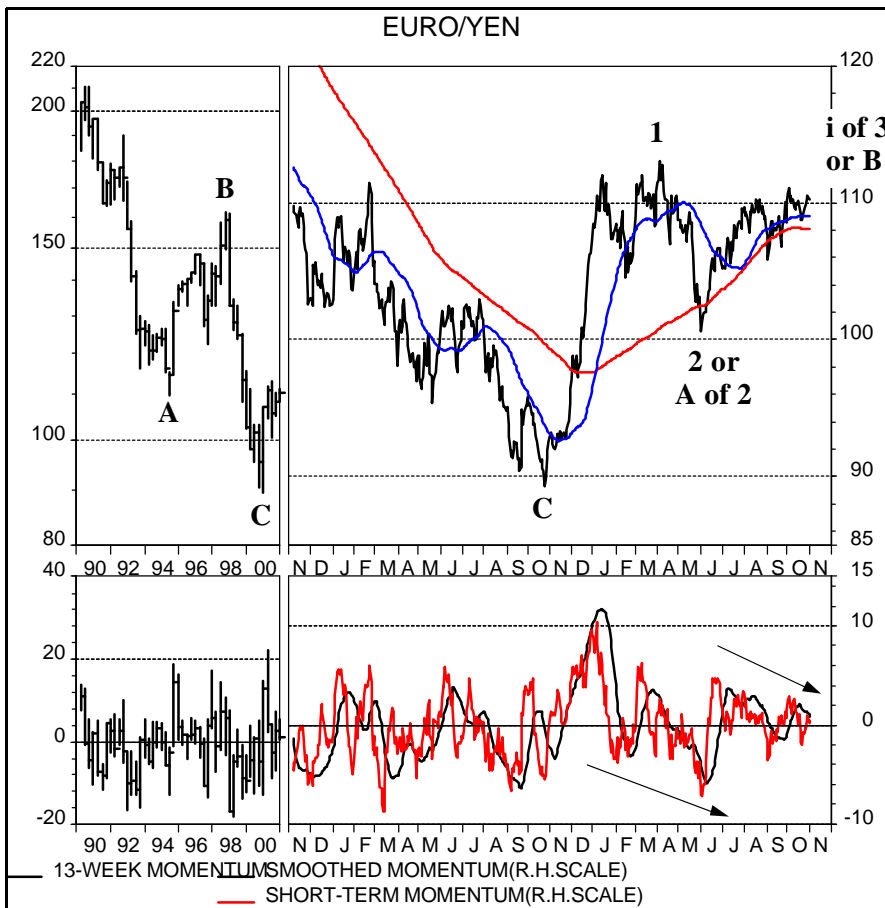
**Dollar/Yen**

- Another short-term warning signal for the Dollar, similar to March and June (and the mirror image of the T-W signal).
- *If* this is wave 5 up to 127+, it could be forming a Diagonal Triangle (bearish Rising Wedge).
- Short-term risk is 119 (.618 retracement). Downside acceleration at that level would be worrying for the Dollar.



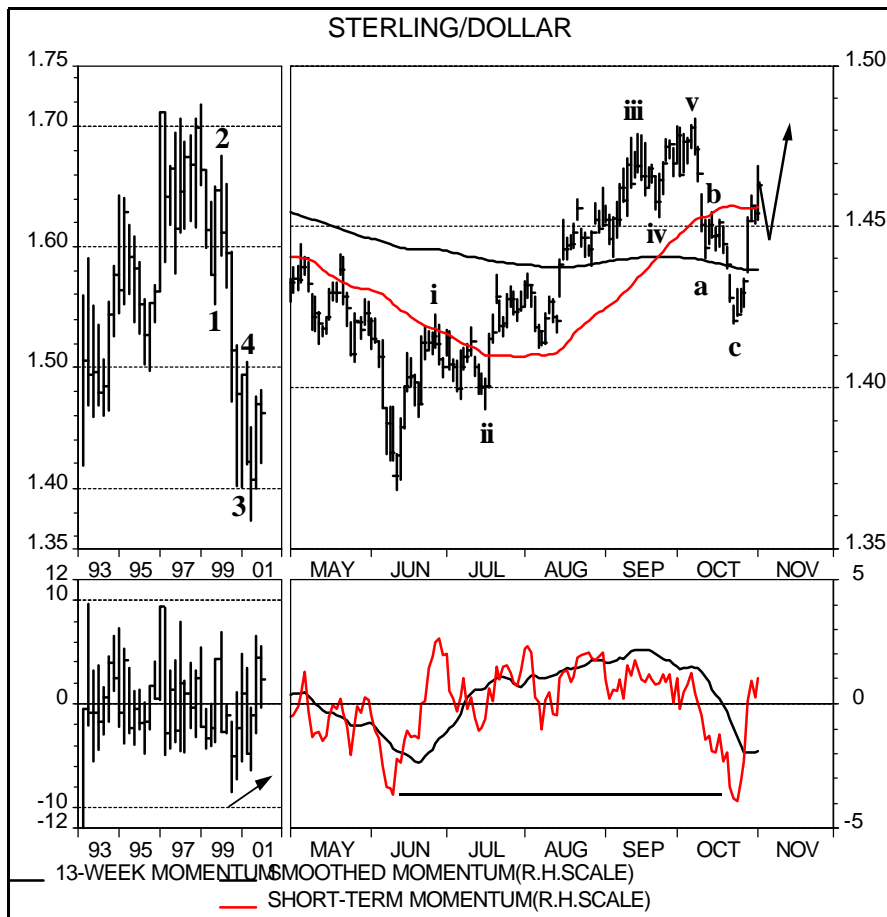
**Sterling/Yen**

- We are unsure whether this is a Triangle B wave, or if B occurred in early June.
- In either event, an upward break does not appear to be far off, and the simple triangle pattern target would be 192 if momentum confirms.
- This is consistent with our longer-term expectation of a return to the 200 area.



**Euro/Yen**

- Here also, the rally may be either the early stages of wave 3, or part of a sideways trading range to form wave 2.
- Poor momentum continues to warn of a setback for the Euro in either event (in C of 2, or ii of 3). The 98-105 range should contain the low.



**Sterling/Dollar**

- The pattern here is “5 up, 3 down”, which is clearly bullish for Sterling after a brief correction.
- We are unsure if this is wave C of 4 in a nearly complete sideways trading range, or if wave 5 bottomed in June and a new bull trend for Sterling has begun. (If the latter, it was not at all clear).
- A re-test of the Q1 highs looks very likely. If *acceleration* occurs through 1.49, a base pattern with a target in the 1.58-1.60 range will be in place.

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