

**Global Markets Review (Issue 39/02 - Bond Markets Focus)**

Fifteen months ago, the idea of a low in October/November 2002 seemed a logical outcome - longer than consensus, with a rational technical basis in the Great Bear Market and Cycle of Pi methodologies. Now we are here, the signals are equivocal. *Some* bullish signals appeared coming into the October low, but not a complete set, and there has been no real upside follow-through, so far at least.

We certainly do **not** feel confident enough to say that this bear market is definitely not over. After 50-78% declines in the major indices, that is not surprising. But there is this nagging doubt, and this doubt is only likely to be removed by upside acceleration through 965 in the S&P 500. Until then, the risk is that a trading range is developing beneath that level, with new lows to come in 2003.

We have reflected on the idea floated last week that using the March 2000 high to project a time target for the ultimate low is flawed. One client commented in recent days that it was a Tech Bubble, so it made sense to use the NASDAQ high. Whilst an initially attractive argument, it ignores the fact that the NYSE actually made its final high, unaided by Technology, in September 2000, with NASDAQ already 16% beneath its March 2000 high. The reasons for considering the September high as the start of the bear market are, therefore:

- The ultimate high in the FT World Index occurred on 4th September.
- The NYSE Composite peaked on 1st September closing, and 11th September intra-day.
- The UK's All Share Index and France's CAC 40 both produced their closing highs on 4th September.
- The 5-wave pattern off the 1974 low in the S&P 500 ended with a Fifth Wave "Failure" on 1st September 2000.
- The October - November 2002 bottoming period has not (yet) coincided with a convincing reversal process - i.e. obvious capitulation and a confirmed upside move.

Reviewing again the time aspect of this bear market, we have made an interesting observation, which supports our nagging doubts. A bear market is basically a three-wave pattern (with numerous potential variations). This one is of very large degree, which is labelled as (A)-(B)-(C)/down-up-down. Consider that wave (B) can be viewed as a mirror. What precedes it - an initial decline in wave (A) - is mirrored afterwards - a second decline in wave (C). In this case, we believe that these two declines are further split down into A-B-C patterns. Page 2 shows how they unfolded in terms of calendar days in the NYSE, from its September intra-day high.

Wave (A)	:	A	-	11.09.00 to 22.03.01	@	192 days
	:	B	-	23.03.01 to 21.05.01	@	59 days
	:	C	-	22.05.01 to 21.09.01	@	123 days
Wave (B)	:		-	22.09.01 to 21.03.02	@	180 days (nearly 50% of (A))
Wave (C)	:	A	-	22.03.02 to 23.07.02	@	123 days
	:	B	-	24.07.02 to 25.12.02	@	154 days (2.618 x 59)?
	:	C	-	26.12.02 to 06.07.03	@	192 days? (see the table below)

Note that the start and end dates are based on the colour of the candle at the turn.



The table and chart above highlight why wave (B) might be acting as a mirror, given the precision of the declines immediately either side of it. The two B-waves may also be related. The 2.618 relationship is conjecture, but is suggested by the rally angle of B in 2001. We then compared the result with the Great Bear Market and Fibonacci methods of arriving at time targets.

GBM	Index	High Date	Low Date	No. of Days	Added to 11.09.2000
1.	S&P 500	6.9.29	8.7.32	1,035	06.07.03
2.	UK All-Share	1.5.72	13.12.74	957	19.04.03
3.	Gold	18.1.80	21.6.82	885	13.02.03
4.	Topix	18.12.89	18.8.92	973	05.05.03

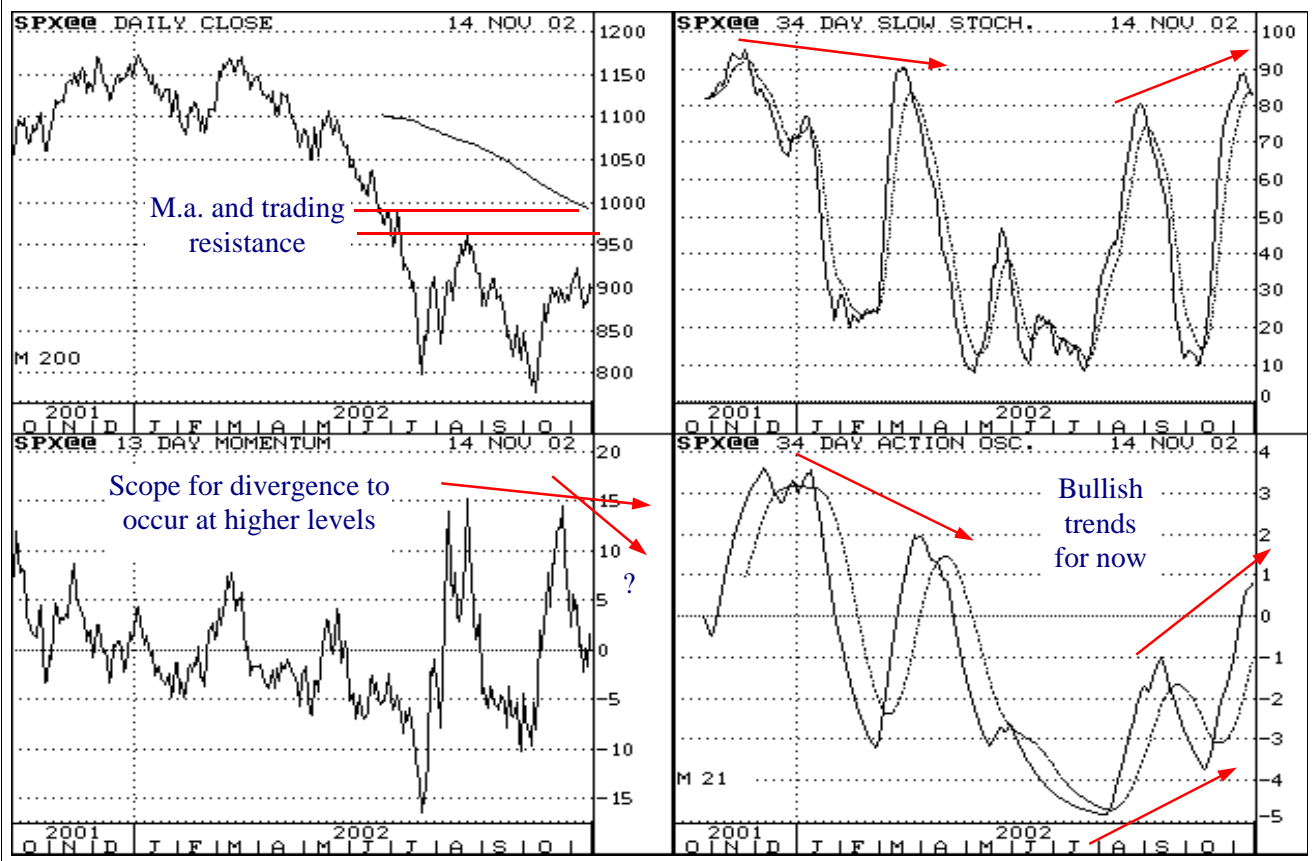
This methodology measures the time taken in wave (A), and projects forward from the wave (B) peak to produce a time target for the wave (C) low, using the different Fibonacci ratios.

Index/ Cluster	Top Date	Low Date	First Leg in days	2nd Top date
S&P	24.3.00	21.9.01	546	19.3.02
NYSE	11.9.00	21.9.01	375	19.3.02
FTSE ASI	4.9.00	21.9.01	382	16.12.01

Index/ Cluster	Projected low from 2nd Top based on Fibonacci ratio of									
	.618	.7236	.854	1.0	1.146	1.236	1.276	1.382	1.50	1.618
S&P	19.02.03	18.4.03	<b>28.06.03</b>	14.11.03	5.12.03	23.01.04	14.02.04	12.04.04	15.06.04	18.08.04
NYSE	6.11.02	16.12.02	14.01.03	29.03.03	23.05.03	<b>26.06.03</b>	11.07.03	19.08.03	03.10.03	16.11.03
ASI	n/a	18.09.02	07.10.02	8.12.02	27.02.03	02.04.03	17.04.03	28.05.03	<b>12.07.03</b>	26.08.03

Compared with the 6th July 2003 target suggested on page 2, there are three targets derived above, clustered between 26th June and 12th July. In addition, if this is an incomplete Great Bear market, the decline would match the 1929-32 period in time terms in early July, as shown at the bottom of page 2. We will update this analysis if this quarter does show signs of producing a top which conforms to this scenario.

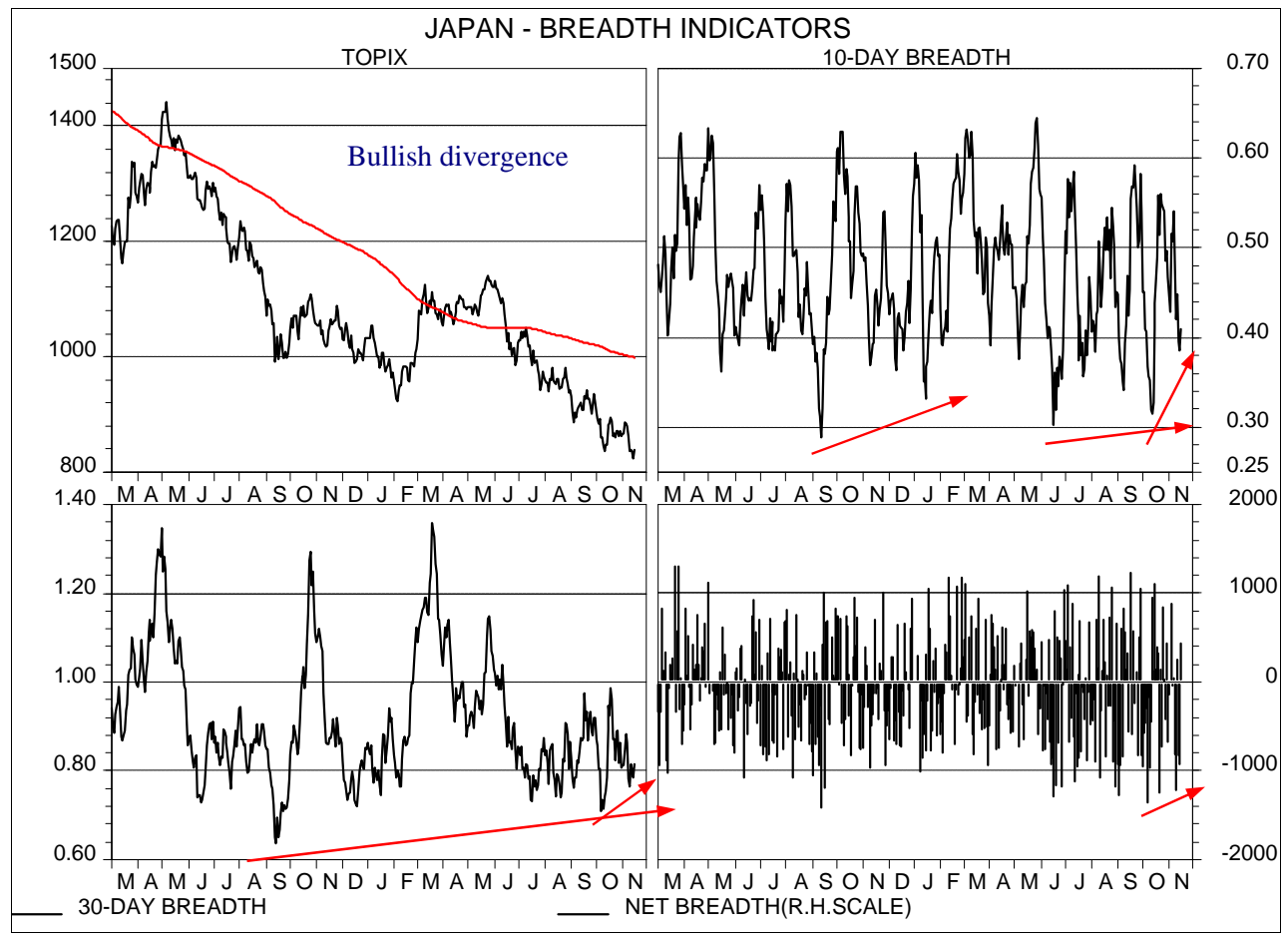
The momentum indicators for the S&P 500 (below) show that, although the market is becoming overbought again, there are no compelling sell signals yet - i.e. the market could work higher, as the chart scenario on page 2 allows for.



**Topix (839.34):** For the first time since the February 2000 high, we are recommending that portfolios be fully invested without a defensive bias. If Topix does drop to new lows, this should be used to move portfolios to a more aggressive stance at the stock level.

**Analysis:** This week's new closing low has produced the across-the-board momentum, breadth and volume buy signals which were missing previously. The wave count is no longer contrived, with an acceptably complete Diagonal Triangle wave c of 5.

Whilst this count does allow for an extension of the decline to the lower targets around 750, a bullish Fifth Wave "Failure" may have occurred, with the pattern having completed without breaking the October low. That is basically the reverse of our bearish wave count for the S&P 500 at the August 2000 high.





**BOND MARKETS FOCUS**



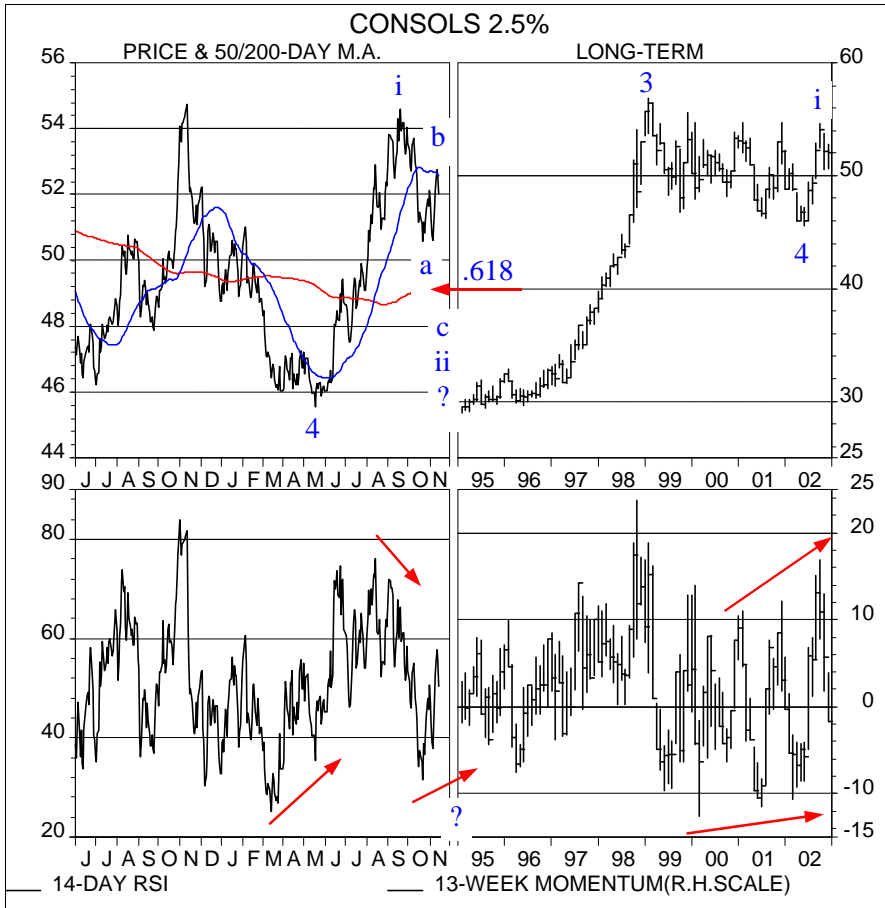
**US Yields**

- In Elliott terms, an initial 5-wave advance has been followed by a 3-wave correction. This suggests waves a and b of an a-b-c upward correction in yields.
- The move should carry to at least the 4.50-4.60% area, where c=a and there will be bullish contact with the falling 200-day average.
- Upside momentum would need to be extreme to avoid bullish divergence in the momentum indicators, as occurred in Q4 last year.



**UK Yield**

- The position here is similar.
- The a and c waves would be equal very close to the 50% retracement level of the 5-wave decline at 4.85%.
- A confirmed 200-day m.a. buy signal would be likely to occur just above there, much as in the US.



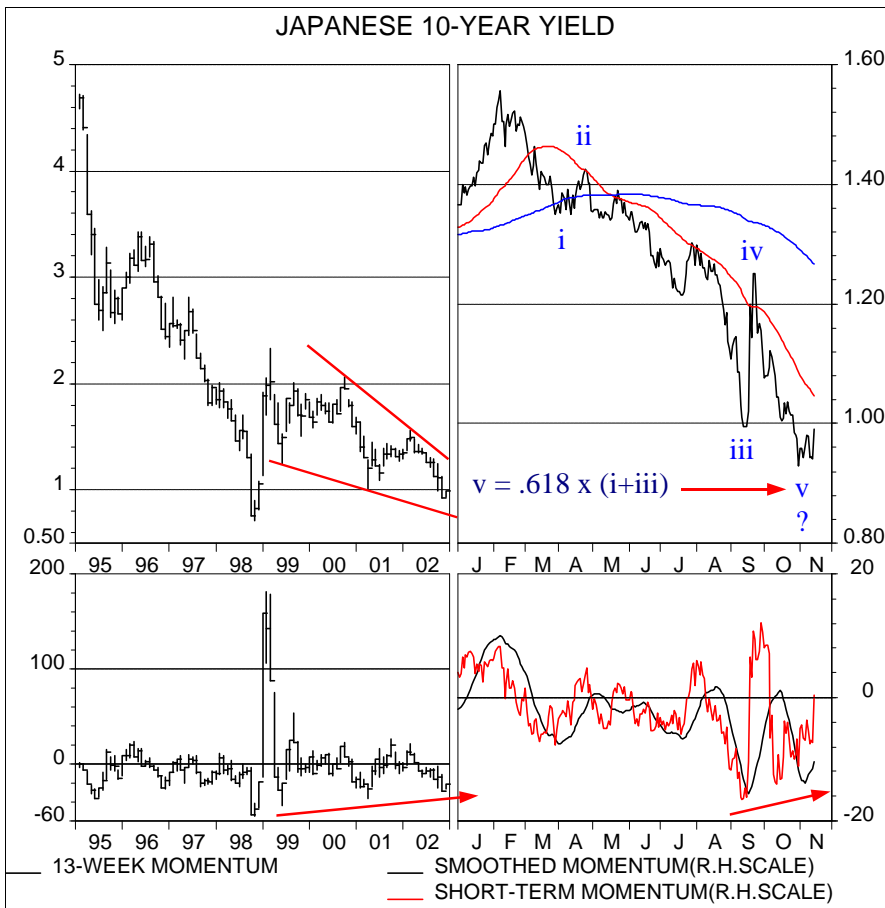
**Consols 2.5%**

- Our long-term wave count treats the rally since Q2 as wave i of 5 of (3).
- Note how the .618 retracement level (normal in second waves) coincides with the area where c = a.
- The RSI would be likely to produce a bullish divergence buy signal at those lower levels.



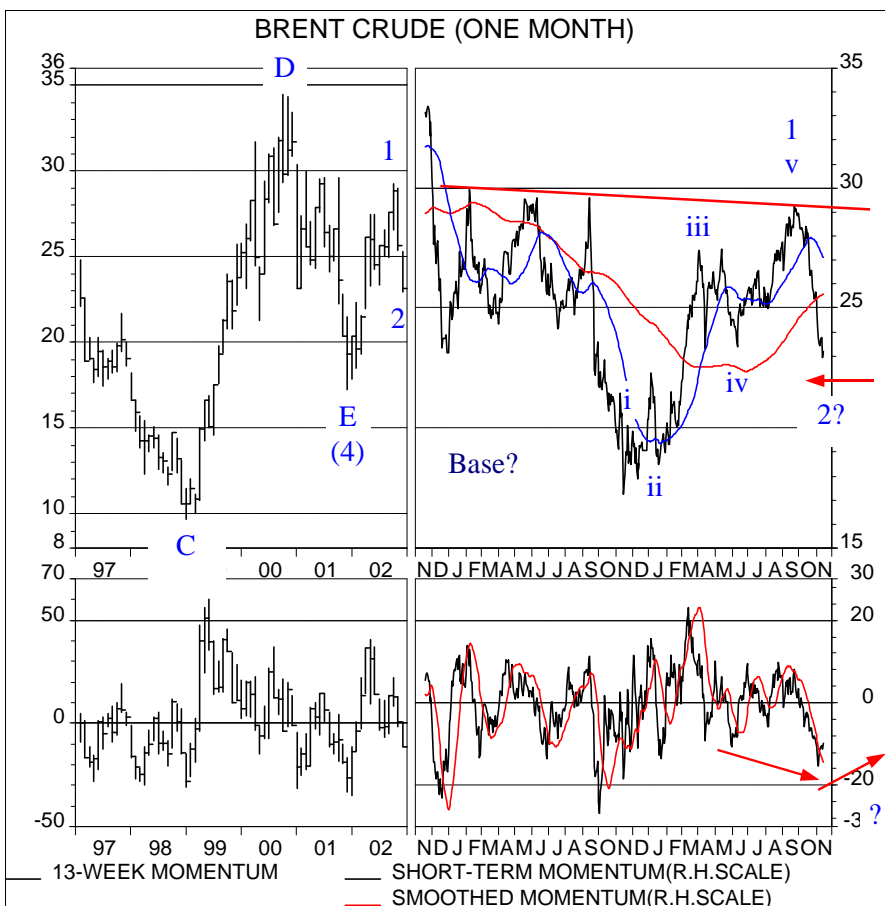
**Euro Yield (Bund)**

- Similar again.
- The short-term targets broadly coincide with the 4.77-4.89% range indicated in the last Focus.
- A confirmed m.a. buy signal looks likely at those levels.



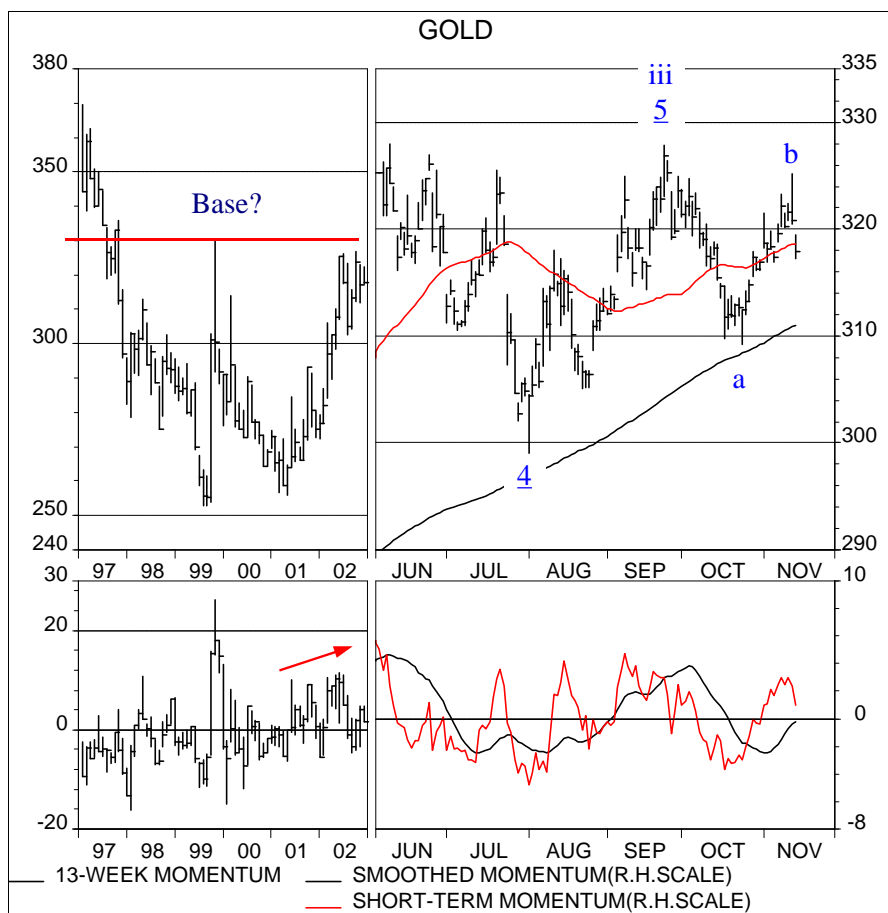
**Japanese Yield**

- The declining pattern which began in Q1 looks largely complete, and has approached an important target level.
- Bearish divergence has formed in all three indicators.
- Yields may be able to drift lower temporarily, but the market is setting itself up for the largest reversal in over a year. (Consistent with the bullish outlook for equities?).



**Brent Crude**

- The break of -12% by momentum signalled that the alternative count was probable, labelling the recent high as wave 1 of (5) completing.
- The normal .618 retracement in wave 2 will occur at 21.85, and we would expect to see bullish indicator divergence appearing in that area.
- This scenario requires upside acceleration through \$30 in wave 3. Note how that would complete a Reverse Head-and-Shoulders base with a minimum target above \$41.



**Gold**

- Probably still consolidating in the wave iv which began in September.
- No new indicator signals.
- A close above \$330 is likely to signal a renewed surge, probably into the 350-360 range initially.

**Are the combined signals from Bonds, Oil and Gold still bearish for equities on a medium-term view? We have been asked to address this question.**

Yes. Just as we believe that equities are undergoing a period of respite in an incomplete bear market, so are these acting normally within the confines of our longer-term scenarios. All three are pausing after a strong rally to test overhead resistance. Note that both Consols and Oil are probably in second wave corrections, and that an upward break by both would be consistent on the grounds that Oil above \$30 would potentially be deflationary.

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