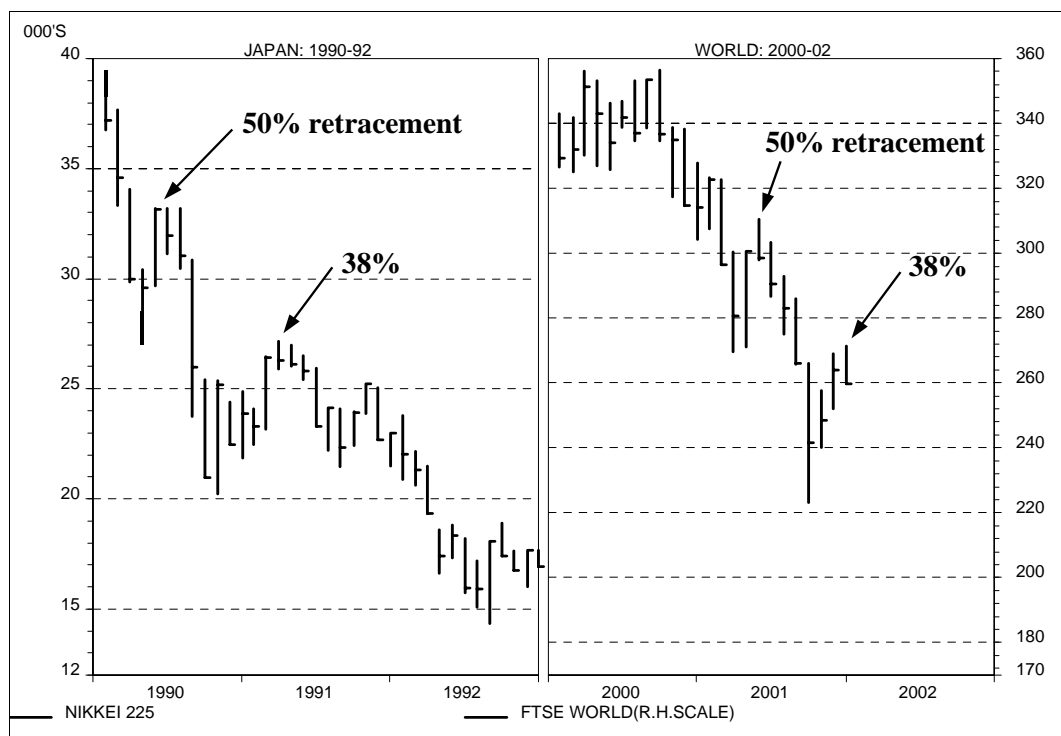


Global Markets Review (Issue 45/01 - European Markets Focus)

For several reasons, mid-December has been our preferred time window for a rally peak, and its arrival sees markets recently as overbought as at May's top, as well as producing warning signals from breadth, momentum and volume.

There is a real risk that this is a rally in a Great Bear Market, and that it will give way to a severe decline in 2002, with the low occurring in late Q3, or Q4 (see www.mtsresearch.com, Articles section, if you have not already done so). The best analogy for the World Index is with Japan in Spring 1991, when it had also retraced 38% of its decline after the Gulf War (see below). From that point the Nikkei nearly halved over the next 17 months. Our fear is that a GBM-sized decline is occurring, but that the majority of the damage will be squeezed into the final 9-11 month period commencing now. In fact, if our longer-term analysis is correct, this may be the last chance to sell equities at anything near top levels for a decade or more.

Strong words, which may come back to haunt us! What if we are wrong? (It's been known). Well, we do not see great risk in starting to take precautionary measures, because of the overbought condition. Similar Stochastic readings in the S&P 500 during the past two years or so have resulted in lower levels on a 2-to-3 month view on every occasion (see p. 3). Only if you think that a new bull market has begun would it be right to ignore the overbought condition. In the event that markets produce an a-b-c correction with *deceleration* in momentum, and *contracting* downside breadth, we will highlight this bullish configuration.

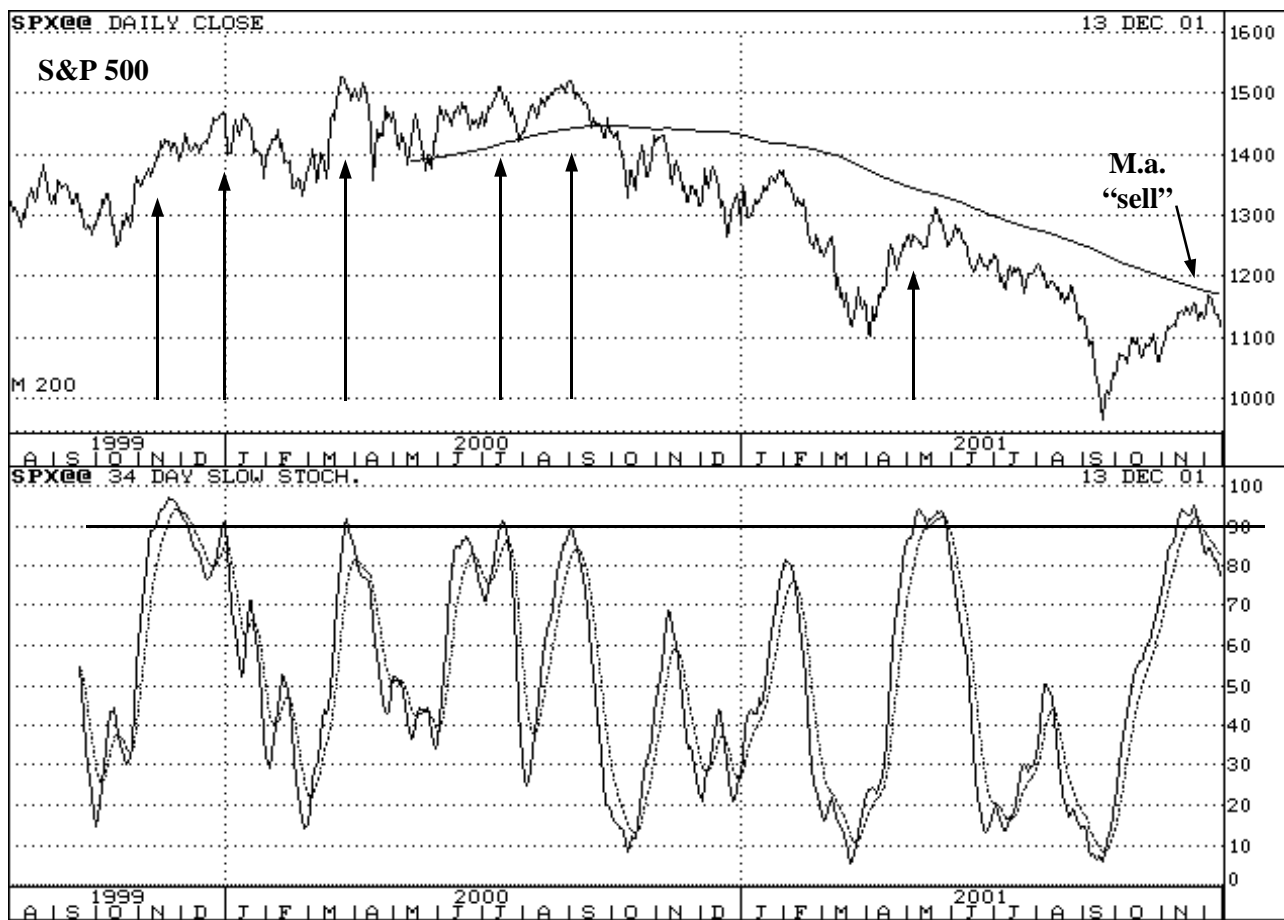


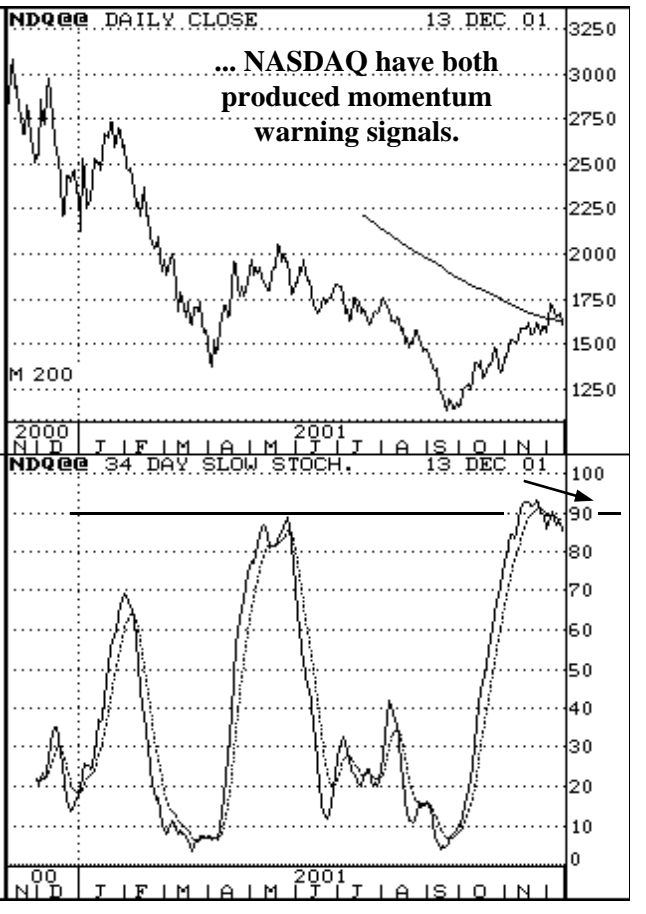
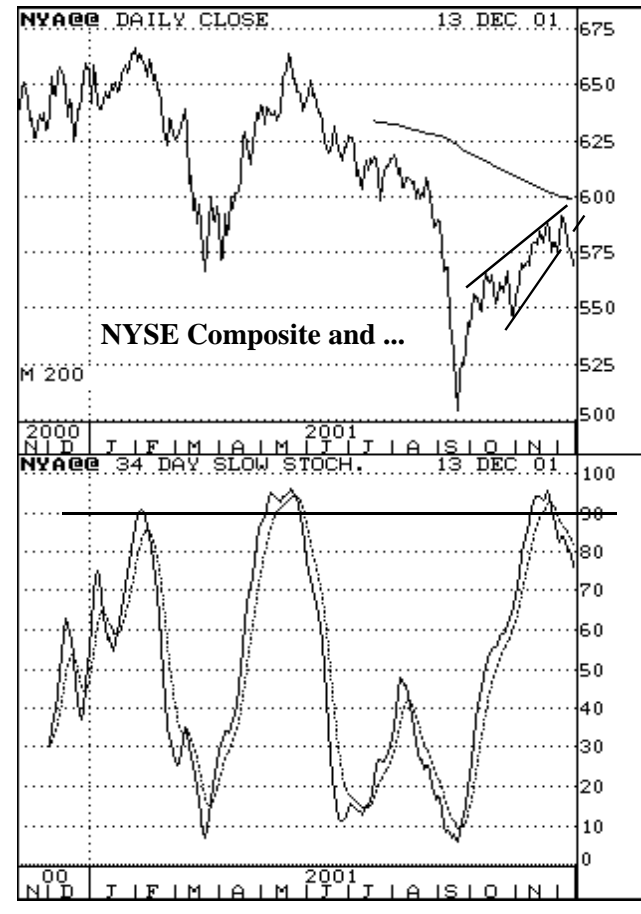
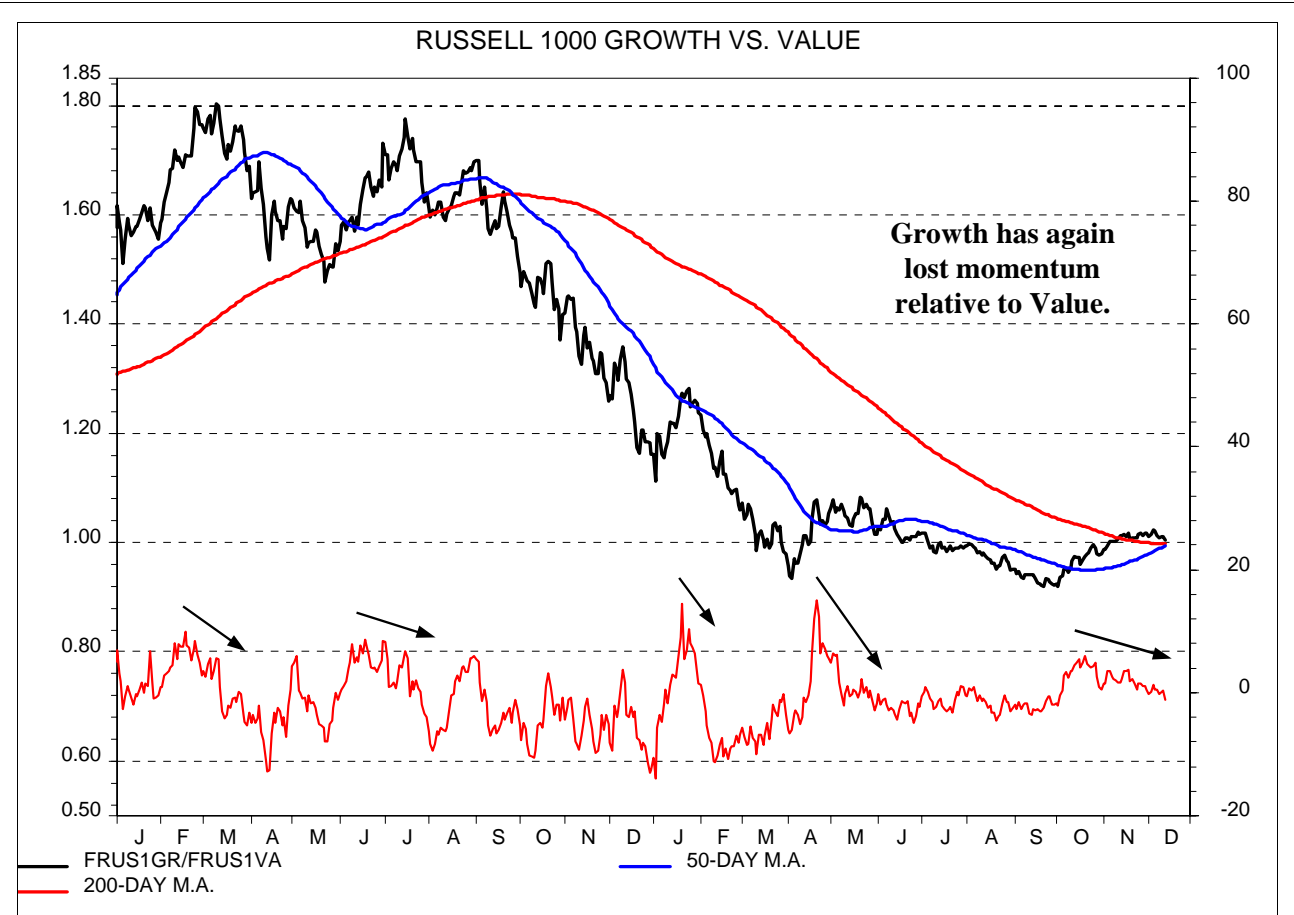
A summary of the charts covered in this issue ...	Page
<ul style="list-style-type: none"> Most major indices have been close to giving 200-day moving average (m.a.) sell signals in Fibonacci resistance areas, but only the S&P 500 has as good as hit its average. To the extent that most indices missed an m.a. sell signal in May, the current set-up is remarkably similar. 	3
<ul style="list-style-type: none"> We have updated the Russell 1000 Growth versus Value chart, which continues to lose momentum in a fashion similar to that which preceded other Growth downturns. The overbought condition in the NYSE Composite and NASDAQ Stochastic indicators is also shown. 	4
<ul style="list-style-type: none"> The main signals from Topix come from Elliott Wave Theory. So long as 1,070 and 1,093 are not progressively exceeded, wave 5 is expected to carry beneath 830 in 2002, and has one potential target below 700. 	5
<ul style="list-style-type: none"> FTSE 100 produced more divergence warning signals at the recent high, and has broken important short-term support this week. 	6
<ul style="list-style-type: none"> The recovery pattern in the French CAC 40 remains similar to April-May's bear market rally, and a downward break is occurring here also. 	7
<ul style="list-style-type: none"> The DAX 30 signals are similar to London's. 	8
<ul style="list-style-type: none"> The Hang Seng has hit its target at 11,850 and has arguably produced the clearest all-round set of bearish divergence/overbought signals. 	9
<ul style="list-style-type: none"> Sterling has produced a confirmed break-out against the Yen, and is headed for 192 as a minimum, with 200+ a distinct possibility. The Dollar/Yen pattern is looking more dynamic than it did at the time of the Focus issue, so 127-130 again looks a realistic objective for this fifth wave rally. Sterling has recently given buy signals against the Dollar, which is probably why its Yen cross looks better than the Dollar's. 	10
<ul style="list-style-type: none"> The indicator signals for Europe ex UK (not surprisingly) mirror the CAC and DAX. 	11 & 12

Please note that our next issue will appear on Friday 4th January.

This schedule is worth repeating. It highlights the confluence of Fibonacci and 200-day moving average levels - i.e. resistance from which the rally might reverse. So far, only New York and London have reached important levels. In terms of Western indices, that may be enough.

Index	High Date	Low Date	High Close	Low Close	Retracements			200-day m.a.	Recent High
					.618	.50	.382		
S&P 500	24.03.00	21.09.01	1,527	966	1,312	1,246	1,180	1,171	1,170
NYSE	01.09.00	21.09.01	678	504	611	590	570	598	591
FTSE 100	30.12.99	21.09.01	6,930	4,434	5,976	5,682	5,387	5,450	5,370
CAC 40	04.09.00	21.09.01	6,922	3,653	5,673	5,287	4,901	4,884	4,679
DAX 30	07.03.00	21.09.01	8,065	3,787	6,430	5,926	5,421	5,441	5,271
Hang S.	28.03.00	21.09.01	18,302	8,934	14,723	13,618	12,513	12,105	11,932
Topix	07.05.01	12.09.01	1,441	991	1,269	1,216	1,163	1,189	1,058
NASDAQ	01.09.00	21.09.01	4,234	1,423	3,664	2,828	2,497	1,934	2,054



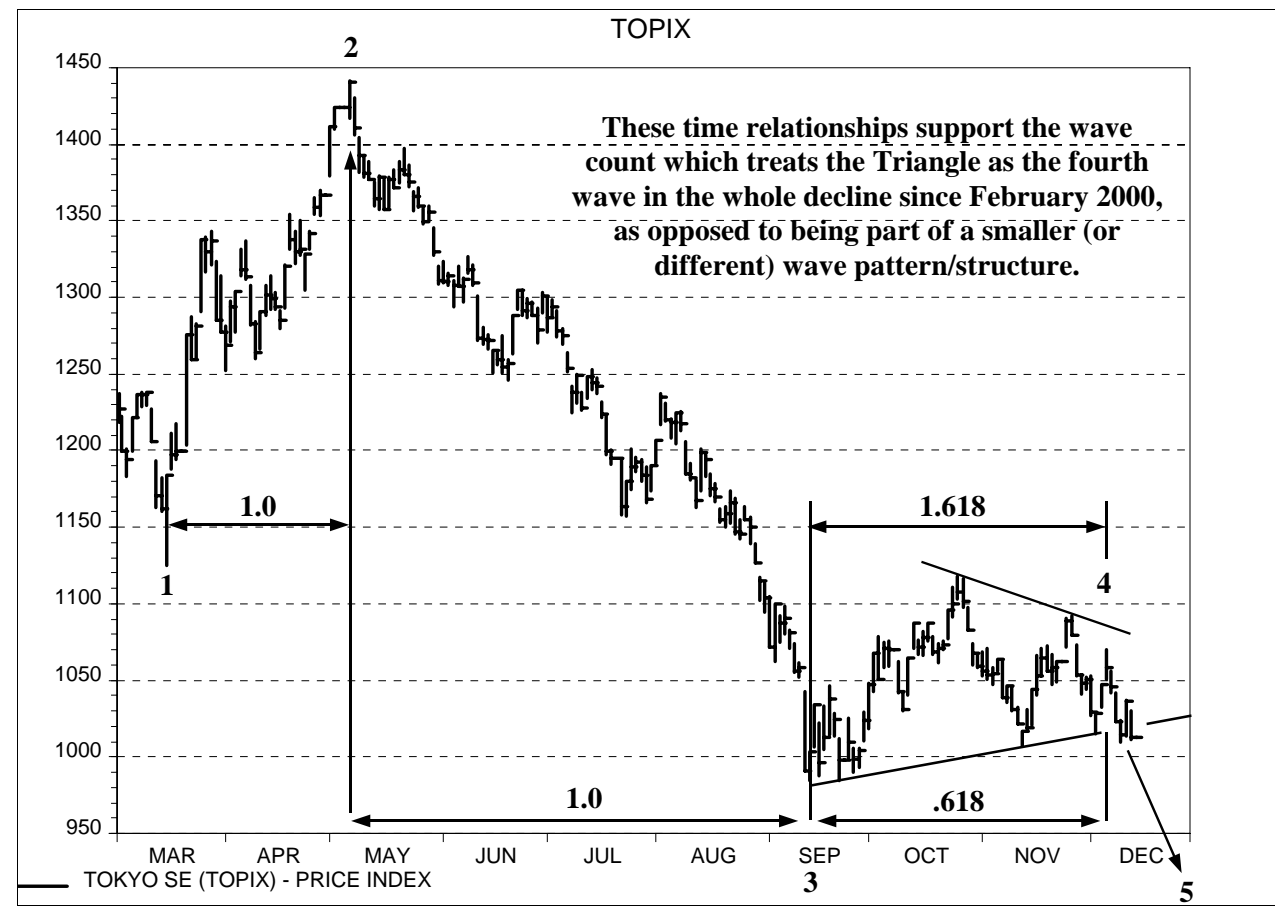
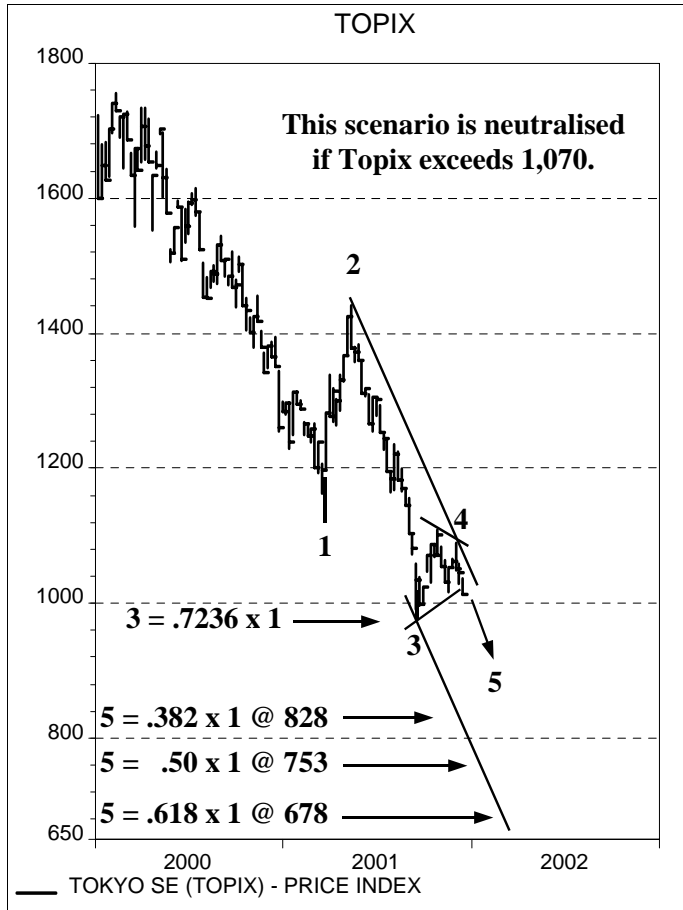


Pattern analysis indicates downside risk to beneath 830. Only a rally above 1,093 can clearly negate this scenario.

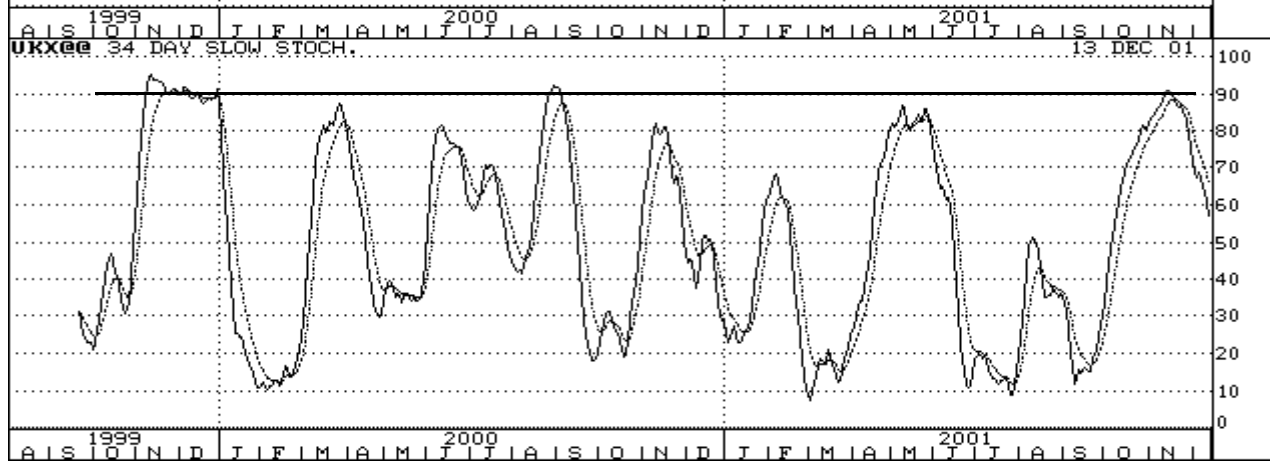
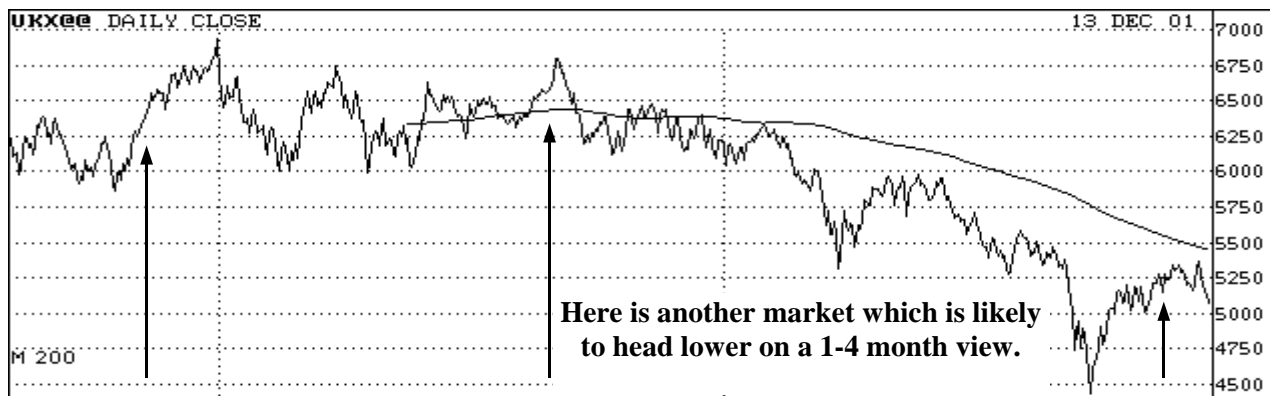
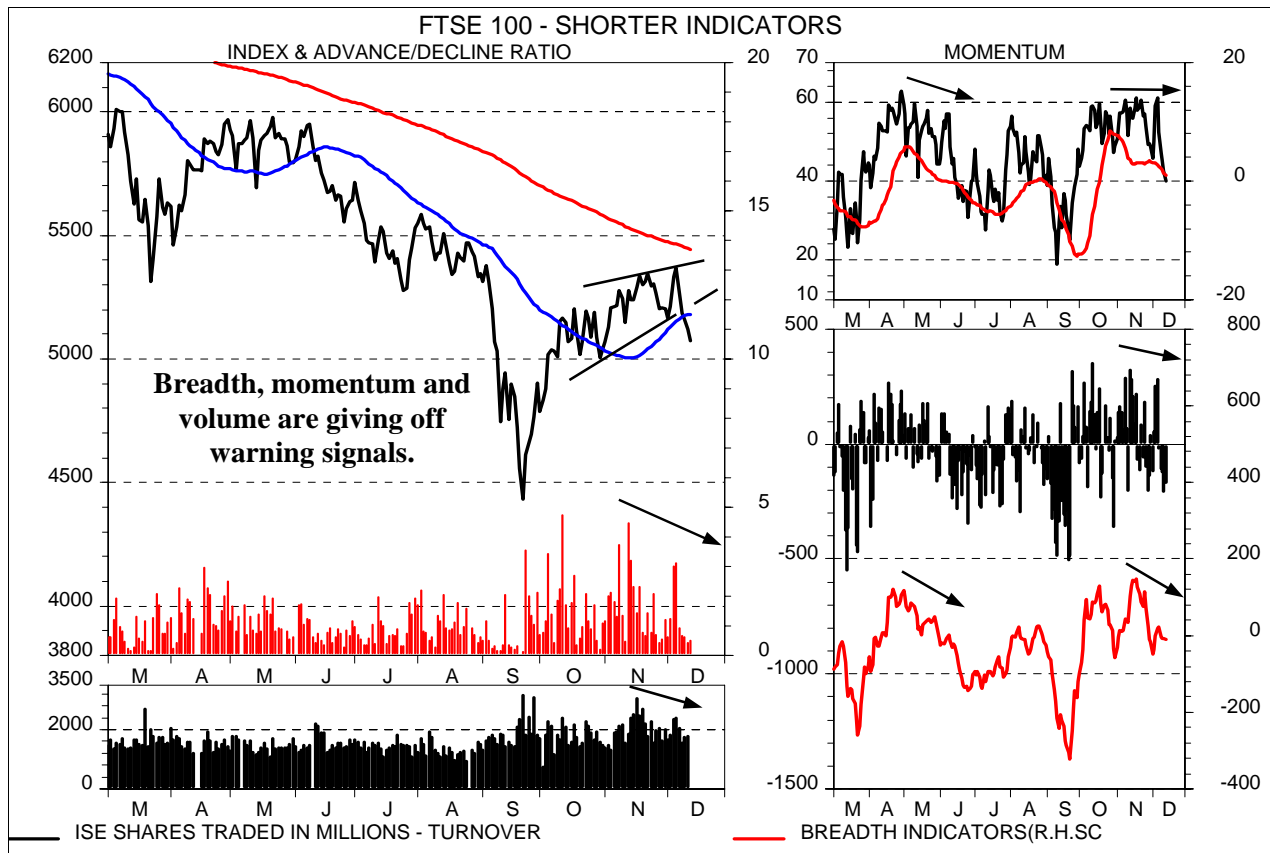
Analysis: We have not shown any indicators because, broadly, they are neutral. This is hardly surprising after a three-month period of trading sideways.

It is not very often that a market gives a totally unambiguous signal, but Tokyo has done so. The pattern we illustrated diagrammatically two weeks ago has formed just as wave theory suggested it should. That does not make it right, but it gives a definite level at which the scenario is wrong. The unambiguous level is the recent high at 1,070, which marked the end of wave E, the final swing of the Fourth Wave Triangle.

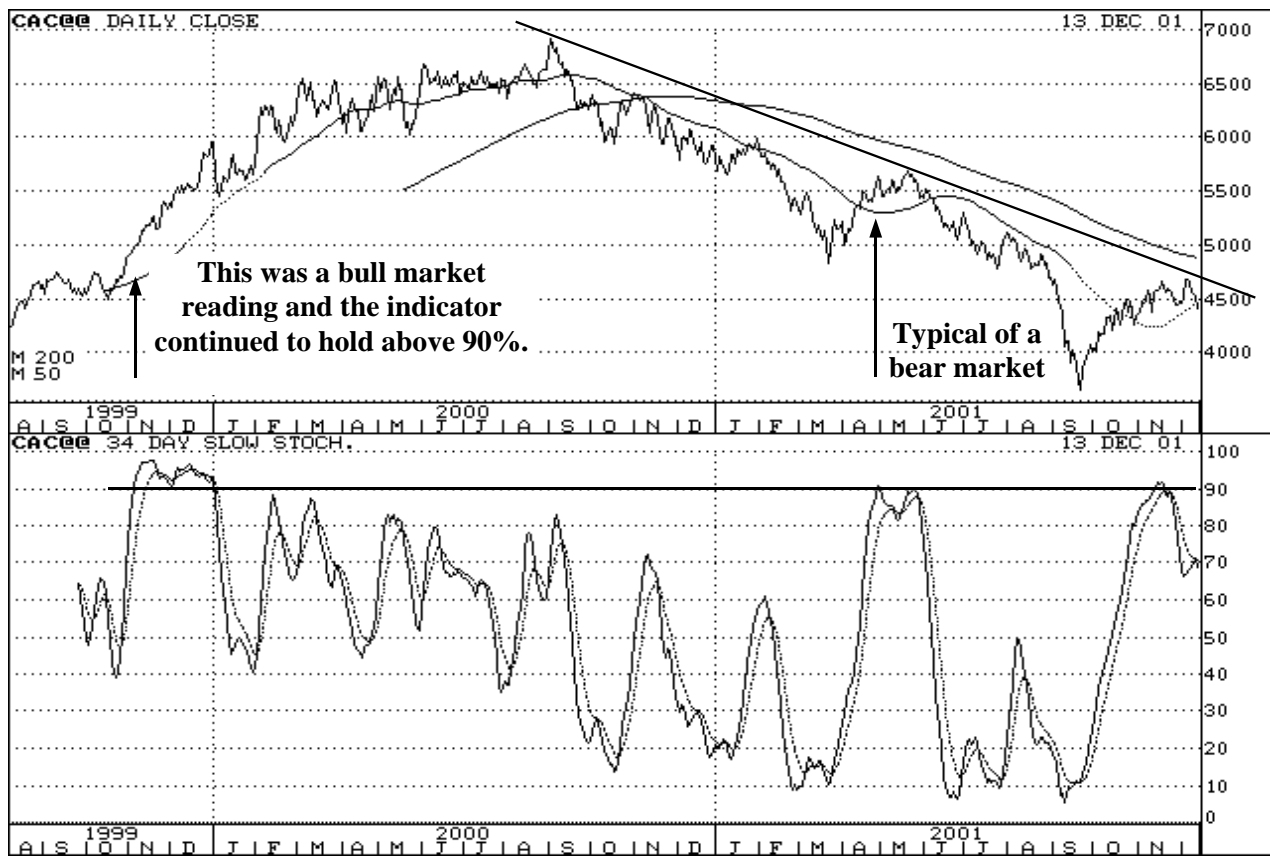
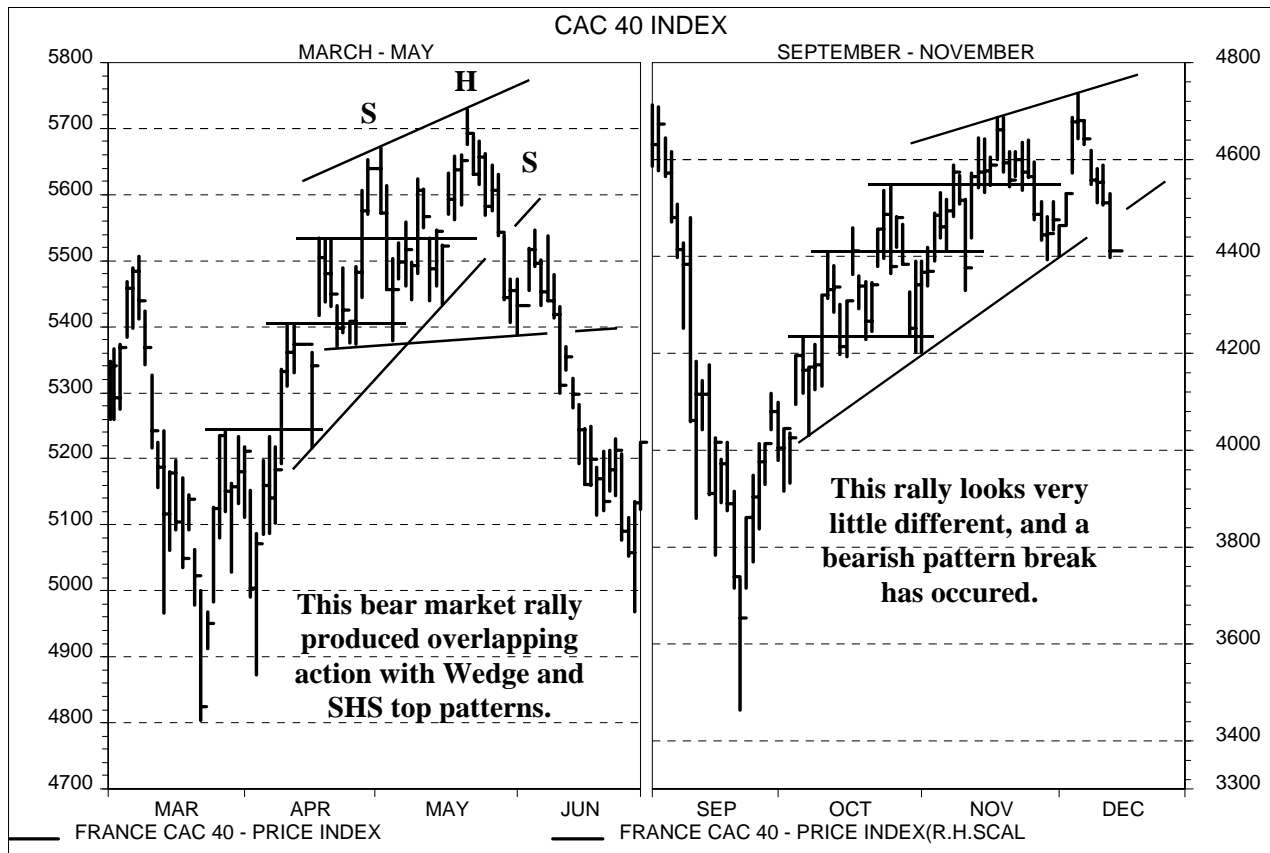
Based on this analysis, the chart opposite shows the bad news.



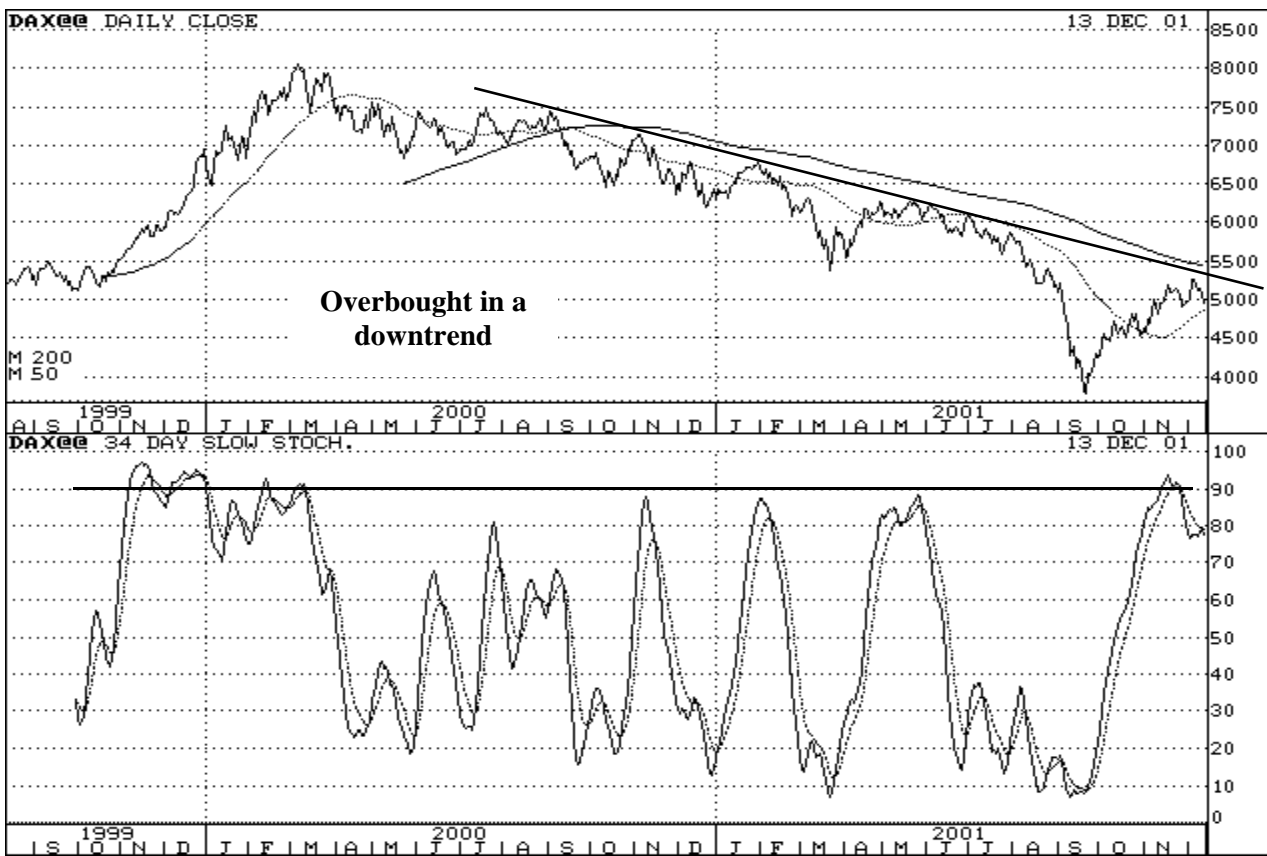
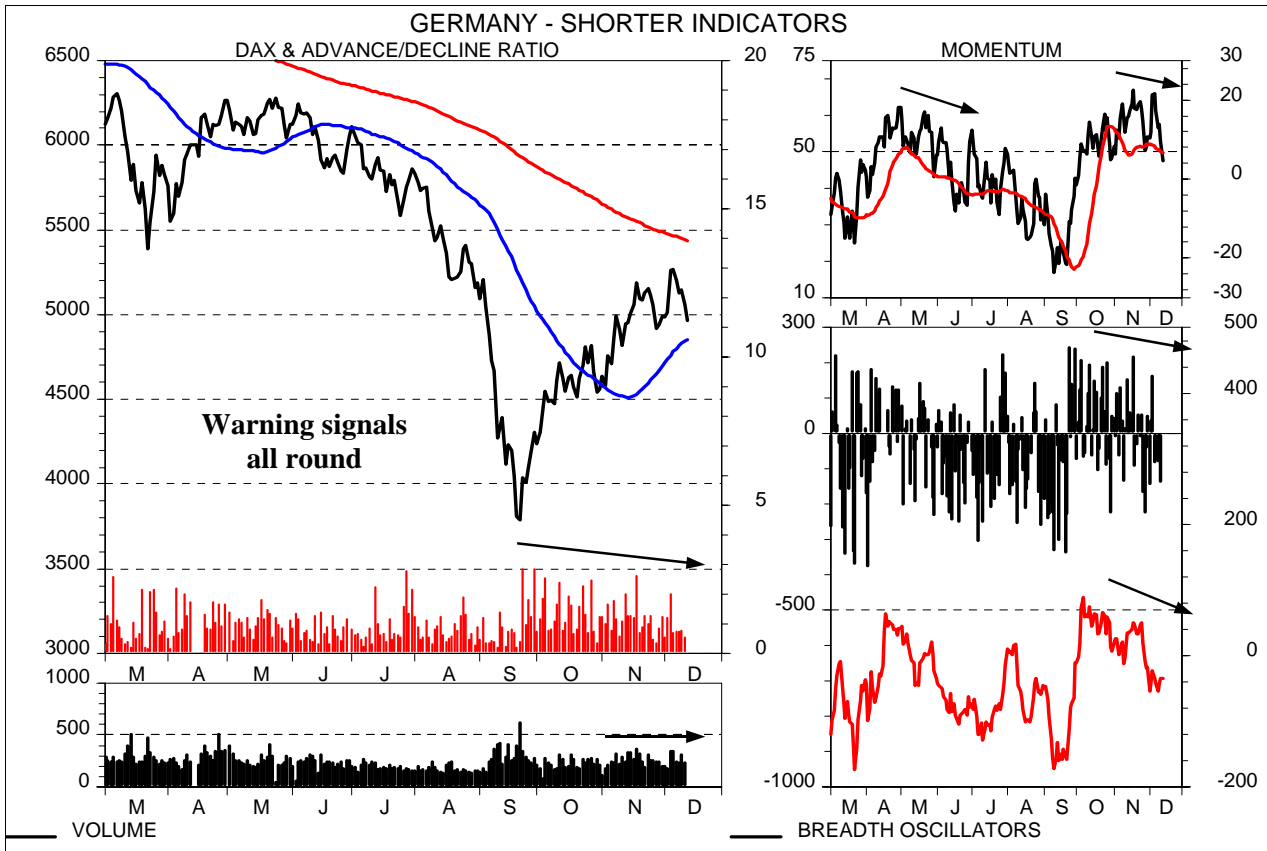
FTSE 100



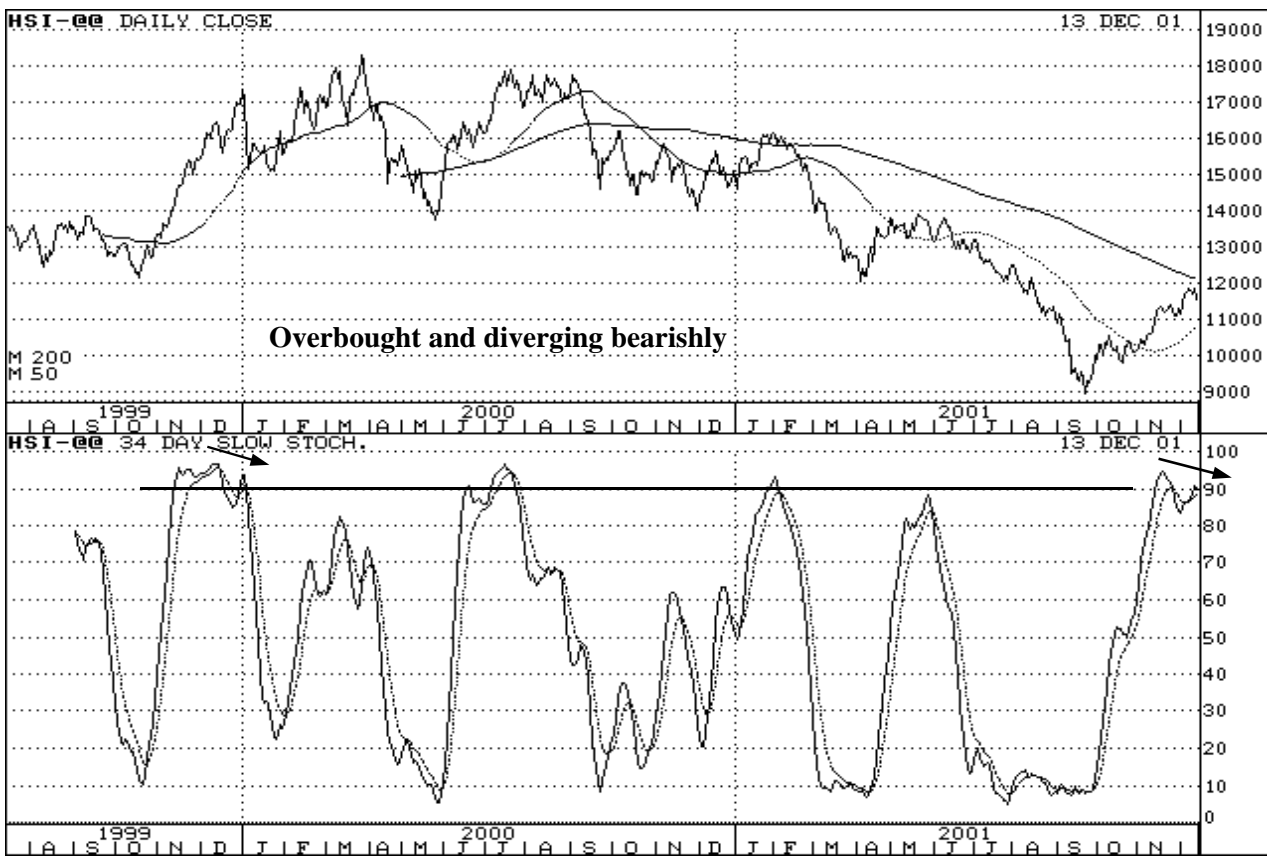
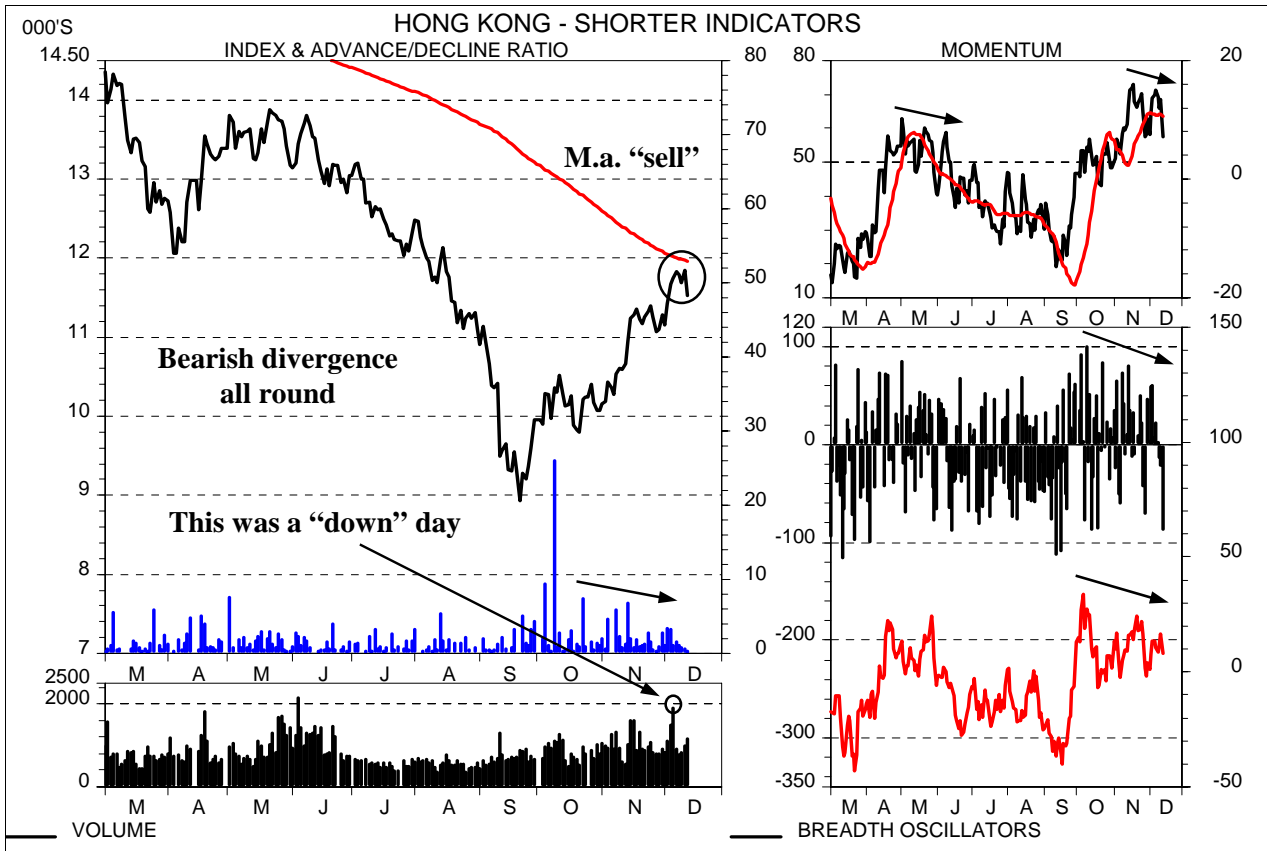
CAC 40

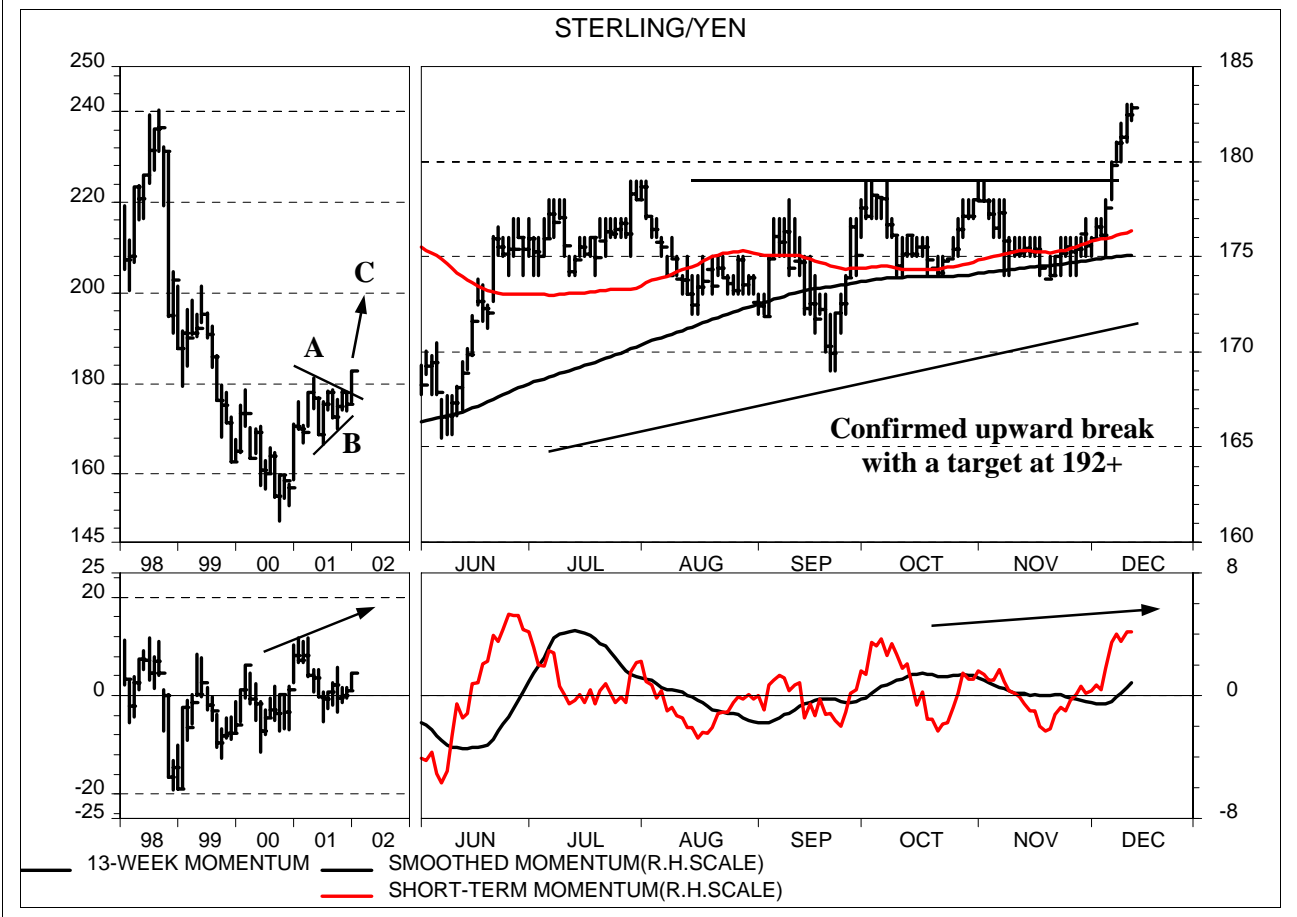
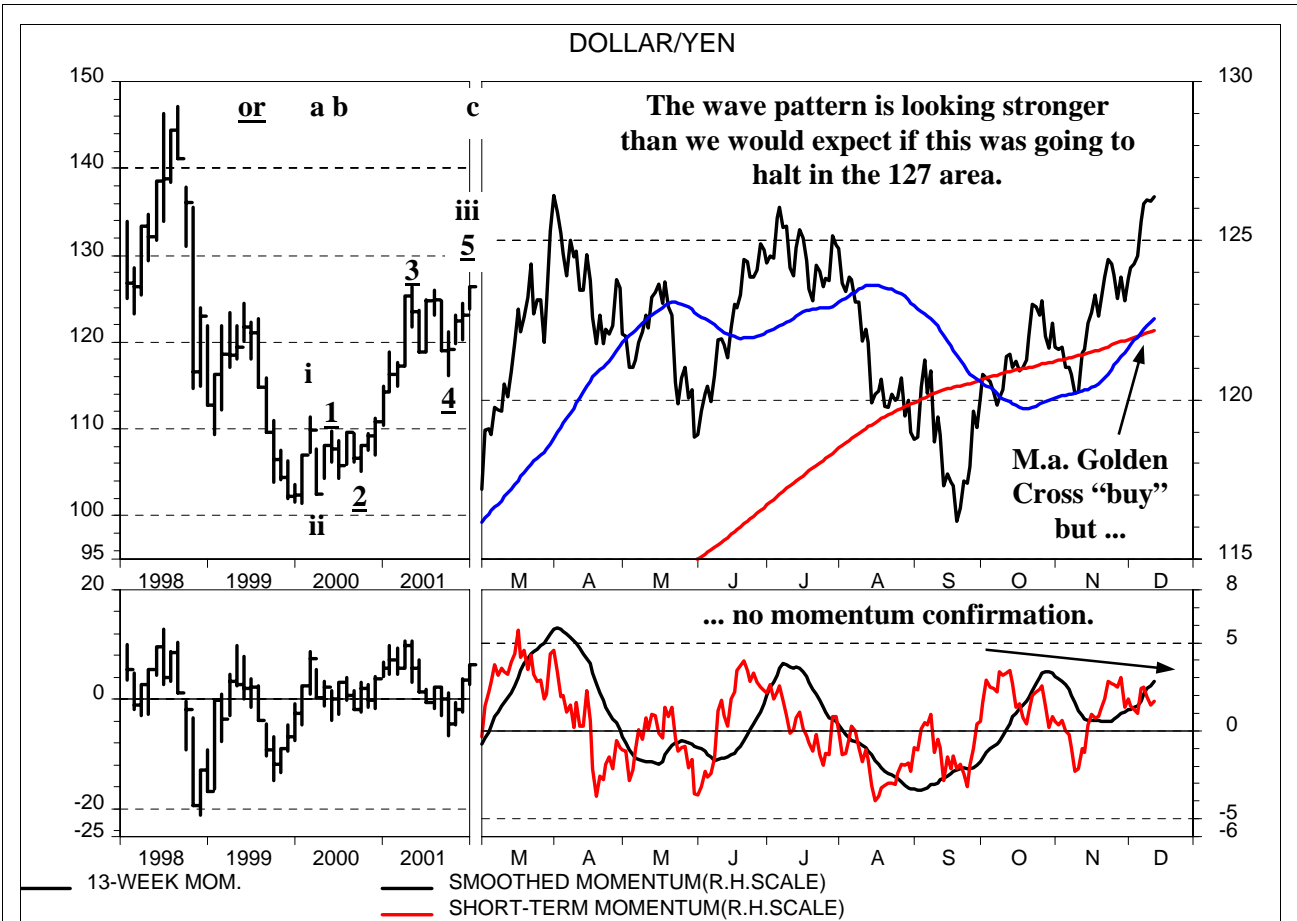


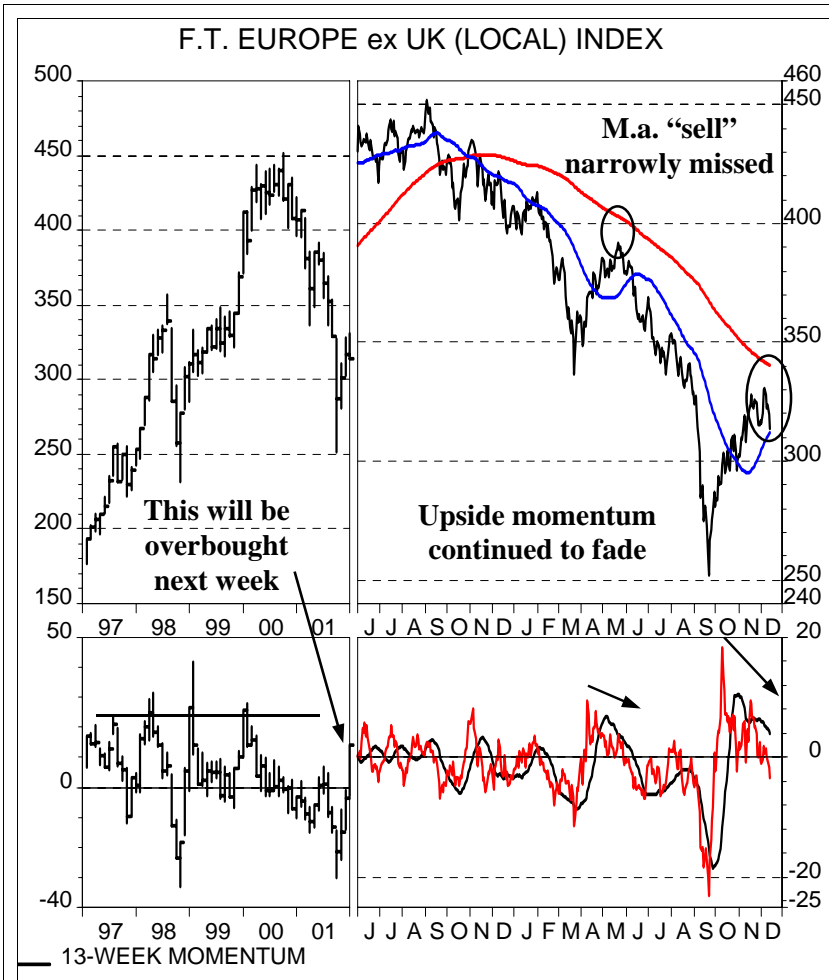
DAX 30



Hong Kong



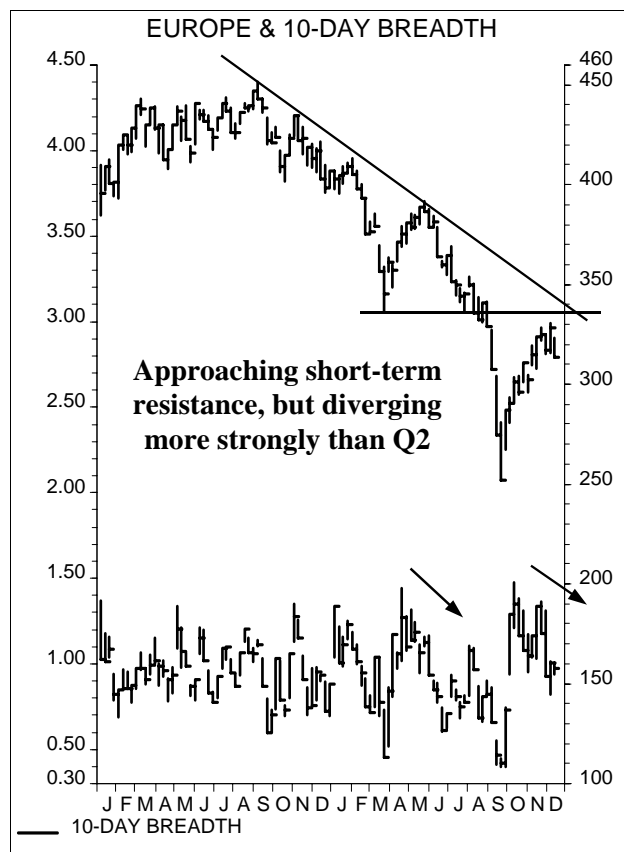
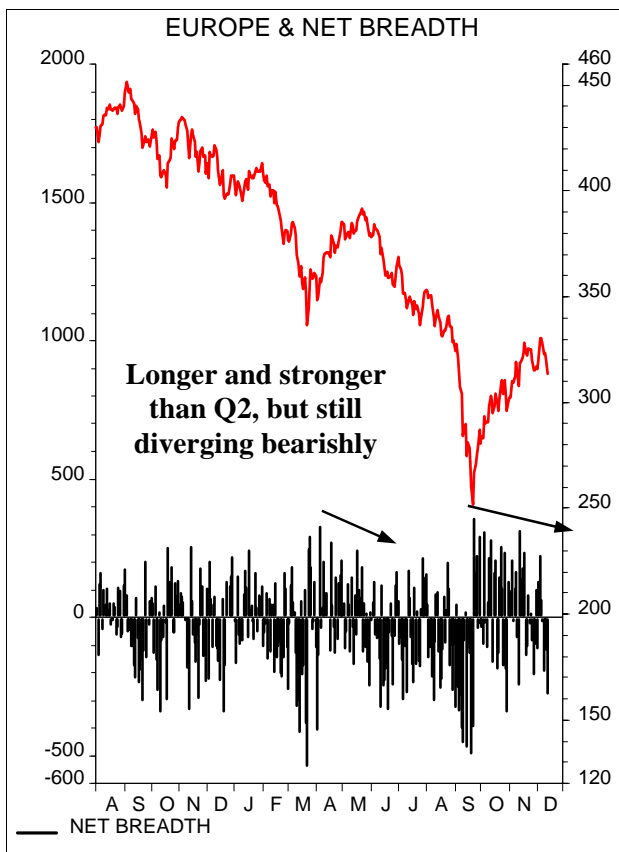


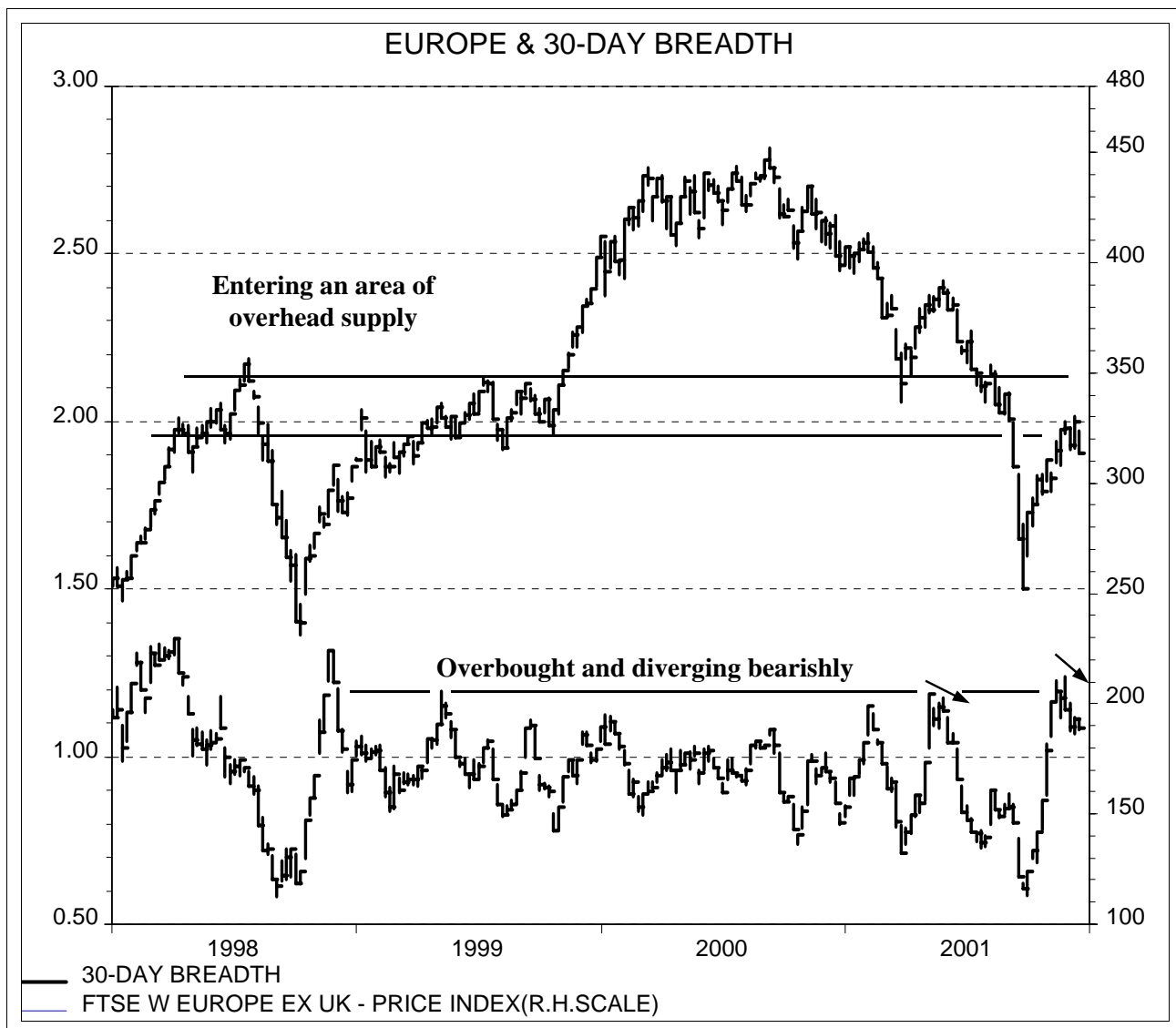


European Markets Focus

Markets in the region remain fairly homogenous in their patterns and signals. The relatives still provide the best signals - see the European Equity Screen. To summarise:

- An m.a. sell signal will occur about 5% higher.
- Breadth and momentum warning signals are occurring in a range of indicators.
- A medium-term overbought condition will occur before the end of the month, if current levels are maintained.
- The rally has entered a major resistance area dating from 1998/99.





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