MTS Research Limited

Global Markets Review - Issue 2010

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Equities: The oversold condition should provide some degree of support for markets, breadth has had several good days since the May low, and volume produced bullish signals as the indices bottomed. Whilst this suggests that an imminent downward break is lower probability, recent rally patterns do not look encouraging after today's weakness, and there is nothing worse markets could do now than work off the oversold condition via a sideways move. And the Bond Focus makes depressing reading.

Bond yields: The pattern development in Spanish 10-year yields warns that, despite recent efforts on the budget front, a major crisis could still lie ahead. Unless yields can drop back below 3.70% (admittedly quite a long way down from here), we expect to see them up in the 6.60-8.40% range eventually. Those of you wanting greater certainty should wait for upward acceleration through 4.90%, which would complete a 13-year base, then targeting a move to 7.15% as a minimum. The message from the US, UK and German charts is also that recent declines in yields are not over, and that western yields should fall another 50 b.p. minimum. The US 10-year should hit 2.75-3.05%, and we reiterate our long-standing forecast of 10-year Gilt yields back at 3.0% or below. This can not bode well for equities.

Global equities: The US and Europe count best as having produced two 5-wave declines. The simplest explanation for this is that an a-b-c correction in an uptrend recently completed. The chart below of the World Index highlights other periods in the past three years when a similar indicator configuration existed. All were followed by rallies of some degree, and both of the indicators (8-day RSI and 34-day Stochastic) returned to the 50-100 range before the next correction or decline. They are both in the 10-40 range at the moment, which, combined with the wave pattern, points to further recovery. What is vital now is that the recovery becomes more dynamic. If markets meander around below the highs of May 12-13th while the oversold condition unwinds, that would signal that the underlying trend is quite strongly downwards.

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Japan: If there is one equity pattern which worries us (bonds are dealt with below), it is this one. We can not see any sensible wave count which does not require Topix to drop into the 690-810 range. It does not have to do so immediately, but, even if the US produces a strong rally and makes new highs, Topix should not produce a similar performance. In the short term, we are still watching to see how it acts as it approaches the 910-930 initial target area.

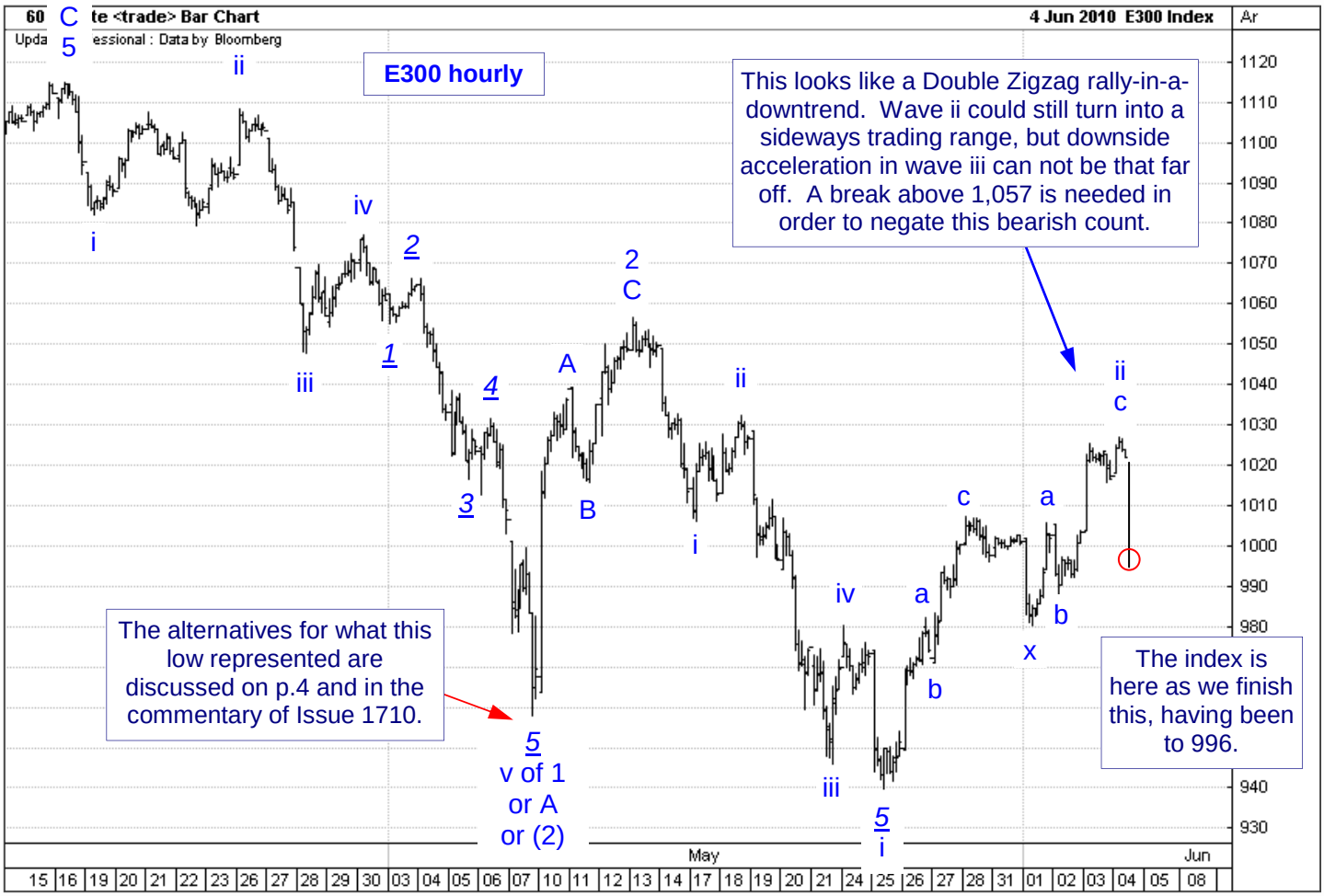
Spanish 10-year yield (p.3): We have concentrated on bonds this week, because they are clearly following the path outlined in mid-2009 as being likely to accompany a new bear market leg in equities. Since Elliott analysis was spot on in identifying the top area for Greek 10-year yields, we thought that it might be worth looking at Spain, to see what it portends. The patterns since the 2005 low have all the hallmarks of the initial stages of a secular bear market. The pattern is base-building prior to upside acceleration, and that should take the 3rd wave rise in yields to somewhere between 6.60% and 8.40% (the 13-year base pattern has a target at 7.15%, but requires a confirmed break of 4.90%). Anyone who would like to discuss progressive "stop" levels on this view should email in a request, please, but 4.10/3.87/3.79/3.70% are the initially obvious levels.

Bond Summary (pp4-6): In the last Focus, we signalled that a 100-b.p. fall in **US yields** should soon follow the near-complete 5-wave advance, possibly after a minor new high. This decline is expected to be a 2nd wave, taking on an A-B-C form, and should hit the 2.75-3.05% range as a minimum. The yield has already broken 3.20%, but the recent drop only represents wave A, with the B-wave in progress now. The fact that there is still a C-wave to come, and momentum is confirming on the downside, suggests that another upset awaits markets in Q3. Note that the "normal" target of C = A lies around 2.50%, which would represent a .764 retracement of wave (1).

The **UK's 10-year Gilt** is broadly similar, and has targets at 2.72-2.96% in the 5th wave which is currently in progress. In addition, the Long Gilt Index appears to be in the early stages of its 3rd wave upside price acceleration phase, which should ultimately take it into the 260-270 range (currently around 220). At the same time, Index-Linked are beginning to look a little vulnerable, having produced a bearish Rising Wedge pattern, on fading momentum, as they test their 2008 highs. The configuration in the UK appears to be warning of another deflation scare.

Germany has finally hit the top pattern target at 2.70% set in 2008, but its wave pattern is not complete on the downside either. Fibonacci analysis warns that it could even hit the 2.15% area.

Japan looks to be finishing a 4th wave Triangle before a downward break towards the 0.90-1.0% zone.

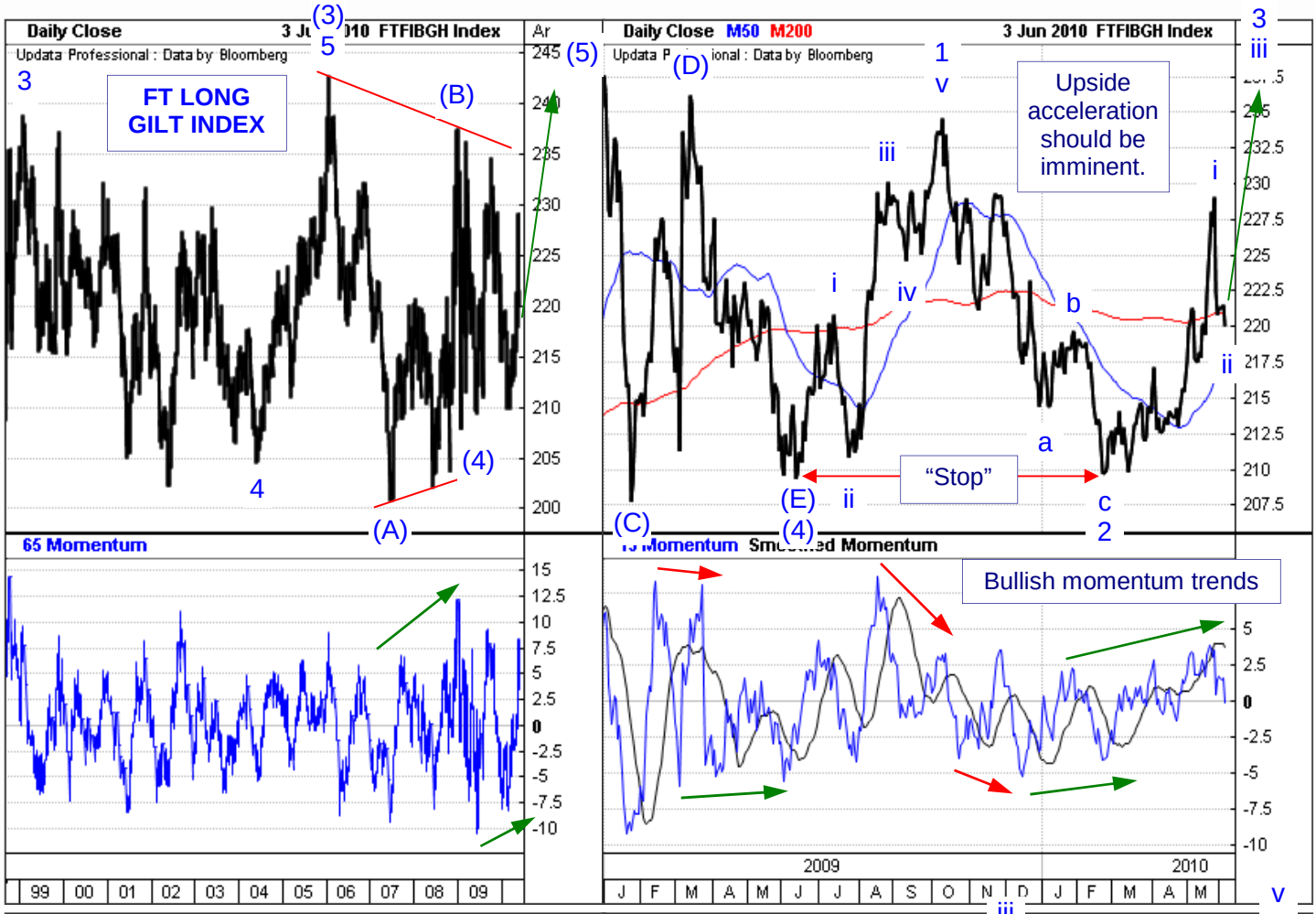



Weekly Bar Chart
4 Jun 2010 GSPG10YR Index
Updata Professional : Data by Bloomberg
Spain - 10-year yield
(1)
5
(B)
2
4
iii of 3 of (3)
i
1
3
1
(A)
ii
2
1
.618
4
3
5
(C)
(2)
2
This counts well as an initial 5-wave advance with an Irregular Flat 2nd wave, culminating with a Diagonal Triangle C-wave. The .618 retracement of wave (1) is a classic trait in a 2nd wave. This chart contains two warnings of a strong longer-term upward trend: firstly, that wave (B) carried above the high of wave (1); secondly, that wave 5 of C did not break wave 3's low, and therefore "failed".
2005
2006
2007
2008
2009
2010


Monthly Bar Chart
4 Jun 2010 GSPG10YR Index
Updata Profess
Data by Bloomberg
(2)
Spain - 10-year yield: This is what the above wave count implies will occur over the coming months/year(s). How soon it will unfold is difficult to predict, but we know from the Greek situation, that it can be unexpectedly quickly. The normal carry would be 1.618 times the 1st wave - i.e. to the 6.60% area. However, the signals referred to above warn that wave (3) could "extend" to 2.618 times wave (1) at 8.40%. The red box highlights this range - and this ignores the further risk in wave (5), which Elliott analysis identified correctly with respect to Greece. Note that acceleration up through 4.90% would complete a 13-year base with a minimum target in the 7.15% area, and well above the minimum expectation of this wave count. It would take a break of 3.60% to neutralise this scenario.
(1)
(3)
(4)
2
(1)
4
1
(3)
3
5
(5)
(2)
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012


Daily Close
4 Jun 2010 USGG10YR Index
Updata Professional Data by Bloomberg
US 10-YEAR YIELD
The completed 14-year Diagonal Triangle and ...
... 5-wave advance signal the rally as the first leg of a secular bear market.
65 Momentum
Daily Close M50 M200
4 Jun 2010 USGG10YR Index
Updata Professional : Data by Bloomberg
An A-B-C correction down below 3.00% is under way.
13 Momentum Smoothed Momentum
Bearish trend confirming the likelihood of lower yields.


Daily Close
4 Jun 2010 GUKG10 Index
Updata Professional : Data by Bloomberg
10-YEAR GILT YIELD
The bull market pattern remains incomplete.
65 Momentum
Daily Close M50 M200
4 Jun 2010 GUKG10 Index
Updata Professional : Data by Bloomberg
Wave 5 of (5) is under way. Targets are:
5 = 1 @ 2.96%
5 = .618 x (1+3) @ 2.72%
5 = 3 @ 1.90%.
13 Momentum Smoothed Momentum
Oversold, but confirming on the downside.


Daily Close
3 Jun 2010 FTFIBGH Index
Updata Professional : Data by Bloomberg
FT LONG GILT INDEX
65 Momentum
Daily Close M50 M200
Upside acceleration should be imminent.
"Stop"
Bullish momentum trends
Smoothed Momentum


Daily Close
3 Jun 2010 FTFIILH Index
Updata Professional : Data by Bloomberg
INDEX-LINKED OVER 5 YEAR INDEX
The lower momentum peak is giving off a medium-term warning signal.
Daily Close M50 M200
Could this be a bearish Diagonal Triangle???
Critical trend support
65 Momentum
Diverging bearishly again.
Smoothed Momentum
Shorter-term warning signals have begun to form again.


Daily Close
3 Jun 2010 C91010Y Index
Updata Professional : Data by Bloomberg
GERMAN BENCHMARK BOND YIELD
4
(4)
3
5
(3)
(5)
M50 M200
The top pattern target at 2.70% minimum has been hit, but wave (5) still does not look complete.
2
4
ii
i
2
1
3
3
65 Momentum
A longer-term divergence warning signal is beginning to form.
13 Momentum Smoothed Momentum
Momentum is confirming on the downside.
2008
2009
2010


Daily Close
4 Jun 2010 GJGB10 Index
Updata Professional : Data by Bloomberg
JAPANESE 10-YEAR YIELD
The long-term target remains the 1999 high @ 2.33%.
4
(A)
C
A
B
(B)
(C)
3
5
M50 M200
B or ii
The Roman numerals refer to a Diagonal Triangle count, which is looking more likely following the formation of this 4th wave Triangle. Expect yields to drop towards 1.0%, so long as the c-wave peak is not broken.
a
c
iv
e
b
d
C or iii
v
65 Momentum
13 Momentum Smoothed Momentum
Signalling a minor rally.
2008
2009
2010

Point & Figure chart targets (changes are in bold)

Markets	Up-Target/Stop	D-Target/Stop	Markets	Up-Target/Stop	D-Target/Stop
S&P500	1,270 / 1,050	940 / 1,180	Currencies		
DJI	None	8,800 / 10,900	Euro/Dollar	None	0.97 / 1.40
NASDAQ Comp.	2,800 / 2,125	1,800 / 2,440	Dollar/Yen	105 / 88	85 / 99
Topix	None	None	Sterling/$	None	None
Nikkei 225	None	None	Sterling/Yen	None	120 / 145
			Sterling/Euro	**1.34 / 1.10**	0.93 / 1.22
Europe			Euro/Yen	None	None
CAC 40	None	2,100 / 3,750			
FTSE 100	None	3,850 / 5,450	Bond Yields		
DAX 30	7,150 / 5,500	4,650 / 6,300	US10-YY	4.8 / 3.05	2.30 / 3.60
Swiss MI	None	4,850 / 6,600	UK10-YY	None	3.30 / 3.925
RTS $	None	810 / 1,500	Bund10-YY	None	None
			Japan10-YY	None	1.04 / 1.33
Pacific			UK> 5-Y ILG	None	None
Hang Seng	28,000 / **Stopped**	None			
KOSPI	2,055 / 1,545	1,470 / 1,710	Commodities		
Shang. Comp.	None	None	CRB Index	None	360 / 483
Straits Times	None	None	Oil (Brent)	None	None
TAIEX	None	6,500 / 7,800	Gold	1,250 / 1,080	None
NSE Nifty	6,100 / 4,550	None	Copper ($)	None	4,650 / 7,200
ASX 200	None	3,500 / 4,700			

Targets are shown even if they are inconsistent with other areas of analysis.

And if you want to find a recent piece of analysis, or see when the next update is ...

Focus	Last Issue	Date	Next Issue Date	Focus	Last Issue	Date	Next Issue Date
Currencies	16/10	07/05/10	18/06/10	**Bonds**	14/10	22/04/10	09/07/10
Europe	17/10	14/05/10	25/06/10	**Commodities**	15/10	30/04/10	11/06/10
Pacific	19/10	28/05/10	02/07/10				

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