THE ELLIOTT WAVE NAVIGATOR

WAVETRACK INTERNATIONAL

MONTHLY UPDATE
July/August 2011
(data through 20th July 2011)

BY PETER GOODBURN
12th November 2011

HIGHLIGHTS

» **STOCK INDICES** – *short-term volatility swings have prevailed during the last month with a net gain for US indices that have challenged the May highs. The early July decline from the secondary high may yet prove to be the last point from which a more sustainable decline will begin as we move into the 2nd month of the downward 40.68 month cycle. A break above these resistance levels would otherwise prolong the uptrend that has been unfolding since July '10 with another +5.8% to go before turning lower to begin a counter-trend decline forecasting a -19% depreciation during the next several months into year-end. Europe & Asia are expected to continue lower without breaking overhead resistance.*

» **INTEREST RATES** - *the negative correlation between stock indices and bond prices (positive between stock indices & interest rate yields) generally remains constant, but there is a risk of this relationship breaking down as it has done so for several months at a time in the past. All depends on whether yield levels break above the early July price-spike highs – for US10yr yields, this level is 3.259%. A break above would almost certainly confirm the entirety of the counter-trend decline that began from the Feb.'11 high of 3.770 has ended with a resumption of the larger uptrend – but remaining below this level coupled with a break of the existing low of 2.813 can prolong the decline for several months with targets limited to 2.582. European 10yr yields have an identical pattern formation.*

» **US$ DOLLAR** – *market opinion is divided on the direction of the dollar (index) and this is not surprising given its recent trading-range unfolding into a shorter-term EW-triangle, a pattern that manifests during periods of equalised but competing forces. The May low is expected to hold the current weakness with the dollar beginning to turn higher during the next couple of months with a percentage swing of about +5.27%. Afterwards, resuming its downtrend that began from the June '10 highs. There exists a more bullish count that we originally explored at the end of May but for the moment this is side-lined at least until it can develop the minimum upside target levels towards 7781-91.*

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APPENDIX *(charts in larger scale)*

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HIGHLIGHTS - CONTINUED

» **COMMODITIES –** *The outlook for precious and many base metals and oil is bearish – the CRB-cash index has taken over two months to unwind the original sell-off from the April high that marks the beginning of a prolonged decline – it is approaching completion. Copper is the only exception being the outperformer although it too is approaching the Feb.'11 highs under the guise of a secondary counter-trend swing. If prices reject this resistance area below 10190 (LME 3mth), then it will join the rest in staging another sell-off. Gold & silver are in the finalising stages of their respective advances that began from the May lows whilst crude oil is also ending an elaborate counter-trend rally that is expected to soon give way to sharp, accelerative declines.*

OVERVIEW

A glance at our 'positive-correlation' chart reveals some short-term amplitude changes across the asset classes but in general, price action remains closely synchronised. The underperformers during the last several months have been Crude oil, the CRB-cash and the Hang Seng whilst the out-performers are the S&P, Copper and the Aussie/US$ - ***see fig #1****. Individual wave counts for the S&P and Copper do allow for higher highs, a break above the May '11 & Feb.'11 extremities but with Elliott Wave counts for European stock indices unable to do the same, it seems inevitable that these out-performers will tow the line in heading more immediately lower.*

Any upside break by the S&P and Copper would be seen as only a temporary phenomenon before a sharp accelerative counter-trend decline begins. This is supported not only by the wave counting process, but the 40.68 month S&P cycle that is almost two months into a downturn with its most powerful influence expected to last at least into the end of Q1 2012 – ***see fig #2****.*

US STOCK INDICES *are delicately poised between heading downwards from secondary highs or instead breaking the May resistance levels that prolongs the entire uptrend that began fourteen months ago. Breaking above is assigned secondary status because an equivalent advance to measured upside targets of +5.8% for European indices is very different to qualify basis the Elliott Wave counts. These indicate that the current rally from mid-July will end below the early July highs. One interesting chart updated in this issue is the DJ Transportation Average. This does suggest one additional higher high is necessary before completing a final 5th wave advance as part of the larger 'impulse' pattern that began from the July '10 lows. This is synchronised to the up & down swings of the S&P but could make higher highs without this being necessary for the S&P – the difference is just a function of amplitude changes – in other words, should the indices stage an immediate decline, then rally, the DJT averages can outperform to finalise its advance only a few points above the existing July '11 high.*

Looking further ahead, the most important discussion will be just how far the counter-trend decline will unfold before finalising into year-end, latest into the first couple of months of New Year. Should the S&P remain below the May high, then the remaining decline will be seen unfolding into an ending-diagonal as part of a larger expanding flat counter-trend pattern with limited downside target levels towards 1193.72. Alternatively, an attempt to higher highs targeting 1423.49 would otherwise change the counter-trend decline into a more simplistic zig zag pattern but retaining the possibility of pulling prices somewhat lower. Basis this count, targets can be stretched towards the fib. 61.8% retracement level at 1151.96 but it could test fib. 76.4% to 1096.01.

What is not in question is the possibility of any decline extending to re-test the '09 lows or even beyond. We have touched on this subject in recent months because 'mainstream' Elliott Wave practitioners have been forecasting the super-cycle bear trend resuming in what can only be described as financial 'sensationalism'. There is no credibility to purport such forecasts when placing US indices alongside other Asian counterparts or even making comparisons to other asset classes. For example, the Hang Seng and Kospi unfolded higher from the Oct.'08 lows into an expanding five wave impulse pattern – subsequent declines from their respective highs are simply counter-trend retracements that will ultimately be followed by an equalised advance to new record highs. Also, various base metals are in exactly the same pattern configuration whilst the long-end of the yield curve suggests a sharp advance higher next year. To view these comparisons, select the weekly time-series for each in the EW-Forecast database.

fig. #1 Positive Correlations - Daily

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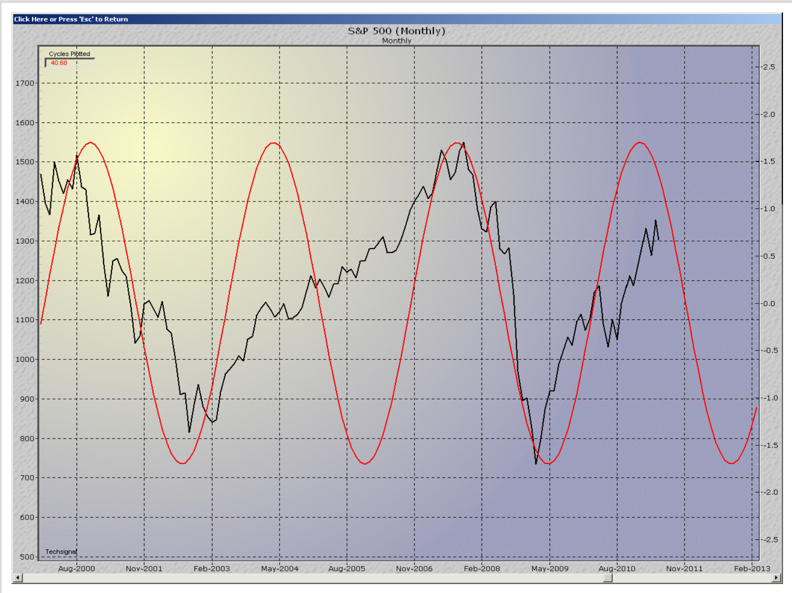

fig. #2 S&P 500 - Composite Cycle

INTEREST RATES, *particularly the long-end of the curve, our benchmark 10yr Gov. yields have been in decline since mid-February. This movement is seen as a counter-trend sequence that balances last years' accelerative advances from the Aug.-Oct.'10 lows, certainly the case for both US10yr and benchmark German 10yr maturities. The depth of these declines have already traded into fib. 61.8% retracement territory, an area that normally ends such patterns that also provides the platform for the resumption of the larger uptrend. If so, then this would result in breaking down the normal positive correlation (negative with bond prices) to stock indices as our current forecasts remain bearish until year-end. To confirm this, yields levels are required to stage an immediate break above the early July highs.*

But there does exist one possible way in which yield levels could be neutralised, even continue lower to maintain the normal relationship. The recent decline for both 10yr yields from the early July highs unfolded into three wave (price-swing) sequences ending several days later into lower lows for the year. This is seen as completing only the 1st wave of an ending diagonal pattern. It allows for lower lows in the directional flow of stock indices, but only marginally below recent levels – for US10yr yields, ultimate downside targets are measured towards 2.582% and for German 10yr towards 2.332%.

Besides stock index declines, the other driver that can also contribute to a continuing yield decline is the surrounding issue of selective Government bond default within the European Union. If fears increase then higher rated countries like Germany will attract inflows. In this issue, we have taken a look at the patterns contained in the German/Italian 10-10yr Gov. spread. This seems to indicate that although some narrowing has trimmed the dramatic widening period that began last April, this is not the end of the story.

The benchmark **US$ DOLLAR INDEX** *has been trapped within the amber of a trading-range triangle pattern for the last 7/8 weeks and is set to continue this way for a little longer before breaking out in a finalising advance into September towards upside targets of 7780+/-. The low-end of its trading range is being tested right now, towards the 7388 downside target level. This is considered to be the lowest the dollar will trade for the next 2-3 months. But looking further ahead, the dollar is then expected to weaken for a period of several months to finalise a double zig zag pattern in progress from the June '10 highs of 8871. For the time being, dollar strength can begin whilst stock indices decline, but should it break more immediately lower, below the May support of 7270, then it will already bring forward the finalisation of the decline from 8871 much earlier than currently planned – downside targets for completion are towards 6944 but then a multi-month advance is expected to begin.*

COMMODITIES *ended major upswings into the April '11 high as measured by crude oil and the broader CRB index, but the metals component has held things up and delayed the next sequence of declines. Gold is finalising its upswing that dates back to the 1043.80 low of Feb.'10 and July '10 at 1156.55 – this action is positively correlated to stock indices contrary to general perception. Upside targets remain towards 1641.79 whilst silver has out-performed gold during its recovery following the dramatic sell-off between 49.91-32.30 in May with the ratio narrowing from 45.35 to currently 39.97. Silver has since undergone a counter-trend rally whilst gold makes record highs with upside targets being approached towards the 42.00+/- area. It is this specific counter-trend pattern in silver that assures of a precious metal downswing to come – targets to 27.02 with equivalent declines for gold towards a fib. 38.2% retracement targets at 1247.95 making the ratio widen again back to where it was trading when silver first declined to 32.30 last May to 47.30 or even slightly higher. Following Crude oil's sharp decline in May from 114.83 to 94.63 and the equivalent Brent oil from 126.66 to 105.15, both have been compensating with counter-trend upswings that are close to finalising towards 103.44 and 121.79 respectively. The corrective pattern for Brent is very specific, an expanding flat with upside limitations and so we currently use this as our proxy for determining the exact time of reversal. Downside targets are towards a minimum area at 93.56, derived by extending the initial decline from the May high by a fib. 61.8% ratio. Base metals are holding up, especially copper but are vulnerable to another downswing. For specific price targets for this, Lead and Zinc, please log-in to the EW-Forecast database to view or download the latest monthly report.*

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STOCK INDICES | S&P 500 – DJT – EUROSTOXX 50 – FTSE 100 – HANG SENG – SHANGHAI - TOPIX - KOSPI – SENSEX – BOVESPA

U.S. - S&P 500 | DJ Transportation Average

During the last year-and-a-half, we have undertaken an in-depth examination of stock indices from around the globe and created 'overlays' in order to effectively compare each on nominal terms but from an Elliott Wave perspective. The idea behind this study is to determine the common denominator that binds them together as price movements are exactly synchronised, but with varying degrees of amplitude change that causes differing patterns to build. During this analysis, various wave counts are assigned probability ratings according to how many Elliott Wave 'rules & guidelines' are adhered to. The next task is to cross-correlate each in sequence to see if respective wave counts are endorsing or contradicting the scenario proposed. This adoption/elimination process continues until each of the varying patterns contained in each index can synchronise the up-coming price-swings without contradicting the pattern progression to completion. As each index contains uniquely different characteristics, the concept is to find successive price movements that synchronises ongoing price activity that 'fits' each to their unique evolving patterns. The results were first published on January 12th 2010 as 'alternate' counts but became 'preferential' in June as comparison studies revealed commonalities in many Asian indices. The net result is that many (but not all) Western and Asian indices will trade into new record highs into the year 2013 before the concluding sequence of the long-term counter-trend pattern is fulfilled with a subsequent collapse into the cycle date period of 2016-18.

The pattern unfolding for the S&P scenario appears like this – ***see fig #3***. The 3-3-5 expanding flat sequence that began the decline from the dot-com high of 1552.87.

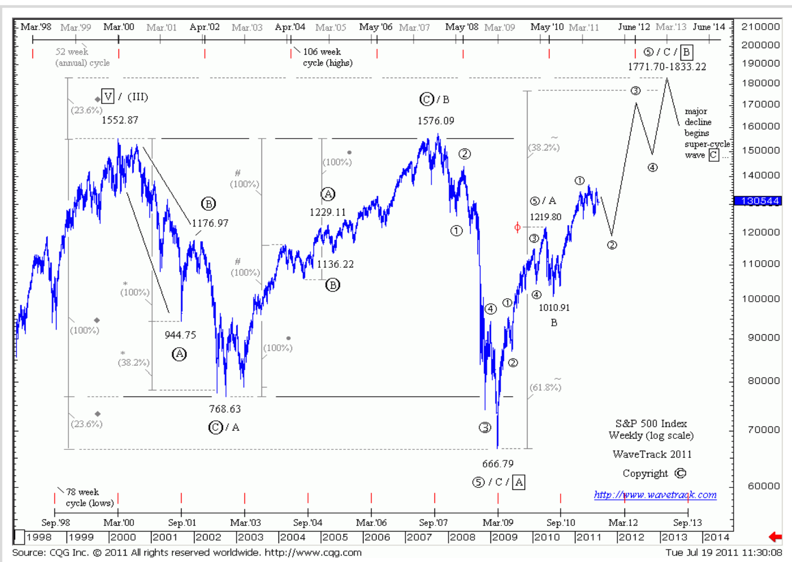

fig. #3 S&P 500 Index - Weekly

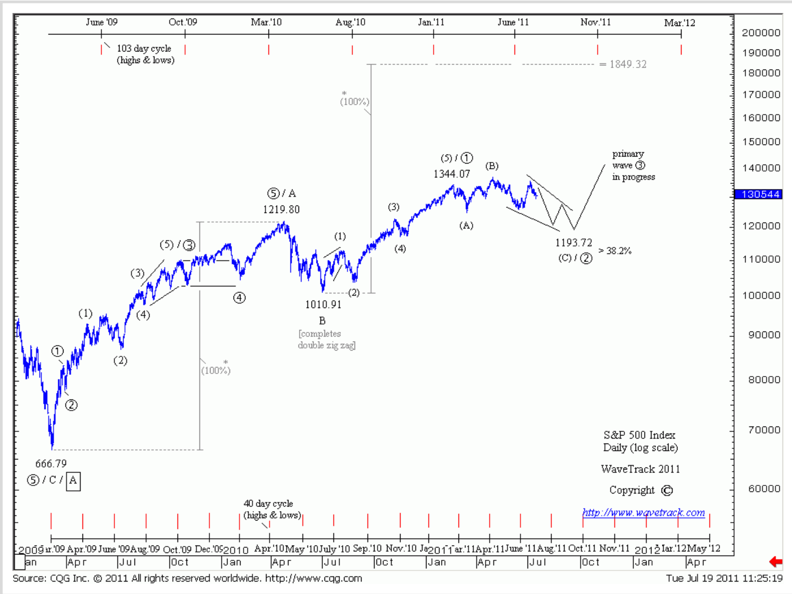

fig. #4 S&P 500 Index - Daily

And in yr. 2000 ended the super-cycle wave $\boxed{A}$ at 666.79 in March '09. Note that the decline between 1576.09-666.79 unfolded into a required five wave sequence but is not replicated in many other indices. For example, the Dow Jones Transportation Average unfolded into a three wave zig zag during the same period allowing it to recently trade into a new record high in April/May this year. The following advance from this low in March '09 begins a three wave zig zag pattern that is destined to ultimately trade into higher highs as super-cycle wave $\boxed{B}$. But how far can this go? This can be fairly well defined applying fib-price-ratio studies. A common ratio used for such measurements extends super-cycle wave $\boxed{A}$ by a fib. 23.6% ratio – this projects to 1833.22 (log-scale, 1552.87-768.63). This happens to converge with another ratio where the two up-swings contained in the zig zag advance for super-cycle wave $\boxed{B}$ retain a fib. 100% equality ratio to 1849.32. When a measured convergence is found at this degree of scale, it significantly increases the probability of attracting price activity and also providing the reversal level for a directional change.

Each of the two directional upward swings, the first between 666.79-1219.80 and the second in progress from 1010.91 must unfold into smaller five wave sequences. This was true in the first with the second so far only completing the first sequence into the April '11 high. We are awaiting a second wave retracement into year-end, early 2013 before the successive third-fourth-fifth waves begin to unfold en-route to their ultimate upside target.

Shorter-term, there are two distinct starting points for this second wave retracement to begin. The April '11 high at 1344.07 is the first scenario of two possibilities, with the second wave assuming an expanding flat pattern with limited downside targets towards 1193.72 – ***see fig #4***.

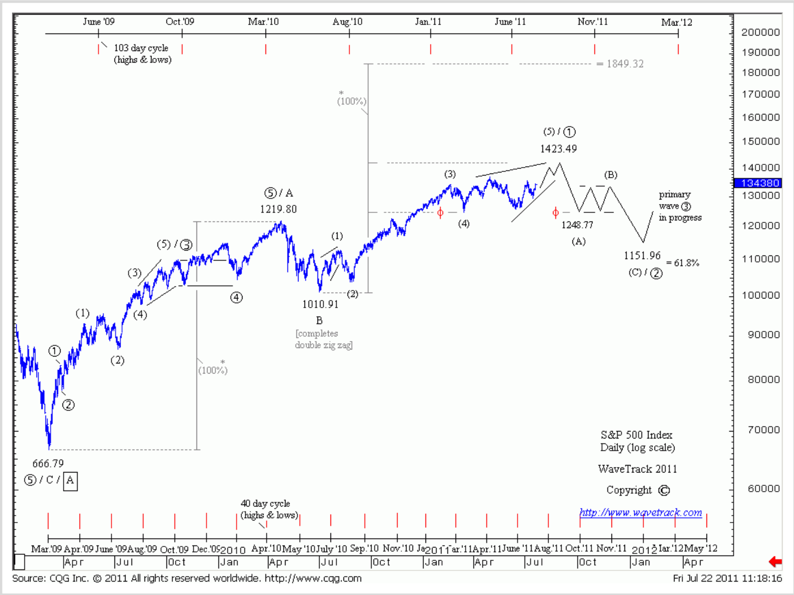

fig. #5   S&P 500 Index - Daily

EUROPE – EUROSTOXX 50 | FTSE 100

The Eurostoxx 50 is the big underperformer as can be seen from the way in which the advance from the May '10 lows of 2448.10 have unfolded – whereas other main indices traded far above the April '10 highs, this one barely penetrated those levels last February before trading sharply lower again – ***see fig #7***. But it shares commonalities with the S&P – for example, the initial swing higher from the March '09 low did unfold into a five wave impulse pattern, in this explicit case, ending at 3044.37 in Jan.'10 that confirms the larger directional upward trend is engaged. The counter-trend balancing phase to this initial advance it taking the form of an expanding flat pattern, Ⓐ-Ⓑ-Ⓒ in primary degree with wave Ⓑ ending at the Feb.'11 high of 3077.24 necessitating wave Ⓒ declines thereafter with ultimate targets to 2325.35. This price level is favoured because it converges to fib-price-ratio levels – the fib. 23.6% extension of primary wave Ⓐ meeting the fib. 50% retracement area of cycle wave A's advance. Given that this is the counter-trend sequence of the preceding five wave advance, then it is logical that another five wave advance of at least equal amplitude of the first (cycle wave A) will begin as wave C once wave B to 2325.35 has ended. And so although this pattern is somewhat different to the S&P, it affirms the concept that another larger upswing will occur into the time period of 2013. The price action of the Eurostoxx is therefore 'locked' into synchronisation with the S&P but unlike the S&P, will not trade into higher highs but will simply build as a counter-trend zig zag that ends towards the fib. 76.4% resistance of the 2007 decline at 3748.80.

The second scenario allows for a brief attempt higher towards targets at 1423.49 but then the 2nd wave retracement decline starting from this level with more scope for targeting deeper levels towards fib. 61.8% 1151.96 or max. 76.4% 1096.01 – ***see fig #5***. This latter scenario does still retain credibility as the next chart illustrates. The Dow Jones Transportation Average shows one additional upswing is requited before establishing a conclusion to the ending-diagonal pattern unfolding as the concluding 5th wave from the March '11 low with targets to 5679.30 – ***see fig #6***. The counter-trend decline expected to follow if measured towards the fib. 50% retracement area at 4689.10 but can be adjusted and refined once patterns begin building during this period.

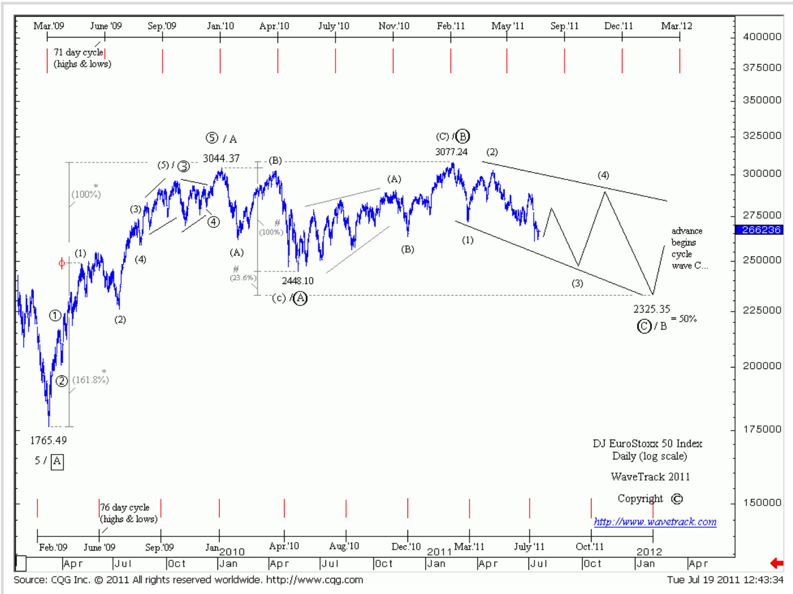

fig. #7   DJ EuroStoxx Index - Daily

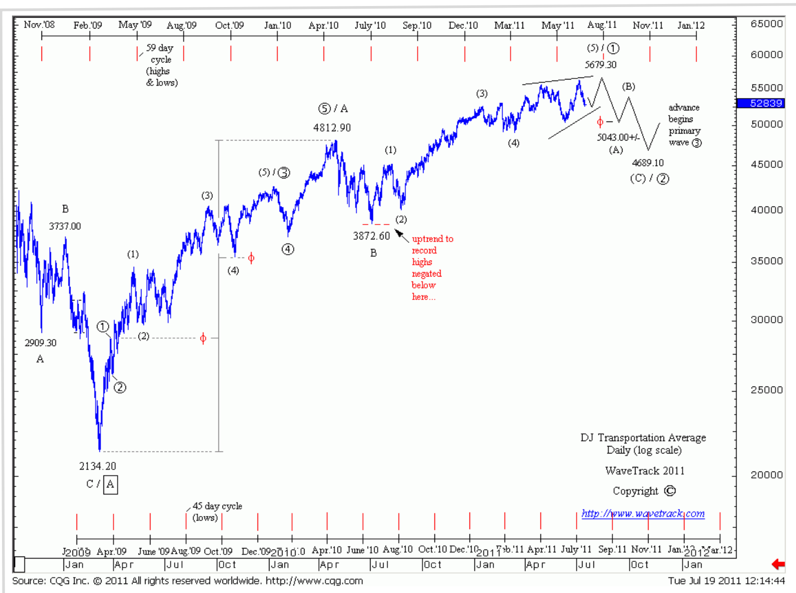

fig. #6   DJ Transportation Average - Daily

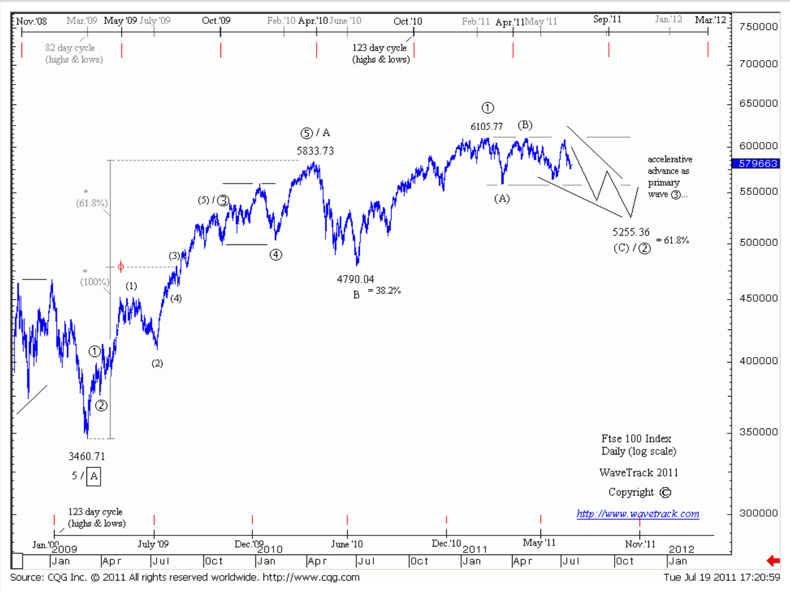

fig. #8 FTSE 100 Index - Daily

The Ftse 100 index retains more similarities to the S&P. It also ended cycle wave A into the April '10 high of 5833.73 then completing its own B wave retracement to 4790.04 in July '10. Wave C is unlikely to have ended at the Feb.'11 high of 6105.77 because the Eurostoxx is already informing us that after a counter-trend decline has ended, it will accelerate much higher. Besides this, the 4790.04-6105.77 advance is too short to measure the entire completion of cycle wave C. The 6105.77 high is therefore only completing the 1st wave (primary wave ①) within the larger, ongoing five wave pattern as cycle wave C – ***see fig #8***. The probability that the Ftse 100 will continue lower during the next several months as a counter-trend 2nd wave (primary wave ②) without first breaking aback above the 6105.77 high (and more recently the secondary level of 6103.73) is considered high.

fig. #9 Hang Seng Index - Monthly

Although we have made provision for an attempt to the 6233.86-79.26 area should the S&P trade towards 1423.49 as the 'alternate' count described earlier. One thing is certain however – the upside for this year is limited and the risk is to the downside.

ASIA – HANG SENG | SHANGHAI | TOPIX | KOSPI | NIFTY 50 | BOVESPA

The similarities between the Hang Seng and the S&P are not so obvious. For one thing, the pattern in the decline during the 2007-08 collapse unfolded into only three waves unlike five for its U.S. counterpart. Also, the high in 2007 far exceeded those attained in 2000 and the low in '08 did not break below the '03 lows – ***see fig #9***. But there are some distinct commonalities – for both, the 2003-07 advance unfolded into three price-swing sequences (single zig zag) with the preceding and successive decline/advances synchronised. The Hang Seng is in fact unfolding into a terminal 5th wave of an ending-expanding diagonal pattern that began from the Aug.'98 low of 6544.79. It consists of five smaller waves labelled in intermediate degree, (1)-(2)-(3)-(4)-(5) with each impulse wave (1-3-5) necessitating a smaller subdivision of three price-swings (zig zag, or multiple). This explains why the 2007-08 decline unfolded into a zig zag, because it was simply ending a 4th wave within this pattern. The 5th wave must emulate the super-cycle '$\boxed{B}$' wave of the S&P by unfolding into a single zig zag. Minor wave a. of this zig zag already completed the Hang Seng in Nov.'09 at 23099.57 and it is now just a question how minor wave b. is unfolding and what downside targets it has. For the moment, two running scenarios describe either an expanding flat with targets to 18110.22 or a triangle with more limited targets to 20311.29. But once completed, like the S&P, another upswing must develop and for this index, projected to new record high targeting towards the 41,000+/- area.

The Shanghai index formed an historical high at 6124.04 in Oct.'07 and the subsequent sell-off into the Oct.'08 low to 1664.93 unfolded into a five wave impulse pattern (see weekly time-series in the EW-Forecast database). This means that the following recovery will not trade into higher highs, unlike the Hang Seng – it will simply undergo a counter-trend rally that ends below this historical high. This also explains why this index has grossly underperformed since ending primary wave Ⓐ's high in Aug.'09 at 3478.01 because a deep corrective sell-off will allow the subsequent advance as primary wave Ⓒ (of the zig zag) to measure approximately equally to wave Ⓐ whilst ending below the record high.

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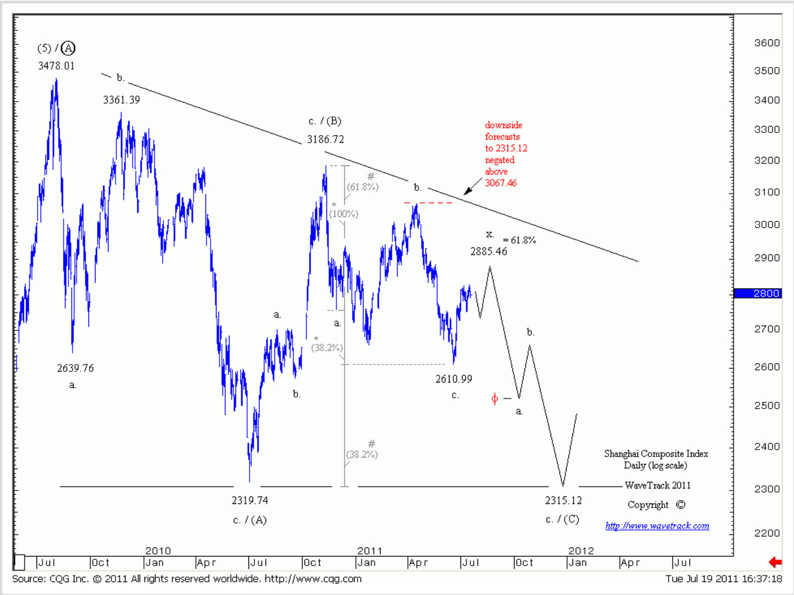

fig. #10 Shanghai Composite Index - Daily

Whilst emulating wave A's form by subdividing into a smaller five wave impulse pattern. Wave 1 appears to be completed and so we await a counter-trend decline to unfold during the next several months into year-end as wave 2 -downside targets towards 792.54+/-. Ultimate upside targets for cycle wave C are towards the 1251.00+/- area, derived by extending wave A (698.46-987.27 [1001.77]) by a fib. 61.8% ratio.

South Korea's Kospi has yet to relinquish its upward momentum although there are now signs of it completing a similar five wave advance that began from the Oct.'08 lows of 892.16 – ***see fig #12***. Counting the corresponding wave sequences with fib-price-ratio measurements, there is enough evidence to suggest the five wave impulse ended into the April '11 high at 2231.47 just like other developed indices.

For the moment, minimum downside targets to complete the corrective decline measure towards a re-attempt of the June '10 low at 2319.74 but with a maximum level towards 1990.02 – ***see fig #10***.

Japan's Topix is again very different to almost anything else – except of course to the Nikkei. The similarity to the S&P is found when comparing the advance from the post-financial crash low of March '09 – ***see fig #11***. A five wave advance is visible but this one ending earlier, like the Shanghai Composite, into the Aug.'09 high at 987.27 as cycle wave A of a developing zig zag. The elaborate counter-trend pattern that followed ended into the earthquake low of 725.90 last March as wave B. wave c must therefore pull this index much higher during the next 12-18 month period.

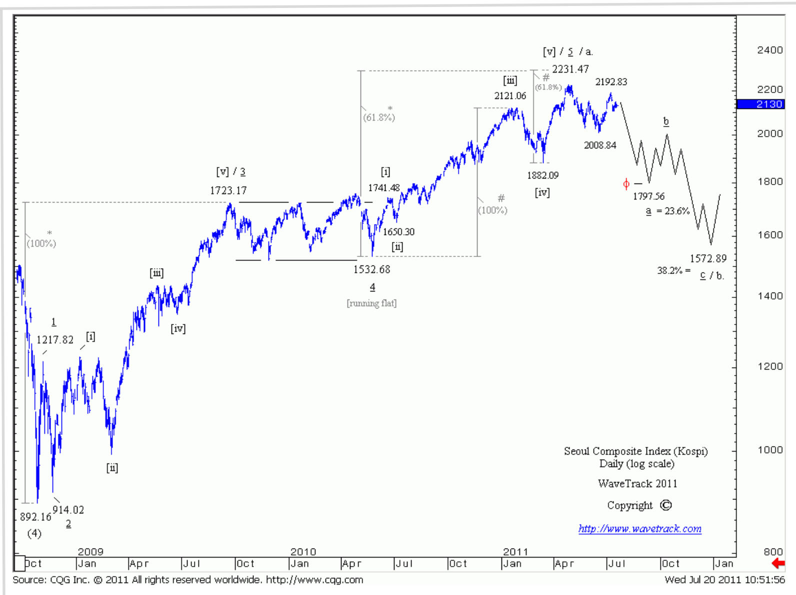

fig. #12 Seoul Composite Index - Daily

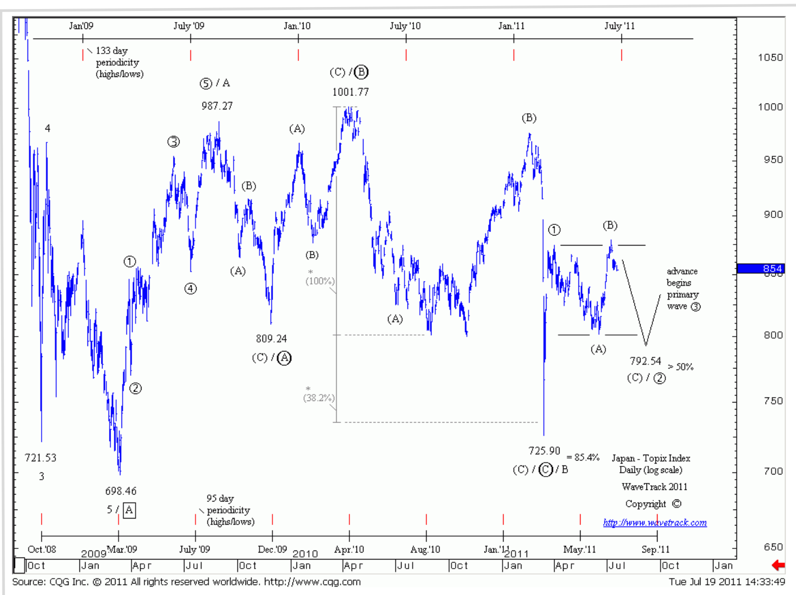

fig. #11 Japan Topix Index - Daily

In this update, a counter-trend is shown unfolding into a single zig zag pattern with an ultimate return to 'fourth wave preceding degree' that converges with the fib. 38.2% retracement level at 1572.89. A delay to this decline could occur should the index break above the existing high although this possibility is assigned a small single-digit probability. Bu in this event, the zig zag will be simply replaced with an expanding flat pattern where wave 'B' makes only a brief higher high before staging a reversal decline with ultimate declines to 1572.89+/-. Once this has completed, the Kospi is forecast to begin another major upswing with ultimate targets into new record highs, towards the 3100.00+/- area by early yr. 2013.

India's Sensex is our benchmark index for the country but the CNX Nifty 50 does trade with more interesting elements visible in the wave pattern-building process.

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Brazil's Bovespa is somewhat different to almost all other indices and it this unique pattern quality that again provides useful insights for determining ongoing price direction and amplitude. It is vaguely similar to the Hang Seng (& Kospi) when making a comparison of price-swings from the late '98 period because both are unfolding higher into five wave impulse patterns except the Hang Seng is developing into a 'diagonal-impulse' whilst the Bovespa is an 'expanding-impulse'. This again explains why the 2007-08 decline unfolded into a three wave zig zag sequence (not five, as in the S&P) because it is labelled as the 4th wave of this pattern. The fifth wave, labelled intermediate wave (5) has since been in progress from the 29435.11 low and this must subdivide into a smaller five wave pattern in attempting completion measuring towards 92997.00 – ***see fig #14***.

And so, as you can see, the main message that these comparisons convey is that there exists downside risk for the remainder of this year, but once retracement declines have completed, the way is open for another sharp accelerative advance that pulls price levels much higher into the yr. 2013 time zone.

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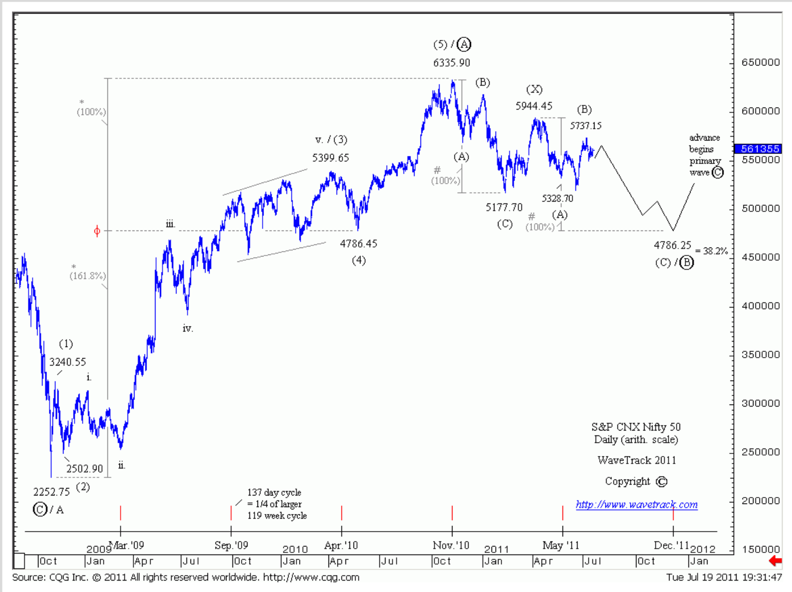

fig. #13 S&P CNX Nifty 50 - Daily

For example, the advance from the Oct.'08 low of 2252.75 has unfolded into an expanding five wave impulse pattern ending at 6335.90 in Nov.'10. This completes primary wave Ⓐ within a broader developing zig zag that is labelled cycle wave B of a huge multi-year expanding flat pattern and so similar to the S&P. The 6335.90 did not trade into a new record high, it was a little short of the 6357.10 level set in Jan.'08 but is assured of passing this milestone by a long way as primary wave Ⓒ at some later date – ***see fig #13***. For the time being, a counter-trend decline as primary wave Ⓑ is already quite mature with ultimate downside targets towards the fib. 38.2% retracement level at 4786.25.

fig. #14 Bovespa Brasil - Weekly

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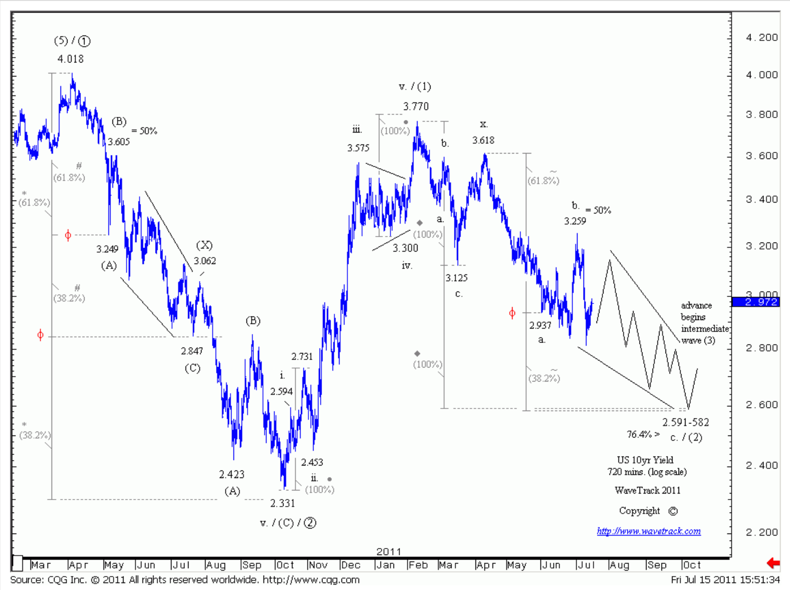

fig. #15 fig. #15 10yr Yield - 720 mins.

The initial move lower to 2.813 only developed into a three price-swing sequence, suggesting wave c. will ultimately unfold into an ending-diagonal. If correct, then a short-term upswing must develop but remain below 3.259 but then be followed by additional declines to complete the pattern with measured targets towards the fib. 76.45 support at 2.582. This would certainly ensure the relationship to stock indices is maintained.

Meanwhile, the benchmark European maturity, the German 10yr yield is unfolding into similar fashion. The sweeping advance into the April '11 high at 3.518 ended primary wave ① as the initiatory sequence within a much longer-term uptrend. This is currently being balanced by a necessary counter-trend decline as wave ②. It is shown updated developing into a single zig zag pattern labelled (A)-(B)-(C) in intermediate degree – ***see fig #16***. In particular, wave (C) as an ending-contracting diagonal with ultimate downside targets to 2.332.

By comparison, the German 10yr yield vs. the Italian 10yr yield makes interesting reading. So much attention has now shifted towards Italy as Europe's largest issuer of government debt that we wanted to see what this differential chart would look like. It makes sombre reading. Although late this week the delegates of the European Union have sanctioned additional lending terms to Greece, thus alleviating the immediacy of funding problems, this chart suggests Italy will come under increasing focus in the months ahead.

INTEREST RATES – US10YR | DE10YR | DE10YR-ITY10YR SPREAD

If we revisit forecasts from over ten years ago, we can follow the way in which US10yr yield declines unfolded into the final lows that were recorded in Oct.'08 (see wavetrack.com/trackrecord). It is no coincidence that pre-determined price levels were traded at the lows of 2.033% per cent, ending the entire 60yr cycle low at this time. There is a slight right-translation to this cycle as the top was achieved at 15.190% in 1981 but the lows remain constant. This clarifies the upswing that followed the financial-crisis has begun a new multi-decade advance. The probability of yields breaking below 2.033 again is considered negligible. That said, we are experiencing two separate occasions where yields have attempted to return to this extreme but result in holding above before returning higher – this is typical bottom-building process for uptrends. The first attempt was in Oct.'10 last year when a counter-trend decline pulled yields back to 2.331 before they shot higher. The second has been unfolding since the February '11 high of 3.770 – ***see fig #15***.

It is this decline that is of interest because it has already tested towards the fib. 61.8% retracement of the preceding swing higher. As intermediate wave (2), we can often expect a deep retracement for secondary waves, but the question remains whether this one has ended already? As this update shows, there is an opportunity for this to remain positively correlated to stock indices. The decline is shown unfolding into a double zig zag with minor wave c. of the secondary sequence in progress from the more recent high of 3.259%.

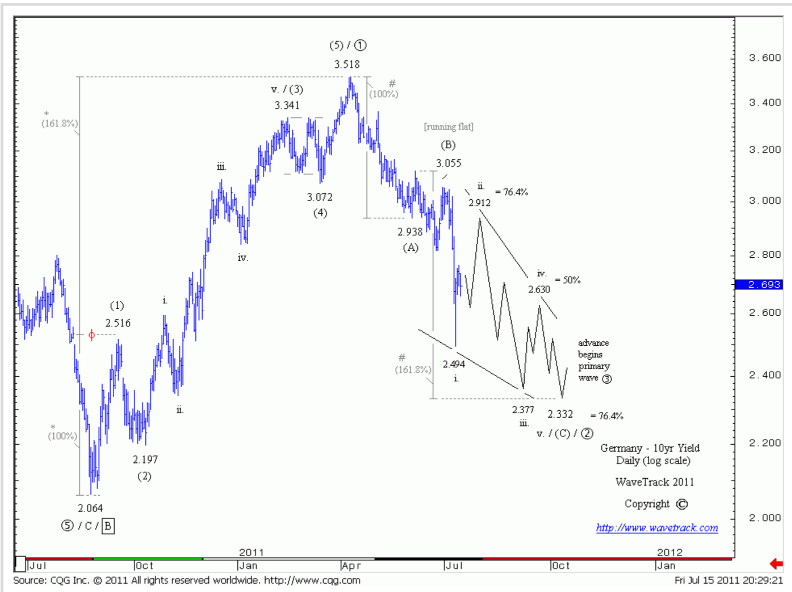

fig. #16 Germany 10yr Yield - Daily

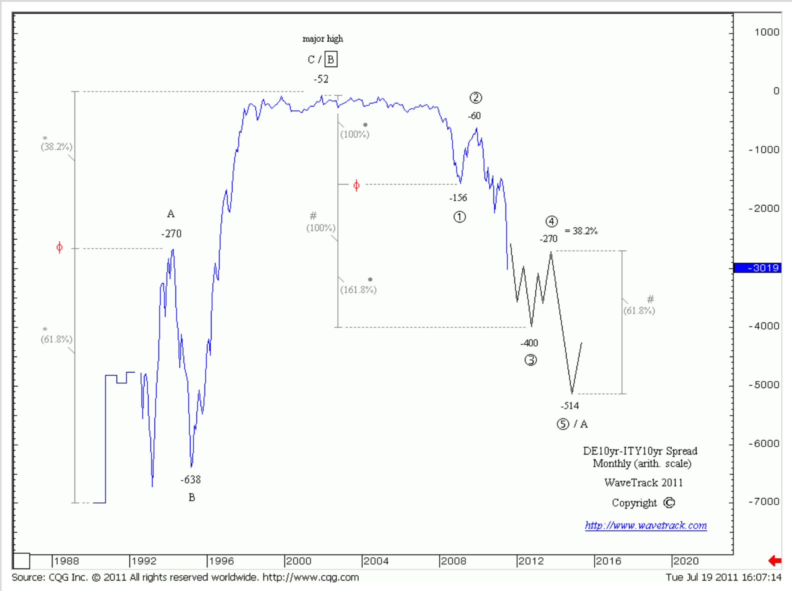

fig. #17 DE 10yr-ITY10 Spread - Monthly

CURRENCIES | US$ DOLLAR INDEX | EURO/US$

Investor's ideas about the course and direction of the two main currencies, the US$ dollar and the Euro are divided. The most common question is which is the strongest, and which will survive into the future? From a pattern perspective, both suggest survival, but as for which will be strongest, that all depends on what time perspective you envisage. The US$ dollar is engaged in a major counter-trend decline that began from the Feb. '85 high of 16472 that remains incomplete (if you haven't already seen the long-term chart dating back to the American civil war, then log-in to view this in the quarterly time-series). Viewed looking ahead 18 months from now, patterns suggest it will be trading a lot higher, but for the next several months, lower – *see fig #19*.

The Italian 10yr yields were trading at +301bps over Germany at the time this chart was created (shown German-centrically), and it has since narrowed to +257bps but the wave pattern indicates it will ultimately widen towards 500bps – *see fig #17.* There is no suggestion of timing for this event, but it does offer an insight to the question – is it back to normal now or is there more to come?

The long-dated maturities of Japanese interest rates have been unfolding exactly to plan for the last several months – and there is no immediate change. The uptrend resumes from the Oct.'10 low (converges with U.S. interest rates) of 0.815% ending intermediate wave (1) at 1.311 in December '10. The entire balancing sequence has since unfolded into an expanding flat pattern that has now traded towards downside targets at 1.530+/-. It is difficult to imagine rates exceeding this area despite its correlation to the U.S. – *see fig #18.*

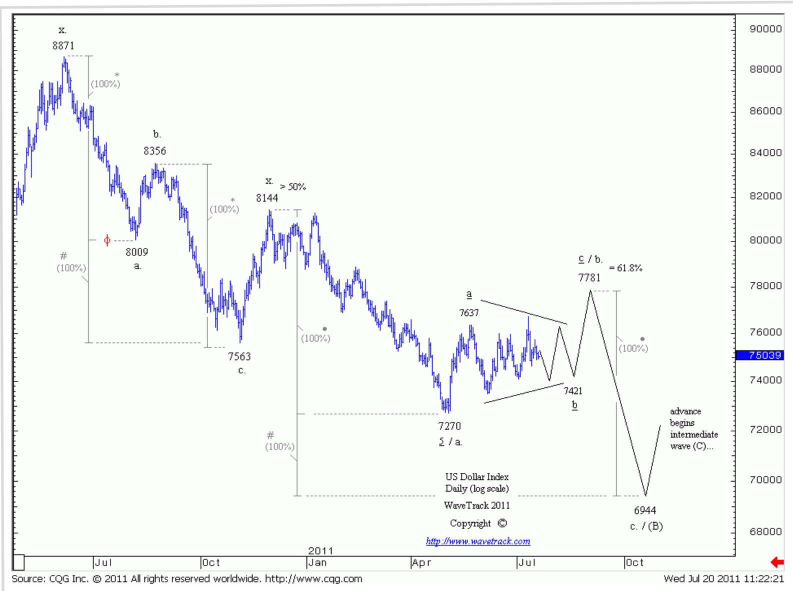

fig. #19 US Dollar Index - Daily

Before beginning a more sustainable advance, the dollar must trade downwards to complete a double zig zag pattern that began from the June '10 high (there's that date again!) of 8871.

Targets are towards 6944, but before this is attempted, a temporary upswing is forecast towards 7781. This will be negated should a more immediate decline unfold that breaks the current low at 7270.

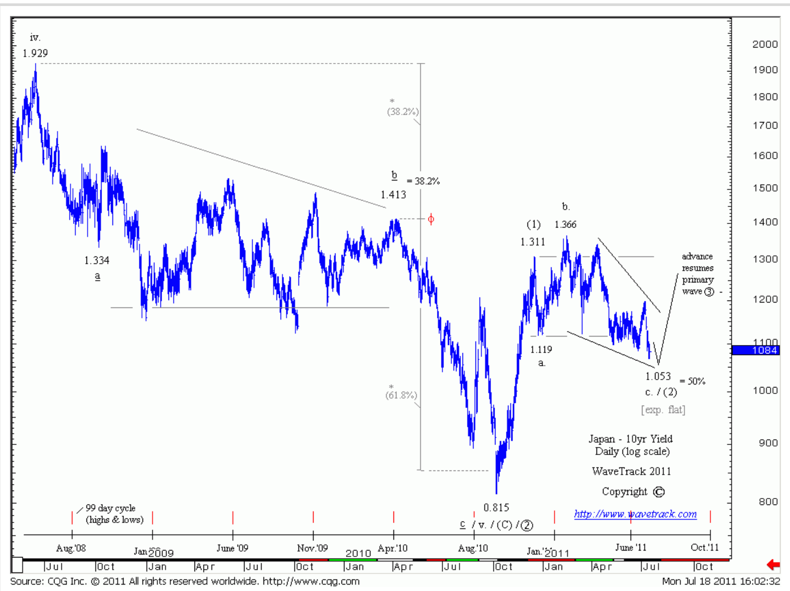

fig. #18 Japan 10yr Yield - Daily

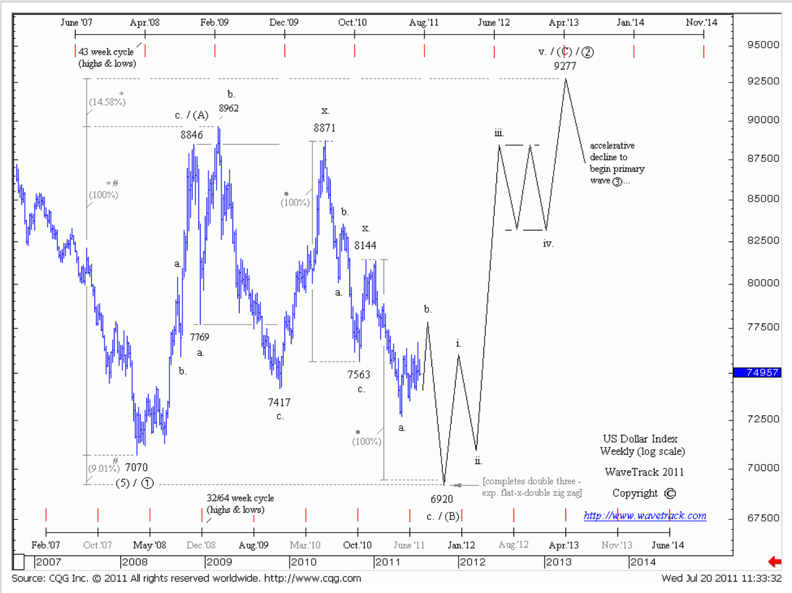

fig. #20 US Dollar Index - Weekly

Once tested, the 6944-20 level is expected to begin a more sustainable advance as the last sequence in a multi-year trading range pattern that began from the 7070 low in March '08 – ***see fig #20***.

The Euro/US$ is simply the inversion of the dollar index – a temporary decline is favoured towards 1.3614 before a break to the upside unfolds with ultimate targets towards 1.6009 – ***see fig #21***. Any immediate break above 1.4944 will otherwise bring forward the advance to 1.6009 much earlier than currently planned. Whereas the dollar index is unfolding into an expanding flat pattern, the much larger picture for the Euro/US$ depicts a multi-year ascending triangle pattern in progress.

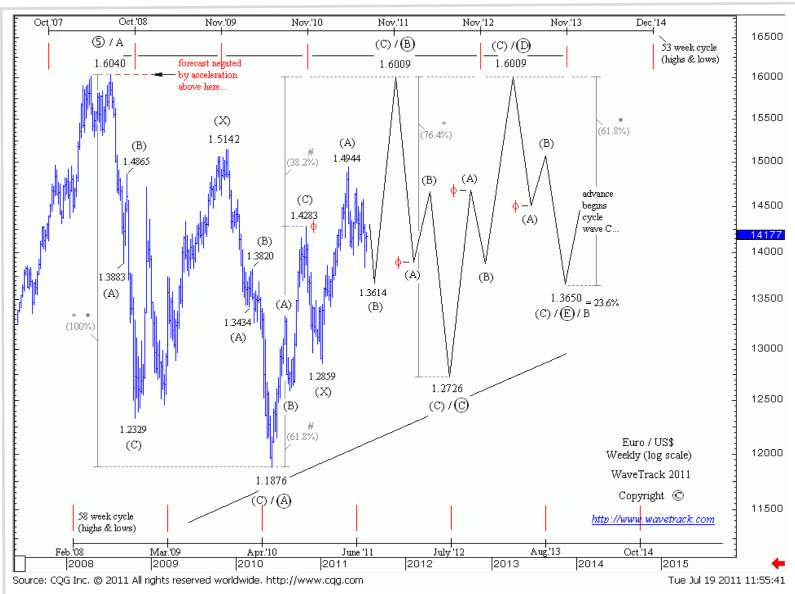

fig. #22 EURO vs. US$ - Weekly

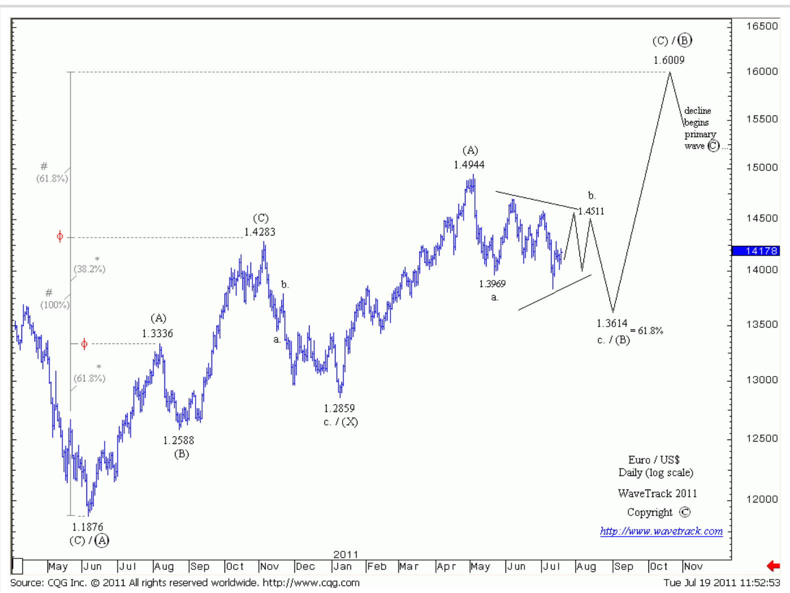

fig. #21 EURO vs. US$ - Daily

The advance to 1.6009 is then followed by a deep retracement decline as the third sequence of five, targeting 1.2726 several months later. The two subsequent swings end the pattern at 1.3650 – ***see fig #22***.

{continued on next page}

There has been so little retracement for gold since its advance began cycle wave 5 from 680.75 in Oct.'08 that it offers varying possibilities in the counting process. The only way to determine the correct sequence is from applying fib-price-ratio analysis to each price-swing to discover its adherence to these measurements. For the most part, the result is what you view here – ***see fig #23***. Wave 5 is unfolding into an expanding five wave impulse pattern labelled in primary degree, ①-②-③-④-⑤ with the 3rd wave high being approached towards the 1638.57 area. This target level is derived from subdividing wave (5) / ③ into a smaller five wave sequence, extending minor waves i-iv. by a fib. 100% ratio. This is the closest convergence to 1599.90 derived by extending intermediate waves (1)-(4) by a fib. 161.8% ratio.

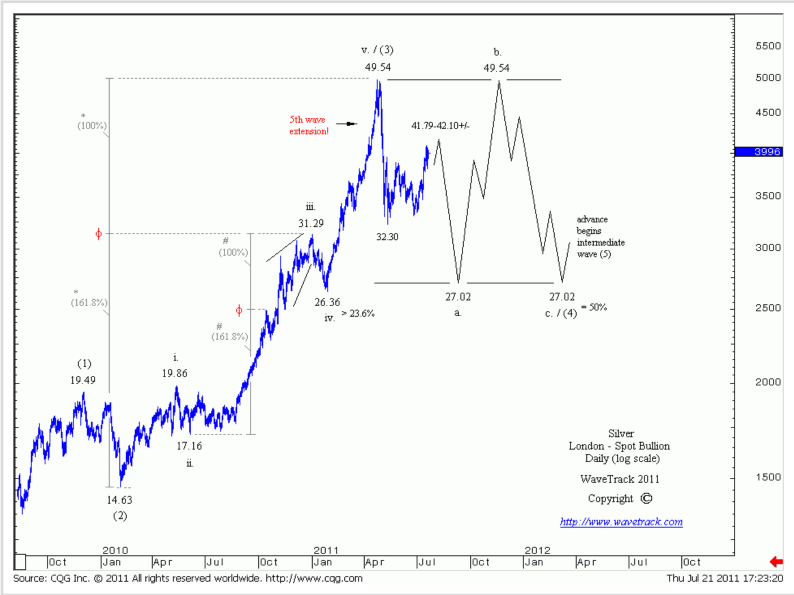

fig. #24 Silver - Daily

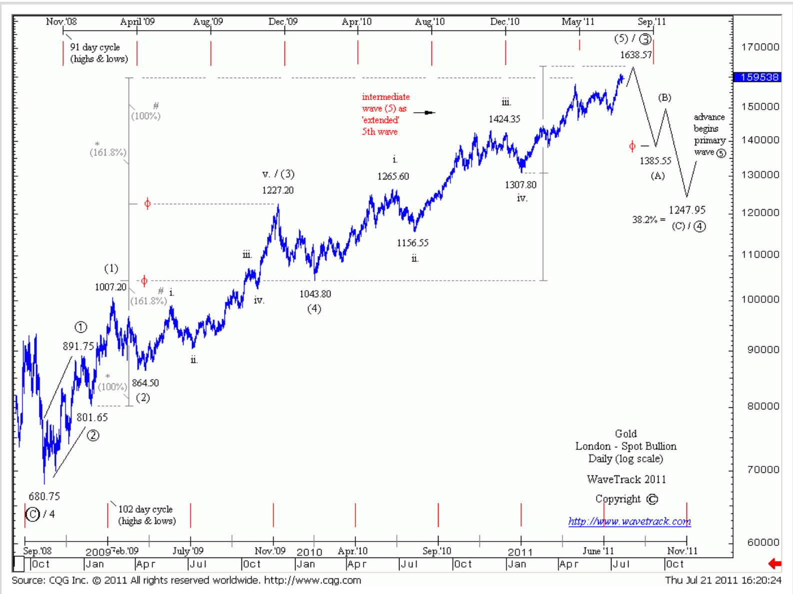

fig. #23 Gold - Daily

This area converges with support at 'fourth preceding degree', also the fib. 50% retracement level of wave (3)'s advance. It is probable that when silver unfolds to 27.02, gold will simultaneously trade towards the 1247.95 area thus creating the gold/silver ratio to levels of 46.00+/-. This is in line with recent forecasts (see gold/silver ratio analysis in the EW-Forecasts database).

Crude oil and the CRB are intimately linked maintaining a high positive correlation (we continue to update both CRB indices, but use the CRB-cash as our long-term proxy). That's not the only correlation either – both have an affinity to stock indices as can be seen in ***fig #1*** *{show fig. #1}*. Therefore, we cannot rule out the increasing probability that crude oil will trade into higher highs by yr. 2013 whilst unfolding from the Jan.'09 lows into a single zig zag sequence as cycle wave B – ***see fig #25***.

Price rejection would allow a more sustainable period of retracement declines to confirm primary wave ④ has begun to unfold. A fib. 38.2% adjustment would project gold down to 1247.95 in the months ahead.

Such a target is viable when compared to silver. It completed a five wave impulse advance between 14.63 to 49.54 last April and has since begun a counter-trend decline as intermediate wave (4). The initial decline to 32.30 unfolded into a five wave pattern ensuring a counter-trend rally unfolding afterwards but when completed, another five wave decline of equal measure to form a zig zag pattern as minor wave a. within a developing horizontal flat – ***see fig #24***. The counter-trend sequence has been followed during the last two months and is shown approaching completion towards the 41.79-42.10 area. Should price-rejection occur, it will signal a decline to begin the next sequence with downside targets to 27.02.

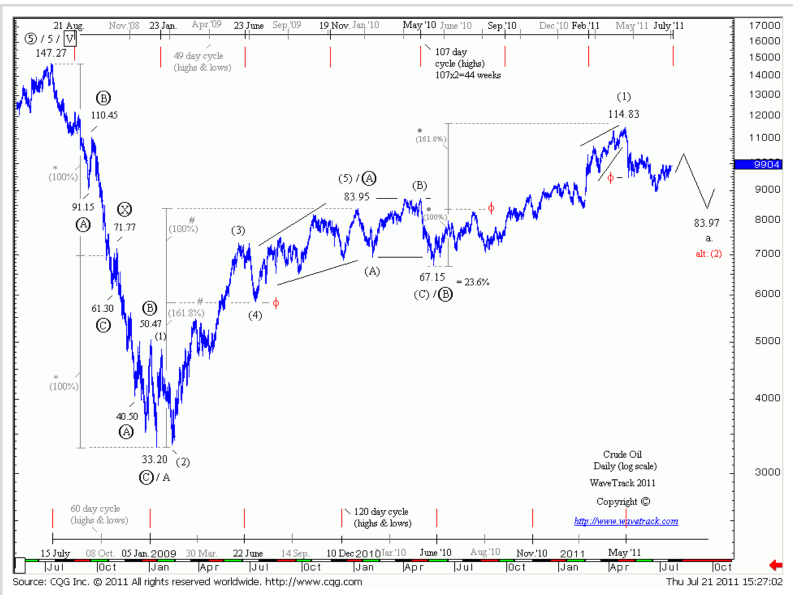

fig. #25 Crude Oil - Daily

WaveTrack International GmbH Kanalstr. 14 80538 Munich Germany Phone: +49-89-21020711 Fax: +49-89-92185245 E-Mail: services@wavetrack.com www.wavetrack.com

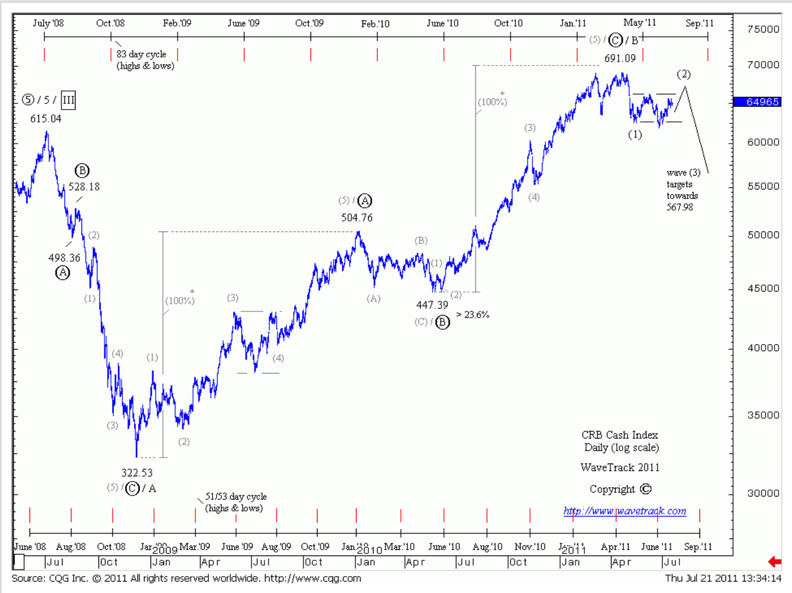

fig. #26 CRB Cash Index - Daily

This is exactly the same pattern as the S&P 500. The zig zag breaks down into three price swing labelled primary Ⓐ-Ⓑ-Ⓒ. Wave Ⓒ is engaged moving higher from 67.15 into a smaller five wave sequence with intermediate wave (1) ending at 114.83 in May '11 and wave (2) currently in the early stages of a counter-trend decline. The extent of this counter-trend sequence is minimised towards 83.97 measured by extending the initial decline to 94.63 (May 6th low) by a fib. 61.8% ratio but could extend to as low as 69.14 as secondary counts suggest (please log-in to view in count #2).

Both CRB indices reached a point of significant reversal last April '11 as the entire advance from the Dec.'08 low of 322.53 (CRB-cash) completed a three wave (price-swing) advance. Notably, each of the two directionally upward sequences measure equally. At this point, I have been careful in not describing this three wave sequence as a zig zag, as that implies a corrective pattern that has completed – there still remains the possibility that these are simply waves 1-2-3 within a progressive impulse pattern with 4-5 to come. Waves A and C of zig zags most commonly measure equally as in this case, but if this did end a zig zag covering this price amplitude/scale, then it is almost certain that this advance completes an 'expanding' B wave of cycle degree/dimensions implying this index has reached an historical high that will not be exceeded for generations to come – ***see fig #26***.

As for the positive correlation to crude oil and stock indices, there remains the probability that the CRB index underperforms during the upcoming decline during the next 6-8 months. This would allow the CRB to trade lower into a five wave impulse that confirms a longer-term downtrend has begun whilst crude oil and stock indices simply undergo counter-trend declines. When these turn higher into yr. 2013, the CRB begins a counter-trend rally but ending below the current record high of 691.09.

The 'alternate' count to this otherwise describes the 322.53 advance unfolding into an expanding five wave impulse pattern with waves 4-5 yet to unfold. But if the case, then downside targets for the current period ahead is limited to ending above the 1st wave high, currently labelled primary wave Ⓐ at 504.76. Whether a coincidence or not, the initial decline into the mid-May low of 625.18 traded to an exact fib. 23.6% retracement of what would be the 3rd wave (447.39-691.09). This implies another decline would extend this level by at least a fib. 61.8% ratio projecting towards the fib. 38.2% area at 585.32. This is equivalent to the crude oil downside target of 83.97.

And so the outlook for the immediate future is bearish with a caveat on the scale/depth of declines and how this translates into the ongoing long-term picture.

END | FIN | ENDE

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APPENDIX

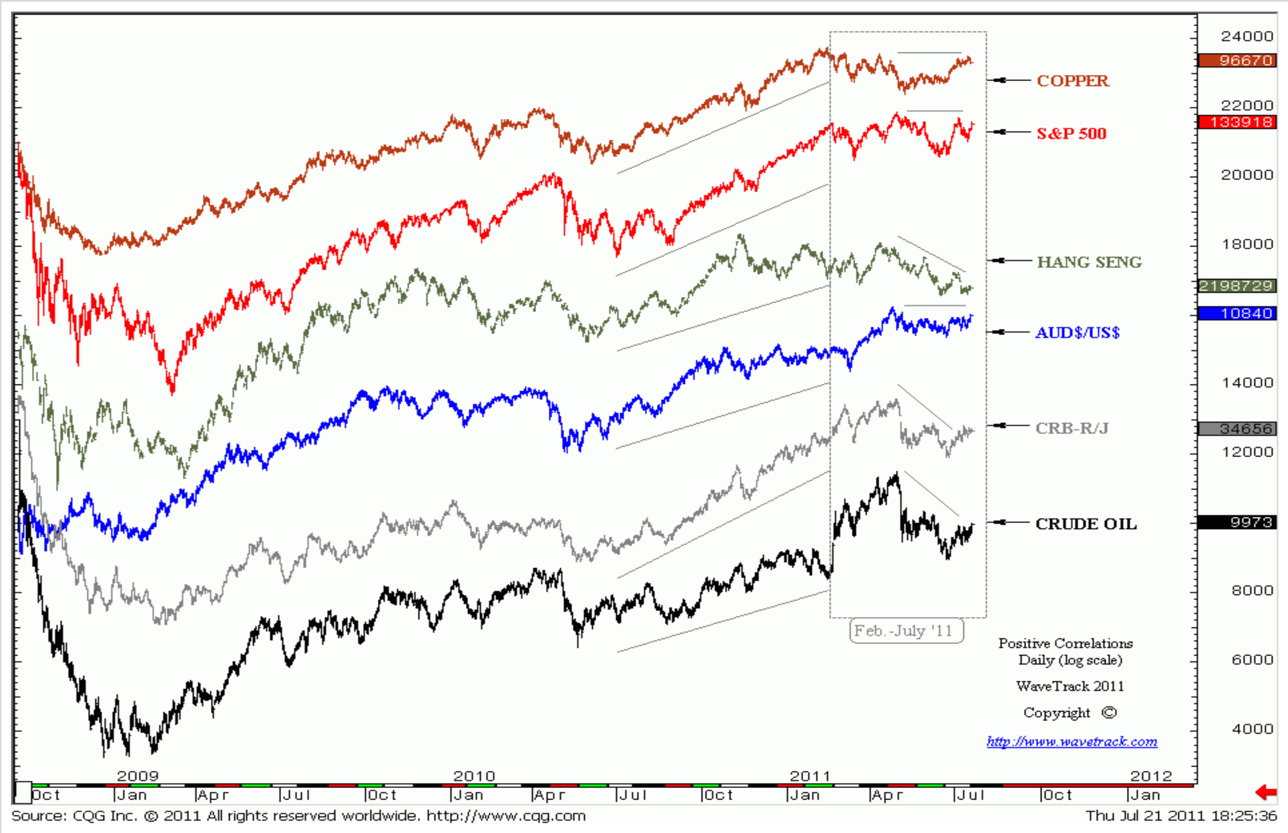

fig. #1 Positive Correlations - Daily

fig. #2 S&P 500 - Composite

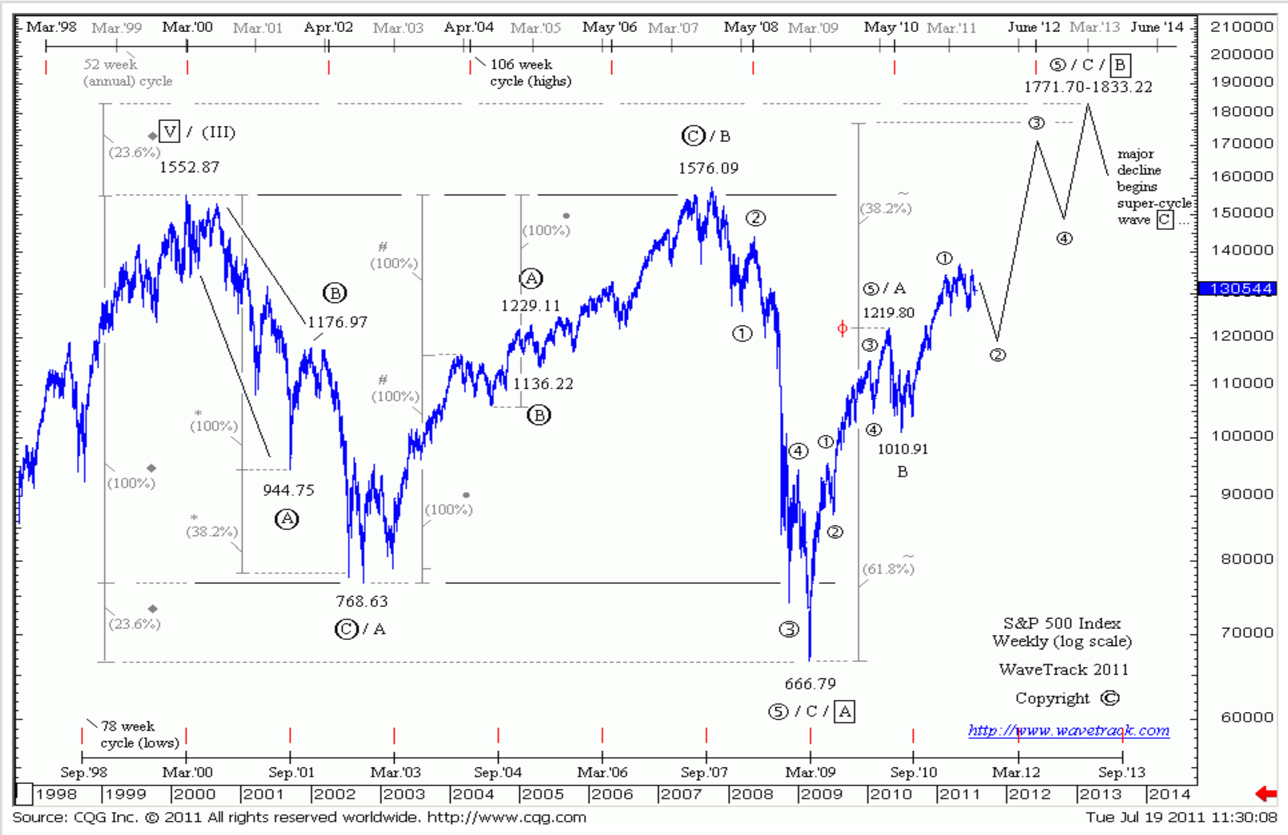

fig. #3 S&P 500 Index - Weekly

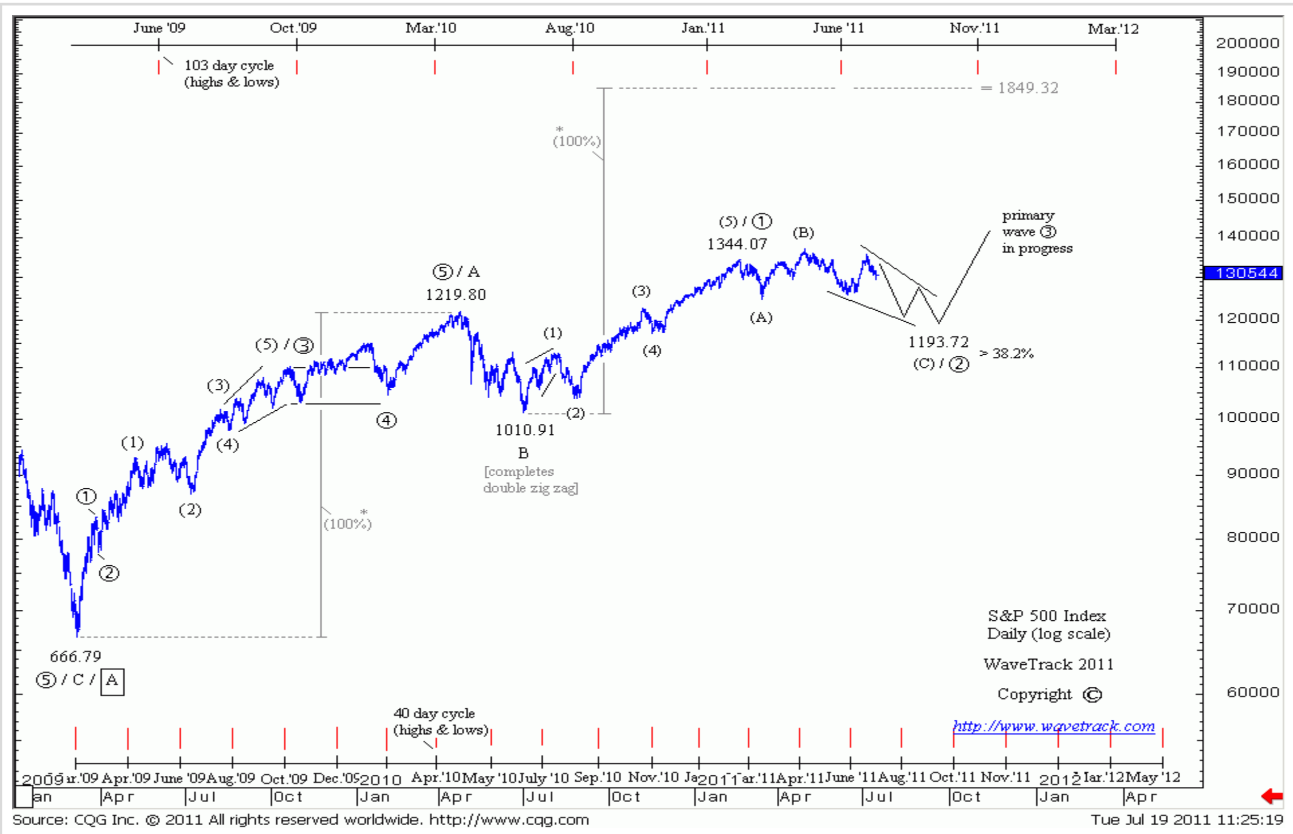

fig. #4 S&P 500 Index - Daily

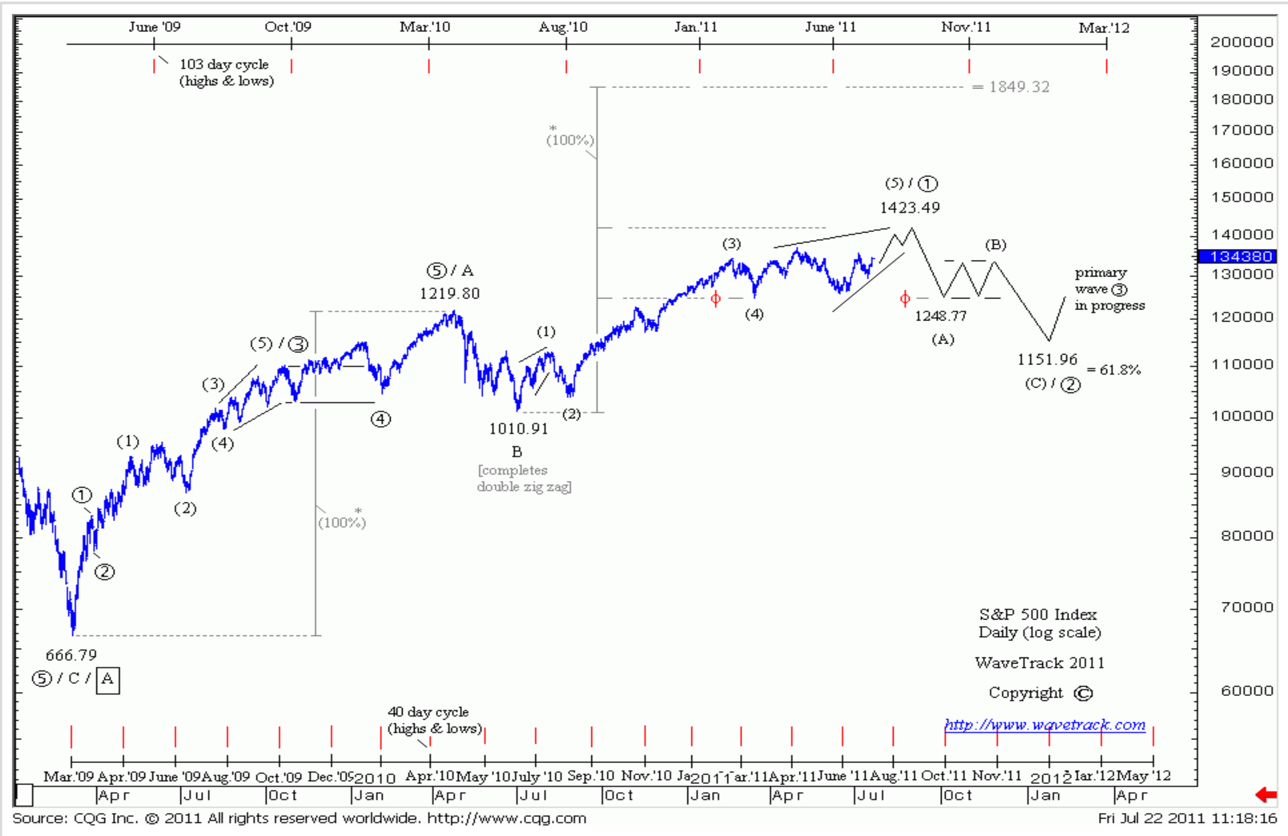

fig. #5 S&P 500 Index - Daily

fig. #6 DJ Transportation Average - Daily

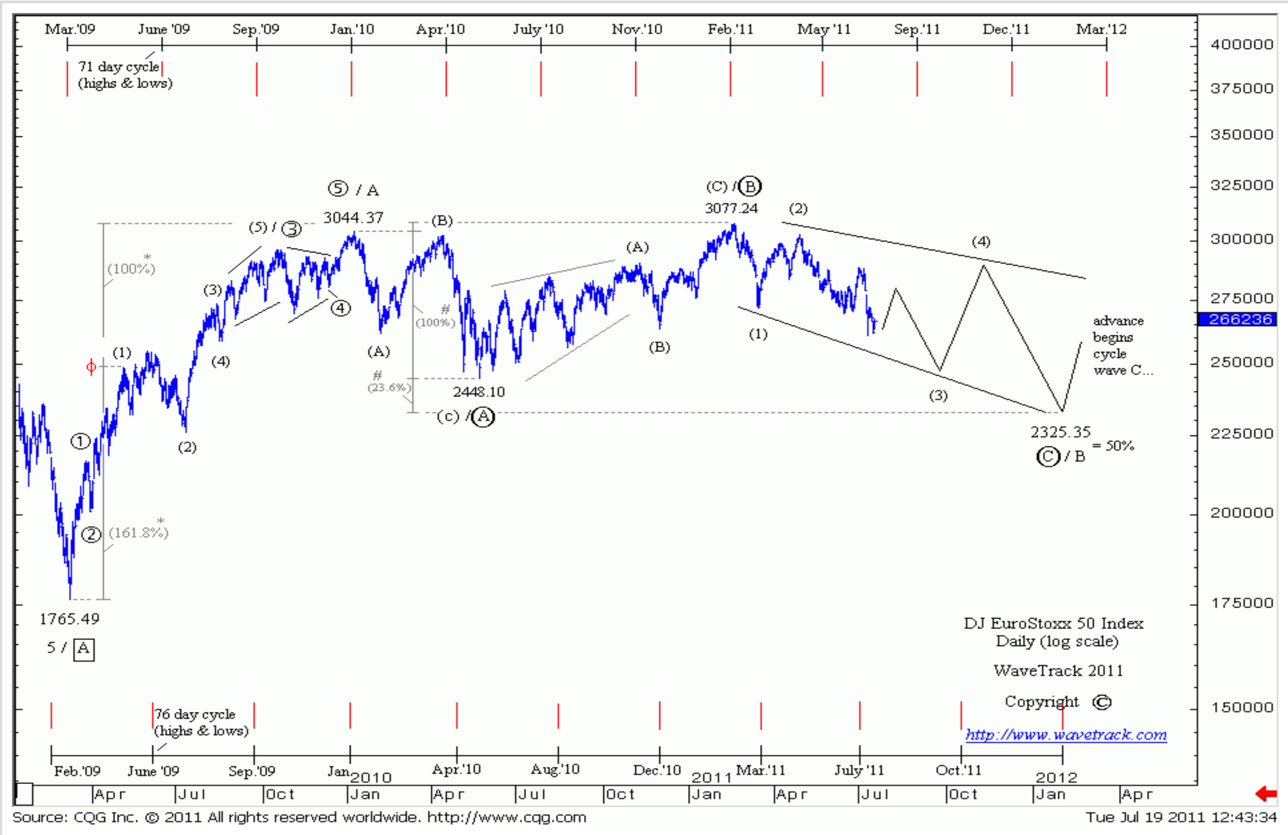

fig. #7 DJ EuroStoxx 50 Index - Daily

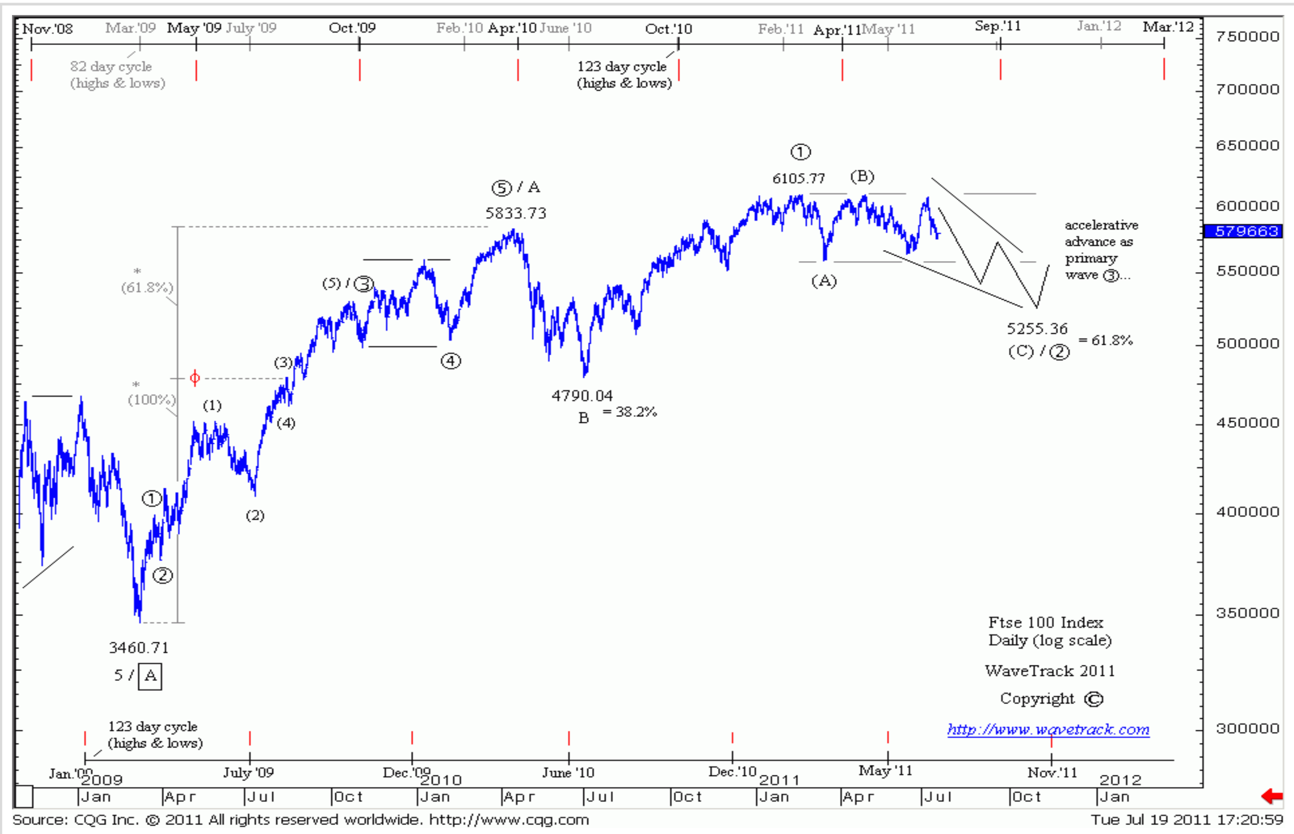

fig. #8 FTSE 100 Index - Daily

fig. #9 Hang Seng Index - Monthly

fig. #10 Shanghai Composite Index - Daily

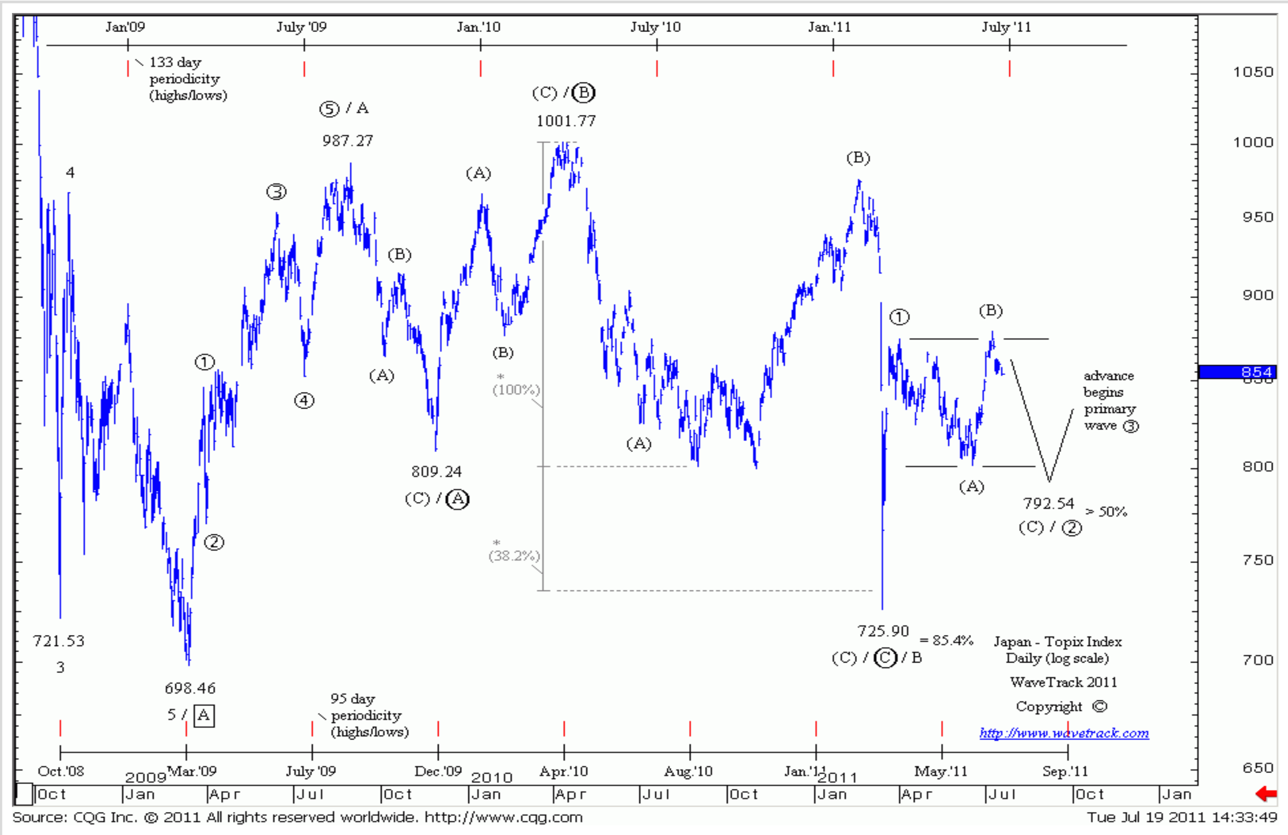

fig. #11 Japan - Topix Index - Daily

fig. #12 Seoul Composite Index - Daily

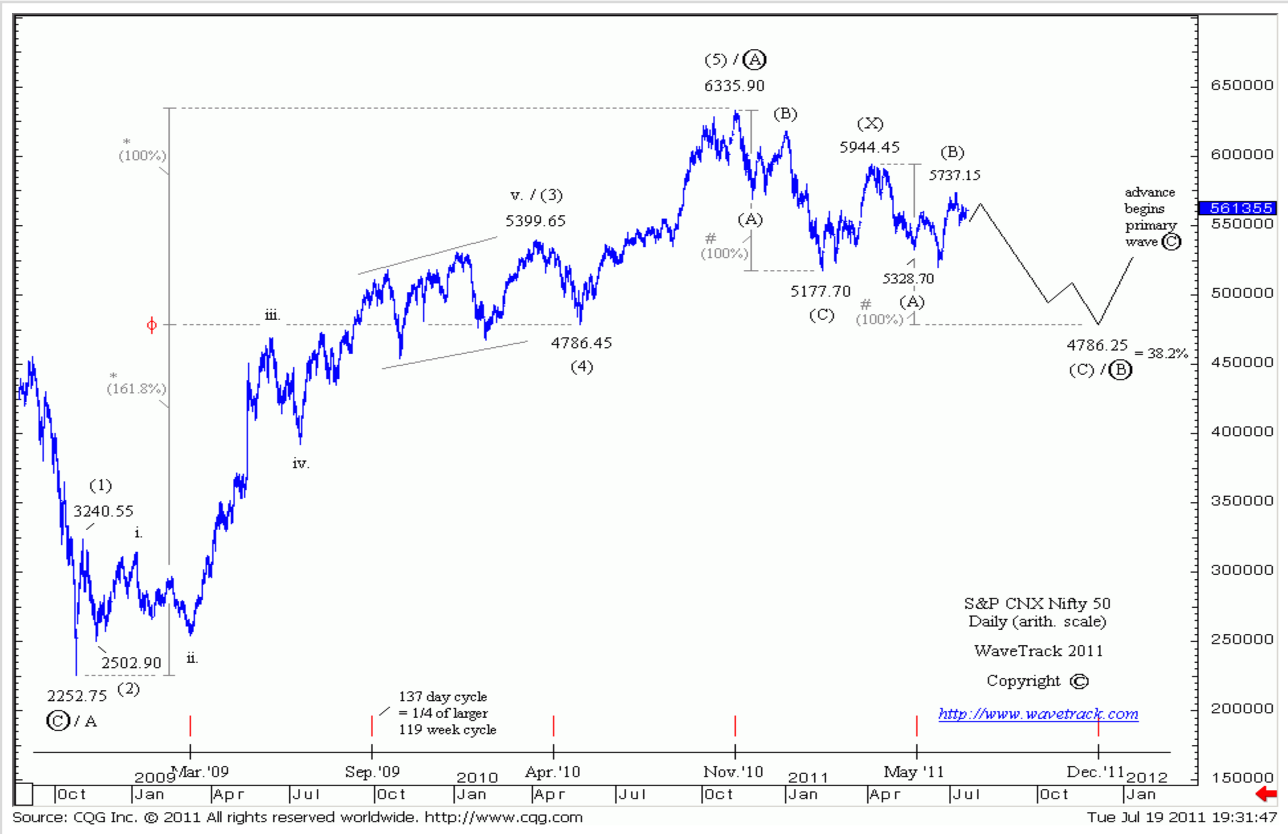

fig. #13   S&P CNX Nifta 50 - Daily

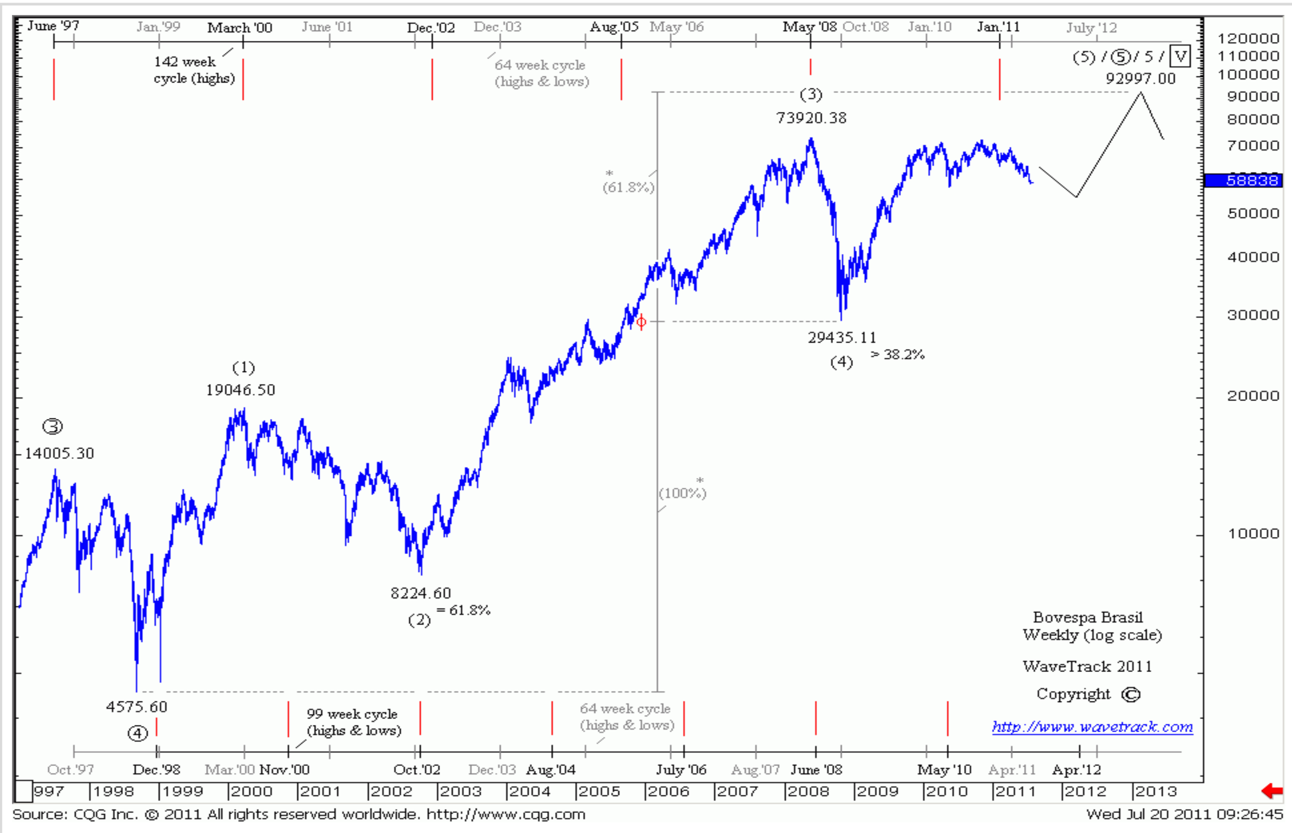

fig. #14   Bovaspa Brasil - Weekly.

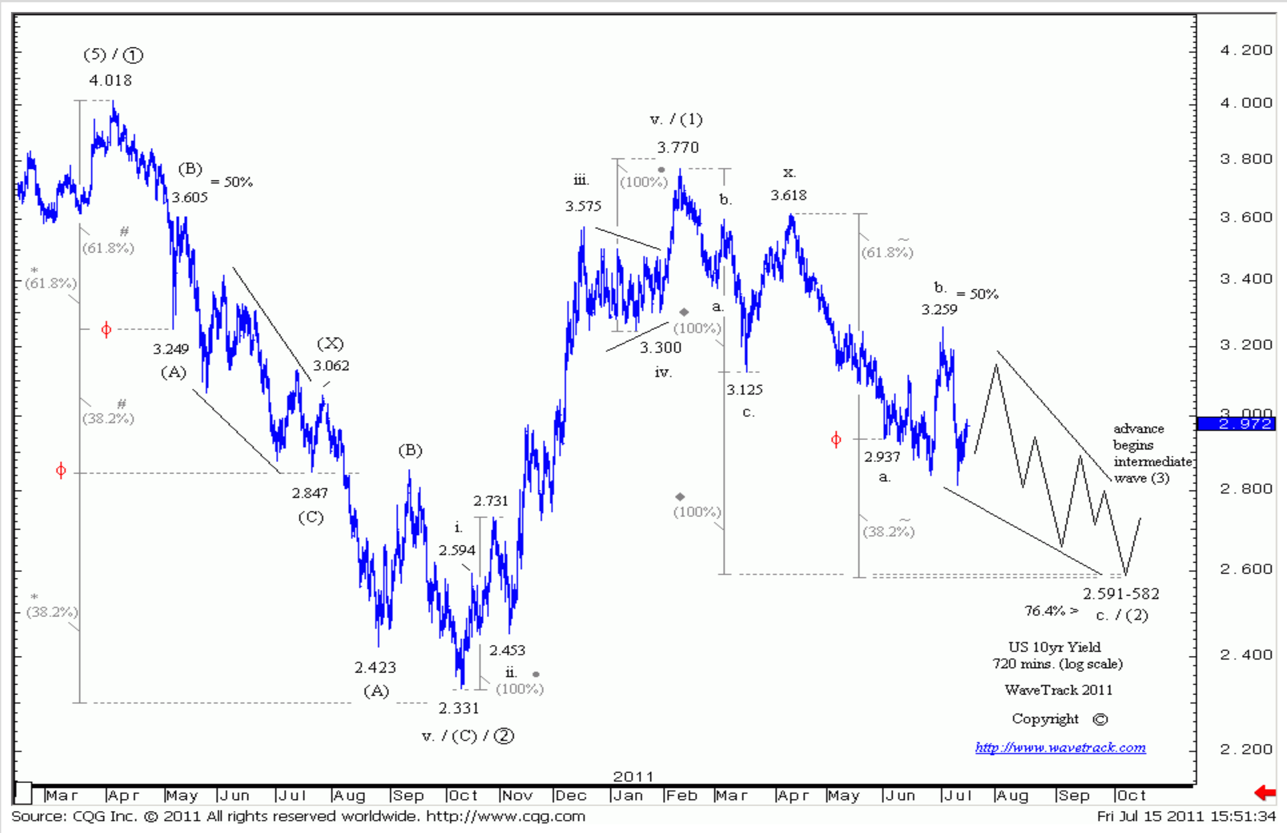

fig. #15 10yr Yield - 720 mins.

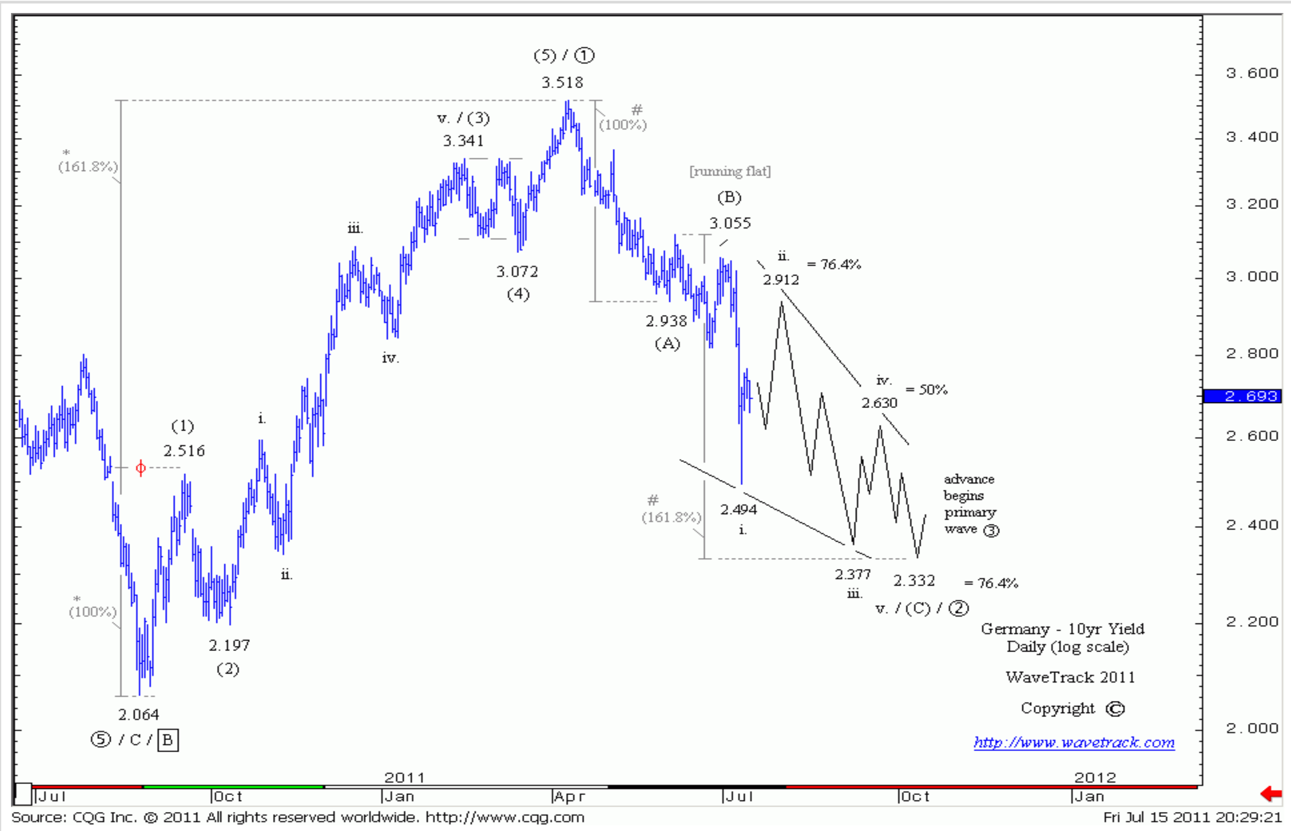

fig. #16 Germany - 10yr Yield - Daily

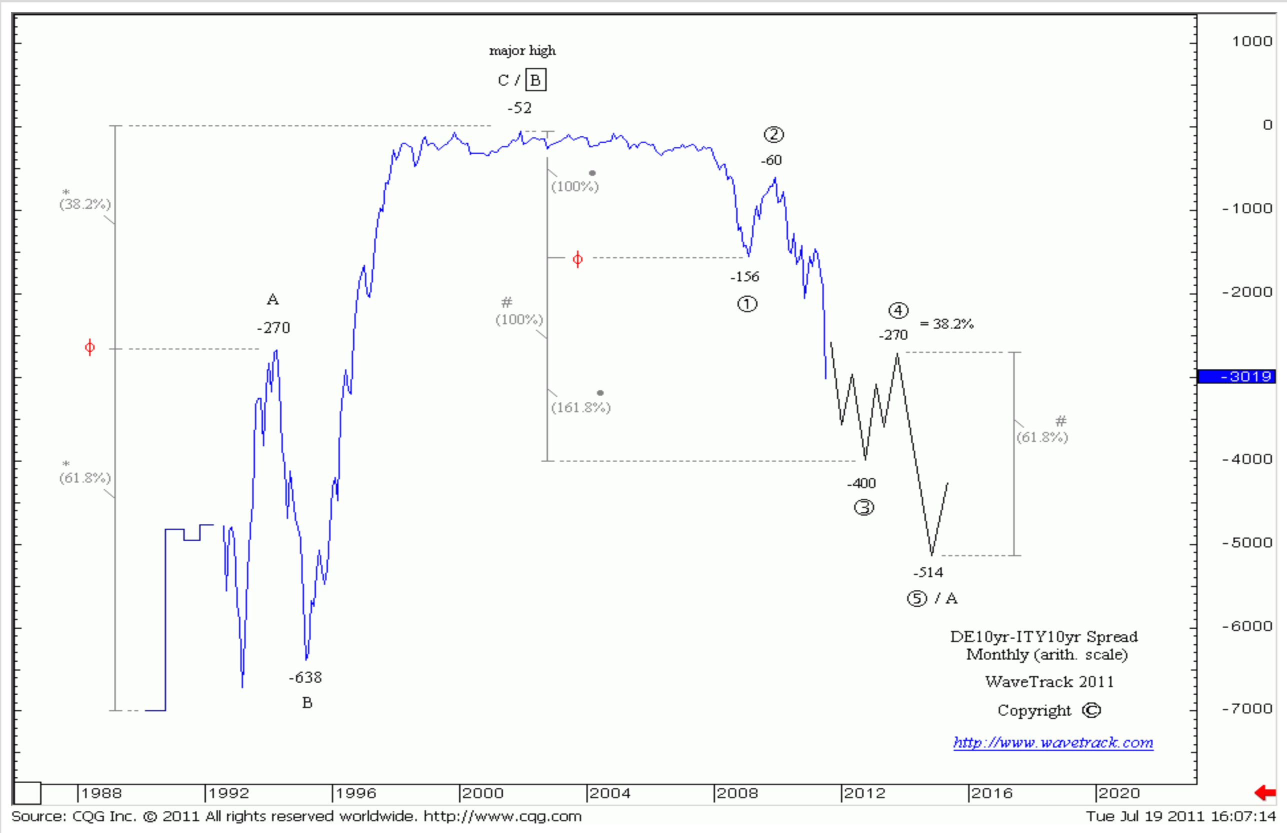

fig. #17 DE10yr-ITY10yr Spread

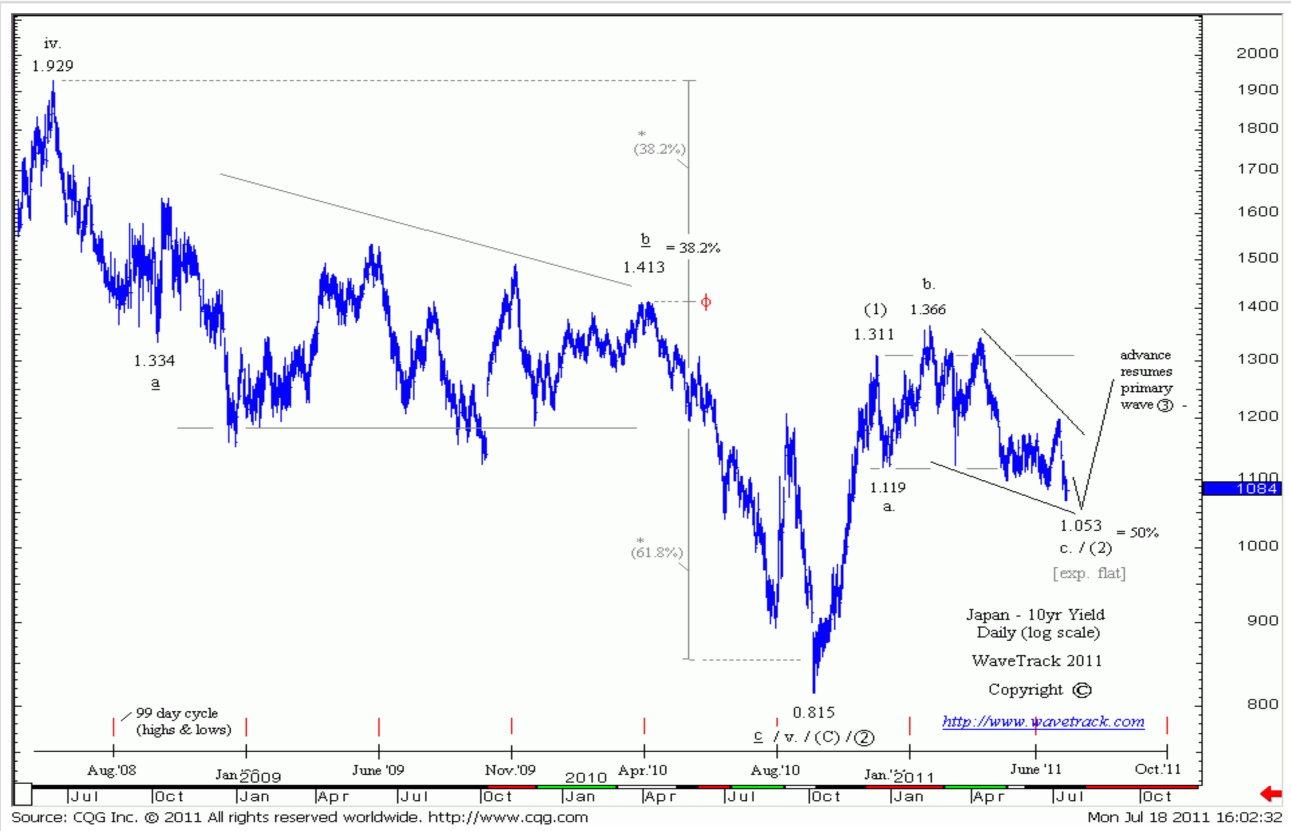

fig. #18 Japan - 10yr Yield - Daily

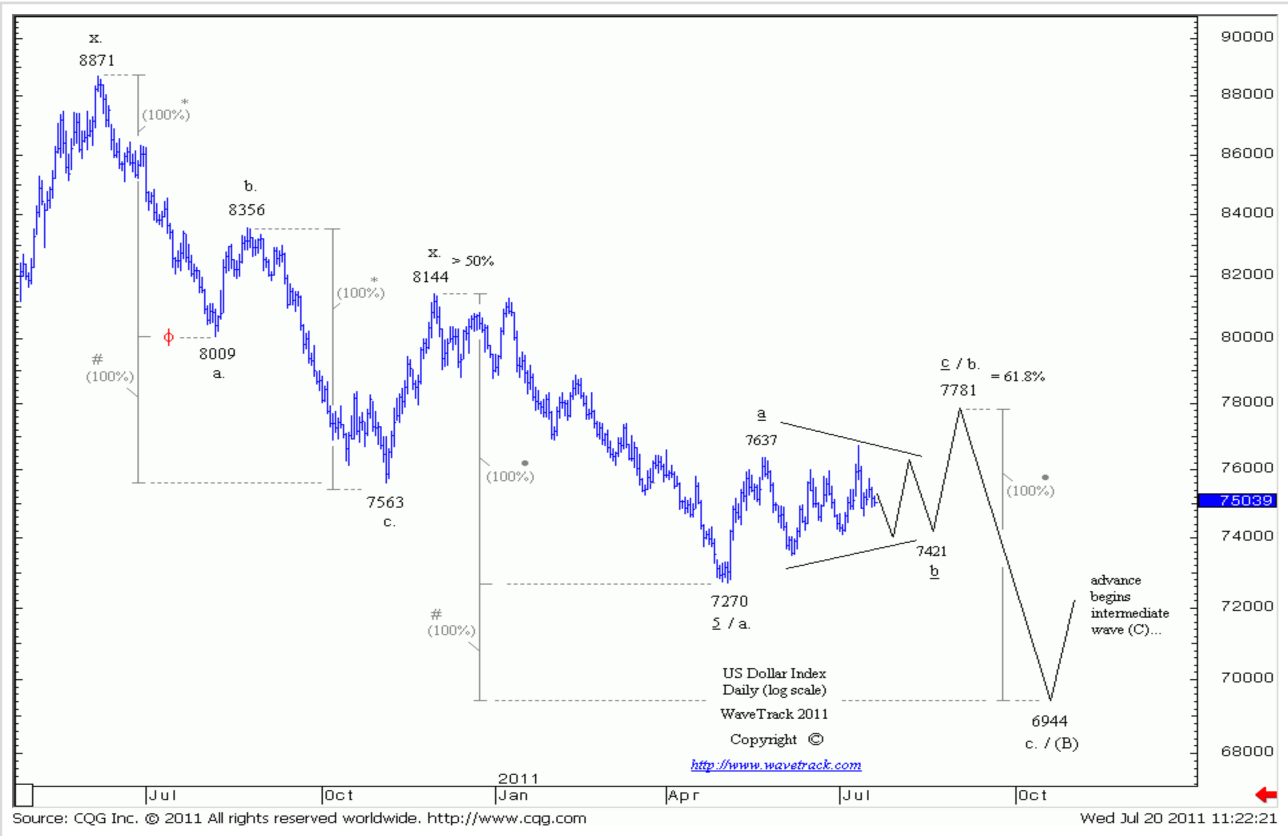

fig. #19 US Dollar Index - Daily

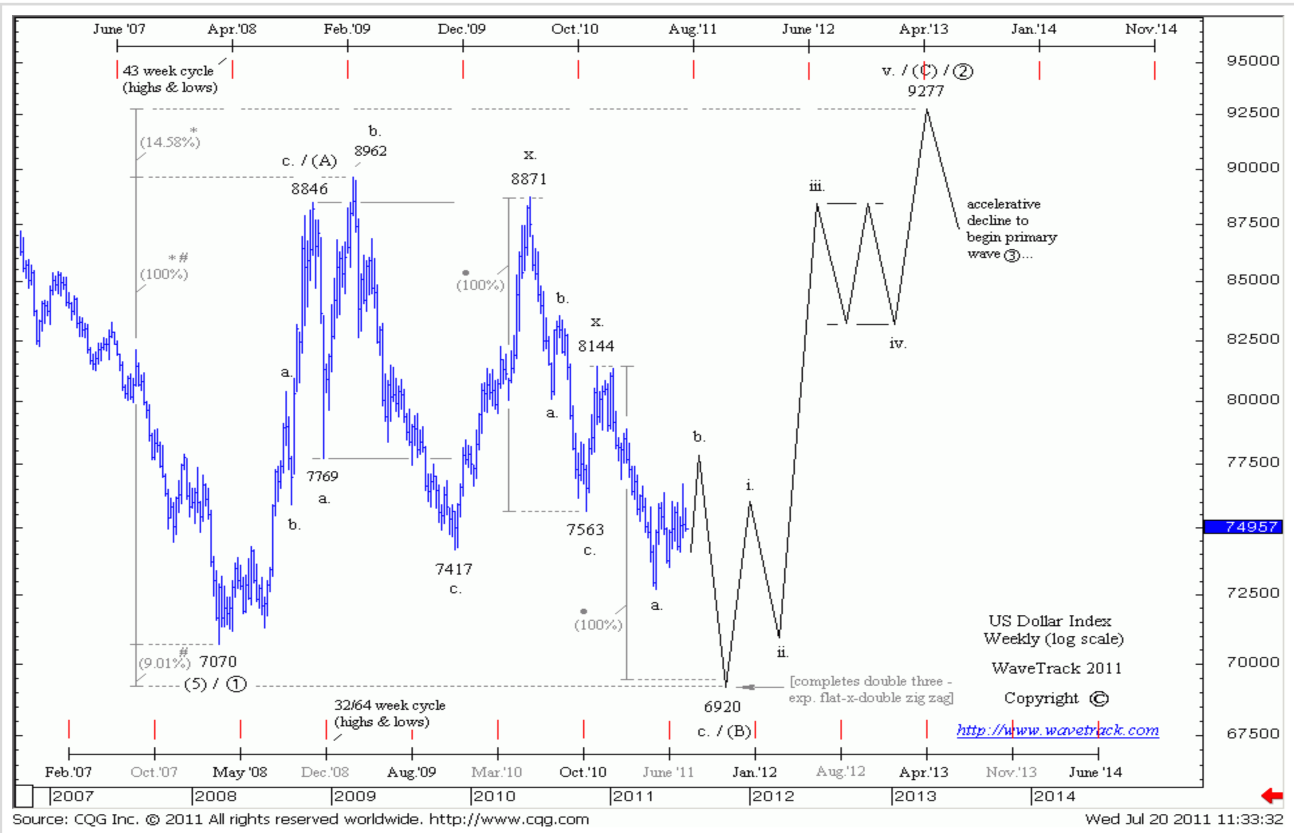

fig. #20 US$ Index - Weekly

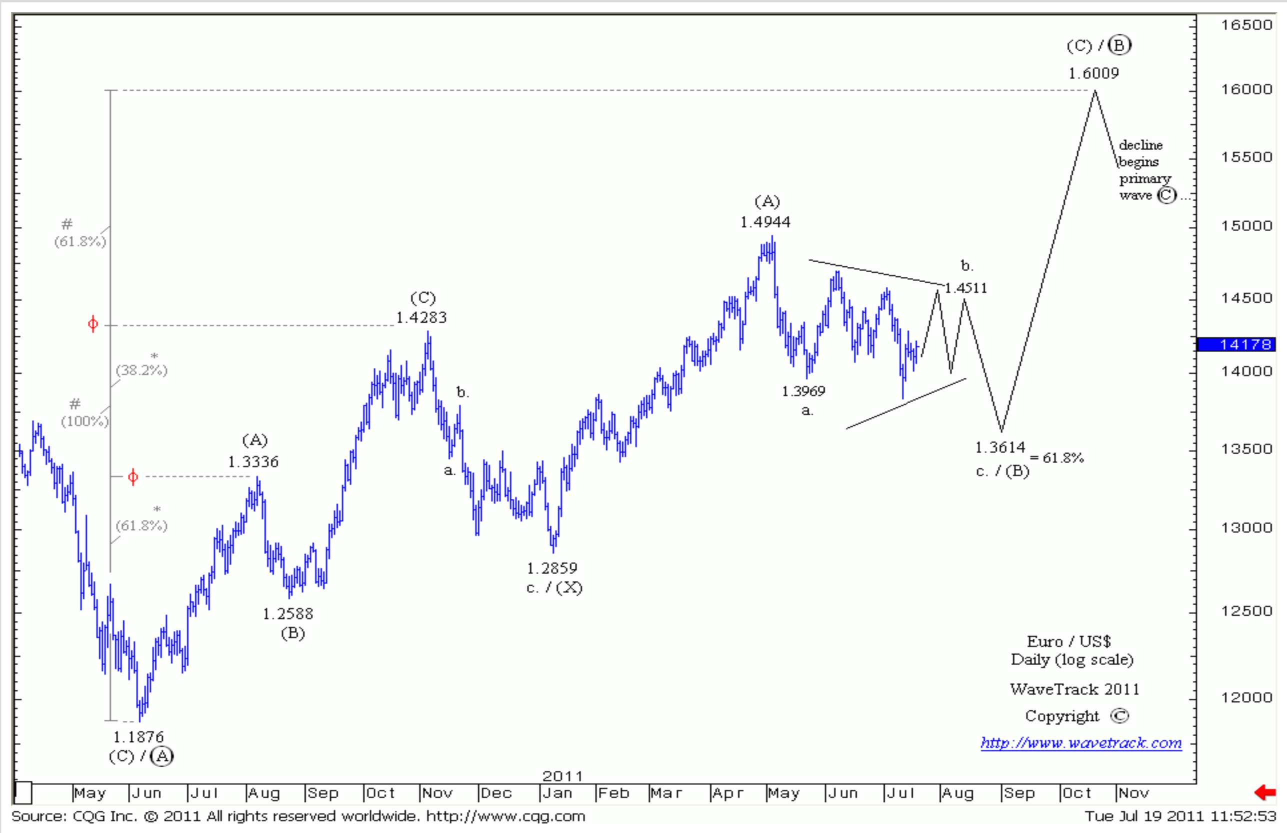

fig. #21 EURO vs. US$ - Daily

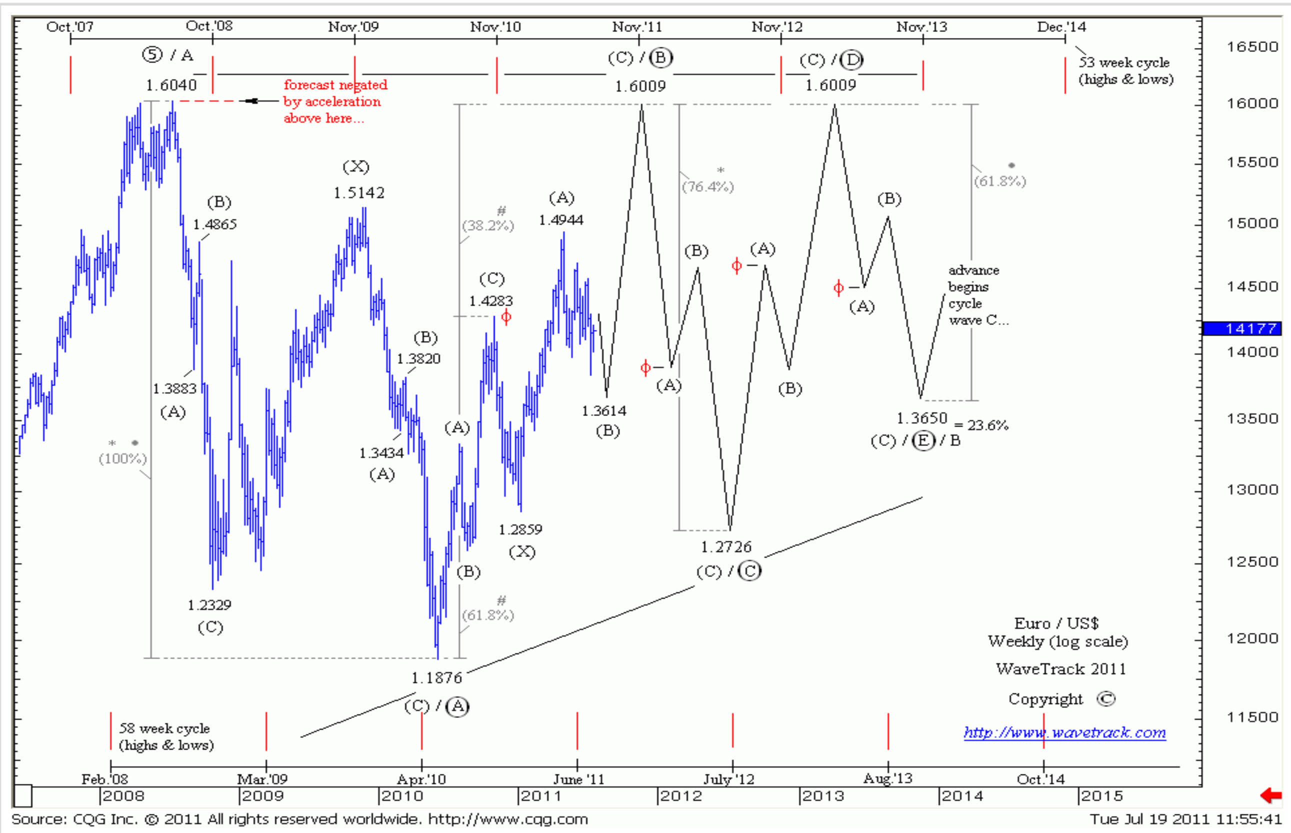

fig. #22 EURO vs. US$ - Weekly

fig. #23 Gold - Daily

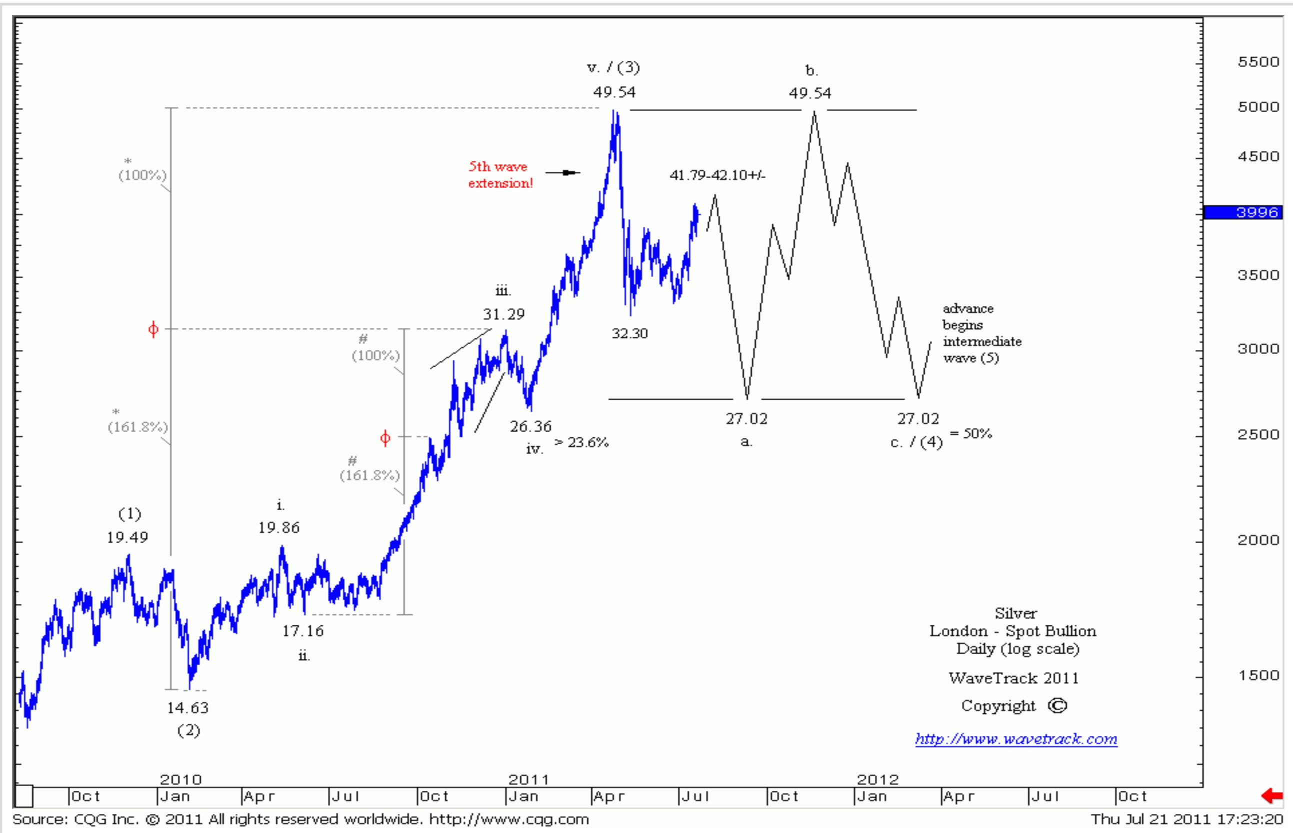

fig. #24 Silver - Daily

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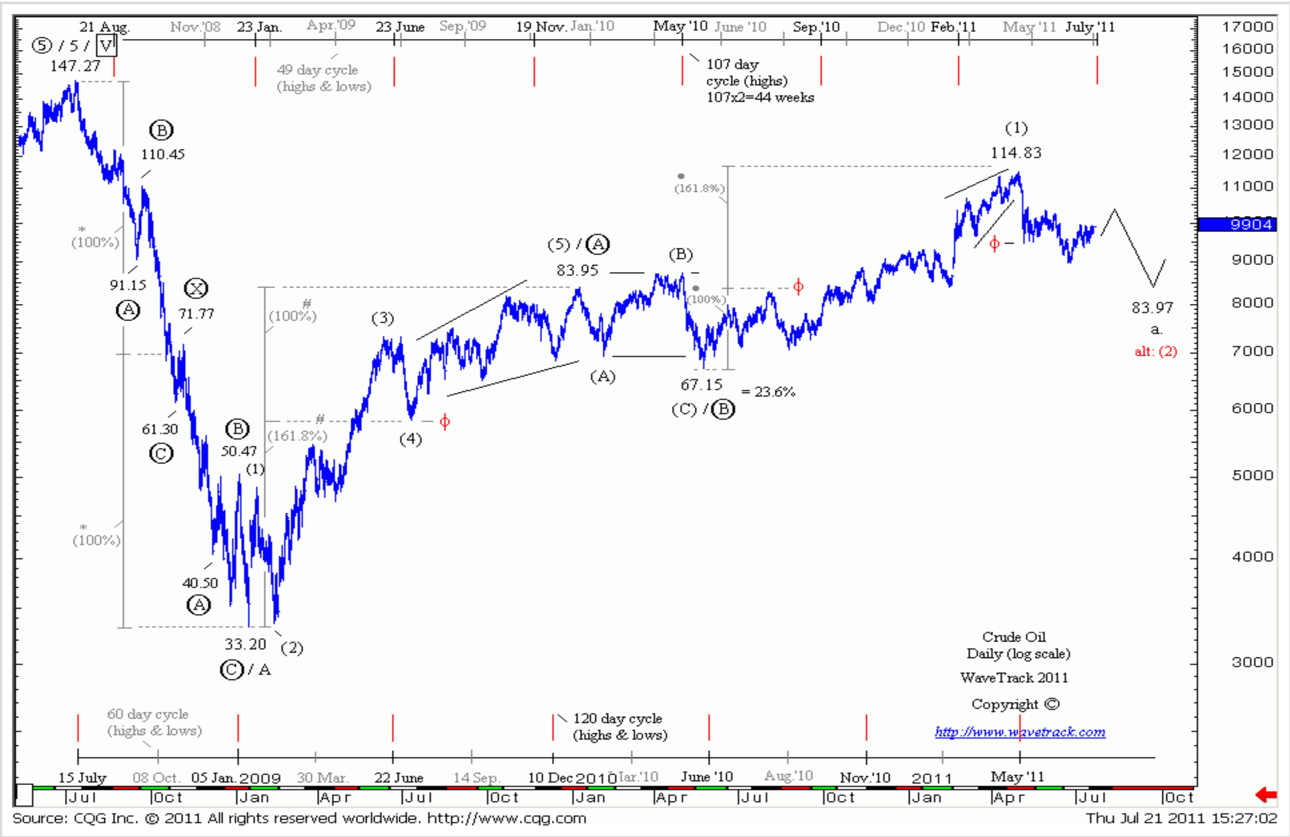

fig. #25 Crude Oil - Daily

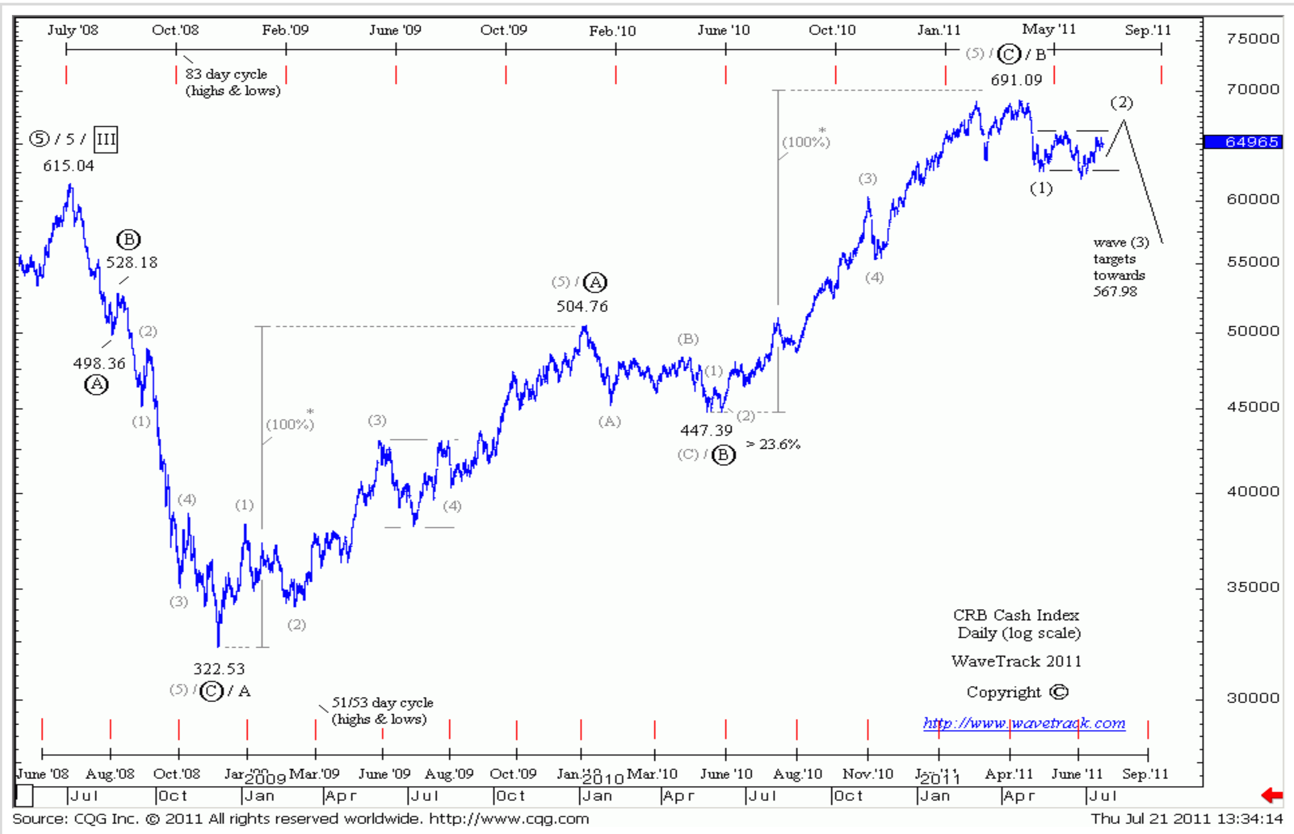

fig. #26 CRB Cash Index - Daily