
MARKET DYNAMICS



International Equity Market Review

FTSE 100 Index

There is no end to the bear market in sight at this stage and it seems likely to extend well into the first half of next year to a target of somewhere between 2970 and 2300. More immediately, we anticipated a staggered retreat back to support from this year's lows at 3625/3609.

Standard & Poors 500 Index

The bear market looks likely to extend well into the first half of next year and at the very least, we expect the S&P to drop back to somewhere between 680 and 600. Nearer term, we continue to expect the market to fall back to test support at 876/867.

NASDAQ Composite

Although we have not yet had a clear indication that the recovery from the October low has ended, it appears to be no more than an extended corrective rally within the longer term bear trend. Over the course of the next year further substantial falls appear to be in prospect.

Dax Index

Last week's break beneath 2983 points to continued weakness back to 2600/2519 over the next few weeks. During the course of the next year we expect the bear market to extend back to 2270/2250 at least and possibly further.

CAC 40 Index

Nearby support at 2970/2890 must hold to prevent a clearly bearish breakdown and continued weakness near term back to 2664/2624. Looking ahead into the coming year, the bear market seems likely to extend back to 2358/2330 and perhaps further.

Swiss Market Index

Currently probing key short-term support at 4750/4749. A close beneath this area would point to continued weakness back to 4400/4333 in the first instance. Longer term, we expect the bear market to extend to around 3180.

Nikkei Dow

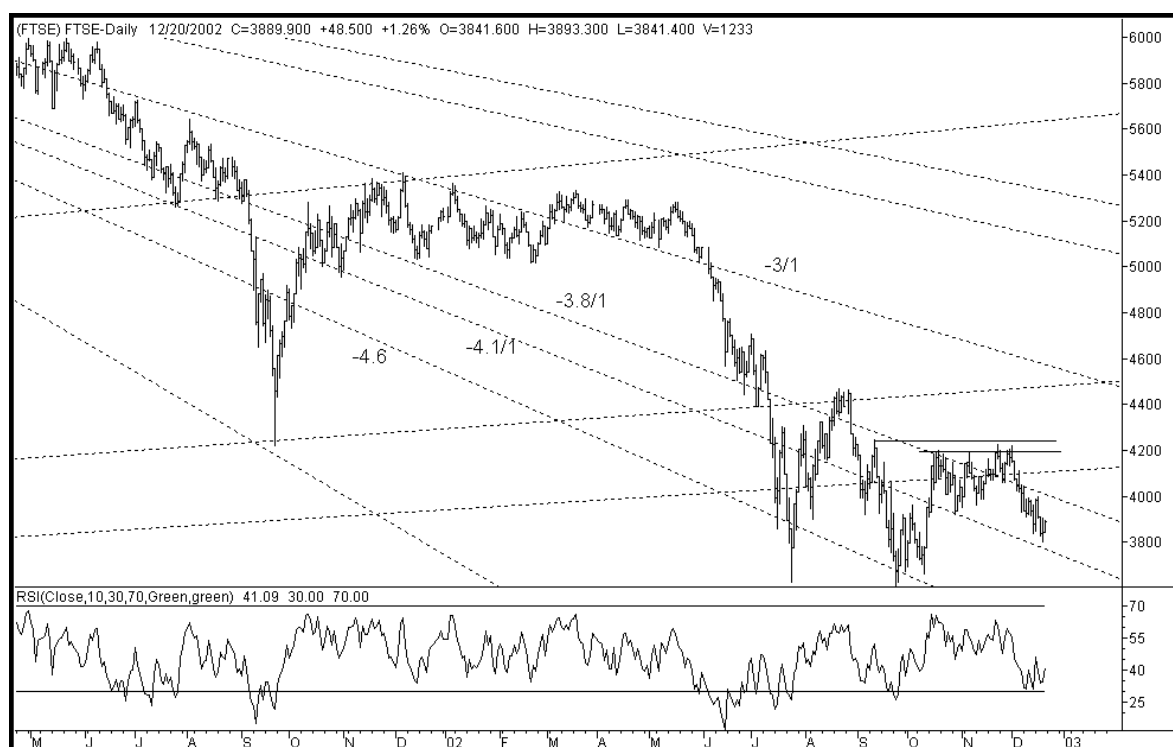
Now testing key support at 8275/8197 under oversold conditions. Bears should view this area with caution as it is capable of inducing another rebound. However, a break beneath 8197 is expected eventually and once beneath it, further weakness back to 7490/7460 should follow.

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FTSE 100 INDEX:3889.9



There is no end to the bear market in sight at this stage and it seems likely to extend well into the first half of next year to a target of somewhere between 2970 and 2300. More immediately, we anticipated a staggered retreat back to support from this year's lows at 3625/3609.

Following the recent break beneath 3979/3918 FTSE remains in negative technical ground and we continue to believe that it is likely to extend its decline back to 3625/3609 over the coming weeks. However, as discussed in the last report, a mild oversold condition has developed as a result of the recent decline. Short term momentum indicators have begun to trough out, thereby suggesting that there is a reasonably good chance that FTSE will undergo a period of consolidation before the target of 3625/3509 is reached. There are no clearly defined support points between current levels and the 3625/3609 area. The only discernible support potential comes from the dynamic support line, currently at 3764.5 and falling at 4.1 points per session.

What would cast doubt on the nearer term bearish outlook?

Initial minor resistance stands at 3992/4000. Clearance of this area on a closing basis would break the newly established short term downtrend. Any such action would cast doubt on our immediate / nearer term bearish outlook, suggesting scope for a more extended near term recovery to 4070/4106 and perhaps further. Nevertheless, given that the prevailing longer term trend is bearish, we would be reluctant to adopt any more than a very cautious short term bullish view. In order to signal a move into strongly bullish near term territory FTSE would need to rally back up to close above resistance at 4196/4244.

Please see next page for long term view.....

Support: 3764.5(possible, falling at 4.1 points per day), 3625/3609, 3530/3455, 3268/3255(fairly minor), 2973/2947.

Resistance: 3992/4000(minor), 4070/4106(minor), 4196/4244(fairly minor), 4353/4357(minor), 4452/4512, 4618/4649(minor), 4690/4708(fairly minor), 5000/5080, 5335/5380.

FTSE 100 INDEX continued



View for the coming year

At this stage there is no end to the bear market in sight. On balance it seems likely that it will extend well into the first half of next year and perhaps beyond. As things currently stand, 2973 seems a likely minimum downside target for the longer term. A more extreme, but nevertheless feasible scenario would be a drop back to around 2300. Within the anticipated retreat, it seems likely that we will see at least one more big and rapid liquidation phase, along the lines of the selloff that took place between May and July of 2002. The consolidation phase that has been unfolding over the last five months appears to be a precursor to just such a selloff.

A close beneath support from this year's lows at 3625/3609 would warn that the major bear trend has resumed and suggest that the anticipated selloff has begun. However, the bearish outlook would need to be tempered with caution on contact with nearby support at 3530/3455, which is significant, since it encompasses the 50% retracement point from the all time high at 6950. Once beneath here though, there is a good chance that the market would move into free fall.

In order to bring about a first notable improvement to the otherwise bearish medium / longer term chart structure, FTSE would have to rally back up to close above resistance at 4452/4512. This would imply scope for an extended medium term rally, perhaps back as far as 5000/5080. However, to break the major bear trend, it would require nothing short of a decisive clearance of big resistance at 5335/5380.

Support: 3764.5(possible, falling at 4.1 points per day), 3625/3609, 3530/3455, 3268/3255(fairly minor), 2973/2947.

Resistance: 3992/4000(minor), 4070/4106(minor), 4196/4244(fairly minor), 4353/4357(minor), 4452/4512, 4618/4649(minor), 4690/4708(fairly minor), 5000/5080, 5335/5380.

STANDARD & POORS 500 INDEX:895.76



The bear market looks likely to extend well into the first half of next year and at the very least, we expect the S&P to drop back to somewhere between 680 and 600. Nearer term, we continue to expect the market to fall back to test support at 876/867.

The S&P's chart structure is largely unchanged since our last report. Although the index shows a small gain on the week, the short term downtrend that has emerged following the recent reversal from major resistance at 960/975 remains intact. We continue to expect the retreat to extend back to support at 876/867 in the nearer term. Bears should proceed with caution as 876/867 is reached, as it has the potential to induce a short term rebound. However, a drop back to this area would hint that the long term downtrend is trying to reassert itself and increase the risks of a much more substantial retreat back to big support at 775/768 from the lows of the downtrend. On a close beneath 867 we would adopt 775/768 as the next target.

Overhead, initial minor resistance remains at 909/913. Clearance of 913 on a closing basis would suggest scope for a more extended near term rebound, probably to 923/925. However, the risk of a reversal from this latter area would be quite high. Whilst beneath big resistance at 960/975 the index remains in very vulnerable territory.

View for the coming year

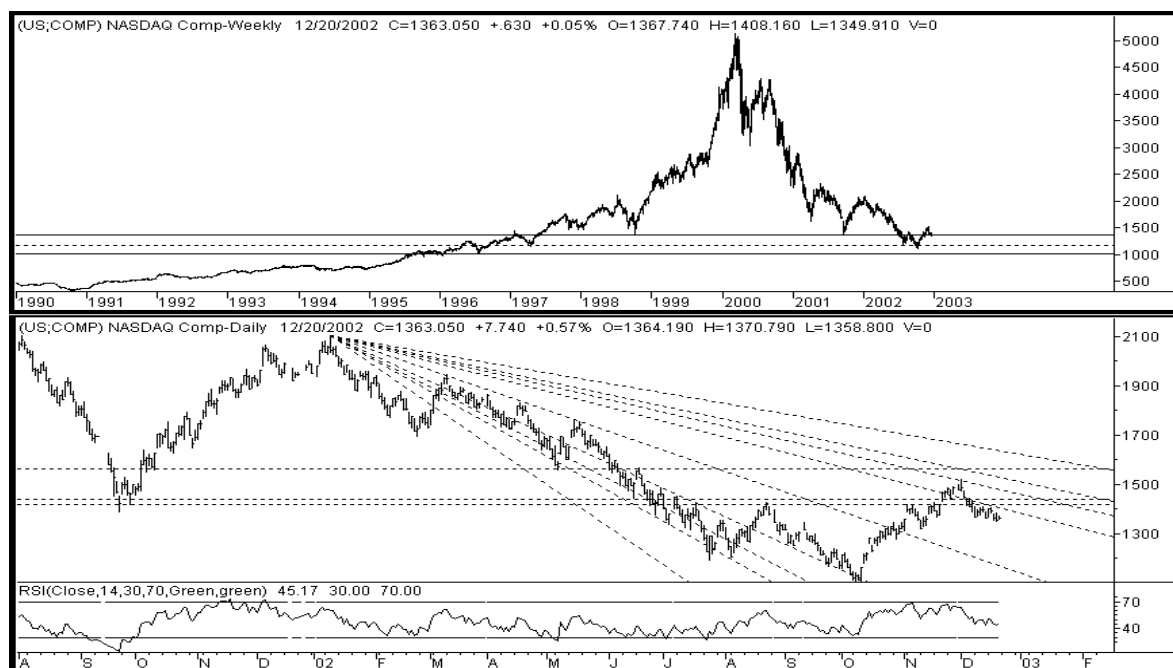
We continue to believe that the trading range that has emerged since the July low merely represents a routine consolidation phase within the ongoing bear market. Following the completion of a huge multi-year top formation in mid 2002, we expect the bear market to extend well into the first half of next year and perhaps beyond. The minimum downside projection implied by the major top formation is somewhere between 680 and 600. The nearest big support comes from this year's lows at 775/768. A close beneath here would provide a big bearish breakdown signal, indicating that the next phase of the anticipated decline is underway. Thereafter a corrective rally may emerge from support at 738/733, but on balance it seems likely that 680 would be reached within a few months of breaking beneath 768.

Clearance of big resistance at 960/975 would be needed to establish a credible base from which a significant rally could be expected with confidence. Any such action should result in a staggered advance up to 1040 at least, with minor resistance at 993/1001 providing the next short-term objective. However, this would not be sufficient to break the long-term bear trend. In order to break it decisively, clearance of resistance at 1170/1177 from this year's highs would be necessary.

Support: 876/867(fairly minor), 852/844(minor), 809/800(minor), 775/768, 738/733(fairly minor), 680/672, 644/643(fairly minor), 605/600.

Resistance: 909/913(minor), 923/925(minor), 960/975(major), 993/1001(fairly minor), 1040(minor), 1050/1106.

NASDAQ COMPOSITE:1363



Although we have not yet had a clear indication that the recovery from the October low has ended, it appears to be no more than an extended corrective rally within the longer term bear trend. Over the course of the next year further substantial falls appear to be in prospect.

The recovery from the October low is still intact, but it remains under pressure. At this stage a retreat back to nearby support at 1319 still seems the most likely course of events in the near term. In order to prevent a serious deterioration in the chart structure 1319 must hold closing values. Should it give way, we would have a clear indication that the recovery has failed. Any such action would point to continued near term weakness back to 1250/1226 at least. It would also hint that a retreat back to support from the downtrend lows at 1112/1108 is in the offing.

Overhead, initial resistance stands at 1409/1422. A close above this area would be sufficient to trigger a recovery up to challenge resistance from the recent peaks at 1490/1522. However, it would now require a close above 1522 to give a clear indication that the recovery can extend further, with 1560/1607 becoming the initial upside target.

View for the coming year

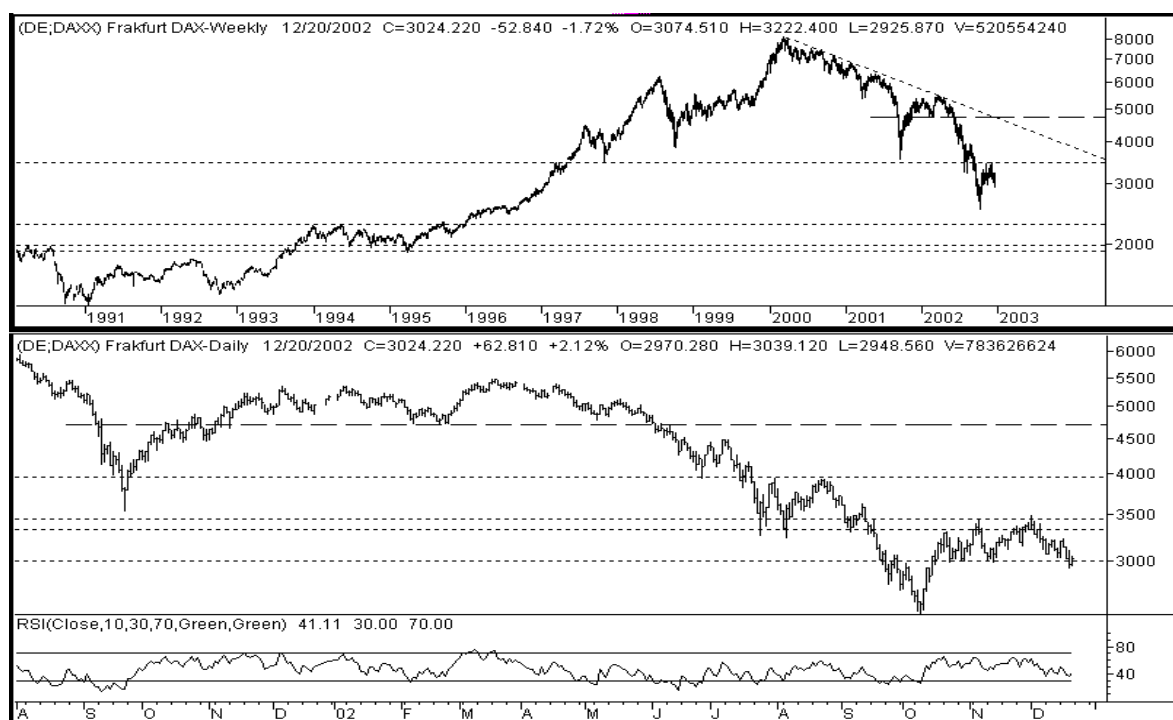
As discussed in recent weeks, despite recent the recent break of the medium term bear trend, the longer-term bear trend remains intact. There is no evidence to suggest that the recovery from the October low is any more than an extended corrective rally before the major downtrend reasserts itself. In this case it is difficult to identify a clear target for the medium / longer term and over the next few months a period of ranging activity may well unfold. Looking beyond any such action however, a drop back to at least 1000 seems the most likely course of events. Longer term, a retreat back to somewhere between 800 and 700 also seems feasible. In order to break the long term downtrend, it would require a rally and close above resistance from the highs of 2002 at 2090/2100.

It is worth noting that the long term NASDAQ chart shares a lot of similar characteristics with the boom and bust cycles that are normally seen on commodity charts. Typically with these markets, once the bubble has burst and the bull market gains have been retraced, the chart enters a prolonged period of ranging activity at depressed levels that can last for years. As such, we think it unlikely that the market will just turn around and go straight back up again once the bear market has ended.

Support: 1319(fairly minor), 1279(minor), 1250/1226(minor), 1165(minor), 1112/1108, 1000/990, 800/750

Resistance: 1409/1422(minor), 1490/1522(fairly minor), 1560/1607(fairly minor), 1651(minor), 1754.

DAX INDEX:3024



Last week's break beneath 2983 points to continued weakness back to 2600/2519 over the next few weeks. During the course of the next year we expect the bear market to extend back to 2270/2250 at least and possibly further.

Last week the Dax index dropped to close beneath support at 3000/2983, thereby giving a clearly bearish short term breakdown signal. As discussed in the previous report, this points to continued weakness back to support at 2600/2519 from the October low over the next few weeks, with a possible pause at 2720. Furthermore, it also hints that the dominant long term downtrend has begun to reassert itself.

Overhead, initial minor resistance now stands at 3029/3060, thereafter at 3210/3222. A close back above 3220 would be needed to negate the near term bearish outlook and indicate that there is scope for a fresh challenge of the more substantial resistance area at 3438/3445. However, a closing break above this latter area would be needed to signal a move into clearly bullish short term territory. Furthermore, the medium term component of the major bear trend is in no doubt whilst beneath resistance at 3945/3950.

Outlook for the year ahead

The longer term chart is dominated by the steep three year downtrend and at this stage there is no sign of an end to the bear market in sight. The rally from October low appears to be no more than a routine corrective rebound within the prevailing bear trend. The recent downturn from previous downtrend lows that were made between July and September is classic bear market action. Although a more extended period of ranging activity above support at 2600/2519 cannot be ruled out over the next few months, it seems likely that the next big move will be to the downside. Longer term, the downtrend looks likely to extend at least as far as 2270/2250 and possibly as far as 1960/1900. In the absence of a clearly defined major base formation being established (this would take six to nine months), it would require a close above resistance centred on 4700 to indicate that the long term downtrend is faltering.

Support: 2720(possible minor), 2600/2519, 2450/2440(fairly minor), 2270/2250, 2100/2088(minor), 1960/1900.

Resistance: 3029/3060(minor), 3210/3222(minor), 3438/3445(fairly minor), 3575/3615(minor), 3945/3950, 4140/4155(fairly minor), 4450/4505.

CAC 40 INDEX:3082



Nearby support at 2970/2890 must hold to prevent a clearly bearish breakdown and continued weakness near term back to 2664/2624. Looking ahead into the coming year, the bear market seems likely to extend back to 2358/2330 and perhaps further.

There CAC 40's chart structure is unchanged on the week. The market continues to hover just above key support at 2970/2890 and a near term test of this area still seems the most likely course of events. Bears should the 2970/2820 band with a degree of caution, as it is capable of inducing another rally attempt. However, in the event of a close beneath 2890, we would have a clear signal that the recovery from the October low has ended and the CAC would move into strongly bearish short-term territory. Any such action would point to continued near term weakness back to support at 2664/2624 in the first instance. As discussed in recent weeks, we expect the dominant long term bear trend to extend back to 2525/2475 in the medium term.

In order to break the medium term component of the major bear trend and indicate scope for a significant medium term recovery to develop, the CAC 40 would need to rally up to clear resistance at 3600/3675. More immediately a rally and close above 3475 would be necessary to signal that a challenge of 3600/3675 is likely.

Outlook for the year ahead

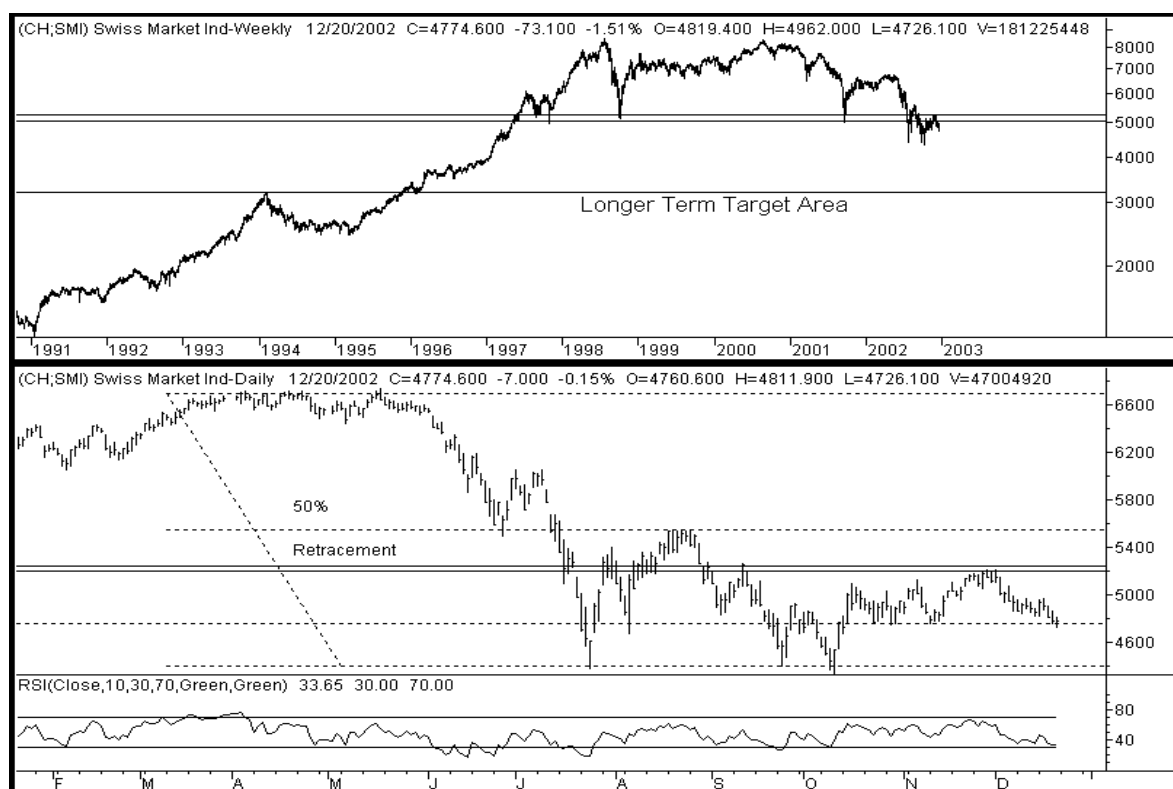
As things currently stand there is no sign of an end the bear market in sight. In this case it is not easy to pinpoint a clear longer term objective. However, at the very least the CAC 40 looks set to extend its retreat back to 2358/2330, during the first six months of next year. Thereafter a more extended decline to 2027/1992 could not be ruled out.

As discussed above, clearance of resistance at 3600/3675 would break the medium term component of the major bear trend and indicate scope for a significant medium term recovery to develop, probably to resistance at 3895/3978. However, it would require a rally and close above this latter area to give a first hint that the long term downtrend is losing momentum. Moreover, in the absence of a major base pattern being formed a rally and close above resistance at 4700/4750 would be needed to break the long term downtrend decisively.

Support: 2970/2890(fairly minor), 2664/2624(fairly minor), 2525/2475, 2358/2330, 2174/2161(fairly minor), 2027/1992, 1725/1700(major).

Resistance: 3400/3475(fairly minor), 3600/3675, 3895/3978, 4177/4225, 4400/4420(minor), 4495/4500(fairly minor), 4700/4750, 4940/5005, 5200/5300.

SWISS MARKET INDEX:4774



Currently probing key short-term support at 4750/4749. A close beneath this area would point to continued weakness back to 4400/4333 in the first instance. Longer term, we expect the bear market to extend to around 3180.

As anticipated the SMI is now testing important support at 4750/4749. Although another rally attempt from this area cannot be ruled out in the near term, the medium / longer term chart structure is overwhelmingly bearish and it seems only a matter of time before it is broken. On a close beneath 4749, a clearly bearish short term breakdown signal would be given, leading us to expect the retreat to extend back to the more substantial support area at 4400/4333 from the downtrend lows.

Overhead, initial minor resistance stands 4962/4967. Clearance of this area would suggest scope for a recovery back up to challenge resistance at 5210/5265 from the recent peak. However in order to signal a move into clearly bullish short term territory it would require a close above 5265.

Outlook for the year ahead

Back in the summer the SMI completed a major bearish top structure when it broke beneath long term lows at 5000. This action points to further substantial weakness back to around 3180 during the course of the coming year. Within the consolidation pattern that has emerged over the last five months, two new lower peaks have emerged. This action is very much in keeping with a heavily bearish chart structure and suggests that the market is on the verge of making another substantial down-leg. Beneath 4333, no serious support is evident until 3800/3716.

In order to break the medium term component of the downtrend and open the way for a substantial medium term recovery a close above resistance at 5513/5566 would be needed. However, it would require a rally and close above major resistance at 6643/6740 to break the long term bear trend decisively and give a clear indication that the bear market has ended.

Support: 4750/4749(fairly minor), 4400/4333, 4194(possible), 3953/3921(minor), 3800/3716, 3500/3475

Resistance: 4962/4967(minor), 5051/5121(minor), 5210/5265(fairly minor), 5513/5566, 5775(fairly minor), 6053/6160, 6643/6740(major).

NIKKEI DOW INDEX:8406.88



Now testing key support at 8275/8197 under oversold conditions. Bears should view this area with caution as it is capable of inducing another rebound. However, a break beneath 8197 is expected eventually and once beneath it, further weakness back to 7490/7460 should follow.

The anticipated test of support at 8275/8197 from the downtrend lows is now underway. Momentum indicators are reading oversold and as this area has already induced two significant rebounds, bears should proceed with caution as it is being tested. No clear resistance is evident until the pair of closely positioned areas at 9108/9126 and 9320/9400. Clearance of 9400 and the next area nearby at 9540/9572 would be needed to give a strong indication of near term rally potential. Any such action would point to a challenge of 9884 in the first instance.

Even so, the medium and longer term trends remain bearish and the balance of probability favours an eventual break beneath 8197 and further substantial weakness as detailed below.

Strictly speaking, resistance at 9884 represents the upper boundary / breakpoint of the medium term downtrend. However, a more substantial area of resistance exists nearby at 10060/10162 and ideally a close above this latter area should occur to indicate scope for a significant medium term rally to develop.

Outlook for the year ahead

At this stage there is no sign of an end to the long term bear trend and it seems likely that the coming year will see a further substantial weakness unfold. On a close beneath 8197, the prevailing downtrend would be reasserted vigorously, pointing to a retreat back to 7775/7770 initially and thereafter to 7490/7460. Moreover there are now some signs to suggest that the market extend its retreat back to around 5000 in the longer term.

In order to break the long term downtrend and provide a clearly bullish signal, a rally and close above resistance at 12034/12085 from this year's highs would be necessary. Until then, any strength would need to be viewed as a corrective rally within the downtrend and as being prone to failure.

Support: 8275/8197(fairly minor), 7775/7770(minor), 7490/7460, 5050/4950.

Resistance: 8754(very minor), 9108/9126(minor), 9320/9400(fairly minor), 9490/9572(minor), 9884(fairly minor), 10060/10162, 10885/11040, 11475/11525(minor), 12034/12085.