

The extreme oversold condition for stock markets has been corrected and some indices have rallied back to initial resistance.

Upside progress is likely to be more laboured - Stock market indices have rallied strongly following the climactic declines that ended on 21st September. Short covering contributed to these rebounds and this source of demand is therefore temporarily diminished. A recovery towards the underside of the March to mid-August lows, which some investors had previously hoped would constitute a double bottom, provides an opportunity for investors to lighten longs near what is now an initial psychological resistance level. Potential buyers will become more cautious, waiting to see how markets perform at this hurdle before committing funds. Moreover, some traders will feel that they have a second opportunity to sell short at the former breakdown point. Consequently, upside progress is likely to become more laboured. However, if the most widely followed indices are able to push into the March to mid-August trading bands and hold these gains, the technical outlook for stock markets will have improved.

Partial retracement of rally likely - Most oversold rallies occur in two stages. When the initial short-term uptrend is broken, a retracement of anywhere from one-third to the entire rally usually occurs. I suspect we will not see a retest of the 21st September lows in the next few weeks, without another shock event, such as a further and devastating attack by terrorists, or a major setback in the counter terrorism effort. Since bin Laden and other al-Qaeda spokesmen have threatened further attacks, the risk must be taken very seriously. However, we can probably assume that anything remotely approaching events on 11th September will become increasingly more difficult to achieve now that the problem is being addressed at many levels. Consequently, there is a good chance that last month's lows for stock market indices will hold for at least a few more months. Tactically, I have closed longs in European and US stock market futures, purchased for the oversold rally and mentioned in FM208. I still have a long position in Nikkei futures, protected with a trailing stop. I have begun to open short positions, where rallies are

hesitating near potential resistance levels, and will probably trade these positions actively.

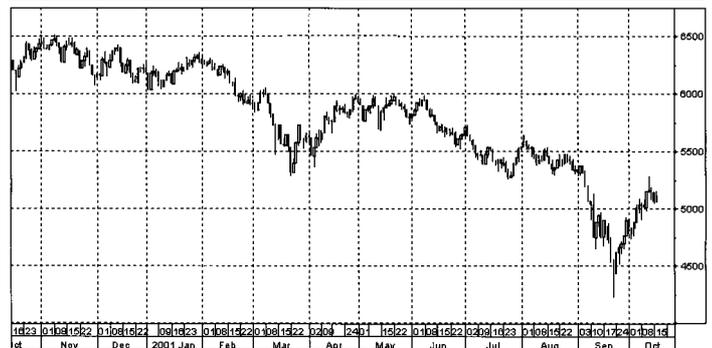
FM209 will be released in the middle of next week.

Best regards - David Fuller

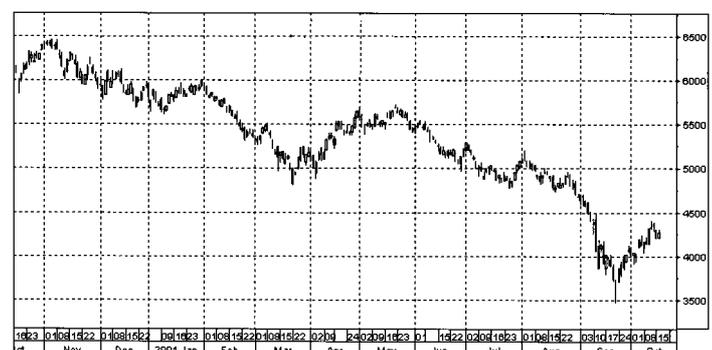
Standard & Poors 500 Index : 1100 (Daily)



FTSE 100 Index : 5108 (Daily)



CAC 40 Index : 4281 (Daily)



Charts supplied by Bloomberg