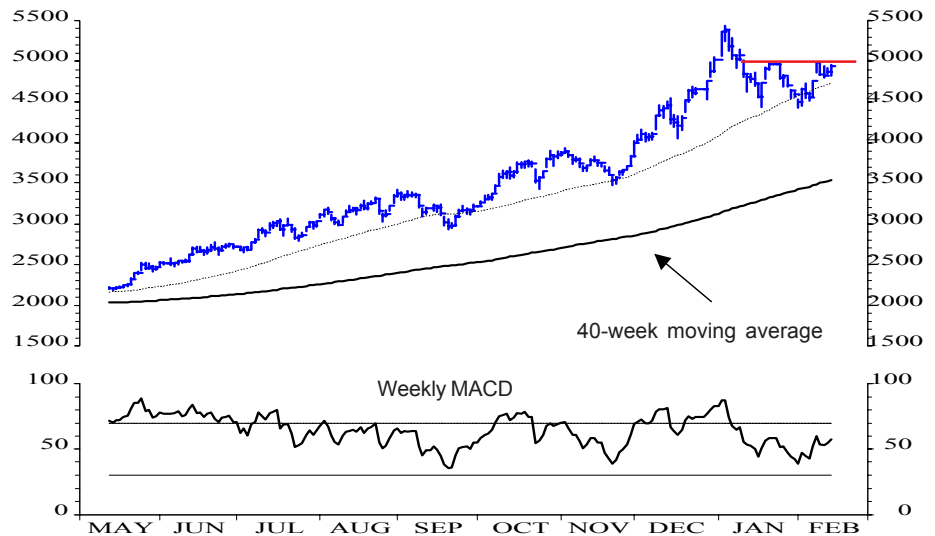


16 February 2004

**The North breaks out**

*Despite Wall Street's wobble on Friday, Asia's bull market seems alive and kicking especially in the NE. New breakouts are recorded in Taiwan and Korea, and China H-shares are on the rise again. The Japanese market has formed a base and should at least rise to the top of its range...*

**Hang Seng China Enterprises Index (HSCEI)**



Source: Thomson Financial Datastream

- ▶ Several key levels have been taken out in N E Asia in the last week or so. Taiwan has broken through 6,500 while Korea has regained 850 and is making new rally highs. The China H-shares index in Hong Kong has broken through 5,000 again, setting up another likely bull run.
- ▶ Equally significantly the Nikkei in Japan has also started to recover after dropping below its 50-day m.a. last week. Whether this is a rally in the range or the start of a significant long-term advance remains to be seen.
- ▶ India is retesting the vital 6,000-6,200 zone. This is a really big level for the market on which many investors are pinning their hopes for a strong run this year Watch carefully over the next week or two a resolution one way or the other will come soon.
- ▶ SE Asian markets have become a little choppy, especially Thailand of course. Indonesia still stands out as having greatest upside in US dollar terms.
- ▶ Something has to give as always and the rallies in Hong Kong proper and Singapore have slowed down. We think both markets will likely edge up, but only slowly into the resistance zones above.

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World markets viewed from Hong Kong

Country	MSCI Index in US\$	Trader View (3-6 weeks)	Comments	Investor View (3-6 months)	Relative Trend (to Asia-Pac ex-Japan)
Japan	2,173.22	Buy	On close above 2,185	Hold	Flat
Korea	188.133	Buy	S/T target 200	Buy	Turning Up?
Hong Kong	5,113.29	Buy	S/T target 5,500	Buy	Flat
China	26.29	Buy	S/T target 28.00	Buy	Up
Taiwan	242.453	Buy	S/T target 255	Buy	Turning Up?
Singapore	270.82	Buy	S/T target 300	Hold	Turning Down?
Malaysia	206.42	Buy	S/T target 225	Hold	Down
Thailand	175.77	Buy	S/T target 185	Hold	Turning Up?
Philippines	115.30	Hold	Stop loss at 112	Hold	Down
Indonesia	185.27	Buy	S/T target 210	Buy	Strongly Up
India	171.09	Buy	S/T target 185	Hold	Turning Up?
Pakistan	89.79	Buy	S/T target 93	Buy	Flat
Sri Lanka	92.24	Wait	Support at 88	Hold	Down
Australia	466.95	Buy	S/T target 480	Buy	Flat
New Zealand	114.81	Buy	S/T target 120	Buy	Flat

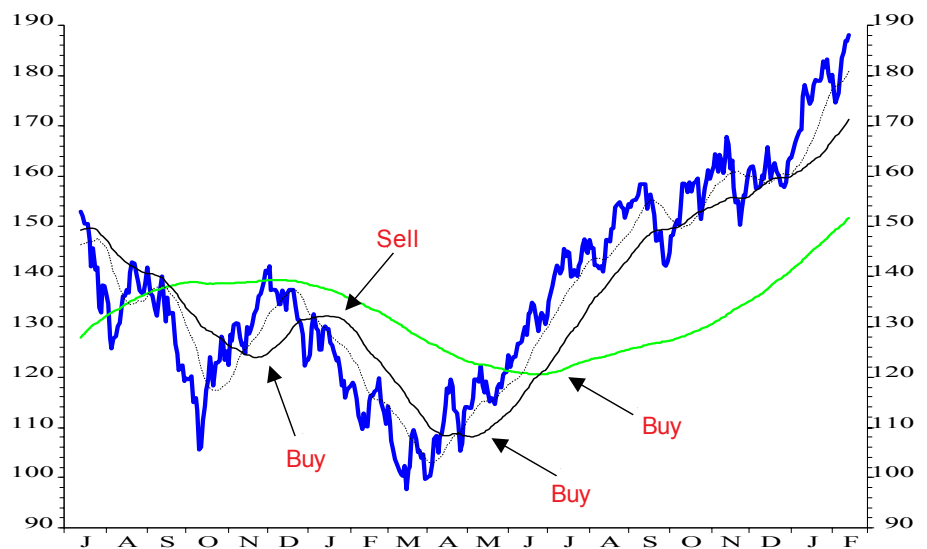
Colour key: Red highlights represent a downgrade from the previous view, blue highlights an upgrade.

The MSCI Korea Index confirmed its breakout to new highs above the 180 level, despite a retest a week earlier.

Buys and sells are mainly based on crossovers of the 20-day and 50-day moving averages, confirmed when the 50-day m.a. turns clearly in the direction of the new trend. Secondary buys are given when the 50-day m.a. crosses above a rising 200-day m.a.

····· 20-day moving average  
 ——— 50-day moving average  
 ——— 200-day moving average

MSCI Korea Index (US\$)



Source: Thomson Financial Datastream

**World markets viewed from Hong Kong**

**N E Asian Stockmarkets**

*Now that Japan may be regaining some momentum, the whole region is fairly unequivocally bullish.*

**Japan - Nikkei 225 Index (10,558):** The Nikkei found support before the 200-day m.a. came under threat, but now needs to regain the 50-day m.a. to trigger a fresh short-term buy signal. The target will be what is now big resistance at just above 11,000. *Bullish - target 11,100*

**Korea - KOSPI (882):** The KOSPI is still edging up toward the possible resistance at 900-920. Various technical indicators suggest to us that an acceleration is the more likely outcome if the pattern is going to change. We upgrade the index target accordingly. *Bullish - target 1,000*

**Hong Kong - Hang Seng Index (13,740):** We suspect the going for the HSI is going to be slightly harder as it enters the zone of resistance between 13,800 and 14,400. Nevertheless we cannot fault the trend since its successful test of the 50-day m.a. *Bullish - target 14,400*

**China - HSCCI Red Chips (1,600):** The Red chips' trend also looks quite secure after recovering similarly from a test of the 50 day m.a. two weeks ago. The previous high at about 1,660 is the next possible sticking point., but our long-term sights are much higher. *Bullish - target 1,660*

**China - HSCEI H-Shares (4,944):** The HSCEI looks set to break the resistance at 5,000, which in our book means that the long-term trend is recovered. We look for rises in increments of 600 points. The first target is therefore above the January of around 5,400. *Bullish - target 5,600*

**Taiwan - TAIEX (6,549):** The TAIEX seems to have broken through the 6,500 level. Interestingly, the negative key day reversal at the first attempt was soon overturned. *Bullish - L/T target 8,000*

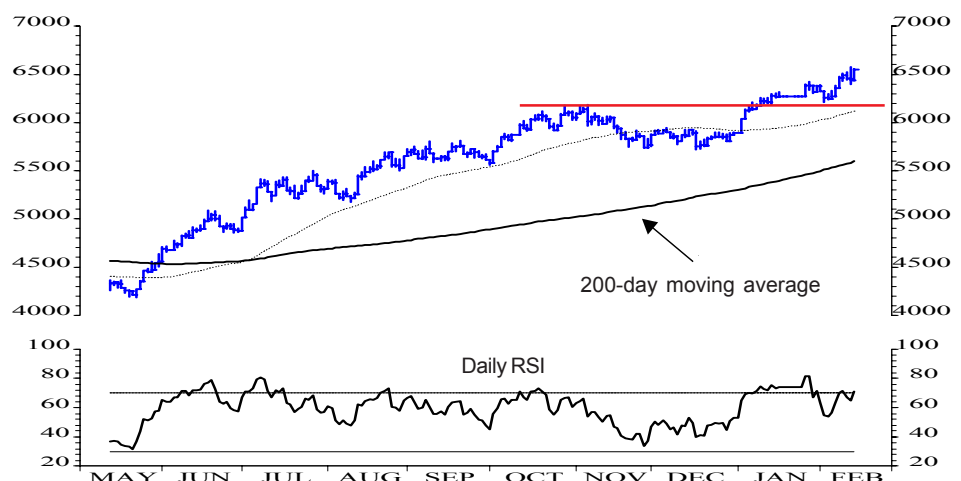
**Nikkei 225 Index (NKY)**



*The Nikkei looks likely to regain the 50-day m.a. after reaching a very oversold position last week. That should trigger another rally toward 11,000.*

Source: Thomson Financial Datastream

**Taiwan Weighted Index (TWSE)**



*The TAIEX reacted sharply the first time the key 6,500 level was exceeded, but recovered well the following day.*

Source: Thomson Financial Datastream

**World markets viewed from Hong Kong**

**SE Asian Stockmarkets**

*A slightly more mixed picture than the NE group of markets, but India in particular seems to be returning to form.*

**Australia - S&P/ASX 200 Index (3,333):** The ASX is duly rising toward its previous high at about 3,350. The RSI is slightly overbought and therefore we can expect some consolidation, but the medium and long-term picture is positive. Expect more gradual gains. *Bullish - L/T target 3,480*

**India - Mumbai 30 Sensitive Index (6,012):** If the Sensex can punch through the zone of resistance at 6,000-6,200, a further substantial rise in the index will be on the cards. We shall be in uncharted waters for the Sensex, though not yet for the MSCI in US dollar terms. *Bullish - S/T target 6,200*

**Singapore - Straits Times Index (1,864):** A slightly disappointing performance recently by the STI, but the market seems to be rotating back again slightly to the emerging markets of the region. We are rangebound for the moment, but still bullish further out. *Bullish - target 2,100*

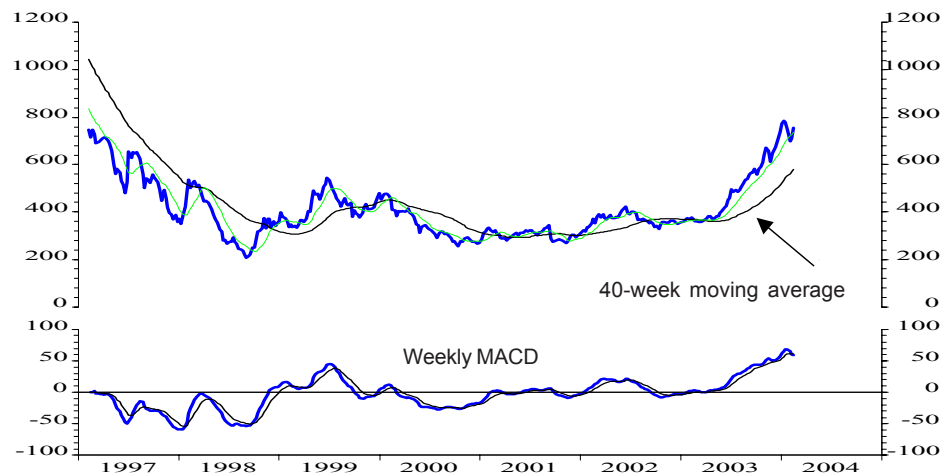
**Malaysia - KLCI (826):** The KLCI has formed a range below 832, which now looks like a potential breakout level. The KLCI's relative performance remains dismal. *Bullish - L/T target 1,000*

**Thailand - SET Index (755):** We would be surprised if the SET manages to punch straight through the 800 level, but we do not want to be out of the market at this stage. *Range 720-780*

**Philippines - PSECI (1,481):** We need to put a stop loss in for the PSCEI in case it breaks down further. The 1,440 level is about the point of no return to the 50-day m.a. *Range 1,440 -1,480*

**Indonesia - JSECI (773):** In contrast the JSX has recovered its trend fairly well, and is rising back toward the previous high at 790, where we might expect minor resistance. *Bullish - target 820*

**Thailand - SET Index**

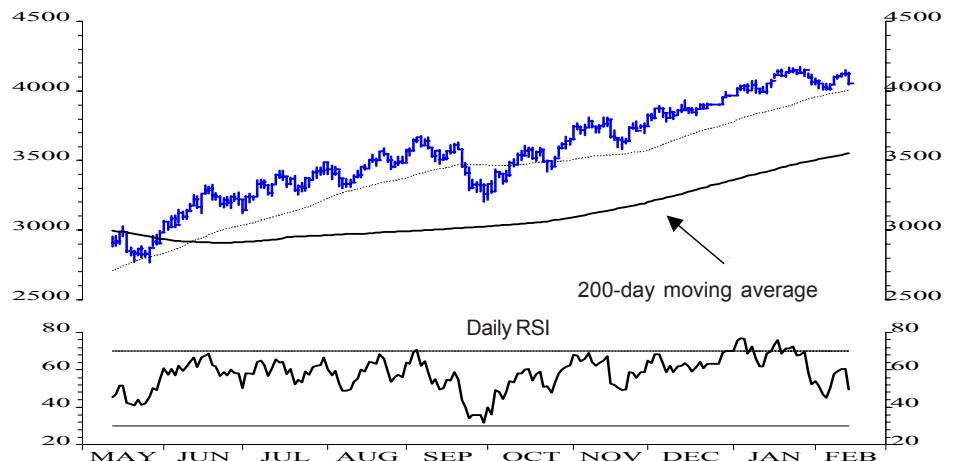


*The key issue for the Thai market is whether a double top forms at 800 and leads to a further correction, or the trend just carries straight on.*

Source: Thomson Financial Datastream

**World Stock Markets**

**Germany - DAX Index**



*The DAX slumped sharply on Friday in line with Nasdaq. We are watching the 50-day m.a. at about 4,050 closely in case of a breakdown.*

Source: Thomson Financial Datastream

**World Stock Markets**

*Uptrends based on the 50-day m.a. need to be watched carefully for potential deterioration this week.*

**USA - S&P 500 Index (1,145):** The SPX has pulled back slightly from the late January high near 1,160 but is expected to encounter support once again at or above the 50-day m.a. at 1,120 or thereabouts. Rotation back into defensive sectors has been apparent.

**USA - Nasdaq Composite Index (2,054):** The Nasdaq sold off quite sharply last Friday, and is quite close to threatening its trend roughly along the 50-day m.a. at 2,020. It is important that the market picks up fairly soon after the President's Day holiday.

**Germany - DAX Index (4,057):** The DAX also slipped unexpectedly sharply on Friday, in line with Nasdaq. These moves may have been aberrations ahead of the US long weekend. Key support is at 4,000, though a one-day dip below that would not concern us greatly.

**UK - FTSE 100 Index (4,412):** The FTSE is struggling to regain the 50-day m.a. at about 4,420. There is a conflict between the short-term m.a.s which are bunched together above the index, while the RSI indicator suggests a rally from mildly oversold.

**Bonds, Currencies & Commodities**

*US bonds continue to surprise with their resilience against. Presumably the BoJ is in the corner.*

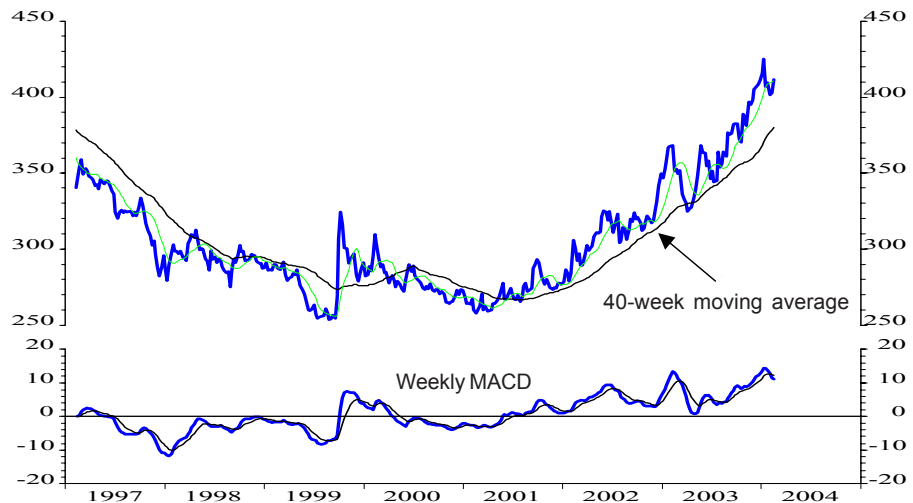
**US Treasuries (10-year Note):** The 10-year yield is once again pressuring the trendline near 4.00% and the 40-week m.a. and has actually drifted below it. The bond rally since last summer's sell-off is thus still intact. We continue to suspect this is a false move, but the short-term trend for yields is still down.

**CRB index (CRY):** The CRB Index has rallied off support at 260 and seems likely to retest the recent high at 270 as the next move. Both energy and precious metals are trending higher again, which is obviously beneficial for the Index.

**Gold (Bullion):** Gold has rallied through resistance at US\$410, and despite Friday's reaction back to test this level, we assume the trend has turned at least in the short-term and are looking for a retest of the high near US\$430 in due course.

**Currencies (AUD, EUR and JPY):** High yielders GBP, AUD and NZD have outperformed in the latest push against the US dollar. Meanwhile the BoJ has slowed the rise of the Yen to a snail's pace. Certainly their definition of "excess volatility" is very different from most people's. So the key is whether the Euro can push through 1.29 to new highs. However, we are keeping tight stops at 1.27 in case the contrarian view gets another airing.

**Gold Bullion**



*The Gold chart continues to be rather choppy, even on a weekly scale as here. The medium and long-term trends are still intact however.*

Source: Thomson Financial Datastream

All charts used in this document are sourced from Thomson Financial Datastream.

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