Issue 195
25 August 2000
In its 17th year

Fullermoney

Global Strategy and Investment Trends by David Fuller www.stockcube.com

The outlook for stock markets remains neutral/bullish, although further volatility is likely.

2 Interest Rates & Bonds

UK and European bonds are currently underperforming US Treasuries due to supply considerations plus oil-induced inflation and interest rate concerns. Japanese bonds have faltered.

3 Global Stock Markets

Leading technology shares offer the best long-term potential but there are still many high-yield, low PER bargains among successful old economy stocks. Japanese banks have joined the global rally in financials.

7 Currencies

The US current account deficit is not a problem for the dollar, which will remain generally strong. The euro is susceptible to some further weakness against the greenback and this is delaying the yen's decline.

10 Commodities

Production increases by OPEC's cartel that would lower oil prices have been delayed by politics. The advance in sugar is unsustainable. Prices for most other foods remain low.

11 The Global Economy

Growth has slowed somewhat due to higher short-term interest rates, the increased cost of petroleum and the previous stock market correction. The US economy will continue to outperform Europe. Japan is unable to fulfil its recovery potential until the yen weakens.

12 And Finally . . .

More new research products, seminars and speeches.

Higher petroleum prices could temporarily unsettle stock markets

Does OPEC have investors over a barrel? - If the renewed surge in oil prices continues stock markets could be in for a bumpy ride. Energy costs would be of little concern were it not for the OPEC cartel because the problem is primarily one of supply rather than demand. Oil exporters have not enjoyed so much influence since the 1970s and I suspect they have a secret agenda - to pressure oil-importing countries into wringing more concessions out of Israel over control of Jerusalem's contested religious sites. When the Israeli/Palestinian peace talks broke down a few weeks ago Saudi Arabia stopped talking about increasing production until crude oil reached $25 a barrel. Meanwhile OPEC's next official review of production quotas is not until 10th September. High oil prices are equivalent to a tax on consumption and therefore a restraint on global GDP growth. The initial impact is also inflationary and if central banks respond by raising interest rates, growth is further constrained. I don't think Greenspan will overreact, especially as the Federal Reserve welcomes a slowdown. Consequently US short-term rates have probably reached a plateau for the next few months. This realisation has firmed US financial markets, especially bonds. I'm not so sure about the European Central Bank or the Bank of England's Monetary Policy Committee. Neither can cite the same level of productivity increases as Greenspan, and the German Bundesbank, exasperated by the euro's weakness which increases import prices, has ended its silence and told the ECB to raise rates. This helped to check the European stock market rallies, along with some short-term overbought conditions. Aside from petroleum prices, I maintain that the environment for equities is neutral/favourable. If support levels for stock market indices, established in late July or early August hold during a temporary oil shock, the equity markets' overall technical picture will have improved once again.

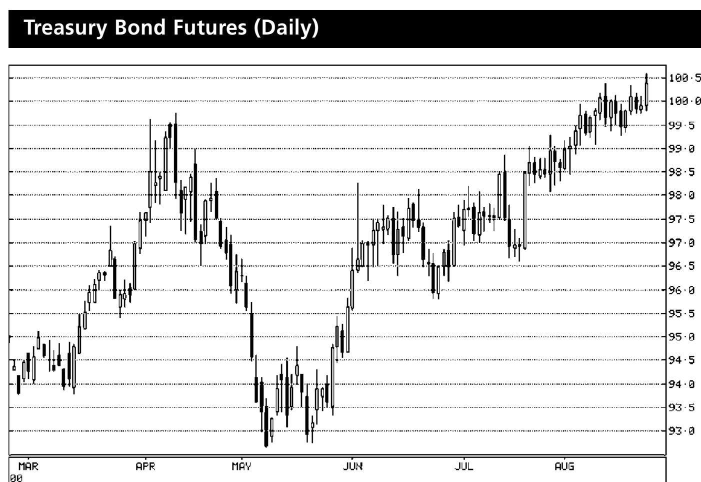
Who in their right mind would want to run the ECB? - This once-coveted post has become a political hot seat. GDP growth, inflation and unemployment vary widely among Euroland's member states and there is little mobility of labour. The single currency's initial slide last year brought a sigh of relief from the new central bank because it helped to underpin an export-led recovery. However the euro's persistent weakness has become a source of inflation and it is also an embarrassment for politicians and the ECB. If Denmark rejects the euro in its referendum on 28th September, despite intense lobbying by its Government, membership will be seen as appealing only to less economically developed countries. If Germany held a referendum today on whether or not to stay in the single

currency, the euro would be finished. Meanwhile, its retest of the May lows has revived talk of a "crisis". I think the euro will range for a while near 90¢ and then head lower against the US dollar. Higher interest rates, advocated by the Bundesbank and others, seldom check a currency's slide if the primary trend is still downwards. Investors recognise the hikes as temporary measures destined to curtail the growth that ultimately determines forex levels. I believe only multi-lateral intervention would launch a significant rally for the euro against the US dollar. However there does not seem to be any call for this at present, so the euro may not see a sustained recovery until investors lose confidence in the US dollar. This remains a distant prospect. Meanwhile, the euro's latest weakness is delaying the yen's decline.

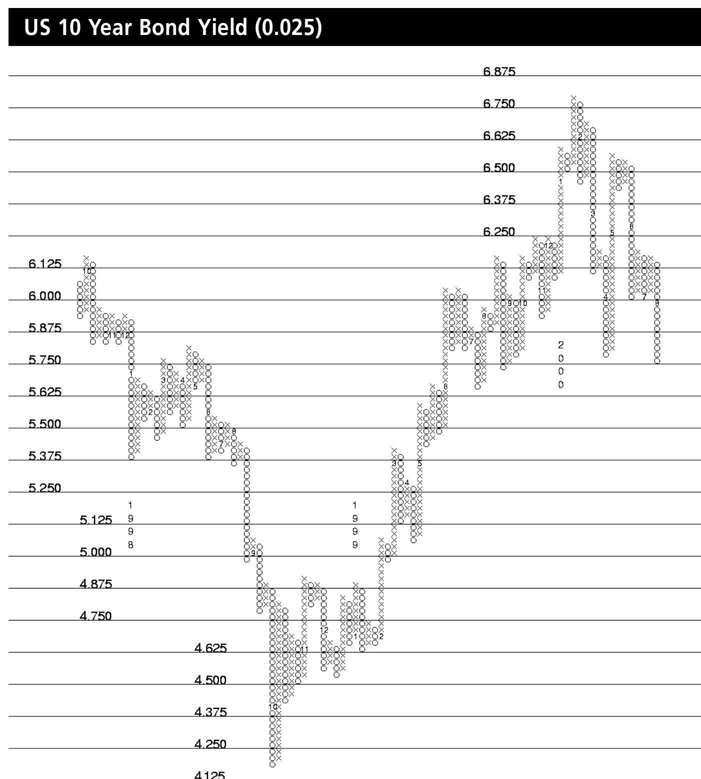
Interest Rates and Bonds

■ **The European Central Bank and Bank of England's Monetary Policy Committee may nudge short-term rates a little higher, partly because of the oil price.**

Treasury Bond Futures (Daily)



US 10 Year Bond Yield (0.025)



■ **Long-dated bond yields in Europe, North America and the Antipodes are still ranging in a top development phase and should eventually move somewhat lower.**

The ECB doesn't have an easy job. What will it do now that inflation has hit 6.2% in Ireland and 3.6% in Spain but has edged up to only 1.9% in Germany? Ignore Ireland, of course, because its economy is small. It could suggest that Germany's unemployed citizens (currently 9.5% of the labour force) emigrate to Ireland but I don't think Euroland is quite ready for that. Incidentally, what would the UK's inflation be today if it had joined the single currency in January 1999? Over 5%? Meanwhile the ECB's brief is to keep Euroland's inflation below 2%, so it will probably raise rates unless it is very annoyed by the Bundesbank's advice (which sounded more like an instruction) to tighten monetary policy in defence of the euro. However another rate hike could cause more problems than it resolves. Germany's inflation is due mostly to the euro's weakness and the OPEC cartel's squeeze on oil supplies. Higher rates seldom attract investors to a weak currency but they could check the patchy economic recovery in Germany and Italy. Business confidence in Germany during July fell to its lowest level for eight months, according to the IFO Research Institute's widely followed survey. However the data was gathered before the surprise announcement that Chancellor Schroeder's tax-cut bill had been passed. Therefore the IFO data for August may be more conclusive. Another decline and investors will assume that Germany's recovery has stalled, sending the euro even lower and increasing import costs in the process. The BoE's MPC has edged closer to voting for another rate hike, judging from the last meeting and nothing has occurred subsequently to deter them. I don't think the UK needs a rate hike. There is certainly no economic overheating; house prices are no longer rising in the South of England and City bonuses will be lower this year. Higher UK rates would probably push sterling back to its May highs against the euro, doing Britain's exporters no favours. The US Federal Reserve will probably leave rates on hold, at least until after the election. The BoJ's embattled Governor Hayami is unlikely to raise rates again until there really is evidence of an economic recovery in Japan, assuming he is not on a suicide mission, like some notorious cult leader.

Quality long-dated government bond yields continue to range in top formation development. US issues show the best relative strength, despite somewhat higher inflation at 3%, because the Government is redeeming debt due to its budget surplus, and global investors have confidence in US financial assets. European bonds are lagging due to the prospect of higher short-term interest rates, plus the supply of debt that will be issued by telecoms to finance their expensive new licenses.

Strategy for bonds - US bonds have been a good investment this year, outperforming the stock market indices. Judging from the chart, risk is limited to some

additional top formation development for long-dated yields before they range somewhat lower. While traders may wish to take some profits, long-term investors can hold positions but I would only consider adding to these when yields back up. Similarly, with European bonds I would only contemplate buying when yields firm within their tops as we have seen recently. FM194's strategy for bond investors living outside the euro zone was to wait until the single currency retested its low against the US dollar before buying. This opportunity is now available and it is particularly attractive for Japanese investors, who should diversify out of the yen and into higher yielding overseas assets. As for JGBs, I have resisted the temptation to short this market, at the risk of missing an important move now that the prices have weakened, fearing that Japan's Government will bid bond prices higher once again. It does this to recapitalise clearing banks through the yield curve.

Global Stock Markets

■ **The cartel-induced oil shortage is reviving inflationary concerns, particularly in Euroland where the soft currency increases import costs.**

■ **Global GDP growth has slowed due to the oil price rise, higher short-term interest rates and the stock market correction.**

■ **Technical evidence continues to reaffirm that the statistical bear markets for major indices, where they occurred, are over. The environment for global stock markets remains neutral/bullish provided an energy crisis is avoided and central banks do not overreact by lifting rates too high.**

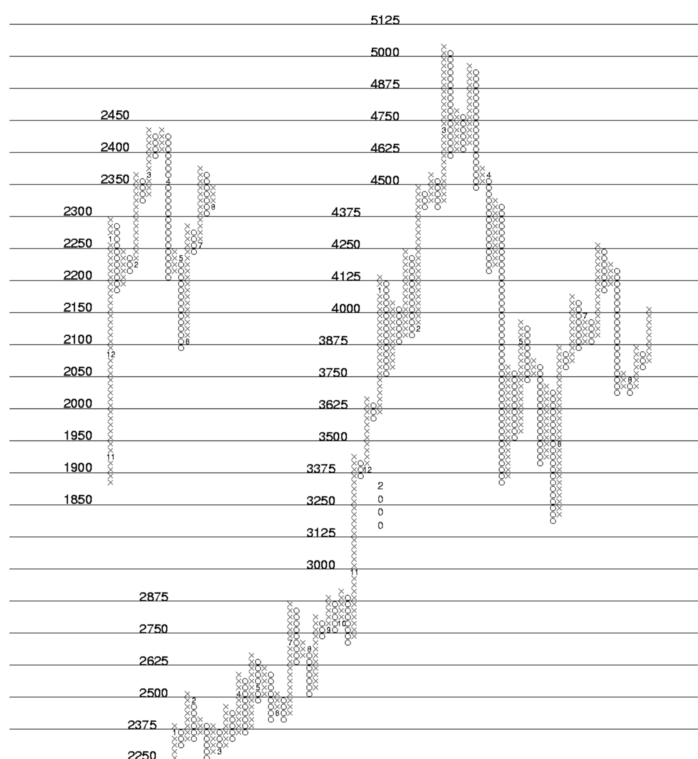
■ **A post-convention lead for Bush in the polls and his election as US president would have a bullish influence on US stocks over the short to medium term.**

Crude oil over $32 a barrel (spot NYME) is a problem for global stock markets. Oil prices have tripled in US dollars since early 1999; therefore the rise is even higher in other currencies since all (except the yen) have declined against the greenback over the last eighteen months. This steep increase in the cost of petroleum is due primarily to the OPEC cartel which cut production significantly last year and has been slow to increase it subsequently. Their off-the-record policy may not be entirely economic, following the recent breakdown in the Camp David Israeli/Palestinian talks. In any event, increasing energy costs can only slow GDP growth by being the equivalent of a tax on consumption in all oil importing countries. It also increases inflation, causing central banks to push up short-term rates, which further dampen growth. Germany's Bundesbank cited the soft currency and surging oil prices as the reasons for increasing inflation in Euroland and called for the European Central Bank to raise rates once again in its monthly report for August. Increasing petroleum costs, which cause central banks to tighten monetary policy will not help stock markets, with the exception of oilfield services companies and related industries.

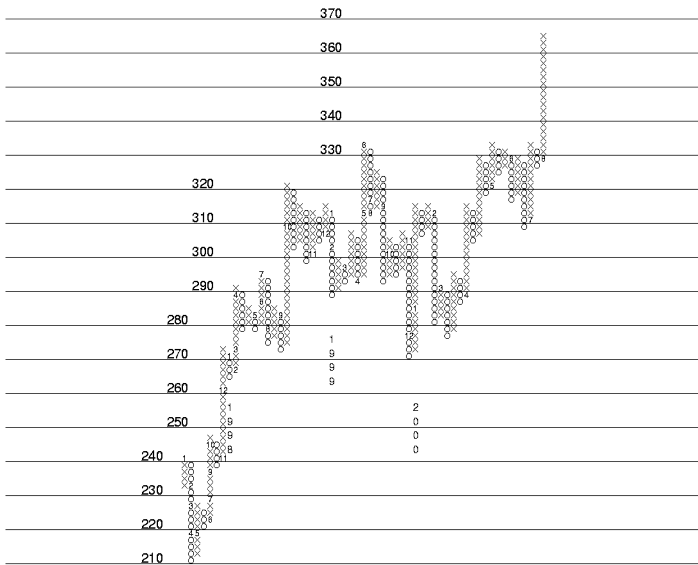
Global GDP growth is certainly not overheating. It remains strongest in the US, among the larger industrialised countries, but is less than most economists were forecasting earlier in the year due to oil prices, interest rates and the previous stock market correction. Slower US growth has a knock-on effect globally. Higher short-term rates in Euroland would not help the region's uneven economic recovery and still unacceptably high unemployment, particularly in Germany and Italy where domestic demand lags well behind exports which have benefited considerably from the soft euro. The Bank of Japan's first rate hike in 10 years may be a one-off act of defiance (virtually everyone else in the economics profession, both within and outside Japan, advised it not to raise rates) but it won't encourage the recovery that remains largely a figment of Governor Hayami's imagination.

The overall technical evidence remains benign but investors are not discounting the risk of another oil price spike. I maintain that statistical bear markets for major indices, where they occurred, are over. Previously weak old economy stocks started to bottom out in March, with many TMT shares reaching lows in April and May. While most indices remain rangebound, more have tested the upper rather than lower side of these bands recently. Where breakouts have occurred, these have usually been on the upside. Even Asian indices, which have under performed this year, steadied recently. Cumulative advance/decline data has improved, indicating that breadth has returned to the market. In the previous environment a few large capitalisation stocks dominated performance. A bond market rally and the relative strength of financial stocks

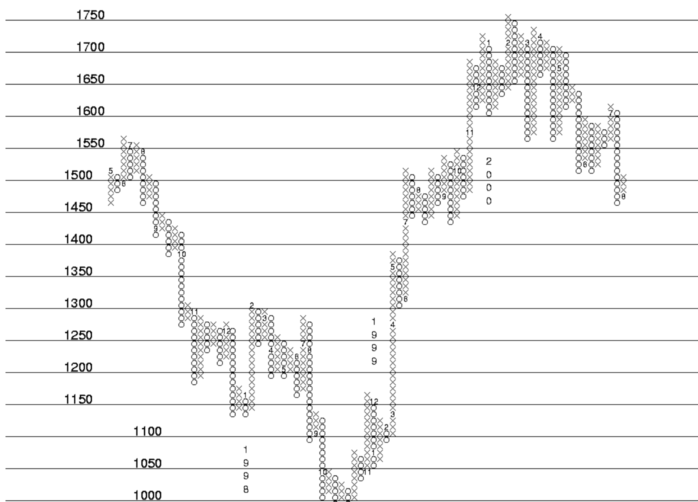
FWMI (10pt) and NASDAQ Composite Index (25pt)



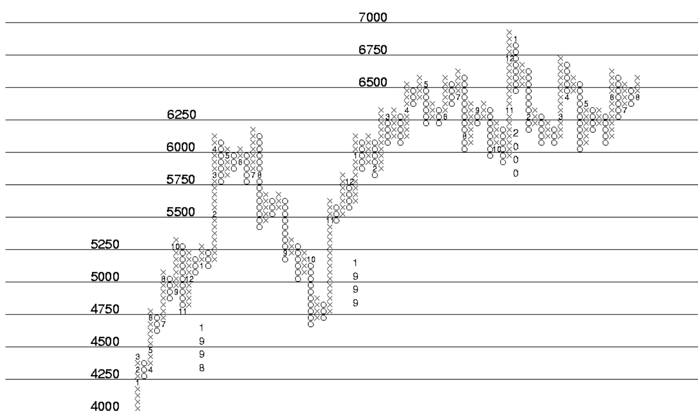
Dow Jones Utilities Index (2pt)



Tokyo Topix Index (10pt)

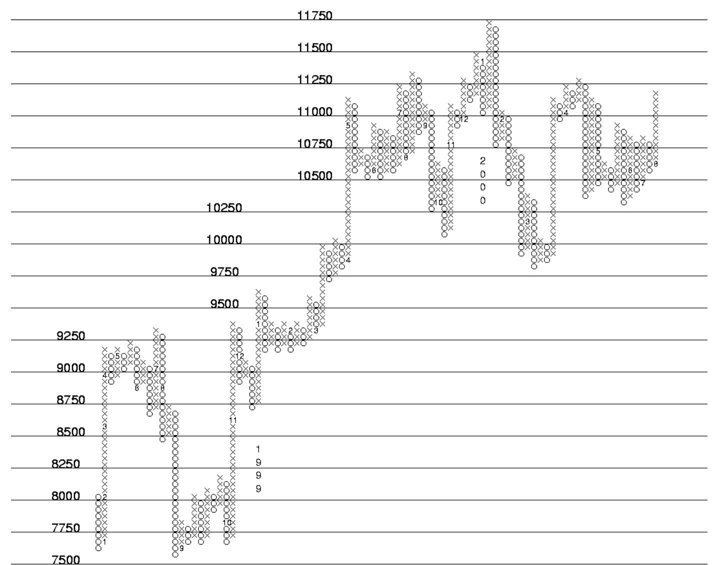


United Kingdom FTSE 100 Share Index (50pt)

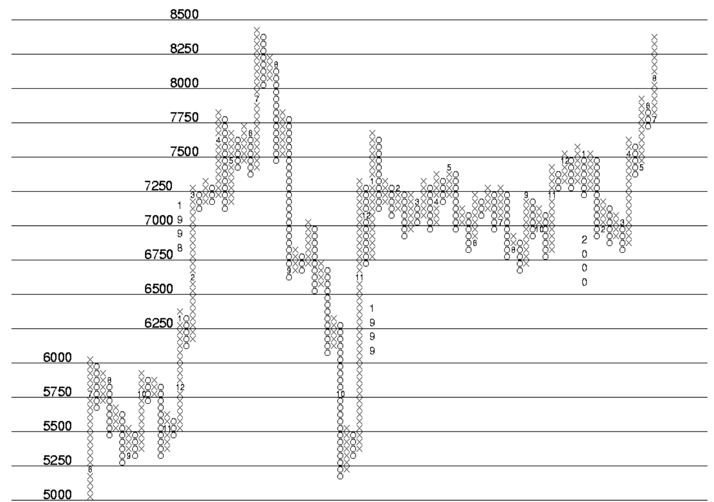


confirmed that investors were more relaxed about interest rates and inflation. All of these developments have been favourable but now we have the risk of another oil price scare. Bond markets have faltered. Higher crude prices, should they occur, would suggest another reaction by global stock markets, in proportion to the extent and persistence

Dow Jones Industrial Average (50pt)



Switzerland Swiss Market Index (50pt)



of any increase in energy costs that occurred. Conversely, lower oil prices would be bullish for all but the energy industry.

Al Gore's confident, populist acceptance speech has boosted his poll ratings, making the US presidential election campaign interesting. However his reference to "the powerful forces" and "big polluters" will have worried more investors than it reassured. The Democrat Party's candidate took a swipe at the oil, tobacco, insurance and pharmaceutical industries. In contrast, George Bush would be less likely to target industries and companies, including Microsoft. A lead for Bush in the polls would be better for the markets. Historically, new presidents usually receive a market honeymoon period. This could even be the case in the event of a Gore victory, if the Republican Party retained control of Congress. If the Texas Governor leads in the polls and wins, one sector that would do well is defence. My guess? Bush wins but the US electorate, in its wisdom, returns control of the House of Representatives and perhaps even the Senate to the Democrat Party, maintaining the balance of power.

Chart review of topical stock market indices - *These p&f charts and hundreds more can be found on our website - www.fullermarkets.com - which is updated daily. The p&f graphs are based on closing prices and all comments in this section refer to closing levels.*

The Fullermarkets World Market Indicator (2340) has steadied with its June-August recovery - *see page 3* - A decline to 2290 is required to indicate another correction rather than a further test of the March peak area up to 2430. The FMWMI is unweighted and based on 15 world indices in local currencies.

The US's NASDAQ Composite Index (4020) encountered support well above its April-May lows during the last correction but remains rangebound overall - *see page 3* - A move to 3750 is needed to check the current recovery and 3650 for a possible retest of this year's lower boundary. **The Dow Jones Utilities Index (360) has broken to its highest level for many years.** While this advance is beginning to look temporarily overstretched, a move back under 330 is necessary to suggest a possible upside failure. **The Dow Jones Industrial Average (11168) has reached its highest level since April**. At 11300 the door would open for a test of January's all-time peak near 11700. A decline to 10250 is required to signal significant pattern deterioration.

Japan's Tokyo Topix Index (1511) has steadied following a further erosion of support. If it backs away from initial overhead trading near 1510 the August-September reaction lows at 1430 will probably be taken out. A rally to 1620 is needed to offset this pattern's lower bias.

Switzerland's SMI Index (8350) has been an outstanding relative performer since March, for the same reason it ranged for over a year before rallying - few tech stocks. There may be some psychological resistance from the July 1998 peak near 8400 but a correction of 300 points, exceeding the April and June reactions, is needed to check momentum beyond a short-term pause.

The UK's FTSE 100 Index (6557) has quietly firmed within its long trading band. A move to 6650 would break this year's sequence of three lower rally highs, providing additional evidence that demand is gradually

New Share Recommendations

Blue-Chip & One Tech Wreck Recoveries

I include buying ranges because I wouldn't pay up for anything in this market. If I miss, I miss.

Share	Price 22/08/00	Buying Range	Industry
GUS, UK (GUS LN)	492p	490p-440p	Retail
Proctor & Gamble, US (PG)	$64.125	$64-$55	Consumer Prod.
Raytheon, US (RTN/B)	$28.75	$28-$22	Aero./Defense
Sara Lee, US (SLE)	$18.9375	$18.5-$16	Food
Compaq Computer, US CPQ	$34	$32-$26	Computers

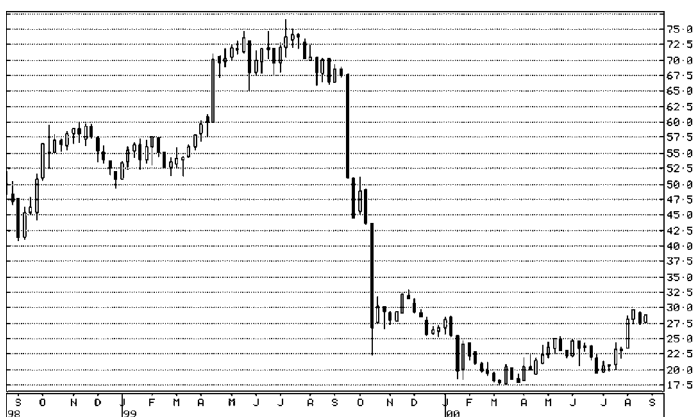
Japanese Bank Wreck Recoveries

This is a gamble but countries don't let their banking sectors go bust, a scapegoat or two aside, and I am impressed by the rallies for banks shares in the West.

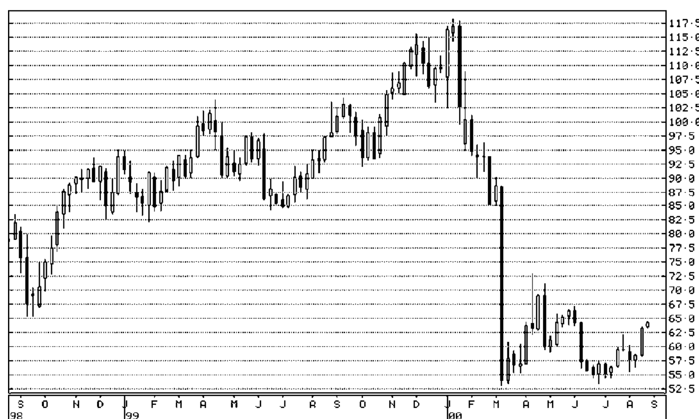
Share	Price 22/08/00	Buying Range
Bank of Yokohama, 8332	¥472	¥475-¥420
Fuji Bank, 8317	¥807	¥810-¥740
Industrial Bank of Japan, 8302	¥798	¥800-¥730
Sakura Bank, 8314	¥751	¥755-¥700
Sanwa Bank, 8320	¥966	¥960-¥880

GUS (GUS LN) (Weekly)

Raytheon (RTN/B) (Weekly)



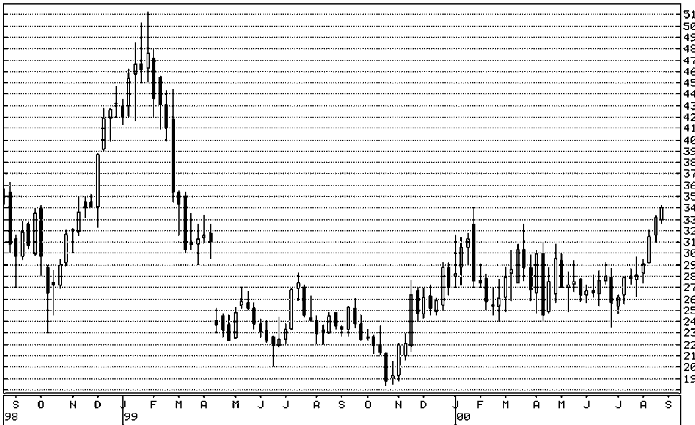
Proctor & Gamble (PG) (Weekly)



Sara Lee (SLE) (Weekly)

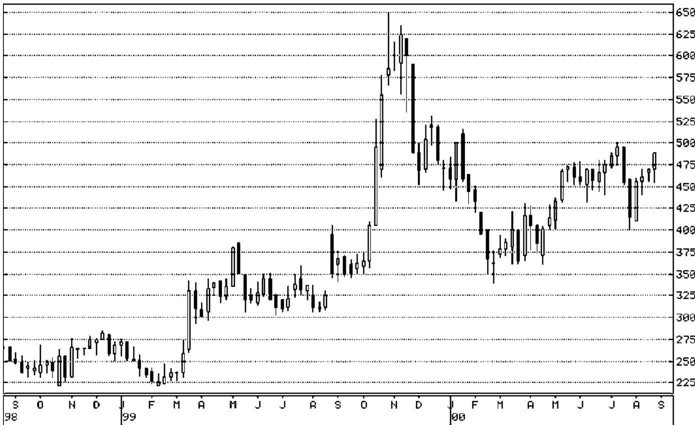
Industrial Bank of Japan (8302) (Weekly)

Compaq Computer (CPQ) (Weekly)



Sakura Bank (8314) (Weekly)

Bank of Yokohama (8332) (Weekly)



Sanwa Bank (8320) (Weekly)

Fuji Bank (8317) (Weekly)

gaining the upper hand. ***A decline to 6200 is required for evidence of pattern deterioration.***

Conclusion and strategy for stock markets - I'm concerned about the oil price which has become a problem once again. While remaining reasonably relaxed about interest rates, I don't think we have seen the last of the European increases from both the ECB and the BoE's MPC for this year. The recent bond market wobble in Europe has temporarily removed a bullish influence. Somewhat higher rates, partially to offset extra inflation from oil prices, are a constraint on corporate profits which may not be entirely recouped in Euroland by currency weakness. Nevertheless I maintain that on balance the environment for global equities remains neutral/bullish, providing many opportunities. The

List of Recovery Shares from FM190

FM190's 'Boring' Old Economy Stocks To Beat The NASDAQ
UK Low-P/E, High-Yield Stocks
This list and the one containing US shares immediately below, were included in the March issue to make a point - that NASDAQ tech stocks were overvalued and old economy shares undervalued. There are some performance dogs in this list but if they can maintain the dividend they also have the potential to rebound sharply, especially when the BoE's MPC signals that interest rates have peaked. Conversely, with old economy stocks that do very well in the short term it is usually a good idea to take the profit near prior resistance, given overall volatility. The average yield for these shares was 6.65% on 21st March 2000.

Share (UK)	Price 21/03/00	Price 22/08/00	Percent + or -
Barratt, BDEV	225.5p	228p	+1.1%
Beazer, BZR	126.5p	114.5p	-9.5%
Bellway, BWY	228.5p	256.5p	+12.3%
Bryant, BRYN	114p	131.5p	+15.4%
Crest Nichol.,CRST	140.5p	118p	-16%
Dairy Crest, DCG	134p	185p	+38.1%
Expamet, EXI	88.5p	118p	+33.3%
Hazlewood, HZLE	83p	83.5p	+0.06%
Heywood, HYWD	211p	221.5p	+5%
ICI, ICI	500.75p	461p	-7.9%
Kelda, KEL	239p	355p	+48.5%
Low & Bonar, LWB	152.5p	107.5p	-29.5%
McAlpine, MCA	196.5p	182p	-7.4%
Mowlem, MWLM	96.5p	105p	+8.8%
Northern Fd., NFDS	104.75p	114p	+8.8%
Rank, RNK	152p	168.5p	+10.9%
Rexam, REX	210.25p	233.5p	+11.1%
Scottish & N., SCTN	403p	472.5p	+17.2%
Smith WH, SMWH	337p	375p	+11.3%
Tomkins, TOMK	198p	217p	+9.6%
Unigate, UNIG	299.75p	315.4p**	+13.6%
United Ind., UNI	40.5p	25.5p	-37%
Weir, WEIR	179p	212p	+18.4%
Whitbread, WTB	533.5p	523p	-2%
Wimpey, WMPY	102.5p	110p	+7.3%
Average Gain/Loss	**NASDAQ -16%**	**FM190 List +6.46%***	

US Low P/E, High-Yield Stocks
The average yield for this group was 6% on 21st March 2000.

Share (US)	Price 21/03/00	Price 22/08/00	Percent + or -
Con. Ed., ED	$30.5	$31.675	+3.9%
Goodyear, GT	$23.75	$24.5625	+3.4%
Northrop G., NOC	$54	$74.875	+38.7%
Pacific Gas E., PCG	$21.25	$28.675	+34.9%
Philip Morris, MO	$20.45	$31.9375	+56.2%
Public Serv., PEG	$28.5	$36.0625	+26.5%
USX-US Steel, X	$23.60	$17.0625	-27.7%
Average Gain/Loss	**NASDAQ -16%**	**FM190 List +19.4%***	

* Not adjusted for dividends paid.
**Unigate's price includes 65.4p cash settlement following divestment of its dairy and cheese business.

key factor in my analysis is always the technical action. Looking at the charts on our website, I believe that the overall environment for stocks is still improving, led by the right sectors - financials and utilities. Investor confidence is gradually returning and money flows remain positive. However I expect the volatility to continue so I would not

List of Recovery Shares from FM191

UK Low-P/E, High-Yield Stocks
Only shares looking oversold on the charts and/or showing evidence of base formation development were selected. The average yields for these stocks on 25th April 2000 was UK 6.36%, US 4.17% and Japan 2.7%.

Share (UK)	Price 25/04/00	Price 22/08/00	Percent + or -
Balfour Beatty (formerly BICC) symbol now BBY	77.5p	107p	+38.1%
Glynwed, GLYN	208.5p	210.25p	+0.08%
Hepworth, HPW	164p	196.5p	+19.8%
IMI, IMI	245p	231p	-5.7%
Laing (John), LNGO	221p	299p	+35.3%
McKecknie, MKNE	272p	391.5p	+43.9%
Pilkington, PILK	71.5p	99p	+38.5%
TI Group, TI/	361p	340p	-5.8%
TT Group, TTG	108p	143.5p	+32.9%
Average Gain/Loss	**FTSE +4.8%**	**FM191 List +21.9%***	

US Low-P/E, High-Yield Stocks

Share (US)	Price 25/04/00	Price 22/08/00	Percent + or -
Ashland, ASH	$34.4375	$35.75	+3.8%
Bank of Am., BAC	$51.4375	$54.5625	+6.1%
Delhaize, DZA	$18.4375	$15.5625	-15.6%
Pennzoil, PZL	$10.625	$12.1875	+14.7%
Xerox, XRX	$26.6875	$16.625	-37.7%
Average Gain/Loss	**S&P 500 +1.4%**	**FM191 List -5.7%***	

Japanese Low-P/E, High-Yield Stocks

Share (Japan)	Price 25/04/00	Price 22/08/00	Percent + or -
Chubu E P, 9502	¥1730	¥1910	+10.4%
Kansai E P, 9503	¥1719	¥1878	+9.2%
Osaka Gas, 9532	¥305	¥284	-6.9%
Tokyo E P, 9501	¥2510	¥2500	-0.04%
Tokyo Gas, 9531	¥238	¥280	+17.6%
Average Gain/Loss	**Nikkei 225 -9.9%**	**FM191 List +6.1%***	

*Not adjusted for dividends paid.

chase any fashionable sectors and the risk of an oil shock has increased. I'm still recommending individual stocks and there are additional comments in the share table sections that follow. Futures traders/hedgers are welcome to see a copy of our *STOCK MARKETS Daily Market Analysis* report which covers 14 contracts and is available by email.

Currencies

■ **Myth of US dollar vulnerability due to America's current account deficit debunked.**

■ **Have we commenced Part 2 of the euro's "crisis"?**

■ **The yen is in a late stage of top development and will fall much further over the next two years than most people expect.**

I wish I had a shrinking euro for every time I've read that America's current account deficit "guaranteed a

Recommended Tech Stocks with Earnings from FM193

Blue-Chip Tech Stocks
Purchase prices shown are based on the buying range recommended and were reached between FM193 and FM195 (29/6/00-22/8/00). For a fair comparison with the NASDAQ, I have used 3725.12 as its benchmark, representing the mid-point between the high on 29th June (3929.1) and the subsequent low up until 22nd August, which was on 3rd August (3521.14).

Share	Purchase Price (Average)	Price 22/08/00	Percent + or -
Altera, US (ALTR)	$47.375**	$61.625	+30%
Intel, US (INTC)	$63.22**	$72.125	+14.1%
Micron Tech., US (MU)	$81.5	$88	+8%
Microsoft, US (MSFT)	$73.125	$71.25	-2.6%
Oracle, US (ORCL)	$77.0313	$83.5625	+7.8%
Xilinx, US (XLNX)	$76.6875	$87.6875	+14.3%
Nokia, Fin. (NOK 1V FH)	E52	E47.92	-7.8%
Average Gain/Loss	**NASDAQ +6.3%**	**FM193 List +9.1%***	

Tech-Wreck Recovery Candidates With Earnings
Purchase prices and NASDAQ benchmark level calculated as above.

Share	Purchase Price (Average)	Price 22/08/00	Percent + or -
SAP, Ger., (SAP GY)	E160.75	E213	+32.5%
Sema, UK (SEM LN)	881p	1123p	+27.5%
Average Gain/Loss	**NASDAQ +6.3%**	**FM193 List +30%***	

*Not adjusted for dividends paid.
**Adjusted for 2 for 1 split.

FMP116 05/07/00 Share Recommendations

Four Value Stocks to Benefit From Lower Oil Prices
Since oil has rallied to new highs these shares may now underperform until it falls back. Purchase prices shown are buying range recommended and reached between 5th July and 19th July. For a fair comparison with the DJIA, I have used 10382.89 as its benchmark, representing the mid-point between the high on 5th July (10572.69) and the subsequent low up until 19th July (10393.09). The average yield for these shares when recommended on 5th July was 4.1%.

Share	Purchase Price (Average)	Price 22/08/00	Percent + or -
Ford, US (F)	$25.5**	$28.75	+11.3%
DaimlerChrysler, Ger.(DCX GY)	E56.10	E60.75	+8.3%
General Motors, US (GM)	$59.34375	$69.3125	+16.8%
Volkswagen, US (VOW GY)	E39.93	E50.21	+25.7%
Average Gain/Loss	**DJIA +7.3%**	**FM193 List +15.5%***	

*Not adjusted for dividends paid.
**Adjusted for capital restructure.

Recommended Tech Stocks with Earnings from FM194

Blue-Chip Tech Stocks
Purchase prices shown are based on the middle of the buying range recommended and reached between 21st July and 22nd August. For a fair comparison with the NASDAQ, I have used 3842.24 as the benchmark, representing the mid-point between the high on 21st July (4163.34) and the subsequent low on 3rd August (3521.14).

Share	Purchase Price (Average)	Price 22/08/00	Percent + or -
Motorola, US (MOT)	$34.4375	$36.5	+6%
WorldCom, US (WCOM)	E34.3125	$42.5	-19.3%
Average Gain/Loss	**NASDAQ +3%**	**FM194 List -6.65%***	

Tech-Wreck Recovery Candidates With Earnings

Share	Purchase Price (Average)	Price 22/08/00	Percent + or -
Autonomy, UK (AUTN ES)	$43.75**	$47.75	+9.1%
Azlan Group, UK (ASL LN)	147.75p	165p	+11.7%
Cap Gemini, Fr. (CAP FP)	E195.6***	E206.9	+5.8%
Getronics, Neth. (GTN NA)	E16.25	E14.6	-10.2%
KLA-Tencor, US (KLAC)	$50.5	$55.625	+10.1
National Semicon., US (NSM)	$45	$45	0%
Average Gain/Loss	**NASDAQ +3%**	**FM194 List +4.4%***	

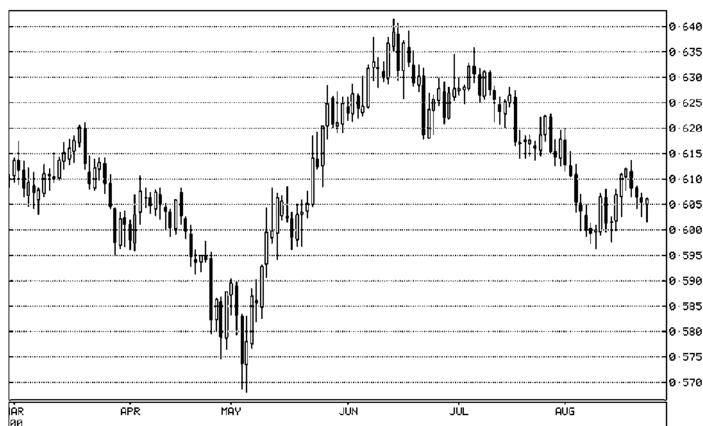
*Not adjusted for dividends paid.
**Adjusted for 3 for 1 split.
***Buying range raised in FMP120 (01/08/00).

collapse for the US dollar". The majority of economists who comment on currencies have repeated the myth of dollar vulnerability like a mantra in recent years, perhaps on the basis that they had to be right some day. These pundits have been especially bearish of the greenback against Continental European currencies. However the charts have shown the dollar to be in an overall bull market since mid-1995, a trend that I maintain could easily run for several more years due to the US economy's superior growth rate and widening technology lead. As for the current account deficit, forget the raw numbers (roughly $30bn a month) because it's not what it seems. Instead, look at the products because US companies embraced the global economy long ago. For anyone who bothers to read the labels, it is obvious that American firms manufacture an enormous amount of goods overseas, especially low-tech items. This is a very sensible commercial decision and I have long maintained that the US at least partially owns much of what it imports, although I couldn't cite numbers. Now I can, thanks to a recent article in Barrons written by Marc Chandler, chief currency strategist at Mellon Financial Corp. According to his figures, US companies produce roughly two fifths of what America imports. Moreover, US firms increasingly supply foreign markets from non-US affiliates rather than from home. According to Chandler, in 1996 (the latest year for which full data is available) foreign sales by these US affiliates amounted to $1.15 trillion, compared to $612 billion of exports from the US. Presumably the US controls even more of what it imports today and sales by overseas affiliates have increased relative to domestic exports because its firms have led the globalisation drive in recent years. In conclusion, the US current account deficit, which inspires dire forecasts for the dollar most months, is the result of smart commercial decisions rather than a lack of competitiveness. Of course the US foreign affiliates deal in and hold most of the world's currencies but if they ever repatriated capital on a large scale, for whatever reason, the dollar would soar unless this flow was offset by foreign disinvestments. Meanwhile, most non-US citizens and especially Europeans are increasing their commercial and financial market investments in the US. The dollar will fall one day, given the long-term cyclicality of economies and markets, but the cause is unlikely to be the current account deficit.

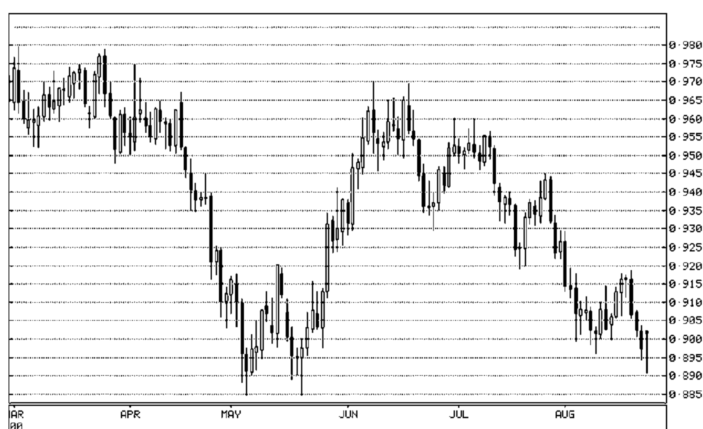
Welcome to Part 2 of the euro "crisis". The ECB is contemplating another hike in short-term rates because aggregate inflation is edging higher, due mainly to the single currency's weakness and higher oil prices. However a rate hike is unlikely to boost the euro against the US dollar because European rates will still be lower and they are not currently the key influence on currency traders. Line up the other factors such as primary trend, relative growth rates, international cash flows, credibility of the Fed versus the ECB, etc and the dollar is favoured by the people who actually buy and sell currencies, unlike most economists, on every point except the US current account deficit discussed above.

The euro is still viewed in the marketplace as an unproven experiment of dubious merit. Look beyond the politicians' soothing words and one sees Ireland's inflation at 6.2% and climbing, Spain's at 3.6% and Germany's GDP growth is still lagging. Higher short-term rates could actually weaken the euro by undermining confidence in growth vis-à-vis the US. Ask a German or Austrian what they think of the euro - privately - and a majority will reply "we gave up our good German marks and Austrian schillings for Italian lira"! I have always feared that the single currency would revive rather than reduce enmities within Europe that were previously in decline due to free trade resulting from the Common Market. A key date for the euro is 28th September when the Danish referendum takes place. Despite intense lobbying by the Government in favour of joining the single currency, the result is likely to be a cliffhanger. If the no vote wins, the euro's image problem will worsen, with people viewing it as a club that lesser rather than more developed countries now seek to join. If the yes vote triumphs, the single currency may experience a technical rally and pro-euro factors within the UK and Sweden will be emboldened. I have maintained since May that the euro reached a medium-term floor against the US dollar near 88.5¢ - a level that would be retested and eventually broken. Four months ago, persistent jawboning by the ECB and Euroland finance ministers, including threats of market intervention, triggered a short covering rally. Inevitably, the same rhetoric, unaccompanied by intervention, would be less effective the second time around. A break above 92¢ is currently required to remove short-term pressure on the euro's May low against the US dollar.

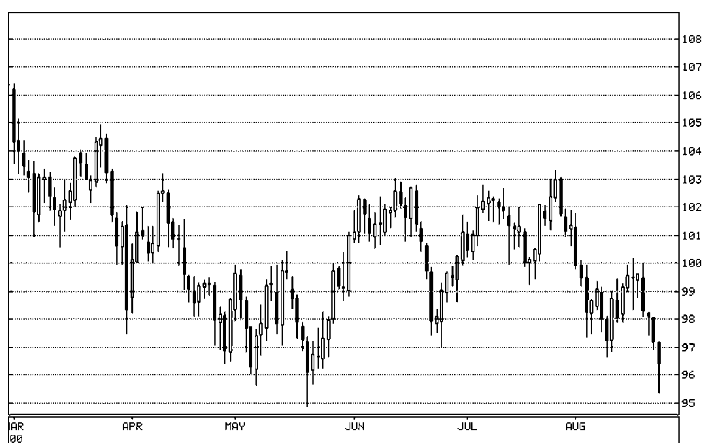
Pound Sterling per 1 Euro (Daily)



US Dollar per 1 Euro (Daily)



Japanese Yen per 1 Euro (Daily)

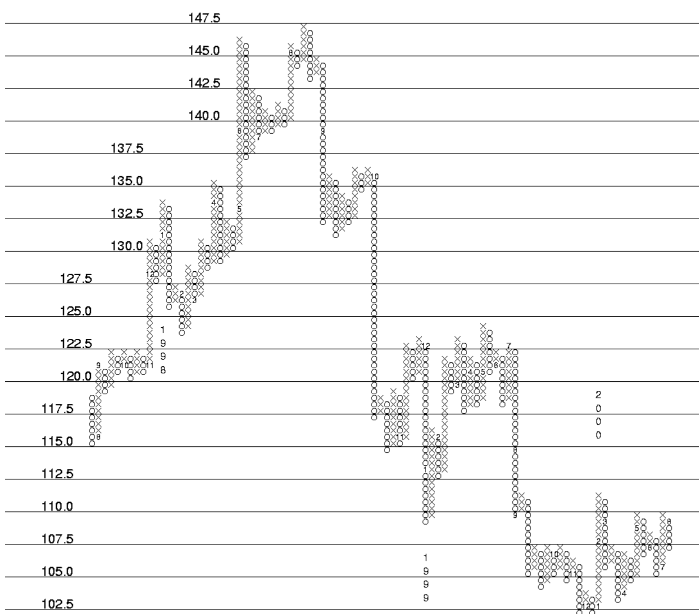


Capital repatriation will not prop up the yen for much longer. For many months Japanese companies have been repatriating capital to shore up their weakening balance sheets. Coincidentally Japan's insurance companies have dumped euro-denominated investments to prevent further capital depreciation. These capital flows, which are finite, have deterred other investors and speculators from re-establishing yen carry positions despite rates of interest that exceed the yields offered by quality long-dated government bonds. Meanwhile, Japan's Catch-22 is that the economy cannot possibly fulfil its recovery potential while the yen remains near current levels, crippling corporate operating profits. Something has to give and it will be the yen, regardless of what BoJ Governor Hayami does with interest rates. While the euro's renewed weakness may deter yen-selling for a little longer, the next significant move will be downwards and I expect it to continue much further than most people suspect over the next two years. For the US dollar, my minimum medium to longer-term target is ¥160. Meanwhile the psychologically significant level on the charts that would signal upside scope against the yen is ¥110 to ¥112.

Strategy for currencies - I remain primarily interested in short yen positions. My strategy during this base formation

Japanese Yen per 1 US Dollar (Daily)

Japanese Yen per 1 US Dollar (0.5)



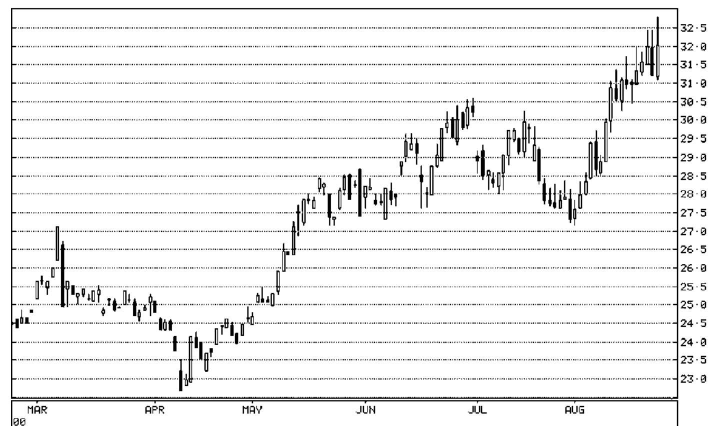
stage for the US dollar and other leading currencies against the yen is to buy lightly on easing, reducing exposure somewhat on rallies, while maintaining a core long position, at least for the greenback. This Baby Steps tactic is designed to harvest trading ranges since the dollar moved below ¥107 recently, it could move a little lower within its developing base. When it eventually sustains a rally above ¥110 for more than a few days, I will probably switch to trend running tactics. The alternative is to just establish a long position two to three years out. This is cushioned by extremely attractive interest rate differentials while one waits for the eventual capital appreciation. *See FM194 for an additional discussion of tactics and our Spot Currency or Currency Futures Daily Market Analysis reports, available by email, which cover all major currencies.*

Commodities

■ **A buying panic in the oil market as OPEC withholds supply.**

■ **Sugar is too high; soybeans are too low.**

Crude Oil (Oct NYME) (Daily)

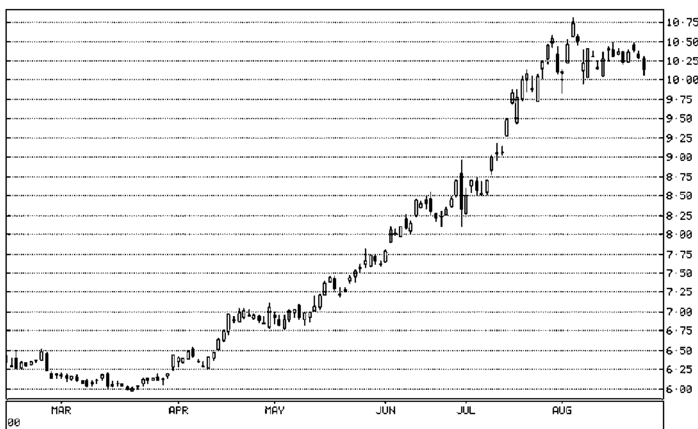


The squeeze on oil supplies continues. I don't like cartels. They usually start as a reasonable idea - a pooling of interests, often among rivals, to improve their market and livelihoods in the process. Hardly anyone disagreed that oil was too cheap at $10 a barrel in early 1999. Cartels that limit the supply of a key commodity can be very successful, for a while. OPEC has succeeded well beyond its stated target of $20 a barrel (NYME). But cartels never back off once they have achieved their initial goals. They like the income and the political kudos. Who wouldn't? The power becomes a narcotic. Cartels become greedy, just as most of us have in the markets from time to time. The experience may not be edifying but it's human nature. A stock market mania may eventually cost us but it seldom does any lasting harm to anyone else. Oil is different. The readers of this publication can afford higher gasoline costs and winter heating bills. The people who lose are the poor, wherever they live. And it's not just their immediate costs - expensive petroleum slows growth, particularly in developing countries. As for the cartels, they overplay their hand and self-destruct. We've seen it before. When a commodity becomes too expensive, consumption declines, alternatives are found and most importantly the supply eventually increases. The accelerating rises in petroleum prices look like bubbles on the charts. However they won't burst until the backwardations (premiums of spot over futures prices) disappear.

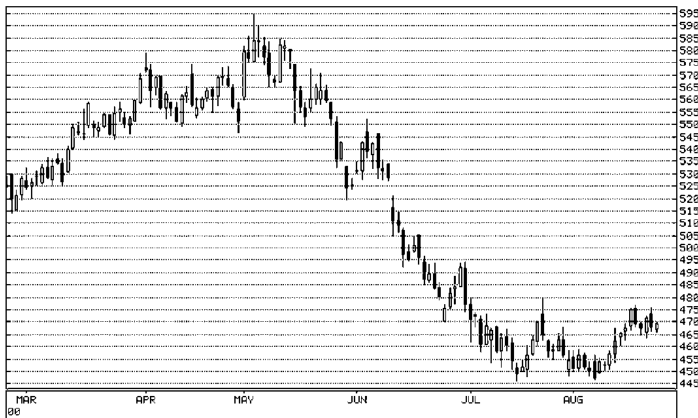
Sugar and soybean prices are at opposite extremes. The sweet commodity has seen a huge rise since March, due to lower production estimates. These included crop damage in China and reports that Brazilian farmers were growing less sugar because of the previously low prices. As for future production, the commercial disincentive has obviously disappeared. Sugar cane and especially beet are hardy plants and most countries grow one or the other. The only question is will supply catch up quickly enough to drive the price back down in the next few months. Probably, even though there is still a backwardation. Looking at the chart a close over the early-August high of 10.81¢ (March CSCE) is now required to challenge the top building hypothesis. In contrast, soybeans fell persistently from their May high, are at historically low levels, have lost downward momentum and show potential base formation development. There has

Gas Oil (Oct IPE) (Daily)

Sugar (Mar CSCE) (Daily)



Soybeans (Nov CBT) (Daily)



been some concern over insufficient moisture for the US crop but this has not yet been sufficient to trigger more than a small short-covering rally.

Strategy for commodities - Looking at the latest charts I feel like Harry Houdini to have escaped with very modest profits from the oil shorts mentioned last month. However prices broke downwards out of their ranges in late July, justifying a switch from Baby Steps range trading to trend-running tactics as discussed. Our ENERGY Daily Market Analysis service reversed from short to long and is still running those positions as I complete this issue - *ask for a free current sample (email only) if you are interested in energy futures.* The coffee rally came and went with great haste, and prices have trended lower. There is currently too much inventory for the market to worry about damage to next year's crop but coffee becomes more interesting with each additional decline. I'm waiting for an upside chart signal. I like to short agricultural commodities when their rallies lose momentum and have a sugar position, which is small because of the backwardation. I also have a small long position in soybeans, following the rating change in our daily GRAINS DMA service, but suspect sugar is the better candidate.

The Global Economy

■ **The OPEC cartel is delaying oil production increases, possibly due to the Israeli/Palestinian impasse over control of Jerusalem. High energy costs can only slow the global economy.**

■ **Given lower oil prices, global GDP growth would continue to expand at a moderately good, non-inflationary pace, led by the US, with Japan lagging other developed countries.**

The politicisation of oil is a problem. Saudi Arabia's impatience over OPEC's prevarication regarding oil supplies was apparent in early July when the world's largest producer announced it was prepared to increase production unilaterally, until the price fell back to $25 (NYME). This was before the Camp David peace talks between the Israelis and Palestinians broke down, largely over who would control sections of Jerusalem. The Islamic States are united in their desire to see an independent Palestine that also governs Jerusalem's holy sites of significance to Muslims. There is no easy solution to the impasse over Jerusalem, particularly concerning Haram al Sharif, containing what Palestinians refer to as the Dome of the Rock and the Al-Aqsa mosque but for Israelis is The Temple of the Mount. OPEC's unstated agenda in pumping less oil than mutual economic interests would warrant, is to squeeze the US and other importers of petroleum sufficiently for them to pressure Israel for more concessions during the critical negotiations that lie ahead.

You are strongly advised to read the following: *This report has been produced and compiled by Fullermarkets, a division of Stockcube Research Limited ("Stockcube") which is regulated by the Securities and Futures Authority Ltd, according to the requirements of the Financial Services Act 1986. It is distributed by Stockcube and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time Stockcube and any of its officers or employees may, to the extent permitted by law, have a position or otherwise be interested in any transactions, in any investments (including derivatives) directly or indirectly the subject of this report. Also Stockcube may from time to time perform other services (including acting as adviser or manager) for any company mentioned in this report. The value of securities can go down as well as up, and you may not get back the full amount you originally invested. Derivatives in particular are high risk, high reward investment instruments and an investor may lose some or all of his/her original investment. If you make an investment in securities that are denominated in a currency other than that of GB Pounds you are warned that changes in rates of foreign exchange may have an adverse effect on the value, price or income of the investment. The investments referred to herein may not be suitable investments for all persons accessing these pages. You should carefully consider whether all or any of these are suitable investments for you and if in any doubt consult an independent adviser. This report is prepared solely for the information of clients of Stockcube who are expected to make their own investment decisions without reliance on this report. Neither Stockcube nor any officer of Stockcube accepts any liability whatsoever for any direct and consequential loss arising from use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Stockcube.*

This situation is potentially dangerous because the oil cartel can have a bigger impact on global GDP growth than any individual central banker or political leader. In the worst-case scenario, which I estimate as a 20% possibility, oil soars beyond its recent high at $32.75 because production is intentionally kept below 1998's levels. This is equivalent to a massive tax on consumption for all oil-importing countries. However central banks respond with further rate hikes to the short-term inflationary pressures caused by higher petroleum prices. Global growth slows rapidly; the cost of oil tumbles on shrinking demand and deflation becomes the problem. This situation does not improve until central banks slash rates.

Hopefully, common sense prevails and oil supplies are increased until the price falls back to a range near the Saudi's stated target in July - $25 a barrel. That would still be highly lucrative for producers, while encouraging additional exploration, more efficient usage of petroleum plus the development of alternative sources of energy. If an upward spiral in the price of petroleum is avoided, there is nothing else on the visible horizon to prevent the global economy from continuing to grow at a moderately good, non-inflationary pace. This would still be led by the US, where the Federal Reserve's prudent handling of monetary policy has succeeded in slowing the US economic juggernaut and reining in stock prices. The unprecedented pace of technological innovation continues to spawn new industries, not to mention a multitude of products, at a record pace. Along with the worldwide web these will continue to boost productivity for virtually all companies and organizations. Since the US typifies the new economy, telecoms excepted, it can maintain an historically high rate of growth and moderate inflation indefinitely, subject to earlier comments about oil prices. This script will not be altered significantly by the election results in November. While mainstream Republicans and Democrats differ on many issues, both presidential candidates are pro growth and believe in free trade.

Subject to oil prices, Euroland's aggregate GDP growth is sustainable, helped enormously by the soft currency. However the region is unlikely to match the US, whatever happens to energy costs, because regulatory and tax regimes are less favourable, the entrepreneurial culture is less established and Europe lags North America technologically, telecoms excepted. Nevertheless behind the French Government's Socialist/statist rhetoric there is evidence of economic pragmatism. Economic growth and some notable sporting success have considerably boosted confidence among French people generally. Germany has lagged, having entered the euro at a punitive rate. However the Schroeder Government's recently announced, albeit delayed, tax cuts which include the eventual reduction of both corporate and income rates, plus the abolition of capital gains taxes on corporate shareholdings from 1st January 2001, are major steps towards a more dynamic economy. The UK most closely emulates the US's entrepreneurial culture, revived during the Thatcher years. However the euro's weakness continues to cause problems for UK exporters and the Government's policy of steadily raising indirect taxes inhibits growth generally.

Japan's economy can only continue to underperform, while the overvalued yen decimates operating profits for exporters who cannot raise prices without losing sales and must take the exchange rate on the chin. This has a knock-on effect throughout the entire economy. Japan's currency problem will eventually be resolved because its economic performance continues to lag behind Europe and especially the US. Of course there is a far quicker solution to the yen problem, obvious to everyone but the Bank of Japan. Print more yen! Compared to its mismanagement of the yen, the BoJ's show of defiance in raising rates slightly is an irrelevancy. Meanwhile, Japan's economy remains stagnant, net deflation persists, government debt continues to balloon, bankruptcies soared 26.9% (July YoY) and money supply has contracted to a meagre 1.9%. Japan's ongoing economic problems are a drag on the Asian region generally. While there was an inevitable rebound following the 1997 crisis, further progress will be slower, not least because interest in necessary structural reforms has waned.

And Finally…

New products on our websites -Stockcube Research continues to enhance and expand its technical services for all investors. These are available from our websites or by email. I welcome your comments on these services, particularly regarding any aspect that would help you to invest or trade even more successfully. You can reach me at dfuller@fullermarkets.com. For general enquires on our services contact Mark Glowrey mglowrey@stockcube.com.

Seminars, speeches and travel - I'll be conducting a private seminar on Behavioural Technical Analysis for Union Bancaire Privée in Geneva on 6 Sep. I'll be in the US from 12-18 Sep. On 11 Oct I'll be in Kula Lumpur to address the Association of Merchant Banks in Malaysia on "The Global Financial Outlook - Risks and Opportunities". I will also be speaking at the Australian Technical Analysts Association on 14-15 Oct, followed by The Chart Seminar on 16-17 Oct. My final public chart seminar for the year will be in London on 30 Nov-1 Dec. Subscribers at any of these events, please introduce yourselves.

The target date for FM196 is Friday 29th September.

"No man really becomes a fool until he stops asking questions."
Charles Steinmetz

Best regards - David Fuller

Fullermarkets a division of Stockcube Research Limited Suite 1.21 Plaza 535 Kings Road London SW10 0SZ UK
Website: www.fullermarkets.com ***Email:*** research@fullermarkets.com ***Tel:*** +44 (0) 20 7351 5751 ***Fax:*** +44 (0) 20 7352 3185 ***Single Issue Price*** £35

Fullermoney© is copyrighted and may not be copied, broadcasted, reproduced or otherwise routed to a third party except by a subscriber who is in possession of a valid Site Licence*. Any unauthorised copying of Fullermoney is a breach of the intellectual property rights of Stockcube Research Limited. However, short extracts from Fullermoney may be quoted on condition that full attribution is included.

***Site Licences:** Obtainable only from Fullermarkets a division of Stockcube Research Limited, Site Licences permit the copying and distribution of Fullermoney and Fullermoney Plus within a single site or location. The sale or exchange of Fullermoney or Fullermoney Plus is expressly prohibited under the terms of the Site Licence. Fullermoney Site Licence: £100 per year, in addition to the appropriate Fullermoney rate. Fullermoney Plus Site Licence: £150 per year, in addition to the appropriate Fullermoney Plus rate.