

Short-term trends, oil supplies and Middle East politics

European and North American stock market indices have corrected their oversold conditions - The climactic downward accelerations cited in FMP120 (1/8/00) have been followed by sharp rallies for many indices, albeit within the broad trading bands evident on the charts. Old economy stocks have been the stronger performers recently and the strength of banks and utilities, which usually lead, is a good sign for the medium term. However some short-term overbought conditions are developing which may result in a temporary consolidation before long. Moreover, the oil price has pushed back over \$32 (crude NYME), causing the bond market rally to falter. Nevertheless closes under the end-July/early-August lows by a number of leading stock market indices, which I do not expect, would be necessary to challenge my hypothesis that the overall environment for shares is gradually improving. European equities have been helped by a fashion swing in favour of financials and other old economy stocks, plus the soft euro and Swiss franc. Conversely, sterling's strength relative to the euro has been a restraint on UK equities but these are now benefiting from the revival of interest in value shares. Similarly, the US's DJUI & DJIA continue to outperform the NASDAQ. While Asian share indices still lag, mainly due to Japan's weak economy and the overvalued yen, most appear to have bottomed recently.

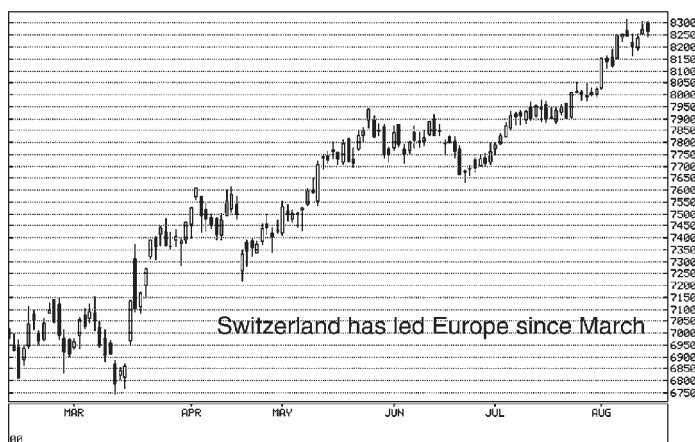
The supply of crude oil has yet to catch up with demand - Supply is always the key variable for any commodity. It can rise or fall by several percentage points quite easily, causing a dramatic move in the price. In contrast, global demand increases or decreases very gradually and cannot be manipulated. The price of oil tripled after the OPEC cartel lowered production by approximately 7 percent in early 1999. While it is gradually increasing supply, the amount and timing of extra production is debated in committee. This process may be democratic but it is seldom efficient. The OPEC cartel's charter stipulates that agreements must be unanimous, although Saudi Arabia, as largest producer, is the main influence. The Saudis previously advocated a price of US\$25 (NYME) but the taps are being opened very gradually. Initially, this was to prevent the sharp slide that OPEC feared if oil flowed too quickly.

OPEC now has a political agenda - The Saudis and other Middle Eastern oil exporters may now have second

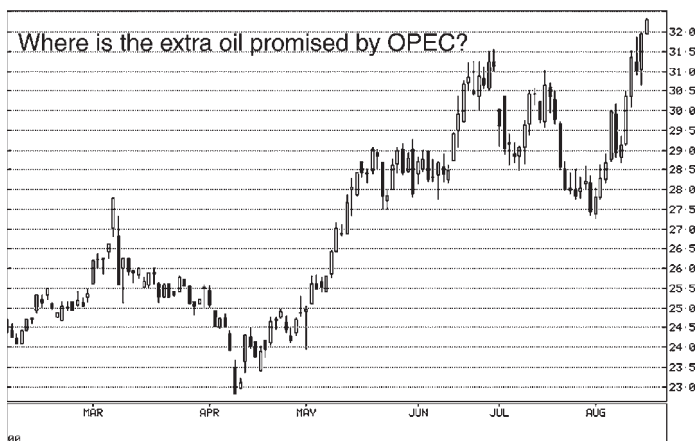
thoughts regarding production increases due to the Israeli/Palestinian impasse over who should control various sections of Jerusalem. This has reintroduced a political agenda for most of OPEC. The Islamic States are united in their desire to see an independent Palestine that also controls Jerusalem's holy sites of significance to Muslims. They will view oil supplies as a means of influencing the US and other Western importers of petroleum, to pressure Israel for more concessions during the critical negotiations that lie ahead. Stock markets had all but discounted a peaceful Israeli/Palestinian settlement. Unfortunately, this situation may become worse before it improves.

Best regards - David Fuller

Swiss Market Index 8264.9 15 Aug 2000



Crude Oil NYME Sept US\$32.32 15 Aug 2000



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

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. © Stockcube.