Fullermoney Plus

Issue 153
10 Sept 2001

Global Strategy and Investment Trends by David Fuller http://www.fullermoney.com

The rebound in petroleum prices will aggravate global economic difficulties

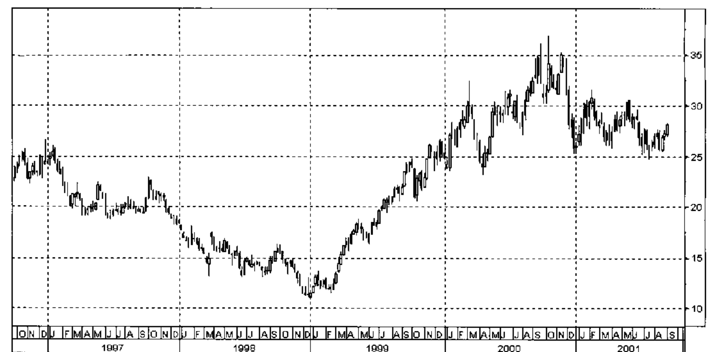
High prices for energy remain the global economy's biggest problem. We hear a great deal about the burst TMT bubble, debt problems and Japan's economic paralysis. While these are serious problems, which take time to resolve, the high cost of oil remains the single biggest threat to global growth. It is a massive tax on corporate investment and consumer spending. Since OPEC imposes this energy tax, governments in countries that import oil are unable to recycle it within their economies. While OPEC countries do recycle a portion of their oil revenue through infrastructure developments and imports, they also invest surplus funds mainly in US dollars. This has contributed to the greenback's overall strength, adding to oil-import bills for countries with weaker currencies.

The 5-year charts for crude oil (NYME) and gas oil (IPE) reached peaks in October 2000. Subsequent action has resembled an extended phase of top formation development. However, prices have rallied from previous support levels since mid-July, when OPEC first indicated that it would cut production once again on 1st September. Consequently the high cost of energy will remain a major restraint on global GDP growth for at least a few more months. Sustained breaks beneath $25 for crude and $200 by gas oil are required to improve this outlook.

Accelerating declines by stock market indices are becoming climactic. For many indices, the latest downward leg has been underway since May, punctuated mainly by temporary ranging near the important March lows. Recently, the downtrends have accelerated since those floors were penetrated by Asian and European indices. This rate of decline is unsustainable beyond the short term and usually ends in one of two ways - a traumatic but cathartic crash, or more frequently, a lesser decline followed by another technical rally within the overall downtrend, as we last saw in April. A consolation for investors is that with each additional decline, indices are inevitably closer to their eventual bottom. Therefore we should go against the consensus sentiment, reflected so effectively by the press, and become less bearish as stock markets extend their declines. Meanwhile, technical rallies aside, there is insufficient evidence to suggest that the bear market is almost over. For captive investors, high-yielding stocks should continue to do least badly, because there will be further cuts in US and especially European interest rates. From a speculative perspective, I would lighten short positions and/or use trailing stops not in excess of the small mid-August rallies.

Best regards - David Fuller

Crude Oil (NYME) 2nd Month Continuation : $28.19



Gas Oil (IPE) 2nd Month Continuation : $242.25

Charts supplied by Bloomberg

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Website: www.fullermoney.com ***Email:*** research@chartanalysts.com ***Tel:*** +44 (0) 20 7351 5751 ***Fax:*** +44 (0) 20 7352 3185 ***Single Issue Price*** £3

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