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

Oil's rally back to the former top area has negated a bullish influence on the global economy.

However a key day reversal last Thursday suggests that any further gains on Middle East concerns would be difficult to maintain. The tripling of crude oil's price from its 1998/99 trough was the main cause of recession last year. A subsequent fall back below $20 in late 2001, while well above the earlier and extreme lows, contributed to this year's US-led recovery. However this plus factor for the global economy has been negated by a subsequent price rebound, mainly in response to a worsening Israeli/Palestinian conflict. Trade buying, to ensure sufficient supplies, has pushed spot prices above futures for some petroleum contracts, notably crude oil (NYME) and gasoline. How much higher can they go? This depends primarily on what happens in the Middle East. Increasing tensions would lead to a further scramble for supplies in what is often a volatile market. Should the price of crude move above the psychological $30 level for more than a brief spike - the global economy would resume its recession, which would also deepen. Is this likely? I regard it as no more than a 30 percent chance, no matter what happens in the Middle East. High prices for petroleum in 2000/01 revitalised the non-OPEC oil industry, particularly in Russia. Consequently, supplies could be increased rapidly, even if production from the Middle East was curtailed for a few months. Also, the US has replenished its strategic reserves. The market's muted response to Monday's announcement by Iraq that it would suspend oil exports for 30 days was revealing. Even, in most worst-case scenarios, if Iran and other hard-line states joined the embargo, and/or production elsewhere was compromised by military action, the effect on prices would probably be brief. Others will increase output because they need the revenue. Interestingly, crude oil and heating oil contracts registered key day reversals on Thursday, after rallying to the underside of their 2000/01 top areas. This bearish chart signal following a rally usually caps the move, at least for the short term.

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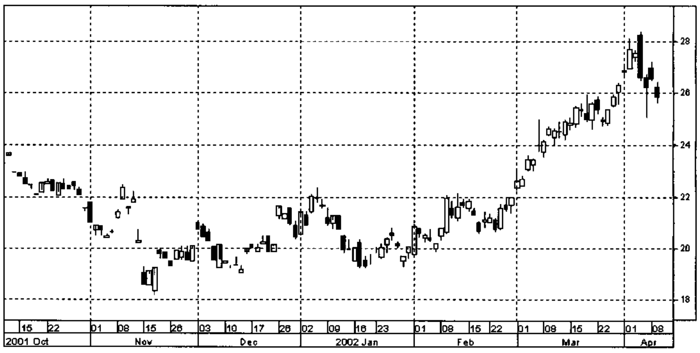
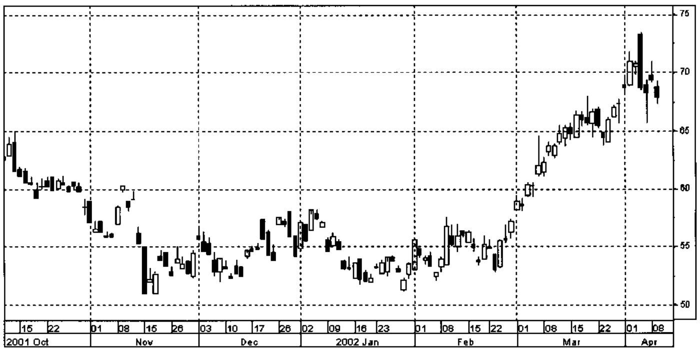
Best regards - David Fuller

Crude Oil (NYME) 1st Month Continuation: $25.90 (Weekly)

Crude Oil (NYME) May: 25.90 (Daily)



Heating Oil (NYME) May: 67.904¢ (Daily)



Charts supplied by Bloomberg.

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