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

Petroleum prices are factoring in the war premium

This strength is temporary but prices are unlikely to weaken in line with supply and demand while most oil traders expect a US-led strike against Saddam Hussein. We know markets do not like uncertainty. While a surgical strike to remove Saddam's regime sometime between October and March is the minimum expected, uncertainties concern the precise timing and especially the outcome. War is a leap in the dark, and its imminence causes markets to partially discount worst-case outcomes, as we have seen before. Those who most oppose regime change in Iraq by military means, talk of potential instability and conflict throughout the Middle East, damage to oil installations, further terrorist attacks and even the possibility of a nuclear exchange involving Israel. Needless to say, few oil traders will chance short positions in the countdown to war. Instead, they will stockpile - as a hedge - even though the US-led military operation has a good chance of being completed quickly and easily. OPEC, of course, opposes the introduction of democracy in Iraq, just as turkeys don't vote for Christmas. Consequently the cartel has yet to increase production. Therefore crude oil is extending recent gains, pushing into its 2000/2001 top area.

Petroleum prices should plunge if/when the US attacks Saddam. In the short to medium term, there is a clear possibility that oil prices will push higher and could spike temporarily. However, all but a worst-case outcome - very unlikely despite the unknown element - should cause petroleum contracts to plunge shortly after the fighting commences, as we have also seen before. Stock market investors suspect this, judging from the generally weak performance of oil shares.

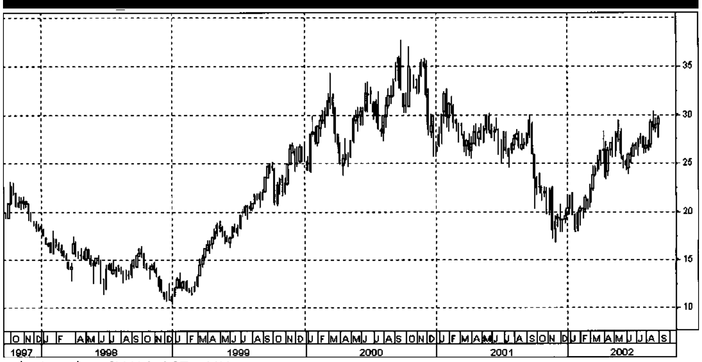
Potential consequences - Oil heading towards $20 a barrel or less would reverse a major negative for the global economy. Stock markets would stage another technical rally, albeit within their long-term bearish reversion below the mean for valuations. Government bonds would experience profit taking, as would gold and especially gold shares. This would necessitate some rapid portfolio adjustments.

Best regards - David Fuller

Crude Oil (Oct NYME): 29.74 (Daily)

Heating Oil (Oct NYME): 78.75 (Daily)

Crude Oil (1st Month Continuation, NYME): 29.74 (Weekly)



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