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

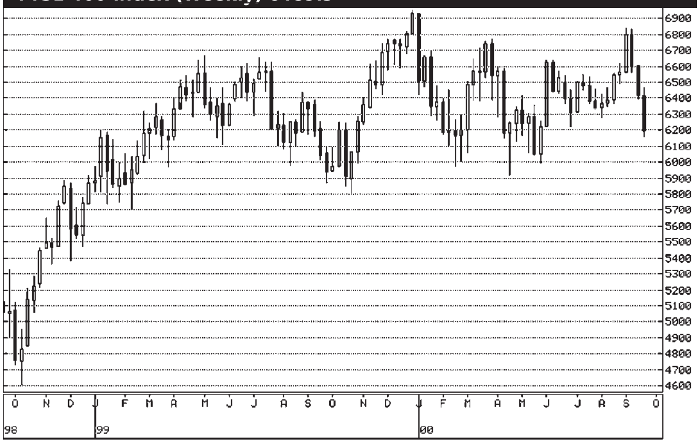
Follow up on FM195's leader, "Higher petroleum prices could temporarily unsettle stock markets" (25/8/00)

Short-term oversold conditions for equity markets are developing but upside potential is limited until petroleum prices break their uptrends - Share indices have been in retreat, retracing August's gains on justifiable concern over the outlook for corporate profits as petroleum prices soared. Support levels established over the last few months are being challenged and broken in some instances. This sell-off is creating short-term oversold conditions, particularly where declines are accelerating. Therefore any additional near-term weakness should be followed by technical rebounds before long. However upward scope is likely to be limited, at least until investors see evidence that the shortage of refined oil products is ending. Meanwhile, petroleum futures are hesitating following yesterday's new highs for the year by US crude and gasoline but these would have to close beneath last week's lows to further question overall uptrends. Inevitably, analysts are revising their projections for global GDP growth and corporate earnings downwards. The markets are experiencing an 'oil shock' since people underestimated the extent to which last year's supply cutbacks by OPEC would lift fuel prices. Uncertainty over where energy prices will peak can only be disconcerting for investors. There is a silver lining to this cloud - barring a sudden end to the shortage of refined petroleum products, the next big move for short-term interest rates in Europe, North America and Australasia will be downwards. Rate cuts by central banks would be very bullish for shares but until then we can expect further volatility and risks are on the downside until oil prices peak.

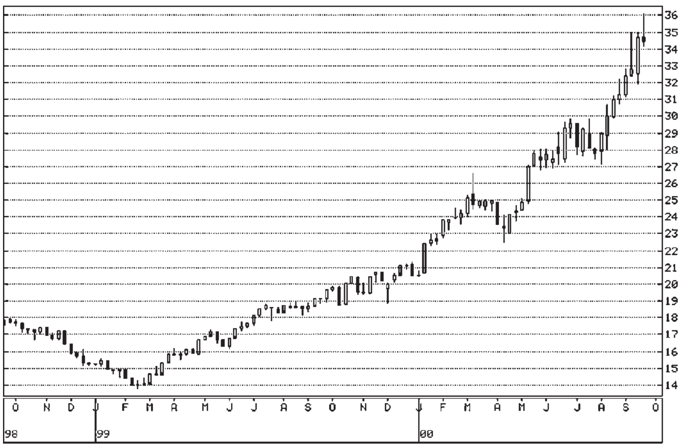
The oil shortage is turning into a crisis - An emboldened OPEC has the whip hand, at least in the short term. It suffered a big drop in revenue during 1998 so oil-importing countries cannot expect much sympathy from the cartel today. In addition to increasing revenue, OPEC has an unstated agenda - to increase its political clout, particularly regarding negotiations over a Palestinian state. Saddam, presumably banking on a leadership vacuum in the US during the presidential election countdown, is blustering once again, to remind us that he is still there. Populist rhetoric from politicians in Europe and the US - blaming the oil companies for "price ramping" - is mischievous, uninformed and unhelpful. In a rising market many suppliers of petroleum products will have bought forward on futures exchanges - a sound commercial decision on behalf of their shareholders and customers. Most of these positions will be sold once oil supplies move back into balance with demand. Claims by governments that they have raised fuel taxes to protect the ecology are largely cant. They have reaped the windfall profits from VAT and other levies that are now compounding the fuel crisis. Politicians should listen to their electorates and cut energy taxes immediately to reduce the economic damage that is occurring. They should also release oil from strategic stockpiles, encourage additional production and the development of alternative energy sources. These measures would cap petroleum prices and steady the financial markets.

Best regards - David Fuller

FTSE 100 Index (weekly) 6189.5



Crude Oil NYME Nov (weekly) $34.42



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