

Upward dynamics check declines for oversold stock markets

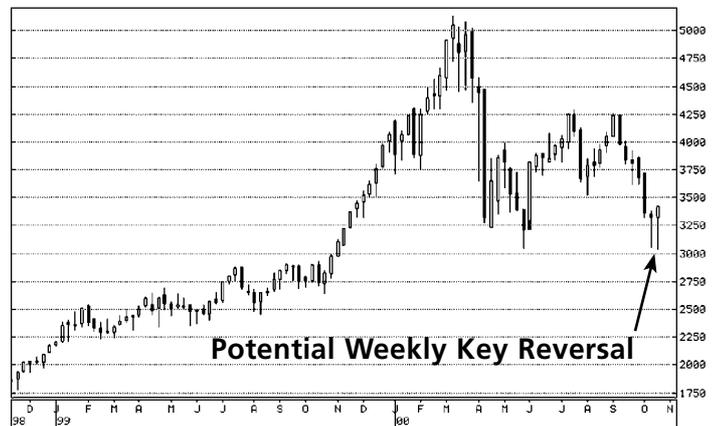
The NASDAQ Index encounters support near its May lows but a strong recovery is required to offset the top-heavy appearance

Global stock markets have taken a battering since early September due to the oil price shock and fear of a war in the Middle East. Investors had underestimated the impact on GDP growth (and therefore corporate profits) from the increased cost of petroleum, previous rises in short-term interest rates and weaker stock markets. Moreover, some recalled that the last big spike in oil prices coincided with the 1990 Gulf War, which was followed by a recession. Today, the Israeli/Palestinian impasse over Jerusalem is obviously very serious but there is little appetite for a regional war - except by extremists - who remain a minority. While I would not want to underestimate the risk of further conflict in the Middle East, the possibility of war has been at least partially discounted by the recent stock market sell off. The NASDAQ Index, which has been a focal point of attention for many investors, still looks top heavy on long-term charts despite this year's fall of over 40% from the March high. However, following an acceleration back to the May low and the psychological 3000 level, it is deeply oversold in the short term. Upward dynamics such as last Friday's key day reversal and yesterday's rebound following a downside failure on Wednesday (two of the biggest single-day percentage gains in the NASDAQ's history), indicate that a low of at least near-term significance has been established. This would be confirmed by a push well into the overhead range evident between approximately 3500 and 4100. Major stock market indices for many other countries show similar albeit less dramatic upward dynamics. Some of the most overstretched downtrends are in Asia.

Price churning by crude oil is consistent with top formation development - There is still a shortage of refined petroleum, evident from the continuing backwardations (premiums of fuel for near-term delivery relative to more distant futures contracts). However price gyrations since mid-September indicate that supply is beginning to catch up with demand due to increased production and the high cost of petroleum imports, particularly for developing countries. Therefore should any additional gains occur above the recent highs for spot oil prices, which reached \$37 for crude (Dec NYME) on 12th October, they are unlikely to be sustained beyond the short term.

Best regards - David Fuller

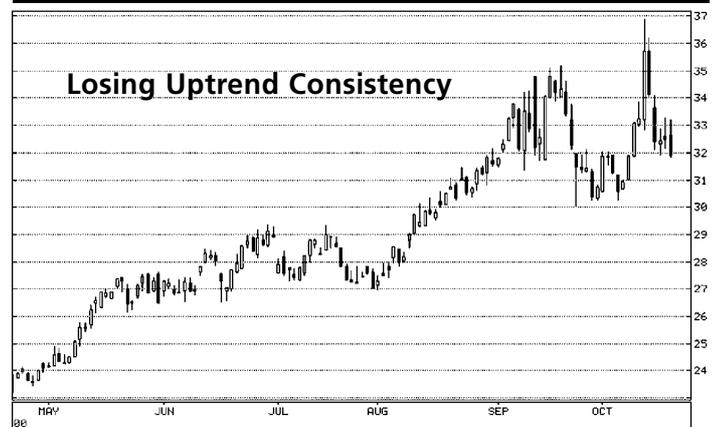
NASDAQ Composite Index: 3418.6 - 20 Oct 2000 (Weekly)



NASDAQ Composite Index: 3418.6 - 19 Oct 2000 (Daily)



Crude Oil NYME, DEC00 USD: 31.9 - 19 Oct 2000 (Daily)



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