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

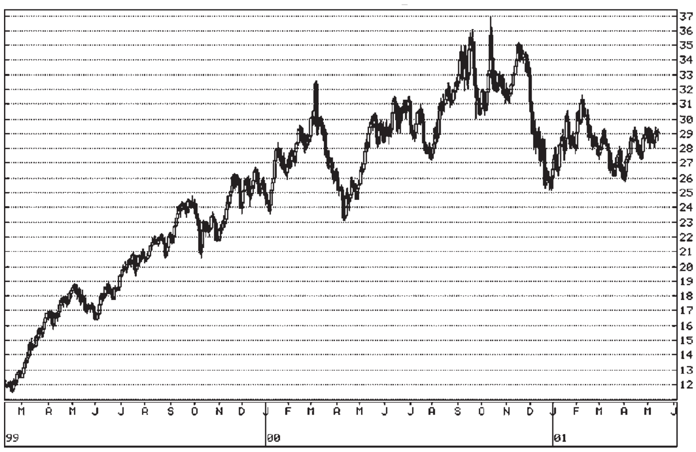
High prices for petroleum remain a problem for the global economy but could be good for energy shares

OPEC's supply cuts and refining problems may keep prices higher for longer than most people expect - Demand for most petroleum products is declining, due to slower global GDP growth and seasonal changes which reduce Western hemisphere demand for heating and gas oil and natural gas. However OPEC's two supply cuts for crude oil this year have kept the price above $25 (NYME). Additionally, a lack of modern refining capacity in the West has aggravated supply problems, particularly for gasoline. In recent years oil companies have had little incentive to build new refineries, due to generally low prices prior to late 1999, increasingly strict regulations to reduce pollution and the NIMBY (not in my backyard) factor. It takes approximately 3 years between the decision to build a refinery and its working completion. Presumably more refineries will be built and current capacity modernised. However gasoline prices could remain above 70¢ (NYME) for longer than most analysts expect, with periodic upward spikes such as we saw recently, whenever problems occur for the overstretched refining industry. Similarly, the search is on for additional, non-OPEC oil supplies but this also takes time. Interestingly, the price for natural gas, which is not subject to any cartel's supply cuts, surged higher last year on increased demand, partly due to the move away from gas and heating oil which were more expensive at the time. While the cost of natural gas has halved this year, it is still historically high and looks temporarily oversold on the charts. If it pushes back above $6 before Western demand increases ahead of North American and European autumn and winter, this will exacerbate concern about energy costs.

Stock markets have not fully discounted higher energy prices - Historically expensive fuel costs are likely to be with us for many more months, acting as a tax on global economic growth. The winners until new supplies eventually exceed demand, in addition to oil and natural gas exporters, are energy companies. Investors have priced in $22-$20 for a barrel of crude but not $25 plus, according to some estimates. The charts for most oil stocks appear well supported by underlying trading. The need for energy is likely to deter new regulations and so-called windfall profit taxes, especially in the US. We can also expect a revival of interest in alternative energy sources, especially the nuclear industry.

Best regards - David Fuller

Crude Oil (NYME) $29.13 2nd Month Continuation (Weekly)



Natural Gas (NYME) $4.465 2nd Month Continuation (Weekly)

Gasoline (NYME) 94.28¢ 2nd Month Continuation (Weekly)

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