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

OPEC over a barrel

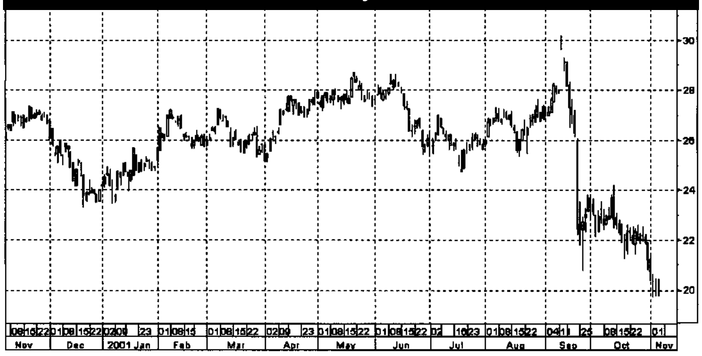
The cartel has lost control of the oil market - What goes around comes around, to coin a phrase. OPEC surprised oil-importing countries in late 1998 and early 1999, by finally adhering to production cuts after crude had slipped to $10 (NYME) a barrel. With GDP growth expanding in most countries at the time, the price of oil tripled. This factor was even more important than the burst TMT bubble in contributing to today's global economic downturn, just as similar rises in the cost of petroleum products had triggered recessions in 1974/75, 1980/82 and 1990/91. Today, OPEC hardliner and Secretary General Ali Rodriguez is talking about another cut of up to 1.5 million barrels a day, possibly commencing on 14th November. It would be the cartel's fourth cut this year and their earlier moves reduced output by 3.5 million barrels, assuming compliance. The problem, acknowledged by Rodriguez, is that "if OPEC reduces production and other producers increase production, it neutralizes our efforts". And thus it always was. The earlier price rise, aside from crimping demand, has been a boon to production outside OPEC. Russia's oil output will probably increase 30 percent this year to 8.5 million barrels a day and it has tripled since 1998. Every other non-OPEC producer has revved up output to maximise returns while the price is high. Technological innovation has enabled Canada to extract oil profitably from its vast region of tar sands at $10 a barrel and production costs could halve in a few years, according to government estimates. Central Asia's Caspian region will be a huge new source of oil and gas within a couple of years. OPEC, which currently produces approximately 2 of every 5 barrels of oil worldwide, has been lobbying other producers such as Russia, Norway and Mexico. However these countries are unlikely to curb output, given the current global economic situation and the US-led counter terrorism efforts. Moreover, independent producers realise that OPEC states, recognising that they are losing control of the oil price, exceeded quotas by 850,000 barrels a day last month, according to a research report from PetroLogistics.

Only political turmoil or further terrorist attacks could now lift petroleum prices significantly, but rallies wouldn't last - Seasonal demand for heating oil will increase during the European and North American winter months but the International Energy Agency forecasts that any rise in demand for oil will occur at the slowest pace in 17 years, due to recession and the worldwide decline in air travel. The market will be sensitive to evidence of political instability among the Middle East's main producers, especially Saudi Arabia. We can assume that the US will move against Saddam Hussein at some point, if the anthrax trail or other terrorist activities lead to Iraq. Most Western countries have increased security around their power stations as a precaution against terrorist attacks. Any clear threat to energy supplies would lift prices for petroleum contracts but gains would be short-lived, given the overall supply/demand background confirmed by the completed top formations evident on long-term charts - *see FM209 and www.chartanalysts.com.* In conclusion, the average price for crude oil (NYME) over the next 12 months is likely to be in the $15 to $20 region, rather than the $25 to $30 sought by OPEC.

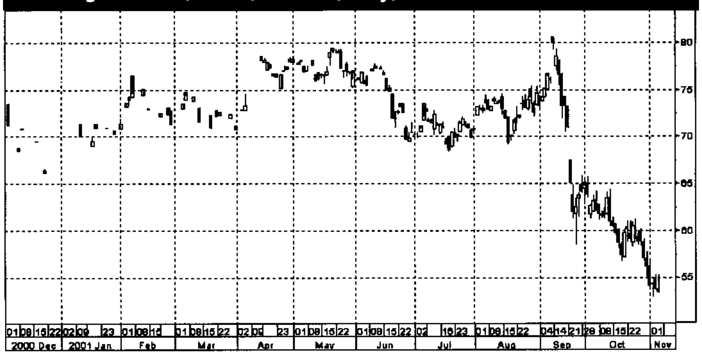
Please note: I will be away from the office between 7th and 12th November.

Best regards - David Fuller

Crude Oil Dec (NYME):$19.85 (Daily)



Heating Oil Dec (NYME):57.15c (Daily)



Charts supplied by Bloomberg.

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