OIL IS STARTING *'TO STRANGLE'* SOME OF THE WORLD'S ECONOMIES, BUT AN EQUITY BOOM COULD BE JUST AROUND THAT OIL CORNER

That the US economy has slowed, measurably, is an undeniable fact, as last week statistics, released by the US Federal Reserve Board and The US Department of Labour, made only too apparent, confirming **TARGET**'s prognostications of more than one month ago.

Please See TARGET Intelligence Report, Volume VI, Number 159, Published on August 23, 2004, For the US Statistical Information in Précis.

It is still much too early to be able to forecast the resultant and/or the residual effects that the high price of energy will have on the economy of the strongest nation of the world, but, as **TARGET** stated in **TARGET** Intelligence Report, Volume VI, Number 146, published on August 4, 2004, if the cost of crude oil stays at the present levels, approaching $US50 per barrel, one may expect to see the Gross National Product of the US nipped by at least one half of a percentage point before the year is out.

Perhaps even more.

In short, as **TARGET** has stated before, high-energy prices translate into consumers, spending less money in the High Street and in the supermarkets.

What is unclear, at this juncture, is how pronounced will be the slowdown of the US economy.

Beijing economists, only last week, presented the world with their prognostications in respect of the present, record-high cost of energy.

They suggested that, in Asia, one might expect a full point to be shaved off the growth of the **G**ross **D**omestic **P**roduct (GDP)*.

*GDP = The total value of goods and services, produced within a country/territory minus net income from investments in other countries/territories.

The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) had, previously, estimated the growth of Asia's GDP to be at the rate of about 6.20 percent for 2004.

Now, the level for the growth of GDP in the most populous part of the world has been lowered by a full percentage point to 5.20 percent.

The cost of energy is the culprit.

Those prognostications were enunciated by the Executive Secretary of UNESCAP, Mr Kim Hak Su.

Perhaps, Shia cleric Muqtada al-Sadr and his al-Mahdi Army, still fighting the US occupation forces in Iraq, as well as the Interim Government of the country, hold the key to that question of how much damage will be done to the economies of many countries of the world due to the present high price of crude oil.

But, also, perhaps too much emphasis has been placed on the matter of the Iraqi insurgency, led by one, formerly unknown Shia cleric, whose only claim to fame, thus far, has been his ability to lead a band of opportunistic Muslim killers at the Holy City of Najaf.

The current price of oil is, clearly, not based on supply-demand factors, but more on sentiment.

While the People's Republic of China (PRC) is known to have increased its oil imports by more than 40 percent since the beginning of this year, and while other emerging economies are hungry for more crude oil, these factors cannot be held responsible for the current, relatively high prices, at least, not completely.

There appears to have been established, over the past few months, a relationship between the increasing price of crude oil and the declining price of equities.

Fear is the most-reasonable explanation for this phenomenon.

However, there is also some logic to this correlation because, as energy prices rise, it must sap the ability of many publicly listed companies to increase profits or even to hold last year's lines.

In some cases, for certain, it will retard corporate growth.

This must be the case in respect of manufacturing entities, transportation companies, airlines, etc.

So, if the price of crude oil should start to fall, substantially – notwithstanding Muqtada al-Sadr, et al – then, one may well see the prices of equities rise, once again, and rise, very substantially.

In Asia, equity markets have been very depressed for some weeks so that, if there should be a bull run, even a short-lived one, it is quite likely to be very pronounced.

Conversely, of course, if oil prices stay at their present high levels, close to $US50 per barrel, then, many Asian equity markets will witness indices continuing to fall to lower levels, causing quite a number of publicly listed companies to go to the wall.

Please See TARGET Intelligence Report, Volume VI, Number 146,
Published on August 4, 2004,
For More About The Effects of the High Price of Crude Oil on Economic Performance.

There are those who maintain that the price of energy has little effect on the equity markets of the world.

This is wrong, in **TARGET**'s opinion, because one may not rob Peter in order to pay Paul.

It appears to this medium that the political problems in Iraq and Afghanistan (and, later, no doubt, in Iran, also) are unlikely to go away in the short term and, as long as US armed forces are deployed in certain strategic areas of the Middle East, hated, as the Americans seem to be by certain interests (and **TARGET** is not to be included among this group), the situation will fester in the same way that a boil's yellow puss oozes through the rotting skin.

Thus, the probability exists for the price of crude oil to continue to be high in the near term, at least.

After all, it is relatively easy to attack an oil pipeline in Saudi Arabia and Iraq, thus halting (or slowing) supplies of crude oil to ports.

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