THE AGE

The 'Saddameter' clocks up likely costs

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Stockmarkets might be rallying as investors bet that the US will smash Iraq, but watch out for the "Saddameter" and "Saddam Security".

A new joint study from Harvard University and Stanford Business School suggests that war will reduce the S&P 500 by 15 per cent, equating to $US1.1 trillion ($A1.85 trillion) worth of sharemarket losses.

Analysis of futures trading found that the US market was factoring in a number of scenarios: a 70 per cent chance of war having a moderately negative 0-15 per cent impact; a 20 per cent chance of it wiping out 15-30 per cent; and a 10 per cent risk of a fall in excess of 30 per cent.

By comparison, the S&P 500 slipped 6.5 after the outbreak of the Korean War and 5.5 per cent after September 11.

Justin Wolfers and Eric Zitzewitz, assistant professors of economics at Stanford, and Andrew Leigh from Harvard University, have used a so-called "Saddam Security" to help predict and measure how markets will respond to war.

Trading on a new online exchange the Saddam Security has purportedly provided a running market estimate of the probability of war.

The researchers tracked Saddam Security movements, and compared them with oil futures markets. Using a mathematical technique called regression analysis, they then compared the Saddam Securities with the "Saddameter", a device created by Slate.com columnist William Saletan to predict the likelihood of invasion.

They found war was likely to raise oil prices by $US10 a barrel in the short-term, but could be a positive for gold mining and oil stocks.