

CRUDE OIL: Technical Recommendation

KCTL expect CRUDE OIL will trade in a band of \$79-88 per barrel in next 1-2 months.

SUMMARY:

After witnessing a zigzag movement, NYMEX Crude oil futures settled higher by 2%M/M in October. An improvement in global economy and supporting intrinsic fundamentals like decline in Gasoline and Distillates inventories supported the oil prices for some period of time. However, total crude oil inventory still stands higher from last six month's average. Fall in dollar index was capped by supportive economy, which in turn pulled down oil price movement.

The current Federal Open Market Committee's announcement to buy \$600 billion in treasury securities in order to fuel the US economy, have created a bounce in commodities market globally. Thus, in the month of November, we may expect crude oil prices to trade in a lower trend on the back of rising inventory and end of hurricane season impact. However, some improvement can be seen on account of supportive global economy.

CRUDE OIL

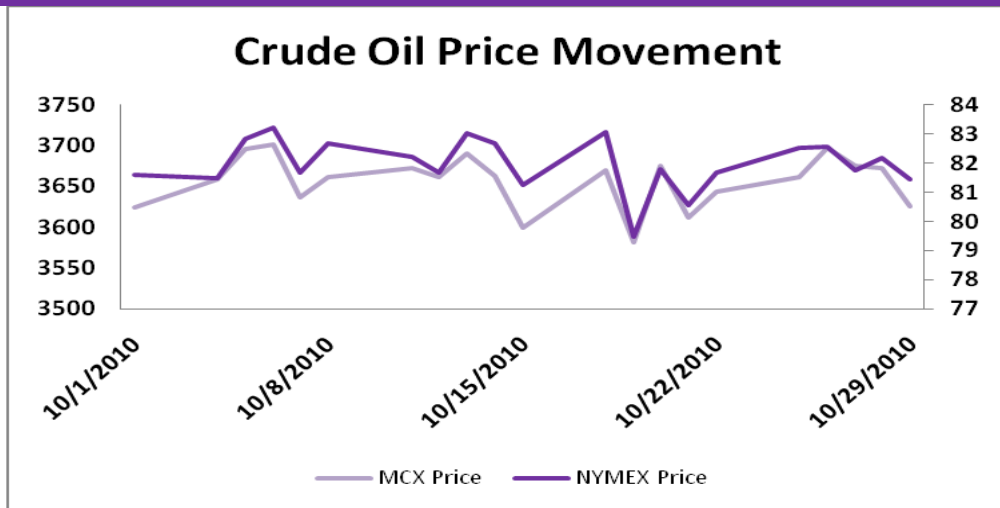
Crude oil futures prices traded in a zigzag way in the month of October and climbed more than 2% in NYMEX and 1% in the MCX. Closely connected with inflation, crude oil prices takes cues from economical factors. In the last month, NYMEX traded crude oil prices improved more in comparison to MCX on the back of currency parity. Rising US economy in the month of October capped the fall in dollar index to 2% where as the fall was at 6% on September. Global economic confidence level has been increased in the last month. However, Indian rupee appreciated by 1%, thus gain in MCX traded crude oil prices was capped in the last month.

Table 1: Crude oil price change (*Data collected till Oct 29, 2010)

Commodity	Oct	Sep	Aug	QTD	YTD
NYMEX Crude Oil	2%	11%	-9%	8%	3%
MCX Crude Oil	1%	4%	-6%	3.0%	-3%

Source: Bloomberg & KCTL Research

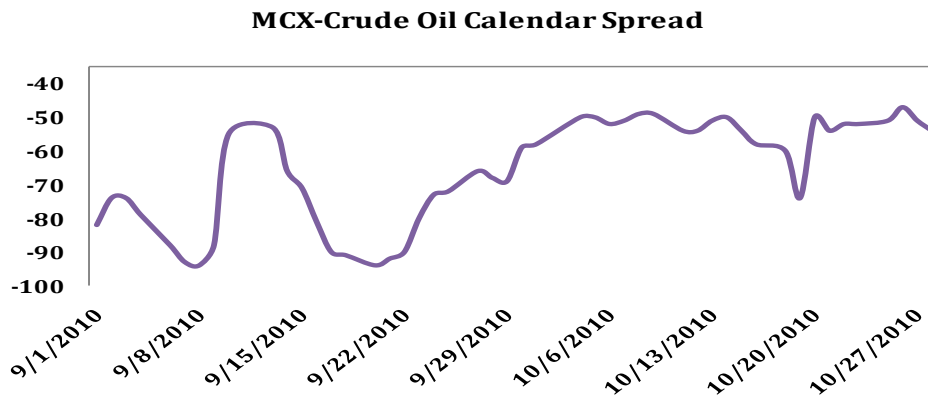
Figure2:Crude oil price movement



Source: Bloomberg & KCTL Research

Calendar Spread: The spread difference declined in the month of October to near Rs.52 and made a high of 74. Rising demand for the current month contract with respect to far month contract lead spread to decline. However, the spread had made a high of Rs.94 in the month of September as demand for October futures was more than September future contracts. *The current trend suggests oil prices may trade in a lower trend in the month of November as the demand for November futures is lower than December futures.*

Figure2: Spread chart

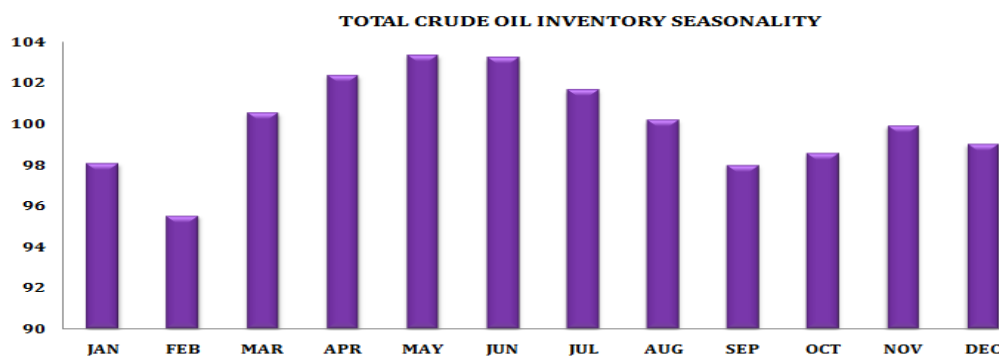


Source: Bloomberg & KCTL

FUNDAMENTAL FACTORS:

In the month of October, total crude oil inventory climbed to more than 2% from September. However, Gasoline inventory declined less from the month of September, whereas Distillates inventory declined more than 3% in the month of October. Total crude oil inventory currently level at 366206 million barrels which is at last six month's high. Thus, negative impact of rising crude oil inventory concern made crude oil to fall before the month ends. However, crude oil seasonality index suggests total crude oil inventory may pile up in the month of November. **Thus rising inventory may be a negative price driver.**

Figure3: Total Crude oil inventory Seasonality



Source: US Energy Department & Bloomberg

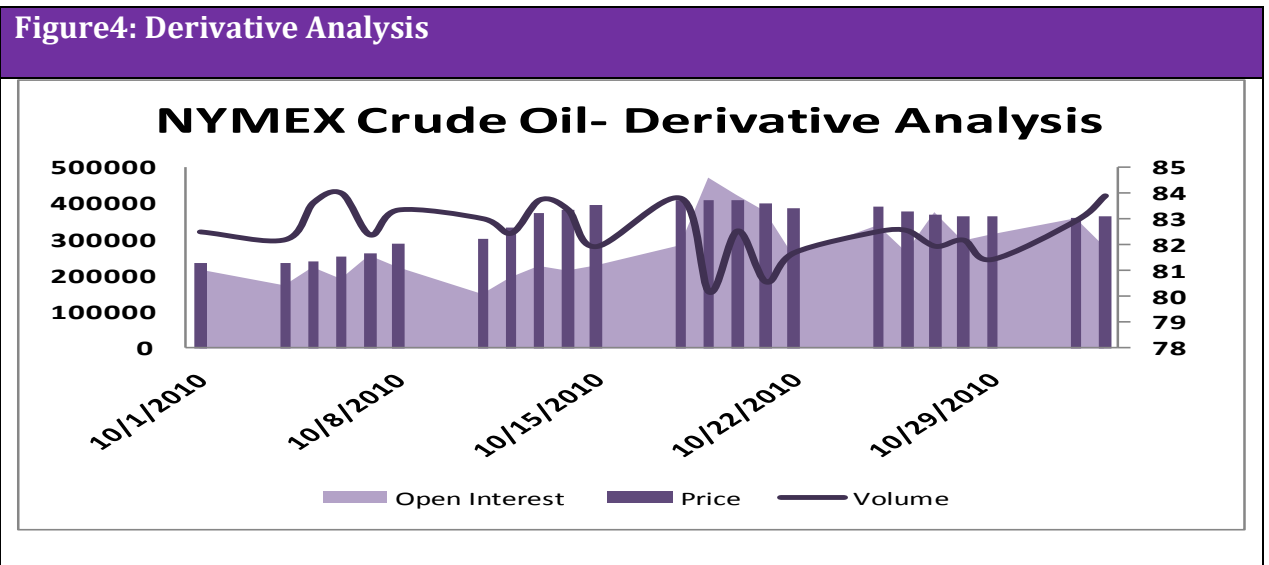
OPEC crude oil production decreased 30 tb/d in September. Total OPEC crude oil production averaged 29.08 mb/d in September, according to secondary sources, down around 30 tb/d from the previous month. However, rise in Non-OPEC production made Global oil supply estimated at 86.2 mb/d in September, an increase of 0.62 mb/d. According to the EIA, US gasoline demand fell more than 200 tb/d in September, whereas distillate demand increased in the US to 3, 84 mb/d in September from 3, 66 mb/d the previous month, mainly due to storage of heating oil for the winter season. However, world economy is on its way to recovery, which may boost oil demand. **OPEC has projected world oil demand to rise by 1.3%, which may support oil prices to take improvement.**

There were five named **hurricanes** appeared in the North Atlantic, like Otto, Paula, Richard, Shary and Tomas/. However, there was a little impact seen in crude oil price movement driven by hurricanes but hurricane Shary and Tomas supported oil prices before end of the month. Hurricane Tomas was the last hurricane of this hurricane seasons, as per National Hurricane Centre. **As, the hurricane season ended in the November, we may expect a little impact or no impact of tropical storm in the coming month.**

PVO-

In the month of September, Crude oil prices climbed more than 4% in MCX whereas volume and open interest fell. The same trend continued in the month of October. Crude oil future prices increased, volume declined whereas open interest fell. This indicates market is running out of

traders willing to open or hold an open long/buy. *Thus we may expect bearish trend in crude oil future prices.*



Source: US Energy Department & Bloomberg

Technical View: Crude oil Nymex

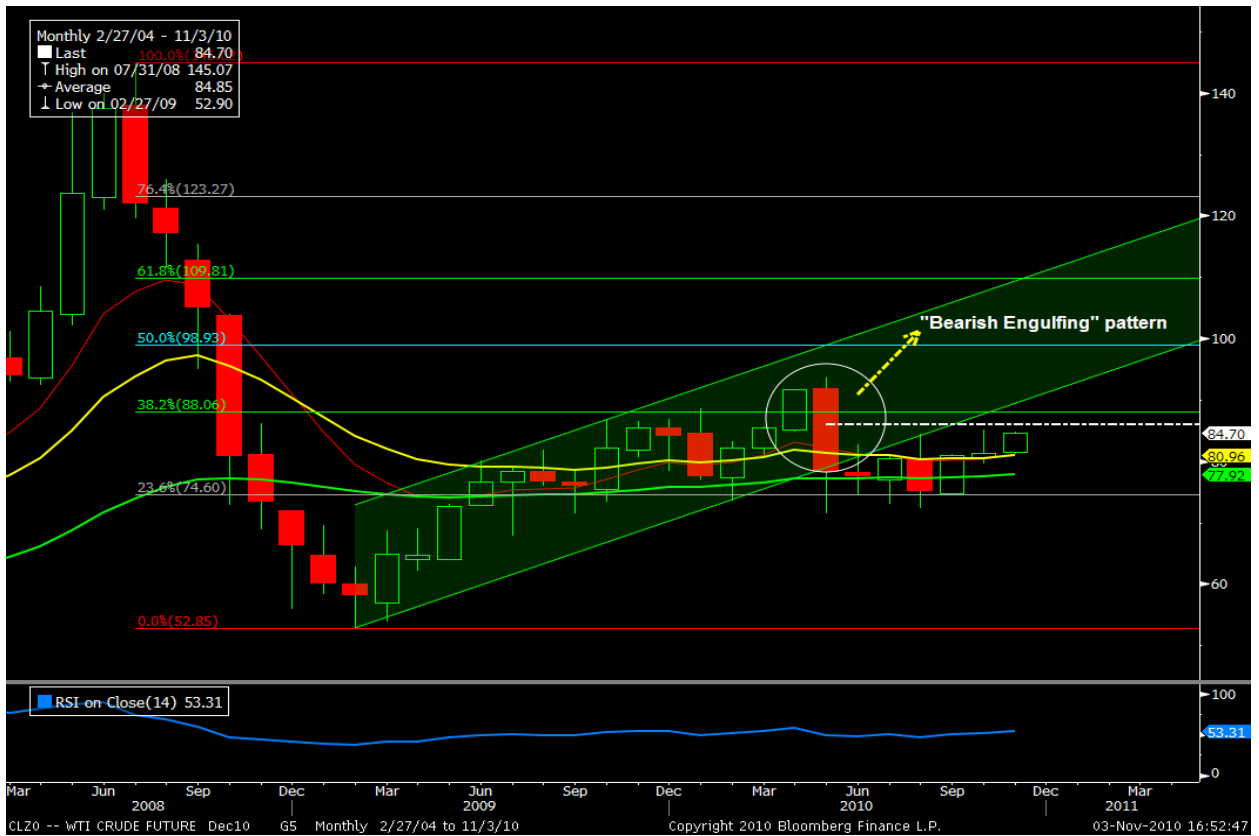
Review

Crude oil prices were seen trading in a consolidation phase for the past five months and moved in the band of \$85-72 levels. In last month market made an attempt to breach the resistance at \$84.45 levels (Previous swing high) but it failed to sustain at higher level made prices to remain lower and settled at \$81.43 levels.

Analysis

As of now, prices are trading at \$84.67, which is near resistance level of \$85.08 (previous month high). On breach and sustain above the same is likely to extend its gains till \$89 then \$93.55 levels. On the other hand, the formation of "Bearish engulfing" pattern still with holding its bearishness in monthly chart, where it is resisting at \$85.20 levels. As per the expectation, if market fails to break the resistance at \$85.20 levels it may lead the prices to move sideways. The trend channel is also resisting near \$86.6-87 levels sustain below is likely to remain lower. As per the moving average principle market may see some gains as the prices are trading well above the monthly short term and medium term EMA (9, 18 & 45).

Fibonacci principle suggests prices are likely to gain till \$88.11 (38.2% retracement of the range \$145-52.9). Moreover, market may remain sideways in the range of \$88.11-74.60 levels for short term. The RSI (14) monthly is at 0.53 levels and suggesting a neutral view.



Outlook: We expect market to move in the band of \$79-88 levels (1-2 months). Either side breakout would confirm the trend. At MCX we may see prices moving in the range 3600-3920 levels.

Note: A significant break above \$88 may lead the prices to gain further.

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