

Energy Weekly

May 14, 2011

CRUDE OIL:

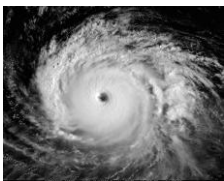
Technical Recommendation: Buy



Exchange	S3	S2	S1	R1	R2	R3
Jun- Crude oil - Nymex (\$/bbl)	85.72	90.48	95.07	104.42	109.18	113.77
May- Crude oil - (Rs/bbl)	3954	4152	4333	4712	4910	5091
Nymex crude oil (Jun)	Buy in the ranges of \$99.20-99.50 targeting \$104.80 with strict S/L below \$95.25.					
MCX Crude oil (Jun)	Buy in the ranges of Rs.4400-4430 targeting Rs.4550 - 4580 S/L below Rs.4330					



Last week's Price Movement



Exchange	Contract	Open	High	Low	Last	% Change	Volume	% Change	Open Interest	% Change
NYMEX WTI Crude (\$/bbl)	Jun	98.11	104.6	95.25	99.65	2.54%	2291735	3.19%	208145	-33%
	Jul	98.53	105.16	95.78	100.12	2.40%	881744	69.24%	356216	31%
ICE Brent Crude (\$/bbl)	Jun	126.1	126.54	105.15	109.13	4.31%	1289359	-6.46%	71464	-55%
	Jul	109.99	117.88	108.82	113.28	4.07%	1105694	76.92%	218800	24%
MCX WTI Crude	May	4420	4674	4292	4466	1.13%	921434	18.30%	9458	1%
	Jun	4486	4728	4349	4519	0.96%	61412	40.90%	2909.00	51%

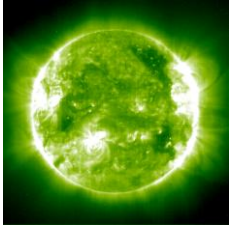


Review: As per our last week view, crude oil prices recovered from the highest weekly fall in last two and half year time. However, fall in oil prices was witnessed in between in the last week, though prices closed on a positive note. May contract closed at Rs.4466 / bbl with gain of more than one percent, after making a high of Rs.4674 in MCX platform. Similarly, June contract closed at \$99.65 / bbl , by gaining more than 2.5 percent in NYMEX platform.

Derivative Analysis of Crude Oil Future Contracts

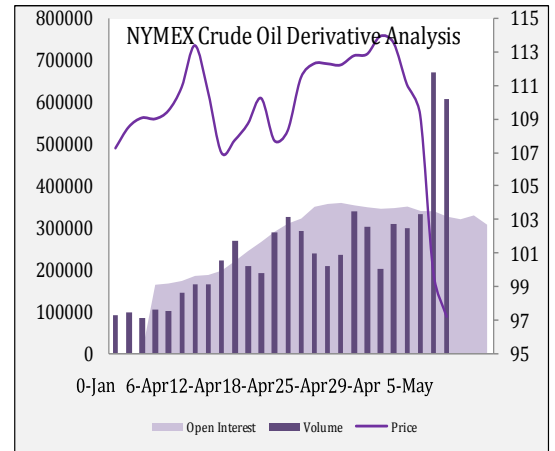
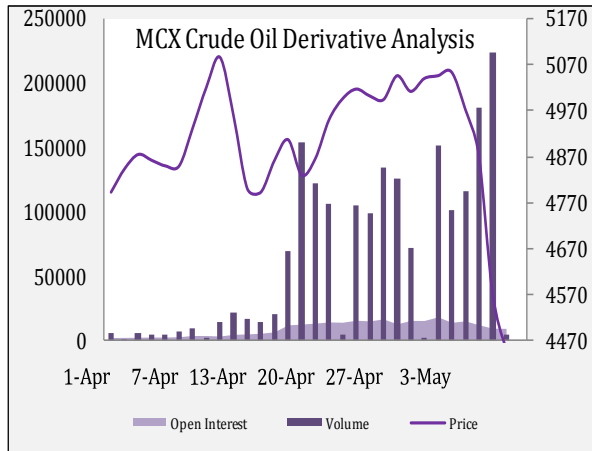
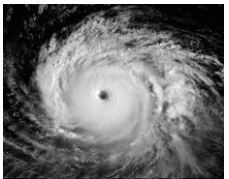
As per PVO, prices have increased slightly along with open interest whereas volume has declined by more than thirty percent for the current month contract in the last week. This indicates sellers have sold their positions and waiting for fresh buying in the market. So, we may expect a positive trend in the coming week.



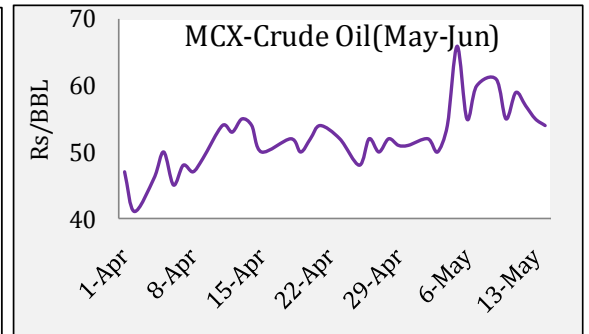
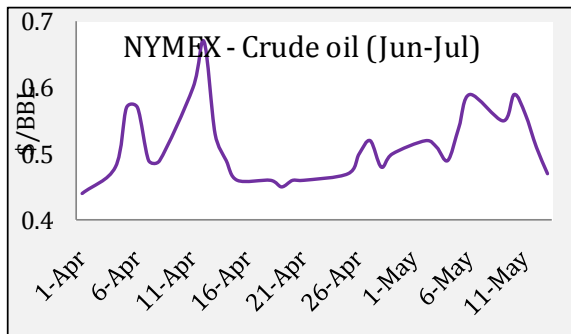


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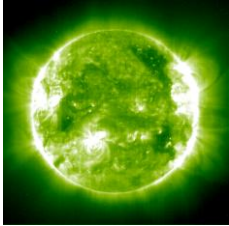
Calendar spread



Calendar spread in MCX platform declined to 54 in the last week, lower than prior week. Increasing demand for current month contract made spread to decline. However, we may expect spread to increase more in the coming week.

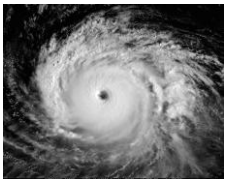
Price movers and Shakers of the last week:

Oil prices took positive cues from **Flood warning in Mississippi** river along with lower dollar index in the last week. However, most of the factors were negative for oil prices. Most of the refineries got threat due to flood warning. Pipeline of Exxon mobile carries crude oil from St. James Louisiana delivery centre which planned to close down due to supply disruption threat. **German trade balance increased to \$18.9 B** in March, which also supported oil prices to take positive cues. On the other side, increasing margin rate by exchanges made oil prices to fall more than five percent. **CME have increased the interest rate by 25%** which made High Square off of the positions. Secondly, inflation in China increased as Consumer price index climbed up by 5.3 percent and trade balance increased to \$11.42 B in April. Thus, Central Bank of **China increased the reserve ratio 50 Bps to 21%**. Thus, most of the commodities prices



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have declined on last Wednesday and Thursday. **Increasing inventory in Cushing and Oklahoma** also had negative impact on oil prices. However, higher GDP of German supported Euro to appreciate against dollar, so crude oil prices recovered on account of higher equity market and lower dollar index. World equity market closed on a lower note, whereas dollar index continued to strengthen and closed at 75.71 levels.

US Crude oil Inventory Data:

As per US Energy department, crude oil inventory continued to increase on weekly basis and currently stands at 3.7Million barrels per day. However, Distillates tocks continued to fall for last three months. Increasing stock levels in Cushing and Oklahoma delivery centre also had negative impact on oil prices. Inventory levels climbed up by more than 1100k barrels in the last week. Thus, increasing crude oil inventory pressurized oil prices to trade on lower side in mid of the week.

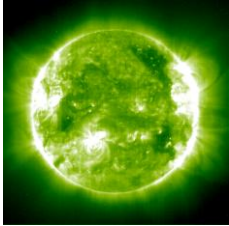
US Crude Oil Inventory

DOE Warehouse Stocks ('000 barrels)			
Commodity	Latest week	Previous week	Change
Crude Oil	370327	366546	3781
Gasoline	205817	204542	1275
Distillate	144289	145132	-843
Refinery utilization (%)	81.7	82.8	-1.1
EIA Working gas storage (Bcf)			
Natural gas	1827	1757	70

Outlook

In the coming week, we are expecting crude oil futures prices to trade on higher side, though some pressure can be seen due to lower economic data expectation in mid of the week. Euro-zone economic data releases in the form of CPI are likely to increase slightly, which may appreciate the Euro, hence positive impact can be seen on oil prices. The existing home sales and housing starts are likely to increase but at a slower pace. Job less claims data seems to be improved but the descending leading indicators are intending to forecast glooming economic activities. For the US, using the debt limit as a bargaining chip is quite risky and a failure to rise of which, at minimum will be leading to an increase in interest rate. This would actually be worsening US deficit and would be hurting the borrowers. This might impact in two ways, a likely worsening deficit may lead the investors sentiments to a safer side and on the other side a likely increase in interest rate within a short period may appreciate the dollar. In the coming week the minutes of FOMC meeting and Bank of England meeting will be keenly watched on May 18, which will be the key factors to decide dollar's fate. However, the probable meeting of the EU ministers to reinforce calls for a new rescue package to stave off the default of Greece's biggest public debt may further worsen the Euro against the dollar.

On fundamental front, Flood warning in Mississippi is there which may boost oil prices further. Peak summer season is going on which may increase the demand for gasoline prices. MENA region unrest is likely to spread other countries, which may also support oil prices. On the other hand, actual crude oil inventory data must eye on Wednesday. Overall, we may expect oil prices to continue the positive trend in the coming week.



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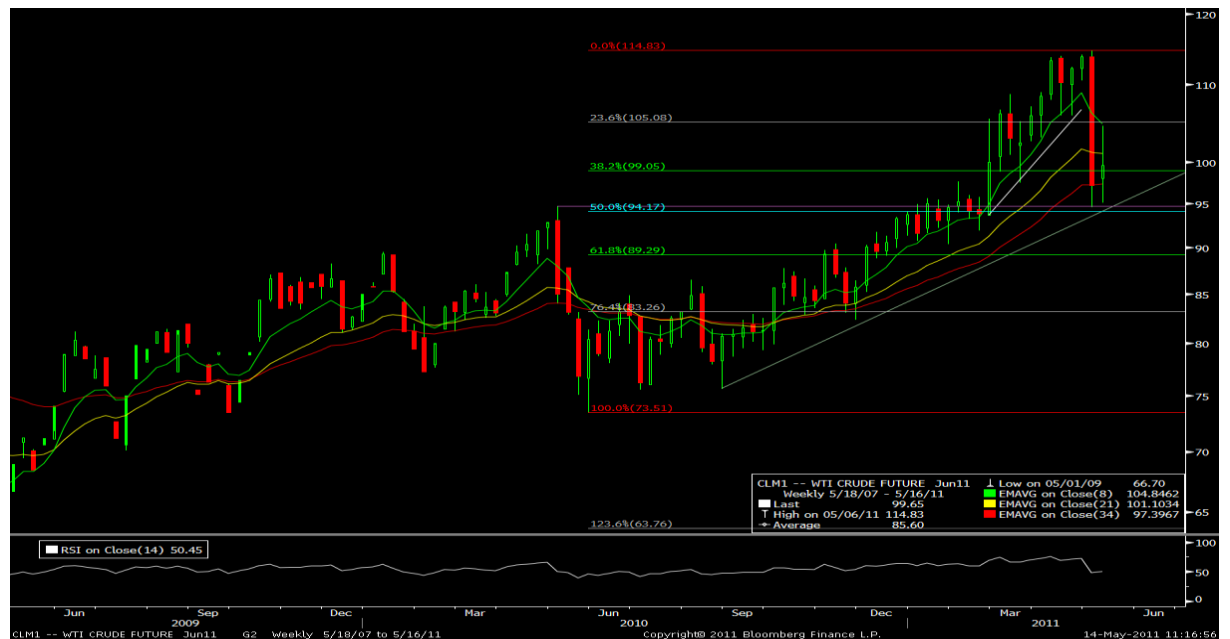
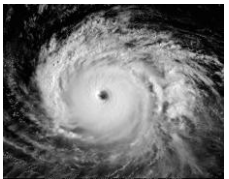
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Facts to watch out:

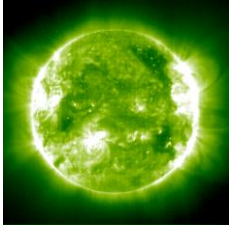
- API Inventory data releases on Wednesday 2:00 A.M. IST
- DOE Inventory data releases on Wednesday 8:00 P.M. IST

Technical analysis:

CRUDE Oil NYMEX: Crude oil Nymex June future prices had made a high of 104.60 then low of 95.25 and closed at 99.65 levels. 95.25 levels are initial support for the market which is previous week's low. The principle of **Fibonacci retracement** states that prices are witnessing immediate support at 94.17 levels which is 50% of the range 73.51-114.85 levels. On breach and sustain below these levels is likely to test 89.29 levels which is 61.8% of the above mention ranges. Resistance is at 99.05 levels which is 38.2% retracement. Prices are witnessing **trend line** support at 95.70 levels. If market closes below these ranges then there is a scope to come down till 89.30 levels. The **moving average** principle suggesting range bound movement, as prices are trading above the medium term moving average (EMA 34) and below the short moving averages (EMA 8&21) levels. 97.40 levels will act as initial support for the market which is a 34 EMA levels, on sustain above 34 EMA prices are likely to test 101.10 then 104.80 levels which is 8 & 21 EMA levels respectively. The momentum indicator weekly RSI-14 is trading at 0.504 levels and suggesting indecisive movements for the coming week.



Conclusion: we expect prices to pullback in the initial days of the week and recommend buying at support levels for the coming week.



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Natural Gas

Technical Recommendation: - Buy

Exchange	S3	S2	S1	R1	R2	R3
NYMEX Natural Gas (\$/MMBtu)	3.950	4.029	4.138	4.326	4.405	4.514
MCX Natural Gas (Rs./MMBtu)	184.20	187.60	186.60	189.00	192.40	191.40
NYMEX Natural Gas(Jun)	Buy in the ranges of \$4.245-4.251 Targeting \$4.488 S/L below \$4.109					
MCX Natural Gas(May)	Buy in the ranges of 190-190.50 Targeting 199.20 S/L below 185.50					

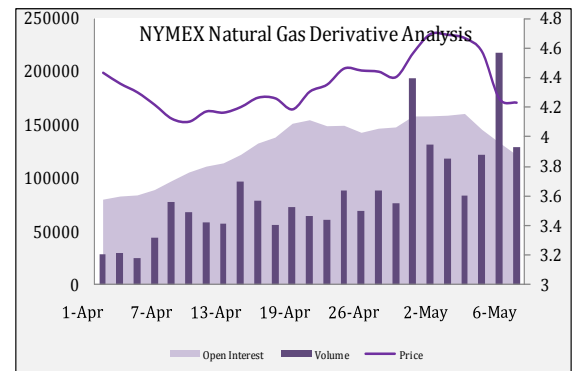
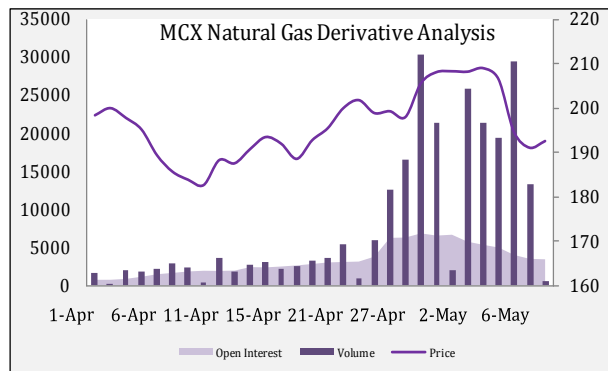
Last week's Price Movement

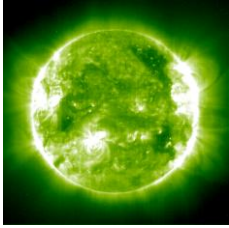
Exchange	Contract	Open	High	Low	Last	% Change	Volume	% Change	Open Interest	% Change
NYMEX (\$/MMBtu)	Jun	4.25	4.30	4.11	4.25	0.26	545003	-19.022	101072	-17.22
	Jul	4.31	4.36	4.17	4.31	0.33	302547	17.42	207345	-0.05
MCX (Rs/MMBtu)	May	193	193	186	192	-0.52	77702	-29.48	3741	10.19
	Jun	205	215	202	214	-0.71	5478	21.30	1079	-7.62

Review

Natural gas futures prices traded on a volatile manner and closed on lower note in MCX platform, whereas marginally gained on Nymex platform. May contract closed at Rs.192 /MMBTU by loosing more than 0.50 percent, whereas NYMEX traded June contract have fallen gained 0.20 percent in the last week.

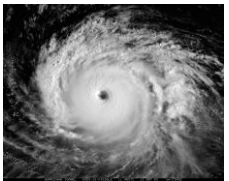
Derivative Analysis of Natural Gas Future Contracts





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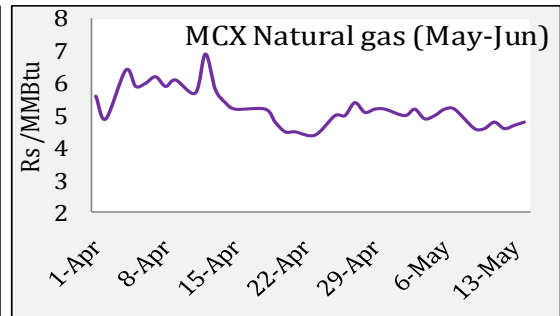
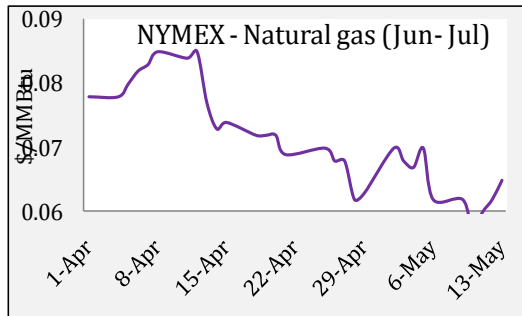
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As per PVO analysis, slight fall in price and volume and increasing open interest is seen in the last week. It is a good indication that a sharp rally against downtrend will develop creating a sell point for down trend.

Calendar spread between two contracts has increased slightly in the last week. Spread made a high of 4.8 and closed at the same level in the last week. However, we are expecting spread to continue the trend in the coming week.

Calendar spread

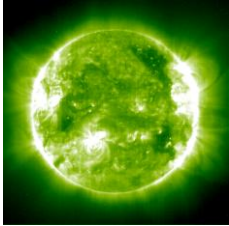


Natural gas futures prices traded on a bearish trend in beginning of the week on concern of lower demand in US. Weather condition in US remained mild, which could not boost the demand for natural gas prices. However, flood warning threat in Mississippi river supported gas prices to take some positive cues in between. Increasing crude oil inventory and natural gas storage again created a concern for gas prices. Thereafter gas futures prices traded on a volatile trend and closed with marginal gain in Nymex platform on weekly basis.

Outlook: In the coming week, we are expecting a pull back on gas futures prices on account of peak summer season in the US and ongoing flood warning in Mississippi river. As per EIA, natural gas storage have increased by 70 Bcf in the last week and currently stands at 1827 Bcf. So, increasing storage levels may have some negative impact on prices. Economic data expectation from US and Euro-zone are mixed, which may have some positive impact on gas prices. So, technically we are giving buy call for the coming week.

Technical analysis:

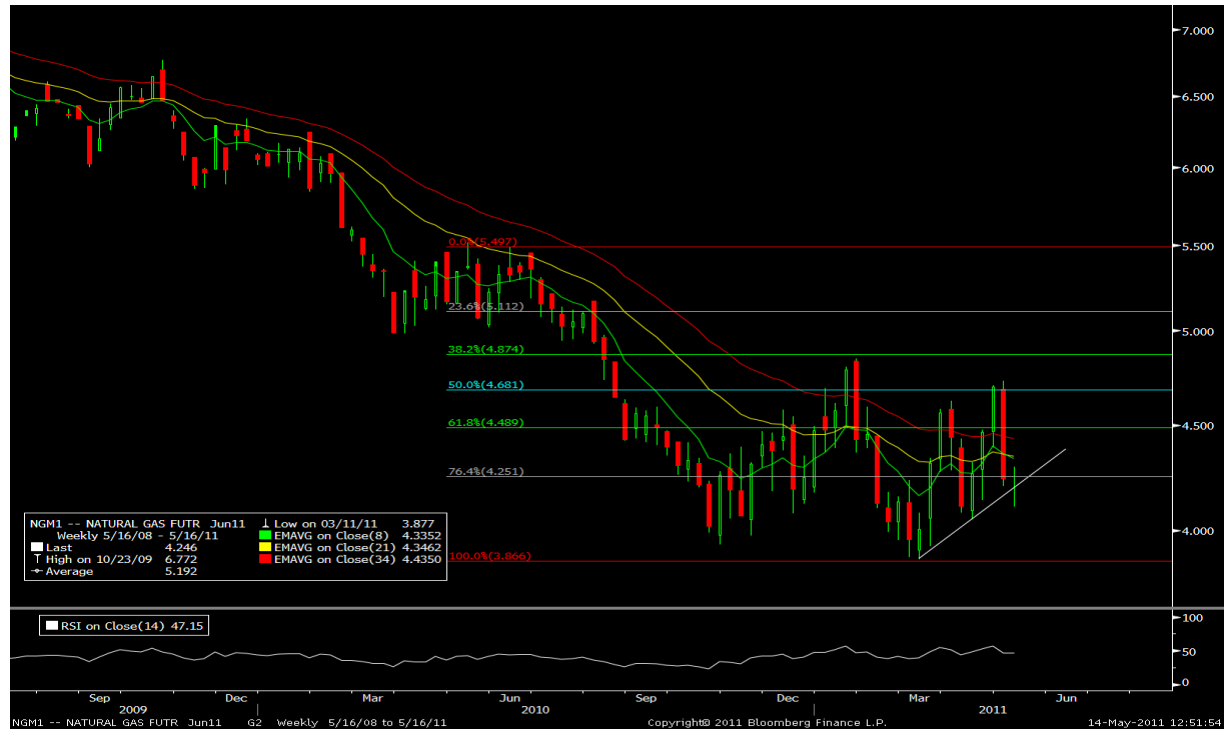
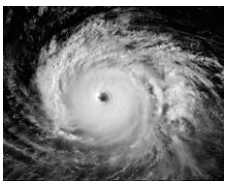
Natural Gas Nymex June future prices had made a high of 4.297 then low of 4.109 and closed at 4.246 levels. Immediate support is at 4.109 levels which is previous swing low. The principle of **Fibonacci retracement** states that prices are witnessing immediate support at 4.261 levels which is 23.6% of the range 5.497-3.879 levels. On sustain above these levels there is scope to test 4.497 levels then 4.688 levels which are 38.2% and 50% of above mention ranges respectively. Prices are witnessing **trend line** support at 4.255 levels. On breach and sustain below these levels there is a scope to come down till 4.109 levels which is previous week's low. The **moving average** principle suggesting downside movements as prices are trading below the short and medium term EMA's of (8,21&34) levels. 4.335-4.3346 ranges will act as an



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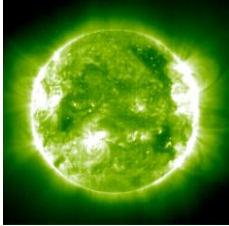
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initial resistance for the coming week which is 8 and 21 EMA levels, on sustain above is likely to test 4.435 levels which is 34 EMA level. The momentum indicator weekly RSI-14 is trading at 0.471 levels and suggesting upside movements.



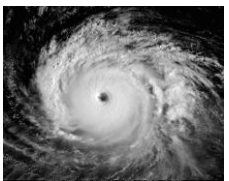
MAJOR ECONOMIC RELEASES IN THE COMING WEEK

Date Time	Region	Event	Period	Survey	Prior
05/16/2011 05:20	JN	Machine Orders (M/M)	MAR	-10.00%	-2.30%
05/16/2011 05:20	JN	Domestic CGPI (M/M)	APR	0.40%	0.60%
05/16/2011 10:30	JN	Consumer Confidence	APR	36.7	38.6
05/16/2011 14:30	EC	Euro-Zone CPI (M/M)	APR	0.60%	1.40%
05/16/2011 14:30	EC	Euro-Zone Trade Balance	MAR	2.0B	-1.5B
05/16/2011 18:00	US	Empire Manufacturing	MAY	19.7	21.7
05/16/2011 18:30	US	Total Net TIC Flows	MAR	--	\$97.7B
05/16/2011 18:30	US	Net Long-term TIC Flows	MAR	\$32.6B	\$26.9B
05/16/2011 19:30	US	NAHB Housing Market Index	MAY	17	16
05/17/2011 14:00	UK	CPI (M/M)	APR	0.70%	0.30%
05/17/2011 14:00	UK	Retail Price Index	APR	234.6	232.5
05/17/2011 14:00	UK	RPI (M/M)	APR	0.80%	0.50%
05/17/2011 14:30	GE	Zew Survey (Current Situation)	MAY	87.5	87.1



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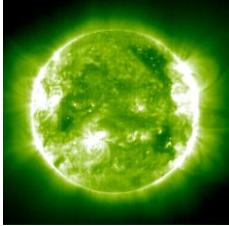


05/17/2011 14:30	EC	ZEW Survey (Econ. Sentiment)	MAY	17.3	19.7
05/17/2011 14:30	GE	ZEW Survey (Econ. Sentiment)	MAY	4.5	7.6
05/17/2011 18:00	US	Housing Starts	APR	568K	549K
05/17/2011 18:00	US	Building Permits	APR	587K	594K
05/17/2011 18:00	US	Housing Starts MOM%	APR	3.50%	7.20%
05/17/2011 18:00	US	Building Permits MOM%	APR	0.30%	11.20%
05/17/2011 18:45	US	Industrial Production	APR	0.40%	0.80%
05/17/2011 18:45	US	Capacity Utilization	APR	77.60%	77.40%
05/18/2011 14:00	UK	Bank of England Minutes			
05/18/2011 14:00	UK	Jobless Claims Change	APR	0.0K	0.7K
05/18/2011 16:30	US	MBA Mortgage Applications	13-May	--	8.20%
05/18/2011 23:30	US	Minutes of FOMC Meeting			
05/19/2011 05:20	JN	GDP Deflator YoY	1Q P	-1.90%	-1.60%
05/19/2011 05:20	JN	Nominal GDP (Q/Q)	1Q P	-0.80%	-0.70%
05/19/2011 05:20	JN	GDP Annualized	1Q P	-2.00%	-1.30%
05/19/2011 05:20	JN	Gross Domestic Product (Q/Q)	1Q P	-0.50%	-0.30%
05/19/2011 10:00	JN	Industrial Production (M/M)	MAR F	--	-15.30%
05/19/2011 18:00	US	Initial Jobless Claims	14-May	420K	434K
05/19/2011 18:00	US	Continuing Claims	7-May	3723K	3756K
05/19/2011 19:30	US	Existing Home Sales	APR	5.20M	5.10M
05/19/2011 19:30	US	Existing Home Sales M/M	APR	2.00%	3.70%
05/19/2011 19:30	US	Leading Indicators	APR	0.10%	0.40%
05/19/2011 19:30	US	Philadelphia Fed.	MAY	20	18.5
05/20/2011 11:30	GE	Producer Prices (M/M)	APR	0.60%	0.40%
05/20/2011 13:30	EC	ECB Euro-Zone Current Account SA	MAR	--	-7.2B
05/20/2011 19:30	EC	Euro-Zone Consumer Confidence	MAY A	-12	-11.6
05/20/2011	JN	BOJ Target Rate	20-May	--	0.10%

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