



# ENERGY WEEKLY

A weekly report on Crude Oil & Natural Gas



## CRUDE OIL

**REVIEW:** Crude oil futures prices headed toward \$100/bbl in the last week run and made a high of three months. Oil futures continued the bullish trend consecutively for six weeks, which is the lengthiest weekly run since 2007. However, major market dynamics like world equity market and dollar index have shown a little change in the last week. Due to ongoing political uncertainty in Euro-zone, EURO/USD pair continues to weak and closed at 1.375, down by 0.30 percent. World equity index closed at 1205.46 contributed by more than three percent fall in Asian equity indices and only one percent gains in US and European market. However, oil prices have gained more than five percent in last week, against the major market dynamics. These unexpected gains in oil futures is seen may be due to supportive fundamentals, like higher fall in distillates stocks indicating better winter demand. Step down of Greece Prime minister as a step to cut down debt crisis also supported oil futures to gain some points. Inflation in China cools down as CPI and PPI numbers fell in the month of October. Consumer sentiment in US has improved as University of Michigan confidence climbed up to five month high. November contract in MCX platform have gained near seven percent following the international market along with highly depreciating rupee. Indian rupee continues to depreciate by two percent against US Dollar.

## OUTLOOK:

In the coming week, we are expecting oil futures to trade on positive side; however the unexpected gains may get cut down if the major market movers turn around. Euro-zone debt concern renewed on Italy's ability to fund itself outweighed relief over Greece's decision to scrap a referendum on its bailout plan. The Italian bond yield fell below the crisis level of 7% which is hardly sustainable. Therefore, Monday will be crucial for the Euro as \$3 billion Euros worth Italian five year government bonds will be auctioned. So, demand for Euro is expected to rise as the hope of newly thought Prime minister will perhaps be helpful with the daunting task ahead. So, oil prices may take positive cues from rising Euro. From economic data point, most of the US economic releases are likely to remain decent while the European releases are expected to show weakness. The industrial production, building permits and capacity utilization are likely to improve. Despite the improvement in building permits, housing starts are not expected to improve as the current situations in the US might have stopped the promoters to start the construction. The Euro zone and German economic sentiment is still expected to remain weak while QOQ GDP may continue to grow at the prior rate. After intervening into the Forex market and lowering the Yen, Japan export growth might have improved which is expected to make the QO GDP to improve. Overall, oil prices may take positive cues from the expected data releases. On fundamental front, Energy Information Administration have projected that average household heating expenditures for heating oil and propane will increase by 10 percent and 9 percent, respectively, this winter (October 1 to March 31) compared with last winter. This indicates distillates demand is likely to increase more which may drive oil prices further. However, inventory report must eye on Wednesday night.



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## Technical Recommendation:

Commodity	S3	S2	S1	R1	R2	R3	Recommendation
NYMEX -Crude Oil: Dec	88.84	91.04	95.01	101.18	103.38	107.35	BUY AT 96.52-97.50 TP 102,103.97 below SL94
MCX -Crude Oil: Nov	4370	4495	4708	5046	5171	5384	BUY AT 4837-4886 TP 5111 SL below 4710

## LAST WEEK PRICE PERFORMANCE

Exchange	Contract	Open	High	Low	Last	% Change	Volume	% Change	Open Interest	% Change
NYMEX WTI Crude (\$/bbl)	Dec	94.4	99.4	93.23	98.99	5.02%	1667040	15.69%	201927	-25%
	Jan	94.2	99.3	93.14	98.89	4.99%	609732	69.98%	279702	28%
ICE Brent Crude (\$/bbl)	Nov	110.13	112.48	106.1	111.97	1.96%	1039186	-1.03%	98832	-31%
	Dec	111.16	115	109.91	112.93	1.98%	814285	28.67%	182990	9%
MCX WTI Crude (Rs/bbl)	Nov	4620	4958	4620	4921	6.56%	976603	-14.49%	35025	10%
	Dec	4651	4948	4630	4915	6.22%	123155	32.71%	9867.00	104%

## Major Events of last week:

- **Oil futures continued the gain which is lengthiest weekly gain since 2007**
- Prime Minister Silvio Berlusconi of Italy, third largest economy of Euro zone has stepped down as a step for resolving debt problem
- Greece will reportedly receive 8 billion euro (\$11 billion) in the six tranche of its first bailout package and will begin working on the new rescue deal if the troubled country's leaders can commit to the terms
- Inflation in China have cool down , as CPI and PPI have fallen by 5% & 5.5% respectively
- Distillates stocks have fallen to more than 15years low level, as reported by US energy department



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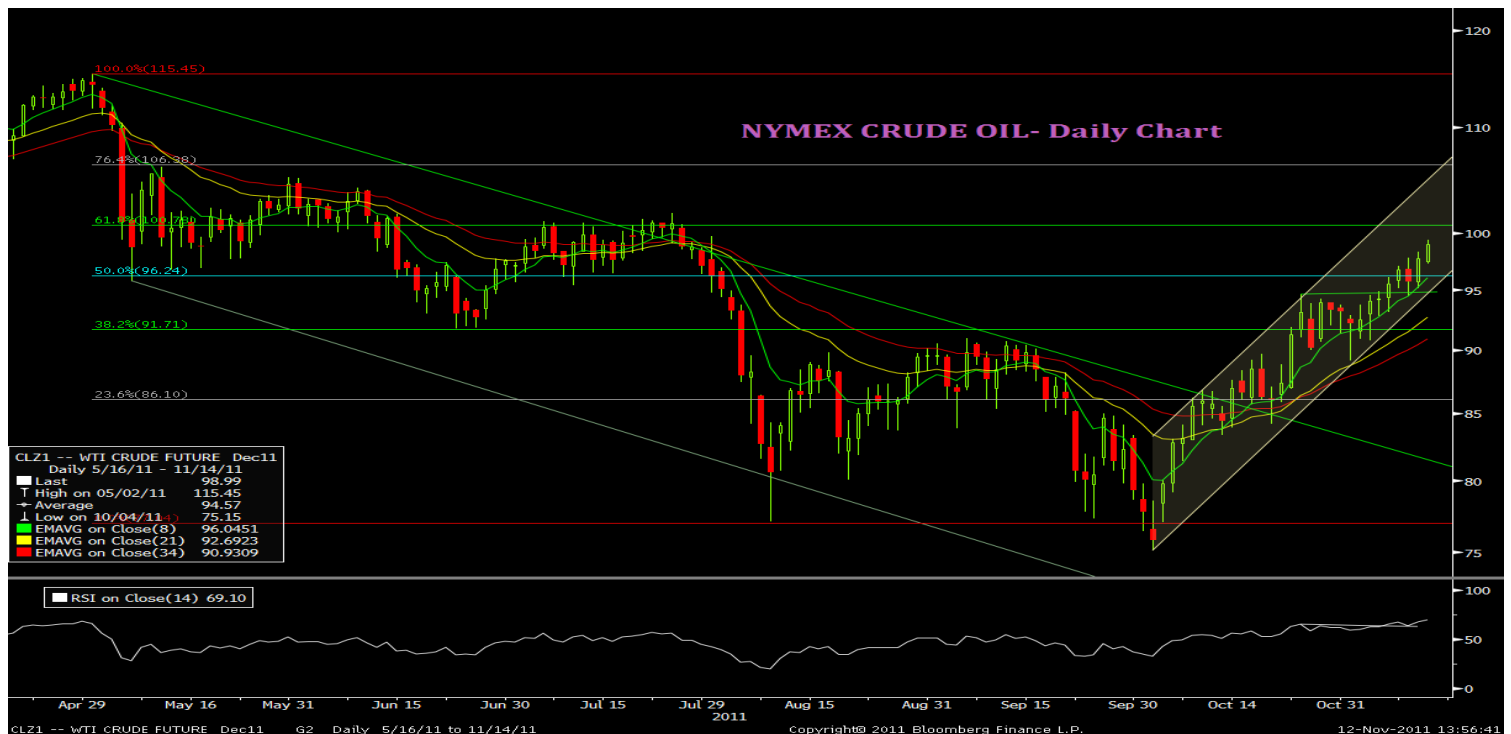


## CURRENCY PERFORMANCE

Currency Pair	Value	Last week change	Prior Week Change
USD/INR	50.1150	2.04%	0.71%
EUR/USD	1.3750	-0.30%	-2.51%
USD/JPY	77.2000	-1.33%	3.19%
AUD/USD	1.0276	-0.95%	3.12%
Dollar Index	76.9450	-0.02%	2.52%

## TECHNICAL ANALYSIS

Oil prices are rising for the past six consecutive weeks and ended at \$98.99. The week gone by oil prices have made a high of \$99.40 levels just a little away from \$100 levels. The momentum at which oil is travelling it's hardly a matter that it should break \$100 levels. May be oil could sustain beyond that as well. Technically speaking last six weeks move has been so rapid that prices are moving at 80-85 GANN degree speed. This indicates market to correct for a while before it continues its bullish move. Hence, correction is inevitable and could see oil prices testing support near \$97 and \$95 levels. However, going by the pivot analysis the pivotal point is seen at \$97.20 levels. Likewise, the supports and resistances could be seen at \$95, \$91 and \$101, \$103 respectively. Although oil is travelling so rapid but no sign of reversal seen yet, nevertheless a pause can be felt in the market of course after hitting the psychological barrier of \$100.00 levels. Moreover, we might see some pressure building upon oil as market is just hitting 61.8% retracement at \$100.10 which is derived from the range of \$115.50 to 75.15 levels. So, a correction at \$100 or nearby levels could be expected. Precisely, a convincing break above \$101 should drive oil to test \$103 levels.





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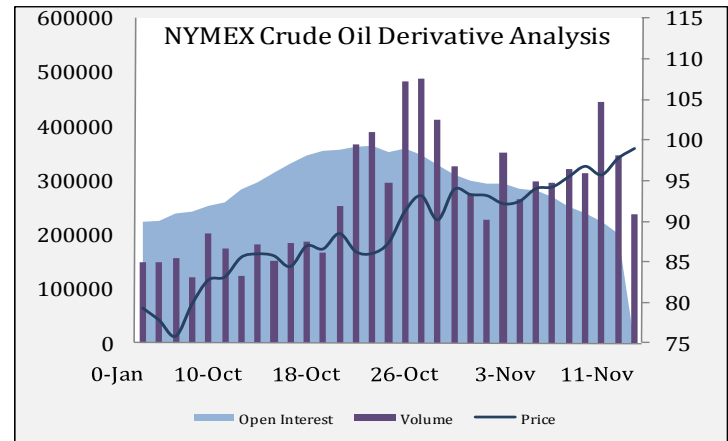
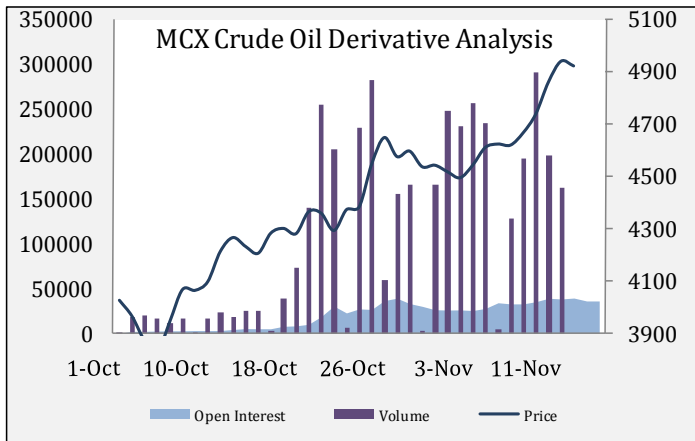


This is also imperative to look at the daily chart and going by the same shows that oil prices are trading in a channel and the possible targets could be seen at \$101 and \$103 levels. As discussed above supports are at \$95 and 91. Therefore, oil is expected to trade positive and likely to move in the range of \$95-103 in the coming week.

**Recommendation:** Buy in the range of 96.50-97.50 targeting \$101 then \$103 with stop loss below 94. Note: Strictly for the 3-5 trading session.

## DERIVATIVE ANALYSIS

As per last week PVO-Chart, volume has been increased more in crude oil far month contract, whereas open interest have declined in current month contract. Declining demand for far month contract is also seen might be due to uncertain global economy, which is making oil futures to gain on a slower pace. Trading volume has been increased by near 70% in January contract in NYMEX platform. Market is running out of traders willing to open or hold an open long/buy. Traders are liquidating both losing short positions & closing winning long positions.



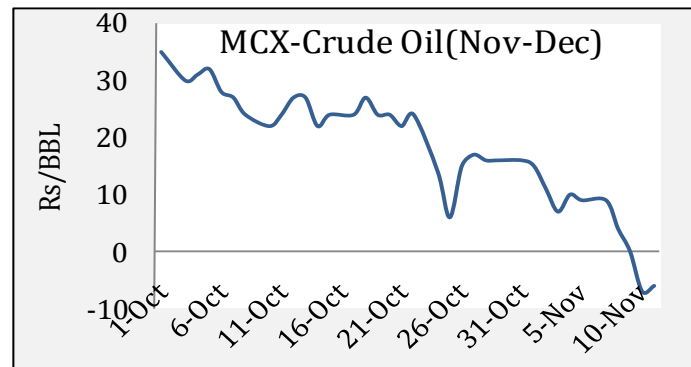
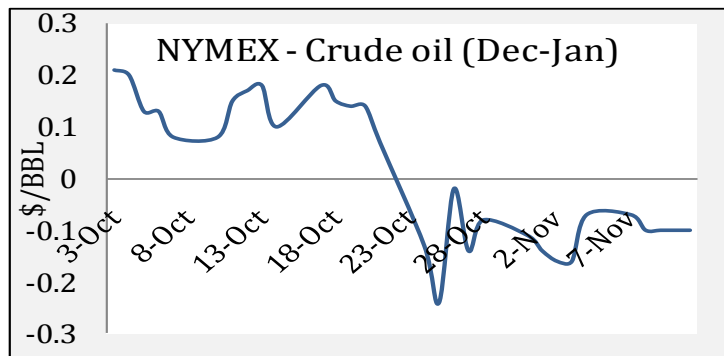


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## SPREAD CHART



The spread between MCX traded November and December oil futures have declined to -6 from 9. More gain in current month contract have made spread to fall and spread had also made a low of Rs.-10 in India market. In NYMEX, oil market continue to be in backwardation consecutively for last two weeks, may be due to large traders liquidating their positions on high levels. However, expectation of higher demand in winter season is creating a positive sentiment in the market. Thus, it's being reflected more on current month contract.

## CRUDE OIL INVENTORY

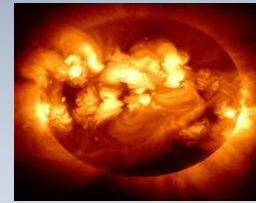
As per US Energy department, crude oil supplies have declined by 1370K barrels in the last week. As per Baker Hughes total Oil and Gas rig counts have declined by ten numbers in the last week and currently stands at 2016. Distillates stocks have fallen by more than 6000k barrels in the last week, the highest weekly fall in last 15years of time. Continuous fall in Gasoline inventory is also seen, which indicates higher demand in upcoming winter. However, refinery utilization have decline in the last week, as reported by US Energy Department. The fall in refinery utilization is seen may be because previous crude stocks have already used. However, we can interpret the inventory data as a positive sign for crude oil price movement.

DOE Warehouse Stocks ('000 barrels)			
Commodity	Latest week	Previous week	Change
Crude Oil	338090	339460	-1370
Gasoline	204167	206274	-2107
Distillate	135869	141889	-6020
Refinery utilization (%)	82.6	85.3	-2.7
EIA Working gas storage (Bcf)			
Natural gas	3831	3794	37



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## MAJOR ECONOMIC DATA RELEASES

Date Time	Region	Event	Period	Survey	Prior
11/14/2011 05:20	JN	GDP Annualized	3Q P	5.90%	-2.10%
11/15/2011 12:30	GE	GDP s.a. (QOQ)	3Q P	0.50%	0.10%
11/15/2011 15:00	UK	CPI (MoM)	OCT	0.20%	0.60%
11/15/2011 15:30	EC	Euro-Zone GDP s.a. (QoQ)	3Q A	0.20%	0.20%
11/15/2011 15:30	GE	Zew Survey (Current Situation)	NOV	32	38.4
11/15/2011 15:30	EC	ZEW Survey (Econ. Sentiment)	NOV	-55.3	-51.2
11/15/2011 15:30	GE	ZEW Survey (Econ. Sentiment)	NOV	-52.5	-48.3
11/15/2011 15:30	EC	Euro-Zone Trade Balance	SEP	2.0B	-3.4B
11/16/2011 19:30	US	Net Long-term TIC Flows	SEP	--	\$57.9B
11/17/2011 19:00	US	Continuing Claims	5-Nov	3615K	3615K
11/15/2011 19:00	US	Empire Manufacturing	NOV	-2.2	-8.48
11/16/2011 15:30	EC	Euro-Zone CPI (MoM)	OCT	0.30%	0.80%
11/15/2011 20:30	US	Business Inventories	SEP	0.10%	0.50%
11/17/2011 19:00	US	Housing Starts	OCT	606K	658K
11/15/2011 19:00	US	Producer Price Index (MoM)	OCT	-0.10%	0.80%
11/16/2011 19:45	US	Industrial Production	OCT	0.40%	0.20%
11/16/2011 19:45	US	Capacity Utilization	OCT	77.60%	77.40%
11/17/2011 19:00	US	Building Permits	OCT	600K	594K
11/17/2011 20:30	US	Philadelphia Fed.	NOV	9	8.7
11/18/2011 20:30	US	Leading Indicators	OCT	0.60%	0.20%
11/16/2011 19:00	US	Consumer Price Index (YoY)	OCT	3.70%	3.90%
11/17/2011 19:00	US	Initial Jobless Claims	12-Nov	395K	390K
11/18/2011 12:30	GE	Producer Prices (MoM)	OCT	0.10%	0.30%
11/15/2011 19:00	US	Advance Retail Sales	OCT	0.30%	1.10%



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## NATURAL GAS:

### REVIEW:

Natural gas futures prices continue to fall for the second week and closed at \$3.58/MMBTU in NYMEX platform in the last week. Similarly, November futures closed at Rs.182 by losing more than 2.5%. However, prices have fallen in a slower pace in far month contract. Henry hub natural gas spot price closed at \$3.28/ MMBTU. Volume has been declined in current month contract, whereas increased in far month contracts. Higher demand in far month contract have made prices to fall on a slower pace and increasing volume with higher open interest than current month contract. Spread between November and December contract have increased from 6.7 to 7.1 in MCX platform. Natural gas inventory have increased by 37 BCF in the last week, higher than expectation but in a slower pace than prior week. Currently storage stands at 3831 BCF, which is almost at same level with last year. Ups and downs were seen in gas price movement in future prices driven by US weather condition which was forecasted to remain mild for couple of days in the last week.

### OUTLOOK:

We are expecting gas futures prices to continue the bearish trend in the coming week as storage level is still high and US weather condition is likely to remain mild. As per US Weather channel temperature is likely to remain slightly above normal temperature in the coming week. As per Baker Hughes Natural gas rig counts have declined by 37 numbers, which is indicating lower production. EIA has predicted that natural gas and electricity expenditures are projected to remain close to last year's levels in short term. However, some improvement can be seen ahead of storage data releases, which must eye on Thursday.

### Technical Recommendation:

Commodity	S3	S2	S1	R1	R2	R3	Recommendation
NYMEX –Natural Gas: Dec	3.293	3.427	3.503	3.713	3.847	3.923	Sell in the range of \$3.63-3.70 targeting \$3.50 then \$3.45 with stop
MCX –Natural Gas: Nov	171	176	179	187	192	195	SELL AT 181.90-185.40 TP 175.38 SL 172.80



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## LAST WEEK PRICE PERFORMANCE:

Exchange	Contract	Open	High	Low	Last	% Change	Volume	% Change	Open Interest	% Change
NYMEX (\$/MMBtu)	Nov	3.76	3.77	3.56	3.58	-5.3%	535378	-7.82%	119971	-0.09
	Dec	3.88	3.88	3.67	3.70	-5.0%	259569	6.59%	261141	0.04
MCX (Rs/MMBtu)	Oct	186	189	181	182	-2.5%	218270	-20.14%	18685	1.11
	Nov	199	201	192	197	-2.53%	17017	15.97%	1922	0.65

## TECHNICAL ANALYSIS

**NYMEX Natural Gas:** Natural gas prices are trading lower since long and in the last week gas prices ended at \$3.584 down by 5.68 per cent from its previous week. Market is in a down trend and no sign of reversal yet. In fact the weekly RSI-14 is at around 0.29 levels may be still has potential to trade lower. Hence, we believe gas prices are expected to trade lower however, a minor pullback can be expected. The pivot point is seen at \$3.63 levels. Selling near pivotal point should be apt. As per the pivot analysis the supports could be seen at \$3.50 and 3.42 levels. Likewise, the resistances are at \$3.71 and \$3.84 levels. Overall, selling trend is expected to continue in the coming week.





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**Recommendation:** Sell in the range of \$3.63-3.70 targeting \$3.50 then \$3.45 with stop loss above 3.80

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