



# ENERGY WEEKLY

A weekly report on Crude Oil & Natural Gas



## CRUDE OIL

**REVIEW:** Crude oil futures prices closed on a negative note, the worst weekly performance in last six weeks. Pinch of Euro-zone debt concern along selling pressure due to contract expiry pressurized oil prices. However, supportive economic releases along falling inventory report released by EIA made oil prices to gain some points in the last week. Japan's GDP rebounds after slowdown of Tsunami and earthquake. Third quarter GDP of Japan climbed up by more than 1.5%, highest in a year. Thus, oil prices began the weekly movement on a higher trend however the trend got disturbed due to uncertain Euro-zone economy. Bond auction of Euro-zone countries have created the bubbles in the market. Mario Monti headed the new government in Italy, as a step to tame debt. Italy, Spain and France, all of the three auctioned their bonds which made yields to climb up the high level. In Italy during bond auction bids exceeded supply by 1.47 times and produced a yield of 6.29%, a sharp rise in borrowing cost from 5.32% in sale of the same issue last month. The Euro sank to its five weeks low of 1.3444 as France and Spain prepare to sell notes after Italy did the same. The yields have been increased both in France and Spain. 10-yr bond yield in France have increased to 3.38 from 3.2%. Similarly, Spain 10-yr bond yield have also climbed up to 7.008%. Euro weakens to five week's low against Dollar which made most of the non agro commodities to fall, so oil prices. On the other side, Improving macroeconomic sentiments in US along tight crude oil supply have supported oil futures. Gains in consumer spending, manufacturing and homebuilding, combined with fewer job losses are showing an improvement in US economy. Oil futures traded below \$97/bbl, after making high of \$103.37/bbl.

## OUTLOOK:

In the coming week, oil prices are expected to trade on volatile trend, where some gains are expected due to increasing demand of heating oil along improving US economic condition. The coming week will begin with US GDP data which is expected to increase by 2.5% on third quarter. Improvement in housing sectors and job additions has already reflected on higher leading indicator index. Thus, consumer income, consumption and spending data are likely to come positive. So, improving macroeconomic picture may support oil futures prices to gains the last week's losses. However, FOMC meet statement must watch keenly. From the Euro zone however, the rising borrowing cost would reflect into a widening current account deficit. Investors' reluctance in government bonds would indicate a shortfall in their confidence. Therefore, PMI numbers are also likely to be weak for this month. After the premiums in spread yield of France increased by 26 bps from the German yield, we can infer that the largest European country is still in a better condition with compared to the others. But still, the German PMI numbers may remain weak; while government may keep on to spend to boost the economic growth. Thus, oil prices may decline under pressure of uncertain euro-zone economy. Last week's fundamentals remain same in part of EIA prediction for the coming week also. 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: Jan	88.45	92.58	95.12	101.79	105.92	108.46	Sell in the range of \$98.50-99.30 targeting \$94.20 and \$93 with stop loss above \$102.50
MCX -Crude Oil: Dec	4507	4701	4855	5203	5397	5551	Sell in the range of Rs.5033-5073 targeting Rs.4813 and 4752 with stop loss above Rs.5237

## LAST WEEK PRICE PERFORMANCE

Exchange	Contract	Open	High	Low	Last	% Change	Volume	% Change	Open Interest	% Change
NYMEX WTI Crude (\$/bbl)	Dec	99.3	103.37	96.64	97.41	-1.60%	1313914	-23.21%	38966	-79%
	Jan	99.06	103.37	96.7	97.67	-1.23%	1394133	120.15%	334138	14%
ICE Brent Crude (\$/bbl)	Nov	112.41	116.48	111.26	114.16	-1.55%	143187	-86.22%	21632	-72%
	Dec	113.5	113.6	106.97	107.56	-4.76%	1167189	43.34%	197248	3%
MCX WTI Crude (Rs/bbl)	Nov	4941	5244	4896	5031	1.80%	870175	-11.33%	6139	-82%
	Dec	4934	5244	4896	5008	1.58%	634528	408.48%	31960.00	222%

## Major Events of last week:

- Oil futures traded above \$103/bbl at five months high, however closed on negative note in weekly basis
- Indian rupee depreciated by 2.43% against US dollar, the highest fall in last 32 months.
- Mario Monty became new Prime minister of Italy
- Italy sold 3 billion Euros of five year bonds. 5-year bonds and yields climbed up to 6.7%. Borrowing cost also climbed up to 6.29%
- Euro traded at 5-week's low at 1.3448 (-0.67%) against US dollar. Spanish Treasury sold €3.562 billion of benchmark 10-year paper at a maximum yield of 7.088%, which was the highest yield paid since the euro's inception. 10-yrs bond yield in France have increased to 3.38 from 3.2%.
- Enbridge Enterprise agrees to reverse the seaway crude oil pipeline to enable it to transport crude oil from Cushing and Oklahoma to US Gulf Coast.

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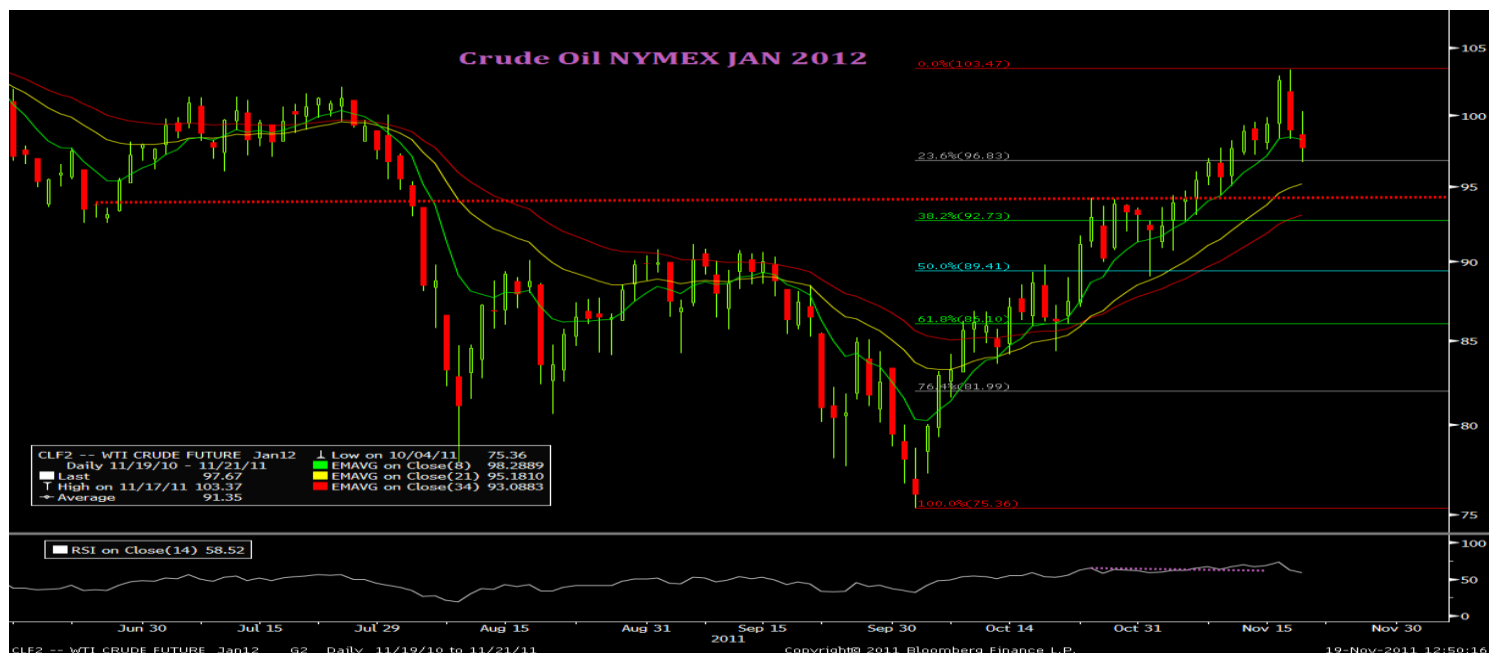
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## CURRENCY PERFORMANCE

Currency Pair	Value	Last week change	Prior Week Change
USD/INR	51.3350	2.43%	2.04%
EUR/USD	1.3525	-0.30%	-0.30%
USD/JPY	76.9100	-0.38%	-1.33%
AUD/USD	1.0008	-2.61%	-0.95%
Dollar Index	78.0230	-0.02%	-0.02%

## TECHNICAL ANALYSIS

January futures oil prices witnessed a high of \$103.37 in the last week while settled lower at \$97.67 levels. Oil prices declined after six consecutive weeks as market was expecting such correction to take place after continuous steep rise. Probably the correction should strengthen the trend in the short term. However, as far as the coming week is concerned we could see some more correction can be expected. Technically speaking market is highly deviated from the averages so correction until moving averages would be apt. Now, going by the daily and weekly price chart we see prices to correct towards and moving averages and the supports could be seen around \$95.10 and then 94.20 levels. Looking at the daily chart closely, we see prices have now breached 8-day EMA suggesting very immediate correction is certain however an intermediate support could be noticed at \$96.50 (23.6%) retracement of the recent rally from \$75.26 to \$103.37 levels. Subsequently, a break below \$94.20 may see prices testing \$92.80 levels. Likewise, we need to look at the higher side resistances as well. The pivotal point is seen at \$99.24 levels. So a pullback can be expected and beyond that market may test \$100.50 and \$101.30 levels. The weekly RSI\_14 is now at 0.59 slightly declining from its recent high while in the daily chart the same has declined sharply from 0.73 to 0.60 levels suggesting selling pressure may be noticed. Looking at the above analysis we see oil prices to take correction in the coming week.





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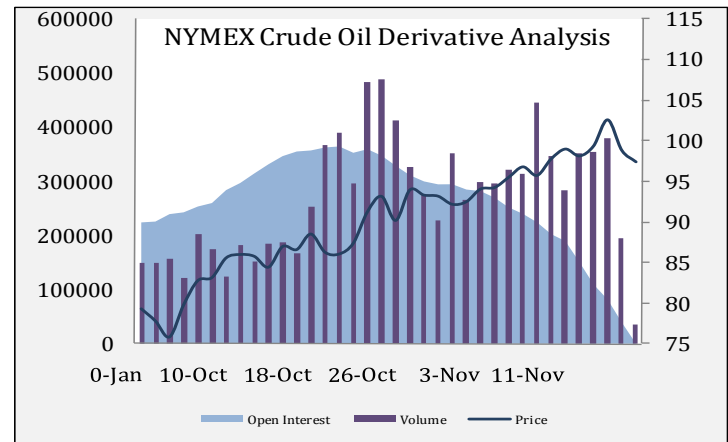
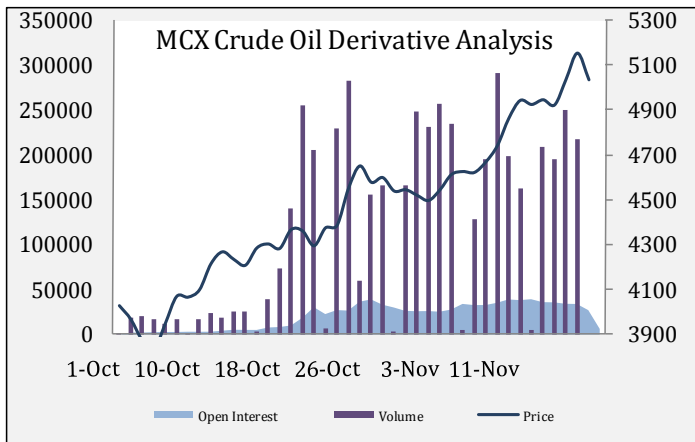
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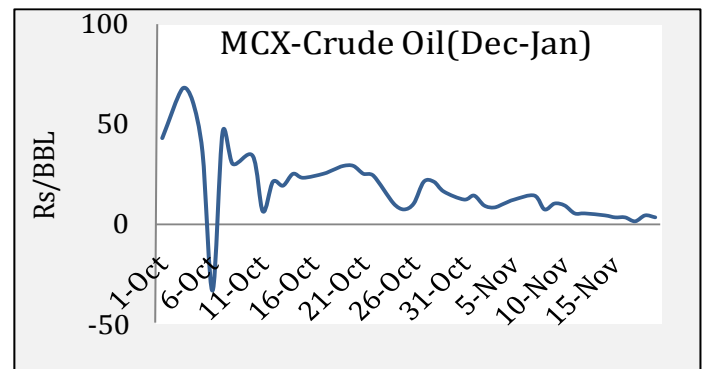
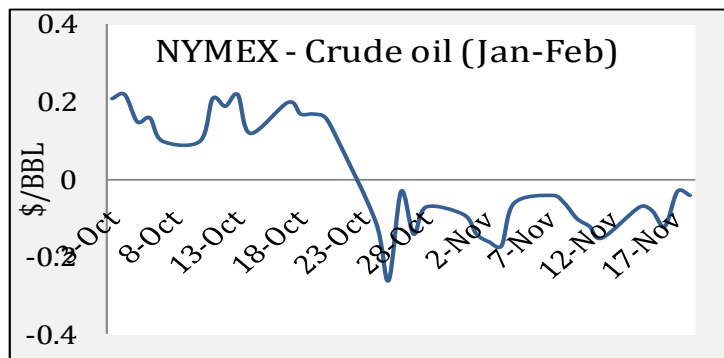
**Recommendation:** Sell in the range of \$98.50-99.30 targeting \$94.20 and \$93 with stop loss above 102.50

## 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 120% 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.



## SPREAD CHART



The spread between MCX traded December and January oil futures have declined to 3, after making a low of -5. More fall in far month contract have made spread to fall in India market. In NYMEX, oil market continue to be in backwardation consecutively for last three weeks, may be due to large traders liquidating their positions on high



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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 1056K barrels in the last week. As per Baker Hughes total Oil and Gas rig counts have declined by 15 numbers in the last week and currently stands at 2001. Distillates stocks continue to fall and last week it fell by more than 2000k barrels. However, Gasoline stocks have piled up by 900K barrels may be lower consumption and higher demand of Distillates. Refinery utilization has increased by 2.2% in the last week, as reported by US Energy Department. So, overall data indicates production and consumption have been increased simultaneously, which is supportive for oil prices.

DOE Warehouse Stocks ('000 barrels)			
Commodity	Latest week	Previous week	Change
Crude Oil	337034	338090	-1056
Gasoline	205159	204167	992
Distillate	133733	135869	-2136
Refinery utilization (%)	84.8	82.6	2.2
EIA Working gas storage (Bcf)			
Natural gas	3850	3831	19

## MAJOR ECONOMIC DATA RELEASES

Date Time	Region	Event	Period	Survey	Prior
11/21/2011 19:00	US	Chicago Fed Nat Activity Index	OCT	0.19	-0.22
11/21/2011 20:30	US	Existing Home Sales	OCT	4.80M	4.91M
11/22/2011 19:00	US	GDP QoQ (Annualized)	3Q S	2.50%	2.50%
11/22/2011 19:00	US	Personal Consumption	3Q S	2.40%	2.40%
11/22/2011 19:00	US	GDP Price Index	3Q S	2.50%	2.50%
11/22/2011 20:30	EC	Euro-Zone Consumer Confidence	NOV A	-21	-19.9
11/22/2011 20:30	US	Richmond Fed Manu fact. Index	NOV	-1	-6
<b>11/23/2011 00:30</b>	<b>US</b>	<b>Minutes of FOMC Meeting</b>			
11/23/2011 14:00	GE	PMI Manufacturing	NOV A	48.5	49.1
11/23/2011 14:00	GE	PMI Services	NOV A	50	50.6



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11/23/2011 14:30	EC	PMI Composite	NOV A	46.1	46.5
11/23/2011 14:30	EC	PMI Manufacturing	NOV A	46.5	47.1
11/23/2011 14:30	EC	PMI Services	NOV A	46	46.4
11/23/2011 19:00	US	Durable Goods Orders	OCT	-1.20%	-0.80%
11/23/2011 19:00	US	Personal Income	OCT	0.30%	0.10%
11/23/2011 19:00	US	Personal Spending	OCT	0.30%	0.60%
11/23/2011 19:00	US	Initial Jobless Claims	19-Nov	390K	388K
11/23/2011 19:00	US	Continuing Claims	12-Nov	3610K	3608K
11/23/2011 20:25	US	U. of Michigan Confidence	NOV F	64.5	64.2
11/24/2011 12:30	GE	Exports	3Q	1.60%	2.30%
11/24/2011 12:30	GE	Government Spending	3Q	0.20%	0.20%
11/24/2011 12:30	GE	Construction Investment	3Q	-0.10%	-0.90%
11/24/2011 12:30	GE	Imports	3Q	1.50%	3.20%
11/24/2011 12:30	GE	Private Consumption	3Q	0.50%	-0.70%

## NATURAL GAS:

### REVIEW:

Natural gas futures prices continue to fall for the third week and closed at \$3.32/MMBTU in NYMEX platform in the last week. Similarly, November futures closed at Rs.182 by losing more than 5%. This is the highest weekly fall in last four months of time. However, prices have fallen in a slower pace in far month contract. Henry hub natural gas spot price closed at \$3.02/ MMBTU. Volume has been increased more in far month contract. 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 7.1 to 10.1 in MCX platform. Natural gas inventory have increased by 19 BCF in the last week, lower than expectation, which supported gas futures to take some positive cues. Currently storage stands at 3850 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.



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## 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 6 numbers, lower than prior week. Thus increasing supply may pressure on gas futures prices. 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	2.963	3.127	3.223	3.483	3.647	3.743	Trading Range \$2.95-3.70
MCX –Natural Gas: Nov	159.67	165.33	168.67	177.67	183.33	186.67	Trading Range Rs.150.70-189.07

## LAST WEEK PRICE PERFORMANCE:

Exchange	Contract	Open	High	Low	Last	% Change	Volume	% Change	Open Interest	% Change
NYMEX (\$/MMBtu)	Dec	3.54	3.55	3.29	3.32	-7.5%	704957	29.12%	81084	-0.32
	Jan	3.65	3.66	3.46	3.50	-5.4%	424958	53.43%	293533	0.12
MCX (Rs/MMBtu)	Nov	180	180	171	172	-4.3%	233574	5.47%	22386	0.15
	Dec	199	202	193	194	-2.67%	31051	76.78%	3803	0.87

## TECHNICAL ANALYSIS

**NYMEX Natural Gas:** : The trend has been continuously bearish for this commodity and in the last week gas prices ended at \$3.316 levels. Overall, market looks prices trading in a down sloping trend channel and no sign of reversal yet. The support should be seen at \$3.00 as a psychological barrier. While looking at the daily chart we see prices are moving along with the short term 8-day EMA so trend is likely to remain bearish for some more time however, since 21 and 34-day EMA are far higher from the prices may not see prices sustaining much lower for long time frame. The sheer resistance could be noticed at \$3.55 and then \$3.80/4.00 levels. However, in the daily chart prices are much lower and the RSI\_14 is seen trading at 0.22 to 0.23 so very soon a recovery can be expected. Looking at the above analysis we see gas price trend to remain bearish for the coming week.



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**Recommendation:** Trading range \$2.95 – 3.70.

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