KARVY COMMODITIES BROKING

ENERGY WEEKLY

A weekly report on Crude Oil & Natural Gas

CRUDE OIL

REVIEW: Crude Oil futures prices traded in a bullish trend, as we expected in the last week. Oil futures traded above $103/bbl in NYMEX at 8-month's high, with gain of more than four percent which was the weekly high. Supply concern from Iran and improving manufacturing activities in the major nations has supported oil futures prices. Most of the economic releases from US were positive in the last week, which made oil to take positive cues out of it. However, increase in inventories pressurized oil prices to trade on lower side before the weekend. The last week started with better manufacturing activities reported from nations like China, US, Euro-zone and India also. US manufacturing activities climbed up to last six month's high in Decmber.Thus, increase in manufacturing activities created the expectation for higher demand of crude oil due to improving economic condition. However, PMI releases from Euro-zone were declined in the last month, which pressurized Euro to depreciate. Thus, oil prices also took the negative cues. On the other side, Iran said it would take action if the United States sailed an aircraft carrier through the strait, and followed this by announcing new military exercises. Thus, supply concern in Strait of Hormuz, supported oil futures prices. Market was waiting for the FOMC minutes on the same day. According to minutes of the Dec.13 meeting, Fed has decided to incorporate information about their projection of appropriate monetary policy and forecast for the key interest rate for greater transparency from the next meet on Jan 24-25. On Thursday, it is the increasing inventories which pressurized oil prices to trade on lower side. Crude oil stocks along with petroleum inventories climbed up in the last week, more than expectation. In addition to this, bond selling from Euro-zone nations, like German, Spain, Portugal took place. French AAA rated bond yield Increase to 3.29% from 3.18%. Thus, by taking negative cues from increasing borrowing costs Euro came under pressure and traded below 15 month's low. International Energy Agency (IEA) discussed on Thursday an existing plan to release up to 14 million barrels per day (bpd) of government-owned oil stored in the United States, Europe, Japan and other importers. Thus, in last day of the week, oil prices came under pressure. However, little pull back during evening session were witnessed as payrolls data from US indicated for increase in employment in December. The US Unemployment rate declined to 8.5 percent. Overall, world equity market climbed up by almost one percent in the last week, mostly contributed by European equities. Oil prices for February delivery closed at 4101.56/bbl with gain of near 3 percent in NYMEX platform. However, gains in MCX traded oil futures for January delivery were limited by appreciating Indian rupee. Indian currencies have appreciated by more than 0.60 percent against US Dollar, for the first time since last November.

OUTLOOK:

In the coming week, we are expecting oil future prices to trade on a dicey trend. In one side, it is the supply concern from Iran may support oil prices. The economic data from the major nations are also expected to come positive for the economy. So, oil prices may take positive cues from these factors. However, on the other side increase in petroleum stocks and discussion of IEA to releases of SGP may pressurize oil prices. So, let's start with the economic releases for the coming week. The week is going to began with host of economic releases, most importantly the trade balance of major nations. On Monday, German trade balance in the month of November is expected to increase, whereas Industrial orders may decline. Thus, Euro may recover slightly, which may support oil prices. On Tuesday, no major economic releases except Wholesale inventory of US, which is likely to decline. So, prices may remain in a range on Tuesday. However, investors must cautious on inventory

day, i.e. Wednesday. On the same day GDP data from German is expected to come with an increase in number, which may put some points on oil prices. Loads of economic data will be releasing on Thursdays. Most importantly, ECB interest rate announcement. The expectation for interest rate is at 1%. So, market may remain volatile on Thursday. Improvement in Euro-zone trade balance is expected, whereas US trade deficit may increase further as data expected on Friday. Overall, from economic front data are mostly positive which may support oil prices to gain some points. On the other side, pressure on prices can be seen as IEA members have already discussed to release about 14 million barrels per day to meet the demand of major importers from Iran. This step will be taken as Iran is threatening to block Strait of Hormuz. So, decline in supply concern may limit the gains in oil prices. We are expecting oil prices to open on a bearish trend in the coming week, where slight gains can be seen in between. However, actual inventory report must eye on Wednesday night which may change the direction.

Technical Recommendation:

Commodity	S3	S2	S1	R1	R2	R3	Recommendation
NYMEX CRUDE - Feb	95.47	97.56	99.56	103.65	105.74	107.74	Trading Range- $96.70-$103.30
MCX CRUDE- Jan	5051	5166	5267	5483	5598	5699	Trading Range-5490-5130

LAST WEEK PRICE PERFORMANCE

Exchange	Contract	Open	High	Low	Last	% Change	Volume	% Change	Open Interest	% Change
NYMEX WTI Crude ($/bbl)	Feb	99.7	103.74	99.65	101.56	2.76%	1112267	86.35%	221450	-3%
	Mar	99.75	103.9	99.75	101.78	2.81%	352754	97.19%	199171	15%
ICE Brent Crude ($/bbl)	Feb	108.16	109.5	106.5	107.38	-0.54%	367506	-42.48%	146666	-10%
	Mar	107.87	114.22	107.87	112.81	5.56%	548566	175.01%	203840	11%
MCX WTI Crude (Rs/bbl)	Jan	5293	5498	5282	5367	1.34%	881803	44.04%	23649	-9%
	Feb	5307	5515	5303	5391	1.47%	78552	52.09%	5316.00	20%

January 7, 2012

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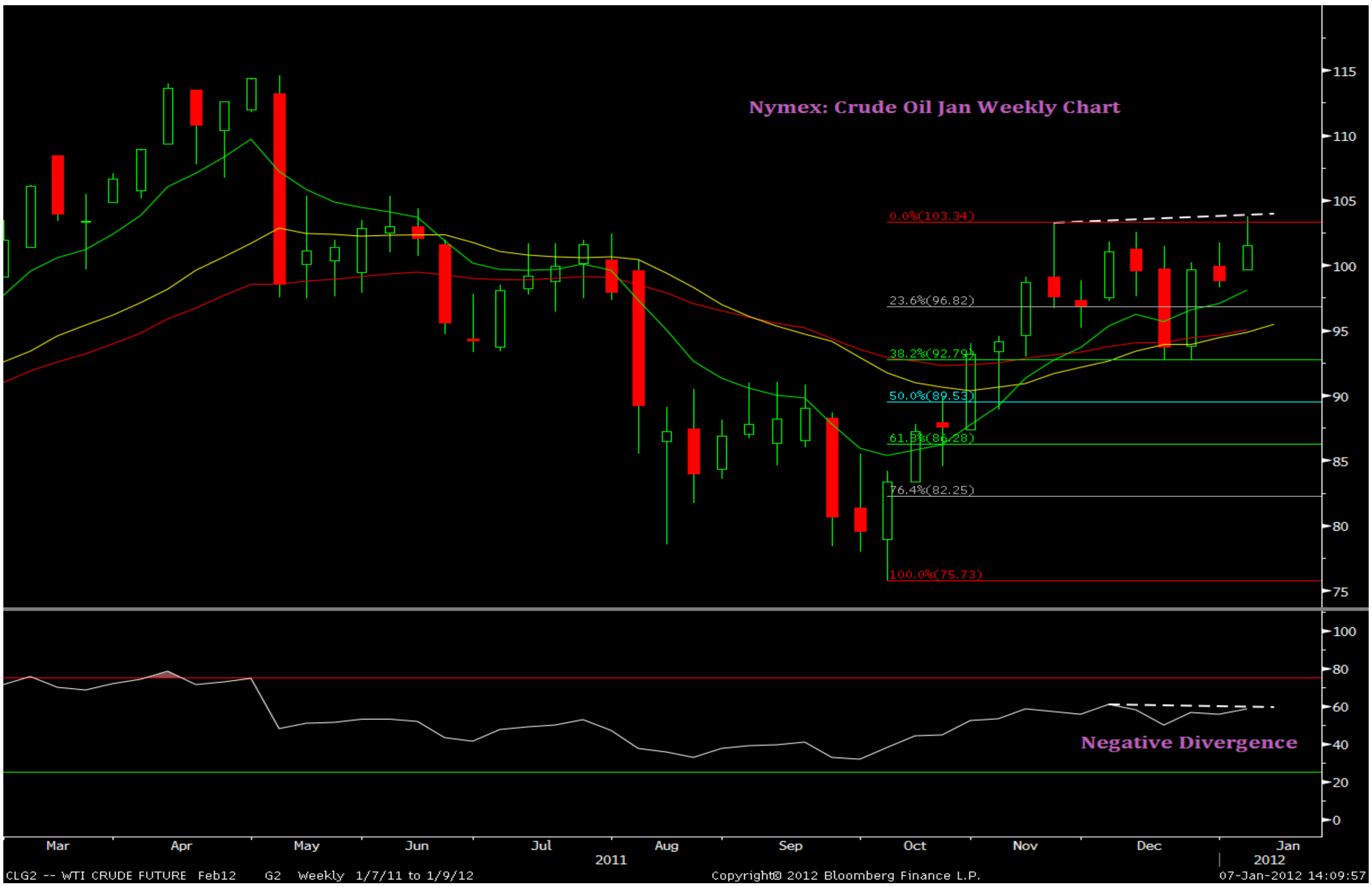
TECHNICAL ANAYSIS



In above price chart prices are witnessing strong pullback in the beginning of the week however it had failed to breach previous high ($103.30) and prices are witnessing negative divergence in daily price chart these two clues are supporting prices to trade downside in coming session. Previous high might consider as an initial resistance level ($103.30). On breach and sustained trade above will give confirmation of the resuming previous bull rally for this rally resistance is seen at $105.40 which is 76.4% of the Fibonacci retracement. For downside prices are witnessing immediate support at $100.60 levels which is daily 8EMA level. Next support is seen at $98.60 levels where long term moving average level is falling. 96.70 level is consider as an crucial support level where Fibonacci retracement of 23.6% of the range of $75.40-$103.30 level , long term rising trend line support level also matching with same level and the trend line is drawn by connecting $75.30-$92.70 levels. Overall expecting prices to trade down side in coming session but for short term (2-3weeks) recommended starting buying from $96.70.

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CRUDE OIL INVENTORY

U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) increased by 2.2 million barrels from the previous week. At 329.7 million barrels, U.S. crude oil inventories are in the upper limit of the average range for this time of year. Total motor gasoline inventories increased by 2.5 million barrels last week and are above the upper limit of the average range. Finished gasoline inventories decreased while blending components inventories increased last week. Distillate fuel inventories increased by 3.2 million barrels last week and are in the middle of the average range for this time of year. The previous week's average refineries operated at 84.2 percent of their operable capacity last week. Gasoline production increased last week, averaging 9.4 million barrels per day. Distillate fuel production decreased last week, averaging about 4.9 million barrels per day.

DOE Warehouse Stocks ('000 barrels)			
Commodity	**Latest week**	**Previous week**	**Change**
Crude Oil	329689	327480	2209
Gasoline	220193	217714	2479
Distillate	143578	140354	3224
Refinery utilization (%)	85	84.2	0.8
EIA Working gas storage (Bcf)			
Natural gas	3472	3548	-76

ENERGY WEEKLY

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MAJOR ECONOMIC DATA RELEASES

Date Time	Region	Event	Period	Survey	Prior
01/09/2012 12:30	GE	Exports SA (MoM)	NOV	0.5%	-3.6%
01/09/2012 12:30	GE	Imports SA (MoM)	NOV	0.5%	-1.0%
01/09/2012 12:30	GE	Current Account (EURO)	NOV	11.0B	10.3B
01/09/2012 12:30	GE	Trade Balance	NOV	12.0B	11.6B
01/09/2012 16:30	GE	Industrial Production MoM (sa)	NOV	-0.5%	0.8%
01/10/2012 01:30	US	Consumer Credit	NOV	$7.000B	$7.645B
01/10/2012 18:00	US	NFIB Small Business Optimism	DEC	94	92
01/10/2012 20:30	US	Wholesale Inventories	NOV	0.5%	1.6%
01/10/2012	CH	Trade Balance (USD)	DEC	$8.80B	$14.53B
01/11/2012 13:30	GE	GDP (Annual Growth Rate)	2011	3.00%	3.60%
11-15 JAN	CH	Foreign Exchange Reserves	DEC	$3150.0B	$3201.7B
11-15 JAN	CH	Money Supply - M2 (YoY)	DEC	0.129	0.127
01/12/2012 05:20	JN	Trade Balance - BOP Basis	NOV	-¥599.4B	-¥206.1B
01/12/2012 07:00	CH	Producer Price Index (YoY)	DEC	1.6%	2.7%
01/12/2012 07:00	CH	Consumer Price Index (YoY)	DEC	4.0%	4.2%
01/12/2012 11:30	JN	Machine Tool Orders (YoY)	DEC P	- -	15.8%
01/12/2012 12:30	GE	Consumer Price Index (MoM)	DEC F	0.7%	0.7%
01/12/2012 15:00	UK	Industrial Production (MoM)	NOV	-0.1%	-0.7%
01/12/2012 15:00	UK	Manufacturing Production (MoM)	NOV	-0.2%	-0.7%
01/12/2012 15:30	EC	Euro-Zone Ind. Prod. sa (MoM)	NOV	-0.2%	-0.1%
01/12/2012 17:30	**UK**	**BOE ANNOUNCES RATES**	**40920**	**0.5%**	**0.5%**
01/12/2012 18:15	**EC**	**ECB Announces Interest Rates**	**40920**	**1.0%**	**1.0%**
01/12/2012 19:00	US	Advance Retail Sales	DEC	0.3%	0.2%
01/12/2012 19:00	US	Initial Jobless Claims	40915	375K	372K
01/12/2012 19:00	US	Continuing Claims	41274	3575K	3595K
01/12/2012 20:30	US	Business Inventories	NOV	0.4%	0.8%
12-17 JAN	GE	Wholesale Price Index (MoM)	DEC	- -	0.7%
01/13/2012 00:30	US	Monthly Budget Statement	DEC	-$80.0B	- -
01/13/2012 15:30	EC	Euro-Zone Trade Balance sa	NOV	0.5B	0.3B
01/13/2012 19:00	US	Import Price Index (MoM)	DEC	-0.1%	0.7%
01/13/2012 19:00	US	Trade Balance	NOV	-$45.0B	-$43.5B
01/13/2012 20:25	US	U. of Michigan Confidence	JAN P	71.5	69.9

NATURAL GAS:

Natural gas prices closed at Rs.163/MMBTU, by gaining more than 0.90 percent on weekly basis in MCX platform. However, NYMEX traded gas futures prices closed above $3/MMBTU, by gaining more than 2 percent. Appreciating Indian rupee might have limited the gains of MCX traded gas prices. Expectation of higher demand as cooler weather forecasted by US weather channel made gas prices to trade on higher side. Thus , volume have increased substantially by more than 80 percent in NYMEX and more than 70 percent in MCX platform.Working natural gas in storage fell to 3,472 Bcf as of Friday, December 30, according to EIA**.** This represents an implied net withdrawal of 76 Bcf, much smaller than the 5-year average draw of 106 Bcf, as well as last year's draw of 135 Bcf. Stocks are well above average in all three regions. Relatively warm weather through the week contributed to the reduced withdrawal. The natural gas rotary rig count, as reported on December 29 by Baker

Hughes Incorporated, increased by 7 to 809 active units, reversing eight consecutive weeks of decline. Over the past year the natural gas rig count has declined by 110, while the oil rig count has increased by 428.Thus, lower draw down in inventory is basically pressurizing gas futures prices. However, we are expecting gas prices to continue the bullish trend in the coming week also. As per US weather channel, climate is likely to be slightly cooler in couple of weeks. Thus, gas prices may take positive cues out of it. In addition to this, positive economic releases from US may support gas prices in between. Inventory report from EIA, must eye which may change price direction.

Technical Recommendation:

Commodity	S3	S2	S1	R1	R2	R3	Recommendation
NYMEX Natural Gas-Feb	2.78	2.86	2.96	3.14	3.22	3.32	Trading Range-$2.906-$3.245
MCX Natural Gas Jan	151	154	159	167	170	175	Buy above 168 targeting 175/178 SL below 162

LAST WEEK PRICE PERFORMANCE:

Exchange	Contract	Open	High	Low	Last	% Change	Volume	% Change	Open Interest	% Change
NYMEX ($/MMBtu)	Feb	2.97	3.12	2.94	3.06	2.4%	273739	82.94%	172208	-0.05
	Mar	2.99	3.15	2.96	3.10	2.7%	223942	115.14%	260394	0.10
MCX (Rs/MMBtu)	Jan	161	166	158	163	0.9%	302939	75.11%	20895	-0.19
	Feb	173	177	171	174	0.97%	40408	104.85%	3430	0.19

TECHNICAL ANALYSIS

NYMEX Natural Gas:

In weekly price chart prices are witnessing a formation of the piercing pattern, usually this formation is consider as a trend reversal pattern and also other technical RSI-14 is suggesting higher side momentum incoming session by forming negative divergence. And one more major clue from technical end is increasing in volumes all these technical tools are indicating strong pull back in futures in coming session. Immediate resistance is seen at $3.210 which is previous high. On breach and sustained trade above is likely to test $3.320 levels which are 8EMA levels. Down side immediate support is seen at 2.930 levels which is previous candle low. Going by above technical study expecting prices to get strong pull back.

Recommendations: Trading Range $2.932-$3220

January 7, 2012

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