



Oil Review

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Stimuli Stimulus.....over kill?

The CRB index has dropped close to 60% and Oil has had an unprecedented correction dropping close to 60% from its highs as investors lose confidence in their economies and the market. Over the month the markets have absorbed stimulus packages with the main ones after the US coming from Europe and China. It is interesting to note that we have gone from boom to gloom in 6 months and the key for the future outlook for Oil will be to work out what type of recovery we will be living through in 2009... if at all.



In the US we can suggest that the stimulus packages have all been about filling a "hole"; a debt hole.... massive amounts of capital wiped out due to the collapse of the housing sector and then the buckling of the financial system which has resulted in a credit squeeze. These conditions have combined to create a malaise not seen since the 1930's depression; a systemic failure in the credit markets. This squeeze has spread across the globe and as a result we find our selves in a global recession. However, many economies around the world do not have similar problems to the US rather just been caught with exposure to bad investments and a squeeze in credit which has resulted in a drop off in demand. The interesting aspect to the current problem is that these economies have all decided to climb aboard the USG "junk" and are now throwing massive amounts of money, via weakening monetary and fiscal policies to try and stimulate demand. This has been unpredicted in modern times.

The problem we see is that Governments other than the US are spending to stimulate economies expecting a lag in economic performance as a result of what is happening in the US. China for instance has come to the table with an impressive cut in in-

terest rates and added 786 billion dollars of infrastructure spending to the fray. Around the world Governments are making similar commitments to stave off the recession. However eventually, we feel that if you throw enough money at a problem demand will pick up and when it does...it will probably pick up in a big way. As we have close to 56 days of Oil in stockpiles, just above the five year average, a pick up in demand at a time of traditional tightness caused by the northern hemisphere winter demand could very easily tilt the supply/demand balance ratio from an expected over supply to tightness again. Add the fact that OPEC are looking for additional cuts (1.5 million bpd) at the December 17th meeting and you could very easily find that we have a low in place for Oil.

Is the technical picture showing the same story?

In the chart below we can see the extent of the destruction, however good support comes in at US50.00. US50.00 is the basis for a trade and if we get a daily close above US56.00 we can conclude that the prices will trend higher for the time being. As to whether or not prices will trend higher is another thing however at the moment given the above we feel the least line of resistance is for the market on a break of US56.00 to trade higher.



Given the above we would suggest that if you have an exposure to the price of Oil that you look at some protection. Obviously it is hard to get the exact cover due to the various fractions of the commodity however given our expectations we feel it important to look at some call options on the commodity. We can suggest taking on a small trade a call option or warrant with a Strike at US60.00.

Happy Trading

Jonathan Barratt

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