



## Oil Review

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### Oil – What are we waiting for

*After the Swiss National bank recently lowered its interest rate we have two more countries whose interest rates are close to zero, in addition another central bank confirmed that it is walking down the quantitative easing path!*

*How will all this stimuli affect the consumption in particularly demand for primary inputs and energy? It is clear to me that the GFC was created by few, affected many, and the plans to restore confidence are an experiment. However, a couple of aspects to the stimulus packages that cannot be discounted and this is where we are continuing to see value in the commodity sector:*

- *The fiscal stimulus mix created by Governments account for close to 3% of total global GDP*
- *The monetary mix instigated by Central Banks is close to 350 - 450 basis points*
- *That these measures will take hold in economies at some time*

*The key to finding a solid trend comes down to timing. In this case timing as to when this stimuli takes hold and when to act. Like most hedgers and investors these days it is hard to take the first step to getting back into the swing of things as most of us are sitting on positions well out of the money. Trading is all about confidence and currently there is little about. However, the lack of confidence is perhaps positive as it is always "darkest at the dawn" as when confidence does come back to the markets the chances are that the market has already moved significantly and the catch cry from investors will then be "I will buy on the dip". After 26 years in the markets trying to link the timing to lows and highs is hard, however our experience has provided us with the science to pick the trends to then use our knowledge and risk management methods to manage our positions.*

*Given that we feel the machinations to a recovery are all in place, we feel there is need to draw a line in the sand. By taking a pragmatic two to three year approach to current valuations we are more optimistic about the future. Any strategy has to take on this time horizon in order to be successful and as central banks around the world continue to ease monetary policy we feel that this only aids the case for a speedy recovery.*

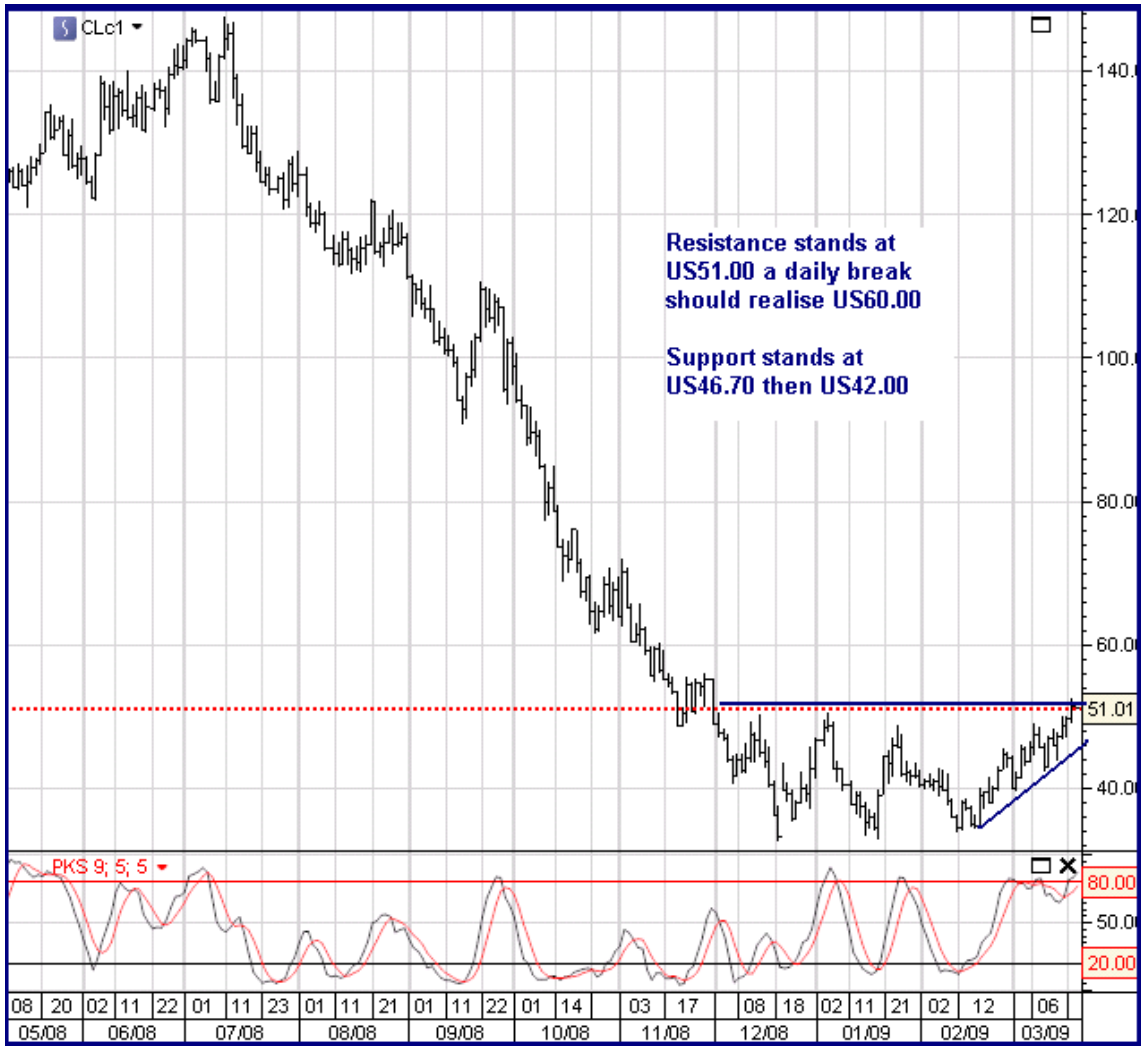
*When looking at the demand for commodities we can already see the demand emerging for base metals and have been*

*touting this for some time. Many of the metals have reached their average cost of production which makes them red hot value. Traders are continuing to see good demand and when you think about it this is where the stimuli starts to work first, at the grass roots of production. Then as we work our way through the production process demand for energy starts to pick up and this is where we see the demand for Oil coming into play.*

*At the moment global demand for oil continues to shrink and agencies around the world report ever decreasing volumes. OPEC has acknowledged this in their last statement where they have decided to keep production at current levels and keep focused on the price. We feel that if process drop below US\$35.00 for an extended period of time then talk concerning cuts will emerge again primarily as a result of the GFC accelerating in OPEC member states. Many members have infrastructure programs and budgets that require oil above US\$70.00 to break even. It is interesting to note that although some members are crying out for more cuts that the body has empathised with the rest of the world by keeping production the same. The rationale for this appears to be twofold:*

- *OPEC sees that a healthy global economy would be positive for all. To oppose purely to drive prices higher would be negative for the cartels profile and see economic support from the west interrupted*
- *As OPEC produce 40% of the world's Oil needs 60% is produced elsewhere. It is important that they placate buyers as if they turn against them these buyers would turn to other suppliers.*

*So in reality we can see that Oil will remain in a range and this presents good opportunities for traders and hedgers. As noted in our [13th Feb Oil - marking time....up or down?](#) comment we felt that the lower end of the range was US\$32.00 and top end was US\$50.00. As we can see from the chart over the page we are gravitating towards resistance and our previous targets are being satisfied. This resistance is solid and may take a little time to break and so can suggest that it would be a good opportunity to take some profits or move stops up to US\$47.50. We continue to be positive Oil however feel it is over bought and suggest the trend will take a breather. Look to buy dips back to US\$43.70. One curve ball to be mindful of is the USD. At the moment the dollar is weak and this may continue to support Oil.*



Happy Trading

Jono



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