



## Oil Review

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### Oil review.....Waiting to play catch up or are the sellers just becoming exhausted?

Oil has been trading water since our last Report in March. When looking at a chart it can be seen that trading has been confined to a US7.25 range. The high has been US54.50 and the low US47.25. Throughout this time bearish momentum indicators have stalled and with all the negative market news concerning supply and consumption unable to push it lower, can suggest that the market is ready to play catch up with other commodities, in particularly the primary input markets.

Primary input markets such as the base metal market are often those markets that move first when economies are emerging from periods of slow growth. The basic reason for this is that these inputs are the start of the production cycle. If Purchasing Managers get a whiff of a recovery they tend to stock up on inputs so they are in a good position to take advantage of any increase in economic sentiment. More importantly, to have stock on hand at traditionally low prices is prudent and also an asset to the company as production can commence from a low base there by increasing the profit margin.

Over the last six months whilst we have seen turmoil in the financial markets the base metal market has been finding a low. It comes a surprise to many when you say that copper, the flag ship of the base metal complex has rallied close to 60% from its low. It is a similar story when looking at Nickel, Lead, and Zinc. An interesting aspect to this has been the LME inventories. Whilst these markets had been finding lows we have seen significant builds in LME warehouses. This is the normal state of play during a recession. However, only recently these builds have slowed down and we are starting to see inventory draws. This indicates that production is starting to tick over as confidence surrounding an economic recovery picks up. Given that Oil is also a primary input why are we not seeing similar moves?

It has been interesting to see Crude trade over the last month as it appears that traders are sidelined. We have seen a lot of data come to the market, however, it appears that the bulls and the bears are equally matched. On the

bull side of the equation we are seeing more optimism coming to the market concerning a recovery, in particularly from China where industrial production expanded by 8.3% in March from a year ago, that's up 3.8% in the first two months. In addition, as we head into the summer we can see refiners cranking up production ahead of the summer period which is traditionally a period of peak demand. The concern here is that current inventories which are standing at levels not seen since Sept 1990 will not be sufficient to meet demand. Thus presenting a story of supply tightness if we entry this period whilst enduring an economic recovery.

On the bear side of the market we continue to see forecasts from major clearers and government bodies that demand will continue to come off. The latest being from the Energy Information Agency- EIA which has cut its demand forecast for 2009 by 180,000 bpd to 84.09 million bpd, whilst the International Energy Agency -IEA cuts its forecast by 1million bpd to 83.4 million. Looking at OPECS recent statement on demand we can see that they are toeing the same line. They cut their 2009 demand forecast by 430,000 bpd to 84.18 million bpd. Overall the market is telling us that demand will contract by as much as 1.37 million bpd or 1.6%. Given that OPEC have also predicted slow growth as well it will be interesting what the group has to say when next they meet in Vienne on the 28<sup>th</sup> April.

So, overall we can see that the market is truly torn between the two and as a result of this we have seen a tight trading range. It is only when we look at the technical picture for the commodity (below) that we can see good trading opportunities. It doesn't really matter which way you are looking to trade it as the market has provided us with good exit levels from both a bullish and bearish respective. However, by looking at the chart experience tells us that we are waiting for a bullish move and that we are just consolidating off the move from the low US34.50 to the high of US54.50. This correction has been pretty flat which tends to give us an idea that consolidation is of a bullish nature and that we are just building momentum for an ultimate test higher that could realise US60.00. At the moment we are looking at US52.50 as tough resistance and if we can get a daily close above this level then can suggest that we are on target to US54.50 then US60.00.



Happy Trading

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