



Oil Review

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Oil stuck in a range lets look at Natural Gas.

With oil confined to a US 68.50 – US 74.50 range, it affords the opportunity to look at Natural Gas (NG). Natural Gas has been in a sharp decline since its highs in Jun 08 at US13.70btu, it is currently trading at US3.70btu which is 73% off its high. Crude has jumped 101% off its lows whilst Natural Gas is only managed to trade 37% off its low. For a commodity that used to trade in tandem with Oil it is a large variance. In this report we look at why this is so and discuss the future price trend for the commodity.

Natural Gas is a gas mainly consisting of methane. It is the primary gas associated with fossil fuels. After a purification process it can be used as energy fuel, and when burnt it produces 30% less carbon dioxide than petroleum and 45% less than burning coal, as a result, consumption is tipped to quadruple by 2015. It is a clean energy source that the Earth has plenty of; hence escalation in demand is assured in particularly as we look to cut green house emissions. **So why has it dropped 81% from its highs and when do we feel a low is in place?**

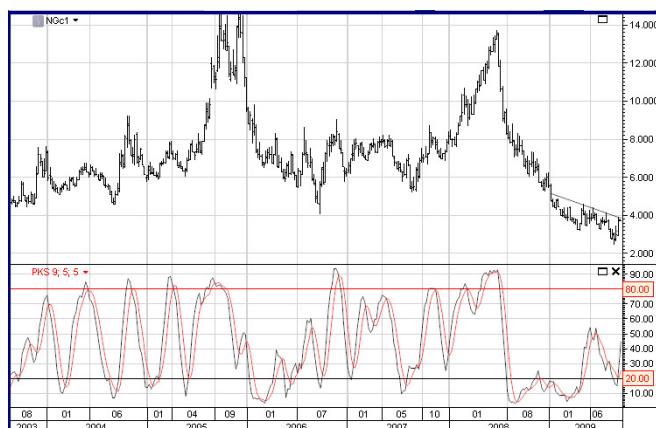
The main reason for NG to come under pressure, we believe, is simple economics. At US13.70 btu it returned super normal profits to owners. As you would expect given the returns to players more entrants entered the market and as a result we saw a massive increase in production. At the same time this occurred the GFC took over, so in summary you had a commodity that saw increases in supply and less demand. Obviously the price had to give way and down it has come. However, since this low of US 2.41 it has had a significant bounce not as much as oil however, a bounce none the same. It appears that as a result of the bounce it has found value again and given the changing rhetoric by global governments on global warming, the increased demand as a result of an economic recovery we feel that a low of significance is in place..... why?

It is not a secret that the market has been plagued with excess supply and record storage however, we are living through the same argument with petroleum products yet petroleum products remain robust. One of the most important changes we feel that will help cement a low is the positive news coming from the Governments involved in the climate change discussions in Pittsburgh. Both China's announcement to slow down emissions by "a notable margin" and Japan committing to a 25% reduction in emissions was an important step taken by Governments to achieving a reduction in global emissions. So as a result momentum towards clean alternatives is assured. As mentioned, NG

when burnt for energy produces 30% less carbon dioxide than petroleum and 45% less than burning coal. For these countries to achieve these goals an important step would be to include NG in any policy to reduce emissions. Already this is occurring.

At the beginning of the month it was announced that the Gorgon Gas project was to commence. In doing so India, Japan and China have all committed and signed long term purchase deals with the Gorgon consortium. The deal with China is interesting as she committed to purchase \$41 billion of LNG over 20 years. NG accounts for 3% of Chinas total energy needs. If she is committed to reducing emissions then it is tipped that this usage will increase by an annual 10% compounded rate per year by 2020. In effect we feel this deal will help to underpin demand for the market. If other Governments, not just developing Governments are also securing long term purchase deals as well as committing to further reduce emissions then we can assume that value has defiantly come back to the market. In addition to emission related demand we have not even considered the effects of demand as a result of the global economy coming out of recession which will further add weight to our bullish call. **Does the technical picture also show the prospects for a low in place?**

Weekly Chart of Natural Gas



Technically, the bounce from the low of US 2.41btu has provided a range from which we can trade off, since the low the positive price action has caused momentum indicators on a weekly basis to turn positive, price divergence is also clear as well, which is a strong bullish factor. If we break above the resistance line drawn above then we can suggest that a move higher is on the way. Regardless of this we still feel confident that a low is in place and dips back to US 2.40btu can be bought. If we break below US2.40 on a daily close then we will go back to the drawing board.

Happy Trading

Jonathan Barratt