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Navigate Trading Opportunities in the Crude Oil Market

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Navigating Trading Opportunities in the Crude Oil Market

Prepared by : David Ng
15th July 2021



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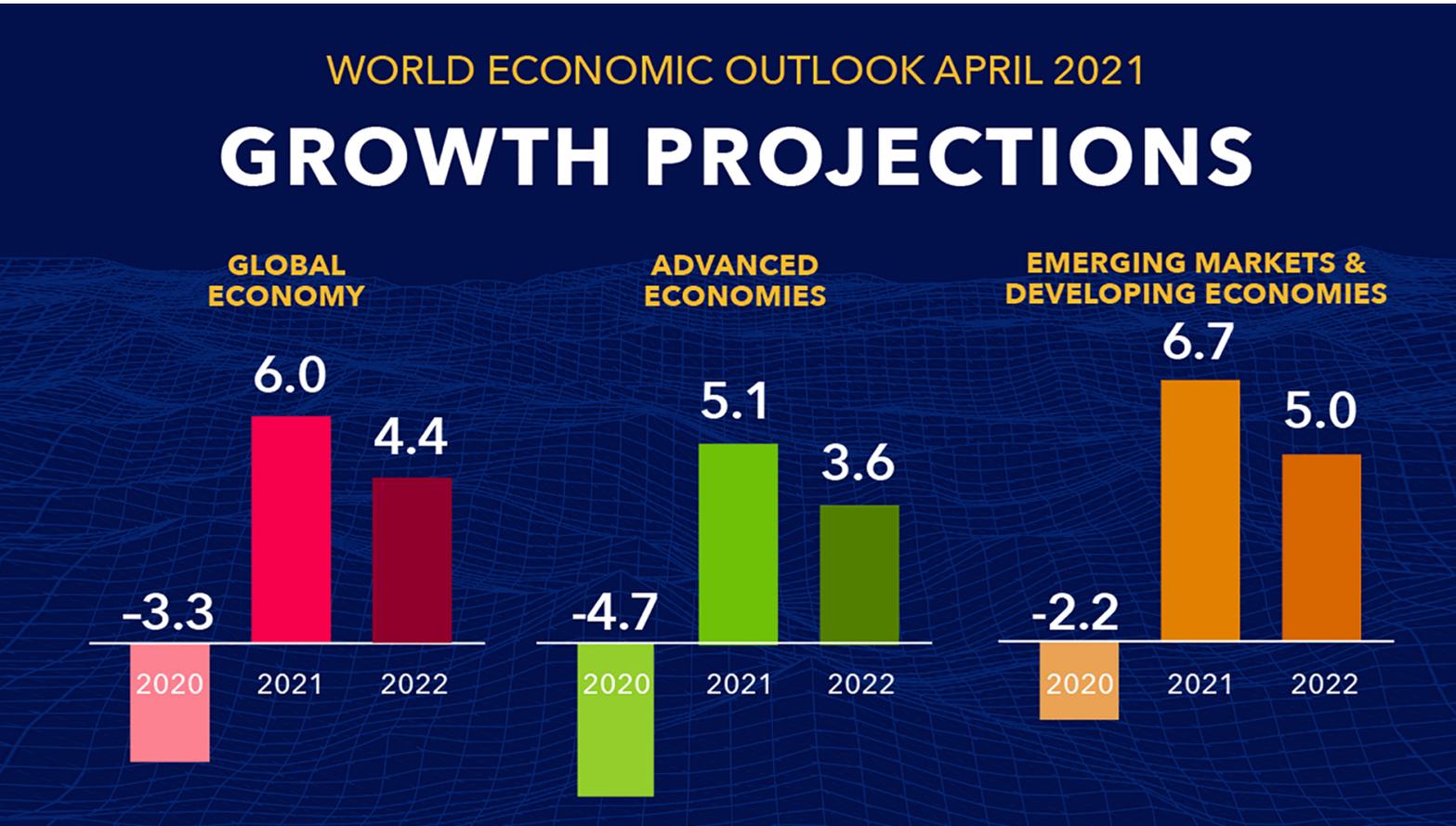
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Agenda

- Overview of the crude oil market fundamentals
- Understanding the impact of commodities upcycle and crude oil seasonality
- Incorporating Micro WTI as part of your trading strategy
- Setting-up a trend trading strategy to profit from the crude oil market

2021, a year of recovery



- Despite strong economic projections across the world, not all regions will face a synchronized recovery. Developed economies record stronger growth compared to developing countries.
- Economic recoveries are diverging across countries and sectors, reflecting variation in pandemic-induced disruptions and the extent of policy support.
- Global prospects remain highly uncertain one year into the pandemic. New virus mutations and the accumulating human toll raise concerns, even as growing vaccine coverage lifts sentiment.

World trade recovering loss ground

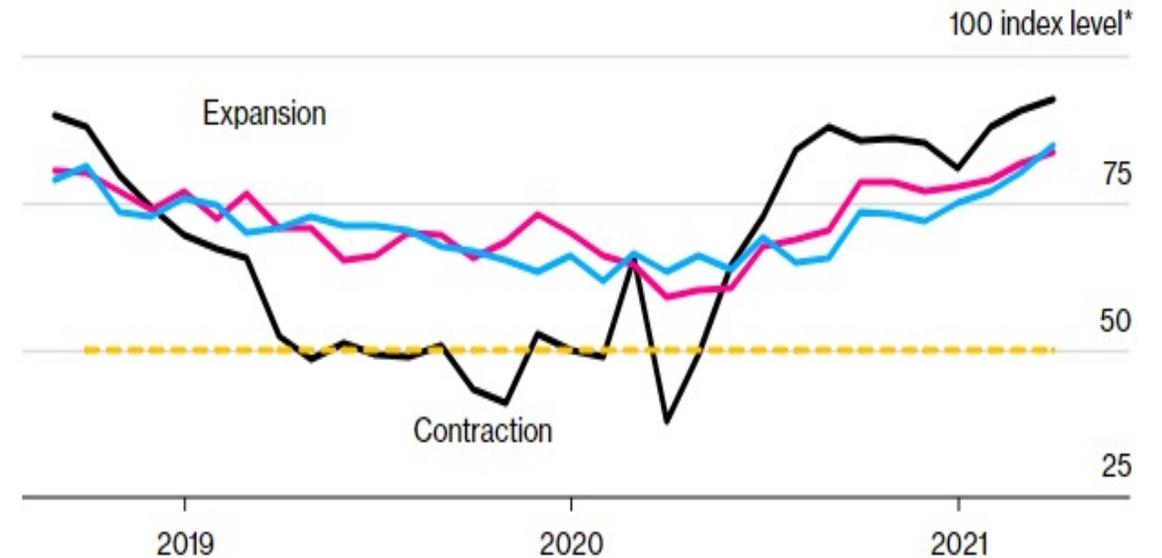


Source: Bloomberg

A Logistical Nightmare

Transport, storage and inventory costs are near record highs in the U.S.

Transportation Warehousing Inventories

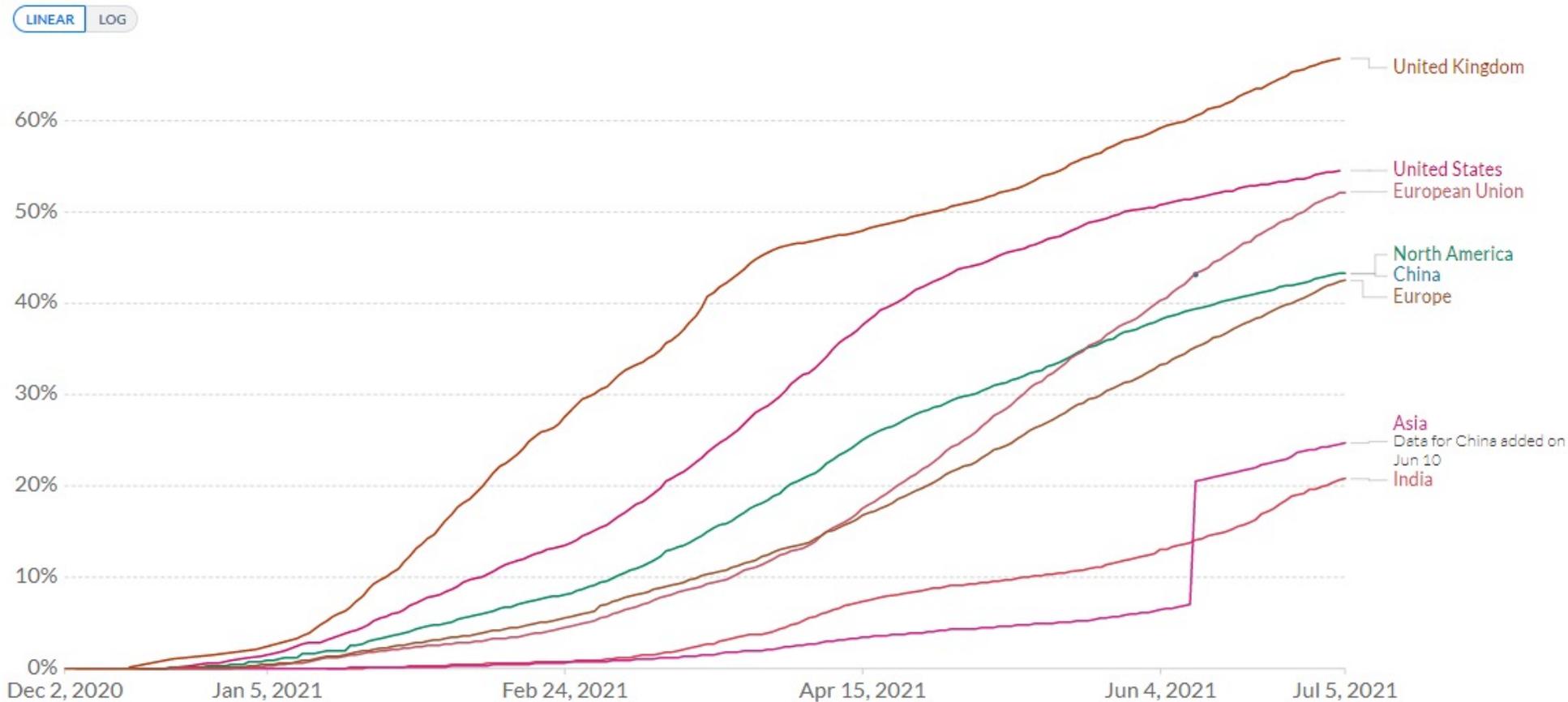


Source: Logistics Managers' Index

*The LMI is a diffusion index where 50 is the dividing line between expansion and contraction.



Vaccination rate a key to contain pandemic



Recovery in play

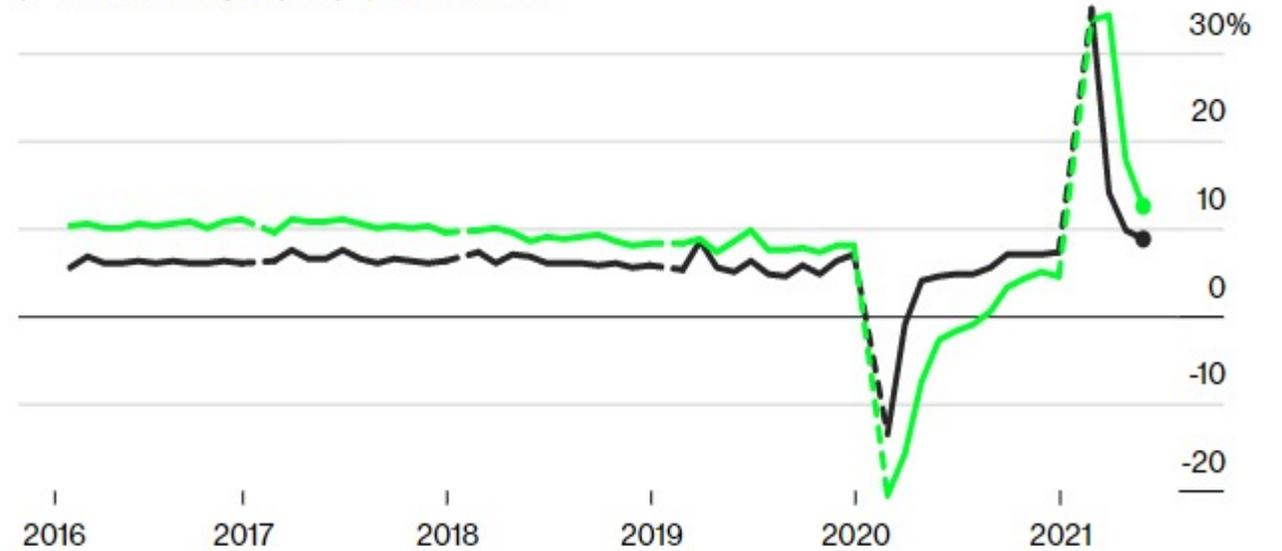
China & US PMI



Retail Slowdown Continues

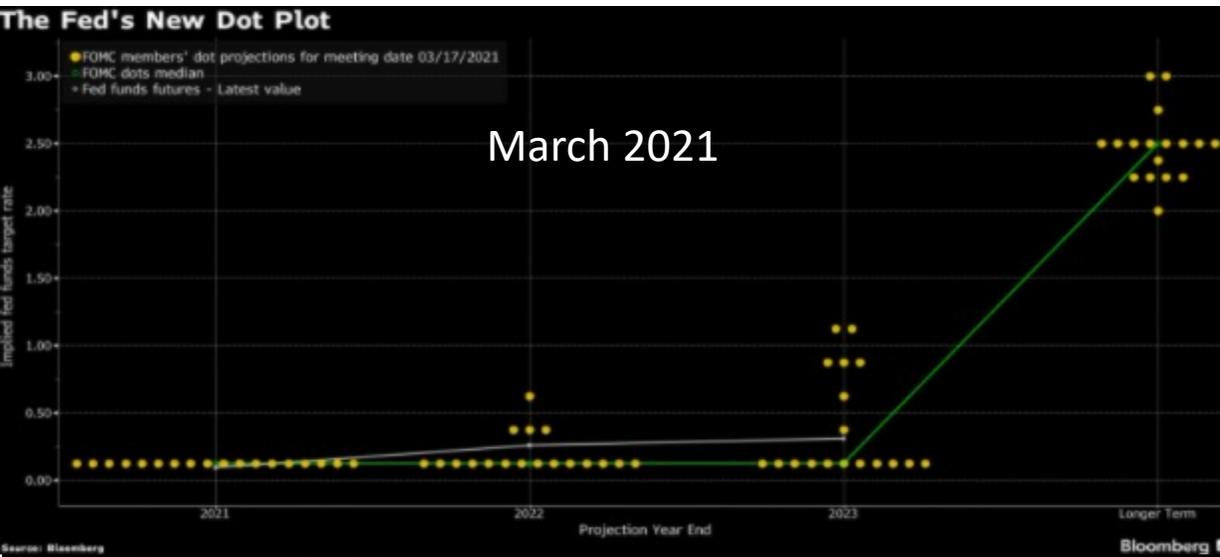
China's industrial output also growing at slightly weaker pace

Industrial output (YoY) Retail sales



Source: National Bureau of Statistics, Bloomberg surveys
Note: Jan.-Feb. data is combined each year

Inflation risk spurring higher interest rate in future



Source: Tradingview/Bloomberg



Overview of crude oil price



Top producing and consuming countries

The 10 largest oil¹ producers and share of total world oil production² in 2020³

Country	Million barrels per day	Share of world total
United States	18.60	20%
Saudi Arabia	11.01	12%
Russia	10.50	11%
Canada	5.29	6%
China	4.93	5%
Iraq	4.16	4%
United Arab Emirates	3.79	4%
Brazil	3.78	4%
Iran	2.81	3%
Kuwait	2.66	3%
Total top 10	67.52	72%
World total	94.24	

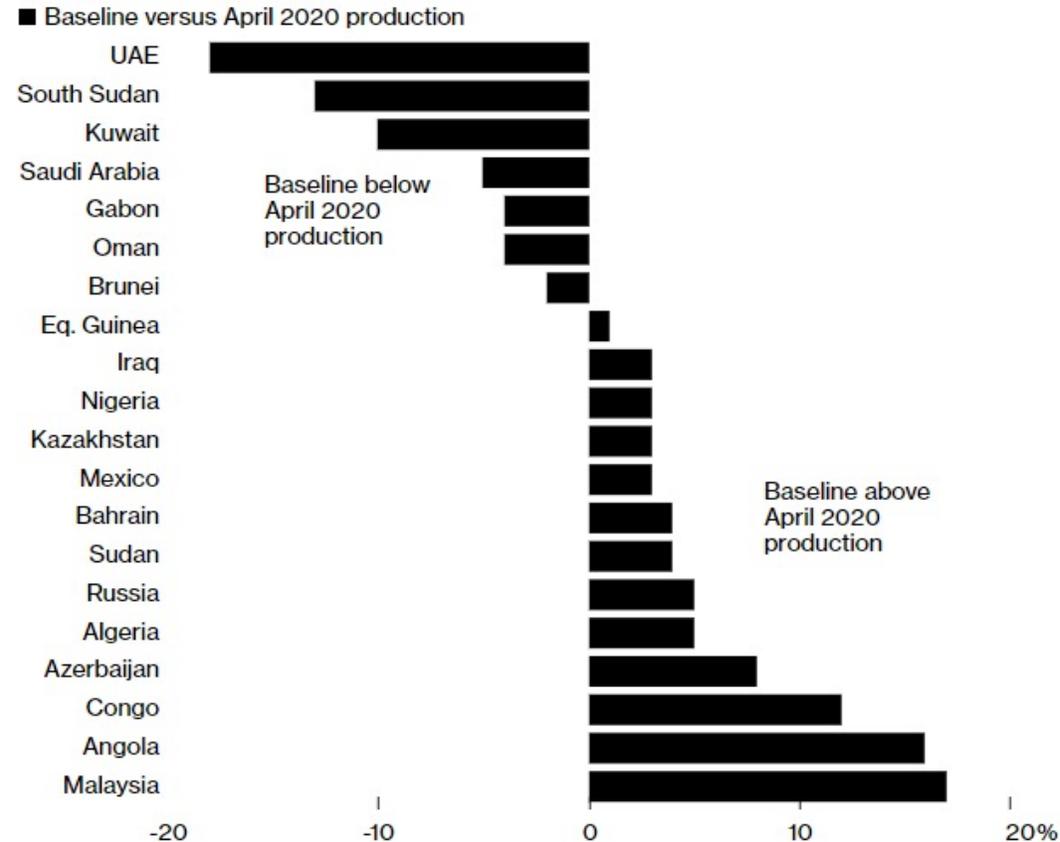
The 10 largest oil¹ consumers and share of total world oil consumption in 2018²

Country	Million barrels per day	Share of world total
United States	20.51	20%
China	13.89	14%
India	4.77	5%
Russia	3.88	4%
Japan	3.79	4%
Saudi Arabia	3.08	3%
Brazil	3.06	3%
South Korea	2.57	3%
Canada	2.53	3%
Germany	2.33	2%
Total top 10	60.40	60%
World total	100.37	

The point of contention

Deepest Cut

When compared against April 2020 production, the UAE has the lowest baseline for cuts

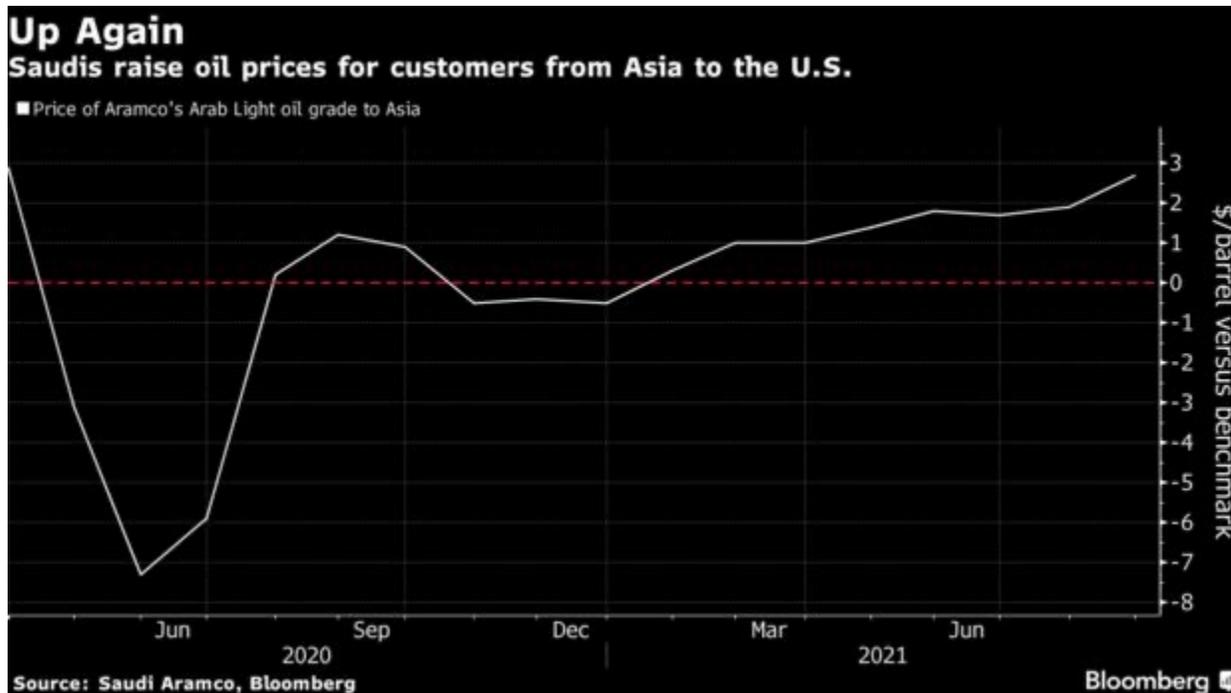


- Each country measures its production cuts or increases against a baseline. The higher that number, the more a country will be allowed to pump. The UAE says its current level, set at about 3.2 million barrels a day in April 2020, is too low, and says it should be 3.8 million when the deal is extended into 2022.
- Saudi Arabia and Russia have rejected recalculating the output target for the UAE, fearing that everyone else in OPEC+ would ask for the same treatment, potentially unraveling the deal that took several weeks of negotiations

“Failed” OPEC + Meetings lead to higher prices

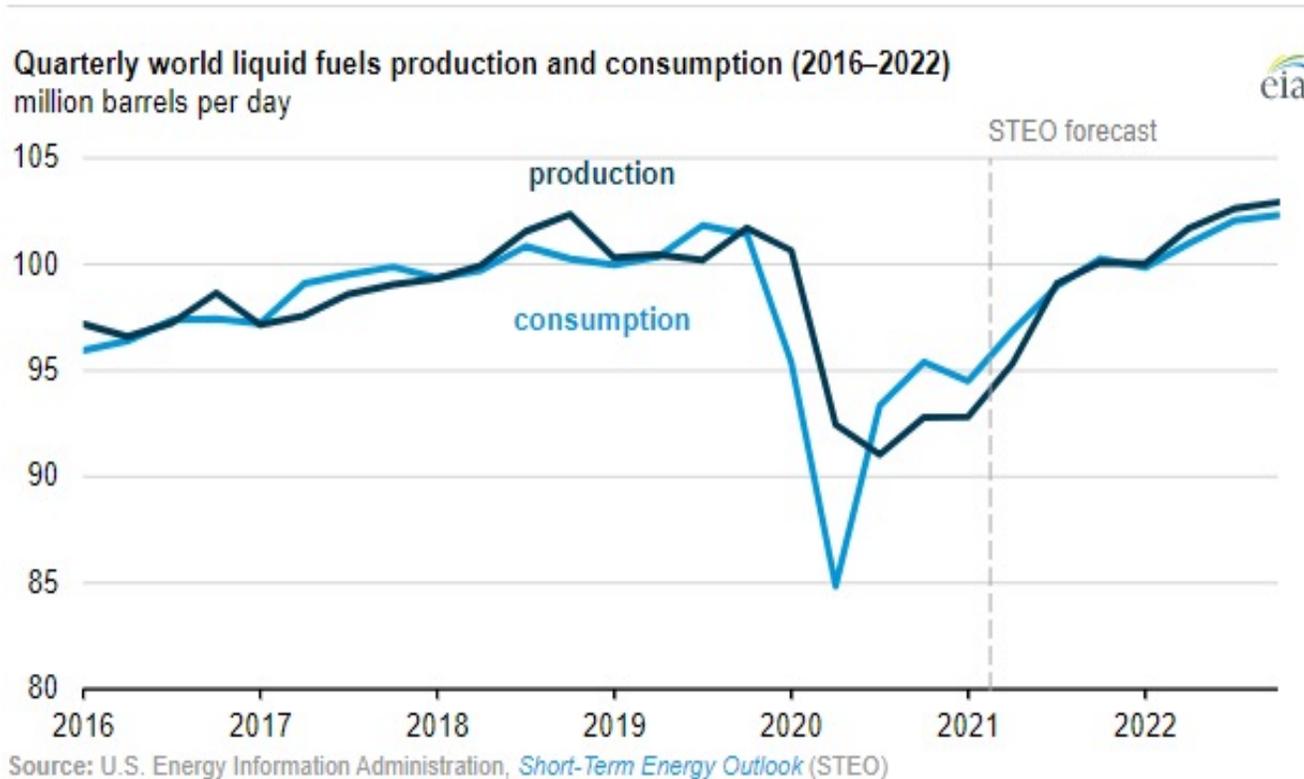


UAE raising prices despite deal stalemate



- Despite UAE balking at the OPEC deal, oil giants continue to raise prices for the Asia market as a sign of a tightening market amid the failed agreement. Such a move is also indicative that Saudis oil giants will not increase supply in months to come.

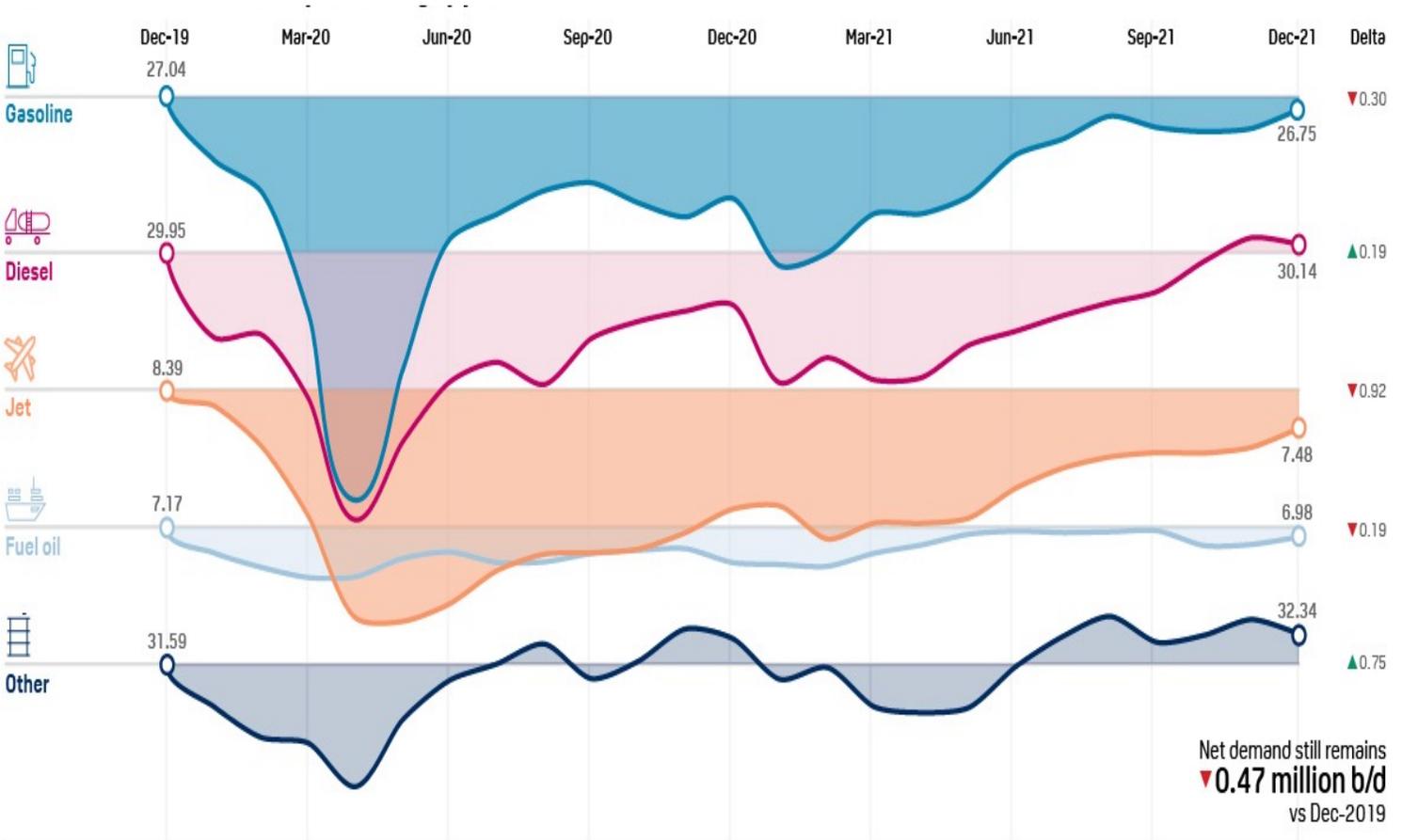
A tight market in the near term



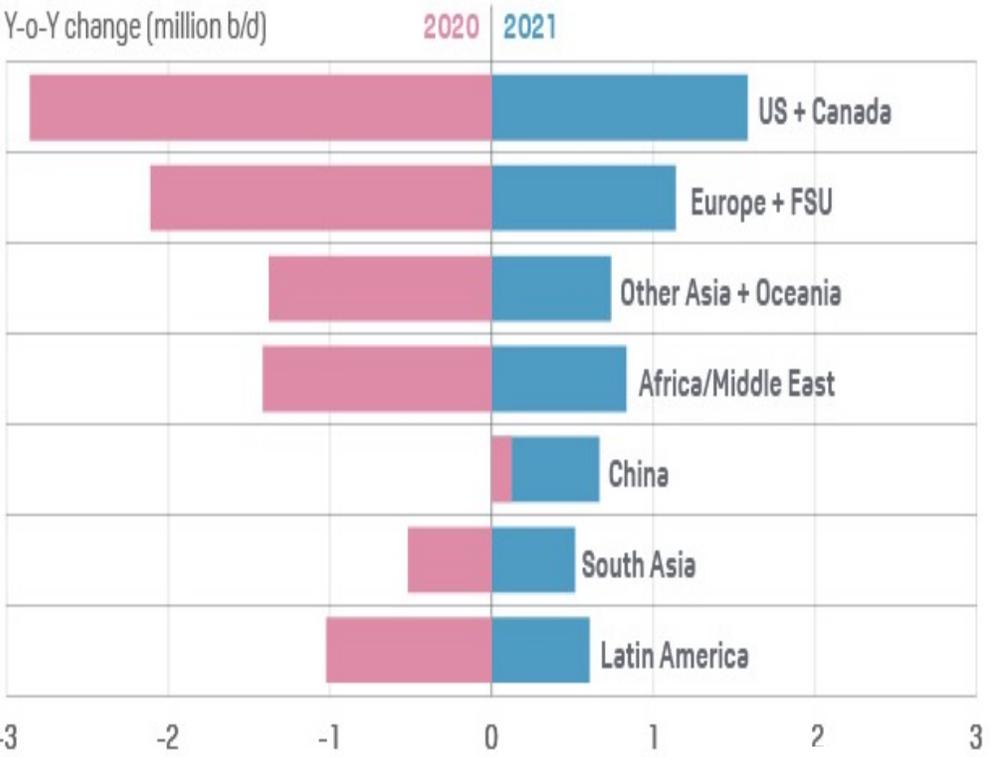
EIA estimate that 96.2 million b/d of petroleum and liquid fuels was consumed globally in May, an increase of 11.9 million b/d from May 2020 but 3.7 million b/d less than in May 2019.

EIA also forecast that global consumption of petroleum and liquid fuels will average 97.7 million b/d for all of 2021, which is a 5.4 million b/d increase from 2020.

Breakdown of global oil demand



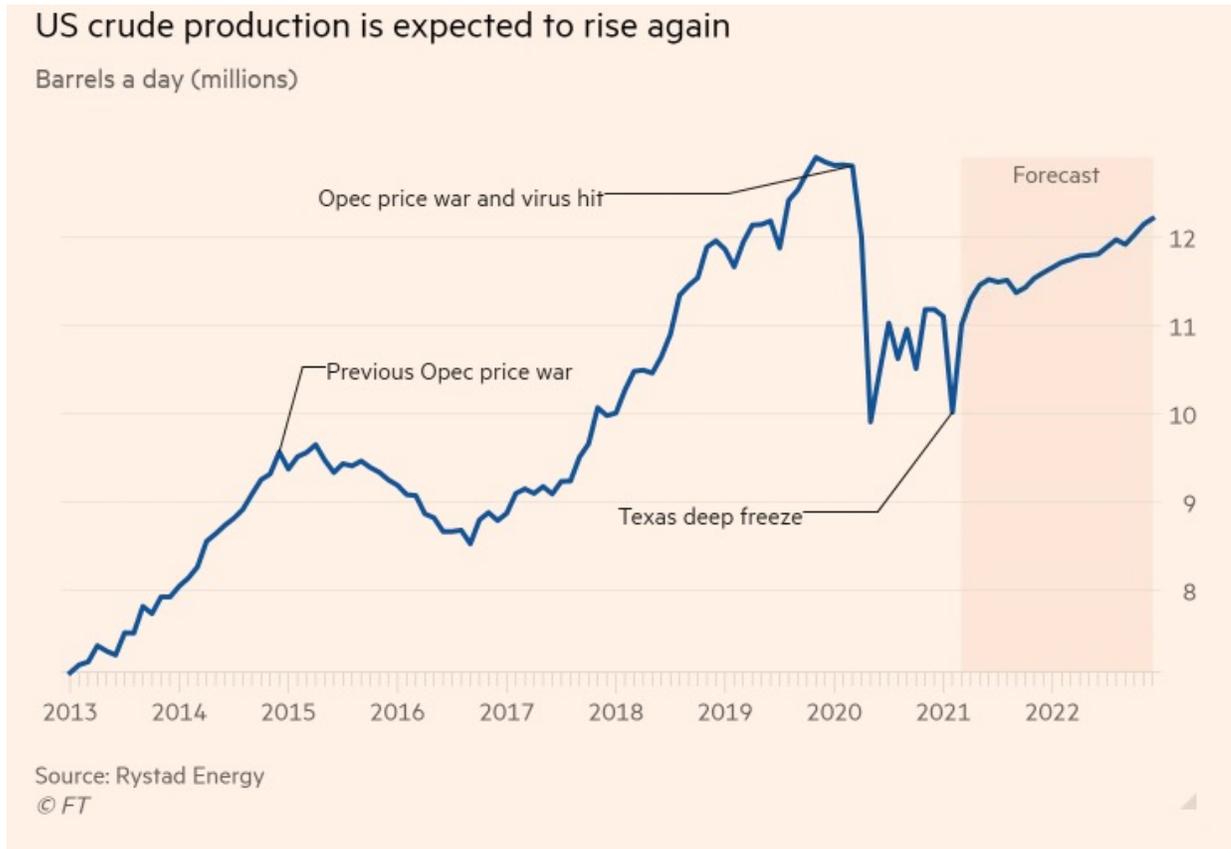
US driving global demand rebound



Source: S&P Platts



US crude production set to rise again with high price environment



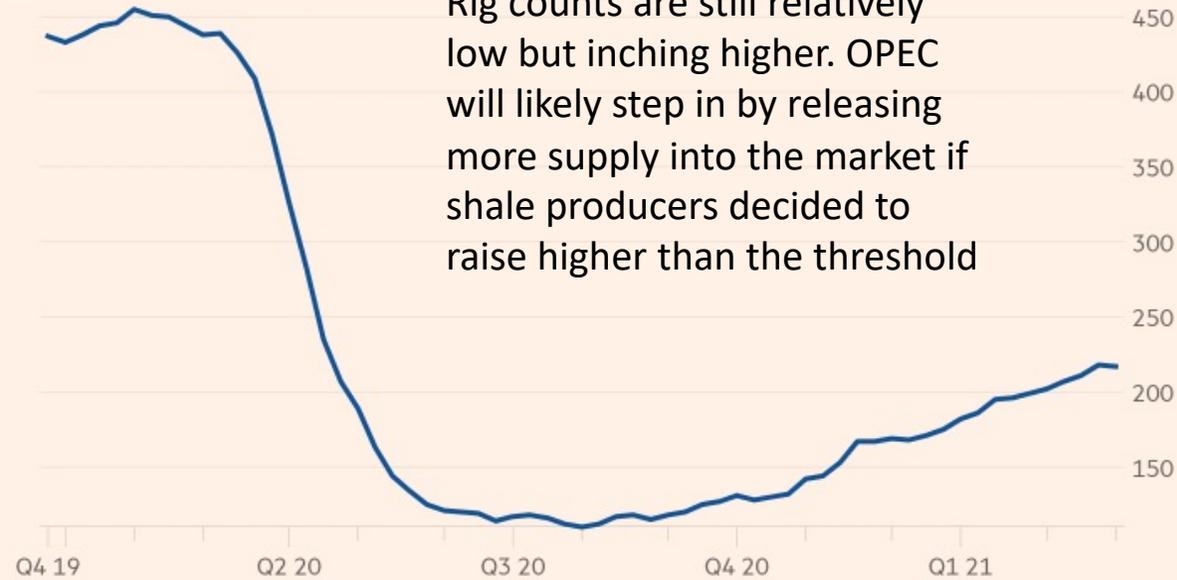
- Many of the oil operators, flush with cash from high crude oil prices, used the windfall to repair its balance sheet and rewarding shareholders.
- However, with persistent high crude oil prices, many of the operators are tempted to indulge with increasing oil output and able to hedge their products with higher prices.

Shale producers staying on the sideline for now

Oil-focused horizontal rigs

Oil-focused horizontal rigs

Rig counts are still relatively low but inching higher. OPEC will likely step in by releasing more supply into the market if shale producers decided to raise higher than the threshold



Source: Enverus
© FT

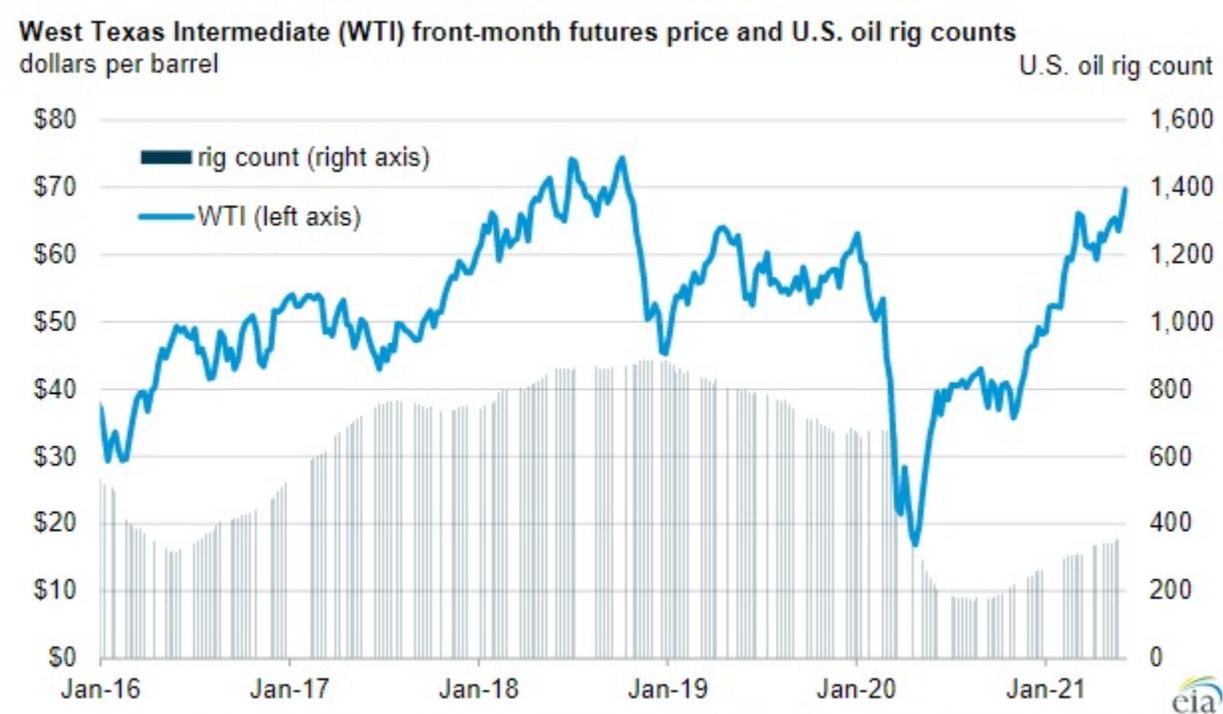
US shale oil fracking is picking up

Number of active frac crews



Source: Enverus
© FT

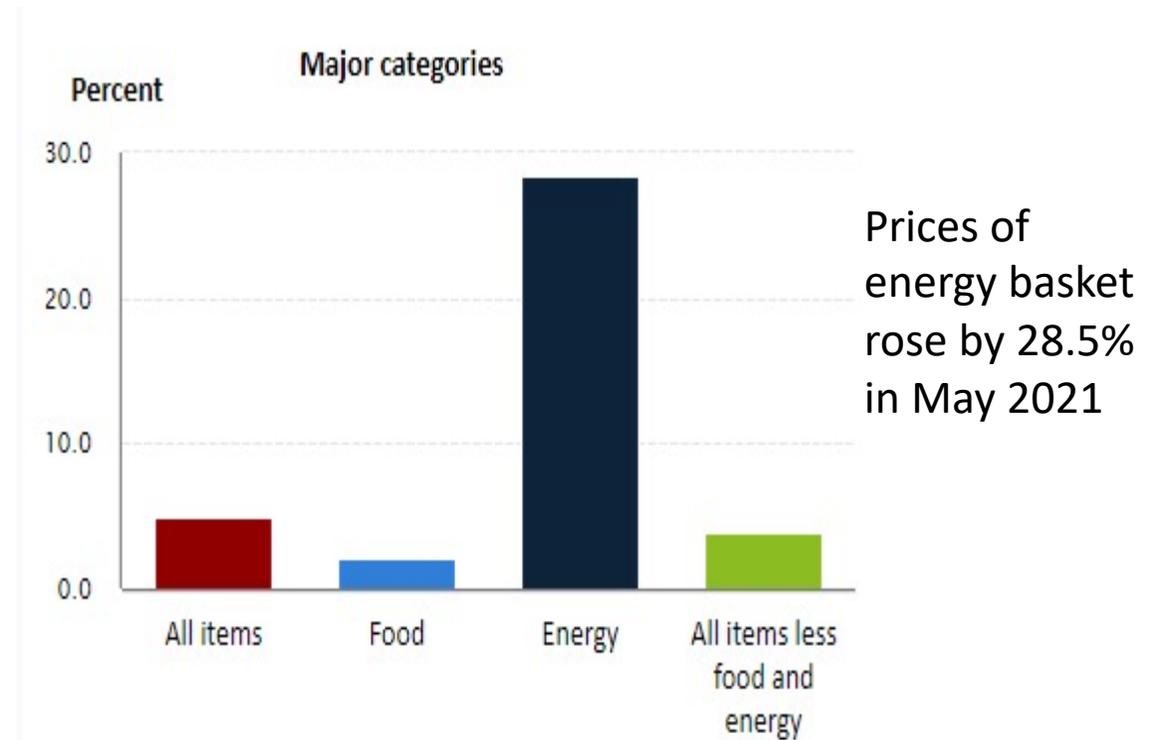
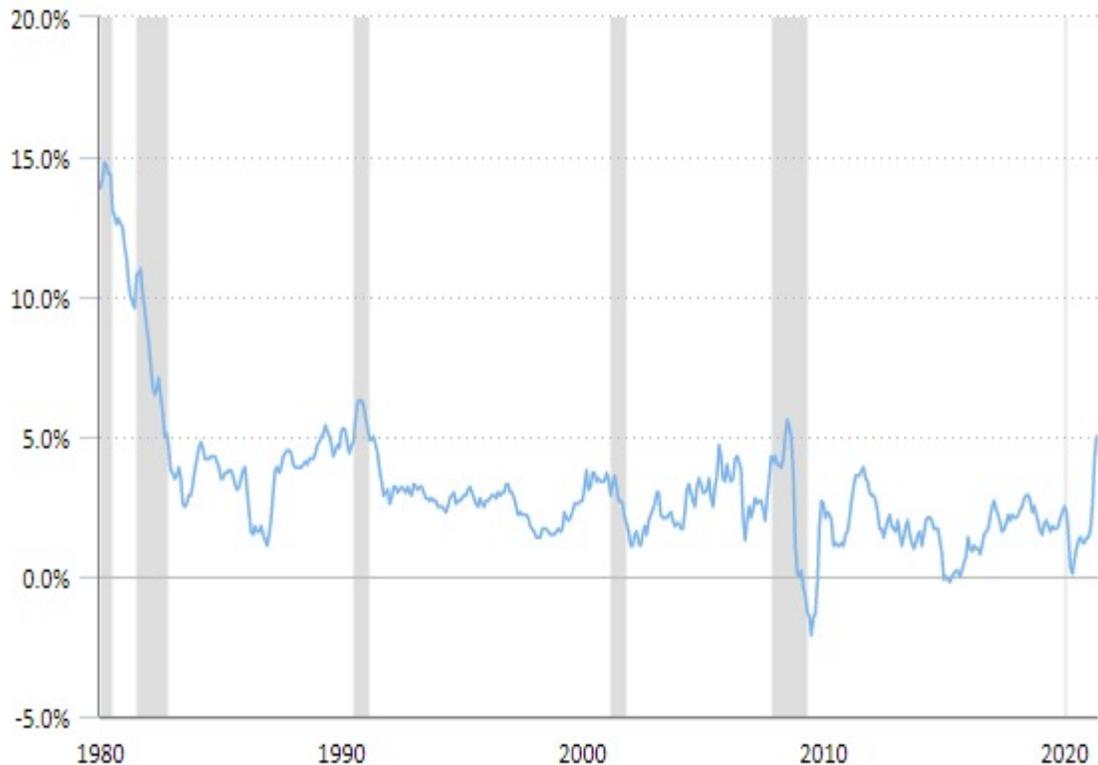
Increasing rig counts but still below pandemic levels



Source: Graph created by the U.S. Energy Information Administration, *Short-Term Energy Outlook* (STEO) and data from Baker Hughes Company, as accessed through Bloomberg

- EIA expect crude oil production in the United States will increase each quarter through the forecast period, averaging 11.4 million b/d in the fourth quarter of 2021 (4Q21), the highest level since 1Q20, and 11.1 million b/d for all of 2021. We expect U.S. crude oil production will average 11.8 million b/d in 2022.

Higher crude oil prices is fueling inflation



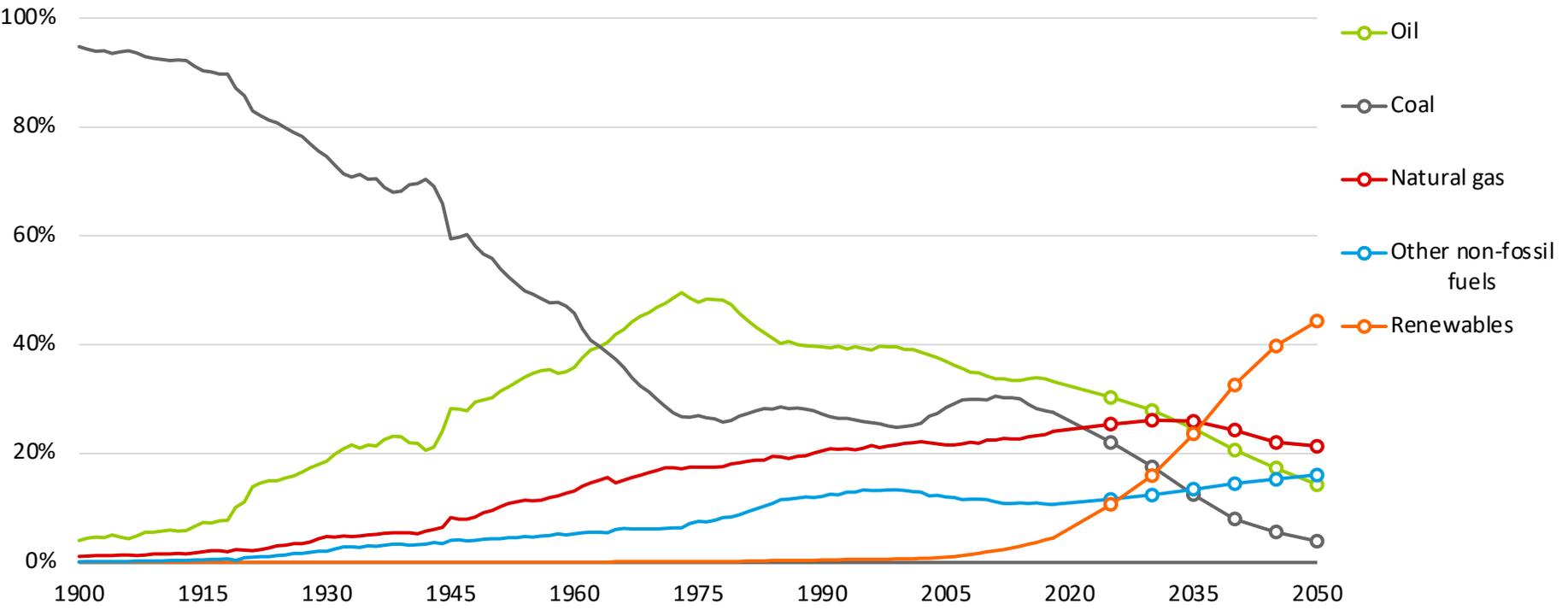
Declining US crude oil stocks



Source: Bloomberg



The path to net zero emission



Source:BP Energy report



Crude oil in a backwardation market



Crude oil 20 years price seasonality

CL1 ↑73.72 +.35 73.71 / 73.72 12x4 Prev 73.37
 At 14:47d Vol 40226 Op 73.85 Hi 73.85 Lo 73.16 OpenInt 355925
 CL1 COMB Comdty Spread Builder View Edit Seasonality Chart
 Last Price Local CCY barrel Spread <Type security> Last Price High/Low/Avg
 5 Years Ending 2021 Percent Change Net Change

Calendar Year	Trailing 12M	01-Jan	31-Dec	Monthly	Line	Heat Map	Securities/Lines	Map Options					
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021		7.58	17.82	-3.80	7.47	4.31	10.78	.33					
2020		-15.56	-13.19	-54.24	-8.01	88.38	10.65	2.55	5.81	-5.61	-11.01	26.68	7.01
2019		18.45	6.38	5.10	6.27	-16.29	9.29	.19	-5.94	-1.87	.20	1.83	10.68
2018		7.13	-4.77	5.35	5.59	-2.23	10.61	-7.27	1.51	4.94	-10.84	-22.02	-10.84
2017		-1.69	2.27	-6.31	-2.51	-2.05	4.72	8.97	-5.86	9.40	5.24	5.55	5.26
2016		-9.23	.39	13.60	19.77	6.93	-1.57	-13.93	7.45	7.92	-2.86	5.51	8.66
2015		-9.44	3.15	-4.34	25.27	1.12	-1.38	-20.77	4.41	-8.35	3.33	-10.60	-11.07
2014		-.94	5.23	-.98	-1.81	2.98	2.59	-6.83	-2.25	-5.00	-11.65	-17.87	-19.47
2013		6.18	-5.58	5.63	-3.88	-1.59	4.99	8.77	2.49	-4.94	-5.81	-3.80	6.15
2012		-.35	8.72	-3.78	1.80	-17.49	-1.81	3.65	9.55	-4.44	-6.45	3.10	3.27
2011		.89	5.18	10.05	6.76	-9.86	-7.09	-.29	-7.20	-10.82	17.66	7.69	-1.52
2010		-8.15	9.29	5.15	2.85	-14.14	2.24	4.39	-8.90	11.19	1.83	3.29	8.64
2009		-6.55	7.39	10.95	2.94	29.71	5.40	-.63	.73	.93	9.05	.36	2.69
2008		-4.41	11.00	-.26	11.70	12.24	9.93	-11.37	-6.95	-12.84	-32.62	-19.73	-18.06
2007		-4.77	6.28	6.60	-.24	-2.59	10.42	10.65	-5.33	10.29	15.76	-6.16	8.20
2006		11.27	-9.58	8.50	7.88	-.82	3.70	.64	-5.56	-10.46	-6.64	7.49	-3.29
2005		10.93	7.37	7.05	-10.25	4.53	8.72	7.20	13.82	-3.92	-9.78	-4.08	6.49
2004		1.63	9.41	-1.11	4.53	6.69	-7.10	18.22	-3.84	17.85	4.27	-5.08	-11.56
2003		7.40	9.22	-15.19	-16.88	14.57	2.13	1.16	3.37	-7.51	-.31	4.47	6.94
2002		-1.81	11.60	21.02	3.72	-7.26	6.12	.60	7.25	5.07	-10.61	-1.21	16.03
2001		6.94	-4.43	-4.02	8.25	-.32	-7.47	-.38	3.23	-13.86	-9.60	-8.22	2.06

-88.38 88.38

The average monthly oil price movement is around 2 to 3% range.

Last year recorded the steepest plunge in prices as well as the fastest price recovery in decades.

3rd quarter we generally see weaker prices based on the past 20 years of data.



Narrowing spread between WTI and Brent

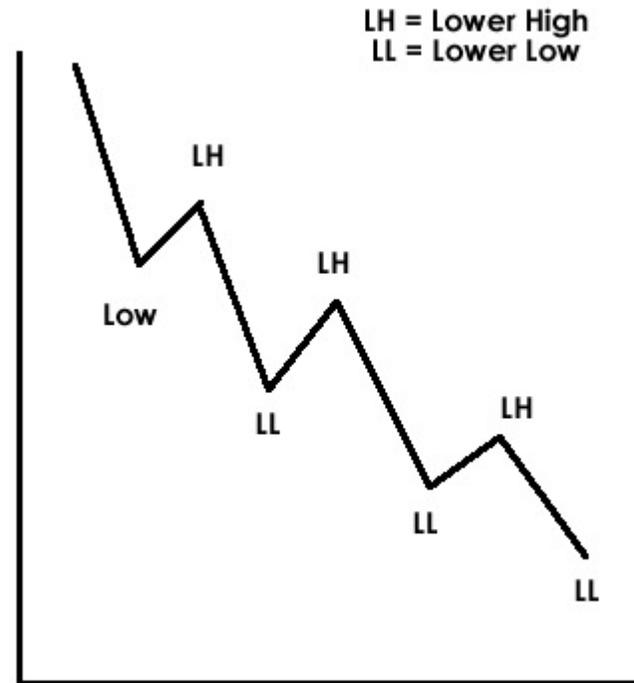


US Dollar and Crude Oil prices



Steps to create a trading plan to trade WTI futures contracts

Depicting a trend visually



Determining overall price trend with 200 period EMA line



Trading in a sideways market



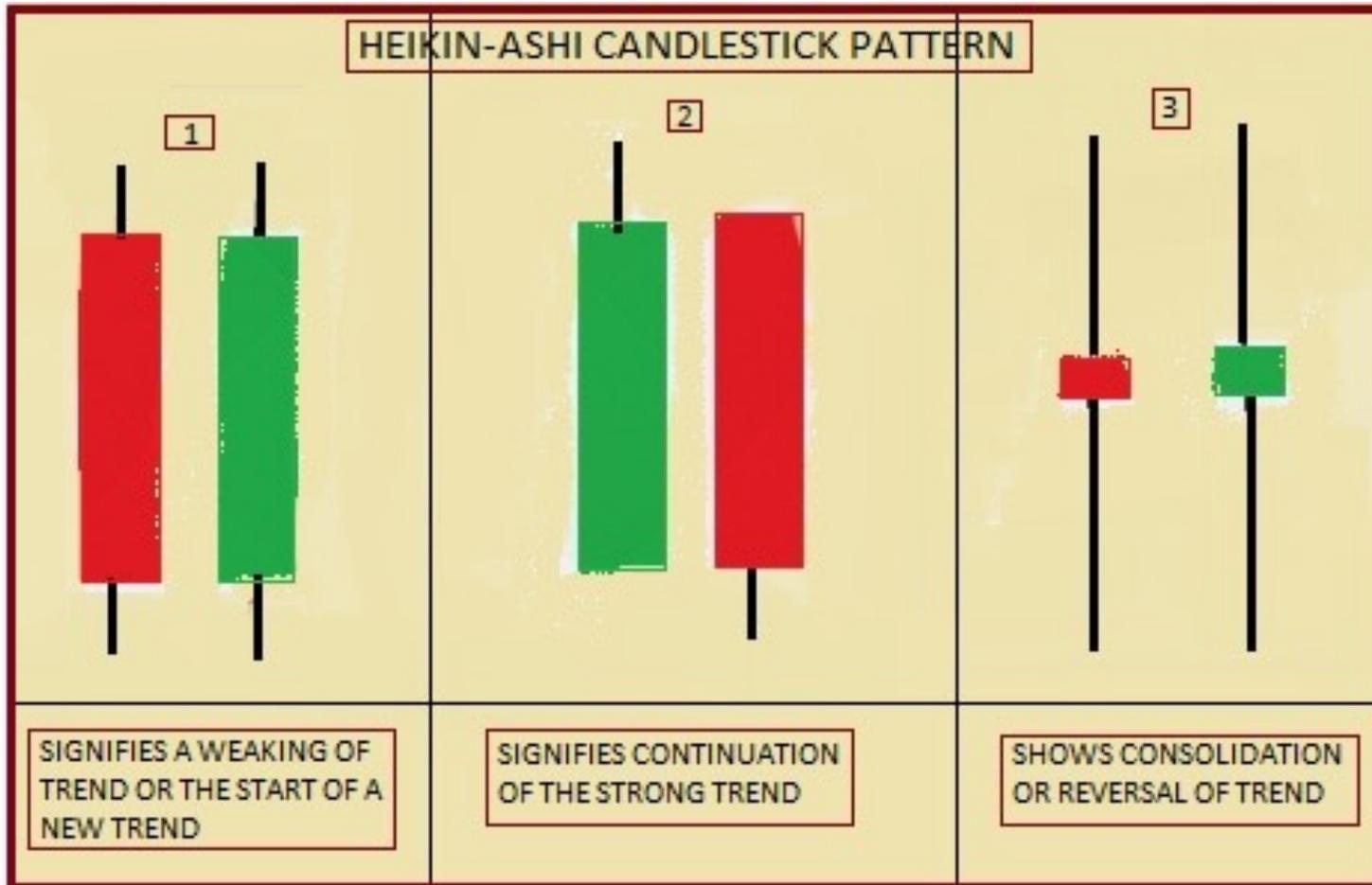
Volume an indication of trend breakout



Higher volume around key resistance or support area usually suggest a potential price breakout



Heiken Ashi Candle Patterns



Difference between Candlesticks and Heiken Ashi

Candlestick



Heiken Ashi



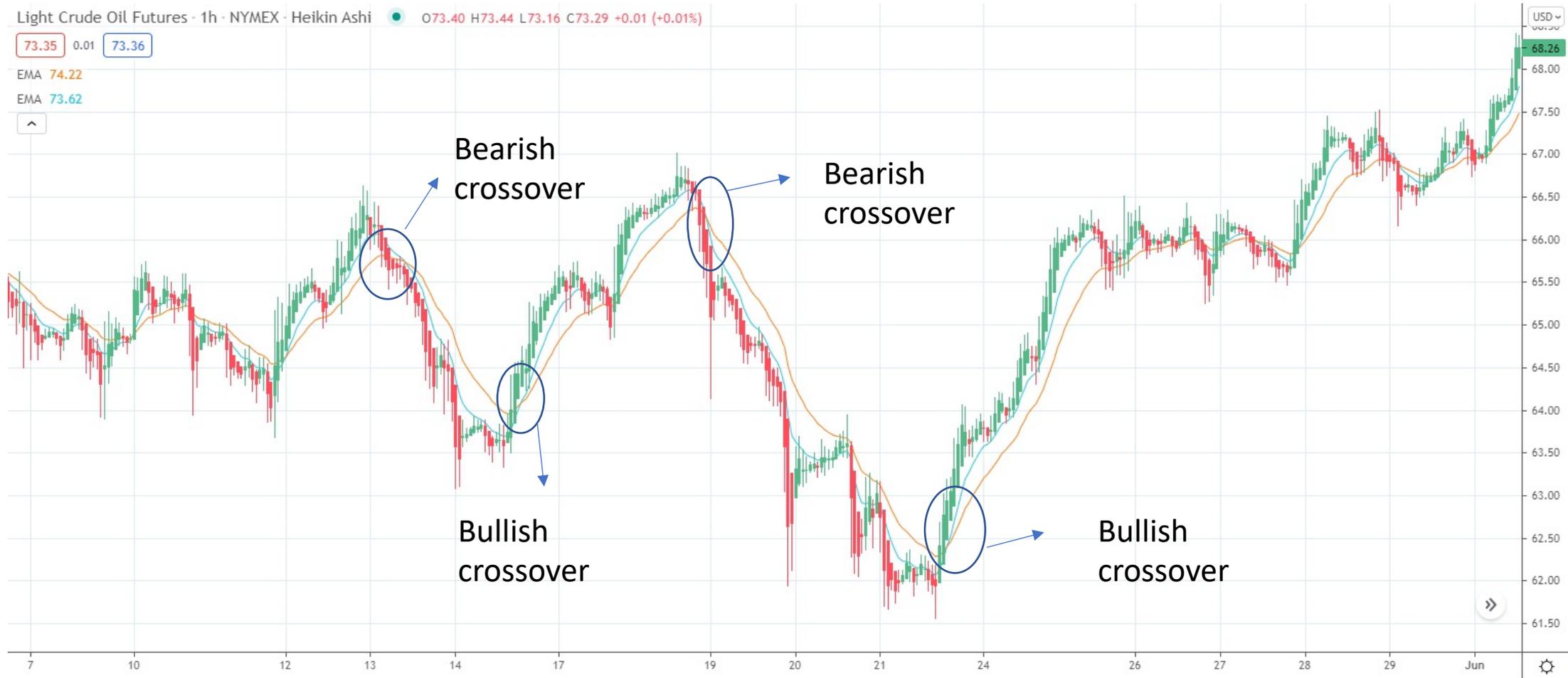
Uptrend dynamics on Heiken Ashi chart



Downtrend dynamics on Heiken Ashi



Exponential moving average crossovers



20 period EMA act as support and resistance line



Risk management using ATR value



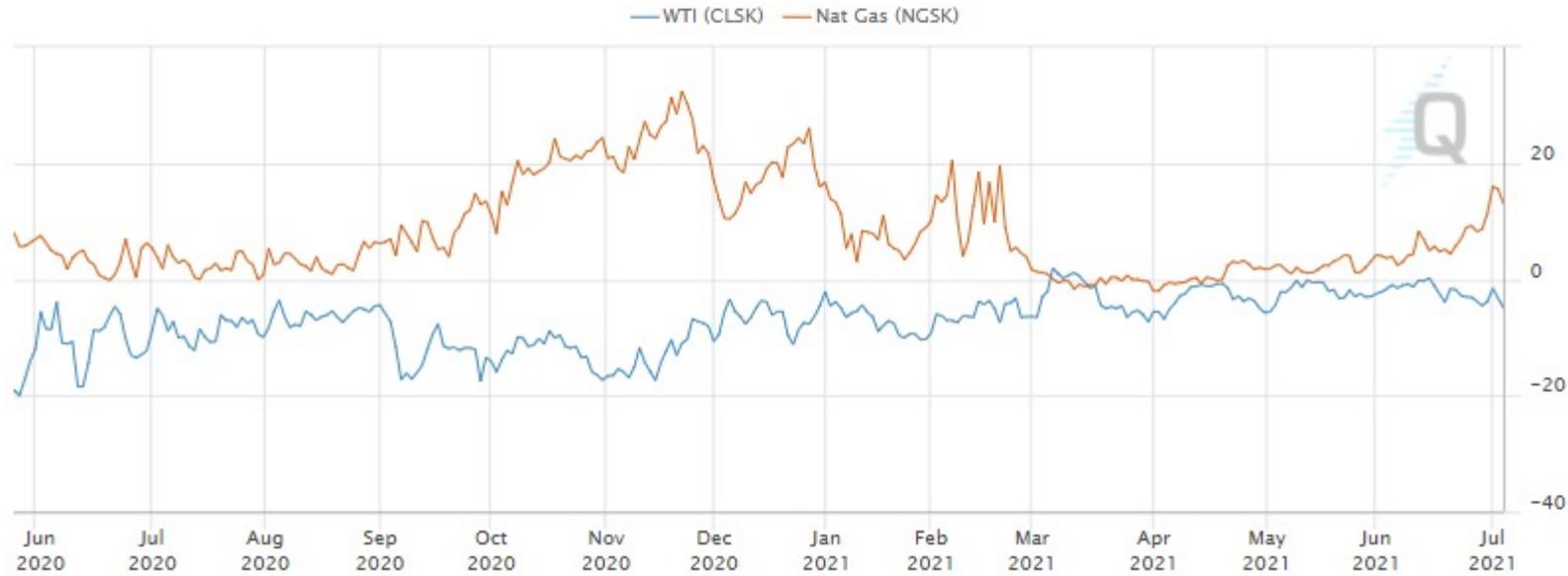
Bearish crossover and red Heikin Ashi candles

Enter a short position at \$66.12 and ATR value at 0.50

With a 3:1 risk to reward ratio, target profit is placed at \$64.62 and stop loss at \$66.62



CME CVOL tool on WTI



Energy																	
PRODUCT	SYMBOL	CVOL	CHG	TREND	HI-LO CVOL	DNVAR	SKEW	UPVAR	ATM	SKEW ^R	CONVEX						
Heating Oil	HOVL	33.18	4.72		25.22	42.32	34.57 4.22	-2.83 1.07	31.74 5.30	30.86 4.14	0.92 0.05	1.08 0.01					
RBOB	RBVL	34.31	4.21		28.97	41.81	35.06 3.95	-1.51 0.54	33.55 4.49	31.52 4.03	0.96 0.02	1.09 -0.01					
WTI	CLVL	37.77	3.10		30.93	51.15	40.11 3.88	-4.85 -1.64	35.27 2.24	33.90 2.76	0.88 -0.03	1.11 0.00					
Energy	EVL	41.75	1.54		32.35	51.77	40.25 2.55	2.55 -1.92	42.79 0.63	38.45 1.94	1.06 -0.06	1.09 -0.01					
Nat Gas	NGVL	47.54	-0.77		30.64	65.72	40.53 0.61	13.11 -2.41	53.64 -1.80	45.04 0.69	1.32 -0.07	1.06 -0.03					

Source:CME



The new CME Micro WTI Crude oil futures contract

	NEW MICRO WTI CRUDE OIL FUTURES	E-MINI WTI CRUDE OIL FUTURES	WTI CRUDE OIL FUTURES
AVAILABILITY TO TRADE	July 12, 2021*	Available now	Available now
CONTRACT SIZE	100 barrels	500 barrels	1,000 barrels
RATIO TO STANDARD CONTRACT	1/10	1/2	1 (standard)
MINIMUM TICK/ PRICE FLUCTUATION	\$0.01 per barrel	\$0.025 per barrel	\$0.01 per barrel
DOLLAR VALUE OF ONE TICK	\$1 per contract	\$12.50 per contract	\$10 per contract
PRODUCT CODE	MCL	QM	CL
SETTLEMENT	Financial	Financial	Physical
EXPIRATION SCHEDULE	1 day prior to the expiration of WTI Crude Oil (CL) futures		Standard
TRADING HOURS	CME Globex: Sun-Fri: 5 p.m. to 4 p.m. Mon-Fri: 60-minute daily trading halt beginning at 4 p.m. CT		
LISTING EXCHANGE	NYMEX		



Conclusion

- Crude oil could face a short-term resistance at \$80. Fundamental factors at the moment are supporting the narrative. However, prices above \$80 will induce OPEC + members to produce more. Persistent high crude oil prices will trigger further supply of crude oil into the market.
- Is there a possibility for prices to revisit \$100 in the near term? It is likely, but such high prices will face much resistance as major producers will flush the market with more supply.
- Fundamentals will remain optimistic with higher vaccination rates, and more countries start to reopen their respective economies.
- Trade with the trend with proper risk management in place is the key to successful trading.