Daily Chart for West Texas Intermediate (WTI)

(Fundamentals Analysis Overview)

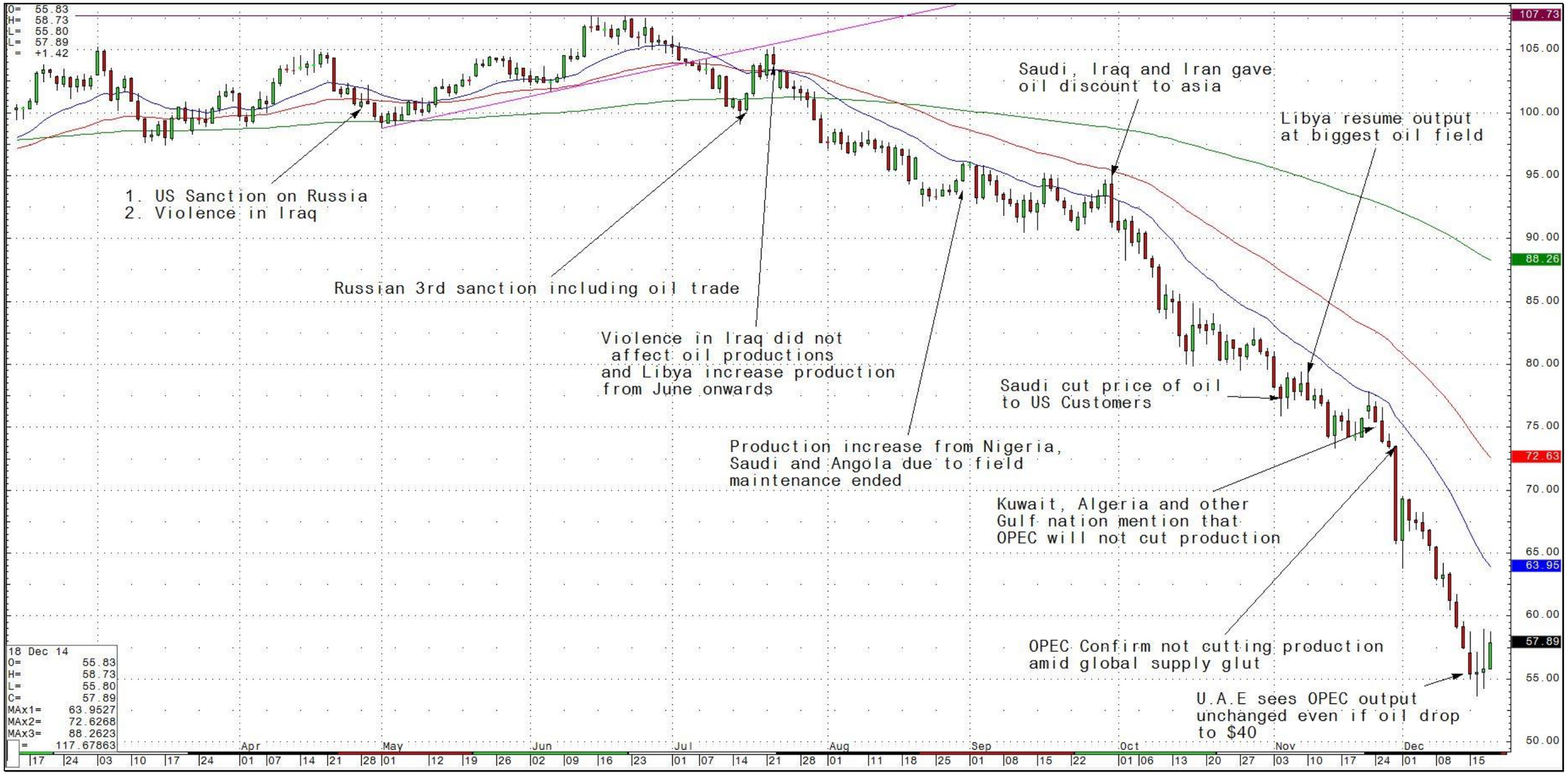

Figure 1.0 : Daily chart of CL showing series of events that affected the price of Crude Oil.

Chart Data By:

CQG

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Background Information

Crude oil is one of the world's most traded products on the global commodities exchange. It has since been traded on the NYMEX under the ticker name "CLE" (CL stands for the oil symbol and E stands for electronic). The US and Canadian oil boom started back in 2006 – 2007.

Since then, the demand of oil from China as well as emerging markets have pick up tremendously. The boom in North America can be attributed to the discovery of shale oil in US Soil. This lead to an increase in prices as producers race to capture more of the market share by investing heavily in sunk cost while at the same time cutting back on import into US. As global demand slows down due to the decelerated growth of China and emerging markets, this downward pressure on oil prices coupled with increase production from North America, set the stage for the plunge of oil prices.

Oil has definitely seen some spectacular action this year based on several supply glut in the global oil market. For this article, we will be taking a look at West Texas Intermediate (WTI), which is the benchmark for oil pricing in the US Region as compared to Dubai Crude and Brent from the North Seas.

It all started with the Crimea conflict that involved Russia and Ukraine in 16 March 2014. With sanctions placed on Russia by US and her allies (due to Russia's annexation of Crimea), many expected the conflict between both parties to worsen which resulted in the surge in oil prices. Coupled with violence in Iraq (given that Iraq is a major oil producer in OPEC), Crude Oil price continue to surge to a high of 107.73 on 13 June 2014.

Following the 3rd sanction on Russia which took was acted on during the period of 17 July to 24 September 2014, oil prices faced upward buying pressure, resulting in a spike in prices almost instantly. However, the increase in production of oil by OPEC countries as well as US shale industries more than cover the shortage of oil from Russia. This further drove prices down. Facing fierce competition from US shale industries, OPEC continue to supress oil prices by increasing production and giving discount on a global scale so as to capture a larger market share. Despite falling oil prices faced by OPEC countries, it is speculated that they wanted to drive out US Shale producers so as to solidify their hold on the global oil market.

Facing pressure from countries like Venezuela that uses the export of oil prices to balance their nation budget, OPEC decided to meet in late November for a decision on whether to cut or maintain production. On 27 November 2014, OPEC decided against cutting production amid oversupply in the oil market so as to drive out smaller US Shale producer.

Technical Analysis

Figure 1.1: Weekly Chart for Crude Oil

Weekly Chart for Crude Oil

The price of Crude Oil plunged from a high of 112.24 in late August 2013 to 56.13 currently (late December 2014). In the long term, the bearish sentiment is still valid as you can see that oil price broke the trend line and went on to break the previous support and those before it. In addition, there are several recent long bearish candlesticks which signify that the bears are still in control of the market. Thus, in our view, crude oil price is not likely to move beyond $70 in the coming months. However, if it does move beyond 70 dollars, we can expect price to retest the support-turned resistance at the range of 77 to 79 dollars per barrel before continuing the downtrend.

As seen from Figure 1.1, the market have been ranging a while with a slight upward trend. This is consistent with the growth of China and the emerging markets supported by the increase in global demand for Crude Oil. Once the trend was broken in the 3rd quarter of 2014, we can clearly see that oil took a dive due to the various geo-political risk that it is normally associated with.

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Figure 1.2: Daily Chart for Crude Oil

Daily Chart for Crude Oil

Figure 1.3: Hourly Chart for Crude Oil

Hourly Chart for Crude Oil

The recent major drop from about 77 to 53.60 (24 November 2014 to 15 December 2014) was due to expectations of the OPEC meeting on 27 November 2014. Before the meeting, several oil ministers of the Gulf nations stated that they will not cut oil output.

At the same time, others major producers such as Venezuela and Ecuador, were demanding for output cuts to push global price back up to $100 per barrel. However, the largest OPEC oil producers (Saudi Arabia, Iraq, Iran, and the like) mentioned that they are not going to cut production. With this bearish expectation, prices continue to fall just before the meeting.

As expected, OPEC countries did not cut oil production which resulted in the major drop. The 20, 50 and 200 Exponential Moving Averages also showed signs of downtrend in late July. This was before a rally that was caused by the fear of shortage of oil production from Iraq due to geo-political risk.

There was a doji formed on 16 December 2014 which could be seen as a change in sentiment. Indeed, price retraced to 59.28 but the buyers were unable to sustain the push and closed nearer to the open.

There was a Bearish Engulfing Candle Stick pattern formed on 22 December 2014 which indicated bearish sentiment in the market. Along with long term downtrend, this Engulfing Candlestick Pattern looked to b valid. Subsequently, Crude Oil price tumbled from 58.53 to 55.12.

Currently, there are several dojis being formed and price is likely to fall and break the support at about 55 dollars per barrel as the long term outlook of Crude Oil is still bearish. However, as mentioned earlier, prices are likely to stay in the range of 50 to 60 dollars; hence, in the event that it broke the previous resistance of 57.50, the resistance at 58.54 is likely to reject any further upward price movement.

That said, oil prices are more likely to break the support rather than the resistance due to the strong bearish momentum in the market. As seen from the confirmation of the Bollinger bands, crude oil have started to range and is showing signs of weakness.

With every breakout of the Bollinger bands extreme, crude oil is likely to experience a consolidation process on its price movement due to the coming holiday season before the end of the year.

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CRUDE OIL, LIGHT SWEET - NEW YORK MERCANTILE EXCHANGE — Code-067651

Disaggregated Commitments of Traders - Futures Only, December 16, 2014

	Open Interest	Reportable Positions: Producer/Merchant/ Processor/User Long	Short	Swap Dealers Long	Short	Spreading	Managed Money Long	Short	Spreading	Other Reportables Long	Short	Spreading	Nonreportable Positions Long	Short
	(CONTRACTS OF 1,000 BARRELS)													
		Positions												
All	1,475,862	203,106	271,179	112,532	342,898	138,159	276,135	60,996	233,013	158,897	89,957	272,999	81,021	66,661
Old	1,475,862	203,106	271,179	112,532	342,898	138,159	276,135	60,996	233,013	158,897	89,957	272,999	81,021	66,661
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		Changes in Commitments from: December 9, 2014												
	30,769	-17,556	-4,383	3,897	21,331	2,682	12,903	685	-1,256	8,374	-1,711	12,844	8,881	577
		Percent of Open Interest Represented by Each Category of Trader												
All	100.0	13.8	18.4	7.6	23.2	9.4	18.7	4.1	15.8	10.8	6.1	18.5	5.5	4.5
Old	100.0	13.8	18.4	7.6	23.2	9.4	18.7	4.1	15.8	10.8	6.1	18.5	5.5	4.5
Other	100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		Number of Traders in Each Category												
All	333	50	63	18	18	30	57	48	68	47	61	67		
Old	333	50	63	18	18	30	57	48	68	47	61	67		
Other	0	0	0	0	0	0	0	0	0	0	0	0		

	Percent of Open Interest Held by the Indicated Number of the Largest Traders: By Gross Position, 4 or Less Traders Long	Short	8 or Less Traders Long	Short	By Net Position, 4 or Less Traders Long	Short	8 or Less Traders Long	Short
All	14.7	15.5	25.7	26.6	11.9	12.6	17.9	20.0
Old	14.7	15.5	25.7	26.6	11.9	12.6	17.9	20.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Market Data By:

Figure 1.4: Open Interest Data from U.S Commodity Futures Trading Commission (CFTC)

Market forecast

Currently, global output has climbed exponentially from an excess of 2 million barrels a day, to 93.6 million barrels (Bloomberg). Furthermore, U.S. shale output is the highest in three decades and production will continue to rise with declining equipment costs as well as technological breakthroughs in drilling methods. This price war between some of the Gulf nations and U.S. has pushed oil prices down from a high of about 107 in June 2014.

In the coming months, Crude Oil prices are likely to be ranging between 50 to 60 dollars. More likely than not, the bearish sentiment on oil is over and prices will consolidate at that range before moving deciding on a new trend direction. Looking beyond the next few months, there is a high possibility that oil price will rebound and hit above 70 dollars or more. With the global economy booming, developing countries may see a surge in demand as growth strengthens.

More importantly, commodities traders have to cover their short position and that would prompt them to take on a more bullish outlook in the long term as prices rebound. This will also be what the producers will looking at in the near future. Also as seen from Figure 1.4, the open interest from producer all the way to retail traders as compiled by CFTC (Commodities Futures Trade Commission) has also shown signs of increase in long positions being held and a simultaneous reduction of short positions. This may most likely carry over to 2015. The next OPEC meeting in June 2015 would most probably affect the global supply as OPEC will reconsider their course of action assuming demand for Crude Oil picks up globally.

Analysis using Technical and Fundamentals

Short term traders may be able to use technical analysis to trade the range but overall, technical and fundamental analysis currently points to a mixed reaction from both the producers and retail traders. Using information from CFTC on the various position that producers held before Christmas. We can expect that the short term analysis will be a ranging market before it corrects itself for a major move depending on OPEC decisions.