

# VIVEK

## PART 2- FORECASTING OF OIL PRICE EVOLUTION

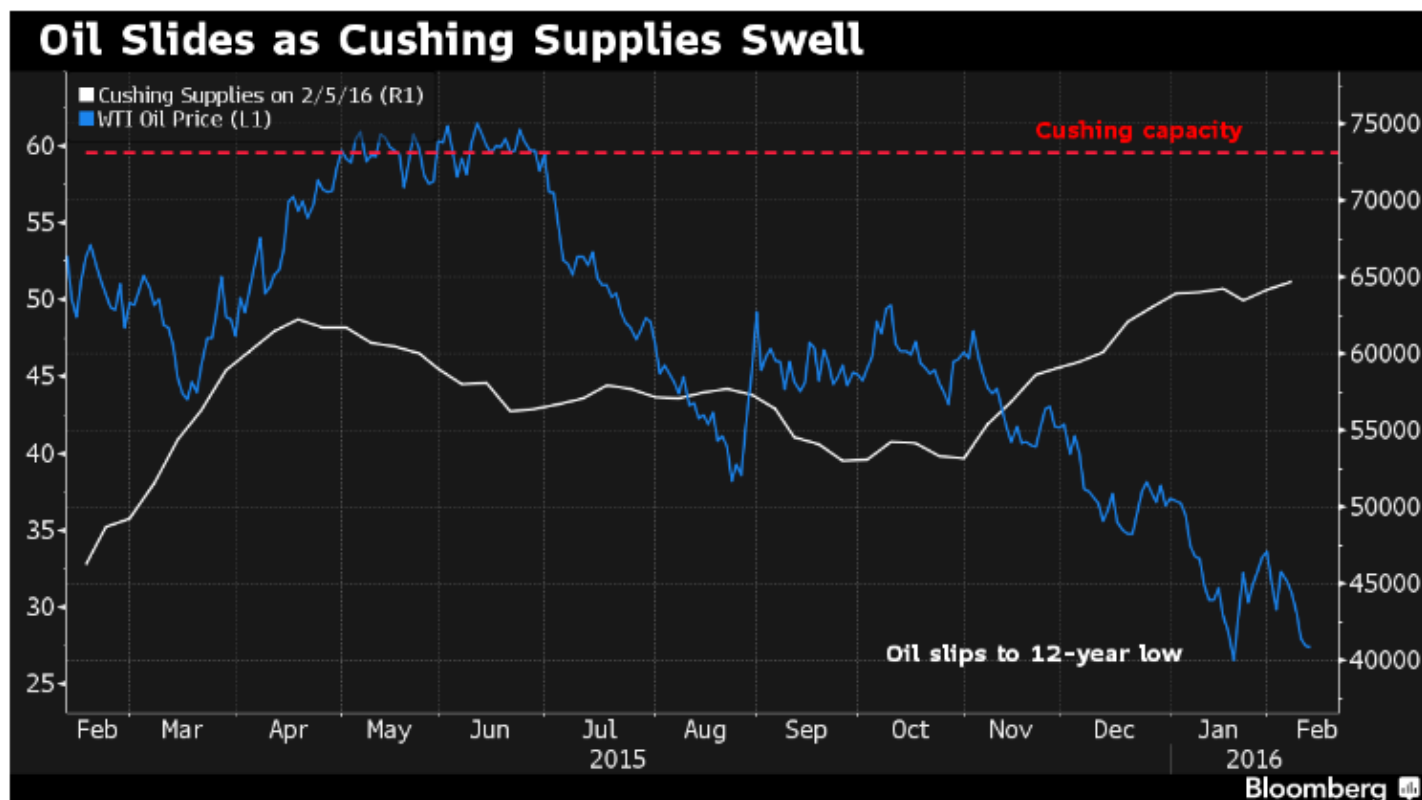
### Answer -2

WTI Crude oil saw a 12 year low in February 2016 when prices tanked to ~\$26. As per my understanding this was temporary as the US Oil stockpiles were 130 barrels above average according to energy administration data. In the below chart taken from Bloomberg (**image given below**), we see that cushing supply was having a surge around Jan-Feb. There was huge over supply due to resilient US production and high OPEC output from Audi Arabia and anticipation of Iran sanctions being lifted.

As a trader I would have gone short on WTI oil futures for short term profits. In hindsight this trend would have continued for a month or so, as the storage was having slow declines but it was happening slowly, Also there were anticipations that the oil can be moved from storages like Oklahoma to supertankers which would have given a boost to prices. At this point an energy should have gone long.

### Answer -3

Maximum, average and minimum prices are provided in column D of the excel sheet which has the WTI data and graph.



#### Answer 4

I see that there were number of macroeconomic and geopolitical factors involved. For example, a global macro trader who was aware that sanctions are being lifted from Iran would have gone short on oil. Also there was a huge oversupply of oil at various storage facilities in US such as Oklahoma.

Soon after the 12 year low, there was a huge supply outages in Vanezuela, Canada and Nigeria. This led to the huge decrease in the already accumulated stockpiles driving the prices around ~\$50. This was one of the unexpected events. After the 169'th OPEC meeting, it was discussed that the storage inventories of this product were standing above the 5 year average volume. The conference discussed to maintain a balance in this supply and demand in order to achieve a long term balance in the oil markets. At this point a trader should go long for short term.

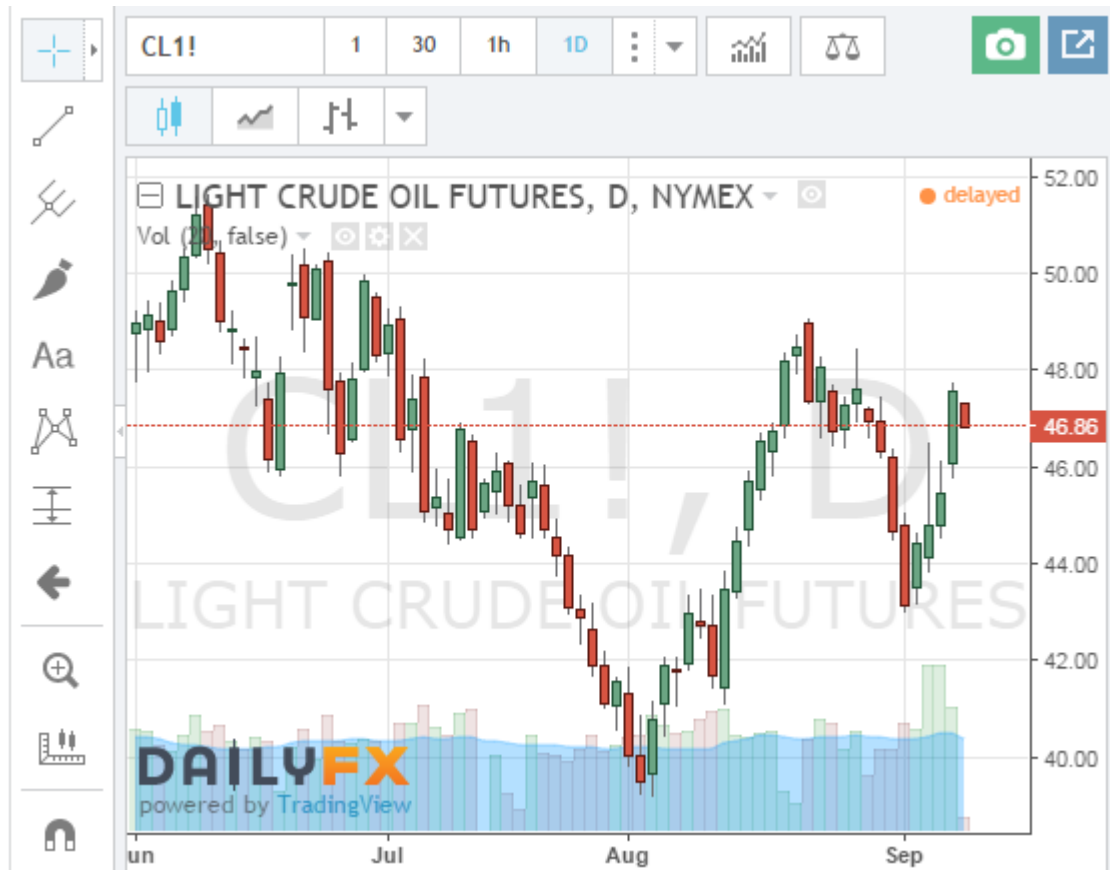
#### Answer 5

There is huge demand from Asian countries such as India, China and Russia which have more prospects if growth currently. The global supply gut that was near spike in Feb 2016 does not look so influential now as the demand for Oil has increased considering the militant attacks on Nigerian pipelines and Alberta wildfires hurting the Canadian oil supply. Also there is a low output and restrictions from the Libya and Venezuela side due to political crises these countries are facing. My trading strategy on oil would be to go long for the next quarter.

#### Answer 6 (Each answer is presented in the bullet point)

- Oil was trading at \$100 per barrel two years ago but recent events such anticipation of supply gut leading oil to tumble down to \$26 and then macroeconomic factors leading it again to \$50, it should be trading in the range of \$50-\$70 till December but there are very less chances that it can touch those \$100 levels again in the next quarter.

- In the chart attached in the excel sheet based on regression analysis, the oil seems to go down compared to 2015 end levels but it has tried to maintain a level of \$40-\$50 in near August-September '16. Below chart uses the candlestick and for now it is a perfect situation to go short once the price confirmation is received on the next trading day (Today is 9<sup>th</sup>) as the bearish stick is completely covered by the bullish stick and now smart money investors will kick to go short for intra-day positions.



Source: DailyFX.com

- I see a consistent trading strategy now using the technical and using the regression analysis that it is a good time to go short for intra-day trades but using the macroeconomic growth data for various Asian countries a long term investor should be long.

### Answer 7

It may not be possible to look at the future data now but using the technical we can use the above chart for trade signal.

If you look at the above candlestick chart attached, a trader would have gone short on just after July for a week or so when the market just went bearish. There were few traders who bought but the smart investors started dumping their positions and it presented a good opportunity to make money.

### References:

<http://money.cnn.com/2016/05/05/investing/oil-prices-fort-mcmurray-fire-canada/index.html?iid=EL>

[http://www.opec.org/opec\\_web/en/press\\_room/3487.htm](http://www.opec.org/opec_web/en/press_room/3487.htm)  
<http://money.cnn.com/2016/05/26/investing/oil-crude-prices-50/>