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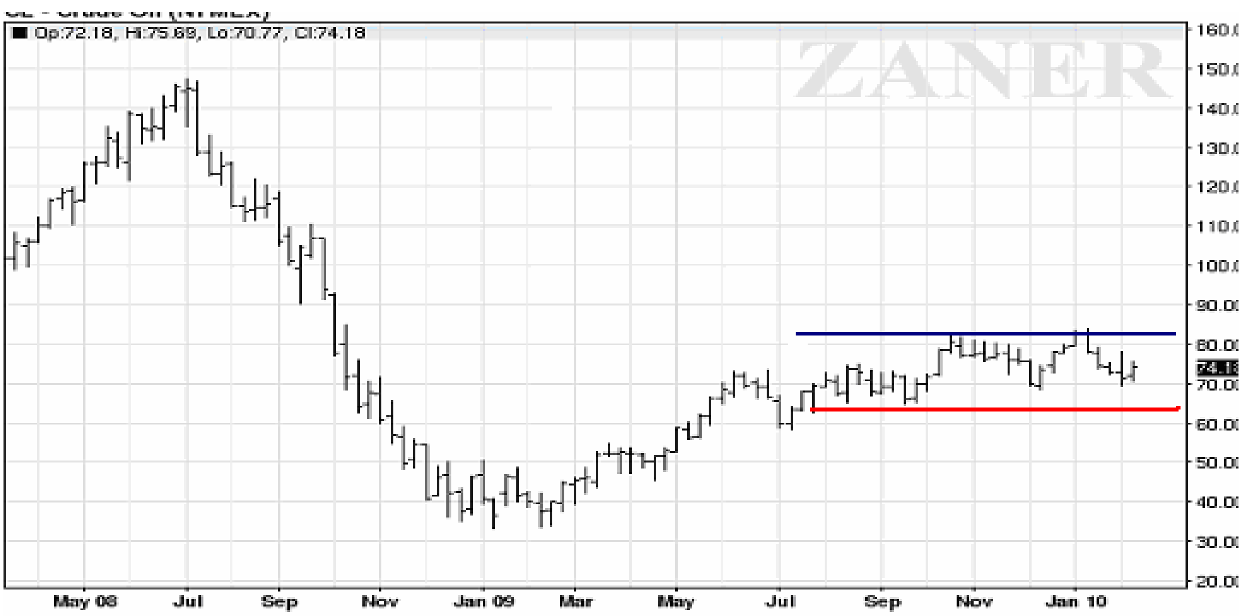
Financial Services Since 1980

February 12, 2010

WHICH DIRECTION WILL THE NEXT BIG MOVE IN CRUDE OIL TAKE?

Some recent price history

The current sideways pattern in Crude Oil futures arguably began in mid-August, 2009. Over the past five months the front-month crude oil futures contracts has traded between $65.00 and $82.00 a barrel. [see weekly bar chart, below] However, as the chart illustrates, it was just a year and a half ago when the front-month futures contract flirted with $150.00 a barrel.



Weekly bar chart, front-month NYMEX crude oil futures. March 2008 – February 12, 2010

Fundamentals

The fundamental picture has been fluctuating between economic Growth and Brakes. And it seems that the opinions change as readily as the weather. Will the Chinese government put the brakes on economic growth, or will their ever-rising standard of living create greater demand for cars and hence, gasoline. If it is any clue, "China's economic planning agency predicted that international oil prices will average $80 a barrel this year – reinforcing analysts' expectations

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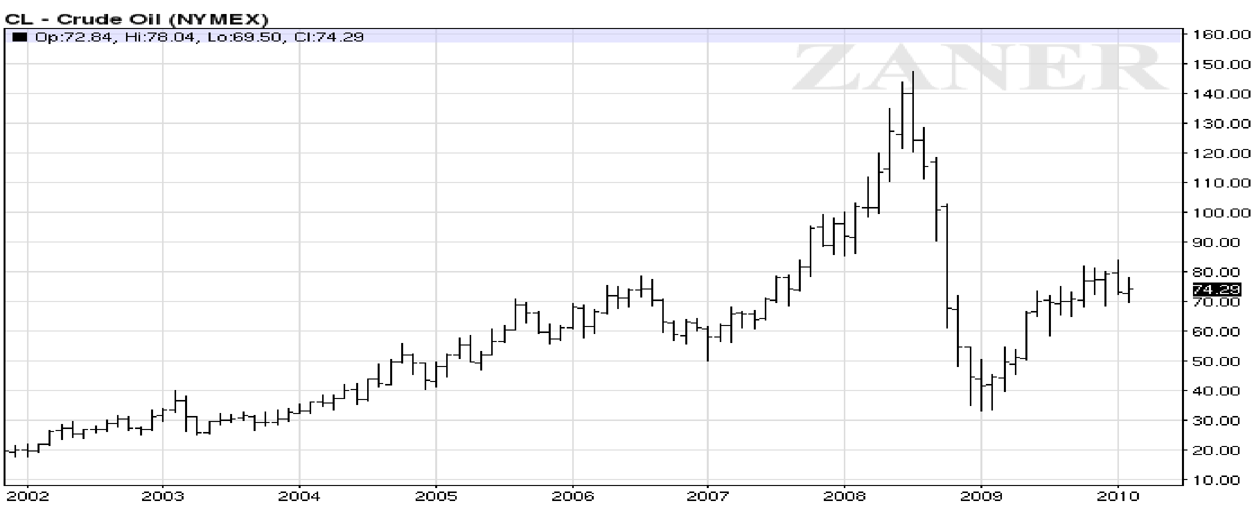
that Chinese demand will continue to help push prices up despite concerns that recent credit-tightening moves could crimp its appetite for fuel." *[Shai Oster, Wall Street Journal, January 29, 2010*] Goldman Sachs' outlook, however, is for $90 average crude prices in 2010.

Perhaps some clues can be found in tracking the US dollar. Historically prices for crude oil and other raw commodities move inversely with the dollar, as these commodities are priced in terms of US$ in world markets. Surprisingly, since November 2009, a positive price correlation has been observed. It is anyone's guess whether the Dollar and Crude Oil will rally/fall together or return to an inverse relationship during the remaining weeks of the second quarter.

Putting the market into a historical perspective

In the past eighteen months (July 2008 through January 2010) the near-by crude oil futures contract has traded as high as $147.27 and as low as $32.40. **The market therefore, is $73 below that high and $42 above the low.** (*) Which way will the next major move take? Which side of the Bull/Bear struggle will you want to trade from?

Crude oil's technical behavior resembles a classic boom-and-bust behavior. That is, a bull market taking many months to develop, and then crashing down in a brief period of time. If you follow the stock market, this will come as no surprise. The last great bull market lasted 4 and a half years but took only one year to fall 50% from 13140 to 6460 (**)



Monthly bar chart, front-month NYMEX crude oil futures. 2002-2010

* *based on February 12, 2010 settlement price for March 2010 crude oil futures*
*** based on front-month DJIA futures. See chart on page 3*

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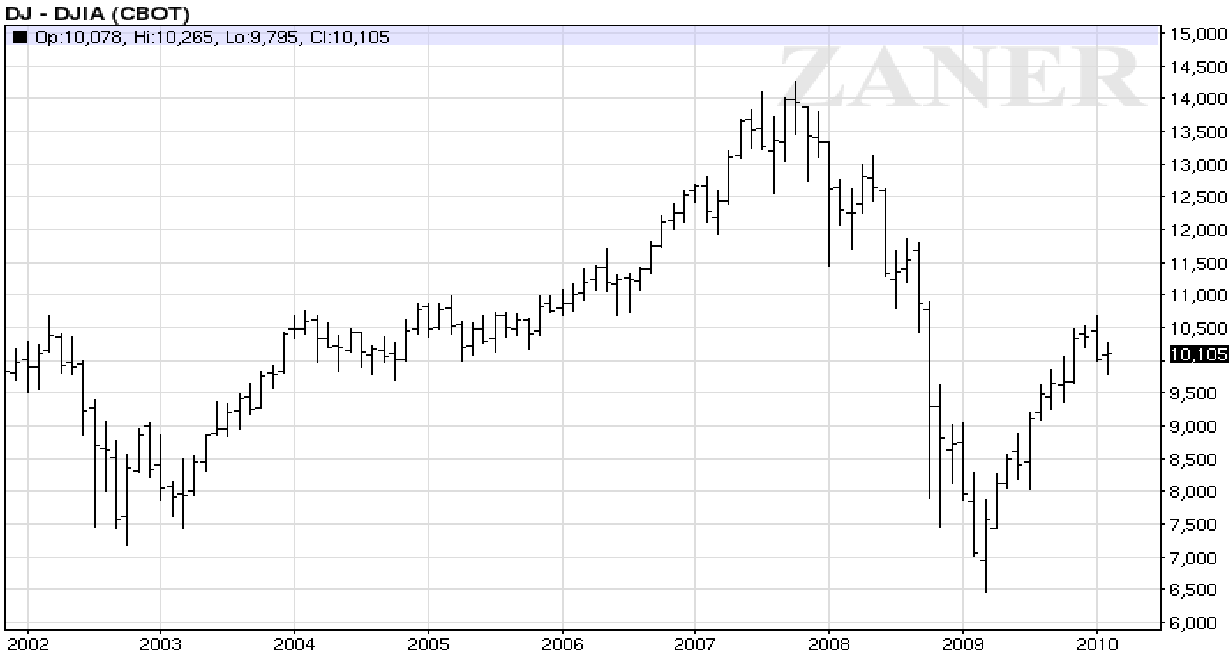

Monthly bar chart, front-month CBOT Dow Jones Industrial Average futures. 2002-2010

<u>Change Equals Opportunity</u>

The extreme trend in increased price volatility and trading ranges has created trading opportunities for both Bulls and Bears….for both short-term swing traders as well as long-term position traders. Of course, the risks are commensurate with the potential for profits and must be carefully taken into account when designing and implementing a specific trading strategy. Traders can utilize outright long or short futures position, long put or call options or option spreads to achieve a desired risk/reward trading scenario.

Which side of the market do you want to trade, for the next significant move in Crude?

Inflation, the specter of rising interest rates, economic recovery or new financial crises? These will be some of the macroeconomic fundamentals that traders will have to measure and forecast. Zaner Group is here to help you turn your fundamental and technical opinions into a viable trading strategy. It is simply not enough to declare yourself to be bearish or bullish. A trading plan with risk management features is needed to trade the Crude Oil market of 2010.

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We invite you to download our **Trading Plan Template**, to help you formulate a personal trading plan. We invite you to call us to discuss limited risk strategies using options on futures as a stand-alone trade and in conjunction with futures. [Please note that *limited risk strategies* refers to the amount of the loss and **not** the likelihood of loss]

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Conclusion

One need only set the clock back to 2007 to observe some of the most significant boom and bust price action the futures markets have ever seen. You need to answer the critical question: Are crude oil futures and options a market I want to trade in 2010?

Transactions in futures, options on futures and forex are speculative in nature and involves a substantial risk of loss. You should carefully consider whether trading is suitable for you in light of your circumstances, knowledge and financial resources. All known news and events have already been factored into the price of the underlying commodities discussed.

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