Has The Oil Price Peaked?

11 February 2013

Summary

- **NYMEX Crude WTI Oil may be set to fall to $93.60/bbl (250-day moving average) if a seasonal peak was seen in January**
- **The RSI peaked in overbought territory which in the past has led to pullbacks in the price**
- **The seasonal influences are not that strong, however peaks tend to be seen in Q4/Q1 (Oct-Jan account for over 50% of the peaks)**
- **To take advantage of a negative view in the oil price one can buy the Boost WTI 3x Short Daily ETP (3OIS), or buy the Boost WTI 3x Leverage Daily ETP (3OIL) if one thinks that prices will rise**

Looking for a tumble in NYMEX WTI Crude Oil over the next few months may not seem too sensible, given cold weather expectations in the US, the view that at some stage the oil glut in US Mid-West will be reduced, global tensions (usually a factor...) and of course the US 'summer driving season' looming in a few months that should drive demand for oil at some point over the coming months. However, the market has a view on what drives oil prices (or rather, analysts and brokers do...) but the underlying price data suggests something different. For example, the view that US demand for gasoline will increase the price of NYMEX WTI Crude Oil into the 'summer driving season' is pretty well engrained, but the data suggests that front month contract prices tend to peak in different months. The case from the table below could be made that prices peak in the 'winter' months of Q4 and Q1, but this is a weak view at best. Seasonal trends? The charts on page 2 below show that the seasonal effect is weak, but seems to favour peaks into Q4/Q1, and then gradual slumps afterwards.

What does this say about the US 'summer driving season'? The easy answer is that gasoline is a refined product and crude prices are affected by different factors. This is sidestepping the problem though, and odds are that the price of crude is more affected by global factors that tend to swamp the increase in demand for gasoline in the US over the summer, and of course that refiners have adjusted to the fact that there is increased demand for gasoline leading into the summer. In other words, they plan ahead and don't have to squeeze the spot market price higher every year on predictable demand, which will distort any seasonal purchase expectations.

Another factor that may be distorting seasonal factors is that the underlying market has undergone a sea-change over the last 15 years. Sub-$20/bbl levels in the late 1990's gave way to NYMEX WTI Crude Oil prices above $40/bbl being seen as normal. OPEC was supposed to be a bankrupt organisation in the late 1990's with little in the way of influence over oil prices, but now the cartel is more important than ever. Oil prices are at levels that a decade ago would have made economists think that global growth would crumble, but they have been proven wrong (for now anyway...). All of these factors may have 'swamped' the seasonal effect on prices.

From a short term point of view? The bottom chart on p.3 shows a chart of the front month NYMEX WTI Crude Oil contract, with the 14-day RSI. The RSI has peaked in overbought territory and is heading into neutral territory, which in the past has led to some pullbacks in the price of the commodity. If the peak in January is the 'seasonal peak' then resistance/risk at $98.24/bbl should prove a useful barometer. Gains above this level would leave a rally to the September 2012 high at $100.42/bbl at risk, and even higher, if seen. If upticks remain below $98.24/bbl though then a drop back to the 250-day moving average near $93.60/bbl should attract. Further losses to the $90/bbl area would be expected to follow in time, and a case can be made for a pullback to the 07 November 2012 low at $84.05/bbl. Selling may be a reasonable view after all?

Month when NYMEX WTI Peaks
From 1983 to 2012

Jan	5	Q1	8
Feb	1	Q2	6
Mar	2	Q3	6
Apr	3	Q4	10
May	2		
Jun	1		
Jul	2		
Aug	2		
Sep	2		
Oct	3		
Nov	4		
Dec	3		

***Data courtesy of Bloomberg and Reuters**

Boost WTI Oil 3x Leverage Daily ETP (3OIL) can be used to leverage gains if the underlying commodity rallies.

Boost WTI Oil 3x Short Daily ETP (3OIS) can be used to leverage gains if the underlying commodity falls.

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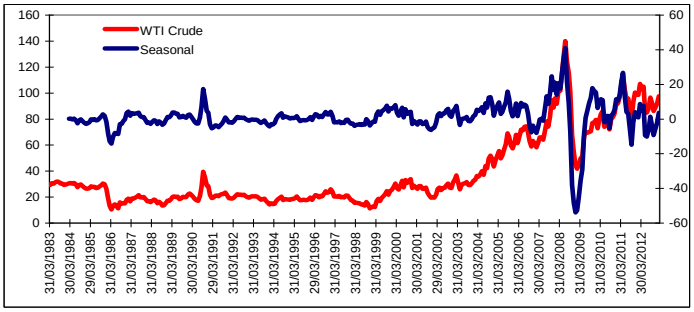
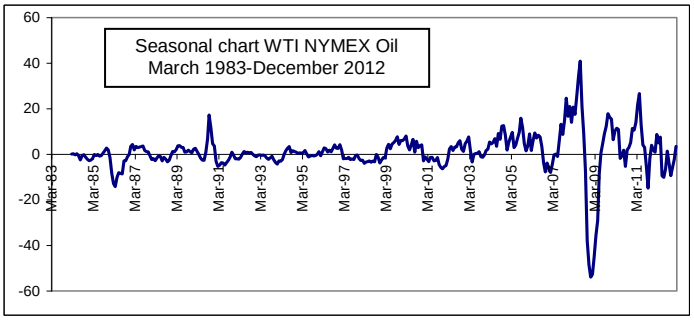
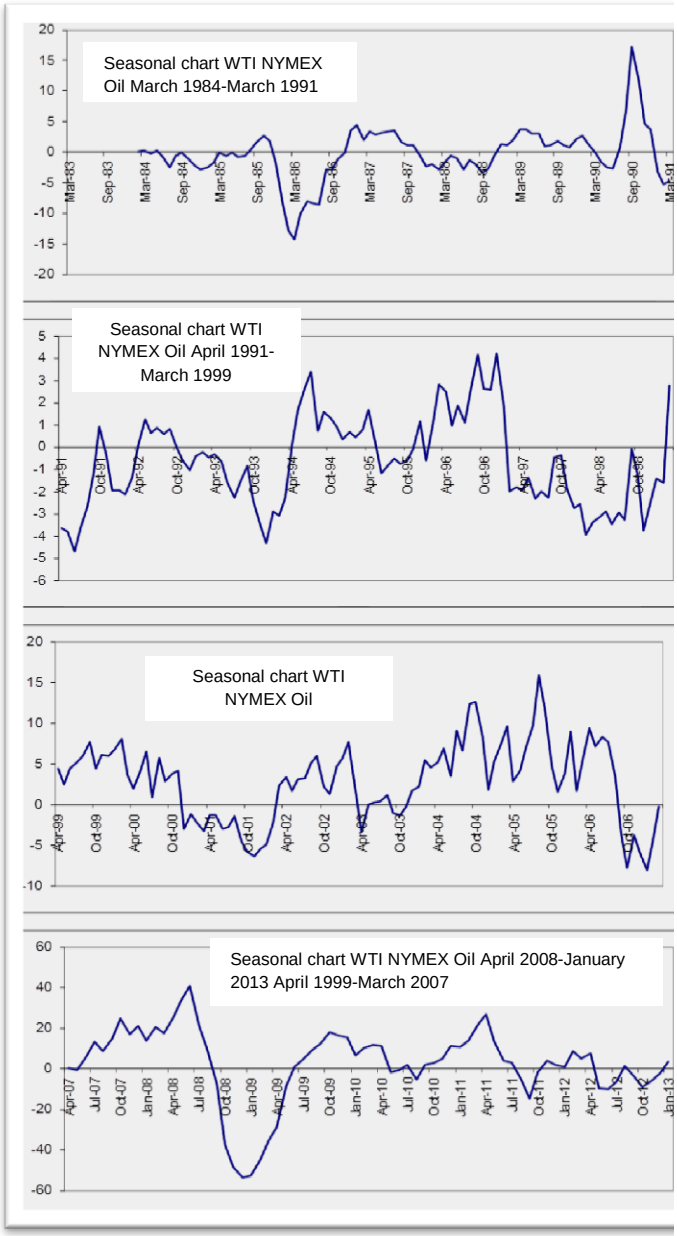


Calculating the Seasonal Factor

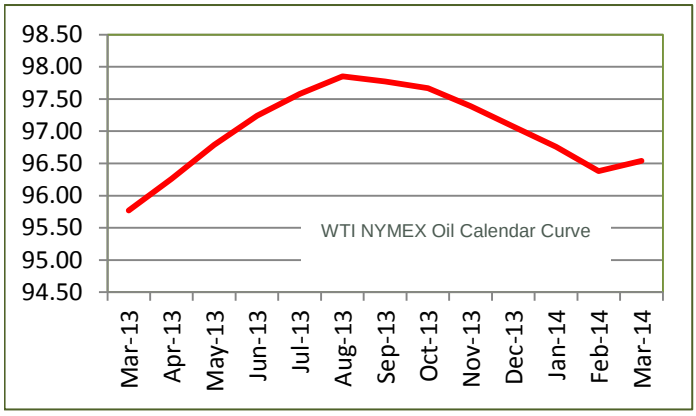
There are different ways to try and capture the seasonal factors in a financial market time series. In this series of monthly data we used the 12-month moving average as the 'trend' and then plotted the difference of the monthly closes from the 'trend' in order give an estimation of the seasonal tendencies of the underlying commodity.





* Source: Boost, Bloomberg. The prices used for the returns are primary market closing prices from Oct 18th 2012 to Jan 18th 2013, and are given in the base currency of each index. The returns may rely in part on back-tested prices prior to the inception of some ETPs. Past performance and back-tested performance are not indicators of future performance. Back-tested prices are those which proceed Dec 4th 2012 for ETPs referencing the FTSE 100, Dec 7th for the DAX, Dec 10th for EURO STOXX 50, Russell 100 or NASDAQ-100, and Dec 17th for the commodities.

** Calculated as annualised standard deviation over the past 3 months of daily returns (some of which are based on back-tested prices.



Notes

Seasonal factors - Seasonal factors are those tendencies that may be seen in a commodity market due to regular events, usually within a year or sometimes longer. A typical seasonal factor may be weather relate. In agricultural commodities such as crops they are planted and reaped only at certain times of the year, and then taken to market. Crude oil seasonal factors will depend on underlying demand for crude and refined products. Heating Oil and Gasoline demand in the US is seen as being seasonal (higher demand in the Winter for Heating Oil and higher demand in the summer for Gasoline) and will affect crude accordingly. Supply factors are potentially seasonal as well given the timing of maintenance schedules and transportation. Other commodity markets may have different seasonal factors as well.

Contango - Commodity futures markets are in contango when prices rise as maturities lengthen. This usually reflects the cost of storage or handling the commodity, as well as market expectations of either future demand/supply or short term dislocations in supply/demand. If you do have a negative view on the current oil price, also note that the futures calendar chart (above) shows that in the near term, the oil futures curve is in contango.

Depending on the holding period, contango may result in a negative "roll yield" which can reduce the returns of a passive long investment (versus the spot oil price), and thus may enhance the returns of a short position.

Backwardation - Commodity futures markets are said to be in 'backwardation' when the near month contracts have a higher price than the contracts that mature further out. This usually reflects a short term dislocation in supply/demand.

Contact Information

If you would like further information about Boost ETP's product range or any of the content within this fact sheet, please contact us:

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