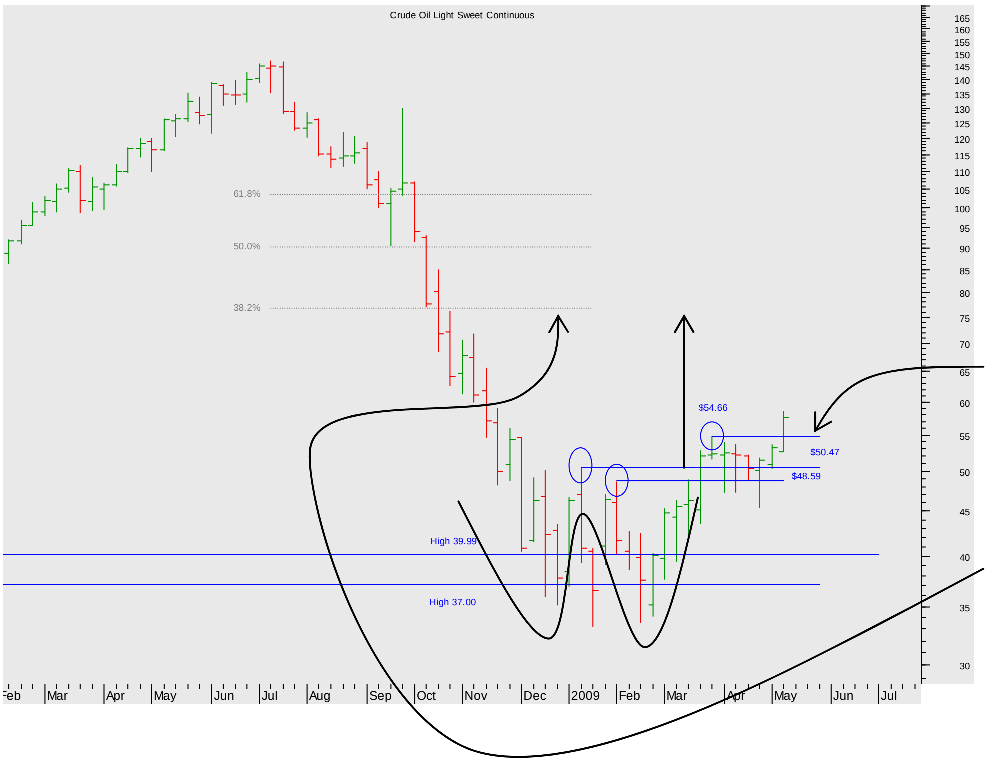
Key Trade Bulletin   8th May 2009

New Position

1. Oil

LONG Jun 09 Light Sweet Crude at $57.53. Stop at $53.50

The Technical Trader's View:



Weekly cont. chart Light Sweet Crude.

The market has completed a small Double Bottom (in the continuation chart) and further, pushed up through the prior High at $54.66.

The minimum move suggested?

About $77 – coincident with the 38.2% retracement of the bear move from July 2008.

Look closer.

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Jun 09 Daily Bar chart

This is less clear about the completion of a bottom formation.

But the push back through the highs $56.10 and $55.85 is clear.

They will be good support on pull-backs.

And the gap is impressive evidence of bull energy - formed around the gentle falling diagonal from the prior highs.

First resistance is clear at $62.76.

Stops beneath the low of two days ago.

The Macro Trader's view:

The oil market has found support, initially from optimism of economic recovery that has also fuelled the rally in equities. But in recent weeks, especially the last several days, economic data has turned less negative.

In the US the ISM surveys came in better than expected, the same holds true for the Euro zone, and in the UK the PMI Services survey came in this week at 48.6.

While the leading economies are still contracting, the rate of contraction is slowing, and the Fed expects the US recession to end later this year. Even in the Euro zone German factory orders rose by 3.3% month on month and although this still saw a year on year contraction of 26.7%, the rate of decline had improved appreciably.

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So while there still exist both a surplus of oil supply and good deal of economic slack, oil prices are rising on the emerging, albeit tentative, evidence of recovery. When recovery comes, the supply/demand ratio will again tighten and traders are mindful that nothing has occurred to ease supply constraints that will force prices higher once full recovery arrives.

While this is still in the future, oil prices are likely to rally further on the expectation of recovery and fear of it will ultimately force prices much higher.

In summary we advise going long of oil.

Mark Sturdy

John Lewis

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