Maitra Commodities Pvt Ltd.

THE BEGINNERS GUIDE TO TRADING IN CRUDE OIL

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About Us

Maitra is a Financial Broking House headquartered in Chennai.

Established in 2012, we have a strong network of business associates and branches all across South India with a patronage of 11,000+ clients.

Kick starting as a financial portal with operations only in commodity trading, Maitra has now ventured into other Investment opportunities like Equity and Derivatives, to envisage the diverse needs of all our clients and provide a complete array of financial trading products and services.

The essence of Maitra is to partner you in all your investments, breaking all barriers that traders and investors face in terms of cost, support and technology. Although we are radically changing and evolving, our belief and passion to be the pioneers and most insightful, hasn't. At Maitra, we aim to be accessible, responsive and connected, both to the markets we serve and our clients.

Research on Crude oil market? - Basics of crude oil market and trading strategies

What is crude oil?

Crude oil is a liquid composed of hydrocarbons, organic molecules, and tiny quantities of sediments and metals that may be discovered deep beneath the ground. It is a generic phrase that refers to a variety of various forms of crude oil that are extracted from the earth. It serves as a source of fuel and energy for a wide range of industries.

What is crude oil trading?

Crude oil trading is defined as purchasing and selling oil for a profit, whether through physical exchange or market speculation. Crude oil is by far the most volatile and impactful of all the commodities, including precious metals, agricultural commodities, base metals, and so on. Volatility in supply and demand is a big draw for the oil market.

Types of crude oil

Crude oil may be categorized into three groups:

1) Brent Crude

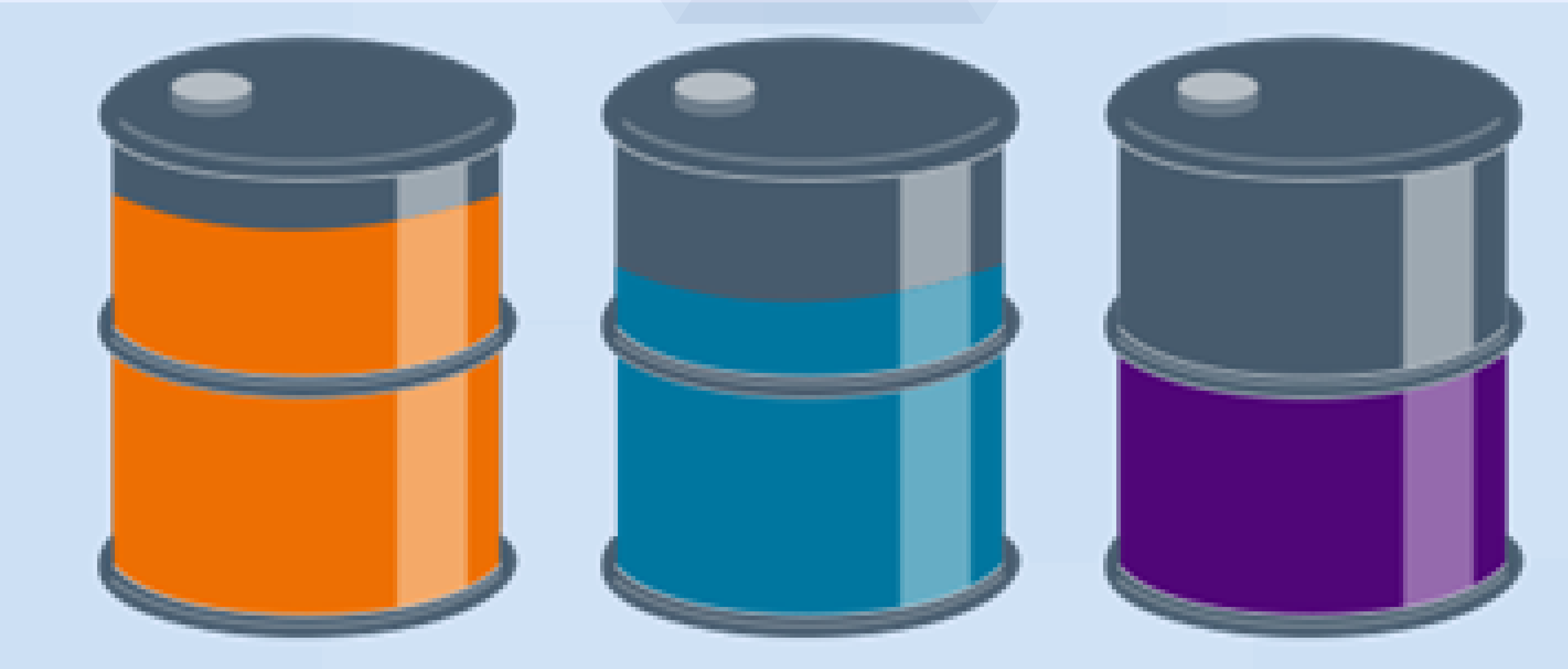
Brent is used to price around 60% of the world's traded oil, making it the most frequently used and one of the most important oil benchmarks.

2) West Texas Intermediate (WTI crude)

WTI crude oil is the primary benchmark for oil used in the United States of America and is derived from American wells.

3) Dubai/Oman

Dubai and Oman crude oil benchmarks serve as the major reference points for crude oil transported from the Middle East Gulf, Russia, and other nations.

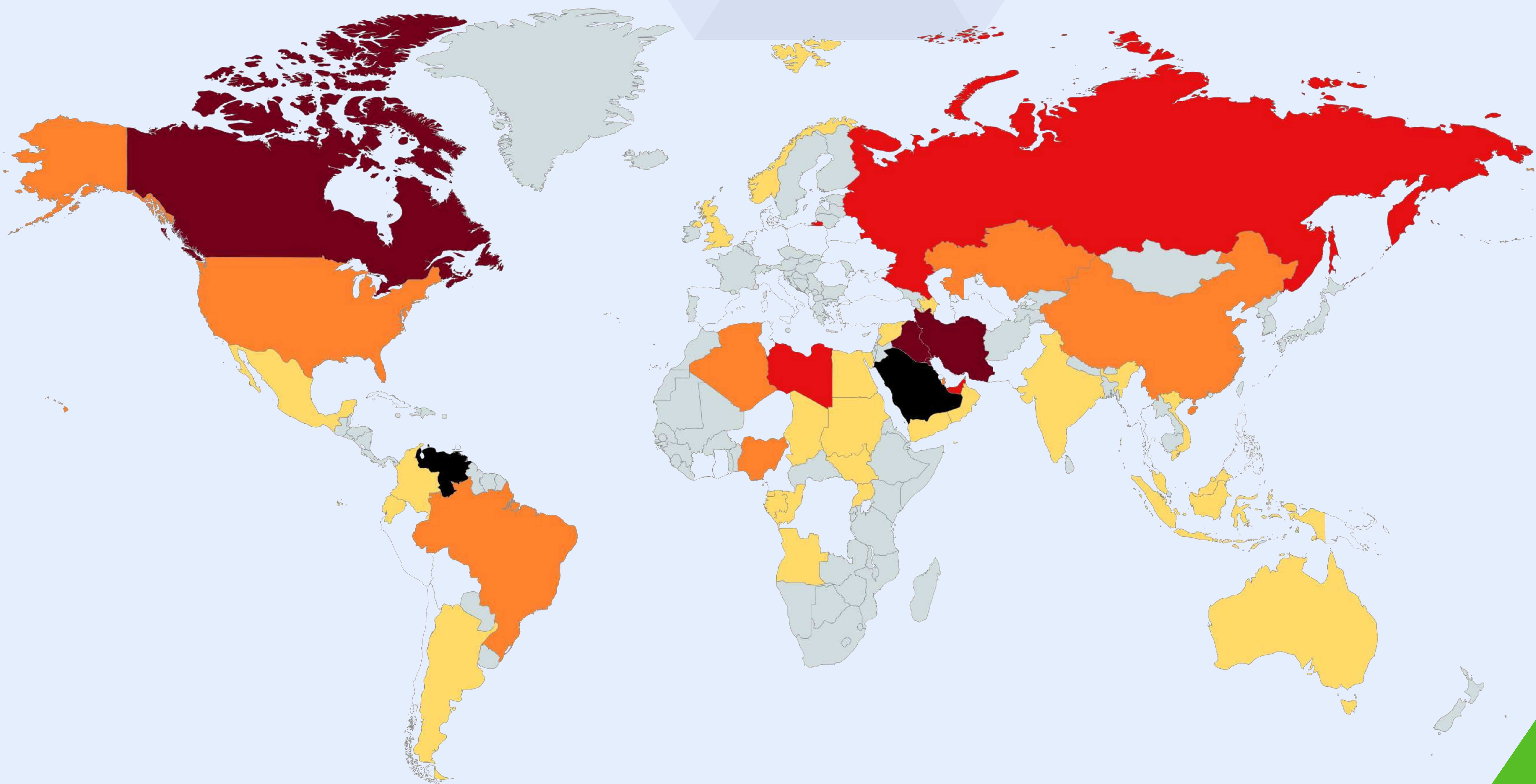


Major producers and consumers of oil

Top 10 largest producers of crude oil:

Country	Million barrels per day	Share of world total
United States	18.60	20%
Saudi Arabia	10.82	11%
Russia	10.50	11%
Canada	5.26	6%
China	4.93	5%
Iraq	4.16	4%
Brazil	3.79	4%
United Arab Emirate	3.79	4%
Iran	3.01	3%
Kuwait	2.75	3%

Source: US Energy Information Administration.
(https://www.eia.gov/tools/faqs/faq.php?id=709&t=6)



Top 10 largest oil consumers and share of total world oil consumption:

Country	Million barrels per day	Share of world total
United States	20.51	21%
China	13.89	14%
India	4.77	5%
Japan	3.79	4%
Russia	3.56	4%
Saudi Arabia	3.08	3%
Brazil	3.06	3%
South Korea	2.57	3%
Canada	2.53	3%
Germany	2.33	2%

Source: US Energy Information Administration.
(https://www.eia.gov/tools/faqs/faq.php?id=709&t=6)

What is OPEC and OPEC plus?

OPEC:

Formed in 1960 as an international organization of oil-exporting developing countries, OPEC coordinates and unifies the national petroleum strategies of its members. Currently there are 13 member countries:

1. Saudi Arabia
2. United Arab Emirates
3. Venezuela
4. Algeria
5. Angola
6. Congo
7. Equatorial Guinea
8. Gabon
9. Iran
10. Iraq
11. Kuwait
12. Libya
13. Nigeria

OPEC plus:

OPEC Plus nations include non-OPEC countries that export crude oil. OPEC Plus member countries include the following 10 countries, making it a total of 23 nations.

1) Russia
2) Azerbaijan
3) Bahrain
4) Malaysia
5) Brunei
6) Kazakhstan
7) Mexico
8) Oman
9) South Sudan
10) Sudan

The objective of OPEC Plus (all 23 countries) is to maintain stable oil prices on the international oil markets, therefore avoiding harmful and needless swings. To minimize price swings that might harm the economies of both producing and purchasing countries, OPEC Plus is a cartel that seeks to regulate oil supplies.

They keep in mind the interests of oil-producing countries and the need to ensure their revenue. By establishing output objectives for its members, OPEC can have substantial influence over oil prices.

Crude oil trading in India

Brent crude is the commodity that is typically traded on India's Multi Commodity Exchange Pvt. Ltd. (MCX) or National Commodity & Derivatives Exchange (NCDEX). The Indian commodity market for crude oil operates from 9 a.m. to 11:55 p.m. They are regulated by the Securities and Exchange Board of India (SEBI).

On average, MCX crude oil futures contracts are traded for around Rs 3,000 crores each day in blocks of 100 and 10 barrels. Unless you run an oil company such as the Indian Oil or ONGC, crude oil
futures trading is mostly for speculation rather than delivery.

On the MCX, two types of crude oil futures are traded:

a) Crude oil (Main)
b) Crude oil (Mini)

	Crude oil (Main)	Crude oil (Mini)
Price quote:	Per barrel	Per barrel
Lot size:	100	10
Tick Size	Rs.1	Rs.1
P&L per tick	Rs.100	Rs.10
Expiry	Every month on the 19th or 20th	Every month on the 19th or 20th

Each month, a new contract is issued, and each contract is for six months. Trading in crude oil mini is more prevalent among traders since the lot size is less, and thus the amount of margin money required is less.

What impacts crude oil prices

Considering how highly demanded oil is on the global market, there is a chance that large price fluctuations will have a significant effect on the world economy. It is the futures market that determines the current oil price that we are all familiar with.

The primary factors affecting the price of oil are as follows:

a) Demand and supply

Demand and supply are directly related to the amount of available oil. Countries with rapid growth and high levels of industrial production tend to have higher levels of demand for oil. Price should increase when demand grows (or supply drops).

Historically, supply has been decided by OPEC member countries. OPEC generates around 40% of global crude oil and so has a significant influence on global oil prices. The supply of crude oil will be high if major oil-producing countries pump a lot of it out. As a result, the price of oil would drop.

b) Speculation in the marketplace

Futures markets decide oil prices which mean that speculation about potential events can influence pricing. Traders monitor the geopolitical news that might impact prices.

The other important factors affecting the price of crude oil:

Several more variables influence the price of crude oil. By being informed on market trends and economic news, you will better grasp how prices fluctuate. The most significant variables influencing oil prices are as follows:

- **The current state of the economy**
  Oil demand and prices rise as the economy grows. The price of oil falls when an economy struggles, as there is less demand for oil as a result.

- **The US dollar's strength**
  The value of the USD has a massive influence on oil prices because the USD is tied to oil. A rising dollar might result in price decreases, whereas a weak dollar results in price increases.

- **Oil output on a global scale**
  In simple terms, the overall effect of OPEC and prominent producers like the United States, Canada, and China are considerable on the price and availability of oil. As a result, when production grows, oil prices fall, and when production is curtailed, oil prices rise again.

- **Demand for oil from developing and growing markets**
  India and China are two of the world's top crude importers and consumers in terms of consumption. When the economy is doing well, more money is in consumers' hands, affecting vehicle sales, petrol usage, and other businesses. A downturn in the domestic economy can have an effect on oil prices owing to a decline in demand and an increase in supply.

- **New sources of energy**
  As renewable energy output grows, people will find less need for oil, leading to prices decreasing. Solar and wind energy technologies are being developed at a faster pace.

- **External shock**
  Oil prices are affected by global geopolitical instability, wars, and natural calamities. Because of an unexpected shock, panic purchasing typically occurs when output or supply decreases, causing prices to rise.

Trading oil offers a variety of advantages

- **Low margin requirement and leverage**

The margin deposit necessary to begin trading futures contracts might be 10- 15% of the entire value of the contract, depending on the market conditions. You can profit from the flexibility of leverage to obtain complete exposure to a trading opportunity.

- **Highly Liquid Instrument**

Investors have the flexibility to liquidate their positions when needed, with oil futures providing significant liquidity.

- **Capacity for hedging**

For those looking to manage risk, investing in oil as a hedge is an excellent way to go.

- **Diversification of portfolio**

Oil trading may be utilized to diversify your investment portfolio, depending on your investment objectives. Because there is no relationship between the asset classes, adding oil commodities to an equities-only or fixed-income portfolio can help to reduce overall volatility.

Strategies for trading crude oil:

If investors are focused on capitalizing on oil opportunities, they need to understand the factors on both the supply and demand sides that influence market dynamics. As with stock market investments, individual investors must have a strategy that is not primarily motivated by emotion. The following are some strategies for trading crude oil:

- **A buy-and-hold strategy**
  A 'buy and hold' is commonly applied as the most intelligent and most common trading strategy in crude oil trading. Traders use demand and supply analysis to develop trading strategies and place trades. Traders may close their position to book gains before expiration if their forecast comes true.

- **Using Spread Trading as a Strategy**
  Spread trading is the purchase of a crude oil futures contract in one month and the sale of another crude oil futures contract in a subsequent month. The primary goal is to make money from the price difference between the contracts' purchasing and selling prices.

- **Swing Trading Strategy**
  Swing trading is a type of trading strategy that requires purchasing and holding a commodity for a brief time. It might last anywhere from a few minutes to three or four days or even longer, depending on the situation.

- **Trading Strategy Based on Technical Analysis**
  Traders make investing decisions based on technical indicators applied to crude oil price charts. They can forecast crude oil's next price move using candlesticks, bar charts, and volume indicators. This helps traders choose when to purchase and sell crude oil based on the candle's formation.

Summary

Investing in crude oil on commodities markets may be a profitable venture since it is the engine that propels economic progress in both emerging and developed nations worldwide. The price of crude oil fluctuates dramatically. They are also affected by geopolitical conflicts, as well as demand and supply issues. That is why before trading in crude oil, you should develop a sound trading strategy.

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GET STARTED

Disclaimer

- Investment in securities markets are subjected to market risks. Please read all the scheme related documents carefully.
- The contents provided are only for informational purpose. Detailed study and research must be done by the investor before entering the market. Maitra Commodities will not be liable or responsible for any losses incurred by the client.

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