

The Intermarket Report January 25, 2008

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The Futures / Inter Market Report Trading the World's Markets

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Natural Gas set to rally

Natural gas has been the quiet energy market for the past couple of years. As crude oil and gasoline have been making headlines, no one has been speaking about natural gas. However, rather than listen to market commentators debate over what the price of crude oil or natural gas should be, I like to go see which people are putting their money where their mouth is. This week I will explain why I believe natural gas is set for a significant rally in the coming weeks.

Any of you reading my past articles have probably already guessed what group of people I was hinting too in the previous paragraph. I don't listen to market analysts who discuss irrelevant details to form my opinion; rather I look at what the commercial traders are doing. What has been setting up in natural gas is the combination of 2 strong influences; commercial buying and seasonal influences. Commercial traders – the smart money- have their largest long position ever. Stop and think about that for a moment. These are not people just giving their opinion, they are the people with the most knowledge about this market and they are actually buying thousands of natural gas contracts. You can see their position in figure 1; it is the thick blue line. These traders have clearly indicated what they believe is going to happen in future months to the price of natural gas.

Figure 1 chart by genesisft.com Anyone who has ever traded the futures market will tell you that timing is everything. With this type of trading, leverage is usually big and most traders cannot and will not accept large moves against them. For that reason I have decided to write this article now rather than 3 months ago. If timing is everything, then you would only want to buy Natural gas at certain times of the year, one being in February. The seasonal influence in this market is for natural gas to bottom and begin climbing in February. I have marked with a vertical line every February from now back to 1993 in figures 1 to 4. It is clear that the seasonal influence is very strong in this market. Also, if you look closely you will notice that at about this time every year that commercial traders typically have their largest long position of the past several months. It seems the commercials prepare for the rally at this time of the year.

Figure 2 chart by genesisft.com

Figure 3 chart by genesisft.com Lastly, I want to look at what I believe is the most important factor of all; trend. Figure 4 is the March contract and you can see that it is currently in a downward channel. I believe it will break above the upper channel line. Firstly it has formed a higher low. Secondly, the +DI has crossed above the –DI (red and blue lines in the bottom panel). Lastly, the adx, which is a measure of trend integrity, climbed on the recent rally and declined on the recent pullback. This tells me that the climb was strong and the pullback was weak – typical of newly forming uptrend. Given the size of the channel, natural gas could likely exceed \$9.00.

Figure 4 chart by [Metatock](http://Metatock.com)

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