

# Futures Fundamentals: NG Examples

OTA Grad Night Special - Session Notes dictation

by John Rowland: 30+years Top Market Maker (Petroleum & Natural Gas) Philadelphia & New York

## Physical Commodities

You need 4 fundamentals to go to the next level. Let's look at the NG (natural gas) market Demand Zones (DZ):

### 1. Seasons Heat (Short term Energy Needs)

- Injection Demand: Apr – Oct – Nov – Mar (November is cheap. January is expensive).

### 2. Inventories

- Go to: <https://www.eia.gov/> Futures expectations vs Last Year, Last 5 Years.

### 3. Weather

- Heat Degree Days (HDD) > Cooling demand 10-15 day forecast

- Cool Degree Days (CDD) > Heat demand 10-15 day forecast

### 4. Commitment of Traders Reports

- We trade commercials, ETFs, Money Managers and Speculators.

## Technical Analysis

Look at supply zone (SZ) swings and SZ Daily current price. Look at the demand zone (DZ) swings and dailies.

ATR Thursday

BB setup

Daily / 240 /60

MA

20 Days / 90 Days / 3 Days

Injection: Price in March can swing after injection from 3.50 down to 2.70, which is a .60 drop in June.

Watch the inventories at: <https://www.eia.gov/> Visit this page each day. It shows ALL energy markets.

Remember 3 Mile Island?

It supplies 1/3 of the energy to the northeast US. It is scheduled to be decommissioned in the next little while.

Imagine the hit to energy prices on (1) electricity and (2) natural gas.

### 1. **Short term energy outlook**

Reports come out on the first Tuesday after the first Thursday between the 5th – 10th of each month.

The report breaks down all energy markets in an outlook report.

#### Top Picks

- Flash Report
- Weekly Petroleum Stats Report.
- CL Inventories come out at 10:30 am Wednesdays.

US CL needs 17M barrels/month → versus imports: 10M barrels (domestic) vs 8.3M (Int'l) Foreign imports have come in, so the report indicates that 1.3M more barrels are brought in, so inventories pile up. 500M barrels have been held for 3 years, so the report is telling speculators to short.

## NG Storage Report

27 BCF (billion cubic feet) are in storage. 80-100M from week to week. We are in the injection season. <http://ir.eia.gov/ngs/ngs.html> In the report, look at the two far right columns.

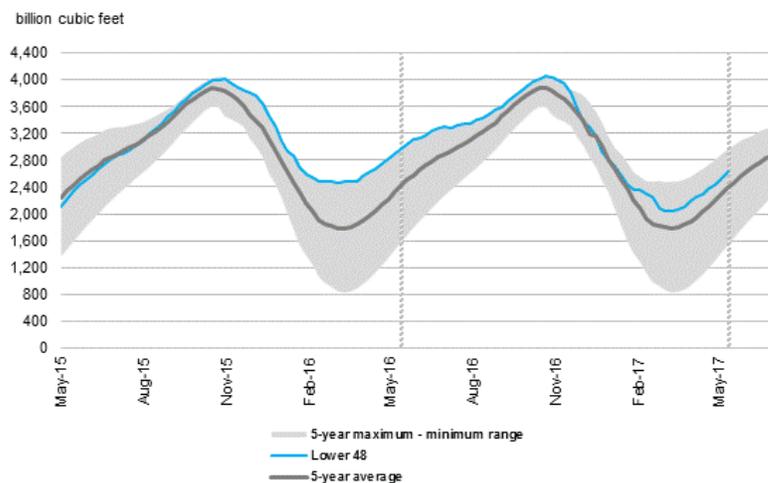
### Weekly Natural Gas Storage Report

For week ending June 2, 2017 | Released: June 8, 2017 at 10:30 a.m. | Next Release: June 15, 2017

Region	Stocks billion cubic feet (Bcf)				Historical Comparisons			
	06/02/17	05/26/17	net change	implied flow	Year ago (06/02/16)		5-year average (2012-16)	
					Bcf	% change	Bcf	% change
East	457	419	38	38	556	-17.8	506	-9.7
Midwest	614	585	29	29	676	-9.2	525	17.0
Mountain	172	166	6	6	182	-5.5	142	21.1
Pacific	289	258	11	11	307	-12.4	291	-7.6
South Central	1,119	1,097	22	22	1,242	-9.9	930	20.3
Salt	345	342	3	3	370	-6.8	267	29.2
Nonsalt	774	755	19	19	872	-11.2	663	15.7
<b>Total</b>	<b>2,631</b>	<b>2,525</b>	<b>106</b>	<b>106</b>	<b>2,963</b>	<b>-11.2</b>	<b>2,394</b>	<b>9.9</b>

These columns indicate where we are and where we are headed. This is forward-looking data. We are 11% behind last year, but a bit ahead of the 5 year average.

Working gas in underground storage compared with the 5-year maximum and minimum



Source: U.S. Energy Information Administration

The graph shows a blue line (where we are at), black line (the 5 year average), grey range (the 5 year range). Looking at the most current trend, demand looks like it is going to rise in June (remember which season that we are in CDD demand).

**2. Inventories:** We get information from the USDA (US Department of Agriculture) <https://www.usda.gov/>. We are able to get a sense of whisper numbers at: [www.celsiusenergy.net](http://www.celsiusenergy.net). This is a Canadian guy, who put this site together. This is an awesome site! You can get updates here: <http://stocktwits.com/ForceMajeure>.

This site from Force Majeure helps with CL and NG numbers. It provides commentary on the numbers in relation to consumption. Its estimates come out on Wednesdays (whisper numbers).

Another excellent site is: <https://www.platts.com/>. It is a good site, but costs \$50/month. The latest example of good information it provided about Qatar, and the fact that it is the largest LNG producer (Liquefied Natural Gas).

With Trump, Saudi Arabia and Egypt putting pressure on them to close off the Suez canal, European countries now have to look at other sources... and who is #2?... Saudi Arabia.

**3. Weather:** Weather affects ALL markets. It has a huge effect on NG. Traders look at weather reports – not at the temperature, but at seasonality versus the past associated to “degree heat days”.

In the winter, + HDD (Heat Degree Days) means an increased demand for NG. In the summer, +CDD (Cool Degree Days) means increased demand for NG for a/c.

The future dictates the trend. Today affects the future. Utilities get serviced first when shortages are a fact of current status. All hedgers, speculators overall get shut out, so they have to look to the futures markets.

We look for a 10-15 day weather forecast for a power and storage mix referencing the Energy Flash Report by Andy Weissman at <http://ebwanalytics.com/energy-flash-report-1/> . It costs \$99/month.

When there is excess production, we go bearish. The front month has the most volume while the following months are more spread out, so you can plan your margin by taking the first month as the biggest consideration.

It is like a garden hose, with the front of the hose that is whaling in all directions as the front month the rest of the hose representing the following months... there is not as much to worry about.

#### Use contract-specific charts

Do not use unadjusted charts. Current price can be .03 (3 cents) behind contract-specific charts, which means that you could get stopped out without even realizing it because you can't see the zone properly. It looks like you have breathing room when you don't. \$.03 is \$300 and is the difference between a good entry and a bad stop.



We use supply and demand to be the buyer in the October contract. Fundamentals give a lead to let you know what to look for, depending on the season.

Volume: For volume, go to the CME group site: <http://www.cmegroup.com/> to see settlement, which tells us how much Open Interest (OI) there is. 92,000 contracts for NG, but OI goes from 150k (Sep) to 184k (Oct) to 110k (Jan 2018), which is more than the CAD (60k), AUD (70k) and GBP (100k).

We can be looking at a .30 to .60 rise in price by January 2018. The markets anticipate the January price increase, however, inventories will play a role here, so you can't get caught off-guard. Those are things we need to look at.

**4. Commitment of Traders Reports:** We see falling price action. We see rising OI and the report shows who is buying the physicals. The CFTC is the securities and exchange commission of futures.

You can do data market analysis from these reports. The non-commercials and the commercials are what you want to look at. The non-commercials are more unbiased, consistent and can be used as a correlation against commercial action.

Although commercials are more reliable in terms of final numbers, you have to be careful to consider the settlement time frame between 2:28 pm - 2:30 pm.

A market maker will put a move on and spend \$50k in the last minute to get a minor spike so as to affect the other end of the overall investment they are making in the market that they are really focused on. So traders need to be careful when closing out a trade or considering a move up.

A great site for a comparison Commitment of Traders Report is at: <https://www.barchart.com/futures/commitment-of-traders> The service is free.

- Long positions      Long positions can be built from this report. You can see the market makers who are building positions from the chart. Speculators are below that.
- 0 (even)
- Short positions



#### The Commitment of Traders Report

- Commercials, consisting of Producer/Merchant/Processor/User and Swap Dealers (Red Line)
- Non-Commercials or Large Speculators, consisting of Managed Money and Other Reportables (Green Line)
- Small Speculators (Blue Line)

#### The Commitment of Traders Disaggregated Report

- Commercials - Producer/Merchant/Processor/User (Red Line)
- Commercials - Swap Dealers (Green Line)
- Non-Commercial - Managed Money (Blue Line)
- Non-Commercials - Other Reportables (Orange Line)

Another site to go to is: <http://www.cotbase.com/>

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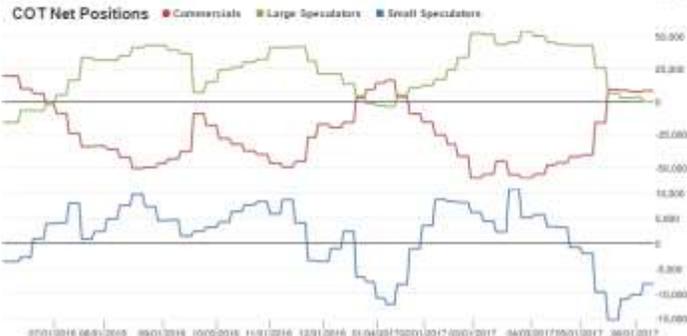
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#### Australian Dollar As of 09/09/2017



Here, you can see overall where the large, medium and small traders are in respect to each other. As pros, we wait for the market to come to us. We can see that over the next 6 weeks, there will be large appreciation.

Look at the volatility of the front month. Daily ATR is used to measure volatility. The further away in time, the less volatility there is. We are tying up capital, so we have to look at the front month volatility as the largest factor.

The futures experts at OTA are putting together a worksheet that will allow you to plug in all the numbers and risk associated to futures trades that will tell you exactly what you should invest in based on numbers of contracts (based on your account size), risk associated, etc.

In the Mastermind clubhouse, there is more fundamental talks from Steve Moses (Tuesdays), John Rowland (6 pm third Thursday) and Dan Sugar as well.

John trades Futures and Options only from a position of strength in his futures positions. John does covered calls at the target level and synthetic puts or calls as well. In the Power Trader Nation blog, there is focus on the ES with Steve Moses and he does a weekly chart on the SPY ETF.

John covers odds enhancers, the picture of price, fractals, gap trading, MLTF (multi level time frame) recognition, as well as he covers the anatomy of crashes.

Use the mastermind grid every day for reference to put your trades on. It is all about risk management, core strategy and psychology. This is what can provide students with consistent results.

Most of the challenge is about psychology, so don't panic and put on set-and-forgets at 8:00 am and close out trades before 11:00 am. That's what has been working for one student, who, after 5 months is getting over 60% wins.