

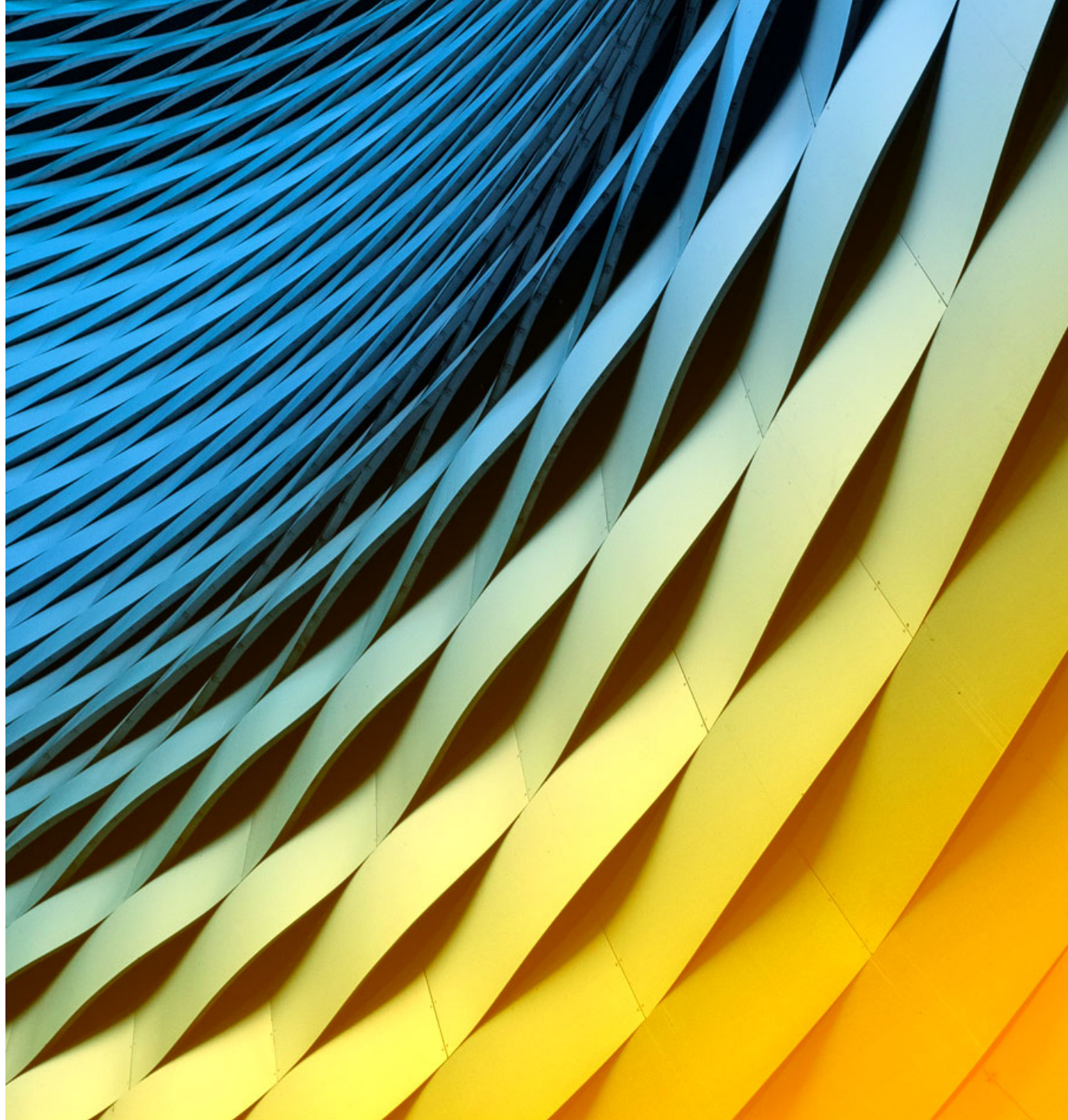
CME Group – WTI Crude Oil: Life In The 60s & Beyond

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March 18, 2021



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18th March 2021
Presented by David Lo

WTI Crude Oil : Life In The 60s & Beyond

Is The Party Ending For Oil Bulls Or Just Getting Started?

Webinar Session Agenda

- Overview and Technical Outlook of current Crude Oil prices
 - Key factors to watch for Crude Oil prices
 - Current phase of market momentum & market psychology
 - Potential price direction scenarios
- Opportunities with CME Group Crude Oil Contracts
 - Tools available in the CME suite of contracts
 - Strategies to trade the current market cycle of Crude Oil market

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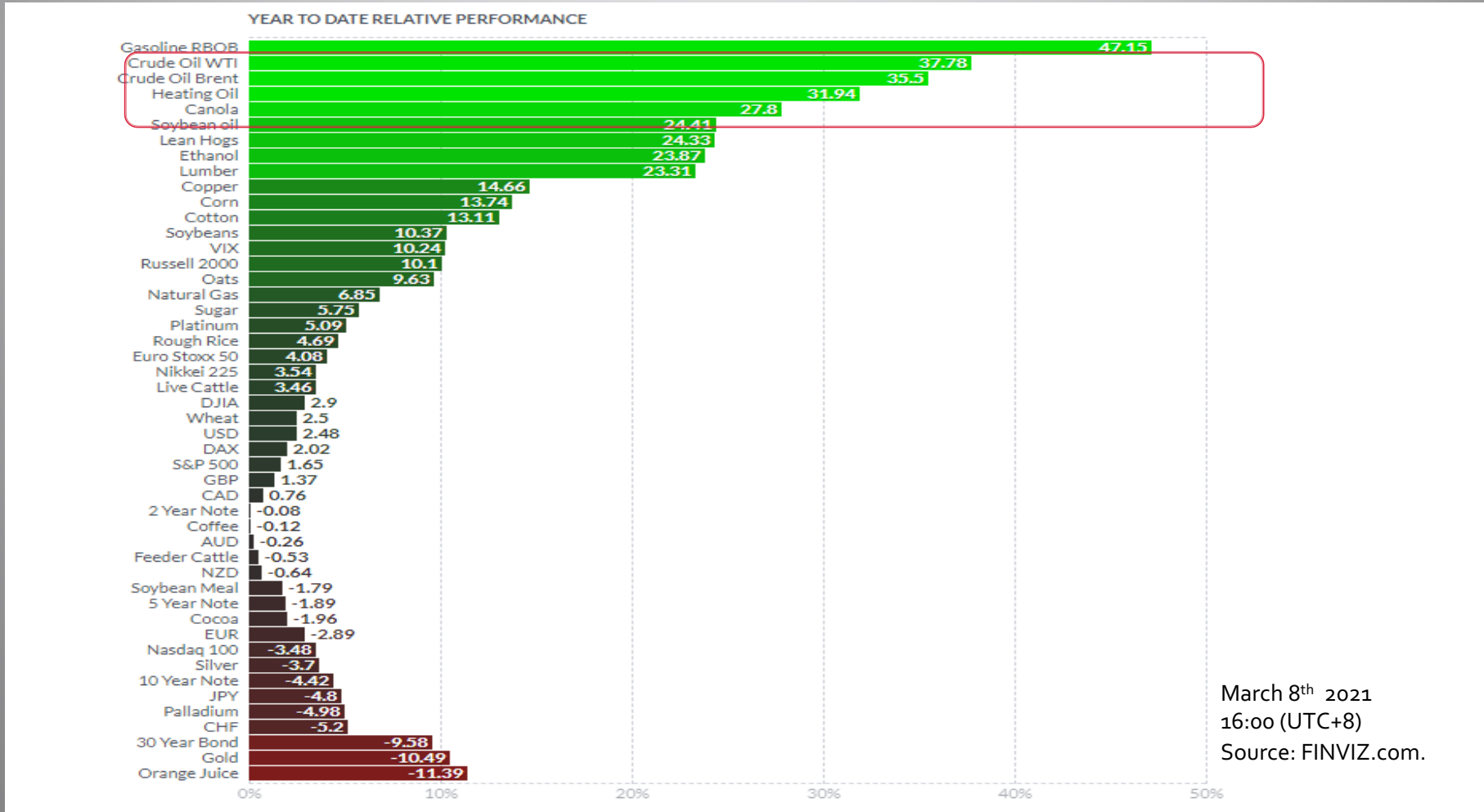
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Year To Date 2021 – Energy Wins

Impressive relative performance vs other sectors

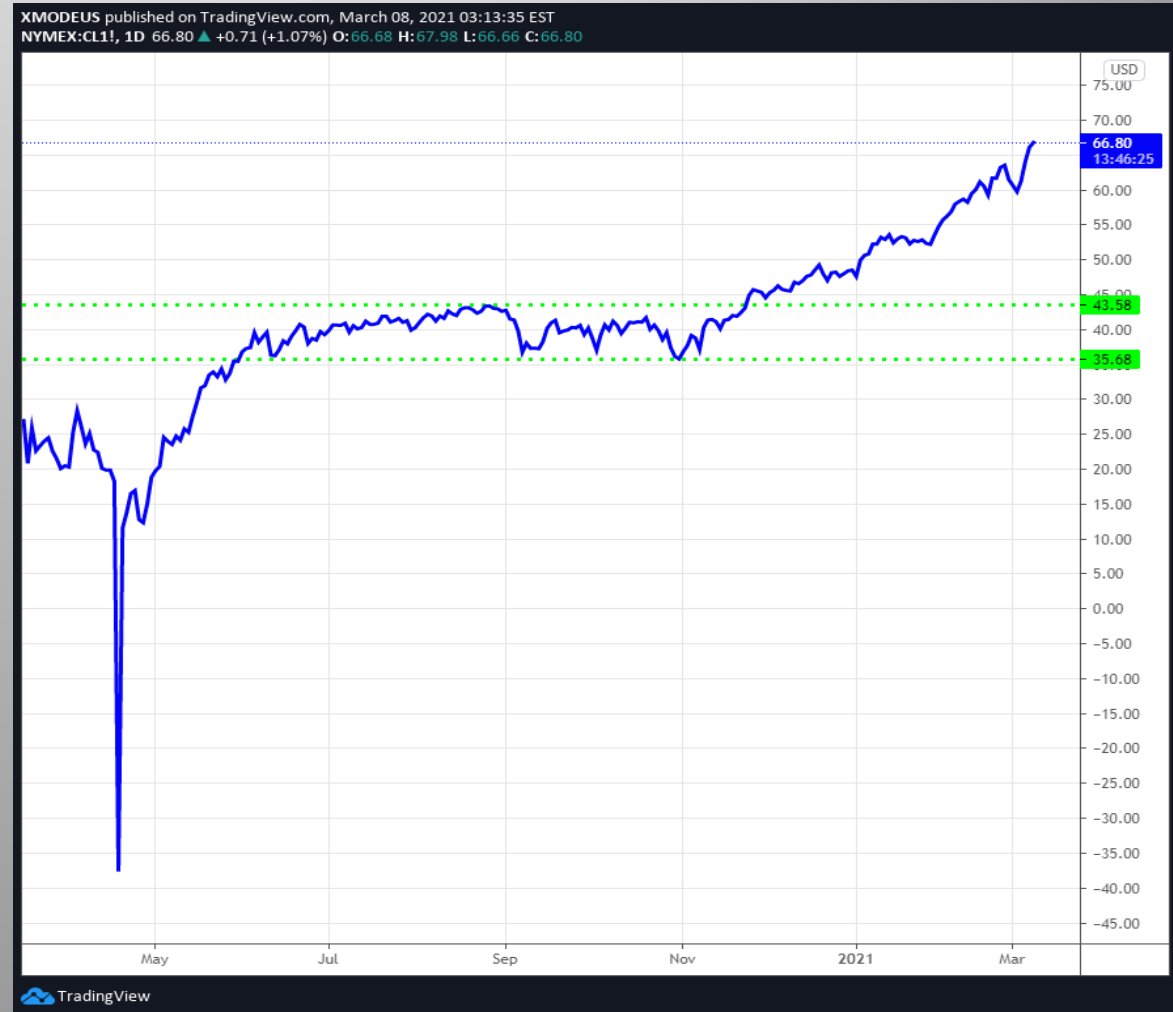


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WTI's Remarkable Recovery

The Incredible Ascent From The Depths of The Abyss

- WTI Crude Oil gained over 37% YTD to reach a peak of near \$68 on 8th March 2021.
- Coming off the never seen before low of minus \$40.32 in April 2020, WTI made a sharp recovery from lows to consolidate between \$33-43 from mid June to November 2020
- The November nominated low at 33.64 formed the base for the strong surge to current highs, doubling its price to trade above 66 in 4 months.
- The April 2020 lows appears to have formed a sustainable long term bottom for WTI Crude Oil



WTI - Key Drivers Currently In Play

BULLISH

- Extreme **cold weather** curtails Texas supplies
- **Russian production affected** similarly by frigid weather
- **Potential** for increase in oil demand as vaccine roll out buoys hope of **global economic recovery**
- **OPEC+ policy to** continue holding output & **keeping cuts in place**
- **Geopolitical risk in the Middle East**
- **Commodity fund buying** - very attractive positive rollover yield on the futures curve

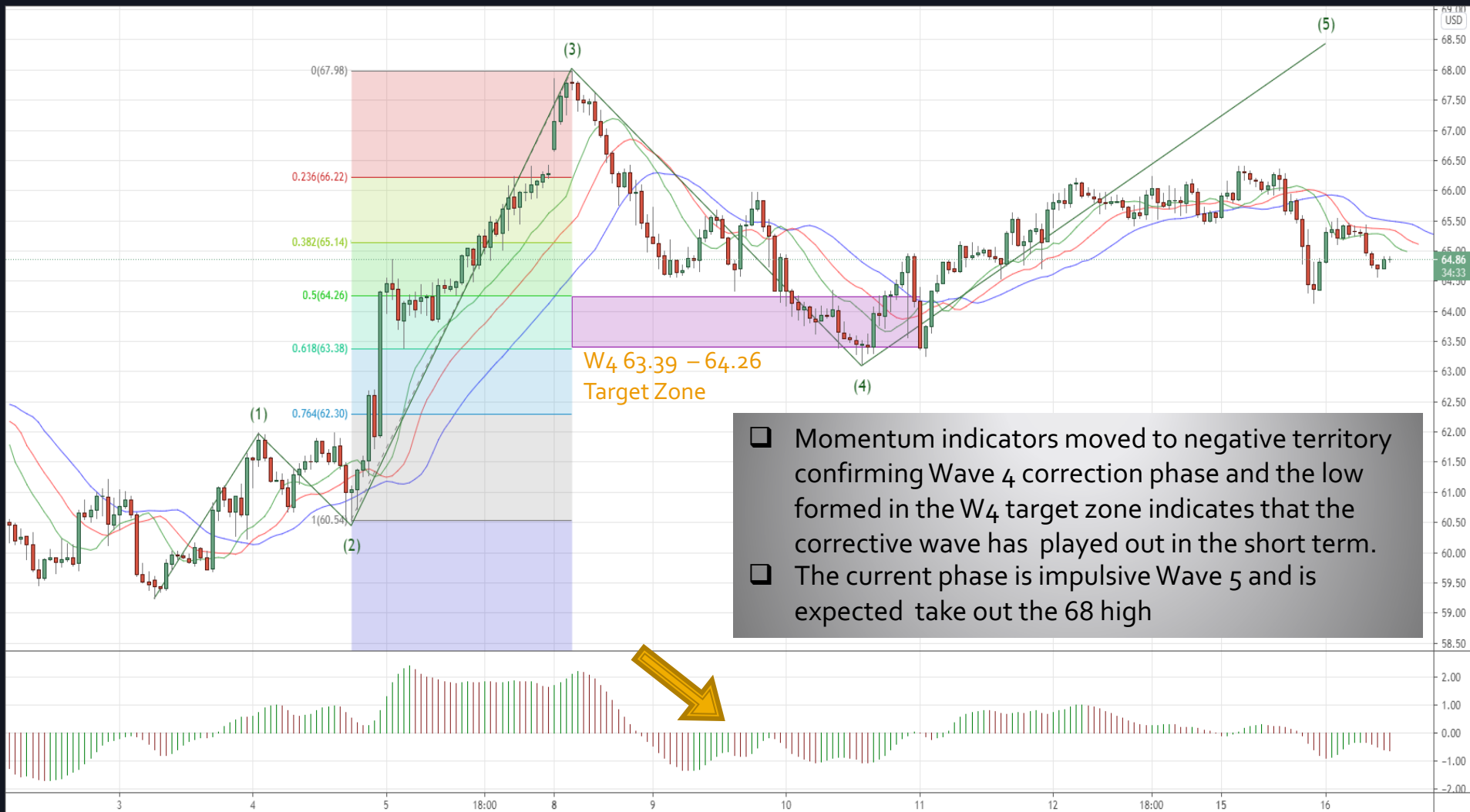
BEARISH

- Demand **recovery still uncertain** at this stage and vaccine elation may quickly dissipate if Covid-19 numbers surge as lockdowns around the world ease
- Higher oil prices encouraging US energy firms to **reopen rigs and increase supply** into the market
- Harsh **cold weather unlikely to sustain** for the long term as warmer months approach

Near Term Correction After 68 Test

Short term hourly wave structure completes W₄ corrective phase

XMODEUS published on TradingView.com, March 16, 2021 12:25:29 +08
NYMEX:CLJ2021, 60 64.86 ▼ -0.53 (-0.81%) O:64.86 H:64.91 L:64.82 C:64.86



The Music Is Now in Full Swing

Monitor for imminent corrections at W₃ target zones

XMODEUS published on TradingView.com, March 16, 2021 00:14:44 EDT
NYMEX:CL11, 1D 64.88 ▼ -0.51 (-0.78%) O:65.33 H:65.43 L:64.57 C:64.88



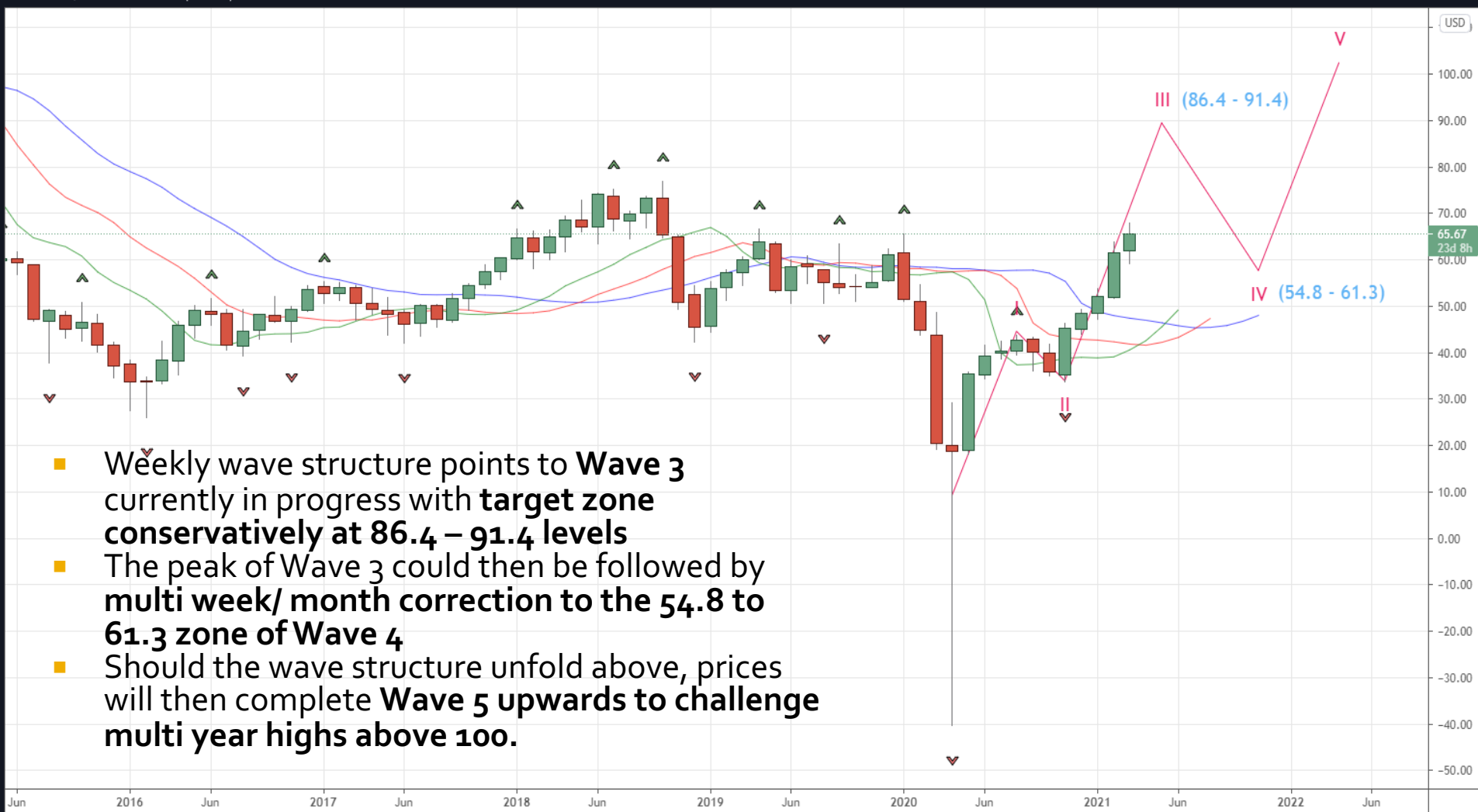
72.46 – 74.83
Target Zone

Momentum indicators continue to make new peaks suggesting the Wave 3 extension is still in progress . Calculated target zones for W₃ peak is likely between 72.46 – 74.83. A very extended target for Wave 3 is 88.58

Is There Life After Sixty?

Weekly wave structure suggests prices above 100

XMODEUS published on TradingView.com, March 08, 2021 21:12:42 +08
NYMEX:CL1!, 1M 65.67 ▼ -0.42 (-0.64%) O:61.95 H:67.98 L:59.24 C:65.67



- Weekly wave structure points to **Wave 3** currently in progress with **target zone conservatively at 86.4 – 91.4 levels**
- The peak of Wave 3 could then be followed by **multi week/ month correction to the 54.8 to 61.3 zone of Wave 4**
- Should the wave structure unfold above, prices will then complete **Wave 5 upwards to challenge multi year highs above 100.**

Explore Trading Opportunities with NYMEX WTI Crude Oil Futures & Options Contracts

WTI Crude Oil Futures (CL)

- WTI Crude oil futures are the **West Texas Intermediate**, (WTI) or **light sweet crude oil** that is stored and distributed in Cushing, Oklahoma
- Global benchmark** futures contract for oil prices
- Traders use WTI Crude Oil futures to **hedge against adverse oil price** moves or **speculate** on whether prices will rise or fall
- Nearly 24-hour access** enables traders to act, not wait, as major events unfold
- WTI Futures traded over **1.35mil contracts daily in 2020***

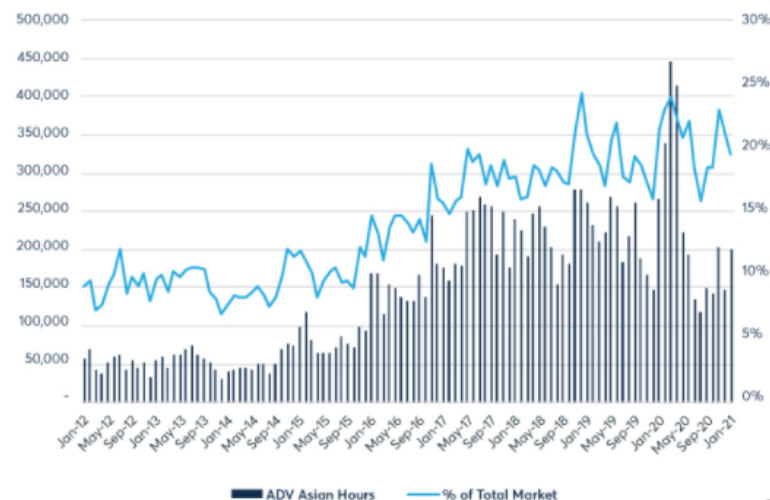
CONTRACT SIZE	1000 barrels
MINIMUM TICK	\$0.01 per barrel
DOLLAR VALUE OF ONE TICK	\$10 U.S. Dollars
PRODUCT SYMBOL	CL
TRADING HOURS	Sunday - Friday 5:00 p.m. – 4:00 p.m. CT with a 60-minute break each day at 4:00 p.m. CT
CONTRACT MONTHS	Monthly contracts listed for the current year and the next 10 calendar years and 2 additional contract months.
TRADING VENUE	CME Globex offers electronic trading almost 24 hours/6 days a week
OPTIONS AVAILABLE	Quarterly, Monthly, Weekly

* Source: NYMEX/COMEX Exchange ADV Report – Monthly (Feb 2021)

Asian Hours WTI Trades Surge

- Asian hour trading average daily volumes grew from less than 10% of total daily volume to more than double.
- Average 21% of the daily volume for WTI Futures was from Asian hours in 2020.

CME WTI Futures Average Daily Volume (ADV) During Asian Hours as % of Total Market



* Source: CME Article: "Asia Remains Key Destination for US Crude Exports" (2 Mar 2021)

Crude Oil Options (LO)

- Provides traders opportunities to benefit from price movements of Crude Oil with **less capital requirements**.
- Calls and puts can be bought at **premiums comparatively less costly** than a Futures margin.
- Do note, however, that if the option expires worthless, the amount paid (premium) for the option is lost, **The maximum risk is limited to the cost of the premium.**
- Combinations of various Call and Put options provide **additional flexibility and strategy alternatives** for changing market situations.
- Crude Oil Options (LO) actively traded over **162k Average Daily Volume in 2020***

CONTRACT SIZE	1000 barrels
MINIMUM TICK	\$0.01 per barrel
DOLLAR VALUE OF ONE TICK	\$10 U.S. Dollars
PRODUCT SYMBOL	LO
TRADING HOURS	Sunday - Friday 5:00 p.m. – 4:00 p.m. CT with a 60-minute break each day at 4:00 p.m. CT
CONTRACT MONTHS	Monthly contracts listed for the current year and the next 10 calendar years and 2 additional contract months.
TRADING VENUE	CME Globex offers electronic trading almost 24 hours/6 days a week
EXERCISE STYLE	American
UNDERLYING	Light Sweet Crude Oil Futures

* Source: NYMEX/COMEX Exchange ADV Report – Monthly (Feb 2021)

Weekly Crude Oil Options (LO 1-5)

- Weekly Friday expiration options
- Flexibility to manage short-term volatility and risk
- Precision timing to target specific market movements or events like OPEC meetings

CONTRACT SIZE	1,000 barrels
MINIMUM TICK	\$0.01 per barrel
DOLLAR VALUE OF ONE TICK	\$10.00 U.S. Dollars
PRODUCT SYMBOL	LO1-LO5
TRADING HOURS	Sunday - Friday 5:00 p.m. – 4:00 p.m. CT with a 60-minute break each day at 4:00 p.m. CT
LISTED CONTRACTS	Weekly contracts listed for 4 consecutive weeks. No weekly contract listed the week of the monthly expiration..
TRADING VENUE	CME Globex offers electronic trading almost 24 hours/6 days a week
EXERCISE STYLE	American
UNDERLYING	Light Sweet Crude Oil Futures (CL)

Trading Bullish Markets (Futures)

Bullish Scenario – WTI Crude Oil Futures (CL)

■ Example

- Suppose April WTI Futures (CL) is trading at \$60.00; each CL Futures contract covers 1000 barrels of Crude Oil. A futures trader enters a **long futures position** by buying 1 contract of **April WTI futures at \$60 a barrel**.

■ Scenario #1: April WTI Futures rises to \$62

- If April WTI Futures rallies to \$62, then the long futures position will gain \$2 per barrel. Since the contract size for WTI futures is 1000 barrels, the trader will have a gain of $\$2 \times 1000 = \2000 gain.

■ Scenario #2: April WTI Futures drops to \$58

- If April WTI Futures is trading at \$58, then the long futures position will suffer a loss of $\$2 \times 1000$ barrels = \$2000 loss.

Trading Bullish Markets (Options)

Bullish Scenario – Long Crude Oil Call Options (LO)

- **Example**
 - Suppose **April WTI Futures (CL)** is trading at \$60 and At-The-Money (ATM) **April Crude Oil 60 Calls** is trading at \$2.00 . A trader enters a **Long Call position** by buying 1 contract of **April Crude Oil (LO) 60 Calls** at \$2 a barrel . Since LO is a 1000 barrel contract, the trader will pay **\$2000 as premium for the Call option**,
- **Scenario #1: April WTI Futures rises to \$65 on expiration**
 - If April WTI Futures rallies to \$65 on expiry, then the long Call position will **In-The-Money** by \$5 per barrel. Since the contract size for Crude Oil Options is 1000 barrels, the Call Option will be worth $\$5 \times 1000 \text{ barrels} = \5000 . Since the trader paid \$2000 for the option, the trader **nets a gain of \$3000**.
- **Scenario #2: April WTI Futures drops to \$55 on expiration**
 - If April WTI Futures is trading at \$55 on expiry, then the long Call position will be **Out-Of-Money** by \$5 per barrel. On expiration, all OTM Options will expire worthless. Trader will suffer a loss of **\$2000, the maximum loss** of holding the option.

Note: For simplicity, the above examples show final option values at expiration; over the life of an option, its value can vary depending on the factors (Option Greeks) impacting option prices

Trading Bearish Markets (Futures)

Bearish Scenario – WTI Crude Oil Futures (CL)

■ Example

- Suppose **April WTI Futures (CL) is trading at \$60.00**; each CL Futures contract covers 1000 barrels of Crude Oil. A futures trader enters a **SHORT futures position** by selling 1 contract of **April WTI Futures at \$60 a barrel**.

■ Scenario #1: April WTI Futures drops to \$58

- If April WTI Futures declines to \$58, then the short futures position will gain \$2 per barrel. Since the contract size for WTI futures is 1000 barrels, the trader will have a gain of $\$2 \times 1000 = \2000 gain.

■ Scenario #1: April WTI Futures rises to \$62

- If April WTI Futures is trading higher at \$62, then the short futures position will suffer a loss of $\$2 \times 1000$ barrels = \$2000 loss.

Trading Bearish Markets (Options)

Bearish Scenario – Long Crude Oil Put Options (LO)

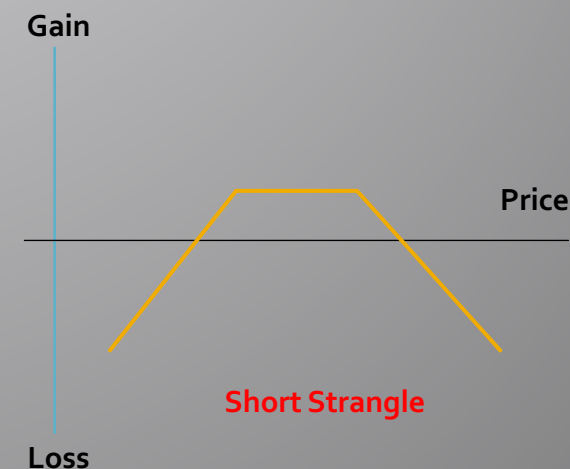
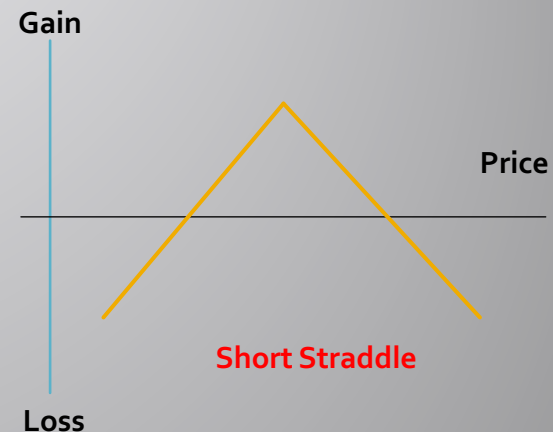
- **Example**
 - Suppose **April WTI Futures (CL)** is trading at \$60 and At-The-Money (ATM) **April Crude Oil 60 Put** is trading at \$1.90 . A trader enters a **Long Put position** by buying 1 contract of April Crude Oil 60 Put at \$1.90 a barrel. Since LO is a 1000 barrel contract, the trader will pay \$1900 as premium **the Put option**,
- **Scenario #1: April WTI Futures drops to \$55 on expiration**
 - If April WTI Futures drops to \$55 on expiry, then the Long Put Option will be **In-The-Money** by \$5 per barrel. Since the contract size for Crude Oil Options is 1000 barrels, the Put Option will be worth $\$5 \times 1000 \text{ barrels} = \5000 . Since the trader paid \$1900 for the option, the trader nets a gain of \$3100.
- **Scenario #2: April WTI Futures rises to \$65 on expiration**
 - If April WTI Futures is trading at \$65 on expiry, then the Long Put position will be **Out-Of-Money** by \$5 per barrel. On expiration, all OTM Options will expire worthless. Trader will suffer a **loss of \$1900, the maximum loss** of holding the option.

Note: For simplicity, the above examples show final option values at expiration; over the life of an option, its value can vary depending on the factors (Option Greeks) impacting option prices

Trading Range Bound markets

- **Sideways Market Scenario – Crude Oil Options**
 - **Short Straddle** - Selling both a LO Call option and an LO Put option with the **same strike price and expiration date**
 - **Short Strangle**- Selling both a LO Call option above the current CL price and a LO Put option below the current CL price both with the **same expiration date**
 - **Maximum gain is amount of premium collected** from selling the option combination.
 - **Potential loss is Unlimited.**

Note: Please check with your broker on your ability to write/ sell naked options on your trading account.



Reduce Your Risk & Maximize Your Trading Opportunities

Creating Reduced Risk Trading Opportunities

The Traders Dilemma:-

- Not having a **protective stops strategy**
- Inability to pull the trigger after a **drawdown**
- Inability to re-establish the same direction trade after being **stopped out** due to near term volatility
- Inability to take a potential good trade due to the **size of protective stop loss**



The Solution: Hedging Your Futures Position with Options

The Rationale:

- Protective Stops can often get triggered by **market noise, spikes** & price volatility
- **Price gaps** from adverse news event, data surprises can devastate the best planned protective stop strategy.

Benefits of Hedging with Options:

- A defined potential maximum loss/ risk; **reduced downside risk**
- Gives trader the **space and time to reassess strategy** and validity of analysis during near term volatility
- Buying “Insurance” helps a trader **sleep 😊 better- especially over the weekend.**

Hedging Futures with Options

Implementation:

- Go Long or Short Futures according to your methodology **AND**
- Purchase 'At The Money' (ATM) or slightly "In-The-Money" (ITM) **Options in the opposite direction as 'insurance'** on your Futures position

- **Example 1 : Long Futures + Long Put**
 - Go Long 10 contracts CL April @ 60
 - Buy 10 Contracts LO April 60 Put @ 1.90

- **Example 2 : Short Futures + Long Call**
 - Go Short 10 contracts CL April @ 60
 - Buy 10 Contracts LO April Calls @ 2.00

Live Chart Setups

Q&A

- Please type questions into the chat box

