



December 2009 Issue

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Energy Trading: The Price of Good Information

Oil's Early Days

Man's use of Oil has been around for more than 5000 years, when our early ancestors discovered how valuable it was in keeping fires ablaze. This idea quickly caught on as the information and its usefulness spread throughout the Middle East and around what is now Central Asia during the 8th and 9th centuries. It wasn't until after 1850 that Oil in large volumes began to be piped over long distances into Russia and you could say that the Oil industry as we know it had really begun. The Western Oil industry began in the late 1800's when Oil was successfully drilled for in Pennsylvania and by the early 20th century the USA had overtaken Russia as the world's primary producer.

In the early days it was a simple market. In Texas at the turn of the century, small producers pumped Crude Oil out of their backyards and sold it to Standard Oil who picked up the barrels on the back of a lorry and producers blindly accepted the price paid to them. There were no benchmarks to peg the price of oil on – so producers didn't have any negotiating power or leverage to increase the value of their product. In 1909 a gentleman by the name of Warren Platt started a news publication about the industry and the beginnings of market analysis, and by default good information had begun. With the launch of the Platts Oilgram in 1923 the value of information, prices and news, began to increase and so did the value and price of that information.

The modern market can be traced to the beginnings of two Futures exchanges: Nymex with trading on West Texas Intermediate (WTI), and IPE (now ICE) with trading on Brent Crude. Information about futures prices is available from numerous sources including the website of these exchanges. The question is – what is the value of futures pricing information to the end user?

Good Information & Its Value

In general good information can be defined as raw data that has been verified to be accurate and timely; is specific and organised for a purpose; is presented within a context that gives it meaning and relevance, and which leads to an increase in understanding and a decrease in uncertainty.

The value of information therefore lies solely in its ability to affect a behaviour, decision, or outcome and its price is the amount a decision maker would be willing to pay for that information prior to making a decision.

On that basis let's take as an example that you know the front month price of Brent Crude Oil today which as I write is \$78.95. Knowing the price of something is one thing, making a decision based on it is another.

Let's assume that that price meets all the criteria above, it is accurate at that point in time and delivered in real time, it specifically relates to a product (Brent) which is defined by the exchange to a fixed specification and is organised as part of a range of prices based on future monthly dates. If someone asked me the price of Brent today I can state that price with certainty.

However, what is its value to me? The answer lies in what I do with that knowledge, what tools I use to analyse that price, and what I need to do to profit from that information. To be able to analyse that price I need to see it in relation to the prices that have come before it and to try to anticipate what the price is likely to be in the future. I also need to understand what effect other information such as supply and demand, outside events and market sentiment have on prices. All these factors combined must be taken into account before making a decision.

Tools & Information Of The Trade

The Bunker industry is probably more driven by supply and demand at specific ports than any other area of the industry. It's also critical to analyze the market for both Crude and products when brokering a deal between an owner and a supplier, and even more so when offering a risk management trade. Your view on where the market is going can help get that deal done and help to leave both parties happy with the trade.

To effectively conduct your analysis you will need a market data solution that has a price feed, a news feed and some tools such as charts to look for long term trends. There are numerous companies offering varying software products that range in price depending on the content and functionality required to conduct analysis. Most of these solutions are broadly similar in their functionality to conduct basic market analysis with features ranging from simple to complex charting and analysis; availability of key news and pricing feeds from quality, benchmark sources; simplicity of use with mobile access; and reliable, uptime of the system. Uptime is critical, as good information is worthless if you can't access it.

One such solution is AspectDSC by Aspect Enterprise Solutions. It's an online portal featuring all of the above mentioned features and trading tools for making decisions. The examples below reference information found in AspectDSC.

The primary tool for analysis is the chart which is basically a graphical representation of the price of a product over time. That timescale can be anything from a microsecond to 50 years. However in the real world you are either trading it live, in which case you need a "tick" chart to follow any movement or if you are looking for an opportunity to buy at the best price over the next couple of weeks then a daily chart such as the example below is better suited.



This is a basic candlestick chart. The candles represent 1 days trading and indicate the opening and closing price (bottom or top of the body), and the high and the low (the spikes). Green candles represent a day when the closing price was higher than the opening and the red is where it is lower.

The two lines on the chart represent a useful tool called the SMA or simple moving average. One line (orange) represents the short term, 14 day trend, i.e. the moving average price over the past 14 days and the other (blue) represents the long term, 42 day trend. These are both good indicators of the whole markets direction and where these lines cross it highlights a possible change of direction. We can clearly see for instance that the long term trend has been up for most of this year but the trend may be flattening out and the market may have found an upper limit around \$80 which it may find difficult to push through with any real conviction.

The Price Of Good Information

Understanding some of these tools is a great way to gain insight into the future direction of the market and anyone who is looking to make a transaction in Oil would benefit from having some form of price and analysis platform at their disposal.

Early man leveraged the value of Oil for its many uses and tremendous impact on daily life in keeping fires going to warm families, cook food and create light. This information was valuable and leveraged, and its value was priceless.

For traders, pricing information that can be leveraged to win millions on deals, and protect from losing millions is also priceless. Luckily that data is easily accessible and affordable. Accessing and analysing data is a necessary cost of

doing business, and is even more important today than it was in the early days of Oil information. Information sources like Platts, Bunkerspot, Nymex, ICE, Dow Jones and dozens of others create transparency of markets and offer insight through real-time and historical feeds of data that are valuable to your business. The information is even more valuable when used in decision support portals with trading tools like AspectDSC.

For more information about Aspect Enterprise Solutions visit www.aspectenterprise.com.