

Market Research

Signs of a Healthy Bull Market

Rising price is the most transparent mechanism utilized to define a bull market. Several less transparent mechanisms are extremely useful indicators to determine the relative health of a bull market. Volume, open interest and market cap can often, but not always, signal divergences that may indicate bull market sentiment is waning. So that we're all on the same page definitions:

Volume — the number of contracts traded between buyers and sellers within a specific period.

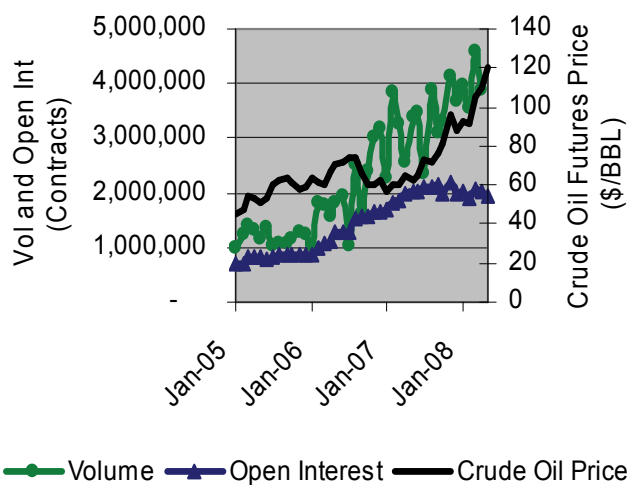
Open Interest — the number of contracts that are not closed or delivered on a particular day.

Market Capitalization — the total dollar denominated market value determined by multiplying the commodity price by the open interest for a particular day.

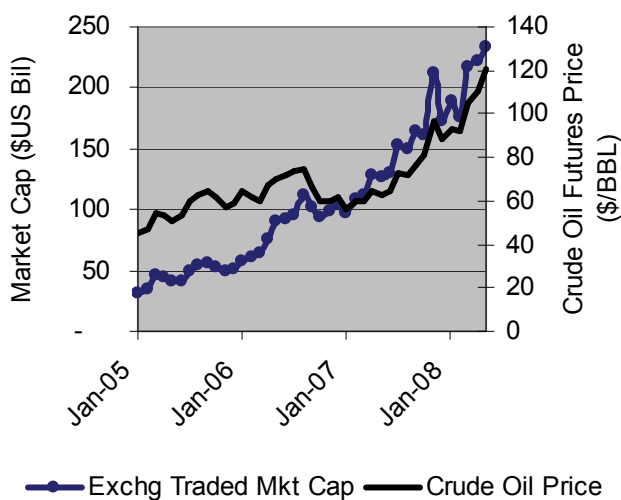
This research examined the volume and open interest of West Texas Intermediate crude oil futures contracts traded on the Nymex (pit session), Globex (electronic platform) and InterContinental Exchange (electronic platform with futures 'look-a-like' contracts) to gauge the health of crude oil's bull run, see the chart to the left. Volume clearly supports the bullish sentiment. Open Interest has flattened over the last six months, potentially indicating divergence, but more likely indicating risk management's reduced tolerance for maintaining overnight positions. Closing out positions daily can reduce margin requirements and eliminate the impact of adverse price movements between sessions.

It has been stated in previous editions that fund managers' and investors' increased allocation to the commodity sector is one factor driving the energy markets. To test this hypothesis, we examined the market capitalization of the crude oil market (Nymex, Globex and ICE) over the last three years, see the chart to the right. Market capitalization has increased from approximately \$32 billion at the end of 2004 to \$233 billion during the first week of May08. Growing market capitalization also confirms a healthy bullish sentiment. Despite this growth in market capitalization, we believe fund managers and investors remain under-allocated to the energy sector. Based upon market capitalization estimates of global bond and equity markets, we estimate crude oil exchange traded market cap should approach \$1 trillion.

WTI Price, Volume and Open Interest
(Total of Nymex, Globex, and ICE Vol and OI)



Crude Oil Exchange Traded Market Cap
(in \$US Billions)



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