The Great Oil Price Fixes And How To Trade Them

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SAMPLE

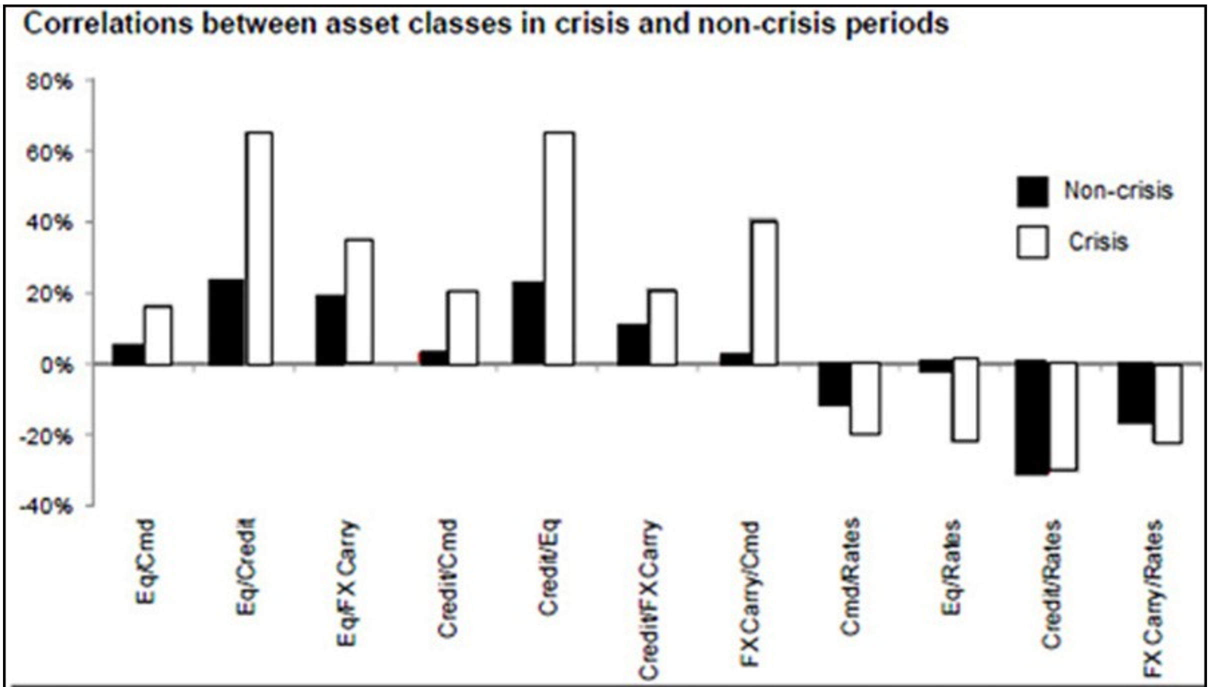
Trading Oil And Gas Market FX Correlations

There are **three key technical reasons (aside from attitudinal ones, see later *Technical Analysis* section on this) why 90% of retail traders lose all of their trading money within 90 days of commencing dealing in financial markets:**

1. **Inadequate use of risk management techniques** (see later section devoted to this absolutely crucial area of trading), in particular a failure to correctly use stop-loss and take-profit orders at the same time as putting on every single trade they do.
2. **Lack of knowledge and experience in utilising technical analysis** to discern prevailing patterns in financial markets at any given time (see later section on this subject).
3. **Insufficient awareness of the interconnectedness of trading patterns** in different products within asset classes, asset classes in general and different asset classes between various geographical locations are related to each other. This is what this section is about.

General Risk-On/Risk-Off Trading Paradigm

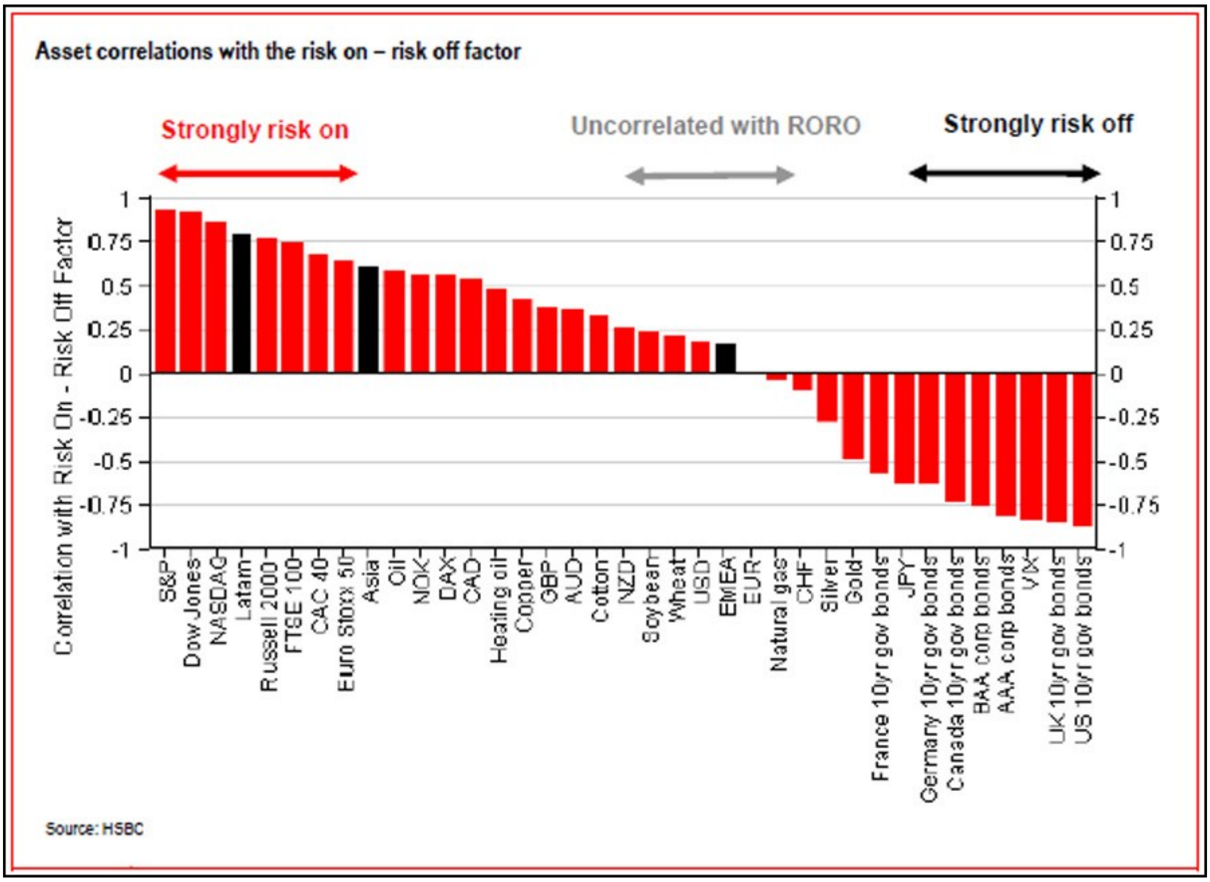
Generally, the degree to which the price action of all major financial assets are correlated positively or negatively has varied since this phenomenon fully manifested itself after the collapse of Lehman Brothers in 2008. Nonetheless, these correlations, which are a function of the risk of systemic failure across the global financial system, remain a significant common price component of all assets in all regions across the world.



Crisis periods defined as months where the past quarters returns of MSCI World are in the bottom decile. Non-crisis periods defined as months where the MSCI World returns are in the upper half of quarterly returns.

Source: Various market data inputs

When the risk of this failure rises there is a shift towards less risk-exposed assets ('risk off') and when it falls there is a move towards more risk-exposed assets ('risk on'); both conditions together being acronymically termed 'RORO'. Either way, the fact that the prices of apparently disparate individual assets move in tandem (either positively correlated or inversely correlated) means that classical methods of maximising returns whilst minimising risk will remain sidelined for the foreseeable future, calling for shrewder and nimbler investment approaches going forward.



Consequently, in risk-on environments, one might prefer a higher allocation to selected commodities (including oil and gas) that are likely to respond well to increased appetite for risk, instead of holding straight cash (ultra risk-off) or government bonds (where the risk rises according to which country's bonds are held) or related developed market currencies, and then a risk-weighted allocation to exposures such as equities, emerging market currencies and selected commodities if an element of higher risk/higher reward profile is required.

This might be considered a bar-bell approach to risk/return, with the former flight to quality exposures in government bonds being sized to zero in favour of more cash and an appropriately sized allocation to riskier exposures.

This said, the **idea of what may be classed as 'safe-haven' assets or 'risky' ones has changed much in a short time and continues to do so at a fast pace**.

The Great Oil Price Fixes And How To Trade Them
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Published by ADVFN Books

ADVFN BOOKS

Available in paperback and for the Amazon **Kindle**.