

Introduction To ICIS Technical Analysis



Webinar logistics

- ▶ This is a pre-recorded webinar
- ▶ There will be a live Q&A session at the end of the presentation
- ▶ If you have technical problems, please use the 'Raise Hand' function
- ▶ If you would like to ask a question at any point during the presentation, please submit it via the 'Q&A' function at the bottom of your screen
- ▶ I will try to answer as many questions as possible at the end of the webinar
- ▶ Finally, the recording and the slides will be available after the event

Agenda

► Introduction to technical analysis (TA)

- What is TA and how does it compare to fundamental analysis?
- How can TA improve trading performance?
- Why is TA important in European energy markets?
- Criticism fielded against TA

► Introducing The ICIS Technical Analysis Report

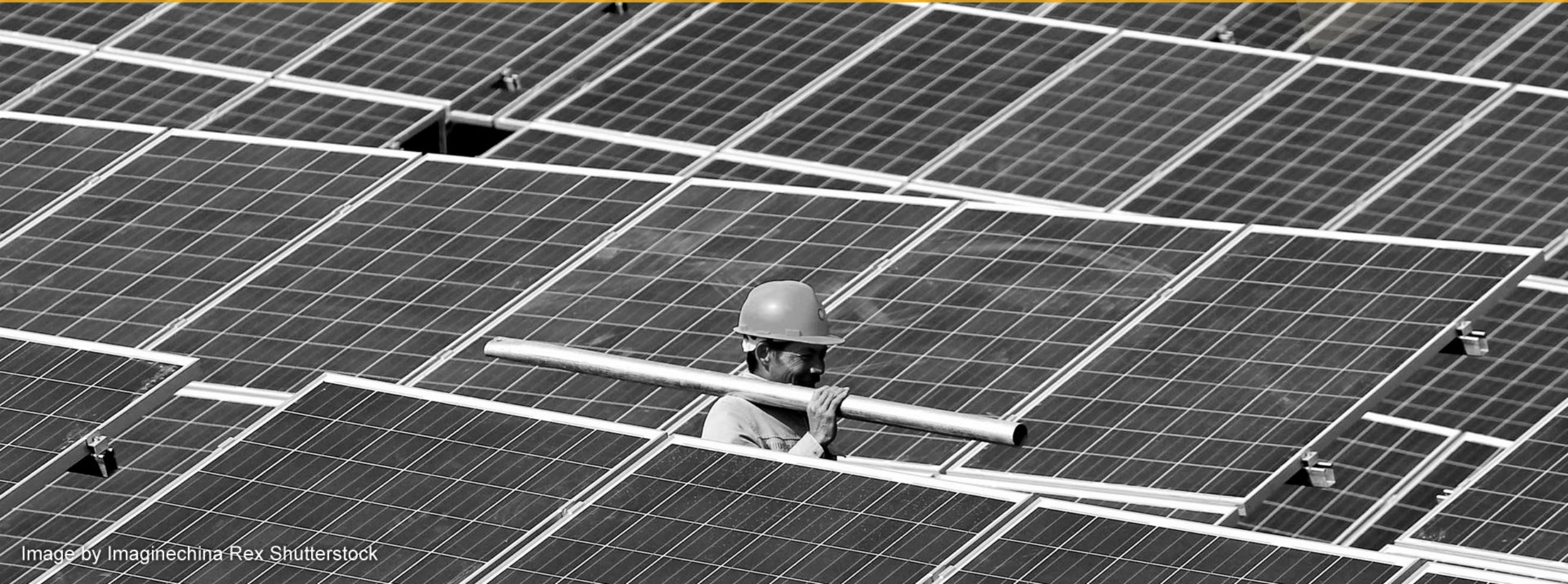
- Who, what, when, where and why – introducing the ICIS TA report
- Anatomy of the ICIS TA report and how to make the most of it

► Practical tips for TA

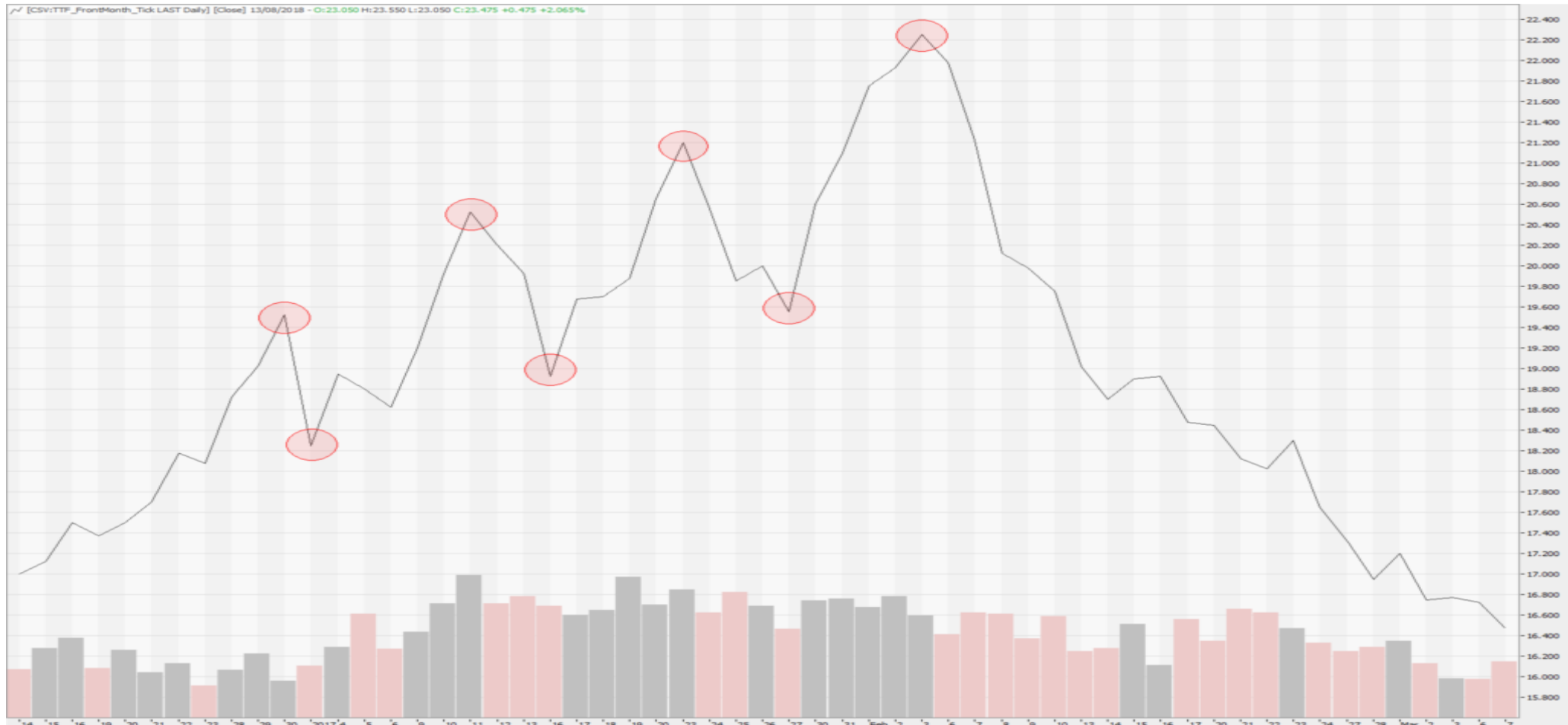
► Summary

► Q&A

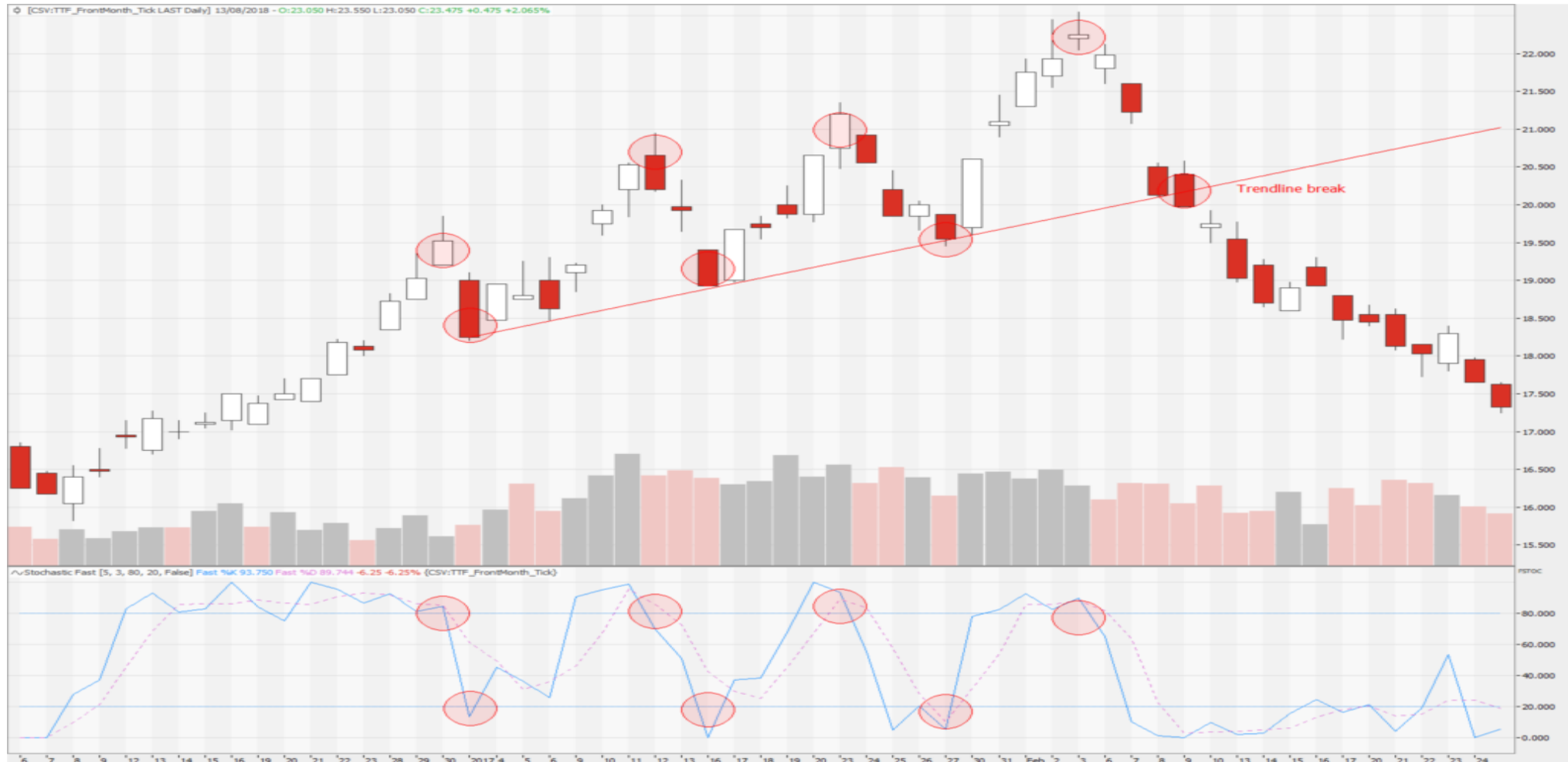
Introduction To Technical Analysis (TA)



A fundamental view



A technical view



What is TA?

- ▶ TA is the study of price, volume and open interest to identify likely future price developments in financial markets.

Fundamental versus technical analysis

Fundamental Analysis	Technical Analysis
Tries to establish the <u>perceived value</u>	Focuses on <u>price action</u> and ignores perceived value
Considers factors such as weather, system balance, outages, withdrawal rates, domestic consumption.	Focuses exclusively on price action because everything that is known is already reflected in the price. Price is the ultimate truth.
Once a fair price is established, traders buy if they think the current price is cheaper than fair value and sell if price is higher than fair value.	Identifies trends and their strength. Positions are reviewed at potential inflection points. This allows to cut losses and run with gains.
Giving price targets and evaluating the impact of an event is tricky	Clear support/ resistance levels can be given and price targets can be calculated
Decisions can be reactive	Helps to step outside the herd and provides early warnings
The market is mostly logical	The market is mostly psychological
Focuses on <u>“Why”</u>	Focuses on <u>“Where”</u>

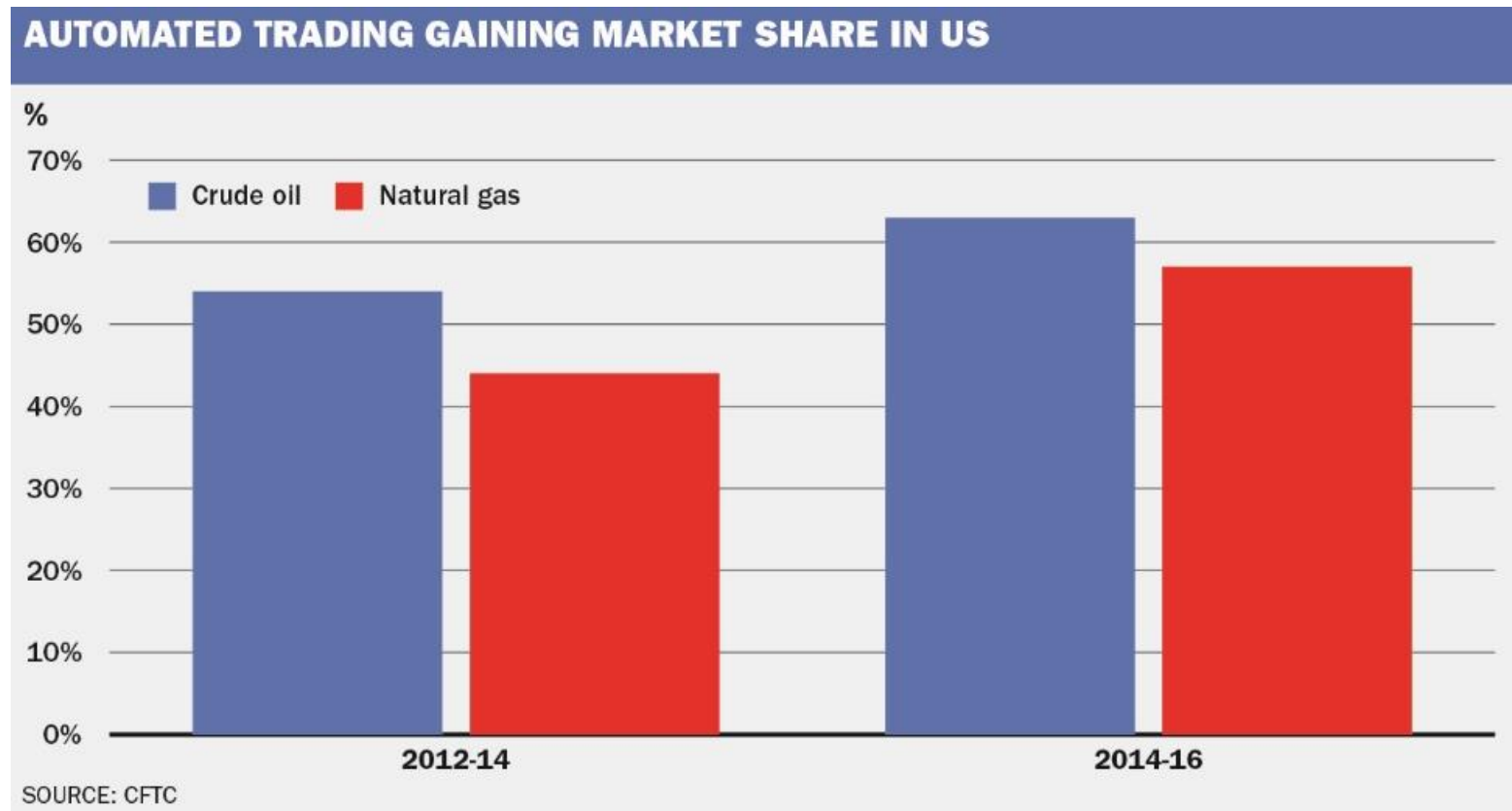
How can TA improve trading performance?

- ▶ Timing market entry and exit
- ▶ Limiting risk by knowing when a trade turns bad
- ▶ Identifying trends and profit from them
- ▶ Identifying trend strength

Why is TA important in European energy markets?

- ▶ More global players than ever before are paying close attention to European energy markets as US LNG vessels start reaching continental shores.
- ▶ This globalisation of European energy markets might convince banks to re-enter European energy markets in the future.
- ▶ Following the technology's proliferation across equities, foreign exchange and other commodities, European energy markets are the next logical step.
- ▶ European gas traders are increasingly looking to algorithmic trading methods to gain a competitive edge in the fast-moving energy markets.

Why is TA important in European energy markets?



Criticism fielded against TA: Self-fulfilling prophecy

► Argument:

- TA only works because everyone is looking at the same tools. If, for example, traders look at an indicator that predicts bullishness, traders will enter the market as bulls which drives the price up, overwriting rational market information.

Criticism fielded against TA: Self-fulfilling prophecy

► Rebuttal:

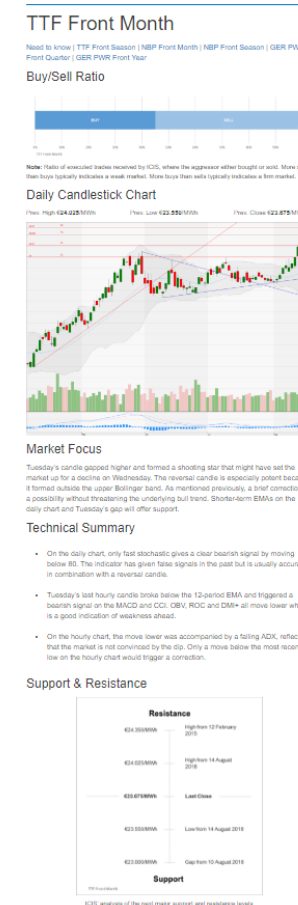
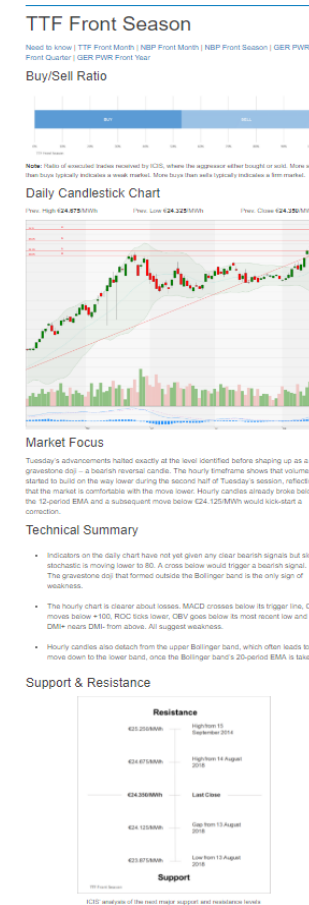
- If that was true, why shouldn't we use TA?
- Yes, some common levels/ indicators are closely watched and the market can react to that but not in the long-term
- There is enough sceptics and people unfamiliar with TA so there will never be a dominant party
- There is too many tools and too many interpretations of the tools
- TA reflects price moves, TA does not direct price moves
- Traders act in different timeframes, hold different positions, have varying financial resources, TA knowledge, and mind sets. No one group could dominate the market

Introducing The ICIS Technical Analysis Report



Who, what, when, where and why – introducing the ICIS TA report

- In May 2018 ICIS started publishing its daily TA report
- Around 4000 readers receive the report on every UK work day at around 7:00am London time
- It covers:
 - TTF front month
 - TTF front season
 - NBP front month
 - NBP front season
 - German power front quarter (baseload)
 - German power front year (baseload)



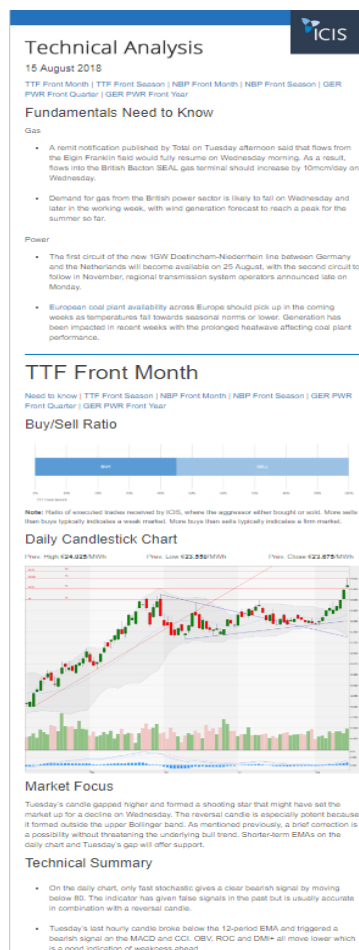
Who, what, when, where and why – introducing the ICIS TA report

- ▶ The report is a direct result of ad-hoc customer feedback and countless detailed customer interviews
- ▶ ICIS identified the need for timely, reliable, high-quality technical analysis that also covers fundamental basics
- ▶ ICIS TA offers a second opinion that can be cross referenced with own ideas
- ▶ We are constantly looking to expand our coverage to make traders' life just a little easier

Anatomy of the ICIS TA report and how to make the most of it

Technical analysis

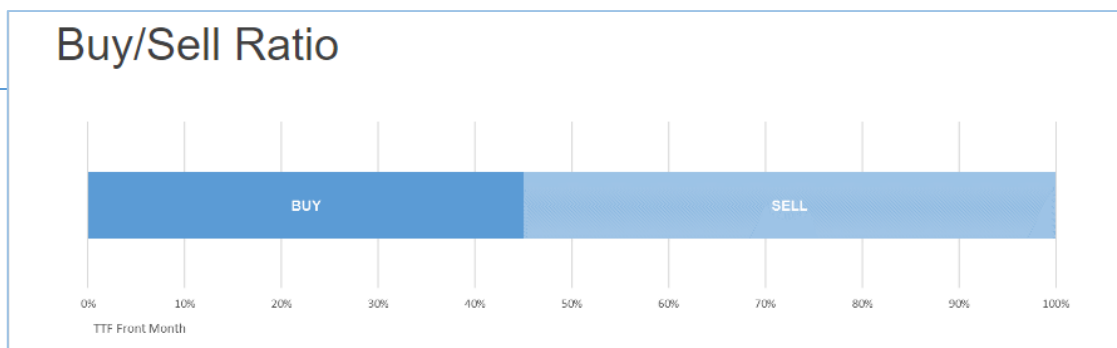
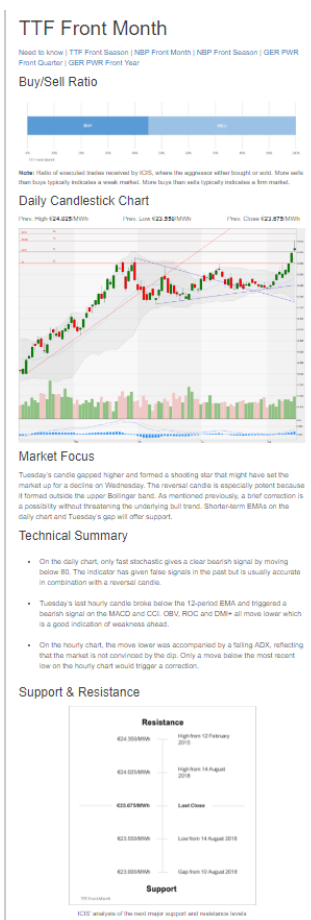
- Covers monthly, weekly, daily and hourly timeframes
- ICIS buy/sell ratio
- Market focus
- Technical summary
- Support/ resistance levels



Fundamental news brief

- What events are relevant today?
- What major news story could move the market in the medium- to long-term?
- Auctions, LNG arrivals, outages, supply and demand forecasts

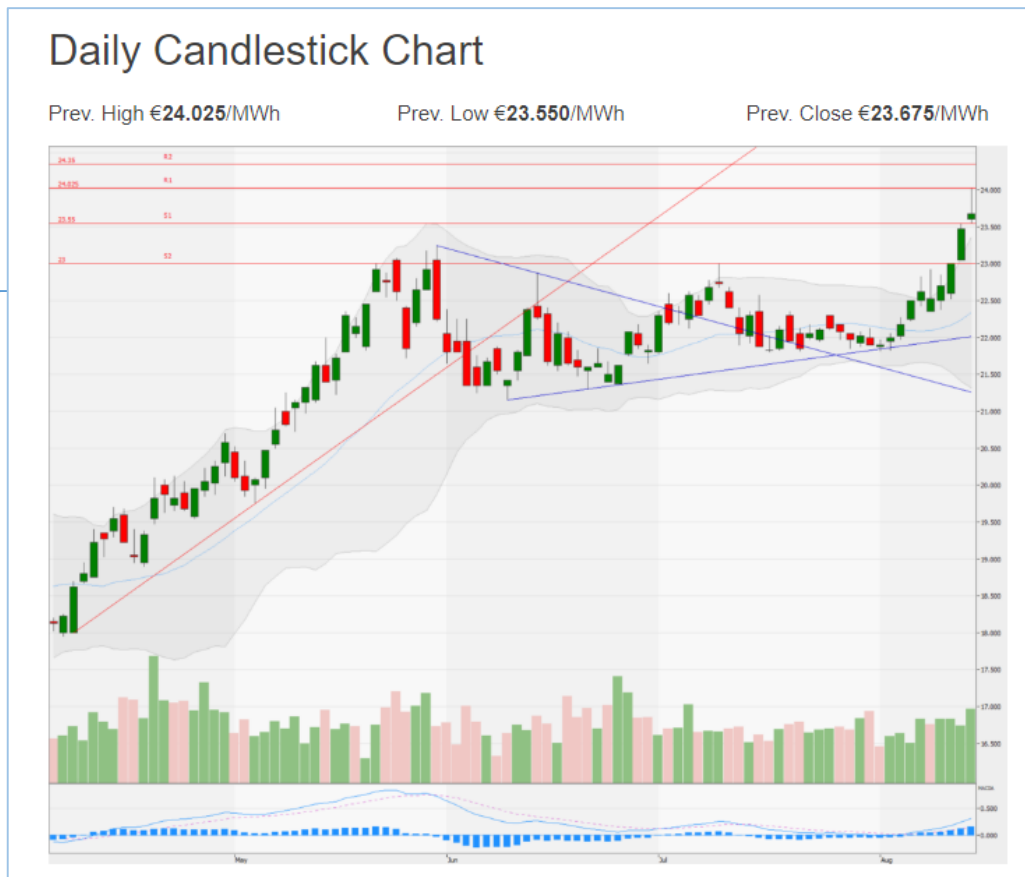
Anatomy of the ICIS TA report and how to make the most of it



ICIS buy/sell ratio

- Absolute ratio of executed aggressor buys and sells
- Sentiment indicator
- buys > sells = strong market
- sells < buys = weak market

Anatomy of the ICIS TA report and how to make the most of it



Daily candlestick chart

- ▶ Previous high, low, close
- ▶ Five months of data
- ▶ Two support and two resistance levels (red)
- ▶ Trendlines (red)
- ▶ Candlestick formations (blue)
- ▶ Volume

Anatomy of the ICIS TA report and how to make the most of it



Market Focus

Tuesday's candle gapped higher and formed a shooting star that might have set the market up for a decline on Wednesday. The reversal candle is especially potent because it formed outside the upper Bollinger band. As mentioned previously, a brief correction is a possibility without threatening the underlying bull trend. Shorter-term EMAs on the daily chart and Tuesday's gap will offer support.

Market focus

- Identifies patterns, trends, targets, trend strength, support/resistance, gaps...
- Is forward-looking and generally pinpoints directional clues in major timeframes

Anatomy of the ICIS TA report and how to make the most of it



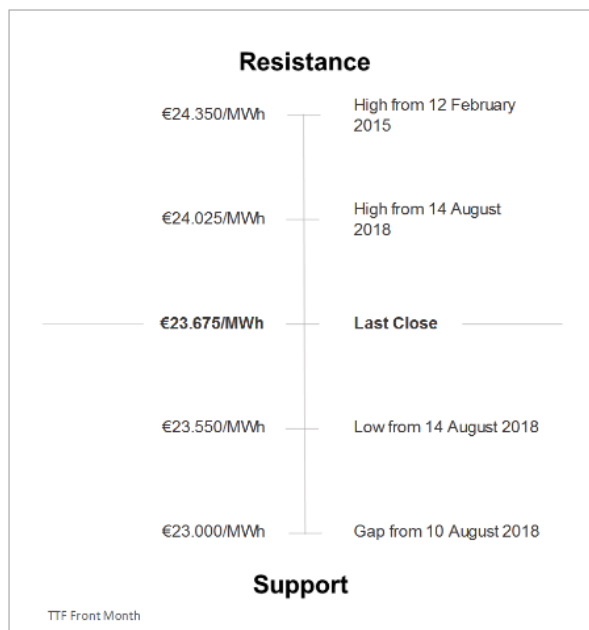
Technical Summary

- On the daily chart, only fast stochastic gives a clear bearish signal by moving below 80. The indicator has given false signals in the past but is usually accurate in combination with a reversal candle.
- Tuesday's last hourly candle broke below the 12-period EMA and triggered a bearish signal on the MACD and CCI. OBV, ROC and DMI+ all move lower which is a good indication of weakness ahead.
- On the hourly chart, the move lower was accompanied by a falling ADX, reflecting that the market is not convinced by the dip. Only a move below the most recent low on the hourly chart would trigger a correction.

Technical summary

- Detailed analysis of what indicators are showing
- Identifies trend strength with the help of leading and lagging indicators
- Flags up potential turning points
- Covers hourly, daily, weekly and monthly timeframes

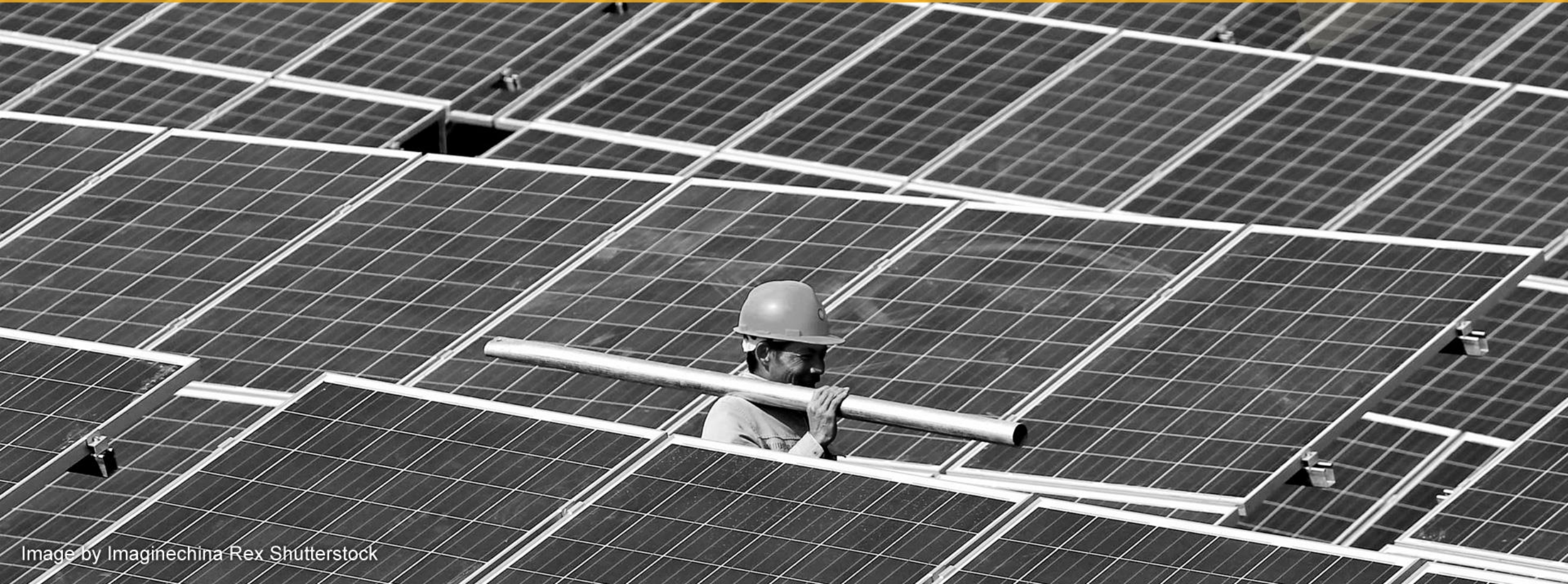
Anatomy of the ICIS TA report and how to make the most of it



Support and resistance

- Shows a selection of the two most important support and resistance levels from the last close
- Reference points include recent peaks and lows, gaps, trendlines, Fibonacci levels, EMAs and many more
- Selection is made by ICIS analyst

Practical tips for TA



Practical tips for TA

- ▶ 1: Develop a method and stick to it
- ▶ 2: Keeping track of the bigger picture helps to gauge the potential magnitude of a move
- ▶ 3: Avoid paralysis by analysis
- ▶ 4: Prioritise chart analysis over indicator interpretation
- ▶ 5: Interpret chart formations and indicators in context
- ▶ 6: Realistically assess own skill set and be willing to learn
- ▶ 7: Use the ICIS TA report
- ▶ 8: Understand the limitations of TA

Practical tips for TA

1: Develop a method and stick to it

- ▶ TA can be as complex or simple as desired and good results can be achieved with various approaches
- ▶ Whatever the approach, it is important to maintain a method that can be traced, replicated and adjusted

MENTAL CHECKLIST

- ✓ Timeframes
- ✓ Trend
- ✓ Support/resistance, high/low, gaps
- ✓ Large chart formations and targets
- ✓ Smaller candlestick formations
- ✓ Volume
- ✓ Fibonacci retracements
- ✓ Indicators

Practical tips for TA

2: Keeping track of the bigger picture helps to gauge the potential magnitude of a move

- Keep track of lower-level and higher-level timeframes in addition to your target timeframe to evaluate significance of a move
- Don't forget to zoom out
- Lower-level timeframes move before higher-level timeframes do
- If trend directions line up, chances are good the trend will be maintained

► Weekly



► Daily



► Hourly



Practical tips for TA

3: Avoid paralysis by analysis

- ▶ TA can be as simple or complex as you want – find the methods that work best for your markets
- ▶ It is better to understand a few indicators well than knowing a bit about everything
- ▶ Incomplete knowledge is dangerous
- ▶ Avoid looking at indicators that all show the same (Stochastic, RSI, CCI...)
- ▶ Combination of leading and lagging indicators

▶ In short: avoid something like this...



Practical tips for TA

4: Prioritise chart analysis over indicator interpretation

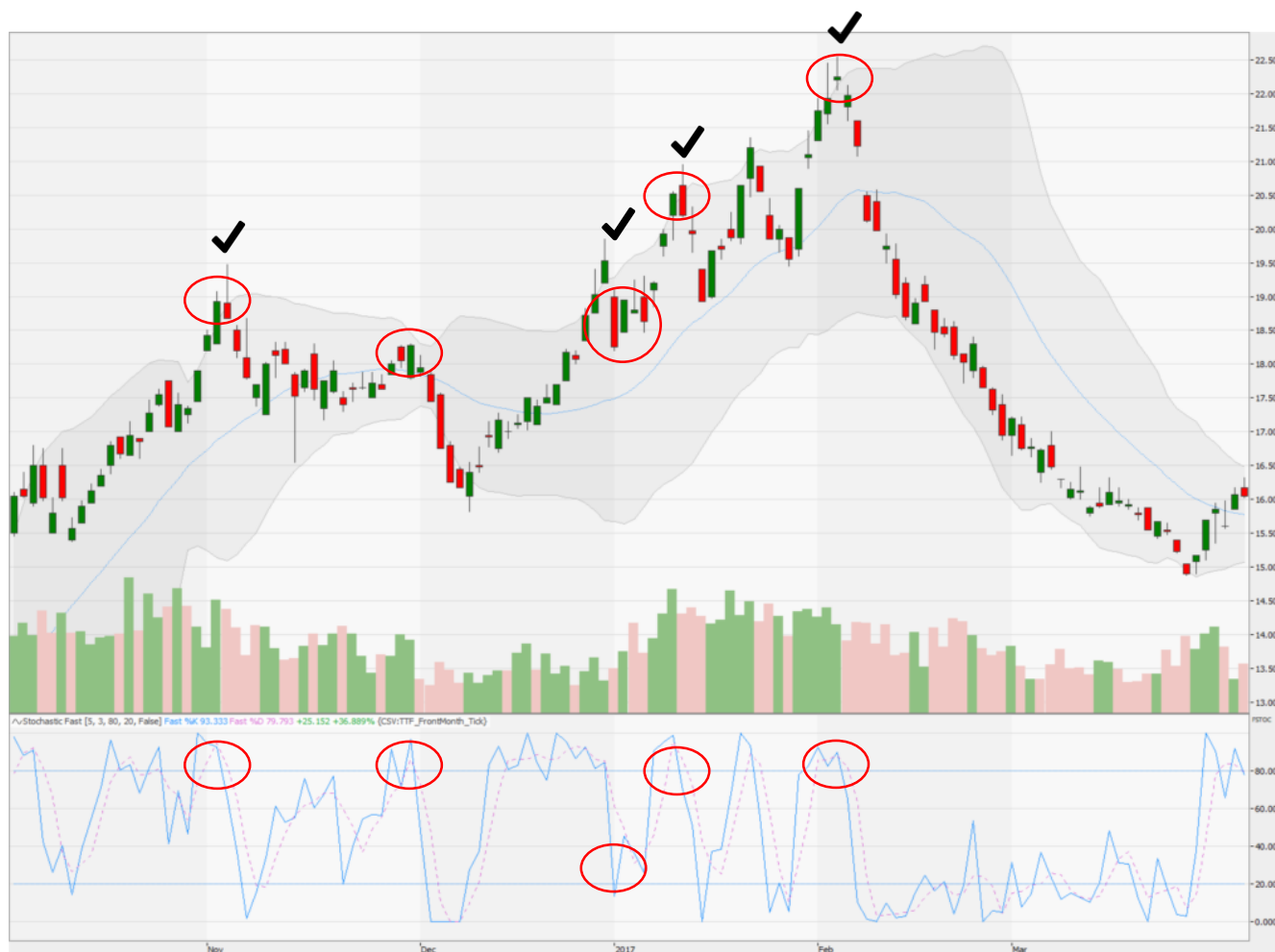
- Indicators indicate. They are a derivative of price and were developed to support chart analysis.
- Little trumps a solid chart analysis.
- TA without indicators is possible. TA without chart analysis is not possible.



Practical tips for TA

5: Interpret chart formations and indicators in context

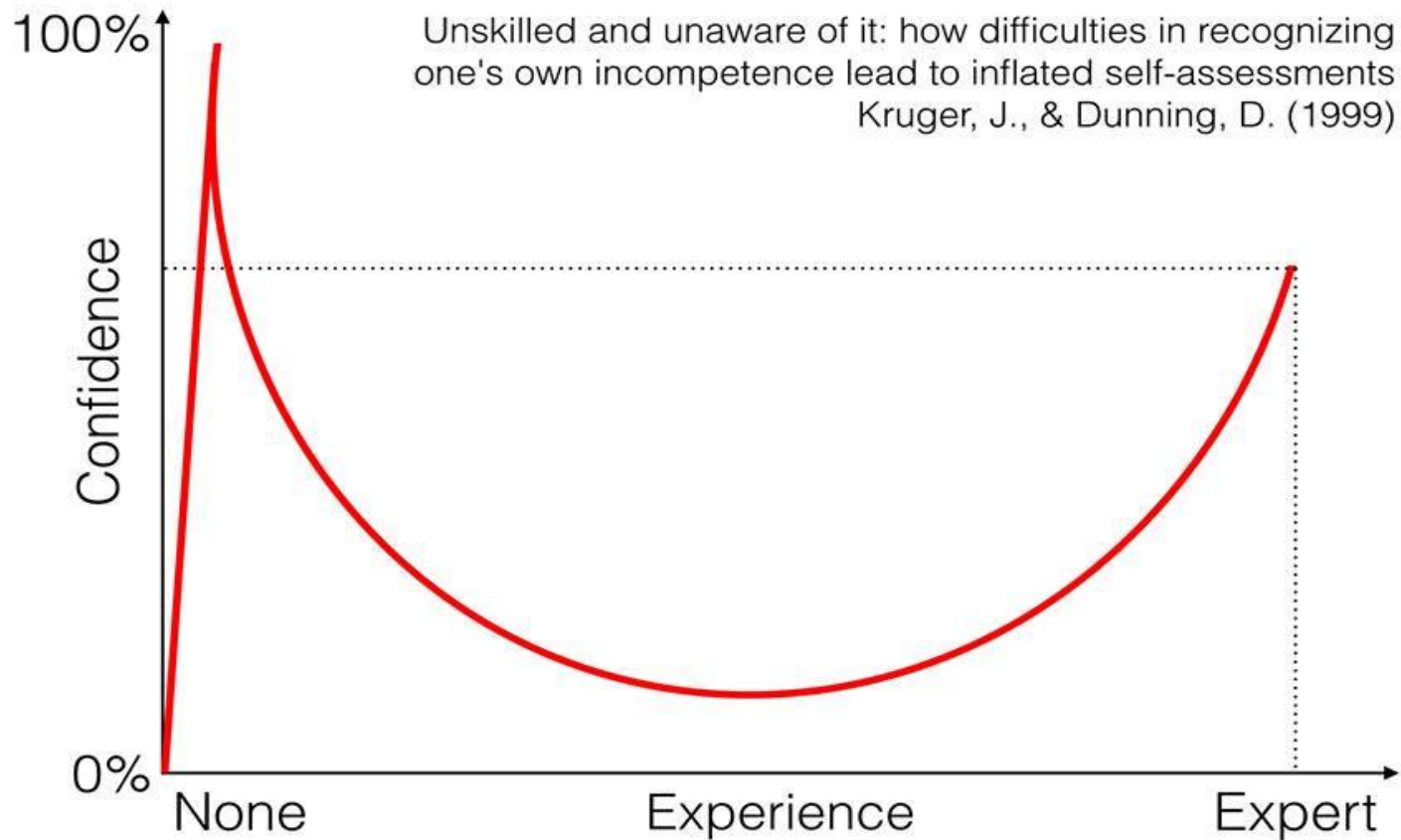
- Reversal candlestick patterns are more valid near important support and resistance levels, especially when confirmed by indicators.



Practical tips for TA

6: Realistically assess own skill set and be willing to learn

Dunning-Kruger Effect



Practical tips for TA

7: Use the ICIS TA report

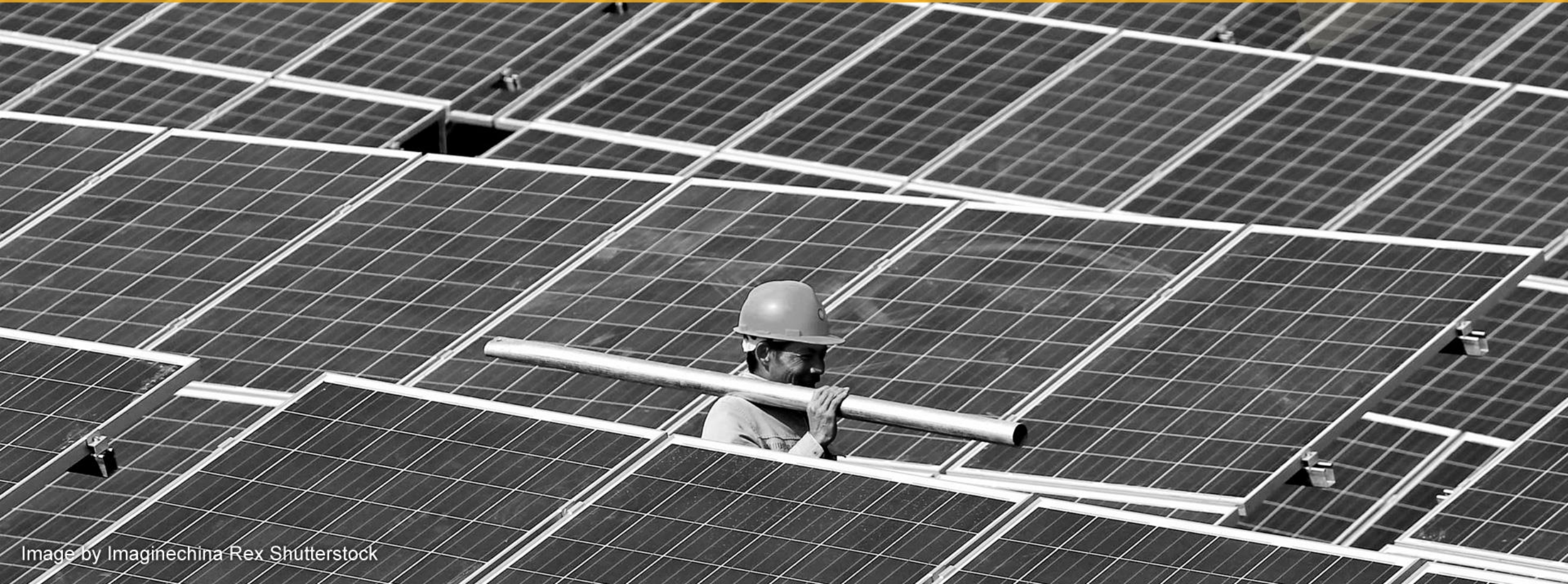
- ▶ The report offers an independent and reliable view of the market
- ▶ Use the report to challenge or confirm own ideas
- ▶ Identify missed opportunities
- ▶ Gain a market overview
- ▶ Widen own knowledge base

Practical tips for TA

8: Understand the limitations of TA

- ▶ TA is an art as much as it is a science and prone to an analyst's bias.
- ▶ TA is not the ultimate crystal ball that perfectly predicts price moves.
- ▶ Not all rules work all the time – indicators can be reliable but have to be taken with skepticism. After all, they are just a derivative of price action.
- ▶ It is possible to say what level can be reached but it is difficult to say how long it takes.

Summary



Summary

- ▶ **1: The market discounts everything**

- ▶ Everything that is known is reflected in price action

- ▶ **2: Prices move in trends (not random)**

- ▶ TA helps to identify trends that can be invested in. Once a trend is established it remains until it does not.

- ▶ **3: History repeats itself**

- ▶ Patterns reflect human psychology and we humans rarely change

Summary

- ▶ If properly understood, TA offers an immensely useful set of tools to make better trading decisions
- ▶ The ingredients are simple: Price and volume. Beyond that, TA can be as complex or simple as needed.
- ▶ The ICIS TA brief helps to make better decisions, challenges old views and prepares for the day ahead.
- ▶ TA is likely to spread in the European energy markets

Contact us

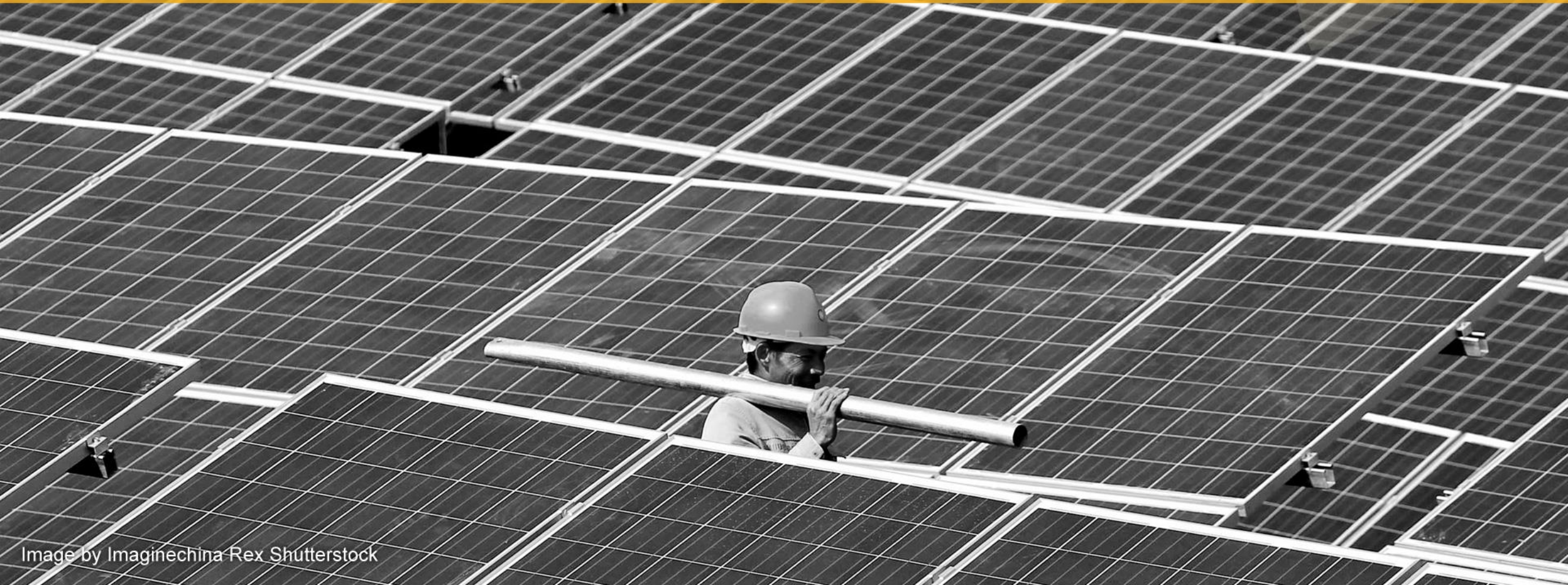


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Q&A



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