

Bet short on MCX natural gas

COMMODITY CALL

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Natural gas futures (continuous contract) on the MCX (Multi Commodity Exchange) hit a high of ₹760 last week. But then, the contract could not extend the rally and has moderated to the current level of ₹626.

To establish another leg of uptrend, the contract should breach ₹760 decisively – the contract should see a daily close above ₹760. Until then, the likelihood of the contract seeing further drop in price will remain high.

From the current level, natural gas futures could see a decline in price to ₹535. Al-

though ₹600 is a support, the contract will most probably slip below this level to drop to ₹535. A breach of ₹535 can drag the contract to ₹500.

Trading strategy

Traders can short MCX natural gas futures at the current level of ₹626 and add more shorts when price moves up to ₹655. Place stop-loss at ₹685. When the price dips below ₹600, revise the stop-loss down to ₹660.

When the contract touches ₹535, liquidate half of the shorts, and tighten the stop-loss further to ₹585. Liquidate the remaining at ₹500.

Alternatively, one can consider buying natural gas



600-strike put option (600-PE) on the MCX. It is currently trading at around ₹47.

Accumulate more when price drops to ₹35 so that the average price would be ₹41. Place stop-loss at ₹26.

Exit these positions at the prevailing price when the natural gas futures price drop to ₹535. By then the price of 600-PE would roughly be around ₹100.