



Crude oil; Gold & Silver

Technical view of Crude, Gold & Silver

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Crude oil market updates (Brent and WTI)

On 30th September, The American Petroleum Institute reported a mild draw in crude oil inventories of 831k bbls for the week ending September 25th, better than street expectations of a 1.4mn bbls build. The previous week inventory build was 691k bbls.

On 2nd September, the US Energy Information Administration reported a 1.98mn bbls decline in the US crude oil inventories in the week ended in 25th September, more than expectations of 1.57mn build. Crude oil inventories decreased by 1.64mn bbls a week ago.

Brent crude resumed the downtrend after a short-term rebound in mid-September. The 200dma of US\$43/bbl is a strong resistance. The Bollinger band has widened substantially due to the sharp ups and downs in the past month. At the moment, Brent is trading below the 20dma of US\$41.3/bbl.

Figure 1: Brent trends downward



Source: Bloomberg

In September, Brent was trading below the lows in March before the gap down due to the price war. The equity market sell-off also triggered the sell-down of Brent and has resulted in a reversal of the uptrend. Brent is now back on a downtrend.

Figure 2: Brent back on a downtrend and re-testing the recent lows



Source: Bloomberg

Similar to Brent, WTI is trending down, and its Bollinger band has widened. The 20dma of US\$39.17/bbl broke down across the 60dma of US\$40.9/bbl, indicating that a bearish momentum has formed.

Figure 3: WTI trends downward



Source: Bloomberg

For WTI, the lows of US\$41.05/bbl before gap-down in March is a strong resistance for WTI. It is re-testing the recent low of around US\$36/bbl during the September sell-off.

Figure 4: WTI approaching the lows in September



Source: Bloomberg

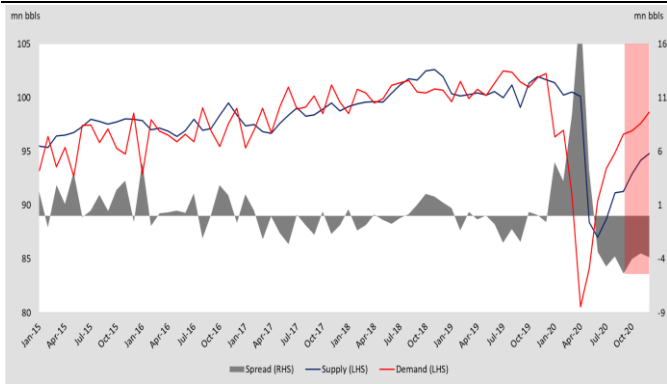
Trading recommendation:

For Brent, we advise to long at US\$39.5/bbl with a stop loss at US\$38.5/bbl, and exit at US\$41.5/bbl; Or short at US\$43/bbl with a stop loss at 44/bbl, and exit at US\$39.5/bbl.

For WTI, we advise to short at US\$40.5/bbl with a stop loss at US\$41.5/bbl, and exit at US\$36.5/bbl.

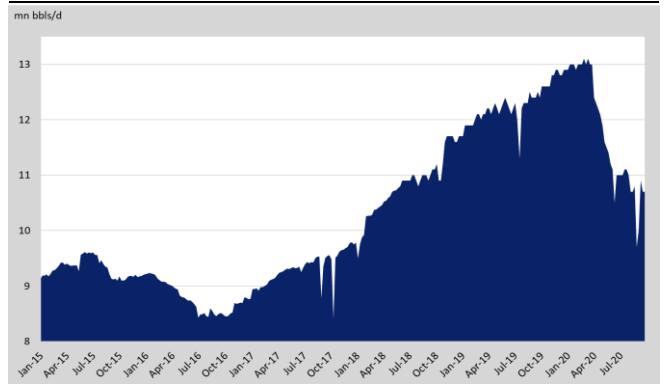
KGI oil market barometer

Figure 5: Global oil supply glut is expected to taper from 2Q20 onwards



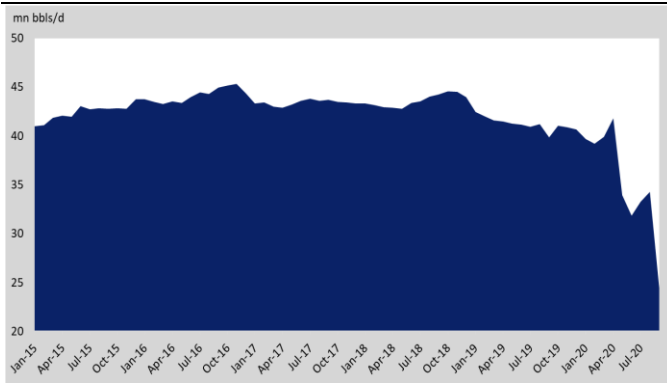
Source: Bloomberg, KGI Research

Figure 6: US oil production rebounded in September



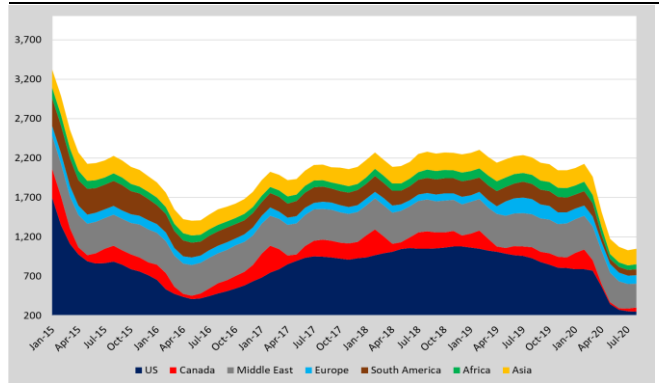
Source: Bloomberg, KGI Research

Figure 7: OPEC and Russia output declined further in September



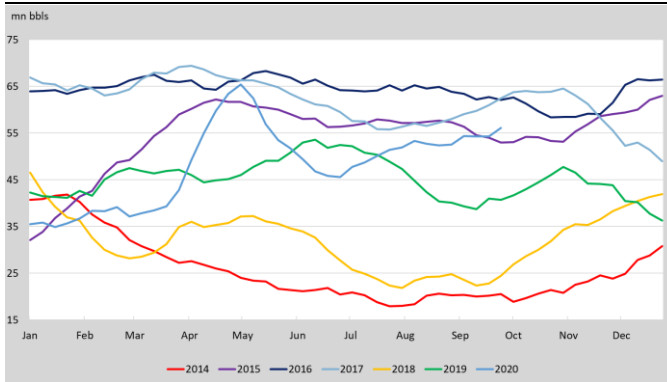
Source: Bloomberg, KGI Research

Figure 8: Global total rig count drops below the level in 2016



Source: Bloomberg, KGI Research

Figure 9: US crude inventory above 2016 level in September



Source: Bloomberg, KGI Research

Figure 10: Oil resisted entering into backwardation



Source: Bloomberg, KGI Research

Gold & Silver

US job market updates:

US initial jobless claims arrived at 837k in the week ended 26th September, slightly better than expectations of 850k. The previous week was revised upwards to 873k. This was the fifth consecutive week with claims reported above 800k, showing a weak recovery in the US labour market.

Gold broke the 76.4% Fibonacci support of US\$1,928/oz during the sell-off in mid-September but held up a critical psychological level of US\$1,850/oz. Gold recently resumed a mild recovery and is trying to gain back the US\$1,900/oz territory.

Figure 11: Gold held up at US\$1,850 and rebounded



Source: Bloomberg

Gold broke the previous two short-term supports, 200dma of the US\$1,927/oz and 60dma of US\$1,916/oz. The RMI indicator shows an early upward momentum. Meanwhile, RSI is slightly below 50 at the moment, indicating that recovery is relatively weak.

Figure 12: Gold resumes a weak upward momentum



Source: Bloomberg

Silver broke the 61.8% Fibonacci resistance level of US\$25.5/oz, and it's consolidating at the range between US\$22/oz and US\$24/oz.

Figure 13: Silver consolidating at a lower range



Source: Bloomberg

The next two resistance levels are US\$25.1/oz and US\$26.2/oz, and the near term supports are US\$22/oz and US\$21.1/oz

Figure 14: Silver is supported at US\$22/oz



Source: Bloomberg

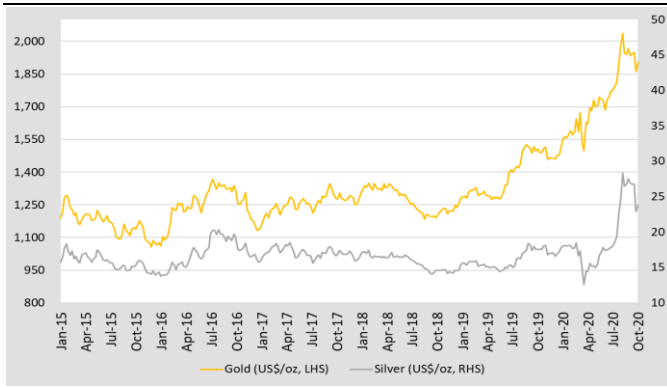
Trading recommendation:

For gold, we advise to accumulate at US\$1,850/oz if it corrects. And three exit levels are US\$1,950, US\$1,970, and US\$2,000/oz.

For silver, we advise to long at US\$22/oz and US\$23/oz if it falls back, and exit at US\$25.5/oz. We believe silver will continue to go up, breaking the recent high of near US\$30/oz by the end of the year.

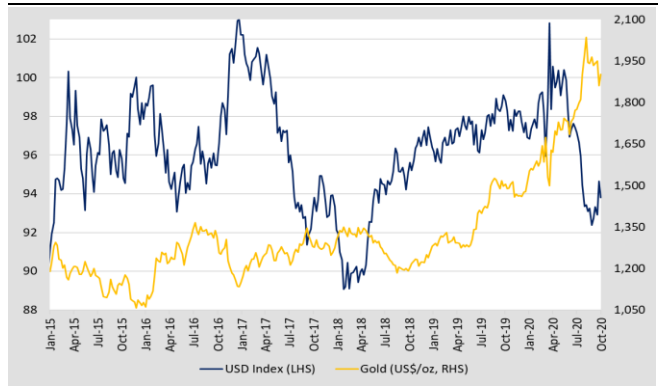
KGI gold & silver barometer

Figure 15: Gold and silver soar together



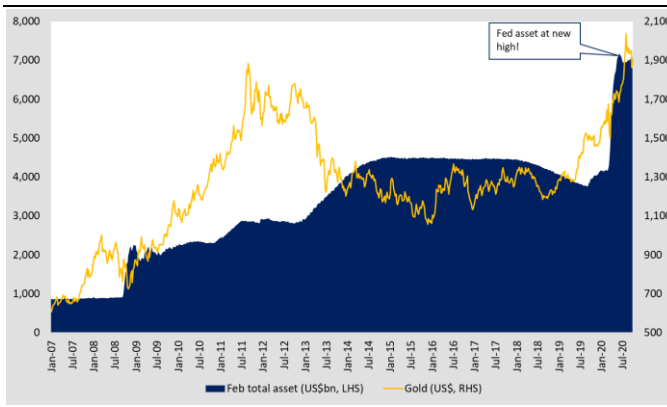
Source: Bloomberg, KGI Research

Figure 16: Inversed correlation between gold and USD broke



Source: Bloomberg, KGI Research

Figure 17: Gold price climbs higher when Fed assets expand



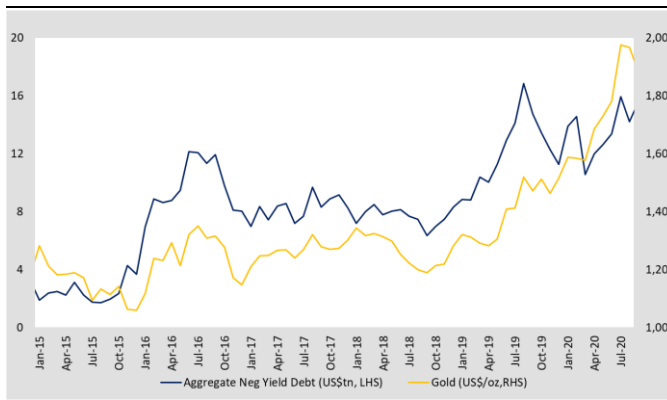
Source: Bloomberg, KGI Research

Figure 18: Inversed correlation between gold price and real yield



Source: Bloomberg, KGI Research

Figure 19: Positive correlation between gold and negative yield debt



Source: Bloomberg, KGI Research

Figure 20: Gold/Silver ratio rebounded from the 10-year average



Source: Bloomberg, KGI Research

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Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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