Crude oil; Gold & Silver

Technical view of Crude, Gold & Silver

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Updates in this report

Crude oil market updates (Brent and WTI)

On 25th November, The American Petroleum Institute reported a build in crude oil inventories of 3.8mn bbls for the week ending 20th November, compared to expectations of a 0.333mn bbls draw. The previous week inventory build was 4.174mn bbls.

On 4th November, the US Energy Information Administration reported 0.754mn bbls decline in the US crude oil inventories in the week ended in 20th November, compared to an expectation of 0.127mn bbls build in stocks. Inventories increased by 0.768mn bbls a week ago.

Brent has managed to reverse the downtrend and break above the lows before the gap-down in March. The current price is close to the upper bound of the Bollinger band (US$49.38/bbl). At the moment, Brent is trading at an 8-month high since the price war started in early March. There are four key support levels for the next correction, the lows (US$45.18/bbl) before the gap-down in March, 20dma of US$43.79/bbl, 60dma of US$42.23/bbl, and 200dma of US$39.27/bbl.

Figure 1: Brent trading at an 8-month high

Source: Bloomberg

Figure 2: Brent jumped to the next high zone of its Fibonacci retracement

Source: Bloomberg

Right after breaking out of the 43% Fibonacci retracement, Brent has been up for 6 consecutive trading days. Currently, it is trading in between the 46% and 50% Fibonacci retracement level, meaning that US$50.5/bbl is the next resistance while US$44/bbl is the support.

Figure 3: WTI is trading in an upward trend

Source: Bloomberg

Similar to Brent, WTI has broken out of the downtrend channel and is trading at the highs since March. The next key resistance levels are the lows (US$41/bbl) before the gap-down in March, 20dma of US$40.85/bbl, 60dma of US$40/bbl, and 200dma of US$36/bbl.

Figure 4: WTI jumped to the next high zone of Fibonacci retracement

Source: Bloomberg

Similar to Brent, WTI is trading at the higher zone of the Fibonacci retracement. Technically, the 76% level of US$40.6/bbl is the next support after the lows before the gap-down.

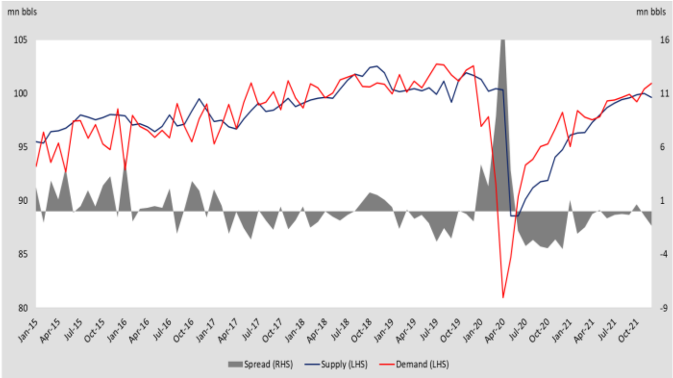
Trading recommendation:

For Brent, we advise to short at US$50.5/bbl with a stop loss at US$53.9/bbl and exit at US$45.2/bbl; Or long at US$45.2/bbl with a stop loss at US$43.8/bbl and exit at US$50.5/bbl.

For WTI, we advise to short at US$48.6/bbl with a stop loss at 50.5/bbl and exit at US$41/bbl; Or long at US$41/bbl with a stop loss at US$39/bbl and exit at US$48/bbl.

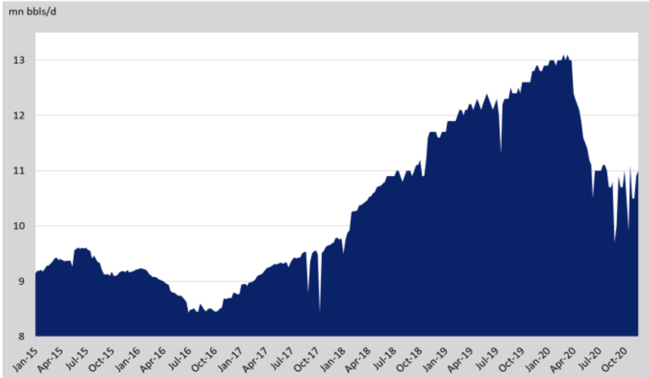
KGI oil market barometer

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



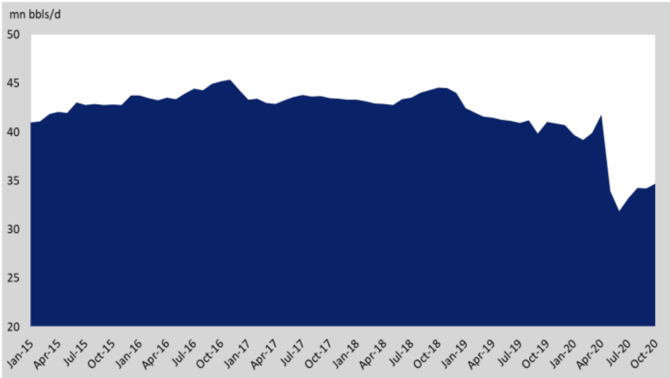
Source: Bloomberg, KGI Research

Figure 6: US oil production resumed 11mn bbls/d recently



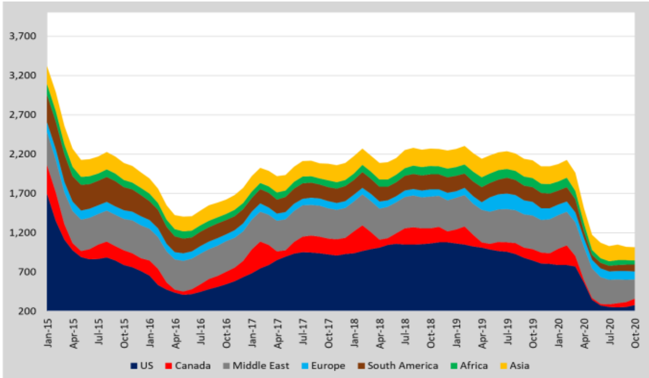
Source: Bloomberg, KGI Research

Figure 7: OPEC and Russia output bottomed out since July



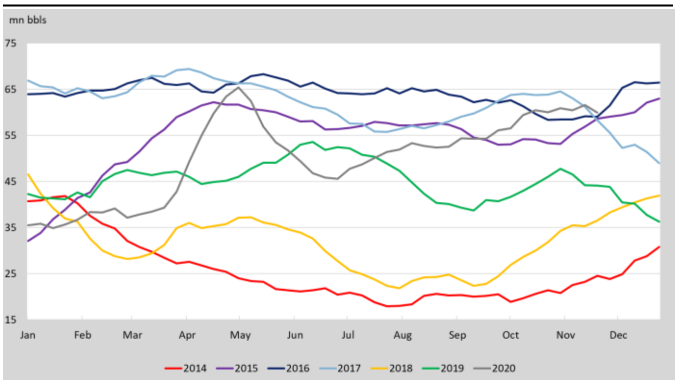
Source: Bloomberg, KGI Research

Figure 8: Global total rig count stablises at lows



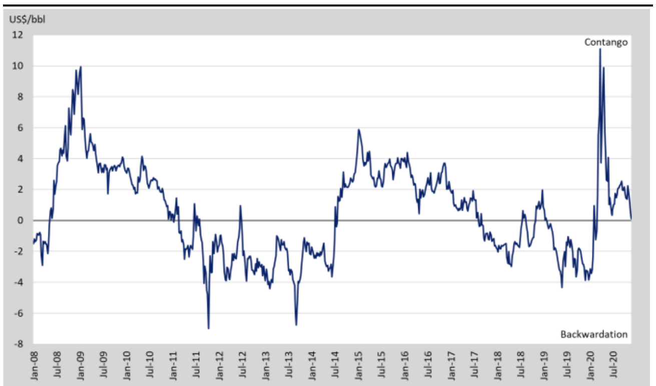
Source: Bloomberg, KGI Research

Figure 9: US crude inventory reached at 6-year highs in mid-November



Source: Bloomberg, KGI Research

Figure 10: Oil retests backwardation again



Source: Bloomberg, KGI Research

Gold & Silver

US job market updates:

US initial jobless claims arrived at 778k in the week ended 21st November, more than the expectation of 730k. The previous week figure was revised to 748k. This week's initial claims were the highest in five weeks amid rising COVID-19 cases and new lockdowns across the country.

After a flash breakout, gold price resumed its downtrend. Recently, it broke the key 61.8% Fibonacci support of US$1,837/oz but still held up at above US$1,800/oz. The next support level is US$1,763/oz.

Figure 11: Gold broke below the 61.8% Fibonacci level

Source: Bloomberg

Both RMI and RSI indicators show that gold is under downward pressure and approaching oversold levels. 200dma of US$1,800/oz is key support level for gold at the moment.

Figure 12: Gold trading slightly at above the 200dma

Source: Bloomberg

In comparison to gold, silver has broken below the upward channel. However, it has held up above the 61.8% Fibonacci support level of US$22.9/oz.

Figure 13: Silver broke below the upward channel

Source: Bloomberg

Both RMI and RSI indicators show that silver's bullish momentum has tapered off, but silver has yet to reach oversold conditions. The next resistance and support for silver is US$25/oz and US$21.1/oz respectively.

Figure 14: Silver is currently consolidating

Source: Bloomberg

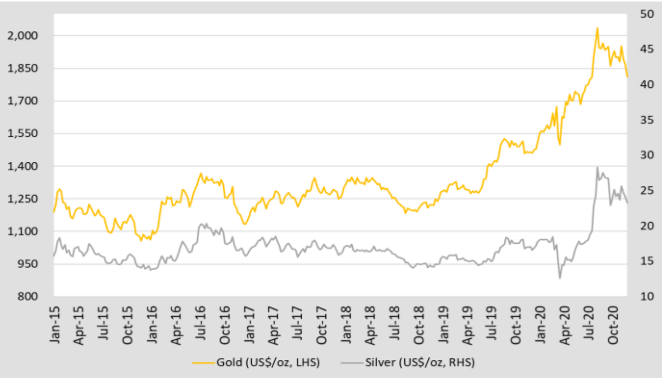
Trading recommendation:

For gold, we advise to accumulate at the current level and exit at US$1,900/oz.

For silver, we advise to long at US$22.9/oz, and exit at US$25.5/oz.

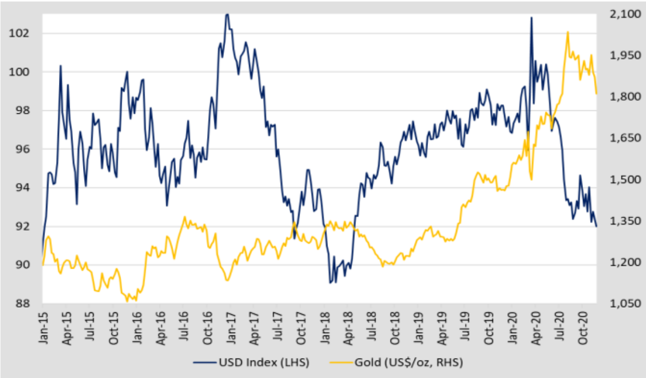
KGI gold & silver barometer

Figure 15: Gold and silver soar together



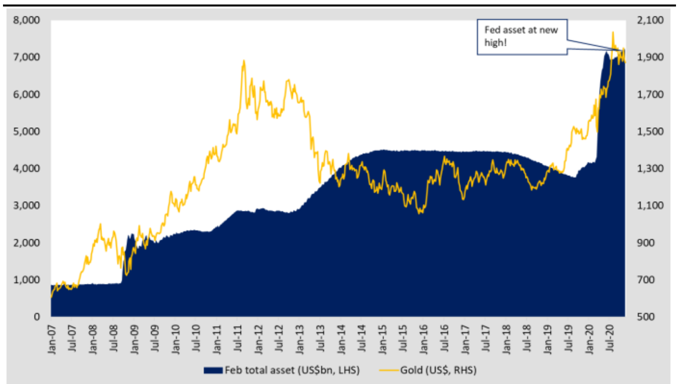
Source: Bloomberg, KGI Research

Figure 16: Inversed correlation between gold and USD remains



Source: Bloomberg, KGI Research

Figure 17: Gold price climbs higher when Fed assets expand

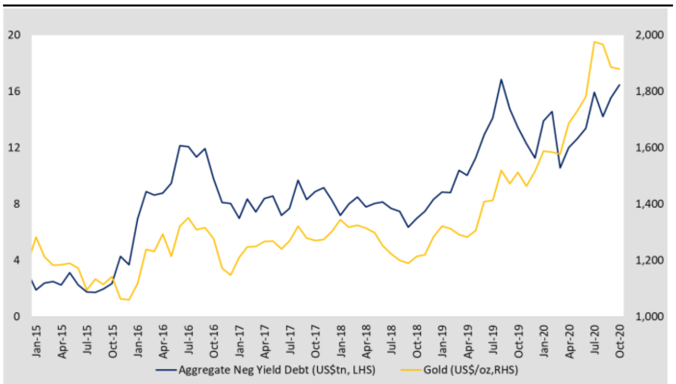


Source: Bloomberg, KGI Research

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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