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 9th December, The American Petroleum Institute reported a build in crude oil inventories of 1.141mn bbls for the week ending 4th December, compared to expectations of a 1.514mn bbls draw. The previous week inventory build was 4.146mn bbls.

On 9th December, the US Energy Information Administration reported 15.189mn bbls increase in the US crude oil inventories in the week ended in 4th December, compared to expectations of a 1.424mn bbls draw in stocks. The inventories decreased by 0.679mn bbls a week ago.

On 3rd December, OPEC+ reached an agreement to the extension of oil production cuts in January. However, the total production cut will be less by 500,000 bbls/d to 7.2mn bbls/d.

After breaking above the lows before the gap-down in March, Brent continues its bull-run. The current price is in the channel of pre-COVID highs (US$53.9/bbl) and lows (US$45.18/bbl). At the moment, Brent remains in a bull trend from the dip before the US elections. The 60dEMMAG (exponential moving average) just crossed the 200dEMMAG, indicating a bull signal.

There are four key support levels for the next correction:

- 20dEMMAG of US$47.5/bbl,
- the low before the March gap-down of US$45.18/bbl
- 60dEMMAG of US$44.7/bbl
- 61.8% Fibonacci retracement level of US$44.4/bbl.

Meanwhile, the resistance level is 76.4% Fibonacci retracement level of US$51.7/bbl and the high of pre-COVID of US$53.9/bbl.

Figure 1: Brent trading at another 8-month highs

Source: Bloomberg

Figure 2: Brent approaching 76.4% Fibonacci resistance

Source: Bloomberg

Similar to Brent, WTI is approaching the upper bound of the channel of pre-COVID highs (US$48.7/bbl) and lows (US$41.1 /bbl). But in comparison to Brent, WTI's 60dEMMAG has crossed the 200dEMMAG a week ago, indicating that the rally is still in play.

There are three key support levels for the next correction:

- 61.8% Fibonacci retracement level of US$44.4/bbl
- 60dEMMAG of US$42/bbl, and
- The lows before March gap-down of US$41.1/bbl.

Meanwhile, the next resistance level is the pre-COVID high of US$48.7/bbl and 76.4% Fibonacci retracement level of US$52.5/bbl.

Figure 3: WTI trading at another 8-month highs

Source: Bloomberg

Figure 4: WTI jumps to the next upper zone of Fibonacci retracement

Source: Bloomberg

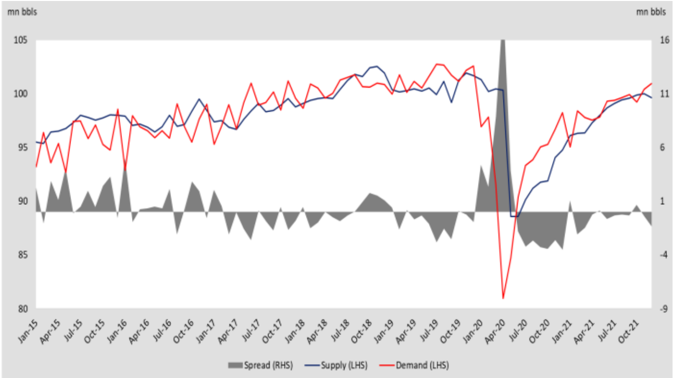
Trading recommendation:

For Brent, we advise to short at US$51.7/bbl with a stop loss at US$53.9/bbl and exit at US$47.5/bbl; Or long at US$47.5/bbl with a stop loss at US$45.2/bbl and exit at US$53.9/bbl.

For WTI, we advise to short at US$48.7/bbl with a stop loss at US$52.5/bbl and exit at US$44.4/bbl; Or long at US$44.4/bbl with a stop loss at US$42/bbl and exit at US$48.7/bbl.

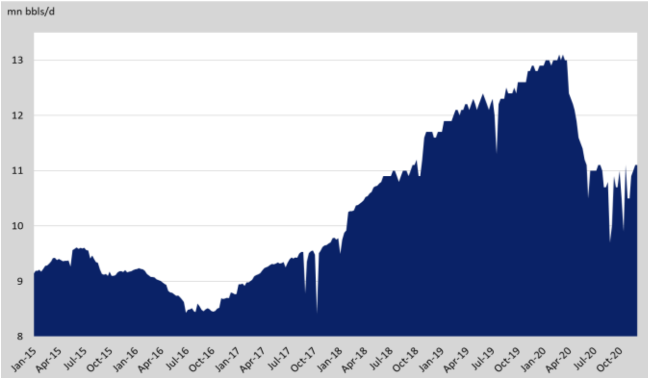
KGI oil market barometer

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



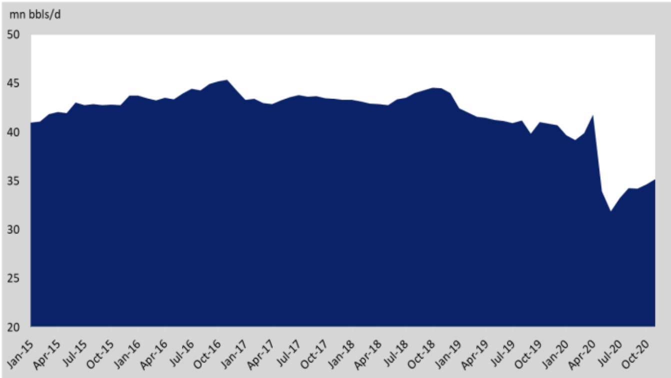
Source: Bloomberg, KGI Research

Figure 6: US oil production back to 11mn bbls/d



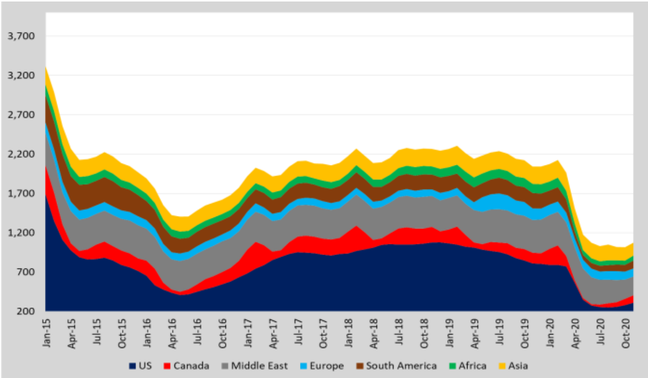
Source: Bloomberg, KGI Research

Figure 7: OPEC and Russia output bottomed out since July



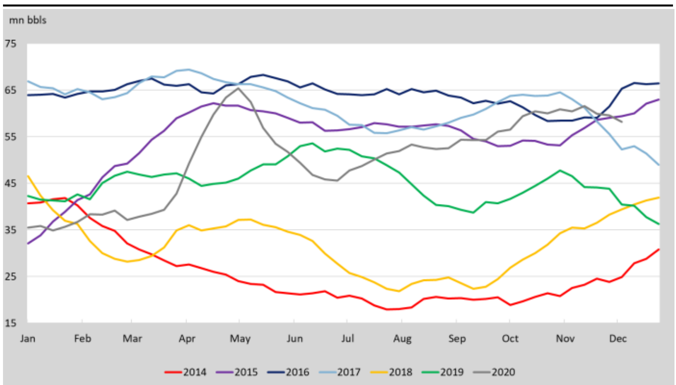
Source: Bloomberg, KGI Research

Figure 8: Global total rig count slightly move up



Source: Bloomberg, KGI Research

Figure 9: US crude inventory declines recently



Source: Bloomberg, KGI Research

Figure 10: Oil is under backwardation market

Source: Bloomberg, KGI Research

Gold & Silver

US job market updates:

On 4th December, US Bureau of Labour released the non-farm payroll in November. The US economy added 245,000 jobs last month, easing from a downwardly revised 610,000 in the previous month, and well below market expectations of 469,000.

US initial jobless claims arrived at 853,000 in the week ended 5th December, more than expectations of 725,000. The previous week figure was revised to 716,000. This week's initial claims were the highest since mid-September amid rising COVID-19 cases and new lockdowns across the US.

After a flash breakout, gold price is still in the downtrend. Recently, it almost touched the key 50.0% Fibonacci support of US$1,763/oz but rebounded immediately above US$1,800/oz. For now, the yellow metal is trading at round 61.8% Fibonacci level of US$1,837/oz.

Figure 11: Gold remains at a downward channel

Source: Bloomberg

Both RMI and RSI indicators show that gold's rebound lacks upward momentum. It is consolidating. The next resistance level is the 60dSMA (simple moving average) of US1,877/oz while the next supports are 200dSMA of US$1,809/oz and 50% Fibonacci level of US$1,763/oz.

Figure 12: Gold trading slightly at a 200dma

Source: Bloomberg

Similar to gold, silver is also on the downtrend. But different from gold, the white metal is trading in a range between 76.4% and 61.8% Fibonacci level of US$25.5/oz and US$22.9/oz respectively.

Figure 13: Silver broke the upward channel

Source: Bloomberg

Both RMI and RSI indicators show that silver is also consolidating. The next resistance and support for silver is US$25.5/oz and US$22.9/oz respectively.

Figure 14: Silver jumped sharply but failed to broke out the resistance

Source: Bloomberg

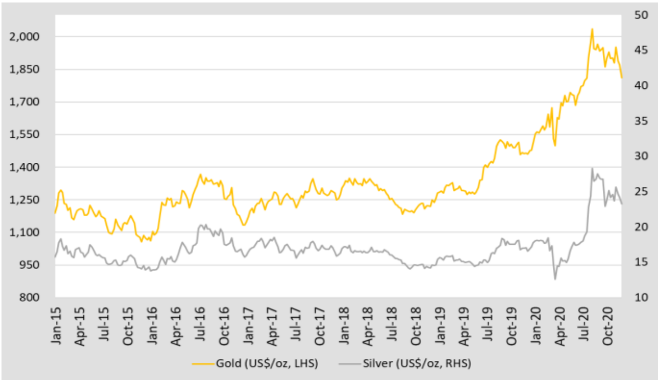
Trading recommendation:

For gold, we advise to accumulate at the current level and US$1,763/oz if it pulls back and exit at US1,900/oz.

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

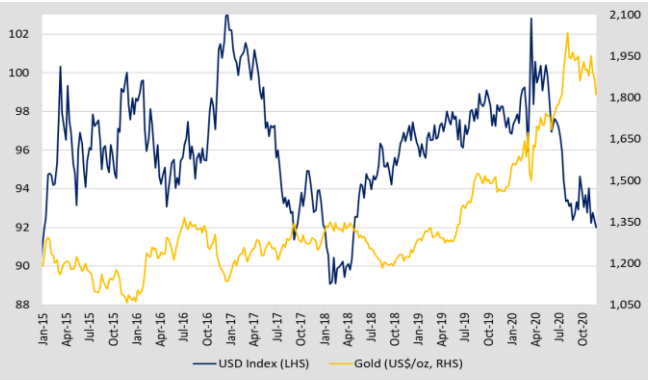
KGI gold & silver barometer

Figure 15: Gold and silver move together



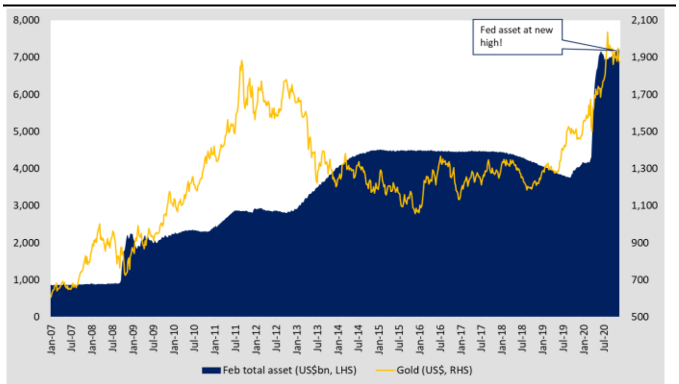
Source: Bloomberg, KGI Research

Figure 16: Inversed correlation between gold and USD breaks



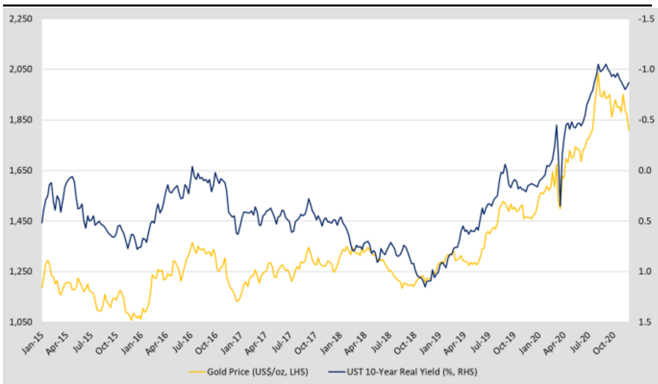
Source: Bloomberg, KGI Research

Figure 17: Gold price climbs higher when Fed assets expand



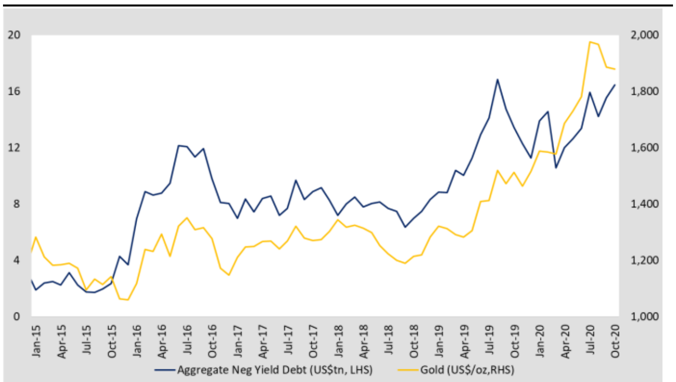
Source: Bloomberg, KGI Research

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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