Technical Analysis

Commodity ▪ Singapore

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 19th August, The American Petroleum Institute reported a draw in crude oil inventories of 4.3mn bbls for the week ending August 14th, more than expectations of 2.7mn bbls draw. The previous week inventory build was 4.5mn bbls.

On 19th August, the US Energy Information Administration reported a 0.607mn bbls draw in the US crude oil inventories in the week ended in 14th August. The inventories increased by 1.336mn bbls a week ago.

Brent crude volatility further declined in August. Though Brent managed to fill the gap that it formed in early March, the lows of US$45.2/bbl before the gap-down is now a strong resistance level. The Bollinger band is narrowing, and the price is well supported at the middle band which is trading at US$44.5/bbl at the moment.

Figure 1: Brent seems to be capped at US$45/bbl

Source: Bloomberg

Based on Fibonacci retracement, Brent broke the 50% level of US$43.87/bbl. It started the upward momentum after entering August.

Figure 2: Brent broke 50% Fibonacci retracement level

Source: Bloomberg

WTI filled the gap formed in early March. It is slowly trending upwards after it broke the US$42.5/bbl 200dma in what was a previously a resistance level. However, the difference from Brent is that the Bollinger band for WTI is widening.

Figure 3: WTI filled the gap in March and slowly trends up

Source: Bloomberg

Based on Fibonacci retracement, the 76.40% level is US$40.6/bbl which is very closed to the low of US$41.05/bbl right before the gap-down formed in early March. Hence, these are the two support levels for WTI.

Figure 4: WTI trading above 76.4% Fibonacci retracement

Source: Bloomberg

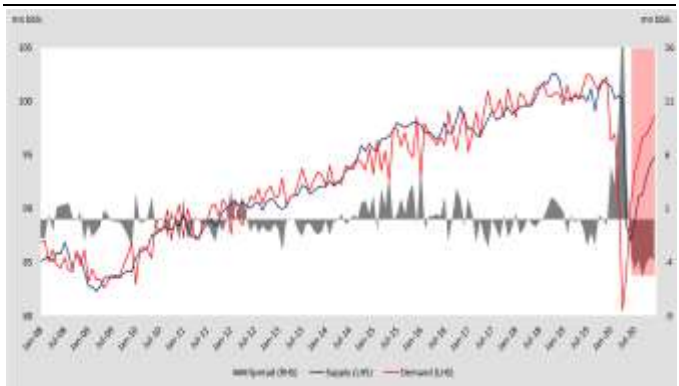
Trading recommendation:

For Brent, we advise to long at US$44.5/bbl with a stop loss at US$42.75/bbl, and exit at US$46.2/bbl; Or short at US$46.2/bbl with a stop loss at 47/bbl, and exit at US$45.2/bbl.

For WTI, we advise to long at US$42/bbl with a stop loss at US$41/bbl, and exit at US$43.5/bbl.

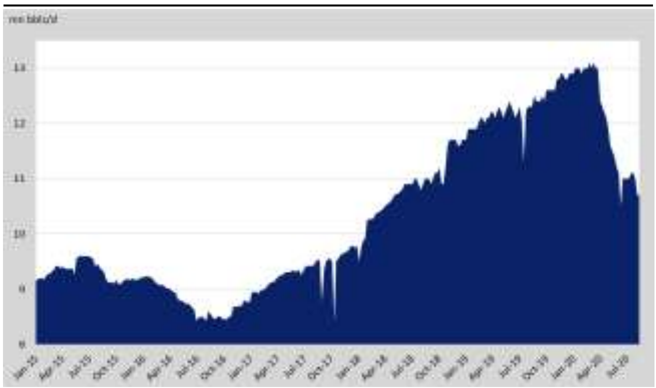
KGI oil market barometer

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



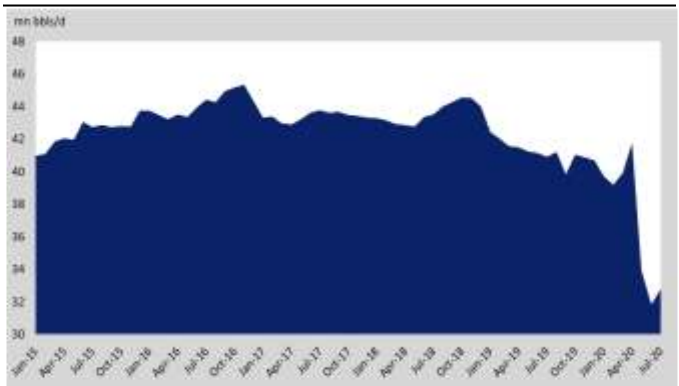
Source: Bloomberg, KGI Research

Figure 6: US oil production topped out in March 2020



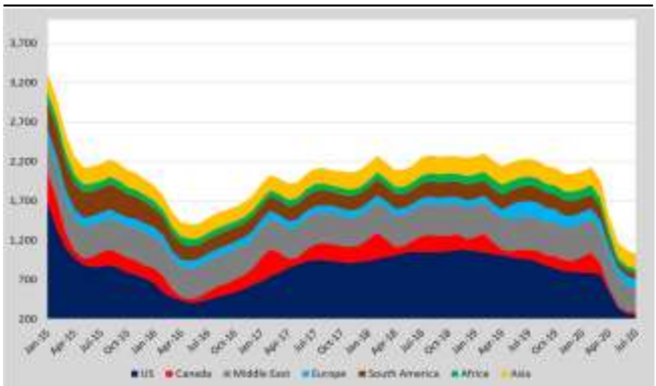
Source: Bloomberg, KGI Research

Figure 7: OPEC and Russia back to a new round of output cuts in May



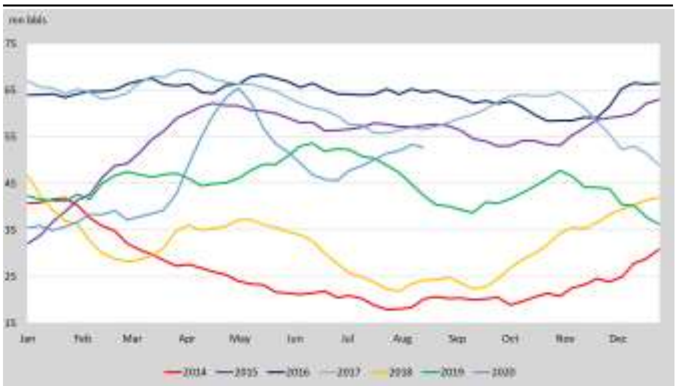
Source: Bloomberg, KGI Research

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



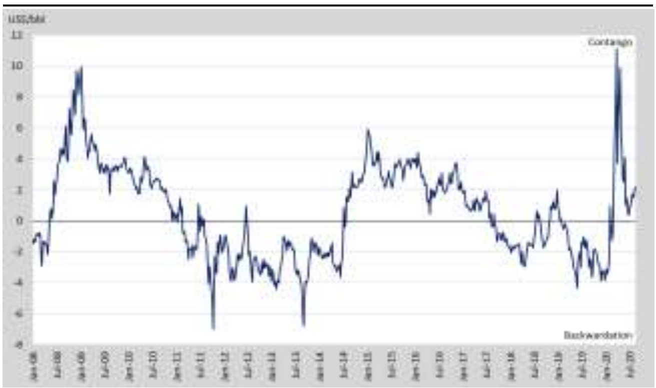
Source: Bloomberg, KGI Research

Figure 9: US crude inventory above 2019 level in August



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 1.1mn in the week ended 15th August, missing expectations of 925k. The claims in the previous week was 971k. The resurgence in new COVID-19 cases impacted the jobs market.

On 27th July, gold broke the all-time high of US$1,920/oz which it achieved in 2011. Riding on the upward momentum, the yellow metal reached an all-time high of US$2,074/oz on 7th August. Subsequently, gold prices started to retrace but stayed above the 2011 highs after it rebounded from the recent lows of US$1,862/oz.

Figure 11: Gold broke all-time high

Source: Bloomberg

Gold's two short-term supports are the US$1,928/oz and 20dma of US$1,839/oz. The RMI indicator shows the upward momentum has tapered. Meanwhile, RSI was below 70 in the past three weeks, indicating that gold has deviated from an overbought level. Hence, we believe gold will consolidate between US$1,900/oz and US$1,950/oz.

Figure 12: Gold is consolidating between US$1,900/oz and US$1,950/oz

Source: Bloomberg

Silver, on the other hand, finally started to catch up with gold. Similar to gold, the white metal retraced significantly after it hit an 8-year high around US$30/oz. But it managed to rebound and stay above the US$25.5/oz (61.8% Fibonacci resistance level).

Figure 13: Silver is supported by the 61.8% Fibonacci resistance level

Source: Bloomberg

The next two resistance levels are US$30/oz and US$35.5/oz, and the near-term support is US$25.5/oz.

Figure 14: Silver is consolidating at above US$25.5/oz

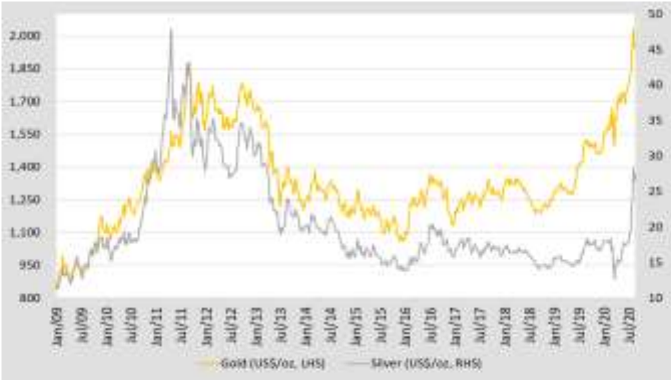
Source: Bloomberg

Trading recommendation:
For gold, we advise to accumulate at US$1,920/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$26/oz and US$25.5/oz if it falls back, and exit at US$28/oz. We believe silver will continue to go up, reaching US$40/oz by the end of the year.

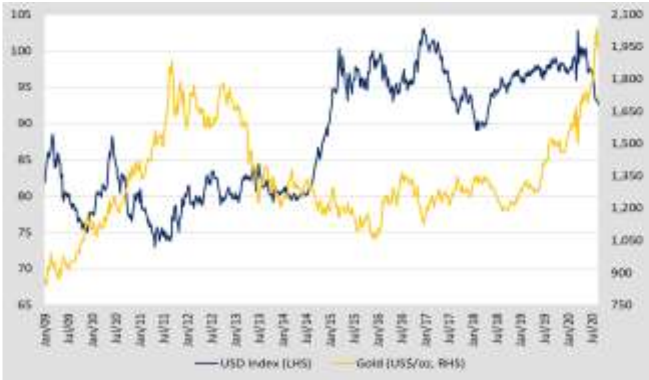
KGI gold & silver barometer

Figure 15: Gold and silver soar together



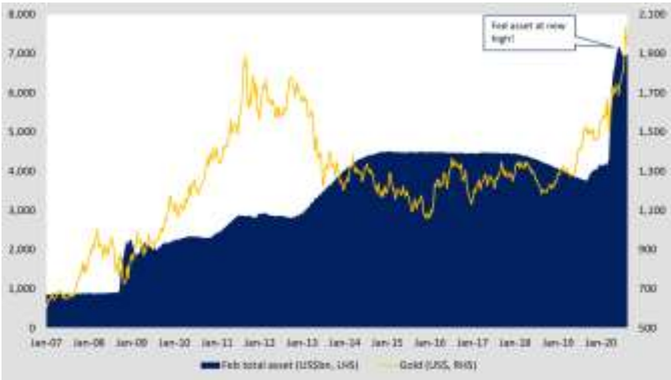
Source: Bloomberg, KGI Research

Figure 16: Inversed correlation between gold and USD



Source: Bloomberg, KGI Research

Figure 17: Gold price climbs higher when Fed assets expand

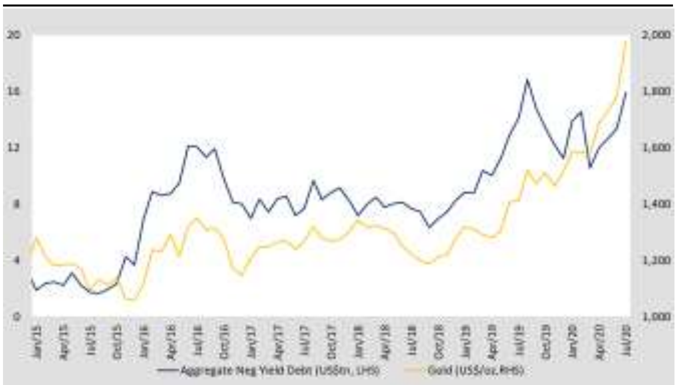


Source: Bloomberg, KGI Research

Figure 18: Gold price and Fed fund rate amid previous rounds of QE

Source: Bloomberg, KGI Research

Figure 19: Positive correlation between gold and negative yield debt



Source: Bloomberg, KGI Research

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

Source: Bloomberg, KGI Research

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