S&P; Crude oil; Gold & Silver

Technical view of S&P 500, Brent, Gold & Silver

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- We provide the biweekly update of our technical views on the S&P 500, Oil and Precious Metals.
- The S&P 500 and oil prices are likely to trend lower in the short-term, while we remain neutral on precious metals.

US equity market updates

On 9th June, the S&P 500 tumbled 5.9%, marking its worst one-day fall since March 16th and the 5th fall of at least 5% in the past three months.

Figure 1: S&P 500 closed low with a higher than average sell-off volume

Source: Bloomberg

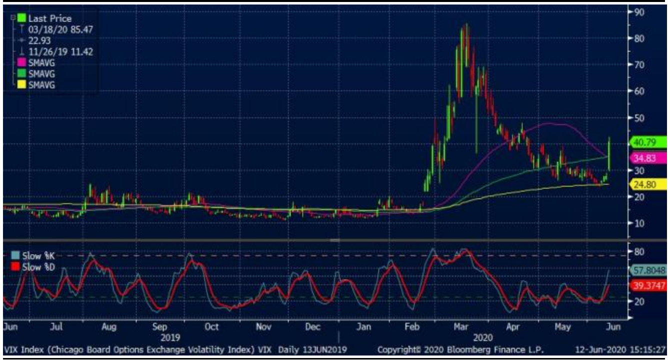
Based on the Fibonacci retracement indicator, the support level for S&P 500 is 2934.5, at which the index formed a double top in the past two months.

Figure 2: S&P 500 closed below the middle band

Source: Bloomberg

RSI indicator shows that the rally since March could pause from now. Before Thursday, S&P 500 was overbought, and the buying momentum has tapered off. Meanwhile, the plunge formed a perfect gap-down island reversal pattern, indicating the start of a downtrend. The index could see a technical rebound with a resistance level of 3125.

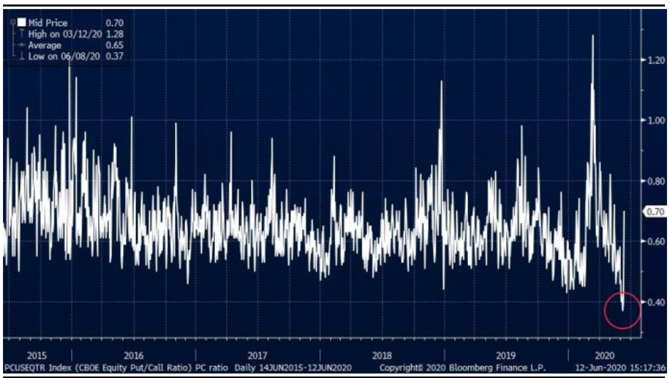
Figure 3: A force breakout of VIX index



Source: Bloomberg

VIX index sharply jumped and closed above a critical level of 40. Based on the slow stochastic oscillator, the spike-up of VIX marks a start of an upward momentum. Previously, the VIX formed a bottom at its 200ma of 24.8.

Figure 4: Put/Call ratio reverting to mean



Source: Bloomberg

CBOE equity Put/Call ratio fell to a multi-year low of below 0.4 before the sharp jump on Thursday. This indicated that the market was extremely bullish before Thursday's crash.

Conclusion: S&P 500 showed a strong bearish sign of correction. We expect the index to trend downward and test the next support of 2934.5.

Oil Prices

Crude oil market updates

On 6th June, OPEC+ (OPEC, Russia, and other non-members) reached an agreement to extend the 9.7mn bbls/d (10% of global supply during normal periods) production cut to July.

On 9th June, American Petroleum Institute reported 8.4mn bbls jump of stocks of crude oil in the week ended 5th June in the US while the market expected a 1.7mn draw instead. The stocks dipped 0.5mn bbls a week ago.

On 10th June, US Energy Information Administration reported a 5.72mn bbls increase in the US crude oil stocks in the week ended in 5th June while the market expected a 1.74mn bbls fall. The stocks decreased by 2.1mn bbls a week ago.

Figure 5: Brent falls to the middle band

Source: Bloomberg

The new round of global output cut announced in late April was the main driver of the bottoming-out of oil price (Brent) which doubled from US$20/bbl. However, the rally paused as concerns over a second wave of COVID-19 outbreak. Brent topped out from the recent US$43/bbl and fell to the middle band of US$37.77/bbl. If oil fails to close above this level, it is likely to trend down to the lower band of US$32.55/bbl which is the next support level.

Figure 6: Brent just reverted from overbought level

Source: Bloomberg

The RSI indicator also shows that buying force is losing momentum. US$40/bbl is the overbought level for the recent rally. The RMI indicator shows the uptrend momentum is intact but the turn is imminent.

Figure 7: Brent reaching 38.2% Fibonacci retracement support

Source: Bloomberg

US$37.36/bbl is a strong support for Brent. We can see that US$34/bbl to US$36/bbl is a consolidation level before oil made a force breakout. If Brent fails to close above US$37.36/bbl. It will head to the consolidation range, which implies a short-term drop of less than 10%.

Conclusion: Brent could have a mild bearish correction in the near term. Given it is trading at around support levels. We hold a neutral to bearish view for Brent.

Precious Metals (Gold & Silver)

US job market updates: On 5th June, US economy unexpectedly added 2.5mn jobs in May, beating the market expectation of 8mn jobs cut. The employment increased in leisure and hospitality, construction, education and health services, and retail trade sectors but government employment continued to decline substantially.

Figure 8: Gold stands at a 7-year high

Source: Bloomberg

Gold's bull cycle that began in late 2015 remains intact. After it broke the critical level of US$1,380/oz which was a strong resistance for the yellow metal from 2016 to 2018, gold quickly surpassed the two resistances of US1,500/oz and US1,600/oz over the past two years. For now, it trades range bound between US1,680/oz and US1,700/oz.

Figure 9: The uptrend intact but lack of momentum

Source: Bloomberg

Gold's short-term support is at the 20ma of US$1,693/oz. The RSI indicator shows that interest in accumulating gold is flattish. But the slow stochastic oscillator points to a slight upward momentum in gold.

Figure 10: Silver yet to see a breakout

Source: Bloomberg

Since the peak in 2011, silver remains in bear cycle until. The white metal broke US20/oz in 2016 but failed to sustain. Over the past few years, it never climbed back up to US$20/oz. There is no clear sign that silver will kick start the bull run in the near term.

Figure 11: Consolidation below US18/oz

Source: Bloomberg

Silver recovered back to the pre-COVID level but the upward momentum turned off after it touched the US$18/oz.

Conclusion: Both gold and silver have gained back their pre-COVID levels. The two precious metals show neither upward nor downward trend. We hold a neutral technical view for these two metals in the short term.

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