



Crude oil; Precious metal

Technical view of Crude and Gold & Silver

Chen Guangzhi, CFA / 65 6202 1191 / guangzhi.chen@kqi.com

Crude oil market updates:

On 24th June, American Petroleum Institute reported an increase of 1.7mn bbls stocks of crude oil in the week ended 19th June in the US while the market expected a 0.3mn increase instead. There was a 3.9mn gain in the previous week.

On 24th June, US Energy Information Administration reported a 1.4mn bbls increase in the US crude oil stocks in the week ended in 19th June while the market expected a 0.3mn bbls rise. The stocks decreased by 1.2mn bbls a week ago.

After breaking out the middle band in early May, Brent has been trading within the range between the middle and upper band. However, it has yet filled the gap in March. The next resistance is US\$45.1/bbl. The Bollinger band is narrowing. Brent has a nice support at the middle band of US\$40/bbl now.

Figure 1: Brent's rally since April has slowed down



Source: Bloomberg

Based on Fibonacci retracement, Brent failed to break the 50% level of US\$44/bbl. In the near term, we expect it to have another attempt to break it. The downside support is the 38.2% level of US\$37.4/bbl.

Figure 2: Brent failed to break 50% Fibonacci retracement



Source: Bloomberg

WTI almost filled the gap in early March. The next resistance is US\$41.5/bbl which WTI touched on 23rd June. Similar to Brent, WTI has been trading within the range between the middle and upper band since late April. The Bollinger band for WTI narrows more than that for Brent.

Figure 3: WTI filled the gap in March but failed the break above



Source: Bloomberg

Based on Fibonacci retracement, WTI is trading slightly below the 76.40% level of US\$40.6/bbl. The downside support is the 61.8% level of US\$35.2/bbl.

Figure 4: WTI failed to break 76.4% Fibonacci retracement



Source: Bloomberg

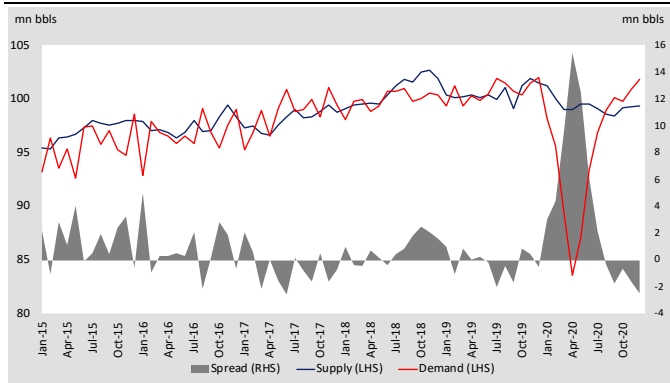
Trading recommendation:

For Brent, we advise to long at US\$40/bbl with a stop loss at US\$38/bbl, and exit at US\$44/bbl.

For WTI, we advise to short at US\$40.6/bbl with a stop loss at US\$41.5/bbl, and exit at US\$37.5/bbl.

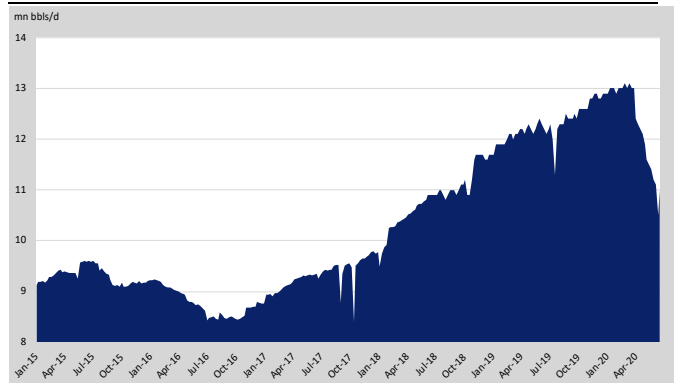
KGI Oil Market Barometer

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



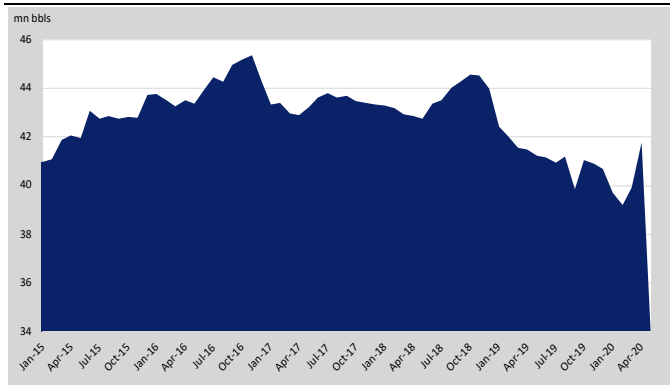
Source: Bloomberg, KGI Research

Figure 6: US oil production peaked in March 2020



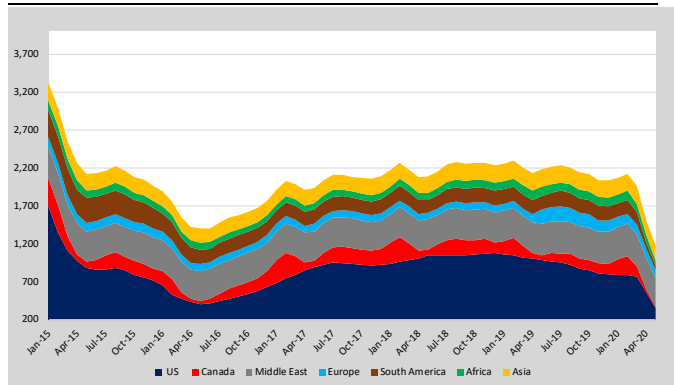
Source: Bloomberg, KGI Research

Figure 7: OPEC and Russia back to a new round of output cut since May



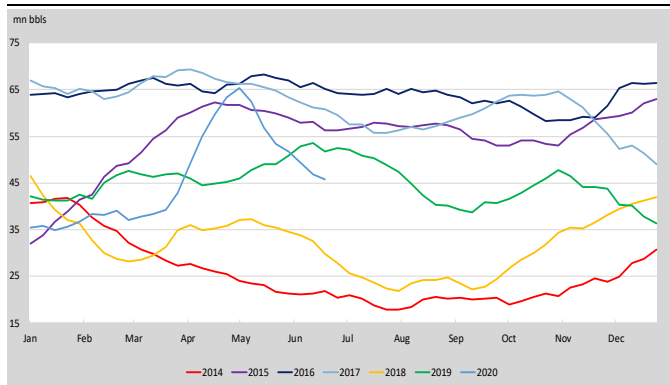
Source: Bloomberg, KGI Research

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



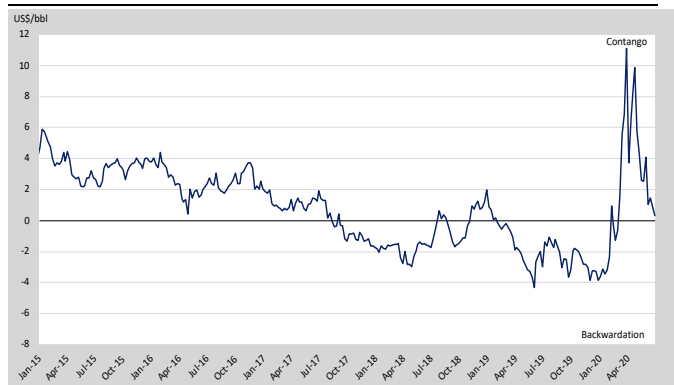
Source: Bloomberg, KGI Research

Figure 9: US crude inventory declined since May



Source: Bloomberg, KGI Research

Figure 10: Crude approaching backwardation



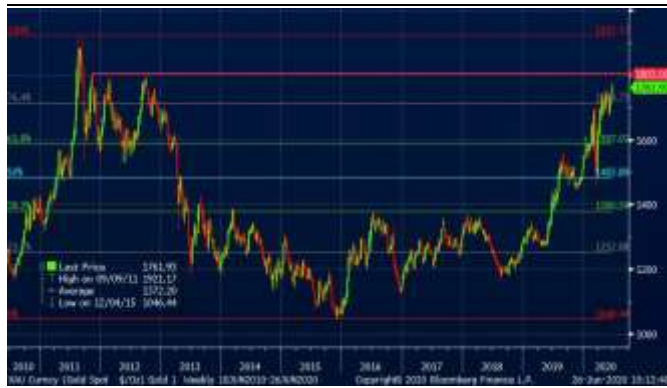
Source: Bloomberg, KGI Research

US job market updates:

On 25th June, US initial jobless claims arrived at 1.48mn in the week ended 20th June, beating the market expectation of 1.3mn increase. The claims in the previous week was 1.54mn.

Gold embraced a breakthrough this week, breaking the eight-year high of US\$1,765/oz and touching US\$1,780/oz. US1,800/oz is a strong resistance which was a level the yellow metal formed triple top during the peak in 2011/2012.

Figure 11: Gold broke the new high



Source: Bloomberg

Gold’s two short-term supports are the 20dma of US\$1,731/oz and 60dma of US\$1,716/oz. The RMI indicator shows the upward momentum just started in gold. Meanwhile, RSI is below 70, the overbought level. Hence, it is a healthy run-up.

Figure 12: The upward momentum just began



Source: Bloomberg

Silver, on the other hand, has not caught up with gold. It is trading at a range bound.

Figure 13: Silver yet sees breakout



Source: Bloomberg

Silver has another two resistance levels to clear to ignite the bull run, US\$18/oz and US19.6/oz. Right now, it is forming a symmetrical triangle, meaning the breakout or breakdown is equally probable. The next support is US\$17/oz.

Figure 14: Consolidation below US18/oz



Source: Bloomberg

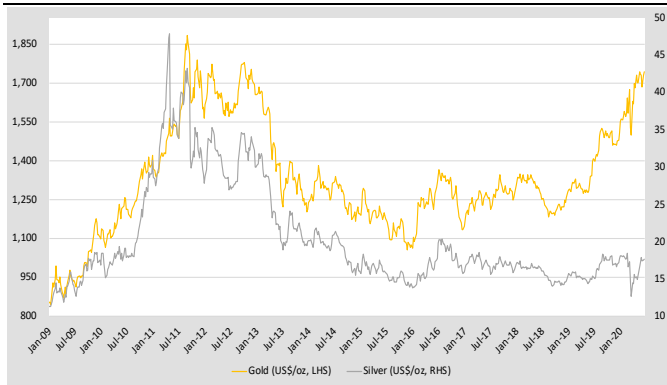
Trading recommendation:

For gold, we advise to long at US\$1,731/oz with a stop loss at US\$1,716/oz, and exit at US\$1,765/oz.

For silver, we advise to long at US\$17.5/oz with a stop loss at US\$17.0/oz, and exit at US\$18.0/oz.

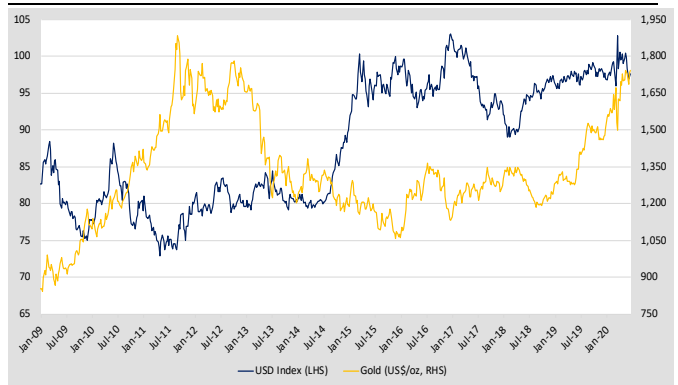
KGI Gold & Silver Barometer

Figure 15: Gold on the bull run but silver remains muted



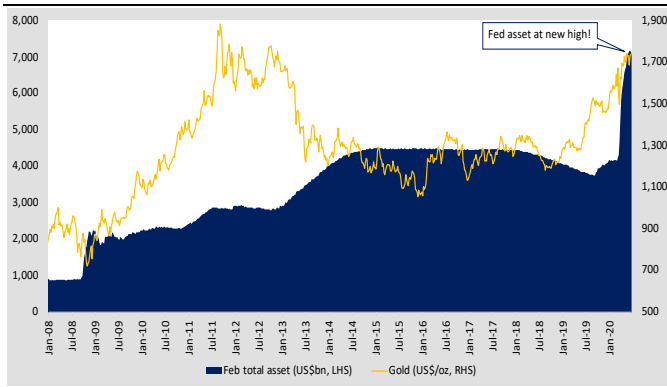
Source: Bloomberg, KGI Research

Figure 16: Inverse correlation between gold and USD broke



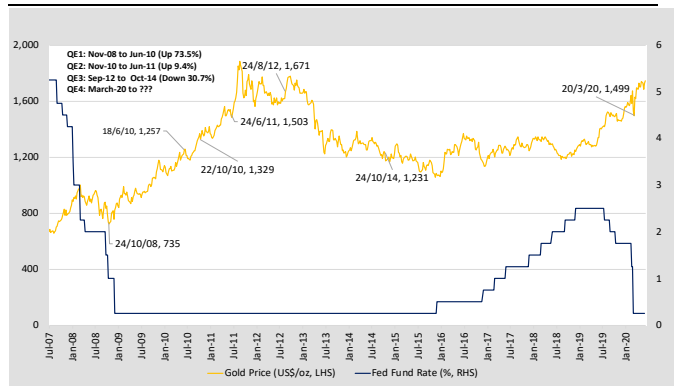
Source: Bloomberg, KGI Research

Figure 17: Gold price climbs higher when Fed assets expand



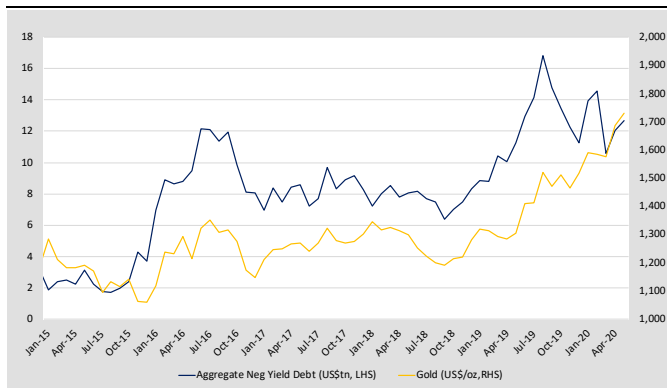
Source: Bloomberg, KGI Research

Figure 18: Gold price and Fed fund rate amid QE



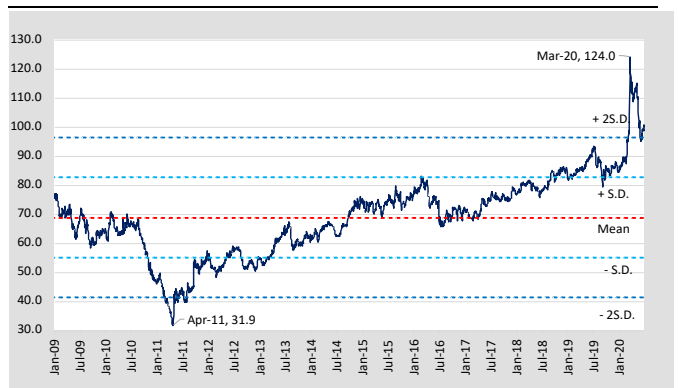
Source: Bloomberg, KGI Research

Figure 19: Positive correlation between gold and negative yield debt



Source: Bloomberg, KGI Research

Figure 20: Gold/Silver ratio remains at historical highs



Source: Bloomberg, KGI Research

KGI's Ratings

Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

Disclaimer

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2020. KGI Securities (Singapore) Pte. Ltd. All rights reserved.