the technical analyst AWARDS 2011 FINALIST

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Multi-Asset Market Update:

UPDATE
Technical
Fundamental

Can the oil price get going on the upside?

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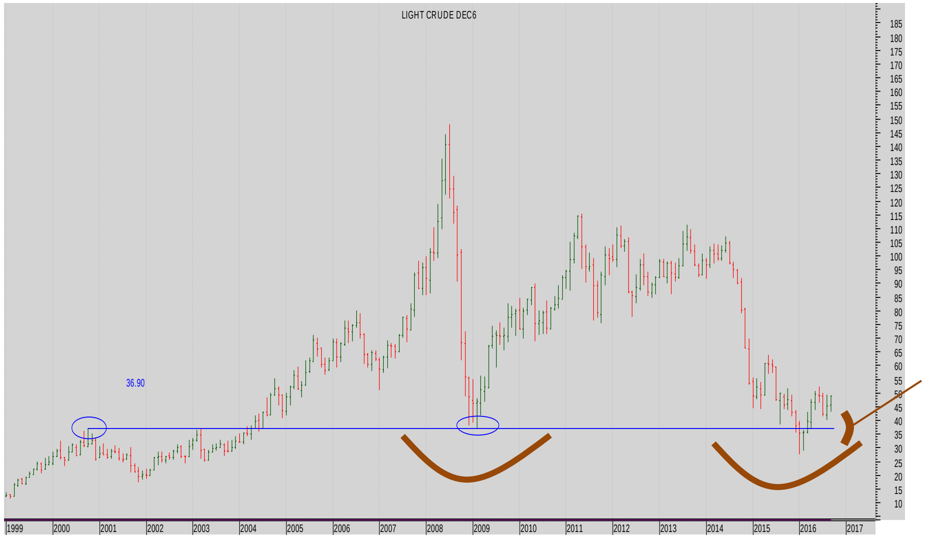
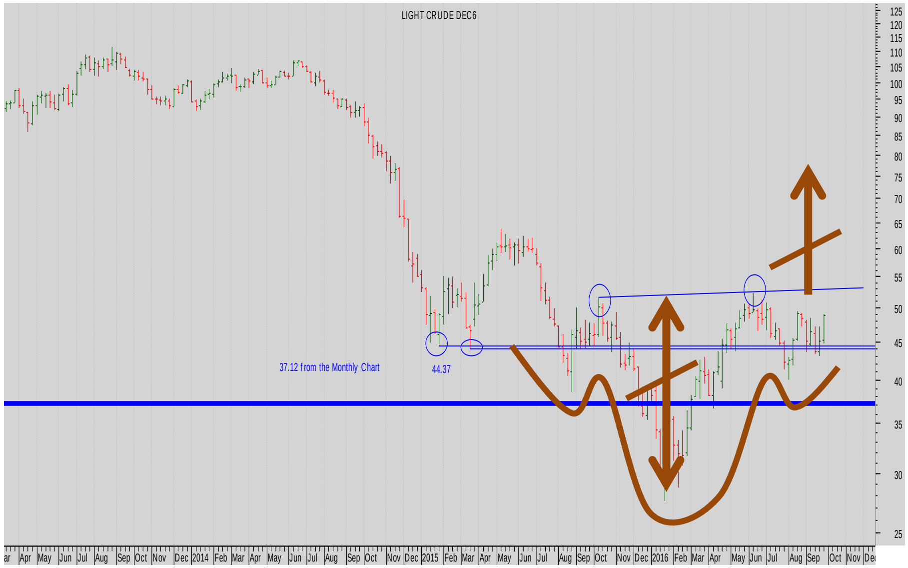


MONTHLY Oil (continuation Futures) chart

The market has found a powerfully solid support at the 36.90 level - from which it has already bounced in 2009.

It is going to be extremely difficult to get back down through that level.



WEEKLY Oil (continuation futures) chart

This chart suggests that a reversal pattern may be forming sufficient to drive the market still higher- if the market can get through $53 or so.

(The measured move up to $75-80 is smaller the depth of the head because of the semi-log scale.)

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More

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FUNDAMENTALS:

After many attempts by oil producers, both OPEC members and non-OPEC members, namely Russia, to persuade Saudi Arabia to agree to reducing oil production, it seems the Saudi’s have finally shifted their position and agreed to a production cut.

But how effective will that be in forcing the Oil price higher? Has OPEC regained the initiative or are they merely trying to catch up with events?

It is worth reminding ourselves why the Oil price is where it is and not the US$100 level of only a few years ago.

The fundamental reason is that t he world economy has failed to regain the level of GDP growth typical of the pre-financial crisis. This is the case despite exceptionally low interest rates in many of the leading economies, together with substantial QE programs operated by several of the world’s large Central Banks.

In particular, world trade, which for so long acted has as an engine for growth and regularly ran at multiples greater than GDP, has slumped to such a degree that it no longer provides an engine for growth.

Additionally, the US Shale boom has added to a growing glut in the oil market that began as a consequence of the drop in global growth rates. As the oil price fell in 2015 to the mid-$30 level Saudi Arabia refused to countenance any output reduction because it had adopted a policy of trying to put the shale producers of the US out of business. A tactic that has so far failed.

FUNDAMENTALS: CONTINUED

Finally the western powers reached an accord with Iran over her Atomic energy program, so freeing her from the sanctions that had prevented her from exporting her considerable reserves of oil. For much of this year Iran has pursued a policy of restoring her exports of crude back to pre-sanctions level, thus adding to an already over-supplied market.

But still Saudi Arabia has refused to agree to any production cut that didn't include Iran.

Only now, when the oil price started to look vulnerable to the downside once more and many oil producers found themselves strapped for cash, has a deal has been done.

However, we are not convinced oil will rally very far. The OECD recently downgraded global growth forecasts to 2.9%. The US released a Q2 GDP report yesterday of just 1.4% annualised, the Euro zone has GDP running at around 1.6%, Japan remains in the doldrums and China's economy is operating well below previous growth rates.

Even if the oil price did rise, it would only make US Shale production yet more viable. That would mean yet more oil coming onto the market and forcing the price down once more. For now, we judge the oil price will struggle to rally far from here and US$60 could well prove to be the peak, if it even gets there.

So we judge that the dynamics of supply and demand still argue for a subdued oil price and given OPEC has a track record of cheating on its quotas, we remain bears of this market medium-term.

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