

29th June 2018

Market Update:

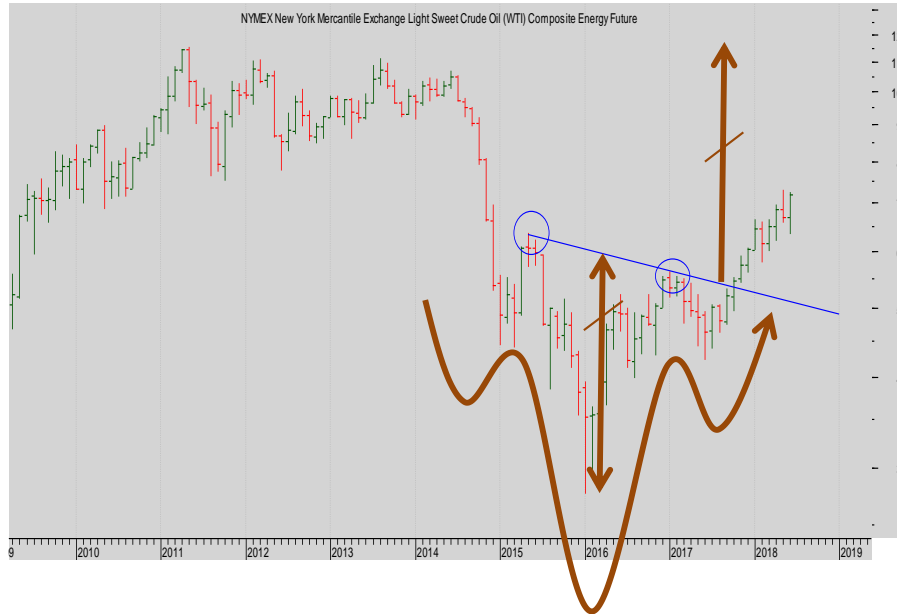
Why oil is still bullish

UPDATE
Technical
Fundamental



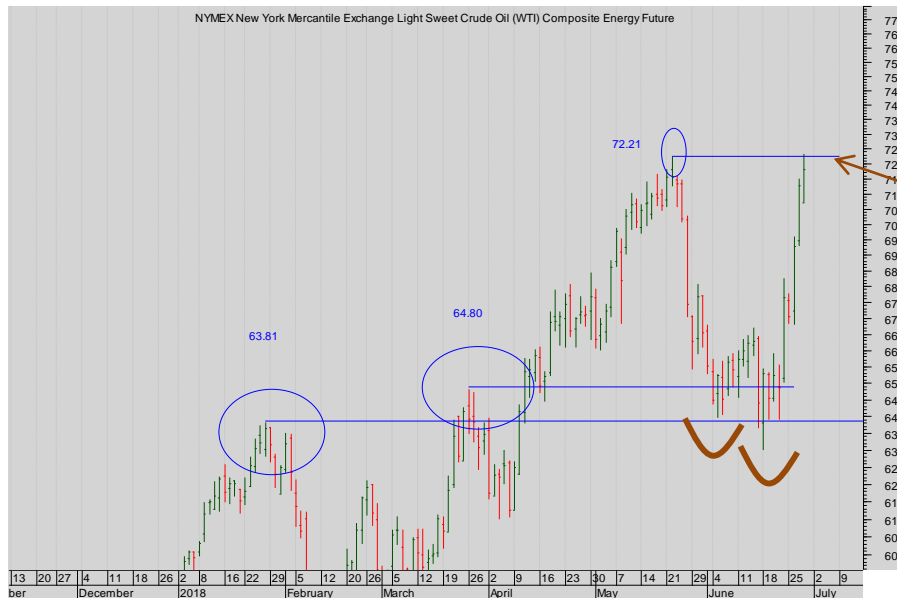
Why oil is still bullish

UPDATE
Technical
Fundamental



MONTHLY CHART

The big picture of the oil market is one of a bull market driven by a completed H&S pattern with a good deal further to go before the minimum target has been reached.



DAILY CHART

The bounce from the support at 64 has been fast.

A pause at the Prior High pivot at 72.21 is likely, but once through that level, another support will have been created, ratcheting the market higher still.

Disclaimer

More



UPDATE
Technical
Fundamental

FUNDAMENTALS:

The rally in Oil has resumed, despite OPEC/Russia agreeing to increase output to cover lost production from Venezuela and Iran.

Why?

When US President Trump pulled the US out of the deal struck with Iran and others, the Oil price naturally rallied. The re-imposition of sanction on Iran led traders to quickly realised that a sizeably supply of crude would be lost to the market. At a sensitive time when OPEC/Russia were already collaborating on a production cut designed to eliminate the long running supply glut and bring supply/demand back into balance.

At the same time, the badly-managed Venezuelan economy continued to deteriorate and with it her substantial oil output virtually dried up, due to gross miss-management.

The combined impact of these two events explains the rally in oil prices in the February to May period of this year. The sell-off that followed was fuelled by Saudi Arabia announcing OPEC would increase production and that decline accelerated when Russia said she would increase output too.

The Oil price has since rallied. OPEC and Russia have been true to their word and increased output but there is anxiety among traders that OPEC and especially Saudi Arabia are now running close to their maximum capacity, leaving little if anything in reserve should another shock hit supply.

For although Saudi Arabia has significant reserves still in the ground there has been little new development in recent years.



FUNDAMENTALS: CONTINUED

It is worth remembering that for several years the oil price had been under downward pressure for two key reasons:

- The supply glut that had accumulated to such an extent that fleets of oil tankers were fully loaded and tied up with no immediate buyers.
- The shale output bonanza in the US that saw the US become not only energy self-sufficient but become a net exporter.

In that environment many oil companies and oil producer nations not only ceased oil exploration, but halted development of new known fields as the weak oil price made no economic sense.

But once the dynamics in the market turned, as they have, those reserves cannot simply be brought into production. So now with Iran's oil under embargo and Venezuela's stuck in the ground the supply/demand equation has swung from glut to fear of famine.

In reality there is enough supply to meet current demand. But, as ever, traders are looking beyond the present. Not until Saudi Arabia/OPEC brings more reserves into production, or Venezuela gets its economy back into shape or Iran is allowed to sell its oil once more will the current rally exhaust.

Of the three conditions mentioned above the best hope is that new supply can soon be developed, but how quickly this can be done depends to a great extent on the willingness of producers to cap the oil price at or around current levels.

In summary the oil price looks well supported and set to rally further. There is one caveat. The higher the oil price goes, the more profitable US Shale production becomes. US reserves are vast and they will be exploited.



UPDATE
Technical
Fundamental

SEVEN DAYS AHEAD

Authorised and Regulated by the FSA

124 REGENTS PARK ROAD LONDON NW18XL

TEL +44 (0) 7849 922573 E-MAIL msturdy@sevendaysahead.com,

jlewis@sevendaysahead.com pallwright@sevendaysahead.com

WEB SITE SEVENDAYS Ahead.COM

The material and information set out in this research is not intended to be a quote of an offer to buy or sell any financial products. Any expression of opinion is based on sources believed to be reasonably reliable but is not guaranteed as to accuracy or completeness.

The material and information herein is general and for informational purposes only. Although Seven Days Ahead endeavours to provide useful information they make no guarantee as to the accuracy or reliability of the research.

The derivative market comprises volatility and considerable risks. To the maximum extent permitted by law no responsibility or liability can be accepted by Seven Days Ahead, any company or employee within its group for any action taken as a result of the information contained in this presentation. You are requested not to rely on any representation in this research and to seek specific advice from your accountant, legal adviser or financial services adviser when dealing with specific circumstances.

Seven Days Ahead is regulated by the UK Financial Services Authority.