2nd November 2018

Market Update:

UPDATE
Technical
Fundamental

The oil bears are in charge

Disclaimer

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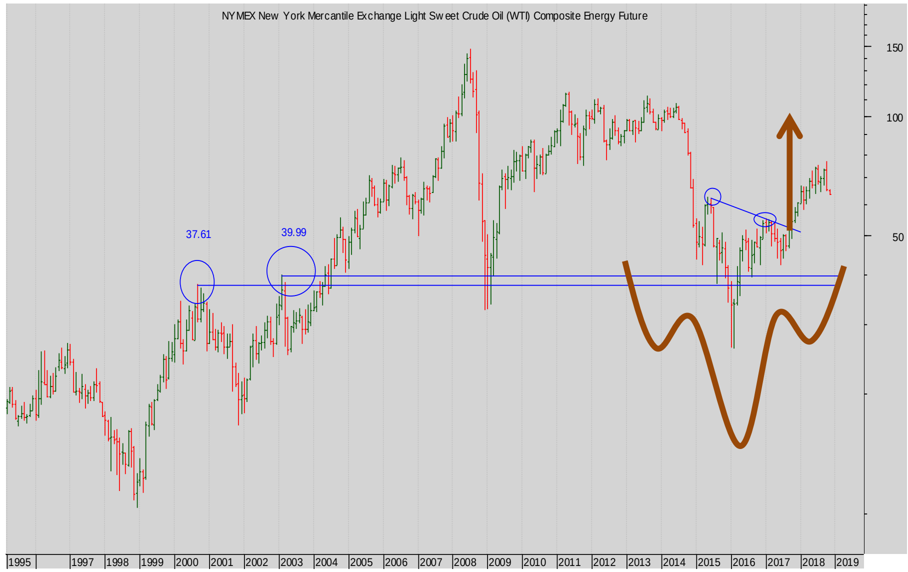

MONTHLY CHART

The market's long-established H&S reversal pattern has yet to reach the minimum target of about $100.

WEEKLY CHART

But this is bearish: the market has broken the long-standing bull trendline diagonal support.

<u>And</u>, in addition, a small bearish Double Top has completed in the Weekly chart.

Minimum move down as far as $55.

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DAILY CHART

This is interesting though:

1. **The Prior High support from 7062 has been smashed…**
2. **and also the diagonal from February 2018.**

But the <u>real test</u> of the market is to see if the bears can break the powerfully-established support , the horizontal from 62.30….

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FUNDAMENTALS:

The Oil market rally that only a few short weeks ago was being called up to USD100 a barrel, has not only come to an abrupt halt, but actually reversed.

Where does the market go from here? Is the current price action no more than a serious correction, or has the market entered a new phase with traders reassessing the fundamentals of the oil market, meaning it is set to trade lower yet?

The drive behind the recent rally was a mixture of:

- Strong US growth,
- Solid growth in the Euro zone,
- Trump's decision to pull the US out of the nuclear deal with Iran, and
- Uncertainty about the willingness of other OPEC members to plug the gap about to be created by the re-imposition of US sanctions on Iran which effectively removed Iran's oil supply from the market.

So what has changed?

The US economy is still growing very strongly at around 3.5% on an annualised basis. Although the Fed is gradually becoming more hawkish with interest rate policy, in reality US interest rates will probably settle at around 3.5% by 2020 based on where they are now; 2.0 – 2.25%, with one more hike expected this year, three in 2019 and probably one in 2020. But historically that would mean US interest rates would still be about 200bp below their long run average, so no reason for alarm.

More

FUNDAMENTALS: CONTINUED

However, in the Euro zone growth is showing clear signs of cooling off with the latest release of Euro zone Q3 GDP coming in at 0.2q and 1.7y. This is a marked slowdown, with implications for energy demand.

What then of Trump, Iran and OPEC?

In the event OPEC/Saudi Arabia have proved more willing to increase oil output to cover Iran's short fall resulting from Trump imposing sanctions on Iran, and although there has been speculation that Saudi Arabia might use oil as a weapon to hit back at any Western/US sanctions imposed as a punishment for Jama Khoshoggi's murder, the US looks unlikely to upset commercial arrangements and the Saudis have ruled out using oil as a weapon.

Moreover, the Saudis might even increase oil output, placing further downward pressure on the oil price, as a means of placating US outrage over the killing of Khashoggi in the Saudi Arabian consulate in Turkey.

So all eyes are back on the fundamentals.

We judge the outlook for global growth is weaker than it was earlier this year.

The US trade war with China shows no sign of resolving and is a major threat to global trade and growth. Add in what now looks like a cooling Euro zone economy and the oil price looks vulnerable.

In summary we think oil can further test the downside.

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