Oil Outlooks and Opinions

Thursday, February 23, 2017

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Never Let Me Go

Dog, meet bone.

It's been a quiet enough week. Granted, there's a lot of folks out in London for IP Week, but overall the short week hasn't really garnered a lot of attention in the markets. The rally that we saw on Tuesday was all given back on Wednesday. Which, was a pretty odd move considering we saw a draw on the API numbers. Given the track record of the trading day ahead of the API numbers, we usually see the market players getting the jump on the numbers. I won't propagate any fake news here, but it sure does seem like there are some out there that are in the know. Somehow I think that Huggy Bear is playing inside information on the stats ("I don't know nothing about nothing, but word on the street says…"). Maybe this is a sign that either they don't want to make it so obvious all the time and a short week is as good as a time as any. Another possibility is that those on the inside circle are in London and don't want to bother staying up all night to chase the numbers.

Now here's the other scenario, the US shocked the world. It figures, just as I broke my golden rule of never predicting the draws or builds by more than 3mm. The possible draw of crude oil (API –884K) has a lot of intrigue built into it. I won't bother with the API details to respect their IP, but if we see a draw in the EIA stats, it's going to cause a few headaches. First we'll have to see a big drop in imports. That's because we're nowhere near running refineries back to normal. We're still likely to see lower crude runs here until April. This would mean that an easy solution to the crude supply drop would be imports coming off...*hard*. The second part of this is that US export gained a lot of ground. We've seen plenty of stories lately that confirm that the US has been setting records for export volumes of crude oil. There's no doubt that we think that the export number in crude is going to continue to set records in the future and in 2017 we're going to see that number well over 1mm b/d.

OK my teeming millions, this is where we get back to what we've been talking about all week: the demise of the Brent benchmark. The reason it's there in the first place is the US. Don't let anyone else fool you, America is still the largest importer of crude oil in the world and we're the one country that pulls in foreign crude that helps make Brent the most logistical choice to benchmark. Well, that was at least until the last few years. We're likely to also set an ignominious record this year; record low imports of the decade. If the US is exporting more oil than we're bringing in, say from OPEC, then the idea of benchmarking a foreign crude that has the fixings on the US, adding more production streams from the North Sea isn't going to help. China gets put into the captain's chair and now it's about the oil that is going there. Since America is sending a lot of it's export volume here, why shouldn't there be a benchmark that comes from the US? We're making more than the North Sea, we're exporting more than the North Sea and we control the USD that all oil is based on. Now that we've established the logic, OPEC has to be wondering how they lost so much by waiting too long.

That's Hot

- Making America Great Again (the world pegs currencies against the USD, time to start using the WTI too)
- Fund money (if it was good for March WTI, it's great for April)
- Milo Yiannopoulos (and PewDiePie in about a week...what's left of social media now)

Days go by and I still think of you...

That's Not

- Oil inventories (nobody ever expects the Spanish Inquisition)
- OPEC (now if the US exports more than Libya...oh man)
- Rapper beefs (I'm not sure who all these guys are, but is this an East Coast/West coast thing again)

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Crude:

And another month bites the dust. It's hard to believe that we're already moving along to the **CLJ7** contract. We now pivot past the last month of the year and that should be worth something to everyone trying to play the cash and financial markets. We kick off with resistance here at 5466, 5572 and 5660. We'll look back lower to support at 5340, 5255 and 5177. We'll also change the lead spread and the front spread moves up to **CLJ7/CLK7** and start with resistance at –22, -16 and –05. Support comes back to –34, -45 and –58. Let's get this week done right and the new contract back in play. Back to reality. Follow the Dollar, maybe follow the dream.

Gasoline:

OK laziness has been set aside and I'm moving ahead the **RBH17** contract. We can start with resistance here at 15366, 15570 and 15745. Support looks below to 15156, 14985 and 14770. The front spread moves to **RBH7/RBJ7**. Resistance at –2170, -2066 and –1980. Support to –2360, -2488 and –2560. The **RBJ7/CLJ7** gets resistance at 1977, 2035. Support falls to 1870, 1792.

Distillate:

The calendar keeps us moving and we are focused on the **HOH17** contract. We'll get resistance here at 16644, 16870 and 17035. Support looks back to 16434, 16250, and 16080. The front spread bumps up to **HOH7/HOJ7**. Resistance here looks at –88, -65. Support holds down to –108, -125. The crack moves up to **HOJ7/CLJ7** Resistance at 1570, 1660. Support back to 1511, 1463.

Techies, some Trekkies

- 200 Day MA 5104
- 100 Day MA 5246
- 13 Day MA 5366
- 8 Day MA 5381
- 14 Day RSI 53.72

Spread now; Roll later

- Getting there
- Key support: -44, -60, -75
- Key Rests: -18, 00, +16

Trends are only for the affected:

Alas, these things never work out as we ever expect them too. I think if I had a dollar for every failed Head and Shoulders on the CL chart, I'd have my own fund right now. So let's move on from that dream on the 60min chart and continue on with the scintillating sideways action. We're playing here between 5270 and 5370 and it's more of the same we've seen all this week and most of last. Making a move outside these parameters might be worth noting, but good luck with that.

Fundy you should mention:

Interesting to see that banks are not feeling the love in the Commodity markets. Actually, it's not. Last year was a rough year for anyone that was close to anything oil. What I do find interesting about that whole fact is that banks hate to lose. Pushing ahead into the President Trump era, I think that banks aren't going to be waiting all that long to start making up that ground. I've heard some rumblings, but banks seem primed to make a move soon. We get the weekly Jobless Claims (244K) at 8:30am ET. Then there's the FHFA House Price Index (0.4) at 9:00am.

Sorry, I am just physically attracted:

Outside of the surprising crude draw on the API numbers last night, the Gasoline number saw a shocking draw (-893K) as well. I'm not sure how to take all of this. Could it be that our industry is built around "fake news" too? Just recently, there was a few articles in regards to the declining consumer demand for gasoline this winter. Bad weather had kept a lot of people in and off the road. Well, until last week. Of course, we'll wait to break it all down on the EIA stats, but it could be that we're picking up more exports here too. Imports have already fallen pretty hard the past few years and it would make sense considering the weakened refinery runs in turnarounds. Still, the lack of import would all but shut the door on the EU.

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Carpe Diem (trade for today):

For those that are losing their faith in the North Sea, we welcome all.

Come with it. I go LONG CLJ7 above 5480. I'm always a little skeptical about a move in CL here above 5500, but with this Brent thing going on, I may be inclined to think about this twice. I've always been a follower of "flight to quality" theory and this looks right on that path. Funds are already heavy longs, but if they are moving money and reallocating to the safer option, I'm willing to see a run up to the 5530 area.

Back to reality. I go SHOR CLJ7 under 5370. I know we're talking about a different contract month here. Yes, April CL usually gets a bit more demand, but we have so much in storage and probably a lot more domestic production by the time this delivers, I can't see a run up here. I do think that we're in a good position to clean up some rally here with profit taking and ahead of the EIA stats. Watching for a swift move down to the 5310 area.