# THE HIGHTOWER REPORT

Futures Analysis & Forecasting

SPECIAL REPORT

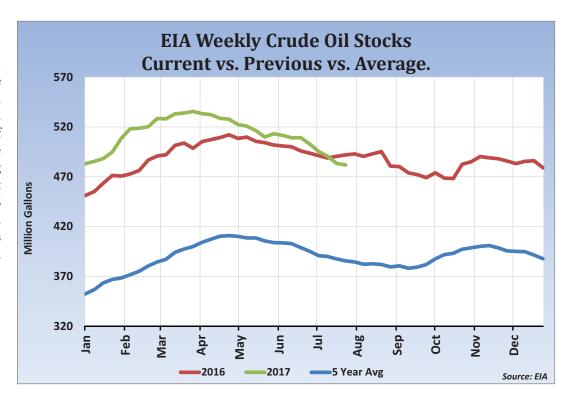
HightowerReport.com

August 7, 2017

# The Oil Markets - Signs of Fundamental Change!

#### **Supply Leveling**

While crude oil prices have rebounded notably from the June lows, it appears that prices in the vicinity of \$48 per barrel have resulted in a tapering of US exploration efforts. While a couple weeks of declining US rig operating counts is not that significant, the fact that US crude oil stocks have declined by roughly 25 million barrels since the middle of June is a telltale sign.



For a FREE TRIAL of Daily Research and Trade Recommendations go to <u>HightowerReport.com</u>

## www.HightowerReport.com

Trade Recommendations Pre-open and Midday Audio Updates Fundamental & Technial Chart Library Daily Fundametal & Technical Analysis

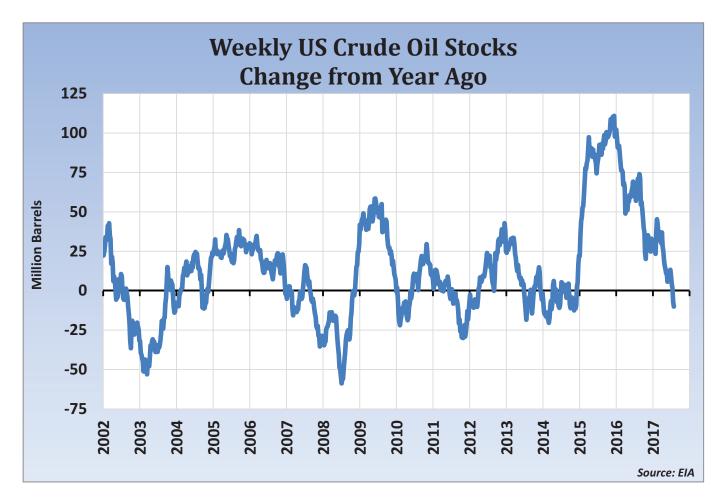
141WestJackson • Suite 4002 • Chicago, Illinois • 60604 • 800-662-9346 • 312-786-4450 • info@HightowerReport.com • @HightowerReport

#### THE HIGHTOWER REPORT

Futures Analysis & Forcasting

Crude oil stocks have fallen below year ago levels by more than 10 million barrels at the same time the market is being presented with rising supply threats in Venezuela due to political and economic unrest. The importance of Venezuela as a supplier should not be underestimated, as that nation has been the third largest oil exporter to the US for many years. Now it appears that the Venezuelan national oil company (PDVSA) is in danger of breaking apart along with the Venezuelan government.

EIA US Crude Oil Stocks	
Week Ending	Change from Week Ago
6/2/2017	3.295
6/9/2017	-1.661
6/16/2017	-2.451
6/23/2017	0.118
6/30/2017	-6.299
7/7/2017	-7.564
7/14/2017	-4.727
7/21/2017	-7.208
7/28/2017	-1.527



#### SPECIAL REPORT

#### THE HIGHTOWER REPORT

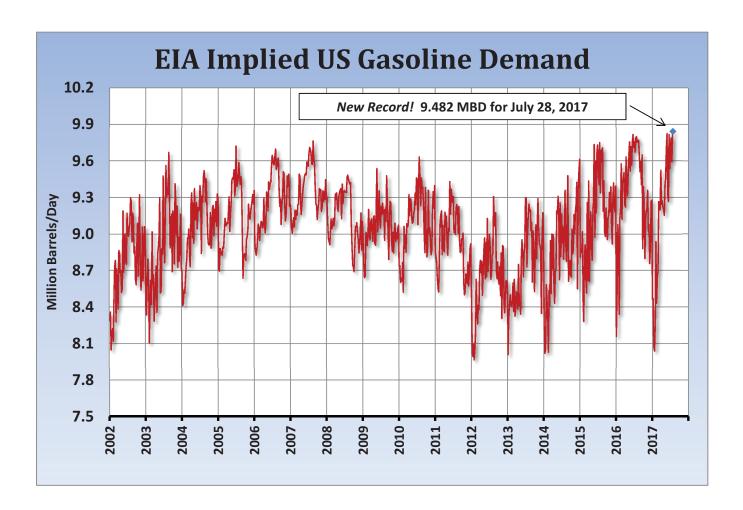
Futures Analysis & Forcasting

Another potential source of declining world supply has been noted recently with the gradual deterioration in output from Libya's Sahara oil field due to security issues and protests. And as of this writing compliance rates for the oil producers' agreement have very high (with the exception of the UAE and Iraq). All said, the supply-side of the equation is showing tangible signs of leveling.

#### **Demand Showing Signs of Improvement**

Fundamental change is also in the works from the demand side of the equation with generally favorable global oil demand along with improvement in Chinese, US and European economic conditions. In early August Goldman Sachs pegged May through June world oil demand to have grown by 1.8 million barrels per day. That forecast was driven home by the fact that for the week ending July 28th, US weekly implied gasoline demand posted its second new all-time high reading this year.

Compounding the prospects of increased demand for US oil are a developing pattern of strong US monthly nonfarm payroll results and significant declines in the US dollar, which in turn increase the competitiveness of US oil on the world market. Global demand growth expectations are fanned by the fact that US oil exports have started a steady rise over the last year, which should serve to siphon off a portion of ever-expanding US oil production.



#### SPECIAL REPORT

### THE HIGHTOWER REPORT

Futures Analysis & Forcasting

Another source of strong demand is China, which has surged ahead of the US as the world's largest crude oil importer. With China's oil production sitting at roughly 3.9 million barrels per day and their January through June refinery throughput at 11.1 million barrels per day, it is clear that imports will remain part of the Chinese energy needs for the foreseeable future.

The demand side of the equation has improved enough to combine with the leveling of supply for what could be a significant bottom in crude oil pricing.

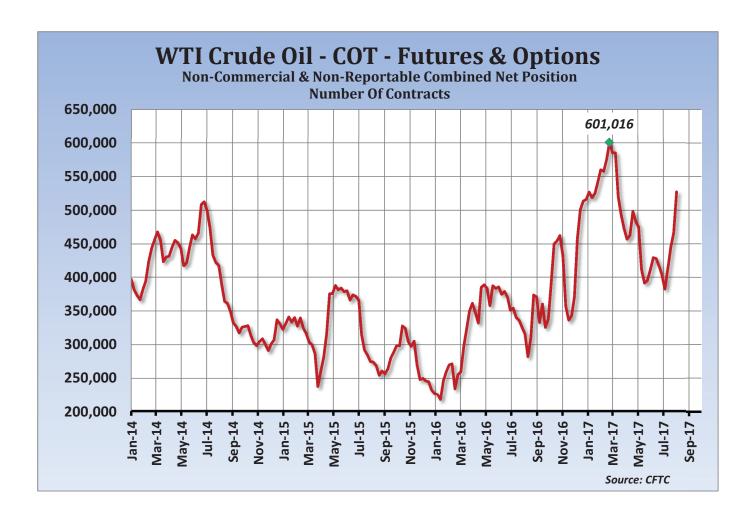
#### Where is Fair Value?

From the June low to the August high, September crude oil forged a significant, \$8.13 rally for a net gain of nearly 20%. In that time

the Commitments of Traders Futures and Options Reports showed the non-commercial and non-reportable combined net long position go from +382,000 contracts to +527,000. This suggests the market could have gotten temporarily overbought and is in need of a consolidation around the \$48 level before it attempts to climb higher into the March through May trading range between \$50 and \$54.

Another issue that could usher in a temporary correction in crude oil is slack demand between the active summer driving season and the North American winter.

Commodity markets driven by stepwise improvements in demand are more inclined towards steady but undramatic moves higher, as opposed to sudden, sharp increases that might usually accompany supply-driven bull markets.



#### SPECIAL REPORT

#### THE HIGHTOWER REPORT

Futures Analysis & Forcasting

From a technical perspective, the bull camp should be emboldened by the fact that nearby crude oil prices have been able to climb above (and generally stay above) the 100-day moving average for the first time since April. Even better, the market is approaching the 200-day moving average, which is currently up around \$51.16. Longer-term moving averages are used by some funds as trend indicators.

Given the short-term overbought condition and the likelihood that favorable demand has been embraced by the markets, a normal setback in prices could be expected. With the \$48 level a key pivot point for most of the last year's trade, we would suggest buyers look to buy a dip in prices during the month of August.

#### **Suggested Trading Strategies**

- 1. BUY October Crude oil at \$46.80 with an initial target of \$50.82. Risk the position to a close below \$45.55.
- 2. BUY October RBOB at \$1.4835 with an initial objective of \$1.57. Risk the position to the 200-day moving average around \$1.4565.

# Disclaimer

This report includes information from sources believed to be reliable and accurate as of the date of this publication, but no independent verification has been made and we do not guarantee its accuracy or completeness. Opinions expressed are subject to change without notice. This report should not be construed as a request to engage in any transaction involving the purchase or sale of a futures contract and/or commodity option thereon. The risk of loss in trading futures contracts or commodity options can be substantial, and investors should carefully consider the inherent risks of such an investment in light of their financial condition. Any reproduction or retransmission of this report without the express written consent of The Hightower Report is strictly prohibited. Violators are subject to a \$15,000 fine per violation.