Oil Market: US-Sino relationships still lead oil prices

WTI prices ignored the US oil inventory build-up, released yesterday despite the initial shock, and started to climb during the Asian session on Thursday. The release by the EIA showed that US oil inventories had increased by +5.7 million barrels, substantially higher than the consensus, which was expecting a modest build-up of 0.5 million barrels. The release was evident about the situation of the US oil market currently, as albeit there is a declining number of active oil rigs in the US, demand is still weaker than production, thus the build-up of inventories.

The release of FOMC's interest rate decision on Wednesday, which delivered the third consecutive rate cut by the Fed, may have boosted expectations for greater economic activity and oil demand in the US. A similar reaction was mentioned from analysts about the sixth consecutive contraction of economic activity in the Chinese manufacturing sector (as released yesterday by the NBS PMI) as it could also spark further stimulus and thus increase of oil demand.

On a more fundamental level though we tend to regard the smoothening of the US-Sino relationships as more important. On the one hand, signs of the US and China closing in on a possible partial deal, to soften out their trade differences, seem to be increasing. On the other hand though, it seems that the situation remains very delicate and could easily be reversed. It was indicative that as oil prices at some point yesterday seemed to be getting a boost from a possible improvement on the issue, the situation was reversed during today's European session as media headlines stated that China doubts if a long-term trade deal is possible with Trump.

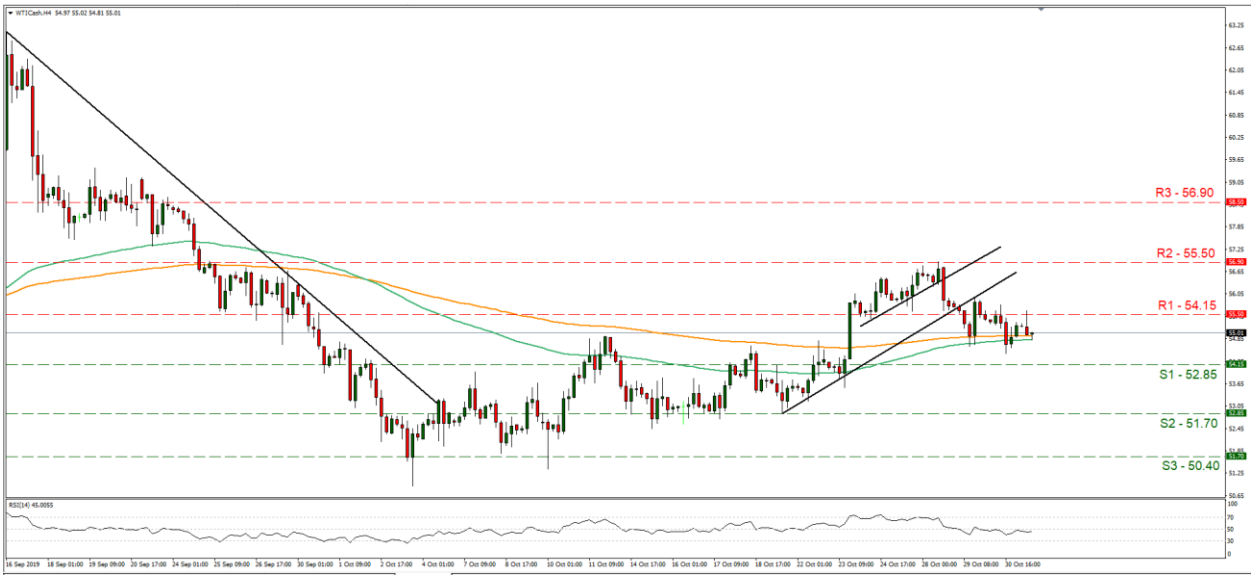
On another front, efforts for Saudi Aramco to go public are intensifying. In a latest development, the Saudi energy minister stated that the stock market flotation of Aramco is coming soon, yet also stated that the actual timing rested with Crown Prince Mohammed bin Salman. Never the less, headlines mention that Aramco is pushing to complete IPO in the current year. Meantime, also media headlines state that the company is to set the IPO price range on November 17 and that Aramco told IPO bankers that it made 68 USD billion in the past three quarters of 2019. Such earnings could cement Aramco's position as the most profitable company worldwide, generating huge interest for the IPO in the markets.

Also, from Saudi Arabia the next issue, as at the Future Investment Initiative in Riyadh, Brazil's president Bolsonaro stated that he wants his country to join OPEC. The statement made was in reply to an informal invitation from Saudi Arabia to join OPEC, according to media and he replied that he would be eager to accept. Should such a development be materialised, there could be a shift in the power balance among oil producers globally, strengthening OPEC's influence substantially. Also, within OPEC itself the balance of Power could shift as Brazil would become the group's third largest oil producer. On the flip side, the news may have not been so warmly received back home in Brazil, as industry officials seemed to express hesitation if not scepticism for such a development, as the production curbs agreed among OPEC members, if applied to Brazilian production, could endanger plans of Brazilian oil companies for expansion.

Summing up we maintain our worries about oil prices, and we could see the US-Sino relationships as fundamentally crucial for the commodity, as they could turn black gold's direction either way, depending on the turn of events and headlines.

Technical Analysis

WTICash 4hour chart



- Support: 52.85 (S1), 51.70 (S2), 50.40 (S3)
- Resistance: 54.15 (R1), 55.50 (R2), 56.90 (R3)

WTI prices maintain a sideways motion after their decline on Tuesday, between the 54.15 (R1) resistance line and the 52.85 (S1) support line. Should one look at the broader picture, practically, WTI prices moved in a corridor, with a median price around our 54.15 (R1) resistance line over the past 7 days. We tend to maintain a sideways motion scenario for black gold's prices, as its recent upward movement was broken.

Should the bulls be in charge of WTI prices, we could see the commodity breaking the 54.15 (R1) resistance line which contained WTI during today's European session and aim for the 55.50 (R2) which last Monday marked the commodity's highest point since the 25th of September. Should R2 be broken we could see the commodity aiming for the 56.90 (R3), which hasn't seen price action since the 23rd of September and contained oil prices also on the 10th of September.

Should the bears dictate WTI's price action, we could see black gold breaking the 52.85 (S1) support line and aim for the 51.70 (S2), which served the commodity well as a support level mid-month. Should S2 also be broken we could see oil prices, aiming for the 50.40 (S3) support barrier which was tested a number of times during the first ten days of October, but not clearly broken.

www.IronFX.co.uk | www.IronFX.com/au | www.IronFX.com/za | www.IronFX.com | www.IronFX.eu

Group Licences and Authorisations:

Notesco UK Limited is authorised and regulated by the Financial Conduct Authority (FCA no. 585561)

Notesco Pty Limited is authorised and regulated by ASIC (AFSL no. 417482)

Notesco SA (Pty) Ltd is authorised by the Financial Sector Conduct Authority (FSP no. 45276)

Notesco Financial Services Limited is authorised and regulated by CySEC (CySEC no. 125/10)

High Risk Warning:

Our services include products that are traded on margin and carry a risk of losing all your initial deposit. Before deciding on trading on margin products you should consider your investment objectives, risk tolerance and your level of experience on these products. Trading with high leverage level can either be against you or for you. Margin products may not be suitable for everyone and you should ensure that you understand the risks involved. You should be aware of all the risks associated in regards to products that are traded on margin and seek independent financial advice, if necessary. Please consider our Risk Disclosure.

Disclaimer:

The information in this document should not be considered as an investment advice or investment recommendation but instead as educational material only. This material is just the personal opinion of the author(s) and client's investment objective and risks tolerance have not been considered. IronFX is not responsible for any loss arising from any information herein contained. Redistribution of this material is strictly prohibited.

IronFX does not offer its services to residents of certain jurisdictions such as USA, Iran, Cuba, Sudan, Syria and North Korea.