

## The SHORT VIEW (& market positioning)

# OIL: Breakout Ahead

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### Summary & Conclusion

Price action in oil has been **encouraging for the bulls in recent months** (although less so today). In particular, the Brent price tested, and rallied from, a key level (\$71.60/barrel) last month. That price had been tested (and held) on **five prior occasions** (in March, May, and June last year), see FIG A. As a general rule of thumb, when key levels are tested and held multiple times, they are considered to be strong technical levels. Of interest, price action is similar in the WTI benchmark (with futures testing/rallying from around \$67.60/barrel).

Since rallying from that level, oil prices have formed a pennant pattern (with lower highs and higher lows in December and January), FIG A. Broadly speaking, that pattern has formed just below the 50 day moving average (the key technical resistance level for oil).

With oil prices now at the end of their pennant, the key question becomes: **Which way will they break?**

**FIG A:** Brent futures, with 50 & 200 day moving averages (US\$/barrel)



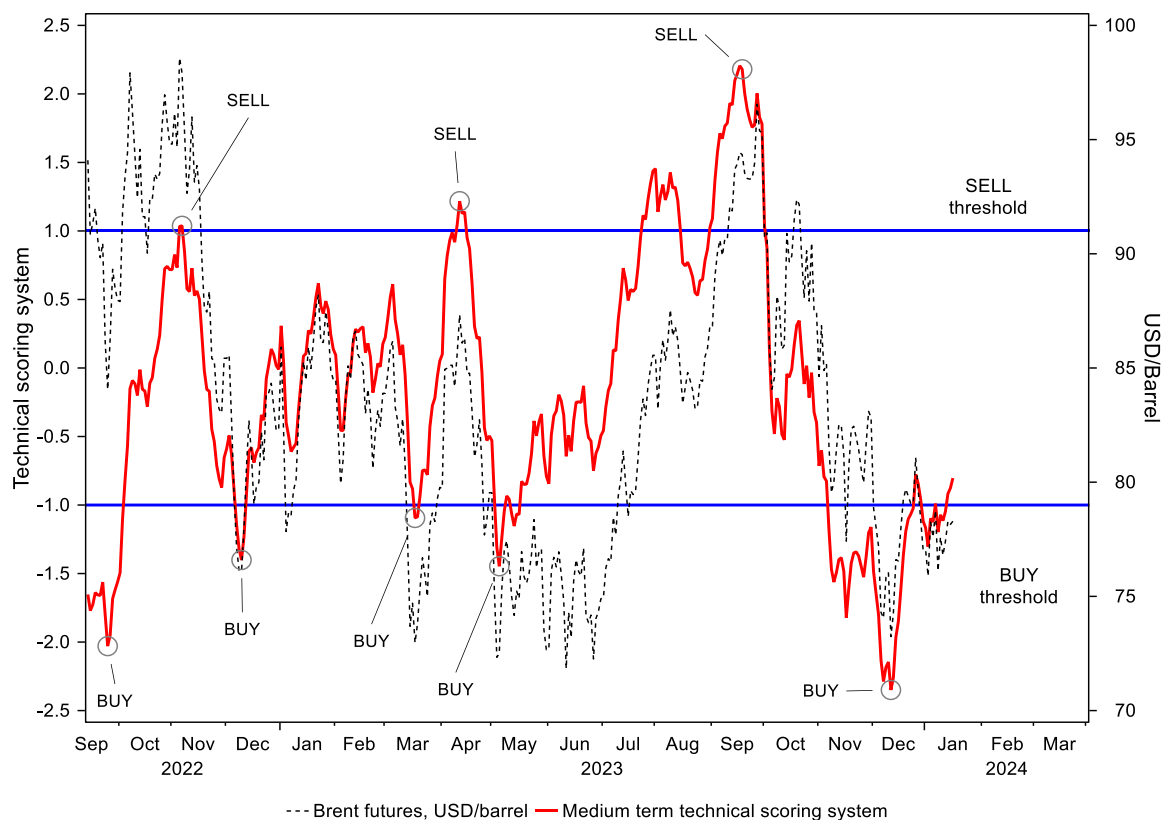
Source: Longview Economics, Macrobond

From a **technical, sentiment, and market positioning perspective**, oil is likely poised to break out to the upside.

In particular, the rally from the December lows was from **deeply oversold levels**. Illustrating that, at the time of the low, our medium term technical scoring system was generating a (relatively extreme) BUY signal. That level had only been reached on six occasions in the past ten years. Those six signals were then followed by meaningful oil price strength (albeit some of the signals were early\*).

While this model has started to unwind its extreme BUY signal, it's still close to its BUY threshold, and therefore highlights the potential for further oil price upside (i.e. over the next 1 – 3 months, and possibly beyond).

**FIG B:** Medium term technical scoring system vs. oil price (US\$/barrel)



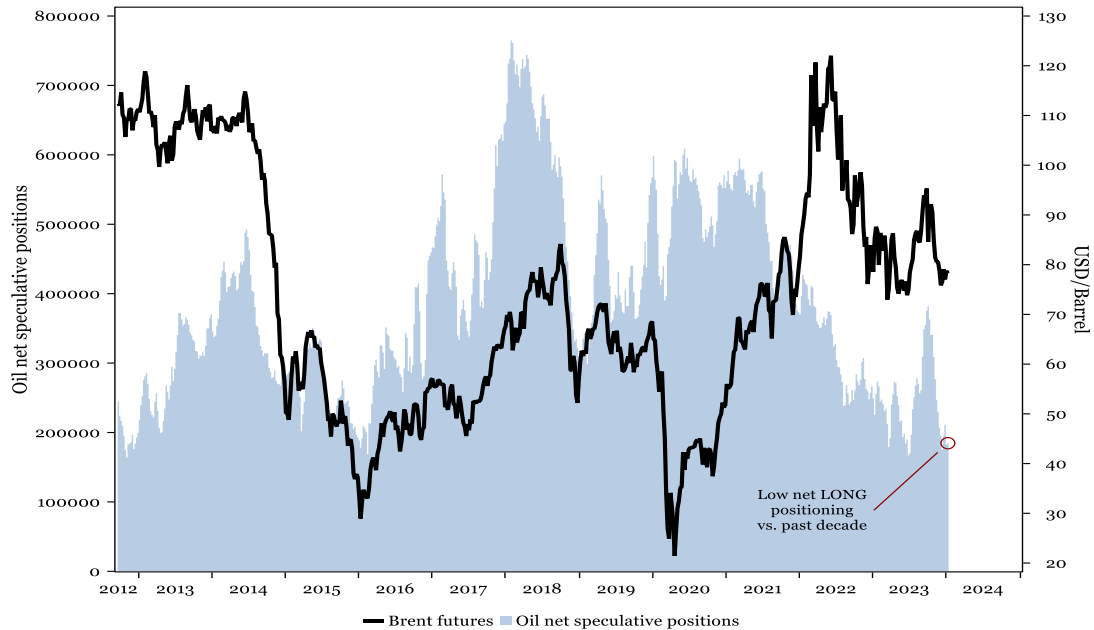
Source: Longview Economics, Macrobond

\*Extreme BUY signals from this indicator can be early, particularly when oil price pullbacks are large and persistent. That was the case, for example, in 2014 (the BUY signal was three months early), and following the sell-off from the early 2022 highs (two months early). In sideways trading ranges, though, such as the past 18 months, signals from this model are typically timely.

Consistent with that, and after a sharp rise in LONG oil futures positioning in 2H last year, net positioning has fallen rapidly in recent weeks and is now at one of its **lowest, most bearish, levels in the past 10 years** (see FIG C).

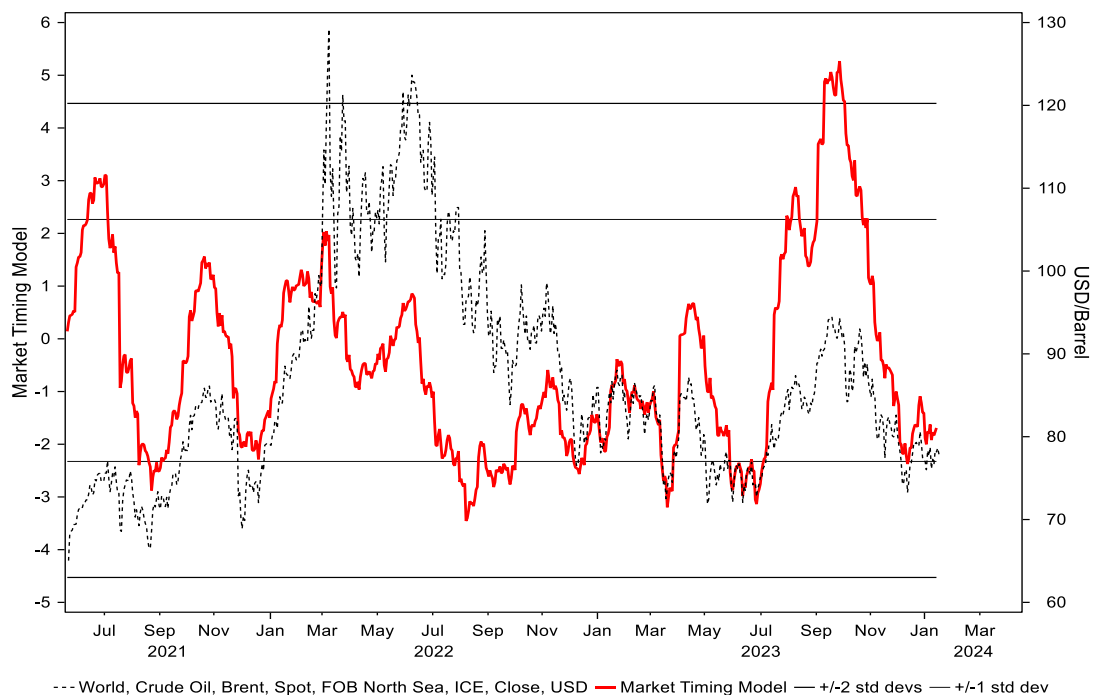
In a similar vein, measured sentiment readings, having been bullish (and generating a SELL signal last year), are now mid-range. Summarising all of those technical, positioning and sentiment signals, our oil 'market timing model' has moved lower and is close to its BUY signal threshold (see FIG D).

**FIG C: Brent speculative LONG/SHORT positions vs. oil price (US\$/barrel)**



Source: Longview Economics, Macrobond

**FIG D: Brent oil market timing model vs. Brent crude price (\$/bbl)**



Source: Longview Economics, Macrobond

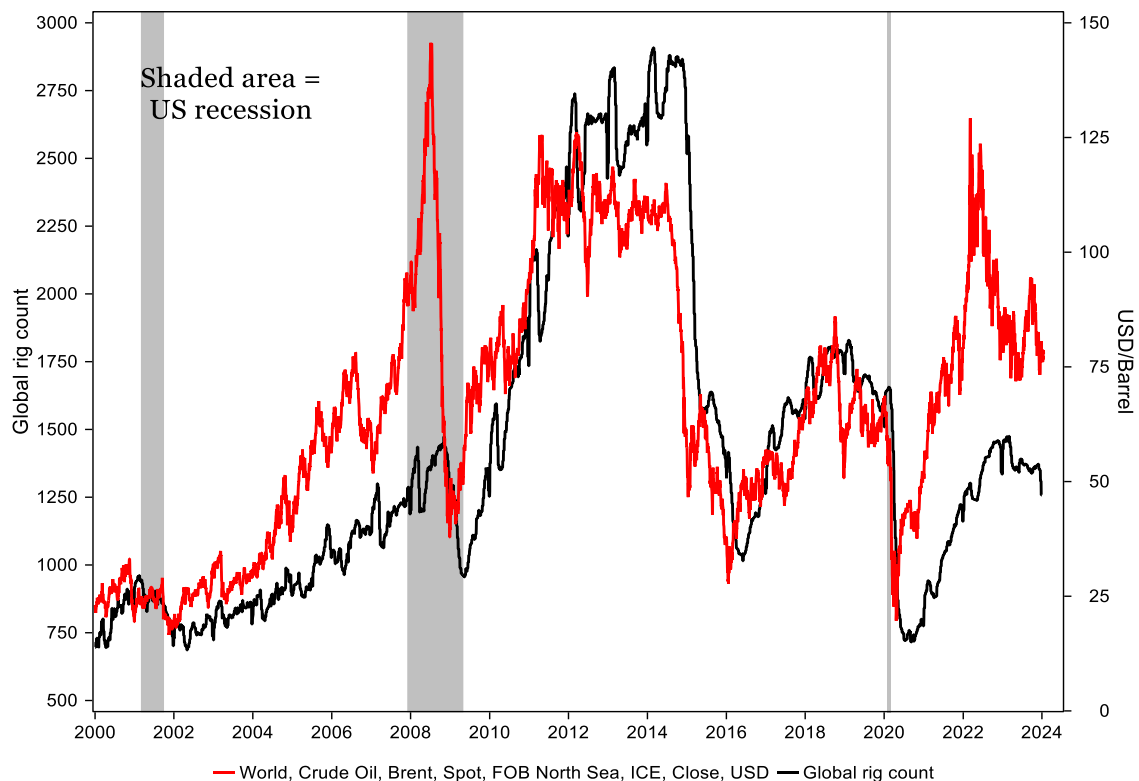
On top of which, the fundamental outlook for oil is increasingly positive.

In particular, if our expectation that there'll be 'no US recession' in 2024 is correct (see [HERE](#)), then the global oil market **should mostly register supply deficits** this year and global oil inventories should therefore trend down. As we show in the publication, oil prices are highly (inversely) correlated with global oil inventory.

Underpinning that tightness in the physical market: i) global oil demand is likely to be robust (particularly as US/global manufacturing sector activity recovers); ii) OPEC continues to push through cuts (with reasonably current high levels of unity & discipline); while iii) US shale production growth is slowing (mostly due to structural challenges – i.e. high decline rates from existing wells/regulation etc).

Adding to that supply backdrop, and after 15 years of weak/falling energy sector capex, the global oil rig count remains relatively low and, in recent weeks, has fallen sharply (see FIG E below).

**FIG E:** Global rig count vs. oil price (USD/barrel), with US recession bands



Source: Longview Economics, Macrobond

Other production risks include the potential for supply disruptions in the Middle East (i.e. if other, oil producing nations are drawn into a conflict). Of note, in that respect, there's **no geopolitical risk premium** currently baked into the oil price, given that (i) positioning is low/bearish; and that (ii) the oil

futures curve is broadly flat. That is, it's not backwardated, which is the normal curve shape during times of panic about supply/tightness in the physical market, see FIG F. Likewise, during times of weak demand (& heightened concerns about excess supply), the curve flips into contango (with spot & front month contracts trading below longer dated futures prices).

**FIG F: Brent calendar spread (2nd month less 12th month contract)**



Source: Longview Economics, Macrobond

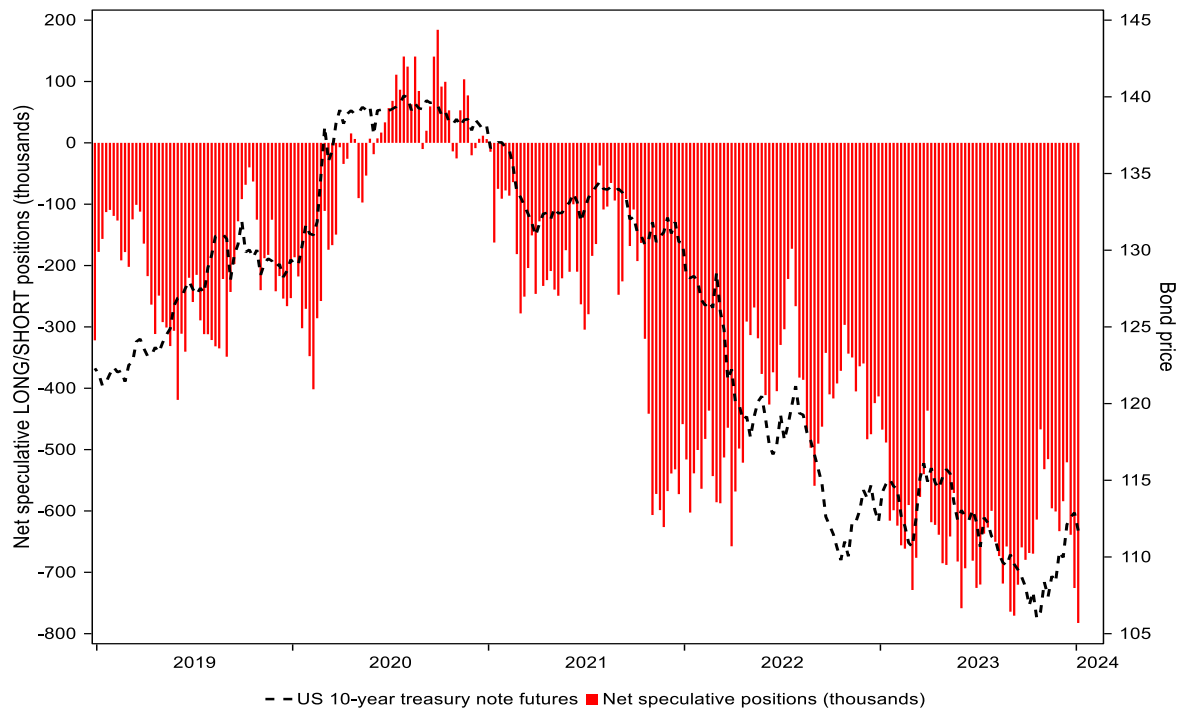
## Summary table:

	Fig	Net positions	1 week change	12-week change	Percentile	Data Since	<div> <div>Mean</div> <div>Current Value</div> </div> <div>+/- 1, 2 &amp; 3 Bollinger Bands</div>
<b>US Dollar, Bonds &amp; Rates</b>							
US 10-yr	1	-782,568	DOWN	DOWN	0	Jan-86	
US 5-yr	2	-1,146,692	DOWN	DOWN	0	May-88	
US 2-yr	3	-1,128,817	DOWN	UP	0	Jun-90	
US Long Bonds	4	-293,066	DOWN	UP	15	Jan-86	
US Dollar Index	5	1,614	DOWN	DOWN	47	May-92	
Three-month Eurodollar	6	0	DOWN	DOWN	59	Jan-86	
<b>Equities</b>							
S&P 500	7	-127,586	DOWN	DOWN	2	Jun-10	
DJIA	8	20,590	UP	UP	83	Jul-10	
Nasdaq 100	9	47,526	UP	UP	100	Aug-10	
VIX	10	-50,256	UP	DOWN	42	Sep-10	
<b>Currencies</b>							
Euro	11	157,386	UP	UP	92	Jan-99	
Japanese Yen	12	-55,489	DOWN	UP	29	Jan-86	
UK Pound	13	17,250	DOWN	UP	74	Apr-88	
Swiss Franc	14	-4,158	UP	UP	55	Jan-86	
Australian Dollar	15	-30,295	UP	UP	18	Jan-87	
Canadian Dollar	16	-8,320	UP	UP	31	Jan-86	
New Zealand Dollar	17	2,439	UP	UP	51	Jan-99	
Brazilian Real	18	36,682	DOWN	UP	98	Nov-95	
Mexican Peso	19	92,329	UP	UP	87	May-95	
Russian Ruble	20	0	DOWN	DOWN	10	Apr-98	
<b>Energy</b>							
Oil	21	182,204	DOWN	DOWN	64	Jan-86	
Nat Gas	22	-77,649	UP	DOWN	30	Apr-90	
Heating Oil	23	43,060	DOWN	DOWN	86	Jan-86	
<b>Base Metals</b>							
Copper	24	11,638	UP	UP	63	Jul-89	
Steel	25	0	DOWN	DOWN	65	Feb-14	
<b>Precious Metals</b>							
Silver	26	50,547	DOWN	UP	65	Jan-86	
Gold	27	235,478	UP	UP	86	Jan-86	
Palladium	28	-8,250	DOWN	UP	1	Jan-86	
Platinum	29	32,850	UP	UP	87	Jan-86	
<b>Agricultural - Grains</b>							
Corn	30	-175,098	DOWN	DOWN	1	Jun-98	
Oats	31	0	UP	DOWN	6	Jun-98	
Rice	32	7,106	DOWN	UP	95	Oct-94	
Soybeans	33	-35,338	DOWN	DOWN	15	Jun-98	
Wheat	34	-40,776	DOWN	UP	25	Jun-98	
<b>Agricultural - Softs</b>							
Coffee	35	44,991	DOWN	UP	90	Jan-86	
Sugar	36	92,187	DOWN	DOWN	65	Jan-86	
Cocoa	37	69,429	DOWN	DOWN	93	Jan-86	

1 & 12 week changes show whether positioning has gone up (more bullish) or down (more bearish).  
Percentile shows how bullish/bearish positioning is relative to (entire) history.  
The charts show current positioning on a Bollinger Band basis (i.e. 200-week standard deviation bands).

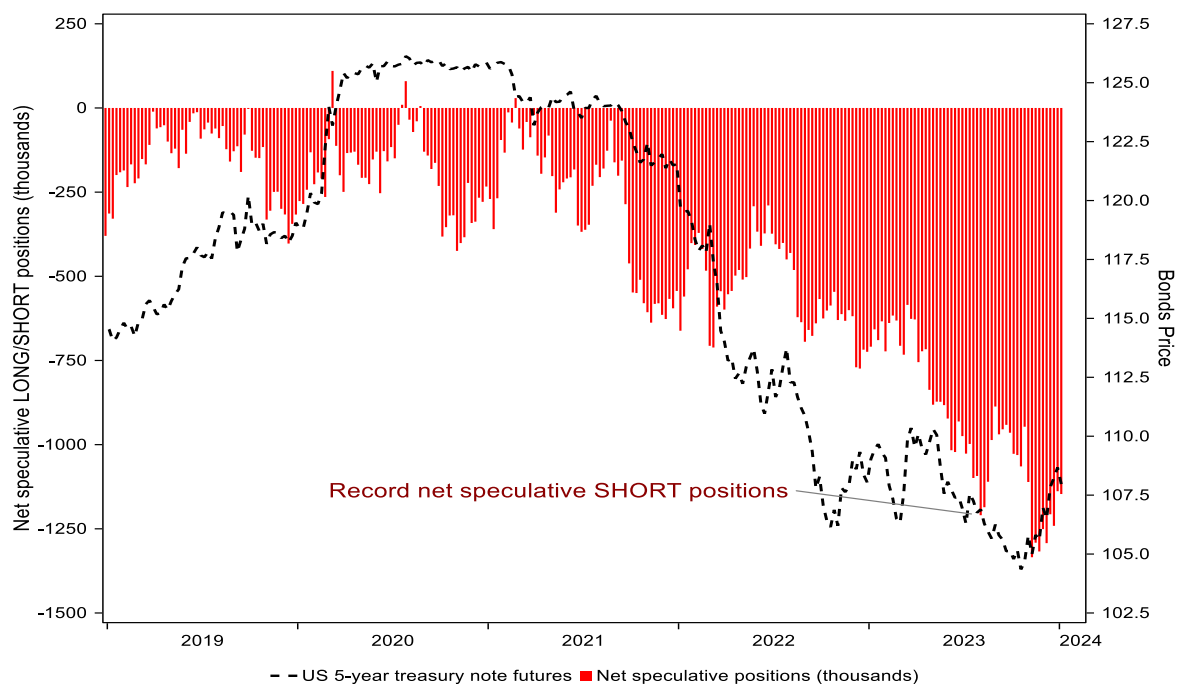
## US Dollar, Bonds & Rates

**Fig 1:** US 10-year Treasury note futures vs. net speculative LONG/SHORT positions



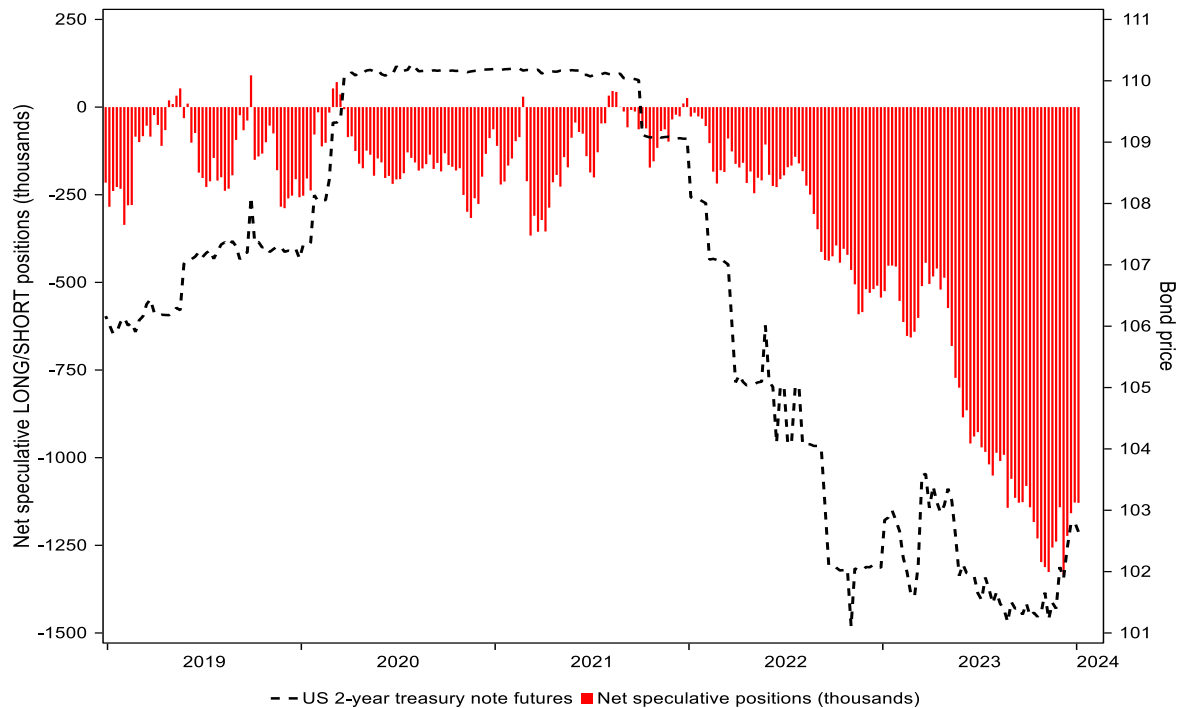
Source: Longview Economics, Macrobond

**Fig 2:** US 5-year Treasury note futures vs. net speculative LONG/SHORT positions

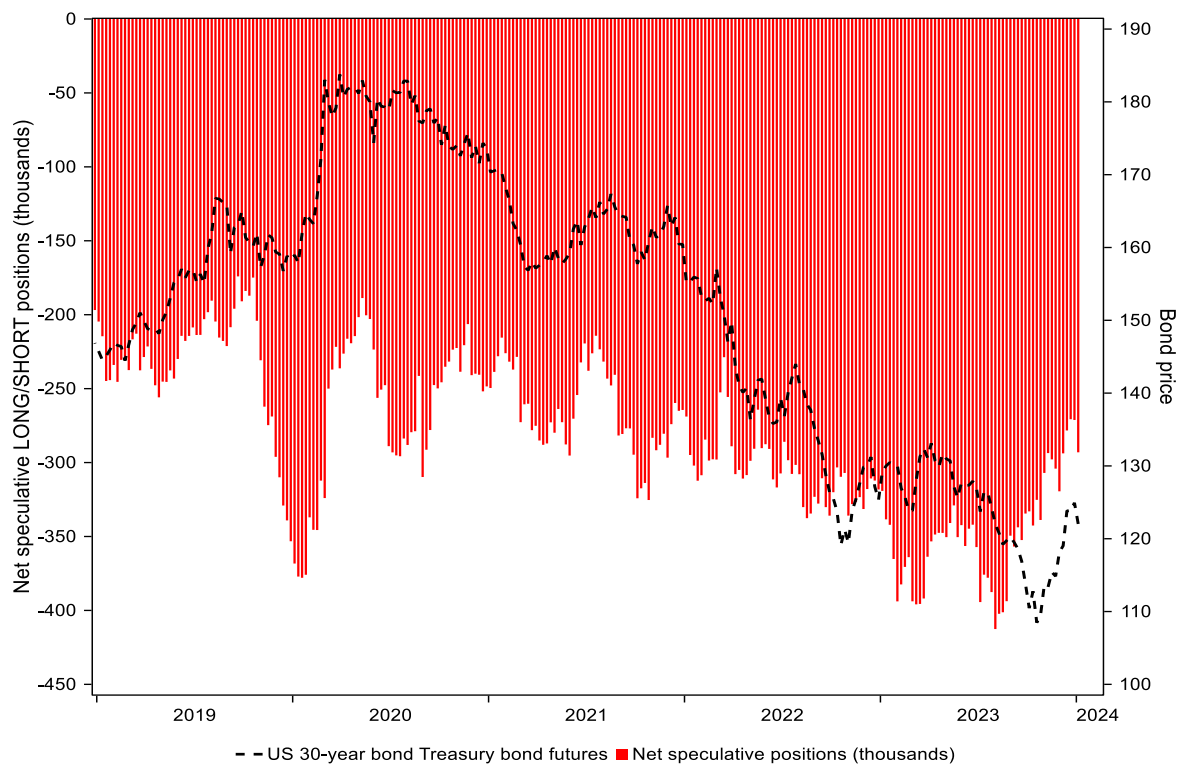


Source: Longview Economics, Macrobond

**Fig 3: US 2-year Treasury note futures vs. net speculative LONG/SHORT positions**

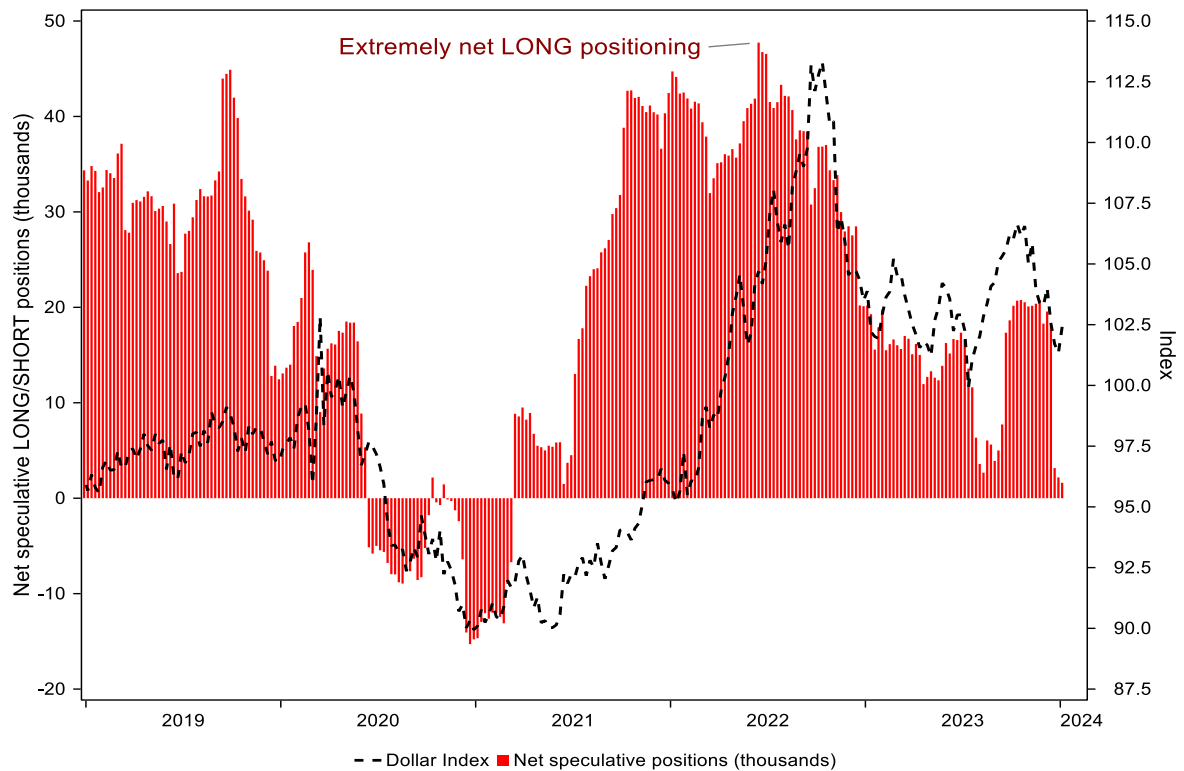


**Fig 4: US 30-year Treasury futures vs. net speculative LONG/SHORT positions**



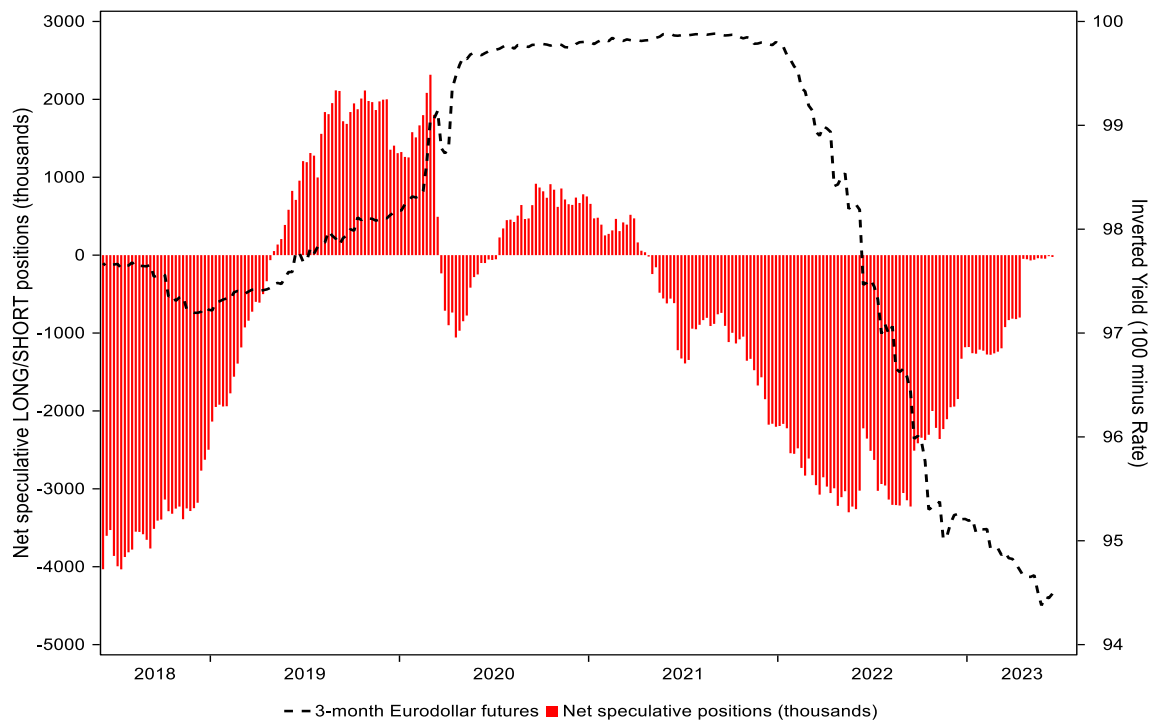


**Fig 5: US dollar index vs. net speculative LONG/SHORT positions**



Source: Longview Economics, Macrobond

**Fig 6: 3-month Eurodollar futures vs. net speculative LONG/SHORT positions\***

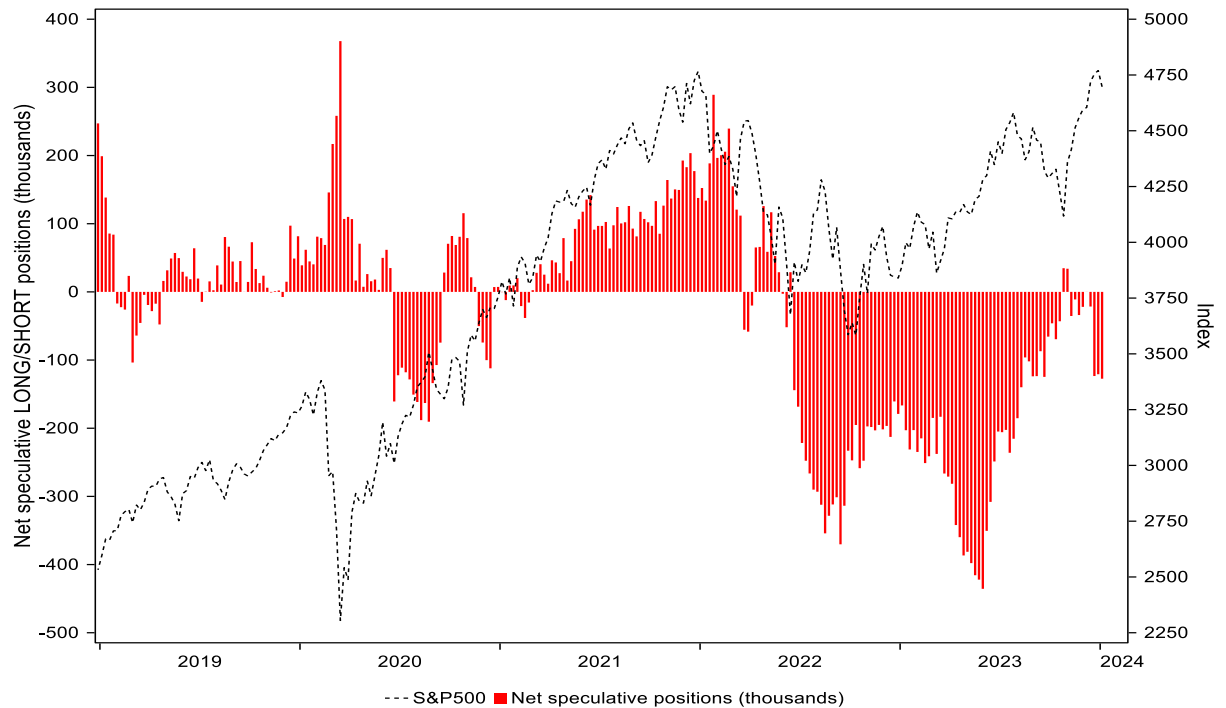


Source: Longview Economics, Macrobond

\*Eurodollar price & CFTC data discontinued for the time being.

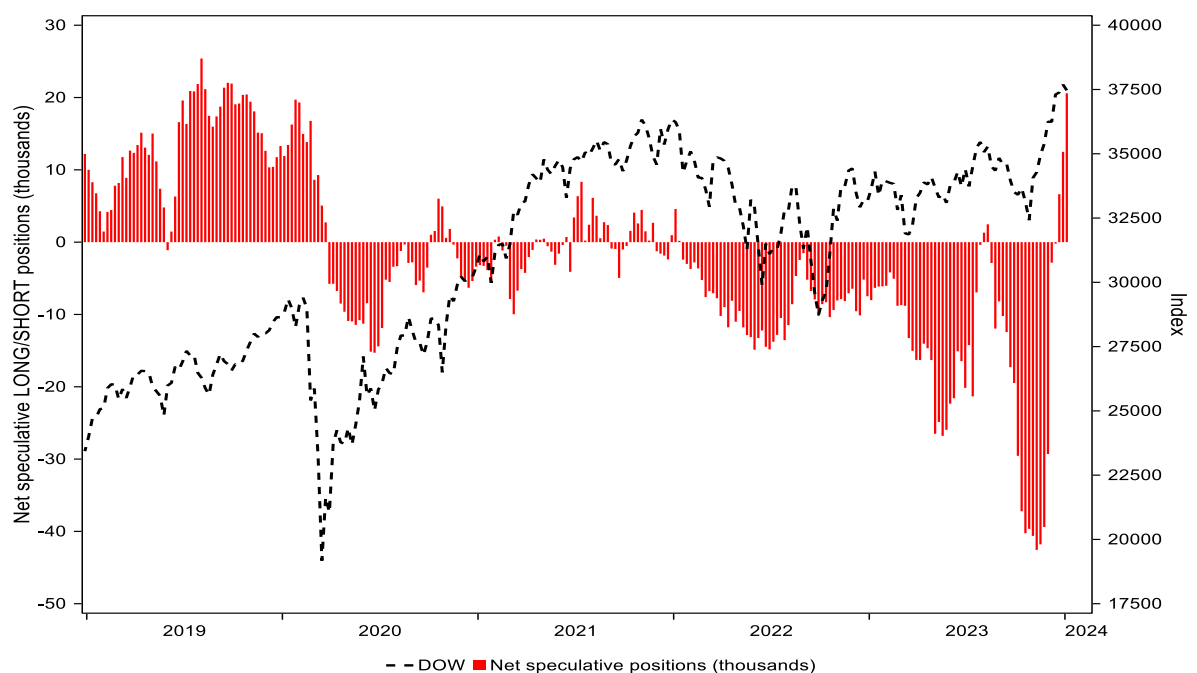
## Equities & Volatility

**Fig 7: S&P500 vs. net speculative LONG/SHORT consolidated\*\* positions**



Source: Longview Economics, Macrobond

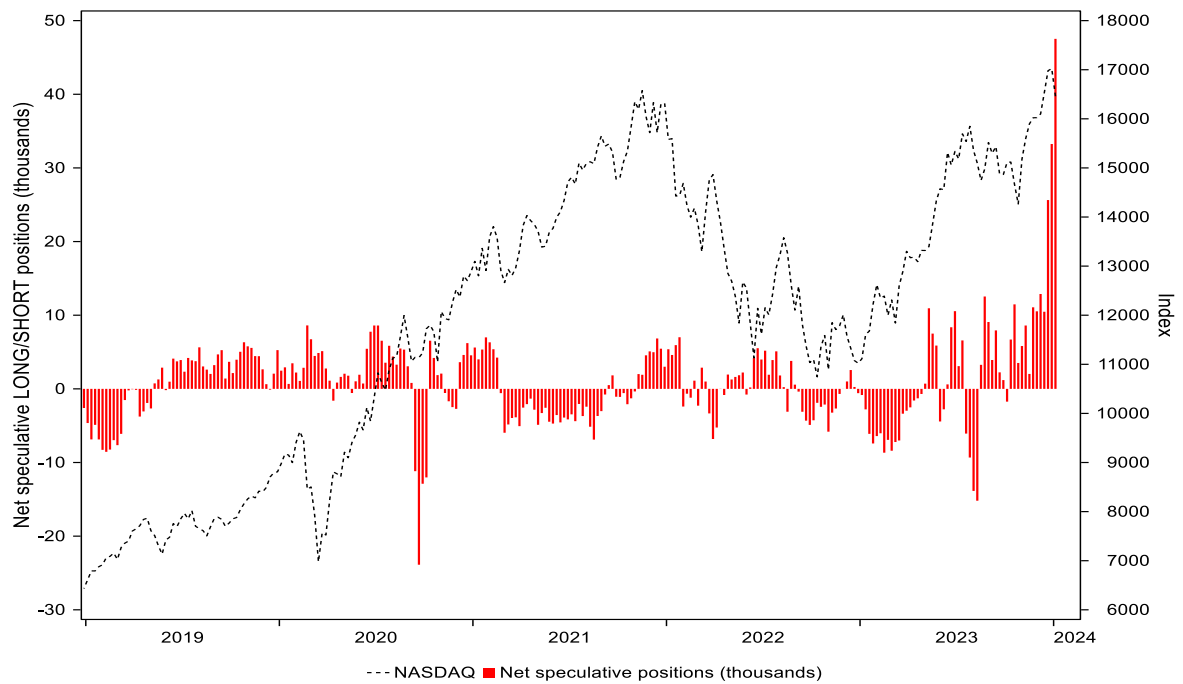
**Fig 8: DJIA vs. net speculative LONG/SHORT consolidated\*\* positions**



Source: Longview Economics, Macrobond

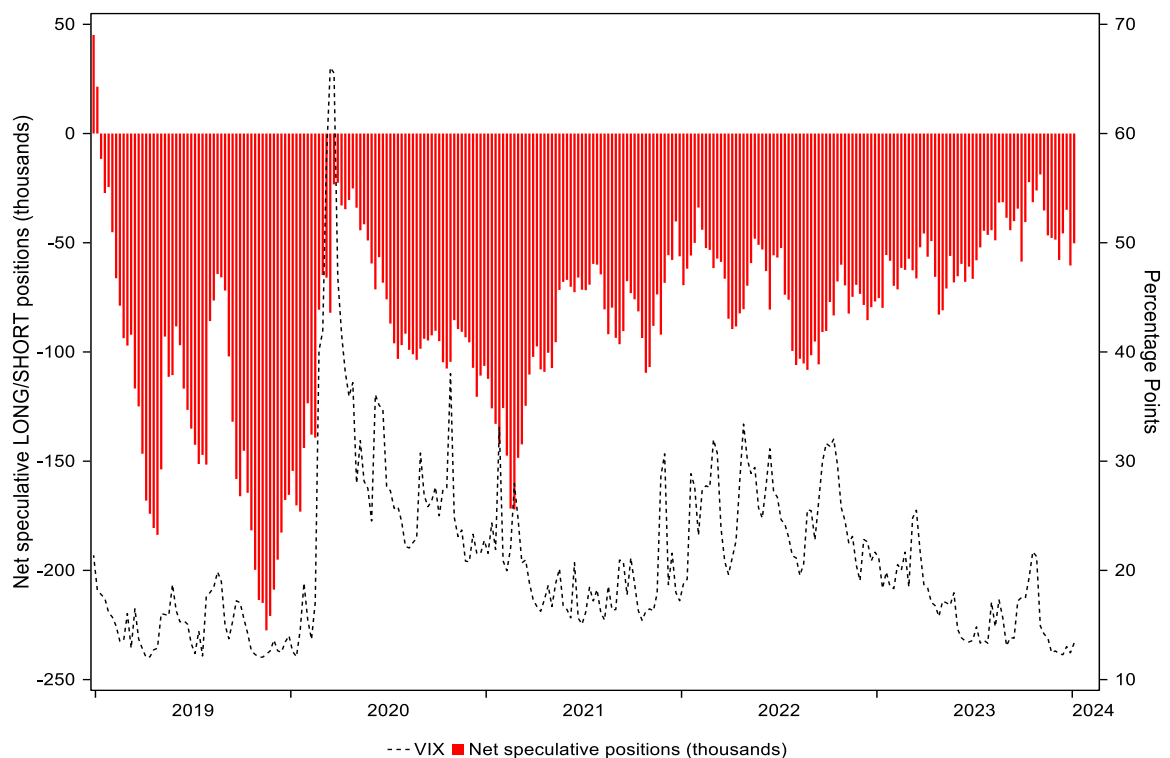
\*\*Consolidated positions aggregate the standard and mini size futures contracts (and weight the mini contracts accordingly).

**Fig 9: NASDAQ 100 vs. net speculative LONG/SHORT consolidated\*\* positions**



Source: Longview Economics, Macrobond

**Fig 10: VIX vs. net speculative LONG/SHORT positions**

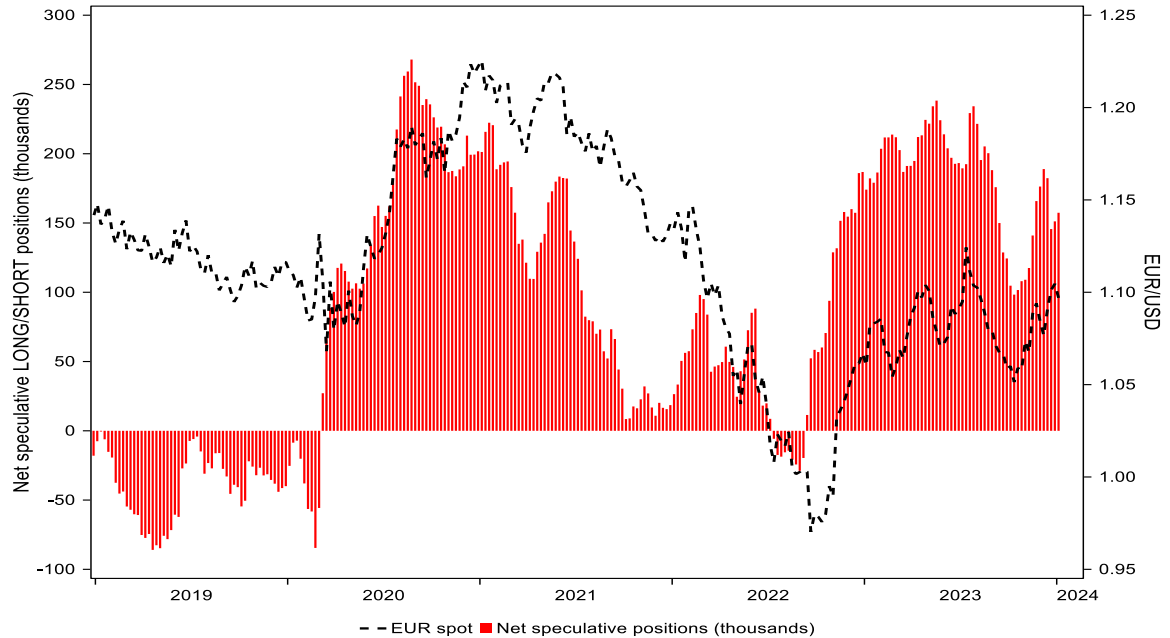


Source: Longview Economics, Macrobond

\*\*Consolidated positions aggregate the standard and mini size futures contracts (and weight the mini contracts accordingly).

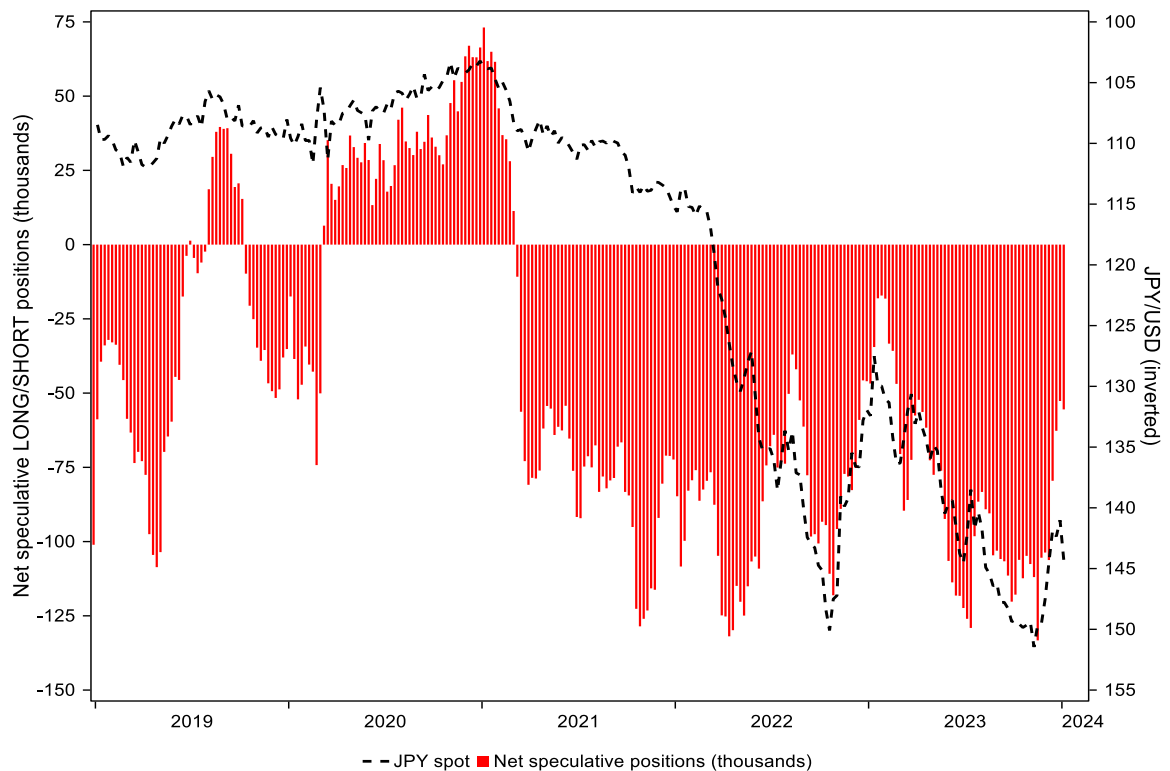
## Currencies

**Fig 11: EUR-USD vs. net speculative LONG/SHORT positions**



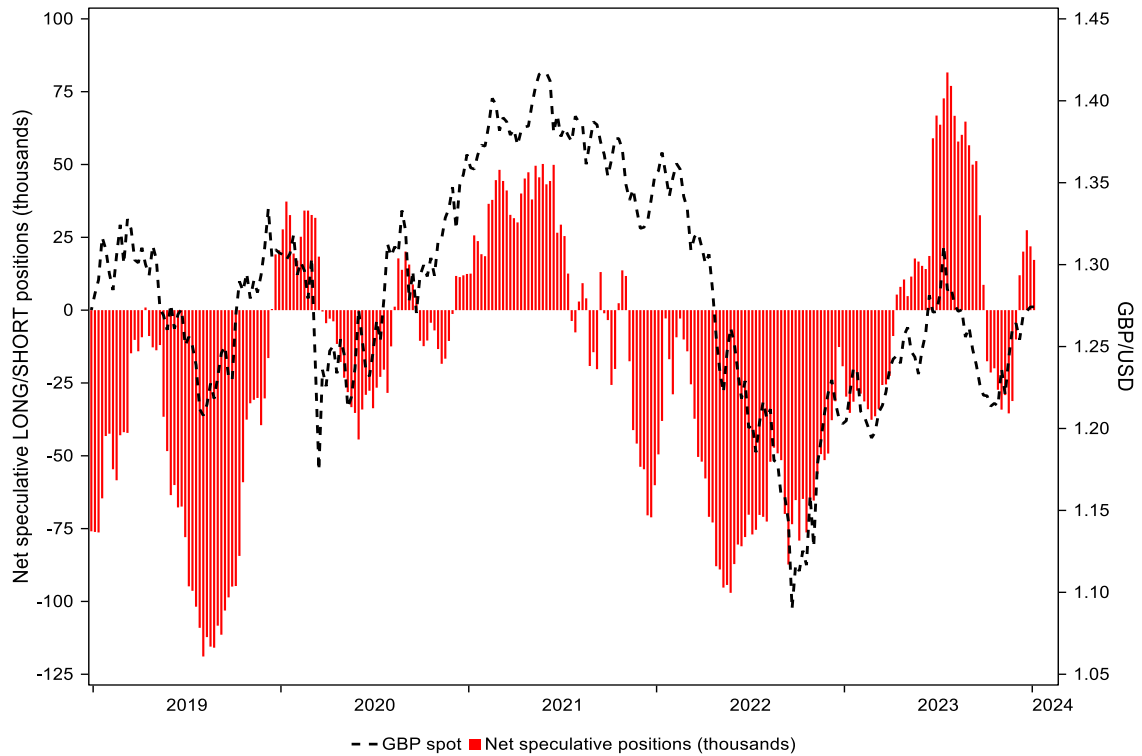
Source: Longview Economics, Macrobond

**Fig 12: JPY-USD vs. net speculative LONG/SHORT positions**



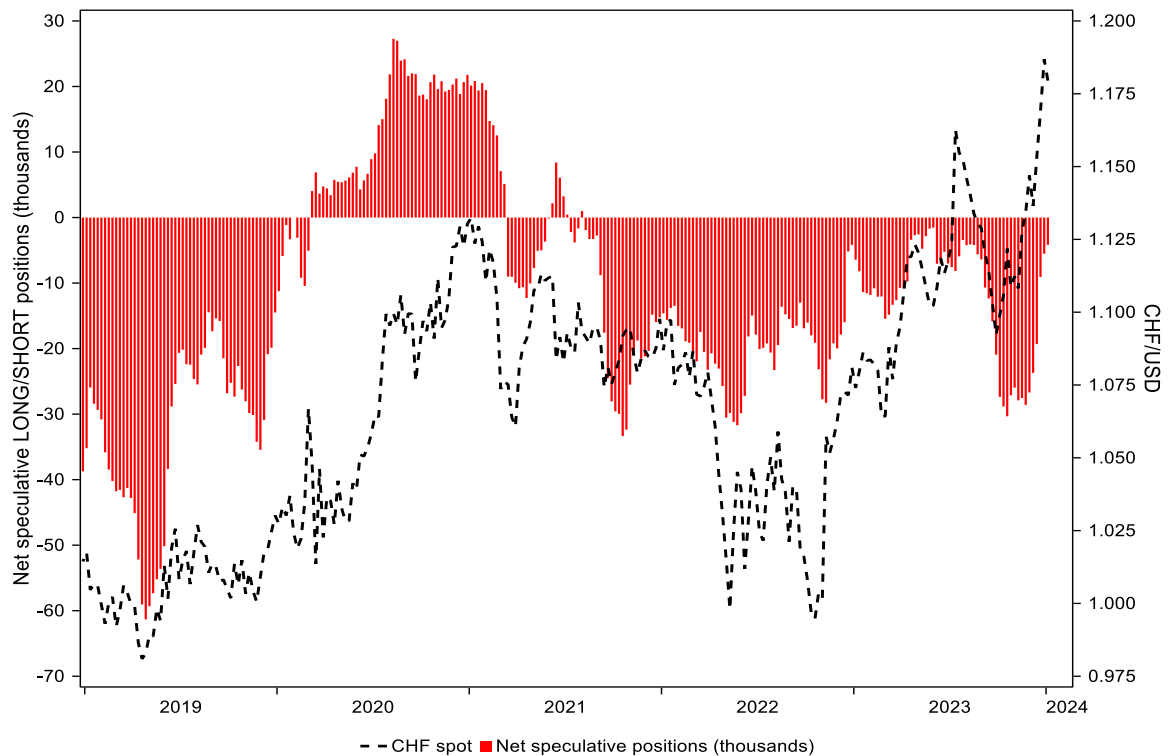
Source: Longview Economics, Macrobond

**Fig 13:** GBP-USD vs. net speculative LONG/SHORT positions



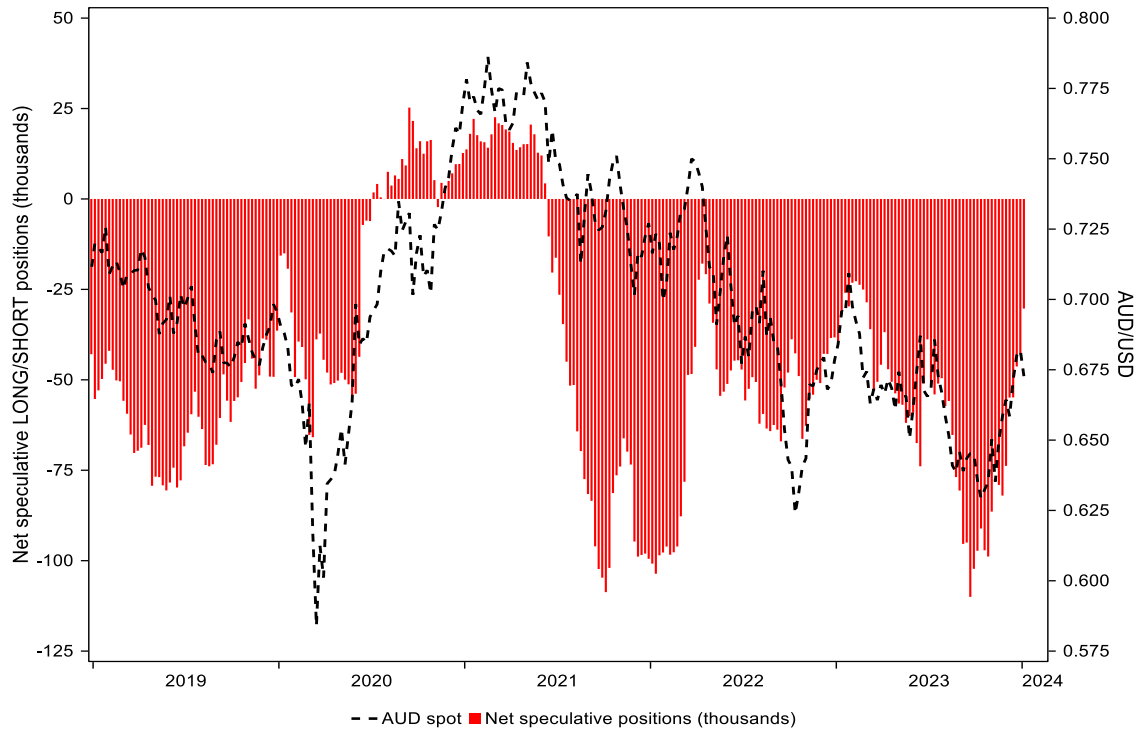
Source: Longview Economics, Macrobond

**Fig 14:** CHF-USD vs. net speculative LONG/SHORT positions



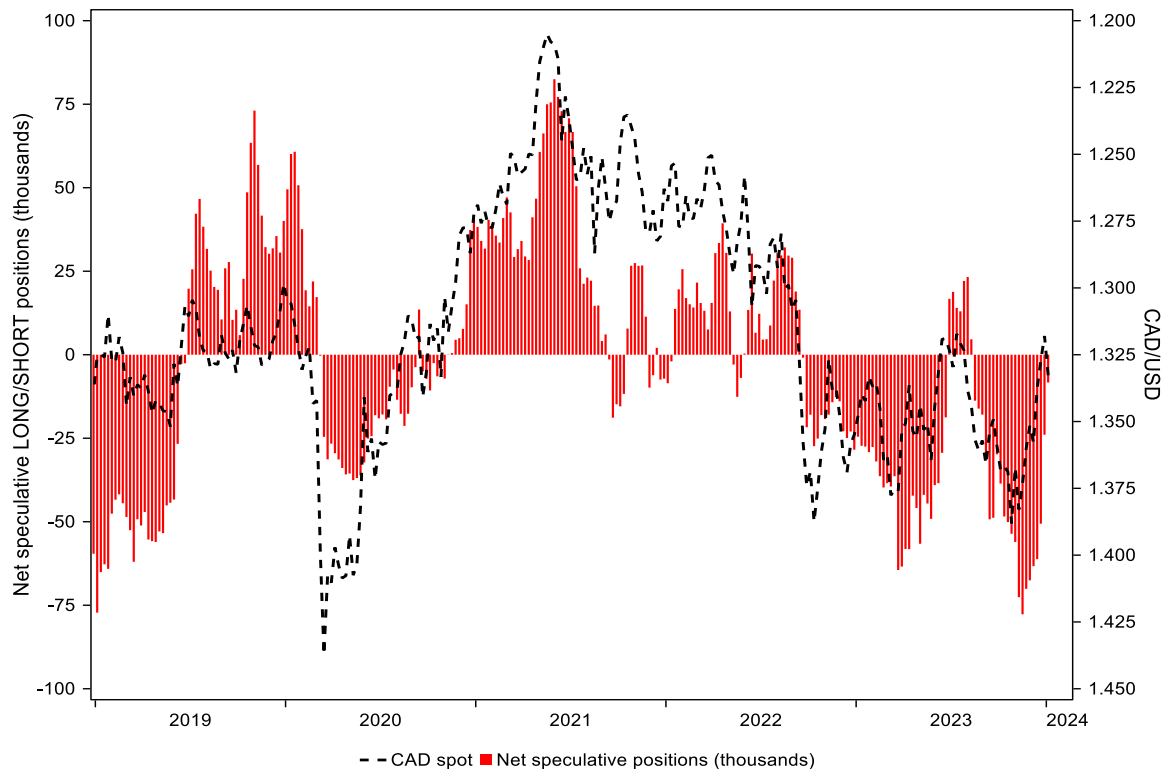
Source: Longview Economics, Macrobond

**Fig 15:** AUD-USD vs. net speculative LONG/SHORT positions



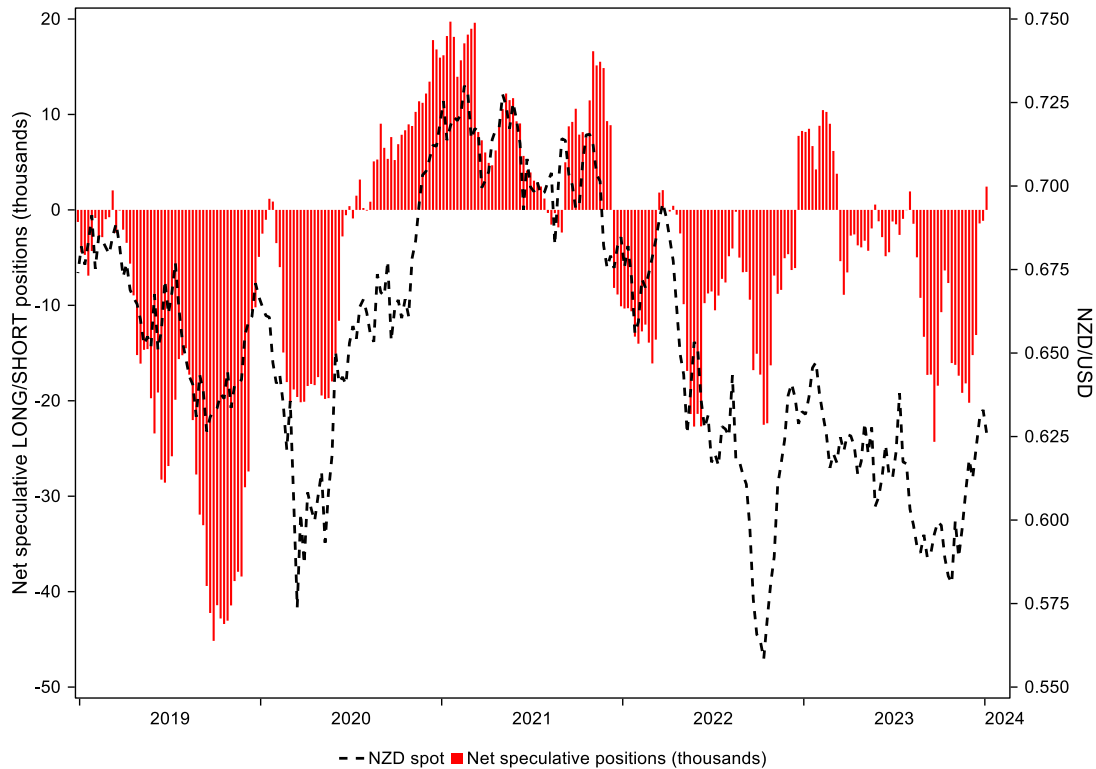
Source: Longview Economics, Macrobond

**Fig 16:** CAD-USD vs. net speculative LONG/SHORT positions



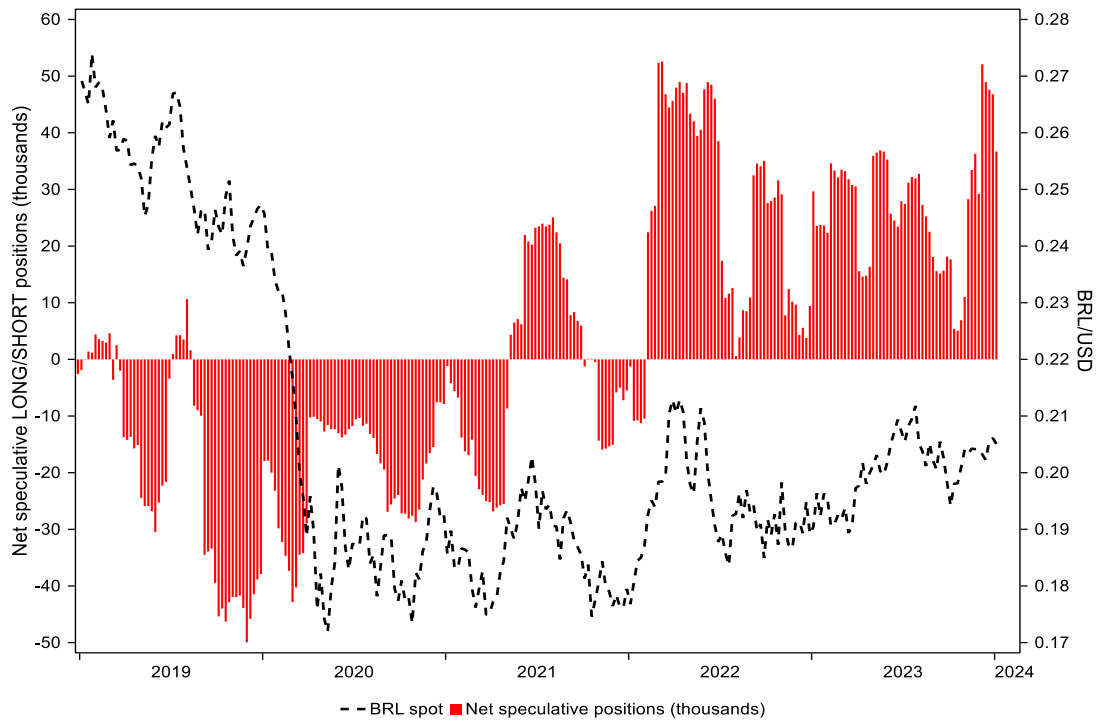
Source: Longview Economics, Macrobond

**Fig 17: NZD-USD vs. net speculative LONG/SHORT positions**



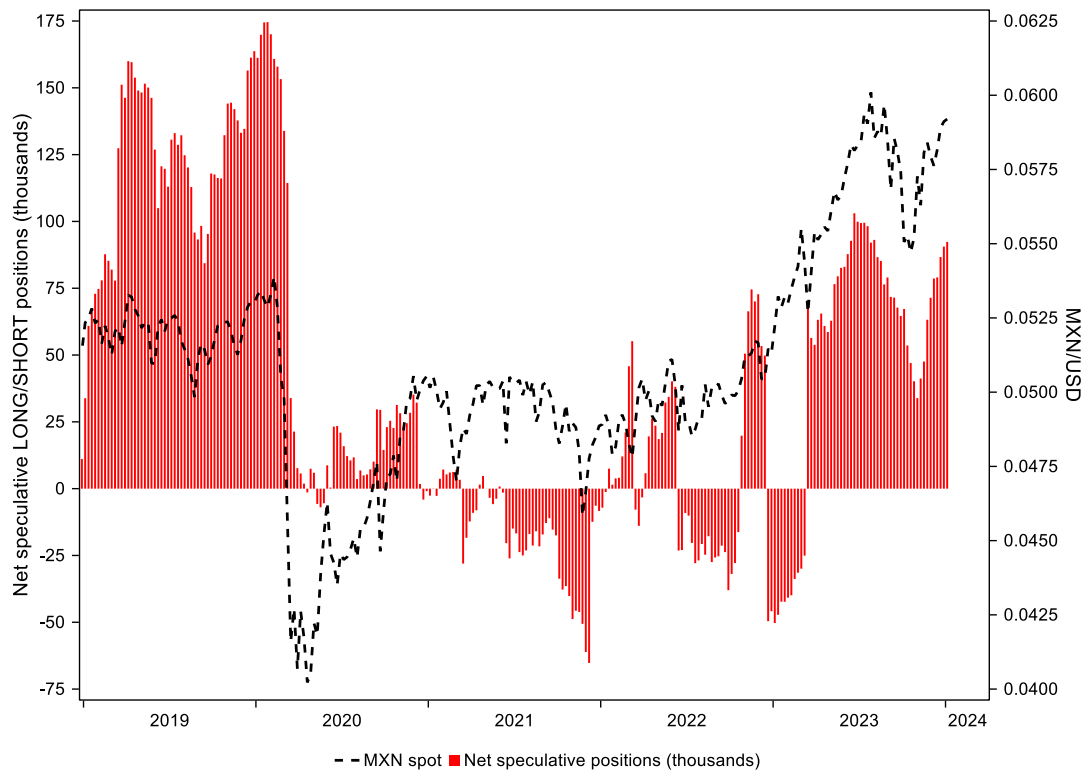
Source: Longview Economics, Macrobond

**Fig 18: BRL-USD vs. net speculative LONG/SHORT positions**



Source: Longview Economics, Macrobond

**Fig 19: MXN-USD vs. net speculative LONG/SHORT positions**

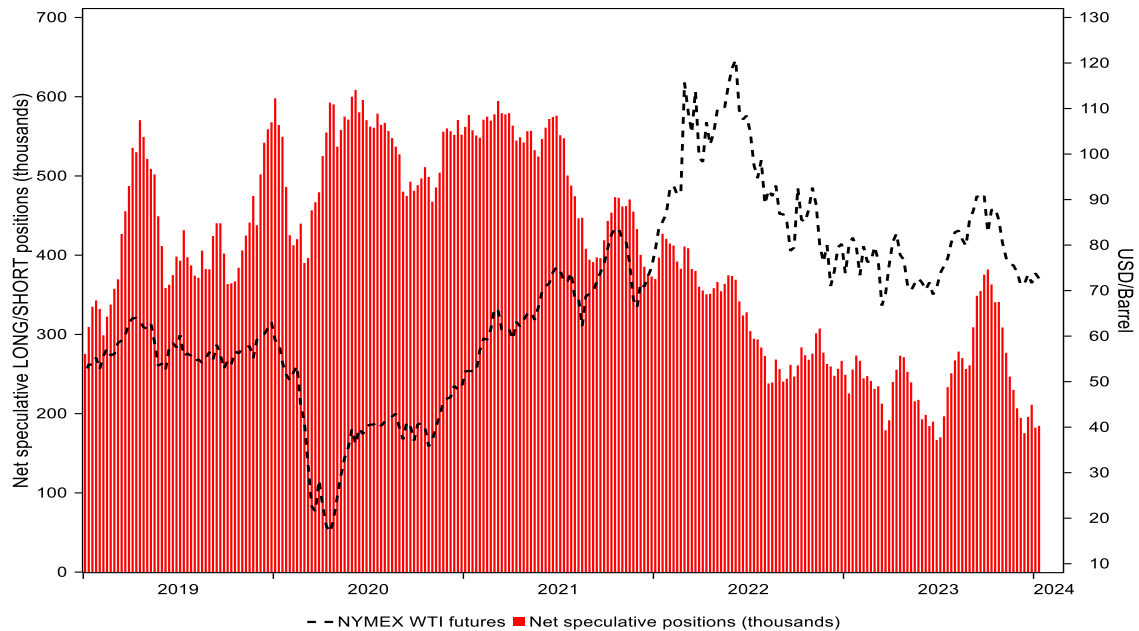


Source: Longview Economics, Macrobond



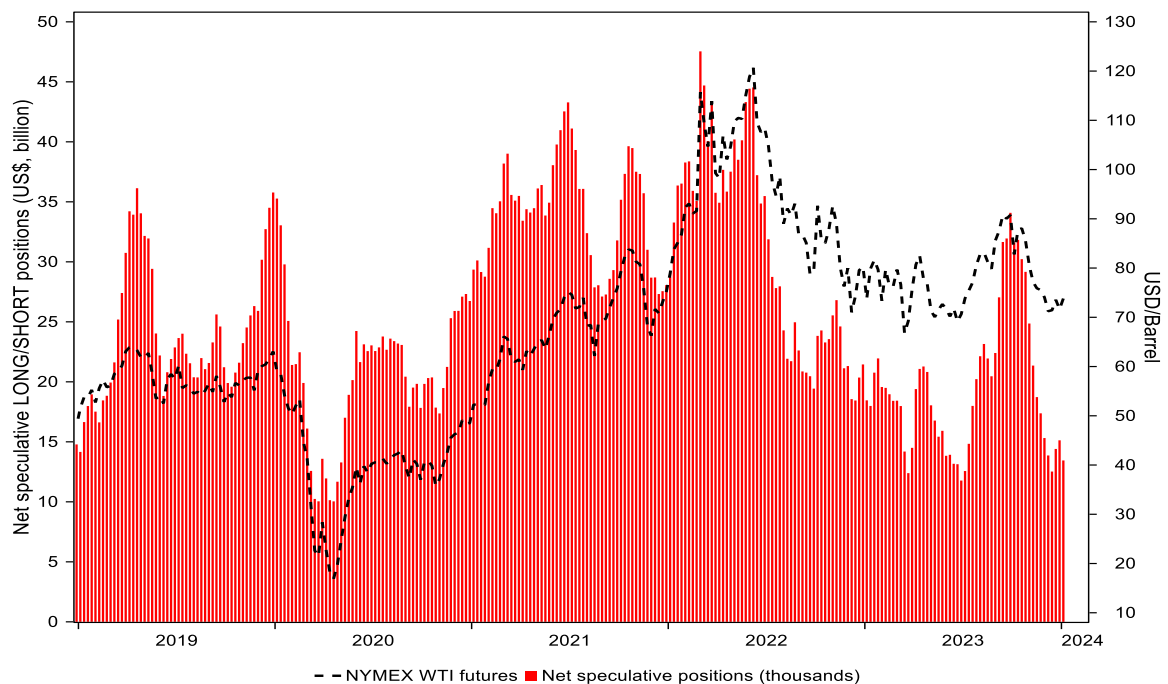
## Energy

**Fig 20:** Oil futures price (USD/bbl) vs. net speculative LONG/SHORT positioning (no. of contracts)



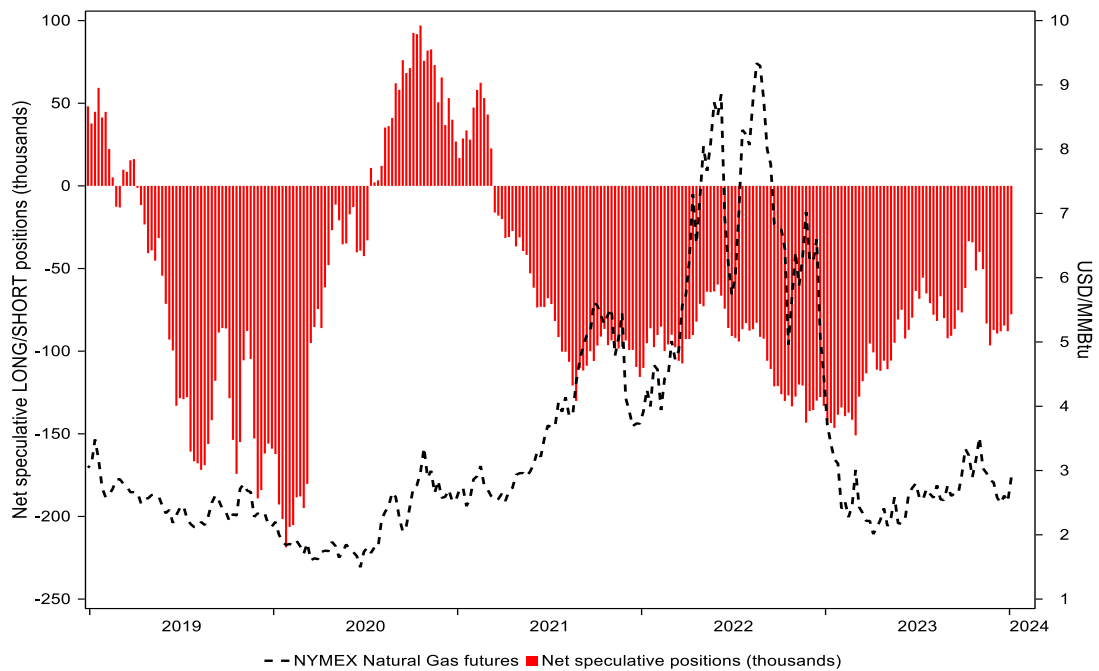
Source: Longview Economics, Macrobond

**Fig 21:** Oil futures price (USD/bbl) vs. net speculative LONG/SHORT positioning (in USDbn, i.e. value)



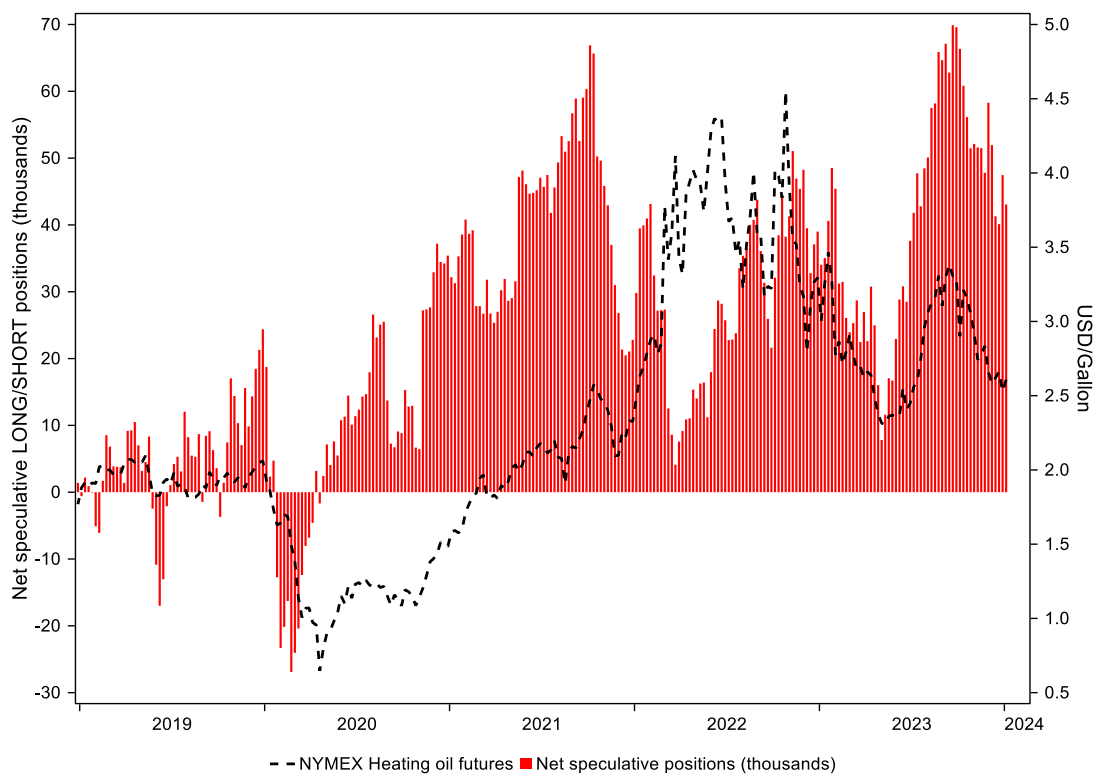
Source: Longview Economics, Macrobond

**Fig 22:** Natural gas futures (USD/MMBtu) vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

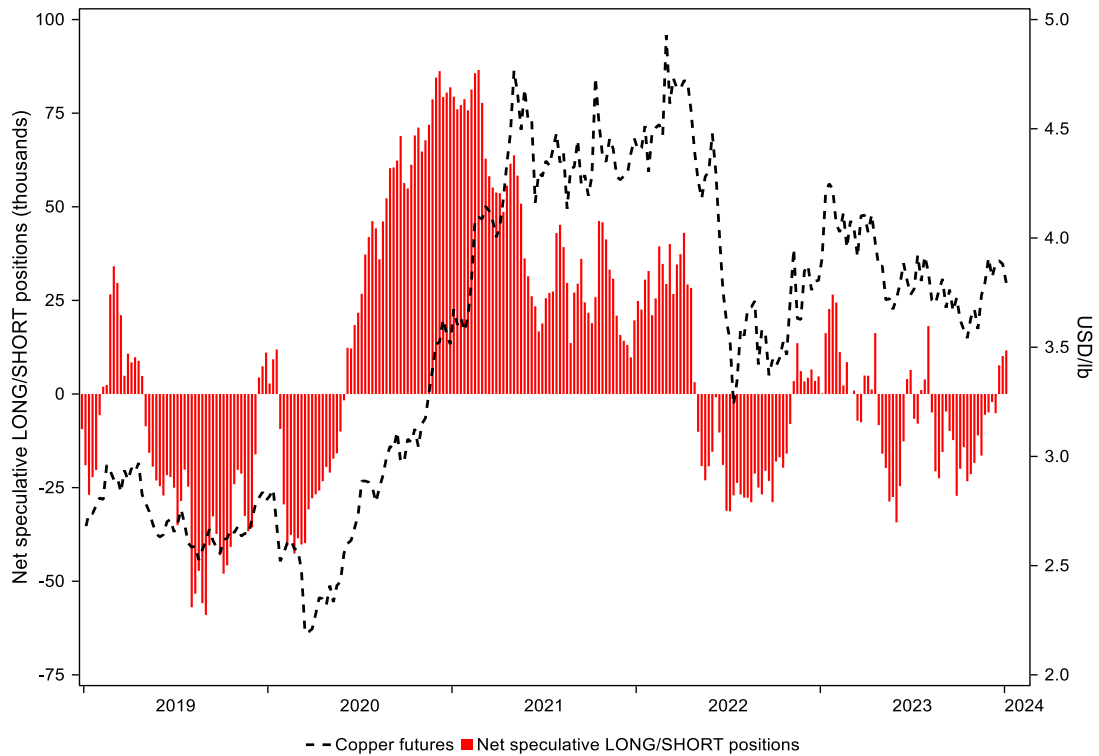
**Fig 23:** Heating oil futures vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

## Base Metals

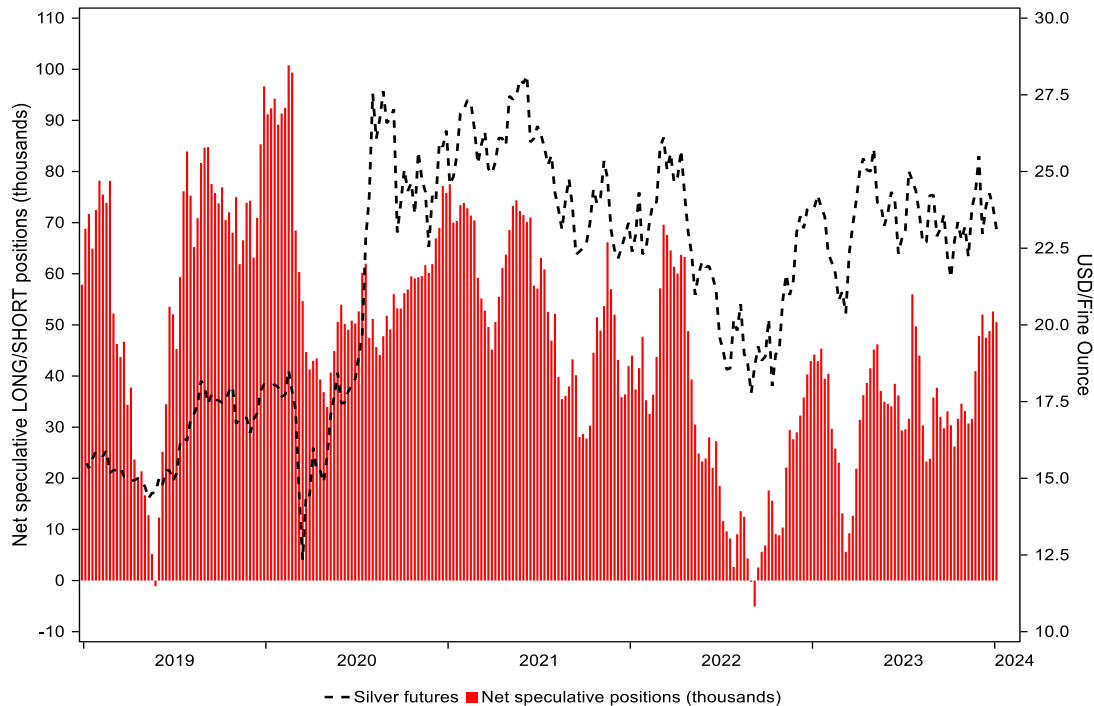
**Fig 24:** Copper futures (USD/lb) vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

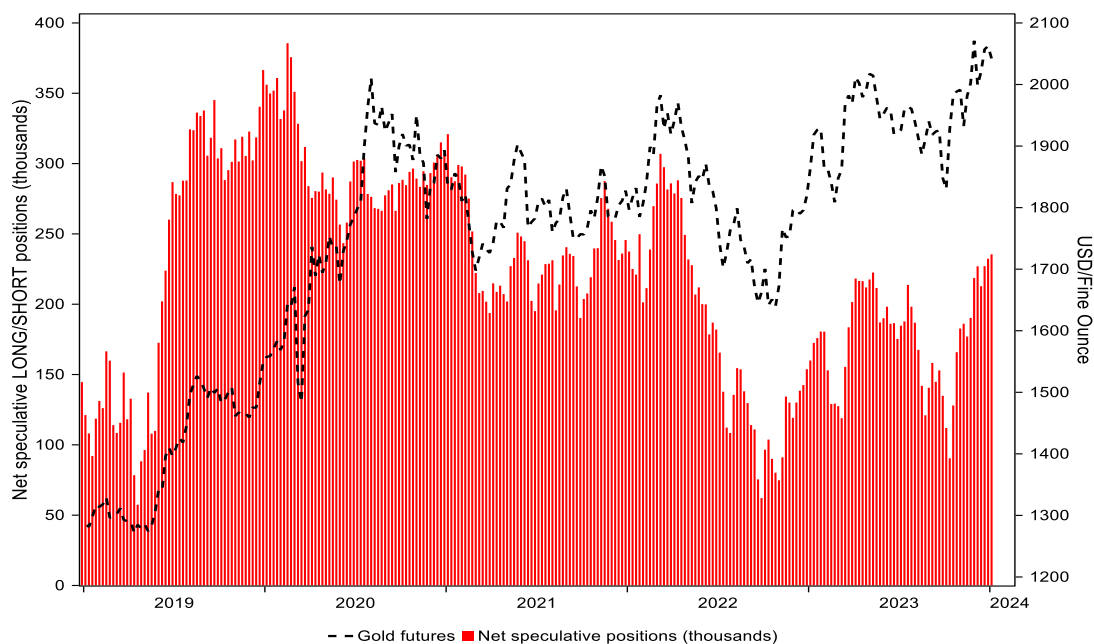
## Precious Metals

**Fig 25:** Silver futures (USD/fine ounce) vs. net speculative LONG/SHORT positions



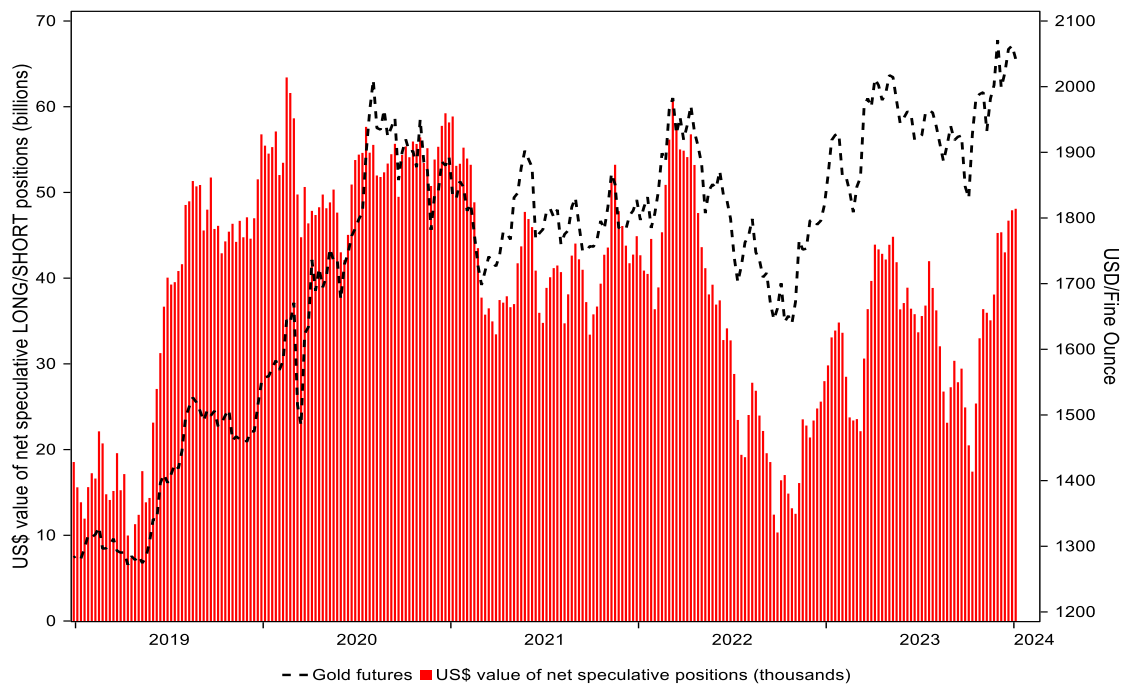
Source: Longview Economics, Macrobond

**Fig 26:** Gold futures (USD/fine ounce) vs. net speculative LONG/SHORT positioning (no. of contracts)



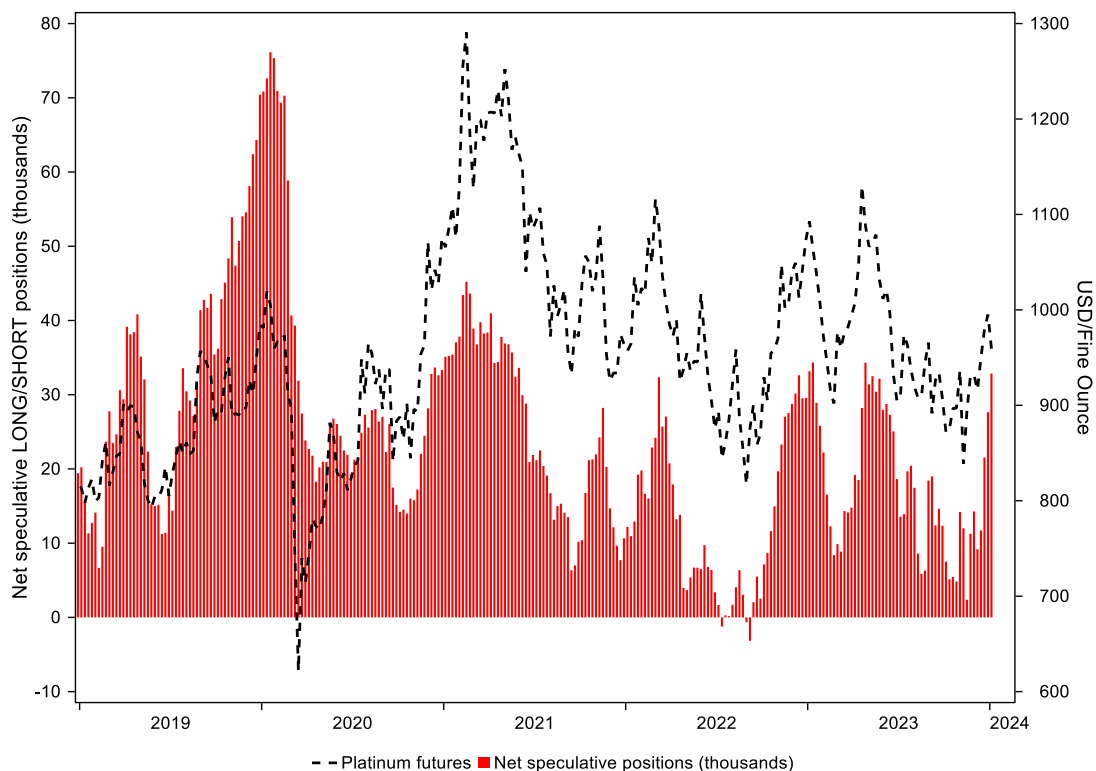
Source: Longview Economics, Macrobond

**Fig 26a:** Gold futures (USD/fine ounce) vs. net speculative LONG/SHORT positioning (in USDbn, i.e. value)



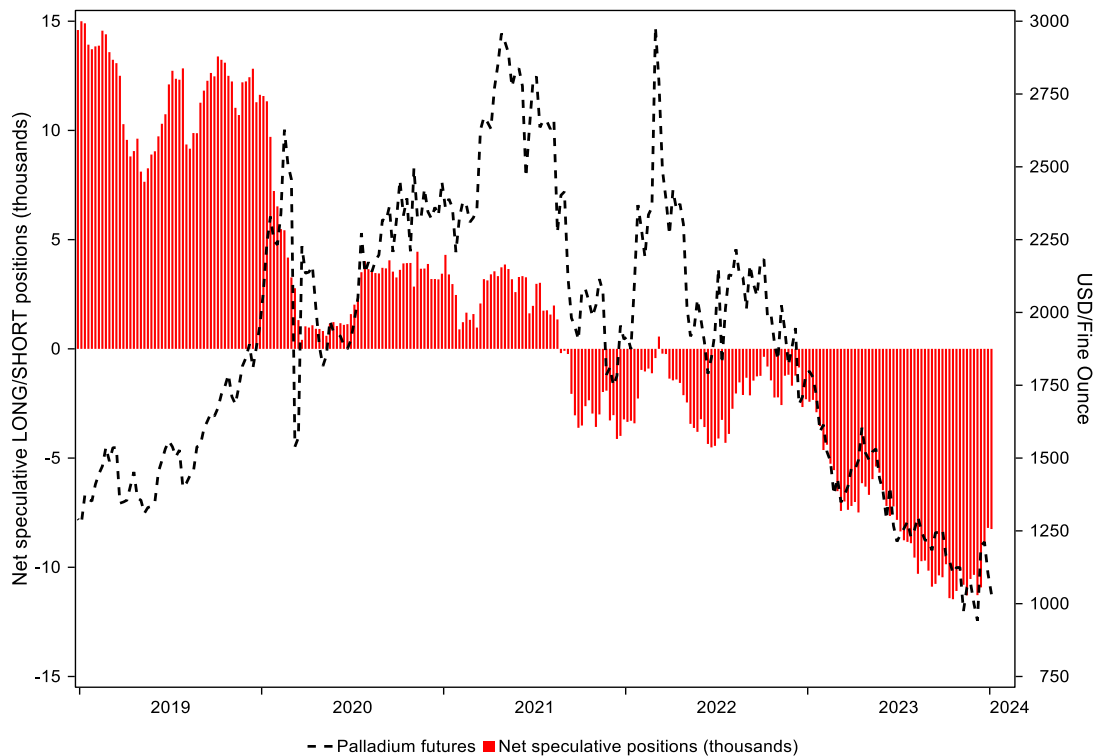
Source: Longview Economics, Macrobond

**Fig 27:** Platinum futures (USD/fine ounce) vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

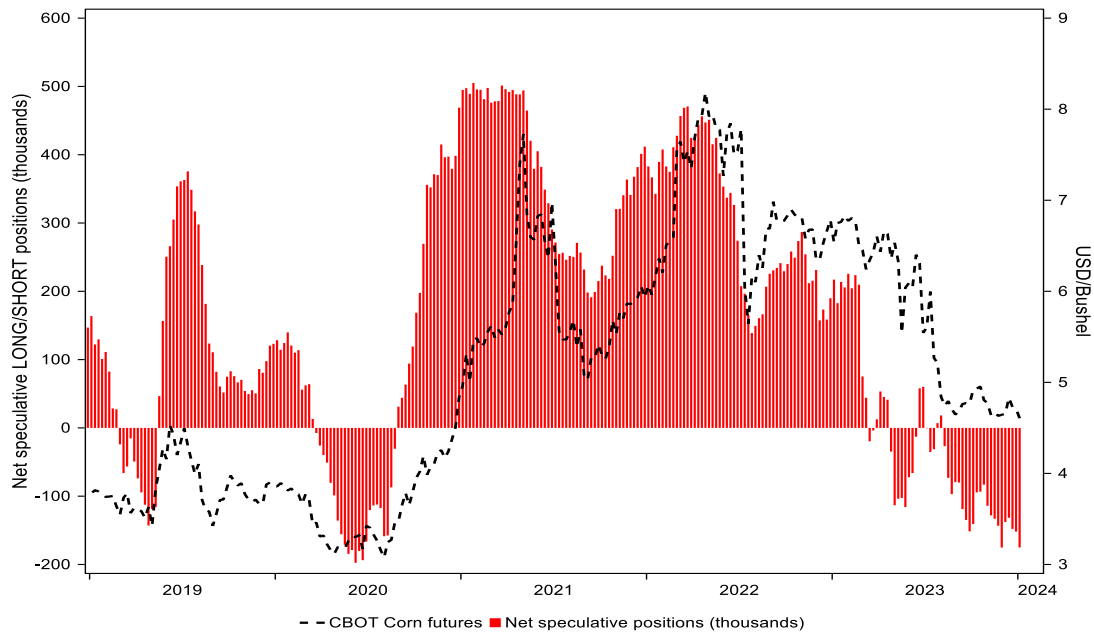
**Fig 28:** Palladium futures (USD/fine ounce) vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

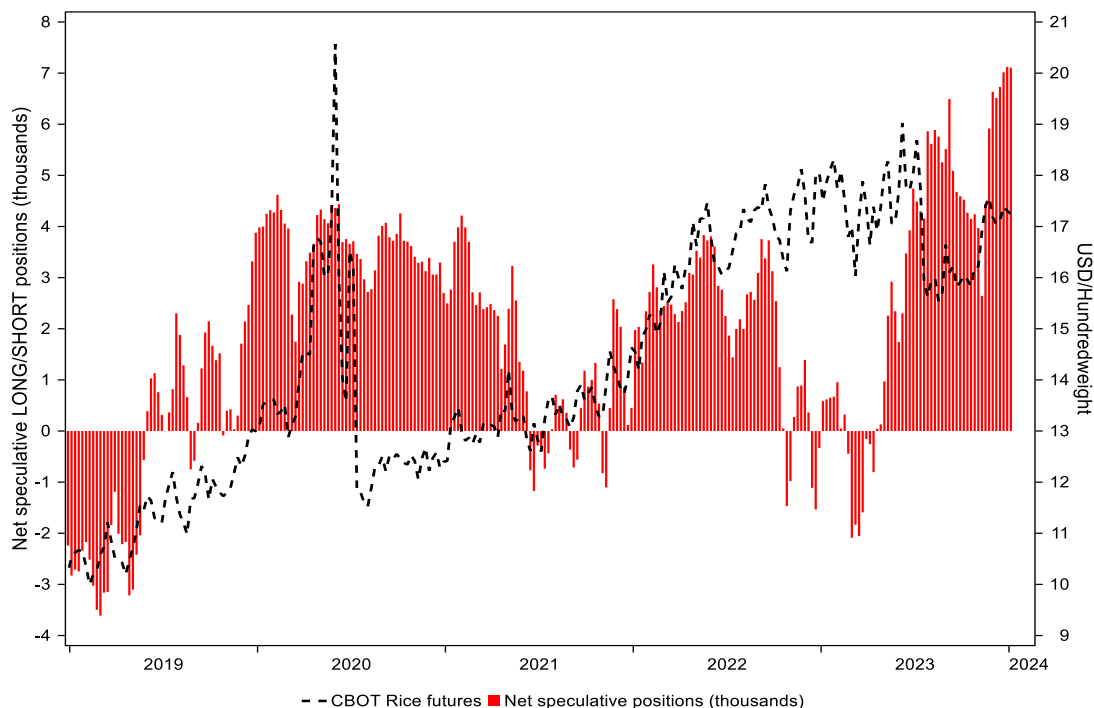
## Agricultural - Grains

**Fig 29:** Corn futures (USD/bushel) vs. net speculative LONG/SHORT positions



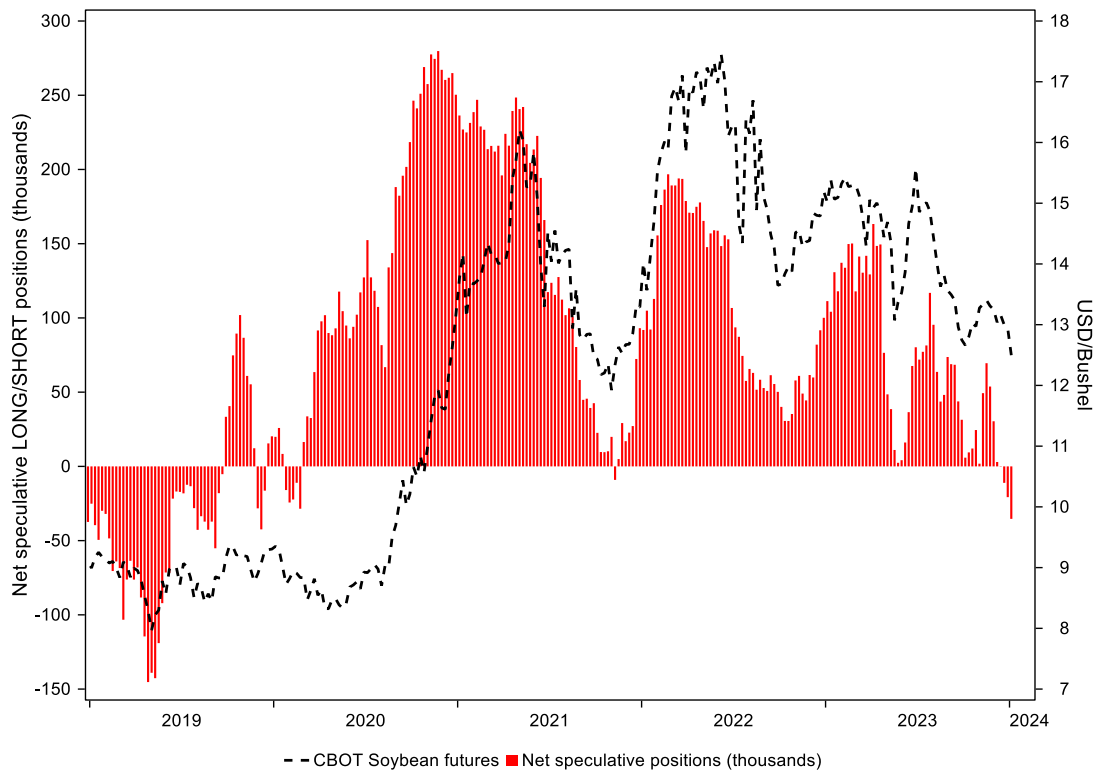
Source: Longview Economics, Macrobond

**Fig 30:** Rice futures (USD/hundredweight) vs. net speculative LONG/SHORT positions



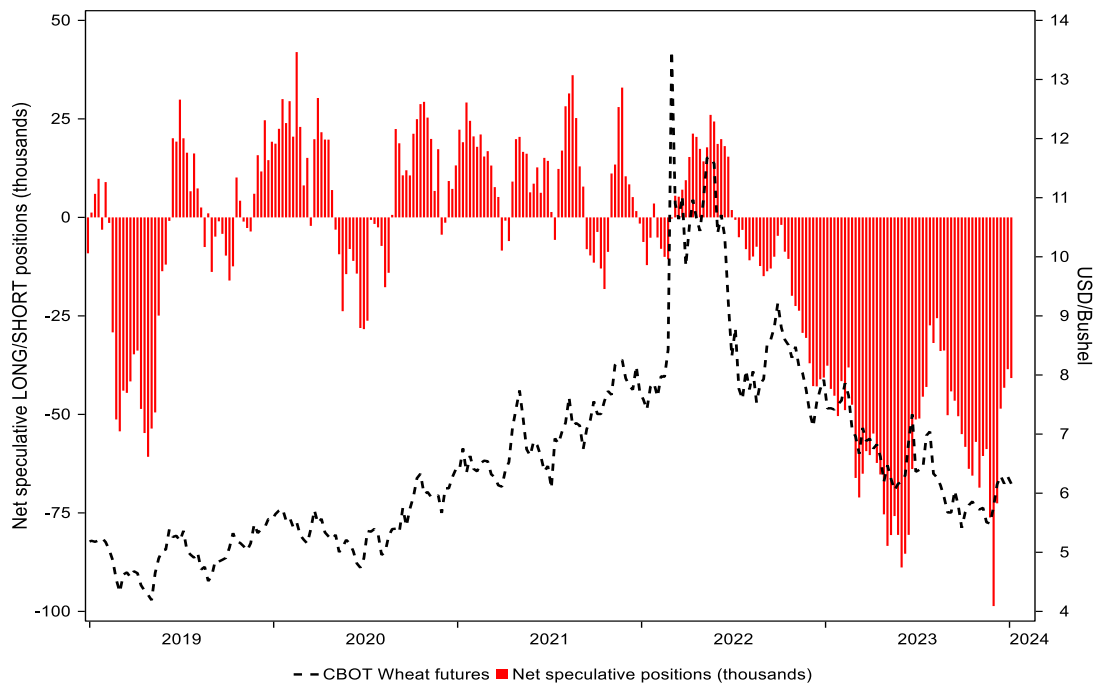
Source: Longview Economics, Macrobond

**Fig 31:** Soybeans futures (USD/bushel) vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

**Fig 32:** Wheat futures (USD/bushel) vs. net speculative LONG/SHORT positions

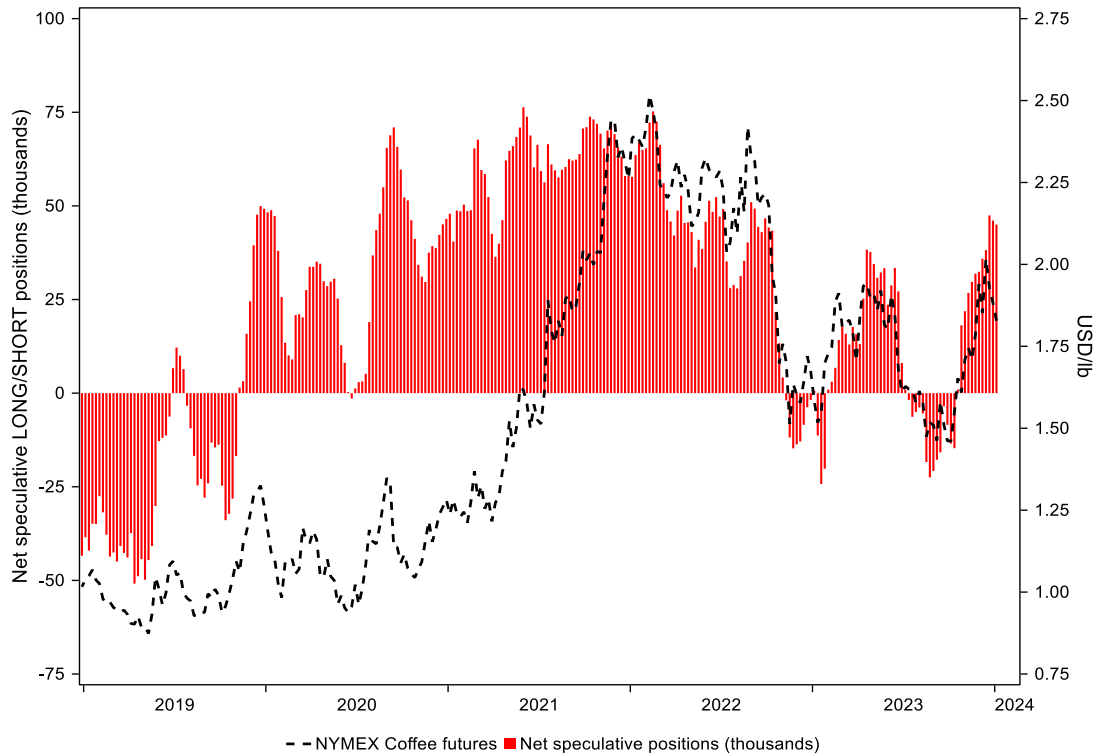


Source: Longview Economics, Macrobond



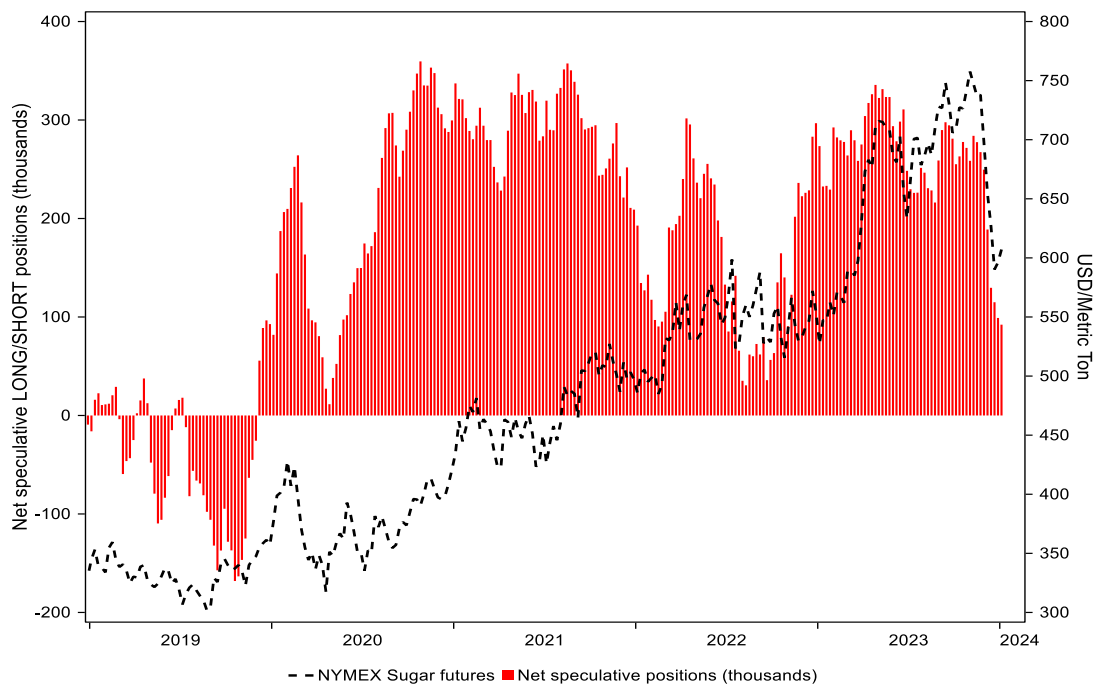
## Agricultural – Softs

**Fig 33:** Coffee futures (USD/lb) vs. net speculative LONG/SHORT positions



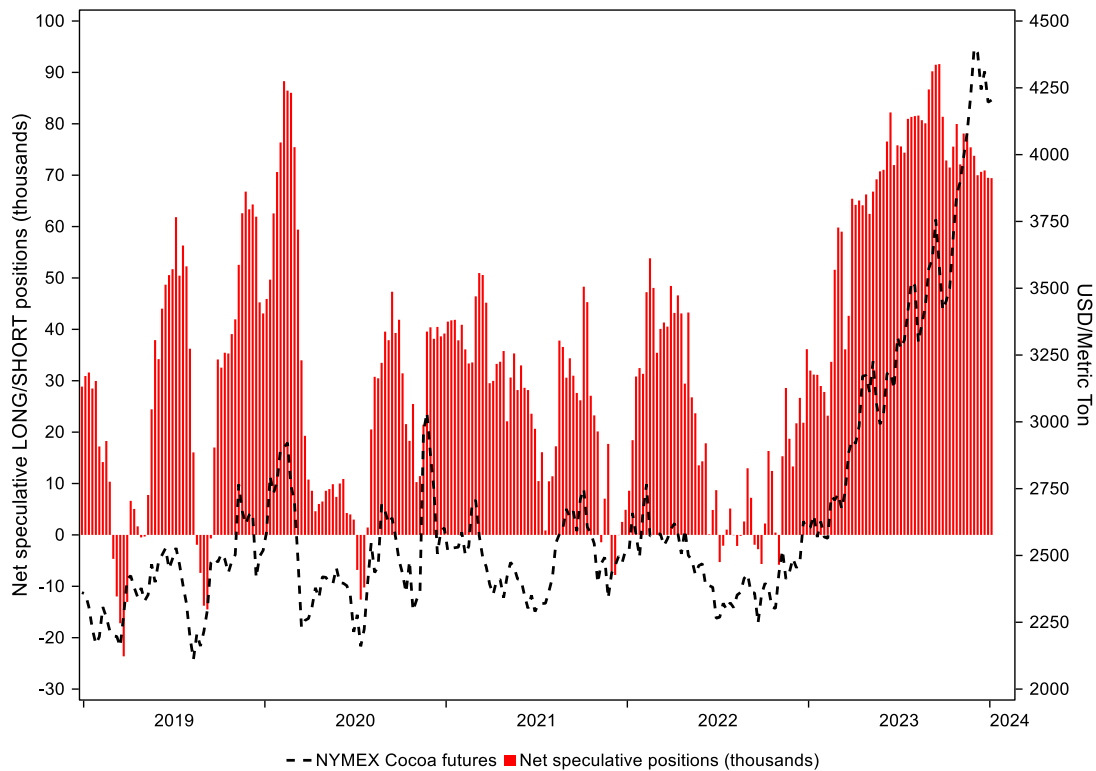
Source: Longview Economics, Macrobond

**Fig 34:** Sugar futures (USD/lb) vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

**Fig 35:** Cocoa futures (USD/Ton) vs. net speculative LONG/SHORT positions



Source: Longview Economics, Macrobond

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