

# THE CAPITAL OBSERVER

OIL SPECIAL REPORT APRIL / 2017



A DC&C publication,  
featuring MJT's timing methodology



**DC&C**  
DIAPASON CURRENCIES & COMMODITIES





# DIAPASON CURRENCIES AND COMMODITIES MACRO ANALYSIS

A Monthly Macro and Asset Review  
Featuring MJT's Timing Methodology

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*A market caught between opposing forces:*

*"US crude production rose by 17000 barrels a day to 9.25 million barrels (up from 8.45 million a year ago) in the week ended April 14, that is the highest level since 2015" according to EIA data.*

*"OPEC is like a magician waving his hands and trying to pull the rabbit out of the hat, but still the rabbit isn't there."*

*E Weinberg Commerzbank's research*

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## 4/ Executive Summary

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**6/Clearing the deck first: the relationship between inventories, Cushing stocks and oil price**-EIA's refinery input data have been slightly understated over the past several months, and so the next few month data adjustments will likely tilt towards the lower side, which will help prices.

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**9/Support for higher oil prices in the very short-term but prices will weaken further till summer** - Modeled data suggests that the oil price may still rise over the very short term. But the over-all tenor is one of weakening price discovery structure, indications showing an oil price trough by Q3 2017, followed by a significant rise into year-end 2017, and Q1 2018.

### Timing and Tactical Insight

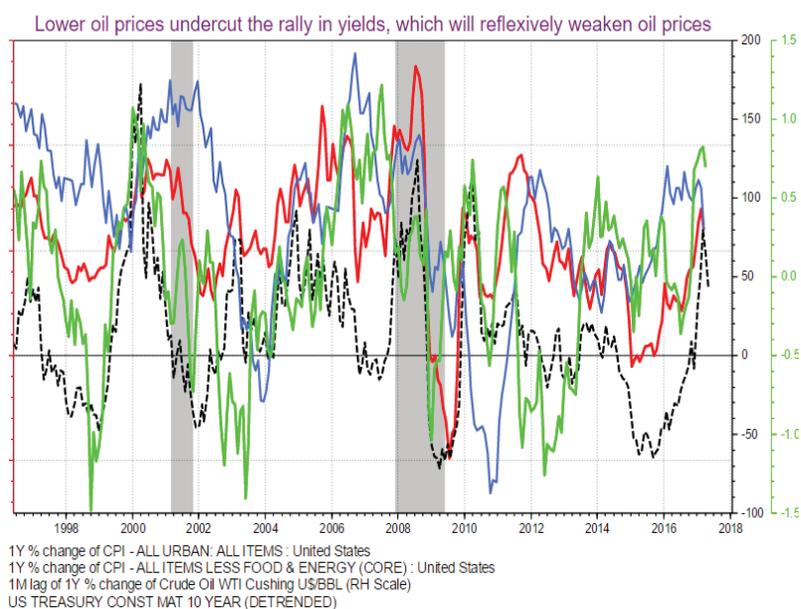
**11/ Reflation trades are retracing and Oil is leading the way** - Oil is currently in a consolidation period to the downside, which will probably last into midyear / early Summer. We then expect it to resume its uptrend in H2 with price targets to the upside pointing to the high 60s Dollars per barrel towards yearend. Shorter term, the bounce that started late March is probably not finished. Oil may attempt to retest its year-to-date highs towards early/mid May, before it resumes its downtrend towards the end of June and levels in the high to mid 40s.

**13/ The Energy sector is struggling - Both an absolute and relative basis, the Energy sector remains weak until mid-year, before it attempts to reverse up during the summer.** Shorter term, a slight rebound can be expected into early/mid May before it resumes its downtrend.

## 5/ Fundamental oil data, on balance, suggest lower crude oil prices until Q3, but show likely higher prices by year-end.

So far, we see that rising inflation in the US has been driven by the rapid rise in energy costs during the past several quarters. But this uptrend is about to end -- we see some indications of lower energy prices during most part of H2017 1 and possibly until Q3. This is significant from the view of the positive linkages between oil price and the US Treasury long rate (10yr yield). The recent rise in long term yields have, in turn, reflexively been helping push up crude oil prices in what have been called “reflation” trades – a decline in yields will therefore conversely undercut some of the support oil prices have been getting in the general rise of prices of risk assets of late (see graph upper right). This development in the yield-oil price relationship should go a long way in supporting our thesis that oil prices are headed lower for most of H1 and possibly until Q3, this year.

Further support for the thesis of lower-oil-price in the near-term comes from the interaction and extrapolation of various fundamental oil data, while the price outlook in the short-term is modeled via the tendency of oil and gasoline prices to follow developments in the high-yield space, after a brief lag. The extrapolation of Crude Oil and Liquid Fuel Inventory net withdrawals by the US Energy Information Administration (EIA), the projected difference between net withdrawals and existing supplies, plus price modeling can provide detailed profiles of future oil prices. The current implied price profile is of range-bound to firmer price over the short-term, followed by lower oil prices going into mid-year and possible into Q3, and then sharply rising prices going towards the year end. The article first discusses the prospects of oil prices going into Q3 and into year-end, and then delves into the outlook for oil over the next few weeks at the concluding part of the article.



Source: Thomson Reuters Datastream / DCC & Robert P. Balan Models (c)

### The US oil balance situation

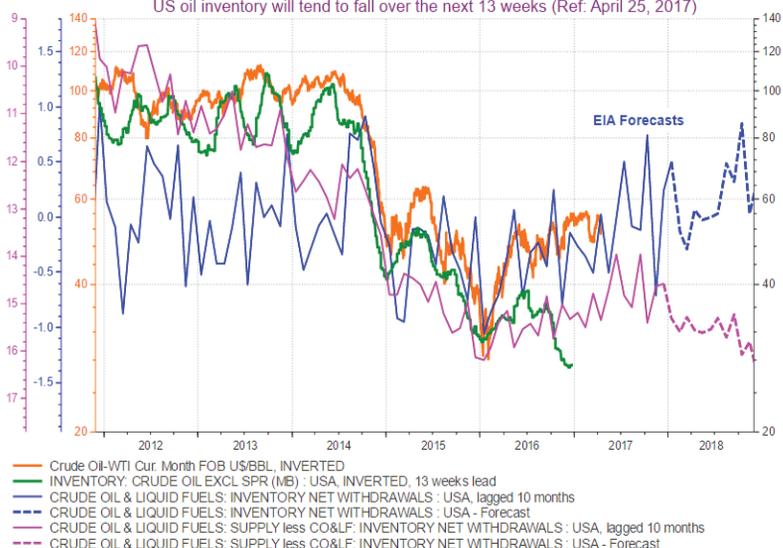
Using oil fundamental data could be very tricky in forecasting future oil prices because of the inherently long lags and leads before a primary data would fully impact the other variables in the price discovery matrix. Put another way, there is no “Efficient Market Theory” effect in temporal orderings of the fundamental oil data set. Once such example is the impact of US net inventory withdrawals (NIW) in the Crude Oil & Liquid Fuel (CO&LF) space, which, in the final analysis, is a subset of oil demand and consumption. Even more importantly,

NIW is significant in that it has a primary bearing (although the lags are long) in the manner US oil inventories build or draw. The raw Crude Oil & Liquid Fuel net inventory withdrawal data provide general direction as to where WTI prices could be going in the near-term, with a lead as long as 10 months (see graph below, blue line). The difference between US oil supply and the NIW provides a rough estimate of the current US oil supply, which has long leads over the actual inventory levels reported eventually by the US Energy Information Agency (EIA); see chart below, red line. It also helps that US oil inventories are lagging function

### WTI Price, CO&LFuel Inventory Net Withdrawals, Oil Inventory:

Projections of Inventory Net Withdrawals suggest lower prices into May-Oct, higher by early 2018

US oil inventory will tend to fall over the next 13 weeks (Ref: April 25, 2017)



of the oil price (prices lead by 13 weeks on average), although US inventories could reflexively impact the direction of oil prices in the short-term. By the measures described above, US oil inventories should be at an inflection point, and should start falling soon. This is a short-term positive factor for oil prices.

### The global oil balance

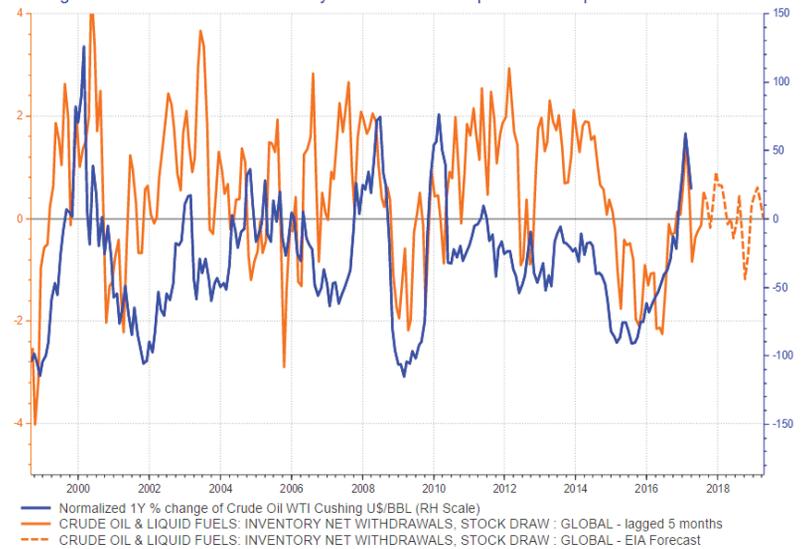
The foregoing exposition has been limited to US oil data, just because the most granular oil data the EIA provides is on US domestic production and consumption. But we have enough data on global oil supply to carry out the same procedure, as we did with the US CO&FL. The projections more or less align with what we saw in the US oil balance: oil prices are likely heading into a weaker period over the next few months, and then a recover going into the 218 year (see upper graph right).

### Clearing the deck first: the relationship between inventories, Cushing stocks and oil price

Basic oil fundamentals, such as the one presented above, are useful. But at some point, the analyst is obliged to put several data series together to arrive at more detailed results – we have to create models in order to do this. The algorithms of Crude oil price models can be as elaborate as you want to make them, but you are setting yourself for failure if the intention is make point price forecasts. Many analysts say that it is difficult to do such thing. We will tell you that it is impossible to design such a model – it can't be done. However, if the intention is to make projections of where the oil price trend is likely going in the near-term, then the task becomes more tractable.

Indeed, even very simple oil output-consumption models, properly designed have proven useful to us in the past, and we are confident that will they continue to provide valuable input to trading decisions in the future. But

The reaction function of Brent Oil price to CO&LFuels inventory net withdrawals  
Changes in Global CO&LF net inventory withdrawals still impact Brent oil prices even after 5 months



Source: Thomson Reuters Datastream / DCC & Robert P. Balan Models (c)

there are caveats, and the primary one is getting the relationships/correlations between oil data sets correctly at the outset before any modeling work begins.

Let us begin the exercise by laying a conventional wisdom to rest – the power of the oil inventories to predict the future level of oil prices. Conventional wisdom says that the higher oil inventories go, the weaker oil prices should be. Why should that be the case? This notion is wrong, and the error starts with oil inventories being conflated with total oil supplies. Investopedia suggests that “Inventory levels affect the price of oil, with higher inventories leading to lower prices,” but offers to proof to support the claim. The notion is that as inventories rise, total supplies rise

as well, and conventional wisdom says that increased market supplies of any commodity tends to lower the market price per unit of that commodity. Unfortunately, that is not how it works – in the past decade at least, changes in oil inventories have risen and fell inversely as a delayed function of the changes in oil prices, and the response lag averages 15 weeks. Put another way, inventories rise 13 to 15 weeks after a fall in oil prices, and vice versa: inventories tend to fall as oil prices rise, after a -14week lag (see below graph & upper graph next page page).

Subjecting the relationship to a coefficient of determination test (R-Squared) yields a respectable  $R^2$  of 0.505, suggesting that more than half of the changes in Oil Inventories can be explained by the changes in WTI oil

Inventory changes are delayed response to changes in price, term structure  
Changes in oil price and spread lead inverse changes in oil inventories by 14-15 weeks



Source: Thomson Reuters Datastream / DCC & Robert P. Balan Models (c)

prices (see upper graph right).

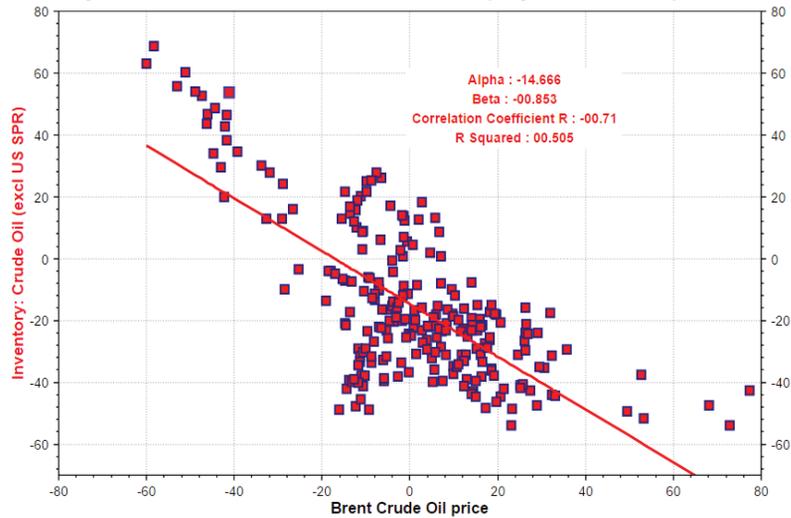
The other half of inventory changes can probably be explained by supply-demand fundamentals that are being reflected in the oil term structure, primarily the WTI front spread. The chart below shows the lead impact of the front spread on both oil price and inventories, especially the latter. The C-2C5 spread has -3months lead over inventory, and a good -6week lead over the direction of oil price (see middle graph right).

A regression of the spread versus inventory yields a significant R<sup>2</sup> of 0.258, suggesting that more than half of the %40 of changes in oil inventories not explained by the evolution of oil prices may be influenced by the storage decisions of oil users and speculators who are guided by the evolution of the front (C-2C5) spread (see below graph right). We actually believe that investors' reaction function to both the term spread and price changes drive the progress of oil inventory builds and draws.

What makes this relationship even harder to accept for some analysts is that it seems to violate the law of supply. The law of supply is a fundamental principle of economic theory which states that there is a direct relationship between price and quantity: quantities respond in the same direction as price changes. Put another way, all else equal, an increase in price results in an increase in quantity supplied. If this economic principle applies in the case of inventories vs price, then inventories should be increasing with the rise in oil prices. That the inventory-price relationship conundrum is shown to work the opposite way is a tell that oil inventories (as defined) should not be conflated with total oil supplies (as defined). In fairness, oil inventories have been classified as "crude stockpiles," which were defined by Investopedia as "reserves of unrefined petroleum, measured in numbers of barrels.

### Oil Inventory as a negative function of Brent Oil price (10-yr span)

The highest R<sup>2</sup> coefficient is derived when Inventory lags behind Price by 15 weeks

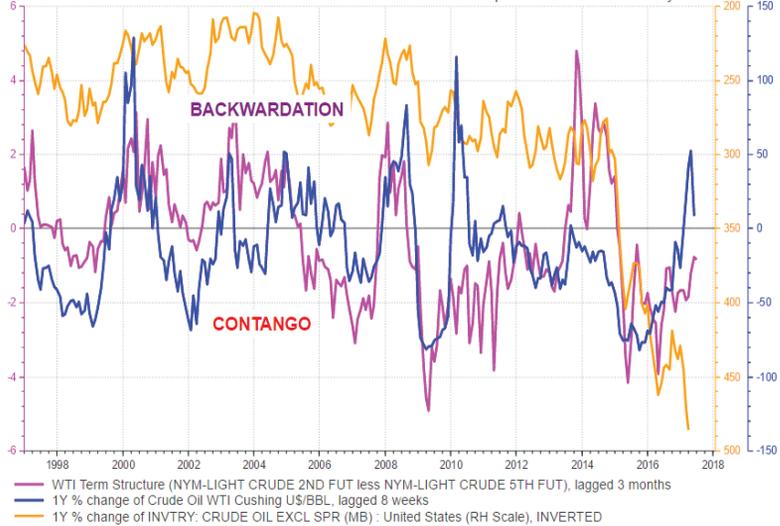


Source: Thomson Reuters Datastream / Copyright: Robert P. Balan Models (c)

### Inventory building is an opportunistic play on contango and lower oil prices

Inventory builds in earnest 3 months behind the fall in WTI prices and after contango has set in

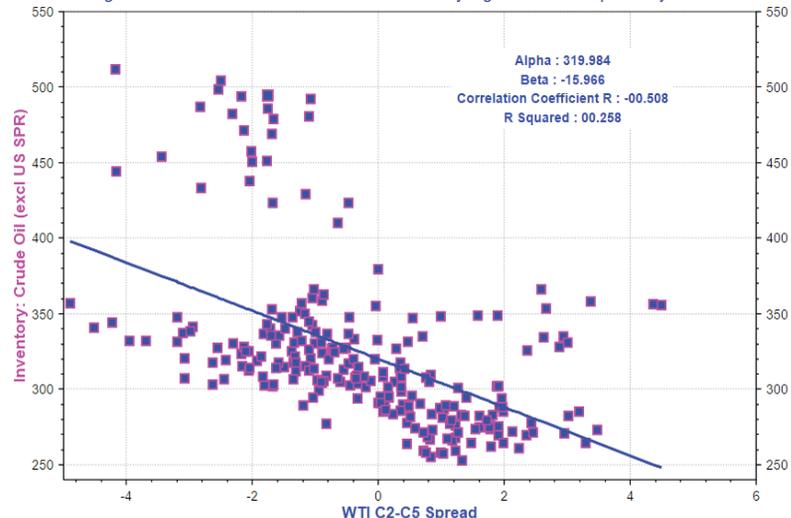
The move to backwardation since Feb 2016 should reassert and help reduce the US inventory build



Source: Thomson Reuters Datastream / DCC & Robert P. Balan Models (c)

### Oil Inventory as a negative function of C2-C5 spread (10-yr span)

The highest R<sup>2</sup> coefficient is derived when Inventory lags behind the spread by 3 months



Source: Thomson Reuters Datastream / Copyright: Robert P. Balan Models (c)

Oil producers use crude stockpiles to smooth out the impact of changes in supply and demand.” Let’s see if we get better clarity with this narrative. The major storage center for crude stockpiles in the United States is in Cushing, Oklahoma. If crude stockpiles have indeed the same functionality as inventories, then there should be good, if not excellent, co-movement (or correlation, if you will) between the two data sets – and indeed, that is the case (see upper graph right).

And here is what we are getting at . . . if oil inventories co-move or correlate with Cushing stocks, then changes in Cushing builds should also follow the inverse lead of the changes in oil prices after a lag, as is the case with inventories. And we definitely see that to be true in the juxtaposition of the changes in the data sets, as shown in the second graph right.

Having figuratively cleared the deck, we can proceed with more productive analyses without worrying about the state of oil inventories or the about the “specter” of an “impending glut” at Cushing, with stocks just off the historic high levels during early 2016. Some analysts are starting to go atwitter about tanks topping out at the Hub (“and where will all that excess production go?”), but as we discussed in an earlier article, tanks reaching %100 of practical capacity does not signify a likely collapse of oil prices (“What Will Happen If, Or When, Oil Storage Capacity At Cushing Is Reached?” – can be provided upon request). In fact, a top-out at the Hub signifies nothing, except that oil prices were in fact relatively lower 15-13 weeks prior, and may not happen at all. We expect lower oil prices into the summer, but not because “oil will have nowhere else to go” if Cushing capacity if filled to the brim.

### Simple Oil Output-Consumption Models

The other pitfall to watch out for is the oft-made error of making a

### Cushing Crude Oil End Stockage vs Oil Inventories vs WTI Crude Oil Price

There is a distinct comovement between the builds in Cushing stocks and oil inventories

Both Cushing end stockage and oil inventories are lagged, negative function of WTI oil price

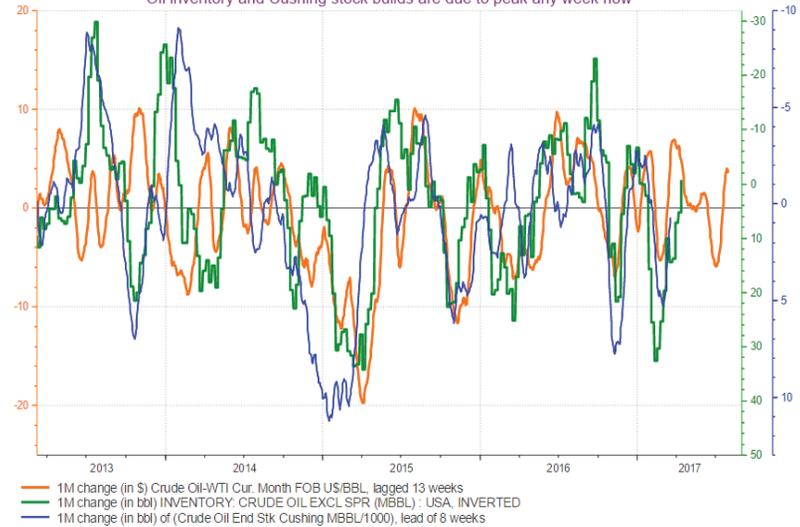


Source: Thomson Reuters Datastream / DCC & Robert P. Balan Models (c)

### Changes in crude stocks are delayed response to changes in oil prices

Changes in price lead the inverse changes in inventories, Cushing stocks by 13 and 21 weeks, resp.

Oil inventory and Cushing stock builds are due to peak any week now

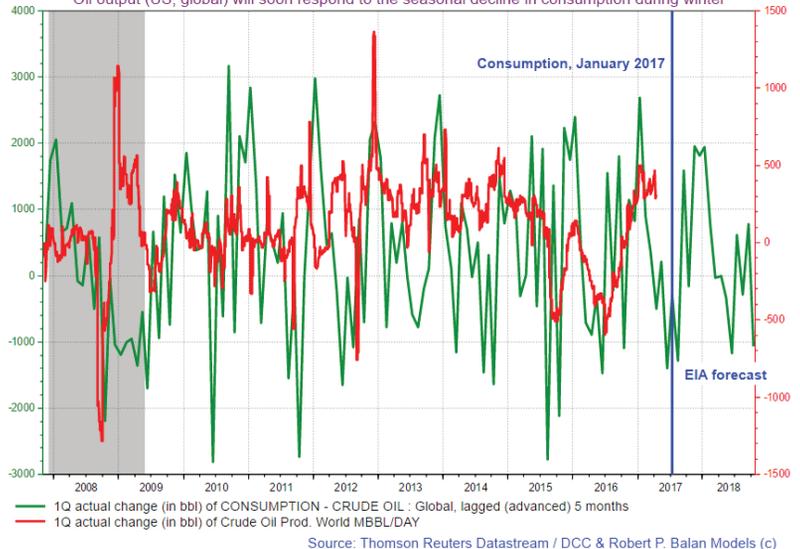


Source: Thomson Reuters Datastream / DCC & Robert P. Balan Models (c)

### The Interplay between Global Oil Consumption, Global Oil Production

Changes in global oil production lag changes in oil consumption by 5 months (delayed response)

Oil output (US, global) will soon respond to the seasonal decline in consumption during winter



Source: Thomson Reuters Datastream / DCC & Robert P. Balan Models (c)

linear comparison between oil output and oil consumption; e.g., today's oil consumption is deducted from today's oil production to derive a delta which could provide a data set which may have a bearing on the evolution of oil prices. The effort is laudable, but the methodology will likely provide an erroneous vector because global (as well as US) changes in oil consumption are, on average, 5 months ahead of the changes in the response from the output side. Said another way, changes in oil output lag behind consumption changes by about 5 months on average (see below graph left).

Off the bat, this relationship tells us that focusing solely on global and US oil output (which, by correlation and by logic, merely follow the trend in global consumption) is particularly counter-productive, as in many cases (as in the past few months) consumption has already been falling but output is still on the rise (see below graph left). In this case, a linear summation to arrive at the delta between output and consumption will likely provide misleading values. What is more useful (and procedurally correct) method is to advance the consumption data by 5 months before summing up the production—consumption equation. The delta derived this way has very good predictive properties over the short term.

We see from the chart above that consumption peaked in August 2016 year-on-year (yoy) and has been falling but may have bottomed in December, according to forecasts of the EIA, which sees consumption subsequently picking up until late in the year. Global and US output have been rising as a delayed response to the previous rise in consumption, which peaked in August, 6 months ago. Indeed, global and US output may be peaking (if it has not already done so) and should be declining over the next four to five months. Note that over that same period, consumption should be rising yoy, and would provide a sentiment

### Global: Spread of Production less Demand (yoy) vs. Brent Oil Price (yoy)

The RoC of the spread between production and demand leads the RoC of oil price by 5 months  
At present, the RoC in Production is outstripping the RoC in Demand, hence the oil price is declining



Source: Thomson Reuters Datastream / DCC & Robert P. Balan Models (c)

### US: Spread of Production less Demand (yoy) vs. Brent Oil Price (yoy)

The RoC of the spread between US production and demand leads the RoC of oil price by 5 months  
At present, the RoC in Production is outstripping the RoC in Demand, hence the WTI price is declining



Source: Thomson Reuters Datastream / DCC & Robert P. Balan Models (c)

boost for oil prices. It is a very simple model which could reasonably indicate where oil prices should be going over the next three to five months (thanks to the leading function of consumption).

That intricate (lagged) interplay between output and consumption can be seen in the two charts below. In those two charts, we juxtaposed the non-linear sum of output and consumption versus Brent oil prices, taking care to advance the Brent oil prices by 5 months, to match the inflection points of the data sets (in rates of change). The two charts above roughly suggest that oil prices would be lower for the next three months (at least).

### Support for higher oil prices in the very short-term but prices will weaken further till summer

Refinery Oil Input seasonal tendency will now provide good support for oil prices, and could stay that way to at least May, even until late July. Inputs have started to be drawn since late February, and should accelerate shortly (see upper graph next page).

The second graph on the next page shows the lagged relationship between Gasoline production and consumption to Refinery Oil Input, and after a -4week lag, the changes that happen to Oil Inventories as they are drawn to meet refining requirements. The major draw

starts after a brief lag (which averages 4 weeks -- could just be a reporting lag) -- inventories should peak sometime very soon (probably even as early as next week).

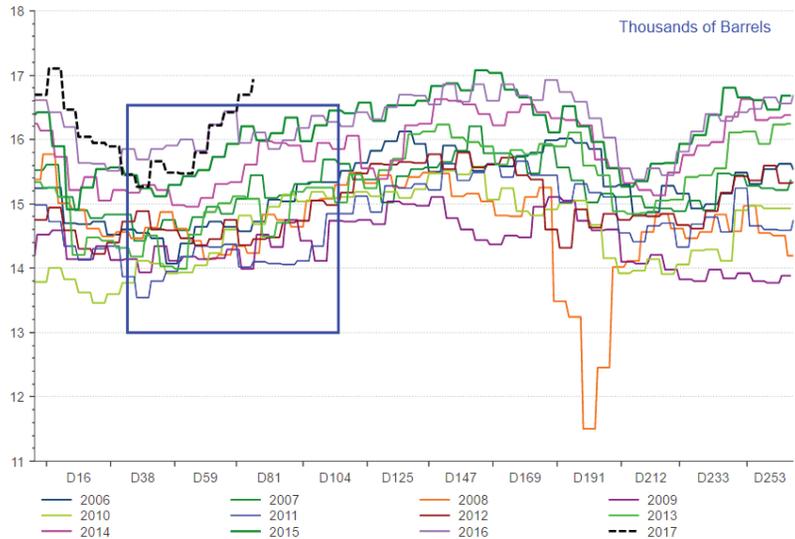
What could also support oil prices in the short term is the likely adjustment of US domestic production and usage data based on the history of US crude oil supply adjustments. The EIA oil supply model has historically overstated or understated output and usage projections, which were then corrected or modified by a series of subsequent monthly adjustments, as shown by the model below. It appears that oil refinery oil input data have been slightly understated over the past several months, and so the next few month-on-month output data corrections will tilt towards the weak side of supply, creating positive output surprises which will tend to help oil prices in the very near-term (see lower graph right).

**Conclusion:**

There is evidence from fundamental factors which suggest oil prices could go lower over the next few months, possibly until Q3 this year. But there is also a preponderance of factors which suggest that before that big price slide happens, we could see a very short term up move in oil prices, as inventories shrink with strong refinery usage. We also see some hints that refinery input could be adjusted higher, even as US and global output fall somewhat as a delayed reaction to previous demand-consumption dynamics. On a longer horizon a trough sometime in Q3, could be followed by sharp price appreciations going into early next year, as dictated by the interaction dynamics of the fundamental factors discussed in this article. To conclude the Oil market is a trader's market for now as it is stuck with conflicting forces but as those resolve in H2 the market should become more investor friendly and start to trend upward with a more favorable term structure, probably moving in backwardation by Q1 2018.

**US Refinery Crude Oil Input Seasonality (Jan to Dec. year by year)**

Refinery oil inputs starts rising from early March until at least early June in most years

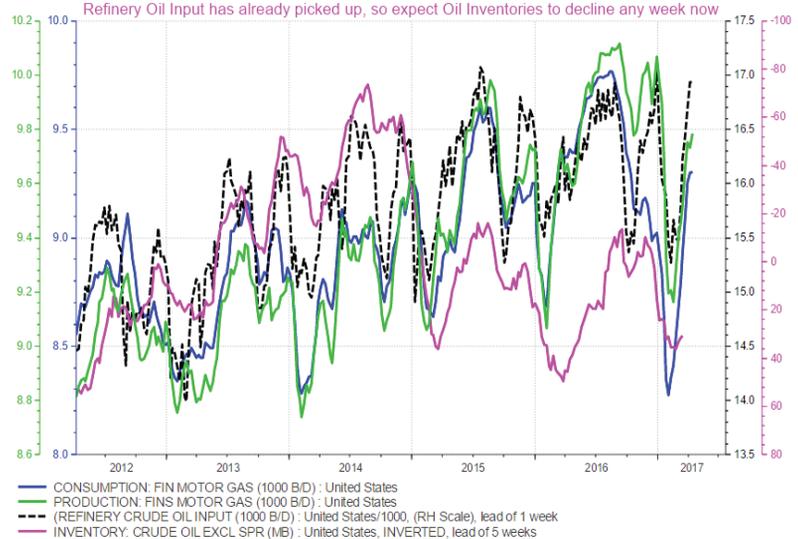


Source: Thomson Reuters Datastream / Copyright: Robert P. Balan Models (c)

**Gasoline Consumption and Output, Refinery Oil Input and Oil Inventory (inverted)**

Oil inventory is lagged response to the scale of Refinery Oil Input that goes into Gasoline production

Refinery Oil Input has already picked up, so expect Oil Inventories to decline any week now

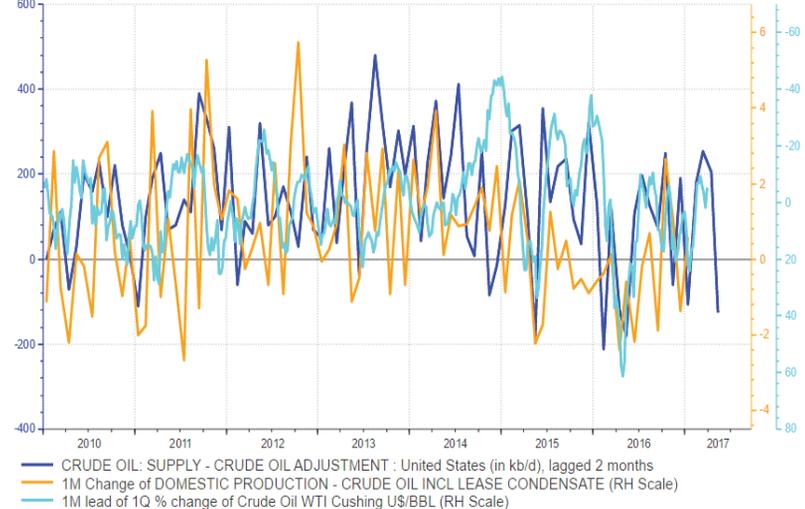


Source: Thomson Reuters Datastream / Copyright: Robert P. Balan Models (c)

**US Crude oil supply adjustments will be shifting to negative until May 2017**

This implies: (1) imports or production is overstated, or (2) exports or runs are understated

Matching adjustment data with the supply points to likely revaluation of refiner runs higher until May



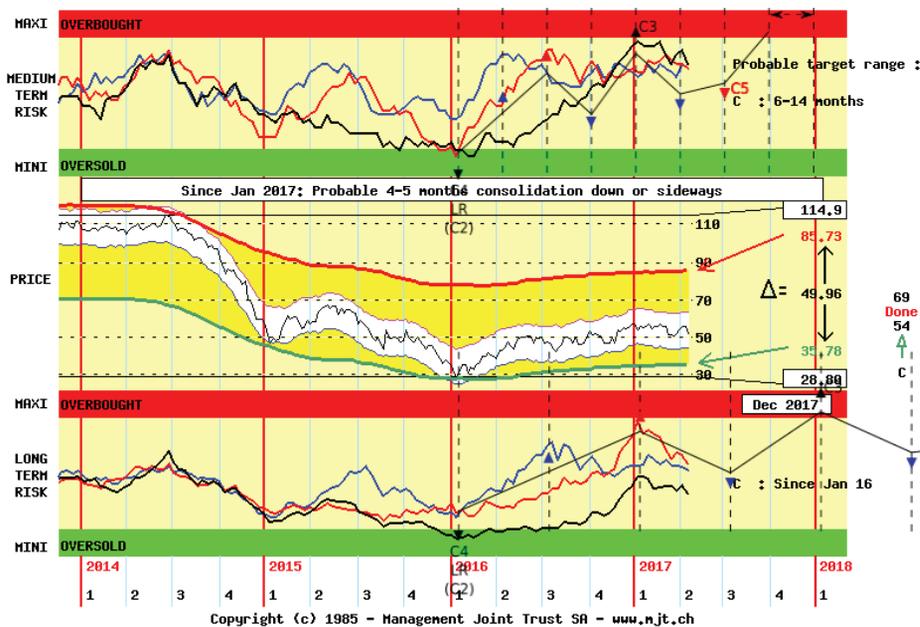
Source: Thomson Reuters Datastream / DCC & Robert P. Balan Models (c)

# 11/ Reflation trades are retracing and Oil is leading the way

In the January newsletter of The Capital Observer ([www.thecapitalobserver.com](http://www.thecapitalobserver.com)), we expected reflationary assets to make an intermediate top mid Q1 2017 and retrace during 3 to 6 months depending on assets. Oil is a key reflationary asset and in February, we confirmed that "Oil is approaching an important intermediate top, which should see it correct to the downside from end February / early March into late Q2 2017." This consolidation period to the downside is now underway and we expect it to continue into midyear.

## Brent Oil

(Weekly graph or the perspective over the next 2 to 4 quarters)



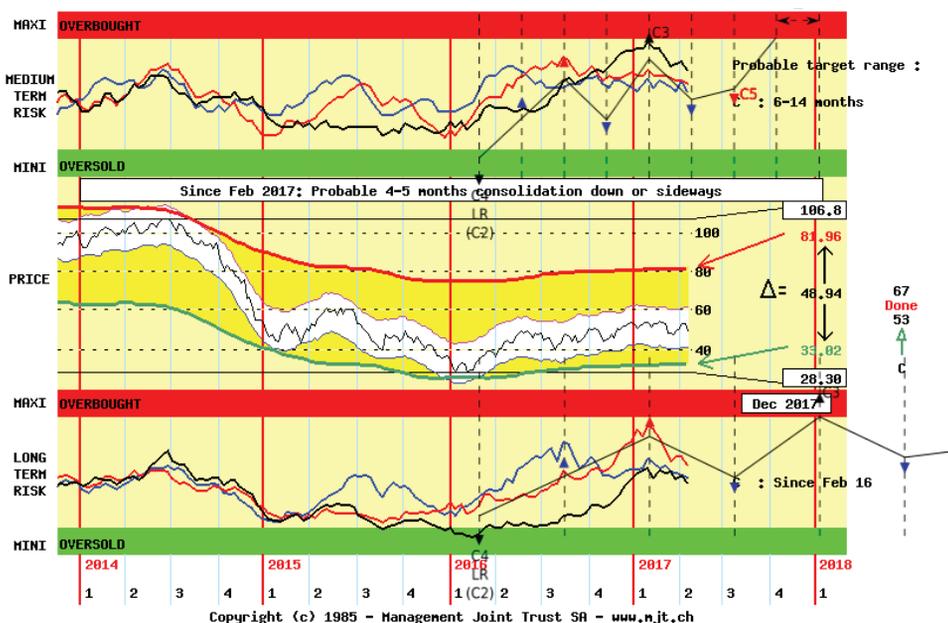
On this Weekly graph of Brent, both our oscillator series have made an intermediate top early in 2017 (lower and upper rectangles). These situations usually result in 4 to 5 months of consolidation or correction to the downside as mentioned by our automatic messaging system. Looking at the models, we project on both our oscillator series, we expect that this **consolidation would probably last into midyear**. Following that a new uptrend should materialize in H2 2017 and should at least test the higher end of our corrective targets

up in the high 60s towards yearend (right-hand scale).

## Light Crude Oil (WTI)

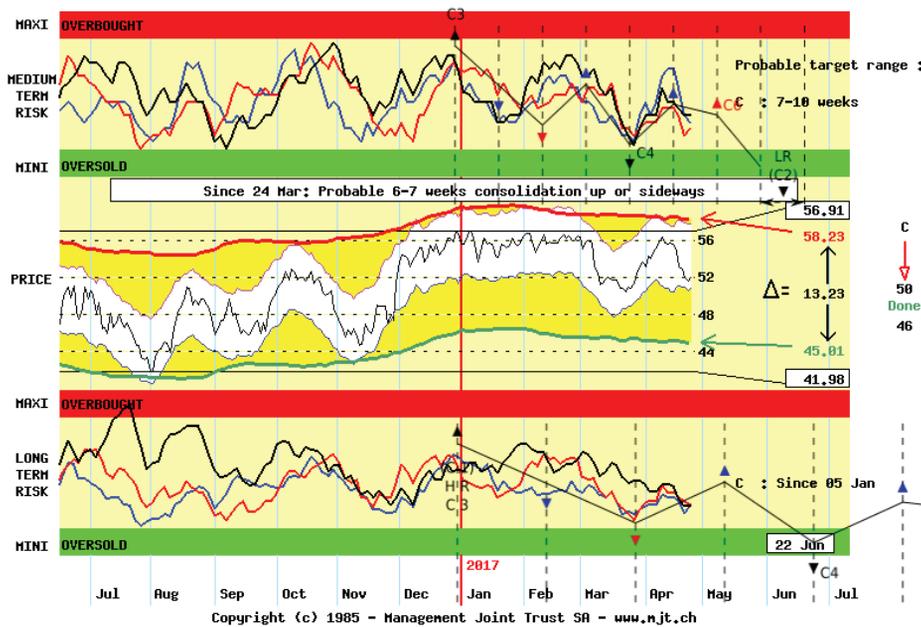
(Weekly graph or the perspective over the next 2 to 4 quarters)

The Weekly graph of Light Crude Oil (WTI) is very similar to the one of Brent above. On both oscillator series (lower and upper rectangles), we would expect **WTI to consolidate down to midyear / early Summer and then resume its uptrend towards yearend and the higher end of our "C" Corrective targets up in the high 60s (right-hand scale).**



# Brent Oil

(Daily graph or the perspective over the next 2 to 3 months)



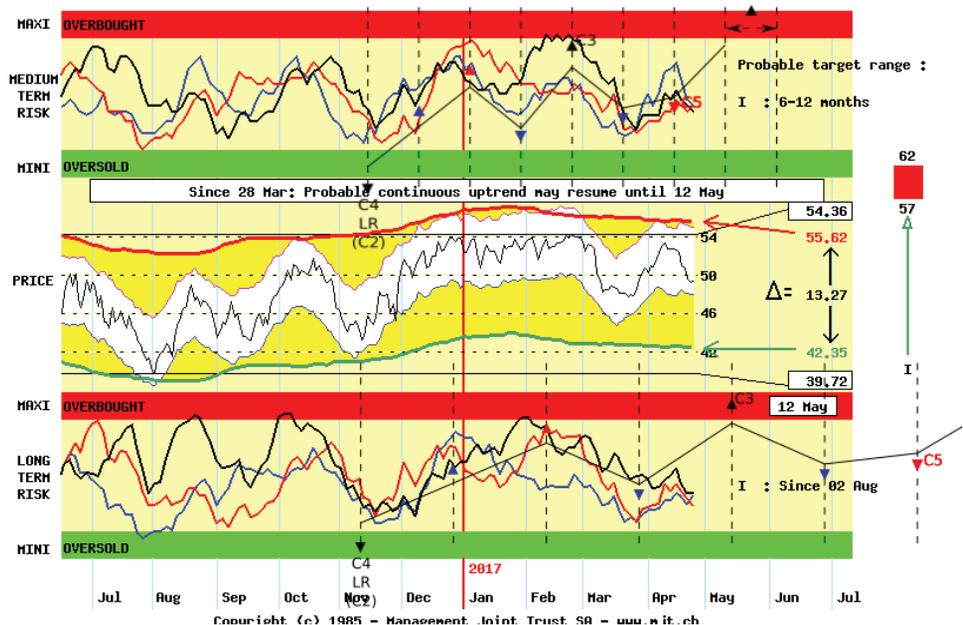
We will now consider the Daily chart of Brent. In our letter dated late March (22nd), we had warned of the bounce that did materialize into mid April (although the depth of the retracement since then has come in as a bit of a surprise). Looking at the models we now project on both our oscillator series (lower and upper rectangles), we would consider that this bounce initiated late March still has a couple of week to go ( 6 to 7 weeks up for 24 Mar”; middle rectangle). **We hence expect that Brent makes a comeback towards early**

May as shown on the models we project on both our oscillator series. It is difficult to evaluate if it will retest its highs. Following that, we expect more downside during May and into June (possibly towards the 22nd of June as shown on our long term oscillators series; lower rectangle). We expect Brent to revisit our “C” corrective targets down between USD 50 and 46 per barrel (right-hand scale). Below that, the next target levels to the downside would be in the low 40s.

# Light Crude Oil (WTI)

(Daily graph or the perspective over the next 2 to 3 months)

Turning to WTI, the configurations of our oscillators are quite similar to the ones on Brent, yet they may offer a slightly more bullish alternative. Such slight differences on neighboring instruments can happen, especially during periods of range bound price action. If their timing coincides, they may actually help us to confirm a scenario (which is the case here). **In line with our automatic messaging (“uptrend until 12th May”; middle rectangle), we’ve applied uptrend models to both our oscillator series (lower and upper rectangles).**



These would also suggest a top in the 1st half of May (similar to the end of the bounce we expect on Brent) before price correct to the downside again until the end of June (“22nd of June” on Brent). Although our “I” impulsive targets up, between 57USD and 62USD a barrel, do look aggressive given the time span left, they give us an indication that the 2017 highs could potentially be retested.

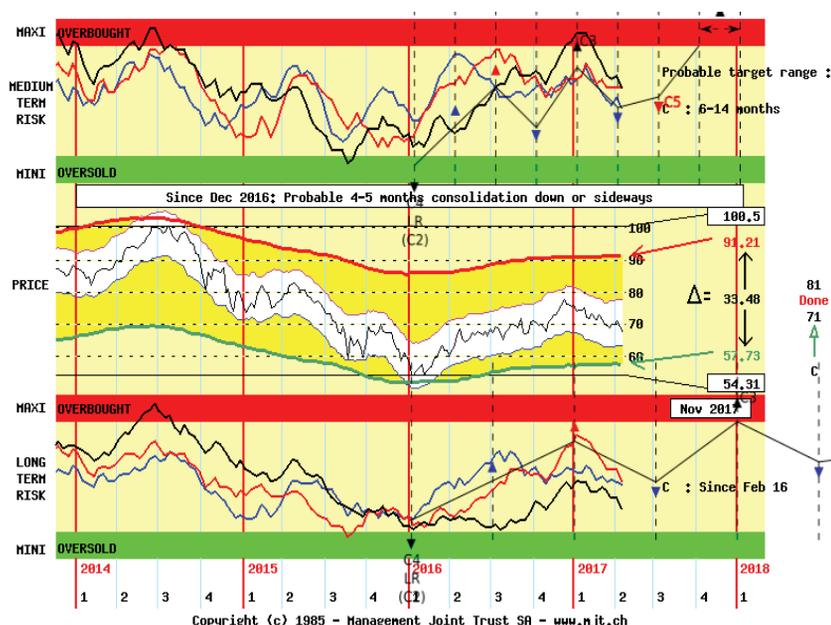
### Concluding remarks:

Oil is currently in a consolidation period to the downside, which will probably last into midyear / early Summer. We then expect it to resume its uptrend in H2 with price targets to the upside pointing to the high 60s Dollars per barrel towards yearend. Shorter term, the bounce that started late March is probably not finished. Oil may attempt to retest its year-to-date highs towards early/mid May, before it resumes its downtrend towards the end of June and levels in the high to mid 40s.

# 13/ The Energy sector is struggling - inter and intra market perspectives

In our February issue of The Capital Observer, we earmarked the Energy sector as being the one of the weakest ones in the upcoming H1 2017 sector rotation. We then believed that it would probably underperform “well into Q2 2017”. We re-confirm this view and expect it now to remain weak until mid year.

## XLE - Energy Select Sector SPDR Fund (Weekly graph or the perspective over the next 2 to 4 quarters)

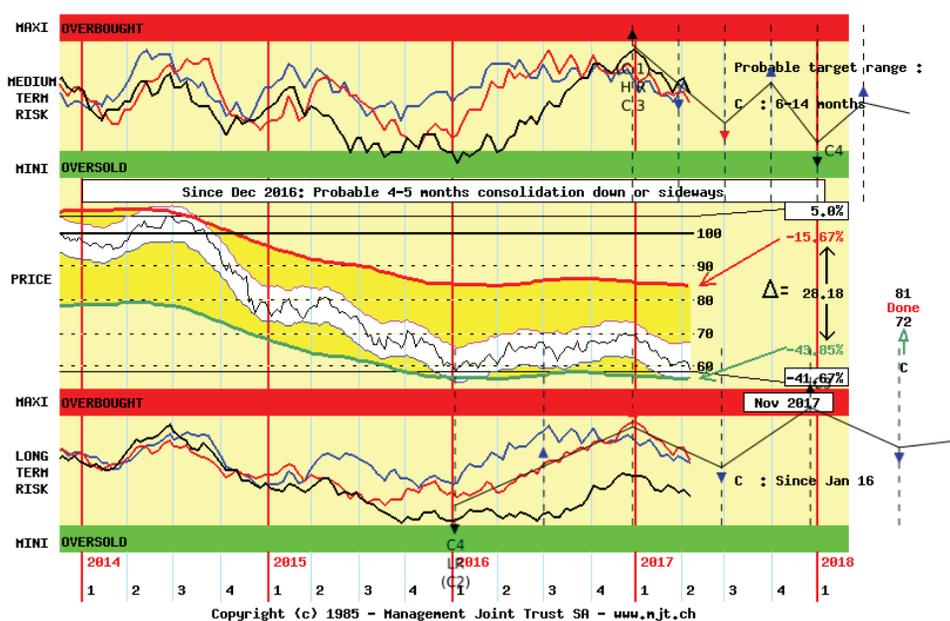


The Energy sector topped out in December 2016 and according to the model we project on our long term oscillators (lower rectangle), it is now consolidating to the downside towards mid year. Typically, in such situations, the model we would apply on our medium term oscillators (upper rectangle) would show a higher low towards the end of the consolidation period (as is the case here). Yet, given the dynamics at play, we would favor the path shown by our longer term oscillator series (lower rectangle) and hence remain prudent until midyear.

Following that, we expect the uptrend to resume in H2 towards yearend and the higher end of our “C” corrective targets up in the low 80\$ (right-hand scale).

## XLE - Energy Select Sector SPDR Fund vs SPY - SPDR S&P 500 (Weekly graph or the perspective over the next 2 to 4 quarters)

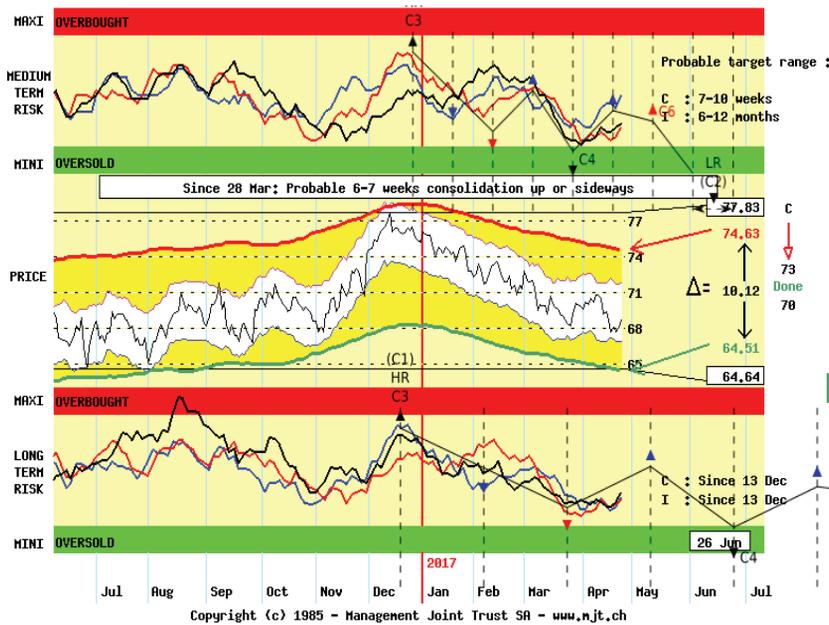
Now considering the Energy sector on a relative basis (i.e. vs the S&P500 Index ETF), we can first notice that it is currently retesting post 2008 lows. Despite this ongoing weakness, we’ve decided to continue to apply an uptrend model on our longer term oscillators series (lower rectangle). Indeed, our automatic messaging is still calling for such a configuration: “Consolidation down from December” and then possible new high in “November 2007” (messages on middle and lower rectangles). However, on our medium term oscillators (upper rectangle), we have



started to apply a downtrend model. It projects a sell-off into midyear, does justify a bounce during the Summer (below the relative levels achieved in December 2016) and points to further weakness towards yearend. This would be our favored scenario for now for Energy vs the S&P500 on a relative basis.

In order to refine our scenario over the next few months, we will now focus on the Daily graphs of the Energy sector on both an absolute and relative basis.

## XLE - Energy Select Sector SPDR Fund (Daily graph or the perspective over the next 2 to 3 months)

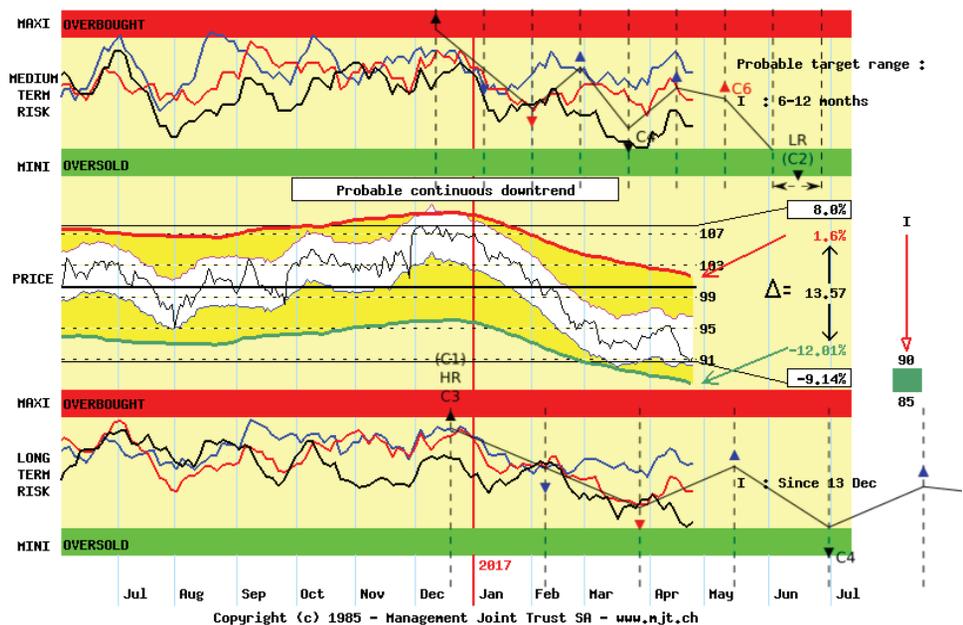


The absolute graph of Energy is similar to the graph of Oil, yet weaker. On both our oscillator series (lower and upper rectangles), an intermediate bottom was made end March and the correction up that followed is theoretically not over. Hence, as with oil, we would expect a new bounce into early/mid May. Following that, **from mid May, the Energy Sector should resume its downtrend towards the end of June** (as confirmed by our automatic message in the lower rectangle, with a tentative target date for a

low: "26th of June"). In terms of price targets, the downside is still quite compelling with our "I" impulsive targets down pointing towards a range between 65USD and 62USD or respectively circa 5 to 10% lower.

## XLE - Energy Select Sector SPDR Fund vs SPY - SPDR S&P 500 (Daily graph or the perspective over the next 2 to 3 months)

On a relative basis vs the S&P500 Index ETF, the picture is even weaker as it has recently made new lows. Again, on both our oscillator series (upper and lower rectangles), we would expect a slight bounce into early May. Following that, **from early/mid May, the Energy sector should continue to underperform the S&P500 until late June**. Our "I" impulsive price targets down (right-hand scale) would imply further underperformance by 2 to 6%, which given our absolute downside target mentioned in the previous chart, would tie in quite nicely with our current scenario on the S&P500 (4 to 7% percent retracement from Mid may into June)

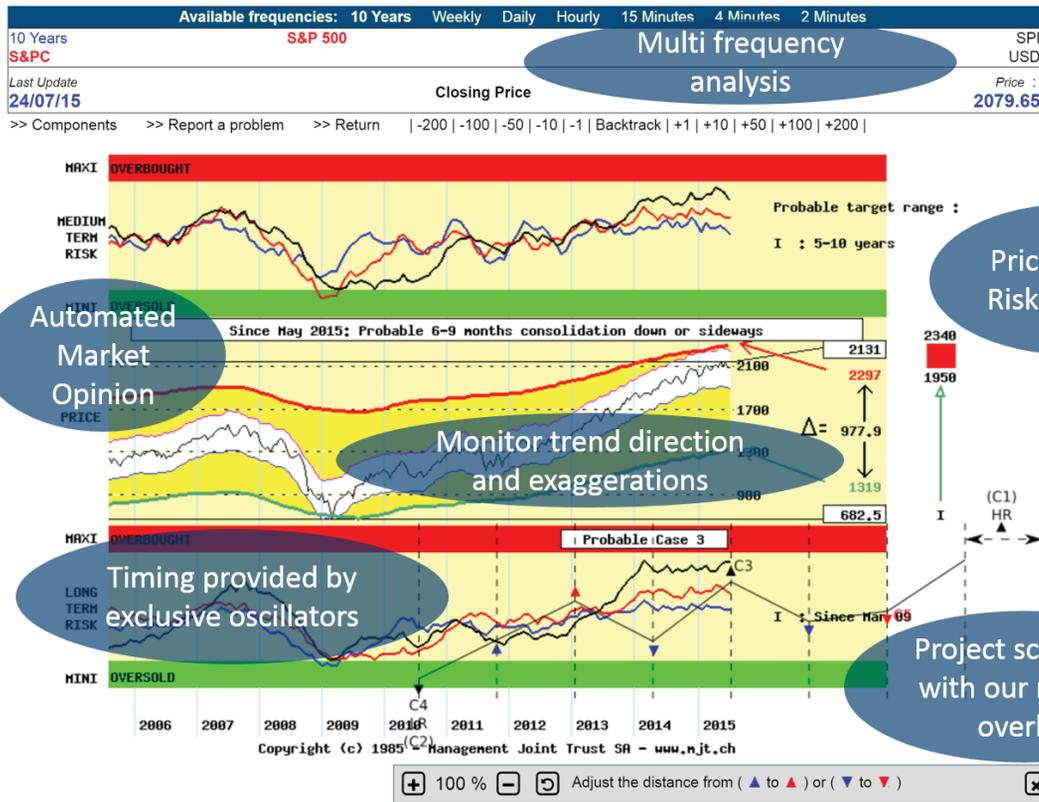


Concluding remarks:

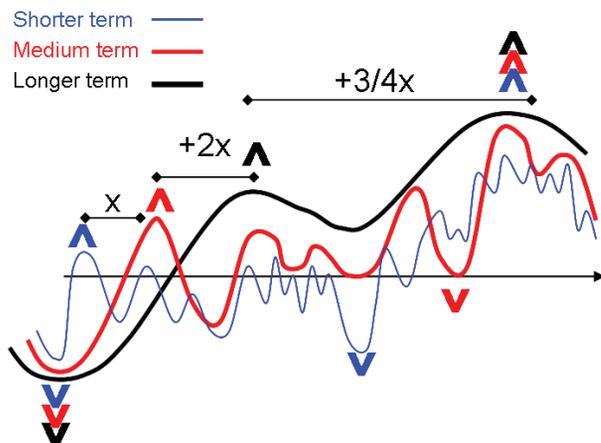
Both an absolute and relative basis, the Energy sector remains weak until midyear, before it attempts to reverse up during the summer. Shorter term, a slight rebound can be expected into early/mid May before it resumes its downtrend.

# 15/ METHODOLOGY

MJT's proprietary methodology uses Timing Oscillators to help investors position themselves either in an uptrend or downtrend. It will hence allow them to anticipate and project the future sequence of events. Coverage extends over 5'000 instruments, long term to intraday, across all asset classes. Relative charts, Opportunity filters, Multi charts monitoring screens and a Portfolio Simulation tool complete the functionality set. See below a description of What's on the Chart, a Methodological brief and an outline of the ideal Uptrend/Downtrend Models (read more on [www.mjtsa.com](http://www.mjtsa.com))

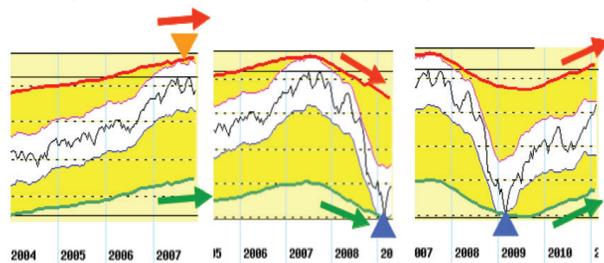


**Timing oscillators:** Different price cycles are captured by our 3 Timing oscillators. Monitor how their relative positioning defines specific situations (Cases) to always know where you stand within the Trend (e.g. please see below the ideal Uptrend Case succession sequence)

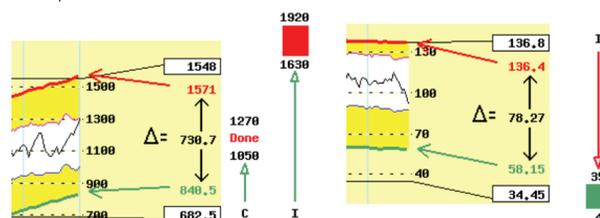


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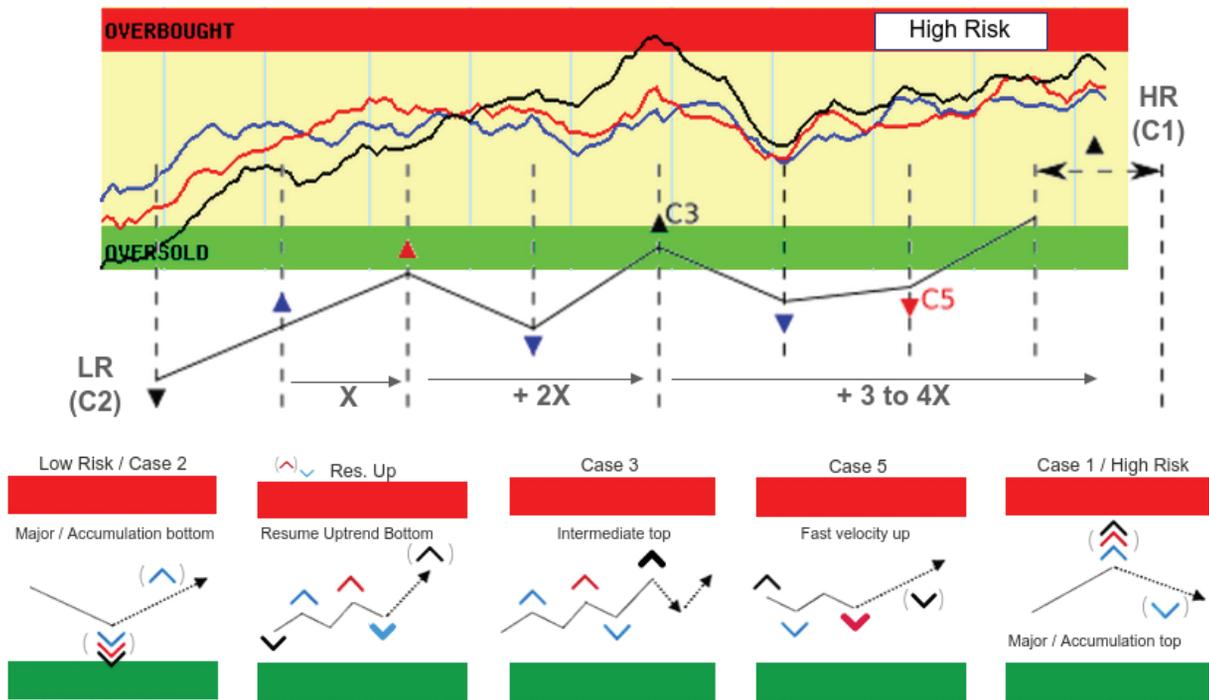
**Trend direction:** the direction of FinGraphs' large envelope will help you decide either to apply an uptrend or a downtrend model. Contacts between the wider and thinner envelopes will help you anticipate and confirm market turning points ( e.g. S&P500 bi-monthly, extracts from the 2005-2011 period).



**Price targets:** based off historical volatility, they can highlight price potential or risk and, once achieved, define take profit or stop loss areas (e.g. below S&P500 in early 2011, Brent in October 2014).



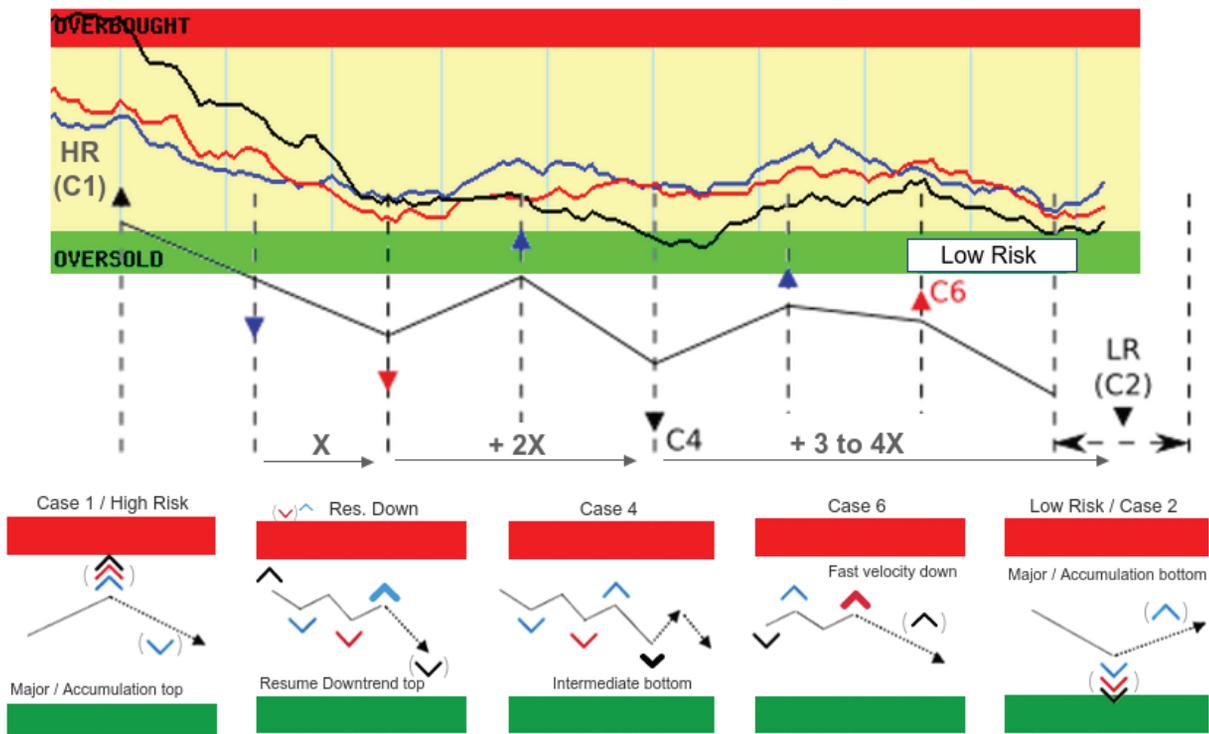
## Ideal Uptrend Model



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(left to right) from an oscillator black bottom (usually a Low Risk or a Case 2), the oscillators and prices will start moving up. An uptrend is confirmed once a red top can be made above a blue one. The correction down that follows delivers a buying opportunity (“Resume Uptrend”) followed by an intermediate top (Case 3). A new period of consolidation down or sideways then starts, ending with a Case 5 acceleration up towards an important top (usually a High Risk or a Case 1). For each time frame, a fixed time unit separates each timing incidence, so that the distance between a blue and red top is usually X, the distance from the red to the black top is then 2X and the distance between the first and second black top is 3 to 4X.

## Ideal Downtrend Model



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(left to right) from an oscillator black top (usually a High Risk or a Case 1) the oscillators and prices will start moving down. A downtrend is confirmed once a red bottom can be made below a blue one. The correction up that follows delivers a selling opportunity (“Resume Downtrend”) followed by an intermediate bottom (Case 4). A new period of consolidation up or sideways then starts, ending with a Case 6 acceleration down towards an important bottom (usually a Low Risk or a Case 2). For each time frame, a fixed time unit separates each timing incidence, so that the distance between a blue and red bottom is usually X, the distance from the red to the black bottom is then 2X and the distance between the first and second black bottom is 3 to 4X.

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# THE CAPITAL OBSERVER

OIL SPECIAL REPORT APRIL / 2017

A DC&C publication,  
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