Creative Global Investments

Oil & Energy commentary & charts

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Objectivity

Integrity

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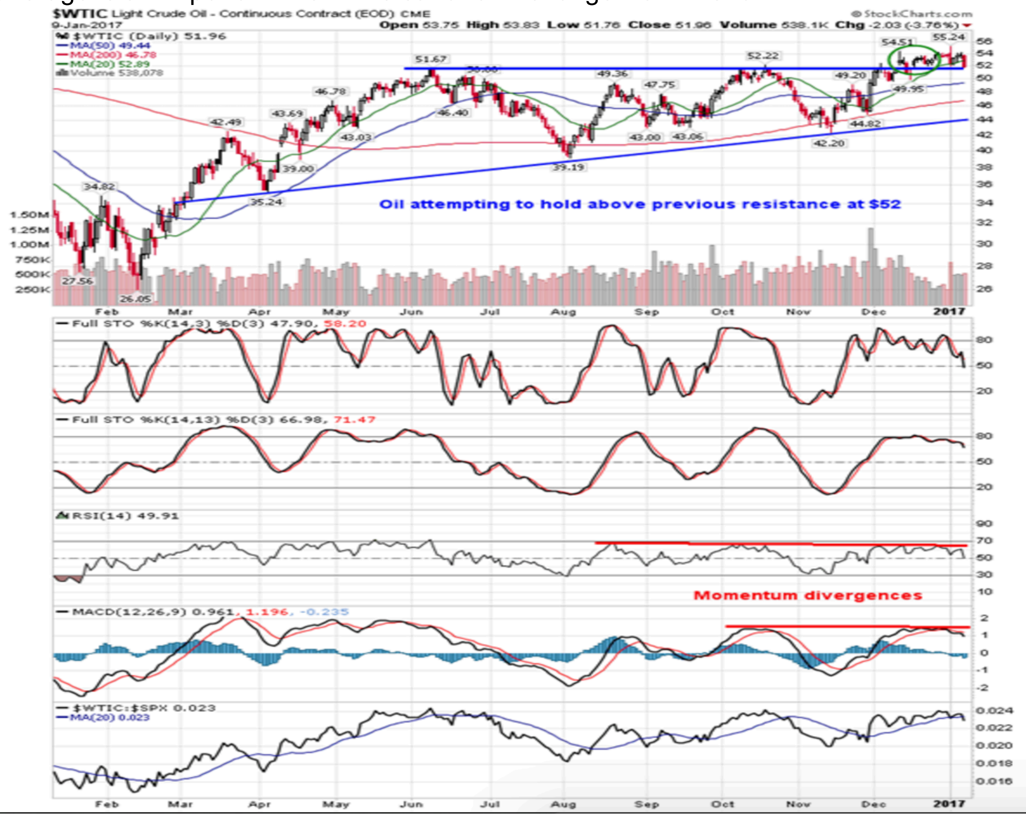
2016, as we were anticipating, was once again volatile for energy prices, and WTI and Brent oil prices rose +46% and +53% respectively, about 8% less of what we were forecasting, but well ahead of where consensus forecasts were. The increase for the two main refined products was even greater. When measured in US$, diesel rose +51% while gasoline went up +29%. **For 2017, we are forecasting that commodities' prices in general will rise by about 15%, however for Oil prices not by nearly as much as in 2016. We maintain our $67 - $70 high-end price range for WTI for 2017.** This morning, Crude oil (WTI) for February delivery on the New York Mercantile Exchange added +21 cents (+0.4%) to $52.17/barrel. US crude (WTI) prices declined -$2.03 (-3.8%) yesterday.

If we take a closer look at the chart below and Oil's technical bias, it becomes fairly apparent that its price action is beginning to form a rising wedge structure. However, as the commodity has retraced within the confines of the wedge, it has been tracing a rather faithful three-drive or ABC pattern, which should mean that a near-term slip is now on the cards. Indeed, some heavy selling pressure is already mounting as was seen during the prior session, which resulted in around a -4% decline in Oil prices, with the price of WTI Crude closing marginally below $52, a key pivot point in the long-term trend of the commodity. Despite $WTIC charting a new 52-week high in the past couple of weeks, momentum indicators have failed to confirm the higher-high. A divergence with respect to MACD and RSI suggests that the recent gains were fuelled by diminishing demand, leading to Monday's downfall. A confirmed break below $52 could see a test of the next pivot point around $48; variable support at the 200-day moving average is an important line in the sand for the longer-term trend.



We can see some dissenting technical readings, which could help to defend the $50/barrel support quite effectively and, therefore, keeping Oil in a ranging phase in the near-term.

Primarily, the 100-day moving average should prove to be a source of some dynamic support, which could certainly dampen any attempt to send the commodity plunging lower. Additionally, this price coincides with the 50.0% Fibonacci retracement, which will also be limiting downside risks somewhat.

Setting aside technicals however, the imminent announcement of the US Crude Oil Inventories could provide all the momentum needed to spark the forecasted downtrend. Currently, the market expects a build of 1.19 MN; the result would reinforce the negative effects of the recent rig count data.

Specifically, Baker Hughes' December numbers showed an m-o-m uptick of 94 rigs internationally, 90 of which were in the US. Investors will also have to keep a close eye on US output figures. It will be interesting to see what effect higher oil prices have on the number of wells in operation south of the border. As 2017 began, inventory data from the Energy Information Administration last Thursday showed a considerable drop in crude oil stocks (decline of 7,051,000 barrels)

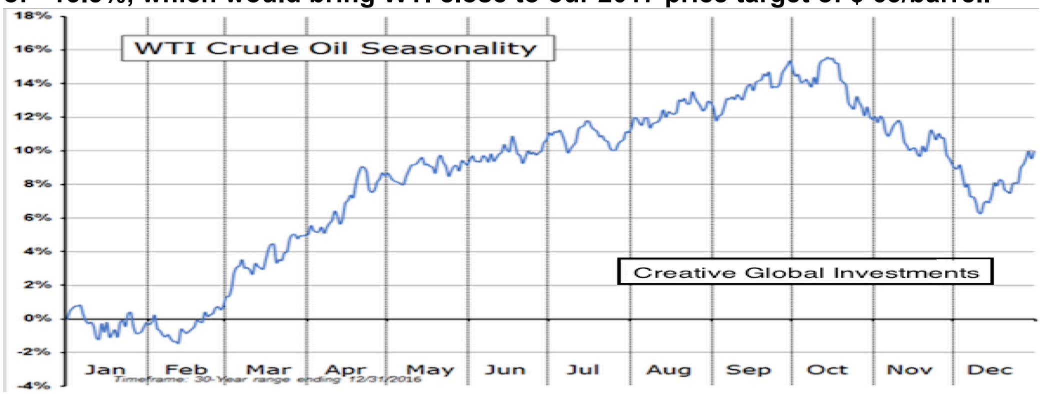
January 1st 2017 also marked the official start of the deal agreed by OPEC and non-OPEC member countries such as Russia in November last year to reduce output by almost -1.8 MN barrels per day. The deal, if carried out as planned, should reduce global supply by about -2%.

Ultimately, we see it unlikely that the long-term uptrend disintegrates just yet, as that would probably require the OPEC agreement to fall apart. However, the downside potential available as Oil makes its journey higher is quite considerable and shouldn't be discounted just because the $50/barrel support has been forecasted to hold firm in the wake of the production freeze.

In the short term, Oil will face increased volatility, likely with some more downside support testing, which we view as an excellent opportunity for investors to re-allocate more of their funds into Oil and sector related stocks.

Looking one month out, let's keep in mind that the period of seasonal strength for oil begins on February 12th, on average, and lasts until the month of October.

The average annual rise over the past 30 years of Oil during this period has been of +15.5%, which would bring WTI close to our 2017 price target of $ 63/barrel.



The S&P Energy Index gained 3.07 points (0.55%) last week.

Intermediate trend remains up. $SPEN is ranging above the 555 support but the bearish pressure is starting to manifest. Strength relative to the S&P 500 Index is Neutral.

The Index moved below the 20-day moving average. Short-term momentum indicators are Negative.

The Philadelphia Oil Services Index added 8.82 points (4.80%) last week.

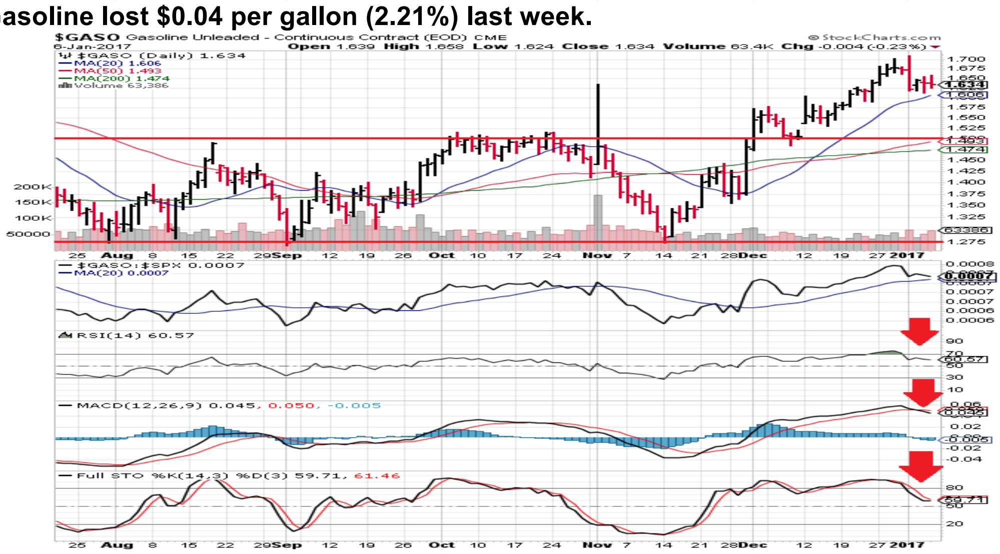
$OSX rebounded from the 185 support.

The Index remains above its 20-day moving average. Short-term momentum indicators are rolling over.

Gasoline lost $0.04 per gallon (2.21%) last week.

Intermediate trend remained Positive. Strength relative to the S&P 500 Index changed from Positive to Neutral. $GASO found the new resistance at 1.70

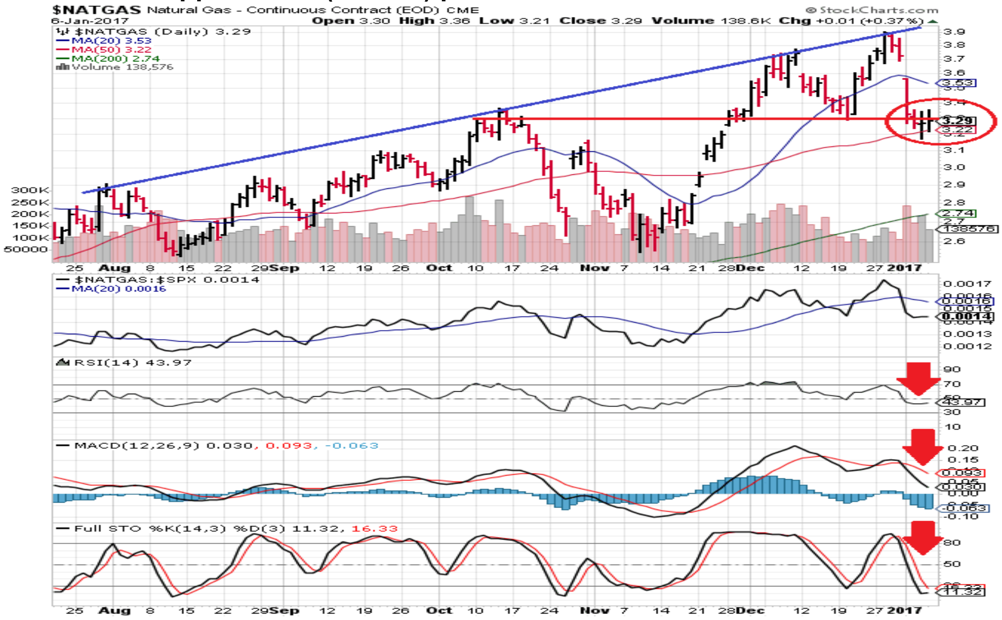
$GASO is above the 20-day moving average. Short-term momentum indicators are rolling over.



Intermediate trend is Neutral. Strength relative to the S&P 500 Index is Negative. $NATGAS broke the 3.3 support.

$NATGAS is above the 20-day moving average. Short-term momentum indicators are Negative.

Natural Gas dropped $0.44 (11.79%) per MBtu last week.



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