Energy Overview: Morning Flash

Tuesday, December 18, 2018
info@kilduffreport.com
www.kilduffreport.com

NOWHERE TO HIDE

TOP HEADLINES:

- China expected to grow 6.0 – 6.5 percent next year: government researcher
- Oil drops 4 percent on oversupply, equities sell-off
- Japan cuts GDP, CPI forecasts on disasters and trade wars

Market*Update*	Month	Last Close	Change	S/T Bias	Viewpoint
WTI Crude Oil	**February**	**48.83**	**-1.37**	**Neutral**	**After big sell-off, is there more downside?**
Brent Crude Oil	**February**	**58.13**	**-1.47**	**Neutral**	**OPEC on the spot to reduce output**
RBOB Gasoline	**January**	**1.3765**	**-.0190**	**Neutral**	**Seasonal price downturn underway**
ULSD Heating Oil	**January**	**1.7924**	**-.0343**	**Neutral**	**Diesel demand strong on robust global economy**
Natural Gas	**January**	**3.618**	**.091**	**Neutral**	**Volatility is the watchword**

================

US ECONOMIC EVENTS TO WATCH THIS WEEK

Monday 12/17
- CPI (EUR)
- Empire State Manuf. (USA)

Tuesday 12/18
- Ifo Business Climate (GER)
- Housing Starts (USA)

Wednesday 12/19
- CPI (UK)
- EIA Petroleum (USA)
- FOMC Decision (USA)
- Interest Rate (JPN)

Thursday 12/20
- Phila. Fed (USA)
- Jobless Claims (USA)
- Natural Gas (USA)
- CPI (JPN)

Friday 12/21
- GDP (UK)
- B-H Rig Count (USA)

================

Full Weekly Economic Calendar Overview (Bloomberg)

Global MacroEconomic

S&P 500 futures sold-off, yesterday, breaking below key support at 2,600 rather definitively. There was no single catalyst, but there are a number of factors at-play undermining confidence. They range from the Brexit to the U.S. – China trade war to an adverse decision regarding the Affordable Care Act to the mounting legal problems of President Trump. A government shutdown looms, as well, and of course, the Fed seems set to raise interest rates tomorrow. That's going to leave a mark, if they do so. Sentiment has tanked to such a degree that our contrarian nature is piqued. Play for more losses, but beware the Fed.

Petroleum Complex Fundamentals

Oil prices are getting crushed, outpacing the losses in the equity market. The afterglow of the OPEC meeting and the announced production cuts has completely faded away, and the façade of the accord was ruined, yesterday, on word that Russia's output has climbed to a new record. There is no sign of them cutting back. You know it's a bear market, when more issues in Libya does nothing to lift prices. The OPEC accord is being viewed as ineffective – cue the oil minister rhetoric. Play for more losses.

Technical Analysis: WTI Crude Oil

Prices broke below key support at $50.00, yesterday, and there is follow-through selling in overnight trading that has seen the February contract fall as low as $48.15, which is next support. Below $48.00, the downside objective becomes $42.00. We had counseled that however you wanted to view the consolidation phase that came in the aftermath of last month's big sell-off, it pointed to further losses. The $50.00 level is now overhead resistance. Play for more losses, but take some profits, if you have them.

Natural Gas Fundamentals

Prices tanked, yesterday, falling in reaction to a moderating weather outlook that has several rather warm days ahead in the Northeast. This coming Friday reading will be in the mid-50s, and the last week of the month is set to experience a warm-up as well. It is as a result of something the weather analysts refer to as a "sudden stratospheric warming." That is a warm air mass that blankets the Arctic region, causing the lower 48 states to warm, as well. The lack of heating demand has undercut prices. Play for more losses for now.

Technical Analysis: Natural Gas

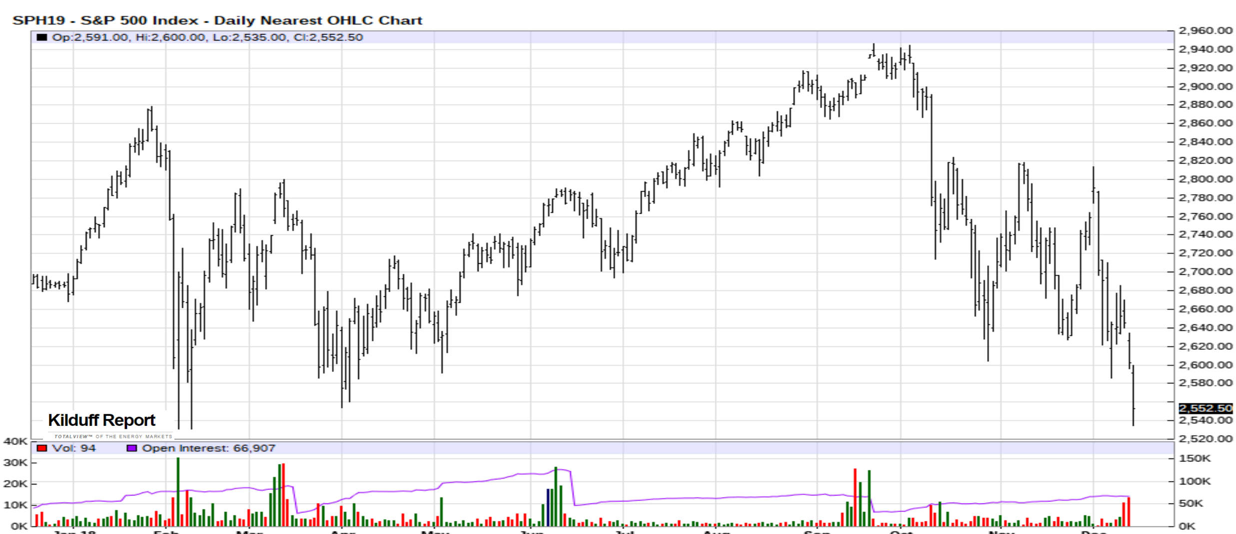
Yesterday, there was a major downside breakout, and prices are now just above the long-running sideways channel between $2.50 and $3.50. There was a wedge pattern that presaged a breakout, but the set-up seemed to favor an upside move, due to its positioning on the chart, in the aftermath of the spike higher last month. But there was terrific volatility, and myriad large daily price bars that made the chart a difficult read. It looks price are about to settle back into the $2.50 - $3.50 channel. Play small, still.

Today's Key Point: The equity market got slammed, yesterday, and the market appears to be holding its breath ahead of the Fed meeting tomorrow. There is a real chance, in our view, that the Fed takes a pass on raising interest rates this time around. While the stock market values are not part of their mandate, you have to believe its an input. If they don't raise, a rip-your-face-off rally could ensue. Be careful. This is turning into a binary market even of the first order.

Economic Data	MONTH	ACTUAL	PREV	EFFECT	ANALYSIS
Ifo Business Climate (GER)	DEC	101.0	102.0	NEG	This Is another key sentiment gauge that has turned lower. The business climate in Germany is trained on several fronts, ranging from Brexit to the trade wars.
Housing Starts (USA)	NOV	3.2%	-1.6%	POS	It is interesting that some of the hard data keeps holding up, while the survey or soft data keeps declining. The housing data this morning was particularly strong.

Expanded*View*: Global Macroeconomic

Losses mounted, yesterday, as the S&P 500 futures broke down through key support at 2,600. There are a variety factors at-work causing unease among investors. The trade wars are front-and-center, especially the U.S.-China iteration, but other issues ranging from the looming government shutdown to the president's legal woes, are also pulling at the market. We continue to caution, however, that sentiment has gotten very bearish. It feels early, however, to act on that impulse, which is born out of the mantra that urges buying when others are fearful. There is good reason to be fearful, at the moment. You have to believe that it won't take long for President trump and the house democrats to be at each others' throats early in the new year. The market won't like that. Also, it is fairly apparent that one or more equity focused hedge funds are in the process of blowing up. The volume and pattern of selling indicated that several times, yesterday. So, we don't think that the bottom for equities has been installed, yet. Play for more losses.



Quick*View*: Global MacroEconomic/Technical Analysis – S&P 500 Index Futures (SEP)

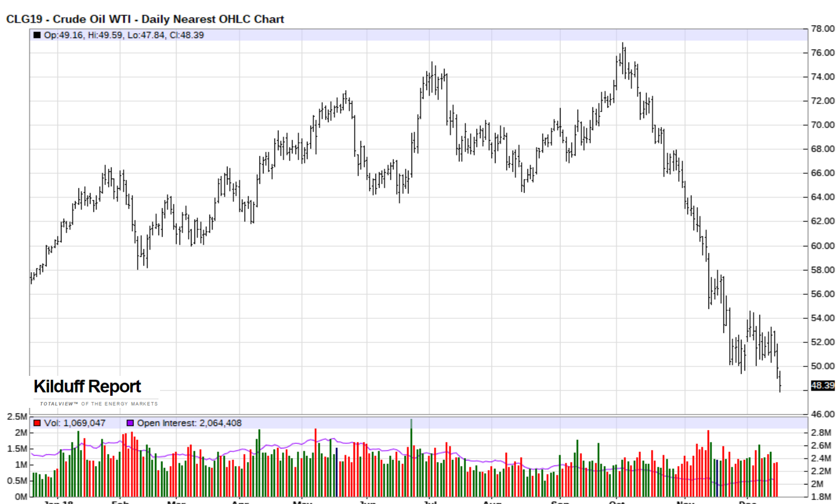
Prices broke down through key support at 2,600, nearing the lows from February. To the extent prices can rally back, there is the opportunity for a double-bottom to be installed. Yesterday's large daily price will likely see some retracement, as well. Still, the current downtrend channel remains well-formed and intact, furthered in its construction by yesterday's sell-off. The 2,600 level is now overhead resistance. Play for more losses.

CAT-5	MACRO ECONOMIC	FUNDAMENTAL	TECHNICAL	SENTIMENT	GLOBAL SITUATIONAL
READINGS	NEU	NEU	NEU	NEG	NEG

***CAT-5* Focus**	READING	ASSESSMENT
FUNDAMENTAL	NEU	This category's rating is deteriorating rapidly. The mettle of Saudi Arabia and Russia is about to be tested. They must come through with significant output cuts, in order to stabilize the market. Demand is another issue, which may require even bigger cuts.

Expanded*View*

There is no bounce higher in store for oil prices this morning. There has been significant follow-through selling, in overnight trading. Yesterday's news that Russian oil output has risen to a record this month, undercut prices and the view that the recent OPEC/Russia accord would prove effective. Worries over the global economy and the negative impact on demand is also weighing the market. The continued plunge in equities keeps bleeding over into oil prices, as well, as the same ills that affect stocks hurt the oil demand outlook. Key support at $50.00 for WTI has been breached, and there is risk down to $42.00. The benefit of the doubt given to Saudi Arabia and Russia has proved fleeting, but there are bullish nuggets out there. Saudi Arabia's crude oil inventories fell by 6.4 million barrels, lending some support to the theory that some of their advertised production rise was met through inventory releases. The troubles are mounting in Libya again, as well, but the market has barely noticed the serial outages. We see more short-term downside, but we are getting increasingly constructive on Q1 2019, which could see some fundamental improvement.



PIVOT TABLE	
RESISTANCE-3	55.97
RESISTANCE-2	53.11
RESISTANCE-1	51.48
PIVOT	50.25
SUPPORT-1	48.62
SUPPORT-2	47.39
SUPPORT-3	44.53

Expanded*View*: WTI Crude Oil Technical Analysis

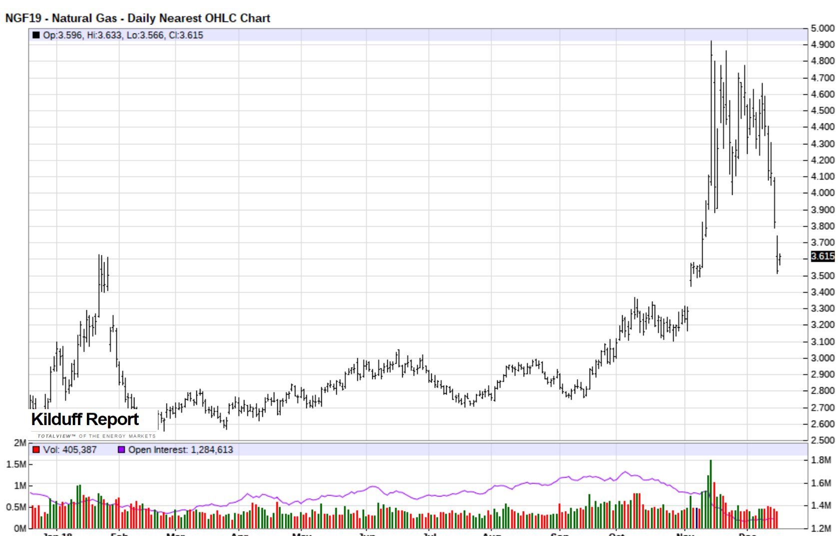
The range bound trade gave way to the downside, yesterday, with prices crashing through key support at $50.00, with prices reaching $49.88. Follow-through selling in overnight trading has seen prices test down near next support $48.00, with prices reaching $48.15. We had counseled that the recent consolidation phase was a bearish set up, since it came on the heels of the downtrend. It was a pause that refreshed the bears. Next support is seen at $42.00. The chart is bearish in its presentation. Play for more losses.

CAT-5	MACRO ECONOMIC	FUNDAMENTAL	TECHNICAL	SENTIMENT	GLOBAL SITUATIONAL
READINGS	POS	POS	POS	NEU	NEU

CAT-5 Focus	READING	ASSESSMENT
FUNDAMENTAL	POS	Despite the weakening heating demand outlook for December, the tight storage set-up underpins the market, as does the calendar. Winter officially arrives on Friday, favoring the development of cold air outbreaks. The market will be highly reactive to the upside, if it gets cold out.

Expanded*View*

There is a short-covering rally underway this morning, as the market works off some of the oversold condition. Prices have collapsed, of late, as the weather set-up turned bearish. The December heating demand outlook has gone from robust to weak. A warm-up was experienced last weekend, and another warm period will occur this weekend in the Northeast. The bull-bear battleground is shaping up to be the last week of December. We have been mentioning the fears over an appreciable warm-up for the last week of December, due to an anomaly in the Arctic region that will result in warmth in the continental United States. There are competing outlooks that dispute the warm weather forecast. That is also helping to stabilize prices. Thursday’s storage report may not help the bull case, either, however, when a net withdrawal of 144 Bcf is reported. That will be below last year’s 166 Bcf release, but in-line with the five-year average of 144 Bcf. We continue to be constructive on natural gas, and the current is likely a buying opportunity. The winter season favors cold air outbreaks. Play for some renewed upside.



PIVOT TABLE	
RESISTANCE-3	4.049
RESISTANCE-2	3.822
RESISTANCE-1	3.675
PIVOT	3.595
SUPPORT-1	3.448
SUPPORT-2	3.368
SUPPORT-3	3.141

Expanded*View*: Natural Gas Technical Analysis

The wide daily price ranges persist. Prices are lower by more than $1.00 dollar from just last week’s high at $4.587. They gapped lower, on Sunday night, to install an island top, but they traded down to the top of the gap from early November that ushered the huge rally. Therefore, a double-bottom may have been installed. But there are gaps to the upside and downside that need to be addressed. Due to the outsized volatility, we have to continue to advise playing small, if at all. It is as if anything can happen, in a big way. Be careful.

