

DAVID PESCOD'S Stocktalk

WTI Oil
WCS Oil

\$68.73 -1.02
\$24.46 +2.21



I suspect that technical analyst *Ross Clark* doesn't really care that much for fundamentals on stock as being a dedicated technical analyst, many of his ilk suggests that everything you need to know...is in the chart. *Josef Schachter*, being a fundamental kind of guy that you've seen on BNN frequently, is one dedicated to research and suggests that you have to work hard to find all the news that is going to affect your stock. I wonder what he really thinks of all this talk about technical analysis, but it is interesting to see that they agree on something. But first, it was roughly a month ago that Ross Clark made a heck of a call. We asked him to pick something for us, in a market that over the last month or two, has not been generous at all. He came up with HNU, which is the leveraged play on natural gas and it's been nice to see that something, somewhere can go up and it's done so nicely. Now fundamentally, I find this hard to believe that it has actually happened...we are going

into the shoulder season when natural gas demand tends to be weaker and yet natural gas just keeps going and going. The surprising thing here is that when we ask Clark what to get excited about next? It's oil...but he is suggesting it's going down before it goes up. Way up! Meanwhile, research guy Josef Schachter writes a note to us yesterday regarding EIA Crude Oil.



He points out that:

- Crude oil fell sharply today as inventories rose by 6.5Mb (versus a forecast of 900Kb).
- This increase follows on last weeks 8.0Mb rise.
- The seasonal build we have been talking about for a while is happening and is now trumping the Iran production declines.
- US commercial crude stocks are now only 40Mb below last year. With 4-6 weeks more time for seasonal build it is likely that this difference will be closed and we may see inventories above the prior year before winter.
- Net imports rose on the week by 1.0Mb/d and exports fell by 794Kb/d as China buys minimal amounts from the US versus 25% or so before the trade war difficulties.
- WTI is now down US\$2.07 to US\$69.85/b. Our forecast of a move below US\$70 has now occurred as inventories have built.
- The next support area for WTI crude is the US\$64-66/b level and for the S&P/TSX Energy Index 162-168 (now 177).
- Third quarter results for Canadian energy and energy service companies will not be good but they should be the trough quarter for this year and the bear part of the cycle.
- As we see the S&P/TSX Energy Index breach 170 and crud oil falls some more, we expect to start adding more ideas to our Action Alert BUY list.

So onto Ross Clark who has just published this piece a few days ago, expecting oil to go down...before it has a monstrous rise. We might as well print his whole piece and for those who are interested in a technical analyst who we haven't followed for long, but has certainly made some intriguing calls, you see it.

He writes, "Crude oil has now given back half of the gains from the August lows and is testing the \$71 level that provided resistance from mid-July through mid-September. A failure to hold could lead to an acceleration to the downside.

If oil starts to take out the lows of the last few months we can expect a significant impact in the high-yield markets (JNK & HYG) which are already under pressure.

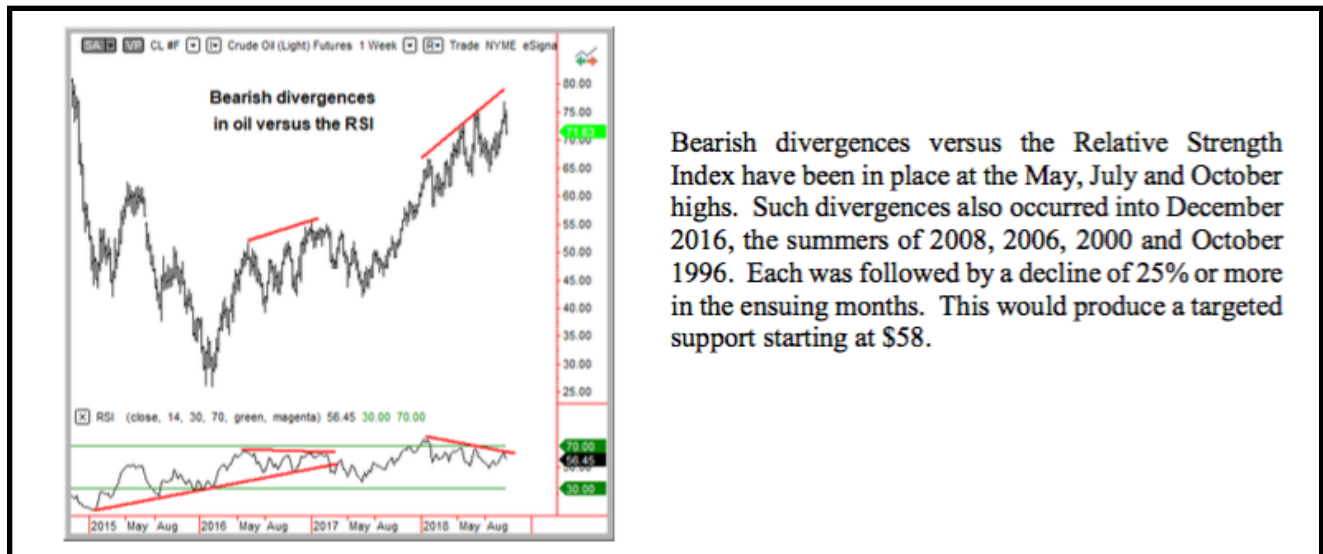
Interim turning points in crude oil have been tracking a few months behind the copper market. A violation of support would provide a measured downside target of \$60."

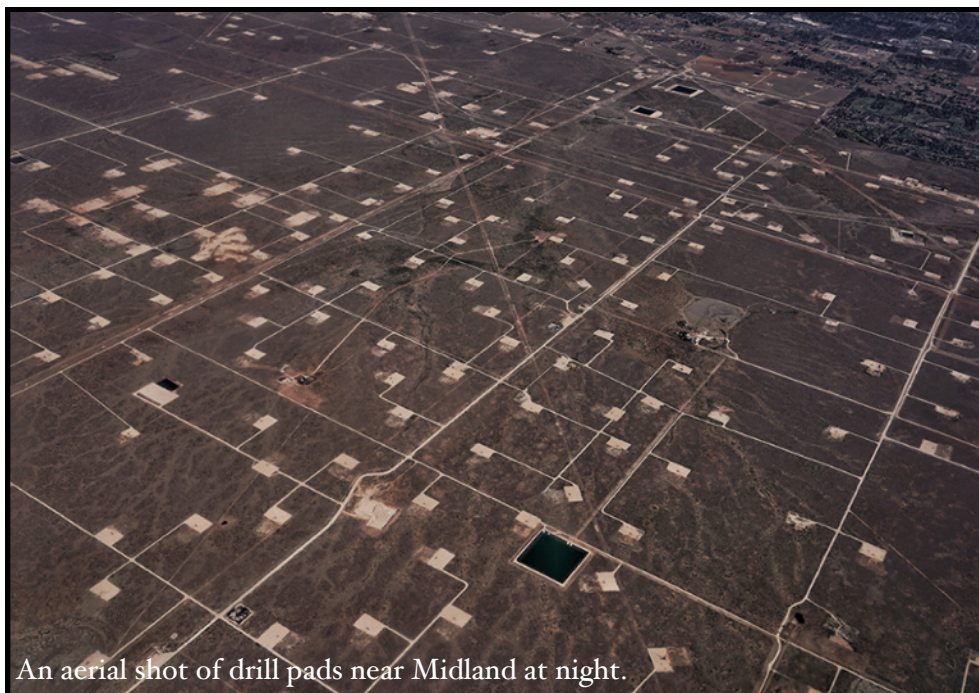
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The 10-year cycle is always in the back of our mind. Sharp breaks in the fourth quarter of the eighth year of the decade have been regular events. Measuring the declines from interim highs (**red arrows**) we see 35% in 1988 and 1998 while 2008 is an anomaly of 78%. Based upon the current top at \$76.90 we could be looking at a target of \$50 before the next bullish phase of the cycle comes into play.







When talking about the oil business and the oil patch and what next for the price of oil, there was an article written in Forbes Magazine February 25 of this year featuring the Permian Basin, which is making a huge difference to the production of the United States and the world.

They write in that article that at that time, 449 rigs were turning, which

represented 44% of all the rigs working in the United States and 22% of all the rigs working in the world. And yes folks, that's just for one basin. But the Permian is becoming that productive, currently producing 3.3 million barrels a day. But if you are trying to forecast the price of oil, you also

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have to have some idea of what's next for the Permian basin. When you read this in-depth article, you get the suggestion by some in the business that they will just continue to produce ever more oil, meaning there is no shortfall of the product anywhere and maybe the prices just start going down. It is a very bullish article and talks about how the oil industry has affected this area of Texas dramatically. The locals in Midland Texas who were there years ago suddenly can't afford their rent, their food, transportation...you name it. The article also does feature some of the negative affects of a busy oil

business. Trouble with transportation, trouble with lodging, trouble attracting enough people to get the jobs done and again, it's a bullish article. We see too many questions not being asked in this bullish argument such as how long does the average horizontal well last here (as some of them are done within two or three years)? Also, production on those that do last a little longer see the actual production drop dramatically. And of course some of the basic questions such as have the sweetest spots not already been drilled? Are they not just drilling in more periphery locations? Not getting bad results mind you, but the farther you get from the sweet spots...? Really a very interesting, very bullish article for the Permian Basin.

Click here to see the Forbes article: <http://fortune.com/longform/permian-basin-oil-fortune-500/>



Deb's Ditty:



Martin Scorsese's film "The Wolf of Wall Street" broke the record for using the "F" word 506 times. This actually beats the record set by me in 2015, trying to put an Ikea chair together...