ADM Archer Financial Services, Inc.

Crude Fundamentals?

By Teddy Sloup (June 23)

As much as I want to have enthusiasm for the gold and silver markets it's nearly impossible to generate much excitement on the precious metals at the moment. Crude oil on the other hand has been very interesting over the last month, having sold off $11.00 over the last two weeks despite continued OPEC production cuts. Crude's recent washout is yet another example to throw onto the pile of evidence why traders should never trust flashy fundamental headlines pertaining to the commodity markets. Not only do the markets rarely follow conventional wisdom with regards to price action from these "headlines," anecdotally speaking over the last ten years, most of these commodities seemingly react in exactly the opposite manner. One would suspect that traders might wise up and start sitting out these OPEC meetings, inventory numbers, etc. and let the dust settle before jumping to market impact conclusions. But no, clearly there are still enough market participants that simply lack the discipline to sit these types of events out, and in turn, continue chasing the market around on these "sea changing" OPEC announcements and data releases, while losing capital. Trading commodities is not something to overcomplicate and trying to anticipate how a market is going to react off of "big" reports is a complete fool's errand.

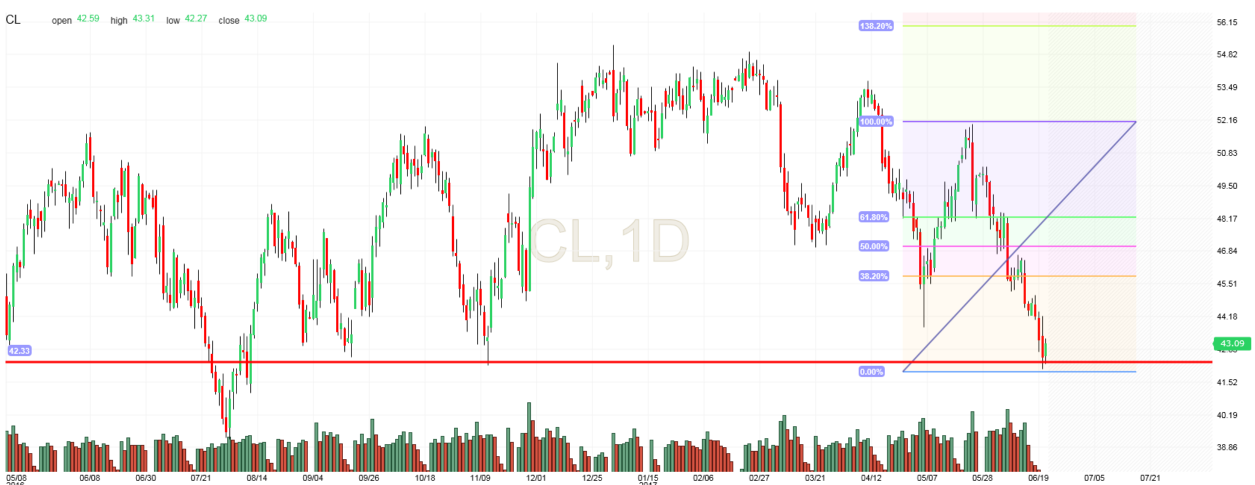

Chart provided by Investing.com

With the above said we are focused on the current technical setup and the mechanics of the futures market nature. Having sold off $10.00 in the last month, crude oil being near oversold territory and against key long technical term support ($42.40ish), this is a dangerous time for shorts to be chasing the market lower via selling futures. From our perspective, traders at the current low levels are better served using defined risk August options. The reason being is that the mechanics of the futures markets lend itself to large counter trend moves during times of strong bull, or bear markets. When selling into a 20% market decline a trader's margin for error becomes extremely thin for futures traders. Long options eliminates that FOMO (fear of missing out), while still accessing exposure to the futures leverage with defined risk. Timing these corrections is impossible, however this is where having a road map consisting of technicals and understanding market mechanics can provide a bit of clarity. As long corrective rallies remain capped below $45.86 on the continuation chart, crude oil is in very ominous territory and primed for a much bigger wave, especially on a convincing close below $42.00.

My many years of trading futures markets does make a difference. Feel free to call or email me at 312.242.7986 and teddy.sloup@archerfinancials.com or if you have any questions or would like to open an account go to our interactive New Account application at Open An Account. It is fast, saves on postage and it's green.