

Commodities Technical Advantage

Is oil marching to a breakout?

Key takeaways

- Oil is rangebound and hovering near a three month high. Many are asking if it will breakout in March and trend up in Q2.
- An ascending triangle bottom, rising SMAs, bullish weekly MACD cross & YTD strength vs commods favor Q2 upside into mid-\$90s.
- But oil is still rangebound so it needs to break higher to confirm a base. Risks: TD Sequential and a top in Energy vs SPX.

Rangebound oil is trading near 3m highs

As a technician, I'm partly wired to speculate on when price might breakout. While oil isn't technically trending yet and is trading rangebound near the mid-points of multiple time frame trends, YTD it has risen to test 3m highs. In this report we recap popular trend following conditions that favor a breakout in March for a Q2 uptrend. This is a possibility provided Brent (CO1) remains above rising trend line support at \$79.50-80.00 in March. We highlight some technical risks that the choppy range continues as is.

Oil Daily: An ascending triangle pattern is optimistic

This pattern represents bulls becoming more aggressive by buying at higher lows while bears fade the same resistance level. The range compresses over time between a rising trend line and horizontal resistance line. Higher lows favor an upside breakout. An upside breakout through resistance at \$84.80-85.00 will confirm a bottom pattern and uptrend target of \$91.06, \$93.80, maybe \$95.00 by end Q2. Must hold support line in March is \$79.50-80.00. If this breaks, oil can go back to the bottom of the range at \$75-73.

Oil Weekly: Rising 200wk SMA and bullish MACD cross

Our weekly chart shows a wider range, or about \$73.00-\$96.00. A bottom pattern on a daily chart would target the top of this range on the weekly chart. Perhaps short- and medium-term players are or will find reasons to be bullish soon? Price is above its rising 200wk SMA and a new bullish MACD cross favors an uptrend.

Oil Monthly: Supported, rising SMAs, optimistic waves

The 50m and 200m SMA are rising and supporting price. MACD lines are starting to converge. Speculatively, a daily chart breakout higher and uptrend will mean the resistant trend line in this monthly chart breaks and a bullish monthly MACD cross follows. This would increase upside risk for an oil rally to \$100-110/brl this year.

Risks to speculating on a breakout higher in oil in Q2

March could remain range bound with a higher low and equal highs as the coil tightens for a break in April. A sell signal from TD Sequential on February 14, however that has aged becoming less relevant. S&P energy vs S&P 500 topped in 2023 and is in a downtrend. Underperformance would likely have to reverse if oil were to breakout.

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Timestamp: 29 February 2024 04:32PM EST

29 February 2024

FICC Technical Strategy
Global Markets

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For more on technical strategies, please see [Technicals Explained: In 2024, get to know technical strategy 05 January 2024](#)

This report charts the front month Brent oil future unadjusted for rolls. We can adjust on request.

Abbreviations:

SMA: Simple Moving Average

RSI: Relative Strength Index

MACD: Moving Average Convergence Divergence

YTD: Year to date

SPX: S&P 500 index

HG1: Copper future

GC1: Gold future

US1: Bond future

Chart appendix

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Chart 1: Brent oil (CO1 unadjusted for rolls) – Daily chart

Higher highs and higher lows since December's head and shoulders target was reached suggests buyers are buying the dip and becoming more confident while sellers remain steady near \$85.00. To be a bottom, price needs to ascend through the resistance line at 84.80-85.00 soon. If oil it dips first, ideally it doesn't make a lower low or break the green trend line. If it does, this pattern may not exist and oil falls back to low end of the range at \$75.00-73.00.



CO1 Comdty (Generic 1st 'CO' Future) BC: Brent Daily Daily 26FEB2023-29FEB2024

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Source: BofA Global Research, Bloomberg, DeMark Analytics

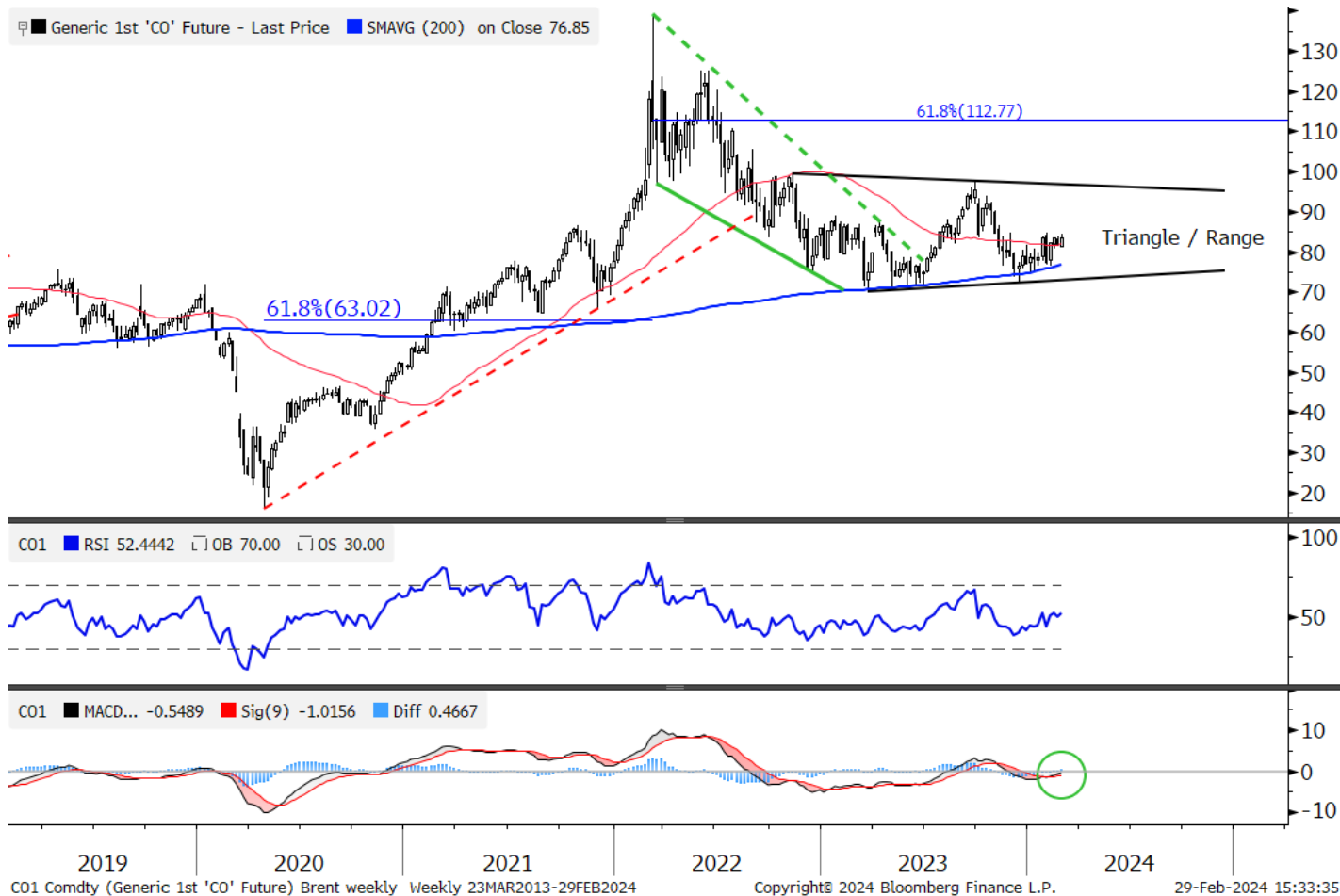
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Oil Weekly: Rising 200wk SMA and bullish MACD cross

Our weekly chart shows a wider range, or about \$73.00-\$96.00. A bottom pattern on a daily chart would target the top of this range on the weekly chart. Perhaps short- and medium-term players are or will find reasons to be bullish soon? Price is above its rising 200wk SMA and a new bullish MACD cross favors an uptrend.

Chart 2: Brent oil (C01 unadjusted for roll) – Weekly chart

Medium term triangle range underway in 2024. Bullish MACD cross favors swing higher to upper end of range in Q2.



Source: BofA Global Research, Bloomberg

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Oil Monthly: Supported, rising SMAs, optimistic waves

The 50m and 200m SMA are rising and supporting price. MACD lines are starting to converge. Speculatively, a daily chart breakout higher and uptrend will mean the resistant trend line in this monthly chart breaks and a bullish monthly MACD cross follows. This would increase upside risk for an oil rally to \$100-110/brl this year.

Chart 3: Brent oil (C01) – Monthly chart

Plenty of support in the low \$70s. A rally in March could break trend line resistance, form a bullish MACD cross and confirm wave C up.



Source: BofA Global Research, Bloomberg

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YTD, oil vs copper, bonds and gold trending higher

Chart 4: Oil vs copper (top), vs bonds (middle) vs gold (bottom) – Daily chart

Oil vs copper, bonds and gold formed bottom patterns and oil has been outperforming year-to-date.



CO1 Comdty (Generic 1st 'CO' Future) oil vs xau hg1 spx us1 Daily 01MAR2022-29FEB2024

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Source: BofA Global Research, Bloomberg

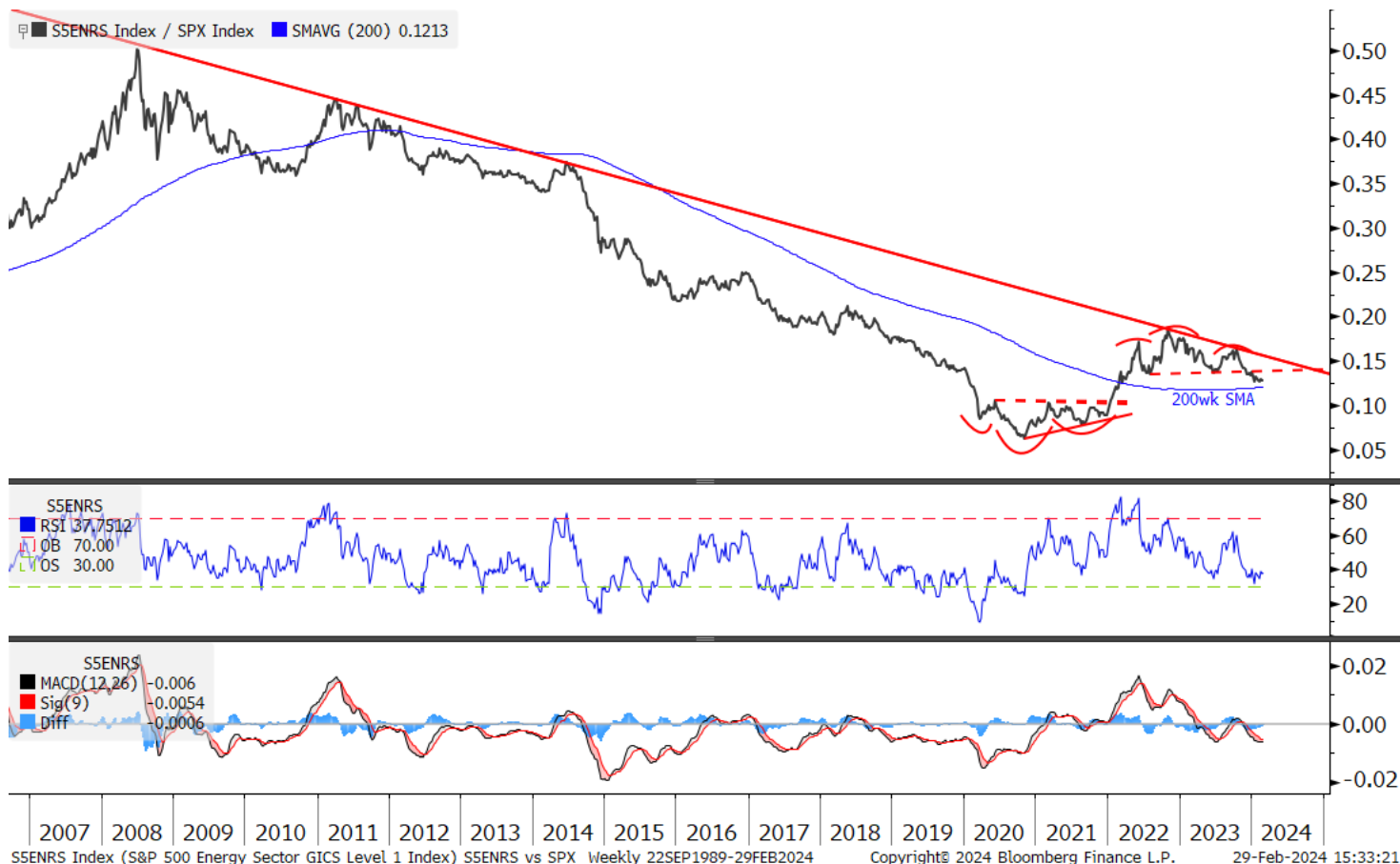
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Energy vs SPX downtrend, but can SMA support hold?

In late 2022 through 2023, the ratio of the S&P 500 energy sector vs the S&P 500 formed a head and shoulders top. The ratio never broke higher to end the secular downtrend and confirm new leadership. This top suggests energy underperforms and it has been underperforming. For this to change, oil needs to break higher to support the energy sector, the weekly MACD on the ratio below needs to cross up to be bullish (very close to happening) and the 200wk SMA needs to remain supportive.

Chart 5: S&P 500 Energy sector vs S&P 500 – weekly chart

Energy has been underperforming. If oil breaks higher, that may change in Q2. For more sector relative analysis, please see [Market Analysis Comment: Growing YTD 2024 bearish divergences 21 February 2024](#).



Source: BofA Global Research, Bloomberg.

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Chart Alpha

Exhibit 1: Open trades

Open technical trades and cross strategy alpha trades including technicals

Report	Trade	Entry / revise date	Entry Level	Option expiry	Spot target 1	Spot target 2	Spot target 3	Spot stop	Rationale / time horizon	Risks
Rates Alpha	Buy 10y bunds vs USTs	2/13/2024	182bps	-	200bps	225bps	-	155bps	Data divergence, technical patterns, positioning, sentiment, supply	macro risk off triggers UST outperformance
Technical Advantage	Buy BRL/CLP (raise stop to 192)	2/28/2024	190.75	-	200 (reached)	215	-	190 (raise to 192)	Head and shoulders bottom pattern is bullish	Chilean elections being prices and after CLP strengthens.
FX Alpha	buy 3m EUR/JPY put spread	1/26/2024	0.6663% EUR (strikes 158.00, 155.00, spot ref 160.31, vol refs 8.709, 8.965	25-Apr	158	155	-	-	Wave C of correction lower about to begin	Markets pricing a more dovish BoJ stance or a more hawkish ECB stance.

Note: Bid/offer spreads accounted for in initiation and closing levels. Does not reflect tax withholdings or any investment advisory fees. Past performance is no guarantee of future results. A complete performance record is available on request. Inception date - 10/16/2015. Initiation and closing prices are priced/used for trade rules and publication. For additional discussion on baseline views, valuation and risks to open trades, please see reports. DC = Daily close.

Source: BofA Global Research, Bloomberg

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Exhibit 2: Closed trades

Approximately two years of closed technical and/or collaborative cross strategy trades in the alpha, technical advantage and year ahead reports

Report	Trade description	Entry date	Entry level	Spot target 1	Spot target 2	Spot target 3	Stop	Revise / close date	Level closed
Technical Advantage	Buy BRL/CLP (raise stop to 192)	2/2/2024	190.75	200 (reached)	215	-	190	2/28/2024	196.65
Technical Advantage	Buy USDSEK	2/2/2024	10.49	-	10.65	10.9	-	2/27/2024	10.30
Global Macro Year Ahead	US 5s30s steepener	1/23/2024	15	35	55	80	15	2/2/2024	24.00
Global Macro Year Ahead	US 5s30s steepener, raise stop to 15	11/19/2023	15	35 (reached)	55	80	0	1/23/2024	32.00
2024 FICC Technical Advantage	Buy USDKRW +1m NDF	12/1/2023	1293	1315	1327	1340	1270	1/3/2024	1308
2024 FICC Technical Advantage	Short MXN/CLP	12/1/2023	49.85	48.25	47.5	46.1	52.2	12/22/2023	52.20
Global Macro Year Ahead	Short GBPAUD via 3m 1.90-1.86 GBP/AUD put spread	11/19/2023	s/r 1.9192	19-Feb-24	1.86	1.84	-	1/3/2024	1.2315% GBP (s/r 1.8762, vol ref 7.354 / 6.921)
Global Macro Year Ahead	Sell EUR/NOK via 6m risk reversal	11/19/2023	s/r 11.8623 vol refs: 8.929 and 9.108).	19-May-23	11.35	11.22	11.1	1/3/2024	Received 0.7307% EUR
EM Alpha	Short USDZAR	11/15/2023	18.15	17.6	17.25	-	18.55	11/21/2023	18.55
EM Alpha	Buy EURZAR	10/2/2023	20.15	20.75	-	-	19.60	11/1/2023	19.60
FX Alpha	Buy CADMXN	10/23/2023	13.3338	14.00	-	-	13.00	10/31/2023	13.00
FX Alpha	Buy EURSEK 3m zero- cost collar spot ref 11.5456	10/13/2023	3m 11.8380 call for 0.5676% EUR, vol 7.394%; sell 3m 11.3143, vol 6.701%, zero-cost	11.84	-	-	-	10/30/2023	1.12%
FX Alpha	Buy GBPAUD 6m put seagull	9/8/2023	0.3827% GBP (long 6m put spread, 1.94 / 1.90	1.94	1.90	-	2.05	9/22/2023	1.2341% GBP
FX Technical Advantage	Short USDCAD	8/29/2023	1.3570	1.3497	1.346	1.335	1.3725	9/13/2023	1.3550
Commodities Technical Advantage	Buy CTZ3	9/5/2023	89.0600	94.60	96.5	100	86.3	9/7/2023	86.30
FX Alpha	Sell 2m 25-delta OTM EUR/GBP put	6/24/2023	0.31% EUR (strike ref: 0.8472, spot ref: 0.8592, vol ref: 5.584)	24-Aug-23	-	-	-	8/3/2023	Spot ref 0.86470, vol ref :4.214)
FX Alpha	Buy USDSEK via 3m collar (spot ref is 10.2724)	7/19/2023	Buy 3m 10.73 call for 0.7795% USD (vol ref: 12.296%) and sell 3m 9.8960 put for the same price (vol ref: 10.202%).	10.5	10.7	-	9.896	8/1/2023	1.3316% USD with spot ref 10.6109
Technical Advantage	Buy USDMXN	6/27/2023	17.10	17.50	18.00	-	16.90	7/12/2023	16.90



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Report	Trade description	Entry date	Entry level	Spot target 1	Spot target 2	Spot target 3	Stop	Revise / close date	Level closed
FX Technical Advantage	Short GBPUSD	4/25/2023	1.2420	1.2367	1.223	1.216	1.255	4/28/2023	1.255
FX Alpha	Buy 3m USDSEK call spread	1/20/2023	1.4689% USD strikes 10.2466 & 10.70, spot ref 10.2971, vol refs 12.752/13.307)	10.25	10.5	10.7	-	3/7/2023	.82% USD (spot ref 10.7008, vol refs 12.18/11.943)
Rates Technical Advantage	5s30s steepener	2/12/2023	-12	0	10	20	-25	2/24/2023	-25
Rates Technical Advantage	Short US 10Y	1/22/2023	3.48%	3.70%	3.82%	3.90%	3.30%	2/17/2023	3.82%
2023 FICC Technical Views	Short USDCAD via 6m 1.33/1.30 put spread	12/2/2022	65 USD pips (Spot ref: 1.3489, vol: 7.668%/8.035%)	1.33	1.319	1.30	-	2/1/2023	74.53 USD pips (spot ref: 1.33, vol: 6.893% / 7.237%)
EM Alpha	Long USDZAR	1/19/2023	17.23	-	17.46	17.75	17.86	2/1/2023	17.40
Global Rates, FX, EM 2023 Year Ahead	Short 10Y UST	11/20/2022	3.75%	3.60%	4.00%	4.25%	3.40%	1/18/2023	3.40%
FX Technical Advantage	Buy USD/CLP	11/20/2022	925	898	980	1000	865	12/12/2022	865
FX Technical Advantage	Buy DXY dip	9/12/2022	108.33	110.35	112.1	115	105	11/4/2022	110.87
Chart Alpha	Buy USD/ZAR	11/15/2022	17.30	18.00	18.50	-	<16.90	12/1/2022	17.90
Technical Advantage	Sell gold's bounce	10/3/2022	1702.00	1615.00	1560.00	1440.00	1740	11/10/2022	1760
Rates Technical Advantage	Short 10Y > 3.1%	8/31/2022	3.16%	3.38%	3.50%	3.96%	< 2.95%	10/11/2022	3.94%
Technical Advantage	Buy USDKRW	6/12/2022	1279.04	1321	1374	1400	1210	10/6/2022	1406
Commodities Technical Advantage	Buy USDCPL breakout	6/24/2022	917	920	945	985	872.75	07/15/2022	985.00
Commodities Technical Advantage	Sell HG1 breakdown	6/22/2022	394.4	350	335	314	421.9	7/15/2022	323.40
Commodities Technical Advantage	Buy crude oil	6/2/2022	116.87	130.3	140	-	111.2	6/17/2022	109.56
Chart Alpha	Buy Euro	5/4/2022	1.0610	1.0800	1.0850	-	-	5/12/2022	1.0470
Chart Alpha	Sell USDCHF	5/4/2022	0.9740	0.9602	0.9525	-	-	5/5/2022	0.9825

Source: BofA Global Research, Bloomberg

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