What the Oil Bulls Miss are Missing

In late June 2017, we mentioned that oil wasn't a safe bet.

We noted that analysts were calling for $30 oil before long.

We also noted that a good way to trade potential downside in oil was with the Chevron (CVX) August 2105 put, as well as the July 105 put. Technically, we noted, CVX was due for a pullback to about $102 after finding resistance at $108.

Shortly after saying that, oil ran higher on hope, speculation and short covering.

But our argument for downside remained the same.

With far too much supply, and not enough demand, there's just not much to get excited about, especially with analysts now calling for oil to drop well under $40 a barrel.

It's why oil quickly reversed and fell again in recent days.

Oil would fall back under $44 after testing $47.32. CVX now trades at $103 after failing at $106. It's still likely to fall to $102 in our opinion.

Worse, the EIA would cut its 2017 global fuel demand forecast to 98.39 million barrels a day from 98.46 million. The group even cut its 2018 global fuel demand forecast to 100 million barrels a day from 100.08 million.

Meanwhile, the Saudis seem to have breached the OPEC agreement. In June 2017, they pumped 10.07 million barrels a day, which exceeds its production limit for the first time since the OPEC deal was signed. That's a boost form 9.88 million barrels a day in May 2017.

Even Goldman Sachs – which noted that "oil prices have likely hit bottom of the price range, and look attractive" – cut its oil target from $55 to $47.50 two weeks after becoming bullish. They also warned that absent a “shock and awe” production cut from OPEC, oil could fall below $40.

According to Goldman Sachs:

> Given the recent rebound in net speculative length from its 18-month lows, we believe, however, that a failure for these shifts to materialize soon could push prices below $40/bbl as the market tests OPEC’s and shale’s reaction functions. Importantly, we wouldn’t expect such a move to be volatile, as it is not driven by storage concerns like last year (with available storage capacity given the 2017 draws) but the ongoing search for a new equilibrium.

That’s just part of the reason the long side of oil isn’t a safe bet at all.

At this rate, oil could fall to $42.27 with too much supply, not enough demand, and a breached OPEC agreement. With that, we’re still bearish on oil.

From here, there are two potential ways to trade oil.

One is with the Pro Shares Short Oil & Gas ETF (DDG), which has been exploding higher in recent weeks on further weakness. The other way to trade oil is with a put option position in some of the major oil companies, like Exxon Mobil (XOM) and Chevron (CVX).

For example, options traders have been buying the CVX August 2017 100 puts, as well as the September 2017 100 puts, betting on the downside opportunity.

With far too much supply on hand and not a lot of demand, it’s a good bet that oil will drop.