Trump Trade: How to Trade a Potential Pullback in Oil

Since October 2018, fear sent oil prices from $75 to $42.50.

All thanks to oversupply issues, a strong U.S. dollar, and trade war fears.

However, oil prices are now starting to recover on a few key catalysts.

One, we could see an end to the trade war, near-term.

Two, the U.S. dollar is showing signs of weakness. And three, Saudi Arabia plans to cut its crude production further to 9.8 million bpd in March 2019 from the 11 million bpd in November 2018. Better yet, according to OilPrice.com, exports will also fall substantially over this month and next, to an average of 6.9 million bpd from 8.2 million bpd in November.

Even Goldman Sachs sees higher oil prices.

“Core-OPEC producers are adopting a shock and awe strategy, and exceeding their cut commitment,” says Goldman Sachs, as quoted by Bloomberg. “Disruptions have increased with risks that Venezuela’s production decline accelerates following the introduction of additional U.S. sanctions related to the Venezuelan oil industry. U.S. producers are also so far guiding towards restrained shale production growth.”

Goldman Sachs also points to improvements in oil inventories. For example, the American Petroleum Institute (API) just reported that inventories fell by 998,000 in the week ending February 8, 2019, as compared to expectations for a build of at least 2.7 million barrels.

It’s all creating the “perfect storm” for higher energy prices in coming months.

That’s great news for oil prices and stocks, long-term.

Near-term, we may see weakness on President Trump’s latest message.

Oil prices turned lower earlier this week after Trump urged OPEC to lower the cost of crude.

“Oil prices getting too high. OPEC, please relax and take it easy. World cannot take a price hike – fragile,” he tweeted. That tweet alone could wreak havoc on the oil trade, and pull down related stocks that exploded on oil’s recovery.

To profit from a potential pullback in oil prices, we have a few options.

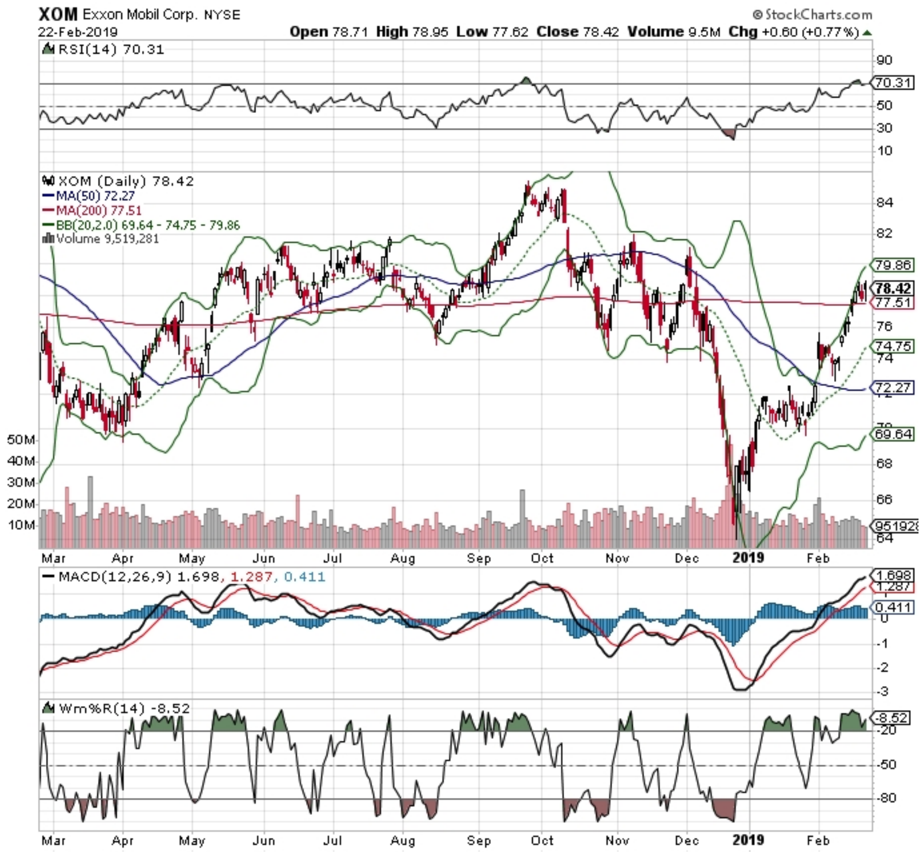
Opportunity No. 1 – Pro Shares Ultra Short Bloomberg Crude Oil (SCO)

The oversold ETF could push higher if we begin to see a bigger pullback in the price of oil.

This ETF seeks daily investment results, before fees and expenses, that correspond to two times (2x) the daily performance of the Bloomberg WTI Crude Oil Sub Index.

Opportunity No. 2 – Exxon Mobil (XOM) Short Position

On the latest oil recovery, XOM exploded from $64 to $78. However, it’s now considerably overbought at double-top resistance. It is also stretched at its upper Bollinger Band, and overbought on relative strength (RSI), MACD and Williams’ %R. Depending on the impact of Trump’s OPEC request, XOM could pull back to test support around $74 a share.



There are two ways to trade the potential drop.

One is to short shares of XOM at current prices. The other is to buy to open the XOM April 18, 2019 77.50 put at market prices.

Opportunity No. 3 – Chevron (CVX) Short Position

Just like XOM, Chevron is overbought on RSI, MACD, and Williams' %R. It's also failing at its upper Bollinger Band. Again, depending on the impact of the Trump tweet, CVX could potentially pull back to around $114.

There are two ways to trade a potential drop in CVX.

One is to short the CVX stock at current market prices. And, or we can buy to open the CVX April 18, 2019 120 put at market prices.