Why oil could now be in a 'danger zone'

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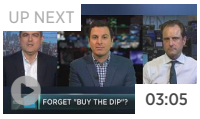

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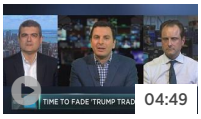

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Crude oil has slumped over 2 percent this year and could see more pain ahead if OPEC does not stick to production cuts it agreed upon in December.

"I think oil is in a very dangerous zone now precisely because demand is not there," Boris Schlossberg, BK Asset Management's managing director of foreign exchange strategy, said Wednesday on CNBC's "Power Lunch."

A build in crude oil inventory Wednesday as reported by the Energy Information Administration in fact sent oil higher, settling up 17 cents to $52.34.

"The irony of this whole thing is that OPEC cuts are holding, but the demand is not there. And the longer oil wallows at this $52 level, the more likely it's actually going to go to the downside. And if it trips to $50 a barrel stops, I think it could really tumble very quickly. So I think we're in a perilous territory," Schlossberg said, adding that he wouldn't be long crude oil at this juncture.

OPEC agreed in December for the first time since 2008 to cut output by 1.2 million barrels per day.

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Indeed, oil has traded in a range of roughly $50 to $55 per barrel, said David Seaburg, head of sales trading at Cowen & Company. But he has a more bullish forecast.

"I think from a trading perspective here for the near term, it looks like it's a level you probably want to step in and take a look from the long side," Seaburg said Wednesday on CNBC's "Power Lunch."

Seaburg said he'd need to see more government data in coming weeks to see if the OPEC agreement is holding, but he cited hedge funds' extreme positioning in crude oil as a positive for crude.

He said the fact that crude oil held up in Wednesday trading despite the build in inventory was a bullish near-term signal in the face of crowded long positions in the space. He said that meant investors are comfortable with where oil will be in the next three to six months. "They're comfortable with that, therefore you probably get a trade here I think for the near-term to the upside," he said.

The XLE, a popular energy exchange-traded fund that tends to rise and fall with the price of crude oil, is down more than 4 percent this year. ConocoPhillips, one constituent in the XLE, is set to break out of a range in which it has traded since December, said Andrew Keene of AlphaShark.com.

After seeing some unusual options activity from an institutional buyer of the April 52.5 calls (which would imply a rally of nearly 6 percent by April expiration) Keene said he would buy the COP April 52.5/55 call spread for 60 cents, or $60 per options spread.

Rebecca Ungarino
Associate Producer

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