'Consolidation pattern' shows oil still in wait-and-see mode

TECHNICAL ANALYSIS
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The Age 16-3-10 P8

OIL prices are waiting for a signal from markets and oil producers to move out of a six-month trading range, but are unlikely to return to the historical highs experienced in mid-2008, according to Mark Umansky, this week's technical analyst.

Mr Umansky is a private trader and a councillor of the Victorian branch of the Australian Technical Analysts Association. He is certified by the International Federation of Technical Analysts and has worked as an analyst in New York and Switzerland.

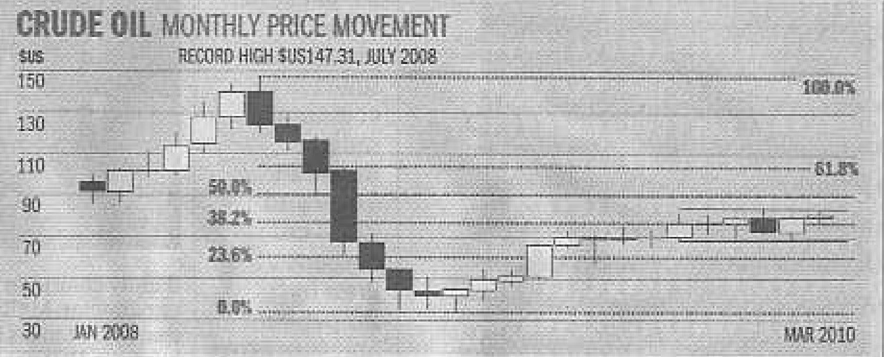
The price of crude oil reached a record $US147.31 a barrel in July 2008, passing the highs reached during the oil shocks of 1973 and 1979.

It then fell for six months as the financial crisis undermined the global economy. It hit a low of $US33.50 a barrel in February last year before rising again, although not by much.

For a few months it looked as if the price had returned to historical averages between $US10 and $US42.

"Prices then consolidated between $US33.50 and $US54.62 for five months . . . confirming the existence of long-term support from institutions," Mr Umansky said.

His chart of monthly price movements shows that last May forward-delivery contract prices received a boost and started moving higher, reaching $US83.95 in January this year.



However, since September last year oil prices have been in a "consolidation pattern".

"Current consolidation of prices suggests institutional indecision as to where the future value of crude oil lies," Mr Umansky said. "Institutions may allow the crude oil prices to continue to be held within the current tight price range until clear new information is available from the capital markets and supplying nations."

Crude oil contracts traded at $US81.10 a barrel on Friday.

When the price does move outside the consolidation zone, it could reach $US95 a barrel if it moves upwards or fall to $US55 a barrel if it declines. These target prices are found by adding or subtracting the size of the current pattern's range from either the support or resistance line, depending on the direction of the breakout.

Mr Umansky said the international oil market had recently been free of abnormal factors, such as disasters in oil-producing regions or more financial crises, and this made it easier for technical analysts to find patterns.

"The current rise is in line with technical analysis theory," he said. "The markets are behaving as they are supposed to be behaving under normal situations, which makes it an ideal market to follow."

The percentages on the chart are Fibonacci retracement levels showing possible support and resistance levels. They are mathematical divisions of the previous range from $US147.31 to $US33.50.