

Oil may not have much further to go before bumping its head

TECHNICAL
ANALYSIS
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THE oil market is fragile, with recent gains highly vulnerable to what have been somewhat contradictory economic indicators, particularly in the US and Europe.

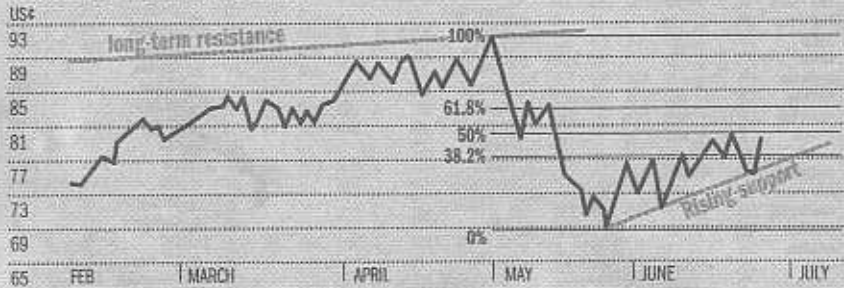
Over the past two years, the oil price has had a wild ride — along with the rest of the markets.

Prices reached a high of \$US147 a barrel in May 2008, before the global financial crisis took the world economy to the brink. Oil fell precipitously, hitting a low of \$US32.40 in late 2008.

That was followed by a recovery. Since June last year, oil prices have been on an upward trajectory despite dramatic fluctuations.

But Paul Ash, a technical analyst and Australian Technical Analysts Association president, says while that upswing is likely to continue, the chart is not indicating that the market will test its May 2008 high in the near term because of the tentative nature of the oil price progress and fears in the market about the fragility of the world economy.

CRUDE OIL DAILY CHART



On May 3, as the chart shows, oil attained a high of \$US91.38 after a climb that also featured some steep price falls along the way. After reaching that

high, the price pulled back 25 per cent over the next 16 trading days, the largest retracement for 18 months.

The price then turned

again and in 18 days reclaimed 50 per cent of the losses that followed its May 3 high. Ash says, based on previous performance, that

indicates the June up-leg has some more to go if the economic climate stays as is.

But the market is very tentative and the oil price faces two immediate resistance points, at just under \$US80 and \$US83. How the market deals with these will be an indication of future direction.

If oil turns down sharply somewhere between those points and its May high of \$US91, "it will be a signal that it will be a long time before we see crude oil at \$US100 per barrel", Ash says.

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