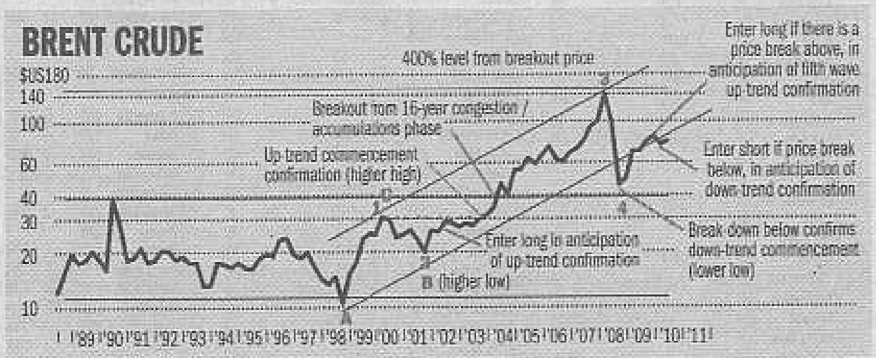
Brent Crude chart could have tipped a 400% price rise

TECHNICAL ANALYSIS
ROD MYER

The Age
16-11-2010
p.11



CHARTING can identify the short-term ups and downs in markets. But to get a good picture of what is driving prices, it is important to look at a long-term chart, according to Mark Umansky, a councillor of the Australian Technical Analysts Association.

As a case in point, Umansky this week looks at the Brent Crude futures market. Brent is a light oil produced in the North Sea.

Detailed analysis of the market shows that Brent was in a long-term congestion-then-turn-accumulation phase from September 1988 right through to September 2004, Mr Umansky says. That means for that period, despite fluctuations, there were more buyers than sellers among big oil traders.

However, the market was influenced by the Asian economic crisis in 1997-98 and bottomed at $US9.55 a barrel during that period.

In March 2002, an up-trend was confirmed, as represented by the dotted line extending from point 1 to June 2004. This led the market to a September 2004 breakout on the upside, which pushed the price through a historically held resistance level of $US39.15. Once the up-trend was confirmed, the market gained enough momentum to break out of the 16-year long-term congestion-then-turn-accumulation phase to shoot to a record high of $US148.41 a barrel in September 2008. That stellar growth saw a rise of almost 400 per cent over the breakout price of $US39.15.

Mr Umansky observes that a smart trader could have picked the uptrend by drawing a line below points A and B on the chart (the low points) and projecting it upwards. Adding a parallel line from the intervening high of point C would have shown the trading range over the period.

Mr Umansky observes that as the market peaked in 2008, professional and institutional investors lost faith in the market, and oil fell for two quarters, reaching a critical resistance point around $US35.

The chart of closing prices shows lows of above $US40 at point 4, but there were trades during the period around $US35 — an upper resistance level during the previous 16 years.

So where do we go from here? The market has had four up and down cycles since the 1998 nadir which, according to Elliot Wave theory, could see it back on the up cycle, testing the $US148.41 high.

However, if there is a lack of buying support then a break below this June's low of $US68.15 could prove to be a "lower high" and in turn see the oil price fall as the current up-trend turns negative.