

'Divergence' on BHP chart suggests more gains on the way

TECHNICAL
ANALYSIS
ROD MYER

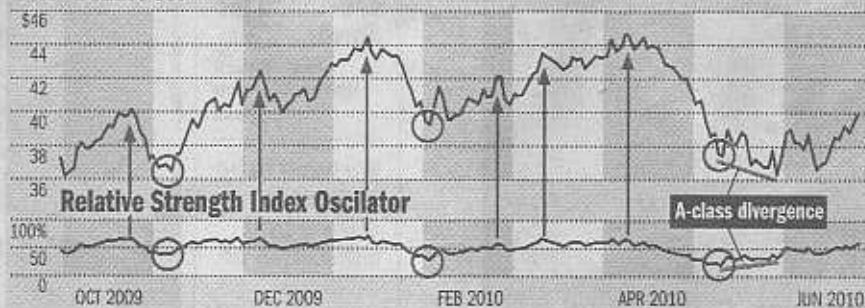
THE fate of BHP Billiton's share price is in the hands of several powerful forces — the future of the Chinese economy, the outlook for emissions trading, the regulatory spillover of the Gulf of Mexico oil disaster and the final shape of Kevin Rudd's resource rent tax plan.

To this potent mix technical analyst Rob Shelley, a consultant with CFTe and a standing member of Australian Technical Analysts Association, adds one more: the interaction of the share price graph and a measure of momentum known as the relative

strength index. The RSI measures the rate of change in price daily. When it falls below the 30 per cent line (see graph), it indicates the stock is oversold; above 70, it indicates the stock is overbought.

BHP reached the top point on its recent roller-coaster journey in April when it made a high of \$44.93. Then, when the market dived following the re-emergence of the debt crisis in Europe, it plunged to a six-monthly low of \$35.58 in May. Then followed a brief run-up that ended with a plunge back to \$36.38 two weeks ago. Since then it

BHP BILLITON



has moved back up on a steep trajectory to close just below \$40 yesterday.

According to the RSI analysis, BHP was overbought when it reached its April high and when it reached both its April and

May lows it was oversold. Critically, the May low was higher than the April low, setting the RSI graph on a strong upward trajectory (see line under the lower graph). The RSI indicator remained in this

upward trajectory while BHP's share price declined recently because the daily share price was declining by ever-decreasing amounts. Now, Mr Shelley says, the chart is suggesting BHP

may have reached a technical low.

BHP's chart is now in what technical analysts call "divergence" — a period when the RSI and the stock price move in opposite directions. At present this phenomenon is particularly strong, rated as "class-A divergence". The strength of this divergence is, Mr Shelley says, a sign of potential future strength for BHP. As a result, the upturn in the stock price since Thursday could be the beginning of something bigger in the near term, the chart indicates.

The reporter owns BHP shares.

The Age
22-6-10
p.8