The Age, 9-Aug-2011 (p10)

TRADING

Woodside's plunge carries risk of recession

TECHNICAL ANALYSIS
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WOODSIDE is one of Australia's premier energy companies, owning massive offshore resources in oil and gas. It pioneered Western Australia's North-West Shelf project and is now, somewhat controversially, planning a $35 billion Kimberley gas project, with a processing hub at James Price Point north of Broome.

Despite recent high oil prices and the existence of massive long-term export gas contracts with China and elsewhere, Woodside's share price has experienced some dramatic fluctuations, as demonstrated by the attached chart produced by Paul Ash, Victorian president of the Australian Technical Analysts Association.

In May 2008 it reached a high of $69.92. Six months later, it plunged to $26.59, the low line on the chart. (The chart does not fall quite to this level as it is a weekly chart and the low point was inter-week.) About a year on it climbed back to $53.87 — about 62 per cent of the previous high using $26.59 as the bottom of its range.

Since early 2010 Woodside has been range-trading between $40.30 and $48.50. The top level of that range (the top parallel line on the chart) represents about the 50 per cent point of the chart's overall high and low.

In mid-July this year Woodside broke out of this trading range to the downside and it settled on Friday, July 29, at $39.65. By last Friday it had fallen to $34.55. This breakout to the low side, Ash says, "indicates a weak future for Woodside's price going forward".

The breakout, he says, was not entirely unexpected because the price has been trading in the low half of its range for much of 2010 and into 2011 despite the oil price gradually rising since early 2009. In the early part of this year Woodside's price rose towards the top of its range.

But early in May crude oil fell in price by about $US18 a barrel and Woodside's price dropped from the upper band of the range through the lower support line.

In such falls it is not uncommon for stocks to bounce and retest that support level ($40.30). But Ash says this seems unlikely. There is a downtrend in place confirmed by the 30-week moving average (red line) turning down and the share price falling well down through that 30-week moving-average line.

Now he sees a possible downside target of just under $27, about the level of the November 2008 low on the chart. "This level is very important because, if the price can't find support here, the future of the energy stocks is not good and we could be facing a commodity recession," he says.

This column does not constitute investment advice. Those wanting to enter the market should seek professional counsel and do some homework.

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