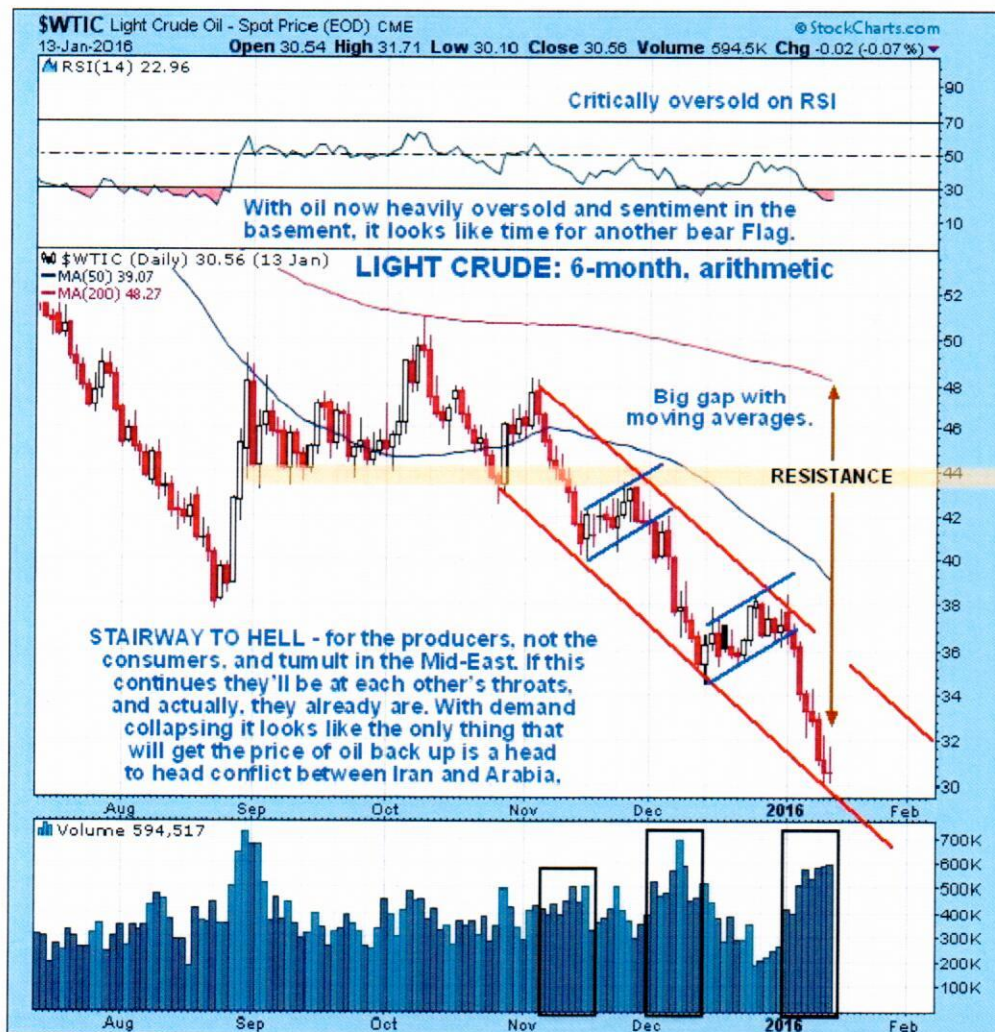


[Print this Article](#)[\[Close Window\]](#)**OIL MARKET update and ALERT...**

originally published January 14th, 2016

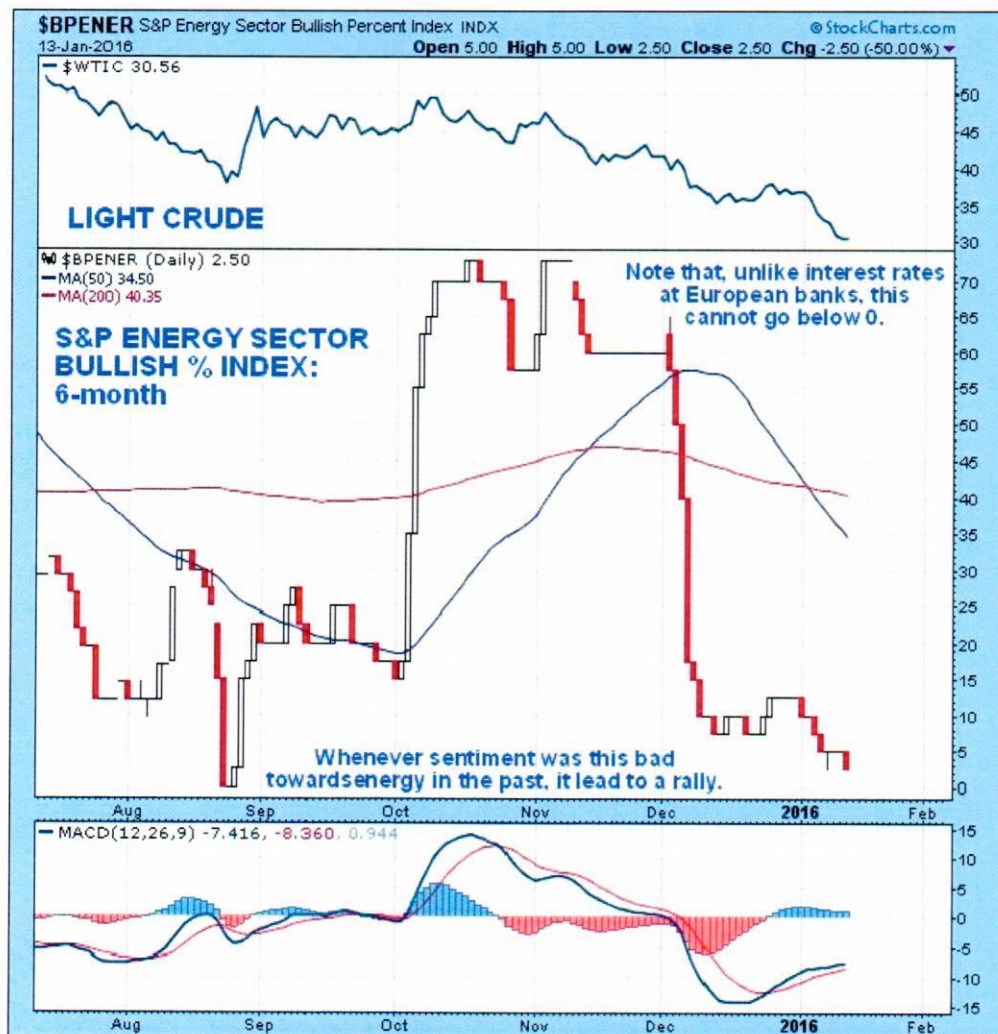
Oil has had a terrible time of it since we called it down hard in the [last Oil Market update](#), dropping from about \$43 to the current price of about \$30 (West Texas Light). In percentage terms, and coming on top of earlier steep declines, this is a huge drop which is having a massive impact on producers. The underlying reason for this decline is of course the imploding world economy, made plain by the catastrophic declines in the Baltic Dry index and Commodity indices, that we have already looked, not to mention the mayhem in China. Now, however, everyone is in on the act of calling oil lower, and coming out with ever more outlandish downside targets like \$10. When everyone starts calling something down like this, it is usually a sign of a bottom, or at least a pause in the decline, and that is what our latest chart for Light Crude is suggesting – a pause, probably taking the form of a bear Flag, although if the broad market bounces back more than slightly, it could do more than that. Some of the latest scary predictions for \$15 and even \$10 make our downside target in the mid to low \$20's, set out back in November, look downright conservative.

While the markets may have been roiled by oil's latest plunge, we can see on our 6-month arithmetic chart for Light Crude that its downtrend is actually unfolding in an orderly fashion. We have selected an arithmetic chart for oil because it captures the downtrend nicely. The decline is taking the form of a "staircase", with the steps being the bear Flags. Observe how the latest steep drop has brought it down to a target at the bottom of the downtrend channel, where it is deeply oversold. From this position it is logical to suppose that another step (bear Flag) will develop over the next several weeks, which will then be followed by another heavy drop, assuming the downtrend continues. If the Flag runs sufficiently countertrend, it could result in sufficient price recovery to result in worthwhile gains in the Call options of oil proxies like USO, and the current extremely low sentiment reading for oil make this more likely, as we will now see.





On the latest 6-month chart for sentiment towards the Energy sector, we can see that it is now in the basement, with, at last night's close, only 2.5% of market participants being bullish towards it, down from 5% just the day before. This is an extremely low reading, it is almost at 0, and every time it has got this low in the past, oil has rallied. This reading increases the chances that a tradable countertrend rally will now develop. The only circumstance that could lead to oil breaking into a terrifying vertical plunge from here would be if the stockmarket did likewise, and with Goldman talking about a 10% relief rally in the stockmarket soon, that doesn't look likely, at least in the short-term, since what Goldman wants, Goldman usually gets, as it is more powerful than some countries, for example Chad – anyone remember Jimmy Carter's famous retort when told there was a war going on in Chad, whilst he was President? He replied "Chad – where the hell's that?" For the benefit of those of you who don't know where it is, it is in the middle of Africa.



The reason for the oil price collapse is the ongoing global deflationary implosion, which will probably only end when they bite the bullet and write off all these monstrous unpayable debts. It's going to get worse, a lot worse, and could well result in bare shelves in supermarkets and banks shuttered before its over, with the mob taking to the streets, and not just in places like Greece. It is actually amazing that Iran and Saudi Arabia starting to square up to each other for a major conflict actually did nothing to help the oil price – on the contrary it just dropped anyway. However, if they really do go for each other at some it could be a very different story.

**Anyone wanting to "give it a go" might want to consider the Feb 10 USO Calls, now at \$0.44 ask, but this is not a trade for the meek, and is only for those of you who understand completely the reasoning set out here and take full responsibility for the trade.**

After some further improvements, this article will become a new Oil Market update.

End of update.

Posted at a 11.10 am EDT on 14th January 16.