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# Oil Market Update

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Oil did exactly as predicted in the last Oil Market update, posted in the middle of November, when a steep drop was forecast to take it down into the $20's. No update has since been posted because we were waiting for the decline to run its course, and then we weren't reasonably sure that it had bottomed until recent days, and when we talk about it having bottomed here we mean an intermediate bottom, not necessarily a final bottom.

On the 6-month chart for Light Crude we can see that the picture has brightened considerably over the past couple of weeks, and especially over the past few days. This is because it first broke out of the intermediate downtrend shown, which was an important positive development, and then it went on to battle its way above its falling 50-day moving average and finally over the past day or two its looks like it is breaking out above the resistance at the top of the suspected intermediate base pattern. The persistent heavy volume from early – mid-January is a sign of a probable reversal, although it is too early to say at this juncture whether it is a final bottom or an intermediate bottom that will eventually be followed by new lows. This suspected bottom projects a rally towards the next resistance level shown and the falling 200-day moving average.

Oil has broken out of its intermediate downtrend and then battled its way through its falling 50-day moving average, and yesterday broke above the resistance at the upper boundary of the intermediate base pattern that has formed in recent weeks on heavy volume, which is a sign of a probable reversal. Now looks good for a rally towards its falling 200-day moving average, or at least to the long-term downtrend boundary shown on the 2-year chart.

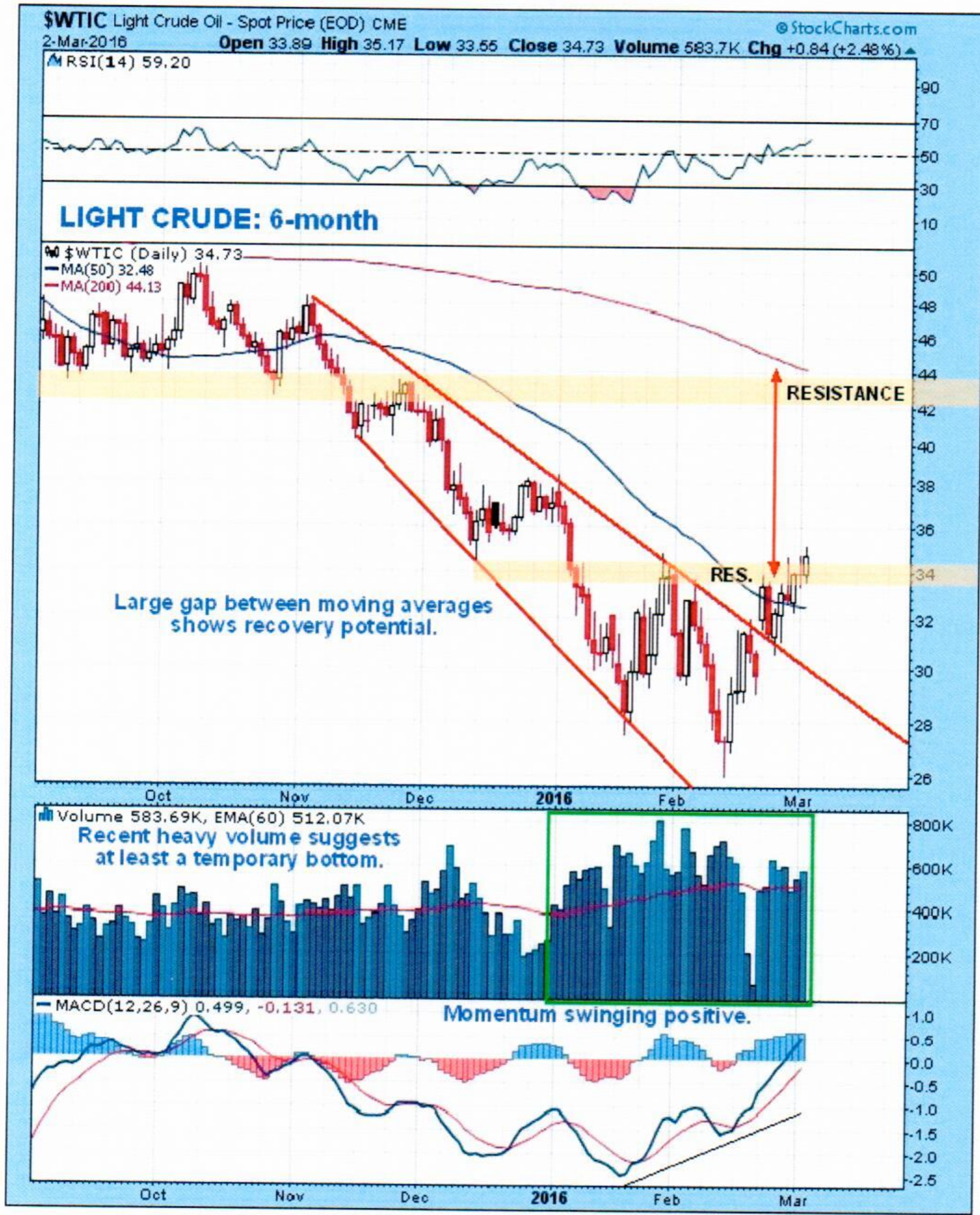
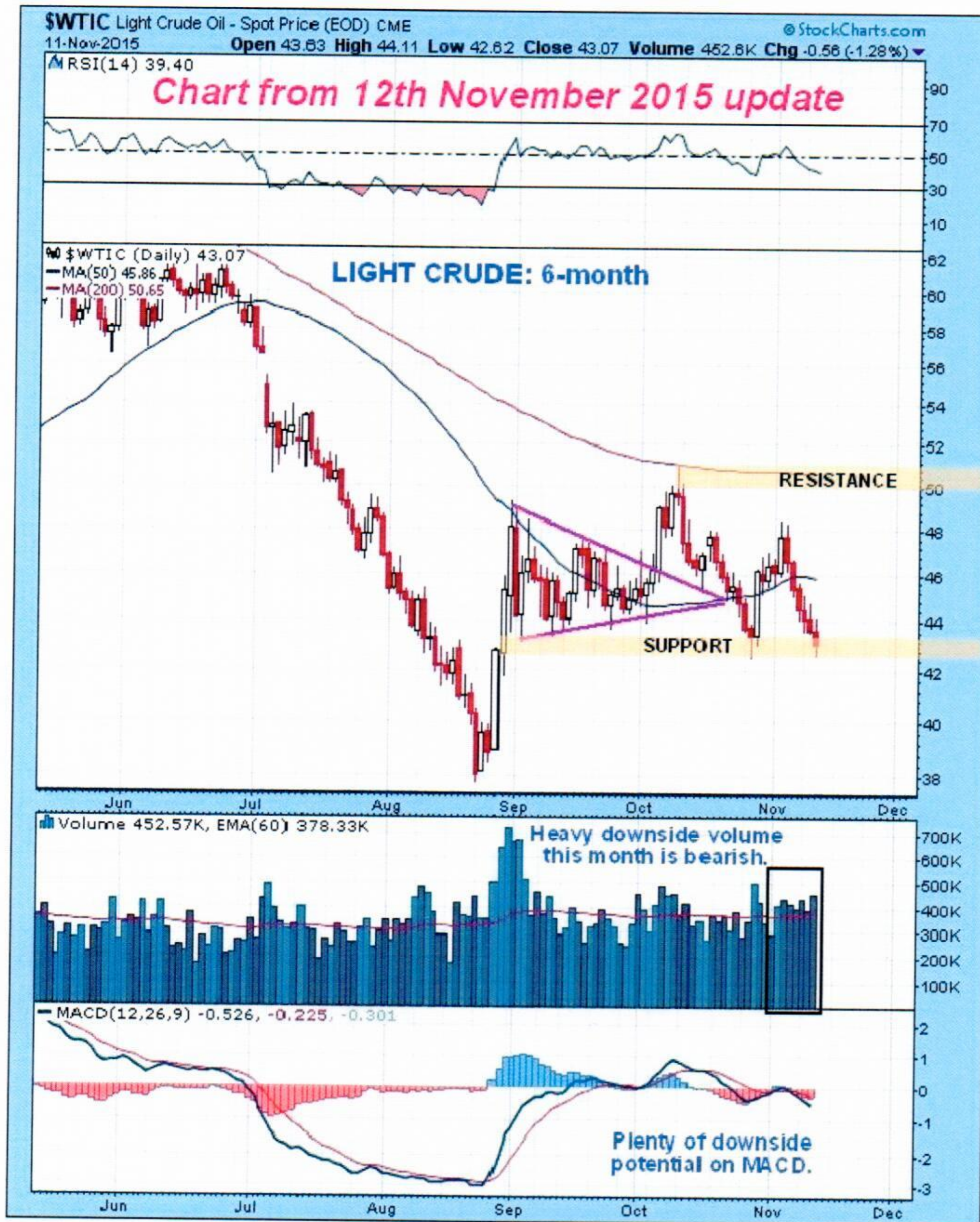



*Chart from mid-November update...*

We bought oil bull ETFs at the end of September in expectation of an upside breakout from the Pennant shown, which duly occurred, but then aborted and we got stopped out. Since that time oil has been meandering about in a trading range bounded by the support and resistance shown. Now, however, there are signs of an imminent breakdown and plunge, with a string of high volume down days that have driven volume indicators to new lows, all of which suggests not a reversal but an imminent breakdown and severe drop. Oil may thus be shorted but with a close overhead stop, and oil bear ETFs bought also with a close stop.




On the 2-year chart we can see the long-term downtrend in force from mid-2014. A recovery rally here may not get as far as the 200-day moving average, since it might get capped by the upper boundary of the downtrend channel. Even so, if it makes it there it will get to about $39, which would be a tradable rally that would result in good gains in many beaten down stocks across the sector. Such a rally looks likely given that the outlook for the broad market is now positive over the short to medium-term.

Following completion of an intermediate base a tradable rally is believed to be in progress that should see light Crude make it at least to the upper boundary of the downtrend channel shown, which means that it should advance to the $39 area minimum in coming weeks.

The long-term 10-year chart shows how the latest severe downleg took the oil price way below its 2008 – 2009 crash lows, despite the broad market itself not crashing. What this means is that if the broad market does later crash, oil could easily end up in the teens. The recent very heavy volume, that can be seen more in context on this long-term chart, is a sign of at least a temporary bottom.

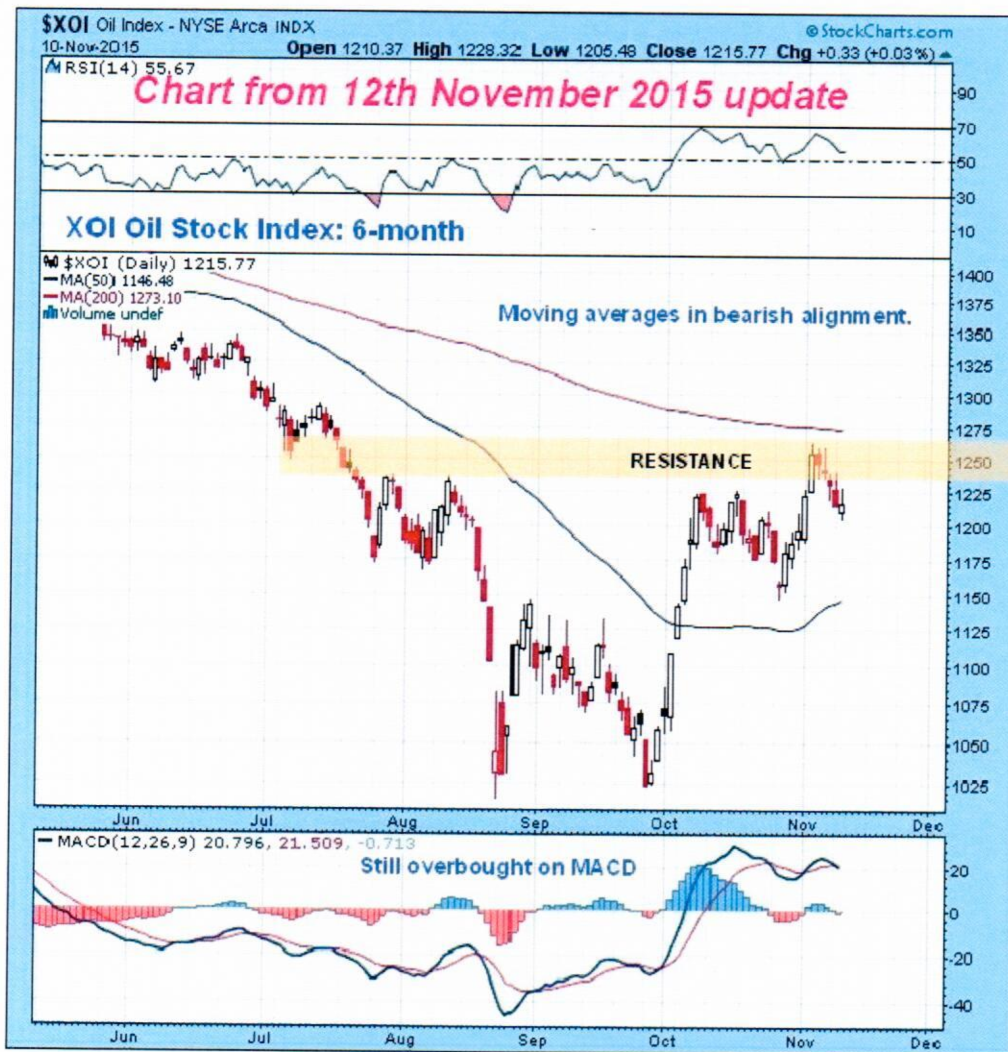
The oil price broke below its 2008 - 2009 lows and dropped into the $20's exactly as predicted in the last update posted in mid-November. Lately it has shown signs of downside exhaustion, in particular the very heavy volume of recent weeks, which suggests that a tradable rally is likely that is believed to be starting right now against the background of an improving broad market.

Compared to oil itself, oil stocks got off light, and have not dropped below their 2008 – 2009 crash lows. The reason for this is simple to understand – it is because the stockmarket has not crashed – yet, although it may do later. On the 6-month chart for the XOI oil index, we can see how it dropped hard from mid-November into mid-January, exactly as predicted in the last update, and it has since thrashed around marking out an intermediate base pattern from which it only started to emerge yesterday, after first breaking out of the downtrend shown and then battling through its falling 50-day moving average, which it only succeeded in breaking clear above yesterday. Yesterday was an important positive day when not only did the XOI succeed in breaking clear above its 50-day moving average, but also it broke clear out of the intermediate base pattern of recent weeks. This action signifies that it is commencing a recovery uptrend that will probably take it to the upper boundary of the downtrend shown on the 2-year chart, resulting in significant gains in many trampled down undervalued oil stocks. This expected move should unfold against the background of the broad market advancing during the same timeframe.

Having battled its way above its falling 50-day moving average and broken out of its recent intermediate base patttern the index is in position to make a sizeable recovery move against the background of an improving market generally. A tradable move is underway that should result in big gains in some beaten down stocks across the sector.

*Chart from mid-November update...*

Oil stocks have had a good time riding on the coat tails of the broad market from late September but now look like they are topping out beneath their falling 200-day moving average. Longer-term charts suggest a high probability that they will now proceed to drop to new lows.

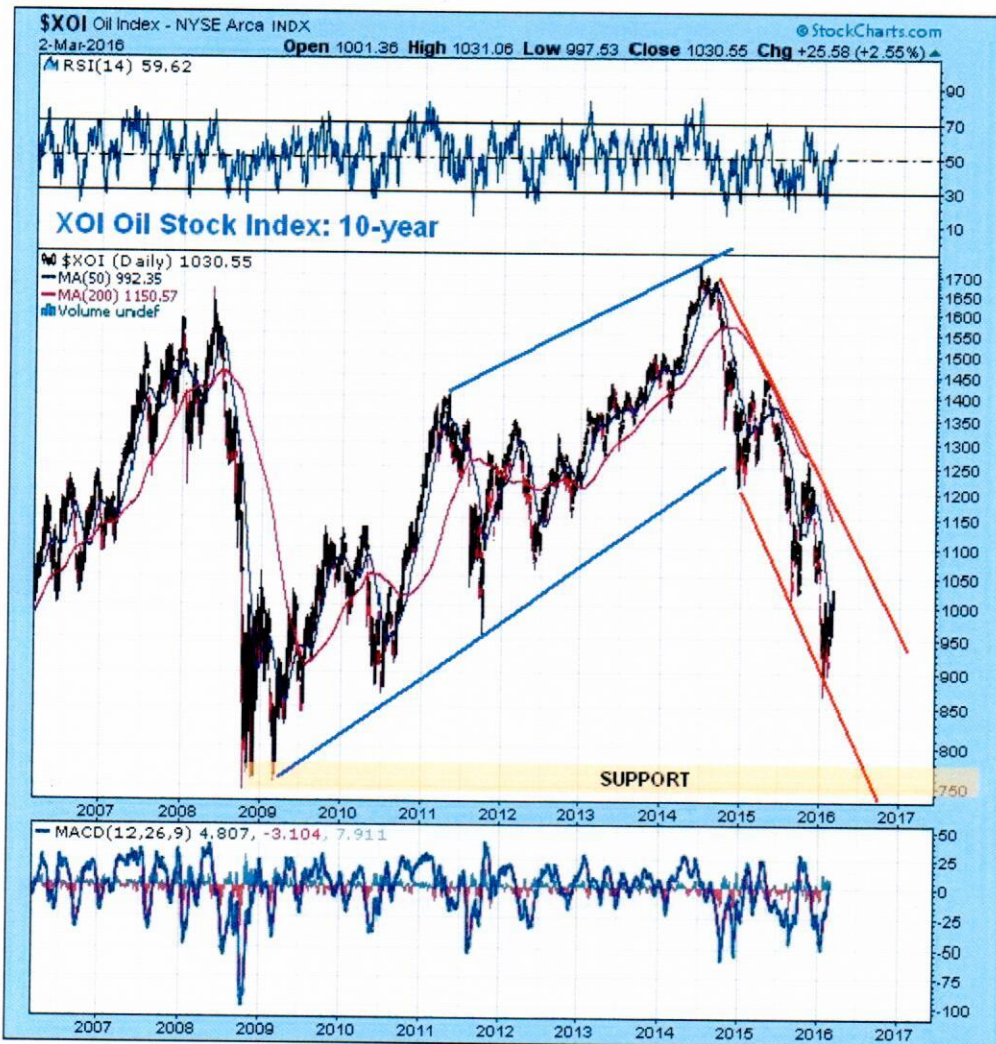



On the 2-year chart we can see how, having completed an intermediate base above the lower boundary of the long-term downtrend shown, the XOI is in position to stage a tradable rally across the downtrend channel. However this downtrend remains in force with moving averages in bearish alignment, and so may reassert itself after the expected rally back across the channel.

Stocks have broken out of a completed intermediate base that formed at the lower boundary of the channel and now look set to rally back up across the channel towards its upper boundary in sympathy with a continuation of the current rally in the broad stockmarket. However, moving averages will remain in bearish alignment into the foreseeable future and the larger downtrend remains in force for now. The immediate future looks bright though with a tradable rally in force.

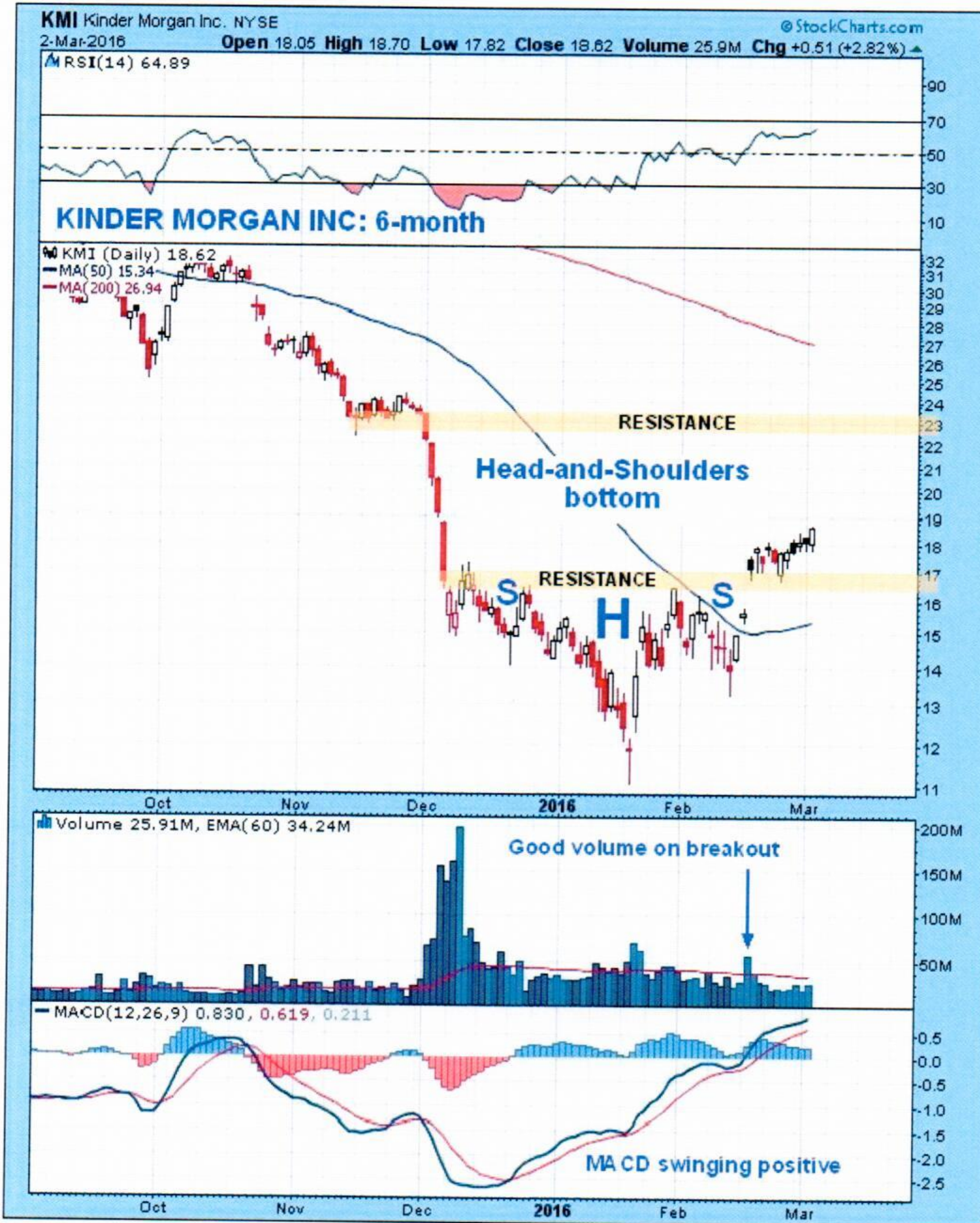
The long-term 10-year chart for the XOI index is interesting and worth comparing to the 10-year chart for oil itself, for while oil dropped to new lows – well below its 2008 – 2009 crash lows – the XOI index did not drop as far as its 2008 – 2009 crash lows on its recent drop. The reason for this is simply that this time round the broad stockmarket has not crashed – yet, at least.

Despite the big drop in the oil price, oil stocks haven't crashed as hard as in 2008, because the broad stockmarket hasn't crashed thus far.




For those of you who may be wondering, looking at the 6-month chart for Light Crude shown above, "Couldn't it drop down to form a Right Shoulder at a similar level to the mid-January dip?" the answer is yes it could, but it doesn't look likely given what it has just achieved. Also the chart for Kinder Morgan, which we bought about a week ago, has already completed a Head-and-Shoulders bottom and is starting to advance away from it, suggesting that the sector at large will not tarry and will advance from here.

Apparently the renowned "Oracle of Omaha" Warren Buffett was buying Kinder in December. If so, it was good of him to help shoulder the burden of creating the Left Shoulder of the Head-and-Shoulders bottom shown here, which the price broke out from about two weeks ago, with high volume and a gap, which suggests that the breakout should hold. There is virtually no resistance until the $23 - $24 area is reached, and with market conditions now favorable, it could run quickly to this level. Kinder Morgan is a flagship company of the oil infrastructure sector, so this chart has momentous implications for this sector - it implies that the worst is over, not for employees of course, but for shareholders.




End of update.