the technical analyst AWARDS 2011 FINALIST

10th August 2012

Market Update:

Ambivalent Oil

UPDATE
Technical
Fundamental

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SEVEN DAYS AHEAD

How high the bonds?

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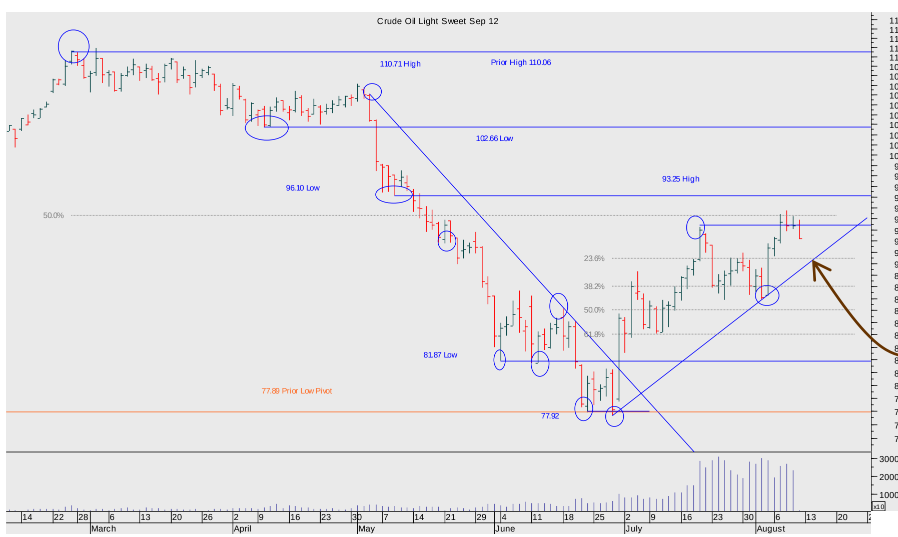
OIL WEEKLY CONTINUATION CHART

The weekly chart of Oil lacks clear structure driving the market. The trading range is 75-114.



OIL DAILY SEP 12 CHART

The market has stalled twice at the 50% retracement level of the sell-off.

The double failure at that level raises interesting bear possibilities.

Watch especially the rising diagonal and fib support - especially if they coincide when the market tests them.

Bulls for their part need a a break up through the 93.25 level before they can gain confidence.

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More

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FUNDAMENTALS:

Oil is probably one of, if not the most essential commodities used by modern civilisation. Without it transport stops, industry stops and much of what we wear and use in our daily lives wouldn't exist, but for all that it is still subject to the basic economic laws of supply and demand.

After two, if not three years of the Euro zone sovereign debt crisis, the global economy stands on the brink of recession. The Euro zone economy is weak and many of the member countries are paying sky high yields to borrow from the government bond markets.

With Spain and Italy currently in the spotlight as the two countries creeping closer to requiring a full sovereign bail out, the stakes are high. The UK economy is already in recession and as the Euro zones largest trading partner, what happens to the Euro zone economy has a direct impact on economic activity in the UK.

In the US the economy is slowing. Over recent weeks speculation has been growing that the Federal reserve will start a 3rd round of QE to help spur growth, but at their recent policy meeting they were cool to that idea even though they left the door to more action open should the economy weaken further, since currently they judge the US economy is suffering no more than a summer lull, we shall see.

But the weakness isn't just apparent in the west. China is also experiencing a slowdown and her inflation rate has eased too.

Until recently the oil market was starting to weaken as traders reacted to all of the above and began to factor in what weaker demand would mean for the oil price..

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FUNDAMENTALS: CONTINUED

But over the last week or so oil has not only begun to correct higher, it has, for now rejected the lows.

What then drives the current rally if economic activity is so fragile? Some suggest the leading economies will try to revive economic activity in the Autumn with yet another stimulus. Perhaps they are right, but surely only a monetary stimulus is possible since the cause of the current economic weakness is too much government borrowing over too long a period leading.

We see things differently. Over the past year a civil war has been building in Syria and as it intensifies, the fear is other neighbouring countries will be drawn in and destabilise an already volatile region.

And although Syria isn’t a major oil producing country, her neighbours are. Additionally Iran continues to play fast and loose with the major powers over her nuclear program which is strongly suspected as being a road to developing nuclear weapons.

Iran and Syria are allies and Iran only this week pledged to not allow the Syrian regime to fall. Another factor in all of this is the US Presidential election, the Republican candidate; Mitt Romney has taken a forthright position on Iran saying recently he would understand if Israel launched a pre-emptive strike on Iran’s nuclear facilities, raising the temperature in an already tense stand off.

In summary oil is currently driven by Middle East geopolitical tension and since there is no end in sight to either the Syrian civil war or the Iran nuclear stand off, this market could continue, over the Short/medium term, to ignore the economic fundamentals and rally further.

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