14th November 2014

the technical analyst AWARDS 2011 FINALIST

Market Update:

UPDATE
Technical
Fundamental

Oil is going further

[Full performance of our Key Trades recommendations 2006-14 here]

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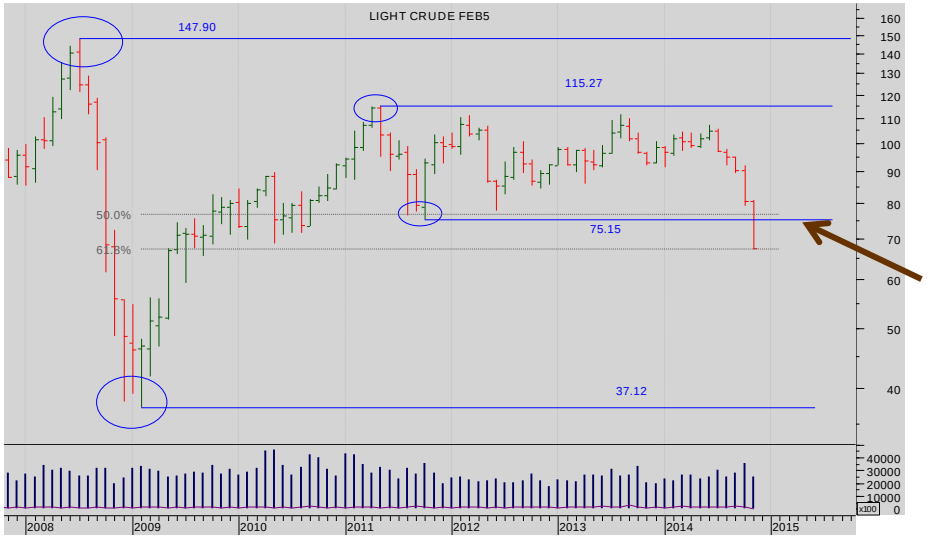
UPDATE
Technical
Fundamental

Oil is going lower still



Monthly continuation chart

We wrote two weeks ago about the bear possibilities of oil.

Since then the market has dropped from $90 to $70.

It is going further. Note the breakdown of the trading range from early 2011.

$75 is now massive resistance to any rally. There is now no support until $45-37. But mark well the Fibonacci level at today's close $67.48. **Sell into any bounce.**

Daily chart

We said that two weeks ago that the bears needed a weekly close beneath 75.15.

(NB that this meant a break of the major 50% Fibonacci retracement support as well in the weekly chart above).

The market hovered there and then collapsed.

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More

Oil set to follow Gold much lower

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FUNDAMENTALS:

The oil market, for so long a one way bet for the Bulls, has this year and especially in the last couple of months, turned. How has that so suddenly happened? Even during the financial crisis, recession and Euro zone Sovereign debt crisis, oil found plenty of buyers.

One reason for that was Chinas economy that continued to grow strongly and consume vast quantities of raw materials and energy.

Another reason was the tension in the Middle East between the Western powers and Iran, over Iran's push to develop nuclear technology, which the West thought was aimed at producing nuclear weapons. Iran insisted it was aimed at producing cheap electricity. Such was the level of distrust that there was a real risk that the US or more likely Israel could launch a pre-emptive strike against Iran's nuclear facilities.

Now sentiment in the oil market has changed.

Part of the reason was due to a change of tone in Iran's leadership. Earlier elections there had brought a new President into power intent on finding a way of defusing the nuclear stand-off. The West responded and talks have shown promise; they are still on-going, removing a very serious flashpoint in traditionally the world's most important oil-producing region.

But there is another more important dynamic at work in the oil market. The discovery of Shale oil and gas, first in the US but now elsewhere around the world, offers a chance for the US to increase her own domestic energy production. So vast are the reserves, and so successful has extraction, that the US has emerged as the worlds largest oil producer . Oil imports from OPEC countries has slumped to 30 year lows.

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FUNDAMENTALS: CONTINUED

In the UK and Russia and even China there are large reserves of shale oil. In fact Russia has the world's largest-known reserves.

Clearly this has vastly increased the world's known recoverable energy reserves, changed the politics of the oil market and diminished OPEC's pricing power.

But shale extraction is expensive. When oil prices were high it was very economic. Now prices are falling, shale extraction is becoming relatively expensive. Saudi Arabia, traditionally the world's largest producer is clearly unhappy about loosing her pre-eminent position and has let it be known she is comfortable with a lower price to limit shale production.

At the current OPEC meeting called to discuss the oil price slide, it looks very unlikely that OPEC will agree a production cut to prop up the oil price.

Even if shale oil is left in the ground it is forcing the oil price down and OPEC realises there is little they can do.

In the US, the price is probably less important, than the energy security which shale has clearly delivered. So even at current lower levels, US shale production looks set to continue. Only in untapped reserves such as Russia is the resource likely to be left in the ground.

So is the oil price merely correcting lower or has there been a paradigm shift?

We judge the later has occurred and see oil prices moving much lower yet.

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