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the technical analyst

AWARDS 2011

F I N A L I S T

# Market Update:

## The collapse in Oil

UPDATE  
Technical  
Fundamental

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UPDATE  
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## The collapse in Oil



### Monthly Light Crude Oil chart

The collapse is certainly spectacular.

Note that the prior closing lows that matter are around \$47.

So the long term target, you could argue, has been reached.

Even so, there may well be lower intramonth depths to be yet plumbed.

Perhaps as far as \$37?



### Daily March 15 Light Crude Oil chart

The market has paused at \$46. The test of any rally will be the market's reaction at the resistance at \$54.33.

A break of that would suggest a bottom was in place.

But not until!

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### FUNDAMENTALS:

The accelerating sell off in oil over recent months has led to much debate over its impact on the global economy. Two schools of thought have emerged:

On the one hand the sell off is seen negatively.

1. The focus is sharply on the reduced profitability of the oil companies, and there increasing unwillingness to develop new reserves leading to equity market weakness,
2. The fall in oil prices is seen as a harbinger of a fresh crisis, with some analysts even warning it could damage CAPEX , and
3. It makes shale oil production uneconomic.

On the other hand the sell off is viewed positively;

1. Cheaper oil means cheaper fuel, both petrol and domestic energy,
2. It also reduces the cost of production for industry,
3. It reduces transportation costs across the entire economy from aviation to moving around food supplies, and
4. It could help reduce food price inflation as land used for bio-fuels is returned to food production.

The first set of arguments to us seems short term.

Oil companies/producers have enjoyed several years of sky high oil prices, now they will have to work harder for their profits by increasing productivity through better controlling their costs. So while this currently occupies the thinking of equity traders we judge the focus very short term.



### UPDATE Technical Fundamental

## FUNDAMENTALS: CONTINUED

Looking longer term we judge lower oil prices will be seen for what they are - an economic blessing. The stimulus the drop from around US\$110.00 a barrel to the current price in the mid \$40.00's a barrel is a greater and direct stimulus than anything monetary policy or fiscal fiddling could achieve.

Put simply, the falling oil price is freeing up money consumers and corporations already have, meaning it is now immediately available for them to spend on other goods and services, which will feed directly into GDP.

Moreover for oil-importing economies it will produce an improvement in the trade account.

There are those think the lower price will be short-lived and that OPEC that are seeking to lay the ground for a fresh round of sky high oil prices. When shale's productive capacity is reduced OPEC can once again to force the price back up. This is not convincing. We think the days when OPEC was able to ramp up the oil price at will are a thing of the past.

Oil prices will ultimately settle at a level dictated by natural supply and demand not by manipulation, as has for so long been the case.

Then the medium/long term impact of the sell-off in oil is an economic blessing for the global economy, helping not only the likes of Japan and the Euro zone, but also the US, UK and many other economies both developed and emerging.



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#### SEVEN DAYS AHEAD

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