SHORT OIL

By Daryl Guppy

NYMEX oil trades in a broad trading band between $88 and $110. The weekly NYMEX oil chart shows an uptrend starting 2012 June shown with trend line A. Uptrend line A starts in 2012 June. The best placement of the trend line starts near $81. This trend line connects the lows in 2012 November. It also joins the low in 2013 April. This provides three anchor points for the uptrend line. The rebound in 2014 January confirms the position of trend line A. This shows a steady slow moving uptrend.

The fall below trend line A in July 2014 signaled a significant change in the trend. The long term uptrend had collapsed. The trend line was now acting as a resistance level, capping any rally rebound. This will define oil price behavior in coming weeks.

The first downside target for oil is the long term support level near $88.

The developments in the Ukraine continue to have the potential to affect oil and energy supplies in Europe but the market has essentially discounted this unless there is a dramatic escalation of the conflict.

The weekly NYMEX oil chart shows four levels of support and resistance.

The first level is near $78. The second level is near $88 and the third level near $98. The fourth level is near $110. Starting in 2012 July oil has traded in a sideways trading band between $88 and $98. The breakout above this trading band in 2013 July was not the start of a new uptrend. It was a temporary rally towards resistance near $110.

This consistent movement between support and resistance within the trading bands suggests that the current downside target is near $88. Any rally from this level is limited by the value of trend line A acting as a resistance level. This value is currently near $96.

Failure of support near $88 has a downside target near $78. Traders will wait to see how support consolidation develops near $88 before taking new positions.