TRADE FOR AN OIL RALLY, NOT A TREND CHANGE

By Daryl Guppy

Has the era of cheap oil come to an end? The price has achieved the target of $28 we set in 2015 December. The weekly chart of NYMEX oil suggests its too soon to celebrate the end of low oil prices. The strong rally gain is a boost to traders buts its not enough to revitalize the industry. The rally in oil faces significant resistance barriers.

There are three barrier features on the chart that act to limit the current rally and prevent the rally from developing into a trend change. The first barrier is the historical support and resistance level near $38. This barrier is strengthened with the close proximity of the lower edge of the long term group of averages in the Guppy Multiple Moving Average indicator. This value is near $40. The long term averages in the GMMA indicator are an indication of the thinking of long term investors. The long term GMMA is widely separated and this suggests investors are strong sellers. They sell into any rally.

The second resistance feature is the historical resistance level near $48. Again this resistance feature is strengthened by the proximity to the upper edge of the long term GMMA which is also near $48. This creates two resistance points that any rally will need to overcome before the rally can develop into a true trend change.

The separation in the long term GMMA is also very wide and consistent. The long term GMMA shows no indication of compression. A change in trend direction is confirmed when the long term GMMA group of averages first develop compression and then later turn upwards. The wide separation in the long term GMMA confirms that investors are not confident the oil price can recover quickly.

The width of the long term GMMA confirms that investors will sell into the rally and drive oil prices down towards the recent temporary support level near $30.

The third resistance feature is the historical support and resistance level near $58. This is the most significant resistance level for any trend change. A successful breakout above $48 can move quickly to the historical resistance level near $58.

When the oil price fell the downside targets were calculated by taking the width of the trading band and projecting in downwards below each new support level. The trading bands for oil are around $10 wide. This was particularly useful for describing the fall of the oil price between $108 and $38.

The same method is used to calculate the upside targets for a new uptrend in oil. However, the strength of the resistance features suggest that the current price move is a rally and not a trend change.

This new bearish feature suggests the oil price will continue to fall and retest support near $30. We continue to use the ANTSYSS trade method to extract good returns from these price movements.