

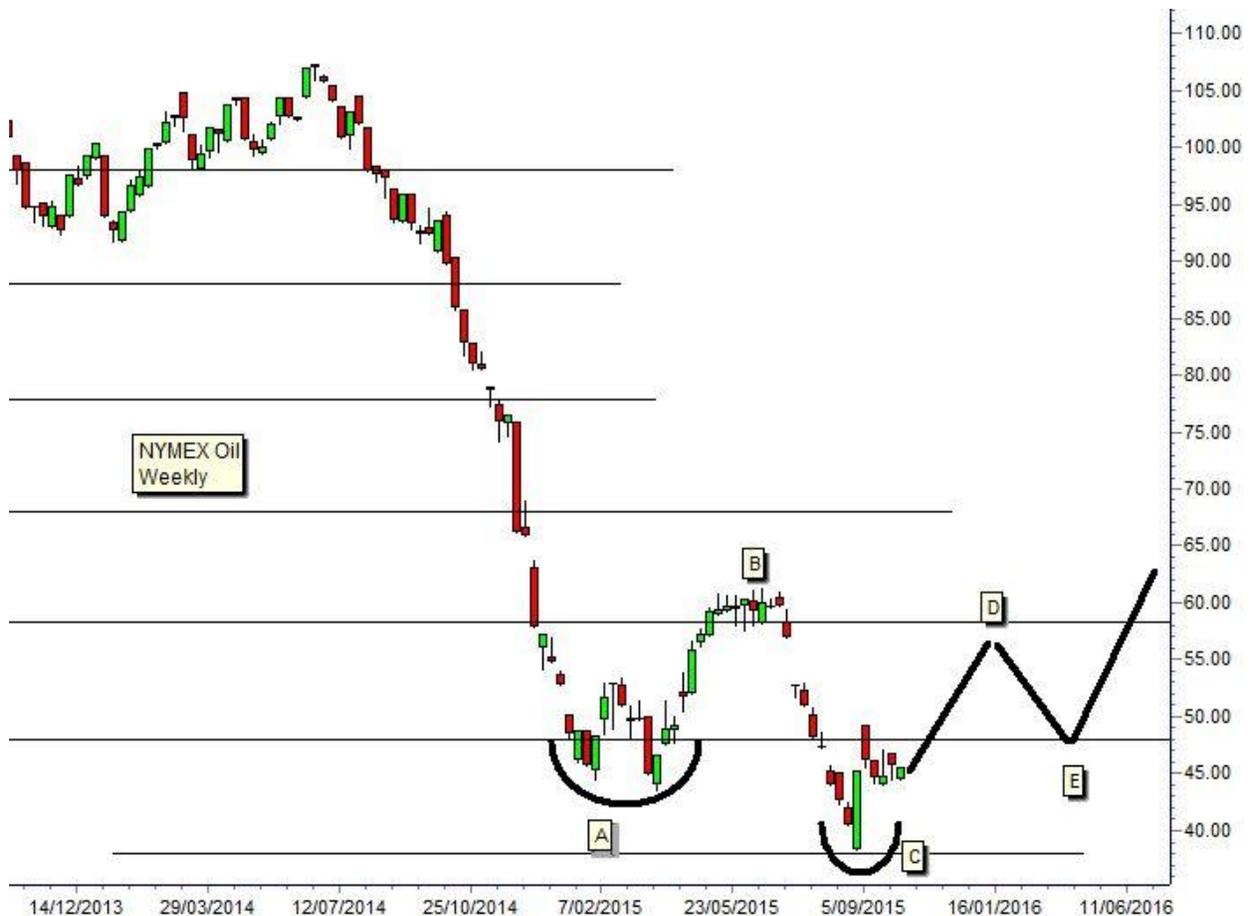
# **POTENTIAL PATTERNS IN OIL**

*By Daryl Guppy*

The downside target for oil near \$38 was almost achieved in the week of August 29 with a low of \$38.24. The fast rebound rally from \$38.24 was strong. This suggests the downward pressure in oil is weakening so traders are now alert for the development of patterns that signal the end of the downtrend.

There are three significant levels on the weekly chart. They are support resistance levels near \$58, \$48 and \$38. A sustained move below \$38 has a downside target near \$28 but there is a low probability price will move below \$38.

The pattern of price development starting around 2015 March has the potential to develop into an inverted head and shoulder pattern. This type of pattern is a reliable indication of a change in the direction of the trend. The chart pattern development is best seen on a weekly chart.



The price activity for this pattern is currently developing. The full pattern might not be completed for several weeks. The pattern is not confirmed so we use this analysis with caution.

The left shoulder of the pattern is created by the lows of 2015 January and 2015 March. This is area A. This double dip behavior for an inverted head and shoulder pattern is unusual

The left side base of the neck is created by the rally and consolidation in 2015 May to July. This is area B. This consolidation develops around the \$58 support and resistance level.

The head of the pattern is created in the week 2015 August 29 with the dip to \$38.24 and the fast rally rebound. This is area C. This has the behavior of an exhaustion sell-off. The key feature is the future development of the current rally.

Three future features are needed to confirm the inverted head and shoulder pattern. They are shown with the thick black lines on the chart. The first feature is a continuation of the current rally with a move above \$48 towards historical resistance near \$58. This is shown as area D.

The second feature is a rally collapse and a retest of the \$48 area as a support area. This is shown as area E

The third feature completes and confirms the head and shoulder pattern. This is another rally away from support near \$48 and a move above resistance near \$58.

The neckline of the pattern is between points B and D. When point D is confirmed then the depth of the pattern is measured and projected upwards the set the first uptrend breakout targets. Traders watch for future confirmation of the pattern because this will be a signal to go long on oil.