Flash report OIL

August 19th, 2013

francescomaggioni.com *"Quantitative approach for asymmetric results"*

The above is the monthly chart of Oil which was presented in the previous report back in April.

Let's see then how Oil has evolved since then.

The April candle at the end resulted in a bullish candel but it took another two months before Oil finally broke at the same time April's high and the resistance coming from the 2008 high (purple line).

The technical indication is that prices will go in direction of the breaking, and therefore long positions are the only taken into account. However bear in mind that it is always possible to have false signals and therefore be in alert in case of sudden drop in prices, especially below July low.

A possible target resulting from the exit of the wedge (purple lines) and the rectangual triangle (orange lines) can be found at the end of the blue vertical lines. In the most probable case of the long side, target is then at 136 usd/barrel. Interestingly enough this target coincides with the previsou trendline in which the price of Oil was inserted (dark green line). This type of retesting previous trendlines happen quite often, and for this reason I may opt for this scenario. **With the retesting, it will probably come a new historical high for Oil.**

The monthly chart helps in spotting the long term trend, but there are more efficient ways to enter this trade, namely looking at shorter time frames. Indeed in the monthly chart you can see that Oil is in overboght condition (black circle on the fast CCI) and entering at these prices could result in having a decrease in value in the short term if a retracement will materialize. This is particularly true **noting that only in other two instances in the past the CCI 8 periods has been so highly overbought,** one in 2007 and one in 2008. The first one had Oil in continued overbought condition while price was trending up; the second time it was at the historical high for Oil, just before seeing a major price collapse. What the indicator is telling us, is to be very careful.

However one information we receive is there could be better and more efficient entry in this long position.

Last thing on the monthly chart: please bear in mind that trends (bullish as in this case, but also bearish ones) start at extremes, meaning that typically trends start when prices of the instruments are already in overbought/oversold condition, and they just continue in their overbought /oversold condition for sometime.

What I am trying to say is that the safer entry would be to wait for a pull back of the prices, but I am also aware that the price of Oil could continue to spike up breathless. For this reason I may also consider an entry above the recent highs, at 109.32 USD.

If the preferred entry is after a retracement, let's see then the weekly chart:

From the weekly chart the information that I receive is that it was only during a week that the price of Oil broke the two resistances, with the long green candle but since then Oil is moving sideways. It is possible that to finish this short term impulsive movement, a fractional new high will be achieved.

In the weekly chart can also be seen the presence of a bullish rectangual triangle which has been recently violated. Target of this bullish triangle is the projection of the high of the triangle (red horizontal line): 122 USD.

As said earlier on the monthly chart, trends start from extreme situation and here we have an extreme situation for what concern prices, but not with indicators: in fact the medium term CCI (20 periods) is not in overbought condition. It could very well mean that prices can start a new bullish trend no problem (sidewasy movement can result in: no price change but indicators leave the overbought condition).

Personally I would wait for a pull back around the 100 usd threshold and look for long entrys there (you can see on the weekly chart how often prices flirted with this threshold), or wait for the breaking of recent highs. Right now price of Oil is in a “no man’s land”.

Lastly let's look at the Commitments of Traders (COT) in order to see who is doing what:

From cotbase.com the above is the COT on Oil which is potentially giving a contrarian signal: in fact Large Traders, typically the smart money, are at highest level long on Oil right now while Small Traders are only barely long with a decreasing volume.

Using COT to add a better timing in entering into a future, typically in a bullish trend is safer to enter when Large Traders start increasing their exposure on some important lows (see for instance November 2012, light blue box).

At these levels with Large so overly stretched it is possible to have prices that continue going higher, but if for any reasons they should start dropping, the descent could potentially be very violent due to the closing of the positions by the Large Traders.

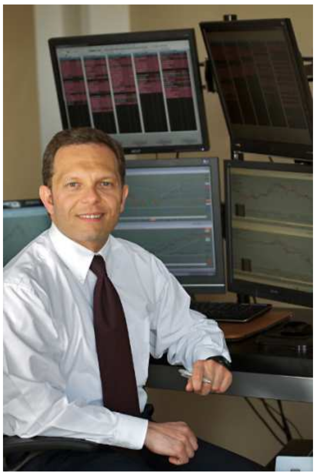
Summing up:

Oil has broken important resistances giving clear indication that the direction of its prices is up. However some concerns arise looking deeply at the monthly and weekly chart, and especially looking at the latest Commitment of Traders (COT).

Right now there is no indication of immediate resuming of the bullish trend, prices are in a “no man’s land”.

Safer entry: wait for a pull back around 100 usd and look for long signals, stop below 96 usd (low of weekly candle on July 1st . If prices will break this low, it will jeopardize the whole bullish structure).

Aggressive entry: longs above recent highs 109.32 USD with a first stop loss at 96 USD for the same reason above. If the bullish trend is confirmed to be as strong as the previous weeks, then as price trends higher, stop can be moved below 102.22 USD which is low of the August 5th weekly candle.



Mr. Maggioni has been working in the financial markets for the last 11 years covering different roles and working in tier 1 consulting companies and banks worldwide.

In recent years his studies have been focused on the psycho-emotional aspects of trading and how those aspects have an impact on traders' behavior.
Before starting this venture, he was head of a hedge fund desk at HSBC Private Bank in Monaco and before that he was employed at Credit Suisse Asset Management (CSAM) in Zurich covering the in-house single manager hedge funds.

Most of his experience in hedge funds was gained while working in a Swiss family office where he was in charge of the research and analysis as well as due diligence for US and European hedge funds. He also performed quantitative analysis and portfolio construction for several funds advised by the family office.

Prior to that he worked as an external consultant for KPMG Financial Services in the Milan office. In 2002 he has been hired by Ernst & Young LLP, San Francisco as auditor for hedge funds, auditing large single funds and fund of funds. In 2000 he joined Ernst & Young in Milan as an auditor for mid-sized companies.

Mr. Maggioni holds an MBA from IUM and a Portfolio Management degree from the University of Chicago GSB.

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