

EBB & FLOW OF OIL



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Who would have thought that the oil price would have more than doubled (from a low of US\$55 a barrel in 2007 to just under US\$150 a barrel in July 2008) in a matter of a few months? Whatever the reason is behind such massive moves – e.g. the much touted demand from China, the intermittent geopolitical tensions in various hotspots worldwide or the much maligned speculators – the skyrocketing oil price had thrown some trading opportunities.

Peter Mathers, trading analyst and an Elliott Wave expert, shares his analysis of the oil price movement over a nine-year period from 1999 to 2008.

For the long term view, here we have the US Crude chart dating from 1999 to August 2008 shown in weekly timeframe. This gives you an outline of the Elliott Wave structure (see Chart 1) It is quite easy to see the Elliott Wave 5 wave impulse structure on this chart.

According to Elliott Wave theory once the five waves are complete, ^L a 3-wave counter trend will occur, which is what we're seeing now. Waves 1, 3 and 5 are motive waves and Waves 2 and 4 are correctional waves. (Elliott Wave theory identifies about 12 different types of corrections and the more you know about them, the more of an edge you'll have).

Waves 1, 3 and 5 also have smaller degrees of five waves within each impulse wave. In fact there are about a dozen different degrees; it's a micro macro fractal building block based on the number phi – 618. We are going to have a look inside this wave 5 on this weekly chart. The other two charts are daily charts and they attempt to break down this fifth wave into smaller degrees of trend while keeping the Elliott wave pattern and with the simple Elliott rules for wave counting.

In the weekly chart below the five waves are labelled. It is the last wave we are going to look into.



CRUDE WEEKLY CHART
1999 – 2008 August

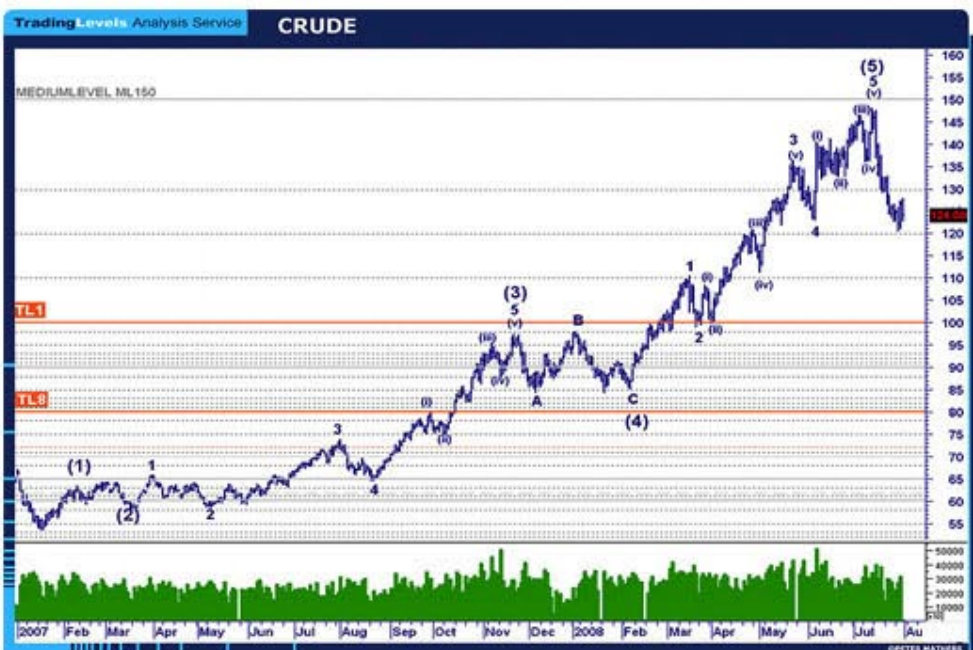
Below is a US Crude in a daily chart. (see Chart 2) It is starting from the low of Wave 4 from the weekly chart above, around the US\$50 up to around US\$150 in August 2008. It is the five waves in the fifth wave. This is the fifth wave from the weekly chart broken down into the next smaller degree. The numbers in brackets i.e. (1), (2), (3), (4) and (5) are the 5 waves within the weekly fifth. We can also see yet smaller degrees of trend within these five waves, such as Wave (3) and we can see 5 smaller waves numbered 1,2,3,4 and 5 and, yet again we can see a smaller set of five waves.



CRUDE DAILY CHART
1999 – 2008 August

With the third chart (also daily, see Chart 3), we take a closer look at Wave (5) which started from around US\$85 up to US\$150 this is the last leg of the 5th wave on Chart 1 and the fifth wave of Chart 2, so it is the fifth of the fifth.

Now, we want to look at the Wave (5) as it also has another 5 waves in it; 1,2,3,4 and 5, further still that has 5 waves inside also (i), (ii), (iii), (iv) and (v). Elliott Wave theory can break this whole wave structure down much further into the hourly chart and five minute chart.



CRUDE DAILY CHART 1999 – 2008 August

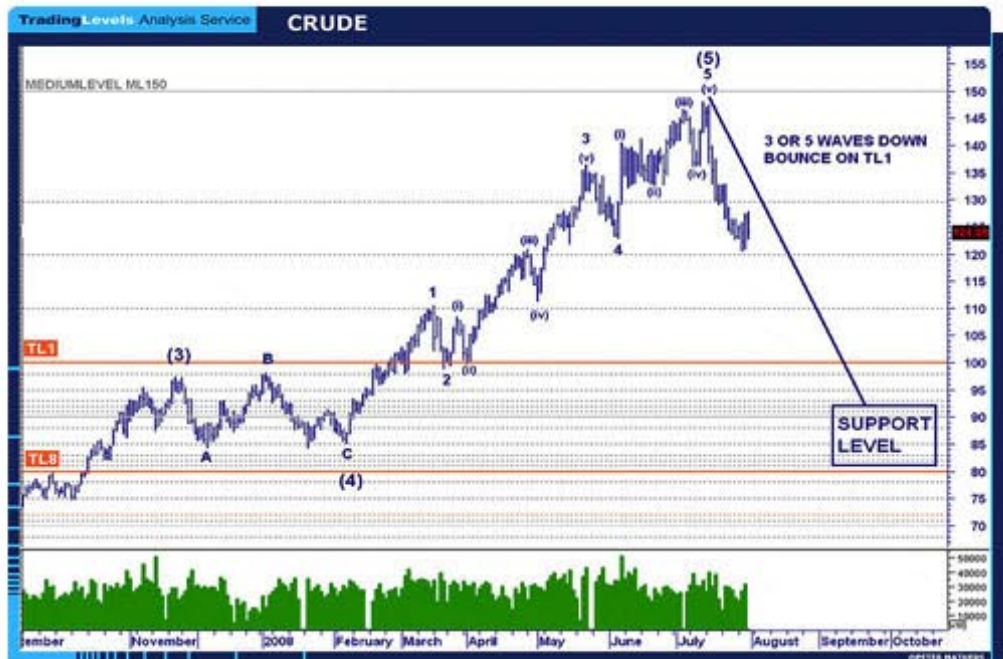
I have been using Elliott Wave since 1984 so I understand it has its strengths and weaknesses, but all in all, it adds strength to understanding our human behaviour in the market – it is part of the market psychology, a tool that is learnt over time and certainly worth the effort in learning.

There is more education on Elliott Wave in CMC Advantage 1 & 2 on the CMC Plus section of the website.

The actual analysis on these charts is in the Free Weekly Charts section at www.tradinglounge.com.au.

There is also a 7-Day free trial available to the TradingLevels® Analysis Service, but if you are trading with CMC Markets you can ask for the 14-Day Full Member access to the service for free.

Next month I will look at the correction in US Spot Gold.



➤ NEXT MONTH I WILL LOOK AT THE
CORRECTION IN US SPOT GOLD

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