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TRADING

Oil regains drive that took it to $US147 a barrel

TECHNICAL ANALYSIS
ROD MYER

CRUDE oil prices, as anyone who drives a car will tell you, have been on an upward march of late. Despite the strength in the local currency against the US dollar, which tends to hide some of the advance in oil prices from Australian consumers, prices at the bowser have been above the $1.40-a-litre mark of late.

Oil reached a low point in late 2008 of $US35 a barrel as the world economy was slugged by the global financial crisis. Since then the trend has been upward. Before it made that low it had spiked at a record $US147, driven by the desire of newly prosperous Chinese and Indians to own and drive motor vehicles.

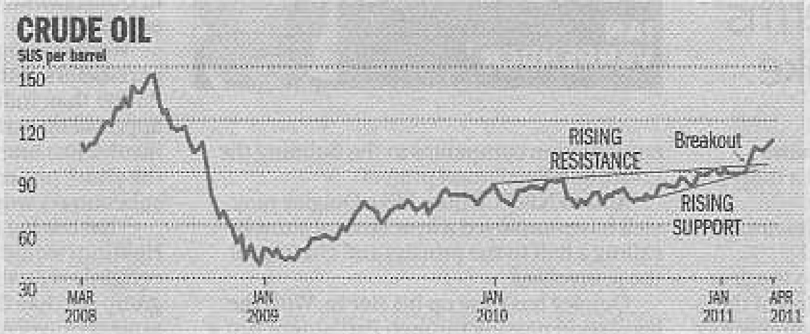
This week Paul Ash, Victorian president of the Australian Technical Analysts Association, focuses his analytical skills on the oil price to give us an idea where it is likely to go.

Mr Ash observes that after the oil price peaked in May last year it lost momentum and drifted sideways below the resistance level shown on the chart.

However, as the year progressed the base support for the price began to move upward. And by the end of the year the upward resistance line was also rising, creating a wedge formation that is seen as bullish in a rising market.

"At the end of February the price rose strongly through the resistance line and above the $US100 barrier level. This is a very bullish, sign," Mr Ash says.

He observes that price momentum over the past six weeks has increased to the point where it is back to the strong trajectory reached in early 2009.



A weakish line of resistance is expected to appear at prices of between $US110 and $US112. But this is likely to be breached and "the old high of a $US147 seems a possible target", Mr Ash says.

The big factor behind the rise in oil prices appears to be the political unrest in the Middle East. Mr Ash warns that strong momentum rallies like this cannot last forever and that market watchers should expect a consolidation period in the next month or so before oil resumes its climb.

rodmyr@ozemail.com.au