



Kase Commentary on Crude Oil

week ending November 07, 2008
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CLZ08	S	S	62.22	62.73	63.31	1.63	2.14	2.73	\$68.5

PEC Dallas Luncheon - November 21, 2008

Cynthia A. Kase, CMT, MFTA will present "Improving Hedging Techniques: How to Control Risk in Today's Markets" at the monthly luncheon of the Petroleum Engineer's Club in Dallas, TX. For more information and to RSVP please download the [PECD Brochure](#).

Summary

Two weeks ago the Commentary called for at least \$61.1 and likely \$59.4 before a potential recovery to \$71.3 or higher was to ensue. A low of \$61.3, right in line with the \$61.1 target took place and then prices rose to \$71.77, just above \$71.3 resistance. The market never closed above \$71.3 and fell to a low of \$59.97, just above the \$59.4 target, late this past week.

An intraday coil formed Friday after the \$59.97 low and favors a break to the downside soon. There is still support at \$60.0 but at least \$58.6 is called for in the near term.

The next target below \$58.6 there is \$55.7 followed by a split target of \$52.7 +/- \$1.00. The lower end of this split target, at \$51.8, is the key objective that eventually should be met on a close below \$58.6. There is also a downside target at \$49.9, which is right in line with the perpetual low of \$49.9. This crucial swing low may be met on an extension past \$52.7.

First resistance is \$62.4 followed by \$64.5 and then \$68.5. Within the primary \$64.5 should hold although on an extended

correction, \$68.5 is allowable. A close over \$68.5 calls for the mid-to-upper \$70's.

So the primary scenario calls for at least \$58.6 and eventually \$52.7, while no higher than \$68.5 holds. The secondary scenario comes in to play on a close over \$68.5.

Analysis of Crude Oil

Early Friday the market fell just below \$60.0 to \$59.97 and since then has traded in a tight range between about \$60 and \$63. The range continues to narrow, forming an intraday coil. Coils normally break in the direction of the prevailing trend, which in this case, as illustrated below, is down.

CLZ08 Intraday Coil

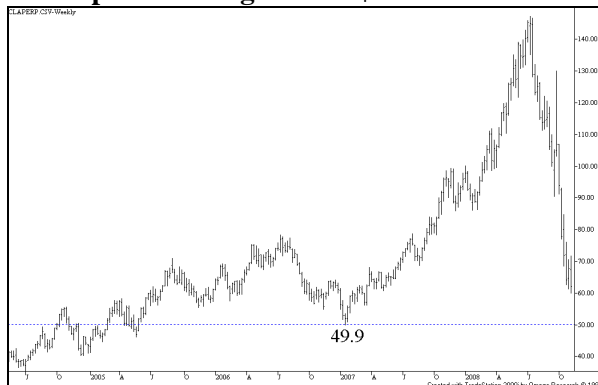


Targets for the coil are calculated in two manners. The first is to take the greatest width of the pattern and subtract that from the apex, which gives a target of \$58.86. The second method is to measure the length of the decline that preceded the formation and then subtract that value from the apex. This

second method yields a target of \$49.9. Both of these targets are in line with lower targets of \$58.6 and \$49.9, as discussed below.

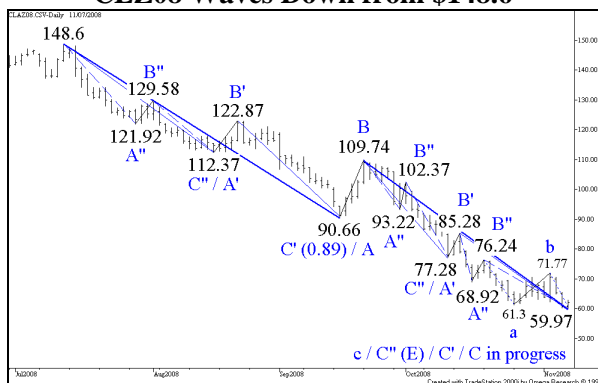
The \$49.9 target lines up with the major swing low of \$49.9 that took place January 18, 2007 on the perpetual chart. This was the low just before the run up to \$147.27. Taking out this swing low would be very bearish.

Perpetual Swing Low of \$49.9 – 01/18/07



The waves down from \$148.6 show that Wave A, \$148.6 – 90.66 – 109.74 is still in progress and favors a drop to a split target around \$52.7. The lower end of the split target at \$51.8 is the equal to target for Wave A. On a close below \$60.0, this is the eventual target called for since most waves meet at least their equal to targets.

CLZ08 Waves Down from \$148.6



X	Y	Z	55.7	52.7
148.6	121.92	129.58	XC	
"	90.66	109.74		E

The very first wave down, \$148.6 – 121.92 – 129.58 also shows \$55.7, the XC projection.

The \$49.9 target is the trend terminus for the wave \$122.87 – 90.66 – 109.74. It is also the larger than target for Wave A''/C'/C, \$85.25 – 68.92 – 76.24, which met its equal to target at \$59.97. The intermediate target for Wave A''/C'/C is \$52.7.

CLZ08 Wave Projections

X	Y	Z	52.7	49.9
122.87	90.66	109.74		3X
109.74	77.28	85.28	E	
85.28	68.92	76.24	I	L

The \$52.7 level is also the equal to target for Wave A'/C, \$109.74 – 77.28 – 85.28. So both Wave A and A'/C indicate that \$52.7 is the key threshold below \$60.0 that is protecting the perpetual swing low of \$49.9.

The most recent waves down from \$71.77 show that \$58.6 is very confluent. For the wave \$71.77 – 67.06 – 69.73, which met the equal to target and P1 projection at \$65.02, \$58.6 is the trend terminus and P3 projection.

CLZ08 Waves Down from \$71.77 Detail of Wave c/C''/C'/C



X	Y	Z	58.6	55.7	52.7
71.77	67.06	69.73	3X, P3		
"	65.02	66.98	I, P3	L	3X
66.98	63.25	64.71	L, P3		
64.71	60.16	62.86	E, P1	L, P2	3X

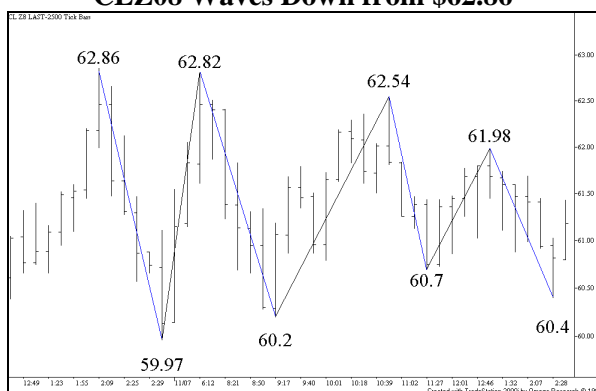
Wave a', \$71.77 – 65.02 – 66.98 met its equal to target at \$59.97. The intermediate

target and P3 projection is \$58.6. This then connects across the row to \$55.7 and \$52.7 as the larger than target and trend terminus, respectively.

The wave a''/c', \$66.98 – 63.25 – 64.71 met its intermediate target at \$59.97. The larger than target and P3 projection for this wave is \$58.6.

The detail of waves that make up the coil formation also show that \$58.6 connects to \$55.7 and \$52.7. For the wave \$62.86 – 59.97 – 62.82 the larger than target is \$58.6.

CLZ08 Waves Down from \$62.86



X	Y	Z	58.6	55.7	52.7
62.86	59.97	62.82	L		
62.82	60.2	62.54	L, P1	3X, XC	P3
62.54	60.7	61.98	L, P2		

The next wave, \$62.82 – 60.2 – 62.54 projects to \$58.6 as the larger than target and P1 projection and then connects to \$55.7 as the trend terminus and XC projection and \$52.7 as the P3 projection. The last wave \$62.54 – 60.7 – 61.98 projects to \$58.6 as the larger than target and P2 projection.

The split target at \$52.7 +/- \$1.00 is the most confluent target found in the daily and weekly DevStop table.

Support DevStops

CL Long	Warn	Dev1	Dev2	Dev3
Daily - Perp	54.8	51.8	46.6	41.5
Weekly - Perp	54.9	47.1	37.8	27.0
Daily - Z	55.7	53.2	50.3	46.9
Weekly - Z	56.2	51.8	45.3	38.3

The \$58.6 target is the exact 78% retracement from the December contract low of \$33.25 to the high of \$148.6. Now that the 62% retracement has been broken, \$58.6 is the next target.

CLZ08 Retracements to \$148.6

From:	33.25
78%	58.6
89%	45.9

The \$52.7 target is the 78% retracement from the perpetual low of \$25.04 to \$147.27 as well as the 89% retracement from \$40.25.

Perpetual Retracements to \$147.27

From:	25.04	40.25
78%	51.9	
89%	38.5	52.0

So just below \$60.0 there is a target at \$58.6 that connects to \$55.7 and \$52.7. A drop to at least \$58.6 is favored in the next week or so, but eventually the market should hit \$55.7 and then the split target of \$52.7.

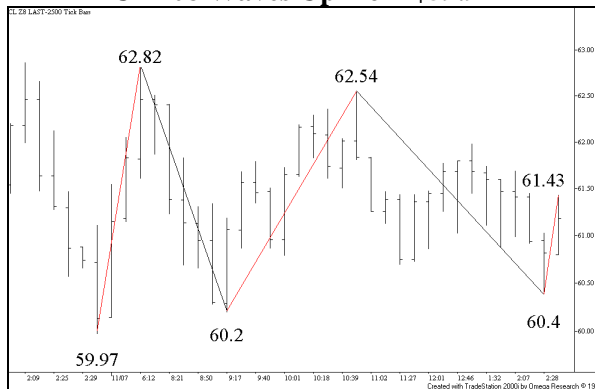
The lower end of the split target at \$51.8 is the most important threshold that is protecting the \$49.9 swing low. Given the market has overshot each of the major targets at \$72.4 and \$64.3 over the past few weeks each time prices broke lower, it is likely that \$49.9 may also be met given the connections between \$52.7 and \$49.9.

Resistance

The only waves up are those in the coil formation from \$59.97. The first wave \$59.97 – 62.82 – 60.2 projects to \$64.5 as the larger than target and \$68.5 as the trend terminus and XC projection. On a correction \$64.5 should hold, but an extension to \$68.5 is allowable in the primary scenario.

The next wave \$60.2 – 62.54 – 60.4 projects to initial resistance at \$62.4 as the equal to target and \$64.5 as the larger than target.

CLZ08 Waves Up from \$59.97



X	Y	Z	62.4	64.5	68.5
59.97	62.82	60.2		L, P1	3X, XC
60.2	62.54	60.4	E	L	
60.4	61.43	60.98	L, P2		

The \$62.4 resistance level is also the larger than target and P3 projection for the last wave \$60.4 – 61.43 – 60.98.

The \$68.5 target is the daily warning line. Above this there is resistance at \$70.6 in the Dev1 daily position and then \$76.7 as Dev3 daily and warning line weekly on the perpetual chart.

Resistance DevStops

CL Short	Warn	Dev1	Dev2	Dev3	Dev4.5
Daily – Perp, Z	68.4	70.6	73.4	76.6	78.6
Weekly - Perp	76.8	84.5	93.8	104.6	111.6
Weekly - Z	75.4	80.4	86.4	93.4	97.8

Initial resistance at \$62.4 is the 89% retracement from \$62.54 to \$60.4.

CLZ08 Retracements to \$60.4

From:	62.54
50%	61.5
62%	61.7
89%	62.3

The \$64.5 target is the 62% retracement from \$66.98 to \$59.97 and the 38% retracement from \$71.77. The \$68.5 target is the 89% retracement from \$69.73 and the 50% retracement from the swing high of \$76.24.

CLZ08 Retracements to \$59.97

From:	66.98	69.73	71.77	76.24	102.37	109.74	148.6
21%				63.4	68.9	70.4	78.6
38%		63.7	64.5	66.2	76.2	79.0	93.8
50%	63.5	64.9	65.9	68.1	81.2	84.9	104.3
62%	64.3	66.0	67.3	70.0	86.2	90.7	114.7
89%	66.2	68.7	70.5	74.5	97.7	104.3	138.9

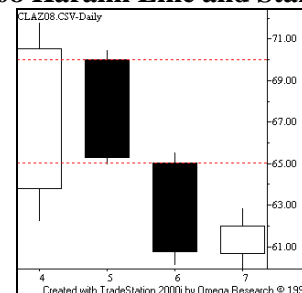
The key upper resistance level for both December and the perpetual chart is \$78.5. This is the 21% retracement from the highs of \$148.6 and \$147.27 to \$59.97 for December and the perpetual contract, respectively. A close over \$78.5 would indicate that the decline has finally stalled and that a sustainable recovery is underway.

Perpetual Retracements to \$59.97

From:	76.12	93.02	102.84	108.11	147.27
21%	63.4	66.9	69.0	70.1	78.3
38%	66.1	72.6	76.3	78.4	93.3
50%	68.0	76.5	81.4	84.0	103.6
62%	70.0	80.4	86.5	89.7	113.9
89%	74.3	89.4	98.1	102.8	137.7

A daily Harami line and star setup shows that \$65.0 and \$70.0 are confirmed as resistance. The \$65.0 level is the confirmation point for the Harami line and star pattern while \$70.0 is the confirmation point from two days ago.

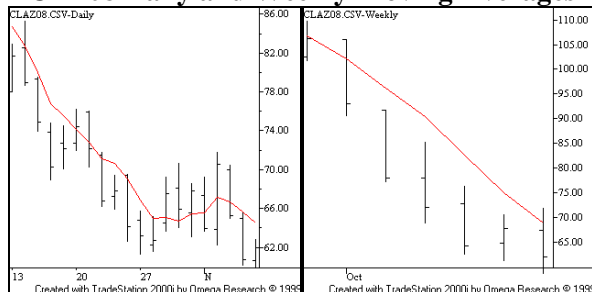
CLZ08 Harami Line and Star Setup



Back >>>	1	1	2	2
Day	Complete	Confirm	Complete	Confirm
Perp, Z	62.9	65.0	67.6	70.0

The 5-day moving average is in line with \$64.5 and the 5-week moving average with \$68.5.

CLZ08 Daily and Weekly Moving Averages



Z - MA	5
Daily	64.3
Weekly	68.6

So initial resistance is \$62.4 followed by \$64.5 and \$68.5. On a correction \$64.5 should hold. This is a more confluent resistance level in the analysis, but the wave formations show that on an extension \$68.5 may be met. So in the primary scenario \$64.5 should hold, but \$68.5 is allowable. On a close over \$68.5 \$70.0 and higher is called for.

Monte Carlo Simulation

The Monte Carlo simulation indicates that on a close below \$60.0 there is only about a 5% to 15% probability that the market is still in an upward bias. This is because \$60.0 is in the 5% and 10% probability spots of the normal and strong up cases. A close below \$58.6, which is in the 5% spot of the normal down case would further dampen the odds of a recovery.

A close over \$64.5 would indicate that there is only about a 5% chance that \$58.6 would be met right away. This is because it is in the 5% spot of the normal up down scenario.

The \$64.5 target has 25% odds in the no bias case. These odds increase to 55% and 70% in the normal and strong up cases. The \$68.5 target has 15% odds in the normal up case and 30% odds in the strong up case. So it is unlikely that \$68.5 will be overcome in the next week or so.

The \$58.6 target has 15%, 45% and 60% odds of being met in the no bias, normal and strong down scenarios respectively.

Percentile	--	-	0	+	++
5	52.7	53.6	55.7	59.0	60.2
10	53.8	54.7	57.3	60.3	61.3
15	54.5	55.4	58.3	61.0	62.2
25	55.7	56.7	59.5	62.3	63.5
30	56.2	57.2	60.0	62.8	64.2
45	57.5	58.6	61.4	64.3	65.7
50	57.9	59.0	61.9	64.8	66.0
55	58.3	59.4	62.4	65.3	66.5
60	58.7	59.8	62.9	65.7	67.0
65	59.2	60.3	63.3	66.3	67.6
70	59.6	60.7	63.8	66.8	68.1
75	60.1	61.3	64.4	67.3	68.7
85	61.5	62.5	65.8	68.7	70.2
90	62.4	63.3	66.7	69.6	71.2
95	63.8	64.9	67.9	71.4	72.5

Signal Review Summary

Trading Summary: Timers entered the last two weeks short. Throughout both weeks, longer bar lengths were used for both long and short trades. The weekend is entered short.

Position Summary: Position holders were short from \$72.18 two weeks ago. On October 29 a daily PeakOscillator divergence completed and Dev1 was hit. The trade was exited at \$67.0 for a gain of \$5.18.

Later, on November 3, a short signal triggered on the daily chart. The – timers' trade from \$67.56 was scaled to the daily chart. This position is held into the weekend with a running gain of \$5.56.

Signal Review Trade Notes

Due to the straightforward nature of trades taken this week, there are no signal review notes.

Tick and Index Table

Contract	X
Timing Chart	987
Fast Monitor Chart	2584
Intraday Index	-50i

Timing Signal Review Table (Hypothetical)

1	2	3	4	5	6	7	8	9	10	11	12	13	14
Trade	Position	TV	Entry	Time	Price	Indication	TV	Exits	Time	Price	Indication	%	Gain/Loss
1	L	987	10/27	905	67.27	2nd Buy	4000	10/30	638	68.22	KPOD / Dev1	100	0.95
2	S	987	10/30	737	67.77	2nd Sell	4000	10/30	1245	67.77	KCDD	80	0.39
							4000	10/30	1323	65.83	Dev1	20	
3	L	987	10/31	716	64.30	2nd Buy	4000	10/31	1714	67.48	KCDP	50	3.10
							4000	11/3	320	67.31	Dev1	50	
4	S	987	11/3	712	67.56	2nd Sell	4000	11/4	648	64.01	KCDD / Dev1	100	3.55
5	L	987	11/4	732	65.00	2nd Buy	4000	11/4	1251	70.53	KCDD	80	5.49
							4000	11/4	1428	70.32	Dev1	20	
6	S	987	11/4	1431	70.44	2nd Sell							9.38
												Total Gains/Loss	22.85
												Average Gain/Loss	3.81

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