

Crude Oil Forecast 2009- Time to Buy?

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No one could have imagined a little over 4 months ago with crude oil trading at \$147, that crude oil would have crashed by 70% and be threatening to break below \$40 so soon. Therefore this analysis seeks to evaluate the prospects for crude oils future trend over the next 12 months in determining whether crude oil today is a good buy or not.

Crude Oil Inflation Hedge Unwinding and the Recession.

China and other emerging markets are eyeing the fall in crude oil price to utilise huge trade surplus foreign currency reserves to buy up crude oil reserves exposure wherever possible, this has resulted in less of a decline for oil majors stock prices despite the 70% oil price crash. Crude oil as with all asset classes is being hit by the reversal of the [inflation hedging that took place going into mid 2008](#) that saw crude oil bust through \$100 towards \$150, the original expectation was for the whole of this inflation hedging to unwind back through \$100 and down towards a target of \$80 with possible overshoot to the downside once the scale of the credit crisis fully manifested itself. As the oil price rally fed into much higher inflation statistics on the upside, so deleveraging of the inflation hedge is leading to self feeding deflation on the downside which is acting on pushing crude oils to much lower levels than could originally have been estimated.

The deep recession ensures that crude oil demand is being cut faster than that taken up by the emerging economic giants of China and India, also the stronger dollar has ensured that the actual falls in foreign currency terms has been less than for the United States. This implies continued weak trend for crude oil for the duration of the U.S. recession which is the key to crude oils trend for 2009, which given last months job losses of 533,000, the worst data in 34 years illustrates that the U.S. economy is a long way away from recovery with Europe not far behind in terms of economic contraction and therefore precludes a quick sustainable recovery for crude oil prices. However as always traders and investors need to concentrate on the actual price trend rather than the economic data as the price will move long before a change in the economic fundamentals becomes apparent.

Strike Against Iran Rumours

Still rumours persist of a possible attack against Iran's nuclear infrastructure that will drive crude oil prices higher, these rumours are nothing new for they tend to pop up every few months and have been doing the rounds for several years. This is more wishful thinking for perma oil bulls that last [occurred in the lead up to the crude oil peak of \\$147 in July 2008](#), which at the time I concluded of being an extremely low probability event and which remains so. Those that have clung on to crude oil positions on the basis of this rumour have seen their bull market profits totally wiped out, therefore the key for any market participant

remains to watch the oil price and not be misled down the path of the wishful thinking rumour mill.

Crude Oil Supply / Demand Fundamentals

According to the International Energy Agency world oil demand growth is expected to slow to an average of 86.3 mln bpd during 2009 down from earlier forecasts that approached 87 mln bpd, meanwhile supply is expected to growing at an annual rate of 1.2% and expected to hit 87 mln bpd in 2009, which is less than the previous forecast for global supply growth of 1.6% per annum as the supply growth now reflects the 70% crash in the global oil price. However going forward demand from developed countries is expected to continue to contract at the average rate of 200,000 barrels per day that implies the full impact of peak oil will be put off for as long as another 5 years, implying crude oil volatility during this period where a future sentiment driven crude oil bull market could yet again lead to another price crash as we have witnessed over recent months. Therefore it is important for investors especially in oil price ETF funds to always have in place price targets and mechanisms for exiting out of positions so as to ensure future bull market gains do not evaporate in the face of bear markets.

Crude Oil Technical Analysis



Trend Analysis - Crude oil is clearly in the overshooting to the downside phase, having plunged through the original target of \$80, then overshoot support at \$60, with the final break of the low of \$50 and now assaulting on the \$40 support level. Further immediate support exists along decades old resistance areas generated during the 1980's in the region of \$35. Therefore this suggests further crude oil downside is limited. However the deep retracement suggests a wide trading band of between \$80 and \$35, therefore expectations of much price volatility during the base building process during much of 2009.

Therefore those now calling on crude oil to head towards \$20 are reminiscent of calls for

crude oil to hit \$200 earlier this year, the overshoot that was going to occur has occurred with the expectations there there is little further downside remaining in future price action. However a bottom has to be formed that will take time to occur.

MACD - The MACD indicator is extremely oversold which implies that further immediate downside is extremely limited which suggests a significant multi month corrective rally is imminent.

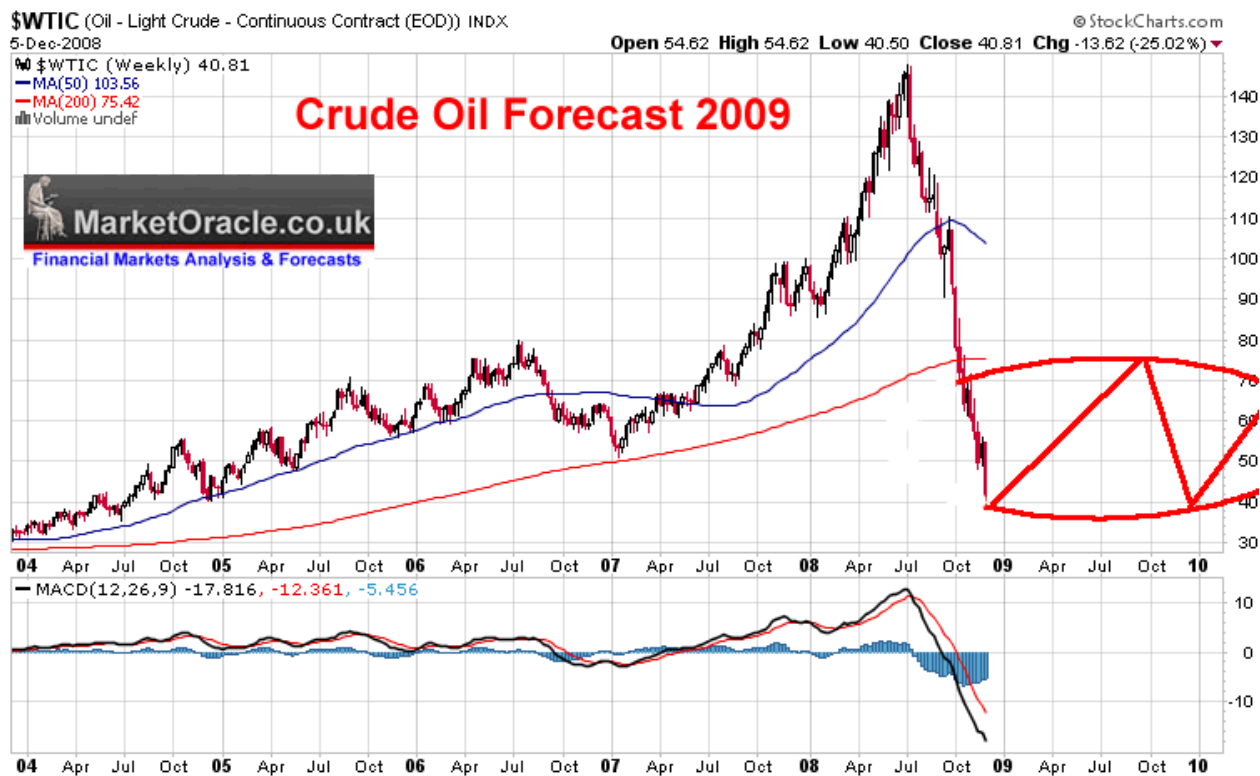
Elliott Wave Theory - The peak of July 2007 marked the 5th wave Crude Oil Bull market peak with the subsequent expected pattern to form an ABC correction, that has been confirmed by preceding crude oil bear market outcomes. The current trend lower is clearly an A wave decline which suggests a B wave rally, that could retrace 38.2% of the decline today which projects to \$80 and confirms trend analysis for a volatile crude oil trading range during 2009.

US Dollar bull market - The trend in crude oil and most commodities, is not so surprising in that the Dollar bull market remains in tact that will continue to bear down on all commodities during 2009. Previous updates: [March 2008](#) - U.S. Dollar bottom called; [August 2008](#) - U.S. Dollar base building breakout; [October 2008](#) - U.S. Dollar correction into late November expected before continuation of the bull market into early 2009 towards a target of USD 92. More to follow on the U.S. dollar's prospects during 2009 in my fourth US Dollar bull market update later this month.

Crude Oil Forecast 2009

Crude oil is still in a downtrend, that means investors and traders need to WAIT for a buy trigger which normally means the break of a recent high or a significant resistance area (\$50) before scaling into a position, and I mean scaling in because it will take much time for crude oil to formulate a bottom that I expect will form a very volatile double or even triple bottom pattern i.e. protracted bottom formation punctuated with very sharp short-covering rallies that could see crude oil spike higher to \$80 and declines back to below \$50 over the next 12 months as the below graph illustrates. What this anticipated scenario means is that there is TIME for investors to buy into crude oil positions as the base building confirmation takes place, as any strong rallies will likely be followed by tests and probable breaks of the previous low so as to enable the creation of the overall saucer shaped double bottom pattern.

However the long-term trend for crude oil remains higher, when I mean long-term I am looking at well beyond the next 12months towards 5 to 10 years, when I would not be surprised given the peak oil fundamentals that we will actually be visiting the \$200 crude targets that were loudly pronounced during mid 2008 as being imminent when crude oil was trading at \$147. This scene rios should not be surprising given that the US Dollar bull market remains in tact that will continue to bear down on all commodities during 2009, but more on the dollar in my next (fourth) US Dollar bull market update.



GOLD Quick Update - My [previous analysis](#) that envisioned a sideways trend for gold for 2009 of between \$930 and \$700 still stands with little price action to date to suggest otherwise. [Chris Vermeulen](#) has also prepared an excellent in depth analysis for the [outlook for gold and gold stocks trend](#) that readers may be interest in.

*Nadeem Walayat has over 20 years experience of trading derivatives, portfolio management and analysing the financial markets, including one of few who both anticipated and **Beat the 1987 Crash**. Nadeem's forward looking analysis specialises on the [housing market](#) and [interest rates](#). Nadeem is the Editor of The Market Oracle, a **FREE Daily** Financial Markets Analysis & Forecasting online publication. We present in-depth analysis from over 150 experienced analysts on a range of views of the probable direction of the financial markets. Thus enabling our readers to arrive at an informed opinion on future market direction. <http://www.marketoracle.co.uk>*

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