Buying & Selling Smarter:

How to Use Technical Tools to Your Advantage

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When Fundamentals Fail to Explain Market Action

Europe Distillates-Diesel cracks drop despite fall in ARA stocks - Reuters News

23-May-2019 12:05:59 PM

LONDON, May 23 (Reuters) - Benchmark diesel refining margins in northwest Europe slipped by over 1 percent on Thursday even as stocks in the ARA region declined.

HEATING OIL FUTURES EXTEND LOSSES IN POST-SETTLEMENT TRADE AFTER API DATA SHOW LARGER-THAN-EXPECTED DRAW IN U.S. DISTILLATE STOCKS - Reuters News

24-Sep-2019 04:32:42 PM

REUTERS

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Turning to Technical Analysis

04/15/09 09:51AM

OIL FUTURES: Nymex Oil Up As Market Eyes Likely Inventory Build

By Hyun Young Lee
Of DOW JONES NEWSWIRES

OTTAWA (Dow Jones)--Crude oil futures were trading higher Wednesday, even as U.S. oil inventories seemed poised to soar to the highest levels in nearly two decades.

Light, sweet crude for May delivery was up 29 cents, or 0.6%, at $49.70 a barrel on the New York Mercantile Exchange. May Brent crude on the ICE futures exchange was 11 cents lower at $51.85 a barrel.

Crude prices have held up relatively well in recent weeks, hovering around the $50 a barrel mark despite a series of massive inventory builds and a poor outlook for demand.

"The market seems to be showing an unwillingness to pay any heed to the fundamental picture - there's a building sentiment that demand is going to get better as the year goes on," said an analyst at Tradition Energy in Stamford, Conn.

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What is Technical Analysis?

- “Technical analysis is the study of market action, primarily through the use of charts, for the purpose of forecasting future price trends.”
  -- John J. Murphy
- Money is either made or lost in the price movement. Therefore efforts should be concentrated on the study of price movement.
- Technicians believe that price action tends to repeat itself because market participants collectively tend toward patterned behavior – thus the focus on identifiable trends and conditions.
- Technical analysis is compliment to fundamental analysis.

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Can’t Get There From Here

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Using All the Tools in the Toolbox

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Useful Information is A.R.T.

- **A**ccurate
- **R**elevant
- **T**imely

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Accurate and Relevant, but not Timely

Commitments of Traders

Commitments of Traders (COT) Reports Descriptions

Introduction and Classification Methodology

The Commodity Futures Trading Commission (Commission or CFTC) publishes the Commitments of Traders (COT) reports to help the public understand market dynamics. Specifically, the COT reports provide a breakdown of each Tuesday's open interest for futures and options on futures markets in which 20 or more traders hold positions equal to or above the reporting levels established by the CFTC.

The COT reports are based on position data supplied by reporting firms (FCMs, clearing members, foreign brokers and exchanges). While the position data is supplied by reporting firms, the actual trader category or classification is based on the predominant business purpose self-reported by traders on the CFTC Form 40[1] and is subject to review by CFTC staff for reasonableness.[2] CFTC staff does not know specific reasons for traders' positions and hence this information does not factor in determining trader classifications. In practice this means, for example, that the position data for a trader classified in the "producer/merchant/processor/user" category for a particular commodity will include all of its positions in that commodity, regardless of whether the position is for hedging or speculation. Note that traders are able to report business purpose by commodity and, therefore, can have different classifications in the COT reports for different commodities. For one of the reports, Traders in Financial Futures, traders are classified in the same category for all commodities.

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Relevant & Timely, but maybe not so Accurate

Source: CNBC

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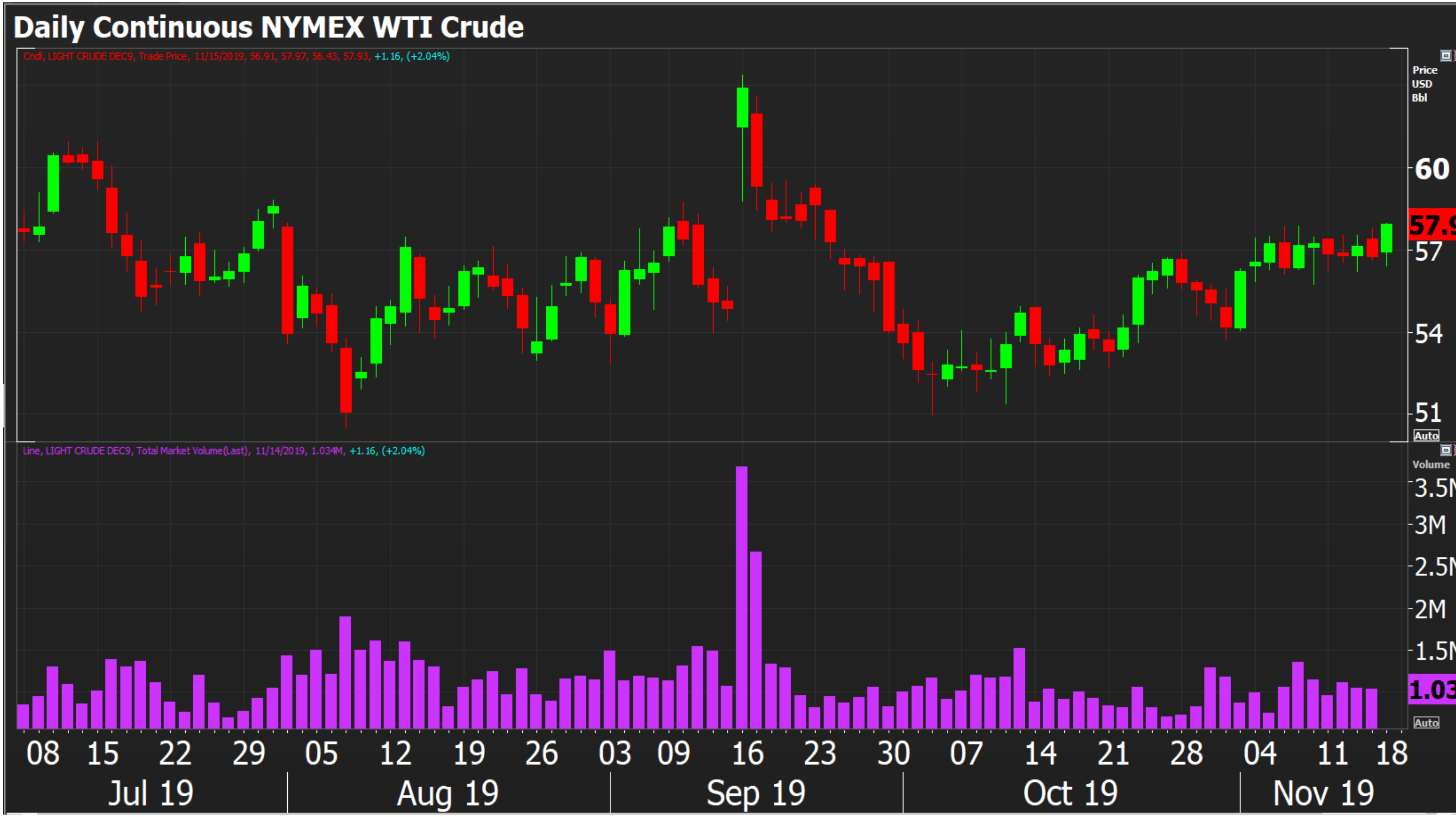
Accurate, Relevant and Timely



Source: Refinitiv

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Characteristics of the Energy Futures Market

- An Auction Process to Match Buyer & Seller

- An Intensity Gauge

- Sustained Intensity Generates Trend

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Intense Fear & Greed in Public

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…and in Private

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What Does Technical Analysis Show Us?

The Battle of Fear versus Greed…

Also known as Bears versus Bulls

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Relative Strength Indicator (RSI)

- Developed by J. Welles Wilder and introduced in his 1978 book, *New Concepts in Technical Trading*.

- The Relative Strength Index (RSI) is an extremely useful and popular momentum oscillator. The RSI compares the magnitude of recent gains to the magnitude of recent losses and turns that information into a number that ranges from 0 to 100.
- RS = Average Gain / Average Loss
- RSI = 100 – 100/(1 + RS)

- Wilder recommended using 70 (or higher) and 30 (or lower) to define Overbought or Oversold conditions respectively.

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What Does the RSI Look Like?

Source: Refinitiv

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Tools for Interpreting RSI

Overbought and Oversold are technical terms that refer to relatively extreme levels on various types of technical indicators, including the Relative Strength Indicator (RSI).

Overbought conditions depict a market that has been subject to sustained buying intensity. Oversold conditions depict the opposite condition.

A breakdown in the RSI from above the Overbought level to below may indicate a reversal of the bullish trend.

When the RSI moves from below to above the Oversold boundary, this may signal the end of an existing bearish trend.

Divergence

- Divergence is a powerful technical dynamic that often heralds a change in trend.
- Divergence occurs when the price action and a particular technical indicator display simultaneous, contradictory signals, i.e. bearish price action at the same time an indicator is showing increasingly bullish behavior. This is bullish divergence.
- The divergence between the price action and the technical indicator may highlight the decay of the existing market dynamic. For example, the bears have been in control for some time but each push lower in price occurs with less intensity. Identifying these changing internal characteristics of a market can be useful for market participants in their decision-making.

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RSI and Bullish Divergence, Intraday Part 1

Source: Refinitiv

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RSI and Bullish Divergence, Intraday Part 2

Source: Refinitiv

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Overbought, Oversold & Divergence, Daily

Source: Refinitiv

Takeaways

- Technical indicators are concise and visual.
- Technical tools can offer market insights when fundamental information is lacking.
- Technical analysis simply adds another tool to your decision-making toolbox – it doesn't subtract from anything you are doing now.

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