

US Crude Oil

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Introduction

At the beginning of August I sent three charts with my opinion on the 'form' of the pattern I expected crude oil to take over the next few weeks (See chart below). Since then I believe the mid section that I discussed has completed and we are now in the last phase of the correction up to complete wave Y of 4 in the bigger picture. If my analysis is correct then we should see prices move to between \$58.00 to \$62.00 per barrel.

Although I have alternative wave counts, this document presents my primary view on what is happening.

Elliot Wave Analysis

The following is the chart I sent in August.



Figure 1 - Wave B Triangle idea from August 2016

The above chart is an idealised 'contracting triangle'. Comparing it to the actual price action you will note that wave B (red) was more complicated and broke above the top of wave A (blue), this is fine and does not break any of the EW rules. It just makes the analysis more difficult.

This is the structure of the pattern in crude oil now:



Figure 2 - Wave B triangle Completed

The formation of the 'contracting triangle' for wave B in oil is significant in EW analysis as it signifies the move prior to the last move in the direction of the current trend in the same degree. What this means is that in the above chart from the chart, wave W (black) signifies the end of the first part of the 3 wave structure, the move to wave X (blue black) is the end of the second part and the counter move we're expecting to wave Y (black) ends the third and final part resulting in the completion of wave 4 (blue).

After the completion of this entire structure to wave 4, which started in mid January 2016, we should see the resumption of the bearish trend down, which started in May 2011. The result of this new leg down should be \$18 to \$25 per barrel of crude for the end of wave 5 down (not shown).

If/When we get there, the correction that started in July 2008 from the peak price of oil should have completed in a simple zig zag ABC pattern. If fossil fuel is still a 'thing' at that time, then it will be a crucial for any portfolio to buy strong companies in the sector which will have historically low valuations.

What should we do?

Although we may see a rise of another \$10 in the price of oil, the move to a new high in the futures price of oil isn't reflected in the daily chart. Also, there are significant news flows regarding oil producers and OPEC. I suggest that we stand back and watch those issues get resolved and stick to our shorter term plan for gold and gold miners.