

## TECHNICAL ANALYSIS OF CRUDE PALM OIL FUTURES (FCPO) PRICE AND FORECASTS

Ladies and gentlemen,

Price forecasts using technical analysis has been a good alternative to forecast price actions including price of commodities. Technical analysts, those who analyzes charts believe that price has reflected all available information, whether they are news or fundamental reports like exports, imports, production, weather and other related information. The technical analysis of crude palm oil price based on Bursa Malaysia Derivatives Exchange is based entirely on technical analysis, without the bias of news and fundamentals.

It is a privilege to share with you my technical analysis on the price of crude palm oil analysis for you to help you understand price movements and forecasts on this commodity. The price is based on Bursa Malaysia's Crude Palm Oil futures 3<sup>rd</sup> month continuous chart.

### Short term analysis of crude palm oil futures price

The Long term trend, represented by a 200-day moving average is increasing and this indicates price is in a long term up trend since July 2009. The intermediate term trend, represented by a 90-day moving average which has been declining since May this year is currently sideways. This indicates an up trend reversal formation in the intermediate trend. The short term trend, identified by the 30-day moving average has just started to increase. The price of FCPO is currently above these averages that ranges between RM2,400 and RM2,500 per metric ton. Price is currently at RM2,498. The relationship between the price and the short to long term moving averages shows that price is in a technical rebound in a major up trend.

Recently, FCPO price broke above the short term down trend line on 14th of July, indicating a up trend reversal in the short term down trend, also a technical rebound for the long term up trend. The long term linear regression, currently at RM2,250 to RM2,300 act as the *support level*. However, there is an *immediate support level* at RM2,400 to RM2,450 based on the moving averages. *Immediate resistance* level is at RM2,600 and the next *strong resistance* level is at RM2,700, a double top resistance level.

Price momentum is bullish with a strong breakout above the middle level on the 14-day Relative Strength Index (RSI) indicator. This indicates strong accumulation and is supported by good increasing volume. However, the 14-day Stochastic Oscillator shows that price is overbought in the near term and therefore an immediate pull back is expected. The Japanese Candlesticks chart pattern is already showing signs for a price reversal down.

### **Short term forecast of crude palm oil futures price (3 to 8 months)**

The short term forecast is bullish (with a target of RM 2,600 to RM2,700), although we may expect an immediate pullback at current price. From the short term technical indications, price is technically overbought in the short term and expect immediate pullback to nearest support level between RM2,400 and RM2,450. Expect price to continue to move towards RM2,600 to RM2,700 after the pullback because momentum and price pattern indicators show that the price of FCPO has still room to increase. Forecast is bullish as long as price stays above the RM2,400 support level.

### **Long term analysis of crude palm oil futures price**

The current FCPO price (RM2,498) is slightly above long term linear regression line since 1994. The line, which acts as the average in the long term is currently at RM2,260. From the linear regression line, the trend is UP in the long term. The price of FCPO has been supported well by the linear regression line since mid 2009, after the price of crude palm oil corrected from an all time high at RM4,486 in 2008. The extreme high line, derived in parallel with the linear regression line and plotted at historical highs is at RM3,600. This line shows the long term resistance level. The opposite of the extreme high line, the extreme low line is at RM1,600 and this line acts as the long term support level. The long term trend is supported by relatively good growth in volume.

Based on the pattern in price action, the intermediate trend is sideways, forming a 14-months triangle chart pattern which indicates that the price is in a correction in this period. Support level (lower line of the pattern) of the pattern is RM2,300 and the resistance level (upper line of the pattern) is at RM2,700. Identical chart pattern historically was in year 2005 and 2006. The correction period was 16 months before a breakout at the resistance level that formed a two year up trend, where price made a historical high in that trend. The current intermediate trend correction is not over until it breaks above the RM2,700 resistance level.

Momentum in the long term correction is bearish, indicating strong resistance despite good accumulation. Technically, the RM2,700 resistance is a strong resistance level. From the chart historically, momentum in the year 2005-2006 correction period shows good bullish momentum in the correction period, indicating good accumulation. The accumulation is not so obvious in the current correction period because the selling pressure is still present.

### **Long term forecast of crude palm oil futures price (8 to 15 months)**

From the long term chart analysis, the linear regression resistance line (extreme high line) is at RM3,700. Based on the triangle chart pattern, the price objective for this pattern is at RM3,600. In the year 1998 when a major correction with a down trend took place, the price rebounded and rallied 70% from the down trend in approximately 3 years. If price were to rally 70% from the year 2008 down trend (major correction when price made a historical high), it has to move to RM3,600. Price has already rallied for nearly two years from the low in 2008. Therefore, I am looking at a price objective within the next 8 to 15 months at RM3,600 to RM3,700. Price forecast is valid as long as it stays above the linear regression line at RM2,260.

**Other crucial factor affecting price of FCPO**

The US dollar has affected the price of crude palm oil when the Malaysian Ringgit was de-pegged from the US dollar in the year 2005. From the chart, the correlation between the price of FCPO and USD/MYR is almost perfectly negative. Comparing the price of FCPO and the US Dollar/Malaysian Ringgit currency pair (USD/MYR) in the year 2008 and the current price, the price of FCPO should be around RM4,000.

The People's Republic of China continued to maintain its position as the largest palm oil export market for the eight consecutive years, according to data from the MPOB in 2009. Therefore, it's currency has also impact on the price of FCPO. In the year 2006 to 2008, the price of FCPO was bullish as it catches up with the Malaysian Ringgit/Chinese Yuan currency pair (MYR/CNY). Price of FCPO is currently in divergence with the MYR/CNY and price of FCPO should be bullish if it catches up with this currency pair like it did previously in 2006-2008.

Therefore, the relationship between price of FCPO and the US Dollar and Chinese Yuan forms a bullish outlook for the price of FCPO and this supports the technical short and long term forecasts made earlier.

Ladies and gentlemen, I hope that this technical analysis on the price of crude palm oil as an alternative to forecast price would be able to benefit you as much as it benefited me in my years of trading the crude palm oil futures contract.

I sincerely wish you all the best. Thank you.



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