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# Early Technical Warning Signals Suggest Major Top May Be Close at Hand in Liquid Energies

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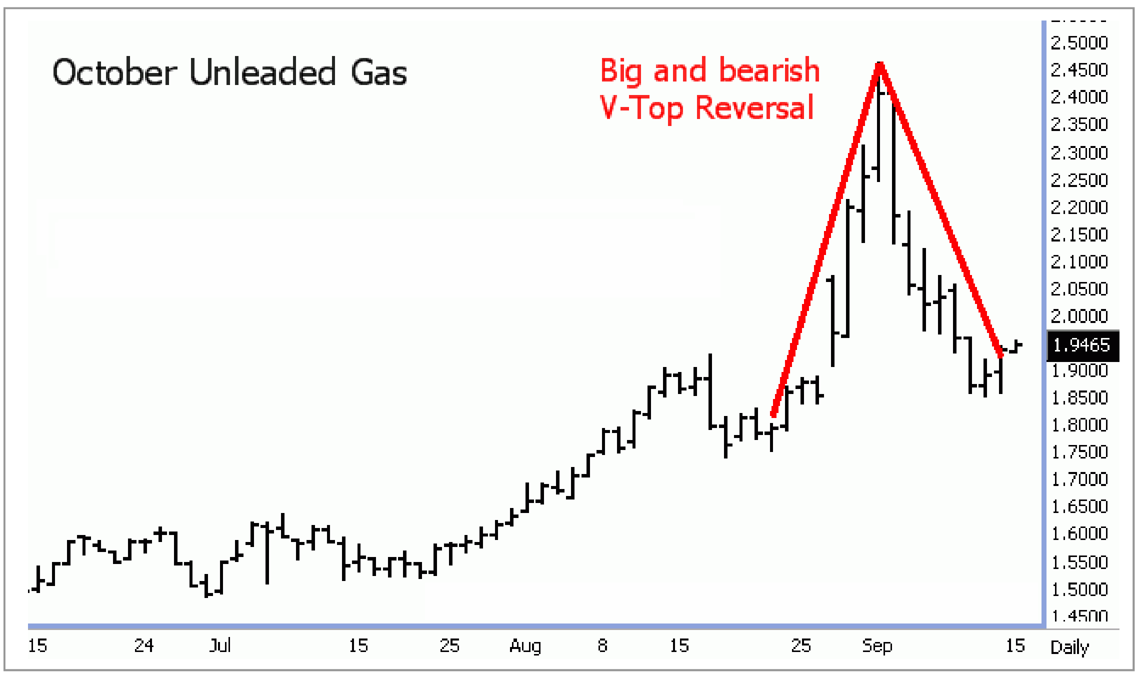
*Energy Price Forecasting Based On Intermarket Analysis and Pattern Recognition*

There are some early warning signals that the record-setting bull run in the liquid energy futures may be running out of steam, including major tops already being in place. Certainly, high volatility on the upside and the downside should not be expected to subside any time soon. That means any would-be top pickers in the liquid energy futures are still "playing with fire" in a gunslinger's market.

The daily bar chart for nearby unleaded gasoline futures was the first liquid energy market to flash a technical warning signal. In early September prices spiked to a high of nearly $2.50 a gallon--only to careen back down to trade below the $2.00 price level. That price volatility did produce a bearish V-Top Reversal pattern on the daily bar chart.




Source: [www.MarketForecasting.com](www.MarketForecasting.com)

Nearby crude oil futures have also backed well off their record high levels of over $70.00 a barrel, also scored in early September, in the wake of the Hurricane Katrina catastrophe. In fact, if nearby crude oil futures rally a bit more from present price levels and than back off, without pushing back above the $69.00-per-barrel price level, then a bearish head-and-shoulders top reversal pattern could develop on the daily bar chart.

Another clue that a near-term top has been posted in the liquid energy futures is the fact that in the wake of Hurricane Katrina and all the damage it inflicted upon the U.S. oil, natural gas and gasoline refining industries, crude oil prices have actually dropped over $5.00 a barrel in the past few weeks. Markets tend to put in tops when a major fundamental news event occurs, which is deemed bullish. But then prices back off when the absolute worst fears of any supply shortage or disruption are not realized.

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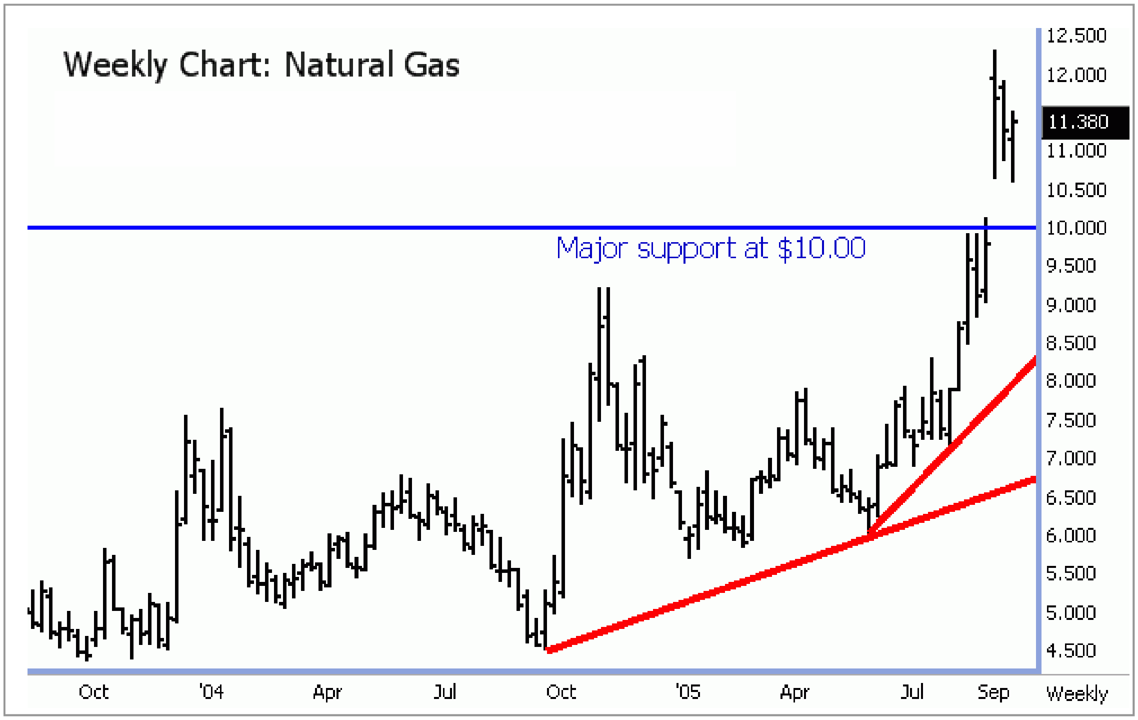
One example of this phenomenon was the 1991 Gulf War that saw crude oil prices spike to above $41.00 a barrel in October of 1990--only to come crashing down within a few months to hit a low of $17.45 by February of 1991. The liquid energy market bulls can correctly point out that there are no technical or fundamental clues that suggest a crash in energy prices anytime soon. In fact, these markets are still just one major terrorism event away from another big price spike. However, sound arguments can be submitted that the liquid energy markets have or soon will put in major price tops.

Regarding natural gas futures, it's a different story. We are heading into the peak usage season in the winter months. Given the serious infrastructure damage to natural gas pipelines and installations in and around the Gulf of Mexico, another big price spike in natural gas futures is certainly possible.

And technically, natural gas futures have not produced any early technical warning signals that a top is in place. Nearby natural gas futures saw a huge gap-higher trade on the daily bar chart in late August, hitting new all-time highs above $12.00. Prices have backed off some since that time, but not as much as crude oil, heating oil and unleaded gasoline futures.

It will take multiple closes back below strong support at $10.00 in nearby natural gas futures prices for the bears to begin to argue a decent case that a major top is in place in that market.

Interestingly, one can see on the VantagePoint Intermarket Analysis chart that just before the first of June the Crude Oil market was predicted to go up and the move has been tremendous! Around the beginning of September

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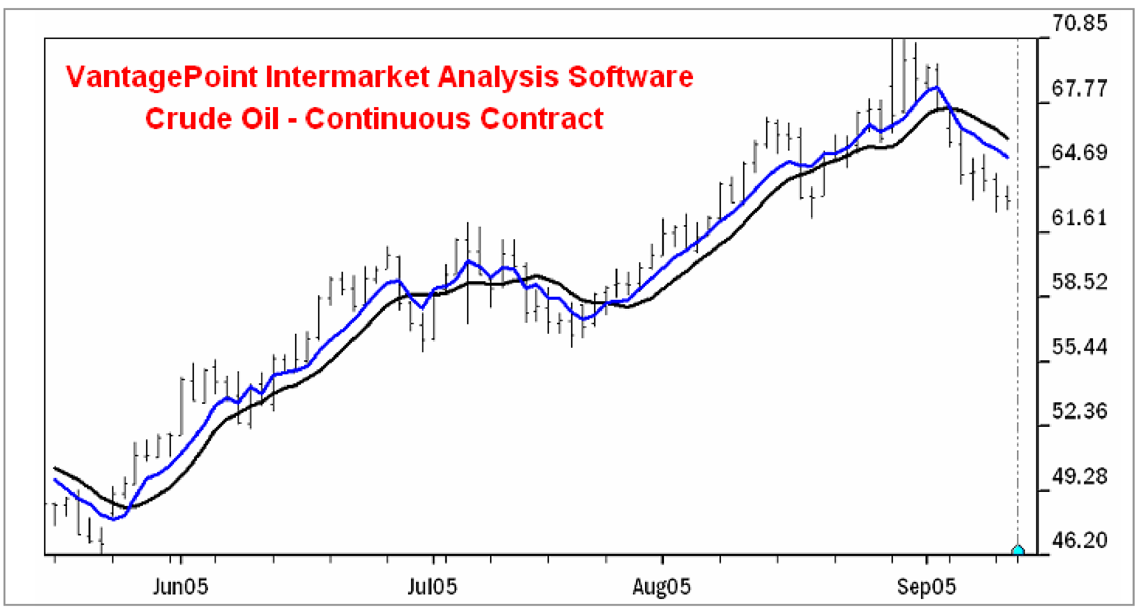


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VantagePoint predicted that the Crude Oil prices would drop in value and that can also be seen on the chart to the left. VantagePoint Intermarket Analysis software predicts the trend direction of the energy markets for the next four days with nearly 80% accuracy. Using the pattern recognition capabilities of neural networks, VantagePoint predicts the ten-day moving average of closes for four days in the future. Then VantagePoint computes the difference between the forecasted moving average and today's actual ten-day moving average, creating a simple, yet powerful, moving average crossover indicator. The blue line being displayed is a *Predicted 10-day Moving Average* and it is being compared to an actual 10-day Moving Average which is the black line. When the lines cross a trend change is indicated with nearly 80% accuracy. When the blue line is above the black line the markets is expected to go up and when the blue line is below the black line the market is expected to trend down. More examples can be seen by going to [www.TraderTech.com](http://www.TraderTech.com)