

Seasonal Review

Since March of 2009 we have been expecting an extensive and extended rebound from the 1.1252 low for the bear market correction of the 4.1586 to 1.1252 decline. This report updates our efforts to locate high probability candidates for major, long term resistance.

Top Ten Main Points

1. Our first step in a seasonal cycle analysis is grouping average multi-month trends and then averaging the multi-month trends. The result for 2Oil is updated on page 2.
2. The dominant phase of the average seasonal cycle in 2Oil is a pre-season rally from either a March low or a June - July low into an October peak. Page 2
3. However this is not the whole story. Page 3 groups 25 years of seasonal peaks by year and calendar month. The highest probability peaking months are October, January, and then March - in that order.
4. Page 4 plots the low for the year for each of the last 25 years. Page 5 details the long tradition of summer lows. Once the present rally peaks one can expect downward pressure into summer 2010.
5. Our long term wave count for 2Oil is updated on page 6. The clear five wave pattern to the decline from 4.1586 to 1.1252 means this rally from 1.1252 must be a bear market rally. Page 7
6. Page 8 plots the range of high probability candidates for the conclusion of this presumed bear market correction from the 1.1252 low. We plot both wave count targets and ratio retracements. Our initial candidate for key resistance at 2.1830 as $.618 \langle A \rangle = \langle C \rangle$ was exceeded just this week.
7. The purpose of the page 9 chart is to revisit the downside risk inherent in the bearish wave count. The clear implication is that further serious weakness for the global economy is still ahead.
8. While the 2Oil is getting quite over bought, there is as yet no bearish RSI divergence. See page 10. And in the candlesticks there is as yet no evidence of peaking action. Page 11
9. Pages 13 to 18 outline the sentiment history of the 2Oil market as measured by the 'Bullish Consensus' indicator of the Market Vane service.
10. The bulls need this rally to create a higher reading than 43% bulls. Otherwise a dangerous bearish sentiment divergence will develop. This situation needs to be closely watched.

| Impulsive | Wave Degree | Corrective |
|-------------|------------------|------------|
| "I" "II" | Grand Supercycle | "A" "B" |
| I II | Supercycle | A B |
| <I> <II> | Cycle | <A> |
| -I- -II- | Primary | -A- -B- |
| (I) (II) | Intermediate | (A) (B) |
| "1" "2" | Minor | "a" "b" |
| 1 2 | Minute | a b |
| -1- -2- | Minuette | -a- -b- |
| (1) (2) | Sub-minuette | (a) (b) |
| [1] [2] | Micro | [a] [b] |

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**2Oil Seasonality
1979 through 2009**

- Here we net out all seasonal highs and lows for spot 2 Oil on a calendar month basis for the years from 1979 through 2009
- The 2Oil market tends to bottom for the year in either March or June - July and then rally into an October peak.
- However this graphic does not tell the whole seasonal story. See the next two pages.

| calendar months | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC |
|---------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|------------|-----------|-----------|
| HIGHS | | | | | | | | | | | | |
| LOWS | | | | | | | | | | | | |
| NET | +1 | - 1 | - 5 | - 2 | Zero | - 6 | - 5 | +3 | 0 | +11 | +3 | - 3 |
| # Highs @ Avg. Date | 5 @ 1/22 | 1 @ 2/28 | 2 @ 3/29 | 1 @ 4/27 | 1 @ 5/24 | 1 @ 6/05 | 1 @ 7/11 | 3 @ 8/09 | 2 @ 9/07 | 13 @ 10/11 | 4 @ 11/15 | 1 @ 12/29 |
| # Lows @ Avg. Date | 4 @ 1/11 | 2 @ 2/19 | 7 @ 3/09 | 3 @ 4/08 | 1 @ 5/02 | 7 @ 6/11 | 6 @ 7/18 | None | None | 2 @ 10/18 | 1 @ 11/30 | 4 @ 12/20 |
| Total Events | 9 | 3 | 9 | 4 | 2 | 8 | 6 | 3 | 2 | 15 | 5 | 5 |



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2011
25 Years of Seasonal Peaks

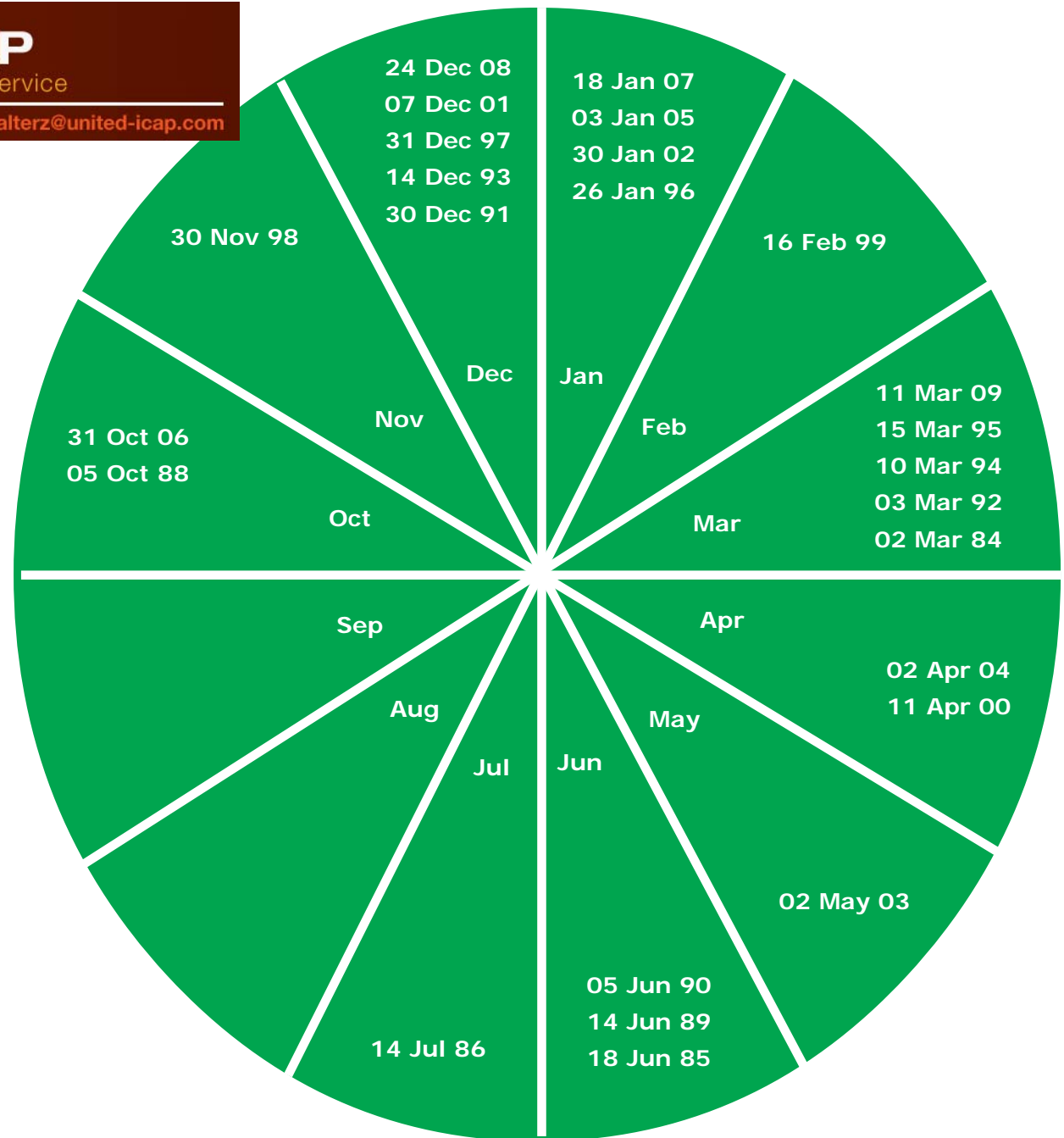
| September | October | November | December | January | February | March | April |
|-----------|--|-------------------------------------|------------------------|--|------------------------|-------------------------------------|-----------|
| 01 Sep 05 | 22 Oct 04 12 Oct 00 01 Oct 98 03 Oct 97 08 Oct 96 09 Oct 92 09 Oct 90 19 Oct 87 | 04 Nov 94 05 Nov 91 25 Nov 85 | 04 Dec 06 29 Dec 89 | 06 Jan 09 23 Jan 04 31 Jan 00 15 Jan 87 | 28 Feb 03 03 Feb 94 | 14 Mar 08 27 Mar 96 31 Mar 89 | 04 Apr 02 |

Seasonal Peaks
There are pre-season rally peaks and winter demand rally peaks. The pre-season peaks have always out numbered the winter peaks.



2Oil - 25 Years of Yearly Lows

- Here we plot the low for each calendar year for the last 25 years, 1985 through 2009.
- During August and September 20il is typically in its pre-season rally up from either a March or a summer low. Hence there has never ever been a low for the year during these calendar months.
- Note the abundance of lows for the year in December and January. It has clearly not been safe to be long 2Oil simply because it happens to be winter.
- Coming off a winter peak the two highest probability bottoming months have been March and June



20il - Summer Lows

- Here we plot 25 years of summer lows
- Not all pre-season rallies begin from summer lows.
- We saw on the last page that many pre-season rallies began from a March low
- Note that there were only two years in the last 25 where there was not a tradeable rally from a summer low
- In those two years, 2006 and 2008, the typical 20il seasonality was overwhelmed by severe turbulence in the financial markets

| May | June | July | August |
|-------------|--|----------------------------|-------------|
| | | 13 Jul 2009 | |
| | 20il peaked in the summer of 2008 | | |
| | | | 07 Aug 2007 |
| | 20il peaked in the summer of 2006 | | |
| 16 May 2005 | 09 Jun 2004 | | |
| 02 May 2003 | 11 Jun 2002 | 20 Jul 2001 24 Jul 2000 | |
| | 01 Jun 1999 15 Jun 1998 20 Jun 1997 07 Jun 1996 | | 11 Aug 1998 |
| | | 21 Jul 1995 | |
| | | 19 Jul 1993 | 22 Aug 1994 |
| | | | 12 Aug 1992 |
| | 10 Jun 1991 05 Jun 1990 14 Jun 1989 | | |
| | | 14 Jul 1988 | |
| | | 14 Jul 1986 | 24 Aug 1987 |
| | 18 Jun 1985 | | |
| | | 27 Jul 1984 | |
| 05 May 1983 | | | |

2Oil - monthly chart - log scale

the <I> = <V> of C in % gain

Long Term Wave Count - Main Points

1. The entire .2920 to 4.1586 advance is now being corrected
2. The 4.1586 to 1.1252 decline was the initial 'A' wave down
3. This rally from 1.1252 is the B wave bear market correction
3. The 1.1252 will be broken before 4.1586 is bettered



Potential 'B' wave Resistance

There are two sources for potential B wave resistance points

1. Ratio retracements of the A wave down as outlined in red
2. Possible wave count targets for the B wave up - see page 8

2Oil - daily chart - log scale



2Oil - weekly chart - log scale



2Oil - monthly chart - log scale

Bearish Long Term Wave Count

Our bearish case is for an A = C in percent loss where 4.1586 to 1.1252 was the 'A' wave down. As in any ABC pattern the target for the conclusion of the C wave down is a function of how high the B wave rallies. In this case the B wave still looks headed higher.



Downside Risk
 To give some sense of the downside risk in this bearish case model we calculate the C wave target from two possible B wave peaks:

- From B as .382 of A the A = C in % loss targets **.8130**
- From B as .618 of A the A = C in % loss targets **.6190**

Depression Induced Down trend

the A = C in % loss if 3.0000 = B
 the A = C in % loss if 2.2840 = B

Recession Induced Correction

2Oil - daily chart - log scale
with 14 day RSI



Daily Candle - Fri 08 Jan

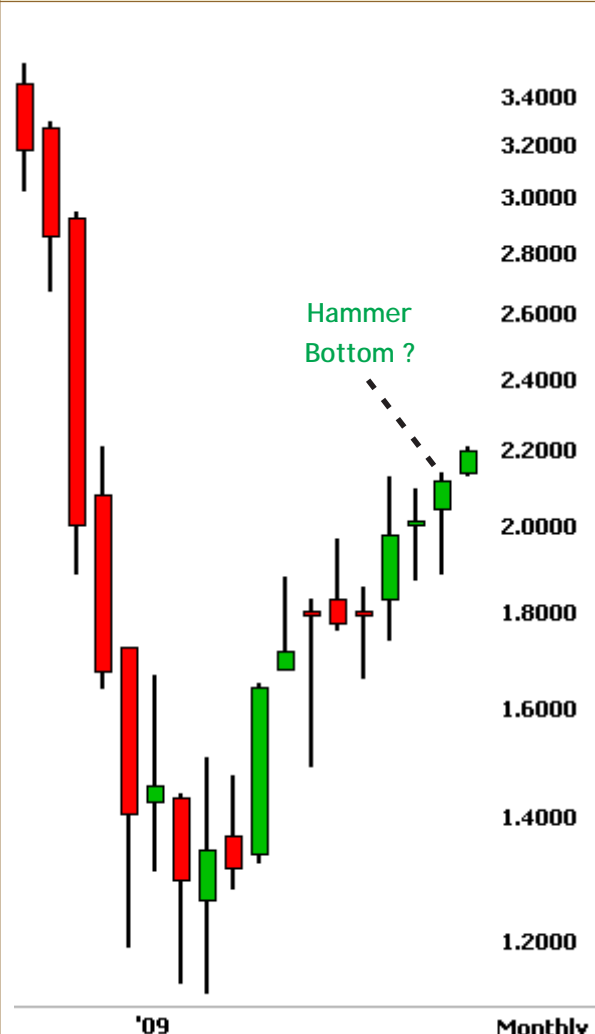
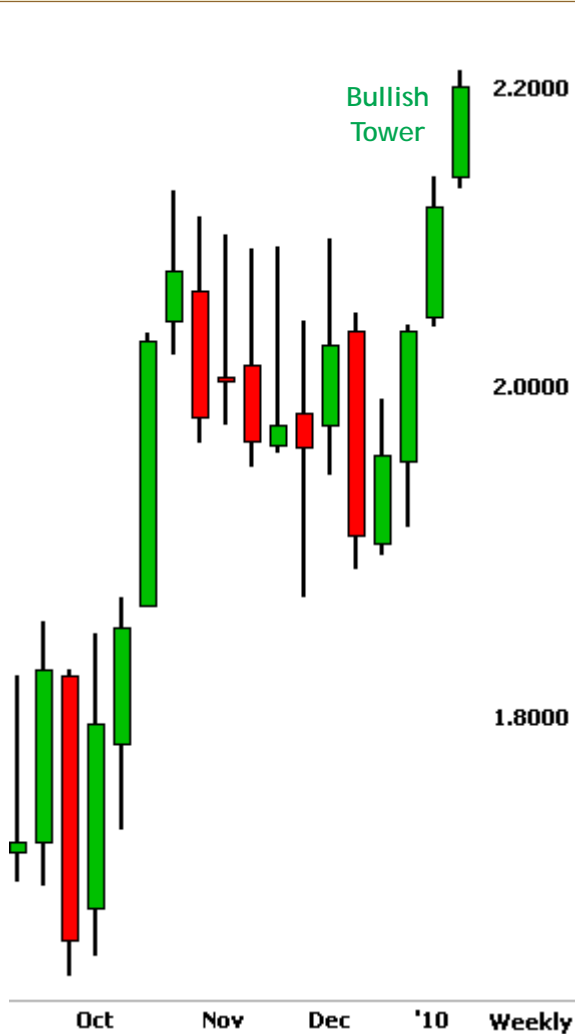
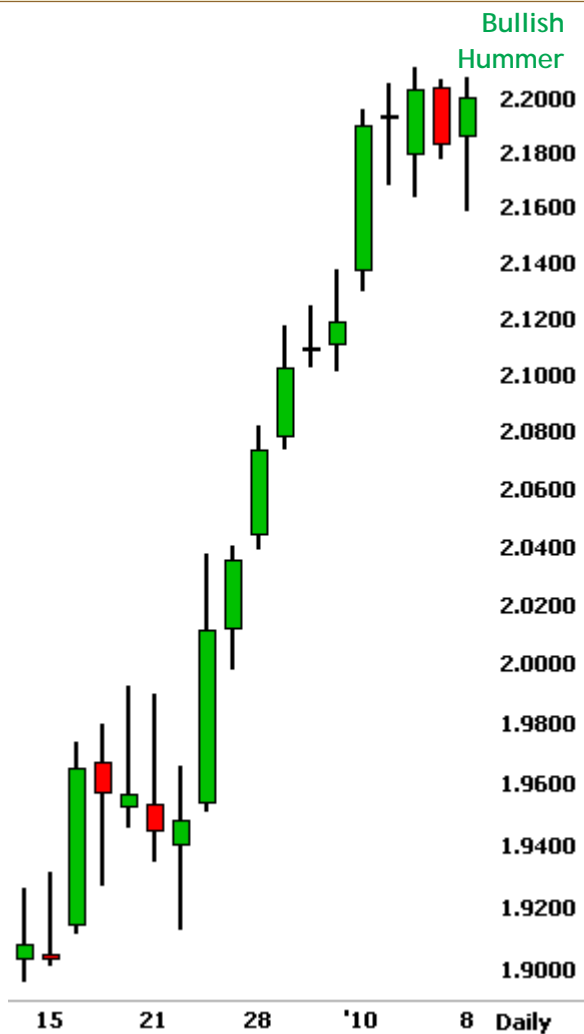
Today's candlestick is best described as a bullish hammer bottom. While not a textbook example, it has the requisite long shadow below and the rather short green body above.

Weekly Chart

Each of the last three weeks have given a bullish tower for the weekly candlestick. A bullish tower is a candle with a long green body. There is nothing bearish here.

Monthly Chart

The candle for the month of December was either a bullish hammer or a bearish hanging man. If a hammer then January should roar higher. If a hanging man January should dump lower.



APPENDIX - Sentiment History

2 Oil Sentiment History

2 Oil - monthly chart - log scale



2Oil Sentiment History

2 Oil - monthly chart - log scale

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Herding Behavior: Pre-Rational and Instinctual

It is easy from the lofty perspective of this history to ask "What were they thinking?"

It is easy from the distance of history and the vantage point of accumulated sentiment history to wonder how everyone could be caught long at every major top and short at every major low. These observations get at the nature of herding behavior and the brilliance of a sentiment indicator like the 'Market Vane' system cited here.



Market Vane: Tracking the Losers

The "Bullish Consensus" sentiment readings from 'Market Vane' track the opinion of those who give investment advice to individual traders. It is the individual traders who consistently lose money in the markets. So at only 22% bullish at the 1.1252 low, those who tend to always lose money in the markets are 78% bearish or short. When those that always lose money in the markets are all short, it is obvious that the smart money is then betting on a rebound.

Sentiment Data
This sentiment data is from the Market Vane www.marketvane.net

4.0000
3.7500
3.5000
3.2500
3.0000
2.7500
2.5000
2.2500
2.0000
1.7500
1.5000
1.2500
1.0000
0.7500
0.5000
0.2500
Monthly

20il - 10 June 08

20il - weekly chart - log scale

Emotional Anatomy of a Bull Market

- First a note on the chart. Although this is a weekly chart the boxes cite daily highs and lows
- How does a market go from only 45% Bullish to an amazing 92% Bullish? Through the group dynamics of herding behavior. Traders buy as they see others buying. The sentiment turns more and more one-sidedly bullish the higher the price gets.
- And how does a market like this peak? When everyone is already long and all the bears have been squeezed out - the buying power is exhausted. All are long waiting to sell into that next rally. When that next rally fails to appear, all need to sell.



Sentiment Data
 This sentiment data is from the Market Vane www.marketvane.net

92% Bullish
 One must go back to the 1.1100 high in October 2000 to find another 92% bullish reading. From there 20il fell to .4930 over the next year of trading. Note also that, so far, the sentiment in 20il has NEVER been greater than 92% bullish. Buyers beware..

20il - 23 Nov 08

20il - daily chart



23 May 8 15 22 Jun 10 20 Jul 15 24 Aug 8 15 22 Sep Daily

20il - daily chart - log scale



2Oil - weekly chart - log scale

