



When I look at volume bars on daily stock or futures charts, they often look like the tree-line on the horizon. In other words, there is little or no definition. Little stands out. Of course, with stocks there are always a few incongruous volume spikes that are associated with some narrow-range day and thus impart little or no meaning. With commodities, most of the heavy volume is associated with the rollover periods when open interest moves from one contract to another. But by and large, volume on daily charts is not always packed full of meaning. For many years, I have learned to depend on price range, the position of the close, trend lines, channels, and support/resistance lines for guidance. If a useful bit of volume information appears, all the better. (Sometimes it's more evident on a 90-minute bar chart or some other intraday picture.) In light of these comments, this year's price action in soybean oil is noteworthy. Rather than discuss the entire chart, I am focusing here on the price action since late July at point 1a on the above chart. It was here that price moved above the top of channel KK' creating an overbought condition. The position of the close at 1a is well off the high of the day so we know the market encountered selling—probably profit taking. I say that because there is little cause for a larger downwave. The pullback from 1a finds support on top of former resistance line B. (The bold lines are considered most important.) At the bottom of the pullback, note the position of the close indicating the presence of buying. As soon as the market rebounded from this low, I drew trend line L and it created an interesting wedge with the supply line of the up-channel. The market returns to the top of 1a, where I drew a minor resistance line, and it experienced some volatility as indicated by the gap-higher where price closed on the low and on the following day where the range was unusually wide. The market was obviously having difficulty absorbing thru the overhead resistance and pulled back. This held along line L. On the next day (point #1), the market opened higher on a bullish report and again closed near the low. The message here and at 1a is that some interests are unloading longs on strength when selling is easiest and least detectable. But support forms on the next day and prices move higher to point #2. Notice the shortening of the thrust on the rally above #1 where I had drawn another minor resistance line. The lack of upward progress in an overbought position within the channel warns prices will sell-off. The ensuing break falls below the top of 1a before finding support. At the time, I would not have known the significance of this low, but as the chart unfolded I considered support line C quite important (it is colored blue, the color of ice). The

market retests the high at point #3. (One aside: This chart is made from day session prices only. I believe the Dec oil contract may have made a slight new high in the night session at point #3, but it is not considered.) Although the market may be near the top of the channel, the firm close at #3 puts the bulls in the driver's seat. The opportunity is lost, however, as the market fails to follow through and price retreats toward line C. At point #4, the support line is penetrated. But there is no follow through on the downside and the market bobs back up above line C. At point #5, however, the market rallies and reverses to close on a weak note. The attempt to rally above the ice at C is failing. The downward thrust shortens on the next sell-off setting up another attempt to rally above line C. At point #6 we again see a weak close reflecting the presence of selling. The selling began at 1a and continued thru #6. Two days later there is another attempt to rally and the market does not give any ground. The action at #7 was most critical. Although it is not drawn, prices had moved into a minor apex at #7. Here the market tried to rally and again closed on the low; however, this is an inside day. If this inside day was merely a correction before another rally, then the market must show an ability to rally vigorously now. Instead, it moved lower with ease and closed weakly. At point #8, buying emerged at lower levels thus suggesting a potential spring from below support line D. But, in a downtrend, there are numerous failed springs like this. Now the market has weakened further. It is approaching an important axis line. I call it an axis line because it has alternately served as resistance and support. It is possible soybean oil will try to hold and rally from line B. I would then watch the action along line D. If something larger unfolds, line C could come into play again. I hope that you can follow my logical reading of price range, position of close and the interaction of price with lines. David Weis 9/19/02