One week ago, I published [a piece](#) in which I showed how large funds (also considered to be "dumb money") had accumulated a massive bullish position in crude oil, which increases the risk of a major liquidation sell-off. Little did I expect that the sell-off would begin within days of publishing this warning! In that piece, I also showed how West Texas Intermediate (WTI) crude oil was climbing within a channel pattern and that a breakdown from this channel would give a bearish signal. Sure enough, WTI crude broke down from this pattern, which increases the probability that it will attempt to gun for the next uptrend line that started in July.

Source: Finviz.com The long-term WTI crude oil chart shows just how extreme the positioning of the "dumb money" and "smart money" (commercial hedgers) is. The "smart money" have a short position of approximately 700,000 net futures contracts, which is an even larger position than they had before the 2014 oil crash. If crude oil's breakdown continues, the $40 per barrel long-term support level should be watched as a likely price target.

Source: Finviz.com Brent crude oil experienced a channel breakdown today that is very similar to the breakdown in WTI crude oil.

Source: Finviz.com The 13 percent drop in the U.S. dollar over the past year has been one of the major drivers of the crude oil rally (the dollar and crude oil trade inversely). The ?smart money? has been bullish on the dollar despite its weakness, which means that a rebound is likely in the not-toodistant future. A rebounding U.S. dollar would likely cause a correction in crude oil.

Source: Finviz.com The euro is also worth watching, and is positively correlated with crude oil and inversely correlated with the U.S. dollar. The ?smart money? has been building a sizable bearish position in the euro, which increases the chances of a correction in crude oil and the euro, and a rebound in the U.S. dollar.

Source: Finviz.com This week's technical breakdown in crude oil is quite concerning, especially when combined with the sharp stock market rout. Risk assets are starting to price-in tighter monetary policy and are reacting violently. If the breakdown in crude oil continues, it will drag energy stocks even lower, which would put even further pressure on the overall stock market. Even more worrisome is the fact that U.S. GDP and earnings growth over the last two years has been largely driven by the rebounding energy sector, as Lance and I have been saying. Stay tuned for more updates.