Last week, I wrote a piece in which I warned about the risk of a sharp liquidation sell-off in the crude oil market as speculators are forced to jettison their massive 500,000 futures contract long position. Since then, crude oil continues to sell off very hard and was down nearly 8% on Tuesday alone. Crude oil is an economically sensitive asset and may be selling off as it prices in the rising risk of a recession in the not-too-distant future.

West Texas Intermediate (WTI) crude oil broke below its key $65 support level at the start of this month and tested the $55 support level during Tuesday's sell-off. There is a good chance of a short-term bounce at the $55 level. If WTI crude oil eventually closes below the $55 support level in a decisive manner, it would likely foreshadow further weakness.

The weekly chart shows how WTI crude oil recently broke below its uptrend line that started in early-2016 (just like the S&P 500 did), which is a worrisome sign.

As I?ve been pointing out since the start of this year, crude oil futures speculators or the ?dumb money? (the red line under the chart) have built a massive long position in WTI crude oil of just under 500,000 net futures contracts. There is a very real risk that these speculators will be forced to liquidate if the sell-off continues, which would greatly exacerbate the sell-off.

After going sideways for five months, the U.S. dollar has recently resumed its rally that started in the spring. On Monday, the U.S. Dollar Index broke above its key 97 resistance level that formed at the index's peak in August. If the index manages to stay above this level, it may signal even more strength ahead. The dollar is strengthening because U.S. interest rates have been rising for the past couple years, which makes the U.S. currency more attractive relative to foreign currencies. The U.S. Dollar Index is very important to watch due to its significant influence on other markets, particularly commodities and emerging market equities. Bullish moves in the U.S. dollar are typically bearish for commodities (including energy and metals) and emerging markets, and vice versa. If the U.S. Dollar Index continues to rise after Monday's breakout, it would spell even more pain for commodities and EMs.

For now, I am watching how WTI crude oil acts at its key $55 support level and if the U.S. dollar's Monday breakout holds. **If you have any questions about anything I wrote in this piece or would like to learn how Clarity Financial can help you preserve and grow your wealth, please contact me here.**