

Commodity channel index

Since its introduction, the indicator has grown in popularity and is now a very common tool for traders in identifying cyclical trends not only in commodities, but also equities and currencies. The CCI can be adjusted to the timeframe of the market traded on by changing the averaging period.

Traders and investors use the commodity channel index to help identify price reversals, price extremes and trend strength. As with most indicators, the CCI should be used in conjunction with other aspects of technical analysis. CCI fits into the momentum category of oscillators. In addition to momentum, volume indicators and the price chart may also influence a technical assessment. It is often used for detecting divergences from price trends as an overbought/oversold indicator, and to draw patterns on it and trade according to those patterns. In this respect, it is similar to [Bollinger bands](#), but is presented as an indicator rather than as overbought/oversold levels.

The CCI typically oscillates above and below a zero line. Normal oscillations will occur within the range of +100 and -100. Readings above +100 imply an overbought condition, while readings below -100 imply an oversold condition. As with other overbought/oversold indicators, this means that there is a large probability that the price will correct to more representative levels.

The CCI has seen substantial growth in popularity amongst technical investors; today's traders often use the indicator to determine cyclical trends in not only commodities, but also equities and currencies.^[2]

The CCI, when used in conjunction with other oscillators, can be a valuable tool to identify potential peaks and valleys in the asset's price, and thus provide investors with reasonable evidence to estimate changes in the direction of price movement of the asset.^[2]

Trading guidelines for the CCI focus on movements above +100 and below -100 to generate buy and sell signals. Because about 70 to 80 percent of the CCI values are between +100 and -100, a buy or sell signal will be in force only 20 to 30 percent of the time. When the CCI moves above +100, a security is considered to be entering into a strong uptrend and a buy signal is given. The position should be closed when the CCI moves back below +100. When the CCI moves below -100, the security is considered to be in a strong downtrend and a sell signal is given. The position should be closed when the CCI moves back above -100.

Many traders have also found the CCI valuable for identifying reversals. The CCI is a versatile indicator capable of producing a wide array of buy and sell signals.

- CCI can be used to identify overbought and oversold levels. A security would be deemed oversold when the CCI dips below -100 and overbought when it exceeds +100. From oversold levels, a buy signal might be given when the CCI moves back above -100. From overbought levels, a sell signal might be given when the CCI moved back below +100.
- As with most oscillators, divergences can also be applied to increase the robustness of signals. A positive divergence below -100 would increase the robustness of a signal based on a move back above -100. A negative divergence above +100 would increase the robustness of a signal based on a move back below +100.
- Trend line breaks can be used to generate signals. Trend lines can be drawn connecting the peaks and troughs. From oversold levels, an advance above -100 and trend line breakout could be considered bullish. From overbought levels, a decline below +100 and a trend line break could be considered bearish.
- Many analysts believe the **CCI Average crossing above or below zero identifies** market conditions before the Overbought and oversold lines are crossed. This is how I have my settings.
- @NYDOUGH_PRO settings: Before my new indicators, I use to have to adjust my oversold setting on the TS platform to 0.00 in order to create the view I wanted. By default this eliminates the oversold line on my plot lines as there is no other lines that are able to be formatted. Your Platforms may provide diff capabilities. Regardless, the Zero line has turned out to be a valuable indicator for me. However, you may decide that for the market you are evaluating, a -125 indicates taking a short position while a +150 indicates taking a long position and not making any adjustments.
- **Exhibit A**: is a standard screenshot of the CCI and its plots which my trading platform offers. This is most likely what you will get on your platform. The Oversold Green Line in the plot grid is the one I changed the pot settings to 0.
- **Exhibit B**: is a screenshot of my 30 min screen from 3/2/2018 The CCI is the subgraph below the NFLX chart. As you can see I plotted the 0.00 line in white dotted style line for illustration purposes. Below that is a custom indicator that blends CCI RSI STOCH etc....

- Notice the white dotted vertical line and how each of the 0.00 lines were violated when NFLX broke up today right around Noon Time.

Exhibit A:



Plot Information

Number	Name	Default Color	Description
Plot1	CCI	Yellow	Plots the CCI as a line.
Plot2	CCIAvg	Red	Plots the average of the CCI as a line.
Plot3	OverBot	Dark Green	Plots the overbought reference line. Setting is +100
Plot4	OverSld	Dark Green	Plots the oversold reference line. Setting is -100

Exhibit B:



Hope this helps you on your charting.
Definitions and illustrations courtesy of TS and Wikipedia

Thank You

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