Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

April 2024

Commodities

Increasing performance

Key Points:

- **S&P Commodity Index GTX breaks out after months of consolidation**
- **Deflationary assets dominate inflationary assets for 18 months**
- **The Livestock sector jumps to the top in 90-day performance**
- **WTI continues to rebound off base**
- **Still now love for Natural gas prices**
- **Gasoline prices move closer to $2.90 target**
- **The pullback in Gold prices starts in early Q2**
- **Silver prices head to the top of the range**
- **Possible floor Industrial metals index at 400**
- **Copper prices breakout as China's industrial output comes alive**
- **Too fast, too far for the S&P Livestock Index**
- **The US dollar finds a steady companion in the 10-year T-bond yields**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	7.25%	4.49%	**915.82%**
S&P 500	3.64%	10.16%	425.44%

The 19-yr average for the TS Model Portfolio – 11.79%
The 19-yr average for the S&P 500 – 8.31%

TS Model Income Portfolio – 7.89% average div. yield

GTX: Breakout on inflation data

Outlook Neutral/positive: The S&P GSCI Commodity Index (GTX) trend has received a bounce with the latest rise in inflationary data. On several metrics, the inflation print caught traders and economists slightly off balance. CPI MoM (+0.3%), Core CPI MoM (+0.4%), CPI YoY (+3.1%) and Core CPI YoY (+3.9%) were all above analysts' estimates. This unexpected action broke the Commodity Index (GTX) out and turned the US 10-year T-bond yields.

The close trading correlation between the GTX and the US 10-year yields provides some guidance to the direction of commodity prices. With inflationary pressures remaining stubbornly high, T-bond yields and commodities will remain with a tailwind. The GTX moved through the resistance level of 3560 with ease (**Chart 1**). Buying momentum (RSI) is positive (confirming additional upward strength). There is an expanding positive 'Green Cloud' forming into Q2.

Chart 1

The benchmark US 10yy also turned up with the hot inflation data. Yields jumped from 4.10% to 4.30%.

The Fed may be done with the monetary tightening, but with the latest inflation print being higher than expected, this adds fuel to the Fed to hold rates firm going into Q2.

The long-term view shows a steadily rise throughout 2024. A retest of the 2022 high of 4319.55 is expected this year. Long-term buying momentum (RSI) is positive (confirming additional upward strength) (**Chart 1a**).

Chart 1a

Martin Pring has a very good model regarding the turning points of assets within a business cycle (**Chart 1b**). At this junction, the business cycle is in the 3rd stage. Commodities should be now joining the party along with stocks and bond prices. This diagram tells us that we should expect to see continued strength from natural resources for the rest of the bull market.

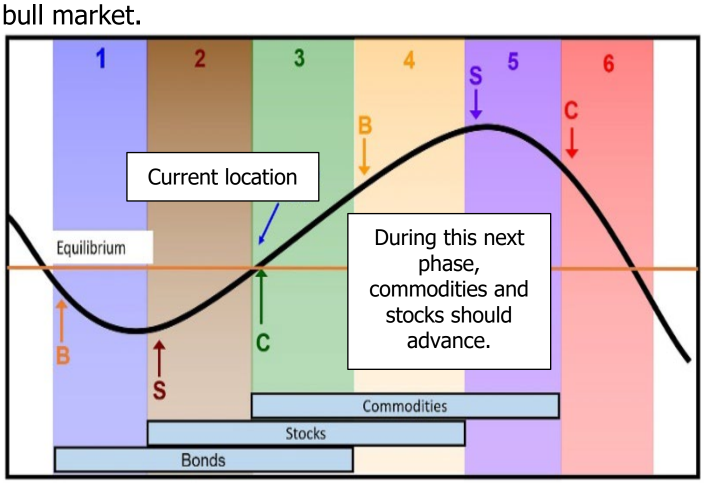

Chart 1b

What does it mean? The unexpected inflation bump has aided both the S&P Commodity Index and the US 10-yields. This jump in inflation numbers proves how challenging it is to control inflation and predict the short-term outlook.

The 1st target is at 3,890 followed by 4,200. Inflationary pressures are still remaining. This is good for the GTX. We suggest Invesco DB Commodity Index Tracking Fund (**DBC**). The target is $23.80.

Deflation vs. Inflation: Deflation wins

Outlook Negative: The 5-year performance between deflationary assets and inflationary assets shows a sharp advance in performance for deflationary assets over inflationary assets (commodities) (**Chart 2**).

Chart 2

What does it mean? A continually stronger-performing deflationary equity market is normally more bullish for the stock market than an inflationary-driven market. We expect this trend to continue into Q2. However, as inflationary pressure is expected to continue in 2024, we anticipate a more even performance between the two asset groups.

Commodity performance: Livestock

Outlook: Neutral: Three commodity groups posted a positive return over the last 90 days, both metals and livestock. Agriculture and energy other posted steep declines. The other natural resource all had negative returns. Note the retracement of the US dollar and the strength of precious metals (**Chart 3 on page 3**).

What does it mean? The performance of the commodity groups are evenly balanced. This matches the consolidation that the GTX has been holding to since Q4. We expect a broadening of commodity participation moving forward.

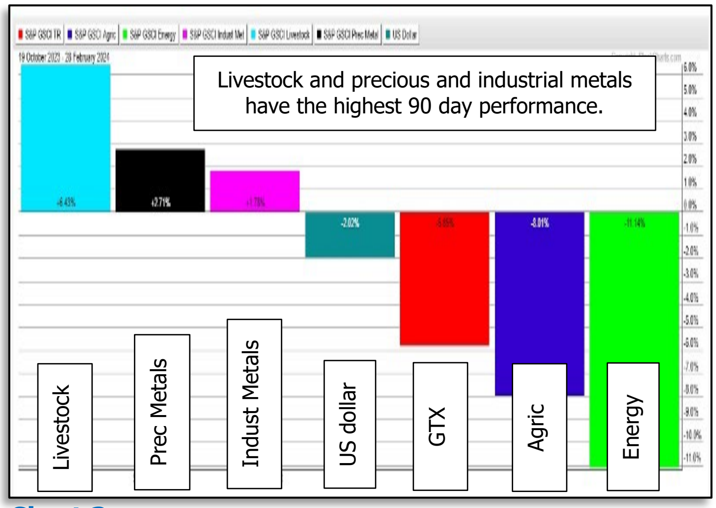

Chart 3

WTIC: More consolidation

<u>Outlook: Neutral/positive</u>: Robust US demand and a bullish global consumption outlook for 2024 is adding to trader's optimism about WTI prices. The latest EIA data showed that US inventories fell by 1.536 million barrels in mid-March, far greater than expectations. At the same time, geopolitical tensions in the Middle East and the decision by OPEC+ to extend the supply cuts, adding additional upward pressure.

The 1yr trend is flat. WTI is above the key 50-week m/a. Buying momentum (RSI) is neutral (not confirming additional upward strength). A thin positive 'Green Cloud' is forming in Q2. This action is unlikely to have too much of an impact on WTI prices. Currently rebounding off price support is at $70.00 (**Chart 4**). 1st price resistance and targets are at $88.75 followed by $96.20.

Chart 4

<u>What does it mean?</u> The balance of supply and demand is shifting to greater demand. With the turmoil in the Middle East, OPEC+ supply cuts ad consumption, oil prices are slowly rising.

<u>We suggest adding to the position now. Only a moderate advance should be expected.</u> Our favourite stocks at this junction are Canadian Natural Resources (**CNQ**), Imperial Oil (**IMO**), Suncor Energy (**SU**), TechnipFMC Plc (**FTI**), SM Energy Co. (**SM**) and Sintana Energy Inc (**SEI.V**).

Natural gas: Breaking key support

<u>Outlook: Negative</u>: The EIA expects natural gas production in the US to decline slightly for the rest of the year. Gas storage levels in the US are still 37% higher than the average for this time of year.

The 1yr trend is down. Natural gas prices plunged through the support level of $2.00 in February now heading to the next lower support line of $1.52. Still under a massive expanding negative 'Red Cloud'. Buying momentum (RSI) is negative (not confirming additional upward strength). Well below the declining 50-week m/a. Price resistance is at $2.00 (**Chart 5**). There is some price support at $1.44.

Chart 5

Forecasting models suggest that natural gas prices will stall over the next few months and trade around $1.90/MMBtu in Q2.

<u>What does it mean?</u> Abundant supply plus warmer winter weather limits demand. Natural gas prices are expected to remain around current levels. <u>The target has dropped to $1.90 MMBtu</u>. NatGas companies of interest are Chesapeake Energy (**CHK**) and Superior Plus Corp. (**SPB**).