Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

April 2018

Commodities

The long view

KEY POINTS:

- **Mild upward movement for the CRB in Q2**
- **US$ weakness helps commodities lift**
- **Deflation/inflation pressures remain equal**
- **Energy: top performer over six months**
- **WTIC seen probable to reach $72.50, but unlikely further**
- **Long-term natural-gas trend remains down**
- **Gold still below price barrier of $1,370**
- **Silver price remains locked**
- **Industrial-metals upward trend continues**
- **U.S. Dollar Index points to lower levels**

CRB outlook: Impact of the U.S. dollar

The impact of the U.S. dollar is often missed, in our experience, when analyzing the trading direction of commodities. The results from traditional fundamentals (supply and demand) can be murky and subject to considerable interpolation. We feel that the US$-to-commodity index provides more clarity.

At present, the dollar is feeling headwinds from increased competition and unfavourable domestic developments. However, this does not change the narrative for 2018.

Models do suggest some additional strength for the commodities market in the 2nd quarter (Q2), as the big dollar tries to find its footing. Look for the Commodity Research Bureau (CRB) Index to have an upside movement to 202, with the potential – depending on the weakness of the US$ – to advance to 204 (**Chart 1**).

Chart 1

Deflation/inflation: Equal pressure

Martin Pring's index measuring inflationary and deflationary sectors shows that the two industry groups have continued to display relatively equal pressure and performance since early in 2016.

This balance of sectors runs parallel with the rise and fall of the U.S. dollar. The 2017 weakness of the dollar created equal pressure from deflationary and inflationary assets. We expect that this balance will continue into mid-year (**Chart 2** on page 2).

Commodity performance: Energy

The S&P industrial metals sector had the best performance over the last six months (180 days), followed by the S&P energy sector. The rebounding strength in oil prices is the reason for energy's current uptick. Strength in the industrial-metals group is a reflection of a growing economy. Note that the US$ is at the bottom in performance ranking. This