Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

August 2020 17th Year

Commodities

Limited rebound for most

KEY POINTS:

- **Only limited rebound for S&P GSCI Commodity Index**
- **The short-term dominance of inflationary assets over deflationary assets is waning**
- **Precious metals again have the best 90-day performance over all commodities groups**
- **Light crude oil's bounce reaches a peak**
- **Natural-gas prices stabilize between $1.50 and $2.00**
- **Gold's rally takes a pause**
- **Finally, silver prices break out**
- **The downward trend for industrial metals prices is still in effect**
- **Are copper prices starting to break out?**
- **Short-term price weakness continues for the U.S. dollar**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	5.34%	6.22%	**621.17%**
S&P 500	5.14%	1.25%	227.11%

17-year average for the TS Model Portfolio: 12.23%
17-year average for the S&P 500: 7.16%

https://www.technicalspeculator.com/services/ts-model-growth-portfolios 9.99% average dividend yield

S&P GSCI outlook: Minor rebound

Outlook negative: The S&P GSCI Commodity Index is staging a limited rebound after falling to a new 20-year low in March. The index is still well below the declining 50-week moving average (m/a) (a negative sign), and buying momentum (Relative Strength Index [RSI]) is also still negative. The main drivers for this measured advance are the precious metals and industrial metals sectors. Solid price resistance at 1800 should hold the index (**Chart 1**). Any additional upside movement at this juncture appears remote.

Curve-fitting (five-year) models illustrate no upside potential for the rest of 2020. Models forecast a downward drift and a year-end target of 1550 (**Chart 1a**).

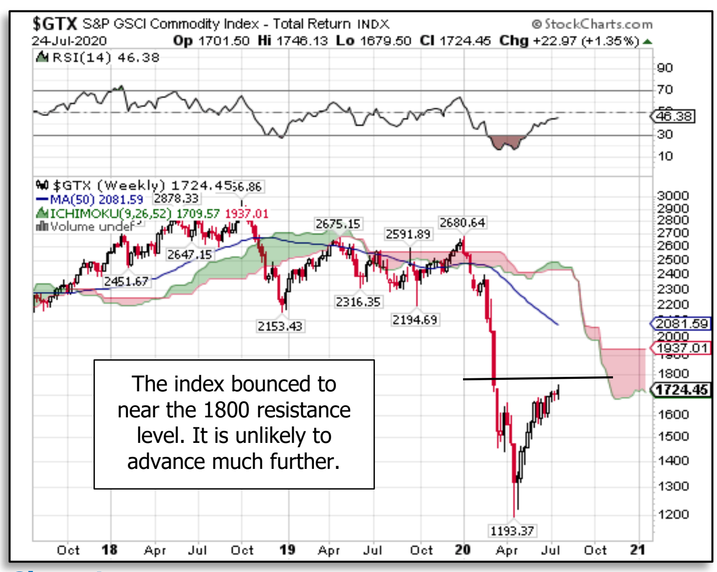


Chart 1

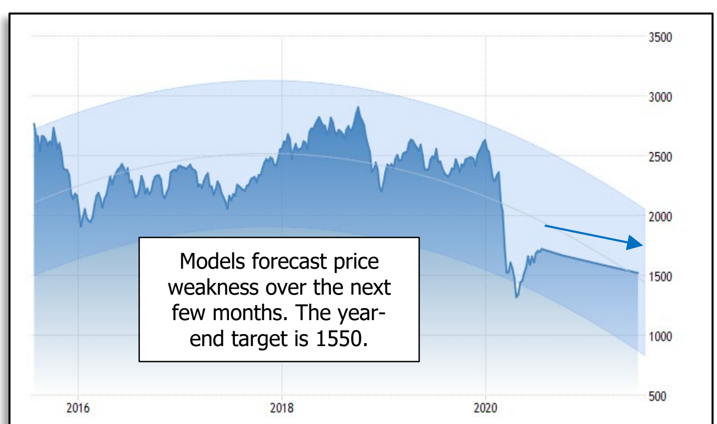


Chart 1a

The longer-term (12-year) view of the index shows a steady decline since 2011, with lower highs and lower lows. There is no evidence of a trend reversal (**Chart 1b**).

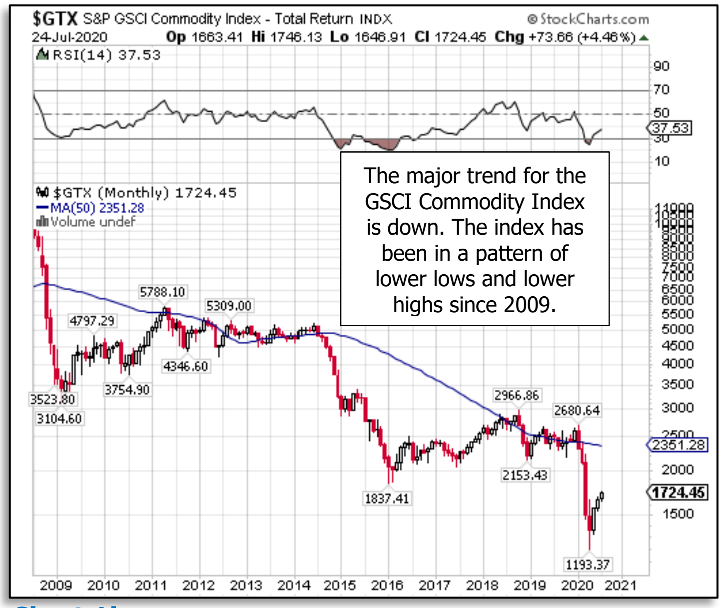


Chart 1b

<u>Bottom line</u>: The GSCI index appears to have little or no upside potential this year. Only the precious metals sector is showing some upside potential. Reduce position size.

Deflation vs. inflation

Inflationary assets (commodities) and deflationary assets (stocks) have near-equal performance (**Chart 2**). We expect that deflationary assets will continue to regain higher performance over the next few months, as in 2017 to 2019.

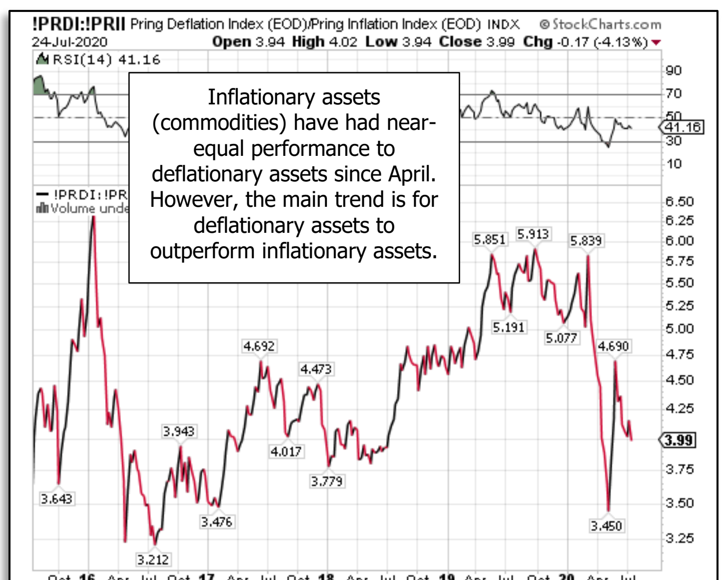


Chart 2

Relative performance: GSCI vs. S&P

The S&P GSCI Commodity Index continues to underperform against the S&P 500. That has been particularly evident since mid-2018. The S&P GSCI is down by more than 35% over the last 90 days. There are no indications of this pattern reversing to favour commodities over the S&P 500 (**Chart 3**).

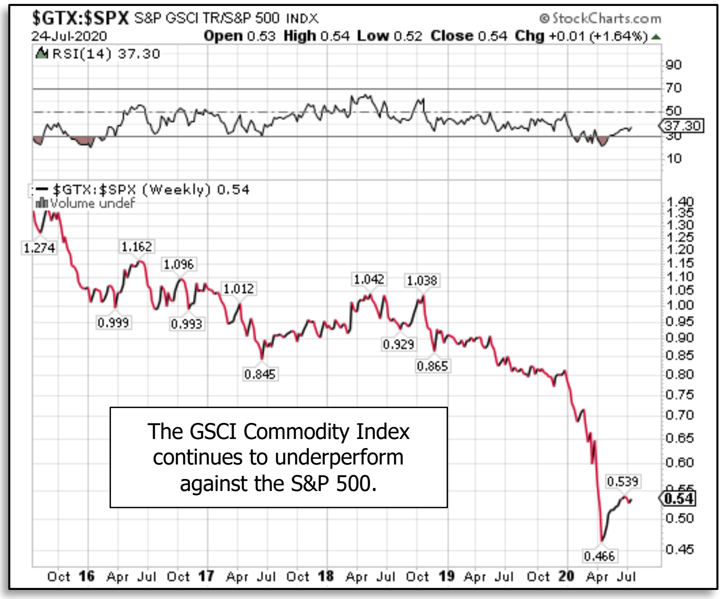
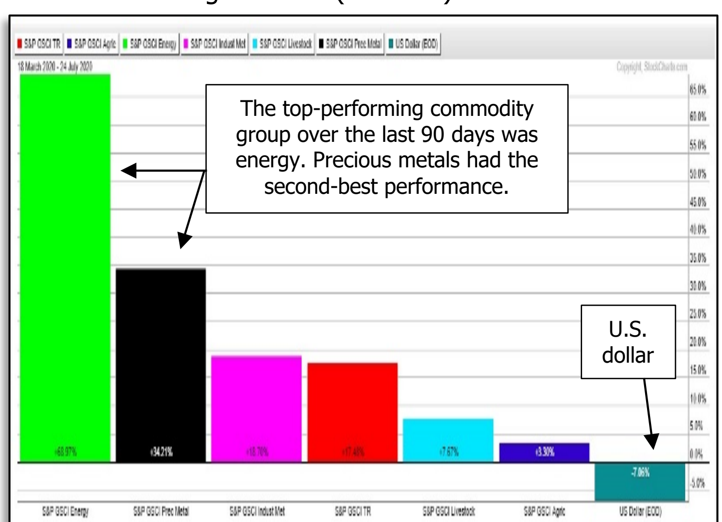


Chart 3

Commodity performance: Energy

The S&P GSCI Energy Sector Index ($GJX) had the top performance over the last 90 days. The GSCI Precious Metals Index ($GYX) had the second-best performance. Note the relative price strength of the U.S. dollar. Performance strength in commodities is largely due to price weakness in the greenback (**Chart 4**).



Chart