Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

August 2023

Commodities

Price weakness remains, expect for one

Key Points:

- **S&P Commodity Index GTX continues to sag**
- **Deflationary assets and inflationary assets are equal in performance**
- **Precious Metals sector tops the 90-day performance**
- **Limited WTI bounce with $83 cap**
- **Possible bottom developing for Natural gas**
- **Gasoline prices still below the 50-week m/a**
- **Gold shows possible bounce in Q4**
- **Price peak for silver at $26.00**
- **Industrial metals index continues to weaken**
- **Copper prices find a possible floor but the outlook in Q3 is flat**
- **Ongoing upward trend continues for livestock**
- **US dollar breaks par, points to 0.98**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	13.21%	13.38%	**881.54%**
S&P 500	3.00%	19.52%	358.90%

The 19-yr average for the TS Model Portfolio – 12.02%
The 19-yr average for the S&P 500 – 7.88%

TS Model Income Portfolio – 9.56% average div. yield

GTX: Adding to the headwinds

Outlook negative: The S&P GSCI Commodity Index (GTX) is continuing to trend downward as Q3 unfolds. Last month we highlighted the main reasons. The global outlook for commodities remains weak with subdued demand and persistent looming recession. Interest rates remain high. Doubts on a Chinese economic recovery. Q2 GDP growth came in below estimates at only 6.3% yoy and WTI holds around $75 as world consumption remains depressed. Not a lot of positives. Adding to this mix is the expected near-term peak in interest rates and its effect on bond yields. Adding more headwinds to natural resource prices, US bond yields are anticipated to continue easing in Q3 with a late Q3 target of 3.25%. Bond yields and commodities have a positive relationship in an inflationary environment, such as now (**Chart 1**).

Chart 1

The S&P GSCI Commodity Index (**GTX**) still remains in a downward trading pattern. The index is below the 50-week moving average and buying momentum is neutral (not confirming additional upward strength). All these elements point to additional flat-to-down trend. The negative 'Red Cloud' is expanding in Q3. This only adds to the pessimistic outlook. First price support for the GTX is at 2,930.

5-year forecasting models suggest that the current downward trend will remain in place in Q3 and likely hold into Q4. Models point to around 3,340 as the expected late Q3 target (**Chart 1a**)

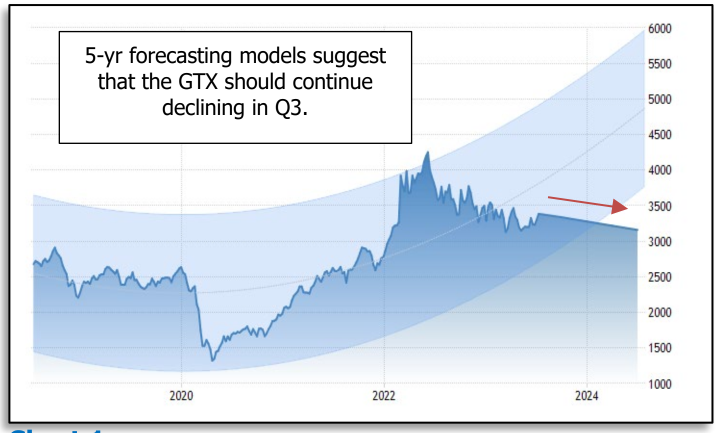

Chart 1a

<u>What does it mean?</u> The downward trend is expected to persist over the next few months. Global demand for natural resources remains frail. Look for 3,340 as the first target. <u>Remain on the sidelines.</u>

Deflation vs Inflation: Equal strength

<u>Outlook neutral</u>: The 3-year view between inflationary assets and deflationary assets shows an equal performance since mid-2022. Any decline in the index below 455 would imply that inflationary assets are starting to outperform deflationary assets (**Chart 2**).

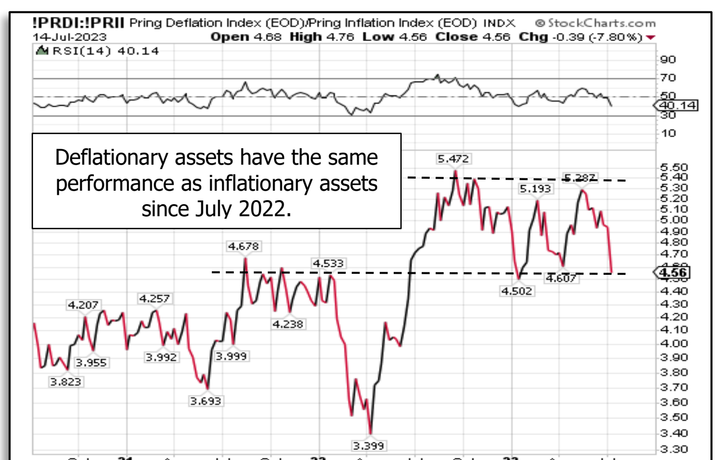

Chart 2

Commodity performance: Prec Metals

The S&P GSCI Precious Metals Index had the highest 90 day performance. Now up over 11% during the last three months. Precious metals and Livestock are typically late market cycle sectors (**Chart 3**).

<u>What does it mean?</u> As we said last month, we expect continued leadership from these two sectors into Q3 and ongoing weakness from the S&P Commodity Index (GTX).

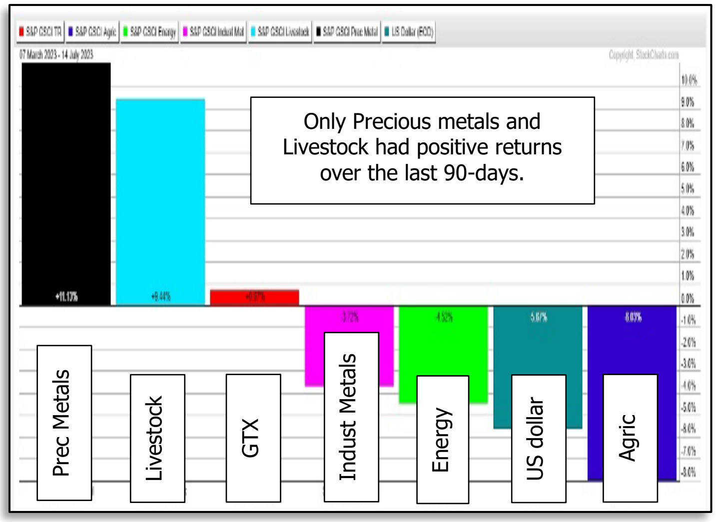

Chart 3

WTIC: Price weakness continues

<u>Outlook: negative</u>: Weaker-than-expected Chinese economic growth raised concerns about demand in the world's second-biggest oil consumer (**Chart 4**).

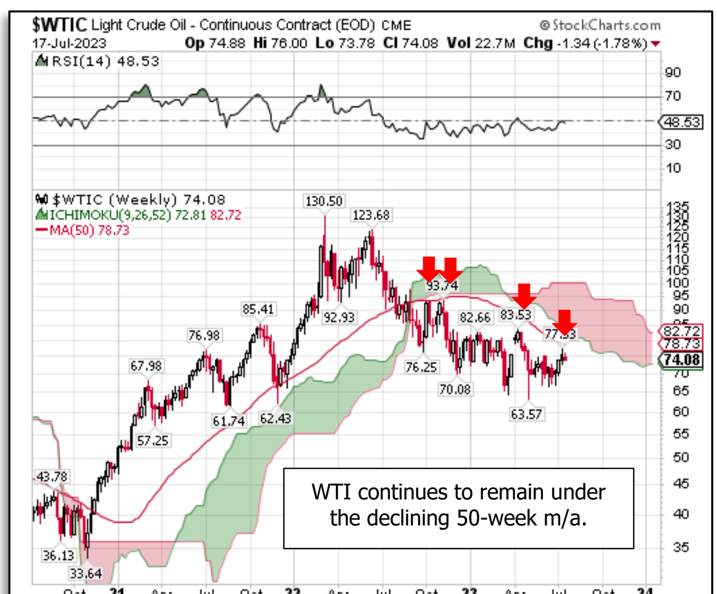

Chart 4

In addition, two of the three Libyan oil fields, which were shut down, are now resuming production bringing a total of 370,000 barrels per day back to the market. Meanwhile, Russian oil exports are set to decline by 100,000-200,000 bpd in September.

Light crude oil prices continue to drift downward. Prices appear to be finding some support around $67.00-$70.00 per barrel. Remaining above the key 50-week m/a. Possible breakout developing. Buying momentum (RSI) is positive (confirming additional upward strength). An expanding negative 'Red Cloud' in Q3 and early Q4 only adds to the pessimistic view of WTI.

Five-year forecast models suggest that WTI is likely in a bottoming process with $70.00 as the floor. The projected target by early Q4 is $83.50 (**Chart 4a**).

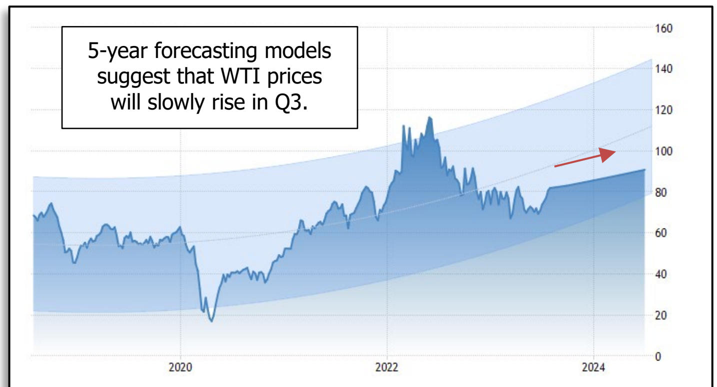

Chart 4a

<u>**What does it mean?**</u> World demand is slowly increasing however so are supply and inventory levels. This combination is expected to be neutral for oil prices. One crosses out the other. The price of WTI is expected to remain between $74 and $83 for the next few months.

<u>We suggest adding to the position now. Moderate advance should be expected.</u>

Natural gas: Possible bottom

<u>**Outlook: negative**</u>**:** Natural gas prices fell to $2.5/MMBtu in late July. This followed declines in maintenance work limiting the gas flow to LNG export plants. Gas flowing to LNG export plants are still will below record levels. Gas output has been on the rise over the last two months and is set to top the monthly record of 102.0 bcfd in July. Weather patterns in early August are expected to be above normal, which will drive up the usage of natural gas for cooling purposes.

NatGas prices appear to have finally found a floor between $2.00 and $3.00. The price has held that zone for 7 months. The commodity is well under the 50-week m/a. Buying momentum (RSI) is negative (not confirming upward strength) (**Chart 5**).

Five-year forecasting models suggest that natural gas prices will firm-up very slightly over the next few months and trade around $2.65/MMBtu by late Q3 (**Chart 5a**).

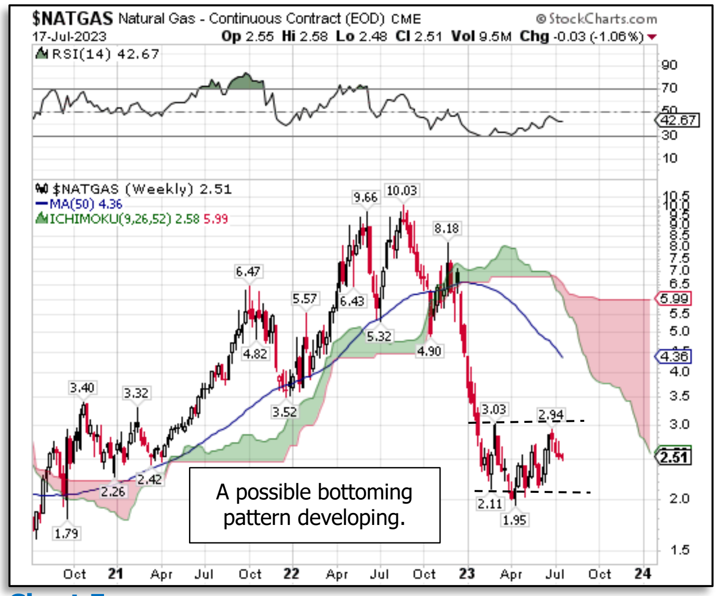

Chart 5

<u>**What does it mean?**</u> A slight decrease in supply plus the rise in demand (thanks to warmer weather) has kept Natural Gas prices stable. <u>Continue to avoid. Wait until NatGas prices break above $3.00. The target has been lowered, to $2.65 MMBtu.</u>

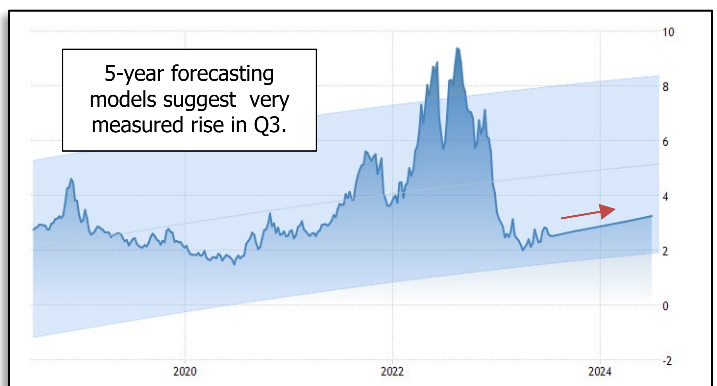

Chart 5a

Gasoline: At the 50w m/a

<u>**Outlook: neutral/negative:**</u> Gasoline stocks in the US increased by 1.004 million barrels in mid-July. The 6th increase in the last 7 months. Stocks typically increase at