Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

September 2022

Commodities

Global recession fears mount

Key Points:

- **GTX continues to track US 10y T-bond yields**
- **Deflationary assets take the lead in performance as commodities stall**
- **Upward performance from the US dollar stifles commodities over the last 90-days**
- **WTI's upward trend stalls**
- **Demand for natural gas continues to build as a heatwave and geopolitical issues remain**
- **Gasoline prices upward trend weakens**
- **Early signs of inflation peak aid gold prices**
- **Silver prices continue to sag**
- **Industrial metals index continues to trend lower on recession fears**
- **Price weakness remains for copper prices**
- **Ag index finds temporary support, concerns remain**
- **US dollar index continues upward trend**

	Since Last Month	Year to Date	Since Inception mid-2003
TS Model Portfolio	-1.23%	-15.36%	**771.06%**
S&P 500	-4.24%	-17.02%	295.50%

The 19-yr average for the TS Model Portfolio – 11.93%
The 19-yr average for the S&P 500 – 7.42%

TS Model Income Portfolio – 7.97% average div. yield

GTX: Staying with US yields

Outlook positive: The S&P GSCI Commodity Index (**GTX**) is stalling briefly as it continues to stay in close connection to the US 10-year T-bond yields.

The Fed's ongoing battle with inflation will keep driving T-bond yields higher over the next few months (**Chart 1**).

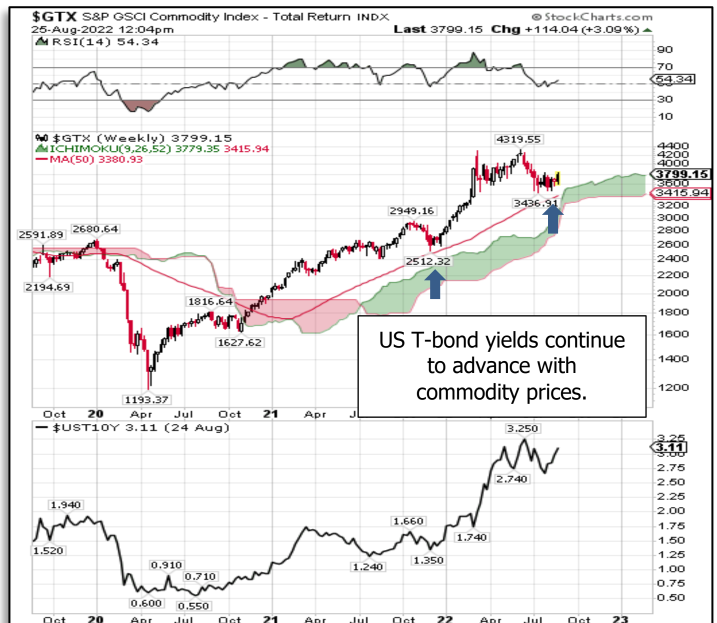

Chart 1

We have commented that US inflationary pressures are expected to ease by year-end (July Newsletter page 18 and August Newsletter page 17). This action should slow the Fed's rate increases and also slow the upward movement of the GTX.

Technically, the GTX is consolidating above the support level at 3,500. Buying momentum (RSI) is neutral indicating some price weakness over the next month or two.

Five-year forecast models suggest the GTX will remain under 4,000 in late Q3 and Q4 (**Chart 1a on page 2**).

What does it mean? The S&P GSCI Commodity Index has been riding the coattails with the ongoing rise in the U.S. T-bond yields. The upward trend for the GTX is

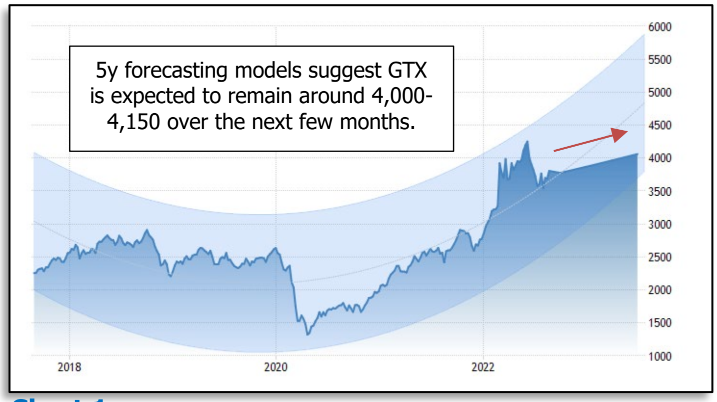

Chart 1a

expected to remain positive into Q4, but continue to show some short-term weakness or stalling along with the US 10-year T-bond yields. The Q4 target for the GTX is 4,000-4,150. Continue to hold.

Inflation vs deflation: Weakening

Outlook negative: Inflationary assets have had near equal performance against deflationary assets since Q2 2021, but with the soaring US dollar, the tide is changing.

The ongoing rise in the greenback has stopped the dominance of inflationary assets (commodities) over deflationary assets (**Chart 2**).

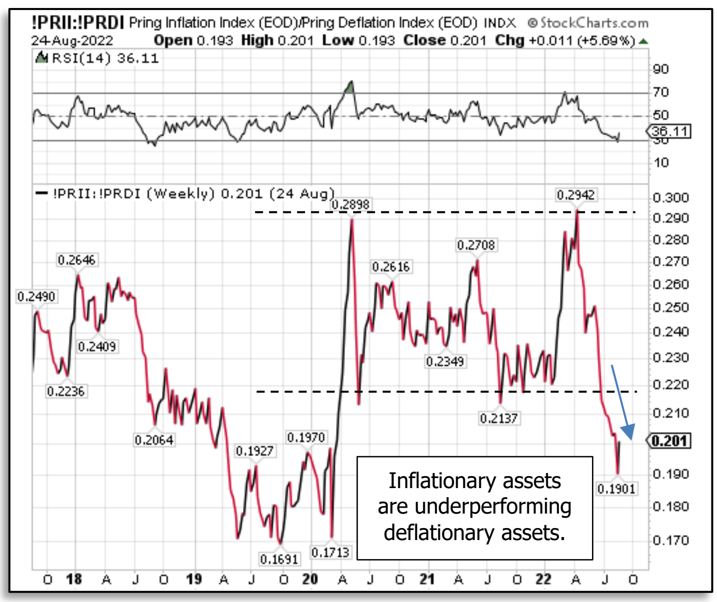

Chart 2

What does it mean? As we expect the US dollar to continue advancing (aided by the Fed's aggressive interest rate policy). The performance leadership should be continuing to shift to deflationary assets into Q4.

Commodity performance: $USD

The unyielding advance of the US dollar has halted the rise of all the commodity groups except the Livestock sector over the last 90 days. From precious metals to energy to industrial metals, all are down considerably (**Chart 3**).

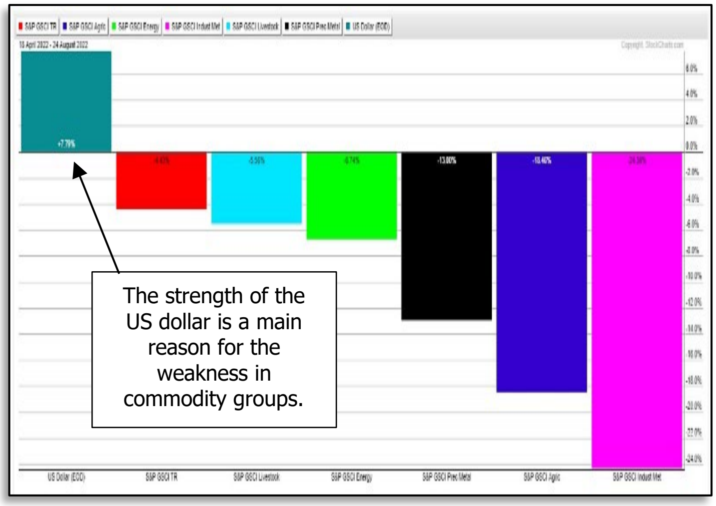

Chart 3

What does it mean? The Fed's aggressive interest rate policy is propping up the dollar and pushing natural resource prices lower. This pattern is expected to continue as long as US inflation is running hard and interest rates need to be advanced.

WTIC: Stalling in Q4

Outlook: neutral: Light crude oil prices recently hit February lows due to prolonged fears of a worldwide

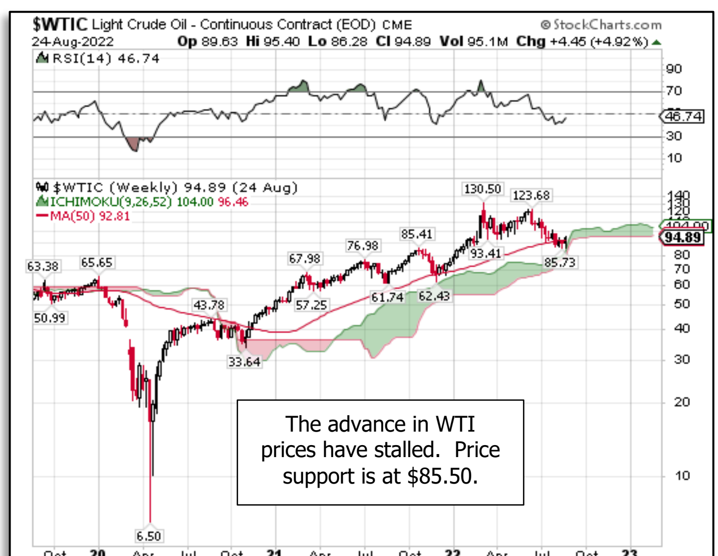

Chart 4

economic downturn. Industrial production from China (top oil importer) missed expectations pointing to a weak recovery from COVID lockdowns in Q2. OPEC's expectations of a decline in oil demand add to the negative outlook.

WTI is consolidating under the $125 level. Still holding to the key 50-week m/a. Buying momentum (RSI) is declining, now negative (not confirming additional upward strength) (**Chart 4 on page 2**).

Five-year forecast models suggest measured movement for WTI over the next few months. Models indicate that the price will remain around $100 in Q4. (**Chart 4a**).

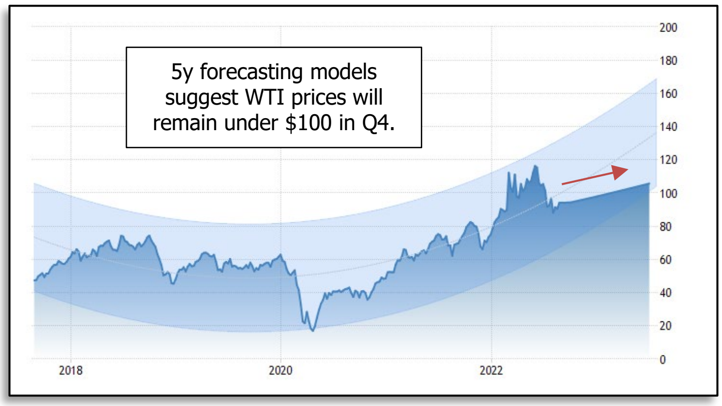

Chart 4a

<u>What does it mean?</u> Economic concerns still dominate oil prices. WTIC is expected to remain in a tight consolidation over the next few months. Any pullback or advance over the next few months should be minimal. <u>Continue to hold. $125 is still the target.</u>

Natural gas: Rebounding

<u>Outlook: positive</u>: Buoyed by strong overseas and domestic demand, US Natural Gas futures closed near their

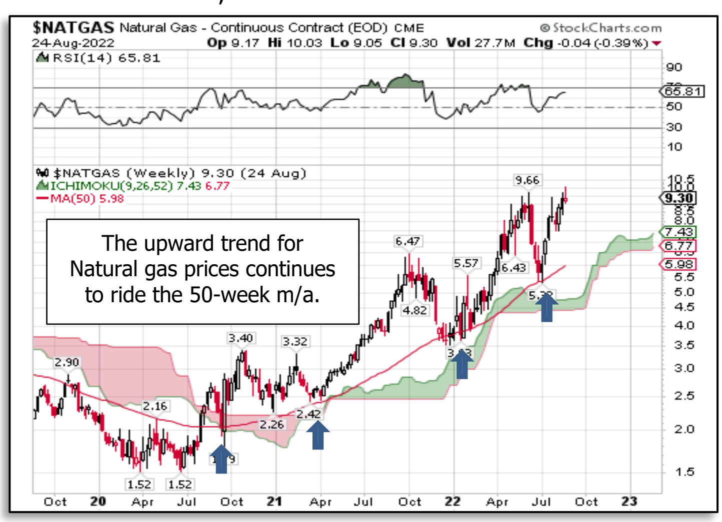

Chart 5

14-year high level in August. Severe heatwaves are boosting demand for air conditioners. Demand from Europe remains strong as the critical Nord Stream 1 pipeline from Russia to Germany is running at 20% capacity.

Natural gas is currently retesting the high of June ($9.66) and is expected to move to a new high in September. Still well above the rising 50-week m/a. Buying momentum (RSI) is positive (confirming upward strength). Two pluses going into Q4 (**Chart 5**).

Five-year forecasting models suggest that natural gas prices will advance in Q4 and trade between $9.50-$10.20/MMBtu (**Chart 5a**).

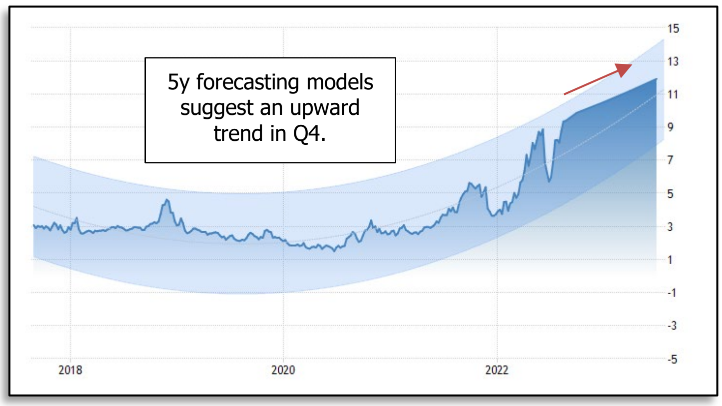

Chart 5a

<u>What does it mean?</u> The demand for natural gas is expected to remain well supported in Q4 as adverse weather temperature patterns and geopolitical demands are predicted to remain in place. <u>The first target is $10.20 MMBtu.</u>

Gasoline: Dip in price

<u>Outlook: neutral:</u> US gasoline futures dropped in August (along with oil) as investors worried about the potential recession-driven demand downturn. The latest EIA report showed that gas inventories rose in August. The US release of the Strategic Petroleum Reserve is expected to end this fall, which will likely push up prices again.

The price declined sharply on recession fears over the summer months. Buying momentum (RSI) is negative (not confirming additional buying pressure) (**Chart 6 on page 4**). Now on the first price support level at around $2.45. Breaking below the 50-week m/a.

Five-year forecasting models remain neutral and range-bound (**Chart 6a on page 4**) indicating that gasoline prices will remain near $3.25 in Q4.

<u>What does it mean?</u> Gasoline prices have had a steady advance over the last two years, but that movement appears to be in jeopardy. Models suggest the GASO will remain