Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

October 2022

Commodities

Advancing $USD pounds commodities

Key Points:

- **GTX continues to track US 10y T-bond yields, but rising $USD cuts into gains**
- **Deflationary assets take the lead in performance as commodities stall with $USD pressure**
- **WTI's upward trend stalls into Q4 staying under $90**
- **Demand for natural gas continues to build as geopolitical issues remain**
- **Gasoline prices follow oil's weakening trend**
- **$USD strength beats-up on gold prices**
- **Silver prices continue sag to new 2-year low**
- **Industrial metals index continues to trend lower on recession fears, demand lowers**
- **Price weakness remains for copper prices**
- **Ag index finds temporary support**
- **US dollar index continues upward trend with Fed's aggressive interest rate policy**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	-1.86%	-20.21%	**721.15%**
S&P 500	-8.63%	-24.77%	258.56%

The 19-yr average for the TS Model Portfolio – 11.53%
The 19-yr average for the S&P 500 – 6.84%

TS Model Income Portfolio – 7.66% average div. yield

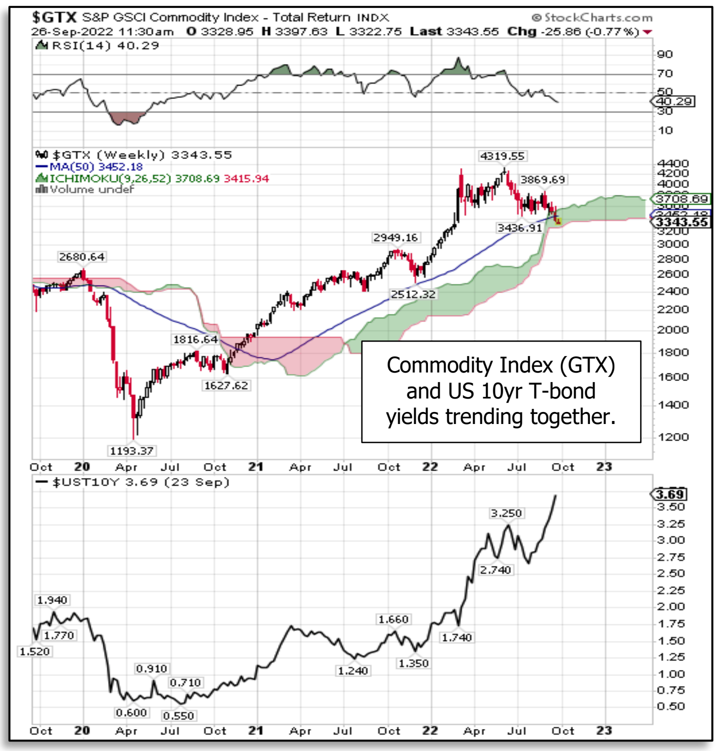

Chart 1

GTX: Still connected to US 10yy

Outlook neutral: The S&P GSCI Commodity Index (**GTX**) has stalled briefly in Q3. But the close correlation the commodity index has with the US 10-year T-bond yields suggest that moderate upward pressure will continue in Q4. The Fed's ongoing battle with inflation will keep driving T-bond yields higher over the next few months which will aid bond yields (**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 aggressive rate increases and also slow the upward movement of the GTX. The next rate hike after the September 21 meeting is on November 2 and then on December 14.

The other important factor in the movement of the GTX is the US dollar. At present, with the Fed's aggressive rate increase schedule, commodities are feeling downward pressure.

Buying momentum (RSI) is negative (not confirming additional upward strength) indicating additional price stalling over the next month or two.

Five-year forecast models suggest the GTX will remain under 3,900 in Q4 (**Chart 1a**).

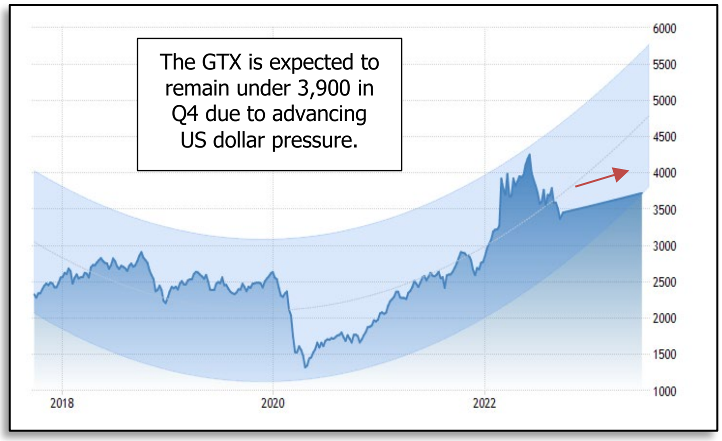

Chart 1a

<u>What does it mean?</u> The S&P GSCI Commodity Index has been trending with the ongoing rise in the U.S. 10 year T-bond yields. The upward trend for the GTX is expected to remain positive into Q4, but contained under 3,900.

The Q4 target for the GTX is around 3,900. <u>Continue to hold.</u>

Inflation vs deflation: Weakening

<u>Outlook negative</u>: Inflationary assets are under pressure as the US dollar continues to roar higher. The performance of inflationary assets continues to underperform against deflationary assets as the US dollar advances (**Chart 2**).

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

Commodity performance: $USD wins

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**).

<u>What does it mean?</u> The Fed's aggressive interest rate policy is pushing up the dollar and pushing natural resource prices lower. This pattern is expected to continue as long as

Chart 2

US inflation is running hard and interest rates need to be advanced.

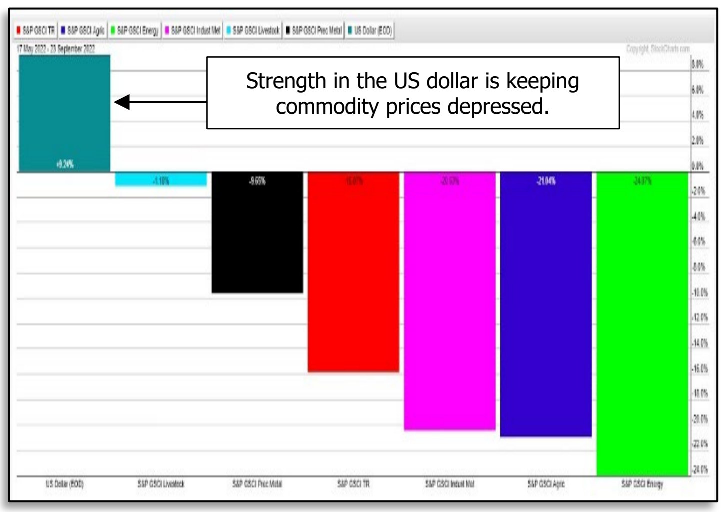

Chart 3

WTIC: Weakening trend in Q4

<u>Outlook: neutral/negative</u>: Investors continued to assess the outlook for global oil demand. EIA latest report pointed out that world oil consumption is forecasted to weaken in Q4, but sees demand picking up again in 2023. Growth expansion from China (top oil importer) missed expectations in Q3 pointing to a weak recovery from COVID lockdowns.

WTI continues to consolidate under the $100 level. Now below the key 50-week m/a. Buying momentum (RSI) is now negative (not confirming additional upward strength) (**Chart 4**).

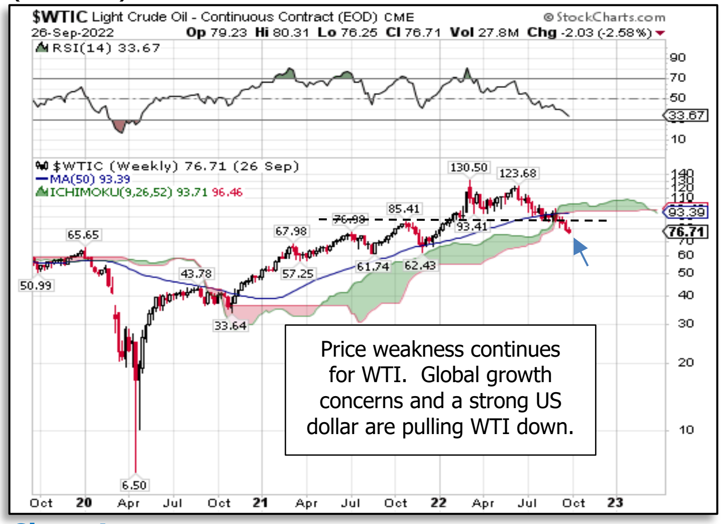

Chart 4

Five-year forecast models suggest measured movement for WTI over the next few months. The price of WTI is expected to remain around $85 to $90 in Q4 (**Chart 4a**).

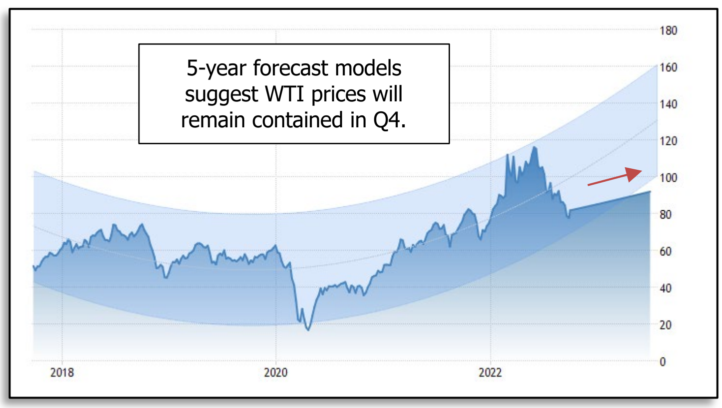

Chart 4a

<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. Lowering target to $90.</u>

Natural gas: Rebounding

<u>Outlook: positive</u>: Buoyed by strong overseas and domestic demand, US Natural Gas futures closed near their 14-year high level of $10.03/MMBtu in August. Potential US railroad strike could force generators to burn more gas than coal. Cooler weather in October expected to ease demand slightly. Demand from Europe remains strong as the critical Nord Stream 1 pipeline from Russia to Germany is running at 20% capacity.

Natural gas remains in strong upward trend. Still above the rising 50-week m/a. Buying momentum (RSI) is neutral (not confirming upward strength). (**Chart 5**).

Chart 5

Five-year forecasting models suggest that natural gas prices will advance in Q4 and trade between $9.50-$10.00/MMBtu by year-end (**Chart 5a**).

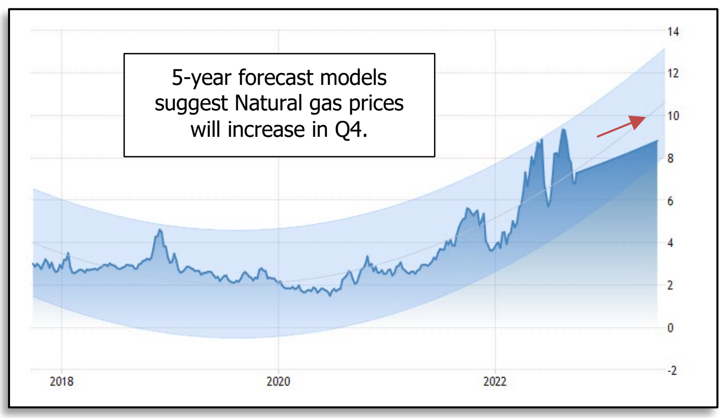

Chart 5a

<u>What does it mean?</u> The demand for natural gas is expected to remain well supported in Q4. <u>The first target is $10.00 MMBtu by year-end.</u>

Gasoline: Dip in price

<u>Outlook: neutral/negative:</u> US gasoline futures dropped in September (along with oil) as investors worried about the potential recession-driven demand downturn. However, the latest EIA data showed a bigger-than-expected