Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

December 2023

Commodities

Under pressure

Key Points:

- **S&P Commodity Index GTX rides with T-bond yields. Outlook is lower for both**
- **Deflationary assets dominate inflationary assets for 16 months**
- **The strength of the US dollar shows through with commodity 90 day performance**
- **Demand not war is driving oil prices now**
- **Natural gas prices just hit a wall at $3.50**
- **Gasoline prices slump on low demand outlook**
- **The bounce in Gold prices continues**
- **A measured bounce for silver prices**
- **Possible floor Industrial metals index at 400**
- **Copper prices try to find support at $3.55, but the outlook into late Q4 is still flat**
- **Ongoing upward trend continues for livestock**
- **The US dollar starts to rollover. Models now point lower to 100.50**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	5.82%	9.79%	**850.49%**
S&P 500	8.97%	18.97%	356.78%

The 19-yr average for the TS Model Portfolio – 11.63%
The 19-yr average for the S&P 500 – 7.71%

TS Model Income Portfolio – 8.05% average div. yield

GTX: Questioning demand

Outlook Neutral: The S&P GSCI Commodity Index (GTX) trend continues to limp along as many investors' outlook for natural resource prices remains in question.

Economic expansion for most major world economies continues to shrink. Month after month of softer-than-expected data from the US and China only adds to investors' concerns.

A possible peak in the US 10-year T-bond yields suggests a flattening trend of the GTX going forward as yields are anticipated to keep retreating. This coordination of movements between these two assets provides insight into the future movement of the GTX (**Chart 1**).

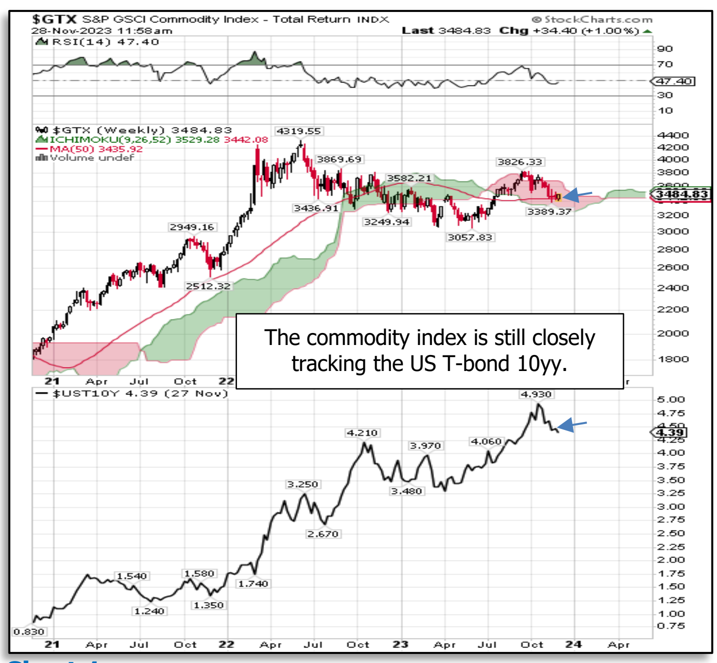

Chart 1

The Fed may be done with the monetary tightening as the latest inflation information fell more than expected. CPI reached 3.2%, and core inflation dropped to 4%, a 2-year-low. More ammunition for lower rates, which is not good news for the S&P Commodity Index.

The recent rollover weakness of GTX in Q4 implies that the Q3 rally bounce is over. This is supported by a neutral reading of the buying (RSI) momentum (not confirming additional upward pressure). Now at the 50-week m/a. The negative 'Red Cloud' continues to expand in Q4. This suggests more price weakness or stalling for the commodity index. Now on the first price support level of 3,540.

5-year forecasting models suggest that the present upward trend of GTX will fade in Q4 and remain around the 3,470-3,425 range by year-end and decline further in Q1. This action would suggest 10yy will ease too (**Chart 1a**).

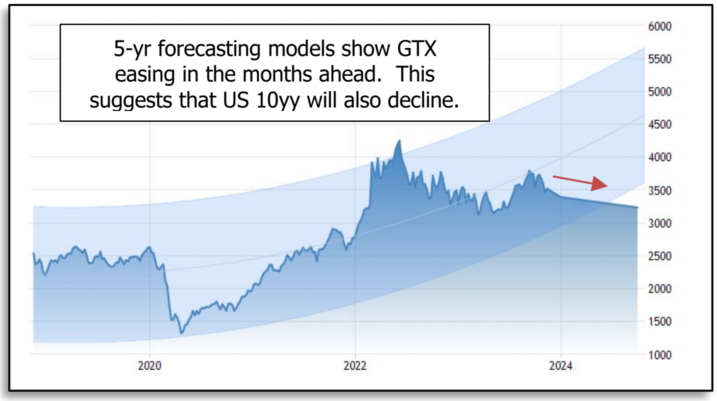

Chart 1a

<u>What does it mean?</u> The recent rollover of GTX is aided by the slow decline in T-bond yields. US 10-year T-Bond yields appear to be at a crest. This action is negative for the GTX. <u>The target by year-end is 3,425. Do not add to the position.</u>

Deflation vs. Inflation: Deflation wins

<u>Outlook Neutral</u>: The 3-year performance between inflationary assets and deflationary assets shows inflationary assets have had lower performance for the last 12 months with no indication of change (**Chart 2**).

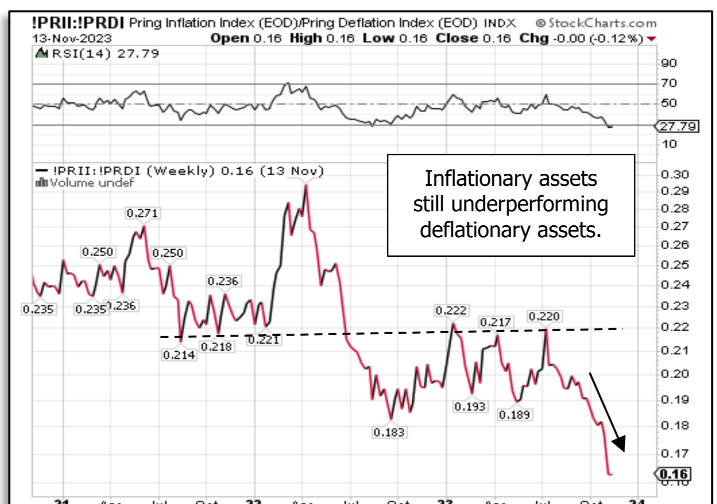

Chart 2

<u>What does it mean?</u> A continually stronger-performing deflationary equity market is normally more bullish for the stock market than an inflationary-driven market. We expect this trend to continue.

Commodity performance: GTX, $USD

<u>Outlook: Negative:</u> Nothing outperformed the benchmark S&P Commodity Index over the last 90 days. As the GTX is now rolling over (see **Chart 1**), it tells how poorly the other commodities are performing. Note the performance of the US dollar and the overall weakness of the other commodity groups (**Chart 3**).

<u>What does it mean?</u> It is seldom that no commodity group can outperform the index (GTX). This illustrates the overall weakness of the index.

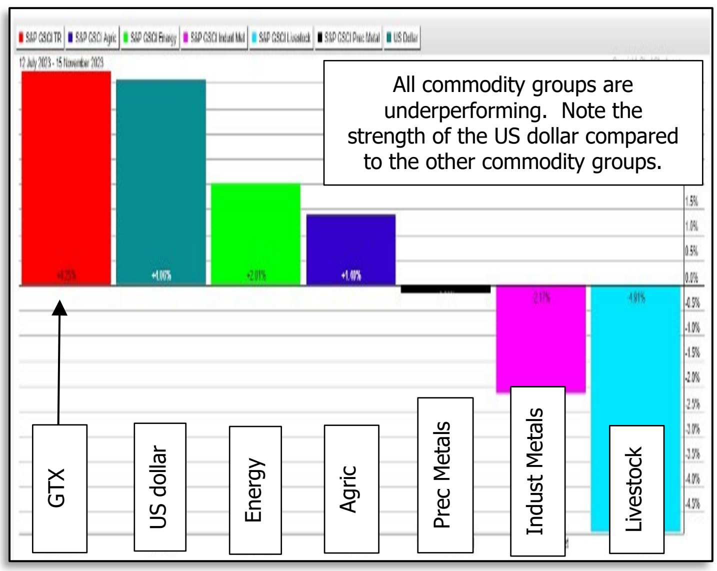

Chart 3

WTIC: The peak is over

<u>Outlook: Neutral</u>: A promise of increasing demand. OPEC+ reassured the markets that the fundamentals are strong and the recent pullback is due to market speculators. In its monthly report, OPEC+ raised its forecast for global growth trends in 2023 to 2.46 million barrels per day. The report also noted that China's crude oil imports stayed healthy, and Asian refining margins remained strong.

The 1yr trend is flat. WTI is at the key 50-week m/a. Buying momentum (RSI) is negative (not confirming additional upward strength). 1st price support is at $72.00. A negative 'Red Cloud' continues to expand in Q4 (**Chart 4** on page 3).

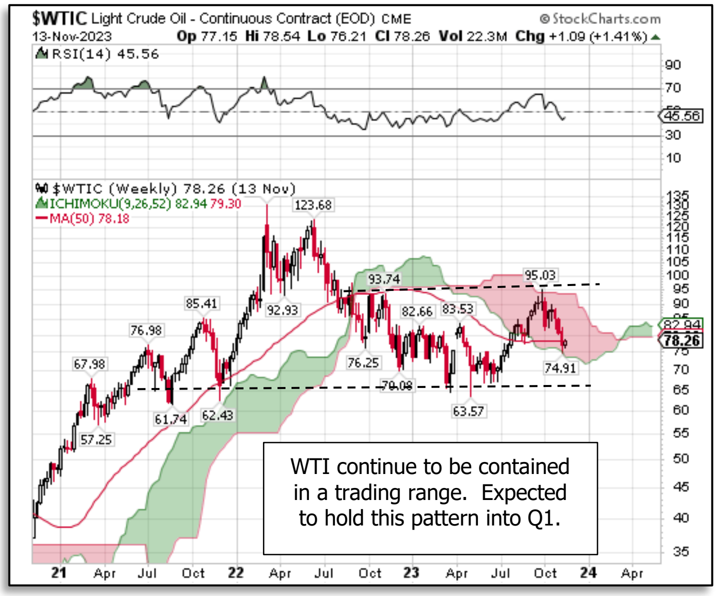

Chart 4

5-year forecasting models suggest that Light crude oil is expected to trade at $79.50 by year-end and move above $80.00 in Q1.

Chart 4a

<u>What does it mean?</u> Last month we commented on the influence the conflict in the Israel/Hamas war represented for oil prices. Those concerns about the war appear to be easing. We expect relative price stability moving forward.

<u>We suggest adding to the position now. Moderate advance should be expected.</u> Our favourite stocks are Black Diamond Group (BDI), and PHX Energy Services Corp. (PHX).

Natural gas: Hitting a wall at $3.50

<u>Outlook: Negative</u>: Investors pounced on Natural gas futures after the commodity fell over 73% expecting a sharp rebound fueled by stronger demand and reduced supply.

Meteorologists are anticipating a warmer-than-normal weather into year-end. A high volume of gas going to LNG is hitting new highs.

The 1yr trend is down. Natural gas prices stalled at the $3.50 mark under a massively expanding negative 'Red Cloud'. Buying momentum (RSI) is neutral (not confirming additional upward strength). (**Chart 5**).

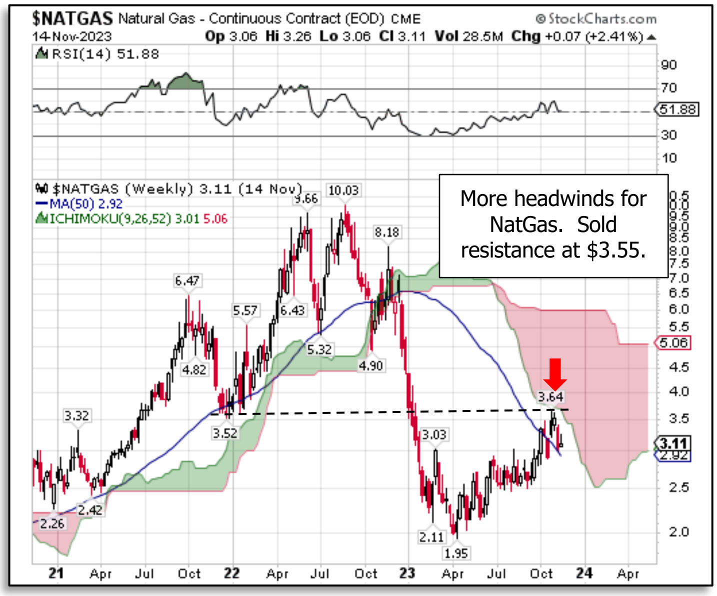

Chart 5

Five-year forecasting models suggest that natural gas prices will stall over the next few months and trade around $3.35-$3.40/MMBtu by year-end (**Chart 5a**).

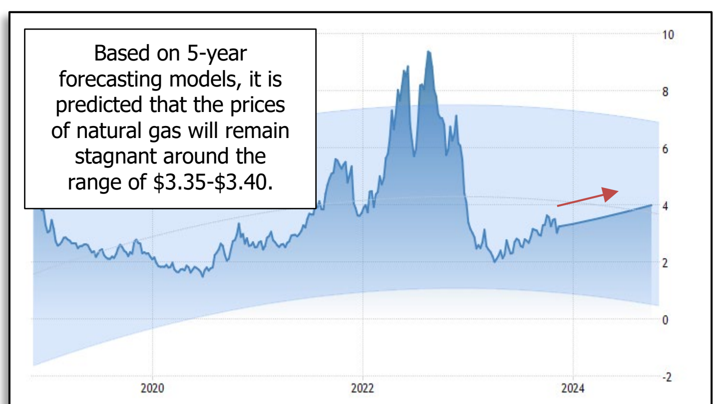

Chart 5a

<u>What does it mean?</u> Nothing great to report. Abundant supply plus warmer weather limits demand. Natural gas prices are expected to stall around current levels. <u>The target is $3.35-$3.40 MMBtu</u>.