Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

December 2020 — 17th Year

Commodities

Agriculture prices breakout of 4-yr base

KEY POINTS:

- **The S&P GSCI Commodity Index continues to stall for the 4th month**
- **Stocks (S&P 500) outperforms commodities**
- **The agriculture sector tops in performance**
- **Light crude oil prices struggles to breach $44.00**
- **NatGas prices peak with the outlook of a warm winter**
- **Gold prices continue to hold above $1850, for now**
- **Silver prices consolidate in Q4 before lower levels arrive**
- **Industrial metals index rallies**
- **Copper prices soar from March low**
- **Agriculture index becomes top performer**
- **U.S. dollar's decline stabilizes at $0.92**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	-3.23%	7.78%	631.76%
S&P 500	-6.17%	7.27%	236.30%

17-year average for the TS Model Portfolio – 12.20%
17-year average for the S&P 500 – 7.27%

https://www.technicalspeculator.com/services/ts-model-growth-portfolios 9.89% average dividend yield

S&P GSCI outlook: At the 50wma

Outlook neutral/negative: The rebound from the March low has reached the 1800 resistance level and the downward sloping 50-week m/a, both potential barrier walls. Buying momentum (RSI) for the S&P GSCI Commodity Index (**Chart 1**) has slowed as it reaches the neutral 50 level. Any additional upside movement will need to get past the 50-week m/a. This action may prove challenging.

Curve-fitting models (5 year) illustrate no upside potential over the next few quarters. The outlook forecasts a steady downward drift into early 2021. The expected target in Q1/2021has improved slightly to 1700 (**Chart 1a**).

Chart 1

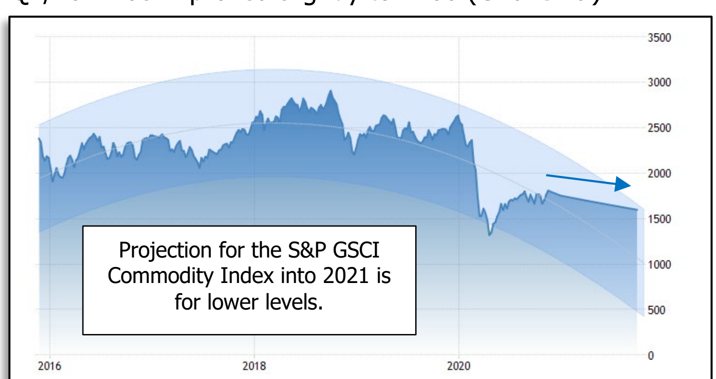

Chart 1a

A plus is building for commodities. As the U.S. economy starts to recover in 2021, interest rates on mid-term bonds are expected to rise. There is a tight correlation between the U.S. 10-year T-Bond yields and the S&P GSCI Commodity Index. The rise in bond yields next year is positive for natural resource prices (**Chart 1b**).

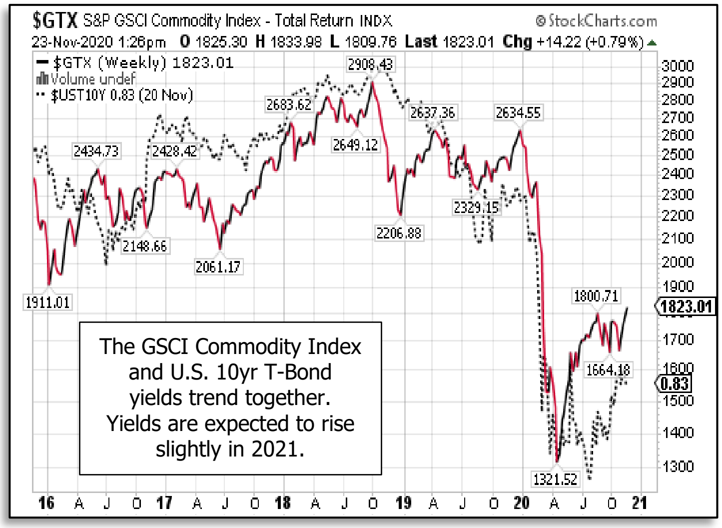

Chart 1b

Bottom line: Though the S&P GSCI index is positioned to hit a significant price barrier by year-end, the close correlation with the measured rise in U.S. 10-year Treasury yields suggests some mild upward pressure will continue over the next few months.

Deflation vs Inflation: Equal

Inflationary assets (commodities) have near equal performance to deflationary assets (stocks) since April (**Chart 2**). The recovery in the U.S. economy is aiding the rebound strength in deflationaries.

Chart 2

We expect this phase of near equal performance to continue into early Q1 and then start to shift back to deflationary dominance in early 2021.

12-year view shows a base building of equal performance since 2016 still forming (**Chart 2a**).

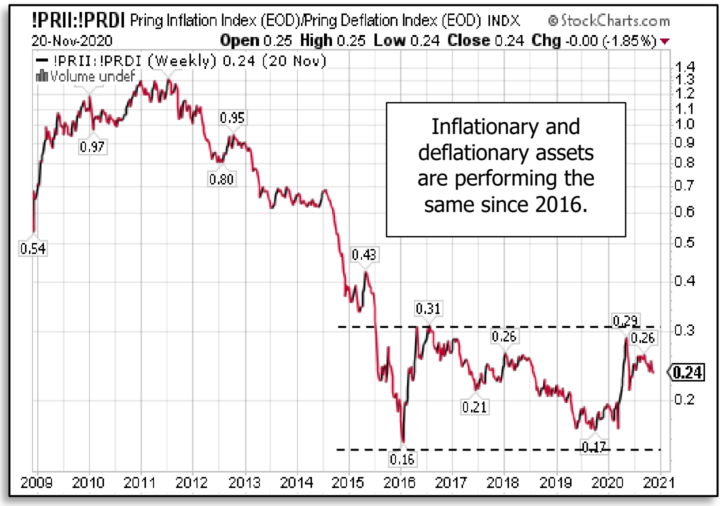

Chart 2a

Relative performance: GSCI vs S&P

The performance from S&P GSCI Commodity Index is equal from April to present. However, the commodity index continues to underperform the performance of the S&P 500 Year-over-year. The S&P GSCI is down over 29.00% YTD whereas the S&P 500 has posted YTD a positive 8.0%. There are no indications of this pattern reversing favouring commodities over the S&P 500 (**Chart 3**).

Chart 3

Commodity performance: Agriculture

The S&P GSCI Agriculture Index ($GKX) has the top performance over the last 90 days. Note the relative price weakness of the U.S. dollar (down over 4 percent). The price weakness of the dollar is aiding all the natural resource prices (**Chart 4**). Until the U.S. dollar's performance improves, expect commodity prices to remain strong.

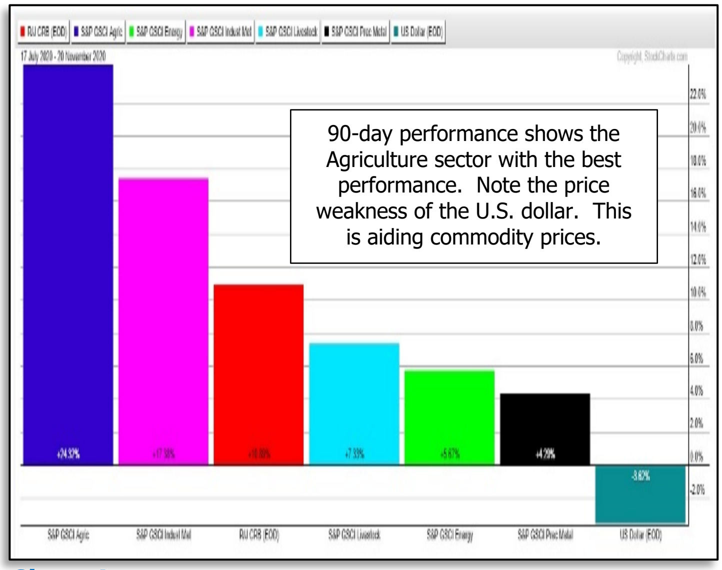

Chart 4

WTIC: Mild rise past 50-week m/a

Outlook neutral: Light crude oil prices have successfully rebounded up to the $42-$44 resistance band and appears to have more upside strength. The commodity is also above the downward sloping 50-week m/a (encouraging). Buying momentum (RSI) is around the neutral level of 50 (not quite confirming on-going price strength). 1st underlying price support is still at $42 (**Chart 5**).

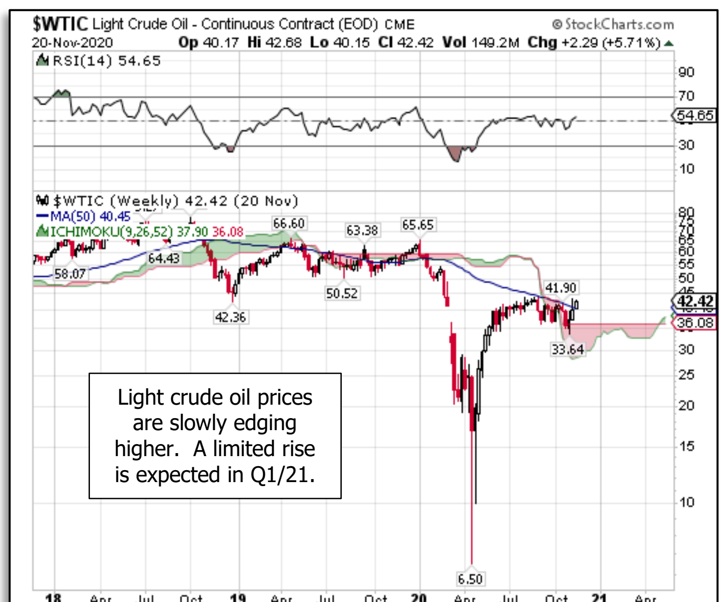

Chart 5

Curve-fitting models (**Chart 5a**) suggest that around $44 is a probable crest and price weakness should persist into Q1/Q2 2021. The year-end target eases upward slightly to $41.00. However, moving into early 2021, models point to a gradual downward drift to $37.00-$38.00.

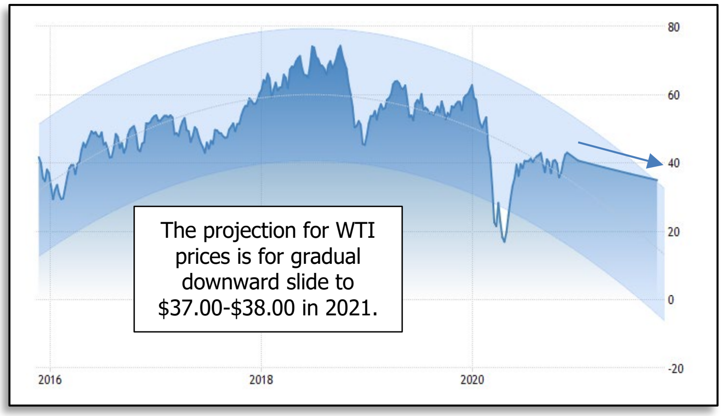

Chart 5a

Bottom line: The price level of Light crude oil is expected to decline slightly over the next few months. Use this current strength to take profits and lower position size.

Natural Gas: Q4 rise crests

Outlook neutral/negative: The recent bounce in the price of natural gas appears to be rolling over. After developing a solid base at $1.50 to $2.00 in mid-year, the commodity rose in Q3 and Q4 breaking through a key resistance level of $2.65, now facing the next upside resistance line of $3.25 (**Chart 6**). Buying momentum (RSI) is at a neutral level (not confirming ongoing strength).

Chart 6

Curve-fitting models (**Chart 6a**) continues to point slightly lower with a slow drift downward for the remainder of this year and into early 2021. The year-end target has improved slightly to $2.75.

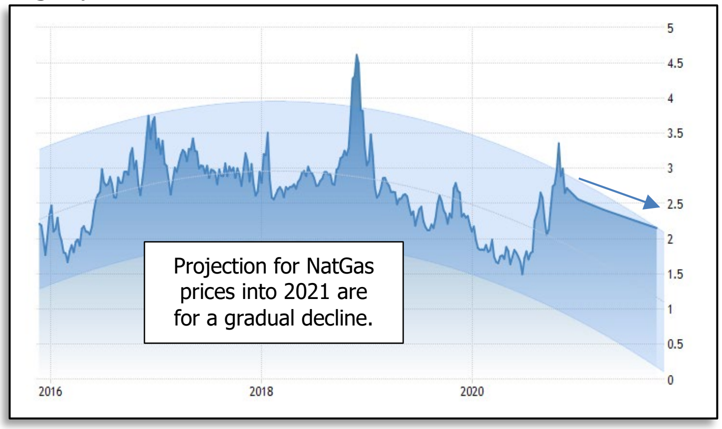

Chart 6a

Bottom line: A slight pull back from the current crest is expected over the next few months. Use this recent run-up to lower position size as the path forward suggests more price weakness ahead.

Gasoline: Still under the 50wma

Outlook neutral/negative: The recent rebounding strength since March has moved gasoline prices up to a key resistance level: the 50-week m/a and stalled. The price of Gasoline has continually shadowed under the m/a since July. Buying momentum (RSI) remains at a neutral stance (not confirming any on-going price strength). 1st underlying support has dropped to $0.95 (**Chart 7**).

Chart 7

Curve-fitting models (**Chart 7a**) paint a gradual weakening outlook for gas prices for the next few months. Year-end projected target for gasoline is $1.05 USD/GAL with $1.00 as the late Q1/2021 target.

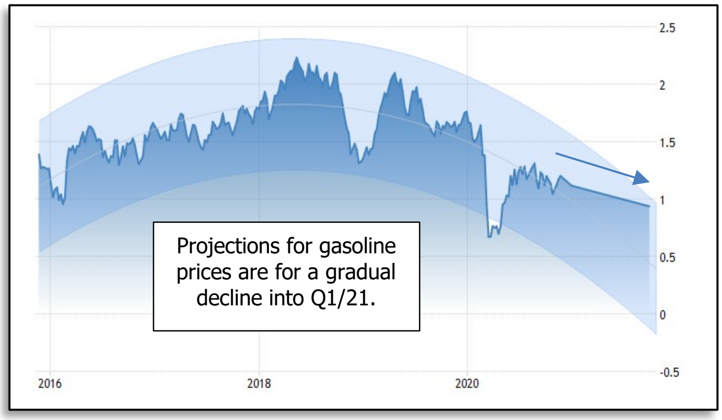

Chart 7a

Bottom line: Gasoline prices move with oil prices. As our models suggest oil prices are expected to continue a slow weakening trend over the next few months, so will gas prices. Use this price strength to lower position size and then remain on the sidelines.

Gold: Pullback developing

Outlook neutral/negative: Gold prices soared over the last 20 months as investors continue to pile into the yellow metal aided by a sagging U.S. dollar (now down about 4.00% over the last 90 days). However, the upward rise has likely ended (**Chart 8**). The precious metal and U.S. 10 year Treasury bond yields are signalling that a change in trend,

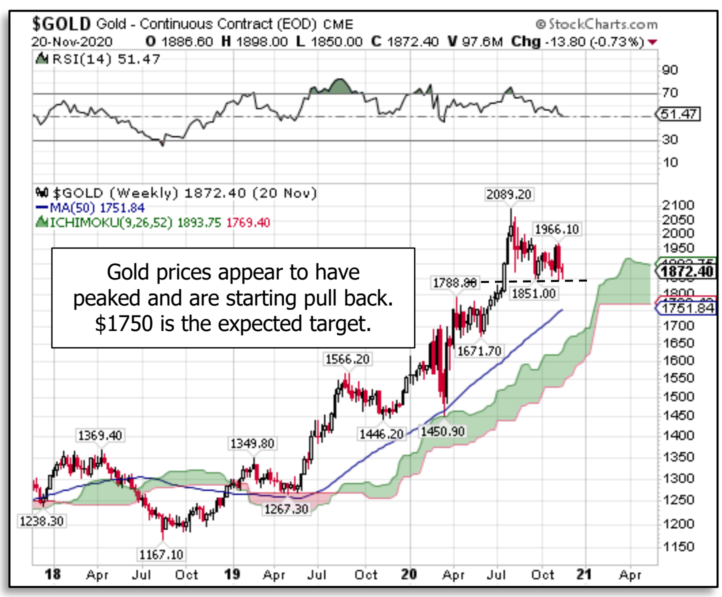

Chart 8