Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

NOVEMBER 2020 17th Year

Commodities

Industrial metals start to shine

KEY POINTS:

- **The rebound for S&P GSCI Commodity Index continues to stall**
- **Equal dominance of inflationary assets over deflationary assets continues in Q4**
- **Base metals rise to the top in performance**
- **Light crude oil prices crest below $42**
- **Rally weakens for natural gas**
- **More consolidation grips gold prices**
- **Industrial metals prices shine with renewed demand**
- **Copper prices stall short term at $3.10**
- **U.S. dollar finds price support at $0.92; new upward movement in Q1/21 expected**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	-4.73%	2.68%	**597.16%**
S&P 500	-2.91%	0.07%	227.00%

17.8-year average for the TS Model Portfolio: 11.76%
17.8-year average for the S&P 500: 7.05%

https://www.technicalspeculator.com/services/ts-model-growth-portfolios 9.96% average dividend yield

S&P GSCI outlook: Rebound stops

Outlook negative: The rebound from the March low was halted in September. The S&P GSCI Commodity Index ($GTX) appears to be cresting at the 1800 level (**Chart 1**). The index is still well below the declining 50-week moving average (m/a) (a negative sign), and buying momentum (Relative Strength Index [RSI]) has failed to advance past the neutral 50 level. All markers indicate that the brief rally has ended.

Five-year curve-fitting models illustrate no upside potential over the next few quarters. The outlook forecasts the steady downward drift to continue. The expected target in Q1 2021 is 1600 (**Chart 1a**).

Chart 1

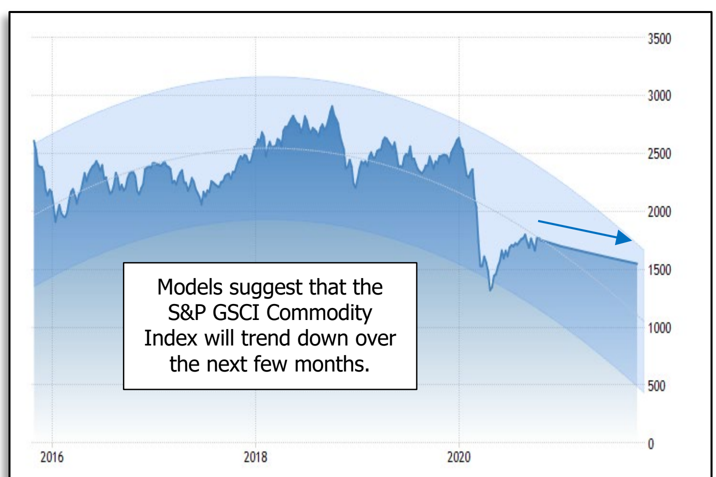

Chart 1a

Positive note: As the U.S. economy starts to recover in 2021, interest rates on bonds are expected to rise. There is a tight opposite correlation between the U.S. 10-year T-bond yields and the S&P GSCI Commodity Index (**Chart 1b**).

Chart 1b

<u>Bottom line</u>: The GSCI index appears to have little or no upside potential this year. Use this current bounce to reduce position size on GSCI, and then stay on the sidelines. Wait until U.S. T-bond yields start to rise, before establishing a new position.

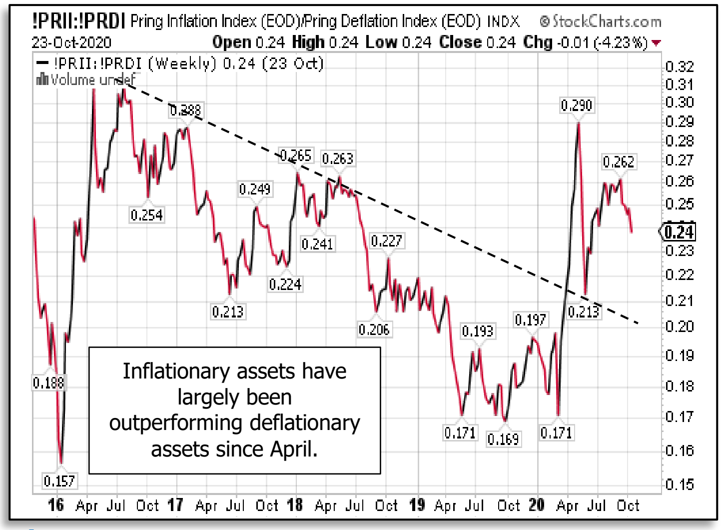

Chart 2

Chart 2a

Deflation vs. inflation: Inflation builds

Inflationary assets (commodities) have been outperforming deflationary assets (stocks) since April (**Chart 2**). The recovery in the U.S. economy is aiding the rebound strength in energy and industrial metals. We expect this phase to continue into Q4, and then start to shift back to deflationary dominance in early 2021.

The 12-year view shows a base-building of equal performance since 2016 still forming. This action is anticipated to continue into early 2021 (**Chart 2a**).

Relative performance: GSCI vs. S&P

The S&P GSCI Commodity Index continues to underperform the S&P 500. The S&P GSCI is down by more than 33.00% year to date (YTD), while the S&P 500 has posted a positive 7.50% YTD. There are no indications of this pattern reversing to favour commodities over the S&P 500 (**Chart 3**).

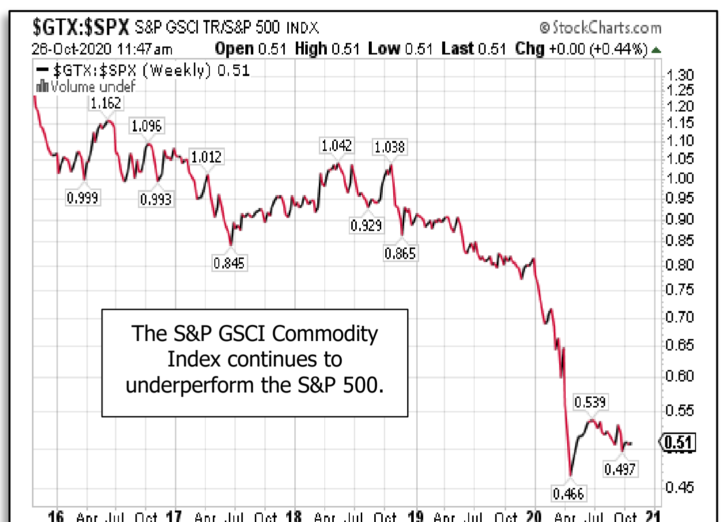

Chart 3