Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

February 2020

Commodities

Weaker US$ aids natural resources

KEY POINTS:

- **Commodity index (CRB) continues to base build. Slow advance expected**
- **Short-term performance in inflationary assets over deflationary not expected to last**
- **S&P GSCI Livestock index ranks #1 in 90-days performance**
- **Oil prices drift lower**
- **NatGas prices continue to weaken**
- **After a short-term pullback, gold holds to an upward trend**
- **Copper prices start to lift**
- **U.S. dollar begins to weaken**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	2.10%	5.62%	**505.25%**
S&P 500	-1.54%	4.01%	178.02%

16-year average for the TS Model Portfolio 15.77%
16-year average for the S&P 500 7.43%

https://www.technicalspeculator.com/services/ts-model-growth-portfolios

CRB outlook: Mild strength

Outlook neutral: Medium term (3yr) view of the

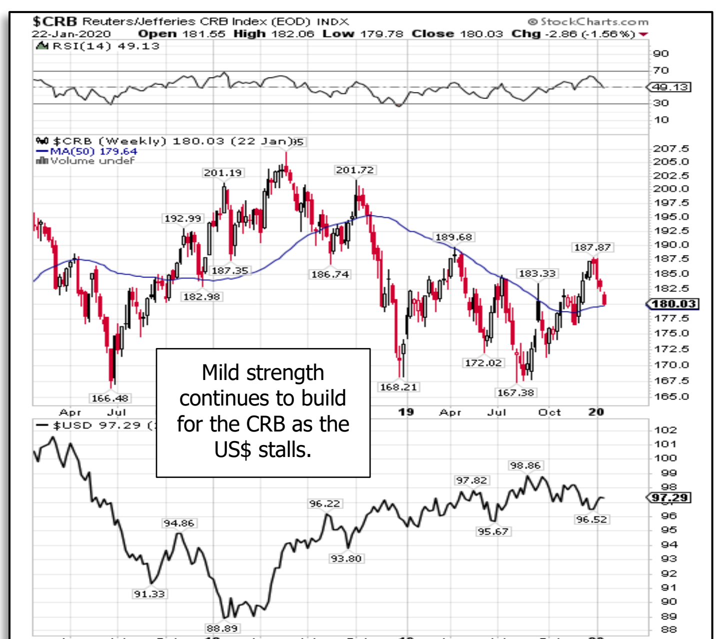

Chart 1

Commodity Research Bureau Index (CRB) is showing continued rebounding off the long term base of 166 to 168. Short-term bounces have broken above the resistance at the 50-week m/a. Buying momentum (RSI) is positive. All good signs of a gradual recovery (**Chart 1**). U.S. dollar price weakness is aiding the upward push in the CRB. More on the dollar at the end of this section.

Shorter-term perspective (12-month) curve-fitting models are showing the CRB advancing off the median line within an upward curving trading range. Very positive (**Chart 1a**).

Bottom line: The current recent reflex bounce should find price support at the 180 level. Look for a minor retracement before heading toward the target of 189.

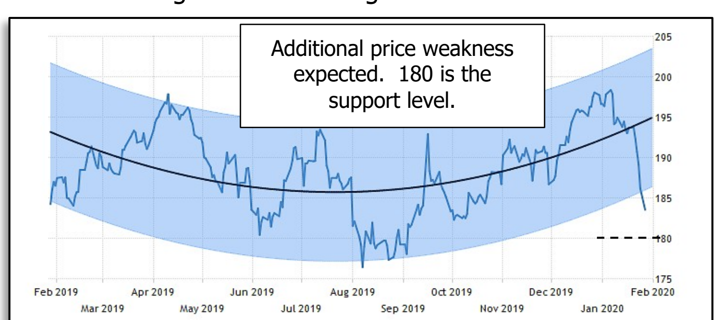

Chart 1a

Deflation vs inflation

Minor sell-off of deflationary assets in Q4 is aiding commodities. Probable more underperformance from deflationary assets over the next month or two (**Chart 2**).

Bottom line: The primary trend still favours deflationary assets (financial, technology, industrial, consumer products, etc.) over inflationary (commodities) with no indication of weakening. We expect this trend to continue throughout this year.

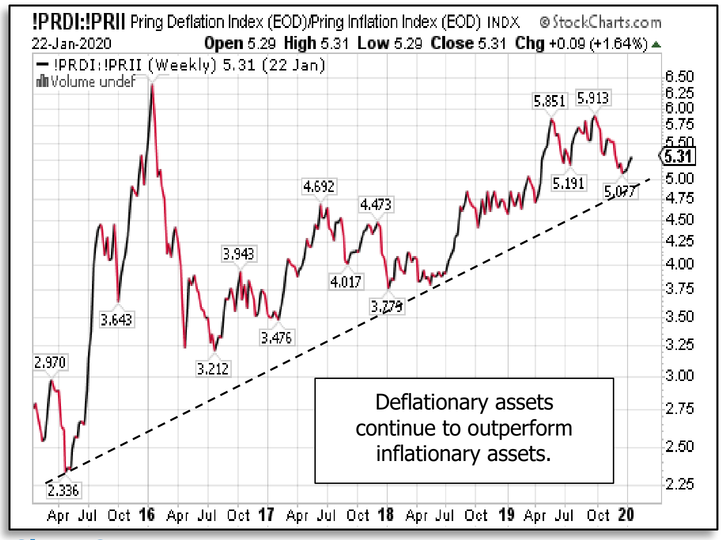

Chart 2

Relative performance: CRB vs S&P

The performance from Commodity Research Bureau Index continues to underperform the S&P 500 over the last five years. There are no indications of this arrangement reversing (**Chart 3**). It also adds to the evidence of deflationary assets dominating over inflationary during this market cycle.

Chart 3

Commodity performance: Livestock

The S&P GSCI Livestock Index followed by S&P Agriculture had the best 90-day performance. These two natural resource sectors were the only two that outperformed the CRB over the last three months.

Note the price weakness of the U.S. dollar. This aided the upside strength of commodities (**Chart 4**).

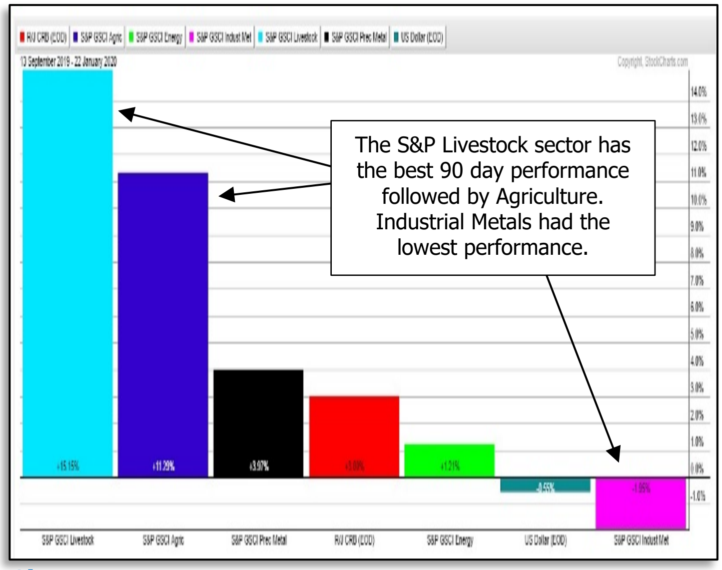

Chart 4

WTIC: More consolidation

Outlook neutral/negative: Medium term (3yr) view of Light crude oil prices remain in a tight consolidation. The price resistance at $66.00 is expected to hold in Q1 and into early Q2 (**Chart 5**). Buying momentum (RSI) has faded and

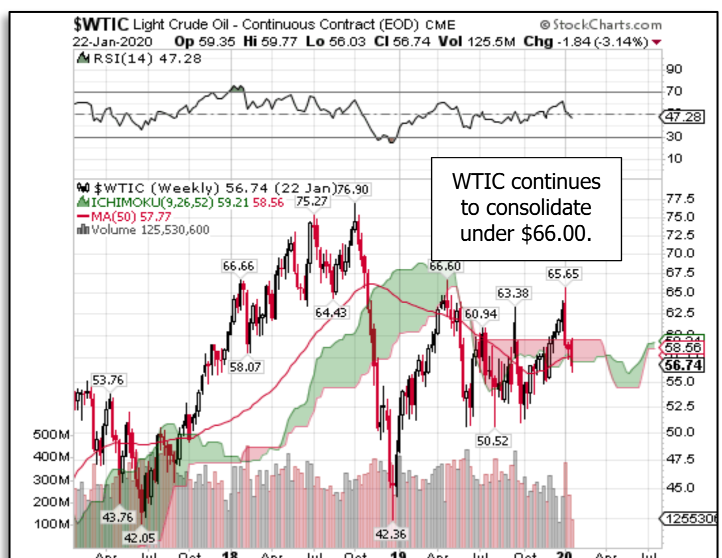

Chart 5

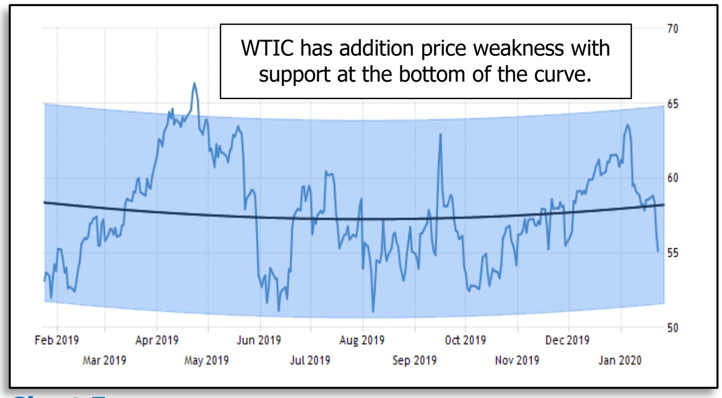

Chart 5a

with a neutral reading (not confirming a breakout). Volume spike in January shows institutions are reversing some of their bullish positions. 1st support is at $52.25.

Shorter-term (12-month) curve fitting models show a recoil from the top level of the trading range in January (**Chart 5a**). The curve is suggesting a slightly more bearish outlook in Q1. After this current bounce, WTIC prices are expected to pullback to support over the next few months.

Bottom line: Light crude oil prices are expected to drift downward over the next few months. We would suggest waiting on the sidelines until confirmation of the low develops.

Natural Gas: Continued weakness

Outlook negative: The weak rally in Q4 faded fast after hitting the 50-week m/a. Buying momentum (RSI) is now negative confirming weakness in Q1 (**Chart 6**). NatGas is on support at $1.90-$1.85.

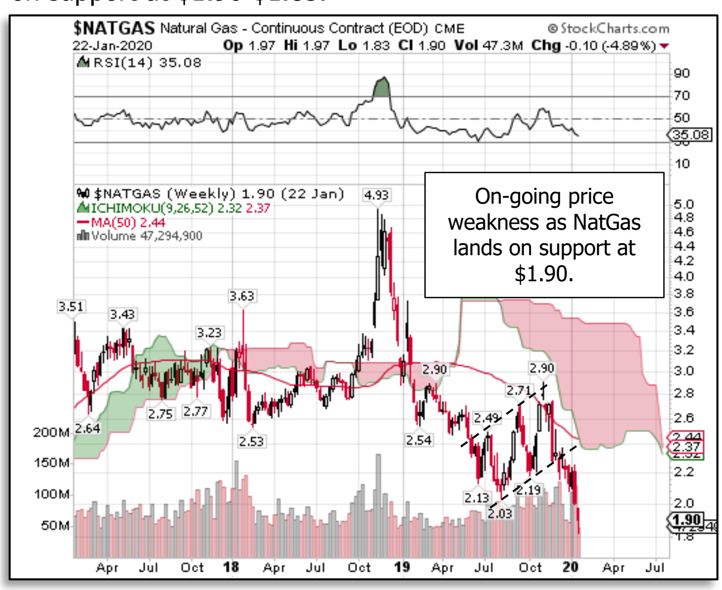

Chart 6

Shorter term (12-month) curve fitting models show a trend that is starting to change and lift. Natural gas prices are at the bottom of a favourable curve. Models suggest prices that prices will remain between $2.20 and $1.95 to the end of Q1 (**Chart 6a**).

Bottom line: There is few signs of price strength in NatGas prices right now. Stay on the sidelines. Seasonal strength is normally in March and April.

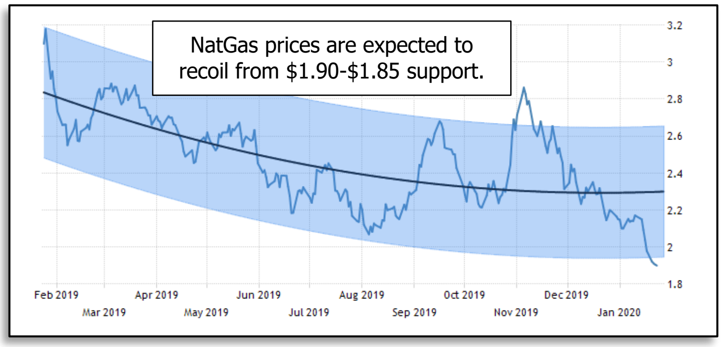

Chart 6a

Gasoline: On support

Outlook neutral/negative: Medium term (3yr) view of the current trend in Gasoline prices (GASO) is flat and holding at the $1.60-$1.50 support range, currently below the 50-week m/a. Buying momentum (RSI) is negative (confirming weakness). We suspect additional softness and a retest of $1.50 - $1.52 is coming in Q1 (**Chart 7**).

Shorter term (12-month) curve fitting models (**Chart 7a on page 4**) shows the curve is now rolling over. A retest of the median line is expected.

Chart 7