Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

February 2018

Commodities

US$ weakness and a breakout in oil

KEY POINTS:

- **CRB breakout after two years of consolidation**
- **Increasing strength coming from energy**
- **Inflation/deflation at par, for now**
- **WTIC breaks out, heads to $72**
- **Gasoline trends higher, with $2.00 in sight**
- **Natural gas bounce doesn't have legs**
- **Gold's ride on US$ coattails**
- **Copper's trend remains – as long as U.S. dollar stays down**
- **No love for the big dollar**

CRB outlook: Breakout

Aided by the declining U.S. dollar, the Commodity Research Bureau (CRB) Index reached our target of 199 (Dec. 2017 issue, page 1). Crossing that 199 line opens the door to 204, and potentially, depending on the duration and depth of the US$'s decent, 215. The positive reading in buying momentum (Relative Strength Index [RSI]) of above 50 is also encouraging for higher CRB levels. A rising CRB also suggests a short-term uptick in inflation (**Chart 1**).

Chart 1

Inflation/Deflation: Equal pressure

Martin Pring's index measuring inflationary/deflationary sectors shows that the two industry groups have displayed equal pressure and performance since late 2015. Although the primary trend since 2012 continues to favour deflationary assets, inflationary sectors (primarily commodities-based) are performing well. As long as the US$ remains weak, inflationary sectors should continue to perform well (**Chart 2**).

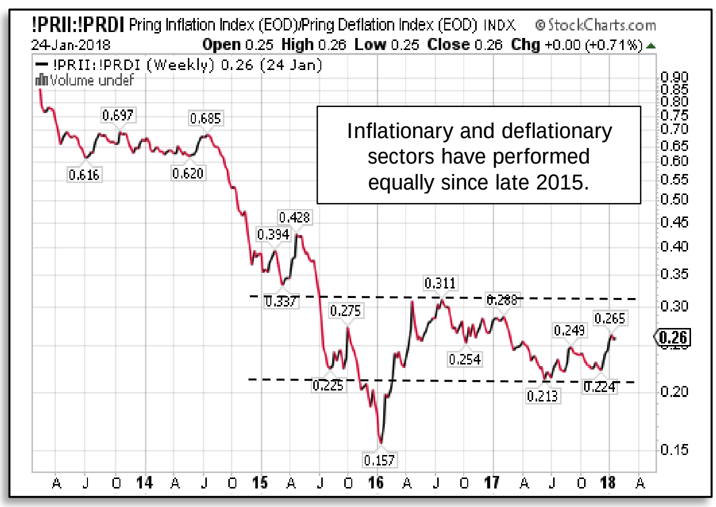

Chart 2

Commodity performance: Energy

The S&P GSCI Energy sector had the best performance over the last 90 days (again), followed by the S&P Livestock sector. The rebounding strength in oil prices is the reason for energy's current leadership. Note that the US$ is at the bottom in performance. We view these developments as favourable for the whole commodity group, for the short term (**Chart 3** on page 2)