Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

February 2023

Commodities

Flat consolidation and tracking inflation

Key Points:

- **GTX continues to stall, closely tracking lower US inflation and US 10y T-bond yields**
- **Inflationary assets show some performance against deflationary assets, finally**
- **A weaker trend builds in WTI**
- **More weakness for NatGas prices, now oversold**
- **Gasoline prices target lowered to $2.50**
- **Jump in gold prices as the dollar pulls back**
- **$USD drop produces a limited move in silver**
- **Industrial metals index mounts measured move on recession fears, demand lowers**
- **Copper prices find demand as prices jump**
- **Flat trend continues as S&P GSCI Ag Index struggles to advance**
- **Drop in the US dollar index points to $1.03**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	1.67%	1.67%	**780.18%**
S&P 500	6.18%	6.18%	307.66%

The 19-yr average for the TS Model Portfolio – 11.72%
The 19-yr average for the S&P 500 – 7.40%

TS Model Income Portfolio – 7.92% average div. yield

Chart 1

GTX: Following bond yields

Outlook neutral: The S&P GSCI Commodity Index (**GTX**) continues to stall after a strong run in mid-2000 and ending in early 2022. The reasons appear to be the US dollar's steady climb and the easing of inflationary pressures.

The Fed's softening of its interest rate attack shows investors are shifting away from higher bond yield expectations. As the 10yy of the US Treasury bond runs parallel to the GTX, the GTX can be expected to remain in a trading range in late Q1 (**Chart 1**).

Buying momentum (RSI) is neutral (not confirming additional upward strength) indicating price stalling over the next few months. Stiff resistance sits at 4,000 and support is at 3,400.

Five-year comparison between the GTX and the US Inflation rate illustrates the close tracking. With inflation slowly coming under control, the trend of the GTX is expected to slowly trend lower (**Chart 1a on page 2**).

 www.technicalspeculator.com *dwdony@shaw.ca* *Ph.1-250-479-9463*

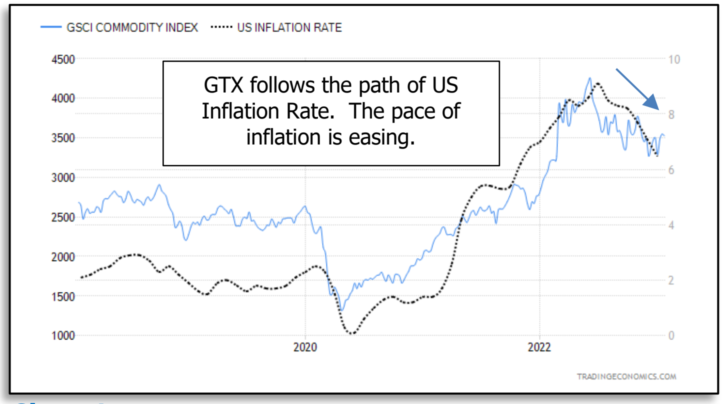

Chart 1a

<u>What does it mean?</u> The upward trend for the S&P GSCI Commodity Index has stalled due to a number of key elements. We now expect the movement in the GTX to be slowly trending downward over the next few months as inflationary pressure continues to ease.

The Q1 target for the GTX has been lowered to 3,000. <u>Start lowering position size.</u>

Inflation vs deflation: A bounce in Q1

<u>Outlook neutral</u>: Inflationary assets' performance over deflationary assets is rebounding thanks to the pullback of the US dollar (**Chart 2**).

<u>What does it mean</u>? We expect the US dollar to continue easing as the Fed's interest rate policy is softening and US inflation appears to have crested. The short-term shift to inflationary assets (aided by a pullback in the $USD) should continue this month.

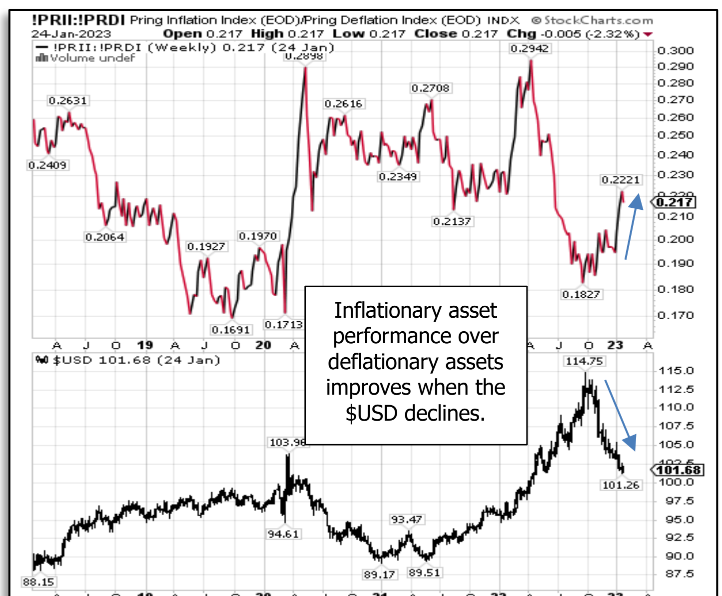

Chart 2

Commodity performance: Metals win

The unyielding advance of the king dollar has peaked and is now on a downward trend. This new movement has given life to the late market sectors of industrial and precious metals. Energy, which was a commodity leader in 2022, is now in last place (**Chart 3**).

<u>What does it mean?</u> The Fed's aggressive interest rate policy last year helped push up the dollar. But that pattern has now changed. A weaker dollar plus a very mature market (now at 14 years), favours the late-performing sectors of metals. We expect continued leadership from the industrials and precious metals.

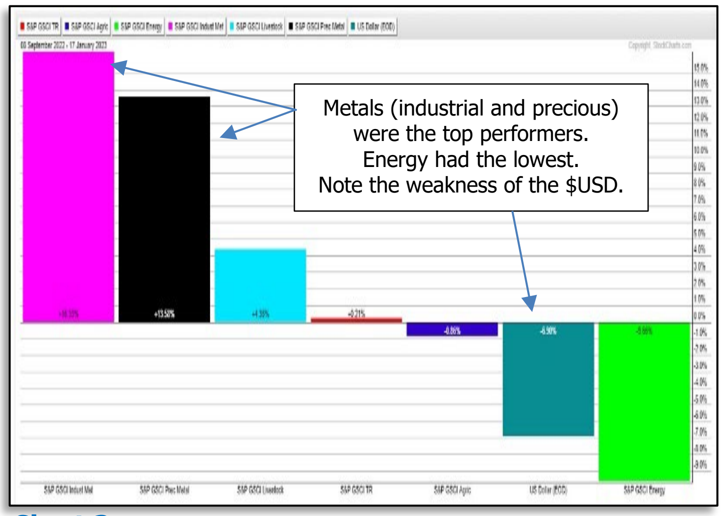

Chart 3

WTIC: Weakening trend in Q1

<u>Outlook: neutral/negative</u>: A slow drift downward continues to grip WTI prices. Providing some limited buying pressure is coming from China. The country is ramping up crude purchases as consumption is expected to surge this year following China's exit from its zero-Covid policy. The outlook into mid-year is more promising with OPEC+ deciding to stick to its restricting global supply.

WTI continues to consolidate and drift lower under the $84 resistance level. Still below the key 50-week m/a (negative). Buying momentum (RSI) is now neutral (not confirming additional upward strength). On price support at $70 (**Chart 4 on page 3**).

Five-year forecast models suggest measured movement for WTI over the next few months. The price of WTI is expected to remain under $80 over the next few months (**Chart 4a on page 3**).

<u>What does it mean?</u> Economic concerns still dominate oil prices. WTIC is expected to remain in a tight consolidation over the next few months. Any pullback or advance over the

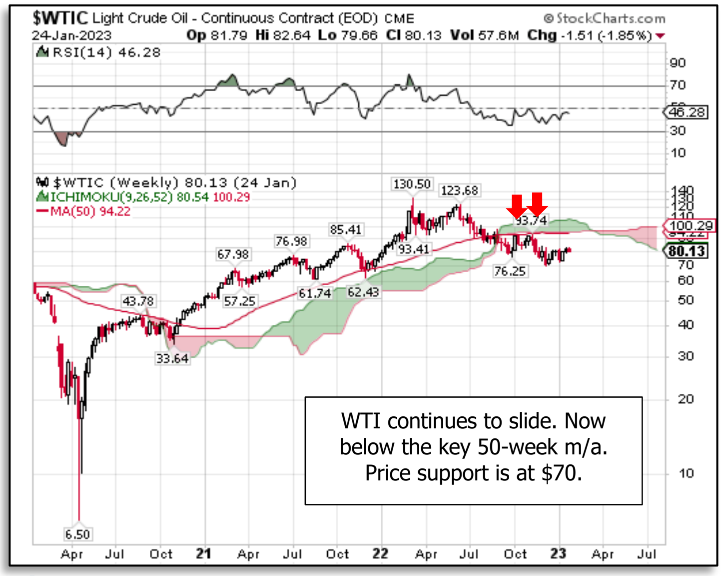

Chart 4

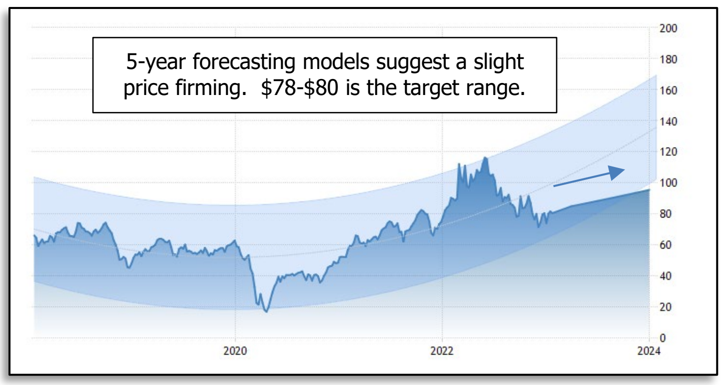

Chart 4a

next few months should be minimal. Continue to hold. Models point lower than our Q1 target of $96. The new late Q1 early Q2 target range is $78-$80.

Natural gas: Dropping!

Outlook: negative: Natural gas prices fell close to their lowest level since June 2021, among soaring domestic production. US natural gas production is expected to grow more than 2% this year to a record of 1000.30 billion cubic feet. Adding to the bearish tone, the Freeport LNG export plant in Texas fail to restart in January, leaving more supply on the domestic market.

Natural gas's upward trend has ground to a halt in the last months of 2022. The commodity's recent pullback is now below the 50-week m/a. Buying momentum (RSI) is negative and oversold (not confirming upward strength). The next support level is at $2.750 (**Chart 5**).

Five-year forecasting models suggest that natural gas prices will advance very slightly over the next few months

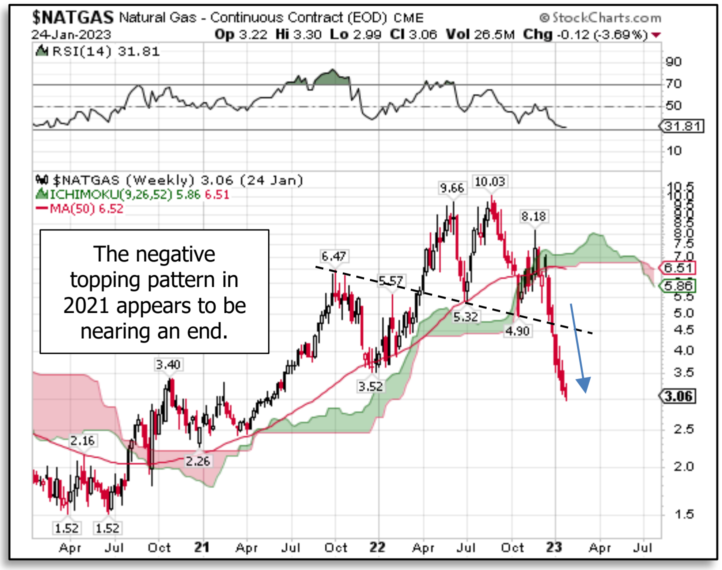

Chart 5

and trade around $3.75/MMBtu in Q2 (**Chart 5a**).

What does it mean? Increasing supply has greatly tapered the advance of natural gas. The demand for natural gas should find some support over the winter months. The target has been lowered to $3.75 MMBtu for Q2.

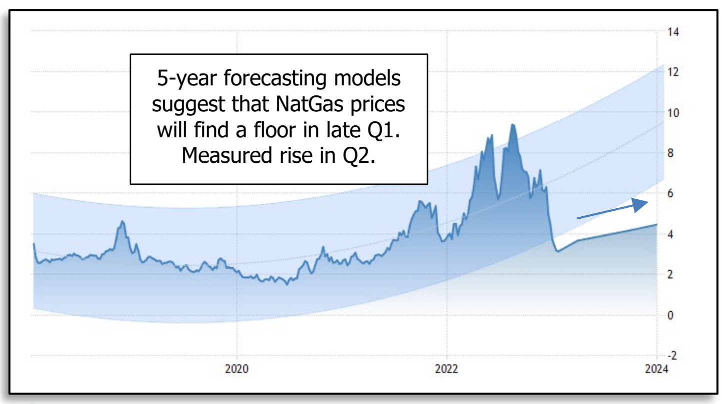

Chart 5a

Gasoline: Below the m/a

Outlook: neutral/negative: Gasoline prices continue to move with crude oil prices. On the supply side, OPEC+ decided to hold to their policy of curtailing the oil supply by 2 million barrels per day until the end of 2023. EIA recently showed US gasoline stocks rose by 4.114 million barrels at the end of January.

Gas prices drifted lower in Q3 and Q4 on recession fears. Buying momentum (RSI) is neutral (not confirming additional buying pressure) (**Chart 6**). Still below the 50-week m/a (negative). The trend since mid-2022 is down with lower