Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

July 2023

Commodities

More disappointment in Q3

Key Points:

- **S&P Commodity Index continues to sag.**
- **Deflationary assets have a slight edge in performance over inflationary assets**
- **Livestock sector tops the 90-day performance, again**
- **Drifting prices for WTI continues**
- **Possible bottom developing for Natural gas**
- **Gasoline prices still below the 50-week m/a**
- **Gold stalls at the $2,050 level, again**
- **Price peak for silver at $24.00**
- **Industrial metals index continues to weaken**
- **Copper prices find a possible floor but outlook in Q3 is flat**
- **Ongoing upward trend continues for livestock**
- **US dollar remains boxed between 101 and 105**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	10.34%	10.50%	**856.64%**
S&P 500	9.94%	15.91%	345.04%

The 19-yr average for the TS Model Portfolio – 11.93%
The 19-yr average for the S&P 500 – 7.73%

TS Model Income Portfolio – 9.56% average div. yield

GTX: A slow decline

Outlook negative: The S&P GSCI Commodity Index continues to trend downward after reaching a peak in Q2 2022. The reasons are many. First, the global outlook for commodities remains weak with subdued demand and persistent looming recession as interest rates remain elevated. Second, doubts on a Chinese economic recovery. Third, WTI holds below $75 as world consumption remains depressed. Industrial metals continue to lag with copper prices, considered a barometer for the world's economy, dipped below $4.00 per pound after peaking at $4.87 in early 2022. Couple this with the outlook of easing interest rates mean inflation is softening. All of these items are not beneficial to commodity prices (**Chart 1**).

Chart 1

The S&P GSCI Commodity Index (GTX still remains in a downward trading pattern. The main trend is now down. The index is below the 50-week m/a and buying momentum is negative (not confirming additional upward strength). All these elements point to additional flat-to-down. A negative 'Red Cloud' in Q3 only adds to the pessimistic outlook. First price support is at 2,930.

5-year forecasting models suggest that the current downward trend will remain in place in Q3. Models point to around 3,000 as the expected late Q3 target.

Chart 1a

What does it mean? Nothing much has changed for commodity prices over the last year. Global demand for natural resources remains weak. Look for 3,000 as the first target. Remain on the sidelines.

Inflation vs deflation: Deflation

Outlook neutral: The 3-year view between inflationary assets and deflationary assets shows an equal performance since Q4, 2022. Deflationary assets do have a slight edge in performance over the last 12 months (**Chart 2**).

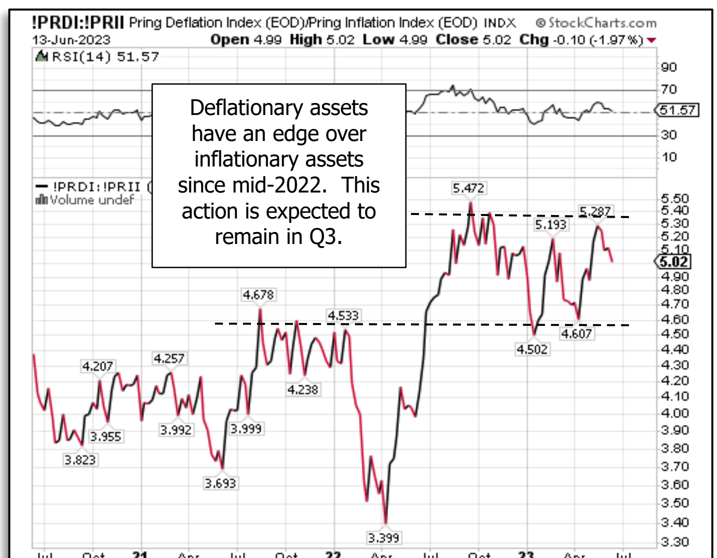

Chart 2

Commodity performance: Livestock

The S&P GSCI Livestock index had the highest performance, again. Now up almost 5% over the last 90 days. Livestock and Precious metals are typically late market cycle sectors (**Chart 3**).

What does it mean? As we said last month, we expect continued leadership from the Livestock and Precious metal sectors into mid-year and ongoing weakness from the S&P Commodity Index (GTX), now down 3.34%.

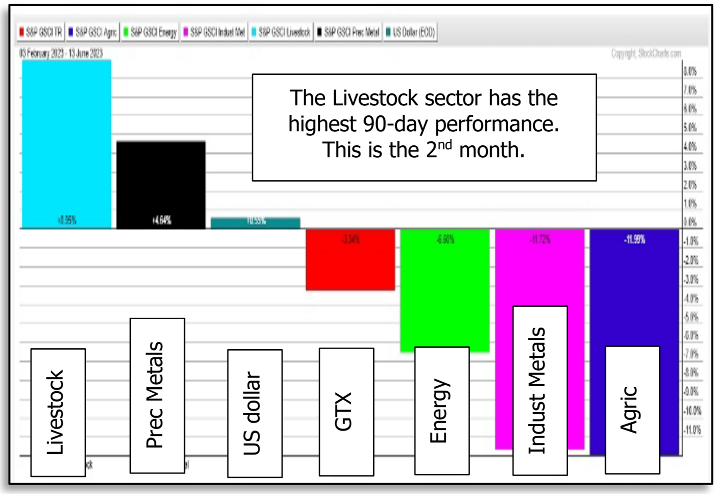

Chart 3

WTIC: Possible stability at $70

Outlook: negative: EIA recently reported US crude oil inventories surged by 7.919 million barrels, the most in 17 weeks. Also, gasoline and distillate stockpiles increased more than expected. The US Department of Energy plans to buy 3 million barrels of US produced crude oil at an average price of $73 per barrel (**Chart 4**).

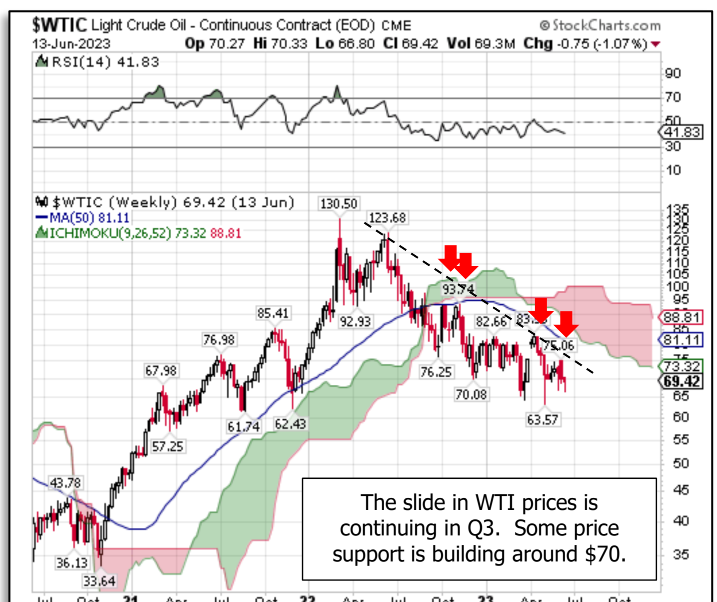

Chart 4

Light crude oil prices continue to drift downward. WTI prices broke the upward trend in Q3, 2022. A year later, prices appear to be finding some support around $70.00 per barrel. Remaining below the key 50-week m/a. Buying momentum (RSI) is negative (not confirming additional upward strength). On the 1st price support at $70.00. A break below this line points to $57.00, though an unlikely scenario. An expanding negative 'Red Cloud' in Q3 and early Q4 only adds to the pessimistic view of WTI.

Five-year forecast models suggest that WTI is likely in a bottoming process with $70.00 as the floor. The projected target by early Q4 is $73.50 (**Chart 4a**).

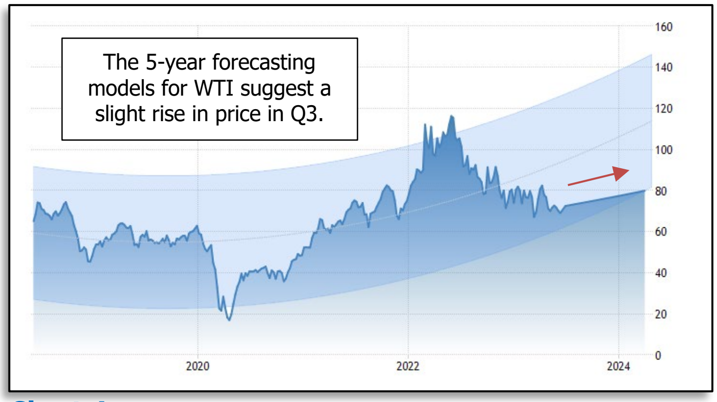

Chart 4a

<u>What does it mean</u>? World demand is slowly increasing however so is supply and inventory levels. This combination is expected to be neutral for oil prices. One crosses out the other. The price of WTI is expected to remain between $70 to $75 for the summer months.

<u>We suggest waiting on the sidelines for now. Still not attractive.</u>

Natural gas: Possible bottom

<u>Outlook: negative</u>: Natural gas prices are hovering around the $2.00 to $2.20/MMBtu level for the last 5 months following a massive decline of over 60%. Recently demand has increased due to the heat wave and the increased use of air conditioning. Domestic output (supply) is falling from May's record level of 102.5 bcfd. US LNG export plants dropped to a 5-month low due to maintenance.

NatGas prices appear to have finally found a floor between $2.00 and $2.20. The price has held that zone for 6 months. The commodity is well under the 50-week m/a. Buying momentum (RSI) is negative (not confirming upward strength) (**Chart 5**).

Five-year forecasting models suggest that natural gas prices will ease up very slightly over the next few months and trade around $2.45/MMBtu in mid-year (**Chart 5a**).

Chart 5

<u>What does it mean?</u> A slight decrease in supply plus the rise in demand (thanks to warmer weather) has kept Natural Gas prices stable. <u>Continue to avoid. Wait until NatGas prices break above $3.00. The target has been lowered, again, to $2.45 MMBtu.</u>

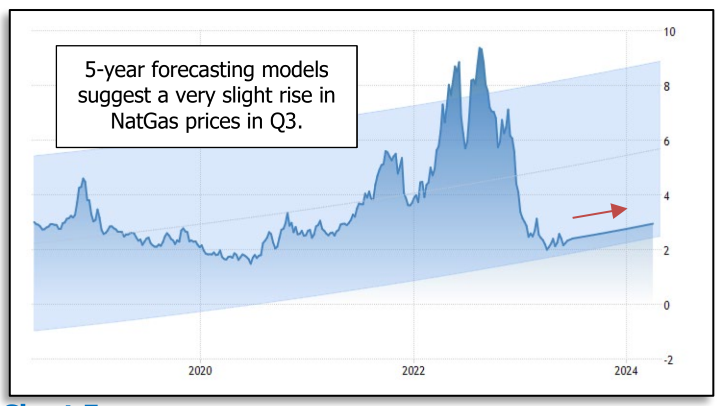

Chart 5a

Gasoline: Still under the 50w m/a

<u>Outlook: neutral/negative:</u> Gasoline in the US remained under pressure around $2.50 per gallon, well below the record levels of $4.00 seen in June 2022. This is due to lower demand, falling margins and increasing supply. New data from the EIA shows demand decreased from 9.218 to 9.193 million b/d in June. Meanwhile, total gasoline inventory increased to 220.93 million bbl, more than the market expected.

Gas prices continue to be held under the declining 50-week m/a. Three failed attempts to break above the line.