Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

June 2024

Commodities

Metals still dominate

Key Points:

- **S&P Commodity Index GTX stalls again at 3850**
- **Lower levels for the US 10yy spells weakness for the GTX**
- **The precious metal sector reaches the top in 90-day performance**
- **WTI finds price support at $78 after 11% decline**
- **Rebound rally for Natgas likely has no legs**
- **Silver prices breakout on demand optimism**
- **Gasoline prices pull back from $2.90 target**
- **Industrial metals ETF (GYX) jumps 27%!**
- **Bullish H&S pattern pushes Copper prices out**
- **Minor pullback for the S&P Livestock Index**
- **The US dollar finds a steady companion in the US 10-year yields, both edging down in Q3**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	1.98%	2.62%	**897.58%**
S&P 500	5.16%	10.64%	427.75%

The 19-yr average for the TS Model Portfolio – 11.60%
The 19-yr average for the S&P 500 – 8.47%

TS Model Income Portfolio – 8.22% average div. yield

GTX: A soft spot

Outlook Neutral/Positive: The S&P GSCI Commodity Index (GTX) and the US 10-year T-bond yields have reached a key junction in their advances. Commodity prices (GTX) have been leading US T-bond yields. The GTX has repeatedly stalled at the 3850 level. Adding to this resistance is the outlook of a softening US economy (i.e. jobless claims were above expectations, building permits are declining and many activity gauges missed expectations in May) increasing the bet of the Fed pivoting in Q3 or Q4.

All of this feeds on traders easing bullish bets on both assets.

The close trading correlation between the GTX and the US 10-year yields provides some guidance to the direction of commodity prices. 10-yy are expected to soften slightly in mid-year down to 4.30% as the US economy cools. The GTX shows buying momentum, (RSI) has dropped to neutral (not confirming additional upward strength). There is a narrowing of the positive 'Green Cloud' in Q3 adding to the expected stalling under the 3850 level (**Chart 1**).

Chart 1

The long-term monthly view of the GTX shows an extended consolidation building between 3050 and 3850. Buying momentum (RSI) is still positive as is the expanding 'Green Cloud' going into the second half of 2024. The outlook for the US 10-year yields is for more consolidation in the months ahead as the yield moves past its peak of 4.92% (**Chart 1a**)

Chart 1a

What does it mean? A slightly weaker print on US T-bond yields should hold the GTX in check in mid-year.
The 1st target is 3,890 followed by 4,200 for the GTX

Deflation vs. Inflation: Deflation wins

Outlook Negative: The 5-year performance between deflationary assets and inflationary assets shows an ongoing

Chart 2

higher performance from deflationary assets over inflationary assets (commodities). This superior strength began in Q3, 2022 (**Chart 2**).

What does it mean? A continually stronger-performing deflationary equity market is normally more bullish for the stock market than an inflationary-driven market. However, we anticipate a more even performance between the two asset groups in Q3 (**Chart 2**).

Commodity performance: Metals win

Outlook: Positive: All commodity groups posted a positive return over the last 90 days. Agriculture continues to experience steep declines. Note the retracement of the US dollar and the strength of precious and industrial metals. The outlook for the Big dollar is that the Fed has completed its tightening and lower levels are coming, which is positive for the metals (**Chart 3**).

What does it mean? We expect ongoing performance from most commodity groups, especially the metals, as the US dollar eases further in the months ahead.

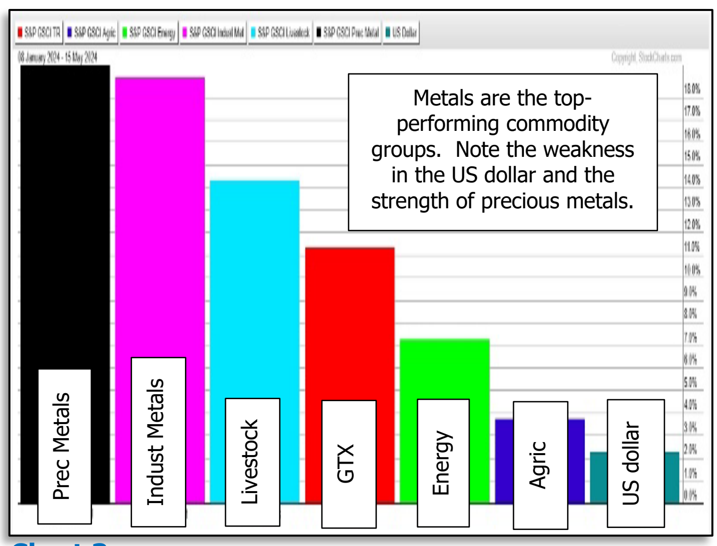

Chart 3

WTIC: Inventories decline

Outlook: Neutral/Positive: A larger-than-expected decline in US crude inventories helped support Light crude oil prices off the $78 level. Soft US inflation data for April and May helped bolster bets that the Fed will start cutting interest rates in Q3. The EIA cut global demand growth by 140,000 barrels per day to 1,100,000 due to data suggesting a global growth will continue to ease in the second half of 2024.

The 1-year trend is flat. WTI is on the 50-week m/a. Buying momentum (RSI) is neutral (not confirming additional upward strength). The thin positive 'Green Cloud'

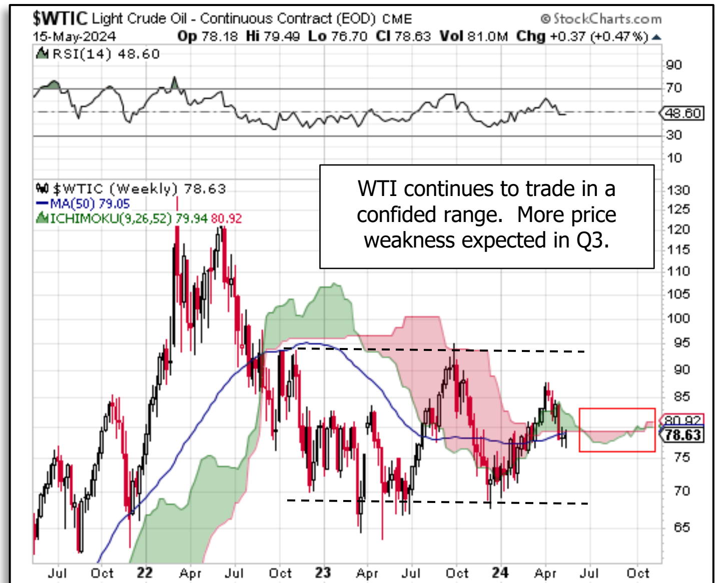

Chart 4

in Q2 is turning to a negative 'Red Cloud' in Q3 (**Chart 4**).

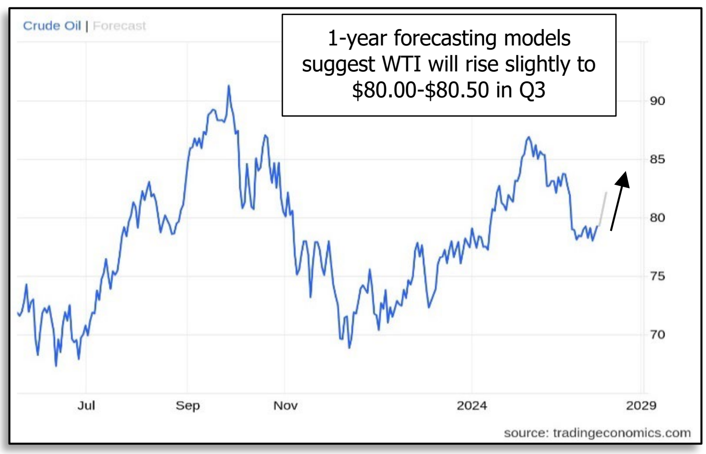

Chart 4a

1-year forecasting models suggest WTI will trade between $80.00 and $80.50 in Q3 (**Chart 4a**).

<u>What does it mean?</u> Only a moderate advance should be expected as supply dips but also expected demand. Our favourite stocks at this junction are Keyera Corp. (**KEY**), Pembina Pipelines Corp. (**PPL**), and DT Midstream Inc. (**DTM**), Oneok Inc. (**OKE**), Western Midstream Partners (**WES**), and Williams Co. (**WMB**).

Natural gas: Reaction bounce

<u>Outlook: Neutral</u>: The commodity jumped in May, the highest level in four months, on the EIA report of a smaller-than-expected storage. Still 30.8% above the 5-year average storage at this time. Looking into mid-year, weather forecasts suggests a warmer-than-normal temperatures in June and July leading to increased gas consumption by power generators.

The 1yr trend is flat. Natural gas prices plunged through the support level of $2.00 in February than reversed on storage levels and the forecast of warmer weather in June and July. Now heading to the resistance line of $2.95. There is some narrowing of the negative 'Red Cloud' in Q3 suggesting mild strength. Buying momentum (RSI) is positive (confirming additional upward strength) (**Chart 5**).

Chart 5

1-year forecasting models suggest that natural gas prices will remain around $2.50/MMBtu for the next few months (**Chart 5a**).

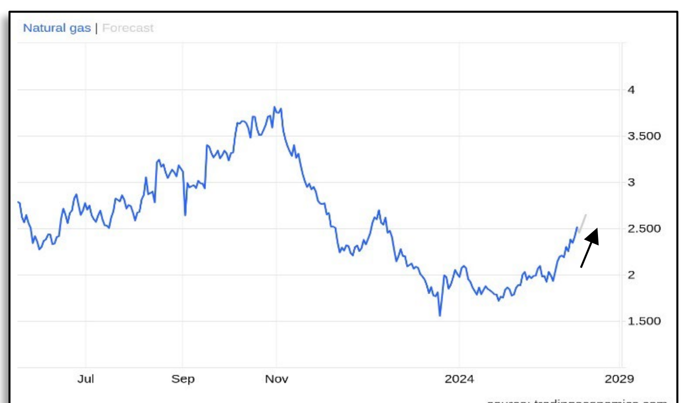

Chart 5a

<u>What does it mean?</u> Abundant supply plus warmer winter weather limits demand. Natural gas prices are expected to remain around current levels. <u>The target is $2.50/MMBtu</u>.

Gasoline: Retreat in mid-year

Outlook: Neutral: Gasoline futures bumped up in April to $2.78 per gallon only to retreat due to an unexpected drop in demand. With the start of the summer travel season, traders are betting on an increase in gas consumption. In addition, WTI oil prices have increased for the second consecutive week, supporting growing optimism.

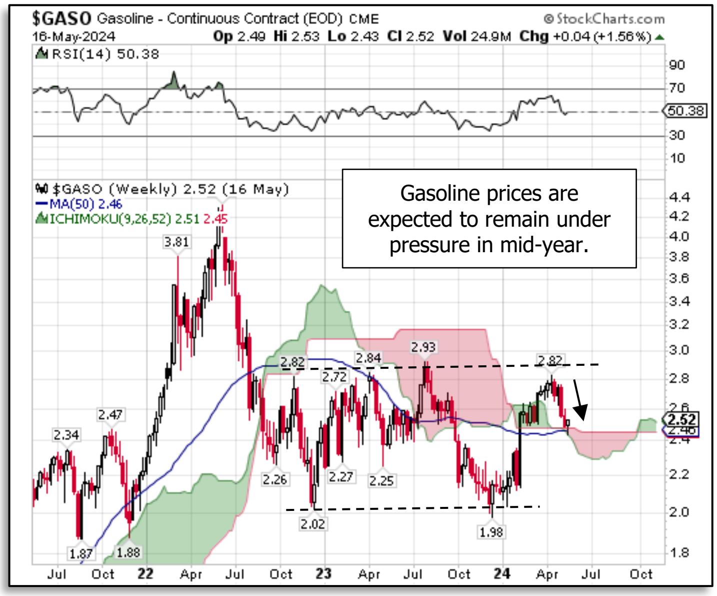

Chart 6

The 1yr trend is flat. Still boxed in a trading range of price support at $2.00 and resistance at $2.94. Gas prices are now on the declining 50-week m/a. There is a negative 'Red Cloud' in Q2 and Q3 suggesting more consolidation or price weakness (**Chart 6**). Buying momentum (RSI) is neutral (not confirming additional strength).

1-year forecasting models suggest that gas prices will rise slightly and reach $2.54 in mid-year (**Chart 6a**).

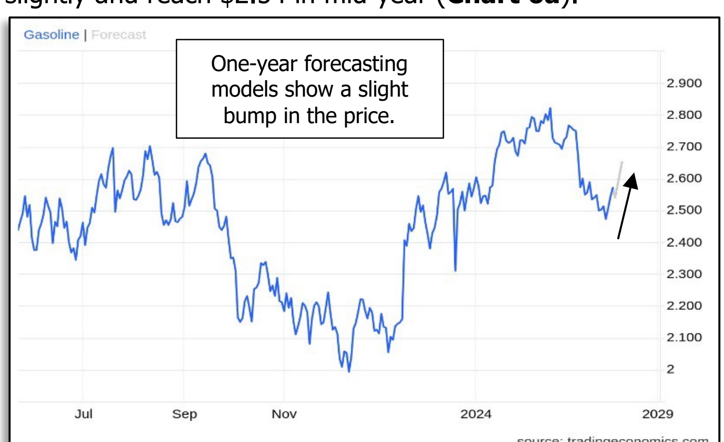

Chart 6a

What does it mean? The recent bounce has found price resistance and pulled back. Expect more range-bound trading with price support building around $2.50. Continue to hold.

Gold: Too far, too fast

Outlook: Positive Investors continue to monitor the increased expectations of the Fed interest rate cuts. Early signs of a slowdown in the US economy are providing more leeway for the Fed to pivot. Adding to the current positive view on the yellow metal is steady central bank buying and safe haven demand (**Chart 7**).

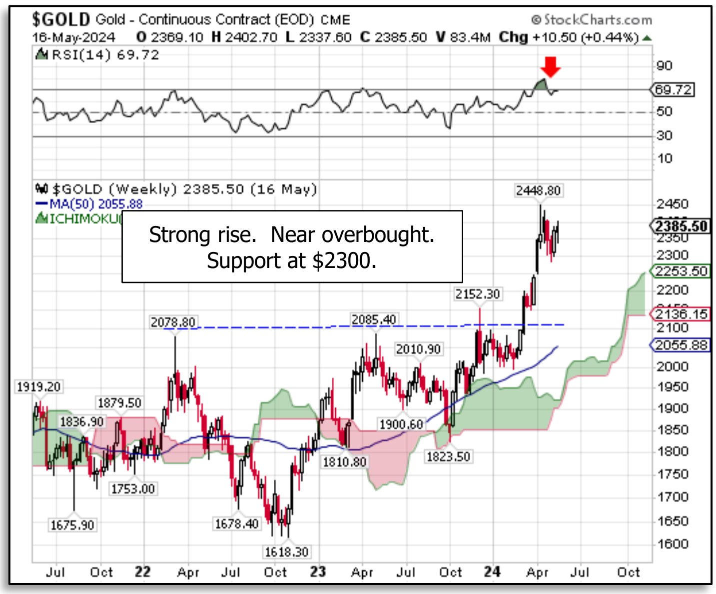

Chart 7

The 1yr trend is up. Gold prices rocketed through the resistance level of $2100 in late Q1, only to pause briefly in Q2. 1st price support is at $2300. Buying momentum (RSI) is positive and remains near an overbought reading. The positive 'Green Cloud' narrows in Q2 suggesting some price weakness and then widens again in Q3 implying ongoing strength.

The 1-year forecasting model's late Q2 target of $2375 has been met. Models are now indicating a Q3 target of $2440 (**Chart 7a on page 5**).

What does it mean? After the rapid rise in Q2, gold is taking a breather. We expect that the run is not over. The elements that drove gold up, are still present. Add to the position. $2440 is the next target.

Silver: Breakout to $30!

Outlook: Positive: The commodity price jumped in April driven by robust investment and industrial demand.