Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

June 2023

Commodities

Inflation eases, bonds rise

Key Points:

- **GTX continues to sag. Bottoming bond prices spell trouble for commodity prices in Q3**
- **Inflationary assets show declining performance against deflationary assets**
- **Livestock sector tops the 90-day performance, again**
- **Drifting prices for WTI continues**
- **Deep plunge for natural gas prices, possible bottom developing**
- **Gasoline prices still below the 50-week m/a**
- **Jump in gold prices now overbought**
- **Price peak for silver at $26.00**
- **Industrial metals index continues to weaken**
- **Copper prices drift lower as demand stalls**
- **Ongoing upward trend continues for livestock**
- **US dollar index finds a floor at 100 to 101**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	-2.38%	0.37%	**767.03%**
S&P 500	0.25%	8.86%	317.98%

The 19-yr average for the TS Model Portfolio – 11.43%
The 19-yr average for the S&P 500 – 7.43%

TS Model Income Portfolio – 9.71% average div. yield

GTX: A slow decline

Outlook neutral/negative: Commodity prices and US bond prices move in opposite directions. The slow rise in bonds is particularly important because the market is indicating that lower interest rates are coming soon.

Lower interest rates mean inflation is easing. Both items are not beneficial to commodities (**Chart 1**).

Chart 1

The S&P GSCI Commodity Index (GTX still remains in a slowly declining trading pattern. The main trend is drifting lower. The index is still 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 trading in mid-year. 'Red Cloud in Q3 only adds to the negative outlook. It also suggests more upside probability for US bond prices.

The five-year forecast for GTX (**Chart 1a on page 2**) suggests a slow decline over the next few months with 3,050 as the Q3 target.

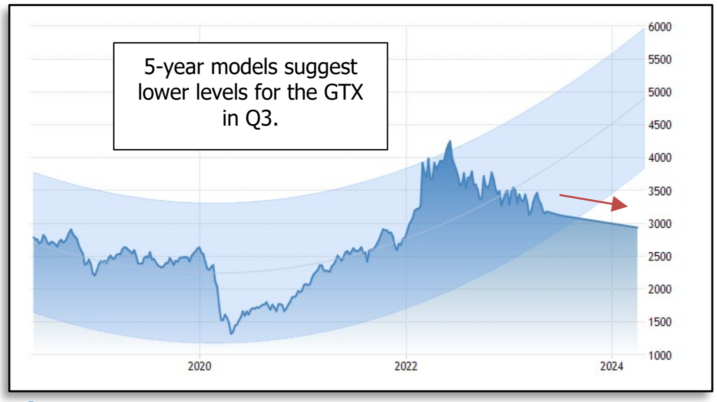

Chart 1a

What does it mean? Nothing much has changed for commodity prices over the last six months. The more dominant bond market is sending a strong signal that headwinds are building for natural resource prices. US bond prices are expected to slowly advance and the GTX is anticipated to have the opposite movement. A gradual weakening. Look for 3,050 as the first target followed by 3,000.

Keep in mind the overall tradable commodity market is about $660 billion. This compares to the US bond market which is $51.30 trillion.

Keep an eye on bond prices.

Inflation vs deflation: Deflation

Outlook neutral: The 3-year view of the performance between inflationary assets continues to show deflationary assets outperforming. Deflationary assets have been outperforming inflationary assets since July 2022 (**Chart 2**).

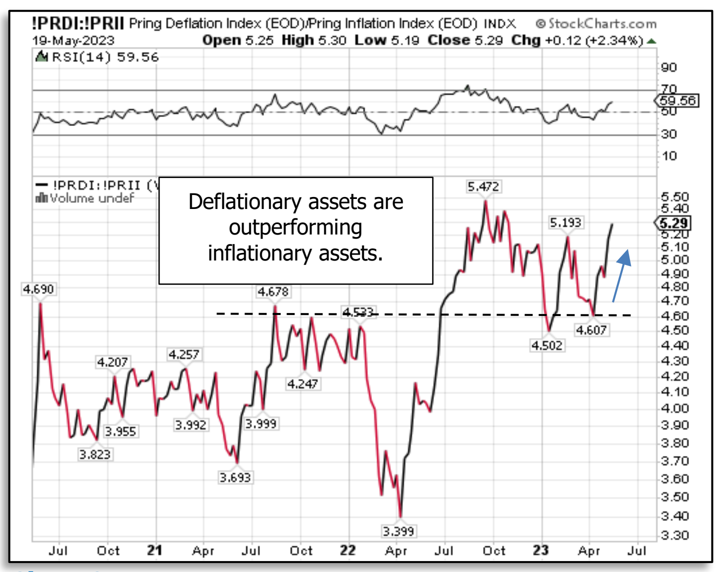

Chart 2

Commodity performance: Livestock

The S&P GSCI Livestock index had the highest performance. Now up almost 6% over the last 90 days. Livestock and Precious metals are typically late market cycle sectors (**Chart 3**).

What does it mean? 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 6.57%, and the energy sector. Down 11.03%.

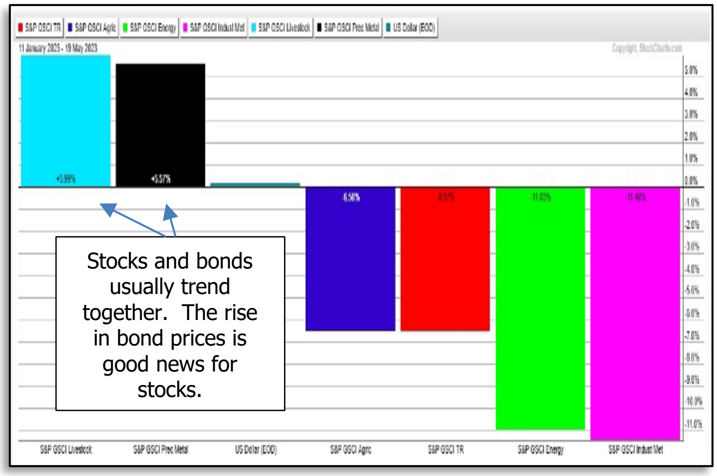

Chart 3

WTIC: More price weakness

Outlook: neutral/negative: Stronger-than-expected US jobs and wage growth suggests that the US economy remains resilient in the face of inflation and rising interest rates. Voluntary oil cuts by OPEC+ start this month, tightening an already constrained global market (**Chart 4**).

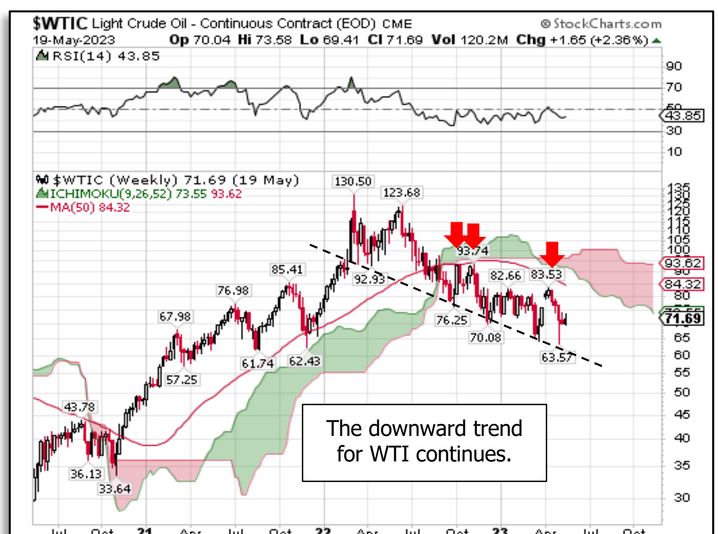

Chart 4

Light crude oil prices continue to drift downward. The slide started in Q3, 2022. Remaining below the key 50-week m/a. Buying momentum (RSI) is negative (not confirming additional upward strength). 1st price support is at $70. A break below this line points to $57, though an unlikely scenario. An expanding negative 'Red Cloud' in Q3 only adds to the pessimistic view of WTI.

Five-year forecast models suggest that WTI is in a bottoming process. This action is expected to continue over the next few months. (**Chart 4a**).

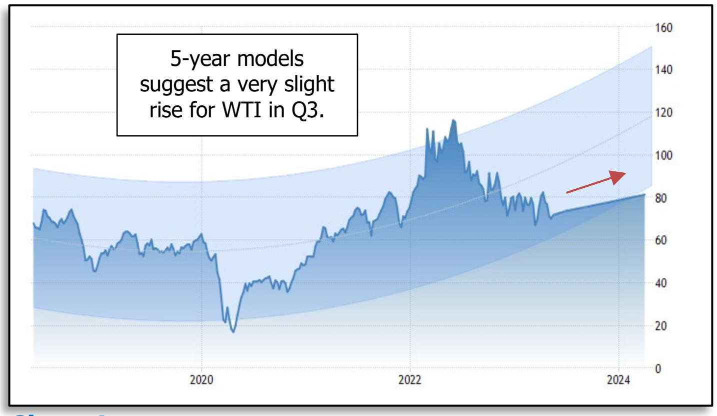

Chart 4a

<u>What does it mean?</u> World demand is slowly increasing and supply (thanks to OPEC+) is pulling back slightly. This combination is expected to be positive for oil prices. However, the effect will likely take a few months to benefit oil prices. The price of WTI is expected to remain $70 to $80 into the summer months

<u>We suggest waiting on the sidelines for now.</u>

Natural gas: Finding a bottom

<u>Outlook: negative</u>: Natural gas prices are hovering around the $2.20/MMBtu level following a massive decline of over 60% from the start of the year. The loss is from reduced heating demand and high inventory levels. Some supply reduction is expected for the big seven LNG export plants in June. The EIA reports that NatGas inventories remain above average for the summer.

Price congregation continues over the last four months around the $2.00-$2.20 level suggesting that Natural gas prices appear to be finding a floor. 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 $2.65/MMBtu in mid-year (**Chart 5a**).

<u>What does it mean?</u> Increasing supply plus the reduction in need (thanks to warmer weather) has kept

Chart 5

Natural Gas prices on the back foot. <u>Continue to avoid. The target has been lowered to $2.65 MMBtu.</u>

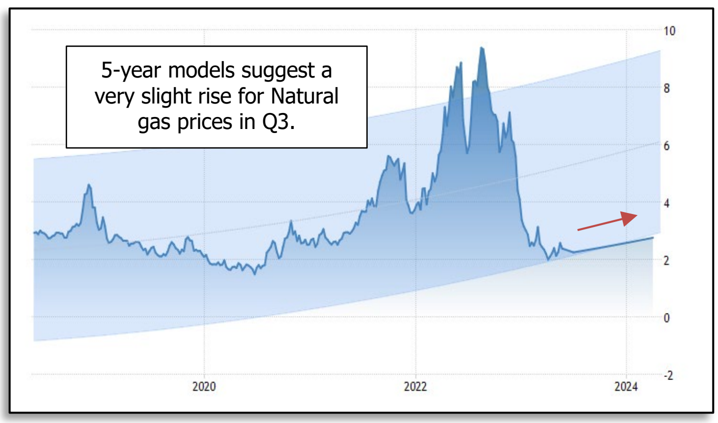

Chart 5a

Gasoline: Still under the 50w m/a

<u>Outlook: neutral/negative:</u> The oil market had some supportive gains following the stronger-than-expected US jobs report and OPEC's supply cuts. OPEC+ had agreed to cut another 1.6 million barrels per day from its production quotas starting in May. However, US drivers are currently experiencing a pre-summer driving lull. EIA showed gas demands decreased from 9.51 to 8.62 million in late May. At the same time, gasoline stocks rose by 1.74 million bbl to 222.9 million bbl.

Gas prices continue to hold in a consolidation pattern over the last 11 months. Buying momentum (RSI) is neutral (not confirming additional buying pressure). Still under the 50-