Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

June 2020

Strategy

A weak start to a renewed bull market

Key observations

- **Equity recovery persists, in spite of COVID-19. The bull market continues.** The Q1 2020 pullback was just one of many – and the sixth so far since 2009 – within a secular bull market.
- At present, the broader market (S&P 500) appears to have successfully regained its secular upward trend. The first key support level is at 2475.
- The emphasis should still be with deflationary sectors (industrials, financials, consumer cyclicals, healthcare and technology) and underweight inflationary groups (materials, energy, and industrial metals). Some minor weighting in gold is suggested, as U.S. debt dramatically increases due to COVID-19 relief.
- We remain long-term bulls on the market and continue to believe that the current correction will end in mid-2020.
- We reiterate our target price objective of 3450 for the S&P 500.

Microthoughts

- **U.S. economy: Weak** – The Q1 annual gross domestic product (GDP) growth rate plunged to its lowest level since 2009. The latest number is 0.3%. This is a 2.00% decline from Q4 2019.
- **10-year bond yields: Below 1%** – The rush for safety has pushed bond yields ever lower in early 2020. Models point to a mild rebound to 0.74% in Q3.
- **U.S. dollar: Cresting** – The U.S. Dollar Index (DXY) advance continues to slow, as the greenback trades around par. Rapidly increasing government debt (presently $2.50 trillion) should apply downward pressure on the DXY in Q3.
- **Commodities: Short-term rise** – As the world economies start to reconnect in mid-2020 after the COVID-19 outbreak, the Commodity Research Bureau (CRB) Index is beginning to rise. Demand for oil and base metals is building again. The outlook for the CRB Index in Q3 suggests price levels of between 133 and 136.

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	8.97%	-2.33%	**563.15%**
S&P 500	7.73%	-5.77%	204.43%

17-year average for the TS Model Portfolio 11.86%
17-year average for the S&P 500 6.82%

https://www.technicalspeculator.com/services/ts-model-growth-portfolios 10.51% average dividend yield

Market commentary: Mixed Q3 results

The fallout from COVID-19 can be measured in many ways. From a human perspective, it has been extremely challenging, from lives lost, to sudden unemployment, to months of lockdown. From an economic standpoint, the impact has been dramatic, cutting deep into the growth of the last few years. Nevertheless, traders are driving markets forward as opportunities continue to appear. The U.S. markets are poised for more range-bound trading in mid-year, but with gradual strengthening in Q3. Models point to 3450 for the S&P 500 as the next target. From an economics viewpoint, the outlook is not as promising. Current record high unemployment levels are expected to remain elevated in Q3, and annual GDP levels should slowly improve.

Bottom line: We remain bullish on the markets in the second half of 2020. We continue to believe that this stock market has room to run, and we expect the economic recovery to gain strength starting in Q3.

Donald W. Dony, FCSI, MFTA – May 26, 2020

Commodities

Limited bounce from most resources

KEY POINTS:

- **Commodity index (CRB) still oversold, with oil keeping the pressure on**
- **Precious metals had the best 90-day performance, again**
- **Price weakness continues for natural gas in Q3**
- **The bounce in gasoline prices stalls at $1.00**
- **Forecast for gold in Q3 is below $1,700**
- **Price slump in base metals continues**
- **Price weakness continues for copper**
- **U.S. dollar's advance slows as $1.015 nears**

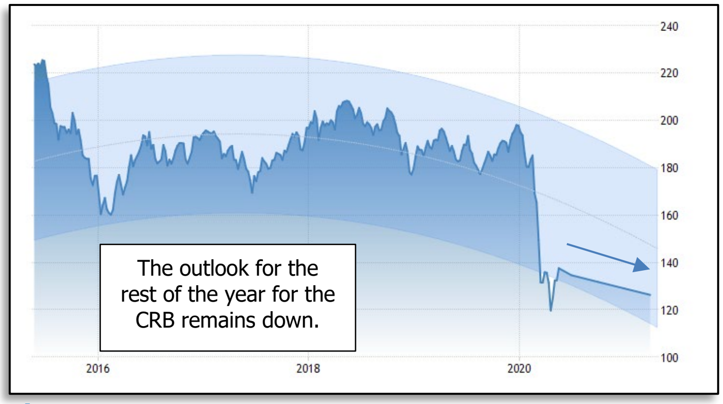

Chart 1a

CRB outlook: No upside showing

Outlook negative: The CRB appears to have found cautious price support in the 110-to-125 range, after falling by more than 43% in early 2020. The main driver was the deep plunge in oil prices, but the drop in industrial metals and agriculture prices is adding to the decline (**Chart 1**). Now at a 20-year low, the index is oversold, suggesting that a final bottom maybe forming. However, any upside bounce at this juncture appears remote, as the primary cause of the widespread weakness in resources is from COVID-19.

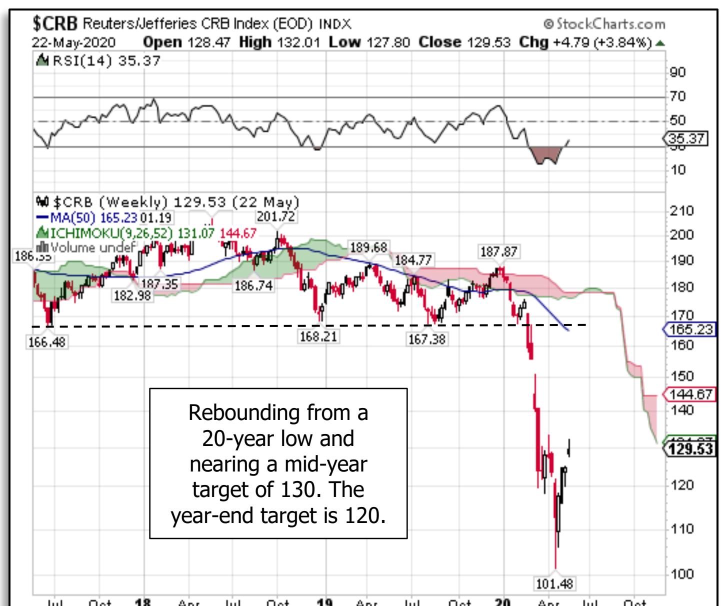

Chart 1

Curve-fitting models illustrate no upside potential for the rest of 2020. Models forecast a mid-year target of 130, and a year-end target of 120 (**Chart 1a**).

Bottom line: The CRB appears to have little or no upside potential this year. Only precious metals are showing some upside.

Deflation vs. inflation

The decline in the equity markets (deflationary) is greater than the recent drop in inflationary assets (commodities). The relative strength relationship is now oversold, favouring a little performance improvement from equity markets over commodities.

We expect that deflationary assets will regain higher relative strength over inflationary assets in the second half of this year (**Chart 2**).

Chart 2

Commodity performance:

The S&P GSCI Precious Metals Index ($GPX) was the only commodity group that posted a positive reading over the last 90 days. Note the relative price strength of the U.S. dollar. The rise of the dollar and precious metals is due to the 'safe haven' mentality caused by the impact of COVID-19. It's no surprise that the energy sector had the lowest performance, with a decline of more than 54% – the only commodity group that under-performed the CRB (**Chart 3**).

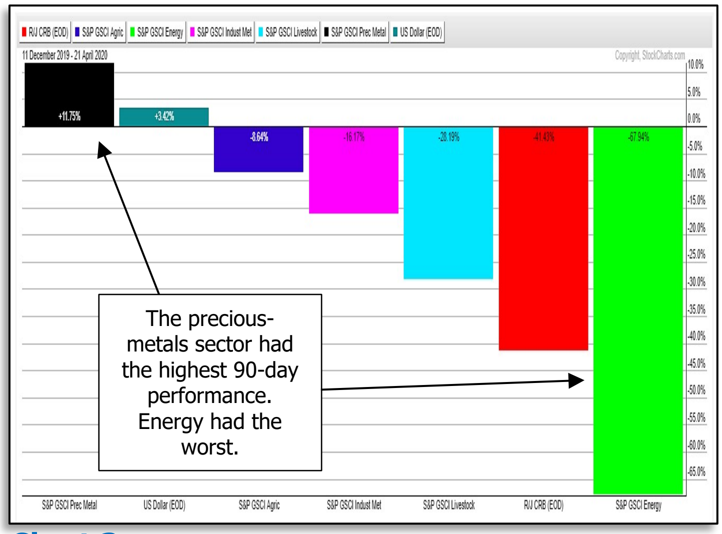

Chart 3

WTIC: Remaining below $40

Outlook negative: The sudden drop in light crude oil prices appears to have found a floor: prices are now on the support level of $20 (**Chart 4**). Buying momentum (Relative Strength Index [RSI]) is still negative, but rising (confirming additional price weakness). The first resistance level is at $40. There are no signs of a continued rebound building. Conditions continue to be negative for oil prices.

Curve-fitting models (**Chart 4a**) suggest that price weakness will persist throughout most of this year, with prices below $35. The Q3 and Q4 target range is between $30.00 and $32.00.

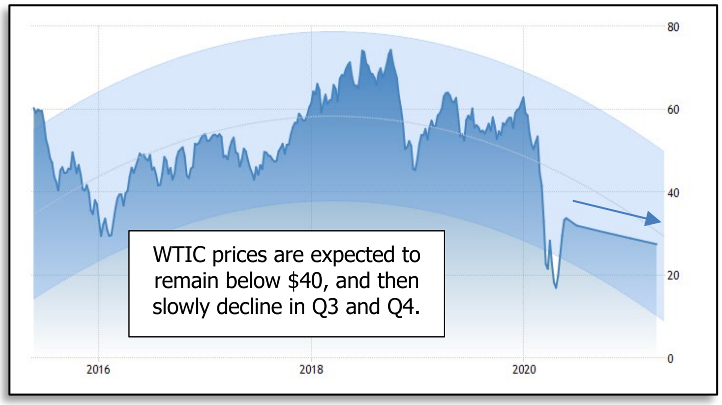

Chart 4a

Bottom line: The price of light crude oil is expected to remain weak throughout this year, as demand is not expected to rise significantly until near the end of the year. Therefore, WTIC is expected to hover around its current levels. Stay on the sidelines for now.

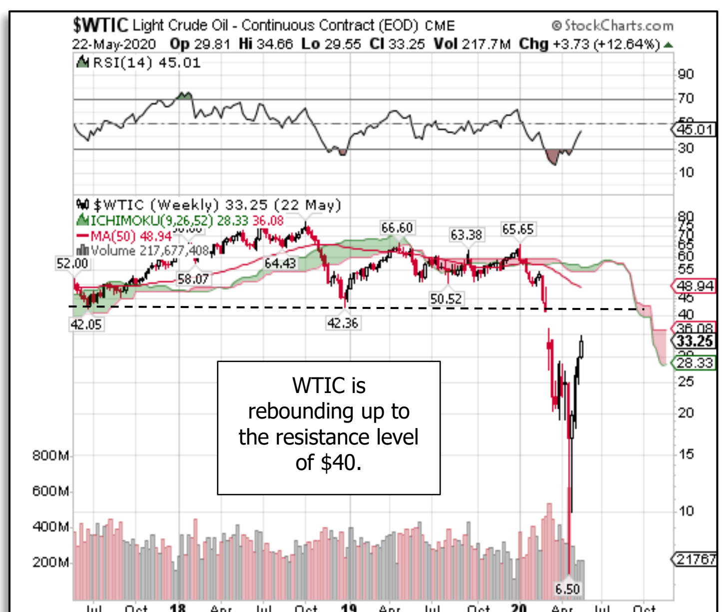

Chart 4

Natural gas: Support at $1.58

Outlook neutral/negative: The price weakness continues into mid-year. A new low was struck in mid-March, at $1.52, and price levels are expected to remain contained below $2.00 over the summer months. Buying momentum (RSI) is nearing neutral (confirming some ongoing strength). The index is still below the declining 50-week m/a. First price support is at $1.50 (**Chart 5**).

Chart 5

Curve-fitting models (**Chart 5a**) continue to point lower, with a slow drift downward for this year. A retest of the low ($1.52) is the projected target in Q3, and $1.45 at year-end.

Bottom line: There are no signs of price strength in natural-gas prices right now. Stay on the sidelines.

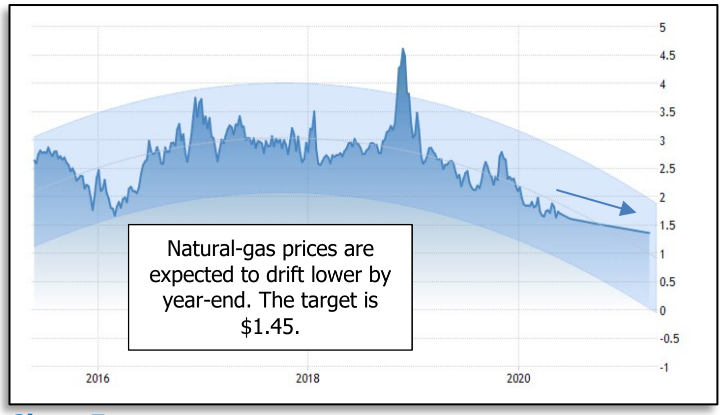

Chart 5a

Gasoline: Stalling at $1.25

Outlook negative: Gasoline prices (GASO) appear to have bottomed over the last few months. The current trend is still down (**Chart 6**), and buying momentum (RSI) is negative (confirming ongoing price weakness). Expect some price resistance at $1.25.

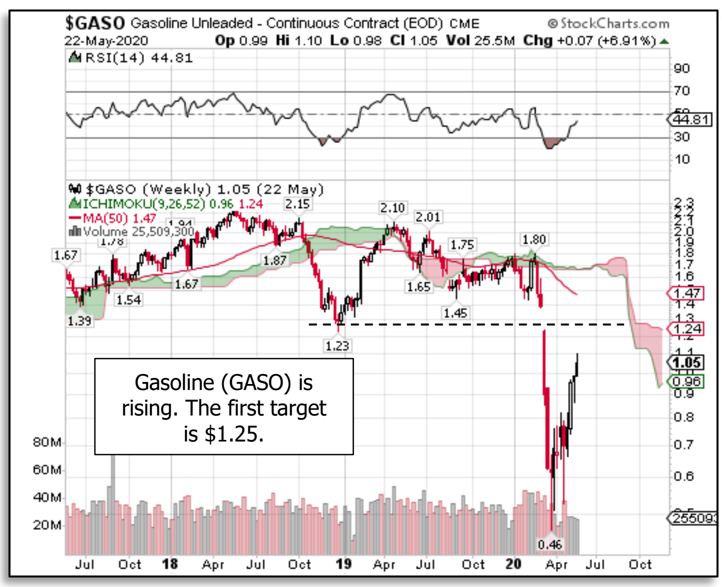

Chart 6

Curve-fitting models (**Chart 6a**) show a weakening outlook for gas prices for the rest this year. The Q3 projected target for gasoline is about $0.98 USD/gal., and the Q4 target is $0.85. Remain on the sidelines.

Bottom line: Gasoline prices move with oil prices. Since our models suggest that oil prices are expected to continue to be weak, so will gas prices.

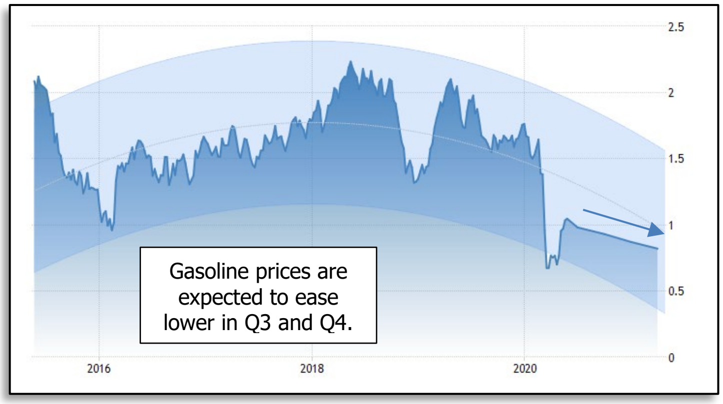

Chart 6a

Gold: Pullback expected in Q3

Outlook positive: Gold prices moved to a new high, as investors continued to buy the safe haven metal. Now at the resistance level of $1,755. Buying momentum (RSI) is still positive, but fading. Still well above the rising 50-week m/a. The first support level is at $1,650. The second support level is at $1,575 (**Chart 7**).

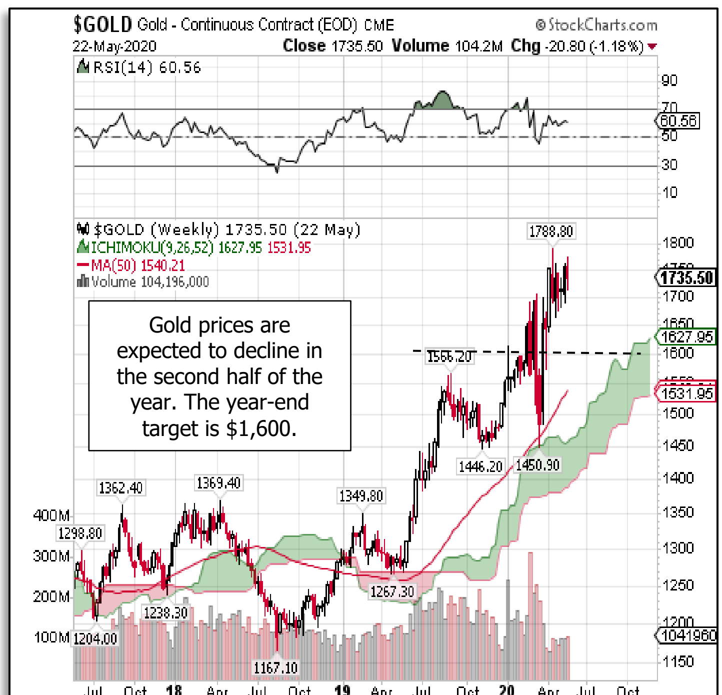

Chart 7

Curve-fitting models indicate a slight downward drift over the next few months, with an expected target of $1,650 by Q3, and a year-end target of $1,600 (**Chart 7a** on page 5).

Bottom line: The upward run for gold in early 2020 appears to be nearing a crest. Models indicate a gradual weakening in price over the next few months. Trim positions now.

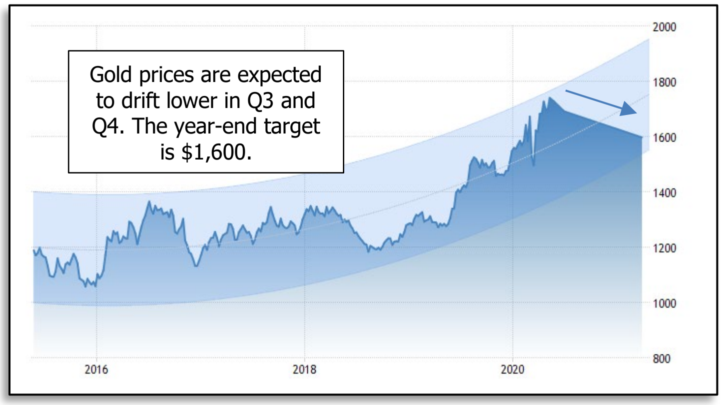

Chart 7a

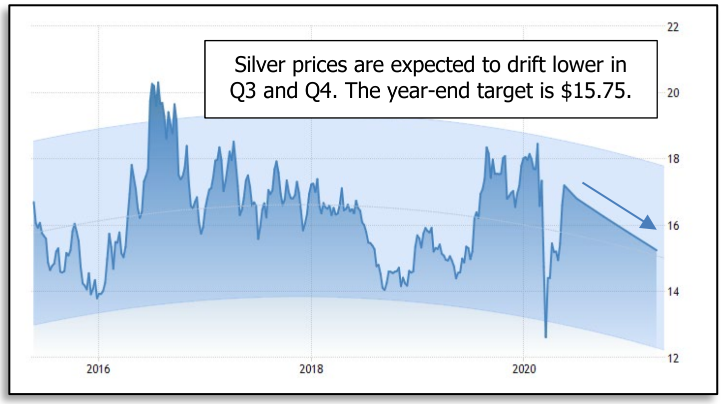

Chart 8a

Silver: Staying below $18.50

Outlook neutral/positive: Recent price action shows that silver prices are still in a multi-year consolidation bound by $14.00 at the bottom and $18.50 at the top. Buying momentum (RSI) is positive (**Chart 8**).

Chart 8

Curve-fitting models show a dismal picture in the months to come, including a gradual downward slide in Q3 with a target of $17.00, and a year-end target of $15.75 (**Chart 8a**).

Bottom line: The outlook for silver is neutral to negative. Use any upward bounce to reduce position size. Models suggest little to no upside potential this year.

Industrial metals: Continued down

Outlook negative: The index posted a new three-year low in April, at 255.10. The trend remains down. Buying momentum (RSI) is negative (confirming weakness).

The index is still below the declining 50-week m/a. First price resistance is now at 288. A limited rebound is probable in mid-year (**Chart 9**).

Bottom line: The S&P GSCI Industrial Metals Index is still trending lower. Use any bounce to reduce position size. Nothing positive for industrial-metal prices at this juncture.

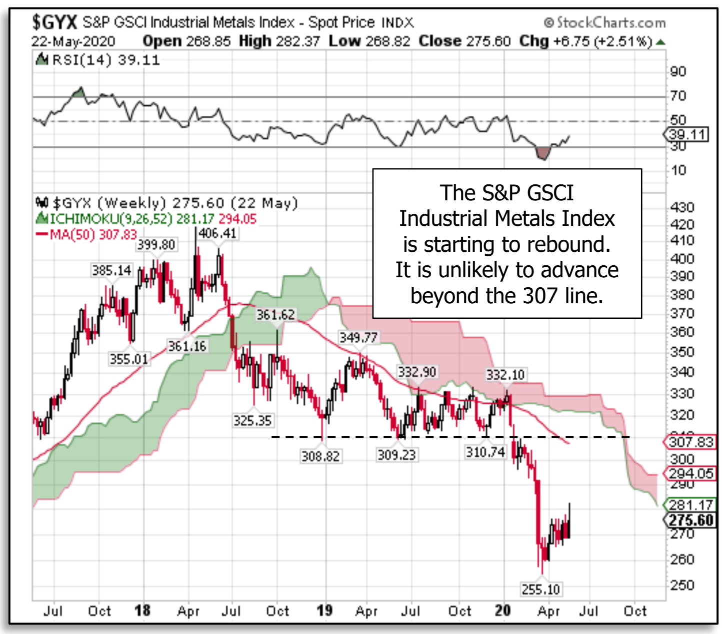

Chart 9

Copper: Downward trend

Outlook negative: The commodity price has fallen by more than 29% since the start of the year, breaking the key support level of $2.50 in February. It is now at a three-year low. Buying momentum is negative (confirming the weakness). The bounce in May hit resistance at $2.45 to $2.50 and is expected to stall (**Chart 10** on page 6).

Curve-fitting models continue to display a negative outlook for the remainder of this year (**Chart 10a** on page 6). The models indicate a slow drift downward, to $2.15 in Q4.

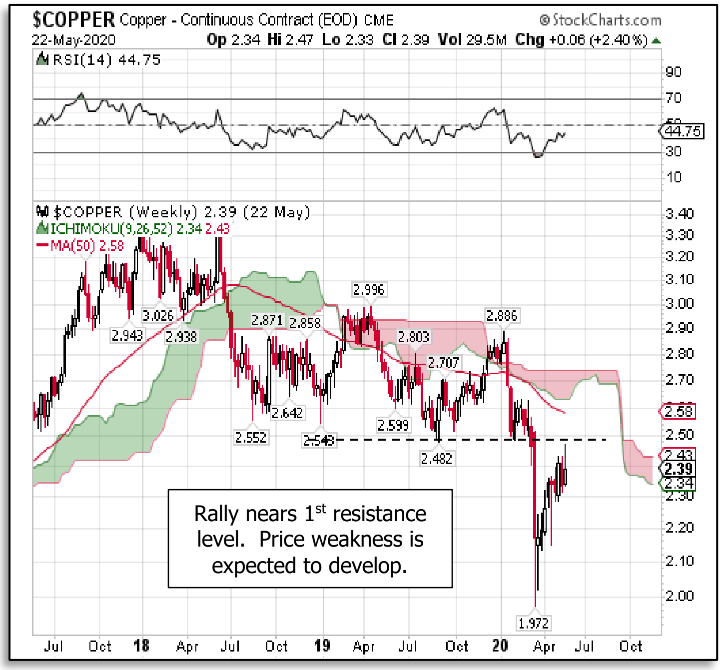

Chart 10

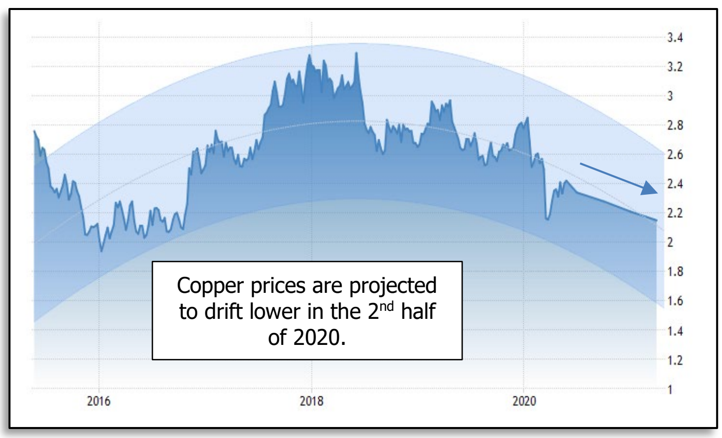

Chart 10a

Bottom line: Copper prices have broken down through the key support level of $2.50 and are now heading lower. Use any recoil to lower position size, then stay on the sidelines.

Agriculture: Still consolidating

Outlook neutral/negative: The index is still locked in a multi-year trading range. Buying momentum (RSI) is negative (below 30, confirming weakness), and the index is also below the 50-week moving average (m/a) (not encouraging). It is heading to the next support level of 250. Any advance is still expected to be very limited (**Chart 11**).

Bottom line: Although the agriculture index is one the better-performing commodity sectors, the outlook is still poor. We expect more price weakness over the next few months. Stay on the sidelines.

Chart 11

U.S. dollar: Losing momentum

Outlook neutral: The U.S. dollar's uptrend continues to slow. After posting a two-year high of $103.96 in late March, the dollar has failed to extend, and now appears to be in a gradual topping pattern. RSI is at 50 (not confirming any additional price strength), and the index is still above the 50-week m/a (one positive sign). The first support level is now at $0.986. First resistance is at $1.015 (**Chart 12**).

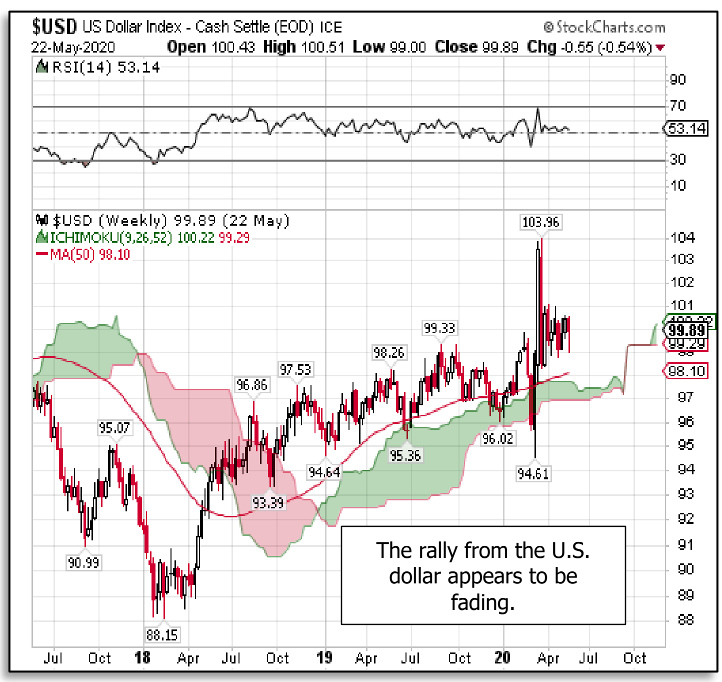

Chart 12

Curve-fitting models show price weakness building in mid-year. A year-end target of $0.975 expected (**Chart 12a**).

<u>Bottom line</u>: The DXY is not expected to weaken much over the next few months. Investors should continue to hold their positions in the U.S. dollar, but start reducing if the greenback drops down to $0.968.

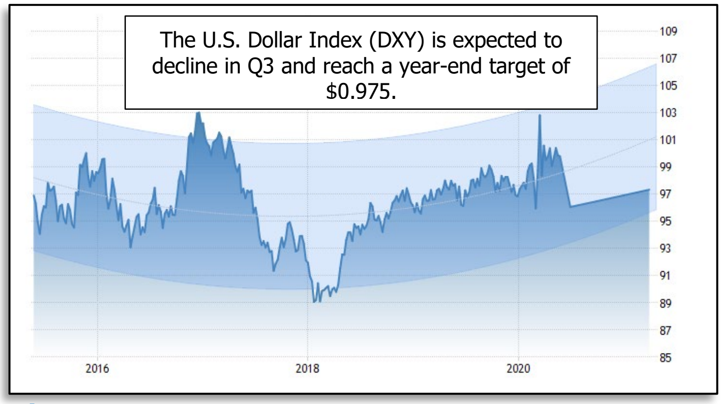

Chart 12a

What does it all mean?

Low demand for commodities is expected to continue, as the world continues to battle the effects of COVID-19. It will take time for economies to gear up and require more natural resources. Couple this with a strong U.S. dollar, and commodity prices are under pressure. Our modelling points to a continuation of this current slump in commodities into Q3/Q4, as the world's economies will need time to regroup.

What should investors do?

The only buying opportunity is in gold. The precious metal is advancing as a safe haven play. That stimulus should continue over the summer. All of the other commodity prices are weak or declining. We would suggest buying only the strongest (gold). For a risk-oriented investor, look at silver and energy. Both should start strengthening over the summer.

International Equities

Gradually gaining strength

KEY POINTS:

- **World markets slowly gaining momentum**
- **Price barrier of 410 still stands in the way for the Dow Jones Global Index (DJW)**
- **World Index ex-US stalls after brief bounce**
- **China's Shanghai leads in performance**
- **Emerging markets continue to rebound**
- **Nikkei reaches first resistance level**
- **Hang Seng's rebound struggles**
- **India's BSE rolls over after brief rally**
- **Germany's DAX slowly advances toward next barrier of 11,400**
- **France's CAC holds above 4250 support**
- **Mexico's Bolsa continues base-building**
- **More time still needed for Brazil's Bovespa recovery**
- **Australia's ASX still struggling to advance**

Overview: Rebound hits resistance

<u>Outlook neutral</u>: The rebound rally from the March low has hit the resistance level at 377 and stalled. This is the first major price barrier and test for the recovery of the DJW. Buying momentum (RSI) is near neutral (not confirming strength yet). The index needs to move above 410 to indicate that the bull market is back. First support is at 355 (**Chart 13**).

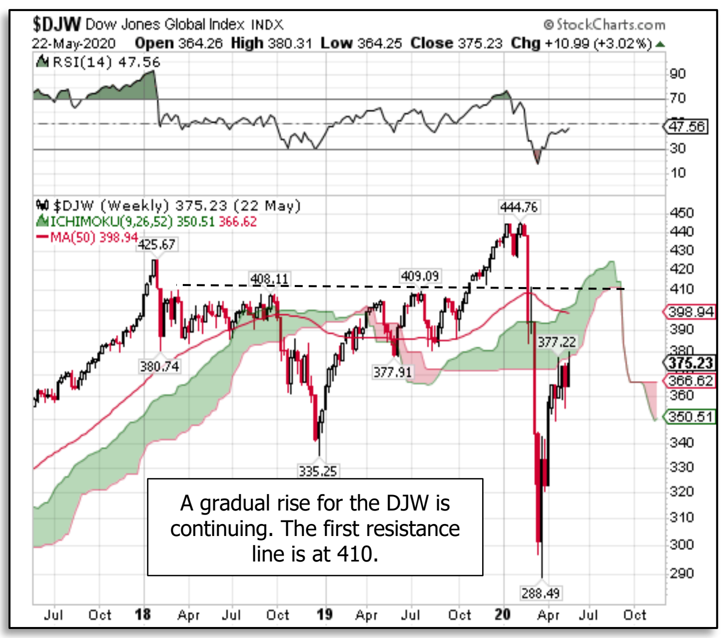

Chart 13

The 12-year perspective shows the index recovering from the Q1 breakdown and (appears to be) back in the upward trend line (**Chart 13a** on page 8). Monthly buying momentum (RSI) is still negative (below 50), suggesting that more weakness is expected.