Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

March 2023

Commodities

Few positives as headwinds remain

Key Points:

- **GTX continues to stall, closely tracking lower US inflation and 10y T-bond yields**
- **Inflationary assets show declining performance against deflationary assets**
- **Metals sector tops the 90-day performance**
- **A weaker trend builds in WTI**
- **More weakness for NatGas prices, now oversold**
- **Gasoline prices still below the 50-week m/a**
- **Jump in gold prices ends at $2,000**
- **$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**
- **Mild upward trend continues as S&P GSCI Livestock Index**
- **US dollar index rebound points to $1.08**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	-0.58%	1.08%	**775.04%**
S&P 500	-2.61%	3.40%	297.02%

The 19-yr average for the TS Model Portfolio – 11.63%
The 19-yr average for the S&P 500 – 7.25%

TS Model Income Portfolio – 8.03% average div. yield

GTX: Parallel trends

Outlook neutral: Where the US T-bond yields go, so do commodities. The S&P GSCI Commodity Index (GTX) has moved in lock-step with the US 10-year yields over the past decade. That tells investors considerable about the path of commodities going forward into 2023. The Fed is still engaged in contouring inflation and bringing the US inflation rate down to 2%. This action suggests a few more minor interest rate increases (likely only 25bps increases), which is good for bond yields and the GTX (**Chart 1**).

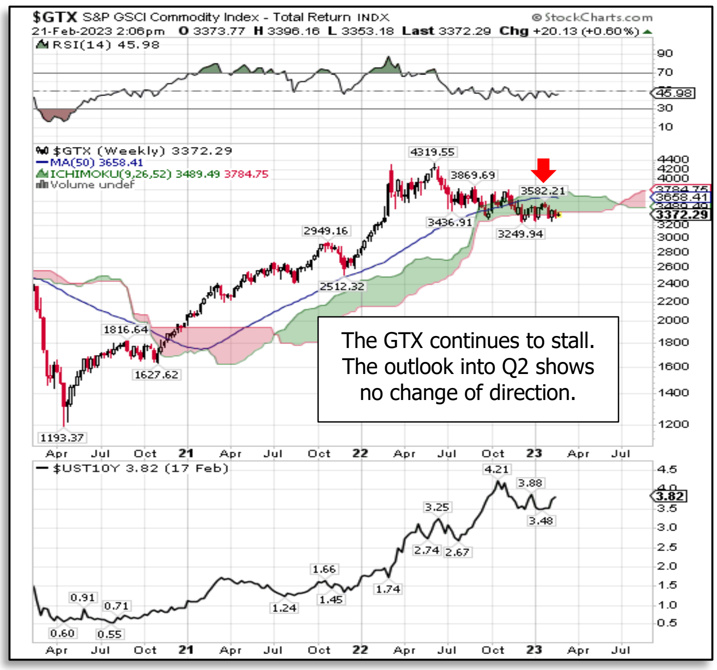

Chart 1

Technically, the GTX still remains in a consolidating trading pattern between 3250 and 3870. The main trend is flat. The index is below the 50-week m/a and buying momentum is neutral (not confirming additional upward strength). All these elements point to additional flat trading into Q2.

Five-year comparison between the GTX and the US 10-year T-bond yield illustrates the close tracking of the two indexes (**Chart 1a on page 2**). It also highlights the stalling over the last year.

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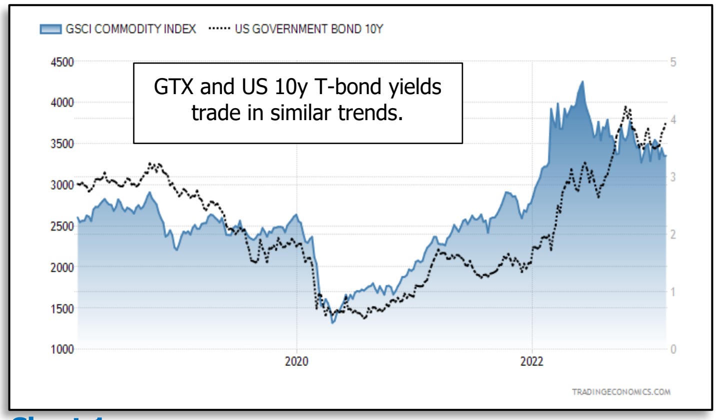

Chart 1a

Another challenge that commodities face moving forward is the tight connection that natural resources have with inflation (**Chart 1b**).

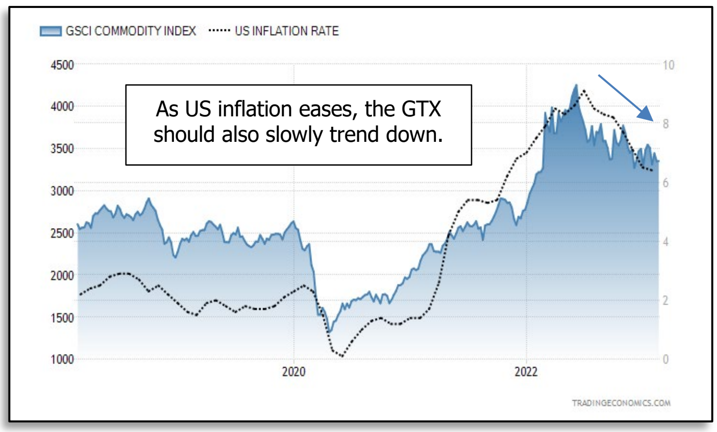

Chart 1b

<u>What does it mean?</u> The upward trend for the S&P GSCI Commodity Index has stalled since mid-2022. There is no evidence of breaking out of that flat trend. We have upgraded our Q2 target to 3500 as upward pressure still remains US T-bonds yields which should also point to support for commodity prices.

Inflation vs deflation: Q1 jump ends

<u>Outlook negative</u>: Inflationary assets' performance over deflationary assets enjoyed a brief bounce at the start of 2023, but that rebound appears to have ended as fast as it started (**Chart 2**). Deflationary assets are gaining strength over inflationary assets.

<u>What does it mean?</u> We have paired the S&P 500 with the Deflation/Inflation Index. What the comparison shows is that there is a rough trend association between the two. It illustrates that the S&P performs better when deflationary assets outperform inflationary assets. As the index is now

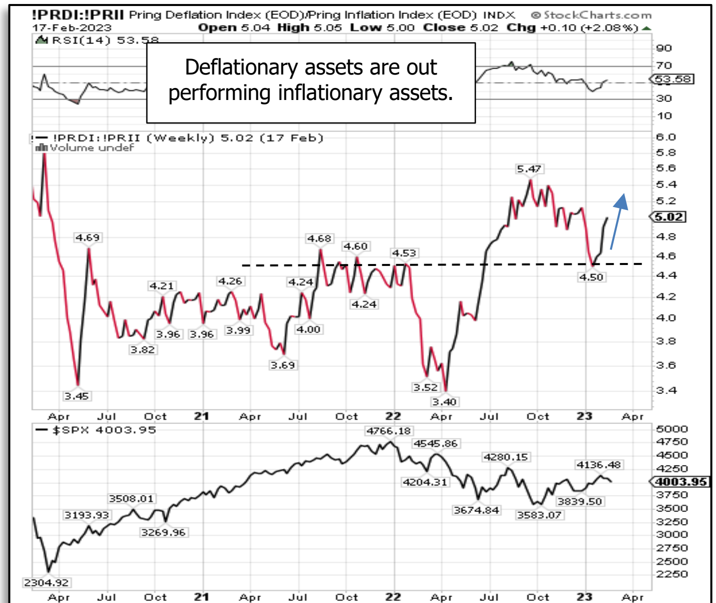

Chart 2

rebounding favouring deflation, this is a positive indicator for the S&P 500.

Commodity performance: Metals

The unyielding advance of the king dollar has peaked and is now on a downward trend, thanks to the new dovish approach to interest rate increases. This new movement has given life to the late market sectors. Industrial and precious metals are at the leader this month. Energy, which was a commodity leader in 2022, has now dropped down to last place (**Chart 3**).

<u>What does it mean?</u> The Fed's aggressive interest rate policy last year helped push up the dollar in 2022. But that pattern has now changed. A weaker dollar plus a very mature market (now at 14 years), favours the late-performing sectors. We expect continued leadership from the industrial and precious metal sectors into Q2.

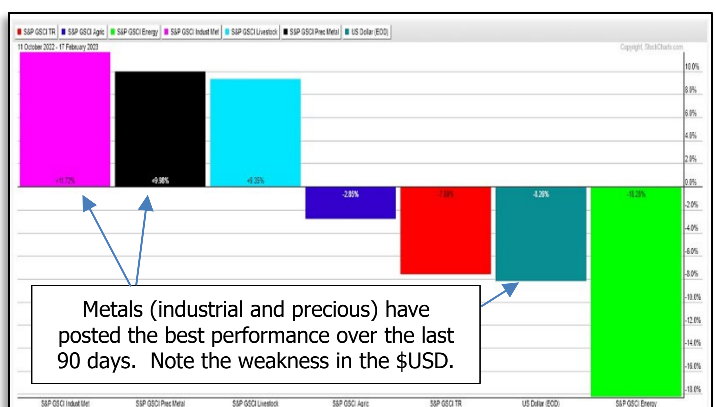

Chart 3

WTIC: Weakening trend in Q1

<u>Outlook: neutral/negative</u>: Russia has recently announced a 5% reduction in total production (500,000 barrels per day) in March. As global supplies remain tight at a time when demand in China is set to rebound.

The slow drift downward continues to grip WTI prices in the second half of 2022, appears to have found price support at about $70.00. Still below the key 50-week m/a (negative). The main trend is flat. Buying momentum (RSI) is now neutral/negative (not confirming additional upward strength). Price resistance sits at $90.00 (**Chart 4**).

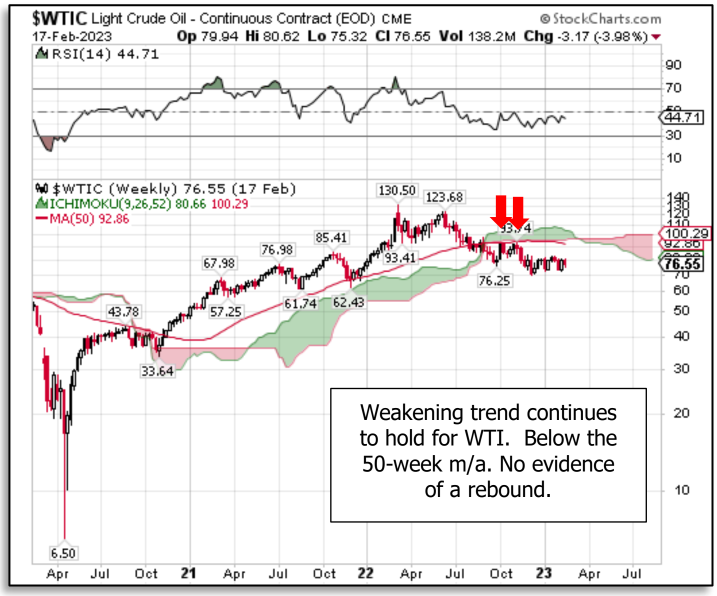

Chart 4

Five-year forecast models suggest measured movement for WTI over the next few months. The price of WTI is expected to remain under $80.00 over the next few months (**Chart 4a**).

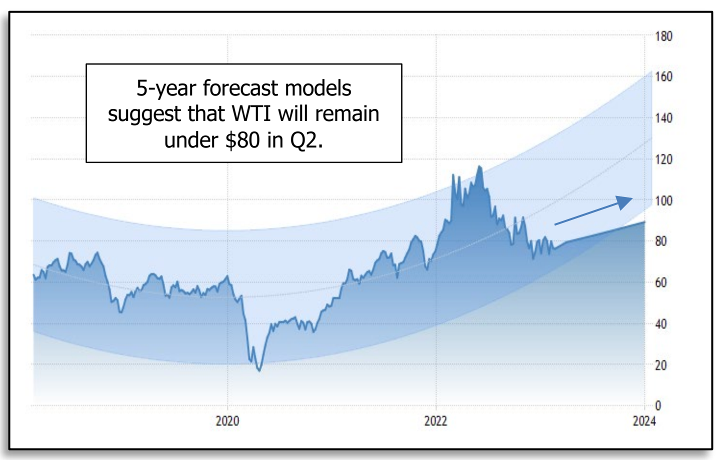

Chart 4a

<u>What does it mean</u>? The reopening of China coupled with the reduction of Russian oil on the world market should prove a floor for WTI prices. We do not expect oil prices to dip down to $70.00 again but neither ramp up above $80.00 over the new few months.

<u>The target is $79-$80. Continue to hold.</u>

Natural gas: Oversold

<u>Outlook: negative</u>: Natural gas prices fell close to their lowest level since December 2020, among warmer-than-normal weather and soaring domestic production. The US has experienced 8% fewer heating days than usual. As a result, inventories have risen and the EIA expects them to remain above average into mid-year.

Natural gas prices plunged in the last months of 2022 and continued into Q1. Buying momentum (RSI) is negative and oversold (not confirming upward strength). The main trend is down. The next support level is at $2.12 (**Chart 5**).

Chart 5

Five-year forecasting models suggest that natural gas prices will stabilize and advance very, very slightly over the next few months and trade around $3.00/MMBtu (**Chart 5a**).

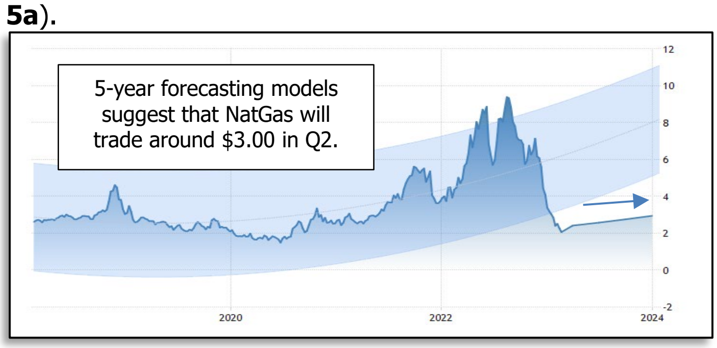

Chart 5a