Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

March 2024

Commodities

Precious metals shine the most

Key Points:

- **S&P Commodity Index GTX rides with T-bond yields. The outlook has reversed for both**
- **Deflationary assets dominate inflationary assets for 17 months**
- **The strength of the precious metals shows through with commodity 90 day performance**
- **A balance of supply/demand is driving oil**
- **Natural gas prices plunge to new 3-year low**
- **Gasoline prices stabilize on $2.00 support line**
- **The bounce in Gold prices continues**
- **More consolidation for silver prices**
- **Possible floor Industrial metals index at 400**
- **Copper prices try to find support at $3.55, but the outlook into late Q1 is still flat**
- **Sharp reversal of trend for livestock**
- **The US dollar finds price support with unexpected hot CPI print**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	-0.59%	1.45%	**886.26%**
S&P 500	2.78%	6.84%	409.63%

The 19-yr average for the TS Model Portfolio – 11.69%
The 19-yr average for the S&P 500 – 8.18%

TS Model Income Portfolio – 7.91% average div. yield

GTX: A bounce in inflation

Outlook Neutral: The S&P GSCI Commodity Index (GTX) trend has received a slight tail wind with the latest rise in inflationary pressure. On several metrics, the inflation print caught traders and economists off balance. CPI MoM, core CPI MoM, and CPI YoY were all above the estimate. This unexpected action lifted T-bond yields and the commodity index.

The close trading correlation between the GTX and the US 10-year yields provides some guidance to the direction of commodity prices. T-bond yields edged higher in Q1 rebounding off 3.85%. The GTX moved in kind bouncing off the 3200 level. Buying momentum (RSI) is still neutral (not confirming additional upward strength). There is a thin positive 'Green Cloud' forming, but it narrows quickly in Q2. The outlook for US 10yy is for a very slight easing in Q2 down to 4.10. Any reduction in the yields would be eventually be negative for the GTX (**Chart 1**).

Chart 1

The Fed may be done with the monetary tightening, but with the latest inflation print being higher than expected, this adds fuel to the Fed to hold rates firm going into Q2.

5-year forecasting models have reversed the expected outlook. Last month, the expected trading direction of the GTX was down. The direction now is for a slight rise. Models suggest 3,560 as an early Q2 target (**Chart 1a**).

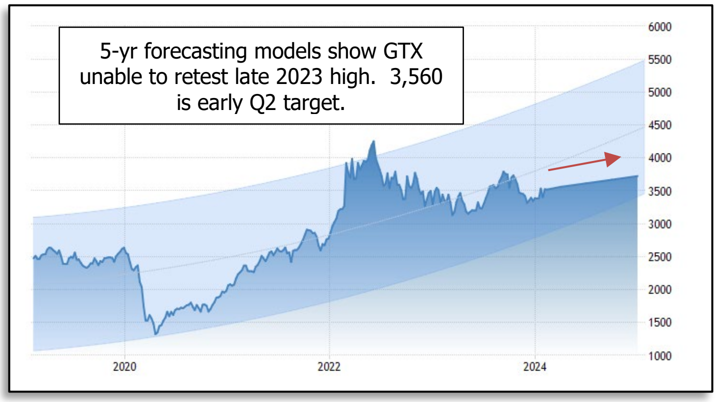

Chart 1a

<u>What does it mean?</u> The unexpected inflation bump has aided both the S&P Commodity Index and the US 10-yields. This jump in inflation numbers proves how challenging it is to control inflation and predict the short-term outlook.
<u>The Q2 target remains at 3,425. Do not add to the position.</u>

Deflation vs. Inflation: Deflation wins

<u>Outlook Negative</u>: The 5-year performance between deflationary assets and inflationary assets shows a sharp decline in performance for inflationary assets (commodities). Relative performance started to weaken in mid-2022 and accelerated that weaken over the next 18 months (**Chart 2**).

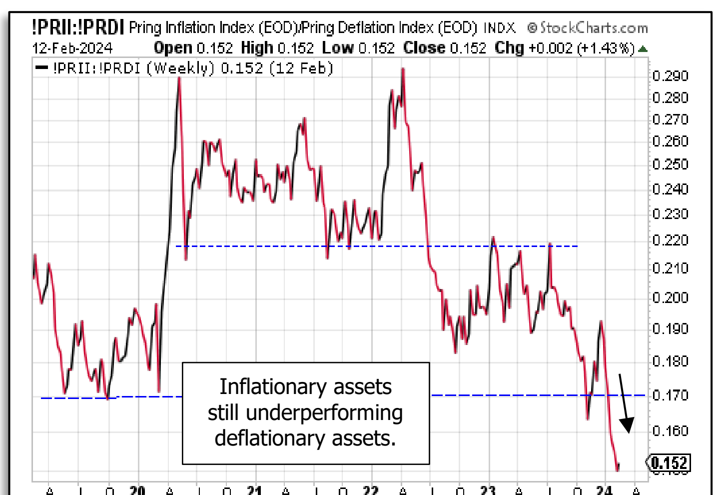

Chart 2

<u>What does it mean?</u> A continually stronger-performing deflationary equity market is normally more bullish for the stock market than an inflationary-driven market. We expect this trend to continue into Q2.

Commodity performance: Prec metals

<u>Outlook: Negative:</u> Only two commodity groups posted a positive return over the last 90 days. The other natural resource all had negative returns (**Chart 3**).

<u>What does it mean?</u> The majority of the commodity groups are posting negative returns. A similar scenario was illustrated in last month's Newsletter too. Precious metals are the preferred commodity group. Note the weakness in the US dollar compared to the strength of precious metals.

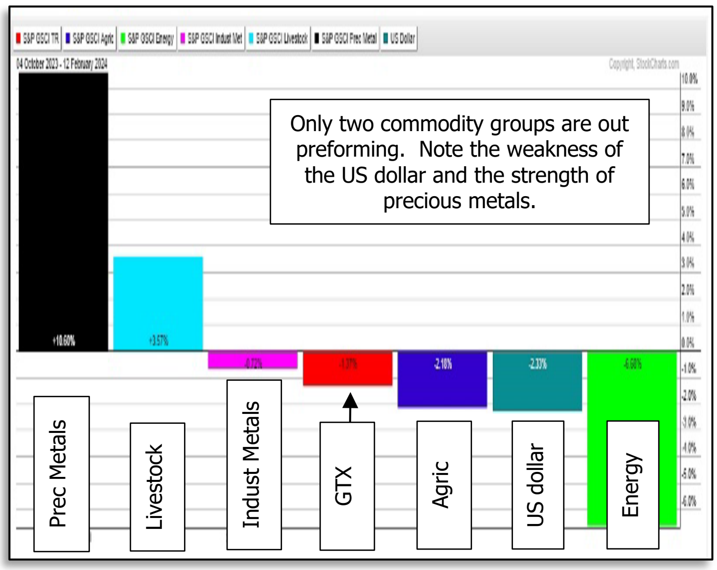

Chart 3

WTIC: More consolidation

<u>Outlook: Neutral</u>: Tensions in the Middle East continue to add support to oil prices. The recent rejection of a ceasefire proposal by Netanyahu increases geopolitical concerns. Meanwhile, OPEC+ is maintaining its projections for a strong global oil demand in 2024 and 2025. OPEC+ reported an oil production decrease by 350,000 bpd in January.

The 1yr trend is flat. WTI is at the key 50-week m/a. Buying momentum (RSI) is negative (not confirming additional upward strength). Now at the 1st price resistance level at $76.90. A thin positive 'Green Cloud' is forming in Q2. This action is unlikely to have much of an impact on WTI prices. Price support is at $70.00 (**Chart 4** on page 3).

5-year forecasting models are expect crude oil prices to trade at $77.65 in Q2 (**Chart 4a** on page 3).

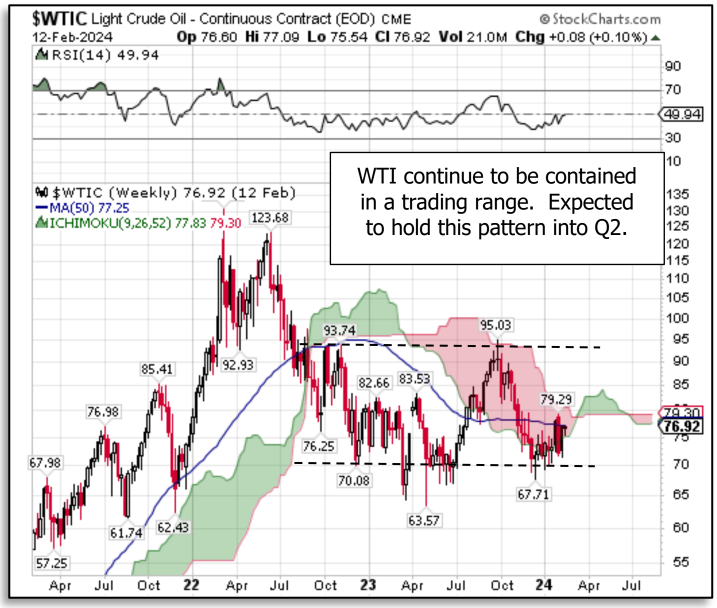

Chart 4

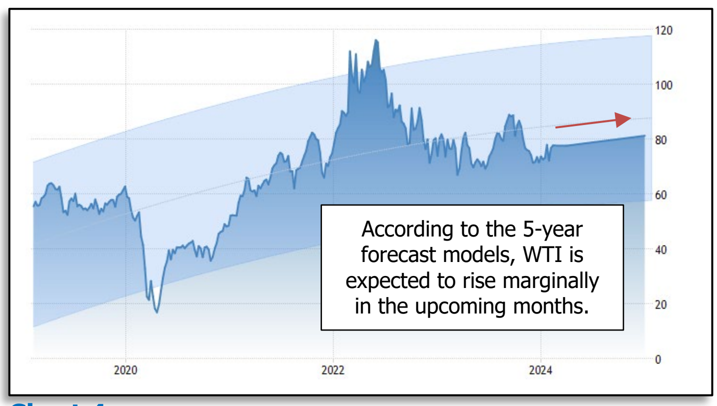

Chart 4a

What does it mean? The balance of supply and demand appears to be well-matched. Despite the turmoil in the Middle East, oil prices are remaining well supported.

We suggest adding to the position now. Only a moderate advance should be expected. Our favourite stock is Global Partners LP (**GLP**).

Natural gas: Breaking key support

Outlook: Negative: Natural Gas futures plunged to their lowest level since July 2020 in February due to a combination of production levels and subdued demand. Gas well production is almost at record levels again. The recent government data showed storage levels remain at 10.6% higher than the seasonal average.

The 1yr trend is down. Natural gas prices plunged through the support level of $2.00 in February now heading to the next lower support line of $1.52. Still under a massive expanding negative 'Red Cloud'. Buying momentum (RSI) is negative (not confirming additional upward strength). Well below the declining 50-week m/a (**Chart 5**).

Chart 5

Five-year forecasting models suggest that natural gas prices will stall over the next few months and trade around $1.90/MMBtu by Q2 (**Chart 5a**).

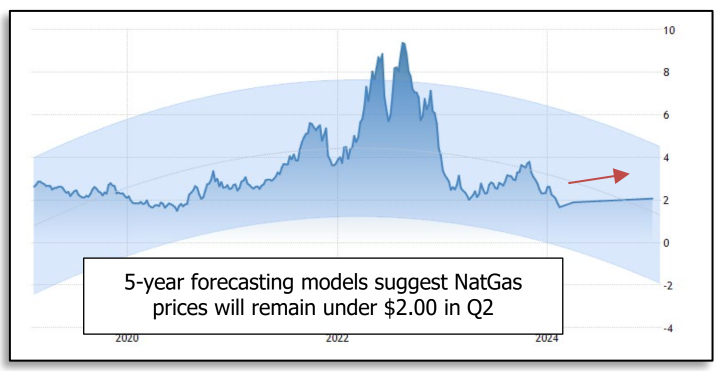

Chart 5a

What does it mean? Abundant supply plus warmer winter weather limits demand. Natural gas prices are expected to stall around current levels. The target has dropped significantly to $1.90 MMBtu. Stay on the sidelines.

Gasoline: Mild bump

Outlook: Neutral/negative: Gasoline futures bumped up recently to $2.30 per gallon, the highest level in three months. This was due to increased oil prices and growing demand for gasoline. An unexpected decrease in gasoline