Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

May 2020

Commodities

Gold is the only play. WTIC at sub-$20

KEY POINTS:

- **Commodities index (CRB) deeply oversold at a 20-year low**
- **Precious metals have the best 90-day performance within a very weak crowd**
- **Light crude oil bottoms at $15.00?**
- **Natural gas heads to $1.40 by late Q4**
- **Gasoline prices keep drifting lower**
- **Gold prices start to peak**
- **Silver prices continue to weaken; head to $14.50**
- **Industrial Metals Index reaches new three-year low**
- **Copper prices post new low in March**
- **U.S. dollar peaks out at $103.96**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	13.83%	-10.51%	**507.62%**
S&P 500	18.08%	-9.85%	191.24%

15-year average for the TS Model Portfolio 11.27%
15-year average for the S&P 500 7.43%

https://www.technicalspeculator.com/services/ts-model-growth-portfolios

CRB outlook: No upside showing

Outlook negative: The Commodity Research Bureau (CRB) Index appears to have found tentative price support at the 118-to-120 level, after falling by more than 38% in Q1. It was mainly driven deeper by the recent plunge in oil prices, but the drop in industrial metals and agriculture prices are adding to the decline (**Chart 1**). It is now at a 20-year low. At this juncture, any sustained upside bounce appears very remote, as the primary cause of the widespread weakness is the coronavirus. The negative effects of the pandemic will take months to unravel.

Curve-fitting models show no upside potential for the rest of 2020. Models forecast a Q2 target of 112, and a year-end target of 109 (**Chart 1a**).

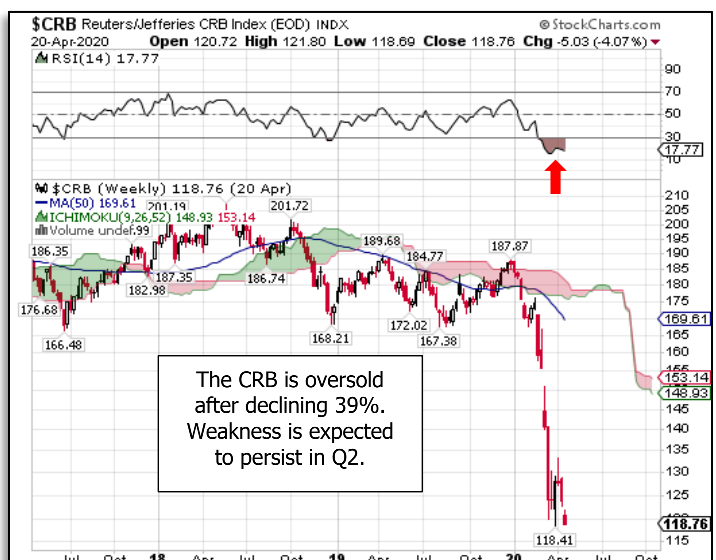

Chart 1

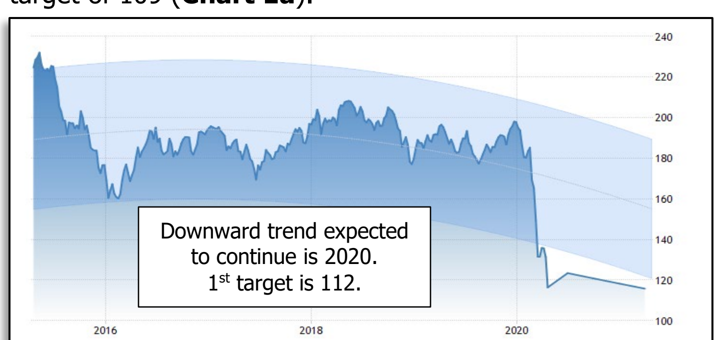

Chart 1

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

Deflation vs. Inflation

Recent short-term, relative strength in inflationary assets (commodities) over deflationary assets (financials, industrials, technology, etc.) highlights the fact that natural-resource prices are stronger than deflationary assets. We expect this trend to start weakening over the next few months and see deflationary assets regaining higher relative strength over inflationary assets (**Chart 2**).

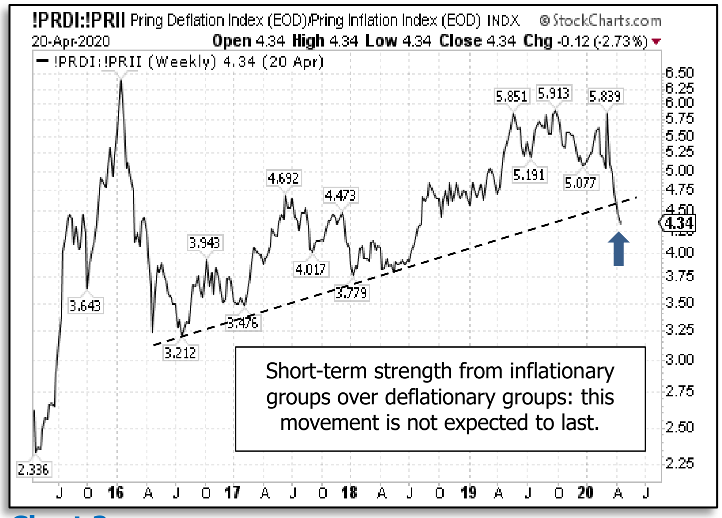

Chart 2

Relative performance: CRB vs. S&P

The CRB Index has continued to underperform the S&P 500 over the last 10 years. There are no indications of this arrangement reversing (**Chart 3**).

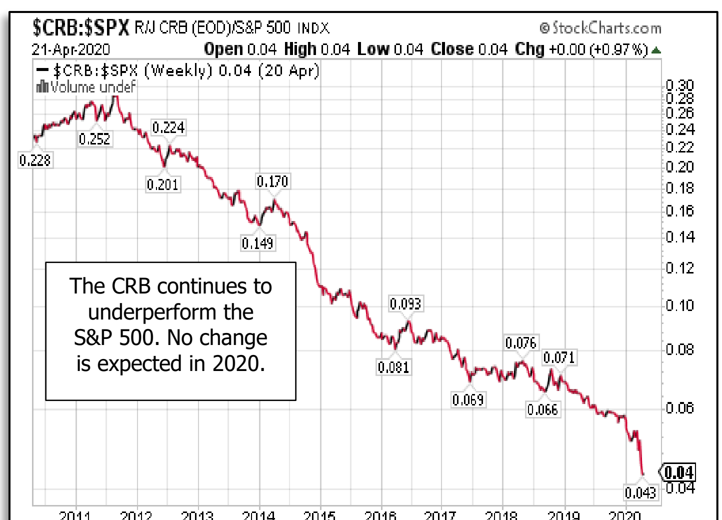

Chart 3

Commodity performance: Gold

The S&P GSCI Precious Metals Index ($GPX) is 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 is partly due to the safe-haven mentality. It's no surprise that the energy sector had the lowest performance, with a decline of more than 45% (**Chart 4**).

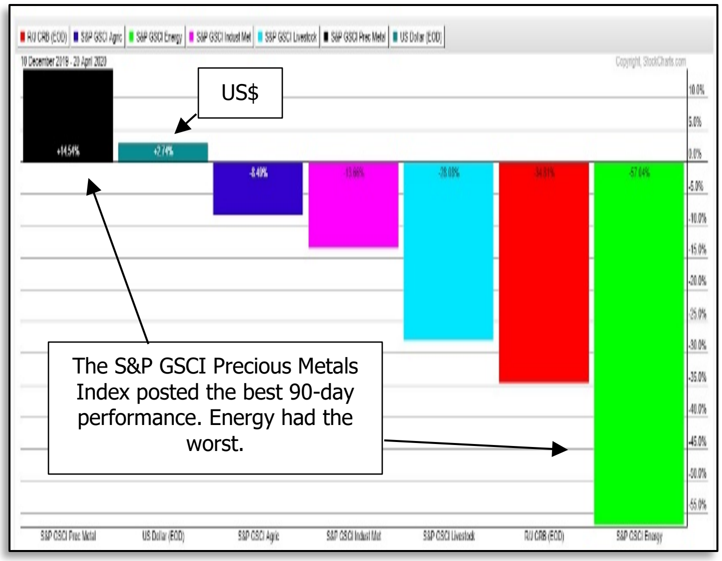

Chart 4

WTIC: Oversold

Outlook negative: The elevator drop in light crude oil prices since the start of the year has been nothing short of disastrous for the energy sector. WTIC is now down 68% since the beginning of the year! Oil prices are now hovering off the $12 level (**Chart 5**). Buying momentum (Relative

Chart 5