Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

May 2021 18th Year

Commodities

Base metals continue to advance

KEY POINTS:

- **S&P GSCI Commodity Index stalls after reaching key resistance range**
- **Key commodity index moving with inflation**
- **Equal performance continues for deflation and inflation**
- **Energy sector takes the top performance 90-day spot, again**
- **WTIC continues to trade at the top of the range**
- **More range-bound stalling for natural gas**
- **Gold prices point lower into mid-year**
- **Consolidation holds silver prices in tight range**
- **The upward surge in base metals holds**
- **Copper prices are overbought, again**
- **Rocket advance continues for agriculture index**
- **U.S. dollar retreats after reaching 50-week moving average (m/a)**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	4.38%	9.23%	**866.99%**
S&P 500	5.27%	11.30%	318.12%

18-year average for the TS Model Portfolio – 13.54%
18-year average for the S&P 500 – 8.33%

https://www.technicalspeculator.com/services/ts-model-growth-portfolios 9.05% average dividend yield

S&P GSCI outlook: Still overbought

Outlook neutral: The S&P GSCI Commodity Index (GTX) has stalled after a steady rebound over the last 12 months. This has placed the index into the stiff price resistance range of 2320 to 2650. Buying momentum (Relative Strength Index [RSI]) (**Chart 1**) is overbought (confirming an expected retracement). The recent upward movement of the GTX continues to be aided by the lifting U.S. 10 year T-bond yields. Yields are rising due to the deployment of the COVID-19 vaccines and the expectation of improving economics.

Five-year curve-fitting models show that a likely top is being formed now. The outlook forecasts a minor downward drift into mid-2021. The expected target into mid-year is 2100 (**Chart 1a** on page 2).

The path of the U.S. inflation rate closely parallels the movement of the S&P GSCI Commodity Index. Models for the inflation rate suggest some short-term strength, up to

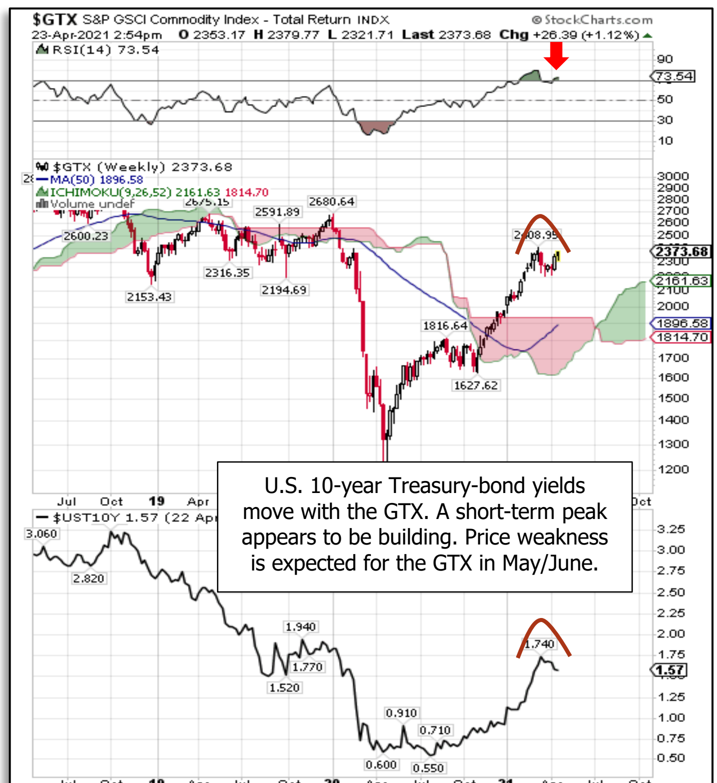

Chart 1

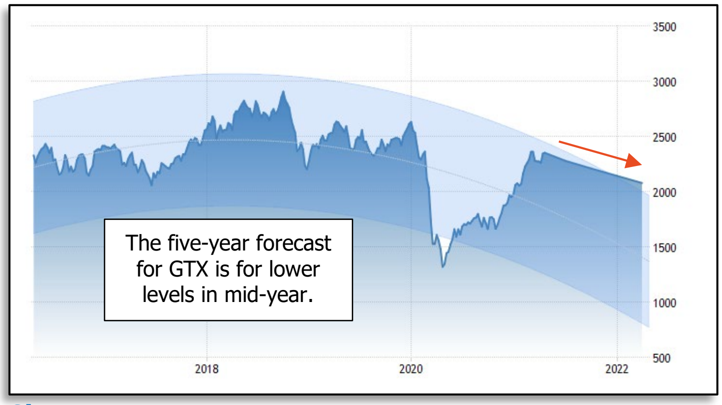

Chart 1a

3.00% in mid-year, and then a decline down to 2.20% in Q3/Q4 (**Chart 1b**).

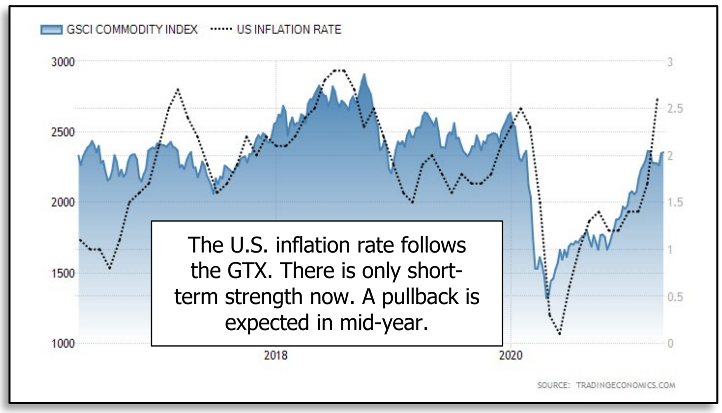

Chart 1b

Bottom line: The index is hitting a significant price barrier now, and a topping process appears to be developing. Parallel indicators (U.S. 10-year T-bond yields and the U.S. inflation rate) appear to indicate some price stability for the GTX short-term, but a waning performance in the second half of the year. Look for a short-term consolidation around 2400 to 2500, and then a shallow retracement to 2100.

Deflation vs. inflation: Still equal

Outlook neutral: Starting in April 2020, the pattern of near-equal performance between deflationary and inflationary assets continues. There is no evidence of either asset group showing dominance, yet (**Chart 2**).

Relative performance: GSCI vs. S&P

The primary trend continues to favour the S&P 500 over the S&P GSCI Commodity Index. Recent price action, starting in early 2020, does show slightly stronger performance from the GTX. Nevertheless, we expect this trend to reverse back to the primary trend in mid-year (**Chart 3**).

Chart 2

Chart 3

Commodity performance: Energy

The S&P GSCI Energy Index had the best 90-day performance, again. This was the only sector that outperformed the benchmark S&P GSCI Commodity Index (GTX). Precious metals had the worst performance. This decline is due to the rising U.S. T-bond yields and the slow rebound of the U.S. dollar (**Chart 4**).

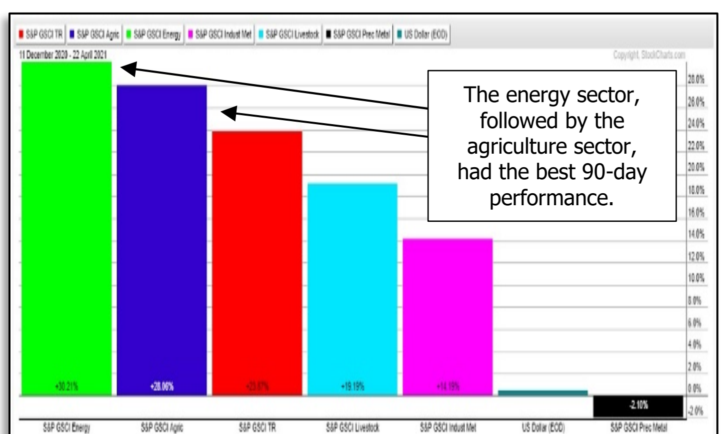

Chart 4

WTIC: Near overbought

Outlook positive: The rebounding global economic optimism, due to rollout of COVID-19 vaccinations, has pushed light crude oil prices back to the $64-to-$65 level, the same range that stalled the commodity multiple times in 2019. And, as buying momentum (RSI) is also near overbought, the price level for WTIC is expected to stall at this level and not advance (**Chart 5**).

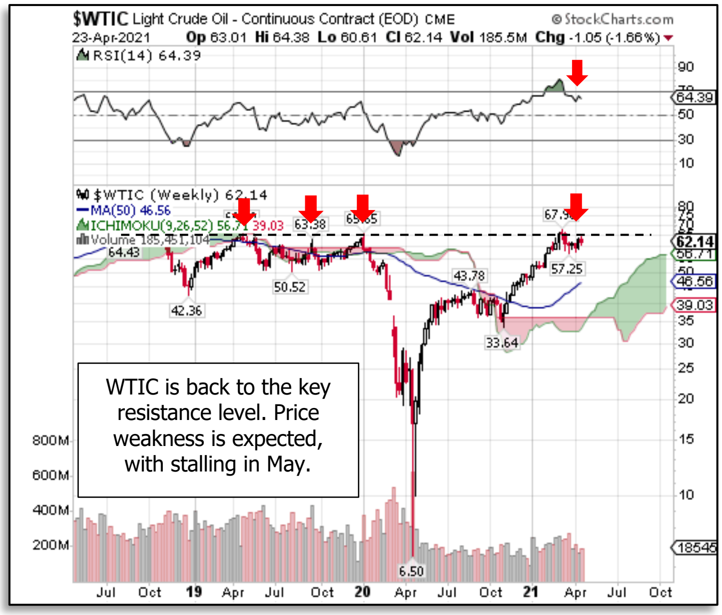

Chart 5

Curve-fitting models show a slight overshoot of the main curve (**Chart 5a**). Movements above or below the curve are usually short-lived, and a return to the main curve soon develops.

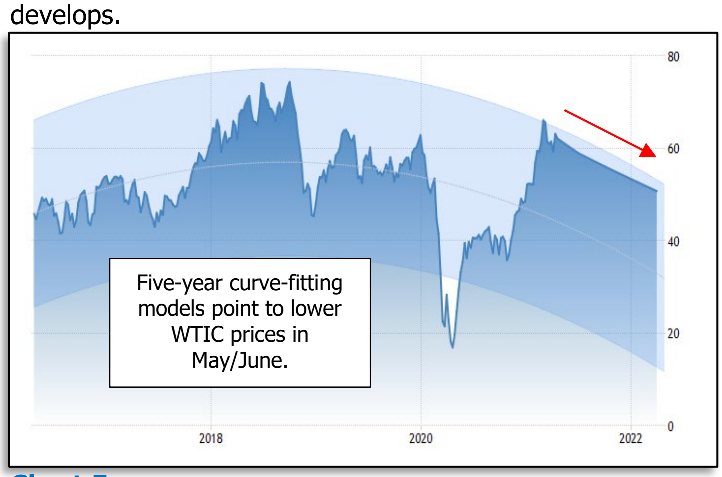

Chart 5a

The Oil Index (XOI) continues to underperform the benchmark S&P 500. The Oil Index will likely start outperforming the S&P 500 in late 2021 or early 2022 (**Chart 5b**).

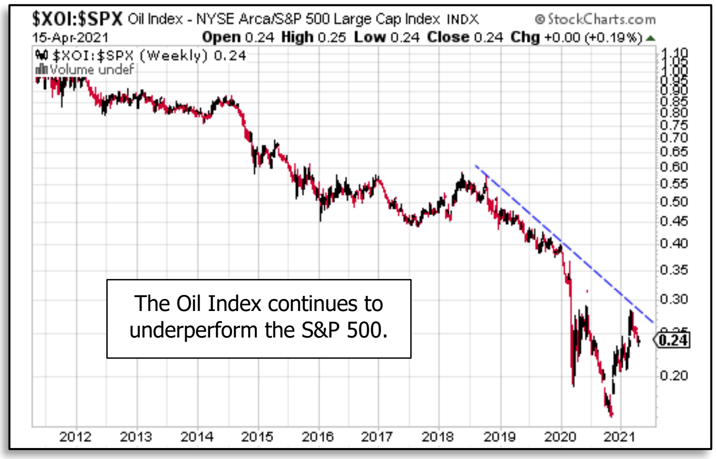

Chart 5b

Bottom line: Supply cuts from OPEC and Saudi Arabia, and the improvement of global demand due to the rollout of COVID-19 vaccines have bolstered the outlook for oil. However, higher prices also suggest an increase in U.S. driller activity. Currently, U.S. crude oil inventories are near a five-year high. WTIC prices are expected to pull back to about $58.00 to $60.00 in Q2.

Natural gas: Stalling

Outlook neutral: Natural-gas prices have largely stalled between $2.50 and $3.30 since October 2020. That pattern appears to be continuing into mid-year. Buying momentum (RSI) is neutral, but starting to rise (confirming additional consolidation). The index is now just above the rising 50-week m/a (encouraging) (**Chart 6**).

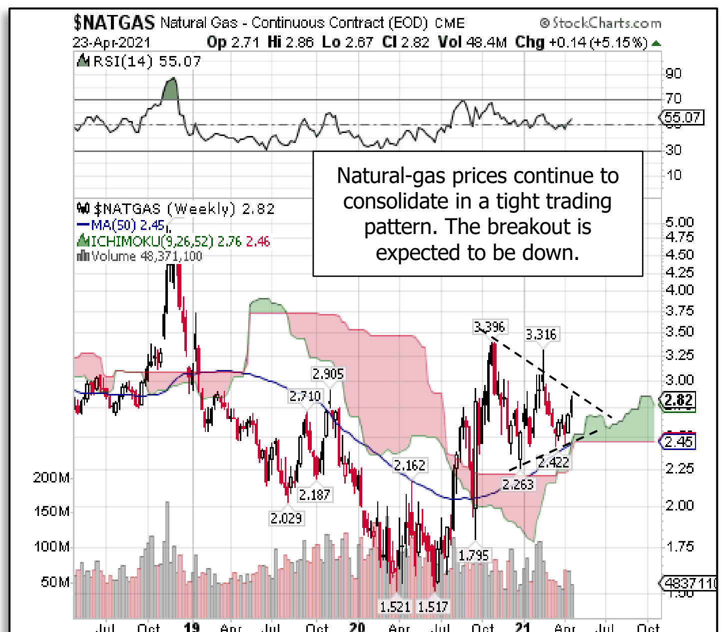

Chart 6

Curve-fitting models continue to point lower in 2021. A price peak of $3.30 is expected, and then a slight downside roll to $2.40 in late Q2 (**Chart 6a**).

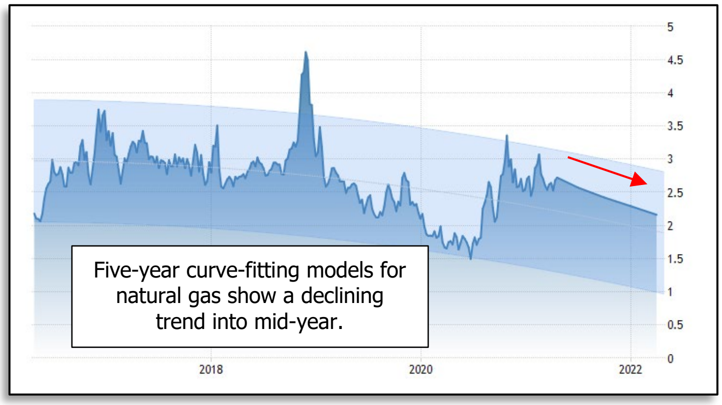

Chart 6a

Bottom line: A gradual decline from the current price crest is expected. Use this price strength to lower position size, as the path forward appears flat-to-down.

Gasoline: Near overbought

Outlook neutral: The extended rise from the November 2020 low for gasoline prices (GASO) appears to have reached the extent of its rise, advancing by more than 100% since November. GASO is now at the resistance level of $2.10. We expect a near-term pullback. The first support level is at $1.75 (**Chart 7**).

Chart 7

Curve-fitting models point to a moderate pullback starting in May, then slipping to about $1.75 by mid-year (**Chart 7a**).

Bottom line: The rollout of the COVID-19 vaccines is slowly re-energizing the economy. Demand for gasoline is expected to remain firm, but U.S. gasoline inventory is rising at a faster rate than demand. Expect a slight weakening in the price over the next month or two.

Gold: Weakness building

Outlook negative: Gold prices are declining due to the recent rise in the U.S. dollar and the advance in U.S. bond yields. The movement away from 'safe-haven' assets (gold and bond prices) is negative for gold and bullish for bond yields (**Chart 8**). Spot gold broke down through the key 50-week m/a in February and is now heading to the next support level of $1,570. Buying momentum (RSI) is negative (confirming price weakness).

Chart 8

Curve-fitting models show a continued decline for the yellow metal (**Chart 8a**). Models point to $1,650 as the mid-year target.

Chart 8a

Bottom line: Upside momentum for gold has lost steam due to economic recovery and a lack of appeal of safe-haven assets. A rising U.S. dollar and advancing U.S. T-bond yields are providing some of the downside pressure. Price weakness is expected to continue in Q2. Stay on the sidelines.

Silver: Consolidation continues

Outlook neutral: Silver prices are remaining in a contained trading pattern between $22.70 and $30.00 (**Chart 9**). Silver is still above the rising 50-week m/a (encouraging), and buying momentum is around 50, a neutral level (not confirming upside strength).

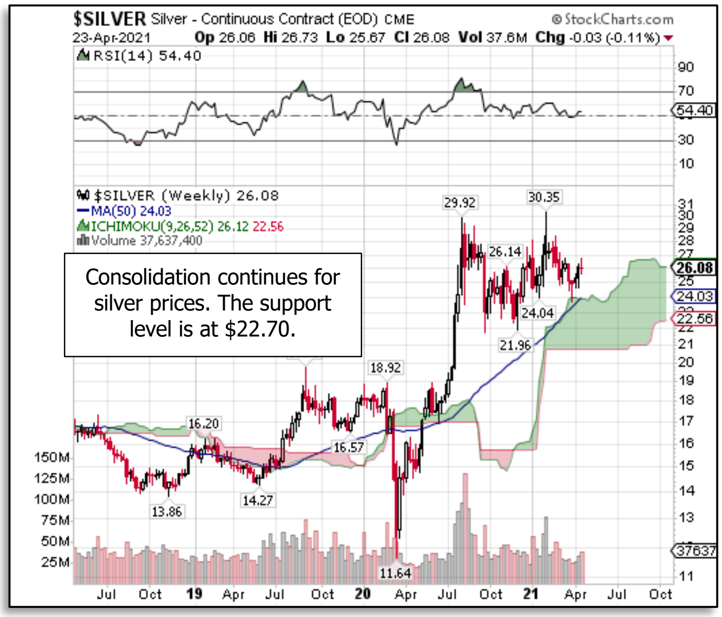

Chart 9

Curve-fitting models suggest a slight downward trend in Q2. The mid-year target is $23.00 to $24.00 (**Chart 9a**).

Bottom line: Increasing expectations of higher industrial demand are countering the current strength in the U.S. dollar, as investors bet on a strong global economic rebound. Now unlikely to advance any higher. Reduce position size.

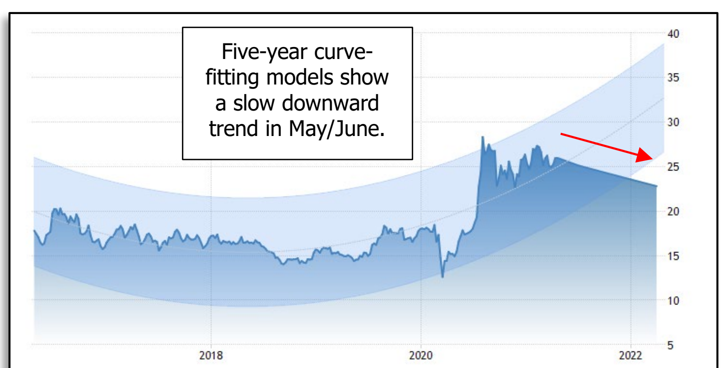

Chart 9a

Industrial metals: Overbought

Outlook positive: The steady upward trend from the March 2020 low continues. There was a new five-year high in Q1. The ongoing break above the 406-to-407 level (which was the five-year high) is encouraging. GYX is now overbought (**Chart 10**). Some minor retracement should be expected. This is the right sector for this stage of the market.

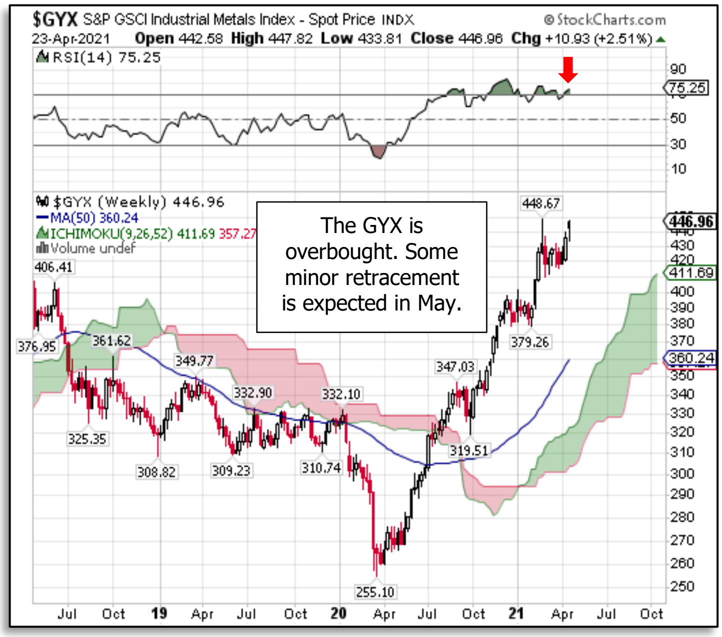

Chart 10

Relative strength performance between the GSCI Industrial Metals Index (GYX) and the S&P 500 shows that performance is now with the GYX, as mid-2020 (**Chart 10a**).

Chart 10a

Bottom line: The index is extending its upward trend from the low in March 2020. A probable short-term retracement soon. No big deal. Key support is at 400. Add to positions on any weakness. The target is at 485.

Copper: Overbought

Outlook positive: On the backs of supply disruptions in some key South American mines, along with robust demand from China and the global economic rebound, the steady upward trend from the March 2020 low is continuing. Copper prices are now at a 10-year high. Buying momentum (RSI) is overbought, again, for the third time in seven months. Some minor consolidation is possible, down to the support level of $3.70 (**Chart 11**).

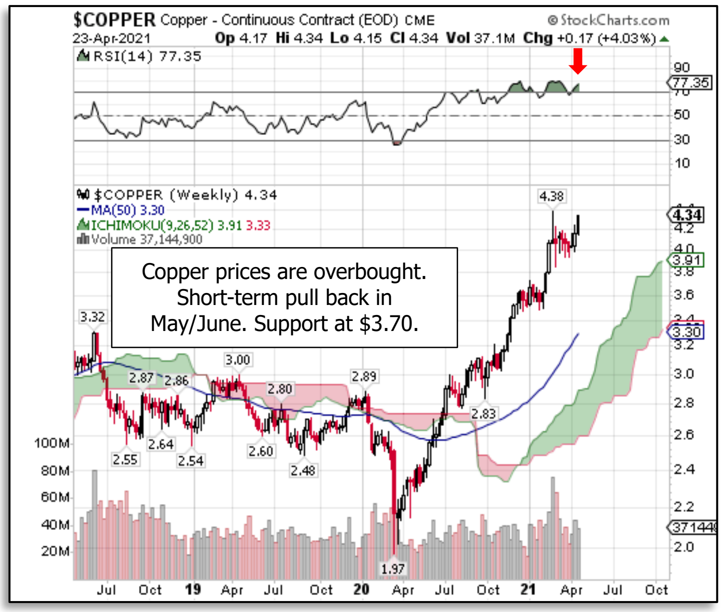

Chart 11

Curve-fitting models confirm the outlook of a minor retracement over the next month or two. Nothing major (**Chart 11a**).

Chart 11a

Bottom line: The demand outlook is expected to continue for most of this year as global economic activity rebounds. Add to positions on any weakness. The target is $4.75.

Agriculture: Overbought

Outlook positive: A new six-year high was posted in March 2021, after the successful break out of the five-year base. Buying momentum (RSI) is overbought (confirming upward strength and a likely near-term consolidation). The index is heading to the next key resistance level of 435. First support is at 400, which should catch any pullback (**Chart 12**).

Bottom line: The S&P GSCI Agriculture Index (GKX) broke out of a multi-year consolidation in Q4/20 and continues to trend higher. It is nearing the target of 440.

Chart 12

U.S. dollar: Downward trend

Outlook neutral/negative: Short-term weakness has hit the greenback: the big dollar reached the key 50-week m/a and pulled back. The moves came in tandem with a further retracement in Treasury yields, which bottomed around monthly lows of 1.55%. On top of that, the ongoing outperformance of the U.S. economy failed to offer lasting support. The dollar index (DXY) starting to turn higher amid prospects of a fast economic recovery in 2021. The recent $1.9 trillion stimulus bill adds to the momentum. Buying momentum (RSI) is neutral and fading (not confirming additional upside strength). Some short-term retracement in May is expected (**Chart 13** on page 7).

Curve-fitting models show an uptick into mid-year, with $0.9 to $0.96 as an expected target range (**Chart 13a** on page 7).

Chart 13

Chart 13a

Bottom line: The U.S. dollar appears to have reversed the upward trend in early 2021. A decreasing dollar is often positive for some commodities, particularly precious metals. After this current weakness, expect higher levels by mid-year, as more upbeat economic data for the U.S. dollar continues to arrive. Add to the position on any weakness.

What does it all mean?

Most commodities are still feeling some upward pressure from the rebound in the economy. Industrial base metals, agriculture, and energy are the main winners. The steady rollout of the COVID-19 vaccines, the resurgence of industrial activity, and the decline in unemployment (now down to 6.0%) in the U.S. has increased the demand outlook for more natural resources.

At this stage of normal economic activity, sector strength is leaning toward those top three previously mentioned commodities (base metals, agriculture and energy) and particularly base metals, which are now outperforming the S&P 500 (**Chart 3**).

What should investors do?

Commodity investors should keep a close eye on **Chart 1** (page 1) and not believe that the commodity market as a whole is starting a new bull run. There are lots of articles from online investment pundits that suggest investors should be buying hard into this asset. That would be a big mistake.

At this juncture, base metals are the best bet for upward performance. We would suggest the following exchange-traded funds (ETFs): in U.S. dollars, look at Invesco DB Base Metals Fund (**DBB**) and the United States Copper Index Fund (**CPER**); in Canadian dollars, look at the iShares S&P/TSX Global Base Metals Index (**XBM**).

International Equities

Upward trend continues

KEY POINTS:

- **Another new all-time highs greets the DJW The outlook into mid-year remains very promising for markets**
- **Taiwan leads in 90-day performance**
- **Emerging markets feel the weight of a rising U.S. dollar**
- **Shanghai's upward trend slows**
- **Nikkei's trend eases after a new high**
- **Short-term consolidation sets in for Hang Seng**
- **India's Sensex takes a breather from its upward trend**
- **Dow Jones Europe Index charges ahead**
- **New all-time high for French CAC 40 index**
- **Rebound continues for UK 100**
- **Italy's Titans 30 Index retests all-time high**
- **New all-time high for Mexico's Bolsa index**
- **Australia's ASX reaches a new all-time high**

Overview: Uptrend remains strong

Outlook positive: The major trend is higher. After only a short rest in Q1, the index is advancing again and nearing