Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

May 2023

Commodities

Easing inflation, bond prices send signal

Key Points:

- **GTX continues to sag. Lower inflation, softening rate increases, and bottoming bond prices spell trouble for commodity prices.**
- **Inflationary assets show declining performance against deflationary assets**
- **Precious metals sector tops the 90-day performance**
- **More consolidation builds ahead for WTI**
- **Deep plunge for natural gas prices, now oversold**
- **Gasoline prices still below the 50-week m/a**
- **Jump in gold prices ends.**
- **Price peak for silver at $26.00.**
- **Copper prices find demand as prices stabilize.**
- **Ongoing upward trend continues as S&P GSCI Livestock Index**
- **US dollar index finds a floor at 101.**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	1.18%	2.59%	**788.16%**
S&P 500	1.46%	8.59%	316.95%

The 19-yr average for the TS Model Portfolio – 11.62%
The 19-yr average for the S&P 500 – 7.45%

TS Model Income Portfolio – 7.92% average div. yield

Chart 1

GTX: Opposing trends

Outlook neutral/negative: Commodity prices and US bond prices trend in opposite directions. Bond prices are expected to rise because (1) US inflationary pressure has been steadily declining for 9 straight months. (2) This action reduces the need for additional interest rate increases. (3) US 10-30 year bond yields are all cresting. Traders are expecting the Fed to pivot on its tightening rate program by late Q2. All of this is good news for bond prices and negative news for commodities (**Chart 1**).

Technically, the S&P GSCI Commodity Index (GTX still remains in a consolidating trading pattern between 3250 and 3870. The main trend is sloping lower. The index is below the 50-week m/a and buying momentum is neutral and fading (not confirming additional upward strength). All these elements point to additional flat-to-down trading in Q2. 'Red Cloud in Q3 only adds to the negative outlook.

The five-year forecast for GTX (**Chart 1a**) suggests a slow decline over the next few months with 3250 as the late Q2 target.

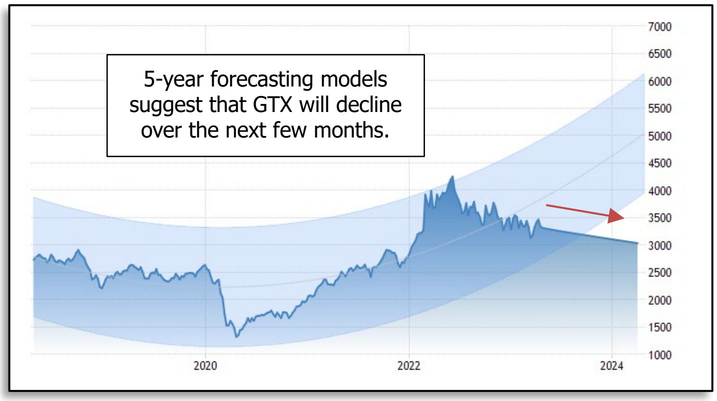

Chart 1a

What does it mean? As US bond prices are expected to slowly advance in Q2 for reasons given, the GTX is anticipated to have the opposite movement. A gradual weakening. Look for 3,250 as the first target followed by 3,000.

Keep in mind the overall tradable commodity market is about $660 billion. This compares to the US bond market which is $51.3 trillion.

The tail does not wag the dog. Keep an eye on bonds.

Inflation vs deflation: Slightly weaker

Outlook neutral: The 3-year view of the performance between inflationary assets continues to show some weakness compared to deflationary assets. The performance of inflationary assets to deflationary shows increasing weakness over the last 6 months (**Chart 2**).

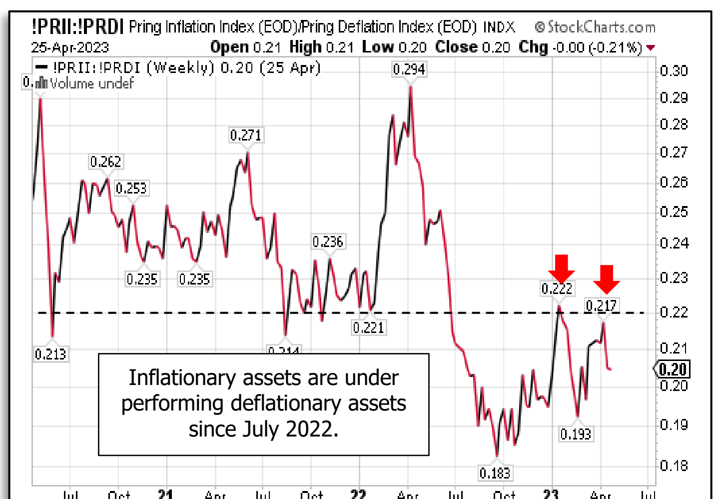

Chart 2

Commodity performance: Prec metal

The US dollar's recent retreat has aided the precious metals sector more than any other commodity group. The S&P GSCI Precious Metals index is up over 8% over the last 90 days. Precious metals and livestock are typically late market cycle sectors (**Chart 3**).

What does it mean? The Fed's aggressive interest rate policy last year helped push up the dollar. But that pattern has now changed. Recession fears should keep the Fed's interest rate hikes contained. This action will benefit precious metals. We expect continued leadership from this two commodity group in Q2.

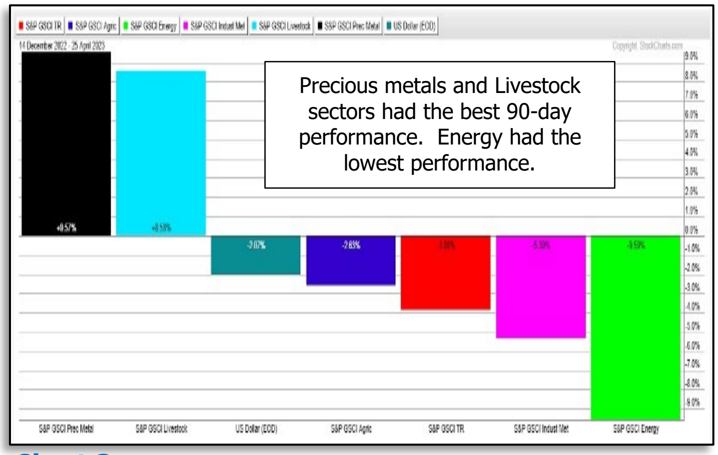

Chart 3

WTIC: More consolidation

Outlook: neutral: Earlier this month, OPEC+ announced plans to cut 1.6 million bpd from May to year-end (**Chart 4**). In addition, IEA said that world demand would climb by

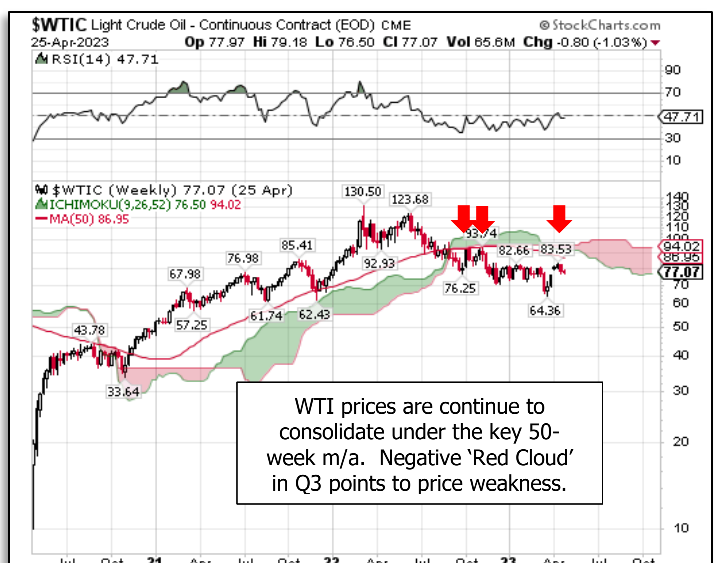

Chart 4

2 million bpd in 2023 to a record 101.9 million. At the same time, the OPEC+ cuts would reduce the world supply by 400,000 bpd Light crude oil prices continue their slow downward slide which started in Q3 2022.

Breaking below the key 50-week m/a 9 months ago. Buying momentum (RSI) is neutral (not confirming additional upward strength). 1st price support is at $70. A break below this line points to $57. An expanding negative 'Red Cloud' in Q2/Q3 only adds to the pessimistic view.

Five-year forecast models suggest that WTI is in a bottoming process over the next few months. The price of WTI is expected to remain $70 to $80 into the summer months (**Chart 4a**).

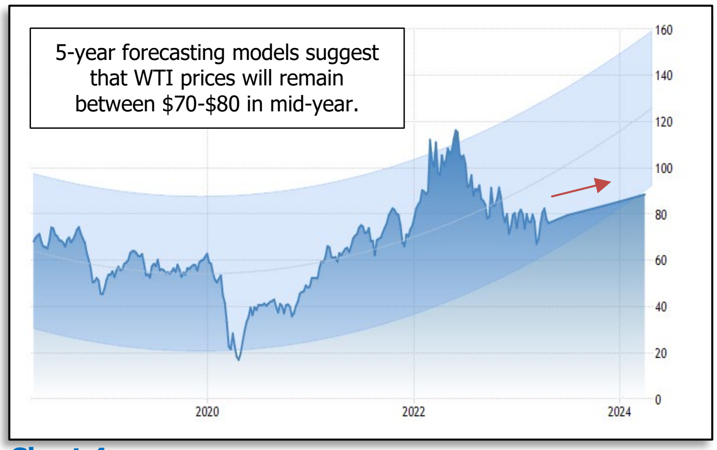

Chart 4a

What does it mean? World demand is slowly increasing and supply (thanks to OPEC+) is pulling back slightly. This combination is positive for oil prices. However, the effect will likely take a few months to benefit oil prices.

Long-term energy bulls may wish to continue to hold. For everyone else, wait on the sidelines for now

Natural gas: Deep drop

Outlook: negative: Natural gas prices fell close to their lowest level since September 2020. The result of mild winters and lower residential and commercial demand. The US has experienced 8% fewer heating days than usual. The EIA reports that NatGas inventories remain above average for the summer.

Natural gas prices have plunged over 75% since the November 202 high. The trend still remains down. Price support at $2.10 to $2.00.

The commodity is well under the 50-week m/a. Buying momentum (RSI) is negative (not confirming upward strength) (**Chart 5**).

Five-year forecasting models suggest that natural gas prices will advance very slightly over the next few months

Chart 5

and trade around $2.65/MMBtu by the end of Q2 (**Chart 5a**).

What does it mean? Increasing supply plus the reduction in need (thanks to warmer weather) has kept Natural Gas prices on the back foot. Continue to avoid. The target has been lowered to $2.65 MMBtu.

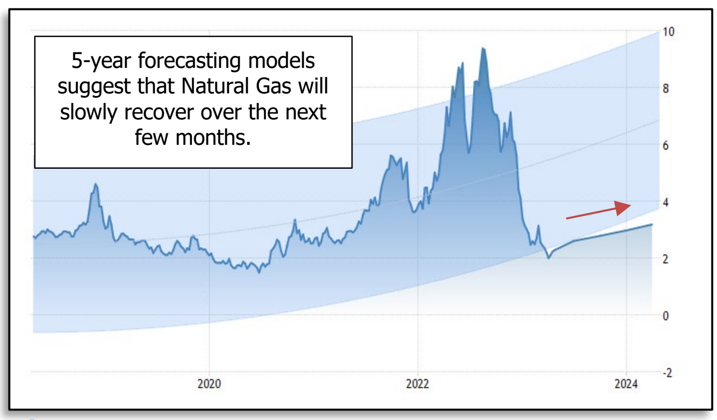

Chart 5a

Gasoline: Still under the 50w m/a

Outlook: neutral: EIA reported that gasoline prices showed a smaller-than-expected inventory draw in April along with decreasing demand. Total domestic gasoline stocks decreased to 222.25 million bbl, the lowest level in over four months.

Gas prices continue to hold in a consolidation pattern from Q3/22 and into Q2/23. Buying momentum (RSI) is neutral (not confirming additional buying pressure) (**Chart 6 on page 4**). Now below the 50-week m/a.