Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

November 2021 18th Year

Commodities

Recovering yields aid energy & metals

Key Points:

- **S&P GSCI Commodity Index moves to a new five-year high**
- **The commodity index GTX has slightly more strength over the SPX**
- **Performance between inflationary assets and deflationary assets starts to lean toward deflation**
- **Energy sector takes the top 90-day performance spot, once again**
- **WTIC prices continue to advance to $85**
- **Natural gas moves to a multi-month high**
- **Gasoline prices remain below $2.34**
- **Gold prices hold at key support level, for now**
- **Upward surge in base metals continues**
- **Copper prices continue to consolidate**
- **S&P GSCI Agricultural Index holds in tight consolidation pattern**
- **U.S. dollar slowly starts to rise with positive economic news**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	3.16%	17.68%	**941.78%**
S&P 500	5.77%	22.59%	360.54%

18-year average for the TS Model Portfolio – 13.60%
18-year average for the S&P 500 – 8.66%

https://www.technicalspeculator.com/services/ts-model-growth-portfolios 6.55% average dividend yield

S&P GSCI outlook: Breakthrough

Outlook positive: The S&P GSCI Commodity Index (GTX) has finally broken out above the key resistance level of 2600 to 2650. This level held the GTX for all of 2019 and was retested again in mid-2021. What's giving it a push? Several factors. First, bond yields: the U.S. 10 year T-bond yields have a close correlation to the GTX. Second, oil prices make up the largest component of the GTX, and the price of this natural resource is starting to advance (**Chart 1**). Third, inflationary pressures: currently, the inflation rate in the U.S. is twice as high as the Fed's target. Buying momentum (Relative Strength Index [RSI]) is overbought, again suggesting some near-term slowing of the rise.

Five-year forecast models (**Chart 1a** on page 2) back the approach of a slowing of the advance for the GTX. Models, this month, have returned to the target of 2800 by late Q4.

Chart 1

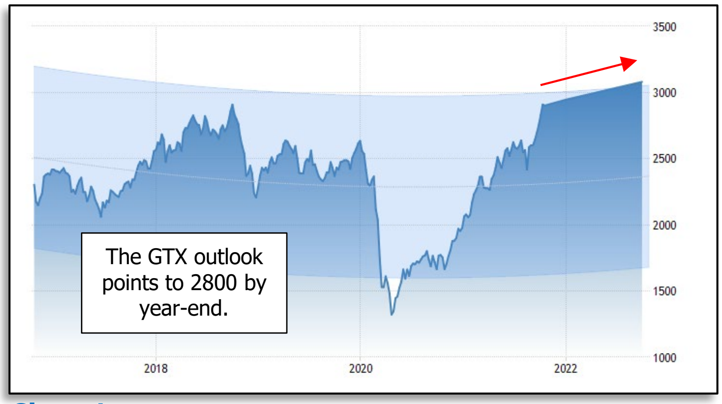

Chart 1a

What does it mean? The improving U.S. economy is aiding the U.S. T-bond yields and the S&P GSCI Commodity Index. This trend is expected to continue into early 2022. The target for the GTX is 2800.

Relative performance: GTX vs. S&P

Outlook neutral/positive: Moderately higher performance has been with the S&P GSCI Commodity Index over the S&P 500 (SPX) since Q2/20. The recent breakout in late Q3/21 shows that this trend is continuing. This action lines up with the rise in U.S. T-bond yields (**Chart 2**).

What does it mean? The performance, again, appears to be governed by the trading action of the U.S. 10-year T-bond yields. T-bond yields are expected to rise over the next few months, suggesting that slightly higher performance will remain with the GTX over the S&P 500.

Chart 2

Deflation vs. inflation: Breakout?

Outlook neutral: Inflationary assets are slowly losing the battle in performance with deflationary assets (**Chart 3**). Inflationary assets (commodities) had equal performance strength with deflationary assets (Dow stocks) for most of 2017 to late 2019. Higher performance came to commodities in 2020. But the relative performance for commodities started to fade over the 2021 summer, with the breakout performance of deflationary assets in Q3.

What does it mean? The topside breakout in Q3/21 points to a probable return to dominance of deflationary assets. We expect this trend to slowly build into Q1/22.

Chart 3

Commodity performance: Energy

The S&P GSCI Energy Index had the best 90-day performance, once again. This is the only sector that outperformed the benchmark S&P GSCI Commodity Index (GTX). The livestock and agriculture sectors had the lowest performances (**Chart 4**).

Note: The emerging performance of the U.S. dollar appears to be slowly eroding the upside performance on most commodity prices.

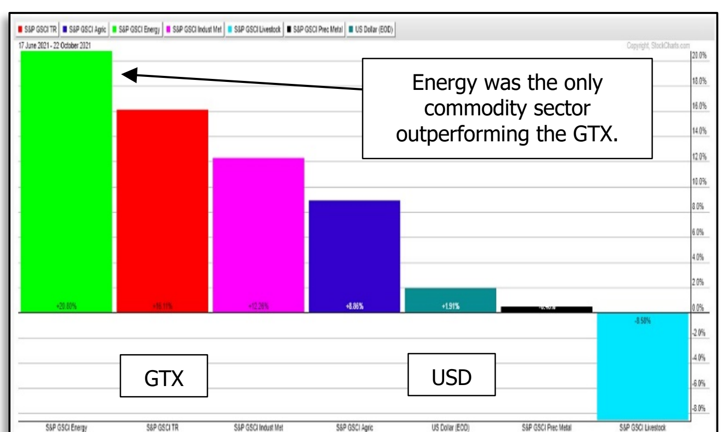

Chart 4

WTIC: Ongoing breakout

Outlook: positive: Prices remain well supported due to supply tightness and the shortage of natural gas in Europe and Asia. However, fresh EIA data show a much larger than expected expansion in U.S. crude stockpiles, and OPEC+ countries continue to stick to a gradual rise in supply.

Tactically, light crude oil prices are maintaining a broach of the 30-month consolidation trading pattern into Q4, with a breakout through the key level of $65.00 (**Chart 5**). Buying momentum (RSI) is overbought (again), suggesting that some stalling lies ahead.

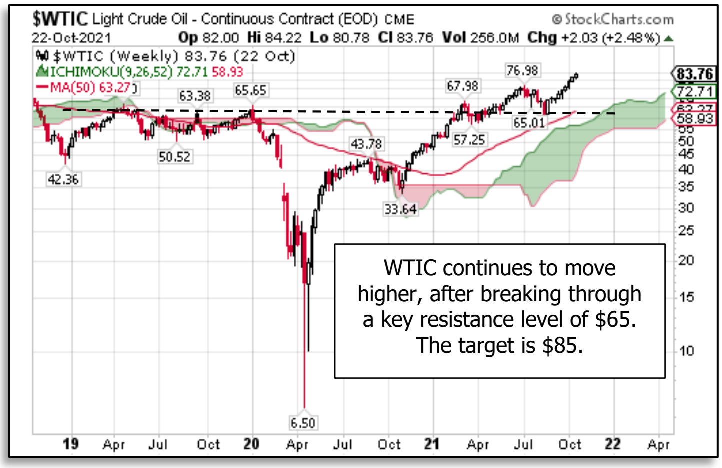

Chart 5

Five-year forecast models are suggesting a continued measured advance for the commodity price over the next few months. Models suggest that the commodity price will reach $85.00 by year-end (**Chart 5a**).

What does it mean? WTIC is expected to remain in a gradual rising trend, reaching $85.00 over the next few months. EIA predicts that demand for oil will continue to outstrip supply as the global economy expands. This action will likely persist into Q1/22. Continue to hold oil positions, as any price weakness should be minimal.

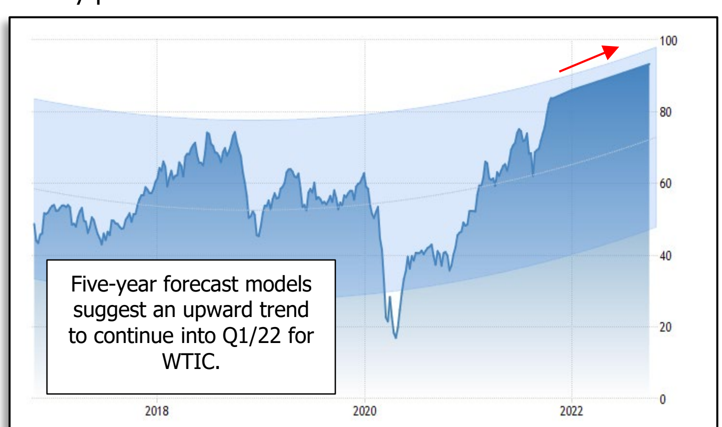

Chart 5a

Natural gas: Very overbought

Outlook: positive: Natural gas rose out of a multi-month high in September and October, as strong U.S. demand continues to grow. Traders are now focused on the prospects of ongoing demand during the winter heating season. Adding to the upside demand are depleted inventory levels in Europe and Asia.

Buying momentum (RSI) is still very overbought, suggesting that some short-term pullback or stalling is coming (**Chart 6**). The first support level is at $4.40.

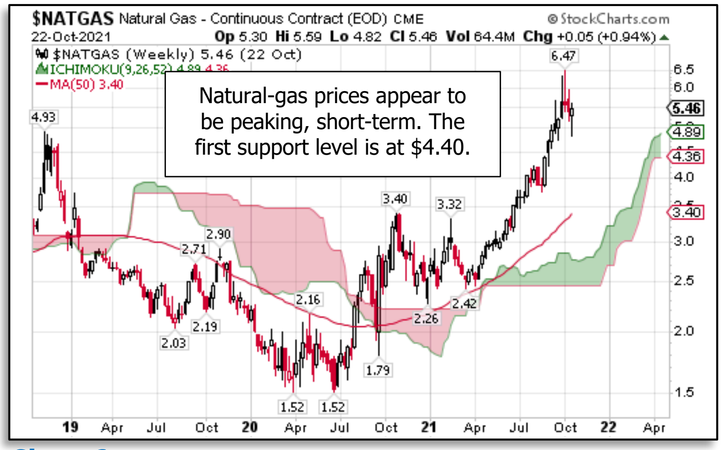

Chart 6

Five-year forecast models indicate that natural-gas prices have more upside strength in the months ahead (**Chart 6a**). Models suggest that $6.00 USD/MMBtu is the target for late Q4, with a $6.50 print in Q1/22.

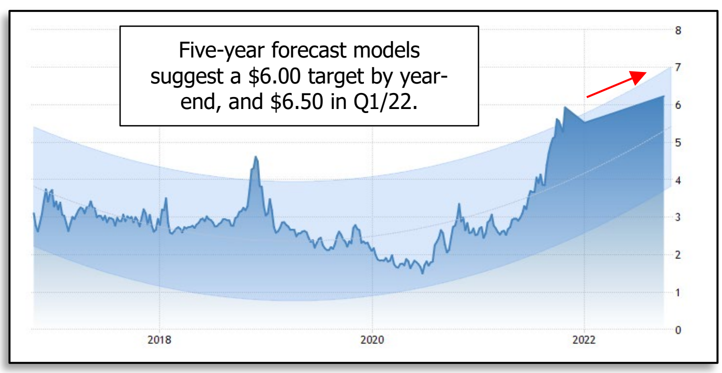

Chart 6a

What does it all mean? Growing demand for natural gas, plus low inventory levels, are expected to continue to keep the commodity well supported for the rest of 2021 and into Q1/22. Continue to hold natural-gas positions into Q1/22.

Gasoline: Consolidation

Outlook: neutral/positive: Gasoline futures rose in October amid lingering supply disruptions and strong