Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

October 2020 17th Year

Commodities

Rebound stalls for most commodities

KEY POINTS:

- **S&P GSCI Commodity Index rebound stalls and rolls over**
- **Dominance of inflationary assets over deflationary assets continues into October**
- **GSCI Energy Sector Index tops in 90-day performance**
- **Light crude oil prices reverse from recent lift**
- **Natural-gas prices pull back after sharp advance**
- **Gold's rise appears to be cresting**
- **GSCI Industrial Metals Index now overbought**
- **U.S. dollar (DXY) reaches a floor after deepest rollover since 2018**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	-3.23%	7.78%	**631.76**
S&P 500	-6.17%	7.27%	236.30%

17-year average for the TS Model Portfolio: 12.20%
17-year average for the S&P 500: 7.27%

https://www.technicalspeculator.com/services/ts-model-growth-portfolios 9.89% average dividend yield

S&P GSCI outlook: Rebound stalls

Outlook negative: The rebound from the March low appears to have stalled in September for the S&P GSCI Commodity Index (**Chart 1**). The index is still well below the declining 50-week moving average (m/a) (a negative sign), and buying momentum (Relative Strength Index [RSI]) has failed to advance past the neutral 50 level. These are all markers that indicate the brief rally has ended.

Five-year curve-fitting models show no upside potential for the rest of 2020. The outlook forecasts a continued downward drift, with a year-end target now lower, at 1600 (**Chart 1a**).

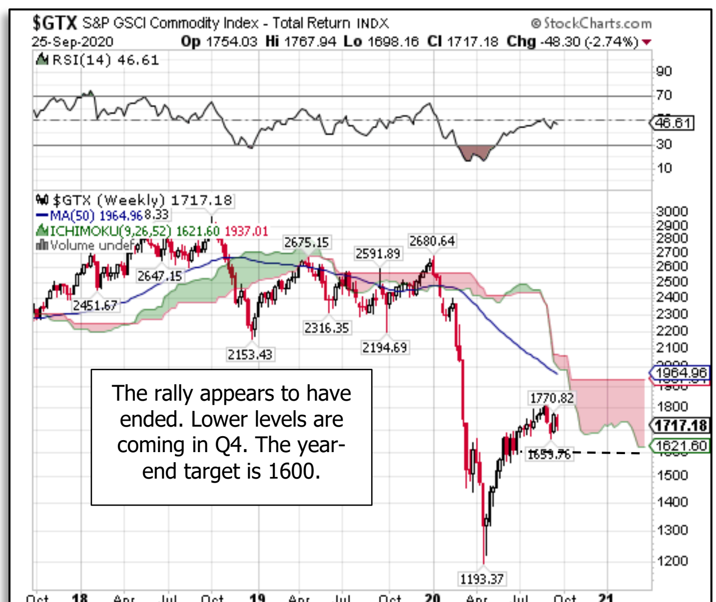

Chart 1

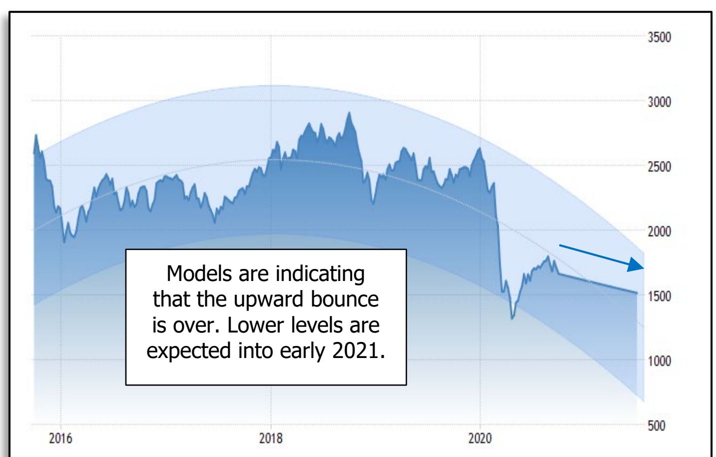

Chart 1a

<u>Bottom line</u>: The GSCI index appears to have little or no upside potential this year. Use this bounce to reduce position size on GSCI, and then stay on the sidelines.

Deflation vs. Inflation: Inflation builds

Inflationary assets (commodities) are now outperforming deflationary assets (stocks), as the balance tips toward natural resources (**Chart 2**). The recovery in the U.S.

Chart 2

economy is aiding the rebound strength in energy and industrial metals. We expect this phase to continue into Q4.

A 12-year view shows a base-building of equal performance still building since 2016 (**Chart 2a**).

Chart 2a

Relative performance: GSCI vs. S&P

The performance from the S&P GSCI Commodity Index continues to underperform the performance of the S&P 500. That has been particularly evident since mid-2018. The S&P GSCI is down by more than 39% year to date (YTD), whereas the S&P 500 has posted a new all-time high of 3588.11. There are no indications of this pattern reversing to favour commodities over the S&P 500 (**Chart 3**).

Chart 3

Commodity performance: Energy

The S&P GSCI Energy Sector Index ($GJX) had the top performance over the last 90 days, again. The industrial metals sector had the second-best performance. Note the relative price strength of the U.S. dollar (down by more than 6%). The price weakness of the dollar is aiding all of the natural-resource prices (**Chart 4**). Until the U.S. dollar's performance improves, expect commodity prices to remain strong.

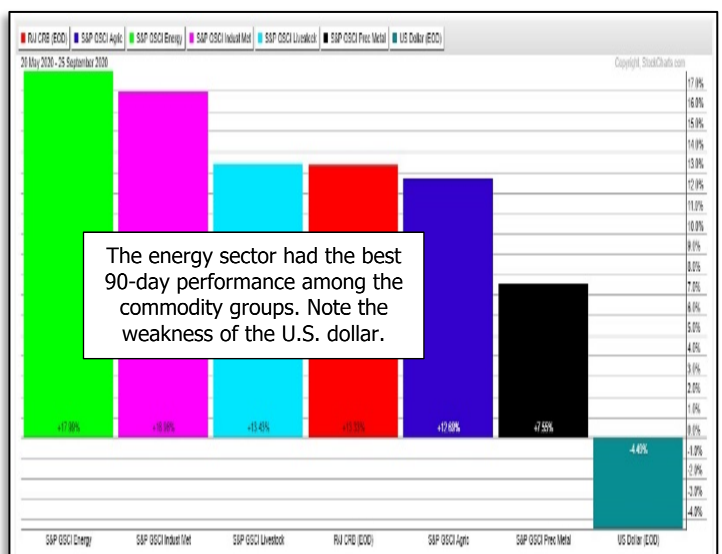

Chart 4

WTIC: Slow rise in Q2 stalls

Outlook neutral/negative: Light crude oil prices have successfully rebounded up to the $41-to-$43 resistance band and stalled. The commodity is also at the 50-week m/a (another likely resistance level). The continuation of the advance since the March low is now unlikely at this juncture. Buying momentum (RSI) is at the neutral level of 50 (not quite confirming ongoing price strength) and starting to curl down. First underlying price support at $35.00 (**Chart 5**).

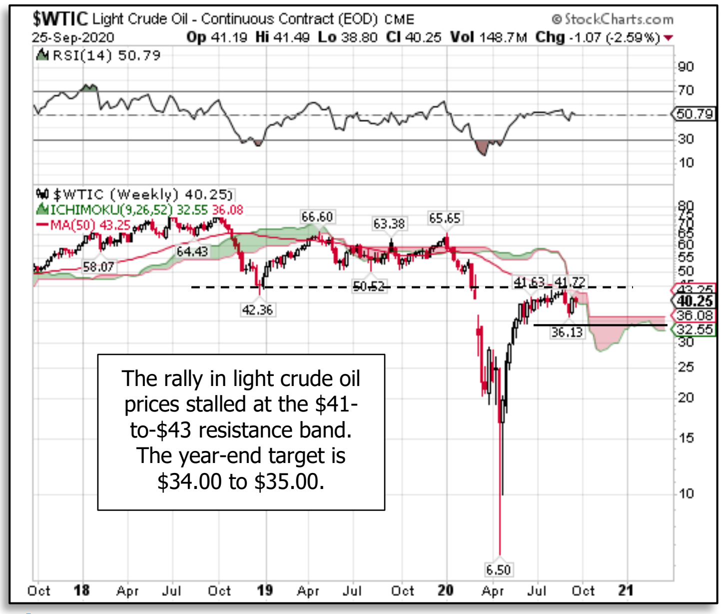

Chart 5

Curve-fitting models (**Chart 5a**) suggest that around $42 is a probable crest, and that price weakness should persist throughout the rest of this year. The year-end target is $34.00 to $35.00. However, moving into Q1 2021, models point to $32.00 to $33.00.

Bottom line: The current price level of light crude oil is expected to decline slightly in Q4. Use this current strength to lower position size, and then stay on the sidelines.

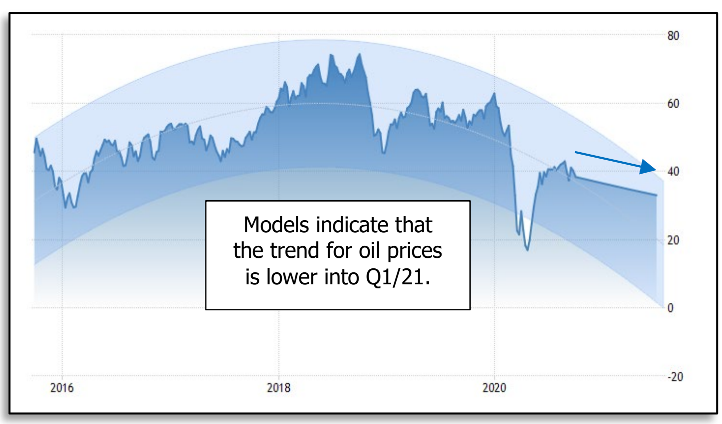

Chart 5a

Natural gas: Rise in Q3 stalls

Outlook neutral: The recent bump up in the price of natural gas appears to have hit a wall at $2.95. After developing a base at $1.50 to $2.00, the commodity rose in Q3, only to stall at the same price resistance level that capped its upward path in Q3 and Q4 2019. Buying momentum (RSI) still remains at a positive reading (confirming ongoing strength). The index is now above the declining 50-week m/a (**Chart 6**).

Chart 6

Curve-fitting models (**Chart 6a**) continue to point slightly lower, with a slow drift downward for the remainder of this year. The year-end target is now $1.95 to $2.00.

Bottom line: A slight retracement downward from $2.65 is expected over the next few months. However, the recent breakout above the 50-week m/a is encouraging for natural-gas bulls. Stay on the sidelines until there is confirmation of price support.

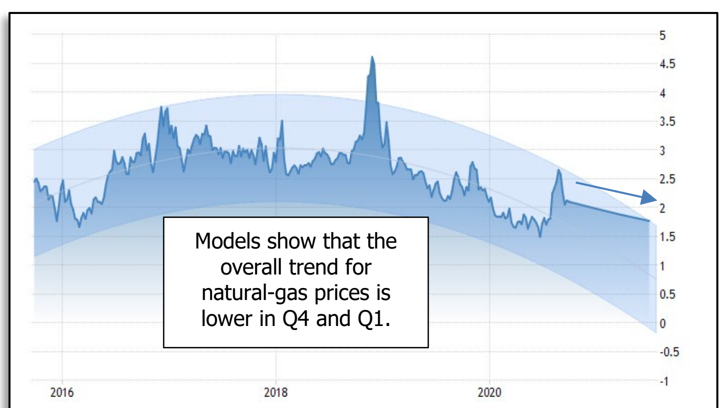

Chart 6a

Gasoline: Rollover expected in Q4

Outlook neutral/negative: The recent rebounding strength since March has moved gasoline prices up to a key resistance level – $1.25 to $1.30 – and stalled. Buying momentum (RSI) has faded and is now neutral (not confirming any ongoing price strength). Price action is also just below the key 50-week m/a. We suspect that a stall and some price weakness at this juncture will continue. First underlying support has dropped to $0.95 (**Chart 7**).

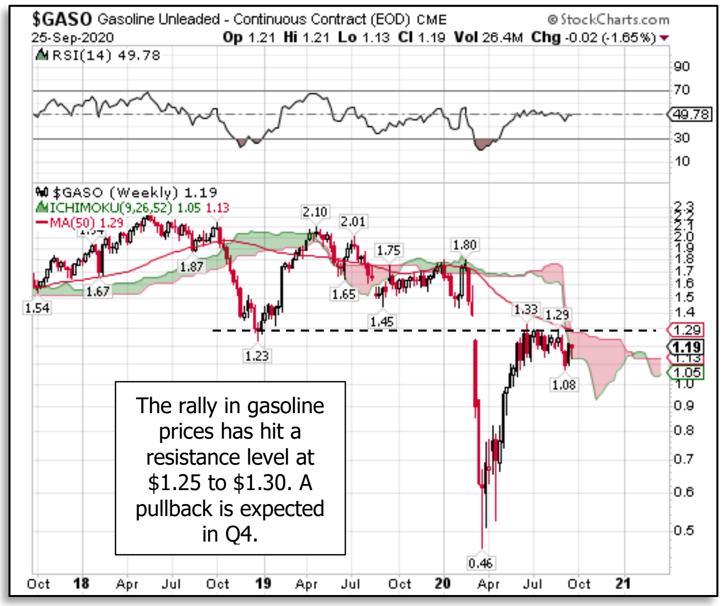

Chart 7

Curve-fitting models (**Chart 7a**) reflect a gradual weakening outlook for gas prices for the rest this year. The Q4 projected target for gasoline is $0.97 USD/gal.

Bottom line: Gasoline prices move with oil prices. As our models suggest that oil prices are expected to continue to be weak, so will gas prices. Use this price strength to lower position size, and then remain on the sidelines.

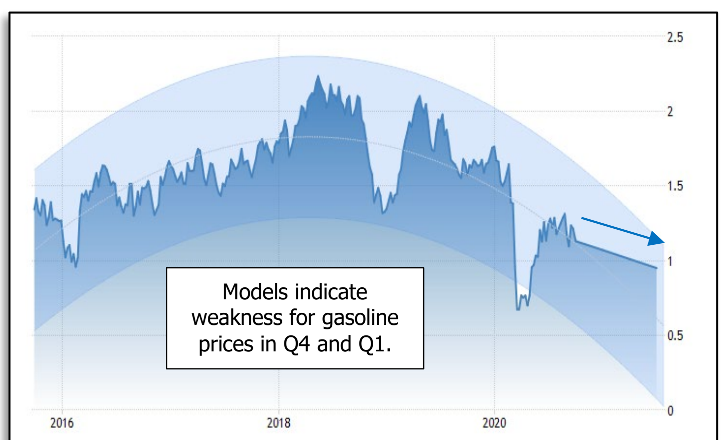

Chart 7a

Gold: Pullback coming

Outlook positive: Gold prices soared in Q3, as investors continue to pile into the 'safe-haven' metal. Aided by a sagging US$ (now down about 4.00% over the last 60 days) and near zero U.S. Treasury bond yields, gold broke to a new five-year high in August. But conditions appear to be changing. The U.S. dollar and T-bond yields have both found a floor. Buying momentum (RSI) is fading and now neutral (not confirming upward strength. First price support rests at $1,750 (**Chart 8**).

Chart 8

Curve-fitting models indicate a slight downward-drift trend over the next few months, with an expected year-end target of $1,850 (**Chart 8a**).

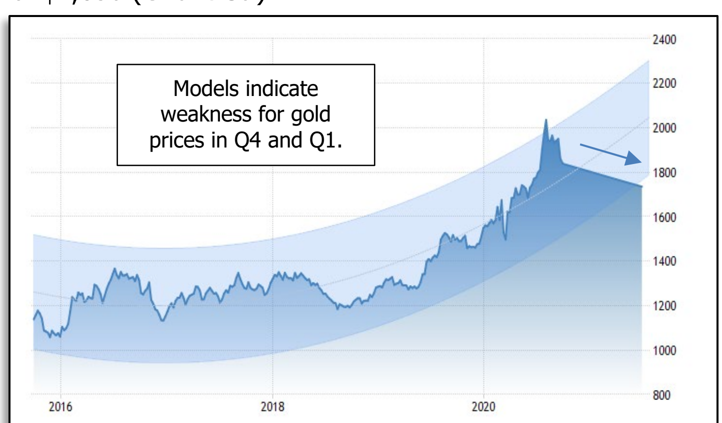

Chart 8a

Bottom line: The recent upward run in gold prices appears to have reached a short-term crest. Models indicate a gradual weakening in price in Q4. Take some profits now. Stay on the sidelines, and then wait for confirmation of support.

Silver: Overbought! Coming down

Outlook negative: Silver prices rocketed upward in July and August – too far, too fast. An equally swift retracement is coming (**Chart 9**). Buying momentum (RSI) is overbought (confirming a pullback), and the price remains well above the rising 50-week m/a. First support is at $23.00, and then $20.75.

Chart 9

Curve-fitting models show a picture of quick retracement in the months to come, with a downward slide in Q4. The year-end target is now $20.75 (**Chart 9a**).

Bottom line: Silver prices have moved too far, too fast. Take your profits and sell silver positions now. Stay on the sidelines.

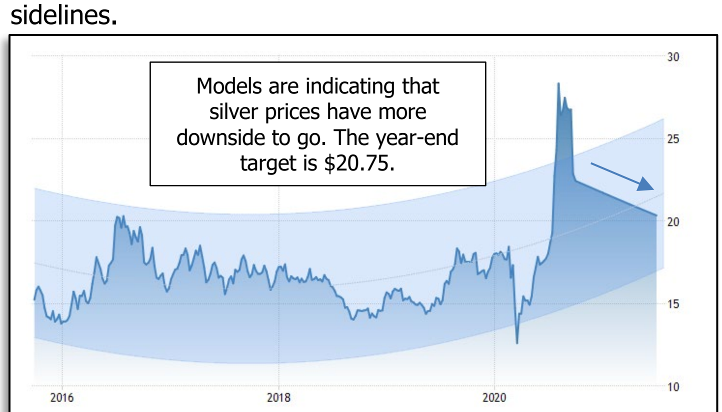

Chart 9a

Industrial metals: Overbought

Outlook neutral: The sharp rebound from the March low has reached the resistance level of 340 and stalled. The index has recently retested the Q1 2019 highs and appears to have now stopped. Buying momentum (RSI) is now overbought (confirming the strong bounce and likely crest). A short-term retracement is expected over the next month or two (**Chart 10**).

Bottom line: The S&P GSCI Metals Index is presently making a rebounding bounce from the low in March. The bounce appears to have reached a short-term crest. The strength in the RSI is encouraging, but as the RSI is overbought, and this price level (340) suggests a stiff resistance level, we expect that the bounce has hit a wall. Hold the position for now. Add to it only above 340.

Chart 10

Copper: Near overbought

Outlook neutral: The commodity is now rebounding after printing a three-year low of $1.97 in March. Copper prices rose by more than 45% in Q2 and Q3 (**Chart 11** on page 6). Buying momentum (RSI) is now nearly overbought (confirming the strong bounce and likely crest). The index is now at the key resistance level of $3.00 to $3.10. First underlying support is still at $2.75

Curve-fitting models suggest that a price peak is building. The models indicate a slow drift downward, to around $2.75 to $2.80, which is the year-end target (**Chart 11a** on page 6).

Bottom line: Copper prices have rebounded back up to a key resistance level and stalled. A short-term pullback is expected over the next few months. Use this strength to lower position size, and stay on the sidelines for the time being.

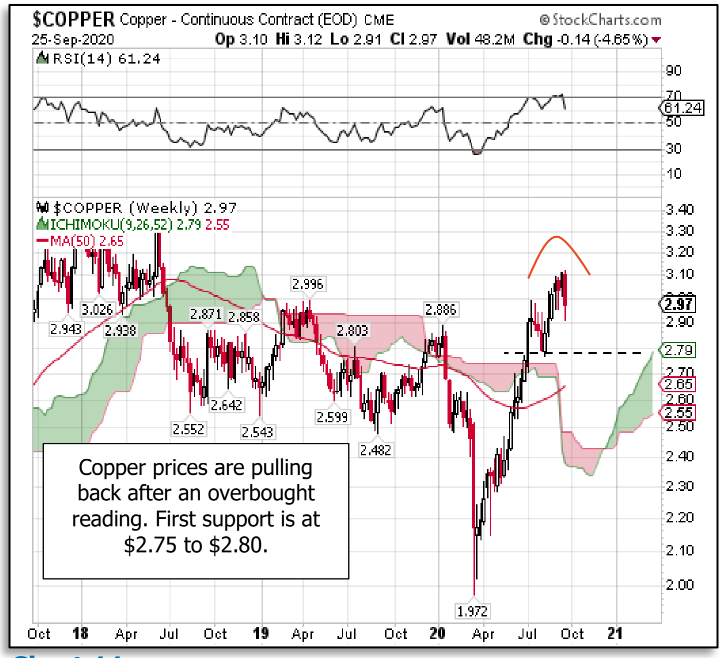

Chart 11

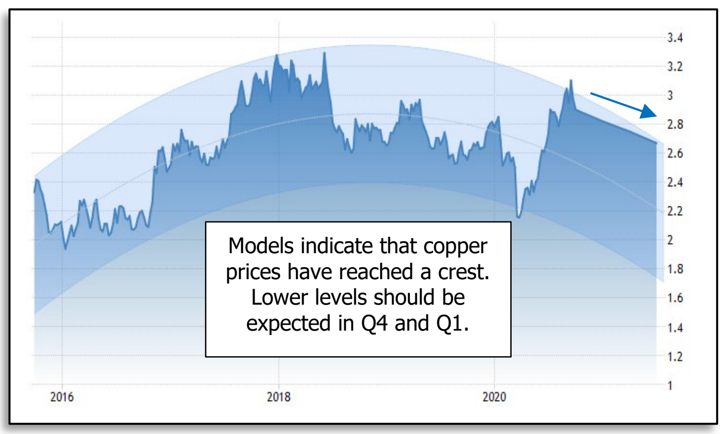

Chart 11a

Agriculture: At the top of the range

Outlook neutral: The index is rebounding off of the multi-year base of 250 to 260. Buying momentum (RSI) is now positive (confirming ongoing strength), and the index is also above the flat-trending 50-week m/a (also encouraging). It now appears set to retest the top of the multi-year consolidation pattern (around 311). Any advance is still expected to be very limited and will likely stop around 311 (**Chart 12**).

Bottom line: We expect this rebound to continue over the next month or two. Watch for stalling and weakness to develop around the 311 level. If this does not occur, the index should break out and advance up to 345. For now, do not add to the position.

Chart 12

U.S. dollar: Finding support at $0.92

Outlook negative/neutral: After a sharp 10% plunge in Q2 and Q3, the U.S. dollar's decline appears to be finding price support at $0.92. Buying pressure (RSI) is now curling upward, after reaching an oversold reading in August. This is a positive sign (**Chart 13** on page 7). The dollar's recovery will face several overhead resistance levels, including $0.94 and $0.95.

Curve-fitting models show price stability building over the next few months, as the dollar has reached the bottom of the curve. There is a very low potential for a further decline. A year-end target of $0.961 is expected (**Chart 13a** on page 7).

Bottom line: The index (DXY) is not expected to weaken over the next few months. The uptick in buying pressure suggests that buying is slowly returning. Investors should continue to hold their positions in the US$ and add to the position at $0.94.

What does it all mean?

After rallying for four months, the S&P GSCI Commodity Index has reached a crest and appears to now be rolling over. Although the energy sector is the top-performing commodity group (see **Chart 4 on page 2**), models indicate that this strength will likely fade as oil prices slip. Gold and silver prices are expected to pull back slightly over

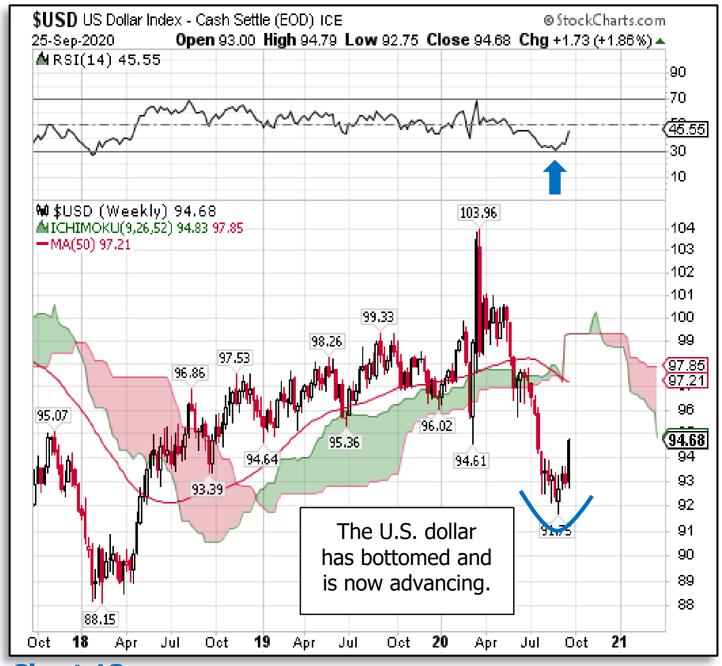

Chart 13

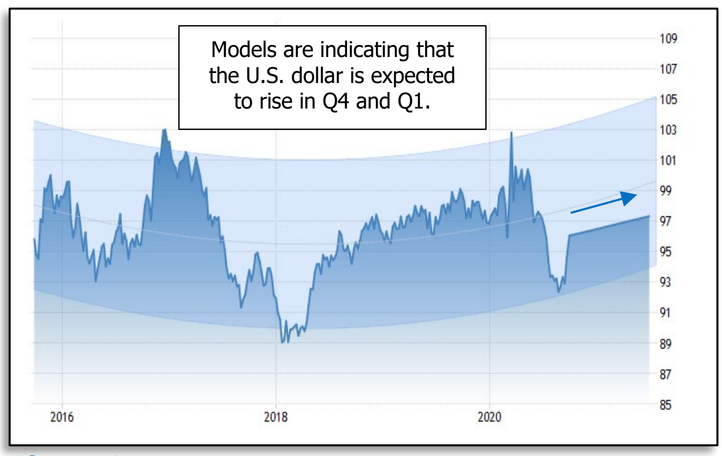

Chart 13a

the next few months as U.S Treasury bond yields find a floor (**Chart 14**), which will be negative for precious-metal prices.

One commodity that should benefit from the gradual reopening of the world's economy is iron ore. We mentioned this commodity in last month's issue. This natural resource is staging an impressive recovery and has recently broken out of an eight-month consolidation. There are no pure iron ore exchange-traded funds (ETFs); the closest is the iShares S&P Global Materials ETF (**MXI**).

Nevertheless, the overall outlook for commodities is neutral to negative (see **Chart 1** on page 1). Our modelling points to a continuation of this current softness in most commodity prices into year-end and early 2021, as the world's economies will take time to regroup and start using more natural resources again.

Chart 14

What should investors do?

There is not much to get excited about this month. The best buying opportunity comes from agriculture. Although that commodity does not represent a great play, it is still the best play at this time. Precious metals (gold, silver, platinum) were a profitable trade, but they now appear to be cresting. The precious metals were advancing as a safe-haven play, but the US$ appears to be finding a floor after several months of decline, and U.S. Treasury bond yields have bottomed – two strikes against this commodity sector.

International Equities

A few bumps within a bull market

KEY POINTS:

- **World markets keep recovering; higher levels are coming in Q4 – no concerns**
- **Brazil's Bovespa leads in 90-day performance**
- **Emerging markets are starting to rise**
- **Upward strength is continuing for China's Shanghai Index**
- **Japan's Nikkei set to retest Q1 high in Q4**
- **Hong Kong's Hang Seng slump continues**
- **Measured rally for European indexes**