Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

October 2023

Commodities

Energy still rules

Key Points:

- **S&P Commodity Index GTX extends the breakout**
- **Deflationary assets dominate inflationary assets since mid-2022**
- **The energy sector tops the 90-day performance, again**
- **WTI's breakout heads $94**
- **Likely bottom still developing for Natural gas**
- **Gasoline prices start to march higher**
- **Gold pulls back under US dollar pressure**
- **Price peak for silver at $26.00 holds**
- **Possible floor Industrial metals index at 400**
- **Copper prices find support at $3.60, but the outlook into late Q4 is still flat**
- **Ongoing upward trend continues for livestock**
- **The US dollar continues to rise. Models point higher to 106.50**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	-4.83%	6.42%	**821.26%**
S&P 500	-5.09%	11.68%	328.81%

The 19-yr average for the TS Model Portfolio – 11.61%
The 19-yr average for the S&P 500 – 7.47%

TS Model Income Portfolio – 8.36% average div. yield

GTX: Rising aided by inflation

Outlook Positive: The S&P GSCI Commodity Index (GTX) has broken out of a year-long downward slide, aided by the rising bond yields and the prospect that US inflation is stubbornly holding on. US inflation rose for a second month to 3.7% (core inflation figures also overshoot forecasts), increasing the bet that the Fed will keep rates high for a prolonged period and likely add another hike before year-end. What is driving it? Just one component - Energy.

This sub-component of the GSCI Commodity Index represents 54% of the total index. Grains are the second largest commodity type with only 15% weighting. Industrial Metals comes in at third with 12%.

The rise in commodity prices is both positive and negative. Short-term, it shows economic activity is still vibrant. Longer term it can highlight inflation concerns and the inevitable higher interest rates to combat those inflation issues.

However, there are still headwinds for the GTX (**Chart 1**). The rising US dollar (now at 104.6) increases the holding cost on assets with no interest return.

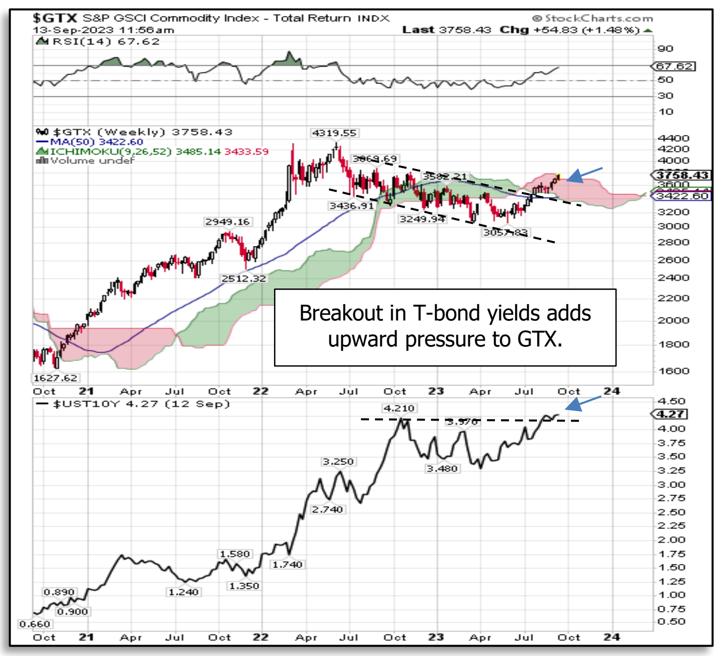

Chart 1

The recent breakout of GTX is supported by rising buying momentum (RSI) confirming additional upward pressure. Now above the 50-week m/a. The negative 'Red Cloud' continues to expand in Q4. This suggests some price weakness or stalling for the commodity index. The first price support for the GTX is at 3,425. US T-bond 10yy is also breaking out. Now pointing to 4.80%.

5-year forecasting models suggest that the current breakout has legs aided by the ongoing rise in US interest rates. The rate advance is due to stubbornly high inflation. Models for GTX point to about 4,100 as the expected target (**Chart 1a**).

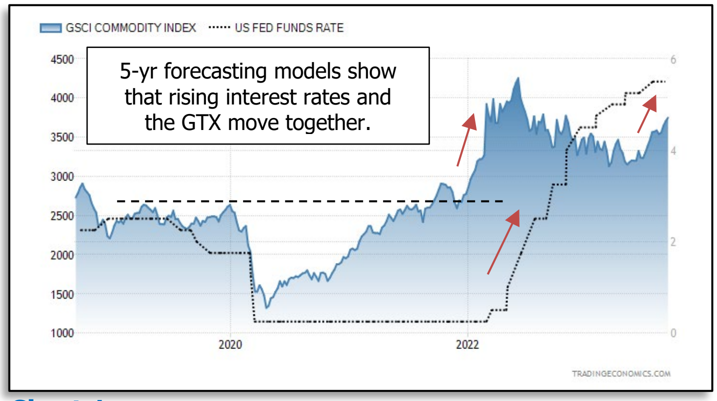

Chart 1a

What does it mean? The recent breakout of GTX is aided by the slow rise in T-bond yields and stubbornly high inflationary pressure. Until these two factors ease, the near-term outlook for GTX remains positive.

Deflation vs. Inflation: Deflation wins

Outlook Neutral: The 5-year performance between inflationary assets and deflationary assets shows inflationary assets have had lower performance for the last 12 months with no indication of change (**Chart 2**).

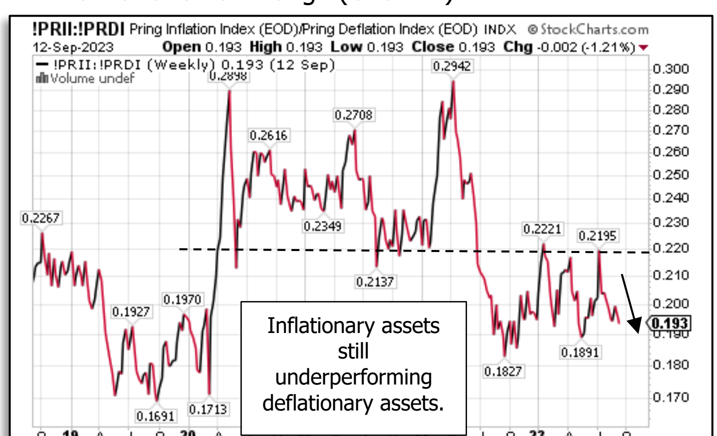

Chart 2

Commodity performance: Energy

Outlook: Neutral: The S&P GSCI Energy Index had the highest 90-day performance. Again. Now up over 30% during the last three months. Energy is typically a late market cycle sector (**Chart 3**).

What does it mean? As we said last month, we expect continued leadership from the energy sector in Q4. The recent breakout of GTX (now up 20%) is fueled by energy only. Note that only two commodity groups are advancing and three are declining. Very narrow breadth.

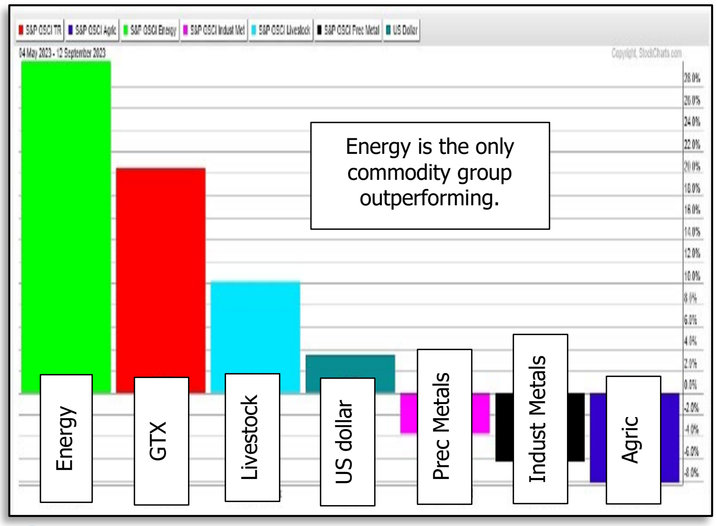

Chart 3

WTIC: Low inventory, demand rise

Outlook: Neutral/positive: A squeeze is coming. The oil market faced a 1.2 million barrels a day deficit in Q1 and Q2. Inventory levels are now severely depleted (**Chart 4**).

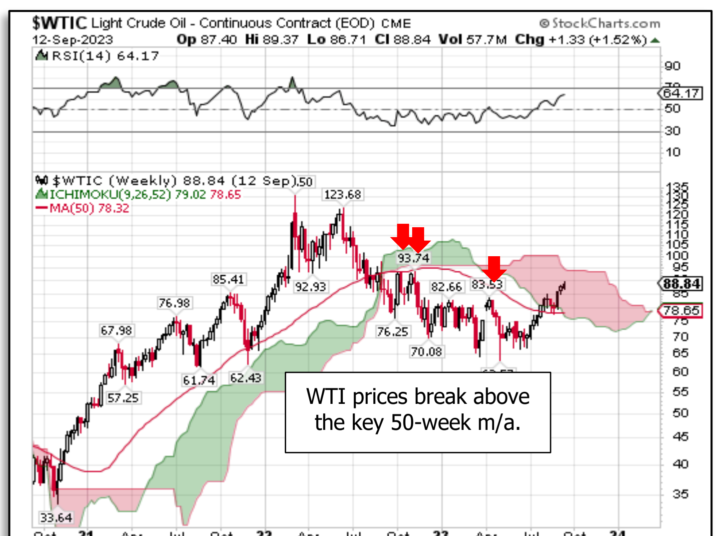

Chart 4

Production cuts from OPEC+ and Russia will continue to tighten the market. OPEC+ projects that demand will increase by 2.25 million barrels per day in 2024 and the deficit will increase to 3.3 million barrels per day in Q4.

Stronger-than-expected US demand also fueled bets that the Fed will keep interest rates high for a longer term.

Light crude oil prices have broken out over the April high of $83.50. Remaining above the key 50-week m/a. Buying momentum (RSI) is positive (confirming additional upward strength). An expanding negative 'Red Cloud' in Q4 only adds to the view of more consolidation for WTI.

Five-year forecast models suggest that WTI is likely in a slow rising trend with the projected target of $94 (**Chart 4a**).

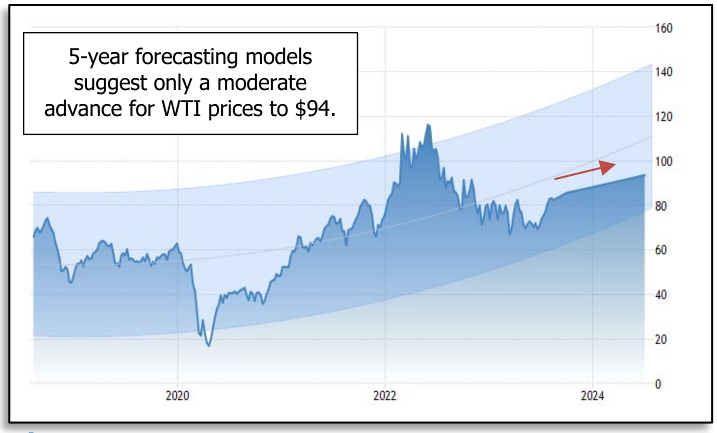

Chart 4a

<u>What does it mean?</u> World demand for oil is slowly increasing. The price of WTI is expected to remain in the low-to-mid $90s for the next few months.

<u>We suggest adding to the position now. Moderate advance should be expected.</u> Our favourite stocks are IMO, SHEL, KEL, ATH, E, OII, PSX and TTE.

Natural gas: Very minor bounce

<u>Outlook: Negative</u>: Investors continue to balance the growth in natural gas reserves (now at record levels) against the predictions of warmer-than-normal October temperatures. The latest EIA report showed that 57 billion cubic feet was recently added. Total stockpiles rose to 33 billion cubic feet in early September. More than market expectations.

Weather patterns into October are expected to be above normal reducing the need for air-conditioning usage and lower gas consumption. Further adding to price weakness.

NatGas prices appear to have finally found a floor at $2.00 but also a solid price resistance level at $3.00. The price has held that zone for 8 months. The commodity is well under the 50-week m/a. Buying momentum (RSI) is neutral (not confirming additional upward strength).

The negative 'Red Cloud is aggressively expanding in Q4 suggesting a low probability of NatGas rising too much (**Chart 5**).

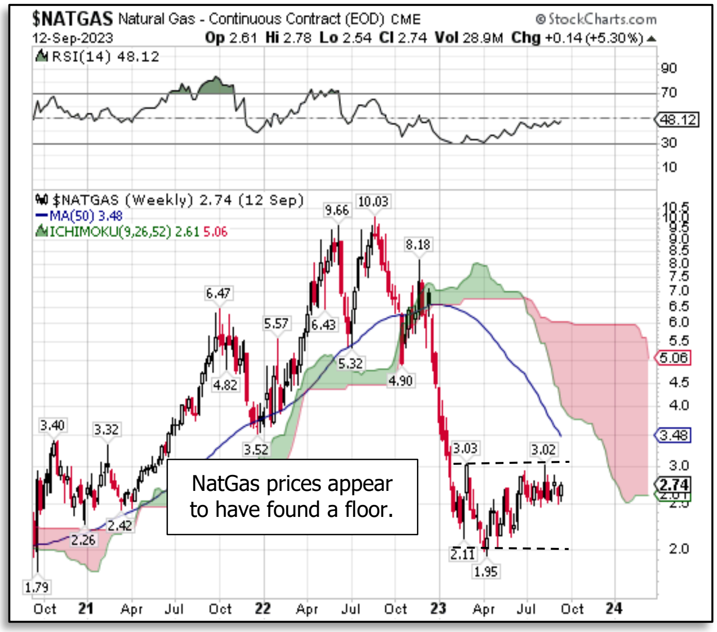

Chart 5

Five-year forecasting models suggest that natural gas prices will firm-up very slightly over the next few months and trade around $2.79-$2.85/MMBtu in Q4 (**Chart 5a**).

Chart 5a

<u>What does it mean?</u> Nothing great to report. Abundant supply plus warmer weather limits demand. This has kept Natural Gas prices stable for the last 9 months. <u>Continue to avoid the commodity. Wait until NatGas prices break above $3.00. The target is $2.85 MMBtu</u>.

In the meantime, CES Energy Solutions Corp. (**CEU**) and Canadian Natural Resources Ltd. (**CNQ**) looks attractive.