

Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

November 2022

Commodities

US dollar pressure cuts commodity runs

Key Points:

- GTX stalls on rising US dollar pressure
- Deflationary assets take the lead in performance as commodities stall with \$USD performance
- WTI's upward trend stalls into Q4 staying under \$100
- Pullback to the key 50-week m/a for NatGas
- Gasoline prices follow oil's weakening trend
- \$USD strength continues to weaken gold prices
- Silver prices sag to new 2-year low as incoming rate hikes dampen metal bulls
- Industrial metals index continues to trend lower on recession fears, demand lowers
- Copper prices find tentative support at \$3.25
- S&P GSCI Ag Index struggles to break above 50-week m/a
- Corn prices (CORN) are on the rise as Russo/Ukraine war worries investors
- US dollar index continues its upward march with Fed's aggressive interest rate policy, bad news for natural recourses

GTX: Stalling under \$USD strength

Outlook neutral: The S&P GSCI Commodity Index (GTX) continues to stall largely due to the impact of the rapidly rising US dollar. With the Big dollar's steady climb, non-yielding US-priced commodities are not as much value to foreign buyers. The tipping point came this year as the commodity index's trend flattens. With the Fed preparing to hit interest rates again in early November with another jumbo hike, the GTX can be expected to remain in a trading range for the rest of Q4 (Chart 1).

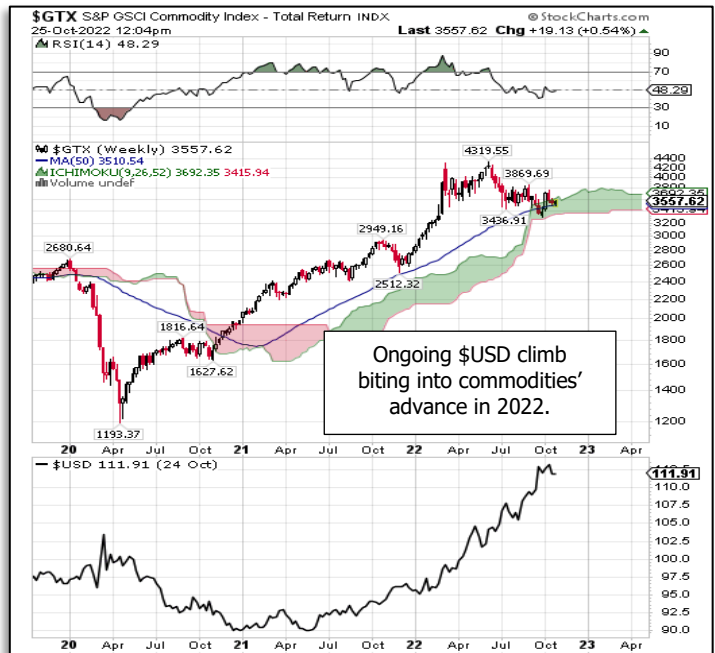


Chart 1

We had commented that US inflationary pressures are expected to ease by year-end (July Newsletter page 18 and August Newsletter page 17). This action should slow the Fed's aggressive rate increases. Even though the US

| | <i>Since Last Month</i> | <i>Year to Date</i> | <i>Since Inception mid-2003</i> |
|---------------------------|-------------------------|---------------------|---------------------------------|
| TS Model Portfolio | 5.51% | -15.81% | 766.43% |
| S&P 500 | 7.99% | -18.76% | 287.23% |

The 19-yr average for the TS Model Portfolio – 11.79%
 The 19-yr average for the S&P 500 – 7.24%

TS Model Income Portfolio – 8.19% average div. yield

inflation rate is easing, the core inflation rate topped 6.6% in September, the highest level since 1982. This will keep the Fed's foot on the gas for higher interest rates.

Buying momentum (RSI) is neutral (not confirming additional upward strength) indicating price stalling over the next few months.

Five-year forecast models suggest the GTX will remain under 3,900 (**Chart 1a**).

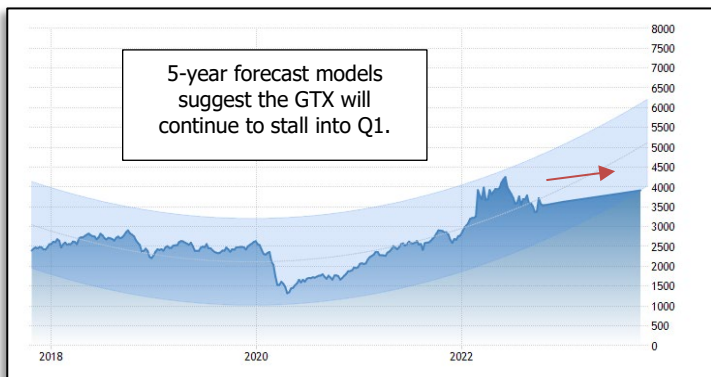


Chart 1a

What does it mean? The upward trend for the S&P GSCI Commodity Index has stalled due to the rising US dollar. As the inflationary pressures have not ended, we expected more rate increases from the FOMC and more support for the \$USD. This equals more containment for the GTX.

The Q4 target for the GTX is 3,900. Continue to hold.

Inflation vs deflation: Weakening

Outlook negative: Inflationary assets are under pressure as the US dollar continues to roar higher. The performance of inflationary assets continues to underperform against deflationary assets as the US dollar advances (**Chart 2**).

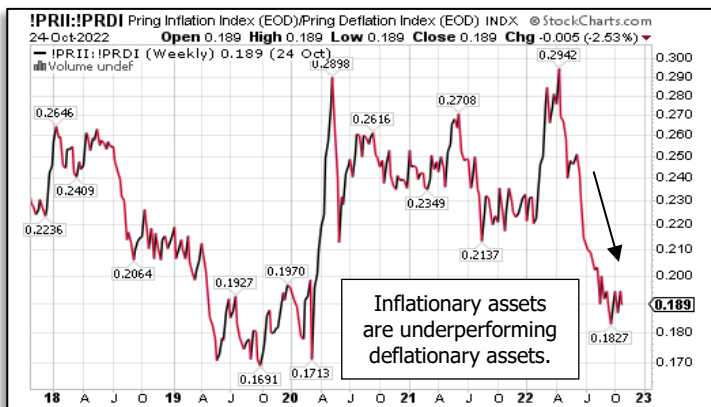


Chart 2

What does it mean? As we expect the US dollar to continue advancing at year-end (aided by the Fed's aggressive interest

rate policy). The performance leadership should be continuing to shift to deflationary assets over the next few months.

Commodity performance: \$USD wins

The unyielding advance of the US dollar has halted the rise of all the commodity groups over the last 90 days. From precious metals to energy to industrial metals, all are down considerably. A negative washout (**Chart 3**).

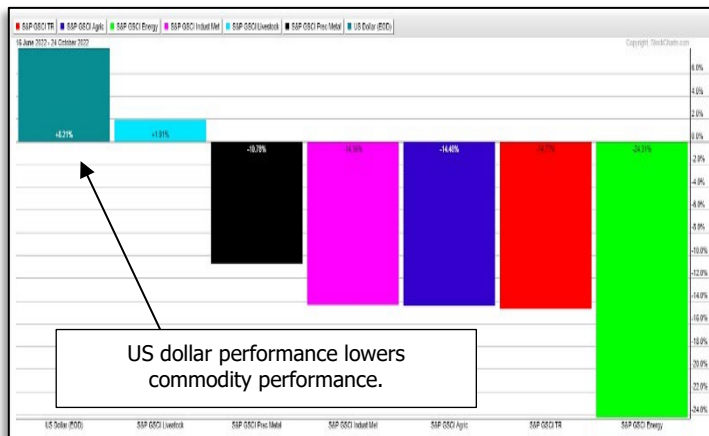


Chart 3

What does it mean? The Fed's aggressive interest rate policy is pushing up the dollar and pushing down natural resource prices. This pattern is expected to continue as long as US inflation is running hard and interest rates need to be advanced.

WTIC: Weakening trend in Q4

Outlook: neutral/negative: Traders continue to focus on the poor demand and the increase in supply (**Chart 4**).

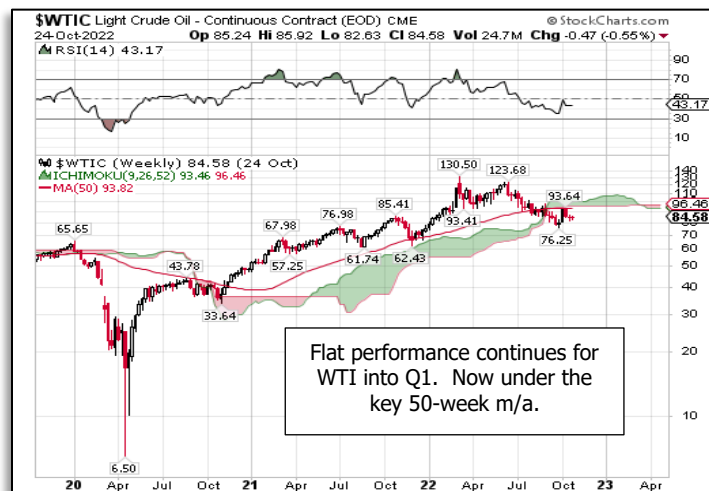


Chart 4

Data from the EIA pointed to a 9.9 million barrel increase in US crude oil inventories, well above expectations. Recently OPEC+ announced a cut of 2 million bpd among forecasts for stalling global growth in 2023. Growth expansion from China (top oil importer) missed expectations in Q3 pointing to a weak recovery from COVID lockdowns.

WTI continues to consolidate under the \$100 level. Now below the key 50-week m/a. Buying momentum (RSI) is now neutral (not confirming additional upward strength).

Five-year forecasting models suggest measured movement for WTI over the next few months. The price of WTI is expected to remain around \$90 in Q4 (**Chart 4a**).

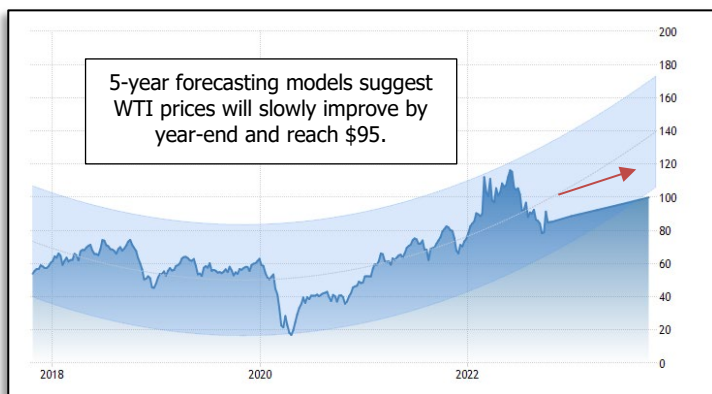


Chart 4a

What does it mean? Economic concerns still dominate oil prices. WTIC is expected to remain in a tight consolidation over the next few months. Any pullback or advance over the next few months should be minimal. Continue to hold. Lowering the year-end target to \$95.

Natural gas: Back to key support

Outlook: neutral/positive: US output remains at record levels and milder-than-normal weather is allowing inventory levels to grow. The latest EUA report showed US utilities added 125 billion cubic feet (bcf) of gas to storage. This increase is much larger than usual.

Natural gas still remains in a strong upward trend. The commodity's recent pullback is expected to be halted at the 50-week m/a. This moving average has proven to be solid price support since mid-2020. Buying momentum (RSI) is negative (not confirming upward strength). Now on the support level of \$6.30 (**Chart 5**).

Five-year forecasting models suggest that natural gas prices will advance in late Q4 and trade around \$7.00/MMBtu by year-end (**Chart 5a**).

What does it mean? Warmer weather and increasing supply have tapered the advance of natural gas. The demand for natural gas is still expected to remain well



Chart 5

supported into late Q4. The target has been lowered to \$7.00 MMBtu by year-end.

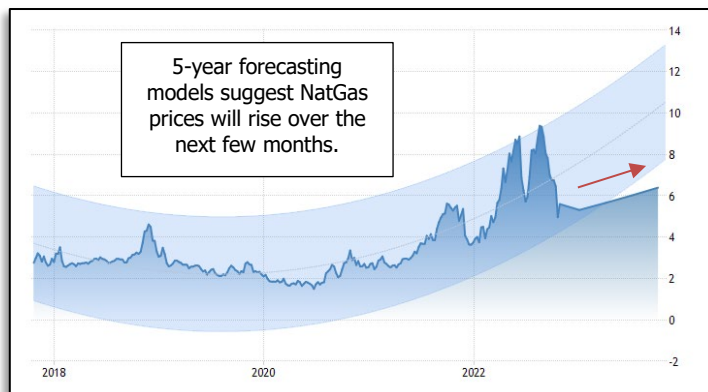


Chart 5a

Gasoline: Dip in price

Outlook: neutral/negative: US gasoline futures dropped in October (along with oil) as investors worried about the potential recession-driven demand downturn and the latest from OPEC+. The latest EIA data showed production fell by 846 thousand barrels in early October, the first drop in four weeks.

Gas prices declined sharply in Q3 on recession fears. Buying momentum (RSI) is negative (not confirming additional buying pressure) (**Chart 6 on page 4**). Now bouncing on the first price support level at around \$2.45. Breaking below the 50-week m/a, not good. Five-year forecasting models remain neutral and range-bound

T e c h n i c a l S p e c u l a t o r

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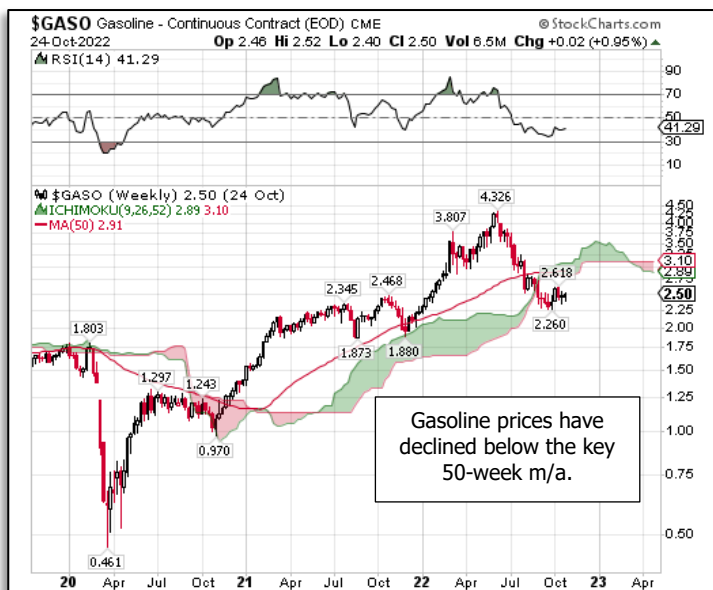


Chart 6

indicating that gasoline prices will remain under \$3.00 over the next few months (Chart 6a).



Chart 6a

What does it mean? Gasoline prices have had a steady advance over the last two years, but that movement appears to be ending. Models suggest the GASO will remain under \$3.00 over the next few months. Lowering target to \$3.00. We suggest taking some profit on any upward strength.

Gold: Breaking down

Outlook: negative: Weighed down by the strong US dollar rally as higher-than-expected US inflation numbers are fueling a continuation of an aggressive interest rate policy. The inflation rate eased slightly to 8.2% but core inflation soared to a new high (6.6%). This action will keep the Fed raising rates, bolstering the dollar and weakening gold prices. Even though gold is considered a hedge against

inflation and economic uncertainties, the higher interest rates dent the appeal of holding a non-yielding asset.

Gold prices broke price support in September and reached a new 2-year low of \$1,621.10 (Chart 7). Buying momentum (RSI) is negative (not confirming additional upward pressure).

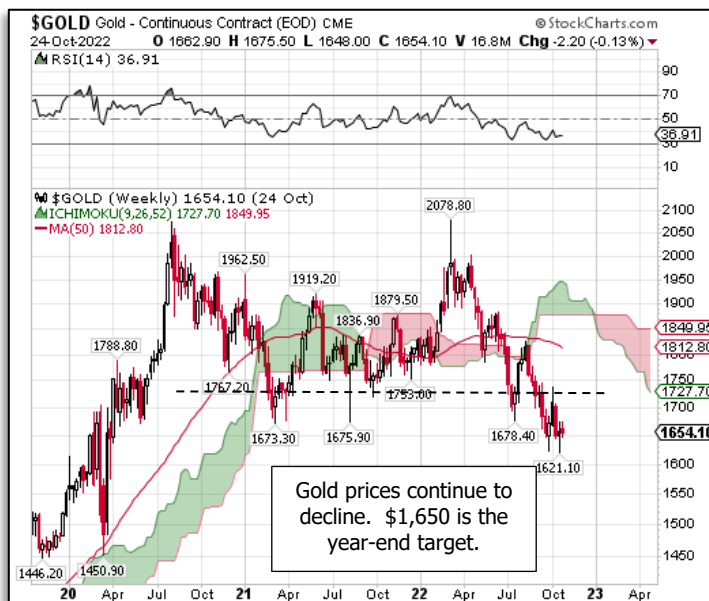


Chart 7

Five-year forecasting models imply that gold prices will move toward \$1,650 by year-end (Chart 7a).

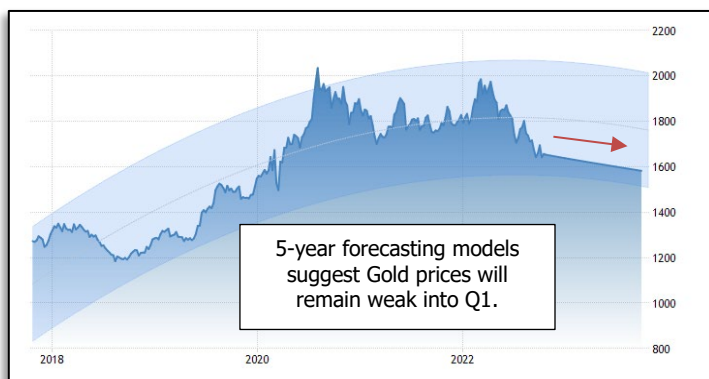


Chart 7a

What does it mean? The ongoing aggressive interest rate policy will keep the dollar well-supported and gold under pressure. Our year-end target is \$1,650. We would suggest staying on the sidelines for now.

Silver: Weakening prices

Outlook: negative: Investors continue to pull back from silver. The increasingly hawkish Fed continues to hurt the