# Technical Speculator

*Timely Analysis for the Informed Investor*

MARKETS – COMMODITIES – CURRENCIES

September 2020 17th Year


# Commodities

## Economic recovery aids energy & metals

**KEY POINTS:**

- **Only limited rebound for S&P GSCI Commodity Index**
- **Equal dominance of inflationary assets over deflationary assets**
- **GSCI Energy Index tops in 90-day performance**
- **Light crude oil prices slowly, slowly rising**
- **Natural-gas prices find a floor (finally)**
- **Gold's rise appears to be cresting**
- **GSCI Industrial Metals Index overbought**
- **U.S. dollar (DXY) nears a bottom after deepest rollover since 2018**

| | *Since Last Month* | *Year to Date* | *Since Inception mid-2003* |
|---|---|---|---|
| **TS Model Portfolio** | 4.86% | 11.38% | **656.20%** |
| S&P 500 | 6.15% | 8.34% | 250.02% |

17-year average for the TS Model Portfolio: 12.47%
17-year average for the S&P 500: 7.55%

https://www.technicalspeculator.com/services/ts-model-growth-portfolios 9.49% average dividend yield

### S&P GSCI outlook: Recoil continues

**Outlook neutral/negative:** The S&P GSCI Commodity Index continues to stage a limited rebound after falling to a new 20-year low in March. 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 recovered to a neutral level. The main driver for this measured advance are the energy and industrial metals sectors – sectors that underpin the economic recovery.

Having broken through the 1750 resistance level, solid price resistance sits at 1900 (**Chart 1**). Any additional upside movement at this juncture above 1900 appears limited.

Five-year curve-fitting models illustrate no upside potential for the rest of 2020. Model outlooks have improved slightly from last month (August), but forecast a continued downward drift. The year-end target is now 1750 (**Chart 1a**).

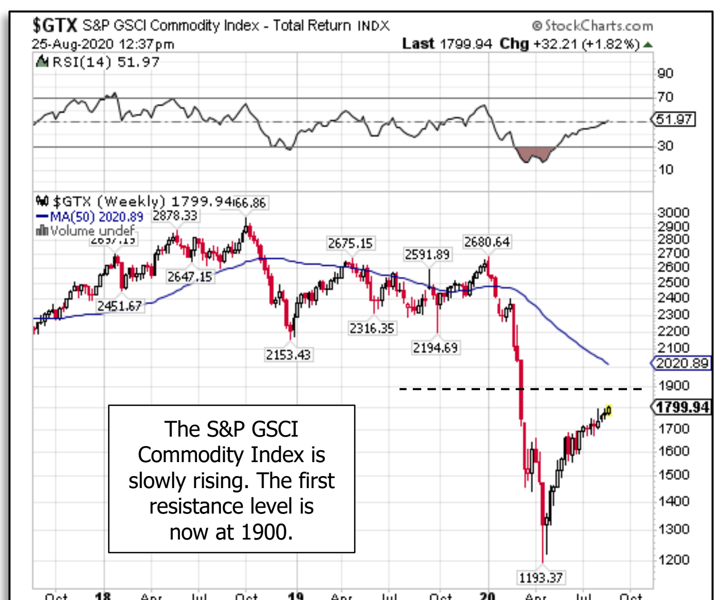


Chart 1

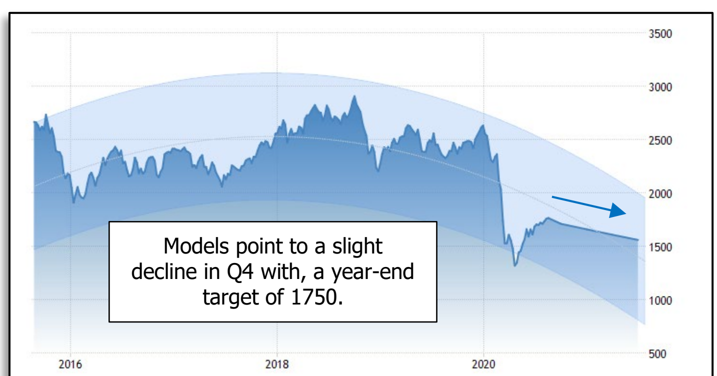


Chart 1a

The longer-term (12-year) view of the commodity index shows a steady decline since 2011, with lower highs and lower lows. There is no evidence of a trend reversal (**Chart 1b**).

**Bottom line:** The GSCI index appears to have little or no upside potential this year. Only the energy and industrial metals sectors are showing some upside potential. Use this bounce to reduce position size on GSCI.

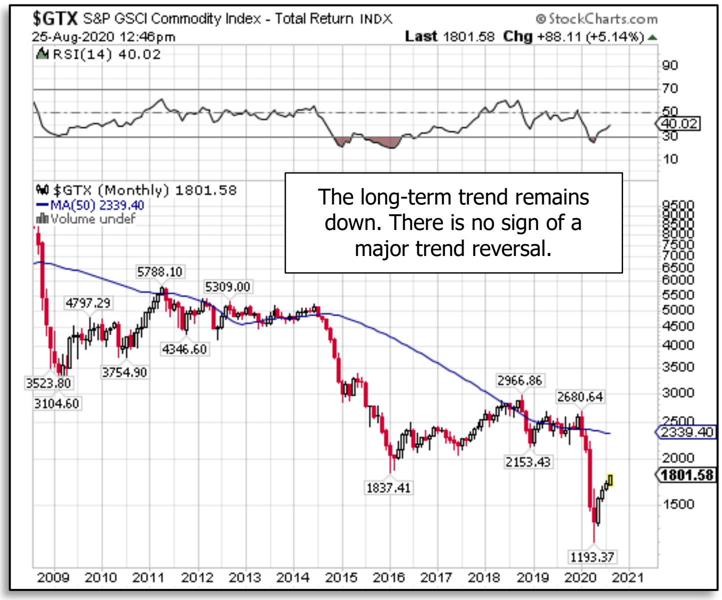


Chart 1b

## Deflation vs. inflation: Equal

Inflationary assets (commodities) and deflationary assets (stocks) have had near-equal performance since April (**Chart 2**). The recovery in the U.S. economy is aiding the rebound strength in energy and industrial metals. We expect this phase to continue into Q4.

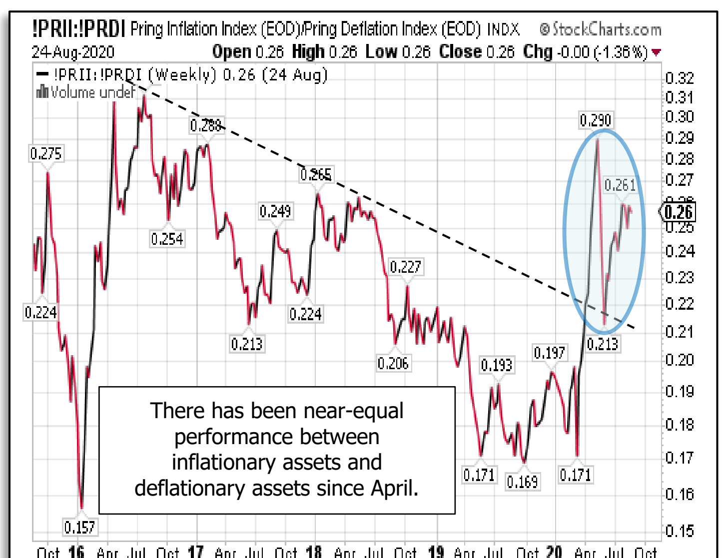


Chart 2

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

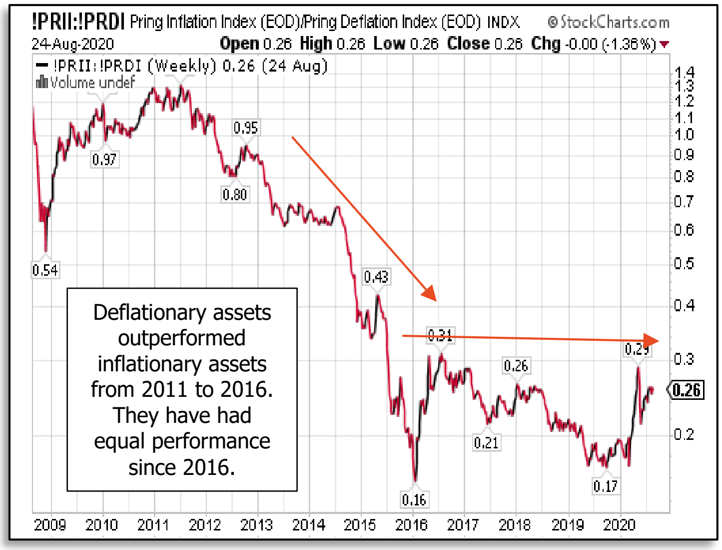


Chart 2a

## Relative performance: GSCI vs. S&P

The S&P GSCI Commodity Index continues to underperform the S&P 500. That has been particularly evident since mid-2018. The S&P GSCI is down by more than 33% year to date (YTD), while the S&P 500 is back to its all-time high level of 3380. There are no indications of this pattern reversing to favour commodities over the S&P 500 (**Chart 3**).

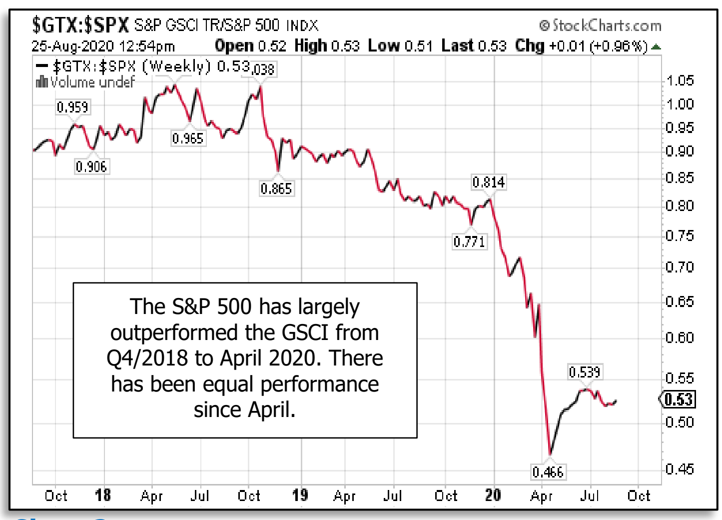


Chart 3

## Commodity performance: Energy

The S&P GSCI Energy Sector Index ($GJX) had the top performance over the last 90 days. The industrial metal 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