Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

September 2023

Commodities

Energy prices start to advance

Key Points:

- **S&P Commodity Index GTX has a minor breakout**
- **Deflationary assets dominate inflationary assets since mid-2022**
- **The energy sector tops the 90-day performance**
- **Is WTI's breakout a head-fake or the start of a bigger movement?**
- **Possible bottom developing for Natural gas**
- **Gasoline prices start to march higher**
- **Gold still stuck under $2,050**
- **Price peak for silver at $26.00 holds**
- **Industrial metals index continues to weaken**
- **Copper prices find a possible floor but the outlook into late Q3 is still flat**
- **Ongoing upward trend continues for livestock**
- **The US dollar holds above par. Models point to 104.50**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	-1.38%	11.82%	**868.03%**
S&P 500	1.17%	17.40%	350.77%

The 19-yr average for the TS Model Portfolio – 11.89%
The 19-yr average for the S&P 500 – 7.73%

TS Model Income Portfolio – 9.04% average div. yield

GTX: Change of course?

Outlook neutral/negative: The S&P GSCI Commodity Index (GTX) appears to be starting to break out of a year-long decline. 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%.

Most of the heavy lifting for the GTX comes from the outlook on Light Crude Oil and the demand from China. Doubts continue on a Chinese economic recovery. Q2 GDP growth remains soft and the world supply of oil is abundant. On the plus side, WTI moves with US bond yields. Bond yields and commodities have a positive relationship in an inflationary environment, such as now (**Chart 1**). However, there are still headwinds for the GTX. The rising US dollar increases the holding cost on assets with no interest return. The Fed's monetary tightening policy appears to be nearing an end, which is negative for the Big dollar.

Chart 1

bond yields. There are still ongoing global recession fears which are easing commodity demand.

Technically, the recent breakout is supported by rising buying momentum (RSI). Now just above the 50-week m/a. The negative 'Red Cloud' is expanding in Q3 and Q4. This suggests some price weakness for the commodity index. The first price support for the GTX is at 2,930.

5-year forecasting models suggest that the current breakout is a head fake and will pull back in Q3. Models point to about 3,450 as the expected Q4 target (**Chart 1a**)

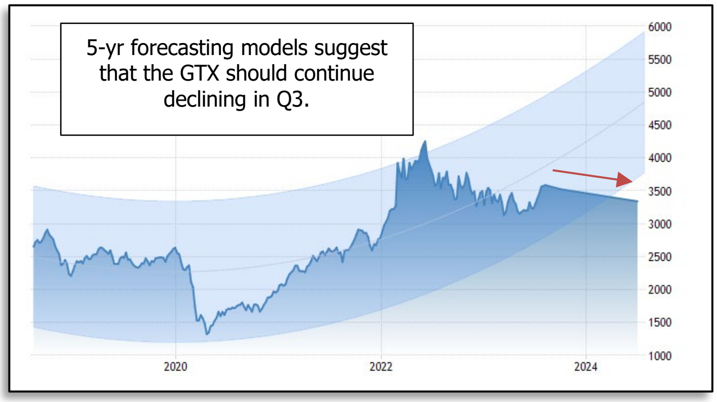

Chart 1a

<u>What does it mean?</u> The recent breakout is expected to retrace slightly over the next month or two. Possible head fake. Global demand for natural resources remains frail. Look for 3,450 as the first target. <u>Remain on the sidelines. Not enough upside potential.</u>

Deflation vs. Inflation: Deflation wins

<u>Outlook neutral</u>: 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

The S&P GSCI Energy Index had the highest 90-day performance. Now up over 13% during the last three months. Energy and Livestock are typically late market cycle sectors (**Chart 3**).

<u>What does it mean?</u> As we said last month, we expect continued leadership from these two sectors into Q4 and ongoing weakness from the S&P Commodity Index (GTX).

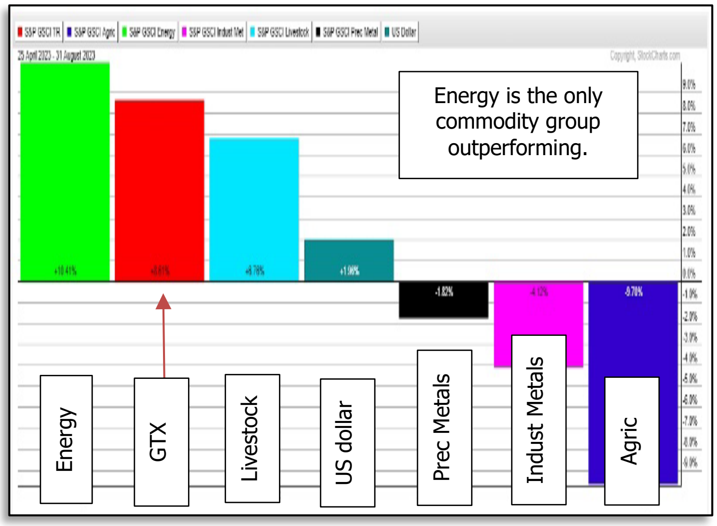

Chart 3

WTIC: A true breakout?

<u>Outlook: neutral/negative</u>: WTI rallied recently on tightened global supply. China uncertainties and a strong US dollar helped pull investor's risk appetite back (**Chart 4**).

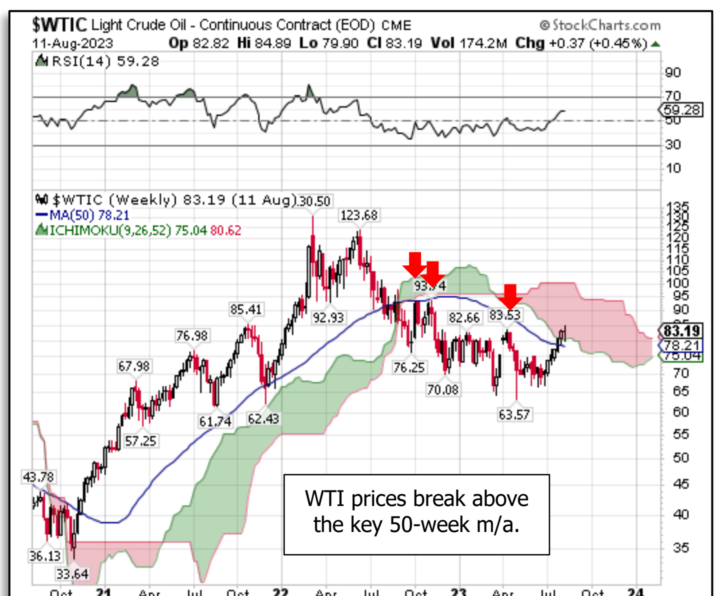

Chart 4

The weak numbers coming out of China suggest a very sluggish economic recovery for the world's top crude importer. Stronger-than-expected US production also fueled bets that the Fed will keep interest rates high for a longer term. Supply adjustments form OPEC+ and Russia are offering oil investors some hope. Global demand surged to a record 103 million barrels a day.

Light crude oil prices have popped up to the April high of $83.50. Prices appear to be finding some support around $82-$83 per barrel. Remaining above the key 50-week m/a. Buying momentum (RSI) is positive (confirming additional upward strength). An expanding negative 'Red Cloud' in Q3 and early 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 by early Q4 of $85.75 (**Chart 4a**).

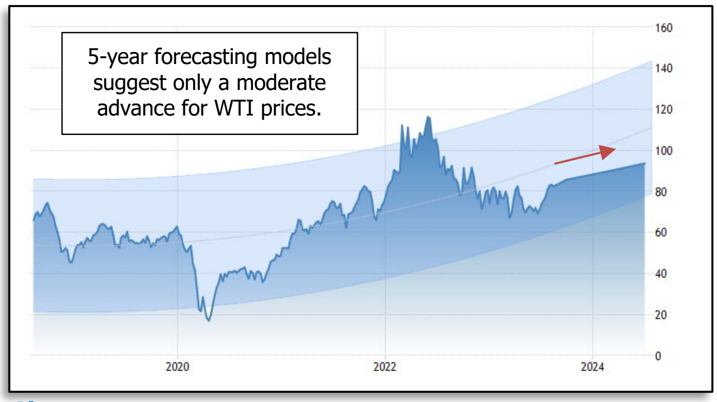

Chart 4a

<u>What does it mean?</u> World demand for oil is slowly increasing. The price of WTI is expected to remain in the low $80s for the next few months.

<u>We suggest adding to the position now. Moderate advance should be expected.</u>

Natural gas: Very minor bounce

<u>Outlook: negative</u>: Investors continue to balance the growth in natural gas reserves against the predictions of higher temperatures and increasing cooling demand. The latest EIA report showed that 29 billion cubic feet was recently added. Total stockpiles rose to 3.03 trillion cubic feet. More than market expectations.

Weather patterns into late August are expected to be above normal and hotter-than-normal which will drive up the usage of natural gas for cooling purposes.

NatGas prices appear to have finally found a floor between $2.00 and $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 upward strength). The negative 'Red Cloud is aggressively expanding in Q3 and Q4 suggesting a low probability of NatGas rising too much (**Chart 5**).

Five-year forecasting models suggest that natural gas prices will firm-up very slightly over the next few months and trade around $2.95/MMBtu by Q4 (**Chart 5a**).

Chart 5

<u>What does it mean?</u> Abundant supply counters the rise in demand (thanks to warmer weather) has kept Natural Gas prices stable. <u>Continue to avoid the commodity. Wait until NatGas prices break above $3.00. The target has been lowered, to $2.65 MMBtu</u>.

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

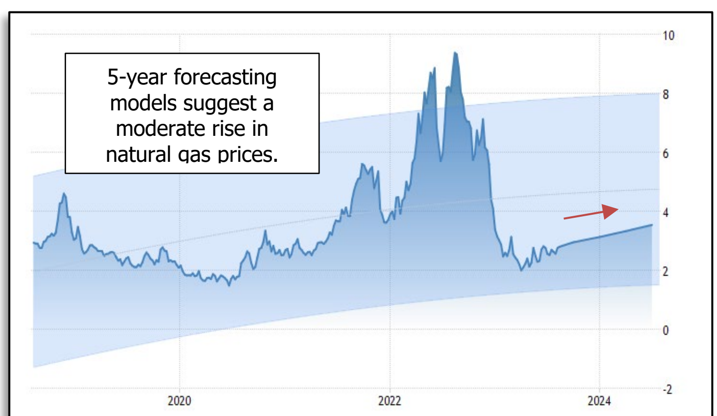

Chart 5a