Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

December 2024

Commodities

GTX following inflation, yields

Key Points:

- **Consolidation continues for S&P Commodity Index GTX with mild weakness in 2025**
- **Deflationary assets are outperforming inflationary assets since early 2022**
- **The precious metals sector holds on to the top in 90-day performance again**
- **WTI retests key support level at $66**
- **Rebound rally for Natural gas stalls, again**
- **Short-term pullback for Gold. Still looks promising, with a $2860 target**
- **Higher levels for Silver in Q1 are expected**
- **Industrial metals ETF (GYX) slumps again**
- **Sharp pullback for copper prices to $4.00**
- **US dollar rise crests at 107, lower levels expected in Q1**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	5.96%	25.86%	**1,123.53%**
S&P 500	5.83%	26.47%	503.24%

The 19-yr average for the TS Model Portfolio – 12.38%
The 19-yr average for the S&P 500 – 8.73%

TS Model Income Portfolio – 9.93% average div. yield

GTX: Still consolidating

Outlook Neutral: The S&P GSCI Commodity Index (GTX) and the US 10-year T-bond yields continue to trade in lock-step. US inflationary pressure has increased (now at 2.60%) as traders assess the latest data and its impact on the Fed's rate-cutting cycle. The U.S. economy is slowly cooling (unemployment is rising MoM, and GDP remains soft), which suggests that T-bond yields are unlikely to advance. Models point to 4.33% in Q1.

The global economy is also cooling, with less need for natural resources. China, the world's biggest commodity consumer, has yet to jump-start its economic recovery.

This combination of 10-year yield peaking and lower commodity demand suggests the S&P Commodity Index will remain boxed between 3400 and 3800 in Q1. Technically, the GTX shows fading buying (RSI) momentum with a neutral reading (not confirming additional upward strength). The positive 'Green Cloud' gradually narrows in Q1 and Q2, suggesting more consolidation is ahead (**Chart 1**).

Chart 1

The long-term monthly data view is slightly more supportive of the GTX. The S&P Commodity Index is still consolidating but with a series of higher lows (positive sign). An expanding positive 'Green Cloud' for all of 2025 suggests more price support for the GTX. Buying momentum (RSI) is positive (confirming additional long-term buying pressure). 10-year US T-bond yields are expected to remain supported in the months ahead (**Chart 1a**).

Chart 1a

What does it mean? Economic data suggest that U.S. 10-year yields will likely remain well-supported and hold their current levels. The GTX should continue to consolidate in the months ahead. The target remains 3,850. Higher levels will largely depend on oil prices and China.

Deflation vs. Inflation: Deflation wins

Outlook: Continued decline: The 5-year performance between deflationary assets and inflationary assets shows an ongoing higher performance from deflationary assets (Dow) over inflationary assets (commodities). The relative performance between the two assets shows ongoing underperformance from inflationary assets (commodities) since 2022 (**Chart 2**).

What does it mean? A continually stronger performing deflationary-driven market is usually more bullish for the stock market than an inflationary-driven market. We had anticipated a more even performance between the two asset groups in late Q4 and Q1 2025, but that assumption appears overly optimistic. There is no evidence to suggest a change in performance.

Chart 2

Commodity performance: Gold wins

Outlook: Positive: Four commodity groups posted a higher positive return over the last 90 days than the S&P Commodity Index. The S&P precious metal index led with a 7.62% jump. The agriculture and livestock sectors also showed positive returns (**Chart 3**).

What does it mean? We expect ongoing performance from the precious metals sector for the next few months. Strength in precious metals typically occurs near the market cycle's end.

Note the increasing performance strength of the US dollar. This should keep headwinds blowing for the GTX.

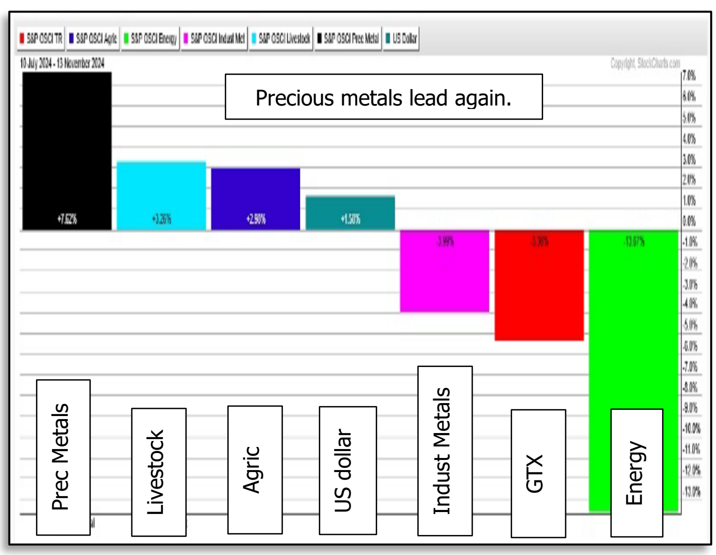

Chart 3

WTIC: Range-bound

Outlook: Neutral/Negative: Light crude oil moved below $70 driven by concerns that the global oil market is shifting into oversupply. Slowing demand from China and increasing world production. OPEC+ would exacerbate the price weakness if they proceed with plans to restore previous production. EIA shows that US inventories rose by 2.1 million barrels in early December, exceeding expectations of 1.9 million.

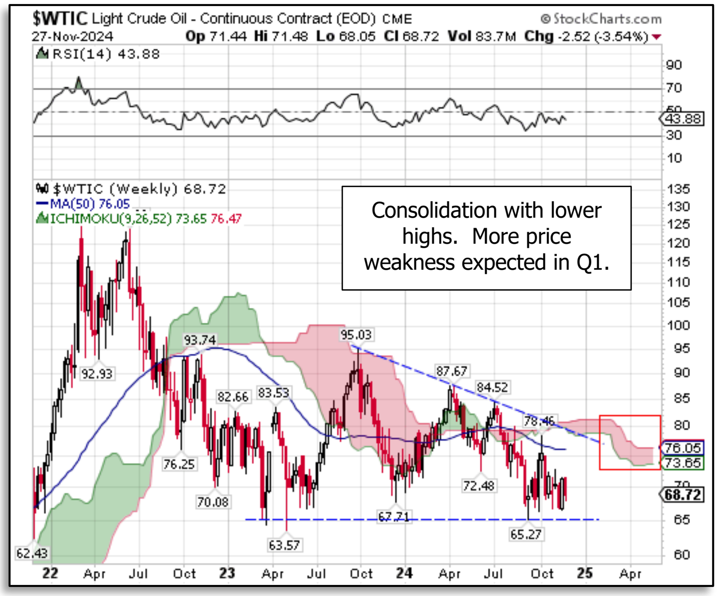

Chart 4

The 1-year trend is flat. WTIC remains contained between $65.00 and $85.00. Buying momentum (RSI) is negative (not confirming additional upward strength). A negative 'Red Cloud' in Q4 and into Q1/2025 suggests prices will remain depressed over the next few months. A break below $65.00 would point to $57.50 (**Chart 4**).

1-year forecasting models suggest a measured bounce to only $71.00 by year-end (**Chart 4a**).

Chart 4a

What does it mean? Oil prices are expected to remain around the current level. No significant advance is expected, as there is ample global supply and weak demand from China, the world's prime consumer.

Natural gas: Weakness persists

Outlook: Negative: US natural gas futures declined after hitting $3.00/MMBtu in November. EIA reported that gas storage is now 6.1% above the seasonal norm. This is the 4th week of above-average storage. Heating demand is expected to increase in late November as cold weather builds. Production has also dropped slightly.

The 1-year trend is flat. Recent price action shows a measured rebound and another dead stop at $3.00. An expanding negative 'Red Cloud' in Q4 and Q1/2025 suggests continued price weakness ahead. Buying momentum (RSI) has improved slightly to a neutral reading (still not confirming additional upward strength) (**Chart 5**).

Chart 5

1-year forecasting models suggest that natural gas prices will remain contained and hit about $2.85-$2.90/MMBtu by the end of Q4 (**Chart 5a on page 4**).

What does it mean? Abundant supply versus demand from colder weather suggests minimal increases. Natural gas prices are expected to remain around current levels.

Gasoline: Weakness continues

Outlook: Negative: The bounce in gasoline futures in October was short-lived. The commodity rose to $2.15 per gallon, then dropped to $2.06. It aligns with other energy-

It was driven by concerns over China's slowing economic outlook. US oil production reached an unprecedented high of 13.4 million barrels per day in November.

Chart 6

The 1-year trend is down. There was a new three-year low of $1.83 in September. A narrow 'Green Cloud' ends in Q4 and then turns to a negative 'Red Cloud' in Q1, suggesting more price weakness in the months ahead (**Chart 6**). Buying momentum (RSI) is negative (not confirming additional strength).

1-year forecasting models suggest that gas prices will remain under $2.10 in Q4 (**Chart 6a**).

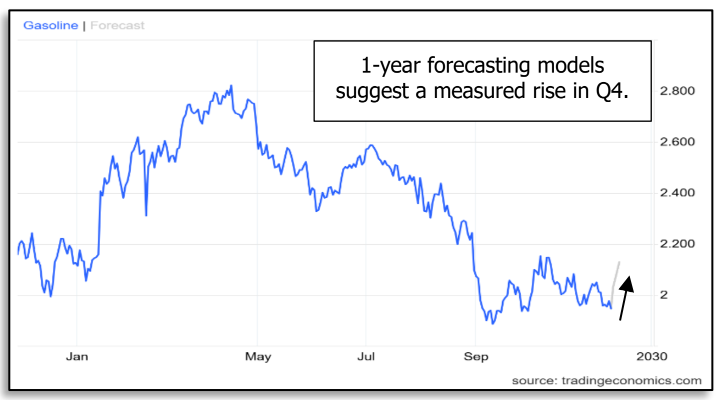

Chart 6a

What does it mean? Expect only minor movements to year-end. The target has declined to $2.03 by year-end.

Gold: Pullback, then new highs

Outlook: Positive: Retracing from the October high of $2801.80. Driven by a strong US dollar and expected reduction in rate cuts from the Federal Reserve. This action weakens the appeal of non-interest rate-bearing gold. Traders believe that the new President's incoming administration policies could increase deficit spending which may drive inflation higher, further limiting the Fed's rate reduction cycle.

Chart 7

The 1-year trend is up. Gold prices hit a short-term wall in October after posting a new high and now pulling back. Buying momentum (RSI) is positive (confirming additional upward strength). The positive 'Green Cloud' expands into year-end and Q1/2025 (**Chart 7**).

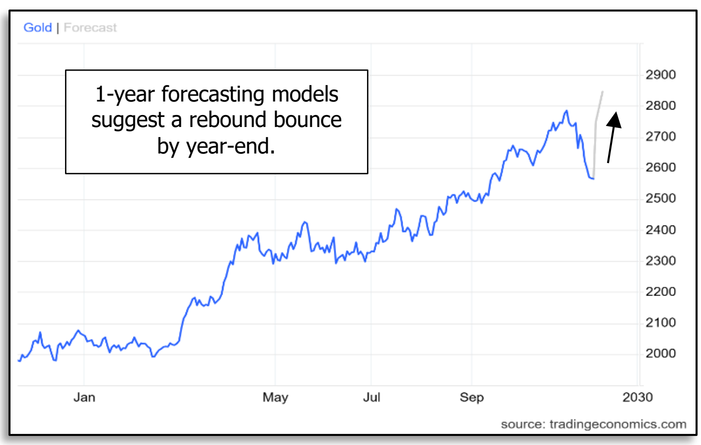

Chart 7a

The 1-year forecasting model (**Chart 7a**) indicates that more upside movement should be expected, with targets of $2860 followed by $2985. Buy on weakness.

Silver: Higher levels coming

Outlook: Positive: The strengthening US dollar continues to weigh on precious metal prices. Expectations of fewer Federal rate cuts drove the dollar's rally. Fed chair Powell indicated that the FOMC is in no hurry to lower rates. Citing a strong labour market and persistent inflation. In response, markets sharply reduced the probability of a rate cut at the December meeting.

Chart 8

Silver prices pulled away from the highs of late October with expectations that the Fed will stall its rate reductions.

The 1-year trend is up. The major trend continues to form higher highs and higher lows. Price support is building at $30.00. Buying momentum (RSI) is neutral (still confirming additional upward strength), well above the rising 50-week m/a (**Chart 8**). A positive 'Green Cloud' is developing in Q4 and Q1/2025, suggesting consolidation over the next month or two, then higher levels.

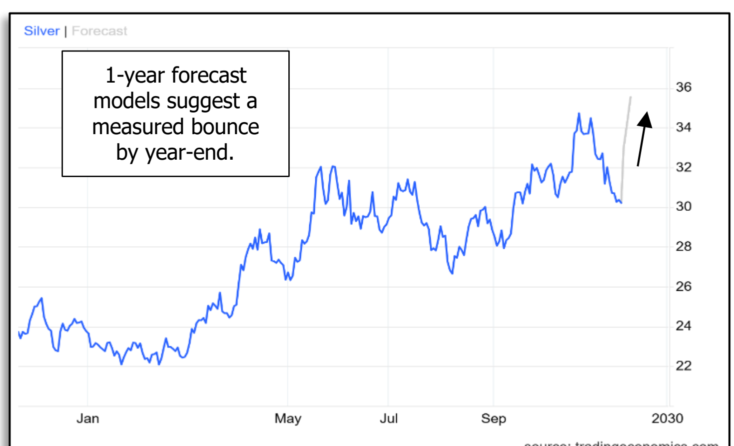

Chart 8a

1-year forecasting models suggest that silver prices will reach the $32.70 level by year-end (**Chart 8a**).

What does it mean? We expect Silver to continue consolidating in December. Once the metal breaks above $32.00, the target is $35.70. Continue to hold the position.

Industrial metals: Boxed-in

Outlook: Neutral/Negative: The prices for most industrial metals have changed little in 2024 (**Chart 9**).

Chart 9

Most metals prices remain stationary as global demand falters. Steel, iron ore, nickel, lead, copper are all trending flat to down. There is some upward pressure coming from Aluminum and Zinc, but not much (**Chart 9**).

The 1yr trend is flat. GYX continues to base. The recent bounce to 500 was met with selling pressure. Buying momentum is neutral and fading (not confirming additional upward strength). A narrow positive 'Green Cloud' is developing in Q4 and then weakens in Q1/2025.

What does it mean? The S&P Industrial Metals Index is still base-building. Look for a continued weakness in Q4 and Q1/2025. Add to the position **only** on a breakout over the 500 level. For now, we suggest staying on the sidelines.

Copper: Flat

Outlook: Neutral: Weighed down by demand uncertainties and a stronger performing US dollar. China's recent stimulus program have yet to offer traders confidence in a strong economic rebound. Meanwhile, copper prices face headwinds from the strong US dollar. A resilient US economy is keep any thoughts from the Fed of rapid rate cuts off the table, for now.

The 1-year trend is up. Copper prices are pulling back from the highs in April and May, now on key support at $4.00 (**Chart 10**). Buying momentum (RSI) is negative (not confirming additional upward strength). A narrow 'Green Cloud' in Q1 suggests some additional weakening.

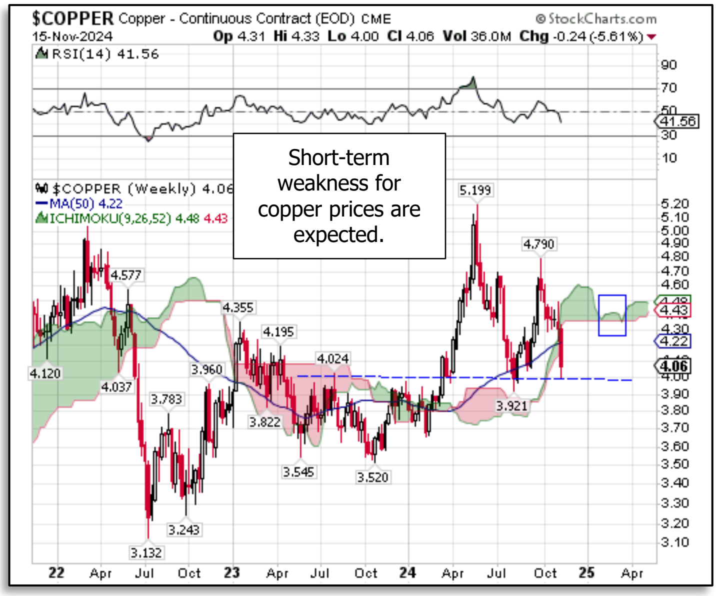

Chart 10

1-year forecasting models indicate that a mild upward bounce is expected. The current price action suggests more consolidation in Q4 and Q1/25 should be expected (**Chart 10a**).

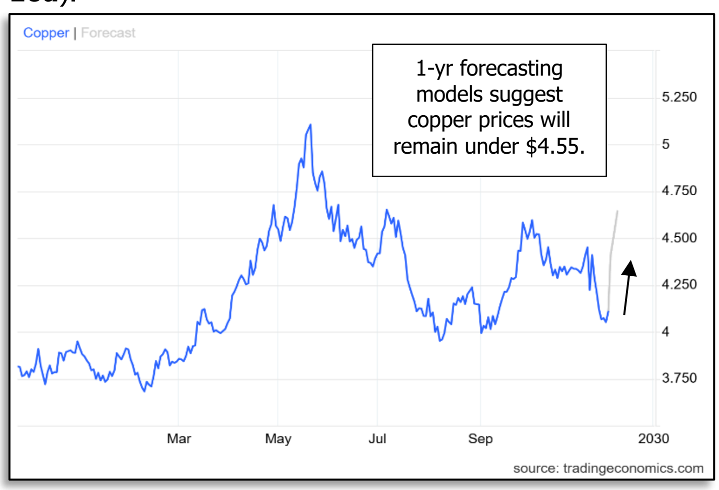

Chart 10a

What does it mean? The outlook for copper prices over the next few months is more consolidation. Concern remains with China's stimulus package and how effective it will be. Prices are anticipated to stay under $4.45 into Q1.

We suggest continue holding copper (**CPER**). Do not add to the position. The major copper-producing companies are all following the path of copper, which is primarily flat. The copper companies we favour are BHP Group (**BHP**), First Quantum Minerals (**FM**), Freeport-McMoRan (**FCX**), Teck Resources Ltd (**TECK/B**), and Southern Copper (**SCCO**).

Livestock: Easing prices

Outlook: Neutral: Of the six main components in the S&P Livestock Index (**GVX**) (feeder cattle, live cattle, lean hogs, beef, poultry, and salmon), only Beef prices and poultry are increasing (**Chart 11**).

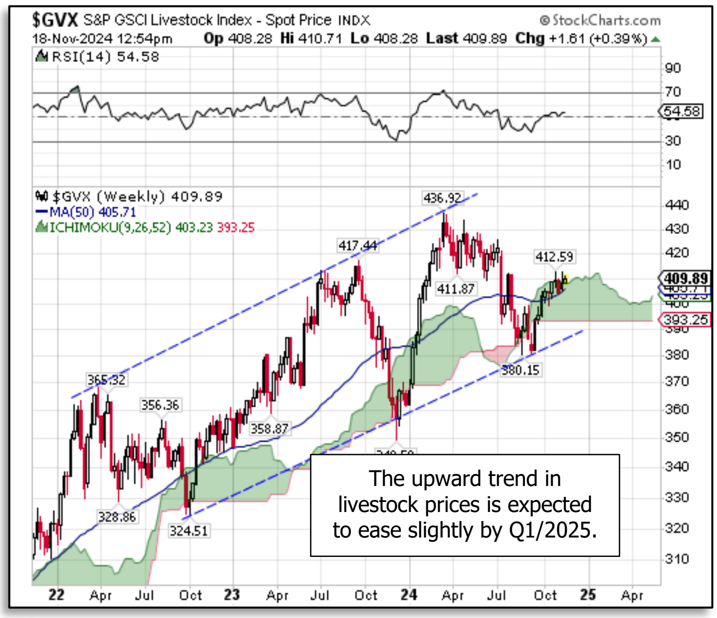

Chart 11

The 1-year trend is up. The index is still in a pattern of higher highs and higher lows. GVX is recovering from an all-time high in Q1, now above the 50-week m/a. Buying momentum (RSI) is neutral (not confirming additional upward strength). A positive 'Green Cloud' is set for Q4, then narrows in Q1/25 suggesting easing upward strength (**Chart 11**).

What does it mean? Slowly advancing. Add to the position. 419 is the next target.

US dollar: Top of the range

Outlook: Neutral/Positive: The US dollar rallied on favourable economic data and that the Fed will slow or perhaps stall its rate cutting cycle. A robust labour market, stronger-than-expected retail sales and ongoing inflationary pressures are cited as the reasons.

The 1-year trend for the DXY is flat. The US dollar rebounded sharply off the base of 100.00. Now retesting the upper the 107 level. Buying momentum (RSI) for the DXY is positive, near overbought (confirming additional upward strength). The greenback moves into a shallow positive 'Green Cloud' in Q4, then turns to a negative 'Red Cloud' in Q1/2025. This suggests that the bounce is likely short-lived (**Chart 12**).

Chart 12

1-year forecasting models suggest the US dollar should have a pullback in Q4 and Q1/2025 to 106.00. The upward run appears over (**Chart 12a**).

<u>**What does it mean?**</u> The US dollar is expected to have minor movements over the next few months. Much will depend on the Fed's approach to lowering interest rates and economic data. The US economy still remains resilient with pockets of strength. We expect the Big Dollar to stabilize at the 107. Building momentum in the US 10-year T-bonds appears to add evidence of the US dollar's peak. Both assets move together.

Chart 12a

What does it all mean?

Chart 1 shows that the GTX is still range-bound since late 2022. The outlook going forward largely depends China's economic rebound. This country's is the largest consumer of base metals and oil. The movement of the GTX is also dependent on the Fed's interest rate policy. Additional cuts will lower the US dollar and T-bond yields. Technical data shows these tailwinds for the dollar and for yields are likely short-lived and should start easing by Q1 2025. Not good news for the GTX (**Chart 13**).

Chart 13

What should investors do?

The best-performing commodities are in the energy sector. We suggest looking at oil securities at this junction. The securities we find compelling are Enerflex Ltd. (**EFX**), Prairie Sky Rolalty Ltd. (**RBA**), Suncor Energy Inc. (**SU**), Total Energy Services Inc. (**TOT**), Enterprise Products Partnership (**EPD**), and Oneok Inc. (**OKE**).