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.

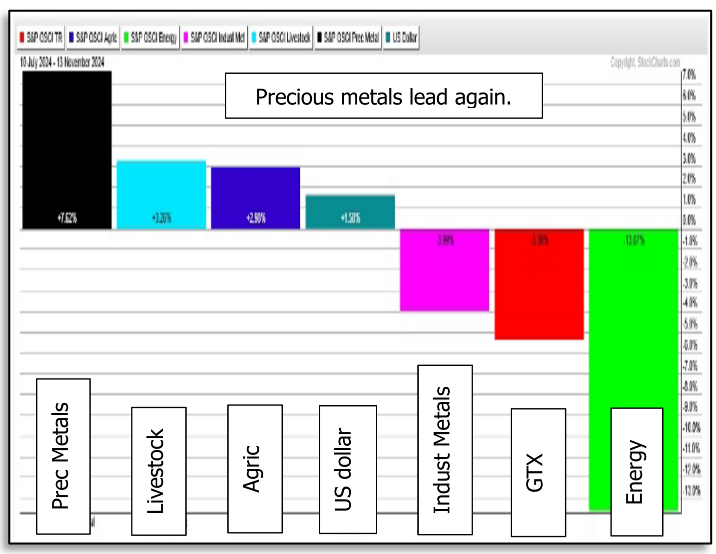

Chart 3

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.

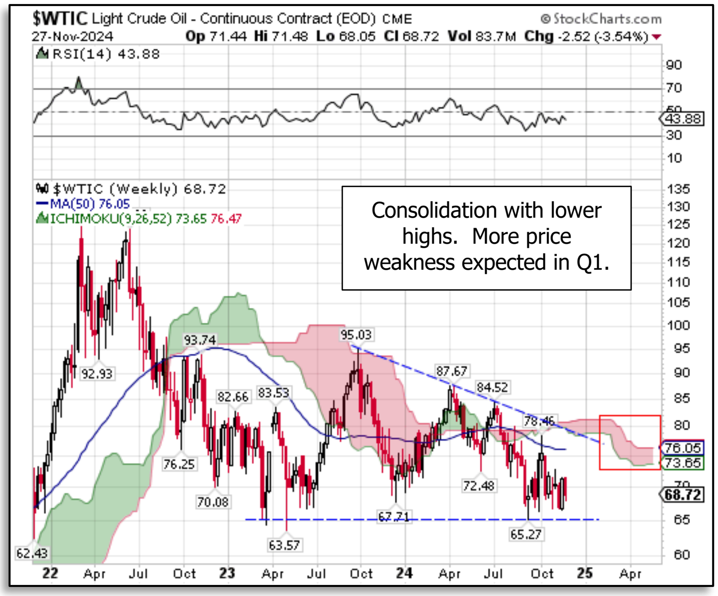

Chart 4

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-