Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

July 2024

Commodities

Weaker patch in mid-year

Key Points:

- **Weaker patch for S&P Commodity Index GTX as index stalls again at 3850**
- **Lower levels for the US 10yy spells weakness for the GTX in July**
- **The metal sectors hold on to the top in 90-day performance**
- **Price containment continues into Q3 for WTI**
- **Q2 rebound rally for Natural gas stalls, again**
- **Gasoline prices remain weak in mid-year**
- **Gold's recent rally takes a breather before higher levels**
- **Industrial metals ETF (GYX) slumps back**
- **Rapid retracement for copper prices in Q3**
- **Minor pullback for the S&P Livestock Index**
- **Tight trading pattern for the US dollar continues. 105.50 target**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	7.85%	10.60%	**975.88%**
S&P 500	3.47%	14.48%	446.05%

The 19-yr average for the TS Model Portfolio – 11.95%
The 19-yr average for the S&P 500 – 8.40%

TS Model Income Portfolio – 8.05% average div. yield

GTX: Downward pressure from rates

Outlook Neutral: The S&P GSCI Commodity Index (GTX) and the US 10-year T-bond yields continue to shadow-dance each other. Commodity prices (GTX) have been leading US T-bond yields. The GTX has repeatedly stalled at the 3850 level. Understanding the main trends of US T-bond yields and inflation provides insight into the direction of the GTX. T-bond yields continue to ease and US inflation is now at 3.3%, near a 5-year low. Increasing the bets of the Fed pivoting in Q3 or Q4.

10-yy are expected to remain between 4.35% and 4.40% in mid-year up slightly from 4.25%. The GTX shows neutral buying momentum (RSI) (not confirming additional upward strength). There is a narrowing of the positive 'Green Cloud' in Q3 adding to the expected continued stalling under the 3850 level (**Chart 1**).

Chart 1

The long-term view is more bullish for both the GTX and US 10-year yields. Both assets have broken out from multi-year bases (**Chart 1a on page 2**). This suggests that high inflation levels will persist. The GTX broke out of a four-year base in 2022. Whereas the T-bond yields also broke out in 2022 after basing for almost 9-years.

Buying momentum (RSI) for the GTX is positive (confirming additional upward strength). An expanding positive 'Green Cloud' extends into the second half of 2024 and continues into 2025.

The outlook for the US 10-year yields is for yields to remain above the 3.50% support level and challenge the 4.25%-4.50% range.

Chart 1a

What does it mean? A slightly weaker print on US T-bond yields currently should hold the GTX in check in mid-year. However, the longer-term view indicates more upward strength should be expected in the second half of 2024. The 1st target is 3,890 followed by 4,200 for the GTX.

The positive outlook also applies to US T-bond yields.

Deflation vs. Inflation: Deflation wins

Outlook Negative: 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 favours deflationary assets starting in Q3/ 2023 (**Chart 2**).

What does it mean? A continually stronger-performing deflationary equity market is normally more bullish for the stock market than an inflationary-driven market. However, we anticipate a more even performance between the two asset groups in Q3/Q4.

Chart 2

Commodity performance: Metals win

Outlook: Positive: All commodity groups posted a positive return over the last 90 days. Note the continued retracement of the US dollar and the strength of precious and industrial metals. The outlook for the Big dollar is that the Fed has completed its tightening cycle, which is positive for the metals (**Chart 3**).

What does it mean? We expect ongoing performance from most commodity groups, especially the metals, as the US dollar eases further in the months ahead.

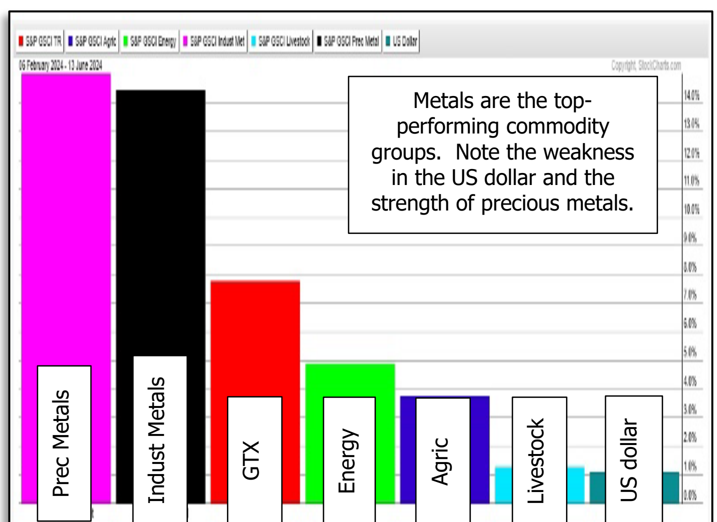

Chart 3

WTIC: Global demand grows

Outlook: Neutral/Positive: The outlook for a robust global demand outlook is outweighing market uncertainties about the timing of the US rates cuts. Recently, the EIA raised its global oil demand forecast to 1.1 million barrels per day in 2024 from the previous 900,000 bpd.

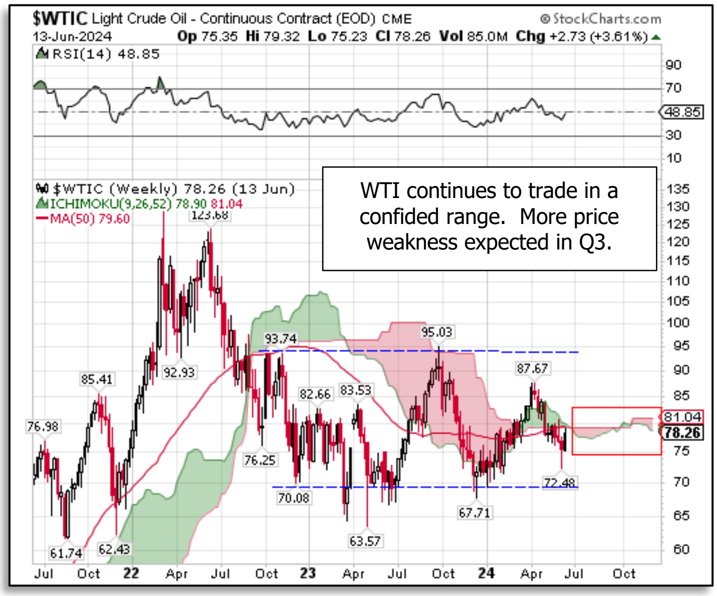

Chart 4

The 1yr trend is flat. WTIC remains contained between $70.00 and $95.00. Buying momentum (RSI) is neutral (not confirming additional upward strength). There is a narrow negative 'Red Cloud' in Q3 which suggests more range-bound price action over the next few months (**Chart 4**).

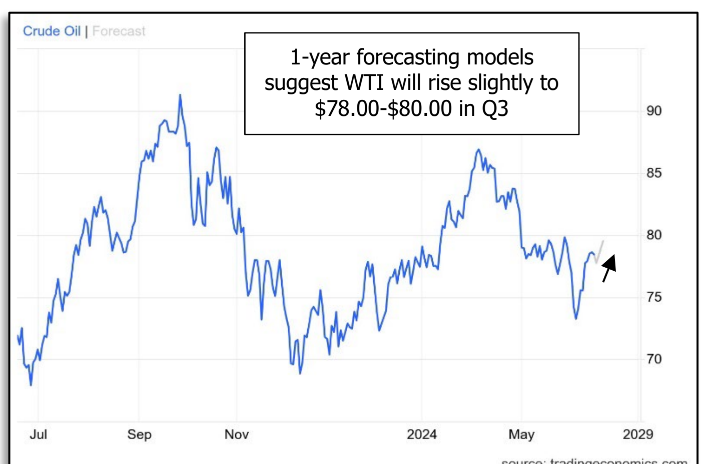

Chart 4a

1-year forecasting models suggest WTI will trade around $78.00-$80.00 in Q3 (**Chart 4a**).

<u>What does it mean?</u> Oil prices are expected to remain around the current level. No major advance expected.

Natural gas: Reaction bounce ends

<u>Outlook: Neutral/Negative</u>: The EIA report on weekly storage continues to build. Still 24% above the 5-year average. Looking into mid-year, weather forecasts suggests warmer-than-normal temperatures in July and August indicating some increase gas consumption by power generators.

The 1yr trend is flat. Natural gas prices remain in a trend of lower highs and lower lows. Now heading to the resistance line of $3.16 (**Chart 5**).

There is narrowing of the negative 'Red Cloud' in Q3 suggesting mild strength, unlikely to last. Buying momentum (RSI) is positive (confirming additional upward strength). The only positive in this picture.

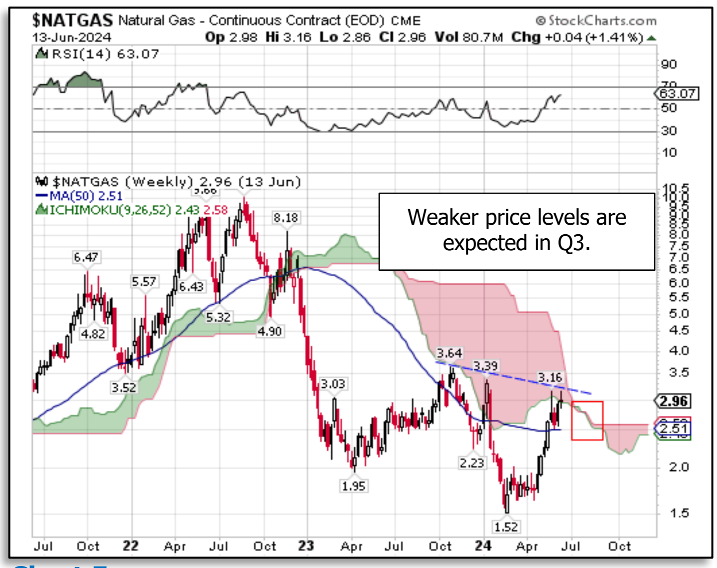

Chart 5

1-year forecasting models suggest that natural gas prices will remain around $2.65-$2.70/MMBtu for the next few months (**Chart 5a**).

Chart 5a