Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

May 2024

Commodities

Upward trend continues

Key Points:

- **Building upward strength continues for S&P Commodity Index GTX**
- **Deflationary assets dominate inflationary assets for 19 months**
- **The Livestock sector remains at the top in 90-day performance**
- **Rally in WTI prices unlikely to continue**
- **Still no love for Natural gas prices**
- **Gasoline prices move closer to $2.90 target**
- **The pullback in Gold prices starts in early Q2**
- **Silver prices breakout after 24 months**
- **Industrial metals index breaks out of base**
- **Bullish H&S pattern pushes Copper prices out**
- **Minor pullback for the S&P Livestock Index**
- **The US dollar finds a steady companion in the 10-year T-bond yields, both moving up**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	-3.70%	0.62%	**878.19%**
S&P 500	-4.16%	5.57%	403.57%

The 19-yr average for the TS Model Portfolio – 11.54%

The 19-yr average for the S&P 500 – 8.05%

TS Model Income Portfolio – 8.50% average div. yield

GTX: Moving in tandem

Outlook Positive: The S&P GSCI Commodity Index (GTX) and the US 10-year T-bond yields continue to advance in tandem after the duel breakouts in early March and early April respectively.

Both have received a bounce from the latest US inflation data. CPI is up to 312.33 from 310.33, Core Consumer Prices have advanced, again. The Inflation rate also increased from 3.20% to 3.50%.

All of this continues to feed traders bullish bets.

The close trading correlation between the GTX and the US 10-year yields provides some guidance to the direction of commodity prices. With inflationary pressures remaining stubbornly high, T-bond yields and commodities will remain with a tailwind. Last month newsletter, we illustrated the breakout of the GTX and the uptick in 10yy. Those trends are only continuing (**Chart 1**). Buying momentum (RSI) is positive (confirming additional upward strength). There is an expanding positive 'Green Cloud' forming starting in March and extending into May.

Chart 1

The benchmark US 10yy also turned up with the inflation data. Yields jumped from 4.30% to 4.58%.

The long-term monthly view shows a steady rise throughout 2024. A retest of the 2022 high of 4,319.55 is expected this year. Long-term buying momentum (RSI) is positive (confirming additional upward strength). This action confirms the expected rise of the GTX (**Chart 1a**).

Chart 1a

<u>What does it mean?</u> The unexpected inflation bump has aided both the S&P Commodity Index and the US 10-yields. This jump in inflation numbers proves how challenging it is to control inflation and predict the short-term outlook.

The 1st target is 3,890 followed by 4,200 for the GTX. <u>We suggest the Invesco DB Commodity Index Tracking Fund (**DBC**) to follow the ongoing rise in commodities. The target is $26.00.</u>

Deflation vs. Inflation: Deflation wins

<u>Outlook Negative</u>: The 5-year performance between deflationary assets and inflationary assets shows an ongoing higher performance from deflationary assets over inflationary assets (commodities). This superior strength began in Q3, 2022 (**Chart 2**).

<u>What does it mean?</u> A continually stronger-performing deflationary equity market is normally more bullish for the stock market than an inflationary-driven market. We expect this trend is to continue into Q2. However, as inflationary pressure is expected to continue to build in 2024, we anticipate a more even performance between the two asset groups by mid-year.

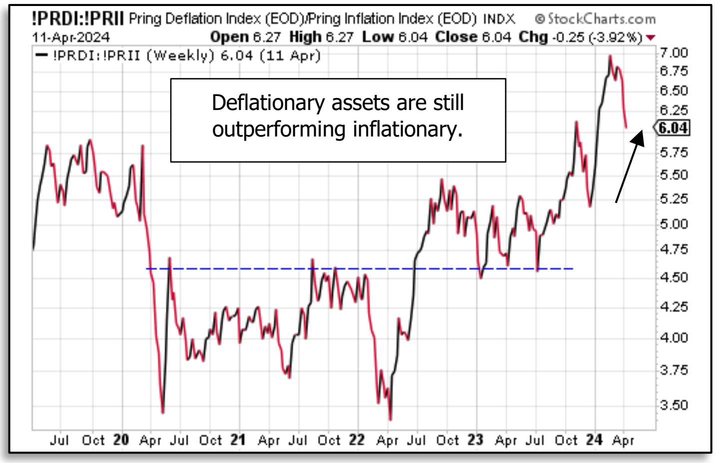

Chart 2

Commodity performance: Livestock

<u>Outlook: Positive:</u> All but one commodity group posted a positive return over the last 90 days. Agriculture continues to experience steep declines. The Livestock and Precious Metals groups remain dominant over the other commodity groups. Note the retracement of the US dollar and the strength of precious metals (**Chart 3**).

<u>What does it mean?</u> The performance of the commodity groups is evenly balanced. This matches the breakout that the GTX developed earlier this year. We expect ongoing performance from most commodity groups moving forward into mid-year.

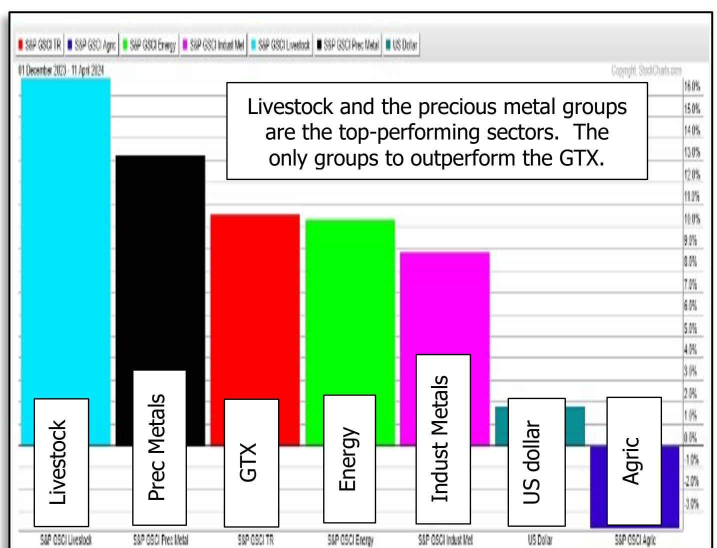

Chart 3

WTIC: Rising on Middle-East fears

<u>Outlook: Positive</u>: The commodity jumped to nearly $87 on fears that the Middle East conflict will widen and cause further supply disruptions. On the demand side, strong US inflation data dampened any hopes of an early interest rate cut from the Federal Reserve, potentially hurting the outlook for energy demand.

The 1yr trend is flat. WTI is above the key 50-week m/a. Buying momentum (RSI) is positive (confirming additional upward strength). A thin positive 'Green Cloud' is forming in Q2 then turns to a negative 'Red Cloud' in Q3. Still range-bound. (**Chart 4**). 1st price resistances are at $88.75 followed by $96.20.

Chart 4

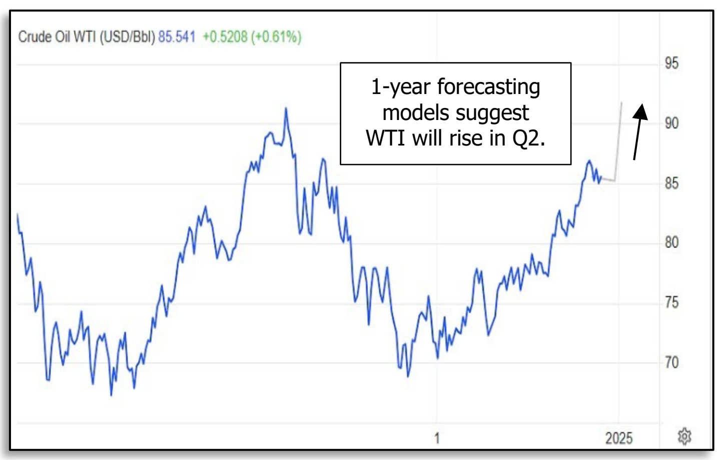

Chart 4a

1-year forecasting models suggest WTI will trade at $85.50 and then rise to $92.00.

<u>What does it mean?</u> The turmoil in the Middle East is dictating the movement in oil prices. It remains very fluid.

<u>We suggest adding to the position now. Only a moderate advance should be expected.</u> Our favourite stocks at this junction are Cenovus Energy Inc. (**CVE**), Enerplus Corp. (**ERF**), International Petroleum Corp. (**IPCO**), and Valeura Energy Inc. (**VLE**).

Natural gas: Breaking key support

<u>Outlook: Negative</u>: The commodity plunged to $1.7/MMBtu driven by a weakening demand forecast. Looking forward, the EIA stated that prices will likely ease further with weather forecasts suggesting above-average temperatures in Q2.

The 1yr trend is down. Natural gas prices plunged through the support level of $2.00 in February now heading to the next lower support line of $1.52. Still under a massive expanding negative 'Red Cloud'. There is some narrowing in Q3 suggesting mild strength. Buying momentum (RSI) is negative (not confirming additional upward strength). Well below the declining 50-week m/a. Price resistance is at $2.00 (**Chart 5**). There is some price support at $1.52.

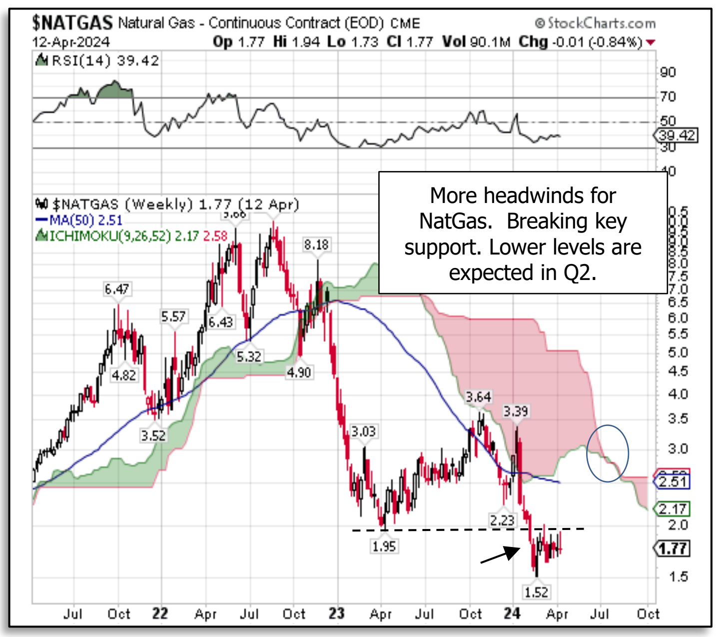

Chart 5

1 year forecasting models suggest that natural gas prices will stall over the next few months and trade around $1.80/MMBtu in mid-year (**Chart 5a on page 4**).

<u>What does it mean?</u> Abundant supply plus warmer winter weather limits demand. Natural gas prices are expected to remain around current levels. <u>The target has dropped to $1.80 MMBtu</u>.