Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES – SECTORS

October 2021 18th Year

Commodities

Losing upward strength with rising US$

Key Points:

- **S&P GSCI Commodity Index (GTX) continues to stall at key resistance level**
- **Performance between inflationary and deflationary assets starts to lean toward deflation**
- **Long-term performance still shows the S&P 500 over the GTX**
- **Energy sector takes the top performance 90-day spot, once again**
- **WTIC prices continues to consolidate under $77**
- **Natural gas moves to a multi-month high**
- **Gasoline prices remain below $2.34**
- **Gold prices point lower due to US dollar strength in Q4**
- **Weakness starts to build for silver prices**
- **The upward surge in base metals holds**
- **Copper prices continue to consolidate from record high in May**
- **S&P Agricultural Index starting to rebound**
- **U.S. dollar remains boxed below $0.93-$0.94, for now**

	Since Last Month	*Year to Date*	*Since Inception mid-2003*
TS Model Portfolio	-5.86%	14.08%	**909.86%**
S&P 500	-4.75%	16.75%	330.75%

18-year average for the TS Model Portfolio – 13.48%
18-year average for the S&P 500 – 8.31%

https://www.technicalspeculator.com/services/ts-model-growth-portfolios 6.75% average dividend yield

S&P GSCI outlook: Stalling continues

Outlook neutral: The S&P GSCI Commodity Index (GTX) continues to remain pinned at the key resistance level of 2600 to 2650. This level held the GTX for all of 2019 (**Chart 1**). The close opposite correlation to the actions of the U.S. Dollar Index (DXY) gives a clue to the expected movement of the GTX, going into Q4. The US$ is expected to slowly rise over the next few months due to improving economics (declining unemployment, stronger approach to COVID-19 vaccinations, and immersive rebound in annual GDP rate of 12.20%).

Five-year forecast models (**Chart 1a** on page 2) back the approach of a prolonged stall for the GTX. Models, this month, have downgraded the target from 2800 to 2550 by late Q4. This supports an advancing U.S. Dollar Index.

Chart 1

Chart 1a

What does it mean? The improving U.S. economy is playing against the S&P GSCI Commodity Index. A positive print from many key economic indicators is helping to raise the greenback. This trend (strengthening US$/weakening GTX) is expected to continue throughout Q4 and into Q1/22.

Relative performance: GTX vs. S&P

Outlook neutral: The S&P GSCI Commodity Index saw moderately higher performance over the S&P 500 from Q2/20 to Q1/21. This action lines up with the decline in the U.S. dollar. But as the dollar has stopped descending and started to rise, the performance between the GTX and the S&P 500 has been equal from March 2021 to present.

What does it mean? The guide to the performance, again, appears to be governed by the trading action of the U.S. dollar. The dollar is expected to rise in Q4/21, suggesting that higher performance will be with the S&P 500 over the GTX in the last quarter of the year (**Chart 2**).

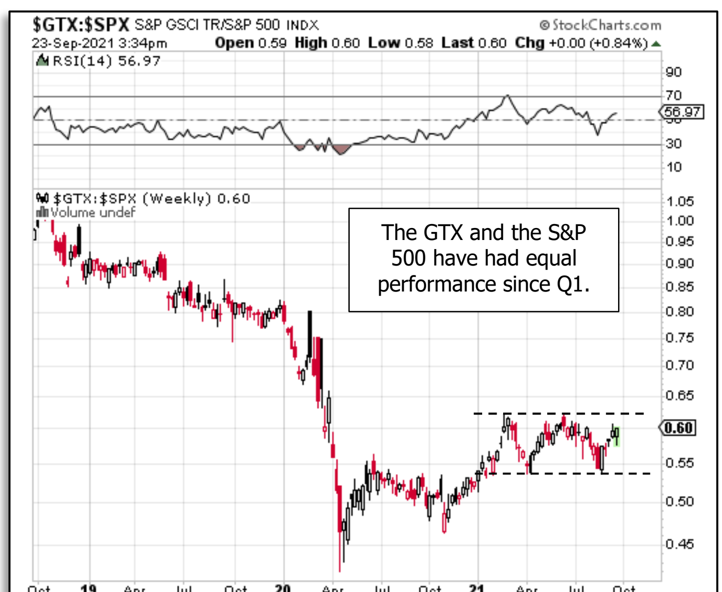

Chart 2

Inflation vs. Deflation: Breakout?

Outlook neutral/positive: Inflationary assets are slowly losing the battle in performance with deflationary assets (**Chart 3**). Inflationary assets (commodities) had equal performance strength with deflationary assets (Dow stocks) for most of the last 17 months. But the relative performance for commodities started to fade over the 2021 summer, with the breakout performance of deflationary assets in Q3.

What does it mean? The topside breakout in Q3 points to a return of dominance in deflationary assets, which have largely outperformed inflationary assets since 2012. We expect this trend to continue in Q4 and Q1/22.

Chart 3

Commodity performance: Energy

The S&P GSCI Energy Index had the best 90-day performance, once again. This group, and the industrial metals sector, are the only sectors that outperformed the benchmark S&P GSCI Commodity Index (GTX). The livestock and agriculture sectors had the lowest performances (**Chart 4**).

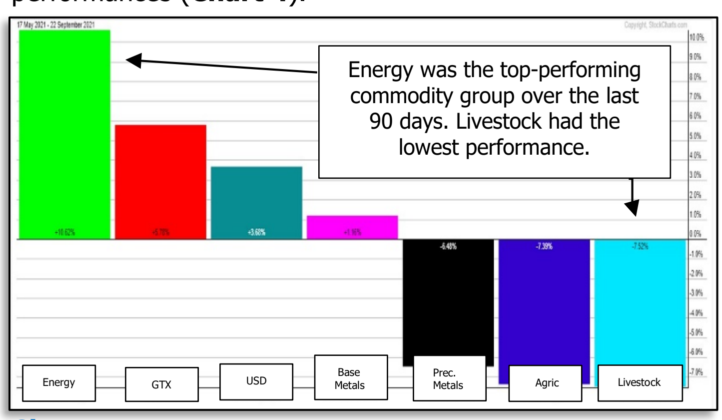

Chart 4

WTIC: Continues range-bound

Outlook neutral/positive: Prices remain well supported because of supply tightness in the U.S. due to Hurricane Ida. About three-quarters of the Gulf's offshore oil production has been halted since late August. The U.S. has called on major oil producers to boost output to tackle rising gasoline prices. OPEC has lowered its oil demand forecast by 110,000 barrels per day (bpd) in Q4.

Tactically, light crude oil prices are maintaining a range-bound trading pattern into Q4, with key price support at $65.00 and resistance still at $77.00 (**Chart 5**).

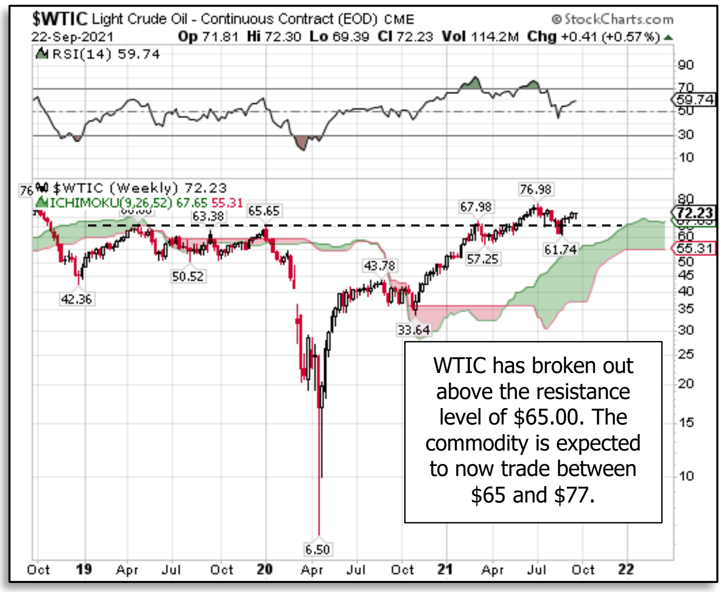

Chart 5

Five-year forecast models for the price of WTIC have changed their stance, from modestly bullish to flat or slightly down. Models suggest that the commodity price will remain pinned between $65.00 and $77.00 in Q4 (**Chart 5a**).

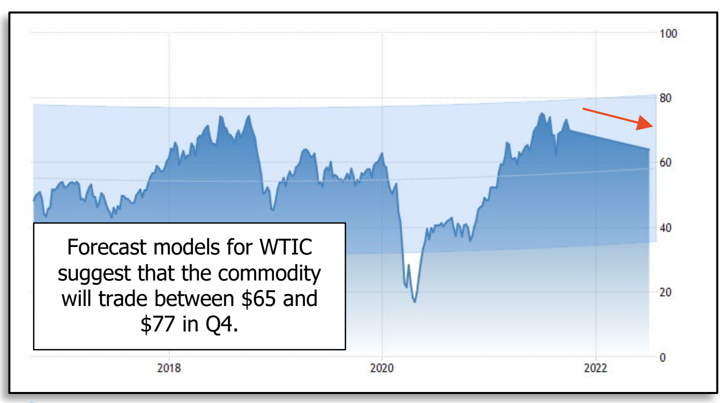

Chart 5a

What does it mean? WTIC is expected to remain in a consolidation between $65.00 and $77.00 over the next few months. The U.S. Energy Information Administration (EIA) predicts that demand for oil will eventually outstrip supply as the global economy expands, but likely not until Q1/22. Continue to hold oil positions, as any price weakness should be minimal.

Natural gas: Overbought

Outlook positive: Natural gas rose out of a multi-month high in September, as strong U.S. demand continues to grow from record heat waves in the U.S. and Canada. More than half of the normal production in the Gulf of Mexico remains shut down due to Hurricane Ida. Price levels are back to the peak prices of 2018 ($4.93). Buying momentum (RSI) is still overbought, suggesting that some short-term pullback is coming (**Chart 6**). The first support level is at $3.65.

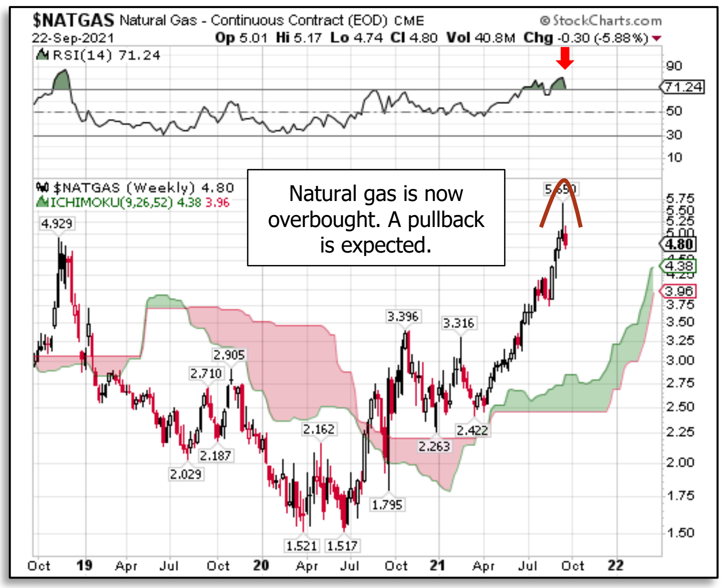

Chart 6

Five-year forecast models indicate that natural-gas prices peaked in September (**Chart 6a**). Models suggest that $5.65 USD/MMBtu is the top price level, followed by a sharp decline into early 2022. The year-end target is $4.70.

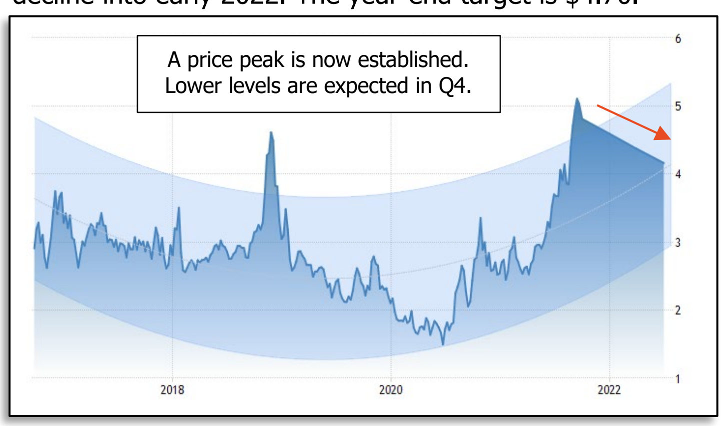

Chart 6a

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<u>What does it all mean</u>? Growing demand for natural gas, plus low inventory levels, is expected to continue to keep the commodity well supported for the rest of 2021. <u>Continue to hold natural-gas positions, but be quick to sell once natural gas drops below $4.50</u>.

Gasoline: Pulling back

<u>Outlook neutral:</u> The commodity appears to be rolling over after reaching the high of $2.34 in July. Buying momentum (RSI) is fading, and now just at a neutral reading. Expect some price weakness over the next month or two. The first price support at $1.85 should catch any short-term pullbacks. If gas prices fall below this mark, then $1.65 is the next support line (**Chart 7**).

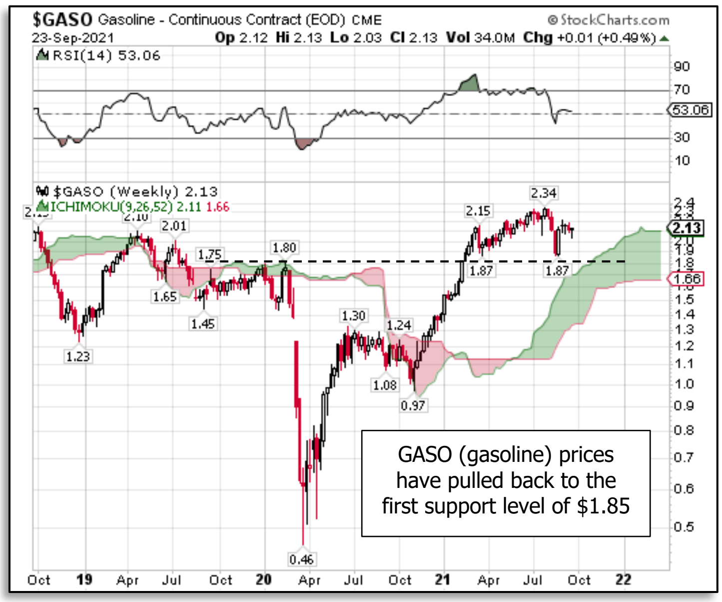

Chart 7

Five-year forecast models suggest that gasoline prices will hold their recent gains, and slowly retrace to about $2.05 by year-end (**Chart 7a**).

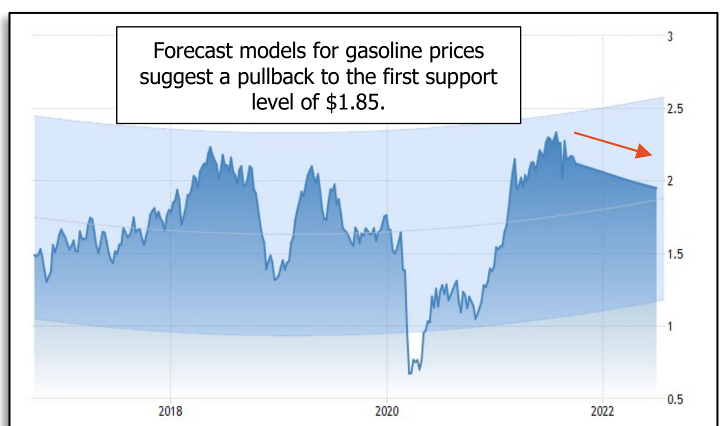

Chart 7a

<u>What does it mean</u>? Gasoline (GASO) prices appear to be pulling back. Some short-term weakness down to $2.05 is likely in Q4. <u>Look for $2.05 as the year-end target</u>. <u>Continue to hold GASO positions, but do not add to the position</u>.

Gold: More bad news for gold

<u>Outlook neutral/negative</u>: Gold prices continue to trade in the opposite trend to U.S. 10-year T-bond yields. Yields appear to have found a floor in August and are now starting to rise – bad news for gold prices (**Chart 8**). The U.S. economy is recovering rapidly, (annual GDP hit 12.20% in Q2) and the Fed has stated that two rate hikes are expected in 2024, with a possibility of one increase next year, all of which is positive for yields and negative for gold prices.

Chart 8

The five-year forecast for gold prices is for a measured decline for the rest of 2021. Models suggest that the late Q4 target will be 1675 (**Chart 8a** on page 5).

<u>What does it mean</u>? The movement in gold prices is largely governed by the yields of long U.S. T-bonds. With a rapidly recovering U.S. economy, and the Fed signalling rate increases in the next few years, gold prices are expected to face headwinds for the rest of the year. <u>We suggest using any strength in gold to reduce your positions</u>. The year-end target is $1,675.