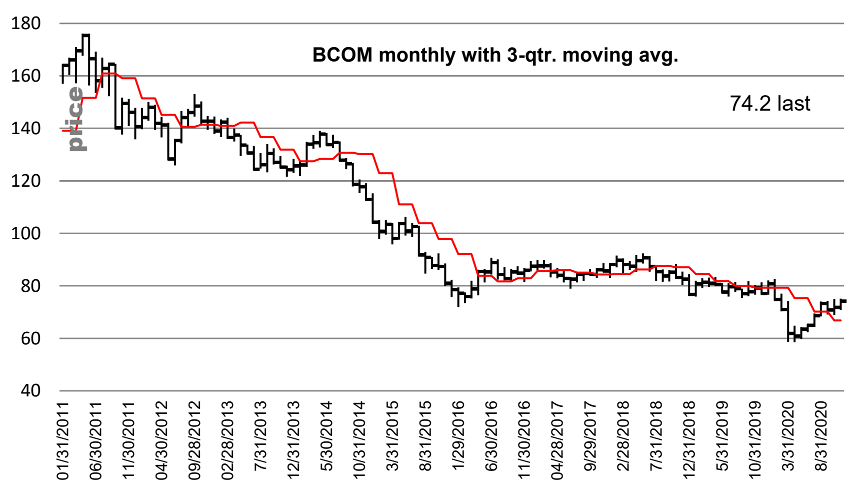
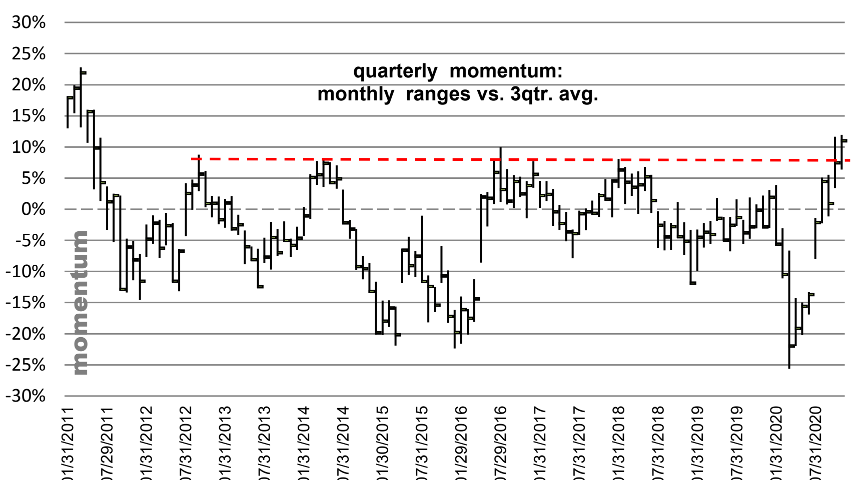
MSA

November 23, 2020

A Major Side-Mirror view: Commodity Upturn



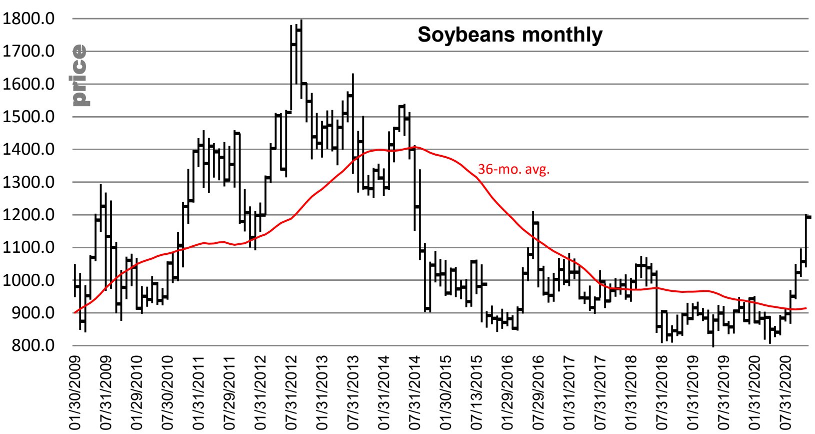


MSA continues to expect the commodity upturn to be a market ambush for most investors and analysts. The charts here show the Bloomberg Commodity Index.

Gold led the way over the past few years, especially this past year (the pullback in gold now does not negate its trend *in the slightest*). And across the board, commodities are beginning to echo what gold has been saying—that *print print print* will have massive positive effects on undervalued real world assets while prior overvalued assets will find their plug pulled as money moves from high risk to low risk. Even Ray Dalio and other major asset managers have echoed this theme in recent weeks.

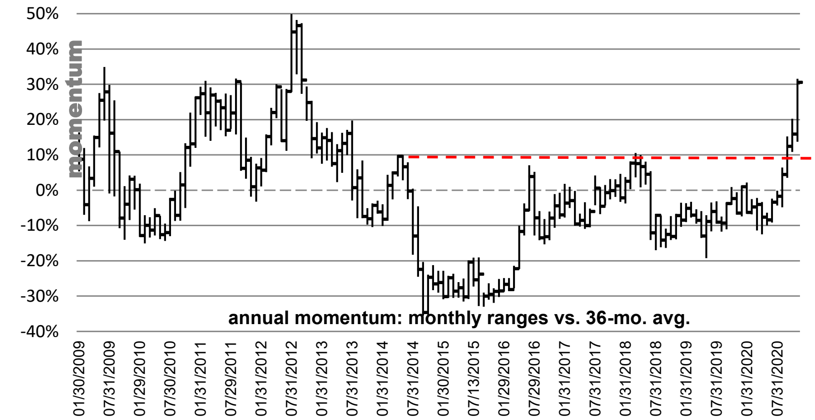
We're nearing month's end and the action already reached 10% over the multi-year oscillator ceiling last month and is poised to close over it this month.

Our expectation for a first leg of upside is to at least above 100 for BCOM before any give-and-take sets in.

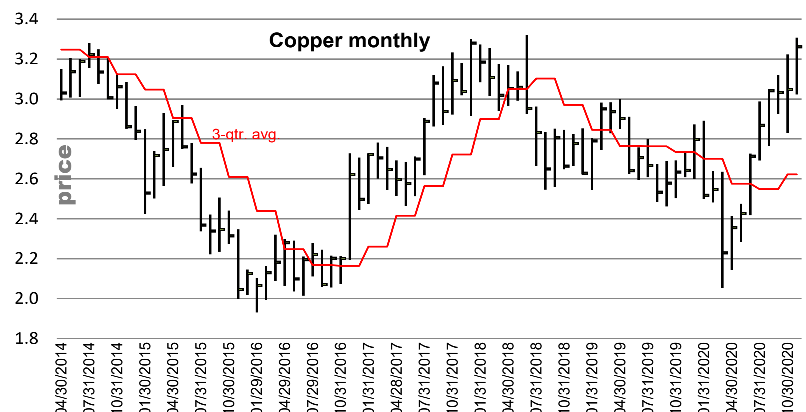


MSA's **soybean** buy signal was $9.30 or higher monthly close based on quarterly momentum (not shown here). That breakout close occurred in August. The subsequent upside has now also moved even annual momentum freshly to long-term positive (after seven years of downside pressure).

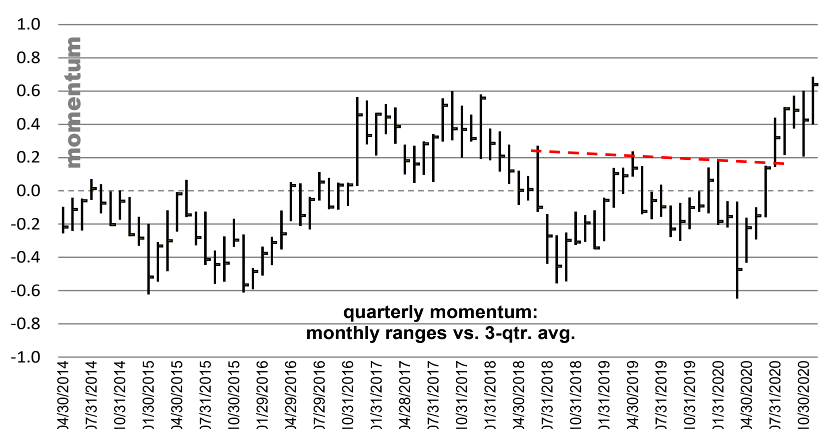
And by the way, corn and wheat have joined soybeans in the past two months.

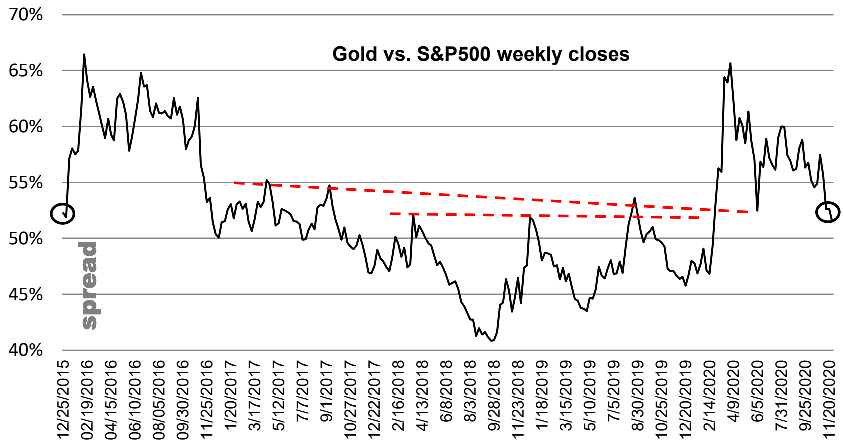


And **copper**, no doubt due to the extraordinarily robust economy (ha), has also joined the upside ambush. Five months ago by our measures, and it's now moving into new quarterly momentum highs for the past six years (shallow highs historically, by the way), while price is now knocking on the door of those prior highs (a bit lagged to its own momentum).



And these two unrelated markets are joined by a majority of other commodities, as well as **crude oil** saying "me too" this month. Each in their own way. But it's important to note that their upside emergence (as reflected by BCOM) is fairly tightly clustered. One could speculate that each commodity, with its own unique supply demand factors, magically turned positive at the same time. Nice. **Or more reasonably** that the commodity asset category has been too low for too long and is now going to be the prime new beneficiary of central bank historic monetary largesse. Gold knew!





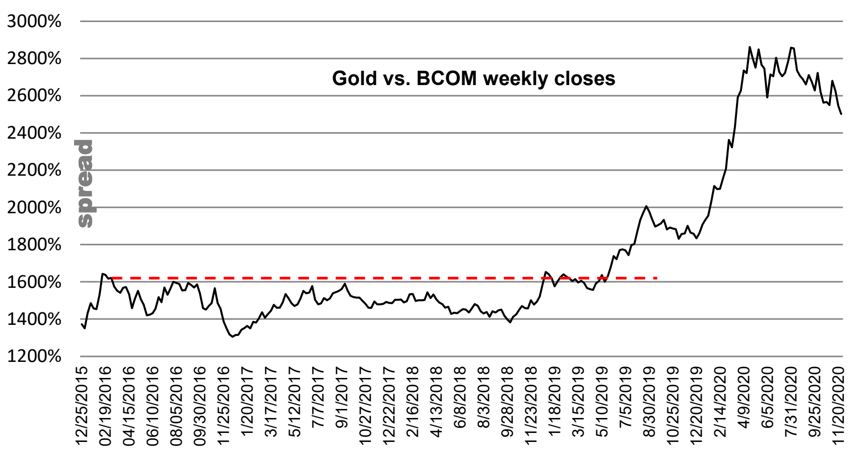
Gold vs. S&P 500

And we begin these spreads from a “fair” starting point. It was in early 2016 that both gold and the S&P 500 were at lows. We use the S&P 500 here as it’s probably the strongest developed economy index (with broad sectors reflected within). If we used the DAX Index or Eurostoxx50 or Nikkei those spreads would show a different picture with gold vastly ahead of them in performance.

As of early 2016 the S&P 500 had dropped 15% from its 2015 price highs and gold was wrapping up its multi-year bear market at around that same time. The spread was then around 51% (gold’s price expressed as a percent of the S&P 500’s). Gold performance surged into mid-2016 but then sank to new lows in mid-2018 near 41%. There’s since been an upturn which arguably broke out over credible massive basing structures. The current pullback (the last reading shown reflects the gold drop on Monday and is **not** a weekly closing reading) is towards the upper end of the basing action that this spread produced from late 2017 to late 2019. Hmm. And even at the current level you can see the spread is where it was nearly five years ago inclusive (circled). So while the broad and strong S&P 500 has gained much and is near its highs, gold, even with the recent break, is on a spread basis where it was vs. the S&P 500 in early 2016.

And by the way, the gold spread vs. the S&P 500 back in 2000 was **20.3%**. Now the spread is just below 52%. Long-term investors need to think and view situations long-term. Double-and-a-half for gold vs. the great U.S. stock market over the past two decades.

And as the upside emergence of commodities grabs the attention of more major global asset managers, as it is doing, then expect further relative performance shifts in various asset categories that will favor gold (especially with the soon-to-be acknowledged onset of “commodity price inflation!”) and commodities.

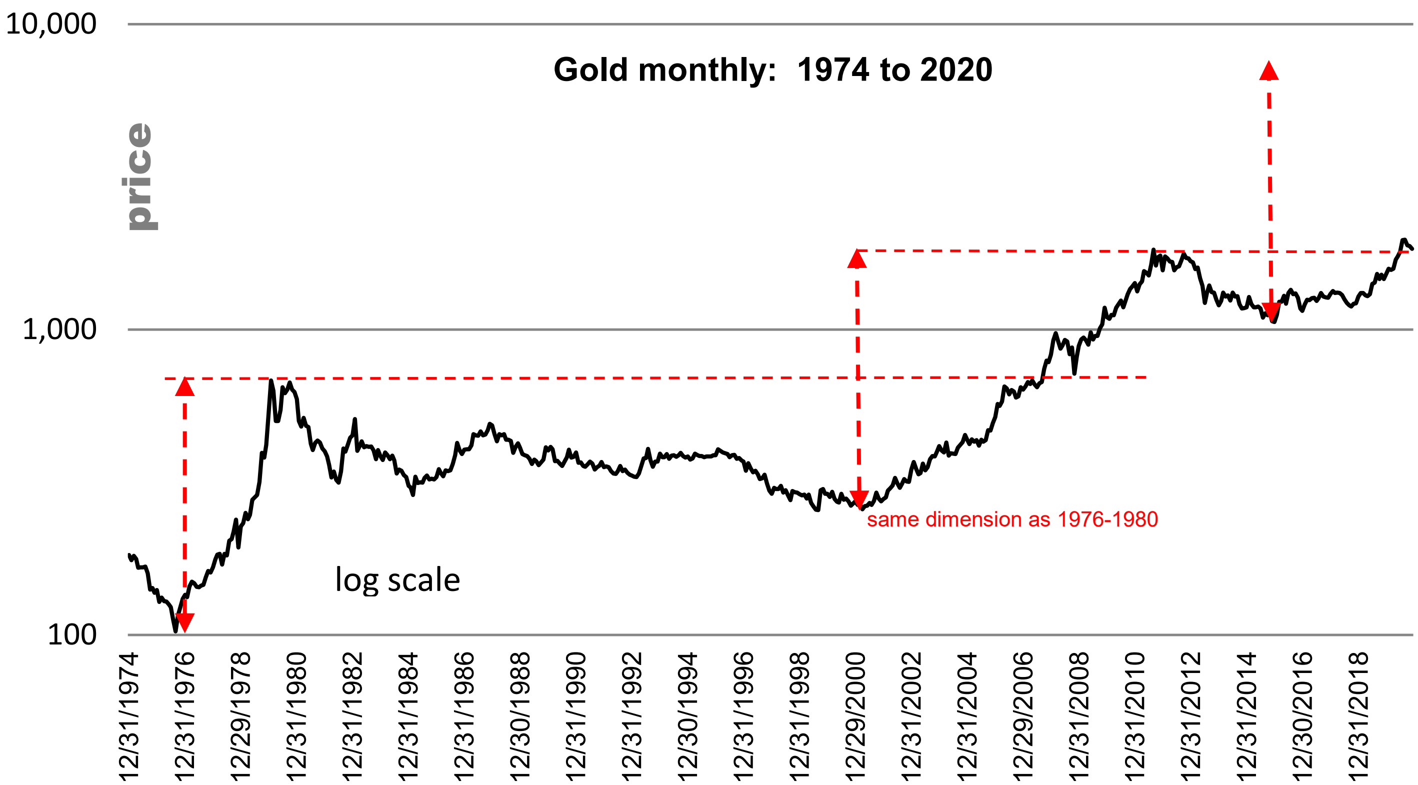


And now for **gold vs. the commodity category**. Gold wandered sideways in performance (matching BCOM's net price basing action from 2016 to 2018).

But then in 2019 gold woke up and began to roar in price and in relative performance. And that was well ahead of anything called "commodity price inflation." That upside emergence by commodities on a net price basis has only just begun during the past few months (pages one and two). And that, unsurprisingly, is close on the heels of the central monetary panic that's now underway and been declared to be going forward—because as Powell has made clear, we are **not going back to the normal** regardless of the vaccine. Honest at least in that regard. (The underlying debt/monetary problem was in place before covid anyway).

Gold performance has backed-off marginally from its doubling in the spread (1400% to 2800%). Some of that was due to BCOM net price upticks recently and some to gold's pullback. It's likely this past several months of action on the spread will turn out to be a "flag" pattern in this spread's ongoing process.

But gold investors need to factor into their technical vista not day-to-day or whether gold nipped out (now twice) some prior reaction low since August. They need to take into account the underlying *why* of BCOM's long-term momentum breakout (page one).


10,000
Gold monthly: 1974 to 2020
price
1,000
same dimension as 1976-1980
log scale
100
12/31/1974
12/31/1976
12/29/1978
12/31/1980
12/31/1982
12/31/1984
12/31/1986
12/30/1988
12/31/1990
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No comment.