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TechnoMental

Q1 Overview 2022
Q2 Outlook 2022

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First Quarter Overview 2022 and Second Quarter Outlook 2022

Summary

- All six sectors post gains in Q1 - The asset class moved 16.01% higher over the past three months
- Energy was the biggest winner with a 34.88% gain
- Double-digit percentage gains in Base Metals and Grains
- Precious Metals, Animal Proteins, and Soft Commodities moved higher in Q1
- Coal, nickel, and natural gas lead on the upside - Lumber is one of three losers in a volatile quarter

The raw material markets moved higher in Q1 2022 after a volatile 2020 when the pandemic caused a massive selloff early and a huge turnaround that pushed some prices to all-time or multi-year highs. The commodities asset class added to 2021's gains. The commodity asset class consisting of 29 primary commodities that trade on US and UK exchanges moved 16.01% higher in Q1 2022. The asset class moved 26.79% in 2021. In 2020, the asset class moved 9.89% higher. In 2019 it gained 10.98%, but in 2018 the asset class lost 6.82% of its value. The bull market in raw materials continued throughout the first three months of 2022 with some explosive moves.

Commodities were up 7.95% in 2017, following on the heels of a 13.41% appreciation in 2016. The overall winner of the 29 for the first quarter was the illiquid Rotterdam coal futures market that posted a gain of 132.54%, with LME nickel in second place with a 54.68% gain. NYMEX natural as was 51.26% higher in the first quarter. The biggest loser for the quarter in the composite was the illiquid lumber futures market which corrected 15.91% lower after lots of price variance during the first three months of 2022. Live and feeder cattle futures moved lower, but there were no other losers in Q1.

There were many double-digit percentage gains in Q1 across the commodities asset class. While three markets were over 70% higher during the three months, nine were up over 30%-55%, and seven were between 20%-30% higher. Only lumber posted a double-digit percentage loss during the quarter. Winners outnumbered losers by over twelve to one in Q4, with thirty-eight markets posting gains and three moving lower.

The US dollar is typically a significant factor for commodity prices, as it tends to have an inverse value relationship with raw material prices. The dollar index rose 2.89% in Q1 after rising 6.34% in 2021 and falling 6.42% in 2020. The dollar index was 0.34% higher in 2019 after moving 4.26% higher in 2018, which followed a 10.23% decline in 2017.

The dollar rose in Q1 as the bond market declined, and the Fed ended its QE program and hiked the Fed Funds rate by 25 basis points at the March 2022 FOMC meeting. The Fed remains far behind the inflationary curve as February CPI rose to the highest level in four decades at 7.9%.

US 30-Year Treasury bond futures fell 6.05% in Q1 after moving 7.53% lower in 2021. Rising US interest rates pushed the dollar index higher, but inflation eroded the dollar's purchasing power.

While inflationary concerns gripped markets in early Q1, the February 4 handshake between China's President Xi and Russia's President Putin was a watershed event. The leaders agreed on a $117 billion trade agreement and a "no-limits" alliance and support. Twenty days later, Russia invaded Ukraine, launching the first major war in Europe since WW II. Sanctions on Russia and the war caused commodity prices to experience wide price variance, with wheat, copper, gasoline, heating oil, coal, aluminum, nickel, tin, and other commodity prices moving to new all-time highs before correcting. The war continued to rage in early Q2.

The war in Ukraine, rising interest rates, and inflation caused stocks to decline in Q1 2022. The DJIA fell 4.57%, the S&P 500 declined 4.95%, and the tech-heavy NASDAQ dropped 9.10%. In 2021, the DJIA was 18.73% higher. The DJIA rose 7.25% in 2020. The tech-heavy NASDAQ gained 43.64% in 2020 and 21.39% in 2021. The S&P 500 was 16.26% higher in 2020 and 26.89% in 2021.

The VIX index closed 2020 at 22.75 and was 8.97 higher than at the end of 2019. The VIX settled 2021 at 17.22, 5.92 lower than at the end of Q3, and 5.53 lower than at the end of 2020. On March 31, the volatility index was at the 20.56 level as the metric that measures the implied volatility of S&P 500 stocks rose by 3.34. The VIX reached a high of 38.93 on January 24 and a low of 16.34 on January 4, which was the range for the volatile quarter.

As we head into Q2 2022, COVID-19's cost will remain a critical issue for markets. Liquidity and stimulus have increased the money supply and government deficits to staggering levels, which creates an inflationary and bullish landscape for raw material prices. The bond market and many commodities signaled rising inflationary pressures throughout the year, but the Fed only acknowledged the economic condition in late 2021. In the US, significant tax hikes and an infrastructure rebuilding program are on the horizon, which could add lots of volatility to markets over the coming weeks and months. The effects of the pandemic could last for years or decades as the national debt ceiling is now well over the $30 trillion level.

Meanwhile, the bifurcation of the world's nuclear powers with China and Russia on one side and the US and Europe on the other is the most significant factor facing markets over the coming months and perhaps years. The world moved from one crisis to the next as COVID-19 gave way to war in Europe.

Commodities are essential goods that feed, clothe, shelter, and provide energy for people worldwide. Inflation and geopolitical concerns were a potent bullish cocktail for the commodities asset class in Q1 2022. The asset class's rally began in 2020 and continued with explosive moves over the first three months of 2022.

Bitcoin and Ethereum reached lows on January 24 and recovered. However, the cryptos posted 0.23% and 9.94% respective losses in Q1. Bitcoin was up nearly 58% in 2021, while Ethereum exploded over 390% higher over the period. Cryptos made higher lows and higher highs since January 24.

A substantial shift in US energy policy to address climate change has increased OPEC and Russia's profile for pricing crude oil. On his first day in office on January 20, 2021, US President Joe Biden canceled the Keystone XL pipeline project that carries crude oil from the oil sands in Alberta, Canada, to Steele City, Nebraska, and beyond to the NYMEX delivery point in Cushing, Oklahoma. In Q2, the Biden administration banned fracking and drilling on federal lands in Alaska. As I wrote at the end of Q1 2021, "With more regulations on drilling, fracking, and refining fossil fuels on the horizon, US output is likely to drop as the demand surges with the end of the pandemic in sight. Energy prices could move significantly higher because of rising inflation and falling US output, a potentially very bullish cocktail." OPEC's mission is to deliver the highest possible price for its members.

After years of suffering because of US shale output, OPEC+ is likely in a position to squeeze higher prices from US consumers. The Biden administration, with support from the House of Representatives and Senate, attempted to transform US energy policy overnight. Still, hydrocarbons remain the primary fuel source for many businesses, modes of transportation, and other power requirements. As US production falls, OPEC+ becomes more influential. The US asked OPEC+ to increase production to address rising energy prices in Q3 and again in Q4. The cartel refused. He asked again in Q1 2022 and got the same response.

Russia is an influential non-member of the international oil cartel and leading petroleum and natural gas producer. Russia's invasion of Ukraine pushed crude oil and natural gas prices to their highest levels since 2008 in Q1 on the back of supply concerns. Coal moved to a new all-time high in Q1.

Meanwhile, the impact of inflationary pressures and an expanding money supply put upside pressure on many commodities from the March 2020 lows to the highs in 2020, 2021, and Q1 2022. The declining dollar created a bullish landscape for raw material prices. However, the dollar index turned higher in January 2021 in response to a falling bond market. Even though the dollar posted gains in 2021 and Q1, 2022 and bonds moved lower, the composite of the commodities asset class gained 26.79% in 2021 and followed through with a 16.01% gain in Q1 2022, a sign that all fiat currencies are losing value. In 2021 and early 2022, the dollar has been the best horse in the glue factory when it comes to traditional foreign exchange instruments.

Energy was the best-performing sector in Q1 as the sector rose 34.88% after an over 54% gain in 2021. Base metals gained 19.86%, and grains moved 18.89% higher in Q1 2022. Precious metals moved 8.73% higher, animal proteins gained 7.12%, and soft commodities moved 6.58% to the upside from the end of 2021 through March 31, 2022. All sectors moved to the upside in Q1 2022.

The relationship between the US and China continued to deteriorate in early 2022. The alliance with Russia creates a bifurcation in the world's nuclear powers. At the end of 2021, I wrote, "Russia and the US also have moved further apart over disputes surrounding Ukraine and NATO. Increased tensions on the geopolitical landscape could lead to lots of market volatility over the coming months and years. A hasty departure from Afghanistan at the end of August 2021 was a sign of weakness for the US, which could increase the odds of provocations from Beijing, Moscow, Teheran, and Pyongyang over the coming months." In Q2, the geopolitical landscape deteriorated to the worst state since WW II.

Political divisiveness in the US continues to grip the nation. The US remains a highly polarized nation along political and other lines as we head into Q2. Infighting among Democrats killed the Build Back Better initiative. With higher taxes on the horizon, the mid-term elections will stand as a report card for the administration and could shift the balance of power away from Democrats, controlling slim margins in the House of Representatives and Senate.

Grain prices were volatile in 2021, which continued in Q1 2022, reaching multi-year and all-time highs after Russia's invasion before correcting. We are now at the start of the 2022 planting season in the US, with war raging in Europe's breadbasket. Supplies from South America were problematic because of the weather and logistical issues. Supply chain, input costs, land values, and labor issues continue to plague agricultural commodities, which could impact output from the US and other growing regions this year. The fertile soil in Ukraine was a mine and battlefield in early Q2 as the planting season gets underway. Coffee and cotton prices rose to new multi-year highs in Q1 2022, and the Brazilian currency broke out to the upside above the $0.2100 level against the US dollar in Q1, supporting coffee, sugar, and FCOJ prices.

Meanwhile, higher feed prices should keep a bid under the cattle and hog markets over the coming months after seasonal weakness during the winter months. In Q2, the animal protein sector moves into the 2022 grilling season when meat demand peaks. The price action in the agricultural products that feed the world is always a function of the weather in critical growing areas worldwide. However, the war in Ukraine makes the weather only one factor for prices.

The bull market in commodities began in August 2020 when gold reached a record high at $2,063 per ounce. As gold corrected, it passed the bullish torch to other raw material markets across all sectors. In Q1, 2022, gold rose to a marginal new record high at $2,078.80, and many commodities moved to new all-time or multi-year peaks.

In 2021, the Fed had called rising prices “transitory,” blaming them on supply chain bottlenecks and other factors. However, the broad price appreciations supported by policy shifts are a clear and present sign that inflation is far more prevalent than the central bank had suggested. The Fed abandoned the “transitory” term at the December 2021 FOMC meeting, realizing the economic condition is structural. In Q4, economist Mohammed El Erian called “transitory” the greatest mistake in Fed history. In Q1, the Fed found itself in a challenging position as the war in Ukraine makes fighting inflation more difficult.

A myriad of complex factors on a macro and microeconomic and geopolitical basis will dictate the price direction for the commodities market over the coming three months and beyond. The pandemic’s price tag continues to be a significant factor facing markets across all asset classes. The shift in US policy under the Biden administration caused volatility in commodities and markets across all asset classes. Higher energy prices filter through to all other commodities and manufacturing businesses. The request for OPEC+ to increase output and its refusal is a sign that price pressures will continue. The US was in control of the energy markets over the past years, but addressing climate change with aggressive policy shifts has handed the pricing power back to the cartel. Substantial changes in tax, energy, trade, and other policy areas translate to price volatility. The economic fallout from the global pandemic will continue to be a legacy of 2020 for many years to come. The war in Ukraine complicates matters. Moreover, Saudi Arabia and Nigeria began selling China crude oil in yuan. Russia is pricing commodities in rubles, and the Chinese Russian $117 billion deal avoids the US currency, threatening the US dollar’s role as the world’s reserve currency.

The Invesco DB Commodity Tracking ETF (DBC) product is one of the most liquid macro commodities products with a substantial weighting towards crude oil and energy commodities.

Winners in Q1

During the period from January through March 2022, all six commodity sectors posted gains. Thirty-eight products posted gains with many double-digit percentage increases. The list of gains is as follows:

Commodity	Percentage gain
Rotterdam Coal	132.54%
Heating Oil Crack Spread	79.52%
Gasoline Crack Spread	73.41%
LME Nickel	54.68%
Natural Gas	51.26%
Heating Oil	44.54%
Gasoline	41.64%
Rhodium	34.97%
Brent Crude Oil	33.47%
NYMEX Crude Oil	33.33%
Iron Ore	32.12%
CBOT Wheat	30.52%
KCBT Wheat	28.48%
Corn	26.21%
Lean Hogs	24.88%
LME Aluminum	24.35%
Soybean Oil	24.23%
Soybeans	21.79%
Cotton	20.51%
LME Zinc	18.10%
Palladium	17.97%
Soybean Meal	13.55%
LME Tin	10.42%
MGE Wheat	10.18%
Rice	9.43%
Silver	7.63%
Baltic Dry Index	6.86%
LME Copper	6.73%
Gold	6.60%
Oats	6.52%
COMEX Copper	6.44%
Cocoa	5.16%
Ethanol	5.07%
LME Lead	4.86%
Frozen Concentrated Orange Juice	3.86%
Sugar	3.23%
Platinum	2.72%
Coffee	0.13%

Losers in Q1

Only three commodities posted losses in the first quarter of 2022 as winners outnumbered losers by over twelve to one:

Commodity	Percentage loss
Lumber	15.91%
Feeder Cattle	3.28%
Live Cattle	0.23%

The CFTC has defined digital currencies as commodities. The asset class's market cap moved 182.18% higher in 2021. In Q1 2022, it declined 3.76%, closing above its worst level of the quarter which came in late January. Bitcoin moved 0.73% lower in Q1 after rising 57.81% in 2021. Bitcoin was over 300% higher in 2020.

Ethereum was 469.43% higher in 2020 and 391.75% higher in 2021. In Q1 2022, Ethereum fell 9.94%. The number of tokens moved higher from 16,238 at the end of Q4 2021 to 18,636 on March 31, 2021, a rise of 14.77%. Bitcoin, the leader of the pack, outperformed the market cap in Q1, while Ethereum, the second-leading cryptocurrency, underperformed over the past three months.

Issues to Look Forward to in Q2 2022

The economic costs of the global pandemic will be its legacy, and they are staggering. The liquidity and stimulus will influence markets over the coming months and years. The US bond reminded us of that in 2021 and early 2022, as interest rates rose. The Fed ended QE and lifted off from a zero percent Fed Funds Rate in Q1. An aggressive tightening period to combat inflation is on the horizon.

While monetary policy will impact markets, the war in Europe will turbocharge inflation, making the central bank's actions far less influential in markets. The war will affect production, trade deals, and logistics, causing shortages in some regions and oversupply in others. Prices are likely to be highly volatile, reflecting significant changes in the supply and demand equations for many raw material markets.

The number of commodity consumers worldwide continues to grow by approximately 20 million each quarter. The 2020/2021 stimulus will weigh on the value of fiat currencies and boost government debt levels around the world. The decline in the purchasing power of fiat currencies could eventually cause commodity prices to skyrocket. Most commodity markets have trended higher from Q1 and Q2 2020 lows through Q1 2022, which changed the Fed's opinion that higher prices were transitory. If the price action after 2008 repeats, we could see a bull market in the raw materials asset class in the coming months and years. Commodity prices were still on bullish paths at the end of Q1 2022. While some corrected, others took the bullish baton. The war in Europe only complicates the fundamentals and will likely increase price variance.

In Q1, the Biden administration told markets it would release one million barrels of oil from the SPR each day for up to 180 days, the most significant release in history. Less than one week after the announcement on April 4, the oil price was still over the $100 level. Past SPR releases did little to tame rising oil prices. Crude oil, natural gas, and coal are critical energy commodities that power the world. The highest prices in years are fueling inflation, making the Fed's job almost impossible.

I expect price variance in markets across all asset classes to remain at very high levels in Q2 2022 and beyond. Trading rather than investing could provide optimal results. Approach all risk positions with a plan, stick to stops, and take profits when they are on the table. Follow market trends as they reflect the herd behavior that drives market prices. When sellers are more aggressive, prices fall. When buyers take a more aggressive approach, prices rise. Follow those trends and try to ignore the news cycle. The price action in markets tells us all we need to know about directional bias. If we learned anything in 2020 through Q1 2022, markets often divorce from news items, and trends are a better indicator of market sentiment than reactions to the daily ups and downs of the news cycle.

As we head into Q2, the stock market is on shaky ground, and bonds were trending lower. The bullish commodities relay race continued in Q1, with many asset class members rising to new record prices. I expect raw material prices to continue to make higher lows and higher highs in 2022. Inflation is a vicious beast, and it continued to rise each month in Q1. I expect it to follow the same path in Q2, given the moves in raw material markets over the past three months. Money's purchasing power is declining, the dollar is losing its status as the world's reserve currency, and the bifurcation between nuclear powers creates a dangerous geopolitical landscape. Russia's invasion of Ukraine could set the stage for Chinese reunification with Taiwan.

History- Results from My Best Bets for Q1

My best bets for Q1 were:

- The stock market remains in a bullish trend, but higher interest rates and increased taxes in 2022 could cause corrections- Follow the trend.
- The stock market was choppy in Q1 and posted a loss.
- I continue to favor buying VIX-related products on price weakness with tight stops to catch short-term spikes in the volatility index. Using a 2:1 risk-reward approach.
- Buying the VIX with a 2:1 risk-reward profile created profits in Q1.
- Just as in Q4, the trend in the dollar index going into Q1 is bullish. Higher US interest should support the dollar index, but I continue to believe a rising dollar is a mirage as all fiat currencies are losing value.
- The dollar index rallied in Q1.
- The bond market is moving into 2020 in a bearish trend of higher lows and higher highs since March 2021. I will continue to follow the trend until it bends. The bond market vigilantes may attempt to push bonds lower. I was short at the beginning of Q1.
- The bearish trend continued in Q1 with the bond market making lower highs and lower lows.
- Expect massive volatility to continue in cryptocurrencies to continue. As we head into 2022, only risk what you can afford to lose in cryptos as the governments have the power to kill the asset class. Expect increasing regulations. I am mostly bullish on the asset class but would not bet the ranch on any crypto as the price variance could be head-spinning.
- Cryptos posted losses in Q1 but turned higher after the January 24 lows.
- I will follow trends in gold and silver on the long and short sides of the market. I will continue to buy physical gold and silver with profits on dips as buying price weakness has been the optimal approach since the late 1990s. I will also buy GDX, GDXJ, SIL, and SILJ on dips, and look to take profits on rallies. For short-term trading, I will be using the NUGT and JNUG leveraged products for the gold mining shares with tight stops. I remain cautiously bullish on gold and silver going into 2022 after the weak performance in 2021. Precious metals were the worst-performing sector in 2021. Higher rates and a rising dollar are bearish. However, the worst sector during one year often leads to the best performance in a subsequent period. I expect the bullish baton to eventually return to precious metals. I will follow the trends on the long and short sides of the markets in gold and silver.
- Precious metals posted across the board gains in Q1 2022.
- I continue to favor buying physical platinum on price weakness. Platinum is the precious metal that continues to offer the most attractive value proposition as we head into 2022. Platinum has been a challenging investment, but I continue to believe it will pay off in the months and years ahead.

- Platinum edged higher, but it continued to lag the rest of the precious metals sector. The Q1 rally failed at the $1,197 level.
- I am a buyer of significant price corrections in copper and base metals. I remain bullish on the sector for the coming years. I will trade from the long side with tight stops. I remain bullish on PICK, FCX, and other leading base metal producer shares but will protect profits with stops or hedge positions in Q1 2022 as they have moved to levels where current long positions from 2020 have substantial profits. A significant correction in the stock market would likely push base metals prices lower. Nothing changed from Q4 as I believe the trend towards decarbonization is bullish. Chinese sales of copper, aluminum, and zinc in Q3 and Q4 did not push prices appreciably lower, which is a sign of overall strength.
- Base metals were the second-best performing commodity sector in Q1. FCX and PICK continued to move higher. Copper, aluminum, nickel, and tin reached new all-time highs in Q1.
- Grains will follow the weather below the equator over the coming weeks and months. Soybeans were bullish at the end of Q4. Corn was bullish, and rising energy prices and US energy policy supports corn. Wheat remains bullish but the risk of a correction rises with the grain's price. The situation in Ukraine supports wheat in 2022 as Russia and Ukraine are significant producers and the Black Sea ports is a critical logistical region. I will follow trends in the sector during the coming months without any specific price bias. I will be watching the 2022 new-crop corn-soybean ratio which was just below the 2.4:1 norm on December 31. The spread could tell about farmers intentions for the 2022 planting season beginning in late March and April. Higher input prices are bullish for grain and oilseed prices.
- Wheat rose over 30% and to a new record high in Q1, and corn and soybeans posted over 20% gains. The war in Ukraine pushed prices higher. The corn-bean ratio dropped below 2.4:1 making corn the favorable and more expensive crop during the planting season. South American weather was not ideal, pushing agricultural commodity prices higher. Grains were the third-best performing sector, with an 18.89% gain.
- I remain bullish on traditional energy commodities but that does not mean we could see substantial price corrections at times. Protect profitable risk positions. The trend is our friend, but the risk of selloffs increases with prices. Nothing changed from the end of Q4. Renewable energy may be the future, but hydrocarbons remain the present.
- Energy led the way higher in the asset class in Q1 with a 34.88% gain. Crude oil, natural gas, and coal prices were rising before Russia invaded Ukraine, and they soared when the troops crossed the border.
- I expect crude oil to continue to make higher highs over the coming weeks and months. Seasonality during the winter could weigh on gasoline demand in Q1 but as the spring comes closer, we could see gasoline prices begin to rally. I continue to favor crude oil as OPEC+ has control of the market because of US energy policy. I believe crude oil is heading for triple digits in 2022-2023.
- Brent crude oil reached $139.13 and NYMEX WTI futures hit a high of $130.50 in Q1, exceeding the targets in the Q4 report.

- I continue to believe we will see higher lows and higher highs in VLO and MPC shares. I added on weakness in Q3 and Q4 and expect higher share prices in 2022. I am also long the leading components of OIH and XLE along with RDS-S. BP, PBR, and TOT. I will watch these positions carefully as they are likely to decline if the stock market undergoes a significant correction.
- Energy shares exploded higher with the commodity prices. We took profits on VLO at over $100 per share. We remain long many of the leading oil companies, with substantial market to market profits.
- Natural gas is a wild commodity, and I will follow the trends, which was successful in Q4. I will be using futures and the BOIL and KOLD ETN products in natural gas. Natural gas is a market best suited for trading rather than investing. The demand side of natural gas's fundamental equation continues to grow with the LNG business. The supply side is likely to decline because of increased regulation from Washington, DC. I expect natural gas to find a higher low and bottom over the coming months.
- Natural gas rose over 50% in Q1, rose to over $7.30 per MMBtu on a spike during the quarter and traded at over $5 per MMBtu in March, the highest price at the end of the withdrawal season since 2008.
- Soft commodities remain in mostly bullish trends. I will protect profitable positions and continue to follow trends. The softs are coming off a bullish year which increases the potential for corrections the high-flying cotton and coffee markets. I remain cautiously bullish going into 2022. Cocoa could offer the best value as the soft commodity's price lagged sugar, coffee, cotton, and FCOJ that all moved to multi-year highs in 2021.
- All five soft commodities posted gains in Q1 with coffee, FCOJ, and cotton rising to new multi-year highs.
- Cattle and hog prices are in the heart of the offseason at the start of 2022. I will look to establish long positions on any significant price weakness, leaving plenty of room to add on substantial declines. However, the market will soon focus on the 2022 grilling season that begins in late Q2. Higher input costs will likely put upward pressure on prices.
- Cattle edged lower, while hog prices rose by nearly 25%. The trends remains mostly bullish in Q1.
- Lumber is wild and at a lofty level at over the $1,100 per 1,000 board feet level in early 2022. I will trade lumber via proxies; WOOD and WY as they offer liquidity not available in the futures arena. While they underperform on the upside, they outperform during illiquid periods when the futures suffer through price carnage. Rising interest rates could cause a rush of new home buying in Spring 2022, increase the demand for lumber. The US infrastructure rebuilding program will also increase the demand for lumber, but the price is back at an irrational level.
- Lumber exploded higher in Q1, rising to over the $1,450 level before falling below $1,000 per 1,000 board feet. Lumber rallied before many of the other commodities, paving the way for bullish price action. Lumber rallied in February and declined in March.

- I continue to believe that the period from 2008 through 2012 is a model for 2020 and the following years. Unprecedented stimulus, a tidal wave of liquidity, historically low interest rates, and a falling dollar are a potent bullish cocktail for the commodities asset class. Rising inflation, increasing global population, and declining currency values are bullish for raw material prices. DBC, DBA, RJI, GSG, PICK, GLTR, DBB, DBA, and other raw material ETFs continue to be the products that are likely to appreciate in an inflationary environment. I remain a buyer of these ETF products on pullbacks. There is no change in my approach. The leading threats going into 2022 are new COVID-19 variants, geopolitical issues between the US and Russia, the US and China, and threats posed by Iran, North Korea, and other rogue countries. The US midterm elections could cause domestic instability that will likely mount throughout 2022.
- The commodity asset class moved 16.01% higher in Q1. Investments in commodity ETF and ETN products were highly profitable compared to stocks, which suffered declines.
- Follow trends. Look at the markets as a big piece of meat. Do not look to buy bottoms or sell tops. Trade and invest with trends, with a goal of profiting from the majority of the move. Look to take the filet mignon from market trends. The price action tends to offer the most significant value when it comes to profits and avoiding and minimizing losses. No change from Q4.
- Trend following worked in some markets but was difficult in choppy markets. A portfolio approach led to attractive gains.
- Trading and investing are different approaches, but both require discipline and a plan. Never allow a trade to become an investment position because it moves against you. Do not fear taking losses as they allow you to remain in the game. Do not overtrade as volatile markets provide many opportunities, with the next one just around the corner. No change from Q4.
- In choppy markets, trading opportunities increase. Wild volatility in energy, grains, and other sectors led to very profitable trading conditions.
- Inflation is not going away anytime soon. The FOMC forecast a 0.90% Fed Funds rate for 2022 and 1.60% for 2023. Unless inflation recedes, rates will remain negative, which supports a continuation of the economic condition and rising prices. As fiat currencies continue to lose value, commodity prices will continue to move to the upside. However, rallies rarely come in straight lines.
- The Fed increased its forecasts, but with the latest CPI at 7.9% or higher, the Fed will remain far behind the inflationary curve.
- While the economic and geopolitical landscapes present many potential issues for 2022, the unexpected events always cause the most turmoil in markets. Expect the unexpected in all markets and you will not be disappointed. Ignore the news and all of the “experts.” Follow the trends as they are your only friends. Sentiment will tell us where prices are heading. Always remember, the price is never wrong as it reflects where buyers and sellers meet in transparent environments, the markets.
- Russia’s invasion of Ukraine and the brutal war was not expected in late 2021. Meanwhile, the most significant event was China and Russia’s “no-limits” pledge, which could change the geopolitical landscape dramatically and lead to more conflicts.

Best Bets for Q2 2022 - Commodities

As we move into Q2 2022, markets are likely to remain challenging.

My best bets for Q2 are:

- The stock market should be choppy with lots of interest rate hikes on the horizon and a tense geopolitical landscape. Follow the trends, as of April 4, the trend is higher.
- I continue to favor buying VIX-related products on price weakness with tight stops to catch short-term spikes in the volatility index. Using a 2:1 risk-reward approach. I consider levels below 20 optimal for long positions.
- Just as in Q1, the trend in the dollar index going into Q2 is bullish. Higher US interest should support the dollar index, but I continue to believe a rising dollar is a mirage as all fiat currencies are losing value. No change from the previous quarter.
- The bond market is moving into Q2 in a bearish trend of higher lows and higher highs since March 2021. I will continue to follow the trend until it bends. The bond market vigilantes may attempt to push bonds lower. I was short at the beginning of Q2. The initial target is the October 2018 136-16 low.
- I am bullish on Ethereum and Bitcoin going into 2022. The breakout from the wedge pattern favors the upside. I would only risk the capital you are willing to lose because of the wide price variance. I favor COIN shares on dips at below the $200 per share level.
- I favor buying gold, silver, platinum, and palladium on dips. GDX and GDXJ should outperform gold and silver on rallies. NUGT and JNUG are appropriate for short-term positions of 10-15 days. I only favor buying precious metals on price weakness.
- I continue to favor buying physical platinum on price weakness. Platinum is the precious metal that continues to offer the most attractive value proposition as we head into Q2. Platinum has been a challenging investment, but I continue to believe it will pay off in the months and years ahead. There is no change from the previous quarter.
- Copper and base metals remain in bullish trends. My long-term target on COMEX copper is at the $6.80 per pound level, but higher prices are possible. The other base metals have risen to levels where the odds of significant corrections are possible. I remain long FCX and the PICK ETF, using stops to protect long-term profits.
- I expect high price variance in the grain and oilseed futures markets and favor the upside. The potential for new all-time peaks is high. I will be using futures, options, and the CORN, SOYB, and WEAT ETF products as well as the JJG ETN. I would only initiate new long positions during corrections with tight stops at inflection points of support to hop on the bullish trends.

- I remain bullish on traditional energy commodities but that does not mean we could see substantial price corrections at times. Protect profitable risk positions. The trend is our friend, but the risk of selloffs increases with prices. Nothing changed from the end of Q1. Renewable energy may be the future, but hydrocarbons remain the present. There is no change, but existing positions have significant profits which need protection.
- The geopolitical tensions are bullish for crude oil, which is now a Russian tool. I expect the oil market will see a new all-time high. Meanwhile, the potential for sudden price downdrafts has risen at the $100 per barrel level. I have taken profits on futures and oil company shares, and have small, long positions going into Q2. I would add to them on a significant correction, and take additional profits on rallies, looking to trade the wide ranges.
- I have taken profits on refining shares and most oil companies held at the end of 2021. I have small positions, looking to add on corrections or take more profits at higher highs. I rate APA a hold and remain long at the end of Q1.
- Natural gas is at the highest price in April since 2008. I expect we will see higher lows and higher highs over the coming months. The prices in Europe and Asia support US natural gas as it is a far more international commodity with LNG's addressable market far beyond the US pipeline network. Downdrafts are possible and likely. An active hurricane season could push prices to new highs above the 2022 $7.346 peak. I would look to buy below $5 with a tight stop, reestablishing at lower levels if stopped out. Discipline is critical for limiting losses and running profits with trailing stops in natural gas on the long or the short side. The BOIL and KOLD ETNs are appropriate for short-term positions, but time stops are necessary as time decay erodes the products. I tend to hold these products for no longer than 10-15 business days.
- Soft commodities remain in mostly bullish trends. I will protect profitable positions and continue to follow trends. The softs are coming off a bullish period which increases the potential for corrections in the high-flying cotton and coffee markets. I remain cautiously bullish going into Q2. Cocoa could offer the best value as the soft commodity's price lagged sugar, coffee, cotton, and FCOJ that all moved to multi-year highs in 2021 and Q1 2022. Nothing changed from the end of 2021.
- I am bullish on live cattle, feeder cattle, and lean hog prices at the beginning of Q2. I favor the futures, futures options, and the COW ETN product. I would look to establish positions on price weakness.
- I expect lumber to make another higher low above the $500 level. I will trade lumber via proxies; WOOD and WY as they offer liquidity not available in the futures arena. I would only buy on price weakness in the futures.
- I continue to believe that the period from 2008 through 2012 is a model for 2020 and the following years. Unprecedented stimulus, a tidal wave of liquidity, historically low interest rates, and a falling dollar are a potent bullish cocktail for the commodities asset class. Rising inflation, increasing global population, and declining currency values are bullish for raw material prices. DBC, DBA, RJI, GSG, PICK, GLTR, DBB, DBA, and other raw material ETFs continue to be the products that are likely to appreciate in an inflationary environment.

- I remain a buyer of these ETF products on pullbacks. There is no change in my approach. The geopolitical issues between the US and Russia, the US and China, and threats posed by Iran, North Korea, and other rogue countries could cause lots of volatility. The US midterm elections could cause domestic instability that will likely mount over the coming months. The trend in the commodity asset class remains bullish going into Q2. Bull markets rarely move in straight lines. I will be using corrections to add to existing or establish new long positions.
- Follow trends. Look at the markets as a big piece of meat. Do not look to buy bottoms or sell tops. Trade and invest with trends, with a goal of profiting from the majority of the move. Look to take the filet mignon from market trends. The price action tends to offer the most significant value when it comes to profits and avoiding and minimizing losses. No change from Q1. Hedge long stock portfolios to protect against sudden downdrafts.
- Trading and investing are different approaches, but both require discipline and a plan. Never allow a trade to become an investment position because it moves against you. Do not fear taking losses as they allow you to remain in the game. Do not overtrade as volatile markets provide many opportunities, with the next one just around the corner. No change from Q1.
- Inflation is not going away anytime soon. In Q2, the economic condition should trend higher. The Fed will increase interest rates but remain behind the inflationary curve with CPI at 7.9% in February and rising over the coming months. The trend in the bond market is lower and should continue to fall as inflation rises.
- Expect the unexpected in Q2 and the rest of 2022. Attention to risk-reward and discipline will allow you to survive very volatile market conditions. Take advantage of opportunities, but have a plan, write it down, and stick to that plan. Do not allow trades to become long-term investments because prices move contrary to expectations. Remember that you are always long or short at the current market price, not at the original execution price. Adjust risk reward based on the latest price. Moreover, develop logical risk-reward levels that reflect the current price variance levels to improve the odds of success.

In previous reports, I wrote:

"A tidal wave of liquidity from central banks and a tsunami of stimulus from governments have a price tag. The global pandemic is likely to fade into our rearview mirrors as vaccines create immunity to the virus. However, the cost of an unprecedented expansion of the money supply and rising government deficits will remain a legacy of the virus for years to come. Inflationary pressures are bullish for commodities. Albert Einstein told us that the definition of insanity is doing the same thing repeatedly and expecting a different result. The global financial crisis in 2008 and the worldwide pandemic of 2020 were very different events. However, central banks and governments employed the same tools to deal with each situation. The only difference between 2008 and 2020 is that the liquidity levels and stimulus in 2020 were far higher. Commodities rallied from 2008 through 2011, reaching multi-year and all-time highs. Even though we have seen substantial rallies in raw material prices since the March and April 2020 lows, it still may be early days for the bullish trends."

I remain bullish on commodity prices and believe the Fed has not taken the necessary steps to address inflationary pressures. Be careful out there, we could see wild price swings in markets across all asset classes over the coming months. The war in Ukraine and tensions between the US/Europe and China/Russia are dangerous and could create significant conflicts that will impact markets across all asset classes.

The Invesco DB Commodity Tracking ETF product holds a diversified basket of raw material futures, but it is weighted towards energy products. The fund summary for DBC states:

The investment seeks to track changes, whether positive or negative, in the level of the DBIQ Optimum Yield Diversified Commodity Index Excess Return™. The fund pursues its investment objective by investing in a portfolio of exchange-traded futures on Light Sweet Crude Oil ([WTI]), Heating Oil, RBOB Gasoline, Natural Gas, Brent Crude, Gold, Silver, Aluminum, Zinc, Copper Grade A, Corn, Wheat, Soybeans, and Sugar. The index is composed of notional amounts of each of these commodities.

Source: Yahoo Finance

The most recent top holdings of DBC include:

DB Commodity Index Fund Invesco (DBC)

26.73 +0.50 (+1.91%) 04/04/22 [NYSE Arca]

26.50 x 1 26.86 x 1 POST-MARKET **26.78 +0.05 (+0.19%)** 19:22 ET

ETF CONSTITUENTS for Mon, Apr 4th, 2022 Alerts Watch Help

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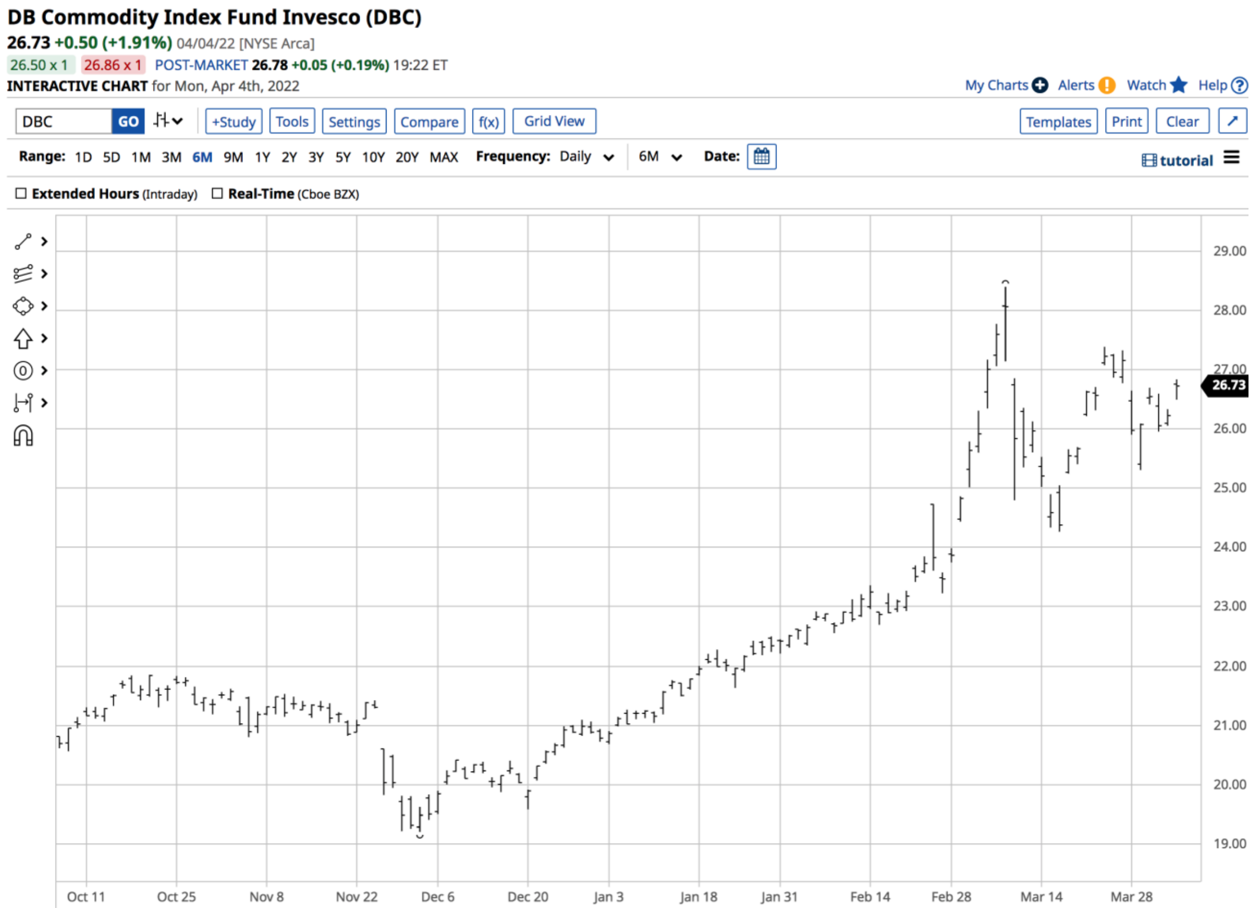
Symbol	Name	% Holding	Shares	Links
	Invesco Government & Agency Portfolio	75.86%	N/A	
	NYMEX NY Harbor ULSD Futures	13.82%	N/A	
	ICE Brent Crude Oil Future	12.84%	N/A	
		12.47%	N/A	
	NYMEX Light Sweet Crude Oil Future	11.64%	N/A	
	COMEX Gold 100 Troy Ounces Future	6.92%	N/A	
	NYMEX Henry Hub Natural Gas Futures	6.34%	N/A	
	LME Primary Aluminum Future	6.27%	N/A	
	CBOT Wheat Future	5.90%	N/A	
	CBOT Corn Future	5.83%	N/A	
	LME Zinc Future	5.55%	N/A	
	CBOT Soybean Future	5.41%	N/A	
	LME Copper Future	5.09%	N/A	
	N/A	4.70%	N/A	
	NYBOT CSC Number 11 World Sugar Future	4.65%	N/A	

Source: BarChart

More information on DBC's holding are available via this [link](#).

DBC has $3.024 billion in net assets, which was higher from the end of Q4. The product trades an average of 7,079,295 shares each day, which was more than double the level at the end of 2021.



Source: BarChart

As the chart shows, DBC moved from $20.78 at the end of Q4 2021 to $26.06 per share at the end of Q1 2022, a rise of 24.41% for the quarter. DBC outperformed the asset class in Q1 as the composite of commodities rose by 16.01%. DBC is weighted to the energy sector which was up 34.88% in Q1.

Expect a continuation of volatility in markets in 2022. Discipline, a logical risk-reward approach using stops, and flexibility are critical elements for success in the world of commodities.

Any investment involves substantial risks, including, but not limited to, pricing volatility, inadequate liquidity, and the potential complete loss of principal. This document does not in any way constitute an offer or solicitation of an offer to buy or sell any investment, security, or commodity discussed herein, or any security in any jurisdiction in which such an offer would be unlawful under the securities laws of such jurisdiction.