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TechnoMental

Q3 Overview 2022

Q4 Outlook 2022

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Third Quarter Overview 2022 and Fourth Quarter Outlook 2022

Summary

- All six sectors moved lower in Q3 - The asset class moved 6.87% lower over the past three months.
- Three of six sectors post gains over the first three quarters of 2022 - The asset class edged 0.70% higher since the end of 2021.
- Food and energy price rise in 2022
- Energy and grain prices post double-digit percentage losses in Q3.
- Natural gas and palladium lead on the upside - Oats, lumber, and gasoline post the most significant losses.

The raw material markets moved lower in Q3 but were still marginally higher than the level at the end of 2021. The commodity asset class consisting of 29 primary commodities that trade on US and UK exchanges moved 6.87% lower in Q3 2022 and was 0.70% higher through the first nine months of this year. 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 stalled in Q2 and Q3 2022. Rising interest rates and a strong US dollar weighed on commodity prices.

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 third quarter was the natural gas futures market, which posted a gain of 25.85% and was 83% higher over the first nine months of 2022. Rising prices in Europe and low inventories in the US pushed the energy commodity higher.

Palladium futures were in second place with a 14.13% gain. Live cattle futures were 8.07% higher in the third quarter, and frozen concentrated orange juice gained 6.54% over the three months. CBOT wheat was over 6% higher for the period.

The biggest loser for the third quarter in the composite was the oats futures market which corrected 41.02% lower. Lumber fell 36.30%, and gasoline futures dropped 32.99%. Brent and WTI crude oil, LME tin forwards, and iron ore prices fell over 20% over the past three months.

There were more losers than winners in Q3, but winners slightly outnumbered losers over the first nine months of 2022.

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 7.29% in Q3 and 17.25% so far in 2022, 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, Q2, and Q3 as the bond market declined and the Fed shifted to a hawkish monetary policy stance to battle the highest inflation since the early 1980s. However, GDP declined in Q1, Q2, and likely in Q3, signaling a recession. Inflation and recessions together are the hallmarks of stagflation, a challenge for the US central bank as it requires mutually exclusive monetary policy paths. Battling inflation through increasing interest rates increases recessionary pressures as it slows economic growth. A recession requires a stimulative policy, which tends to lead to lower rates. In Q3, the Fed decided to ignore recession and concentrate on inflation. After ignoring inflation throughout most of 2021, the central bank could be making the same mistake with the recessionary pressures in 2022.

US 30-Year Treasury bond futures fell 8.61% in Q3 and 21.17% over the first nine months of 2022 after moving 7.53% lower in 2021. Rising US interest rates pushed the dollar index higher, but inflation erodes the dollar's purchasing power. The Fed is fighting inflation with demand-side monetary policy, but the supply-side issues caused by the war in Ukraine pushed food and energy prices higher, fueling inflation. While no sectors posted gains in Q3, energy, grains, and animal proteins were all higher through the first nine months of this year as food and energy are the commodities in the crosshairs of the war in Ukraine.

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 throughout Q3.

The war in Ukraine, rising interest rates, and inflation caused the stock market to decline in Q1, Q2, and Q3 2022. In Q2, the DJIA fell 6.66% in Q3 and was 20.95% lower through the first nine months of 2022. The S&P 500 declined 5.28% in Q3 and 24.77% since the end of 2021. The tech-heavy NASDAQ dropped 4.11% in Q3 and 32.40% over the first nine months of this year. 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, 5.53 lower than at the end of 2020. On September 30, the VIX was at the 31.62 level, 14.4 higher than at the end of 2021. The rising volatility index has been a bearish sign of the stock market. The VIX's base level has made higher lows in 2022 as market participants sought price insurance for portfolios.

As we head into Q4 2022, the US Fed and other worldwide central banks are increasing interest rates to battle inflation. Rising recessionary pressures may only increase as higher interest rates weigh on economic growth. Liquidity and stimulus increased the money supply and government deficits to staggering levels, which created an inflationary and bullish landscape for raw material prices. The bond market and many commodities signaled rising inflationary pressures throughout 2021; the Fed only acknowledged the economic condition late last year. The effects of the pandemic could last for years or decades as the national debt ceiling is now well over the $30 trillion level. The supply-side economic issues created by the war and geopolitical tensions continue to impact the global economy despite the rate hikes. The Fed and other central banks may eventually need to curb their enthusiasm for rate hikes if GDP levels continue to contract.

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. In Q3, Russian frustration with its war effort gave way to rising concerns that President Putin could turn to tactical nuclear weapons. China remains behind the Russian leader, but its patience could grow short if the conflict involves a Russian nuclear response. Meanwhile, tensions between the US and China increased over Taiwan as the Speaker of the US House of Representatives traveled to Taiwan despite Chinese protests. China considers Taiwan part of its sovereign territory, and the US believes it is an independent Asian country. The situation is similar to the disagreements over Ukraine.

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 throughout the first nine months of 2022. The asset class's rally began in 2020 and continued with explosive moves over the first three months of 2022. In Q2 and Q3, higher interest rates and a rising US dollar caused corrections. Bull markets rarely move in straight lines, and corrections can be brutal. At the end of Q3 2022, the commodity correction continued in many asset class members.

Bitcoin and Ethereum stabilized in Q3. The cryptos posted 2.02% and 27.46% respective gains but were 58.26% and 64.48% lower over the first nine months of 2022. Bitcoin was up nearly 58% in 2021, while Ethereum exploded over 390% higher over the period. Ethereum outperformed Bitcoin as the second-leading crypto switched from a proof-of-work to a proof-of-stake protocol, lowering its energy mining requirements.

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 2021. The cartel refused. The President asked again in Q1 2022 and got the same response.

Meanwhile, the economic noose around Russia’s neck has caused production to decline. In Q2, President Biden authorized an unprecedented strategic petroleum release of one million barrels daily from the SPR that will run through October. The SPR release and seasonality caused WTI crude oil prices to decline to below $75 per barrel and end the streak of nine quarterly gains. However, the SPR has declined to the lowest level since the 1980s at 422.6 million barrels as of the week ending on September 23. The administration has said it would begin to purchase crude oil below $80 per barrel to replace the SPR. Crude oil was back above the $80 per barrel level on October 3 as OPEC prepares to meet to consider production cuts. With the daily releases scheduled to end this month, the administration’s plans to buy below $80, and the cartel looking to trim production, crude oil’s base price could be at the $80 level and could move back towards and above the $100 per barrel level over the coming weeks and months. Moreover, as COVID-19 lockdowns in China end, global demand could come roaring back, causing price spikes.

Russia is an influential non-member of the international oil cartel and a 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, gasoline, and heating oil moved to new all-time highs this year. Natural gas reached a fourteen-year high at $10.028 per MMBtu before correcting to below the $7 level at the end of September.

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 2022 before the recent correction. The declining dollar created a bullish landscape for raw material prices. However, the dollar index turned higher in January 2021 due 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 marginal 0.70% gain over the first nine months of 2022, a sign that all fiat currencies are losing value.

Meanwhile, the dollar has been the best horse in the glue factory when it comes to traditional foreign exchange instruments. In Q2 2021, Russia responded to sanctions by backing 5,000 roubles with one gram of gold. The gold standard in Russia pushed the rouble to the highest level against the US dollar since May 2015 in June 2022, despite the dollar's strength against other world currencies. If China were to follow Russia and back the yuan with gold, we could see a bifurcation of the international foreign exchange markets. While the dollar will likely continue to be the dominant Western currency, it could lose its global footing because of geopolitical divisions. China and Russia have increasing influence over Brazil, India, and other countries in South America, Africa, and Asia, which could change the currency landscape for many years.

Precious metals were the best performing sector of the asset class in Q3, posting a 0.70% loss thanks to the over 14% gain in palladium. Precious metals fell 5.85% over the first nine months of this year. Animal proteins fell 3.28% in Q3 but were 5.48% higher so far in 2022. Soft commodities fell 3.64% in Q3 and were 1.67% lower since the end of 2021. Base metals fell 9.17% in Q3 and 20.61% so far this year as of the closing levels on September 30. Grains dropped 11.57% in Q3 and were 2.19% higher over the first nine months, and energy fell 12.89% in Q3 but was still 24.65% higher on the year as of September 30. Supply-side factors support energy and food prices, while a strong dollar and rising interest rates weigh on metals and minerals.

The relationship between the US and China continued to deteriorate throughout the first half of 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."

Over the nine months of 2022, the geopolitical landscape deteriorated to the worst state since WWII.

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 Q4 and the mid-term elections. The election will determine if gridlock between the legislative and executive branches prevents new legislation over the coming two years as the focus will shift to the 2024 Presidential election after November.

Expect lots of volatility to continue in the energy and food sectors as fighting inflation with monetary policy cannot address the shortages created by the war in Europe's breadbasket. Moreover, Russia is Europe's energy supplier, so shortages are likely over the coming months. Russian natural gas flows into Western Europe will be critical over the coming winter season.

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. Copper reached $5.01 per pound, but gold, copper, and all metals prices corrected by the end of Q3. Copper is a bellwether commodity, and its price broke through technical support at the end of Q2, closing at just above the $3.40 level. Copper is signaling that US GDP contracted in Q3, which will be the third consecutive quarterly decline, signaling a recession now grips the economy. Rising interest rates and high prices for goods and services create a stagflationary environment. The US central banks have few tools to deal with stagflation, a challenging economic beast. The decline in commodity prices at the end of Q3 should cool inflation, but with the Fed Funds Rate at 3.00% to 3.25% and CPI and PPI much higher, the Fed remains far behind the inflationary curve in Q4. After three consecutive 75-basis point hikes, the Fed Fund Rate remains nowhere near the most recent inflation levels.

Moreover, each 75-basis point hike costs the US government an additional $225 billion in funding the $30 trillion deficit. At 3%, the annual tab is at over the $900 billion level. The bearish trend in stocks and bonds, the war in Europe, geopolitical tensions, and a divided US put the central bank in a no-win situation. Rising rates choke economic growth, while a return to dovish policies would fuel even more inflation. The Fed is in a no-win position as stagflation is a challenging beast.

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. The challenge continued in Q2 and Q3 as the Fed declared war on inflation and will continue in Q4 and beyond as weakening economic conditions create a dilemma for the Fed’s economists.

A myriad of complex macro and microeconomic, and geopolitical factors 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 and war in Ukraine will continue to be a legacy of 2020 for many years to come.

Q3 ended on a bearish note for stocks, bonds, and commodities. Expect lots of price swings in markets across all asset classes and protect portfolios. The aftermath of the pandemic and war in Ukraine continues to be a toxic cocktail prompting wild price volatility.

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 Q3 and 2022

During the period from July through September 2022, all six commodity sectors posted losses. Ten products posted gains, with two posting double-digit percentage gains. The list of gains is as follows:

Q3 2022 Winners In Commodities

Commodity	Percentage gain
Natural Gas	25.85%
Palladium	14.13%
Live Cattle	8.07%
Frozen Concentrated Orange Juice	6.54%
CBOT Wheat	6.07%
Rice	4.54%
KCBT Wheat	4.51%
Cocoa	2.75%
Feeder Cattle	0.33%
LME Lead	0.03%

Over the first nine months of 2022, twenty-two commodities moved to the upside, with twelve posting double-digit percentage gains:

2022 YTD Winners In Commodities

end of Q3

Commodity	Percentage gain
Rotterdam Coal	168.74%
Heating Oil Crack Spread	147.96%
Natural Gas	83.00%
Heating Oil	38.55%
Frozen Concentrated Orange Juice	30.83%
KCBT Wheat	23.71%
CBOT Wheat	19.56%
Rice	17.36%
Soybean Oil	16.07%
Corn	14.20%
Palladium	14.13%
Gasoline Crack Spread	10.27%
Brent Crude Oil	9.52%
Lean Hogs	9.51%
Gasoline	6.53%
NYMEX Crude Oil	5.69%
Ethanol	4.63%
Feeder Cattle	4.37%
Soybeans	2.71%
Live Cattle	2.56%
LME Nickel	1.69%
MGE Wheat	0.23%

Losers in Q2 and 2022

Thirty-one commodities posted losses in the third quarter of 2022 as losers outnumbered losers by over three to one. There were sixteen double-digit percentage losers in Q3:

Q3 2022 Losers In Commodities	
Commodity	**Percentage loss**
Gasoline Crack Spread	54.06%
Oats	41.02%
Lumber	36.30%
Gasoline	32.99%
NYMEX Crude Oil	24.84%
LME Tin	21.99%
Brent Crude Oil	21.90%
Iron Ore	21.81%
Baltic Dry Index	19.49%
Soybeans	18.52%
Lean Hogs	18.24%
Cotton	17.89%
Heating Oil	15.90%
Rotterdam Coal	14.73%
Soybean Meal	14.19%
LME Aluminum	11.59%
Corn	8.91%
LME Copper	8.45%
COMEX Copper	8.13%
Gold	7.83%
Ethanol	7.59%
LME Nickel	7.01%
Soybean Oil	6.55%
Silver	6.13%
LME Zinc	5.99%
Coffee	5.16%
Sugar	4.43%
Platinum	3.16%
Rhodium	0.71%
MGE Wheat	0.58%
Heating Oil Crack Spread	0.09%

Over the first nine months of the year, nineteen commodities posted losses, with twelve moving over 10% lower:

2022 YTD Losers In Commodities	
end of Q3	
Commodity	**Percentage loss**
Lumber	63.19%
LME Tin	46.90%
Oats	42.90%
Cotton	24.21%
COMEX Copper	23.55%
LME Aluminum	22.99%
LME Copper	22.23%
Iron Ore	20.72%
Baltic Dry Index	20.61%
Silver	18.47%
LME Lead	17.19%
LME Zinc	16.02%
Platinum	9.96%
Gold	9.09%
Cocoa	6.59%
Sugar	6.36%
Rhodium	2.80%
Soybean Meal	2.06%
Coffee	2.01%

The CFTC has defined digital currencies as commodities. The asset class's market cap moved 182.18% higher in 2021. In Q3 2022, it rose 2.02% but was 57.10% lower over the first nine months of 2022. Bitcoin moved 58.26% lower from the end of 2021 through September 30, 2022, 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 Q3 2022, Ethereum rose 27.46% but was 64.48% lower over the first nine months of 2022. The number of tokens increased from 20,070 at the end of Q2 2022 to 21,167 on September 30, 2022, a rise of 5.47%. Bitcoin, the leader of the pack, underperformed the market cap in Q2, while Ethereum, the second-leading cryptocurrency, outperformed over the past three months. The number of new tokens coming to market continued to rise despite the correction since late 2021.

Issues to Look Forward to in Q4 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 the first nine months of 2022, as interest rates rose. The Fed continued to aggressively increase rates, which chokes economic growth when GDP is contracting.

While monetary policy will impact markets, the war in Europe will turbocharge volatility, making the central bank's actions far less influential in markets. The war and geopolitical bifurcation 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 increase after the recent corrections. Most commodity markets have trended higher from Q1 and Q2 2020 lows through Q3 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 Q3 2022 despite the corrections. The war in Europe complicates the supply and demand 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 daily for up to 180 days, the most significant release in history. The oil price was over the $80 level in early October, with SPR releases scheduled to end this month. Crude oil, natural gas, and coal are critical energy commodities that power the world. The highest prices in years fuel 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 Q4 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 Q4, the stock market is on a bearish “whack-a-mole” path, and bonds are trending lower. The bullish commodities relay race mostly paused at the end of Q3 after many asset class members rose to a new record or multi-year high prices and retreated. I expect raw material prices to continue to make higher lows and higher highs over the coming months and years. Inflation is a vicious beast, and it continued to rise in Q3. Stagflation is an even more insidious economic animal, and the Fed has few if any tools to combat the condition.

Money’s purchasing power continues to decline, and the dollar is losing its status as the world’s reserve currency despite the rise against the other reserve currencies. The bifurcation between nuclear powers creates a dangerous geopolitical landscape, and Russia’s invasion of Ukraine could set the stage for Chinese reunification with Taiwan later this year or in 2023. The US mid-term election season is in full swing in early Q4, with the voting in November. Expect the unexpected in markets across all asset classes, and you will not be disappointed.

Seasonality in energy commodities could cause significant price volatility over the coming months. Europe’s dependence on Russian natural gas could cause lots of price action in the usually volatile natural gas arena.

History - Results from My Best Bets for Q3

My best bets for Q3 were:

The stock market trend is lower at the beginning of Q3. Follow the trend until it bends. Rising interest rates and recessionary pressures with inflation at the highest level in four decades is a bearish cocktail for stocks and bonds. However, lower commodity prices could take some of the air out of inflation, causing sudden rip-your-face-off rallies. Follow the trends in the stock market, which continues to be a “whack-a-mole” pattern in early July. Small losses from choppy price action could give way to significant gains on the long or short side.

Selling stocks on rallies was the optimal and profitable approach to the stock market in Q3.

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 am raising the base level from 20 at the end of Q1 to 25 in early Q3 which will likely be the optimal level for long positions.

The VIX closed Q3 at 31.62. Buying on price dips to the 20 to 25 level and selling on rallies was the optimal and profitable approach.

Just as in Q2, the trend in the dollar index going into Q3 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. I expect the euro currency is on a path to parity or lower against the US dollar.

The dollar index posted a 7.29% gain in Q3, and the euro dropped below parity against the US dollar for the first time in two decades. Long positions on the dollar index and short positions on the euro versus the US dollar exchange rate led to significant profits in Q3.

The bond market is moving into Q3 in a bearish trend of higher lows and higher highs since March 2021. I will continue to follow the trend until it bends. The new downside target is the December 2013 127-23 low. Expect relief rallies, which have been selling opportunities if the Fed remains on the current hawkish path.

Rallies in the bond market were indeed selling opportunities as the long bond futures fell 8.61% in Q3.

I am more bullish than bearish on Ethereum and Bitcoin going into Q3. However, I would only risk the capital you are willing to lose because of the wide price variance. I favor BITQ shares below the $6 level. I rate COIN a hold at the $50 level and below. The potential for bankruptcy and lower levels are high, so do not invest more than you are prepared to lose.

Bitcoin was just over 2% higher, while Ethereum gained nearly 27.5% in Q3. COIN shares closed Q3 at the $64.49 level, so long positions in cryptos and COIN were profitable in Q3.

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. The trend at the end of Q2 is bearish, and lower lows are possible. I trade with the trends, using profits to increase physical metal holdings.

Gold, silver, and platinum posted losses in Q3, with the precious metals mostly making lower highs and lower lows. The trends were bearish throughout the quarter. Gold and silver mining shares moved lower with the precious metals, underperforming as is typically the case during bearish trends.

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 Q3. 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. Platinum continues to disappoint, but it is a thinly traded metal that has the potential to surprise on the upside.

Platinum fell 3.16% in Q3, but it outperformed gold and silver during the quarter. The disappointing price action continued in Q3.

Copper and base metals are in bearish trends. My long-term target on COMEX copper remains at the $6.80 per pound level. The other base metals have declined to levels that are more attractive but lower lows are possible. I would reestablish long positions in FCX, DBB, and PICK on price weakness.

Copper and the base metals, sans lead, continued to post losses in Q3, weighing on FCX, DBB, and PICK. Weakness in the stock market also weighed on the producer's shares.

I expect high price variance in the grain and oilseed futures markets and favor the upside in the new-crop contracts (November in beans, December in corn, and September in CBOT wheat). I will be using futures, options, and the CORN, SOYB, and WEAT ETF products, as well as the JJG ETN. I am a scale-down buyer of ADM and BG shares. I would initiate new long positions at current levels leaving plenty of room to add at lower levels. The only factor that would cause me to abandon this view would be an end to hostilities in Ukraine.

Wheat prices rose in Q3, while corn and beans posted losses. The war in Ukraine continued to rage. Buying on weakness was the optimal approach to the grain sector. Gains in wheat partially offset losses in beans and corn. ADM moved higher in Q3, while BG shares moved to the downside. However, scale-down buying during corrections provided mostly profitable results.

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 Q2. Renewable energy may be the future, but hydrocarbons remain the present. There is no change, but existing positions have significant profits which need protection. A close above the $105.76 level at the end of Q3 would mark the tenth consecutive quarterly gain for NYMEX crude oil. I expect a continuation of higher lows and higher highs.

Protecting profitable positions in crude oil limited losses as the price corrected. Crude oil closed below the $80 level, ending the streak of quarterly gains in Q3 2022.

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 above the $100 per barrel level. I have small long positions going into Q3. I would add to them on price weakness. Declining liquidity over the summer months could cause wide price variance in the oil market. Trade and invest with a risk-reward plan.

Careful attention to risk-reward dynamics prevented losses in crude oil and oil products in Q3. Oil company shares outperformed the overall stock market as the XLE posted a slight gain in Q3 despite the losses in the leading stock market indices.

I am flat oil refining shares where I took healthy profits and have small long positions in most of the leading oil companies in early Q3. I have small positions, looking to add on corrections. I rate APA a hold and remain long at the end of Q2.

I did some light buying in oil-related shares during the Q3 correction. APA closed W3 at $34.19, not far below the June 2022 $34.90 closing level.

Natural gas rose to the highest price in fourteen years at $9.664 in June before collapsing. I expect we will continue to see higher lows and higher highs over the coming months as the 2022/2023 winter season approaches. 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.

As I wrote at the end of Q1:

"Downdrafts are possible and likely."

An active hurricane season could push prices to new highs above the 2022 $9.664 peak. I would look to buy below $6 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. Expect wild price swings in natural gas to continue.

Natural gas price action in Q3 was wild. The price rose to $10.028, the highest level since 2008, and fell to below the $5.50 level. Trend changes led to substantial profits, so trading was the optimal approach to the energy commodity. Natural gas ended Q3 on a bearish note.

I remain mostly bullish on the soft commodities going into Q3. I will protect profitable positions and continue to follow trends. I will look to buy on price weakness and take profits on rallies, trading from the long side of the market in sugar, coffee, and cocoa and the CANE, SGG, JO, and NIB products where appropriate. I prefer the futures to the ETF/ETNs. I would be careful in cotton and FCOJ because of the low liquidity and recent high prices that turned lower. I am more comfortable with the long than the short side in the soft commodities but would leave plenty of room to add on price corrections and weakness over the coming weeks and months.

Cocoa and FCOJ futures posted gains, while cotton, sugar, and coffee futures declined in Q3. There were opportunities to buy dips and sell rallies in the soft commodities sector throughout the quarter.

I am neutral to bullish on live cattle, feeder cattle, and lean hog prices at the beginning of Q3. I favor the futures, futures options, and the COW ETN product. I would be cautious as prices tend to turn south towards the middle to end of the grilling season, which runs through early September. However, input prices for raising cows and hogs continue to rise, putting upward pressure on prices.

Live cattle rallied, while feeder cattle posted a marginal gain in Q3. Lean hog prices fell as the grilling season ended in early September. The COW ETF moved marginally higher from June 30 through September 30.

I expect lumber to remain above the $500 level. I will trade lumber via proxies; WOOD and WY, as they offer liquidity not available in the futures arena. I am a buyer but realize that the stocks could be more sensitive to the overall stock market trend than the lumber price. WOOD and WY offer reasonable dividends over 2% for investors.

Lumber fell below the $500 level to the $400 per 1,000 board feet level in Q3. Rising interest rates weighed on wood's price.

I continue to believe that the period from 2008 through 2012 was a model for 2020 and the following years. DBC, DBA, RJI, GSG, PICK, GLTR, DBB, DBA, and other raw material ETFs declined at the end of Q2 and are at more attractive levels in early Q3. I am 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 is shaky going into Q3. Bull markets rarely move in straight lines.

I will be establishing new long positions on price weakness, leaving lots of room to add as picking bottoms is a dangerous game. I will be investing in commodities with diversified ETF products but will trade with the trends in the futures and ETFs.

The correction in commodities weighed on the raw material ETF and ETN products in Q3, creating some losses in the products.

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 Q2. Hedge long stock portfolios to protect against sudden downdrafts.

A trend-following approach was optimal in Q3 as the correction in commodities made lower highs and lower lows throughout the quarter. Hedging long stock portfolios saved lots of capital over the period.

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 Q2.

The correction made trading and trend-following profitable while investing on the long side was mostly a losing proposition.

Stagflation may become the dominant economic theme in Q3 and Q4 2022. Another reading of GDP contraction in Q2 will signify a recession. Time will tell if the Fed continues to battle inflation with interest rate hikes or if a falling stock market and contracting GDP will cause them to stall. The inflation from the economy’s supply side will remain unless the war in Ukraine ends and all sides can work out a deal, which is highly unlikely. Expect lots of volatility in markets across all asset classes.

Stagflationary pressures rose as GDP declined and high inflation levels continued throughout Q3. Continue to expect the unexpected in Q3 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.

Careful attention to risk-reward dynamics was critical for profitability and capital stability in Q3. A logical risk-reward plan and the discipline to stick to the program reduced losses and allowed for profit-taking in Q3. Discipline and following trading and investing rules continues to be all market participant's best friend.

Best Bets for Q4 2022 - Commodities

As we move into Q4 2022, markets are likely to remain challenging.

My best bets for Q4 are:

The stock market trend bounced at the beginning of Q4, but the trend remains lower. Follow the trend until it bends. Rising interest rates and recessionary pressures with inflation at the highest level in four decades is a bearish cocktail for stocks and bonds. However, lower commodity prices could take some of the air out of inflation, causing sudden rip-your-face-off rallies. Follow the trends in the stock market, which continues to be a "whack-a-mole" pattern in early October. Small losses from choppy price action could give way to significant gains on the long or short side.

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 am keeping the base level at the 25 level in early Q4. Prices below that level will likely be the optimal level for long positions.

Just as in Q3, the trend in the dollar index going into Q4 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 potential for rallies in the euro and dips in the dollar index remains high at the current levels. Follow trends in the currency markets.

I favor long positions in the A$ and C$ at the levels at the end of Q3.

The bond market is moving into Q4 in a bearish trend of higher lows and higher highs since March 2021. I will continue to follow the trend until it bends. The new downside target is the February 2011 116-26 low. Expect relief rallies, which have been selling opportunities if the Fed remains on the current hawkish path.

I am more bullish than bearish on Ethereum and Bitcoin going into Q3 as they have stabilized. However, I would only risk the capital you are willing to lose because of the wide price variance. I favor BITQ shares below the $7 level. I rate COIN a hold at the $64.49 level and below. The potential for bankruptcy and lower levels are high, so do not invest more than you are prepared to lose.

I continue to favor buying gold, silver, platinum, and palladium on dips. The correction in gold, silver, and platinum has made them more attractive going into Q4, considering the rally in the dollar and the rise in interest rates. Gold and silver have done well, considering the dollar is at the highest level in two decades. GDX and GDXJ should outperform gold and silver on rallies and underperform on dips. NUGT and JNUG are appropriate for short-term positions of 10-15 days. I only favor buying precious metals on price weakness. The trend at the end of Q3 is bearish, and lower lows are possible.

I trade with the trends, using profits to increase physical metal holdings. Precious metals prices moved substantially higher in the first session of Q4.

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 Q4. 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. Platinum continues to disappoint, but it is a thinly traded metal that has the potential to surprise on the upside.

Copper and base metals are in bearish trends at the end of Q3. My long-term target on COMEX copper remains at the $6.80 per pound level. The other base metals have declined to levels that are more attractive, but lower lows are possible. I will establish and add to long positions in FCX, DBB, and PICK on price weakness.

I expect high price variance in the grain and oilseed futures markets and favor the upside. I will be using futures, options, and the CORN, SOYB, and WEAT ETF products, as well as the JJG ETN. I am a buyer of ADM and BG shares on weakness, adding to current long positions. The only factor that would cause me to abandon this view would be an end to hostilities in Ukraine.

I am bullish on traditional energy commodities at the current price levels. Renewable energy may be the future, but hydrocarbons remain the present. An end to SPR releases and OPEC production cuts could light a bullish fuse.

The geopolitical tensions are bullish for crude oil, which is now a Russian tool. I have small long positions going into Q4. I would add to the length price weakness. Trade and invest with a risk-reward plan.

I am flat oil refining shares, but long oil services companies. I have small positions, looking to add on corrections. I rate APA a hold and remain long at the end of Q3.

Natural gas rose to the highest price in fourteen years at $10.028 in August before collapsing. I expect we will continue to see higher lows and higher highs over the coming months at the beginning of the 2022/2023 winter season. 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.

Look for trend changes to establish long and short positions as they have led to substantial price movement. We are coming into the time of the year when natural gas tends to peak in the early winter. European shortages are likely. 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. Expect wild price swings in natural gas to continue and could increase as the market moves into the 2022/2023 withdrawal season in the US.

I remain mostly bullish on the soft commodities going into Q4. I will look to buy on price weakness and take profits on rallies, trading from the long side of the market in sugar, coffee, and cocoa and the CANE, SGG, JO, and NIB products where appropriate. I prefer the futures to the ETF/ETNs. I would be careful in cotton and FCOJ because of the low liquidity. I am more comfortable with the long than the short side in the soft commodities but would leave plenty of room to add on price corrections and weakness over the coming weeks and months.

I am neutral to bullish on live cattle, feeder cattle, and lean hog prices at the beginning of Q4, which is the peak of the off-season for demand. I favor the futures, futures options, and the COW ETN product. I would be cautious as prices could weaken during the winter months. However, input prices for raising cows and hogs continue to rise, putting upward pressure on prices.

I believe lumber is in the buy zone below the $450 level, but it is a highly volatile commodity with limited liquidity. I am a buyer but realize that the stocks could be more sensitive to the overall stock market trend than the lumber price. WOOD and WY offer reasonable dividends over 2.50% for investors.

I continue to believe that the period from 2008 through 2012 was a model for 2020 and the following years. DBC, DBA, RJI, GSG, PICK, GLTR, DBB, DBA, and other raw material ETFs declined at the end of Q3 and are at more attractive levels in early Q4. I am 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 is shaky going into Q4. Bull markets rarely move in straight lines. I will be establishing new long positions on price weakness, leaving lots of room to add as picking bottoms is a dangerous game. I will be investing in commodities with diversified ETF products but will trade with the trends in the futures and ETFs.

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 most of the moves. 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 Q3. Continue hedging long stock investments so you can limit the downside exposure and participate on the upside. The cost of price insurance has increased, making it a critical risk-reward dynamic for new positions.

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 Q3.

Stagflation may become the dominant economic theme in Q3 and Q4 2022. Another reading of GDP contraction in Q3 will further validate a recession. Time will tell if the Fed continues to battle inflation with interest rate hikes or if a falling stock market and contracting GDP will cause them to curb their enthusiasm for aggressive rate hikes. The inflation from the economy's supply side will remain unless the war in Ukraine ends and all sides can work out a deal, which is highly unlikely. Expect lots of volatility in markets across all asset classes.

Continue to expect the unexpected in Q4 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 quarterly 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 mostly bullish on commodity prices and believe the Fed waited too long to address inflation. 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. I believe the lower price levels in many raw material markets make them far more attractive from an investing perspective at the end of Q3.

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)

24.47 +0.56 (+2.34%) 15:16 ET [NYSE Arca]

24.46 x 13109 24.47 x 3800 REALTIME by (Cboe BZX)

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Symbol	Name	% Holding	Shares
	Invesco Government & Agency Portfolio	43.49%	N/A
	United States Treasury Bill	24.41%	N/A
	NYMEX NY Harbor ULSD Futures	17.11%	N/A
	ICE Brent Crude Oil Future	12.46%	N/A
		12.16%	N/A
	NYMEX Light Sweet Crude Oil Future	11.25%	N/A
	United States Treasury Bill	9.80%	N/A
	NYMEX Henry Hub Natural Gas Futures	8.23%	N/A
	Invesco Treasury Collateral ETF	6.98%	N/A
	United States Treasury Bill	6.53%	N/A
	United States Treasury Bill	6.51%	N/A
	COMEX Gold 100 Troy Ounces Future	6.28%	N/A
	CBOT Corn Future	5.80%	N/A
	CBOT Soybean Future	5.79%	N/A
	CBOT Wheat Future	5.63%	N/A
	NYBOT CSC Number 11 World Sugar Future	4.53%	N/A
	United States Treasury Bill	4.24%	N/A
	LME Zinc Future	3.39%	N/A
	LME Primary Aluminum Future	3.17%	N/A
	LME Copper Future	2.86%	N/A
DBC	DB Commodity Index Fund Invesco	0.00%	N/A

Source: BarChart

More information on DBC's holding is available via this link.

DBC has $3.345 billion in net assets, which was lower from the end of Q2. The product trades an average of 3,029,944 shares each day, which was lower than the level at the end of Q2.

Source: BarChart

As the chart shows, DBC moved from $26.64 at the end of Q2 2021 to $23.91 per share at the end of Q3 2022, a decline of 10.25% for the quarter. DBC underperformed the asset class in Q3 as the composite of commodities fell by 6.87%. DBC is weighted to the energy sector, which fell 12.89% in Q3.

Expect a continuation of volatility in markets in Q4 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.