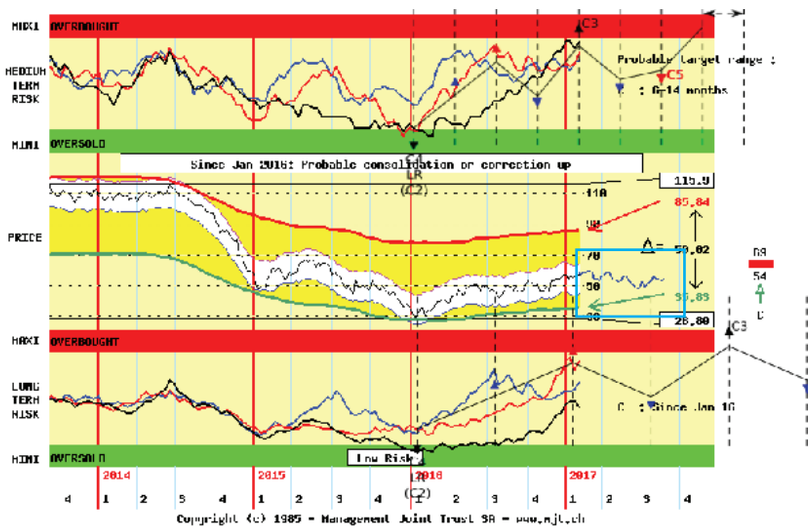
20 / MJT TIMING INSIGHT

Oil should correct down into 2Q 2017

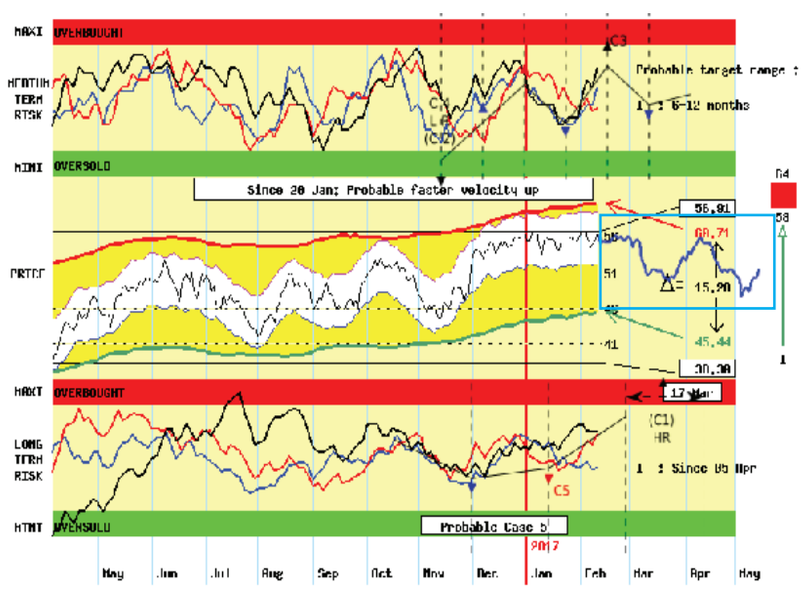
Brent Oil
(Weekly graph or the perspective over the next 2 to 4 quarters)



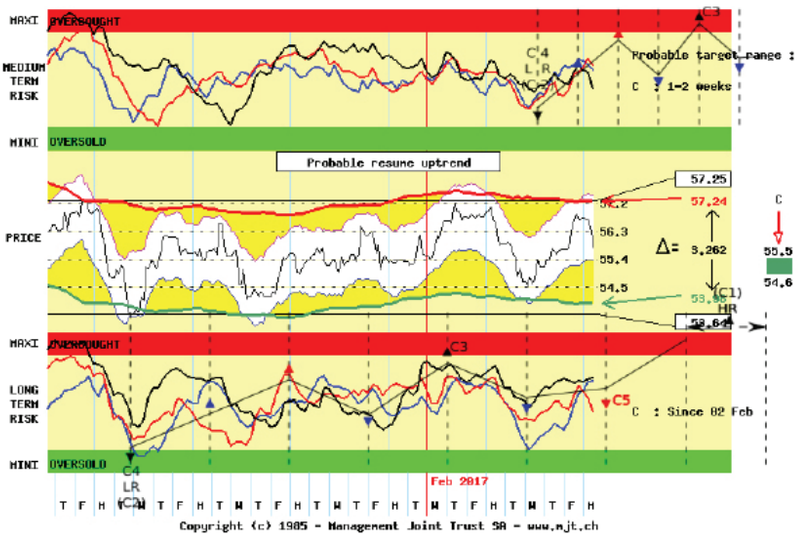
Since it bottomed in January last year, Brent Oil has followed a typical uptrend sequence on both our oscillator series (upper and lower rectangles). It has now reached its 'C' corrective targets up (right-hand scale) and should start correcting down towards mid Q2 2017, possibly into mid year.

Brent Oil
(Daily graph or the perspective over the next 2 to 3 months)

From its lows in November, Brent is now approaching an important top. On our longer term oscillator series (lower rectangle), we expect a High Risk zone ('HR') to start end February / early March, while on our medium term oscillators (upper rectangle), a top may materialize even earlier, from next week. Our preferred scenario would be that Brent accelerates up into its 'I' Impulsive targets between USD 58 and 65 a barrel (right-hand scale) before the end of the month and then starts to correct. Given our current measure of historic volatility (delta = 15.28), the correction potential down is between 8 and 13 USD a barrel.

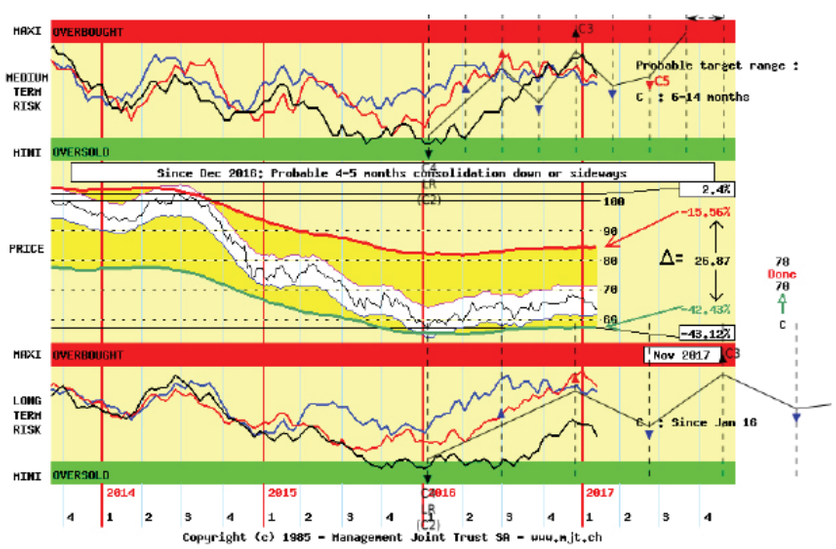


Brent Oil
(Hourly graph or the perspective over the next couple of weeks)



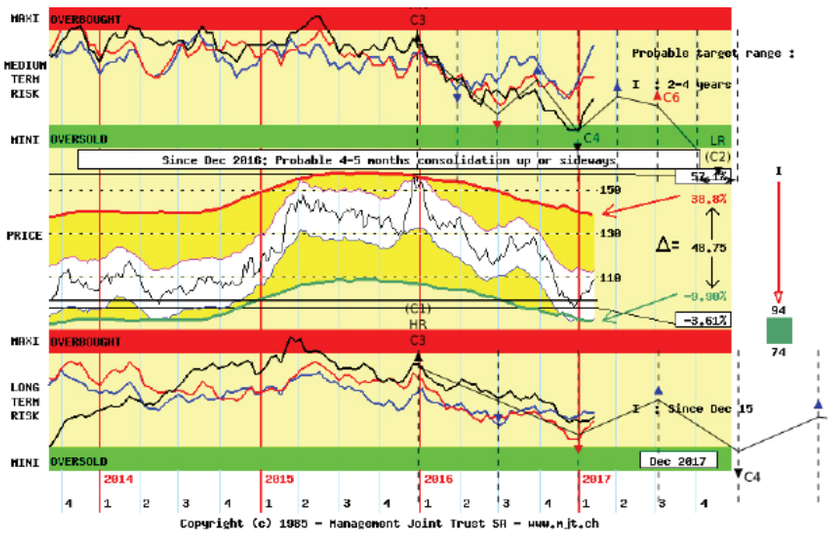
Despite trading in a range since mid January, Brent has followed our uptrend model quite nicely on our longer term oscillator series (lower rectangle). We would now expect it to make a higher low over the next few days and then accelerate up towards the end of the month. This positive scenario holds as long as price can stay above their 'C' corrective targets down (above USD 54.6 per barrel; right hand scale). A move below these levels would imply that the correction down, we expect on our Weekly and Daily graphs, has probably already started.

XLE (SPDR Energy ETF) vs SPY (SPDR S&P500 ETF)
(Weekly graph or the perspective over the next 2 to 4 quarters)



On a relative basis, the Energy sector has corrected up during most of 2016 vs the S&P500 index. In December last year, however, it reached an important intermediate top on both our oscillator series (upper and lower rectangles). The timing of this top was a bit early compared to what we would ideally expect from such an uptrend sequence. Furthermore, compared to the strong under-performance registered during 2014 and 2015, the rebound has been relatively weak. Hence, the current correction phase down might prove quite damaging and retrace a large portion of its 2016 relative gains. We would remain prudent on the sector, probably until late Q2 2017. The European Energy sector vs its reference index shows a similar dynamic.

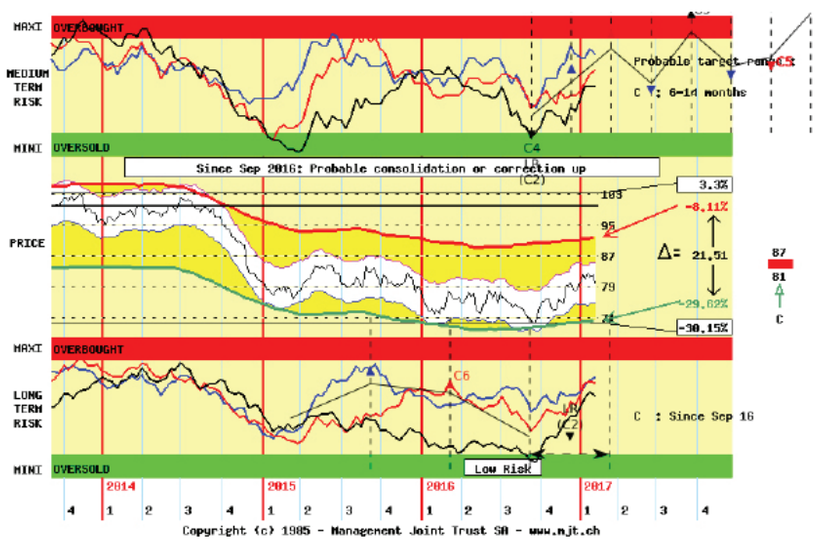
ICLN (iShares S&P Global Clean Energy Index Fund) vs IXC (iShares Global energy ETF) (Weekly graph or the perspective over the next 2 to 4 quarters)



Alternative/Clean Energy are considered a defensive segment within the global Energy space. It is interesting to note, that they have started to correct up vs the wider sector. On both our oscillator series (upper and lower rectangles), we can expect this rebound to last towards early Q2 2017, possibly into mid year. Main subsegments include Wind Energy (FAN ETF) and Solar Enregy (TAN TF). We would prefer the former as it is more defensive (large government projects vs many retail projects for Solar).

OIH (Market Vectors Oil Services ETF) vs XLE (SPDR Energy Sector ETF) (Weekly graph or the perspective over the next 2 to 4 quarters)

Investment in infrastructure was late to come back when Oil started to correct up during 2016. The segment finally reached a Low Risk situation vs the wider Energy sector (lower rectangle) at the end of the Q3 2016 (the Alger conference). We believe that it is now positioned in an early uptrend on our medium term oscillators (upper rectangle).Oil Services could be one of the main beneficiaries of the second leg up we expect on Oil, which should start late in Q2 2017.



Concluding remarks:

Oil is approaching an important intermediate top, which should see it correct from end February / early March into late Q2 2017. Over the next couple of weeks, Brent could reach into its Daily Impulsive targets up (between USD 58 and 65 per barrel), yet the correction that follows could retrace between 8 to 13 USD. Since December, the Energy sector seems to have anticipated this correction down and over the next 3 months could remain one of the weakest sectors overall.