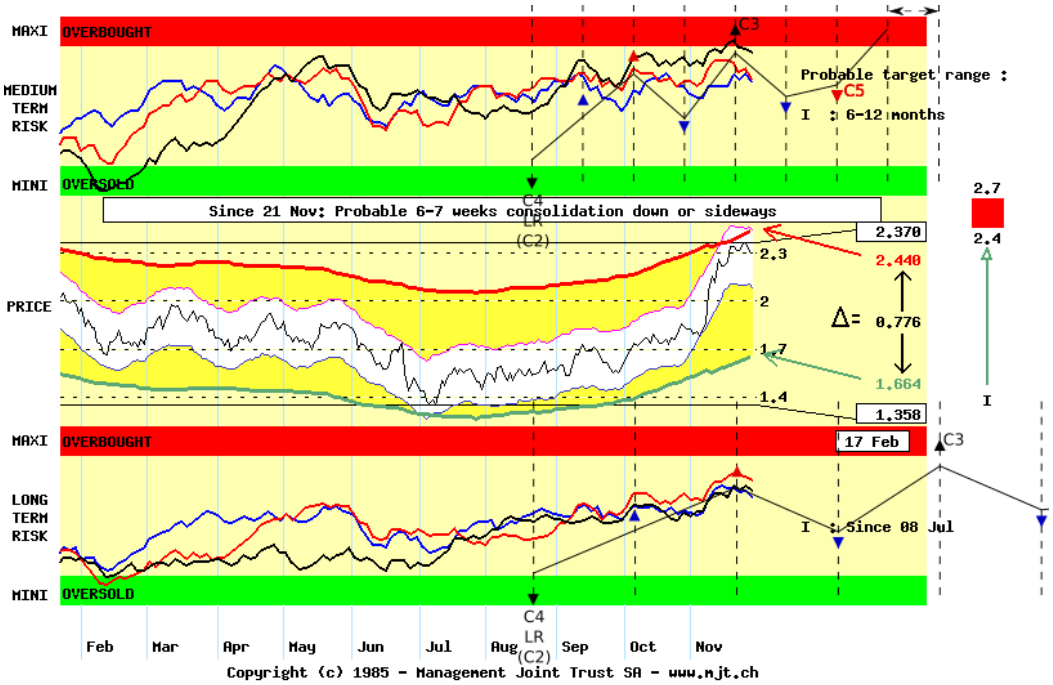
12 / MJT TIMING INSIGHT
Interest rates and inflation expectations:

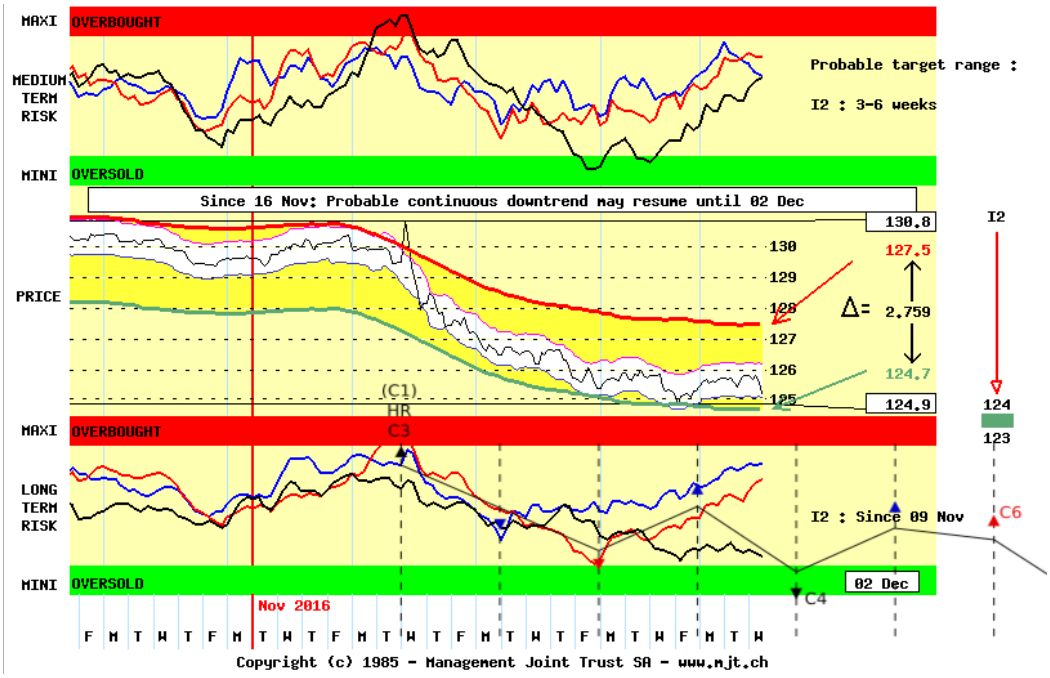
US 10 years Benchmark Bond Yields (Daily chart or the perspective over the next 2 to 3 months):

The recent acceleration on the upside on US interest rates has reached an intermediate top on our long tem oscillators sequence (lower rectangle). Following a consolidation period, which should materialise into December, the uptrend then probably continues into mid February. In this first leg up for interest rates (we expect more upside later in 2017), most of the potential is behind us, as indicated by our price targets (right hand scale). Our medium term oscillators (upper rectangle) give a clue as to how the consolidation could materialise: a first move down into mid December, a higher low in early January and a new leg up towards February.



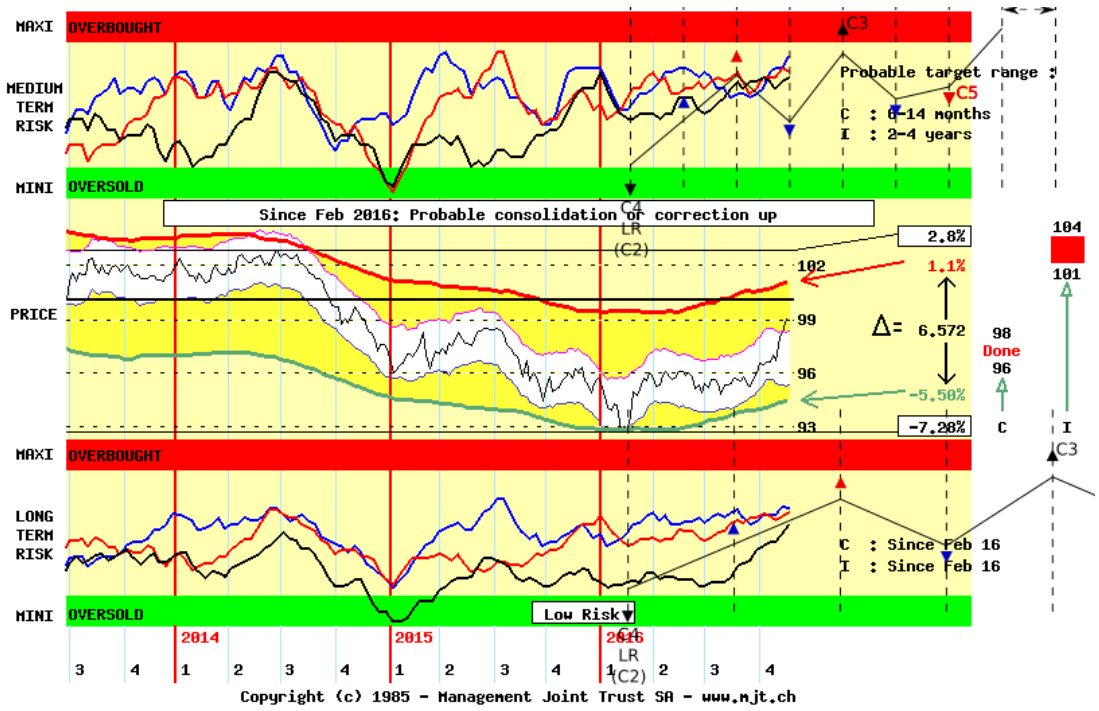
Dec. Treasury Notes 10 years contract (Hourly chart or the perspective over the next 2 to 3 weeks):

The recent government bonds sell-off is close to its Hourly price targets down (right hand scale). It is also approaching an intermediate bottom on our long term oscillators (lower rectangle). From early December, a correction up is expected. It could last a week to 10 days and retrace up towards 127/128 (the upper boundary of our envelope) or circa 30 to 40 bps on the 10Y yields.



Graph 6: TIP - iShares TIPS Bond ETF / IEF - iShares 7-10 Year Treasury Bond ETF (Weekly chart or the perspective over the next 2 to 4 quarters)

This ratio is a proxy for the purchase of inflation protection by investors. It bottomed out earlier this year with oil, and is now accelerating again on the reflation theme. On our long term oscillator (lower rectangle), we expect it continue until an intermediate top is reached in the middle of 1Q2017. Following several months of consolidation, it should then accelerate again in the second half of 2017.



Summary:

Interest rates and inflation expectations should pursue their first leg up into the middle of the first quarter 2017. Yet, our assessment is that a large portion of the move is behind us and that the pace of their ascent should gradually decelerate. Following that, both should correct down into 2Q2017, before resuming their uptrend in the second half of 2017.