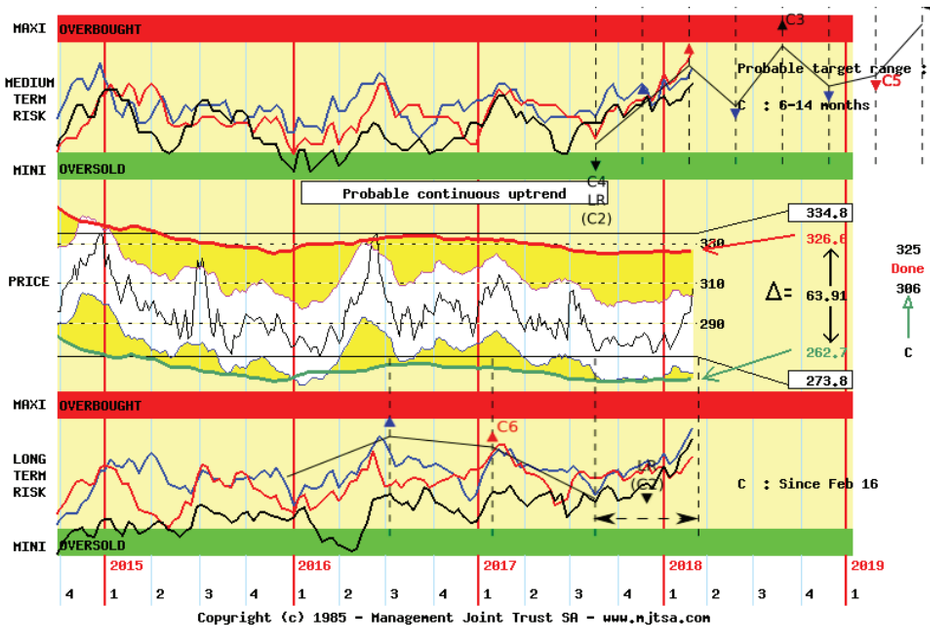
42 / MJT - TIMING AND TACTICAL INSIGHT

Agriculture Commodities are typically late cycle reflationary trades; Grains especially have started to react

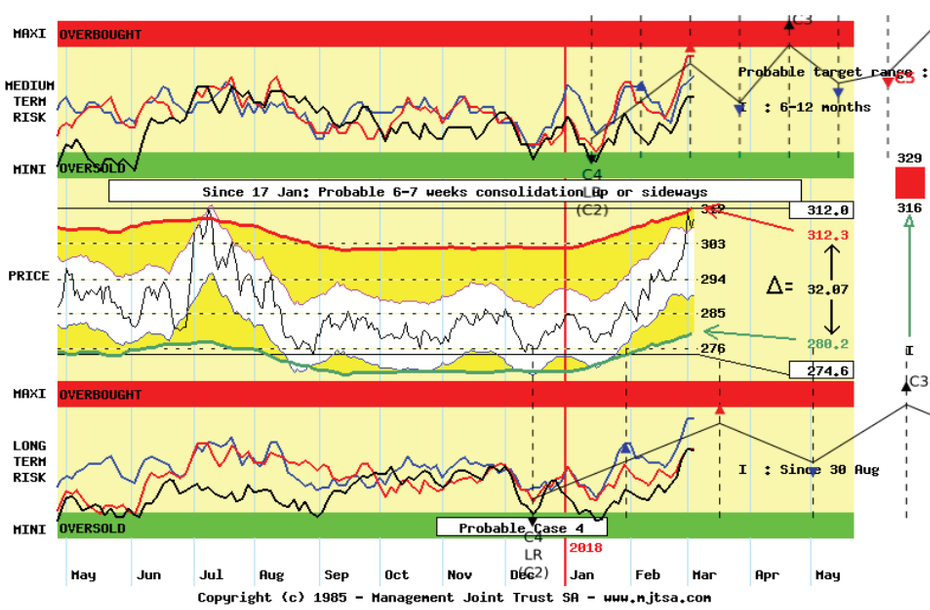
While Oil, Industrial metals and even Gold were strong performers in 2017, most agricultural commodities have remained subdued. Notable exceptions include Cotton and Lumber, which are more pro-cyclical. Yet, over the last couple months, other agricultural commodities have started to move up. In general, Agricultural Commodities are very late cycle reflationary trades, and this is exactly where we believe we are today. We would hence expect that Agricultural Commodities gather further momentum as the year progresses.

Goldman Sachs Agriculture Index
Weekly graph or the perspective over the next 2 to 4 quarters



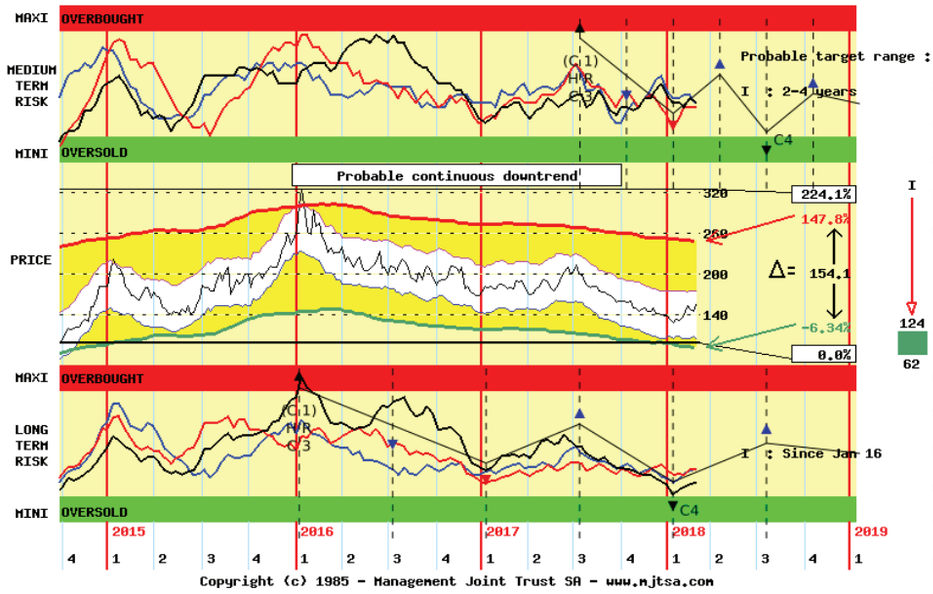
The GS Agricultural Index lingered on lower throughout last year. We believe it has now reached a Low Risk position on our long term oscillators (lower rectangle). Our medium term oscillators (upper rectangle) started to move up mid last Summer. **They have probably reached an intermediate top and could retrace some of their recent gains into late Q1 / early Q2. Following that, we expect the GS Agricultural Index to resume up, possibly until late Summer**. The current trend up for now is still labeled as a correction and it would need to make it above our C Corrective targets to the upside (above 325; right-hand scale) in order to really start accelerating.

Goldman Sachs Agriculture Index
Daily graph or the perspective over the next 2 to 3 months



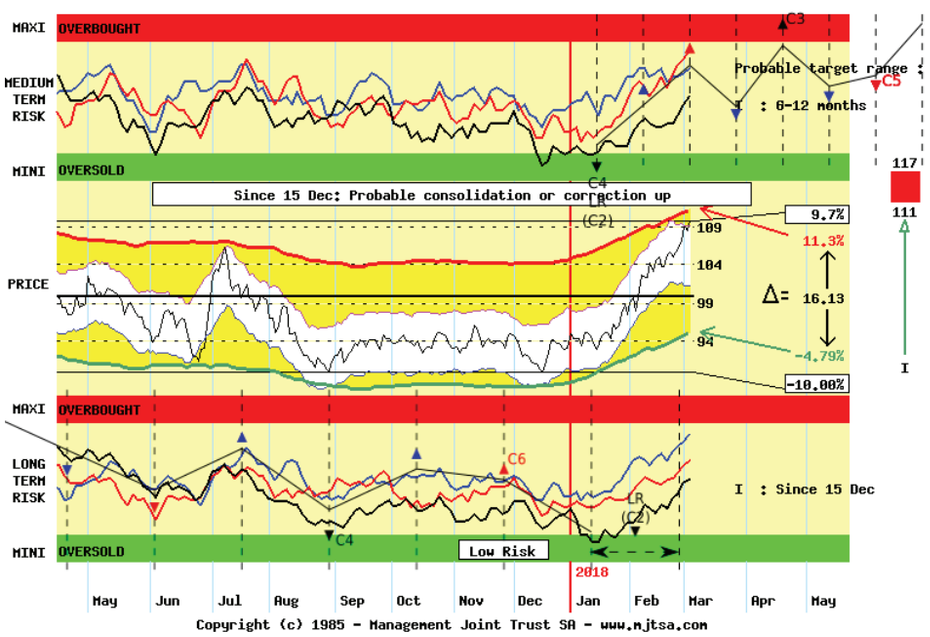
On our Daily graph, the acceleration of the GS Agricultural Index is already visible. It has now reached the lower end of its I Impulsive targets to the upside (right-hand scale) and their higher end still leaves more upside potential towards 330 over the next few months. Once we achieve these levels, we may be able to consider **much higher levels over the next few quarters**. In the meantime, our long term oscillators (lower rectangle) may enter a consolidation until late April, while our medium term ones (upper rectangle) are still quite dynamic to the upside. **Coordinating both, we would expect some consolidation into late March, a neutral situation during April and a new acceleration up during May and June**.

Goldman Sachs Agriculture Index / Brent Oil
Weekly graph or the perspective over the next 2 to 4 quarters



Agricultural Commodities are usually more late stage assets than industrial commodities. They are also less pro-cyclical and hence often appear more defensive. Their ratio vs Oil, for example, has been on the opposite side of the reflationary trade since early 2016. Yet, on our long term oscillators (lower rectangle), Agricultural Commodities may have just made an important intermediate low vs Oil. This may be signaling an important turning point. That said, on our medium term oscillators, one last retest is still possible until early Summer. Coordinating both, we can probably conclude that while **Oil corrects, probably into April, Agricultural Commodities should remain strong on relative basis. Following that, they will probably underperform again into the Summer until they reach a new relative low sometime in Q3 2018. Following that, they could start to take up the lead in the Commodity space.**

Goldman Sachs Agriculture Index / TLT - iShares 20 Year Treasury Bond ETF
Daily graph or the perspective over the next 2 to 3 months



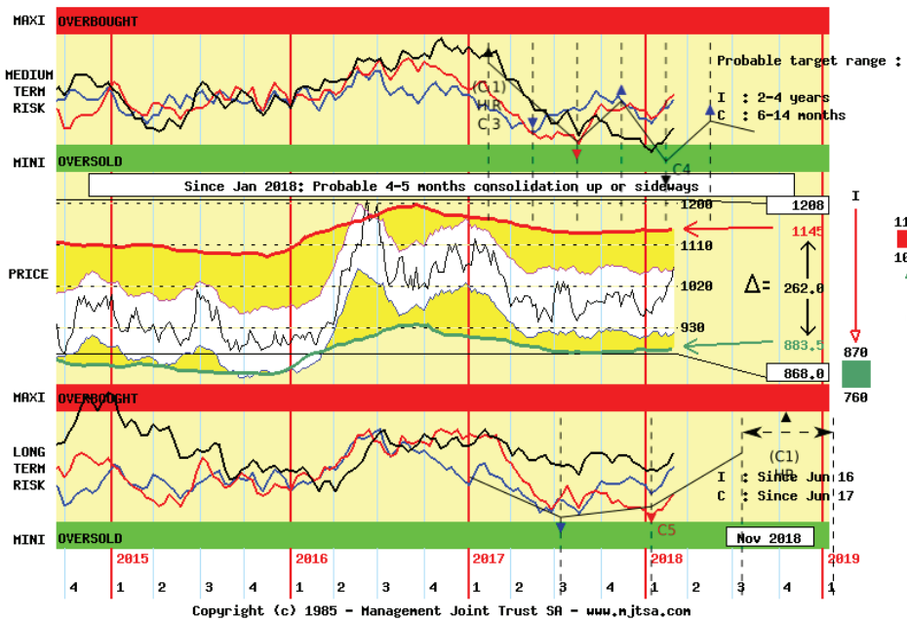
From the graph above, we concluded that Agricultural Commodities were probably less reflationary than industrial commodities (Oil for example). Nevertheless, they are still a reflationary asset. Indeed, on this graph, we compare Agricultural Commodities to long term Treasuries (TLT ETF). As we can see, the ratio has built a base between September and December (Low Risk; lower rectangle) and as for other reflationary assets, it has since accelerated up quite substantially. On our medium term oscillator series (lower rectangle), **the ratio is now in a strong uptrend. It may consolidate down a bit during March, but should accelerate up thereafter, possibly towards mid-year. This is very similar to what we expect on other commodities and more generally on reflationary assets.**

Initial remarks

Agricultural Commodities have recently broken out of their persistent downtrend. We expect this bounce to gain traction over the next few months and possibly continue higher towards late Summer at least. Indeed, Agricultural Commodities are late stage reflationary assets and at some point during 2018, we would even expect them to take on the lead in the Commodity space (probably once industrial commodities such as Oil and Copper, top-out sometime towards early Summer). Shorter term, Agricultural Commodities may correct a bit towards late Q1 / early Q2. They should then be bought (BUY the Dips).

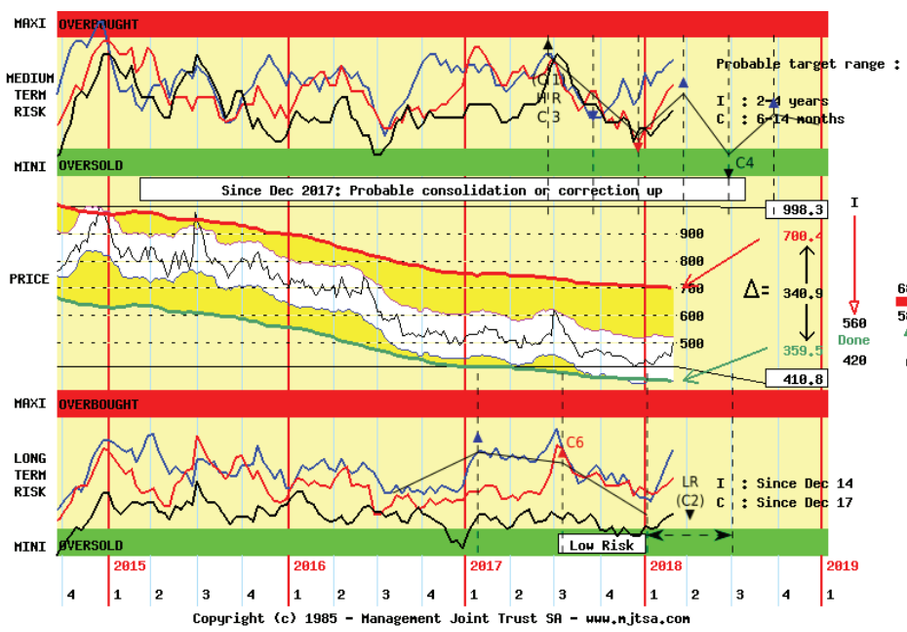
Over the following pages, we will review several Agricultural Commodities. We will start with Grains which have probably reversed up and are showing strong potential over the next few quarters.

Soybeans Three Months (Chicago Futures, Mar)
Weekly graph or the perspective over the next 2 to 4 quarters



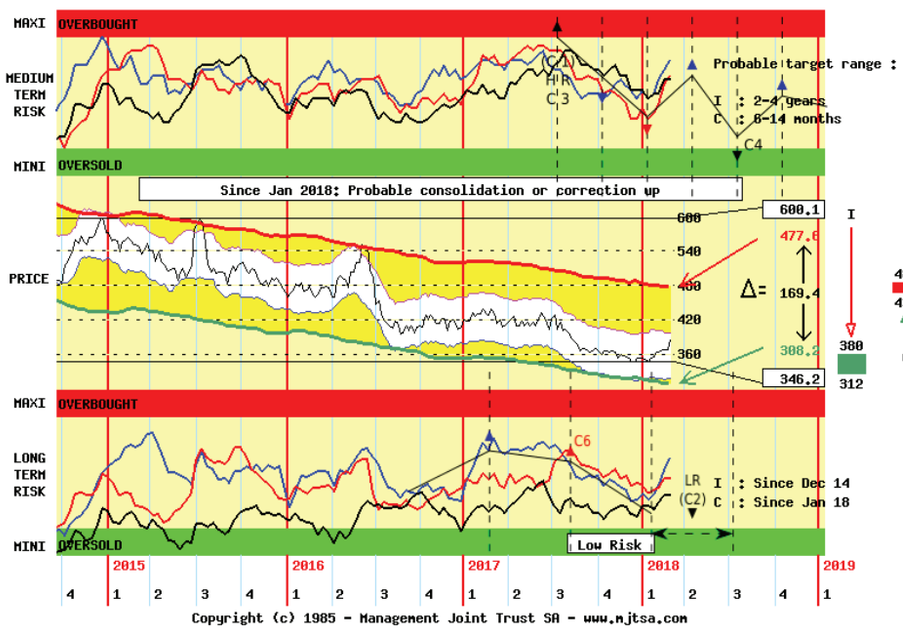
Soybean is currently the strongest of the Grains. It bottomed out in Q2 2017 and formed a base with higher lows towards year-end 2017. Since then, it has been accelerating up. On both our oscillators series (lower and upper rectangles), **we would expect it to continue higher at least into mid Q2 and probably into late Summer.** For now, the move up is still corrective (below the upper end of our C Corrective targets up range at 1'151; right-hand scale). Above these levels, the potential may be much more substantial.

Wheat Three Months (Chicago Futures, May)
Weekly graph or the perspective over the next 2 to 4 quarters



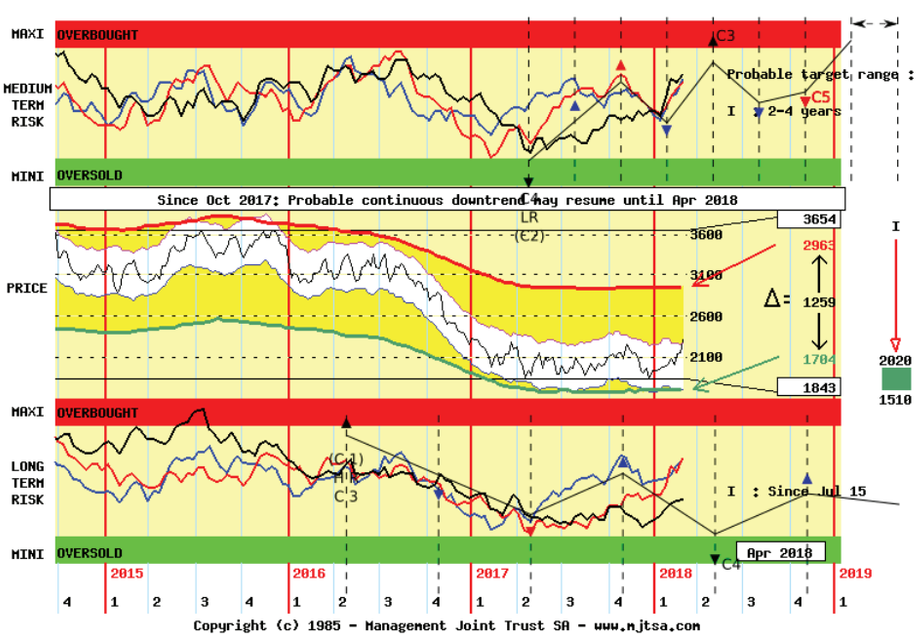
Wheat has been weaker that Soybeans. It took until December 2017 until it eventually bottomed out. Hence, for now, its reaction up is in its early stages. **Our long term oscillators are very low and in a "Low Risk" position (lower rectangle). On the other hand, our medium term oscillators could still justify on last push to the downside into mid-year**. We find some comfort from the fact that risk/reward seems quite advantageous. Indeed, our I Impulsive targets to the downside have bee reached (right-hand scale), suggesting **limited downside risk**, while our C Corrective targets to the upside could justify **between 15 to 25% further upside potential in the current rebound.**

Corn Three Months (Chicago Futures, May)
Weekly graph or the perspective over the next 2 to 4 quarters



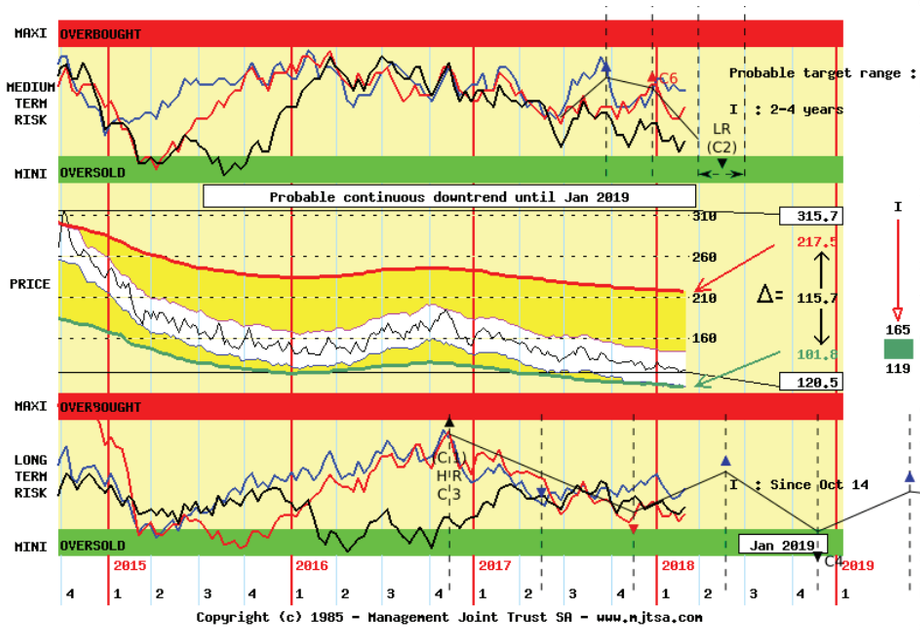
Corn is very similar to Wheat and it did also take until December until it finally started to rebound. While our long term oscillators (lower rectangle) are in a "Low Risk" position, or medium term oscillators (upper rectangle) could still justify one last sell-off towards mid-year. That said, the Risk/Reward on Corn is also quite advantageous. Indeed, our I Impulsive targets to the downside have been reached (right-hand scale), suggesting **limited downside risk**, while our C Corrective targets to the upside could justify **between 15 to 25% further upside potential in the current rebound.**

Cocoa Three Months (Nyf, May)
Weekly graph or the perspective over the next 2 to 4 quarters



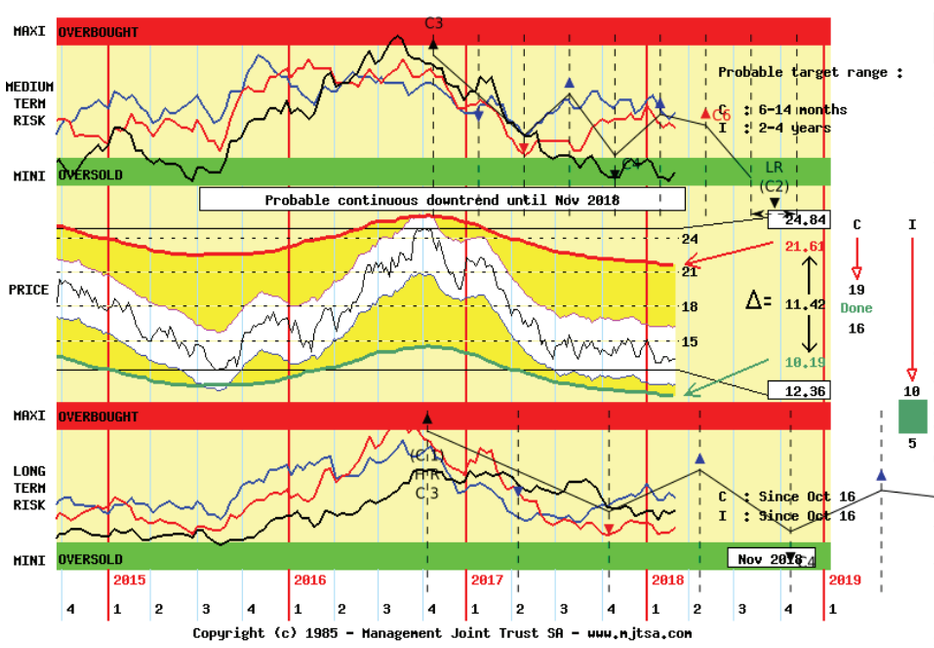
We now turn to the "Soft" segment of Agricultural Commodities and to Cacao, which has been forming a base since Q2 2017 and started to accelerate up from late December 2017. Going forward, the sequence we show on our long term oscillator series (lower rectangle) is supportive until Q4 2018. Our medium term oscillators (upper rectangle) would suggest **some retracement towards late Q2 2018, but in general the trend continues up towards year-end**. Here also, the Risk/Reward seems advantageous. Indeed, our I Impulsive targets to the downside have been reached (right-hand scale), suggesting limited downside, while the C Corrective **potential to the upside we can calculate is between 7 and 25%** (i.e. towards a range between 0.5 to 0.8 times our historical volatility measure "Delta", here at 1'259, added to the low of the graph).

Coffee Three Months (Nyf, May)
Weekly graph or the perspective over the next 2 to 4 quarters



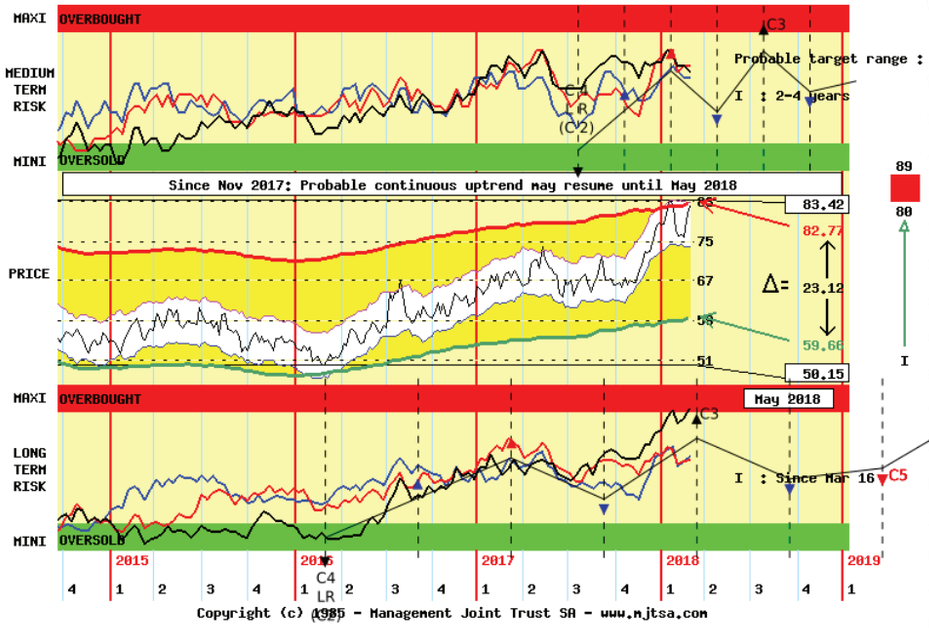
The downtrend on Coffee could also be nearing exhaustion. Indeed, our I Impulsive targets to the downside have now been reached. That said, both oscillator series (lower and upper rectangles) still show some scope for further declines: our medium oscillators (upper rectangle) indicate that the current sell-off may continue into Q2 2018, while our long oscillators may suggest that following a rebound in H1 2018, Coffee resumes lower into year-end. **It is hence still to early to call a reversal, or any significant bounce, on Coffee. This is especially true as for now, prices continue to remain subdued.**

Sugar - World Three Months (Nyf, May)
Weekly graph or the perspective over the next 2 to 4 quarters



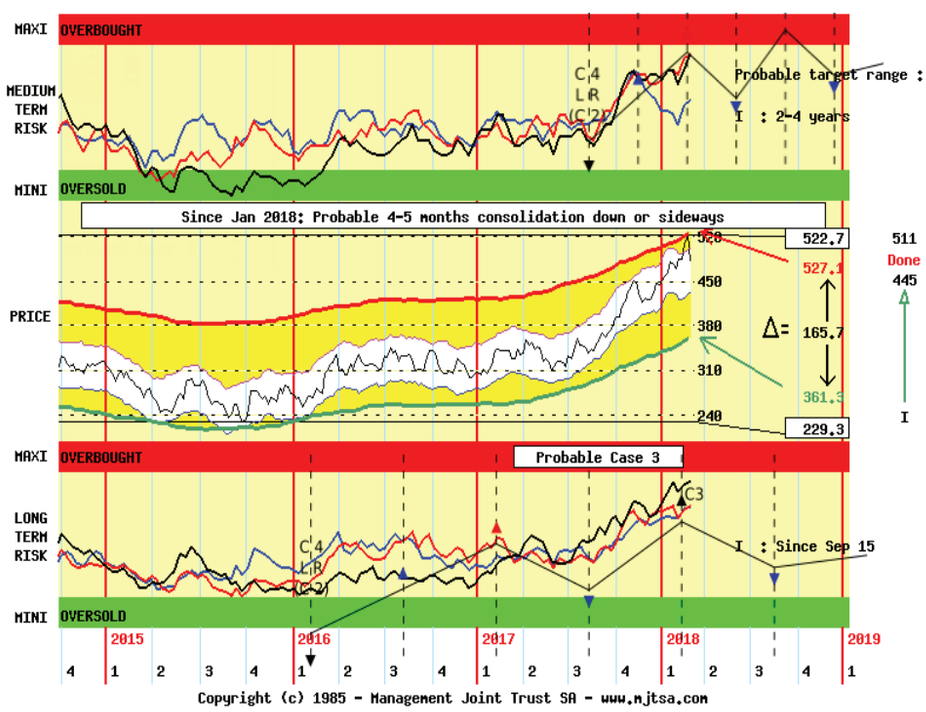
It also seems premature to call a rebound on Sugar. Indeed, on both our oscillator series (lower and upper rectangle), an important intermediate low could have been made early in Q4 last year. For now, the reaction up is non-existent, worse **from early Q2 2018, we would expect Sugar to resume lower towards late 2019. There is also significant downside risk remaining,** possibly below 10, and even towards 5 (circa 50% lower than today) according to our I Impulsive targets to the downside (right-hand scale).

Cotton Three Months (Nyf, May)
Weekly graph or the perspective over the next 2 to 4 quarters



We now switch to a different profile with Cotton, which is one of the more cyclical constituents of the Agricultural Index. Indeed, it started up almost two years ago and its uptrend is already quite mature. On our long term oscillators (lower rectangle), for example, Cotton has reached an important intermediate top, while on our medium term oscillators (upper rectangle), it may correct some during Q1 2018, yet could still accelerate up one more time towards mid-year. On the targets front (right-hand scale), **our I Impulsive targets to the upside could still justify a modest 5% of additional performance over the next couple of quarters.**

Lumber Three Months (CME, May)
Weekly graph or the perspective over the next 2 to 4 quarters



Similarly to Cotton, Lumber started its uptrend more than 2 years ago. It recently reached an important top on our long term oscillators (lower rectangle), while our medium term oscillators (upper rectangle) could see some correction during Q1 2018, before it moves up once more towards mid-year. **Here to, the uptrend is slowly getting exhausted as our I Impulsive targets to the upside (right-hand scale) have now been reached.**

Concluding remarks

The Agricultural sector is hence quite differentiated. Grains and perhaps Cacao have started to bounce, their price potential is compelling and they look promising for the rest of 2018. Coffee and Sugar, on the other hand, are still down-trending, while Cotton and Lumber, following strong uptrends over the last 2 years, already seem quite exhausted with little upside potential left.