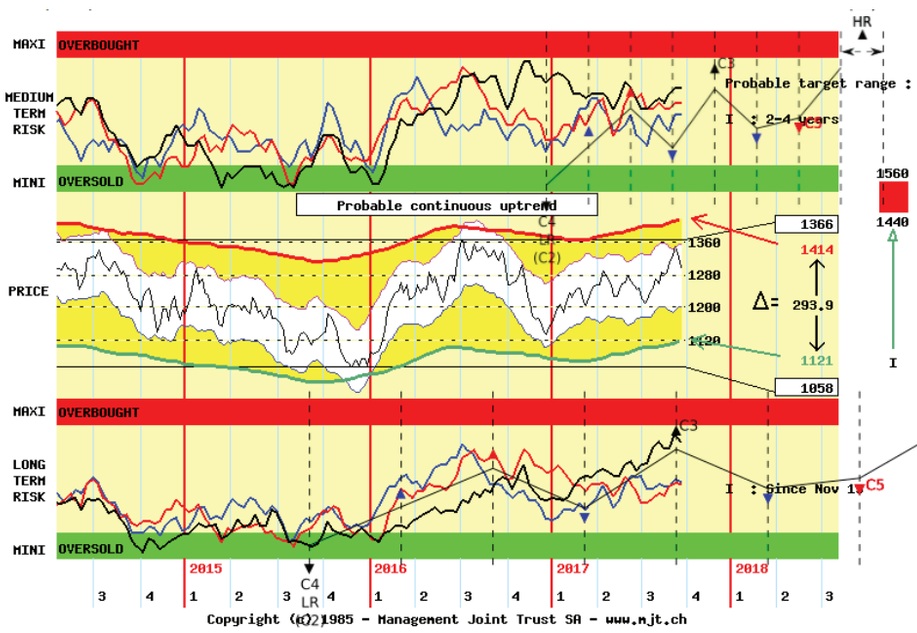
28 / MJT - TIMING AND TACTICAL INSIGHT

One last push from Gold and Defensive assets could provide an ultimate exit opportunity

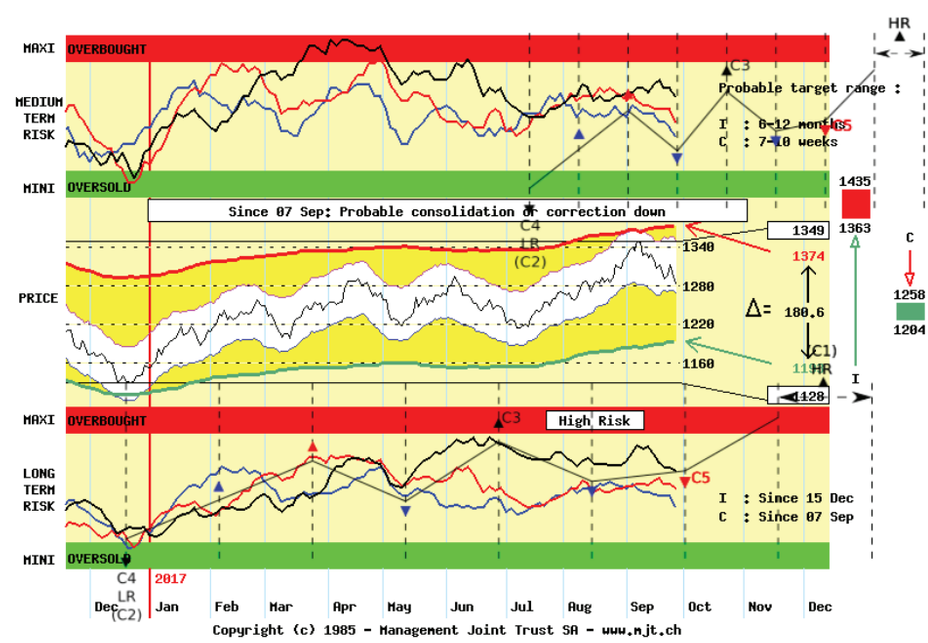
As interest rates and the Dollar have tested and retested lower this year, Gold has made a succession of rebounds. We view this price action since December as a long and gradual bounce. It should start to fade once reflation trades, interest rates and possibly the Dollar start moving up again. In the meantime, we believe there is one last push up for Gold into late October, possibly mid November. It should provide an ultimate opportunity to lock in any year-to-date profits.

Gold Spot (USD/Oz)
Weekly graph or the perspective over the next 2 to 4 quarters



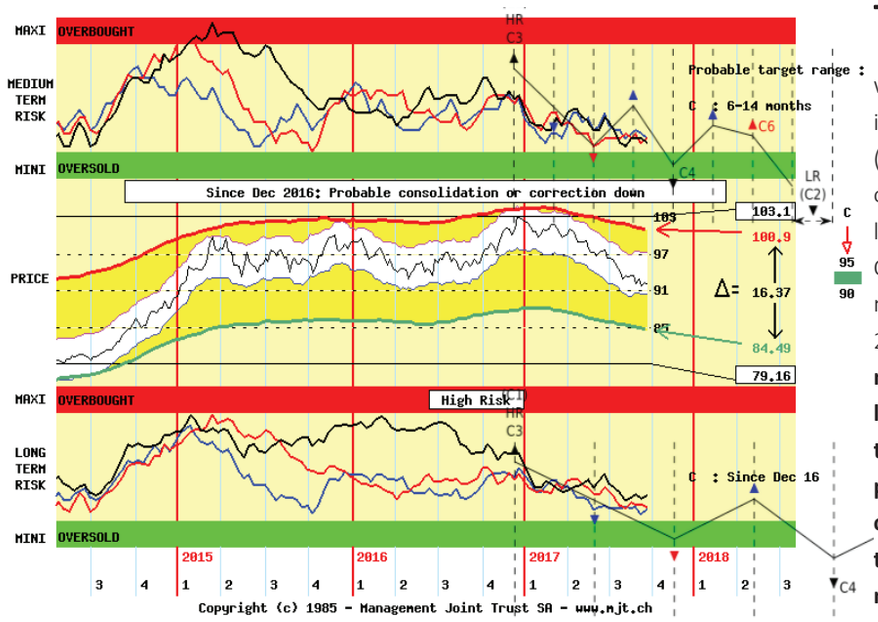
The gradual bounce on Gold since December may soon be coming to an end. Our long term oscillator series (lower rectangle) have indeed reached an intermediate top which should see Gold correct down into the Spring. That said, our medium oscillators (upper rectangles) still leave **some leeway for a last push up towards mid Q4**. If it were to happen, we believe it should be seized as an ultimate take profit opportunity. Our 'I' Impulsive targets up (right-hand scale; middle rectangle) show targets into the high 1'400s and low 1'500s. We believe these seem aggressive and would rather consider that **Gold may re-test its year-to-date highs or possibly reach slightly above them.**

Gold Spot (USD/Oz)
Daily graph or the perspective over the next 2 to 3 months



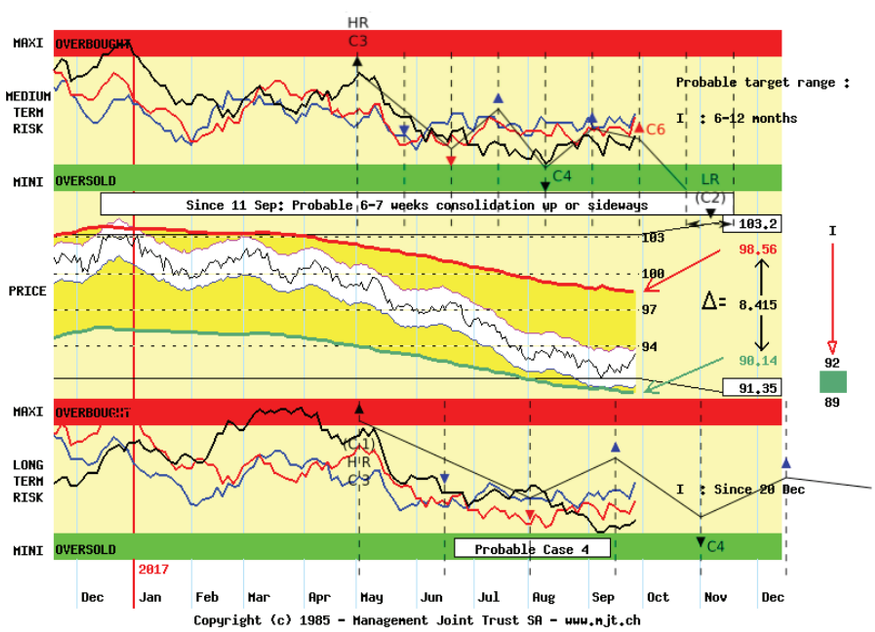
On our Daily graph, our automatic messaging called a High Risk in September and Gold has since been correcting down. We believe that this situation might be transitory and that **both oscillators series (lower and upper rectangles) are calling for an extension up. It should start early October and should move up into late October, possibly even mid November.** If it materializes, we would view this move as an ultimate take profit opportunity. Our 'I' Impulsive targets to the upside (right-hand scale; middle rectangle) are between 1'363 and 1'435 or just above year-to-date highs. On the other hand, if prices were to continue lower, we would consider levels below our 'C' Corrective targets down as possible stop-loss levels (below 1'204 in this case).

U.S. Dollar Index
Weekly graph or the perspective over the next 2 to 4 quarters



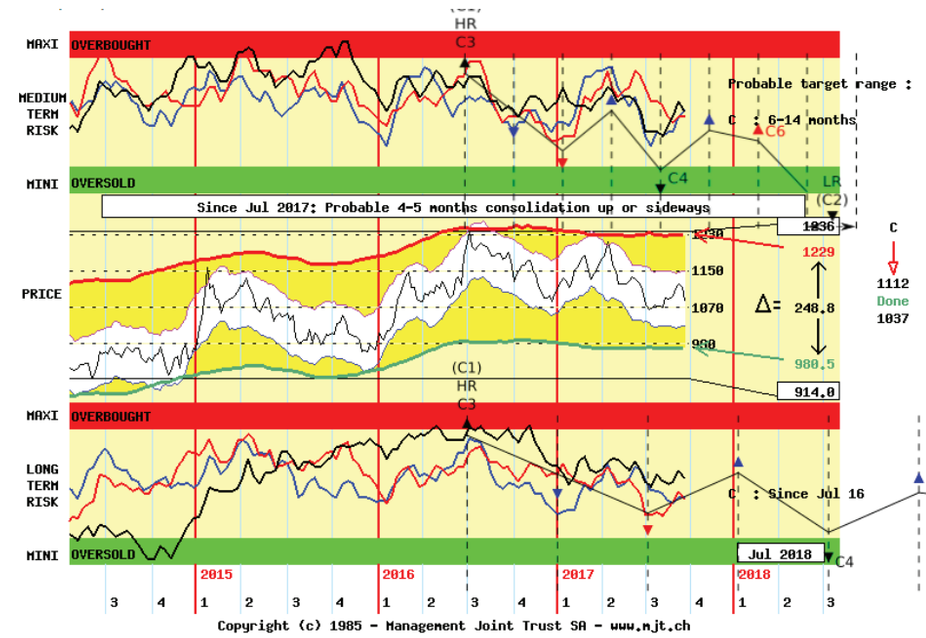
The fate of Gold is closely linked to the Dollar. Usually, the weaker the Dollar, the stronger is Gold. Both oscillator series (lower and upper rectangles) on this Weekly graph point to a lower low on the Dollar into mid Q4 before a rebound can start to materialize towards the Spring of 2018. **We believe that over the next couple of months, the Dollar Index could weaken down to its next support levels represented by the lower end of our 'C' Corrective targets down towards 90 (right-hand scale; middle rectangle).**

U.S. Dollar Index
Daily graph or the perspective over the next 2 to 3 months



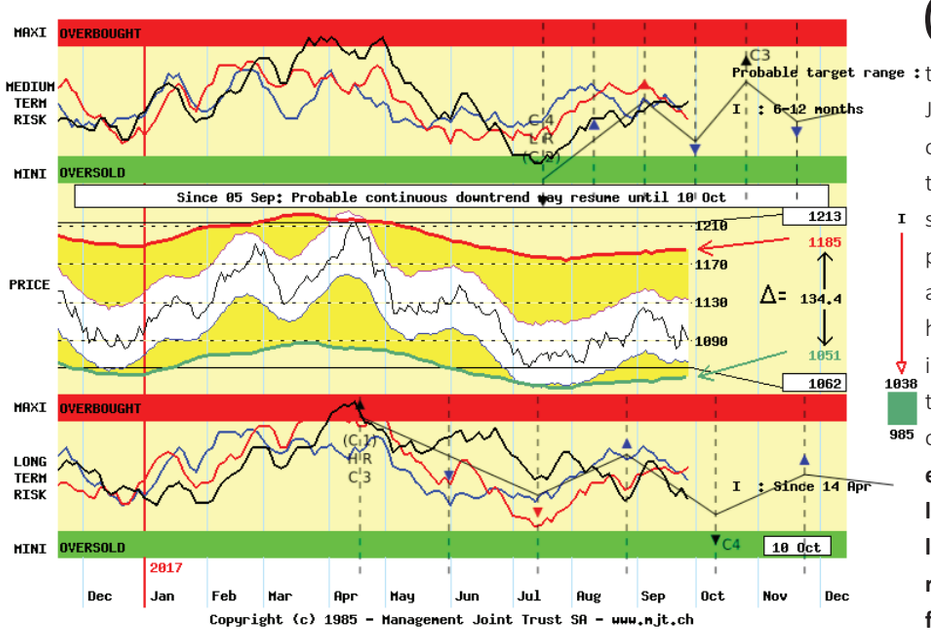
Scoping into the Daily graph of the Dollar Index, we can confirm that our 'I' Impulsive targets down (right-hand scale: middle rectangle) point to a range between 92 and 89, a range the Dollar Index already visited a few weeks back. Yet, according to the sequences we show on both our oscillator series (lower and upper rectangles), **we still believe that the Dollar index can retest down once more into late October, early November, and possibly make new year-to-date lows.**

EUR/GOLD
Weekly graph or the perspective over the next 2 to 4 quarters



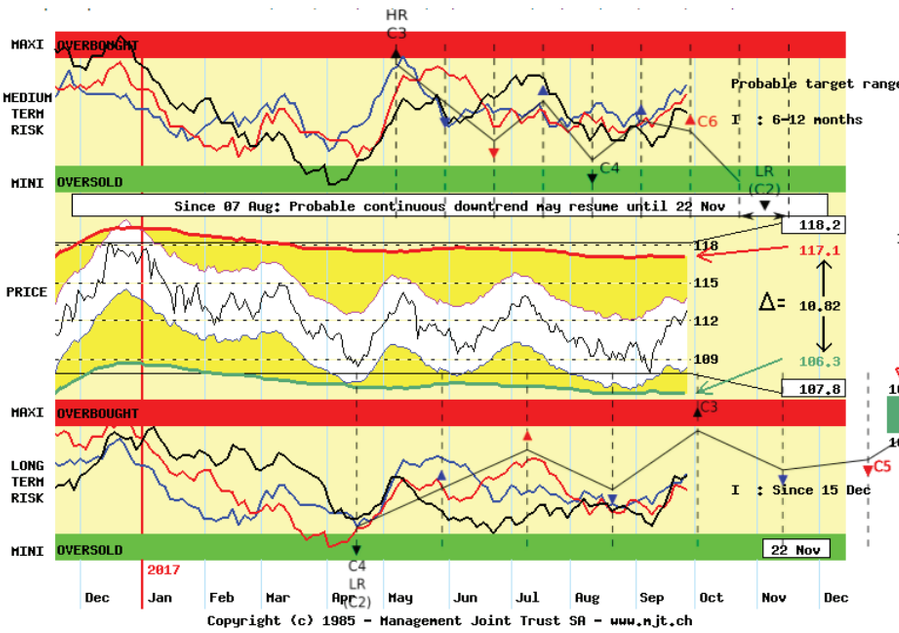
We now strip Gold of its inverted correlation to the Dollar and look at Gold denominated in Euros. This should highlight Gold's real risk-off characteristics, beyond currency moves. The graph is in a downtrend, yet **has been bouncing since mid this year. According to both our oscillator series (lower and upper rectangles) this move upwards should continue towards mid Q4. Following that, the downtrend should resume, probably into mid 2018**. The price targets, which are currently shown are 'C' Corrective targets down (right-hand scale; middle rectangle). Their lower end towards 1'037 Euros/oz serves as an ultimate support point. Below these levels, the bounce since mid year would definitely be over, and Gold in Euros would probably start to accelerate to the downside.

EUR/GOLD
Daily graph or the perspective over the next 2 to 3 months



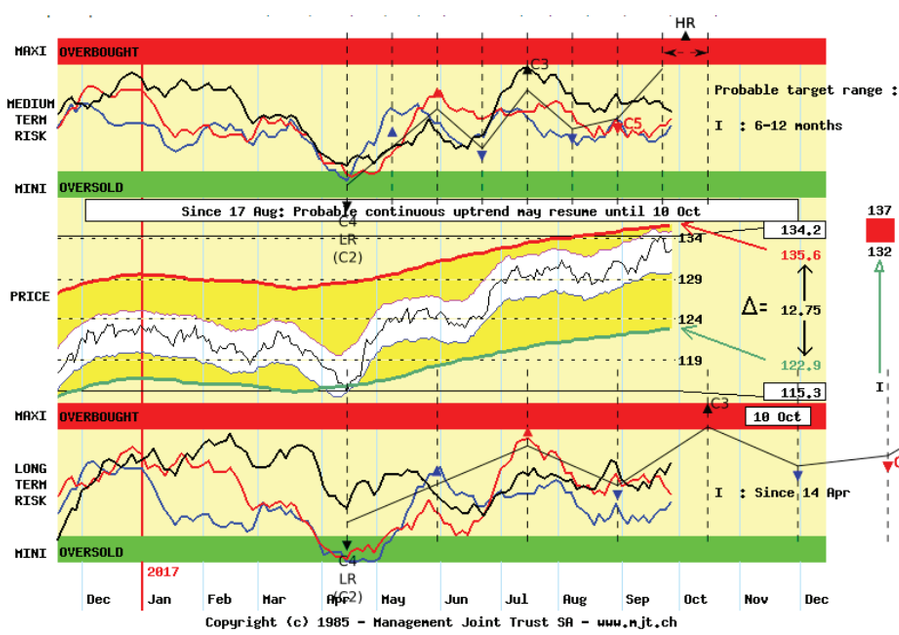
On the Daily graph, Gold in Euros is currently retracing and getting close to its June lows around 1'060 Euros/oz. Our 'I' Impulsive targets to the downside (right-hand scale; middle graph) even point to levels between 1'038 and 985. However, before that happens, we believe that Gold in Euros should initiate another bounce. Indeed, on both our oscillator series, **we would expect possible intermediate lows between now and early October (lower and upper rectangles). The bounce that follows should last into late October, early November.**

Yen per U.S. Dollar
Daily graph or the perspective over the next 2 to 3 months



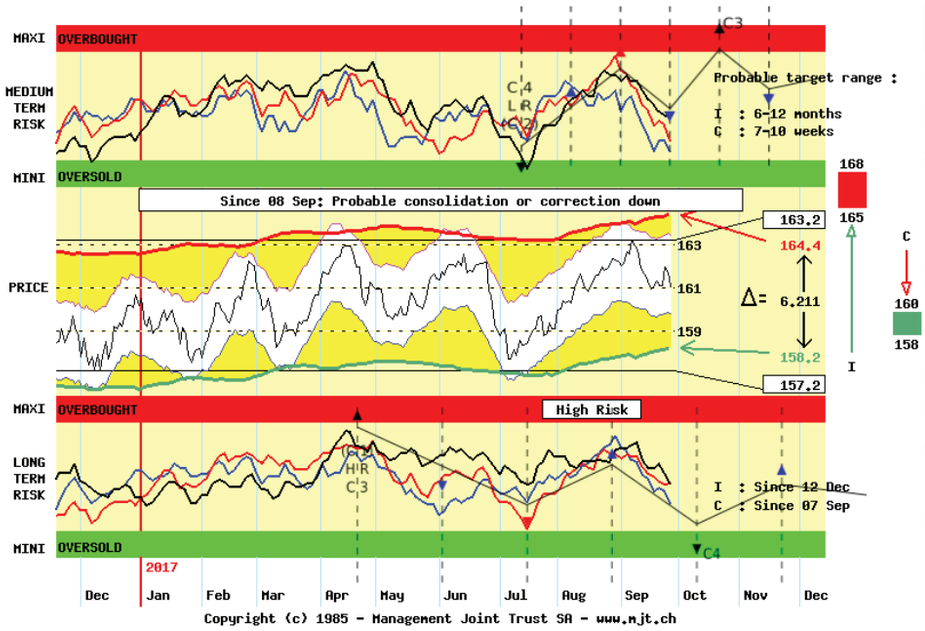
We now turn to USD/JPY. Indeed, the Yen is very much inversely correlated to Gold in USD (i.e. the Yen is also a defensive asset). Hence, when this graph moves lower, Gold should then be moving higher. The last few months unfortunately have been very much sideways. On our long term oscillator series (lower rectangle), we would map a very weak uptrend. On our medium term oscillators (upper rectangle), we show a mild downtrend. Both, however, synchronise into **a top early October and should then be moving lower into late October, possibly mid November.** The 'I' impulsive targets to the downside, which are calculated, are quite scary (down to a 104 – 100 range; right-hand scale; middle rectangle). **We believe that we will first need to retest and break previous low around 108-107 before lower levels can be considered. These projections seem supportive for Defensive assets over the next month or so.**

Yen per Euro
Daily graph or the perspective over the next 2 to 3 months



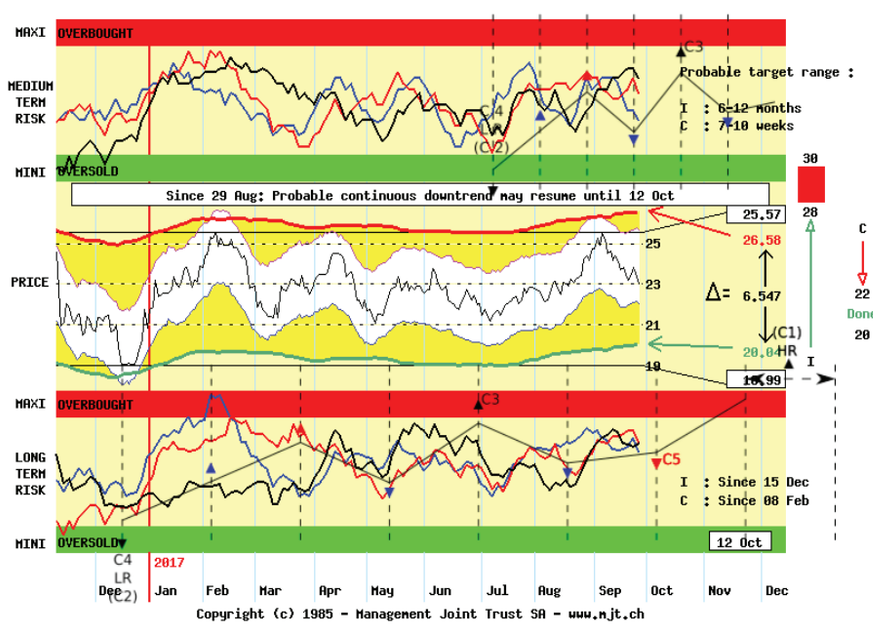
EUR/JPY is also quite revealing of the risk-ON / risk-OFF relationship. When it rises, markets are usually risk-ON, when it falls, markets are usually risk-OFF. On both our oscillator series (upper and lower rectangles), **EUR/JPY is currently approaching an intermediate top between now and early October**. Our 'I' Impulsive targets to the upside have also pretty much been reached (right-hand scale; middle graph) indicating that the current move up is probably exhausted. **The correction to the downside that follows should last 3 to 6 weeks into late October and possibly even mid November. The 'C' Corrective price potential to the downside, we can calculate, is between 6 and 10 figures** (or 0.5 to 0.8 times our measure of historic volatility "Delta", here at 12.75 on the right-hand side; middle rectangle).

Bund Future (Dec)
Daily graph or the perspective over the next 2 to 3 months



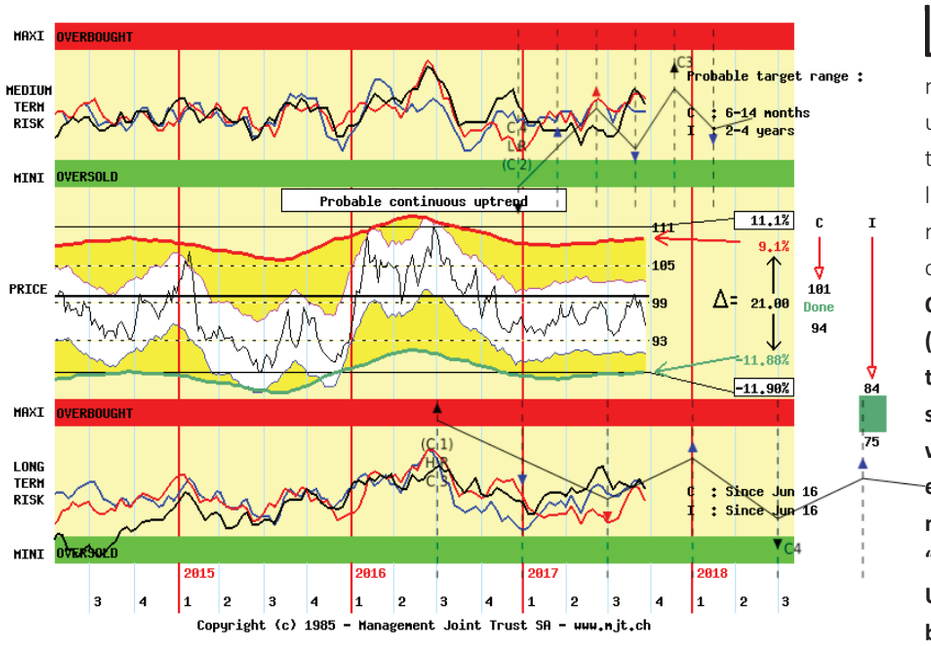
During July and August, the Bund was probably the most defensive asset in the world (strong Bonds, strong Euro) and since early September it has been retracing down (risk-ON). According to both our oscillator series (lower and upper rectangles), **it should soon reach support and resume its uptrend towards late October and possibly mid November**. According to our 'I' Impulsive targets to the upside (right-hand scale; middle rectangle), it may even make new year-to-date highs (between 165 and even towards 168). That said, if the Bund were to move below our 'C' corrective targets to the downside (below 158), markets would definitely be back in risk-ON mode.

GDX - Market Vectors Gold Miners ETF
Daily graph or the perspective over the next 2 to 3 months



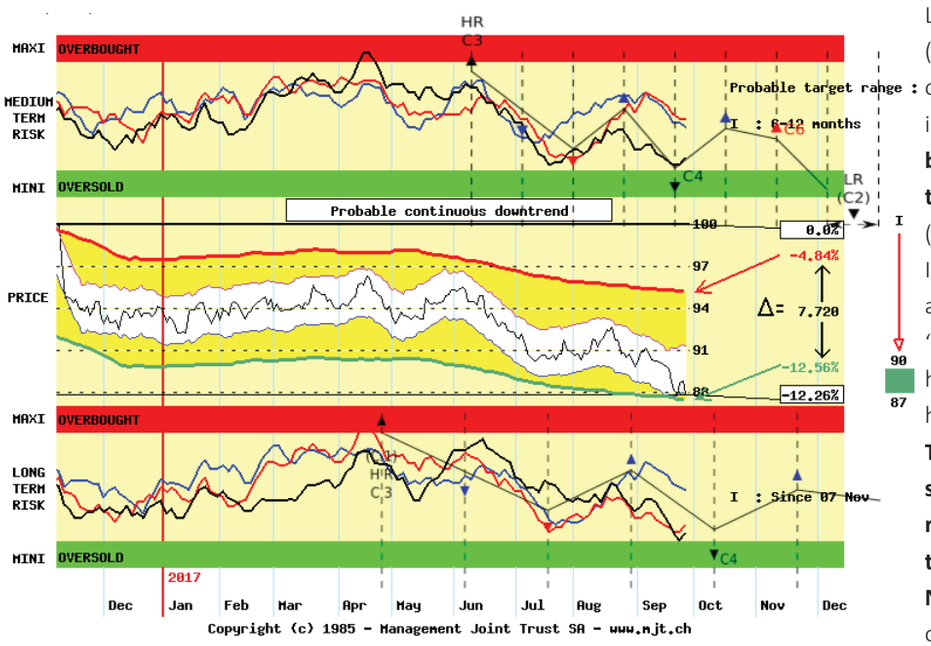
We now look at Goldmines, which are very much correlated to the metal. On both our oscillator series (lower and upper rectangles), they should also find support early October to move up towards late October and possibly mid November. According to our 'I' Impulsive targets to the upside (right-hand scale; middle rectangle), **GDX should have the potential to make new year-to-date highs between 28 and 30**. If on the other hand, it were to move below our 'C' corrective targets to the downside (below 20), we would have to consider that the bounce since last December is most probably over.

VPU - Vanguard Utilities ETF - DNQ vs S&P 500
Weekly graph or the perspective over the next 2 to 4 quarters



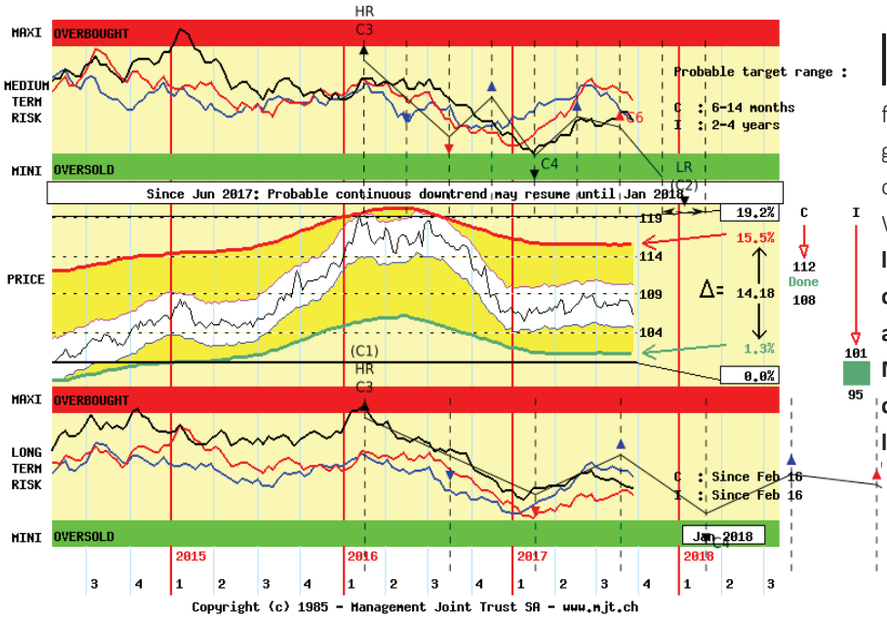
Looking at other Defensive sectors vs the general market, we first consider US utilities vs the S&P500. On this Weekly graph and our long term oscillators (lower rectangle), the downtrend continues until mid next year. **Our medium term oscillators (upper rectangle) are monitoring the gradual bounce since last December. From what we can read it may extend one last time into mid Q4. Following that, it's "resume downtrend" for Utilities vs the market on both oscillator series**. The 'I' Impulsive underperformance potential is important, between 10% and 25% into mid 2018 (right-hand scale; middle rectangle).

XLP - Consumer Staples Select Sector SPDR Fund vs SPY - SPDR S&P 500
Daily graph or the perspective over the next 2 to 3 months



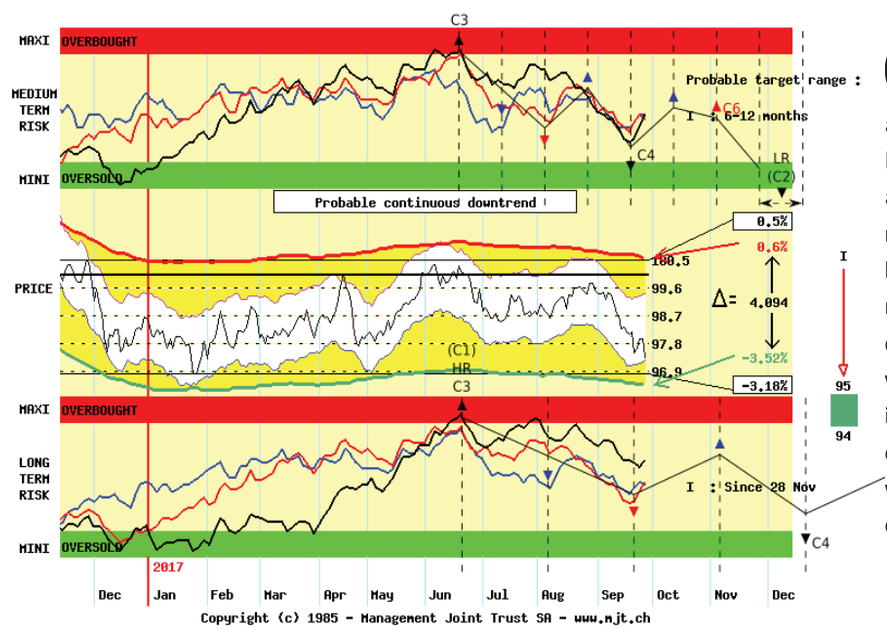
Looking at the similar graph (Staples vs the S&P500), yet on a Daily basis, we would identify **an intermediate low between now and early October** on both oscillator series (lower and upper rectangles). In terms of targets, the move also looks exhausted with our 'I' Impulsive targets down having been reached (right-hand scale; middle graph). **The low we expect should serve as a base for the last rebound up we are anticipating into late October, early November.** The corrective outperformance potential we can calculate for this rebound is between 4 and 7% (using our historical volatility delta; right-hand side; middle rectangle). Again, we believe that **such a rebound would be an ultimate profit taking opportunity, before Staples resume down in earnest vs the market.**

AMUNDI ETF MSCI Europe Minimum Volatility Factor UCITS ETF vs AMUNDI ETF MSCI Europe UCITS ETF
Weekly graph or the perspective over the next 2 to 4 quarters



In Europe, we like to compare the Minimum Volatility ETF from Amundi vs the European general market to capture defensive behaviour. On this Weekly graph, **the rebound looks over already on both our oscillator series (lower and upper rectangles), and Minimum Volatility should continue lower towards early 2018 vs the market.**

AMUNDI ETF MSCI Europe Minimum Volatility Factor UCITS ETF vs AMUNDI ETF MSCI Europe UCITS ETF
Daily graph or the perspective over the next 2 to 3 months



On the Daily graph however, we are approaching an intermediate low on both oscillator series (lower and upper rectangles). **Minimum Volatility should hence bounce vs the general European market towards late October, early November, before it resumes its downtrend towards year-end. Again, such a bounce would represent an ultimate exit opportunity.**

Concluding remarks

We believe defensive trades should bounce during October (Bonds, Yen, Defensive sectors vs the general market). We would also expect that the Dollar initiates a last move down into late October / early November. The interaction of both effects should allow Gold to rally once last time in USD, probably into the high 1'300s, before it starts to consolidate down into next year. More generally, we would see this October bounce on defensive assets as an ultimate exit opportunity, before the reflation trades start to accelerate up towards next year, and defensive trades underperform.