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A DC&C publication,
featuring MJT's timing methodology

DC&C
DIAPASON CURRENCIES & COMMODITIES

MJT

DIAPASON CURRENCIES AND COMMODITIES MACRO ANALYSIS

A Monthly Macro and Asset Review

Featuring MJT's Timing Methodology

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«Monetary policy also operates with the lag and experience suggests that tightness in the labor market gradually and with the lag tends to push up wage and price inflation and that's also a risk, that we want to be careful not to allow the economy to overheat in a way that would force us later on, somewhere down the road to have to tighten monetary policy rapidly which could cause a recession and threaten the very desirable labor market conditions that we have now.»

Janet Yellen, Chair, Federal Reserve,
Q&A post-FOMC Sept. 20 meeting

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4/ Executive Summary

8 / **So, the Fed will start reducing its balance sheet in October - what does that mean, and what happens next -** As a major tool to help the US economy recover from the Great Financial Crisis, the Federal Reserve purchased bonds as a way to stimulate the economy. Then Fed Chair Ben Bernanke explained the policy, known as Quantitative Easing, in 2010, as a way to create easier financial conditions which will promote economic growth. The current level of the Fed`s balance sheet is circa $4.5 trillion. The other global central banks have slightly bigger or smaller balance sheets, except for the Bank of England which stopped its QE program after 6 years (in 2014) – its QE stimulus was comparatively smaller. Fast forward 8 years; the wealth creation objective succeeded up to a point where equity valuations are now stretched, and the prospect of mean reversion looms large in the minds of all investors (and some Economics Nobel Prize winners). At this juncture, the Federal Reserve announced a specific strategy to reduce the size of its balance sheet by letting the bonds mature, a process called balance sheet normalization, starting in October. It had the financial world atwitter, and there were dire prognostications of impending huge takedown of the global stock markets and other risk assets which benefitted from the programs. However, we have a slightly different take on the issue. We believe that this notion is not totally correct, especially as the argument revolves around the balance sheet of the global central banks. Here is how we see it: when you have a humongous amount of money involved in the equation, the force of logic can be malleable. Consider this: if I "win" at a game in which the rules have been temporarily suspended, it's not "realistic" of me to expect that the results should remain the same if I keep playing and the original rules are reinstated

11 / **Timing and Tactical Insight - Equity markets are looking strong towards 2018, yet following the nice September bounce/extension, we would advocate prudence again as we move into October –** As we write the articulations we projected over the last months have materialized (down in August, up in September). Going forward, we are still very much Bullish on all equity markets into the Spring of 2018. We would prefer Europe and Japan to the US, especially from mid Q4 when we expect the USD to start to strengthen again. In Emerging markets, we would overweight oil & commodity producers vs importers. However, shorter term, we believe the risk/reward on most markets over the coming 3 to 6 weeks is disadvantageous. We would expect a 3 to 6% correction to the downside in the US and Europe, probably into late October, early November.

18 / **The monetary world is tightening quickly – all that change will be cemented by a Fed rate hike in December -** The monetary world is changing, and a lot of observers are perplexed as to the reason why central banks are tightening. We have to understand this, as we ran the risk that the world has changed and we are not aware that it had. Embedded in the situation is the likelihood and the extent which central banks are trying to free up policy room to cope with the next growth downturn. . It is bad enough that the Fed is still wedded to the Phillips Curve, but it is also evident that the decades-old relationships which serve as its core tenets have changed and that there are now significant time distributed lags separating inflation and unemployment. Critics of the Fed may be missing the point – the Fed is feigning confusion about inflation and is instead focusing on the heated up job market situation. They already have decided to tighten whatever happens so as to free up some countercyclical wiggle space which they will need to combat the next growth crisis. Many observers now peg the chance of a rate hike in December at 75%. We believe the odds are even higher – close to 100%. We believe that the jobs market will still be functioning well into Q4, so that still provides cover for the central bank. The clincher will be the level of inflation at that time. We believe that inflation will start rising in Q3 and will be the significant factor for a Fed decision to tighten in December.

20 / **Timing and Tactical Insight - Reflationary assets may re-test down in October, but should re-accelerate upwards towards year-end –** Over the last few weeks, many reflationary proxies and interest rates have started to move up again. Although these developments are promising for cyclical and reflation trades from mid Q4 towards early 2018, shorter term, our Daily graphs are suggesting that a further re-test to the downside is likely into Q4, before the acceleration up really kick-starts. Similarly US Financials and European Banks are approaching intermediate tops early October on. The corrections to the downside should last into late October, early November with a downside risk of 7 to 12%.

The Capital Observer editors team, London / Geneva, September 29th 2017
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5/ Executive Summary

26 / **Gold is an asset governed by macro data – news flow may push gold to adopt safe haven roles, but in the end it is the "anti-Dollar" -** What do we do with Gold? There are so many facets about Gold that investing in it requires a matrix of data even to just begin understanding it. It can, of course, be a safe haven destination. Lately, gold has been responding to geopolitical events out of the Korean Peninsula. Gold is also bound to the vicissitudes of economic growth and activity, as much as equities or bonds are. We all know that gold is negatively correlated to GDP growth-- the perfect antithesis of equities. This is what makes gold attractive as part of an asset allocation. In addition, gold negatively correlates to looser financial conditions – which is to say that we do not need to wait for hard GDP data to make decisions regarding any gold investment. We just need to determine how loose or tight US financial conditions are. It so happens that Gold correlates very well with the St Louis Stress Index, a metric published regularly by the St Louis Federal Reserve Bank. As far as its outlook is concerned, the "anti-Dollar", gold, could finish its current short term correction into the 1275/1260 range – at which point the mini-risk on phase ends, and the next risk-off phase begins. This risk-off stage could be brief as well – we expect it to end sometime in mid Q4 2017.

28 / **Timing and Tactical Insight - One last push from Gold and Defensive assets could provide an ultimate exit opportunity –** 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.

35 / **Oil is performing strongly, leading the reflation trade, however product prices are weakening, could that lead to some temporary consolidation? -** In September, Oil prices gained strongly, having largely benefited from an improvement in perception that Opec led production curbs are working and that we are witnessing a tightening in the supply-demand balance. With such performance Oil is joining the base metals, leading the way into what we view as the early stage of a reflation Wave 2, that we anticipate will become even clearer in the second part of Q4. However, looking at the overall sector dynamic we can't help to notice that Gasoline consumption and gasoline production have peaked; refinery crude oil inputs have collapsed. The crack spread has narrowed sharply after spiking due to Harvey, and gasoline prices are plummeting. So, we ask the question: Could the oil price consolidate over the next few weeks? As we have oftern noticed, the prices of oil products simply respond more efficiently or quickly to perceived changes in the underlying conditions of the oil market. Hence, the quicker response to underlying conditions.

38 / **Timing and Tactical Insight - Oil should retrace during October before it resumes its uptrend towards year-end –** Following its reversal and 3 months rallying since June, Oil has reached an intermediate top, which should see it correct into late October, early November, This retracement should be experienced on all oil related trades and should also affect higher beta segments within the Energy sector on a relative basis. That said, we believe this retracement period in only transitory and that from November, Oil should accelerate up again towards year-end and early 2018. High beta segments (Exploration & Production, Oil Services, NatGas equities) and oil related currencies will probably be great addition to a portfolio during that year-end period.

45 / **Splicing the markets – Secular rotations between Cyclicals, Growth and Defensives in the US equity markets -** Throughout this late September issue of The Capital Observer, we have repeatedly outlined our view that cyclical and reflation trades should see an acceleration from mid Q4 to early 2018. The move may be strong, especially as the timeframe is quite short. From the Spring, we would expect some rotation back into Growth, before the markets starts to top-out mid next year and Defensive profiles start to outperform into 2019.

The Capital Observer editors team, London / Geneva, September 29th 2017
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6/ Mapping the markets (part I)

General comment

Last month (late August) we wrote that the correction to the downside initiated early August had probably finished a first leg down. We expected that risk assets should bounce or extend into late September or early October, before a new risk off phase could materialize into mid October / early November. We believe that this scenario, expressed back then, is still correct.

As we write US markets are still making all-time highs, while Europe and Japan are continuing to rally towards, or into, their year-to-date highs. Interest rates have also made strong rebounds, while oil saw an almost 20 % rally from its through late August into its peak earlier this week. All these developments are very promising and many voices have joined us over the last few weeks in calling the re-acceleration of reflation trades. That said, we believe that as we move into mid/late October, some of them may be deceived.

Indeed, risk/reward on equity markets seems stretched again, and Oil has probably just started a period of intermediate correction (thereby joining China and Industrial metals, which peaked a few weeks back). We hence expect that over the next week a so, risk and reflation assets could top-out again and enter an intermediate correction that may last into late October and possibly even mid November. During this period, assets that are currently defensive, such as Gold, Treasuries, the Yen or the Euro should make a last push to the upside. Most of them could even reach new year-to-date highs. Then, coming late October / early November, they should start to correct down or resume their existing downtrends towards H1 2018. On the other hand from November on, we would expect reflation trades to start accelerating up again towards early next year.

Equity markets

Volatility

As planned last month, VIX retraced down towards its base into mid/end September. We believe it is bottoming out again and it should see a new bounce materialize over the next couple of weeks.

World markets
p 11, 12, 13, 15, 16

The extension/rebound we expected on equity markets last months has materialized. We believe that world equity markets should top out again over the next week or so and start retracing into late October, early November. The downside potential during this period on major equity indexes is possibly between 3 and 6%.

Regional picks
p14 - 16

We expect the Euro and the Yen to extend to the upside once more during October. While all major equities should see a correction, European and the Japanese markets should hence underperform once more during this period. Coming November, the Dollar should initiate a more sustainable rebound as reflation trades re-accelerate. Equities in Europe and Japan will then break their glass ceiling to substantially outperform the US into early 2018.

Emerging markets
p 17, 38

China and especially Commodity related countries are our favorite Emerging markets towards year-end and early 2018. Yet, during October, as Commodities correct to the downside, they should also experience some temporary underperformance. On the other hand, commodity importers (such as India, South Korea, Mexico), should see a relative bounce.

Relative Sectors
p 25, 32- 33, 40- 46

Defensive sectors should make a come-back as markets retrace during October. Reflationary sectors such as Industrials, Materials, Energy or Financials should suffer temporary underperformance. Come late October, early November, the rotation should shift back as reflation trades start to reaccelerate towards year end.

Profiles/Themes
p 21, 34, 45, 46

Following their strong bounce during September Value, Size, High beta should retrace back into late October, early November, while Growth, Min Vol and Defensives should make a comeback. From November, the rotation shifts back to reflationary and pro-cyclical themes, probably until yearend or early 2018.

Interest rates

US rates and Yield curve
p 22, 23, 24

Given the retracement we expect on risk assets during October, US Treasury yields should see further retracement into end October. Following that, yields should position themselves to the upside until year-end and early 2018.
The US yield curve spread (10Y - 3M): it will continue to flatten during the October, early November risk-off period. Following that, we would expect the yield curve to start steepening towards year-end.

Other countries
p32

Yields and Yield curves in other developed countries are following similar dynamics as in the US, yet with a more positive tilt. For example, in Europe and Japan, 10Y yields are approaching their year-to-date highs, while the shorter term tenures are still well below them. Hence, their yield curves are already getting steeper again. That said, we would also expect some retracement on these during October.

7/ Mapping the markets (part II)

Credit
p20

High Yield should follow equity up during September and could consolidate down again with them into October.

Rate Differentials

The US yield should curve continues to flatten, at least for the next couple of months, while in Europe and Japan, the Yield curves are already steepening again. Hence, the US vs Eurozone and Japan short term rates differentials (2 years tenures) are starting to move up again, while the long term rates differentials (10 year tenures) are still retracing.

Tips
p 20

The ratio of TIPs vs Treasuries has seen a nice bounce in September. It may retrace down again in October as inflation anticipation ease, before it re-accelerates up towards year-end. On an absolute basis, TIPs are following Gold and Treasuries, and could hence extend up, possibly into mid Q4.

Commodities

Oil
p 39

Oil made a further leg up towards late September as we had planned. It should now retrace again into October (support is probably towards the August highs), before it re-accelerates up again from November to early 2018.

Industrial metals

Their intermediate top came in with China early September. They should now continue to retrace, possibly into late October, before they re-accelerate up towards year-end.

Gold & PMs
p 28, 30, 32

During October / early November and the last retracement down we expect on reflation assets, Gold could make a last acceleration to the upside. It could reach into the high 1'300s. We expect this timing and these levels to offer a last exit opportunity, before Gold starts to correct down into 2018. Silver has bounced versus Gold, yet may still see a last downside re-test against the golden metal into October.

Agriculture

We believe that Agricultural commodities are still the weaker commodity segment into year-end.

Foreign Exchange

Dollar Index
p 29

Last month we expected a slight bounce into September for the Dollar. Yet, we still believe that it will now resume its downtrend, possibly into late October / early November. Following that, the Dollar could start to bottom as reflation trades finally reverse and start to accelerate up towards year-end (the Dollar is the more reflationary of the top 5 currencies).

Euro
p 13- 14, 31

The uptrend on EUR/USD may be getting somewhat exhausted, yet we would still expect one last push up vs the Dollar into late October, early November. Vs other majors, the Euro should see some retracement vs the Yen in October, a failed attempt to revisit recent highs vs the Pound and a last extension up vs Swiss Franc.

Yen
p 16, 31

Last month we expected the Yen to remain weak into the second half of September, possibly early October. We then also mentioned, that during October, it should move up again with other defensive assets. We still believe this is the case. Following that, from late October / early November, it should start to weaken substantially towards year-end as reflation trades re-accelerate.

Sterling

As planned last month, the Pound rallied vs all other majors in September. We believe it should retrace some of these moves into October, yet without reversing them. Indeed, the re-rating of the Pound seems underway and it looks rather strong vs all other majors towards next year.

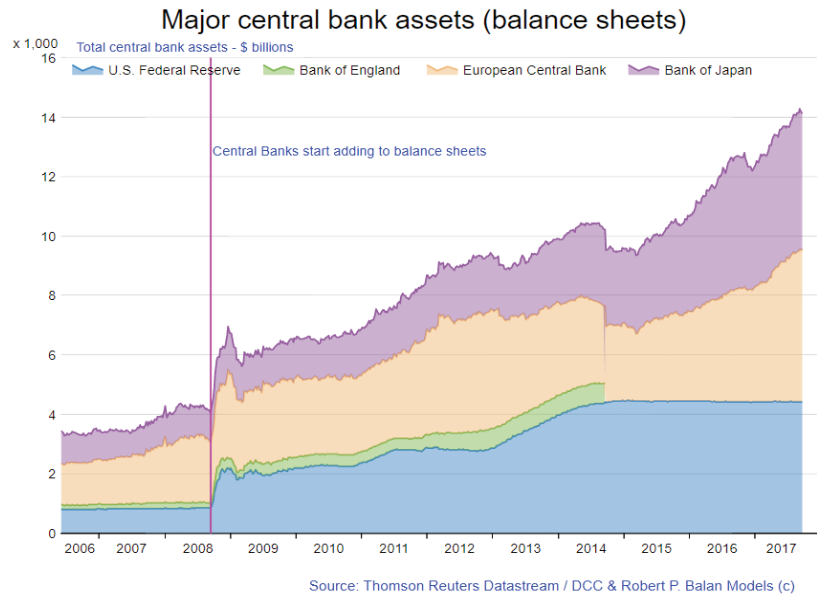
Oil & Commodities currencies
p 44

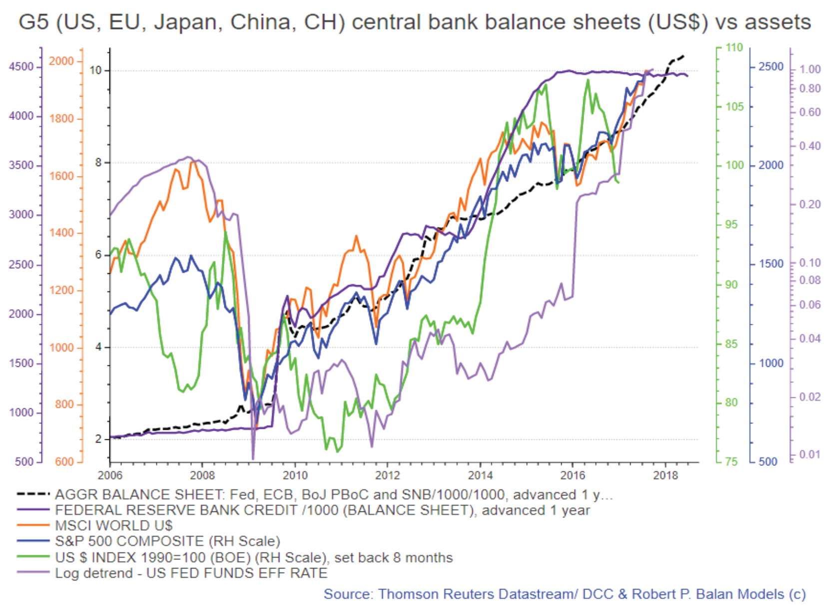
These have been strong since June vs the majors and could correct some to the downside as oil retraces during October. Following that, from November to early next year, we are very positive on Oil and Commodity related currencies.

Asian currencies

INR, KRW or TWD have started to reverse down vs the Dollar, yet could see a last upside re-test during October. These "Asian growth" currencies should then weaken again from November to early 2018 as the reflation trade re-accelerates.

8 / So, the Fed will start reducing its balance sheet in October – what does that mean, and what happens next ?





As a major tool to help the US economy recover from the Great Financial Crisis, the Federal Reserve purchased bonds as a way to stimulate the economy. Then Fed Chair Ben Bernanke explained the policy, known as Quantitative Easing, in 2010, as a way to create easier financial conditions which will promote economic growth. Among Bernanke`s objectives (which we paraphrase) were to lower mortgage rates which will make housing more affordable and allow more homeowners to refinance. Bernanke also hoped to lower corporate bond rates which should encourage investment. Among the hoped-for results was to push stock prices higher, will boost consumer wealth and help increase confidence, and which can also spur spending. **The current level of the Fed`s balance sheet is circa $4.5 trillion. The other global central banks have slightly bigger or smaller balance sheets, except for the Bank of England which stopped its QE program after 6 years (in 2014) – its QE stimulus was comparatively smaller**. (*see both graphs on this page)*

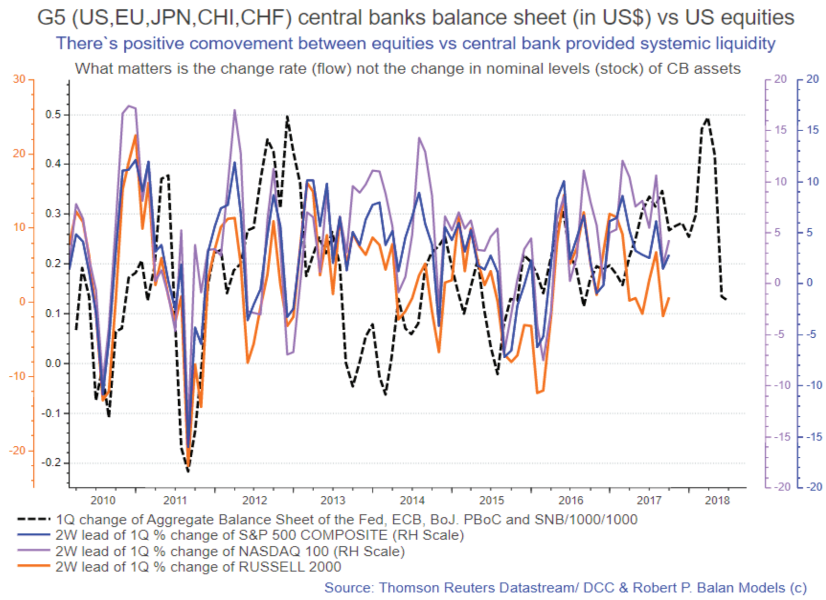
Fast forward 8 years; the wealth creation objective succeeded up to a point where equity valuations are now stretched, and the prospect of mean reversion looms large in the minds of all investors (and some Economics Nobel Prize winners). At this juncture, the Federal Reserve announced a specific strategy to reduce the size of its balance sheet by letting the bonds mature, a process called balance sheet normalization, starting in October. It had the financial world atwitter, and there were dire prognostications of impending huge takedown of the global stock markets and other risk assets which benefitted from the programs. The idea is that when an item is overpaid for, or more specifically, when you participate in an equity market that´s been distorted by trillions in central bank liquidity (and equity purchases), you should expect to see a return to normalcy at some point, and therefore your subsequent returns could be disappointing. It makes a good subject for a vigorous debate.

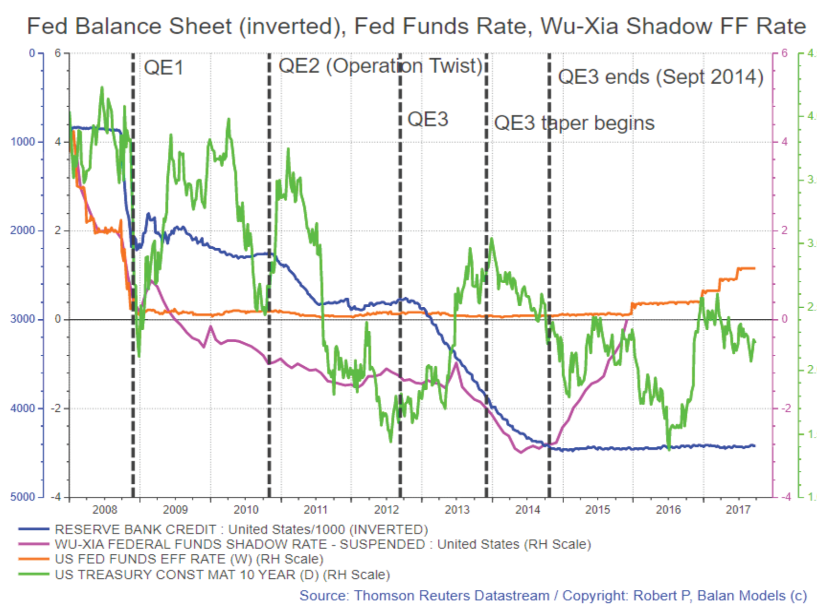
Many investors argue that this more «realistic» than expecting manna to continually fall from heaven. Many also say that the hard-nose way is to be pessimistic about that state of nirvana continuing, and with the Fed making noises about reducing their balance sheet, it is time to take money out of the table. That argument seems to have the force of logic behind it. **However, we have a slightly different take on the issue. We believe that this notion is not totally correct, especially as the argument revolves around the balance sheet of the global central banks. Here is how we see it: when you have a humongous amount of money involved in the equation, the force of logic can be malleable. Consider this: if I «win» at a game in which the rules have been temporarily suspended, it´s not «realistic» of me to expect that the results should remain the same if I keep playing and the original rules are**

reinstated. However, this describes a "binary" situation of "off" and "on," and may not apply to the situation at hand. With the trillions in the central banks` balance sheets, there is no off and on switch – it is merely the waxing and waning of the "flow."

That is the counter-argument. **And implicit in that counter-argument is the notion that the central bank-created "bubbles" in stocks, corporate credit and high-yield will likely remain in bubble territory and may well appreciate further, unless there is a rapid withdrawal of accommodation. That rapid withdrawal is not likely to happen. Moreover, it is not the level (stock) of the aggregate balance sheets which makes the difference – it is the rate-of-change over time (flow), which makes the difference**. We did some simulation work, and we saw that the "flow" will continue to work its magic over a period time, at least one year more, after all the accommodation has gone (*see first graph on this page*). And that brings the question of how quickly or how slow the balance sheet normalization will be.

The Fed grew its balance sheet by purchasing primarily U.S. Treasury bonds and mortgage-backed securities. It plans to reduce its balance sheet at a rate no faster than $50 billion per month. This equates to a decline of $600 billion per year. But what do these numbers mean? The most direct way to visualize the process is to look for the equivalent of that $600 billion reduction of the balance in terms of interest rates. When short-term interest rates reached zero in 2008, researchers Cynthia Jing Wu and Dora Fan Xia at the Federal Reserve created a so-called shadow rate that translated the Fed`s bond purchases into its likely interest rate-equivalent units. The Fed purchased $2.2 trillion in assets from 2009 through 2014; the shadow rate reached -2.81% by the time asset purchases were completed in September 2014 (*see second graph on this page*). The equivalent of the purchased assets was





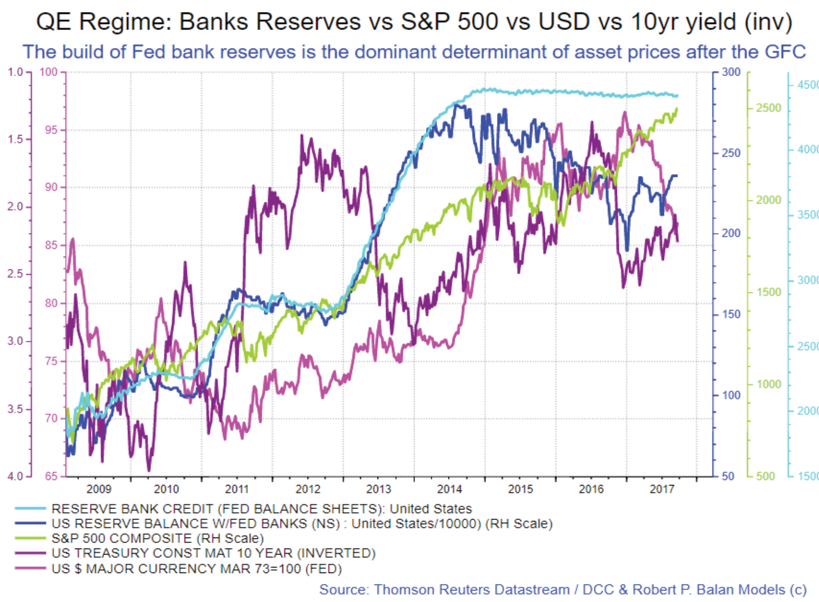
a decline of interest rates by 2.81%. We then reverse the process, assuming the same equivalence ($2.2 trillion/2.81%). A reduction of $600 billion should therefore have the equivalence of a 0.76% rate hike. **But this is all hypothetical – in fact, real-world long-term interest rates were rising during the period when the shadow rates were falling**.

This is probably the reason why we are still seeing a bid for risk assets, and why the equity market (as well as corporate bonds and HY) were resilient in the face of a Fed that is hell-bent on a near and medium-term rate tightening path despite subdued inflation. Moreover, the Fed´s balance sheet runoff schedule pales in comparison to the bid that´s still being provided by stimulus largesse from the ECB and the BoJ. For one, the Fed's balance sheet will begin to shrink, but it is unlikely to return to anywhere near pre-GFC crisis levels. For another, the ECB is likely to keep purchasing assets through the end of 2018, but at a reduced pace. The BoJ, on the other hand, just reaffirmed its current policy stance and will keep steeper yield curve targets until Q3 2018.

While the major central banks desire to reach a more normalized monetary policy, the policy reversal will likely remain slow and extremely gradual. In fact, major central bank balance sheets as a share of GDP are likely to grow through

the end of 2018. Expansion of the global central banks` balance sheet, by definition, had stoked supply-demand dynamic that has driven asset price inflation in recent years in two ways. Central banks were: (1) removing asset supply with asset purchases, and (2) creating demand by encouraging the hunt for yield. Fed balance sheet runoff should work in the opposite direction, but it is not (yet) a sufficiently strong, countervailing force.

Net net, central banks are expanding their balance sheets. The central banks` bid is not only still in place -- it´s expanding on aggregate. So far, it has been a Goldilocks scenario, with decent overall growth and a still tame inflation outlook. Yes, stimulus/ accommodation has not been stoking inflation, and that is a good thing -- it has been supportive of a global recovery. The Fed`s desire to "normalize" (tighten) monetary policy will, in the longer run, be not as disruptive as some investors imagine it to be. It will easily be "neutralized" by continuing largesse from the BoJ and ECB. Moreover, we have evidence that the Fed`s bank reserves is what is really powering the risk assets and the bond markets, not the Fed´s balance sheet, per se (*see graph on this page*). The stock market peak is not yet nigh.

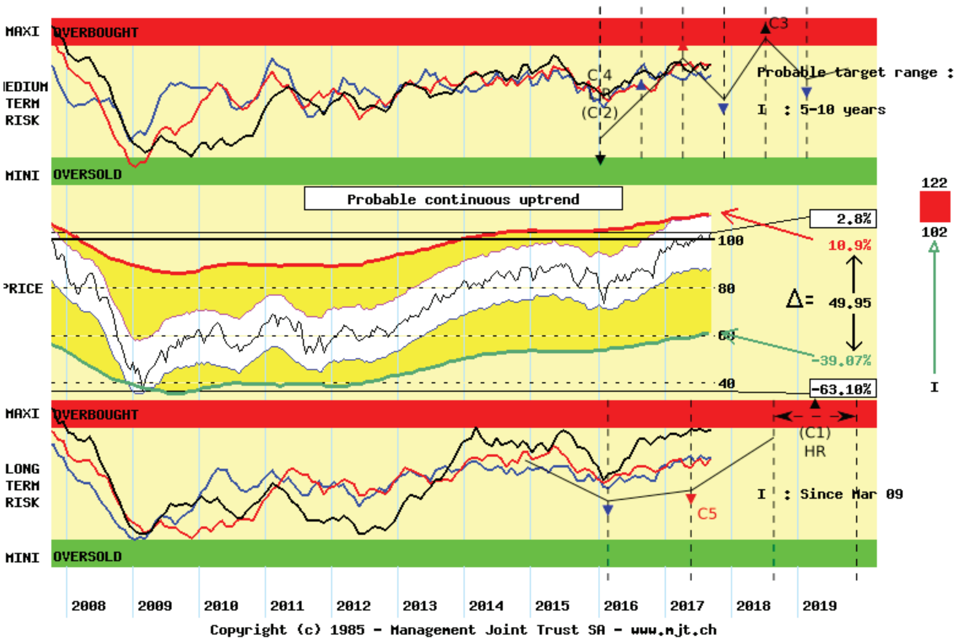


11 / MJT - TIMING AND TACTICAL INSIGHT

Equity markets are looking strong towards 2018, yet following the nice September bounce/extension, we would advocate prudence again as we move into October

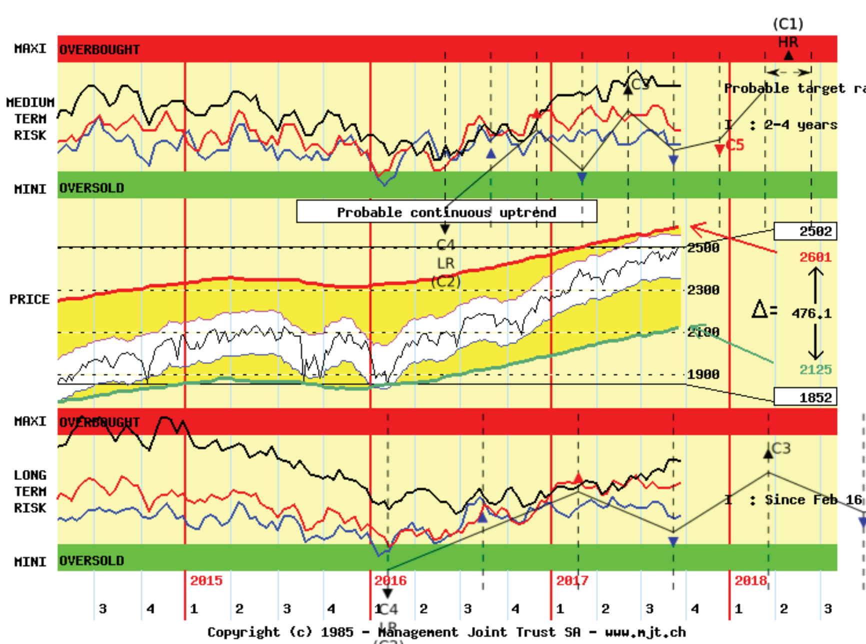
Late July, we expected a retracement on risk assets into August, and a sharp recovery from late August early September. Late August, we confirmed this re-acceleration to the upside, a move which we believed could last into late September / early October, and possibly make new highs on many risk assets. As we write, these articulations have materialized and the potential to the upside seems exhausted again. We would now advocate for renewed prudence during October even though, equity markets still seem well positioned towards year-end and 2018.

S&P500 Index vs the Treasury Notes 10 Years Contract (Dec)
Bi-monthly graph or the perspective over the next 1 to 2 years



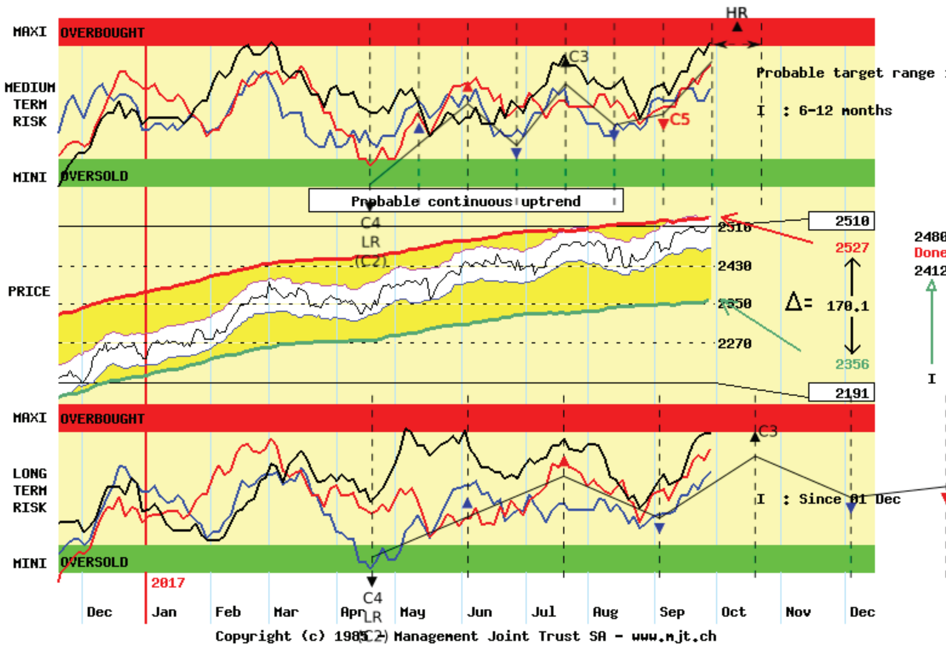
The ratio, which we view as our reflation/deflation gauge is heading up on both oscillator series (lower and upper rectangles). **The trend since 2008 is well advanced, yet both sequences we map would point to a continuation of the uptrend, possibly towards mid 2018.** The potential up for equities vs bonds (right-hand scale ; middle rectangle) may have been reached, yet could extend another 20% in the best of cases. This may happen if the last leg up we expect for reflation trades materializes between this Fall and next Spring.

S&P 500 Index
Weekly graph or the perspective over the next 2 to 4 quarters



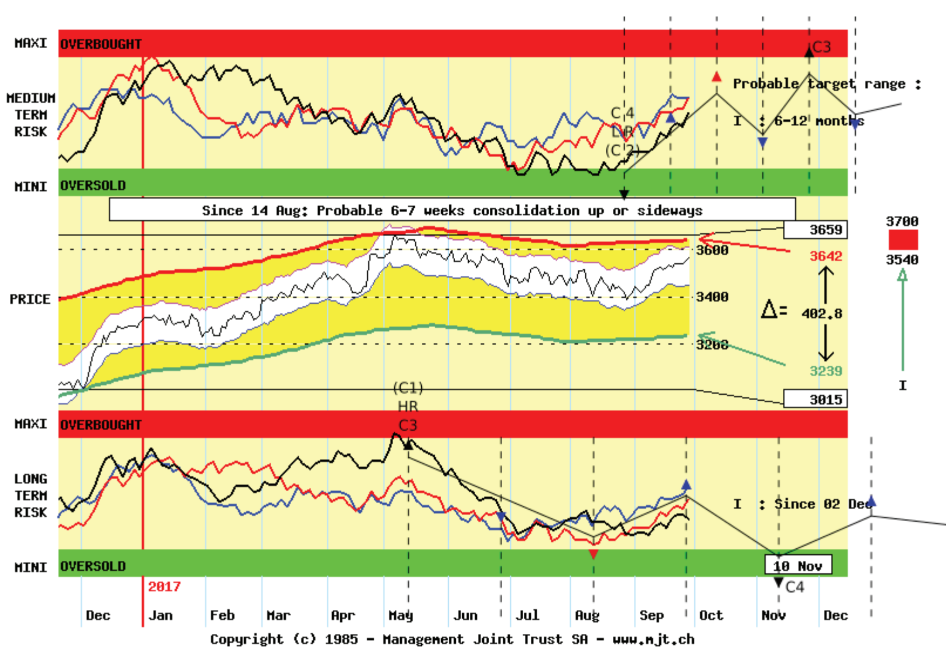
The S&P500 Index is indeed still heading up towards Spring 2018 on both our oscillator series. While our long term oscillators (lower rectangle) may have just confirmed a « resume Uptrend » situation, our medium oscillators (upper rectangle) still point to a **further re-test in mid Q4. The potential left to the upside on US markets until next Spring is somewhat limited, possibly into the high 2'600s or between 5 and 10 % higher than today (right-hand scale ; middle rectangle).**

S&P 500 Index
Daily graph or the perspective over the next 2 to 3 months



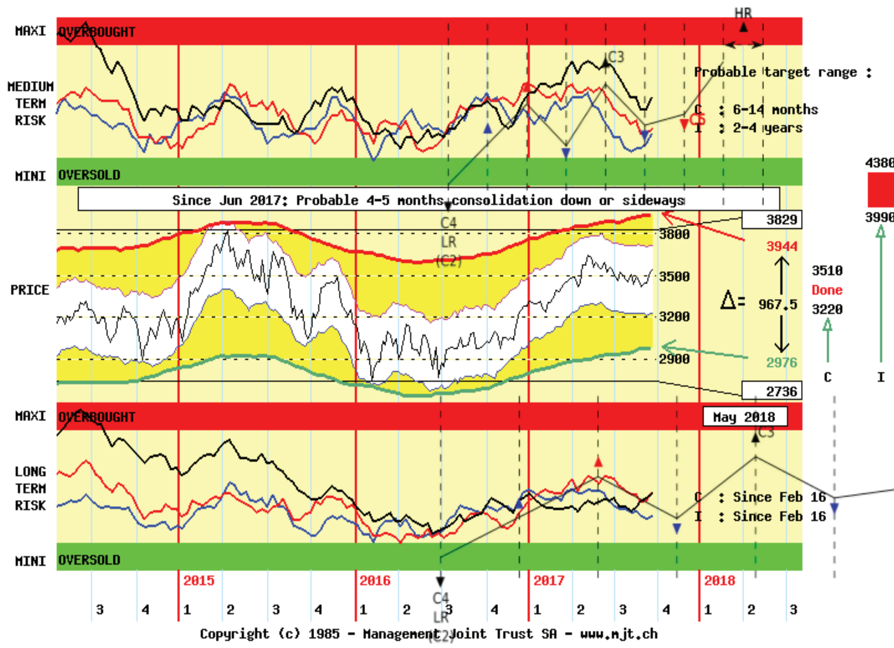
Following the strong extension it saw in September, the S&P500 is « High Risk » again over the next month or so (our Automatic messaging ; middle rectangle). The sequences we project on both our oscillator series (lower and upper rectangles) point to a top between now and early October. Such situations usually result in 3 to 6 weeks of consolidation to the downside so that **we will look for new entry points towards late October / early November.** Our 'I' Impulsive targets up have been achieved for now, while the **'C' correction potential to the downside, we can calculate, is between 2'425 and 2'374** (0.5 to 0.8 times «Delta» at 170.1 substracted from the top of the graph) , or between 3 and 6 % lower than today (right-hand scale ; middle rectangle)

Dow Jones EuroStoxx 50 Index
Daily graph or the perspective over the next 2 to 3 months



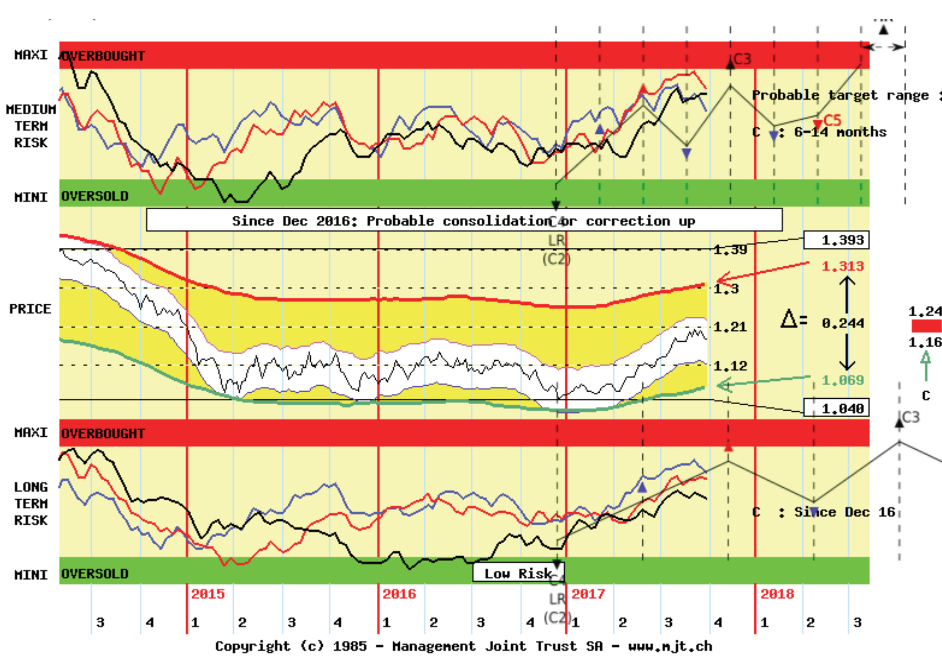
The EuroStoxx 50 also saw a nice rebound during September and is even approaching its early May highs. On both our oscillator series (lower and upper rectangles), **it may top out again between now and early October, possibly into late October, early November**. The correction to the downside we expect is usually calculated as minus 0.5 to 0.8 time our historic volatility, subtracted from the graph's highest point (« Delta » is at 401.7 ; middle rectangle ; right-hand side). **Hence, the downside targets, we can calculate are between 3'458 and 3'338 or between 3 and 6 % lower than today**.

Dow Jones EuroStoxx 50 Index
Weekly graph or the perspective over the next 2 to 4 quarters



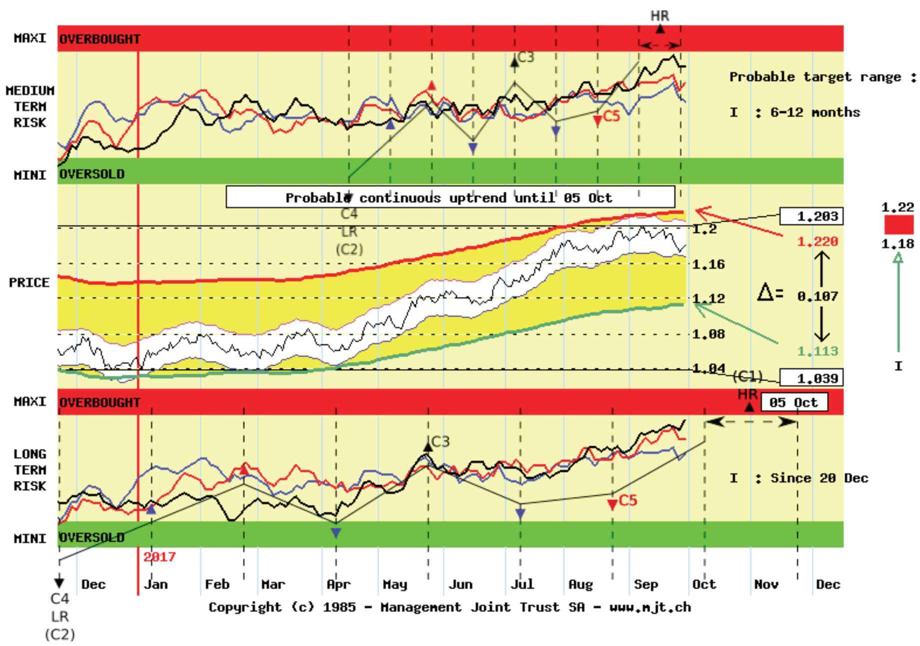
Longer term however, we are still very bullish on European markets towards Spring next year. Both our oscillator series (lower and upper rectangles) show **a last point of downside re-test in mid Q4 2017 and then an acceleration up towards Q2 2018.** In May, we broke above our 'C' corrective targets to the upside, and are now eying our **'I' Impulsive targets up between 4'000 and 4'400 or 12 to 25 % above current levels (right-hand scale).**

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



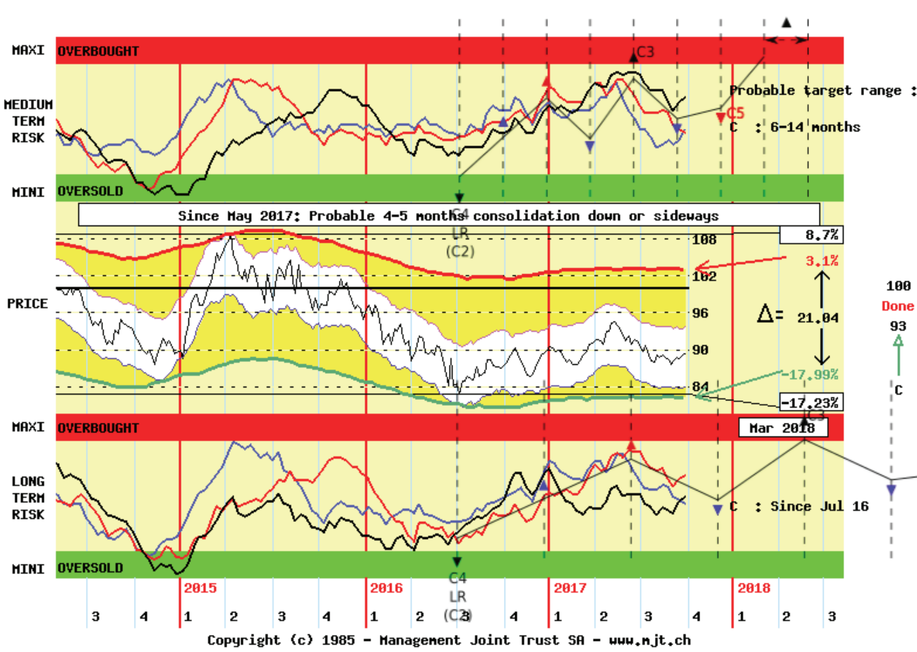
The EUR/USD pair has been a key determinant this year of the performance, and especially the underperformance (vs their US counterparts), of European markets. **We believe the re-acceleration of European markets we expect may coincide with a period of consolidation to the downside on EUR/USD, starting sometime mid Q4 2017.** This is the scenario we outline on both our oscillator series (lower and upper rectangles). **The correction to the upside since late last year on EUR/USD is indeed gradually reaching exhaustion**. It has achieved, the lower end of its 'C' Corrective targets to the upside around 1.16, and should meet strong resistance if it pushes towards the higher end of these targets around 1.24 (right-hand scale ; middle rectangle).

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



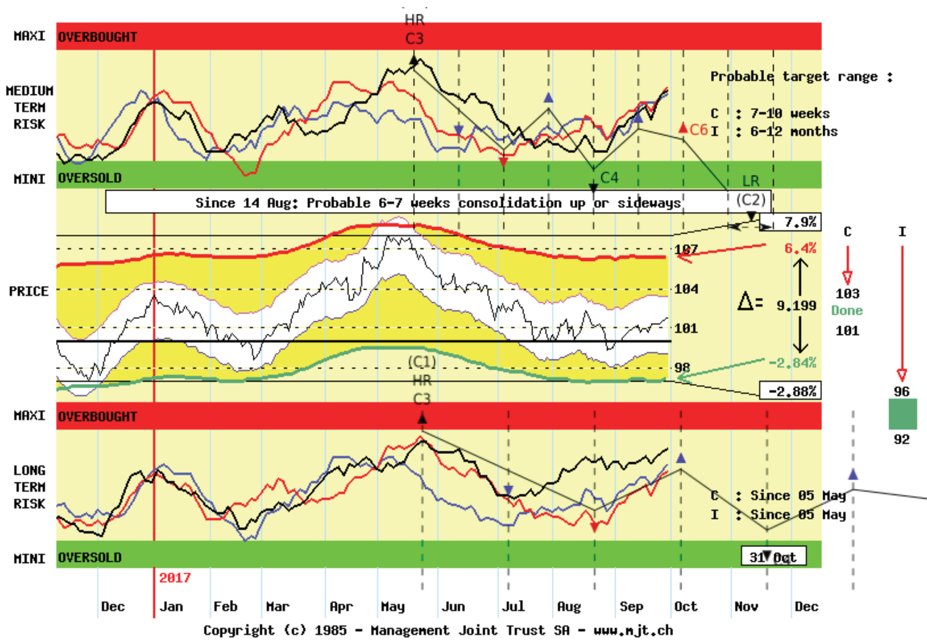
EUR/USD may also be nearing exhaustion on our Daily graph. Indeed, our medium term term oscillators have reached a High Risk position (upper rectangle) and have entered our 'I' Impulsive targets to the upside between 1.18 and 1.22 (right-hand scale ; middle rectangle). **That said, we still believe that a last continuation move may materialize towards late October, early November as shown on our long term oscillator series (lower rectangle). EUR/USD may then retest its recent highs and possibly even move towards 1.22**, the higher end of our 'I' Impulsive targets, where it should find strong resistance.

Dow Jones EuroStoxx 600 vs the S&P500 Index (currency hedged ratio)
Weekly graph or the perspective over the next 2 to 4 quarters



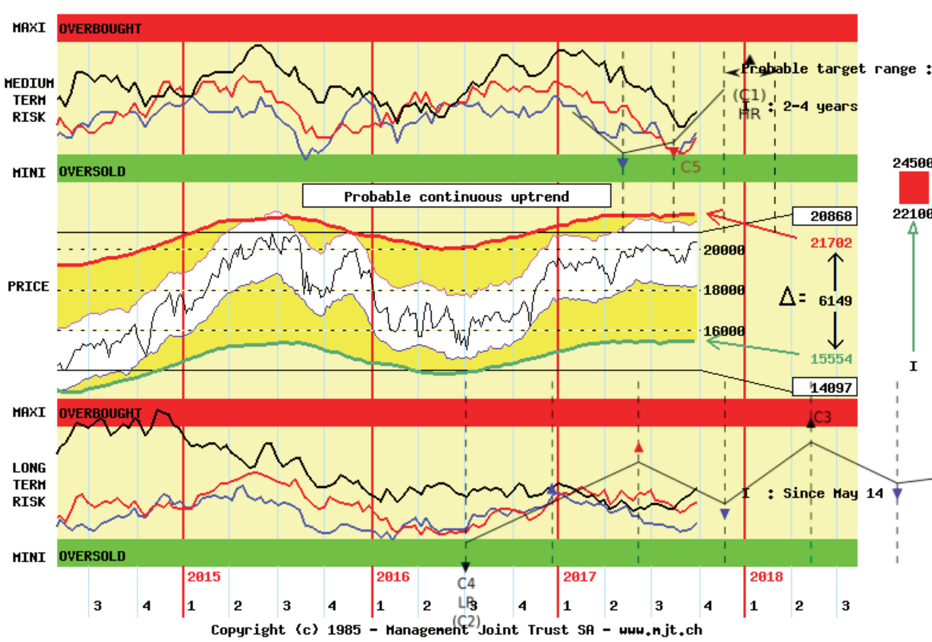
The ratio shows the relative performance the Euro Stoxx 600 and the S&P500, when hedged for currency moves (absolute performance, like to like comparison). Hence, currency moves not-withstanding, **the EuroStoxx 600 is showing strong outperformance potential vs the S&P500 towards next Spring** (the sequences we project on both oscillators series ; lower and upper rectangles). **This outperformance should see another downside re-test in mid Q4 2017 and then start to accelerate**. Our 'C' corrective targets up suggest that the EuroStoxx 600 may outperform the S&P500 by as much as 10 % until Q2 2018 (right-hand scale).

Dow Jones EuroStoxx 600 vs the S&P500 Index (currency hedged ratio)
Daily graph or the perspective over the next 2 to 3 months



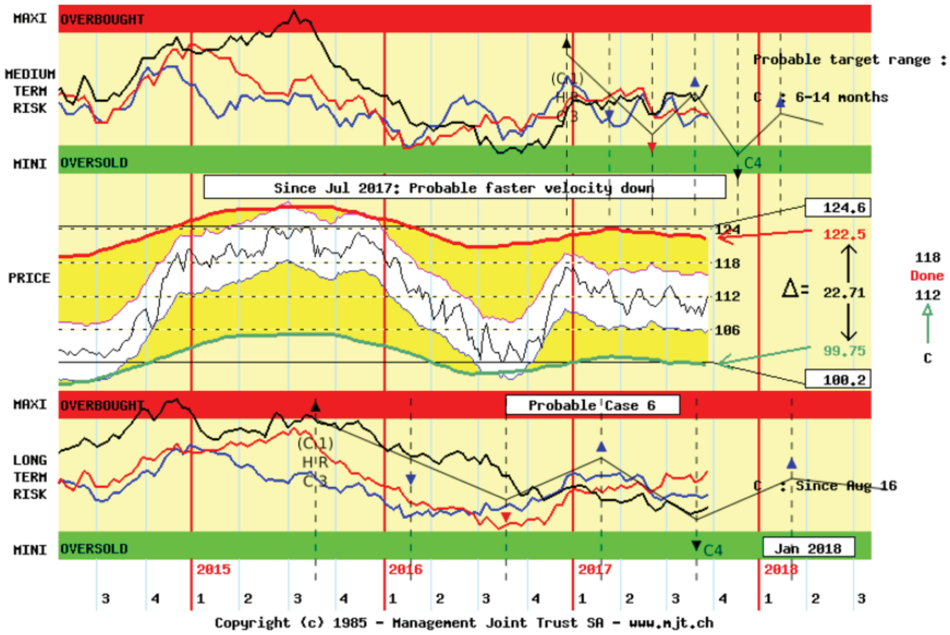
Looking at the EuroStoxx 600 vs the S&P500 (hedged ratio) on the Daily graph, we can clearly see the EuroStoxx's underperformance since May on the back of the EUR/USD strength. **Going forward, following a slight bounce in September, both our oscillator series would suggest a further leg down for EuroStoxx 600 vs the S&P500 towards late October / early November** (lower and upper rectangles). The 'I' Impulsive targets down (right-hand scale ; middle rectangle) still show more than 5 % risk to the downside for Europe vs the US. This could confirm our view that a last extension up on EUR/USD is probable.

Nikkei 225 Index
Weekly graph or the perspective over the next 2 to 4 quarters



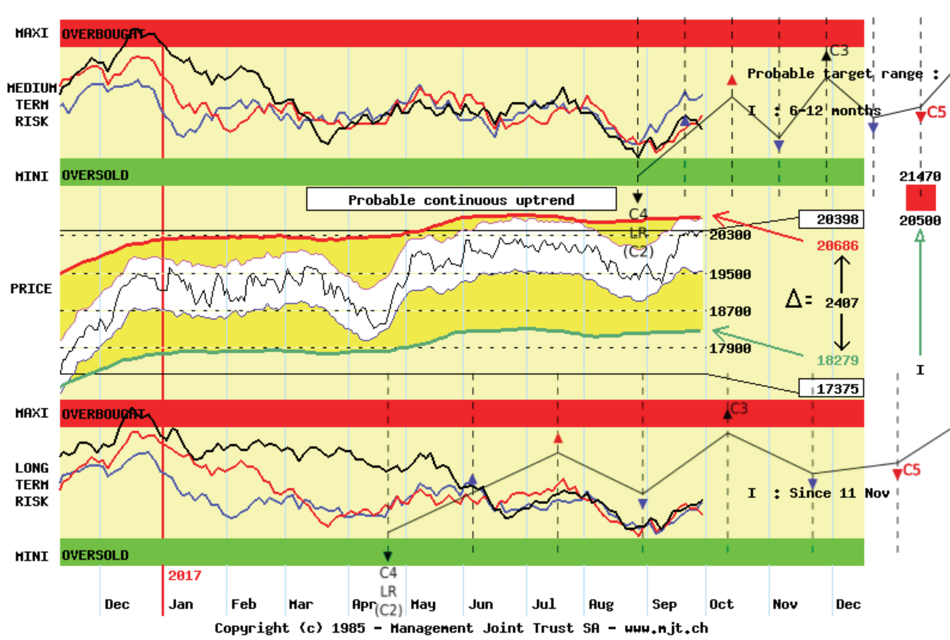
Looking to Japan and the Nikkei 225, we would also confirm strong upside potential towards next Spring. Our medium term oscillators (upper rectangle) are in a « resume uptrend » situation, while our long term oscillators (lower rectangle) will get there following a last retest into mid Q4 2017. The 'I' Impulsive price potential to the upside (right-hand scale ; middle rectangle) is substantial, towards the 22'000 – 24'500 range or **between 9 and 21 % upside potential**.

USD/JPY
Weekly graph or the perspective over the next 2 to 4 quarters



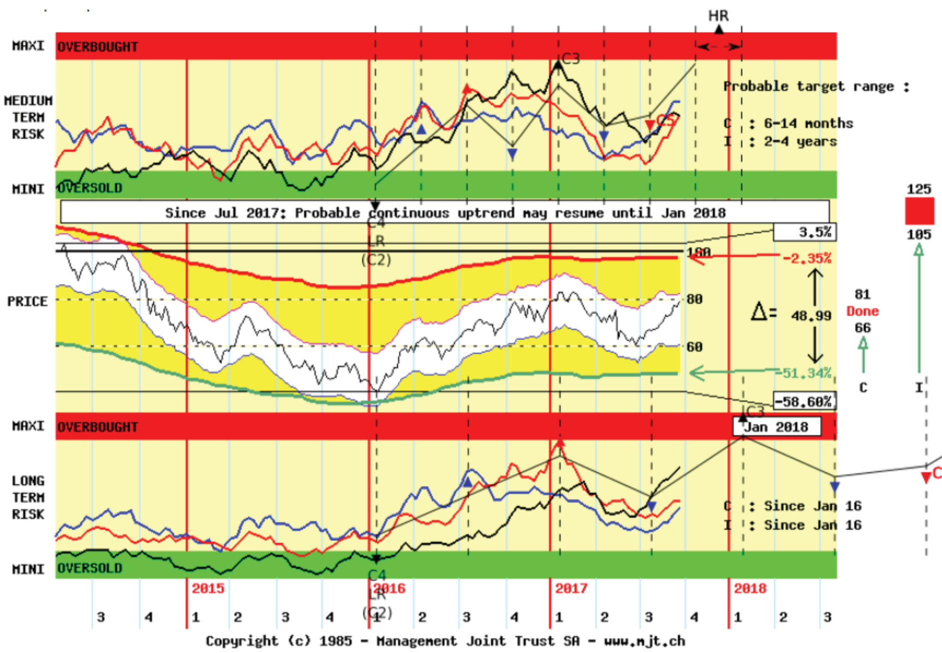
As with the EuroStoxx600 and the EUR/USD relationship, we believe much of the outperformance of the Nikkei 225 we expect into the Spring will be related to a weakening of Yen vs USD (strengthening of USD/JPY). On our long term oscillator series (lower rectangle), we believe a base has been made between the lows made mid last year and the ones this Summer. This is a good support to move higher. As with EUR/USD, we do however expect a last re-test down on the Dollar towards mid Q4 (the sequence we project on our medium term oscillators ; upper rectangle). Following that, USD/JPY should really starts to accelerate up. Our first level of resistance would be towards the higher end of our 'C' Corrective targets to the upside (118 ; right hand scale ; middle rectangle). Above that, the next **targets probably point to 130** by next Spring. For more insight on USD/JPY, please see our Daily analysis on page 31 of this document.

Nikkei 225 Index
Daily graph or the perspective over the next 2 to 3 months



Shifting back to the Nikkei 225 and its Daily graph, both oscillator series (lower and upper rectangles) show that an intermediate top should materialise early October. Following that, **the Nikkei should correct down into late October, early November.** Our 'I' Impulsive targets to the upside have been pretty much achieved for now (right-hand scale ; middle rectangle). **The Corrective targets to the downside we can calculate for the upcoming correction would indicate a range between 19'100 and 18'300 or between 6 and 10 %** (or 0.5 to 0.8 times our historic volatility Delta – right-hand side ; middle rectangle – subtracted from the highest level on the graph).

Brazil Bovespa vs India BSE Sensitive Index
Weekly graph or the perspective over the next 2 to 4 quarters



Most Emerging markets ETFs are denominated in US Dollars and hence with USD weakness this year, they all show great performance. **Our view is that investment in Emerging markets must be carefully differentiated at the moment, especially between oil & commodity exporting and importing countries.** As an example we show the relative graph of Brazil vs Indian equities (with the cross currency impact). Early this year, we were saying to sell the former and by the latter. We have since reversed this trade as shown on both our oscillator series (lower and upper rectangles). **We would now continue to be overweight Brazil and underweight India into Q1 2018, especially from November on, following the retracement on Oil we expect during October.**

Concluding remarks

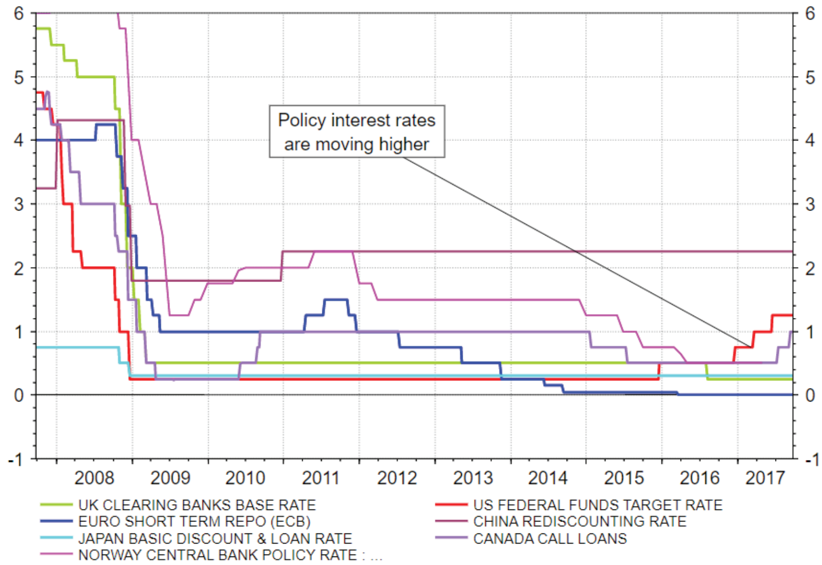
We are still very much Bullish on all equity markets into the Spring of 2018. We would prefer Europe and Japan to the US, especially from mid Q4 when we expect the USD to start to strengthen again. In Emerging markets, we would overweight oil & commodity producers vs importers. However, shorter term, we believe the risk/reward on most markets over the coming 3 to 6 weeks is disadvantageous. We would expect a 3 to 6% correction to the downside in the US and Europe, probably into late October, early November.

18 / The monetary world is tightening quickly – all that change will be cemented by a Fed rate hike in December

Central bank "normalization" of monetary policy (tightening) is getting more and more universal – the monetary world is changing quickly. Just this month, four central banks leaned hawkish on the near-to-intermediate term rate path: the Federal Reserve, the Bank of England, the Norges Bank (Norway) and the Bank of Canada (which actually raised policy rates), *see graph 1 on this page*.

The monetary world is changing, and a lot of observers are perplexed as to the reason why central banks are tightening. We have to understand this, as we ran the risk that the world has changed and we are not aware that it had. Embedded in the situation is the likelihood and the extent which central banks are trying to free up policy room to cope with the next growth downturn. With policy rates that are zero-bound, and systemic liquidity being sopped up (in the case of the Fed, and soon, the ECB), the CBs must have leeway to cut rates if a growth recession shows up in the near future. Janet Yellen and the FOMC claim not to «understand» why inflation remains subdued. Lampoonists make fun of the central bank`s supposed ignorance. **It is bad enough that the Fed is still wedded to the Phillips Curve, but it is also evident that the decades-old relationships which serve as its core tenets have changed and that there are now significant time distributed lags separating inflation and unemployment (*see graph 2 on this page*). Critics of the Fed may be missing the point – the Fed is feigning confusion about inflation and is instead focusing on the heated up job market situation. They already have decided to tighten whatever happens so as to free up some countercyclical wiggle space which they will need to combat the next growth crisis.**

Global Interest rates are moving off their lows or are being pushed higher

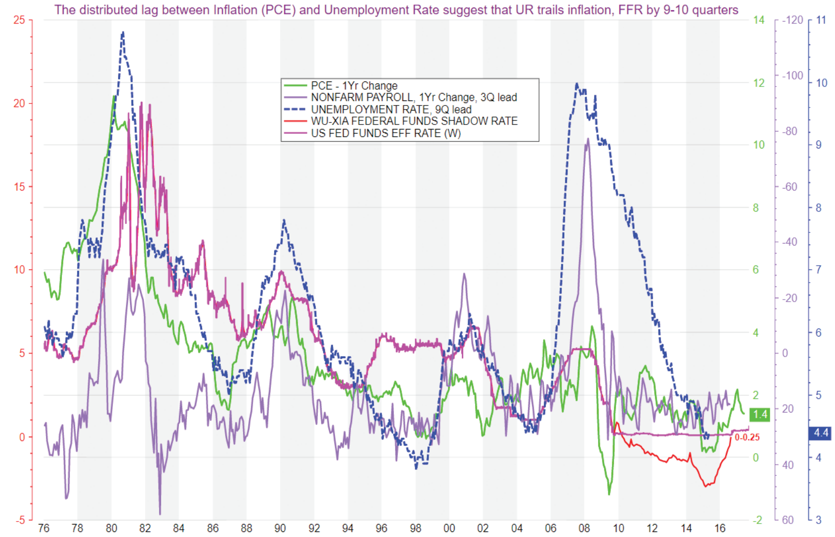


Source: Thomson Reuters Datastream / DCC & Robert P. Balan Models (c)

US GDP growth, Phillips Curve (inflation vs unemployment) and Fed funds rate

The Phillips Curve relationship between inflation and unemployment rate suggest the UR is due for a major trough by Q4 2017

The distributed lag between Inflation (PCE) and Unemployment Rate suggest that UR trails inflation, FFR by 9-10 quarters



Source: Thomson Reuters Datastream / DCC & Robert P. Balan Models (c)

It is telling that the FOMC and Ms. Yellen says the reason for current subdued inflation aren›t well understood – that those causes are in any case, transitory. If they said those reasons are transitory, then they could not be possibly confusing to the Fed. **What this tells us is the FOMC feels they have enough cover from the job market situation to continue tightening (which they will almost certainly do in December).**

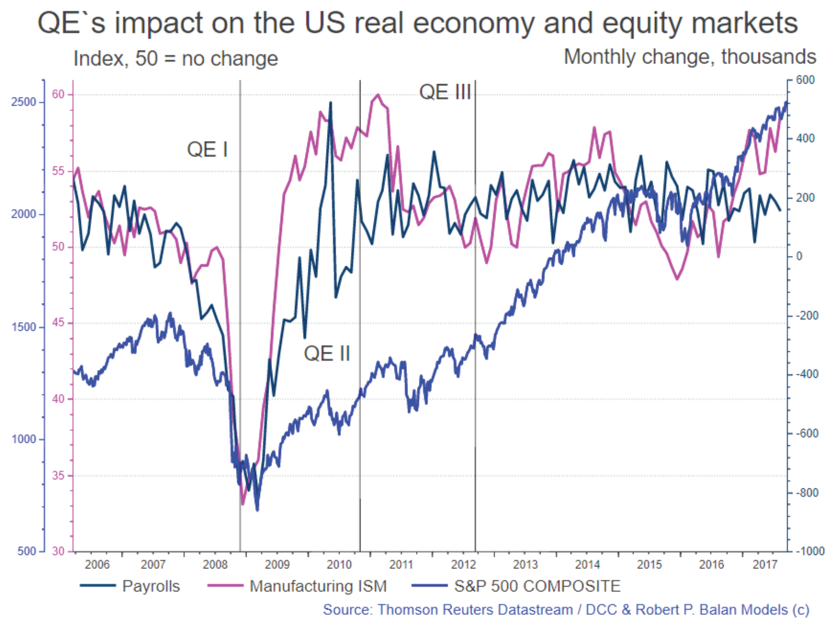
Pretending ignorance about the course of inflation, thereby dismissing the causes of the current disinflation as transitory allow the FOMC to both reduce their balance sheet AND tighten the stance of US monetary policy. **Both actions are geared towards making available palliative recourse, in the case of a future growth recession and/or a sharp downturn in risk assets (equities), while the conditions still allow them to do so. They missed a chance in 2015, and they will not miss the opportunity they have at this time.**

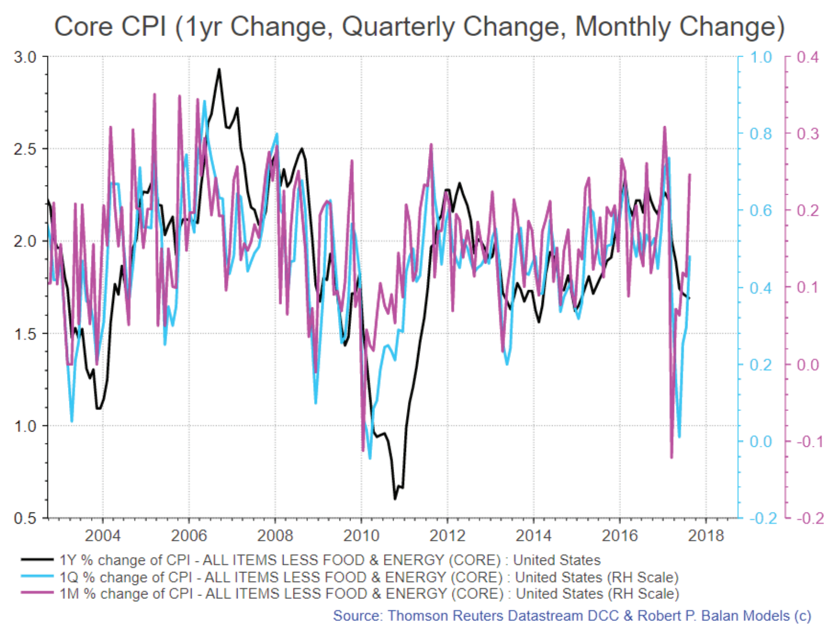
Former Fed chairman Ben Bernanke, during the GFC years, explained in many occasions that the Fed`s intention was to drive policy rates and corporate bond yields lower and drive equity prices higher. It would have been gratifying if you were listening – **the Quantitative Easing Programs**

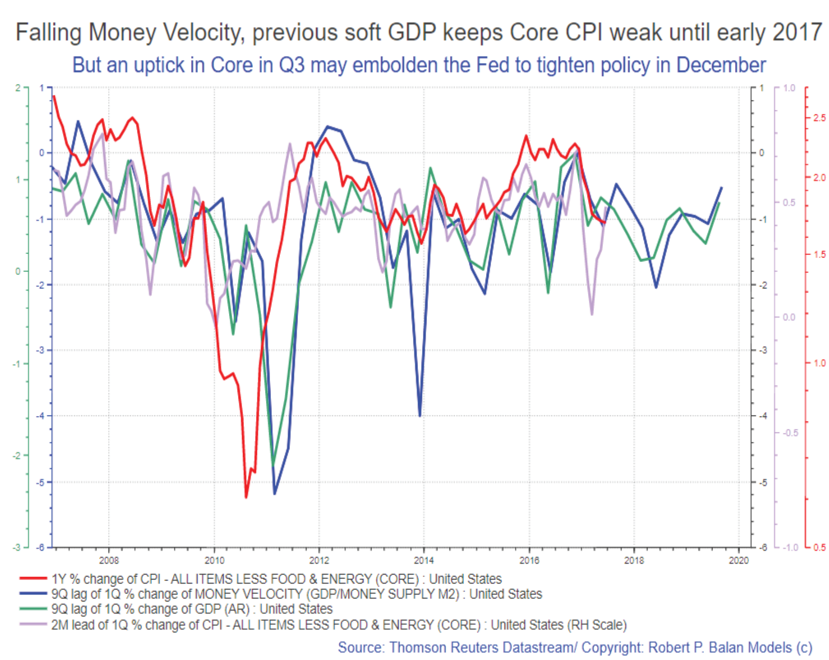
were the biggest incidence of wealth transfer from the government sector to the private sector. Many stock investors profited from it, but the transmission mechanism of the wealth effect to the real economy did not work out well – manufacturing and employment initially benefited and rose from the depths they have gone to during the Great Financial Crisis, but the next iterations of QE failed to boost these activities further (*see graph 1 on this page*). It did boost equity prices (benefitting the 1%), but stratospheric asset valuation, when a reckoning arrives and prices come down, will ironically be instrumental in stoking a new crisis. It is a crisis which the zero-bound central banks are ill-equipped to handle, given the lack of policy wiggle room they have at the moment.

Bond yields rose sharply after the FOMC and Ms. Yellen made their intentions clear (if you were listening well and reading between the lines). But equity markets rose after an initial downtick, and we interpret this as the equity markets are not buying the notion that the Fed can be that serious. The equity markets may be in for a rude as some point.

The reality is that the FOMC stance after the September meeting were more hawkish than the markets expected – at least the bond markets did. **Many observers now peg the chance of a rate hike in December at 75%. We believe the odds are much higher – close to 100%. We believe that the jobs market will still be functioning well into Q4, so that still provides cover for the central bank. The clincher will be the level of inflation at that time. We believe that inflation will start rising in Q3 and will be the significant factor for a Fed decision to tighten in December** (*see graph 2 and 3 on this page*)**.** So still-hot jobs market and significantly elevated inflation by Q4 suggest to us an almost-certain rate hike. It will likely be a 25 bp hike but a 50 bp tightening has been pencilled in by an FOMC member during the Sept meeting – the probability of a 50 bp hike is not zero (although highly unlikely).



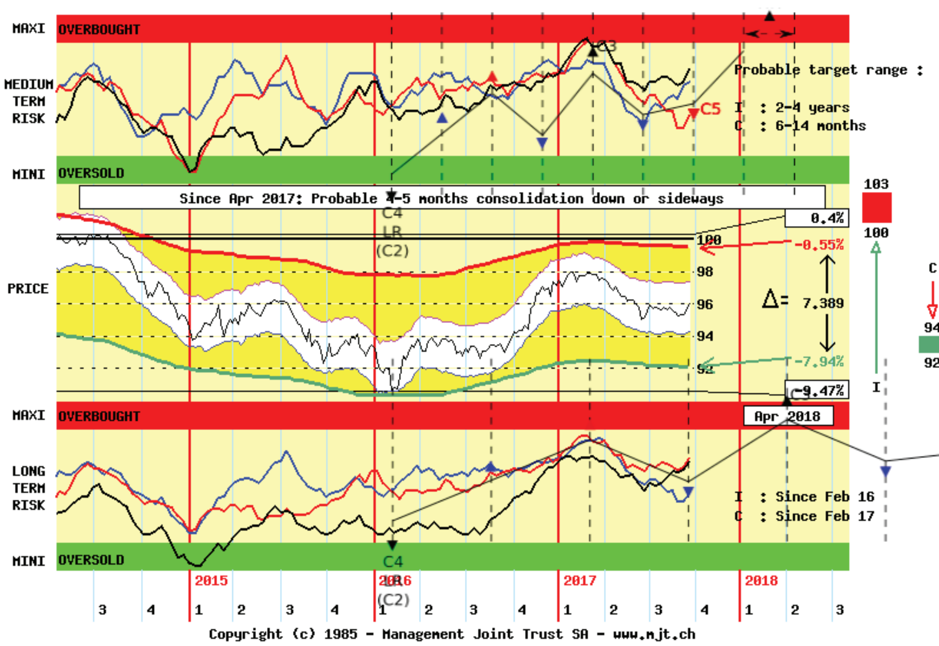




Reflationary assets may re-test down in October, but should re-accelerate upwards towards year-end

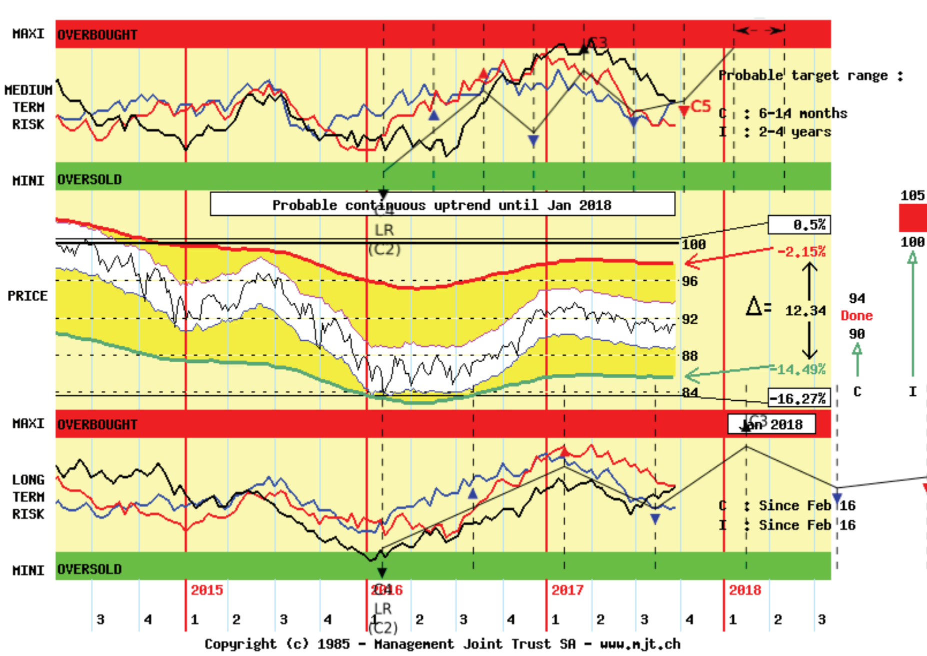
Over the last few weeks, many reflationary proxies and interest rates have started to move up again. Although these developments are promising for cyclical and reflation trades towards early 2018, shorter term, our Daily graphs are suggesting that a further re-test to the downside is likely into Q4, before the acceleration up really kick-starts.

TIP - iShares TIPS Bond ETF vs IEF - iShares 7-10 Year Treasury Bond ETF
Weekly graph or the perspective over the next 2 to 4 quarters



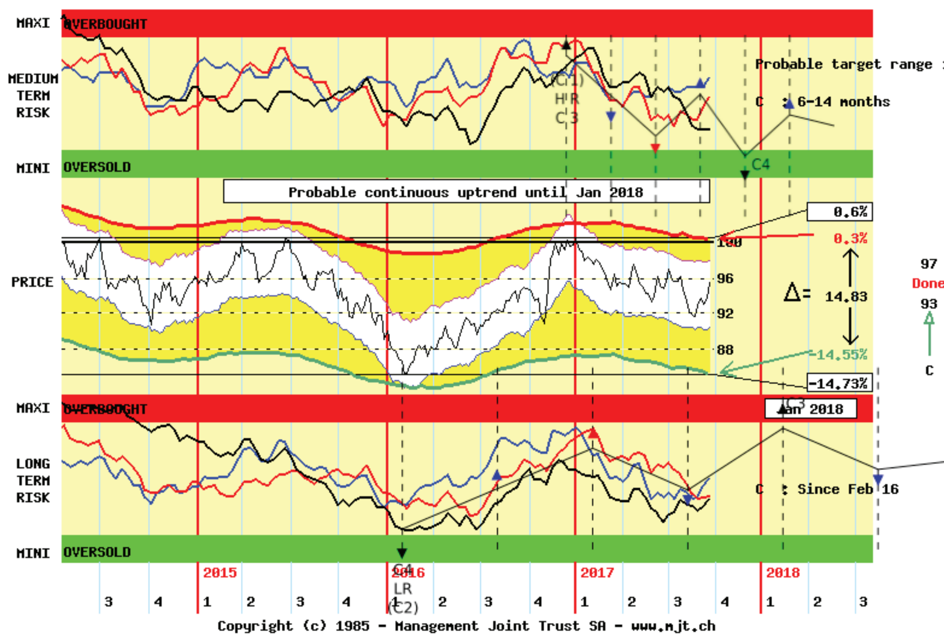
The ratio compares inflation protected Government Bonds to traditional Treasuries of similar duration. It translates investors' appetite to seek inflation protection beyond the inflation that is already priced into Treasuries: when it is trending up, investors are seeking more inflation protection and vis-versa. On both our oscillators (upper and lower rectangles), following some retracement during Q2 and Q3 2017, **the ratio is getting ready to move up again, probably towards the Spring of 2018.**

HYG - iShares iBoxx $ High Yield Corporate Bond ETF vs LQD - iShares iBoxx $ Investment Grade Corporate Bond ETF
Weekly graph or the perspective over the next 2 to 4 quarters



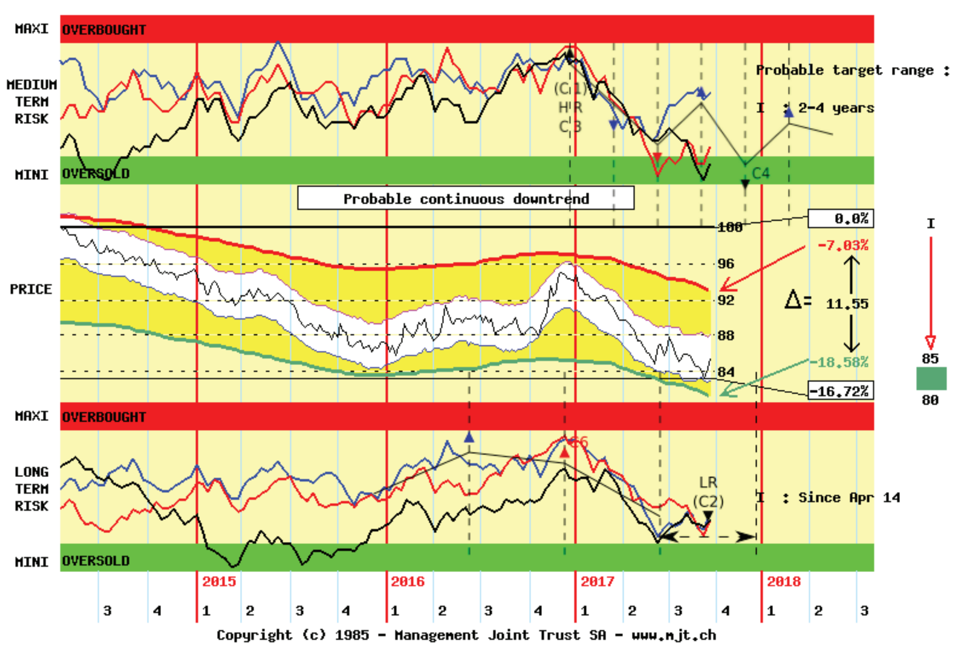
Investing in High Yield is also a way for investors to protect their bond portfolios against inflation and rising yields. It allows them to lock in a credit spread, which will likely increase in value as the cycle accelerates up and credit spreads decrease. It serves to compensate the potential losses, from which a bond portfolio could suffer, in a rising interest rates environment. **As with the TIP/IEF ratio above, HYG/LQD may be getting ready to resume its uptrend towards early 2018 as shown on both our oscillator series (lower and upper rectangles).**

IWM - iShares Russell 2000 ETF vs SPY - SPDR S&P 500
Weekly graph or the perspective over the next 2 to 4 quarters



On the equity side, investing in small caps also offers protection against inflation and a rising interest rates environment. Indeed, small caps are usually less levered that Blue Chips and often more pro-cyclical. On our long term oscillators series (lower rectangle), small caps may have just started to resume their uptrend vs the S&P500 towards early 2018. Our medium term oscillators (upper rectangle) however show that **a last retest to the downside is still possible, before small caps really start to accelerate up vs the market.**

IVE - iShares S&P 500 Value ETF vs IVW - iShares S&P 500 Growth ETF
Weekly graph or the perspective over the next 2 to 4 quarters

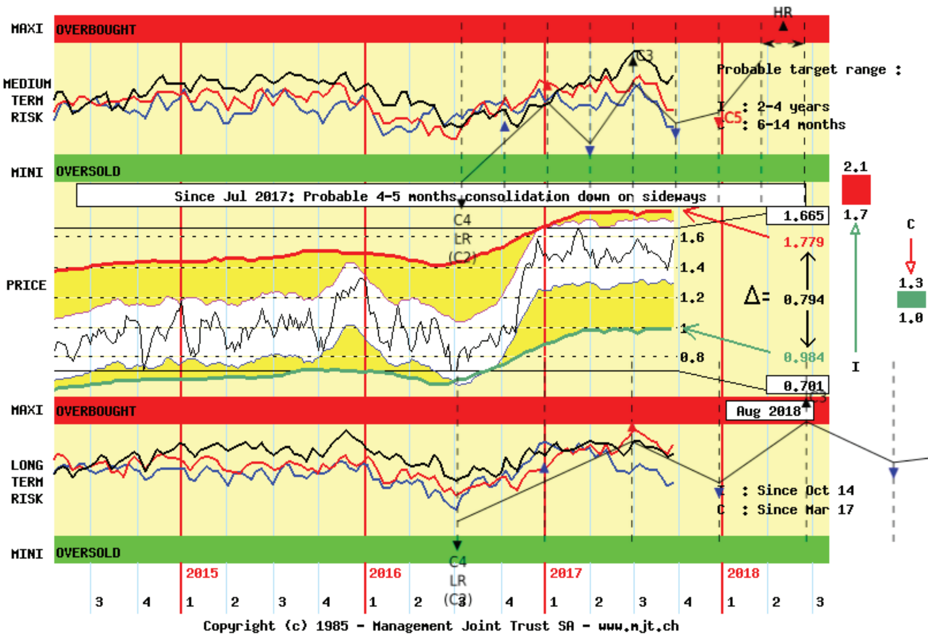


Over-weighting Value profiles vs Growth ones also offers protection against inflation and rising interest rates as Value play are usually more cyclical and "short duration" than typical Growth profile. This year, Value also suffered from the strong outperformance of Big technology in H1 (typical Growth stocks). On our long term oscillators (lower rectangle), **Value is getting Oversold vs Growth and has probably entered a "Low Risk" zone. Our medium term oscillators (upper rectangle) are getting very Oversold too, yet a last retest seems still likely in mid Q4. Following that we would expect a bounce of Value vs Growth into early 2018.**

Initial remarks

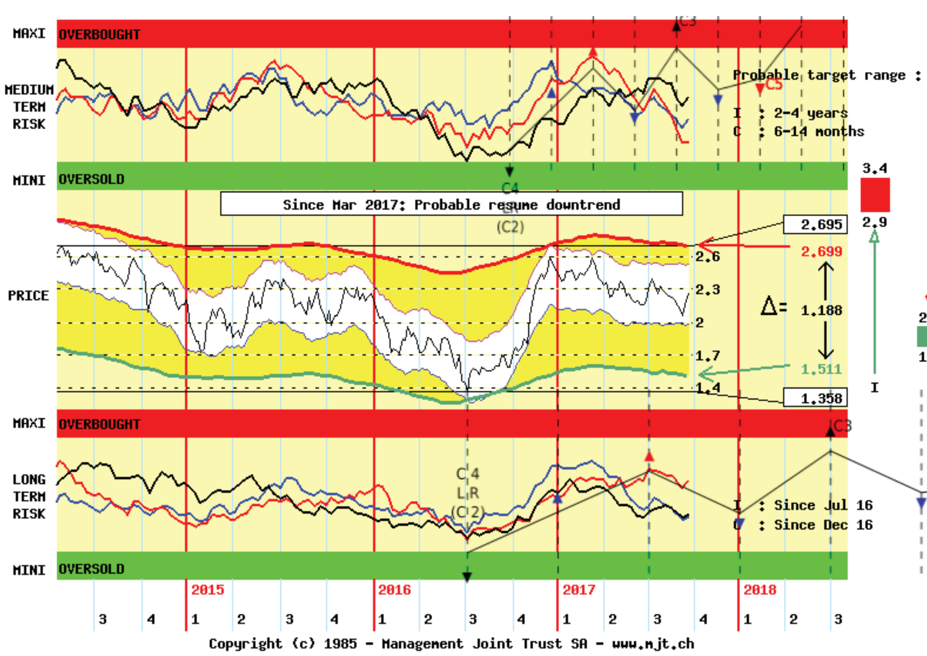
On the fixed income side, instruments which offer protection against rising inflation and rising interest rates seem to be ready to resume their uptrend into early 2018. On the Equity side however, a last re-test for Small Caps and Value still seems likely towards mid Q4, before they finally start to correct up vs the general market and Growth profiles. Bearing in mind, that the average equity portfolio probably has a much longer duration than the average bond one, we will turn to US yields and their Yield Curve to explain some of these differences.

US 3 Years benchmark Bond Yield
Weekly graph or the perspective over the next 2 to 4 quarters



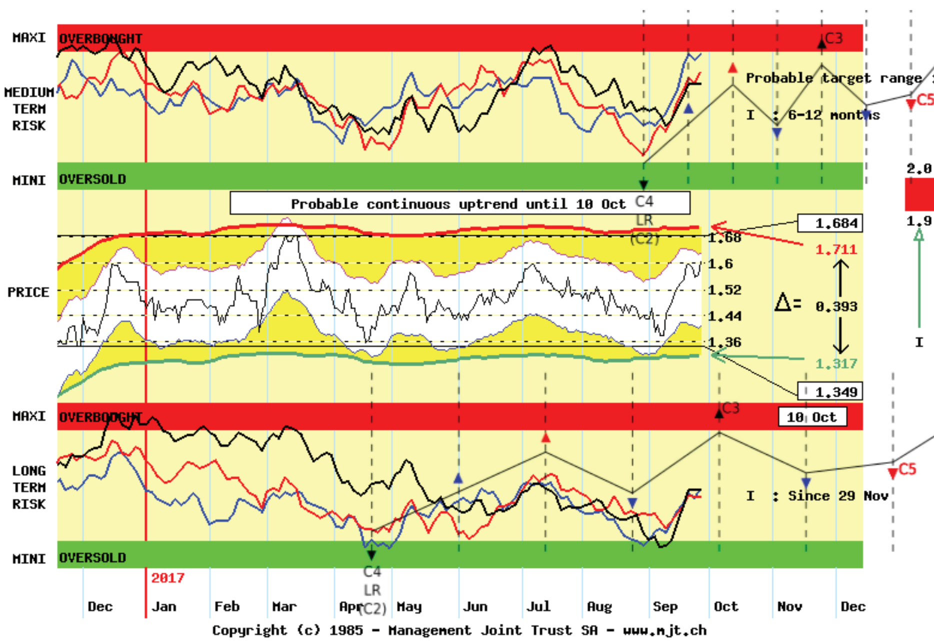
We first turn to Yields on shorter term Treasuries (3 Years tenure). This is where most of the action is currently happening, as shorter term yields are rising as quickly as the usually more volatile longer term yields. This phenomenon has a sense of "déjà vu" as it already happened during the Summer of 2016 following the bottom on yields in early July. Back then, it took the curve about three months to start steepening again. **Focusing back on our 3Y Treasury yields, our medium term oscillator series (upper rectangle) seem to have started their move up towards Spring next year, yet a further set-back, probably at high levels, is still possible during Q4.** Our longer term oscillators (lower rectangle) would confirm that a set-back is still likely during Q4 before 3Years rates continue up. If our current 'I' Impulsive targets up (right-hand scale; middle rectangle) are fulfilled, 3Y Treasury yields could rise another 50 bps by Spring next year.

US 10 Years benchmark Bond Yield
Weekly graph or the perspective over the next 2 to 3 months



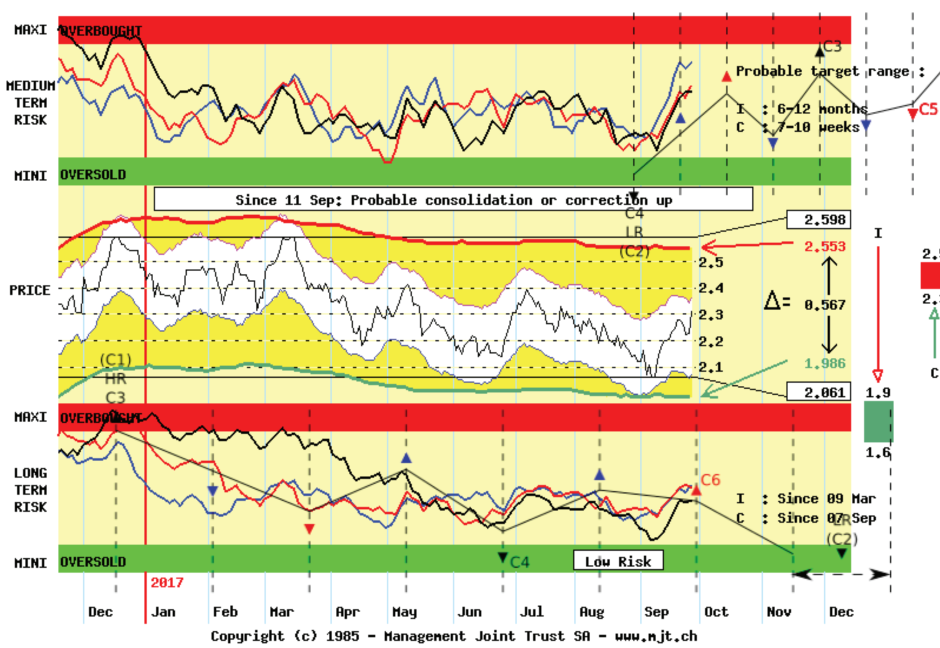
Longer term 10 Years Treasuries rates have suffered a stronger retracement than the 3 Years rates since they topped out in the Spring. They are also finding it more difficult to re-accelerate up at this stage. Our medium term oscillators (upper rectangle) would suggest a sequence, where **they re-test once more, before accelerating up towards the Spring of 2018.** Our longer term oscillators (lower rectangle) would suggest that 10Y Yields are still under pressure over the coming months. For now, the upper end of our 'C' Corrective targets down around **2.0% has served as strong support** (right-hand scale). **We expect that this should by and large continue to be the case. If and when, long term yields really start to accelerate, our 'I' Impulsive targets do show strong potential into next year, possibly above 3.0%.**

US 3 Years benchmark Bond Yield
Daily graph or the perspective over the next 2 to 3 months



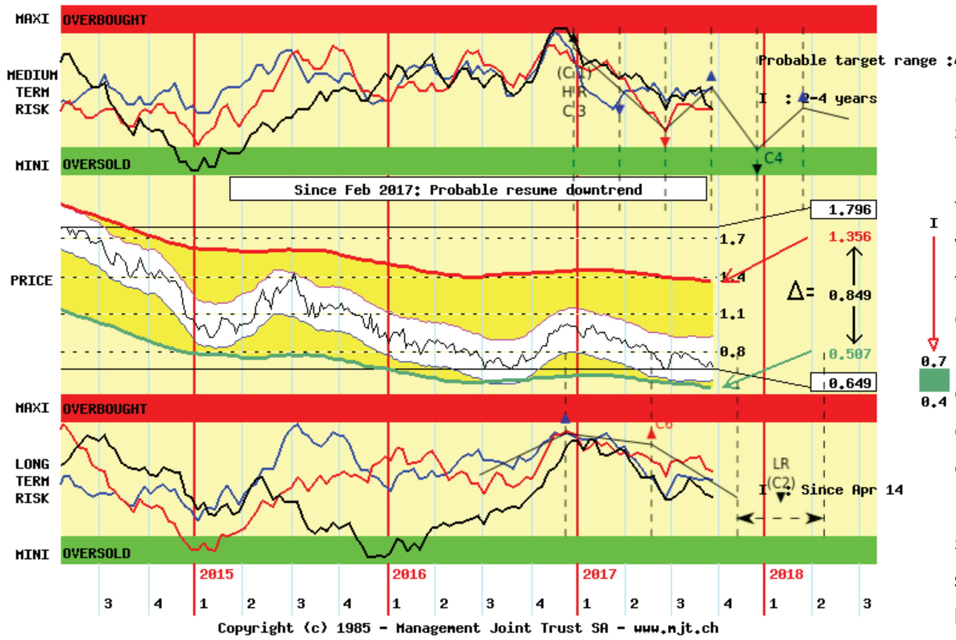
Scoping into the daily graphs, the 3 Years Treasury Yield started a promising bounce in early September and is already approaching its YTD highs made in March. Yet, on both our oscillator series (lower and upper rectangles), we would expect **potential tops between now and early October**. Both would indicate that following a bit more upside momentum, 3 Years Treasury Yields should top out for now and start retracing towards late October, early November. There is probably too little time left to reach our 'I' Impulsive targets to the upside (right-hand scale; middle rectangle) at this point in time, and we would consider such targets for the next leg up. **The 'C' Corrective targets to the downside we can calculate into early November are between 1.5% and previous lows at circa 1.36%** (using our historical measure of volatility "Delta", here at 39.3 bps, times 0.5 to 0.8, subtracted from the graph's highest point, 1.684).

US 10 Years benchmark Bond Yield
Daily graph or the perspective over the next 2 to 3 months



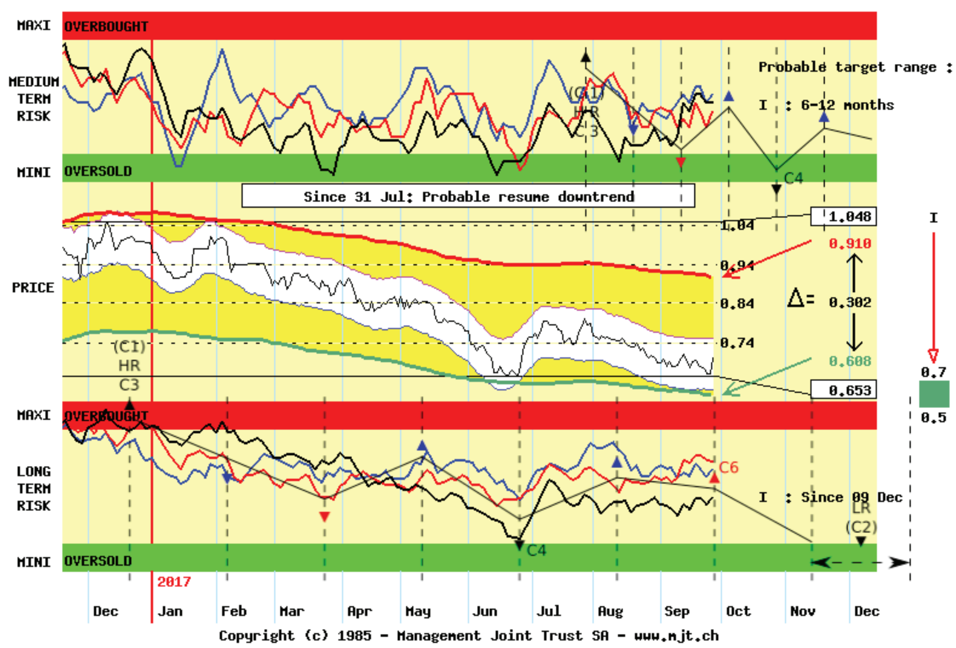
10 Years Treasury Yields are also bouncing, yet there are still far below their YTD tops. On both oscillators series, **we are expecting tops between now and early October, which could retrace into early, even late November.** Our 'I' Impulsive targets to the downside (right-hand scale; middle rectangle) are still menacing as they point to below the **2% mark, which has provided strong support up to now. We believe that the 2% mark may be challenged, but not substantially.**

US 10 years Benchmark Bond Yield vs US 3 years Benchmark Bond Yield
Weekly graph or the perspective over the next 2 to 4 quarters



As shown above, it seems that the trend on the 3 Years Treasury yields is showing more upside momentum at the moment, than the one on the 10 Years yields. It is also likely to retrace less if the correction we expect into November materializes. These dynamics are captured by the persistence of the downside momentum of the spread. On this graph, both our oscillator series suggest that the **10/3Years spread is likely to continue lower towards mid-end Q4**. Following that, we would expect a bounce and that the yield curve finally starts to steepen again. On the positive side, our 'I' Impulsive targets down (right-hand scale; middle rectangle) has pretty much been achieved, i.e. **this downtrend is slowly reaching exhaustion**.

US 10 years Benchmark Bond Yield vs US 3 years Benchmark Bond Yield
Daily graph or the perspective over the next 2 to 3 months



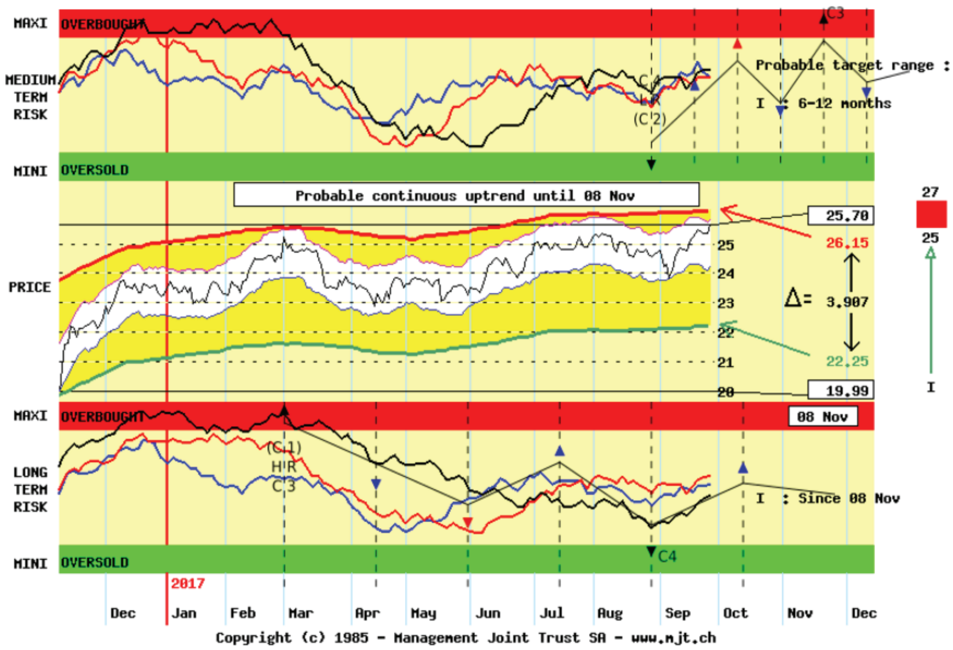
The Daily graph of the 10/3Y spread confirms our longer term view. Both oscillator series (lower and upper rectangles) suggest that **following a short bounce now, the spread should narrow again from early October into late October, possibly even mid November. Here too, the potential to the downside does however seem limited** as we are getting nearer to our 'I' Impulsive targets down (right-hand scale; middle rectangle). **Hence, the flattening of the US yield curve may slowly me getting exhausted, yet it may take another month or so to turn.**

Concluding remarks

While both shorter and longer term US Treasury Yields have bounced since early September, the longer term is still showing less upside, and more downside momentum. In the retracement period we expect during October (which could possibly extend into mid November), we would hence expect the yield curve to flatten a bit further. As for the price targets we expect, we believe that previous lows should probably hold on both tenures (or be slightly broken) and that the flattening potential of the Yield Curve is getting closer to exhaustion.

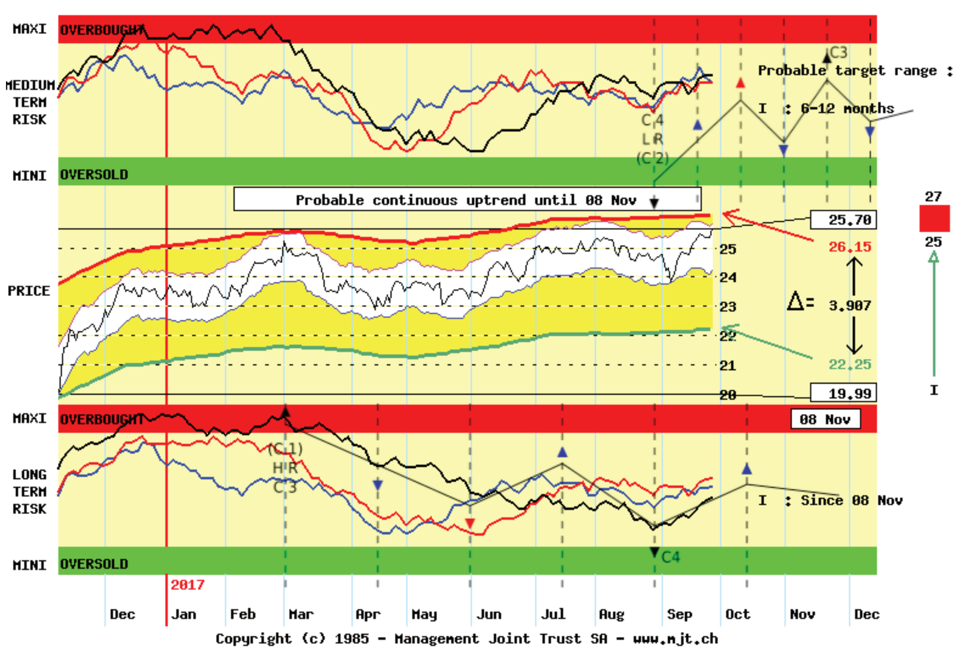
We conclude this section with a review of daily graphs of the US Financials and European Banks. Indeed, these relate quite closely the yields dynamics mentioned above:

XLF - Financial Sector SPDR Fund
Daily graph or the perspective over the next 2 to 3 months



The US Financial sector has recently made new year to date highs. **Yet, it is currently reaching its 'I' Impulsive targets to the upside (right-hand scale; middle rectangle). Both our oscillator series (lower and upper rectangles) are also showing intermediate tops early October. We hence believe that the move is gradually reaching exhaustion**. Following that, we expect that US Financials start to retrace, probably towards late October, early November. Using our current historical volatility measure "Delta" (right-hand side; middle rectangle), the corrective potential to the downside we can calculate is between 2 and 3 USD or between 8 and 12% ("Delta" at 3.907 USD times 0.5 to 0.8).

SX7P - BANK - Dow Jones STOXX
Daily graph or the perspective over the next 2 to 3 months



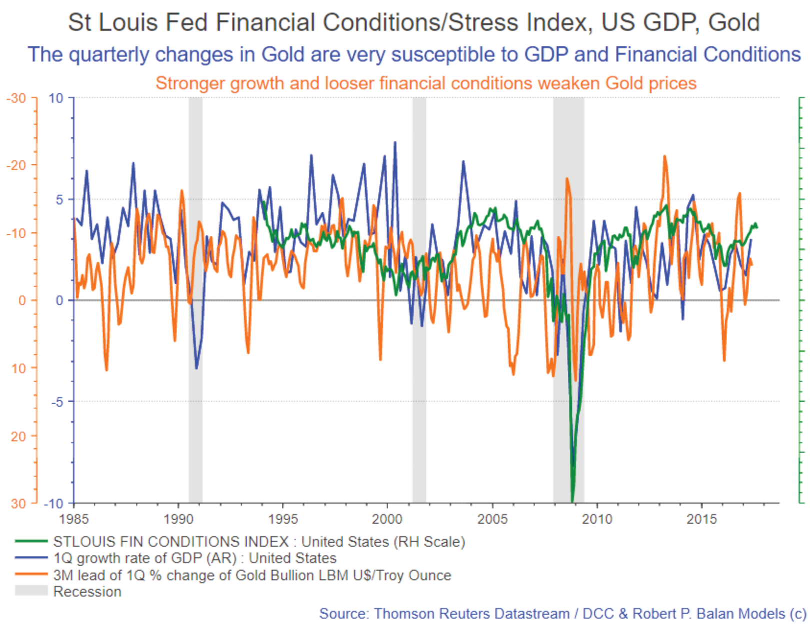
European Banks are in a similar position. We are approaching our 'I' Impulsive targets to the upside (right-hand scale; middle rectangle) and both our oscillator series (lower and upper rectangles) also suggest that an intermediate top is imminent (between now and early October). Using our current historical volatility measure "Delta" (right-hand side; middle rectangle), the corrective potential to the downside we can calculate is between 13 and 21 EUR or between 7 and 11% ("Delta" at 26.55 USD times 0.5 to 0.8).

Concluding remarks

Similar to what we expect on yields and equity markets, we believe that we are approaching intermediate tops early October on US Financials and European Banks. The corrections to the downside should last into late October, early November with a downside risk of 7 to 12%.

26 / Gold is an asset governed by macro data – news flow may push gold to adopt safe haven roles, but in the end it is the "anti-Dollar"

What do we do with Gold? **There are so many facets about Gold that investing in it requires a matrix of data even to just begin understanding it**. It can be a safe haven destination. **Lately, gold has been responding to geopolitical events out of the Korean Peninsula**. Gold jumped higher at the start of the week on intensifying geopolitical rhetoric from North Korea. Gold moved higher on comments made by North Korea's foreign minister Ri Yong Yo in New York, who accused U.S. president Trump of "declaring war" and saying that North Korea has the right to shoot down American bombers flying in international space near the country's coastal jurisdiction. The rally followed in the heels of a 1.7% decline last week amid a broad-based depreciation across the precious metals (silver:-3.4%, platinum:-3.7%, and palladium:-0.8%).



The sell-off followed a bearish macro backdrop for the complex after the Fed announced plans to start reducing its balance sheet by October, as well as providing indications of further policy tightening in December. **So last week, gold was pummelled by pure macro events**. These events arise out of news flow, and there is nothing we can do except to react to the situation as it happens. The situation in North Korea can be likened to a blustering of two bullies – one big, one small. Hot, even angry, words will be exchanged – but these bullies will not come to blows. Investing in gold in the hope that they will be trading blows, is a waste of capital and time.

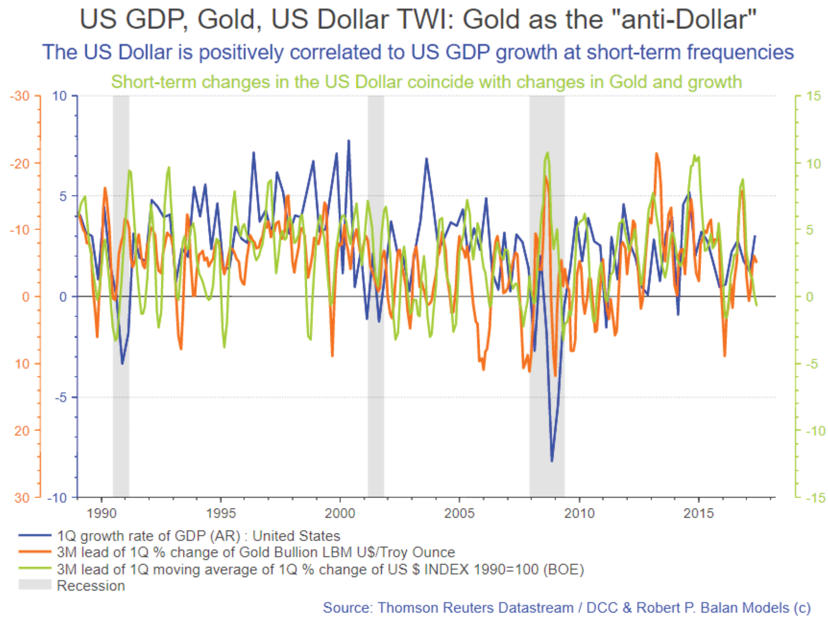
Nonetheless, investments in gold do not have to be at the mercy of such unpredictable events. **Gold is bound to the vicissitudes of economic growth and activity, as much as equities or bonds are. We all know that gold is negatively correlated to GDP growth -- the perfect antithesis of equities. This is what makes gold attractive as part of an asset allocation. In addition, gold negatively correlates to looser financial conditions – which is to say that we do not need to wait for hard GDP data to make decisions regarding any gold investment. We just need to determine how loose or tight US financial conditions are. It so happens that Gold correlates very well with the St Louis Stress Index, a metric published regularly by the St Louis Federal Reserve Bank** (*see graph 1, above*).

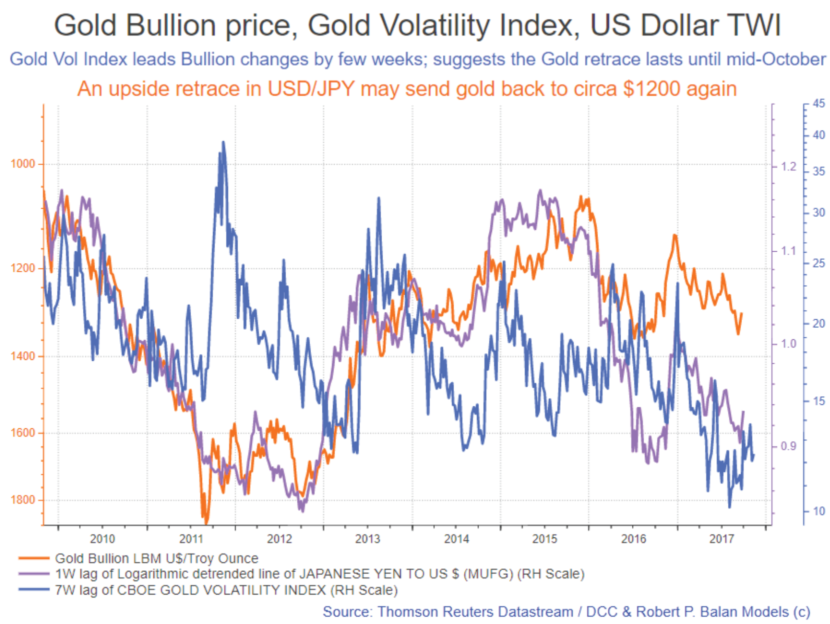
Financial conditions in the US remain loose, despite recent, actual tightening and some hawkish statements from Fed officials – and that is one of the reasons why the **FOMC in the September meeting decided to ratchet up the hawkish narrative even higher. One of the reason for these loose financial conditions has been the weakening US Dollar**. The Fed has likely hoped that pushing up the policy rates would push the currency higher, and would serve as transmission mechanism of their desire to tighten conditions. But the greenback weakened instead, as FX market participants anticipated the emergence of a tightening bias from the ECB, making the EUR more attractive as conduit of speculation in the FX market.

The most well-known relationship Gold has is with the US Dollar TWI – when the Dollar weakens, gold strengthens, and vice versa. **But the weak USD has not benefited gold much this time around because of the looser financial conditions brought about by the falling currency. Their negative correlation is so well-known and so tight that many analysts have taken to calling gold as the "anti-Dollar"** (*see graph 1 on next page*). The US Dollar is often positively correlated with growth, but it is not a consistent relationship. Too high a value of the US currency is often deletrious for GDP, as a strong dollar curtails exports. And exports are direct components of the US GDP. The Dollar troubles are not yet over – the greenback remains in a bear phase, and will likely be that way until mid-Q4 this year. That is why gold will be a good buy opportunity once its currection phase is over in the next few days.

Gold and the US Dollar are also linked via the Gold Volatility Index. For the US Dollar, the USD/Yen pair is the best link to this set up. The Gold Volatility Index leads changes in the Gold bullion by several weeks, while changes in USD/Yen could lead changes in gold by as long as one week. The set up shows the Gold Vol Index leading USD/Yen by seven weeks, and then USD/Yen, in turn, leads Gold by one week. We have used this linkages to accurately project the latest downturn in the gold bullion price (*see graph 2 on this page*). It can also be used to monitor or forecast the end of the current gold correction. This tool could give you a few weeks advance warning if used correctly.

An instrument that responds to macro development, like gold, should have strong co-movements with other risk assets. And this is generally true. **Over time, as stock indexes rise, bond yields rise in concert, USD/Yen and the USD TWI follow higher in their heels -- gold takes the opposite tact and falls**. There has been a short term mini-reflation phase since early September, which is moving to termincal stage , the 5-year bond yield may attempt to rise to a level close to 2.0%, USD/Yen makes play for a target range 113/115. **The "anti-Dollar", gold, could finish its current short term correction into the 1275/1260 range – at which point the mini-risk on phase ends, and the risk-off phase begins. This risk-off stage could be brief as well – we expect it to end sometime in mid Q4 2017**. The implications are of a new low for the USD , USD/Yen falling close around the 105 level, and the 5-year yield back again at or just below 1.5%. And gold could really shine this time around, and we could see a new high around 1380/1410.



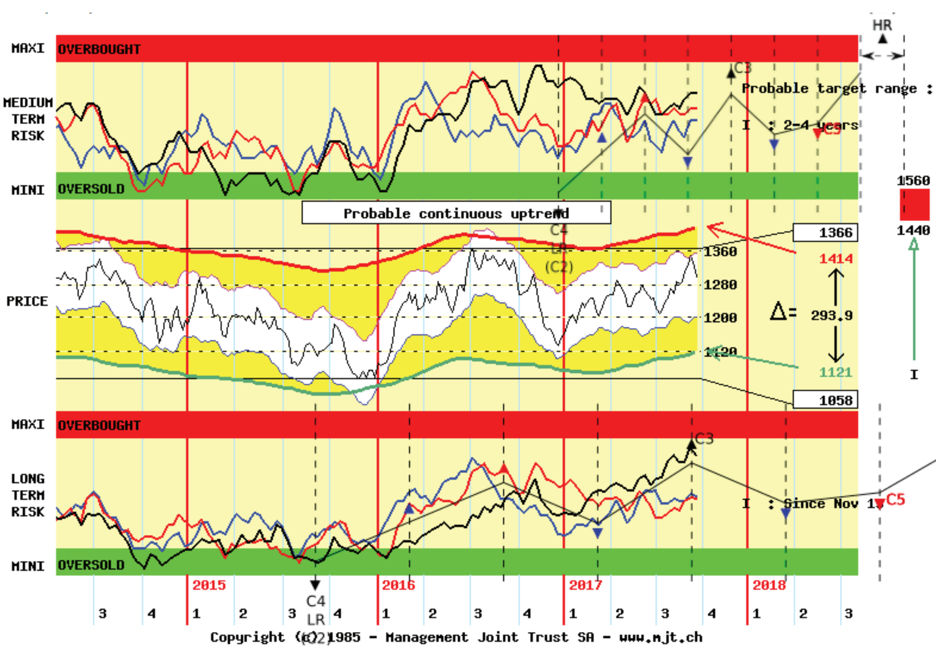


The trigger for a pervasive reset like the one outlined above could come from growth issues or the geopolitical side. The Atlanta Fed GDPNowcast forecast for Q3 started strong at circa 4.% sometime in early August, but slowly, the forecast numbers gravitated lower and is now at just above 2.0%. With the twin hurricanes recently devastating a wide swath of the US southern states, we should be ready for even worse numbers. **The growth slowdown or geopolitical situation could carry over towards mid Q4, and that is whern we expect the risk-off phase to end. It will be just in time, as we expect the traditional Christmas rally in risk assets to make its appeareance again this year. The Christmas rally could extend to at least late Q1 2018, or even to the mid-2018. Then we reassess the prevailing economic situation at that time.**

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

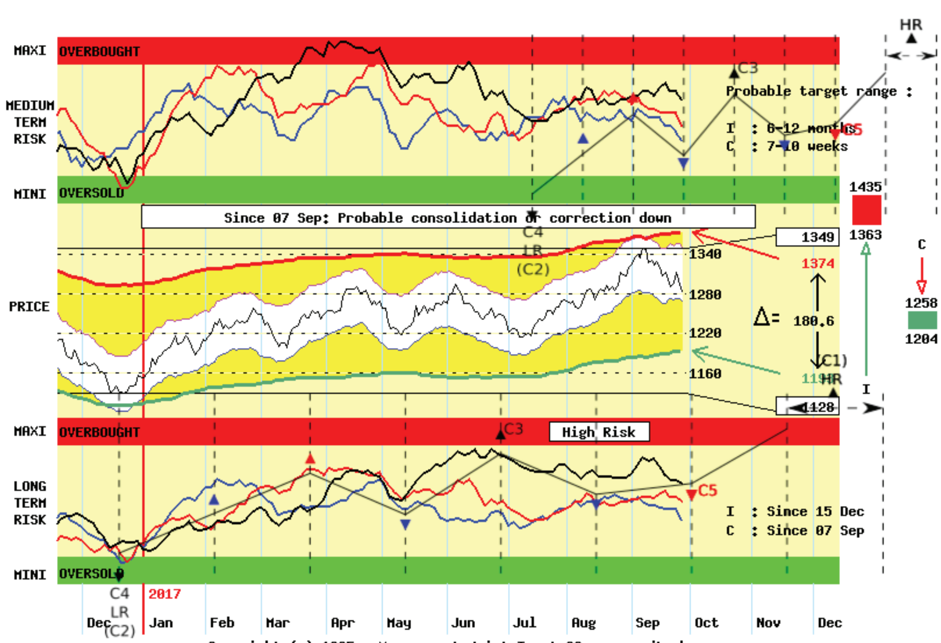
As interest rates and the Dollar have tested and retested lower this year, Gold has made a succession of rebounds. We view this price action since December as a long and gradual bounce. It should start to fade once reflation trades, interest rates and possibly the Dollar start moving up again. In the 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



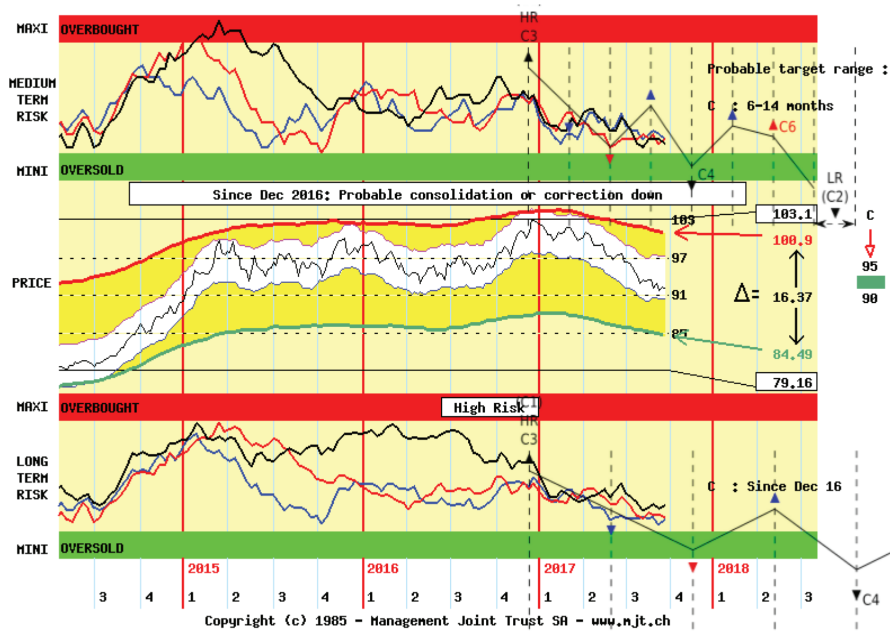
The gradual bounce on Gold since December may soon be coming to an end. Our long term oscillator series (lower rectangle) have indeed reached an intermediate top which should see Gold correct down into the Spring. That said, our medium oscillators (upper rectangles) still leave **some leeway for a last 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



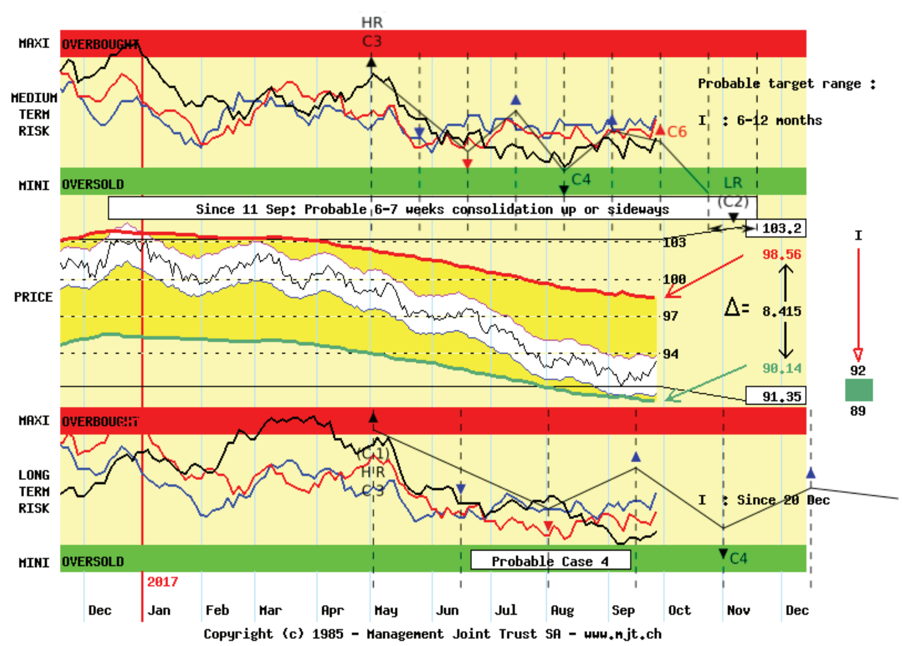
On our Daily graph, our automatic messaging called a High Risk in September and Gold has since been correcting down. We believe that this situation might be transitory and that **both oscillators series (lower and upper rectangles) are calling for an extension up. It should start early October and should 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



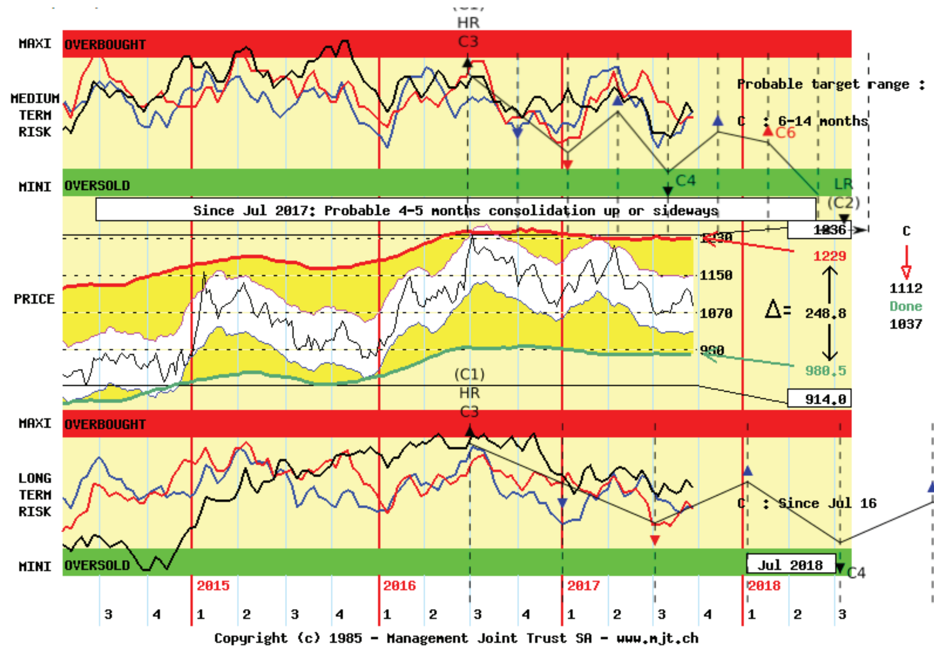
The fate of Gold is closely linked to the Dollar. Usually, the weaker the Dollar, the stronger is Gold. Both oscillator series (lower and upper rectangles) on this Weekly graph point to a lower low on the Dollar into mid Q4 before a rebound can start to materialize towards the Spring of 2018. **We believe 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



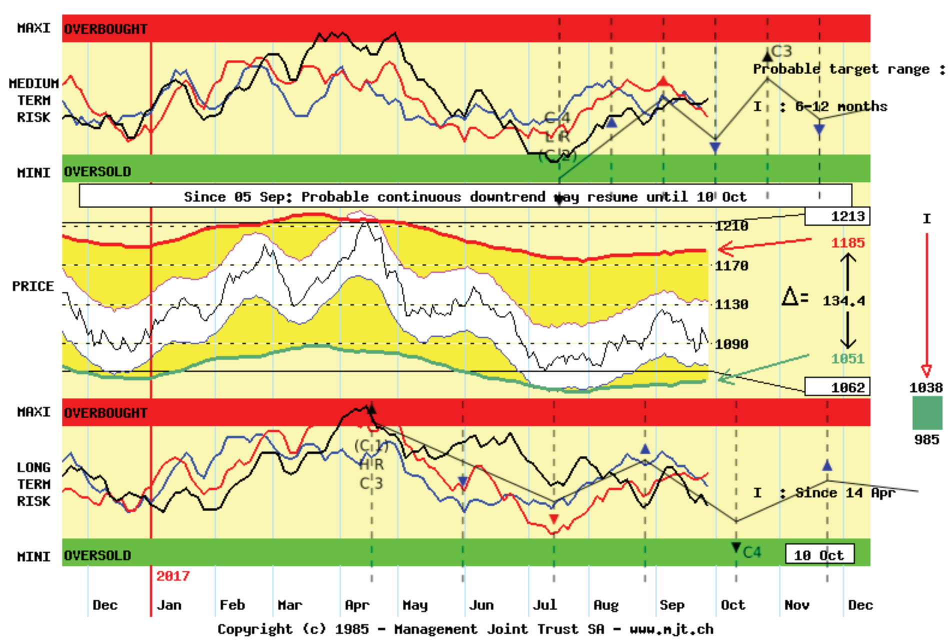
Scoping into the Daily graph of the Dollar Index, we can confirm that our 'I' Impulsive targets down (right-hand scale: middle rectangle) point to a range between 92 and 89, a range the Dollar Index already visited a few weeks back. Yet, according to the sequences we show on both our oscillator series (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



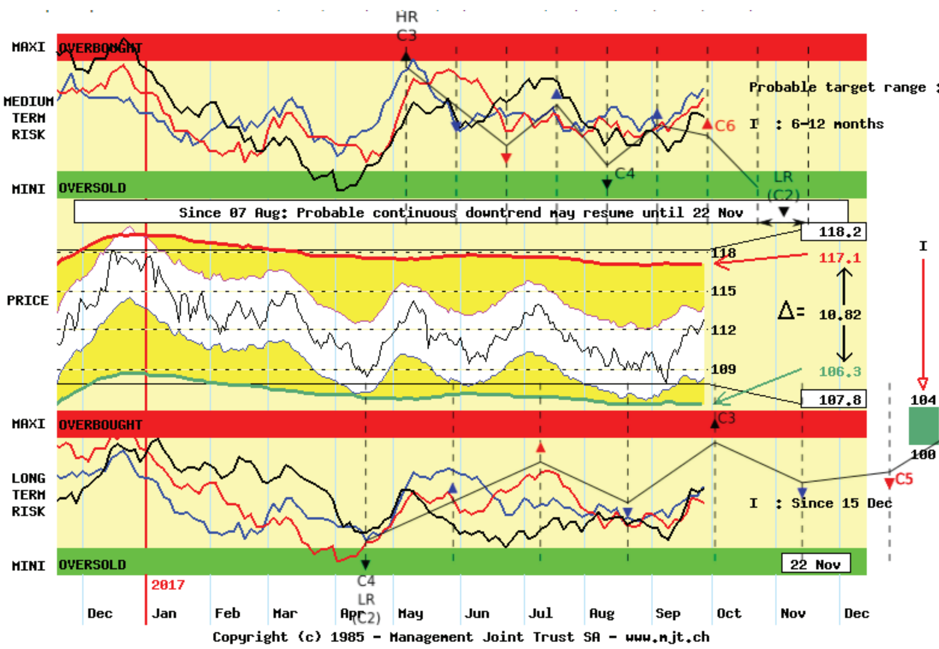
We now strip Gold of its inverted correlation to the Dollar and look at Gold denominated in Euros. This should highlight Gold's real risk-off characteristics, beyond currency moves. The graph is in a downtrend, yet **has been bouncing since mid this year. According to both our oscillator series (lower 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



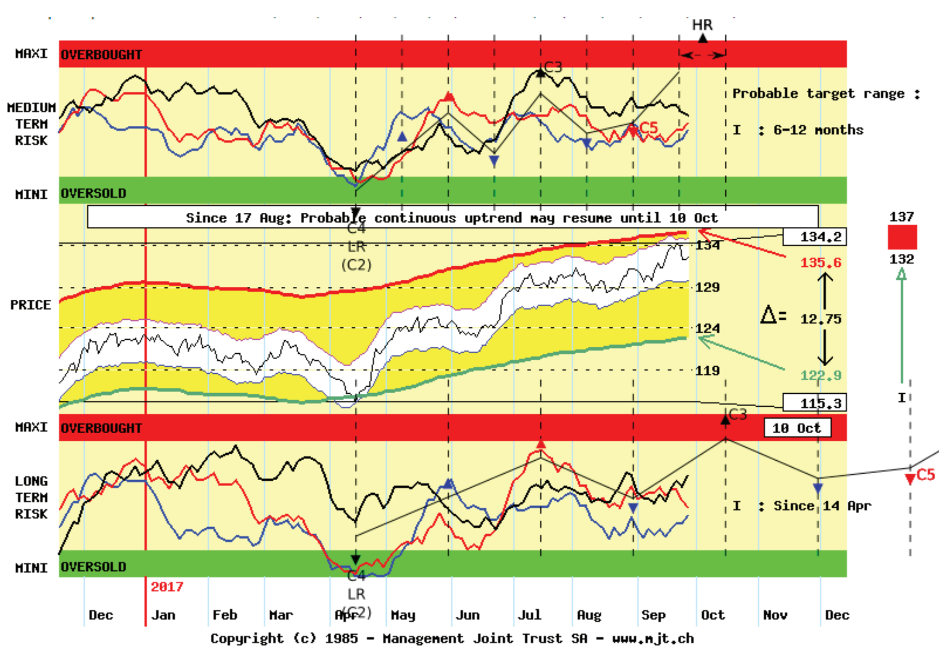
On the Daily graph, Gold in Euros is currently retracing and getting close to its June lows around 1'060 Euros/oz. Our 'I' Impulsive targets to the downside (right-hand scale; middle graph) even point to levels between 1'038 and 985. However, before that happens, we believe that Gold in Euros should 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



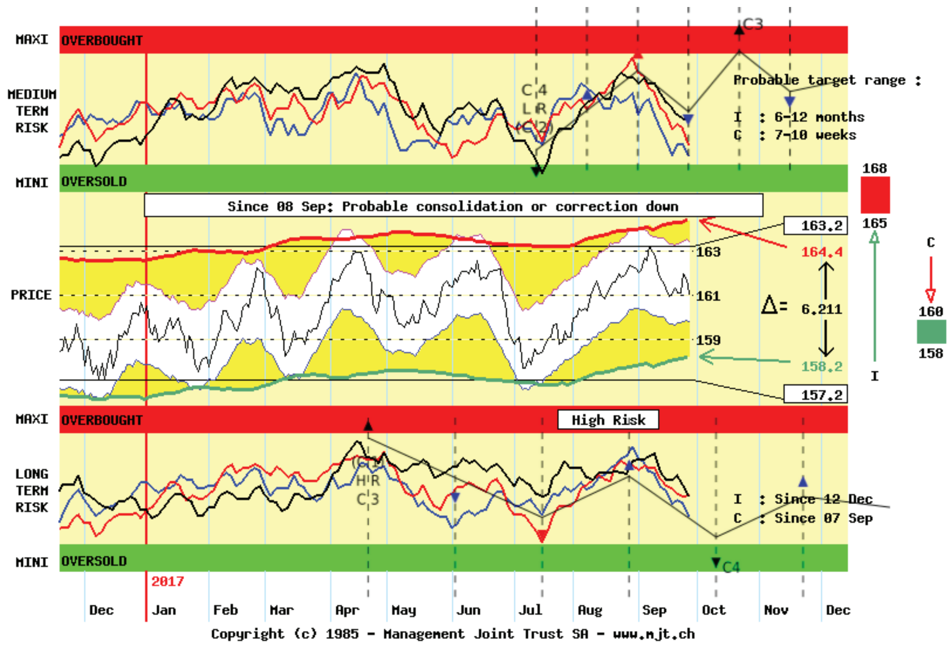
We now turn to USD/JPY. Indeed, the Yen is very much inversely correlated to Gold in USD (i.e. the Yen is also a defensive asset). Hence, when this graph moves lower, Gold should then be moving higher. The last few months unfortunately have been very much sideways. On our long term oscillator series (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



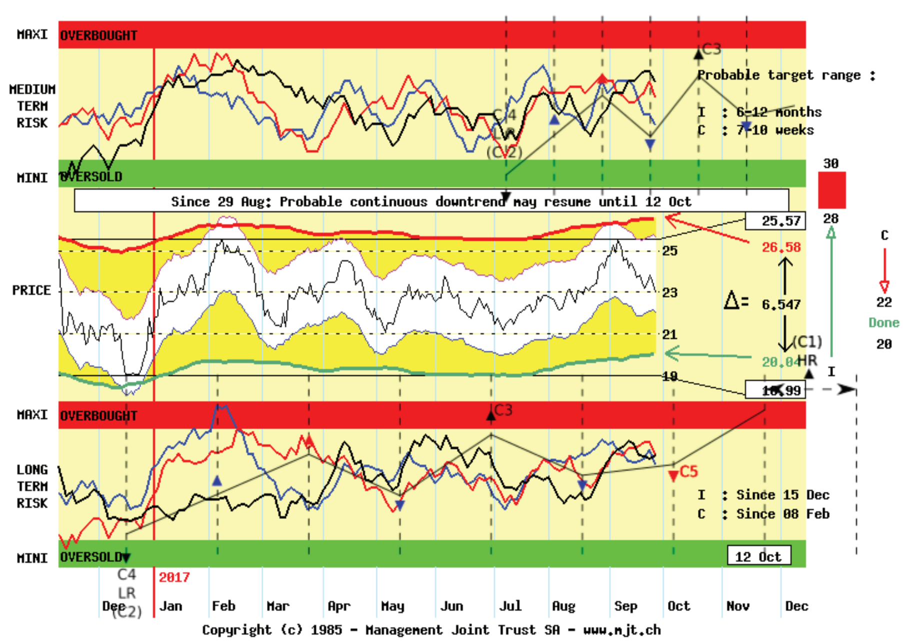
EUR/JPY is also quite revealing of the risk-ON / risk-OFF relationship. When it rises, markets are usually risk-ON, when it falls, markets are usually risk-OFF. On both our oscillator series (upper and lower rectangles), **EUR/JPY is currently approaching an intermediate top between now and early October**. 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



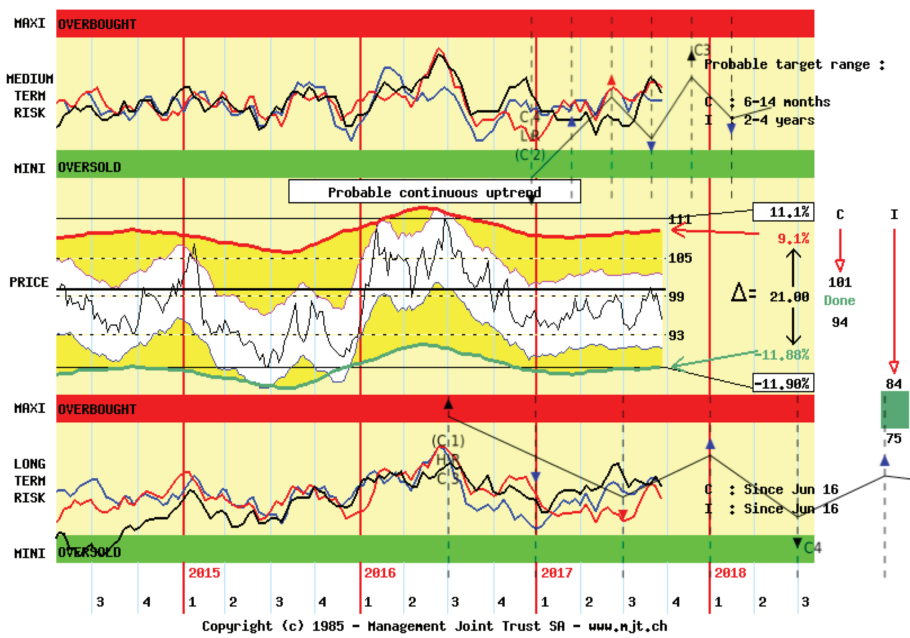
During July and August, the Bund was probably the most defensive asset in the world (strong Bonds, strong Euro) and since early September it has been retracing down (risk-ON). According to both our oscillator series (lower and upper rectangles), **it should soon reach support and resume its uptrend towards 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



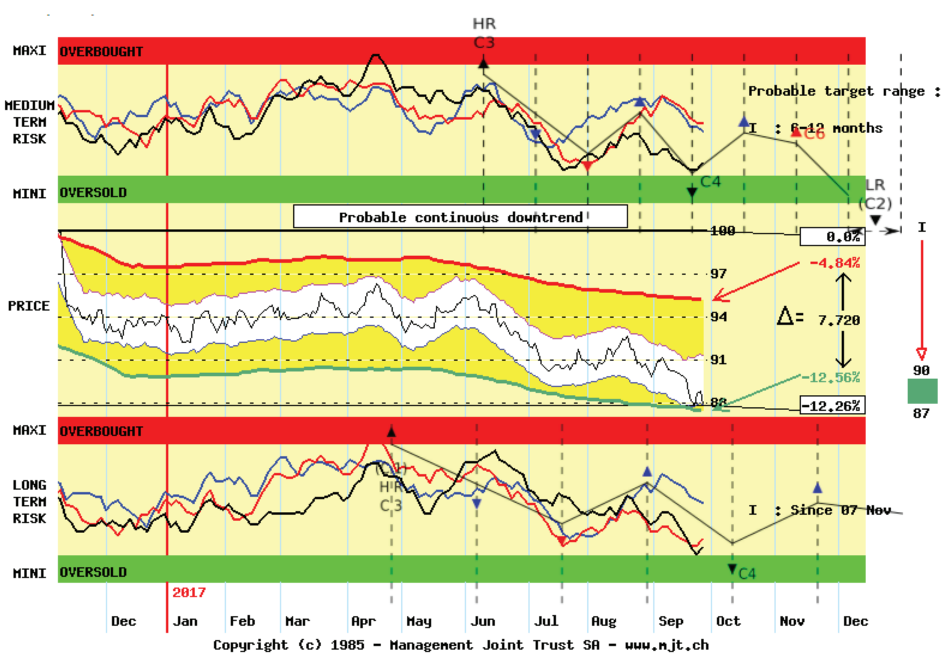
We now look at Gold-mines, which are very much correlated to the metal. On both our oscillator series (lower and upper rectangles), **they should also find support early October to move up towards late October and possibly mid November**. According to our 'I' Impulsive targets to the upside (right-hand 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



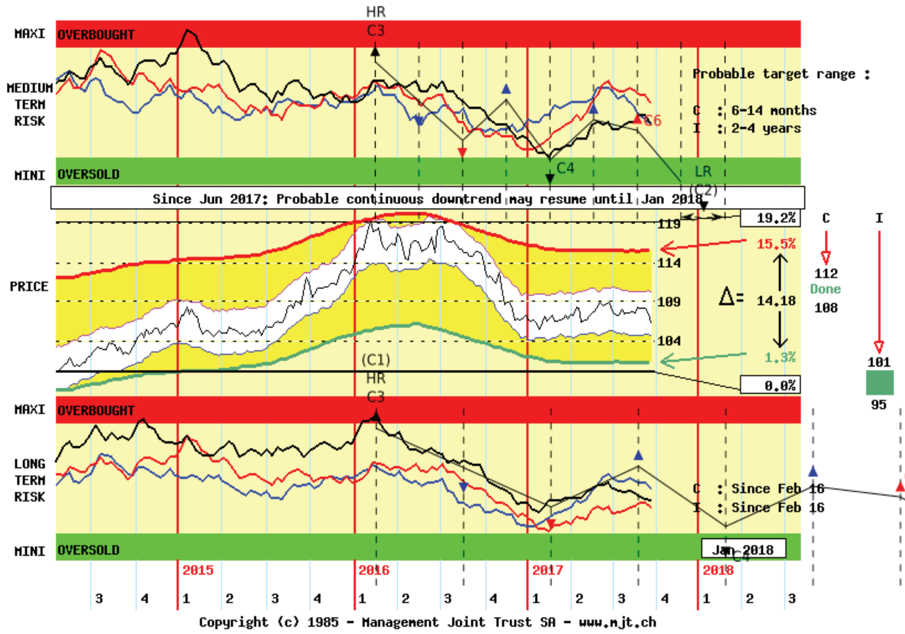
Looking at other Defensive sectors vs the general market, we first consider US utilities vs the S&P500. On this Weekly graph and our long term oscillators (lower rectangle), the downtrend continues until mid next year. **Our medium term oscillators (upper rectangle) are monitoring the gradual bounce 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



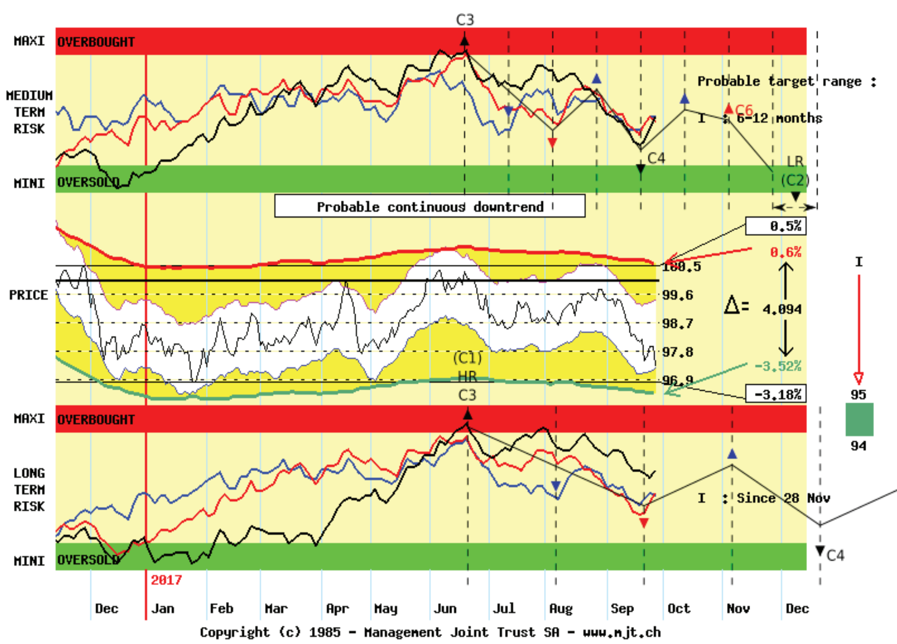
Looking at the similar graph (Staples vs the S&P500), yet on a Daily basis, we would identify **an intermediate low between now and early October** on both oscillator series (lower and upper rectangles). In terms of targets, the move also looks exhausted with our 'I' Impulsive targets down having been 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



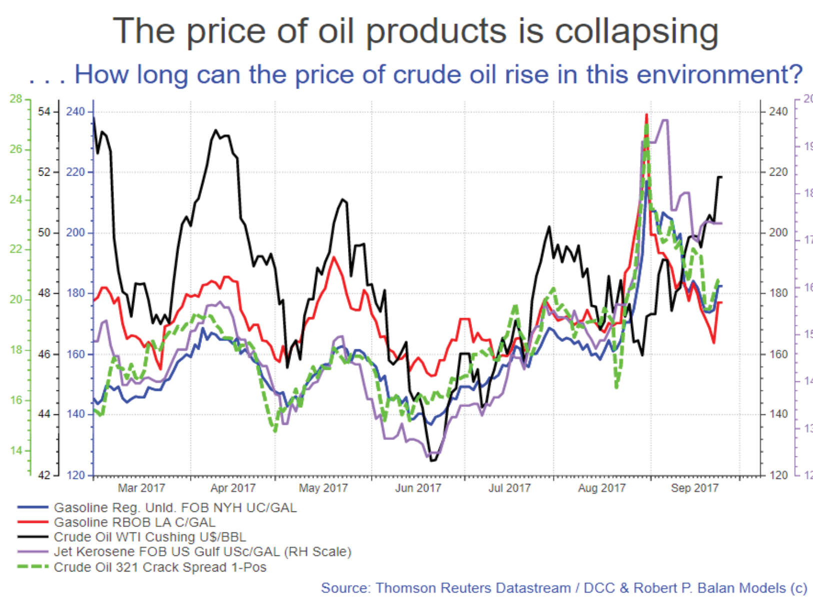
On the Daily graph however, we are approaching an intermediate low on both oscillator series (lower and upper rectangles). **Minimum Volatility should hence bounce vs the general European market towards late October, early November, before it resumes its downtrend towards year-end. Again, such a bounce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

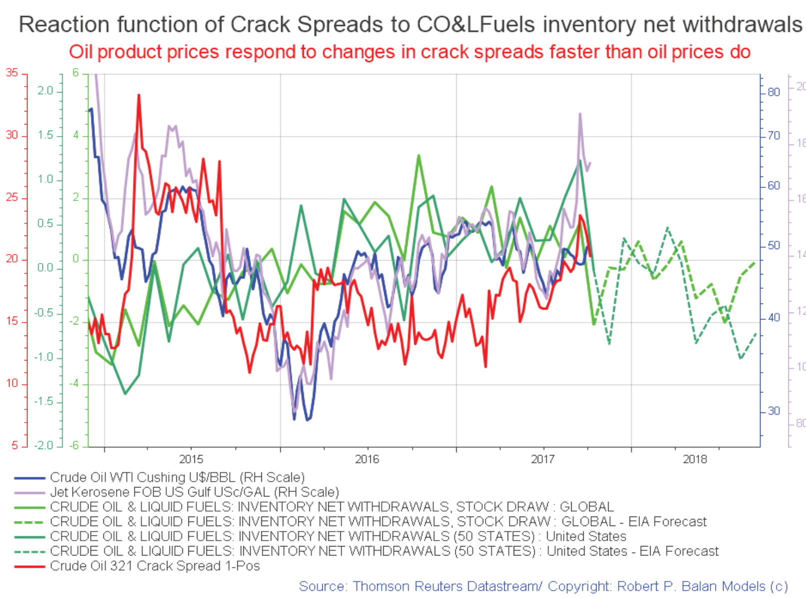
Concluding remarks

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.

35 / Oil is performing strongly, leading the reflation trade, however product prices are weakening, could that lead to some temporary consolidation?

In September, Oil prices gained strongly, having largely benefited from an improvement in perception that Opec led production curbs are working and that we are witnessing a tightening in the supply-demand balance. **With such performance Oil is joining the base metals, leading the way into what we view as the early stage of a reflation Wave 2, that we anticipate will become clearer in Q4**. However, looking at the overall sector dynamic we can't help to notice that Gasoline consumption and gasoline production have peaked; refinery crude oil inputs have collapsed. The crack spread has narrowed sharply after spiking due to Harvey, and gasoline prices are plummeting. So, we ask the question: Could the oil price consolidate over the next few weeks? After a +30% move from late June through early September due to the impact of the recent hurricanes in Texas and in Florida, gasoline prices have started to retreat from their recent hurricane highs. The American Automobile Association said the US national average price of gasoline currently stands at $2.58 per gallon, which is down close to 4% from the recent hurricane highs. In conjunction with this, the prices of other products have also been declining (*see graph 1, on this page*).



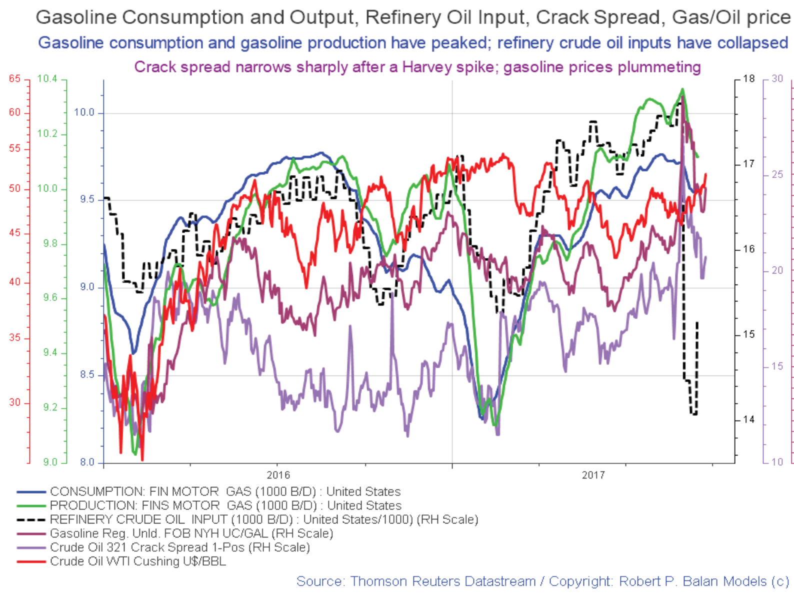


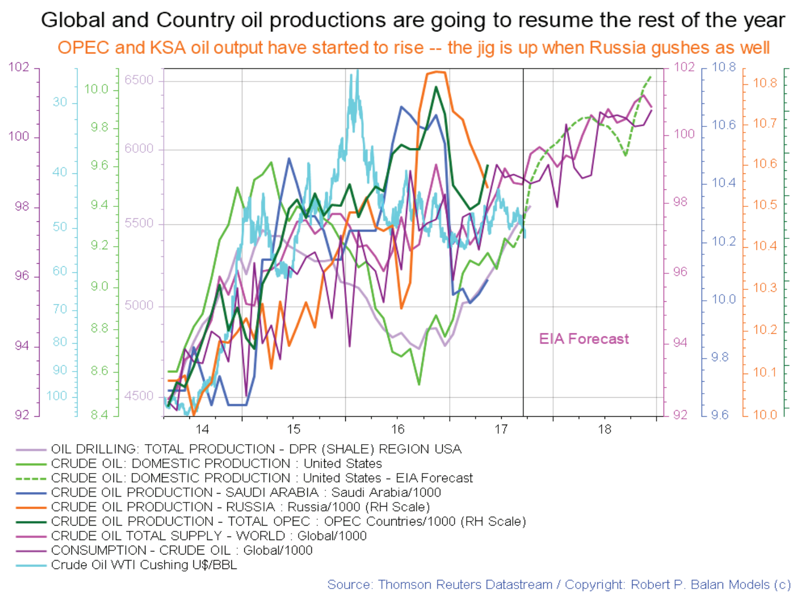
Nonetheless, crude oil prices are surging – which is contra to the messages from product prices. Over the short term, which one will prevail – crude or products? For us, the answer is clear-cut: consumers do not use crude oil -- they use products, especially gasoline -- so where gasoline goes, crude oil will go too eventually, even if it will be screaming and kicking in the process. We have seen it before, in early Q1 this year – we should see it happen again. This is not saying that products «predict» the price of oil -- it is just that the turning points in oil products are usually ahead by a day or two (although sometimes it can be longer, especially at major turning points). **We believe that the prices of oil products simply respond more efficiently or quickly to perceived changes in the underlying conditions of the oil market. Hence, the quicker response to underlying conditions**. And here is probably the reason why. The prices of products «lead» the price of oil by some (variable) time is because the crack spreads «respond to» or are the «manifestation» of CO&LF inventory net withdrawals (those stocks have to go somewhere, primarily to oil refineries). Less stock withdrawals mean there is less oil input going into refineries (*see graph 2, above*).

The refineries and pipelines that were affected in the twin hurricanes have either returned to normal production or at the final stages of doing so. Eight of the 20 refineries that were partially or fully shutdown are now operating at normal levels. The Colonial Pipeline, which brings gasoline from the Gulf Coast to the Southeast and Northeast U.S., was partially closed during Hurricane Harvey, but has already returned to full capacity for some time. All the vestiges of damage from the twin hurricanes will soon be erased. The price of gasoline will cease to be get uplift from the impact of Hurricanes Harvey and Irma. That is not all that is depressing gasoline and product prices. The crack spread, which widened sharply during the aftermath of Hurricane Harvey has narrowed significantly. And changes in oil product prices tend to be coincident with changes in cracks-- or oil product prices often even lead cracks (cracks do widen or narrow, to follow changes in products).

The background data say that the fall in gasoline prices may persist for some time. Here is the reality of the oil products universe – the US is well supplied with gasoline stockpiles. Gasoline consumption has peaked; hence gasoline output has come down significantly. With that, there has been a collapse in the refinery oil input (*see graph 1 on this page*).

The variance between the behaviour of rising crude oil prices and the travails of falling oil products prices may be just be a case of divergence between positive sentiment and not-too-positive reality. Crude oil prices rose earlier on the week amid growing expectations that producers will extend output cuts sooner rather than later, even as oil traders took comfort on signs that the market is starting to rebalance. **Members of the OPEC and other major producers (NOPEC) met in Vienna on Friday last week, and pledged to revisit the idea of extending the output-cut agreement beyond the March 2018 deadline in the coming months.**

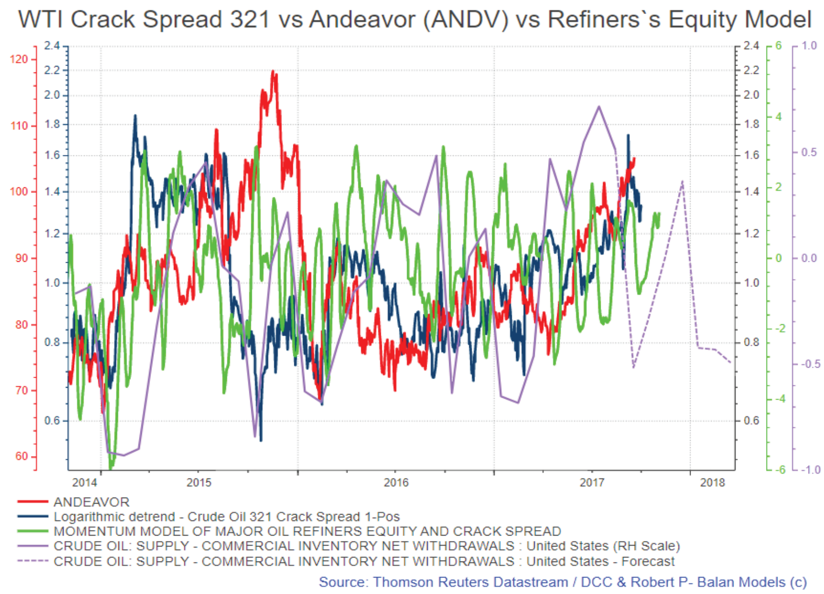


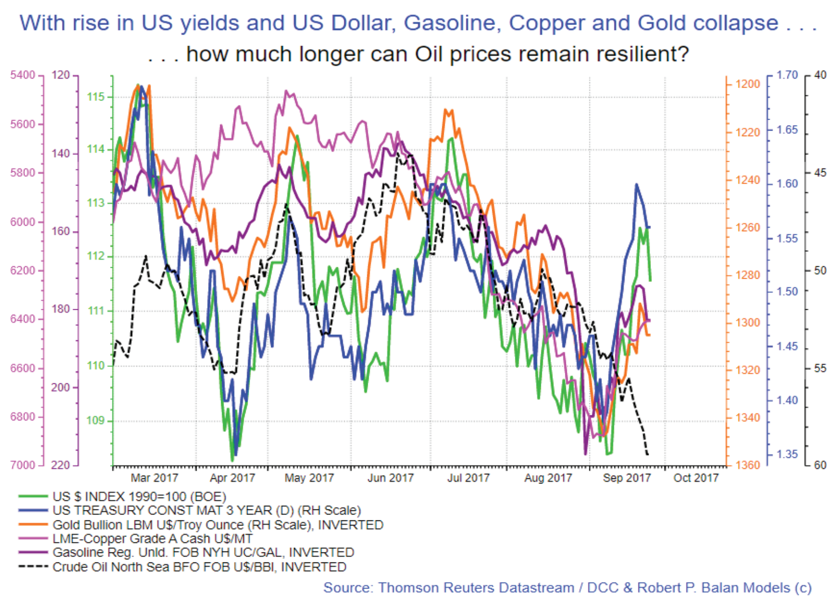


We are however dubious that this will happen soon, or even this year. The consortium of OPEC and NOPEC take drastic rescue operations only when prices are falling, NOT when prices are rising. Also, rising oil prices encourage oil exporters (especially the marginal ones) to pump above agreed-upon levels, lowering the rate of compliance with the recent global accord to curb output. **Higher oil prices will, indeed, encourage the US shale producers to pump out more oil. In that respect, US production will continue to rise during the rest of the year**. Indeed, even OPEC and Saudi Arabia`s production has started to rise. When Russian production starts to gush as well, then the jig is up – and we all have been suckered in (*see graph 2, above*).

However, we expect a forthcoming fall in product prices to be relatively brief. The forthcoming weakness in product prices has been flagged in advanced by the outlook of lower commercial net inventory withdrawals due to seasonality factors. But historical evidence shows that after a brief narrowing during late September-first-half of October, the crack spread tends to widen going into year-end and the following first quarter. The equities of major refiners, like ANDV, should follow higher into year-end, and could break the 117.59 peak of late 2015. (*see graph 1, next page*)

On a macro-sense, the oil price rally is an outlier. Short-term US rates have been rising sharply, which in turn, has started to move the US Dollar. Other commodities, and commodity-like assets have been falling: gold has been cut down several notches lower, and the previously high-flying copper has been consolidating (*see graph 2 on this page*). And, of course, gasoline prices have fallen. **In this environment, given some divergence with the products and that some positive news flow has now been discounted we ask: Could the oil market pause and digest over the next few weeks?**

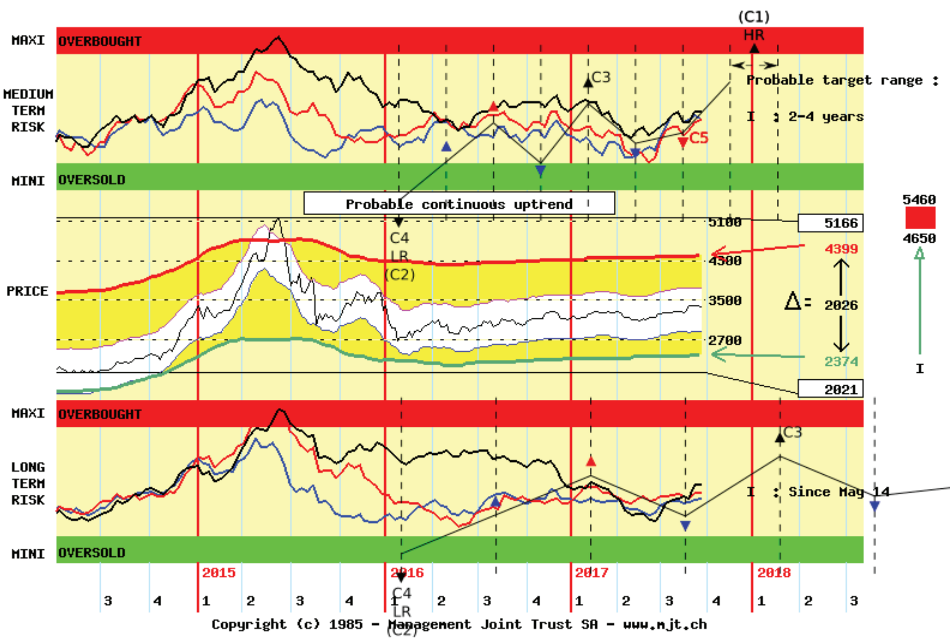




Oil should retrace during October before it resumes its uptrend towards year-end.

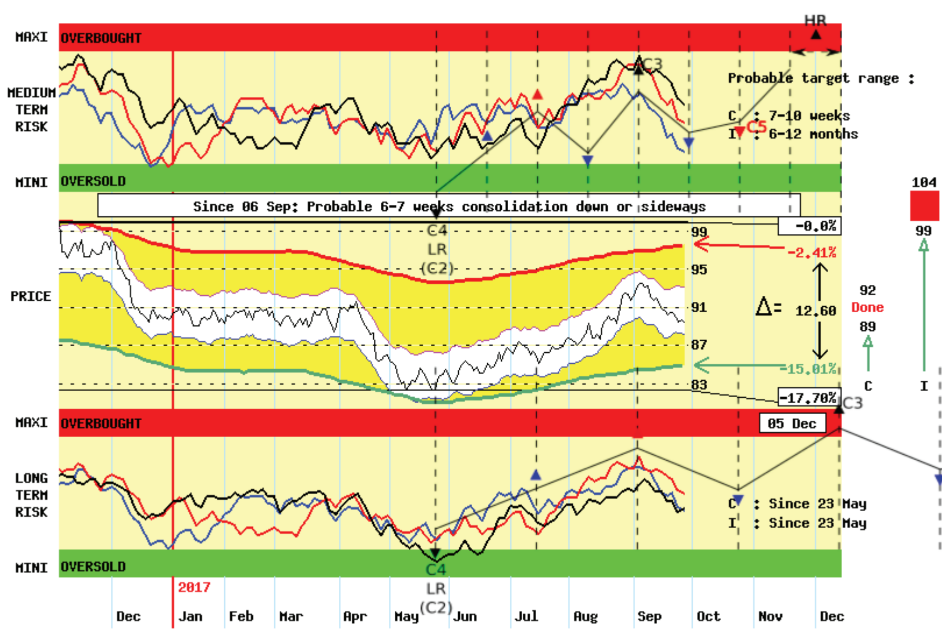
According to our projections, led by China, Oil has started to move up in June and has since accelerated up. We believe it has now reached an intermediate top and should start to retrace down into October. We would see a further buying opportunity late October, early November to seize the strong year-end rally we expect.

Shanghai Composite Index
Weekly graph or the perspective over the 2 to 4 quarters



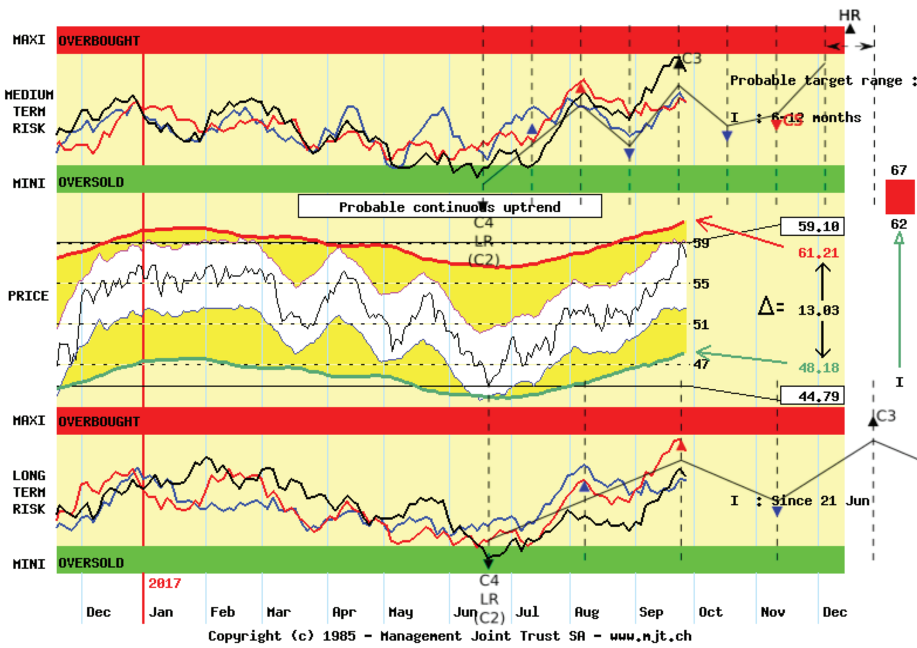
China led Oil up in 2016 and again was probably the cause of its retracement in H1 2017. Since June, the Chinese market has started to move up again and on both oscillator series (lower and upper rectangles), we would now expect it to continue up towards early next year.

Shanghai Composite Index vs MSCI WORLD INDEX
Daily graph or the perspective over the next 2 to 3 months



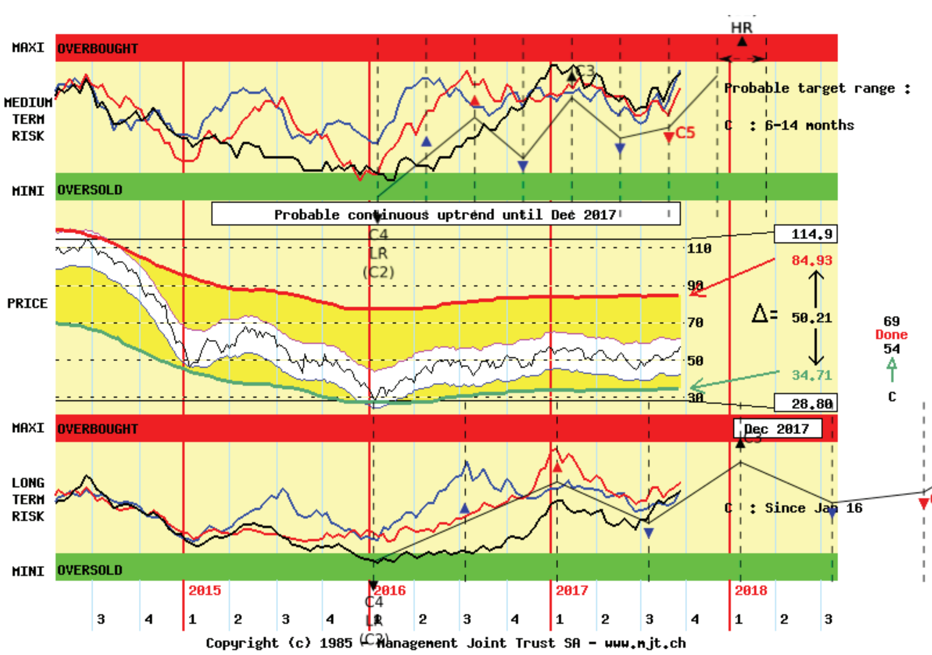
Looking at the Shanghai Composite vs the MSCI World Index, we can monitor the progression since June. This ratio is not hedged for currency and hence includes the effect of a strengthening Yuan vs USD. In fact, the progression of Chinese equity vs world markets is quite firm as both the market and the currency are moving up vs the world and the USD. On both our oscillator series (lower and upper rectangles), **the Shanghai Composite has made an intermediate top vs the MSCI World Index early September and is now retracing down. The ratio should find a retracement low between now and late October to resume its uptrend towards year end. The ‘I’ Impulsive targets to the upside for China’s outperformance towards year-end are still substantial (right-hand scale; middle rectangle), between 10 and 15%.**

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



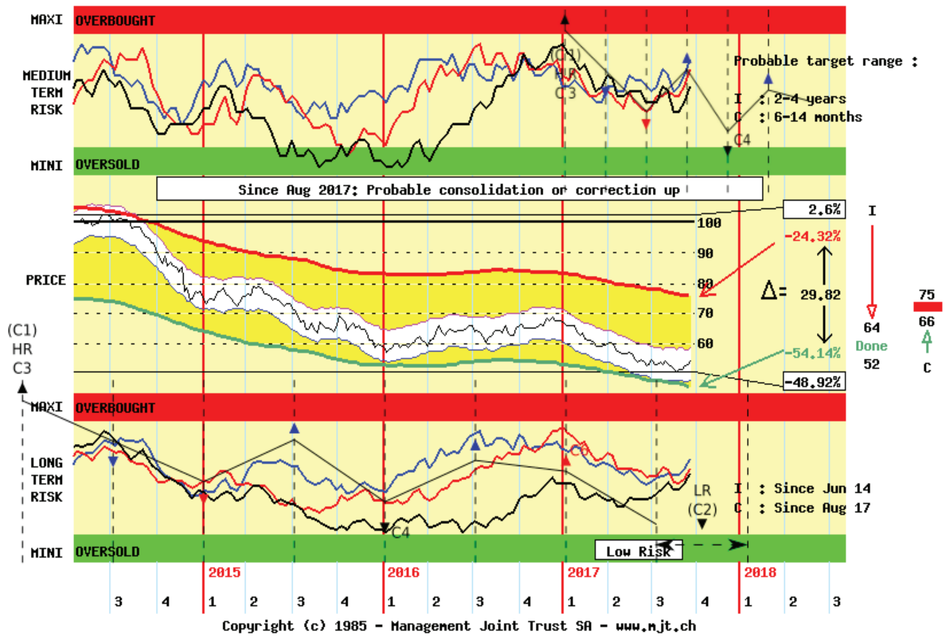
Turning to Brent Oil, it started up a few weeks after China had turned and interestingly also seems to be topping out now with a similar delay. On both our oscillator series (lower and upper rectangles), we would now expect **Brent to retrace down into late October, early November.** Given our current historic volatility measure "Delta" at 13.06 USD (right-hand side; middle rectangle), **Oil could retrace between 6.5 and 10 USD from its recent highs during that period** (the calculation uses "Delta" and multiplies by 0.5 to 0.8 to get a corrective price target potential). Following that, and from November into year-end, the 'I' Impulsive targets to the upside are between USD 62 and 67 USD/barrel (right-hand scale; middle rectangle).

Brent
Weekly graph or the perspective over the 2 to 4 quarters



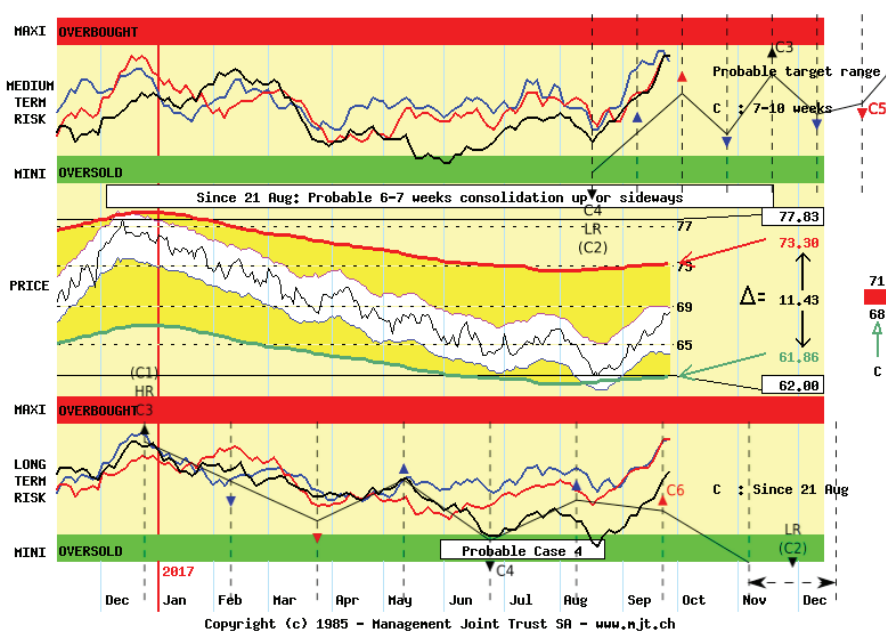
The longer term perspective for Oil is however still very encouraging towards year-end and early 2018. On both our oscillator series (lower and upper rectangles), **we are now in "resume uptrend" situations, which should lead us up into Q1 2018**. The move up since 2016 is still corrective, yet the upper end of its 'C' corrective targets already **extends up to the high 60s USD/barrel** (right-hand scale; middle rectangle). **These targets pretty much match our Daily targets above and are the targets we are considering towards early next year.**

XLE - Energy Select Sector SPDR Fund vs SPY - SPDR S&P 500
Weekly graph or the perspective over the 2 to 4 quarters



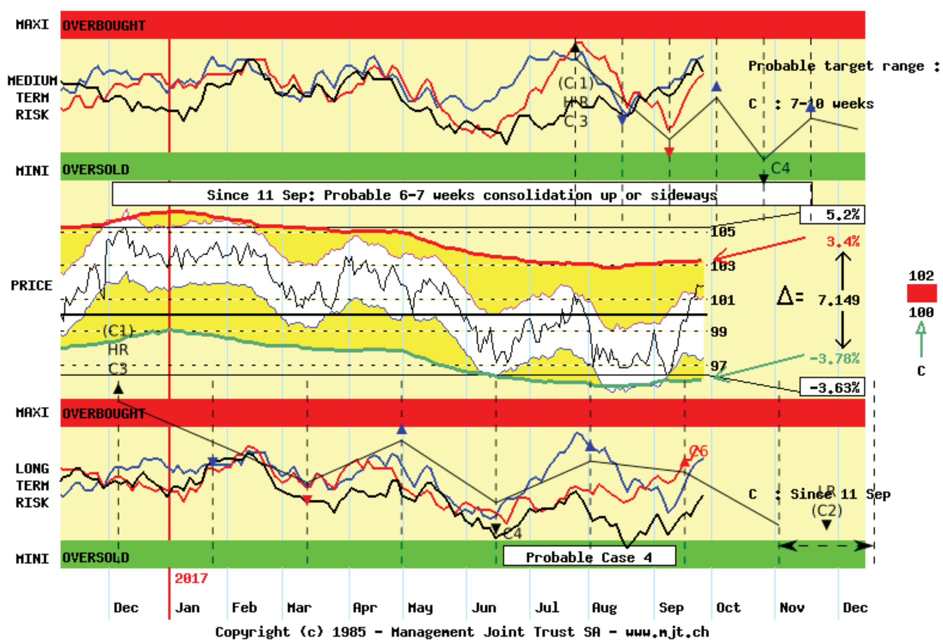
The Energy sector has however underperformed Oil. This relative graph compares the US Energy ETF XLE vs the S&P 500 SPY ETF. Following a bounce in 2016, it actually made new lows in 2017 and may still be lingering down lower. On our long term oscillators (lower rectangle), **it has now reached a "Low Risk" position**, an interesting situation that usually leads to a bounce. On our medium term oscillators (upper rectangle), **we can still expect one last period of underperformance into mid Q4 (retest) before the ratio really starts to rebound** into early next year. On the price target front, our 'I' Impulsive targets to the downside are exhausted, while **our 'C' Corrective targets to the upside could deliver as much as 20 to 40% outperformance** into early next year, once the rebound is underway (right-hand scale; middle rectangle) – **the Energy sector is indeed very volatile vs the general market.**

XLE - Energy Select Sector SPDR Fund
Daily graph or the perspective over the next 2 to 3 months



The sector on a stand-alone basis has been correcting up rapidly since mid September. That said, it is already approaching the resistance levels of our 'C' Corrective targets to the upside between 68 and 71 USD (right-hand scale; middle rectangle). This and the intermediate top we expect between now and early October on both our oscillator series (lower and upper rectangles) confirm the **retracement/re-test down we expect for the sector into late October, possibly even into mid November.**

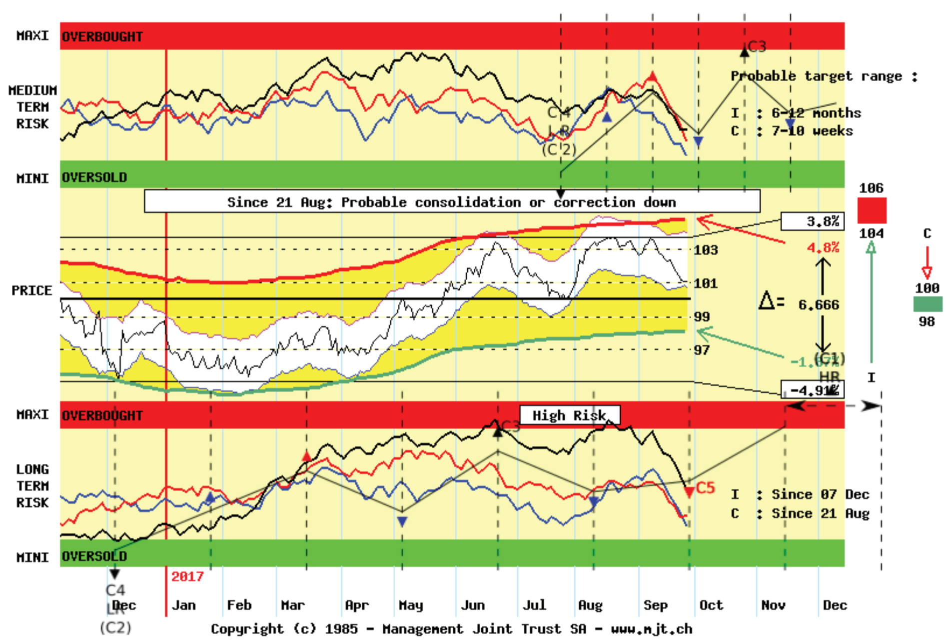
IEO - iShares Oil & Gas Exploration & Production ETF vs XLE - Energy Select Sector SPDR Fund
Daily graph or the perspective over the next 2 to 3 months



We now turn to the US Energy sector segments to confirm this view. **We first focus on Oil Production and Exploration vs the wider XLE index. This segment is indeed more volatile (risk-ON for Energy)**. This relative graph have rebounded aggressively since early September. We believe that on both our oscillator series (lower and upper rectangles), **it is now approaching potential tops that should trigger a new period of underperformance into late October and possibly mid November**.

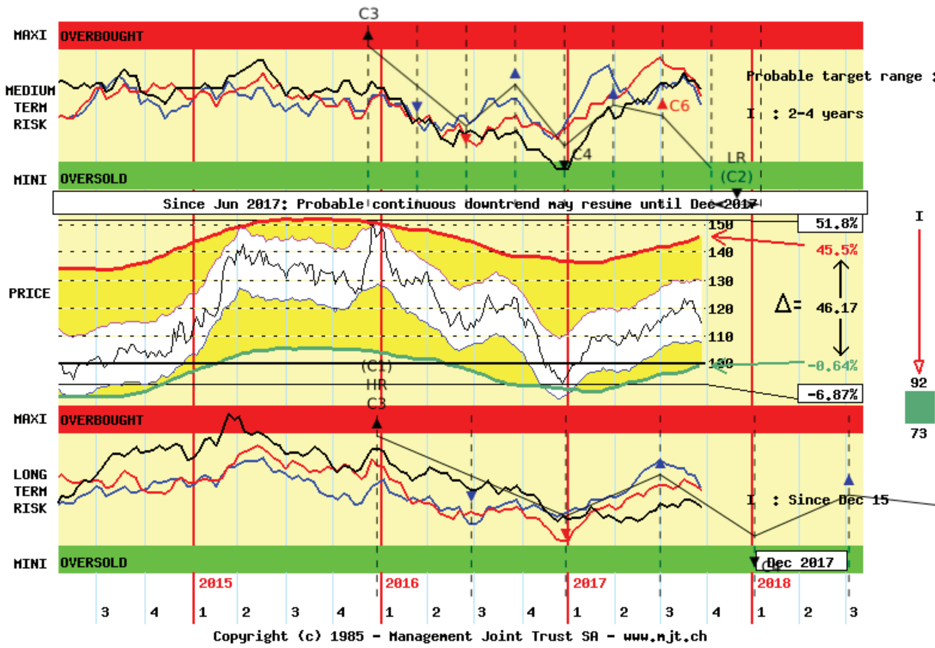
In this context, the rebound potential is already getting exhausted. Indeed, our 'C' Corrective targets to the upside (right-hand scale; middle rectangle), which usually serve as an initial strong resistance, have been reached.

S&P Integrated Oil & Gas vs S&P Energy (Sector)
Daily graph or the perspective over the next 2 to 3 months



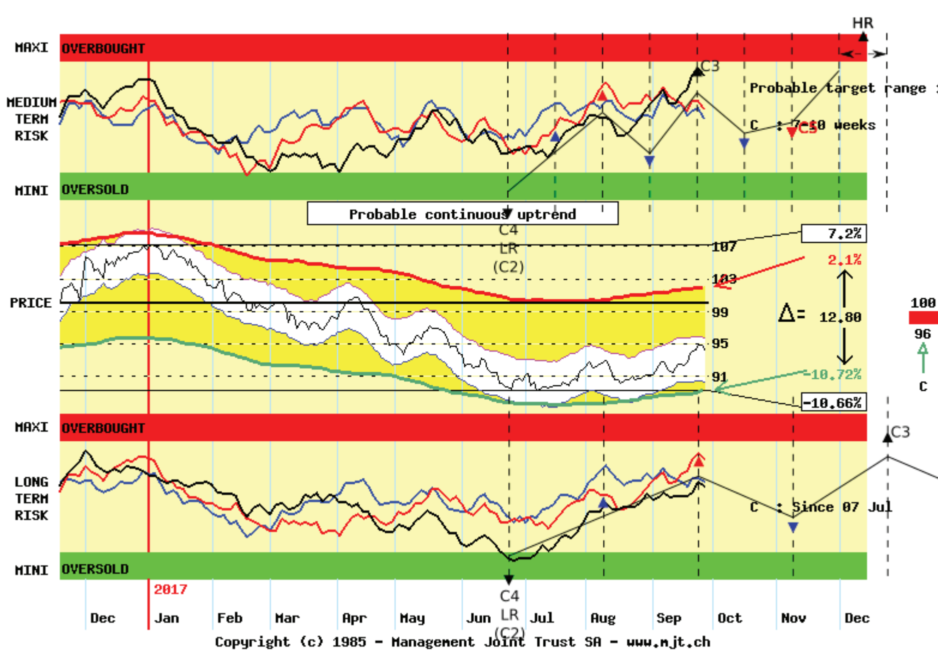
On the contrary, the Integrated Oil & Gas segment is considered more defensive within the wider Energy sector. It has indeed been progressing quite nicely vs XLE since Energy topped out last December, yet topped in August on a relative basis, when the sector started to rebound. On both our oscillator series (lower and upper rectangles), we believe, **it is now getting ready to resume its uptrend and extend to the upside into late October, possibly mid November. This is a sign that the Energy sector may be getting ready to retrace once more.**

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



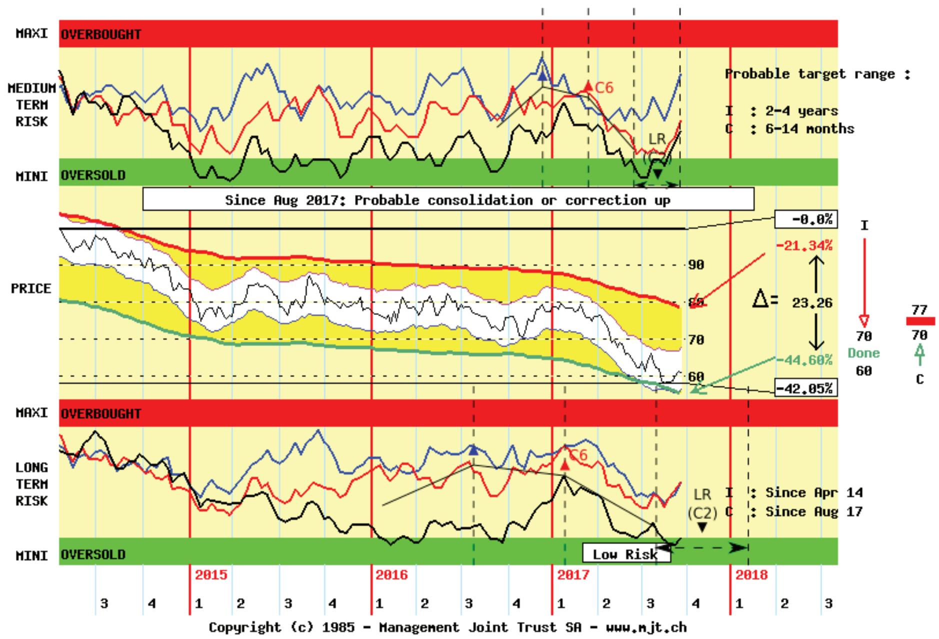
Another very defensive segment within the Energy sector is alternative Energy. We consider it here vs the wider Energy sector (both on a global basis). This relative graph confirms that beyond the retracement we expect on Energy over the next month or so, **the wider Energy sector should continue up vs Alternative Energy into year-end and possibly early 2018 (down rectangle on this graph)**. This is shown by both our oscillators series (lower and upper rectangles). We believe its also a nice proxy for the underperformance we expect for Growth assets (alternative energy) vs reflationary assets (energy) as we approach year-end.

ENERGY - Dow Jones STOXX (EPI) vs Dow Jones STOXX (EPI)
Daily graph or the perspective over the next 2 to 3 months



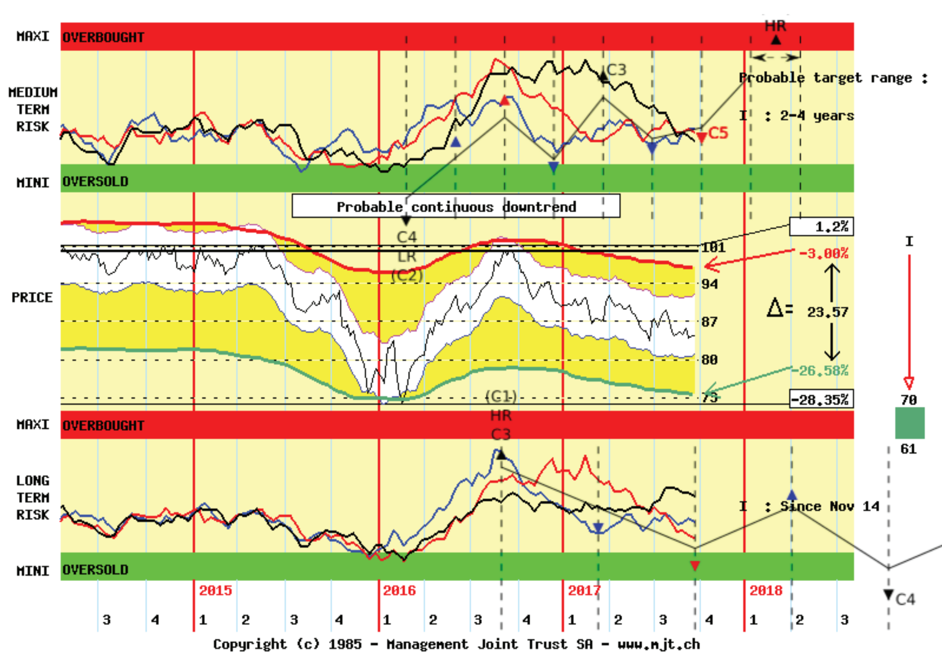
In Europe, the Daily graph of the Energy sector vs the general market is showing very similar dynamics than Oil itself, although with less volatility. Indeed, it bottomed out in June and following three months of outperformance is now approaching an intermediate top on both our oscillator series (lower and upper rectangles). **We would now expect it to underperform European markets into late October, early November**. The move up since June is still corrective (below our 'C' corrective targets to the upside; right-hand scale; middle rectangle) and **hence vulnerable to strong retracements and re-tests**.

OSX - PHLX Oil Service Sector vs XOI - Oil Index (NYSE Arca)
Weekly graph or the perspective over the next 2 to 4 quarters



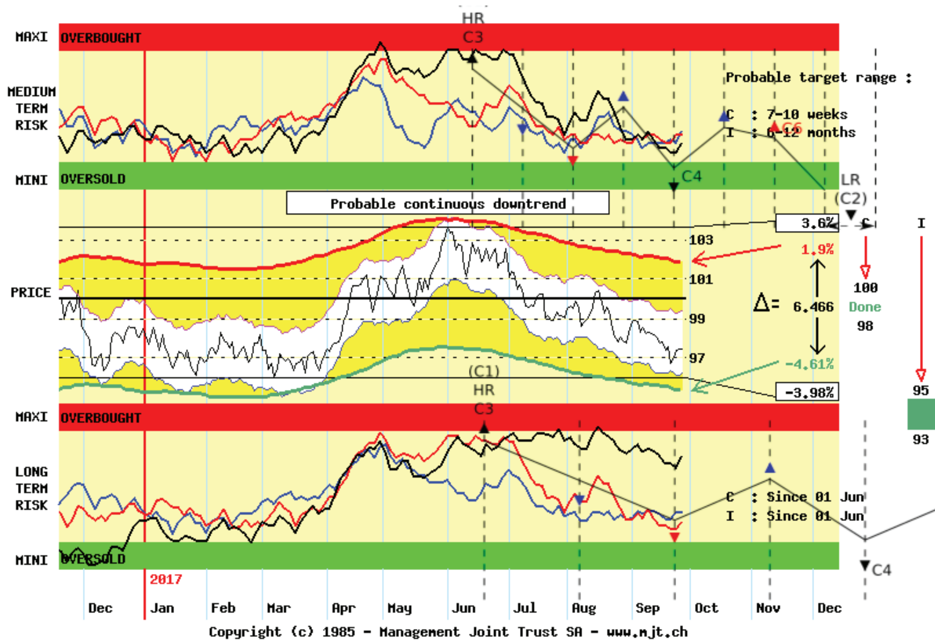
Taking a slightly longer term view, we look at Energy segments, which are usually quite volatile, yet have been beaten down quite strongly since early this year and the retracement of the Oil market. We believe they may constitute **interesting "high beta" opportunities once the retracement we expect comes to an end, late October, early November. We first look at US Oil services vs the more general Oil Index**. Indeed, on this Weekly graph and on both our oscillator series (lower and upper rectangles), it has now reached **an interesting "Low Risk" position vs the wider Energy sector**. We expect it start to outperform from November into Q1 2018 and according to our 'C' corrective targets to the upside (right-hand scale; middle rectangle) , it could do so by as much as 15 to 25% (on top of the sector's own outperformance vs the general market).

XNG - Natural Gas Index (NYSE Arca) vs VDE - Vanguard Energy ETF
Weekly graph or the perspective over the next 2 to 4 quarters



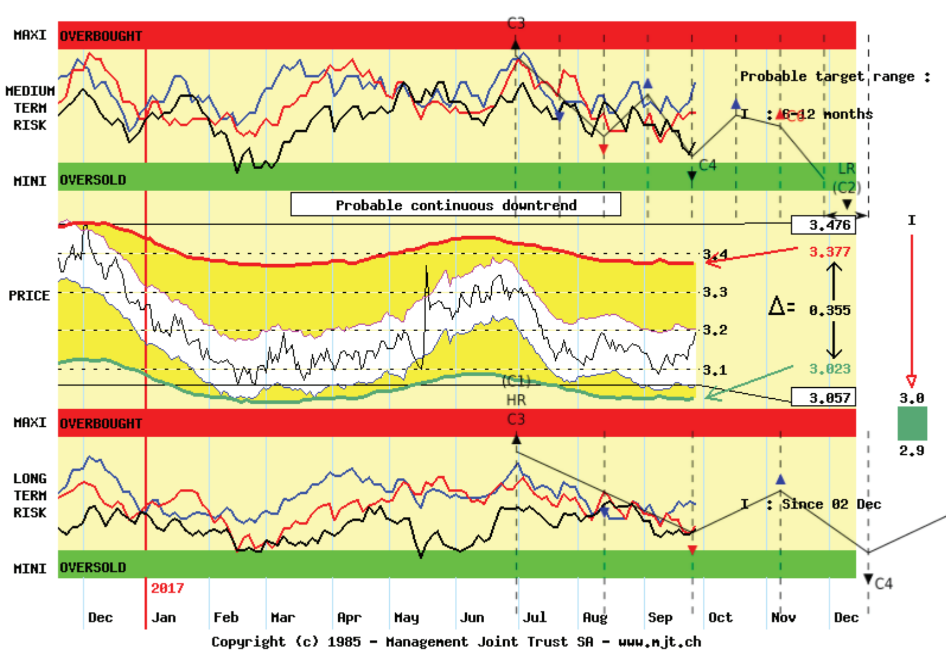
Similarly, we look at The Natural Gas segment vs the wider Energy Index. It's outperformance was particularly strong during the first phases of the oil market rebalancing last year and we now believe this could happen again. Indeed, on both oscillator series (lower and upper rectangles), we are approaching a potential retracement low that should see **the segment outperform the wider Energy sector again into Q1 2018**. We will not post potential outperformance targets on this one as the risk/reward is still hard to define (we are in the middle of the range with our 'I' Impulsive targets down still quite menacing), **yet the timing looks compelling and we consider that this segment is something to look at closely come mid November.**

TRAVEL & LEISURE - Dow Jones STOXX (EPI) vs Dow Jones STOXX (EPI)
Daily graph or the perspective over the next 2 to 3 months



Finally, we consider 2 counter-cyclical bets, at least as far as Oil is concerned. First, **the European Transport sector vs the wider European market. It has been particularly hit by the re-acceleration of the price of Oil to the upside since June. As with other oil counter-cyclical assets, it is currently approaching an intermediate low** on both our oscillator series (upper and lower rectangles) and **should start correcting up vs the market into late October, early November.** As with other Defensive trades, mentioned a separate article further up in this document, we would see **a rebound of the Transport sector vs the market during October as an ultimate opportunity to exit the sector** before cyclical assets and oil start to re-accelerate up towards year-end.

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



We've been strong advocates of the Brazilian Real since June. Indeed, it correlates very well to Oil: the Dollar vs the Real has been declining quite substantially since Oil bottomed-out in June. On both our oscillator series (lower and upper rectangles), **we have just reached an potential intermediate low for the Dollar vs the Real. We now expect a correction to the upside during October for USD/BRL, before it starts to accelerate down again from November to year-end (this inversely confirms our view on Oil)**. This graph also allows us to confirm that the Dollar is probably the least reflationary of the reflationary currencies, i.e. from mid November, the Dollar could start to move up again vs other majors (EUR, GBP, JPY, CHF), yet **the true winners from November into Q1 2018 will be Commodity Currencies.**

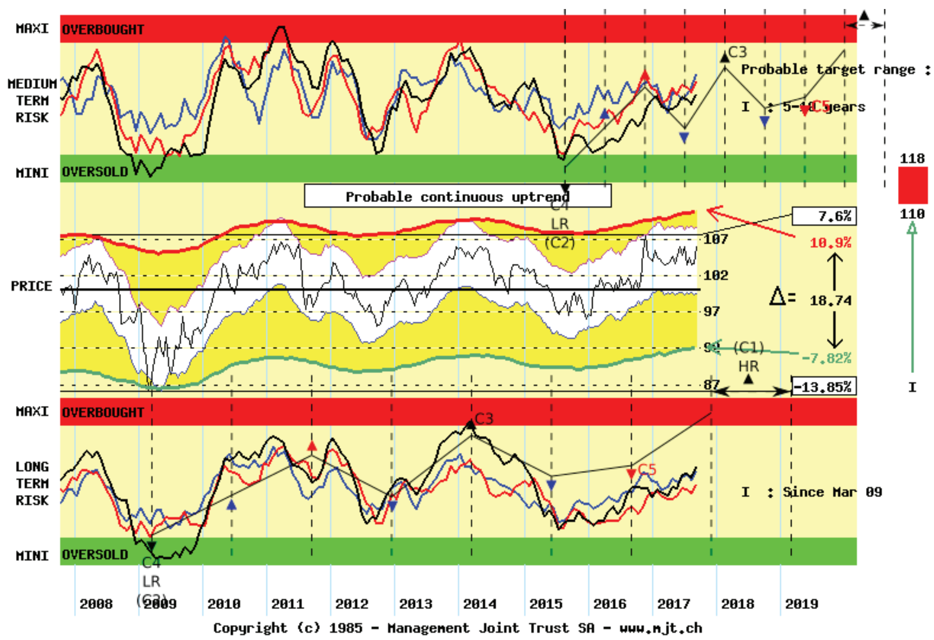
Concluding remarks

Following its reversal and a 3 monhs rallying since June, Oil has reached an intermediate top, which should see it correct into late October, early November. This retracement should be experienced on all oil related trades and should also affect higher beta segments within the Energy sector on a relative basis. That said, we believe this retracement period in only transitory, and that from November, Oil should accelerate up again towards year-end and early 2018. High beta segments (Exploration & Production, Oil Services, NatGas equities) and oil related currencies will probably be great addition to a portfolio during that year-end period.

45 / Splicing the markets – Secular rotations between Cyclicals, Growth and Defensives in the US equity markets

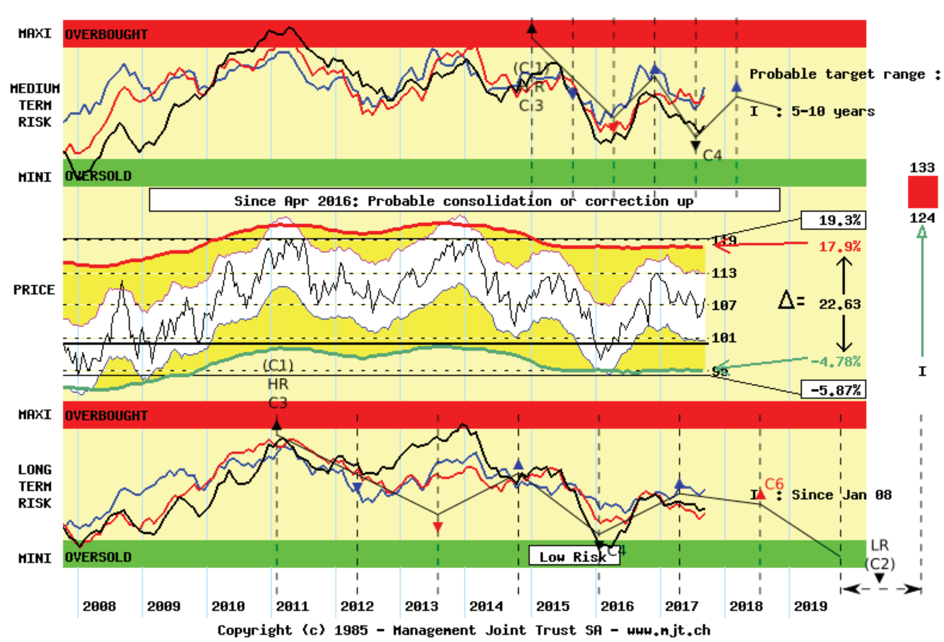
We currently expect the reflationary push that started early last year to move up again quite strongly into H1 2018. This move, in our view, comes in the context of very mature equity markets and hence this cyclical acceleration should be short lived (yet should benefit cyclical assets). Growth profiles, on the other hand has been roaring for years. We expect their secular uptrend to come to an end in 2018 as equity markets top-out towards mid year. Defensive trades should then make a come back, possibly into mid 2019 at least.

XLI - Industrial Select Sector SPDR Fund vs S&P 500
Bi-monthly chart or the perspective over the next 1 to 2 years



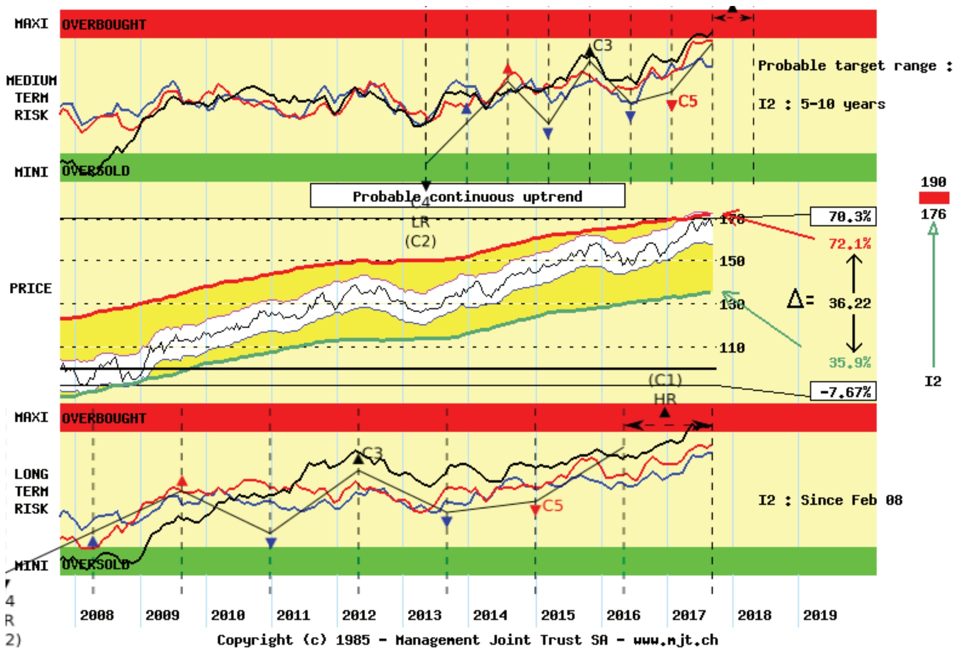
We have chosen the XLI Industrials ETF as a proxy for cyclical stocks and compared it to the S&P500. As you can note on this relative graph, this ratio has followed very well the different pro- and anti-cyclical periods we have experienced over the last 10 years. On our long term oscillators series (lower rectangle), **we would expect it to top out sometime next year**. Our medium oscillator series (lower rectangle) suggest that the cyclical peak will probably materialize in the first months of 2018. **Following that, we would await that XLI underperforms the S&P500 index into 2019 at least. We believe that this timing sets the time window for the reflationary acceleration we expect, sometime between now and the first months of 2018.**

IWM - iShares Russell 2000 ETF vs S&P 500
Bi-monthly chart or the perspective over the next 1 to 2 years



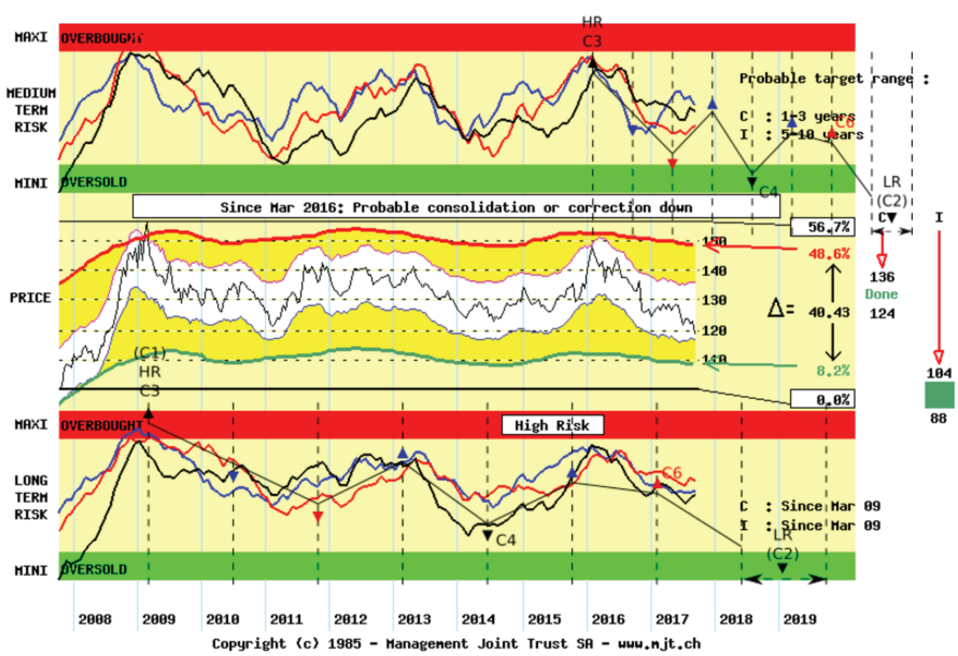
Comparing the Russell 2000 IWM ETF with the S&P500 also captures this cyclicality. This graph shows similar articulations that the one above with a bit more volatility. Our medium term oscillators (upper rectangle) are showing a succession of higher lows, early 2016 and Summer 2017, and from there, a possible reaction up to early 2018. The sequence we show on our long term oscillators (lower rectangle) would justify a further attempt to the upside towards mid 2018. **The reaction up to H1 2018 seems weaker, yet consistent, with the previous graph, confirming our time frame towards early 2018 for the acceleration of cyclical and reflation trades.**

NDX - NASDAQ 100 vs S&P 500
Bi-monthly chart or the perspective over the next 1 to 2 years



We now look at a typical Growth index, the Nasdaq 100 vs the S&P500. Growth usually thrives in most phases of the market except for early cyclical accelerations and periods when interest rates are rising rapidly (Growth is usually long duration). Growth is also quite prone to long gradual uptrends as was experienced during the 1990's in the run-up to the Internet Bubble. The current secular uptrend since 2006 (and even 2002) is not as exaggerated as the one that topped-out in 2000, yet, on both our oscillator series, it has entered "High Risk" zones, which is a typical sign of exhaustion. **We would hence expect Growth vs the market to start topping out during the reflationary acceleration we expect into early 2018. It may make a last come-back as the market starts to top-out towards the Spring and mid 2018. Yet, the extended nature of its trend should make Growth more a "beta" play rather than a defensive play if the market downturn we expect from mid 2018 into 2019 materialises.**

XLP - Consumer Staples Select Sector SPDR Fund vs S&P 500
Bi-monthly chart or the perspective over the next 1 to 2 years



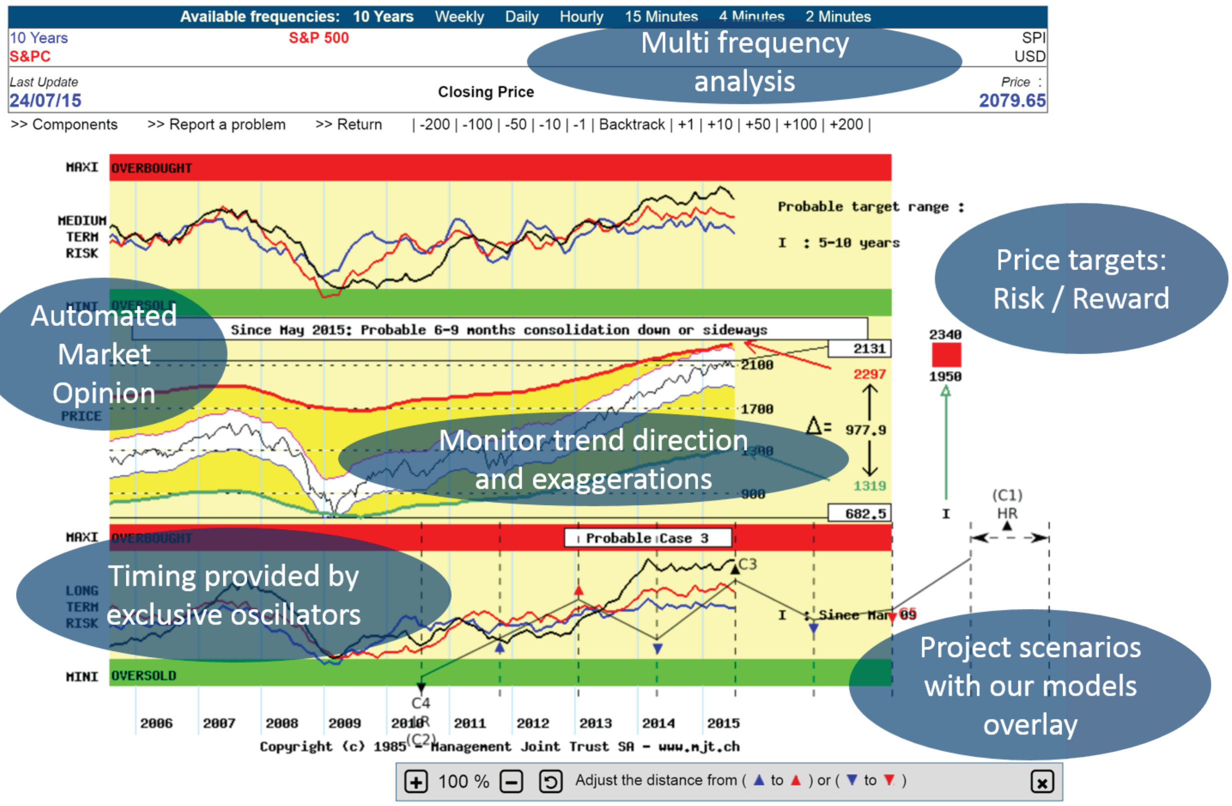
Finally, we look at Staples vs the S&P500, or at a typical Defensive profile vs the market. Defensives have been underperforming the market since the current reflation trades turned-up in early 2016. On both our oscillator series (lower and upper rectangles), **we expect them to continue lower at least until mid 2018, where we expect them to bottom-out. Following that, they should start outperforming towards 2019 as the general market tops and reverses. Until then, the potential underperformance ('I' Impulsive targets, right-hand scale; middle rectangle) is still quite substantial, a further indication that the reflationary acceleration into early 2018 may be strong.**

Concluding remarks

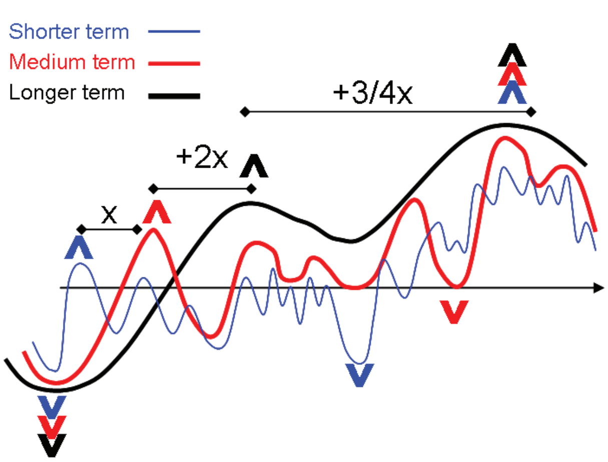
Throughout this late September issue of The Capital Observer, we have repeatedly outlined our view that cyclical and reflation trades should see an acceleration from mid Q4 to early 2018. The move may be strong, especially as the timeframe is quite short. From the Spring, we would expect some rotation back into Growth before the markets starts to top-out mid next year and Defensive profiles start to outperform into 2019. We will be monitoring the situation closely over the upcoming months to confirm this view.

47/ METHODOLOGY

MJT's proprietary methodology uses Timing Oscillators to help investors position themselves either in an uptrend or downtrend. It will hence allow them to anticipate and project the future sequence of events. Coverage extends over 5'000 instruments, long term to intraday, across all asset classes. Relative charts, Opportunity filters, Multi charts monitoring screens and a Portfolio Simulation tool complete the functionality set. See below a description of What's on the Chart, a Methodological brief and an outline of the ideal Uptrend/Downtrend Models (read more on www.mjtsa.com)



Timing oscillators: Different prices cycles are captured by our 3 Timing oscillators. Monitor how their relative positioning defines specific situations (Cases) to always know where you stand within the Trend (e.g. please see below the ideal Uptrend Case succession sequence)



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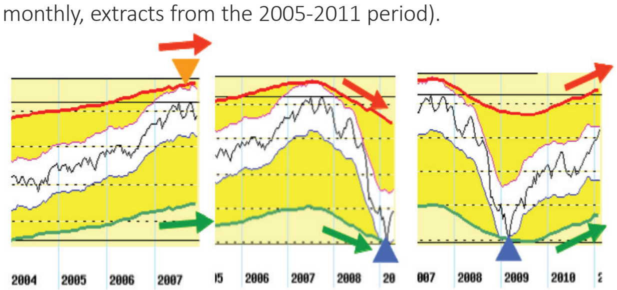
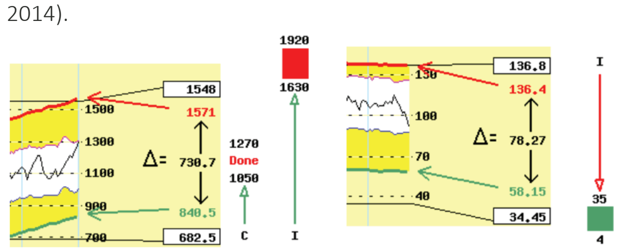
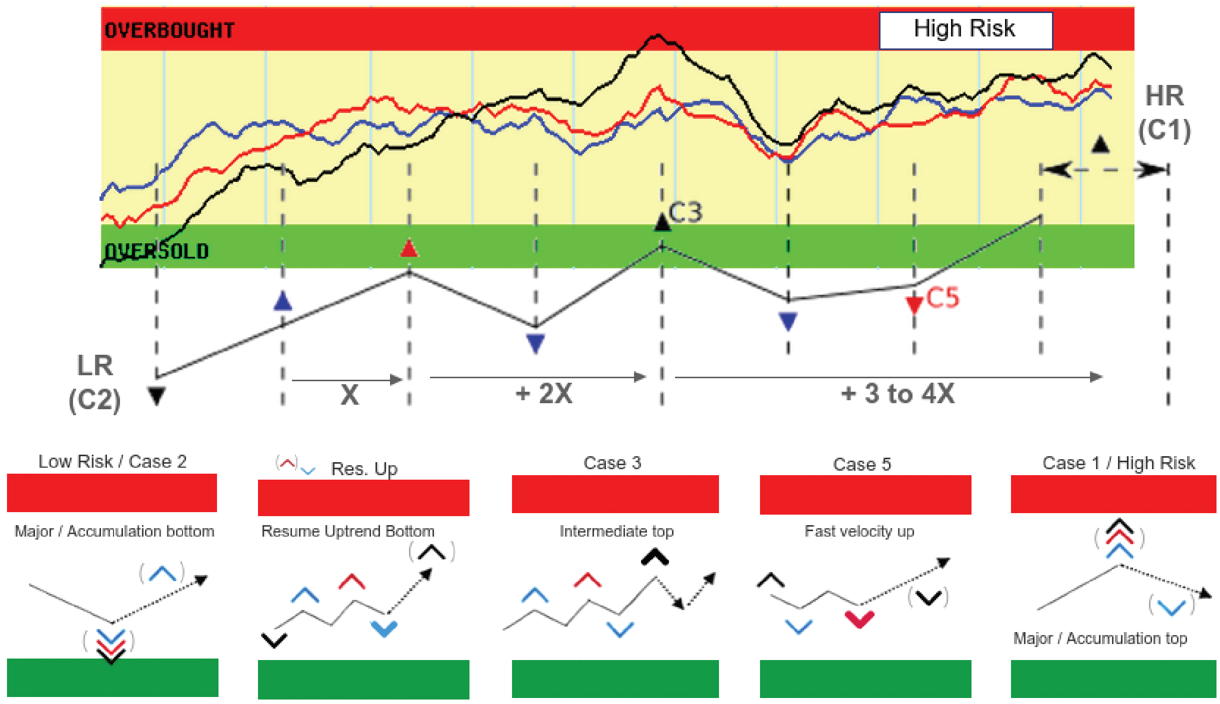
Trend direction: the direction of FinGraphs' large envelope will help you decide either to apply an uptrend or a downtrend model. Contacts between the wider and thinner envelopes will help you anticipate and confirm market turning points (e.g. S&P500 bi-monthly, extracts from the 2005-2011 period).



Price targets: based off historical volatility, they can highlight price potential or risk and, once achieved, define take profit or stop loss areas (e.g. below S&P500 in early 2011, Brent in October 2014).



Ideal Uptrend Model



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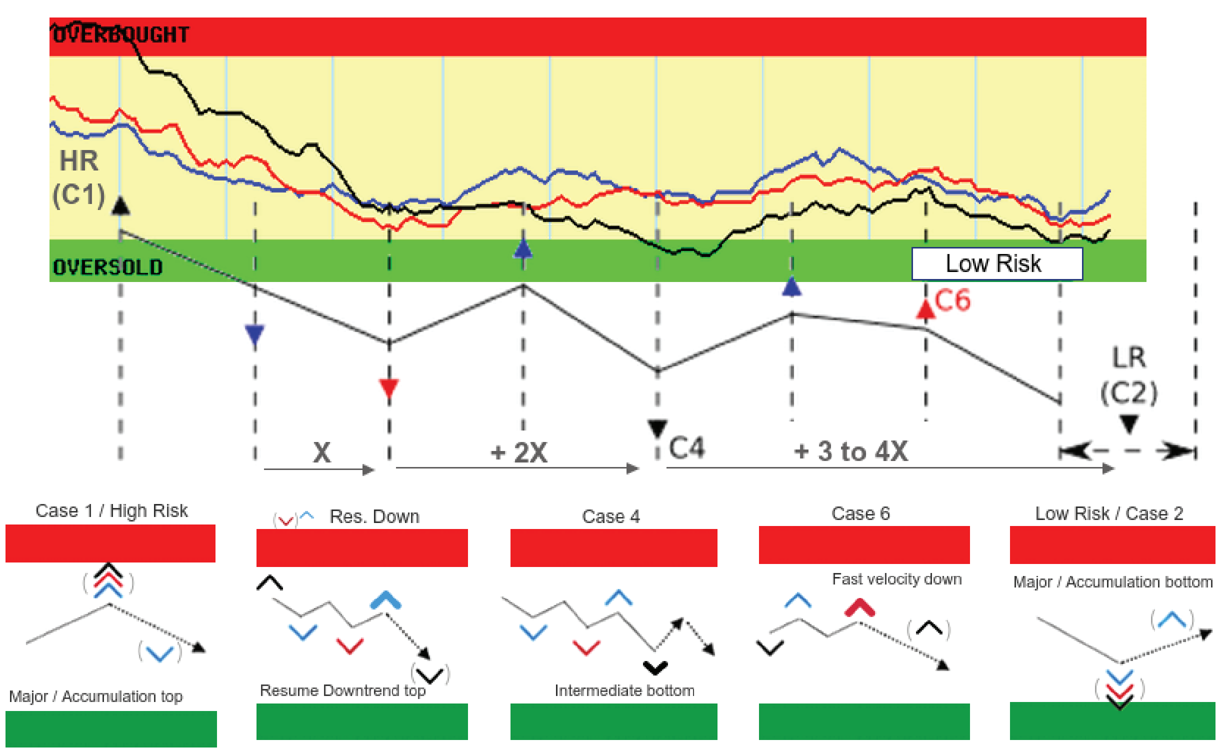
(left to right) from an oscillator black bottom (usually a Low Risk or a Case 2), the oscillators and prices will start moving up. An uptrend is confirmed once a red top can be made above a blue one. The correction down that follows delivers a buying opportunity ("Resume Uptrend") followed by an intermediate top (Case 3). A new period of consolidation down or sideways then starts, ending with a Case 5 acceleration up towards an important top (usually a High Risk or a Case 1). For each time frame, a fixed time unit separates each timing incidence, so that the distance between a blue and red top is usually X, the distance from the red to the black top is then 2X and the distance between the first and second black top is 3 to 4X.

Ideal Downtrend Model



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(left to right) from an oscillator black top (usually a High Risk or a Case 1) the oscillators and prices will start moving down. A downtrend is confirmed once a red bottom can be made below a blue one. The correction up that follows delivers a selling opportunity ("Resume Downtrend") followed by an intermediate bottom (Case 4). A new period of consolidation up or sideways then starts, ending with a Case 6 acceleration down towards an important bottom (usually a Low Risk or a Case 2). For each time frame, a fixed time unit separates each timing incidence, so that the distance between a blue and red bottom is usually X, the distance from the red to the black bottom is then 2X and the distance between the first and second black bottom is 3 to 4X.

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Diapason Commodities and Currencies (DC&C)
17 Canvendish Square
London W1G OPH
UK
+44 20 7290 2260

Management Joint Trust S.A.
Rue de Hesse 1
P.O.Box 5337
1211 Geneva 11
Switzerland
+41 22 328 93 33

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