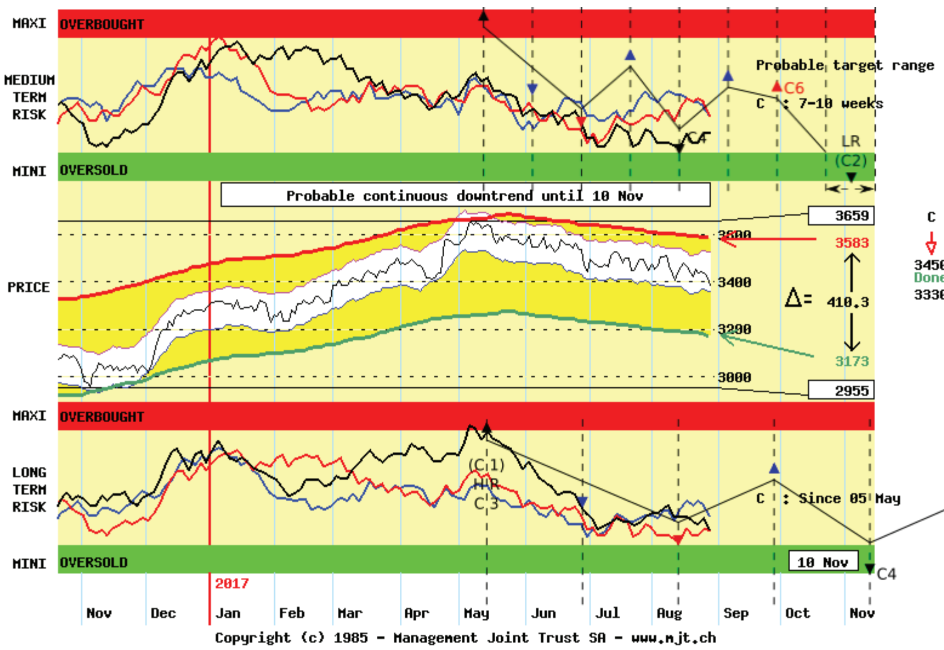
35 / MJT - TIMING AND TACTICAL INSIGHT

Strong Euro into October should keep European markets under pressure, following that we would consider them a Buy

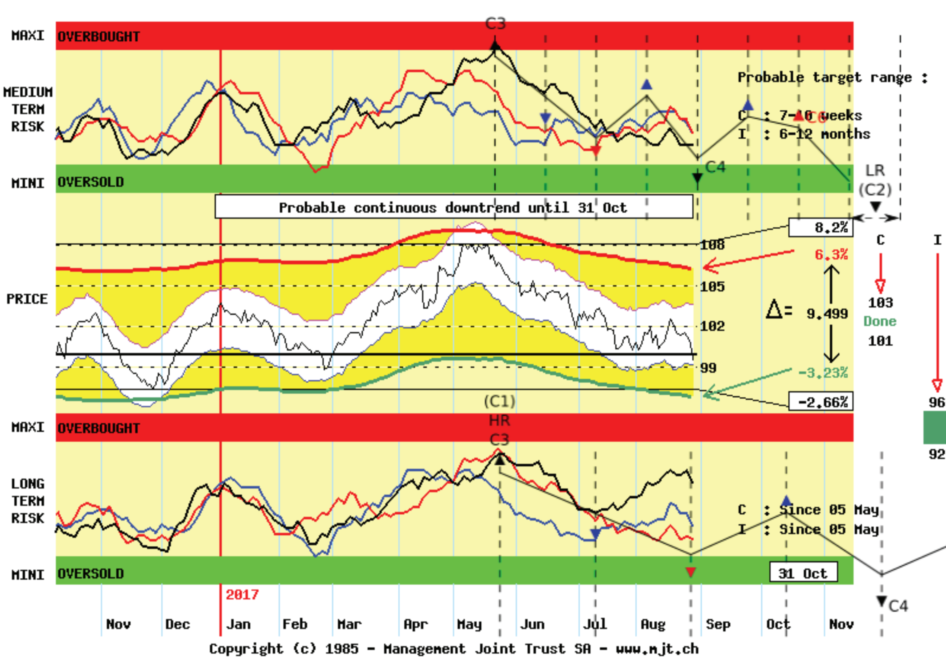
Across this section, we will look at the interplay of the strong Euro with the performance of European markets.

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



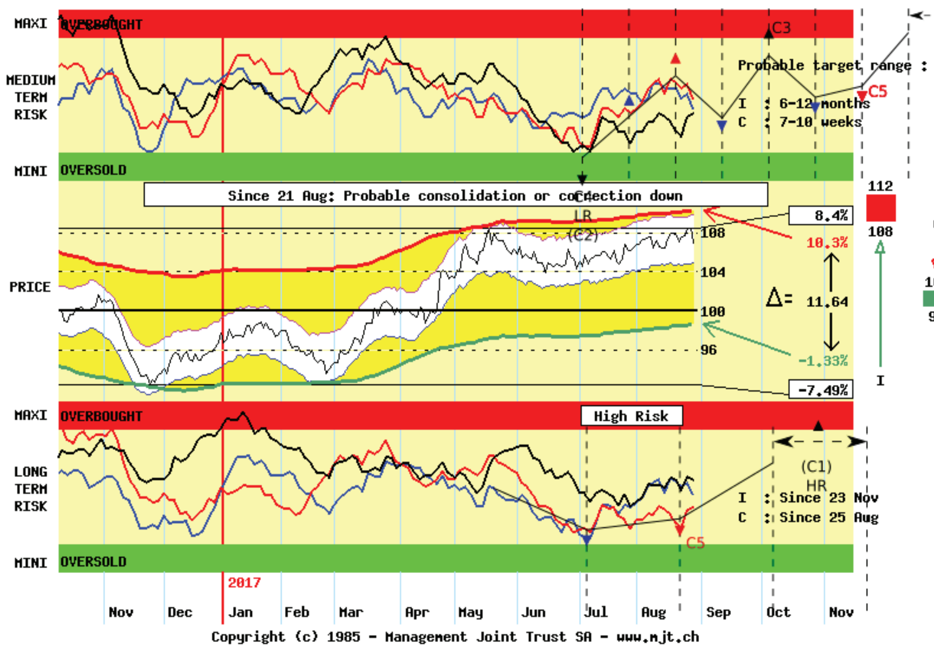
EuroZone markets have been consolidating to the downside since May, or since EUR/USD really started to take off. On both our oscillators series (lower and upper rectangles), **they may be making intermediate lows, which should see them bounce somewhat into September. Between mid and end September, they should then resume their downtrend possibly until late October / early November.** The move down since May is still within our 'C' Corrective targets down (right-hand scale) and the bottom end of these, around 3'330, should provide worthwhile support.

Eurostoxx 600 vs the S&P500 (hedged for EUR/USD currency risk)
Daily graph or the perspective over the next 2 to 3 months



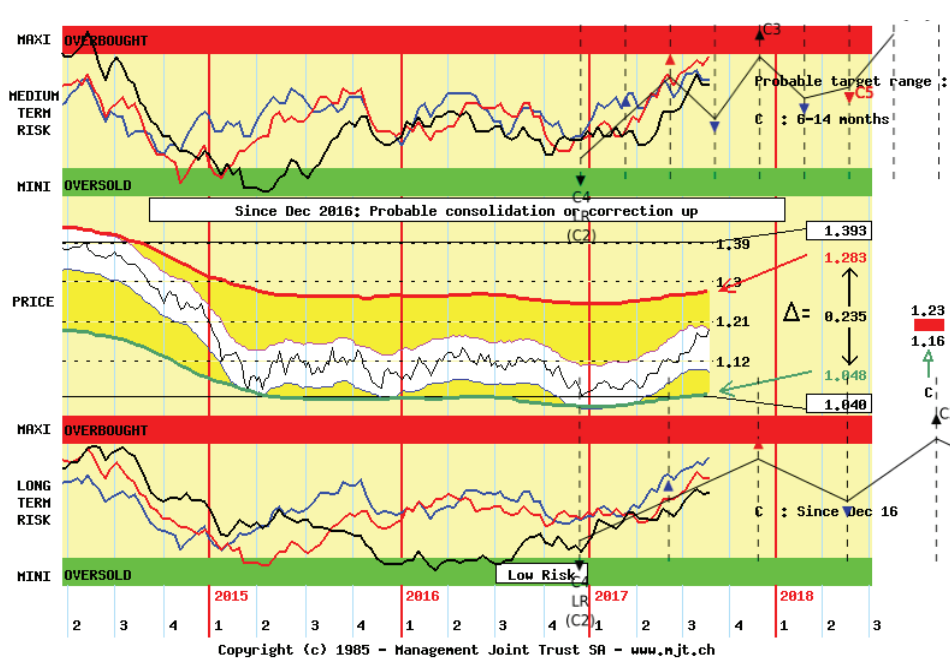
Indeed, the EuroStoxx's performance contrasts with the one of the S&P500, which recently made new all time highs in July. Since May, the EuroStoxx 600 has underperformed the S&P500 by almost 7% on a hedged currency basis (like to like comparison). **Both our oscillators series (lower and upper rectangles) are in downtrend sequences, which could bounce a bit during September, but should then resume their downtrend from mid / end September into late October / early November.** During this last move, the underperfomance could extend to another 5 to 10% ('I' Impulsive targets down; right-hand scale).

Eurostoxx 600 vs the S&P500 (not hedged, both USD denominated)
Daily graph or the perspective over the next 2 to 3 months



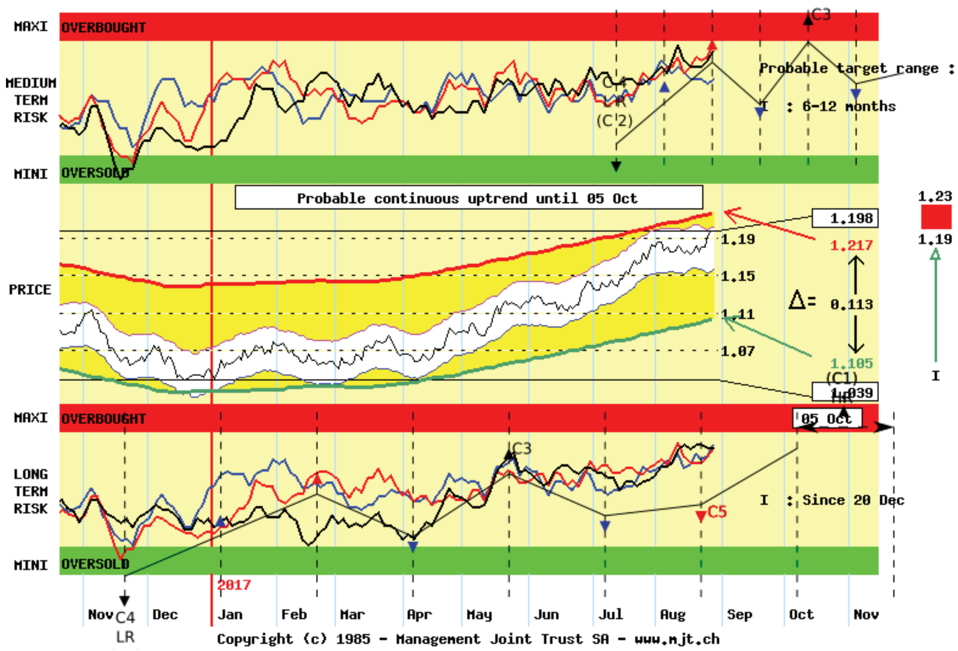
We now look at the same pair with no currency hedging, i.e. in USD terms. It is currently reaching new YTD highs as the EUR/USD strength has compensated for all of the EuroStoxx600 nominal underperformance. Both our oscillator series (lower and upper rectangles) suggest that it is now getting ready to break to the upside and continue up, possibly into October. If recent history is any guide, this could only happen if the Euro remains strong (December/January, April/May, July/August rallies). **We see no reason for now as to why this relation should reverse.** Our 'I' Impulsive up targets would suggest another 4% of outperformance (right-hand scale).

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



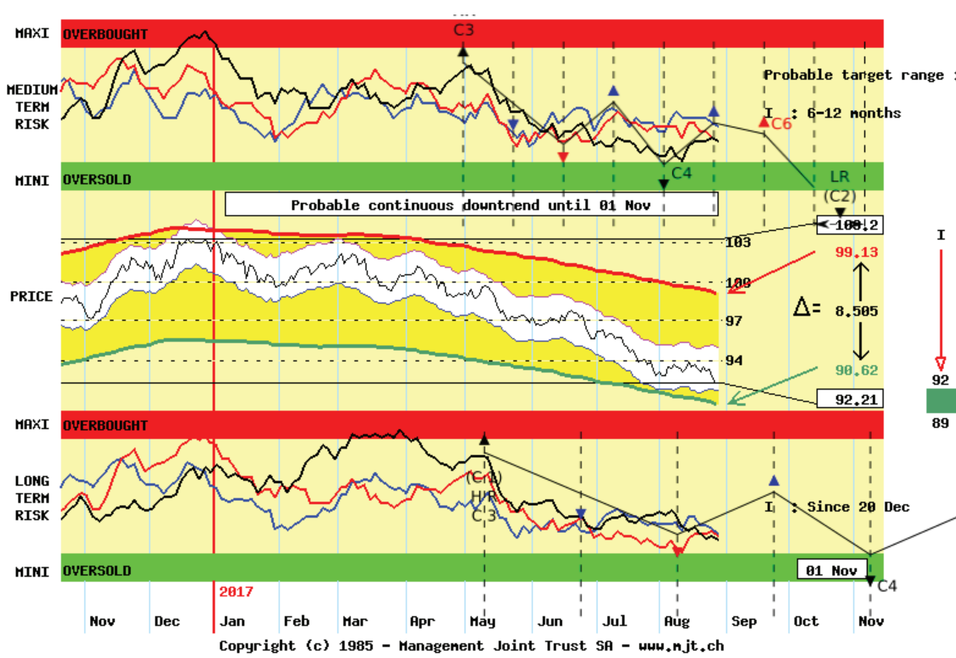
So the Euro is leading the game here and according to this Weekly graph, should continue to do so over the next couple of months. Our medium term oscillator series (upper rectangle) would suggest that an intermediate top was made end May, with little counter-reaction, and that **EUR/USD should now continue to the upside towards the second half of Q4 2017**. Our 'C' Corrective targets up between 1.16 and 1.23 (right-hand scale), which we first talked about in March, could imply that the current move still has another 2 to 3 figures to rise.

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



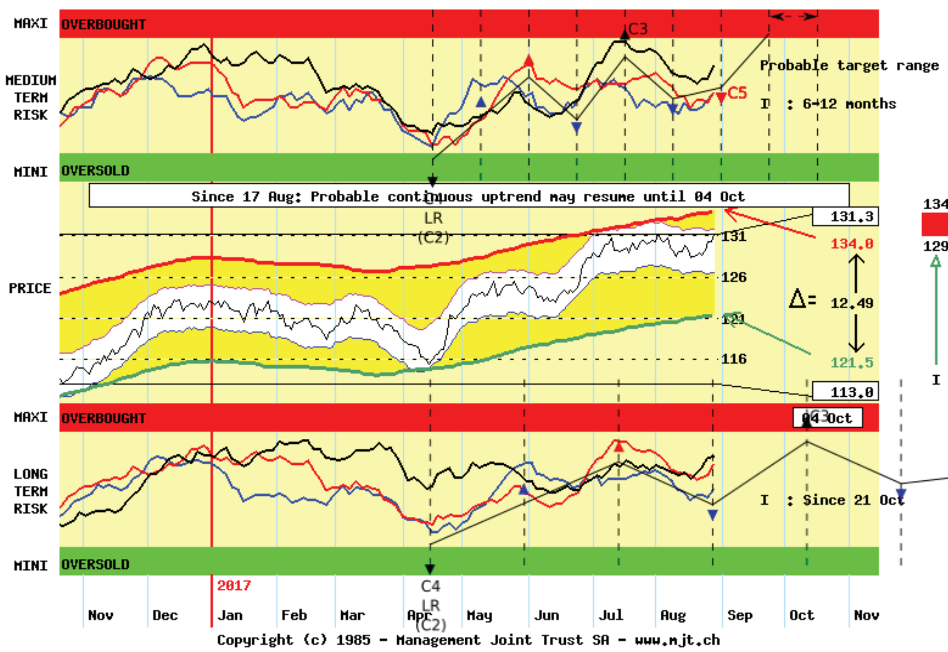
Scoping into the Daily graph would confirm these price targets with our 'I' Impulsive targets up pointing towards the 1.18 – 1.23 range (right-hand scale). **Both our oscillator series (lower and upper rectangles) would suggest further upside progression towards October.** A slight consolidation is possible during the first half of September, but it should be short lived and EUR/USD should then resume its uptrend towards mid / end October.

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



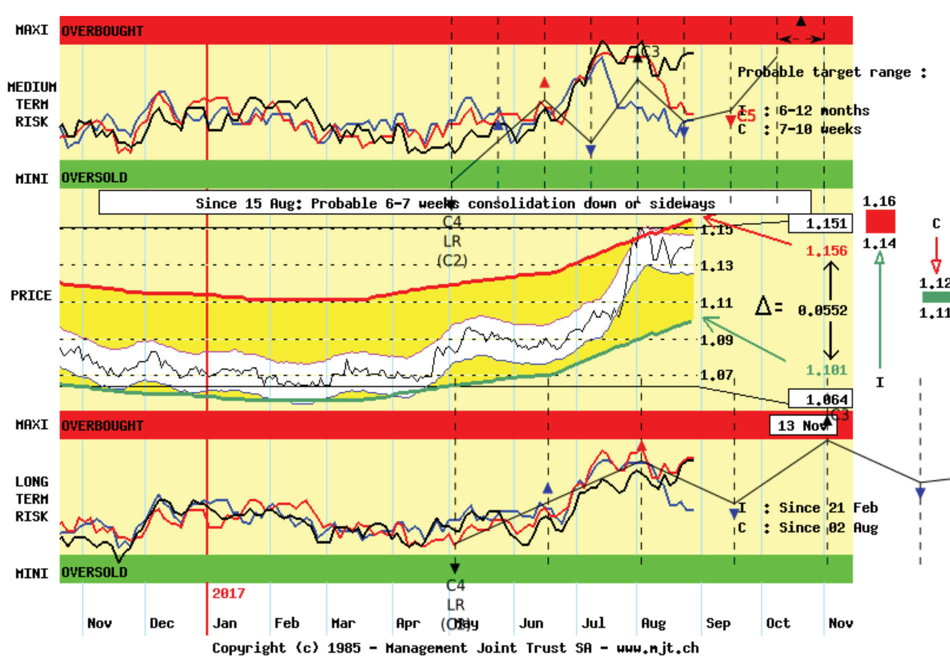
The Dollar Index is showing a similar dynamic. Its 'I' Impulsive targets down would suggest that it could break below 90 before the current move is over (right-hand scale) and **both our oscillator series (lower and upper rectangles) do lead us lower into end October / early November**. In the meantime, a short rebound to the upside may materialise in the first half of September, before the Dollar Index resumes to the downside again.

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



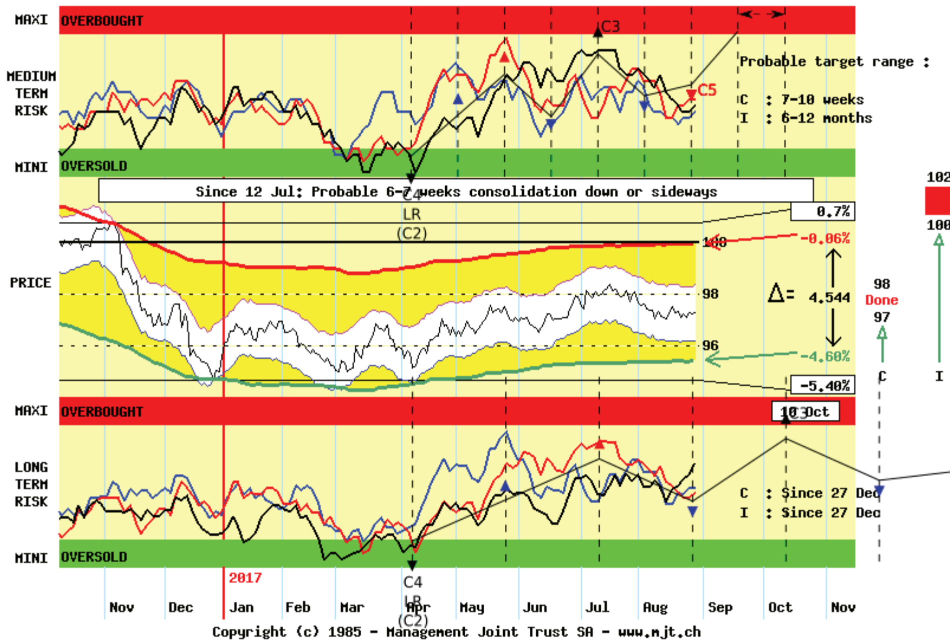
Recent Euro strength also extends to other currency pair. Against the Yen, the Euro has been back in a strong uptrend since mid April. Following some consolidation since mid July, **we would expect it to resume its uptrend between now and early September into the first half of October** as shown on both oscillator series (lower and upper rectangles). Following that, we would expect it to consolidate to the downside into late October / early November. 'I' Impulsive targets up (right-hand scale) could justify more potential towards 134, yet in general Risk/Reward is slowly getting stretched at this stage ('C' Corrective targets down are further away than 'I' Impulsive targets up)

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



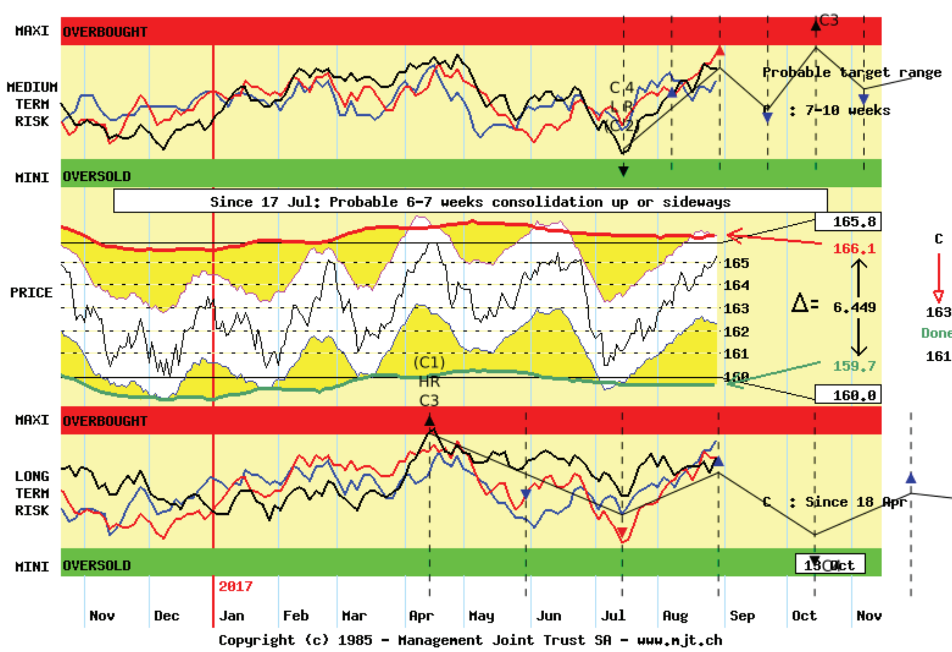
Another Euro pair, which has rocketed recently is EUR/CHF. Indeed, the ECB tapering rhetoric has contrasted with the SNB's pledge to continue its loose monetary policy. On both our oscillator series (lower and upper rectangles), EUR/CHF reached an intermediate top early August and has been consolidating since. **This rather flat countertrend move could continue until mid September, where we expect EUR/CHF to start a new move to the upside, possibly until late October, early November**. 'I' Impulsive targets up points to the 1.16 levels (right-hand scale), while 'C' Corrective targets down could justify a return to the 1.12-1.11 levels (which we believe is too aggressive at this stage given the strong uptrend). In general, we see a rather neutral risk/reward situation in a strong uptrend.

IEF - iShares 7-10 Year Treasury Bond ETF vs Bund Future (Sep) – currency hedged
Daily graph or the perspective over the next 2 to 3 months



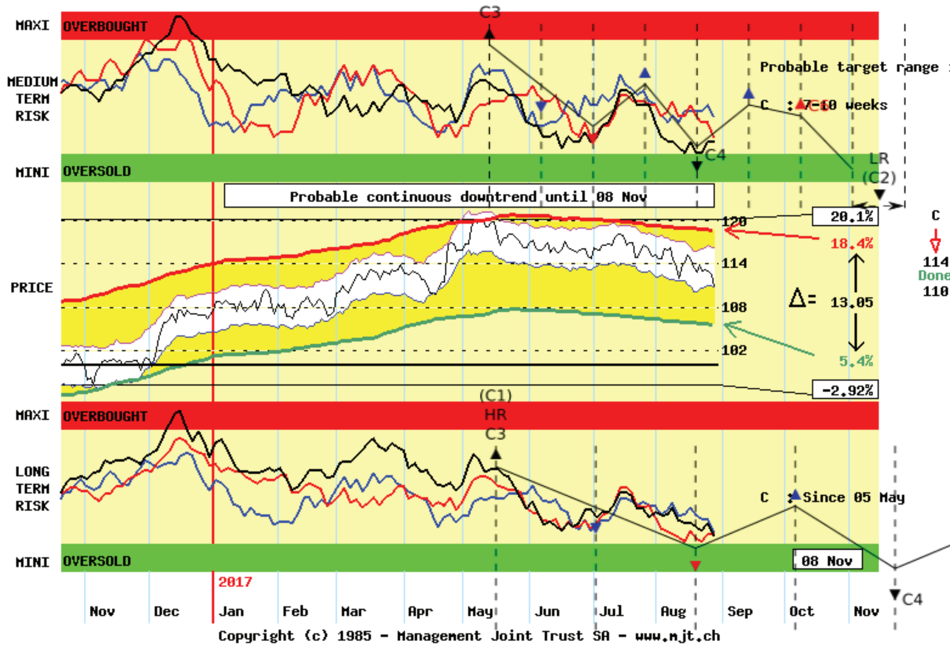
So, as we have seen above, the Euro has been strong vs most other currencies. Yet, the Dollar is at the other extreme and has been weak across the board. Dollar weakness has suffered from the retracement of the reflation themes and the revision of the strong optimism that prevailed in the US following the Trump election last year. US Growth and inflation projections have been revised down. On the other hand in Europe, and although they have softened a bit recently, growth and inflation expectations surprised to the upside in H1 2017. This graph which compares long term US treasuries to the Bund captures these diverging trends. **Naturally, it is well sync-ed with the progression of EUR/USD this year, and going forward would probably confirm a last move up towards October for EUR/USD (both oscillator series; lower and upper rectangles).**

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



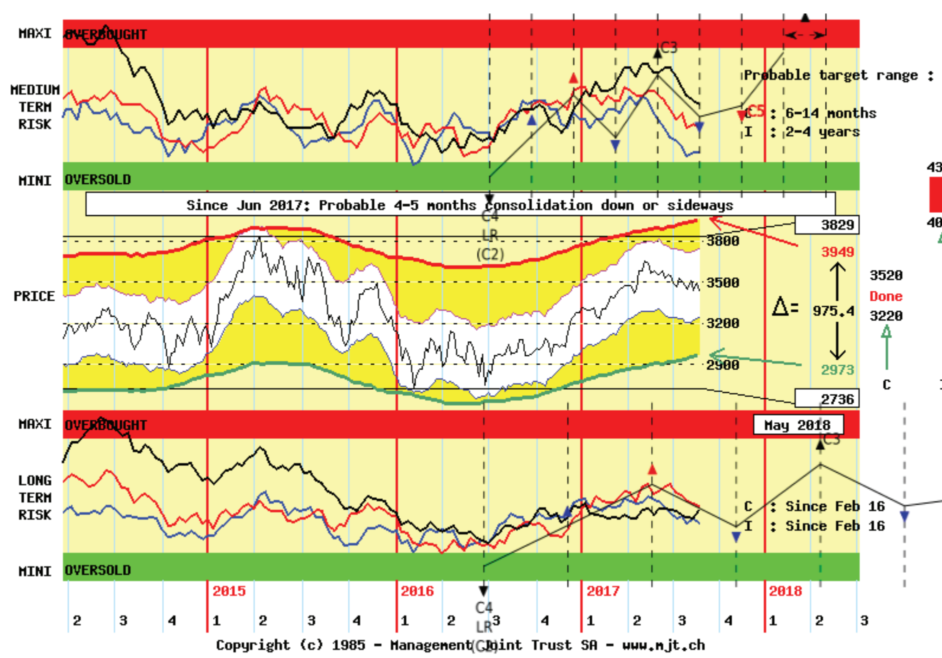
Looking at the Bund on a standalone basis, we note that its strength has been quite accurate in flagging and even anticipating risk-off phases on Equity markets since the beginning of the year (March into April, May into June, July into August). On both our oscillator series (lower and upper rectangles), the current rally could be coming to an end at the end August. This could imply some relief for equity markets as we move into September. While the Bund corrects to the downside. Both oscillator projections then diverge from the 3rd week of September. The more risk-on version would see the Bund bottoming early October and bouncing into late October (lower rectangle). The more risk-off version would see it resume its uptrend earlier, late September, into late October (upper rectangle). **Hence, as we move into September, it will be crucial to monitor the Bund to gauge the status of the risk-off / risk-on relationship. Any re-acceleration of the Bund to the upside during the second half of September would probably be a negative sign for Equity markets.**

EuroStoxx 600 vs Bund Future (Sep)
Daily graph or the perspective over the next 2 to 3 months



To gain more insight, we now turn to the Equity to Bond ratio in Europe. On both our oscillators series (lower and upper rectangles), we would expect European Equity to bounce vs the Bund during September. **Again, the length of the bounce into September will probably be revealing of the actual strength or weakness of European markets and of the extent of the subsequent retracement / sell-off we expect into October and possibly until early November.**

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



We conclude this section with the Weekly graph of the EuroStoxx 50. In line with what we've discussed above, our medium term oscillators (upper rectangle) would show **a first intermediate low pretty much now, end August**. It could support prices into September. That said, it also shows the further risk-off period we expect from late September into October with **another low sometime early to mid Q4**. This corresponds to the end of the retracement period since May we expect on our long term oscillators (lower rectangle). **We would hence remain prudent until then, but would expect a strong acceleration up thereafter, into H1 2018** (in line with both the models we show). 'I' Impulsive price potential up is still important (right-hand scale), probably into the 4'000s **or circa 15 to 25% above current prices into next year.**

Concluding remarks

Since May, European markets have been in a consolidation to the downside and have largely underperformed US markets. This underperfomance has been mostly due to the strength of the Euro vs the Dollar and indeed in Dollar terms European markets are currently re-testing their year to date highs. **Going forward, we expect EUR/USD to remain strong into October, while more generally September should be risk-on and October risk-off again. This combination could provide quite a negative mix for European markets from late September into late October following the slight bounce we expect during September. Longer term, we remain defensive on European equity markets, probably until late October, early November, where we expect them to start accelerating up towards year-end and H1 2018.**