

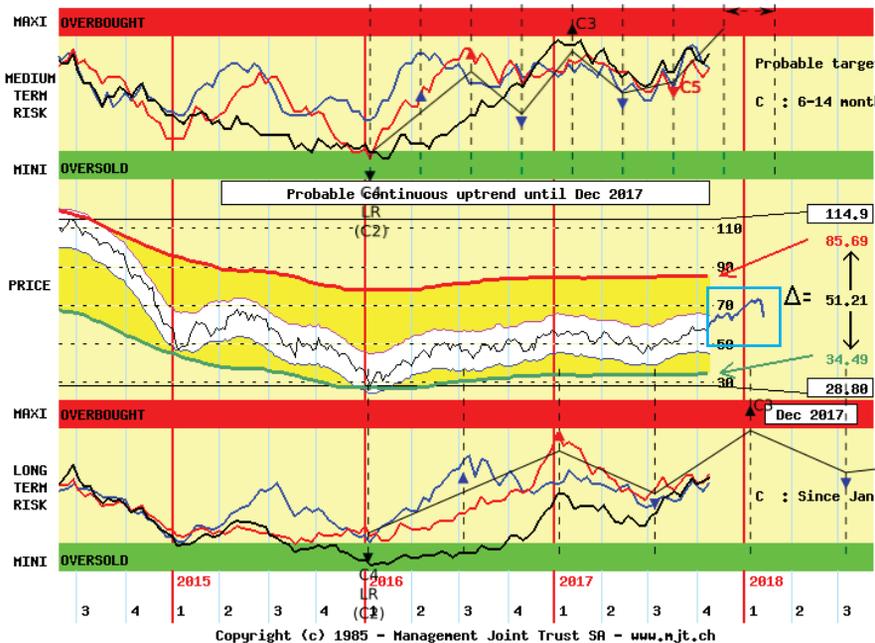
41 / MJT - TIMING AND TACTICAL INSIGHT

Short term, Oil may Stop and Go, yet is still very positive until late December / January

Oil has re-accelerated up since June and then again in September. It made an intermediate top late September, but the consolidation was short lived and Brent recently broke above USD 60/ barrel. Along with other reflationary assets, we believe it could take a slight pause during early November, before it accelerates up again, possibly towards late December or early January.

Brent Oil – Spot

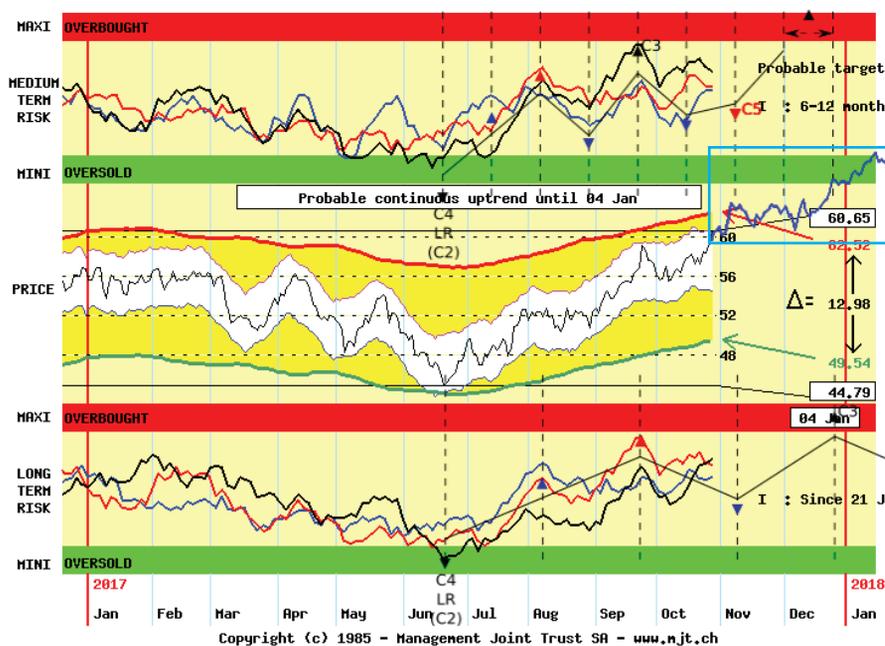
Weekly graph or the perspective over the next 2 to 4 quarters



On both our oscillator series (lower and upper rectangles), Oil has resumed its uptrend, probably towards year-end or January. The higher end of our "C" corrective targets to the upside (right-hand scale) are probably the levels we would be aiming for over the next few months (high 60s, low 70s USD/barrel on Brent, which would correspond to mid, high 60s on WTI).

Brent Oil – Spot

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

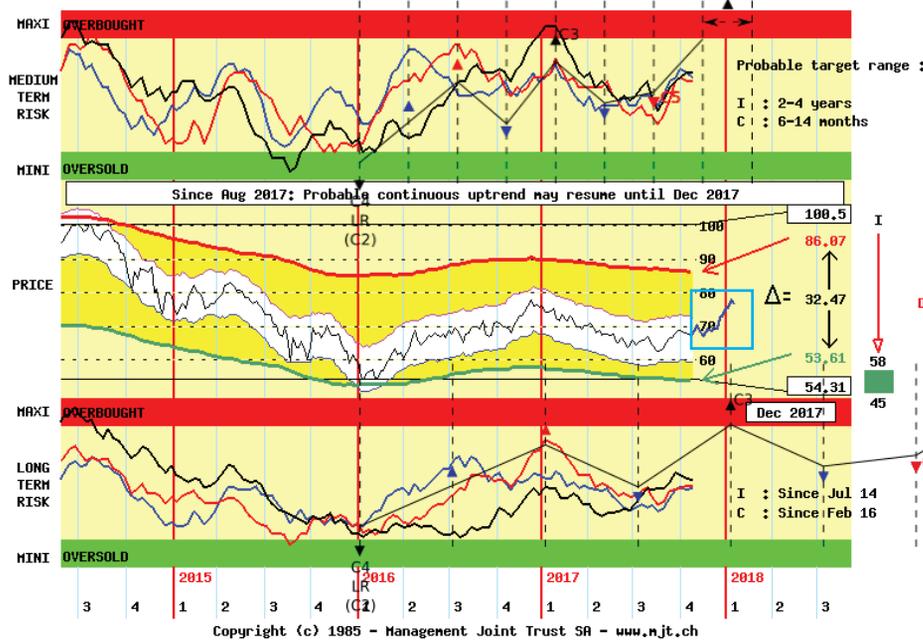


An intermediate top was made on both our oscillator series (lower and upper rectangles) late in September. The correction rapidly found support on our medium term oscillators (upper rectangle) and then accelerated up to new highs. On both oscillators, we would still expect a short pull-back early November, before Oil accelerates up again towards late December or early January. "I" Impulsive price targets for this move point to a range between 62 and 67 USD/barrel (the higher mark is closer to our Weekly targets mentioned above).

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XLE - Energy Select Sector SPDR Fund

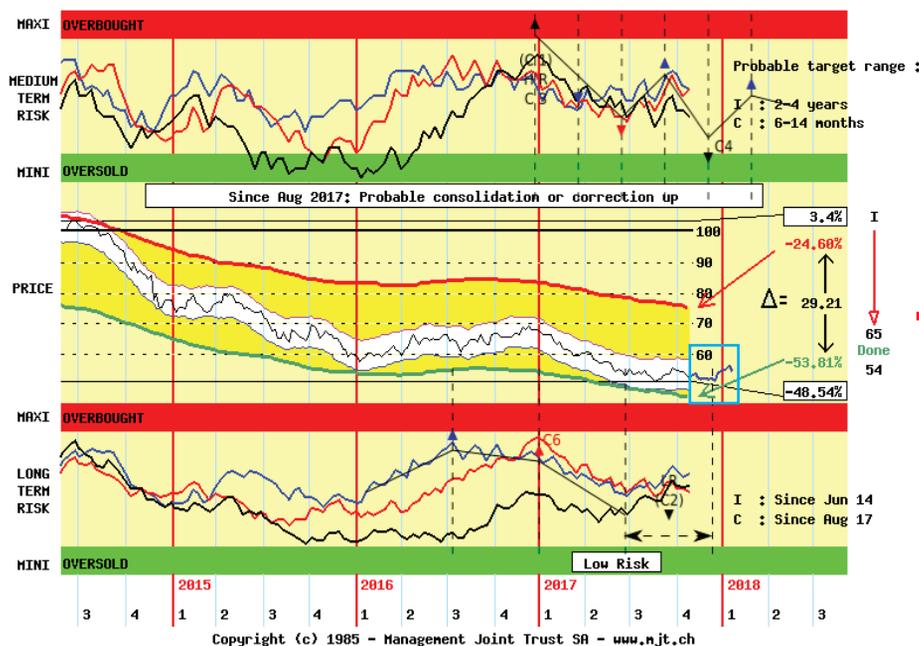
Weekly graph or the perspective over the next 2 to 4 quarters



The US Energy sector is pointing to similar dynamics as Oil, yet it is finding it harder to re-accelerate. As mentioned further above in this issue of The Capital Observer, Energy is a value sector and as such it is still finding hard it to follow Oil's rapid rise (i.e. the yield curve is still flattening/retesting lows). Nevertheless, on both our oscillator series, **it should continue to push higher, possibly until year-end or early 2018.** "C" Corrective potential to the upside (right-hand scale) point to a range between 70 and 80, or possibly as high as 15% higher.

XLE - Energy Select Sector SPDR Fund / SPY - SPDR S&P 500

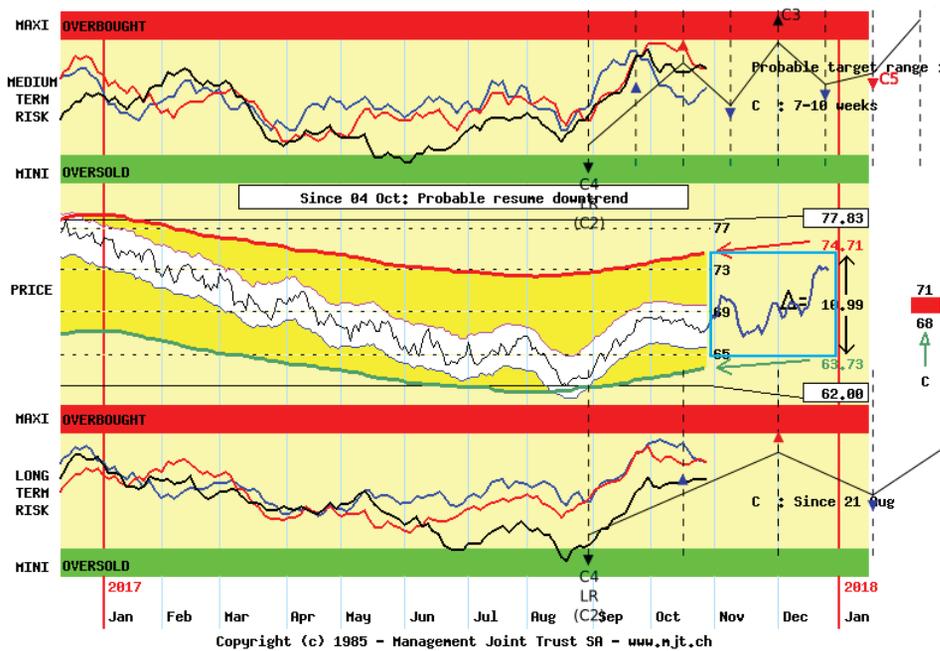
Weekly graph or the perspective over the next 2 to 4 quarters



The lag of US Energy vs Oil itself is clearer to see when the sector is compared to the S&P500. Indeed, US Energy recently made new historical lows on a relative basis in August. On our long term oscillator series (lower rectangle), Energy is now in a "Low Risk" position vs the market. However, our medium term oscillators would suggest **one last underperformance re-test into late November and then a bounce into Q1 2018.** "I" Impulsive targets (right-hand scale) to the downside have been achieved, so that the

downtrend is close to exhaustion. When/if the bounce materialises from late November to early 2018, the potential may be quite strong as shown by our "C" Corrective targets up. Yet, the ratio would need to make a worthwhile low before we can confirm these.

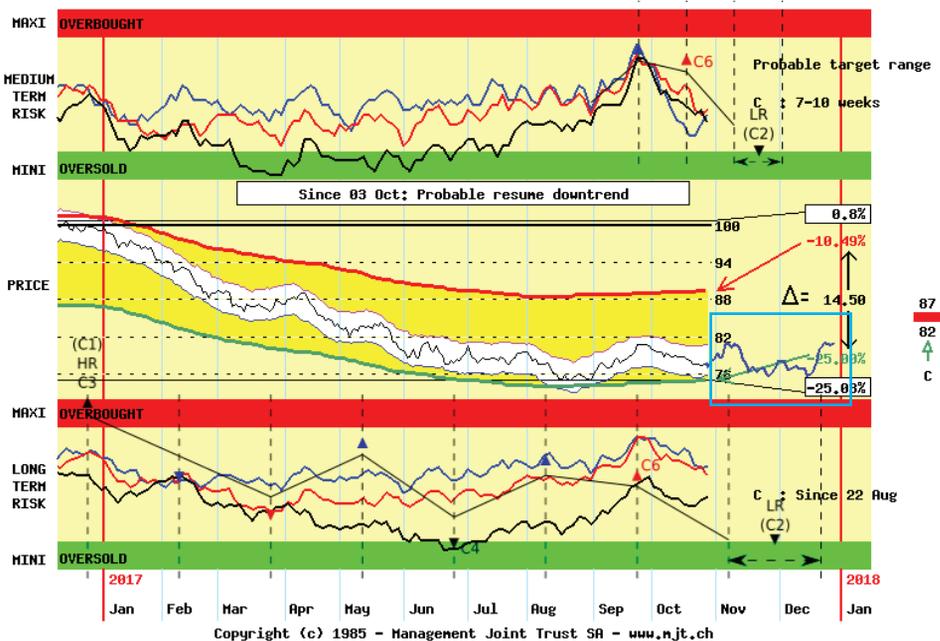
XLE - Energy Select Sector SPDR Fund Daily graph or the perspective over the next 2 to 3 months



US energy has seen a strong bounce since mid August and may have reached intermediate tops between early and mid October. On both our oscillator series (lower and upper rectangle), we would expect it to move up towards December and then possibly into Q1 2018. In the meantime, our medium term oscillators (upper rectangle) would suggest that the current slight consolidation continues into early November. Prices will need to break-above the support of our "C" Corrective targets up, or above 71, to really

start to accelerate (right-hand scale).

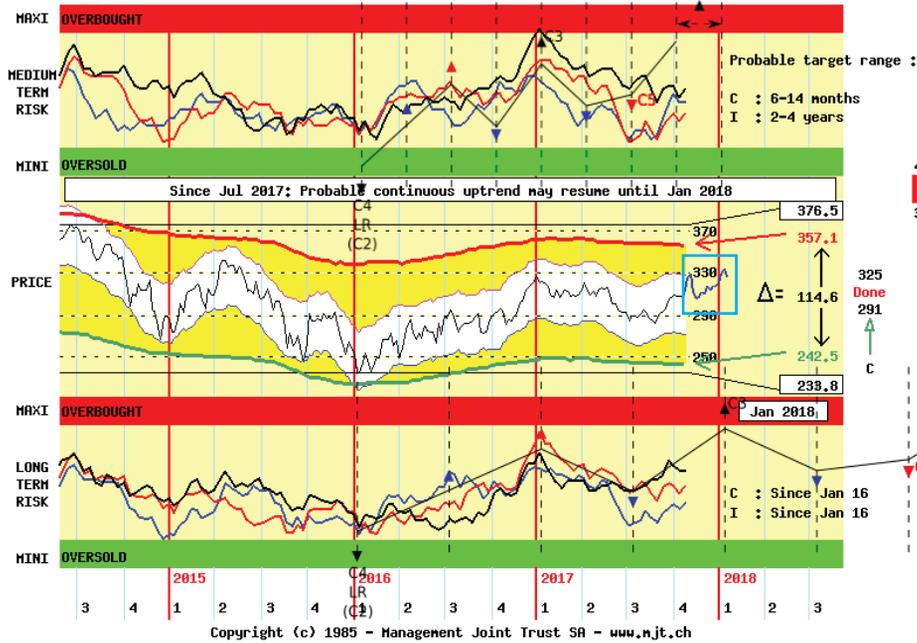
XLE - Energy Select Sector SPDR Fund / SPY - SPDR S&P 500 Daily graph or the perspective over the next 2 to 3 months



On a relative basis, vs the S&P500, US Energy did bounce during September, yet that bounce is rapidly being retraced. Both our oscillators series probably suggest a re-test of lows during November. The trend may be nearing exhaustion, with our wider yellow envelope starting to turn up and our thinner white envelope bouncing against it once more (middle rectangle; in the graph), yet there is no confirmation yet of a reversal. Once/ If it materialises, the "C" Corrective relative potential to the upside (right-hand scale)

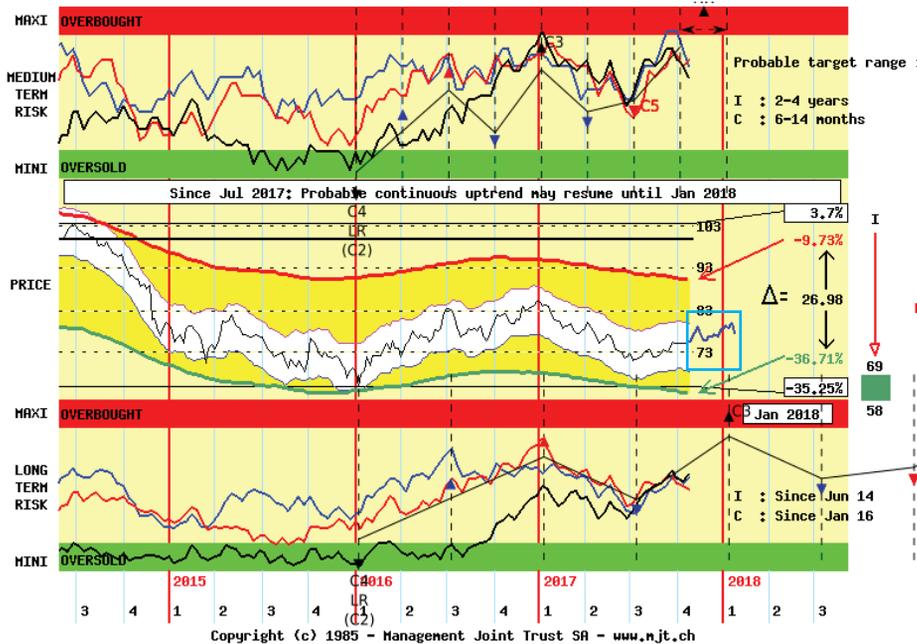
would suggest between 10% and 15% outperformance for US Energy vs the market towards early next year.

ENERGY - Dow Jones STOXX Europe Weekly graph or the perspective over the next 2 to 4 quarters



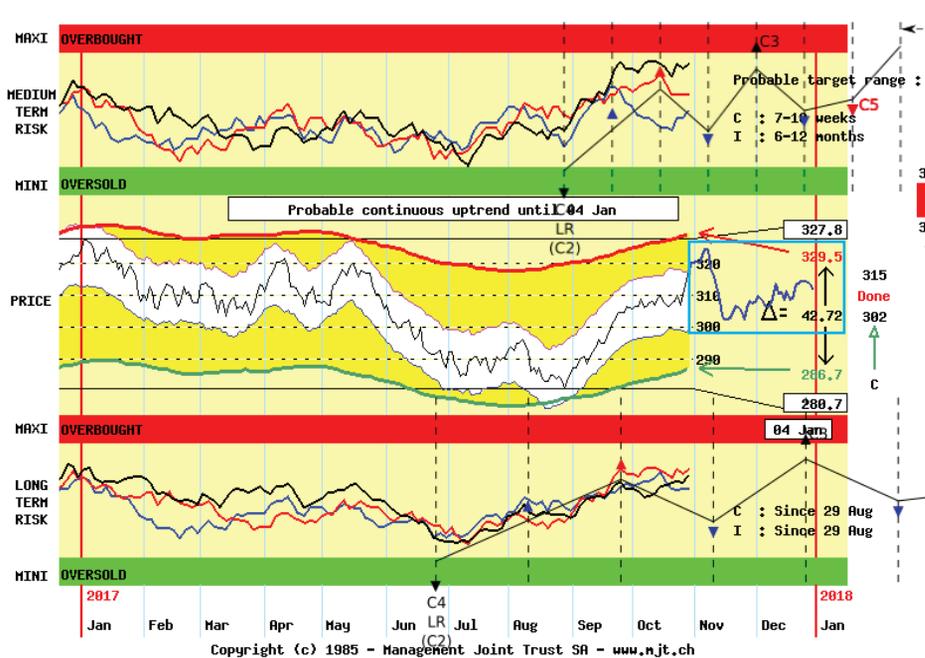
The uptrend for the European Energy sector seems more solid than in the US. Indeed, prices have accelerated up strongly since August and are now approaching the tops, which were achieved earlier this year. On both our oscillator series (lower and upper rectangles), we expect the current uptrend to continue towards year-end and possibly early 2018. In order to really accelerate, the sector would first need to clear its "C" Corrective targets up above 325, 2% higher than today (right-hand scale). Above that, our "I" Impulsive targets up would suggest between 20 and 30% of additional performance.

ENERGY - Dow Jones STOXX Europe / Dow Jones STOXX 600 Europe Weekly graph or the perspective over the next 2 to 4 quarters



On a relative basis, however, the European Energy sector is also struggling vs the Europe Stoxx 600 Index. Yet, both our oscillator series (lower and upper rectangles) would suggest that the sector continues to outperform its benchmark into year-end or early 2018. Our "C" Corrective targets up (right-hand scale) would suggest an outperformance that could reach above 10% until then.

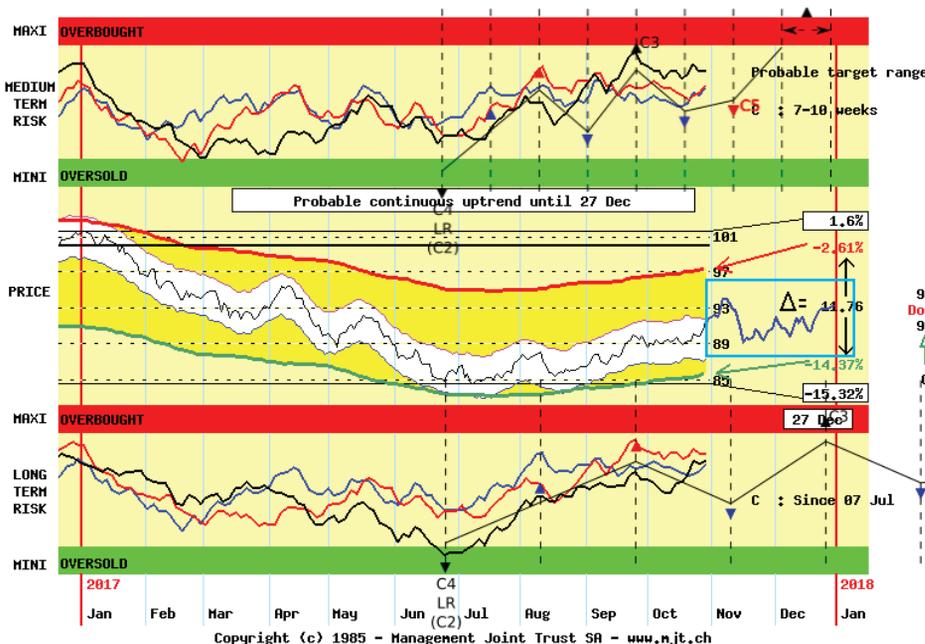
ENERGY - Dow Jones STOXX Europe Daily graph or the perspective over the next 2 to 3 months



On a Daily basis, the European Energy sector is currently in an acceleration up. It has just made it above its "C" Corrective price targets up and the move is now "impulsive" with "I" Impulsive targets to the upside that could reach into the 336-353 range (5 to 10% higher than today) over the next few months (right-hand scale). This is less than what we are projecting above on the Weekly graph, yet it would constitute a first level of break-out targets in the current uptrend. The sequences we show on both oscillator

series (lower and upper rectangles) would suggest a pull-back over the next couple of weeks and then a new period of acceleration towards year-end.

ENERGY - Dow Jones STOXX Europe / Dow Jones STOXX 600 Europe Daily graph or the perspective over the next 2 to 3 months



On a relative basis, the European Energy sector is stronger than its US counterpart. It has been moving up since July (shortly after the lows made on Oil) and is currently approaching the resistance of its "C" Corrective targets up (right-hand scale). A break above these would lead to further outperformance towards year-end and early next year. Both our oscillator series (lower and upper rectangles), would suggest a slight period of underperformance over the next couple of weeks and then a new period of outperform-

ance towards year-end.

Concluding remarks

Oil and the Energy sector have accelerated up since late August and are confirming the resume uptrend situation, we had expected since early Summer. Following a slight pull-back over the next couple of weeks, they should continue to accelerate towards year-end. Generally, on a relative basis, the Energy sector is still finding it difficult to outperform the market. This is especially true in the US, where new relative lows are possible over the next few weeks. Following that, we would expect it to finally gather some momentum, that could lead it to outperform towards year-end and early 2018.