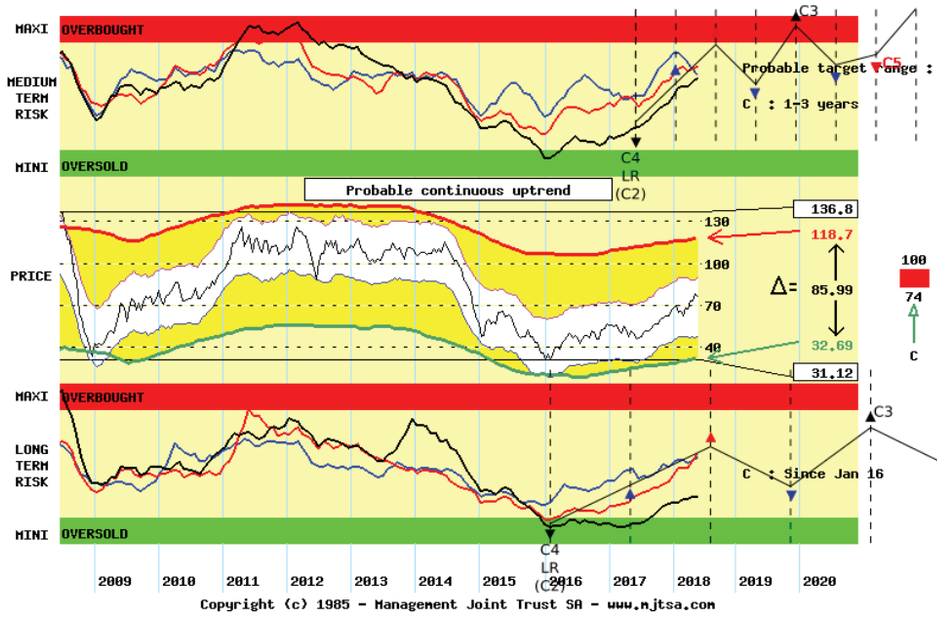
49 / MJT - TIMING AND TACTICAL INSIGHT

As the business cycle matures, we expect one last push up for Oil into the Summer

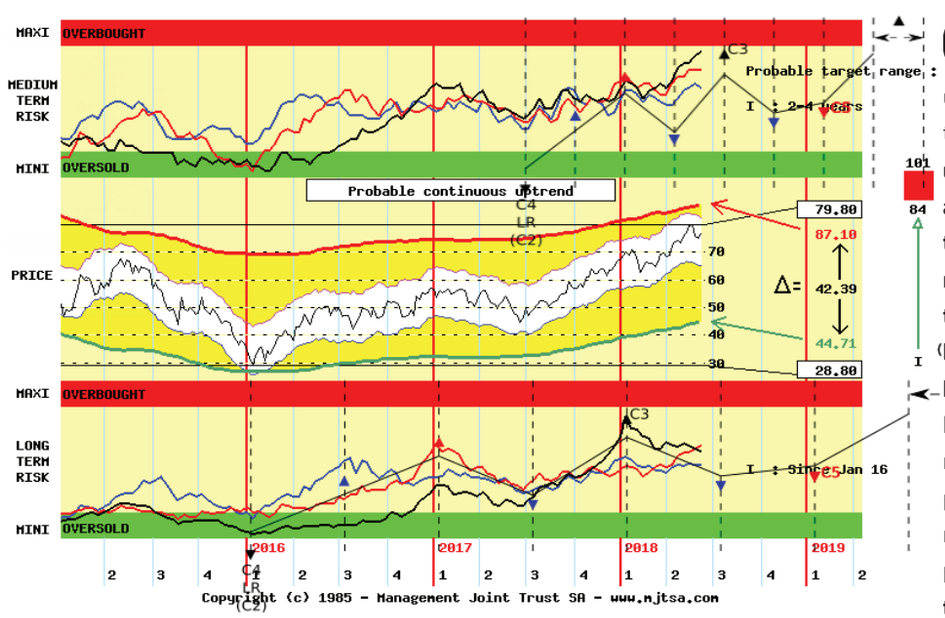
A month ago, we were forecasting one last move up for Oil, possibly until early, perhaps mid Summer. Shorter term, however, we expected a slight counter-trend move lower, probably from mid May to early June, which we labelled as a last/late "Buy the Dip" opportunity. Over the last few weeks, the first leg down of this articulation has come true, shouldn't we now be preparing for Oil's last leg up.

Brent Oil (Spot)
Bi-monthly graph or the perspective over the next 1 to 2 years



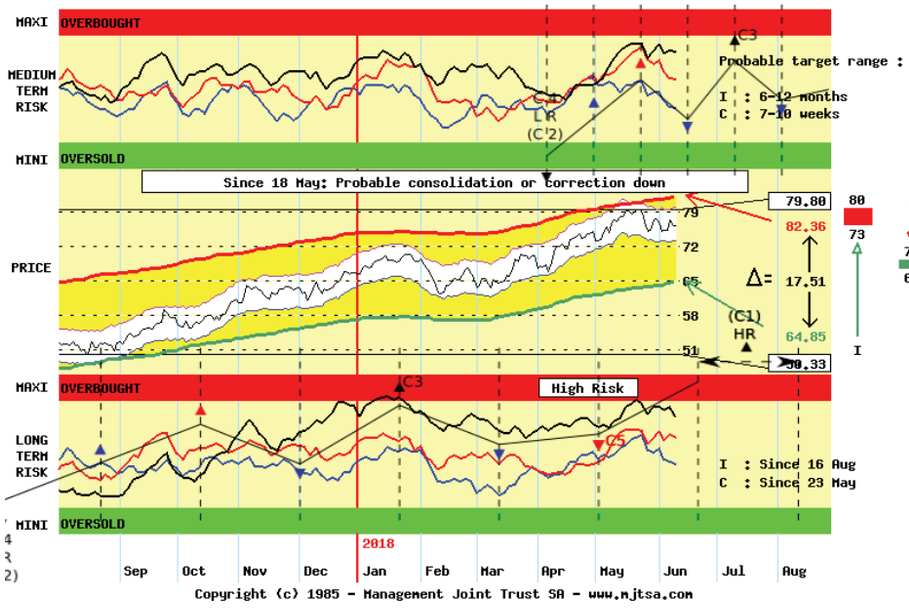
Long term, Oil has already come a long way since it bottomed out in early 2016 slightly below 28 USD/barrel. In fact, it is now back in the range of the 2014 sell-off, having taken out its 2015 highs earlier this year. This break-out event may have opened the door to much higher levels, as above 70 USD/barrel, **there are little historical technical resistances left until Brent reaches the high 90s USD/barrel**. Although our C Corrective targets to the upside (74 -100 range; right-hand scale) may justify such a move, **the time left to achieve it in this economic cycle seems limited**. Indeed, both our oscillator series (lower and upper rectangles) are suggesting that **Oil may top out sometime this Summer and start to correct down towards year-end and 2019.**

Brent Oil (Spot)
Weekly graph or the perspective over the next 2 to 4 quarters



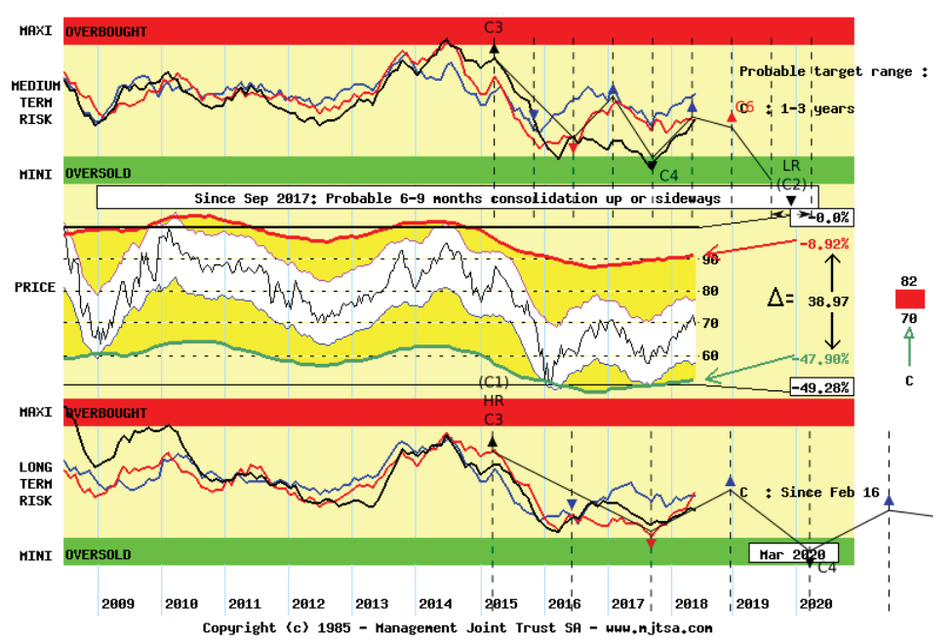
On our Weekly graph, our I Impulsive targets to the upside (right-hand) are indicating that **Brent Oil may reach up above 85 USD/barrel, and possibly even towards the symbolic 100 USD/barrel mark. Here too, however, the time left to achieve this acceleration to the upside seems limited.** Indeed, while our long term oscillators (lower rectangle) may be still supportive towards next year, our medium term oscillators (upper rectangle) are signalling **that a top should materialize as early as July (over the next month or so)**. This is in line with our long term projections on the bi-monthly graph above, and the correction down that follows should last into early 2019 at least (and probably more if you consider our long term graph above).

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



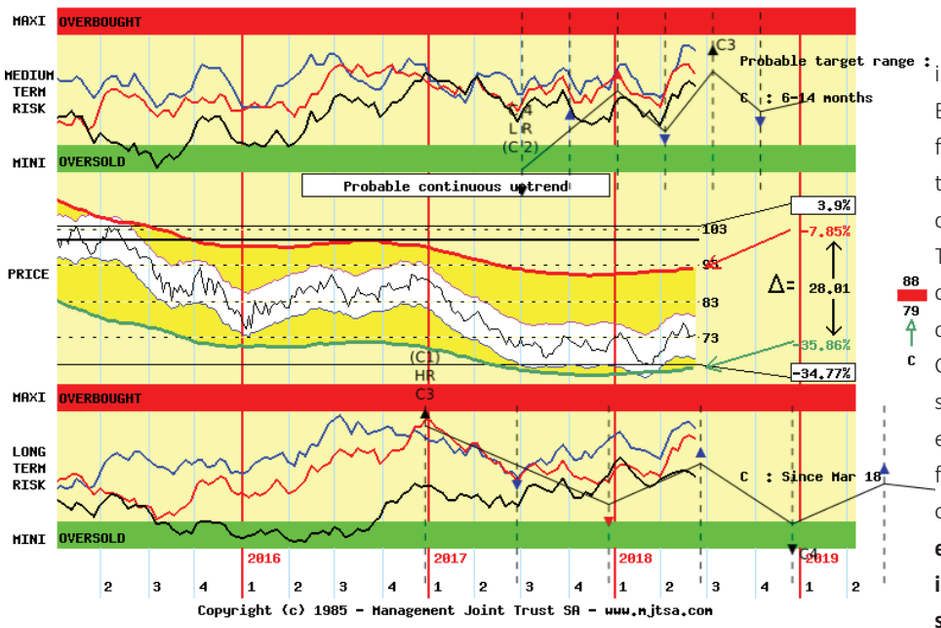
The uptrend on our Daily graph is already well advanced, with a "High Risk" situation, which was detected in May by our automatic messaging system (lower rectangle). That said, it may have come slightly too early, as the sequences we show on both oscillator series (upper and lower rectangles) would rather suggest **a Summer top, towards mid/late July**. Shorter term, our medium term oscillators (upper rectangle) are indicating that a low will be found over the next week or so, which could provide an entry point for this ultimate move higher. **On the price targets front (right-hand scale), our I Impulsive targets to the upside have been achieved between 73 and 80 USD/barrel. Their higher end may be retested and slightly surpassed during the last move up we are considering until July. If we would factor the eventuality of a spike (a typical late cycle event), Brent could theoretically reach up to our I2 Impulsive 2 extended upside targets. These would calculate in a range between the high 80s and the low 90s USD/barrel for Brent.**

S&P Oil & Gas Exploration & Production / S&P Integrated Oil & Gas
Bi-monthly graph or the perspective over the next 1 to 2 years



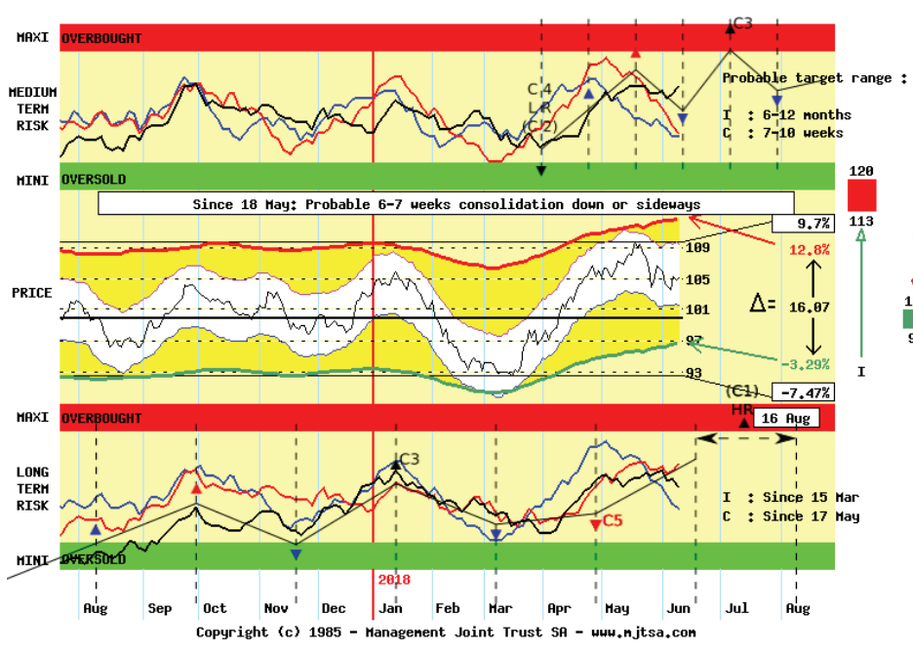
Beyond the top we expect on Oil this Summer, this long term graph reiterates our defensive bias on the Oil and Energy thereafter. It compares the S&P Oil & Gas Exploration & Production segment index, which is quite sensitive to progressions in Oil prices, to the more defensive segment of usually large integrated Oil & Gas producers. **In a way, this ratio is a "beta" measure of the Oil sector.** Following the two bounces we have seen since early 2016, both our oscillator series (lower and upper rectangles) would suggest that **the ratio could be topping out again between now and year-end, and that thereafter, the higher "beta" companies of the Oil Industry could remain under pressure until late 2019 / early 2020**. The fact that the move up since 2016 never made it above our C Corrective targets to the upside (right-hand) would confirm our assessment that this move was just a counter-trend reaction, and that a new move lower in the direction of the previous trend (down) is now likely.

S&P Energy sector / S&P500 Index
Weekly graph or the perspective over the next 2 to 4 quarters



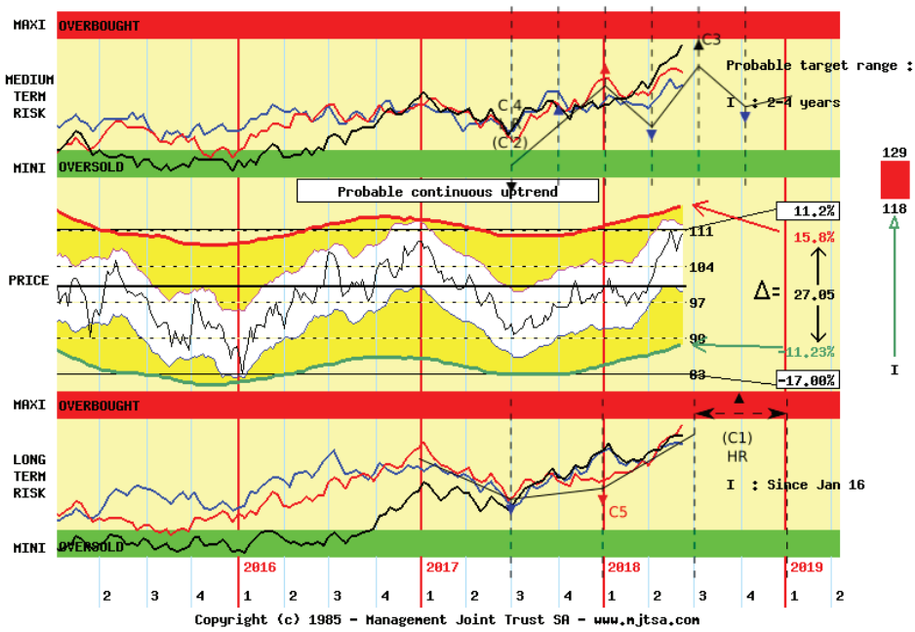
The Energy sector underperformed the S&P500 Index in 2017, as Value sectors, and Energy especially, underperformed Growth trades. Indeed, throughout last year, the yield curve has struggled to steepen. This usually favours long dated cash flow streams vs more cyclical ones (Energy is cyclical). Going forward, the situation should remain the same, as we expect the yield curve to flatten further in H2 2018 (see graph on page 42). **Shorter term, into early Summer, a slight pick up in Energy vs the S&P500 may still be expected on the back of a last move up in Oil prices. Following that**, as shown on both our oscillator series (lower and upper rectangles), **we would expect Energy to underperform again into the Fall and towards year-end.**

S&P Energy sector / S&P500 Index
Daily graph or the perspective over the next 2 to 3 months



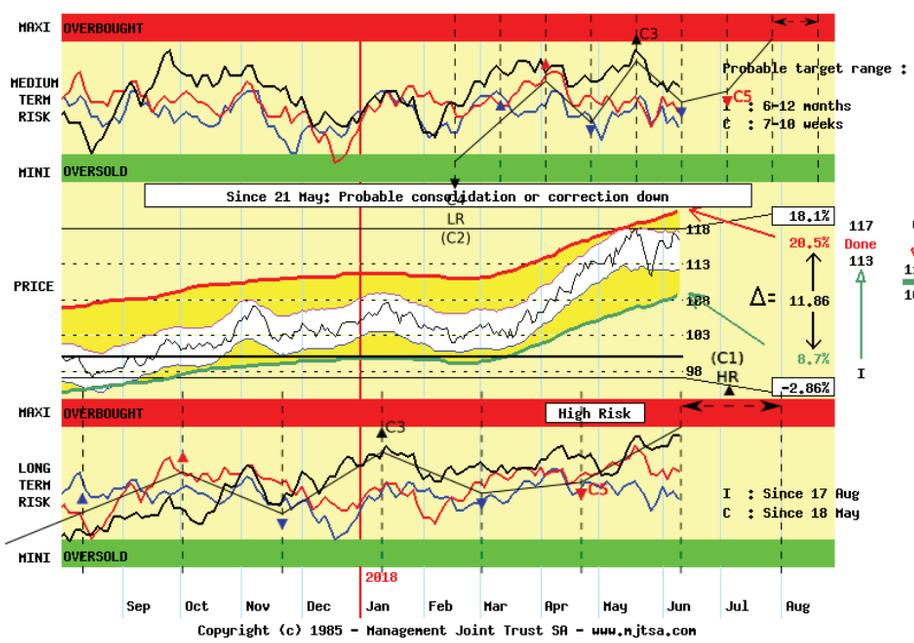
Following a good run over the last few months, both our oscillator series (lower and upper rectangles) suggest that the Energy sector could be topping out vs the S&P500, at some time between late June and early August. This would also corroborate our Daily graph on the US yield curve on page 42 of this document. On the target front (right-hand scale), the ratio could still outperform by another 10 to 15% until then, but as mentioned above, the time window for this move is closing. **We would hence start to turn prudent on the sector vs the S&P500, probably during July**. Note: on an absolute basis (standalone), we would also expect the Energy sector to top out towards early Summer as mentioned in last month's edition of The Capital Observer.

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



Since mid 2017, the European Energy sector has seen more upside momentum vs the Europe Stoxx 600 than in the US. That said, on both oscillator series (lower and upper rectangles), we expect the Energy Stoxx Europe Index to top out vs the Europe Stoxx 600 Index towards early Q3. In our view, the correction to the downside that follows will probably last into year-end. On the target front (right-hand scale), our I Impulsive targets to the upside would suggest a further 7 to 15% of possible outperformance. Yet again, the time window to achieve these levels is rapidly closing. **We will hence also start to turn prudent on the European Energy sector during July.**

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



Shorter term, the relative ratio of Energy vs the market in Europe is showing only limited upside potential left (our I Impulsive targets to the upside have been achieved and are labelled "Done"; right-hand scale). That said, on both oscillator series (lower and upper rectangles), **the outperformance of European Energy may still extend slightly higher towards July, perhaps even towards early August. As with other graphs in this article, we would probably let the Energy Nexus attempt one last push up into July. Thereafter, we expect Oil to top out for the next few quarters, and will probably turn neutral on the sector, at best.**

Concluding remarks

Following their short term correction since mid May, Oil and the Energy sector may be getting ready for a last period of outperformance. We expect it to materialise from mid June into early / mid July. Brent Oil should break back above 80 USD/barrel, and could even push higher (high 80s?) on a spike (which would be a typical late cycle phenomenon). Following that, we expect Oil and Energy to start correcting down, possibly towards year-end, and early 2019 at least. The Energy sector may be particularly hard hit as we would also expect the US and European yield curves to start flattening again. This phenomenon is usually a drag on value and cyclical sectors (of which Energy).