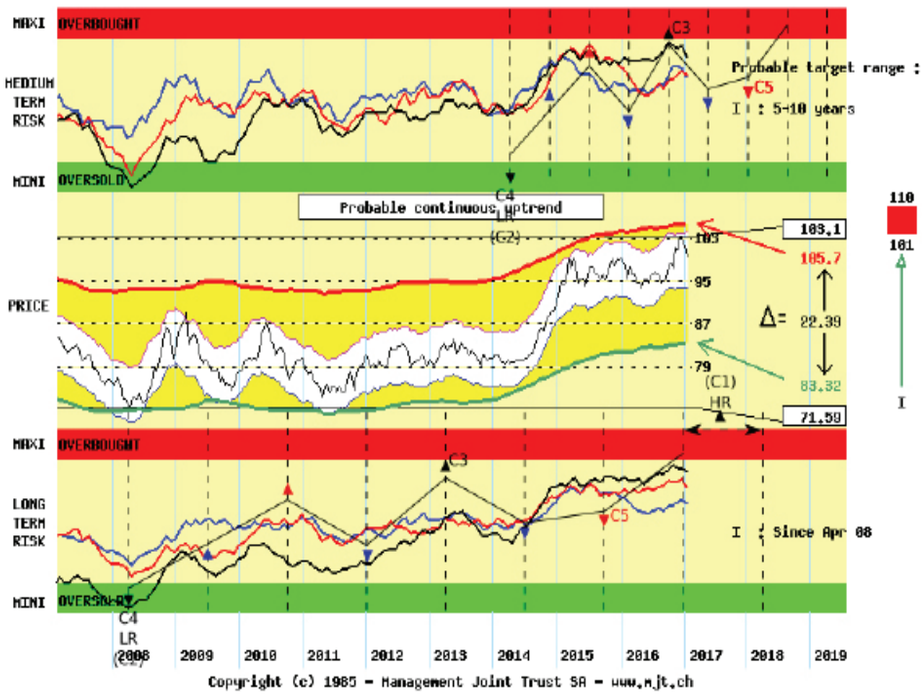
14 / MJT TIMING INSIGHT

The Dollar at crossroads, as it attempts a further leg up

The Dollar has been weak across the board since late December, retracing some of its H2 2016 gains versus the majors (EUR, JPY, GBP, CHF), and retesting recent lows vs Commodity currencies (NOK, CAD, AUD, NZD, ZAR, BRL, RUB). We will consider both spaces separately. Indeed, the USD remains the more reflationary currency among the majors. Against Commodity currencies, however, it has been weaker on average throughout 2016.

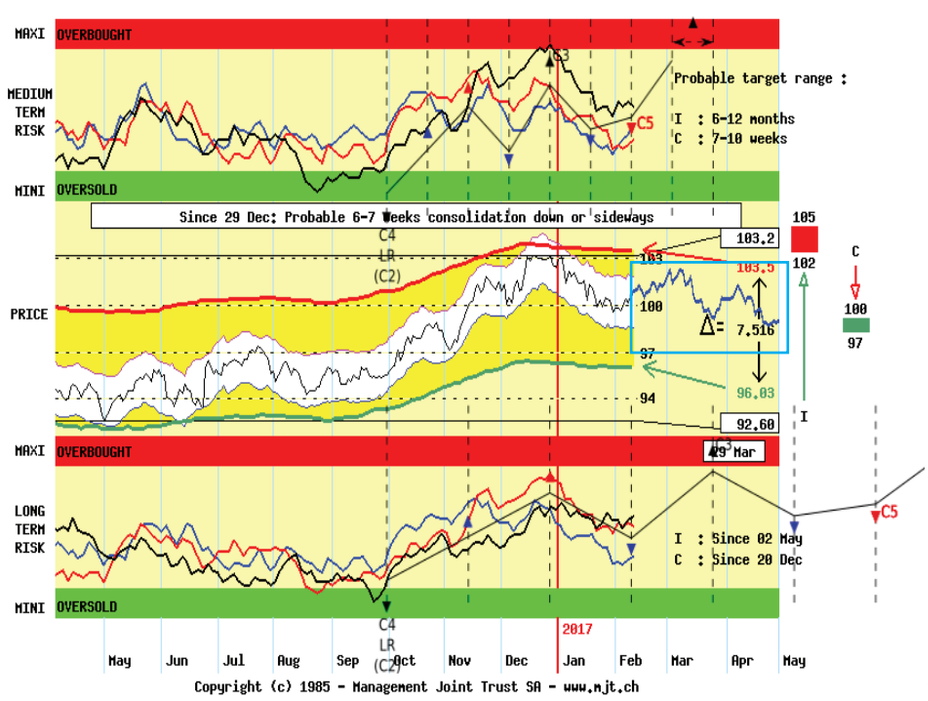
Dollar Index
(Bi-monthly graph or the perspective over the next 1 to 2 years)



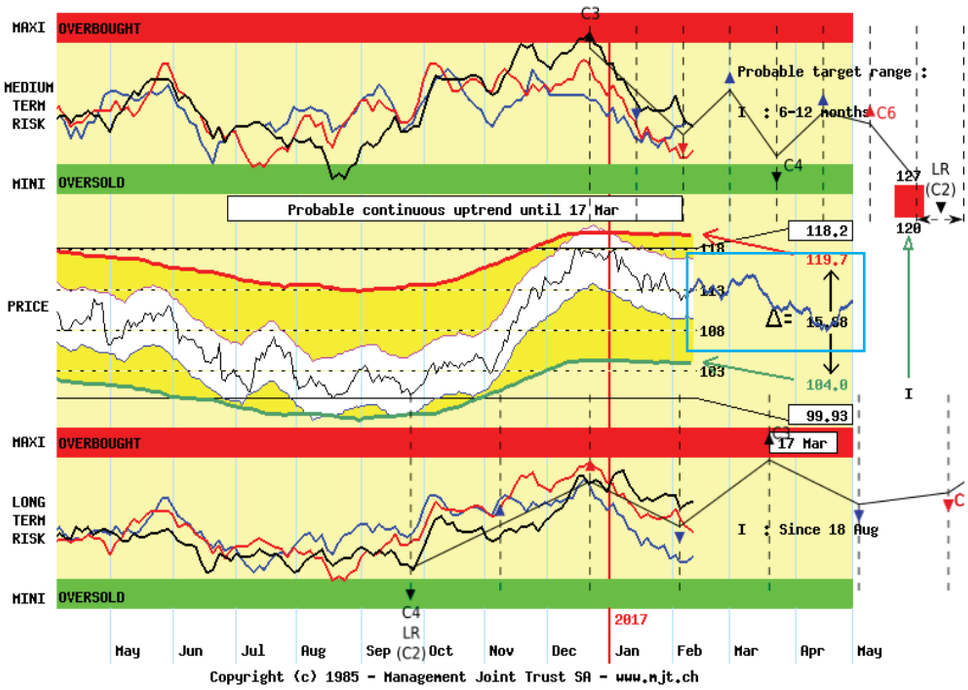
The long term uptrend of our bi-monthly graph has now lasted almost a decade. Our longer term oscillator series have entered a High Risk zone (lower rectangle), while our "I" impulsive targets up may have been achieved (right hand scale). A Case 3 top was made late last year on our medium term oscillator series (upper rectangle). Although, it may not be the final top, it potentially provides an important inflexion point down into H1 2017.

Dollar index
(Daily graph or the perspective over the next 2 to 3 months)

At first glance, the Dollar is moving up into March on both our oscillator series (upper and lower rectangles). Price potential up (right-hand scale) is still interesting ("I" Impulsive targets up between 102 and 105) and would imply that new highs can be achieved.



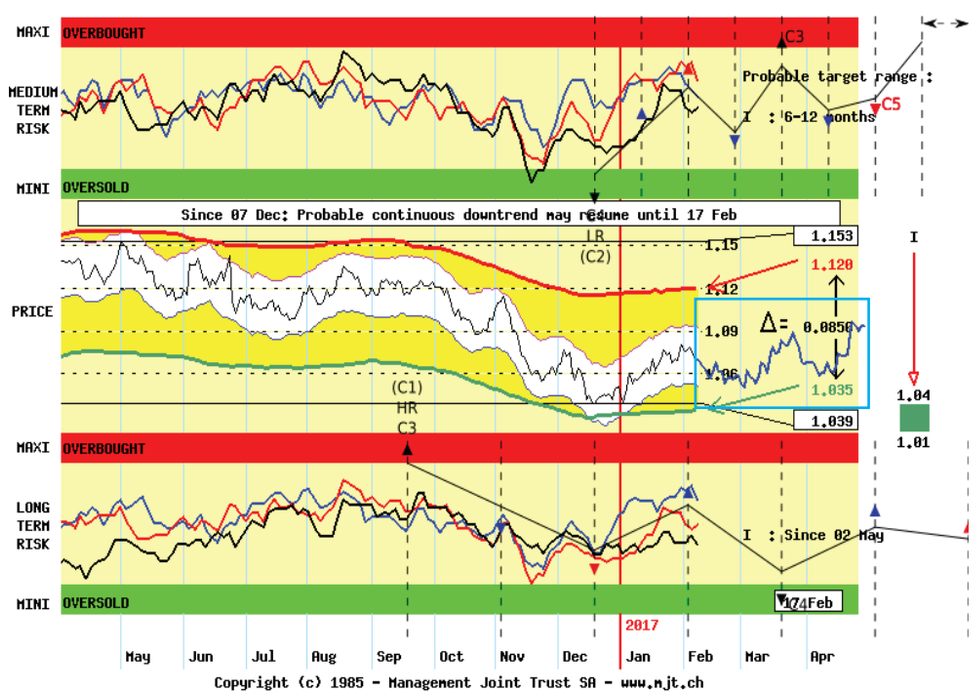
USD/JPY
(Daily graph or the perspective over the next 2 to 3 months)



This Daily graph of USD/JPY (the Dollar Index second largest component) is similar to the Dollar Index. It is however slightly weaker as a downtrend sequence may have already started on our medium term oscillators (upper rectangle). With its recent bottom, we now expect it to correct up into early March. On our long term oscillators (lower rectangle), we could extend this move up into mid March. Combining both, we expect that USD/JPY attempts a last move up towards early March. Considering our "I" Impulsive targets up (right-hand scale), it could make new highs, while a failure to do so would imply a stronger correction down into end March and April.

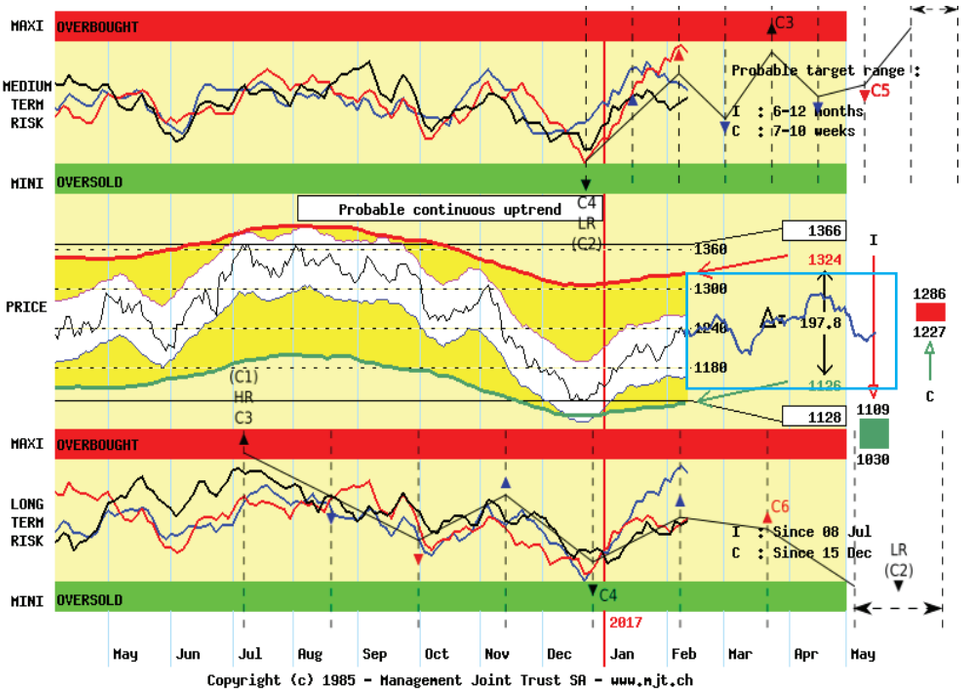
EUR/USD
(Daily graph or the perspective over the next 2 to 3 months)

Invertedly, the correction up on EUR/USD since mid December has been quite resilient. It has been strong enough to create an initial uptrend sequence on our medium term oscillator series (upper rectangle). With its recent top, we now expect it to correct down into late February. On our long term oscillators (lower rectangle), we could extend this move down into mid March. Combining both, we expect that EUR/USD retests down towards end February / early March and possibly makes new lows ('I' Impulsive down targets, right-hand scale), before it bounces back towards April. The month of May could see further weakness as the French election unfolds.



Gold
(Daily graph or the perspective over the next 2 to 3 months)

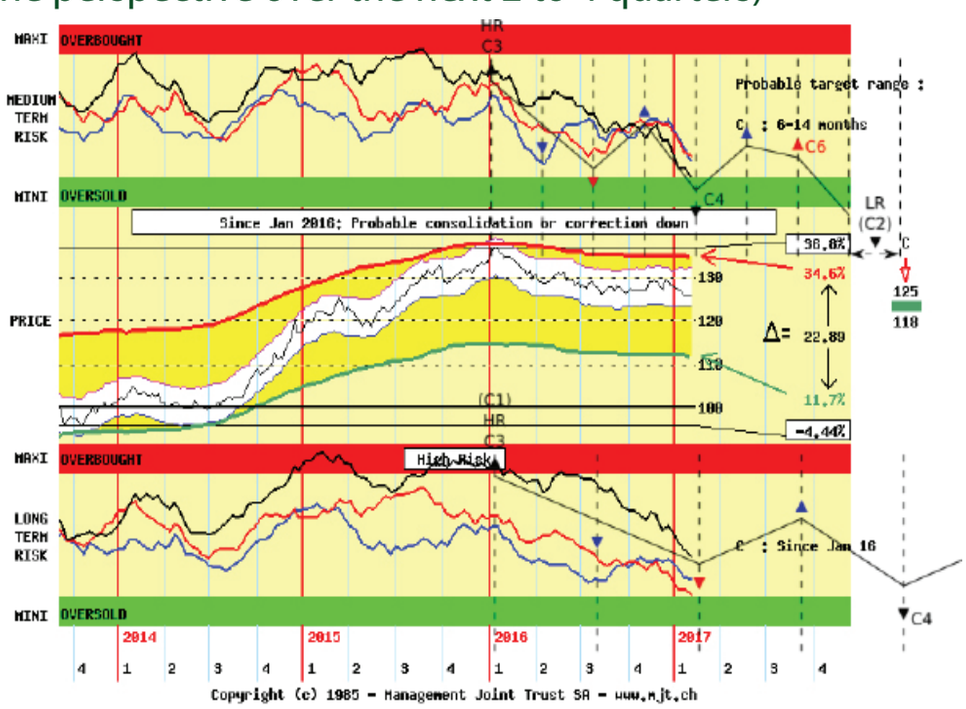
Since interest rates bottomed in July 2016 major currencies vs the US Dollar have been strongly correlated to Gold. Indeed, the USD has been the more reflationary of the major currencies, surfing on the interest rate differential between the US and the Eurozone and Japan, while Gold has been suffering from the rising interest rate environment.



Since December, together with the Euro and the Yen, Gold has been correcting up vs USD. It is now in an uptrend sequence on our medium term oscillators (upper rectangle). While it should retrace now into early March, a second leg up could then materialize into end March and possibly May. Our longer term oscillators (lower rectangle) and our target projections (right-hand scale) provide a more negative alternative: the bounce is still only a correction (within our corrective targets, i.e. below USD 1'286/oz) and a failure to push higher during March could create a 'Case 6' or the start of a rapid move lower.

USD vs Commodity Currencies
(Weekly chart or the perspective over the next 2 to 4 quarters)

This portfolio shows the USD vs Commodity currencies (NOK, CAD, AUD, NZD, ZAR, BRL and RUB equal weighted). Versus these, the USD has been on the wrong side of the reflation trade. While we expect oil and materials to correct down from end February to Q2 2017, invertedly, the Dollar should correct up. Our medium term oscillator sequence (upper rectangle) shows this projection. Following that, the USD should resume its downtrend into end 2017 / early 2018 vs these Commodity currencies.



Concluding remarks:

Longer term the USD could be approaching an important top vs the Euro and the Yen. It could materialize over the next month as a last move up (down for EUR/USD) comes to an end between end February and mid March. Vs commodity currencies, the Dollar follows an opposite dynamic: it should correct up from end February into mid Q2 2017.