The Euro could take a Summer break, yet it remains in an uptrend towards year-end
Geneva, June 7th, 2017

Since December, the reflation tide seems to have shifted to Europe. Indeed, while in 2016 reflation was mostly a commodity and US centric story, data from Europe has been showing steady improvement for several months. According to the PMI released Monday, EuroZone growth is at its fastest pace in 6 years, unemployment is at 8 years low, and while inflation has softened a bit in May, the ECB still seems committed to unwind its QE program in 2018 (we will know more on Thursday). As a result**, the US-EuroZone interest rate differential story is going into reverse and the Euro is strengthening. Call it revised growth prospects, positive surprises or a true re-rating story, we believe this trend is set to continue possibly until year-end. Yet, as we describe below, we expect some rotation and countertrend price action into the Summer before the trend reasserts itself.**

We will now dive into the charts, using our methodology developed some 40 years ago. It uses a system of 2 standard deviation envelopes to monitor potential trend direction, historical volatility to calculate possible price targets and a system of three oscillators (long term, medium term, short term) to monitor and project price developments from Overbought to Oversold (and vis-versa). For more information on our methodology or more examples of our work, please visit our website (www.mjtsa.com), or our partner website www.thecapitalobserver.com (where we co-write a monthly cross asset newsletter with macro-economic research firm, Diapason Currencies & Commodities UK).

The longer term view: the Euro should remain strong until late 2017 / early 2018 at least

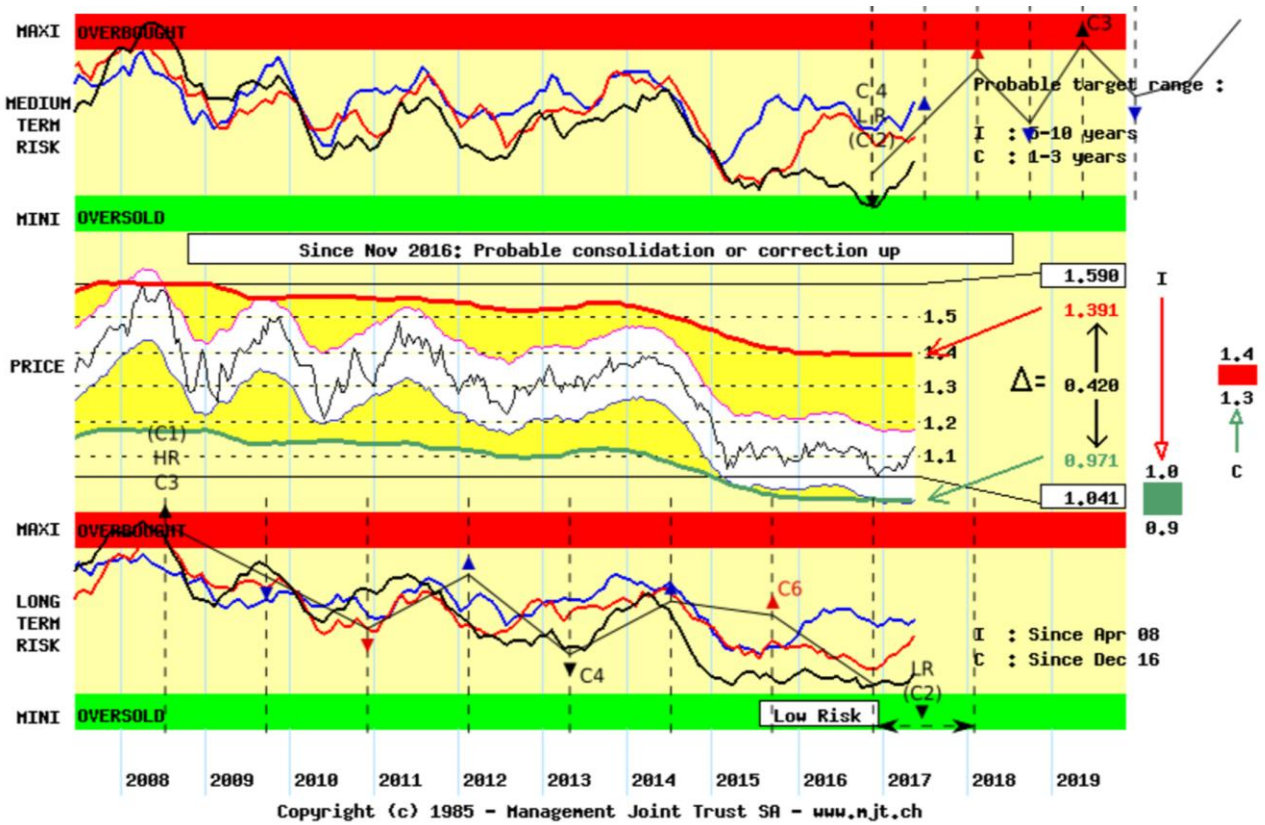

Figure 1. EUR/USD bi-monthly chart or the perspective over the next 1 to 2 years

Following a full sequence down on the model we project on our long term oscillators (lower rectangle), **EUR/USD reached a "Low Risk zone" late last year. On a bi-monthly chart (Figure 1), such situations are usually followed by 4 to 6 quarters of consolidation up in first instance** (more if the long term trend starts to reverse). This is the sequence we show on our medium term oscillators (upper rectangle), which is approaching a first intermediate top towards midyear. A further top is then expected in early 2018, followed by a more substantial retracement down. The downtrend from 2008 to 2016 had pretty much reached its 'I' Impulsive targets down between 1.00 and 0.90 (right-hand scale). The potential for the correction up is towards 1.30 and above over the next 2 years (if it holds until then, which is too early to call yet). This is according to the 'C' Corrective targets up we calculate using our historical volatility (delta = 0.420, times 0.5x to 0.8x, added to the chart low; right-hand scale).

Looking for further confirmation, we now turn to EUR/JPY.

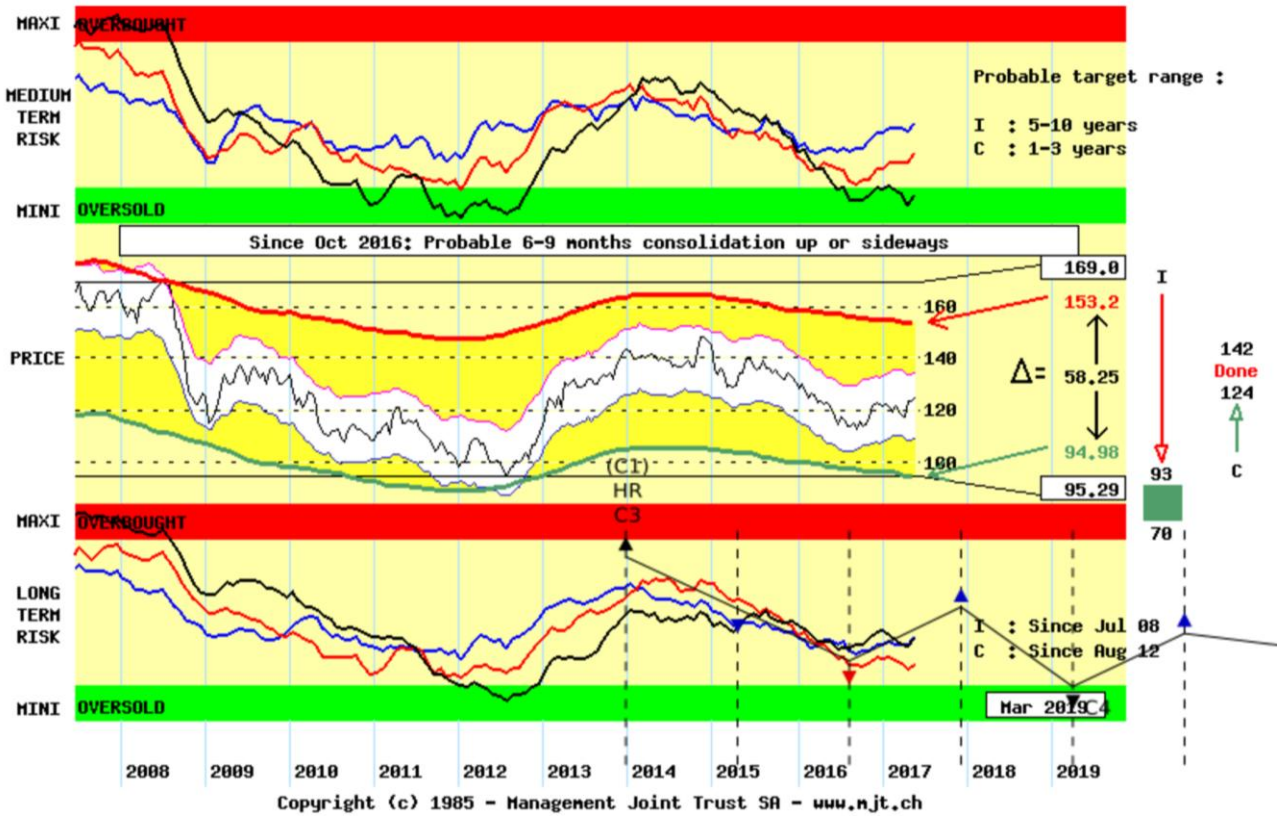

Figure 2. EUR/JPY bi-monthly chart or the perspective over the next 1 to 2 years

On its bi-monthly chart (Figure 2), EUR/JPY seems to follow a downtrend sequence from the tops made in 2014 (lower rectangle). **It reached an intermediate bottom in H2 last year (October according to our automatic model), a situation that usually triggers 4 to 6 quarters of correction up. We would hence expect that the current move to the upside could last into late 2017, early 2018,** before it resumes its downtrend towards 2019. This projection is consistent with our current cross asset scenario where we expect the current cyclical upturn and risk assets to continue up into early next year, before they gradually roll-over towards late 2018 and 2019. From a risk/reward perspective, EUR/JPY recently entered its "C" corrective target zone up and could see more upside above 130 during H2 2017. However, from 2018, EUR/JPY should gradually roll-over again and the 'I' Impulsive targets down we project could lead us back below the 100 mark towards 2019.

We will now scope down to our Weekly and Daily charts to gain more precision.

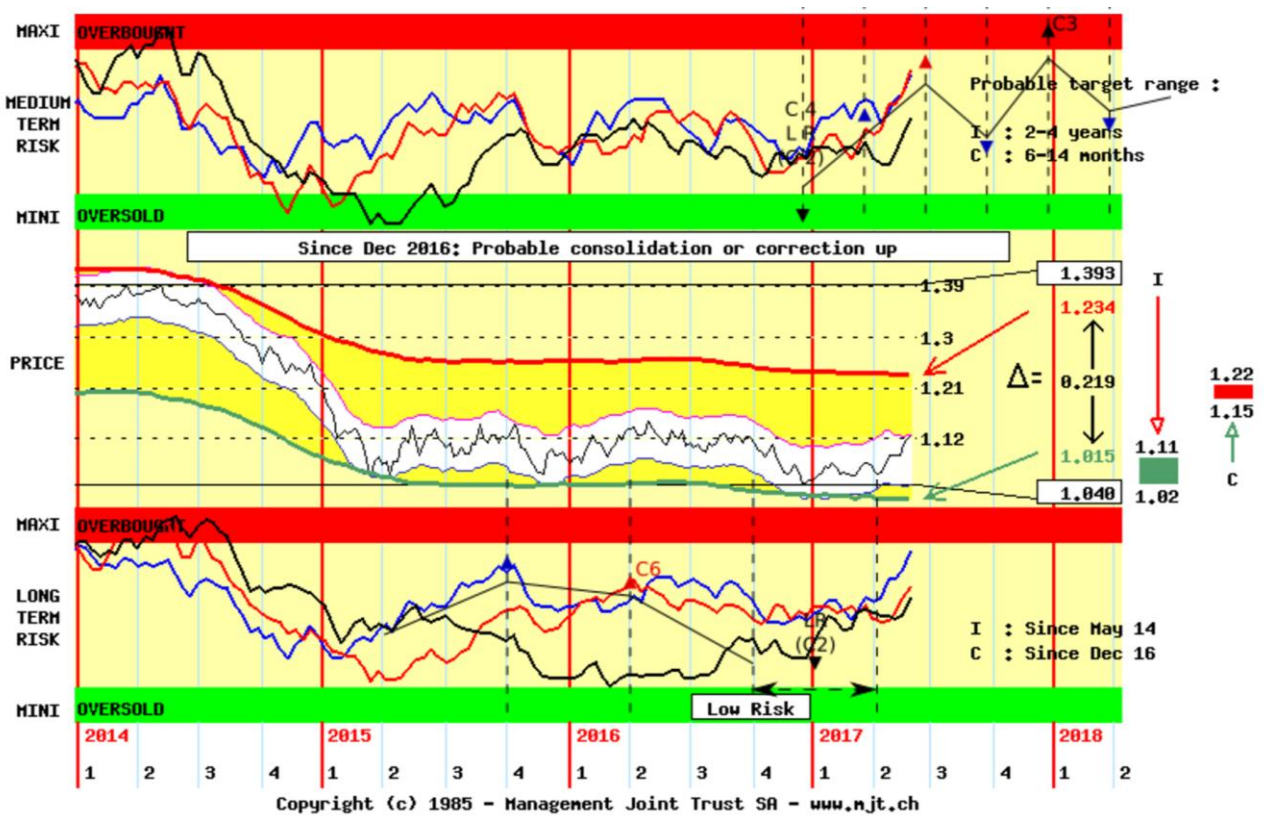

Figure 3. EUR/USD weekly chart or the perspective over the next 2 to 4 quarters

Following a last sequence down on our long term oscillator series (lower rectangle), EUR/USD also reached a "Low Risk zone" on our Weekly chart late last year (Figure 3). **The uptrend sequence we now project on our medium term oscillators (upper rectangle) is approaching an intermediate top, which should see it correct into the Summer**. Following that a new move up should materialize possibly towards yearend. 'I' impulsive targets down had been achieved on the lows last December and the **'C' corrective targets up now point to more potential towards yearend, possibly between 1.15 and 1.22 (right-hand scale).**

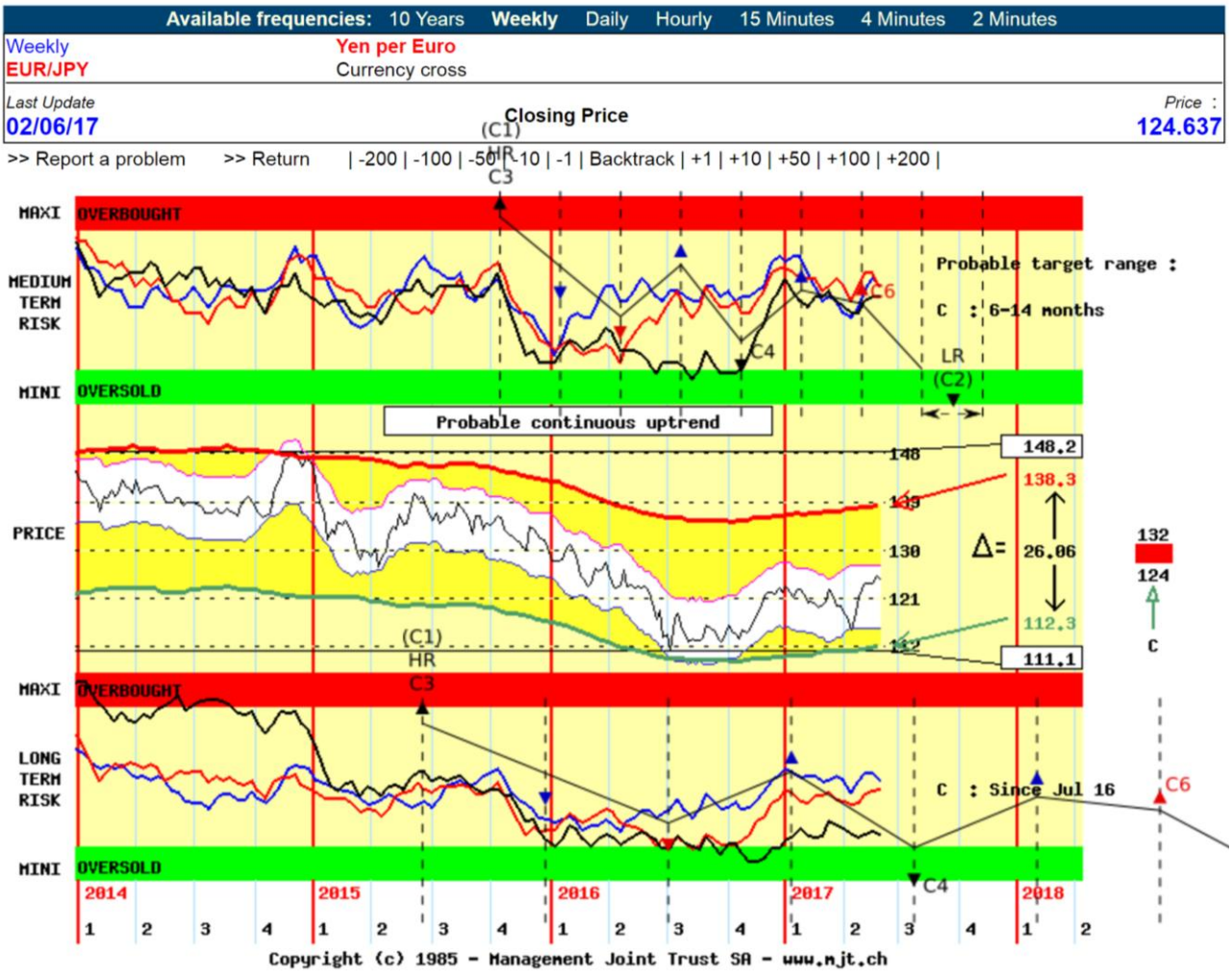

Figure 4. EUR/JPY weekly chart or the perspective over the next 2 to 4 quarters

We now switch back to EUR/JPY and its Weekly chart (Figure 4). The uptrend that started in Q3 2017 last year is still under way. Yet, the models we project on both our oscillator series (upper and lower rectangles) do point that a retracement period that may lie ahead. Hence, as shown on the chart, and similarly to our views on EUR/USD above, **we expect some consolidation into the Summer on EUR/JPY, before prices resume their correction up towards year end and our 'C' Corrective targets up between 124 and 132 (right-hand scale).**

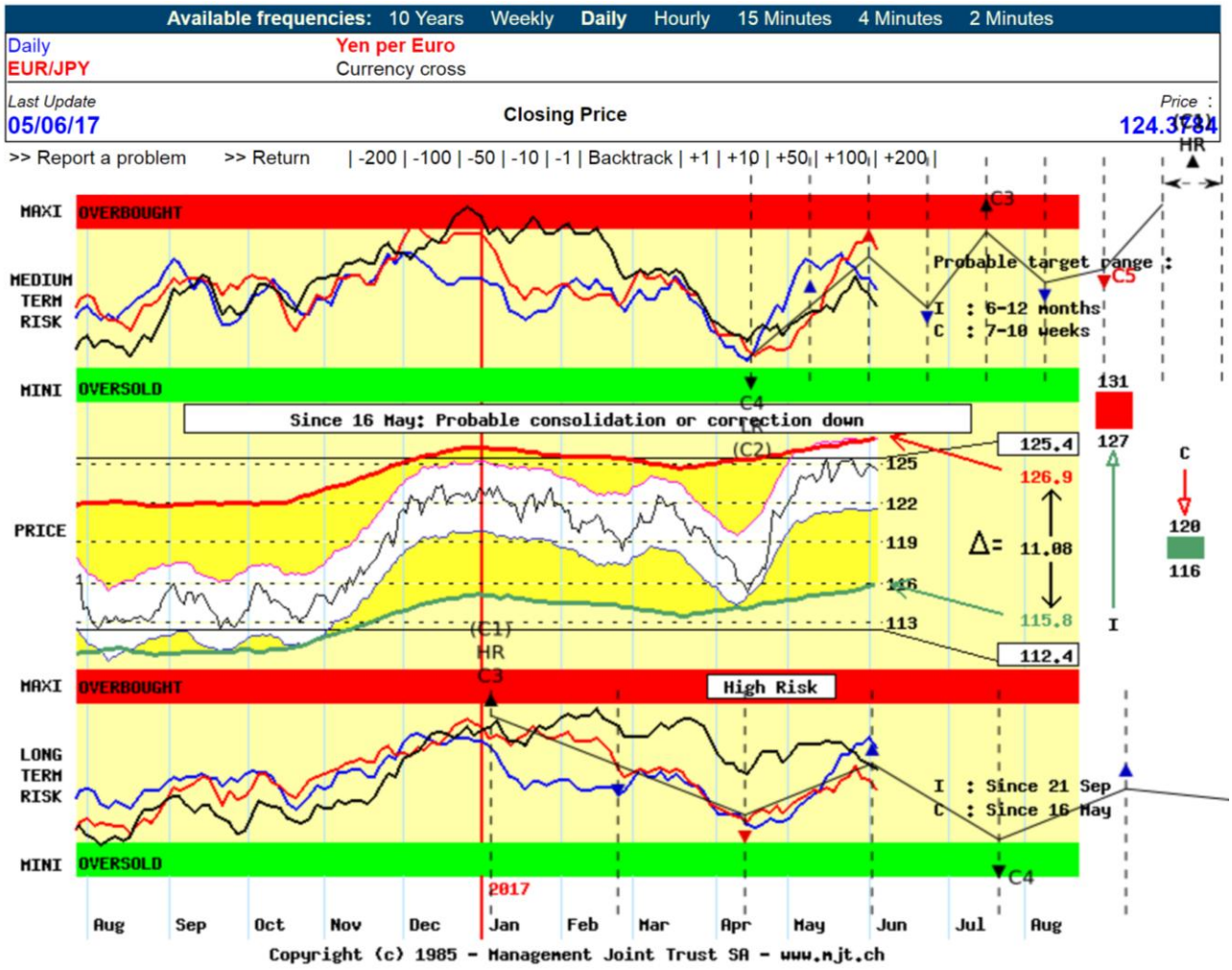

Figure 5. EUR/JPY daily chart or the perspective over the next 2 to 3 months

Following-up on this EUR/JPY projection, we now turn to its Daily chart (Figure 5), which may have reached a "High Risk" situation mid May. On our medium term oscillators (upper rectangle), the sequence up does not seem quite finished yet. It would advocate for a first move lower into June, a retest of Highs during July and further consolidation into early August, before prices start to move up again more decisively in sync with our Weekly projections. Our long term oscillators seem to suggest a more defensive scenario (lower rectangle), where prices consolidate from now into late July. Risk/Reward on this Daily chart is neutral at this stage, with 'I' impulsive targets up towards 127 – 131 and 'C' Corrective targets down between 120 and 116 (right-hand scale). **Given, the "High Risk" situation recognized by our automatic messaging, we would favor a consolidation down, towards late July / early August and our 'C' Corrective targets down (i.e. 120 - 116).**

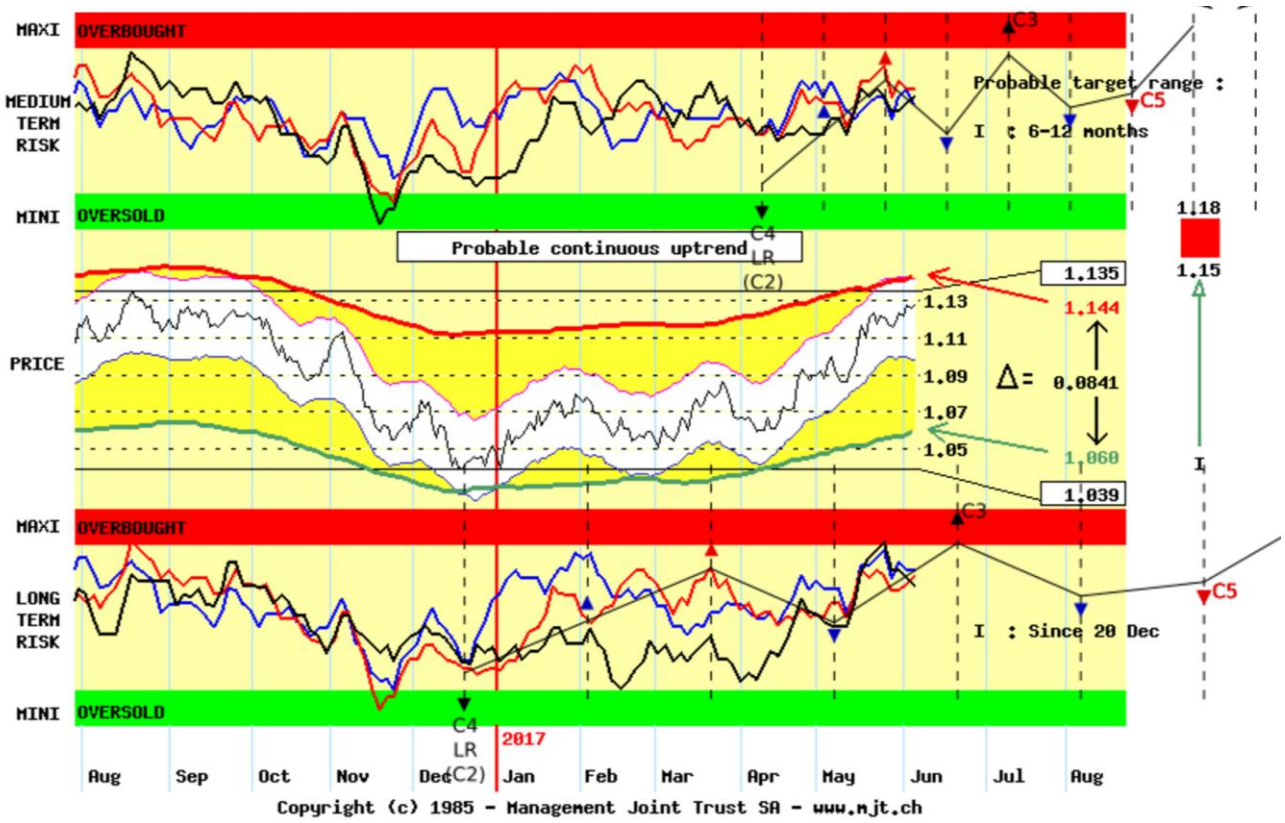

Figure 6. EUR/USD daily chart or the perspective over the next 2 to 3 months

We now consider the EUR/USD daily chart (Figure 6) and perspectives for the pair over the next couple of months. The sequence up since December on our long term oscillators (lower rectangle) may be topping out over the next couple of weeks. We would then expect it to correct possibly into early August. On our medium term oscillators (upper rectangle), the current leg up could extend into July, then followed by a shorter consolidation period into early August. 'I' impulsive targets up would suggest that there is still some potential left in the current move up (1.15 – 1.18; right-hand scale). Following that, the correction down, based on our historical volatility measure 'delta', would imply that EUR/USD could correct 4 to 7 figures (0.5x to 0.8x 'delta' of 0.0841; middle chart, right-hand side). Given the above (and the High Risk situation we just covered on EUR/JPY), **our preferred scenario would be that EUR/USD could reach 1.15 over the next couple of weeks, before it consolidates down towards early August and its 'C' corrective targets down (calculated 4 to 7 figures lower, or somewhere towards 1.11 - 1.08).**

Additional angles:

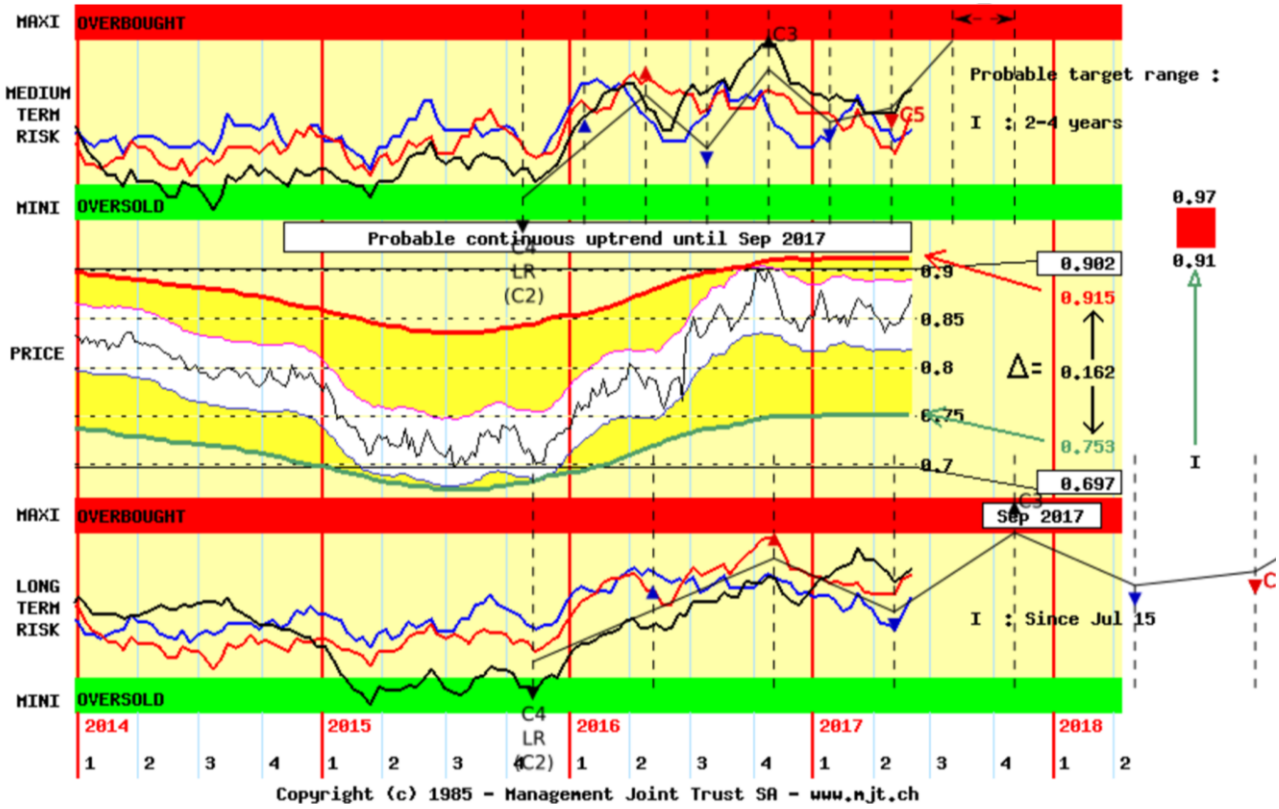

Figure 7. EUR/GBP weekly chart or the perspective over the next 2 to 4 quarters

Given the UK parliamentary election tomorrow, we now consider the Euro vs the Pound (Weekly chart, Figure 7). The sequences up since 2015 on both our oscillator series (upper and lower rectangles) had been taking a pause since early Q4 2016. **The models we project indicate that they have now started to resume their uptrend possibly towards late Q3, early Q4 2017. The 'I' Impulsive price potential up we expect is towards 0.91 – 0.97 or 5% to 10% above current levels.**

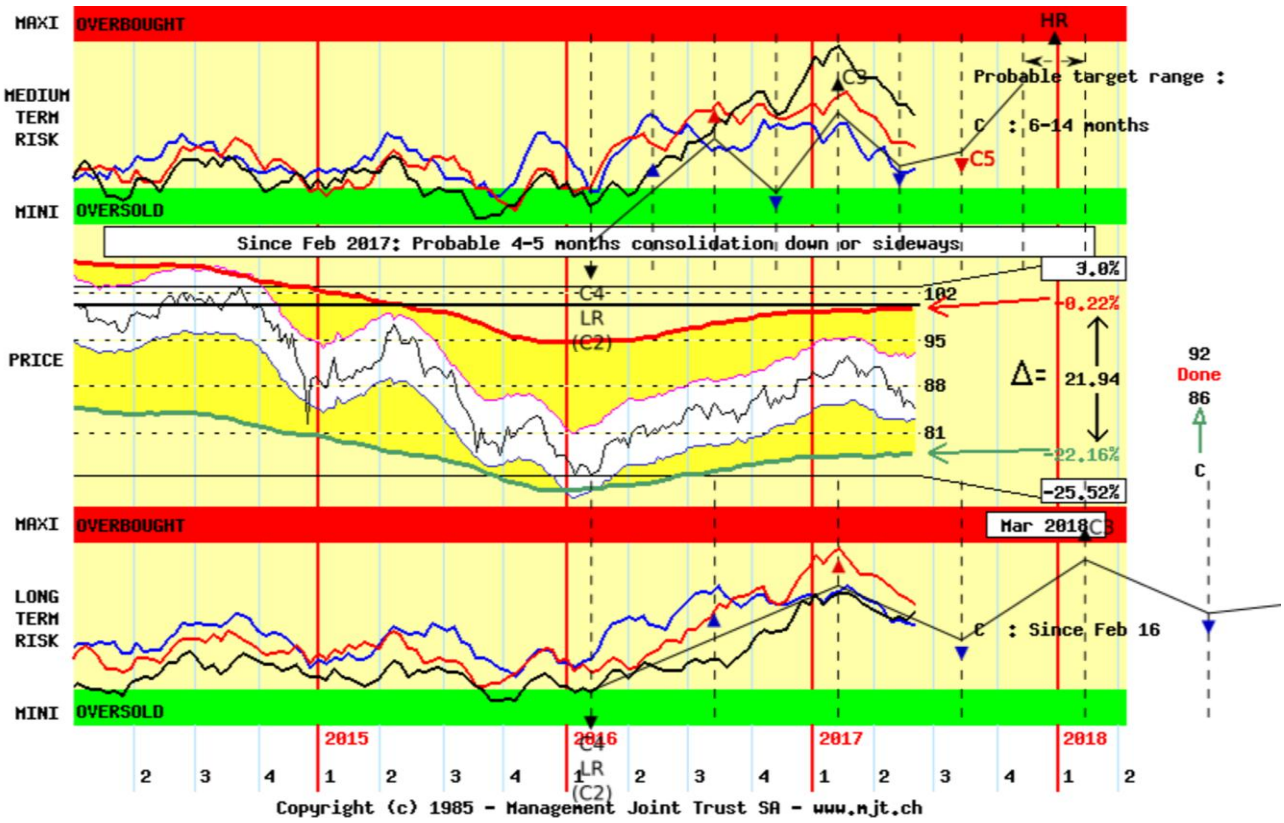

Figure 8. Commodity currencies vs EUR weekly chart or the perspective over the next 2 to 4 quarters

Finally, we present the Euro vs a basket of commodity currencies (equal-weighted BRL, RUB, CAD, NOK; i.e. mostly oil related, Figure 8). These were outperformers in 2016 (vs all the majors), yet have been consolidating to the downside since mid Q1 2017. **On the weekly chart above, we expect them to resume their uptrend from mid Q3 2017 towards yearend or early 2018**, as shown on both oscillator series (upper and lower rectangles). According to the price targets we show (right-hand scale), we would expect them to retest their recent highs ('C' Corrective targets up; right-hand scale). Above that, our targets would turn in 'I' impulsive mode up. The potential up from current levels would then be as high as +20% for this basket vs the Euro. Given, our current cross asset scenario, which is bullish on oil from mid Summer 2017 to early 2018, we believe this is possible.

Concluding remarks:

The Euro has had a strong run since December, both vs the Dollar and the Yen. We believe this first leg up may top out sometime in late June or early July and start to consolidate towards August. Our Daily corrective targets down suggest that this retracement could amount to between -3% and -6% vs both currencies. Following than, from mid Summer, we would expect the Euro to move up again towards late 2017 / early 2018. Our Weekly Corrective targets up could reach up to 1.22 on EUR/USD and 132 on EUR/JPY. The Pound has had a strong reaction up since October vs most currencies. We believe it has now started to weaken again vs the Euro, possibly until early Q4 2017. The potential up for EUR/GBP is between 5 and 10%. Finally, as the Euro consolidates, commodity currencies should be finishing off their correction down from mid Q1 2017. From mid Summer, we expect them to accelerate up again towards yearend and early 2018 with strong potential vs all the majors.

All opinions, news, research, analyses, prices or other information in the article above are provided as general market commentary and do not constitute any financial advice. No economical business decisions should be based solely on the article above.

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Jean-François is the CEO of Management Joint Trust SA (MJT - www.mjtsa.com), a company founded in 1969 in Geneva Switzerland, which provides institutional market advisory services based on proprietary algorithms. The methodology uses Timing oscillators, Trend analysis and Price Targets calculations to monitor risk/reward and cyclicality as well as project likely market scenarios over time frames ranging from longer term charts to intrahour. Coverage includes circa 5'000 instruments over all asset classes (stocks, indexes, ETFs, commodities, bond indexes and interest rates). On the institutional advisory front, MJT specializes in intermarkets scenario building as well as asset and sector rotation analysis across the business and market cycles. Jean-François started his career in investment banking (Paribas, then Deutsche Bank in London), joined MJT in 2003 and was awarded the International Federation of Technical Analysts' Bronwen Wood Memorial Award in 2013 (for the best CFTe certification diploma paper in the world during 2012). Under his supervision, MJT's research was nominated in 2015 and in 2017 (this year) as Finalist in The Technical Analyst Awards "Best Specialist Research category". Jean-François also acts as Lead technical analyst for The Capital Observer publication (http://www.thecapitalobserver.com).