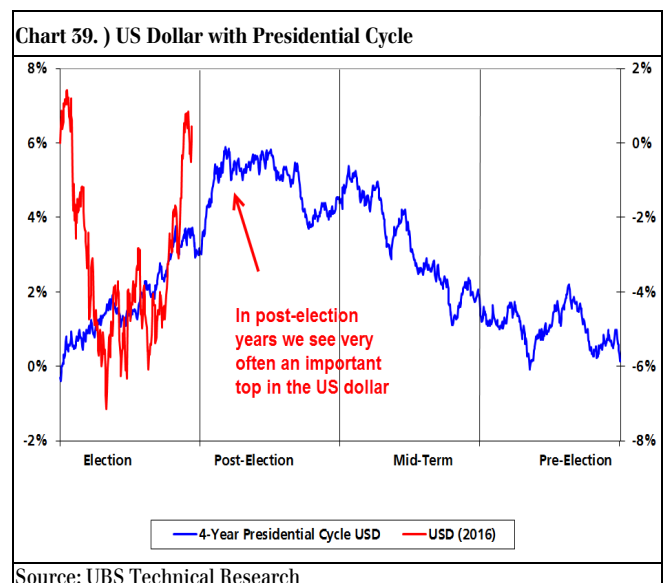
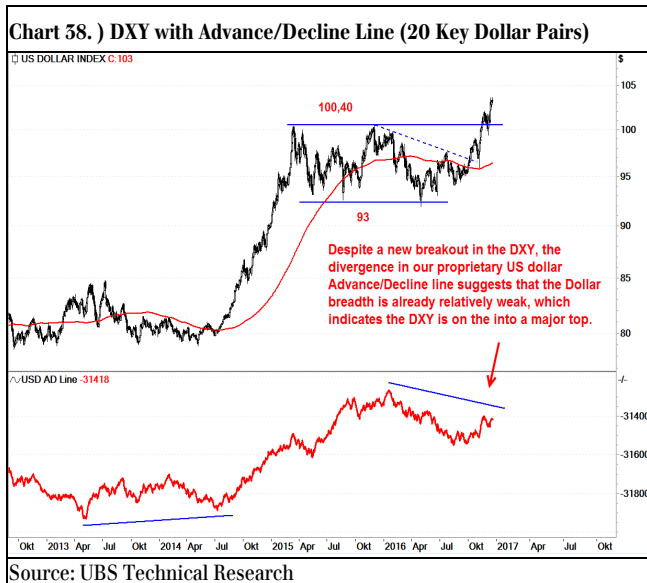


Technical Strategy



Tactically, we have been bullish US dollar since the May 2016 bottom, which is the base of wave 5. It's interesting that in terms of patterns and indicators we see the same kind of divergences and selectivity, which we see in the late stages of a bull market in equities. On the indicator side, the new breakout in the DXY is producing non-confirmations on the upper weekly and monthly timeframe, which analytically confirms a wave 5. The weak momentum in our proprietary US Dollar Advance/Decline line (which includes 20 key dollar pairs in EU, EM/Asia and commodity block) shows, that the current bull cycle is quite selective where in several key pairs particularly in the commodity block we already have major bottoms in place. In Asia and Europe, we have pairs (KRW, TWD, IDR, GBP) which are already showing relative strength, whereas it has been mainly the weak EUR (50% index weight in the DXY) and JPY that have been pushing the DXY above its 104 key breakout level. With this deteriorating internal breadth, it is actually just a question of time before we see the US dollar moving into a major top, which on the back of the underlying wave structure would be the beginning of a sharp and significant correction.

Another interesting phenomena is the cyclical nature in the underlying presidential cycle where we usually see a very strong US dollar in a presidential election year followed by a major top in the post-election year, which in the past, was very often the start into a multi-year bear market. In this context, last year was a very "normal" bullish US dollar year. Following this cycle we should see the US dollar moving into an important Q1 top as the basis for minimum a stronger and larger correction if not even a bigger bear market.

Q1 Dollar top as the basis for a sharp correction

Following our cyclical model/roadmap, it is a key call of our 2017 strategy to see the US dollar moving into a major top in deeper/later Q1, which we see as the basis for a sharp and multi-month correction into minimum H2 2017 and best case into early 2018, where we have our next long-term low projection. Again, with respect to our long-term Dollar cycle, we think that a potential 2017 US dollar correction will just be a temporary phenomenon and not a multi-year event, and in this regard, we see a potential H2 2017 DXY bottom as the basis for starting a new major US Dollar bull leg towards minimum the end of this decade. **On the macro side, a major Dollar top and subsequent strong correction cyclers would have far reaching consequences in 2017.**

- A bearish US dollar is purely reflationary, as it is bullish commodities. Last year's bottoms in crude oil, commodities and Emerging Markets was triggered by our expected Q1 tactical Dollar correction. From a wave perspective, we see last year's rally in commodities and Emerging Markets as wave A of a classic A-B-C corrective counter rally. **A multi-month US dollar correction, we would see as the trigger for an aggressive wave C rally in commodities and Emerging Markets, which we see as one of the great trading opportunities in 2017.** Having said that, with anticipating a major US dollar low in H2 2017 we obviously also expect commodities and Emerging Markets to move into an important cycle top in H2 2017, where from a timing standpoint we see a top in Emerging Markets as a leading indicator for a wave 5 top in the S&P-500.

Technical Strategy



- With last year's wave A rally in commodities, we saw a first significant bounce in US inflation expectations, which then pulled back into summer (see chart 8.) on the back of a wave 5 starting in the US dollar and commodities correcting. The post-election reflation rally, as an external shock event, was the trigger for US inflation expectations to break the 2012 down trend against the strong US dollar. In this context, **we see a multi-month dollar correction as the trigger for a positive surprise and potential overshooting in US inflation expectations and interest rates, which would be the beginning of the end of a classic boom and bust cycle.**
- From a pure price point of view, the December pull back we expect to move into an early/mid-January bottom as the basis for the final up-leg into deeper/late Q1 where we anticipate a **potential wave 5 top in the DXY between 106 and 108**. Into H2 2017, we expect the DXY to correct down to the base of wave 4, which is at 93. Translated into key pairs we expect the EUR, CHF, SEK, and GBP to move into major Q1 bottoms as the basis for big and aggressive rallies into H2. In GBP, we see a potential Q1 low as a major 8-year cycle bottom and therefore a long-term buying opportunity for minimum a big rally into early 2018.
- In the commodity block, the AUD, CAD and NZD have bottomed in Q1 2016. A major Q1 DXY top could be the basis for a second and potentially aggressive rally into H2 2018. We are bullish AUD, CAD and NZD in 2017!



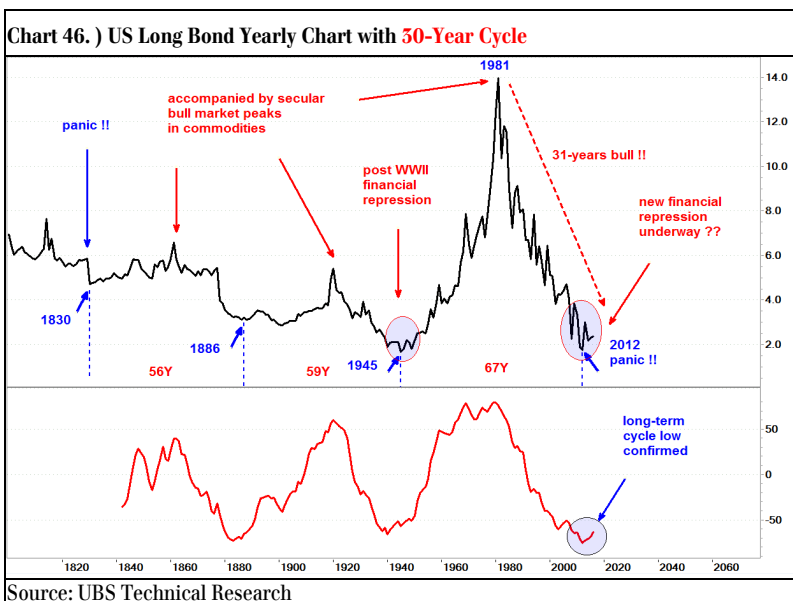
Technical Strategy



- We expect the EUR to rally aggressively from a late Q1 low around parity towards 1.15 and best case 1.20 into later 2017. Nonetheless, a 2017 EUR rally will post another lower high into its intact secular bear trend. So, although into 2017 we are EUR bullish, following our cyclical model we remain structurally bearish where from a late 2017/early 2018 top we expect the EUR to start another multi-year bear cycle into the end of the decade. A sharp EUR rally in 2017 will be latently bearish Europe, so we do NOT believe in a broad-based outperformance of Europe versus the US. On the contrary, with such a move we see a high risk for the next negative surprise in Europe.

Yields overshooting into a late 2017/early 2018

Per our cyclical model, the 2016 summer low represents a major low in the US and European bond market. Structurally, it is important to understand that after the temporary BREXIT undershooting below its 2012 all-time low, with the following strong up-move in yields, the US 10-year Treasury yield factually confirmed its 2012 bottom, which translated means that US yields remain in an intact secular basing process within their underlying 30-year cycle. **This is important, since alone from a pattern standpoint, the US bond market moves into a major double bottom speculation (see chart 9.) and therefore into a classic make or break setup. From a timing standpoint and on the back of our core macro scenario**



to see a reflation overshooting, this will be very likely one of the 2017 key events. Tactically, after the vertical rally in yields into December, we expect a pullback and mean reversion move in US 10-year yields towards 2.00% into later Q1. Having said that, it is a key call of our 2017 strategy that on the back of our US dollar correction scenario, a second aggressive rally leg in commodities, and a potential overshooting in US inflation, we expect another leg up in yields into H2, where the US 10-year Treasury yields will face and test a very important resistance level at 3.00%. At 3.00% we have the secular down trend coming in from the 1990s, and at 3.00% we have

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the neckline of a potential double bottom. With a potential overshooting in the reflation trade, we effectively see the risk of breaking this level, which would trigger at least a temporary overshooting towards 3.50% if not even 4.00%. An overshooting in US yields would be the end game of a classic boom and bust cycle where we would see a new breakdown in interest rate sensitive sectors as a leading indicator for the S&P-500 completing wave 5.

Ironically, after an overshooting ... bonds are a buying opportunity

Ironically, at this point where we see risk and the wave 5 bull cycle in the S&P-500 topping out, and equities starting a larger and longer lasting bear cycle, the US bond market turns into a buying opportunity for another significant down cycle in yields towards the end of the decade. Translated into macro it obviously implies, that after the 2016/2017 reflationary comeback/intermezzo we expect the world falling back into a deflationary cycle, where we can see a re-test of the 2012 lows into yields towards the end of the decade. **So on the one hand, we see a potential overshooting in yields as a risk factor for the 2009 bull cycle breaking down, which on the other hand will create a big buying opportunity in bonds in later 2017/early 2018.**

On the macro side, our scenario of rising yields in H2 will have further cross-asset implications on the markets.

- Tactically, as seen from last summer's low in yields into December, rising yields would be again tactically bearish gold. After a potential rally into summer, we see the yellow metal vulnerable for another correction into deeper/late H2 2017, which however should bring us a higher low for further upside into 2018.
- Rising yields could be clearly headwind for Emerging Markets and China, which we expect to move into a big top in later summer/H2 2017 and which should complete the 2016/2017 bear market rally. With rising yields, we see a high chance that tactically, Emerging Markets will top out earlier than developed markets.
- Rising yields will be bearish (as in H2 2016) interest rate sensitive sectors. Given our key scenario for 2017 to expect a potential overshooting in yields, we see interest rate sensitive sectors as a leading indicator for a potential major market top. Again, tactically, utilities and staples are pretty oversold and we should see a significant bounce into later Q1. However, if we are correct and we see a new up-leg in yields into H2, we would very likely see a new breakdown in interest rate sensitive sectors, and in this case most of these sectors would generate long-term sell signals.
- Correlation wise, the one or other would see a conflict in our expectation of a sharp US dollar correction and rising yields in H2. It's interesting that most of the sharp moves in rising US yields were very often accompanied by a weak US dollar. At the end of the day, it is the question of what European rates are doing relative to US rates, and since the base for European rates to rise is much lower than in the US, we see a high likelihood that we get a reversal in interest rate differentials (see chart 11.), which in fact would be bullish EUR.

Technical Strategy

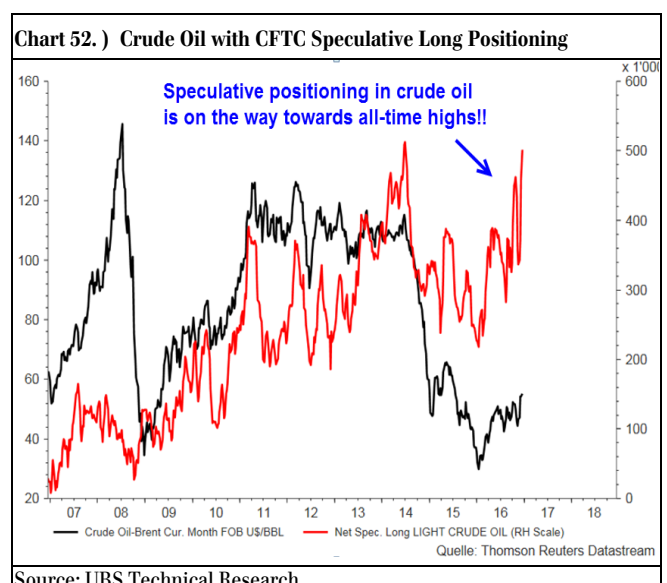


Wave C bull cycle in commodities into H2 2017

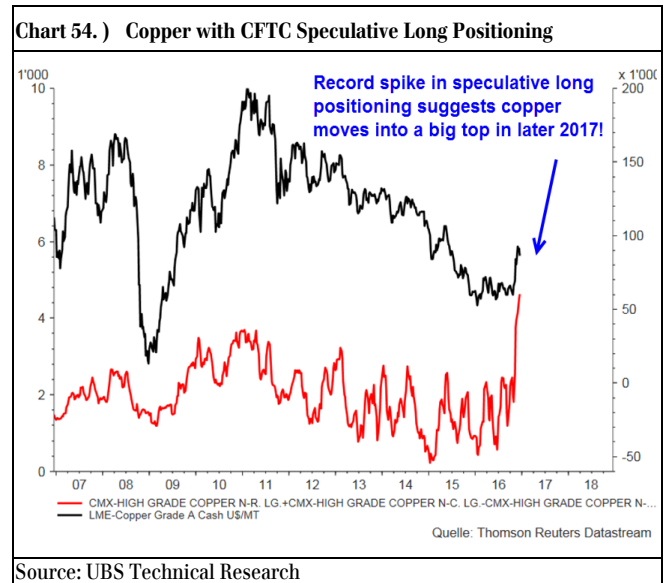
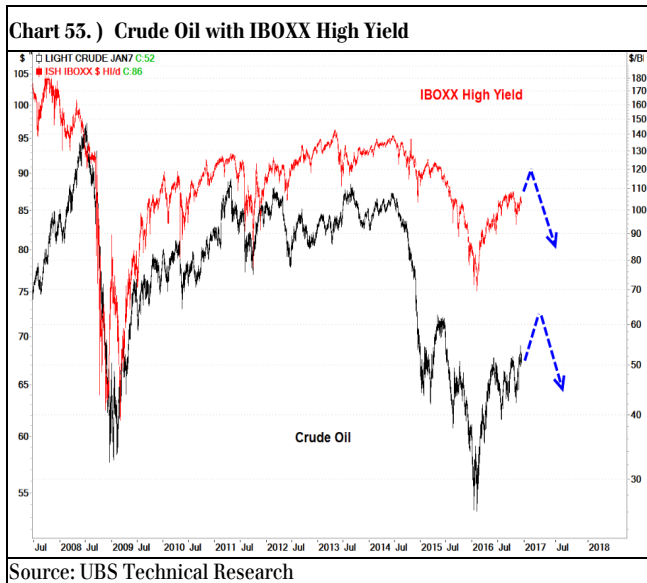
Strategically, the Q2 top in 2011 represents a secular top in commodities and secular bear markets can last 10 to 15 years. However, no bull and no bear market is one-way and in this context, and following our cyclical model, it was a key call of our 2016 strategy to expect crude oil and commodities in general moving into a major bottom as the basis for a 1 to 1.5-year lasting bear market rally, which we expected developing into a classic A-B-C corrective shape, before topping out and starting a new major bear leg as part of its underlying secular bear market.

Tactically, crude oil and the major commodity indices bottomed in early Q1 2016 and from a pattern standpoint we see the first rally leg into summer as wave A. The pullback pattern from last year's summer top is so far pretty corrective, which we label as a wave B. Keep in mind, given the strong US dollar and rising interest rates, the H2 2016 pullback in commodities has actually a very healthy and constructive shape, which we see as underlying bullish. We expect a potential late Q1 US dollar top and the start of a multi-month correction cycle into later H2 2017 to be the springboard for a wave C rally in commodities so we remain underlying bullish commodities and related sector themes into minimum summer.

What are our top pics in the commodity area for 2017? The agricultural segment and grains have been lagging the recovery in 2016. This is something we expect to change. Wheat trades in a basing process where a break of 429 would imply a rally towards minimum testing its 2012 down trend at 500. So all in all we wouldn't be surprised to see the agricultural sector and related sector themes outperforming in a wave C bull cycle in the commodity area.



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Oil and copper heading into major tops in 2017 ...

When we talk about the perspectives of commodities in 2017 we have to talk about the speculative positioning in crude oil and copper, which has hit or is heading towards all-time highs. So yes, **we are tactically bullish commodities** and expect another significant rally into summer where we especially expect a catch-up rally in the lagging grains and agricultural commodities. However, **our key call is, that with a wave C bull leg, we expect commodities and particularly copper and crude oil to move into major tops in later summer/H2 2017.** Given the all-time highs in speculative positioning we have the risk that a potential 2017 top will be the basis for a new big bear market, where we expect copper and crude oil hitting new lows into the end of the decade. On the upside, we are sticking to our crude oil target we gave out last year, and continue to see oil moving towards \$62 to best case \$69. From a timing standpoint, we anticipate crude oil moving into an important summer top. From a macro standpoint, this would have far reaching consequences.

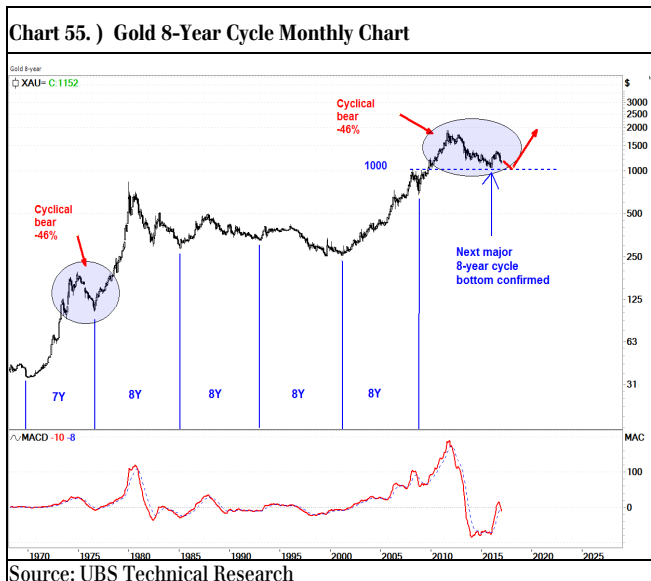
- A major top and subsequent bear market in crude oil would imply that after the 2016/2017 comeback of inflation, we see the macro background falling back into a deflationary cycle into 2018 and towards the end of the decade.
- A major top in crude oil would suggest the 2016/2017 recovery cycle in high yields topping out and starting a new bear cycle, which fits the call where we expect to see higher volatility, which is normally one to one correlated to high-yield bonds. **We would use strength into summer to sell high-yield!!**

Gold bullish in 2017 but it remains a trading theme

Strategically, we called a major bottom in gold in December 2015 and we continue to think that this bottom represents an 8-year cycle low and therefore the basis of a new multi-year bull market, which we expect to move minimum into the end of this decade and more likely into early next decade where we anticipate new all-time highs in gold. So regardless of any tactical timing, we are and we remain bullish gold into minimum the end of the decade.

Tactically, after last year's aggressive and nearly vertical H1 rally in gold and after having seen gold mines performing 180% in only 6 months, we warned in summer about seeing a mean reversion correction leg in gold into H2 on the back of expecting the US dollar to rally and rising interest rates on the macro side. However, **in both gold and gold mines the correction has definitely been stronger than expected, which raises the question whether the 2015 December low was really the 8-year bottom in gold?**

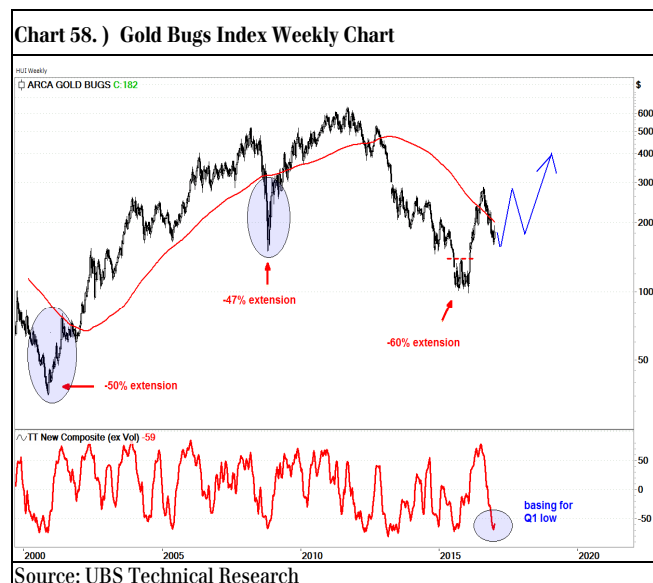
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Generally, from a macro standpoint, in H2 2016, we in fact had the setup for a perfect storm for gold, with yields rising vertically and therefore real interest rates rising, plus the US dollar trading in a wave 5 bull cycle. Having said that, for this kind of perfect storm it is remarkable that gold and silver are still trading above their December 2015 low. **On the dollar side we see light at the end of the tunnel, since we expect the US dollar moving into a major wave 5 top in deeper/ later Q1 and starting a multi-month sharp correction cycle. So alone in this context we see gold moving into another major buying opportunity, and where we would see any further weakness as unsustainable.**

Risk of final undershooting into Q1

The key question is whether gold is at risk of undershooting into deeper Q1, and if so if the December 2015 bottom holds before we see a big rally starting? If we just look at the US dollar, we cannot rule out a final undershooting into deeper Q1 where we effectively have our top projection for the current wave 5 bull cycle in the US dollar. On the other hand, we expect a pullback in US yields from the extremely overbought December levels into later Q1, as a reflection of a mean reversion move in risk assets, and where a final overshooting in the US dollar could be the trigger for US equities to correct tactically. All in all, we see this as a mixed setup, which should minimum suggest a volatile stabilization. However, **even in case of seeing a tactical negative surprise, we would see this as a temporary phenomenon into Q1, which in the bigger picture we would still see in the context of our 8-year cycle low projection. Taking this into account, it remains our core scenario that even in case of seeing an undershooting, we would see this move as a bear trap and therefore the basis for a big rally/comeback into initially later summer and finally into deeper 2018.**



Technical Strategy



Rising yields tactically bearish in H2

The problem is what happens tactically in H2 when we anticipate the 2016 reflation cycle and therefore US yields to overshoot? At the end of the day it depends on what real rates are doing but there is a high probability that an overshooting in yields will be minimum a cap for gold if not latently bearish, so that in H2 2017 we see the yellow metal vulnerable for another correction; but in this case we would clearly favour gold forming a higher bottom as the setup for more upside into 2018. **Translated this means that we are bullish gold in 2017 but we see the yellow metal and gold mines as a volatile trading theme where we expect gold to rally aggressively into summer, whereas in later H2 we have the risk to see another mean reversion correction and/or pullback before resuming the underlying bull trend into 2018.**

- Tactically, gold has support at \$1120 to \$1100. A break of \$1200 would be initially bullish. The key level for 2017 is the summer 2016 top at \$1375. A break of this level would be super bullish and suggest more gains towards \$1500 as a next major target level. **As a negative scenario for Q1, gold trades in an impulsive bear cycle, where the late December bottom represents wave 4 of 5, where theoretically a final tactical down leg would be missing into early February as the next major tactical low projection in our cyclical model. In this case, a bounce into early January would be limited at \$1160/1180. Into February we would have a target projection at \$1120/1080 and worst case we cannot rule out a re-test of the December 2015 low, which we would see as a clear buying opportunity.**
- **On the macro side, we expect the 2016 reflation cycle to overshoot. For this kind of macro scenario, silver definitely trades on too low levels.** Within a potential aggressive H1 rally in the precious metals complex, we expect silver to outperform gold (structurally the gold/silver spread has topped in 2016). From a wave perspective, we see the H2 2016 correction cycle as worst case wave B, where minimum a second rally leg (wave C) should follow with a projected target of around \$27 into summer. Best case (and this is our favored scenario) is that the H2 2016 correction represents wave 2, and in this case we would see silver moving into a wave 3 setup, which would be a very aggressive rally scenario for the white metal in which we could see minimum \$32. Tactically, a break of the November bear trend at around \$16.50 would be bullish and imply a rally towards \$17.20 to 18.
- In the gold mining index, the H2 2016 correction has also been stronger than expected but regardless of whether we see a final undershooting in gold into Q1 or not, we expect the US gold bugs index to form a major higher low versus its massive 2015 bottom, which would be strategically bullish and suggest another strong rally and outperformance cycle into minimum summer 2017, followed by a mean reversion correction in H2 before higher into 2018. **On a 12-month basis we are bullish gold mines in 2017.**