

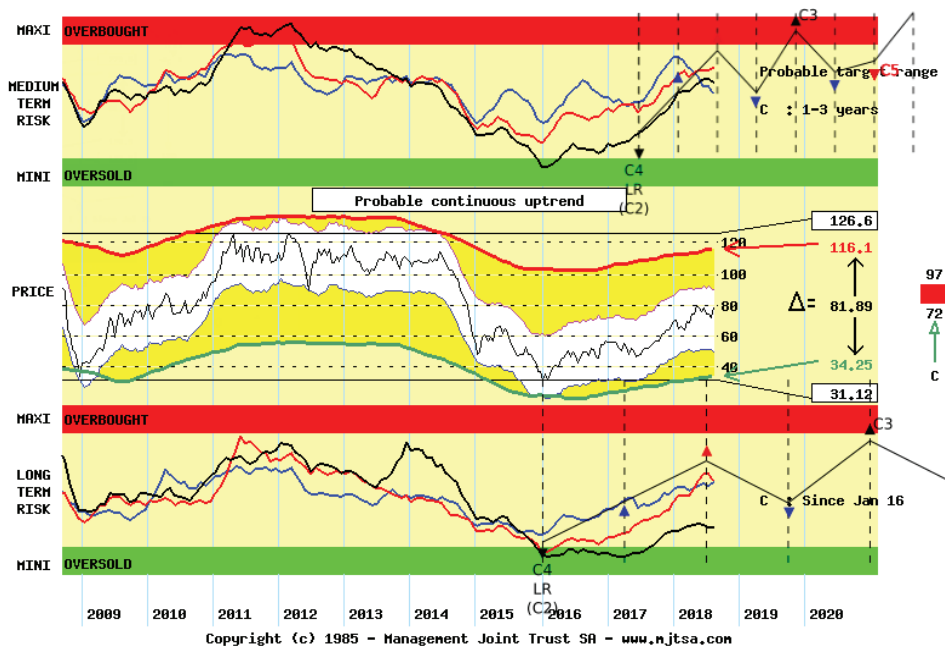
## 28 / MJT - TIMING AND TACTICAL INSIGHT

### Last upside retest for Oil, before it follows other risk assets lower

Over the last few months, the uptrend on Oil has stalled. Brent topped out back in May, while WTI made a new high in early July. While both have been consolidation down since, they are currently attempting to retest these highs. At this stage, it seems rather late in the cycle to consider a strong break-out. In this article, we consider the possibility that an important top on Oil may be just a few weeks away as well as the consequences this would have on the Energy sectors in the US and in Europe.

#### Brent Oil (USD/barrel)

#### Bi-monthly graph or the perspective over the next 1 to 2 years

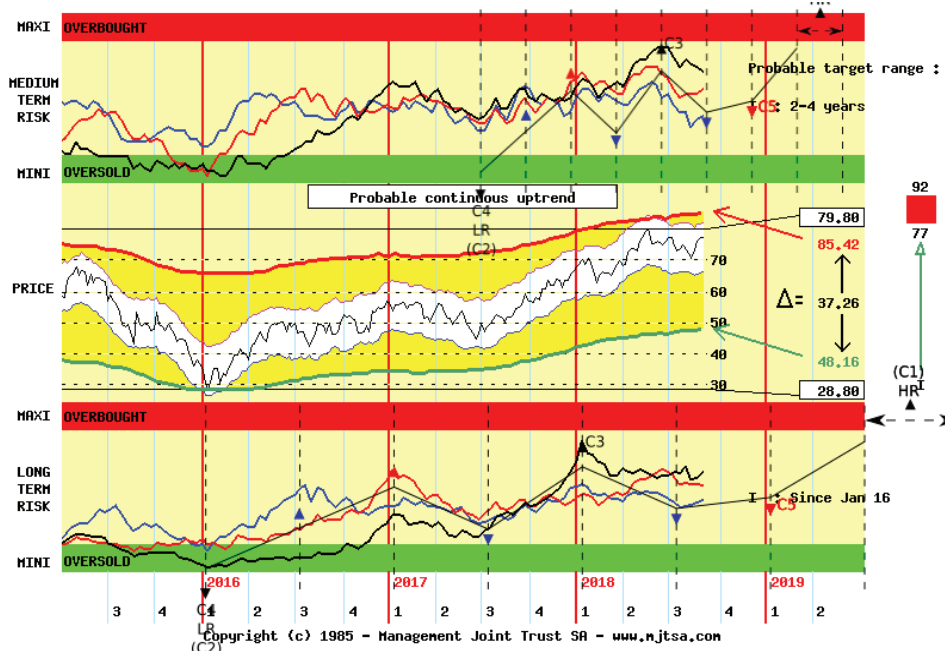


Since early 2016, Oil has been the bell-weather of the reflation trade. It bounced with it in early 2016, then retraced down during H1 2017, and finally, from last Summer, accelerated up again into this Spring. On both our oscillator series (lower and upper rectangles), we expect it to top out soon, initiating a correction that could last between 3 to 5 quarters. During its move up since early 2016, Oil never managed to break above our C Corrective targets to the upside (above 97; right-hand scale). Hence, theoretically, longer term, this uptrend is still in the early and fragile stages (i.e. theoretically the move up since 2016 must still be

labeled as an upside correction, not a strong secular uptrend). In such situations, retracements can be quite bloody. They often retrace most of the previous bounce. We would hence recommend to take profit on Oil and Oil trades over the next few weeks as the following months/quarters may provide a strong reality check.

#### Brent Oil (USD/barrel)

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

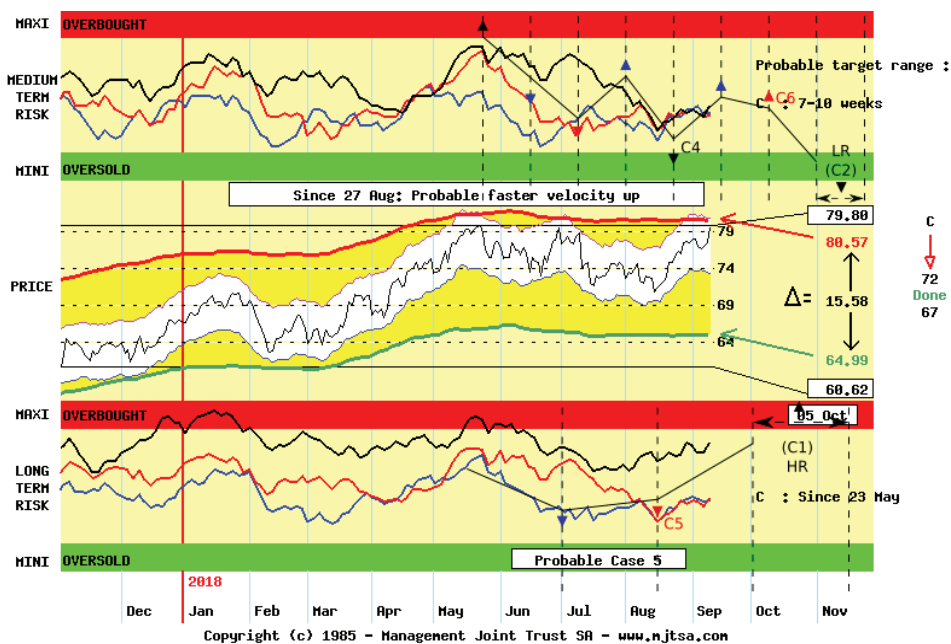


The Weekly graph of Oil is more promising at it shows a strong uptrend since early 2016. Yet on both oscillator series (lower and upper rectangles), it may still top out soon and enter a consolidation phase to the downside that could last until late this year / early next year. Impulsive targets to the upside (right-hand scale) have been achieved in the 77 to 92 USD/barrel range. They may attempt new highs over the next few weeks, yet we believe the time left to fulfill the upper end of this range (towards 92) is too short. We would rather favor a weak upside retest, around 80 USD/barrel and then a correction down into year-

end / early 2019. The C Corrective targets to the downside we can calculate for this correction based on our historical volatility measure "Delta" (here at 37.26 USD/barrel; middle rectangle, right-hand side) are between 61 and 50 USD/barrel (i.e. 0.5 to 0.8 times our "Delta" subtracted from the 79.8 top in May).

## Brent Oil (USD/barrel)

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

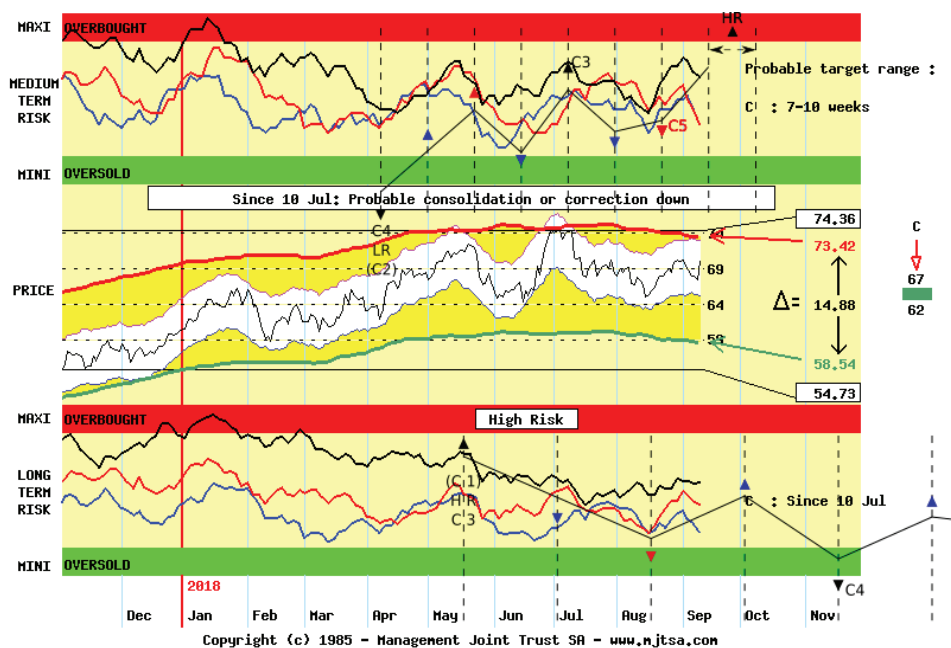


The Daily graph of Brent is quite similar to many other Daily risk assets graphs in this report: it topped out in May, found support mid August and is now attempting to bounce. To be fair, Brent is slightly stronger than these profiles, as it may make marginal new highs towards late September / early October as shown on our long term oscillators (lower rectangle). On our medium term oscillators (upper rectangle), we show a more conservative path, where the bounce dies out sooner and then gradually rolls over until it starts correct-

ing down more aggressively from early October into November. Combining both, **we expect Brent to push slightly higher over the next couple of weeks before it reverses down into November. In this Autumn sell-off, first levels of support will be found in the high 60s USD/barrel** (C Corrective targets to the downside; right-hand side). **Below these, the next levels of support we can calculate is between 60 and 53 USD/barrel** (1.3 to 1.7 our historical volatility measure "Delta" - here at 15.7 USD/barrel; middle rectangle, right-hand side - subtracted from the 79.8 USD/barrel May high).

## WTI Light Crude Oil (Spot)

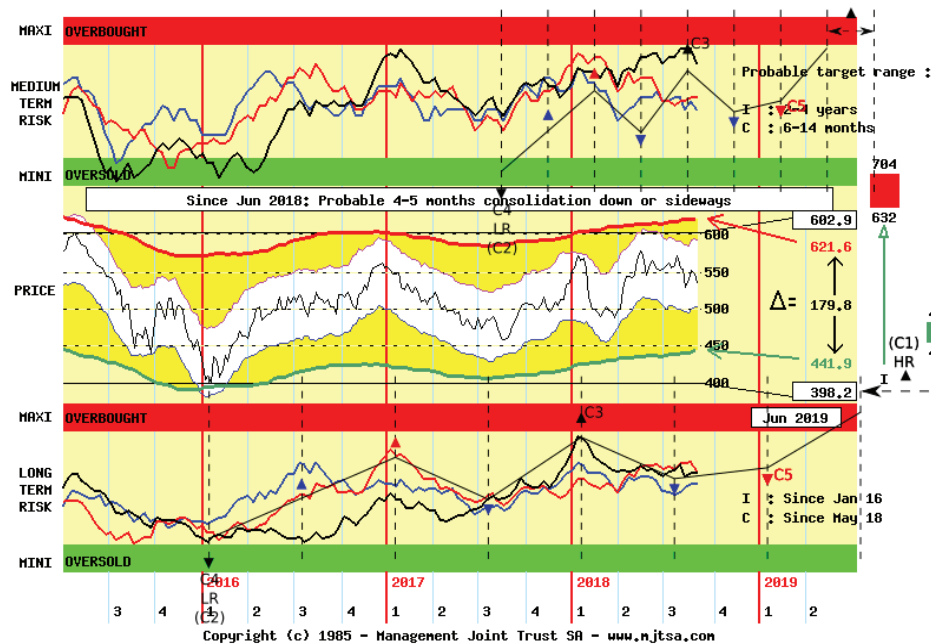
### Daily graph or the perspective over the next 2 to 3 months



Interestingly, the pattern on WTI Light Crude Oil has been weaker since late July when it probably topped out for this cycle. Both oscillators series (lower and upper rectangles) are still suggesting that WTI may attempt to retest up over the next couple of weeks, yet given that our trend envelopes are now descending (middle rectangle), we doubt it will manage to achieve new highs. Following that, from late September / early October, we expect it to correct to the downside, probably towards the lower end of our C Corrective targets around 62 in first instance (right-hand scale). Below this level, the next target levels we can calculate (I impulsive targets to the downside) are **towards the 55 to 49 USD/barrel range** (i.e. 1.3 to 1.7 times our historical volatility measure "Delta" - here at 15.01; middle rectangle, right-hand side- subtracted from the graph's highest point at 74.36). Hence, **we expect both Brent and WTI top start rolling over again between now and early October, Brent may make marginal new highs, while WTI probably won't.** This discrepancy is probably due to ongoing political tensions in the Middle East and the Persian Gulf related to the war in Syria and the US sanctions on Iran.

## US Energy sector – S&P

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

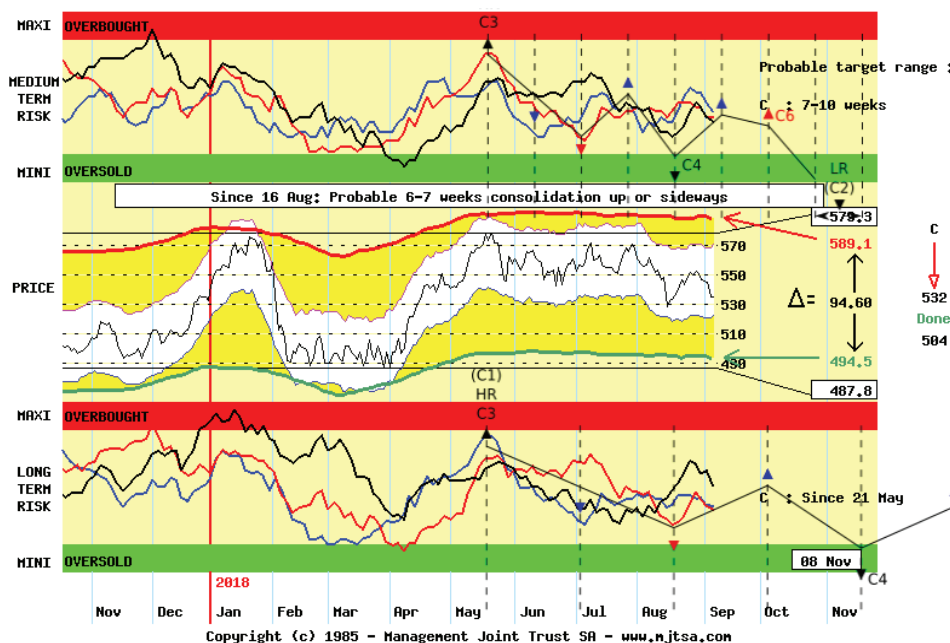


Looking at related sector and first to the US Energy sector, the intermediate tops we are expecting this late Summer may have already been achieved. Indeed, while our long term oscillators (lower rectangle) have been in a high level consolidation since January, the sequence we show on our medium term oscillators (lower rectangle) may have just confirmed an new intermediate top. We now expect the sector to correct down towards early next year at least. **The C Corrective targets to the downside we can calculate**

(right-hand scale) could lead us back down to the 489 – 435 range, or between 9 and 19% lower than today.

## US Energy sector – S&P

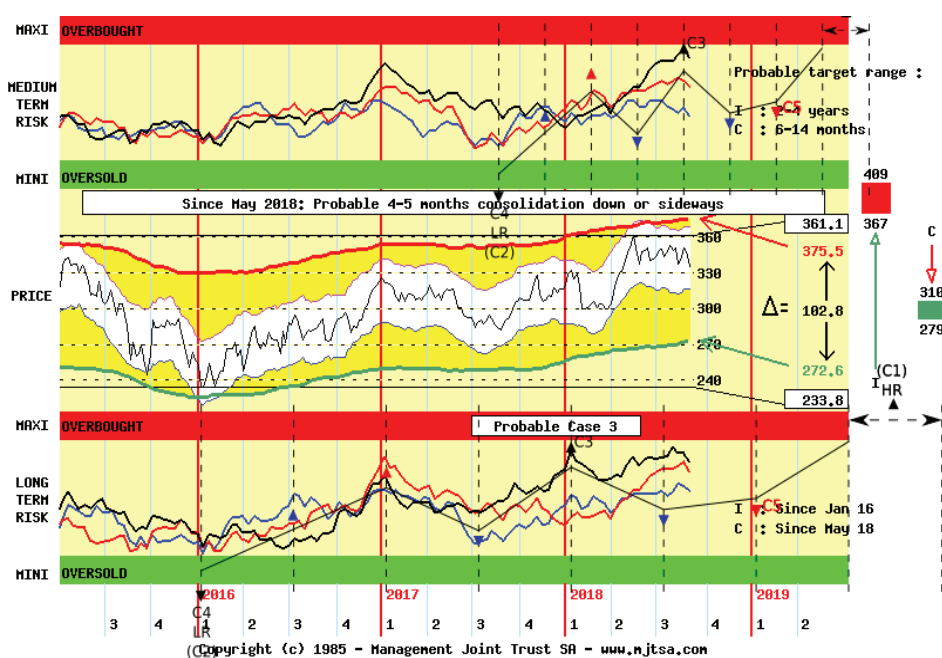
### Daily graph or the perspective over the next 2 to 3 months



The Daily graph is also more negative that the one on Brent. It is now in a downtrend on both oscillators series (lower and upper rectangles). **The bounce since mid August has been weak. It should die out between now and early October, before the sector resumes lower into November.** Initially, support will be found in the low 500s (C Corrective targets down; right-hand scale). Below these, **the next target levels to the downside we can calculate are between 456 and 418** (or 1.3 to 1.7 times our historical volatility measure "Delta", here

at 94.6- middle rectangle; right hand side – subtracted from the 579.3 may highs). This is **15 to 22% below current levels** and pretty much in line with the C Corrective targets to the downside we are expecting on our Weekly graph.

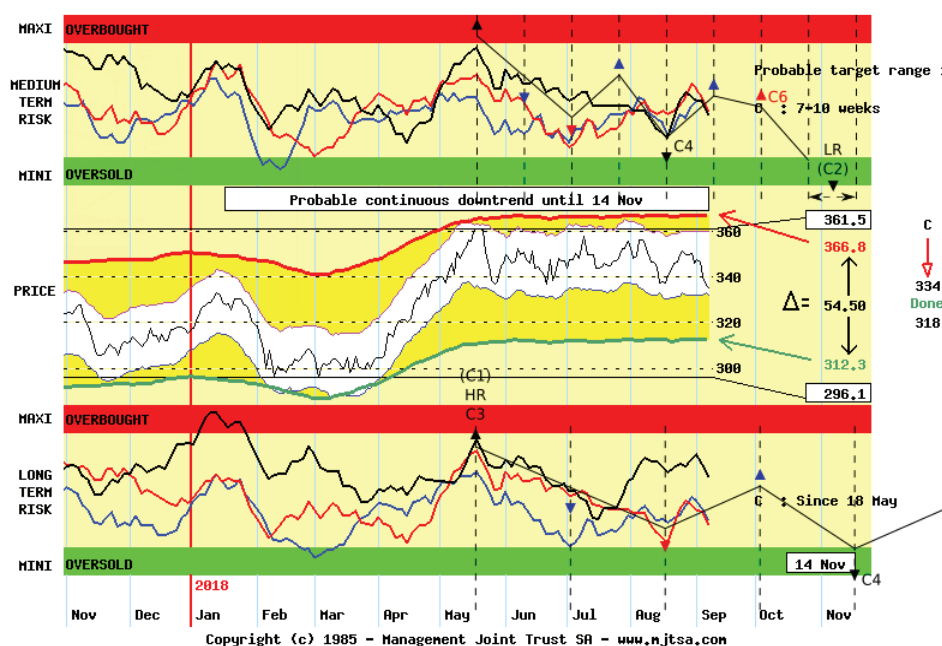
## European Energy Sector – Dow Jones Stoxx 600 Weekly graph or the perspective over the next 2 to 4 quarters



The European Energy sector has been stronger than US one throughout the reflationary recovery. Yet, it has weakened lately, and we believe it is also getting ready to retrace down into early next year at least. Our long term oscillators (lower rectangle) are still theoretically in a consolidation since January despite the higher highs that we made on the sector this Spring. Our medium term oscillators (upper rectangle) have followed this new move up and are now indicating that an new intermediate top may be approaching.

Both oscillator series (lower and upper rectangle) suggest that a correction phase may lie ahead, probably between now and early 2019. Our C Corrective targets to the downside (right-hand) suggest 8 to 17 % of retracement to the downside potential until then.

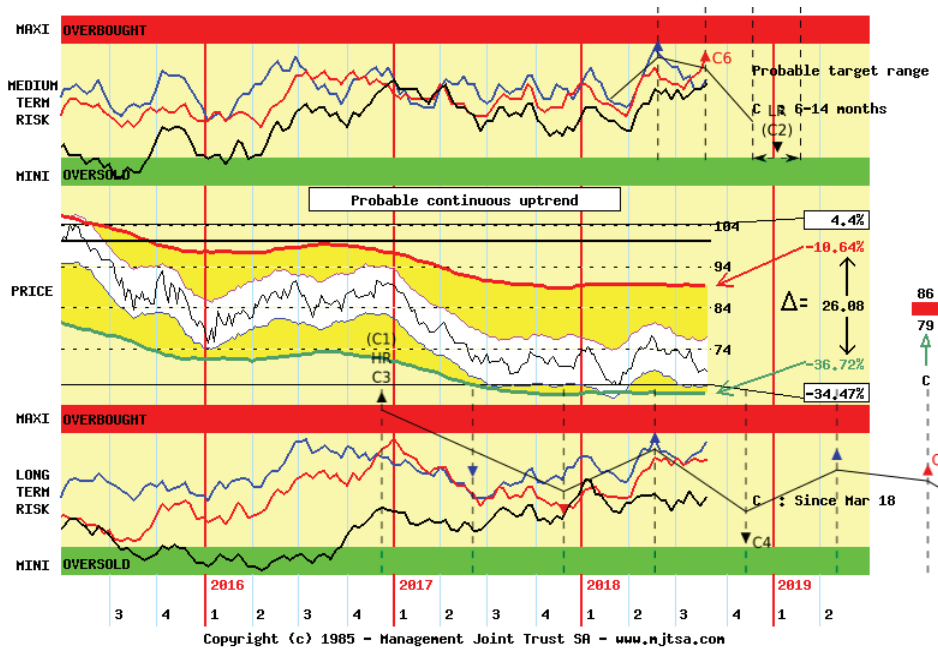
## European Energy Sector – Dow Jones Stoxx 600 Daily graph or the perspective over the next 2 to 3 months



Following its impressive rally during April and early May, the European Energy sector has been consolidating since at high levels. We believe it may be getting ready to sell-off. Both our oscillators series on this Daily graph (lower and upper rectangles) suggest that the bottom mid August was probably an intermediate low, and that the European Energy sector will probably start to resume lower between now and early October, probably until mid/late November. Downside targets for this move indicate a first support point

towards our C Corrective targets to the downside around 310 or circa 7% below current levels. If these levels break, which according to the projections we show on our oscillators is likely, the Impulsive targets to the downside we can calculate are into the 291 – 269 range, 13 to 20% below current levels (i.e. 1.3 to 1.7 times our historical volatility measure “Delta” here at 54.5- middle rectangle, right-hand side – subtracted from the graph’s high at 361.5).

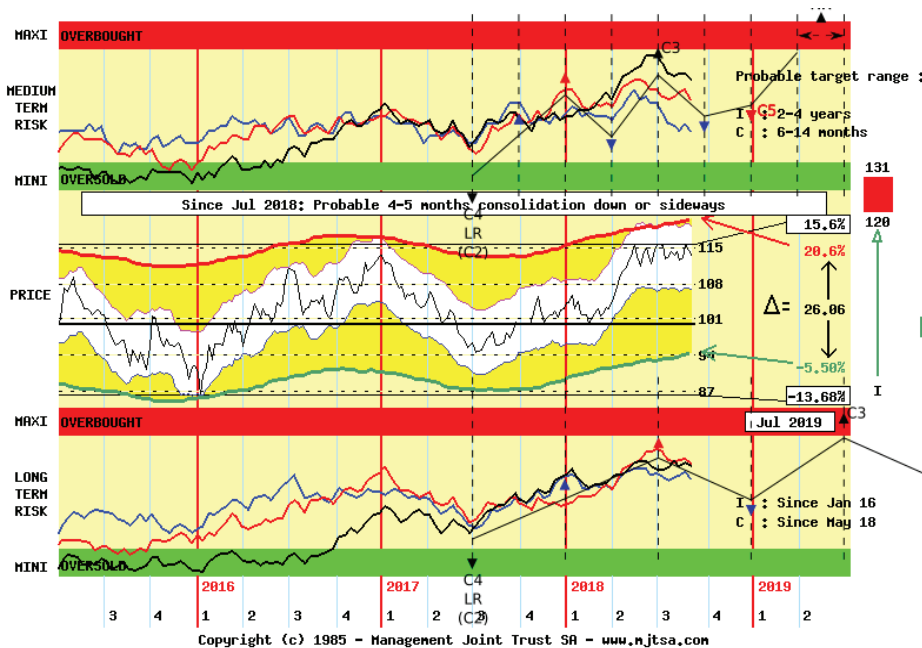
## US Energy sector – S&P vs the S&P500 Index Weekly graph or the perspective over the next 2 to 4 quarters



Despite the strong rise in Oil prices since early 2016, the US Energy sector has consistently under-performed the S&P500 Index. This deceiving relative performance is most likely attributed to the Value characteristic of the sector in an environment where the US Yield curve was mostly flattening. Indeed, this flattening did advantage Growth sectors such as Technology or Consumer Discretionary, while the US Energy sector was lagging behind. Going forward, both our oscillator series (lower and upper rectangles) suggest further under-performance probably until December / year-end. This projection is again quite similar to our forecast on the longer end of the US Yield curve

(10Y-3Y spread). From early next year, the sector may start to bounce vs the market and could outperform by circa 10 to 20% according to our C Corrective targets to the upside (right-hand scale), yet it probably continues to under-perform until then.

## European Energy Sector – Dow Jones Stoxx 600 vs the Europe Stoxx 600 Index Weekly graph or the perspective over the next 2 to 4 quarters



In Europe, Value to Growth dynamics are less pronounced. In addition, over the last two years, shorter term interest rates have had less of a negative impact on cyclical sectors, as they have remained constantly in negative territory. Since 2016, the European Energy sector has hence out-performed the market, despite strong retracements during the correction phases of the reflation trade (e.g. H1 2017). Going forward, both oscillator series (lower and upper rectangles) suggest that the European Energy sector has probably reached an important intermediate top during this Summer, and than it should now enter a correction phase to the downside that could last into year-end. The C Corrective targets to

the downside we are projecting (right-hand scale) suggest that until year-end, the European Energy sector may under-perform the market by circa 10 to 20% before it starts out-performing again next year.

### Concluding remarks

On our long term Bi-Monthly and Weekly graphs, Oil has probably reached an important intermediate top. The correction to the downside that follows should last at least into early next year, and potentially into the second half of 2019. The downside potential may be as low as the mid/high 50s USD/barrel on Brent, and the low 50s on WTI. We also expect Energy sectors in the US and Europe to enter a correction phase to the downside. The risk is probably between minus 10 and 20%. We also believe that these sector should under-perform their respective markets, at least into December, possibly year-end. Shorter term, until end September / early October, Oil may attempt a last upside retest. It may make new marginal highs on Brent (mid eastern political risk), yet probably won't on WTI. October and November should then see both benchmarks move lower into mid/late November in first instance.