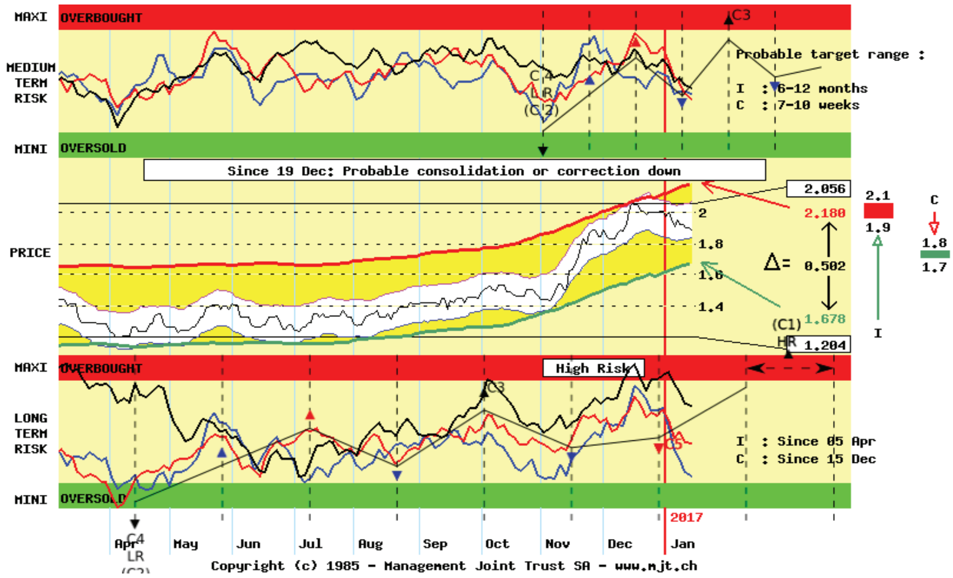
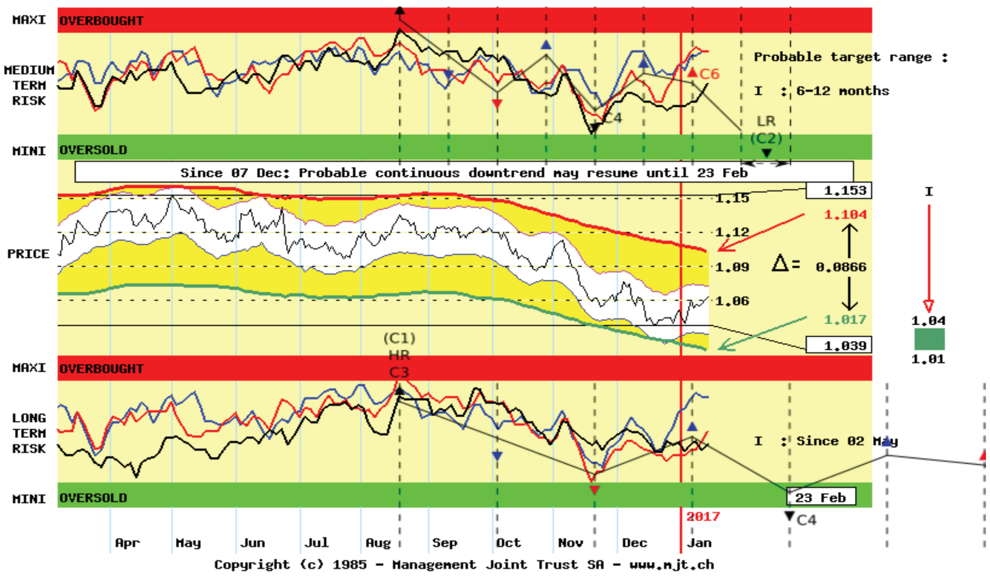
The Dollar could be topping out, hedging US assets could lead to outperformance

US 2 years benchmark Bond Yield – Germany 2 years Benchmark Bond Yield (Daily graph or the perspective over the next 2 to 3 months)



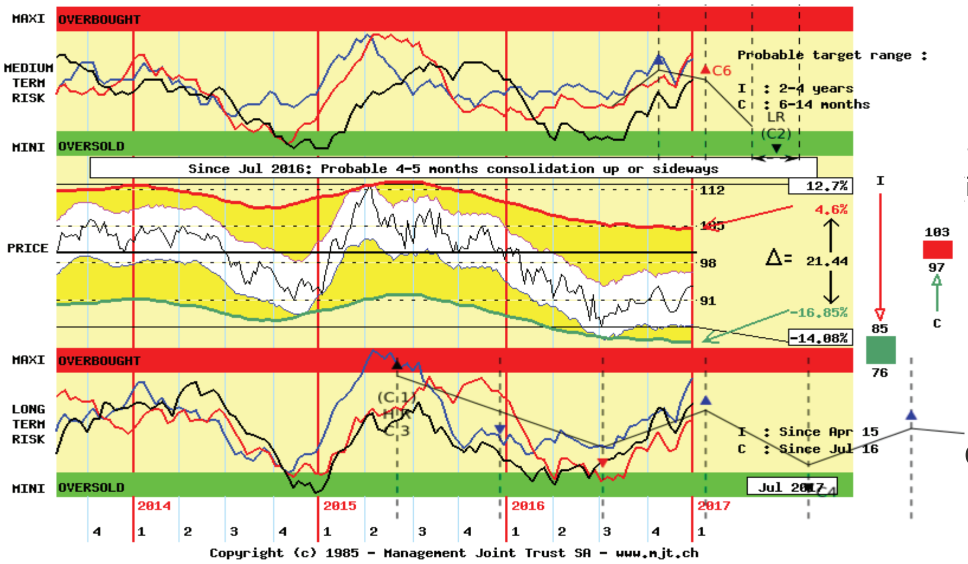
Short term US rates could start to correct down while German ones continue to bounce off lows, i.e. the uptrend for this spread may be nearing exhaustion. Indeed, "I" Impulsive up targets have been achieved (right hand scale) and our long term oscillator sequence is calling for a High Risk situation (although it comes a bit early according to our model; lower rectangle). Indeed, our medium term oscillators are showing a last push up towards early February (upper rectangle), yet the potential is limited. In recent years, this US vs German short term yield spread has been fairly well correlated to the USD strength vs the Euro: once it reaches exhaustion, EUR/USD usually start to corrects up.

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



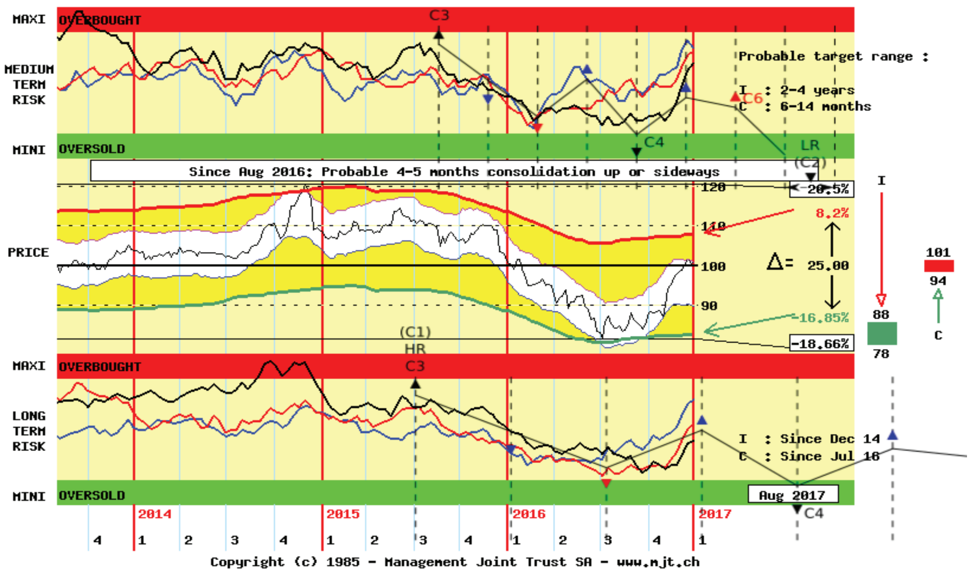
On EUR/USD, the sequences on both oscillators series are calling for a new low in the second half of February (lower and upper rectangles). Hence the weak bounce that we've seen since November / December, could soon be coming to an end. Our price targets down (right hand scale) suggest that it could make new lows, yet the potential left is somewhat limited now (1.01, i.e. close to parity). Following that, EUR/USD could starts at least several months of correction up.

Dow Jones EURO STOXX (EPI) vs SPY - SPDR S&P 500 (hedged for currency) (Weekly graph or the perspective over the next 2 to 4 quarters)



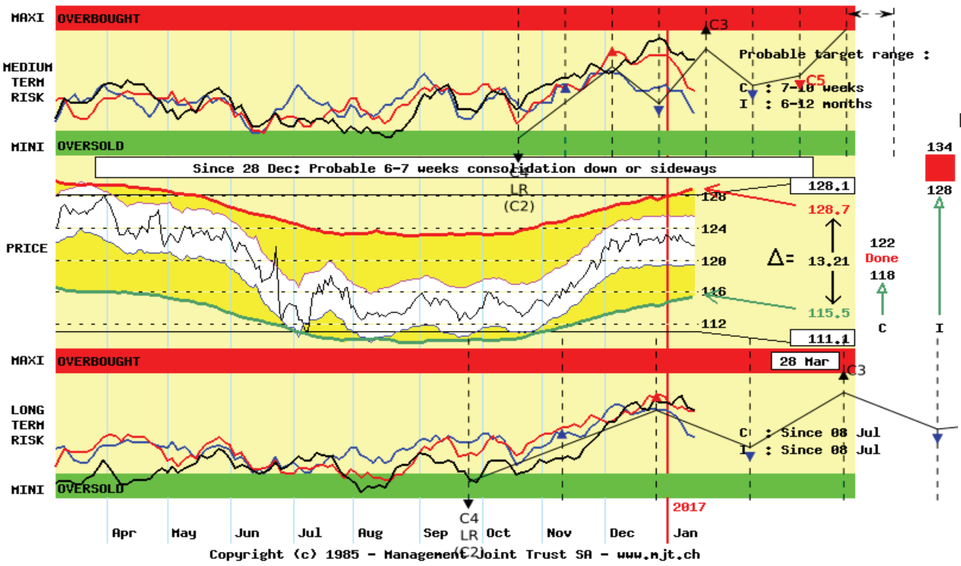
Bouncing off the EUR/USD story, we compare the performance of Eurozone markets like to like with the S&P500 i.e. hedged for currency). During H2 2016, the US has been a clear leader in reflation. It led the correction up in interest rates resulting in the strong USD rally we've seen. Concomitantly, Eurozone markets outperformed US ones when hedged for currency. Both our oscillators series (upper and lower rectangles) suggest than this dynamic is about to reverse down, possibly until mid next year: in H1 2017, US markets could provide an interesting defensive trade on a relative basis when hedged for currency risk.

DXJ - WisdomTree Jap. Hedged Eq. Fund / EWJ - iShares MSCI Jap. Idx Fund (Weekly graph or the perspective over the next 2 to 4 quarters)



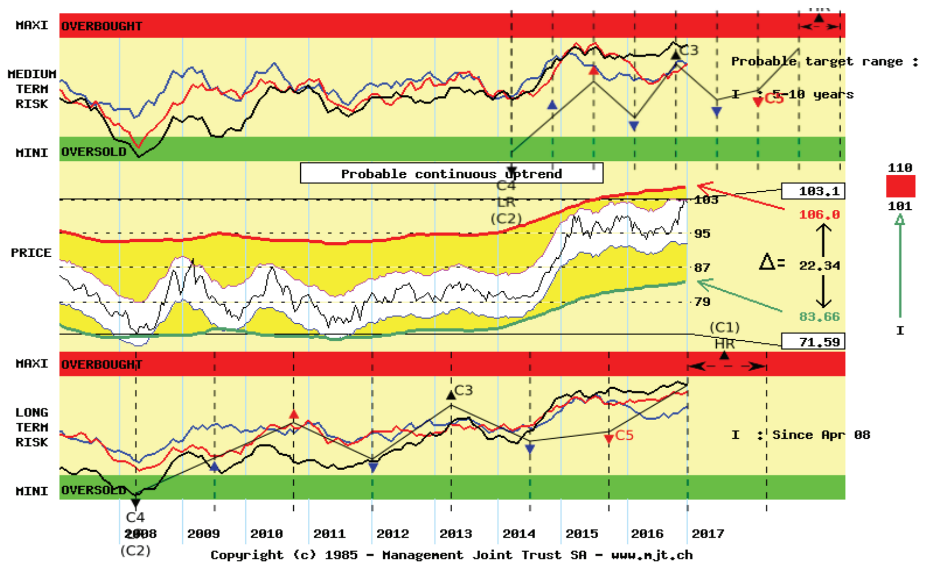
Similarly, we compare the exporter laden, currency hedged DXJ Japanese ETF vs the broader EWJ Japanese ETF. The pair is also due to resume its downtrend on both our oscillator sequences during Q1 2017 (lower and upper rectangles), possibly into Summer 2017. Hence, during Q12017, it might be judicious to switch from DXJ to EWJ if one is looking for exposure to Japanese equities.

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



It is interesting to note the slight discrepancy in the timing of the two relative charts above: the Europe/US comparison seems to top out earlier than the Japanese one. This Daily chart of EUR/JPY may go some way to explain this shift. Indeed on both our oscillator series EUR/JPY is seen as topping out towards end March, rather than mid February for EUR/USD suggesting that the Euro may bottom sooner than other currencies vs the US Dollar.

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



Finally, we broaden our scope to the wider Dollar Index and consider it on a long term bi-monthly basis. Following an uptrend, which has now lasted almost a decade, our long term oscillator series (lower rectangle) have entered a High Risk zone, while our "I" Impulsive targets up have been achieved (right hand scale). Although the top on our medium term oscillators (upper rectangle) may be of intermediate nature only, it potentially provides an important inflexion point down (i.e. this is a bi-monthly chart) into H1 2017.

Concluding remarks:
The spread on short term rates between the US Dollar and the Euro confirms our daily chart analysis that a top in EUR/USD may materialize during February, while our cross asset analysis (different geographical regions or segments of the market) suggests than the correction could last well into the Spring, possibly the Summer 2017.