STRATEGY NOTE:

MULTI-ASSET

SHORT-TERM REPRIEVE BUT THE RISK-OFF PHASE IS NOT OVER

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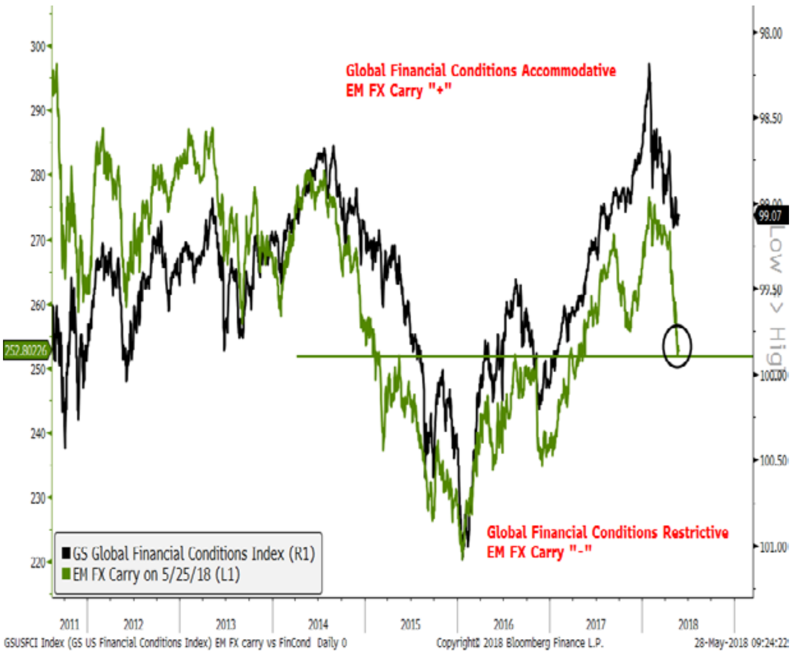
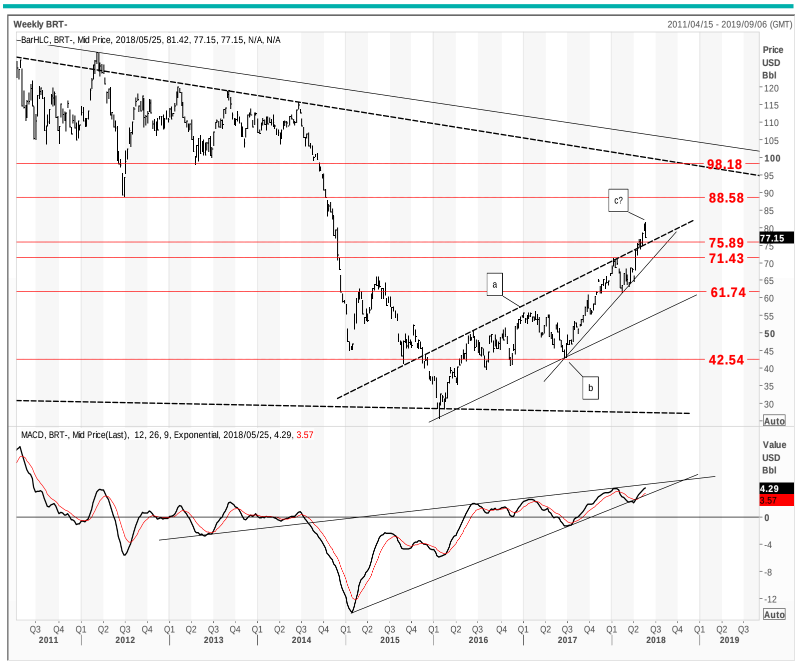
WE EXPECT THE EM CARRY TRADE TO FIND BREATHING SPACE



**Global liquidity tailwinds since 2016 have been CB QE, China credit cycle and petrodollars(oil).*
Source: BBG, Nedbank CIB

- Our view since the beginning of 2018 has been that global liquidity tailwinds will lose momentum, becoming headwinds for risk assets as the year progresses. We believe that we have seen the first phase of the correction (in risk-assets) already.
- **We expect the EM FX Carry Index to hold at current levels (green neckline), and a corrective rally in risk-assets to materialize (as the US dollar takes a breather).**
- Even though we are expecting a short-term reprieve in risk-assets, we believe that the scene has been set for global financial conditions to tighten going forward.
- Thereafter, we expect another major risk-off phase post the completion of the expected short-term corrective phase.

OIL REVERSING IS CRUCIAL TO GLOBAL $-LIQUIDITY



Source: Reuters, Nedbank CIB

- As we have reported before, accelerations out of well-established channels are very seldom sustainable. They are usually blow-off phases.
- We believe that this is currently playing out in oil, and we can only confirm a false break on a break back into the channel at $75.89.
- **A break below $71.43, out of the bull since 1Q17, and below the previous high, would confirm a major reversal – targeting $61.**
- Oil is a major contributor to dollar liquidity and has been one of the drivers of the weaker dollar since 1Q16. It takes a quarter or two for the changing oil price to work through into global liquidity.
- All the other drivers of global liquidity have reversed over the last several months. **If oil also tops out (as we expect), then we should see a stronger dollar towards the end of the year.**

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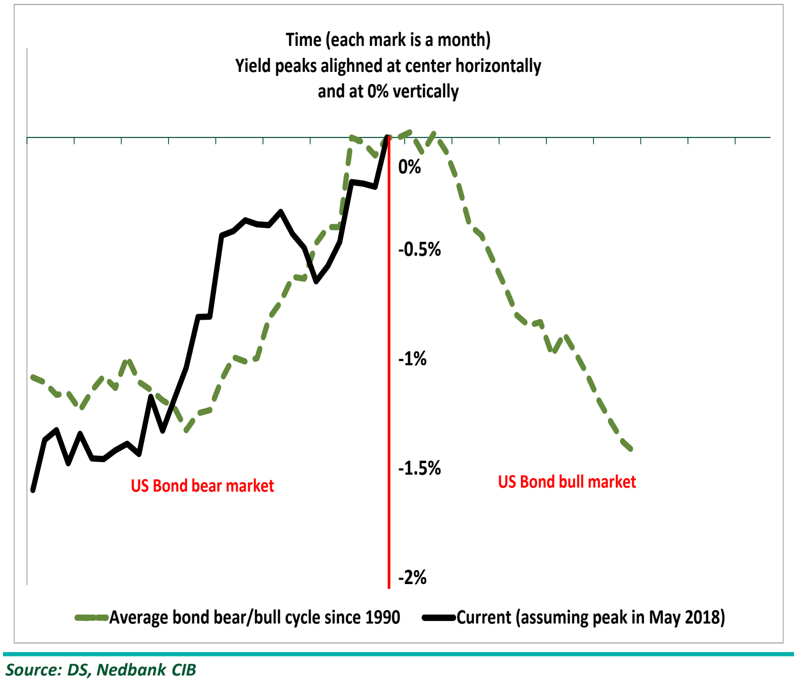
MAJOR RESISTANCE AT 2.91% AHEAD

Source: Reuters, Nedbank CIB

- On 18 May 2018 we called a top in the US bond market, seeing as the Elliott wave patterns were complete.
- It would appear that this call was correct, but we will only get confirmation with a sustainable break below the resistance lines at 2.91%.
- **The trendlines at 2.91% consist of the line through all the tops from 1987, and the line through the lows since September 2017 at 2.00%. Hence we expect major resistance at 2.91%**
- Due to the US yield curve having flattened so much, the 30yr bond yield never broke above the long-term support line from 1987.

US BOND BULL/BEAR CYCLES SINCE THE 1990'S, IN PERSPECTIVE



Source: DS, Nedbank CIB

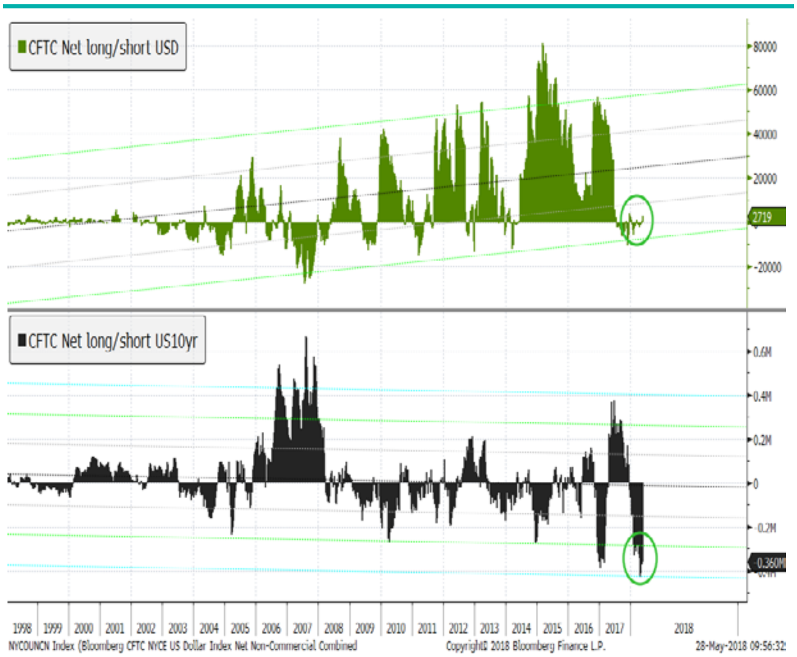
- **We believe that the 30-year US bond bull market remains intact.**
- From analysing previous bull and bear market cycles for the US bond market, we believe that the next couple of months will be followed by a rally in the US 10-year, amid a re-adjustment (higher) in the term-premium.

DOLLAR IS LIKELY TO CORRECT FROM PREVIOUS HIGHS

Source: Reuters, Nedbank CIB

- We believe that wave 3 of the developing dollar bull market is complete, and that the dollar is unlikely to break above the previous highs at 94.20.
- The hourly MACD is also rolling over, which confirms the loss of bullish momentum.
- **A correction to the break-out level at 92.25 (for a good-bye kiss) can be expected in our opinion (ie to complete wave 4). We believe that the 5th wave of this (blue) Elliott wave pattern would then target 95.15, which was the previous wave-4 high.**
- We expect a meaningful correction from 95.15, either in time or a counter trend.
- **We must however point out that we believe that the 5 waves up from 1Q18 only mark the first leg of a major dollar bull trend.**
- The yen is busy forming a major wedge, which points to a major dollar bull trend (ie sometime later in 2018).

CONSENSUS: RECORD NET SHORT USD AND US 10-YR



Source: BBG, Nedbank CIB

- CFTC positioning reveals that non-commercials (speculators) have very large net short positions (for the US dollar to weaken and for the US 10-year bond yield to rise).
- Typically when positions are as large as they are currently, the risk is that if the prevailing narrative of the time does not play out perfectly, violent reversals ensue.

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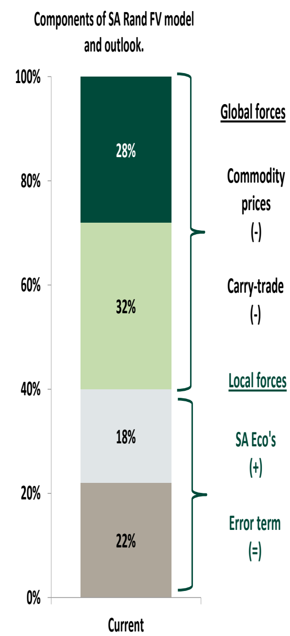
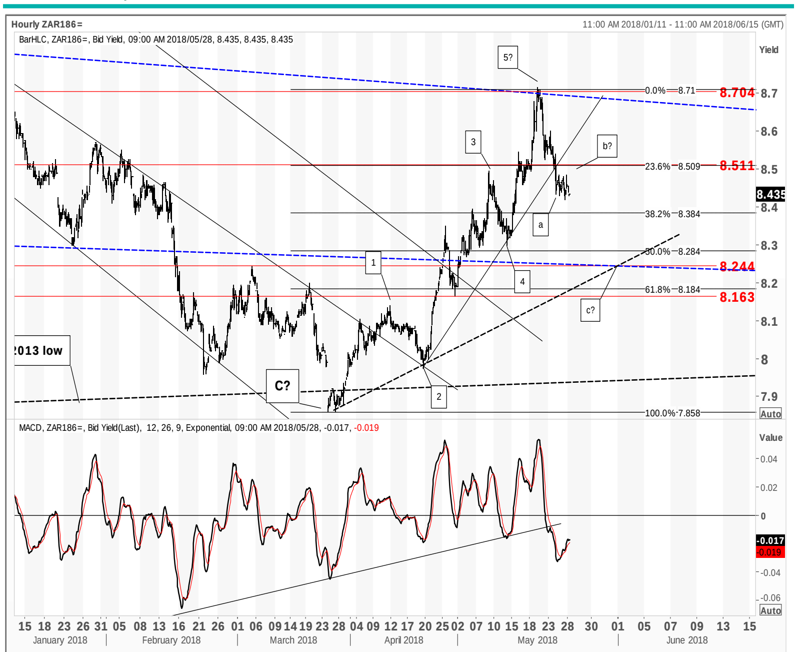
$-RAND, TARGETING 12.20 DURING CORRECTION PHASE



Source: Reuters, Nedbank CIB

- The $-rand completed a 5-wave Elliott wave pattern, and a correction phase is playing out. The $-rand is currently testing the support line at 12.43.
- **The general rule is that a market will retrace the 5th wave during the correction phase. This targets a move to 12.20, which is also the important (red) neckline, for a good-bye kiss**.
- As mentioned above, this bull rally since February is not (in our opinion) the entire bull trend, but merely the first bull wave.
- We expect global forces to be a headwind for the rand, seeing as we are expecting financial conditions to tighten further as the year unfolds.
- **Our forecasted fair value for the $-rand is 13.00 for 2H18, but technically it can weaken to the 2017 trendline at 13.55.**

R186 BOND, TARGETING 8.24% DURING THE CORRECTION PHASE



Source: Reuters, Nedbank CIB

- The R186 has already completed the a-wave of the ABC corrective wave (which we were expecting post the completion of the 5-wave bear trend).
- **This corrective ABC wave targets a move to 8.24%, to test the blue neckline and support line from March 2018. However, should the EM carry trade come under pressure later in the year, then we expect the R186 to weaken closer to 8.70%, driven by a widening of credit spreads.**

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