### Market Elements

<table>
<thead>
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<tbody>
<tr>
<td>August 15</td>
<td><strong>NEW</strong> Market Elements</td>
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### Relative Strength Filter

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<tbody>
<tr>
<td>August 16</td>
<td><strong>NEW</strong> Energy Positive Reversals</td>
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<td>August 15</td>
<td>Utilities Losing Utility</td>
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<td>August 14</td>
<td>Breaking Out of Holding Patterns</td>
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<td>All Bets Being Taken Off</td>
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<td>Gold Shorts: IMG, CG</td>
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<td>Resource Switches</td>
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<td>Pause in Pain Plays</td>
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<td>Into U.S. Life Insurance Out of REITS</td>
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<td>Canadian Oil Stocks – Selling Into Strength</td>
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<td>LTD &amp; Alacer Gold: Positive Turns vs. Industries</td>
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<td>July 26</td>
<td>Slippage in Technology &amp; Discretionary Sectors</td>
<td>24</td>
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<td>July 25</td>
<td>Geld / Gold: Safer Than Treasuries?</td>
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<td>July 24</td>
<td>50/50 Moving Toward 40/60</td>
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<td>July 23</td>
<td>Markets Prefer Bonds</td>
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<td>July 19</td>
<td>Time to Buy Risky and Derisking</td>
<td>29</td>
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<td>July 18</td>
<td>Weakness in the Moving Business</td>
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<td>July 17</td>
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<td>July 16</td>
<td>U.S. Short Rates Signalling Weakness</td>
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### Focal Points

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<tr>
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<td>Focus Shifts (Back) to Asia</td>
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<td>November 7</td>
<td>The Storm, the Calm, and the Cheshire Cat</td>
<td>39</td>
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</table>
Market Elements

- Equities snoozed in thin trade.
- The Italian 5-year sovereign CDS fell to a four-month low; Italian and Spanish 10-year yields continued to decline, while safe-haven yields continued to spike higher; treasury yields have surged 30% in the past three weeks, the sharpest move since 2008 low.

- Major currency crosses were little changed against the USD.
- Commodities were mixed, with energy leading gains and metals continuing to move lower; Brent oil rose to a three-month high.

Levels*

<table>
<thead>
<tr>
<th>Currencies (USD per)</th>
<th>Commodities</th>
<th>Government 10- Yr Benchmark</th>
<th>Equity Indices &amp; Sentiment</th>
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<tr>
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<tr>
<td>MXN</td>
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Moves

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<tr>
<td>ZAR</td>
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<td>0.0%</td>
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Sectors

- S&P Global 1200
- S&P Europe 350
- S&P 500
- S&P/TSX Composite

Source for all data and graphics in this publication: BMO Capital Markets, Bloomberg, Thomson

* H/L = at a new closing 52-wk High/Low; */=* within 10% of the 52-week High/Low. Colour codes are inverted for bond and sentiment indications
Daily Charts

3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages

- Sp Italian yields poised to mint lower lows.
- WTI is set to break out (would follow Brent).
- Safe-haven bonds are getting crushed.
  - Economically sensitive base metals (and cyclical stocks) are ignoring the move.
Intra Day Charts
2-Day 1-Minute View

Currencies
U.S. Dollar Index

Commodities
D.J.-UBS Commodity Price Index

Bonds
U.S. 10-Yr Bond

Equities
MSCI World Index

- Euro
- Gold (Spot)
- U.S. 10-Yr Breakeven Rate
- S&P 500

- Asia Dollar Index
- Crude Oil (WTI)
- Canadian 10-Yr Bond
- S&P/TSX Composite

- Latin America Dollar Index
- Natural Gas (NMX)
- German 10-Yr Bund
- CDX North American Inv. Grade Index

- Canadian Dollar
- Copper (CMX)
- Spanish 10-Yr Bond
- VIX

- Australian Dollar
- Nickel (LME 3Mo)
- Italian 10-Yr Bond
- TRIN
Daily Sector Charts
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages

- **Canada** – at a 52-week high: **Industrials**.
- **Europe** – at a 52-week high: **Health Care**.

---

**S&P 500**

![Daily Sector Charts for S&P 500](chart-image)

**S&P/TSX Composite**

![Daily Sector Charts for S&P/TSX Composite](chart-image)

**S&P Europe 350**

![Daily Sector Charts for S&P Europe 350](chart-image)
## Market Movers – Largest Daily Percentage Moves

### S&P Global 1200 ex U.S. & Canada

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
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<tr>
<td>Energy</td>
<td>Subsea 7 SA</td>
<td>SUBC NO</td>
</tr>
<tr>
<td></td>
<td>Technip SA</td>
<td>TEC FP</td>
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<tr>
<td></td>
<td>Statoil ASA</td>
<td>STL NO</td>
</tr>
<tr>
<td></td>
<td>CNOCO Ltd</td>
<td>883 HK</td>
</tr>
<tr>
<td></td>
<td>Santos Ltd</td>
<td>STO AT</td>
</tr>
<tr>
<td></td>
<td>Worstley Parsons Ltd</td>
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### Materials

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<th>Symbol</th>
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<td>Cemex SAB de CV</td>
<td>CEMEXCO PO MM</td>
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<tr>
<td></td>
<td>Ilika Resources Ltd</td>
<td>ILU AT</td>
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<tr>
<td></td>
<td>Lanexess AG</td>
<td>LXS GY</td>
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<tr>
<td></td>
<td>Salzgitter AG</td>
<td>SGS GY</td>
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<td>Fortescue Metals Group Ltd</td>
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<tr>
<td></td>
<td>Kobe Steel Ltd</td>
<td>5406 JT</td>
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### Industrials

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<td></td>
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<tr>
<td></td>
<td>Kinetico Corp</td>
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<td></td>
<td>Shimizu Corp</td>
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<td>Firstgroup PLC</td>
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<tr>
<td></td>
<td>Sharp Corp</td>
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### Cons Disc

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<td>Japan Tobacco Inc</td>
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<td>Tokyo Tobacco Inc</td>
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<td>Wilmar International Ltd</td>
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### Health Care

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<td>Nippon Biocare Holding AG</td>
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### Financials

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### Technology

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### Telecom

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### Utilities

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### S&P 500

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### Materials

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### Industrials

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**Bold = move of more than 5%**
## U.S. Market Movers

### Energy
- **Symbol**
  - NE
  - DO
  - NBR
  - HP
  - RCL
  - PTEN
  - UNT
  - ATW
  - PES
  - SLB
  - HAL
  - HHI
  - NOV
  - CAM
  - FTC
  - OIL
  - DRO
  - CRF
  - CHK
  - EKH
  - ERS
  - LKP
  - HXL
  - TTI
  - IO
  - HOS
  - BAS
  - HMK
  - GFI
  - XDM
  - CVX
  - COP
  - OXY
  - MRO
  - HES
  - MUR

### Industrials
- **Symbol**
  - APA
  - DTV
  - APC
  - EOG
  - DD
  - DOW
  - PPI
  - EMN
  - ASH
  - MGN
  - CF
  - APD
  - ARG
  - ECL
  - SHW
  - SHK
  - IFI
  - ALB
  - AMGN
  - MLM
  - DI
  - BLL
  - AA
  - FCX
  - SCCO
  - NEM
  - NRE
  - CLF
  - XZ
  - ATI
  - MW

### Consumer Discretionary
- **Symbol**
  - JCI
  - ZTS
  - GM
  - HGG
  - MKH
  - PMH
  - DHI
  - NVR
  - WRR
  - NWL
  - MAT
  - HAS
  - COH
  - VFC
  - RL
  - NKE
  - LVS
  - K
  - HNZ
  - CCL
  - MAR
  - WYN
  - SXH
  - DISCA
  - C\text{\textsuperscript{+}}
  - TW\text{\textsuperscript{+}}
  - C\text{\textsuperscript{+}}
  - SN\text{\textsuperscript{+}}
  - JCP
  - TX\text{\textsuperscript{+}}
  - AL\text{\textsuperscript{+}}
  - EX\text{\textsuperscript{+}}
  - RST
  - ROS
  - BD\text{\textsuperscript{+}}
  - S\text{\textsuperscript{+}}

### Consumer Staples
- **Symbol**
  - CVS
  - WAG
  - SYH
  - KR
  - SWY
  - WFM
  - WMT
  - COT
  - TAM
  - MA
  - ADP
  - HD
  - RDC
  - PTEN
  - R

### Technology
- **Symbol**
  - GOOG
  - EBAY
  - YHOO
  - AMK
  - RYBN
  - ACN
  - CTSH
  - RTN
  - CRR
  - MA
  - ADP
  - HD
  - W

### Health Care
- **Symbol**
  - MDT
  - BAX
  - SBUX
  - YUM
  - SBUX
  - CMDC
  - C\text{\textsuperscript{d}}
  - Y\text{\textsuperscript{d}}
  - CVS
  - HC
  - AHE
  - SI
  - TS\text{\textsuperscript{c}}
  - NS\text{\textsuperscript{c}}
  - NX\text{\textsuperscript{c}}
  - SH\text{\textsuperscript{c}}
  - IN\text{\textsuperscript{c}}
  - W\text{\textsuperscript{c}}
  - P\text{\textsuperscript{c}}

### Utilities
- **Symbol**
  - SO\text{\textsuperscript{+}}
  - V\text{\textsuperscript{+}}
  - WC\text{\textsuperscript{+}}
  - MD\text{\textsuperscript{+}}
  - NY\text{\textsuperscript{+}}
  - TX\text{\textsuperscript{+}}
  - VA\text{\textsuperscript{+}}
  - WA\text{\textsuperscript{+}}
  - CA\text{\textsuperscript{+}}
  - NY\text{\textsuperscript{+}}
  - MA\text{\textsuperscript{+}}
  - WA\text{\textsuperscript{+}}

### Financials
- **Symbol**
  - WFC
  - CMA
  - PNC
  - BBT
  - STR
  - FITB
  - BAC
  - AMT
  - C
  - LUK
  - Z
  - C\text{\textsuperscript{+}}
  - M\text{\textsuperscript{+}}
  - E\text{\textsuperscript{+}}
  - S\text{\textsuperscript{+}}
  - B

### Market Elements
- **Symbol**
  - M\text{\textsuperscript{c}}
  - N\text{\textsuperscript{c}}
  - C\text{\textsuperscript{c}}
  - T\text{\textsuperscript{c}}
  - R\text{\textsuperscript{c}}
  - P\text{\textsuperscript{c}}
  - N\text{\textsuperscript{c}}
  - NYX
  - M\text{\textsuperscript{c}}
  - J\text{\textsuperscript{c}}
  - W\text{\textsuperscript{c}}
  - DB\text{\textsuperscript{+}}

### Telecom Services
- **Symbol**
  - NVDA
  - ADT
  - MU
  - CREE
  - ALXN
  - AM\text{\textsuperscript{c}}
  - MCHP

### Capital Services
- **Symbol**
  - S\text{\textsuperscript{H}}

---

*H/L* = at a closing $25-$wk. *Low*, $\text{\textsuperscript{+}}$ = within 10% of the $25-$wk. *High*, *Bold* = move of more than 5%
# Market Elements

## Canadian Market Movers

### Energy
- Symbol: ESI
- Last %Chg: 5.71%
- Symbol: TGS
- Last %Chg: 6.04%
- Symbol: XTL
- Last %Chg: -0.16%
- Symbol: AGU
- Last %Chg: 7.14%
- Symbol: BDC
- Last %Chg: 5.79%
- Symbol: GIB
- Last %Chg: 3.07%
- Symbol: SUR
- Last %Chg: 2.34%
- Symbol: NEW
- Last %Chg: 4.48%
- Symbol: BOL
- Last %Chg: -15.6%
- Symbol: LBF
- Last %Chg: 2.86%

### Materials
- Symbol: GDI
- Last %Chg: 3.63%
- Symbol: TGO
- Last %Chg: 5.13%
- Symbol: CRQ
- Last %Chg: 0.71%
- Symbol: GEM
- Last %Chg: 6.56%
- Symbol: GUG
- Last %Chg: -1.98%
- Symbol: CTI
- Last %Chg: 4.84%
- Symbol: ULC
- Last %Chg: 0.47%
- Symbol: LGB
- Last %Chg: 3.07%
- Symbol: AG
- Last %Chg: 3.71%
- Symbol: BWU
- Last %Chg: -1.74%

### Industrials
- Symbol: CBI
- Last %Chg: 0.27%
- Symbol: VCH
- Last %Chg: -1.90%
- Symbol: CAA
- Last %Chg: 2.51%
- Symbol: SAF
- Last %Chg: -1.70%
- Symbol: NSE
- Last %Chg: 1.40%
- Symbol: MDC
- Last %Chg: 1.98%
- Symbol: FSH
- Last %Chg: 1.96%
- Symbol: NDI
- Last %Chg: 0.55%
- Symbol: HBM
- Last %Chg: 1.83%
- Symbol: TSL
- Last %Chg: 0.05%
- Symbol: CDX
- Last %Chg: 1.03%

### Financials
- Symbol: TFC
- Last %Chg: -0.11%
- Symbol: SNC
- Last %Chg: 1.10%
- Symbol: TIS
- Last %Chg: 3.63%
- Symbol: NCM
- Last %Chg: -4.74%
- Symbol: FNB
- Last %Chg: 2.43%
- Symbol: NPC
- Last %Chg: 1.01%
- Symbol: DUN
- Last %Chg: 2.00%
- Symbol: ANR
- Last %Chg: 1.60%
- Symbol: LUC
- Last %Chg: 1.35%
- Symbol: RBC
- Last %Chg: 1.08%
- Symbol: GCR
- Last %Chg: 1.03%
Energy Positive Reversals

- The highest concentration of positive reversals continues to be found in the energy sector.
- Our Group Selection Report reading on Energy is neutral (most sectors are bordering on neutral).
- We highlight shares with a good history (high net performance metric) that are reversing downtrends. We endeavour to screen for shares where our analysis details a mere holding, or consolidation patterns within a larger uptrend.
  - PSN and STO are new issues that were well received but have spent the bulk of this year trending lower – Figures 1, 2.
  - PRE has just established a set of higher highs and lows, with the volume accumulating at the lows – Figure 3.
  - TET has consolidated gains off of the June/July low for three weeks now. That sideways movement breaks the downtrend with a slope of -74% year – Figure 4.

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Relative Strength Filter

Utilities Losing Utility

- The sell-off in “safe haven” treasuries has a very tight fit to the rally in Italian 10-year bonds. A less distressed world is a world with less need for any sort of U.S. QEasing – Figure 1.
- While defensive Staples and Health Care firmed back into outperforming trends yesterday, yield driven Utilities fell to a 3-month relative strength low – Figure 2.
- Regardless of geography, all Utilities have broken below falling 50-day moving averages against local benchmarks (moving averages of the relative strength trends) – Figure 3.
- We highlight Utilities that have broken outperforming trends against the MSCI World Index in Figure 4. These are the stocks that are not serving the same safe-haven utility as they did before.

Figure 1: Fit of Italian (Inverted) to U.S. 10-Year Yields

Figure 2: U.S. Sector Relative Strength Trends

Figure 3: Utilities Sectors vs. Local Markets

Figure 4: Utility Shares Breaking Below Outperforming Trends

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Breaking Out of Holding Patterns

- **Two Long Candidates:**
  - Both Rackspace Hosting and Sirius XM Radio have spent the bulk of the past four years trending higher, or digesting those gains. These digestion periods are marked by negative or neutral trends. Both of these stocks are breaking out of such holding patterns, and volume is confirming the positive price action - Figures 1, 2.

- **Two Short Candidates:**
  - Both Rosetta Stone and Responsys have spent much of their history trending lower or digesting those losses. These digestion periods are marked by positive or neutral trends. Both of these stocks are breaking down – Figures 3, 4.

**Figure 1:** Rackspace Hosting Price Trend (RAX)

**Figure 2:** Sirius XM Radio Price Trend (SIRI)

**Figure 3:** Rosetta Stone Price Trend (RST)

**Figure 4:** Responsys Price Trend (MKTG)

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Relative Strength Filter

All Bets Being Taken Off

- The market is taking all bets off.
  - On an index basis, you see it as defensive groups breaking below outperforming trends, and cyclicals breaking above underperforming trends – Figure 1.
  - On an individual security basis, which is what our Group Selection report is drawn from, you see it as all groups moving toward the middle ground on the strength axis – Figure 2.

- The sector that has lagged the most is materials, which has the weakest strength score of all 10 global sectors – Figure 2.
  - But here as well, if you look at the creditworthiness of the weakest two industries (highest average cost to protect debt against default), steel and base metals mining, negative trends are being reversed – Figures 3, 4.

- While the European debt crisis remains relatively dormant, the greatest risk is on the short side.
  - There are 20 steel and diversified miners in the MSCI ACWI breaking price downtrends found at this link. These reversals should be considered stop loss points.

Figure 1: Severed Trends on MSCI ACWI Sectors

<table>
<thead>
<tr>
<th>Name</th>
<th>Chg Last Day</th>
<th>Reward Risk</th>
<th>Trend Shelf</th>
<th>Hi (No.)</th>
<th>Low (No.)</th>
<th>1-Day ROC (%)</th>
<th>3-Day ROC (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACWI Health Care vs. ACWI</td>
<td>-24%</td>
<td>-4%</td>
<td>3.0</td>
<td>0.1%</td>
<td>-1.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACWI Consumer Staples vs. ACWI</td>
<td>-23%</td>
<td>1.0</td>
<td>3.0</td>
<td>-0.1%</td>
<td>-1.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACWI Utilities vs. ACWI</td>
<td>-8%</td>
<td>3.5</td>
<td>0.0%</td>
<td>1.0%</td>
<td>-1.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACWI Energy vs. ACWI</td>
<td>-30%</td>
<td>1.0</td>
<td>0.1%</td>
<td>-1.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACWI Materials vs. ACWI</td>
<td>-50%</td>
<td>1.0</td>
<td>0.1%</td>
<td>-1.7%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 2: Global Relative Strength Sector Heat Map

- Defensives Breaking Down
- Resources Breaking Out

Figure 3: CDS Trend on Global Steel

Figure 4: CDS Trend on Global Base Metal Miners

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
**Relative Strength Filter**

**Technology Junk-Food Diet**

- The sector with the highest momentum is technology – Figure 1.
- U.S. Technology is in the early days of defining a relative strength downtrend, and this is the first counter-trend swing – Figure 2.
- What has the market been buying on this counter-trend swing? Our “severed trends” list in technology is heavily stacked toward the weakest stocks.
  - Junk provides the greatest short-term gain and the largest letdown if sentiment turns back toward the negative trend.

**Figure 1: Sector Heat Map From Our Group Selection Report**

**Figure 2: U.S. Technology vs. S&P 500**

**Figure 3: Broken Relative Strength Trends - Technology Stocks vs. S&P 1500 Information Technology Index**

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
In the battle over paper and bullion “safe havens” – gold edges above a downtrend – Figure 1.

The problem is that this is only because treasuries are being shunned at such low yields. The market prefers stocks – Figure 2.

What is more, gold moves are still 75% correlated to euro moves, and the euro remains in a downtrend, with no yield support.

When we screen for large cap liquid gold shares in consistent underperforming trends against Gold Miners, the MSCI ACWI, and in price downtrends, we come up with two – IAMGOLD and Centerra. These would be our gold shorts of choice – Figures 3, 4.
Resource Switches

- We highlight yet more intra sector shifts, this time down at the sub-industry level.
- In Canadian Diversified Mining, we advocate switching out of Sherritt and into Inmet Mining.
  - Inmet Mining is reversing an underperforming trend and shares have formed a one-year double bottom on a relative basis – Figure 1.
  - Sherritt has a long-term history of underperforming the group, and is just breaking an outperforming pattern now – Figure 2.
- In Canadian Oil & Gas Equipment & Services, we advocate switching out of ShawCor and into Trican Well Service Ltd.
  - Trican is reversing a steep underperforming trend – Figure 3.
  - ShawCor is breaking below an outperforming trend – Figure 4.

Figure 1: Inmet Mining vs. CDN Diversified Metals & Mining

Figure 2: Sherritt International vs. Diversified Metals & Mining

Figure 3: Trican vs. CDN O&G Equipment & Services

Figure 4: ShawCor vs. CDN O&G Equipment & Services

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Pause in Pain Plays

- The Spanish 10-year bond yield has started to meander sideways – Figure 1.
  - We expect this is the pause that refreshes as opposed to the end in the European debt crisis.
  - During this pause, there should be some shifts away from defensive groups (Tobacco, Beverages), and into more aggressive groups.
  - Since this is expected to be just a pause, we do not expect to see large shifts of market appetites toward anything resembling global growth. Instead, we will highlight some intrasector shifts.

- Yesterday, we highlighted in intrasector move where Life Insurance was getting a lift at the expense of REITS.
- Today we expand upon this to highlight the move away from safe U.S. Diversified Banks (WFC, USB, CMA) – Figure 2, into more market sensitive banks (GS, MS) – Figures 3, 4.
  - A move back toward market weight reduces the impact of what is expected to be a counter-trend swing.

Figure 1: Spanish 10-year Bond Yield

Figure 2: Wells Fargo vs. S&P 500 Financials

Figure 3: Goldman Sachs vs. S&P 500 Financials

Figure 4: Morgan Stanley vs. S&P 500 Financials

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
It is time to look positively on U.S. Life insurance. The sub-industry broke above a steep underperforming trend on Friday - Figure 1. All of the heavyweights in the sector are reversing underperforming trends against the market and/or the sector. Three of ten life insurance stocks are in outperforming trends - Figure 3.

What makes the move impressive is that Life Insurance also reverses an underperforming trend against U.S. Financials, so an intrasector shift is going on - Figure 2.

Where is the money coming from? REITS - Figure 4.

- Ten, or one-sixth of U.S. REITS in outperforming trends, are breaking these trends.
Retreat

- **Yesterday**, ECB President Mario Draghi made a very Bundesbankish turn:
  - European (Spanish and Italian) sovereign states will have to go formally to the EFSF before the ECB would consider lifting a finger to restrain higher yields.
  - Only then, will the ECB consider buying sovereign bonds, and it would only consider purchasing short-dated bonds (unlike the course of the more generous ESM program).
- On this maneuver:
  - Most equity markets, which had managed to break above downtrends, fell back into downtrends - Figure 1.
  - European Diversified Financials and Banks were maintained as an investment to avoid - Figure 2.
  - A weak appetite to fund peripheral Europe will continue to point toward weaker global growth where safe-haven bonds are sought. Notably yesterday:
    - Energy retreated into an underperforming trend - Figure 3.
    - U.S. Technology is forming an underperforming trend - Figure 4.
    - Those managing U.S. SMID money know that technology underperformance is an established trend - see link.

---

**Figure 1:** Global Equity Indices Falling Back Into Downtrends

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>1-Day Chg (%)</th>
<th>Chg Last Day</th>
<th>Trend Slope</th>
<th>% Chg wrt 50-Day MA</th>
<th>Chg wrt 30-Day MA Tens</th>
<th>Trend Length</th>
<th>Trend %</th>
<th>Retreating Back Into Downtrends</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI EM</td>
<td>MXXF</td>
<td>-1.0%</td>
<td>-38%</td>
<td>-20%</td>
<td>2.2%</td>
<td>Above Range</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACWI</td>
<td>MXXD</td>
<td>-1.0%</td>
<td>-20%</td>
<td>-5%</td>
<td>1.9%</td>
<td>Above Range</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil Bovespa</td>
<td>IBOV</td>
<td>-1.4%</td>
<td>-10%</td>
<td>-13%</td>
<td>-1.0%</td>
<td>Below Range</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S&amp;P TSX Sml</td>
<td>SPTSG</td>
<td>-0.2%</td>
<td>-18%</td>
<td>-23%</td>
<td>3.4%</td>
<td>Above Range</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe 350</td>
<td>SPX</td>
<td>-1.3%</td>
<td>-27%</td>
<td>-21%</td>
<td>2.9%</td>
<td>Above Range</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK FTSE 100</td>
<td>UKX</td>
<td>-0.9%</td>
<td>-19%</td>
<td>-13%</td>
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<td>Above Range</td>
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<td></td>
</tr>
<tr>
<td>German DAX</td>
<td>DAX</td>
<td>-2.2%</td>
<td>-18%</td>
<td>-18%</td>
<td>1.9%</td>
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<td>Italian MIB</td>
<td>IT3MIB</td>
<td>-0.6%</td>
<td>-20%</td>
<td>-18%</td>
<td>-2.0%</td>
<td>Below Range</td>
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<tr>
<td>French CAC</td>
<td>CAC</td>
<td>-2.7%</td>
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<td>-23%</td>
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<td>Hong Kong HKI</td>
<td>HSI</td>
<td>-0.7%</td>
<td>-22%</td>
<td>-25%</td>
<td>1.0%</td>
<td>Below Range</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Figure 2:** European Diversified Financials vs. S&P Europe 350

- **Figure 3:** Energy vs. MSCI ACWI
  - Retreating Back Into Downtrend

- **Figure 4:** U.S. Technology vs. S&P 500 (see SMID view here)
  - Nascent Underperforming Trend Developing
  - Former Outperforming Trend

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
D-raghi Day

26 of 27 global equity markets we look at are in downtrends.
- The consumer staples heavy Mexican IPC is in an uptrend.
- Resource heavy Brazilian and Canadian small cap indices are losing altitude at a rate of approximately 50%/year.
- If the world had reached its Minsky moment, it would start to look like this (and this) – Figure 1.

Figure 1: Price Trends on Global Equity Indices

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>1-Day Chg (%)</th>
<th>5-Day Chg (%)</th>
<th>Chg Last Day</th>
<th>Reward/Risk</th>
<th>Trend Slope</th>
<th>Hi (Mo.)</th>
<th>Low (Mo.)</th>
<th>%Chg wrt 50-Day MA</th>
<th>%Chg wrt 200-Day MA</th>
<th>Chg wrt 50 Day MA Trend</th>
<th>%Chg wrt 200-Day MA Trend</th>
<th>Chg wrt 200 Day MA Trend</th>
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</thead>
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<tr>
<td>Mexican IPC</td>
<td>MX:COL</td>
<td>0.2%</td>
<td>0.9%</td>
<td></td>
<td></td>
<td>13%</td>
<td></td>
<td></td>
<td>4.0%</td>
<td>-1.0%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Swiss SMI</td>
<td>SM:</td>
<td>-1.1%</td>
<td>2.4%</td>
<td></td>
<td></td>
<td>-2%</td>
<td></td>
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<td>3.8%</td>
<td>1.3%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Aussie S&amp;P/ASX</td>
<td>ASSL</td>
<td>-0.1%</td>
<td>3.4%</td>
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<td></td>
<td>-7%</td>
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<td>Below Falling</td>
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<tr>
<td>Japanese TPX</td>
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<td>-5%</td>
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<td>2.7%</td>
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<td>Above Rising</td>
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<tr>
<td>S&amp;P 500</td>
<td>SPX:</td>
<td>-0.3%</td>
<td>2.8%</td>
<td></td>
<td></td>
<td>-4%</td>
<td></td>
<td></td>
<td>2.5%</td>
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<td>Above Rising</td>
<td>Above Rising</td>
<td></td>
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<tr>
<td>DAX</td>
<td>INDU</td>
<td>-0.3%</td>
<td>2.3%</td>
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<td></td>
<td>-15%</td>
<td></td>
<td></td>
<td>2.1%</td>
<td>-2.6%</td>
<td>Below Rising</td>
<td>Below Rising</td>
<td></td>
</tr>
<tr>
<td>Russian MICEX</td>
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<td>0.6%</td>
<td>0.6%</td>
<td></td>
<td></td>
<td>-15%</td>
<td></td>
<td></td>
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<td>2.9%</td>
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<td>Above Rising</td>
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<td>NASDAQ</td>
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<td>2.1%</td>
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<td>Above Rising</td>
<td></td>
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<td>Indian SENSEX</td>
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<td>-10%</td>
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<td>-11%</td>
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<td>5.5%</td>
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<tr>
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<td>-13%</td>
<td></td>
<td></td>
<td>-5.1%</td>
<td>-7.2%</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>Spanish IBEX</td>
<td>IBEX</td>
<td>-0.3%</td>
<td>11.9%</td>
<td></td>
<td></td>
<td>-34%</td>
<td></td>
<td></td>
<td>2.1%</td>
<td>-13.4%</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>German DAX</td>
<td>DAX:</td>
<td>-0.3%</td>
<td>5.9%</td>
<td></td>
<td></td>
<td>-19%</td>
<td></td>
<td></td>
<td>6.0%</td>
<td>5.7%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>UK FTSE 100</td>
<td>UKX:</td>
<td>1.4%</td>
<td>3.9%</td>
<td></td>
<td></td>
<td>-19%</td>
<td></td>
<td></td>
<td>3.3%</td>
<td>1.6%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Russell 2000</td>
<td>RTY:</td>
<td>-2.0%</td>
<td>0.2%</td>
<td></td>
<td></td>
<td>-14%</td>
<td></td>
<td></td>
<td>-0.9%</td>
<td>-0.8%</td>
<td>Below Rising</td>
<td>Below Rising</td>
<td></td>
</tr>
<tr>
<td>French CAC</td>
<td>CAC:</td>
<td>0.9%</td>
<td>7.8%</td>
<td></td>
<td></td>
<td>-23%</td>
<td>4.0</td>
<td></td>
<td>6.4%</td>
<td>3.5%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>ACWI</td>
<td>MXWD:</td>
<td>-0.1%</td>
<td>4.6%</td>
<td></td>
<td></td>
<td>-20%</td>
<td></td>
<td></td>
<td>3.1%</td>
<td>1.0%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>MSCI Sml Cap</td>
<td>MXXOSC</td>
<td>-0.9%</td>
<td>2.2%</td>
<td></td>
<td></td>
<td>-22%</td>
<td></td>
<td></td>
<td>0.8%</td>
<td>-1.3%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Hong Kong HSI</td>
<td>HSI:</td>
<td>0.1%</td>
<td>5.0%</td>
<td></td>
<td></td>
<td>-27%</td>
<td>2.5</td>
<td></td>
<td>3.7%</td>
<td>0.8%</td>
<td>Above Rising</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Taiwan TWSE</td>
<td>TWSE:</td>
<td>0.0%</td>
<td>4.3%</td>
<td></td>
<td></td>
<td>-28%</td>
<td></td>
<td></td>
<td>1.3%</td>
<td>-1.0%</td>
<td>Below Rising</td>
<td>Below Rising</td>
<td></td>
</tr>
<tr>
<td>SAP/TSX</td>
<td>SPTSX:</td>
<td>-0.4%</td>
<td>1.1%</td>
<td></td>
<td></td>
<td>-21%</td>
<td></td>
<td></td>
<td>0.5%</td>
<td>-3.3%</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>ACWI XUSA</td>
<td>MXWDU:</td>
<td>0.0%</td>
<td>5.2%</td>
<td></td>
<td></td>
<td>-35%</td>
<td></td>
<td></td>
<td>3.5%</td>
<td>-1.4%</td>
<td>Below Rising</td>
<td>Below Rising</td>
<td></td>
</tr>
<tr>
<td>Korean Kospi</td>
<td>KO:</td>
<td>-0.7%</td>
<td>7.0%</td>
<td></td>
<td></td>
<td>-27%</td>
<td></td>
<td></td>
<td>3.5%</td>
<td>-1.5%</td>
<td>Below Rising</td>
<td>Below Rising</td>
<td></td>
</tr>
<tr>
<td>Italian MIB</td>
<td>FTSEMIB</td>
<td>-0.5%</td>
<td>5.5%</td>
<td></td>
<td></td>
<td>-55%</td>
<td></td>
<td></td>
<td>-4.0%</td>
<td>-6.5%</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>NSEI EM</td>
<td>MXEF:</td>
<td>-0.5%</td>
<td>5.3%</td>
<td></td>
<td></td>
<td>-35%</td>
<td></td>
<td></td>
<td>3.5%</td>
<td>-2.1%</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>Brazil Bovespa</td>
<td>IBOV:</td>
<td>0.3%</td>
<td>7.0%</td>
<td></td>
<td></td>
<td>-54%</td>
<td></td>
<td></td>
<td>4.5%</td>
<td>-5.1%</td>
<td>Below Rising</td>
<td>Below Rising</td>
<td></td>
</tr>
<tr>
<td>S&amp;P/TSX Sml</td>
<td>SPTSXS</td>
<td>-0.5%</td>
<td>1.2%</td>
<td></td>
<td></td>
<td>-49%</td>
<td></td>
<td></td>
<td>4.5%</td>
<td>-8.1%</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td></td>
</tr>
</tbody>
</table>

Source: BMO Capital Markets, Bloomberg, Thomson, Markit

Fighting that trend, we have ECB President Mario Draghi, where expectations of a bazooka-like policy announcement have pushed 13 global indices above their defined downtrends.
- The downtrend is based on the European debt crisis.
  - The counter-trend is based on intervention expectations centered upon verbal signals from one week ago today.
- Markets will need actual intervention to turn counter-trend into trend. It is Draghi day today.
Canadian Oil Stocks – Selling Into Strength

- Canadian Oil & Gas Production shares are underperforming the S&P/TSX Composite at a rate of 20%/year. Shares moved from the bottom to the top of the channel in the past month – Figure 1.
  - The only bottoming pattern we see would be a v-bottom, and we do not expect this will be the case.
    - As such, we advocate selling into strength.

- Our targets will be energy stocks in underperforming trends, which have rebounded from the bottom ends of their channels. We also selected stocks with weak long-term relative strength characteristics: Bonavista Energy, PetroBakken Energy and Legacy Oil + Gas – Figures 2-4.

Figure 1: Canadian O&G Production vs. S&P/TSX Composite
Figure 2: Bonavista Energy vs. S&P/TSX Composite
Figure 3: PetroBakken Energy vs. S&P/TSX Composite
Figure 4: Legacy Oil + Gas vs. S&P/TSX Composite

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
In on High Expectations

- The shock and awe of central bankers now comes before official central bank statements.
- It is more the evaporation of offers, rather than the surge of inflows that leads to the lift, but still it is a lift we see.
- Defensive sectors, which sport the most consistent uptrends, have been pushed above the top end of their price channels. There is no sign of rotation out of these groups – Figure 1, left.
- Some economically sensitive sectors, which sport the most consistent downtrends, have been pushed above the top end of their price channels – Figure 1, right.
  - These are the most risk of fading a counter-trend rally.
  - Right now we see more than double the number of overbought (489) than oversold (188) shares.
  - The risk is that buy orders evaporate if high expectations are not met with substance.

Figure 1: Price Trends on U.S. Canadian, and European Sectors Pushed Above the Top Ends of Channels

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Relative Strength Filter

LTD & Alacer Gold: Positive Turns vs. Industries

This week will be very noisy, with the Fed and more importantly the ECB on the hook as the markets price themselves for delivery of stimulus.

Today, we will look at the minutia, stocks versus their respective sub-industry, to look for signals amongst the noise.

- In U.S. Apparel Retail, which is outperforming the market at 23%/year, Ltd. Brands is trying to establish leadership again.
  - LTD has been underperforming at a rate of 40%/year for the past six months, but it is a long-term outperformer – Figure 1.
  - Shares have been consolidating gains for 3 months, and the trend remains higher – Figure 2.

Alacer Gold, with positive long-term relative strength and price trends, is reversing downtrends in both cases – Figures 3, 4. Volume at the low shows good signs of accumulation.

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Consumer Discretionary Shorts

- Yesterday’s Draghi speech, while causing indigestion to the shorts on an absolute basis, did not shift the appetite of the latest two sectors under fire – Technology and Consumer Discretionary.
  - On a relative basis, these sectors continued to lose ground – Figure 1.
  - On a relative basis, the defensive consumer staples gained and hit a new high.
- The consumer discretionary industry whose creditworthiness weakened the most yesterday was advertising (and no FB does not have a CDS).
  - The culprit was Interpublic Group. Shares broke below the bottom end of a flat channel yesterday. We see the channel as a mere holding pattern, and shares broke out in the wrong direction yesterday. Our target is significantly lower – Figure 2.
- MGM is approaching one-year support, which is two-year support, which is three-year support. That would be a distribution top – Figure 3.
  - MGM’s CDS is widening.
- In yesterday’s RSF, we noted CDS trends on Auto Manufacturing and Auto Parts are widening. We highlight the best large cap shorts from an equity perspective in Figure 4.

Figure 1: Relative Trends on MSCI ACWI Sectors

Figure 2: Interpublic Price Trend (CDS Trend Here)

Figure 3: MGM Price Trend (CDS Trend Here)

Figure 4: Price Trends on Downtrending Auto Related Stocks

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Relative Strength Filter

Mark Steele
(416) 359-4641
mark.steele@bmo.com
Assoc: Tiberiu Stoichita/Rahul Muralidhar

July 26, 2012
Research Comment
Quantitative/Technical Research Website

Slippage in Technology & Discretionary Sectors

- In yesterday's market, both U.S. Technology and U.S. Consumer Discretionary sectors fell back below outperforming trends - Figures 1, 2.
  - This is in line with our expectations. We do not expect the broken uptrends to heal.
  - We continue to see rotation into more defensive sectors and industries.
- Communications equipment and semiconductors groups (Figure 3) are the weakest U.S. technology industries.
  - The list of Technology stocks breaking below an outperforming trend against the ACWI includes AAPL.
  - The list of tech stocks in underperforming trends is very large.
- Global auto related (manufacturers, and parts) industries are some of the weakest amongst global peers - Figure 4.
  - The trend of a basket of Auto Manufacturing CDS is widening at a rate of 68%/year.
  - The trend of a basket of Auto Parts CDS is widening at a rate of 68%/year.

Figure 1: U.S. Technology vs. S&P 500

Figure 2: U.S. Consumer Discretionary vs. S&P 500

Figure 3: U.S Semiconductors vs. S&P 500

Figure 4: Global Auto Manufacturers vs. ACWI

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Geld / Gold: Safer Than Treasuries?

- For a brief but notable point in time yesterday, when safe-haven treasuries were selling off with less safe-haven German bunds, there was a lift in the bullion price. The rise and then subsequent fall in treasury yields led to the rise and subsequent fall in bullion. For a brief moment in time, gold was “in” as the safe haven. We study the issue ...
  - In euro terms, gold is breaking to the upside - Figure 1.
  - In Bund terms, gold is breaking the upside - Figure 2.
    o From a German perspective (or Swiss for that matter), gold is a reasonable hiding place.
  - In U.S. dollar terms (or JPY, CAD, AUD and GBP), gold remains in a downtrend, and the consolidation will likely break to the downside, as it is not yet providing utility - Figure 3. In U.S. treasury terms, gold remains in a downtrend, and U.S. bonds continue to be the hiding place of choice - Figure 4.
  - If and when the price trend on treasuries turns negative (and assuming global growth is not yet with us). Gold should lift.
  - In the mean time, the market is already parking money in stocks deemed (by the CDS market) as safer than treasuries. They include groups like U.S. Rails (CDS Trend, RS Trend) and Global Pharmaceuticals (CDS Trend, RS Trend).

Figure 1: Spot Gold in Euros

Figure 2: Spot Gold vs. German Bonds

Figure 3: Spot Gold in USD

Figure 4: Spot Gold vs. U.S. Bonds

Source: BMO Capital Markets, Bloomberg, Thomson, Markit

This report was prepared in part by an analyst(s) employed by BMO Nesbitt Burns Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. For disclosure statements, including the Analyst’s Certification, please refer to pages 2 to 3.
Relative Strength Filter

50/50 Moving Toward 40/60

- Best fit price trends on five of the ten global sectors now sport negative slopes – Figure 1.
  - Technology is next at risk of breaking the price uptrend.
- Of course the fundamental credit weakness in Europe has been driving these trends from positive toward negative.
  - Spanish and Italian CDS, which dipped below trend (a positive, counter-trend move) earlier this month, have moved back to behave more trend-like – Figures 2, 3.
- Quantitatively,
  - the creditworthiness of sovereign Spanish debt is deteriorating at a rate of 120%/year;
  - the creditworthiness of sovereign Italian debt is deteriorating at a rate of 82%/year.
- The further we can extrapolate these trends (Figures 2, 3), the more we would expect various equity groups to take a back seat to safe haven bonds.

Figure 1: Price Trends on MSCI All Country World Index Sectors

<table>
<thead>
<tr>
<th>Name</th>
<th>Reward/Risk</th>
<th>Trend Slope</th>
<th>1-Day ROC (%)</th>
<th>5-Day ROC (%)</th>
<th>%Chg wrt 50-Day MA</th>
<th>Chg wrt 50-Day MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Staples</td>
<td>-16%</td>
<td>-1.4%</td>
<td>-1.1%</td>
<td>1.9%</td>
<td>Above Rising</td>
<td>Above Falling</td>
</tr>
<tr>
<td>Health Care</td>
<td>-10%</td>
<td>-1.4%</td>
<td>-0.7%</td>
<td>2.5%</td>
<td>Above Rising</td>
<td>Above Falling</td>
</tr>
<tr>
<td>Telecommunications Services</td>
<td>-7%</td>
<td>-1.3%</td>
<td>-1.9%</td>
<td>2.7%</td>
<td>Above Rising</td>
<td>Above Falling</td>
</tr>
<tr>
<td>Utilities</td>
<td>-3%</td>
<td>-1.6%</td>
<td>-2.7%</td>
<td>0.0%</td>
<td>Above Rising</td>
<td>Above Falling</td>
</tr>
<tr>
<td>Information Technology</td>
<td>9%</td>
<td>-1.4%</td>
<td>-0.5%</td>
<td>-0.5%</td>
<td>Below Falling</td>
<td>Below Falling</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>-10%</td>
<td>-1.8%</td>
<td>-1.6%</td>
<td>-1.0%</td>
<td>Below Falling</td>
<td>Below Falling</td>
</tr>
<tr>
<td>Financials</td>
<td>-20%</td>
<td>-2.0%</td>
<td>-2.6%</td>
<td>0.1%</td>
<td>Above Falling</td>
<td>Above Falling</td>
</tr>
<tr>
<td>Industrials</td>
<td>-22%</td>
<td>-1.5%</td>
<td>-0.7%</td>
<td>0.0%</td>
<td>Below Falling</td>
<td>Below Falling</td>
</tr>
<tr>
<td>Energy</td>
<td>-4%</td>
<td>-1.6%</td>
<td>0.2%</td>
<td>2.7%</td>
<td>Above Rising</td>
<td>Above Falling</td>
</tr>
<tr>
<td>Materials</td>
<td>-45%</td>
<td>-2.8%</td>
<td>-1.8%</td>
<td>-1.9%</td>
<td>Below Falling</td>
<td>Below Falling</td>
</tr>
</tbody>
</table>

Figure 2: Spanish 5-Year CDS

Figure 3: Italian 5-Year CDS

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Markets Prefer Bonds

  - Our best fit trend of the S&P 500 against bonds just pivoted to sport a negative slope - Figure 1.
  - Last week safe-haven bonds put in a solid performance, and equities moved from embracing to shunning risk as Spanish yields went from contained to spiralling higher.
    - Italian bonds join the sell-off today.
  - Greece also comes back into the spotlight as the ECB (Friday) and now the IMF (according to reports) shun the state.
- Stepping back from looking at the “best fit,” which is a short 6-month trend, the S&P 500, when viewed against bonds, appears as a 3-year distribution top – Figure 1.
  - This is similar to the same topping pattern observed for world equities when you strip out U.S. stocks – Figure 2.
- This top is our base case. The focus needs to be placed on what may turn it around, as opposed to ignoring it.

Figure 1: S&P 500 ETF (SPY) vs. Treasury Bond Fund (IEF)

Figure 2: MSCI ACWI xUSA Index

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Relative Strength Filter

North American Rails

- The rails that are in outperforming trends are strengthening; the rails that are in underperforming trends are reversing to the upside – Figure 1.
- Price trends on rails show similar patterns: most are trending higher, and the ones that had been trending lower are reversing those downtrends – Figure 2.
- Those that can play a small cap, will appreciate RailAmerica – Figure 3.
- Bottom fishers will look toward the positive turn in Genesee & Wyoming, which has a long-term track record of outperformance – Figure 4.
- Canadian portfolios appreciate CNR outperforming at 51%/year – Figure 5.
- Those seeking the most consistently outperforming U.S. rail note yesterday’s firming of Union Pacific within its trend against the group – Figure 6.

Figure 1: North American Rails vs. S&P 500

<table>
<thead>
<tr>
<th>Name / Link to Charts</th>
<th>Symbol &amp; Links</th>
<th>1-day Chg (%)</th>
<th>5-day Chg (%)</th>
<th>MktCap US$mnm</th>
<th>Chg Last Day</th>
<th>Trend Slope</th>
<th>Hi (Mo)</th>
<th>Lo (Mo)</th>
</tr>
</thead>
<tbody>
<tr>
<td>RailAmerica Inc</td>
<td>RAUS</td>
<td>6.4%</td>
<td>3.4%</td>
<td>1,268</td>
<td>↑</td>
<td>=</td>
<td>82%</td>
<td>82%</td>
</tr>
<tr>
<td>Canadian National Railway</td>
<td>CNRLCN</td>
<td>1.0%</td>
<td>2.9%</td>
<td>30,447</td>
<td>↑</td>
<td>=</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Large Pacific Corp</td>
<td>UNPUS</td>
<td>3.5%</td>
<td>5.2%</td>
<td>56,485</td>
<td>↑</td>
<td>=</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Norfolk Southern Corp</td>
<td>NSCITI</td>
<td>0.5%</td>
<td>3.3%</td>
<td>14,195</td>
<td>↑</td>
<td>=</td>
<td>5%</td>
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</tr>
<tr>
<td>Canadian Pacific Railway</td>
<td>CP CN</td>
<td>1.0%</td>
<td>4.3%</td>
<td>12,895</td>
<td>↑</td>
<td>=</td>
<td>15%</td>
<td>15%</td>
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<td>Kansas City Southern</td>
<td>KSUS</td>
<td>2.1%</td>
<td>5.0%</td>
<td>7,950</td>
<td>↑</td>
<td>=</td>
<td>1%</td>
<td>1%</td>
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<tr>
<td>railAmerica Inc</td>
<td>RAUS</td>
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<td>5.0%</td>
<td>23,927</td>
<td>↑</td>
<td>=</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Genesee &amp; Wyoming Inc</td>
<td>SCLUS</td>
<td>0.7%</td>
<td>3.0%</td>
<td>21,673</td>
<td>↑</td>
<td>=</td>
<td>4%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Figure 2: Price Trends on North American Rails

<table>
<thead>
<tr>
<th>Name / Link to Charts</th>
<th>Symbol &amp; Links</th>
<th>1-day Chg (%)</th>
<th>5-day Chg (%)</th>
<th>MktCap US$mnm</th>
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<td>30,447</td>
<td>↓</td>
<td>=</td>
<td>31%</td>
<td>31%</td>
</tr>
<tr>
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<td>3.4%</td>
<td>1,268</td>
<td>↑</td>
<td>=</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Union Pacific Corp</td>
<td>UNPUS</td>
<td>3.5%</td>
<td>5.6%</td>
<td>56,485</td>
<td>↑</td>
<td>=</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Norfolk Southern Corp</td>
<td>NSCITI</td>
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<td>5%</td>
<td>5%</td>
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<td>21,673</td>
<td>↑</td>
<td>=</td>
<td>6%</td>
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<tr>
<td>Genesee &amp; Wyoming Inc</td>
<td>SCLUS</td>
<td>0.7%</td>
<td>3.0%</td>
<td>21,673</td>
<td>↑</td>
<td>=</td>
<td>6%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Figure 3: RailAmerica vs. S&P 500

Figure 4: Genesee & Wyoming vs. S&P 500

Figure 5: CNR vs. S&P/TSX Composite

Figure 6: Union Pacific vs. S&P 500 Railroads

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Relative Strength Filter

Time to Buy Risky and Derisking

- Yesterday, there were 3 positive reversals on widening (negative) CDS trends from the FSA’s list of Global too-interconnected-to-fail banks – Figure 1.
  - This is a large positive, and the first signs of a stand-down from the stress that started just over 3 months ago.
- There was also a positive reversal in a basket of North American High Yield CDS – Figure 2.
- This is precisely the time you consider buying risky but derisking securities.
  - You buy into this morning’s disappointment with Morgan Stanley’s results – Figure 3.
  - You heed the positive reversal on Gannett – Figure 4.
  - You even consider taking a flyer on Air France-KLM – Figure 5.

Figure 1: A Positive: Three Global Too-Interconnected-to-Fail Banks Standing Down From Widening Trends

<table>
<thead>
<tr>
<th>Name</th>
<th>Chg Last Day</th>
<th>CDS Trend Slope</th>
<th>Hi Low</th>
<th>CDS Curve 5Yr</th>
<th>CDS 1-day Chg (%)</th>
<th>CDS 5-day Chg (%)</th>
<th>CDS % Chg wrt 50 DMA</th>
<th>Chg wrt 50 Day MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banco Santander SA</td>
<td>▼ 127%</td>
<td></td>
<td>0.63</td>
<td>0.67</td>
<td>-9%</td>
<td>-9%</td>
<td>-10%</td>
<td>Below Falling</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>▼ 69%</td>
<td></td>
<td>3.5</td>
<td>0.54</td>
<td>-9%</td>
<td>-9%</td>
<td>-10%</td>
<td>Below Falling</td>
</tr>
<tr>
<td>Credit Suisse Group</td>
<td>▼ 87%</td>
<td></td>
<td>0.63</td>
<td>0.67</td>
<td>-9%</td>
<td>-9%</td>
<td>-10%</td>
<td>Below Falling</td>
</tr>
</tbody>
</table>

Figure 2: North American High Yield CDS

Figure 3: Morgan Stanley Price Trend (see link for CDS Trend)

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Relative Strength Filter

Weakness in the Moving Business

- **Trucking** is weakening – Figure 1.
- **Air Freight & Logistics** is weakening – Figure 2.
- These groups had relatively optimistic deciles earlier on in the year. The optimism is fading. Heed the warning.
- The weakness dovetails nicely with the strength in the bond market, which is screaming economic weakness.

- Deteriorating group performance (Figures 1, 2) is driven by:
  - The number of stocks that are breaking below uptrends, like [JB Hunt Transport Services](#) – Figure 3.
  - The number of stocks that are in established underperforming trends, like [C.H. Robinson](#) – Figure 4.
- The momentum sell list of the groups is highlighted in Figure 5.

### Figure 1: Trucking Relative Strength Decile

### Figure 2: Air Freight & Logistics Relative Strength Decile

### Figure 3: JB Hunt Transport Services Price Trend

### Figure 4: C.H. Robinson Worldwide Price Trend

### Figure 5: Trucking & Air Freight Momentum Sells (Price Trends)

<table>
<thead>
<tr>
<th>Name / Link to Charts</th>
<th>Symbol &amp; Links</th>
<th>Decile</th>
<th>Pricing</th>
<th>Price Trend</th>
<th>Technical Attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fred Swiercz Inc</td>
<td>B US</td>
<td>6-5-10</td>
<td>24.84</td>
<td>-9%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Condair Inc</td>
<td>GT CH</td>
<td>0-0-10</td>
<td>56.99</td>
<td>-9%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>C.H. Robinson Worldwide</td>
<td>CHRW US</td>
<td>0-0-9</td>
<td>33.95</td>
<td>-1.6%</td>
<td>-3.3%</td>
</tr>
<tr>
<td>Roadway/Express Inc</td>
<td>HTLC US</td>
<td>6-5-6</td>
<td>13.77</td>
<td>-2.4%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Arkansas Best Corp.</td>
<td>ABFS US</td>
<td>6-8-7</td>
<td>11.10</td>
<td>-3.0%</td>
<td>-1.2%</td>
</tr>
</tbody>
</table>

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
**Relative Strength Filter**

Add to Health Care

- **U.S. Health Care** has been lauded above its slightly outperforming trend - Figure 1.
  - We do not advocate selling into strength, and advise an overweight position. There is a developing trend of higher torque.
- Health Care sectors in the U.S., Canada, Europe, and Australia are all in outperforming trends against their respective benchmarks.
- The **four global health care sub-industries are all outperforming the MSCI All Country World Index**.
- Of the four global health care industries, **Biotech** has the greatest slope of outperformance (20%/year), and is just breaking to the upside after consolidating relative strength gains for the past few months – Figure 2.
- The top of our Health Care momentum buy list is shown in Figure 3. The full list is found at this link.

Figure 1: **U.S. Health Care vs. S&P 500**

Figure 2: **Global Biotechnology vs. MSCI ACWI**

Figure 3: Health Care Momentum Buys – Full List of 63 Stocks Found at This Link

### Table: Health Care Momentum Buys

<table>
<thead>
<tr>
<th>Name / Link</th>
<th>Symbol &amp; Links</th>
<th>Sub Industry</th>
<th>Decile</th>
<th>Pricing</th>
<th>Relative Strength vs ACWI</th>
<th>Technical Attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nexsen Corp</td>
<td>NEXSN US</td>
<td>Biotech</td>
<td>4-3</td>
<td>-0.2%</td>
<td>0.0%</td>
<td>%Chg wrt 50 Day MA</td>
</tr>
<tr>
<td>Medtronic</td>
<td>MDT US</td>
<td>Biotech</td>
<td>1-2</td>
<td>-0.3%</td>
<td>0.7%</td>
<td>%Chg wrt 50 Day MA</td>
</tr>
<tr>
<td>Sanofi</td>
<td>SNY US</td>
<td>Pharma</td>
<td>2-3</td>
<td>1.5%</td>
<td>0.3%</td>
<td>%Chg wrt 50 Day MA</td>
</tr>
<tr>
<td>Celgene</td>
<td>CLGN US</td>
<td>Biotech</td>
<td>4-2</td>
<td>1.8%</td>
<td>2.4%</td>
<td>%Chg wrt 200 Day MA</td>
</tr>
<tr>
<td>Ironwood</td>
<td>IRWD US</td>
<td>Biotech</td>
<td>7-6</td>
<td>1.5%</td>
<td>-1.5%</td>
<td>%Chg wrt 200 Day MA</td>
</tr>
<tr>
<td>CSLB</td>
<td>CSL AU</td>
<td>Biotech</td>
<td>3-5</td>
<td>0.2%</td>
<td>0.2%</td>
<td>%Chg wrt 200 Day MA</td>
</tr>
<tr>
<td>Allergan</td>
<td>AGN US</td>
<td>Biotech</td>
<td>3-1</td>
<td>0.2%</td>
<td>-2.9%</td>
<td>%Chg wrt 200 Day MA</td>
</tr>
<tr>
<td>Medivation</td>
<td>MEDN US</td>
<td>Biotech</td>
<td>4-1</td>
<td>4.1%</td>
<td>-0.3%</td>
<td>%Chg wrt 200 Day MA</td>
</tr>
<tr>
<td>ATHEALTHALT</td>
<td>ATHE US</td>
<td>Biotech</td>
<td>7-1</td>
<td>-1.8%</td>
<td>-3.1%</td>
<td>%Chg wrt 200 Day MA</td>
</tr>
<tr>
<td>Cerenovance</td>
<td>CYRX US</td>
<td>Biotech</td>
<td>4-2</td>
<td>0.5%</td>
<td>-4.5%</td>
<td>%Chg wrt 200 Day MA</td>
</tr>
<tr>
<td>Chugai Pharma</td>
<td>CMG JP</td>
<td>Pharma</td>
<td>5-4</td>
<td>1.4%</td>
<td>-1.4%</td>
<td>%Chg wrt 200 Day MA</td>
</tr>
<tr>
<td>LCB SA</td>
<td>LCB BD</td>
<td>Pharma</td>
<td>5-2</td>
<td>0.9%</td>
<td>1.3%</td>
<td>%Chg wrt 200 Day MA</td>
</tr>
<tr>
<td>CR Bard</td>
<td>BCR US</td>
<td>HCEquip</td>
<td>4-4</td>
<td>-1.1%</td>
<td>-0.4%</td>
<td>%Chg wrt 200 Day MA</td>
</tr>
<tr>
<td>MVI Veterinary</td>
<td>MVI/US</td>
<td>Biotech</td>
<td>1-2</td>
<td>-5.1%</td>
<td>-7.1%</td>
<td>%Chg wrt 200 Day MA</td>
</tr>
<tr>
<td>Zebra S/A</td>
<td>ZEB US</td>
<td>HCEquip</td>
<td>2-5</td>
<td>0.4%</td>
<td>-0.4%</td>
<td>%Chg wrt 200 Day MA</td>
</tr>
</tbody>
</table>

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
U.S. Short Rates Signalling Weakness

- Throughout the first half of this year, we could point toward the trend on the U.S. 2-year bond, and remark that the trend is higher, which represents that stability of the U.S. economy.
  - Short rates trending higher = bond holders expect the FED to increase rates as the economy stabilizes.
  - We can no longer make such a claim.
    - U.S. short rates have broken the uptrend – Figure 1.
- Demand for safe-haven assets (Figure 1) is very impressive, and disconcerting for those holding non-save-haven assets.

Figure 1: U.S. 2-Year Treasury Bond Yield

<table>
<thead>
<tr>
<th>Trend / Width</th>
<th>44% / 73%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trend Length</td>
<td>11 mo</td>
</tr>
</tbody>
</table>

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Focus Shifts (Back) to Asia

- Yesterday, the Asia dollar index suffered the worst day of the past three weeks. Its sharp decline led oil and other industrial commodities lower – Figure 1.
- The day before, it was Asian CDS that widened the most among fellow sovereigns. While we lamented how copper was not following the recent European credit improvement, it was Asia that the market was focusing on.
- China caught the Spanish flu in March, broke away thanks to a surprise rate cut on June 7, and has started to deteriorate again as of this Wednesday – Figure 2.
- Yesterday, equity markets broke to the downside in concert with the Asian currency basket. Downside risk is 5% lower for the resource heavy S&P/TSX – Figure 3.
- The U.S. equity market is also influenced by moves in the Asia Dollar Index. It has been this way for years. The influence is still not as great as that of counterparty risk (which rose for the first day in six yesterday), but it is still substantial, growing and has the potential to hit the 90s as it did last year – Figure 4.

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Focal Points

Investment & Trading Ideas

Major Double Top for Global Real Estate

- Those that do not like banks (and we do not like banks) hide out in insurance.
  - Insurance just broke the uptrend from the 2011 low, like most major equity markets, including the S&P 500.
- Those that do not like insurance hide out in real estate, which has given the most consistent positive performance.
- Real estate just broke the uptrend from the 2011 low – Figure 1.

- Now there are breakdowns, and there are breakdowns.
  - The context behind this one is that money (and you know who you are) has flowed into Real Estate as a yield-oriented safe haven.
  - This has pushed global real estate back to the 2011 high, which forms a major double top. Major support is 16% below current levels, which is when the double top would seem more obvious. Double top downside risk is 33% below the current level.
- The wider context is that a bank run on Greece is a “great fear,” and the ECB is apparently cutting and running.
  - In this environment, risk assets will cut and run.
  - The breakdown shows that this attitude has just started for Global Real Estate.

Figure 1: MSCI ACWI Real Estate

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Focal Points

Investment & Trading Ideas

SIFI Creditworthiness Breakdown

- The creditworthiness of the global banking system is at the breakdown point – Figure 1.
  - Trends of credit improvement for eight systematically important financial institutions (SIFI) are breaking down (CDS trends of credit improvement are being reversed) – Figures 2-9. All of these breakdowns occurred yesterday.

  - We know the culprit is Spain.
    - If you think that Spain will be able to turn itself around and come to the market at a reasonable price, or perhaps that Italy will stop being dragged down with Spain, you are buying into this panic.
    - If not, you are selling, or moving to defensive havens.

  - We advocate selling or moving to defensive havens.

Figure 1: Credit Default Swap Trends for Eight Global SIFIs – Trends of Credit Improvement (▁-) are Being Reversed (▲)

<table>
<thead>
<tr>
<th>Name / Link to Charts</th>
<th>Symbol &amp; Links</th>
<th>MktCap US$mm</th>
<th>Chg Last Day</th>
<th>Reward / Risk</th>
<th>Trend Slope</th>
<th>CDS 1-day chg (%)</th>
<th>CDS 5-day chg (%)</th>
<th>% Chg wrt 50 Day MA</th>
<th>Chg wrt 50 Day MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morgan Stanley</td>
<td>MS US</td>
<td>34,250</td>
<td>▲</td>
<td></td>
<td>-34%</td>
<td>34%</td>
<td>6%</td>
<td>24%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>Goldman Sachs Group Inc</td>
<td>GS US</td>
<td>56,698</td>
<td>▲</td>
<td></td>
<td>-33%</td>
<td>74%</td>
<td>3%</td>
<td>24%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>Lloyds Banking Group plc</td>
<td>LYG US</td>
<td>31,938</td>
<td>▲</td>
<td></td>
<td>-46%</td>
<td>70%</td>
<td>8%</td>
<td>15%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>Royal Bank of Scotland Group Plc</td>
<td>RBS US</td>
<td>22,925</td>
<td>▲</td>
<td></td>
<td>-57%</td>
<td>58%</td>
<td>8%</td>
<td>20%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>UBS AG</td>
<td>UBS US</td>
<td>47,327</td>
<td>▲</td>
<td></td>
<td>-41%</td>
<td>62%</td>
<td>5%</td>
<td>17%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>Credit Suisse Group</td>
<td>CS US</td>
<td>31,318</td>
<td>▲</td>
<td></td>
<td>-46%</td>
<td>53%</td>
<td>7%</td>
<td>17%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>Citigroup Inc</td>
<td>C US</td>
<td>96,236</td>
<td>▲</td>
<td></td>
<td>-57%</td>
<td>59%</td>
<td>10%</td>
<td>34%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>Barclays PLC</td>
<td>BCS US</td>
<td>39,688</td>
<td>▲</td>
<td></td>
<td>-65%</td>
<td>54%</td>
<td>3%</td>
<td>23%</td>
<td>Above Rising</td>
</tr>
</tbody>
</table>

Figure 2: Morgan Stanley 5-Year CDS

Figure 3: Goldman Sachs 5-Year CDS
Figure 4: **Lloyds TSB 5-Year CDS**

Figure 5: **Royal Bank of Scotland 5-Year CDS**

Figure 6: **UBS AG 5-Year CDS**

Figure 7: **Credit Suisse Group 5-Year CDS**

Figure 8: **Citigroup 5-Year CDS**

Figure 9: **Barclays PLC 5-Year CDS**

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Liquified Gold; Kinross

- Gold has been trending higher, at a rate of 28%/year for the past two years. It just broke that trend Monday – Figure 1.
  - The USD funding squeeze for European financials (EuroDoom) started up again last Friday, and continued in the Monday session (see chart).
  - Those expecting gold to act as a safeguard against European turmoil need to consider that moves in gold are now, and not insignificantly, positively correlated with European bank stocks – Figure 2.
  - The fit between gold and the cost to obtain USD in the swap market started in September.

- In the heyday for gold, when bullion was through $1,900, there was good utility in owning bullion. There was a negative correlation between bank stress and gold (Figure 2). In those days, gold shares garnered a 3rd decile reading, as opposed to the poor 8th decile showing that they currently exhibit - Figure 3.
  - Now European stress leads to liquefied gold.

- The large cap gold share with the weakest relative strength profile vs. the NYSE Arca Gold Miners index (GDM) is Kinross – Figure 4.

- If you want safety, do not buy Canadian or Australian gold stocks, instead, buy their government bonds. See Focal Points: How Long the Famine for China Feeders?

Source: BMO Capital Markets, Bloomberg
How Long the Famine for China Feeders?

- Italian bonds are the epicentre of the European debt crisis. Last week, the 5-day volatility (G&K) for the Italian 10-year bond yield exceeded 100%.
- The massive, early-week downdraft in yields was caused by both the “Save Italy” decree (Italian austerity package) and the market’s misread of Super Mario Draghi’s intentions.
- Yields shot up dramatically after the ECB chairman told his world audience that “the ECB is not an IMF member” (8:58 a.m., Dec. 8), dashing hopes that the ECB might be a conduit to the IMF funding of European sovereigns.

- The simple and connected points are that if the bond vigilantes decide to continue to pressure Italy, then:
  - the Italian 5-year CDS, currently priced at 566 bps, will take out the November high of 602 bps. This stress is causing assets to be repatriated from Emerging (growth) Markets, which is causing related uncertainty – Figure 1;
  - measures of counterparty risk should continue to trend higher, given Italy is the third-largest bond market in the world – Figure 2; and
  - the equity markets of China feeding nations, like Canada and Australia, should continue to underperform their respective bond markets. The current rate of underperformance is in excess of 30%/year – Figures 3, 4.
- Until these trends of counterparty uncertainty (Figures 2) and equity underperformance (Figures 3, 4) break, asset allocators should continue to hold a defensive hand. For how long? Until the bond vigilantes are satisfied. We watch, and wait.
The Storm, the Calm, and the Cheshire Cat

- A solid equity market needs a solid banking system. In Europe one would presume, this needs a solid market for sovereign, and especially, Italian debt. This presumption is not the way the market is currently priced. Italian too-interconnected-to-fail UniCredit Group’s 5-year CDS is priced close to 100bps more creditworthy than Italian government CDS – Figure 1.
  - The stability of bank creditworthiness is the key support, and reason we are seeing defensives break below outperforming trends, and more “risk-on” stocks break above underperforming trends.
  - Whether this spread is driven off of a need to hedge Italian sovereign risk, potential for bank capital injections, or government guaranteed bank bond offerings (or other market elements), the key for risk markets is that bank risk moves are not as dire as sovereign risk moves.
- Italian – European AAA 10yr debt spreads have widened materially in the past few weeks. They have come within 20bps of the level at which LCH.Clearnet may raise margin requirements. The rolling 30d correlation of moves between Italian 10yr debt and an AAA basket is currently about -30%, way off of the worst “sell Italy, buy AAA” mentality seen in July - Figure 2.
- The creditworthiness of global systematically important financial institutions (SIFI) has been relatively stable (page 2). The European debt crisis has seen two victims, Dexia and MF Global, and a “shoot-first” approach has been taken towards Jefferies Group. On the whole, however, calm prevails.
- Italian and Spanish sovereign CDS curves have not joined the inverted club of Greece, Portugal, or Ireland (page 3).
- The ECB signaled an abandonment of attempts to keep a lid on Italian debt the day that outgoing ECB President Trichet left office.

Incoming ECB President Draghi takes a very different approach, asking "What makes you think that to become the lender of last resort for governments is actually the thing that you need to keep the euro area together?". He left his first ECB press conference smiling like a Cheshire Cat. Mind the change in stance!
- The message of Draghi is shaping up to be, we will not cap your rates, so you had better do what you need to do to make your bonds palatable. This is capitalism. This is what markets need. When a carrot does not work, use a stick.
  - There were thousands of sticks demonstrating in Rome against Berlusconi this weekend.
  - Markets reacted positively to talk of Berlusconi leaving his post, as he is seen as either unwilling or unable to bring forward tough austerity measures.
- With recent political turmoil, the demand for EFSF bonds has soured. The AAA German to still AAA French 10-year bond spread has tracked this concern (page 4). Still, EFSF bonds were priced and sold today. Capitalism marches on.
- While the ECB SMP program doubled its purchases of debt in Draghi’s 1st week, it clearly was done in a manner that allowed yields to rise, and thus inflict political pressure on Berlusconi.
  - This political pressure will likely be translated into more financial corporate failures. This clearing of the decks, while turbulent, is exactly what capitalism is based upon.
- Investors should watch the politics through the lens of bank default risk. This is how to best interpret the inflection points we are seeing in our Relative Strength trends.

---

**Figure 1:** UniCredit - Italian Government 5-year CDS Spread

**Figure 2:** Italian Debt Margin Call Watch
The Calm amongst Banks

- The table of Too-Interconnected-To-Fail, or more formally, Global Systemically Important Financial Institutions (SIFI), ranked by CDS curve has not changed too much over the past two months – Figure 3
- U.S. bank/brokers are on top with inverted curves. The level of inversion of these curves has improved over the past month, as we detail with Morgan Stanley – Figure 4.
- Major European bank CDS curves have not inverted. For many, one-year CDS levels have remained about 80-90% of the 5-year levels.

UniCredit (UCG), which is the only Italian financial that the Financial Stability Board considers a SIFI, has seen its creditworthiness tread water for the past few months - Figure 5. The Italian sovereign - UCG CDS spread has widened (in the favour of UCG) close to 100bps, a new high (Figure 1).

The creditworthiness of French Banks like SocGen (Figure 6) and BNP (Figure 13) has also moved sideways despite the stresses on their sovereign debt holdings. These holdings, mind you, have been reduced.

---

**Table: Global Systemically Important Financial Institutions – Ranked by CDS Curve (1/5 year)**

<table>
<thead>
<tr>
<th>Name</th>
<th>Ticker</th>
<th>Country</th>
<th>MktCap ($bn)</th>
<th>1Yr/5yr (%)</th>
<th>1yr CDS</th>
<th>5Yr CDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morgan Stanley</td>
<td>MS US</td>
<td>U. S.</td>
<td>32</td>
<td>112%</td>
<td>439</td>
<td>393</td>
</tr>
<tr>
<td>Bank of America Corp</td>
<td>BAC US</td>
<td>U. S.</td>
<td>16</td>
<td>111%</td>
<td>401</td>
<td>361</td>
</tr>
<tr>
<td>Goldman Sachs Group Inc</td>
<td>GS US</td>
<td>U. S.</td>
<td>53</td>
<td>107%</td>
<td>338</td>
<td>317</td>
</tr>
<tr>
<td>UniCredit S.p.A</td>
<td>UCG IM</td>
<td>Italy</td>
<td>21</td>
<td>95%</td>
<td>379</td>
<td>398</td>
</tr>
<tr>
<td>Societe Generale</td>
<td>GLE FP</td>
<td>France</td>
<td>19</td>
<td>88%</td>
<td>280</td>
<td>317</td>
</tr>
<tr>
<td>Banco Santander SA</td>
<td>STD US</td>
<td>Spain</td>
<td>69</td>
<td>84%</td>
<td>253</td>
<td>302</td>
</tr>
<tr>
<td>Lloyds TSB Group PLC</td>
<td>LYG US</td>
<td>U.K.</td>
<td>31</td>
<td>80%</td>
<td>238</td>
<td>298</td>
</tr>
<tr>
<td>Credit Agricole SA</td>
<td>ACA FP</td>
<td>France</td>
<td>18</td>
<td>80%</td>
<td>209</td>
<td>263</td>
</tr>
<tr>
<td>RBS Group Plc</td>
<td>RBS US</td>
<td>U.K.</td>
<td>22</td>
<td>79%</td>
<td>255</td>
<td>321</td>
</tr>
<tr>
<td>Citigroup Inc</td>
<td>C US</td>
<td>U. S.</td>
<td>89</td>
<td>79%</td>
<td>191</td>
<td>242</td>
</tr>
<tr>
<td>Commerzbank AG</td>
<td>CBK GR</td>
<td>Germany</td>
<td>12</td>
<td>78%</td>
<td>188</td>
<td>241</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>BNP FP</td>
<td>France</td>
<td>51</td>
<td>75%</td>
<td>176</td>
<td>234</td>
</tr>
<tr>
<td>ING Groep NV</td>
<td>ING US</td>
<td>Netherlands</td>
<td>32</td>
<td>71%</td>
<td>136</td>
<td>191</td>
</tr>
<tr>
<td>UBS AG</td>
<td>UBS US</td>
<td>Switzerland</td>
<td>48</td>
<td>71%</td>
<td>131</td>
<td>185</td>
</tr>
<tr>
<td>Barclays PLC</td>
<td>BCS US</td>
<td>U.K.</td>
<td>36</td>
<td>71%</td>
<td>145</td>
<td>205</td>
</tr>
<tr>
<td>Nordea Bank AB</td>
<td>NDA SS</td>
<td>Sweden</td>
<td>36</td>
<td>70%</td>
<td>112</td>
<td>159</td>
</tr>
<tr>
<td>HSBC Holdings PLC</td>
<td>HBC US</td>
<td>U.K.</td>
<td>155</td>
<td>69%</td>
<td>96</td>
<td>138</td>
</tr>
<tr>
<td>Wells Fargo &amp; Co</td>
<td>WFC US</td>
<td>U. S.</td>
<td>134</td>
<td>69%</td>
<td>105</td>
<td>152</td>
</tr>
<tr>
<td>Deutsche Bank AG</td>
<td>DB US</td>
<td>Germany</td>
<td>36</td>
<td>67%</td>
<td>133</td>
<td>199</td>
</tr>
<tr>
<td>Credit Suisse Group</td>
<td>CS US</td>
<td>Switzerland</td>
<td>32</td>
<td>67%</td>
<td>107</td>
<td>160</td>
</tr>
<tr>
<td>Bank of China Ltd</td>
<td>3988 HK</td>
<td>China</td>
<td>30</td>
<td>64%</td>
<td>166</td>
<td>261</td>
</tr>
<tr>
<td>JP Morgan Chase &amp; Co</td>
<td>JPM US</td>
<td>U. S.</td>
<td>132</td>
<td>63%</td>
<td>93</td>
<td>147</td>
</tr>
<tr>
<td>Mizuho Financial</td>
<td>MFG US</td>
<td>Japan</td>
<td>33</td>
<td>55%</td>
<td>88</td>
<td>160</td>
</tr>
<tr>
<td>Sumitomo Mitsui</td>
<td>8316 JP</td>
<td>Japan</td>
<td>39</td>
<td>54%</td>
<td>86</td>
<td>159</td>
</tr>
<tr>
<td>Mitsubishi UFJ</td>
<td>MUT US</td>
<td>Japan</td>
<td>60</td>
<td>51%</td>
<td>71</td>
<td>140</td>
</tr>
<tr>
<td>State Street Corp</td>
<td>STT US</td>
<td>U. S.</td>
<td>20</td>
<td>23%</td>
<td>35</td>
<td>153</td>
</tr>
</tbody>
</table>
The Calm amongst Sovereigns

- The Greek Referendum on/off saga of last week took a toll on the “disorderly default” pricing (disorderly being over the short-term, i.e. 1-year CDS, as opposed to long-term, i.e. 5-year CDS) of Greece – Figures 7, 8.
- Italian and Spanish curves did not react negatively to this panic – Figure 8, 10.
- The sovereign curves of Ireland and Portugal have not been impacted by last’s week’s new Greek stress – Figure 9.

### Table: European CDS Curves

<table>
<thead>
<tr>
<th>Name</th>
<th>1Yr/5yr (%)</th>
<th>1yr CDS</th>
<th>5Yr CDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>207%</td>
<td>10,538</td>
<td>5,084</td>
</tr>
<tr>
<td>Portugal</td>
<td>126%</td>
<td>1,400</td>
<td>1,111</td>
</tr>
<tr>
<td>Ireland</td>
<td>118%</td>
<td>879</td>
<td>747</td>
</tr>
<tr>
<td>Ukraine</td>
<td>91%</td>
<td>686</td>
<td>754</td>
</tr>
<tr>
<td>Italy</td>
<td>90%</td>
<td>437</td>
<td>488</td>
</tr>
<tr>
<td>Spain</td>
<td>86%</td>
<td>332</td>
<td>385</td>
</tr>
<tr>
<td>Vietnam</td>
<td>79%</td>
<td>311</td>
<td>395</td>
</tr>
<tr>
<td>Bahrain</td>
<td>76%</td>
<td>268</td>
<td>352</td>
</tr>
<tr>
<td>Hungary</td>
<td>75%</td>
<td>400</td>
<td>530</td>
</tr>
<tr>
<td>Belgium</td>
<td>75%</td>
<td>211</td>
<td>280</td>
</tr>
</tbody>
</table>

### Figures:

- Figure 7: European CDS Curves
- Figure 8: Greek and Italian Sovereign CDS Curves
- Figure 9: Irish and Portuguese Sovereign CDS Curves
- Figure 10: Greek and Spanish Sovereign CDS Curves
Appetite for EFSF and French Bonds; Stability in French and French Bank CDS

- European bailouts by the European Financial Stability Facility (EFSF) are supported by bonds. This allows a window to observe the appetite that investors have for the bailout fund – Figures 11, 12.
  - When the first EFSF bond was sold in January the demand was “sky-high”.
  - Last weeks EFSF bond auction, to raise €3bn for Ireland, had to be postponed due to lack of demand.
    - This is understandable, given the massive political turmoil.
  - Today, the EFSF bond went ahead despite weakening demand.
    - This forward push, despite being priced under hostile market terms, is important.
- The EFSF – EU bond spread can be viewed as an indication of the markets’ level of concern about the EFSF’s ability to handle the European debt crisis. Moves in this spread have set the tone for which AAA rated German and French bonds (where keeping the AAA rating is a concern) are priced – Figure 12.
  - This is the storm.
- Using CDS pricing, the cost to protect France against default moves sideways, as does the cost to protect French banks – Figure 13.
  - This is the calm.
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<table>
<thead>
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<th>Rating Category</th>
<th>BMOOCM US Universe*</th>
<th>BMOCM US IB Clients**</th>
<th>BMOCM US IB Clients***</th>
<th>BMOCM Universe****</th>
<th>BMOCM IB Clients*****</th>
<th>Starmine Universe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>Outperform</td>
<td>39.2%</td>
<td>14.2%</td>
<td>66.0%</td>
<td>39.7%</td>
<td>49.1%</td>
</tr>
<tr>
<td>Hold</td>
<td>Market Perform</td>
<td>58.8%</td>
<td>4.6%</td>
<td>31.9%</td>
<td>57.1%</td>
<td>48.6%</td>
</tr>
<tr>
<td>Sell</td>
<td>Underperform</td>
<td>2.0%</td>
<td>9.1%</td>
<td>2.1%</td>
<td>3.2%</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
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