### Market Elements

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<tr>
<td>June 21, 2012</td>
<td>NEW Market Elements</td>
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### Relative Strength Filter

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<tr>
<td>June 22, 2012</td>
<td>NEW Through Asian Eyes</td>
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<td>June 21, 2012</td>
<td>Correlation Breakdowns – Good and Bad</td>
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<td>June 20, 2012</td>
<td>Italy Could Trump Ben</td>
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<td>Through Swiss Eyes</td>
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<td>Italy Shunned</td>
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<td>Zero Yield Trumping Negative - Gold</td>
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<td>Buying the Sell-Off</td>
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<td>May 31, 2012</td>
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<td>May 28, 2012</td>
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### Focal Points

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</table>
Market Elements

- Equities fell sharply; the World Bank index fell back below its falling 50d MA.
- Asian sovereign CDS pivoted higher ending a seven-session narrowing streak; the cost to protect Italy against default fell to a low of -500bps before rebounding to close up on the day; the Swiss 5-year bond yield traded back into negative yield territory (-2bps, vs. the low of -5bps reached earlier this week).
- The Asia and Latin American dollar indices slid the most in three-weeks; the euro sold off sharply, and 17 currency volatility pivoted higher off of a one-month low.
- Crude was crushed, with the move led by a sharply falling Asia dollar index; other commodities followed suit.

Levels*

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<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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Moves

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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

- **Asia Dollar index**
  - Very clear uptrend.
    - Very broken
  - Ushers in a next leg down

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<td>U.S. 10-Yr Bond</td>
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<td>Euro</td>
<td>Gold (Spot)</td>
<td>U.S. 10-Yr Breakeven Rate</td>
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<td>Asia Dollar Index</td>
<td>Crude Oil (WTI)</td>
<td>Canadian 10-Yr Bond</td>
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<td>Latin America Dollar Index</td>
<td>Natural Gas (NMX)</td>
<td>German 10-Yr Bund</td>
<td>CDX North American Inv. Grade Index</td>
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<td>Canadian Dollar</td>
<td>Copper (CMX)</td>
<td>Spanish 10-Yr Bond</td>
<td>VIX</td>
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<td>Australian Dollar</td>
<td>Nickel (LME 3Mo)</td>
<td>Italian 10-Yr Bond</td>
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Intra Day Charts
2-Day 1-Minute View
Daily Sector Charts
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages

- Europe – at a 52-week high: Health Care.
## Market Movers – Largest Daily Percentage Moves

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

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<td>JX Holdings Inc</td>
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<td>TonenGeneral Sekiyu KK</td>
<td>5012 JT</td>
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<td>Petrobras S.A.</td>
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<td>Santos Ltd</td>
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<td>Repsol YPF SA</td>
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<td>Mtsui Chemicals Inc</td>
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<td>Clarient AG</td>
<td>CLN.VX</td>
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<td>Oji Paper Co Ltd</td>
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<td>Cia Siderurgica Nacional SA</td>
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<td>Gerdau SA</td>
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<td>Anglo American PLC</td>
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<td>Vestas Wind Systems A/S</td>
<td>VWS DC</td>
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**S&P 500**

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<th>Symbol</th>
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**Consumer Discretionary**

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**Consumer Staples**

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**U.S. Market Movers**

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Canadian Market Movers

**Energy**
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**Consumer Discretionary**
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**Technology**
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**Financials**
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**Market Elements**

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Relative Strength Filter

Through Asian Eyes

- In today’s [Focal Points: Focus Shifts (Back) to Asia](#), we highlight,
  - “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”
  - It has been Asian currency and credit, which have been giving the world the strongest signals over the past two days.

- If you overlay counterparty risk (which itself has a great fit to the S&P 500) with a basket of Asian Sovereign CDS, you see a very good fit – Figure 1.
  - One can argue that China’s rate cut on June 7 was a key driver of risk reduction.
  - The question over the last two days (three if you include today, as the Asian Sovereign CDS basket continues to rise) is “has that driver run out of gas?”
  - Looking at the relative strength picture, those with portfolios oriented toward global growth know that the gas ran out quite some time ago – Figures 2-4.

**Figure 1: Asian Sovereign CDS and Counterparty Risk**

- **Figure 2: Energy vs. MSCI ACWI**
- **Figure 3: Materials vs. MSCI ACWI**
- **Figure 4: Industrials vs. MSCI ACWI**

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Correlation Breakdowns – Good and Bad

**TOOLKIT**
- We have the luxury of looking at intraday charts as they develop with the news flow. The importance here is that we have a good understanding at what moves, and does not move, markets. From these movements, we eventually see correlations build up and break down.
- The breakdown in the fit between European senior financial default risk and counterparty risk (Figure 1) is responsible for the pivot in the S&P 500 – Figure 2. This is a large positive to be stressed.

**Research Comment**
- The positive (inverted) fit between the copper cost to protect Australia, China and now Italy (Figure 3) from default is the reason we expect to see a short-covering rally, albeit in a bear market, for mining shares (Figure 4).
  - The tape was not compliant to this thesis yesterday (Figure 3 top right).
  - We suppose the fundamental reason driving the CDS matters here.
    - If Italian CDS is narrowing because of fundamental change, we expect copper would be reacting better.
    - If, however, the risk reduction is due to yet another can kicking exercise (sans Bundesbank support), then we expect that all we would get out of this is a counter trend rebound. The U.S. equity market would continue to act as a safe-haven asset against other equity markets.

**Figure 1: European Sr Fin Default Risk and Counterparty Risk**

**Figure 2: S&P 500 Index**

**Figure 3: Italian 5yr CDS (Inverted Scale Shown) and Copper**

**Figure 4: Metals & Mining vs. MSCI ACWI**

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Italy Could Trump Ben

- Excuse us for suggesting that the positive impact of Italy could beat out what the FED might announce/not announce this afternoon but, this morning, the cost to protect Italy against default has just broken the 3-month trend of credit deterioration - Figure 1.
- This means that we will again be talking about Canada, since the European debt crisis has placed the Resource-heavy Canadian equities in a very undesirable position relative to world markets.
- This morning’s move in Italian credit is a positive in the fight against the two-year topping pattern for global growth-oriented mining shares. Yesterday, the S&P/TSX Diversified Mining index broke above an underperforming trend – Figure 2.
- In the spirit of credit trumps all, and given that diversified miners are still in underperforming trends, we highlight the miners where our fundamental analysts suggest that underperformance is not warranted. Many are close to and are breaking above 50d MAs. At the very least, cover your shorts. 

Figure 1: Italian 5-Year CDS

Figure 2: Canadian Diversified Metals & Minerals vs. S&P/TSX

Figure 3: Liquid Diversified Miners (BMO Outperform / Market Perform / Market Perform Speculative)
Diversified Mining - Expect a Pulse

- First off, the world has dumped on diversified miners. The group is suffering at a 10th decile position in our Group Selection Report, and there has been absolutely no pulse in this stance for a month – Figure 1.
- Typically, the group, and the copper price for that matter, swing with the creditworthiness of Asia (China and Australia) – Figure 2.
  - Australian creditworthiness has been improving for a month, and China’s CDS pivoted from bad to good at the start of June.
  - Copper and miners have lagged this improvement.
- The speculative net position in copper is the shortest it has been since the 2008-9 spike low. There is potential for a decent short covering rally.
- First Quantum, the second largest Canadian diversified miner reversed an underperforming trend yesterday. Clearly it is not enough to move the group – but it is the first sign of strength we have seen being translated in the equity world.

**Figure 1: Diversified Mining Relative Strength Z-Score**

**Figure 2: Asian Creditworthiness, Copper, and Miners**

**Figure 3: Copper and Speculative Net Position**

**Figure 4: First Quantum Minerals vs. S&P/TSX Composite**

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

It’s Complicated

- Reading the weekend headlines: Greece, Greece, Greece, Greece, Greece...Spanish 10-year yields hit a euro record high of 7.14%.
- For a North American equity investor, Greece, Spain, or Italy do not matter too much. It is how they affect the banking system that is of concern.
- A key measure of counterparty risk (the banking system) is the U.S. 2-year swap spread. Moves in the U.S. 2-year swap spread have had a correlation to moves in the S&P 500 of 60–70% over the past two months.
  - **Counterparty risk is dramatically receding.**
    - **This is bullish – Figure 1 top.**
- Another less stable, but slightly better current fit with the S&P 500 is simply U.S. 10-year treasury yields.
  - **Yields continue to edge lower, a non confirm of the Thursday/Friday rally in the S&P 500.**
    - **This is bearish – Figure 1 bottom.**
- We pay heed to both signals, realizing that with reduced concerns on the banking system, the S&P 500 can rally back toward major resistance starting at 1360, but without the support of higher treasury yields, the rally can fizzle, like it did in April, when the treasury market remained firm (the “Unconfirmed” signal in Figure 1).
  - It is a complicated, but important, message.
    - It is very impressive that counterparty risk is receding at a time when stress on the Spanish bond market is reaching new highs (5-year CDS just broke out to a new high of 620 bps this morning). One can not ignore this bull statement.
    - One cannot ignore the treasury market either, where 10-year yields have dropped to a six-session low this morning.

Figure 1: S&P 500 vs. Counterparty Risk (top) and Treasuries (bottom)

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

Airline Bottoming Patterns

- Southwest Airlines is breaking above an underperforming trend against the S&P 500, and the price trend is basing (double bottom pattern) – Figures 1, 2.
- Air Canada is reversing an underperforming trend and a price downtrend – Figures 3, 4.

Those looking for the best airline patterns that are not bottoming should consider:
- **US Airways Group** outperforming the S&P 500 at 140%/year and trending higher at a rate of over 160%.
- **WestJet Airlines** outperforming the S&P/TSX at a rate of 75%/year and trending higher at a rate of 68%/year.

---

**Figure 1: Southwest Airlines vs. S&P 500**

**Figure 2: Southwest Airlines Price Trend**

**Figure 3: Air Canada vs. S&P/TSX Composite**

**Figure 4: Air Canada Price Trend**

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

Buy Golds, Sell S&P 500

- **Gold shares** are reversing a 10-month downtrend against the S&P 500 – Figure 1.
- **Gold is now trending slightly higher in Aussie dollars**, a currency whose interest rate advantage has slipped dramatically.
- Those looking for sources of funds to buy golds should consider **energy** – Figure 2.
- There are a few gold shares that are already consistent outperformers versus broad equity markets, like **Goro Resources** – Figure 3.
- We advise against bottom fishing amongst the **laggards** – Figure 4.
- Price trends on gold shares are found at this link.
- Relative strength trends of gold shares in the **MSCI World index are found here**.
- Relative strength trends of **gold shares in the S&P/TSX Composite Index are found here**.

**Figure 1: Gold Miners vs S&P 500 ETF (Mind The Inflection Pt)**

**Figure 2: Gold vs Oil** (Sell Oil or **Energy Shares** to Fund)

**Figure 3: Goro Resource vs. ACWI** (one of a few outperformers)

**Figure 4: Kinross vs. Gold Miners** (Don’t Dumpster Dive)

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

Through Swiss Eyes

- Yesterday, for the first time, the Swiss 5-year bond yield was bid into negative yield. The Swiss safety deposit box grows in duration – Figure 1.
- Importantly, other “safe-haven” bonds, such as German bunds and U.S. Treasuries are not following suit.
  - German bund yields are actually soaring.
    - And that is with this morning’s 10-year auction that, according to initial reports, saw “decent” demand.
  - Rising treasury yields are very near and dear to our hearts. The fit of the moves between the S&P 500 and U.S. 10-year Treasuries is now an impressive (or not really if your job is to argue why equity fundamentals matter) 77% - Figure 2.
    - Rising Yields = Rising Equities
- Back to bonds:
- The sell-off in German bunds coincides with a deterioration of creditworthiness of Germany versus Switzerland – Figure 3.
  - One is a Target 2 creditor, which could get paid back in a euro-lite currency. The other is not.
- The sell-off in Treasuries contains no such fuse, and thus one should expect no such fire behind the move. This is a key point (back to Figure 2).
- You can’t go to Switzerland without mentioning gold – Figure 4.

**Figure 1: Swiss Bond Yields: 2 to 20-year Bonds**

**Figure 2: Fit of S&P 500 Moves to U.S. 10-Year Treasuries**

**Figure 3: Bond Yields and Default Risk vs. Swiss CDS**

**Figure 4: Gold vs. German 5-10Yr Bond ETF (RXP5EX GY)**

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Italy Shunned

- In the aftermath of the failed European Bazooka, the world’s 3rd largest bond market is shunned.
- The fit of equities to the Italian job is not hand in glove, but it is strong enough to support the string of lower highs and lower lows.

Figure 1: The Italian Job

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Today the market enters day 3 of the FROB feeding frenzy, but this time there is a bit of hard news around the bailout.

- We have a headline-friendly EUR 100 billion amount.
- We have the German finance minister on the tape saying the funds will likely come via the ESM, whereby Spanish government bonds will find themselves subordinated to the ESM.

Most important to us is the reaction in the bond market, which is the driver of what happens to equities (because if credit is not happy, equities are not happy).

- Starting with the destination of those concerned about a GRExit (or SpExit), the Swiss 2-year bond yield drops to a new low of -33.9 bps.
- The Spanish 10-year yield erased an early morning rally, and is now up 8 bps on the day – Figure 1.
- The Italian 10-year bond yield rises to a 5-session high – Figure 2. The breakout point is 6% (key watch this week).

The hostile credit environment remains hostile. We do not expect change.

- Resources should continue to underperform (Figure 3) and trend lower (Figure 4).
- Defensive sectors should continue to strengthen, at least in relative strength terms.

Figure 1: Spanish 10-Year Bond Yield

Figure 2: Italian 10-Year Bond Yield

Figure 3: ACWI Relative Strength Trends

Figure 4: ACWI Price Trends

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
How Hungry the FROB?

- It appears; with a bit of ECB prodding, that Spain will not wait until the end of the month when all its estimates of how much money Spanish banks need are on the table.  
  - This weekend is apparently the aid request date.

- The trend of Spanish creditworthiness remains firmly in place, and the trend is negative. The trend here suggests that the aid needed is of Mr. Creosote type proportions.

- Yesterday’s spike in the volume and price action on the Intrade bet that a country will leave the euro in 2013 happened without a material sell off in Greek debt.  
  - How curious.

Source: BMO Capital Markets, Bloomberg, Thomson, Markit, Intrade
Feeding the FROB

- This morning European senior financial default risk breaks the uptrend from the March low – Figure 1.
- The MSCI World index, in turn, breaks the steep downtrend from the low – Figure 2.
  - This follows the enthusiasm that world markets have enjoyed over the past 24 hours as the story about injecting EU funds into the Spanish FROB gains legs.
  - Whether this bailout avenue is legal or not remains an open question.

For risk markets (and us) to get truly enthused, we would like to see
- Counterparty risk break the uptrend from the late March low – Figure 3.
- The Spanish 5-year CDS break the uptrend from the early March low – Figure 4.
  - The root of global market weakness is Spanish.
  - The Spanish 5-year CDS is the key trend to watch.

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Zero Yield Trumping Negative - Gold

This morning gold, when domiciled in Swiss franc, a currency that you are punished to own (2-year yield is currently -28bps), reverses a downtrend – Figure 1.
  - Mind the inflection point.
  - Gold shares, which started reversing underperforming trends in late May, are showing up in our group selection report in the best position of the year at 7th decile – Figure 2.

Amongst large caps, shown in terms of relative strength against the majors, the best gold company (by far) is Yamana Gold – Figure 3.

On a price basis, the most consistent uptrend (in the S&P/TSX composite) is held by Argonaut Gold – Figure 4.

Price Trends on indexed gold shares are shown at these links:
  - S&P/TSX Composite
  - Russell 2000
  - MSCI World

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

Buying the Sell-Off

Yesterday, there was a rare counter-trend move where safe-haven bonds sold off – Figure 1.

- We advise clients to buy into this sell-off.
- The trends of global safe-haven bond yields are solidly in place.
  - All show yields that are trending lower.
  - All show yields below falling 50-day moving averages.
  - All show yields below falling 200-day moving averages.

The money to buy bonds should come from equities.

- The relative strength of U.S. equities to U.S. bonds is breaking down – Figure 2.
  - Mind the 2-year head and shoulders top on this pattern.
- The relative strength of Canadian equities to Canadian bonds has been punished below the bottom of the channel.
  - At this point one asks if stocks are oversold, or if the trend can accelerate.
  - Given the breakout in the cost to protect China against default, we anticipate that the trend can and will accelerate.

Figure 1: Trends on Global (safe-Haven) Long Bonds

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<th>5-Day Chg (%)</th>
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Monday's Back-up in Yield

Figure 3: Rel. Performance US Stocks vs Bonds (SPY vs. IEF)

Figure 4: Rel. Performance CDN Stocks vs Bonds (XIC vs XBB)

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
5% Off With Volume Spike

Because of the strong downdraft on Friday, our **Capitulation Filters** filled up quite nicely. We highlight a simple one below:

* Stocks in Figure 1 below are:
  - in the top 3 group deciles (a key for us);
  - where price has been trending higher;
  - where shares are off at least 5% in the last week; and
  - where there is a spike in volume on Friday.

As for the overall market, we do not expect that equity markets have bottomed yet. On the tape this morning we see:

- Swiss 2yr yields hovering at -30 bps.
- Spanish 5-year Sovereign CDS trading in a very narrow range, but not budging from a high level of 603 bps. The same is true of the Italian 5-year CDS, where the level is 570 bps.
- The Asia dollar index rebounding to a 3-session high.
- Reports of, then denials of, any EU/ECB “master plan”.

**Figure 1: Stocks in Top Decile Groups That Sold Off at Least 5% Last Week**

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<td>FITUS</td>
<td>USA</td>
<td>Rahul</td>
</tr>
<tr>
<td>R_tbanebank Corp.</td>
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<td>USA</td>
<td>Rahul</td>
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<td>AABUS</td>
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<td>Rahul</td>
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<tr>
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<td>FMBUS</td>
<td>USA</td>
<td>Rahul</td>
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<tr>
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<td>HPTUS</td>
<td>USA</td>
<td>Rahul</td>
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<tr>
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<td>FPLUS</td>
<td>USA</td>
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<td>PSFUS</td>
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<td>PUGUS</td>
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<td>BMTUS</td>
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<td>Rahul</td>
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<td>NBCUS</td>
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<td>Rahul</td>
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<td>WGTUS</td>
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<td>Rahul</td>
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<td>CETUS</td>
<td>USA</td>
<td>Rahul</td>
</tr>
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<td>HGTUS</td>
<td>USA</td>
<td>Rahul</td>
</tr>
<tr>
<td>Macquarie Group</td>
<td>MQGUS</td>
<td>USA</td>
<td>Rahul</td>
</tr>
</tbody>
</table>

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
It is rather noteworthy when the World Bank chief says it is time to “break the glass” on the emergency fire alarm (FT, Spiegel).

- In listening to both Mario Monti and Mario Draghi yesterday, we sure do not get the sense that there is an emergency plan for Europe.
  - We are still in the finger pointing stage.

- You can still move relatively calmly toward the exits.
  - This calm will not last for long.
  - Counterparty risk, as judged by the U.S. 2-year swap spread is just breaking out – Figure 1.
    - Mind the inflection point.

Figure 1: U.S. 2-Year Swap Spread; a Gauge of Counterparty Risk
The cost of a good Swiss mattress to stuff your cash into is soaring.

- This is panic.
  - We love panic, because it typically provides the grease to get the job done.
  - But that happens only when there is panic selling, not panic buying like we see with Swiss bonds.

Global stock markets are just hovering about.

- No panic here.
  - So we are still just at the stage where leaders just point fingers.
    - You don’t buy into this.
    - But you can still sell.

Figure 1: MSCI World Index and Swiss 2-Year Bond Yield

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
EU (German) Aid?

• It is credit that counts.
• This morning, European Senior Financial default risk threatens to break to the upside – Figure 1, top.
• Counterparty risk is about to wake up – Figure 1, middle.
• S&P 500 is about to pay attention – Figure 1, bottom.
• This as:
  - The Negative: Spanish Prime Minister Rajoy’s plan to strap Spain to Bankia is (apparently) rejected by the ECB (yesterday’s news).
  - The Positive: The headline of “EU willing to ‘envisage’ direct ESM bank recapitalization” (7:00 a.m. this morning).
    - Will the Germans (tax payers) turn “envisage” into “action”?
      - If so, then markets cool, and U.S. equity investors can (once again) ignore European woe.
      - If not, then the stress indications (top and middle) break to the upside, and equities break to the downside.
        o We await the market call (USSP2 is the ticker) on this.

Figure 1: European Senior Financial Default Risk; U.S. 2-Year Swap Spread (Gauge of Counterparty Risk); S&P 500

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Spanish Banks Hit New Lows

- Apparently, and this is the market talking, the Bankia bailout did very little to inspire confidence. Quite the opposite is true.
  - All but one Spanish bank has broken down to a new low – Figure 1.
  - The shape of the European Repo market curve shows a notable distrust amongst banks.
  - The European Bank Index is a few ticks away from breaking down – Figure 2.

- We expect that counterparty risk will once again start to pivot higher – Figure 3.
  - And with this pivot, we expect that U.S. equities will resume their descent.

Figure 1: Spanish Bank Shares (Largest Market Cap on Top)  
Figure 2: MSCI European Banks  
Figure 3: U.S. 2-Year Swap Spread (Counterparty Risk)

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Flattening the Canadian Book

- Canadian Financials like Banks, LifeCos and Asset Managers are breaking below outperforming trends.
- Canadian Gold shares are breaking above underperforming trends.
- We think it is prudent to flatten the book, lighting up on what should have been an overweighed position in Financials, and moving back toward a more neutral position on golds.
  - A flat portfolio should not be an underperforming portfolio.
- State side
  - U.S. financials is also breaking below an outperforming trend.
  - U.S. golds, also known as NEM, is also breaking above an underperforming trend.
  - The question that will certainly arise is should one go long gold shares?
    - Bullion itself is trending lower, but has managed to break above 50-day MAs in a few currencies. This is recent slight improvement.
      - To go long gold bullion at this point is to go long a counter-trend rally.
    - There are seven gold stocks in outperforming trends (not very consistently outperforming mind you). These are the ones to focus on from the standpoint of being long, instead of just flat: AR, PVG, BTO, FNY, TXG, AGI, BAA.

Figure 1: Index Members vs. S&P/TSX Composite (10bn Market Cap Floor - Full List Shown at This Link) vs. SPTSX (Minimum Weight 0.6%)

Figure 3: Royal Bank vs. S&P/TSX Composite

Figure 4: Barrick Gold vs. S&P/TSX Composite

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

Technology Slipping

- After meandering in neutral territory for a number of weeks, Technology is slipping into the negative in our group selection report – Figure 1.
- The two largest indices breaking below the bottom ends of relative strength channels are Semiconductors and Communication equipment – Figures 2, 3.
- At the micro level, there are 20% of IT stocks in the Russell 3000 Growth index are breaking below their Relative Strength Trend channels – Figure 4.
- On an intra-sector basis, the best U.S. sub industries are:
  - Hardware (best stocks are DDD, SSYS and AAPL), and
  - Data Processing (see link for members).

Figure 1: Technology Relative Strength Z-Score

Figure 2: U.S. Semiconductors vs. S&P 1500

Figure 3: U.S. Communication Equipment vs. S&P 1500

Figure 4: Russell 3000 Growth IT Breaking Below RS Channels

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
PATIENCE

- We would have thought as the cost to protect Italy against default threatened to break to the upside, as it has today (Figure 1), that equities would be falling.
  - They are not.
  - We could dream up an argument that would support this morning’s leaning. The argument would be something along the lines of, “sure the world’s 3rd largest bond market is being threatened, but so what?”
  - Or we could be patient and wait for equities to follow the concern.
    - We will be patient.
    - Make no mistake: up, in this case, is bad – Figure 1.

**Figure 1: Italian 5-Yr CDS**

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

**Asia Watch & Commodities**

- Sentiment toward Asia and thus Asian-led global growth is very nicely summed up using the Asian dollar index (ADXY, a basket of Asian currencies).
- This morning’s breakdown of the ADXY was the subject of our note on Monday. It is a good barometer for the breakdowns in copper and crude oil – Figures 1, 2.
  - Our downside target for copper is $2.60.
  - Our downside target for crude is $80.

- The context around the stress impacting Asian shores this morning:
  - The Italian 5-year CDS jumps back to the 500 bps mark.
  - The Swiss 2-year yield is priced at -10 bps, which would be a new closing low if we finish here (the intraday low was a negative 11.4 bps on August 18).
  - Germany issues 2-year bonds with a zero coupon, and declares that it will not issue bonds with a negative coupon.
  - Commodity currencies are all diving.
- Is it any wonder that resource heavy Canadian and Australian markets are the most consistent global underperformers? Is it any wonder that we are pushing the theme of capital preservation?

**Figure 1: ADXY, Copper, Oil - Daily**

- Asia Dollar Index
- CMX Copper
- Brent Oil

**Figure 2: ADXY, Copper, Oil - Intraday**

- Asia Dollar Index
- CMX Copper
- Brent Oil

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Still Standing – Momentum Buy List

- Make no mistake:
  - Equity indices are either trending lower, or are breaking below uptrends.
  - Safe-haven bond yields are trending lower.
  - Fear gauges are elevated, but are not at panic buy levels.

- Yet, if your job is to run an equity portfolio (if you are running a balanced fund, you should note these changes), then it is worth noting the stocks that are still standing.
  - We highlight our large cap momentum buy list (full list at this link), based on price (as opposed to relative strength) trends below.
  - These shares are trending higher, are above rising 50- and 200-day MAs, and are not overbought.

Figure 1: Large Cap Momentum Buy List – [Click Here for Full List]

<table>
<thead>
<tr>
<th>Company</th>
<th>Decile</th>
<th>Pricing</th>
<th>Price Trend</th>
<th>Technical Attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name / Link to Charts</td>
<td>Symbol</td>
<td>Sub Industry</td>
<td>Group RS Trend</td>
<td>%Chg wrt 50 Day MA</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>May 21 Cts.</td>
<td>Chg (%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1-day Chg</td>
<td>MktCap US$bmn</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Chg Last Day</td>
<td>Trend Slope</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Reward / Risk</td>
<td>Hi (Mo)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Trend</td>
<td>Lo (Mo)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>%Chg wrt 150 Day MA</td>
<td>%Chg wrt 150 Day MA</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Chg wrt 50 Day MA</td>
<td>Chg wrt 150 Day MA</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
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 Curve 1/5yr</th>
<th>CDS 1-day chg (%)</th>
<th>CDS 5-day chg (%)</th>
<th>%Chg wrt 50 Day MA</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morgan Stanley</td>
<td>MS US</td>
<td>34,250</td>
<td>↑</td>
<td>↑</td>
<td>-94%</td>
<td>84%</td>
<td>6%</td>
<td>24%</td>
<td>25%</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>-93%</td>
<td>74%</td>
<td>3%</td>
<td>24%</td>
<td>23%</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>21%</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>53%</td>
<td>8%</td>
<td>20%</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>52%</td>
<td>5%</td>
<td>17%</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>21%</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>28%</td>
<td>Above Rising</td>
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<tr>
<td>Barclays PLC</td>
<td>BCUS US</td>
<td>39,688</td>
<td>↑</td>
<td>↑</td>
<td>-95%</td>
<td>54%</td>
<td>3%</td>
<td>22%</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?

Figure 1: Gold Bullion

Figure 2: Gold and European Banks; Correlation of Returns

Figure 3: Gold Relative Strength Decile

Figure 4: Kinross vs. NYSE Arca Gold Miners Index

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

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
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.

Figure 3: Credit Profiles of 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>1y CDS 5Y 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>439 398</td>
</tr>
<tr>
<td>Bank of America Corp</td>
<td>BAC US</td>
<td>U. S.</td>
<td>66</td>
<td>111%</td>
<td>401 361</td>
</tr>
<tr>
<td>Goldman Sachs Group Inc</td>
<td>GS US</td>
<td>U. S.</td>
<td>53</td>
<td>107%</td>
<td>338 317</td>
</tr>
<tr>
<td>UniCredit SpA</td>
<td>UCG IM</td>
<td>Italy</td>
<td>21</td>
<td>95%</td>
<td>379 398</td>
</tr>
<tr>
<td>Societe Generale</td>
<td>GLE FP</td>
<td>France</td>
<td>19</td>
<td>88%</td>
<td>280 317</td>
</tr>
<tr>
<td>Banco Santander SA</td>
<td>STD US</td>
<td>Spain</td>
<td>69</td>
<td>84%</td>
<td>253 302</td>
</tr>
<tr>
<td>Lloyds TSB Group PLC</td>
<td>LYG US</td>
<td>U.K.</td>
<td>31</td>
<td>80%</td>
<td>238 298</td>
</tr>
<tr>
<td>Credit Agricole SA</td>
<td>ACA FP</td>
<td>France</td>
<td>18</td>
<td>80%</td>
<td>209 263</td>
</tr>
<tr>
<td>RBS Group Plc</td>
<td>RBS US</td>
<td>U.K.</td>
<td>22</td>
<td>79%</td>
<td>255 321</td>
</tr>
<tr>
<td>Citigroup Inc</td>
<td>C US</td>
<td>U. S.</td>
<td>89</td>
<td>79%</td>
<td>191 242</td>
</tr>
<tr>
<td>Commerzbank AG</td>
<td>CBK GR</td>
<td>Germany</td>
<td>12</td>
<td>78%</td>
<td>188 241</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>BNP FP</td>
<td>France</td>
<td>51</td>
<td>75%</td>
<td>176 234</td>
</tr>
<tr>
<td>ING Groep NV</td>
<td>ING US</td>
<td>Netherlands</td>
<td>32</td>
<td>71%</td>
<td>136 191</td>
</tr>
<tr>
<td>UBS AG</td>
<td>UBS US</td>
<td>Switzerland</td>
<td>48</td>
<td>71%</td>
<td>131 185</td>
</tr>
<tr>
<td>Barclays PLC</td>
<td>BCS US</td>
<td>U.K.</td>
<td>36</td>
<td>71%</td>
<td>145 205</td>
</tr>
<tr>
<td>Nordea Bank AB</td>
<td>NDA SS</td>
<td>Sweden</td>
<td>36</td>
<td>70%</td>
<td>112 159</td>
</tr>
<tr>
<td>HSBC Holdings PLC</td>
<td>HBC US</td>
<td>U.K.</td>
<td>155</td>
<td>69%</td>
<td>96 138</td>
</tr>
<tr>
<td>Wells Fargo &amp; Co</td>
<td>WFC US</td>
<td>U. S.</td>
<td>134</td>
<td>69%</td>
<td>105 152</td>
</tr>
<tr>
<td>Deutsche Bank AG</td>
<td>DB US</td>
<td>Germany</td>
<td>36</td>
<td>67%</td>
<td>133 199</td>
</tr>
<tr>
<td>Credit Suisse Group</td>
<td>CS US</td>
<td>Switzerland</td>
<td>32</td>
<td>67%</td>
<td>107 160</td>
</tr>
<tr>
<td>Bank of China Ltd</td>
<td>3988 HK</td>
<td>China</td>
<td>30</td>
<td>64%</td>
<td>166 281</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>93 147</td>
</tr>
<tr>
<td>Mizuho Financial</td>
<td>MFG US</td>
<td>Japan</td>
<td>33</td>
<td>55%</td>
<td>88 150</td>
</tr>
<tr>
<td>Sumitomo Mitsui</td>
<td>8316 JP</td>
<td>Japan</td>
<td>39</td>
<td>54%</td>
<td>86 159</td>
</tr>
<tr>
<td>Mitsubishi UFJ</td>
<td>MTF US</td>
<td>Japan</td>
<td>60</td>
<td>51%</td>
<td>71 140</td>
</tr>
<tr>
<td>State Street Corp</td>
<td>STT US</td>
<td>U. S.</td>
<td>20</td>
<td>23%</td>
<td>35 153</td>
</tr>
</tbody>
</table>

Figure 4: Morgan Stanley Equity and CDS Curve

Figure 5: UniCredit Equity and CDS Curve

Figure 6: SocGen Equity and CDS Curve
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.

### Figure 7: 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>

### 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 week's 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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<th>BMOCM US Universe*</th>
<th>BMOCM IB Clients**</th>
<th>BMOCM IB Clients***</th>
<th>BMOCM Universe****</th>
<th>BMOCM IB Clients*****</th>
<th>Starmine Universe</th>
</tr>
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<tbody>
<tr>
<td>Buy Outperform</td>
<td>37.7%</td>
<td>12.1%</td>
<td>52.1%</td>
<td>39.2%</td>
<td>48.3%</td>
<td>54.6%</td>
</tr>
<tr>
<td>Hold Market Perform</td>
<td>60.0%</td>
<td>7.0%</td>
<td>47.9%</td>
<td>57.6%</td>
<td>51.0%</td>
<td>40.1%</td>
</tr>
<tr>
<td>Sell Underperform</td>
<td>2.4%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>3.2%</td>
<td>0.7%</td>
<td>5.3%</td>
</tr>
</tbody>
</table>

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