# Quantitative/Technical Package

## Market Elements

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 11, 2017</td>
<td>Market Elements</td>
<td>2</td>
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</table>

## Trends & Inflection Points

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Page</th>
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</thead>
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<tr>
<td>July 12, 2017</td>
<td>Mark Twain Returns to Mining</td>
<td>11</td>
</tr>
<tr>
<td>July 11, 2017</td>
<td>REITs Break on Through to the Other Side</td>
<td>12</td>
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<td>July 10, 2017</td>
<td>Three Threats to U.S. Long Duration Bonds</td>
<td>13</td>
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<td>July 7, 2017</td>
<td>Simply Red</td>
<td>14</td>
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<td>July 6, 2017</td>
<td>Under Pressure</td>
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<td>July 5, 2017</td>
<td>xUS Breaks, New Trend in Growth vs Value, Oil</td>
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<td>July 4, 2017</td>
<td>Canadian Positive Reversals</td>
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<tr>
<td>June 30, 2017</td>
<td>Trimming Technology Part 2</td>
<td>18</td>
</tr>
<tr>
<td>June 29, 2017</td>
<td>Central Banks, Yield Curves, and Inflation Expectations</td>
<td>19</td>
</tr>
<tr>
<td>June 28, 2017</td>
<td>Trimming Technology</td>
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</tr>
<tr>
<td>June 27, 2017</td>
<td>Utilities Stocks Severing Underperforming Trends</td>
<td>21</td>
</tr>
<tr>
<td>June 26, 2017</td>
<td>Healthcare Strength</td>
<td>22</td>
</tr>
<tr>
<td>June 23, 2017</td>
<td>I Never Kissed a Bear</td>
<td>23</td>
</tr>
<tr>
<td>June 22, 2017</td>
<td>King of Pain</td>
<td>24</td>
</tr>
<tr>
<td>June 21, 2017</td>
<td>Canadian Smoke Signals</td>
<td>25</td>
</tr>
<tr>
<td>June 20, 2017</td>
<td>European SMID</td>
<td>26</td>
</tr>
<tr>
<td>June 19, 2017</td>
<td>Buying the European Pullback</td>
<td>27</td>
</tr>
<tr>
<td>June 16, 2017</td>
<td>Hair That's a Fright</td>
<td>28</td>
</tr>
<tr>
<td>June 15, 2017</td>
<td>Caddyshack</td>
<td>29</td>
</tr>
<tr>
<td>June 14, 2017</td>
<td>Uber-Mellow</td>
<td>30</td>
</tr>
<tr>
<td>June 13, 2017</td>
<td>What Are You Thinking?</td>
<td>31</td>
</tr>
<tr>
<td>June 12, 2017</td>
<td>Second Leg Down for Technology Breadth</td>
<td>32</td>
</tr>
<tr>
<td>June 9, 2017</td>
<td>Please Hammer, Don't Hurt 'Em</td>
<td>33</td>
</tr>
<tr>
<td>June 8, 2017</td>
<td>This Is the Beginning of the End</td>
<td>34</td>
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## Focal Points

<table>
<thead>
<tr>
<th>Date</th>
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<tbody>
<tr>
<td>May 7, 2017</td>
<td>Quiet</td>
<td>35</td>
</tr>
<tr>
<td>April 23, 2017</td>
<td>Tut-Tut, it Looks Like Rein</td>
<td>36</td>
</tr>
<tr>
<td>April 16, 2017</td>
<td>The Wisdom of Sweet Brown</td>
<td>37</td>
</tr>
<tr>
<td>March 19, 2017</td>
<td>Treasury Bear? You Have Been Soft Served</td>
<td>38</td>
</tr>
</tbody>
</table>

This report was prepared 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 39 to 41.
Equities ended mixed; the S&P 500 slid 60bps on the Don Jr emails yet erased the loss in afternoon trade; global sector moves were slight, with gains led by resources and tech, and losses by staples, financials (U.S. banks fell to a 6d low) and real estate.

European rates edged higher, North American rates edged lower; U.S. rates fell with Don Jr and then with Brainard the U.S. 2y yield fell 1bp to a 6d low; U.S. inflation expectations rose for the first day in three; U.S. yield curves continued to widen.

European crosses gained against the USD, the Euro broke out to a 14m high; the yen weakened to a 4m low, before firming on lower U.S. rates; the ruble broke to a 6m low; bitcoin fell 3% (others too) falling back to a 6w low, right on its 50d MA.

Most commodities gained; natural gas led the energy complex sharply higher; WTI rose 3%; Iron Ore rose 2% and broke out to a 10w high, steel and base metals followed suit; gold rebounded in line with narrowing US-JP rate differentials.

Levels

<table>
<thead>
<tr>
<th>Currencies (USD per)</th>
<th>Symbol</th>
<th>Level</th>
<th>%Chg</th>
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</thead>
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<tr>
<td>KRWx10</td>
<td>1.186</td>
<td>-0.2%</td>
<td></td>
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<tr>
<td>XBT</td>
<td>0.000</td>
<td>0.0%</td>
<td></td>
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<tr>
<td>EUR</td>
<td>1.146</td>
<td>0.0%</td>
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</tr>
<tr>
<td>CHF</td>
<td>1.0373</td>
<td>0.2%</td>
<td></td>
</tr>
<tr>
<td>GBP</td>
<td>1.2844</td>
<td>-0.3%</td>
<td></td>
</tr>
<tr>
<td>JPYx10</td>
<td>0.0878</td>
<td>0.1%</td>
<td></td>
</tr>
<tr>
<td>CAD</td>
<td>0.7736</td>
<td>-0.3%</td>
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</tr>
<tr>
<td>AUD</td>
<td>0.7634</td>
<td>0.4%</td>
<td></td>
</tr>
<tr>
<td>BRL</td>
<td>0.3076</td>
<td>0.1%</td>
<td></td>
</tr>
<tr>
<td>MXNx10</td>
<td>0.5581</td>
<td>0.2%</td>
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<tr>
<td>ZAR</td>
<td>0.0737</td>
<td>-0.6%</td>
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<td>KRWx10</td>
<td>0.8700</td>
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<td>CNH</td>
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Moves

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<th>MXN</th>
<th>CHF</th>
<th>CNH</th>
<th>BRL</th>
<th>JPY</th>
<th>CAD</th>
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<tr>
<td></td>
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</tbody>
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Sectors

- MSCI World
- S&P Europe 350
- S&P 500
- S&P/TSX Composite

Quantitative/Technical

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Quantitative/Technical Research Website

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
The News That Drives Markets in a Slow Growth World

SIFIs
- US consumers set to be given power to sue banks – FT
  - Republicans set up showdown with ‘rogue’ regulator; move to quash rule – FT
    - Fed’s new banking watchdog likely to ease burden of stress tests to just add butter – FT
- French PM confirms wealth-tax cuts and flat tax on dividends for 2018; Puts out bienvenue mat for HSBC’s cast of thousand – FT

Central Station
- ‘I will want to monitor inflation developments carefully … move cautiously on further increases in the FFTR’ (Brainard) - Briefing, FRB
  - Fed’s Kashkari Doesn’t See Wages Rising Any Time Soon – Reuters
  - Fed’s Brainard says balance-sheet trimming to start ‘soon’ – FT
    - Unwinding QE May Be More Disruptive Than You Think (Jamie Dimon) – BBG
- US Senate pushes back August recess to tackle to-do list – FT
- Super Mario Is Getting Markets' Respect as Europe Calls the Tune – BBG
- Poloz may tap the interest-rate brakes as a promise and a warning – CBC, FT
  - Canadian Home Buyers Losing Steam, and Cash, as Rate Hike Looms – BBG
- BoE’s Broadbent keeps markets guessing on monetary policy stance – FT
- Abe prods Xi to shut off North Korea’s oil; At G-20, Chinese leader balked at ‘unilateral’ action – Nikkei
- Bank of Japan’s stance makes the yen a sitting duck – SCMP
- China diversifies overseas amid warnings of credit crunch – FT
  - China government auditor flags dodgy books at key state firms (only 10% dodged the dodgy label) – Nikkei
  - Wings clipped, Wanda (on China Systemic Risk Watch List) rushes to unload assets – Nikkei
    - Dalian Wanda Rides China’s Financial Shadow Banking Merry-Go-Round with Latest Deal – WSJ, FT

Crude Realities
- Saudi Said to Exceed Output Cap for First Time since Supply Cut – BBG
- Venezuela’s PDVSA says could seek to renegotiate October debt payment – Reuters
- Smallcap Coverage to Decline Dramatically Under MiFID – BBG Terminal OSW51G6TTDS0
- Retail Bust Could Be as Big as Energy – BBG
- China’s shopping mall operators warned of looming ‘lost decade’; rental prospects dim as shoppers head online – SCMP
- Albertsons Is Said to Stall Renewed IPO Plans Amid Amazon Deal – BBG
- The myth of the German jobs miracle – Alphaville
- Corporate Bond Markets Asleep at the Wheel – WSJ
Other Voices

- “Rambling near the Edge” (Harley Bassman) – Convexity Maven, ZH
- The North Korean Missile Crisis (Kaushik Basu) – Project Syndicate
- Citi sees higher risk of impeachment proceedings after Trump Jr emails – FT, BI
  - Details in Donald Trump Jr.’s emails align with parts of the explosive Trump-Russia dossier – BI
    - "I love it" (Don Jr, moving into legal jeopardy on Russia) – Axios, FT, ABC, BBC, Reuters, Atlantic, FP, Politico, Politico2, NPR, Telegraph, WP, BI, RT
    - “My son is a high quality person” (Donald Sr on Donald Jr) – Reuters
  - “The old dons were pretty much wiped out” (Al Neri, Godfather Part III)
Daily Charts
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages
Daily Sector Charts (U.S., Canadian, European)
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages
## Market Movers – Largest Daily Percentage Moves

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

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
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<tbody>
<tr>
<td><strong>Energy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Petroleo Brasileiro</td>
<td>PBR US</td>
<td>3.1%</td>
</tr>
<tr>
<td>Ecopetrol SA</td>
<td>EC US</td>
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<tr>
<td>JX Holdings Inc</td>
<td>5028 JP</td>
<td>1.0%</td>
</tr>
<tr>
<td>Amerex Energy Co</td>
<td>AMFX LN</td>
<td>-1.0%</td>
</tr>
<tr>
<td>Tullow Oil</td>
<td>TLW LN</td>
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</tr>
<tr>
<td>Subsea 7 SA</td>
<td>SUBC NO</td>
<td>-1.3%</td>
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### Materials

<table>
<thead>
<tr>
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<th>Symbol</th>
<th>% Chg</th>
</tr>
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<tr>
<td>Yara International</td>
<td>YAR NO</td>
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<tr>
<td>Nippon Paint Holdings Co Ltd</td>
<td>4612 JP</td>
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<tr>
<td>Fortescue Metals Group</td>
<td>FMG AU</td>
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</tr>
<tr>
<td>CRH PLC</td>
<td>CRH ID</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Chr Hansen Holding</td>
<td>CHR DC</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Symrise AG</td>
<td>SYR1 GR</td>
<td>-2.2%</td>
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### Industralis

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<th>Symbol</th>
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<tbody>
<tr>
<td>Embraer SA</td>
<td>ERJ US</td>
<td>1.9%</td>
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<td>Kaija Corp</td>
<td>1812 JP</td>
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<tr>
<td>Aashi Glass</td>
<td>5201 JP</td>
<td>1.9%</td>
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<td>JGC Corp</td>
<td>5963 JP</td>
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<tr>
<td>Adera Group AG</td>
<td>ADN VX</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Rasnod Holding</td>
<td>RAND NA</td>
<td>-2.5%</td>
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### Cons Disc

<table>
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<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
</tr>
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<tbody>
<tr>
<td>Sony Corp</td>
<td>6758 JP</td>
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</tr>
<tr>
<td>Toyota Industries</td>
<td>6201 JP</td>
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<tr>
<td>Arias Seiki</td>
<td>7299 JP</td>
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<tr>
<td>Barbra Group</td>
<td>BBRN LN</td>
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<tr>
<td>Marks &amp; Spencer Group</td>
<td>MKS LN</td>
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### Finanncials

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<th>Name</th>
<th>Symbol</th>
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<tr>
<td>Asahi Group Holdings</td>
<td>2502 JP</td>
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<td>Ajinomoto Co</td>
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<td>Yakult Honsha</td>
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<td>Orkla ASA</td>
<td>ORK NO</td>
<td>-1.8%</td>
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<tr>
<td>Anheuser-Busch InBev</td>
<td>AIB BI</td>
<td>-1.8%</td>
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<tr>
<td>Associated British Foods</td>
<td>AIB LN</td>
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### Health Care

<table>
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<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
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<tbody>
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<td>Chugai Pharmaceutical</td>
<td>4519 JP</td>
<td>6.5%</td>
</tr>
<tr>
<td>Hoya Corp</td>
<td>7741 JP</td>
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</tr>
<tr>
<td>Olympus Corp</td>
<td>733 JP</td>
<td>2.0%</td>
</tr>
<tr>
<td>Roche Holding AG</td>
<td>ROG VX</td>
<td>-1.1%</td>
</tr>
<tr>
<td>UCB SA</td>
<td>UCB BI</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Sonova Holding</td>
<td>SOWN VX</td>
<td>-1.2%</td>
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### Technology

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<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banco do Brasil</td>
<td>90543 SE</td>
<td>4.2%</td>
</tr>
<tr>
<td>China Construction Bank</td>
<td>939 HK</td>
<td>4.0%</td>
</tr>
<tr>
<td>IBGC</td>
<td>1389 HK</td>
<td>3.1%</td>
</tr>
<tr>
<td>Bank of Ireland Group PLC</td>
<td>BIRG ID</td>
<td>-2.3%</td>
</tr>
<tr>
<td>Prudential</td>
<td>PRU LN</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Man Group PLC</td>
<td>EMG LN</td>
<td>-3.3%</td>
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### Utilities

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<tr>
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<tbody>
<tr>
<td>Korea Electric Power</td>
<td>015760 KS</td>
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<tr>
<td>Co Energetica de Minas Gerais</td>
<td>CG US</td>
<td>1.6%</td>
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<tr>
<td>Dalkia Gas Co</td>
<td>9537 JP</td>
<td>0.6%</td>
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<tr>
<td>APA Group</td>
<td>APA AU</td>
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<tr>
<td>Endesa SA</td>
<td>ELE SM</td>
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### Real Estate

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<td>British Land Co PLC</td>
<td>BLND LN</td>
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**Bold** – move of more of 5%
## U.S. Market Movers

### Energy
- **Symbol**: H/L
- **Last %Chg**: H/L
- **Close**: H/L

### Industrials
- **Symbol**: H/L
- **Last %Chg**: H/L
- **Close**: H/L

### Consumer Discretionary
- **Symbol**: H/L
- **Last %Chg**: H/L
- **Close**: H/L

### Consumer Staples
- **Symbol**: H/L
- **Last %Chg**: H/L
- **Close**: H/L

### Technology
- **Symbol**: H/L
- **Last %Chg**: H/L
- **Close**: H/L

### Telecom Services
- **Symbol**: H/L
- **Last %Chg**: H/L
- **Close**: H/L

### Utilities
- **Symbol**: H/L
- **Last %Chg**: H/L
- **Close**: H/L

### Energy Industrials Consumer Discretionary Consumer Staples Technology Telecom Services

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<td>HAL</td>
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<td>47.02</td>
<td>0.2%</td>
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<td>43.64</td>
<td>0.1%</td>
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### Materials
- **Symbol**: H/L
- **Last %Chg**: H/L
- **Close**: H/L

### Healthcare
- **Symbol**: H/L
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- **Close**: H/L

### Specialty\ Care
- **Symbol**: H/L
- **Last %Chg**: H/L
- **Close**: H/L

### Real Estate
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### Canadian Market Movers

- **Energy**:
  - PO
  - ESI
  - TSG
- **Materials**:  
  - SDL
  - PCW
  - NYN
  - KLD
  - SPD
  - PC
  - RY
  - XFX
  - HFX
  - KAW
- **Industrials**: 
  - ING
  - VEN
  - TCL
  - MCF
  - DPK
  - MFC
  - SUL
  - DP
  - VPI
  - SG
  - AQF
  - SRX
  - LB
  - ECI
  - SGR
  - CAL
  - FCU
  - BAD
  - SRK
  - BWM
  - KRF
  - ISG
  - MJK
  - FMM
  - BFB
  - FMM
  - BFM
  - BNM
  - KEL
  - PONY
  - CNN
  - TET
  - CQ
  - SRF
  - SGF
  - BWM
  - TVE
  - TSK
  - PKX
  - PKI
  - ENB
  - KLP
  - ALA
  - VSN
  - ENP
  - GEF
  - KLM
  - TWM
  - TWM
  - COO
  - DML
  - FJG

### Telecom Services

- **Symbol | H/L | Last | %Chg**

### Real Estate

- **Symbol | H/L | Last | %Chg**

### Technology

- **Symbol | H/L | Last | %Chg**

### Energy Materials Industrials Consumer Discretionary Financials Utilities

### Market Elements | Page 9

**Market Elements**: July 11, 2017

**Energy**:  
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  - TSG

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**Telecom Services**:
- Symbol | H/L | Last | %Chg

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**Energy Materials Industrials Consumer Discretionary Financials Utilities**

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**Telecom Services**:
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**Technology**:
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**Energy Materials Industrials Consumer Discretionary Financials Utilities**

**Market Elements**: July 11, 2017

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Mark Twain Returns to Mining

- Canada is on deck for tightening. The FED, BOE, and ECB are all considering the same. China is on the hunt for systemic risk and government auditors are shaming SOEs. It seems a pretty ridiculous time for miners to surge 10% in two weeks, but we trust that message will help you to pause and reflect – Exhibit 1.

- Gold stocks would benefit as Trump Jr sucks all the air out of POTUS plans, which may be worth 40bps worth of downside to the US 5y yield (which would boost gold, our call for some time now) – Exhibit 2. Speculators have also dumped gold positions to the lowest in 17 months, potentially clearing the way for a snap rebound. The largest 10 gold outperformers versus the GDM are shown in Exhibit 3.

- The base metal and steel stocks will be China plays (and we continue to monitor but do not see escalation in systemic risk here, and look at those Chinese bank stocks go!). The best of this grouping is shown in Exhibit 4.

  - If we were really bullish, we’d present the positive reversals in the worst miners, as opposed to the best of lists (for maximum leverage). Still, one has to decide if the positive reversal in miners is signal or noise, and we lean towards signal.

The report of my death was an exaggeration

Mark Twain (Once Failed Miner)
REITs Break on Through to the Other Side

- We have been highlighting many equity market breakdowns lately, and you should note the shift in emphasis from relative returns to absolute price performance (protecting the book) as central banks clamp down on liquidity. The key breakdown we saw yesterday was on the Global REIT index – Exhibit 1.

- In the U.S., those owning office or Retail REITs would already know that the trend is lower, but note how the best performing subindustries are just now breaking down to join them – Exhibit 2. Canada shows a similar strain for Retail, with the other subindustries breaking lower – see link.

- A quarter of the global REITs that we cover that exhibit uptrends, have broken those uptrends. We consider these stop loss points, not buy the dip opportunities – Exhibit 3.

Exhibit 1: MSCI World REITs Index

Exhibit 2: S&P 1500 REIT SubIndustries

Exhibit 3: REITs Breaking Uptrends – See Link for Full List

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit

July 11, 2017

Trends & Inflection Points

Quantitative/Technical

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Break on through to the other side

The Doors
Three Threats to U.S. Long Duration Bonds

- The largest threat to U.S. long duration bonds, is not ECB tapering, nor Fed balance sheet reduction, nor central bank “hawkapalooza”, it is higher inflation, which destroys value on the little bit nominal yield that still exists. The market sees no threat here - Exhibit 1.

- The second largest threat is the fact that the ECB is about to wind down QE, not because inflation is at target, but rather because it’s run out of bunds to buy. That was the real hit to long duration bonds last week (which is subsiding this morning), and it is telling that while many 30y downtrends in yield broke last week, it is German yields that are alone in trending higher – Exhibit 2.

- The third largest threat, would be a U.S. economy that is surprising to the upside, yet the surprise to the the hard data has been soft lately, which we see as reinforcing the structural decline in U.S. long bond yields – Exhibit 3.

- We have no problem changing our stance towards expectations of lower U.S. long rates, but change will be made on principles, not pain.

Exhibit 1: US SyrSyr Forward Breakeven Rate

Exhibit 2: Trends on Global 30y Yields

Exhibit 3: US Economic Surprise (Hard & Soft Data) & US 10y Bond Yield

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Simply Red

There are trends and there are inflection points. Here is the latter, where the MSCI All Country World Index (and the NASDAQ, and the DAX and the CAC, and the STOXX, and the TSX) breaks below the bottom end of the channel. We fully expect that this widest measure of equity capital will fall 2-5% over the ensuing months – Exhibit 1.

• It’s simply that markets are moving from easy to...

...Money’s too tight to mention
John & Billy Valentine

Exhibit 1: MSCI World

Trend / Width 21% / 3%
Trend Length 7 mo

Near-Term Risk & Target (-2-5%)
Trends & Inflection Points

Under Pressure

- Aside from the pressure that the short to medium end of the curve is dishing out as Central Banks turn hawkish, the market dishes out some of its own early signals of a more important nature. We created a basket of Chinese Bank CDS to look for systemic risk there, and it broke above a narrowing trend yesterday – Exhibit 1. Breaking the basket down, we highlight China Construction Bank as the key member that shows the greatest, albeit liquidity induced, breaking bad spike – Exhibit 2.
  - We’ll stop you before you go asking about BofA, or SocGen, credit risk, to say that our bank systemic risk basket sleeps like a baby. Our spin would be to tell you that it seems an opportune time to buy protection – Exhibit 3.
- The systemic risk problem this time round won’t come directly from a Chinese bank. The potential Lehman will come indirectly. We update that basket from I Never Kissed a Bear with the overnight breakdown below – Exhibit 4.

‘Mmm num ba de, Dum bum ba be, Doo buh dum ba beh beh’

Freddy Mercury, Under Pressure

Exhibit 1: Chinese Bank (939 HK, 3988 HK, 1398 HK) 5Y CDS Average

Exhibit 2: China Construction Bank (939 HK) 5Y CDS

Exhibit 3: Global SIFI Liquid 5-Y CDS

Exhibit 4 – China Systemic Risk Basket (Fosun*, HNA, Wanda)

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit.

*BMO Capital Markets is Restricted on Fosun.
xUS Breaks, New Trend in Growth vs Value, Oil

- While the US market was closed, the large and small cap xUS markets were breaking down. The moves were slight and subtle, but they were breakdowns nonetheless, and we highlight these with a cautionary, as opposed to a buy the dip tone – Exhibits 1, 2.

- Of course the premier US momentum index, the NASDAQ broke down on Tuesday last week, but rather than point that out, we go larger to highlight our favourite growth vs value ratio to note the new set of lower lows and highs. You can’t call yourself a momentum manager and hold an overweighted position in growth with the pattern of a new downtrend in place – Exhibit 2.

- If you are a value manager, whose world is made much easier when there is enough global growth to push investors towards harder stuff than technology, you may be encouraged by the recent backup in long rates and oil. Sure enough, in our system, the Energy sector has the greatest positive momentum in the relative realm. Yet our first two exhibits suggest we should be caring more about the absolute realm, or protecting wealth. Those backups in oil and long rates? They are counter-trend maneuvers in our book – Exhibit 4.

  - Oil is fading that 11% rebound early this morning (WTI -1.4% at pixel time), and we expect long rates to follow suit.

Exhibit 1: MSCI ACWI ex USA

Exhibit 2: MSCI Small Cap World ex USA

Exhibit 3: MSCI World Growth vs Value

Exhibit 4 – Brent Oil

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Trends & Inflection Reversals

Canadian Positive Reversals

- In the Canadian equity market there are more stocks in price downtrends than in uptrends. There are also more stocks breaking below price uptrends than are breaking above price downtrends. So the list we highlight this morning is the minority. It’s a good screen to look at to question, is the damage done sufficient to warrant buying the break in the gloom – Exhibit 1.

  - TransForce (TFII CN) screens well for value, dividend yield and dividend growth, has collapsed all the way back to support, and the recent lows are not confirmed by RSI and MACD – Exhibit 2.
  - First National Financial (FN CN) appears to be breaking out of a holding pattern. Those waiting for the breakout are paid with an indicated yield just shy of 7% – Exhibit 3.

Exhibit 1: Canadian Stocks Severing Dividend-Adjusted Price Downtrends (Sorted by RSI – Least Overbought First)

| Symbol | Name                         | Sub Industry | Gro | LT | Price Trend | Trend | Trend Slope | Hi-Mo | %Chg wtr 50d MA | Chg wtr 50d MA | %Chg wtr 200d MA | Chg wtr 200d MA | %Chg wtr 1y MA | Chg wtr 1y MA | Boll Band | RSI | Divy |
|--------|------------------------------|--------------|-----|----|-------------|-------|-------------|------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|----------|-----|-----|
| PONY CN| Pointed Pony Petroleum       | O&G & E&P    | 9   | 10 | 10          | 759   | ↑           | -78%| -3% Below Falling | -33% Below Falling | ABOVE         | -33% Below Falling | 54           |           |          |      |
| TFII CN| TransForce                   | Trucking     | 6   | 4  | 10          | 2,554 | ↑           | -44%| 0% Above Falling | -8% Below Rising | ABOVE         | -8% Below Rising | 55           |           |          |      |
| SJ CN  | Stella Jones                 | FirstPrd     | 2   | 3  | 8           | 3,057 | ↑           | -3% | 0% Below Falling  | 1% Above Rising | ABOVE         | 1% Above Rising  | 58           |           |          |      |
| AR CN  | Argonaut Gold                | Gold         | 10  | 10 | 9           | 418   | ↑           | -40%| 0% Below Falling  | 12% Above Rising | ABOVE         | -4% Below Falling | 62           |           |          |      |
| HRX CN | Herouxi-Devilik              | Aero&Def     | 3   | 7  | 8           | 527   | ↑           | -14%| 11% Above Rising | 7% Above Rising  | ABOVE         | 7% Above Rising  | 63           |           |          |      |
| WRT CN | Westport Fuel Systems        | CNst&HdlTr    | 7   | 10 | 8           | 335   | ↑           | -48%| 36% Above Rising | 69% Above Rising | ABOVE         | 69% Above Rising | 64           |           |          |      |
| MTL CN | Mullen Group                 | O&G Equip    | 7   | 9  | 3           | 1,633 | ↑           | -41%| 2.5% Below Falling | 6% Above Rising  | ABOVE         | -6% Below Falling | 65           |           |          |      |
| CWB CN | Canadian Western Bank         | Reg&Bk       | 7   | 8  | 10          | 2,409 | ↑           | -31%| 2.5% Below Falling | 6% Above Rising  | ABOVE         | -1% Below Rising | 65           |           |          |      |
| GS CN  | Gluskin Sheff + Associates   | AsstMgmt     | 4   | 8  | 10          | 521   | ↑           | -30%| 5% Above Falling  | 2% Above Rising  | CBOT         | 2% Above Rising  | 66           |           |          |      |
| SNC CN | SNC-Levalin Group            | Cns&Phys     | 6   | 5  | 9           | 8,404 | ↑           | -13%| 5% Located Above | 3% Above Rising  | CBOT         | 3% Above Rising  | 68           |           |          |      |
| CEX CN | C1 Financial                 | AsstMgmt     | 4   | 7  | 8           | 7,324 | ↑           | -5% | 4.5% Above Rising | 6% Above Rising  | CBOT         | 6% Above Rising  | 68           |           |          |      |
| FN CN  | First National Financial     | Thrst&Trg    | 8   | 4  | 9           | 1,622 | ↑           | -18%| 8% Above Rising  | 5% Above Falling | ABOVE         | 5% Above Falling | 69           |           |          |      |
| VRX CN | Valeant Pharmaceuticals       | Pharma       | 7   | 9  | 9           | 7,603 | ↑           | -58%| 33% Above Rising | 10% Above Falling | ABOVE        | 10% Above Falling | 73           |           |          |      |
| AD CN  | Alafia Royalty               | AsstMgmt     | 4   | 9  | 10          | 826   | ↑           | -22%| 5.5% Above Rising | 9% Above Rising  | CBOT         | 9% Above Rising  | 76           |           |          |      |
| AZ CN  | Arizona Mining Inc           | Met&Min      | 8   | 6  | 9           | 844   | ↑           | -44%| 4.0% Above Rising | 11% Above Rising | CBOT         | 11% Above Rising | 79           |           |          |      |

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Trimming Technology Part 2

- Our relative strength breadth reading for Technology continued to weaken and settled in the neutral zone – Exhibit 1.
- The four most consistent outperforming Technology industries have severed their trends against MSCI World (three of them did that yesterday) – Exhibit 2.
- In our previous note, we highlighted stocks with severed positive trends as potential trim candidates. Today, we showcase the rather small group of 38 momentum sells against ACWI Technology (underperforming the index, below moving averages and not overbought). We highlight the largest 15 in Exhibit 3.

Exhibit 1: Information Technology Relative Strength Z-Score

Exhibit 2: Technology Industries vs. MSCI World

Exhibit 3: Largest 15 Technology Momentum Sells vs. ACWI Technology – Full List Here

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Central Banks, Yield Curves, and Inflation Expectations

Yesterday, central bankers continued to tell us that interest rates are going higher, and higher they went in North America. 

- Canada led the way as yields spiked across the curve after BoC reaffirmed its hawkish stance - the two-year yield has reached a 2.5y high this morning - Exhibit 1.

- Yield curves are also getting steeper this morning, but their steep flattening trends remain in place and don’t show any sign of breaking – Exhibits 2, 3.

- We note that while central banks are conveying a hawkish stance, inflation expectations remain in negative trends and at depressed levels. We highlight the Fed’s preferred measure in Exhibit 4.

- As long as these trends continue, we see tightening leading to flattening.

Exhibit 1: Canadian Government 2yr Bond Yield

Exhibit 2: Canadian Yield Curve 10y-2y

Exhibit 3: US Yield Curve 10y-2y

Exhibit 4 – U.S. 5y 5y Forward Breakeven Rate

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Trends & Inflection Points

Trimming Technology

- Yesterday, the market cap weighted S&P 500 Technology index severed its positive price trend and so did MSCI Europe and S&P/TSX Technology – Exhibit 1.
- Our relative strength breadth reading for technology also swung from positive to neutral as a large number of stocks severed their outperforming trends – Exhibit 2.
- We offer as potential trim candidates the 69 names that severed their positive price trends (38 did so yesterday) noting that most of them are also minting 1-12m lows. We highlight the largest 15 in Exhibit 3.

Exhibit 1: S&P 500 Information Technology with Others in Insert

Exhibit 2: Information Technology Relative Strength Z-Score

Exhibit 3: Technology Stocks With Severed Price Trends – Full List Here

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Utilities Stocks Severing Underperforming Trends

- **Yesterday,** Fed’s Dudley said the central bank should continue to tighten, citing financial conditions as an additional reason. Still, the yield curve (30-5) continued to flatten to new lows and continues to do so this morning – Exhibit 1.

- **This morning,** ECB’s Draghi called the current weakness in inflation temporary and predicted the ECB could achieve its target of just under 2% inflation in the medium term. Still, the negative trend of inflation expectations in the Euro area remain intact – Exhibit 2.

- As we detailed in our latest package, “Welcome Back, Disinflation,” we expect these conditions to favour an overweight position in low-beta, long-duration Utilities. There are 20 names that are severing negative trends against ACWI, with half of them also at multi month highs – Exhibit 3.

---

**Exhibit 1: U.S. Yield Curve 30y – 5y**

(U.S.30YR - U.S.5YR) x 100

| Trend / Width | -7% / 23% |
| Trend Length | 6 mo |

---

**Exhibit 2: Euro Inflation Swap Rate (SySy)**

Exhibit 3: Largest 10 Utilities Breaking Above Underperforming Trends vs. ACWI – [Full List Here](#)

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<th>Name</th>
<th>Country</th>
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<th>LT RS</th>
<th>RS</th>
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<th>5-Day Equity Chg (%)</th>
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Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Trends & Inflection Points

Healthcare Strength

- Our global relative strength breadth reading for the healthcare sector moved to the 1st decile position and its highest level since January 2016 - Exhibit 1.
- The market cap weighted healthcare sector indices are either in outperforming trends, or breaking above underperforming trends against most benchmarks. The industry breakdown paints a similar picture of strength where the only underperforming member, biotechnology, has just severed its trend - Exhibit 2.
- In our healthcare universe, we currently rank 61 names as momentum buys (outperforming the market and sector, above rising 50d and 200d moving averages and not overbought). We highlight the largest 15 in Exhibit 3.

Exhibit 1: Healthcare Relative Strength Breadth Z-score

Exhibit 2: Healthcare Industries vs. MSCI World

Exhibit 3: Largest 15 Global Healthcare Momentum Buy Stocks vs. MSCI AC World - Full List Here

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
I Never Kissed a Bear

- The reflation trade, which is a China growth story, has stalled. The CRB Raw Industrials has flattened out, is 1% below a falling 50d MA and is priced at a 1.5m low. But that’s not the chart to watch.
- The 1w Chinese interbank lending rate dipped from 2y highs overnight. The 1m and O/N rates also dipped. So that’s a slight easing in interbank lending tensions, which are caused by a Chinese central bank crackdown on finance. But that’s not the chart to watch.
- The chart to watch is a basket of Systematic Risk Entities that got a call from the Chinese Bank regulator this week – Exhibit 1.
  - Those stocks, fell 5% on the news, and recovered marginally overnight.
  - If we to break down the basket to have the market call out the potential Lehman, we’d say it was (Wicked?) Wanda.

Exhibit 1: "RingRing" (Custom Bloomberg CIX Basket): The New Barometer of Systematic Risk in China

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
**Trends & Inflection Points**

**King of Pain**

- We don’t really want to keep harping on energy, but it’s just so truly amazing to us to see so much pain, with so little panic, that we just can’t help ourselves – Exhibit 1.
- It’s also getting tricky to find new equity short opportunities in energy, as the capitulation buckets are really filling up, but alas we are up to the challenge.
  - Take Canadian Natural Resources, which has fallen 17%, from the high, with an RSI that has barely touched 30 in the process. It’s just now breaking down from a double top. For those that always want to see stuff go up, we threw in the CDS, just for special – Exhibit 2.
  - How about PrairieSky Royalty, it’s still in the middle of its downward sloping channel, when so many others are below theirs. Heck, it still has not even broken support – Exhibit 3.
  - And then there is Canadian Western Bank, which has rallied all the way back to its sharply falling 50d MA, and whose RSI is pretty lofty at 47 – Exhibit 4.

I guess I’m always hoping that you’ll end this reign, but it’s my destiny to be the king of pain

_The Police_

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**Exhibit 1: CBOE Crude Oil Volatility With Energy Benchmarks in Insert**

**Exhibit 2: Canadian Natural Resources in CS Equity (With CDS in Insert)**

**Exhibit 3: PrairieSky Royalty (PSK CN) Dvd Adjusted Price Trend**

**Exhibit 4 – Canadian Western Bank (CWB CN) Dvd Adjusted Price Trend**

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
**Trends & Inflection Points**

**Canadian Smoke Signals**

- It’s **Aboriginal Day in Canada** and true to our roots; the Canadian equity market continues to honor the resources of the land. Albeit those global growth oriented **resources are what has driven the Canadian equity market into a downtrend**, well before the others. But alas, this Canadian **smoke signal** is starting to reach **others** – Exhibit 1.

- The **key economic smoke signal comes from the bond market**, where yield curves are breaking to 9-year lows – Exhibit 2.

- Canadians are very empathetic people, and our central bank reflects this. Two and a half years ago, the Bank of Canada felt empathy for the Western Canadian oil patch as it cut rates as economic “insurance” against the oil price decline (**sorry it didn’t work**). But now, as the **oil price is back to sliding**, and there is just a **whiff of contagion in the air** (albeit **panic is so far away**), the Bank of Canada wants to **raise rates**. What gives? – Exhibit 3.

- The Bank of Canada’s stance is the same as the **Boston FED yesterday (which caused the yield curve to flatten more)**: rates are not being raised in North America to cool the economy. If that were the case, the yield curve would be rising (signaling long duration fears inflation), not falling (signaling the economy can’t take higher rates). Rates are being raised to cool the real estate asset price bubble (caused by low rates, and excess capital). The empathy is for the home price buyers, and **ultimately the banking system**, as when **too hot real estate leads to too cool, the banking system becomes stressed**. Central bankers must listen to Brubeck; clearly they hear the hot smoke signal of the “Take Five” Toronto housing market – Exhibit 4.

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**Exhibit 1:** **S&P/TSX 60 Downtrend With Others Breaking Trend in Insert**

**Exhibit 2:** **US Yield Cure (30-5) With Other Global Curves in Insert**

**Exhibit 3:** **Canadian 2Y Yield** (Where the BoC Will Be in 2Y)

**Exhibit 4:** **Teranet Toronto Home Price Index**

*Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit*
European SMID

We are following up on yesterday’s note, ‘Buying the European Pullback’, not wanting to leave the continent without highlighting the “best of”, which are not the household European large cap names, rather it is European SMID. While Global, U.S., and Canadian SMID are in underperforming trends against their broad based, large cap driven benchmarks, that’s not the case for Europe, or Japan for that matter.

If you are a global manager, needing to outperform the ACWI Small Cap index, which is trending higher at an annualized rate of 22%/year, we suggest you look at some of the stocks that are causing the European Small Cap index to trend higher at almost double that rate – Exhibits 1-3.

Exhibit 1: SMID Benchmarks vs Broad Markets

Exhibit 2: MSCI Europe Small Cap EUR Net Total Return Index

Exhibit 3: Top of European SMID (Market Cap < $10bn) Momentum Buy List

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Trends & Inflection Points

Buying the European Pullback

- From the perspective of the U.S. wallet, purchasing power is being reduced at an annualized rate of 12%/year, a trend that has been in place for six months now, and a trend that shows no signs of abating — Exhibit 1.

- From the perspective of a U.S. equity investor, that views the S&P 500 as the benchmark to beat, the NASDAQ broke its outperforming trend, the Hang Seng is really the China NASDAQ (Tencent with a 10% weight) plus some other stuff, and then you have various European Bourses in outperforming trends — Exhibit 2 (and see this link for the full list including underperforming indices).

- The broadest measure, of Europe, the STOXX 50 is right at the bottom end of its outperforming channel, and we recommend adding down here — Exhibit 3.

- Looking for individual names? The largest European outperformers are shown in Exhibit 4.

Exhibit 1: Bloomberg US Dollar Index (BBDXY)

USD Denominated Purchasing Power Falling At An Annualized Rate of 12%/Year

Exhibit 2: World Equity Indices vs S&P 500 In Local Currency Terms

Exhibit 3: STOXX 50 vs S&P 500 In Local Currency

Recommend Buying The Bottom End of the Channel

Exhibit 4 – Largest European Outperformers vs STOXX 50

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit

June 19, 2017
Hair That’s a Fright

- ‘Here baby, there mama, everywhere daddy’, we see important breakdowns in the directions we are advocating for. In some cases it is only by a hair. ‘Oh say can you see’...
- The insatiable demand for duration, as the Fed and BoE leaned hawkish this week; the US 30-5 yield curve breaks to a nine year low this morning – Exhibit 1.

- The second of the world’s largest 10 technology stocks breaking down – Exhibit 2.
- The relative strength breakdown for energy high yield bonds that we noted last week (This is the Beginning of the End), moved into the absolute realm yesterday – Exhibit 3.
- In the nuance of our global equity sector breadth heat map, we see;
  - low beta long duration utilities (advocating overweight) edging out over high beta long duration technology (advocating reducing weighting)
  - yield loving financials (advocating underweight) retreating from its rebound while long duration (that you can live and work in) real estate (advocate over financials) continuing to move higher, if only by a hair.
- We expect this hair to grow. Yield curves to flatten. Technology to break down. Energy to weaken. Long duration equities to outperform.

Gimme a head with hair, long beautiful hair, shining, gleaming, streaming, flaxen, waxen give me down to there HAIR!

Exhibit 1: US 30-5 Yield Curve

Exhibit 2: Price Trends on the Largest 10 Global Tech Stocks

Exhibit 3: Bloomberg High Yield Energy Bond Price Trend

Exhibit 4 – Global Relative Strength Breadth Heat Map

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
All four Canadian equity indices broke below shallowly sloping trends yesterday. Except these are not really trends at all, they are consolidation patterns breaking to the downside – Exhibit 1.

Breaking it down by sector, energy (20% of the index) continues to be the best short candidate, financials (34%) have also rolled over and are also in a downtrend, and the gold part of Canadian gold (6%) laden materials (12%) will continue to wait for its day in the sun as long as the Fed continues to avoid the messages of sliding inflation expectations and sliding yield curves, where über narrowing came to the US yesterday. Those three sectors are 66% of the Canadian market. There ain’t much else.

Where else can you hide? We highlight Canadian momentum buys with positive 1 and 5 day rates of change in Exhibit 3.

Yes it’s a skinny list, but at least…

"So I got that goin’ for me, which is nice."
Carl Spackler (Bill Murray), Caddyshack

Exhibit 1: S&P/TSX Total Return Index With Other CDN Indices in Insert

Exhibit 2: Price Trends on Canadian Sectors

Exhibit 3: Canadian Momentum Buys with Positive 1 and 5 day Rates of Change

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Über-Mellow

- Over the past two days, the **Bank of Canada hiked by 16bps 2 years out**, resulting in just a 14bps move at the **10y end of the curve**. That differential may seem small, but the result is **Canadian yield curves have moved to an über-narrow extreme** – Exhibit 1.

- The US yield curve might very well über-narrow after the FED today. As **Travis Kalanick** sez, **push the limits. Pedal to the metal** – Exhibit 2.

- **US Inflation expectations** are also just off of an über-narrow extreme – Exhibit 3.

- Yet while US animal spirits follow the **Trump disapproval rating** from **über-optimism** to something less so, we would need a third country to tighten up to get to **our trend following, i.e. base case long-term downside target for treasury yields** – Exhibit 4. That would be the tightening up of **1/3rd of the Chinese credit market**. Anyone seen the **Anbang boss lately**? Sock it to him now, tighten it up!

I said, if you can do it now; It sure would be tough; Now look here, come on now; Now make it mellow

Tighten Up; Archie Bell And The Drells

---

**Exhibit 1: Canadian 10-2 Yield Curve**

**Exhibit 2: US 10-2 Yield Curve**

**Exhibit 3: US 5y5y Inflation Expectations**

**Exhibit 4 – Soft Vs Hard Data; Animal Spirits, US 10y Bond Yield**

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Trends & Inflection Points

What Are You Thinking?

• This above all; to thine own market be true. So being true to the market is showing the collective “you” exactly what you are rotating into; and that would be the odd couple of recovering Real Estate and rebounding Financials – Exhibit 1.

• What is odd about this is that the relative performance of the pair moves with long rates. If rates move lower, you are better off with Real Estate; if rates move higher, Financials is your pick. What are you thinking by rotating into both? Clearly you are hedging your portfolio – Exhibit 2.

• While we respect your equity market positioning, we must also respect commodity positioning (trending lower), yield curve positioning (trending lower), inflation expectation positioning (trending lower), and long rate positioning, you guessed it, trending lower – Exhibit 3.

• So it should be no surprise that we highlight the markets most favoured Real Estate Stocks in Exhibit 4.

Exhibit 1: Global Sector Relative Strength Heat Map

Exhibit 2: Global Real Estate vs Financials and US 10Y Bond Yield

Exhibit 3: US 10Y Bond Yield, With Trends on 2, 5, 7, 10, 30 in Insert

Exhibit 4 – Real Estate Outperforming ACWI & Sector – Full List Here

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Trends & Inflection Points

Second Leg Down for Technology Breadth

• We told you we’d keep an eye on the Largest 10 technology stocks from our early June note (Leadership Can Be Fickle), and in the update you can see AAPL falling from the tree – Exhibit 1.

• We also need to update the fantastic trend of growth over value, which also broke down on Friday – Exhibit 2.

• Our relative strength breadth reading for technology peaked at Fantastic a month ago (see Blinded by the Light), and took a 2nd leg down on Friday – Exhibit 3.

• Lastly, for those still overweight the sector, note the panic signaling in implied volatility on Friday. One should expect a rebound. We believe one should be paring back to neutral on that opportunity – Exhibit 4.

Exhibit 1: Price Trends on Largest 10 Technology Stocks

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<tr>
<th>Symbol</th>
<th>Name</th>
<th>1-Day Change</th>
<th>5-Day Change</th>
<th>Float</th>
<th>Market Cap (USD)</th>
<th>Price Trend</th>
<th>Trend Slope</th>
<th>Hi (Mo)</th>
<th>Low (Mo)</th>
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<td>TSMN</td>
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<td>327,400</td>
<td>G</td>
<td>100%</td>
<td>105%</td>
<td>100%</td>
<td>1.0</td>
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<td>Samsung Electronics</td>
<td>-2.0%</td>
<td>1.1%</td>
<td>547.6</td>
<td>270,222</td>
<td>G</td>
<td>90%</td>
<td>100%</td>
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<td>Alibaba Group Holding</td>
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<td>-12.7%</td>
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<td>Facebook Inc.</td>
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<td>-6.6%</td>
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<td>Oracle Corp.</td>
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<td>-1.4%</td>
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<td>Microsoft Corp.</td>
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<td>-2.0%</td>
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Exhibit 2: MSCI World Growth vs Value

This was a Fantastic Trend. Only a 2% Draw-down Needed to Signal a Breakdown. That Signal Came Friday

Exhibit 3: Technology Relative Strength Breadth Z-Score

2nd Leg Down on the Reversion From Fantastic to Merely Positive

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit

Exhibit 4 – CBOE NASDAQ 100 Volatility Index

Expect a Bounce As Buyers of the Panic Step Up

Roger. Ready to move out

Adam West (Batman) 1928 - 2017
Please hammer, don't hurt 'em

- You are likely long only, and many of our clients are small cap managers who use our tools to filter a vast array of stocks. So when we say that technology is "too hype, can't touch this", or that energy is "get me outta here, u can't touch this", all you can do is say "Please hammer, Don't Hurt 'Em". Break it down – Exhibit 1.

- If we were a small cap manager and given "fresh new kicks" we'd put it into Health Care, which is outperforming, above rising MAs, and our global relative strength breadth reading is improving – Exhibit 2.

- The top performing North American SMID Health Care stocks are shown in Exhibit 3.
This Is the Beginning of the End

- Twas the breakdown in the relative strength of Energy laden Canadian stocks that foreshadowed the subsequent $10 decline in crude back on March 1st.
- Now it’s the breakdown in the relative strength of Energy laden (17% by weight) High Yield which offers the same, but ultimately much more important signaling (because it’s the higher ups in the capital structure credit market that matters) – Exhibit 2.
- If it were the end, we’d be a buyer, but as it’s the beginning of the end, in our judgement, we are continued sellers – Exhibit 3.

Airmen Cecil O’Malley and Anthony Perez? What exactly were these guys gonna testify to?

Ross, A Few Good Men
Quiet

- Technically, the Renminbi is at the apex of a pennant, which we expect will break to the weakening side, in the direction that the Hong Kong dollar has recently been moving since early January – Exhibit 1.

- Quantitatively, the expected break may be the signalling, which brings to light an upcoming slowdown (see references to the leading indication of credit impulse below) in Chinese demand for raw materials, which may compound the supply problem in oil, which may lead to lower oil prices, which may lead to lower inflation expectations, which may lead to lower long duration treasury yields, which may continue to lead the yield curve lower, which may continue to pressure the relative performance of U.S. banks, which may continue to pressure the performance of the S&P 500 against the world, which was foreshadowed by the state of resource heavy Canadian equity market against the world.

- Enjoy the rest of your weekend. We do offer up some interesting reading material, given the damp chilly weather out there...

References for “Credit Impulse”

1. Credit and economic recovery; Michael Biggs, Thomas Mayer, Andreas Pick; DNB Working Paper No. 218 July 2009
2. China’s Continuing Credit Boom; Jeff Dawson, Alex Etra and Aaron Rosenblum; Liberty Street Economics; February 27, 2017
3. China’s Credit Slowdown Poses a Threat to Global Growth; WSJ May 1, 2017
5. World Bank warns of China debt risk from backdoor local borrowing, FT May 6, 2017

“There’s zero correlation between being the best talker and having the best ideas.”

Susan Cain, Quiet

Exhibit 1: Chinese Renminbi

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Tut-Tut, it Looks Like Rein

- On Friday, treasury volatility reached the point where we can quantify it as being panicked, or above the top end of its range – Exhibit 1. Our system now begs the question, "Is this extreme to be faded, or is this the sign of a regime change?"
  - This is not panic selling of treasuries; it is panic buying, which is by far the more common affliction witnessed over the past several years – Exhibit 2.
  - This escalation of treasury volatility, which has culminated in Friday’s signal, has been going on for a month now, and as such, appears to be “episodic”, like those of the past few years. The last time we had a bond panic buying “regime” was in 2014-15. During that period of considerable duration, bond folks were panic buyers for quite some time before turning into panic sellers. Importantly, the buying phase was also coupled with a dive in oil prices, which ultimately led to OPEC production cuts.
    - We are in the OPEC production cut era now, and really in the second chapter of this era;
    - Chapter 1 narrative entailed belief that OPEC cuts could make a difference in U.S. production.
    - In March, and again last week as WTI cracked back below $50, we have been reading the market as being in chapter 2, where the reality of shale staying power sets in. But there is more to this story.

- To bring in other Market Elements: alongside the panic buying of treasuries, observed as higher volatility with yields rolling over, we observe industrial metals rolling over, oil rolling over, and finally inflation expectations rolling over. This roll has also been aligned with Chinese monetary conditions rolling over, or perhaps better put, being reined in– Exhibit 3. If this rein/roll continues, and we expect that it will, our bond panic buying inflection point signals the regime change, which can be backdated one month prior.

I'm just a little black rain cloud
Robert & Richard Sherman, 1966
The Wisdom of Sweet Brown

- We can give you the knowledge that on Friday the MSCI All Country World Index broke an uptrend, and that the NASDAQ did too, and that the cost to protect a basket of Life & Health insurers broke to the upside that very day, and finally that the US 30y yield just broke yield support and has entered its “thinking fast” air pocket (Exhibits 1-4), but that would not impart wisdom.
- Wisdom would come from realizing how these seemingly disparate events are related as markets head back towards the zero bound in rates.
- We view these equity breakdowns as stop loss considerations, rather than buy the dip opportunities and continue to recommend being long duration.

Here’s some Sunday night reading for you; new stuff from Ben and old stuff from BIS.

“Well, I woke up to get me a cold pop and then I thought somebody was barbecuing. I said, ‘Oh Lord Jesus, it’s a fire.’ Then I ran out, I didn’t grab no shoes or nothing, Jesus. I ran for my life and then the smoke got me, I got bronchitis! Ain’t nobody got time for that.”

Sweet Brown

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Treasury Bear? You Have Been Soft Served

• Soft serve is a type of ice cream that is softer than regular ice creams as a result of air being introduced during freezing. The long end of the treasury curve is being air jacked, with its own serving of soft data (top). Of course the hard data may come, and the market can continue to sell treasuries, and that 30 year downtrend in yields can indeed break, and so on and so forth. But that’s not what typically happens. Typically, when a tall serving of soft serve data is laden upon a small cone of hard data the soft stuff melts quickly, and runs down those little hands (middle). Inflated treasury yields tend to deflate again and again (bottom).

• The greatest argument we can envisage, which would end the 30 year bull market in treasuries (not what we expect), comes from Borio’s paper (BIS) which argues that central banks should target imbalances which have been created by central banks’ own asymmetric behavior, rather than targeting the inflationary signal that never comes (Becket). Yet the central bank dissention we heard from last week was nothing of that sort. It was all, oh inflation is too strong (BoE), or oh inflation too weak (FED). We did not hear central bankers suggest that they have had their eye on the wrong ball. So until the market tells us that there is a paradigm shift, we will expect that the horror of negative US long rates will be on our doorsteps as early as next year (extrapolation of the trend, at the minus two standard deviation mark), and not that the horror of imbalances becoming unwound by said overseers will be upon us any time soon (the inflection point of a reversal driven by a ‘new and improved’ central bank targeting). It’s kinda like choosing one horror (yes you saver, that kid with the huge mortgage is being paid by the banks to own it), rather than the other (what is the Canadian way to spell foreclosure? +250bps eh).

• We will continue to mindfully follow the trend, until we have to respect the inflection point.
  o We continue to expect that treasury yields will eventually roll over. The current soft-hard outlier is a massive signal.
  ▪ You have been served.

Exhibit 1: US Economic Surprise: Soft Survey Data vs Hard Data (Industrial, Labour, Retail, Housing) and US 10Y Treasury Yield

Source: BMO Capital Markets, Bloomberg
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* 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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