## Market Elements

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<th>Date</th>
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<tr>
<td>July 18, 2012</td>
<td>NEW Market Elements</td>
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## Relative Strength Filter

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<td>NEW North American Rails</td>
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<td>July 19, 2012</td>
<td>Time to Buy Risky and Derisking</td>
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<td>Weakness in the Moving Business</td>
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## Focal Points

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Resources and technology led equity markets higher; the VIX fell to a three-month closing low.

The Spanish 10-year yield closed back above 7%, but Italian bonds refrained from following; French and Japanese benchmarks hit new yield lows; the U.S. 2-year yield fell to a new five-month low.

Commodity currencies led gains against the USD for the third consecutive session with many hitting two–three-month highs; the euro continued to troll along the bottom.

Corn and soybean prices hit record highs; Brent oil rose for the seventh consecutive session; metals remained close to 52-week lows.

### Levels*

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

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

* H/L = at a new closing 52- wk High/Low; %Chg = 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

- The Spanish 10-year yield is breaking out – but importantly, Italian yields are not (perhaps not yet) following suit.
  - Gold is as dormant as Italian yields are.
- Stability, with some commodity glee, is seeing high-yield commodity currencies break to the upside.
  - Base metals are lagging/still comatose.
Daily Sector Charts
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages

- **U.S.** – at a 52-week high: Utilities.
- **Canada** – at a 52-week high: Consumer Staples.
- **Europe** – at a 52-week high: Consumer Staples, Health Care.

**S&P 500**

**S&P/TSX Composite**

**S&P Europe 350**
Market Movers – Largest Daily Percentage Moves

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<th>Name</th>
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<th>Name</th>
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<td>Santos Ltd</td>
<td>STO</td>
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<td>Oil Search Ltd</td>
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<td><strong>Utilities</strong></td>
<td></td>
<td></td>
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<tr>
<td>Acciona SA</td>
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<td>-5.6%</td>
<td>Xcel Energy Inc</td>
<td>XEL</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Xcel Energy Inc</td>
<td>XEL</td>
<td>-0.4%</td>
<td><strong>Telecom</strong></td>
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<tr>
<td><strong>Telecom</strong></td>
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<td></td>
<td><strong>Utilities</strong></td>
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<td><strong>S&amp;P Global 1200 ex U.S. &amp; Canada</strong></td>
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<td><strong>S&amp;P/TSX Composite</strong></td>
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<td><strong>Telecom</strong></td>
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<td><strong>S&amp;P 500</strong></td>
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<td></td>
<td><strong>Market Elements</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

### Energy
- **Symbol**
  - NE
  - DRI
  - NBR
  - HP
  - RDC
  - PTEN
  - UNT
  - ATW
  - PDC
- **Last %Chg**
  - 35.57
  - 31.71
  - 14.22
  - 45.75
  - 31.16
  - 15.18
  - 38.39
  - 42.98
  - 7.41
  - 68.64
- **High/Low**
  - 75.82
  - 69.01
  - 57.95
  - 88.51
  - 65.99
  - 56.86
  - 65.12
  - 168.34
  - 71.51
  - 50.36
  - 18.72
  - 121.75
  - 9.05
  - 88.15

### Industrials
- **Symbol**
  - OII
  - NUE
  - BLK
  - MWV
  - ATI
  - TMO
  - ORLY
  - WGL
  - MLM
  - ALB
  - DGX
  - CF
  - ASH
  - ECL
  - APD
  - CF
  - ASH
  - ECL
  - APD
  - DGX
  - CF
  - ASH
  - ECL
  - APD
  - DGX
  - CF
  - ASH
  - ECL
  - APD
  - DGX
  - CF
  - ASH
  - ECL
  - APD
  - DGX
  - CF
  - ASH
  - ECL
  - APD
  - DGX
  - CF
  - ASH
  - ECL
  - APD
  - DGX
  - CF
  - ASH
  - ECL
  - APD
  - DGX
  - CF

### Consumer Discretionary
- **Symbol**
  - JCI
  - WGC
  - GM
  - F
  - HGG
  - MHK
  - PMH
  - DHI
  - NVR
  - WHR
  - NTL
  - COH
  - COL
  - MAR
  - HOT
  - WYN
  - SBU
  - CGM
  - APOL
  - LCI
  - BRF
  - TCH
  - SN
  - TX
  - GPS
  - SAS
  - HNJ
  - JCG
  - ITT
  - HSG
  - LMM
  - WM
  - RIS
  - RGM
  - LMI
  - LLL
  - SYMC

### Consumer Staples
- **Symbol**
  - CVS
  - WAG
  - SYY
  - KR
  - SWY
  - WFM
  - WAT
  - TAP
  - BEAM
  - BB/ST
  - HRL
  - FB
  - KO
  - PE
  - CCE
  - DPS
  - AAD
  - FHT
  - ADS
  - ADSE
  - RTN
  - OFX

### Technology
- **Symbol**
  - GOOG
  - MSFT
  - EA
  - CSCO
  - QCOM
  - MSI
  - INTRAC
  - FVT
  - ORCL
  - SYMC
  - CA
  - ADP
  - SBA
  - CRD
  - HNJ
  - ES
  - MSFT
  - FIRM
  - ICE
  - EVC
  - IBM
  - TP
  - AIX
  - EN

### Health Care
- **Symbol**
  - Symbol Last %Chg
  - Symbol H/L

### Utilities
- **Symbol**
  - Symbol Last %Chg

### Financials
- **Symbol**
  - WFC
  - CMA
  - PNC
  - BAC
  - STI
  - FITB
  - CHB
  - SBCT
  - MTB
  - KEY
  - HNBN
  - AMT
  - CME
  - ICE
  - NYX
  - AXP
  - COF
  - DFS
  - SLM

### Market Elements

### July 19, 2012
## Canadian Market Movers

### Energy

<table>
<thead>
<tr>
<th>Symbol</th>
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<th>Last</th>
<th>%Chg</th>
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<tbody>
<tr>
<td>ESI</td>
<td>14.21</td>
<td>1.5%</td>
<td>30.10</td>
</tr>
<tr>
<td>TDS</td>
<td>5.76</td>
<td>3.6%</td>
<td>76.39</td>
</tr>
<tr>
<td>SVY</td>
<td>7.84</td>
<td>1.3%</td>
<td>96.01</td>
</tr>
<tr>
<td>TOQ</td>
<td>11.94</td>
<td>0.9%</td>
<td>36.38</td>
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### Materials

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<td>SCLA</td>
<td>39.97</td>
<td>0.4%</td>
<td>16.02</td>
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<tr>
<td>MTL</td>
<td>21.88</td>
<td>0.1%</td>
<td>4.60</td>
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<tr>
<td>PSN</td>
<td>13.53</td>
<td>0.3%</td>
<td>31.24</td>
</tr>
<tr>
<td>PSI</td>
<td>15.00</td>
<td>0.0%</td>
<td>9.00</td>
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### Industrials

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<th>H/L</th>
<th>Last</th>
<th>%Chg</th>
</tr>
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<tbody>
<tr>
<td>BBDB</td>
<td>3.90</td>
<td>1.0%</td>
<td>1.16</td>
</tr>
<tr>
<td>HRX</td>
<td>10.93</td>
<td>1.0%</td>
<td>16.77</td>
</tr>
<tr>
<td>VN</td>
<td>10.12</td>
<td>0.1%</td>
<td>11.80</td>
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### Consumer Discretionary

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<th>%Chg</th>
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<td>BBDB</td>
<td>4.10</td>
<td>1.9%</td>
<td>22.02</td>
</tr>
<tr>
<td>TLD</td>
<td>8.51</td>
<td>1.3%</td>
<td>1.12</td>
</tr>
<tr>
<td>BDL</td>
<td>3.83</td>
<td>1.5%</td>
<td>2.79</td>
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### Technology

<table>
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<th>Symbol</th>
<th>H/L</th>
<th>Last</th>
<th>%Chg</th>
</tr>
</thead>
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<tr>
<td>BDI</td>
<td>27.93</td>
<td>0.5%</td>
<td>3.10</td>
</tr>
<tr>
<td>BRF</td>
<td>21.00</td>
<td>0.0%</td>
<td>11.00</td>
</tr>
<tr>
<td>NMDA</td>
<td>15.66</td>
<td>0.4%</td>
<td>9.00</td>
</tr>
</tbody>
</table>

### Financials

<table>
<thead>
<tr>
<th>Symbol</th>
<th>H/L</th>
<th>Last</th>
<th>%Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>TXX</td>
<td>13.77</td>
<td>0.1%</td>
<td>17.20</td>
</tr>
<tr>
<td>XEE</td>
<td>12.40</td>
<td>0.0%</td>
<td>11.00</td>
</tr>
</tbody>
</table>

### Market Elements

- **Health Care Symbol H/L Last %Chg**
  - **HC** 11.61% 7.44%
  - **CHL** 8.70% 3.70%
  - **SLF** 21.49% -0.1%

- **Consumer Staples Symbol H/L Last %Chg**
  - **SC** 37.87% 3.25%
  - **PCU** 37.35% 3.50%
  - **COS** 20.49% 3.40%

- **Telecom Services Symbol H/L Last %Chg**
  - **BCE** 12.01% -0.7%
  - **Rogers** 11.79% 0.6%
  - **Bell** 13.05% -0.9%

- **Utilities Symbol H/L Last %Chg**
  - **TOU** 37.87% 3.40%
  - **PCU** 37.87% 3.40%
  - **HCU** 37.87% 3.40%

- **Transport Symbol H/L Last %Chg**
  - **SCL** 37.87% 3.40%
  - **PSN** 37.87% 3.40%
  - **PSN** 37.87% 3.40%

- **Resource Symbol H/L Last %Chg**
  - **ESI** 37.87% 3.40%
  - **TDS** 37.87% 3.40%
  - **SVY** 37.87% 3.40%
Relative Strength Filter

North American Rails

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

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

Figure 2: Price Trends on North American Rails

Figure 3: RailAmerica vs. S&P 500

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

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

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

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

Time to Buy Risky and Derisking

- Yesterday, there were 3 positive reversals on widening (negative) CDS trends from the FSA’s list of Global too-interconnected-to-fail banks – Figure 1.
  - This is a large positive, and the first signs of a stand-down from the stress that started just over 3 months ago.
- There was also a positive reversal in a basket of North American High Yield CDS – Figure 2.

- This is precisely the time you consider buying risky but derisking securities.
  - You buy into this morning’s disappointment with Morgan Stanley’s results – Figure 3.
  - You heed the positive reversal on Gannett – Figure 4.
  - You even consider taking a flyer on Air France-KLM – Figure 5.

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

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

Figure 2: North American High Yield CDS

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

Earnings Weakness (Just Announced) To be Bought into for Double Bottom Potential

Figure 4: Gannett Price Trend (see link for CDS Trend)

Figure 5: Air France Price Trend (see link for CDS Trend)

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

Weakness in the Moving Business

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

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

**Figure 1: Trucking Relative Strength Decile**

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

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

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

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

<table>
<thead>
<tr>
<th>Name / Link to Charts</th>
<th>Symbol</th>
<th>Group RS</th>
<th>1-day Chg (%)</th>
<th>5-day Chg (%)</th>
<th>Mtd Cap US$m</th>
<th>Chg Last Day</th>
<th>Reward &amp; Risk</th>
<th>Trend Slope</th>
<th>Hi (Mo)</th>
<th>Lo (Mo)</th>
<th>%Chg wrt 50 Day MA Trend</th>
<th>%Chg wrt 200 Day MA Trend</th>
<th>Chg wrt 200 Day MA Trend</th>
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</thead>
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<tr>
<td>Paccor Inc</td>
<td>B US</td>
<td>6</td>
<td>102.64</td>
<td>1.3%</td>
<td>3.7%</td>
<td>1,785</td>
<td>-4.9%</td>
<td>-95%</td>
<td>-75%</td>
<td>-50%</td>
<td>-1.3%</td>
<td>-23%</td>
<td>BelowFalling</td>
</tr>
<tr>
<td>Conair Inc</td>
<td>CIT CN</td>
<td>0</td>
<td>9.29</td>
<td>1.2%</td>
<td>-0.1%</td>
<td>52</td>
<td>-5.0%</td>
<td>-95%</td>
<td>-75%</td>
<td>-25%</td>
<td>-2%</td>
<td>-10%</td>
<td>BelowFalling</td>
</tr>
<tr>
<td>C.H. Robinson Worldwide</td>
<td>CHRW US</td>
<td>0</td>
<td>3</td>
<td>10.95</td>
<td>-1.6%</td>
<td>-3.3%</td>
<td>9,420</td>
<td>-3.7%</td>
<td>-27%</td>
<td>-2%</td>
<td>-2%</td>
<td>-1%</td>
<td>-11%</td>
</tr>
<tr>
<td>Heartland Express Inc</td>
<td>HTLC US</td>
<td>6</td>
<td>5</td>
<td>12.27</td>
<td>0.1%</td>
<td>-2.4%</td>
<td>1191</td>
<td>-13%</td>
<td>-3%</td>
<td>-3%</td>
<td>-3%</td>
<td>-55%</td>
<td>BelowFalling</td>
</tr>
<tr>
<td>Aircastle Ltd</td>
<td>AFS US</td>
<td>8</td>
<td>3</td>
<td>11.40</td>
<td>-2.0%</td>
<td>-1.7%</td>
<td>232</td>
<td>-4.8%</td>
<td>-5%</td>
<td>-5%</td>
<td>-5%</td>
<td>-55%</td>
<td>BelowFalling</td>
</tr>
</tbody>
</table>

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

Add to Health Care

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

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

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

<table>
<thead>
<tr>
<th>Company</th>
<th>Decile</th>
<th>1-day Chg (%)</th>
<th>5-day Chg (%)</th>
<th>MktCap US$m</th>
<th>Chg Last Day</th>
<th>Reward /Risk vs. Sector</th>
<th>Trend Slope</th>
<th>Hi (Mo)</th>
<th>Lo (Mo)</th>
<th>%Chg wrt 50 Day MA</th>
<th>Chg wrt 50 Day Trend</th>
<th>%Chg wrt 200 Day MA</th>
<th>Chg wrt 200 Day Trend</th>
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</thead>
<tbody>
<tr>
<td>NexGen Corp</td>
<td>SocGen US</td>
<td>4</td>
<td>3</td>
<td>-0.2%</td>
<td>-5.1%</td>
<td>1,036</td>
<td>1</td>
<td>1</td>
<td>5%</td>
<td>Above Rising</td>
<td>13%</td>
<td>Above Rising</td>
<td></td>
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<tr>
<td>Medtronic Corp</td>
<td>MCK US</td>
<td>1</td>
<td>2</td>
<td>-0.3%</td>
<td>0.7%</td>
<td>22,273</td>
<td>1</td>
<td>1</td>
<td>5%</td>
<td>Above Rising</td>
<td>13%</td>
<td>Above Rising</td>
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<tr>
<td>Sanofi Inc</td>
<td>SNY US</td>
<td>2</td>
<td>3</td>
<td>1.5%</td>
<td>0.3%</td>
<td>470</td>
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<td>1</td>
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<td>Above Rising</td>
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<tr>
<td>Celadon US</td>
<td>CLDN US</td>
<td>4</td>
<td>2</td>
<td>1.6%</td>
<td>2.4%</td>
<td>7,597</td>
<td>1</td>
<td>1</td>
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<td>21%</td>
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<td>IronX</td>
<td>ICXL US</td>
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<td>1.5%</td>
<td>-1.5%</td>
<td>1,337</td>
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<td>19%</td>
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<td>CSL US</td>
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<td>-0.7%</td>
<td>20,329</td>
<td>1</td>
<td>1</td>
<td>57%</td>
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<td>16%</td>
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<td>4</td>
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<td>1</td>
<td>53%</td>
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<td>21%</td>
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<td>Mediabridge</td>
<td>MRUS US</td>
<td>3</td>
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<td>-0.3%</td>
<td>3,457</td>
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<td>1</td>
<td>117%</td>
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<td>55%</td>
<td>Above Rising</td>
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<td>ATHENAREALT</td>
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<td>1</td>
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<td>-3.1%</td>
<td>2,951</td>
<td>1</td>
<td>1</td>
<td>74%</td>
<td>Above Rising</td>
<td>21%</td>
<td>Above Rising</td>
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</tr>
<tr>
<td>Cebroven Inc</td>
<td>CYBK US</td>
<td>4</td>
<td>2</td>
<td>0.5%</td>
<td>-4.5%</td>
<td>1,159</td>
<td>1</td>
<td>1</td>
<td>65%</td>
<td>Above Rising</td>
<td>23%</td>
<td>Above Rising</td>
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<tr>
<td>Chiron Pharma</td>
<td>CRNP</td>
<td>4</td>
<td>1</td>
<td>-1.4%</td>
<td>-1.4%</td>
<td>10,011</td>
<td>1</td>
<td>1</td>
<td>51%</td>
<td>Above Rising</td>
<td>12%</td>
<td>Above Rising</td>
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<tr>
<td>LCB SA</td>
<td>LCB SA</td>
<td>5</td>
<td>1</td>
<td>0.3%</td>
<td>1.3%</td>
<td>9,139</td>
<td>1</td>
<td>1</td>
<td>77%</td>
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<td>20%</td>
<td>Above Rising</td>
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<tr>
<td>CR Biotech</td>
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<td>4</td>
<td>5</td>
<td>-1.1%</td>
<td>-0.4%</td>
<td>3,944</td>
<td>1</td>
<td>1</td>
<td>53%</td>
<td>Above Rising</td>
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<tr>
<td>Multi-Vetinary Svc</td>
<td>MVUS US</td>
<td>1</td>
<td>2</td>
<td>-5.1%</td>
<td>-7.1%</td>
<td>1,279</td>
<td>1</td>
<td>1</td>
<td>65%</td>
<td>Above Rising</td>
<td>23%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Cebro Animal Li</td>
<td>CSUL US</td>
<td>2</td>
<td>5</td>
<td>0.4%</td>
<td>-0.4%</td>
<td>318</td>
<td>1</td>
<td>1</td>
<td>63%</td>
<td>Above Rising</td>
<td>31%</td>
<td>Above Rising</td>
<td></td>
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</tbody>
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Source: BMO Capital Markets, Bloomberg, Thomson, Markit

July 17, 2012
Research Comment
Quantitative/Technical Research Website

Mark Steele
(416) 359-4641
mark.steele@bmo.com
Assoc: Tiberiu Stoichita/Rahul Muralidhar
U.S. Short Rates Signalling Weakness

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

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

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

Eating & Drinking Close to Home

- **Eighteen of 29 Hotel & Resort stocks** are underperforming the market, so the breakdowns in two of the best stocks, Wyndham and Marriott, are signals to reduce / sell.
  - Wyndham has a very good track record, and assuming that the corporate profile has not changed, our call would be to move back to market weight while the industry corrects - Figure 1.
  - Marriott has a much more checkered history. If you are not selling now (on a lowered forecast), you are just waiting for a bounce to do so - Figure 2.

- **Ten of 15 Brewers** are outperforming the market, so the relative strength (only) positive reversal in the worst draw in the keg, Molson Coors, raises the question is there value here - Figure 3?
  - The restaurant group is more diversified in relative performance, but the largest member, McDonald's has been a spectacular underperformer over the past 6 months. McDonald's has spent the bulk of the past four years outperforming. This is the inflection point to buy back in - Figure 4.
    - Wendy's has more of a Molson Coors (poor) pattern, but it too is trying to reverse the underperforming trend - see link.

- You can take these signals as evidence that the world is taking vacation days in the back yard. Enjoy the BBQ.

**Figure 1: Wyndham Worldwide vs. S&P 500**

**Figure 2: Marriott International vs. S&P 500**

**Figure 3: Molson Coors Brewing vs. S&P 500**

**Figure 4: McDonald's vs. S&P 500**

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Dealing With Down

- It took some time, and indeed it took the breakdown in the relative performance uptrend of Technology to do so, but our “best fit” trend for the S&P 500 now sports a negative (if just ever so slightly) slope – Figure 1.
  - The slope is expected to tilt more toward the negative.
  - This would be in the direction of the trends on most major global equity indices, which are already trending lower – see link.

- Global growth expectations, using the Asia Dollar index as a proxy, are trending lower, and the counter-trend rally is fading sharply this morning – Figure 2.
  - This is how to deal with down – you buy the stuff where down (trend of yields) looks green on the screen.

- Eventually, and with enough pressure, the outperforming trends of U.S. stocks versus U.S. bonds will break. We have seen signs of this before, and there are some short-term moving averages on stock/bond ratios that are rolling over.

- If you look at an equity market like Canada, where the equity weights are tilted toward global growth, stocks are underperforming bonds at double-digit rates – Figure 4. North of the 49th, we have been dealing with down for some time.
We will have to watch this one closely, but this morning it looks like capitalism is prevailing in Spain and much to the benefit of the country, if only just for a few hours – Figure 1.

- The “event” is the Spanish banking bailout blueprint, which forces losses on subordinate debt holders, which in the case of Spain are unfortunately depositors.
- The benefit is that Spanish sovereign debt is gaining (yields falling), and as such the stress (via contagion) on the Italian bond market (which is the ultimate “we care about”) is reduced.

The “watch this one closely” will be the potential for bank runs in Spain, which could be destabilizing.

Elsewhere in capital markets.

- We note the 5-year CDS on AMD broke an improving trend yesterday – Figure 2.
- On a broader scale, semiconductors are in a consistently underperforming trend – Figure 3 …
- …which is turning into a price downtrend – Figure 4.

We continue to see evidence to support our short technology stance.
Relative Strength Filter

Natural Gas Stocks Turning the Corner

- As natural gas holds just below the $3 mark – Figure 1, one quarter of gassy stocks are reversing underperforming trends against the S&P 500 and S&P/TSX – Figure 2.
- It just took a while for North America’s largest gassy stock to break above an underperforming trend as Anadarko is doing now – Figure 3.
  - This reversal in the market cap leader provides cover for the juniors (the bulk of Figure 2).
- As a resource specialist, the turn in Encana occurred 6 months ago.
  - Encana is in an outperforming trend versus a global resource basket – Figure 2.
  - ECA is also basing versus the S&P 500, outperforming U.S. energy, and outperforming Canadian benchmarks.

Figure 1: NMX Natural Gas

Figure 2: Positive Reversals of Gassy Stocks vs. S&P 500

<table>
<thead>
<tr>
<th>Name / Link to Charts</th>
<th>Symbol &amp; Links</th>
<th>1-day Chg (%)</th>
<th>5-day Chg (%)</th>
<th>MktCap US$m</th>
<th>Chg Last Day</th>
<th>Reward /Risk</th>
<th>Trend Slope</th>
<th>Hi (Mo)</th>
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<td>Fastnet Energy Ltd</td>
<td>FN, CN</td>
<td>7.5%</td>
<td>10.0%</td>
<td>172</td>
<td>↑</td>
<td>↑</td>
<td>-146%</td>
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<td>0.2%</td>
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<td>↑</td>
<td>↑</td>
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<td>1.2%</td>
<td>13.3%</td>
<td>950</td>
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<td>TAL, CN</td>
<td>0.8%</td>
<td>3.9%</td>
<td>172</td>
<td>↑</td>
<td>↑</td>
<td>-122%</td>
<td>1</td>
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<td>↑</td>
<td>-130%</td>
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<td>3.7%</td>
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<td>↑</td>
<td>-100%</td>
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<td>Noble Energy Ltd</td>
<td>NOE, CN</td>
<td>3.6%</td>
<td>27.9%</td>
<td>446</td>
<td>↑</td>
<td>↑</td>
<td>-122%</td>
<td>5.0</td>
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<td>Southwestern Energy Co</td>
<td>SWN, US</td>
<td>0.3%</td>
<td>6.2%</td>
<td>11,106</td>
<td>↑</td>
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<td>Open Range Energy Corp</td>
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<td>↑</td>
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<td>Progress Energy Resourc</td>
<td>PSC, CN</td>
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<td>3.3%</td>
<td>4,560</td>
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<td>↑</td>
<td>-9%</td>
<td>45.5</td>
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</table>

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

Technology Momentum Sells

- **Last week, we highlighted** technology slipping from “neutral to negative.”
  - The slip has turned into a dive – Figure 1.
    - It is time to look at shorting tech stocks.
- Recent weakness is due to **another batch of technology stocks breaking below outperforming trends**, including Citrix Systems – Figure 2.

Most U.S. technology industries are in underperforming trends against the S&P 500, and the propensity is to fall below their channels – Figure 3.

- We highlight a list of technology momentum sells with the weakest earnings estimate revisions in Figure 4.

---

**Figure 1:**

<table>
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<tr>
<th>Group RS</th>
<th>Group RS 5-day MA</th>
<th>Group RS 20-day MA</th>
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<td>Avg.</td>
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<tr>
<td>El</td>
<td>-0.75</td>
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</tr>
<tr>
<td>Relative Weakest Position in 1.5 Years</td>
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**Figure 2:** Citrix Systems vs. S&P 500

- **Broken Outperformance Trend, Bigger Picture is a Distribution Top**

**Figure 3:** U.S. Technology Sub-Industries Versus S&P 500


More Industries in Underperforming Trends, and Tendency is To Break Down

**Figure 4:** Technology Momentum Sells with Worst Earnings Estimate Revision Deciles (Market Cap Floor $1.5bn)

<table>
<thead>
<tr>
<th>Company</th>
<th>Decile Rank</th>
<th>Pricing</th>
<th>Price Trend</th>
<th>Technical Attributes</th>
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<tr>
<td>FDX Inc</td>
<td>5</td>
<td>-61%</td>
<td>-61%</td>
<td>Below Failing: 15%</td>
</tr>
<tr>
<td>Apple Inc</td>
<td>4</td>
<td>-62%</td>
<td>-62%</td>
<td>Above Failing: 15%</td>
</tr>
<tr>
<td>Alphabet Inc</td>
<td>3</td>
<td>-64%</td>
<td>-64%</td>
<td>Below Failing: 15%</td>
</tr>
<tr>
<td>Amazon.com Inc</td>
<td>2</td>
<td>-66%</td>
<td>-66%</td>
<td>Above Failing: 15%</td>
</tr>
<tr>
<td>Netflix Inc</td>
<td>1</td>
<td>-68%</td>
<td>-68%</td>
<td>Above Failing: 15%</td>
</tr>
</tbody>
</table>

Source: BMO Capital Markets, Bloomberg, Thomson, Markit

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

- This morning the cost to protect Italian bonds from default breaks back into the ½ Mille High Club (514 bps as we hit send), and German 2-year yields fall back into negative yield territory for the second time.
- Italian – European AAA spreads are reversing the downtrend from the Berlusconi era high as Spanish – European AAA spreads near the June peak – Figure 1.

It is a good time to:
- Short Santander stock, which leapfrogged over fellow SIFIs UniCredit and Morgan Stanley to sport the CDS curve, which is closest to inversion – Figure 2.
- Buy protection on Morgan Stanley, as it approaches the limit of its counter-trend contraction – Figure 3.
- Buy volatility, as the VIX starts to base – Figure 4.

Figure 1: Spreads of Italian & Spanish 10yrs vs. European AAA Figure 2: Santander (SAN US) Price Trend

Figure 3: Morgan Stanley 5-Year CDS Figure 4: CBOE Volatility Index (VIX)

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Stimulus – Ask Why

• Today:
  o Spanish and Italian 10-year bond yields continue to pivot off of a string of higher lows – Figure 1.

• Also today:
  o China pairs up with the BOE (again) ‘surprising’ with a second rate cut while the BOE gives us more QE.
  o The ECB cuts rates too.

China, the BOE and the ECB are doing their best to ease the pressure on the run on Europe (Figure 1), which has led to:
  o The euro falling at a rate of 11%/year – Figure 2.
  o Safe haven yields falling at rates of 20–50%/year – Figure 3.

It is the ‘why’ (Figure 1) that leads to the central bank measures.

When the trends of the ‘why’ change, then we would consider stimulus measures to be something more than a lift to sell into.
  o The trends have not changed.
    - The MSCI ACWI xUSA Index hits resistance and the downtrend soon – Figure 4.
Energy – "What Was Bad" Trading Rally

- The Asia dollar index, our proxy for global growth, sports a series of lower highs and lows. It is trending lower. The pivot off of the low came as China cut rates, and the recent rally is nearing resistance – Figure 1.
- Brent oil, which has formed a distribution top, has just entered the resistance zone.
  o Our downside target remains $80 – Figure 3.
- When global growth is feared, treasury yields rise.
  o Treasury yields are not rising – Figure 2.
- The MSCI Oil, Gas & Consumable Fuels Index has reversed a steep downtrend versus ACWI yesterday – Figure 4.
  o Previous reversals have led to good periods of outperformance.
  o Previous reversals have also seen the treasury market awaken (line up Figures 2 and 4), yet treasuries are not awakening.
  ▪ This appears to be a "what was bad is now good" rally.
  • Good for traders, but not so much for investors.

Figure 1: Asia Dollar Index

Figure 2: U.S. 10-Year Treasury Yield

Figure 3: Brent Oil

Figure 4: MSCI Oil, Gas & Consumable Fuels vs. ACWI

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Technology Slipping Into Negative Territory

- **Technology** is slipping from a neutral to a negative reading in our group selection report – Figure 1.
  - Importantly, this reading is not market capitalization (AAPL) weighted.
- 12 of 16 sub-industries measure up in negative deciles.

Figure 1: Information Technology Relative Strength Z-Score

- **Computer Hardware** in particular has slipped to an 8th decile reading – Figure 2.
  - The group now has more underperformers than outperformers, and one-third of the outperforming stocks have broken their uptrends – Figure 3.

Figure 2: Computer Hardware Relative Strength z-Score

Figure 3: Relative Strength Trends on Global Computer Hardware Stocks
Time to Start Bottom Fishing in Thermal Coal

- Central Appalachian coal, which had been trending lower at a rate of 43%/year for the past year, reversed this trend on Friday - Figure 1.
  - This move follows Natural gas, which has been basing/bottoming since April.
- Shares are just starting to react, but it is very early days.
  - Arch Coal, which had been underperforming in spectacular fashion, has reversed this downtrend - Figure 2.
  - Cloud Peak has more defined basing pattern. The downtrend was also reversed, and a first set of higher highs and lows has developed - Figure 3.

- The largest thermal coal stocks show more nuanced signs of strength.
  - Consol Energy hit a 1-month relative strength high, which is a pre-cursor to reversing its underperforming trend - Figure 4.
  - Peabody Energy gapped higher on Friday. It rose from below the bottom end of its underperforming pattern (-90%/year).

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
This morning markets react positively to the concessions that Monti wrangled out of Merkel, although there seems to be a bit of confusion over exactly what was decided, and of course Germany can’t decide on anything of importance without the Bundestag, Merkel’s next stop.

For the question of “will this halt the bank run out of Europe?” we defer to the Swiss 5-year bond yield – Figure 1.

- Swiss yields continue to sport a trend of lower lows and highs, albeit the torque has been diminished somewhat. The bank run continues, albeit diminished somewhat.
- Spanish banks, which gapped on the EU news, are currently trading near the lows of the session.

For the question of does this make the euro a favoured currency, we highlight the trend – Figure 2. Can you spot today’s decision? Enough said.

Moving to equities, the run out winning sectors continue. U.S. technology has been outperforming the S&P 500 at a rate of 8%/year. It eased slightly below this uptrend on Wednesday, a move that accelerated yesterday (relative performance was a negative 0.7%) – Figure 3.

Large cap technology shares falling yesterday, which are below the bottom ends of their channels, are highlighted in Figure 4.
Market Sells the Trending Winners

- **The market continues to move toward a more bearish leaning. Importantly, it is not there yet, and we are not ready to buy yet.**
- **The U.S. Consumer Discretionary index** broke below an outperforming trend yesterday.
  - Mind the turn, where the market starts to sell the long-term winners.
  - Along those lines, U.S. Technology just edged below its outperforming trend as well.
- Consumer Discretionary is a basket of apples and oranges, so you have to dig into the details of where the pressure came from.

- At the stock level, the S&P 500 consumer discretionary stocks that have been punished below the bottom end of trend channels, which fell yesterday, are highlighted in Figure 2.
- Both Starbucks (Figure 3) and Chipotle Mexican Grill have been fantastic outperformers. They both broke these outperforming trends yesterday. Yum! Brands broke a steep outperforming trend a few weeks back; it is falling below a less well-defined uptrend now.
- Auto retail (AZO, ORLY, KMX), another big winner, was coloured the brightest red yesterday, making it a trio of woe as retail joins Autos and Auto Parts.
- Macy’s continues to break below its outperforming trend, while is CDS breaks above a narrowing trend (Figure 4). JCP continues to slide, as its CDS nears 800 bps. Nordstrom is trending lower.

Figure 1: U.S. Consumer Discretionary Index vs. S&P 500

Figure 2: S&P 500 Cmr Disc Below Channels & Fell Yesterday

Figure 3: Starbucks vs. S&P 500

Figure 4: Macy’s 5-Year CDS

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Broken Parts

- The cost to protect a basket of Auto Parts stocks against default is breaking to the upside (a negative) – up 3% yesterday, 7% over the past five days – Figure 1.
- Yesterday, Auto Parts retreated back to 10th (worst) decile in our Group Selection report – Figure 2.
- The Global Auto Parts index is just hanging on to a skinny (and shaky) 2% outperformance trend,
  - is a very poor place to be (alongside autos) within the consumer discretionary sector, and
  - appears to be just behind autos, which broke its price uptrend yesterday (parts link).
- *BorgWarner* was the key credit mover of the group yesterday (CDS moves & charts found at this link), with its 5-year CDS widening 11%. Its relative strength (and price pattern) is a 2-year distribution top – Figure 3. BorgWarner's 2012 price high was not confirmed by either relative strength (Figure 3) or credit.
- We rank 9 of the list of 41 Auto Parts stocks as momentum sells – Figure 4.
- *Continental*, was a key large cap (4th largest stock in the group) relative strength breakdown yesterday (CDS widened 3%).
- For Canadians, Linamar has been a stellar outperformer. It broke that outperformance trend yesterday.

---

**Figure 1: CDS Trend on a Basket of Auto Parts Companies (CON AG, TRW US, GKN LN, FR FP, JCI US, BWA US)**

- Reversal, and Credit Unfriendly Trend Developing

**Figure 2: Global Auto Parts Relative Strength Decile**

- Weakest Bucket

**Figure 3: BorgWarner vs. S&P 500 Index**

- Distribution Top

**Figure 4: Auto Parts Momentum Sell List**

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

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

Pay Dirt

- In a market, where **most commodities are very red**, grains are a refreshing colour of green.
  - As a basket, grains, which had been moving sideways/higher, shot materially higher yesterday - Figure 1.
- The creditworthiness of a basket of Fertilizer CDS, which had been trending tighter (bullish), just broke to a lower low (bullish) - Figure 2.
- U.S. Fertilizers & Ag. Chemicals broke above an underperforming trend against the S&P 1500 yesterday.
- Canadian Fertilizers are breaking above a neutral trend against the S&P/TSX Composite.
  - Against the materials group, grains have formed a multi-year basing pattern and are trending higher.
- At a global level, there is a blend of outperformers and underperformers, but the underperformers are reversing downtrends - Figure 3.
- In the group:
  - There is just one momentum buy (outperforming market and sector, above rising moving averages and not overbought) - American Vanguard (AVD).
  - There are 10 stocks outperforming the market and the sector, including Syngenta, Terra Nitrogen, and Agrium.
  - Both Potash and Mosaic reversed underperforming trends yesterday.
- Relative strength trend on all fertilizer and agricultural chemical stocks is found at [this link](#).

Figure 1: DJ UBS Grains ETN (JBG US) Price Trend

![Figure 1: DJ UBS Grains ETN (JBG US) Price Trend](#)

Figure 2: Fertilizer Group 5-Year CDS Basket

![Figure 2: Fertilizer Group 5-Year CDS Basket](#)

Figure 3: MSCI ACWI Fertilizer Shares vs. MSCI All Country World Index

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>CUSIP</th>
<th>Group</th>
<th>1-Day Equity Chg (%)</th>
<th>30-Day Equity Chg (%)</th>
<th>HSBC Capitol (US$)</th>
<th>Chg. Last Day</th>
<th>MSCI World List II</th>
<th>MSCI World List III</th>
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<th>Hi (Mth)</th>
<th>Low (Mth)</th>
<th>% Chg. wort 30 Day MA</th>
<th>Chg. wort 20 Day MA Trend</th>
<th>% Chg. wort 200 Day MA</th>
<th>Chg. wort 200 Day MA Trend</th>
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<td>Agrimex</td>
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<td>-3.4%</td>
<td>-2.9%</td>
<td>12,095</td>
<td>Up</td>
<td>5%</td>
<td>9.5</td>
<td>5.0%</td>
<td>Above Barring</td>
<td>10.0%</td>
<td>Above Barring</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ECL TC</td>
<td>Israel Chemicals Limited</td>
<td></td>
<td>7</td>
<td>-2.5%</td>
<td>-2.9%</td>
<td>13,028</td>
<td>Up</td>
<td>6%</td>
<td>9.5</td>
<td>-3.0%</td>
<td>Below Falling</td>
<td>2.0%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MOR US</td>
<td>Monsanto Co</td>
<td></td>
<td>7</td>
<td>-3.5%</td>
<td>-2.8%</td>
<td>41,554</td>
<td>Up</td>
<td>3%</td>
<td>9.5</td>
<td>3.0%</td>
<td>Above Barring</td>
<td>4.0%</td>
<td>Above Barring</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>YAB NO</td>
<td>Yara International ASA</td>
<td></td>
<td>7</td>
<td>2.0%</td>
<td>0.9%</td>
<td>11,280</td>
<td>Up</td>
<td>-2%</td>
<td>0</td>
<td>-6.0%</td>
<td>Below Falling</td>
<td>-7.0%</td>
<td>Below Falling</td>
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</tr>
<tr>
<td>ILCO US</td>
<td>Israel Corp Ltd</td>
<td></td>
<td>7</td>
<td>-3.5%</td>
<td>-2.9%</td>
<td>41,554</td>
<td>Up</td>
<td>-2%</td>
<td>3.5</td>
<td>-7.0%</td>
<td>Below Falling</td>
<td>12.0%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>POT CN</td>
<td>Potash of Saskatchewan</td>
<td></td>
<td>7</td>
<td>2.1%</td>
<td>5.8%</td>
<td>35,262</td>
<td>Up</td>
<td>-28%</td>
<td>2.8</td>
<td>3.0%</td>
<td>Above Barring</td>
<td>-6.0%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DO GR</td>
<td>K+S AG</td>
<td></td>
<td>7</td>
<td>0.0%</td>
<td>1.2%</td>
<td>7,653</td>
<td>Up</td>
<td>-28%</td>
<td>2.8</td>
<td>7.0%</td>
<td>Below Falling</td>
<td>19.0%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IMDC US</td>
<td>Mead Co.</td>
<td></td>
<td>7</td>
<td>0.0%</td>
<td>6.1%</td>
<td>15,161</td>
<td>Up</td>
<td>-28%</td>
<td>3.0</td>
<td>3.0%</td>
<td>Above Barring</td>
<td>5.0%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFL AU</td>
<td>Indole Plow Limited</td>
<td></td>
<td>7</td>
<td>1.5%</td>
<td>3.7%</td>
<td>4,546</td>
<td>Down</td>
<td>-34%</td>
<td>0</td>
<td>-7.0%</td>
<td>Below Falling</td>
<td>-13.0%</td>
<td>Below Falling</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: BMO Capital Markets, Bloomberg, Thomson, Markit

June 26, 2012
Research Comment
Quantitative/Technical Research Website

Mark Steele
(416) 359-4641
mark.steele@bmo.com
Assoc: Tiberiu Stoichita/Rahul Muralidhar
U.S. Industrials – Under the Big Top

- **U.S. Industrials** ranks just behind **Energy** as the most consistently underperforming U.S. sector – Figure 1.
- Now the **price pattern** is starting to turn down as well, starting with just a mildly sloping (-3%) trend, but behind this turn is a large distribution top pattern – Figure 2.
  - Investors should be eying the major support level (17% lower), and ultimately the distribution top target (35% lower).
- Looking under the big top, the most consistently underperforming large-cap industrials against the S&P 500 are shown in Figure 3.
- We now have **46% of S&P 500 industrials in downward sloping price trends**. Small caps are slightly worse, with **52% of Russell 2000 industrials** in negative price trends.

---

**Figure 1: U.S. Industrials vs. S&P 500**

**Figure 2: U.S. Industrials**

**Figure 3: Most Consistently Underperforming S&P 500 Industrials ($5bn Market Cap Cutoff)**

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**Source:** BMO Capital Markets, Bloomberg, Thomson, Markit
June 22, 2012
Research Comment
Quantitative/Technical Research Website

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

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.

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

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.

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.
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
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.
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>Pricing</th>
<th>CDS Trend</th>
<th>CDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morgan Stanley</td>
<td>MS US</td>
<td>34,250</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>Goldman Sachs Group Inc</td>
<td>GS US</td>
<td>56,698</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>Lloyds Banking Group plc</td>
<td>LYG US</td>
<td>31,933</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>Royal Bank of Scotland Group Plc</td>
<td>RBS US</td>
<td>22,923</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>UBS AG</td>
<td>UBS US</td>
<td>47,327</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>Credit Suisse Group</td>
<td>CS US</td>
<td>31,310</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>Citigroup Inc</td>
<td>C US</td>
<td>96,236</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>Barclays PLC</td>
<td>BCS US</td>
<td>39,688</td>
<td>↑</td>
<td>↑</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?
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.
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</th>
<th>5Yr CDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morgan Stanley</td>
<td>MS US</td>
<td>U.S.</td>
<td>32</td>
<td>112%</td>
<td>439</td>
<td>399</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</td>
<td>361</td>
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<tr>
<td>Goldman Sachs Group</td>
<td>GS US</td>
<td>U.S.</td>
<td>53</td>
<td>107%</td>
<td>338</td>
<td>317</td>
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<tr>
<td>UniCredit SpA</td>
<td>UCG IM</td>
<td>Italy</td>
<td>21</td>
<td>95%</td>
<td>379</td>
<td>398</td>
</tr>
<tr>
<td>Societe Generale</td>
<td>GLE FP</td>
<td>France</td>
<td>19</td>
<td>88%</td>
<td>280</td>
<td>317</td>
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<tr>
<td>Banco Santander SA</td>
<td>STD US</td>
<td>Spain</td>
<td>69</td>
<td>84%</td>
<td>253</td>
<td>302</td>
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<td>Lloyds TSB Group PLC</td>
<td>LYG US</td>
<td>U.K.</td>
<td>31</td>
<td>80%</td>
<td>238</td>
<td>298</td>
</tr>
<tr>
<td>Credit Agricole SA</td>
<td>ACA FP</td>
<td>France</td>
<td>18</td>
<td>80%</td>
<td>209</td>
<td>263</td>
</tr>
<tr>
<td>RBS Group Plc</td>
<td>RBS US</td>
<td>U.K.</td>
<td>22</td>
<td>79%</td>
<td>255</td>
<td>321</td>
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<td>Citigroup Inc</td>
<td>C US</td>
<td>U.S.</td>
<td>89</td>
<td>79%</td>
<td>191</td>
<td>242</td>
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<tr>
<td>Commerzbank AG</td>
<td>CBK GR</td>
<td>Germany</td>
<td>12</td>
<td>78%</td>
<td>188</td>
<td>241</td>
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<tr>
<td>BNP Paribas</td>
<td>BNP FP</td>
<td>France</td>
<td>51</td>
<td>75%</td>
<td>176</td>
<td>234</td>
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<td>ING Groep NV</td>
<td>ING US</td>
<td>Netherlands</td>
<td>32</td>
<td>71%</td>
<td>138</td>
<td>191</td>
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<tr>
<td>UBS AG</td>
<td>UBS US</td>
<td>Switzerland</td>
<td>48</td>
<td>71%</td>
<td>131</td>
<td>185</td>
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<tr>
<td>Barclays PLC</td>
<td>BCS US</td>
<td>U.K.</td>
<td>36</td>
<td>71%</td>
<td>145</td>
<td>205</td>
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<td>Nordea Bank AB</td>
<td>NDA SS</td>
<td>Sweden</td>
<td>36</td>
<td>70%</td>
<td>112</td>
<td>159</td>
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<td>HSBC Holdings PLC</td>
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<td>155</td>
<td>69%</td>
<td>96</td>
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<td>Wells Fargo &amp; Co</td>
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<td>U.S.</td>
<td>134</td>
<td>69%</td>
<td>105</td>
<td>152</td>
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<td>Deutsche Bank AG</td>
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<td>Germany</td>
<td>36</td>
<td>67%</td>
<td>133</td>
<td>199</td>
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<td>Credit Suisse Group</td>
<td>CS US</td>
<td>Switzerland</td>
<td>32</td>
<td>67%</td>
<td>107</td>
<td>160</td>
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<tr>
<td>Bank of China Ltd</td>
<td>3988 HK</td>
<td>China</td>
<td>30</td>
<td>64%</td>
<td>166</td>
<td>261</td>
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<td>JPMorgan Chase &amp; Co</td>
<td>JPM US</td>
<td>U.S.</td>
<td>132</td>
<td>63%</td>
<td>93</td>
<td>147</td>
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<td>Mizuho Financial</td>
<td>MFG US</td>
<td>Japan</td>
<td>33</td>
<td>50%</td>
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<td>160</td>
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<td>Sumitomo Mitsui</td>
<td>8316 JP</td>
<td>Japan</td>
<td>39</td>
<td>54%</td>
<td>86</td>
<td>159</td>
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<td>Mitsubishi UFJ</td>
<td>MTU US</td>
<td>Japan</td>
<td>60</td>
<td>51%</td>
<td>71</td>
<td>140</td>
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<td>State Street Corp</td>
<td>STT US</td>
<td>U.S.</td>
<td>20</td>
<td>23%</td>
<td>35</td>
<td>153</td>
</tr>
</tbody>
</table>

Figure 5: UniCredit Equity and CDS Curve

Figure 4: Morgan Stanley 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 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.

![Figure 11: EFSF and Equivalent EU Bonds](image1)

![Figure 12: EFSF-EU Spread and German-French Bond Spread](image2)

![Figure 13: French Government and BNP Paribas 5-Year CDS](image3)
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<th>Rating Category</th>
<th>BMO Rating</th>
<th>BMOCM US Universe*</th>
<th>BMOCM US IB Clients**</th>
<th>BMOCM US IB Clients***</th>
<th>BMOCM Universe****</th>
<th>BMOCM IB Clients*****</th>
<th>Starmine Universe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>Outperform</td>
<td>39.2%</td>
<td>14.2%</td>
<td>66.0%</td>
<td>39.7%</td>
<td>49.1%</td>
<td>55.7%</td>
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<tr>
<td>Hold</td>
<td>Market Perform</td>
<td>58.8%</td>
<td>4.6%</td>
<td>31.9%</td>
<td>57.1%</td>
<td>48.6%</td>
<td>39.3%</td>
</tr>
<tr>
<td>Sell</td>
<td>Underperform</td>
<td>2.0%</td>
<td>9.1%</td>
<td>2.1%</td>
<td>3.2%</td>
<td>2.3%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

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