## Monday, March 17, 2014

### Market Elements

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### Relative Strength Filter

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<td>NEW Two Sides of North America</td>
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<td>Stress on Banking System – 2nd Spike This Year</td>
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<td>Spotlight on Utilities (and Gold)</td>
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<td>Copper &amp; the Power of ONE</td>
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<td>Positive Reversals in CDN E&amp;P</td>
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<td>China-Induced Copper Breakdown</td>
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<td>Energy Storage &amp; Transports 1st Decile</td>
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<td>Energy &amp; Yield</td>
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<td>Best of Internet Software &amp; Services</td>
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<td>Best of High Dividend Yield</td>
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<td>February 26, 2014</td>
<td>Uranium Restart</td>
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<td>Steel Completes Round Trip – 10th Decile</td>
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<td>February 24, 2014</td>
<td>Canadian Gold</td>
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<td>February 21, 2014</td>
<td>Most Consistent Outperformance : DAX, NDX</td>
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<td>Financial Shifts (REITs Strength Again)</td>
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<td>Best of Europe</td>
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<td>Kanada Takes on the World</td>
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<td>Credit = Backbone of Equity Markets</td>
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### Focal Points

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<td>June 24, 2013</td>
<td>Tighten Up</td>
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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 40 to 41.
Gbl equity indices posted moderate, yet universal losses; MSCI World broke below its 50d MA and posted the worst week (-2.4%) since June. Safe haven 10y yield fell a few bps, then rebounded to close near Thursday’s low; Russian risk trooped higher; prime broker bank risk rose as much as 4% but closed just 1% higher; European 2y yields rose 1-2bps.

The safe-haven yen continued to gain; the Ruble fell below the Mar 3 closing low (Russian threat of annexation moved beyond Crimea); the PBOC devalued the CNY for the 4th of the past 5d.

Gold continued to advance; oil contracts pivoted higher; copper held at the low, while other base metals fell.

Levels*

Currencies (USD per)

Commodities

Government 10- Yr Benchmark

Equity Indices & Sentiment

Levels*  

Currencies (USD per)  

Commodities  

Government 10- Yr Benchmark  

Equity Indices & Sentiment

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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; */# = 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

- Bank stress = equity stress
- The world will be watching Sunday’s activity surrounding where Russia draws the map around Crimea and Eastern Ukraine.
  - Until then, enjoy your weekend.

Currencies
- U.S. Dollar Index

Commodities
- D.J.-UBS Commodity Price Index

Bonds
- U.S. 10-Yr Bond

Equities
- MSCI World Index
- S&P 500
- S&P/TSX Composite
- CDX North American Inv. Grade Index
- VIX
- Ave. Prime Broker 5yr CDS
Daily Sector Charts
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages

S&P 500

Energy

Materials

Industrials

Consumer Discretionary

Consumer Staples

Health Care

Financial Services

Technology

Telecom Services

Utilities

S&P/TSX Composite

Energy

Materials

Industrials

Consumer Discretionary

Consumer Staples

Health Care

Financial Services

Technology

Telecom Services

Utilities

S&P Europe 350

Energy

Materials

Industrials

Consumer Discretionary

Consumer Staples

Health Care

Financial Services

Technology

Telecom Services

Utilities
### Market Movers – Largest Daily Percentage Moves

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

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<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
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<td>Statoil ASA</td>
<td>STL NO</td>
<td>1.3%</td>
<td>Southwestern Energy Co</td>
<td>SWN</td>
<td>2.6%</td>
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<td>Saipem SpA</td>
<td>SPM MM</td>
<td>1.0%</td>
<td>Kinder Morgan Inc/DE</td>
<td>KMI</td>
<td>2.4%</td>
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<td>China Petroleum &amp; Chemical Co</td>
<td>388 HK</td>
<td>0.9%</td>
<td>Murphy Oil Corp</td>
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<td>WorleyParsons Ltd</td>
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<td>-2.4%</td>
<td>Schlumberger Ltd</td>
<td>SLB</td>
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<td>RIG</td>
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<td>5020 JT</td>
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<td>Cabot Oil &amp; Gas Corp</td>
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**Materials**

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<th>Name</th>
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<td>Allegheny Technologies Inc</td>
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<tr>
<td>Cia de Minas Buenaventura SAA</td>
<td>BVN UN</td>
<td>3.2%</td>
<td>Newmont Mining Corp</td>
<td>NEM</td>
<td>2.7%</td>
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<td>Gerdau</td>
<td>GGB UN</td>
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<td>Freeport-McMoRan Copper &amp; Gold</td>
<td>FCX</td>
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<td>Asahi Kasei Corp</td>
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<td>United States Steel Corp</td>
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**Industrials**

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<th>Name</th>
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<td>DNB</td>
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<td>Kone OYJ</td>
<td>KNEBV</td>
<td>2.5%</td>
<td>Delta Air Lines Inc</td>
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<td>2.3%</td>
<td>Southwest Airlines Co</td>
<td>LUV</td>
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<td>PoseiNF</td>
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<td>Eaton Corp PLC</td>
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<tr>
<td>Kubota Corp</td>
<td>6326 JT</td>
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<td>CH Robinson Worldwide Inc</td>
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<tr>
<td>SMC Corp/Japan</td>
<td>6273 JT</td>
<td>-6.7%</td>
<td>Expeditors International of Wa</td>
<td>EXPD</td>
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<tr>
<td>Asim Seiki Co Ltd</td>
<td>7259 JT</td>
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**Cons Disc**

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<th>% Chg</th>
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<tr>
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<td>Tate &amp; Lyle PLC</td>
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<td>Tesco PLC</td>
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<td>Altra Group Inc</td>
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<td>Japan Tobacco Inc</td>
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<td>PepsiCo Inc</td>
<td>PEP</td>
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<tr>
<td>Ajimoto Co Inc</td>
<td>2802 JT</td>
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<td>Kellogg Co</td>
<td>K</td>
<td>-1.7%</td>
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<td>Kao Corp</td>
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<td>General Mills Inc</td>
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**Health Care**

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<th>% Chg</th>
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<td>BSX</td>
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<td>Actives plc</td>
<td>ACT</td>
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<tr>
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<td>Ono Pharmaceutical Co Ltd</td>
<td>4528 JT</td>
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<td>Asta Inc</td>
<td>AET</td>
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<tr>
<td>Astellas Pharma Inc</td>
<td>4503 JT</td>
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<td>Gilead Sciences Inc</td>
<td>GILD</td>
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**Financials**

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<td>MCO</td>
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<td>Bancolombia SA</td>
<td>CUB LN</td>
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<td>NASDAQ OMX Group Inc/The</td>
<td>NDAQ</td>
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<td>Credicorp Ltd</td>
<td>BAP UN</td>
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<td>Progressive Corp/The</td>
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<td>Dai-ichi Life Insurance Co Ltd</td>
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<td>Charles Schwab Corp/The</td>
<td>SCHW</td>
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<tr>
<td>Banco de Sabadell SA</td>
<td>SAB SA</td>
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<td>NOKJ Holdings Inc</td>
<td>8030 JT</td>
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<td>Bank of America Corp</td>
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**Technology**

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<td>2454 TT</td>
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<td>Juniper Networks Inc</td>
<td>JNPR</td>
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<td>Dassault Systems</td>
<td>DSY FP</td>
<td>0.5%</td>
<td>First Solar Inc</td>
<td>FSLR</td>
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<tr>
<td>Nokia OYJ</td>
<td>NOK IT</td>
<td>0.1%</td>
<td>Yahoo! Inc</td>
<td>YHOO</td>
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<td>Yahoo Japan Corp</td>
<td>4089 JT</td>
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<td>Coning Inc</td>
<td>GLW</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Ricoh Co Ltd</td>
<td>7782 JT</td>
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<td>NetApp Inc</td>
<td>NTAP</td>
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<tr>
<td>Rohm Co Ltd</td>
<td>6963 JT</td>
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<td>Facebook Inc</td>
<td>FB</td>
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**Telecom**

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<th>% Chg</th>
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<td>TEL2B SS</td>
<td>0.5%</td>
<td>Windstream Holdings Inc</td>
<td>WIN</td>
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<tr>
<td>America Movil SAB de CV</td>
<td>AMX MM</td>
<td>0.4%</td>
<td>Frontier Communications Corp</td>
<td>FTR</td>
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<td>Vivendi SA</td>
<td>VN FP</td>
<td>0.2%</td>
<td>AT&amp;T Inc</td>
<td>T</td>
<td>0.4%</td>
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<tr>
<td>Nippon Telegraph &amp; Telephone C</td>
<td>9432 JT</td>
<td>-3.0%</td>
<td>CenturyLink Inc</td>
<td>CTL</td>
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<tr>
<td>NTT DOCOMO Inc</td>
<td>9437 JT</td>
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<td>Verizon Communications Inc</td>
<td>VZ</td>
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<tr>
<td>SoftBankCorp</td>
<td>9984 JT</td>
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**Utilities**

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<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
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</thead>
<tbody>
<tr>
<td>RWE AG</td>
<td>RWE GY</td>
<td>1.3%</td>
<td>Consolidated Edison Inc</td>
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<td>Drax Group PLC</td>
<td>DRX LN</td>
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<td>Public Service Enterprise Grou</td>
<td>PEG</td>
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<td>Iberdrola SA</td>
<td>IBE SQ</td>
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<td>PPL Corp</td>
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<tr>
<td>Chubu Electric Power Co Inc</td>
<td>9502 JT</td>
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<td>FirstEnergy Corp</td>
<td>FE</td>
<td>-0.1%</td>
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<td>Kyushu Electric Power Co Inc</td>
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<td>CenterPoint Energy Inc</td>
<td>CNP</td>
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<tr>
<td>Kansai Electric Power Co Inc/TO</td>
<td>9503 JT</td>
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<td>AES Corp/VA</td>
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**S&P/TSX Composite**

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<th>Name</th>
<th>Symbol</th>
<th>% Chg</th>
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</thead>
<tbody>
<tr>
<td>Canadian Energy Services &amp; Tec</td>
<td>CEU</td>
<td>7.0%</td>
<td>TransGlobal Energy Corp</td>
<td>TGL</td>
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<tr>
<td>Advantage Oil &amp; Gas Ltd</td>
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<td></td>
<td>BlackPearl Resources Inc</td>
<td>PXX</td>
<td>-3.3%</td>
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<tr>
<td>Cameco Corp</td>
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<td></td>
<td>Cameco Corp</td>
<td>CCO</td>
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</tr>
<tr>
<td>Trican Well Service Ltd</td>
<td></td>
<td></td>
<td></td>
<td>TCW</td>
<td>-4.3%</td>
</tr>
<tr>
<td>China Energy Resources Inc</td>
<td></td>
<td></td>
<td>West Fraser Timber Co Ltd</td>
<td>WFT</td>
<td>-2.3%</td>
</tr>
<tr>
<td>Canfor Corp</td>
<td></td>
<td></td>
<td></td>
<td>CFP</td>
<td>-2.8%</td>
</tr>
<tr>
<td>2BGold Corp</td>
<td></td>
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<td>BTO</td>
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<tr>
<td>Novagold Resources Inc</td>
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<td>NG</td>
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<tr>
<td>Tahoe Resources Inc</td>
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<td></td>
<td>THO</td>
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<td></td>
</tr>
</tbody>
</table>

**Bold** = move of more than 5%

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**March 14, 2014**

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**Market Elements**

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**Page 5**
## U.S. Market Movers

### Energy
- **Symbol**: APC, HWG, ESS, SO
- **Last %Chg**: 8.4%, 0.4%, 8.2%
- **H/L/Last**: 80.07, 0.2%, 36.16, 1.2%

### Industrials
- **Symbol**: BHC, CDK, HCA, OXM
- **Last %Chg**: 1.0%, -0.2%, 1.4%, 1.3%
- **H/L/Last**: 120.00, -0.2%, 97.55, 0.0%

### Consumer Discretionary
- **Symbol**: ANF, PRM, BCR, CRO
- **Last %Chg**: 1.1%, 0.9%, 3.2%, 1.0%
- **H/L/Last**: 35.70, 1.1%, 40.65, -0.8%

### Consumer Staples
- **Symbol**: OFG, QQQ, JSR, NBR
- **Last %Chg**: 1.3%, -0.8%, 2.0%, -0.8%
- **H/L/Last**: 111.80, 0.3%, 40.72, 0.3%

### Technology
- **Symbol**: EGB, LCC, FTE, TBF
- **Last %Chg**: 0.0%, 0.0%, 3.8%, 3.4%
- **H/L/Last**: 55.70, 1.1%, 58.52, 0.0%

### Financials
- **Symbol**: PRS, WBC, ACH, CMI
- **Last %Chg**: 1.3%, -0.1%, 0.5%, 1.5%
- **H/L/Last**: 147.78, 0.7%, 8.07, 0.2%

### Market Elements
- **Symbol**: JPM, AIG, BAC, BRK/B
- **Last %Chg**: -1.1%, -0.2%, 0.3%, 0.3%
- **H/L/Last**: 107.47, 0.0%, 92.45, 0.0%

---

### U.S. Market Movers (cont.)

<table>
<thead>
<tr>
<th>Symbol</th>
<th>H/L/Last</th>
<th>%Chg</th>
</tr>
</thead>
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<td>APC</td>
<td>80.07</td>
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<tr>
<td>BHC</td>
<td>97.55</td>
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<tr>
<td>CDK</td>
<td>120.00</td>
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</tr>
<tr>
<td>HCA</td>
<td>97.55</td>
<td>0.0%</td>
</tr>
<tr>
<td>OXM</td>
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<td>1.0%</td>
</tr>
<tr>
<td>APC</td>
<td>80.07</td>
<td>0.2%</td>
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<tr>
<td>BHC</td>
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<tr>
<td>CDK</td>
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</tr>
<tr>
<td>HCA</td>
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<td>0.0%</td>
</tr>
<tr>
<td>OXM</td>
<td>120.00</td>
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**High/Low** = at a new closing 52-wk High/Low
- **High** = within 10% of the 52-wk HighLow
- **Low** = move of more than 5%
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<th>Stock Symbol</th>
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<th>% Change</th>
<th>Stock Symbol</th>
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<td>O2</td>
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<td>CF</td>
<td>27.60</td>
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<td>ANS</td>
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<td>DLM</td>
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<td>-3.3%</td>
<td>CAS</td>
<td>29.13</td>
<td>0.1%</td>
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**Market Elements**

- **Energy**
  - Symbol H: Last %Chg
  - Symbol H: Last %Chg
- **Industrials**
  - Symbol H: Last %Chg
  - Symbol H: Last %Chg
- **Consumer Discretionary**
  - Symbol H: Last %Chg
  - Symbol H: Last %Chg
- **Technology**
  - Symbol H: Last %Chg
  - Symbol H: Last %Chg
- **Financials**
  - Symbol H: Last %Chg
  - Symbol H: Last %Chg

**Market Observations**

- **Canadian Market Movers**
  - H = at a new closing 52-wk High
  - L = within 10% of the 52-wk High
  - Blue = S&P/TSX 60 member, Italics = ETF, Bold = more than 5%
Two Sides of North America

- From a global perspective, both U.S. and Canada are showing signs of strength, albeit the source of strength is rather different – Figures 1, 2.
  - The U.S. market, in an outperforming trend, broke out to a new relative strength high on Friday.
  - The CDN market broke above its underperforming trend (as did Australia).
- In the U.S. market, clearly momentum is the key driving factor. We highlight the largest momentum buys (Figure 3, full list here) and note that the largest threat to momentum, which is stress on the global banking system, peaked Friday morning and continues to recede today.
- In Canada, it is the positive reversals that are in focus, and here the theme is a blend of resources, staples, and real estate – Figure 4.

**Figure 1: MSCI US vs MSCI World**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>52-week % Change</th>
<th>MktCap (US$)</th>
<th>MSCI World LDI (%)</th>
<th>Trend</th>
<th>Slope</th>
<th>RS</th>
<th>Hi</th>
<th>Lo</th>
</tr>
</thead>
<tbody>
<tr>
<td>LVS US</td>
<td>Las Vegas Sands Corp</td>
<td>5.5%</td>
<td>66,824</td>
<td>65%</td>
<td>Trend</td>
<td></td>
<td>RS</td>
<td>Hi</td>
<td>Lo</td>
</tr>
<tr>
<td>GOOG US</td>
<td>Google Inc</td>
<td>-3.5%</td>
<td>226,247</td>
<td>72%</td>
<td>1.5</td>
<td></td>
<td>RS</td>
<td>Hi</td>
<td>Lo</td>
</tr>
<tr>
<td>HPQ US</td>
<td>Hewlett-Packard Co</td>
<td>-3.7%</td>
<td>55,091</td>
<td>79%</td>
<td></td>
<td></td>
<td>RS</td>
<td>Hi</td>
<td>Lo</td>
</tr>
<tr>
<td>DIS US</td>
<td>The Walt Disney Co</td>
<td>-2.6%</td>
<td>140,287</td>
<td>52%</td>
<td></td>
<td></td>
<td>RS</td>
<td>Hi</td>
<td>Lo</td>
</tr>
<tr>
<td>CVS US</td>
<td>CVS Caremark Corp</td>
<td>-1.0%</td>
<td>86,022</td>
<td>51%</td>
<td>48.0</td>
<td></td>
<td>RS</td>
<td>Hi</td>
<td>Lo</td>
</tr>
<tr>
<td>USB US</td>
<td>U.S. Bancorp</td>
<td>-1.5%</td>
<td>75,605</td>
<td>51%</td>
<td>10.5</td>
<td></td>
<td>RS</td>
<td>Hi</td>
<td>Lo</td>
</tr>
<tr>
<td>DD US</td>
<td>Eli Lilly &amp; Co</td>
<td>2.2%</td>
<td>61,016</td>
<td>28%</td>
<td></td>
<td></td>
<td>RS</td>
<td>Hi</td>
<td>Lo</td>
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<td>PCLN US</td>
<td>Priceline.com Inc</td>
<td>-6.6%</td>
<td>66,113</td>
<td>54%</td>
<td>1.0</td>
<td></td>
<td>RS</td>
<td>Hi</td>
<td>Lo</td>
</tr>
<tr>
<td>WFC US</td>
<td>Wells Fargo &amp; Co</td>
<td>-1.9%</td>
<td>249,411</td>
<td>62%</td>
<td></td>
<td></td>
<td>RS</td>
<td>Hi</td>
<td>Lo</td>
</tr>
<tr>
<td>EED US</td>
<td>Biogen Idec Inc</td>
<td>1.2%</td>
<td>78,599</td>
<td>70%</td>
<td></td>
<td></td>
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<td>Hi</td>
<td>Lo</td>
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<td>ESRX US</td>
<td>Express Scripts Inc</td>
<td>-2.4%</td>
<td>60,034</td>
<td>53%</td>
<td>-45.0</td>
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<td>Hi</td>
<td>Lo</td>
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<td>QCOM US</td>
<td>Qualcomm Inc</td>
<td>-2.7%</td>
<td>126,391</td>
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<td>Hi</td>
<td>Lo</td>
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<tr>
<td>FB US</td>
<td>Facebook Inc</td>
<td>-3.0%</td>
<td>133,795</td>
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<td>Hi</td>
<td>Lo</td>
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<td>EMMY US</td>
<td>Bristol-Myers Squibb</td>
<td>-6.3%</td>
<td>89,113</td>
<td>55%</td>
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<td></td>
<td>RS</td>
<td>Hi</td>
<td>Lo</td>
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<td>DOW US</td>
<td>Dow Chemical Co</td>
<td>-1.7%</td>
<td>59,150</td>
<td>57%</td>
<td></td>
<td></td>
<td>RS</td>
<td>Hi</td>
<td>Lo</td>
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<td>MSFT US</td>
<td>Microsoft Corp</td>
<td>-0.5%</td>
<td>312,937</td>
<td>39%</td>
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<td>RS</td>
<td>Hi</td>
<td>Lo</td>
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<tr>
<td>HON US</td>
<td>Honeywell Internatio</td>
<td>-3.6%</td>
<td>71,951</td>
<td>20%</td>
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<td>Hi</td>
<td>Lo</td>
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<td>-0.2%</td>
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<td>92,519</td>
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<td>Bank of America Corp</td>
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<td></td>
<td></td>
<td>RS</td>
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<td>Lo</td>
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**Figure 2: MSCI Canada vs MSCI World**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>52-week % Change</th>
<th>MktCap (US$)</th>
<th>MSCI World LDI (%)</th>
<th>Trend</th>
<th>Slope</th>
<th>RS</th>
<th>Hi</th>
<th>Lo</th>
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<td>CVE CN</td>
<td>Canacause Energy Inc</td>
<td>0.1%</td>
<td>19,897</td>
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<td>Hi</td>
<td>Lo</td>
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<td>Fortis Inc</td>
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<td>6,016</td>
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<td>Hi</td>
<td>Lo</td>
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<td>Lo</td>
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<td>11,626</td>
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<td>Dollarama Inc</td>
<td>0.9%</td>
<td>5,532</td>
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<td>Tim Hortons Inc</td>
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<td>Crescent Point Energy Co</td>
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<td>Yamana Gold Inc</td>
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<td>COS CN</td>
<td>Canadian Oil Sands</td>
<td>-1.3%</td>
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<td>Lo</td>
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<td>LNC CN</td>
<td>Brookfield Asset Manager</td>
<td>2.5%</td>
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<td>Silver Wheaton Corp</td>
<td>6.2%</td>
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<td>Lo</td>
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<td>REI CN</td>
<td>Real Estate Investor</td>
<td>0.8%</td>
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<td>Lo</td>
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<td>ACOX CN</td>
<td>Alico Ltd</td>
<td>0.1%</td>
<td>4,796</td>
<td>77%</td>
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<td></td>
<td>RS</td>
<td>Hi</td>
<td>Lo</td>
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Source: BMO Capital Markets, Bloomberg, Thomson, Markit

*BMO Capital Markets is restricted on Goldcorp and Brookfield Asset Mgmt
Stress on Banking System – 2nd Spike This Year

- Half of the too-interconnected-to-fail list of financials is breaking bad (Fig 1) or sporting an uptrend (Bank of China).
- This Russia / China-related stress on the banking system just started in earnest yesterday. It continues to ramp up this morning – Figure 2.
- When banks stressed and de-stressed early this year, the fit of this stress to the equity market ran as high as 80%.
- Mid-January stress on Chinese banks induced pressure on the global banking system by the end of January, ultimately leading to a 5% correction in global stocks by early February.

The stress on China-related carry trades, which coincides (and the iron ore / copper fallout), is self-induced by the PBOC.
- Continued devaluation via the Yuan mid-setting, which continued today, puts continued stress on carry trades.
- Weak metallics turned to molten metallics with the China misses this week - Figure 3.

The stress from Russia is monitored via bonds, CDS and currency; and this morning it is a trio of pain before the Crimea referendum – Figure 4.

**Figure 1: Bank CDS Where Narrowing CDS Trends Are Broken**

<table>
<thead>
<tr>
<th>Name</th>
<th>Country</th>
<th>2014 Chg</th>
<th>Trend</th>
<th>CDS 1-M</th>
<th>CDS 1-yr</th>
<th>CDS 1-yr Chg (%)</th>
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<tr>
<td>UniCredit SpA</td>
<td>Italy</td>
<td>-77%</td>
<td>↑</td>
<td>1.0</td>
<td>1.0</td>
<td>7%</td>
</tr>
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<td>U.S.</td>
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<td>↑</td>
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<td>1.0</td>
<td>4%</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>U.S.</td>
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<td>↑</td>
<td>1.0</td>
<td>1.0</td>
<td>3%</td>
</tr>
<tr>
<td>Banco Santander SA</td>
<td>Spain</td>
<td>-76%</td>
<td>↑</td>
<td>1.0</td>
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<td>3%</td>
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<td>HSBC Holdings PLC</td>
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<td>↑</td>
<td>1.0</td>
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<td>↑</td>
<td>1.0</td>
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<td>3%</td>
</tr>
<tr>
<td>Sumitomo Mitsui Financial</td>
<td>Japan</td>
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<td>1.0</td>
<td>1%</td>
</tr>
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<td>Mitsubishi UFJ Financial Gr</td>
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<td>↑</td>
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<td>1.0</td>
<td>0%</td>
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<td>Societe Generale</td>
<td>France</td>
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<td>1.0</td>
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<td>9%</td>
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</table>

**Figure 2: Global Prime Broker 5-Year CDS Average**

**Figure 3: China Surprise, Yuan Fix, Iron Ore, Copper**

**Figure 4: Russian Bonds, 5Yr CDS, and Currency**

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Spotlight on Utilities (and Gold)

- In yesterday’s session, punctuated by increasing stress in Ukraine and Russia, healthy bids toward core “safe-haven” bonds and gold, our breadth reading on utilities shot up and is now the only sector in our top quadrant (strength & mo) – Fig 1, 2.
  - The defensive shift comes ahead of Sunday’s referendum on Crimea.
- Just over a month ago, we called utilities a barking dog, where it made sense to reduce except in Europe or Emerging Markets.
  - European utilities are now soaring against the benchmark.
  - EM utilities continue to outperform and now Asian Utilities are tilting toward the positive (China, Korea, Hong Kong benchmarks trend lower).
  - Canadian and U.S. Utilities’ relative strength has pulled back.
    - In CDA the move has been to gold at the expense of Financials.
    - The U.S. market is the strongest in the world, and there is less of a push to lean defensively.
- Our stance is largely no change.
- If you are a global PM, look at utility momentum buys that are heavily stacked toward Europe – Figure 3.
- In Canada, go for the gold, which is strengthened by a weaker USD and ETF flows, which have switched from out to in (coinciding with USD weakness in February).
- In the U.S., note that utilities remain in an underperforming trend, but also that gold broke above an underperforming trend against the S&P 500 yesterday.

Figure 1: Utilities Relative Strength Z-Score (Breadth)
Figure 2: Sector Heat Map From Our Group Selection Report
Figure 3: Utilities Momentum Buy List vs. MSCI World

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>1-day Equity</th>
<th>5-day Equity</th>
<th>MarketCap (USD)</th>
<th>Chg Last Day</th>
<th>Trend</th>
<th>Slope</th>
<th>RS Hi</th>
<th>RS Low</th>
<th>%Chg 50 Day MA</th>
<th>Trend</th>
<th>%Chg 200 Day MA</th>
<th>Chg w/ 5%</th>
<th>Chg w/ 20%</th>
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<th>Bull Band Width</th>
<th>RSI Dly</th>
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<td>NGG US</td>
<td>National Grid Transco PLC</td>
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<td>51,546</td>
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<td>37%</td>
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<td>Above Rising</td>
<td>14%</td>
<td>Above Rising</td>
<td>ABOVE</td>
<td>140%</td>
<td>59</td>
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<td>Enel Green Power SpA</td>
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<td>0.4%</td>
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<td>78%</td>
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<td>86%</td>
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<td>ABOVE</td>
<td>104%</td>
<td>64</td>
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<td>Iberdrola SA</td>
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<td>12%</td>
<td>Above Rising</td>
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<td>107%</td>
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<td>-0.3%</td>
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<td>32%</td>
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<td>Above Rising</td>
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<td>137%</td>
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<td>Suez Environnement SA</td>
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<td>-0.4%</td>
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<td>9%</td>
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<td>0.8%</td>
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<td>Above Rising</td>
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<td>80%</td>
<td>60</td>
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</table>

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Copper & the Power of ONE

- When multiple asset classes line up together and trade in sync as they did yesterday at 11:00 a.m., as copper slid through $3, the risk on a portfolio is much higher than normal. We call this The Power of ONE (when correlations tend toward 1) – Figure 1.

- Copper is be the most liquid of the copper / iron ore duo where considerable quantities of metal are held in China for finance as opposed to consumption.

- The PBOC push to add volatility to the currency, and tighten up lending has unmoored such schemes. Copper, since last Friday, has become a liquid reflection of the instability of the weak tail of finance in China.
  - We have focused shorts on steel and then diversified miners, which dropped to 10th decile yesterday.
  - Broader shorts can be laid on indices which are trending lower, which include China, Brazil, MSCI EM, Korea, and Hong Kong.

- It is the banking system that can force the Power of ONE to take more control of formerly non-correlated equity markets. This stress took hold in January, but importantly has been dormant since.

Figure 1: The Power of ONE Chart – Multi-asset Class 2-day Intraday Chart This Morning
Positive Reversals in CDN E&P

- Our breadth reading for energy stocks just made it back to neutral, and the strength is being driven off of positive reversals – Figure 1.

- Energy sector trends against local benchmarks are still negative, yet most have now moved above relative strength MAs, and Australian and Canadian energy sectors closed at 1 and 2.5mo RS highs – Figure 2.

- The largest segment of CDN energy, E&P, is basing and is close to breaking above a slightly underperforming trend – Figure 3.
  - The CDN E&P stocks breaking above underperforming trends are highlighted in Figure 4.
  - The positive reversal with the best history (and nice volume accumulation at the low) is MMT – Figure 5.

- We threw in the best E&P stock for good measure, RRX - Fig 6.
Relative Strength Filter

China-Induced Copper Breakdown

- It’s the financial overhaul in China that caused the crack in the copper price.
  - The kind of crackdown that allows (finally) an onshore bond to default.
  - The kind of crackdown that turns the greatest currency carry trade on its head with a healthy dose of PBOC-induced Yuan volatility.
  - The kind of crackdown that looks like it’s finally making a stir in the shadow financing in China where metals are held not for economic demand, but rather for financing.

- On Friday, the implied volatility on copper futures spiked as the commodity broke (and continues to break this morning) to the downside – Figures 1, 2.
  - We also note that the Iron Ore and steel pricing (also involved in finance) in China is also breaking to the downside.

- Price trends on copper-leveraged stocks are for the most part trending lower, and some have positive reversals (green arrows on a red wedge) that can be sold into. Judging from the RSI, there is no panic in equities, yet one sees the panic in the commodity.
  - The weakest stock is Jiangxi Copper. The strongest stock, where indeed there is probably a recent bid to sell into, is found in First Quantum Minerals.

Figure 1: LME Copper Futures Implied Volatility

Figure 2: CMX Copper This Morning

Figure 3: Price Trends on Copper Leveraged Equities

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
* BMO Capital Markets is restricted on Augusta Resource and Nevada Copper

March 10, 2014
Research Comment
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Maligned Materials

- This week, we have written on +ve momentum. For balance we look at a bottoming pattern. **Materials vs. MSCI World** has been basing for 8m, and our breadth indication has slowly been digging itself out of -ve territory – Fig 1, 2.

- The statement looking at **industries against the sector** is “anything but mining” (with Chinese debt finally opening the Pandora’s box with the first domestic debt default today, one can afford to wait; note today’s breakdown in copper, and downward spiralling Iron Ore) – Figure 3.

- Momentum buys against the Materials sectors are shown in Fig 4a-c.

**Figure 1: Global Materials vs. MSCI World**

**Figure 2: Global Materials Relative Strength Z-Score (Breadth)**

**Figure 3: Global Material Industries (GICS L3) vs MSCI Global Materials**

**Figure 4: Largest Material Momentum Buys vs Material Benchmarks**

**4a: Global vs. MSCI Global Materials**

**4b: U.S. vs. S&P 500 Materials**

**4c: CDN vs. S&P/TSX Materials**

Source: BMO Capital Markets, Bloomberg, Thomson, Markit  BMO Capital Markets is Restricted on Reservoir Minerals Inc. (RMC)
Canadian Small Caps

- The Canadian dollar has not quite broken its steep downtrend against the greenback, but the reason for the decline is fading. The Canadian 2yr bond yield has broken above its downtrend, and the CDN–US 2yr differential has started to move off of the extreme (4-year low) level of 60 bps and back toward a normal 80 bps.
- In the event that the sale on the C$ is short-lived (Figure 1, and mind Figure 2), we would highlight Canadian small caps to our cross-border shoppers. Why Small Caps?
  - While the large cap 60 index, with a heavy bank and insurance weight, is fading back into a downtrend relative to the 500,
  - Small Caps are above a rel. strength (vs. 500) downtrend and MAs are turning.
- To get that positive reversal against the 500 the TSX SmllCap index had to be pushed above its trade channel, which is rising at 26%/y in C$ terms. The top of our momentum buy list (which excludes overbought stocks), based on price trends is shown in Figure 3.
Industrials Picking Back Up

- **Industrials** were part of the trio of where most outperformance could be found, with the other members being **Technology** and **Health Care**. They dipped back to neutral in January, stabilized in February, and are now climbing back into the positive quadrant of strength and momentum – Figures 1, 2.

- The colour of where to get outperformance differs somewhat from region to region;
- Among US large caps, Aerospace and Industrial Machinery stocks dominate the momentum buy list – Figure 3.
- In **Canada**, it is CP and C&E stocks that outperform – Figure 4.

---

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

**Figure 2:** Industrials Relative Strength Z-Score

**Figure 3:** S&P 500 Industrial Momentum Buys (see This Link for Outperformers which Includes Overbought Stocks)

**Figure 4:** CDN Industrials in Outperforming Trends vs Market and Sector (To include non benchmark stocks see here)

---

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

Energy Storage & Transports 1st Decile

We will follow up with yesterday’s energy security & yield theme, as even as tensions in the Ukraine are easing, the theme is not a new one, and will not go away.

The best grouping of energy stocks are the storage and transports which regained a 1st decile position yesterday — Figure 1.

- At 1st decile, positive momentum has already been established, and as such one is better off riding the best momentum rather than looking for bottoming stocks which have been left behind — Figure 2.
- This is a group where you have to look beyond index constituents, which generally do not cover MLPs. When you do so, you see the tilt towards outperformance and the breadth of stocks breaking above trade channels — Figure 3.

Figure 1: Oil & Gas Storage & Transports RS Decile

Figure 2: O&G Transports Momentum Buys vs ACWI

Figure 3: Oil & Gas Storage & Transports vs ACWI

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
With the Russian/Ukrainian situation heating up over the weekend, the key beneficiaries of the uncertainty are bonds (Figure 1) and energy prices.

We have been highlighting yield many times since rates peaked out at year-end, but have downplayed energy as the breadth of sector has simmered in slightly negative territory. With energy security being the largest potential economic victim from this crisis, our energy breadth reading may push into positive territory – Figure 2.

The list of energy stocks in outperforming trends against MSCI World that also have good yield and dividend growth profiles is a tight one – Figure 3.
Best of Internet Software & Services

- Scan the global industries by most consistent price uptrend and leading the pack is Internet Software and Services – Figure 1.
- While this index is very top-heavy with dominance by the megacaps: Google, Tencent, Facebook, eBay (note the breakout) and Baidu, we note our group selection report ranking, which is not market cap weighted, records a positive, or at worst neutral, reading since June. The current reading is 2nd decile— Figure 2.

- Against the ACWI, 60% of Internet Software and Services stocks are in outperforming trends.
- We highlight the 26 “best of and buyable,” or our momentum buy list of price trends in Figure 3.
**Relative Strength Filter**

### Best of High Dividend Yield

**TOOLKIT**

- **The decline in government yields is led by Europe (home of the strongest disinflation trends), where the peripheries are seeing 10y yields drop at rates of 35-60%. The German 10y yield, diving to a 7m low this morning, is falling at a rate of 20%. The U.S. 10y yield this morning is just 1 bps above its 200d MA and we expect the breakdown will come soon.**
  - U.S. corporate bonds (LQD US) have based and are market performing against the MSCI World.
  - Junk bonds (JNK US) are also showing signs of strength against the global equity benchmark – Figure 1.

- **High-yield stocks** have been in an underperforming trend against global stocks, but are challenging that downtrend, and the bottom coincides with the year-end high in treasury yields (U.S. 10y at 3%) – Figure 2.

- **We will consider high yield to be an indicated dividend yield in excess of 3%.**
- **Our best of list of stocks are:**
  - in outperformance trends against the MSCI World High Dividend Yield Index;
  - above rising 50d and 200d MAs yet are not overbought; and
  - sporting a +ve dvd growth record.
- We highlight the top 20 in Figure 3, the full list is found [at this link](#).

#### Figure 1: Junk Bond ETF vs. MSCI World

![Junk Bond ETF vs. MSCI World](image1.png)

**Figure 2: MSCI High Dividend Yield Index vs. MSCI World**

![MSCI High Dividend Yield Index vs. MSCI World](image2.png)

**Figure 3: Momentum Buy List (vs MSCI High Dividend Yield Index) of Top Yield Stocks – See Link for Full List**

![Momentum Buy List (vs MSCI High Dividend Yield Index) of Top Yield Stocks](image3.png)

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Uranium Restart

- Cameco welcomed Japan’s commitment to nuclear power, the rest of the industry did so as well – Figure 1.
- There is a notable positive shift in the group since the uranium price minted its first higher high at the end of November.
- Cameco continues to break out of a long-term base – Figure 2.
- Yesterday’s reversal in the Uranium ETF was punctuated with volume – Fig 3.
- For those looking for a non-commodity play, note the trend and torque of Areva SA – Figure 4.
- The laggard for those looking for such a vehicle is Paladin Energy – Figure 5.

Figure 1: Dvd Adjusted Price Trends on Uranium Levered Companies

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Gpr</th>
<th>RS</th>
<th>LT Price</th>
<th>Price Trend</th>
<th>Close</th>
<th>1-day Equity Chg (%)</th>
<th>5-day Equity Chg (%)</th>
<th>MktCap (US$)</th>
<th>Vol (%)</th>
<th>Chg Last Day</th>
<th>Price Trend</th>
<th>Trend Slope</th>
<th>Hi (Mo)</th>
<th>Low (Mo)</th>
<th>%Chg wrt S400 MA</th>
<th>Chg wrt 50 Day MA Trend</th>
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<td>Uranium Participation Corp</td>
<td>5</td>
<td>9</td>
<td>5</td>
<td>5.75</td>
<td>5.75</td>
<td>2.9%</td>
<td>4.5%</td>
<td>606</td>
<td>1.39</td>
<td></td>
<td>43%</td>
<td>1.0</td>
<td>4%</td>
<td>Above Rising</td>
<td>64</td>
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<tr>
<td>COO</td>
<td>Cameco Corp</td>
<td>8</td>
<td>8</td>
<td>6</td>
<td>25.42</td>
<td>25.42</td>
<td>5.2%</td>
<td>7.2%</td>
<td>9,026</td>
<td>1.69</td>
<td></td>
<td>68%</td>
<td>3.0</td>
<td>10%</td>
<td>Above Rising</td>
<td>67</td>
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<tr>
<td>FDLN</td>
<td>Fission Uranium Corp</td>
<td>8</td>
<td>1</td>
<td>6</td>
<td>1.37</td>
<td>1.37</td>
<td>-4.6%</td>
<td>15.1%</td>
<td>359</td>
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<td></td>
<td>30%</td>
<td>10.0</td>
<td>20%</td>
<td>Above Rising</td>
<td>70</td>
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<tr>
<td>ALS</td>
<td>Al庇us Minerals Corp</td>
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<td>7</td>
<td>0</td>
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<td>14.55</td>
<td>-0.3%</td>
<td>-5.3%</td>
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<td>4%</td>
<td>Above Rising</td>
<td>43</td>
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<tr>
<td>DML</td>
<td>Denison Mines Corp</td>
<td>8</td>
<td>9</td>
<td>7</td>
<td>1.67</td>
<td>1.67</td>
<td>9.2%</td>
<td>12.1%</td>
<td>712</td>
<td>2.99</td>
<td></td>
<td>-4%</td>
<td>17.5</td>
<td>21%</td>
<td>Above Rising</td>
<td>68</td>
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<tr>
<td>PON</td>
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<td>8</td>
<td>10</td>
<td>8</td>
<td>0.49</td>
<td>0.49</td>
<td>11.5%</td>
<td>-3.0%</td>
<td>422</td>
<td>4.13</td>
<td></td>
<td>-5%</td>
<td>4.5</td>
<td>2%</td>
<td>Above Rising</td>
<td>51</td>
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<td></td>
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<tr>
<td>ERA</td>
<td>Energy Resources of Aust</td>
<td>8</td>
<td>10</td>
<td>8</td>
<td>1.35</td>
<td>1.35</td>
<td>0.7%</td>
<td>8.9%</td>
<td>630</td>
<td>2.83</td>
<td></td>
<td>-26%</td>
<td>4.5</td>
<td>10%</td>
<td>Above Rising</td>
<td>68</td>
<td></td>
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<tr>
<td>UEC</td>
<td>Uranium Energy</td>
<td>8</td>
<td>10</td>
<td>10</td>
<td>1.79</td>
<td>1.79</td>
<td>-9.3%</td>
<td>-4.1%</td>
<td>161</td>
<td>3.54</td>
<td></td>
<td>-50%</td>
<td>1.0</td>
<td>0%</td>
<td>Above Rising</td>
<td>57</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Steel Completes Round Trip – 10th Decile

- If you sell/short the weakness in steel, you did so a month ago on the breakdown. If you sell/short into negative momentum, you start doing so now as the relative strength of the group slumps back to 10th decile – Fig. 1.
- The China growth picture is heading into reverse and the recent rapid decline in the Chinese currency may well be a sign that metallic financing is reversing, which would corroborate with the recent slide of Chinese steel pricing – Fig. 2.
  - Our steel momentum sells are highlighted in Fig. 3.
  - Two key breakdowns of note are Cliffs and ArcelorMittal – Fig. 4, 5.

Figure 1: Steel Relative Strength Decile

Figure 2: Shanghai Steel Rebar Spot Price

Figure 3: Steel & Iron Ore Levered Momentum Sells (Dvd Adj Price Trends)

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>LT Price</th>
<th>Price Trend</th>
<th>Vol (%)</th>
<th>Trend Slopes</th>
<th>High (Maj)</th>
<th>Low (Min)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50 Day MA Trend</th>
<th>%Chg wrt 150d MA</th>
<th>Chg wrt 150 Day MA Trend</th>
<th>RSI 14</th>
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</thead>
<tbody>
<tr>
<td>EVR LN</td>
<td>Evraz PLC</td>
<td>10</td>
<td>2,011</td>
<td>2.86</td>
<td>-63%</td>
<td>-16%</td>
<td>-28%</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td>-28%</td>
<td>Below Falling</td>
<td>30</td>
</tr>
<tr>
<td>CAP CI</td>
<td>CAP SA</td>
<td>10</td>
<td>2,371</td>
<td>2.33</td>
<td>-46%</td>
<td>-4%</td>
<td>-13%</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td>-13%</td>
<td>Below Falling</td>
<td>50</td>
</tr>
<tr>
<td>693 HK</td>
<td>China Venedium Titan</td>
<td>10</td>
<td>257</td>
<td>2.16</td>
<td>-43%</td>
<td>-8%</td>
<td>-17%</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td>-17%</td>
<td>Below Falling</td>
<td>39</td>
</tr>
<tr>
<td>NML CN</td>
<td>New Millennium Capital</td>
<td>10</td>
<td>81</td>
<td>3.87</td>
<td>-44%</td>
<td>-17%</td>
<td>-25%</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td>-25%</td>
<td>Below Falling</td>
<td>38</td>
</tr>
<tr>
<td>MIL US</td>
<td>MFC Industrial Ltd</td>
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<td>454</td>
<td>1.71</td>
<td>-19%</td>
<td>10.5</td>
<td>-5%</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td>-10%</td>
<td>Below Falling</td>
<td>37</td>
</tr>
<tr>
<td>LOND LN</td>
<td>London Mining PLC</td>
<td>10</td>
<td>212</td>
<td>3.22</td>
<td>-46%</td>
<td>-8%</td>
<td>-18%</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td>-18%</td>
<td>Below Falling</td>
<td>41</td>
</tr>
<tr>
<td>BAP4 BZ</td>
<td>Bradespar SA</td>
<td>10</td>
<td>2,084</td>
<td>2.13</td>
<td>-22%</td>
<td>-6%</td>
<td>-11%</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td>-11%</td>
<td>Below Falling</td>
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<tr>
<td>NLMK LJ</td>
<td>Novolipetsk Steel (NL</td>
<td>10</td>
<td>8,774</td>
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<td>-7%</td>
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<td>Below Falling</td>
<td>-10%</td>
<td>Below Falling</td>
<td>39</td>
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<tr>
<td>MTL US</td>
<td>Mechel</td>
<td>10</td>
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<td>-2%</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td>-21%</td>
<td>Below Falling</td>
<td>56</td>
</tr>
</tbody>
</table>

Figure 4: Cliffs Natural Resources (CLF US) Dvd Adj Price

Figure 5: ArcelorMittal (MT US) Dvd Adj Price

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

Canadian Gold

- On Friday, gold broke above downtrends in yen and even (super strong) sterling terms. The downtrends started breaking earlier this month, and the set is now complete - Figure 1.
- Canada boasts a very large gold haul, with the medal being the third-largest S&P/TSX subindustry weight at 6.4%. Amongst a basket of gold indices, it is also in the best position with a slightly negative slope, and above rising moving averages – Figure 2.
- There is a subset of Canadian gold shares in outperforming trends against the market, with the best junior being SEMAFO, and best senior being Franco Nevada. Most others are also reversing underperforming trends against the market – Figure 3.
- Behind the scenes, there is a tightening in lending in China that is now being played out in the currency and real estate markets with plummeting property shares and banks overnight.
- Of course the news flow for Canadian gold has been spectacular. Congrats Canadians! – Figure 4.

Figure 1: Gold in Major Currencies

Figure 2: Gold Index Price Trends

Gold Now Broke Above Downtrends In All Major Currencies

Figure 3: CDN Gold Stocks vs S&P/TSX Composite

Figure 4: News Flow on Canadian Gold

Team Canada wins gold, beating Sweden 3-0 in men’s Olympic...
Relative Strength Filter

February 21, 2014
Research Comment
Quantitative/Technical Research Website

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Most Consistent Outperformance: DAX, NDX

• Where is the most consistent outperformance found amongst the most liquid equity futures markets? The answer, heads and tails above the rest, is in the German DAX and NASDAQ 100 – Figure 1.

• Why is that so? If you dig into the granularity, you see:
  o All but one member of the DAX are in an outperforming trend against the MSCI World, and the one underperformer is breaking to the upside – Figure 2.
  o In the NASDAQ 100, the ratio of outperformers to underperformers is 4:1. We highlight the momentum buy list in Figure 3.

Figure 1: Index Trends vs MSCI World

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>Chg Last Day</th>
<th>Reward /Risk</th>
<th>Trend Slope</th>
<th>% Chg wrt 50d MA</th>
<th>Chg wrt 50d RS MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>German DAX</td>
<td>DAX</td>
<td></td>
<td></td>
<td>18%</td>
<td>1%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>NASDAQ 100</td>
<td>NDX</td>
<td></td>
<td></td>
<td>13%</td>
<td>1%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>Spanish IBEX</td>
<td>IBEX</td>
<td></td>
<td></td>
<td>21%</td>
<td>0%</td>
<td>Below Rising</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>SPX</td>
<td></td>
<td></td>
<td>4%</td>
<td>0%</td>
<td>Below Falling</td>
</tr>
<tr>
<td>Italian MID</td>
<td>FTSEMID</td>
<td></td>
<td></td>
<td>16%</td>
<td>4%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>S&amp;P 400</td>
<td>MID</td>
<td></td>
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<tr>
<td>Russell 2000</td>
<td>RTY</td>
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<td>4%</td>
<td>0%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>Dutch AEX</td>
<td>AEX</td>
<td></td>
<td></td>
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<td>0%</td>
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</tr>
<tr>
<td>UK FTSE 100</td>
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<td>0%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>DIJA</td>
<td>INDU</td>
<td></td>
<td></td>
<td>-1%</td>
<td>2%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>NKY-22S</td>
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</tr>
<tr>
<td>French CAC</td>
<td>CAC</td>
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<td></td>
<td>-4%</td>
<td>2%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>Mexican IPC</td>
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<td>Japanese TopX</td>
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<td>Bovesco</td>
<td>JBOV</td>
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<td>-58%</td>
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<td>Above Rising</td>
</tr>
<tr>
<td>Aussie ASX</td>
<td>ASX</td>
<td></td>
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<td>-27%</td>
<td>2%</td>
<td>Above Rising</td>
</tr>
<tr>
<td>Hong Kong CSI</td>
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<td>-20%</td>
<td>-3%</td>
<td>Below Falling</td>
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<td>FTSE China ASX</td>
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<td>-35%</td>
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<td>Chinese CSI</td>
<td>SHSZ300</td>
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<td></td>
<td>-32%</td>
<td>-2%</td>
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</table>

Source: BMO Capital Markets, Bloomberg, Thomson, Markit

Figure 2: German DAX Members vs MSCI World

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Chg wrt 50d RS MA Trend</th>
</tr>
</thead>
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<tr>
<td>SI US 36</td>
<td>VOW GR 27</td>
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</tr>
<tr>
<td>BAS GR 35</td>
<td>SDF GR 47</td>
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<tr>
<td>CBK GR 98</td>
<td>A3S GR 17</td>
<td>Above Rising</td>
</tr>
<tr>
<td>LGY GR 30</td>
<td>YHNS GR 15</td>
<td>Below Falling</td>
</tr>
<tr>
<td>D32715 US 35</td>
<td>LIF GR 3</td>
<td>Above Rising</td>
</tr>
<tr>
<td>D32715 US 35</td>
<td>LIF GR 3</td>
<td>Above Rising</td>
</tr>
<tr>
<td>B36941 US 35</td>
<td>OEO GR 15</td>
<td>Below Falling</td>
</tr>
<tr>
<td>BMW GR 20%</td>
<td>VDNH GR 30</td>
<td>Above Rising</td>
</tr>
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</table>

Figure 3: NASDAQ 100 vs MSCI World – Top of Mo Buy List

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Chg wrt 50d RS MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>CTS US</td>
<td>Cognizant Technology Solutions</td>
<td>Above Rising</td>
</tr>
<tr>
<td>MAR US</td>
<td>Marriott International</td>
<td>Above Rising</td>
</tr>
<tr>
<td>GOOG US</td>
<td>Google Inc</td>
<td>Above Rising</td>
</tr>
<tr>
<td>PLN US</td>
<td>Priceline.com Inc</td>
<td>Above Rising</td>
</tr>
<tr>
<td>ADOG US</td>
<td>Autodesk Inc</td>
<td>Above Rising</td>
</tr>
<tr>
<td>WDC US</td>
<td>Western Digital Corporation</td>
<td>Above Rising</td>
</tr>
<tr>
<td>LINTA US</td>
<td>Liberty Interactive Corp</td>
<td>Above Rising</td>
</tr>
<tr>
<td>WYNN US</td>
<td>Wynn Resorts Ltd</td>
<td>Above Rising</td>
</tr>
<tr>
<td>SNXK US</td>
<td>SEndisk Corporation</td>
<td>Above Rising</td>
</tr>
<tr>
<td>AVGO US</td>
<td>Avago Technologies</td>
<td>Above Rising</td>
</tr>
<tr>
<td>VOD US</td>
<td>Vodafone Group PLC</td>
<td>Above Rising</td>
</tr>
<tr>
<td>FISV US</td>
<td>Fiserv Inc</td>
<td>Above Rising</td>
</tr>
<tr>
<td>MU US</td>
<td>Micron Technology Inc</td>
<td>Above Rising</td>
</tr>
<tr>
<td>NPLX US</td>
<td>NetFlix Inc</td>
<td>Above Rising</td>
</tr>
<tr>
<td>GILD US</td>
<td>Gilead Sciences Inc</td>
<td>Above Rising</td>
</tr>
<tr>
<td>DIS US</td>
<td>DISH Network Corp.</td>
<td>Above Rising</td>
</tr>
<tr>
<td>BIDU US</td>
<td>Baidu, Inc.</td>
<td>Above Rising</td>
</tr>
<tr>
<td>HSIC US</td>
<td>Henry Schein Inc</td>
<td>Above Rising</td>
</tr>
</tbody>
</table>

Fantastic Breadth - All but One in an Outperforming Trend, and the One Underperformer Is Turning Positive

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

Financial Shifts (REITs Strength Again)

- Overall, our system marks Global Financials as market performing, but with a noted downward bias – Figure 1.
- Breaking it down by region, most financial sectors are in weak trends, or are starting to weaken, denoted by falling relative strength moving averages against local benchmarks – Figure 2.
- Breaking it down by industry, the weakness is widespread, yet there is some strength in commercial banks (heavily weighed towards Europe) and REITs continue to rebound – Figure 3.
- We noted the return of REITs in late January, and that strength, and positive driver of lower long and short rates, continues. The pendulum continues to shift toward outperformance – Figure 4.

Figure 1: Financials vs MSCI World

Figure 2: Financial Industries vs Local Benchmarks

With the Exception of Europe,

trends are Weak or Weakening

Figure 3: Global Financial Industries vs MSCI World

Figure 4: Largest 20 REITs vs MSCI World – See Full List Here

In Outperforming Trends...

...Or Breaking Above Underperforming Trends

Source: BMO Capital Markets, Bloomberg, Thomson, Markit

February 20, 2014
Research Comment

Quantitative/Technical Research Website

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Struggling Staples

- When markets are stressed (like this morning, where we note EM weakness is centred on Russia, but also note the 5yr CDS on China, illiquid as it is, is at a third high) the market leans toward the defensive yield of utilities, bypassing staples. When markets are jubilant, it is tech and health care that gets the nod. This double snub has knocked our z-score reading on staples to be the worst of the 10 GICS – Figure 1.

- The underperformance of staples is uniformly global. In the U.S., the group dove below the bottom end of an underperforming trend yesterday.

- The key stocks not to own, and arguably to short, are found in our momentum sell list – Figure 2.

- Our momentum buy list of relative strength trends is a shorter list, but it reveals the few staples that the market consistently rewards – Figure 3.

- Finally, there is always a few that are at key turning points, where the underperformance trend has been severe. The key questions to ask here are: is there value to be realized or a reason for the positive pivot – Figure 4.

**Figure 1: Global Consumer Staples Relative Strength Z-Score**

**Figure 2: Price Trends MSCI World CS Momentum Sells**

**Figure 3: Relative Strength Trends on MSCI World Consumer Staples – Momentum Buys**

**Figure 4: Relative Strength Trends on MSCI World Consumer Staples – Severing Underperforming Trends**
Best of Europe

- With N. American markets closed yesterday, we will highlight the best of Europe.
  - Europe, along with North America, is outperforming MSCI World (underperformance is dished out to Pacific, Latin America, and EM) – Figure 1.
  - MSCI Europe is trending higher at a rate of 23%/year – Figure 2. Breaking it down by country, Germany and Spain are in outperforming trends, and U.K. gets honourable mention breaking above a flat trend.

At the granular level, the largest 20 European momentum buys (outperforming the market, the sector, above rising moving averages, yet not overbought) are shown in Figure 3 (the full list is provided here).

Figure 1: Regions vs. MSCI World

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>1d RS Chg (%)</th>
<th>2d RS Chg (%)</th>
<th>Chg Last Day</th>
<th>Reward/Risk</th>
<th>Trend Slope</th>
<th>RS PI (%)</th>
<th>RS Low (%)</th>
<th>Trend Length</th>
<th>Trend/Week</th>
</tr>
</thead>
<tbody>
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<td>Europe ex UK</td>
<td>GDXUE1K</td>
<td>0.0%</td>
<td>0.5%</td>
<td></td>
<td></td>
<td>4%</td>
<td>29.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>GDXUE1S</td>
<td>0.3%</td>
<td>1.0%</td>
<td></td>
<td></td>
<td>2%</td>
<td>12.5</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>GDDUNA</td>
<td>-0.2%</td>
<td>-0.1%</td>
<td></td>
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<tr>
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<td></td>
<td>2%</td>
<td>6.5</td>
<td></td>
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</tr>
</tbody>
</table>

Figure 2: MSCI Europe

- MSCI Europe is trending higher at a rate of 23%/year – Figure 2. Breaking it down by country, Germany and Spain are in outperforming trends, and U.K. gets honourable mention breaking above a flat trend.

Figure 3: Largest 20 European Momentum Buys vs MSCI Europe - Full List of 71 Found Here

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

TOOLKIT

CLICK HERE

February 14, 2014
Research Comment
Quantitative/Technical Research Website
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(416) 359-4641
mark.steele@bmo.com
Assoc: Tiberiu Stoichita/Jin Li

‘Kanada’ Takes on the World

- “Kanada” takes on the world, not boastfully, but with humility. For the second time this week, MSCI Canada breaks above an underperforming trend against MSCI World and shares are recovering from a 2.5-year relative strength low – Figure 1, 2.
  - Interestingly, it is yen strength (since the start of the year) that is punishing fellow underperformer Japan, yet is helping Canada by its influence (along with Euro strength) on gold, which continues to be a major weight in “Kanada.”
- The performance of MSCI “Kanadian” constituents vs. MSCI World is a bell-shaped distribution, with a slight tilt to the negative, but with many more underperformers breaking to the upside than outperformers breaking down – Figure 3. The emerging positives have been gold, and to a lesser degree energy.

Figure 1: Major Developed Markets vs. MSCI World

Figure 2: MSCI Canada vs. MSCI World

Figure 3: MSCI Canada Constituents vs. MSCI World

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
BMO Capital Markets is Restricted on Goldcorp (G)
Credit = Backbone of Equity Markets

- The cost to protect the banking system against default is currently driving equity returns, to the tune of 80% (rolling 20-day correlation) - Figure 1.
- Credit is the ultimate backbone of capital markets.
  - The backbone received a jolt in January on the uncertainty concerning the payback of China’s Credit Equals Gold No. 1
  - Credit growth in the Chinese shadow banking system is now slowing, and Jilin Trust becomes the latest (albeit smaller) trust to add concern to the Chinese Shadow Banking System. The bank CDS gauge stopped improving yesterday.
- And, yes, you care – Figure 1.

Figure 1: Average Prime Broker CDS Index (Bloomberg CIX - .PrimeTime) vs S&P 500

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Recently, we have been noting the shifts in strength (mining and materials, energy, utilities, REITS). Today, we highlight the two sectors that have provided, and continue to provide, leadership both from a market cap-weighted and breadth perspective: Technology and Health Care – Figures 1-3.

While the relative strength of technology vs. MSCI World looks like an AAPL chart, technology stocks in outperforming trends against MSCI World trump those in underperforming trends by a ratio of 3:1.

The ratio of health care outperformers to underperformers follows the same 3:1 ratio.

Figure 1: Information Technology vs. MSCI World

Figure 2: Health Care vs. MSCI World

Figure 3: Largest 20 Health Care and Technology Stocks in Outperforming Trends Against MSCI World and Sectors

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
Materials Strength Part 2

- There is a notable shift in sentiment with the strength we are seeing in materials (see yesterday’s RSF for Mining Strength). For over a year, we could highlight industrials as the place to be to avoid resources, but now materials is gaining at the expense of industrials – Figures 1, 2.

- From the largest 20 materials company shown against MSCI World, - Figure 3: Chemicals is well represented, and in order we prefer specialty chemicals, diversified chemicals, but also note that fertilizers have improved to the upper level of weak with a 7th decile ranking (gold and precious metals have also improved to 7th decile). Steel, which we turned negative on in January, is breaking down, or underperforming. Diversified miners continue to garner a weak 8th decile ranking, yet Rio Tinto is a positive outlier.

**Figure 1: MSCI Materials vs. MSCI World**

**Figure 2: Global Sector Heat Map**

**Figure 3: Largest 20 Global Material Stocks vs. MSCI World**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub Industry</th>
<th>Grp RS</th>
<th>1-dy Equity Chg (%)</th>
<th>5-dy Equity Chg (%)</th>
<th>MktCap (US$)</th>
<th>Chg Last Day</th>
<th>Trend Slope</th>
<th>RS HI (Mo)</th>
<th>RS LO (Mo)</th>
<th>% Chg w/ 50 Day MA</th>
<th>% Chg w/ 200 Day MA</th>
<th>Chg w/ 200 Day MA Trend</th>
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<td>BASF SE</td>
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<td>-0.9%</td>
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<td>98,261</td>
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<td>Below Falling</td>
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<td>Steel</td>
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<td>IndustGas</td>
<td>7</td>
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<td>5.1%</td>
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<td>FCX US</td>
<td>Freeport-McMorin Copper&amp;Gold</td>
<td>DiversChm</td>
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<td>3.7%</td>
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<td>-6%</td>
<td>Below Falling</td>
<td>Below Falling</td>
<td>-5%</td>
<td></td>
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</table>

Source: BMO Capital Markets, Bloomberg, Thomson, Markit  BMO Capital Markets is Restricted on Glencore International (GLEN).
Mining Strength

- Avoiding materials, and specifically miners, seems like an easy bet:
  - commodity currencies are trending lower,
  - inflation expectations in most developed nations are trending lower or are breaking in that direction, and
  - both long and short rates do not portray an image of global growth to fear.
- Yet despite this less-than-enthused backdrop, our reading on materials poked its head into positive territory on Friday, and if you look for where that strength came from, it was from the miners – Figures 1, 2.
- On the commodity front:
  - gold broke above downtrends in EUR, GBP, & USD terms on Friday
  - Base metals are mixed, with some trending slightly higher, others lower, some are above MAs, some are below.
- Given Friday's strength, which was rather unexpected, we need to detail the winners – miners in outperforming trends, and the ones vying to turn the corner – those breaking above underperforming trends – Figures 3, 4.

Figure 1: Materials Relative Strength Z-Score

Figure 2: MSCI World Materials Groups vs MSCI World

Figure 3: MSCI World Mining Stocks Outperforming Market and Sector

Figure 4: MSCI World Mining Stocks Breaking Above an Underperforming Trend vs MSCI World
Tighten Up

- In May and June, markets started a new dance called the Tighten Up.
  - 1st tighten up on the long end of the U.S. treasury curve – Figure 1.
  - 2nd tighten up the Chinese interbank lending curve – Figure 2.
  - 3rd tighten up on the short end of the U.S. treasury curve – Figure 3.

**Sock it to me now**

* Tighten it up
  * Archie Bell & The Drells

- A tipping point has been reached. The central bank (BIS) now deems that (1) there has been enough stimulus provided to the global economy, (2) more cannot be done without compounding risks that central banks have already created, and (3) easing has led to the delay of structural reforms (BIS Annual Report June 23, 2013).
- After a period of unprecedented central bank easing, and ultra low interest rate volatility, markets are adjusting to now rather rapid tightening and escalating volatility.
  - The known unknown is that when interest rates move from low and highly certain, to high and highly uncertain, that carry trades blow up. This was Long-Term Capital Management, this was Carlyle Capital Corporation, and this is the known unknown that markets are routing out now.
- Our goal over the next few pages is to detail these stresses, which we believe are still at very early stages. We expect global equity weakness to persist over the near term.
FOMC: Early Withdrawal? Really?

- There has been a change in the calculus of the FED this year. In BIS terms, “Delivering further extraordinary monetary stimulus is becoming increasingly perilous”.
  - U.S. inflation expectations just started to ease leading into the FOMC minutes release in February.
  - On February 20 we learned that the FED was concerned about its open ended QE policy.
    - This was also the start of the market's fascination with the term “tapering” which has been written about 150 times per day, on average, in the month of June (“NT Tapering” on Bloomberg).
  - Inflation expectations really started falling after Cypriot debt resolution uncertainty came to bear on March 18.
    - One month later, inflation expectations were breaking down globally.
  - While inflation expectations were falling, asset price inflation was picking up. This is obviously not the inflation that the fed targets, but it was the destination that the market was targeting for QE related flows.
  - Would outgoing Bernanke go down as the FED who stoked asset price inflation? – Figure 4.
    - On May 22 Bernanke and the FOMC told the market that QE could be stepped down as early as June.
    - On June 19 Bernanke delivered the withdrawal schedule verbally.
    - Asset price inflation is no longer a problem.
  - Asset price deflation in our clients’ portfolios is our key interest now.

**Figure 4: US Inflation Expectations (10-Year Breakeven Rate) Top; FTSE Global REIT Index (TENHGU) Bottom**

- Wednesday February 20 QE Conem (FOMC Minutes)
- Monday March 18 Cypriot Debt Resolution Uncertainty
- Wednesday May 22 QE Stepdown as Early as June (Bernanke Q&A & FOMC Minutes)
- Our Program is Working, Inflation Expectations Are Stable and Contained...
- Hey, Inflation Expectations are Falling...
- And all we are Doing is...
- ...Stoking Asset Price Inflation
- We Won’t Be Known as The FED Who Created Yet Another Asset Bubble
PBOC: Money Not in the Right Places

It’s not that there’s no money, it’s that the money is not in the right places.

- June 23, 2013

While it may seem to be a stretch to jump from looking at inflation expectations at the long end of the U.S. curve, to the stresses at the ultra short end of the Chinese credit curve, it is not.

- The combination of low U.S. interest rates, and interest rate volatility encouraged flows into emerging markets with higher-yielding assets.
- The FOMC, whose policy underpins the world’s largest and most liquid bond market becomes the central banker to the world via the carry trade.
  - $3.9 trillion had flowed into emerging markets over the past four years.

- It is a mistake to apply market western policy thinking to policy action of the new People’s Republic of China government, and the PBOC.
  - Rather than releasing stimulus in response to weak economic figures, which was the point where the Chinese sovereign CDS broke to the upside (Figure 5), China has done the opposite, has withheld stimulus, and has allowed banking stress to build – Figure 2.
  - China is getting its plumbing in order by reigning in the shadow banking system, which it needs to get under control such that it can have a handle on its financial system. During this plumbing exercise,
    - Chinese bank CDS levels are soaring – Figure 6.
    - Chinese Real Estate CDS levels are soaring – Figure 7.

- We are sure that the Minsky Moment for many shadowy players in the Chinese financial system is upon them now, but to call this the Lehman moment for China as a whole is premature. Possible, but premature – Figure 8.
  - China has breathing room to tighten up, and so it is.
  - Global growth oriented resource countries such as Canada should continue to be underweighted.

---

**Figure 5: Chinese Sovereign CDS**

**Figure 6: Chinese Bank 5Yr CDS**

**Figure 7: Chinese Real Estate CDS**

**Figure 8: Chinese Sovereign CDS Levels and Curve**
BIS: Borrowed Time

- The tone of the BIS annual report released Sunday shows central banking thinking turning from carrot to stick:

  What central bank accommodation has done during the recovery is to borrow time...But the time has not been well used

- The short end of the U.S. curve is tightening up.
  - The FED's assessment, disclosed last Wednesday, was to bring the time of a rate hike forward by two months.
  - Fed funds futures on Friday signaled a greater than 50% probability of a FED rate hike next year – Figure 3.

- Nowhere does time seem to be more borrowed than in the European periphery where bonds received a massive ECB (Draghi) induced grace period. It seems that European policy makers could use the stick to un-jam the process that calm has created.
  - The stick is coming:
    - The Spanish sovereign CDS, like many others, has broken to the upside – Figure 9.
    - A peripheral European banks CDS basket is basing and should soon mint a higher high- Figure 10.
    - Italian-German and Spanish-German stress and spreads are just now starting to turn up again – Figure 11.
    - The Italian bank UniCredit remains the SIFI with the most inverted curve – Figures 12, 13.
SIFI: Stresses Rising

- The cost to protect systemically important financial institutions (SIFI) is rising – Figure 13.
  - Where the trends were showing improvement in creditworthiness (green wedges), the trends have broken (red arrows).
  - Our systems’ best fit for most European SIFI CDS trends is towards widening (red wedges).
- Debt protection costs at the short end of the curve (1yr) debt is rising faster than the long end of the curve (5yr).
  - Our SIFI CDS trend list below is sorted by this ratio (CDS Curve 1/5Yr).
  - No curve is even close to being over 100% (LEH-like), but it is interesting (and unflattering) to see Asia-centric HSBC line up close to UniCredit (top two lines in Figure 13).

Figure 13: CDS Trends on Too-Interconnected to Fail Banks

<table>
<thead>
<tr>
<th>Name</th>
<th>1-day Equity Chg (%)</th>
<th>5-day Equity Chg (%)</th>
<th>MktCap (US$)</th>
<th>Chg Last Day</th>
<th>Trend Slope</th>
<th>CDS Hi (Mo)</th>
<th>CDS Low (Mo)</th>
<th>CDS Curve 1/5Yr</th>
<th>CDS % Chg wrt 50 DMA</th>
<th>Chg wrt 50 Day MA Trend</th>
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<td>27,666</td>
<td>↑</td>
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<td>2.5</td>
<td>0.58</td>
<td>22%</td>
<td>Above Rising</td>
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<td>0.51</td>
<td>32%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>ING Groep NV</td>
<td>-2.1%</td>
<td>-3.1%</td>
<td>33,509</td>
<td>↑</td>
<td>-45%</td>
<td>2.0</td>
<td>0.49</td>
<td>9%</td>
<td>Above Falling</td>
<td></td>
</tr>
<tr>
<td>Banco Santander SA</td>
<td>-1.2%</td>
<td>-6.9%</td>
<td>69,239</td>
<td>↑</td>
<td>-42%</td>
<td>2.6</td>
<td>0.47</td>
<td>24%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>-1.0%</td>
<td>-3.6%</td>
<td>48,825</td>
<td>↑</td>
<td>-60%</td>
<td>5.5</td>
<td>0.46</td>
<td>35%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Royal Bank of Scotland Group Plc</td>
<td>-5.1%</td>
<td>-10.3%</td>
<td>27,112</td>
<td>↑</td>
<td>-10%</td>
<td>9.5</td>
<td>0.46</td>
<td>43%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Barclays PLC</td>
<td>-0.8%</td>
<td>-5.3%</td>
<td>56,350</td>
<td>↑</td>
<td>3%</td>
<td>7.0</td>
<td>0.44</td>
<td>22%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Goldman Sachs Group Inc</td>
<td>-0.7%</td>
<td>-5.3%</td>
<td>70,724</td>
<td>↑</td>
<td>-49%</td>
<td>6.5</td>
<td>0.42</td>
<td>39%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Credit Suisse Group</td>
<td>-1.2%</td>
<td>-5.3%</td>
<td>42,253</td>
<td>↑</td>
<td>50%</td>
<td>7.0</td>
<td>0.38</td>
<td>20%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Bank of America Corp</td>
<td>-1.6%</td>
<td>-2.9%</td>
<td>136,803</td>
<td>↑</td>
<td>-47%</td>
<td>6.5</td>
<td>0.36</td>
<td>28%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Commerzbank AG</td>
<td>-2.3%</td>
<td>-1.8%</td>
<td>10,873</td>
<td>↑</td>
<td>35%</td>
<td>3.0</td>
<td>0.36</td>
<td>14%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Credit Agricole SA</td>
<td>-2.3%</td>
<td>-6.0%</td>
<td>21,255</td>
<td>↑</td>
<td>6%</td>
<td>2.0</td>
<td>0.35</td>
<td>15%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>UBS AG</td>
<td>-1.5%</td>
<td>-4.7%</td>
<td>64,921</td>
<td>↑</td>
<td>11%</td>
<td>6.5</td>
<td>0.35</td>
<td>23%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Deutsche Bank AG</td>
<td>0.6%</td>
<td>-4.2%</td>
<td>44,674</td>
<td>↑</td>
<td>27%</td>
<td>2.5</td>
<td>0.35</td>
<td>19%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>BNP Paribes</td>
<td>-2.6%</td>
<td>-5.9%</td>
<td>66,362</td>
<td>↑</td>
<td>-26%</td>
<td>2.5</td>
<td>0.35</td>
<td>18%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>JPMorgan Chase &amp; Co</td>
<td>-1.0%</td>
<td>-2.2%</td>
<td>196,392</td>
<td>↑</td>
<td>-2%</td>
<td>6.5</td>
<td>0.34</td>
<td>18%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Citigroup Inc</td>
<td>-2.2%</td>
<td>-4.8%</td>
<td>142,620</td>
<td>↑</td>
<td>-55%</td>
<td>5.5</td>
<td>0.33</td>
<td>31%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Societe Generale</td>
<td>-2.1%</td>
<td>-5.6%</td>
<td>27,619</td>
<td>↑</td>
<td>-16%</td>
<td>2.0</td>
<td>0.32</td>
<td>13%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Wells Fargo &amp; Co</td>
<td>2.2%</td>
<td>2.8%</td>
<td>216,940</td>
<td>↑</td>
<td>-29%</td>
<td>2.5</td>
<td>0.29</td>
<td>12%</td>
<td>Above Rising</td>
<td></td>
</tr>
</tbody>
</table>
US Equities: Last Dot Finally Connected, Picture Now Emerging

- The stress in the banking system is just starting to be felt in the U.S. equity market – Figure 14.
  - The breakout in the cost to protect the US Banks against default last Thursday coincided with the breakdown in the S&P 500.
- The U.S. 2-year swap spread, a gauge of counterparty risk, has just started to get in the game – Figure 15.
  - It is still incredibly low – Figure 16, but will move higher with continued stress in the banking system.
  - When stresses are high enough, one can watch this counterparty risk move with S&P futures tick for tick.
  - We have not seen this yet, but are expecting it. When we see it, we will be closer to an equity bottom.
- The known unknown is that when interest rates move from low and highly certain to high and highly uncertain that carry trades blow up.
  - This is the precursor to LTCM, to CCC, and to the known unknown of 2013.
  - When this unknown is known, we believe equities will be lining up for a bottom.
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<table>
<thead>
<tr>
<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>38.0%</td>
<td>20.4%</td>
<td>49.0%</td>
<td>38.8%</td>
<td>50.4%</td>
<td>52.5%</td>
</tr>
<tr>
<td>Hold</td>
<td>Market Perform</td>
<td>56.1%</td>
<td>13.8%</td>
<td>49.0%</td>
<td>54.0%</td>
<td>46.5%</td>
<td>41.8%</td>
</tr>
<tr>
<td>Sell</td>
<td>Underperform</td>
<td>5.8%</td>
<td>5.6%</td>
<td>2.0%</td>
<td>7.2%</td>
<td>3.1%</td>
<td>5.7%</td>
</tr>
</tbody>
</table>

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.
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Und = Underperform - Forecast to underperform the analyst’s coverage universe on a total return basis;
(S) = Speculative investment;
NR = No rating at this time; and
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