## Market Elements

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<tr>
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## Trends & Inflection Points

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<td>July 18, 2016</td>
<td>Everybody Look What's Going Down</td>
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<td>Credit Downgrades Staples, Upgrades Materials</td>
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<td>What Beats the TSX With Yield?</td>
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<td>July 8, 2016</td>
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<td>Tough to Beat Them Long Bonds</td>
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## Focal Points

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<td>March 11, 2016</td>
<td>Gold Dances to the Tune of The Dollar Wine</td>
<td>35</td>
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<tr>
<td>October 5, 2015</td>
<td>Bank Risk Priced at a 2-Year High</td>
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<td>September 3, 2015</td>
<td>Not Enough Puff</td>
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</table>
European and Asian stocks eased, while North American indices treaded water; global banks broke back below their 50d MA.

Safe-haven European bonds added to gains, while North American bonds were flat; North American corporate credit risk rose.

The yen traded in a narrow range, but with crisis-level implied volatility before Friday’s BOJ meeting; other major crosses were also little changed; the petro-ruble fell to a 6w low.

Crude oil and products continued to slide (now off 20% from June highs); Nat Gas surged 7.5%; iron ore led base metals higher.

**Levels**

- **Currencies (USD per)**
- **Commodities**
- **Government 10-Yr Benchmark**
- **Equity Indices & Sentiment**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>H/L</th>
<th>Level</th>
<th>%Chg</th>
<th>Symbol</th>
<th>H/L</th>
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<th>H/L</th>
<th>Level</th>
<th>%Chg</th>
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<tbody>
<tr>
<td>BBXY</td>
<td>1.197</td>
<td>-0.1%</td>
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<td>BB Cndty</td>
<td>83.40</td>
<td>0.3%</td>
<td></td>
<td>U.S.</td>
<td>1.50</td>
<td>0.00</td>
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<td>XBt</td>
<td>1.080</td>
<td>0.2%</td>
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<td>LMX Gas</td>
<td>2.86</td>
<td>7.5%</td>
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<td>Canada</td>
<td>1.07</td>
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<td>EUR</td>
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<td>Gold</td>
<td>1,336.0</td>
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<td>Germany</td>
<td>0.71</td>
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<td>GBP</td>
<td>1.3166</td>
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<td>Silver</td>
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<td>-0.8%</td>
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<td>France</td>
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<td>JPYx10</td>
<td>0.0949</td>
<td>0.1%</td>
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<td>Platinum</td>
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<td>0.7505</td>
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<td>CMX Cu</td>
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<td>Switzerland</td>
<td>0.96</td>
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<td>MXNx10</td>
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<td>Australia</td>
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<td>ZAR</td>
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<td>LME Zn 3m</td>
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<td>Hong Kong</td>
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<td>Lumber</td>
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<td>CNY</td>
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<td>Com</td>
<td>338.75</td>
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<td>Japan</td>
<td>(0.27)</td>
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</table>

**Sectors**

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

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

* H/L = at a new closing 52- wk High/Low; */# = within 10% of the 52- week High/Low; Colour codes are inverted for bond and sentiment indications
The News That Drives Markets in a Slow Growth, Credit Challenged World

SIFIs
- Bank stress tests highlight lending fears – FT
- The danger of eurozone banking fudges – FT
- UniCredit CEO Sees Nothing Special From Stress Tests – BBG Terminal
  - Italy’s Bond Spread Widens Before Results of Banks’ Stress Tests – BBG
  - Italian Banks May Be Biggest Losers in Plan to Save Them – BBG Terminal
- Credit Suisse's Turnaround Is Working, But Vulnerable – BBG Gadfly, NYT
  - Thiam: It's Only a Start, But It's a Good Start – BBG
- UK banks: £68bn Brexit capital hole – but could be worse? – FT
  - Lloyds and Schroders slide as Brexit fears bite – FT

Central Station
- Yen volatility hits post-crisis high ahead of BoJ meeting – FT
  - BOJ Decision-Day Guide: Kuroda’s Moment to Deliver or Disappoint – BBG, WSJ
    - Only Helicopter Money to Have Medium Term Impact on JPY: HSBC – BBG Terminal
    - BOJ's Approach is 'Helicopter Money Lite' – BBG
    - BOJ Assets Rival the Fed’s as Kuroda Mulls Extra Stimulus – BBG Terminal
- Long-Bond Rally Shows Fed’s Bid to Spur Inflation Seen Futile – BBG
- BOE Should Consider Cutting Key Rate to Zero, Adam Posen Says – BBG
  - Why the BoE rate cut could spell trouble for sterling – FT
  - BoE and corporate bond buying: a good option? – FT
- Cancelled Fines Show Limit of Eurozone Fiscal Credibility – Reuters
  - Dijsselbloem Disappointed Spain, Portugal Not Penalized - Reuters
- IMF guilty of litany of failures during euro crisis – report – FT
- Major central banks have cut rates 672 times since Lehman – FT

Crude Realities
- The Dollar and Oil Contango: Expect the Return of Storage Builds – CI
  - Ruble Weakens Most Among Emerging Peers as Oil Reasserts Hold – BBG
    - MACRO VIEW: Russia Should Cut Rates on Friday – BBG Terminal
  - Venezuela Bond-Swap Optimism Ignores Just How Costly Deal May Be – BBG Terminal
- TD’s $230 Billion Man Goes Maximum Gold as Volatility Mounts – BBG
- Iron Ore Makes Comeback as Prices Near Highs Seen in April Boom – BBG
- Here's a Chinese Market Collapse That Helps Investors – BBG Gadfly

Other Voices
- Greenspan ‘Nervous’ Bond Prices Too High, Sees Stagflation Ahead – BBG
- What’s New About Today’s Low Interest Rates? (Carmen Reinhart) – Project Syndicate
Daily Charts
3-Month View with 26-Day Bollinger Bands and 150-, 200- and 50-Day Moving Averages
Market Elements

Intra Day Charts
2-Day 1-Minute View

Currencies
Bloomberg Dollar Spot Index

Commodities
Gold (Spot)

Bonds
U.S. 2-Yr Bond

Equities
MSCI World Index

Euro

Crude Oil (Brent)

U.S. 10-Yr Breakeven

S&P 500

Yen

Crude Oil (WTI)

U.S. 10-Yr Bond

S&P/TSX Composite

Chinese Yuan (CNY)

Natural Gas (NMX)

Canadian 10-Yr Bond

VIX

Canadian Dollar

Copper (CMX)

German 10-Yr Bund

CDX North American Inv. Grade Index

Australian Dollar

Nickel (LME 3Mo)

Italian 10-Yr Bond

Ave. Prime Broker 5yr CDS
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: Information Technology.
- **Canada** – at a 52-week high: Industrials, Consumer Staples.
- **Europe** – at a 52-week high: Real Estate.

**S&P 500**

**S&P/TSX Composite**

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

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<tr>
<td><strong>Energy</strong></td>
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<tr>
<td>Empresas COPEC</td>
<td>1.6%</td>
<td>Pioneer Natural Resources</td>
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<tr>
<td>Inpex Corp</td>
<td>0.8%</td>
<td>Baker Hughes</td>
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<tr>
<td>Technip SA</td>
<td>0.3%</td>
<td>National Oilwell Varco</td>
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<tr>
<td>Apecif Fostrer Wheeler</td>
<td>-4.6%</td>
<td>Schlumberger</td>
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<tr>
<td>Tulio Oil</td>
<td>-4.9%</td>
<td>Helmerich &amp; Payne</td>
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<td>Saipen SpA</td>
<td>-9.8%</td>
<td>Murphy Oil</td>
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<td><strong>Materials</strong></td>
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<td>Anglo American</td>
<td>5.4%</td>
<td>Martin Marietta Materials</td>
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<td>Cemex</td>
<td>5.2%</td>
<td>Shawin-Williams Co</td>
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<td>Newcrest Mining</td>
<td>4.9%</td>
<td>LyondellBasell Industries</td>
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<tr>
<td>Clarit AG</td>
<td>-3.5%</td>
<td>CF Industries</td>
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<td>Toyoo Seikan Group Holdings</td>
<td>-3.7%</td>
<td>Sealed Air</td>
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<tr>
<td>Smurfit Kappa Group</td>
<td>-3.9%</td>
<td>Mosaic Co</td>
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<td><strong>Industrials</strong></td>
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<tr>
<td>Rolls-Royce Holdings</td>
<td>13.5%</td>
<td>Fortune Brands Home &amp; Security</td>
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<td>AP Moeller - Maersk</td>
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<td>Delta Air Lines</td>
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<td>Leonardo-Finmeccanica</td>
<td>2.7%</td>
<td>Raytheon Co</td>
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<tr>
<td>Voi Group PLC</td>
<td>-4.7%</td>
<td>Delta Air Lines</td>
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<tr>
<td>West Japan Railway</td>
<td>-5.8%</td>
<td>Caterpillar</td>
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<tr>
<td>Mitsubishi Electric</td>
<td>-7.8%</td>
<td>Boeing Co</td>
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<tr>
<td><strong>Cons Disc</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RELX PLC</td>
<td>3.6%</td>
<td>O'Reilly Automotive</td>
</tr>
<tr>
<td>adidas AG</td>
<td>3.5%</td>
<td>Advance Auto Parts</td>
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<td>RELX NV</td>
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<td>Porsche Automobil Holding</td>
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<td>General Motors</td>
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<td>Renault SA</td>
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<td>BorgWarner</td>
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<td>Fiat Chrysler Automobiles</td>
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<td>Ford Motor</td>
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<td><strong>Cons Stap</strong></td>
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<td>Danone SA</td>
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<td>Diageo PLC</td>
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<td>Hershey Co</td>
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<td>Coca-Cola Amatil</td>
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<td>Archer-Daniels-Midland</td>
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<td>Uhlichim Corp</td>
<td>-2.6%</td>
<td>Mead Johnson Nutrition</td>
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<td>KT&amp;S Corp</td>
<td>-2.8%</td>
<td>Krog Co</td>
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<td>Carrefour SA</td>
<td>-5.5%</td>
<td>Whole Foods Market</td>
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<td><strong>Health Care</strong></td>
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<td>AstraZeneca</td>
<td>7.2%</td>
<td>Varian Medical Systems</td>
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<td>Gennab ABs</td>
<td>1.7%</td>
<td>Zimmer Biomet Holdings Inc</td>
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<td>Fresenius Medical Care</td>
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<td>Eisai Co Ltd</td>
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<td>Meckerson Corp</td>
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<td>Ono Pharmaceutical</td>
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<td>Allergan plc</td>
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<td>Smith &amp; Nephew</td>
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<td><strong>Financials</strong></td>
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<td>Vonovia SE</td>
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<tr>
<td>Sun Hunig Ka Properties</td>
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<td>Unum Group</td>
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<td>Deutsche Wohnen</td>
<td>2.0%</td>
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<td>Banco Bradesco</td>
<td>-4.8%</td>
<td>Northern Trust</td>
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<td>Public Storage</td>
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<td>Extra SpaceBanking</td>
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<td><strong>Technology</strong></td>
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<td>Cap Gemini</td>
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<td>Corning Inc</td>
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<td>Murata Manufacturing</td>
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<td>Yaho Japan</td>
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<td>Mircro Technology</td>
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<td>Nintenddo</td>
<td>-8.5%</td>
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<td>FUJIFILM Holdings</td>
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<td><strong>Telecom</strong></td>
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<td>Milcom Int Cellular</td>
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<td>Frontier Communications Corp</td>
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<td>Deutsche Telekom</td>
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<td>AT&amp;T Inc</td>
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<td>-1.5%</td>
<td>Verizon Communications</td>
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<td>America Movil</td>
<td>-2.6%</td>
<td>Level 3 Communications</td>
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<tr>
<td>Telefonica</td>
<td>-4.5%</td>
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<td><strong>Utilities</strong></td>
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<tr>
<td>Suez Environment</td>
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<td>Alliant Energy</td>
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<td>Vodafone Environment</td>
<td>1.3%</td>
<td>NIsource Inc</td>
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<td>E.ON SE</td>
<td>-1.0%</td>
<td>SCANA Corp</td>
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<td>Cia Energetica de Minas Gerais</td>
<td>-2.2%</td>
<td>PG&amp;EE Corp</td>
</tr>
<tr>
<td>Acciona SA</td>
<td>-2.2%</td>
<td>Southern Co</td>
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<tr>
<td>Tokyo Gas Co Ltd</td>
<td>-3.1%</td>
<td>CenterPoint Energy</td>
</tr>
</tbody>
</table>

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

**Energy**
- **Symbol**: ESY, NEV, RGG
- **Last Chg**: 8.79, 7.70, 10.45
- **% Chg**: 0.1%, 0.1%, -0.4%

**Industrials**
- **Symbol**: BL, DP, HP
- **Last Chg**: 21.97, 15.03, 61.26
- **% Chg**: -0.7%, -2.0%, -2.8%

**Consumer Discretionary**
- **Symbol**: BWA, GM
- **Last Chg**: 32.49, 30.99
- **% Chg**: -5.8%, -0.2%

**Consumer Staples**
- **Symbol**: SYY, FRT
- **Last Chg**: 51.83, 27.34
- **% Chg**: 0.5%, -0.1%

**Technology**
- **Symbol**: COST, YHOO
- **Last Chg**: 166.35, 38.52
- **% Chg**: 0.3%, -0.2%

**Financials**
- **Symbol**: SR, SO
- **Last Chg**: 12.30, 72.29
- **% Chg**: 0.0%, -0.1%

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**Market Elements**

**Utilities**
- **Symbol**: BGE, RCLL
- **Last Chg**: 0.0%, -0.1%
- **% Chg**: 0.0%, -2.5%

**Energy**
- **Symbol**: IVY, MRK, SPLS
- **Last Chg**: 9.01, 9.48, 5.05
- **% Chg**: -0.6%, 0.0%, -0.3%

**Utilities**
- **Symbol**: HSU, SRE, SDW
- **Last Chg**: 68.92, 33.05, -0.5%
- **% Chg**: -1.2%, -2.7%, -2.5%

**Energy**
- **Symbol**: RST, DSLB, PHH
- **Last Chg**: 29.30, 48.77, 20.90
- **% Chg**: 0.3%, 0.4%, -0.2%

**Materials**
- **Symbol**: COH, APA, BHI
- **Last Chg**: 9.01, 31.90, 42.77
- **% Chg**: -0.5%, -0.1%, -0.3%

**Technology**
- **Symbol**: CMCSA, CHD, MUR
- **Last Chg**: 5.11, 5.64, 26.12
- **% Chg**: 0.1%, 0.3%, -0.1%

**Utilities**
- **Symbol**: ENR, EWS, AGY
- **Last Chg**: 90.62, 128.09, 47.89
- **% Chg**: 0.1%, -0.0%, -1.0%

**Utilities**
- **Symbol**: FMC, ROK, SPSG
- **Last Chg**: 38.74, 25.08, 5.09
- **% Chg**: -1.0%, -2.0%, -2.0%

**Technology**
- **Symbol**: CMCSA, CHD
- **Last Chg**: 5.75, 5.84
- **% Chg**: 0.3%, 0.0%

**Consumer Staples**
- **Symbol**: SYF, DAM, MSFT
- **Last Chg**: 126.88, 101.70, 59.45
- **% Chg**: -3.4%, 0.4%, -0.2%

**Materials**
- **Symbol**: BDI, BDX
- **Last Chg**: 116.25, 175.96
- **% Chg**: -0.1%, 0.8%

**Technology**
- **Symbol**: COST, YHOO
- **Last Chg**: 166.35, 38.52
- **% Chg**: 0.3%, -0.2%

**Utilities**
- **Symbol**: BGE, RCLL
- **Last Chg**: 0.0%, -0.1%
- **% Chg**: 0.0%, -2.5%

---

**U.S. Market Movers**

- **Symbol**: HHI = at a new closing 52-wk High/Low;
- **% Chg**: within 10% of the 52-wk High/Low;
- **% Chg**: more than 5% stocks, are sorted by GICS Subindustry (grey lines) and market capitalization
## Canadian Market Movers

### Energy
- **PD**: 5.67 -1.3%
- **ES**: 7.01 -2.5%
- **TDG**: 2.46 -1.3%
- **WRR**: 3.13 -6.2%
- **SCL**: 29.72 1.9%
- **SEB**: 7.93 1.4%
- **PSI**: 16.87 -0.6%
- **MTL**: 15.73 -0.9%
- **CEU**: 3.44 -2.2%
- **CFW**: 2.89 -0.6%
- **EFX**: 11.36 0.6%
- **TESO US**: 6.43 -3.8%
- **FRG**: 4.99 -2.2%
- **TGT**: 13.28 4.6%
- **JUS**: 26.88 0.1%
- **CNQ**: 39.23 0.0%
- **ECA**: 10.22 3.3%
- **TQ**: 32.62 1.1%
- **ARK**: 23.08 -0.9%
- **MIG**: 5.43 -4.9%
- **VET**: 43.17 0.0%
- **BTE**: 5.81 -6.4%
- **BTI**: 12.02 1.0%
- **PEY**: 36.52 1.4%
- **PSK**: 25.09 0.4%
- **ERF**: 7.59 -0.7%
- **WCI**: 20.70 0.2%
- **PWT**: 1.63 -2.0%
- **PG**: 19.54 0.2%
- **TET**: 5.48 0.3%
- **BNE**: 24.20 2.8%
- **NBZ**: 4.33 2.1%
- **FRU**: 11.13 -0.1%
- **RRX**: 10.26 -0.2%
- **PKT**: 12.42 -0.1%
- **SRY**: 8.84 1.6%
- **SGY**: 2.26 0.4%
- **AGF**: 1.21 -0.6%
- **KEL**: 3.46 1.3%
- **NVA**: 6.13 0.9%
- **BNR**: 21.35 0.1%
- **BXE**: 1.11 -2.6%
- **CR**: 5.44 1.8%
- **PPV**: 8.71 1.4%
- **TOG**: 9.61 0.1%
- **CJ**: 8.84 -0.2%
- **GET US**: 2.71 -0.3%
- **AAV**: 8.23 -1.0%
- **SPE**: 3.21 -0.4%
- **SRX**: 4.25 2.6%
- **TVE**: 2.15 0.0%
- **SFX**: 4.24 2.6%
- **TVE**: 2.15 0.0%
- **CNE**: 4.00 0.7%
- **KEY**: 37.28 -0.5%
- **PKI**: 23.14 -0.3%
- **EN**: 5.19 0.0%
- **TRP**: 60.35 1.5%
- **PPL**: 37.39 -0.2%
- **PLL**: 26.88 -0.1%
- **ALA**: 32.74 0.3%
- **GEI**: 14.72 1.0%
- **VSN**: 10.90 1.6%
- **ENF**: 31.90 0.3%
- **DD**: 12.67 0.0%
- **XEG**: 11.85 1.0%

### Materials
- **Symbol**: Last | % Change
- **Material**: Last | % Change

### Industrial
- **Symbol**: Last | % Change
- **Material**: Last | % Change
  - **CNO**: 16.13 0.0%
  - **ECA**: 10.22 3.3%
  - **TQ**: 32.62 1.1%
  - **ARK**: 23.08 -0.9%
  - **MIG**: 5.43 -4.9%
  - **VET**: 43.17 0.0%
  - **BTE**: 5.81 -6.4%
  - **BTI**: 12.02 1.0%
  - **PEY**: 36.52 1.4%
  - **PSK**: 25.09 0.4%
  - **ERF**: 7.59 -0.7%
  - **WCI**: 20.70 0.2%
  - **PWT**: 1.63 -2.0%
  - **PG**: 19.54 0.2%
  - **TET**: 5.48 0.3%
  - **BNE**: 24.20 2.8%
  - **NBZ**: 4.33 2.1%
  - **FRU**: 11.13 -0.1%
  - **RRX**: 10.26 -0.2%
  - **PKT**: 12.42 -0.1%
  - **SRY**: 8.84 1.6%
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  - **AGF**: 1.21 -0.6%
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  - **NVA**: 6.13 0.9%
  - **BNR**: 21.35 0.1%
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  - **CJ**: 8.84 -0.2%
  - **GET US**: 2.71 -0.3%
  - **AAV**: 8.23 -1.0%
  - **SPE**: 3.21 -0.4%
  - **SRX**: 4.25 2.6%
  - **TVE**: 2.15 0.0%
  - **SFX**: 4.24 2.6%
  - **TVE**: 2.15 0.0%
  - **CNE**: 4.00 0.7%
  - **KEY**: 37.28 -0.5%
  - **PKI**: 23.14 -0.3%
  - **EN**: 5.19 0.0%
  - **TRP**: 60.35 1.5%
  - **PPL**: 37.39 -0.2%
  - **PLL**: 26.88 -0.1%
  - **ALA**: 32.74 0.3%
  - **GEI**: 14.72 1.0%
  - **VSN**: 10.90 1.6%
  - **ENF**: 31.90 0.3%
  - **DD**: 12.67 0.0%
  - **XEG**: 11.85 1.0%

### Consumer Discretionary
- **Symbol**: Last | % Change
- **Material**: Last | % Change

### Technology
- **Symbol**: Last | % Change
- **Material**: Last | % Change

### Financials
- **Symbol**: Last | % Change
- **Material**: Last | % Change

### Market Elements

### Health Care
- **Symbol**: Last | % Change
- **Material**: Last | % Change

### Consumer Staples
- **Symbol**: Last | % Change
- **Material**: Last | % Change

### Telecom Services
- **Symbol**: Last | % Change
- **Material**: Last | % Change

### Utilities
- **Symbol**: Last | % Change
- **Material**: Last | % Change

### Telecommunications
- **Symbol**: Last | % Change
- **Material**: Last | % Change

### Technology
- **Symbol**: Last | % Change
- **Material**: Last | % Change

### Financials
- **Symbol**: Last | % Change
- **Material**: Last | % Change
Positive Reversals in Biotechnology

- The backdrop is that as oil continues to slide, and realizing that the breadth of heath care relative strength looks like the mirror image of energy relative strength (see page 3) our quant reading on biotechnology improved to a height of 4th decile this week, just shy of a top three ranking. We also know that the group is heterogeneous, so there is an advantage of owning some as opposed to all via an ETF.

- Celgene (CELG US) has a good history of outperforming. This week, it broke above an underperforming trend which has been in place for the past year. Mind the inflection point – Figure 1.

- Regeneron (REGN US) has a similar pattern, albeit with a bit more volatility – Figure 2.

- This note could not be complete without pointing out the breakout of the world’s largest biotech stock, Amgen (AMGN US) – Figure 3.

- For those who are more momentum minded, we highlight the two dozen biotech momentum buys in our system – Figure 4.

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**Figure 1:** Celgene vs S&P 500

**Figure 2:** Regeneron Pharmaceuticals vs S&P 500

**Figure 3:** Amgen (AMGN US) Dividend Adjusted Price Trend

**Figure 4:** Periodic Table of Biotech Momentum Buys

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Rotation Signalling – A Simple Ball and Stick Figure

- There is rather a lot of rotation going on. We will delineate it with market cap weighted sector relative strength trends looking at the trends, the inflection points, and the precursors to inflection points. In one figure, with a bit of help from a ball and stick modeling from organic chemistry days, and some follow-up charts from the TIPS suite, we can elucidate – Figure 1.
- Energy, the best outperformance, which broke down this week, has been the theme or subtheme of our past three notes. Using Ragin' Cajun bluntness, it’s the commodity, stupid – Figure 2.
- Why is Materials, Energy’s commodity cousin, still strong? Those commodities don’t show the same weakness that oil and products currently suffer with – Figure 3.
- Staples, outperforming with only half of the torque of energy, but breaking down all the same, has its relative performance closely twinned with credit stress, which peaked in January, and has receded dramatically since – Figure 4.
- Our relative strength breadth reading on technology had been positive to neutral for years, only dipping into the negative this year during the height of resource outperformance. It’s instructive to look at the ratio of one to the other. Ahh – Figure 5!
- Health Care, technologies’ cousin, has yet to show a positive reversal, but those seeds are being sown now. It’s currently priced above rising 50 and 200d relative strength moving averages, and this week on a breadth basis, all subindustries (yes Biotech too) moved into a positive strength decile. That’s a big change. Mind the precursors to the inflection point – Figures 6, 7.

Figure 1: Global Sector Relative Strength Trends

Materials Still Strong?: Take A Look at The Commodities Here Too (Figure 3)

Staples Breakdown: Had Done Wonderfully in a Credit Stressed Environment, Which Has Faded Away (Figure 4)

Technology: Positive Reversal Coupled With Energy Weakness (Figure 5)

Health Care: Note The Preconditions For a Positive Reversal (Figures 6, 7)

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Figure 2: WTI

Figure 3: Trends on Base Metals and Bulks

Figure 4: N. Amer. IG CDS (Top) and Global Staples RS

Figure 5: Global Technology vs Global Natural Resources

Figure 6: Global Health Care vs MSCI World

Figure 7: Global Health Care Relative Strength Heat Map
When you look across the spectrum of small caps vs. broad markets, it’s almost a clean sweep of outperformance, with only the resource heavy TSX seeing a break in the trend. Globally, the relative performance is at a good buy point, at the bottom of a rising channel – Figure 1.

If you are looking at which sector to deploy small cap capital toward, we suggest you look at technology, which is breaking to the upside, in the direction of the long-term outperforming trend – Figure 2. And, yes, as we discussed in the past few days, this time out was caused by energy sector strength, which is now fading.

We continue to find that an earnings growth filter helps to bias a spectrum of stocks towards outperformance, and that’s the case here with Small Cap Technology as well – Figure 3.

That leaves the field open for spotting momentum buys such as UBISOFT Entertainment, as well as late-stage bottoming patterns as found in WEX Inc and early-stage bottoming patterns as found in Radware.

Largely Outperformers...

...With Some Breaking Above Flat or Underperforming Trends

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Side Effects of Energy’s Trajectory Part 2

- Yesterday, we highlighted a few breakdowns in energy, but many more came during the session. The majority of our clients are benchmarked against one of the indices where the energy sector broke below an outperforming trend yesterday. Mind the inflection point – Figure 1.
- We still see little sign of credit stress in energy, but that would come with more commodity stress, and commodity stress just poked its head up yesterday – Figure 2.

Yesterday, we narrowed-in on technology as the key sector benefitting from early energy weakness (and by the way energy broke below the zero mark yesterday after peaking a month ago). Staples needs more credit stress to get back into positive territory, but it is rebounding sharply. Sandwiched in between comes health care – Figure 3.

We have not put the spotlight on health care too much recently, because it’s in a reasonably steady state of blah, improving with the weakness in energy, but not as much as has technology. The smaller services sectors are outperforming. The hefty pharma segment is market performing, and the once upon a time high torque biotech segment is underperforming – Figure 4.
Tech Benefiting From Petro-Trajectories

- Petro-Currencies are at or near the breakdown point. The most leveraged currency, the Ruble just broke below its 50d MA, to join the loonie and the Krone this morning—Figure 1.

- Energy commodity trends show the breakdowns in oil and its products (but also the resurgence of natural gas around the world)—Figure 2.

- Rather than feeling squeamish, the credit market shows no sign of worry. Need energy credit in a yield starved world? So far, you’ve still got it—Figure 3.

- So perhaps instead of looking for energy shorts, one should be looking at opportunity costs lost. The relative shift out of energy is being mirrored with the relative shift into technology—Figure 4.

- From a relative strength breadth perspective, we lined up energy and technology in Figure 5. Energy rose from the depths and technology from the heights in Q4 2015. We can’t say that they are quite mirror images, but they do rhyme.

- We highlight the top of the earnings driven technology momentum buy list in Figure 6, and the full list at this link.

**Figure 1:** Russian Ruble With Petrocurrencies in Insert

**Figure 2:** WTI with Energy Commodities in Insert

**Figure 3:** High Yield Energy Bond Index

**Figure 4:** Energy & Technology Relative Strength Trends

**Figure 5:** Energy & Technology Relative Strength Trends

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

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-08:34 ET

15
Renewables

- Our Group Selection report, which sheds light upon the relative strength breadth of the market by sector and subindustry, has flattened out recently. The pressure on some resources has been countered by emerging strength in health care and technology. Staples broke below the zero mark as credit risk fell sharply this month. Financials are trying to be less bad, but it’s really real estate that gives the sector its strength. The sector in the strength and momentum spotlight right now is utilities – Figures 1, 2.

- The smallest segment of the market, renewable electricity, just obtained a first decile ranking, so we will put today’s focus there. It’s all SMID and all over the world, so we just show them by their dividend-adjusted price trends instead of against a benchmark – Figure 3.

Figure 1: Global Relative Strength Breadth Heat Map
Figure 2: Utilities Relative Strength Z-Score
Figure 3: Renewable Electricity Dividend Adjusted Price Trends

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

July 22, 2016
Research Comment
Quantitative/Technical Research Website

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Assoc: Tiberiu Stoichita/Jin Li

- CLICK HERE for a printer friendly version of this report including research disclosures.
A Collection of Inflection Points

From Industry & Sector ETFs vs the S&P 500, the market asks you to consider easing up on natural resources (the most spectacular of which have been the golds, which we have covered for the past two days), and look at the basing/bottoming pattern in US pharma – Figure 1.

From the Canadian link, the market wants to swap golds for rails – Figure 2.

While Canadian rails are currently overbought, they have been laggards vs. their US peers, and have catch-up potential – Figure 3.

From our index members link, a look at the OEX points to the Microsoft breakout as a play on the emerging strength of technology – Figure 4.

Our Tactical Asset Allocation link makes one consider the whole NASDAQ 100 as an alternative to the single MSFT suggestion – Figure 5.

Done done done digging up the dirt dirt dirt, time to get to work work work. Rihanna

Figure 1: Sector & Industry ETFs vs. the S&P 500 – Severed Last Day

Figure 2: S&P/TSX 60 Stocks vs. the 60 – Severed Last Day

Figure 3: North American Rails vs. the S&P 500

Figure 4: S&P 100 Stocks vs. the OEX – Severed Last Day

Figure 5: World Equity Indices vs. the S&P 500 – Severed Last Day

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit. BMO Capital Markets is Restricted on Eldorado Gold.

~08:55 ET
Trends & Inflection Points

July 20, 2016
Research Comment
Quantitative/Technical Research Website

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Gold - Yen

- Questioned frankly; Gold, who’s in charge? The answer would be the yen. Math-wise; over 70% of the moves in bullion can be explained by the moves in the yen – Figure 1.
- So when you see the yen on a weakening trajectory (broke above its 50d MA this morning) ever since Helicopter Ben came to town, and realized that the Japanese unfortunately ignored Ben’s call over a decade ago, you may shiver at the fact that all gold stocks are tipped so bullishly. We do. But we are wired to worry.

Figure 1: Gold, Yen, and the Rolling 20-day Correlation of Returns

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

~08:20 ET
Golds – Just Asking

- Just as the yen has weakened back to its 50d MA, which has a softening influence on gold.
  - And just as a few gold stocks have broken steep outperforming trends against the market, which just nudges our relative strength reading for gold stocks from first to second decile.

- And given the distribution of gold stocks vs. the market, which are heavily positioned on the same side of the ship – Figure 1.
  - And given our experience with boating:
    - We just ask the simple question.
    - It’s not an “if” question, but a “when” question.
    - When golds break trend. Will you be ready?

Figure 1: Gold Stocks vs. the S&P 500

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit. BMO Capital Markets is Restricted on CG, CGG, ELD, and GUY.
Trends & Inflection Points

Everybody Look What's Going Down

- It seems everything wants to blow in and out like a hurricane these days.
- Safe-haven long bonds were swept up in the storm, and are now easing back to earth. The trend is still in their favour, it's just that they got overdone.
- Last week, it was the credit market that was blown higher by the hurricane. Take a look at the dashboard of companies whose equity moves are most correlated to CDS moves. Eighty percent of CDS here narrowed more than 5%, and there are copious amounts of credit that looks mighty overnarrowed – Figure 1.

- The credit outliers in the current jubilant state of the market would be the ones where CDS is still in a widening trend, and CDS levels are still above widening 50-day moving averages. These are the avoids, or shorts, if you do that sort of thing. It’s a skinny list, as they are in the minority – Figure 2.
  - The largest stock in the list is Valero Energy, which is still working out its head and shoulders top – Figure 3.
  - Deutsche Bank, sadly, is the notable too-interconnected-to-fail financial in the list. It’s easy to take a shot at it, but the equity market has already shot, and shot it down too far according to the credit market. It makes a good short-covering candidate – Figure 4.
  - Ladbrokes is the opposite position, mind the gap – Figure 5.

We better stop, hey, what’s that sound; Everybody look what's going down
Buffalo Springfield, 'For What It's Worth'

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
In The Material World
Due to an unexpected publication delay, we are publishing our July 15 edition of Trends & Inflection Points today. Please note all links contained within are as of July 14 close.

- If the market wants to be balanced, we’ll be so as well. If the market wants to focus on one sector to deliver the most upside, then that’s where our focus must be. In this case, at this time, it’s materials.

- Relative strength breath-wise, which is our major guiding light, it looks like this – Figure 1.

- Market cap weighted-wise, which is a better reflection of your portfolio, if you are benchmark focused, it looks like this – Figure 2.

- Continued strength you ask? Commodity prices – that’s your daddy – Figure 3.

- But so many material stocks are overbought you retort. Our momentum buy list excludes those names – Figure 4.

There is no political solution…
...We are spirits in the material world
The Police

Figure 1: Global Sector Relative Strength Breadth Heat Map

Figure 2: Global Materials vs MSCI World

Figure 3: CRB Raw Industrials

Figure 4: Top of Material Momentum Buy List – Full List Here

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

~10:59 ET
Credit Downgrades Staples, Upgrades Materials

- We are going to start with a very messy, confusing, but important chart – North American investment grade credit risk – Figure 1.
- We never had too much to say about staples before mid-2015. They were boringly neutral. Then they upshifted to positive, and that was coupled with a credit market that pivoted to show credit risk increasing as opposed to decreasing. See early stages of Figures 1, 2.
  - We have since been a cheerleader for staples (not caring a whit about valuation, as the market prices as the market wants to price). That’s what the market told us to do, and we listen to the market.
  - But now this week, staples are breaking heavily below the zero line. The market tells us to cheer for this group no longer. And yes, that comes with credit risk, as divergent as the recent pattern is, breaking to the downside. See late stages of Figures 1, 2.
- How do materials fit in? It’s the anti-staples. When the market wants upside torque, it finds it here – Figure 3.

Figure 1: Markit CDX North American Investment Grade 5-Year CDS

Figure 2: Staples Relative Strength Breadth Z-Score

Figure 3: Materials Relative Strength Breadth Z-Score

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Have You Noticed Steel?

- With a first decile relative strength breadth reading, we force you to ask yourselves, “where are you on steel stocks?” – Figure 1.
  - Did you notice the breakout in the Steel ETF yesterday? – Figure 2.
    - Have you noticed that the vast majority of steel stocks are outperforming, or are breaking above underperforming trends? – Figure 3
    - Are you observing credit risk in steel stocks is still high yet is dropping like a stone?
      - There’s leverage here.
  - That’s about it. We just do the quant and technicals, which say the fundamentals have transitioned from awful to good. You need to do the digging from here.

You call me a fool
You say it’s a crazy scheme
This one’s for real
Steely Dan, Deacon Blues

Figure 1: Steel Equity Relative Strength Breadth Decile
Figure 2: MV US Steel ETF (SLX US) Dividend Adj Price Trend
Figure 3: Steel Stocks vs ACWI

If Your Portfolio Looked Like This, We’d Call You a Rock Star

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

~08:01 ET
What Beats the TSX With Yield?

- The TSX, which is trending higher at a dividend-adjusted annualized rate of 42%/year (Figure 1) is easy to beat with many high flying gold stocks, which are trending higher at rates in the hundreds or thousands, but those stocks are largely overbought. These stocks look better to harvest than to sow new capital into.

- It’s harder to find stocks with good dividend yield and dividend growth attribution that can beat the index, but with yields continuing to trend lower, and despite the currently overbought state of bonds (Figure 2), we don’t see the same overbought state in these stocks (as investors chase higher torque). We highlight stocks trending at a rate greater than the TSX, with a buyable RSI less than 60, with an indicated dividend yield north of 2%, and flat-to-positive dividend growth in Figure 3.

Figure 1: S&P/TSX Composite Total Return Index

Figure 2: Trends on Global 30y Yields

Figure 3: Buyable (RSI <60) Canadian Stocks Beating the Market With Good Dividend Yield & Growth Attribution

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<th>RS</th>
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<td>4.65%</td>
<td>6%</td>
<td>5%</td>
<td>4%</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>CNQ CN</td>
<td>Canadian Natural Resources</td>
<td>OG F&amp;P</td>
<td>4</td>
<td>5</td>
<td>33,405</td>
<td></td>
<td>165%</td>
<td>3%</td>
<td>Above Rising</td>
<td>57</td>
<td>2.30%</td>
<td>1%</td>
<td>26%</td>
<td>23%</td>
<td></td>
<td></td>
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<tr>
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<td>Brookfield Canada Office Properties</td>
<td>OfficeREIT</td>
<td>2</td>
<td>8</td>
<td>574</td>
<td></td>
<td>56%</td>
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<td>Above Rising</td>
<td>52</td>
<td>4.56%</td>
<td>131%</td>
<td>35%</td>
<td>23%</td>
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<td>AgFrm</td>
<td>5</td>
<td>7</td>
<td>438</td>
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<td>181%</td>
<td>4%</td>
<td>Above Rising</td>
<td>56</td>
<td>5.98%</td>
<td>0%</td>
<td>0%</td>
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<td></td>
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<tr>
<td>FTT CN</td>
<td>Fintech</td>
<td>TrendFax</td>
<td>8</td>
<td>8</td>
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<td>84%</td>
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<td>51</td>
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<td>2%</td>
<td>8%</td>
<td>8%</td>
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<td>DivasREIT</td>
<td>1</td>
<td>7</td>
<td>1,526</td>
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<td>60</td>
<td>7.99%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
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<td>Enbridge Group Inc.</td>
<td>OG STr</td>
<td>3</td>
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<td>55</td>
<td>3.88%</td>
<td>22%</td>
<td>19%</td>
<td>17%</td>
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<td>Inter Pipeline</td>
<td>OG STr</td>
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<td>81%</td>
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<td>Above Rising</td>
<td>56</td>
<td>5.66%</td>
<td>8%</td>
<td>12%</td>
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<tr>
<td>AD CN</td>
<td>Alaris Royalty</td>
<td>AssaMont</td>
<td>9</td>
<td>5</td>
<td>777</td>
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<td>92%</td>
<td>-2%</td>
<td>Below Falling</td>
<td>45</td>
<td>5.68%</td>
<td>8%</td>
<td>9%</td>
<td>10%</td>
<td></td>
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<tr>
<td>BDT CN</td>
<td>Bird Construction</td>
<td>Cres&amp;Eng</td>
<td>4</td>
<td>8</td>
<td>433</td>
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<td>59%</td>
<td>2%</td>
<td>Above Rising</td>
<td>52</td>
<td>5.68%</td>
<td>0%</td>
<td>1%</td>
<td>4%</td>
<td></td>
<td></td>
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<tr>
<td>VET CN</td>
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<td>4</td>
<td>7</td>
<td>3,600</td>
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<td>59%</td>
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<td>46</td>
<td>6.32%</td>
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<td>HLF CN</td>
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<td>HighLIn</td>
<td>3</td>
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<td>61%</td>
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<td>Above Rising</td>
<td>57</td>
<td>2.74%</td>
<td>13%</td>
<td>21%</td>
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</table>

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

~08:26 ET
Spectrum of the Largest 50 Semiconductor Stocks

- We thought we would follow up with our “spectrum of the largest 50 banks” (a rather unpleasant selection) with something more uplifting: the largest 50 semiconductor stocks.
- Semiconductors are the only consistently outperforming global industry relative to technology – Figure 1.
- The spectrum of the largest 50 semiconductor stocks shows a fat tail of outperformers, a skinny tail of underperformers, and the largest semi stock, Intel, is breaking above an underperforming trend vs the benchmark of global technology stocks – Figure 2.
  - In a market that loves bonds by the way, Intel still yields just over 3% and has a positive dividend growth profile.
- Of course you could just buy a semiconductor ETF (SMH US). It’s starting to trend higher, is breaking above downtrends, broke out pre-Brexit, and is breaking out again – Figure 3.

Figure 1: Global Technology Industries vs MSCI World Technology

Figure 2: Largest 50 Semiconductor Stocks vs ACWI Technology Index

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

Fat Tail of Outperformers

Breaking Above Underperforming Trends

Skinny Tail of Underperformers
Figure 3: MV Semiconductor ETF (SMH US) Dividend Adjusted Price Trend

Trending Higher at a Rate of 44%/Year
These are really interesting and uncertain times. What pressure low interest rates, and plummeting yield curves has dished out to the banking system on the one hand, has been offset by an oil price that so far has defied to stay lower for longer. Of course that pressure/offset has not been distributed evenly among the banks, which is why you see European banks on the right, or weakest side of the spectrum, and petro banks on the left, or positive side of the spectrum – Figure 1.

On the pressure side, other than an overbought state in bonds at the longest end of the yield curve, we don’t see any sign that rates will turn higher, or that yield curves will stop trending toward recession signaling anytime soon. Many European SIFI bank CDS curves continue to trend in an unfriendly direction at an uncomfortable pace. Avoid seems appropriate.

On the positive, or petro side of the spectrum, you have some breakdowns which coincide with yesterday’s breakdown in WTI, Brent, heating oil, and gasoline. Do you really need more signaling? Our system asks the right question at the right time. What are you doing with your petro-banks?

The banks breaking above underperforming trends (green shading under a red wedge) are all China/EM related, which we covered yesterday.

---

**Figure 1: Largest 50 Banks vs ACWI**

<table>
<thead>
<tr>
<th>Name</th>
<th>1-Day Chg (%)</th>
<th>5-Day Chg (%)</th>
<th>Chg Last Day</th>
<th>Reward /Risk</th>
<th>Trend Slope</th>
<th>Hi (Mo)</th>
<th>Low (Mo)</th>
<th>%Chg wrt S&amp;P 500 MA</th>
<th>Chg wrt SD Day MA</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brent</td>
<td>-4.9%</td>
<td>-6.6%</td>
<td></td>
<td>221%</td>
<td>2.0</td>
<td>2.0</td>
<td>-5%</td>
<td>Below Falling</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heating Oil</td>
<td>-4.1%</td>
<td>-5.0%</td>
<td></td>
<td>182%</td>
<td>2.0</td>
<td>2.0</td>
<td>-3%</td>
<td>Below Falling</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WTI</td>
<td>-4.8%</td>
<td>-6.6%</td>
<td></td>
<td>239%</td>
<td>2.0</td>
<td>2.0</td>
<td>-5%</td>
<td>Below Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RBOB Gasoline</td>
<td>-4.9%</td>
<td>-9.2%</td>
<td></td>
<td>183%</td>
<td>4.0</td>
<td>4.0</td>
<td>-13%</td>
<td>Below Falling</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

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**Petro-state Banks Are Positive, But Some are Severing Those Outperforming Trends As The Energy Complex Breaks Trend**

**European Experiment Punished Below The Bottom Ends of Weak Underperforming Trends**

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-09:11 ET
Globetrotting Options for the U.S. Investor

- The U.S. equity market is outperforming ACWI at a rate of 3%/y and hit a multi-year relative strength high yesterday. No figure, you know the trend.
  - Can you do better? Yes. Where? – Figure 1.
  - Can you do worse? Oh my, yes indeed! That list is quite a bit larger. The globetrotting ETFs underperforming at rates of 10% or worse are shown in Figure 2.
- The list of outperformers is all China feeders of some form or another. We touched on the two stark outperformers, Brazil and Canada, last week, and we will reiterate the fact that EM has been basing vs. ACWI and the S&P 500 for 7m now. With credit risk in general, and bank risk in particular such a concern, it’s instructive to know that those generalities don’t apply to EM, where most credit risk is trending lower, and 50d MAs are improving – Fig 3.
- At the stock level, the best of EM is found here – Figure 4.

Figure 1: Outperformers vs. S&P 500

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>Reward/Risk</th>
<th>Trend Slope</th>
<th>%Chg w/RS MA Trend</th>
<th>Chg wrt S&amp;P MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>EVZ US</td>
<td>70%</td>
<td></td>
<td>3% Above Rising</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>EVX US</td>
<td>26%</td>
<td>0%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td>RSX US</td>
<td>35%</td>
<td>0%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Latin America</td>
<td>IFL US</td>
<td>31%</td>
<td>1%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>EWA US</td>
<td>10%</td>
<td>-1%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>Emerging</td>
<td>EEH US</td>
<td>5%</td>
<td>1%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>EWUS US</td>
<td>3%</td>
<td>1%</td>
<td>Below Falling</td>
<td></td>
</tr>
</tbody>
</table>

Figure 2: Steep Underperformers vs. S&P 500

<table>
<thead>
<tr>
<th>Name</th>
<th>Symbol</th>
<th>Reward/Risk</th>
<th>Trend Slope</th>
<th>%Chg w/RS MA Trend</th>
<th>Chg wrt S&amp;P MA Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>EIU US</td>
<td>-18%</td>
<td>-5%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>Europe 350</td>
<td>IEV US</td>
<td>-16%</td>
<td>49.0%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>EWG US</td>
<td>-15%</td>
<td>49.0%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td>EWL US</td>
<td>-14%</td>
<td>-2%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>EAFE</td>
<td>EFA US</td>
<td>-14%</td>
<td>49.0%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>EWQ US</td>
<td>-14%</td>
<td>49.0%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>EWW US</td>
<td>-13%</td>
<td>-4%</td>
<td>Below Falling</td>
<td></td>
</tr>
<tr>
<td>Taiwan</td>
<td>EWT US</td>
<td>-13%</td>
<td>3%</td>
<td>Above Rising</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>EWJ US</td>
<td>-11%</td>
<td>-2%</td>
<td>Below Falling</td>
<td></td>
</tr>
</tbody>
</table>

Figure 3: Sovereign EM 5y CDS Trends

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
The Really Bad Stuff

- OK, we just wrote for six days straight on the good stuff: bonds, bond-like stocks, low volatility stocks, Canadian stocks.

- It’s time for some balance. It’s time to highlight the bad stuff: credit risk, banks, capital markets stocks, discretionary stocks. To us it’s as easy as highlighting what’s under the red wedges – Figure 1.

- If you look at the S&P 100, the steepest underperformance under the ugliest red wedges is found in Morgan Stanley. If you look at CDS curves of too interconnected to fail banks, you see that Morgan Stanley’s has risen to a 3.5m high. That’s bad stuff. And if you recall when Deutsche Bank’s CDS curve went inverted, it was Morgan Stanley’s curve that was most correlated to it. Take a look at the chart of Morgan Stanley’s stock. It’s not pretty. The third breakdown is not a joy ride for longs – Figure 2.

- If you look at the largest 100 stocks in MSCI World, the steepest underperformance under the ugliest red wedges is found with Nike. Nike was a great positive momentum stock. Positive momentum is great when it’s working. When it is not, and that transition takes some time, it can turn into a great negative momentum stock – Figure 3.

- If you look at the largest 20 industry and sector ETFs against ACWI, the NASDAQ biotech ETF stands out like a sore thumb. It’s also got a nice counter-trend rally to the falling 50d MA to sell into. Third breakdown in this chart too – Figure 4.

- Didn’t cover the bad stuff that is relevant to you? Call. We’re here to help.

Figure 1: Underperforming Global Industries

Figure 2: Morgan Stanley Dividend-Adjusted Price Trend

Figure 3: Nike Dividend-Adjusted Price Trend

Figure 4: NASDAQ Biotech ETF (IBB US) Div Adj Price Trend
Tough to Beat Them Long Bonds

- **Sterling breaks down to a new low** as U.K. Real Estate becomes gated and Carney reacts with supply, when the ultimate issue seems to be fleeting demand.
- **Bank risk** is pivoting higher after its 7th failure to mint a lower low – Figure 1.
- MSCI World checks back to graze the falling 50d MA after making a third lower high.
- **Long bonds** are jubilantly hitting new yield lows and price highs – Figure 2.
  - We want to beat that performance with equity.
- **We were looking for consistent outperforming trends of strong dividend and/or long duration type equity indices vs. long bond performance, and quite frankly had lots to leave on the editing room floor, so we went micro to show stocks. The lists will be short and targeted, carving out momentum buys coupled with yield > 2% and positive 1, 3, and 5y dividend growth.**
  - We highlight the utility selection in Figure 3.
  - We highlight the infrastructure selection in Figure 4.

---

**Figure 1: Credit Risk (5y CDS Average) at the Core of the Global Banking System (PrimeTime)**

**Figure 2: US Long-Term Bond Price Index (Underlying for TLT)**

**Figure 3: Utility Momentum Buys vs ACWI with Good Dividend Yield & Growth Profiles**

**Figure 4: Infrastructure Momentum Buys vs S&P Global Infrastructure Index with Good Dividend Yield & Growth Profiles**

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**Source:** All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
In a CDN Bull Market, One Has to Be Discerning

- **Canadian bonds** are in a bull market – Figure 1.
- **Commodities**, which drive much of the Canadian equity market, are in a bull market – Figure 2.
- **Canadian stocks** are in a bull market – Figure 3.
- So much is working in Canada that one has to be discerning about what one owns. While many groups look good on their own, compared to the benchmark that one is measured against, that performance may come up short. We highlight the largest 10 sub-industries in Canada vs the TSX in Figure 4.
- We highlight the largest 20 CDN outperformance where the trend (slope of outperformance)/width (channels which hold 95% of pricing) are 2 or better in Figure 5.

---

**Figure 1: Canadian 30y Bond Yield**

**Figure 2: Bloomberg Commodity Index**

**Figure 3: S&P/TSX Composite Total Return Index**

**Figure 4: Largest 10 Canadian SubIndustries vs the TSX**

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

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Trends & Inflection Points

July 4, 2016
Research Comment
Quantitative/Technical Research Website

Mark Steele
Quantitative/Technical Analyst
(416) 359-4641
mark.steele@bmo.com
Assoc: Tiberiu Stoichita/Jin Li

CLICK HERE for a printer friendly version of this report including research disclosures.
**Figure 5: Largest 20 Canadian Outperformers With a Trend / Width Ratio Greater Than 2**

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Sub Industry</th>
<th>Gro</th>
<th>LT RS</th>
<th>RS</th>
<th>MktCap (CAD)</th>
<th>Vol (%)</th>
<th>SPTSX</th>
<th>Trend Slope</th>
<th>RS Hi (Mo)</th>
<th>RS Low (Mo)</th>
<th>%Chg wrt 50d MA</th>
<th>Chg wrt 50 Day MA Trend</th>
<th>Bull Band</th>
<th>RSI Dly</th>
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<td>1</td>
<td>6</td>
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<tr>
<td>CPG CN</td>
<td>Crescent Point Energy</td>
<td>OG E&amp;P</td>
<td>2</td>
<td>9</td>
<td>2</td>
<td>10,346</td>
<td>3.63</td>
<td>77%</td>
<td>-3%</td>
<td>Below Falling</td>
<td>BELOW 47</td>
<td></td>
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<tr>
<td>K CN</td>
<td>Kinross Gold</td>
<td>Gold</td>
<td>1</td>
<td>9</td>
<td>2</td>
<td>7,897</td>
<td>4.66</td>
<td>181%</td>
<td>-1%</td>
<td>Below Raising</td>
<td>OBOT 40</td>
<td></td>
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<td>SNC CN</td>
<td>SNC-Lavalin Group</td>
<td>Cns&amp;Eng</td>
<td>5</td>
<td>6</td>
<td>2</td>
<td>8,152</td>
<td>1.69</td>
<td>32%</td>
<td>23.0</td>
<td>7%</td>
<td>Above Raising</td>
<td>OBOT 67</td>
<td></td>
<td></td>
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<tr>
<td>OGC CN</td>
<td>OceanaGold</td>
<td>Gold</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>2,994</td>
<td>3.01</td>
<td>96%</td>
<td>14%</td>
<td>Above Raising</td>
<td>OBOT 64</td>
<td></td>
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<tr>
<td>IPL CN</td>
<td>Inter Pipeline</td>
<td>OG STr</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>9,240</td>
<td>2.05</td>
<td>34%</td>
<td>3%</td>
<td>Above Raising</td>
<td>OBOT 57</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FNV CN</td>
<td>Franco-Nevada</td>
<td>Gold</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>17,435</td>
<td>2.61</td>
<td>55%</td>
<td>48.0</td>
<td>12%</td>
<td>Above Raising</td>
<td>OBOT 69</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RGL CN</td>
<td>Royal Gold</td>
<td>Gold</td>
<td>1</td>
<td>4</td>
<td>2</td>
<td>6,080</td>
<td>3.24</td>
<td>92%</td>
<td>41.5</td>
<td>19%</td>
<td>Above Raising</td>
<td>OBOT 75</td>
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<td>Silver Wheaton</td>
<td>Silver</td>
<td>1</td>
<td>6</td>
<td>2</td>
<td>13,395</td>
<td>3.18</td>
<td>62%</td>
<td>27.5</td>
<td>19%</td>
<td>Above Raising</td>
<td>OBOT 73</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>VSN CN</td>
<td>Varesen Inc</td>
<td>OG STr</td>
<td>2</td>
<td>6</td>
<td>2</td>
<td>3,386</td>
<td>2.85</td>
<td>53%</td>
<td>7.5</td>
<td>11%</td>
<td>Above Raising</td>
<td>OBOT 62</td>
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<tr>
<td>TAO CN</td>
<td>Tahoe Resources</td>
<td>Gold</td>
<td>1</td>
<td>6</td>
<td>3</td>
<td>6,012</td>
<td>3.76</td>
<td>59%</td>
<td>15%</td>
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<td>OBOT 69</td>
<td></td>
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<tr>
<td>NPI CN</td>
<td>Northland Power</td>
<td>LPTTrd</td>
<td>6</td>
<td>3</td>
<td>2</td>
<td>3,700</td>
<td>1.51</td>
<td>22%</td>
<td>2%</td>
<td>Above Raising</td>
<td>OBOT 54</td>
<td></td>
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<tr>
<td>ARX CN</td>
<td>ARC Resources</td>
<td>OG E&amp;P</td>
<td>2</td>
<td>6</td>
<td>3</td>
<td>7,764</td>
<td>2.00</td>
<td>36%</td>
<td>1.0</td>
<td>5%</td>
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<td>OBOT 57</td>
<td></td>
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<tr>
<td>G CN</td>
<td>Goldcorp Inc</td>
<td>Gold</td>
<td>1</td>
<td>9</td>
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<td>9</td>
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<td>2.5</td>
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<td>Below Falling</td>
<td>BELOW 43</td>
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<td>REF-U CN</td>
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<td>DiversREIT</td>
<td>1</td>
<td>7</td>
<td>3</td>
<td>3,480</td>
<td>0.99</td>
<td>15%</td>
<td>5%</td>
<td>Above Raising</td>
<td>OBOT 74</td>
<td></td>
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Brexit Impact on Base Metals

- Did you notice how the Brexit chaos impacted the base metals?
  - That’s right; there was no impact – Figure 1.
  - Base metals continue to bottom – Figure 1.
  - And base metal corporate risk continues to recede from a high level. So just like our chart on Brazilian credit yesterday, it fits the “risky and derisking” bill that offers the right kind of leverage, as long as the fundamental outlook (Figure 2) is improving – Figure 3.

- Diversified miners garner a 5th decile reading in our system, so you will have outperformers and underperformers. Since the commodities have been basing for six months now, the leveraged stocks should have already turned in line with the credit risk picture. We highlight the outperformers, which we recommend sticking with in Figure 4.

Figure 1: Impact of Brexit on Base Metals

Figure 2: LME Index of Base Metals

Figure 3: Global Base Metal 5Yr CDS Average

Figure 4: Base Metal Outperformers vs ACWI

Source: All charts/tables BMO Capital Markets, Bloomberg, Thomson, Markit
Note: BMO Capital Markets is restricted on Lundin Mining
Gold Dances to the Tune of The Dollar Wine

- If you looked at the currency market yesterday, you would think that the market loves euros (1.7%), and that’s why gold rose 1.4%. The overlay looks good, but gold bottomed a bit earlier, and that was timed with the 5y EUR-USD cross currency swap rate (that cryptic chart we published Thursday). Yes that swap is liquidity challenged, but we present Exhibit 1.
- If you look at the cross currency swap market (remember Eurodoom?), you will see that the market penalizes euro holders, and yen holders even more so, for obtaining USD (the penalty rate for EUR holders rose yesterday) - Exhibits 2 & 3.
- The yen has a better fit to gold than does the euro, but based on the yen relationship, gold should be flat over the past month and gold makes new highs almost daily lately. If you create a basket of NIRPy country 5y cross currency swap rates (USD Wine if you Soca), you see that this index, a measure of the cost, or stress to obtain USD from a NIRPy currency base has a fit to gold which now rivals the fit of yen and gold. The overlay is better – Exhibit 4.
- We wouldn’t bother with this if gold, that "barbarous relic" (Canadian standpoint) wasn’t just killing paper, but it is - Exhibit 5.

Exhibit 1: Yesterday’s Intraday Fit: Spot Gold, Spot Euro, EUR-USD 5Y Cross Currency Swap Rate

Exhibit 2: EUR-USD 5Y Cross FX Swap Rate (News Inlay Here)

Exhibit 3: JPY-USD 5Y Cross FX Swap Rate (Trend Starts Here)

Exhibit 4: Rolling 30d Fit of Returns Gold/JPY (L) Gold/FX Swaps (R)

Exhibit 5: Gold vs Barclays US Aggregate Bond Index

Gime dollar, gime dollar
Gime dollar, gime dollar
Gime dollar, gime dollar
Gime dollar, gime dollar
Dollar Wine, Colin Lucas
Bank Risk Priced at a 2-Year High

U.S. bank credit risk rose to a 2-yr high on Friday. How did it get there? In 2014, as the FEDs quantitative easing program tailed off, international central bank reserve assets peaked and started to decline. Tightening replaced easing. Corporate bonds peaked with central bank reserves. Stocks have subsequently peaked. Central bank easing reduced corporate bank risk, but did not inspire enough global growth to pull commodities out of a bear market. The dollar surge at the end of U.S. QE, sent commodities into a sharp decline. With global growth scarce, growth stocks surged versus value. At tightening has replaced easing, credit risk is rising once again. Stocks trending lower outnumber stocks trending higher. Treasuries are resuming a bull trend. Portfolio emphasis should remain on growth and income, which are not hampered by a weakening credit environment.

The QE-driven Fed balance sheet flattened out in 2014. International reserve assets peaked in August of 2014, and have fallen 6% from the peak. Notable sellers have been China and Russia.

The global investment grade bond market topped out with international reserves in August of 2014. This index of bond prices has been losing value at a rate of 6%/year since. It has stabilized recently with the strength of Treasuries (Figure 2).

Since 2011, when credit risk in the world's too-interconnected-to-fail banks peaked at over 300 bps (many banks had sported inverted CDS curves), bank risk fell 80% to 55 bps in 2014. That risk bottomed, based, and is now breaking out to form higher highs and lows. U.S. bank risk is priced at a 2-yr high (Figure 3).

While QE worked wonderfully to reduce credit risk, it did nothing to spur commodities, the barometer of global growth, higher.

The broad U.S. dollar index started to soar with the end of QE and the decline in central bank reserves. This sharpened the rate of commodity decline (Figure 4).

Equities started decelerating in 2014 and started reacting to a negative backdrop of credit in 2015 (Figure 7).

The tilt of growth over value really took off in 2014, coincident with the peak in central bank reserves and the sharp rise in the dollar (Figure 5).
Not Enough Puff

- This morning, Draghi adjusts QE to continue to puff up the ECB balance sheet. That’s helpful for global risk markets, but it’s not enough. Globally, the net figure shows central banks are blowing out their reserves:
  - That puff peaked last August – Figure 1 top.
  - Pricing on investment grade corporate credit debt peaked and started to turn lower that same month – Figure 1 middle, and Figure 2.
  - Then finally equities took the blow - Figure 1 bottom.

- When mama’s credit market ain’t happy, eventually ain’t nobody happy;
  - That global corporate bond index in Figure 1 is trending lower at an annual rate of 6%/year – Figure 2.
  - Commodities, which didn’t really make it onto central bank balance sheets, have been in a bear market since 2011. They are falling at an annualized rate of 17%/year, and that’s ex everyone’s (yes ours too) focus on crude oil – Figure 3.

So, unless we see a turn in the synchronized bear trends in credit and commodities (and we are always looking), we’ll continue to frame many of our buy ideas in the relative and short-sale ideas in the absolute.

Source: BMO Capital Markets, Bloomberg, Thomson, Markit
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<tr>
<th>Rating Category</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>
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<td>18.9%</td>
<td>59.5%</td>
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<td>15.8%</td>
<td>4.1%</td>
<td>3.4%</td>
<td>2.2%</td>
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* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
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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
R = Restricted – Dissemination of research is currently restricted.

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