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We were right, just!

In Monday's note we discussed the possibility that the equity market was on the cusp of a rally. We illustrated that sentiment had reached a very bearish extreme and during such conditions it often pays to 'go the other way'. Initially, however, this thesis was tested by a move to new lows intraday in European markets but thankfully we saw a rally into the close yesterday and some good follow through today, after a third successful hold of the 1040 support level in the S&P 500 in five days was sufficient to deter the bears for now.

Given how bearish everybody was last week, this rally will probably continue to a little bit until it burns itself out. We are quite mindful that the 200 day moving average on the S&P is now starting to slope down so this may cap gains near 1115. We will judge things as we go. For the moment our trading positions welcome the rally

Elsewhere, we also note with interest a potentially bullish break higher in the copper price which is very contrary to all the deflationist theories that are being thrown around these days. In fact, in Euro terms the Continuous Commodity Index has moved to new highs, what deflation? We continue to like most commodities, as regular readers know.

Right now the macro picture is driving most stocks, so the most beaten up stocks will probably rally the most in the near term.

S&P 500



Copper



Continuous Commodity Index in USD & Euro



Sector Breakdown (31.08.10)

Sector	No. of 3 Month Relative Highs	No. of 3 Month Relative Lows
Basic Materials	2	2
Communications	7	1
Consumer, Cyclical	4	2
Consumer, Non-Cyclical	3	7
Diversified	0	2
Energy	4	5
Financials	6	14
Industrial	6	12
Technology	1	5
Utilities	2	3
Total	35	53

3 Month Relative High (31.08.10) & OBV High Within the Last 5 Days

CODE	STOCK	INDUSTRY SECTOR	INDUSTRY GROUP	LAST PRICE	HIGH 52WEEK	LOW 52WEEK	ESN Recommendation
VOD LN Equity	VODAFONE GROUP PLC	Communications	Telecommunications	157.95	160	126.50	ADD
HMB SS Equity	HENNES & MAURITZ AB-B SHS	Consumer, Cyclical	Retail	245.9	251.5	190.25	HOLD
CARLB DC Equity	CARLSBERG AS-B	Consumer, Non-cyclical	Beverages	569.5	568	333.00	BUY
AMEC LN Equity	AMEC PLC	Energy	Oil&Gas Services	936	937.5	720.50	NR
SDRL NO Equity	SEADRILL LTD	Energy	Oil&Gas	153.8	164.3	100.10	ADD
SCR FP Equity	SCOR SE	Financial	Insurance	17.255	19.55	15.05	NR
KNBEV FH Equity	KONE OYJ-B	Industrial	Machinery-Diversified	36.91	36.99	22.78	BUY
ROR LN Equity	ROTORK PLC	Industrial	Electronics	1617	1620	931.61	NR
ARM LN Equity	ARM HOLDINGS PLC	Technology	Semiconductors	373.7	381	123.30	BUY
TOTAL	9						

3 Month Relative Low (31.08.10) & OBV Low within Last 5 Days

CODE	STOCK	INDUSTRY SECTOR	INDUSTRY GROUP	LAST PRICE	HIGH 52WEEK	LOW 52WEEK	ESN Recommendation
BAS GY Equity	BASF SE	Basic Materials	Chemicals	43.045	48.835	33.76	BUY
NHY NO Equity	NORSK HYDRO ASA	Basic Materials	Mining	31.63	47.5822	28.02	NR
ERICB SS Equity	Telefonaktiebolaget LM Ericsson	Communications	Telecommunications	74.6	90.45	65.25	NR
ELUXB SS Equity	ELECTROLUX AB-SER B	Consumer, Cyclical	Home Furnishings	151.5	200.4	140.50	HOLD
IHG LN Equity	Intercontinental Hotels Group PLC	Consumer, Cyclical	Lodging	1044	1244	721.00	NR
CLS1 GY Equity	CELESIO AG	Consumer, Non-cyclical	Pharmaceuticals	16.1	25.76	15.95	ADD
GETIB SS Equity	GETINGE AB-B SHS	Consumer, Non-cyclical	Healthcare-Products	152.5	178	112.50	BUY
SECUB SS Equity	SECURITAS AB-B SHS	Consumer, Non-cyclical	Commercial Services	69.75	79.75	64.20	ADD
STIMN SE Equity	STRALMANN HOLDING AG-REG	Consumer, Non-cyclical	Healthcare-Products	219.5	311.5	212.00	NR
SYST VX Equity	SYNTHEIS INC	Consumer, Non-cyclical	Healthcare-Products	114.5	146.5	105.30	NR
TATE LN Equity	TATE & LYLE PLC	Consumer, Non-cyclical	Food	430	509	388.00	NR
UCB BB Equity	UCB SA	Consumer, Non-cyclical	Pharmaceuticals	23.07	33.75	22.30	BUY
MF FP Equity	WENDEL	Diversified	Holding Companies-Divers	42.76	51.04	30.86	HOLD
MAU FP Equity	MAUREL ET PROM	Energy	Oil&Gas	8.674	15.13	8.51	BUY
NES1V FH Equity	NESTE OIL OYJ	Energy	Oil&Gas	10.83	13.85	10.26	BUY
PPHN VX Equity	PETROPLUS HOLDINGS AG	Energy	Oil&Gas	11.86	28.62331	11.10	NR
AGN NA Equity	AEGON NV	Financial	Insurance	4.262	6.263	3.96	BUY
ALV GY Equity	ALLIANZ SE-REG	Financial	Insurance	83.62	95.99	75.16	ADD
CASS IM Equity	Societa Cattolica di Assicurazioni SCRL	Financial	Insurance	19.14	24.95	18.33	NR
CGL LN Equity	CATLIN GROUP LTD	Financial	Insurance	333.7	394.6	303.20	NR
CS FP Equity	AXA SA	Financial	Insurance	12.895	19.3658	11.51	BUY
DB1 GY Equity	DEUTSCHE BOERSE AG	Financial	Diversified Finan Serv	50.09	62.62	45.45	HOLD
FORB BB Equity	FORTIS	Financial	Insurance	#N/A	Real Time	#N/A	N/A
INVEB SS Equity	INVESTOR AB-B SHS	Financial	Investment Companies	131.4	144.4	120.10	BUY
RF FP Equity	EURAZEO	Financial	Investment Companies	47.865	52.7	33.82	NR
RUKN VX Equity	Swiss Reinsurance	Financial	Insurance	43.66	53.85	40.54	NR
STB NO Equity	STOREBRAND ASA	Financial	Insurance	32.08	48.9	30.50	NR
ASSAB SS Equity	ASSA ABLOY AB-B	Industrial	Metal Fabricate/Hardware	155.1	174.7	110.50	BUY
BZU IM Equity	BUZZI UNICEM SPA	Industrial	Building Materials	7.43	13.52	7.00	ADD
HEI GY Equity	HEIDELBERGCEMENT AG	Industrial	Building Materials	33.835	52.2	30.86	NR
HOLN VX Equity	HOLCIM LTD-REG	Industrial	Building Materials	63.3	85	59.65	BUY
ISYS LN Equity	INVENSYS PLC	Industrial	Miscellaneous Manufactur	238.2	350.3	224.90	NR
LG FP Equity	LAFARGE SA	Industrial	Building Materials	38.35	66.59	35.57	HOLD
NDA GY Equity	NORDDEUTSCHE AFFINERIE AG	Industrial	Metal Fabricate/Hardware	32.46	41.645	24.70	NR
SVV SQ Equity	SACYR VALLEHERMOSO SA	Industrial	Engineering&Construction	3.725	13.95	3.44	HOLD
IWVS DC Equity	VESTAS WIND SYSTEMS A/S	Industrial	Electrical Compo&Equip	225	404.5	214.60	BUY
ASML NA Equity	ASML HOLDING NV	Technology	Semiconductors	20.435	27.25	18.08	HOLD
GTO FP Equity	Gemalto NV	Technology	Computers	27.8	33.98	26.70	HOLD
IFX GY Equity	INFINEON TECHNOLOGIES AG	Technology	Semiconductors	4.565	5.579	2.91	NR
STM IM Equity	STMicroelectronics NV	Technology	Semiconductors	5.49	8.085	5.15	BUY
RWE GY Equity	RWE AG	Utilities	Electric	52.24	69.29	50.88	ADD
VIE FP Equity	VEOLIA ENVIRONNEMENT	Utilities	Water	18.78	27.1	17.97	NR
TOTAL	42						

3 Month Relative Highs 31.08.10

CODE	STOCK	INDUSTRY_SECTOR	INDUSTRY_GROUP	LAST_PRICE	HIGH_52WEEK	LOW_52WEEK
ANTO LN Equity	ANTOFAGASTA PLC	Basic Materials	Mining	1090	1094	692.43
YAR NO Equity	YARA INTERNATIONAL ASA	Basic Materials	Chemicals	254.6	283.7	159.30
ILD FP Equity	ILIAD SA	Communications	Internet	74.48	89.54	62.00
KPN NA Equity	KONINKLIJKE KPN NV	Communications	Telecommunications	11.445	12.59	9.83
TEF SQ Equity	TELEFONICA SA	Communications	Telecommunications	17.875	19.85	14.67
TIT IM Equity	TELECOM ITALIA SPA	Communications	Telecommunications	1.093	1.263	0.88
UTDI GY Equity	UNITED INTERNET AG-REG SHARE	Communications	Internet	10.385	12.184	8.13
VIV FP Equity	VIVENDI	Communications	Media	19.285	21.565	16.18
VOD LN Equity	VODAFONE GROUP PLC	Communications	Telecommunications	157.95	160	126.50
DCC ID Equity	DCC PLC	Consumer, Cyclical	Distribution/Wholesale	20.195	21.75	15.70
HMB SS Equity	HENNES & MAURITZ AB-B SHS	Consumer, Cyclical	Retail	245.9	251.5	190.25
KESA LN Equity	KESA ELECTRICALS PLC	Consumer, Cyclical	Retail	132.4	162	98.45
SCVB SS Equity	SCANIA AB-B SHS	Consumer, Cyclical	Auto Manufacturers	139.6	140.6	82.00
CARLB DC Equity	CARLSBERG AS-B	Consumer, Non-cyclical	Beverages	569.5	568	333.00
KYG ID Equity	KERRY GROUP PLC-A	Consumer, Non-cyclical	Food	25.92	26.1	18.25
ORK NO Equity	ORKLA ASA	Consumer, Non-cyclical	Food	53.4	58.2	40.00
AMEC LN Equity	AMEC PLC	Energy	Oil&Gas Services	936	937.5	720.50
SDRL NO Equity	SEADRILL LTD	Energy	Oil&Gas	153.8	164.3	100.10
SIA LN Equity	SOCO INTERNATIONAL PLC	Energy	Oil&Gas	487.5	510	304.75
SPM IM Equity	Saipem Spa	Energy	Oil&Gas Services	28.03	30.27	17.80
ASHM LN Equity	ASHMORE GROUP PLC	Financial	Diversified Finan Serv	300.4	311.2	211.60
FDR FP Equity	FONCIERE DES REGIONS	Financial	REITS	74.72	78.7973	63.58
HELN SE Equity	HELVETIA HOLDING AG-REG	Financial	Insurance	338	387.75	278.75
ICAD FP Equity	ICADE	Financial	REITS	76.93	83.3	61.46
LSE LN Equity	London Stock Exchange Group PLC	Financial	Diversified Finan Serv	684.5	949.5	540.50
SCR FP Equity	SCOR SE	Financial	Insurance	17.255	19.55	15.05
FRA GY Equity	Fraport AG Frankfurt Airport Services Worldwide	Industrial	Engineering&Construction	41.72	43.18	31.45
KNEBV FH Equity	KONE OYJ-B	Industrial	Machinery-Diversified	36.91	36.99	22.78
ROR LN Equity	ROTORK PLC	Industrial	Electronics	1617	1620	931.61
ULE LN Equity	ULTRA ELECTRONICS HLDGS PLC	Industrial	Aerospace/Defense	1730	1730	1198.00
VTG LN Equity	VT GROUP PLC	Industrial	Aerospace/Defense	#N/A Real Time	799	487.80
WRT1V FH Equity	WARTSILA OYJ	Industrial	Miscellaneous Manufactur	43.32	44.25	23.59
ARM LN Equity	ARM HOLDINGS PLC	Technology	Semiconductors	373.7	381	123.30
IBE SQ Equity	IBERDROLA SA	Utilities	Electric	5.627	6.91	4.50
NG/LN Equity	NATIONAL GRID PLC	Utilities	Electric	547	616.4002	474.80
TOTAL	35					

3 Month Relative Lows 31.08.10

CODE	STOCK	INDUSTRY_SECTOR	INDUSTRY_GROUP	LAST_PRICE	HIGH_52WEEK	LOW_52WEEK
BAS GY Equity	BASF SE	Basic Materials	Chemicals	43.045	48.835	33.76
NHY NO Equity	NORSK HYDRO ASA	Basic Materials	Mining	31.63	47.5822	28.02
ERICB SS Equity	Telefonaktiebolaget LM Ericsson	Communications	Telecommunications	74.6	90.45	65.25
ELUXB SS Equity	ELECTROLUX AB-SER B	Consumer, Cyclical	Home Furnishings	151.5	200.4	140.50
IHG LN Equity	Intercontinental Hotels Group PLC	Consumer, Cyclical	Lodging	1044	1244	721.00
CLS1 GY Equity	CELESIO AG	Consumer, Non-cyclical	Pharmaceuticals	16.1	25.76	15.95
GETIB SS Equity	GETINGE AB-B SHS	Consumer, Non-cyclical	Healthcare-Products	152.5	178	112.50
SECUB SS Equity	SECURITAS AB-B SHS	Consumer, Non-cyclical	Commercial Services	69.75	79.75	64.20
STMN SE Equity	STRAUMANN HOLDING AG-REG	Consumer, Non-cyclical	Healthcare-Products	219.5	311.5	212.00
SYST VX Equity	SYNTHES INC	Consumer, Non-cyclical	Healthcare-Products	114.5	146.5	109.30
TATE LN Equity	TATE & LYLE PLC	Consumer, Non-cyclical	Food	430	509	388.00
UCB BB Equity	UCB SA	Consumer, Non-cyclical	Pharmaceuticals	23.07	33.75	22.30
MF FP Equity	WENDEL	Diversified	Holding Companies-Divers	42.76	51.04	30.86
SOF BB Equity	Sofina SA	Diversified	Holding Companies-Divers	63.52	72.97	57.77
EDPR PL Equity	EDP RENOVAVEIS SA	Energy	Energy-Alternate Sources	4.419	7.832	4.26
GBB FP Equity	BOURBON SA	Energy	Oil&Gas Services	29	35.6	24.27
MAU FP Equity	MAUREL ET PROM	Energy	Oil&Gas	8.674	15.13	8.51
NES1V FH Equity	NESTE OIL OYJ	Energy	Oil&Gas	10.83	13.85	10.26
PPHN VX Equity	PETROPLUS HOLDINGS AG	Energy	Oil&Gas	11.86	28.62331	11.10
AGN NA Equity	AEGON NV	Financial	Insurance	4.262	6.263	3.96
ALV GY Equity	ALLIANZ SE-REG	Financial	Insurance	83.62	95.99	75.16
CASS IM Equity	Societa Cattolica di Assicurazioni SCRL	Financial	Insurance	19.14	24.95	18.33
CGL LN Equity	CATLIN GROUP LTD	Financial	Insurance	333.7	394.6	303.20
CS FP Equity	AXA SA	Financial	Insurance	12.895	19.3658	11.51
DB1 GY Equity	DEUTSCHE BOERSE AG	Financial	Diversified Finan Serv	50.09	62.62	45.45
FORB BB Equity	FORTIS	Financial	Insurance	#N/A Real Time	#N/A N/A	#N/A N/A
INVEB SS Equity	INVESTOR AB-B SHS	Financial	Investment Companies	131.4	144.4	120.10
PARG SE Equity	PARGESA HOLDING SA-BR	Financial	Investment Companies	67.75	95.45	64.65
RF FP Equity	EURAZEO	Financial	Investment Companies	47.865	52.7	33.82
RUKN VX Equity	Swiss Reinsurance	Financial	Insurance	43.66	53.85	40.54
STB NO Equity	STOREBRAND ASA	Financial	Insurance	32.08	48.9	30.50
TRYG DC Equity	TRYGVESTA AS	Financial	Insurance	317.9	394.75	310.40
UBI IM Equity	Unione di Banche Italiane SCPA	Financial	Banks	7.23	10.99	6.51
ASSAB SS Equity	ASSA ABLOY AB-B	Industrial	Metal Fabricate/Hardware	155.1	174.7	110.50
BA/LN Equity	BAE SYSTEMS PLC	Industrial	Aerospace/Defense	303.1	389.9	288.10
BZU IM Equity	BUZZI UNICEM SPA	Industrial	Building Materials	7.43	13.52	7.00
CHG LN Equity	CHEMRING GROUP PLC	Industrial	Electronics	2635	3711	2033.00
HEI GY Equity	HEIDELBERGCEMENT AG	Industrial	Building Materials	33.835	52.2	30.86
HOLN VX Equity	HOLCIM LTD-REG	Industrial	Building Materials	63.3	85	59.65
ISYS LN Equity	INVENSYS PLC	Industrial	Miscellaneous Manufactur	238.2	350.3	224.90
LG FP Equity	LAFARGE SA	Industrial	Building Materials	38.35	66.59	35.57
NDA GY Equity	NORDEUTSCHE AFFINERIE AG	Industrial	Metal Fabricate/Hardware	32.46	41.645	24.70
SIK SE Equity	SIKA AG-BR	Industrial	Building Materials	1815	2060	1280.00
SVV SQ Equity	SACYR VALLEHERMOSO SA	Industrial	Engineering&Construction	3.725	13.95	3.44
VWS DC Equity	VESTAS WIND SYSTEMS A/S	Industrial	Electrical Compo&Equip	225	404.5	214.60
ASML NA Equity	ASML HOLDING NV	Technology	Semiconductors	20.435	27.25	18.08
GTO FP Equity	Gemalto NV	Technology	Computers	27.8	33.98	26.70
IFX GY Equity	INFINEON TECHNOLOGIES AG	Technology	Semiconductors	4.565	5.579	2.91
SOW GY Equity	SOFTWARE AG	Technology	Software	83.95	99.55	52.75
STM IM Equity	STMicroelectronics NV	Technology	Semiconductors	5.49	8.085	5.15
PPC GA Equity	Public Power Corp SA	Utilities	Electric	11.56	16.88	10.83
RWE GY Equity	RWE AG	Utilities	Electric	52.24	69.29	50.88
VIE FP Equity	VEOLIA ENVIRONNEMENT	Utilities	Water	18.78	27.1	17.97
TOTAL	53					

Filter Descriptions

Strong Technicals looks at stocks that made new 3 Month Relative Highs versus the DJ Stoxx 600 as at yesterdays close.

Weak Technicals looks at stocks that made new 3 Month Relative Lows versus the DJ Stoxx 600 as at yesterdays close.

We have applied the further filter of On Balance Volume (OBV); screening for stocks making a new 3 month relative high / low in the day just past and a new 3 month OBV high / low within the last 5 days.

OBV is a simple volume indicator that creates a time series by adding volume on up days and subtracting volume on down days. Essentially this a method of tracking whether volume is confirming a trend, the principle being that the OBV should confirm moves higher or lower. When an investor sees divergence between a price graph and the OBV line this is a warning sign that volume is not confirming the latest price move.

Therefore the principle of including this filter is an attempt to highlight those stocks where the volume trend has confirmed the relative move.

When looking at the charts attached the top graph in each case in the absolute share price performance, the middle graph the relative performance while the bottom chart is the OBV line.

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Footnotes

1. Ratios where share price is an input are calculated using (a) the respective fiscal year average share price for historic years and (b) the current share price for current and future years.