7:00's Report

"Everything you need to know about the markets by 7a.m. each morning, in 7 minutes or less."™

July 5, 2013

Pre 7:00 Look

- Futures sharply higher as U.S. markets play "catch up" to rallies in Europe and Asia yesterday and o/n.
- Both the ECB and BOE were verbally "dovish" in their interest rate meetings yesterday, surprising markets.
- There was progress in several political crises yesterday: Egypt, Portugal, and Italy all had relatively positive resolution to the political problems from earlier in the week.
- WTI Crude remains elevated (and is higher this morning) despite the overthrow of Egyptian President Morsi.
- Econ Today: Employment Situation (E: 161K).

Market	Level	Change	% Change
S&P 500 Futures	1623.25	14.25	.89%
U.S. Dollar (DXY)	84.24	.78	.93%
Gold	1238.40	-13.50	-1.09%
WTI	101.94	.72	.73%
10 Year	2.501	.032	1.30%

Equities

Market Recap

Futures are nearly 1% higher and international markets rallied Thursday after ECB Chief Mario Draghi and new Bank of England Governor Marc Carney both surprisingly issued "forward guidance" for interest rates (explicitly saying they will remain low for long and may go lower) and positive political progress occurred in Portugal and Egypt.

Despite the closure of the U.S. market Thursday, several important things happened. First, and most importantly, the international central banker rhetoric campaign, aimed at "talking down" rising interest rates, hit "overdrive" as what were supposed to be two benign ECB and BOE meeting proved to be anything but.

Although neither bank changed the level of interest rates or the amount of QE, both Draghi and Carney used "forward guidance," which is just a fancy economic term meaning they explicitly told markets there interest rates weren't rising any time soon, and in fact may go lower first, to help further "talk down" the recent rise in interest rates. This is surprising because 1) neither central bank has used "forward guidance' as a monetary policy tool previously (only the Fed and BOJ have used it) and 2) neither was expected to be so "dovish" in their guidance.

So, the bottom line is yesterday's ECB and BOE meetings were about as close to "easing" monetary policy as you can get without actually lowering interest rates or expanding QE. As a result, we saw interest rates in Europe drop, the euro and pound both fall versus the dollar, and European equities rise.

Away from the ECB/BOE, there was important progress in Portugal o/n, as the majority party has secured its support in parliament and it looks like there will **not** be new elections (which is a positive for European equities as it insures political stability - for now).

Staying in the geo-political realm, the Egyptian army ousted President Morsi Wednesday night, and while that is being seen as a potential positive, a lot of uncertainty and angst remains in the country, so don't expect the geo-political risk premium built up in oil to suddenly reverse just because Morsi is out (expect crude to stay elevated unless the economic data turns bad).

So, despite U.S. markets being closed on Thursday, there

Market	Level	Change	% Change
Dow	14988.55	56.14	.38%
TSX	12166.66	20.98	.17%
Brazil	45763.16	719.13	1.60%
FTSE	6448.66	26.99	.42%
Nikkei	14309.97	291.04	2.08%
Hang Seng	20854.67	386.00	1.89%
ASX	4841.75	47.01	.98%
Prices taken at previous day market close.			

were actually several pieces of important news, as three of the very recent market headwinds appear to be at least somewhat positively resolved: Portuguese political uncertainty, Egyptian political uncertainty, Italian political uncertainty (the government appears somewhat solid after a meeting yesterday) and Greek aid disbursement (reports are the "Troika" will disburse the next tranche of aid, as expected). Throw in a surprisingly "Dovish" BOE and ECB, and that's a recipe for a rally, although obviously the jobs number looms large today.

Market	Level	Change	% Change
Gold	1236.10	-15.80	-1.27%
Silver	19.23	.47	2.39%
Copper	3.10	-.07	-2.24%
WTI	101.46	.22	.22%
Brent	106.24	2.24	2.15%
Nat Gas	3.669	-.02	-.57%
Corn	5.32	-.01	-.09%
Wheat	6.68	.10	1.48%
Soybean	14.41	.08	.54%

Prices taken at previous day market close.

Strength internationally followed a rally in U.S. markets on Wednesday, thanks mostly to the better ADP jobs report and non-manufacturing (service sector) ISM. But, as expected trading Wednesday was very thin and really most of the rally was traders and investors positioning ahead of today's jobs report.

And, as a reference, depending on what happens with the jobs report, key levels to watch today on the charts in the S&P 500 are 1624 as resistance and 1600 for support.

Bottom Line

All eyes now turn to the jobs number, but keep in mind emerging markets remain very important. Watch PCY and EMB, if they go into free fall post jobs report, then equities won't be far behind. Until there is relatively calm in those markets, equities will have a hard time sustaining any material rally.

Economics

Jobs Report Preview

"Jobs Week" started on a high note Wednesday, as both ADP and weekly jobless claims beat expectations (ADP was 188k vs. (E) 165K). But, given the odd calendar (the holiday yesterday) both reports didn't really carry as much weight as they normally do.

As far as what that means for today's number, over the past seven months, we've seen ADP over estimate the government report by about 45k jobs three times, and underestimate the government report by about 45k four times, so I'd imagine that means we should expect either a 230kish print or a 140kish print this morning.

Very similarly to the June report, the market wants the jobs number to be good, but not "too good." So, anything from say 160k to about 275k will be "just right" as it'll show the labor market is picking up, but it's getting so strong that perhaps "tapering" will be pulled forward.

Oddly enough, if we get a print above 275k, it might be a headwind for stocks. The reasoning is this: anything above 275k will result in resumed decline in bonds and a spike in yields, which could trigger a resumption of the fall in emerging market debt, and that would be a negative for equities (as it has been for over a month). So, the best case scenario for the market is another "goldilocks" number.

Commodities

Energy once again led commodities higher Wednesday, as Egyptian turmoil led to spike higher in WT crude prices (which broke above $100/bbl for the first time in nearly 14 months). Most major commodity indices advanced about 1%.

The real action this morning is occurring in the metals markets, however. The very strong dollar (thanks to the lower euro and pound) is weighing heavily on gold and other metals, which are all down well over 1% as we head into the jobs report.

Given the already weak metals markets, if the jobs number is dollar bullish (meaning better than expectations) than we could see another rout in gold, and support at $1200/oz. will likely be tested.

Currencies & Bonds

The dollar surged yesterday (up 1%) after the "verbal" easing of both the ECB and BOE. Interestingly, both Draghi and Caney used the occasion of the U.S. Independence Day to declare “independence” from the Fed. Carney, through a statement that accompanied the official rate announcement, and Draghi, via his press conference, made it clear that while the Fed may be on the path of reducing accommodation and eventually tightening rates, both the BOE and ECB remain committed to extremely accommodative monetary policy, and neither would rule out more easing in months ahead if the economy warranted it.

So, we are seeing the currency markets reflect the marginal direction of change in monetary policy of the various countries: The Fed is starting to “dial back” while everyone else in the world is remaining extremely accommodative, and that’s dollar bullish and euro, pound, yen, Loonie and Aussie Dollar bearish. And, the short term effects of today's jobs number aside, unless the economic data in the U.S. turns decidedly worse, that is a trend that will continue for the months and quarters ahead.

At the risk of making pronouncements, I think the era of the weak dollar is coming to an end, and since we’re all de-facto long dollars, that is a good thing. For those looking for some added “umph” though, UUP is the dollar index bull ETF.

Have a good weekend,

Tom

Market	Level	Change	% Change
Dollar Index	84.25	.80	.95%
Euro	1.288	-.0129	-.99%
Pound	-1.4979	-.028	-1.88%
Yen	1.0007	.0013	.13%
CAD $	.9465	-.0025	-.26%
AUD $	.9117	.0081	.90%
Brazilian Real	.4385	.0025	.57%
10 Year Yield	2.501	.032	1.30%
30 Year Yield	3.497	.028	.81%
Prices taken at previous day market close.			

The 7:00's Report Asset Class Dashboard

(Outlook on the primary trend for major asset classes over the next month)

	Fundamental Outlook	Technical Outlook	Overall	Comments
Stocks	Neutral	Neutral	Neutral	*Equity markets have stabilized thanks to central bankers verbally intervening and pledging to remain accommodative. But, emerging market debt volatility and Chinese liquidity concerns remain the two headwinds that must be resolved before the rally can resume. Support in the S&P sits at 1560, while resistance lies at 1624.*

Trade Ideas

Long: **DXJ remains one of the most fundamentally sound investments in the market, but a correction of some sort is on going. And, given the extreme weakness last week, I think I was a bit early in saying we saw a bottom two weeks ago. Longer term I think the uptrend remains in place, but the unwind of the "Short yen" trade is proving violent, and I'd wait for some signs of strength before initiating a DXJ long/adding to current positions.**

The most clear trend in equities is of lower bond prices/higher yields, so I would be cautious on utilities and other "yield proxy" sectors, and would incrementally add long exposure to sectors that will benefit from higher rates: Financials, and very selective natural resource and hard asset related sectors/stocks.

	Fundamental Outlook	Technical Outlook	Overall	Comments
Commodities	Bearish	Bearish	Bearish	*Commodities continue to try and put in a bottom, but are facing stiff headwinds from a "hawkish" FOMC and a slowing growth in China. While commodities reflect a sector with some value in the market, at this point its too early to declare a bottom is "in."*

Trade Ideas

Long: **I have no great conviction as the environment is simply too unpredictable. For those looking to take some risk, and who think the global economy will see an acceleration of growth over the coming quarters, then industrial commodities offer some value, and a ETF like DBB will offer substantial upside. More broad based commodity ETF's are also a potential value at these levels, if growth stabilizes. Commodities and raw materials are the ultimate "contrarian" investment in the current market environment.**

	Fundamental Outlook	Technical Outlook	Overall	Comments
U.S. Dollar	Bullish	Neutral	Bullish	*The post FOMC dollar rally continues last week, as once again the focus has turned to the larger theme of an incrementally more "hawkish" Fed.*

Trade Ideas

Short**: Japanese Yen on any decent bounce (YCS being the ETF to use). Short the Aussie Dollar, given a weakening economy and dovish central bank (short FXA). Short the euro on any further bounce due to the fact the ECB is squarely focused on economic growth, and won't let the currency appreciate too much as that would cause a stagnation in exports.**

	Fundamental Outlook	Technical Outlook	Overall	Comments
Treasuries	Bearish	Bearish	Bearish	*Treasurys saw an oversold bounce helped by "dovish" comments from central bankers last week, but it was just a bounce, and any further rally in Treasurys should be shorted.*

Trade Ideas

Buy: **TBF (unleveraged short 20+ year Treasurys) and TBT (2X leveraged short 20+ year Treasury). SJB (inverse junk bond ETF) is also rallying during this period of global uncertainty, and basically has acted as a hedge against falling equity prices. It doesn't trade with a lot of volume, however, so buyer beware.**