# 7:00's Report

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

***September 25th, 2013***

## Pre 7:00 Look

- Futures unchanged and international markets are drifting as central bank paralysis continues to grip markets. Focus today will be on actual economic data.
- UK Distributive Trades (retail sales) was the only notable economic release o/n, and it handily beat expectations and rose to levels not seen since June '12.
- Econ Today: Durable Goods Orders (E:-0.5%). New Home Sales (E: 425K).

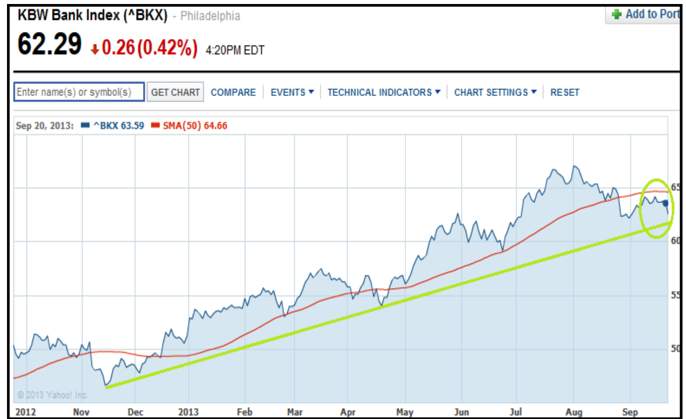
| Market | Level | Change | % Change |
|---|---|---|---|
| S&P 500 Futures | 1690.50 | -2.00 | -.12% |
| U.S. Dollar (DXY) | 80.535 | -.155 | -19% |
| Gold | 1322.20 | 5.90 | .45% |
| WTI | 103.73 | .59 | .56% |
| 10 Year | 2.653 | -.061 | -2.25% |

# Equities

*Market Recap*

Stocks finished lower Tuesday during a see-saw session as headwinds in Washington, from both Congress and the Fed, continue to weigh on sentiment and risk assets. The S&P 500 declined 0.26%.

It was a low-volume, back-and-forth day Tuesday, as stocks hit their lows about 45 minutes after the open. (The "reason" was apparently the weak consumer confidence number.) Then stocks bottomed and the S&P 500 rallied back above 1,700 into the mid-afternoon (and the




***"As Banks Go, So Goes the Market." That's an old saying on Wall Street, so it's important that the $62-ish level holds for the BKX.***

"reason" here was speculation President Obama would meet Iranian President Hassan Rouhani), before topping around 1:30 and starting a slow grind lower to finish not far off the lows of the day.

As you can guess, the reason that "reasons" for the market gyrations yesterday are in quotes is because those events were more coincidental than causal.

Bottom line is this market continues to act tired, and uncertainty emanating from Washington is resulting in a buyers' strike. Until we get some clarity from Washington, expect that strike to continue.

*I'll be discussing the outlook for the commodities markets on CNBC Asia's Squawk Box at 6:40 PM EST.*

A sideways chop with a downward bias is the most-likely direction for stocks right now, but with so much uncertainty, don't expect sellers to get too aggressive, either.

*Washington Update*

| Market | Level | Change | % Change |
|---|---|---|---|
| Dow | 15334.59 | -66.79 | -.43% |
| TSX | 12848.89 | 37.71 | .29% |
| Brazil | 54431.05 | -171.33 | -.31% |
| FTSE | 6587.2 | 15.76 | .24% |
| Nikkei | 14620.53 | -112.08 | -.76% |
| Hang Seng | 23209.63 | 30.59 | .13% |
| ASX | 5275.94 | 41.78 | .80% |

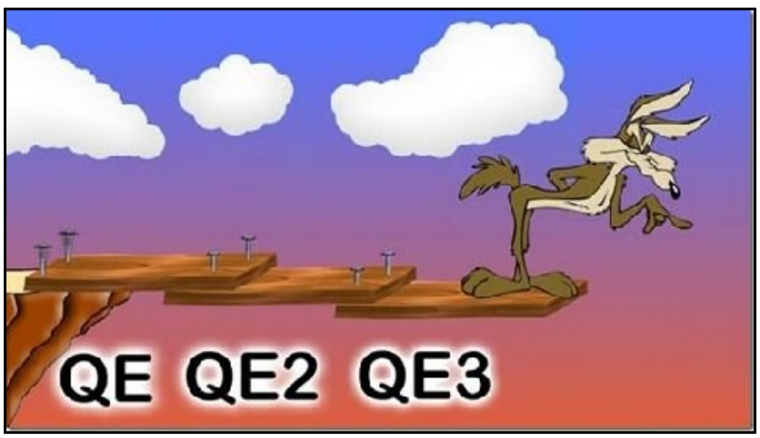
Prices taken at previous day market close.

There was nothing new from any of the Fed speakers yesterday, but there was some motion in Congress. The Senate started debate on the House continuing resolution (CR) bill, and as expected Harry Reid will strip the bill of the de-funding of the Affordable Care Act and then send it back to the House. Senator Ted Cruz and other Republicans have spoke for 15 hours over night (and still counting) on why Obama care should be de-funded, but theatrics aside everyone expects it to eventually pass the Senate.

| Market | Level | Change | % Change |
|---|---|---|---|
| Gold | 1332.5 | -4.50 | -0.34% |
| Silver | 21.685 | -.172 | -0.79% |
| Copper | 3.2625 | -.36 | -1.09% |
| WTI | 103.35 | -.24 | -0.23% |
| Brent | 108.78 | .62 | 0.57% |
| Nat Gas | 3.504 | -0.098 | -2.72% |
| Corn | 448.75 | -4.50 | -0.99% |
| Wheat | 658.25 | 4.75 | 0.73% |
| Soybean | 1312.50 | 4.75 | 0.36% |
| Prices taken at previous day market close. | | | |

But, the developments were a mild negative yesterday afternoon because of timing. If it takes till the end of the week (or worse, through the weekend) to get the "clean" CR bill back to the House, then there's only a day or so to get it passed before the government shuts down.

Again the wide probability is the thing gets passed, but obviously it could be cutting it close.




*Trading Color*

It was a mixed day from a market-internals standpoint, as sector trading was driven more by individual news items than it was any great rotation out of cyclicals in to safety (or, as we've seen over the last week, the reverse).

Homebuilders were among the best performers Tuesday, as both KB Home (KBH) and Lennar's (LEN) earnings met expectations (and LEN noted an uptick in orders at the end of the quarter).

Industrials also continue to trade well, as Applied Materials (AMAT) announced a merger with Tokyo Electron, which sent AMAT shares soaring more than 9%. But, the strength in industrials was widespread, and that remains one of the stronger sectors in the domestic market.

Finally, the pounding of financials (and especially banks) continued in earnest yesterday, as financials were again the worst-performing S&P 500 sub-sector.

Volumes continue to be light as the Fed and Congress have caused some degree of paralysis in the markets. On the charts, the S&P 500 closed below the 1,700 level for the first time in over a week. Next support is the 50-day moving average, which sits modestly lower at 1,679.

## Economics

No economic reports yesterday.

## Commodities

Commodities continued their declines despite a flattish dollar, as money continues to rotate out of the sector.

Continued reduction of geo-political risk and sluggish Fed commentary on the economy continue to weigh on the sector as a whole, and industrial commodities continue to ignore the improving international economic data.

Oil fell to multi-week lows yesterday, as Iran continues to make overtures toward the West regarding its nuclear program. But, anticipated supply increases and expected refinery outages during the "switching season"—when refineries shut to focus on production of heating oil vs. gasoline—is also weighing on the complex. And, as WTI crude declines, it's pulling the products (RBOB gasoline and heating oil) down with it.

This decline in crude has been much-worse than I would have expected given what we're seeing from the economic data. I attribute a lot of it to weak hands bailing on the improving geo-politics and momentum traders piling on. But, WTI crude bounced off support yesterday from an uptrend line dating back to the April lows. So, if the declines are going to stop, they should stop here.

*WTI Crude: A seasonal reduction in refinery demand and declining geo-political risk have pushed oil prices to two month lows. But, they are hard into support now.*

Turning to the metals, the most-interesting action yesterday was in copper. Copper fell 1% and was actually the worst-performing commodity, and it has completely ignored the positive Chinese economic data—which is not typical.

Gold and silver were lower all day but finished down only marginally, as the prospects for a still-dovish Fed continue to keep gold on life support, although the commodity continues to trade heavy. $1,300 remains key support in the near term, with $1,280-ish the ultimate line in the sand for the bulls.

Commodities act as barometers of global economic growth, so whenever I see both oil and copper falling despite relatively bullish fundamental data, I get nervous—and their declines over the last week are adding to my rising sense of caution on risk assets.

The PowerShares DB Commodity Index Tracking Fund (DBC) broke last week's lows on an intraday basis, but I continue to be nervously bullish on the complex. Short of Obama and the new Iranian president having a "sleepover," I'm not sure how much more geo-political risk can be taken out of oil in the near term. So, I'd expect a bounce of some sort over the coming days, back into that $105-$110 range.

## Currencies & Bonds

The unwind of the "short bond" trade accelerated yesterday, as the 30-year Treasury rose nearly 1% to a new one-month high, and the 10-year yield fell below 2.7% for the first time since mid-August.

The dovish comments by Fed presidents William Dudley Monday and Dennis Lockhart yesterday (Lockhart said he didn't think an October taper of QE was likely), are clearly the reason for the rally. But this is also a momentum trade, as early shorts book profits and late shorts are squeezed out.

Despite being a big long-term bond bear, I don't think we've seen the end of this counter-trend rally in bonds, and would wait for better entry points before adding shorts. This was a heavily one-sided trade, and the ship continues to be righted.

The Dollar Index rallied small yesterday (confirming there was no more "dovish" news yesterday), but really the dollar is doing little more than treading water.

The euro continued to slowly bleed lower (down 0.17%) as did the pound (down 0.28%), but there was no "news" in the market and this is just random trading noise after the big moves last week.

Turning to Asia, the yen was flat. At this point currency markets, even more so than equities, are waiting for the next cue from the Fed, European Central Bank or Bank of Japan—and until we get them or more-meaningful economic data, there's likely to be a continued drift among major currencies.

Have a good day,

Tom

| Market | Level | Change | % Change |
|---|---|---|---|
| Dollar Index | 80.685 | .114 | 0.14% |
| Euro | 1.3474 | -.0024 | -0.18% |
| Pound | 1.5996 | -.0042 | -0.26% |
| Yen | .010136 | .000013 | 0.13% |
| CAD $ | .9689 | -.0022 | -0.23% |
| AUD $ | .9344 | -.0049 | -0.52% |
| Brazilian Real | .4481 | .0005 | .11% |
| 10 Year Yield | 2.653 | -.061 | -2.25% |
| 30 Year Yield | 3.672 | -.07 | -1.87% |
| 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 | Bullish | Bullish | *Stocks shot to all time highs on a surprisingly dovish "no taper" Fed decision but concerns are growing about the Fed's credibility and plan to unwind QE. At this point, though, the benefit of the doubt remains with the bulls, and performance chase into month/quarter end will be a short term tailwind on stocks.*<br>*Markets have fallen nearly 2% from recent highs. Major support sits at the 50 day MA, which is at 1679.* |

**Trade Ideas**

***Long/Overweight:*** **International markets continue to remain attractive based on improving economic data, and looming political and monetary clouds in Washington. Internationally, European economic data shows the EU economy is finally stabilizing, so long EWU (UK ETF) or EIRL (Ireland ETF) are two ways to potentially get exposure to a recovery in Europe. Also, the "Long Japan" DXJ trade appears to be back "on" as its broken through resistance, and I'd initiate or add to any positions at these levels or on any dip.**

**Domestically, I'd look to allocate to deep cyclicals like industrials (XLI) and basic materials (IYM), as they should benefit from continued Fed stimulus.**

| | | | | |
|---|---|---|---|---|
| Commodities | Bullish | Bullish | Bullish | *The commodity complex continues to see the environment turn more favorable. Global economic growth appears to be turning for the better, especially in China and Europe, and the Fed's decision not to taper QE only will serve to stoke inflationary fires and benefit hard assets as the US Dollar declines.* |

**Trade Ideas**

***Long:*** **WTI crude remains one of the more bullish commodities, as increasing domestic demand should help push oil higher over the coming months. I'd look to buy oil or "energy" in general on any further dip to between $105—$107.**

**Copper has broken its months long downtrend as global growth appears to be stabilizing, and if that continues, industrial commodities offer some value, and an ETF like DBB will offer substantial upside. More broad based commodity ETF's (like DBC) are also a potential value at these levels, if growth continues to stabilize. Commodities and raw materials are the ultimate "contrarian" investment in the current market environment.**

| | | | | |
|---|---|---|---|---|
| U.S. Dollar | Neutral | Neutral | Neutral | *The US Dollar plunged after the Fed's "No taper" surprise and broke a multi-year up trend. The dollar had risen in anticipation of Fed tapering, and with that out for now, there will be little in the news to push the dollar higher, although I don't envision a continued sell off either, as the FOMC will taper at some point (Oct or Dec).* |

**Trade Ideas**

***Long:*** **Emerging market currencies (ETF is CEW) such as the Brazilian Real (BZF), Indian Rupee (ICN) or Mexican Peso, as those currencies should see a large rally after the Fed's "no taper" surprise.**

| | | | | |
|---|---|---|---|---|
| Treasuries | Neutral | Bearish | Bearish | *The Fed's "no taper" surprise has likely marked the end of this initial leg down in Treasuries. Although the fundamentals long term remain negative, we should see a bounce of some sort, although I would look at that longer term as a great entry point on a bond short. If you missed the intial leg down, now's your chance to get back in over the coming weeks/month.* |

**Trade Ideas**

***Buy on a significant dip:*** **TBF (unleveraged short 20+ year Treasurys) and TBT (2X leveraged short 20+ year Treasury). Finally, with the Fed committed to holding down near term rates, the yield curve will steepen dramatically, so STPP should continue to do well.**