7:00's Report

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

October 30th, 2013

Pre 7:00 Look

- Futures are marginally higher ahead of the ADP jobs report and Fed this afternoon after a uneventful night.
- International markets are seeing modest rallies on a combination of better than expected consumer sentiment in Europe and improving liquidity conditions in China.
- Econ Today: ADP Employment Report (E: 138K), Consumer Price Index (E: 0.2%). FOMC Meeting Announcement (2:00 PM E.T.). There is no change expected to rates or the QE program, and focus will be on how much the Fed downgrades its commentary on the economy.

Market	Level	Change	% Change
S&P 500 Futures	1772.25	4.75	.27%
U.S. Dollar (DXY)	79.62	-.05	-.06%
Gold	1349.90	4.50	.34%
WTI	87.54	-.66	-.67%
10 Year	2.507	-.005	-.20%

Equities

Market Recap

Stocks traded to new highs again yesterday as more "ok" earnings again trumped uninspiring economic data. The S&P 500 rose 0.5%.

Yesterday was again a relatively quiet day outside of specific earnings reports, and while markets opened higher on decent volumes, things slowed materially after about 11 AM and trading during the afternoon session was downright sleepy.

As far as news in the markets yesterday, there simply wasn't much. We did get a lot of economic releases (retail sales, Case-Shiller Home Price Index and consumer confidence) and while the first two "beat" and the later "missed" vs. expectations, the market largely ignored the results, instead looking ahead to the FOMC meeting this afternoon. Stocks slowly grinded higher throughout the afternoon in quiet trading and went out just off their highs.

Trading Color

The outperformance of "safety" vs. cyclicals continued again yesterday, as consumer staples was once again one of the best performing S&P 500 subsectors, while the "momentum stocks" that have led the market for months continue to underperform. Consumer staples and telecom again rallied hard yesterday (telecoms were helped by T trading near a multi-month high) and clearly investors are searching for "bond proxy" stocks given delayed Fed tapering expectations. Conversely, FB, GRPN, and CRM (some more of the momentum stocks) all saw pretty steep declines.

More broadly, financials, weighed down by more bank litigation concerns (Fitch warned the that a FHFA settlement could cost BAC 60 billion(!) in total) while the materials sector was once again weak mostly on profit taking and on peripheral Chinese growth concerns.

Volumes were elevated in the morning thanks to earnings but things quieted materially after the open, and there was not a ton of conviction in yesterdays rally (this had been a theme for a few days now - rallies on low volumes). On the charts its pretty simple, the market is stretched but is continuing to make new highs, which is obviously bullish.

Bottom Line

The resiliency of this market remains its hallmark, and

Market	Level	Change	% Change
Dow	15680.35	111.42	.72%
TSX	13440.61	68.77	.51%
Brazil	54538.80	-534.57	-.97%
FTSE	6815.51	40.78	.60%
Nikkei	14502.35	176.35	1.23%
Hang Seng	23304.02	457.48	2.00%
ASX	5430.86	15.33	.28%
Prices taken at previous day market close.			

yesterday I continued to get the impression that the rally was "painful" for managers who expected a pause or pullback. And, while the recent outperformance of "safety" vs. "cyclicals" is traditionally a "warning sign" for the broad market, clearly it's being ignored for now, given the new highs we see each and every day.

Market	Level	Change	% Change
Gold	1344.90	-7.30	-0.55%
Silver	22.525	-.013	-0.06%
Copper	3.2825	.0135	0.41%
WTI	98.23	-.45	-0.46%
Brent	108.82	-.79	-0.72%
Nat Gas	3.643	-.017	-0.46%
Corn	432.00	1.25	0.29%
Wheat	681.25	.25	0.04%
Soybean	1279.00	7.75	0.61%

Prices taken at previous day market close.

Bottom line is while there are warnings signs in the market, the trend remains decidedly higher, and the benefit of the doubt remains with the bulls. I would not, however, be adding more long positions at these levels, as regardless of the resiliency of the market, a short term pause of some sort is due (we're up nearly 8% from the "debt ceiling deal" lows of three weeks ago.) So, to a point, everyone hold your nose and stay long.

Economics

Retail Sales

- September sales fell to –0.1% vs. (E) 0.0%
- Retail Sales less autos and gas rose 0.4% vs. (E) 0.3%

Takeaway

Retail Sales for September turned slightly negative, down to -0.1% compared to a reading of 0.2% in August.

The headline data have been very volatile in recent months due to fluctuating auto sales (largely due to manufacturers offering low financing incentives to new buyers) and higher gas prices that have eased consumption nationwide.

The more widely noted number, "Retail Sales less Autos and Gas," (also known as the "control group) saw a higher-than-expected increase of 0.4% for September, and rebounded from a weak 0.1% in August. Additionally, the core of the report showed strength in the food and beverage sector as well as electronics and appliance store sales. Furniture, along with home improvement and garden equipment sales, ticked higher as well.

Bottom line is this number was a bit better than expected, as the "core" of the report—and the sectors that outperformed—indicate an improvement in discretionary spending that wasn't exactly expected after a couple months' worth of lackluster economic data. So, this helps alleviate some concerns of a material slowdown in consumer spending.

That said, though, this certainly wasn't a very "strong" number and the trend of mixed and unimpressive data continues as all eyes move to the Federal Open Market Committee announcement tomorrow afternoon at 2 p.m. Eastern.

Commodities

Commodities drifted lower in a generally quiet day of trading. Gold, WTI crude oil and natural gas underperformed while copper was one of the few in the space to record a gain. The PowerShares DB Commodity Index Tracking Fund (DBC) declined0.3%. Natural gas was the worst performer, falling to a five-week low and declining 5.7% on the week so far.

Gold closed down 0.5% to $1,345.50 in light-volume trading yesterday as speculators and long-term investors alike squared some positions ahead of the FOMC this afternoon. The metal briefly dipped below the 50-day moving average before bouncing back, which keeps the technical bulls in control for now. Obviously we should expect gold to trade off the Fed, but unless the statement is surprisingly "Hawkish" I don't think we'll see much of a decline in gold. The dollar index has rallied two days in a row and gold has barely declined—a sign of relative strength I haven't seen in some time.

WTI crude oil has settled into a fairly tight $4/Bbl range with a low just under $96.00 and a ceiling of $100-$101 (which is former support). Trading in WTI was relatively quiet yesterday, and there was mostly general selling in the market. Brent crude, on the other hand, has seen a rally lately in reaction to labor protests in Libya, which has caused the "spread" between WTI and Brent Crude to move out to $11/bbl. after hitting zero earlier this summer (this is a very good thing for refinery stocks).

All eyes will be on the EIA weekly supply data report due out this morning at 10:30, which is expected to show yet another build in supply.

Both Nymex crude oil futures and gold are going to be the commodities to watch today, with the supply data and FOMC meeting announcement being released. Look for potentially large swings on surprise news in either market.

Currencies & Bonds

It turned out to be a choppy day in the currency markets, with the dollar originally trading down and then reversing midday to finish the session up 0.5%. The turnaround was, for the most part, due to breaking news regarding a Department of Justice investigation into the forex markets.

The pound was lower on relatively weak macroeconomic data while volumes were thin in anticipation of Friday's UK Manufacturing PMI number coming later this week..

The Aussie was the big decliner on the day, falling .75% on comments from Reserve Bank of Australia Gov. Glenn Stevens, who said publicly that the AUD would fall "materially lower" given the country's declining trade balance.

Japanese yen futures have been drifting in a fairly large range since making new lows in July. After a substantial move lower yesterday, it looks like the yen is going to break the 50-day moving average, which will technically reinforce the fundamental yen short I have been preaching about for months.

Depending on what happens in today's Fed announcement, I am confident that as soon as the technicals confirm it, the yen will continue its trend lower with an initial target of 105 (USD/JPY).

Market	Level	Change	% Change
Dollar Index	79.695	.389	0.49%
Euro	1.3743	-.0035	-0.25%
Pound	1.6044	-.00502	-0.30%
Yen	.010186	.000054	-0.53%
CAD $	.9543	-.0022	-0.23%
AUD $	.9478	-.002895	-0.30%
Brazilian Real	.45515	.0009	.20%
10 Year Yield	2.507	-.005	-.27%
30 Year Yield	3.622	.02	.56%

Prices taken at previous day market close.

Here in the U.S., Treasuries caught a bid across the curve yesterday as the greater counter-trend rally is still intact in the bond markets. The "belly" of the curve outperformed following the longer-maturity bond purchases by the Fed just before midday. The 10-year yield is now 2.505%.

Currencies and bonds alike will be high atop traders' radars today as the FOMC meeting adjourns and announcements are made at 2 p.m. The Dollar Index has revisited annual lows over the past week, where a crucial level of support lies. If the Fed announcement is overly "dovish," look for another drop in the Dollar Index, with the next level of support being down toward the 78 level.

Have a good day,

Tom

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**	*The S&P 500 traded to new all time highs last week on expectations of a further delay in tapering of QE. While valuations are elevated, cautious sentiment remains one of the bigger drivers of stocks, and until sentiment becomes much more enthusiastic, the path of least resistance for stocks remains higher.* *The S&P 500 support again sits at the old highs of 1729 while there is no real resistance on the charts.*

Trade Ideas

Long Europe: **Although Washington drama is resolved, I continue to favor international exposure as "Europe" is seeing economic stabilization and a return of growth, and remains a better value than the US, and I like VGK (Europe ETF), EWU (UK ETF) or EIRL (Ireland ETF), and, for the gambling ilk, GREK (Greece ETF) and EWI (Italy ETF).**

Long Japan: **The "Long Japan" trade has stalled a bit thanks to a rising yen (which was a result of the debt ceiling drama) but long Japan remains one of the more fundamentally based trades in the market. DXJ remains the way to play it and I'd buy this dip for medium/longer term accounts.**

Long Deep, multi-national Cyclicals and Global Miners: **Domestically, I'd look to allocate to deep cyclicals like industrials (XLI), basic materials (IYM) and global industrial miners (PICK). Those sectors are most exposed to the "global economic recovery" thesis.**

Commodities	**Bullish**	**Neutral**	**Neutral**	*With Washington drama removed from the markets, commodities hopefully can resume the rally based on the global "economic recovery. Commodities remain on of the few asset classes where you can make a "value" argument.*

Trade Ideas

Long Industrial Commodities: **Industrial commodities have stalled lately, as economic data, especially in the US, has shown a loss of some positive momentum, and it bears close watching as to whether this is a temporary blip, or a bearish game changer. But, if you believe the global economy Is recovering, the commodity space, and the ETF DBC, is one of the best "values" in the market, and a pretty contrarian idea right now.**

Long Gold: **If the Fed is going to delay tapering substantially, then gold is the clear winner and a "value" at these prices, although I'd use a tight stop (around the $1320 level).**

U.S. Dollar	**Neutral**	**Neutral**	**Neutral**	*The Dollar will now once again trade off Fed expectations and economic data, and with tapering expectations being pushed out to early next year, there is little reason to expect a rally in the Dollar Index.*

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 further upside as Fed tapering has likely been delayed until early '14.**

Treasuries	**Neutral**	**Bearish**	**Bearish**	*Bond will likely resume their counter trend rally given that Washington is out of the headlines, as Fed tapering looks to be pushed out to next year. But, remember this rally is just one enormous shorting opportunity.*

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.**