7:00's Report

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

October 22nd, 2013

WTI Crude has declined more than 10% from the highs in September, raising some concerns about demand, and in turn, the strength of the economy.

Pre 7:00 Look

- Futures unchanged ahead of the jobs report, after a very quiet night on news.
- The one piece of macro news o/n was Chinese property prices, which continued to rise sharply, prompting some to worry the government may take further efforts to cool the economy, as some are warning of a bubble.
- Econ Today: Employment Situation (E:185K).
- Earnings Today: DD (E: $0.41), FCX (E: $0.63), LMT (E: $2.26), TRV (E: $1.99), UTX (E: $1.53).

Market	Level	Change	% Change
S&P 500 Futures	1737.50	-0.75	-.04%
U.S. Dollar (DXY)	79.805	.054	.07%
Gold	1313.20	-2.60	-.21%
WTI	98.90	-.32	-.32%
10 Year	2.609	.02	.77%

Equities

Market Recap

Markets were little changed Monday as stocks digested last week's gains and looked forward to this morning's jobs report. The S&P 500 rose 0.01% and set another closing high at 1,744.66.

Wall Street was much more focused on the "micro" vs. the "macro" economic yesterday, as a slew of earnings drove trading more than anything else. Yesterday's results, in aggregate, reflected the entire earnings season: The numbers were "OK" but not good or bad enough to really move the broader market one way or the other.

Stocks opened basically flat and stayed there pretty much the entire trading day, as there was little news other than existing home sales, which generated little reaction from stocks. Major markets barely strayed from the unchanged level during trading and closed quietly.

Trading Color

As mentioned, earnings and individual corporate news drove trading more than anything else yesterday. Industrials were the best-performing S&P 500 sub-sector, as there was positive follow-through from Friday's good GE earnings. Tech was also stronger thanks to AAPL (which rallied in anticipation of the new iPads released today), but good earnings from SAP also peripherally helped.

As far as what didn't work yesterday, healthcare continues to underperform. (This sector has been a huge laggard ever since UNH's earnings results, and undoubtedly the "Affordable Care Act" rollout debacle is weighing also.) MCD was the big earnings "miss" yesterday morning, weighing on the consumer staples space, while energy (on WTI crude weakness), homebuilders and REITs

Market	Level	Change	% Change
Dow	15392.01	-7.64	-.05%
TSX	13186.53	50.44	.38%
Brazil	56077.43	698.97	1.26%
FTSE	6661.04	6.874	.10%
Nikkei	14713.25	19.68	.13%
Hang Seng	23315.99	122.16	.52%
ASX	5373.15	21.37	.40%

Prices taken at previous day market close.

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(after a quasi disappointing existing home sales report) also led to the downside.

Volumes were very light yesterday, and that's to be expected ahead of the jobs number. On the charts we've got resistance for the S&P 500 basically at 1,750 with some small support at the old highs of 1,729.

Market	Level	Change	% Change
Gold	1314.70	.10	0.01%
Silver	22.24	0.327	1.49%
Copper	3.302	.003	0.09%
WTI	99.15	-1.66	-1.65%
Brent	109.87	-.07	-0.06%
Nat Gas	3.656	-0.108	-2.87%
Corn	444.00	2.50	0.57%
Wheat	699.75	-6.00	-0.85%
Soybean	1303.25	12.00	0.93%
Prices taken at previous day market close.			

Jobs Report Preview

Expectations are for 185K and there really isn't a "whisper" number. As I mentioned yesterday, people will be looking at the revisions to the low August reading just as much as the headline number.

Most likely this will release be a relative non-event as long as it's somewhat close to expectations, as these are September figures (so pre-shutdown). Unless the number is very good or very bad, though, again I wouldn't expect a lot of reaction from markets. But, I want to briefly cover what the market will consider "very good" or "very bad" and the expected reaction.:

The Good: September jobs increase > 200K with healthy positive revisions to August. The reaction across markets should be positive for stocks, but don't expect an extended "hawkish" reaction from bonds and currencies (which would be a bond sell-off & dollar rally). The reason for that is because, regardless of September's report, both October and November's jobs reports are expected to be soft thanks to the government shutdown. And, as always, the market is forward-looking.

The Ugly: September payrolls of < 150K and small revisions to the August data. A print this bad would likely result in equity prices declining, and a "dovish" reaction from the market (bonds up/dollar down).

Bonds and gold will likely react more to the report (than equities will) but again, unless it's the good or ugly scenario, don't expect any material moves. The current levels of bonds, currencies and gold reflect the reality of about 180K jobs added and a January or March Fed tapering of QE.

Economics

Existing Home Sales

- September Existing Home Sales were 5.29M Seasonally Adjusted Annual Rate (SAAR) vs. (E) 5.30M SAAR.

Takeaway

September existing home sales declined 1.9% from August levels, which were revised down from 5.48M. Overall this wasn't exactly a strong number but, for some context, the sales pace is still more than 10% higher than it was one year ago. Inventory of homes for sale increased slightly but remains tight at 5.0 months, from 4.9 in August. The median price of homes sold also fell 5% to $199,200, as clearly sellers dropped prices to try to move inventory.

Most markets were only slightly affected by the release, although homebuilders and REITs both sold off on the news, as it was, on balance, slightly disappointing.

As far as what this means for the housing market, it's important to keep in mind this data is from sales that closed in August, when interest rates were still moving higher, so this isn't exactly timely. Bottom line is this existing home sales report implies we're seeing further moderation in the housing recovery, although importantly the recovery is still progressing. But, clearly the pace of recovery is slowing and the housing market will continue to be closely monitored by the market and the Fed.

Commodities

Commodities were mixed Monday, but most commodity indices finished solidly lower, dragged down by continued declines in the energy space. DBC fell .23%.

WTI crude was the story of the day in commodities, as it fell below $100/bbl. for the first time since July and dropped 1.6%. The ostensibly negative catalyst for WTI Monday was the release of last week's inventory data (after it was delayed by the shutdown).

Oil inventories rose 3.99 million barrels, which was

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above expectations of 2.1 million barrels. But, while that bearish number added to the selling pressure, WTI had already broken through $100/bbl. in trading early Monday morning—several hours before the data was released.

This weakness in crude remains something to watch and serves as a potential non-confirmation of the relentless rise in the stock market. And, the big question is: "Is this dip in WTI because of increased supply, or lack of demand?" The reason that's important is, under the former, stocks can rally with declining crude prices. Under the latter, they can't, because the lack of demand is forecasting a slowing economy.

Right now, it would appear that the majority of the decline is supply-related, as oil inventories have been steadily rising since mid-August and now sit more than 1% above last year's levels (and well-off the August lows). And, at around 370 million barrels, stockpiles of crude are also at levels last seen in July, confirming the price movement.

But, the concerning thing is that, in a growing economy, there should be some discount for increasing demand. While it's too early to generate any big conclusions, the jury remains out on whether or this is a supply-driven decline, or the foreshadowing of a slowdown in growth.

While energy remains weak, precious and industrial metals continue to trade well. Silver and palladium were the best-performing commodities yesterday (rallying 1.4% and 1.15%, respectively) while gold and copper both finished marginally positive. While last week's rallies in the metals were the result of a dollar decline, yesterday's gains were likely comprised mostly of short-covering into this morning's jobs number.

Today's jobs report will go a long way toward resolving the question of whether the metals (both precious and industrial) can break out of this months-long trading range.

Watch $1,330 in gold and $22.33 in silver—a few closes above those levels and the rally will be back on.

Currencies & Bonds

The dollar traded flat yesterday and, outside the yen, it was downright sleepy in the currency markets. The dollar finished little-changed, as did the euro and pound. There was no real data to speak of in Europe, and no real catalysts.

The yen did trade off data yesterday, however, and that data was "dovish." As such, the yen declined modestly vs. the dollar (down 0.3%). Japanese exports missed expectations in September (exports rose 11.5% year-over year vs. expectations of 15.6%).

This is important because this soft export number could be viewed as a negative consequence of the yen still being too high. So, the thinking would go that exports aren't growing fast enough because the yen hasn't fallen enough, and as a result this may provide fodder for the Bank of Japan and Prime Minister Shinzo Abe to further stimulate the Japanese economy. That's because if Japan's economy is going to rebound, exports must lead the way higher. So, on balance, the data yesterday was yen-negative and further bolsters the case for a much-lower yen over the coming months (and higher Japanese equities).

Treasuries declined modestly yesterday (with the 30-year note down 0.2%) as there was some light short-term profit-taking ahead of the jobs report. I'd expect to see some initial volatility out of the bond market on the release, but unless it's in my "good" or "ugly" scenario, I don't expect any material moves.

Market	Level	Change	% Change
Dollar Index	79.765	.038	0.05%
Euro	1.3677	.000255	0.02%
Pound	1.6145	.0014	-0.09%
Yen	98.208	.196	0.20%
CAD $	1.02996	.0004	0.04%
AUD $	.96569	.000825	0.09%
Brazilian Real	.4546	-.00045	-.10%
10 Year Yield	2.609	.02	.77%
30 Year Yield	3.681	.027	.74%

Prices taken at previous day market close.

It would take a simply awesomely positive number for me to change my mind that we're still in the middle of a counter-trend rally in the bond market, but I'm not going to look for that to happen. Not this month, anyway!

Have a good day,

Tom

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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 resolution in Washington and a "clear" macro horizon. 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).The**

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.**

	Fundamental Outlook	Technical Outlook	Overall	Comments
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: **If we are seeing a return of global economic growth, then industrial commodities (Oil, Copper, Refined Products, Base Metals) should out perform over the coming quarters. In the short term concerns of growth thanks to the debt ceiling drama weigh, 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.**

	Fundamental Outlook	Technical Outlook	Overall	Comments
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.**

	Fundamental Outlook	Technical Outlook	Overall	Comments
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.**

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