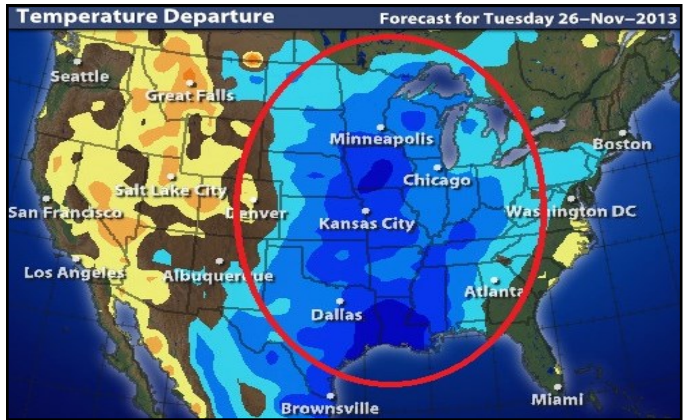
7:00's Report

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

November 26th, 2013



Baby It's Cold Outside: Wickedly cold weather is moving east, making for a cold Thanksgiving and increasing heating demand.

Pre 7:00 Look

- Futures flat after another quiet night.
- The only news o/n was the minutes from the latest BOJ meeting, which were not quite as "dovish" as expected, and the yen is rallying small as a result (but keep in mind the size of the recent decline).
- Econ Today: Housing Starts (E: 905K), Consumer Confidence (E: 72.9).
- Earnings Today: TIF (E: $0.58), HPQ: (E: $1.00).

Market	Level	Change	% Change
S&P 500 Futures	1801.59	-1.25	-.06%
U.S. Dollar (DXY)	80.775	-.188	-.23%
Gold	1251.50	10.30	.83%
WTI	94.35	.26	.28%
10 Year	2.741	-.011	-.40%

Equities

Market Recap

Stocks finished Monday little-changed after an extremely quiet trading session yesterday. The S&P 500 fell by 0.13%.

There was very little news released Monday, so the reported progress in the Iranian sanctions deal pretty much dominated the news feeds. The only economic release, Pending Home Sales, missed expectations, but the market largely brushed off the lower number as likely a lingering effect from the government shutdown last month.

An interesting article in the Washington Post is largely suspected of being the culprit behind the modest afternoon sell-off. The article reported that the conservative group "Heritage Action" is now openly opposed to Janet Yellen's appointment to Fed chair and is looking for ways to exert leverage and block the appointment. Unfortunately for Heritage Action, though, Yellen's confirmation was widely expected even before the Senate Democrats use the "nuclear" option last week to change Senate rules and lower the majority needed to approve presidential appointees. In truth, the "focus" on this article is more a good example of just how slow the trading day was, more so than anything else. Stocks finished well off their highs but again about flat in aggregate.

Trading Color

Volumes, attendance and participation were all very low yesterday, and that's a trend that likely will grow as the week moves on.

From a sector standpoint, the big movers were the financials, primarily the big commercial banks and the

Market	Level	Change	% Change
Dow	16072.54	7.77	0.05%
TSX	13468.39	-9.95	-0.07%
Brazil	52263.51	-537.23	-1.02%
FTSE	6665.94	-28.63	-.43%
Nikkei	15515.24	-103.89	-.67%
Hang Seng	23681.28	-3.17	-.01%
ASX	5357.01	4.18	.08%

Prices taken at previous day market close.

investment banks. The financials continue to have some upside potential as the yield curve continues to steepen. The Select Sector SPDR Financial ETF (XLF) was up 0.14%.

Market	Level	Change	% Change
Gold	1246.70	2.60	0.21%
Silver	19.985	.123	0.62%
Copper	3.2285	.0145	0.45%
WTI	94.20	-.64	-0.70%
Brent	111.25	.20	0.18%
Nat Gas	3.792	.024	0.65%
Corn	424.75	2.50	0.59%
Wheat	652.25	2.75	0.42%
Soybean	1328.50	9.00	0.68%
Prices taken at previous day market close.			

Tech stocks were broadly lower; however, the weakness was masked by outperformance by the super-cap stocks like Google (GOOG), Apple (AAPL), and Microsoft (MSFT).

Within the S&P 500, airlines outperformed on lower crude oil futures prices, signaling lower fuel costs in the near future; healthcare also outperformed. The weak Pending Home Sales Index report seemed to weigh on the homebuilders and materials sectors, which were down 0.03% and 0.63% respectively.

Volumes were very, very low, the technical picture on the market remains largely unchanged, as the market is at new highs, while support sits between 1760-1775.

Bottom Line

There wasn't any change in the general market narrative yesterday. The market continues to show some signs of fatigue, and while there are also some small signs of complacency (every tiny dip in the averages has investors looking for a "reason," but at the same time questioning whether "this is it" from a correction standpoint), there is far more skepticism and as a result the pain trade remains higher. Volumes and attendance should continue to trail off today and tomorrow, and really we have to wait until next week for the next major catalyst (the jobs report on 12/6).

Economics

Pending Home Sales Index

- October Pending Home Sales Index fell to 102.1 from a revised reading of 102.7 in September.
- The 0.6% monthly decline missed estimates of 1.1% monthly increase.

Takeaway

The Pending Home Sales Index missed analysts' expectations of a 1.1% increase last month with a disappointing print of -0.6%. The index has now fallen five months in a row, indicating further declines for final sales of existing homes, which are already down two consecutive months. Year-over-year, the index is also in the red, slipping 1.6% and confirming the negative trend.

Some analysts are arguing that the slump in the October index is in part due to the government shutdown, but there are other factors to consider. Existing home prices are on the rise and mortgage rates are continuing to creep higher as speculation grows about a sooner-rather-than-later taper to the Fed's bond purchasing program.

At the first signs of an uptick in mortgage rates back in May, buyers flooded the market with the intent to lock in the historically low rates, which pushed the Pending Home Sales Index to 111.3. Since that demand was "pulled forward" subsequent sales reports have been soft, although it's not enough to imply we're seeing a reversal of the housing market recovery. Housing starts this morning will again be closely watched for signs of a further loss of momentum.

Commodities

Commodities were mixed yesterday, resulting in an essentially unchanged market. The PowerShares DB Commodity Index Tracking ETF (DBC) was down just 0.12%. Precious metals were flat on the day actually acted better than the flat finish, as they saw a nice rally off early morning lows. The outperformers were natural gas and grain futures, which rose modestly.

Natural Gas: Although its still a weather dominated market, a break above the old highs opens a run to the $4/mmcf level.

Natural gas rallied to fresh six-week highs yesterday as a deadly winter storm works its way across the central United States (eight deaths have already been blamed on the storm). Natural gas moved higher by 0.82% in yesterday's trading session while the rest of the energy sector traded below the tape. The storm is poised to blast the Northeast tomorrow and Thanksgiving Day with brutally cold temperatures and as much as 12 inches of snow in some areas. Demand for natural gas used for heating homes has in turn increased sharply. If natural gas is able to break the October highs of 3.88, the next line of resistance lies up near the $4.00 range.

RBOB gasoline and WTI crude oil futures were the big laggards yesterday, closing down 1.73% and 0.76% respectively. The move lower came amid reports of an agreement between Iran and Western powers regarding the Iranian trade sanctions being reduced in exchange for Iran limiting its nuclear program. Interestingly, though, the event wasn't quite as bearish as the headlines would assume (the early Monday declines in WTI and Brent were more a knee jerk reaction than anything) and Brent crude actually rallied back to end the day marginally higher, up 0.18%.

The most notable move in the commodity market yesterday came out of the precious metals space, regardless of the fact it ended essentially unchanged on the day. Gold futures opened well in the red at $1,228.50/oz., a multi-month low. From the opening bell forward though, the price began to rally, slowly at first, but then quickly accelerated in an apparent short-squeeze as trailing stop orders began to hit.

The counter-trend move is not very surprising after hearing that managed-money longs in gold are at a four-year low (while short positions have seen a recent spike). What likely happened yesterday was a combination two things.

First, traders and investors who had longer-term short positions began to take some of those positions off the table to secure profits ahead of the anticipated technical support at the $1,200/oz. level.

This led to the *second* contributing factor: traders with new, speculative short positions (such as day traders who entered the market yesterday morning) having to cut losses and close positions to free up their margin requirement.

Point being, the resiliency was impressive, but I think it's more due to trading noise than anything fundamental, and I remain neutral to slightly bearish on gold simply because the bulls have little fundamental argument in this Fed-driven market.

Currencies & Bonds

Both the currency and bond markets were very, very slow Monday as we began the shortened holiday week. The dollar traded modestly higher but the move was more in response to weakness in the euro and the yen, which account for an overwhelming majority of the Dollar Index.

The yen was weaker for the third-consecutive session yesterday, closing at 101.70 vs. the dollar because of the remarks out of Bank of Japan Governor Haruhiko Kuroda who said he "won't hesitate to adopt further accommodation if needed." Kuroda has been very clear on the matter, repeating himself several times in the past week. The short yen trade remains the most fundamentally "intact" trades in the broader markets.

The euro traded down by 0.24%, mostly in short term profit taking, as the euro logged solid gains Thursday and Friday on short-covering, in response to ECB President Mario Draghi's throwing some cold water on the idea of a negative deposit rate (IOER). That idea had gained some traction early last week thanks comments by other ECB members as far as "what" the ECB could do next to combat disinflation.

Market	Level	Change	% Change
Dollar Index	80.98	.238	0.29%
EUR/USD	1.3514	-.00322	-0.24%
GBP/USD	1.614	-.00886	-0.55%
USD/JPY	101.70	.23	0.23%
USD/CAD	1.0554	.00078	0.07%
AUD/USD	.9159	-.00262	-0.29%
Brazilian Real	.43580	-.00165	-.38%
10 Year Yield	2.741	-.011	-.40%
30 Year Yield	3.836	-.002	-.05%

Prices taken at previous day market close.

The Treasury market was mixed yesterday with the front end of the yield curve selling off slightly while the "belly" and the long end posted gains. The 30 year saw a bit of a bounce (up .3%), and it I had to point to a "reason" it'd be the Yellen article and soft Pending Home Sales data, although really Treasuries are just consolidating last week's declines. Again, it was a very quiet day in the bond market yesterday.

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	*Stocks moved to new all time highs this week the market gets more comfortable with the outlook for Fed policy (ZIRP) and tapering of QE. Skeptical sentiment towards this relentless rally remains a tail wind, and the "pain trade" is still higher.* *The S&P 500 is at new highs, while support sits between 1760-1775ish.*

Trade Ideas

Long Japan: **With Fed tapering expectations shifting to early 2014, the dollar should be supported over the coming months, which likely will result in the resumption of the decline in the yen. The yen has broken through 101 yen/dollar level, and DXJ is at multi-month highs. Although we could see a pause, that trend should continue over the coming months, and there remains more money in this trade.**

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 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). It's a bit of a contrarian idea, and over the past few weeks these sectors have lagged. But, they most exposed to the "global economic recovery" thesis.**

	Fundamental Outlook	Technical Outlook	Overall	Comments
Commodities	Bullish	Neutral	Neutral	*Commodities saw a mild oversold bounce last week, although the complex remains under pressure, despite the continued global economic recovery.*

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.**

	Fundamental Outlook	Technical Outlook	Overall	Comments
U.S. Dollar	Neutral	Neutral	Neutral	*The Dollar Index was flat last week, as a Q1 '14 tapering of QE is priced in at these levels. The next major catalyst for the dollar will be the Jobs Report on 12/6.*

Trade Ideas

Short: **Japanese Yen. The yen has been supported mostly by extreme dollar weakness, and with tapering expectations being pulled forward, the yen should resume its decline vs. the dollar. YCS remains the best non-futures way to play the trade.**

	Fundamental Outlook	Technical Outlook	Overall	Comments
Treasuries	Bearish	Bearish	Bearish	*Bonds resumed their declines last week, but notably we are seeing the long end of the curve sell off while the short end rallies, creating a steep yield curve. Continue to focus on the long end if you short any bounce (which I think you should).*

Trade Ideas

Buy: **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.**