7:00's Report

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

November 27th, 2013

Pre 7:00 Look

- Futures flat again this morning as it was another very quiet night.
- Politically, a coalition government was formed in Germany with Merkel remaining PM (as was expected). That's accounting for the small bounce in the euro.
- Economically things were mixed. UK Q3 GDP was unrevised at .8% (q/q), although Distributive Traders (retail sales) missed expectations.
- Econ Today: Durable Goods Orders (E: -2.0%), Weekly Jobless Claims (E: 330K).

Market	Level	Change	% Change
S&P 500 Futures	1804.00	2.00	.11%
U.S. Dollar (DXY)	80.55	-.088	-.11%
Gold	1253.00	11.60	.93%
WTI	93.27	-.41	-.44%
10 Year	2.696	-.045	-1.64%

Equities

Market Recap

Stocks once again grinded to new all time highs Tuesday amidst another very slow trading day. The S&P 500 rose 0.1%.

Stocks opened slightly higher Tuesday thanks to a better than expected housing starts number (although it wasn't as good as it looked) and on good earnings (TIF in particular). The market spent almost the entire day in positive territory, and drifted steadily higher throughout the day, hitting the highs just before 3:30. As happened Monday, though, we saw a late day sell off that brought the S&P 500 back to flat, but that was mostly due to random trading noise, as there was no reason for the dip.

Trading Color

Activity in the markets remains very, very subdued, and intra-day movements are still being totally dominated by hedge funds, algos and day traders. Real money remains firmly on the sidelines, and we can expect volumes and participation to continue to dry up today and Friday. Point being, intraday moves (like the two late day sell offs) are coming on very low volumes, so I wouldn't look too much into them.

Looking internally. there was broad strength in the market yesterday, and cyclical indices and sectors continue to lead markets higher. The Russell 2000, which until last week had been a laggard, hit a new all time high yesterday and was the best performing major index, rising .87%. The Russell's recent "catch up" and out performance helped to removed one of the bigger "caution" signs on this market, and we are seeing cyclical leadership continued (which is generally a bullish sign).

Sector wise the financials took a bit of a break yesterday from their chronic outperformance (the yield curve flattened a bit), but really that's more a function of some light profit taking, more than anything else. Retail was also one of the big outperformers, thanks in part to TIF earnings, which were much better than expected. TIF rose almost 9%, while consumer discretionary and the retail index rallied .59% and .53% respectively.

Tech was also strong yesterday thanks to a goo rally from AAPL, which was up on expectations of a deal with China Mobile. AAPL is challenging the 539.25 high from last month, and if it can break through I'd expect a rally to $550.00.

Market	Level	Change	% Change
Dow	16072.80	0.26	0.00%
TSX	13349.77	-122.45	-0.91%
Brazil	51446.91	-816.60	-1.56%
FTSE	6648.56	12.34	.19%
Nikkei	15449.63	-65.61	-.42%
Hang Seng	23806.35	125.07	.53%
ASX	5332.88	-24.14	-.45%
Prices taken at previous day market close.			

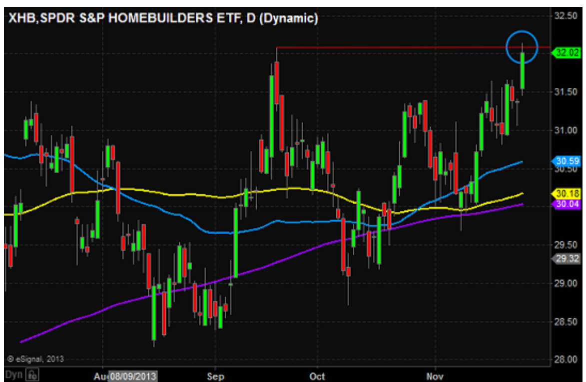
On the downside, "bond proxy" sectors continued to underperform, despite lower interest rates yesterday. Utilities dropped early 1% and REITS fell .4%, as bond proxy sectors continue to see selling regardless of the daily gyrations of the Treasury market.

Market	Level	Change	% Change
Gold	1241.10	-.10	-0.01%
Silver	19.845	-.037	-0.19%
Copper	3.21	-.015	-0.47%
WTI	93.70	-.39	-0.41%
Brent	110.94	-.06	-0.05%
Nat Gas	3.818	.029	0.77%
Corn	418.50	-6.25	-1.47%
Wheat	646.50	-6.00	-0.92%
Soybean	1329.25	0.00	0.00%

Prices taken at previous day market close.

Volume wise it was a very, very slow day. On the charts, the S&P 500 is at new all time highs, while support lies lower at the 1760-1775 level.

Are Home Builders Telling Us The Market Is "OK" with Higher Rates?



Homebuilders are close to moving to new highs, a potential sign of confidence regarding impending higher rates.

But, it was homebuilders that were the big winners yesterday, as XHB rallied 2% and is now very, very close to breaking to new 52 week highs. The most cited "reason" for the rally was the housing starts, but that's not the entire story (again the housing starts number wasn't as good as it seemed). In particular, home builders rallied off the increase in single family home prices we saw in the housing starts report (higher prices means higher margins for homebuilders), but also interest rates were down, which helped, and the home builders remain a very shorted sector in the market, and at least part of yesterday's 2% rally was short covering. Homebuilders have been a big laggard recently, as higher interest rates have resulted in an expected downturn in sales. And, in some ways the homebuilders in aggregate have acted as a "interest rate increase" fear gauge, so if the homebuilders can break to new 52 week highs, it's further evidence the market is becoming more comfortable with impending rise in interest rates. So, viewed in the context of a steepening yield curve, it would potentially be more evidence that the increase in interest rates isn't the "rally killer" that we saw last summer (meaning stocks and interest rates can rally together).

Economics

New housing starts for both September and October were released yesterday morning, although the data was limited to permits only. The Census Bureau said it is delaying housing starts data until Dec. 18.

Housing Starts

- October Housing Permits– 1.034M SAAR vs. (E) 930K

Takeaway

Due to federal funding issues stemming from the government shutdown, the Census Bureau released combined September and October housing starts data yesterday; however, the release was limited to permits data only. The headline number beat expectations but was largely misleading due to most of the strength coming from the multi-family component of the number. Housing permits were up 6.3% in October following gains of 5.2% in September. The more-important and closely watched number, single-family permits, rose just 0.8% after falling 1.9% in September.

The data was overall not that great and certainly not as strong as the headline number initially suggested. The details of the report indicate that the recovery in the housing market has slowly lost some momentum in recent months, specifically in the single-family-home starts. The broader markets have accepted the move as OK for now, but we do not want to see housing starts (or, in this case, permits) fall much further than they already have. Markets, like they did with Monday's economic reports, paid little attention to the release.

Commodities

Commodities were broadly lower yesterday, led down by the grains and copper futures, yet the PowerShares DB Commodity Index Tracking ETF (DBC) was down just 0.06% due to modest strength in refined products. Natural gas and heating oil were up 0.77% and 0.42% respectively. Once again, the dollar, which was down -0.41%, seemed to have little influence in commodity trading yesterday.

The sole outperformers were the refined products, which rallied an average of 0.45% despite Nymex crude oil futures trading down -0.41%. Like most markets yesterday, the energy session was fairly uneventful and mostly dictated by technical traders and trading software. Just to put into perspective how quiet the markets were yesterday, the daily range for RBOB gasoline was the smallest it has been all year, barely more than 2 cents. The move higher in RBOB was more than likely a small oversold bounce after the market saw losses on Friday and Monday. Heating oil and natural gas, on the other hand, saw some weather premium added as this substantial winter storm continues to move toward the East Coast.

Tensions are again on the rise between China and Japan over the disputed Senkaku Islands. China claimed them as part of their air space, but over the past two days both the US and Japan have flown planes over the islands. Keep an eye on this as a potential geo-political headwind.

Corn was the largest underperformer yesterday, trading down by 1.47% to $418.50/Bushel. There wasn't any new data or news directly affecting the grains yesterday, but the fact that December futures contracts are set to expire this week may be weighing on prices. As the December contracts expire, many big physical corn buyers are hedging their purchases through the sale of the now-active March contracts, putting some pressure on prices.

Market	Level	Change	% Change
Dollar Index	80.635	-.328	-0.41%
EUR/USD	1.3573	.004455	0.31%
GBP/USD	1.6215	.00623	0.39%
USD/JPY	101.22	-.2115	-0.21%
USD/CAD	1.0546	.000875	0.08%
AUD/USD	.9133	-.004725	-0.51%
Brazilian Real	.4352	-.00005	-.01%
10 Year Yield	2.696	-.045	-1.64%
30 Year Yield	3.785	-.051	-1.33%

Prices taken at previous day market close.

The commodity sector was in line with the rest of the broader markets in that it was another largely uneventful session. It is worth mentioning, though, that the fact that the precious metals market was also essentially unchanged yesterday was unexpected. Many market participants were anticipating the downtrend to resume after Monday morning's miniature short-squeeze subsided.

Gold and silver rather held their gains and drifted sideways. The weaker dollar may have helped but it will be interesting to see if the precious metals will be able to hold their current levels; right now I am doubtful.

Currencies & Bonds

The dollar traded lower yesterday, ending down by 0.41%. The decline was largely due to strength in the euro, which gained 0.31% on the day. The rally was attributed to comments from the European Central Bank's Benoit Coeure, who said that dis-inflation is unlikely to worsen. His statement further muddies the outlook for the ECB, although it implies the ECB is not prepared to take any immediate further action to ease policy, unless Friday's HICP inflation report is a big miss (current expectations are for 0.8% yoy increase). The euro continues to drift higher but has met resistance against the 30-day moving average.

The yen moved higher against the dollar by 0.21%, mostly on an oversold bounce. If I'm forced to give a reason other than short covering for the bounce, I could point to the fact that the BOJ minutes released yesterday revealed some skepticism among members about the BOJ to meet its 2% inflation target over the coming years, but even that's a stretch. Looking at a chart, it is pretty clear the yen simply picked up a little too much steam and is due for a breather here.

Staying in Asia, the Aussie briefly rallied overnight Monday but opened lower and drifted sideways yesterday as short-sellers saw the pop as an opportunity to open new or add to existing positions. It was down 0.51%.

It was a pretty slow day in the bond market as Treasuries continue to consolidate after the sell-off we saw following the FOMC minutes last week. 10-year notes remain largely range-bound between 2.60% and 2.80%. There was solid demand in yesterday's 5 year auction as the bid to cover was largely in line with the recent average of 2.67% (yesterday's bid to cover was 2.61%). The strength in two- and five-year notes should not be surprising though, especially in context of the markets recent increased comfort with extended ZIRP (zero interest rate policy). But, that doesn't mean we won't continue to see weakness in the belly and long end of the yield curve, and I'd use this bounce to get more short the long bond (TBT/TBF).

Happy Thanksgiving to you and your family, and safe travels to those on the road today.

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.**

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.**

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.**

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.**