7:00's Report

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

November 29th, 2013

Pre 7:00 Look

- Futures drifting marginally higher this morning after another relatively quiet night.
- Economic data o/n was mixed. German retail sales missed expectations, although EMU HICP rose 0.9% yoy, which will very, very slightly alleviate concerns about dis-inflation in the Euro Zone.
- Equity markets close at 1:00 PM EST.
- Econ Today: No Reports Today.

Market	Level	Change	% Change
S&P 500 Futures	1807.50	3.25	0.18%
U.S. Dollar (DXY)	80.57	-.177	-0.22%
Gold	1245.60	7.70	0.63%
WTI	92.53	.23	0.25%
10 Year	125'105	-.045	-0.11%

Equities

Market Recap

Stocks continued their grind higher Wednesday, again hitting new intra-day highs in very quiet holiday trading. The S&P 500 rose 0.25%.

Markets opened stronger Wednesday thanks to a combination of data and earnings. HPQ beat pretty depressed expectations, and rose more than 10% Wednesday, while the economic data was mixed, but definitely not "bad." Durable goods were weak, but jobless claims, Chicago Fed and Michigan Consumer Confidence all beat expectations.

There's not a ton to say about Wednesday trading. Things got very quiet after the open Wednesday and stocks spent the remainder of the morning and almost the entire afternoon drifting in positive territory. Of note, stocks didn't see the late day dip we had seen on Monday and Tuesday, and went out not far off their highs.

Trading Color

It was a pretty standard "risk on" day Wednesday from an internals standpoint, although obviously volumes and participation were very, very low. Hedge funds and algos continue to dominate the intra-day trading.

Sector wise cyclicals continued their recent outperformance. The Russell 2000 hit a new all time high, and the Nasdaq also outperformed. From a sector standpoint, the most definitive trend in sector trading is that of "bond proxy" sectors badly lagging. On Thursday utilities, REITs, telecom, healthcare and consumer staples all lagged. Although it is coming on very, very low volumes, we are definitely seeing a "out of safety into cyclicals" rotation.

Volumes, as mentioned, were very low Wednesday, and we can expect more of that today. On the charts the picture remains unchanged. The S&P 500 hit another new high, while support lies in the 1760-1775ish range.

Today should be another very slow day, given the early close. There will be a focus on the retailers, being Black Friday, but in reality everyone is already looking ahead to next week, which is full of catalysts, including the jobs report a week from today. What's more, next week is pretty much the last "big week" of the year from a data perspective.

Market	Level	Change	% Change
Dow	16097.33	24.53	0.15%
TSX	13370.83	8.77	0.07%
Brazil	51846.83	-14.38	-0.03%
FTSE	6672.34	17.87	0.27%
Nikkei	15661.87	-65.25	-0.41%
Hang Seng	23881.29	92.20	0.39%
ASX	5320.05	-14.29	-0.27%
Prices taken at previous day market close.			

Economics

Economic data wasn't very market-moving Wednesday thanks to the low attendance at the exchanges ahead of the holiday. Jobless Claims and Durable Goods Orders were released, with both printing mixed results.

Market	Level	Change	% Change
Gold	1244.4	6.50	0.53%
Silver	19.745	.06	0.30%
Copper	3.1965	.0015	0.04%
WTI	92.33	.08	0.08%
Brent	110.88	.02	0.02%
Nat Gas	3.928	.033	0.85%
Corn	426.50	0.00	0.00%
Wheat	651.25	0.00	0.00%
Soybean	1320	0.00	0.00%
Prices taken at previous day market close.			

Weekly Jobless Claims

- Claims fell to 316K vs. (E) of 330K
- The 4 Week Moving Average declined 7.25K to 331.75K.

Takeaway

The Weekly Jobless Claims report was a pleasant surprise Wednesday morning, coming in well below analysts' estimates at 316K vs. an expected jump to 330K. The claims number was the sixth decline in seven weeks and a new low since the government shutdown in October. The four-week moving average, which smooths out the data, has been trending lower for four weeks in a row now, suggesting there is some conviction to the improvement in the labor market.

Durable Goods Orders

- New Orders for October drop 2.0%, in line with analysts' expectations.
- New Orders for Non-Defense Capital Goods Ex-Aircraft (NDCGXA) fall 1.2% to 66,239 in October.

Takeaway

The headline Durable Goods data for October, New Orders, came in at negative 2.0% which was exactly in line with analysts' expectations. Most market participants blame the sluggish behavior in the manufacturing sector on the government shutdown (which has really become a whipping post/excuse for any poor October economic data).

Aircraft orders, both defense and non-defense, swung wildly per usual, skewing the headline.

The most-important figure in the release—the New Orders of Non-Defense Capital Goods Excluding Aircraft, which is widely followed by economists as the "true" indicator in the noisy Durable Goods release—was down for the third time in the last four months. After seeing solid momentum form over the summer, it appears the manufacturing sector has returned to treading water but most people seem optimistic as they look forward to "non-skewed" November data.

Commodities

There was broad weakness in the commodities markets yesterday, as energy was the biggest underperformer with the exception of natural gas, which managed to rally again. NG was up 1.22% as cold weather continues to blast the Atlantic seaboard. The PowerShares DB Commodity Index Tracking Fund (DBC) was down 0.35%.

The weak Durable Goods data was largely blamed for the declines in the space, as the data suggests the manufacturing component of the economy is beginning to tread water. A modest move higher in the Dollar Index also contributed to some of the selling pressure in this space.

Natural gas was the largest outperformer Wednesday due to the same storm we have been following all week. The cold front sent temperatures lower and generally menaced the Northeastern quadrant of the country, sending NG above the $3.90 level in Wednesday's low-volume trading session. The possibility of prices reaching $4.00 in the coming week or two is quickly becoming reality as weather forecasters continue to predict colder temperatures across the nation.

Nymex crude oil was the big underperformer Wednesday as prices broke through support at $92.50 in pre-market trading. After the primary session opened, there was a small jump on the EIA supply data release, which showed supply levels increased 3MM Bbls—less than the American Petroleum Institute reported Tuesday evening.

The pop was very short-lived, though, as the bears retook control and drove prices lower. After all, the build in supply levels Wednesday was the 10th weekly increase in a row—keeping supplies well above the five-year range. With the combination of these historically high supply levels and overwhelmingly bearish technical indicators, the path of least resistance remains lower for WTI.

Precious metals were largely unchanged on Wednesday but, as was the case on Monday, the percentage change doesn't paint the whole picture. Gold posted a strong rally early Wednesday morning, trading above $1,250/oz. for several hours ahead of the Comex open. Once the market opened, all it took was a modest move higher in the dollar to send gold down $15 into the upper $1,230s. I point this out only because gold has been acting very strangely over the past few sessions, and what it comes down to is that the market is confused. Rising inflation is still the only arrow in the bulls' quiver, which is currently non-existent, so it is a reasonable assumption that the selling will continue with $1,200 being the first level of support.

Currencies & Bonds

The dollar traded higher Wednesday on the better-than-expected weekly jobless claims as the market largely ignored the soft Durable Goods Orders report.

The pound caught a bid against the dollar as the third-quarter GDP revision was released in line with initial reports. Consumption was corrected higher while exports were adjusted lower; however, market participants proved to be more concerned with the improvement in consumption levels because of their large influence on the nation's GDP levels.

The Aussie dollar was again down for no specific fundamental reason. The currency is trading lower mostly thanks to technical selling as its recently broken through key support levels in the low .90's.

Market	Level	Change	% Change
Dollar Index	80.555	-.192	-0.24%
EUR/USD	1.3613	.00012	0.01%
GBP/USD	1.6335	-.00288	-0.18%
USD/JPY	102.32	.024	0.03%
USD/CAD	1.0591	-.00055	-0.05%
AUD/USD	.9092	.00048	0.05%
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 euro was down modestly on Wednesday in relatively subdued trading. October EMU HICP, released this morning, actually ticked a bit higher than expected (.9% vs. expectations of 0.8%). The euro is only trading slightly higher as a result, though, as disinflation remains a major concern in the euro zone, and the focus of the market with regards to the euro is what, and if, the ECB will do next to ease policy further. But, the longer the ECB goes without announcing something, the higher the euro will drift.

Treasuries were broadly weaker after a soft seven-year auction took place Wednesday. The bid to cover was 2.36, the lowest of the year, while the final yield on the auction was a basis point over the "When Issued" yield (signaling soft demand). The entire curve saw weakness, but it was the seven- and the 10-year part of curve that declined the most. This week's auctions represent the important new reality in the bond markets: Strength in the "short end of the curve" (the 2 and 5 year auctions this week were strong), and lack of demand for longer dated issues (the 7 year auction). That is a trend that should continue and grow in magnitude, further steepening the yield curve over the coming months.

Have a good weekend,

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.**