7:00's Report

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

December 27th, 2013

Pre 7:00 Look

- Futures are flat again this morning while most European markets are rallying as they play "catch up" to US markets.
- The only economic data o/n was out of Japan, and largely it was positive. December manufacturing index beat expectations, as did CPI and retail sales. But, the yen is still modestly weaker vs. the dollar, as the good data isn't reducing expectations of more stimulus.
- The euro hit a new 52 week high vs. the dollar in thin trading thanks mostly to year end positioning.
- Econ Today: No Reports Today.

Market	Level	Change	% Change
S&P 500 Futures	1835.50	-1.00	-.05%
U.S. Dollar (DXY)	80.095	-.563	-.70%
Gold	1211.00	-1.30	-.11%
WTI	99.55	.01	.01%
10 Year	2.990	.007	0.23%

Equities

Stocks continued their "Santa Rally" Thursday in what was another extremely quiet session. The S&P 500 closed up 0.47%, hitting a new record high.

Markets enjoyed another slow grind higher Thursday, opening modestly positive and moving higher throughout the day to close just off their highs. More so than what "happened" to cause stocks to rally, yesterday it was what "didn't happen" that likely resulted in the drift higher. What didn't happen was much trading (and, in particular, selling).

Pretty much all of Europe, Australia and Hong Kong were closed yesterday for Boxing Day, and that led to even-slower trading than we saw Tuesday. So, yesterday's lift in stocks wasn't so much the result of active buyers, but instead non-existent sellers. (No one wants to reduce long exposure in this market with three trading sessions left in the year.)

News-wise yesterday, the drop in jobless claims was pretty much it, and most traders are ignoring the claims data for now because it's so skewed due to the holidays. It'll be early to mid-January before weekly jobless claims are "clean" once again.

From a sector standpoint, industrials led the way higher yesterday, as the Dow outperformed other major averages and closed up 0.72%. All 30 Dow components were higher, but a nearly 2% rally in XOM accounted for the bulk of the outperformance.

Retail also had a nice snapback rally after the news broke that UPS and FDX were overwhelmed by the number of deliveries they had to make into Christmas, implying that the holiday shopping season wasn't as bad as everyone thought.

(As an aside, I'm not a retail analyst, and admittedly this observation is from anecdotal analysis, but it seems every year this happens. All the analysts "pooh-pooh" the holiday shopping season at the outset, only to have sales surge the last few days and have the season regarded as "stronger than expected." It seems retail analysts have finally learned from corporate America, guiding lower and then "surprising" to the upside.)

More broadly, we again saw further rotation out of "bond proxy" sectors. Utilities finished negative on the session and REITs were flat following a big drop Tuesday, while cyclical sectors again outperformed. (I already

Market	Level	Change	% Change
Dow	16,479.88	122.33	0.75%
TSX	13,518.02	70.32	0.52%
Brazil	51,221.01	-135.09	-0.26%
FTSE	6,735.59	41.42	.62%
Nikkei	16178.94	4.50	.03%
Hang Seng	23243.24	63.69	.27%
ASX	5324.06	-3.19	-.06%

Prices taken at previous day market close.

mentioned industrials, but also note that energy, basic materials, consumer discretionary and tech all outperformed the market yesterday.) So, the low volumes aren't stopping this rotation out of "bond proxy" sectors.

On the charts the S&P 500 continues to grind higher to new all-time highs, while support has crept higher and now sits at 1,823, which is the 20-day moving average.

Market	Level	Change	% Change
Gold	1211.30	8.00	0.66%
Silver	19.79	.30	1.54%
Copper	3.39	.02	0.47%
WTI	99.52	.30	0.30%
Brent	111.95	.05	0.04%
Nat Gas	4.43	.01	0.32%
Corn	4.27	-.08	-1.84%
Wheat	6.06	-.025	-0.04%
Soybean	13.05	-.178	-1.34%

Prices taken at previous day market close.

Economics

Weekly Jobless Claims

- Claims fell last week to 338K vs. (E) 340K
- The 4-week moving average rose 4.25K to 346.75K

Takeaway

The weekly jobless claims report showed a sharp decline in unemployment benefit claims, down 42K to 338K. Meanwhile, the number of claims from the week prior was revised slightly higher to 380K from 379K.

The four-week moving average, which does a good job of smoothing out the volatility of the report, rose for the third-consecutive week, up 4.25K to 346.75K. Stepping back, the four week moving average is essentially exactly where it was back in the first week of August, indicating the job market remains largely the same as it has been

Some members of the financial media argued that both the dollar and gold futures prices rallied on the news. However, that would be a stretch as this data set has become very volatile and random due to seasonality (the holidays), and the market has begun to largely dismiss the report recently due to its inconsistency. Both rallies were more than likely a coincidental part of low-volume trading noise. Looking ahead, we should expect to see more of the same unreliable data released as Christmas this week and New Year's next week will both likely skew the upcoming data.

Commodities

Most commodities drifted higher yesterday in yet another very quiet trading session. The exceptions to the broad strength in the space were grain futures, which were led down by corn (-1.84%). The benchmark commodity tracking ETF, DBC, was essentially flat—up just 0.06% due to more weakness in the grains than strength anywhere else. (Note that corn is one of the six main components of the index.)

The largest outperformer yesterday was silver, which was able to trade back above the $20/oz level before closing just below it at $19.79. Silver gained 1.54% in the primary session; however, trading in both gold and silver was dominated by technicals yesterday.

Both silver and gold opened in technical "gaps" and began to "squeeze" higher in the first hour of trading. Silver was able to rally up and over the $20 mark to fill the gap while buyers in gold futures became exhausted before the gap was "filled" (target reached). Regardless, gold closed the day in the green, logging a gain of 0.66%.

According to the old Wall Street saying, "All gaps must be filled sooner or later." And so, $1,224.20 remains the first short-term target in gold. The way the metals have continued trading "better," we could see that target hit before year-end.

Corn was the worst-performing commodity yesterday, closing lower by 1.84% on concerns that Chinese officials might reject another shipment of U.S. corn. Corn futures have already been under immense pressure this year, down 42% from the highs in February to yesterday's close. Several factors including anticipation of a record harvest and potential legislation changes regarding ethanol requirements in gasoline have weighed on the commodity in recent months. On top of that, this recent news that several shipments of U.S. corn to China have been rejected (totaling 545,000 metric tons as of Dec. 19) is adding selling pressure.

Volume is expected to remain light in the commodities markets. However, the EIA is releasing inventory for crude oil, refined products and natural gas later this morning, so there is potential for some price movement in the energy sector.

Currencies & Bonds

Currency markets were very, very quiet again yesterday. The dollar was little-changed as it drifted sideways most of the day. The Dollar Index closed slightly lower, down 0.04%.

With European, Australian and Chinese markets closed, there was little movement across the board with the exception of the yen.

The yen fell to new five-year low and continues to creep in on the 105 level vs. the dollar. The yen dropped in response to the release of November's BOJ policy meeting minutes, in which one of the members expressed concern that the recent loss of momentum in the economic recovery may be more than just a temporary blip. The data this morning will help assuage some of that concern, but not all of it.

Bottom line is the comments by the BOJ minister only further reinforced the market's expectation for more stimulus from the BOJ in early 2014.

There was quiet trading in the bond markets yesterday although the yield on the 10-year note hit 3% in intraday movement before falling back to close at 2.99%. There wasn't any specific "reason" for the weakness in bonds, instead it was just continued downward momentum. Bottom line is once 3% is "given" in the ten year, we'll have to watch how markets react. As long as the data stays good and the decline in bonds doesn't accelerate, stocks can still rally.

Have a good weekend,

Tom

Market	Level	Change	% Change
Dollar Index	80.64	-.034	-0.04%
EUR/USD	1.3691	.0014	0.10%
GBP/USD	1.6423	.0076	0.46%
USD/JPY	104.73	.3700	0.35%
USD/CAD	1.0638	.0005	0.05%
AUD/USD	.8892	-.002	-0.22%
USD/BRL	2.3541	-.0027	-0.11%
10 Year Yield	2.990	.007	0.23%
30 Year Yield	3.922	.021	0.54%
Prices taken at previous day market close.			

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 traded to new highs last week after the FOMC began tapering QE and 3Q GDP was stronger than expected. Skeptical sentiment towards the market and a strengthening economy remain tailwinds on the market, and as long as the short end of the yield curve remains anchored, the path of least resistance remains higher.* *Stocks are at all time highs, while first support site at 1813 in the S&P 500.*

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 104 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 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.**

Long Natural Gas E&Ps: **Term structure in the natural gas markets has turned bullish, as its in backwardation out nearly a year, implying a structural increase in demand. But, natural gas equities remain under pressure, and could potentially offer some value in the market over the medium/longer term. FCG and XOP are the two "pure play" ETFs in the natural gas E&P space.**

Commodities	Bullish	Neutral	Neutral	*The outlook for commodities remains mixed, as the global economy remains mired in stagnant growth. Given the severe underperformance of commodities this year, though, the asset class remains on of the last corners of value in the market, if the global recovery can accelerate.*

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: **I'm dipping back into the well here with the gold trade. The near term outlook is mixed to negative, but medium term I think $1200 represents a fair risk/reward set up on an acceleration of inflation. I would initiate a small long position around the $1200 level with a stop at the old lows ($1179).**

U.S. Dollar	Neutral	Neutral	Neutral	*The Dollar Index traded an outside reversal following the Fed decision to taper, and the multi-month downtrend in the Dollar Index is likely over.*

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	*With the Fed tapering QE and shift to "forward guidance" as the main policy tool, the case for the bond bears has gotten stronger. Continue to short any rallies in the bond*

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.**