7:00's Report

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

January 17th, 2014

Pre 7:00 Look

- Futures and international markets are higher this morning thanks to strong economic data out of Europe and GE reporting earnings inline with analyst expectations.
- UK Retail Sales surged 2.6% m/m vs. (E) 0.3%
- In Asia, the Nikkei fell slightly due to weaker than expected earnings reports
- Econ Today: Housing Starts (E: 985K), Industrial Production (E: 0.3%), Fed Speak: Lacker (12:30 PM)
- Earnings Today: VFC (E: $0.84)

Market	Level	Change	% Change
S&P 500 Futures	1841.50	5.25	0.29%
U.S. Dollar (DXY)	81.06	.039	0.05%
Gold	1242.20	2.00	0.16%
WTI	94.59	.49	0.52%
10 Year	2.843	-.041	-1.42%

Equities

Market Recap

Stocks fell slightly yesterday in quiet trading, mostly as a result of weak earnings reports. Despite trading lower intraday, the S&P 500 slipped just 0.13%.

After a scare on Monday, the market is reverting to its familiar 2013 pattern of rallying in the face of potentially negative news. The market fell an almost unnoticeable amount yesterday despite the fact that there were several disappointing earnings reports.

The market opened lower after a series of disappointing corporate news. Citigroup (C) missed earnings (finished down 4%), as did CSX (down 7%), and Bed Bath & Beyond (BBY) collapsed more than 25% after disappointing same-store sales and earnings.

There were three central bankers in the news yesterday, and both San Francisco Fed President John Williams (who is considered a "centrist") and Minneapolis Fed President Narayana Kocherlakota were both dovish, although their comments aren't changing expectations for the Fed of an additional QE taper of $10 billion in January and an end to QE in November of this year.

The outright negative corporate news sent the averages modestly lower shortly after the open but, unlike Monday, the selling never really gained momentum. Although the remainder of the day was quiet (except for the "Fed speak"), stocks were able to rally almost back to flat, showing some impressive resiliency.

Trading Color

Volumes and participation remain subdued in the markets, although with earnings season starting up, you are seeing some uptick in activity. Things were very, very far from "busy" on Thursday, though.

Financials underperformed yesterday thanks to weaker-than-expected earnings specifically out of Citigroup, which again traded down 4%. The lone standout in the sector was PNC, which actually beat analysts' expectations due to better cost-control practices.

Transports were the worst-performing group in the market today. The rails dropped the most as CSX fell -6.75% due to weak earnings after the close Wednesday.

Tech and materials were the best performers yesterday as Hewlett-Packard (HPQ) rallied 2.50% due to several

Market	Level	Change	% Change
Dow	16,417.01	-64.93	-0.39%
TSX	13,831.58	59.00	0.43%
Brazil	49,696.28	-409.09	-0.82%
FTSE	6,833.46	18.04	0.26%
Nikkei	15,734.46	-12.74	-0.08%
Hang Seng	23,133.35	146.94	0.64%
ASX	5,305.87	-3.20	-0.06%
Prices taken at previous day market close.			

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analyst upgrades while materials caught a bid on the outperformance of base metals.

On the charts 1,850 seems to be forming as some decent resistance, although if earnings results are good next week, expect that level to be taken out. Initial support remains lower in the mid-1,820s.

Market	Level	Change	% Change
DBC	24.89	-.03	-0.12%
Gold	1241.60	3.30	0.27%
Silver	20.075	-.059	-0.29%
Copper	3.34	-.018	-0.54%
WTI	93.94	-.23	-0.24%
Brent	107.06	-.07	-0.07%
Nat Gas	4.383	.058	1.34%
RBOB	2.59	-.0364	-1.39%
DBA (Grains)	24.34	.10	0.41%
Prices taken at previous day market close.			

Economics

Weekly Jobless Claims

- Initial claims fell to 326K vs. (E) 327K

Takeaway

Initial Jobless claims fell by 2K to 326K last week, which was largely in-line with analyst estimates of 327K. The previous week was revised slightly lower from 330K to 328K. While the headline numbers largely matched expectations, the four-week moving average legged down materially to 335K, a drop of 13.5K week-over-week as the data releases are getting more-consistent.

As the weekly look at the job market becomes less-volatile now that seasonal adjustments seem to be back under control and the holidays are behind us, it is giving investors a better peek at the employment situation. The fact that weekly jobless claims have continued to trend lower is one more supporting factor in discounting the December jobs report as an anomaly.

Philly Fed Survey

- Business Activity Index increased to 9.4 vs. (E) 8.7
- New Orders for January dropped to 5.1 from 12.9 in December

Takeaway

The Philadelphia Fed survey bumped up to 9.4 from a downwardly revised December reading of 6.4, indicating that factory activity has gained momentum so far in January. The details of the report, however, were mixed.

Within the release, new orders fell to 5.1 from 12.9 in December, a sharp contrast to the very strong new orders data in the Empire State report released on Wednesday. The weak new orders component points to slower growth outlooks for the months ahead. The employment component, on the other hand, came in rather strong—up 5.6 points to 10.0.

Bottom line is the Philly Fed survey was good, but would have been *very* good had new orders been better. New orders aside, it was largely in-line with the Empire State data and confirms that the economy is continuing to see growth in the manufacturing sector. In addition, the employment component within the report is the fourth piece of information that supports the argument that the December jobs report was a fluke.

Commodities

Commodities markets were very quiet yesterday, with most commodity futures being limited to moves of less than 1%. Natural gas was the big morning mover, but pared early gains to finish the day only slightly higher. DBC, the benchmark commodity ETF, fell 0.12%

Natural gas was the best-performing commodity yesterday, gaining 1.23% and closing at the highest level YTD. Nat gas futures opened just 4 cents away from the 52-week high of $4.532, established last month. The move higher was a result of two things.

First, The EIA released weekly inventory data indicating a record draw of 287 Bcf in nat gas supply levels. However, that number missed consensus estimates that were calling for -297 Bcf, which led to speculative longs closing positions and causing a pullback from the highs.

Second, below-average temperatures are expected to push across the Northeast again from Jan 21st-Jan 30th, which is causing traders to anticipate yet another large draw in supplies in the coming weeks.

Looking to the fundamentals, the term structure in calendar spreads became more bullish yesterday as futures with near-term expirations rallied more than back-month futures, and collectively the futures remain in backwardation. Also, $5.00 calls with February expira-

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tion were the most-active options contracts traded yesterday. Bottom line in natural gas is that just about everything is pointing to higher prices, and we maintain our bullish call, buying futures on dips or investing in the natural gas ETFs: the SPDR S&P Oil & Gas Exploration & Production ETF (XOP) and the First Trust ISE-Revere Natural Gas Index (FCG).

Precious metals traded in-line with the rest of the commodity space, closing the day little-changed. Gold added 0.27%, while silver fell 0.29%. But, the trend of gold "trading better" remains intact. Gold futures rallied over $7 upon release of the CPI report yesterday (while the dollar sold off substantially), which seems like a modest move if you think back to the wild swings we saw when gold was the most-volatile asset when news broke that could potentially affect the Fed's decision-making.

The important takeaway here is not the dollar value of the move but rather the fact that, when the Dollar Index itself rallied back to pre-CPI report levels, gold futures were able to hang on to the $1,240/oz level and close the day at $1,241.60. Look for support between $1,230 and $1,235 while resistance is hovering around last week's high tick of $1,255.30.

Currencies & Bonds

The dollar was little-changed yesterday but is holding on to decent weekly gains as investors continue to write off the December jobs report as an outlier. The Dollar Index fell 0.13% yesterday. Consolidation was a general theme in the currency markets yesterday with most major currencies participating. The sole exception was the Australian dollar.

The Aussie plummeted to a multi-year low after Australian officials reported a decrease of 22.6K jobs in December, a huge miss of analysts' expectations that called for a 10K increase.

Unemployment remained constant at 5.8%, a four-year high. The unexpected negative jobs number raises speculation that the Reserve Bank of Australia will cut its already record-low, benchmark interest rate by the middle of the summer.

Market	Level	Change	% Change
Dollar Index	81.04	-.104	-0.13%
EUR/USD	1.3613	.001	0.07%
GBP/USD	1.6359	-.0009	-0.05%
USD/JPY	104.34	-.21	-0.20%
USD/CAD	1.0922	-.0011	-0.10%
AUD/USD	.8814	-.01	-1.12%
USD/BRL	2.3598	-.0005	-0.02%
10 Year Yield	2.843	-.041	-1.42%
30 Year Yield	3.773	-.033	-0.87%
Prices taken at previous day market close.			

Many analysts have a medium-term target below the RBA's desired price of $0.85. The Aussie fell to $0.8775, which is the lowest level since August 2010. The "short Aussie" trade is clearly back in play and I would recommend selling the Aussie through shorting the currency on pops via buying the ProShares UltraShort Australian Dollar ETF (CROC) on dips.

Elsewhere in Asia, the Japanese yen had a relatively uneventful day as it rallied a modest 0.20% against the dollar. The move was nothing more than trading noise and consolidation as short-sellers are proving to be a little wary due to the headlines of the yen being the "most crowded trade in the market." But, whether it is the most crowded trade in the market or not, the trend is intact and the fundamentals remain in place. That said, I continue to recommend selling the yen via currency futures or through buying the ProShares UltraShort Yen ETF (YCS) on dips.

Moving to Europe, the pound fell to a one-month low yesterday as an indicator for U.K. home prices showed that housing prices fell in December, which is a good indication that the economic recovery is slowing a bit. However it is only one report, and the reaction was more than likely trading noise as the pound remains in a well-defined uptrend.

The euro was essentially unchanged yesterday as economic data released in the region was mixed. HICP, the European equivalent to our CPI, was exactly in-line with analyst estimates. Like the Pound Sterling, the euro is also in a well-defined uptrend and, until it is tested, the path of the least resistance remains higher.

In the bond market, we saw an oversold bounce in prices after falling for two days in a row. The 10- and 30-year Treasury note yields rallied small respectively as the yield curve steepened slightly.

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There was chatter that some of the bounce was a reaction to rather dovish "Fed speak," although that's a bit of a stretch. Williams, the San Francisco Fed president, released a paper called "Monetary Policy at the Zero Lower Bound: Putting Theory into Practice." The 12-page paper basically said that the dovish policies that the Fed utilized worked very well and were "textbook economics." Point being, QE isn't as radical as people try and make it out to be (that, of course, is very debatable).

Kocherlakota, the Minneapolis Fed president, said in an interview with the Financial Times yesterday that the "Fed needs to do more." He was referring to the Fed's lack of ability so far to approach the inflation level of 2%.

Bottom line is I think that it is a stretch that either of these comments were enough to move bonds, especially from an uber-dove like Kocherlakota, and really all bonds did yesterday was drift slightly higher in very quiet trading. Despite the fact that the 30-year remains above the downtrend line dating back to May 2013, until the 10-year Treasury also breaks through, I'd keep my bond shorts on.

Have a good weekend,

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	*After a sluggish start to 2014, stocks once again moved to new all time highs this week. Skeptical sentiment towards the rally 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.*

Trade Ideas

Long Japan: **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.**

	Fundamental Outlook	Technical Outlook	Overall	Comments
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).**

	Fundamental Outlook	Technical Outlook	Overall	Comments
U.S. Dollar	Neutral	Neutral	Neutral	*The Dollar Index sold off last week on the soft jobs report, after an early week rally. The Dollar Index should remain largely range bound, as a stubbornly strong euro caps any material upside.*

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	*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 market.*

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.**

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