7:00's Report

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

February 11th, 2014

Pre 7:00 Look

- Futures and international markets are seeing a modest rally after a quiet night ahead of the Yellen testimony later this morning. There was no economic data o/n.
- The biggest positive o/n was continued stabilization in the emerging markets, as the lira rallied 1% vs. the dollar.
- Econ Today: No Reports Today.
- Fed Speak: Yellen (Prepared remarks released at 8:30 AM, Testimony at 10:00 AM), Plosser (9:00 AM), Lacker (8:00 PM), Fisher (8:10 PM).

Market	Level	Change	% Change
S&P 500 Futures	1800.75	6.00	0.33%
U.S. Dollar (DXY)	80.61	-.117	-0.14%
Gold	1248.20	9.50	0.75%
WTI	100.34	.28	0.28%
10 Year	2.678	.003	0.11%

Equities

Market Recap

Stocks were marginally higher Monday during a sleepy session as everyone looked ahead to Janet Yellen's testimony later this morning. The S&P 500 rose 0.16%.

Stocks opened slightly lower on little more than digestion of the Thursday/Friday rally, but shortly after the open stocks turned higher and slowly rallied throughout the afternoon.

Although it was a quiet day, fundamentally there were two positive catalysts that helped keep stocks buoyant yesterday. First, there was some little-noticed positive Chinese consumer data (consumption rose 13.3% year over year for the "Golden Week" of the Chinese New Year, and anecdotally that implies the Chinese economy might not be as weak as feared).

Second, later in the afternoon, news broke that House Republicans would be meeting Monday night and, although the details were hazy, the expectation is that over the next two weeks they will put forward a relatively "clean" debt-ceiling extension that would further solidify the expectation that the debt-ceiling drama of last year won't be repeated.

Those two positive, combined with positioning head of Yellen's testimony saw stocks slowly rally throughout the afternoon, and markets actually managed to close at the highs of the day, up 2 points at 1,799 (right at the 1,800 resistance I mentioned in yesterday's Report).

Trading Color

Yesterday was vastly different from the past 2+ weeks, as markets were clearly in a holding pattern with volumes and activity muted ahead of Fed Chair Yellen's testimony.

Most major averages traded in-line with one another, although the Nasdaq was the outperformer (up .5%) thanks to the AAPL rally off the news Carl Icahn has stopped his Twitter PR offensive against the AAPL board to increase the buyback.

Sector-wise, we saw a hint of "dovishness" in the market before the Yellen testimony, which was also apparent across asset classes (gold and bonds rallied). Utilities and REITs were the outperformers yesterday (up .8% and 1%, respectively), while consumer staples, basic materials (positive China consumer data) and semi-

Market	Level	Change	% Change
Dow	15,801.79	7.71	0.05%
TSX	13,794.18	7.68	0.06%
Brazil	47,710.82	-362.78	-0.75%
FTSE	6,646.57	55.02	0.83%
Nikkei	14,718.34	255.93	1.77%
Hang Seng	21,962.98	383.72	1.78%
ASX	5,254.50	32.35	0.62%
Prices taken at previous day market close.			

conductors also rallied. Conversely, homebuilders, consumer discretionary and energy all lagged, mostly on short term profit-taking after last week's rally.

Market	Level	Change	% Change
DBC	25.40	-.11	-0.43%
Gold	1274.50	11.60	0.92%
Silver	20.045	.109	0.55%
Copper	3.219	-.017	-0.53%
WTI	100.08	.20	0.20%
Brent	108.68	-.89	-0.81%
Nat Gas	4.581	-.194	-4.04%
RBOB	2.7288	-.0201	-0.73%
DBA (Grains)	25.23	.01	0.04%

Prices taken at previous day market close.

On the charts, the S&P 500 is now smack up against resistance at 1,800 (which it's trading through as of this writing) while support lies at the 100-day MA (1,773). Above 1800, the 50 day moving average is next resistance at 1809.

Bottom Line

What a difference a week makes. Yesterday the market managed to close slightly higher to the surprise of most who expected a sell off after Friday's rally and ahead of the Yellen testimony.

But, stocks were buoyant all day, and it's safe to say that in the short term, the "pain trade" has once again turned higher, as investors positioning over the past two weeks had become too negative, and skepticism over this three day rally is very, very high.

I'm not saying we can expect a '13 style relentless grind higher, but you definitely get the feeling most investors think stocks "shouldn't" be rallying the way they are.

Today will be a deceptively big day of catalysts. First, we all know about the Yellen testimony. But, later tonight, we get the latest round of Chinese economic data via the trade balance. Remember that the soft Chinese manufacturing PMIs was the original catalyst for the market correction, so that data has the potential to move markets one way or the other.

Bottom line is this market remains very resilient, and if Yellen is mildly dovish and the Chinese data is "ok" look for a test of the 50 day MA, which could pull buyers in from the sidelines. I continue to like recently beaten up sectors as places to add long exposure if you're looking to do so: RTH, XLE, DXJ, TBT/TBF.

Fed Chair Yellen: The Floor is Yours

All eyes today will be on new Fed chair Yellen (she's instructed her staffers to call her "Chair," not "Chairwoman," so I shall do the same).

As mentioned, there was an ever-so-slightly "dovish" leaning to the market yesterday and because of that I get the impression that many market participants expect the Fed chair to come off slightly "dovish" in her testimony today. And, while that may be the case, there is a part of me that thinks we could see markets sell off a bit if the chair isn't so dovish, but that's just an opinion.

As to what to expect from her today, as I said in yesterday's issue, I think the answer is "not much." And, I think if we could paraphrase her comments, they would come down to this: "We are tapering QE because the economy is better and we need to do it because the costs of the program are outweighing the benefits, and we'll continue to taper QE unless the economy goes back into the toilet, at which point we'll probably stop tapering."

She will likely be asked repeatedly about "tapering the taper" given the recent soft economic data. But I expect she'll largely repeat the last Fed statement, which focused on improvement in the economy over the medium term, and remind everyone that Fed policy isn't on a "preset course." I highly doubt she'll imply that anyone at the Fed is considering "tapering the taper" despite recent data. Bottom line is I expect the Yellen testimony to largely be a non-event from a Fed policy outlook perspective.

Finally, I remember very clearly Chairman Bernanke's first Congressional testimony, and those of you in the business back then will remember he actually was a bit *too* relaxed when talking about policy. He confused markets and actually caused a nasty one day sell off, and if my memory is correct that was because he mentioned potentially raising interest rates faster then the market expected (I could be wrong on the content, but I know he said something that confused everyone). He then had to clarify his comments (which means he basically contradicted them) at the Senate testimony two days later to smooth everything over. So, there is some precedent for a slip-up from the brand-new Fed chair that might temporarily confuse markets, although given Ms. Yellen's experience, I don't think she'll make the same mistake.

Economics

There were no economic reports yesterday.

Commodities

Commodities were mixed yesterday as precious metals rallied while energy lagged. The PowerShares DB Commodity Index Tracking Fund (DBC) fell 0.38%.

Gold and silver were the two best-performing commodities yesterday, gaining 0.97% and 0.85%, respectively. The rallies were mostly a result of short-covering ahead of Ms. Yellen's testimony scheduled for later this morning.

That short-term influence aside, though, the technicals for both metals are continuing to get more bullish. Gold had failed to rally above the 100-day moving average ($1,270) 3 separate times in the last 3 weeks, and yesterday it was finally able to break through and close above that level. And, that rally is continuing this morning, as gold is trading above $1280 and if now at a three month high.

As mentioned, though, the move was largely influenced by short-covering and spec longs positioning ahead of Yellen's testimony in the event she is more-dovish than expected. So, like in stocks, there is some risk of disappointment if she isn't quite as "dovish" as expected, but the longer gold trades above the 100 day moving average (1279), the more bullish the techicnals get.

Market	Level	Change	% Change
Dollar Index	80.745	-.013	-0.02%
EUR/USD	1.3634	.0001	0.01%
GBP/USD	1.64	-.0009	-0.05%
USD/JPY	102.17	-0.16	-0.16%
USD/CAD	1.1055	.0024	0.22%
AUD/USD	.8942	-.0013	-0.15%
USD/BRL	2.4099	.0302	1.27%
10 Year Yield	2.678	.003	0.11%
30 Year Yield	3.663	-.002	-0.05%
Prices taken at previous day market close.			

Turning to silver, we highlighted last week that the situation was turning more-bullish from both a technical and fundamental standpoint. This continued last week as the CFTC reported that speculative net longs fell 1,618 to 2,378 for silver, which is a very, very low level and typically a contrarian indicator.

So, as I said last week, for those who can stomach the volatility, I would taking a shot on the long side, buying any dips in SLV with a stop just below $18.50 (recent lows), or buying dips in the futures themselves with a stop just below $19/oz. Finally, the CFTC report for gold was also a bit more positive, however not quite as much as silver. Net longs in gold fell 3,586 to 43,652, another relatively low level.

The energy space was mostly lower yesterday as the weather continues to have the same commanding influence it's had since December. And, while it continues to indirectly support WTI crude, it had a much-different effect on natural gas and heating oil futures yesterday.

Starting with WTI crude, though, it bucked the overall trend in energy yesterday and rallied slightly, up 0.21%, closing above $100/bbl. for the second day in a row. Crude futures remain resilient, as the cold winter has resulted in historically low inventory levels in distillate fuels, which include heating oil.

With heating oil supply at a 10-year low, the oil bulls are looking for increased future refinery production to replace the very low heating oil supply, which in turn means higher demand for crude oil. The term structure supports that bullish argument, with the front-month and 3-month spreads continuing to trade in backwardation. WTI tried to break out above the $100.75 level and couldn't sustain it yesterday, but a close above that level would make the technical situation more-bullish.

Conversely, natural gas and heating oil were the two worst-performing commodities yesterday, falling 4.02% and 1.66%, respectively. Again, the extended weather forecasts moved the market, only this time it was a moderate forecast that sent both commodities lower. On the charts, natural gas broke through two technical support levels and is now trading around $1.00 off of last week's highs, a loss of more than 25%. So, the weather giveth, and the weather taketh away. The next level of support is at the 50-day moving average of $4.467 while resistance lies above at the former support level of $4.73.

So bottom line, heating oil was lower because of speculation for lower demand due to mild weather. But, the low supply in heating oil supported the price of crude oil due to expectations for higher near-term oil demand to produce enough heating oil to replace those historically low inventories.

Currencies & Bonds

Keeping up the familiar theme, the currency markets were also very quiet yesterday ahead of Ms. Yellen's testimony. The Dollar Index dropped .07% in quiet trading, and most major currency crosses were little changed.

The Dollar Index started the week slightly higher but then drifted lower over the course of the trading session yesterday, closing at 80.70.

As I said last week, both the dollar and the euro are set to tread water for the foreseeable future as the policy outlook for the ECB and Fed remains stable.

The yen opened higher vs. the dollar yesterday morning, up about 0.4%, but was unable to hold those gains as it sold off for the remainder of the session. The yen continues to trade "risk on/risk off" and, as Monday progressed, we saw risk continue to move out of the yen as U.S. stocks turned positive.

Beyond short-term sentiment, from a macro standpoint, nothing has materially changed in the fundamentals for Japan, which is why I still believe this is a good entry point to either add to short yen positions or open new ones.

Turning to emerging markets, the lira gave back some of its recent gains yesterday. But, there was no news out to drive the move, and really it was mostly short-term profit-taking. The stronger lira is currently one of the most-underappreciated "positives" in the global market, and as long as it remains stable (and doesn't start to collapse) then the macro horizon will remain relatively calm.

Finally, in testament to just how quiet trading was yesterday, the Loonie was the biggest mover in the currency markets yesterday vs. the dollar as it fell -0.22% on little more than profit-taking from last week's rally.

Much like the majority of other markets, the bond market was quiet yesterday, although again there was a "hint" of dovishness ahead of Ms. Yellen. The 30-year rallied small (0.05%), while the 10-year ended flat. The Fed bought $2.6 billion worth of 8-year and 10-year notes, which helped the 10-year outperform midday, although the gains were lost throughout the afternoon.

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	Bullish	Neutral	Bullish	*Stocks stabilized last week after markets decided late in the week that economic growth was cooling, not collapsing. The pace of economic growth and the continuing adjustment in emerging markets remain potential threats to stocks, but for now the rally remains intact and the path of lease resistance higher for stocks.* *Support now lies at 1773 (100 day MA), while resistance is 1800.*

Trade Ideas

Long Japan: **DXJ has gotten hit hard as the yen has rallied, due mostly to emerging market angst. But, the Japanese economy is improving, and seeing as I don't think this latest EM angst is a bearish game changer, I believe the yen will resume its declines and DXJ is not done rallying.**

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 last 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: **Gold is now threatening to break out of a months long downtrend, but given gold has rallied as a "crisis" hedge, I'm skeptical the move can last. A few more closes above the $1260 level would make me more bullish in the short term.**

U.S. Dollar	Neutral	Neutral	Neutral	*The Dollar Index largely range bound as the market has priced in Fed tapering, while the question of what, if anything, the ECB will do to combat rising dis-inflation remains unanswered.*

Trade Ideas

Short: **The yen is seeing a massive "risk off" rally that can brought it below 102 dollar/yen. But, the fundamentals for a weaker yen remains in place, and I would view this rally as an entry point in a still down trending yen.**

Treasuries	Bearish	Bearish	Bearish	*Treasuries have seen a decent "counter trend rally" and traded to multi-month highs, as emerging market angst put a "fear bid" into bonds. But, with the Fed intent on tapering and inflation likely having bottomed, the larger downtrend remains in place, and I would use this bounce to add to "short bond" positions.*

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.**