7:00's Report

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

February 26th, 2014

Pre 7:00 Look

- Futures are slightly higher following a rebound in China and as there was no change to the situation in Ukraine.
- Chinese stock markets and the yuan bounced back o/n, as Chinese officials downplayed the drop in the currency.
- Economically it was very quiet o/n, as UK GDP was the only release and it met expectations.
- Retail earnings continue today: LOW already reported, but TGT (E: .85) and TJX (E: .83) come later this morning.
- Econ Today: New Home Sales (E: 400K). Fed Speak: Rosengren (12:00 PM), Pianalto (7:30 PM).

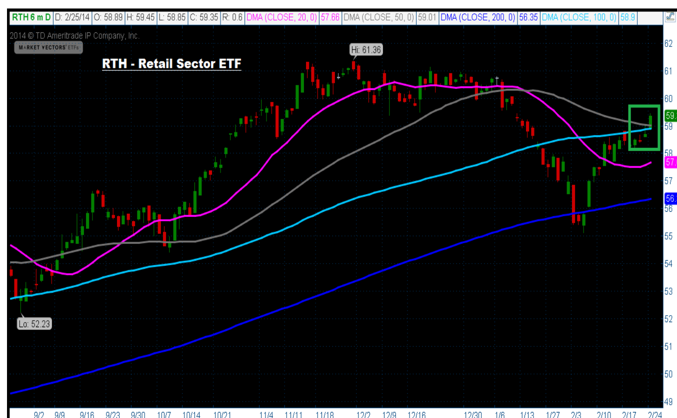
Market	Level	Change	% Change
S&P 500 Futures	1850.50	4.25	0.23%
U.S. Dollar (DXY)	80.20	.035	0.04%
Gold	1339.80	-2.90	-0.22%
WTI	102.21	.38	0.37%
10 Year	2.701	-.049	-1.78%

Equities

Market Recap

Stocks traded very slightly lower during a quiet session Tuesday as markets continued to consolidate below 1,850. The S&P 500 fell 0.13%.

Overall it was a pretty quiet day as stocks opened basically flat, and then hit their lows at 1,840 immediately following the Richmond Fed index and consumer confidence releases at 10 a.m. (both missed estimates), before rebounding to turn positive before lunchtime. The rest of the afternoon was sleepy, as stocks never drifted more than a few points from unchanged, and closed pretty quietly.



Retail Stock continued their rebound yesterday, and they remain one of the few sectors where you can make a relative "value" argument.

As far as "reasons" why markets didn't continue the rally from Monday, other than the soft economic data, there were cautious comments made by two private-equity titans. KKR's Henry Kravis said leverage in the private-equity business was getting above "safety levels," while Apollo Management's Leon Black said he thought stock prices were "full" at current levels.

In truth, though, none of the above were really "negative catalysts." The economic data continue to get the benefit of the doubt, while the comments by Kravis and Black were made in the context of the private-equity industry, not the market and economy as a whole. Really yesterday was little more than further consolidation near the 1,850 level during a pretty slow news day.

Trading Color

Volumes and activity levels were again very low yesterday and that continues to be a non-confirmation of this 2+ week old rally. This week was never expected to be

Market	Level	Change	% Change
Dow	16,176.74	-30.40	-0.19%
TSX	14,201.38	-25.70	-0.18%
Brazil	46,715.91	-677.59	-1.43%
FTSE	6,813.34	-17.16	-0.25%
Nikkei	14,970.97	-80.63	-0.54%
Hang Seng	22,437.44	120.24	0.54%
ASX	5,436.99	3.15	0.06%
Prices taken at previous day market close.			

Copyright 2014, Kinsale Trading LLC. All Rights Reserved. www.sevensreport.com

busy but it seems the market is now firmly in "wait and see" mode for the rest of the week ahead of the EU inflation readings Friday and the multiple catalysts coming next week. And, barring anything out of left field from Ukraine or the emerging markets, that's likely the way we'll stay for the rest of the week.

Internally, the major indices were all little-changed yesterday, while sector trading was mixed. Most sectors didn't move more than 1% in either direction, although retail was the standout on the day, with RTH rising 1.11% on "better than feared" earnings from HD and M.

M in particular helped sentiment for the entire space when it cited horrid winter weather as contributing to the soft quarter. That was taken as a positive because 1) bad sales in January and February were already priced into the retail stocks, and 2) The explicit citing of weather is anecdotal proof that winter may indeed be materially affecting economic data, as the market has assumed.

I have ZERO sympathy for Bitcoin "traders" who now find themselves sitting on massive losses.

On the negative side, natural gas ETFs gave back some of the Monday gains, while banks also lagged. (News broke late yesterday that the Fed stress tests will be released March 20th. In a quiet tape, anything with "stress test" in it will be a headwind on bank stocks.)

Overall, though, other than the continued rebound in the retail space, there wasn't much to take away from the sector trading yesterday.

On the charts the situation remains the same: 1,850 remains resistance and a close above that level turns the outlook more bullish, while the 50-day moving average (1,814) remains critical support.

Economics

There were no material economic reports yesterday.

Commodities

Market	Level	Change	% Change
DBC	26.22	-.09	-0.34%
Gold	1343.30	5.30	0.40%
Silver	21.965	-.086	-0.39%
Copper	3.2515	-.0185	-0.57%
WTI	102.08	-.74	-0.72%
Brent	109.54	-1.10	-0.99%
Nat Gas	5.006	-0.439	-8.06%
RBOB	2.7981	-.0355	-1.25%
DBA (Grains)	27.08	.11	0.41%
Prices taken at previous day market close.			

Commodities were mixed yesterday with the industrials trading lower while gold made yet another multi-month high. The PowerShares DB Commodity Index Tracking ETF (DBC) fell 0.27%.

Gold traded higher for the fourth day in a row yesterday, rising 0.33% as it reached yet another four-month high. Gold started trading yesterday slightly lower, but once again the weak economic readings from the Richmond Fed and consumer confidence turned gold positive, and gold continues to be the primary beneficiary of soft economic data. The Ukrainian situation is also helping support gold, although I don't think it's a major factor right now in gold trading, and won't be one unless the situation deteriorates. Futures rose as investors chased the rally and added long exposure (remember, many of the shorts have already been flushed out, so the majority of any continuation here would be a result of "real buying"). On the charts, we're looking at some technical support around $1,336 while resistance remains the same at the $1,360 level.

Gold was the only metal higher yesterday, though, as both silver and copper declined by 0.39% and 0.18% respectively. Peripheral China concerns, given the recent drop in the yuan and concerns towards the proper sector weighed on industrial metals broadly yesterday (many investors overlook the fact that silver has a multitude of industrial uses), and we can expect the industrial metals to trade "heavy" as long as the yuan is falling.

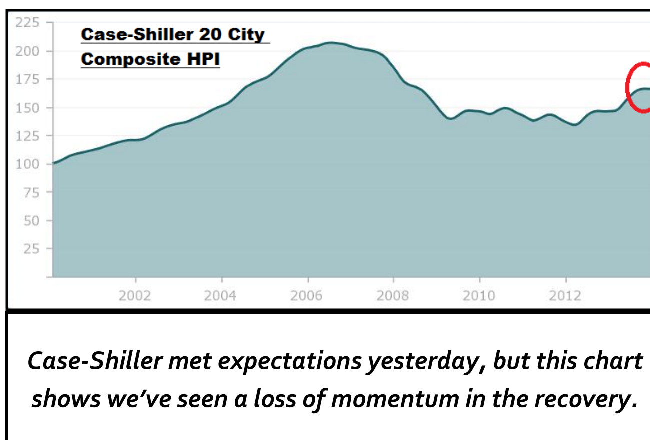
Turing to energy, natural gas remains by far the most volatile product in the commodity space. I actually had to remove it from my commodities watch list yesterday because its daily changes are so large it was skewing the chart that compared it to other futures. Front month Nat gas futures fell well over 10% again yesterday as traders

Copyright 2014, Kinsale Trading LLC. All Rights Reserved. www.sevensreport.com

continued to take profits as the March contract expires today.

Importantly, though, the now-active April contract actually rallied thanks to the reality that winter is not over just yet and the critically low supply levels have not been miraculously replenished. Point being, while we may have seen the high “tick” in natural gas for some time, the market remains fundamentally bullish and cold temperatures are set to return to most of the country toward the end of this week, which is continuing to support heating fuels, including distillates (heating oil).

Unfortunately for the crude oil bulls, the “cold weather bid” wasn't enough to send prices to fresh highs yesterday. Crude oil fell 0.72% thanks to some profit-taking, but bigger picture crude is still comfortably sitting in the range that we have been referencing for more than a week now, with resistance between $104 and $105 while the 200-day moving average marks the supporting end at $99.74.



Case-Shiller met expectations yesterday, but this chart shows we've seen a loss of momentum in the recovery.

As far as where WTI goes from here in the short term, we've well documented that a lot of this oil rally has been the result of strong demand for heating oil (i.e. the cold weather). Well, as we enter the (hopefully) end of winter, that demand for raw crude will begin to decline, regardless of how cold things remain, as they want to avoid producing excess heating oil before the refineries are recalibrated to primarily produce gasoline for the summer driving season. Bottom line, we are now getting to a point on the calendar where refinery demand should begin to decline, and that could be a potential headwind on WTI prices over the coming weeks.

Market	Level	Change	% Change
Dollar Index	80.16	-.065	-0.08%
EUR/USD	1.3742	.0008	0.06%
GBP/USD	1.6681	.0025	0.15%
USD/JPY	102.15	-.32	-0.31%
USD/CAD	1.1081	.0026	0.24%
AUD/USD	.9008	-.0027	-0.30%
USD/BRL	2.3409	.0019	0.08%
10 Year Yield	2.701	-.049	-1.78%
30 Year Yield	3.661	-.050	-1.35%
Prices taken at previous day market close.			

Currencies & Bonds

It was once again another slow day in the developed-currency markets, as the whole world seems to be looking ahead to the EU inflation data Friday and the catalysts next week. Once again, neither the U.S. Dollar Index, euro nor British pound moved more than 0.1% in trading yesterday.

The yen was the most “volatile” currency yesterday, rallying 0.31% on light volume. The positive catalyst, if I'm forced to name one, was the more-optimistic Shoko Chukin small business survey, which reflected higher expectations for the economy in March and beyond.

But, it's not like that is going to sway the BOJ policy outlook. In the bigger picture, the yen continues to tread water, as the major catalyst for the next move in the yen remains when (and if) the BOJ will unleash more stimulus. (I continue to expect the April-June time frame, although opinions vary on if and when the BOJ does “more.”)

Emerging-market currencies were not quiet yesterday. First, the Ukrainian Hryvnia plunged to a record low vs. the U.S. dollar yesterday as concerns rose that the Ukraine may have a much-more-pressing funding problem than initially thought (although the EU, IMF and U.S. are still pledging short-term aid).

The probability of default remains low, given the US, EU and IMF want to hold Ukraine up for a while if for nothing more than to stick it to the Russians. Longer term, though, the solution remains unclear. But, one near certainty, short of the Ukraine turning back to Russia for a bailout, is that the Hyrvnia will be devalued as part of any long term bailout plan, and that's why we're seeing it under such pressure.

Happily, though, the shifting situation in Ukraine didn't spill over into the rest of the emerging markets, as most EM currencies were relatively well-behaved (CEW, the emerg-

Copyright 2014, Kinsale Trading LLC. All Rights Reserved. www.sevensreport.com

ing-currency ETF, rose 0.26%). The one exception was the Turkish lira, which fell nearly 2% vs. the dollar not because of funding concerns, but instead because Turkish Prime Minister Erdogan was apparently caught on camera telling his son to dispose of large sums of money! He has denied the allegations and alleges the video is a fake, but obviously it's not a good thing.

The lira's drop aside, though, that event isn't likely to reignite emerging-market concerns in its current state. So, bottom line is despite a lot of negative headlines, EM currency and bond markets remain orderly.

Treasuries saw a nice rally yesterday, with the 10-year rallying 0.3% and the 30-year rising 0.6%. Another dose of lackluster economic data (consumer confidence missing estimates and the Richmond Fed manufacturing index plunging to -6 vs. (E) 3, following the dive in the Philly Fed last week) and a strong 2-year Treasury auction (bid to cover of 3.6, well over January's 3.3) contributed to the strength.

But, those points aside, the rally in Treasuries was also exacerbated by investment funds "rolling" their Treasury bond futures exposure from the March contract to June, as the March contract comes "off the board" in a day). Bottom line is Treasuries remain stalemated in the very short term, and they will stay that way until we get the official PMIs and jobs report next week. Then, we will know if economic data is getting bad enough for the Fed to consider "tapering the taper." I think that's got a pretty low probability, but there is a chance. Until we know more, the bond market likely won't move materially, barring some unforeseen geopolitical event.

Have a good day,

Tom

Copyright 2014, Kinsale Trading LLC. All Rights Reserved. www.sevensreport.com

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 are at an inflection point, as they have recouped all of the late January/early February correction. Concerns about US and global economic growth remain, but generally the fundamentals remain supportive of higher equity prices, so the benefit of the doubt remains with the bulls.* *Key levels to watch will be the 50 day moving average (1814) and the old all time highs of 1850.*

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.**

	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 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 has now broken out above resistance at $1300/oz., as gold has benefitted from the recent dollar weakness due to soft economic data. Short term I'd only nibble above $1300 on the long side and feel more comfortable around the mid-$1200's, but it appears as though a longer term bottom is "in" in gold.**

	Fundamental Outlook	Technical Outlook	Overall	Comments
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.**

	Fundamental Outlook	Technical Outlook	Overall	Comments
Treasuries	Bearish	Bearish	Bearish	*Treasuries are stalemated in the short term as weak economic data is supportive, but the Fed clearly favoring continued tapering of QE, baring a big drop in economic data, has caused the counter trend rally to stall. Longer term, though, fundamentals remain negative and I view current levels as great entry points for 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.**

Copyright 2014, Kinsale Trading LLC. All Rights Reserved. www.sevensreport.com

Disclaimer: **The 7:00's Report is protected by federal and international copyright laws. Kinsale Trading, LLC is the publisher of the newsletter and owner of all rights therein, and retains property rights to the newsletter. The Newsletter may not be forwarded, copied, downloaded, stored in a retrieval system or otherwise reproduced or used in any form or by any means without express written permission from Kinsale Trading LLC. The information contained in the 7:00's Report is not necessarily complete and its accuracy is not guaranteed. Neither the information contained in The 7:00's Report or any opinion expressed in The 7:00's Report constitutes a solicitation for the purchase of any future or security referred to in the Newsletter. The Newsletter is strictly an informational publication and does not provide individual, customized investment or trading advice to its subscribers. SUBSCRIBERS SHOULD VERIFY ALL CLAIMS AND COMPLETE THEIR OWN RESEARCH AND CONSULT A REGISTERED FINANCIAL PROFESSIONAL BEFORE INVESTING IN ANY INVESTMENTS MENTIONED IN THE PUBLICATION. INVESTING IN SECURITIES, OPTIONS AND FUTURES IS SPECULATIVE AND CARRIES A HIGH DEGREE OF RISK, AND SUBSCRIBERS MAY LOSE MONEY TRADING AND INVESTING IN SUCH INVESTMENTS.**

Copyright 2014, Kinsale Trading LLC. All Rights Reserved. www.sevensreport.com