7:00's Report

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

April 10th, 2014

Pre 7:00 Look

- Futures are off small this morning as international markets are mixed w/ Asia higher and the EU lower.
- Economically, Chinese trade data showed exports unexpectedly fell (-6.6% vs. (E) 4.9%) but there is statistical noise in the data and it is not being taken as a major negative for China.
- In Europe, Italian and French Industrial Production both missed slightly as did Italian CPI, but markets are down only modestly.
- Econ Today: Weekly Jobless Claims (E: 318K),
- Fed Speak: Evans (11:50 AM)

Market	Level	Change	% Change
S&P 500 Futures	1862.25	-2.50	-0.13%
U.S. Dollar (DXY)	79.52	-.033	-0.04%
Gold	1323.40	17.50	1.34%
WTI	103.38	.22	0.21%
10-year	2.684	.003	0.11%

Equities

Market Recap

Stocks rebounded nicely Wednesday as "dovish" FOMC minutes ignited a "buyers chase" higher into the close as investors moved to put back on more long exposure. The S&P 500 rose 1.09%.

Stocks opened Wednesday modestly higher and spent most of the day in solidly positive territory as the oversold bounce continued from Tuesday. There was little by the way of fundamentals to move the market yesterday in the morning, so traders resorted to watching banks,

Europe STOXX 50 ETF (FEZ) has outperformed the S&P 500 this year and is about to break out to new highs.

semiconductors and the "momentum" sectors for clues as to whether this bounce could gain some more steam.

Stocks held onto their gains into the big catalyst of the day (FOMC minutes) and then shot higher following the 2:00 release as the minutes were interpreted as "dovish." A short-squeeze/"buyers chase" ensued during the last hour of trading, and markets closed basically on the highs.

Trading Color

Momentum and tech roared back yesterday, as the Nasdaq rallied 1.7% (the best-performing major index again) while biotechs (NBI) and Internet stocks (QNET) surged 4.12% and 2.87%, respectively.

Thanks to the rebound in biotech, healthcare was the best-performing S&P sub-sector, but outside of that it was a standard "risk on" day. Basic materials, tech, semi conductors, industrials and consumer discretionary all rallied more than 1%, while utilities and REITs finished negative on the day and consumer staples relatively lagged (up 0.44%).

The one outlier was the banks, which were unable to

Market	Level	Change	% Change
Dow	16,437.18	181.04	1.11%
TSX	14,436.41	-22.70	-0.16%
Brazil	51,185.40	-443.67	-0.86%
FTSE	6,629.06	-6.55	-0.10%
Nikkei	14,300.12	.43	0.00%
Hang Seng	23,186.96	343.79	1.51%
ASX	5,480.75	16.97	0.31%

Prices taken at previous day market close.

rally despite the move higher in the market and a steepening yield curve. But as I said yesterday, that's more a function of looming earnings (WFC and JPM report tomorrow) than anything else.

Market	Level	Change	% Change
DBC	26.39	.08	0.32%
Gold	1309.30	.20	0.02%
Silver	19.88	-.177	-0.88%
Copper	3.0495	-.0015	-0.05%
WTI	103.47	.91	0.89%
Brent	107.87	.20	0.19%
Nat Gas	4.575	.041	0.90%
RBOB	3.0001	.02	0.67%
DBA (Grains)	28.75	.13	0.45%
Prices taken at previous day market close.			

Unfortunately for the bulls, volumes and activity were pretty subdued yesterday. Despite the impressive push higher, there wasn't a lot of conviction or "real money" buying. Volumes were lower than the last several sessions, as well.

On the charts, things remains the same: 1,880 resistance and 1,840 support in the S&P 500. That range remains intact.

Bottom Line

The market remains all about sentiment and positioning, and it cuts both ways. You got the feeling watching the tape yesterday that if stocks didn't start to sell off in the afternoon, then there was the chance for a "chase" higher. Investors had de-risked over the past few weeks, and the FOMC minutes proved to be the catalyst that ignited this "chase." So, in two days, the S&P 500 has gone from the lower end of the 1,880-1,840 range to the higher end, and nothing has changed fundamentally.

Looking at positioning, I'd say the risk is for a move higher from here. The pendulum has swung from hedge funds being "too long" to perhaps not being "long enough," although the definitive factor of whether we break out of this range to the upside will be earnings, which begin in earnest next week. (Incidentally, the bar has quietly been set pretty low given the weather in Q1.)

Shifting gears, the answer to the question "is this correction over" may be "yes," but I think that's missing the point.

Bottom line is this market remains much more micro-dominated than macro-dominated, and I believe focus should be on specific sectors and themes more so than the broader market. Getting long "Europe" remains attractive to me via VGK or FEZ, as do some of the other "under owned" sectors listed in the Asset Class Dashboard (DIA, IYM, PICK).

As far as getting back into the "momentum" sectors (biotech and Internet stocks), it's just not in my nature to chase back into a space that's seen such carnage, especially when it's tough to gauge valuations. That said, though, they are probably worth a shot on the long side for a trade, but I'd be cautious and use recent lows as a clear and definitive stop.

Well That's a Relief!

Finally, the IMF released its "World Economic Outlook" Wednesday, and happily they have declared that the chances for a global recession in 2014 are now just 0.1%! That's down from 6% just last October.

Being the methodical contrarian that I am, and having watched firsthand the IMF's awesome predictive ability over the last 10-plus years, upon reading that news I immediately started looking for what might cause a global recession in 2014. Even though I believe in the "global reflation trade" and have for many months, the IMF's conviction on the "all-clear" just made me nervous! I'll report back when I have something for us to watch.

Economics

FOMC Minutes

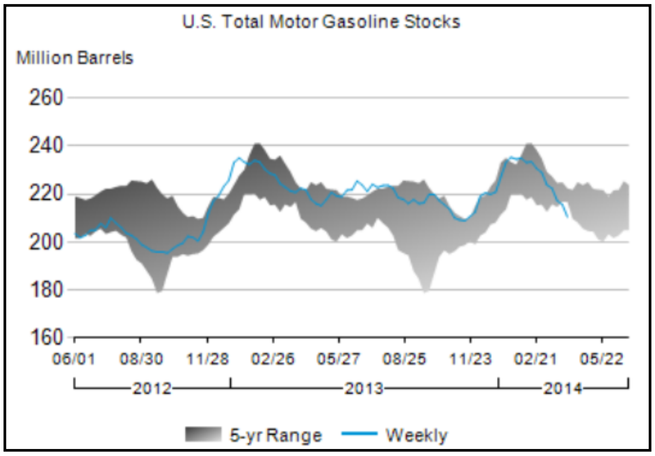
Fed minutes were considered "dovish" for two reasons yesterday: First, the minutes specifically undermined the "hawkish" Fed interest rate forecasts in the March meeting, and second, there was an expectation/fear in the market that the minutes might be hawkish, given Yellen's "6 months" comment at the press conference (the fear was that the six months figure would be discussed at the meeting, further validating it).

To understand why the FOMC minutes were taken as dovish yesterday, remember this: One of the surprises of the March Fed meeting was that the "dots" of Fed officials' expectations for interest rates in the future moved up. This implied that, while the rhetoric was dovish, most Fed officials were forecasting a rise in interest rates sooner than the market expected.

Interestingly (and if I were a conspiracy theorist, I'd have been going crazy yesterday) the FOMC minutes *directly* addressed this concern!

The key passage everyone traded off of was:

"A number of participants noted the overall upward shift since December in participants' projections of the federal funds rate included in the March SEP, ***with some expressing concern that this component of the SEP could be misconstrued as indicating a move by the Committee to a less accommodative reaction function.*** *... Most participants favored providing an explicit indication in the statement that the new forward guidance, taken as a whole, did not imply a change in the Committee's policy intentions, on the grounds that such an indication could help forestall misinterpretation of the new forward guidance."*



So, to be a bit cheeky and paraphrase:

Most Fed officials were worried that their honest expectations of where interest rates would be next year was too high, compared to what they keep saying publicly. So, it would be important to explicitly say in the statement these forecasts are nonsense and are to be ignored. Even though they are made by Fed officials, they don't mean rates will rise sooner than we say they will.

Right.

Cynicism aside, the market did take it as "dovish" and this did help the market rally. In reality, though, these minutes offer no change to the outlook for Fed policy (tapering at each meeting of $10 billion, rate increases next April-July).

Market	Level	Change	% Change
Dollar Index	79.585	-.25	-0.31%
EUR/USD	1.385	.0056	0.41%
GBP/USD	1.6793	.0047	0.28%
USD/JPY	101.94	0.15	0.15%
USD/CAD	1.0871	-.005	-0.46%
AUD/USD	.9381	.0021	0.22%
USD/BRL	2.1965	-.0044	-0.20%
10-year Yield	2.684	.003	0.11%
30-year Yield	3.565	.025	0.71%
Prices taken at previous day market close.			

Commodities

Commodities traded to the upside yesterday thanks in part to the weaker dollar (-0.33%). The PowerShares DB Commodity Tracking Index Fund (DBC) added 0.3% on the day.

Gold fell as stocks rose yesterday, but futures found support just above $1,300 mid-morning and held those lows for the remainder of the day. But, upon release of the Fed minutes, gold rallied back more than $10 as the dollar plummeted as part of the broadly dovish market reaction. Gold finished the day essentially unchanged.

Gold futures continue to trade as a hedge of sorts to the stock market, but traders also remain focused on the Fed, and in turn, the dollar. As we mentioned earlier in the week, the $1,300 area seems to be "magnetic" again, as futures have oscillated around this level since breaking former support at $1,320 on March 24. On the charts a new uptrend is forming, with the first level of support just below $1,300, so that is again the level to watch.

Yesterday morning it looked as though the break of the downtrend in copper was going to be a head fake as futures were down 1.5% to $3.007. The material sell-off was mostly due to an article in the FT that said copper had entered a period of "strong supply growth" and also cited the correlation with the Chinese economy (both physical demand, and the practice of using copper as collateral for loans). In spite of the article, buyers stepped in and futures rallied steadily over the course of the day to finish not far from the flat mark, down just 0.13%.

Moving to energy, WTI futures moved higher by just under 1% to trade above $103/bbl, following a mixed inventory report released by the EIA.

Crude supplies increased by 4M barrels last week vs. (E) 1M, RBOB gasoline inventories fell 5.2M barrels vs. (E) -0.7M, and distillate supply levels rose 0.2M barrels vs. (E) -0.1M.

The standout figure in the report was the substantial and surprising draw in gasoline supply levels. And, it appears we are seeing RBOB become the "new" heating oil. In recent months, low supply levels in heating oil, due to the extreme weather this winter, helped support the entire energy sector. Now, with the summer driving season quickly approaching and gasoline supplies seeming to be under pressure already, we could see an increase in demand for crude oil as refiners up production to keep up with rising gasoline demand. On the charts, WTI is continuing to trend higher, with the next area of resistance being the $105 level.

Elsewhere in energy, natural gas futures closed above the 100-day moving average for the second day in a row. This is slightly bullish, and we can cautiously expect prices to slowly grind higher in the near term. But, the primary focus remains on inventories, so the EIA supply data will be in focus this morning with analysts calling for the first build since November, an increase in supply of 12 Bcf. Expect anything less (or a draw) to trigger some buying. On the charts $4.65 is the first level of resistance while the 100-day moving average at $4.505 is support.

Currencies & Bonds

It was a bit of whiplash in the bond market yesterday, and it started after 1 o'clock. Bonds sold off in the afternoon after some surprisingly weak results from a $21 billion 10-year auction. Rick Santelli gave it a "C+" based mostly on the fact that the actual yield was almost a full basis point over the "when issued" at 2.72% vs. 2.71%, signaling less-than-enthusiastic demand.

The auction wasn't horrible, though, as the bid to cover was 2.76. While down from 2.96, it was also above the recent 10-year average of 2.64.

So, between 1:00 and 2:00 I was all set to talk about how the weak 10-year auction, while not signaling an impending drop in bonds, was anecdotally supportive of the bond-bear thesis. That's because bond investors are becoming more yield-sensitive, as 2.72 on yesterday's 10-year auction was the low for the year, and low yields won't elicit the blind demand they have over the past several years. And, anecdotally that implies the major trend for bonds is lower.

But, that piece was shot to hell after the FOMC minutes, as bonds bounced and the 10-year Treasury turned positive 20 minutes after the FOMC release. Whether the minutes were actually dovish or not is up for debate (I don't think they changed anything with regard to Fed expectations), but that's the way the market traded and the 10-year yield remains below 2.7%.

The long end of the curve sold off a bit into the end of the day, but the 30-year still needed off its worst levels of the day. Encouragingly, though, the yield curve continues to steepen (an encouraging sign for the economy and the bond bears). But, in the bigger picture, 135'00 on the 30-year Treasury remains the key level. Until that's broken, I continue to view this as one long and painful counter-trend rally in an otherwise falling bond market.

Currencies were downright boring Wednesday until the FOMC minutes, which caused a dollar sell-off against all major currency pairs except the yen (and keep in mind the yen was up 1.5% vs. the dollar Tuesday, so there was some natural giveback).

The Dollar Index traded to a three-week low while the euro, pound, Aussie and Loonie all rose about 0.4% each (showing the declines were dollar-selling-based, not buying of the other currencies).

Despite the weakness from the Fed minutes, though, I don't think we'll see any violation of major support in the Dollar Index (79.45 is the low for the year, 79.06 the 52-week low). Much like the stock market, the Dollar Index remains range-bound very broadly between 81 and 79 (a trading band it's mostly occupied for over six months).

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	Bullish	Bullish	*Stocks hit new highs last week but saw a nasty reversal on Friday, as renewed selling in growth and momentum sectors pushed markets lower. But,. the positive backdrop for stocks (macro-economic calm, accommodative central banks, growing economic recovery, skeptical sentiment) remains, so the benefit of the doubt remains with the bulls.* *The S&P 500 gave us a head fake last week, so the range remains 1880-1840. .*

Trade Ideas

Long Market "Losers": **So far in 2014 the right strategy has been to buy beaten down sectors that offer some value, as opposed to the broad market. It has worked with utilities and most recently the retailers and banks. I think coal stocks (KOL, ACI) are now attractive, given positive fundamentals thanks to 1) high natural gas prices, 2) low inventories and 3) an attractive entry point due to China related basic materials sell off last week. I'd also look to allocate to deep cyclicals like industrials (DIA), basic materials (IYM) and global industrial miners (PICK).**

Long Japan: **"Hawkish" comments by BOJ Governor Kuroda sent the yen spiking higher vs. the dollar and DXJ near the lows for the year. I remain a fundamental bull on Japan, but a decisive break of 44.66 in DXJ will see me exit this trade, despite the fundamentals.**

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

Gold: **The outlook for gold remains unclear, and I'm not sure last week's jobs report was as "dovish" as Friday's reaction. But, gold has acted as a decent equity hedge all of 2014, so if you're nervous about the stock market here, buying gold isn't the worst idea. Use a stop at $1277.**

	Fundamental Outlook	Technical Outlook	Overall	Comments
U.S. Dollar	Neutral	Neutral	Neutral	*The Dollar Index remains largely range bound, as a stronger euro will hamper any ability for the US Dollar Index to rally, despite continued tapering of QE.*

Trade Ideas

Short: Japanese Yen. **Similarly to DXJ, the yen caught a big rally this week after nearly breaking down to new lows just two weeks ago. If the yen were to trade below the low for the year, 100.26 yen/dollar, I would exit this trade as the trend will have clearly changed.**

Short: Aussie Dollar. **Aussie saw a big short covering rally last week on better than expected data, but with risks to Chinese growth skewed to the downside and the Reserve Bank of Australia wanting a weaker Aussie, the longer term trend remains lower. For those non-futures traders, shorting FXA or buying CROC is the easiest way to put this trade "on."**

	Fundamental Outlook	Technical Outlook	Overall	Comments
Treasuries	Bearish	Bearish	Bearish	*Economic data has turned a bit more positive and it appears as though the counter trend rally in the bond market is ending. The primary trend remains lower, as the Fed seems intent on further "tapering" of QE.*

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.**

Buy A Steepening Yield Curve: **STPP and KBE give positive exposure to a steepening yield curve, as the 10's-2's spread appears to have bottomed and should rally from here. 2.20% in that spread is my stop on STPP and KBE longs.**