7:00's Report

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

April 15th, 2014

Pre 7:00 Look

- Futures are little changed this morning and international markets are mixed.
- Asian markets are mostly lower thanks to a poor Chinese lending report while the Ukraine/Russia situation is weighing on European stocks.
- Economically, UK inflation readings were inline with estimates (1.6% yoy) but fell to the lowest levels since 2009.
- Econ Today: CPI (E: 0.1%), Empire State Manufacturing Survey (E: 7.50)
- Fed Speak: Chair Yellen (8:45am)

Market	Level	Change	% Change
S&P 500 Futures	1825.00	.50	0.03%
U.S. Dollar (DXY)	79.915	.11	0.14%
Gold	1304.80	-22.70	-1.71%
WTI	103.10	-.95	-0.91%
10-year	2.637	.018	0.69%

Equities

Market Recap

Stocks rallied yesterday in what turned out to be a volatile session, but a sharp rally into the close saw the S&P 500 close better by .82%.

Stocks opened higher yesterday following a stronger than expected earnings report from C as well as a "beat" in the retail sales headline. All of the major indexes continued higher until late morning where they treaded water until about 1pm when things started reverse.

Showing the nervous nature of this market, the S&P 500 fell 18 points from the highs of the day giving back all of the mornings gains and traded to just ticks above Friday's lows, but were able to hold that level. With supporting holding, a big short covering rally ensued and stocks ended trading just off the highs of the day.

The news was good yesterday (retail sales and C earnings) but there weren't any fundamental "reasons' for stocks volatility yesterday, and nothing specific in the news caused the mid-afternoon break or the late afternoon rally. Instead, the price action accurately reflected this market – nervous, confused and with little conviction, which makes traders prone to "chasing" stocks in one direction or the other. And, we can expect that to continue until we see some stabilization in momentum and growth sectors.

Trading Color

Yesterday's morning rally showed broad strength as all of the major sub sectors of the S&P 500 were participating in the rally.

Internet stocks traded well in spite of selling pressure from overweight hedge funds. News that TWTR co-founders were announcing that they will not be selling any shares in early May when they first have the option was also supportive of the space.

Banks traded well, inline with the S&P thanks to the pre-market earnings beat released by C that cited a stronger than expected equities business.

There was broad strength in retail stocks following the better than expected Retail Sales data released pre market.

Telecom was one of the worst performing components of the S&P as investors looked to more cyclical sectors

Market	Level	Change	% Change
Dow	16,173.24	146.49	0.91%
TSX	14,248.43	26.74	0.19%
Brazil	51,596.55	-270.74	-0.52%
FTSE	6,566.61	-17.15	-0.26%
Nikkei	13,996.81	86.65	0.62%
Hang Seng	22,671.26	-367.54	-1.60%
ASX	5,388.16	29.21	0.55%

Prices taken at previous day market close.

for outperformance.

Yesterday's relatively broad bounce back was promising on the charts, as we saw a bit of a double bottom form as Friday's lows were retested. This week is set to be rather slow due to holidays and NY area schools being on spring break. So, expect liquidity to remain thin and the focus to be on Yellen's speech this morning, as well as economic data and earnings reports later this week.

Market	Level	Change	% Change
DBC	26.52	.25	0.97%
Gold	1327.20	8.20	0.62%
Silver	20.00	.054	0.27%
Copper	3.0415	.00	0.00%
WTI	103.84	.10	0.10%
Brent	109.10	1.77	1.65%
Nat Gas	4.56	-.06	-1.30%
RBOB	3.0382	.0238	0.79%
DBA (Grains)	28.86	.30	1.07%
Prices taken at previous day market close.			

Economics

Retail Sales

- March Retail Sales rose 1.1% vs. (E) 1.0%

Takeaway

Retail sales increased by 1.1% vs. (E) 1.0% in March, which was the best since 2012. The data further confirmed that the slump in economic data over the past few months was largely a result of the bad weather this winter. The revisions to the February report were also promising, as the headline number was revised higher from 0.3% to 0.7%. Looking to the details of the report, the "core" number (retail sales ex-autos, building materials and gas stations) that's closely aligned with consumer spending in the GDP report rose 0.9% after February data were revised up to 0.4%.

The market cautiously rallied after the release of the report, which was cited as one of the contributing factors to Monday morning's rise in the stock market. Bottom line is that the spring economic data continue to confirm the thesis that bad weather this winter caused a pullback in growth. However, with the transition into spring, data have improved and are actually beginning to accelerate, albeit slightly.

Commodities

Commodities were mostly higher in quiet trading yesterday despite the dollar rallying 0.35%. Natural gas was the sole commodity in the red, but futures only fell 1.45%. This is marginal for the often-volatile heating element. The benchmark commodity tracking index ETF, DBC, added 1% on the day.

Energy was the most-active sector of the commodity space yesterday as Brent crude oil caught a "fear bid" thanks to:

- Uncertainty surrounding Libyan supply returning to the market.
- New developments between the Ukraine and Russia over the weekend.

First, after all the hype surrounding Libya last week, nothing has actually materialized with regard to oil exports beginning to flow out of the country again. This is causing some short-covering from those who made bearish bets due to the expected increase in global supply.

Second, the increased tensions between the Ukraine and Russia have brought speculative buyers into the market. The combination of the two led to 1.5% outperformance of Brent over WTI. And, until anything materially changes, we can expect Brent to sustain a $5 premium over WTI.

WTI traded in a narrow range for most of the day yesterday and closed higher by just 0.1%. Nymex crude oil futures obviously did not substantially react to the news of further unrest between the Ukraine and Russia the way it did when the news first broke. It seems that, for now, the situation is quarantined to mostly European markets (specifically Brent as far as energy is concerned).

On the charts, WTI futures remain largely range-bound between $102 and $105 a barrel, but the technicals suggest a pullback (or at least a consolidation) may be in store. Longer term, though, gasoline demand should continue to support the price of crude oil as the summer driving season starts up.

Elsewhere in energy, natural gas was the sole underperformer in the entire space as futures slipped 1.45% yesterday. Natural gas has closed above the 100-day moving average five consecutive days now. That level

($4.535) should be considered decent support, while last week's high tick of $4.70 is the level to beat.

Moving to the metals markets, gold was up for the fifth day in a row. It added 0.62% and closed at a three-week high just below $1,330/oz. Gold jumped when electronic markets opened Sunday evening thanks to the Ukraine/Russia situation. However, the price action was quiet for most of the session yesterday, despite the afternoon weakness in stocks.

According to the CFTC's Commitments of Traders report, money managers cut net long positions by 9,926 to 81,527, which is the lowest level since the middle of February. But, net longs are still comfortably in the middle of the average range. Until we see a dip toward the 10K-20K level, there is little risk for a violent move one way or another.

On the charts, the technical story changed overnight from bullish to more neutral as gold futures fell sharply and broke through the 50-day moving average ($1,317) which was acting as pretty solid support. Despite the change in the technicals, gold has provided a good hedge to the weakness in the stock market we saw last week and we continue to recommend holding gold for that reason, with stops just below $1,280. Having said that, the "magnetic" $1300 thesis is becoming more of a reality in the short term. We are looking for support at the 200 day moving average at $1298.80.

Currencies & Bonds

The dollar was stronger against most currencies yesterday largely thanks to strong economic data. The commodity currencies were the exceptions as the Aussie and Loonie both rallied vs. the dollar. The Dollar Index gained 0.4%.

The dollar was up 0.3% in early trading yesterday morning and then spiked up toward the 80 level once the stronger-than-expected retail sales report was released. A strong earnings report from C was also cited as a contributing factor to the rally in the dollar. But, from there, trading was quiet and the dollar drifted sideways for the remainder of the day.

Market	Level	Change	% Change
Dollar Index	79.81	.287	0.36%
EUR/USD	1.3821	-.0062	-0.45%
GBP/USD	1.6729	-.0003	-0.02%
USD/JPY	101.69	.10	0.10%
USD/CAD	1.0962	-.0017	-0.15%
AUD/USD	.9412	.002	0.21%
USD/BRL	2.2141	-.0031	-0.14%
10-year Yield	2.637	.018	0.69%
30-year Yield	3.483	.006	0.17%
Prices taken at previous day market close.			

In Asia, the yen was down over 0.3% yesterday morning as U.S. stocks rallied on the better-than-expected Retail Sales report. But, when stocks rolled over around mid-day, the sell-off in the yen also reversed and the currency closed well off the lows of the day.

On the charts, the yen remains up against several solid resistance levels. Now is as good a time as any to take a shot on the short side, as the fundamentals of the trade have not materially changed and this is just about the best risk-reward setup you can get. If the USD/JPY trades through the lows of the year (100.74), then we would have to re-evaluate the "short yen" thesis. But, that is just a few percentage points from here, so your risk in the trade is limited. On a positive note, it was announced yesterday that Messrs. Kuroda and Abe are resuming their monthly meetings, which suggests that the government may be getting concerned with the weakness in the stock market and appreciation in the yen so far this year.

In Europe, we continue to have a small "war of words" between ECB members effecting trading, and the euro traded down 0.45% thanks to Draghi's comments over the weekend in which he again mentioned that unconventional monetary policy was on the table as an option in combating the growing deflation problem in Europe. In particular, he seemed to focus on negative deposit rates as the first "unconventional" tool the ECB might use. But, the market remains in a "show me" state, and rhetoric won't, by itself, help see the euro decline or inflation pick up.

As mentioned, the sole outperformers over the dollar were the Loonie and the Aussie, both of which caught a bid with the rising commodity space. The Aussie continues to trade at high levels, and last week's high of 0.9460 is the new "line in the sand." And, if that level is breached, we could see further short-covering and the spot price work toward $0.95.

The bond market was lower yesterday thanks to the better-than-expected retail sales data. The 10-year note futures grinded lower most of the day and only bounced slightly when the stock market hit the afternoon lows. The yield curve steepened yesterday, more so toward the short end than the long, but the Barclays U.S. Treasury "Steepener" ETN (STPP) gained 0.45% on the move. It was a quiet day in bonds and the bottom line is they remain the asset class that doesn't "confirm" the improving economic growth story, and until bonds resume their declines, investors will remain somewhat doubtful about the economy, despite the actual data.

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 fell to nearly two month lows last week as continued selling in biotech and internet stocks spread into other sectors of the market. But, this decline remains more about positioning of funds than it does any fundamental negative change in the market outlook, so overall I remain bullish. .* *1840 is now resistance while support sits at 1800 in the S&P 500.*

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.**