7:00's Report

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

April 17th, 2014

Pre 7:00 Look

- Futures are drifting slightly lower this morning and international markets are little changed after a quiet night, as markets largely digest the gains of the last two days.
- Economically there were no reports o/n and focus was on earnings. GOOG and IBM both disappointed after yesterday's close but today is a very, very busy day of reports.
- Econ Today: Weekly Jobless Claims (E: 312K), Philadelphia Fed Survey (E: 10.0).
- Earnings Today: BLK (E: $4.10), DD (E: $1.60), MS (E: $0.60), GE (E: $0.32), GS (E: $3.43), UNH (E: $1.09).

Market	Level	Change	% Change
S&P 500 Futures	1849.00	-3.75	-.20%
U.S. Dollar (DXY)	79.705	-178	-.22%
Gold	1298.80	-4.70	-.36%
WTI	103.32	.29	.28%
10-year	2.641	.013	0.49%

Equities

Market Recap

Stocks extended their rally Wednesday on the back of good earnings, decent data and a predictably "dovish" Yellen. The S&P 500 closed up 1.05% and is now back in the middle of the 1,880-1,840 trading range.

Stocks opened higher Tuesday morning following decent earnings from banks such as BAC and PNC, and got a further boost from mostly in-line economic data (industrial production and housing starts). And, stocks were able to avoid a repeat of the Monday/Tuesday midday sell-off,

QNET: The internet stocks look like they are trying to make a bottom, and if QNET can break above the downtrend at 380ish, the argument that a bottom is in gets stronger.

thanks in part to timely 12:45 p.m. comments from Fed Chair Janet Yellen that, while yielding nothing new, reaffirmed and reminded the market of the Fed's pledge to keep interest rates "low for long."

Stocks remained buoyant throughout the afternoon session, before a big buy imbalance on the close helped stocks to go out basically at the highs of the day.

Trading Color

"Momentum" continued to rebound yesterday, and undoubtedly people will start asking if that "was it" with regard to the correction. It's too early to tell, but at least there's a chance for both NBI and QNET to make a bottom in here.

More broadly the Nasdaq outperformed yesterday (up 1.3% vs. S&P 500 1.0%) as did the Russell, and like the momentum sectors there's at least a chance now to make a bottom in here.

Sector-wise, it was a broadly positive day, although there was no real definitive outperformance by "macro"

Market	Level	Change	% Change
Dow	16424.85	162.29	1.00%
TSX	14446.52	162.09	1.13%
Brazil	51200.56	746.21	1.48%
FTSE	6567.12	-17.05	-.26%
Nikkei	14417.53	-.15	-0.00%
Hang Seng	22760.24	64.23	.28%
ASX	5454.23	33.98	.63%
Prices taken at previous day market close.			

sectors.

Nine out of 10 S&P 500 sub-sectors were higher yesterday, with semiconductors the lone disappointment. But, that wasn't because of broad selling; it was because both ASML and LLTC missed earnings and dragged down the entire index.

Market	Level	Change	% Change
DBC	26.57	.04	0.15%
Gold	1301.70	1.40	0.11%
Silver	19.61	.121	0.62%
Copper	3.029	.0415	1.39%
WTI	103.67	-.08	-0.08%
Brent	109.61	.25	0.23%
Nat Gas	4.535	-.032	-0.70%
RBOB	3.0373	-.0048	-0.16%
DBA (Grains)	28.52	-.13	-0.45%
Prices taken at previous day market close.			

On the plus side: Industrials, tech, consumer discretionary and energy all outperformed, while defensive sectors (utilities and REITs) lagged.

China-related names, including commodities and basic materials, which got hit Tuesday, rebounded on the "not as bad as feared" data yesterday and bounced nicely. (PICK, FCG, XOP and the coal names all rallied well over 1%.)

The one thing not to like about yesterday was trading volume (which has to be taken with a grain of salt given it's a holiday week). But, nonetheless, volumes and activity were subdued yesterday.

On the charts the S&P 500 is now almost perfectly flat for the year (again) and in back in the middle of the 1,840-1,880 range).

Bottom Line

If you're wondering "Was that it?" then you're not alone. The short answer is "I don't think so," although I hope I'm wrong.

Much like the S&P 500 "head-faked" to 1,899 three weeks ago, perhaps we just saw a "head-fake" to 1,815. But, regardless, the key remains staying in the "right" sectors of the market.

Certainly a lot of the selling in these momentum sectors that needs to occur *has* occurred, and NBI and QNET will bottom before the market (and perhaps already have). But, while I loved Tuesday's rally, I would have much preferred a slower grind higher yesterday rather than the low-volume rush higher we saw.

The best thing for this market might be some chop and consolidation around here, not a straight run to 1,880 on more thin volume. I imagine that'll invite the shorts back out.

Bottom line is fundamentals remain unchanged, and this market is still being dominated by positioning more than anything else. And, the key to outperformance remains in sector/stock selection, because correlations are continuing to break down.

Key levels to watch on the upside now are 380 in QNET and 2,370 in NBI. Those are the downtrends from the month-long break, and if they can be broken, perhaps we've put in some sort of a bottom. For now, though, I remain skeptical and wouldn't venture out of my comfort zone (the "laggard" sectors and long Europe/short U.S.).

Economics

Housing Starts

- New Housing Starts in March rose to 946K vs. (E) 965K

Takeaway

Housing starts picked up slightly in March but missed analysts' estimates as the headline New Starts number rose to 946K vs. expectations of 965K. Revisions to the February report were better, with starts being moved higher from the initial reading of 907K to 920K.

The details of the March report were mixed as single-family home starts were strong, jumping 6% after rising just 2.9% in February. But, New Housing Permits, which is a leading indicator within the report, were down 2.4% to 990K vs. (E) 1.01M after spiking 7.3% in February.

The Housing Starts report was overall a bit of a wash as single-family home starts were strong but new permits were down. The bottom line is, the housing market remains an area of concern since it has not participated in the broad bounce-back from the weather-induced slump we saw in economic activity this winter.

Industrial Production

- March Industrial Production rose 0.7% vs. (E) 0.4%

Takeaway

Industrial Production was a pretty good report yesterday, as March IP rose by 0.7%, handily beating analysts' estimates of +0.4%.

The manufacturing component of the report also improved, up 0.5%, which was in-line with analysts' estimates. And, there were positive revisions to the February data from 0.8% to 1.4%.

So, the uptick in March is nice to see given the dip in activity in early Q1. The positive linear nature of the reports (which is a fancy way of saying March was better than January) further confirms that the manufacturing sector emerged from the weather-induced slump. Of course, in absolute terms, activity still remains, at best, decent.

Commodities

Commodities were mixed yesterday, with the metals bouncing back strong thanks to the better-than-expected economic data in China. Meanwhile, the energy sector pared early gains after the EIA inventory data was released. The PowerShares DB Commodity Tracking Index ETF, DBC, was little-changed, up just 0.1%.

The metals were again the primary focus of the commodity sector yesterday, as much of the early-week losses were recovered.

Copper rallied back 1.44% yesterday to reclaim the $3 mark and briefly traded above the $3.05 resistance level. Copper futures spiked higher upon release of the better-than-expected Chinese GDP report, which showed growth was 7.4% — slightly beating analysts' expectations for 7.3%. More importantly, the modest beat on the GDP headline eased investors' fears that Chinese growth was beginning to slip quicker than generally thought.

Market	Level	Change	% Change
Dollar Index	79.89	.002	0.01%
EUR/USD	1.382	.0008	0.06%
GBP/USD	1.6795	.0067	0.40%
USD/JPY	102.25	0.34	0.33%
USD/CAD	1.1011	.0038	0.35%
AUD/USD	.9382	.0024	0.26%
USD/BRL	2.2403	.0079	0.35%
10-year Yield	2.641	.013	0.49%
30-year Yield	3.462	.002	0.06%
Prices taken at previous day market close.			

And, as we mentioned yesterday, a strong Chinese economy obviously means strong copper demand and, in turn, strong copper prices. On the charts, copper futures are again well above the $3.00 level and that should again be looked to for support. Resistance sits above at between $3.05 and $3.06.

Meanwhile, gold lagged and was the sole underperformer out of the metals. It wasn't that gold materially sold off, but rather that it really didn't rally. It largely oscillated around the $1,300 level in a tight $8 range all day.

For now, gold seems pinned between $1,320 on the top and $1,280 below. Some key technicals to keep an eye on though are the 200-day moving average at $1,299 and the 50-day moving average at $1,317.70/oz.

Moving to the energy space, yesterday was inventory day for crude oil and the products. The news was largely bearish as crude stocks surged much more than expected, up 10M barrels vs. (E) of +1.5M.

Products, especially RBOB Gasoline, have been recently supporting the entire energy sector, as heightened demand has been leading to increased production recently and worries about supply as we head into the summer driving season. But, yesterday the EIA showed a draw of just 200K barrels vs. (E) -1.4M. Both WTI and RBOB reversed on the news and closed modestly weaker on the day (down less than .5% each).

On the charts the high end of the multi-month trading range in WTI ($98-$105) was tested, and for now resistance has held. The signals are mixed as the greater technical trend remains in favor of the bulls.

Tomorrow, the EIA will release weekly inventory data for natural gas supplies, and analysts are calling for a 39 Bcf build. This may have contributed to the slight weakness in natural gas futures we saw yesterday, but the bigger issue now that we're in the "build" season is how quickly can inventories replenish. If they can't "build' quickly, expect further upside pressure on natural gas.

Currencies & Bonds

It was another relatively quiet day in the currency markets Wednesday, despite several pieces of news. The Dollar Index closed unchanged again, although it remains up about 0.5% on the week thanks to the Monday rally, and sits just below resistance at 80.

Economic data and the Yellen speech at the New York Economic Club were the influences yesterday, but neither industrial production nor Yellen's comments (despite the dissection of the minutiae by analysts) altered the currency consensus for economic growth or Fed policy going forward. As a result, the Dollar Index was little-changed.

In Europe, the pound was the big mover after the March Labour Market Report showed the unemployment rate in Great Britain fell to 6.9% from 7.1%. That drop seemed to remind everyone in a euro-focused world that the UK economy remains one of the strongest in the developed world. It also reminded traders that, for all the focus on the Fed and ECB, the Bank of England will likely be the first major central bank to raise rates, perhaps this year.

The pound rallied 0.5% vs. the dollar, and is now sitting just below the recent 52-week highs at 1.6821, which I would imagine will be broken sooner rather than later. Given the prospective direction of policy in the UK (tighter), the pound remains one of the fundamentally strongest currencies vs. the dollar.

Staying in Europe, the euro was little-changed yesterday as the official March HICP (European CPI) data confirmed the earlier "flash" reading, showing core prices rose just 0.5% year-over-year in March. In Europe the focus remains on if, and when, the ECB will do anything unconventional to stimulate the economy, but the answer for now remains "maybe and, if so, not soon."

In Asia, the Aussie bounced 0.3% vs. the dollar thanks to the in-line Chinese data. But the Aussie actually traded pretty poorly, given that it closed well off the highs, despite the Chinese data and a broad rally in risk assets. (The Aussie is usually decently correlated to risk assets like stocks.) This rally in the Aussie has been impressive, but fundamentally this remains "short" and it feels a bit like the Aussie is running out of gas here — that is, unless the economic data begins to surprise materially to the upside.

Finally, also in Asia, the yen continued to very quietly bleed lower. It dropped 0.5% and again traded through 102 yen/dollar. There wasn't any real reason for the decline, although comments by Nobuyuki Nakahara, a former BOJ governor and close adviser to PM Shinzo Abe, called on the BOJ to unleash more QE, a la the Fed.

Additionally, there were reports that private sector economists met with Abe on April 2 to look at stimulus options. If we combine that with the fact that Abe and BOJ Governor Haruhiko Kuroda are again meeting monthly, it sure would seem there is momentum building for the BOJ to do "more" as the consumption tax increase starts to sink in.

Turning to bonds, they were frustratingly buoyant again yesterday. Bonds opened basically on the lows and rallied throughout the day, closing relatively flat (the 30-year was fractionally higher). Some cited the Yellen testimony as "dovish" but it really wasn't—she didn't add anything new. And, bonds were rallying before those comments anyway. The fact that Treasuries didn't decline on a day with decent data and a surging stock market again points out how buoyant this market is, and until it breaks I'll remain nervous about equities.

Have a good long weekend and a Happy Easter,

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. .* *The S&P 500 rebounded into the 1880-1840 range.*

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.**

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.**

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."**

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.**