7:00's Report

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

July 25th, 2014

Pre 7:00 Look

- Futures are slightly lower as markets digest the week's gains, but earnings o/n were slightly disappointing and there was an uptick in geo-pol angst.
- Russia/Ukraine update: The State Dept. accused Russia of firing mortars into eastern Ukraine—if true that would represent a potential escalation of the situation.
- Economically the German IFO Business Expectations survey missed expectations at 103.4 vs. (E) 104.5 and European shares are weaker on that news and general geo-politics.
- Econ Today: Durable Goods Orders (E: 0.5%).

Market	Level	Change	% Change
S&P 500 Futures	1976.25	-4.50	-0.23%
U.S. Dollar (DXY)	81.02	0.58	0.07%
Gold	1295.70	4.90	0.38%
WTI	102.15	.08	0.08%
10 Year	2.509	.045	1.83%

Equities

Market Recap

Stocks traded flat Thursday as the S&P 500 tried to break decisively above 1,985 but failed despite more good earnings and economic data. The S&P 500 rose +0.05%.

In what has become a familiar pattern this week, all the major catalysts for trading yesterday hit before or immediately following the open.

On the macro front, global flash PMIs were good on the whole and jobless claims was a very strong headline. Meanwhile new home sales was a disappointment but was generally disregarded.

Looking at earnings yesterday, it was more of a mixed than a "good" day. FB had good numbers and the stock hit a new high yesterday, and retailer results were better than expected. But, there were also some big-name misses: CAT, CELG, GM and RTN, among others.

As has been the case all week, though, stocks focused on the positives and the S&P 500 rallied to new all-time highs (1,891) before midday. The high tick coincided with the European close at 11:30. Afterward, amid a lack of positive headlines, buyers seemed to run out of ammunition and energy. Markets drifted lower throughout the afternoon to close basically flat.

Trading Color

Once again there was a lot of dichotomy in sector trading as 5 S&P 500 sub-sectors rallied yesterday while 5 declined, with earnings being the reason for the split.

Recent themes we've been monitoring continued Thursday: Bank stocks caught a nice bounce yesterday (regional banks were up +1.22%) on good economic data and a decline in bond yields.

"China"-related names outperformed yesterday as China seems to be experiencing a legitimate uptick in the pace of growth at the moment, and PICK made yet another 52-week high.

Conversely, semiconductors failed to bounce after Wednesday's sell-off, and the SOX is now approaching its 50-day moving average. I point this out only because the divergence between the semis and the broader market is somewhat remarkable, seeing as it's been a leader all year.

But, it would appear that earnings results haven't been

Market	Level	Change	% Change
Dow	17,083.80	-2.83	-0.02%
TSX	15,394.45	.07	0.01%
Brazil	57,977.56	557.60	0.97%
FTSE	6,825.21	3.75	0.05%
Nikkei	15,457.87	173.45	1.13%
Hang Seng	24,216.01	74.51	0.31%
ASX	5,583.50	-4.30	-0.08%
Prices taken at previous day market close.			

quite as good as expected, and with this kind of rally, people will take profits. More broadly, I'm watching the SOX to see if it breaks down further. If it does, will it start to weigh on the broader averages? It's something to keep an eye on.

As has been the trend all week, volumes and activity were elevated early off earnings results but then slowed materially after lunch. There's still no conviction to this market.

Market	Level	Change	% Change
DBC	25.59	-.03	-0.12%
Gold	1292.8	-11.90	-0.91%
Silver	20.415	-.58	-2.76%
Copper	3.262	.055	1.72%
WTI	102.04	-1.08	-1.05%
Brent	107.25	-.78	-0.72%
Nat Gas	3.844	.082	2.18%
RBOB	2.844	-.0161	-0.56%
DBA (Grains)	26.65	.02	0.08%

Prices taken at previous day market close.

On the charts the S&P 500 made a new all-time high, but failed to decisively break out from resistance at 1,985.

Bottom Line

The market tried to break out yesterday but it just seems a bit overextended in the very short term. There aren't any material catalysts to push stocks higher until next week, so for now I believe we remain in this consolidation that we've been in since July 3.

But, beyond that, economic data remain good. Unless the market begins to perceive the Fed as "behind the curve" or else the Fed surprises by acknowledging that we may see rate hikes pulled forward, the benefit of the doubt remains with the bulls.

But, because of the above statement, the Fed meeting next week now becomes the next major catalyst—but as long as the Fed promises to stay easy and the data are good, the path of least resistance is higher and the game of musical chairs continues.

Economics

Weekly Jobless Claims

- Weekly claims were 284K vs. (E) 310K

Takeaway

Weekly jobless claims plummeted last week, falling 19K to 284K vs. (E) 310K. Data from the week prior were revised marginally higher from 302K to 303K. The 4-week moving average encouragingly dropped 7K to 301.75K, the lowest reading that we have on record since we started gathering data in 2009. Stock futures were little-changed on the report, but bonds sold off sharply, falling more than -0.5% upon the release.

Bottom line, yesterday's weekly jobless claims report suggested that after a couple weeks of consolidation around the 300K claims/week level, the downtrend in jobless claims has resumed. We will keep a close eye on next week's report, namely looking for any revisions to this report as well as looking for another print below the 300K level. However, it certainly does appear the labor market is continuing to improve and job growth is beginning to accelerate.

PMI Manufacturing Index Flash

- The July flash PMI slipped to 56.3 vs. (E) 57.6

Takeaway

The July flash PMIs were better than expected and importantly reinforced the current market perception that we are seeing stable (and potentially accelerating) growth in China, continued strong growth in the U.S. and, most importantly, continued recovery in Europe.

While the Chinese numbers were the most followed and rose to multi-month highs, it was the European PMIs that were the most important to the market.

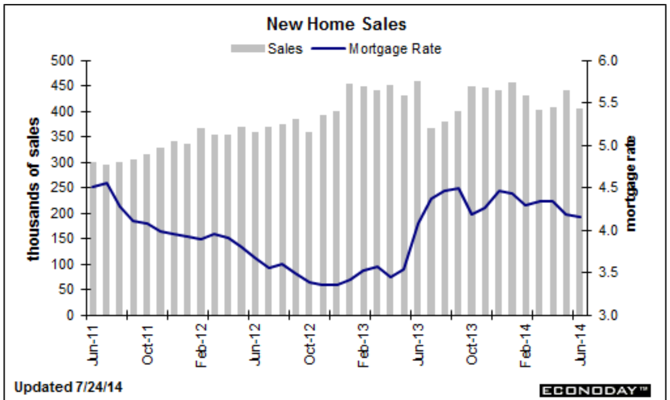
EU flash PMIs and German flash PMIs both beat expectations and arrested the trend of recent declines, which is important because doubts about the validity of a European recovery were starting to creep in. As mentioned yesterday, France was the disappointment as its July manufacturing PMI fell below 48.0 to 47.6. But the composite (manufacturing and service sector) was decent at 49.4, so it wasn't a totally horrible number. Bottom line: There were gives and takes, but overall the PMIs imply the European recovery, while painfully slow, is progressing. This combined with a recent drop in the euro is a positive for European stocks, which rallied nicely yesterday.

Here in the U.S., the flash PMIs actually missed expectations and declined from last month (57.5), but the important takeaway is that, on an absolute level, the manufacturing sector remains in a solid "growth" mode. This number, which a "miss," doesn't imply the manufacturing sector is losing momentum.

Bottom line is that the flash manufacturing PMIs for July were a positive for the global markets, and specifically those sectors tied to the global recovery (industrials and industrial miners).

Commodities

Commodities were again mixed yesterday as copper surged on Chinese economic data and natural gas rallied on the weekly inventory report, but the rest of the energy sector and the precious metals all fell more than 1%. DBC, the benchmark commodity ETF, fell -0.12%.



New Home Sales plunged yesterday, but the data set has gyrated so wildly over the past 2 months (initially huge gains in May revised to losses) that the results were largely dismissed.

Beginning with the industrial metals, copper rallied +1.84% thanks to the mostly better than expected global flash PMIs.

Going forward, we continue to like the way copper is trading and will maintain long positions but closely monitor the trend. Initial support is below at \$3.24 while the level to beat is the June high of \$3.29. But, the trade is up 2.5% in less than a week, so if you want to book a quick profit (especially if you traded the futures) there's nothing wrong with that.

Elsewhere in metals, trading in gold and silver was not so positive, as the respective futures prices fell -1.01% and -2.94%. But, gold importantly held support at the 50 day MA and last week's lows (\$1294) on a closing basis, and is getting a very slight bid this morning on geopolitical tensions. So, we are nervously holding our longs, but a close below \$1294 would still see us exit the trade.

Market	Level	Change	% Change
Dollar Index	80.95	.035	0.04%
EUR/USD	1.3464	.00	0.00%
GBP/USD	1.6987	-.0055	-0.32%
USD/JPY	101.76	.29	0.29%
USD/CAD	1.0741	.0015	0.14%
AUD/USD	.9417	-.0035	-0.37%
USD/BRL	2.2177	.0002	0.01%
10 Year Yield	2.509	.045	1.83%
30 Year Yield	3.30	.042	1.29%
Prices taken at previous day market close.			

Oil futures fell yesterday, down -0.94%, but closed above the \$102 mark and remain largely range-bound between \$102 and \$103. Going forward we remain bullish over the medium term on crude oil primarily because of accelerating economic growth leading to increased demand.

Recent supply data has also been supportive of prices, as the past two EIA reports have shown larger than expected draws in national stockpiles, specifically in the sensitive Cushing, Okla., inventories (delivery point for Nymex WTI futures). Those are now below the 20M-barrel mark, which is widely considered to be the approximate minimum level for safe storage. Bottom line, we remain medium- to longer-term bullish on crude oil.

Elsewhere in energy, we are continuing to keep a close eye on RBOB gasoline as it approaches multiple support levels toward \$2.82, including the 200-day moving average. Updates to come as the opportunity develops, but we are focused on that \$2.82 level.

Natural gas futures rallied for only the 2nd day in the past 6, adding +2.1% on the session thanks to a smaller than expected injection to supplies being reported by the EIA yesterday. According to the report, national inventories increased by 90 Bcf vs. expectations of a 94 Bcf build.

The miss of expectations spurred some knee-jerk short-covering, but futures held onto most of the gains to close the day about 3 cents from the highs. Yesterday's bounce was by no means a reason to get bullish just yet, but it was a move in the right direction. Looking ahead, we do believe there will be an opportunity to get long natural gas, as there is a value argument down here below \$4. But we need the sharp downtrend that has been in place since mid-June to break before we look at potential entry points. The resisting trendline is above toward $3.98.

Currencies & Bonds

Bonds sold off to fresh lows for the week yesterday, mostly in reaction to the stronger than expected global flash PMIs, as most of the U.S. economic data were brushed off due to skewed and volatile data or incomplete results. The 10-year note fell -0.34% while the 30-year bond finished the day down -0.54%.

There was a 10-year TIPS auction yesterday and the results were relatively bond-bearish. Demand for the "inflation protected" securities was higher than the recent average, drawing the lowest yield in over a year. The bid-to-cover was 2.49, which was down from 2.91 in May, but still suggests solid demand. Bottom line, there seems to be a heightened level of investor concern over a possible uptick in inflation levels, which is evident by the solid demand in the TIPS as well as the selling pressure in the long bond yesterday. It successively legged down upon release of each of the several strong PMI flash reports as well as the big beat in weekly jobless claims, and the strong TIPS auction in the afternoon.

It is also worth noting that recent bounce in the high-yield bond fund ETF (JNK) that we have been watching seemed to "lose some steam" yesterday. Going forward, a further breakdown could very well be a leading indicator for a breakdown in the bond market.

The Dollar Index again tested resistance at 81.00 yesterday and broke through overnight, as the dollar was flat vs. the euro but stronger against virtually everything else. Speaking of the euro, it was basically unchanged yesterday despite the better than expected EU and German PMIs. Given how oversold the euro was going into the number, I expected to see some sort of a bounce if the PMIs beat expectations. But, the "beat" wasn't all that strong and certainly not good enough to make the ECB second-guess any potential easing. This morning the euro is slightly weaker in the IFO and Ukraine news, but only slightly so.

The next major data point in the EU recovery saga comes next Thursday with the June flash HICP reading (their CPI), so I would expect a bit of a drift higher on short-covering going into that number (maybe into resistance at 1.35). But, unless HICP makes strong gains, pressure on the euro will continue.

Outside of the euro, every other major currency declined between 0.15% and 0.35% vs. the dollar. The pound fell -0.25% after June Great Britain retail sales rose more slowly than expected. The pound has come off a bit vs. the dollar following mildly "dovish" BOE minutes, slight data misses and general strength in the dollar.

But, beyond the very short term, the BOE remains the consensus "first" central bank to raise rates possibly later this year. As a result, the path of least resistance in the pound is higher. Now trading sub-1.70, the pound is into support at a strong uptrend, and if you're looking to get long, here's a decent entry point.

In Asia both the yen and Aussie were lower by -0.3%, with the former declining because of disappointing June export data while the latter just saw some profit-taking after Wednesday's near-1% rally following the hotter than expected CPI report. Starting with the yen, it is now up against a pretty steep downtrend in place since April, and a decisive break of that downtrend would be yen-bearish/DXJ-bullish. However, the fundamentals in Japan haven't improved materially in recent weeks, so I'm a bit skeptical that we're about to see a material breakdown in the yen. Turning to the Aussie, despite the big Wednesday rally, though, it still can't seem to get through that $0.94 level decisively, and generally the $0.92-$0.94 level in the Aussie remains intact.

Generally, it feels as though we're getting close to a pretty big tipping point in a lot of currencies (greenback, euro, yen, Aussie), and what happens over the next few weeks may create some significant opportunities for those with a currency trading ilk.

Have a good weekend,

Tom

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Position Sheet

Tactical Trading/Investment Account (Time frame of a few weeks to months).

Date	Position	Open Price	Stop	Strategy
7/21/14	JJC	39.17	None	*Copper has benefitted from the rebound in the global economy and now there is an attractive entry point given last week's correction. We have initiated a position and look to add to it on further weakness. Original Issue*
6/30/14	GLD SLV	127.30 20.15	None	*Long Precious Metals: This is mostly a technical trade, as both gold and silver have seen a positive cross of the 23 & 30 day EMA's rising above the 50. But, fundamentals aren't negative, as inflation is bottoming. Original Issue*
6/11/14	SPHB KBE	32.73 33.40	30.32 31.97	*Long domestic cyclicals. Part of the "Post ECB Decision" portfolio of what should outperform if bond rally is done. Original Issue*
6/11/14	UUP	21.55	21.13	*Long Dollar. Part of the "Post ECB Decision" portfolio of what should outperform if bond rally is done. Original Issue*
4/30/14	IYZ	28.99	28.32	*Telecom trading at a value to the market, has lagged other safety sectors. Original Issue*
3/3/14	XLI IYM PICK DIA	52.19 83.06 19.48 164.28	None	*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. Original Issue*
12/13/13	FCG XOP	18.97 65.62	None	*Natural gas supplies low, increased demand, E&Ps at a value. Original Issue.*

Longer Term Macro-Trend Investment Account (Long term time frame of months/quarters).

Date Initiated	Strategy	Position (s)	Investment Thesis
November 2012	**Long Japan**	**DXJ/YCS**	*The election of Prime Minster Abe in late 2012 resulted in massive monetary and fiscal stimulus designed to break Japan out of decades long deflation and stagnation. The resulting efforts will be yen negative/Japanese stock positive for years to come.*
Strategy Update (6/4/14): Focus on this trade has shifted to Abe's "3rd Arrow" of fiscal reforms, and if enacted, it could lead to a material decline in the yen/rally in DXJ.			
April 2013	**Short Bonds**	**TBT/TBF/ STPP/KBE**	*The 30 year bull market in bonds is over, as the Fed begins to gradually remove stimulus, the economy recovers, and inflation slowly begins to increase.*
Strategy Update (7/21/14): Geo-political concerns and foreign money flows sent bonds to new highs for the year last week, and the gap between deteriorating fundamentals and price action is widening. For now, though, the trend is higher and more patience is required in this long term trade.			

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Asset Class Dashboard

(Updated 7.21.14)

This page is meant to provide a general outlook for the path of each major asset class and is updated at the start of each week.

Near Term Trends are provided primarily for tactical and trading accounts (Time Horizon of weeks and months).

Long Term Trend is provided for longer term asset allocation models/retirement accounts (Time Horizon of Months/Quarters).

The "Best Idea" represents our best idea at the moment. Not all best ideas are trades we make—they are provided for idea generation.

	Near Term Trend	Long Term Trend	Market Intelligence
Stocks	**Neutral**	**Bullish**	*The S&P 500 finished last week mildly positive although there was significant volatility. Geo-political events continue to grab headlines but MH 17/Gaza aren't enough to derail the rally, and generally the market continues the consolidation that has occurred since the July 3rd highs. The benefit of the doubt remains squarely with the bulls.*

Best Idea: **Buy global industrial miners (PICK, FCX, RIO, etc.)**

Best Contrarian Idea: **Buy Retailers (XRT)**

	Near Term Trend	Long Term Trend	Market Intelligence
Commodities	**Neutral**	**Bullish**	*Commodities broadly continued to correct last week as DBC ended lower for the 4th straight week, weighed down by natural gas and gold. WTI Crude managed to hold support at $100/bbl on geo-political fears while copper traded back towards support as well.*

Best Idea: **Long Oil (USO)**

Best Contrarian Idea: **Buy Grains (DBA)**

	Near Term Trend	Long Term Trend	Market Intelligence
U.S. Dollar	**Neutral**	**Bullish**	*The Dollar Index traded modestly higher last week on a combination of good economic data, a "Risk off" trade given geo-political headlines, and euro weakness. The Dollar Index is near the upper end of it's 79-81 trading range and unless CPI is high, I don't expect the Dollar Index to break out.*

Best Idea: **Buy the Pound (FXB)**

Best Contrarian Idea: **Long Canadian Dollar (FXC)**

	Near Term Trend	Long Term Trend	Market Intelligence
Treasuries	**Bullish**	**Bearish**	*Treasuries rallied big last week, driven higher by geo-politics and a "Risk Off" bid Thursday. Bonds are now at new highs for the year despite further deteriorating fundamentals.*

Best Idea: **Short long bonds (TBT)**

Best Contrarian Idea: **Short High Yield Bonds (SJB)**