7:00's Report

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

July 17th, 2014

Pre 7:00 Look

- Futures and most global markets are lower this morning after the US and EU imposed tougher sanction on Russia for its involvement in Ukraine.
- Economically it was very quiet as the only report was the final June EU HICP, which matched the "flash" of 0.5% yoy.
- Econ Today: Weekly Jobless Claims (E: 310K), Housing Starts (E: 1.026M), Philly Fed Survey (E: 16.9). Fed Speak: Bullard (1:35 PM).
- Earnings today: MS (E: 0.55), UNH (E: 1.25), BX (E: 0.70), AMD (E: 0.03), GOOG (E: 6.23).

Market	Level	Change	% Change
S&P 500 Futures	1962.50	-12.00	-0.61%
U.S. Dollar (DXY)	80.595	-.03	-.04%
Gold	1303.20	3.40	0.25%
WTI	102.29	1.08	1.07%
10 Year	2.538	-.011	-0.43%

Equities

Stocks managed a modest rally Wednesday thanks to better than expected earnings, decent Chinese data and further stabilization in Europe. The S&P 500 rose +0.42%.

Stocks started the day higher Wednesday thanks to improving Chinese data (GDP and industrial production) and several good earnings reports (started by INTC Tuesday night), and by the news of the failed takeover bid of TWC by FOXA.

PICK made a new 52 week high yesterday on strong earnings as global industrial miners continue to trade well during the recent consolidation in the broad market.

But, despite all the news, there wasn't any conviction to the buying and the highs of the day were in before 9:40 a.m.

Stocks drifted lower throughout the morning as the Yellen testimony in front of the House was a complete non-event, and they continued drifting in relatively quiet trading before bottoming at the European close (11:30 a.m.).

Stocks bounced throughout the lunchtime hour before leveling off after 1 o'clock and then treading water for the last three hours of trading.

Trading Color

It was not a very strong rally yesterday from a composition standpoint. The Russell 2000 lagged badly (it closed negative on the day), and SPHB was only fractionally higher. Additionally, biotechs and Internet stocks continued to trade heavy post-Tuesday's Fed comments.

Banks also got hit hard yesterday (KBE down -1.65%) after disappointing results by PNC, BAC and others. In-

Market	Level	Change	% Change
Dow	17138.20	77.52	0.45%
TSX	15226.34	145.02	0.96%
Brazil	55717.36	-256.25	-0.46%
FTSE	6757.76	-26.91	-0.40%
Nikkei	15370.26	-9.04	-0.06%
Hang Seng	23520.87	-2.41	-0.01%
ASX	5522.43	3.57	0.06%
Prices taken at previous day market close.			

terestingly, although the results of the more-traditional regional banks aren't bad, we're seeing those stocks receive much less room for error than the large investment banks.

Market	Level	Change	% Change
DBC	25.66	.05	0.20%
Gold	1299.30	2.20	0.17%
Silver	20.78	-.109	-0.52%
Copper	3.216	-.0335	-1.03%
WTI	101.25	1.29	1.29%
Brent	105.55	-.47	-0.44%
Nat Gas	4.114	.017	0.41%
RBOB	2.8821	-.0165	-0.57%
DBA (Grains)	26.24	.001	0.01%
Prices taken at previous day market close.			

That's mainly because the expectations going into earnings for the investment banks were so negative (based mainly around lackluster trading revenues). And, as those fears haven't materialized, we've seen a bit of a rotation out of the traditional national and regional banks, and into the investment banks.

One sector that traded very well yesterday was materials, and specifically the industrial mining stocks. PICK hit a new 52-week high thanks to strong earnings from RIO, while the Chinese economic data also helped. Global miners and other materials companies comprise one of the best-performing sectors of the market during this consolidation/correction.

On the charts the S&P failed to make a new intra-day high, while support remains down at the 1965 level (I'd be very surprised if we don't test that level again over the next few days).

Bottom line is stocks have been consolidating since the highs of July 3rd and yesterday's rally was a continuation of that process. Like the selling last week, there was not a lot of conviction to the buying yesterday, and I don't think this consolidation period is over yet.

While its still early in the season, good earnings have helped improve sentiment, but the market still seems to be looking for "reasons" to sell off a bit (Israel/Gaza & Banco Espirito Santo last week, Russian sanctions overnight). So, I'd expect this general chop to continue and would remain on the sidelines with incremental capital for now and look to buy a further dip.

"Financial Excesses of Our Own Making"

Richard Fisher, the president of the Dallas Fed and an ardent "hawk," made some refreshingly direct comments yesterday regarding his concerns about current Fed policy and potential problems the Fed may now be sowing. This came in stark contrast to Fed Chair Yellen's "business as usual" testimony in front of the House.

Fisher, giving a speech at the University of Southern California, began his remarks by stating that "I am increasingly concerned about the risks of our current monetary policy ... I believe we are experiencing financial excess that is of our own making."

Fisher went on to say he is concerned the Fed is "at risk of doing what the Fed has too often done: overstaying our welcome by staying too loose, too long. … Should we overstay our welcome, we risk not only doing damage to the economy but also being viewed as politically pliant."

I read those comments shortly after reading comments by Duquesne Capital founder Stanley Druckenmiller, who said at CNBC's "Delivering Alpha" conference that "Every ounce of intuition in my body tells me the Fed has gone too far."

Only history will tell whether the Fed has again "overstayed" its welcome (I agree with Fisher and Druckenmiller that it has). But this uptick in the discussion about whether the Fed is still too easy and the potential consequences of that are apropos given what I recently covered about the uptick in repo failures.

More generally, I think there's a growing sentiment on Wall Street that the Fed is indeed "behind the curve," as economic data point after data point surges to multi-year highs. And, while the "behind the curve" view isn't consensus yet, the widespread adoption of that view, should it happen, remains a major risk to the rally.

Economics

Industrial Production

- Industrial Production rose 0.2% vs. (E) 0.4%

Takeaway

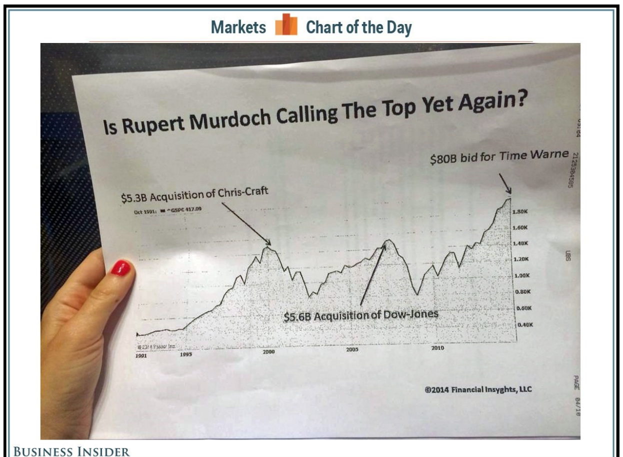
Industrial production in the month of June was slightly disappointing as the headline rose just +0.2% vs. (E) +0.4%. Also, the May data were revised lower, albeit only slightly, down to 0.5% from an initial read of 0.6%.

Looking to the details of the report, manufacturing production missed estimates (0.1% vs. (E) 0.4%) as utilities and mining were responsible for the headline gains. The reaction in stock futures was limited yesterday morning, but stocks did sell off at the opening bell, just 15 minutes after the report was released.

Bottom line, the report was largely a non-event. It was slightly disappointing but generally the results aren't going to change anyone's outlook on the economy, as the manufacturing sector continues to broadly rebound.

Commodities

Commodities were mixed but had a bias to the upside yesterday as crude oil and natural gas finally found some support while copper sold off in spite of good Chinese economic data. The benchmark commodity tracking index ETF, DBC, added +0.31%.



The NWS/TWC potential merger was all the news yesterday, but this chart floating around the floor took a slightly more cynical take on the deal.

The metals were among the worst performers yesterday, specifically the industrials. Copper futures fell -1.1% on the session yesterday despite economic data in China that largely beat expectations. There wasn't one overarching reason for the sell-off, but there were a few bearish influences.

For one, as we have mentioned recently, copper has become overextended in the near term. It was due for a profit-taking pullback after futures have rallied in almost a straight line since bottoming at $3 in mid-June. And, the aforementioned uptrend broke on the ninth, so some additional selling pressure was expected.

Market	Level	Change	% Change
Dollar Index	80.63	.184	0.23%
EUR/USD	1.3521	-.005	-0.37%
GBP/USD	1.7132	-.0009	-0.05%
USD/JPY	101.72	.04	0.04%
USD/CAD	1.0744	-.0012	-0.11%
AUD/USD	.9362	-.0004	-0.04%
USD/BRL	2.2248	.0052	0.23%
10 Year Yield	2.538	-.011	-0.43%
30 Year Yield	3.348	-.018	-0.53%
Prices taken at previous day market close.			

Also, the recently stronger dollar has weighed on demand. The metal is becoming more expensive for consumers while, at the same time, yesterday's disappointing economic data in the U.S. (industrial production was soft) is also resulting in some consumer hesitation.

So, bottom line, copper is pulling back nicely as we have been expecting, and we are looking for support to hold at the $3.18 to $3.20 level. If support holds, taking a shot on the long side with an initial target back toward $3.30 would be a well-supported trade, both fundamentally and technically.

Elsewhere in metals, gold reclaimed $1,300 early in the session and traded above it for most of the day until futures disappointingly forfeited that level into the Comex close. Gold did however finish the day up +0.16%. Gold is getting a mild boost this morning on the Russian sanction news and is trading slightly above $1300, but resistance has formed toward $1,305 while support is below at the 50-day moving average ($1,292.60).

The energy space saw a bit of a bounce yesterday as crude oil rallied +1.33% amidst bullish EIA data, while natural gas caught a bid mostly as a result of profit-taking. Both products, however, failed to close above their respective (steep) downtrend lines that have been in place for weeks now. Until that happens, we will remain sidelined on the trades as the selling momentum as been very strong.

In WTI crude oil, we got the weekly inventory numbers and the results were rather bullish. Crude oil stockpiles fell 3 times more than expected last week, -7.5M barrels vs. (E) -2.6M barrels. Meanwhile RBOB gasoline inventories increased 200K vs. (E) +700K, and distillate supplies grew 2.5M barrels vs. (E) 2M. The closely watched inventory level of the delivery point for Nymex crude oil futures, Cushing, Okla., dropped 600K to 20.3M last week, which, in addition to the headline draw in crude, contributed to the session gains.

Bottom line in crude, though: We remain in "wait and see" mode for the steep downtrend to break. In order for that to happen, we would need to see a close of around $101.15 or higher today.

The EIA will release the weekly inventory report for natural gas this morning at 10:30. The release could potentially break the downtrend in futures, or cause a sharp sell-off (possibly even through the $4 mark) if the build is more than expected. Analysts are calling for a build of 93 Bcf in supplies to be reported.

Currencies & Bonds

The Dollar Index (almost) reigned supreme again yesterday as it rose vs. every major currency except the Loonie. The Dollar Index rose +0.22% and hit a one-month high thanks to a bigger than expected rise in PPI, the "Yellen was hawkish" theme from Tuesday and also the weak euro.

Speaking of the euro, it was the weakest major currency vs. the dollar yesterday and fell decisively through support at 1.355. Technical trading was the main "reason" for the weakness, although the ECB's campaign to weaken the euro continued yesterday with ECB member Benoit Coeure saying he believed the divergence in monetary policy between the U.S./UK and the ECB (as the former gets "tighter" over time while the latter gets "more loose") will put downward pressure on the euro. That's nothing new, but the comments helped keep the momentum negative.

The euro is now closing in on major support at 1.35, and that's really a line in the sand for the euro bulls (and I expect the euro to bounce there). If the euro were to break down through 1.35, that would be a tailwind on European equities.

As mentioned, the Loonie was the only currency to trade higher vs. the dollar (up +0.16%) after a May reading of manufacturing sales showed a much stronger month-over-month jump (1.6%) than expected (0.5%). That surprisingly strong data saw the Loonie move sharply higher vs. the dollar early in trading. However, it moved back to flat after the Bank of Canada left rates unchanged (as expected) but downplayed the risk of inflation and even made some cautious comments on the economy.

Much like Australia, the Canadian economy will continue to benefit from a weak Loonie. While the central bank would never admit it outright, this would be a continued welcome occurrence.

The Canadian dollar is now sitting on support at the $0.9270 level vs. the dollar, and I'd look to short on a decisive break of that four-month-long trend.

The bond market was mixed yesterday as short-term Treasuries traded lower, while the long end of the curve saw modest gains. The 10-year note finished the day perfectly flat while the 30-year bond rallied +0.16%. There were no auctions and the Fed did not purchase any Treasuries yesterday, so the Yellen testimony and economic data were the primary drivers of the market.

Economically, the slightly disappointing industrial production report (0.2% vs. (E) 0.4%) caused a rally that saw bonds go from mildly negative to mildly positive. And, since Yellen's commentary turned out to be mostly a non-event (as there were no real surprises in the Q&A portion), bonds drifted sideways from shortly after 10 a.m. until the remainder of the day.

Bottom line, the bond market remains resilient despite more subtle upticks in inflation indicators (PPI yesterday). So, while the fundamentals continue to move more-bearish, the bottom line is bonds remain resilient. The trend is higher, and will remain so until that uptrend of 2014 is broken decisively. Markets can remain irrational longer than we can stay solvent indeed.

Have a good day,

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
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*
6/11/14	TBT STPP	63.41 38.32	59.53 36.83	*Short Bonds. 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 (6/5/14): The ECB decision to stimulate the EU economy should end the massive inflow of foreign money into Treasuries, which should result in a gradual resumption of the decline in bonds/rise in yields.			

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Asset Class Dashboard

(Updated 7.14.14)

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 fell from record highs last week as global economic data disappointed and a drop in European banks dragged global markets lower. Last week's dip appears to be a consolidation/correction that's needed after the rally since May, as the fundamentals for this market remain broadly bullish.*

Best Idea: Long Europe (VGK/EIRL/EWP/EWI)

Best Contrarian Idea: Buy Retailers (XRT)

Commodities	**Neutral**	**Neutral**	*We saw continued bifurcation in the commodity markets last week as energy continued to decline on expectations of an increase in output and reduction in geo-political tensions, while metals continued to rally. Broadly, though, the outlook for commodities is improving as global inflation bottoms and the global economic recovery continues.*

Best Idea: Long Oil (USO)

Best Contrarian Idea: Buy Grains (DBA)

U.S. Dollar	**Neutral**	**Bullish**	*The Dollar Index was flat last week as "dovish" FOMC Minutes countered a late week "Risk off" bid. Going forward the dollar should remain range bound given uncertainty over Fed and ECB policy specifics.*

Best Idea: Buy the Pound (FXB)

Best Contrarian Idea: Long Canadian Dollar (FXC)

Treasuries	**Neutral**	**Bearish**	*Treasuries rallied big last week, driven by European buying and short covering, and are now just off highs for the year. Despite the direction of future Fed policy clearly being "hawkish," money flows into Treasuries are continuing to support bonds.*

Best Idea: Short long bonds (TBT)

Best Contrarian Idea: Short High Yield Bonds (SJB)