7:00's Report

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

August 27th, 2014

Crude oil futures have established support at $93/barrel, but we need to see this 5-week downtrend break before getting outright bullish WTI.

Pre 7:00 Look

- Futures are flat and international markets are little changed this morning after a pretty quiet night.
- Economically, there were two reports o/n, French Business Climate Indicator which met expectations of 96, and Italian Consumer Confidence, which missed (101.9 vs E: 104)
- The geopolitical situation remains fragile but the ceasefire in Gaza is holding (for now), there were no developments in Ukraine, however there is growing "angst" over the recent actions by Islamic State Extremists.
- Econ Today: No economic reports today.

Market	Level	Change	% Change
S&P 500 Futures	1999.75	1.25	0.06%
U.S. Dollar (DXY)	82.56	-.119	-0.14%
Gold	1286.60	1.40	0.11%
WTI	94.12	.26	0.28%
10 Year	2.391	.004	0.17%

Equities

Market Recap

Stocks hit fresh all-time intraday and closing highs yesterday amid better than expected economic data. The S&P 500 added +0.11% to close at 2,000.02.

Stocks opened flat and then rallied to new highs in the first hour of trading yesterday thanks in part to the "hot" durable goods headline that actually caused a pullback in futures because the release was "too hot."

Just a reminder, data that are *too good* spur concern that the Fed may be forced to raise rates sooner or faster than the levels that are currently priced into the market.

But, once the details of the report were dissected and traders realized the report was actually pretty "Goldilocks," stock futures recovered the short-lived losses. Then, shortly after the open, it was a solid beat in the consumer confidence report that helped stocks break above the 2,005 mark by late morning.

Also helping stocks move higher was the lack of developments in the situation that flared up overnight, with Ukrainian forces taking Russian soldiers prisoner just hours before the respective country leaders were set to meet. The lack of any escalation in the situation allowed the fear bids to unwind and stocks to move higher.

As was the case Monday, the rally ran out of steam almost on cue just before lunch. Stocks pulled back into the afternoon and drifted into the close, finishing towards the lower end of the narrow daily range.

Market	Level	Change	% Change
Dow	17,106.70	29.83	0.17%
TSX	15,619.21	20.47	0.13%
Brazil	59,821.45	86.28	0.14%
FTSE	6,827.95	5.19	0.08%
Nikkei	15,534.82	13.60	0.09%
Hang Seng	24,918.75	-155.75	-0.62%
ASX	5,651.18	13.56	0.24%
Prices taken at previous day market close.			

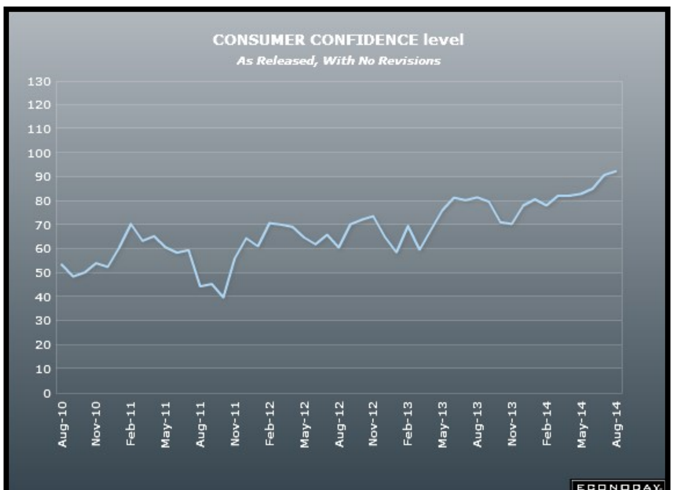
Trading Color

The market internals were better yesterday as the Nasdaq and Russell both outperformed the S&P, rallying +0.29% and +0.85% respectively. The move in the Russell 2000 was especially encouraging as the index of small caps has been lagging recently but was able to close at a 7-week high yesterday.

Market	Level	Change	% Change
DBC	24.94	.03	0.12%
Gold	1283.70	4.80	0.38%
Silver	19.395	.037	0.19%
Copper	3.188	-.03	-0.93%
WTI	93.90	.55	0.59%
Brent	102.48	-.17	-0.17%
Nat Gas	3.931	-.006	-0.15%
RBOB	2.7645	.0148	0.54%
DBA (Grains)	26.615	.325	1.26%
Prices taken at previous day market close.			

Sector trading, however, was again a bit of a wash. Energy was the best performer, up +0.51% partially thanks to strength in crude oil prices as well as the refined products. Healthcare also traded well, up +0.36%, while financials saw gains of +0.21%—helped up by higher rates and the steeper yield curve, which was also the main reason that utilities were the worst performer yesterday as fixed income instruments became more attractive. Meanwhile consumer staples, technology and industrials all disappointed, with industrials falling in spite of the strong durable goods print.

On the charts, initial support lies below at the 1,995-1,997 band, but traders will be interested to see if the psychological 2,000 level can hold today. The level to beat is obviously yesterday's fresh all-time high of 2,005.



Consumer Confidence rose to 92.4% vs. (E) 89.5% in August, a new high for the recovery as the labor market continues to improve.

Economics

Durable Goods Orders

- Durable Goods Orders soared to 22.6% vs. (E) 5.1%
- New Orders ex-Transportation declined -0.8% vs. (E) +0.4%

Takeaway

New orders for durable goods hit a record in the month of July as the headline skyrocketed +22.6% vs. estimates that called for a +5.1% gain. The substantial jump came in spite of an upwardly revised June headline of +2.7% vs. an initial read of just +0.7%.

But, looking to the details, most of the gain was a result of international aircraft orders, which contributed to the 74.2% rise in transportation orders—the highest on record (specifically orders for civilian aircraft rose 318%, the largest increase since January 2011). Looking further into the details, Non-defense Capital Goods Ex-Aircraft (NDCGXA), the preferred metric for forecasting future plans for business investment, declined -0.5% in July vs. (E) +0.2%. But, the smoother, 3-month rolling average rose for the 5th-consecutive month, up +1.14% thanks to the strong revisions to the prior month.

Markets reacted in a somewhat confused manner yesterday as algos and day-traders hustled to scan through the report. But when the dust settled, markets were largely unchanged. Bottom line, despite the surprisingly strong headline print, yesterday's durable goods report was largely in line with the recent trend. And, forward expectations of slow and steady growth are unchanged by the report. As long as economic data continue to be "Goldilocks," it will remain a tailwind for the stock market.

Home Price Indices

There were two reports on home prices yesterday, the S&P Case-Shiller HPI (8.10% y/y vs. E: 8.30%) and the FHFA Home Price Index (0.4% vs. E: 0.3%). The results were largely in line with expectations and did not materially change the consensus outlook on the housing market. The slight miss in the more widely watched S&P Case-Shiller report, however, matched the data within the new home sales report released earlier in the week, suggesting the conditions of the housing market are becoming more-favorable for buyers (prices coming down slightly while supply increases slightly).

So bottom line, real estate remains a concern as we have still yet to see the strong "bounce back" that the rest of the economy enjoyed following the weather-driven weakness of Q1.

Commodities

Commodities were split down the middle yesterday as geopolitics drove WTI crude oil, the refined products and precious metals higher while copper, nat gas and the primary grains fell (note that DBA was up because of a 7% spike in orange juice futures). The broad-based commodity tracking index ETF, DBC, edged up +0.12%.

Nymex crude oil was one of the best performers in the commodity space yesterday, with futures gaining +0.63% but closing well off the highs of the day. WTI rallied sharply to start the day as geopolitical fear bids hit the market on headlines the Ukrainian military had captured Russian soldiers just hours ahead of a scheduled meeting between Putin and Poroshenko. But, once the situation failed to escalate any further, much of that fear trade unwound.

Looking ahead, energy traders will be keeping a close eye on today's EIA inventory report, with analyst estimates calling for a 2.5M barrel draw in crude and a 1.6M barrel draw in gasoline supplies ahead of one of the busiest driving weekends of the year (Labor Day).

Speaking of which, analysts are forecasting that the holiday weekend will be the busiest since 2008, upping near-term demand expectations and trimming those for national supply levels.

Lastly, the "decent" economic data from yesterday morning continued to support the longer-term economy bulls' demand argument. So, bottom line, the fundamentals continue to point to higher prices, but we still need the steep technical downtrend to break before getting overly bullish on crude.

Natural gas futures also rose on the Ukraine-Russia headlines because Russia provides most of the natural gas to Europe, and any escalation in the conflict could disrupt supply. But, natural gas futures gave all of the gains back and then some in the last 10 minutes of the session thanks to either a "fat finger" trade, a mis-programed algorithm or simply day traders chasing profits into the close. In any event, nat gas futures recovered back to flat by the end of the electronic session. On the charts, support has formed at $3.90 while the level to beat is $4 even (futures bounced off the $4 mark just moments ago in pre-market trade).

Moving to the metals, profit-taking in copper came right on cue after futures rose +4.5% in less than a week. Yesterday, copper pulled back -0.9% as traders booked gains. Technically, the first level of support at $3.20 was broken, but the more established level at $3.18 encouragingly held. And, over the immediate term we don't expect to see a whole lot of movement one way or another ahead of the Chinese PMI reports that are due out over the weekend.

As was the theme in most of the commodities space yesterday, geopolitics brought a bid into gold overnight as futures gained as much as $15 on the Ukraine-Russia headlines. But, as was the case with most other products (namely WTI), the rally was short-lived as the fear trade unwound over the course of the day due to the lack of development in the conflict. Bottom line, the gold market still appears stuck within $25 of the $1,300 level as it has been for 2 months now. As we said earlier in the week, the key catalyst for the gold market comes Friday in the PCE price index within the personal incomes and outlays report.

Market	Level	Change	% Change
Dollar Index	82.70	.107	0.13%
EUR/USD	1.3168	-.0024	-0.18%
GBP/USD	1.6543	-.0036	-0.22%
USD/JPY	104.07	.02	0.02%
USD/CAD	1.0952	-.0032	-0.29%
AUD/USD	.9307	.0010	0.11%
USD/BRL	2.2621	-.0264	-1.15%
10 Year Yield	2.391	.004	0.17%
30 Year Yield	3.152	.017	0.54%

Prices taken at previous day market close.

Currencies & Bonds

The Dollar Index closed at its highest level in more than 13 months yesterday as domestic economic data were largely better than expected and investors continue to speculate that there will be further stimulus from the ECB. The Dollar Index gained +0.13% on the day.

The euro continued to sell off yesterday, falling -0.16% to close at the lowest level since September of last year. The reason for the move was the same: ECB policy speculation. And to further support Mario Draghi's comments from last Friday, JPMorgan released a report yesterday that said it expects the ECB to take steps to ease policy as early as next week. Bottom line, the likely path for the euro remains lower, but the short trade is getting rather crowded. This could lead to some short-covering sooner than later but, again, that would be a rally to sell into.

Elsewhere in Europe, the pound fell -0.21% yesterday as we anticipated due to the high volume of trades in the GBP/EUR currency pair on Monday (remember, the pound rallied as traders shorted the euro against it) when banks were closed for a holiday in England. The pound basically closed on the lows of the day, but encouragingly did not violate Monday's low. Regardless though, the pound remains in a sharp downtrend where weak support at Monday's lows will likely give way. The next level of more solid support is below between $1.6485 and $1.6500.

Having said that, the pair trade that was so crowded on Monday (long pound vs. euro) does in fact remain one of the most fundamentally sound currency trades in the market (the short yen trade remains very fundamentally sound itself) as the ECB is set to begin a round of QE while the BOE is gearing up to raise key interest rates before year-end. So, selling the euro against the pound continues to be one of the best ideas in the currency market at this time.

In Asia, the yen finished flat after rallying earlier in the day ahead of the meeting between Putin and Poroshenko. But, as was the case with gold and oil, the fear bid unwound midday and the yen returned to the unchanged mark. But, stepping back, the yen is trading just shy of 7-month lows that were established earlier in the week and is threatening to break down further. If the USD/JPY can hold 104, it should be a relatively quick ride to resistance at 105.

Shifting over to the bond market, Treasuries were mixed yesterday as the yield curve steepened. The long bond sold off -0.22% as the fear bid surrounding the Ukraine and Russian situation unwound over the course of the day. The 10-year was little-changed, up +0.04% with a yield back below 2.4% at 2.391%. Bottom line, nothing has changed in the bond market.

Although we saw some weakness in the long end of the curve yesterday, bonds continue to trade within reach of the 2014 highs that were established less than two weeks ago. On the charts, the technical uptrend that we have been waiting all year to see break is still healthy. And, until we see that level broken, bonds will remain elevated.

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
7/28/14	DBC	25.65	None	*We are going to look to initiate long positions in DBC here as a low risk-high reward opportunity has presented itself. In DBC, support has formed at $25.50 while potential target to the upside is close to the $27 mark. So, you will be risking about 20 cents for a potential return of $2 dollars. Original Issue*
7/21/14	UNG	20.98	None	*We are replacing the "long copper" trade on the tactical sheet with our "long natural gas" call because of the time frames of the two trades. Copper is a long term fundamental play dependent on continued global economic growth (namely in China) while buying nat gas is a medium term trade based on smaller supply injections and warming weather patterns. "Long Copper" has been moved to the ACD. Original Issue.*
6/11/14	SPHB	32.73	30.32	*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 8.25.14)

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	**Bullish**	**Bullish**	*The S&P 500 traded to new highs last week as economic data was strong and the outlook for Fed policy remained stagnant. Positioning was the main reason stocks were higher last week, as investors chased and added long exposure. A period of consolidation is necessary (again) but the trend remains higher.*

Best Idea: **Buy Regional Banks (KRE).**

Best Contrarian Idea: **Buy Small Caps (IWM).**

	Near Term Trend	Long Term Trend	Market Intelligence
Commodities	**Neutral**	**Bullish**	*Commodities traded lower again last week as WTI Crude is again acting as an anchor on commodity indices. But, most other commodities also declined given the reduction in geo-political tensions and after lack luster Chinese and EU economic data, which is casting some (small) doubt on the global recovery.*

Best Idea: **Long Oil (USO), Long Copper (JJC)**

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

	Near Term Trend	Long Term Trend	Market Intelligence
U.S. Dollar	**Bullish**	**Bullish**	*The Dollar Index surged to new highs for the year last week on good data and a not dovish Fed. The Dollar Index is now above 82, and while we need to see some sort of consolidation in the Dollar, with the path of policy between the US and Europe diverging materially, the trend in the Dollar should stay higher.*

Best Idea: **Sell the Yen (YCS)**

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

	Near Term Trend	Long Term Trend	Market Intelligence
Treasuries	**Bullish**	**Bearish**	*Treasuries actually declined last week but only marginally so, despite more strong data and a "not dovish" Fed. But, this market isn't being governed by fundamentals at this point, and as long as German Bunds continue to rally, the short term trend in Treasuries*

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

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