7:00's Report

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

August 28th, 2014

Pre 7:00 Look

- Futures and int'l stocks are lower this morning as part of a global flight to safety due to rising geopolitical angst.
- Ukrainian President Poroshenko officially stated that separatists, backed by Russian soldiers have invaded SE Ukraine and taken control of the Novoazovsk port.
- Economics are currently on the back burner, but EU Economic Sentiment was released o/n which missed (100.6 vs. E: 101.5), further fueling speculation of more ECB easing.
- Econ Today: GDP (E: 4.0%), Weekly Jobless Claims (E: 300K), Pending Home Sales (E: 0.5%)

Market	Level	Change	% Change
S&P 500 Futures	1992.00	-5.00	-0.25%
U.S. Dollar (DXY)	82.51	.061	0.07%
Gold	1292.90	9.50	0.74%
WTI	93.84	-.04	-0.04%
10 Year	23.61	-.030	-1.25%

Equities

Market Recap

Stocks oscillated around the 2,000 mark in a tight range yesterday amid quiet newswires and a lack of economic data. The S&P 500 was essentially unchanged, up just +0.01%.

Stocks opened flat and then made an attempt at hitting their third all-time high of the week in the opening minutes of trade yesterday morning. But with a lack of any economic reports or other catalysts, there simply were not enough buyers to make it happen and stocks retreated back below the milestone 2,000 mark.

By late morning the bulls had circled the wagons and made another attempt at a new all-time high, but the effort fell short again and stocks fell back. The S&P 500 did however make an encouraging bounce in the last hour of trade, reclaiming 2,000 and closing fractionally higher at 2,000.12.

Trading Color

Other than the somewhat promising bounce by the S&P into the close yesterday, equities traded very tired, and rightfully so. Attendance is among the lowest levels of the year, matched by some of the lowest volumes of the year. Although the Dow managed a meager gain of +0.09%, both the Nasdaq and the Russell 2000 closed lower on the day, the former falling a slight -0.02% while the latter fell -0.21%.

Sector trading was also rather disappointing. Utilities were by far the best performers yesterday, climbing +1.09% as interest rates resumed the recent downtrend and investors searched for yield. The drop in interest rates and flattening of the yield curve also contributed to the underperformance of financials.

Energy was the next worst performer after the financials due to WTI crude oil's inability to break out of a steep 5-week-long downtrend. Meanwhile all other sectors were relatively unchanged on the day, moving less than 0.1% in either direction, which again makes sense given the very quiet session the S&P 500 had.

Today should be somewhat more active as there are several key catalysts in the form of economic data (GDP, Weekly Jobless Claims and Pending Home Sales). But after the morning, things should be very, very quiet again. On the charts, traders will likely focus on the 2,000 level and more importantly the all-time high of

Market	Level	Change	% Change
Dow	17,122.01	15.31	0.09%
TSX	15,602.65	-16.56	-0.11%
Brazil	60,950.57	1,129.12	1.89%
FTSE	6,807.04	-23.62	-0.35%
Nikkei	15,459.86	-74.96	-0.48%
Hang Seng	24,741.00	-177.75	-0.71%
ASX	5,624.41	-26.77	-0.47%

Prices taken at previous day market close.

2,005 today, hoping some strong economic data can fuel the rally to yet another all-time high. Looking to the downside, support remains intact in the 1,995-1,997 band.

The One Metric That Will Make the Fed Tighten Policy

So, why do we care so much about slack in the jobs market? We care because slack equals low wages. And, when there's too much slack in the labor market, wages can't rise, because there isn't enough demand for workers. There hasn't been enough business activity so there's low demand for workers and a lot of supply of workers – that means employers don't have to pay up for talent.

But, there are signs that's starting to change. (Remember the wage inflation data in July that served as the catalyst for this most recent correction in stocks?) Well, here is where everything comes together.

If the Fed can fix the slack in the labor market by keeping rates low (solving the cyclical problem), then the job market will start to "tighten" and wages will go up. This in turn should lead to rising inflation, and ultimately the Fed will have to materially tighten policy.

So, why does this matter to you?

First, it matters because this market remains totally driven by the Fed. When opinion shifts about policy (an increase in Fed "angst"), stocks will go down.

Second, it means the Fed is likely going to keep policy static (despite "hawkish" chatter from FOMC minutes and Fed president Interviews) until we see wages start to rise. So, wages remain the No. 1 metric to watch right now (and staying focused on that metric should give us an edge). When wages begin to really rise, it'll be time for us to ring the register (from an aggressively long standpoint).

Economics

There were no economic reports yesterday.

Commodities

Market	Level	Change	% Change
DBC	24.95	.03	0.12%
Gold	1283.40	-1.80	-0.14%
Silver	19.475	.016	0.08%
Copper	3.1985	-.014	-0.44%
WTI	93.85	-.01	-0.01%
Brent	102.71	.21	0.20%
Nat Gas	4.005	.056	1.42%
RBOB	2.7379	-.0252	-0.91%
DBA (Grains)	26.20	.03	0.11%

Prices taken at previous day market close.

Commodities were mostly higher yesterday as WTI crude tested resistance and natural gas continued to rally, breaking out above the $4 mark. Meanwhile gold and copper fell. The benchmark commodity tracking index ETF, DBC, added +0.12%.

Crude oil prices were essentially unchanged yesterday as traders continued to watch for a technical break one way or another. Fundamentally, the EIA released weekly inventory data yesterday and the results were mixed again. Crude oil stocks reportedly fell -2.1M barrels vs. (E) -900K, RBOB gasoline supplies fell an even -1M barrels matching analyst estimates, and distillate inventories unexpectedly rose +1.3M barrels vs. (E) -600K barrels.

On the charts, futures have been consolidating in a tight range since the middle of last week and are threatening to break out of the steep, 5-week-old downtrend on the daily chart. Technically speaking, the signals are mixed with the downtrend continuing to favor the bears while the series of "higher lows" following the bullish "outside reversal" from last week is obviously bullish.

Bottom line: WTI futures remain at a tipping point, and a material move one way or another is very likely before the end of the week with resistance moving down to $93.90 while the "line in the sand" to the downside is last week's low of $92.50.

Natural gas continued to trade well yesterday, adding +1.42% to close above the $4.00 mark for the first time since mid-July. The fundamentally sound, long natural gas trade is starting to gain some traction on its own, but some geopolitics played a hand in yesterday's rally as well.

Early yesterday morning, there were multiple headlines regarding the possibility that Russia could halt gas transit to Europe via Ukraine this winter. The headlines surely caused some already-cautious shorts to cover. And later, Russia officials said they were surprised by the headlines and that they would honor all contractual obligations. There was a mild sell-off in response.

Bottom line: Natural gas has broken through multiple resistance levels, closed at a 6-week high yesterday, and is up over +4% since our long recommendation. And, we continue to see plenty of upside potential in the trade; however prices will remain volatile based on the weather and corresponding inventory injections over the near term. Speaking of which, analysts are forecasting a build of 80 Bcf in this morning's EIA report. On the charts, support has edged up to $3.95 while the 50-day moving average may present some resistance above at $4.05.

Moving to the metals, there was a contract change in copper futures with December becoming the active month contract (formerly September was "active"). The newly active month fell -0.4% as there was a continued pullback on profit-taking and positioning ahead of the several Chinese economic reports that are due out this weekend.

Like copper, trading in gold was quiet yesterday as traders await data coming out here in the U.S., namely the Personal Incomes and Outlays report on Friday. Remember the Fed's preferred measure of inflation, the PCE Price Index, will be included in that release. So as expected, the session was quiet yesterday. Barring any geopolitical surprises or unexpected moves in GDP, Weekly Claims or Pending Home Sales, that should be the case again today. On the charts gold remains drawn to the $1,300 level with support at $1,275.

Currencies & Bonds

The dollar was broadly weaker against its major peers yesterday with the notable move being in the euro as it reversed on a change in ECB policy speculation. The Dollar Index slipped -0.25%, closing near the lows of the day.

Market	Level	Change	% Change
Dollar Index	82.470	-.209	-0.25%
EUR/USD	1.3194	.0027	0.20%
GBP/USD	1.6575	.0036	0.22%
USD/JPY	103.88	-.17	-0.16%
USD/CAD	1.0852	-.0097	-0.89%
AUD/USD	.9335	.0032	0.34%
USD/BRL	2.2434	-.0176	-0.78%
10 Year Yield	23.61	-.030	-1.25%
30 Year Yield	3.109	-.043	-1.36%

Prices taken at previous day market close.

The big story in the currency markets yesterday was again based in Europe as the euro sell-off stalled and the currency actually rallied 0.2%, marking the first rise in a week. The bounce was a result of a change in speculation of ECB policy due to an note by Mark Wall and Gilles Moec of Deutsche Bank, who are to the ECB as Jon Hilsenrath is to our Fed (as in, they are the ECB's best means of "whispering" to the press). The research note released yesterday morning by the pair surprisingly disagreed with views by Citi and JPM printed on Tuesday that said we could see QE from the ECB as early as next week.

Wall and Moec said they indeed expect easing next week, but it won't be QE with government bond purchases like most investors hope. Rather, they expect "private QE" as in private ABS purchases used as a supplement to the currently employed TLTRO program.

Here is the hitch: The market had expected the ECB to use this form of "private QE," but not until early 2015. So the fact that Wall and Moec said it could be used "as early as Sept. 4" was actually dovish; just not as dovish as investors had hoped since the mention of outright QE was introduced earlier in the week.

So bottom line, yesterday's bounce was a slight correction to the "QE hype" from earlier in the week, but the outlook remains largely the same. And, traders will still be fixated on the EU HICP flash due out tomorrow as they continue to speculate policy moves.

The Canadian dollar was by far the best performer yesterday, gaining +0.89%. There were multiple reasons for the rally yesterday.

First, the merger between BKW and THI that has been all over the news this week, and the idea of capital flows has resulted in some speculative buying due to the positive effects the merger is expected to have on Canada and its currency.

Second, the greenback has been on an absolute tear since the beginning of July, and now we are seeing the Dollar Index take a breather as many currency pairs consolidate the material moves of recent.

Lastly, there is substantial technical support in the USD/CAD pair toward 1.10. After a bit of a failed breakout toward that resistance level, there were plenty of currency traders selling our dollar against the

Loonie. Going forward, there is support near yesterday's lows of 1.0826 and a "reverse head and shoulders" pattern (bullish) is forming on the daily chart. So, there is a fairly low-risk long opportunity in the USD/CAD for any currency traders out there looking for a quick trade, as we could see the pair move back toward the March highs in the medium term. But a close below 108.10 would be reason for us to close the trade.

Looking to Asia, the yen appreciated a slight +0.16% yesterday as the recent move through 103 continues to be digested. And although the USD/JPY pair failed to hold above 104 yesterday, the sell-off in the yen is likely not over just yet. On the charts, 103.50 is the level to watch, while 104.26 is the tick to beat for the yen bears.

Treasuries rallied yesterday with the 30-year bond moving up +0.54%, pushing the yield to a 15-month low primarily because of the strength of European bonds. The yield on the 30-year closed below 3.11% yesterday. The 10-year note also rallied, however not as much, finishing the day up +0.17% with a yield now comfortably below 2.40% at 2.361%.

There was a 5-year auction yesterday that saw the highest demand in more than a year, which should come as no surprise given the difference between the 5-year T-note and the German equivalent at a 9-year high. So, long story short, bond fund managers and portfolio managers simply couldn't help themselves.

One thing the bond market did tell us yesterday, that the currency market did not, was that the change in ECB policy speculation between Tuesday and yesterday was minimal and expectations for some sort of easing from Draghi in the very near future remains almost certain.

Bottom line, Europe remains in total control of the bond market and prices will likely remain painfully elevated over the near term, despite the bearish fundamentals.

Have a good day,

Tom

7:00's REPORT

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

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.			

7:00's REPORT

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

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 will be higher.*

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

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