7:00's Report

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

November 11th, 2014

Pre 7:00 Look

- Futures are flat this morning following another very quiet night.
- Markets are generally higher globally but Japan was the big outperformer, as the Nikkei rose 2%.
- The positive catalyst was a report that PM Abe will delay a sales tax increase scheduled for the coming months. The yen dropped to a new 7 year low on the news.
- Bond markets and banks are closed for Veterans Day.
- Econ Today: No economic reports today.

Market	Level	Change	% Change
S&P 500 Futures	2035.75	1.75	0.09%
U.S. Dollar (DXY)	88.035	.124	0.14%
Gold	1155.20	-4.60	-0.40%
WTI	77.02	-.38	-0.49%
10 Year	2.359	.047	2.03%

Equities

Market Recap

Stocks drifted modestly higher to start the week Monday during a very quiet session. The S&P 500 rose 0.31%.

Stocks were modestly higher from the outset Monday after two pieces of Chinese data helped Europe rally and futures rise here domestically. First, October Chinese exports beat estimates over the weekend and CPI was in line, giving Chinese authorities room to stimulate the economy further if needed. Then, news broke that the mainland Chinese stock exchanges would link with Hong

Oh Canada! The Canadian Dollar has declined precipitously over the past three months on plunging commodity prices and lack luster economic growth, and the declines likely aren't over.

Kong, allowing foreign investors access to domestic shares for the first time.

That was all the news that would come yesterday and stocks opened higher and drifted slowly upward, pulled higher by a rally in Europe, and stocks hit their new all-time high just after the European close.

From there the S&P 500 drifted sideways in a very tight three-point range before closing just off the highs. It was a very, very quiet day.

Today is Veterans Day, and we here at The 7:00's Report join in thanking our veterans for their service—and if we see one today at happy hour we shall buy him or her a drink!

Trading Color

Overall yesterday's rally came amidst very low volume and quiet trading, as stocks gradually drifted higher throughout the sleepy session. The major averages all traded in-line with one another, as there was no real differentiation from cyclicals vs. defensives.

Market	Level	Change	% Change
Dow	17,613.74	39.81	0.23%
TSX	14,709.80	18.97	0.13%
Brazil	52,725.38	-497.47	-0.93%
FTSE	6,615.48	4.23	0.06%
Nikkei	17,124.11	343.58	2.05%
Hang Seng	23,808.28	63.58	0.27%
ASX	5,517.10	-6.86	-0.12%

Prices taken at previous day market close.

Cable companies were the big movers yesterday off President Obama's "Net Neutrality" announcement for the Internet weighing on the cable providers. CMCSA and TWC both dropped nearly 5% on the news. Of course, like most things in Washington, this was a big headline that has very, very complicated follow-through—and as a result, the cable companies were probably a "buy" on that dip yesterday over anything other than the very short term.

Market	Level	Change	% Change
DBC	21.78	-.20	-0.94%
Gold	1151.00	-18.80	-1.61%
Silver	15.53	-.184	-1.17%
Copper	3.0205	-.018	-0.59%
WTI	77.40	-1.25	-1.59%
Brent	84.30	-.24	-0.28%
Nat Gas	4.271	-.141	-3.20%
RBOB	2.1028	-.0324	-1.52%
DBA (Grains)	25.39	.00	0.00%
Prices taken at previous day market close.			

Sector-wise energy was the laggard as oil prices declined sharply again. Meanwhile healthcare was the outperformer, rallying 1% on broad strength from the insurance names. There wasn't any specific headline to attribute the strength to, but open enrollment for 2015 for Obamacare starts at the end of this week.

Bottom Line

Yesterday's trading was very quiet and uninspired, and stocks lifted on very light volume as money managers continue to throw in the towel and add exposure, as this market simply won't give people a dip to buy (we are up 12% from the 10/15 bottom and in that month of trading stocks have closed lower just 5 times!).

The next few days will be quiet from a news standpoint so a further drift higher would not be a surprise as the last holdouts throw in the towel and get long. But I remain cautious about buying stocks at these levels, as the "pain trade" is starting to turn lower as the chorus of those championing a "melt-up" into year-end gets louder. It's certainly possible, and maybe I'm being too cautious, but something about this doesn't sit quite right with me. I hope I'm wrong and stocks go up forever.

"Return of the U.S. Consumer" (Cont'd)

Late last week we introduced the idea that the current macro environment was creating a very positive setup for the U.S. consumer to resume spending and expand his/her personal balance sheet after years of getting squeezed.

To recap: A firming job market (U-6 at multi-year lows) + upward-trending wages (q/q wage inflation accelerating) + firm home prices + interest rates near lows for the year + falling commodity and gas prices (at multi-year lows) = more disposable income and a steady future outlook for the U.S. consumer.

And, one of the better ways to play an uptick in the return of the U.S. consumer is through consumer finance companies. To that end, I did research and selected three specific stocks I think are worth consideration and some risk capital. Due to space constraints, I plan to be dropping them in each day for the next three days.

But, we are not a stock-picking shop. We don't generally produce single-stock research. But, these are names I did research over the past few days and offer them for consideration so you can do further research.

SYF has had a big run since the October lows, but we think with an improving macro back drop (return of the US consumer) a trade into the mid $30's isn't out of the question over the coming months.

Synchrony Financial (SYF)

This is the spin-off of the old GE capital consumer lending unit. It is the largest independent provider of private label credit cards in the U.S. (private label cards, like store credit cards, offer much better interest margins than typical credit cards).

Anecdotal case in point, I recently bought a new house and purchased a new TV and couch at two separate stores. I was given private label financing (meaning store credit cards) with 0% interest for 3 years and 18 months respectively on the purchases. I got the bills last month and Synchrony was the lender on both.

Bottom line, this is the largest independent "pure play" on consumer lending and private credit cards, and as such it has unique exposure to an uptick in consumer spending/balance sheet expansion at higher margins.

Corporate performance since the IPO has been good: SYF beat the street and the internals were strong: In the last quarter, purchase volumes rose 11% yoy and receivables rose 7% yoy. Net interest margins remain healthy at 17.1%. The stock is trading at 11.13X 2015 EPS of 2.53 (Bloomberg consensus), which is elevated for consumer finance companies but not anywhere near outrageous.

The stock is basically at all-time highs, but it IPOed back in early August so there isn't much trading history. On the cautious side of things, the company is still executing its split from GE, and as a result there will be higher G&A and marketing costs as the company truly becomes standalone—but that is well-known and factored into the stock price.

Bottom line, this one of the bigger "pure plays" on this theme and a name we think can benefit from a better than expected holiday season and continued expansion of the consumer balance sheet.

Up next: Springleaf Holdings (LEAF). Stay tuned for that write-up.

Economics

There were no economic reports yesterday.

Commodities

Commodities began the week mostly lower partially thanks to a modest rally in the Dollar Index putting some pressure on the space. Natural gas was the worst performer on profit-taking while corn was the most notable outperformer, gaining 0.95% on the day. The commodity tracking ETF, DBC, fell 0.66%.

Market	Level	Change	% Change
Dollar Index	87.915	.189	0.22%
EUR/USD	1.2421	-.0031	-0.25%
GBP/USD	1.5849	-.0022	-0.14%
USD/JPY	114.88	.35	0.31%
USD/CAD	1.1378	.0052	0.46%
AUD/USD	.8611	-.0021	-0.24%
USD/BRL	2.551	-.007	-0.27%
10 Year Yield	2.359	.047	2.03%
30 Year Yield	3.088	.042	1.38%

Prices taken at previous day market close.

Beginning with natural gas, futures retreated from a nearly 5-month high yesterday, closing down 3.47% as the cold-weather-driven short-squeeze ran out of steam and speculative longs began taking profits on conflicting extended weather forecasts.

Most reports have suggested colder than average temperatures will be sticking around through the week of Thanksgiving. However, the government's Global Forecast System report that was released midday yesterday surprised by suggesting that temperatures will be milder than initially expected.

Technically speaking, yesterday's price action developed a bearish outside (one-day) reversal on the charts, suggesting a near-term top has formed. Bottom line, the frothy 25%+ surge in natural gas has apparently come to an end, for now. And if you are an agile risk-hungry trader, selling nat gas futures here to pick up 10-15 cents is a decent idea as there is resistance above at the 200-day moving average ($4.32). However, if you are not such a trader, we continue to recommend waiting for a better, more well-defined opportunity in natural gas.

Crude oil futures fell 1.56% to start the week yesterday as speculators continued to bet that OPEC is not going to be able to agree on taking *enough* action at the Nov. 27th meeting to combat the recent slide in crude oil prices. So, the path of least resistance remains lower for crude oil and many analysts believe active futures prices will fall toward $70/barrel or lower before the end of the year. We remain bearish crude oil and we're watching two levels of trend resistance, first at $77.75 and the second is above at $78.70. A close above either of those levels would be near-term bullish and also be indicative of a move back into the $80s.

Moving to the metals, gold futures steadily slid lower yesterday, closing at the lows of the day, down 1.53%. Gold futures retraced most of Friday's short-squeeze yesterday and the market dynamics remain largely bearish. Fundamentally, the dollar remains in a well-defined uptrend that is poised to stay intact for the foreseeable future, which will continue to weigh on gold. Meanwhile the technical picture remains bearish as well, with resistance near last week's highs ($1,180) while there is some weak support at $1,140. Bottom line, although the risk of a short-squeeze such as the one we saw on Friday does exist, the longer-term trend in the gold market remains lower.

Copper fell -0.64% yesterday; however the price action on the daily chart is continuing to develop into a potentially bullish formation. We would need to see a close back above the $3.05-$3.06 area before initiating long positions though. So for now, copper is simply something to keep an eye on.

Currencies & Bonds

We started out Monday morning looking like investors were going to take some "money" off the table in the US Dollar Index, but by mid morning we were back to the rally. We closed the day higher again at 87.91, +0.18%.

Initially it looked like Dollar rally would pause on continued long liquidation from the end of last week, as early Monday the dollar was slightly weaker (down 0.1%) while most other currencies were marginally higher. But despite the total lack of a dollar positive catalyst, that trend reversed itself mid-morning as investors bought the dip in the Dollar Index.

Despite universal weakness vs. Dollar, though, the declines by other currencies were mild: the Euro was basically flat while the Dollar/Yen drifted slightly higher despite a article in the WSJ implying more stimulus from the BOJ may be difficult. But, in a quiet market with a lot of downward momentum like the yen that article didn't matter much. And, this morning the yen is for sale again, down .8% to a new 7 year low, as dollar/yen is now very comfortably above 115 (and rose above 11 overnight) after reports surfaced that PM Abe may delay a planned sales tax increase in the coming months.

The biggest loser yesterday vs. the dollar was the Loonie, falling .45% after October housing starts missed expectations at 183k vs. (E) 200k. Like Australia and the UK, the Canadian housing market is viewed as a potential risk to the economy, as prices remain high and risk of a downward move remains. That number yesterday didn't imply the housing market there is declining, but the Loonie is already under pressure vs. the dollar and between that housing starts miss, and dropping gold/oil prices, there wasn't a lot to hold it up, as the Loonie closed at more than a 5 year low.

Bonds also reversed Monday, initially starting the day higher with follow through buying from Friday, but they turned negative as the dollar fell and the selling accelerated throughout the day. The 30 year bond fell .42% and the ten year yield traded back above 2.35%. Helping pressure the Treasuries was a decline in European bonds as there was a "risk on" bid in Europe. European stocks rallied and bunds declined, but clearly it'll take more than a day to break the "Europe" bid in Treasuries, and despite yesterday's gains the 30 year remains considerably higher than the pre-jobs report levels of last Thursday.

Adding to the drop in Treasuries, sale of $26 billion in three-year notes attracted lower-than-average demand with investors confident a strengthening economy will prompt the Federal Reserve to raise interest rates next year.

The bid-to-cover ratio was 3.18, vs an average of 3.31 at the past 10 sales. The Treasury will sell 10- and 30-year (USGG30YR) Wednesday/Thursday. The yield on the current three-year note climbed four basis points, or 0.04 percentage point, to 0.97 percent. It was the biggest mover in the bond market yesterday off the sort auction results.

The Jobs numbers continue to be the focus for the Fed so looking ahead, we'll get some of the best action this week in Bonds come Thursday's Claims report

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
9/11/14	EUM	24.05	None	*Short Emerging Markets. With the dollar surging higher and the global bond yields rising, this should put pressure on the emerging markets, as money rotates out of those economies back towards developed markets. Original Issue*
9/4/14	HEDJ EUFN EWI EWP	59.35 24.67 16.44 41.34	None	*"Long Europe" Portfolio. The move by the ECB to start a private market QE program, combined with the impending TLTROs, should give the European economy a significant boost over the coming months. HEDJ remains the best way to hedge out a falling euro, while higher beta sectors of the EU economy (financials, Italy, Spain) should rally the hardest. Finally, the moves should end the German bond mania, which should weigh on Treasuries. Original Issue*
12/13/13	FCG XOP	18.97 65.62	None	*Natural gas supplies low, increasing 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
September 2014	**Long Europe**	**HEDJ**	*On a longer time frame, Europe is poised to outperform other major developed economies as the ECB is proving their unanimous commitment to increasing the Balance Sheet. HEDJ is the equivalent of Japan's DXJ ETF and is the best way to gain exposure to Europe while hedging against currency depreciation.*
Strategy Update (11/6/14): The ECB continues to slouch towards more stimulus and QE, and at the October ECB meeting Mario Draghi did as good of a job as possible to "speak" dovish and reiterate that the ECB remains unanimously for more stimulus if needed. Additionally, the ECB staff has begun work on modeling more stimulus, which is the most concrete sign yet the ECB is planning to do "more" in early 2015. We continue to view dips as buying opportunities.			
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 (11/3/14): The Bank of Japan shocked markets last week by announcing massive new monetary stimulus. I have been a Japan bull since late 2012, and I never thought the BOJ would go this far. The trend lower in the yen/higher in DXJ has clearly resumed, with a reasonable target for the dollar/yen now 115-120. This is a trend that will outperform over the coming months/quarters as the yen devalues and the BOJ/GPIF buys Japanese stocks.			
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 (11/6/14): Treasuries are finally beginning to roll over here on the charts. The fundamentals for this trade remain decidedly negative, but once again money flows (specifically European) have recently been trumping the fundamentals.			

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Asset Class Dashboard

(Updated 11.10.14)

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 rally continued last week as the S&P 500 moved to a new all time high following a "dovish" press conference by the ECB and a Republican victory in the mid-terms. Going forward the general outlook for stocks remains positive, but despite the near universal expectation of a "melt up" into year end, I remain more cautious on a risk/reward basis at these levels.*

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

Best Contrarian Idea: **Buy Energy (XLE)**

	Near Term Trend	Long Term Trend	Market Intelligence
Commodities	**Bearish**	**Bullish**	*Commodities continued to decline last week as global economic data was lack luster and the dollar rally continued. Crude oil managed to stabilize, though, helped by an uptick in geo-political tensions, while natural gas surged on cold weather.*

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

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

	Near Term Trend	Long Term Trend	Market Intelligence
U.S. Dollar	**Bullish**	**Bullish**	*The Dollar Index surged above 88 last week before giving some ground back following the "dovish" October jobs report. Euro and yen weakness were main reasons for the dollar strength last week, and although we need to see some short term consolidation, the trend in the dollar remains firmly upward.*

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

Best Contrarian Idea: **Long British Pound (FXB)**

	Near Term Trend	Long Term Trend	Market Intelligence
Treasuries	**Neutral**	**Bearish**	*Treasuries staged another huge rally on Friday following the October jobs report, taking the reading as "dovish." Between that interpretation and continued foreign buying Treasuries remain well bid, despite deterioration bond fundamentals domestically. That will have to reconcile itself at some point, but it's not in the near term.*

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

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