7:00's Report

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

November 12th, 2014

Pre 7:00 Look

- Futures are modestly weaker this morning and are being pulled lower by Europe while the positive momentum in Japan continued.
- European banks are leading European markets lower after a 3.4 billion dollar settlement was reached in a currency manipulation probe.
- Economically, data o/n was "ok" as Sept. EU IP slightly beat expectations and August was revised sharply higher
- Econ Today: No economic reports today. Fed Speak: Kocherlakota (1:30 PM).

Market	Level	Change	% Change
S&P 500 Futures	2029.75	-6.75	-0.33%
U.S. Dollar (DXY)	87.66	-.059	-0.07%
Gold	1163.20	.10	0.01%
WTI	77.38	-.56	-0.72%
10 Year	2.360	.001	0.04%

Equities

Market Recap & Trading Color

It was another sleepy day in markets Tuesday, as stocks drifted around unchanged for the entire session before closing fractionally higher. The day was devoid of any major catalysts or news events, and the S&P 500 closed up 0.07%.

Despite the sleepy trading session, the S&P 500 did hit a new all-time high at 2,041. For the second-straight day, markets hit their intraday highs right around the European close (implying foreign buying early in the morning).

But, the session was very uneventful and to explain how stocks traded yesterday would be a waste of your time, as the peak-to-trough move in the S&P 500 yesterday was just 5 points. Stocks just simply drifted sideways the entire day on low volume and activity (due primarily to the Veterans Day holiday).

Looking at the internals all the various indices and averages were little-changed (none more than 0.1%) and no sector moved more than 0.5%, again underscoring just how quiet a day it was.

Utilities saw some general profit-taking (XLU down 0.4%) as did consumer staples. Both lagged yesterday but, that aside, this remains a "defensive-led" rally for the most part.

Of note, the homebuilders (XHB) rose 1%. This was one of the best performing sub-sectors in the market after DHI beat earnings yesterday and TOL positively pre-announced Monday. And, now the XHB appears to have broken major resistance at the $32 level after trading to a 5-month high yesterday. For those looking for a breakout, check out XHB (if it can hold it the next few sessions).

Bottom Line

The start of the week has been very quiet and the macro backdrop is unchanged.

The S&P 500 is now up 12% over just 19 trading sessions as a "dovish" ECB and "ok" global growth figures ignited the first part of the "V" recovery in mid-October. Meanwhile the BOJ's surprise monetary stimulus and Republican midterm victory created a chase higher in the averages that has brought stocks to new highs. Of those 19 trading days that the S&P 500 rose 12%, only 5 have been negative.

Market	Level	Change	% Change
Dow	17,614.90	1.16	0.01%
TSX	14,760.27	50.47	0.34%
Brazil	52,474.27	-251.11	-0.48%
FTSE	6,611.10	-16.30	-0.25%
Nikkei	17,197.05	72.94	0.43%
Hang Seng	23,938.18	129.90	0.55%
ASX	5,463.05	-54.05	-0.98%

Prices taken at previous day market close.

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Sentiment now seems unanimous on a "melt-up" into year-end and a quiet calendar (the next "big" events are the flash PMIs next week and the FOMC in mid-December). But this market is relatively priced for a calm, quiet end to the year, and frankly it seems as complacent right now as it was hysterical on October 15th.

Market	Level	Change	% Change
DBC	21.93	.16	0.73%
Gold	1167.40	7.60	0.66%
Silver	15.80	.129	0.82%
Copper	3.0375	.0175	0.58%
WTI	77.83	.43	0.56%
Brent	84.30	-.24	-0.28%
Nat Gas	4.274	.019	0.45%
RBOB	2.1120	.0109	0.52%
DBA (Grains)	25.64	.26	1.03%
Prices taken at previous day market close.			

Russia/Ukraine (which got worse yesterday), a "hawkish" Fed in December and a bad ECB TLTRO takedown remain potential headwinds to watch.

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

Springleaf Holdings (LEAF)

LEAF is a consumer finance company that relies more on direct loans than credit card purchases (like SYF), and it lies in the middle ground between pawn shops and banks. Basically its customer is someone who has too much money/income to need pawn lending, but doesn't have good enough credit to get non-mortgage loans from banks.

Springleaf's primary business is lending to consumers for direct auto loans (car sales are at multi-year highs), auto/home repairs, medical/personal loans.

Again, the investment thesis behind this name is the expansion of the personal balance sheet, and with labor markets firm we should see more borrowing/credit demand from the sub-prime borrower. LEAF is in a good position to benefit from that.

They have a wide geographic footprint in the "growth" areas of the country along the Sun Belt and into Texas, so population shifts are on their side.

Like most non-prime lenders, one of the keys to watch is the "net charge-offs" and bad debt expense when consumers don't pay. But, as the economy/job market has been steadily improving, delinquents for LEAF have been, too. Provisions for loan losses are anticipated to be down 10% q/q in Q3, and Jefferies anticipates that gross charge-offs will only be marginally higher in Q3 from Q2 at 6%.

The reason I'm pointing this company out is there are two specific and potentially positive catalysts on the horizon. First, LEAF is in the process of selling off the vast majority of its real estate loans. In October, it received another $530 million in proceeds, which it *should* be able to deploy in higher-yielding assets. And, having additional capital to deploy in a rising-demand environment should help earnings and profitability.

Additionally, LEAF is widely expected to acquire Citi's consumer lending arm, OneMain Financial, which C has put out for bid. Again, while valuation of the purchase will obviously be important, LEAF has a chance to significantly expand its asset base in a rising tide environment.

The company reports earnings on Friday so obviously there is some event risk here. But if our macro call on the expansion of the consumer balance sheet is indeed under way, LEAF has two potential positive catalysts that could send shares higher from here.

Economics

There were no economic reports yesterday.

Commodities

Commodities were mostly higher yesterday in what turned out to be a fairly quiet session. Most of the gains were fueled by short-covering on lower than average volumes. The grains, however, xx.

Trading in the oil markets was relatively quiet yesterday and price action was primarily driven by technicals as nothing changed in the fundamental picture. Traders continue to look ahead to the OPEC meeting later this month and, in a more immediate sense, today's EIA report. Analysts are calling for a +1.1M barrel rise in crude oil stocks, a +350K barrel build in gasoline supplies, and a -1.5M barrel drop in heating oil stocks.

On the charts, some technical trend resistance was broken yesterday (bullish) and although futures may "knee jerk" one way or another on the EIA release, the market may be in for a short-covering correction. On the charts,

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initial support lies at $77.15 while there is some solid resistance above at $79.50. Bottom line, although we may see a corrective move higher here, the "bigger picture" remains bearish for crude oil prices as investors remain largely focused on the OPEC meeting (Nov. 27th).

Natural gas futures sold off overnight but found support at an old technical level and then day traders "filled a gap" higher on the primary session chart. Natural gas ended the day little-changed, down just 0.24%. The market remains volatile and we continue to feel the market is better left to the day traders and physical hedgers for now. However, yesterday's lows have piqued my interest as potentially meaningful support going forward. And, if that level is tested again, buying toward $4.10 with a stop at a close below could be worth some risk capital for the risk-hungry trader.

Moving to the metals, gold rallied 0.60% yesterday almost entirely as a result of dollar weakness. Gold is continuing to digest the recent breakdown to multi-year lows, but as soon as the current dollar pullback runs its course, the decline in gold is likely to resume.

Looking at the longer term, the fundamentals of the gold market will continue to be decidedly bearish until we start to see a meaningful uptick in wage inflation (assuming that the economy keeps chugging along and stocks don't materially fall from current levels). But, until then, the path of least resistance remains lower in gold and I will continue to recommend shorting toward resistance at $1,180 via selling futures or owning one of the DB gold short ETFs: DZZ or DGZ.

In industrial metals, copper traded better yesterday, recovering from morning losses to finish the day higher by 0.56%. Futures remain range-bound for now but I am focused on an important resistance band between $3.05 and $3.06. Meanwhile, I continue to look to the round $3.00 level as solid support.

Grains Poised to Gain?

Over the course of the past several weeks, the three most heavily traded agricultural product futures—corn, wheat and soybeans—have all broken multi-month downtrend lines and have begun to move higher. Now, admittedly some of the gains have certainly been a result of short-covering after the substantial sell-off the grains suffered since the beginning of the summer. But there may be an opportunity in buying the grains here.

Now, I'm not saying that, just because a trendline was broken, the right move is to pile in and buy ag right away. But breaking such resistance is the first step in seeing a bottom and the beginning of a rally form. Furthermore, the fundamentals of the agriculture space are becoming more bullish.

Specifically looking at wheat alone, recent data show that wheat stockpiles are lower than initially expected here in the U.S. while global crop forecasts have been revised lower. Notably, Australia is reporting crop damage, Brazil's crop has been negatively affected by widespread flooding, France's crop quality is much lower than "normal," and Russian farmers are struggling to produce thanks to the broad weakness in their economy. And the situations are similar for other major products as well.

Bottom line, agriculture products were the first commodities to begin to decline, topping out between 2 and 3 months before the rest of the space. Recently they have become attractive on both a technical and fundamental level. The best way to get long the ag sector is through buying the agricultural ETF, DBA. Specifically opening longs toward $25.50 would be favorable, as your risk would be capped at $0.50/unit with a stop just below the recent low of $25.

Market	Level	Change	% Change
Dollar Index	87.58	-.331	-0.38%
EUR/USD	1.2479	.0059	0.47%
GBP/USD	1.5919	.0079	0.50%
USD/JPY	115.38	.53	0.46%
USD/CAD	1.1325	-.0053	-0.47%
AUD/USD	.8698	.0079	0.92%
USD/BRL	2.5565	.0045	0.18%
10 Year Yield	2.360	.001	0.04%
30 Year Yield	3.092	.004	0.13%

Prices taken at previous day market close.

Currencies & Bonds

The Dollar Index finally declined during a quiet day Tuesday, falling 0.36% as the pause in the dollar rally that started Monday morning actually lasted an entire day. The Veterans Day holiday helped to keep the market at a lull.

The only currency to decline yesterday vs. the dollar was the yen, which fell to a new 7-year low early before

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bouncing in the afternoon to finish down 0.38% (at one point the yen was down nearly 1% vs. the dollar).

The catalyst was a Reuters article that said PM Abe was considering delaying the second half of the consumption tax (link here). That tax increase is seen as instrumental in shoring up Japan's finances over the long term, and any delay in its implementation will make the Japanese fiscal situation worse over the long term, which is obviously bad for the yen. Bottom line, the yen is short-term oversold but the trend is clearly lower and 120 over the next 3-4 months would not surprise me at all, given recent events.

The euro enjoyed a modest rally despite ECB member Yves Mersch stating that sovereign QE in Europe is theoretically possible, which reflects a bit of a softening on his part toward QE (and is very slightly dovish). But, again in a quiet session, some short-covering trumped the slightly dovish news.

The British pound also bounced 0.45% ahead of the all-important unemployment and inflation reports that were out this morning but is giving about half that gain back. In all the reports were slightly "dovish" as unemployment was slightly higher than expected, while wages gains were inline at just 1% per year. Meanwhile, the inflation report was mostly in line with expectations and isn't moving markets materially one way or the other. Inflation remains subdued compared to earlier this year and at this point won't pressure the BOE to raise rates faster than current expectations.

The Aussie dollar was the big winner vs. the dollar Tuesday, rallying more than 1% after property prices rose 1.5% Q/Q, in line with expectations. To understand why that number resulted in a 1% move higher in the Aussie, keep in mind the Aussie dollar got crushed last week following negative housing data. A downturn in housing remains one of the bigger risks to the Aussie economy, so yesterday's report ignited a short-squeeze. But the trend is still decidedly weaker.

Bond markets were closed yesterday for the bank holiday, but with little action in the stock market and the U.S. dollar, we're going to be starting pretty flat in the market on Wednesday.

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)			
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)			
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)			
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)			

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