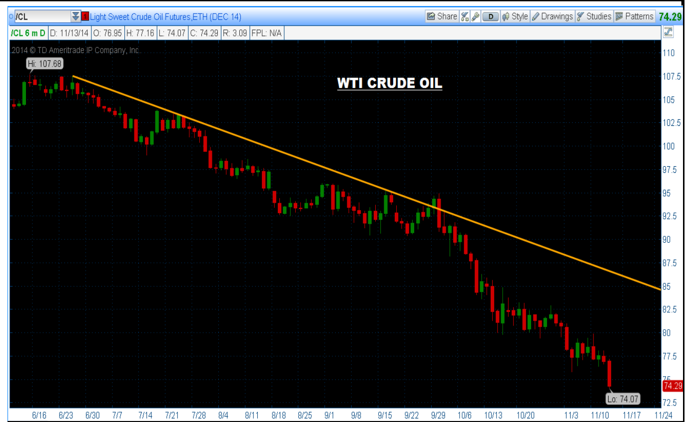
7:00's Report

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

November 14th, 2014



Oil: The drop in oil prices is simply breathtaking, as its dropped 30% in just over 4 month. We are nearing a major inflection point at $70.00/bbl.

Pre 7:00 Look

- Futures are flat this morning as are most European markets following in-line EU GDP reports. Japan was again the outperformer o/n as dollar/yen traded through 116.
- European Q3 GDP reports met expectations. German GDP rose 1.2% vs. 1.1% yoy and EU GDP rose 0.8% yoy, meeting expectations.
- In Japan the dollar/yen rose through 116 as expectations for snap elections in December continue to rise.
- Econ Today: Retail Sales (E: 0.2%), Consumer Sentiment (87.5). Fed Speak: Bullard (9:00 AM), Fischer (4:00 PM).

Market	Level	Change	% Change
S&P 500 Futures	2034.25	.25	0.01%
U.S. Dollar (DXY)	88.06	.308	0.35%
Gold	1151.80	-9.70	-0.84%
WTI	74.28	.07	0.09%
10 Year	2.347	-.012	-0.51%

Equities

Market Recap

Stocks finished trading Thursday basically unchanged for the fourth day this week. But there was some intraday volatility and it took a late day rally to bring the S&P 500 back to flat following a guidance cut by UPS. The S&P 500 closed up 0.05%.

Unlike earlier this week, there were potential catalysts early yesterday starting with the Chinese economic data. Chinese Industrial Production and Retail Sales were both uninspiring, but neither were bad enough to change anyone's outlook on Chinese growth.

There were also multiple earnings reports out late Wednesday/early Thursday from bellwethers CSCO and WMT and retailer KSS. But none of the results were material surprises and they didn't have much of a "macro" effect on markets.

Neither of the aforementioned events moved markets materially and stocks opened slightly higher and drifted to new intraday highs right out of the gate. But, those gains were tentative we once again saw some decent moves into the European close, as the S&P 500 gave back the early morning rally and was back to flat by the close in Europe at 11:30 AM.

I'll be joining hosts Kelly Evans and Bill Griffeth on Closing Bell today at 3:00 PM to discuss what's ahead for the markets.

Stocks chopped sideways through lunchtime but then took another leg lower at 1:00 PM in what became the worst intraday declines in over a week, dropping nearly 8 points (it says something about

Market	Level	Change	% Change
Dow	17,652.79	40.59	0.23%
TSX	14,778.77	-77.43	-0.52%
Brazil	51,846.03	-1,132.86	-2.14%
FTSE	6,623.07	-12.38	-0.19%
Nikkei	17,490.83	98.04	0.56%
Hang Seng	24,087.38	67.44	0.28%
ASX	5,454.34	11.64	0.21%

Prices taken at previous day market close.

the buoyancy of this market that an 8-point drop was the biggest in a week). The catalyst was a guidance cut by UPS at an investor conference, which hit the transports and caught markets off-guard.

Market	Level	Change	% Change
DBC	21.35	-.46	-2.11%
Gold	1160.20	1.10	0.09%
Silver	15.58	-.043	-0.28%
Copper	2.986	-.039	-1.29%
WTI	74.26	-2.92	-3.78%
Brent	77.60	-3.52	-4.34%
Nat Gas	3.973	-.212	-5.07%
RBOB	1.9978	-.1092	-5.18%
DBA (Grains)	25.98	.15	0.58%
Prices taken at previous day market close.			

But, support at 2,030 in the S&P 500 held and buyers stepped in and the index rallied back to flat during the final 90 minutes of trading as the guidance cut was more a function of company-specific issues rather than a drop in general demand (which would be an anecdotal macro negative).

Trading Color

Overall it was a pretty bland day from an index standpoint with the exception of the Russell, which closed down 1%. But, before we go reading too much into that, keep in mind it hit a multi-month high on Wednesday so the underperformance isn't material.

Sector-wise energy (again) led to the downside as the crude collapse continued, with XLE dropping 1.33%. And, it likely would have been worse if the oil service sector didn't get a huge boost when rumors hit yesterday about HAL potentially bidding for BHI.

Utilities continued to decline (down 0.81%) on further profit-taking, while retail continued to outperform. So did consumer discretionary thanks to a more than 4% move in WMT following earnings, as the sector shrugged off the KSS earnings (KSS was down 3%). Tech also traded well following the CSCO results and "large cap" tech caught a nice sympathy bid with MSFT, AAPL and ORCL all rallying nicely.

Outside of those moves the sector trading was pretty tame, as most other S&P 500 sub-sectors moved less than 0.5% each.

'What is Happening With Oil?' (and Is It Bad for Stocks?)

We'll also cover it in the commodity section, but oil was the main focus of markets yesterday; it again plunged as both Brent and WTI have fallen to three-year lows. But, happily, stocks have been able to hold up despite the drop.

That's because the reason for this additional decline is more sentiment-based than fundamental. In a nutshell, oil is falling because supply is rising, and demand is steady. But most importantly OPEC seems in disarray and isn't supporting the price.

Specifically, everyone is looking to the Saudis to say something, and while they have made some mumblings about cuts to production this week, no one is speaking forcefully about defending the price. And, concerns about OPEC members "cheating" and pumping more as the price drops to fuel their national budgets is exacerbating concerns the cartel is fraying.

That matters, because fundamentally the situation for oil isn't particularly positive: Economic data globally remains "ok" but it certainly isn't growing, and the best major economy on the globe (the U.S.) is domestically well-supplied because shale production hasn't been materially curtailed, yet.

As we discuss later, this is leading to greater momentum to the downside and it's gathering strength. **Importantly, though, this remains mostly a virtuous drop in oil that will benefit the U.S. consumer more than it will hurt the oil industry.**

With regard to stocks generally, as long as the decline doesn't accelerate from here and go into freefall, it shouldn't be a major drag on stocks—again because it's mostly supply-driven, not demand-driven. As long as the drop is supply-driven, stocks can (mostly) ignore it.

I would not try and catch falling energy stocks here despite the value appeal, and if I were to do something from a trade standpoint I'd be inclined to sell puts or a put spread on XLE with a Q1 2015 expiration and profit from this volatility.

Economics

JOLTS

- Job Openings 4.735 vs. (E) 4.8M

Takeaway

This number was much better than the headline implies, and combined with a growing list of other indicators (quarterly wage increases, declining U-6, average monthly job adds of over 200K), this shows the "slack" in the labor market that has bedeviled the Fed is starting to be removed. This this is "hawkish" for policy down the road.

First, despite the weak headline, job openings were 2.8% above July levels and hiring hit a post-recession high at 5.0 million, up from 4.7 million in August.

Most importantly, though, the number of job "quits" rose to 243K in September to 2.8 million, and "quits" as a share of total payroll employment jumped from 1.8% to 2.0%.

That's important because, simply, people don't quit jobs unless they have confidence about their ability to find a new, better job. It is a little-followed anecdotal indicator that the job market is indeed tightening . And again, this matters because a finally tightening job market leads to higher wages, which ultimately leads to inflation. So it's important to note that, after several years, sub-indicators of the labor market are starting to signal the labor market is tightening. An acceleration of this trend is **not** priced into stocks or bonds at this point, so this remains an important trend to watch.

Commodities

The big story in the commodity markets yesterday was the continuation of the energy declines. Natural gas and the refined products also fell but the grains continued to buck the trend as the DB Agriculture fund rallied another 0.62% yesterday. The broad-based commodity tracking index ETF, DBC, fell nearly 2% thanks to the heavy weighting that energy products carry in the index.

Market	Level	Change	% Change
Dollar Index	87.79	-.116	-0.13%
EUR/USD	1.2481	.0043	0.35%
GBP/USD	1.5714	-.0065	-0.41%
USD/JPY	115.73	.26	0.23%
USD/CAD	1.1367	.0053	0.47%
AUD/USD	.8716	-.0001	-0.01%
USD/BRL	2.5887	.023	0.90%
10 Year Yield	2.347	-.012	-0.51%
30 Year Yield	3.076	-.004	-0.13%
Prices taken at previous day market close.			

Beginning with the focus of the space, crude oil futures fell to another set of fresh 4-year lows as Brent was down 4.14% and WTI fell 3.55%. The fundamentals of the market did not change. Everyone from physical oil traders to macro-strategy investors are watching crude prices. And once Brent prices materially violated $80 per barrel, shorts piled on and weak longs threw in the towel. The trend remains lower with initial resistance falling to $75.10 while the next target to the downside is $73.00.

Natural gas futures fell sharply as well yesterday, closing down 4.64%, ending below the $4.00 level for the first time in two weeks. Nat gas has now fallen 5 consecutive sessions and given back all of the November gains.

With the recent blast of cold weather causing the market to heat up recently (remember, futures rallied over 25% in just two weeks), traders are focused on inventory levels and the estimates for this morning's EIA release (delayed because of Veterans Day) have been bearish.

The consensus expectations among analysts is for a build of +38 Bcf, which is well above both the +22 Bcf build for this week last year and the +16 Bcf 5-year average for this week. So, bottom line, healthy supply levels thanks to an uptick in domestic production are weighing on futures prices. Until the weekly EIA data starts showing an acceleration in "draws," prices will likely remain under pressure.

Gold futures are seemingly pinned between $1,155 and $1,170 right now, continuing to consolidate recent declines. Gold has been trading almost exclusively off the dollar this week due to the lack of material economic data on the calendar. Because of gold's heightened correlation with the dollar as of recent, the next potential catalyst for the gold market is Japan's Q3 GDP report. At that time, PM Abe will be making a decision on the deferment of the consumption tax hike and possibly a call for new elections.

This might sound odd at first, looking at a Japanese economic number and subsequent PM announcement when analyzing our domestic gold market. But the reason we are watching these things is because the last two sharp sell-offs in gold have been the result of dollar/yen strength (First the surprise additional accommodation on Halloween, and second was the first mention of the possibly tax deferment). Note the higher USD/JPY and lower gold prices this morning.

So, bottom line, the relationship between the dollar and yen has had a very high inverse correlation to gold prices recently, and we believe that will likely continue. And, if the GDP number misses and Abe is dovish, expect gold to make another leg down toward $1,120/oz.

Currencies & Bonds

The dollar Index gave back some gains Thursday, dropping .15% mostly on euro strength as positioning ahead of the European GDP reports dominated trading in the dollar/euro cross. But, the dollar is bouncing this morning (up .36%) on weakness in the yen and euro.

European GDP data was on balance slightly better than expectations, but it's a stretch to say it was "good." German GDP rose 1.2% yoy vs. (E) 1.1%, EU GDP rose 0.2% in Q3 vs. (E) 0.2%, and France rose 0.3% vs. (E) 0.2%. But, those "beats" are mostly statistical rounding errors and while it is a positive that the numbers weren't worse than expectations, it's not like these GDP prints are going to make anyone change their outlook that the EU economy remains in neutral. The euro is down .34% as of this writing and has given back yesterday's gains.

From a "long Europe" thesis standpoint this doesn't change much—the EU economy clearly still needs more stimulus and these numbers won't sway the doves or hawks in the ECB. So, I continue to expect the ECB to continue to slouch towards QE, and continue to believe in the "Long Europe" thesis.

Staying in Europe, the Pound continued to sink to new multi-year lows on follow through selling from Wednesday's Inflation Report. There wasn't any real additional negative catalysts, but clearly the momentum is lower for now. It's somewhat breathtaking to consider how quickly the outlook for when the BOE would raise rates has shifted. Less than 3 months ago there were legitimate expectations of a rate hike *this year*, and now the market is pricing in an August 2015 hike. I certainly wouldn't buy the Pound until there is some stabilization, but I am inclined to think that the market may be getting a bit ahead of itself wither regards to the when the BOE may make it's first move, and fundamentally the Pound remains the most attractive currency out there vs. the dollar.

The yen is down sharply again this morning and hit a new 7 year low vs. the dollar on growing expectation of early elections in Japan (which would be dovish). Japanese media reported PM Abe has decided to call elections in December, and that would be dovish because his party likely will increase their hold on the Diet (Japanese Parliament), which would make the passage of more stimulus more likely. Dollar/yen is now above 116 and although it is very, very short term oversold, clearly the downtrend is continuing.

Shifting to the bond market, Treasuries enjoyed a mild rally after catching a bid during the late afternoon as stocks turned negative. The JOLTS number early Thursday weighed a bit on Treasuries, but the selling never got any material momentum and even (another) poor Treasury auction couldn't ignite any real selling. The Treasury auctioned 16 billion of 30 year bonds, and demand was light. The bid to cover was 2.29 and the actual yield was more than a basis point higher than the "when issued" which reflects non-aggressive bidding by buyers.

That results caps a bad week for Treasury auctions. I'm a Treasury bear, so part of me is inclined to extrapolate this soft demand as a sign the bond market starting to pay attention to the better job/wage numbers, and I do think that had something to do with the soft demand across the curve. But, it would be disingenuous not to say that the main reason for the lack luster demand was it was simply a very, very slow week in markets, and bond markets especially. And, the prospect of the looming German and EU GDP releases on Friday certainly suppresses sentiment as well.

Bottom line, fundamentals continue to slowly deteriorate for the bond bulls, but as long as Europe remains under a deflationary scare, it will be hard for Treasuries to gain any downside momentum.

Have a good day,

Tom

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)**