7:00's Report

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

November 21st, 2014

Pre 7:00 Look

- Futures are sharply higher this morning and Europe is out-performing on surprise stimulus from China's central bank and hints of more stimulus from the ECB.
- Asian stocks rose modestly after China's central bank (PBOC) surprisingly cut interest rates o/n, hoping to stimulate the stagnant economy.
- In Europe, Mario Draghi again forcefully hinted the ECB will do QE if necessary, and the euro is sharply lower and European stocks are rallying on the comments.
- Econ Today: No reports today.

Market	Level	Change	% Change
S&P 500 Futures	2066.50	14.50	0.71%
U.S. Dollar (DXY)	88.26	.593	0.68%
Gold	1194.90	4.00	0.34%
WTI	77.26	1.41	1.86%
10 Year	2.335	-.016	-0.68%

Equities

Market Recap

It was (another) failed sell-off Thursday, as bears had plenty of ammunition but dip-buyers again stepped in to lift the S&P 500 from intraday declines. The S&P 500 closed little-changed, up 0.2%.

Futures were decidedly lower Thursday as global PMIs (especially in Germany) disappointed. But, there were some positive domestic numbers. Although the S&P 500 opened down nearly 10 points, by 10 AM a rebound was under way as positive jobless claims, CPI, Philly Fed manufacturing survey and existing home sales outweighed disappointing global and U.S. November flash manufacturing PMIs.

XLE (energy stock ETF) is poised to trade above the 50 day MA for the first time in over two months, and with slightly improving fundamentals, energy may finally be worth some risk capital.

Buyers bought the dip aggressively and stocks turned positive within an hour of the open. But in a continuation of a trend over the past week, while buyers are aggressively stepping in on any material dip, there's not a lot of will to push stocks materially higher once that dip is erased.

Case in point, the S&P 500 hit its high of the day at exactly 11:30 (the European close) and from there traded in a 4-point range for the remainder of the session.

Trading Color

The Russell 2000 bounced back nicely yesterday, rallying 1.13% and recouping all of Wednesday's losses. Meanwhile, the Nasdaq also outperformed thanks mainly to renewed strength in AAPL (up 1.4%).

Interestingly, this rally continues to be largely led by a small group of large-cap tech stocks. Yesterday it was more of the same: AAPL, MSFT and CSCO all rallied 1% as mega-cap techs remain the current market leaders.

Market	Level	Change	% Change
Dow	17,719.00	33.27	0.19%
TSX	15,075.18	95.03	0.63%
Brazil	53,402.81	1,340.95	2.58%
FTSE	6,727.00	48010	0.72%
Nikkei	17,357.51	56.65	0.33%
Hang Seng	23,437.12	87.48	0.37%
ASX	5,304.31	-11.94	-0.22%
Prices taken at previous day market close.			

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Energy was the best-performing sector yesterday, as XLE rallied 1.25%. Of note, XLE closed 10 cents below the 50-day moving average at $87.46. If XLE can break through that level, we may see some intense short-covering as this ETF is obviously down sharply (it hasn't traded above the 50-day since the first day of September).

Market	Level	Change	% Change
DBC	21.51	.18	0.87%
Gold	1194.60	.70	0.06%
Silver	16.235	-.059	-0.36%
Copper	3.0145	-.0305	-1.00%
WTI	75.65	1.15	1.54%
Brent	79.31	1.21	1.55%
Nat Gas	4.448	.077	1.76%
RBOB	2.0282	-.0156	-0.76%
DBA (Grains)	25.63	.01	0.04%

Prices taken at previous day market close.

I mentioned earlier in the week that the homebuilders ETF (XHB) was acting like it wanted to break out, and indeed it did yesterday on the latest piece of good housing data, Existing Home Sales. XHB clearly has broken out and rallied 2%, and it has an attractive-looking chart.

Elsewhere in sector trading it was pretty quiet as healthcare, utilities and consumer staples saw mild declines while tech was the best performer outside of energy. No S&P 500 sub-sector other than energy moved more than 1%, though.

Activity once again was quiet from a trading standpoint. The early dip elicited some decent buying, but it was still a generally quiet day with subdued volumes. "Wait and see" seems to be a good way to describe trading at the moment.

Time to Buy XLE?

Fundamentally, the outlook for oil remains broadly the same: Waiting on OPEC. But, as we discussed earlier this week, most major energy companies are not aggressively shutting in aggregate production, as increases from profitable wells are offsetting shut-ins from high-cost wells.

From a macro standpoint, pressure is mounting on OPEC, the Iranian negotiations may be breaking down and miss the late November deadline, and calls for sub $70 oil are very loud. So, we have energy stocks that are sharply off the highs and some potential positive catalysts on the horizon (OPEC meeting next week). So, to a point, XLE now has some "ok" fundamentals and potentially positive-turning technicals. Obviously this is a high risk/high return prospect, but XLE is worth a look especially if it breaks through that 50-day MA, which it should do today.

Bottom Line

This market has had plenty of opportunity to sell off these last few days, with Washington incompetence and infighting resurfacing and disappointing global PMIs.

But, stocks remain resilient and underinvested longs continue to aggressively buy dips, which we saw the past three days with the dialed-back sell-offs.

The resiliency of the market has to be respected. But I continue to be uncomfortable with the feeling of inevitability of higher stock prices, and am generally not a fan of "chasing" stocks higher with underinvested managers (which may reach a crescendo today with the China stimulus news and more ECB hints at QE).

Europe dipped yesterday despite the soft data, but I much prefer adding to HEDJ than SPY here, and continue to think that is a better place for tactical capital from a broad market standpoint. If we do see a continued "melt up" rally, Europe will outperform.

Economics

A lot of data came out yesterday both in the U.S. and globally. And, although on balance it was mildly disappointing, there were bright spots mixed in. As a result, the outlook for both the U.S. and global economies didn't really change much. The general consensus is that the global recovery, while borderline pathetic, is still a recovery—meanwhile, the U.S. recovery continues to progress in an environment of subdued inflation.

Global November Flash Manufacturing PMIs

- Chinese PMI 50.0 vs. (E) 50.2.
- German PMI 50.0 vs. (E) 51.5.
- EMU PMI 51.3 vs. 50.9.
- US PMI: 54.7 vs. 56.5.

Takeaway

The biggest disappointment in the data was the German

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PMI, which very surprisingly plunged to 50.0. This was the biggest negative of all the reports, although the broader EMU manufacturing PMI helped offset some of the negativity of the German report. (European markets would have been down even more if the EMU number hasn't beat.) Bottom line, the flash PMIs signal that the European economy is still under pressure, and the positive effects of the ECB stimulus haven't started helping materially, yet. This disappointing reading isn't altering my opinion that Europe can outperform. However, the data weren't *that* bad, and my opinion is based more on negative sentiment and ECB balance sheet expansion more than economic recovery. Case in point, while Europe sold off yesterday, it's still up for the week.

Turning to the U.S., there were more conflicting data. The manufacturing PMIs missed expectations and hit the lowest levels since January, while the Philly Fed manufacturing survey surged higher to 40.8 (I don't think I've ever seen a number that high). Generally, the national flash PMIs are the better gauge of manufacturing activity, and although they missed estimates, a reading of 54 still is healthy and it's not going to make anyone nervous about the pace of growth in the U.S.

Finally, the Chinese number hit 50.0, just missing expectations. While the media focused on output dropping below 50, the number wasn't *that* far from expectations and new orders (the leading indicator of the report) remain positive.

The pace of growth in China seems to be stable. While there are downside risks, the government remains committed to stimulus where needed, and that's softening the blow of the "miss."

Bottom line, they weren't good numbers but they weren't enough to materially change the outlook of a very slightly growing global economy.

CPI

- CPI was flat (0.0%) in October vs. (E) -0.1%.
- Core CPI rose 1.8% yoy vs. (E) 1.7%.

Market	Level	Change	% Change
Dollar Index	87.70	-.011	-0.01%
EUR/USD	1.2544	-.0009	-0.07%
GBP/USD	1.5697	.0016	0.10%
USD/JPY	118.01	.04	0.03%
USD/CAD	1.1303	-.0037	-0.33%
AUD/USD	.8629	.0012	0.14%
USD/BRL	2.5718	.0003	0.01%
10 Year Yield	2.335	-.016	-0.68%
30 Year Yield	3.053	-.014	-0.46%
Prices taken at previous day market close.			

Takeaway

CPI was a touch firmer than expected, as once we got past the expected collapse in energy prices (energy dropped 1.9%), prices firmed just a bit.

The key number in this report remains the core year-over-year reading (that's what the Fed targets) and it rose 0.1% to 1.8% in October.

Bottom line, this report does help further mitigate any dis-inflation concerns, which is a positive. But it certainly isn't "hawkish" as inflation still remains below the FOMC's 2.0% year-over-year floor. Nothing in this report will cause any change to the current expectation that the first rate hike will come in June.

Weekly Jobless Claims

- The 4 week Moving Average edged up 1.75K to 287.5K

Takeaway

Weekly jobless claims declined 2K last week to 291K from a revised reading of 293K the week prior. The 4-week moving average remains comfortably below the 300K mark, which importantly suggests the trend of the labor market remains positive.

Commodities

Commodity markets were mixed in volatile trade yesterday, but most products finished the day higher, leading DBC to rally 0.91%. Crude oil, natural gas and the grains all rallied while the metals underperformed. The DB Agriculture ETF (DBA) was flat on the day as strength in corn, soybeans and wheat was offset by a sharp sell-off in coffee futures.

Although much of the chatter surrounding the commodity markets continues to concern the energy space, it was more technical trading that dictated price direction yesterday. After support at $74 held on Wednesday and then again yesterday, some short-covering led futures up through a longstanding downtrend level, and futures topped out at the next ar-

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ea of resistance near $76.

Bottom line in crude, the situation is largely the same and investors continue to look ahead to next week's OPEC meeting. On the charts, futures filled a "primary session gap" overnight and a continuation of short-covering pushed futures up over $77—however then next level of resistance is just ticks higher near $78.

Moving on to the neurotic member of the energy family, natural gas futures traded in a broad 25-cent range yesterday before finishing the day higher by 2%.

Futures traded higher on positioning ahead of the EIA inventory report, then surged toward a 4-month high upon the data release, only to sharply reverse and fall the full range of the day (25 cents) as sellers gained momentum in late-morning trade. But, as quickly as the selling began, futures changed direction again on a colder than expected weather forecast released by the government's Global Forecast System, which saw prices rally back to the highs of the day. Bottom line, natural gas remains very volatile and trading should be left to the day traders for the time being.

Switching over to the metals market, copper futures fell 0.95% yesterday, notching the third loss in 4 sessions. The selling was spurred by the mildly disappointing flash PMIs overseas. Longstanding support at $3.00 held again though, and copper closed well off the worst levels of the day. On the charts, futures are continuing to try to break to the upside, but have failed to decidedly do so yet, so we remain in "wait and see" mode on copper.

Gold was little-changed yesterday and trading continues to be driven by movement in the dollar (which was, not surprisingly, little-changed). For the medium term, I remain bearish gold as the dollar is poised to extend recent gains once the current consolidation period comes to an end. Levels to watch are a resistance band between $1,195 and $1,200 while near-term support lies below at $1,180.

To revisit the "long agriculture trade" I mentioned last week, the "major 3" electronically traded ag products—corn, soybeans and wheat—all rallied yesterday, 2.68%, 1.69% and 1.72%, respectively. Most notably, corn rallied on increased exports, and rising ethanol production led to corn futures printing a bullish outside reversal.

Bottom line, all three of the aforementioned products are technical "buys" right now and I continue to like getting long the DB ag ETF DBA. However, because of how many components there are in the ETF, it may be weighed down by some other, underperforming components. So, to play the individual products, buying the Teucrium ETFs "CORN," "WEAT," and "SOYB" are the only option other than outright futures contracts. Although the volume is rather low, they track the futures moves pretty closely.

Currencies & Bonds

Despite the large volume of economic reports yesterday, currency markets traded mostly flat, as most of the data simply offset itself and no one's opinion of the various regions of the world changed. The Dollar Index, euro, pound and yen were all little-changed yesterday as the Europe data implied the European economy stinks (which we knew) ... the U.S. data implied the U.S. economy is relatively much better (which we knew) … and the Japanese data implied the Japanese economy is a disappointment (which we knew). The one positive surprise yesterday was UK retail sales, which beat expectations and led to a mild rally in the pound (up 0.2%).

This morning the story is the euro, though, as the Draghi comments have sent the euro down 1% and it's getting close to challenging the recent lows at 1.2361. In Asia, cautious comments by Japanese Finance Minister Aso regarding the yen's recent plunge resulted in a rally for the first time in what seems like forever (although the gains are somewhat muted).

Turning to bonds, Treasuries traded off of Europe, again. Treasuries were sharply higher early Thursday (30-year up 0.44%) off the disappointing German manufacturing data. But, the slightly hotter than expected CPI saw Treasuries come in a bit, and this continued throughout the day as Treasuries drifted lower. The 30-year closed up 0.22% but well off its best levels of the day, and this morning we are seeing some mild weakness on the rally in Europe.

Have a good weekend—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 11.17.14)

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**	*Stocks chopped sideways last week during quiet trading, and while the market remains buoyant, I continue to be skeptical about how much more is left in this "V" bottom. Most of the recent buying has been underinvested longs chasing stocks higher, and while that could continue for another 10-30 points in the SPX, the risk/reward for new capital at these levels isn't attractive.*

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, led lower by crude oil, which simply can't seem to find a bottom. Metals were flat all week before catching a big short covering bid on Friday following "Dovish" comments by Fed President Bullard, and the grains (DBA) remain the best performers in the commodity space recently.*

Best Idea: Buy Natural Gas (UNG)

Best Contrarian Idea: Buy Grains (DBA)

	Near Term Trend	Long Term Trend	Market Intelligence
U.S. Dollar	**Bullish**	**Bullish**	*The Dollar Index traded mostly flat last week as strength in the euro was offset by weakness in the yen and Pound. The dollar remains short term overbought and is in need of some consolidation, but the trend remains decidedly higher, and any dip is a buying opportunity.*

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 saw very mild declines last week in quiet trading. Economic data in the US was anecdotally "hawkish" but Europe remains firmly under a deflationary threat, so Treasuries remain well supported and any material decline is unlikely.*

Best Idea: Short "long" bonds (TBT)

Best Contrarian Idea: Short High Yield Bonds (SJB)

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