7:00's Report

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

November 25th, 2014

HEDJ: Yesterday's gap higher resulted in HDJ breaking a near 6 month downtrend, and if it can hold this breakout for a few days, the technical picture will be bullish.

Pre 7:00 Look

- Futures are flat following another very quiet night as markets further digest the idea of more global central bank accommodation.
- Economically the only material release was German Q3 GDP which met estimates at 1.2%.
- The yen is finally bouncing as the minutes from last month's BOJ meeting (where the bank unveiled more stimulus) implied the bar for further easing by the BOJ is high.
- Econ Today: Revised Q3 GDP (E: 3.3%), S&P Case-Shiller HPI (E: 0.3%), Consumer Confidence (E: 96.5).

Market	Level	Change	% Change
S&P 500 Futures	2069.00	1.50	0.07%
U.S. Dollar (DXY)	88.215	.009	0.01%
Gold	1200.80	4.20	0.35%
WTI	76.08	.30	0.40%
10 Year	2.310	-.005	-0.22%

Equities

Market Recap

Although it felt like the Thanksgiving holiday started early yesterday, stocks managed to grind higher again in very slow trading. Hopes for more Chinese stimulus and a good German IFO report sent stocks higher, and the S&P 500 closed up 0.29%.

Futures were higher from the outset yesterday led by strength in Asia, where Chinese markets were up sharply on the short-term prospect of more rate cuts and stimulus from the PBOC. Meanwhile, a good German IFO number helped push European stocks higher.

Domestically it was very quiet and stocks opened slightly higher and drifted sideways for most of the day in directionless, holiday-like trading.

Following an initial pop at the open, stocks flat-lined as the S&P 500 traded in less than a 4-point range for the entire day before catching a small bid on the close thanks mainly to a large "buy" imbalance of market-on-close orders.

Trading Color

Despite modest gains in the S&P 500, cyclicals handily outperformed yesterday as the Russell 2000 rallied 1.2% and now is just below recent highs (although still about 3% off the 52-week highs).

Cyclical sectors also outperformed as KRE (regional banks) rallied 1.3%, recouping some of Friday's losses, while retail (RTH) continues to surge as we head into Black Friday. RTH rallied another 0.74% as the winter storm that will hit tomorrow is expected to be gone by

Market	Level	Change	% Change
Dow	17,817.90	7.84	0.04%
TSX	15,015.41	-95.72	-0.63%
Brazil	55,406.91	-677.13	-1.21%
FTSE	6,739.96	10.22	0.15%
Nikkei	17,407.62	50.11	0.29%
Hang Seng	23.843.91	-49.23	-0.21%
ASX	5,334.79	-27.02	-0.50%
Prices taken at previous day market close.			

Friday. Across large portions of the country, Black Friday is expected to have clear skies and cold temperatures (ideal for the retailers).

Market	Level	Change	% Change
DBC	21.55	-.19	-0.87%
Gold	1198.60	.90	0.08%
Silver	166.44	.045	0.27%
Copper	2.9985	-.033	-1.09%
WTI	75.62	-.90	-1.18%
Brent	79.58	-.78	-0.97%
Nat Gas	4.126	-.14	-3.28%
RBOB	2.0318	-.0247	-1.20%
DBA (Grains)	25.60	-.09	-0.35%
Prices taken at previous day market close.			

In tech, AAPL again helped pull the sector higher, as that stock is simply unstoppable right now.

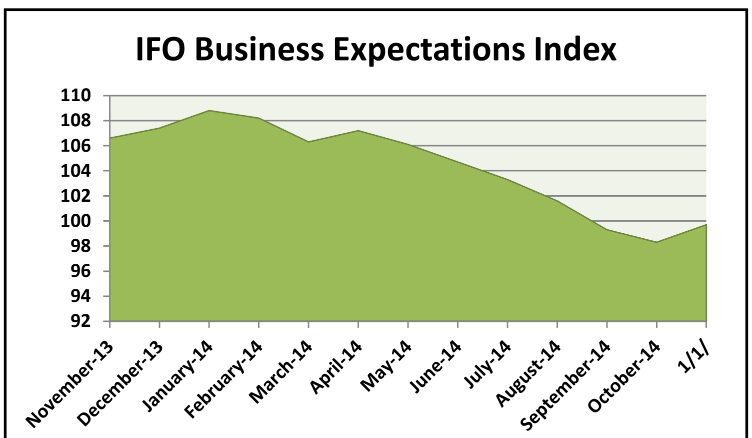
News-wise it was pretty quiet Monday as there weren't any big mergers. The biggest headlines pertained to LGF's declines following a disappointing weekend for the "Hunger Games" franchise.

Utilities and energy lagged (the former on general noise, the latter on the decline in crude and profit-taking ahead of OPEC), but the moves were modest (down 0.7% each).

Finally, Europe continues to trade well, and that was despite the "hawkish" comments from Bundesbank head Jens Weidmann (more on those later). HEDJ again outperformed, up 0.9%, and yesterday it made a major breakout against a downtrend line dating back to early June.

Washington Update

Last week reminded us that Washington is "back" as an influence on markets. As has been the case for 2+ years now, despite various headlines, from a market standpoint the only thing that really matters is the potential for a shutdown or a debt ceiling fight.



The uptick in German IFO Bus. Expectations confirmed the bounce in the ZEW Index last week, and in a EU where deflation is a threat and psychology fragile, rising expectations is an important positive.

As of now, both look like they are not a risk. Republicans have learned their political lesson and leadership has strongly implied there will be no budget showdown again, despite rhetoric.

Key dates to watch are Dec. 11, which is when the government needs a new continuing resolution to fund the government, and March 2015 (when we need a new debt ceiling).

The most pressing issue is the CR on the 11th, but Republicans will almost certainly approve something short term. While it's a wild card, they may de-fund some immigration programs, but this should not be a repeat of October '13 or December '12.

Bottom line, although a risk, Washington is more "bark" than "bite" at this point from an actual headwind standpoint. But, the potential for anything positive coming out of Washington is virtually zero for the foreseeable future.

Economics

There were no notable economic reports yesterday.

Commodities

Commodity markets started the shortened holiday week with a bias to the downside on lighter than average volume. Natural gas was the most notable mover, beginning the session down more than 5%. The rest of the energy sector was also under pressure while precious metals finished the day little-changed. DBC fell 0.85%.

Natural gas futures opened deep in the hole yesterday morning, down 25 cents (or more than 5%) toward the psychological $4.00 level, which created a very large "gap" on the chart. Futures did steadily drift higher over the course of the day, but still finished down 0.11%. Last week the EIA reported the first supply draw of the year, a drop of 17 Bcf, so we are now officially entering the winter draw season.

So, going forward, the natural gas market will remain quite volatile as traders analyze weather forecasts and speculate demand metrics for heating needs across the country. On the charts, there is psychological support at $4.00 while the aforementioned "gap" in the chart could attract the price of futures up to $4.23 if the market gets any momentum behind it.

Trading in gold and silver was very quiet yesterday as futures closed up 0.01% and up 0.18%, respectively. The $1,200 level in gold is continuing to be a stubborn resistance level that futures can't seem to hold on to. The counter-trend rally remains intact for now, but resistance at the 50-day moving average is pushing lower and currently sitting at $1,206.80.

Our medium-term view remains the same. We believe that, as soon as the consolidation period in the dollar ends and the rally in the greenback resumes, the downtrend in gold will likely resume as well. On the charts, the aforementioned resistance at the 50-day moving average is in focus on the upside while there is a band of support between $1,185 and $1,190.

Copper continued its sideways oscillation yesterday as futures again failed at the downtrend line we have been focusing on. Futures finished down 1.09% and remain range-bound between the high $2.90s and trend resistance at $3.04, but we are continuing to watch closely for a potential buy signal with an initial target of $3.10. So copper futures bear watching here.

It was a fairly slow day in the oil markets yesterday as futures bounced slightly in the morning but failed at resistance near $77 a barrel and fell back to close near the lows of the day, down 0.90%. The energy markets are pretty much in wait-and-see mode as volumes are down because of the holiday and everyone is looking ahead to the OPEC meeting (more on that later). On the charts, the aforementioned $77 level is continuing to work as resistance while initial support lies below at $75.50.

In addition to the OPEC speculation, there was an article out in the Kommersant newspaper, a Russian business and political publication, that said Russia may cut production by 300K barrels a day next year, working with OPEC to defend the price of oil. For now, the news is nothing more than a rumor and many analysts find the thought comical of Russia cutting *anything* that makes them money. So, it is a "believe it when I see it" kind of thing.

OPEC Meeting Preview

The OPEC meeting on Thursday is the next major catalyst in the energy sector, and even though most of us will have our minds on turkey rather than oil, we wanted to make sure everyone knew what was expected and priced in.

The consensus expectation is still for their official production target to be left unchanged. But, other than an adjustment lower in the cartel's "target output," which would be bullish, there are two other things markets will be looking for out of Thursday's meeting.

First, there has clearly been a disconnect between OPEC members recently as some are feeling the effects of the oil sell-off more so than others. Many leaders seem more concerned with their individual market share than the price of oil itself — hence the collective health of OPEC.

So, any sign of agreement within the statement release from the meeting will be taken as mildly bullish for global oil prices, as it will show that unity within OPEC and therefore continued control over oil prices.

Second, OPEC members other than Saudi Arabia have always "cheated" on their quotas, and OPEC regularly "overshoots" its target output rate by around 500K barrels/day. So, if there is mention of a "stricter" production targets, i.e the cheaters stop over producing, that will also be somewhat bullish for oil, as it would likely result in a slight production cut, despite the target remaining static.

Market	Level	Change	% Change
Dollar Index	88.185	-.22	-0.25%
EUR/USD	1.2437	.0049	0.40%
GBP/USD	1.5704	.0051	0.33%
USD/JPY	118.27	.47	0.40%
USD/CAD	1.1296	.0067	0.60%
AUD/USD	.8607	-.0058	-0.67%
USD/BRL	2.5453	.0301	1.20%
10 Year Yield	2.310	-.005	-0.22%
30 Year Yield	3.019	-.002	-0.07%
Prices taken at previous day market close.			

Currencies & Bonds

For a holiday week there was some surprising volatility in the currency markets on Monday, as the euro rallied back above 1.24 and the Dollar Index declined modestly, down 0.25%.

Strength in the euro offset declines in the yen, Aussie and Loonie.

The euro was the story yesterday, as it rallied following a better than expected German IFO Business Expectations Survey, and following comments by German Bundesbank President Weidmann, who not so subtly implied that any additional stimulus from the ECB (read QE) would face significant legal challenges.

So, to a point Germany (via good data and comments) threw some cold water on the idea of QE in the EU. And, that led to a rally in the euro as it declined sharply last week on increased expectation of QE.

Again, German economic data and German official comments carry heavy weight because Germany remains the main opponent to QE in the EU. And, we are witnessing, in real time, a long, drawn-out process of Germany acquiescing to the will of the rest of Europe (very similarly to how the European crisis played out with the eventual creation of the OMT).

The next major event in this saga is the TLTRO auction in mid-December, and barring any major disappointment in this Friday's EU HICP, I believe we will see a chop sideways between the recent lows of 1.2361 and the recent highs of 1.26 into that auction.

Turning to the commodity currencies, both saw general selling (down 0.5%) after big rallies Friday following the China rate cut. Interestingly, neither the Aussie nor the Loonie could generate any further positive momentum following the Reuters article out over the weekend, which resulted in strength in Asian equity markets.

Part of the declines in both currencies yesterday was due to general long selling following the Friday rally, but it also represents the fact that the Chinese doing "more" isn't exactly a great sign. China won't cut rates further or offer more stimulus to boost the economic growth rate—they are doing this to preserve the current growth rate. From a global economic and commodity demand standpoint, that isn't exactly bullish—that's because Chinese economic demand won't be increasing; it'll be stagnant, with risks to the downside.

So, despite the Chinese news, I believe the trend in both currencies remains decidedly lower, and any rally (including the one since last Friday) should be viewed as shorting opportunities.

Finally, dollar/yen rose back through 118 yesterday despite a lack of any news (there was a public opinion poll out in Japan over the weekend that said more Japanese supported Abe, so that may have exerted some negative influence on the currency).

Bottom line is the yen remains very heavy, but with so much "yen-negative" news priced in, I continue to believe 119 will serve as the low in dollar/yen for at least the short term, as this market needs to consolidate. Otherwise the declines risk getting out of control in the short term, and that won't be very good for anyone other than yen shorts.

I am a huge yen bear/DXJ bull, but even I don't want to see if the decline in the yen can accelerate materially from here, as that may prompt action to defend it by the BOJ, which won't be good for DXJ. I don't expect that to happen, but some consolidation is needed to restore some health/sanity to this market.

Turning to bonds, we saw some decent volatility yesterday as Treasuries (again) traded off Europe. Treasuries were lower initially, although that was a touch deceiving as the contract rolled to the March '15 contract. But, by the end of the day both the 10- and 30-year were modestly higher following the Weidmann comments (Bunds rallied) and the call by Jeff Gundlach that Treasuries are "cheap" at these levels.

I certainly won't argue with a man that successful, but if Treasuries are indeed cheap here, then I think that means equities are expensive, because I don't see how we get a material rally in bonds here absent a serious bout of deflation. So, I hope he is wrong, for multiple reasons.

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 fundamen-			

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Asset Class Dashboard

(Updated 11.24.14)

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 moved to new highs again last week continuing the "V" recovery from the October sell off. Decent economic data and expectations of global central bank easing pushed stocks higher, although late last week the market started to feel a bit stretched in the near term, and some consolidation is likely during the holiday shortened week.*
Best Idea: Buy Regional Banks (KRE). **Best Contrarian Idea:** Buy Energy (XLE)			
Commodities	**Bearish**	**Bullish**	*Commodities rose last week as gold and oil rallied. The former rose despite a stronger dollar, as more global central bank easing helped push gold higher, while oil rallied mostly on an oversold bounce. Despite the bounce in commodities, though, the dollar remains strong so it'll be hard for commodities to generate and real upside momentum in the short term.*
Best Idea: Buy Natural Gas (UNG) **Best Contrarian Idea:** Buy Grains (DBA)			
U.S. Dollar	**Bullish**	**Bullish**	*The Dollar Index surged to new highs last week (up 1%) thanks primarily to weakness in the euro and yen, both of which declined more than 1% respectively vs. the dollar. With central bank policies diverging so materially (Fed tighter, everyone else "easier") the dollar uptrend will continue even If there is some short term consolidation.*
Best Idea: Sell the Yen (YCS) **Best Contrarian Idea:** Long British Pound (FXB)			
Treasuries	**Neutral**	**Bearish**	*Treasuries were flat last week despite the global equity market rally. Treasuries remain dominated by Europe in the short term, and while ECB President Mario Draghi was "dovish" last week, German bunds remained well bid, and until we see a sell off in those*
Best Idea: Short "long" bonds (TBT) **Best Contrarian Idea:** Short High Yield Bonds (SJB)			