7:00's Report

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

November 26th, 2014

Energy Stocks got hit hard yesterday on lower oil prices and are now at critical short term support levels.

Pre 7:00 Look

- International markets are higher ex-Japan and U.S. futures are up small this morning following more QE hints from ECB members and ahead of a barrage of US data.
- The positive event o/n was a speech by ECB member Constancio who again heavily hinted at the ECB doing QE next year.
- Outside of the ECB comments, it was a very quiet night economically as UK GDP met expectations at 3.0% yoy.
- Econ Today: Durable Goods Orders (E: -0.5%), Jobless Claims (E: 286K), Personal Incomes and Outlays (E: 0.4%), New Home Sales (E: 470K), Pending Home Sales (E: 0.6%).

Market	Level	Change	% Change
S&P 500 Futures	2069.75	2.25	.11%
U.S. Dollar (DXY)	88.05	.08	.10%
Gold	1197.80	-.10	-.01%
WTI	74.16	.07	.11%
10 Year	2.26	-.050	-2.16%

Equities

Market Recap

We saw typical holiday trading yesterday as stocks barely moved, hovering around flat the entire day in quiet trading. Markets largely ignored U.S. economic data and a sharp drop in oil, and the S&P 500 declined 0.10%.

Stocks popped at the open (as they have done for the last few weeks) following the better than expected GDP report. But that was offset by the disappointing consumer confidence number, and by 11:30 stocks were at their lows of the day. Keep in mind, though, that the range from peak to trough yesterday was a mere 10 points in the S&P 500.

On cue, the 5-point drop in the S&P 500 elicited the Pavlovian response from underinvested managers, and stocks were back positive within two hours, rising steadily through lunchtime.

The news item of the afternoon yesterday was the plunge in oil prices, as expectations rose for OPEC to do "nothing" on Thursday. But the equity market largely ignored the moves and, from 1 o'clock through the close, the stock market traded in a very tight 3-point range and markets closed quietly.

Trading Color

There's not much to read into, frankly. The major averages were all little-changed and with the exception of energy stocks getting hit (XLE down 1.6%) and gold miners rallying, there wasn't much to talk about.

All of us at The 7:00's Report want to wish you and your family a very happy Thanksgiving. If you are travelling today, travel safe, and we will talk to you Friday morning

Market	Level	Change	% Change
Dow	17,814.94	-2.96	-0.02%
TSX	15,073.65	58.24	0.39%
Brazil	55,580.81	153.90	0.28%
FTSE	6,746.37	15.23	0.23%
Nikkei	17,383.58	-24.04	-0.14%
Hang Seng	24,111.98	268.07	1.12%
ASX	5,396.21	61.42	1.15%

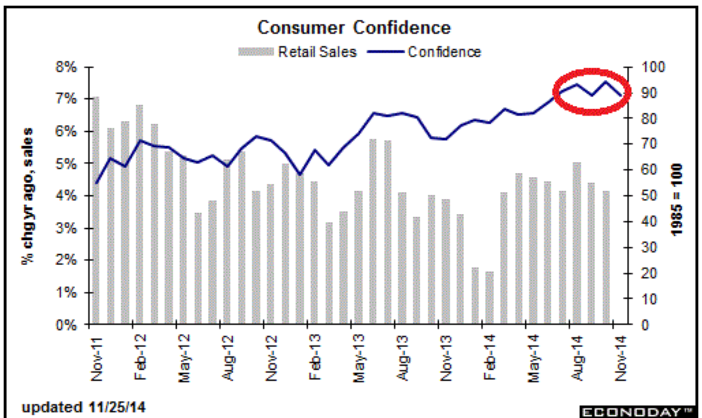
Prices taken at previous day market close.

Energy came for sale hard on the OPEC rumors/expectations yesterday, and XLE is now at critical support. XLE is now sitting on the uptrend from the mid-October lows, and if yesterday's lows are violated materially, then clearly the move back above the 50-day moving average was a false breakout. Any trading stocks should be exited unless you can stand the volatility of the OPEC meeting.

Market	Level	Change	% Change
DBC	21.47	-.08	-0.37%
Gold	1198.70	2.10	0.18%
Silver	16.655	.22	1.34%
Copper	2.964	-.042	-1.40%
WTI	73.95	-1.83	-2.41%
Brent	78.21	-1.47	-1.84%
Nat Gas	4.421	.117	2.72%
RBOB	2.0281	-.0053	-0.26%
DBA (Grains)	25.74	.16	0.63%
Prices taken at previous day market close.			

It's true the "worst case" in OPEC is now priced in, but even if we see a "buy the news" reaction, it won't necessarily be positive. If energy is trying to bottom, XLE needs to hold support right here.

Europe continues to outperform (HEDJ up 0.42% yesterday) and we're not entering a critical period for this trade short term. If HEDJ can hold this breakout through the HICP, I think that will create more momentum buying/short-covering. I remain very positive on the name.



Consumer Confidence was surprisingly weak yesterday, dropping to 88.7 vs. (E) 96.5. It's a volatile indicator and needs to be taken with a grain of salt, but on the chart does look like consumer confidence is "topping."

News-wise yesterday was a pretty slow day, as utilities caught a bid midday after selling off hard following the drop in yields and on news the Supreme Court will hear a challenge to the EPA's new emissions standards pertaining to mercury and greenhouse gas emissions. Retailers saw some light profit-taking despite TIF rallying 2% following earnings, but that space has come a long way in a short time and some digestion into Black Friday makes sense here.

Finally, although we don't often mention single stocks here, one of the names I've been touting as part of our "Return of the U.S. Consumer" theme is SYF, Synchrony Financial. It seems the algos are playing in this stock because twice yesterday we saw two mini-plunges: In the first, the stock fell from $29.28 to $28.78 in one minute; and in the second at 2:45, the stock collapsed from $28.75 to $28.03 in one minute. Who knows if they stick around, but it may make sense to throw in some crazy cheap bids around $28 and see if you can get lucky for a trade.

Rest of the Week

Nothing has changed in the current market narrative following two days of flat closes, and it's unlikely anything will change today barring some shocking disappointment from the economic data. The market is resilient but there is a definite sense of complacency with regard to the inevitability of a year-end melt-up, and each dip continues to pull in more underinvested managers. I think the setup for a dip/correction in December is growing, but for now the market remains buoyant and that must be respected.

The rest of the week will be dominated by OPEC (both the meeting and reaction Thursday night/Friday morning) and the EU inflation numbers on Friday. Both are important events to watch and we'll obviously be covering them here, but unless we see material deviation from the expectations, any implications of either will likely be left until next week, as Friday the juniors will be manning the desks. But, I only point them out again to reiterate these are events we need to keep an eye on (and we'll do it for you—enjoy your turkey and give us a few minutes Friday morning).

Economics

Revised 3rd Quarter GDP

- Q3 GDP rose 3.9% saar vs. (E) 3.3% saar.

Takeaway

This was a surprisingly good report and clearly shows the

U.S. economy was stronger than previously thought in the third quarter.

Headline GDP was better than estimates, but the details of the report were also strong. Real PCE (consumer spending) was revised higher to 2.2% from the initial 1.8% in last month's advanced Q3 GDP report, and business spending & investment (called non-residential fixed investment) was revised to 7.1% from 5.5%. And, final sales of Domestic Product, which is GDP less inventories and a key sub-index to watch, held steady at a high level, dropping slightly to 4.1% vs. previous 4.2%.

Pessimists on the U.S. recovery will cite the fact that government spending was up 9.9% and contributed to the strong number. But really the story in this GDP report was that consumer spending was stronger than we thought in Q3, and that fact further reinforces our "Return of the U.S. Consumer" thesis that continues to do well (SYF, LEAF,RTH)..

As mentioned, PCE was revised higher, but so was "Final Sales to Domestic Purchasers." This is a better gauge of pure spending, as it accounts for the purchase of goods that were produced domestically and imported. Final Sales to Domestic Purchasers was revised higher from 3.2% to 2.7%.

On the inflation front, PCE increases largely met expectations as core PCE rose 1.5% from a year ago and was unrevised. With two strong quarters of GDP now in the books, it's likely we'll see some payback in Q4. Expectations seem to be just under 3% due to inventories and net imports, but overall the U.S. recovery continues to gain momentum.

Commodities

Commodities were mixed yesterday with energy taking a leg down on continued speculation of tomorrow's OPEC meeting while natural gas futures jumped higher ahead of a snowstorm that is approaching the East Coast. Meanwhile gold was little-changed but the industrial metals pulled back as investors weighed the potential effectiveness that China's recent interest rate cut will have on the economy. The widely followed DB commodity tracking ETF, DBC, fell 0.37%.

Market	Level	Change	% Change
Dollar Index	87.945	-.261	-0.30%
EUR/USD	1.2477	.0035	0.28%
GBP/USD	1.5707	.0002	0.01%
USD/JPY	117.94	-.32	-0.27%
USD/CAD	1.126	-.0017	-0.15%
AUD/USD	.8529	-.0084	-0.98%
USD/BRL	2.5296	-.0157	-0.62%
10 Year Yield	2.26	-.050	-2.16%
30 Year Yield	2.966	-.053	-1.76%

Prices taken at previous day market close.

Oil prices were in focus again yesterday as WTI and Brent crude futures fell 2.24% and 1.66% respectively. It was bearish headlines out of Vienna where talks among officials from oil-producing giants Venezuela, Saudi Arabia, Mexico and Russia (two OPEC countries, two non-OPEC countries) apparently made no progress in agreeing on terms to reduce production. A statement did say there was agreement on the "quarterly monitoring of oil prices." But that was clearly not what the market wanted to hear as futures crashed through support at $74.00 in electronic trade yesterday afternoon.

Bottom line, the oil markets remain all about the OPEC meeting on Thursday and whether or not any sort of agreement can be made to curb, or at least more strictly monitor, production levels globally. Based on the record production levels and slowing demand growth, if nothing is done Thursday, prices will likely resume the sharp downtrend that has been in place since June.

Natural gas futures continued to march higher yesterday, rising 2.32% ahead of a snowstorm that is expected to hit a large portion of the East Coast today, which will spur an uptick in natural-gas-fueled heating needs. It is worth noting again, last week was the first "draw" of the season as supply levels slipped back -17 Bcf. This week the EIA will report inventory data **today at noon** because of the holiday tomorrow and analysts are forecasting a record draw in supplies of -149 Bcf. The five-year average drop is -6 Bcf. So, bottom line, intraday volatility is set to continue, but for at least the very near term, the unusually cold temperatures, and subsequent supply draws, will continue to support natural gas prices.

Gold was again little-changed yesterday, finishing higher by just 0.12%. But, the notable takeaway from yesterday's session was the failure of gold futures to rally as the dollar fell 0.30% (remember there has been a very high inversely correlated relationship between gold and the dollar for the past month). Bottom line, with the dollar continuing to approach trend support, gold is poised to roll over, resuming the 2014 downtrend. On the charts, $1,200 is proving to be stubborn resistance while initial support is below at $1,190.

Traders will be watching this morning's Personal Incomes and Outlays report as the PCE Price Index is the Fed's preferred measure of inflation and, at the end of the day, trading in both the dollar and gold is a direct function of Fed policy speculation. A "cooler" than expected reading would be gold-bullish, while a "hot" reading would be bearish (counter-intuitive, but it is all about the dollar and when the Fed will "hike rates").

Copper finished the day at the lowest level since March on a closing basis yesterday as futures fell 1.36%. Copper has been threatening to break out through resistance for over a month now, but with so many failed attempts and doubts as to how effective the recent rate cuts in China will be, many investors "threw in the towel" on their long positions yesterday. The technical picture is not completely bearish yet as the October lows have yet to be broken ($2.95), and until we see such a break, we remain neutral on copper.

Currencies & Bonds

Despite sleepy trading in stocks, volatility continued in the currency markets, as the dollar declined for a second straight day while the euro added to Monday's gains. Once again, though, the Dollar Index declined because of strength in the euro and yen, not because of any dollar-negative news. These moves should be viewed as an oversold bounce in the euro and yen, not a reversal of dollar strength.

Before getting into euro/yen trading, though, I have to start this section with the Aussie dollar, which utterly collapsed 1% yesterday to new multi-year lows. The Aussie fell following comments by Reserve Bank of Australia Governor Philip Lowe, who said the Aussie was still overvalued and needed to decline. Those comments, coupled with a further drop in the price of Iron Ore, which is a main export of Australia, gave Mr. Lowe his wish, as Aussie is now at multi-year lows, and inching further toward our near-term target in the lower $0.80s vs. the dollar.

We have said it before and we maintain this position: The era of the high-value commodity currencies vs. the dollar has ended, and we don't expect to see it again for a long time.

The Dollar Index declined 0.28% and closed back below 88 following modest rallies in the euro and yen (up 0.32% each). Starting with the former, there was more incremental cold water thrown on the idea of QE in the EU by two ECB members yesterday, Mssrs Coeure and Noyer. Coeure said current policies needed more time to produce results before anything new would be decided, while Noyer said the $1 trillion balance sheet expansion was a "expectation … not a commitment." In sum the comments don't change anything, but in the very short term the euro continues to trade off QE expectations.

Treasuries rose for the 4th session in a row yesterday as the long bond gained 0.58% and the 10-year note added 0.29% thanks to surprisingly strong demand in Treasury auction midday.

Bonds initially sold off on the stronger than expected GDP report, but then recovered and hit fresh session highs on the disappointing consumer confidence report. But, Treasuries surged higher on an unexpectedly strong 5-year note auction that reportedly had the highest demand in a decade. The bid to cover, a measure of demand, came in at 2.91—decently well above the 2014 average of 2.74. Meanwhile the high yield was down toward the lower end of this year's range at 1.595%.

Bottom line, the story in the Treasury market remains very much the same: With the average 5-year yield of G-7 nations (ex-the U.S.) at a mere 0.70%, and the U.S. 5-year note trading at 1.595%, the risk/reward setup is simply too attractive to international investors and those bids are continuing to trump the fundamentals of our Treasury market.

Have a Happy and Safe Thanksgiving,

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 11.24.14)

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 bonds, Treasuries will stay buoyant.*
Best Idea: Short "long" bonds (TBT) **Best Contrarian Idea:** Short High Yield Bonds (SJB)			