7:00's Report

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

December 26th, 2014

Pre 7:00 Look

- Futures are flat and trading globally in quiet following the holiday.
- Asia was broadly higher on continued momentum from the US, while Europe is little changed this morning. There were no material economic reports or market headlines.
- Action this morning is in the commodity markets, as Brent crude rallied back above $60.00 on a cut in Libyan output and generally positive comments from the Saudis, while gold is up 2% on general geo-political worries.
- Econ Today: There are no economic reports today.

Market	Level	Change	% Change
S&P 500 Futures	2081.75	3.00	0.14%
U.S. Dollar (DXY)	90.25	.027	0.03%
Gold	1197.80	24.30	2.01%
WTI	56.24	.40	0.65%
10 Year	2.264	.007	0.31%

Equities

TODAY IS A HOLIDAY SHORTENED VERSION OF THE REPORT. REGULAR ISSUES WILL RESUME MONDAY. HAPPY HOLIDAYS AND HAVE A GREAT WEEKEND.

Market Recap

Stocks traded flat Wednesday and futures are little changed this morning following the holiday. The S&P declined –.01% Wednesday.

As expected, trading Wednesday was very slow. Jobless claims were the only economic release and they were largely ignored by the market (despite being good).

About the only interesting thing that happened Wednesday was the plunge in the price of oil, which declined sharply following bearish inventory data.

But, stocks were able to ignore the falling oil prices and the decline in XLE, which dropped .73% and was the worst performing S&P 500 sub-index. Oil is higher this morning on supply concerns, so I would expect some XLE to rebound, which should generally support the market today.

Bottom Line

It should be a very quiet day and unless oil begins to sell off again, I'd expect another uneventful trading day. But, as we look out to the last week of the year keep in mind the third and final round of voting for the Greek Presidential election is Monday. So, given that fact, the year isn't "over" from a market standpoint and there remains the potential for some late volatility if the 180 vote threshold isn't reached.

The number of non-majority party votes the Greek Presidential candidate received increased from 5 in the first round to 11 in the second. So, it seems like there is some cautious optimism that there is enough behind the scenes wheeling and dealing to get over the 180 mark on Monday, but it is going to be a very close call. And, if the vote fails, it will weigh on Europe the hardest but US markets will not be immune from the volatility.

Beyond Greece, this market remains all about energy, junk debt, and the Ruble (which remains steady this morning).

That said, in the very short term, if the Greeks elect a President and oil and ruble can hold steady, we could easily see a "melt up" during the last week of trading,

Market	Level	Change	% Change
Dow	18030.21	6.04	0.03%
TSX	14,609.25	15.22	0.10%
Brazil	50,889.81	768.95	1.53%
FTSE	6,609.93	11.75	0.18%
Nikkei	17,818.96	10.21	0.06%
Hang Seng	23,349.34	15.65	0.07%
ASX	5,349.50	13.58	0.25%
Prices taken at previous day market close.			

and broad consensus seems to be for 2100 in the S&P 500 by year end. That's not a rally we'll be buying into, though, as again it'll mostly be due to positioning and late longs chasing stocks higher, not on an improving fundamental outlook.

Market	Level	Change	% Change
DBC	18.81	-.25	-1.31%
Gold	1173.50	-4.50	-0.38%
Silver	15.71	-.057	-0.36%
Copper	2.8535	-.0125	-0.44%
WTI	55.84	-1.28	-2.24%
Brent	60.15	.00	0.00%
Nat Gas	3.03	-.141	-4.45%
RBOB	1.5127	-.0577	-3.67%
DBA (Grains)	25.13	-.24	-0.95%
Prices taken at previous day market close.			

Economics

Weekly Jobless Claims

- Weekly claims fell to 280k vs. (estimate) 290k.

Takeaway

The good economic data continued on Wednesday as jobless clams moved lower and the 4 week moving average dropped to 290k.

We can expect some volatility in the claims number over the coming weeks due to temp holiday work ending, but the bottom line is claims are clearly showing the labor market continues to incrementally tighten and improve.

Commodities

What volatility there was in the markets since Wednesday morning came from the commodity markets, as oil dropped more than 2% Wednesday and gold is sharply higher this morning (up over 2%).

Oil was the big story Wednesday as WTI Crude plunged 2.5% following very bearish inventory data. Crude oil inventories surged 7.3 million barrels vs. expectations of a 1.8 million barrel **draw**, while RBOB gasoline supplies rose 4.1 million barrels and distillates (heating oil) rose 2.3 million barrels (both products were expected to have draws in supply).

The shocking inventory builds come at an odd time of year, as oil companies usually want to reduce inventory into year end for tax purposes (we usually see surprisingly large draws this time of year as refiners run down inventories). US oil inventories set a new all time record following the release Wednesday morning.

WTI Crude dropped to $55.00 per barrel Wednesday but support at that level held and oil closed nearly $1.00 off the lows of the day and we are seeing further stabilization this morning. The reason for the recovery in prices is a drop in Libyan output, as the country announced yesterday that output for December is running about half of what it was in November, due to an uptick in fighting around key oil assets (current output is 352k bbls/day).

So, the US inventory data was bearish, but the Libyan output data was (slightly) bullish, but the bottom line is oil remains volatile. Near term support at $55.00 (Wednesday's low) is important, but the key level to watch is $53.60—that's the low from last week and a level that simply can't be violated for any reason if oil is indeed bottoming in here.

Turning to gold, it's up over 2% this morning and is up against resistance at $1200 despite the US Dollar remaining well above the 90 level (so the gold rally isn't because of dollar weakness).

There isn't any specific reason for the gold rally, but if I had to attribute it to something it'd be general geopolitical angst. There was an uptick in rhetoric by Russia towards Ukraine over the past few days, and as silly as it sounds, there is growing fear of further cyber attacks over the release of "The Interview" movie (the Sony PlayStation and Microsoft Xbox networks were hacked last night).

Point being, this does not appear to be a very high quality rally in gold. Gold is against resistance at $1200 now, and while short covering may be able to get gold through that resistance in the very short term, I'd be much more interested in selling gold with a "12" handle on it as a near term trade, rather than buying it. Longer term, there will be a time to buy gold again, but I think we have some time to wait.

Currencies & Bonds

The currency and bond markets are quiet today (and were quiet Wednesday). The Dollar index declined –.11% Wednesday and is flat again this morning, as are all the major crosses (the euro, yen, pound and Aussie are all almost unchanged). And, with no economic data on the calendar today, it should be a very slow day in the currency space.

Bonds were a bit more interesting on Wednesday. I highlighted in Wednesday's report that we saw the biggest decline in 14 months in the long bond on Tuesday, and one of the more underfollowed stories of the last week has been the decline in bonds.

The 30 year was down again early Wednesday on the stronger than anticipated jobless claims report, but buyers were there on the dip and the 30 year closed basically flat, staging a nice recovery despite another weak Treasury auction (this time 29 billion of 7 year bonds).

Wednesday was a good representation of the bond market at the moment: Fundamentals continue to deteriorate and over the last week it seems the market is paying more attention to negative fundamentals. But, the relative value of Treasuries to foreign investors remains substantial, so there are buyers on dips, and it will be very difficult for Treasuries to build any downward momentum until we see signs of an economic uptick in Europe. So, bond bears like me will have to stay patient, but at least there are signs the negative fundamentals are starting to be at least partly reflected by the market.

Have a good weekend,

Tom

Market	Level	Change	% Change
Dollar Index	90.225	-.101	-0.11%
EUR/USD	1.2218	.0025	0.20%
GBP/USD	1.5537	-.0021	-0.13%
USD/JPY	120.14	-.34	-0.28%
USD/CAD	1.1621	-.0002	-0.02%
AUD/USD	.8116	.0012	0.15%
USD/BRL	2.6952	.0002	0.01%
10 Year Yield	2.264	.007	0.31%
30 Year Yield	2.834	-.018	-0.63%
Prices taken at previous day market close.			

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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.			

Asset Class Dashboard

(Updated 12.22.14)

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**	*After suffering its worst decline in 3+ year two weeks ago, the S&P 500 enjoyed a huge "snap back" rally last week as stabilization in energy stocks, junk debt and the Russian ruble led to a massive short covering rally. Fundamentally, though, nothing material changed, so the 90+ point, 3 day rally in the SPX last week seems a bit artificial. We*

Best Idea: **Buy Retail (RTH).**

Best Contrarian Idea: **Buy Energy (XLE)**

Commodities	**Bearish**	**Bullish**	*Commodities stabilized last week as oil finally tried to put in some sort of bottom. But, it's important to differentiate the stabilization of oil as mostly just an oversold bounce, not the result of some positive change in supply/demand fundamentals. With the Dollar Index hitting new highs, though, we expect commodities to at best be range bound.*

Best Idea: **Buy Natural Gas (UNG)**

Best Contrarian Idea: **Buy Grains (DBA)**

U.S. Dollar	**Bullish**	**Bullish**	*The Dollar Index hit new multi-year highs last week, resuming its months long uptrend as the FOMC focused on rate hikes in mid 2015, highlighting the growing divergence between US monetary policy (tighter) and everyone else (more accommodative). Because of that, we expect the dollar rally to continue.*

Best Idea: **Sell the Yen (YCS)**

Best Contrarian Idea: **Long British Pound (FXB)**

Treasuries	**Neutral**	**Bearish**	*Treasuries declined modestly last week following the "hawkish" FOMC meeting, as domestic economic and policy fundamentals (better economy, forthcoming interest rate increases) continue to be ignored by bond investors. Until Europe shows signs of economic progress, Treasuries will remain well supported, even as fundamentals deterio-*

Best Idea: **Short "long" bonds (TBT)**

Best Contrarian Idea: **Short High Yield Bonds (SJB)**