7:00's Report

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

January 9th, 2015

Pre 7:00 Look

- Futures are flat ahead of today's jobs report while most international markets traded lower o/n.
- Chinese shares fell as inflation data came in light while stocks declined in Europe on soft economic data and disappointing QE headlines.
- Economically, Chinese CPI met expectations but PPI fell -3.3% vs. (E) -3.2%. In Europe Industrial Production metrics missed, Notably German IP was –0.1% vs. (E) +0.3% in Nov.
- Econ Today: Employment Situation (E: 245K), Fed Speak: Lacker (1:20 PM)

Market	Level	Change	% Change
S&P 500 Futures	2052.00	-3.00	-0.15%
U.S. Dollar (DXY)	92.345	-.257	-0.28%
Gold	1211.30	2.80	0.23%
WTI	48.80	.01	0.02%
10 Year	2.016	.062	3.17%

Equities

Market Recap

Stocks were sharply higher yesterday as oil prices remained stable for a second day, and as global central bank chatter was interpreted as dovish. The S&P 500 spiked 1.79%.

Modest global oil prices overnight, soft EU economic data paired with dovish ECB commentary, and inline US jobless claims data all helped futures rally ahead of yesterday's open.

Stocks opened slightly higher, then immediately surged out of the gate yesterday, gaining more than 1% in the first 15 minutes of trade.

Domestically, it was Charles Evans, President of the Chicago Fed, who made dovish comments along the lines that "it would be a catastrophe to tighten policy too soon," which supported the bulls' cause into midday.

But, the momentum from the strong morning rally faded into lunch time and stocks quietly drifted slightly higher into the end of the day, closing just off the highs of the day.

Trading Color

Looking to the market internals, yesterday's rally in stocks was almost perfectly uniform between large and small caps. The Dow rallied 1.84% while the Russell gained 1.71% nearly mirroring the S&P's increase.

There was an encouraging appetite for risk as high-beta stocks outperformed their low-volatility counterparts by nearly 2:1.

There was broad strength across sectors as all of the major components of the S&P closed higher.

Safety sectors were the laggards as utilities were the worst performs, rallying just 0.7% while financials also struggled.

Meanwhile tech, materials, transports, and homebuilders were all up 2% or better.

Energy also performed well, adding 2.24% thanks to oil prices holding up for the second session in a row; however, we are not yet convinced that a solid bottom has formed in the space and fear that further downside may still be ahead of us.

The potential for oil prices, and as a result energy shares

Market	Level	Change	% Change
Dow	17,907.87	323.35	1.84%
TSX	14,458.46	173.46	1.21%
Brazil	49,943.30	480.39	0.97%
FTSE	6,534.75	-35.21	-0.54%
Nikkei	17,197.73	30.63	0.18%
Hang Seng	23,919.95	84.42	0.35%
ASX	5,465.57	84.12	1.56%
Prices taken at previous day market close.			

to rollover again, continues to pose a risk to the broader equity markets. As investors we need to keep a close eye on oil prices in the near term.

On the charts, the S&P 500 has recovered back to nearly flat for the year and there is an initial support just below at 2055.

Market	Level	Change	% Change
DBC	17.71	.02	0.11%
Gold	1207.50	3.20	0.26%
Silver	16.355	-.189	-1.14%
Copper	2.7695	.011	0.40%
WTI	48.72	.07	0.14%
Brent	50.94	-.21	-0.41%
Nat Gas	2.941	.07	2.44%
RBOB	1.337	-.0006	-0.04%
DBA (Grains)	24.90	-.09	-0.36%
Prices taken at previous day market close.			

Economics

Jobless Claims

- Weekly Claims fell to 294K vs. (E) 290K
- The 4-Week MA fell 250 to 290.5K

Takeaway

Weekly jobless claims dropped 4K from 298K to 294K last week, however the number was slightly higher than analysts' estimates of 290K. The smoother look at the data in the form of the 4-week moving average edged lower, falling 250 to 290.5K. The important thing is that the 4-week moving average is continuing to hover comfortably below the 300K mark, suggesting the trend in the broader labor market remains favorable.

Bottom line, yesterday's weekly jobless claims data was the second of the three reports that make up "jobs week," and with both ADP and weekly claims largely meeting expectations, the "whisper number" for this morning's all important government employment situation report remains the same at around 245K.

Jobs Report Preview

As has been the case for the last few jobs reports, the wage and unemployment number will be just as important as the headline jobs figure.

The official estimate is 245k jobs added, down substantially from November's blistering 321k, but still a strong number.

As has been the case with the last few jobs report, the risk to stocks is of a "too hot" number that potentially begins to pull forward the date of the first Fed rate hike (resulting in a "hawkish" reaction). If we see a "too hot" number, expect stocks, bonds and commodities to drop (with bonds potentially dropping hard) and the Dollar surge.

The "Too Hot" Scenario

- **> 2.2% yoy wage increase**. Wages are probably the most important metric in this jobs report. I say that because for all the noise surrounding Greece, European deflation, slowing Chinese growth, etc. I think the biggest risk to this bull market is a "pull forward" of Fed rate hikes or the revelation that hikes will happen faster than expected. One of the things that can make that happen is an acceleration in wage growth, so this number is probably the most important one in the jobs report.
- **< 5.6% Unemployment Rate**. An unemployment rate of 5.5% is basically "normalized" for an economy. The expectation is for 5.7% (down .1% from November), but again if we see a 5.5% print then it becomes pretty difficult for the Fed to continue to justify 0% rates, especially if we also see U-6 drop below 11% (which probably won't happen but the trend is headed that way).
- **> 300k Job Adds.** The November jobs report (321k) was about as "blowout" as it could get, and stocks didn't really care. There is the expectation we'll see a moderation in the number of jobs, but if we see a print of another 300k then that will be taken as "hawkish" by the market and we could see stocks sell off.

The "Just Right" Scenario

The highest probability is for this number to be a non-event. So, basically anything under the "too hot" scenario levels would be considered "just right" and the market should broadly yawn in response.

The "Too Cold" Scenario

- **< 2.0% yoy wage increase.** There really isn't much of a chance of a "too cold" scenario unless we see year-over-year wage increases drop below 2%, because even if there is a big miss on the headline jobs report it'll be ignored as a one off.

Bottom Line

Almost all the risk into this jobs number is to the downside for stocks, as any surprise will be a "hawkish" one. But, that's a low probability event and in all likelihood this jobs number will broadly confirm that we are seeing continued progress in the labor market, but nothing good enough to make the FOMC consider rate hikes earlier than June.

Commodities

Commodities finished the session mixed yesterday as natural gas surged following inventory data while the grains fell on profit taking. The rest of the space was little changed after a choppy trading session. Crude oil and copper finished marginally higher while the precious metals saw mild losses. The benchmark commodity tracking index ETF, DBC, added 0.17%.

The EIA reported storage inventories for natural gas yesterday and the report was largely in line with a draw of –131 Bcf vs. (E) -125K. There was a whipsaw reaction to the data as futures surged more than 2% (likely an algo-driven move) but then quickly fell back into negative territory. Once the dust settled futures began to march higher into the afternoon and finished the day up 2.44%.

Bottom line, the natural gas market remains volatile with the dominant trend being bearish as prices have fallen in nearly straight-line fashion since the end of November. As far as where nat gas goes from here, we are at a bit of a tipping point. A short-covering rally (which would likely be spurred if weather forecasts turn decidedly colder), could see futures rebound to as high as $3.45 (most extreme scenario), while further mild temperatures leading to subdued demand could see prices slide as low as $2.65-$2.70 support band in coming weeks.

The crude oil benchmarks finished mixed yesterday as WTI rallied 0.23% and Brent fell 0.41%. Long story short, the market is in consolidation mode right after new lows were established earlier in the week. There were no fundamental developments yesterday.

Market	Level	Change	% Change
Dollar Index	92.57	.455	0.49%
EUR/USD	1.1791	-.0046	-0.39%
GBP/USD	1.5082	-.0027	-0.18%
USD/JPY	119.68	.43	0.36%
USD/CAD	1.1836	.0024	0.20%
AUD/USD	.8114	.0037	0.46%
USD/BRL	2.662	-.021	-0.78%
10 Year Yield	2.016	.062	3.17%
30 Year Yield	2.593	.078	3.10%
Prices taken at previous day market close.			

Looking at the technicals of the market WTI has been largely contained to between $48 and $49 in the primary sessions this week, however there are two notable "gaps" in the chart. The first of which would be "filled" with a rally up to $49.92 while the second would be "filled" at $52.16. Both of those "fills" should be seen as opportunities to get short as there still is no clear sign a "bottom is in" for oil prices just yet.

The gold market has been getting pushed and pulled around the $1200 mark recently as investors weigh imminent rate hikes by the Fed (hawkish/bearish) against expectations of more global stimulus, namely from the ECB (dovish/bullish). But at the end of the day, gold futures traded in New York are priced in dollars, and with the greenback continuing to surge to new highs, we find it hard to imagine gold futures rallying materially from here without geopolitical support. Having said that, gold futures failed to break through trend resistance earlier in the week that's sitting above roughly $1220. Meanwhile, a near-term support band has formed between $1200 and $1205.

Copper bounced back from five-year lows yesterday with futures adding 0.4%. Like gold, a lot of yesterday's price action was driven by technical trade and positioning ahead of economic data. On the charts, copper has been range-bound between $2.75 and $2.78 this week, but the dominant trend remains lower.

Currencies & Bonds

There were some big moves in the currency space yesterday with the dollar reigning supreme as the Euro dropped to near-decade lows amid further QE speculation, while the yen traded down towards the week's lows thanks to the broad "risk on" trade in the markets.

The Euro fell to below $1.18 for the first time since 2005 amid mixed economic data (German factory orders and Euro-bloc orders fell short of expectations while EU retail sales were better than expected). Meanwhile, dovish comments by

ECB head Mario Draghi in a letter published on the bank's website confirmed that stimulus measures announced later this month may include sovereign bond purchases.

Bottom line, the series of soft economic data, notably out of Germany, Europe's largest economy, paired with further, and more confident speculation that the ECB will implement a QE program at the January 22 meeting, pushed the Euro to the lowest levels in nine years. The trend in the Euro remains decidedly lower; however, positioning before the upcoming ECB meeting will likely spur some near–term volatility.

The yen fell 0.57% yesterday as part of a broader "risk on" move that began Wednesday. On Wednesday morning bonds, the yen, and gold all rolled over from recent highs as oil stabilized and stocks began a near straight line rally. And all of those moves were extended yesterday and appear to still have momentum as we approach this morning's all-important jobs report.

The commodity currencies were quiet yesterday, but the Aussie rose 0.46% in sympathy with Asian markets which were broadly higher, and ahead of an Australian retail sales report that was released overnight. Meanwhile the Loonie traded lower yesterday, falling 0.15% as the slide in oil prices continues to pressure the currency. Despite the mixed moves yesterday, both currencies remain in well-defined downtrends.

Moving to the bond market, Treasuries fell for a second day. Again a portion of the move was a result of the broad, risk-on move in the markets while trader positioning ahead of today's government jobs report played a role as well. The long bond fell 0.84% while the 10-year note fell 0.24%, with the yield climbing back above 2% and finishing the day at 2.016%.

Bond traders smartly sold Treasuries yesterday as again, the "big risk" for this morning's jobs report is for another blowout number like we saw in the November report—and that would spur speculation of a sooner rate hike than is currently priced into the market.

Bottom line though, international money flows continue to have an overwhelming influence on the bond market, and if the jobs report is in line with expectations, we can likely expect to see bonds recover some of the mid-to-late week losses.

Have a good day,

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 1.5.15)

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 S&P 500 declined over 1% last week mostly on year-end positioning. Most of the declines last week were due to year end positioning, but it is notable that oil made new lows. Very short term, this market is still being led by energy, and XLE and JNK appear to be rolling over. If they resume their decline, stocks will too.*

Best Idea: Buy Retail (RTH).

Best Contrarian Idea: Buy Energy (XLE)

	Near Term Trend	Long Term Trend	Market Intelligence
Commodities	**Bearish**	**Bullish**	*Commodities were lower again last week as oil resumed its declines making new, multi-year lows. With both Brent and WTI making new lows this morning, clearly the bottom in oil isn't "in" yet, and until oil stabilizes, commodities in general will have a hard time sustaining any real gains.*

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 exploded higher on Friday thanks almost entirely to a declining euro, which fell as ECB President Mario Draghi strongly implied coming QE. And, that drop in the euro to new multi-year lows is continuing this morning as concern rise about Greece remaining in the Eurozone.*

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 enjoyed a strong rally to start the year as growing EU deflation worries, more concern about Greece political stability, and the foreshadowing of QE in the EU send German bunds and US Treasuries soaring. Until there are signs of economic progress in the EU, Treasuries will remain well bid in spite of an improving US economy and looming rate hikes.*

Best Idea: Short "long" bonds (TBT)

Best Contrarian Idea: Short High Yield Bonds (SJB)