7:00's Report

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

January 20, 2016

The S&P 500 rallied modestly into the close yesterday to avoid making a "lower low" on a closing basis, which would technically confirm the bearish trend in 2016.

Pre 7:00 Look

- Futures are sharply lower and most international shares were down more than 3% o/n as oil prices slumped to new 13 year lows.
- Economically, German PPI missed (-0.5% vs. E: -0.3%) and the British Labour Market Report showed lower wage growth than anticipated (2.0% vs. E: 2.1%), both of which underscore the lack of any inflation pressures in Europe.
- Econ Today: Consumer Price Index (E: 0.0%), Housing Starts (E: 1.200M).
- Earnings Today: GS (E: 3.79), KMI (E: 0.17), XLNX (E: 0.48).

Market	Level	Change	% Change
S&P 500 Futures	1837.50	-35.50	-1.90%
U.S. Dollar (DXY)	99.03	-.006	-0.01%
Gold	1094.90	5.80	0.53%
WTI	28.81	-.76	-2.57%
10 Year	2.035	.002	0.10%

Equities

Market Recap

It wasn't truly another failed rally Monday, but it wasn't impressive price action either, as stocks gave back big initial gains, again thanks to a renewed plunge in oil. The action Monday looked like a repeat of the depressing price action from last week. The S&P 500 rose 0.05%.

Stocks started Monday very strong thanks mainly to Chinese data, which wasn't as bad as feared. Earnings were also strong Monday morning, as BAC, UNH, MS, CMA, and DAL posted numbers that beat estimates, or weren't as bad as feared. Stocks gapped higher at the open and it looked like a repeat of last Thursday was coming.

Then crude oil started to sell off around 10 a.m., and once traders saw that, bids were pulled and the S&P 500 began to loose strength. The index managed to stay positive for the morning and early afternoon, but it was well off the highs and trading felt heavy. Then oil broke again following lunch time, and stocks went with it as the S&P 500 turned negative with oil.

It was only after oil closed at 2:30 that a relief rally began (similarly to last Monday), helped by a Chinese Securities Journal article that called for more reserve ratio cuts and stimulus by Chinese authorities. Stocks were able to lift a bit during the last 90 minutes of trade to close basically unchanged.

Overall, the day could have been worse, and it's a silver lining that stocks didn't just plunge once they turned negative. Conversely, the fact that this market cannot seem to bounce for more than a few hours speaks to just what an uphill battle the bulls face. There is just little appetite to buy this market right now.

Market	Level	Change	% Change
Dow	16,016.02	27.94	0.17%
TSX	12,002.24	60.07	0.50%
Stoxx 50	2,880.28	-100.21	-3.36%
FTSE	5,692.02	-184.78	-3.14%
Nikkei	16,416.19	-632.18	-3.71%
Hang Seng	18,886.30	-749.51	-3.82%
ASX	4,841.53	-61.54	-1.26%
Prices taken at previous day market close.			

Trading Color

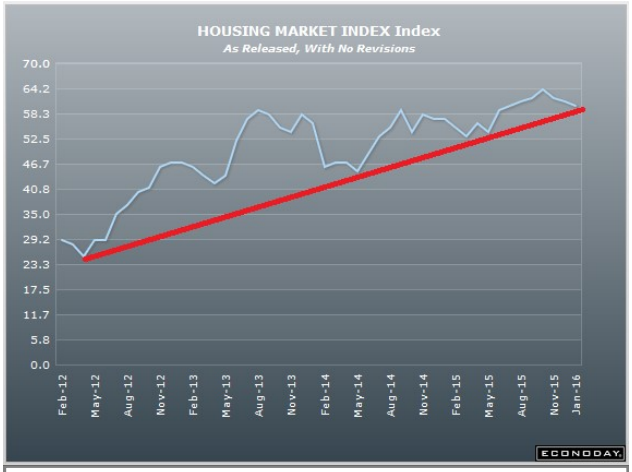
Internals were flat-out lousy yesterday. Growth-oriented indices (Russell 2000 and Nasdaq) both finished slightly lower on the day while the S&P 500 and Dow outperformed.

Market	Level	Change	% Change
DBC	11.97	-.095	-0.79%
Gold	1087.70	-3.00	-0.28%
Silver	14.055	.159	1.14%
Copper	1.9675	.024	1.23%
WTI	29.50	-.89	-2.93%
Brent	28.79	-.15	-0.52%
Nat Gas	2.095	-.005	-0.24%
RBOB	1.0303	.0091	0.89%
DBA (Grains)	20.03	.06	0.30%
Prices taken at previous day market close.			

Sector wise performance was split as there were four winners and five losers of the nine SPDRs we watch, but energy (XLE) and basic materials (XLB) both badly underperformed. XLE dropped another 2% to hit a new low, while XLB declined 1.2% to also hit another new low.

As we have said repeatedly, both of these ETFs must stop falling before there can be a bottom in stocks, so these new lows are not positive.

The other disappointing event yesterday was the performance of bank stocks, which continue to be pounded on a combination of reduced expected margins given the likely delay in Fed rate hikes, combined with growing energy/commodity credit worries.



The Housing Market Index slightly missed estimates, and the last thing we need right now is for housing data to begin to roll over.

Three major banks (BAC, CMA, MS) all reported better-than-expected earnings yesterday, but both BAC and CMA dropped (1.6% and 3.7%, respectively) while MS rose just 1% following a very strong earnings number. KRE was down another 1% as sentiment and worry trump actual results.

Finally, outperformance was clearly defensive in nature yesterday as utilities (XLU) and consumer staples (XLP) rose 1% each while virtually every other sector was unchanged.

On the charts, the S&P 500 didn't make a new low, which is a relative positive. It seems that buyers may be trying to make a stand on that August closing low (1,867) while 1,900 is first resistance to watch.

China Takeaways

The data from China was correctly taken as a general positive yesterday as all the major metrics (GDP/Retail Sales/Industrial Production) were only slight misses vs. expectations. And while technically they were misses, they didn't imply some wholesale slowing of economic activity in China, and generally reinforced other data points.

So for now, the China "hard landing" fears will move to the back burner, assuming the yuan is stable. The yuan, more so than Chinese stocks, remains the key indictor to watch for US stocks. As long as the yuan is stable China should not be a negative macro influence over the next few weeks.

Going forward, focus will now shift to the Chinese New Year (Feb 8). There is speculation that Chinese authorities may weaken the yuan further into that holiday (which would be a negative for stocks) or, conversely, that Chinese officials may announce new stimulus ahead of the holiday (which would be positive, and this was the focus of the Chinese Securities Journal article yesterday).

Chinese authorities aren't ignorant, so I would be very surprised if they weakened the yuan further ahead of the holiday, seeing how much of a negative effect it just had.

Bottom line, for now China should move to the back burner, and importantly data does not confirm rising "hard landing" probability. But, there likely will be volatility ahead of the new year in three weeks, so we will continue to watch the region for you.

Economics

There were no material reports Monday.

Commodities

Energy and industrial commodities remained heavy as early rallies gave way to renewed selling over the course of the day. Meanwhile, gold closed well off session lows as stocks turned lower into the afternoon, reintroducing a fear bid to the market. The commodity ETF, DBC, dipped 0.87% to another all-time low.

Oil was lower to start the week in electronic trading Monday as Iranian sanctions being lifted were top of news, with supply-side bearish headlines weighing on prices to start the week. However, strong Chinese fuel demand data helped spur an overnight rally into yesterday morning's session. Once again though, the rally was met with overwhelming sell orders as core fundamentals of the market remain decidedly bearish. WTI finished the session down 2.99%.

With regard to the recent headlines, Iran bringing new supply to the market is bearish regardless of how quickly they plan to ramp up exports. While increasing demand from China is a nice headline, it does not change the fact that a substantial production surplus still exists. This is very bearish for the future, especially given that OPEC remains stubbornly focused on defending market share. Meanwhile, US production remains resilient as output in the lower 48 has actually risen for the past five weeks.

Bottom line, the oil market is literally as hated as it has ever been based on the CFTC's Commitment of Traders Report, which leaves the risk of a short squeeze elevated. However, the broader trend and key fundamentals (notably US production) are still decidedly bearish, and the path of least resistance is still lower from here.

After consolidating the late-2015 short squeeze for much of this year, natural gas futures are attempting to maintain a potentially more bullish pattern on the charts (inverse head and shoulders, daily time frame). Nat gas fell a modest 0.14% yesterday.

Support between $2.05 and $2.08 is going to be very important this week; however, the deciding factor will be one of the two key drivers of the natural gas market in the draw season, the EIA data (Thursday) and the various, widely followed weather reports that will be released over the course of the week. If weather forecasts remain cold and a substantial supply draw is reported later in the week, we could see the aforementioned support level hold. Otherwise, a retest of the recent lows grows much more likely in the near term.

Turning to the metals, it was more of the same. The morning "risk-on" trade that was largely being attributed to not-as-bad-as-feared Chinese data saw gold decline and copper rally. But as the day progressed and the early rally in stocks gave way to another wave of selling, and a broad flight-to-safety move, copper sold off to finish higher by just 1% (down from gains of over 3.5% early) and gold rallied back to close down only a modest 0.23%.

Bottom line, the industrial metals market, led by copper, will continue to track Chinese equities closely while precious metals, notably gold, will continue to trade inversely with stocks in the short term.

Currencies & Bonds

Yesterday was a rather quiet day in the currency markets as the only big mover was the Aussie, which rallied overnight with sentiment towards China. The Dollar Index edged 0.11% higher.

There weren't any notable economic reports in the US, and this week is very quiet as far as Fed speakers, which will likely lead to more sideways trading in the dollar.

Interestingly, both the dollar and the euro are trending higher so far in 2016 (the euro was up 0.16% yesterday). They normally have an inverse trading relationship thanks to the heavy trade-based weight that the respective currencies carry in each other's "index baskets," which comes out to about 65%. But something has got to give here in the near term as neither currency can rally very far if the other is not at the very least flat or trending lower.

Market	Level	Change	% Change
Dollar Index	99.085	.065	0.07%
EUR/USD	1.0921	.0029	0.27%
GBP/USD	1.4179	-.0064	-0.45%
USD/JPY	117.45	.13	0.11%
USD/CAD	1.4559	-.0001	-0.01%
AUD/USD	.6913	.0047	0.68%
USD/BRL	4.0641	.0310	0.77%
10 Year Yield	2.035	.002	0.10%
30 Year Yield	2.804	-.009	-0.32%
Prices taken at previous day market close.			

Looking elsewhere in Europe, the most well-defined trend in the currency market, and possibly across all asset classes remains the declining pound, which fell another 0.43% to new six-year lows.

Dovish comments from BOE governor Mark Carney, who said, "Now is not yet the time to raise interest rates," cast doubt on a rate hike before the second half of the year. The comments confirm what many traders have been speculating for over a month now (when the selloff in the pound really began to accelerate), and leave the path of least resistance lower still.

In Asia, the yen sold off early yesterday as part of the broad risk-on move, but the fear bid returned quickly once US stocks rolled over. The yen still finished the day down 0.28% against the dollar. Near term, volatility and global risk appetite will remain the primary drivers of the market, and any risk-on moves will weigh on the yen while risk off will keep a bid under the Japanese currency. There is near-term support near 116 in the USD/JPY pair while resistance above is near 118. Longer term, if the global market turmoil were to keep up, the yen could rally back to carry the pair down as low as 109.

In the commodity currencies, the Aussie rallied 0.83% thanks to the "goldilocks" data in China. By that I mean that it was not bad enough to stoke concerns of a hard landing while at the same time it was modestly below expectations, which further increase the likelihood of more government stimulus in the near term. The Aussie remains in a well-defined downtrend with resistance near .6950.

Meanwhile, the loonie gave back early gains to finish the day just off 13-year lows thanks to the reversal in oil futures yesterday. Looking ahead, as oil goes, so too will the loonie, and for now that remains lower/weaker. However, keep in mind the threat of a short squeeze exists in both as they are growing very oversold.

Turning to bonds, Treasuries finished the day mixed but mostly little changed as the morning weakness, thanks to the global risk-on tone across the markets, gave way to the renewed selling pressure in the afternoon. The 10 year closed with a yield of 2.035% while the 30 year finished with a yield of 2.804%.

Going forward, the path of least resistance still remains higher (lower yields) for long-term Treasuries as they continue to benefit from the safe-haven bid.

Additionally, both the short end and the long end of the curve continue to trade with a high sensitivity to Fed rate expectations, which so far in 2016 have shifted to more dovish, at least as far as the market is concerned.

Still, a disconnect remains between the Fed's policy outlook and the market's, as traders are betting against more rate hikes in the face of further market turmoil while the Fed continues to reaffirm that they plan to raise rates up to four times this year.

Have a good day,

Tom

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7 Best Ideas

These are our best 7 ideas across asset classes. They are tactical trading and investment ideas as well as longer term, macro themes we think can outperform over the medium/longer term.

Short term = A few weeks to 2 months, medium term is 3-6 months, longer term is beyond 6 months.
WTDN=What to do Now (If you are reading this for the first time).

Strategy	Date	Position	Open/Last Added To Price	Time Frame
Hedge Against A Commodity/Credit Inspired Selloff *We do not think we are on the verge of a resource-sector inspired credit scare, but the downside from that event is substantial, so we want to clearly include a hedge that will protect portfolios from an August-like pullback. This is a short-term hedge position to consider. This idea replaces long* ***"Peripheral Europe,"*** *which we are selling for tax losses.* ***WTDN: Buy If You Are Looking for a "Pure Play" Hedge against further declines.***	**12/13/15**	**EUM**	**$30.31**	**Short**
Long US Small Caps and Consumer Oriented Cyclicals *Acceleration in US consumer spending is a major macro theme given rising wages and a strong dollar. These sectors should continue to benefit from that trend looking past near-term market volatility, so these are sectors to consider for the tactical longs on the US market heading into 2016.* ***WTDN: Hold.***	**7/10/15**	**IWO** **KRE** **XRT**	**$152.84** **$43.50** **$49.36**	**Medium**
Long US Dollar/Short Euro *The ECB disappointed markets in December and that will cause consolidation in this trend. Looking out over the coming months, the trend will resume as fundamentals are dollar bullish/euro bearish.* ***WTDN: Hold or book profits for traders, accumulate for longer-term accounts.***	**6/3/15**	**UUP** **EUO**	**$25.21** **$24.73**	**Medium**
Long Europe *The ECB underwhelmed investors with the QE addition, but the "Draghi put" remains in Europe, and we view this as a longer-term buying opportunity.* ***WTDN: Traders: Hold. Longer Term Accounts: Accumulate.***	**9/4/14**	**HEDJ** **EUFN**	**$59.35** **$24.67**	**Medium**
Short Bonds: (Long Term Macro Allocation) ***Strategy Update 12/21/15:*** *The Fed finally raised rates and kicked off the first rate-hike cycle in nearly 10 years. With the stock market volatile, the trend of lower bonds/higher yields will continue to take time to generate momentum, but longer term we remain stout bond bears.* ***WTDN: Longer-term Accounts: Accumulate.***	**4/30/13**	**TBT/TBF/ PST/KBE**	**Various Prices**	**Long**
Long Japan (Long Term Macro Allocation) ***Strategy Update 12/21/15:*** *The surprise non-easing by the BOJ confused markets and delayed future QE, so near term we have lost some bullish enthusiasm.* ***WTDN: Hold DXJ and YCS for longer term accounts.***	**11/30/12**	**DXJ** **YCS**	**Various Prices**	**Long**

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Asset Class Dashboard

(Updated 1.19.16)

Near Term General US Stock Market Outlook

This is designed to provide a snapshot of our near-term (1 month) outlook for stocks. For general equity market exposure, we use a mix of SPHB (S&P 500 High Beta) and SPLV (S&P 500 Low Volatility) to create an aggressive, neutral or defensive stance on general equity market exposure.

Near Term Stock Market Outlook: **Defensive** SPHB: 25% SPLV: 75%	*The horrid start to 2016 continued last week, as the S&P 500 violated the August 2015 lows thanks to new lows in oil, declining earnings expectations and lackluster economic data. The market is very short-term oversold so a bounce is due, but until oil steadies and the dollar declines, we remain cautious.*

Technical and Fundamental Outlooks for Other Asset Classes

(When technical and fundamental outlooks agree, we view that as a tradable opportunity)

	Technical Outlook	Fundamental Outlook	Market Intelligence
Commodities	**Bearish**	**Bearish**	*Commodities again declined last week as oil broke $30/bbl on weak economic data and anticipation of the lifting of Iranian sanctions. Despite decent Chinese trade balance, global growth fears remain and commodities, while still trying to bottom, remain under severe pressure.*
US Dollar	**Neutral**	**Bullish**	*The Dollar Index rallied small last week despite disappointing US economic data, as ECB minutes from December were dovish and as the global turmoil has increased expectations for more QE from both the ECB and BOJ. That combination is why it's proving so difficult for the dollar to sustain and downward momentum.*
Treasuries	**Neutral**	**Bearish**	*Treasuries surged last week on a risk-off move combined with the delaying of expected Fed interest rate hikes (the market now expects the next hike in July). This happened despite Fed messaging being generally resilient, and re-emphasizing a gradual increase in rate hikes. Fundamentally we remain bond bears, but this market turmoil clearly is delaying that near term.*

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.