7:00's Report

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

March 24, 2015

Pre 7:00 Look

- Futures are slightly higher this morning thanks to a further decline in the US dollar (below .97), following a night of mixed economic data.
- China March flash manufacturing PMI dropped to an 11 month low at 49.2 vs. (E) 50.5, but Chinese stocks were flat as expected government stimulus offset the bad number.
- In Europe data was much stronger than expected as composite EMU PMIs rose to 54.1 vs. (E) 53.6.
- Econ Today: CPI (E: 0.2%), March Flash PMI Manufacturing (E: 54.7), New Home Sales (E: 462K).

Market	Level	Change	% Change
S&P 500 Futures	2091.50	3.25	0.16%
U.S. Dollar (DXY)	97.36	.062	0.06%
Gold	1187.10	-.60	-0.05%
WTI	47.40	-.05	-0.11%
10 Year	1.915	-.015	-0.78%

Equities

Market Recap

Stocks started the week slightly lower, as traders took profits after last week's Fed-induced gains. The S&P 500 declined 0.17% in modest Monday trade.

Stocks opened flat yesterday morning but rallied to session highs mostly on general follow through from last week. Soft existing home sales and marginally dovish comments by Fed President Bullard also helped keep the early buying going.

GLD: It would appear that the 2015 downtrend in gold has been broken, but to get medium term positive we'd like to see gold trade through $1223.

But, there was no follow through to the morning rally and stocks quietly drifted sideways through lunch and up until the early afternoon. By the final hour of trading stocks seemed to be falling under their own weight, as markets declined marginally to close negative, and at the absolute low tick of the day (2,104.54).

The two key events of the day (Fed officials Fischer and Bullard speaking) ended up being relative non-events. Neither revealed anything substantial while both cited the stronger US dollar (anecdotally confirming last week's dovish FOMC statement was mostly dollar related). Technically, Fischer did again reinforce that rate hikes would probably happen this year, not "mid-year" as he had said previously, so that was taken as slightly dovish, but neither man's comments were much of an influence on the markets.

Trading Color

All the major averages were little changed yesterday except for Nasdaq, which lagged all day and declined 0.31%, mostly on weakness in semiconductor stocks.

Market	Level	Change	% Change
Dow	18,116.04	-11.61	-0.06%
TSX	14,957.21	14.60	0.10%
Brazil	51,908.46	-58.12	-0.11%
FTSE	7,063.19	25.52	0.36%
Nikkei	19,713.45	-40.91	-0.21%
Hang Seng	24,399.60	-94.91	-0.39%
ASX	5,969.08	12.95	0.22%
Prices taken at previous day market close.			

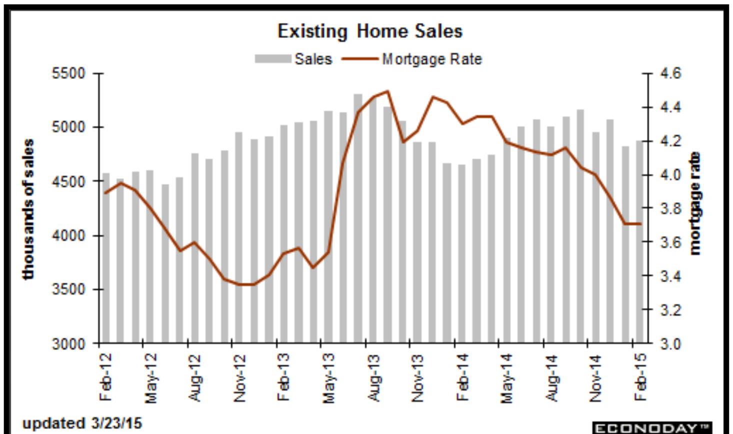
Sector wise trading was mixed, but most sectors were little changed. Industrials were the laggard, down 0.81%, but that was mostly because of the soft KSU revenue guidance (down 8%) which weighed on the entire transport index (Dow Jones Transports were down 1% on the day). Not surprisingly, the KSU earnings pre-announcement was due almost entirely to weaker oil prices and a stronger dollar (a trend that is becoming all-too familiar from an earnings standpoint).

Market	Level	Change	% Change
DBC	17.42	.21	1.22%
Gold	1190.20	5.60	0.47%
Silver	17.04	.157	0.93%
Copper	2.8895	.1285	4.65%
WTI	47.40	.83	1.78%
Brent	55.88	.56	1.01%
Nat Gas	2.735	-.051	-1.83%
RBOB	1.803	.0052	0.29%
DBA (Grains)	22.75	.20	0.89%
Prices taken at previous day market close.			

On the charts, the story remains the same. We view the market as still broadly range bound between 2,000—2,100. Near-term support sits at 2,000 while resistance is the old all-time high at 2,019.

Bottom Line

Yesterday was a day of digestion, nothing more. The Fed speakers didn't reveal anything new, KSU results weighed a bit on sentiment and stocks dipped a bit into the close. Very near term (at least until the jobs report next Friday) I think the bulls still have the momentum unless we get a very hawkish economic report via CPI or the flash manufacturing PMIs. But, that said, I don't expect any material new highs in stocks, and a sideways drift over the next few days could be in order.



Existing Home Sales rose 1.2% in February to 4.88M but missed analyst estimates of 4.94M. The single family component, which better reflects the real condition of the housing market encouragingly rose 1.4% m/m so the number was better than expected and didn't alter the outlook on housing.

Did the Fed Just End the Commodity Collapse?

The single biggest takeaway from the FOMC last week was that they effectively capped the US dollar rally, and because of that an opportunity may be developing to buy value in the materials and commodities sector.

To be clear, we do not think the Fed is actively trying to engineer a weaker dollar, but they are trying to cap any further rise. And, if that's the case, then there are several potential investment consequences that stem from that change as a lot of trades across asset classes and sectors over the past seven months were basically different forms of the "stronger dollar" theme. That means we could see some substantial unwinds in different places.

One of the biggest potential shifts coming could be in the commodity and basic materials complex. And, while too early to be definitive, it's not unreasonable to say that if the Fed has indeed capped the dollar rally (and will continue to do so going forward), then it may also have ended the commodity collapse.

In most commodities the supply/demand dynamic is still negative, but commodities don't just trade on supply/demand, so consider a few points in the context of the recent historic commodity price collapse.

Coordinated Global Easing May Lead to Stronger Demand. Remember that 24 central banks have cut rates this year, China is aggressively supporting its economy, and now the Fed is more dovish than expected. As we have covered with our "long shippers/tankers" call, there is a chance they actually stimulate global growth more so than is currently expected, leading to a potential uptick in global demand for commodities.

Inflation Statistics Should Begin to Rise More Quickly if the Dollar Index is Capped. Rising global deflation fears, has been driven mainly by plunging oil, and to a lessor extent by other falling commodity prices.

But, we already know that away from commodities, inflation pressures are starting to slowly trend higher.

Wage inflation in the US is rising, service sector inflation is running near the Fed's 2% annual target, and with oil stable (and potentially rallying form here thanks to a capped dollar) there is now upside risk in real inflation and inflation statistics. Rising inflation is good for commodities/materials stocks.

Commodities Have Collapsed. From a valuation standpoint, commodities have already largely priced in a worst-case scenario: No uptick in global demand and a constant dollar headwind. Point being, this is a very shorted and unloved space, so the potential for a rebound is there.

As you know, we look at everything from a risk/reward standpoint. And, given low valuations and a potential positive game changer of a capped US dollar and an uptick in global growth (not to mention how shorted and oversold the commodity complex is) the risk/reward profile for gold particularly, and commodities more generally, is starting to look better.

While we've just started some of this research, we see two potential beneficiaries from this trend:

Beneficiary #1: Gold (and for the more adventurous type, silver). If the US has now passively joined the "global currency war" and has capped any further rise in the dollar, and oil/commodity prices stabilize, then inflation should bottom and begin to rise, potentially helping gold.

Beneficiary #2: Materials stocks (names like X, AA, FCX). This sector has been beat up by collapsing commodity prices, and no one is modeling in any positive price movement in underlying commodity prices. Point being, this is an unloved sector with potential for a rebound.

Based on the above logic, energy stocks should benefit if oil has stabilized (although given the large supply glut I'm not entirely sure that's happened yet). I know everyone is looking to buy energy stocks, but at this point I would go with MLPs more than E&Ps or drillers/service companies, because I remain concerned that the fundamental outlook for oil will weigh more on energy than on other commodities like gold and silver.

With the potential fundamental change occurring, we will now look to have it confirmed by some positive technical price action in gold, oil, materials stocks and commodities in general. Specifically, we are now watching $1,223 in gold, as a move above that level would be more medium term bullish. In oil, a rally through and above the February high of $54 would be seen as a bullish breakout for the medium term.

Again, this is no sure thing and those levels are well above where we are right now, and headwinds on commodities/materials stocks remain, but there is a fundamental trend change potentially lurking, so we will keep an eye on it for signs of an actionable opportunity.

Economics

There were no notable economic reports yesterday.

Commodities

Commodities were mostly higher to start the week as metals rallied modestly with assistance from the continued weakness in the dollar, while the energy components oscillated back and forth until surging into the close. The broad based commodity ETF, DBC, notched a 0.99% gain.

Gold was in focus yesterday as futures rallied 0.47% to mark the fourth consecutive daily rally. The near-term trend remains higher for now as the "pre-FOMC hawkish trade" across asset classes continues to be unwound (note the Dollar Index fell 0.85% yesterday). Looking ahead, however, there is some key resistance between $1,190 and $1,200 that may halt the counter-trend rally. If that level is broken, the early March high of $1,223 will be the level to watch, as a "higher high" on the chart would be inherently bullish.

Market	Level	Change	% Change
Dollar Index	97.08	-1.091	-1.11%
EUR/USD	1.0967	.0147	1.36%
GBP/USD	1.4967	.0018	0.12%
USD/JPY	119.73	-.30	-0.25%
USD/CAD	1.2495	-.0053	-0.42%
AUD/USD	.7891	.0125	1.61%
USD/BRL	3.1424	-.0855	-2.65%
10 Year Yield	1.915	-.015	-0.78%
30 Year Yield	2.509	.005	0.20%

Prices taken at previous day market close.

Elsewhere in the metals market, copper extended Friday's gains, rallying a staggering 4.67% in the afternoon, breaking through a seven-month downtrend and a key resistance level in the process. Copper has been rallying for close to two months, largely on short covering and some trader speculation that further accommodative policy in China will help boost economic activity, and in turn increase demand for the industrial metal. China accounts for roughly 40% of global copper demand. The weaker dollar also helped copper futures rally over the course of the day. On the charts, copper futures have traded into the next level of material resistance that lies between $2.80 and $2.90, and going forward we will be keeping a close eye on the technical situation to see if this rally is simply short covering, or potentially a shift in the trend. The December high of $2.9505 is in focus, and if it is violated that will be bullish.

Looking to the energy space, oil futures were active to start the week, falling as much as 2.5% early yesterday morning before finishing the day higher by over 2%. It was a combination of the weaker dollar and its general inverse correlation to oil prices, paired with the oversold conditions of the energy market that was largely to blame for yesterday's late session "squeeze-style" rally.

OPEC was in the news again yesterday, but the headlines were bearish this time as the Saudi's reiterated that they have no intention of cutting production unless their non-OPEC counterparts (namely US producers) agree to cut back as well. Saudi Arabia has made it clear that they are more concerned with maintaining market share than they are with the outright price of crude oil, and they supported that stance yesterday in saying that they are pumping a near-record 10M barrels of crude a day. Bottom line, volatility is likely to remain elevated and the pullback in the dollar may further support oil prices in the near term; however, the most basic supply and demand metrics remain bearish, leaving the path of least resistance lower.

Currencies & Bonds

The unwind in the currency markets continued yesterday as the Dollar Index declined another 0.86% to close decidedly below 98 while the euro rallied 1.22% to end the day solidly above 1.09. The dollar was weaker vs. virtually every major currency yesterday except the pound, which was flat.

The only real "news" in the markets yesterday was Existing Home Sales and the Fed Speak from Bullard and Fischer. But, Existing Home Sales was mostly in line with expectations, while on the margin both Bullard and Fischer were dovish. In reality, the dollar decline is being driven not by news but by the unwind of a very crowded "dollar long" trade, and we could see that in the price action yesterday. The Dollar Index was down 0.7% pre-Existing Home Sales, Bullard and Fischer, and at the lows it was down 1%. So while those events did add some pressure, the Dollar Index was down materially before those events.

Looking across the currency spectrum, not surprisingly the commodity currencies gained the most on the dollar outside of the euro, and we should expect that to continue for the near term. Aussie rallied 1.4% making it the best performer vs. the dollar, while the Loonie rallied 0.54%. The yen was up small as there were some slightly dovish takeaways from a meeting on monetary policy between BOJ President Kuroda and PM Abe, although it's not changing anyone's outlook on policy.

Bottom line, the uptrend in the dollar as been broken by the dovish Fed, and it will take some good economic data or surprising weakness in Europe to stop this current unwind of dollar longs.

The first real, material opportunity for hawkish data will come next Friday with the jobs report. Until then, I would expect a continued unwind of the dollar long trade, as it still has a ways to go before the market is more balanced.

Turning to bonds, as the euro strengthens European debt declined (unwinding the weaker euro, higher German bund, higher US Treasury trade) although given the Fed's dovishness that's not going to result in a material drop in Treasuries near term. The 30 year opened positive yesterday, but declined steadily throughout the day and closed in slightly negative territory. Again, helping weigh on Treasuries was a decline in the German bund, as the yield on the 10-year bund rose a few basis points.

Have a good day,

Tom

7:00's REPORT

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

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.			

7:00's REPORT

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

Asset Class Dashboard

(Updated 3.23.15)

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 rebounded more than 2% last week after the FOMC surprised markets with a very "dovish" statement. That helped ease concerns about a looming rate hike and most importantly likely capped the dollar rally. That said, though, we do not think that it ignites a material rally higher because valuations remain elevated and uncertainty regarding the first rate hike remains.*

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

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

	Near Term Trend	Long Term Trend	Market Intelligence
Commodities	**Neutral**	**Bullish**	*Commodities caught a bid late last week thanks to the falling dollar (which was courtesy of the Fed). The plunging dollar overwhelmed continued bearish fundamentals for most commodities, but despite the dollar decline we do not think we are embarking on a broad commodity rally.*

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 dropped more than 2% last week following the "dovish" FOMC meeting. And, that selling is continuing early this week as the very crowded "Long Dollar" trade is reversed. Going forward we view the dollar rally as likely capped at 100 but do not see a downtrend emerging. 95 should provide support.*

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 surged last week thanks to the dovish FOMC. The 30 year hit a new nominal high and the 10 year yield dropped below 2%. Going forward, with the FOMC more "dovish" than thought and continued support from European buyers, it will be hard for Treasuries to mount a material decline near term unless economic data turns materially better in the US.*

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

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