7:00's Report

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

July 8, 2015

Greek PM Tsipras: If a deal gets done Sunday Tsipras will be hailed as a political genius in Greece, but in reality he's a goat. He has put the Greek economy back into depression after just climbing out last year, and in return will get basically the same deal he would have gotten if he had just been serious from the beginning.

Pre 7:00 Look

- Futures are down sharply again this morning, this time in sympathy with Asian markets while European shares outperformed as investors remain hopeful of a Greece deal.
- The steep sell off in the Chinese stock market gained momentum o/n, falling another 5.9% despite further measures being implemented by the PBOC as investor sentiment approached "panic mode."
- There were no notable economic reports released o/n.
- Econ Today: FOMC Minutes (2:00 ET) Fed Speak: Williams (2:00 ET)

Market	Level	Change	% Change
S&P 500 Futures	-2055.00	-18.75	-0.90%
U.S. Dollar (DXY)	96.695	-.381	-0.39%
Gold	1154.20	1.60	0.14%
WTI	52.67	.34	0.66%
10 Year	2.231	-.047	-2.06%

Equities

Market Recap

Stocks gyrated in a wild and volatile session Tuesday that was fueled by Greek headlines. Markets then caught a bid into the close on hopes of a deal reached by this weekend. The S&P 500 finished with a 0.61% gain.

There were plenty of things going on Tuesday in the world, including AA kicking off earnings; more Chinese stock volatility, and important global economic reports. But not surprisingly, Greece was the main driver of stocks Tuesday.

Markets opened flat looking ahead to the latest Eurogroup summit, but then stocks went into a mini freefall mid morning once news broke that Greece wasn't presenting anything new at the conference. The S&P 500 dropped more than 1%, violating last week's lows and the 200-day moving average, and trading below 2,050 before stabilizing.

It turns out that headline wasn't exactly accurate. The Greeks made an oral presentation regarding a new deal and promised a written version today. And, once that circulated down to the trading desks, stocks were able to stabilize, and that caused the S&P 500 to rally back to nearly flat by the late afternoon.

During the final hour of trading, a French official told Dow Jones that a short-term agreement was being actively discussed that contained some debt relief in exchange for the pension cuts and tax hikes demanded by the EU. Between that, and news that there would be a full EU conference of all 28 member heads this Sunday,

Market	Level	Change	% Change
Dow	17,776.91	93.33	0.53%
TSX	14,624.50	30.93	0.21%
Stoxx 50	3,312.77	18.58	0.56%
FTSE	6,470.63	38.42	0.60%
Nikkei	19,737.64	-638.95	-3.14%
Hang Seng	23,516.56	-1,458.75	-5.84%
ASX	5,469.53	-111.89	-2.00%
Prices taken at previous day market close.			

optimism grew that we may actually be close to deal, and stocks sprinted into the close to finish near the highs of the day.

Trading Color

Once again it was another macro-dominated day, although one marked by significant defensive sector outperformance, which obviously implies investors remain skeptical of any potential deal on Greece.

Market	Level	Change	% Change
DBC	17.07	-.10	-0.58%
Gold	1155.80	-17.40	-1.48%
Silver	15.05	-.703	-4.46%
Copper	2.4725	-.0655	-2.58%
WTI	53.16	.63	1.20%
Brent	57.56	1.02	1.80%
Nat Gas	2.725	-.031	-1.12%
RBOB	1.9647	.041	2.13%
DBA (Grains)	23.02	-.18	-0.78%
Prices taken at previous day market close.			

The Russell 2000 and Nasdaq both lagged the S&P 500, and SPLV handily outperformed SPHB, up 1.27% vs. 0.76%.

Sector wise it was the same, as utilities rallied 2.5% on continued declines in bond yields while consumer staples (XLP) rallied on broad buying (PG, KO, MO, CVS were all up more than 2% despite no news).

Cyclicals lagged as commodities and gold miners traded very poorly thanks to the continued China-related collapse in commodities, while banks also traded poorly on the decline in rates.

KRE dropped 1.5%, and clearly my statement yesterday that the selling in this sector may be getting a touch exhausted was a bit premature.

On the chart the S&P 500, despite a temporary violation, generally held that 2,054/ 200-day moving average, and that's a positive for the bulls. Depending on how the headlines unfold from here on Greece, that remains a key support level to watch.

What's Next for Greece and the Bottom Line

A ray of light shone through in the Greek saga yesterday, and while we are still a long way from a deal, it appears for the first time during these negotiations that the Greeks actually want to get a deal done (recall my comments about PM Tsipras having cover to get a deal done now following the referendum).

The hope is that a formal proposal is submitted by Greece today, and if accepted, ratified on Sunday.

Near term the ECB keeping the ELA active remains the key to Greek solvency, so as long as that happens then theoretically this could all be behind us by Sunday—although again, there are plenty of pitfalls to note along the way.

More broadly, beyond Greece we continue to see a set up by which we could get a nice rally in July, assuming earnings are good, the Fed stays committed to a "one and done" policy, and macro threats remain static.

Assuming you can stomach any hiccups with Greece, we think buying our preferred cyclicals (IWO, KRE, RTH or XRT) on this dip is a good risk/reward set up now, and we will be doing so today.

Speaking of macro risks, Chinese equity market volatility has reached quasi-absurd proportions lately, and while that has been put on the back burner thanks to Greece, it remains a risk to watch.

Given the Greek drama yesterday, I didn't have enough time to complete a "Need to Know" on China and the outlook for that region and commodities, but I will include it in tomorrow's report.

Economics

No material reports yesterday.

Commodities

Commodities continued to crash yesterday morning as oil was still in "free fall," while a rally in the dollar kept the pressure on the metals. The widely followed commodity ETF, DBC, declined another 0.99%.

After a modest bounce overnight, WTI crude oil futures resumed their steep sell-off yesterday morning, declining another 3.5% by mid morning. But, as we said in yesterday's report, the energy markets had become badly oversold even though both the technicals and fundamentals turned decidedly bearish last week. WTI futures actually declined 15.3% peak to trough between last Tuesday and yesterday morning, which was by far the largest five-session drop of the year.

But, late morning yesterday futures finally found support just above $50.50, and broke the extremely sharp downtrend that has been in place since the middle of last week.

The recent plummet in oil prices passed well through our initial target of between $53 and $54/barrel, but was clearly overextended to the downside as futures bounced back up towards $53 later in the afternoon.

Yesterday's midday/afternoon rally was initiated by short covering, and then speculative longs joined the game, running prices back up into positive territory after the Nymex settlement. From a fundamental standpoint, shorts started to cover ahead of yesterday's API report, and more importantly, today's EIA report due out at 10:30 EDT.

Analysts are expecting a draw of 1M barrels in crude oil stocks, but remember that prices also remain very sensitive to both the refined products inventories and production figures within the report.

Rising production or product inventories will be seen as bearish while declining production (especially below the four-week moving average), and/or falling inventories, will support prices.

Bottom line, oil caught a bid on short covering yesterday as futures had become very oversold. Looking forward, some further consolidation is likely in store but that will largely depend on the EIA data today, and then the Baker Hughes rig count figure on Friday. If the data is largely in line, expect some sideways trading over the next few sessions. However, if the data is bearish, oil bulls may be in for more pain.

Moving to the metals, both the industrials and precious metals plunged to fresh lows yesterday as copper fell 2.8% to hit a new six-year low in intraday trading before recovering with oil prices. Meanwhile, gold dropped 1.49% to a three-month low.

Copper futures continued to fall thanks to Chinese demand concerns stemming from the steep losses in Chinese equity prices and the potential effects on the economy as well as recent gains in the US dollar. It is worth noting that copper prices also are trading with a decent degree of correlation to energy prices, and if oil prices can stabilize and hold yesterday's lows it will be supportive of copper in coming sessions. In the medium term, however, the path of least resistance remains lower still for industrial metals.

Gold futures were hit hard yesterday morning as the dollar marched up to near five-week highs. Near term, gold traders seem to be completely disregarding the Greek issue. However, looking further into the fundamentals we see the risk of a short squeeze growing in the precious metals market.

The commitment of traders report released by the CFTC for both gold and silver reached recent, oversold extremes (net long positions in silver have actually dropped to –10K, meaning there is obviously a large imbalance of shorts in the market than longs).

Bottom line for the precious metals, the near-term trend remains bearish at the moment, but looking at a longer time horizon buying gold wouldn't be the worst idea from a value standpoint.

Currencies & Bonds

The dollar breakout continued yesterday as the Dollar Index rose back above 97.00 for the first time since late May, as the seemingly never-ending saga in Greece continued to weigh on the euro.

The euro dropped below 1.10, down 0.56% on the day.

Notably, both currencies were much stronger and weaker, respectively, at the start of trading Tuesday and the dollar came in throughout the day while the euro rallied. The main reason for that was the constant drip of "hints" of some sort of a short-term deal to be struck this Sunday for Greece. That not only was responsible for the late-day rally in stocks, but also the lift in the euro, Treasuries—and then the pullback in the euro.

Market	Level	Change	% Change
Dollar Index	96.785	.308	0.32%
EUR/USD	1.1018	-.0037	-0.33%
GBP/USD	1.5467	-.0134	-0.86%
USD/JPY	122.58	.03	0.02%
USD/CAD	1.2706	.0055	0.43%
AUD/USD	.7449	-.0046	-0.61%
USD/BRL	3.1818	.0431	1.37%
10 Year Yield	2.231	-.047	-2.06%
30 Year Yield	3.015	-.056	-1.82%
Prices taken at previous day market close.			

There is so much noise and positioning around Greece it's hard to read anything into the daily trading, but the bottom line is that the euro and the dollar are either 1) Not screaming "Grexit" yet, or 2) Confident the ECB will act with enough force to counter any ill effects of a "Grexit"—and that remains somewhat reassuring.

The pound was the big decliner yesterday as it dropped 1% vs. the dollar following very disappointing manufacturing data, as Great Britain manufacturing output declined -0.6% vs. (E) -0.1%.

Also weaker vs. the dollar yesterday was the Aussie, as that currency declined to new, multi-year lows following the RBA holding interest rates steady but making "dovish" comments.

Another weight on the Aussie and the Loonie was the fact that commodities continue to implode this week (silver being the latest yesterday, down nearly 4%).

Bottom line: With China wavering, commodities falling and global growth at risk generally, the outlook for the commodity currencies near term remains challenging, even ignoring the expectation of dollar strength. This means that the path of least resistance for both remains lower.

Greece will continue to hold markets hostage through at least the next 48 hours, sadly, but once the dust settles from however this situation is resolved we continue to expect more dollar strength and more euro weakness (UUP/EUO).

Turning to bonds, Treasuries continued their rally, and that will last until we have a resolution on Greece (although today's FOMC Minutes should not be ignored, because if they are "hawkish" that might stem the rally a bit).

Bottom line, we are continuing to see short covering in bonds on a combination of a growing expectation the Greek drama will stay the Fed's hand regarding cuts this year, and on a "flight to safety" into bunds and Treasuries due to Greek turmoil.

We view neither as longer-term influences, and while this rally can last longer given how "short" bonds got, we do not think we are witnessing any sort of fundamental shift in the bond market back to a decided uptrend.

With regards to bund yields, unlike currencies, they did signal an uptick in angst yesterday as German bunds rallied.

Yield on the 10 year fell 12 basis points to a more than one month low of .643%, so the bond market is getting a bit more nervous following the lack of any real progress yesterday.

Bottom line, though, is the market continues to imply the odds of a deal are higher than the media and the sentiment would imply.

And while that doesn't mean much in an absolute sense, it is comforting to some degree.

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
Long US Dollar/Short Euro Post-FOMC this trade is clearly going against us short term, but the fundamentals for a higher dollar remain in place, and we view this decline as a longer-term buying opportunity. ***WTDN: Buy half total allocation if haven't done so, add small if you have.***	6/3/15	UUP EUO	$25.21 $24.73	Medium
Long Europe's "Peripheral" Economies *We view this current Greece turmoil as a buying opportunity as 1) Greece will almost certainly stay in the EU and 2) This bungling by Syriza will negatively affect "anti-EU" parties in other countries. If you can stomach the short-term pain, we think this is a great buying opportunity over the coming months.* ***WTDN: Initiate or Add to Positions.***	6/1/15	EWI EWP EWQ EIRL	$16.34 $41.34 $26.97 $39.42	Medium
Long International Shippers & Tankers Via SEA *Shipping and tanker companies should benefit from the revival of US consumer imports thanks mainly to the stronger dollar and lower diesel prices. Additionally, many of these stocks are trading at cheap valuations.* ***WTDN: Buy SEA. Original Issue***	3/3/15	SEA	$19.34	Medium
Long Sweden via EWD *The Riksbank hasn't been as forceful with continued QE as I expected, but perhaps that's because it's working. On June 10, inflation expectations rose sharply, reflecting a growing economic recovery.* ***WTDN: Continue to accumulate towards $33.75. Original Issue***	2/13/15	EWD	$33.40	Medium
Long Europe *Despite Greek turmoil "Europe" remains on course for an economic recovery, and the euro remains under medium term pressure. We view any Greece related dip as a buying opportunity.* ***WTDN: Buy HEDJ. Original Issue***	9/4/14	HEDJ EUFN	$59.35 $24.67	Medium
Short Bonds: (Long Term Macro Allocation) ***Strategy Update 6/18/15:*** *The dovish FOMC meeting and Greece concerns have led to a short-term rally in bunds and Treasuries, but we think that is a shorter-term disruption, and we are looking to use this as an entry point to short bond positions.* ***WTDN: Longer-term investors add to short bond positons.***	4/30/13	TBT/TBF/ PST/KBE	Various Prices	Long
Long Japan (Long Term Macro Allocation) ***Strategy Update 3/30/15:*** *We continue to be bullish Japanese stocks based on this simple logic: Either the positive effect of the lower yen and easy money helps generate real economic growth that benefits shares, or the BOJ eases again. Either way Japanese stocks should continue to outperform.* ***WTDN: Add to DXJ.***	11/30/12	DXJ YCS	Various Prices	Long

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Asset Class Dashboard

(Updated 7.6.15)

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: **Neutral** **SPHB: 50%** **SPLV: 50%**	*Stocks dropped last week on macro concerns (Greece/Puerto Rico) but the S&P 500 remains broadly in the 2,050-2,130 range for 2015. Greece headline noise is deafening, and it is a macro risk, but assuming Greece is resolved we continue to see a setup for a potential breakout in the US averages in July, if earnings season is decent. We are looking to potentially buy this dip in cyclicals and consumer-related stocks.*

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	**Neutral**	**Neutral**	*Commodities declined as oil appears to be resuming it declines, following a continued rise in supply and hopes of a deal with Iran. Grains have been the bright spot as fundamentals there have turned modestly more bullish, but more broadly the commodity space remains range bound at best as oil appears to be rolling back over.*
US Dollar	**Neutral**	**Bullish**	*The Dollar Index rallied just under 1% last week on good US economic data and Greece angst. Currency markets are totally trading off Greece and until we know its fate the volatility will continue, but we believe US economic fundamentals and a downward trending euro will continue to result in a dollar rally.*
Treasuries	**Bearish**	**Bearish**	*Treasuries rallied on Greece angst last week as well as an in-line jobs report. And, with the Greece saga intensifying, Treasuries are still well bid and this rally will likely continue. But, US economic fundamentals continue to improve and the FOMC appears committed to at least one hike this year, so we remain bond bears beyond the very short 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.