7:00's Report

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

September 12th, 2014

Pre 7:00 Look

- Futures are unchanged while international markets are mixed but the moves are small—it was a quiet night.
- EMU July Industrial Production was the only economic release and it beat expectations, rising 1% vs. (E) 0.7%.
- Chinese shares (in Shanghai) bounced o/n as Chinese lending figures showed an increase in aggregate lending, raising hopes the authorities might continue targeted stimulus plans to help the economy.
- Econ Today: Retail Sales (E: 0.6%), Consumer Sentiment (E: 83.4).

Market	Level	Change	% Change
S&P 500 Futures	1989.25	.25	0.01%
U.S. Dollar (DXY)	84.455	-.004	-0.01%
Gold	1237.60	-1.40	-0.11%
WTI	93.19	.36	0.39%
10 Year	2.531	-.003	-0.12%

Equities

Market Recap

Stocks spent almost the entire day Thursday in negative territory as the market continues to consolidate and digest. But thanks to some covering into the close, stocks managed to eke out a small gain. The S&P 500 rose +0.08%.

Markets started the day decidedly negative Thursday, and there were plenty of headlines attributed to the early weakness in stocks: More sanctions against Russia from the EU and U.S., and BOJ Governor Kuroda's

EUM: The inverse emerging markets ETF, after getting pummeled all year, is finally showing signs of life as global rates begin to slowly rise.

"hawkish" comments (that weren't really hawkish) were the two favorites, it seemed. The S&P 500 spent almost the entire morning session sitting on support at 1,985.

In truth, like Wednesday, Thursday was almost totally dominated by day traders and fast-money funds trying to run stops. There was little conviction to any movement in the markets Thursday, and to quote Fed Chair Yellen, it was a lot of "noise."

Despite the S&P 500 sitting on 1,985 for most of the morning, sellers couldn't break that support. As the day moved on and support held, they slowly began to cover and stocks lifted starting in the afternoon. That process began to feed on itself once it became apparent the effort to get the market rolling lower had failed, and stocks traded flat.

I'm excited to be joining Kelly Evans and Bill Griffeth today on Closing Bell at 3:00 PM to discuss the outlook for the markets. Tune In!.

Like we saw Wednesday, sellers couldn't break that support yesterday. And the longer it

Market	Level	Change	% Change
Dow	17,049.00	-19.71	-0.12%
TSX	15,534.32	62.43	0.40%
Brazil	58,337.29	138.63	0.24%
FTSE	6,809.63	10.01	0.15%
Nikkei	15,948.29	39.09	0.25%
Hang Seng	24,595.32	-67.32	-0.27%
ASX	5,531.14	-14.98	-0.27%

Prices taken at previous day market close.

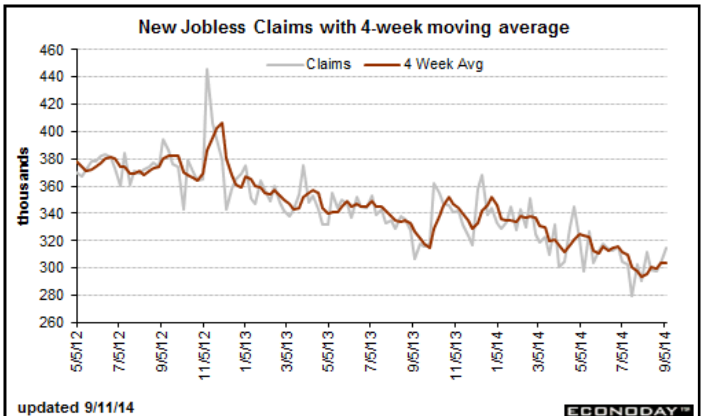
held, the more shorts began to cover and the S&P 500 traded back to flat by 3 p.m. before a mini-squeeze into the close saw stocks finish at the highs of the day.

Market	Level	Change	% Change
DBC	24.00	-.14	-0.58%
Gold	1240.70	-4.60	-0.37%
Silver	18.66	-.266	-1.41%
Copper	3.0925	-.018	-0.58%
WTI	92.90	1.23	1.34%
Brent	98.17	.13	0.13%
Nat Gas	3.839	-.115	-2.91%
RBOB	2.5273	.0008	0.03%
DBA (Grains)	25.67	-.11	-0.43%
Prices taken at previous day market close.			

Buying EUM

We bought the **ProShares Short MSCI Emerging Markets ETF (EUM)** as a play on declining Treasuries and potentially stagnant growth in the emerging markets.

As I said yesterday, I am very, very surprised this sharp rise in the dollar/decline in commodity prices hasn't resulted in a greater drop in emerging markets (EM). And as I cover later in the issue, the lower prices in the Loonie and Aussie dollar—which tend to lead emerging-market economic growth—add to that argument. I believe EM has to play catch-up to these declines in a big way – and as a result initiated a position in EUM yesterday. This is serving both as a hedge to a "risk off" scenario in the markets and as a trade on a trend change in EM.



Jobless claims rose back above 300k, but part of that is because of Labor Day, any overall claims remain near multi-year lows.

Bottom Line

Yesterday was another day of churn—nothing more.

It was very similar to Wednesday, where shorts tried to "gun" the market lower out of the open by pushing it through support. But again, you simply have to respect the strength of this rally.

Nothing really happened yesterday to change the near-term outlook, and focus is squarely on next week's FOMC meeting and the Scottish independence vote.

More broadly, the market continues to consolidate and seems comfortably between (broadly) 1,980 and 2,010 in the S&P 500. Yet, I continue to be cautious given the way bonds are trading. A dip down to the 1,950 level would not surprise me post-Fed.

Finally, speaking of the Fed, it seems as though worries about this "considerable time" phrase I talked about earlier in the week seems to have gotten a touch overdone.

Keep in mind the next week includes a press conference, so even if the "considerable time" phrase is removed, Yellen will have the opportunity to hedge it at the press conference. So, it would not shock me to see a bounce in bonds post-FOMC next week, but that would be a bounce to short, I think.

Economics

There were no material economic reports yesterday.

Commodities

The trend lower in commodities continued yesterday with natural gas and the metals leading the way lower while crude oil surged on short-covering. The benchmark commodity tracking index ETF, DBC, fell -0.58%

Crude oil futures fell to levels not seen since April of 2013 yesterday morning before rallying back to close up +1.34%. The announcement of more sanctions by the U.S. and EU against Russia was the catalyst that started the rally; then it was a flurry of short-covering that sent prices back above $93 in after-market trading.

The new sanctions basically re-introduced a fear bid to the market that had largely been unwound in recent weeks as the geopolitical backdrop steadily improved. Crude oil is also being seen by many as cheap at these levels based again on our ongoing economic progress here in the U.S. even though global demand forecasts have been reduced by many analysts recently (including the International Energy Agency).

Technically crude oil printed a very bullish "outside reversal" on the daily chart yesterday. Although we saw one a few weeks ago that turned out to be a false signal, the outside reversal is one of the oldest and historically accurate trend reversal indicators—one that always requires traders' attention.

So, with geopolitics back in play, technicals shifting to near-term bullish yesterday, and our economy still trucking along, taking a shot on the long side here with stops below yesterday's lows of $90.43 is a good trade from a risk/reward standpoint. Longer term, though, we would like to see the downtrend dating back to June broken before we get downright bullish on WTI.

Natural gas sold off sharply upon release of the EIA report that stated stockpiles rose by +92 Bcf vs. (E) +86 Bcf. But, futures held support at $3.80 for the 4th time in 6 sessions yesterday and rallied back to $3.84 by the end of the day. So, apparently we are not the only ones who see value in natural gas, as there are plenty of willing buyers in the market as prices approach $3.80.

And although yesterday's EIA report showed a larger build than analysts expected, the broader fundamental picture has not changed and supplies remain more than 14% below the 5-year average for this time of year. Plus, the pace of injections is currently well below that which is needed to fully restore supplies to levels seen as "comfortable" for entering the draw season.

Moving to the metals, gold fell -0.23% yesterday, breaking through support at $1,240, and futures fell to the lowest levels since January. Unlike crude oil, gold was not able to recover and closed at a multi-month low. The price action in gold has been very bearish this week as the dollar has basically consolidated in a sideways range while gold has sold off over -2%.

Remember that the stronger dollar (as a result of Fed policy speculation) is the primary reason gold has been under pressure in recent weeks. So, basically there have been very few buyers in the market (despite the fact that buying here is probably a value over the longer term), and gold prices are correcting in response to the recent tear the dollar has been on. On the charts, we will look for $1,240 to hold on a closing basis (we expect it to today as shorts cover ahead of the weekend). But if it fails, the path of least resistance is toward $1,200.

Copper futures fell -0.51% yesterday, breaking through and closing below the 2014 uptrend line thanks to inflation data that missed estimates and sparked concerns about slowing economic growth. More extensive sanctions by the EU and U.S. against Russia also weighed on the industrial metal. The charts are continuing to favor the bears with former support at the uptrend line becoming initial resistance (and a good entry point for a short position) around $3.11 while solid support doesn't show up until the broad $3.00-$3.05 band.

Currencies & Bonds

Currencies were more volatile yesterday, but action in the Treasury market was more important, in my opinion.

In stark contrast to all of 2014, the 30-year Treasury market is not trading well at all. The 30-year spent almost the entire day in positive territory yesterday, helped by more sanctions on Russia (geopolitical bid), a disappointing weekly jobless claims number, and a much stronger than expected 30-year Treasury auction.

Market	Level	Change	% Change
Dollar Index	84.46	.017	0.02%
EUR/USD	1.2921	.0005	0.04%
GBP/USD	1.6222	.0011	0.07%
USD/JPY	107.04	.22	0.21%
USD/CAD	1.1042	.011	1.01%
AUD/USD	.9091	-.0063	-0.69%
USD/BRL	2.2919	.0036	0.16%
10 Year Yield	2.531	-.003	-0.12%
30 Year Yield	3.254	-.015	-0.46%
Prices taken at previous day market close.			

Despite all those factors, and considering it was short-term oversold, the long bond couldn't manage to finish the day in positive territory—and price action like that is textbook for something that is now in a downtrend. I imagine we will see some sort of range-bound trade into next week's FOMC meeting, but more and more it's appearing the tide has indeed finally turned for Treasuries.

Turning to currencies, the Dollar Index was flat for a second straight day on digestion of the recent sharp rally. Meanwhile, both the euro and pound finished up small, both continuing to enjoy a mild oversold bounce. The pound at one point was staging a decent rebound vs. the dollar on another poll that showed the "Nos" with a 3-point lead in Scotland ahead of the independence vote next week. But it couldn't hold, as things remain uncertain.

Bottom line, with the FOMC meeting next Wednesday and the Scotland vote next Thursday, expect range-bound trading in the these currencies until we find out whether 1) the Fed removes "considerable time" from the statement and 2) Scotland breaks off.

The real action in currencies yesterday came from the commodity currencies, which continued to decline vs. the dollar on momentum and disappointing Chinese inflation data.

There was nothing short of confusion in the Aussie dollar, as it dropped -0.7% despite a totally massive blowout jobs number (more on that below – things that appear too good to be true usually are, and the market wasn't fooled).

The Aussie is now solidly below support at $0.92, and even if we get a bit of a decline in the dollar early next week ahead of the Fed and the Aussie rallies back toward that level, it's something you can short pretty confidently. I've said for a while "fair value" for the Aussie seems to be the mid-/low-$0.80s vs. the dollar, and that's ultimately where we should end up by the time this is all done.

The Loonie was actually the biggest mover vs. the dollar yesterday, dropping -0.87% as it traded to a new 6-month low and threatened to drop below the $0.90 mark.

Bottom line with commodity currencies is this: They are very highly correlated to commodity prices and Chinese/emerging-market growth. Commodity prices, especially oil, have obviously declined sharply over the last month. While there aren't worries about Chinese economic growth in the absolute sense, from a commodity demand standpoint (which is what matters to the Loonie and Aussie) there simply aren't very good prospects for growth.

I've been saying it for over a year, and obviously it's a long-term statement, but I do believe the "Golden Age" of the commodity currencies—where both the Loonie and Aussie traded at parity with the U.S. dollar (and in both instances, also at a premium) is over – and it will be years (if not decades) until those cycles begin again.

A Jobs Number for the Ages – Or Was It?

Yesterday morning when I was prepping the Report to send, something shocked me as I reviewed the overnight data. I went to check and see what the Australia Labour Force Survey (jobs report) results were. And, to my astonishment, I saw that "Oz" had added +121,000 jobs in August – compared to expectations of +13,500 (no I'm not missing a zero). Simply put, monthly jobs additions of that size (121K) in a country the size of Australia have to be near-impossible. For illustration purposes, the U.S. has a population of about 320 million, while Australia has a population of about 22 million. So, to put it in context, Australia adding 121K jobs in a month would be equivalent to us seeing an increase of 1.7 million jobs!

Clearly something got screwed up. (Australia relies on a household survey, and 107K of the 121K increase was "part time" jobs – so either there's a lot of temp work in "Oz or someone didn't ask the questions right!) More importantly, once we back out the 107K part-timers, we get 14K permanent job additions – in line with the 13K estimate. So, bottom line is, despite any headlines or reports of a "blowout" jobs report, the Australian economy remains sluggish, and there's little in the (accurate) data to make the RBA hawkish.

Have a good weekend,

Tom

Position Sheet

Tactical Trading/Investment Account (Time frame of a few weeks to months).

Date	Position	Open Price	Stop	Strategy
9/4/14	HEDJ EUFN EWI EWP TBT	59.35 24.67 16.44 41.34 56.59	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. Given the sour sentiment towards the region and relative attractive valuation we are committing capital to the trade. 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.*
7/28/14	DBC	25.65	None	*We have initiated long positions in DBC here as we believe many components of the benchmark index have become oversold, namely in the energy space. The potential target to the upside is close to the $27 mark. Original Issue*
7/21/14	UNG	20.98	None	*We are replacing the "long copper" trade on the tactical sheet with our "long natural gas" call because of the time frames of the two trades. Copper is a long term fundamental play dependent on continued global economic growth (namely in China) while buying nat gas is a medium term trade based on smaller supply injections and warming weather patterns. "Long Copper" has been moved to the ACD. Original Issue.*
6/11/14	SPHB	32.73	30.32	*Long domestic cyclicals. Part of the "Post ECB Decision" portfolio of what should outperform if bond rally is done. Original Issue*
6/11/14	UUP	21.55	21.13	*Long Dollar. Part of the "Post ECB Decision" portfolio of what should outperform if bond rally is done. Original Issue*
12/13/13	FCG XOP	18.97 65.62	None	*Natural gas supplies low, increased 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
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 (9/8/14): After spending most of 2014 in trading range, the yen have broken down to new lows as expectations for pension reforms (allocation more Japanese pension funds away from Japanese bonds and into stocks) as well as the rising potential for more stimulus have weighed on the yen. It appears after nearly a year of consolidation, this trade is back "on."			
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 (9/8/14): One of the biggest positive influences on bods in 2014 has been buying from Europe, as German bunds and peripheral European debt saw mania buying on rising fears of deflation. Those money flows overwhelmed negative bond fundamentals in the US and sent Treasuries soaring. But, with the ECB engaging in QE, the European bond mania should break, and Treasuries should now resume their declines.			

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Asset Class Dashboard

(Updated 9.11.14)

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**	*The S&P 500 traded to new highs again last week thanks to a big Friday rally in response to the softer than expected jobs report (it lowered levels of Fed angst). Despite the new highs, though, stocks traded a bit heavy last week and a period of consolidation looks in order, although beyond the very near term the back drop remains favorable.*
Best Idea: Buy Regional Banks (KRE). **Best Contrarian Idea:** Buy Small Caps (IWM).			
Commodities	**Bullish**	**Bullish**	*Commodities traded lower last week as a decline in WTI Crude oil and gold weighed on the complex. Both gold and oil are now at critical levels of support, but with the US economy accelerating and the growing potential for inflation, expect buyers to defend current levels.*
Best Idea: Long Oil (USO), Long Copper (JJC) **Best Contrarian Idea:** Buy Grains (DBA)			
U.S. Dollar	**Bullish**	**Bullish**	*The Dollar Index surged to new highs for the year (again) after the ECB shocked everyone and unveiled private sector QE. Also helping the dollar rally was disappointing economic data out of Japan (the yen hit a new low for the year). While overbought, the path of monetary policy between the US and most of the rest of the world is diverging (US tight, everyone else loose), and that is dollar bullish.*
Best Idea: Sell the Yen (YCS) **Best Contrarian Idea:** Long Canadian Dollar (FXC)			
Treasuries	**Neutral**	**Bearish**	*Treasuries declined last week despite the disappointing jobs report, as the positive influence from Europe waned after the ECB announced private market QE. The 30 year Treasury is now below the 2014 uptrend, but before getting outright bearish short term, I'll want to see it close a few more times below that support level—as this 2014 rally deserves the benefit of the doubt.*
Best Idea: Short "long" bonds (TBT) **Best Contrarian Idea:** Short High Yield Bonds (SJB)			