Turkey Week

Happy Thanksgiving week to our US readers!

Just a reminder: Markets will be closed on Thursday (Thanksgiving day) and Friday is just a half day.

Now let's run through some news and then rip through some charts.

There were some notable shifts in tone out of the Fed this past week. First, Powell said in a speech that he has some growing concerns over the durability of the current expansion. And second, Fed vice-chair Richard Clarida, hinted at a coming pause in Fed rate hikes, saying, "**We are a point now where we really need to be especially data dependent**… I think certainly where the economy is today, and the Fed's projection of where it's going, that being at neutral would make sense." Clarida also went on to note that, **"There is some evidence of global slowing. That's something that is going to be relevant as I think about the outlook for the U.S. economy,** because it impacts big parts of the economy through trade and through capital markets and the like."

What does this mean?

Just that the Fed is going to stay flexible and data dependent. If growth and inflation slow then so will their planned rate hike path and vice-versa. Fed watcher, Tim Duy, interprets it like this:

> *I think this is what we should expect in a post-explicit forward guidance world. Follow the data relative to the Fed's forecast; of the economy underperforms relative to those forecasts, all else equal the Fed will slow down rate hikes.*

And since we expect growth and inflation both to slow in the coming quarters then we should expect the Fed to soon lower its projected rate path. Currently, I think the Fed still hikes at its December meeting but maybe concludes with more dovish guidance going forward.

There was also increasing trade chatter last week. President Trump mentioned that he and Xi were getting closer to making a deal, saying that further tariffs may not be needed. Only to then be rebuffed by Pence and others in his administration.

Seeing as how things went at this weekend's annual Asia-Pacific Economic Cooperation Summit (here's a link), I wouldn't get my hopes up about a major trade deal happening anytime soon. The summit ended without an agreement on a joint communique for the first time in the Summit's history. Meanwhile, Vice President Pence has been ratcheting up the rhetoric (here's a summary of the speech he gave on Saturday).

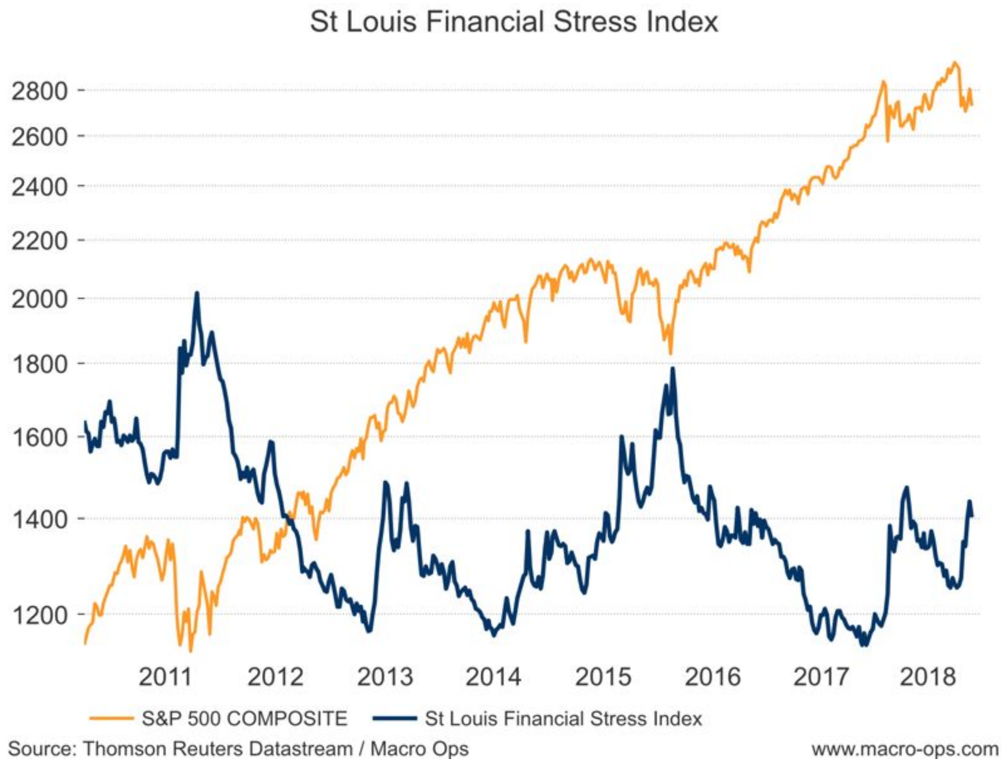
The G20 meeting is coming up in 11 days. Trump and Xi are expected to meet and talk trade. The best that we can expect to come out of this meeting is a framework for further trade negotiations and statements that the trade war is coming to an end. But a substantial deal is highly unlikely because both sides have directly opposing views on what's considered kosher in trade and running an economy.

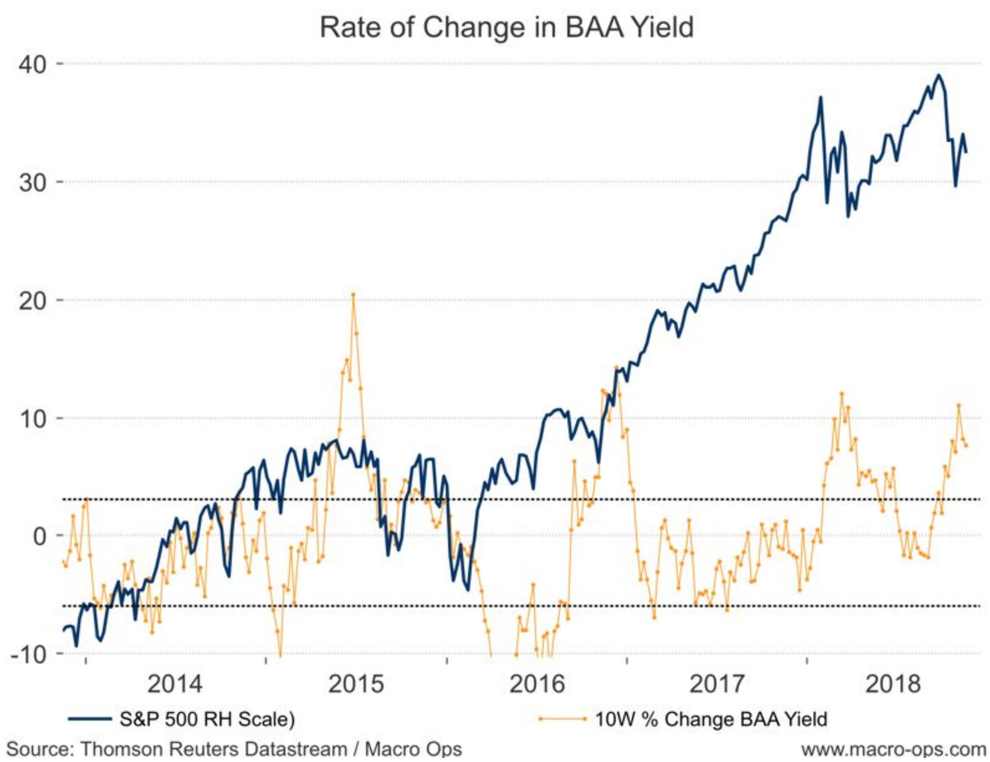
The US wants China to open its markets to Western companies and adhere to international laws and standards in regards to the treatment of those companies (ie, no forced IP transfers and such). And Xi will never do that because that doesn't jive with his goal of making China completely self-sufficient.

Anyways, whatever happens, should be watched closely because it's likely to set the narrative going into 2019 and could have big ramifications for markets.

Speaking of markets, the SPX is still in no man's land. Stuck trading between its 50 and 100-week moving averages (red and green line below).

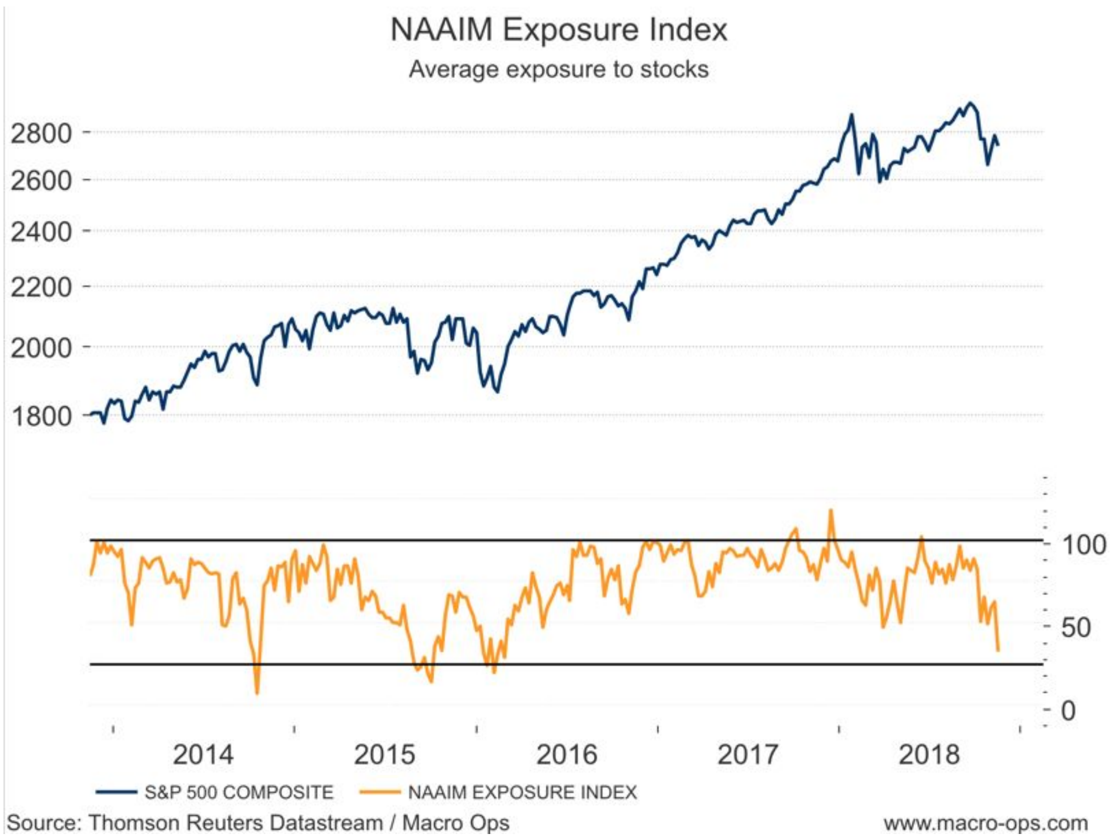
I don't have any conviction on the short-term direction of US markets at the moment. The long-term primary trend is still up, as the fundamentals still broadly support higher stock prices. But, financial conditions are tightening and the rate-of-change in rates is still elevated.



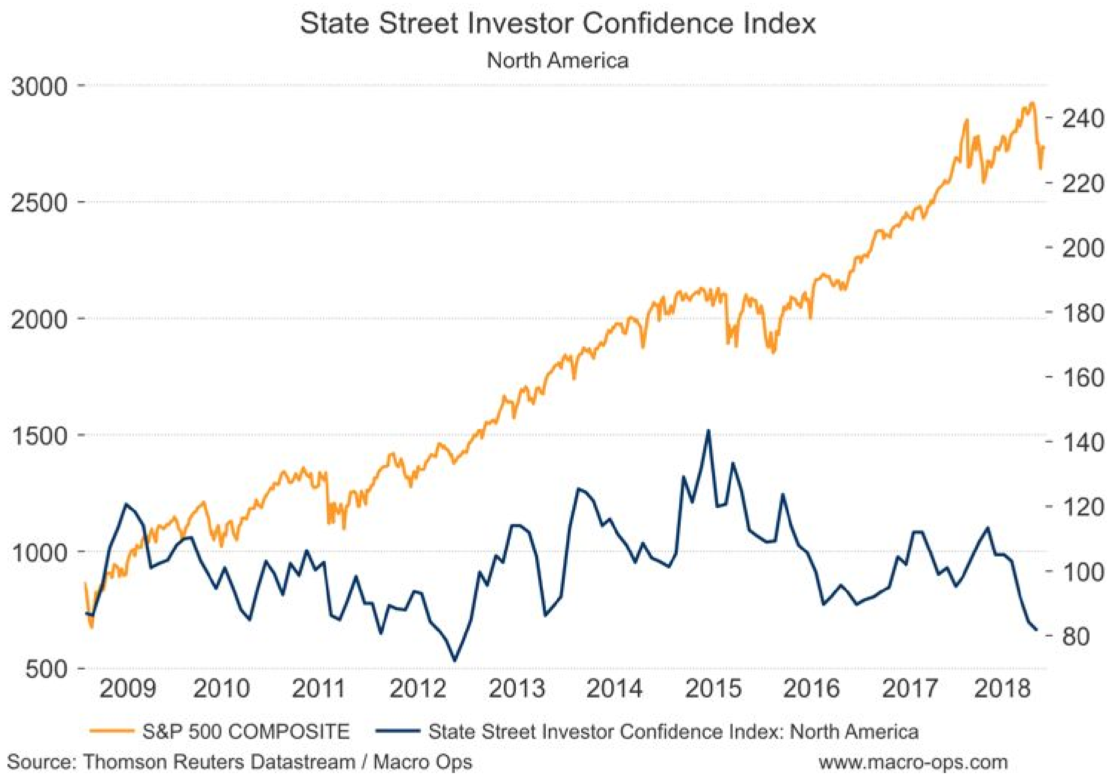


Sentiment and deeply oversold technical conditions in certain areas of the market do support a hard-charging rally at some point in the near future.

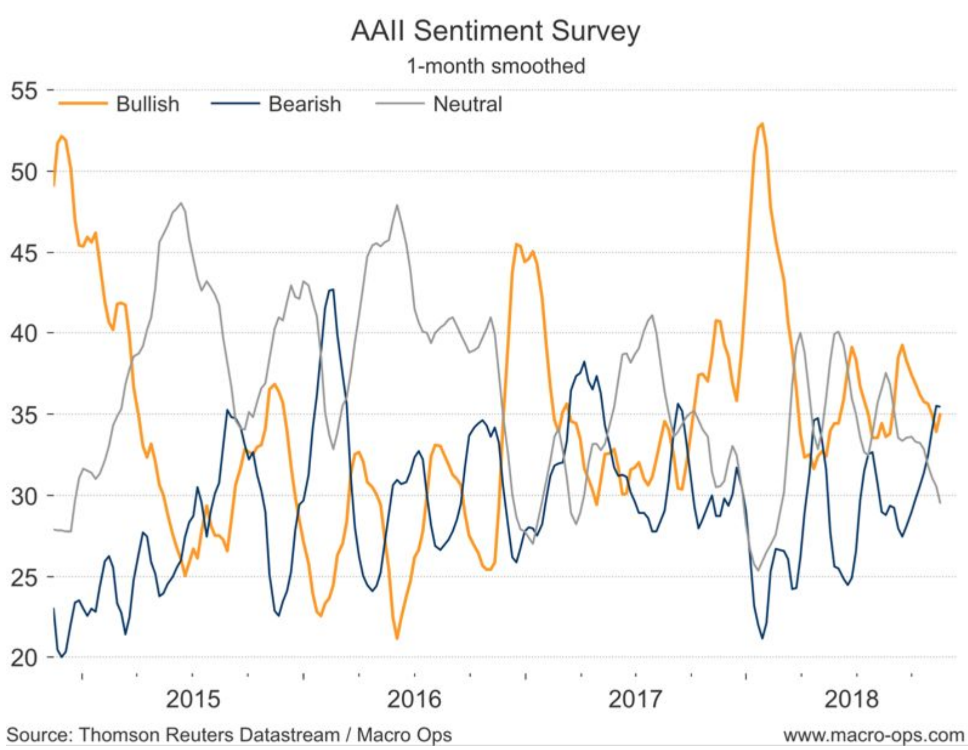
The NAAIM Stock Exposure Index shows that investor's holdings of stocks dropped last month to 35. Which is close to the low levels hit in 2015 (lower black horizontal line marks 25) that preceded the subsequent rally.



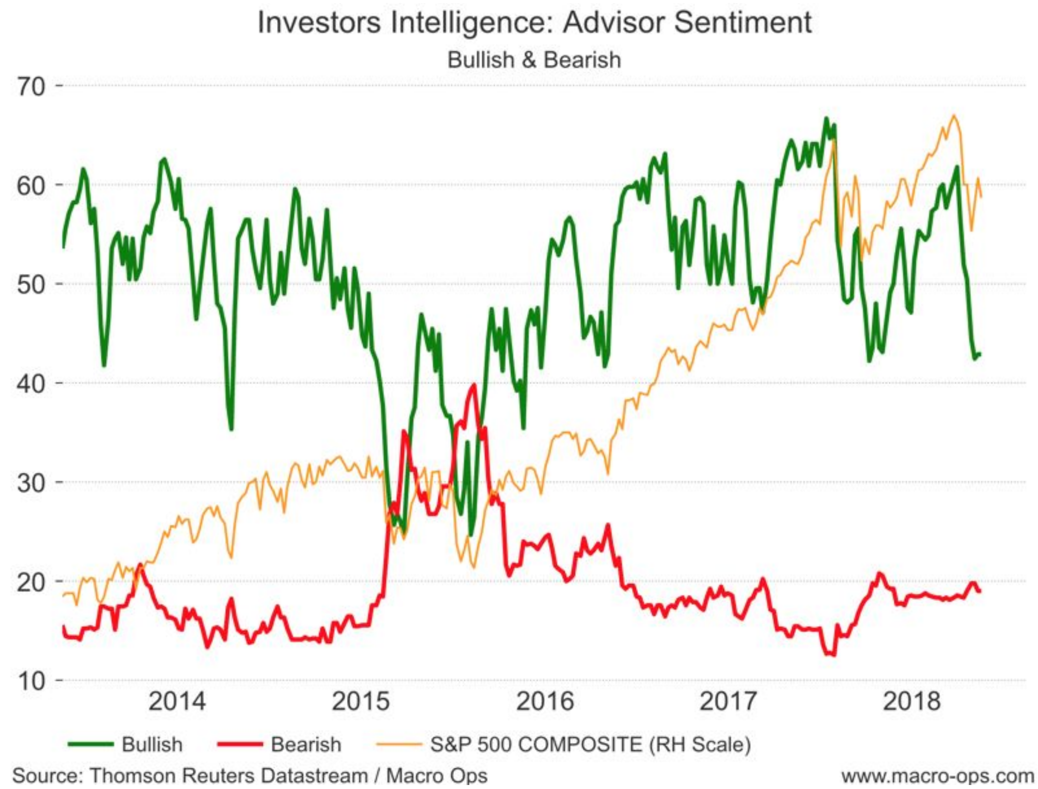
The State Street Investor North America Confidence Index has dropped to its lowest levels since 2012.



The 1-month moving averages of the AAII sentiment survey show that there are now more bears than bulls.



I personally would love to see one more violent washout in the market, similar to the full sentiment reset we saw in 15'. There remains too many dip buyers in this market, especially among retail, imo. I'd like to see the red line below spike hard on one more sell-off.



But, alas, reading sentiment is an art and not a science and all in all I'd say current market sentiment is supportive of a run up in the market.

For myself, I'm just going to continue sitting in my current positions and wait for the market to tip its hand before I start getting aggressive in one direction or another.

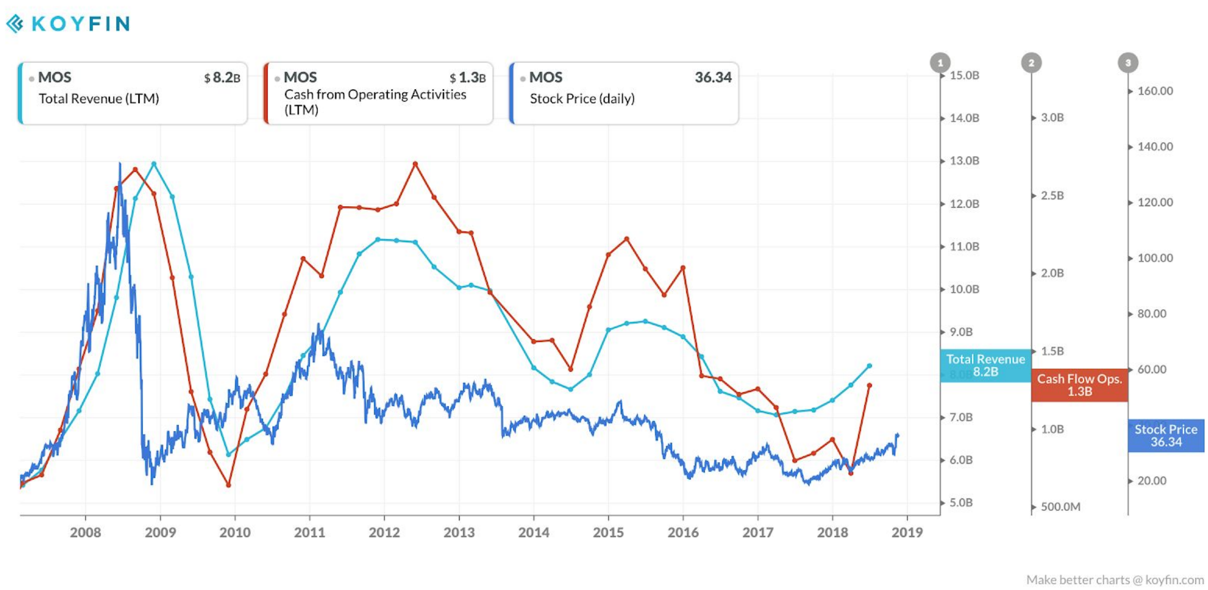
Following are some stocks with great chart setups that I'm considering getting long once this market looks like its done chopping around.

SUPV is another Argentinian financial stock like our long GGAL play.

IBKR fell as much as 40% from its highs. Fundamentals are as strong as ever and the stock recently broke above its falling wedge and is now back above its 100-week ma (green line).

Fiat (FCAU) also fell as much as 40% from recent highs. The stock found support at its 100wma (green line). This is a deeply undervalued stock with some coming positive catalysts. Read [this](#) from ADW on an update of the value case for Fiat. [Mohnish Pabrai](#) has 100% of his funds in Fiat.

Potash company, Mosaic (MOS), continues to trend up nicely while the rest of the market struggles. The stock recently completed 2 ½ yr inverted H&S bottom. And fundamentals for the company are trending in the right direction. Another Potash stock (IPI), which is one of our old holdings, is setting up nicely as well. I'd consider going long if it can clear its 200-week MA.



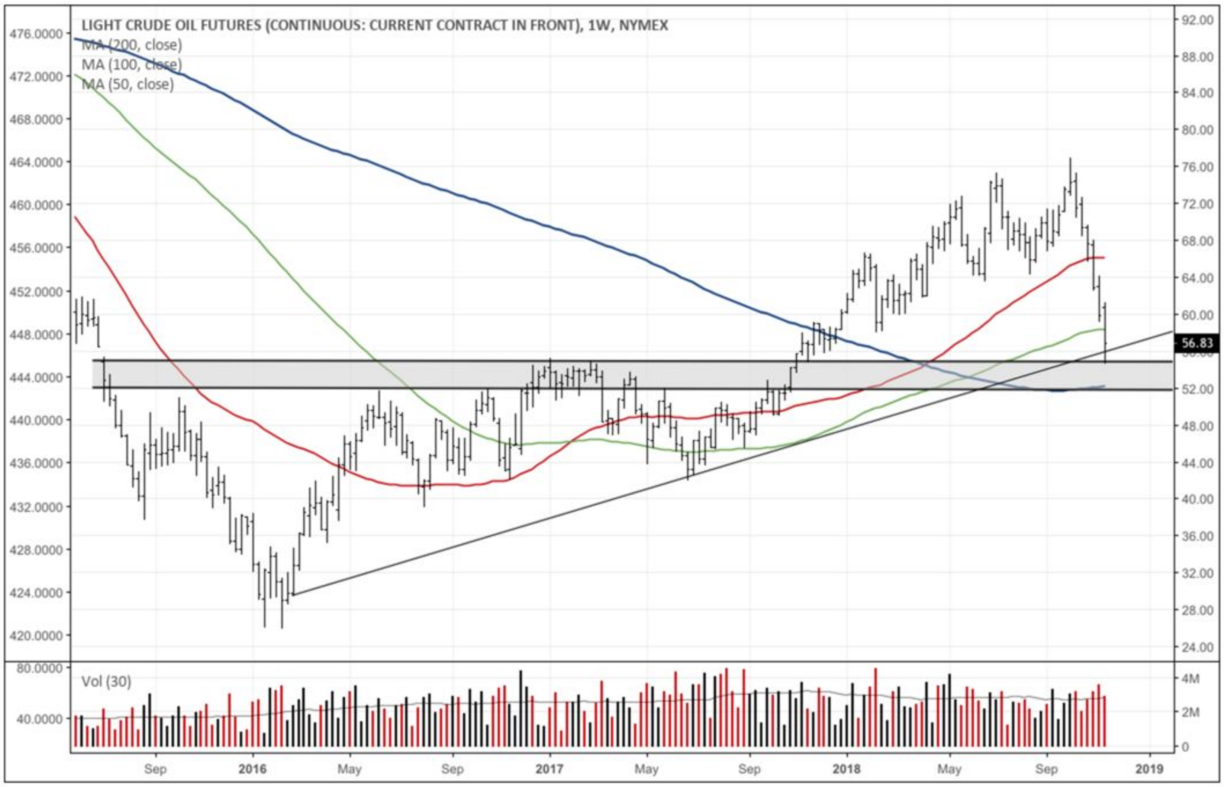
MarketAxess (MKTX) also has a nice chart. The stock is close to making new all-time highs after a recent bear trap. I'm going to dig into the company this week.

I've been looking at some of the oil and gas service companies, specifically fracking sand producers because I liked their charts and low valuations. But I think I'm going to take a pass on them for now. The fracking industry probably has a day of reckoning coming.

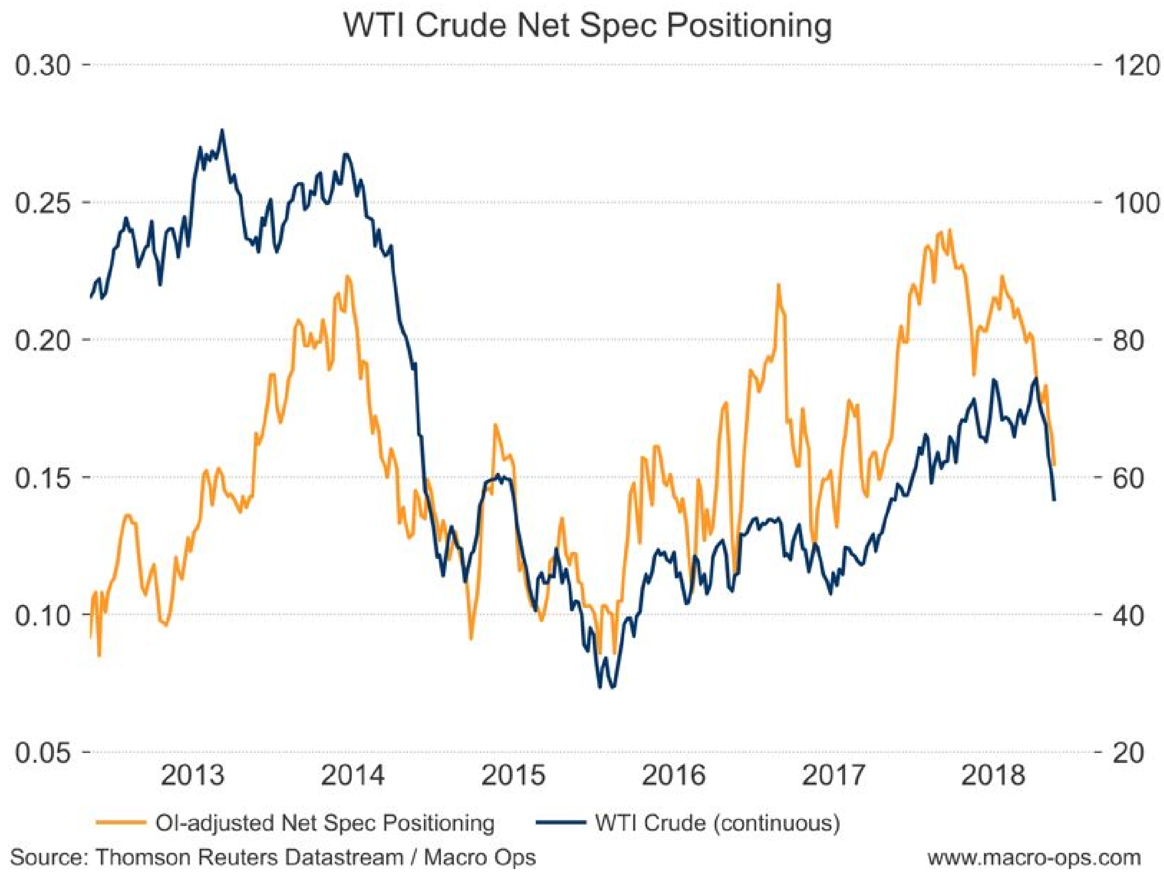
I plan to write more on this soon but essentially it comes down to the generally awful economics of the business. This makes the industry broadly dependent on easy credit. As we move into a tighter liquidity regime, we should see a number of these companies go belly up. Only those with the best real estate will survive and then likely thrive as land prices (a big cost for producers) drops significantly.

There'll be some great value plays in the space eventually but it's probably going to be a bumpy path getting there. I'm just going to watch from the sidelines for now.

Speaking of oil, WTI futures are currently trading at major support near a long-term trendline and significant level.



Long spec positioning (orange line) has been reset from its excessively bullish levels hit a few months ago. So sentiment and positioning are no longer a headwind for Texas Tea.

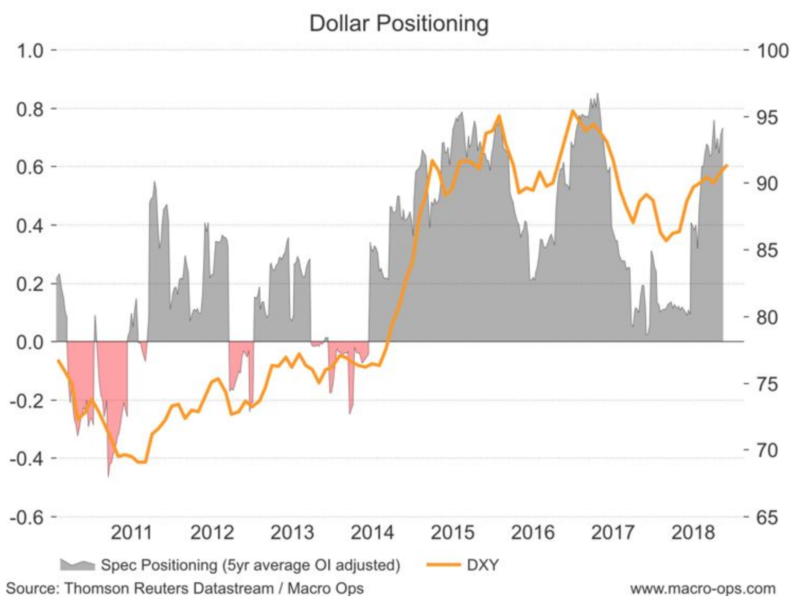


Sources in OPEC say the Saudis are pushing for a massive 1.4 million barrel cut in production, in order to drive the price back up near $80 in Brent terms. This would be a bullish development if they can get the other members on board. But, the impact of a slowing Chinese economy may override or at least counteract any attempts to prop up the market.

I don’t know… there’s not enough visibility at the moment for me to have much of an opinion one way or another.

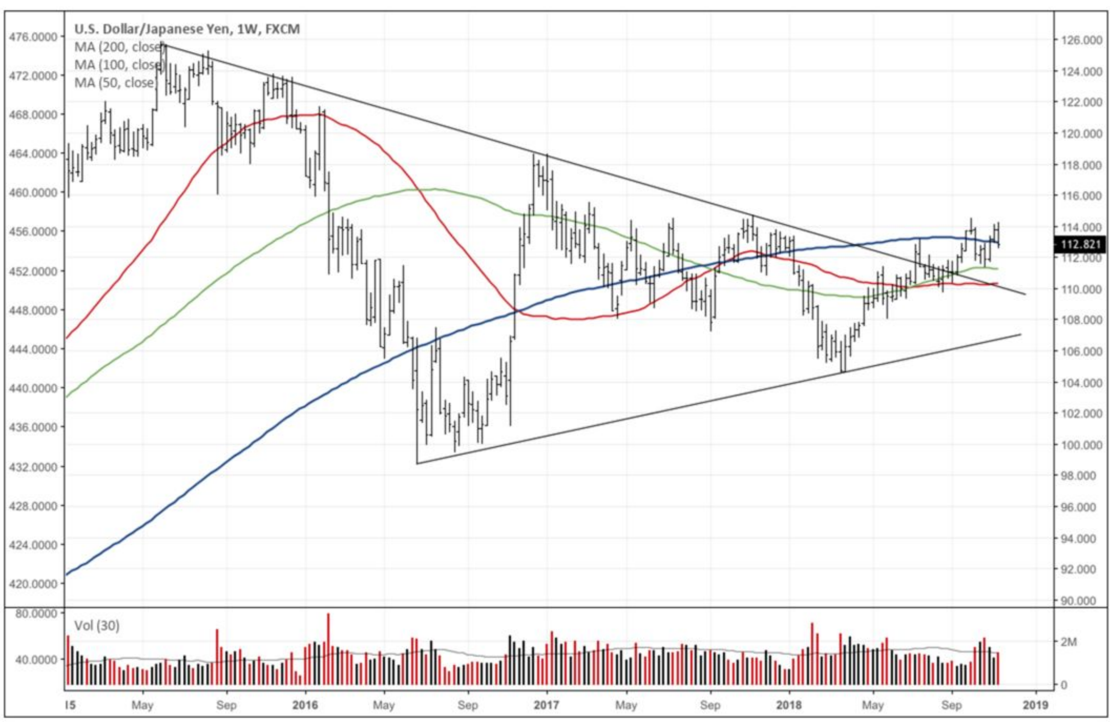
Moving on to currencies, the EURUSD bounced off nicely from its 200-week MA as I pointed out last week.

The build-up in long positioning in the dollar (DXY) makes it extremely susceptible to a selloff in the near-term. We're already seeing this positioning unwind play out in NZDUSD and AUDUSD crosses where the long USD positioning became crowded.

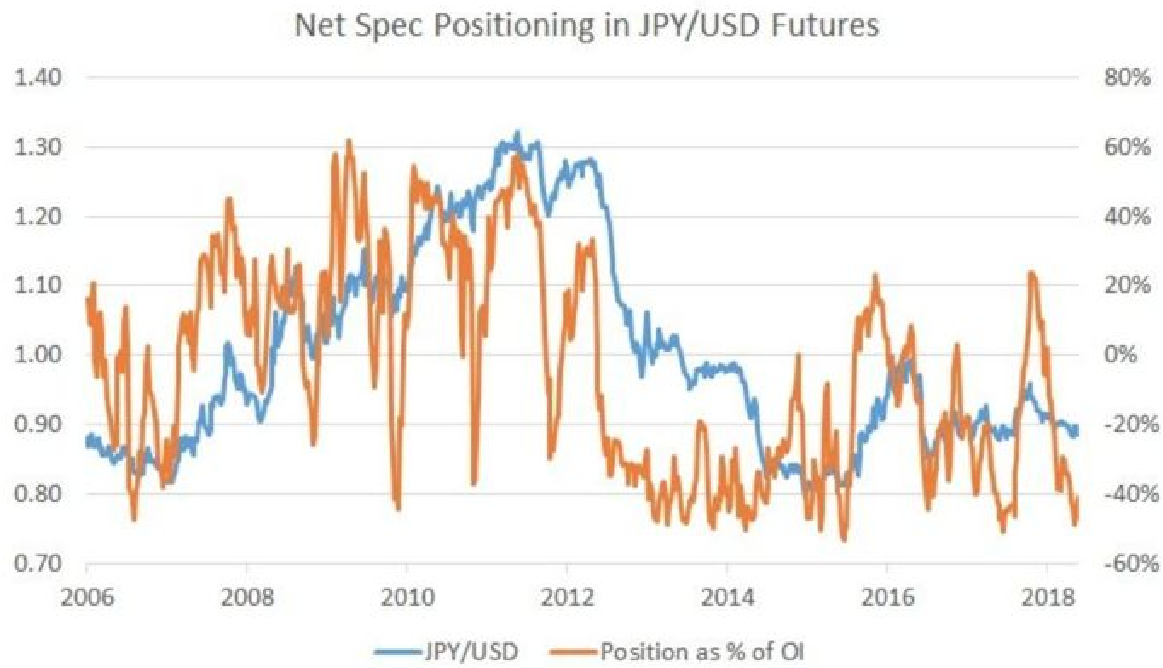


I'm looking for AUDUSD to run up to the 0.75/0.76 level (grey bar below). This puts it an intersection of a number of long-term moving averages and its upper Bollinger band. The fundamentals are still very supportive of a lower AUDUSD. I think AUDUSD trades down to 0.62 within the next 18-months. I plan to put on another short once this pair gets into that grey zone.

To play this short-term USD washout I'm considering going long some yen (short USDJPY) for a swing trade.



Speculators are extremely short yen.



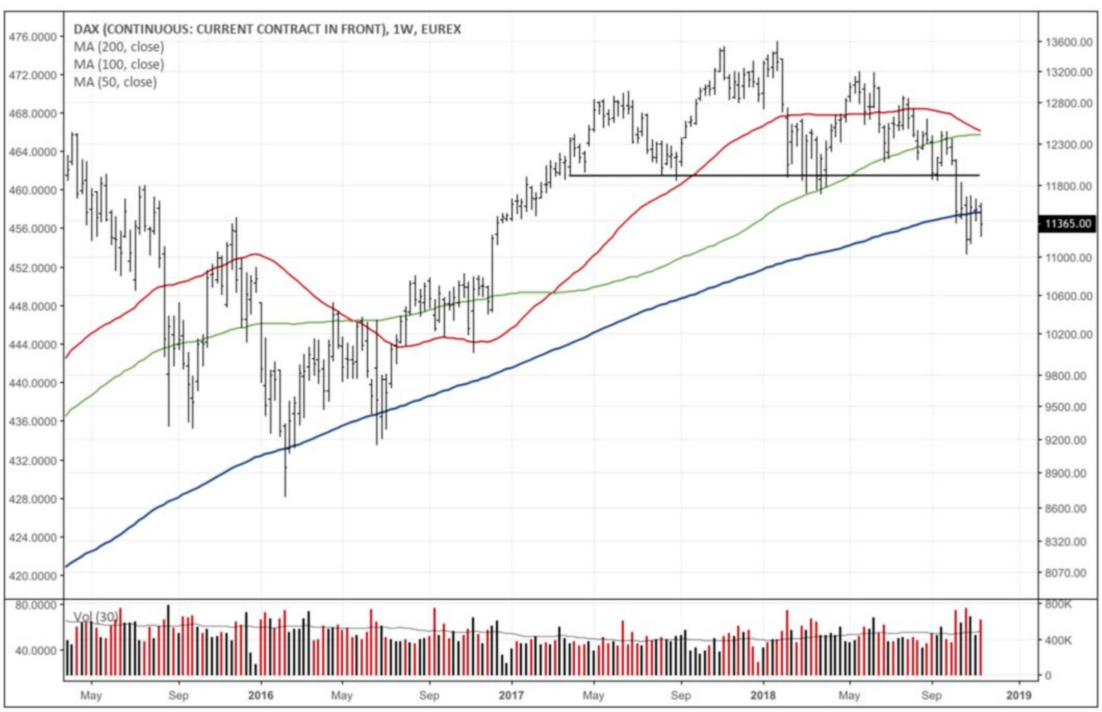
And rising US bond volatility is likely to lead to more Japanese investors reducing their US holdings and repatriating money, pushing the yen higher.

Exhibit 5: Rising US Bond Volatility Suggests A Stronger JPY

Source: Bloomberg, Macrobond, Morgan Stanley Research

Speaking of bonds, our long bond trade is off to a good start. I'm moving our stop up on this trade to break even so we get a free ride from here.

Our short DAX trade is also looking good. The DAX had a weekly close below its 200wma (blue line) last week for the first time in over 2-years. We may add more to this position soon.



Our NVDA puts are up 245% at the moment after the company missed on both revenues and earnings. These puts don't expire until March and with a strike price of $150 they are nearly in the money. We may take partial profits soon and look to reload on retraces. Higher interest rates are putting the squeeze on high multiple stocks like NVDA. We're going to look to increase our short exposure over the coming months.

That's all I've got. I hope everybody had a good weekend!

If you've got any questions for us in the meantime, let us know in the Comm Center.

Your Macro Operator,

Alex

Macro Ops Portfolio			YTD	Inception (16')			
NAV	$2,657,794		-1.69%	32.29%			
Big Bet Macro							
Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price
Equity	Grupo Financiero (GGAL)	4,076	$26.13	$21.00	$23,885	$44.00	$26.86
Equity	Stratasys (SSYS)	6,196	$24.76	$20.50	$11,772	$50.00	$22.40
Equity	Discovery DISCA	3,450	$28.09	$26.70	$16,871	$60.00	$31.59
Equity	Google GOOGL	519	$1,129.78	$1,100.00	-$16,608	$1,400.00	$1,068.00
Equity	Disney DIS	5,694	$102.34	$108.50	$44,129	$150.00	$116.25
Equity	Yatra Online YTRA	36,819	$7.24	Investment	~	$15.00	$5.25
Equity	DAX December Futures	-2	€11,333.0	€12,120.0	€37,750.00	€10,600.0	€11,365.00
Equity	NVDA Mar '19 150 Puts	43	$6.60	$0.00	$69,918	$22.00	$16.26
Equity	BABA Jan '20 110 Puts	111	$5.17	$0.00	$61,827	$20.00	$5.57
Equity	SPX Mar '19 3150 Call	19	$8.10	$0.00	$4,465	$80.00	$2.35
Equity	DIS Jan '20 165 Call	545	$1.11	$0.00	$56,680	$10.50	$1.04
Equity	MU Jan '19 70 Call	118	$2.12	$0.00	$3,186	$10.50	$0.27
Equity	FB Jan '19 260 Call	35	$2.59	$0.00	$1,085	$20.00	$0.31
Equity	BCS Jan '19 15 Call	574	$0.35	$0.00	$8,610	$3.50	$0.15
Equity	DB Jan '19 30 Call	670	$0.30	$0.00	$1,340	$3.00	$0.02
Equity	CCJ Jan '19 17 Call	236	$0.41	$0.00	$2,360	$5.00	$0.10
Equity	FCAU Mar '19 24 Call	360	$0.25	$0.00	$7,200	$2.50	$0.20
Equity	FCAU Jan '19 25 Call	108	$0.90	$0.00	$1,620	$5.00	$0.15
Equity	JD Jan '19 70 Call	108	$0.92	$0.00	$1,512	$7.00	$0.14
Equity	TRIP Jan '19 75 Call	108	$0.89	$0.00	$8,100	$7.00	$0.75
Equity	CHK Jan'19 10 Call	750	$0.14	$0.00	$14,250	$1.00	$0.19
FX	UUP Jan'19 27 Call	1,230	$0.13	$0.00	$6,150	$1.20	$0.05
Fixed Income	ZB December Futures	6	$138.44	$136.31	$20,640	$145.00	$139.75
Volatility							
Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price

Risk Budget

	Total Allowed (In Bps)	Total Used	Total Available	Percentage Used
Master	2500	1455	1045	58.20%
Big Bet Macro	2250	1455	795	64.67%
Volatility	250	0	250	0.00%

**Updated 11/18