

# Disney!!!

## Summary:

- Short-term sentiment indicators are close to triggering a sell signal
- Latest China data suggest the bottom of the Chinese credit cycle is in
- Heading into the meat of Q1 Earnings Season
- Still waiting for a major break in USD Pairs and Gold
- Shippers with a big technical breakout (moving off Chinese credit data maybe?)
- Trade Target List: Nintendo (NTDOY), Interactive Brokers (IBKR), Intrepid Potash (IPI), Gold, USDMXN
- Portfolio Review: Disney (DIS) FINALLY breaks out, and a look at our bond, oil, and dollar trades

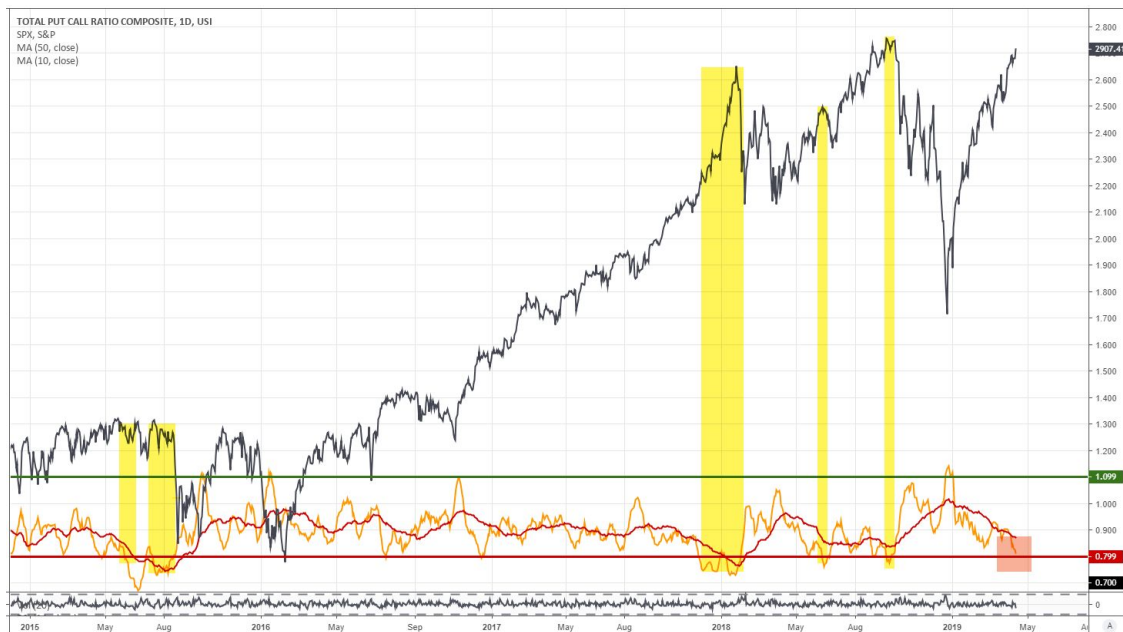
Good evening Operators!

As you can see in the summary, we've got a lot to cover so let's go ahead and jump in.

With the SPX now less than 150bps from new all-time highs, after having gone pretty much straight up since the beginning of the year, you're probably wondering — like I am — how much higher can we go before a retrace or full reversal.

The data that we track point to the very near-term path of least resistance being up (ie, next week, maybe 2-3) but some sentiment/positioning indicators are getting close to triggering complacency and over-optimism.

Take our 10dma Total Put/Call indicator which we mentioned last week. It keeps moving lower (indicating people are buying less downside protection \*getting complacent\*) and is within spitting distance of the 0.8 level that gives us an official sell signal.

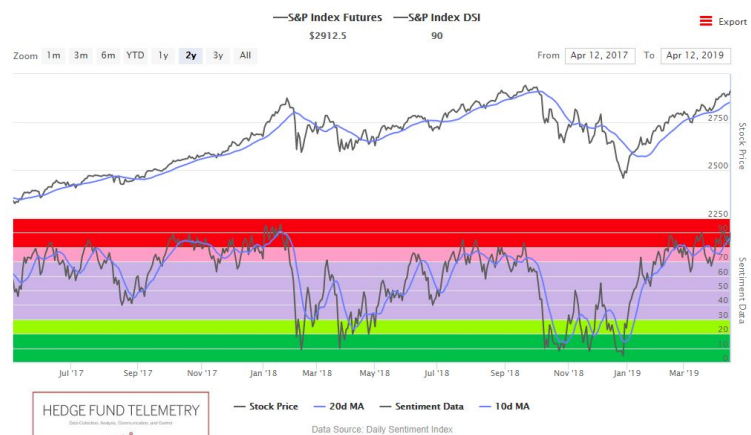


When the moving average (orange line) crosses below the horizontal red line, it doesn't mean that a selloff is imminent. You can see that there was a multi-week lag between signal and intermediate top around the start of last year. So a sell signal from this doesn't mean to immediately bet the ranch on a falling market. We still want to wait for confirmation from the technicals. But this indicator does have a solid track record of leading market reversals.

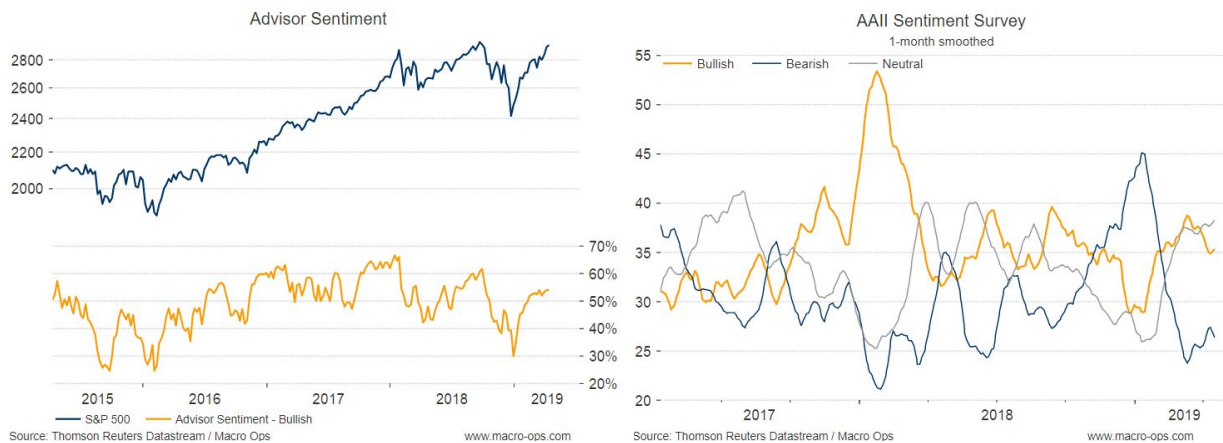
A recent report from Sentiment Trader also notes that "More than 45% of our core indicators are now showing excessive optimism. Over the past 20 years, when there were these many extremes, the S&P's two-month average return was negative".

The Daily Sentiment Index (DSI) is also now at elevated levels with its latest reading of 90. Like the Put/Call indicator, this doesn't mean that a reversal is nigh. It just means the current rally is getting a bit stretched.

The reasons why I think this rally likely has a bit more legs to it, perhaps another few weeks, are threefold. Let's go through them real quick.



Our more intermediate and longer-term indicators of sentiment are still at very neutral levels considering the runup we've seen since the start of the year. II Advisor Sentiment (the most reliable sentiment indicator, imo) is just at 53% bulls (left chart), well below the 60%+ level that typically coincides with a major top. And AAI bulls have been trending lower (chart on right) the last few weeks.

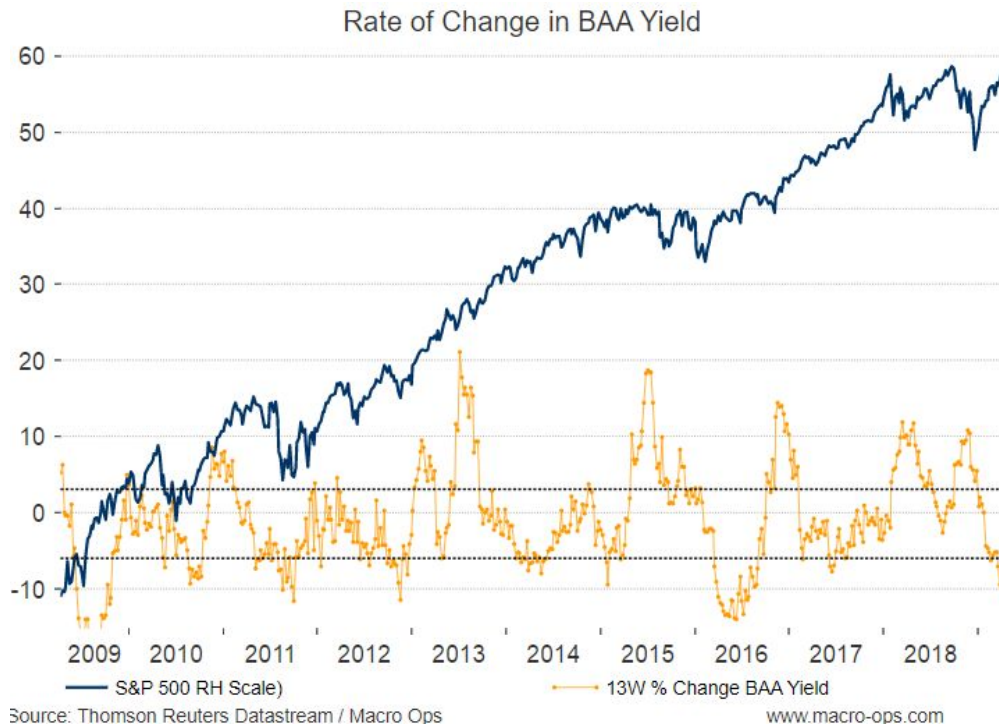


This confirms what I've been reading in the IB research that crosses my desk. The data shows that retail investors have been sitting this rally out — check out the latest *Flows & Liquidity* report from JPM in the CC Research channel if you want to read more about this.

This is positive for the broader trend and suggests there's still likely a bit more upside to this rally before we get a sizable correction. Perhaps a sharp run-up to new highs, which will get the media pushing bullish headlines, and that'll finally suck in those bears who've been watching this rally from the sidelines.

Then there are interest rates, which have come down a lot and offer plenty of tailwinds to equities and have a lot of room to move higher before they start putting the pinch on risk assets.

The orange line below shows the 13-week rate of change of the corporate BAA yield. When it's trending higher towards the upper dotted horizontal line it means that rates are putting pressure on stocks and vice-versa when it's below the lower line; where it is now.



And finally, we have market internals and liquidity. Credit is running higher (check out JNK) and spreads are tightening (look at LQD/IEF) and even our cyclical vs defensive ratio is turning up. Oh... and then there's semis (SOX) which closed last week at NEW ALL-TIME HIGHS.

None of these are bearish. We'll need to see at least a few of these turn negative before we wanna start getting more defensive.

And in other, at least short-term bullish news, the latest credit data for China came out this week and the print was significant.

Here's a summary of the data via Trivium China.

The details:

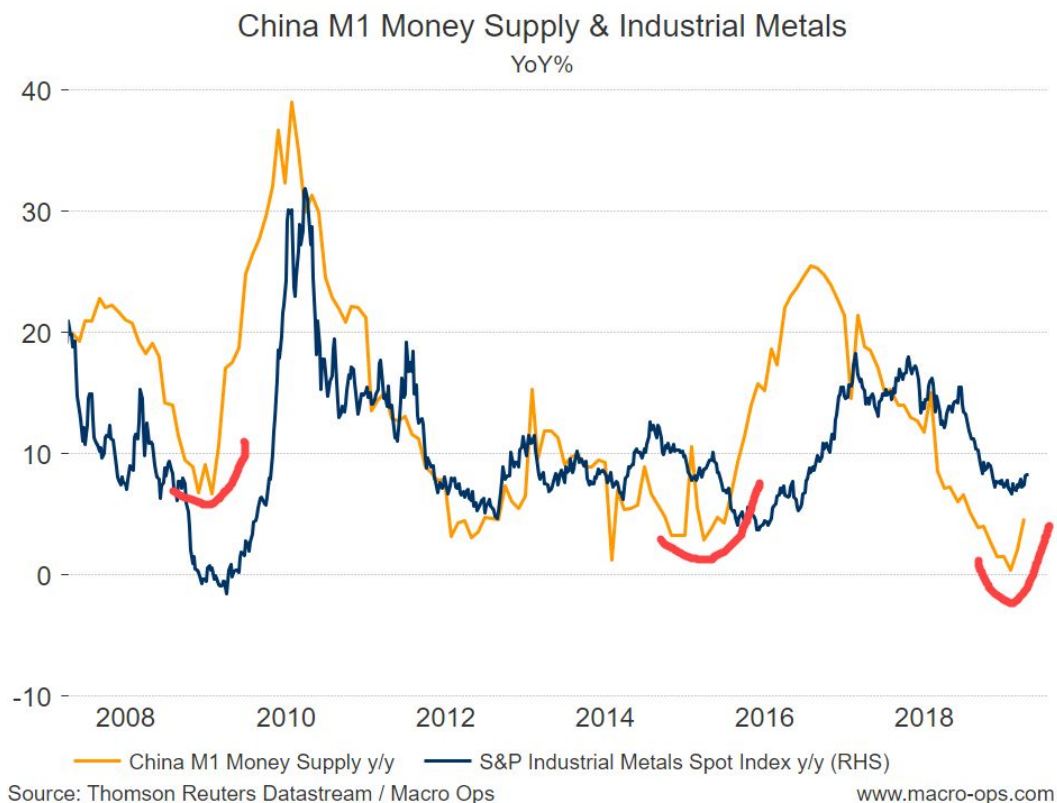
- Total outstanding credit growth accelerated to 10.7% y/y – up from 10.1% growth in February and the highest print since August.

- RMB bank loans accelerated to grow at 13.8% y/y – up from 13.3% in February and marking the fastest pace of growth since June 2016.

In terms of shadow financing, trust loans and bankers acceptance saw strong monthly flow, although both continue to contract on a y/y basis.

- Trust loans contracted by 7.9% y/y – but that was a big improvement from February’s 8.9% contraction.
- Bankers acceptance contracted by 12.1% y/y – a huge improvement from the 15.7% contraction in February.

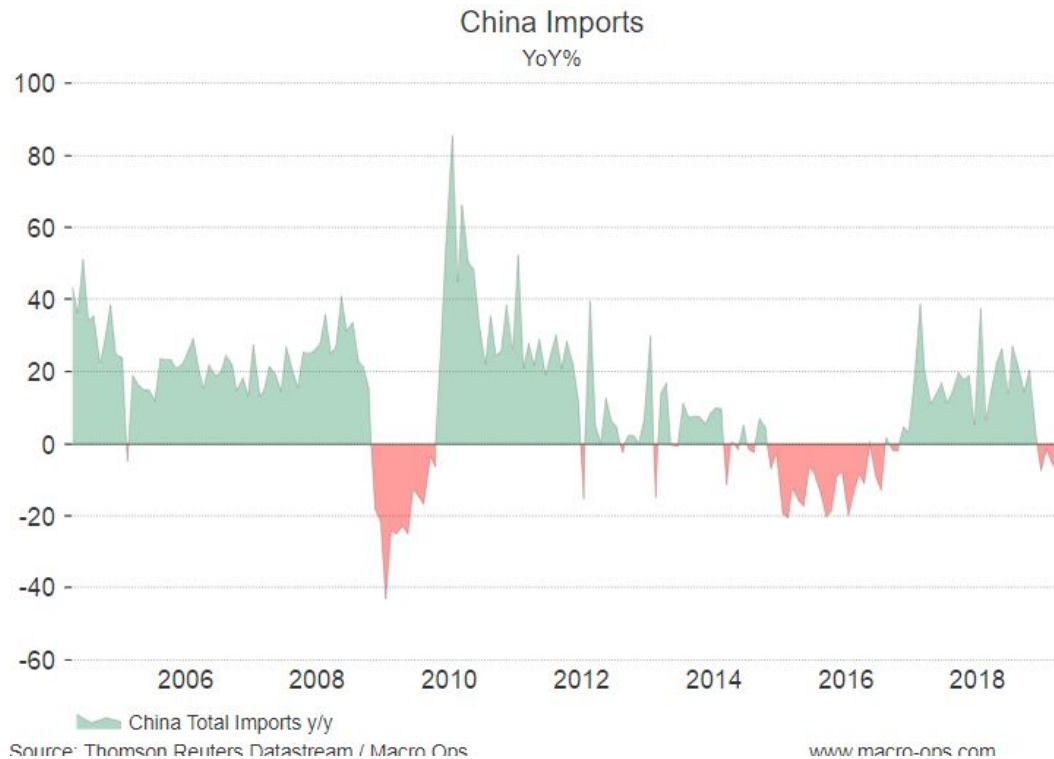
This was a big print. I wrote at the beginning of the year how the March data is when we’ll get a clearer picture of where the CCP is steering the credit cycle. Well, now we have our answer. Total credit came in roughly 70% higher than consensus expectations and as Trivium notes, this means we’ve likely already seen the trough of this Chinese credit cycle.



Importantly, we’re seeing the credit flow through to higher M1 growth which has inflected and is now hockey-sticking higher. This bodes well for industrial metals as the chart shows the strong leading correlation between the two.

But it's not all sunshine and persistent-credit-inflated-Chinese-demand.

Credit impulses take approximately 6-9 months to feed into the real economy. And it's still suspect how much of a lasting positive impact this will *actually* have on China's debt saturated market — they are near the “pushing on a string” Minsky moment. We can see on the chart below that imports are still falling year-over-year and it's likely this data will get worse before it gets better.



Let's talk earnings season which kicks off in earnest this week. I'll be writing more on this later in the week but I wanted to share the following chart below.

Consensus estimates for Q1 earnings have come down significantly since last year. They are now predicting -4% YoY earnings growth for the S&P this quarter. That's a good thing because it means the market has a low bar to clear. A lot of negative sentiment has been baked in.



**Exhibit 2: Year-Over-Year Earnings Growth**



Source: Refinitiv, Morgan Stanley Equity Research

Looking out to Q2 and onwards though we can see things get a little trickier as estimates, especially in the latter half of the year, are still way too optimistic.

My base case is that we see flat to slightly negative earnings growth this year. If I'm right, then these estimates are going to have to come down a good deal which means a bumpy ride ahead in the market following Q1.

Of course, much of this will depend on how the economy responds to the latest round of Chinese stimulus as well as how dovish the Fed stays throughout the year.

Oh... And on a related note. It's looking like we're getting closer to a US/China trade deal.

On Wednesday, Treasury Secretary Mnuchin told CNBC that the two sides had come to an agreement over an "enforcement mechanism". How to ensure the other side is actually adhering to the deal has been one of the major sticking points, so this is a good sign that an announcement may be coming.

Both sides want to get a deal done. Xi for positive economic sentiment reasons and Trump because he wants a strong market going into elections.

Moving on to our big macro assets (gold and USD pairs) where we await our [Major Macro Move](#) that's been brewing.

Sentiment Trader is now tracking our vol compression thesis, pointing out in a recent note that "The JP Morgan FX Volatility Index has collapsed. In the past 27 years, it has sunk to an

extremely low level like this only three other times. Over the next year, the U.S. dollar rallied 15% (1996), dropped 11% (2007), and rallied 26% (2014). The period of calm is probably close to being over, and whichever way the dollar breaks, it's likely to continue that trend for the longer-term."

The market still isn't giving a clear signal as to which direction things are going to break; gold looks like it's going lower in the near-term and the dollar looks mostly weak across the pairs (typically, if USD is heading lower then gold should move higher). All we can do is continue to be patient and wait for the market to tip its hand.

Shipping stocks, on the other hand, ARE giving us a signal. Some of our favorite shipping names: STNG, DSSI, LPG, and DSX are clearly breaking out. Here's the [bullish case](#) for shipping stocks for those of you haven't read it yet and here's Mr. Bean's [writeup](#) on a few of his favorite names.

Check out this weekly chart of Scorpio Tankers (STNG). That is a thing of beauty. It closed last week above its 50-week moving average (red line) for the first time in over three years.

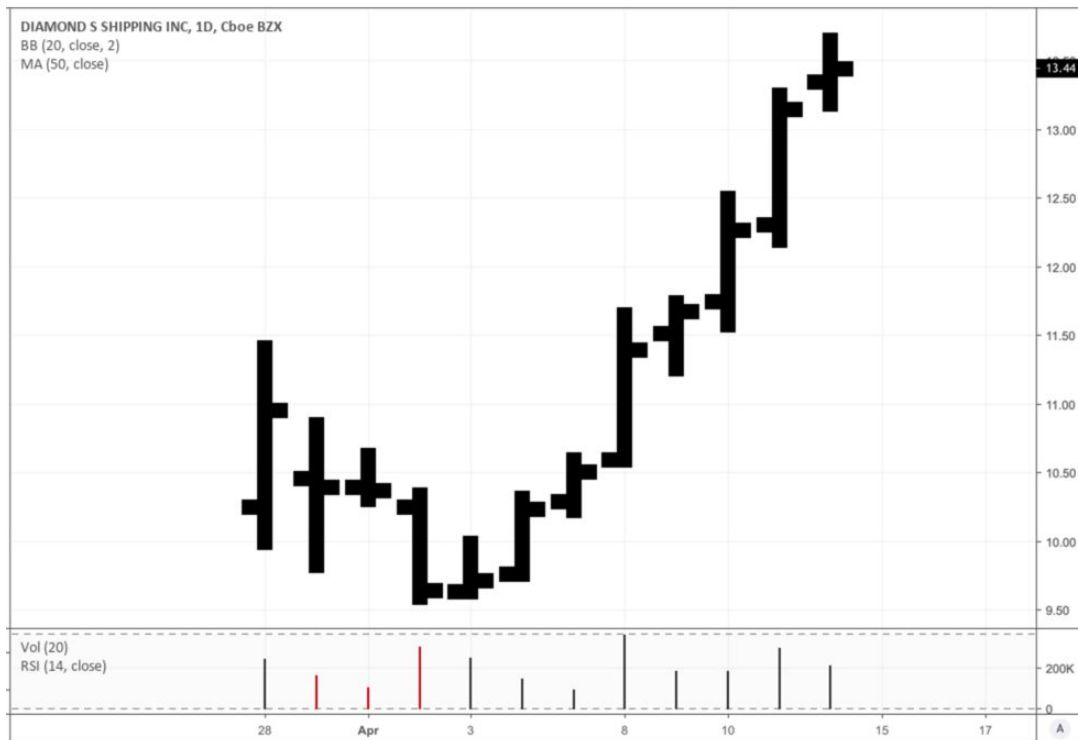


Dorian LPG (LPG) has also put in a nice technical bottom. Chart below is a weekly.





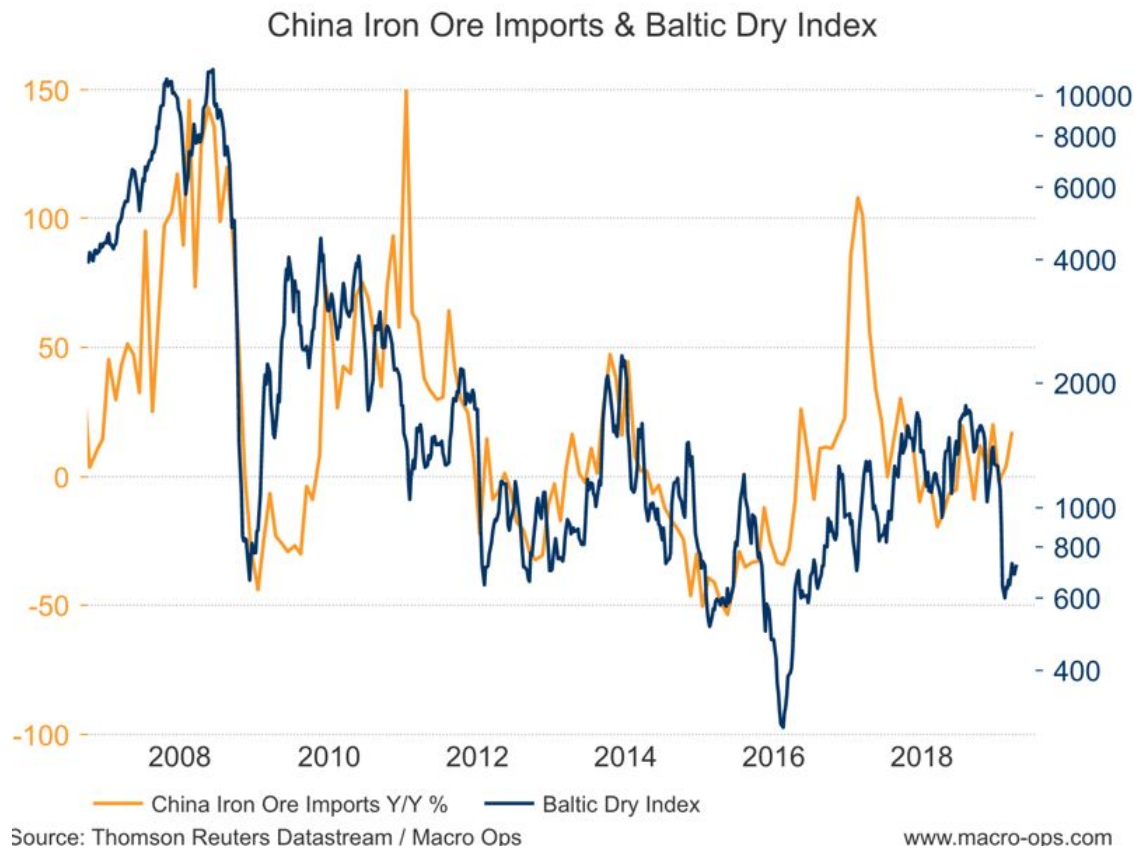
Diamond Shipping (DSSI) is up 30%+ since its spinoff from CPLP a few weeks ago which Mr. Bean covered in his writeup.



These stocks are now short-term overbought but they can easily hit more overbought levels.

We don't know if the bull market that we expect in shipping is starting now or if we'll just see more extended chop for a while as continued weak global trade data comes in. But considering the asymmetry of the trade (upside relative to the downside), we'll take a shot here by starting with starter positions in a basket of shipping stocks. Look for a trade alert this week.

And like I mentioned in the shipping report. Watch Chinese Iron Ore imports since they drive a large percentage of dry bulk shipping demand.



## Trade Target List

Here's a number of charts I have on my short list for tactical trades in the coming weeks.

We've covered Nintendo (NTDOY) a few times over the last couple of months. The value thesis for the company is intriguing ([check this out](#) from @Hardcorevalue) and the chart looks strong — see how it bounced off its weekly 200ma (blue line) nicely.



Next up we have Interactive Brokers (IBKR), a stock we've owned before and have covered extensively.

The value case is as persuasive as ever for this company and the stock is coiling up along its 7-year trendline. This is a bullish looking setup.

The company reports earnings this Tuesday. We're considering putting on a position this week.



Intrepid Potash (IPI) is a stock that we first recommended back in 2016 when it was trading for around a dollar.



The stock rose as high as \$5.30 a share last year but has since pulled back and has been trading in a relatively tight range since. I'm going to put out a note on the stock this week but the gist of the bullish case is that IPI is a dirt cheap potash company with a free call option on the price of oil (it sells water rights to frackers).

Gold looks like it might be forming an intermediate H&S top. The \$1,290 level seems to be the level to watch. If we see it close below there then I'd consider getting short.



And lastly, we have the Mexican peso. Check out the USDMXN cross. It had a weak close last week and has broken below a significant trading range. If the dollar is going to selloff here, this seems like a good pair to short it against.





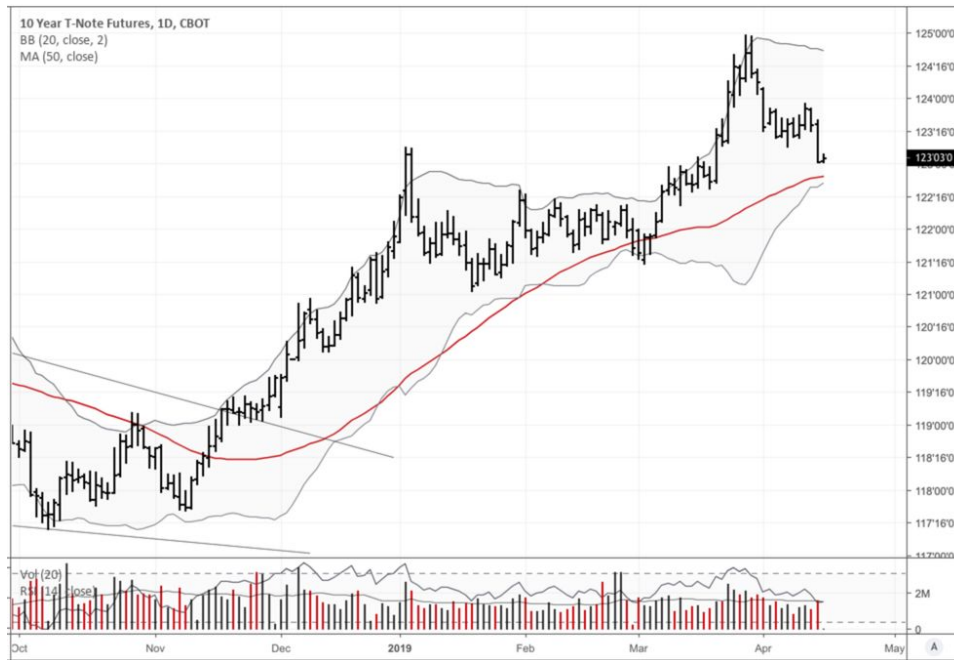
## Portfolio Review

Disney (DIS) has FINALLY broken out!!!! And check out its chart (monthly). It's as textbook as they come.

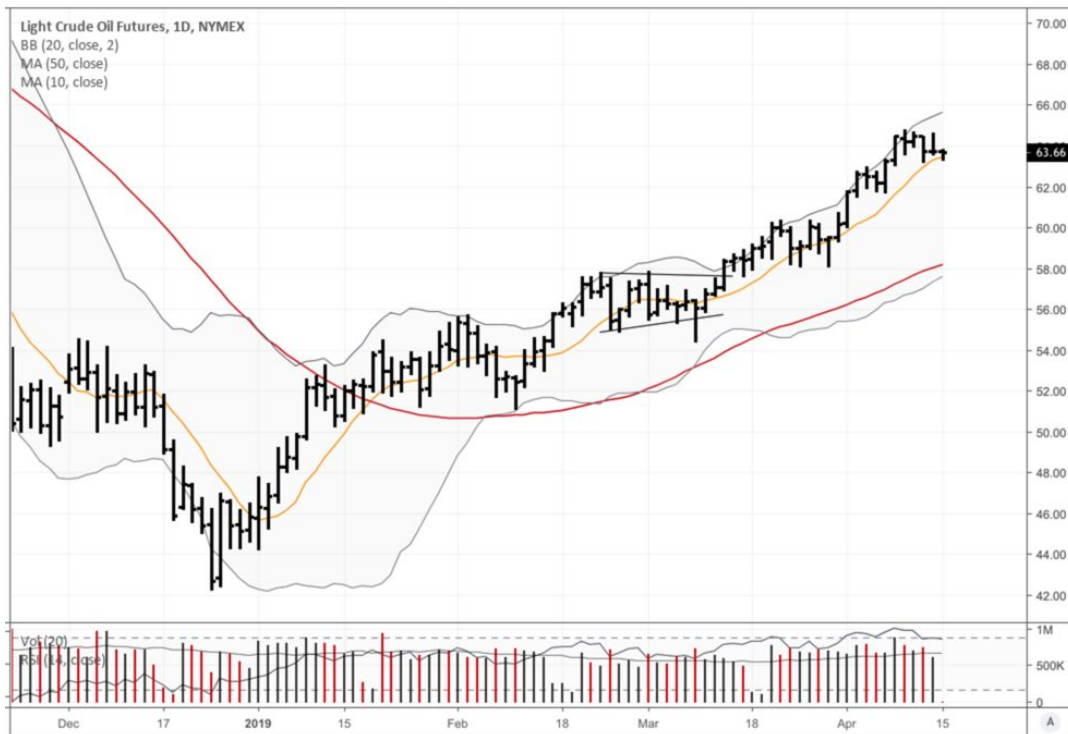


I plan to put out a longer note on Disney this week because it's a perfect example of a complete narrative reversal. Here's my original write-up on Disney ([link here](#)). If the stock takes off from here, our DOTM calls should payout nicely along with our underlying position, of course.

Our short bond trade is play is also moving in our favor. I'll be using the 10-day moving average as a trailing stop for taking profits. I think we see them trade down to the lower Bollinger band as we did back in March.



Our long oil trade has also worked out nicely for us. We should see a decent pullback soon which is why I'm moving to a trailing stop, using a daily close below the 10-day MA (yellow line below).



That's all I've got!

I'll be putting out some updates and trade alerts later this week.

If you've got any questions for us in the meantime, let us know in the Comm Center. Have a great week!

Your Macro Operator,

Alex

<b>Macro Ops Portfolio</b>		YTD						
		13.46%						
<b>Big Bet Macro</b>								
Asset Class	Position	Position Size	Cost Basis	Notional %	Risk Point	Target	Last Price	P&L
Equity	Construction Partners (ROAD)	8,438	\$12.25	9.11%	\$10.80	\$17.00	\$11.82	-3.51%
Equity	Facebook (FB)	609	\$142.04	7.62%	\$119.50	\$144.19	\$179.10	26.09%
Equity	Fiat (FCAU)	2,666	\$15.20	3.57%	\$13.70	\$28.00	\$16.07	5.72%
Equity	Sharpspring (SHSP)	859	\$13.71	1.04%	\$10.80	\$20.00	\$18.55	35.30%
Equity	Garrett Motion (GTX)	5,630	\$15.11	7.50%	\$13.80	\$25.00	\$17.26	14.23%
Equity	Stratasys (SSYS)	2,335	\$24.76	5.10%	\$20.50	\$50.00	\$24.60	-0.65%
Equity	Discovery DISCA	1,300	\$28.09	3.22%	\$26.70	\$60.00	\$30.02	6.87%
Equity	Google GOOGL	195	\$1,129.78	19.42%	\$1,100.00	\$1,400.00	\$1,222.73	8.23%
Equity	Disney DIS	2,146	\$102.34	19.36%	\$108.50	\$150.00	\$130.06	27.09%
Equity	Yatra Online YTRA	13,877	\$7.24	8.85%	Investment	\$15.00	\$4.79	-33.84%
Equity	Diamond Offshore (DO)	1,820	\$10.75	1.72%	\$9.00	\$20.00	\$11.49	6.88%
Equity	Transocean Ltd. (RIG)	2,581	\$9.04	2.06%	\$7.85	\$15.00	\$8.82	-2.43%
Equity	Matador Resources (MTDR)	1,162	\$18.75	1.92%	\$16.00	\$16.00	\$20.95	11.73%
Equity	Graftech (EAF)	2,205	\$13.59	2.64%	\$10.00	\$25.00	\$13.78	1.40%
Equity	Frontdoor (FTDR)	1,240	\$34.10	3.73%	\$28.00	\$55.00	\$34.61	1.50%
Equity	TSLA Sep '19 175 Put	11	\$13.81	1.34%	\$0.00	\$85.00	\$8.70	-37.00%
Equity	TSLA Jun '20 100 Put	14	\$10.70	1.32%	\$0.00	\$85.00	\$8.17	-23.64%
Equity	TSLA Jan '20 150 Put	5	\$15.01	0.66%	\$0.00	\$60.00	\$10.85	-27.71%
Equity	TSLA Jun '19 220 Put	4	\$18.01	0.63%	\$0.00	\$60.00	\$8.00	-55.58%
Equity	DIS Jan '20 165 Call	205	\$1.11	2.01%	\$0.00	\$10.50	\$1.53	37.84%
FX	June Dollar Futures	-7	\$96.21	-59.36%	\$97.00	\$90.00	\$96.55	-0.35%
Commodity	May Crude Futures	1	\$58.92	5.19%	\$54.50	\$75.00	\$63.77	8.23%
Interest Rates	June Notes Futures	-9	\$124.10	-98.44%	\$125.03	\$121.00	\$123.00	0.89%

\*\*Updated 4/13