Japan is Going on Leave

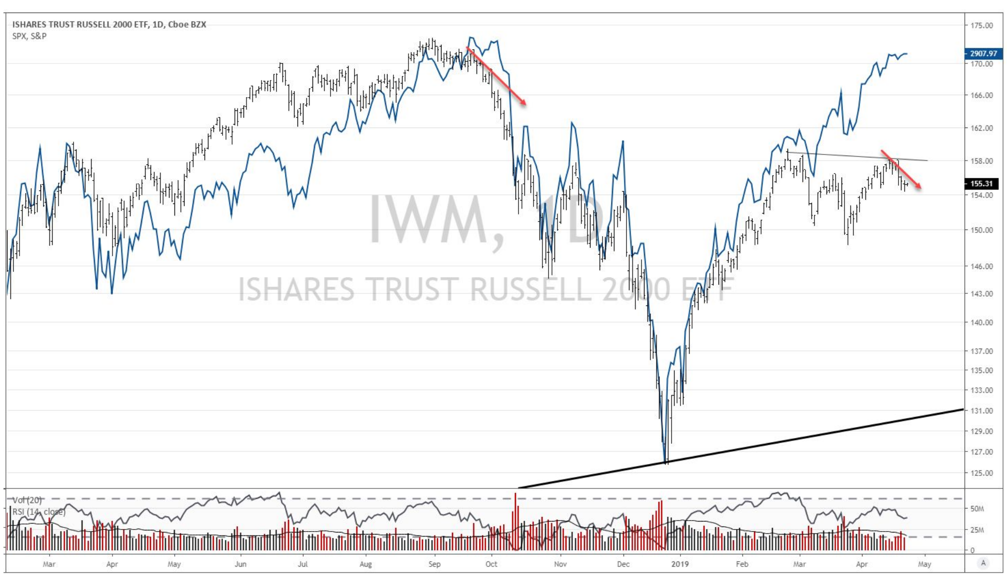
Summary:

- Are smallcaps signalling danger?
- Japan is going on holiday
- The Death of Opec
- Target Watchlist
- Portfolio Update
  - Energy basket breaking out

Good morning Operators,

I've been looking at a number of charts and sentiment/positioning data these last few days to try and get a feel for where the balance of odds lie at the moment. The primary trend in US stocks is obviously up. Liquidity is flush and longer-term indicators of positioning show that investors are still very under-positioned in risk , which is not something you see at market tops.

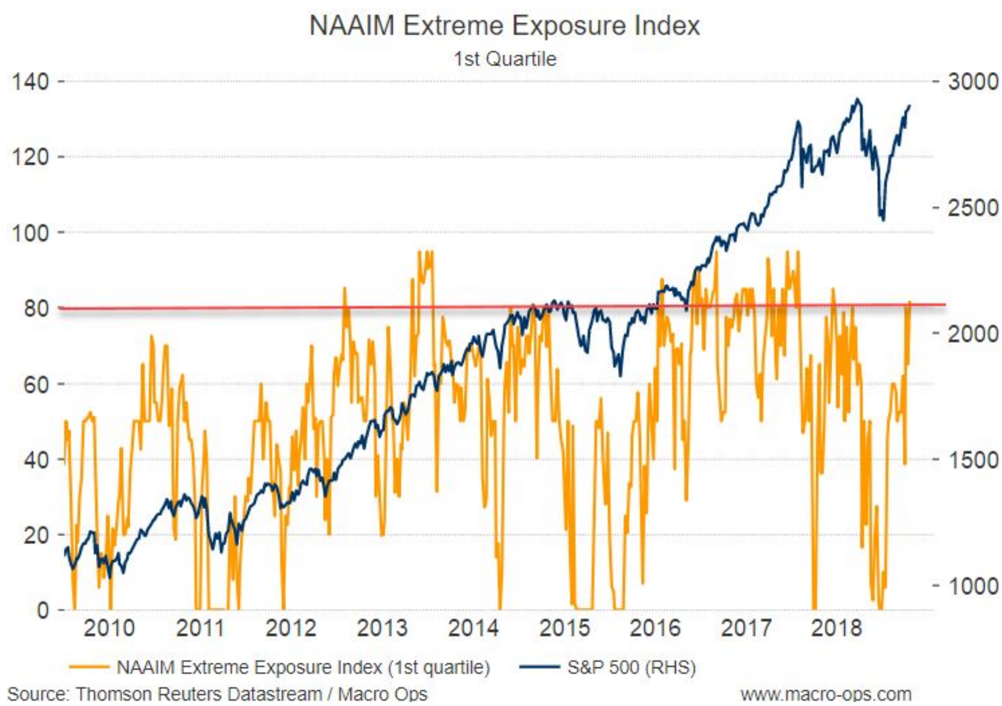
But, I've also noted in the last few *Briefs* that the current rally is getting long in the tooth and there's some signs of growing complacency and technical divergence. Take the Russell (IWM) for example. It's failed to confirm the broader market rally and has recently rolled over (bars = IWM and blue line = SPY).



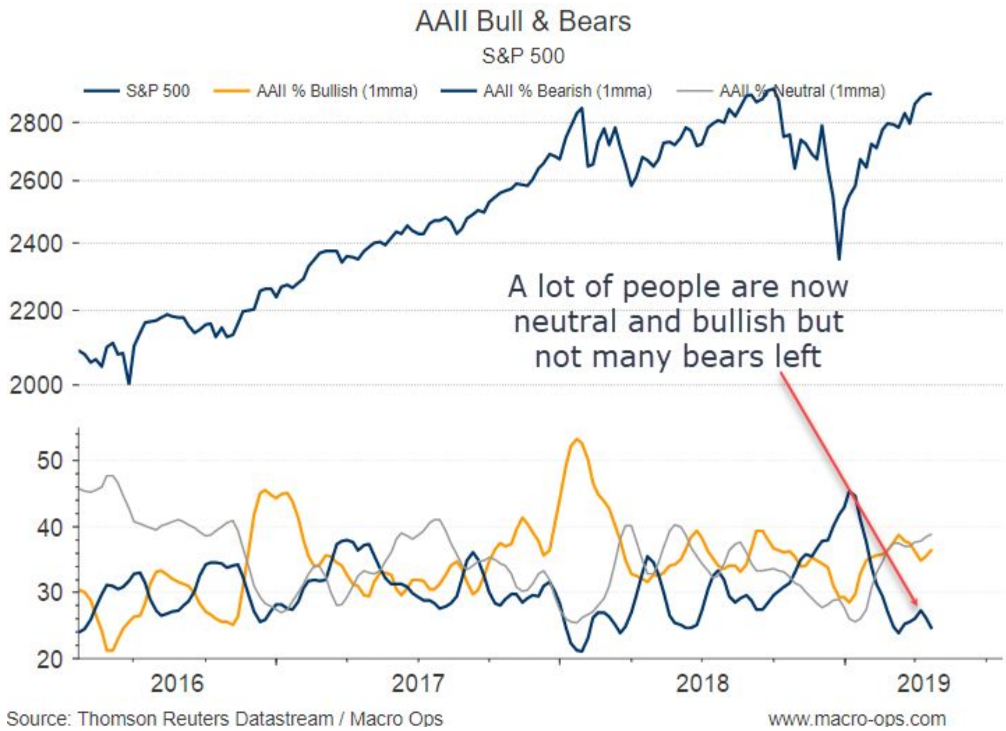
We've also seen credit (JNK) and spreads (LQD/IEF) turn over a bit in the last few days. These aren't large divergences or major warning signals yet. They could easily correct and improve in the coming days. But it's something we need to keep an eye on.

The majority of investors have been on the outside looking in at this rally since the start of the year. We've talked about how this move will persist until it finally creates enough FOMO (fear of missing out) to suck in these players who've been sitting on the sideline. While we likely have a bit more to go before we get total capitulation from the bears. There's an increasing number of signs that we're getting close.

Take the NAAIM Extreme Exposure Index which measures the top quartile of investor's weighting to risky assets. It recently pierced the 80 level (horizontal red line). Readings above this point suggest a number of investors are getting over their skis a bit which makes the market more susceptible to a pullback.



AAII Bull & Bears, which is a good short-term indicator of sentiment, shows that the market is becoming more bifurcated in its expectations. An increasing amount of investors are either bullish or neutral on the market (orange and grey lines below) while the number of bears has dwindled to near cycle lows.



This is not something we want to see. A sustainable rally needs to have a healthy mix of bears. The market needs a wall of worry to climb. When that wall of worry dissappears, its, welll… time to worry.

Japan Going on Leave

The rest of my indicators are still fairly strong and I typically wouldn't be worried that much as the current readings suggest we're only due for a mild pullback. But Japan is about to go on an extended vacation which means there's going to be significantly less market liquidity over the next few weeks. Here's the following from [Bloomberg](#) with emphasis by me.

> *Japan's extended spring vacation, when a series of national holidays bunch up, is known as "Golden Week." This year adds the May 1 accession of the new emperor, Crown Prince Naruhito, to the mix.* ***The result: a 10-day stretch that wipes out six trading sessions -- the longest market closure since the end of World War II****. What might sound like a nice, relaxing break actually has traders and regulators alike* ***fretting about the potential for cash shortages, market volatility or even the kind of "flash crash" that happened during Japan's last New Year holiday****. That was only four days long.*
>
> *1. What is Golden Week?*

Japan is among the most generous countries when it comes to national holidays. Golden Week traditionally consists of four in late April-early May: Showa Day, Constitution Day, Greenery Day and Children's Day. In the middle this year comes the emperor's accession, with the day before, of, and after the succession designated as holidays too. Combined with weekends, ***Golden Week 2019 stretches from April 27 through May 6.*** *Typically, people spend the time vacationing abroad or visiting their families. Many stores close.*

2. So what's the problem?

While Japan grinds to a halt, there will be major events and economic data released elsewhere, including a U.S. Federal Reserve rate decision on May 1. Traders and investors won't be able to exit their positions in Tokyo once the market shutdown starts, but it'll be business as usual in the rest of the world. Japan's Financial Services Agency urged currency traders to "manage their positions" before the holidays and said it will be ***monitoring for signs of market manipulation in the run-up, when trading volumes, or liquidity, are expected to be low. It warned of the prospect for post-holiday volatility****. And the agency is encouraging people to withdraw extra cash or raise the withdrawal limits on their ATM cards so they don't run short, since bank branches are expected to close.*

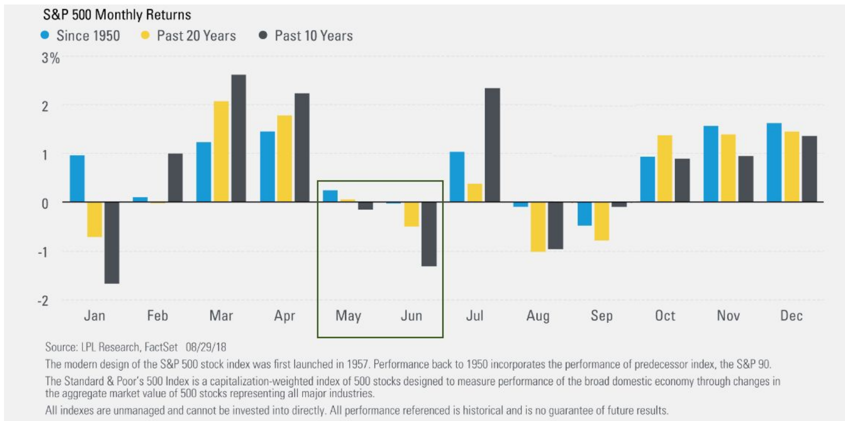
3. Has there been trouble before?

The currency market's so-called witching hour -- between the close in New York and the open in Tokyo -- has become notorious in recent years for rapid swings due to thin liquidity, a problem that's exacerbated by extended holidays. ***Memories are still fresh of the Jan. 3 flash crash, when Japan was shut for the last day of its New Year break. Orders to dump the Australian dollar and the Turkish lira against the yen flooded the markets. Algorithmic trading kicked in and the yen surged in seven minutes through levels that had held for almost a decade. A month later the Swiss franc swooned almost 1 percent before recovering, within minutes, at the start of Asian trading during another Japanese holiday.***

We're already starting to see some squirrely moves in FX. Check out the selloff and reversal in the yen last night.

We don't know if we'll see any large market discocations or flash crashes this time around. But the extended holiday does raise the specter of such a thing happening. Combine this with the beginning signs of frothy sentiment discussed above and I'm leaning towards getting more defensive in our positioning.

The market has had one of its best starts to the year on record, with very little downside volatility. This isn't likely to persist and we should expect more vol in the coming months. Since we're moving into a seasonally weak part of the year (May and June) the odds are high we'll see some of this soon.



Additionally, we're in the heat of Q1 earnings season right now, which will begin to taper off in a few weeks.

At that point the market will start to look ahead to Q2 and beyond. We've talked about how this quarter was an easy bar to clear — earnings expectations were low — but this expecations bar rises significantly going into the rest of the year. These expecations are going to have to come down, which means chop and volatility is coming as the market digests a less optimistic consensus.

We've had a good start to the year and want to protect these gains while positioning ourselves to make some more on a volatility spike and market correction. We're going to be playing tight with all our larger positions in the coming weeks (ie, move stops up and actively take profits and reduce our overall risk exposure) while also look for opportunities to get short. We'll be sending out alerts when we do.

Here's the companys with earnings this week. We've got Facebook (FB) reporting after the close on Wednesday. We'll put out an update if there's anthing of note.

Earnings Whispers @eWhispers · Apr 20
#earnings for the week

$AMZN $FB $BA $TWTR $MSFT $TSLA $T $SNAP $CAT $VZ $HAL $KO $PG $INTC $LMT $F $CLF $V $XLNX $CNC $PYPL $GWW $BIIB $STLD $UTX $CMG $UPS $ABBV $NOK $KMB $DPZ $MO $AAL $XOM $JBLU $SBUX $BMY $ANTM $LRCX $HOG $BOH $LUV $IRBT $NUE $FCX

eps.sh/cal

Amazon.com, Facebook, The Boeing Company and 5 others

The Death of Opec

Give this Twitter thread from one of my favorite energy analysts, John Kemp, a quick read. John discusses the recent move by the US to end all Iranian oil wavers and what this means for Opec and the overall energy market (link here).

The US only feels comfortable making this move because it has the full cooperation of two OPEC members (Saudi Arabia and the UAE) who have agreed to pump more oil in order to fill the supply gap left by Iranian crude being taken off market.

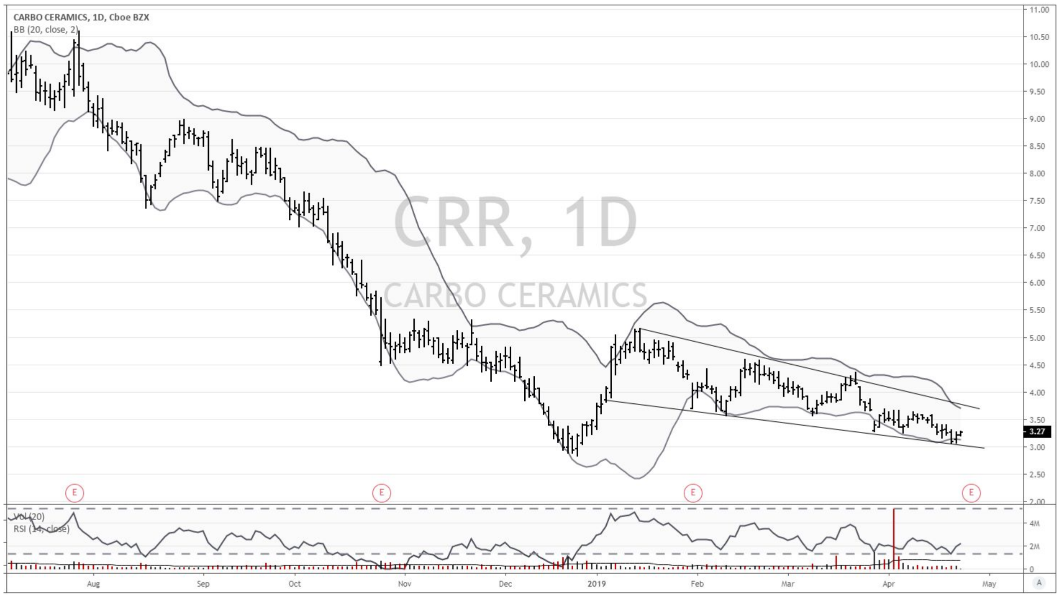
As John points out, this means we have two OPEC members who “are openly cooperating with a non-OPEC member (USA) to reduce production and revenues of two other OPEC members (Iran and Venezuela). If OPEC hadn’t become meaningless before in terms of market management and coordinating policies of members it has now”.

I agree with John’s sentiment and think this is a long-term bullish developement for oil. Our basket of energy stocks seems to agree as well (more on this in the Portfolio section).

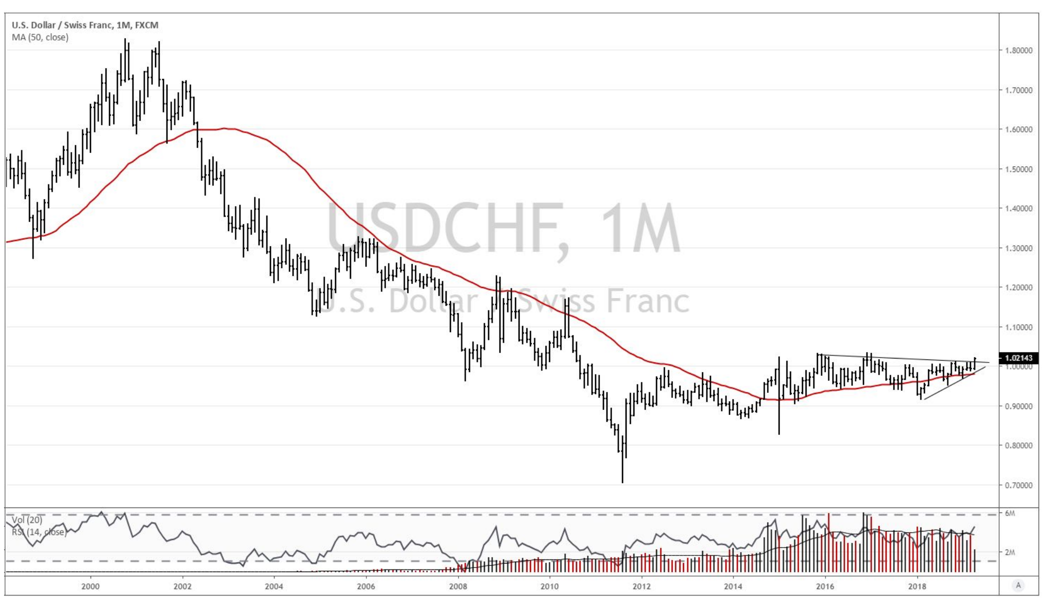
Target Watchlist

Nintendo (NTDOY) broke out of the wedge we pointed out last week. Our value guy, Mr. Bean, put out a short writeup on the company. Here’s the link incase you missed the email. We’ll be initiating a starter position this week.

Carbo Ceramics (CRR) is an oilfield services company that we've followed for a longtime. This is a more speculative energy stock, relative to the ones we hold. I really like the technical setup and with the rise in crude prices there's a good chance the company surprises to the upside on earnings this Thursday and goes for a run. I'm considering putting on a small position.



The dollar (DXY) has been acting strong the last few days and looks like it may finally be breaking out. I don't want to get too aggressive too soon with the FOMC coming up and the Japanese holiday around the corner (Japanese investors are large movers in the FX market which makes me more suspicious of the recent action). But some of the USD charts look extremely bullish. Check out this monthly of USDCHF.



I’ve been keeping tabs on this chart for a while, waiting for it to finish basing. It looks like it might finally be ready for a major move. We’re going to close out our small short USD position today and open a long in USDCHF, as well as perhaps a few other pairs.

Portfolio Update

Our long energy basket (RIG, DO, and MTDR) is breaking out to new recent highs. We’re going to look to add to these names this week.

Our two largest positions (Disney and Google) are both at or near new all-time highs. The chart below is a weekly.

I actually don't like this price action in Google. I prefer to see more back and forth. This recent move has too steep of an angle of attack. Steep uncontested moves like this are liable to violent whipsaws in the other direction. I'm going to be moving our stop up close on this and will likely reduce the trade before it comes out with earnings.

That's all I've got!

I'll be putting out some updates and trade alerts later this week. I'm also starting work on the MIR which I'll be getting out to you guys before the end of the month.

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

Macro Ops Portfolio		YTD						
		13.74%						
Big Bet Macro								
Asset Class	Position	Position Size	Cost Basis	Notional %	Risk Point	Target	Last Price	P&L
Equity	Construction Partners (ROAD)	8,438	$12.25	9.09%	$10.80	$17.00	$12.63	3.10%
Equity	Facebook (FB)	609	$142.04	7.61%	$119.50	$144.19	$179.30	26.23%
Equity	Fiat (FCAU)	2,666	$15.20	3.56%	$13.70	$28.00	$16.44	8.16%
Equity	Sharpspring (SHSP)	859	$13.71	1.04%	$10.80	$20.00	$19.59	42.89%
Equity	Garrett Motion (GTX)	5,630	$15.11	7.48%	$13.80	$25.00	$19.00	25.74%
Equity	Stratasys (SSYS)	2,335	$24.76	5.08%	$20.50	$50.00	$23.47	-5.21%
Equity	Discovery DISCA	1,300	$28.09	3.21%	$26.70	$60.00	$29.78	6.02%
Equity	Google GOOGL	195	$1,129.78	19.37%	$1,100.00	$1,400.00	$1,239.01	9.67%
Equity	Disney DIS	2,146	$102.34	19.31%	$108.50	$150.00	$131.63	28.62%
Equity	Yatra Online YTRA	13,877	$7.24	8.83%	Investment	$15.00	$4.54	-37.29%
Equity	Diamond Offshore (DO)	1,820	$10.75	1.72%	$9.00	$20.00	$11.78	9.58%
Equity	Transocean Ltd. (RIG)	2,581	$9.04	2.05%	$7.85	$15.00	$9.25	2.32%
Equity	Matador Resources (MTDR)	1,162	$18.75	1.92%	$16.00	$16.00	$21.35	13.87%
Equity	Graftech (EAF)	2,205	$13.59	2.63%	$10.00	$25.00	$12.87	-5.30%
Equity	Frontdoor (FTDR)	1,240	$34.10	3.72%	$28.00	$55.00	$33.78	-0.94%
Equity	TSLA Sep '19 175 Put	11	$13.81	1.34%	$0.00	$85.00	$7.40	-46.42%
Equity	TSLA Jun '20 100 Put	14	$10.70	1.32%	$0.00	$85.00	$7.50	-29.91%
Equity	TSLA Jan '20 150 Put	5	$15.01	0.66%	$0.00	$60.00	$9.55	-36.38%
Equity	TSLA Jun '19 220 Put	4	$18.01	0.63%	$0.00	$60.00	$6.75	-62.52%
Equity	DIS Jan '20 165 Call	205	$1.11	2.00%	$0.00	$10.50	$1.15	3.60%
FX	June Dollar Futures	-7	$96.21	-59.21%	$97.00	$90.00	$97.15	-0.98%
Interest Rates	June Notes Futures	-4	$124.10	-43.64%	$125.03	$121.00	$123.00	0.89%
							**Updated 4/21	