Tim Francisco <info@farmdirection.com>

GOOD MORNING: 07/19/17 Farm Direction - VanTrump Report

1 message

Kevin Van Trump <info@farmdirection.com>　　Wed, Jul 19, 2017 at 6:46 AM
To: Kevin Van Trump <info@farmdirection.com>

"To some generations much is given, Of other generations much is expected. This generation has a rendezvous with destiny." **— Franklin D. Roosevelt, *nomination speech (1936)***

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Morning Summary: U.S. dollar bulls continue to retreat as healthcare reform fails to pass though Congress. This now brings more question and debate surrounding tax reform, infrastructure spending, and banking deregulation. Investors are specifically wondering if leaders in Washington will ever be able to strike a deal or come to some type of compromise between the two parties. If you remember the U.S. dollar surged to new highs following the November election on thoughts of "pro growth" coming to our doorstep behind the leadership of the Republican party, who gained full-control of the House, Senate and White House, for the first time since 2006. Unfortunately, leaders are still trying to get on the same page while the dollar bulls are becoming more impatient. However, it's not just political disappointment from Congress that's pushing the dollar bulls to the sideline, but also a more hawkish attitude out of the European Central Bank, the Canadian Bank, and the Bank of Japan, who is now forecasting economic expansion, etc... We are also hearing more talk of perhaps slower tightening by the Fed here in the U.S. I believe however, the weakening dollar should help play into President Trump's hand, benefiting U.S. manufacturers and U.S. exporters, as American goods become cheaper and thus, more attractive for foreign buyers. Remember, when the dollar is strong U.S. companies that sell goods to foreign customers suffer because, relative to a weaker currency, our goods and services cost more. This can put U.S. producers at a disadvantage in the global market. Credit markets also tend to benefit from a weaker dollar that stimulates foreign investments. As the largest holder of U.S. Treasuries, Japan's appetite could pick up should the yen strengthen against the dollar. This could also mean higher profit margins for U.S. corporations and lower deflationary risks, ultimately reducing the odds of a recession or potential for a Fed mistake. I should also note, the VIX, a measure designed to track stock market fear, is now at its lowest level in some 24 years, while the stock market continues to post fresh new all-time highs. Bulls are saying the stock market is in a sweet spot, with growth being strong enough that the Fed wants to normalize policy, yet growth is slow enough, and inflation weak enough, that the Fed doesn't have to get in a major hurry, or raise rates fast enough to strangle growth. Notable U.S. corporate earnings being released today include: American Express, Canadian Pacific, Crown Holdings, Electrolux, Fidelity, Kinder-Morgan, Northern Trust, Qualcomm, T-Mobile and U.S. Bancorp. Investors are also anxious to see June Housing Starts and Building Permits due out today. April and May proved to be surprisingly weak months for both Starts and Permits and insiders are expecting a rather sharp rebound. For what it's worth, the market seems comfortable in retesting and posting new highs. I should note, the Dow Jones has posted 41 new all-time highs since Donald Trump won the Presidency back in November. The Nasdaq has posted 47 new all-time highs since the election and is now up a very strong +18% in 2017.

> **New Sanctions Targeting Iran Announced By White House:** *The U.S. has issued new sanctions against 18 Iranian entities and people for allegedly supporting "illicit Iranian actors or transnational criminal activity." Targets are accused of backing Iran's Revolutionary Guard Corps, while others had "orchestrated the theft of U.S. and Western software programs" sold to Iran's government. The U.S. State Department says the U.S. "remains deeply concerned about Iran's malign activities across the Middle East which undermine*

regional stability, security and prosperity," noting Iran's support for US-designated terrorist groups, militias and Syrian President Bashar al-Assad, as well as domestic human rights concerns. The State Department was also critical of Iran's continued efforts to develop its ballistic missile program, which the U.S. considers a violation of U.N. Security Council resolutions. The Trump administration did certify earlier this week that Iran was abiding by the terms, an agreement reached in 2015 between Iran, the US and five other world powers under which Iran agreed to roll back its nuclear program in exchange for some sanctions relief. However, a spokesperson said that even though Iran is complying with the accord, the country is violating the "spirit" of the deal. By law, the U.S. must certify to Congress every 90 days that Iran remains in compliance with the nuclear deal in order for it to remain in place.

Goldman Sticking To Its Guns On Commodities: *Goldman Sachs had its worst-ever result for commodities in the second quarter but is sticking with the struggling business, Chief Financial Officer Marty Chavez said. Goldman Sachs, for decades the leading commodity trader on Wall Street, has been reviewing the business after declining volatility and increased regulatory scrutiny hurt profit. Its commitment to the division in recent years set it apart from competitors Morgan Stanley, JPMorgan Chase & Co., Barclays Plc and Deutsche Bank AG, which cut back or exited commodities trading. "Out of the 73 quarters that we've been a public company, it was the worst quarter for the commodities business," Chavez said. Poor performance resulted from the "market backdrop" and lower client activity, he said, while acknowledging that "we didn't navigate the market as well as we aspired to or as well as we have in the past." Like other trading businesses, the commodities unit suffered from sluggish client volumes. But unlike other units, the bank took a hit by failing to properly hedge its positions, according to a person with knowledge of the performance. Despite the "worst quarter ever" in the sector, Chavez says the bank remains committed in every way to help our clients manage their commodity risks. (Source: Bloomberg, CNBC)*

U.S. Stock Market Is The World's Most Expensive: *There's nothing new about U.S. stock market investors fretting about valuations on Wall Street, but they still may not fully realize how pricey things have gotten relative to the rest of the globe. According to StarCapital Research, the U.S. has the least affordable equity market in the world right now, coming in last among the 40 countries and regions it analyzed on a variety of metrics. While the U.S. doesn't place last on any specific measure, it is among the weakest on all when combined, resulting in an average that pushes it down to the bottom of the heap. While elevated valuations don't necessarily mean that a selloff is imminent, let alone a recession, academic research "has shown that undervalued equity markets have achieved higher future returns in the long run than their overvalued counterparts, which holds for different valuation measures alike," Norbert Keimling, head of StarCapital Research, wrote in a report. On the other end of the scale, South Korea was rated as the number one equity market in terms of its valuation, based on its price-to-earnings and price-to-sales ratios. For the U.S., the most ominous warning signal may be the cyclically-adjusted price-to-earnings ratio, or CAPE, which compares stock prices with corporate earnings over the past 10 years. On this basis, the U.S. comes in at 28, cheaper than only Denmark (36.1) and Ireland (34.5). In the past, a CAPE ratio at current levels has preceded pronounced market declines. On a price-to-earnings basis, the U.S. comes in at 22.4, the 10th-highest level in the world, excluding the broader category of developed Europe. (Source: MarketWatch)*