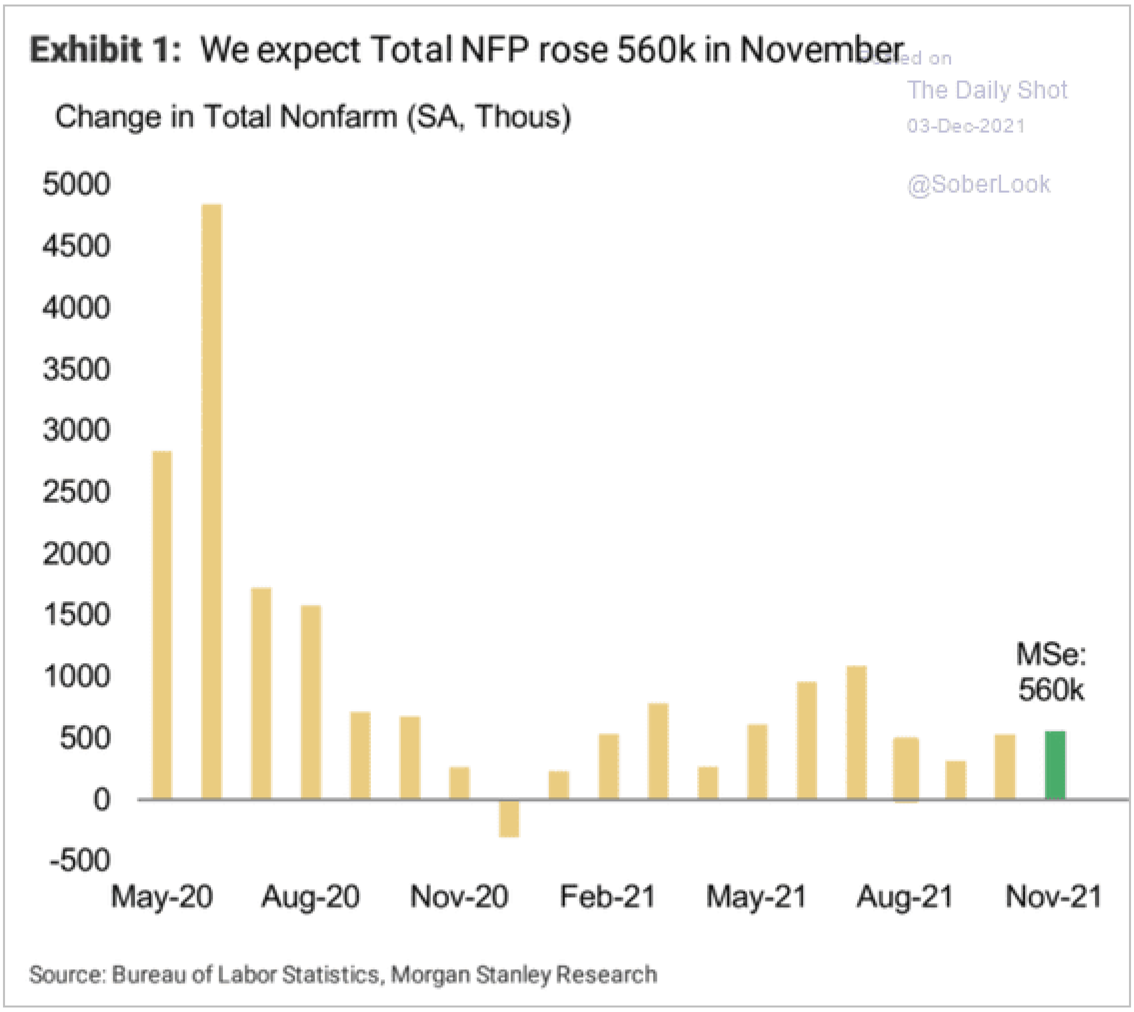
Oil prices plummeted 5% yesterday morning as OPEC went ahead with a planned output hike of 400k barrels for January. The news disappointed traders expecting OPEC might curtail the increase to 200k barrels. Oil prices quickly came storming back. OPEC helped their cause, saying they may revisit output reductions at its January 4th meeting. Oil prices remain 25% below early November highs, but the hammer candlestick circled below signals a bottom could be in place.

[dmc]

What To Watch Today

Economy

- 8:30 a.m. ET: **Change in non-farm payrolls,** November (550,000 expected, 531,000 in October)
- 8:30 a.m. ET: **Unemployment rate,** November (4.5% expected, 4.6% in October)
- 8:30 a.m. ET: **Average Hourly Earnings, month-over-month**, November (0.4% expected, 0.4% in October)
- 8:30 a.m. ET: **Average Hourly Earnings,** year-over-year, November (5.0% expected, 4.9% in October)
- 9:45 a.m. ET: **Markit U.S. Services PMI,** November final (57.0 in prior print)
- 9:45 a.m. ET: **Markit U.S. Composite PMI,** November final (56.5 in prior print)
- 10:00 a.m. ET**: ISM Services Index,** November (65.0 expected, 66.7 in October)
- 10:00 a.m. ET: **Factory Orders,** October (0.5% expected, 0.2% in September)
- 10:00 a.m. ET: **Durable Goods Orders,** October final (-0.5% in prior print)

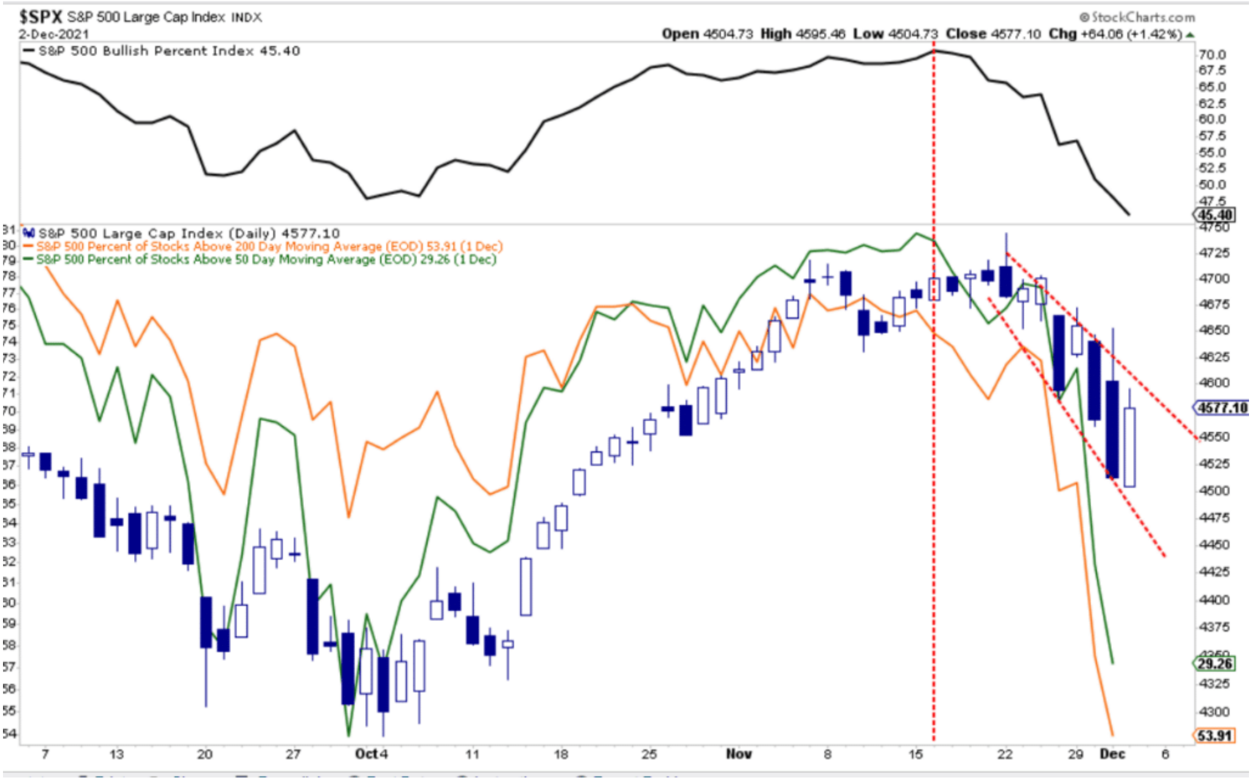


Earnings

- *No notable reports scheduled for release*

Market Breadth & Resistance

Yesterday, the market rallied sharply off of the 50-dma which was a good sign. However, it was on lighter volume and the negative internals continue to remain exceptionally weak. Furthermore, while we are certainly encouraged by the rally, for now, it remains confined by the downtrend channel.



A breakout above the top of that channel, with an improvement in breadth and participation, would be an encouraging sign to get more aggressively exposed. While we did start building trading positions in portfolios yesterday morning, we are remaining very cautious until we see some improvement.

Do you Feel Lucky?

The tweet and graph below show the bullish percent index on the S&P 500 has dipped below 50%. The last six times that occurred proved to be a good buying opportunity. However, as shown, the first dip below 50% on the graph was a false signal. Do you feel lucky? The index is a measure of breadth that simply counts the percentage of stocks with a point & figure buy signal.

David Keller, CMT
@DKellerCMT

The $SPX Bullish Percent index has dipped below 50% seven times in the last two years. Six of those were very buyable dips... and the seventh was Feb-Mar 2020!

[Is There More Selling To Be Done?]

Is TLT Ready to Run?

In yesterday's commentary, we note that heavy short interest in Treasury note futures could propel bond prices higher (yields lower) if those with shorts are forced to cover their positions. The graph below provides a little technical context for what might cause them to do so. As shown, the price of

TLT (20 year UST ETF) has bumped up against $152 numerous times since July. Each time it was repelled but to increasingly higher lows. If bonds can break through the current wedge pattern, the 2020 highs may be in sight. Many technical traders who are short bonds are likely to watch how this plays out closely.

Another $1 Trillion In Equity Demand

And it will all come from the rising beta of hedge funds equity portfolios. JPM Flows & Liquidity:

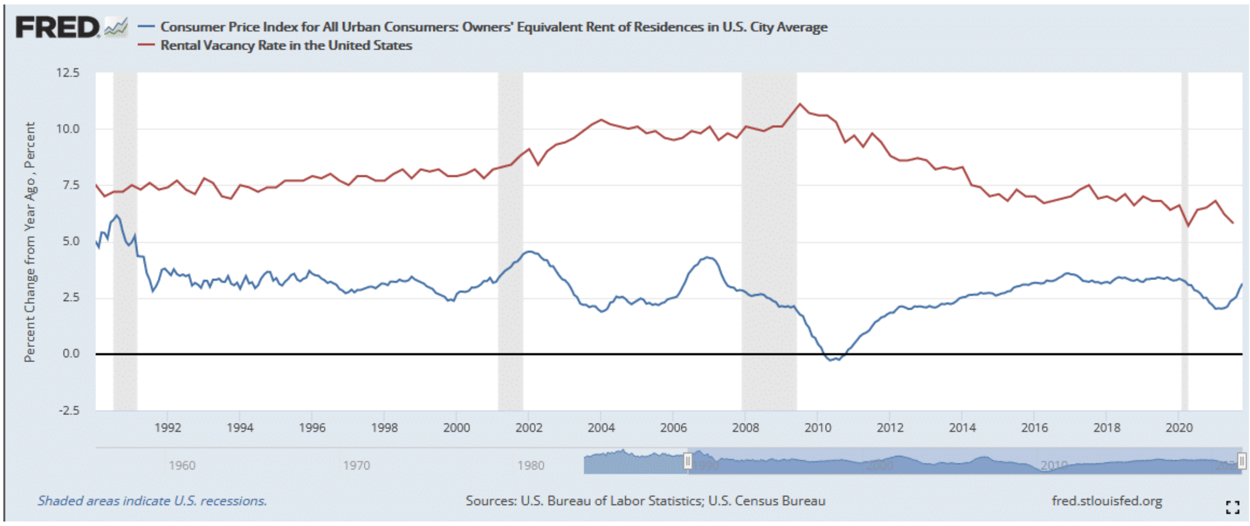
> *"We come up with Equity Demand/Supply improvement of around $1.1tr in 2022 relative to 2021. This is similar to the equivalent Demand/Supply improvement this year relative to 2020, when global equities proxied by the MSCI World index have risen by around 15% even after the recent correction".*
> *Courtesy of @TheMarketEar*

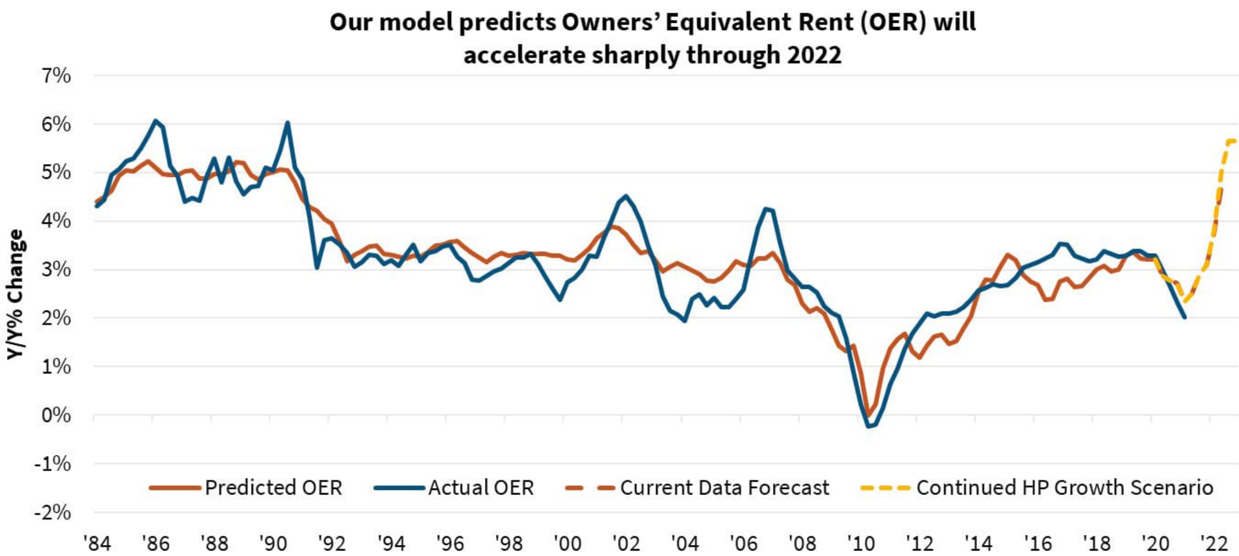
Year	2019 vs 2018	Q1'20 vs 2019	Remainder 2020 vs Q1'20	2021 vs 2020	2022 vs. 2021
Demand					
Retail investors	-390	-44	144	1072	-170
CTAs	671	-1111	1618	-210	200
Equity L/S	614	140	74	-460	960
Risk Parity Funds	132	-210	140	66	21
Balanced MF	780	-960	1043	77	7
Pension & Insurance Funds	55	393	-264	-17	-109
SWF/Central banks	-91	-199	282	117	52
Total Demand	**1771**	**-1991**	**3038**	**644**	**961**
Supply	**511**	**-461**	**728**	**-260**	**-140**
Demand -Supply	**1260**	**-1529**	**2310**	**904**	**1101**

Will Inflation Heat Up More?

While many are focused on oil prices, the graph below shows the inverse correlation between rental vacancy rates and owners' equivalent rent. Not surprisingly, a lower vacancy rental rate results in higher rental prices. With the Fed seemingly getting more serious about inflation, rental prices and owners' equivalent rent (OER), which account for nearly a third of CPI, become critical data points to follow more closely.

Rental vacancy rates are back to 30+ year lows, pushing rents higher. Adding to the pressure on rents and ultimately CPI is surging home prices. The second graph, courtesy of [Fannie Mae,] shows their model based on home prices predicts a big jump in OER in 2022. Per the article: *"On a year-over-year basis, house price gains historically lead to changes in the CPI shelter cost measures by about 5 quarters."* Home prices started spiking in September of 2020, about 5 quarters ago. If CPI continues higher, the Fed is more apt to remove liquidity quicker. As discussed in ***Is a Stock Market Crash Like 2000 Possible***, liquidity via QE and zero rates are the lifeline of excessive stock valuations.





Please [subscribe to the daily commentary] **to receive these updates every morning before the opening bell.**