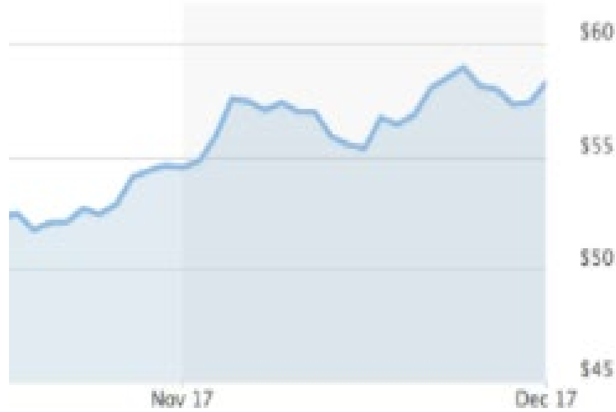
# The Kobeissi Letter

**Week of December 4th, 2017**

By the Department of Defense

## S&P 500 reaches TKL's 2,650 target

The S&P 500 closed the week up 1.56% at 2,642 after reaching our 2,650 target during Thursday's trading session. We saw tremendous upside momentum after breaking above 2,600 as we were looking expecting. The last 100 point move higher on the S&P 500 is mainly due to the progress of tax reform by the Trump Administration. Last week we saw Senate delay the vote for the proposed tax reform in order to make some final changes before the vote. Last week, many were becoming doubtful about the reform and whether it would pass. However, we are fairly confident that the proposed tax reform will pass by year end which will be a bullish fundamental change for stocks through the implementation of a 15% corporate tax rate. The other topic concerning the Trump Administration was further accusations about Flynn and the Russians which caused volatility in equities on Friday. At TKL, we are not concerned about the topic and any significant drop in equities as a result of news concerning Russia will be utilized as a buying opportunity. In terms of economic data, we received a few key reports last week: New Home Sales (Oct) (6.0% vs -6.2% expected), CB Consumer Confidence (Nov) (129.5 vs 124.0 expected), GDP (QoQ) (O3) (3.3% vs 3.2 expected) and ISM Manufacturing PMI (Nov) (58.2 58.4 expected). We are now just nine days away from the Federal Reserve meeting where an interest rate hike is highly anticipated. Going into this meeting we are expecting volatility in equities and perhaps a minor sell off following the announcement of an interest rate hike. Furthermore, reaching our 2,650 target does not mean that we are expecting a massive sell off now. However, we will be reducing our heavy long positions by 50% and cashing in on some profits. We will soon release our 2018 S&P 500 target, however for the month of December we will be using drops in equities to add to longs. We expect volatility in stocks during December, but an ultimate S&P 500 close to the month and year at around 2,650.



Three month WTI Graph provided by Marketwatch.com

## Crude oil drops, OPEC extends cuts

WTI crude marked a 1.15% loss for the week closing at $58.30 after OPEC, Russia and nine other producers extended production cuts on Thursday. Following the announcement we saw downward pressure on crude oil prices as it seemed to have been fully priced into the commodity. As for the weekly reports, crude oil inventories marked a 3.429 million barrel draw while a 2.301 million barrel draw was expected. Gasoline inventories rose by 3.7 million barrels with expectations of a 1.2 million barrel build. We also saw rig count rise by 2 to 749 total operating oil rigs in the United States. Overall, the draw in crude oil inventories last week presents no bullish data due to the large build in gasoline inventories. As we mentioned last week, we expect the OPEC meeting on Thursday to be the peak of the recent rally in crude oil prices. This trade is more fundamentally based which is why we have a three month time horizon on it. Essentially, the OPEC cut extension does not mean much due to the continuously rising non-OPEC production which is outweighing OPEC cuts and leaving us with a net glut. U.S. rig count is going to continue to rise and we urge subscribers to follow the gasoline inventory numbers closely. Falling crude inventories are only bullish if gasoline inventories do the same. Going into 2018 we will begin to see large builds in inventories and this will lead to the melt down. We look for WTI crude to break below $56 this week. As for natural gas, we saw a nice bounce this week after the contract rollover. After reaching 3.20 on Wednesday, we saw natural gas take a minor breather and it now prepares for its next move higher. We look to rise above 3.20 this week with a month-end target of 3.43.

## The Editorial Staff's Trading Recommendations

1 Long S&P 500: After reaching our target, we have reduced long exposure for 50%, but continue to buy the dips as we expect volatility to increase in December.

2 Short WTI Crude: Last week's OPEC meeting should have marked the top for oil prices and we look a couple months out with this trade.

3 Long natural gas: Natural gas is in a great technical position and ready to make its next move higher. Look for 3.20 this week and 3.43 by year end.

4 Long of gold and gold mining stocks (GDX): After realizing our anticipated pullback we have become bullish once again. We are very bullish of gold going into the December 13th Fed meeting.

5 Short U.S. Treasury Yields or Long of Bonds: We watch key levels as outlined in the treasury yields section and look for TLT ultimately reach our target of $133. Bonds and gold are great investments to have going into the December Fed meeting.

### From the Editor:

Farewell and Trade Well,
Adam Kobeissi, Founder and Editor-in-Chief

## Gold reaches TKL pullback target

Gold prices closed the week down 1.35% at $1,280/oz and reached the $1,270 pullback target. This was also accompanied by a move to 112.50 for USD/JPY and 93.35 for DXY which were essentially the exact targets we were searching for. The CFTC also reported that net gold longs rose by 6,700 from 195,100 to 201,800 last week. The first part of the gold trade has now gone to plan and gold is ready to move higher during the month of December. We strongly believe investors should have long gold exposure going into the December 13th Fed meeting as we expect a sharp rally to begin immediately after the expected interest rate hike is announced. To the upside, we look to claim $1,300 for gold and $23 for GDX this week. Gold may see some resistance at $1,288 and $1,296, however this should not be concerning. Following the December 13th Fed meeting we should see gold near $1,330. The main basis behind this claim is first, gold has seen significant downside pressure from the increasing investor optimism about Fed hawkishness which has historically resulted in a post-meeting rally. And second, we do not anticipate the Fed's guidance for 2018 to be nearly as hawkish as current gold prices are displaying. December should also be a month of increasing volatility for equities for the reasons outlined in the equities section above.

## Treasury yields stay put

The yield on the 10 year note closed the week slightly higher, as expected, at 2.36 percent. That said, TLT saw a 0.21% drop this week and closed at $126.55 and now looks ready for the next major move higher to $133. We expect the ten year note yield to reverse significantly after the December Fed meeting takes place and look for 2.00%. This complements our gold trade and this is why we shall be using gold to assess the strength and future of bonds. Even prior to the Fed meeting on December 13th we should see bonds gain significant strength as the Senate attempts to sort out the tax reform bill and more headlines arise about Flynn and Trump. As we mentioned in the equities section, we do not expect these to cause a massive correction in equities, however the volatility created will aid our TLT trade. The next levels we look for on the ten year note yield are 2.27% and then 2.20%. As for TLT, we look for $127.96, and $130 and our target for this trade is ultimately in the $133 range.

### Keep Your OPTIONS Open:

"We saw a widespread selloff in technology stocks last week which reminded me of a few similar occurrences in 2017. We have seen, multiple times throughout this year, technology stocks drop sharply for a week but then quickly rebound. I think the same exact situation is what we are looking at after last week and we should see the Nasdaq back at all time highs soon. In order to profit on this, I am looking at quality big technology names, and in this case Alibaba (BABA). Alibaba has not only proven they have a substantial core business, but also their future growth potential is even better. I see Alibaba stock back above $200 within the next couple months. That said, I am looking at buying the February 16th, 2018 $185 strike calls for $6.70. *A quick note on last week SQ options trade: due to the 300%+ gain on this trade, we highly recommend taking some, if not all, profits at this point rather than waiting until expiration." - Adam Kobeissi