

TOP STORIES

- US, China Headlines Whipsaw Overnight Markets as Talks Kick Off
- US, China Deputy Level Talks Fail to Make Much Progress – SCMP
- Trump Could Approve Permanent Sales to Huawei in Trade Concession – NYT
- Trump, Xi Meeting in November Remains on the Table
- Wilbur Ross: Tariffs are Working

INDEX FUTURES

Futures	Change	Fair Value
S&P 500	2915.75 (-3.25)	-3.15
Nasdaq	7693.25 (-6.5)	-9.28
Dow	26266 (-39)	-36.01

GLOBAL INDICES

INDEX	CLOSE	CHANGE
FTSE	7160.44	-0.08%
DAX	12089.52	-0.04%
Nikkei	21551.98	0.45%
Hang Seng	25707.93	0.10%

ECONOMIC CALENDAR

TIME	INDICATOR	CONSENSUS
8:30	CPI	
8:30	Weekly Claims	
10:30	EIA Nat Gas	
12:15	Neel Kashkari Speaks	
12:30	Mary Daly Speaks	

FOREX

EUR/USD	1.1028 (0.54%)
USD/JPY	107.42 (-0.04%)
USD/CAD	1.3304 (-0.20%)
GBP/USD	1.2247 (0.35%)

COMMODITY

Oil	52.56 (-0.06%)
Natural Gas	2.241 (0.31%)
Gold	1510.6 (-0.15%)
Copper	2.5925 (0.95%)

VOLATILITY INDICES

INDEX	SYMBOL	CLOSE
S&P	VIX	18.64 (-8.09%)
Nasdaq	VXN	21.88 (-6.50%)
Oil	OVX	38.0 (-3.77%)
Gold	GVZ	15.73 (-2.96%)

MARKET OUTLOOK

Futures are indicating a lower open for the morning after a volatile overnight session. The SPX traded as low as 2,885 early in the evening before rebounding to 2,920 and back again to 2,890. We jumped back to the highs around 11 pm and settled into a range. It started with a SCMP report that the Chinese delegation would be leaving Washington early citing an inability to make progress in talks. This was denied by WH sources to CNBC but the Chinese insist that lead negotiator Liu He may still leave on Thursday as some others stay behind. Then, the NYT reported that the WH is close to issuing licenses to allow US companies to work with Huawei. This is likely being viewed positively as a concession from the US-side. Either way, a lot of noise overnight. Key is to focus on whether anything comes out of the talks by Friday evening (status quo + commitment to continue talks is most likely). Delayed tariffs are still set to go into effect on 10/15. A couple of Fed speakers on the docket today as well after noon (Kashkari, Daly, Mester).

Asian markets were modestly higher across the board overnight. Japanese PPI came in at -1.1% vs -1.2% forecast. Machinery orders fell 14.5% in August.

European markets are modestly lower in early morning trading. A number of earnings warnings weighing. Biosciences company **Chr. Hansen** fell almost 14% after warning on FY growth. **Philips** is off by 8.5% after warning on weak Q3 margins in Connected Health. **Novozymes** cut their outlook for the third time in six months citing weak US volumes. Paper and packaging company **Mondi** fell 2% on weak volumes/pricing. The CAC 40 leading after **LVMH's** strong quarter which is lifting **Kering** and **Burberry**. Miners are also rallying with **Glencore**, **Anglo American** and **Antofagasta** higher. On the data side, German exports fell 1.8% in August, slightly worse than expected. Imports rose modestly. UK GDP came in at 1.1% in August, slightly better than consensus of 0.9%. PM Johnson will sit down with his Irish counterpart today to find a compromise which could aid a last minute Brexit deal.

S&P TECHNICALS

Levels: Support 2,825/2,800; Resistance 3,020/3,060



4857 Advancing	Declining 2469
61.9%	31.5%
95 New High	New Low 192
33.1%	66.9%
2808 Above SMA50	Below 4953
36.2%	63.8%
3494 Above SMA200	Below 4267
45.0%	55.0%

KEY EVENTS**Analyst Days:** HRL, FOLD**Tomorrow...** Neel Kashkari Speaks at 8:00 AM, Import/Export Prices at 8:30, Consumer Sentiment at 10:00, Eric Rosengren Speaks at 1:15, Robert Kaplan Speaks at 3:00**International Data:** German CPI**Earnings Before the Open:** FAST, INFY**Analyst Days:** WEN**ANALYST ACTION/COMMENTS****Allegheny (ATI)** upgraded to Buy at Goldman**Pure Storage (PSTG)** upgraded to Buy at Goldman**Bed Bath (BBBY)** upgraded to Outperform at TAG**Apple (AAPL)** upgraded to Buy at Longbow**Pro Petro (PUMP)** upgraded to Overweight at Piper**Skyworks (SWKS), Qorvo (QRVO)** upgraded to Outperform at Cowen**Match (MTCH)** upgraded to Outperform at OpCo**Freeport (FCX)** upgraded to Buy at UBS, \$12 PT**Pioneer Natural (PXD)** upgraded to Buy at Mizuho**Kroger (KR)** downgraded to Hold at Jefferies**Medicine Co (MDCO)** downgraded to Hold at Jefferies**United Health (UNH)** downgraded to Hold at Jefferies**Cisco (CSCO)** downgraded to Neutral at Goldman**NetApp (NTAP), HP (HPQ)** downgraded to Sell at Goldman Sachs**Schneider (SNDR)** downgraded to Hold at Stifel**Continental (CLR)** downgraded to Neutral at Mizuho**Gates (GTES)** downgraded to Neutral at UBS**Adtran (ADTN)** downgraded to Neutral at MKM**Whiting (WLL), Centennial (CDEV), Devon (DVN)** downgraded to Hold at Seaport Global**RPM** initiated Buy at UBS, \$85 PT**LogMeIn (LOGM), Smartsheet (SMAR)** initiated Buy at Berenberg**MEDIA HIGHLIGHTS****Gol Linhas (GOL)** to ground 11 older **Boeing (BA) 737** planes after inspection – Reuters**LafargeHolcim** passes on **BASF** construction chemicals business – BloombergThe NYT looks at **Amazon's (AMZN)** change in film strategy towards streaming**Fidelity** Joins Zero Commission Price War – Bloomberg**Novozymes** Shares Sink, Pressuring CEO After Third Profit Warning – BloombergJapan's **7 & I** to cut 3,000 jobs, close stores – Bloomberg**Axiata** to Pause on M&A Deals After **Telenor** Talks Flop – Bloomberg**Vale SA (VALE)** faces hard task to rebuild trust after dam disaster – FT**Samsung** to invest \$11bn in cutting-edge quantum dot displays – Nikkei**STOCK SPECIFIC NEWS OF NOTE****Costco (COST)** September comps +4.2%; e-commerce comps +17.8%**Bed Bath (BBBY)** names new CEO Mark Tritton, former Target Chief Merchandising Officer**FormFactor (FORM)** acquires German-based FRT**US Postal Service** raising prices in January 2020Mississippi AG confirms resolution reached for **T-Mobile (TMUS), Sprint (S)** mergerJudge strips away **PG&E (PCG)**'s exclusive control over restructuring, opens door to rival bankruptcy plan**Philips (PHG)** issues Q3 profit warning**UCB** acquires **RA Pharmaceuticals (RARX)** for \$48 per share in cash or \$2.1B**ProQR Therapeutics' (PRQR)** sefoparsen shows vision improvement in Phase 1/2 results**ProPetro (PUMP)** says likely to conclude 'one more material weaknesses'**General Motors (GM)** reports Q3 China vehicle sales down 17.5% to 689,531**Reata (RETA)** to acquire rights from **AbbVie (ABBV)** to commercialize Bardoxolone Methyl for \$330M

PRE-MARKET MOVERS

Moving Higher:

Moving Lower:

INSIDER TRADING (Form 4 Filings)

Buying: AMZN, RUN, AGO

Selling: XYL, MORN, CTLT, RNG, SYNA, ZNGA

POTENTIAL SYMPATHY TRADES

AAL, UAL, SAVE, JBLU – on DAL earnings

OPTION HIGHLIGHTS (Prior Day)

Copart (CPRT) buyers of 565 May \$85 calls for \$4.30 today to open and still has 1,000 November \$80 calls in OI from buyers in mid-August. CPRT has seen longer-dated call buys in February \$85, December \$85, and December 2020 \$90 calls since July. Shares are consolidating a strong long-term trend under \$85 and bounced at the rising 20-week MA last Thursday. A move higher targets \$93-\$94 and ultimately \$100 with MACD back around zero and curling higher, ready to run. The \$18.44B company trades 27.2X earnings, 9X sales, and 67.5X FCF with mid-teens EPS growth and set to accelerate in FY22 up to 16.5% Y/Y. They continue to see high-single digit revenue growth as well. CPRT has been winning share in the US marketplace for a while now and continues to invest in International operations, especially Germany. They've invested more in 2019 on marketing and sales which is helping build up a much larger bidder pool which is helping not just unit volumes but ASP. Last quarter, margins were a standout up 277 bps. Analysts have an average target for shares of \$75 with limited coverage. Barrington positive on the growth in International business as they note international clients typically buy rebuildable higher-value vehicles which will drive ASP. Short interest is 1.8% and down from around 4% in February. Hedge Fund ownership dropped 20% in Q2, largely due to Palestra Capital selling 1.58M shares. Point72 a new stake.

AFTER HOURS MOVERS

Gainers: BBY 22%

Losers: PCG -20%

MARKET SENTIMENT / INTERNALS

INDICATOR	READING	SIGNAL
CBOE Equity Put/Call Ratio	0.688	Rising – Cautious
CBOE Index Put/Call Ratio	1.29	Rising – Cautious
CBOE Skew Index	114.54	Low
VIX Curve	Contango	Normal
CNN Fear & Greed Index	32	Fear
NYMO	-16.29	Neutral
NYSE New Highs – New Lows	65.99	Neutral
McClellan Summation	555.89	Below 8-EMA
Univ. of Michigan Consumer Sentiment	93.2 (September)	-6.9%

SMART MONEY (13g/13d Filings)

IPO MONITOR

Two clinical-stage biotech companies will debut **VIR**, **BNTX**

SECONDARY MONITOR

TRADE

WEEKLY TECHNICAL BREAKOUT

POOL:



Pool Corp (POOL) shares are nearing a multi-week bull flag breakout above \$202.50 with a measured move out to \$225. POOL has been in a strong uptrend and one of the more consistent names of the year. Both RSI and MACD remain in strong trends but not yet overbought.

FUNDAMENTAL TRADE OF THE WEEK

Stock: Idexx Corp (IDXX)

Price: \$276.50

Valuation: Undervalued

Key Ratios:

	Fwd. PE	P/S	P/B	EV / EBITDA	P/FCF
Stock	59.5X	10.6X	100X	40.3X	88.5X
Industry Avg.	39.8X	4X	4.4X	21X	42.1X

Analysis: IDXX is a \$23.85B leader in the veterinary services market. They focus on diagnostic services like rapid assay kits and POC products for both livestock and companion animals. The usage of diagnostics continues to grow in the animal space although relatively small still (17% penetration) and IDXX remains positioned well to take advantage. Preventative care especially stands out as a big growth area.

IDEAS

WEEKLY TECHNICAL BREAKDOWN

CTRP:



Ctrip.com (CTRP) shares have rebounded into the recent breakdown level and vulnerable to downside under \$28.50. A move lower has channel target near \$25 which aligns with the December lows.

PAIR TRADE OF THE WEEK

Industry: Apparel

Long/Short: Long **Guess? (GES)** and short **Gap (GPS)**

Analysis: GES is coming off a strong quarter with its DTC business improving and a strong inventory position into the Holidays. GES is also seeing better margin performance than peers. GPS's core business remains challenged while their spin off plans and aggressive restructuring will weigh. GPS could be a prime candidate for heavy discounting.

SMALL CAP TRADE OF THE WEEK

M/I Homes (MHO) is a \$1.05B builder of single-family homes in the mid-west and South. Shares trade cheap at 8.65X earnings and 0.44X sales with new contracts rising 6% last quarter and a modest backlog. MHO has been strong in two key areas which are thriving in housing: low-cost single family and first-time buyers and would make for an attractive deal target given that exposure.

DAILY OPTIONS REPORT

<u>Unusual Call Activity</u>	<u>Unusual Put Activity</u>	<u>Implied Volatility Riser</u>
Builders First (BLDR)	Triple-S (GTS)	Propetro (PUMP)
B2Gold (BTG)	SM Energy (SM)	Coherus (CHRS)
Abercrombie (ANF)	Frontline (FRO)	Flexion (FLXN)
Freshpet (FRPT)	Hain Celestial (HAIN)	Amarin (AMRN)
Generac (GNRC)	Omnicom (OMC)	AMC Entertainment (AMC)
Rubicon (RUBI)	Qiagen (QGEN)	Roku (ROKU)
<u>Lowest Put/Call Ratio</u>	<u>Highest Put/Call Ratio</u>	<u>Implied Volatility Decliner</u>
B2Gold (BTG)	Triple-S (GTS)	Levi (LEVI)
Apellis (APLS)	Edison (EIX)	Riot Blockchain (RIOT)
Equitrans (ETRN)	Lear Corp (LEA)	Freshpet (FRPT)
Middleby (MIDD)	Omnicom (OMC)	Monolithic Power (MPWR)
Frontdoor (FTDR)	Norfolk Southern (NSC)	Rubicon (RUBI)
Clearwater Paper (CLW)	Karyopharm (KPTI)	Tilray (TLRY)
<u>OTM Calls on Offer</u>	<u>OTM Puts on Offer</u>	<u>Elevated IV30</u>
Transocean (RIG)	CVS Health (CVS)	Axxome (AXSM)
Pinterest (PINS)	Applied Materials (AMAT)	PG&E (PCG)
Halliburton (HAL)	Delta (DAL)	Overstock (OSTK)
Intra-Cellular (ITCI)	PG&E (PCG)	Gossamer (GOSS)
Fitbit (FIT)	Bristol Myers (BMY)	Wave Life (WVE)
<u>Positive Net Delta</u>	<u>Negative Net Delta</u>	<u>Option Volume Gainers (%)</u>
Silver (SLV)	Verizon (VZ)	Hain Celestial (HAIN)
Halliburton (HAL)	GE	Omnicom (OMC)
AT&T (T)	B2Gold (BTG)	Qiagen (QGEN)
Tesla (TSLA)	Cliff's (CLF)	Generac (GNRC)
Abercrombie (ANF)	Axalta Coatings (AXTA)	Rubicon (RUBI)
<u>Bullish Call Flow</u>	<u>Bearish Put Flow</u>	<u>Large Spread Trades</u>
American (AAL)	Monolithic (MPWR)	MPC, 5000 January \$65/\$75 call spreads
Keysight (KEYS)	Irobot (IRBT)	SAGE, 1,500 December \$170/\$210 call spreads
Align Tech (ALGN)	US Steel (X)	GPC, January \$97.5/\$105 call spreads bought 870X
Taiwan Semi (TSM)	Wyndham (WH)	PD, 1,000 October \$30 synthetic short spreads
Rogers (ROG)	Hain Celestial (HAIN)	ROKU, 1000 November 1st (W) \$125/\$140 call spreads

Stock Specific Headlines

Japan's **Unizo** says rejected bids from local fund, **Blackstone (BX)** – Reuters

China Everbright will pursue a restructuring, IPO in Hong Kong – Reuters

Fed to abandon tough liquidity rules on foreign banks (pos. **DB**) – FT

ON Semi (ON) to pay **Power Integrations (POWI)** \$175M to settle patent claims

Delta (DAL) beats on EPS and misses on revenues; \$2.32 vs \$2.26 and \$12,560 vs \$12,607

Kraton (KRA) warning on FY, pricing impacts

Amicus (FOLD) sees Q3 above consensus, FY in line

Alexion Pharma (ALXN), **Stealth BioTherapeutics (MITO)** reach agreement for option to co-develop and commercialize elamipretide

Tradeweb (TW) reports ADV +47% Y/Y in September

Cato (CATO) September comps +5%

Buckle (BKE) September comps +3%

Nike (NKE) merchandise from the Houston Rockets has disappeared in China – Reuters

Hormel (HRL) narrow FY outlook at Analyst Day

Jet Blue (JBLU) September traffic +3.4%; Q3 RASM to decline 0.9%, in line with flat to down 2% guidance

Extras

Albemarle (ALB) late trade sells 2000 December \$65 puts to open \$5.20 at the ISE, stock replacement

Dominion (D) with 5000 October \$82.5 calls rolling to November \$85, also 2000 October \$80 puts roll to 2,750 November \$80 puts

Bristol Myers (BMY) with 2600 March 2020 \$57.50 calls opening \$1.10 to \$1.20 late day

Anaplan (PLAN) shares consolidating around YTD VPOC after pulling off of 52-week highs in August and big positioning earlier this week with 4,000 December \$48 calls bought up to \$6.30 to open. PLAN already has some size in December with the \$45 calls bought over 9,000X and spread with the \$55 calls while the \$50 calls have over 4,000 in OI as well. A move above \$50/\$51 and out of this bull wedge has room back up to \$60+ while the longer-term continuation of the trend has room up to \$75. The \$6.13B company trades 17.2X cash and 20.5X EV/sales with 30% revenue growth forecast the next two years. PLAN is a leader in the connected planning space, a growing off-shoot of cloud. PLAN has a significant TAM in the early stages of growth. Their CFO noted at a conference in September they are just now cracking 10-15% of the \$21B space while China adds further potential. PLAN had another strong quarter

in August with 46% billings growth with high retention rates. They recently hired a new Chief Growth Officer as well which will focus them on improving the sales force and go-to-market strategy. Analysts have an average target for shares of \$57.25 with 12 buy ratings and 4 hold. Rosenblatt starting at Buy on 9-24 with a \$71 PT. The firm thinks Connected Planning solution is quickly becoming the "next killer app" with its high and quantifiable return on investment. JMP with an interesting note on 9-20 after their checks of website job descriptions led them to believe PLAN may have recently closed a multi-million dollar deal with Amazon (AMZN). Anaplan may have an opportunity to expand in that account to "multiple times the original size." Short interest is 4.3%. Hedge fund ownership rose 143% in Q2. Melvin Capital a top buyer of 3.475M shares while Coatue, Maplelane, and Hitchwood all notable buyers.

IPO Focus

Karat Packaging (KRAT) is an interesting small-cap set to IPO later this month issuing 5M shares at a \$7-\$9 range, putting the company with an EV of between \$250M and \$350M. The California-based company provides eco-friendly packaging for the food and beverage space including tableware, cutlery, and cups/straws. KRAT uses BPI certified, compostable resources in their 'Earth' line which are non-petroleum based. They use a product called Ingeo from NatureWorks which is a biopolymer made from plant sugars which is harmless when disposed. They have over 2,000 SKUs including a customizable side where you can order lines for restaurants or other events. The company started in 2000 as Lollicup, a small chain of bubble tea stores, and then expanded into foodservice supplies. In 2008, they built out a line of eco-friendly products and within 4-5 years it became bigger than the tea shops and they divested the retail side. KRAT is vertically integrated from both the manufacturing to distribution which has allowed them to side-step some of the supply chain concerns of peers in recent years. KRAT has seen strong revenue growth since 2012 at a 25% CAGR. They did \$201M in revenue for the 12 months ending June 30. They expect to see a jump in 2020+ as they recently completed a significant capacity expansion. They have more than 25,000 customers in North America across both retail, e-commerce, and restaurants. Some of KRAT's biggest customers include Chili's, Chipotle, El Pollo Loco, Panda Express, In-and-Out, Applebee's, IHOP, Del Taco, Dairy Queen, US Foods, and Sysco. The global packaging industry is significant in size the TAM currently around \$59B and expected to grow to \$78B by 2025. One of the major tailwinds for KRAT is the growth in online food delivery and 'to go' ordering. Delivery sales are expected to eclipse \$28B in 2023. KRAT sees themselves as well positioned given growing environmental concerns, especially within the fast-casual product landscape, and supply constraints that food delivery has put on products in the industry. Packaging has also been an area ripe for consolidation with Graphic Packaging (GPK), Int'l Paper (IP), and others buying up smaller competitors while Berry (BERY) has also added a lot of niche products. Given it's accelerating growth profile and niche focus, KRAT would likely be a nice add-on for a larger entity someday.