

## TOP STORIES

- China Economic Activity Gets a Positive Boost as Year Comes to a Close
- China Targeting 6% Growth in 2020
- Eurozone PMI Misses as Region Mired in Worst Spell Since 2012
- 

## INDEX FUTURES

| Futures            | Change                 | Fair Value   |
|--------------------|------------------------|--------------|
| <b>S&amp;P 500</b> | <b>3186.75 (11.5)</b>  | <b>13.95</b> |
| <b>Nasdaq</b>      | <b>8555.75 (34.75)</b> | <b>39.04</b> |
| <b>Dow</b>         | <b>28216 (51)</b>      | <b>68.62</b> |

## GLOBAL INDICES

| INDEX            | CLOSE           | CHANGE        |
|------------------|-----------------|---------------|
| <b>FTSE</b>      | <b>7514.2</b>   | <b>2.19%</b>  |
| <b>DAX</b>       | <b>13364.29</b> | <b>0.61%</b>  |
| <b>Nikkei</b>    | <b>23952.35</b> | <b>-0.29%</b> |
| <b>Hang Seng</b> | <b>27508.09</b> | <b>-0.65%</b> |

## ECONOMIC CALENDAR

| TIME         | INDICATOR                   | CONSENSUS |
|--------------|-----------------------------|-----------|
| <b>8:30</b>  | <b>Empire State Mfg.</b>    |           |
| <b>9:45</b>  | <b>PMI Composite Flash</b>  |           |
| <b>10:00</b> | <b>Housing Market Index</b> |           |
|              |                             |           |

## FOREX

|                |                        |
|----------------|------------------------|
| <b>EUR/USD</b> | <b>1.1142 (0.21%)</b>  |
| <b>USD/JPY</b> | <b>109.44 (0.07%)</b>  |
| <b>USD/CAD</b> | <b>1.3124 (-0.31%)</b> |
| <b>GBP/USD</b> | <b>1.3372 (0.35%)</b>  |

## COMMODITY

|                    |                        |
|--------------------|------------------------|
| <b>Oil</b>         | <b>60.08 (0.02%)</b>   |
| <b>Natural Gas</b> | <b>2.305 (0.39%)</b>   |
| <b>Gold</b>        | <b>1480.3 (-0.06%)</b> |
| <b>Copper</b>      | <b>2.8045 (0.85%)</b>  |

## VOLATILITY INDICES

| INDEX          | SYMBOL     | CLOSE                 |
|----------------|------------|-----------------------|
| <b>S&amp;P</b> | <b>VIX</b> | <b>12.63 (-8.40%)</b> |
| <b>Nasdaq</b>  | <b>VXN</b> | <b>15.09 (-8.82%)</b> |
| <b>Oil</b>     | <b>OVX</b> | <b>26.76 (-2.48%)</b> |
| <b>Gold</b>    | <b>GVZ</b> | <b>10.39 (-5.11%)</b> |

## MARKET OUTLOOK

Futures are indicating a higher open for the morning as positive sentiment continues from the US/China breakthrough last week. There isn't a lot of new information today behind the melt-up other than probably some relief that we now have more clarity on a timing/signing of Phase One. While a lot of questions remain on details, the overall feeling right now is positive. A slew of positive China data on Sunday night is also helping the outlook with both IP and retail sales beating expectations. European numbers lagged a bit.

Asian markets were mostly lower overnight, albeit light pullbacks after last week's strength. Tech showing some strength while industrials edging lower. Advertising company **Dentsu** cutting its outlook this morning citing weakness in Europe and the Americas – could weigh on other advertising names like **OMC**, **IPG**, and **Publicis**.

European markets are higher this morning with the FTSE leading up over 2% with some Brexit/election tailwinds. As expected, the leaderboard is a lot of UK-related names like **British Tobacco**, **RBS**, and **Barclays**. **Glencore** and **BHP** higher by 3-4% with positive Aussie data as well. **Electrolux** down 11% after warning on its North American business and costs from opening its new South Carolina plant. **Tulow** down 12% after its credit rating got cut by S&P.

Finally, turning to **economic data** over the weekend, the focus was on China which had a couple positive updates. Industrial production for November rose 6.2%, better than the 5% expected. Retail sales up 8% in November vs 7.6% forecast. Eurozone manufacturing PMI came in light at 45.9 vs 47.3 forecast. Services PMI was a slight beat at 52.4 vs 52. Manufacturing PMIs were weak in Germany, Italy, and the UK as well.

## S&P TECHNICALS

**Levels:** Support 3,100/3,000; Resistance 3,200/3,250



|                   |                |
|-------------------|----------------|
| 3640 Advancing    | Declining 3786 |
| 46.4%             | 48.3%          |
| 945 New High      | New Low 118    |
| 88.9%             | 11.1%          |
| 5355 Above SMA50  | Below 2388     |
| 69.2%             | 30.8%          |
| 5032 Above SMA200 | Below 2711     |
| 65.0%             | 35.0%          |

**KEY EVENTS****Earnings AMC: HEI****Analyst Days: AEIS****Tomorrow...** sing Starts at 8:30 AM, Industrial Production at 9:15, JOLTs at 10:00, Fed Speakers (Rosengren, Kaplan, Williams)**Earnings BMO: JBL, NAV, WOR****ANALYST ACTION/COMMENTS****Amgen (AMGN)** upgraded to Conviction Buy at Goldman**Dentsply (XRAY)** upgraded to Conviction Buy at Goldman**United (UNH)** upgraded to Conviction Buy at Goldman**DTE Energy (DTE)** upgraded to Buy at UBS**BRF SA (BRFS)** upgraded to Buy at HSBC**AGCO** upgraded to Neutral at MSCO**ELF Beauty (ELF)** upgraded to Overweight at MSCO**Spectrum (SPB)** upgraded to Buy at Oppenheimer**RBS** upgraded to Overweight at MSCO**British Tobacco (BTI)** upgraded to Buy at BAML**Micron (MU)** upgraded to Positive at Susquehanna**KennaMetal (KMT)** upgraded to Overweight at Wells Fargo**Parker Hannifin (PH)** raised to Overweight at Wells Fargo**Teck Resources (TECK)** upgraded to Buy at Citi**Urban Outfitters (URBN)** downgraded to Hold at Loop**Cardinal (CAH)** downgraded to Neutral at Guggenheim**Regeneron (REGN)** downgraded to Neutral at Evercore**WPX Energy (WPX)** downgraded to Neutral at Sun Trust**Progressive (PGR)** downgraded to Neutral at MSCO**Amphenol (APH)** initiated Buy at Jefferies**Masco (MAS)** initiated Buy at Atlantic**Acadia (ACAD)** initiated Buy at Guggenheim**MEDIA HIGHLIGHTS****WPX Energy (WPX)** in talks to acquire Felix Energy assets for \$2.5B - Bloomberg**ANTM, BRK.B, VIAC, UTX, UHAL, RDS, PFE, CMCSA, DELL, GOOGL, PFE** – Barron's top picks for 2020Local governments want dollar stores selling fresh food (**DLTR, DG**) - WSJ**Hudson's Bay** Investor Group Said to Consider Shelving Takeover – BloombergChina's **BAIC** Mulls Raising **Daimler** Stake to Almost 10% - Bloomberg**DirecTV** monthly rates spike after **AT&T's (T)** Time Warner buy – NY PostBrazil **Vale SA (VALE)** dam near site of January disaster has 'cracks' – Reuters**Vector** files for bankruptcy, says **Lockheed Martin (LMT)** seeks to buy assets – Reuters**Uber (UBER)** in advanced talks to sell UberEats India business – TechCrunchGermany's **Adler Real Estate** shares up on **Ado** takeover offer – Reuters**Japan Post** Probe Finds 9,000 Cases of Missold Insurance (neg. **AFL**) – Bloomberg**Boeing (BA)** Weighs Suspending or Cutting Back 737 MAX Production – WSJ**STOCK SPECIFIC NEWS OF NOTE****Horizon Pharma (HZNP)** FDA committee votes unanimously to support use of teprotumumab**22nd Century (XXII)** CEO to step down**Shoe Carnival (SCVL)** announces new \$50M share**Amarin (AMRN)** receives FDA approval of Vascepa**Live Nation (LYV), Zebra Technologies (ZBRA), Steris (STE)** to move to S&P 500**Tutor Perini (TPC)** to appeal jury verdict in SR 99 Alaskan Way caseCalifornia Governor says **PG&E (PCG)** restructuring plan 'falls woefully short'**Axsome Therapeutics (AXSM)** AXS-05 achieves primary endpoint in Phase 3 trial**Humana (HUM)** to acquire Enclara

**PRE-MARKET MOVERS**

**Moving Higher:** AXSM 68%, AMRN 10%, DD 4.5%, BTI 4%, WDC 3.2%, MU 3%, BHP 2.8%, RIO 2.7%

**Moving Lower:**

**INSIDER TRADING (Form 4 Filings)**

**Buying:** SPRT, HSAC, WPC, STOR, SPNE, ATRI

**Selling:** VGR, CHGG, PATK, SMAR, A, ARWR, DIOD, UBER, JBL, LEVI, TNET, PEN

**POTENTIAL SYMPATHY TRADES**

**GOSS** – negative on NVS failure

**WHR** – on Electrolux outlook

**IPG, OMC** – on Dentsu outlook cut

**OPTION HIGHLIGHTS (Prior Day)**

**LyondellBasell (LYB)** on 12/12 with an aggressive buy of 2,000 January \$95 calls for \$2.70 to open and follows buyers in the March \$95 calls on 12-6 and the June \$85 calls on 11-26. LYB still has a June \$105/\$125 call spread in OI 5,000X from June. On 12-9, a March \$90/\$75 put ratio spread opened 1,000X4,000 but potential hedge and willing buyer of stock lower. Shares have pulled back to the rising 50-MA and moving out of a small downtrend yesterday with room back to \$100 and a breakout. Longer-term, LYB forming a big weekly base since late 2018 that has upside to \$120. The \$30.95B company trades 8X earnings, 0.87X sales, and 35.5X FCF with a 4.5% yield. LYB sees mid-teens EPS growth and low-single digit revenue growth in 2020. LYB sees 2019 as a key transition year with prices depressed and the company working their Schulman acquisition which sets up their portfolio to be more broad-based, flexible, and focused on growing end-markets. LYB is a leader in the polyethylene market with strong positions in the polypropylene markets as well which will be driven by significant long-term tailwinds from IMO 2020, global initiatives focused on food safety and clean water, and infrastructure investment. Analysts have an average target for shares of \$95. MSCO positive on 12-2 seeing more room for buybacks and possible a dividend hike in 2020. Goldman upgrading to Conviction Buy on 11-18 with a \$121 PT. They see U.S. integrated polyethylene margins bottoming in Q4 or early 2020 at levels well above historical mid-cycle or even peak levels. Further, they think sentiment is relatively somber and presents a strong buying opportunity into 2020. Short interest is 1.6%. Hedge fund ownership fell last quarter, largely due to a 5M share sale by Millennium Management, while Glenview remains a top holder with 1.7M shares and Soroban has a large call position. Insiders active in August in the name with the CEO buying \$500k in stock at \$68.85.

**AFTER HOURS MOVERS**

**Gainers:**

**Losers**

**MARKET SENTIMENT / INTERNALS**

| INDICATOR                            | READING         | SIGNAL                        |
|--------------------------------------|-----------------|-------------------------------|
| CBOE Equity Put/Call Ratio           | 0.61            | Multi-Month Lows              |
| CBOE Index Put/Call Ratio            | 1.79            | Elevated                      |
| CBOE Skew Index                      | 144.51          | Highest In 15 Months          |
| VIX Curve                            | Contango        | Normal                        |
| CNN Fear & Greed Index               | 75              | Greed                         |
| NYMO                                 | 19.56           | Elevated                      |
| NYSE New Highs                       | 132             | Strong                        |
| McClellan Summation                  | 529.88          | Above 8-EMA                   |
| Cumulative AD                        | 194390          | New Highs                     |
| VXV:VIX                              | 1.21            | Elevated                      |
| Lipper Fund Flows                    | -\$7.1B         | Biggest Outflow in Two Months |
| Univ. of Michigan Consumer Sentiment | 99.2 (December) | +0.9%                         |

**SMART MONEY (13g/13d Filings)****IPO MONITOR**

Nothing Scheduled

**SECONDARY MONITOR**

## TRADE

### WEEKLY TECHNICAL BREAKOUT

**CRL:**



**Charles River (CRL)** shares are flagging under \$150 and new highs with a breakout targeting \$155. Longer-term, a big weekly bull flag breakout has room up to \$165 with MACD and RSI both turning positive recently and not near overbought.

### FUNDAMENTAL TRADE OF THE WEEK

**Stock:** Chemed (CHE)

**Price:** \$440

**Valuation:** Undervalued

**Key Ratios:**

|                      | Fwd. PE      | P/S          | P/B          | EV / EBITDA  | P/FCF        |
|----------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Stock</b>         | <b>31.8X</b> | <b>13.9X</b> | <b>21.2X</b> | <b>25.8X</b> | <b>34.8X</b> |
| <b>Industry Avg.</b> | <b>31.8X</b> | <b>7.2X</b>  | <b>7.2X</b>  | <b>58X</b>   | <b>67.3X</b> |

**Analysis:** CHE is a \$7B is an usual pair but operates in two segments. First is a home healthcare unit with end-of-life hospice care with an extensive network of RNs, physicians, and others. The second is Roto-Rooter, the nation's leader in plumbing and water cleanup services. CHE is attractive for a potential breakup and value unlock with both likely better operators on their own.

## IDEAS

### WEEKLY TECHNICAL BREAKDOWN

**BA:**



**Boeing (BA)** shares are back near trend support from the August lows and moving out of value with a run under \$340 targeting \$320. RSI is weakening and shares forming a set of lower highs recently as momentum fades.

### PAIR TRADE OF THE WEEK

**Industry:** Auto Parts

**Long/Short:** Long **Advanced Auto (AAP)**; Short **O'Reilly (ORLY)**

**Analysis:** AAP is a \$10.9B auto parts operator that should close the gap with peers in 2020 as they executive on a multi-legged margin plan and grow share in the professional market. ORLY faces tougher comps in 2020 and margins may be soft with tariff costs fully passed through from hike a year ago.

### SMALL CAP TRADE OF THE WEEK

**ICF Int'l (ICFI)** is a \$1.66B provider of management services including policy consulting for government and commercial clients. They use data analytics to help create optimal responses and purpose-driven plans around key issues like health, education, and social programs. Shares trade 19.5X earnings and 1.15X sales with mid-teens growth.

# DAILY OPTIONS REPORT

## Unusual Call Activity

Uniqure (QURE)  
Grupo Televisa (TV)  
Las Vegas Sands (LVS)  
Melco (MLCO)  
Banc of Cali (BANC)  
Athenex (ATNX)

## Unusual Put Activity

Michaels (MIK)  
Colfax (CFX)  
Express (EXPR)  
Corecivic (CXW)  
Jacobs (J)  
Danaher (DHR)

## Implied Volatility Riser

Spectrum (SPPI)  
Televisa (TV)  
CymaBay (CBAY)  
Iovance (IOVA)  
Uniqure (QURE)  
TG Therapeutics (TGTX)

## Lowest Put/Call Ratio

Varian (VAR)  
Agile Therapeutics (AGRX)  
Oasis (OAS)  
2U (TWOU)  
SLM Corp (SLM)  
Televisa (TV)

## Highest Put/Call Ratio

Telecom Argentina (TEO)  
Colfax (CFX)  
Michaels (MIK)  
Santander (SC)  
CalAmp (CAMP)  
Akorn (AKRX)

## Implied Volatility Decliner

LogMeIn (LOGM)  
FuelCell (FCEL)  
Stage Stores (SSI)  
Spark (ONCE)  
Tailored Brands (TLRD)  
Intel-Sat (I)

## OTM Calls on Offer

Slack (WORK)  
Sprint (S)  
Sanofi (SNY)  
First Majestic (AG)  
Pan American (PAAS)

## OTM Puts on Offer

Gerdau (GGB)  
Tencent Music (TME)  
Xilinx (XLNX)  
Western Digital (WDC)  
Exxon (XOM)

## Elevated IV30

Intra-Cellular (ITCI)  
Axxsome (AXSM)  
Athenex (ATNX)  
GTT Comms (GTT)  
Wave Life (WVE)

## Positive Net Delta

Apple (AAPL)  
Energy Transfer (ET)  
Uber (UBER)  
Disney (DIS)  
DocuSign (DOCU)

## Negative Net Delta

Facebook (FB)  
Micron (MU)  
AMD  
Roku (ROKU)  
Tesla (TSLA)

## Option Volume Gainers (%)

Corecivic (CXW)  
Jacobs (J)  
Danaher (DHR)  
Banc of Cali (BANC)  
Athenex (ATNX)

## Bullish Call Flow

Xerox (XRX)  
AMD  
Tesla (TSLA)  
PayPal (PYPL)  
Melco (MLCO)

## Bearish Put Flow

IntelSat (I)  
Express (EXPR)  
Nordstrom (JWN)  
Gap (GPS)  
Wayfair (W)

## Large Spread Trades

W, 2,000 January \$87.50/\$75 put spreads  
COG, 1,000 July \$17/\$15 bull risk reversals  
QURE, 3,000 December \$70/\$80 call spreads  
TSLA, March \$300/\$400 call spread 7000X  
PTON, 1,000 January \$35 synthetic short spreads

## News Continued

**USMCA** deal in question in dispute over labor inspectors – FT

Doubts raised over US claim of \$40bn China farm purchases – FT

China Steps Up Talks With U.S. on Opening Its Companies' Books – Bloomberg

Fed's Control Over Rates Tested by Growing U.S. Budget Deficits – WSJ

China to target around 6% growth in 2020, step up state spending – Reuters

Villains or visionaries? Hedge funds short companies they say 'greenwash' – Reuters

Qatar's \$320 Billion Wealth Fund Seeks to Catch Up on Tech – Bloomberg

**Cineworld** tops North American box office with \$1.65B **Cineplex** deal – Reuters

**FirstGroup** weighs sale US school bus and public transit units – FT

**Netflix (NFLX)** Shuns Commercials, but It's Cozying Up to Brands – NYT

**Roche** clears UK hurdle in \$4.3 billion **Spark (ONCE)** deal, U.S. review drags on – Reuters

Prime Leverage: How **Amazon (AMZN)** Wields Power in the Technology World – NYT

India's **Reliance Industries** to divest **Jio's** tower assets to **Brookfield** for \$3.5B – Reuters

**U.S. Steel (X)**, the Company That Built America, Faces Its Age – WSJ

**Wex (WEX)** to manage **Valero's (VLO)** proprietary fleet fuel card program

**Eli Lilly (LLY)** enters agreement to integrate **DexCom (DXCM)** into diabetes management system

**Aecom (ACM)** JV awarded \$10B Central Plateau Cleanup Contract

**Wave Life (WVE)** discontinues suvodirsen development for patients with DMD

**Charles River (CRL)** to acquire HemaCare for \$380M

**Novartis (NVS)** ends development of fevipirant in asthma after Phase III failure

**Deciphera (DCPH)** submits ripretinib NDA to FDA

**BeiGene (BGNE)** says Phase 3 ASPEN trial does not meet primary endpoint



### Extras

**Emerging Markets (EEM)** buyers of 69,500 March \$44 calls up to \$1.54

**Envista (NVST)** with 1,000 January \$27 calls bought up to \$2.01

**Pinduoduo (PDD)** with 800 July \$37 calls bought \$5.50

**Hancock and Whitney (HWC)** late day buyer of 435 Feb \$40 calls for \$3.70

**Visa (V)** with 1,500 May \$200 calls opening for \$3.73, rolling up some January \$180 calls

### Earnings Preview

**General Mills (GIS)** will report earnings on Wednesday before the Open with the Street looking for \$0.88 on \$4.43B in revenue. Shares have closed lower in four of the last six with an average closing move of 3.5%. The projected move is 3.9% this quarter, slightly cheap relative to recent quarters. 30-day IV is elevated at 25.5% and skew is slightly bullish. The \$31.5B company trades 15X earnings, 1.88X sales, and 29X FCF with a 3.8% yield. GIS is expecting 2.5% and 1.6% EPS growth the next two years with revenues down 0.30% next year. GIS is seeing pricing pressure across a number of groups while Pet Food remains a standout. They're undergoing a big reinvestment period with higher marketing costs weighing on EPS a bit. Short interest is 2.8% and near multi-year lows. Hedge fund ownership fell 15.9% in Q3. AQR, Maverick Capital, and DE Shaw notable buyers. The last notable insider buy was in early 2018 at \$42.18 when the CEO bought \$253k in stock. Analysts have an average target for shares of \$54. Credit Suisse in September highlighting five key things that will likely make Q2 improve a bit, "We expect organic sales growth to improve to 1.6% in 2Q due to: 1) an easy comparison in NA Retail to last year's weak Back-to-School merchandising; 2) early signs of a recovery in Brazil following inventory de-loading in 1Q; 3) more normal yogurt merchandising in Europe and less seasonal exposure to ice cream distribution losses in France; 4) normalization of flour shipments; and 5) the launch of Carnivora in the Specialty channel will begin to show up in 2Q results." Deutsche Bank starting at Buy on 12-11 with a \$61 PT. The firm sees a "long runway" opportunity in the Pet segment and market share losses in yogurt will dissipate with innovation. RBC with a Neutral rating on 10-17. They think several units will perform in line with consensus but risk remains over the "intense competition" that will keep the company's Snacks/granola bars business under pressure. BMO positive on 9-19 noting the company is successfully navigating the tough environment and GIS's "strong operating gains" and favorable interest expense and tax items more than offset its lower than expected sales growth.

### Insider Focus

**Matson (MATX)** with a notable insider buy last week from director Mark Fukunaga of 3,000 shares at \$36.88. This is the first open market buy in 2019 after over \$250k was bought in 2018 around \$35/\$36.

MATX is a \$1.6B provider of ocean transportation and logistic services. MATX is a leading US carrier in the Pacific with expedited services from China to Hawaii as well as Japan. MATX has benefitted from growth in Hawaiian GDP. They also offer niche, premium services from China to Southern California. Shares trade 17.45X earnings, 0.72X sales, and 9.7X FCF with a 2.35% yield. MATX sees mid-teens EPS growth each of the next two years with revenue growth accelerating. Hedge fund ownership rose 3% in Q3. MATX sees limited analyst coverage with 1 buy and 1 hold and a \$40.50 price target. Stephens with a \$44 PT. They think 2019 was a transition year with MATX nearing the end of its Hawaii fleet transition which brings improved efficiency and flexibility to its network. Further, the transition will yield cost savings in fiscal 2020 and increased operating leverage.

### **Biotech Event**

**Intra-Cellular (ITCI)** will have a key event on 12-27 with their PDUFA for lumateperone, their treatment for schizophrenia. The company had been planning for an AdComm earlier this year but it was cancelled by the FDA after "new information regarding the application." The treatment is a serotonin 5-HT<sub>2A</sub> antagonist that targets the main neurotransmitter pathways of the disease including serotonin and dopamine. It is being evaluated in not just schizophrenia but other neuropsychiatric disorders like bipolar, major depressive disorder, and behavioral disturbances from dementia. ITCI believes their drug attacks a large unmet need without the negative effects of many treatments like social withdrawal. ITCI has had issues in the past with schizophrenia. In 2016, their Phase 3 trial for ITI-007 failed to meet the primary endpoint after a placebo arm outperformed. Analysts have an average target for shares of \$23. JP Morgan positive on 9-10. The analyst thinks no adcomm from the FDA is positive as it potentially is a sign of the FDA's comfort with lumateperone's risk/benefit and suggests the agency is comfortable evaluating the drug without outside feedback. Hedge fund ownership rose 73% in Q3. Candriam, Samlyn Capital, Kingdon Capital, Opaleye, and Millennium Management notable buyers. Overall flow has been bearish with sizable put buys in the January \$7.50 puts, over 70,000X.