

TOP STORIES

- China Not Interested in Talking With U.S. for Now: State Media
- UK Government Considers Next Steps as Brexit Talks End
- China Steel Boom, Supply Problems Propel Iron-Ore Price to Five-Year High
- Bitcoin Suffers Biggest Intraday Drop in Over a Year, Crashes to \$6500
- Deere Cuts Forecasts

INDEX FUTURES

Futures	Change	Fair Value
S&P 500	2865.75 (-12.75)	-12.17
Nasdaq	7555.25 (-45)	-36.89
Dow	25755 (-112)	-104.68

GLOBAL INDICES

INDEX	CLOSE	CHANGE
FTSE	7332.3	-0.29%
DAX	12209.09	-0.82%
Nikkei	21250.09	0.89%
Hang Seng	27946.46	-1.16%

ECONOMIC CALENDAR

TIME	INDICATOR	CONSENSUS
10:00	Consumer Sentiment	
10:00	Richard Clarida Speaks	
10:00	Leading Indicators	
11:15	John Williams Speaks	

FOREX

EUR/USD	1.1162 (-0.09%)
USD/JPY	109.59 (-0.23%)
USD/CAD	1.3487 (0.22%)
GBP/USD	1.2751 (-0.34%)
USD	97.72 (0.04%)

COMMODITY

Oil	63.50 (1.00%)
Natural Gas	2.649 (0.38%)
Gold	1285.9 (-0.02%)
Copper	2.7355 (-0.45%)

VOLATILITY INDICES

INDEX	SYMBOL	CLOSE
S&P	VIX	15.45 (-6.02%)
Nasdaq	VXN	18.50 (-6.93%)
Oil	OVX	29.59 (1.13%)
Gold	GVZ	9.20 (-2.65%)

MARKET OUTLOOK

Futures are indicating a lower open for the morning with the Dow on pace for its fourth straight losing week. This would be the first such streak since 2014. Trade is the focus again today with Chinese state media indicating that the country has little interest in resuming talks anytime soon. The move comes amid harsher rhetoric from the US. This likely means that there will be no meetings between Liu He and Mnuchin before Trump and President Xi meeting at the G-20 at the end of June. Chinese markets rolled on the news while the yuan hit its lowest level since November. Oil is higher by another 1% today, capping a strong week. POTUS is unsure about moving forward with military action in Iran. OPEC+ will meet this weekend. PM May has agreed to leave her position regardless of an outcome on the next vote on her Brexit plan.

Asian markets finished the week mixed with China closing on the lows across the board. The Nikkei was higher by almost 1% but did post its second straight weekly decline. **Sony (SNE)** jumped 9.9% after announcing a buyback and partnership with Microsoft. **Softbank** rose 2.5%. **NEC** was higher by 2.3% amid the Huawei fallout. It was a quiet night for data in the region. Japan tertiary activity fell in May by more than expected. Hong Kong GDP was 1.3%. We'll get Japanese GDP data on Monday, expected to show slight contraction.

European markets are in the red today with trade weighing again. A quiet end to the week for data. Eurozone core CPI was 1.3%, slightly higher than forecast at 1.2%. Ex-tobacco it rose 1.7% vs 1.3% in March. **Just Eat** was down 6.9% while **Delivery Hero** fell 3% after Amazon's deal for Deliveroo. **Richemont** was down 1% after weak earnings in their watch business. **Easy Jet** rose 3.55% after a stronger outlook than expected.

S&P TECHNICALS

Levels: Support 2,800/2,750; Resistance 2,900/2,950



KEY EVENTS TO WATCH

Economic Data on Monday: Patrick Harker Speaks, John Williams Speaks, and Richard Clarida Speaks

Earnings BMO on Monday: AZZ, IGT, PDD, QD, SPTN

Earnings AMC on Monday: NDSN

Conferences: UBS Healthcare, UBS Oil and Gas

Analyst Day: LSCC, ESI, BSX

ANALYST ACTION/COMMENTS

Applied Materials (AMAT) upgraded to Buy at B Riley

Cyrus One (CONE) upgraded to Buy at Deutsche Bank

Foot Locker (FL) upgraded to Buy at B Riley

Philip Morris (PM) upgraded to Neutral at BAML

Grainger (GWW) upgraded to Hold at Gordon Haskett

Cincinnati Financial (CINF) upgraded to Outperform at CSFB

CNOOC (CEO) upgraded to Overweight at JP Morgan

Select Medical (SEM) upgraded to Neutral at JMP

Under Armour (UAA) upgraded to Overweight at JP Morgan

United Therapeutics (UTHR) upgraded to Neutral at UBS

Walmart (WMT) upgraded to Accumulate at Gordon Haskett, \$115 PT

Copart (CPRT) downgraded to Neutral at Guggenheim

Camping World (CWH) downgraded to Neutral at Keybank

Matador (MTDR) downgraded to Neutral at MKM

Neophotonics (NPTN) downgraded to Neutral at MKM

VF Corp (VFC) initiated Buy at Goldman

Wayfair (W) initiated Buy at Jefferies, \$192 PT

Barnes (B) initiated Buy at Alembic Capital

Nice (NICE) PT raised to \$166 from \$149 at Jefferies

Masimo (MASI) PT raised to \$160 from \$148 at Piper

NetApp (NTAP) PT lowered to \$81 from \$90 at Piper

Electronic Arts (EA) added to Best Ideas List at Wedbush

MEDIA HIGHLIGHTS

IAMGold (IAG) said to explore sale - Bloomberg

Luckin Coffee (LK) to price IPO at high end - CNBC

MGM Resorts (MGM) tells regulators \$800M 'possible' to settle Vegas tragedy - Fox News

Some **D.R. Horton (DHI)** development deals go to execs' family - Bloomberg

Tesla (TSLA) CEO implements new 'hardcore' cost-cutting efforts - Electrek

HP Enterprise (HPE) in advanced talks to acquire **Cray (CRAY)** - Bloomberg

EU: **Facebook (FB)**, **Google (GOOG)**, **Twitter (TWTR)** not doing enough to fight fake news - Reuters

J&J (JNJ), **Siemens**, **Philips (PHG)** under investigation in Brazil over kickback scheme – Reuters

Worldwide semiconductor revenues to decline 7.2% in 2019, says IDC via Digitimes

U.S. Farmers Feel The Pain of Trade War – Bloomberg

Viacom (VIAB) betting big that Pluto TV will rival Netflix, Amazon – NY Post

Credit card rates are now at their highest level in history (**COF**, **V**, **MA**) – CNBC

Iron ore to shift into spotlight after **Vale (VALE)** warns of further dam risk – FT

Millennial Home Buyers Might Never Come Knocking – WSJ

Singapore's GIC Takes Stake in **WaterBridge** at \$3 Billion Valuation – WSJ

Bain, **Carlyle (CG)** among bidders for **Hitachi's** chemicals unit – Reuters

Fastly (FSLY) prices at \$16, high-end of range – CNBC

STOCK SPECIFIC NEWS OF NOTE

Baidu (BIDU) announces \$1B share buyback

PulteGroup (PHM) announces \$500M share buyback

Blackstone (BX) makes minority investment in Marlin Equity Partners

Amazon (AMZN) leads \$575M financing round in Deliveroo

Inovio (INO) and **Qiagen (QGEN)** collaborating on diagnostic test for Inovio's VGX-3100 in HPV

EU car registrations down 0.4% in April

PRE-MARKET MOVERS

Moving Higher: AMAT 6%, UAA 2.6%

Moving Lower: IQ -6%, DE -3.7%

INSIDER TRADING (Form 4 Filings)

Buying: HAIN, ITCI, XON, IMMU, PENN

Selling: TYL, NEE, MDC, CHD, AEP, RE, MTD, B, MORN, CCO, AWK, CRL, TSN, ALGN, EA, FGEN

POTENTIAL SYMPATHY TRADES

CAT, CMI, AGCO, CNHI – on DE earnings

FOSL, TIF, CPRI – on Richemont earnings

OPTION HIGHLIGHTS (Prior Day)

TransDigm (TDG) typically a very quiet name on the options-side but today IV fading as 5,900 June \$400 puts are sold to open this morning down to \$3.10. TDG recently with some OTM December \$520 calls bought as well on 4/30. Shares have traded steadily higher since earnings in February and pulling back this week to the 50-EMA and cloud support where it's getting a bounce. MACD and RSI have both reset off of overbought levels and curling higher, ready to run. The \$23.9B company trades 21.85X earnings, 5.65X sales, and 9.8X cash with 20% EPS growth forecast through 2021 and estimates up YTD. They see 22.5% revenue growth next year and settling into a 5-6% range in outer years. TDG recently closed their \$4B deal for Esterline which gives them more scale in commercial aircraft, regional, and business jets while adding significant aftermarket exposure. Analysts have an average target for shares of \$449 with 8 buy ratings, 4 hold, and 1 sell rating. CSFB with a \$539 PT on 5/7, confident that management can hit their 20% IRR target for the ESL deal even if this is a more complicated integration than prior deals. They also see potential for TDG to divest up to \$1B in legacy ESL businesses to help pay down debt. Short interest is 4.2% and down from as high as 18% in 2017. Institutional ownership fell 12.5%. Berkshire Partners a top holder with 3.6M shares, and board representation. The firm added \$100M in stock at \$434 in February. Hitchwood adding a new position as well.

AFTER HOURS MOVERS

Gainers: BOOT 11%, AMAT 6%, HUYA 4.4%, NVDA 1.9%

Losers: PINS -15%, BIDU -9.9%

MARKET SENTIMENT / INTERNALS

INDICATOR	READING	SIGNAL
CBOE Equity Put/Call Ratio	0.62	Rising
CBOE Index Put/Call Ratio	1.12	Rising
CBOE Skew Index	118.54	Low
VIX Curve	Contango	Normal
CNN Fear & Greed Index	44	Fear
NYMO	-33.23	Neutral
NYSE Highs/Lows	74.11	Weakening
McClellan Summation	726.78	Below 8-EMA
Univ. of Michigan Consumer Sentiment	97.2 (April Final)	-1.6% Y/Y

SMART MONEY (13g/13d Filings)

IPO MONITOR

Avantor (AVTR) issuing 154M shares at \$18-\$21; Provider of materials, consumables, equipment, and instrumentation to biopharma, healthcare, education and government

Bricktown (BEER) issuing 1.9M shares at \$7-\$9; Bricktown Brewery and Bricktown Tap House and Kitchen

ConversionPoint (CPTI) issuing 6.2M shares at \$6-\$7; Software developer that helps e-commerce companies convert, manage and re-engage customers using data analytics

Fastly (FSLY) issuing 11.3M shares at \$14-\$16; Developer of edge cloud platform helping developers deliver digital capabilities

Luckin Coffee (LK) issuing 30M shares at \$15-\$17; China's second largest coffee chain in terms of number of stores

TRADE

WEEKLY TECHNICAL BREAKOUT

PEP:



Pepsi (PEP) shares are consolidating in a bull flag under \$128.50 with a breakout targeting \$131+ while longer-term momentum targets \$140. MACD is nearing a bull cross while RSI is back above 60.

FUNDAMENTAL TRADE OF THE WEEK

Stock: Curtiss Wright (CW)

Price: \$115

Valuation: Undervalued

Key Ratios:

	Fwd. PE	P/S	P/B	EV / EBITDA	P/FCF
Stock	15.3X	2.1X	3.1X	11.1X	17.2X
Industry Avg.	31.8X	1.6X	3.3X	13.7X	25.3X

Analysis: CW is a \$4.93B provider of components and other engineered products for aerospace and defense markets like valves and utility systems. Shares trade cheap at 15.3X earnings and 2X sales with high-single digit growth. CW has made some acquisitions recently which position it for upside including last year's deal for Dresser Rand's government business and a partnership with Honeywell in February.

IDEAS

WEEKLY TECHNICAL BREAKDOWN

EWZ:



Brazil (EWZ) shares are forming a bear flag above \$39 and the 200-EMA with a breakdown targeting \$36. MACD is back at zero after an extended move lower and RSI is weak but not oversold. Shares are forming a series of lower highs since January.

PAIR TRADE OF THE WEEK

Industry: Apparel

Long/Short: Long Ross Stores (ROST), Short Abercrombie (ANF)

Analysis: ROST is attractive on valuation with double-digit growth and recovering strong from a Q1 misstep on inventory, a self-help issue. ANF trades expensive at 17.5X earnings with growth slowing < 1% over the next five years. ANF has risk from higher promotions which are hurting margins, despite strong SSS.

SMALL CAP TRADE OF THE WEEK

Atrion (ATRI) is a \$1.63B company which focuses on niche areas of med-tech like fluid delivery products and cardiovascular and ophthalmology applications. Shares trade 10.7X sales and a steady earnings performer. The company is investing in their manufacturing capacity to support higher demand and recently outlined plans to add 50% to their existing output.

DAILY OPTIONS REPORT

Unusual Call Activity

Moodys (MCO)

Mosaic (MOS)

Telaria (TLRA)

Inphi (IPHI)

Jet Blue (JBLU)

Domtar (UFS)

Unusual Put Activity

AO Smith (AOS)

TransDigm (TDG)

Vishay (VSH)

BioCryst (BCRX)

Ryder (R)

Dillards (DDS)

Implied Volatility Riser

Iovance (IOVA)

Uber (UBER)

Mellanox (MLNX)

Riot Blockchain (RIOT)

Evolus (EOLS)

Constellium (CSTM)

Lowest Put/Call Ratio

Green Plains (GPRE)

Liberty (LBTYA)

Timken (TKR)

Domtar (UFS)

Avon Products (AVP)

Wendys (WEN)

Highest Put/Call Ratio

Century (CNTY)

Signature Bank (SBNY)

Nevro (NVRO)

Deutsche Bank (DB)

Davita (DVA)

Lumber Liquidators (LL)

Implied Volatility Decliner

MacroGenics (MGNX)

Far Fetch (FTCH)

Kemet (KEM)

Dillards (DDS)

Tilray (TLRY)

Walmart (WMT)

OTM Calls on Offer

Knight Swift (KNX)

CVS Health (CVS)

Overstock (OSTK)

Freeport (FCX)

Jet Blue (JBLU)

OTM Puts on Offer

Knight Swift (KNX)

Carrizo (CRZO)

Pfizer (PFE)

Baidu (BIDU)

Snap (SNAP)

Elevated IV30

Cara Therapeutics (CARA)

Assembly (ASMB)

Intra-Cellular (ITCI)

Beyond Meat (BYND)

Jumia (JMIA)

Positive Net Delta

Wells Fargo (WFC)

Snap (SNAP)

Ford Motor (F)

Honeywell (HON)

Kemet (KEM)

Negative Net Delta

Southern (SO)

UPS (UPS)

Centene (CNC)

Qualcomm (QCOM)

Micron (MU)

Option Volume Gainers (%)

AO Smith (AOS)

TransDigm (TDG)

Vishay (VSH)

Jet Blue (JBLU)

Domtar (UFS)

Bullish Call Flow

Pioneer Natural (PXD)

Match (MTCH)

Jet Blue (JBLU)

Marathon (MPC)

Alnylam (ALNY)

Bearish Put Flow

Xilinx (XLNX)

Skyworks (SWKS)

Lannett (LCI)

L Brands (LB)

Cirrus (CRUS)

Large Spread Trades

MGM, 1,000 July \$25/\$22 bull risk reversals

LULU, 1,200 June 7th (W) \$172.5/\$185 call spreads

RUN, 4,000 January \$20/\$12 strangles sold

ESPR, 200 December \$55/\$40 bull risk reversals

ADBE, 1,500 July \$280 synthetic long positions

Extras

Rio Tinto (RIO) buyers of 2,350 January \$60 calls to open \$4.90 offer late day

Medtronic (MDT) buyer of 1,500 September \$90 calls \$4.02

Marathon Petro (MPC) with 1,000 January 2021 \$50 calls opening \$9.85 to \$9.90

Intercontinental (ICE) late day sweep buy 1,100 January 2021 \$90 calls for \$5.40 to \$5.50

Global Blood (GBT) stock replacement opened 1,000 September \$65 calls for \$5.50 at the CBOE

United Parcel (UPS) buyer of 2,500 July \$105 calls \$1.62

Avalara (AVLR) with 950 June \$75 calls up to \$2.40 to open in the afternoon and later buyers adding up to 1,400 on the day. AVLR has a lot of call open interest in the May calls which may adjust with expiration today and also some small November \$60 calls from buyers in April. Shares gapped out of a narrow multi-month range recently on earnings riding the 8-EMA recently with new highs above \$75 in focus. Shares have a measured move out to \$90 from the nearly year-long post-earnings range. The \$5.12B company trades 15.9X EV/sales and 35X cash with revenue growth forecasts of 22.8% and 28.8% through FY21. AVLR is a cloud-based software which focuses on automated tax compliance for both e-commerce and International retailers. Their suite of services include determining taxability and rates of products by region, collecting taxes, preparing and filing returns, and maintaining records and compliance documents. They integrate across a number of platforms like NetSuite, Workday, and SAP which allows businesses to seamlessly integrate AVLR into their workflow. There's a big market for their services as well. They see an \$8B TAM in the US alone with over \$377B of sales taxes collected in the US and over \$445B of other transaction taxes. They see \$1T in B2C cross-border e-commerce by 2020.

Another positive driver is the recent SCOTUS ruling on tax obligations for remote sellers (SD vs Wayfair). Avalara has a Tax Advisory Services to help firms stay compliant. Analysts have an average target for shares of \$61 with 6 buy ratings and 1 hold ratings. Needham raising their PT to \$85 on 5/10. The firm came away from the recent Investor Day believing AVLR is the next CNQR, a platform that the firm thinks will dominate a financial use-case (tax mgmt vs expense mgmt.) over the next decade. The firm's biggest takeaway was on how Ecommerce and Marketplace partners can massively extend Avalara's sales reach followed by why this opportunity is a multi-year journey and not a sprint. Short interest is 3.5%. Institutional ownership fell 16.5%. SageView Capital with 15.4M shares. Alkeon and Timessquare also buyers of new stakes.

Earnings

Ticker	Company	EPS Actual	EPS Estimate	Revs Actual	Revs Estimate	Growth	Notes
AMAT	Applied Materials	\$0.70	0.66	3539	3476.27	-22.70%	
BIDU	Baidu	\$0.41	0.51	3594	3591.01		FY Below
BOOT	Boot Barn Holdings	\$0.32	0.27	192.76	189.29	12.90%	FY In Line
HUYA	HUYA	\$0.59	0.61	\$1,631.5	1551.92	93.4%	
IQ	iQIYI	-\$1.97	-3.17	6989.9	6894.37	43.00%	FY Below
NVDA	NVIDIA	\$0.88	0.81	2220	2197.05	-30.80%	

PINS	Pinterest	-\$0.32	-0.11	201.9	200.64	54.10%	FY Below
DE	Deere	\$3.52	\$3.63	\$10,273.0	\$10,190.26	5.4%	FY Below

NVDA – Beat on EPS and Revenues - Jensen Huang, founder and CEO of NVIDIA, said, "NVIDIA is back on an upward trajectory. We've returned to growth in gaming, with nearly 100 new GeForce Max-Q laptops shipping. And NVIDIA RTX has gained broad industry support, making ray tracing the standard for next-generation gaming. Despite the near-term pause in demand from hyperscale customers, the application of AI continues to accelerate. AI adoption is accelerating in the world's largest industries, moving beyond the cloud to the edge where AI processing has to be instantaneous. We're excited about our pending acquisition of Mellanox, which will help us drive data center architecture for high performance computing and AI from the cloud to the edge."

IQ – Beat one EPS and Revenues, Guidance Light - "We started off 2019 with a solid quarter of results, especially in membership business driven by our rapidly growing subscriber base of 96.8 million at quarter end," said Yu Gong, founder, director and CEO of iQIYI. "We further strengthened our platform and continued to take the lead in China's internet video streaming industry in terms of various 3rd-party tracking metrics. Our strategy remains focused on producing high quality original content and refining our IP-centered content ecosystem which will be the key drivers for our future growth. As China's online entertainment industry is entering a new phase of growth, we believe we are well-positioned to capture the enormous opportunities for us in the years to come."

IPO Preview

Luckin Coffee (LK) expected to make its debut today after pricing its IPO at the high-end of the expected \$15-\$17 range last night. The most recent round of financing valued the chain at \$2.9B. The deal is apparently double-digit times oversubscribed. It's been a fast grower after starting operations in just 2017 and going from nine stores by the end of that year to over 2,000 by the end of 2018. That number is just above 2,350 today with over 16.8M customers and 90M items sold. They did ~\$125M in sales last year with losses of \$241.3M as they scaled rapidly. The company has been discount/promotion heavy over the last year and they intend to continue this pace to gain traffic and share.

LK is hoping to capitalize on the growing appeal of coffee in China. The market was \$5.8B in 2018 but up from around \$2.5B in 2014 and tailwinds going forward from a growing middle class. According to the ICO, China's consumption of coffee per capita is still relatively low at three cups a year vs 363 in the US but grew 16% in the last decade vs a global growth rate of 2%. A comparison that companies like LK will make is to Japan which saw a big upswing in consumption through the 2000s and is now the fourth largest in the world.

LK is a hugely tech-focused retail outlet. None of their stores have cashiers but instead rely on mobile apps for ordering. The most popular style of store they have are called 'pick-up stores' which are smaller outlets with limited seating. They've been strategic in where they build targeting areas like high-density urban zones and universities where they can keep overhead low and volumes high. These stores represent around 92% of all their operations. LK also touts their use of AI and big-data to streamline operations and target consumer behavior.

LK has its share of competitors in China, most notably Starbucks, so let's look at a quick comp. The latter has made China a priority and has over 3,600 stores in 150 cities and they are targeting 6,000 by 2023. They have nearly 60% of the market share and their China operations had over \$700M in revenue last year. SBUX has largely sat out the quick-service stores that LK has focused on in lieu of more dine-in (only two of their stores are 'pick up' only). But they're moving more towards the same pathways as LK with digital becoming a priority and delivery as well. To help them meet that end, SBUX has struck big-name partnerships in the country like their 2018 deal with Alibaba. LK has made convenience their focus and like SBUX, they've partnered with a tech-firm to assist their ambitions -- Tencent. Another significant competitor are c-stores which can mimic the quick-service appeal of LK's stores.