FRIDAY FEBRUARY 5, 2016

	PRICE	CHANGE	VOLUME	UP/DN %	UP/DN VOL %
Dow:	16,204.97	-211.61	4.93	30	30
Nasdaq:	4,363.14	-146.41	**2.49**	22	14
S&P 500:	1,880.05	-35.40			
10 yr note:	1.85%	-1bps			
Volatility:	23.38	+1.54			
EUR-USD:	1.115	-0.005	Crude Oil:	30.89	-0.82
USD-JPY:	116.87	+0.08	CRB-Com:	161.93	-1.52

S&P 500 FRIDAY

S&P 500 WEEK

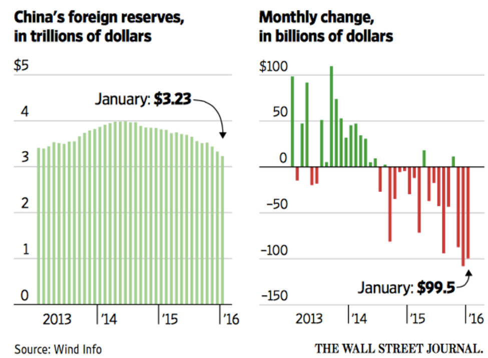
	WEEK:	YTD:
DOW:	-1.59%	-7.00%
NASDAQ:	-5.44%	-12.87%
S&P 500:	-3.10%	-8.02%
RUSSELL 2000:	-4.81%	-13.20%

US equities log their first weekly decline in 3 weeks and worst weekly drop since the first week of the year. Volatility (+7%) gained today as the Nasdaq (-3.2%) led declines in the S&P 500 (-1.8%) and Dow (-1.3%). The Nasdaq fell to its lowest level since October 2014. “It sure felt like panic on the Street last week” claims Barron’s, an about-face from the ‘non-panic driven selling’ since the start of the year. Risk aversion was widespread, visible as 10-year yields hit their lowest level since April 3, 2015 and oil (-8.1%) sold off heavily throughout the week. Similarly European stocks fell -0.9% today, and -4.58% this week, faring much worse than their Asian counterparts (-0.82%).

The dollar (+0.9% today) fell 1.9% this week after hitting its highest level in over 13 years last week (against a basket of 16 currencies). The dollar’s rally has lost momentum as weaker than expected economic data weighs on Fed interest rate expectations. A weaker rate flight path would typically spur buyers, however today's selling highlights the market's relative weakness, foreshadowing further short-term loses.

Defensive trends continue as old leaders (tech, biotech, financials, healthcare and consumer discretionary) become laggards, and vice versa. The Nasdaq and Russell 200 have been hammered this week, while basic materials (+4.34%), utilities (+2.39%) and telecom (+1.52%) gained for a second week. LinkedIn fell 44% today on weak earnings, as traders are less likely to pay up for growth given heightened risk aversion. Nevertheless last year's FANG stocks still trade at large multiples to their past 12-month earnings; FB (81x), AMZN (402x), NFLX (296x), GOOG (31x). And earnings are not beating expectations like they did in the third quarter, instead exactly matching expectations for a 4.9% decline (with 300 of the S&P 500 reported) (RBC Capital Markets).

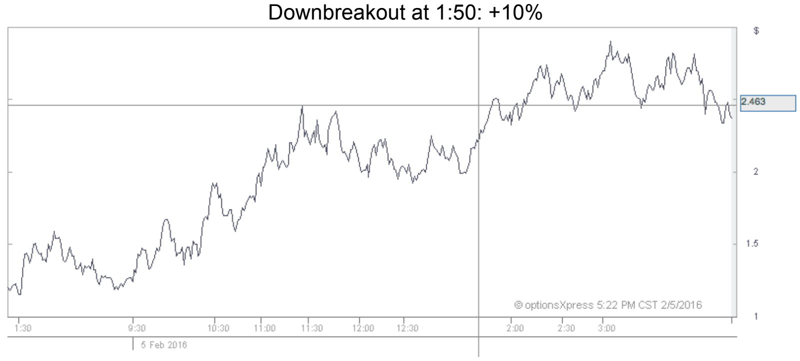
China just reported their foreign exchange reserves fell by $99.5 billion to $3.23 trillion in January, its lowest level in over 3 years. Sunday's reading is better than expectations for -$120 billion, but still shows a continued drop from December's record drop of $107.9 billion. Over the past 6 months China has burned through $800 billion in forex reserves as the government tries to stem yuan outflows (Barron's). Economists claim that $2.8 trillion is the lowest acceptable level for reserves so that the country can manage balance of payment shocks. Using the IMF's forex reserves to M2 ratio, China should maintain between 2.1 to 4.26 trillion (WSJ). Whether China retains enough reserves going forward depends entirely how the government can relinquish control of its currency to the market. The government is inadvertent tightening monetary policy through its currency support, contradicting other stimulus measures enacted by the government.



Chinese markets are closed all next week for Chinese New Year, perhaps giving global markets a reprieve from one recent source of volatility. Yellen will be center stage Wednesday (House Financial Services Committee) and Thursday (Senate Banking Committee) as she gives her semiannual testimony on monetary policy and the economy. Retail sales (disappointing) will be reported Friday.

Great opening week for the algo: up 82% this week.

Downbreakout at 1:50: +10%



ECONOMIC REPORTS:

January Unemployment: +151,000, 4.9%. The unemployment rate fell as expected to 4.9%, even though the labor participation rate moved higher (+10bps to 62.7%. This is the gauge's first time below 5% since February 2008, just as the Great Recession begun. Nevertheless the broader unemployment rate remained at 9.9%. Wages rose 0.5% in January to $25.39, now 2.5% higher over the past year.

Payrolls gained at their slowest rate since September last year and well of last year's average monthly gain of 228,000 (WSJ). While this is not enough to convince the Fed, another decline in payroll growth in February could lead to dramatic changes in the Fed's rate outlook during the Fed's March meeting. Two Fed members, governor Lael Brainard and Dallas President Robert Steven Kaplan, mentioned earlier this week that the Fed needs to be more cautious over future rate hikes given recent economic stresses. There is currently an 8% chance of a Fed rate hike at net month's meeting.