



Market Weekly

Commodities, Forex, Futures and Options

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Managed Account Research, Inc. 929 Santa Barbara Street, Santa Barbara, CA 93101
www.ma-research.com research@ma-research.com 800.308.1495

HEADLINE OF THE WEEK: "Seven days of shocks unnerve investors" (Financial Times, 3/22/2008)

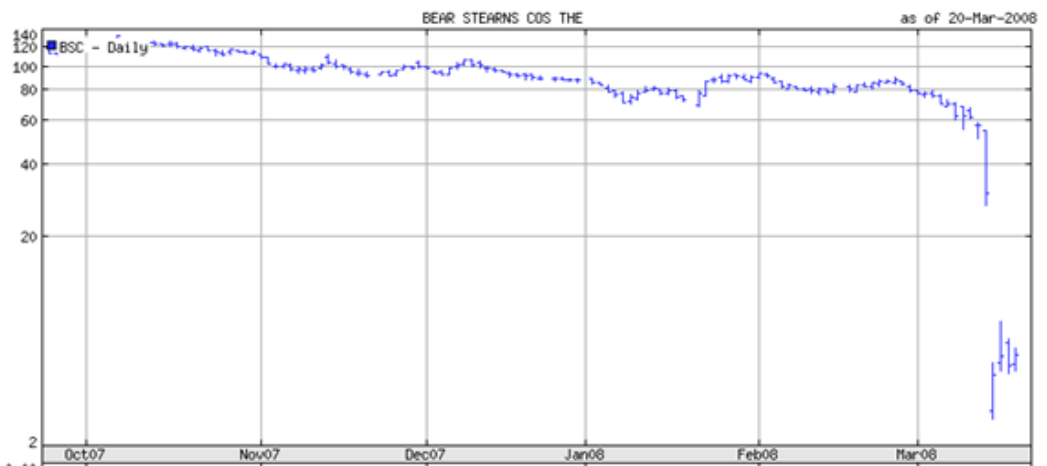
Compiled by Mack Frankfurter, Chief Investment Strategist

WEEKLY RECAP

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Monday started out with the markets 'whistling past the graveyard' after Bear Stearns was acquired by JPMorgan Chase in a \$2 per share deal backed by a \$30 billion secured non-recourse loan from the U.S. Federal Reserve Bank. The action removed the immediate threat of a default which would have roiled the credit and derivatives markets in which Bear Stearns is a leading counterparty. The rapid fall of the 5th largest U.S. investment bank highlighted the broader threat of counterparty risk in over-the-counter derivatives. Rather than any particular institution being too big to fail, Bear Stearns was too interconnected to fail. The action by the Federal Reserve removed any doubts about how serious the U.S. central bank regards counterparty risk as a threat to the economy and the financial system. The latest moves by the Fed expand the central bank's role as lender of last resort to cover all the big investment banks at the cost of exposing the Fed to additional credit risk. Evidently, the Fed is now running on a "half a tank of gas," according to Larry Meyer, a former Fed governor, because it had committed \$426 billion of its \$884 billion portfolio. Current Federal Reserve officials do not see it that way, and believe that in the unlikely situation that liquidity operations bump up against the \$884 billion ceiling, they can find ways to bypass that limit.

"...the Fed is now running on a "half a tank of gas" because it had committed \$426bn of its \$884bn portfolio."



Bear is trading above its \$2 "take-under" price because bondholders are seeking to protect their interests.

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“...weak growth gets its revenge, as falling real demand triggers speculative liquidation.”

Meanwhile, a dash for cash flattened commodities as prices fell across the board in the latter half of the week. The reasons why are as spurious as they are numerous. Investors either sought to raise cash on a sharp reduction in risk appetite, or speculators liquidated positions to face margin calls elsewhere, or it was that broader economic worries of a U.S. recession was the reason commodity prices took a hit... Nobody wants to admit it, but perhaps the simple truth is that there were no more “greater fools” left to take commodity prices higher. The Powershares DB Agriculture ETF is a case in point. Earlier in the month the fund, which invests in commodity futures contracts, reached its CFTC position limits and the ETF topped out. The result is the “odd” chart pattern seen below. However, this is not to say that the larger economic picture didn’t play a consideration in the selloff. The implications of the credit squeeze on the U.S. economy, and the risks of a spill-over into emerging countries such as China and India is a legitimate concern. Eventually weak growth gets its revenge, as falling real demand triggers speculative liquidation.



Since its 2007 launch, DBA has enjoyed a nice ride... that is until CFTC position limits clipped its wings.

“The Canadian dollar plummeted the most in more than two decades...”

In other market news, oil prices pulled back from record highs amid concerns that the slowing U.S. economy will curb consumption of fuels. The Canadian dollar plummeted the most in more than two decades, and the Brazilian real fell to a one-month low. Meanwhile, the yuan rose this week on speculation the currency's advance will quicken after China’s premier vowed to take “forceful” measures to damp inflation. Agriculture futures were among the hardest hit on Thursday before the holiday close, with wheat below \$10 a bushel on the CBOT for the first time in more than six weeks. On Wednesday, gold dropped 5.9 percent, its biggest one-day loss in nearly two years and almost \$100 less than its all-time high of \$1,033.90, reached on Monday. Other precious metals also traded sharply lower. May silver plunged to a six-week low, losing \$1.595 to settle at \$16.85 an ounce on the Nymex. May copper, meanwhile, fell 6 cents to settle at \$3.5735 a pound. Adding to the slowdown premise, natural rubber futures in Tokyo, the global benchmark, posted the biggest weekly decline in more than four months.

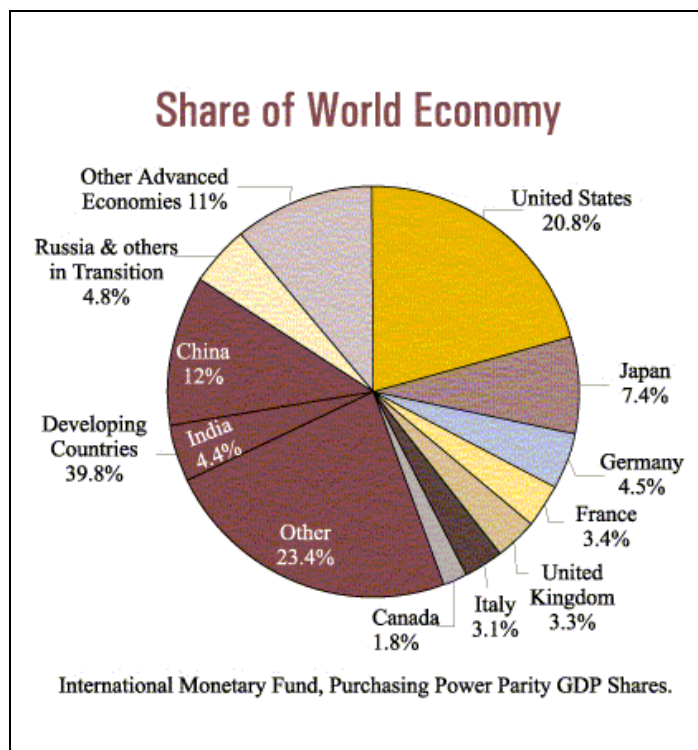
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ECONOMIC REVIEW

Global trade slowed almost to a standstill threatening to shrink for the first time since the U.S economy went into a recession in 2001. This is a material deceleration with the data providing further evidence that global economic activity is slowing, as growth in emerging markets has failed to compensate for weaker demand in the United States. The last time annual growth in trade went negative was in 2001, when the shallow U.S. recession that followed the bursting of the technology bubble and the shock of the September 11th attacks caused global commerce to contract. It is all adding up and acceptance that the U.S. has entered into a recession is spreading. The question now is how severe?

The massive liquidity pumped into the financial system over the past few years indicates that this may be the first consumer-led recession since the early 1990s. American shopping habits raced ahead of their wage packets in the last few years, and by 2006, real median



Next Week's Economic Calendar

Consumer confidence can help predict shifts in consumption, and may confirm that we're heading into a recession.

Date	Time (ET)	Statistic	For	Briefing Forecast	Market Expects	Prior
24-Mar	10:00 AM	Existing Home Sales	Feb	4.85M	4.86M	4.89M
25-Mar	10:00 AM	Consumer Confidence	Mar	74.5	75	75
26-Mar	8:30 AM	Durable Orders	Feb	1.5%	1.0%	-5.3%
26-Mar	10:00 AM	New Home Sales	Feb	570K	580K	588K
26-Mar	10:30 AM	Crude Inventories	22-Mar	NA	NA	133K
27-Mar	8:30 AM	Chain Deflator-Final	Q4	NA	2.7%	NA
27-Mar	8:30 AM	GDP-Final	Q4	0.6%	0.6%	0.6%
27-Mar	8:30 AM	Initial Claims	22-Mar	NA	NA	NA
27-Mar	8:30 AM	Chain Deflator-Final	Q4	2.7%	2.7%	2.7%
27-Mar	8:30 AM	Initial Claims	22-Mar	360K	NA	378K
28-Mar	8:30 AM	Personal Income	Feb	0.3%	0.3%	0.3%
28-Mar	8:30 AM	Personal Spending	Feb	0.2%	0.2%	0.4%
28-Mar	8:30 AM	Core PCE Inflation	Feb	0.0%	0.2%	0.3%
28-Mar	10:00 AM	Mich Sentiment-Rev.	Mar	70.5	71	70.5

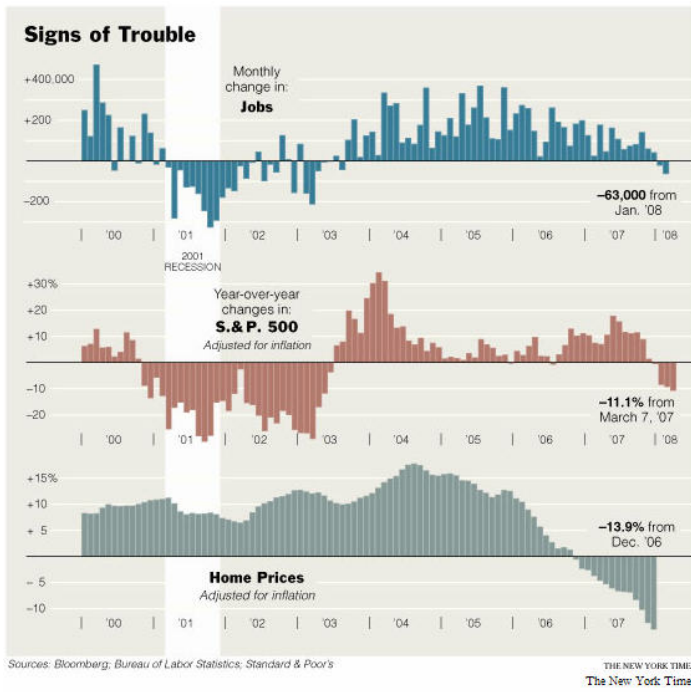
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Economic Review from page 3



family income had not yet caught up with the level reached in 2000, according to the U.S. Census Bureau. This means that the average American family is going into this recession with less income than it had prior to the past downturn. The only other time that happened was in 1981 in the middle of a double-dip recession.

Evidence points to the fact that the last few years has been an asset-based expansion. The ratio of household real estate assets to GDP was flat through the 1960s and 1970s. It rose in the 1980s but has surged since 1997. As wages stagnated, and the cost of staples such as fuel, food and healthcare has risen, many households have run down savings and cashed in on inflated assets, primarily homes, to keep increasing consumption. U.S. consumers, whose spending accounts for 70 percent of GDP, are not well situated, and it looks like a repeat of the 2001- recession is wishful thinking.

MANAGED FUTURES NEWS

CME Group Inc, the world's largest derivatives exchange, tightened its grip on the futures market by announcing a definitive agreement to buy energy and metals mart Nymex Holdings Inc. for about \$9 billion. The terms of the deal were unchanged from CME's original bid on Jan 28, but the overall price tag dropped from the original \$11 billion offer due to the fall of CME's stock price.

MF Global, the world's largest broker of exchange-listed futures and options, found its share price falling by 78% on March 17th following a spate of rumors. The firm is one of the largest in terms of execution and clearing volume on both the Nymex and IntercontinentalExchange. Both exchanges issued statements confirming the brokerage remained in good standing. The CFTC's Division of Clearing and Intermediary Oversight also confirmed that MF Global is currently in compliance with the agency's regulatory financial requirements.

The SEC is investigating events leading up to the collapse of Bear Stearns, specifically a surge in options contracts betting that the investment bank's share price would fall sharply, according to the Wall Street Journal. Citing people familiar with the matter, the paper reported the SEC probe focuses on a surge last week in "put" options that came days before the firm's proposed sale to J.P. Morgan Chase & Co..

Mack Frankfurter, Chief Investment Strategist for Managed Account Research, Inc. will be speaking at the IQPC Base Metals Investment Summit 2008 in New York City on April 2, 2008. The session topic is "Leveraging the Futures Market." For a copy of the speech and the PowerPoint presentation, contact Managed Account Research, Inc.

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Managed Account Research, Inc. 929 Santa Barbara Street, Santa Barbara, CA 93101
www.ma-research.com research@ma-research.com 800.308.1495