



Market Weekly

Commodities, Forex, Futures and Options

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HEADLINE OF THE WEEK: "Bond Insurers' Distress Rattles Wall Street" (New York Times, 1/19/2008)

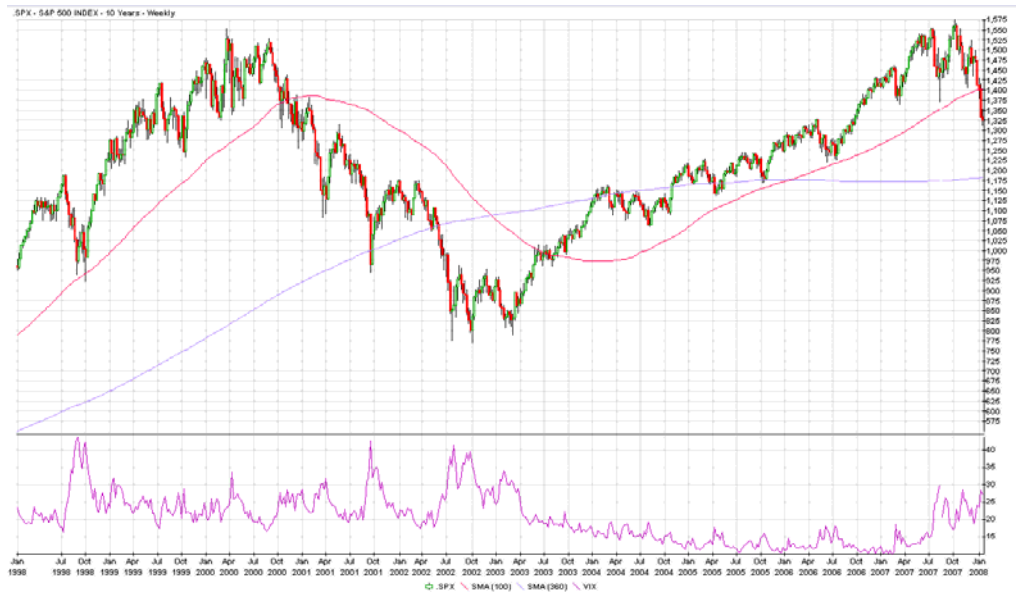
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WEEKLY RECAP

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The monolines, companies that insure against the risk of bonds and other securities defaulting, were the *other shoe dropping* this week, adding to the mortgage-related credit crunch saga. The New York Times said it best, "If it was a terrible week for Wall Street, it was a devastating one for companies that promise to protect investors against losses." The S&P 500 index lost 5.4% on the week hitting a 16 month low while investors raged against Fed Chief "one-term" Bernanke and brushed aside White House proposals for a fiscal stimulus package. Recession worries deepened as weak data on U.S. factory activity, retail sales and the housing market, as well as dire results from two top investment banks added to woes. If NYT said it best, the chart below shows it best as continued fallout from the credit crisis is resulting in market downturns not seen since 2001-2002. (*Headline* continued on page 2)

"Investors raged against Fed Chief "one-term" Bernanke and brushed aside White House proposals..."



Reminders of 1998 volatility and the 2001-2002 bear market as the S&P 500 fell and the VIX rose.

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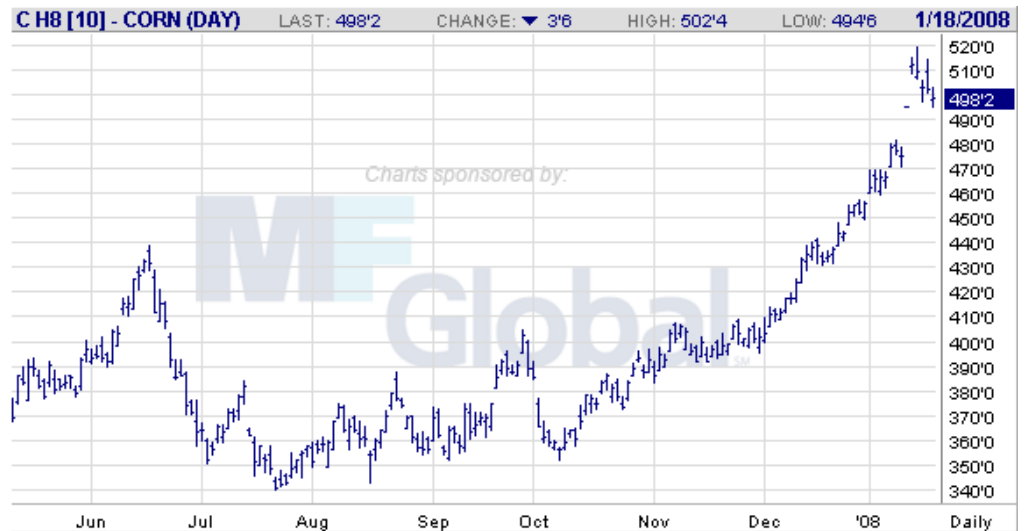
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Headlines from page 1

“...first weekly decline since November on speculation this month’s record high prices will reduce global demand.”

In the world of commodities, US Wheat prices gained the week because of growing demand from countries trying to increase domestic supplies to curb inflation caused by rising food costs. On Monday, 10,000 Indonesians demonstrated outside the presidential palace in Jakarta after soybean prices soared more than 50 percent in the past month and 125 percent over the past year, leaving huge shortages in markets. Meanwhile, corn prices fell for the fifth straight session and soybeans had their first weekly decline since November on speculation this month's record high prices will reduce global demand. At the same time, freight costs for bulk commodities such as iron ore, coal and grains plunged on Thursday to a six-month low after suffering the largest fall since records started in 1985. The fall may reflect seasonal and other short term factors, but some are warning this actually reflects lower economic activity.



March corn prices pulled back from its highs after extending a run-up which started in October 2007.

“Yet other headlines tout ‘no end in sight for commodities rush’ as commodity prices got off to a strong start...”

Yet, other headlines tout ‘no end in sight for commodities rush’ as commodity prices got off to a strong start in January. Investor money is flowing at record levels into long-only fund vehicles for metals, energies and agriculture. Institutions such as Barclays Global Investors, the procurers of ETFs called iShares, expect investors to boost their exposure to commodities this year as they look to diversify from stocks and bonds. Nevertheless, the fall in the freight cost index is causing concern. Julian Jessop of Capital Economics in London warned that the commodity boom could be about to come to an abrupt end. “The slump is consistent with other evidence pointing to a global slowdown.” Given all the news about a possible recession, is there a possible disconnect between the large influx of investor capital into commodity ETFs versus fundamental supply-demand economics? On one hand harvest and inventories of key agricultural commodities have fallen from last year, but this may be due to farmers choosing instead to grow corn, palm oil and other crops to supply the biofuel industry. Regardless, it seems that investors may be better off to seek active management in commodities.



ECONOMIC REVIEW

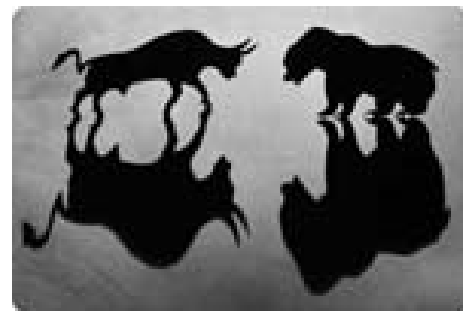
The rate of US inflation remained uncomfortably high in December new data showed Wednesday, highlighting the risk the Federal Reserve is taking as it turns to focus on fighting the threat of recession. The core inflation rate, which excludes food and energy prices, rose 0.24 percent. Inflation, measured on a December to December basis, was 4.1 percent in 2007, the highest since 1990. The higher-than-expected rise in core inflation will trouble the Fed, and raises the specter of stagflation as slowing growth in the US economy is complemented by higher rates of inflation.

But this is unlikely to divert the US central bank from cutting interest rates aggressively to ward off the threat to growth. Speaking to Congress this week, Bernanke's acknowledgment that the economy is weak enough to need stimulus supports forecasts from many that the Fed will lower interest rates by at least half a percentage point this month. In the meantime, President Bush urged Congress to work with his administration to enact an economic stimulus plan "as soon as possible" to counter growing threats to an economic expansion that is now in its seventh year.

The Beige Book survey of economic conditions, on the other hand, outlined spreading economic weakness, but was less gloomy on growth than other recent economic data. Notably, there was no sense that the economy fell off a cliff in December when retail sales and employment both deteriorated sharply. Demand remained

"robust" in service industries such as healthcare, tourism, the law and insurance. Manufacturing was seen as "varied," with good demand for exports but weakness in other areas. The report also suggested that despite the sudden rise in unemployment in December, "labor markets remained relatively tight overall, especially for skilled workers."

Interestingly, confidence among U.S. consumers rose in January as gasoline prices fell, according to the Reuters/University of Michigan preliminary index of consumer sentiment, which climbed to 80.5 from December's 75.5 reading. The report noted that since the start of the fourth quarter, the sentiment index has tended to fluctuate in the opposite direction of gas prices, according to data compiled by Bloomberg. The correlation in the period was minus 0.76. Retail gasoline prices, up about 40 percent from a year ago, have dropped about 20 cents a gallon from a peak in May of \$3.21, according to the most recent figures from AAA. Prices dropped 3.4 cents in December.



Next Week's Economic Calendar

It may be a slow week for releasing data, but Initial Claims and Existing Home Sales will still be scrutinized.

Date	Time (ET)	Statistic	For	Briefing Forecast	Market Expects	Prior
24-Jan	8:30 AM	Initial Claims	19-Jan	320K	325K	301K
24-Jan	10:00 AM	Existing Home Sales	Dec	5.00M	4.95M	5.00M
24-Jan	10:30 AM	Crude Inventories	19-Jan	NA	NA	4259K

Data is provided for informational purposes only, and is not intended for trading purposes.



MANAGED FUTURES NEWS

The shadowy world of steel price negotiations among the biggest producers and consumers is facing a shake-up, as plans by the London Metal Exchange to launch a steel derivative contract gains increasing support among traders. The LME, the world's largest metals exchange, is poised to launch a steel futures contract next month that could shift pricing-power away from producers to traders. Leading producers, including ArcelorMittal, the world's largest steel manufacturer, oppose the contract. The launch of the contract comes as steel prices reach record highs.

China overtook South Africa as the world's largest gold producer last year as global output unexpectedly fell to the lowest in 11 years, London-based researcher GFMS Ltd. said.

Meanwhile, increased gold production in China coincided with the launch last week of the country's first gold futures contracts. On the first day of trading last week, gold in Shanghai reached almost \$1,000 an ounce, about \$100 above the international price, reflecting huge demand for the metal and the lack of arbitrage opportunities in London and New York for Chinese investors.

Deutsche Bank AG, Germany's largest bank, plans to increase its commodities staff by 15 percent to 25 percent this year as record prices for oil, gold and soybeans increase the potential for profits.

If at first you don't succeed, try again... then quit. Unless, that is, you are trying to take on the US futures exchanges, in which case you might as well dig even deeper into your pockets and give it another go. This seems to be the strategy of the 12 firms backing technology provider eSpeed in what will be the fourth attempt to take control of the US Treasury futures market.

While few, if any, investors are making money buying U.S. stocks this year, the market for puts and calls is providing a bonanza on Wall Street where options trading has never been so brisk.

The hedge-fund industry, under siege in Congress, snagged a high-profile advocate: Rep. Richard Baker, a top Republican on the House Financial Services Committee. Mr. Baker said he will resign from Congress by Feb. 6 to become the president and chief executive of the Managed Funds Association [Managed Account Research notes that Managed Funds Association was initially founded as Managed Futures Association.]

Bolsa de Mercadorias & Futuros-BM&F SA, Latin America's largest derivatives market, is developing an electronic system for the spot currency market to make trading more efficient in Brazil. The nation's central bank is seeking to increase transparency in the spot currency and derivatives markets, in which 85 percent of transactions are done.

The chairman of Chicago Board Options Exchange said Tuesday that settlement talks in an ownership dispute with the Chicago Board of Trade could gain momentum following an expected ruling Wednesday by the Securities and Exchange Commission. At issue is whether former members of the Board of Trade have any claim on CBOE ownership. The issue has blocked the CBOE, the nation's busiest options market, of converting to for-profit ownership and pursuing an initial public offering of shares.

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