



# Market Weekly

## Commodities, Forex, Futures and Options

January 26, 2008  
Quarter 1, Issue 4

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: "Did one man cause market mayhem?" (BBC News, 1/25/2008)

### WEEKLY RECAP

- 1 Headline of the Week
- 2 Headlines Continued
- 3 Economic Review and Next Week's Calendar
- 4 Managed Futures News

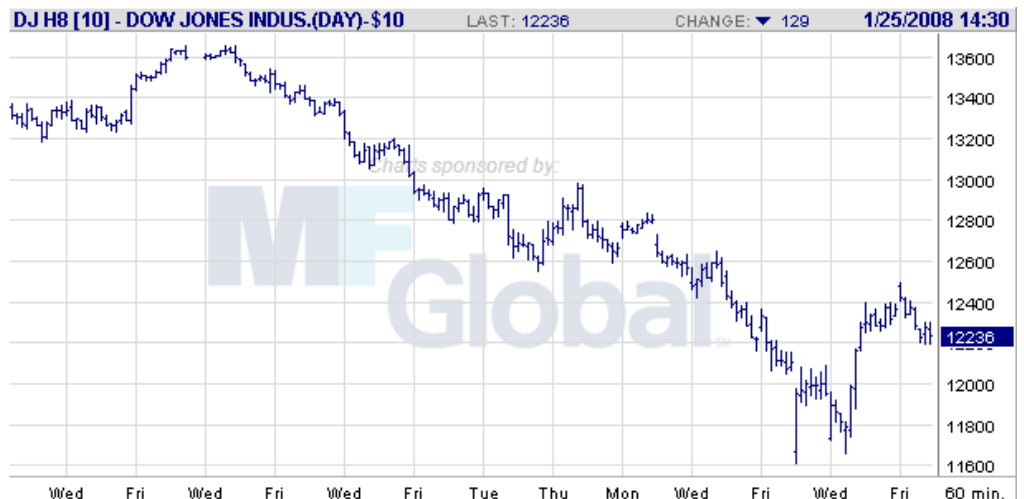
*Compiled by Mack Frankfurter, Chief Investment Strategist*

Equity markets grabbed headlines this week after global markets plunged on Monday, a day when the U.S. was closed for Martin Luther King Day. Tumbling Asian shares led European stock markets into their biggest one-day fall since 9/11, as the prospect of a U.S. recession and further fall-out from credit market turmoil prompted near panic among investors. At one point before Tuesday's opening, the March Dow Jones Industrial futures contract was down over 550 points touching 11600, but then rebounded after news hit the wires that the Federal Reserve slashed interest rates 3/4 percent. Last week our selected headline would have implied Bernanke as the villain, but by the end of this week traders were questioning whether the Fed was duped by Société Générale's fire sale of stock futures, following the "discovery" of a rogue arbitrage trader who had not been hedging his portfolio to the tune of \$2.2 billion. If you read about a \$7.2 billion loss, rivals say the balance came from the Board's action in liquidating the positions. A whirlwind of questions and criticism is now surrounding SocGen's risk management and accounting systems.

---

*"traders were questioning whether the Fed was duped by SocGen's fire sale of stock futures ..."*

---



*The Dow Jones Industrial futures contract was down over 550 points before market open on Tuesday.*

Copyright © 2008 Managed Account Research, Inc. – All rights reserved.

Commodities, forex, futures and options trading involve substantial risk. In no event should the content of this newsletter be construed as an express or an implied promise, guarantee, or implication by or from Managed Account Research, Inc. that you will profit or that losses can or will be limited in any manner whatsoever. Past results are no indication of future performance. Information provided in this correspondence is intended solely for informative purposes and is obtained from sources believed to be reliable. The risk of loss in trading commodities can be substantial. You should carefully consider whether such trading is suitable for you in light of your personal circumstances and financial resources.



*Headlines* from page 1

*“...Brazil and Thailand are planning to divert part of their sugar cane crop into ethanol...”*

Meanwhile, the commodity markets were not untouched by the turmoil in the global equity markets. Earlier in the week energy and metal prices fell, pressured by worries that the stimulus fiscal package proposed by President Bush would not be enough to stop the American economy from falling into recession. But by Friday, the price of gold rallied with the February contract hitting a high of \$924 before falling to close at \$910. Economic cross-currents were also felt in Australia, whose dollar is considered a commodity currency. The continent experienced 16 years of uninterrupted economic growth driven by Western Australia and Queensland, states known for their natural resources. Now there is an increased focus on the growing threat of inflation resulting from acute capacity constraints. At the same time, Brazil and Thailand are planning to divert part of their sugar cane crop into ethanol instead of raw sugar, while India is switching sugar production to wheat. Sugar has recently jumped in price, however unlike other commodities, the commodity is in oversupply and looming surpluses is expected to cap any gains in the short term. Sugar closed at 11.94 on Friday.



*March Sugar has seen a volatility spike recently on news Brazil will divert crop to ethanol production.*

*“...spreads widening to 350 basis points, represents a dramatic reversal of conventional pricing.”*

In other market news, uncertainty over the fate of the embattled monolines has caused increasing concern among investors of potential problems with insured bonds. Many of these securities are owned by money market funds. These funds are the sacred cow of the fund management industry, designed to be the safest possible place for investors to park their money. They pledge never to “break the buck,” meaning that they promise to maintain the value of every dollar invested. Investors have not lost money on a U.S. money market fund since 1994 and it is unlikely any fund operator now would allow such an event to occur. However, last year several money market sponsors were forced to bail out funds that had suffered losses on investments related to subprime mortgages. For their part, portfolio managers at money market funds are taking precautions by selling positions “wrapped” by MBIA, FGIC, Ambac and SCA. The wave of selling is pushing prices for insured securities much lower than those for comparable uninsured securities. This “two-tiered market,” with spreads widening to 350 basis points, represents a dramatic reversal of conventional pricing.

Copyright © 2008 Managed Account Research, Inc. – All rights reserved.

Commodities, forex, futures and options trading involve substantial risk. In no event should the content of this newsletter be construed as an express or an implied promise, guarantee, or implication by or from Managed Account Research, Inc. that you will profit or that losses can or will be limited in any manner whatsoever. Past results are no indication of future performance. Information provided in this correspondence is intended solely for informative purposes and is obtained from sources believed to be reliable. The risk of loss in trading commodities can be substantial. You should carefully consider whether such trading is suitable for you in light of your personal circumstances and financial resources.

## ECONOMIC REVIEW

“Helicopter Ben” has been getting a bad rap lately. Contrary to his current reputation, the Fed Chief is a longstanding advocate of decisive policy to combat risk arising from asset price busts and problems in the banking system. As an academic, his work on the Great Depression highlighted how a wave of banking crises was responsible for damaging the economy. Why, then, did the advocate of decisive action not act more aggressively prior to yesterday’s 75 basis point cut? The answer is that while Bernanke saw big risks to

growth, he is also concerned about the risk of inflation. If the central bank over-reacts to the risk to growth, its actions could initiate a precipitous slide in the dollar resulting in more harm than good.

Concerns about inflation are not unfounded. Japanese inflation doubled to 0.8 percent in December from the previous month, as higher oil prices pushed up the country’s consumer price index to another near-decade high. The faster-than-expected

*Economic Review* continued on page 4

## Next Week’s Economic Calendar

The Fed is meeting this week with market desiring another 50 bps cut. Unlike last week, the calendar is chock full.

Date	Time (ET)	Statistic	For	Briefing Forecast	Market Expects	Prior
28-Jan	10:00 AM	New Home Sales	Dec	635K	645K	647K
29-Jan	8:30 AM	Durable Orders	Dec	5.0%	2.0%	-0.1%
29-Jan	10:00 AM	Consumer Confidence	Jan	86.0	87.0	88.6
30-Jan	8:15 AM	ADP Employment	Jan	-	-	40K
30-Jan	8:30 AM	GDP-Adv.	Q4	1.9%	1.2%	4.9%
30-Jan	8:30 AM	Chain Deflator-Adv.	Q4	3.0%	2.6%	1.0%
30-Jan	2:15 PM	FOMC Policy Statement	-	-	-	-
31-Jan	8:30 AM	Employment Cost Index	Q4	0.80%	0.80%	0.80%
31-Jan	8:30 AM	Personal Income	Dec	0.40%	0.40%	0.40%
31-Jan	8:30 AM	Personal Spending	Dec	0.1%	0.1%	1.1%
31-Jan	8:30 AM	Core PCE Inflation	Dec	0.2%	0.2%	0.2%
31-Jan	8:30 AM	Initial Claims	26-Jan	320K	315K	301K
31-Jan	9:45 AM	Chicago PMI	Jan	52.5	53.0	56.6
31-Jan	10:30 AM	Crude Inventories	26-Jan	NA	NA	2297K
1-Feb	12:00 AM	Auto Sales	Jan	5.2M	5.2M	5.5M
1-Feb	12:00 AM	Truck Sales	Jan	7.3M	7.2M	6.9M
1-Feb	8:30 AM	Nonfarm Payrolls	Jan	60K	55K	18K
1-Feb	8:30 AM	Unemployment Rate	Jan	4.9%	5.0%	5.0%
1-Feb	8:30 AM	Hourly Earnings	Jan	0.2%	0.3%	0.4%
1-Feb	8:30 AM	Average Workweek	Jan	33.8	33.8	33.8
1-Feb	10:00 AM	Construction Spending	Dec	-0.5%	-0.5%	0.1%
1-Feb	10:00 AM	ISM Index	Jan	48.5	47.5	47.7
1-Feb	10:00 AM	Michigan Sentiment-Rev.	Jan	80.5	79.0	80.5

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

Copyright © 2008 Managed Account Research, Inc. – All rights reserved.

Commodities, forex, futures and options trading involve substantial risk. In no event should the content of this newsletter be construed as an express or an implied promise, guarantee, or implication by or from Managed Account Research, Inc. that you will profit or that losses can or will be limited in any manner whatsoever. Past results are no indication of future performance. Information provided in this correspondence is intended solely for informative purposes and is obtained from sources believed to be reliable. The risk of loss in trading commodities can be substantial. You should carefully consider whether such trading is suitable for you in light of your personal circumstances and financial resources.

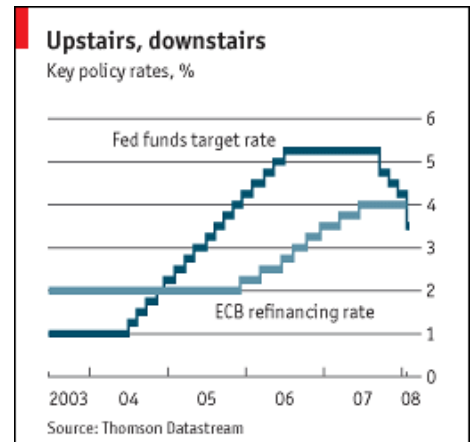


### *Economic Review* from page 3

rise in prices adds to the dilemma facing the Bank of Japan, which is under pressure to lower interest rates due to fears of a slowdown and a sinking stock market.

Meanwhile, supply-siders are refocusing their wrath on the hawkish European Central Bank, whose focus on inflation, in public at least, has kept the key Eurozone rate pegged to 4% for seven months. The transatlantic gap also suggests sharp differences in dealing with troubles in financial markets. The financial markets, in the meantime, have fully priced in a quarter percent cut in the ECB rate to 3.75 percent by May.

*The Fed's statement left the door wide open to more cuts, and financial markets are expecting a further half-point reduction on January 30th. Meanwhile, an ECB official said the bank must ensure that inflationary pressures do not become entrenched*



## MANAGED FUTURES NEWS

Managed futures gained 7.54% in 2007, making it eight straight years of positive performance for the strategy, according to year-end data compiled by BarclayHedge. In fact, over the past 28 years, the Barclay CTA Index has had only three losing years—in 1992, 1999 and 1999, with minor losses of 0.91%, 0.65%, and 1.19%, respectively. Since 2003, assets under management in the managed futures space have grown rapidly from \$51 billion to approximately \$190 billion today, according to BarclayHedge.

A fire in a closet on the fifth floor of the Chicago Board of Trade on Thursday was promptly contained and did not disrupt business at the world's largest grain exchange, although some price display boards were down.

Traditional stock exchanges are thinking beyond equities, adding derivatives partners and new instruments to prosper in an increasingly competitive market. Pressured by shareholders since demutualization to increase profits, and with market share threatened by proliferating alternative trading systems, the biggest expansion has been in derivatives.

A search for low-risk investments amid a U.S. economic slowdown has prompted withdrawal of nearly \$10 billion worth of crude oil futures bets by hedge funds and other large speculators in the past two weeks, according to major energy trader Goldman Sachs.

India may move to beef up its commodity markets regulator at a cabinet meeting this week, with new legislation to make it fully independent and armed with punitive powers, a minister said on Tuesday.

Commodity Futures Trading Commission on Friday reported in its supplemental commitment of traders report that index funds held net long positions totaling 176,461 combined CBOT soybean futures and options contracts as of January 15th, down from 187,368 the prior week. Traditional large speculative traders were net long 114,406 contracts compared with net longs of 116,086 in the previous week. Commercials held net short combined futures and options positions totaling 263,347 contracts, up from the previous week's 274,157 contracts.

---

*Market Weekly* is a newsletter publication of Managed Account Research, Inc. Its purpose is to provide weekly commentary on the commodity, forex, futures and options markets, as well as economic news impacting your managed futures investments. To subscribe or unsubscribe, contact us at 800.308.1495 or email: [research@ma-research.com](mailto:research@ma-research.com).

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

---

Copyright © 2008 Managed Account Research, Inc. – All rights reserved.

Commodities, forex, futures and options trading involve substantial risk. In no event should the content of this newsletter be construed as an express or an implied promise, guarantee, or implication by or from Managed Account Research, Inc. that you will profit or that losses can or will be limited in any manner whatsoever. Past results are no indication of future performance. Information provided in this correspondence is intended solely for informative purposes and is obtained from sources believed to be reliable. The risk of loss in trading commodities can be substantial. You should carefully consider whether such trading is suitable for you in light of your personal circumstances and financial resources.

---