



Market Weekly

Commodities, Forex, Futures and Options

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HEADLINE OF THE WEEK: "Climate of gloom descends on dollar" (Financial Times, 3/4/2008)

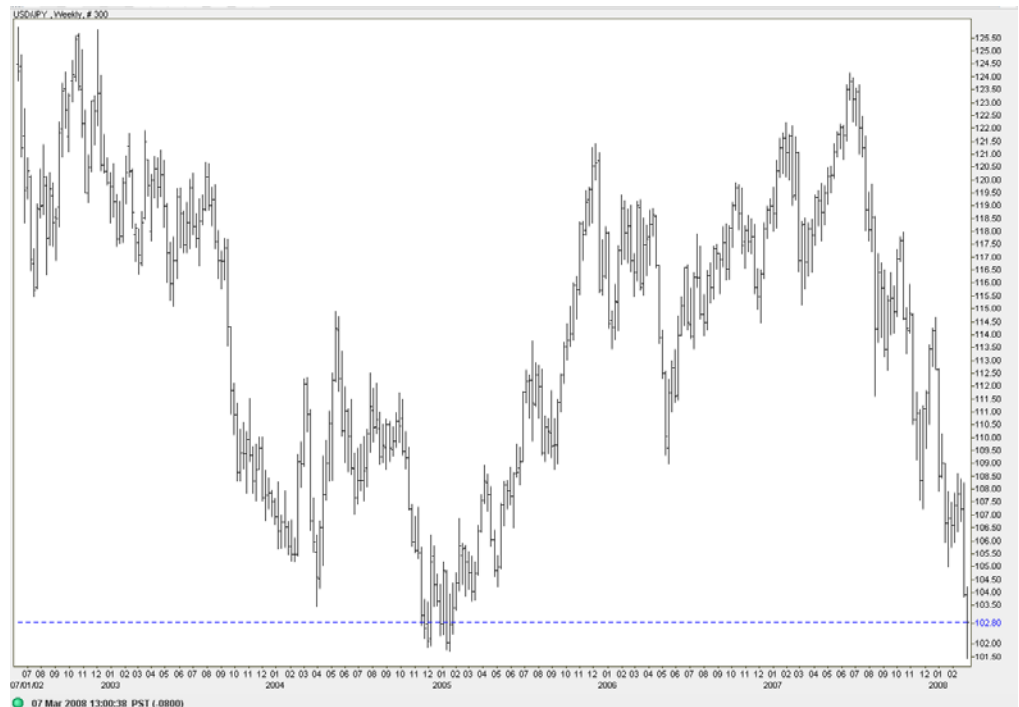
Compiled by Mack Frankfurter, Chief Investment Strategist

This was a tough week for the US dollar as the credit squeeze continued to dominate sentiment and hedge fund margin calls proliferated. Weak economic data, write-downs at banks and worries about bond insurers helped drive credit spreads wider, and conspired against the greenback which hit historical lows versus the euro and Swiss franc. The impact is being felt far and wide... Japan's finance and economy ministers expressed strong concerns this week about the yen's rapid rise against the US dollar, warning that the currency's sharp appreciation was hurting Japanese businesses. Some argued that with crude oil trading over \$100 a barrel, "petrodollars" are going to cause a massive transfer of global financial wealth from oil consuming countries to the oil exporters.

WEEKLY RECAP

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"Japan's finance and economy ministers expressed strong concerns about the yen's rapid rise..."



The US dollar-Japanese yen cross is back to 2005 levels as Japan frets about the resulting economic impact.

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Headlines from page 1

The speculative fever which has been gripping the grain complex showed the first signs of a possible break as agriculturals across the board tumbled Friday. Soybeans dropped a total of 8.3 percent for the week after China canceled contracts to buy soybean oil. Corn fell by its daily limit too on Friday as political support for ethanol in the U.S. faded in light of the fact that production of this alternative fuel has lead to higher prices for food and livestock feed. Rising corn prices have reduced margins for U.S. hog and cattle producers, discouraging U.S. feedlots from refilling empty pens after sending fattened cattle to slaughter. At the same time wheat prices, which are off their highs from last week, also fell by their daily limit on Friday. Growers planted 21 percent more soft red winter wheat as favorable weather encouraged plantings from Missouri to Ohio. Russia's wheat harvest may also be 4 million to 5 million tons bigger than the official estimate of 81.8 million tons. Meanwhile, sugar tumbled to a three week low, posting the biggest weekly decline in 17 months on surging global stockpiles. Brazil, the world's biggest producer of sugar, and Thailand and Pakistan are adding mills and increasing sugar cane planting faster than consumption is rising.

“Rising corn prices have reduced margins for U.S. hog and cattle producers...”



Has the boom in agricultural commodities gone bust? March soybeans took a pounding Friday.

Meanwhile, oil hit a new record high of \$106.54 on Friday before settling to \$105.40, which according to the International Energy Agency has surpassed the inflation-adjusted peak of 1980, a level equating to \$103.76 a barrel in 2008 dollars. Opec ministers have played down the idea that record oil prices should force the group to raise production, and instead blamed financial investors for pushing up prices, arguing that oil has been rising because the US dollar has been falling. Some Opec countries cited concern that high oil prices will damage the world economy, but others, such as Iran and Venezuela, pushed for a cut in output to support the price. In the meantime, high oil prices are stoking the demand for palm oil, which is increasingly made into biodiesel. The rise in palm oil prices, which trades on the Bursa Malaysia derivatives exchange, is also linked to the surging cost of other vegetable oils. Rising food costs has resulted in the launch of a new commodity index which allows investors to profit from rising food inflation. The UBS Bloomberg Constant Maturity Commodity Food Index will cover 13 commodities directly linked to food consumption.

“Some Opec countries cited concern that high oil prices will damage the world economy...”

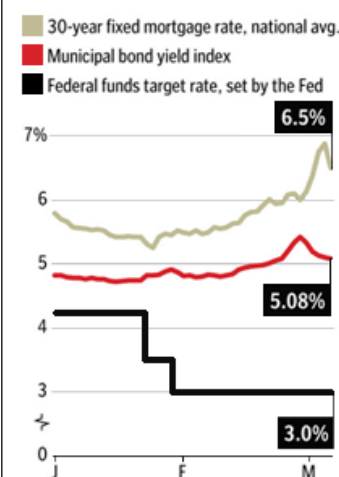
ECONOMIC REVIEW

Employers unexpectedly cut jobs in February for the second consecutive month, adding to evidence the U.S. is in a recession. Payrolls fell by 63,000, the most in five years, after a revised decline of 22,000 in January. The jobless rate dropped to 4.8 percent, reflecting a shrinking labor force as some gave up looking for work. Manufacturing payrolls dropped by 52,000, the biggest decline since July 2003, after falling 31,000 a month earlier, while government payrolls increased by 38,000. That means the total decline in private payrolls for the month was 101,000, the biggest drop since March 2003. American spending accounts for more than two-thirds of the economy, but the weakening labor market, combined with lower home prices, higher fuel bills and a credit squeeze, may force consumers to further reduce spending. In testimony before Congress, Fed Chief Bernanke stated that the "economic situation has become distinctly less favorable."

In the meantime, a deepening sense of financial crisis in the global credit markets spurred the U.S. Federal Reserve into new emergency action by increasing to \$200 billion the amount it lends to banks in one-month funds through two different channels. The Fed's action will make it much easier for banks to raise cash against illiquid securities.

Interest Rates Rise

Despite the Fed's efforts to reduce the cost of borrowing, rates for mortgages and municipal bonds have risen, as investors flee from risk.



Sources: Bankrate, Federal Reserve, Bond Buyer
The Washington Post

Next Week's Economic Calendar

As more evidence mounts that inflationary pressures are increasing, traders will focus on headline CPI, not core CPI.

| Date | Time (ET) | Statistic | For | Briefing Forecast | Market Expects | Prior |
|--------|-----------|--------------------------------|-------|-------------------|----------------|-----------|
| 10-Mar | 10:00 AM | Wholesale Inventories | Jan | 0.6% | 0.5% | 1.1% |
| 11-Mar | 8:30 AM | Trade Balance | Jan | -\$59.5B | -\$59.5B | -\$58.8B |
| 12-Mar | 10:30 AM | Crude Inventories | 8-Mar | NA | NA | -3056K |
| 12-Mar | 2:00 PM | Treasury Budget | Feb | -\$174.0B | -\$140.0B | -\$120.0B |
| 13-Mar | 8:30 AM | Export Prices ex-ag. | Feb | NA | NA | 0.8% |
| 13-Mar | 8:30 AM | Import Prices ex-oil | Feb | NA | NA | 0.6% |
| 13-Mar | 8:30 AM | Initial Claims | 8-Mar | NA | NA | NA |
| 13-Mar | 8:30 AM | Retail Sales | Feb | -0.1% | 0.1% | 0.3% |
| 13-Mar | 8:30 AM | Retail Sales ex-auto | Feb | 0.0% | 0.2% | 0.3% |
| 13-Mar | 8:30 AM | Initial Claims | 8-Mar | 360K | NA | 351K |
| 13-Mar | 8:30 AM | Export Prices ex-ag. | Feb | NA | NA | 0.8% |
| 13-Mar | 8:30 AM | Import Prices ex-oil | Feb | NA | NA | 0.6% |
| 13-Mar | 10:00 AM | Business Inventories | Jan | 0.6% | 0.3% | 0.6% |
| 14-Mar | 8:30 AM | CPI | Feb | 0.1% | 0.3% | 0.4% |
| 14-Mar | 8:30 AM | Core CPI | Feb | 0.2% | 0.2% | 0.3% |
| 14-Mar | 10:00 AM | Michigan Sentiment-Preliminary | Mar | 70.5 | 70.5 | 70.8 |

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

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MANAGED FUTURES NEWS

A broad coalition of exchanges, brokers and market participants in the United States financial industry filed a "friend of the court" brief in federal appeals court challenging the legal authority of the Federal Energy Regulatory Commission (FERC) to prosecute claims that Amaranth Advisors manipulated the price of natural gas futures traded on a futures exchange. The brief also stresses the importance of preserving the exclusive jurisdiction of the Commodity Futures Trading Commission (CFTC) over U.S. futures markets and urges the court to support Amaranth's request for a stay of the FERC proceeding until this important jurisdictional issue is resolved.

Trading carbon emissions will become a little easier next month after LCH.Clearnet said it would facilitate United Nations-backed carbon trading contracts. EU allowances—tradeable pollution permits allocated to countries by the European Commission—have been traded before through ICE, but certified emission reductions (CERs), pre-dating the EU's scheme, are not cleared currently, making them more difficult to trade.

The CME Group is considering improving its bid for the New York Mercantile Exchange as it seeks to create a futures trading powerhouse. The CME announced last month that it was in exclusive talks to buy the New York exchange. Coming seven months after the CME was formed from the Chicago Mercantile Exchange's \$11 billion takeover of the Chicago Board of Trade, the company's bid for Nymex would create an exchange that dominates the U.S. derivatives industry, with control over about 98 percent of U.S. listed futures.

Freight derivative volumes have soared this year as banks and hedge funds turn to a market that has not been affected by the credit crunch or economic slowdown. Freight forward contracts, which allow ship owners and operators to lock in prices in advance, grew 150 percent over the past year as market volatility and a sharp rise in shipping costs created opportunities for speculation and made hedging vital.

A wheat trader at MF Global, one of the world's biggest commodities brokerages, lost \$141.5 million by making "unauthorized" trades, in the latest trading controversy to hit global markets. Although the amount lost is substantially less than the 4.9 billion euros that Jerome Kerviel, the French trader, allegedly cost Societe Generale, the French bank, it is believed to be the largest suspected unauthorized trade loss in agricultural markets.

The move to craft a new futures exchange gained ground this past week as reports emerged that Goldman Sachs may join 12 other banks in creating an alternative to the market-leading Chicago Mercantile Exchange. According to The Wall Street Journal, Goldman is expected to invest millions in the new exchange.

Open access to hedge fund information is at the heart of a brewing controversy that could result in a lawsuit being filed against the Securities and Exchange Commission as early as this week. Phillip Goldstein, who two years ago successfully sued the SEC to overturn a rule requiring hedge fund managers to register as investment advisers, is now charging that restricting access to hedge fund information is a violation of free speech.

The financial turmoil is taking on a new dimension: Banks that lent money to hedge funds and other big risk-takers are asking for some of it back. Loans from banks and brokerages had allowed hedge funds to amass many times that amount in investments. But as the value of mortgage-backed bonds and other investments has dropped in recent weeks, the lenders are demanding that borrowers put up more cash or assets.

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.

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