



Market Weekly

Commodities, Forex, Futures and Options

June 13, 2008
Quarter 2, Issue 11

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: "A Bull Market Sees the Worst in Speculators" (The New York Times, 6/13/2008)

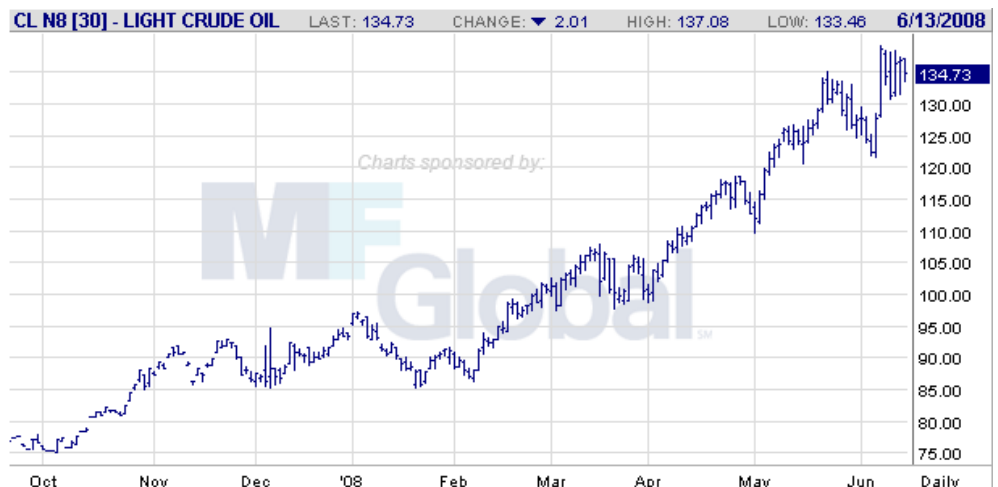
Compiled by Mack Frankfurter, Chief Investment Strategist

WEEKLY RECAP

- 1 Headline of the Week
- 2 Headlines Continued
- 3 Economic Review and Next Week's Calendar
- 4 Managed Futures ~~News~~ ^{Op-Ed}

Crude oil traded off their all-time high as Saudi Arabian Oil Minister Ali al-Naimi claimed record prices are "unjustified," and the state oil company signaled it may soon start pumping from a new field. The kingdom will start pumping oil from its new 500,000 barrel-a-day Khursaniyah field within the next month, a board member of Saudi Aramco said. The Saudis are trying to get some of the heat out of the market and off of them at the same time. A June 22 meeting in Jeddah is an attempt to get beyond the blame game and find solutions to the problem of high oil prices. Meanwhile, one of the key regulatory issues that the U.S. Congress is looking at is the "outsourcing" of CFTC's regulatory oversight through a series of staff no action letters, referred to as Foreign Board of Trade exemptions (FBOTs). The irony is that one of these FBOTs involves the Dubai Mercantile Exchange which is owned by and affiliated with NYMEX. The CFTC has concluded that the Dubai Financial Service Authority's regulation of oil futures markets "is the equivalent of the CFTC." Recall that in 2006 there was outraged by America's relinquishment of six major ports to a Dubaian company, Dubai Ports. Question is: where is the outrage now?

"The CFTC has concluded that the Dubai Financial Service Authority's regulation of oil futures market is the equivalent of the CFTC."



The price of light crude oil has doubled from a year ago spurring a debate about speculative influences.

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

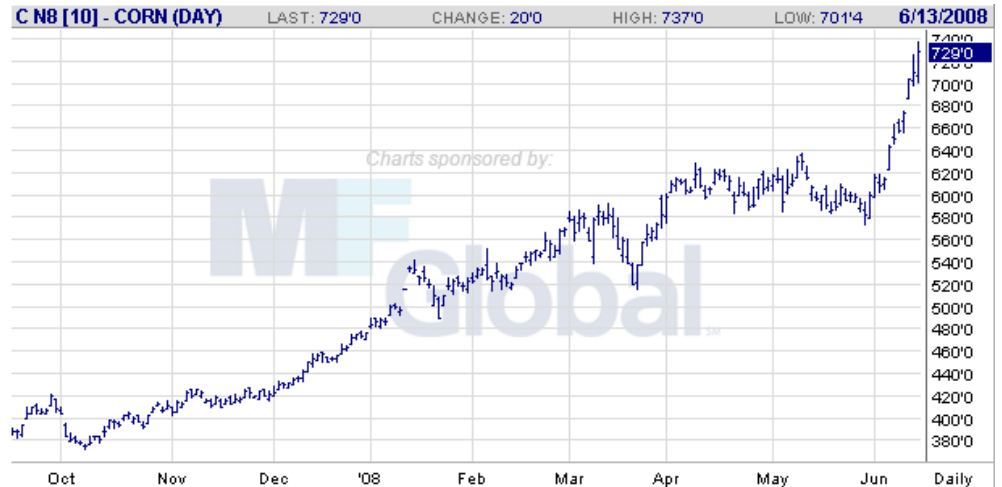
Compiled by Mack Frankfurter, Chief Investment Strategist. Commodities, forex, futures and options trading involve substantial risk. In no event should the content of this newsletter be construed as an express or an implied promise or guarantee that you will profit or that losses can or will be limited in any manner whatsoever. Past performance is not necessarily indicative of future results. 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

Iowa rivers are cresting at historic levels, as corn rose to a record, extending its rally to an eighth straight session. Floods in the Midwest threatened production in the U.S., the world's largest grower and exporter. Soybeans rose to a three-month high. As much as 12 inches (30 centimeters) of rain dropped in the Midwest this week, and some fields had five times the normal moisture since the end of May, the National Weather Service said. U.S. corn stockpiles before the 2009 harvest will fall 53 percent to a 13-year low, and soybean supply as a percentage of use will drop to a record this year, the government predicts. The December contract has gained 11 percent this week. The most-active contract has jumped almost 86 percent in the past year on record demand for livestock feed and biofuels. Global inventories may shrink to a 24-year low, the U.S. Department of Agriculture has said. As much as 25 percent of the corn and soybeans are at risk of yield losses from damaged fields that farmers won't replant, reduced plant populations, weed competition and diseases. Corn is the biggest U.S. crop, valued at a record \$52.1 billion in 2007, followed by soybeans at \$26.8 billion, government figures show.

“As much as 12 inches of rain dropped in the Midwest this week, and some fields had five times the normal moisture.”



Crop losses are really hitting home. Cash supplies are going to get very tight because farmers are not going to sell.

“Capsid bugs and caterpillars may also hurt some trees as farmers reduce pesticide use because of rising costs.”

Cocoa rose to its highest levels since a failed military coup in Ivory Coast during 2002 on speculation the quality of the crop in the world's biggest grower worsened, adding to a shortfall. Buyers in the West African nation have been mixing properly prepared beans with inferior moldy ones. The price reached 1,636 pounds on Oct. 14, 2002, after the coup attempt in Ivory Coast. The country accounts for about 40 percent of world output. Analysts say that farmers in Ivory Coast have no incentive to produce quality beans and that's because of how the system of buying and trading works. Deliveries to Ivory Coast ports for export fell 5 percent last week, exporters with access to the information said. Capsid bugs and caterpillars may also hurt some trees as farmers reduce pesticide use because of rising costs, Reuters reported last month. Scattered rains through key cocoa areas of Ghana and Ivory Coast will maintain soil moisture for the cocoa trees and favor flowering and early development of the main crop. The pod development has been slower than normal, but if you actually look at the soil moisture, the conditions are perfectly good, said analysts. Meanwhile, coffee has been range-bound since April.



ECONOMIC REVIEW

The global threat called stagflation has grown in recent weeks and is putting the Federal Reserve in a box. Ordinarily, America's central bank likes to set interest rates based on conditions at home. But conditions "at home," including the Fed's own monetary policy, are increasingly tied to global trends. Economists say that's one reason why Fed Chairman Ben Bernanke this week voiced concern about inflation, and why financial markets are now factoring in the likelihood of a higher Federal Reserve interest rate by the end of the year.

It's not that the troubles within the US economy have gone away. The slowdown that has caused the Fed to cut interest rates in recent months could still turn into a recession. That stagnation puts the "stag" in "stagflation." But global inflation pressures—centered in commodity prices expected to drive the US inflation rate higher in a report Friday morning—haven't been cooling along with the US economy. At a minimum, many economists say, this means the Fed has little leeway to cut its short-term interest further from its current level of 2 percent. And the Fed could even be forced into an unusual position of

raising interest rates later this year, even while unemployment at home is rising. The important thing to recognize is that we are more interconnected financially with the rest of the world. The expectation was that oil prices were going to go down as the US economy slowed, but that didn't happen.

One reason is simply that the US, while still by far the world's largest single economy, is now counter-balanced somewhat by fast-rising emerging nations. Their continued strength has buoyed both the global economy and commodity prices. When the Fed eases monetary policy to stimulate growth at home, other nations with currencies pegged to the dollar also have to ease their monetary conditions in order to maintain their exchange rates. The result is more money in the global system, which translates into more upward pressure on oil, food, and other prices. The linkage between domestic policy and global impact rippling back into US consumer prices is a new issue for the Federal Reserve. If it is true, it represents a significant change in the influence of the Federal Reserve.

Next Week's Economic Calendar

"Until the housing market shows clearer signs of stabilization, growth risks will remain to the downside." Bernanke

Date	Time (ET)	Statistic	For Period	Briefing Forecast	Market Expects	Prior
16-Jun	8:30 AM	NY Empire State Index	Jun	0.0	-2.4	-3.2
16-Jun	9:00 AM	Net Foreign Purchases	Apr	NA	NA	\$80.4B
17-Jun	8:30 AM	Building Permits	May	960K	950K	978K
17-Jun	8:30 AM	Core PPI	May	0.2%	0.2%	0.4%
17-Jun	8:30 AM	Housing Starts	May	1000K	980K	1032K
17-Jun	8:30 AM	PPI	May	1.0%	1.0%	0.2%
17-Jun	8:30 AM	Core PPI	May	0.2%	0.2%	0.4%
17-Jun	8:30 AM	Housing Starts	May	1000K	980K	1032K
17-Jun	8:30 AM	Building Permits	May	960K	950K	978K
17-Jun	9:15 AM	Capacity Utilization	May	79.8%	79.7%	79.7%
17-Jun	9:15 AM	Industrial Production	May	0.2%	0.1%	-0.7%
18-Jun	10:30 AM	Crude Inventories	14-Jun	NA	NA	-4560K
19-Jun	8:30 AM	Initial Claims	14-Jun	NA	NA	384K
19-Jun	10:00 AM	Leading Indicators	May	0.1%	0.0%	0.1%
19-Jun	10:00 AM	Philadelphia Fed	Jun	-10.0	-12.0	-15.6

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

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

Compiled by Mack Frankfurter, Chief Investment Strategist. 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 or guarantee that you will profit or that losses can or will be limited in any manner whatsoever. Past performance is not necessarily indicative of future results. 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.

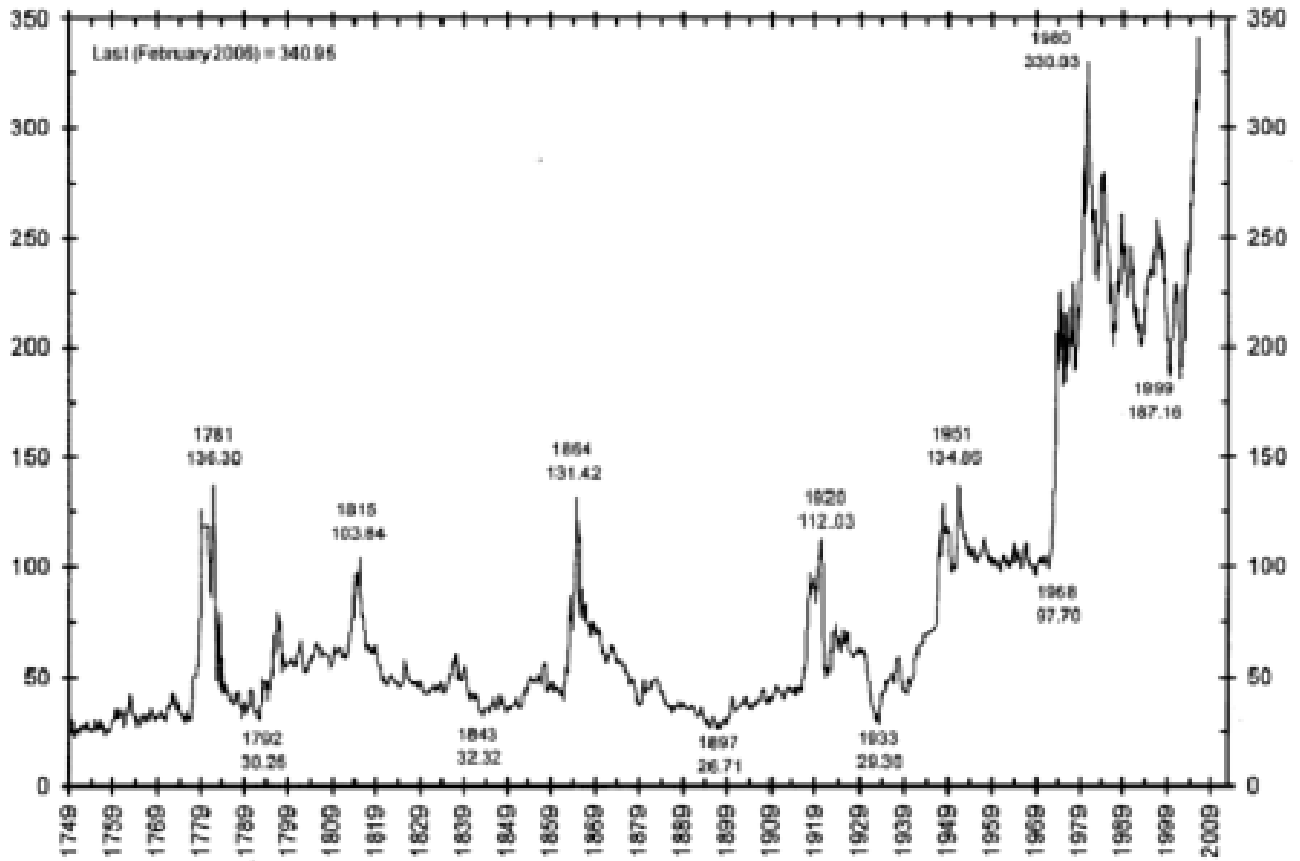


MANAGED FUTURES NEWS ~~Op-Ed~~

Op-ed by Mack Frankfurter, Chief Investment Strategist

When flipping real estate was all the rage just a few years ago, before the “housing bubble” went bust, very few were complaining. Home ownership was on the rise and considered the best path to prosperity. The few that did complain understood that much of the exponential rise in residential real estate prices was in reality fueled by a debt bubble. Now we seem to have yet another bubble, but the reaction this time is much different. The latest fashion trend in Washington nowadays is to point the finger at “speculators” as the leading cause for the unprecedented rise in the price of oil. In so many ways this is a red herring, but not because there isn’t “excessive speculation” in commodities—for which the legal definition is “I know it when I see it.” Rather, Congress and lax oversight by the CFTC over the past eight years is most to blame for what can only be described as a regulatory train wreck. The story is worthy of a thriller novel as described by the recent testimony of Michael Greenberger before the United States Senate. But to what extent is speculation really to blame? A picture is worth a thousand words and the chart below provides the most interesting answer to the so-called “commodity conundrum.” In a word, the reason for high commodity prices is “war.” Going back 200 years, each significant spike in commodity prices can be correlated to this type of Government action. Dear Senator, it seems the invoice is now overdue.

The Reuters/Jefferies CRB Index Back to 1749



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.

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.

Compiled by Mack Frankfurter, Chief Investment Strategist. 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 or guarantee that you will profit or that losses can or will be limited in any manner whatsoever. Past performance is not necessarily indicative of future results. 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.