



# Market Weekly

Commodities, Forex, Futures and Options

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## HEADLINE OF THE WEEK: "Global Economic Confidence Increases" (Bloomberg, 4/16/2008)

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### WEEKLY RECAP

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

Bloomberg's Global Confidence Index rose for the first time in five months in April, pointing to a potential turnaround in investor sentiment. At the same time, several big bank chiefs, including John Mack of Morgan Stanley and Jamie Dimon of JPMorgan Chase & Co., say that the credit-market contraction is winding down. The OECD predicts that subprime losses will total between \$350 and \$420 billion, but that is quite a bit lower than the \$945 billion estimate given by the IMF. Meanwhile, China's economy slowed only slightly from 11.2 to 10.6 percent in the first quarter despite global gloom. While naysayers still abound, a growing contingent thinks the worse may be over, yet they also advise investors to stay watchful for after-shocks. One area of potential concern is crude oil, which broke out to new highs this week in part due to concerns that Russian oil production may have peaked and cannot keep up with rampant Asian demand. Oil's above-\$100 run has been attributed by many to the decline in value of the dollar. But this "flight-to-quality" translates into the real economy, with refineries using less crude because it now costs more to make gasoline. According to the Energy Information Administration, refineries only operated at 81.4% capacity down from a normal rate of around 90% this time of year.

*"Several big bank chiefs say that the credit-market contraction is winding down."*



High prices have crimped demand for gasoline, with demand rising 0.8% versus expected growth of 1.4 to 2%.

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## Headlines from page 1

In other market news, Cargill, the U.S. agribusiness conglomerate reported record quarterly profits thanks to a jump in earnings at its food processing and sales unit—underlining how the boom in global food prices has boosted some large companies in the agricultural sector. Chief executive of Cargill, Greg Page, stated that “Demand for food in developing economies and for energy worldwide is boosting demand for agricultural goods, at the same time that investment monies have streamed into commodity markets. Food price cycles in the past have typically averaged three years, and supply has responded quickly to changes in demand conditions. The World Bank, and IMF, however, expects food prices to remain high throughout 2008 and not return to the levels of earlier this decade until 2015. Turkey said this week it will abolish import duties on rice to curb a jump in prices and compensate for a decline in domestic production. Food lines have formed in Manila while soaring prices caused riots in Haiti and Egypt.

*“Demand for food in developing economies and for energy worldwide is boosting demand for agricultural goods.”*



*The euro / sterling cross reveals an even worsening situation for the pound, the previous world reserve currency.*

Changing the focus to currencies, the Group of Seven (G7) industrialized nations signaled shared concern over the danger of a disorderly slide in the dollar and sterling, following bouts of extreme weakness in the two currencies in recent months. The warning came in a new sentence out of the G7 summit which said, “There have been at times sharp movements in major currencies, and we are concerned about their possible implications for economic and financial stability.” This is the biggest shift in the G7 language on currencies since the Boca Raton summit in February 2004, and signals the emergence of a new consensus on the risks posed by extreme currency weakness following months of disagreement between economies with appreciating and depreciating currencies. To date, the U.S. had rebuffed pressure from the eurozone to express concern about currency movements, but now the Fed is concerned about the interaction of a weak dollar, global commodity prices and inflation expectations at home. The euro, which has risen 9 percent against the dollar year-to-date, hit fresh highs this week as eurozone inflation rose to levels not seen since the introduction of the currency in 1999, making aggressive rate cuts unlikely. For traders, all this has been translating into a one-way bet against the dollar and a one-way bet for higher commodities prices, as investors seek safe haven in “hard assets.” That said, a Merrill Lynch poll reported that half of global fund managers now consider the dollar to be undervalued.

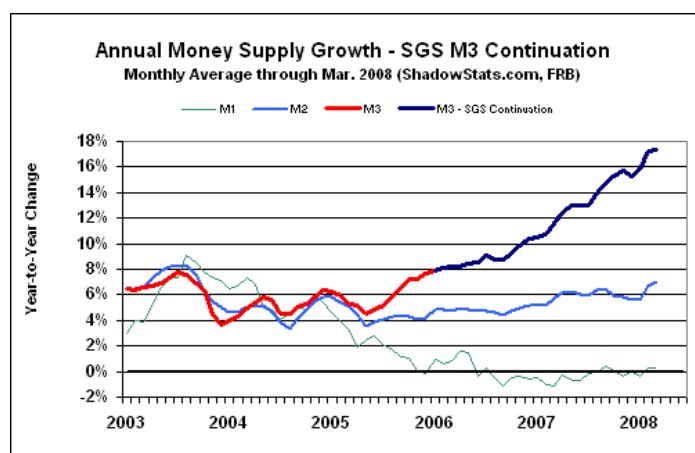
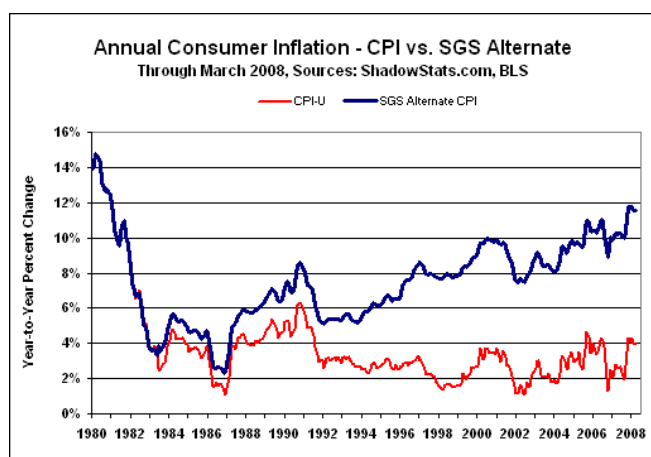
*“There have been at times sharp movements in major currencies, and we are concerned...”*

## ECONOMIC REVIEW

The threat from rising inflationary pressures was a key theme this week. Data released provided more evidence of industrial activity slowing and further weakness in housing markets on both sides of the Atlantic. The Fed Beige Book, which gathers anecdotal information on economic conditions, showed that growth has slowed in nine of twelve districts since February. The economy was hurt by “anemic” real estate markets and a slowdown in consumer spending. The report underscored a weakening economy, though with manufacturing benefiting from record exports. According to the Philly Fed index, manufacturing shrank by the most since 2001 and the number of Americans receiving jobless benefits jumped to a four-year high as the economic slowdown showed little sign of abating. On the positive side of the ledger, the index of leading U.S. economic indicators rose in March for the first time

in six months as cash poured into the banking system and the Federal Reserve lowered the benchmark interest rate. Eurozone inflation hit a 16 year high, with the German ZEW institute blaming the fall of its sentiment index to a level not seen since early 1993 on “extraordinarily high price pressure” and a fall in consumer spending power.

Have you ever questioned why the CPI, GDP and employment numbers run counter to your personal and business experiences? The problem, according to Shadow Government Statistics lies in biased and often-manipulated government reporting. Some of you may recall that during the 1990s the Bureau of Labor Statistics announced changes the way it reported statistics. The CPI chart below reflects an estimate of inflation today if it were calculated the same way it was in 1990. In 2006 the Fed stopped reporting M3 money supply growth—below is why?



## Next Week's Economic Calendar

It's a light week as far as the economic calendar is concerned, but at the same time earnings season is in full swing.

Date	Time (ET)	Statistic	For Period	Briefing Forecast	Market Expects	Prior
23-Apr	10:00 AM	Existing Home Sales	Mar	NA	4.95M	5.03M
23-Apr	10:30 AM	Crude Inventories	19-Apr	NA	NA	-2356K
24-Apr	8:30 AM	Durable Orders	Mar	NA	0.1%	-1.7%
24-Apr	8:30 AM	Initial Claims	19-Apr	NA	NA	372K
24-Apr	10:00 AM	New Home Sales	Mar	NA	585K	590K
25-Apr	10:00 AM	Mich Sentiment-Rev.	Apr	NA	64.2	NA

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



## MANAGED FUTURES NEWS

The CFTC has released the participant list for an April 22nd roundtable discussion on the agricultural markets. The roundtable is designed to gather information about whether the futures markets are properly performing their risk management and price discovery roles. In February, the National Grain and Feed Association noted that there were convergence issues with respect to the futures and cash commodities during the delivery period.

The over-the-counter derivatives market managed to keep a low profile in the first stage of the credit crisis, with fancy off-balance sheet vehicles, securitization techniques and collateralized debt obligations shouldering most of the blame for the deterioration of the credit markets. However, as the crunch shows little sign of improving, the flak is now directed squarely at the over-the-counter business. The market's critics have had a field day, not least with the near-collapse of Bear Stearns. They have contended that the US Federal Reserve had to save the broker because of the vast amount of risk in the OTC market and the potentially disastrous effects of its unwinding. One result: institutions are requiring investors in OTC derivatives to put up 60% more in collateral to insure against bad trades after suffering more than \$245 billion of writedowns and losses linked to the US sub-prime debt crisis.

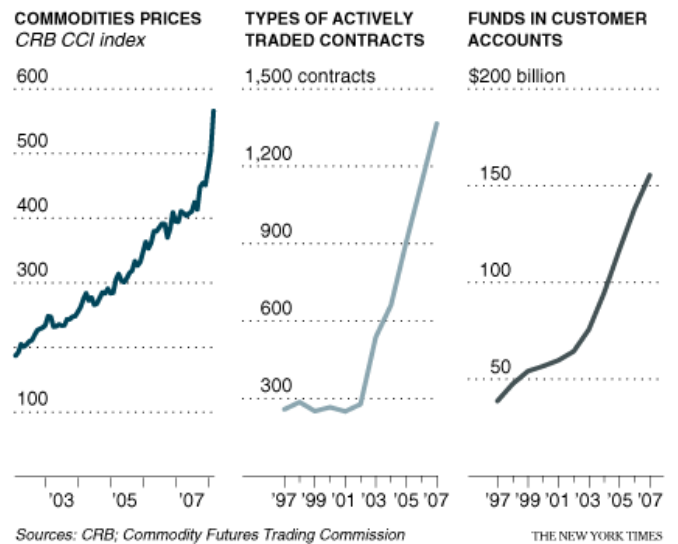
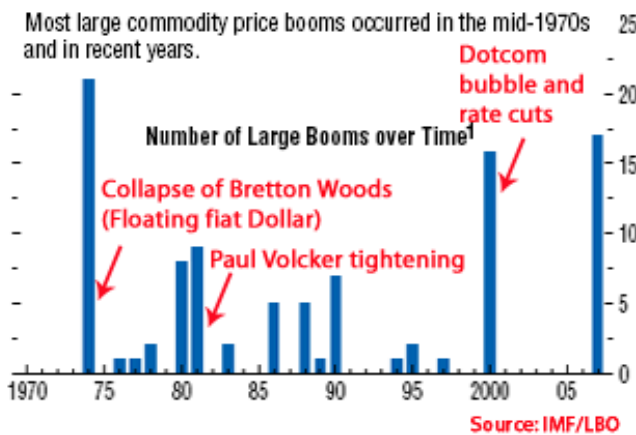
As gold prices continue to rise, gold futures are booming in China. But the country's futures industry is facing a talent shortage. Chang Qing, China Agricultural University said "There's no futures major for undergraduates. Futures is only part of postgraduate programs in international trade or finance. So the educational system has restrained the talent pool." China has less than 10,000 registered futures practitioners, just 1/7 that of the U.S. It's estimated that China's futures industry needs more than 20,000 employees.

Nymex Holdings Inc. shareholders, upset that the company's planned sale price to Chicago-based CME Group Inc. has fallen by almost \$2 billion, forced the exchange into a special meeting to press for a higher bid. CME Group, owner of the Chicago Mercantile Exchange and the world's largest futures exchange, last month agreed to buy Nymex for about \$9.3 billion. The deal was valued at \$11.2 billion when first announced Jan. 28th.

### Commodities Boom

Soaring commodities prices have been matched by increased interest from investors searching for alternatives to stocks and bonds.

### Commodity Price Booms



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