



Market Weekly

Commodities, Forex, Futures and Options

July 11, 2008
Quarter 3, Issue 01

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: “Fannie, Freddie Bring Down the House” (Forbes Magazine, 7/11/2008)

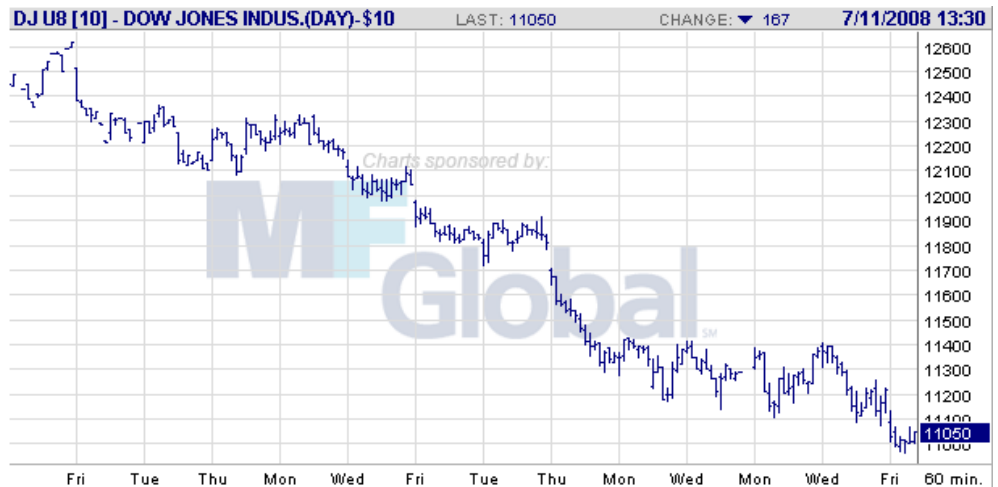
Compiled by Mack Frankfurter, Chief Investment Strategist

The dike might be cracking on the U.S. financial system and U.S. regulators are trying to figure out how to make sure it doesn't burst. Fannie Mae and Freddie Mac, the behemoth caretakers of U.S. home ownership financing, are increasingly looking unstable. Their demise would spell disaster, and the U.S. cannot allow that to happen. The market went nuts this week as former St. Louis Fed President Albert Poole suggested that Freddie Mac is technically insolvent. What would happen if Fannie and Freddie were to fail? The housing market simply could not function without them. Consider this: The mortgage lenders guarantee or own one-half of all U.S. mortgage loans, or about \$5 trillion worth. The ramifications on the U.S. and world economy would be catastrophic. Poole said that Freddie currently has more liabilities than assets. By standard accounting principles, this makes it insolvent. Many believe that Fannie will be in the same boat very shortly. If the mortgage lenders cannot raise sufficient capital to cover their balance sheet losses, they could fail. If push comes to shove, how can they be saved? The government could bail them out by having the Federal Reserve purchase mortgage assets in exchange for liquid Treasuries, or the U.S. government could simply guarantee the mortgage lenders' obligations. Either way comes down to a government or taxpayer bailout, perhaps a massive one, the companies have an estimated \$1.5 trillion in debt.

WEEKLY RECAP

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

“The mortgage lenders guarantee or own 1/2 of all U.S. mortgage loans, or about \$5 trillion worth.”



The September Dow Jones Industrial Average having entered into bear territory fell below 11000 this week.

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

The U.S. Navy has vowed to block any Iranian effort to shut the Strait and warships practiced maneuvers for protecting oil rigs in the Persian Gulf on Monday."

Meanwhile, oil prices rose yesterday after long-range missile tests by Iran stoked fears of conflict in the region. Iran said the missiles could reach Israel or U.S. bases in the region, capping weeks of fierce rhetoric between Tehran and the west over its nuclear program. Iran is the world's fourth-biggest oil producer and is next to the Strait of Hormuz, a vital waterway for world oil supply. ICE August Brent rose 15 cents to \$136.58 a barrel. Nymex August WTI added 1 cent to \$136.05 a barrel. Worries that Israel might strike nuclear facilities in Iran helped oil surge above \$145 a barrel last week. Iranian officials said that, if attacked, they would impose controls on shipping in the Strait of Hormuz, used by 40% of the world's seaborne oil trade. The U.S. Navy has vowed to block any Iranian effort to shut the Strait and U.S. warships practiced maneuvers for protecting oil rigs in the Persian Gulf on Monday. Meanwhile, data showed that U.S. crude stockpiles fell by more than expected last week. Inventories fell by 5.6m barrels, confounding the consensus forecast for a decline of 1.8m barrels. Total U.S. crude stockpiles stood at 293.9m barrels, almost 60m barrels lower than last year. In a sign that record petrol prices were continuing to damage demand, gasoline stockpiles rose by 900,000 barrels, surprising analysts who had expected a slight fall. Refinery utilization was unchanged at 89.2%, disappointing market expectations for a small increase.



As tensions have mounted about a potential strike on Iran's nuclear facilities, gold is closing in on \$1000 again.

"Inflation in the UAE runs at 11 per cent and is higher elsewhere in the Gulf."

Abu Dhabi's department of planning and economy has re-ignited speculation the United Arab Emirates may break its fixed peg to the US dollar. The UAE is one of the world's main holders of dollar-denominated assets. The report published at the weekend said the UAE floated the idea of tracking a basket of currencies in advance of formation of a currency union in the six-member Gulf Co-operation Council. The department is answerable to the emirate of Abu Dhabi and is not a federal policy-making body. However it reflects official thinking in the most wealthy of the seven state-lets that comprise the UAE. Inflation in the UAE runs at 11 per cent and is higher elsewhere in the Gulf. The dollar peg means Gulf central bankers have to match the interest rate moves of the US Federal Reserve and thus have only limited tools with which to curb inflation. Qatar and the UAE are usually thought to be the most likely states to quit the dollar peg. Of the GCC states, only Kuwait manages a currency basket dominated by the dollar but it can decide its own interest rate policy. Inflation in Kuwait is lower than in the other GCC states.

ECONOMIC REVIEW

China's trade surplus fell by 20 per cent in June over the same month last year, in a sign that the weaker global economy is having a serious impact on the country's export sector. The trade figures, which show export growth slowing sharply, could strengthen the hand of officials in Beijing who are arguing for a slowdown in the rate of appreciation of the Chinese currency in order to protect exporters. Government officials maintain they are still committed to a tight monetary policy. The currency has appreciated by more than 6 percent against the US dollar so far this year, helping to ease some of the international pressure over China's foreign exchange policy.

Although the Chinese economy continues to show robust growth, policymakers in Beijing face the same delicate balancing act as colleagues in the US and Europe, trying to control a surge in inflation without causing too much damage to economic activity. State media reported this week the government was likely to increase tax rebates for certain export industries such as textiles, only a few

months after the rebates were cut. Over the past two months, the offshore forward market for the Chinese currency has shown a much slower rate of appreciation.

Meanwhile, Ben Bernanke this week called on Congress to consider sweeping changes to financial regulation, including much tighter supervision of investment banks. The mortgage meltdown and the government-backed rescue of Bear Stearns in March have prompted a debate in Washington over what steps need to be taken to prevent future crises, including the shape of any fresh regulatory structure. But no new laws are expected to be passed until next year. "An increase in regulation is required," said Barney Frank, Democratic chairman of the committee, in his opening statement. "It must be done sensibly and it must be market-sensitive." Mr Bernanke this week said the Fed would offer investment banks access to emergency cash into next year as long as market turmoil persisted.

Next Week's Economic Calendar

With the credit crisis rearing its ugly head once again, next week may show the economy battered by inflation...

| Date | Time (ET) | Statistic | For Period | Briefing Forecast | Market Expects | Prior |
|--------|-----------|-----------------------|------------|-------------------|----------------|----------|
| 15-Jul | 8:30 AM | Core PPI | Jun | 0.3% | 0.3% | 0.2% |
| 15-Jul | 8:30 AM | NY Empire State Index | Jul | -5.0 | -4.0 | -8.7 |
| 15-Jul | 8:30 AM | PPI | Jun | 1.3% | 1.3% | 1.4% |
| 15-Jul | 8:30 AM | Retail Sales | Jun | 0.5% | 0.3% | 1.0% |
| 15-Jul | 8:30 AM | Retail Sales ex-auto | Jun | 1.0% | 0.8% | 1.2% |
| 15-Jul | 10:00 AM | Business Inventories | May | 0.5% | 0.5% | 0.5% |
| 16-Jul | 8:30 AM | Core CPI | Jun | 0.2% | 0.2% | 0.2% |
| 16-Jul | 8:30 AM | CPI | Jun | 0.7% | 0.7% | 0.6% |
| 16-Jul | 9:00 AM | Net Foreign Purchases | May | NA | NA | \$115.1B |
| 16-Jul | 9:15 AM | Capacity Utilization | Jun | 79.4% | 79.4% | 79.4% |
| 16-Jul | 9:15 AM | Industrial Production | Jun | 0.2% | 0.2% | -0.2% |
| 16-Jul | 10:30 AM | Crude Inventories | 12-Jul | NA | NA | -5840K |
| 16-Jul | 2:00 PM | FOMC Minutes | 25-Jun | - | - | - |
| 17-Jul | 8:30 AM | Building Permits | Jun | 980K | 970K | 969K |
| 17-Jul | 8:30 AM | Housing Starts | Jun | 985K | 968K | 975K |
| 17-Jul | 8:30 AM | Initial Claims | 12-Jul | NA | NA | 346K |
| 17-Jul | 10:00 AM | Philadelphia Fed | Jul | -15.0 | -15.2 | -17.1 |

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

After months of pummeling oil-industry executives, Congress is zeroing in on a new alleged villain for today's record oil prices: investment banks, the same ones who have been instrumental in the housing meltdown. The sudden inflow of big money has come largely through "index investing." That's when state pension funds, university endowments and other big institutional investors place long-term bets on an index of commodities, expecting prices to rise over time. Some of these investments take place in regulated markets where the Commodity Futures Trading Commission can determine whether a particular investor or group is cornering the market and pushing up prices. But a much larger portion of index investment happens through unregulated over-the-counter swaps, which usually are arranged by large investment banks such as Goldman Sachs or Morgan Stanley. Big consumers of oil, such as airlines, complain that the money washing through the swaps market is pushing up the prices of regulated futures contracts.

A strong lobbying effort by Wall Street banks, the trading industry and market operators may successfully head off proposals for tougher federal controls on oil-futures trading. Lawmakers in Washington are getting an earful about skyrocketing fuel costs from airlines, truckers and the manufacturing industry -- not to mention constituents. Airlines mounted a campaign, including letters sent to customers, to drum up support for measures to rein in what they called "poorly regulated market speculation." The airlines urged customers to visit a Web site, StopOilSpeculationNow.com.

The head of the Commodity Futures Trading Commission told Congress on Thursday there is no evidence that market traders are working together to push up crude oil prices or that oil supplies are being hoarded. "We have no evidence that people are hoarding oil," CFTC Chairman Walter Lukken told a House Appropriations subcommittee. He also said the CFTC doesn't "see systemically in the current market" that traders are "working together" to drive up prices. Separately, he said the CFTC and other members of an interagency task force plan to give Congress an interim report "in the coming weeks" on the role speculators have played in the crude oil market.

In the midst of a political battle over its oversight, the nation's futures-market regulator is losing its enforcement chief to a private law firm. Gregory Mocek, 46 years old, is leaving the Commodity Futures Trading Commission to become a partner in the energy- and derivatives-markets practice of McDermott Will & Emery, in its Washington, D.C., office. The U.S. Commodity Futures Trading Commission named Stephen Obie acting director of enforcement as the agency faces political pressure to ensure energy and agricultural markets are not being manipulated as prices soar. Obie will take over from Gregory Mocek, who will be leaving within 60 days after heading the enforcement division since 2002, the Washington-based agency said today. Obie, regional counsel for the CFTC's New York office, helped investigate manipulation cases against Amaranth Advisors LLC, Enron Corp., and American Electric Power Company Inc., experience that may be needed as Congress reacts to record gasoline and oil prices.

It's day two of three days of hearings on Capitol Hill, where lawmakers from the House Committee on Agriculture are once again rounding up the usual suspects as they look for answers to why the price of oil is surging. Thursday morning however, the IntercontinentalExchange Inc., or ICE as it is more fondly known, refused to be the whipping boy. In prior hearings the exchange has been accused of allowing traders to have unfettered access to the oil futures market, allowing them to drive prices skyward. Testimony Thursday from Charles A. Vice, the Atlanta-based exchange's president, was defiant. Not only did he defend the exchange's practices but said that ICE's over-the-counter markets "have no bearing on the price of crude oil and do not set the price for major benchmark products." Vice also lashed out at fellow panel member Michael Greenberger, a former CFTC regulator and currently a professor at the University of Maryland law school, referring to him as a self-styled expert who is espousing "inaccurate and inflammatory" statements. Greenberger has testified to Congress in a number of hearings that infusions of funds from speculative traders in unregulated exchanges like ICE have fueled current energy prices and they must be stopped. Vice however pointed to studies done by the CFTC and the International Energy Association, which said that speculation was not the reason the price of oil is on the rise.

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.
