



Market Weekly

Commodities, Forex, Futures and Options

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HEADLINE OF THE WEEK: Smells like a dead cat bounce (The Sydney Morning Herald, 7/21/2008)

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WEEKLY RECAP

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"In July 2007 he wrote an article titled, 'Be bullish and watch the bears impale themselves...'"

"Right here, right now... its time to load up on US stocks," this according to an op-ed piece Ken Fisher wrote this week for the Financial Times. His thesis? "The robust historical anomaly of US stocks outperforming non-US stocks in the few months just before presidential elections," as a result of "uncertainty about the election outcome." All the same, beware that Mr. Fisher is one of those perennial bulls who back in January 2007 was touting his book, "Three Questions," in which he was scathing about the US having too much debt, be it at the public, corporate or household level. In July 2007 he wrote an article titled, "Be bullish and watch the bears impale themselves," claiming that "headlines heralding a US subprime mortgage implosion leading to an upcoming credit-crunch crisis" was "demonstrable nonsense." His narrative reminds one of the old market adage that if "you say it long enough you will eventually be right." Which leaves us with the question of whether a stock market bottom is beginning to form? Supposedly shares in US financials staged a big recovery earlier this week because of smaller-than-expected losses at several leading lenders and a government crackdown on abusive short-selling. Then on Thursday US financial stocks suffered their worst one-day fall since 2000 as investors' optimism was hit by renewed fears over weak housing data. The reversal suggested that the recent relief rally in financials had run its course, but new orders for US capital goods surprised to the upside, signaling that some businesses were still spending.



The S&P 500 Index is back to where it started at the bottom of the June-July move back in 2006.

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“We assess that the US currency today is the closest to its medium-term equilibrium value in a decade.” IMF

The euro is overvalued, even though the dollar is close to its equilibrium value, the International Monetary Fund said this week, warning that new exchange rate misalignments could be emerging. "In our view the euro is now overvalued relative to medium-term fundamentals, while the currencies of many current account surplus countries, including China, remain substantially undervalued," John Lipsky, the IMF's first deputy managing director, said in a speech. By contrast, he told the Brookings Institution: "We assess that the US currency today is the closest to its medium-term equilibrium value in a decade." Hank Paulson, the US Treasury Secretary, reiterated his backing for a strong dollar yesterday, saying the US would support the dollar by implementing economic policies that would strengthen the US economy and financial markets. The IMF judges that the decline in the dollar over the past six years, and in particular over the past year of the credit crisis, has more or less gone far enough. But while the number two IMF official welcomed the orderly decline in the dollar to date, and said it would make a positive contribution to moderating global economic imbalances, he warned that on its own, it would not be enough to bring the world economy into better balance. The IMF is concerned that the euro has borne too large a share of the overall adjustment in the dollar to date, and as a result has itself become overvalued.



Since 2003, the euro has been nearly relentless in its march towards the \$1.50 to the €1 level. Is this the top?

“Under increasing pressure from Congress, the CFTC filed civil charges this week against Optiver, a Dutch hedge fund...”

Global equities maintained their positive tone this week as oil prices continued to retreat, although the gains were limited by renewed doubts about the global economic outlook and the health of the financial system. Meanwhile, under increasing pressure from Congress in recent months to crack down on speculative activity in the oil futures markets, the CFTC filed civil charges this week against Optiver, a Dutch hedge fund, alleging manipulation of crude oil, heating oil and gasoline futures prices on the NYMEX. According to the charges, the defendants attempted to manipulate short-term prices on 19 different occasions in March 2007, were successful at least five times, and netted an illicit profit of \$1 million.

ECONOMIC REVIEW

According to the "beige book", which summarizes anecdotal evidence provided to the US central bank, consumer spending was "sluggish or slowing" across the country. Even so, the government's injection of about \$100bn into the economy through tax rebates spurred sales of some items. Price pressures were "elevated or increasing" in all the districts as input prices rose because of rising commodity costs, validating concerns about rising inflation. However, a more encouraging aspect of the report was that retail price inflation was stable in some regions as stores resisted passing on price increases to consumers. In addition, the soft labor market was keeping wage pressures "generally limited." The report supplied evidence that the credit squeeze remains far from loosening, with loan growth "restrained" amid weaker demand in several districts including New York and San Francisco as well as tighter standards for doling out credit, particularly in residential property. The Boston Fed reported that "sentiment was decidedly morose" among contacts in commercial real estate. The Richmond Fed said the Washington DC area experienced "bleak" conditions in the market for office buildings.

Asian governments, faced with the highest inflation for a decade or more, are shelving billions of dollars worth of landmark infrastructure projects and shifting funds to more immediate economic assistance. New governments that took office this year in South Korea, Taiwan and Thailand after campaigning on promises to pump new funds into infrastructure are among those rearranging priorities. The government in Bangkok had pledged to invest \$50bn on infrastructure over four years. Mention of large projects such as \$9bn of planned investments in improved mass transit in Bangkok was "conspicuously missing" from a \$1.4bn fiscal stimulus package announced this month. Instead, it included items such as subsidized public transport fares and residential electricity. In April, the Malaysian government cancelled construction of a \$2.5bn bullet-train line to Singapore in favor of a \$1.3bn move to stockpile food and increase production of rice, fruit and vegetables. Last month, the government shelved dam, road and monorail projects worth \$1.2bn. Officials cited spiraling energy and building material costs, while pledging extra funds for rice and anti-poverty programs.

Next Week's Economic Calendar

The Conference Board conducts a monthly survey of 5000 households to ascertain the level of consumer confidence.

Date	Time (ET)	Statistic	For Period	Briefing Forecast	Market Expects	Prior
29-Jul	10:00 AM	Consumer Confidence	Jul	NA	50.0	50.4
30-Jul	8:15 AM	ADP Employment	Jul	-	-48K	-79K
30-Jul	10:35 AM	Crude Inventories	26-Jul	NA	NA	-1558K
31-Jul	8:30 AM	Chain Deflator-Adv.	Q2	NA	2.8%	2.7%
31-Jul	8:30 AM	Employment Cost Index	Q2	NA	0.7%	0.7%
31-Jul	8:30 AM	GDP-Adv.	Q2	NA	1.8%	1.0%
31-Jul	8:30 AM	Initial Claims	26-Jul	NA	NA	406K
31-Jul	9:45 AM	Chicago PMI	Jul	NA	49.0	49.6
1-Aug	12:00 AM	Auto Sales	Jul	NA	NA	4.9M
1-Aug	12:00 AM	Truck Sales	Jul	NA	NA	5.0M
1-Aug	8:30 AM	Average Workweek	Jul	NA	33.7	33.7
1-Aug	8:30 AM	Hourly Earnings	Jul	NA	0.3%	0.3%
1-Aug	8:30 AM	Nonfarm Payrolls	Jul	NA	-68K	-62K
1-Aug	8:30 AM	Unemployment Rate	Jul	NA	5.6%	5.5%
1-Aug	10:00 AM	Construction Spending	Jun	NA	-0.3%	-0.4%
1-Aug	10:00 AM	ISM Index	Jul	NA	85.0	50.2

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MANAGED FUTURES NEWS

The saga of speculation and Congressional action to impose new regulations continues. Below are excerpts from a July 25, 2008 op-ed by Senators Lieberman, Collins and Cantwell published by the Financial Times:

We must act now to bring these prices down and get a bill to the president before we adjourn in August. Among many proposals, we offered one: the Commodity Speculation Reform Act that directs and empowers the Commodity Futures Trading Commission to police more aggressively excessive speculation among all indexed commodities, including oil and foodstuffs, such as corn, wheat, and soybeans. Many of its provisions were incorporated into a Senate bill spearheaded by Harry Reid, the majority leader, and which is the chief Senate vehicle. Here is the problem: The commodity markets perform a crucial function in our economy. They serve as a place where producers and consumers of specific commodities can enter into futures contracts that help hedge the risks of price fluctuations common to their industries, thus creating some measure of price predictability for their businesses. Speculators who want to invest in these markets can buy stocks directly rather than invest in commodity futures. That would funnel needed capital into means of production that could increase supplies and eventually contribute to lower petrol prices. Unfortunately, the CFTC has ignored its mission as our front-line defense against rampant and unmanaged speculation. To this day, the commission has yet to recognize that speculation affects commodity prices. Instead of acting the part of a regulator, the commission has delegated much of its regulatory authority to the commodity exchanges. Moreover, in contradiction with Congress's original legislative intent, the commission views its mission as confined to a single purpose – preventing market manipulation. On the contrary, Congress fully intended the commission to regulate market manipulation AND excessive speculation. The bill that is enacted should direct the CFTC to create a seamless system of speculative position limits that cap the size of any one investor's holdings of a specific commodity. These caps should apply to commodity positions wherever they are – be it a US exchange, an over-the-counter holding, or a foreign exchange. A broad-based, uniform approach will discourage flight from the major US exchanges because all trading platforms will fall under one regulatory umbrella. And it is the only way we will rid the global markets of excessive speculation.

Below are excerpts from a statement by the Futures Industry Association, expressing its opposition to S. 3268, the bill titled "Stop Excessive Energy Speculation Act" that is now pending in the US Senate.

The Futures Industry Association agrees with the judgment adopted in recent congressional testimony by Federal Reserve Chairman Ben Bernanke: speculation is not the cause of high energy prices. Many Americans are suffering from the increased cost of energy. A comprehensive national energy policy is essential to reduce that suffering. Instead, the Democratic leadership in the Senate has introduced S. 3268. It is a mixed bag. While it mandates appropriate studies and it enhances energy market transparency, the bill has many provisions that would amount to liquidity-robbing, regulatory overkill. We fear that those provisions would undermine the bill's own transparency goals, make hedging more expensive, drive energy market activity overseas and hopelessly complicate the regulatory mission of the Commodity Futures Trading Commission. FIA would welcome hearings on S. 3268, similar to the three days of informative hearings that the House Agriculture Committee just conducted on this subject. Senate floor consideration of the measure at this time is premature. FIA understands that Congress wants to act. But as Chairman Bernanke pointed out earlier this week in testimony to the Senate Banking Committee, the surge in energy prices has been driven primarily by strong growth in demand and tight supply conditions, not financial speculation. In our view, action that contradicts Chairman Bernanke's economic analysis risks shooting at the wrong target.

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