



Market Weekly

Commodities, Forex, Futures and Options

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HEADLINE OF THE WEEK: "Bears Sink Teeth Into Most Commodities" (CattleNetwork.com, 8/15/2008)

Compiled by Mack Frankfurter, Chief Investment Strategist

Gold plunged below \$800 an ounce, silver dropped as much as 12 percent and oil, corn and copper slumped as the dollar's rebound reduced the appeal of commodities after a six-year boom. Palm oil tumbled as much as 9 percent, and rubber and wheat fell as the dollar headed for its longest winning streak in more than two years and on concern a spreading global economic slowdown will reduce demand for raw materials. Commodities, measured by the Standard & Poor's GSCI index, have tumbled 21 percent from their record July 3, descending into a bear market. Oil traded near its lowest for more than three months, gold for eight months and silver for almost a year. Copper and corn reached six-month lows this week, with corn falling to its lowest level this year after the U.S. Department of agriculture revealed that farmers were able to boost the country's corn crop in spite of the damage wreaked earlier in the season by the worst flooding in 15 years. Copper prices, meanwhile, have retreated 20 percent to \$7,150 a ton after hitting a record high of \$8,930 a ton in early July. Sentiment towards copper, the benchmark industrial commodity, has been dented by the sharp fall in oil prices, the dollar's revival and broader concerns about the global economic outlook.

WEEKLY RECAP

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"Commodities, measured by the S&P's GSCI index, have tumbled 21 percent from their record July 3, descending into a bear market."



The slowdown in the U.S. economy has led to a broader downturn across the industrialized world.

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Headlines from page 1

“But demand growth in emerging countries remained strong, with Chinese consumption rising above 8 million barrels per day for the first time.”

Opec pushed its oil production to the highest level in its 48-year history last month, even as demand was slipping in the U.S. and Europe, the International Energy Agency (IEA) said this week. The combination of surplus supply and weaker demand has pushed oil prices to \$113.50 a barrel, down 24 per cent in the last month and the lowest level since late April. The effort was led by Saudi Arabia, which had come under increasing pressure for doing too little to compensate for lower supplies from countries outside Opec, where growth has been lackluster as fields have aged in countries such as the UK and Mexico. In mid-June, as oil inventories were running low, King Abdullah called a high-level international meeting in Jeddah and pledged to help reduce record prices by increasing Saudi production from 9.4m barrels a day to 9.7m b/d, the highest level in 30 years. Whether Saudi Arabia and Opec will continue to work to reduce prices, or revert to keeping supplies off the market now that prices have fallen, will become clearer at the cartel's next meeting on September 9 in Vienna. Opec's production increase was not the only reason oil prices fell; demand curtailed by economic slowdown and high oil prices had also played a critical role, the IEA said. But demand growth in emerging countries remained strong, with Chinese consumption rising above 8m b/d for the first time in June, hitting 8.3m b/d. The market is split about the direction of crude oil prices, but the previous general bullish sentiment is cracking.



Crude oil has extended its decline since July 11th, while Opec's income is at record levels as prices soared.

“Against the euro, the dollar surged more than 5 cents, taking it more than 6 percent higher than the low it hit last month.”

This week will be crucial in determining whether the dollar has broken free from its six-year downward trend, as speculation mounts that the US is in the best position to emerge quickly from the economic downturn. The dollar index, which measures its value against a basket of six major currencies, put in its best performance for over three-and-a-half years last week and boosted the dollar to its highest level for four months. Against the euro, the dollar surged more than 5 cents, taking it more than 6 percent higher than the low it hit last month. Analysts say the turn towards the dollar reflects surprise that the fallout from the credit crisis has had such a marked effect on economies outside the US. They say other central banks, unlike the Federal Reserve, have been slow to respond to a potential slowdown, refusing to cut interest rates as they focus on fighting inflation. However, Jean-Claude Trichet, president of the European Central Bank, warned of a slowdown in the eurozone in the coming months, quashing expectations of higher interest rates.

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ECONOMIC REVIEW

The eurozone moved closer to recession yesterday after it emerged that the economy contracted in the second quarter for the first time since the launch of the euro. The economy shrank by 0.2 per cent in the three months to June, as commodity price-driven inflation wiped out growth. France was hit badly, contracting more than expected. But while concerns mounted in Europe that the weakness in growth could prove protracted, evidence of growing global inflation pressures continued to build. Just hours after the eurozone figures were released, US data showed consumer prices rose twice as fast as forecast by economists in July, hitting an annual rate of 5.6 percent - the highest since January 1991. The surprise jump damped hopes of a quick easing of inflationary pressures in the US, suggesting US Federal Reserve policymakers will continue to be concerned about rising prices. In the eurozone, inflation was a record 4 percent in July, according to Eurostat, the European Union's statistical office, although that was lower than its original estimate of 4.1 percent. Adding to the European Central Bank's alarm, professional forecasters' expectations about inflation in the longer term were also the gloomiest since the euro was introduced in 1999, the ECB reported yesterday. Financial markets have priced in only a slight chance of a rate cut by the end of 2008.

Meanwhile in the U.S., falling house prices, tighter lending standards and rising foreclosures have created a vicious circle for struggling homeowners, sucking in growing numbers of borrowers who cannot sell their homes or cover their mortgages. In recent months, there have been signs that even prime borrowers, representing the highest tier of credit quality in the mortgage market, are beginning to feel the pinch. Until recently, the effects of the housing slump were most keenly felt by overstretched homeowners who took out subprime or so-called Alt-A mortgages. Prime borrowers are falling behind on their mortgages at more than three times the rate they were in 2007, a pace far exceeding the rate at which Alt-A and subprime borrowers are becoming newly delinquent on their home loans, according to data from Credit Suisse and Loan Performance. Prime loans make up almost 80 percent of the U.S. mortgage market, prompting fears that as delinquencies creep higher, there could be more pain for US housing before it can begin its recovery. Those fears were underscored this week when rating agency Standard & Poor's lowered its ratings on 248 bonds backed by US prime mortgages issued in the first half of 2007. Since the housing market's peak in 2006, house prices in California and Florida have fallen by 20 percent or more, foreclosures have more than quadrupled.

Next Week's Economic Calendar

It is a light week for data, but as has been true for the past year, housing data is the key indicator to watch...

Date	Time (ET)	Statistic	For Period	Briefing Forecast	Market Expects	Prior
19-Aug	8:30 AM	Building Permits	Jul	NA	949K	1091K
19-Aug	8:30 AM	Core PPI	Jul	NA	0.2%	0.2%
19-Aug	8:30 AM	Housing Starts	Jul	NA	963K	1066K
19-Aug	8:30 AM	PPI	Jul	NA	0.6%	1.8%
20-Aug	10:35 AM	Crude Inventories	16-Aug	NA	NA	-316K
21-Aug	8:30 AM	Initial Claims	16-Aug	NA	NA	450K
21-Aug	10:00 AM	Leading Indicators	Jul	NA	-0.2%	-0.1%
21-Aug	10:00 AM	Philadelphia Fed	Aug	NA	-14.1	-16.3

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MANAGED FUTURES NEWS

Fundamental versus Speculation Turf Wars

As the debate about commodities continues, it has become increasingly clear that it is truly about protecting vested interests. In response to continuing criticism, the FIA joined with four other financial services trade associations in urging the Senate to oppose S. 3268, the "Stop Excessive Energy Speculation Act of 2008." This was followed by the creation of The Coalition to Protect Competitive Markets, which is a coalition formed by the financial services industry that is "committed to educating lawmakers and the public about the real reasons oil and gas prices are rising and to set the record straight about the role that investors play in the commodity markets." This is what they say:

"We are concerned about the impact that rising oil and gas prices are having on the American economy and consumers. We are also concerned that the debate in Congress over how to alleviate this problem could take a dangerous turn that will result in higher energy prices and undermine the competitiveness of the markets in America. There is no legitimate evidence available today to support the claims that investors have created a speculative oil bubble. The high prices we are being forced to shoulder are being driven by market fundamentals and a weak dollar. Global demand for oil is outstripping supplies. This problem is being compounded by the declining value of our currency. That is the reason a barrel of oil costs more than \$130 and a gallon of gas costs more than \$4."

Executive Committee members of The Coalition to Protect Competitive Markets include: CME Group, Commodity Markets Council, Futures Industry Association, IntercontinentalExchange, International Swaps and Derivatives Association, Managed Funds Association, and The New York Mercantile Exchange. It's members are the CME Group, Commodity Markets Council, The Financial Services Roundtable, Futures Industry Association, IntercontinentalExchange, International Swaps and Derivatives Association, Managed Funds Association, The New York Mercantile Exchange, and Securities Industry and Financial Markets Association.

On the other hand, the Wall Street Journal reported that data is emerging on players in the commodities markets which shows that speculators are a larger piece of the oil market than previously known, a development enlivening an already tense election-year debate about traders' influence. Last month, the main U.S. regulator of commodities trading, the Commodity Futures Trading Commission, reclassified a large unidentified oil trader as a "noncommercial" speculator. The move changed many analysts' perceptions of the oil market from a more diversified marketplace to one with a heavier-than-thought concentration of financial players who punt on big bets.

For what its worth, according to Alan Greenspan, the recent fall in the price of oil is primarily the result of investors unwinding speculative positions that helped drive up oil prices earlier this year. Contrast this statement with the fact that Opec pushed its oil production to the highest level in its 48-year history last month, even as demand was slipping.

Meanwhile, the Federal Trade Commission (FTC) proposed U.S. government rules this week to fight manipulation in the oil market, where prices hit a record \$147 a barrel last month. The commission, under pressure to investigate possible manipulation of gasoline and other fuel prices, said its rules would bar any fraud or deceit in the purchase or sale of crude oil, gasoline or other petroleum product. The agency said in a statement that: "Fraudulent or deceptive acts, including false reporting to private reporting services or misleading announcements by refineries, pipelines or investment banks, may be covered by the proposed rule." Question is: who is the primary regulator here: CFTC or FTC?

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