



Market Weekly

Commodities, Forex, Futures and Options

September 5, 2008
Quarter 3, Issue 08

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HEADLINE OF THE WEEK: "US stocks suffer on fears for economy" (Financial Times, 9/5/2008)

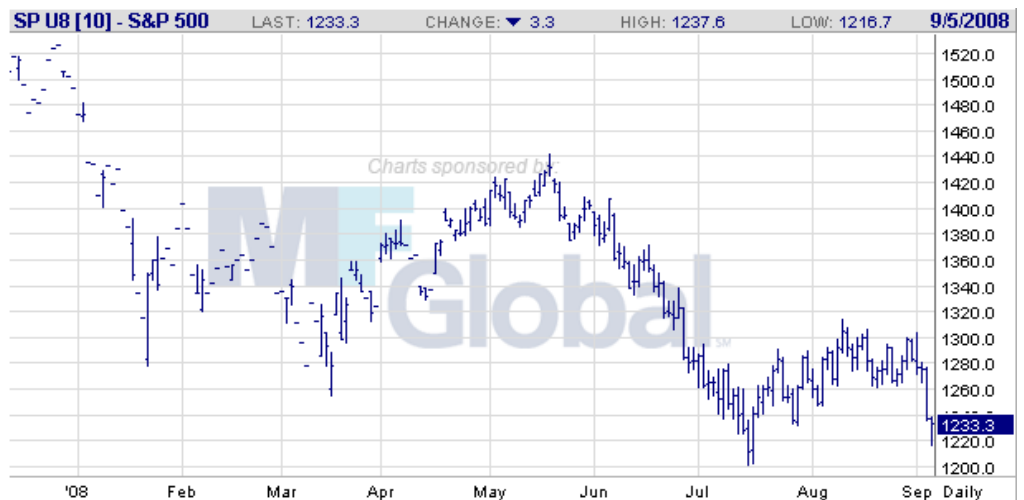
Compiled by Mack Frankfurter, Chief Investment Strategist

U.S. stocks fell, adding to the worst week for global equities since the September 2001 terrorist attacks, after the unemployment rate reached the highest level in five years. U.S. stocks yesterday fell for a fourth successive day, re-entering bear market territory, as rising jobless claims and weak retail sales figures raised fears about the health of the economy. The market retreat came only hours before Arizona Senator John McCain was due to accept the Republican presidential nomination with a speech that focused on his record of service and called for bipartisan cooperation in Washington. The S&P 500 fell 3 percent, dipping 20 percent below its record high of last year. Investors grew more worried after U.S. retailers reported weak same-store sales in August and the government said claims for jobless benefits were filed by 444,000 people last week, 15,000 more than the previous week. Bill Gross, chief investment officer of PIMCO, rattled investors when he said the U.S. government should support financial markets. Meanwhile, Asia seems to be reverting to type before investors' eyes. This week alone has seen riots, threats of intervention to support vulnerable currencies, cuts to growth forecasts and gyrating equity markets. Such madness was thought to be consigned to the tail end of the last decade.

WEEKLY RECAP

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

"The market retreat came only hours before Arizona Senator McCain was due to accept the Republican presidential nomination..."



The S&P 500 is back to testing the lows made in July as the mood turns sour on Wall Street...

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Headlines from page 1

“Oil company profits have been squeezed because costs have risen along with revenues...”

Oil companies’ profitability fell last year as rising costs eroded gains from the rise in oil prices, an industry study has found. The companies’ return on capital from their oil and gas production fell to 19 percent, 3.5 percentage points lower than in 2006, according to the study from IHS Herold, a research firm, and Harrison Lovegrove, a corporate finance firm owned by Standard Chartered bank. The study of 232 leading quoted oil and gas companies also found that they had not increased their total reserves last year, and raised production only slightly. Rodney Schmidt of Standard Chartered suggested that if oil prices continued to fall, oil companies could face growing difficulties. “We are now at a point of greater uncertainty...where there are questions about demand and about where prices will end up. At the same time, profit margins have not been increasing.” Oil company profits have been squeezed because costs have risen along with revenues, and governments of resource-holding countries have been taking a greater slice of the proceeds through tax increases or contract renegotiations. Although big companies have still been making record profits, they have also had very high levels of capital expenditure. Organic capital spending, excluding acquisitions, has soared from \$139bn in 2003 to \$342bn last year, the study found.



As the old saying goes, the trend's your friend until the trend ends... where are all the bulls now?

“The central bank governor admitted that there had been capital outflows since the war but the amount was much lower.”

Russia's central bank intervened heavily to support the ruble yesterday with analysts saying that \$21bn of foreign capital might have been pulled out of the country as Moscow paid the price for its conflict with Georgia. The ruble fell as low as 30.41 against a dollar-euro dual currency basket, its weakest level since the Russian central bank adopted the basket in February 2007. The central bank governor admitted that there had been capital outflows since the war but the amount was much lower. The currency intervention was the first since the height of the war with Georgia at the beginning of August. Before the conflict, the central bank's interventions in the market were aimed at stemming the rise of the ruble, which it manages to a basket weighted 55 per cent in dollars and 45 per cent in euros. The attractions of resource-rich Russia, a net foreign creditor with sustainable trade and fiscal surpluses and the third-largest foreign exchange reserves, had made the ruble a one-way upward bet. However, the ruble has suffered as foreign investors have pulled money out of Russia.

ECONOMIC REVIEW

Fears about the health of the US economy were reignited after data showed that the unemployment rate spiked unexpectedly to 6.1 per cent – the highest in five years - as employers shed 84,000 positions in August, the eighth consecutive month of job losses. The figures from the labor department were significantly worse than economists were expecting. Forecasts had on average predicted the unemployment rate would rise slightly to 5.8 per cent while the economy lost 75,000 jobs. The surprisingly sharp deterioration in the labor market comes as a reminder of the difficulties confronting the U.S. as it grapples with the housing crisis and sluggish consumer spending.

Foreclosures accelerated to the fastest pace in almost three decades during the second quarter as interest rates increased and home values fell, prompting more Americans to walk away from homes they couldn't refinance or sell. New foreclosures increased to 1.19 percent, rising above 1 percent for the first time in the survey's 29 years, the Mortgage Bankers Association

said in a report this week. The total inventory of homes in foreclosure reached 2.75 percent, almost tripling since the five-year housing boom ended in 2005. The share of loans with one or more payments overdue rose to a seasonally adjusted 6.41 percent of all mortgages, an all-time high, from 6.35 percent in the first quarter. Tumbling home prices are making it difficult for even the most creditworthy owners to sell or get a new loan as financing costs rise.

Meanwhile, eurozone economies will "barely creep forward" in the second half of this year, the Organization for Economic Cooperation and Development warned yesterday, with the outlook for growth in France slashed nearly in half. Updated projections by the Paris-based organization suggested the 15-country eurozone would avoid a technical recession - two quarters of contraction - this year but would grow by just 1.3 percent overall. Previously it had expected 1.7 percent growth.

Next Week's Economic Calendar

Numbers this past week pointed to further slowdown in the economy. Question is if next week's data will validate.

Date	Time (ET)	Statistic	For Period	Briefing Forecast	Market Expects	Prior
8-Sep	3:00 PM	Consumer Credit	Jul	\$9.0B	\$8.5B	\$14.3B
9-Sep	10:00 AM	Pending Home Sales	Jul	2.0%	-1.0%	5.3%
9-Sep	10:00 AM	Wholesale Inventories	Jul	0.5%	0.7%	1.1%
10-Sep	10:35 AM	Crude Inventories	6-Sep	NA	NA	-1898K
11-Sep	8:30 AM	Export Prices ex-ag.	Aug	NA	NA	0.8%
11-Sep	8:30 AM	Import Prices ex-oil	Aug	NA	NA	0.9%
11-Sep	8:30 AM	Initial Claims	6-Sep	NA	NA	444K
11-Sep	8:30 AM	Trade Balance	Jul	-\$56.0B	-\$58.0B	-\$56.8B
11-Sep	2:00 PM	Treasury Budget	Aug	NA	-\$105.0B	NA
12-Sep	8:30 AM	Core PPI	Aug	0.1%	0.2%	0.7%
12-Sep	8:30 AM	PPI	Aug	-0.3%	-0.3%	1.2%
12-Sep	8:30 AM	Retail Sales	Aug	0.7%	0.1%	-0.1%
12-Sep	8:30 AM	Retail Sales ex-auto	Aug	0.2%	-0.2%	0.4%
12-Sep	10:00 AM	Business Inventories	Jul	0.5%	0.5%	0.7%
12-Sep	10:00 AM	Mich Sentiment-Prel.	Sep	65.0	63.9	63.0

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MANAGED FUTURES NEWS

The Wall Street Journal reported Thursday that the Commodity Futures Trading Commission is examining whether certain players provided false data to the EIA, the statistical arm of the Energy Department, to benefit their trading positions. Unexpected drops in oil inventories reported each Wednesday by the U.S. Energy Information Administration can spark price spikes on the main oil futures benchmark on the New York Mercantile Exchange. A company could theoretically underreport barrels in its tanks, for example, at a key hub to suggest oil is scarcer than it really is, and then sell its physical oil at a premium when oil prices jump on misleading news. Commodity-market regulators are investigating whether energy-market players are injecting false data into the marketplace to influence perceptions about crude-oil supply and demand, people familiar with the probe say. Among other things, regulators are concerned that companies may be reporting inventory levels that benefit their own trading positions. U.S. Energy Secretary Samuel Bodman defended the reliability of market data supplied to the Energy Information Administration and said he was unaware of a probe of participants providing false information.

London Metal Exchange (LME) said on Thursday it would launch two minor metal futures contracts, molybdenum and cobalt, in the second half of 2009. The two minor metals are by-products of copper and nickel production, non-ferrous metals already traded on the exchange, which is home to the last open outcry trading floor in London.

Hedge fund Ospraie Management, one of the biggest players in commodities, said it is shutting down its largest fund after significant losses. The Ospraie Fund fell 27% in August alone due to bets on oil, natural gas and structured products, and has been selling off its holdings over the past three weeks, possibly contributing to a decline in prices.

The CME Group, the world's biggest futures exchange, on Wednesday sought to extend its foothold in Asia by entering talks with the Osaka Securities Exchange, Japan's largest derivatives exchange, to develop new services. Fresh from winning member approval for its \$8.2bn takeover of Nymex, the New York energy exchange, the agreement symbolizes the CME's desire to strengthen its ties in Asia as it seeks to enhance its global presence.

The average daily trading volume on the CME, including the recently acquired New York Mercantile Exchange, declined 32 percent in August. CME said an average of 11 million contracts per day were traded during the month, with total volume for the month reaching 231 million contracts, 80 percent of which were traded electronically. CME, which operates the Chicago Mercantile Exchange and the Chicago Board of Trade, closed its \$9.4 billion acquisition of Nymex in late August. Results assume combined CME Group and Nymex volumes for the entire month.

Hurricane Gustav ploughed into the Gulf Coast of Louisiana earlier this week with less force than forecast, prompting relief in global oil markets as government officials scrambled to avoid the mistakes made during hurricane Katrina three years ago. The oil industry had predicted hurricane Gustav will leave far less lasting damage than the devastation that followed hurricanes Rita and Katrina three years ago. There was no significant structural damage.

The European Union and leading economies should set up a "financial Interpol" to track down market abuse and fraud in response to the global financial turmoil, a French government report urged yesterday. The proposal to set up a separate global body to coordinate investigations into financial crime is one of a series of recommendations. They are designed to accelerate the EU's response to turmoil that originated in the U.S. mortgage market before spreading.

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