



Market Weekly

Commodities, Forex, Futures and Options

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HEADLINE OF THE WEEK: "Battered gold may have finally hit bottom" (MarketWatch, 9/11/2008)

Compiled by Mack Frankfurter, Chief Investment Strategist

Gold tumbled to the lowest price since October on speculation a drop in commodity costs and a stronger dollar will reduce demand for the metal as a hedge against inflation. Silver plunged to the lowest since 2006. The Reuters/Jefferies CRB Index of 19 raw materials dropped for a ninth straight session and is down as much as 24 percent from a record reached in July. Gold has declined 26 percent from an all-time high in March and the euro is trading 13 percent below its July peak against the dollar. From mid-July to Sept. 2, commodity index investors sold \$39 billion of oil futures, said Michael Masters, who has regularly testified before Congress. Ospraie Management LLC, the hedge-fund run by Dwight Anderson, last month said it will shut down its commodities fund after losing 39 percent this year on wrong-way bets on energy and mining stocks. "Commodity funds are getting out," said Joel Crane, a metals strategist at Deutsche Bank AG. "Ospraie is indicative of what's happening across these markets. Funds are unwinding bets on a gain in raw materials and so-called commodity currencies, along with wagers on a falling dollar." Any rebound in metal prices will be fleeting, said Dennis Gartman, economist and editor of the Suffolk, Virginia-based Gartman Letter.

WEEKLY RECAP

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"Ospraie is indicative of what's happening across these markets. Funds are unwinding bets..."



Gold is off its highs from April '07, and since July '08 is breaking down to lows not seen since a year ago.

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In a week when Washington has taken on trillions of dollars of liabilities in a spectacular government bail-out, Chinese investors are watching for signs that their government will intervene to prop up the Shanghai stock market, the world's worst performing market. So far, there is little sign that Beijing has imminent plans to buy shares in Shanghai, where the benchmark composite index has lost 65 percent of its value since last October's peak. The index closed yesterday at 2,150. Many investors consider 2,000 to be the next big psychological barrier for the market and the government, so speculation about government intervention at that level is rampant. The market fall has put Beijing under intense pressure to consider what it can do to support share prices, and avoid the kind of social unrest that has plagued other plummeting emerging markets. The securities regulator, the CSRC, is still considering setting up a stabilization fund that would buy shares to support the market. It is not the first time that Beijing has sought to wield propaganda pressure to manage the market. Before the Beijing Olympics, fund managers, including foreign-Chinese joint ventures, were warned by the CSRC not to say anything publicly that could harm the stability of the market.

"The market fall has put Beijing under intense pressure to consider what it can do to support share prices..."



The Hang Seng Index is a market capitalization-weighted stock market index of Hong Kong stocks.

The Bill Gross-managed Pimco Total Return fund reaped a \$1.7bn payday following the U.S. government's takeover of home loan groups Fannie Mae and Freddie Mac. While shareholders in Fannie and Freddie suffered deep losses, the world's biggest bond fund on Monday had its highest one-day rise against its benchmark index, benefiting from the huge bet made by Mr Gross on mortgage bonds issued by the agencies. Over the past year, Mr Gross had made a shift out of US Treasuries and corporate bonds into agency bonds, betting that the government would support Fannie and Freddie. Meanwhile, palm oil prices have nearly halved after hitting a peak in March, when surging crude oil prices boosted interest in the biofuels derived from palm oil. Analysts blame the rapid plunge on a supply glut and a prolonged period of unusually good weather in addition to the strengthening dollar, crude's drop to \$100 a barrel and speculators fleeing from commodity markets. Palm oil prices are now back at levels last seen more than a year ago. Current prices make palm oil financially viable both as a raw material for biodiesel and as fuel to burn in its own right to generate power.

"While shareholders in Fannie and Freddie suffered deep losses, the world's biggest bond fund on Monday had its highest one-day rise..."

ECONOMIC REVIEW

In the space of a few weeks, the shape of the global economic downturn has undergone a rapid change. New data has turned conventional wisdom on its head, raising fears of a synchronized decline in which the U.S. - while still at risk - is no longer an outlier and may even do better than some of its peers. This was certainly the case in the second quarter, when gross domestic product grew much faster in the U.S. than in any other leading industrial economy, expanding at 0.8 percent in the quarter (3.3 percent annualized).

Over the same period, the eurozone and Japan suffered declines of 0.2 percent and 0.6 percent respectively, while Canada recorded a bare 0.1 percent gain and the UK was flat. A large part of the explanation lies in trade. The huge decline in the dollar in recent years has cushioned the U.S. slowdown and exported weakness overseas. Higher exports and lower imports accounted for as much as 0.7 percent of that 0.8 percent U.S. growth for April-June, while the growth contribution from trade fell in many other economies. A recent sell-off in global commodity markets signals growing

concern that economic weakness could continue to spread in the months ahead. Many investors have gone from believing in a "decoupling" story to seeing a globally synchronized downturn - prompting a bounce in the dollar. Some draw parallels with 2001, when the U.S. fell into recession following the dotcom bust. Back then, experts outside the U.S. argued for a while that there was no reason why other economies should weaken. But much of the industrialized world soon followed the US into negative territory.

In the meantime, almost a week after the U.S. Treasury rescued Fannie Mae and Freddie Mac, investors seem far from convinced that the problems facing the U.S. financial system are over. Investors appear increasingly fearful that, while the Federal Reserve and the U.S. Treasury have undertaken several increasingly dramatic interventions in financial markets this year - including emergency interest rate cuts, the bail-out of Bear Stearns and the government takeover of Fannie and Freddie - a plan is needed to address the market's problems as a whole.

Next Week's Economic Calendar

With commodity prices, specifically oil prices coming down, we can expect to see inflationary pressures lighten.

Date	Time (ET)	Statistic	For Period	Briefing Forecast	Market Expects	Prior
15-Sep	8:30 AM	NY Empire State Index	Sep	NA	1.4	2.8
15-Sep	9:15 AM	Capacity Utilization	Aug	79.6%	79.6%	79.9%
15-Sep	9:15 AM	Industrial Production	Aug	-0.3%	-0.3%	0.2%
16-Sep	8:30 AM	Core CPI	Aug	0.2%	0.2%	0.3%
16-Sep	8:30 AM	CPI	Aug	-0.2%	0.0%	0.8%
16-Sep	9:00 AM	Net Foreign Purchases	Jul	NA	NA	\$53.4B
16-Sep	2:15 PM	FOMC Policy Statement	-	-	-	-
17-Sep	8:30 AM	Building Permits	Aug	NA	925K	937K
17-Sep	8:30 AM	Housing Starts	Aug	NA	950K	965K
17-Sep	10:35 AM	Crude Inventories	13-Sep	NA	NA	NA
18-Sep	8:30 AM	Initial Claims	13-Sep	NA	NA	NA
18-Sep	10:00 AM	Leading Indicators	Aug	NA	-0.2%	-0.7%
18-Sep	10:00 AM	Philadelphia Fed	Sep	NA	-10.0	-12.7

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9-11-2001



In remembrance of the men and women who lost their lives, and the heroes that responded to the emergency 11 September 2001. Our deepest sympathy and prayers go out to the families and victims of the World Trade Center, Pentagon, American Airlines Flight 11, United Flight 175, American Airlines Flight 77, and United Flight 93.

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