Fundamental Focus

Futures Perspective

August 18, 2008

Daily futures comments and the complete *Fundamental Focus* and *Technical Focus* weekly reports are available on the Smith Barney web site: https://www.smithbarney.com

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Highlights

Interest Rates

Defensive positioning supports higher Treasury prices and the U.S. dollar.

Stock Indices

Until there is sufficient evidence to the contrary, the summer rally appears intact.

Crude Oil

A rising U.S. dollar and growing awareness of a market surplus keep the market pointed lower.

Heating Oil

A surprise decline in weekly inventories provides only limited price support.

RBOB Gasoline

Suppliers have cut back, reducing inventories to year-ago levels.

Natural Gas

Storage expectations are bearish for the next few weeks, unless a hurricane in the Gulf of Mexico cuts supplies.

Precious Metals

We anticipate slowing downside price momentum as lower prices stimulate stronger fabrication demand.

Copper

We anticipate that stronger Chinese import demand will boost prices during the September–December period.

Soybeans

The market may have traded on crop potential substantially greater than the USDA's estimate.

Soybean Meal

Lower prices since July may encourage increased user buying interest.

Soybean Oil

Prices consolidate after steep declines over the past month. Significant palm oil discounts are a drag on the market.

Corn

Prices seem to be stabilizing from rising soybean values.

Wheat

Higher prices fail to curtail export demand.

Sugar

Key fundamentals include the portion of Brazil's sugarcane crop used to make ethanol biofuel and the magnitude of reduced production in India.

Coffee

Brazil is expected to be spared a crop-damaging frost/freeze event this season.

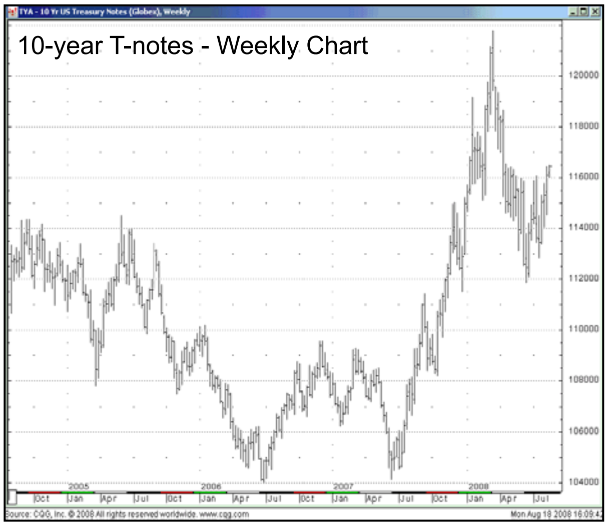
FCOJ

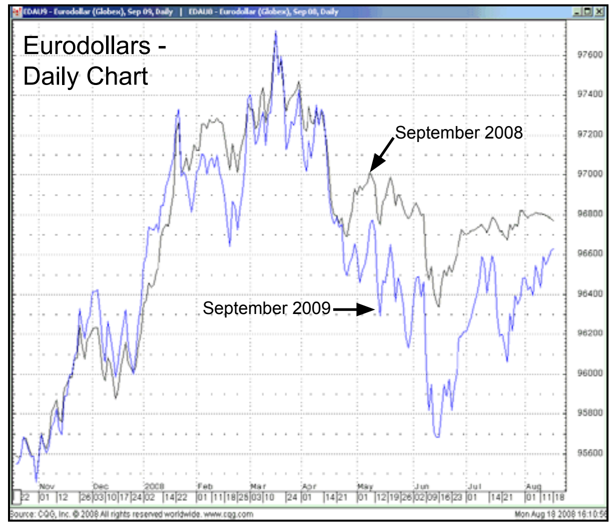
The bearishness of the market's underlying fundamentals lessens due to lower-than-expected estimates for Florida's orange crop.

Cotton

Lower futures prices have stimulated sales of exchange-certificated stocks—the first inroad to a cut in the record cotton over supply.

FINANCIAL FUTURES – Interest Rates & Currencies





The September 10-year T-note contract achieves our upside target

Several factors helped to contribute to sustained price strength in interest rate futures markets this past week, including waning inflation fears amid falling energy prices, worries about sustainable growth trends given persistently tight financial conditions, and demand for safety as spreads widen on liquidity and credit concerns. With a high of 116-14+ hit on Friday, August 15, the September 2008 10-year T-note contract achieved our upside target range of 116-00 to 117-00. The price action reflects quite a bit of news supporting a lower interest rate environment. We see the potential for more two-way trade in the coming week.

The economic calendar this week is relatively quiet, but will include the release of several reports for the month of August that are expected to be consistent with a soft economic backdrop, but to be little changed from the prior month. The National Association of Homebuilders (NAHB) survey for August did just that, coming in at 16, unchanged from July's reading, but still at the lowest level the index has been since the series' inception in January 1985. The Philadelphia Fed survey for August is expected to come in at -14, up modestly from -16.3 in July and slightly above the -19.5 average so far this year.

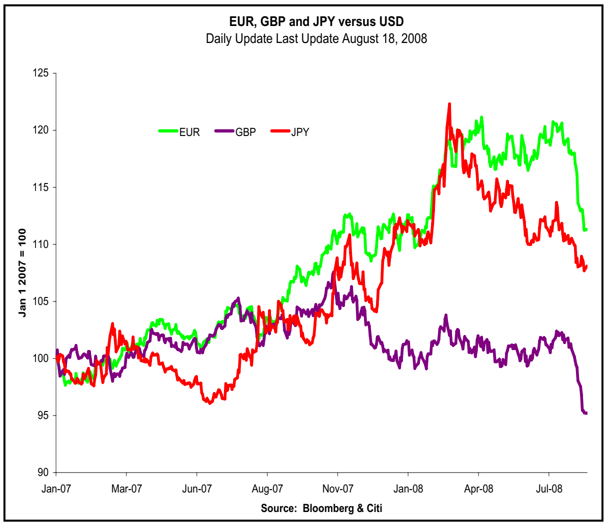
July housing starts, producer prices and leading indicators are also due out this week. Markets are looking for housing starts (due out August 19) to pull back in July, retreating from a surprise bounce in June, and possibly breaking below the previous low for this cycle hit at 977,000 in May 2008. The consensus forecast for headline producer prices (due out August 19) is for a 0.5% rise in the month and a 0.2% gain in producer prices, excluding food and energy. Finally, July leading indicators (due out August 21) are expected to fall 0.2% in the month, following a 0.1% drop in June. Even if these reports come in better than expected, we expect financial markets to remain cautious and still very much focused on the persistent headwinds to growth and tight financial conditions.

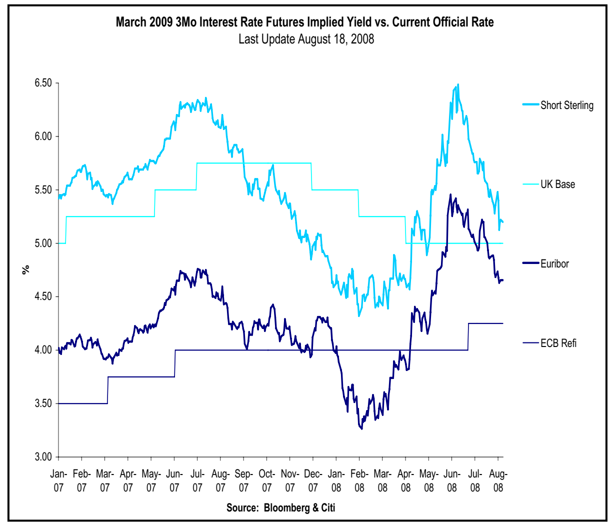
The tone of recent Fed official commentary continues to be cautious in highlighting ongoing concerns about the creeping advance in core inflation, while also acknowledging the downside risks to growth. In the week ahead, Fed Chairman Bernanke will address the Kansas City Federal Reserve's annual economic symposium in Jackson Hole on Friday, August 22. He is due to speak about financial stability. His comments, coupled with others coming from this symposium will be watched with great interest.

From a trading perspective, we would maintain a positive bias on long-term interest rate futures given our anticipation of sub-trend growth and waning inflation trends. However, we see the potential for added market concern about increased government borrowing to serve as a damper to substantial further price gains. With the recent advance in the September 2008 10-year T-note contract to our upside target region of 116-00 to 117-00 and the move in 10-year yields back below 3.85%, we favor reducing long exposure at this time.

Lisa Finstrom

FINANCIAL FUTURES – Interest Rates & Currencies





European currencies stabilize, but we see limited upside potential

Last week, we noted that the prospects of slowing growth and unwinding of risk positions had been supportive to the U.S. dollar. These were forces we expected to lead to modest further dollar gains. Recently, the euro approached the upper boundary of our $1.4500–$1.4600 downside target, while the British pound met our $1.8800 target, breaking toward $1.8500 before stabilizing. Near-term, there may be room for both currencies to gain back some recently lost ground, but we see upside potential against the dollar as likely to be limited in scope.

Recent incoming data from Europe, including purchasing managers' surveys and business sentiment indicators, suggest a sharp slowing in activity that reinforces our economists' view that the European economies are set for a longer and deeper downturn than the consensus expects. Accordingly, interest rate markets have moved to downgrade the likelihood of additional rate hikes. At the same time, prospects for imminent easing of monetary policy remain limited, given the elevated level of underlying inflation trends. Such an environment should not offer much support to either the euro or the British pound, in our opinion.

Price action in the December 2008 3-month euribor and short sterling interest rate markets pointed to positioning that priced in the potential for intensified pressures going into year-end. The spot 3-month Libor-OIS (Overnight Index Swap) spreads didn't move too much over the past few sessions, holding around 63 basis points in the Euro area and near 75 basis points in the U.K. But looking at the December 2008 futures contracts, the implied rate for the "turn" (the year-end financing gap between the last trading day of 2008 and the first trading day of 2009) rose sharply. In the Euro area, the rate rose above 14% and in the U.K. above 16%. Historically, the actual year-end turns prove to be far tamer than those estimated by the futures markets, but the price action seen in the past week reflects strains that bear watching.

In the week ahead, both the Euro area and U.K. will be releasing reports for the month of August. These reports include Germany's ZEW business sentiment survey, the Euro area preliminary August purchasing managers' survey and the U.K. Confederation of British Industry trend reports. In addition, the Bank of England will release the minutes of the August 6–7 Monetary Policy Committee (MPC) meeting. We already know that the MPC voted in favor of steady policy, but the tone of the commentary and vote in favor of the position will be watched with interest.

From a trading perspective, after several weeks of defensive price action, we see scope for a bounce in the euro against the dollar toward $1.50–$1.52 and to the $1.89–$1.91 region for the British pound. We don't expect to see gains much beyond those levels, and would take advantage of any such rally to build short positions in both currencies.

Lisa Finstrom

FINANCIAL FUTURES – Interest Rates & Currencies

Central Bank Watch

		Current	Official Target	Next Policy Meeting	Expected Action	Previous Action	Date
U.S.	Federal Reserve	2.00%	Fed Funds Rate	16-Sep	On Hold	-25bp	30-Apr-08
Japan	Bank of Japan	0.50%	O/N rate	Aug 18-19	On Hold	+25bp	21-Feb-07
Euro Area	European Central Bank	4.25%	Refinancing Rate	4-Sep	On Hold	+25bp	3-Jul-08
U.K.	Bank of England	5.00%	Base Rate	4-Sep	On Hold	-25bp	10-Apr-08
Canada	Bank of Canada	3.00%	Overnight Rate	3-Sep	On Hold	-50bp	22-Apr-08
Australia	Reserve Bank of Australia	7.25%	Cash Rate	2-Sep	On Hold	+25bp	4-Mar-08
Switzerland	Swiss National Bank	2.75% (2.25-3.25%)	3-Mth Libor	18-Sep	On Hold	+25bp	13-Sep-07

FINANCIAL FUTURES – Interest Rates & Currencies

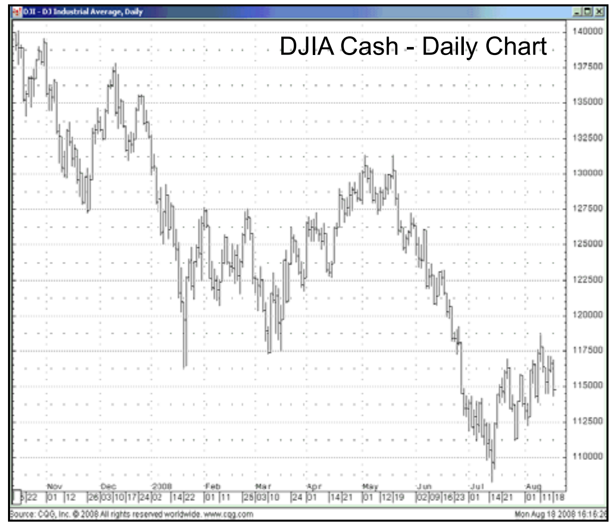
Key Global Economic Indicators & Events

Time (ET)	Country	Indicator	For	Market Forecast*	Prior
Monday August 18					
05:00AM	Euro Area	Trade Balance SA EUR	Jun		-1.5Bln
08:30AM	Canada	International Securities Transactions CAD	Jun	+6.0Bln	+10.7Bln
01:00PM	U.S.	NAHB Housing Market Index	Aug	16	16
09:30PM	Australia	Minutes of RBA's August Board Meeting			
Tuesday August 19					
02:00AM	Japan	BoJ Policy Board Meeting Concludes		0.50%	0.50%
05:00AM	Germany	ZEW Economic Sentiment	Aug	-62.0	-63.9
08:30AM	U.S.	PPI - Total	Jul	+0.5%	+1.8%
08:30AM	U.S.	PPI - Ex. Food & Energy	Jul	+0.2%	+0.2%
08:30AM	U.S.	Housing Starts	Jul	0.955Mln	1.066Mln
08:30AM	U.S.	Building Permits	Jul		1.138Mln R
08:30AM	Canada	Wholesale Trade	Jun	+0.5%	+1.6%
05:00PM	U.S.	ABC Consumer Confidence	17-Aug		-50
Wednesday August 20					
04:30AM	U.K.	Bank of England minutes from the August 6-7 MPC meeting released			
04:30AM	U.K.	M4 Money Supply YY	Jul		+11.4%
04:30AM	U.K.	Public Sector Net Borrowing GBP	Jul		+9.2Bln
06:00AM	U.K.	CBI Industrial Trends Monthly - Total Orders	Aug		-8
06:00AM	U.K.	CBI Industrial Trends Monthly - Export Orders	Aug		-7
07:00AM	U.S.	MBA Mortgage Applications	15-Aug		-1.5%
08:30AM	Canada	Retail Sales - Total	Jun	+0.4%	+0.4%
08:30AM	Canada	Retail Sales - Ex. Autos	Jun	+0.4%	+0.4%
08:30AM	Canada	Leading Indicator	Jul	+0.1%	Unch
Thursday August 21					
03:30AM	Germany	PMI - Mfg	Aug A	50.5	50.9
03:30AM	Germany	PMI - Services	Aug A	52.0	53.1
04:00AM	Euro Area	PMI - Mfg	Aug A	47.0	47.4
04:00AM	Euro Area	PMI - Services	Aug A	48.0	48.3
04:00AM	Euro Area	PMI - Composite	Aug A		47.8
04:30AM	U.K.	Retail Sales MM	Jul	Unch	-3.9%
04:30AM	U.K.	Retail Sales YY	Jul	+2.0%	+2.2%
07:00AM	Canada	CPI - Total MM	Jul	+0.4%	+0.7%
07:00AM	Canada	CPI - Total YY	Jul	+3.4%	+3.1%
07:00AM	Canada	CPI - ex. 8 & ex. Tax YY	Jul	+1.6%	+1.5%
08:30AM	U.S.	Jobless Claims	16-Aug	440K	450K
10:00AM	U.S.	Philadelphia Fed Survey	Aug	-15.0	-16.3
10:00AM	U.S.	Leading Indicators	Jul	-0.2%	-0.1%
Friday August 22					
04:00AM	Euro Area	Current Account sa EUR	Jun		-7.3Bln
04:30AM	U.K.	GDP YY	Q2 R	+1.6%	+1.6%
05:00AM	Euro Area	Industrial Orders sa MM	Jun		-3.5%
05:00AM	Euro Area	Industrial Orders sa YY	Jun		-4.4%
07:50PM	Japan	Minutes of the BoJ MPM (Jul 14-15) released			

Source: Action Economics, Citigroup

**Where Available As Of 8/15/08*

FINANCIAL FUTURES – Stock Indices



Summer rally revisited

A month ago we mentioned that, at the July lows, the Dow Jones Industrial Average (DJIA) was, by some measurements, “more oversold than at any time this year.” In addition, sentiment readings from Investors Intelligence and Market Vane revealed that investors had turned negative on equities. It was pointed out that “the combination of both daily and weekly oversold momentums and a reasonable amount of investor bearishness are the elements generally present prior to the commencement of many summer rallies.”

We also mentioned that the accepted definition of Wall Street’s “summer rally” is one in which the DJIA rallies from its lowest close in May or June to its highest close in July, August or September. The lowest close for the DJIA in May or June was 11346.51 on June 27. Although the DJIA has closed lower since then (10962.54 on July 15), it was pointed out that despite this lower close, the potential still existed for a 2008 summer rally to develop, and if it did, the rally would represent this year’s second recovery process (the first having taken place from the January lows to the May highs).

During the last five weeks, the Dow’s summer rally has been developing (albeit sometimes in an erratic and volatile fashion). Nevertheless, the DJIA has now managed to close higher in August than its close of 11346.51 on June 27. The close of 11782.35 on August 11 gives the Dow a summer rally gain of 435.84 points, or 3.8%. This compares to summer rally gains of 6.5% and 9.4% in 2007 and 2006, respectively. However, it should be recognized that the 2007 and 2006 summer rallies took place within the confines of the 2002–2007 bull market, while this year’s summer rally has been taking place within a long-term negative trend.

If the August 11 close of 11782.35 were to represent the end of this year’s summer rally, the assumption must be made that the DJIA will neither close higher between now and the end of August, nor close higher in September. Although the characteristics of the advance from the July 15 low do not indicate the initiation of a new bull market or that the lows for this year have been made, at this stage of the advance there is insufficient technical evidence to conclude that the DJIA is incapable of closing above its August 11 close of 11782.35 between now and the end of September. This is despite the fact that the market appears volatile enough to still do more testing of its July lows before the summer rally highs are made (assuming the August 11 closing high is not the final high).

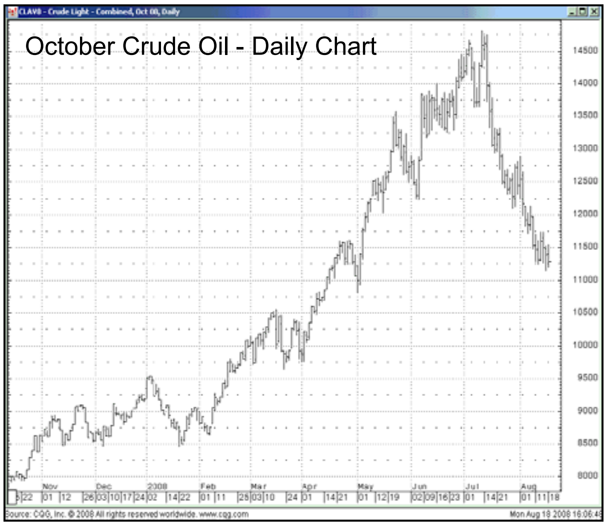
Until there is sufficient evidence to the contrary, the summer rally appears intact. The assumption is that the DJIA will still see higher levels in August or September.

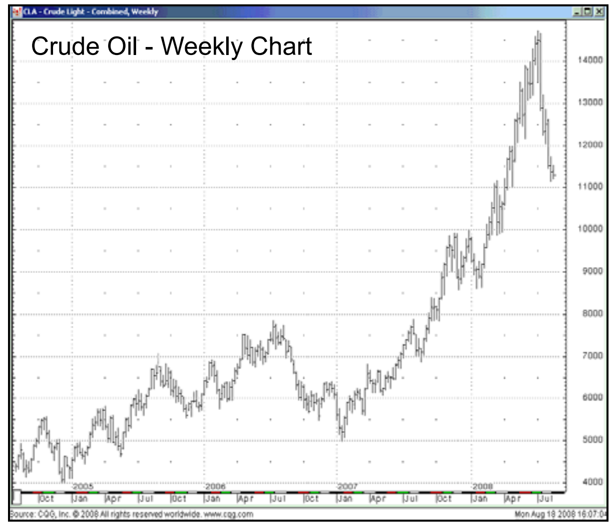
Stock Index Barometer

September	Close	Near Term	
Contract	8/14/2008	Resistance	Support
S&P 500	1293.80	1320.00	1260.00
S&P MidCap	823.10	830.00	800.00
Russell 2000	755.00	770.00	730.00
Nasdaq 100	1965.75	2000.00	1920.00
Dow Industrials	11618.00	11950.00	11350.00

Peter Grennan

ENERGY FUTURES – Crude Oil





A rising U.S. dollar undercuts a rally attempt

The crude oil market has been trying to parlay some near-term bullish fundamental issues—a pipeline outage in Turkey that led to an 0.6 million barrels per day (mmbpd) cut in oil production from Azerbaijan, geopolitical worries over the conflict between Russia and Georgia, some supportive U.S. inventory data for last week—into a price recovery, but it looks as though a rising U.S. dollar is keeping a lid on the market, at least for now. Crude oil was highly sensitive to a weaker U.S. dollar during its record-setting run to the upside, and has retained a focus on the currency now that both markets have reversed course.

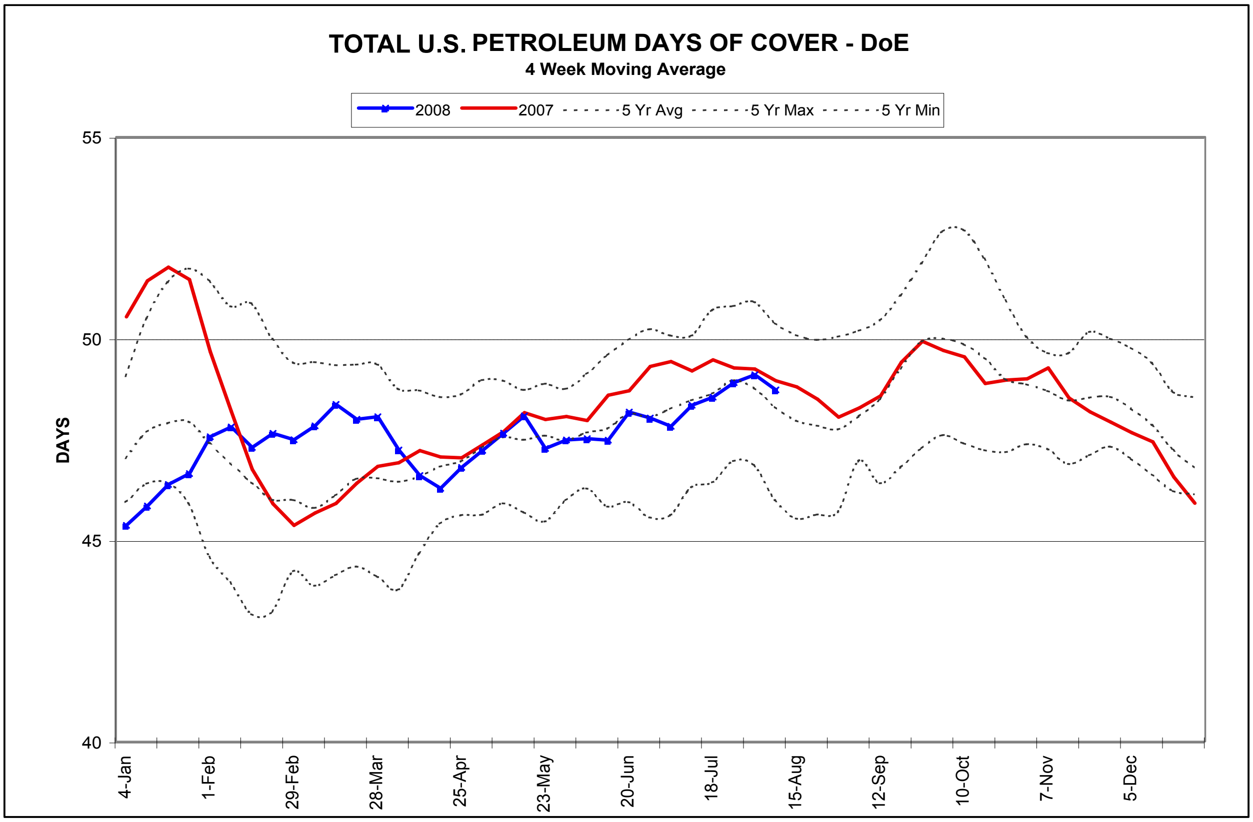
Although the drop in U.S. petroleum inventories for the week ended August 8 did tighten the market somewhat compared with the prior period, weak demand makes that stock stretch further. Department of Energy figures have U.S. total petroleum demand averaging 20.174 mmbpd over the four-weeks ended August 8, a drop of 860,300 barrels per day (bpd) or 4.1% from the weekly data first reported over the same span a year ago. U.S. total petroleum inventories are enough to cover 48.7 days of that weaker demand, a bit above the five-year average of 48.3 days. The International Energy Agency (IEA) made a similar observation in its August 12 monthly *Oil Market Report*, regarding OECD total oil stocks at the end of June. "Weak demand kept OECD forward demand cover above average at 53.4 days," they note in the highlights section.

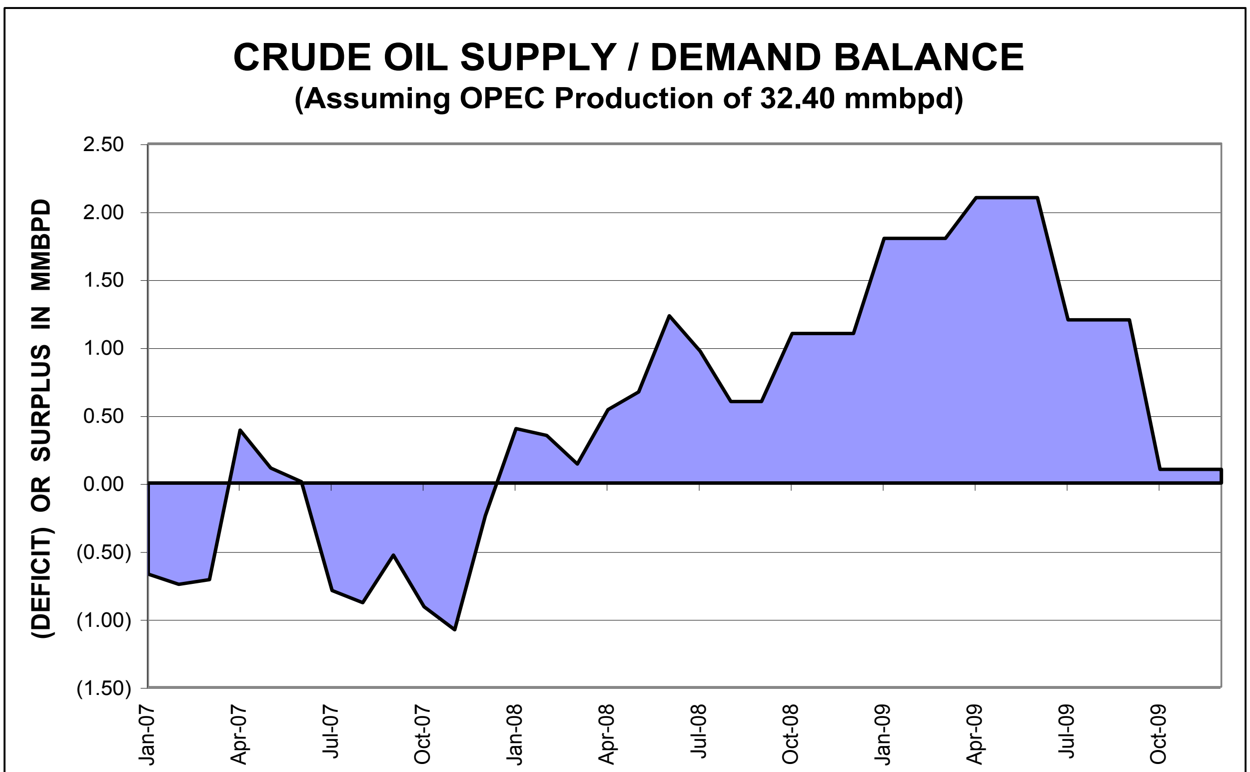
While the crude oil market may have a chance to push back to the upside in the near term, we see price strength as making it more likely that OPEC will maintain current production levels when it meets September 9 in Vienna to review policy. And steady OPEC production at, or even moderately below, current levels would leave the market facing an ongoing supply/demand surplus in the months ahead. Using the forecasts of the IEA for global oil demand and its estimates for non-OPEC supply, if we plug in OPEC production at 32.4 mmbpd (versus July output estimated by the IEA at 32.77 mmbpd), the global supply/demand surplus comes to 0.6 mmbpd for the third quarter, and steps up to a peak of 2.1 mmbpd by the second quarter of 2009. Under this scenario, inventories will accumulate rather dramatically, putting increasing pressure on crude prices to fall. At some point—most likely only after prices have broken below $100 per barrel—we think OPEC will step in to cut supply and rebalance the market, but we also think it might take more than one round of cuts to achieve this aim. As a result, we continue to see downside risk to the $70–$80 level over the next 6–9 months.

Trading Recommendation:
We recommend selling October crude oil futures scaled up at $120.40, $124.80 and $127.80, with a buy stop at $131.80 to limit the risk on the trade.

Tim Evans

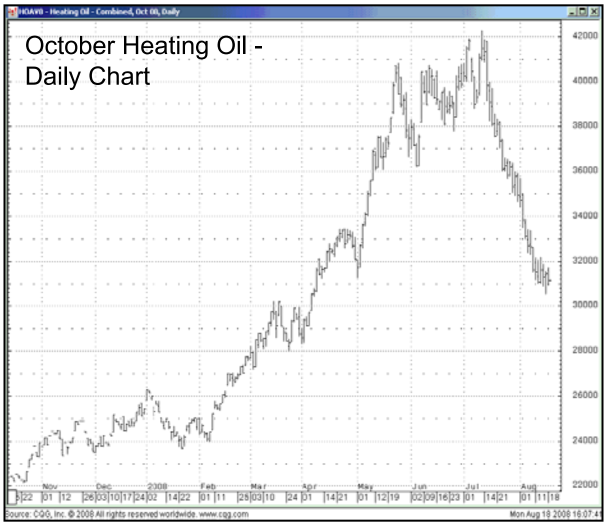
ENERGY FUTURES – Crude Oil

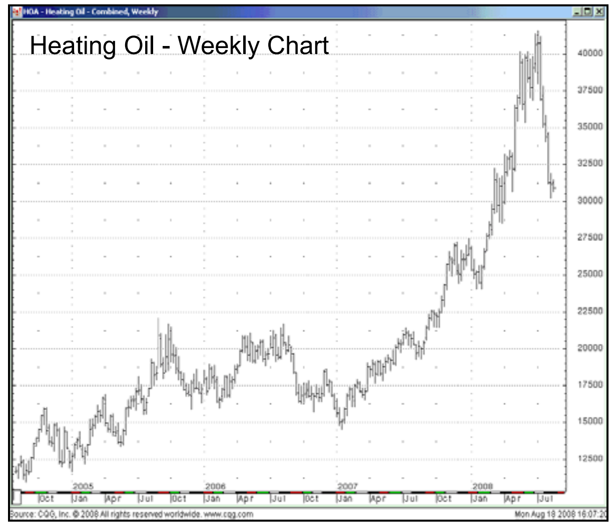




Source: International Energy Agency / Citi

ENERGY FUTURES – Heating Oil





Stocks drop as refiners cut output and consumers buy

The normal seasonal uptrend in U.S. distillates stocks was interrupted in the week ended August 8, with the Department of Energy (DoE) reporting a surprising 1.8 million barrels (mmbls) decline. Lower refinery output, low imports, and strong demand all contributed to the drop. Total inventories of 131.6 mmbls are still 3.9 mmbls (3.1%) higher than a year ago and 5.1 mmbls (4.0%) above the five-year average level, but are tighter than a week ago in each case. Inventories now cover 31.3 days of four-week average demand, and this is only slightly above the 31.1-day level from this time last year. This stocks-to-consumption ratio is also now below the five-year average of 32.1 days.

Record refinery production and record implied distillates yields have been the signature of this market segment, but that changed abruptly in the latest reporting week. Distillates production fell 289,000 barrels per day (bpd) from the week before, and the reduced rate of 4.341 million barrels per day (mmbpd) was the lowest since the week ended May 23. The four-week average is still relatively high at 4.580 mmbpd, up 415,500 bpd (10.0%) from a year ago, but it is clear that refiners have taken action to remove the excess. As further evidence, we note that the implied distillates yield that was as high as 30.8% of total refinery inputs in the week ended July 25, fell to 28.7% in the week ended August 8. Some of this cut in production may have been due to the impact of Tropical Storm Edouard, but we also see refiners taking some action to rebalance the market, now that prices have weakened.

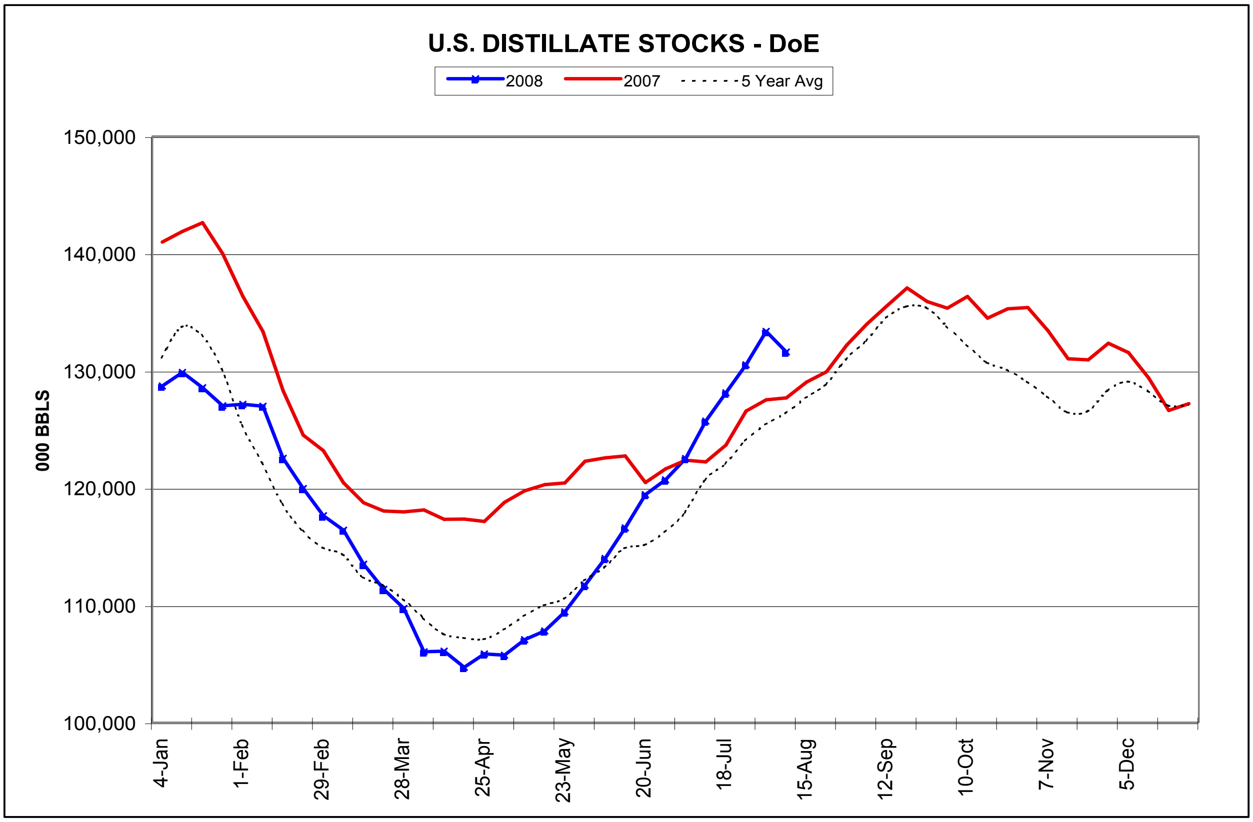
Demand for distillates jumped 254,000 bpd to the 4.406 mmbpd level in the week ended August 8, the highest weekly offtake since the week of April 4. This brings the four-week average offtake up to 4.209 mmbpd, up 103,300 bpd (2.5%) from the same span last year. As with some of the previous data, we think some of this apparent growth represents exports, which are not broken out by specific product in the weekly DoE figures. There could also be some downstream inventory restocking going on, now that prices have fallen off from their highs.

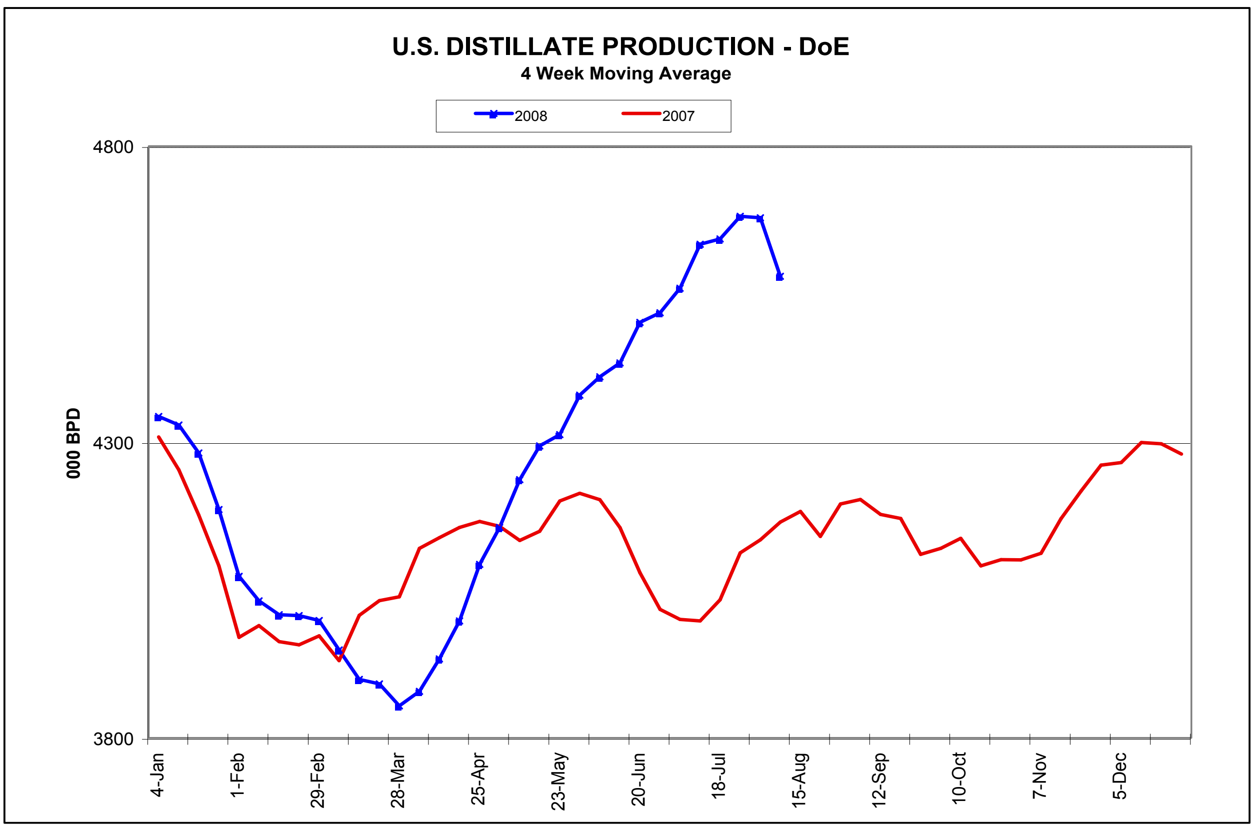
Looking forward, the key question is whether the bullish data for last week's report represent a new trend or a one-off event. To the extent that inventories revert to their normal seasonal uptrend and stocks remain higher than a year ago, then we may not see ongoing support for prices, and the case for a heating oil crack spread similar to the $10–$12 per barrel valuation of August 2007 remains intact.

Trading Recommendation:
We suggest standing aside for now and waiting for a low-risk entry to develop in the October contract for the next trade.

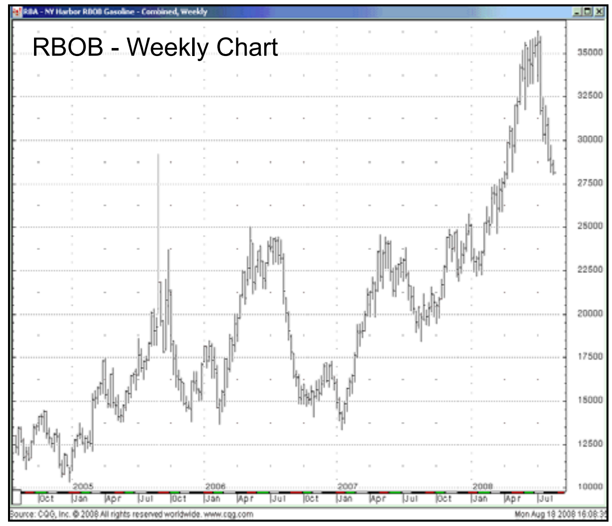
Tim Evans

ENERGY FUTURES – Heating Oil





ENERGY FUTURES – RBOB Gasoline



Stocks fall again on even softer supply

The Department of Energy reported a larger-than-expected 6.4 million barrels (mmbls) drop in U.S. total gasoline stocks for the week ended August 8, bringing the three-week total stock decline to 14.3 mmbls. Inventories of 202.8 mmbls are now just 0.9 mmbls (0.4%) higher than a year ago and have dipped 1.0 mmbls (0.5%) under the five-year average. Since demand has been relatively weak, stocks are enough to cover 21.5 days of four-week average supply, up from 21.0 days at this point last year and still slightly over the 21.4-day five-year average for this late stage of the summer driving season. The inventory excess of a few weeks ago is essentially gone and stocks are now best characterized as "average."

The dramatic decline in crude oil inventories has been entirely due to supply restraint in response to weak demand and weak gasoline pricing relative to crude oil. U.S. refinery production fell 209,000 barrels per day (bpd) last week, possibly with an assist from Tropical Storm Edouard, which did lead to some run cuts at Gulf Coast refineries. This reduced gasoline output to 8.852 million barrels per day (mmbpd), the lowest rate since the week of May 2. Four-week average runs of 9.042 mmbpd are down 238,500 bpd (2.6%) from the same period last year. In similar fashion, gasoline imports fell 79,000 bpd last week to a 785,000 bpd rate, the lowest pace of deliveries since the week ended March 7. On a four-week average basis, imports of 940,000 bpd are down 432,000 bpd (31.5%) from a year ago. Again, we see this larger, four-week average decline in both refinery production and imports as a response to weak demand and weak margins.

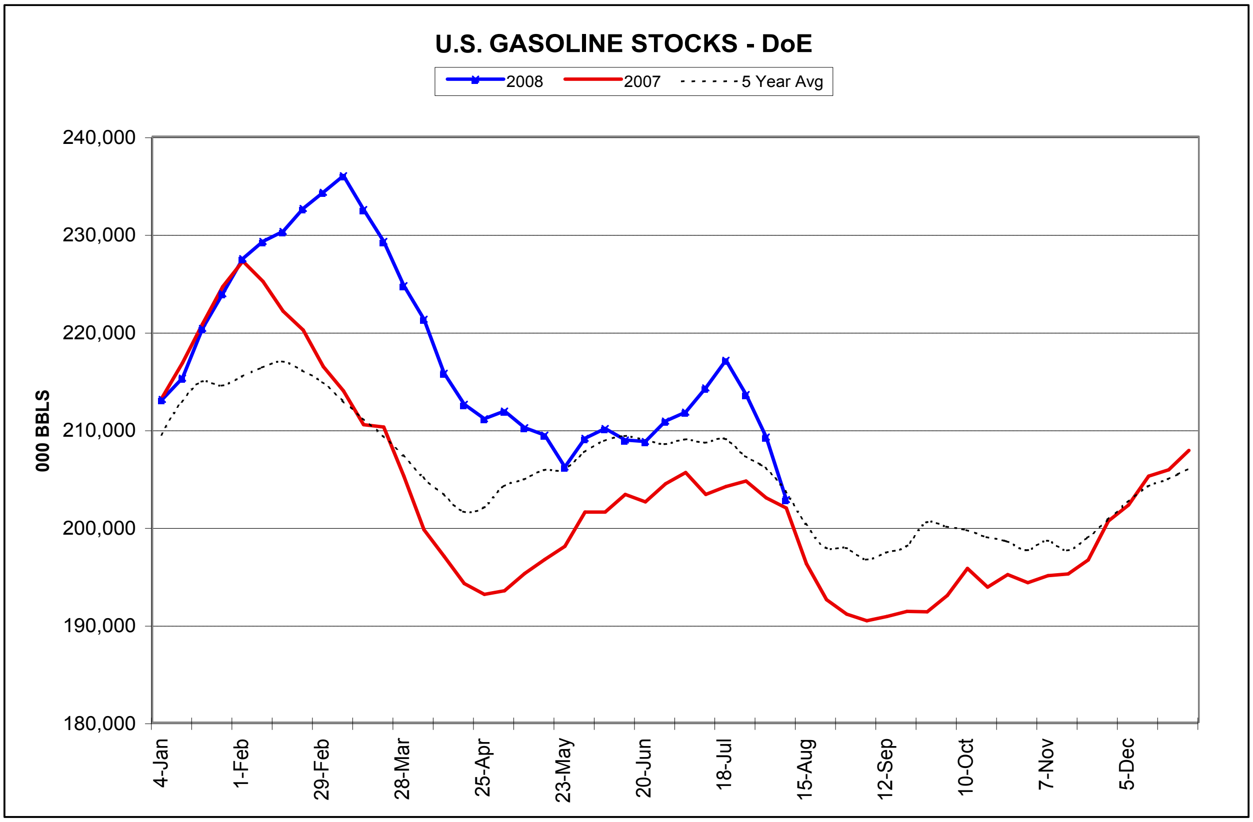
Demand for gasoline declined 38,000 bpd last week to 9.446 mmbpd. This was very close to the updated four-week average of 9.435 mmbpd, down 189,300 bpd (2.0%) from this time last year. There have been some who made the case that a drop in crude oil prices below $120 per barrel would be sufficient to stimulate a recovery in U.S. gasoline demand, but we certainly have no evidence of that as yet. In our view, some of the loss in demand has been due to a change of habits that will shift back as consumer confidence improves. Some of the conservation has been structural however, and we doubt those who have recently purchased new, more fuel-efficient vehicles will be trading them in for something less efficient any time soon.

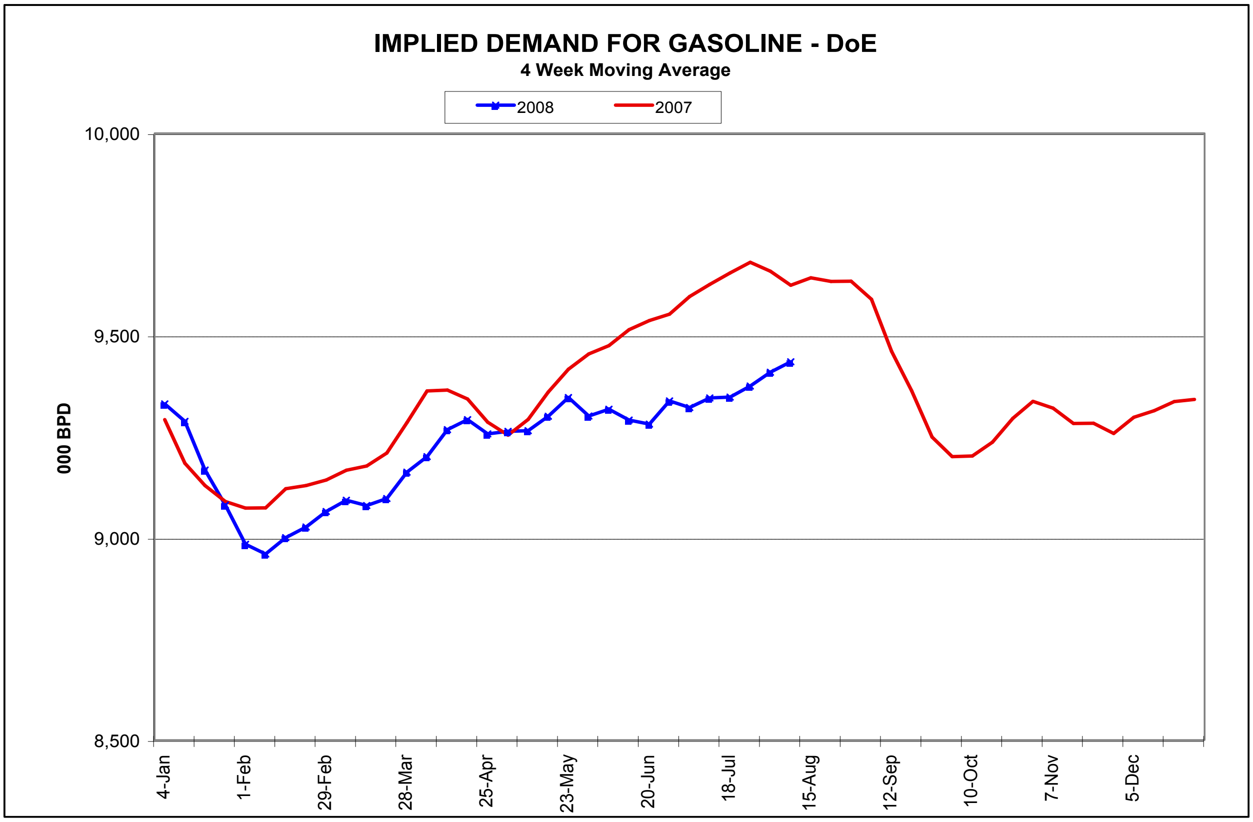
Although gasoline inventories seem likely to trend lower still in the weeks ahead, we also note that the summer driving season will be over in a few weeks, taking pressure off supplies and likely limiting how much prices are likely to climb. Much of the lift would likely come at the front of the curve as a result, with the forward market for winter-grade gasoline reluctant to follow.

Trading Recommendation:
We suggest standing aside for now and waiting for a low-risk entry to develop in the October contract for the next trade.

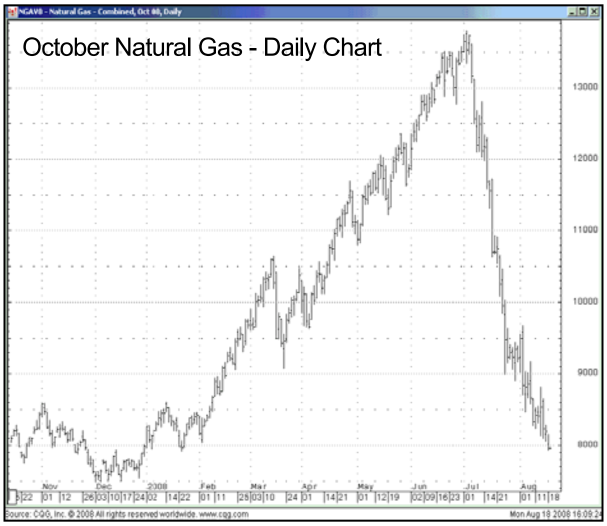
Tim Evans

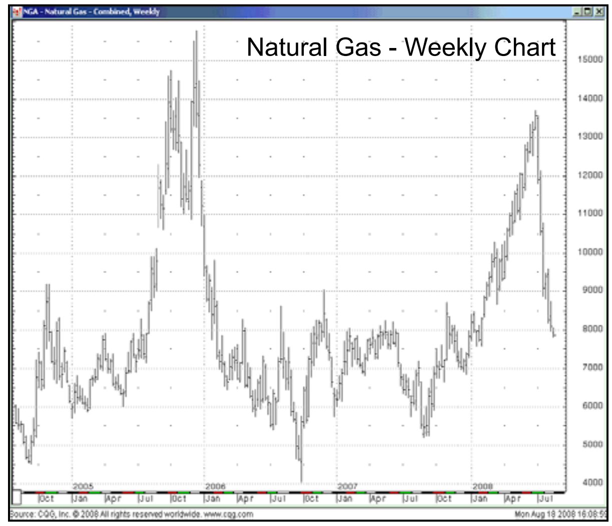
ENERGY FUTURES – RBOB Gasoline





ENERGY FUTURES – Natural Gas





The storage data confirm a bearish balance

The 50 billion cubic foot (bcf) net injection into U.S. natural gas storage reported by the Department of Energy on Thursday produced an initial uptick in prices from traders viewing it as supportive relative to consensus expectations for a 51–53 bcf rise. However, the market soon saw the data confirming that it will take more than last week's Tropical Storm Edouard, and the maintenance outage at the 1.0 bcf/day Independence Hub to translate into a bullish storage figure. Even with this lost supply from the Gulf of Mexico, the 50-bcf build was a match with the five-year average, and total storage of 2,567 bcf, as of August 8, was 6 bcf below the five-year average for the second week in a row.

With supply stepping back up from a week earlier, we expect to see more bearish storage injections for each of the next two reports, with identical cooling degree-day accumulations in the forecast likely to produce very similar 73-bcf weekly injections. This rate of storage refills will push the total above the five-year average for the first time since May 9, and this might weigh further on market sentiment, although we note that storage levels can be fairly characterized as "near average," just as they have been for the past few months. We have to go back to February 8 to find a storage level more than 100 bcf away from the five-year average benchmark. Our forecast of upcoming storage reports is summarized in the table that follows:

Week Ended	Storage Change	5-Yr. Avg.	Difference
August 1	+56	+50	+6
August 8	+50	+50	+0
August 15	+73	+57	+16
August 22	+73	+57	+16

Source: Citi, Department of Energy

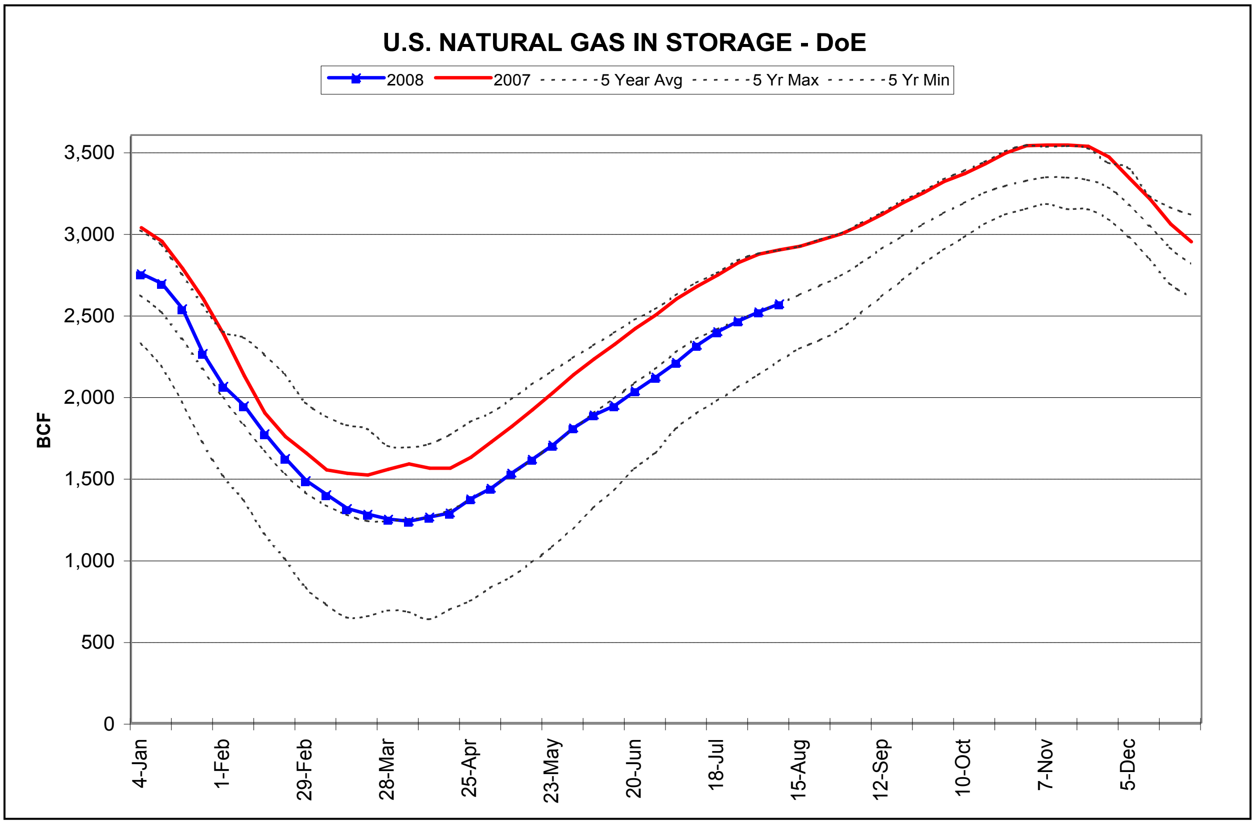
In our view, the major issue for the natural gas market is less whether storage will be above or below the five-year average, but more a question of where does the price belong given near-average storage. In early July, the market tested the $13.50 per million Btu level as a possible answer. That level proved unsustainable and now the market is pressing toward $8.00 as a second guess. While the above-average storage injections forecast for the next two weeks suggest prices could work their way somewhat lower, we see the current valuation as far more reasonable, although not necessarily a floor for prices.

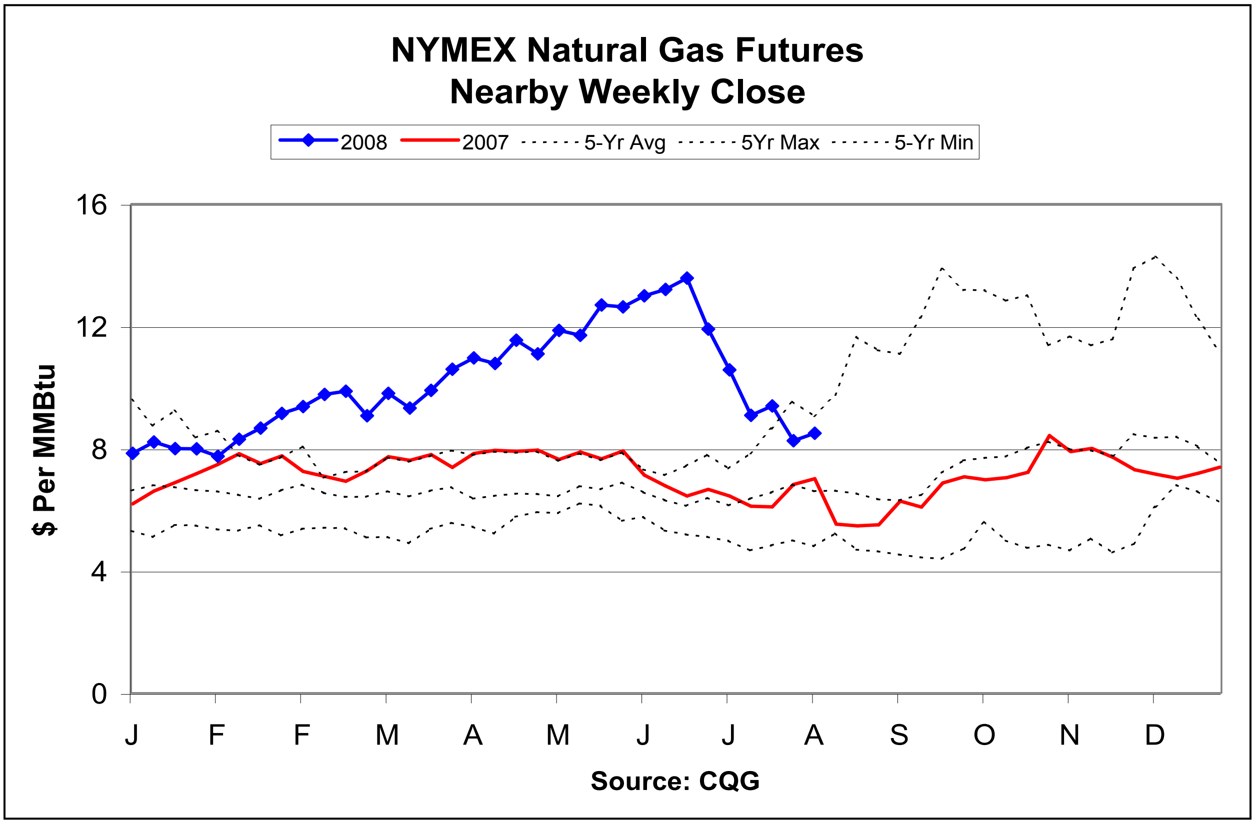
Near-term upside potential for natural gas prices remains tied to future hurricane threats to production platforms in the Gulf of Mexico, and a major storm on a track through the Gulf is about all it would take to spark a short covering rally to $10 or more. And while there are no imminent threats, we do note that the most active phase of the Atlantic Hurricane Season runs from mid-August through mid-October, so such a storm could develop at almost any time.

Trading Recommendation:
We recommend working a buy stop at $8.87 as an entry to a long position in October natural gas futures, risking to $8.27 initially once the entry is made.

Tim Evans

ENERGY FUTURES – Natural Gas





METALS FUTURES – Precious Metals

A stronger U.S. dollar continues to weigh on prices

The ongoing theme of a stronger U.S. dollar triggering commodity price weakness remained intact last week. On Friday, the September U.S. dollar index reached a new rally high of 77.435, the highest level for the nearby futures contract since January 2008, and up 5.5% since the end of July. Also on Friday, December gold fell to a low of $777.70, its lowest level since October 2007 and down 15.7% since July 31, and the low for September silver of $12.20 was its lowest level since August of last year and 31.4% below its July 31 settlement. At the end of last week, the Reuters/Jefferies CRB Index reached a low of 379.07, its lowest level since March 20 and down 8.9% since July 31. The index has now fallen 20% from its July 3 record high of 473.97.

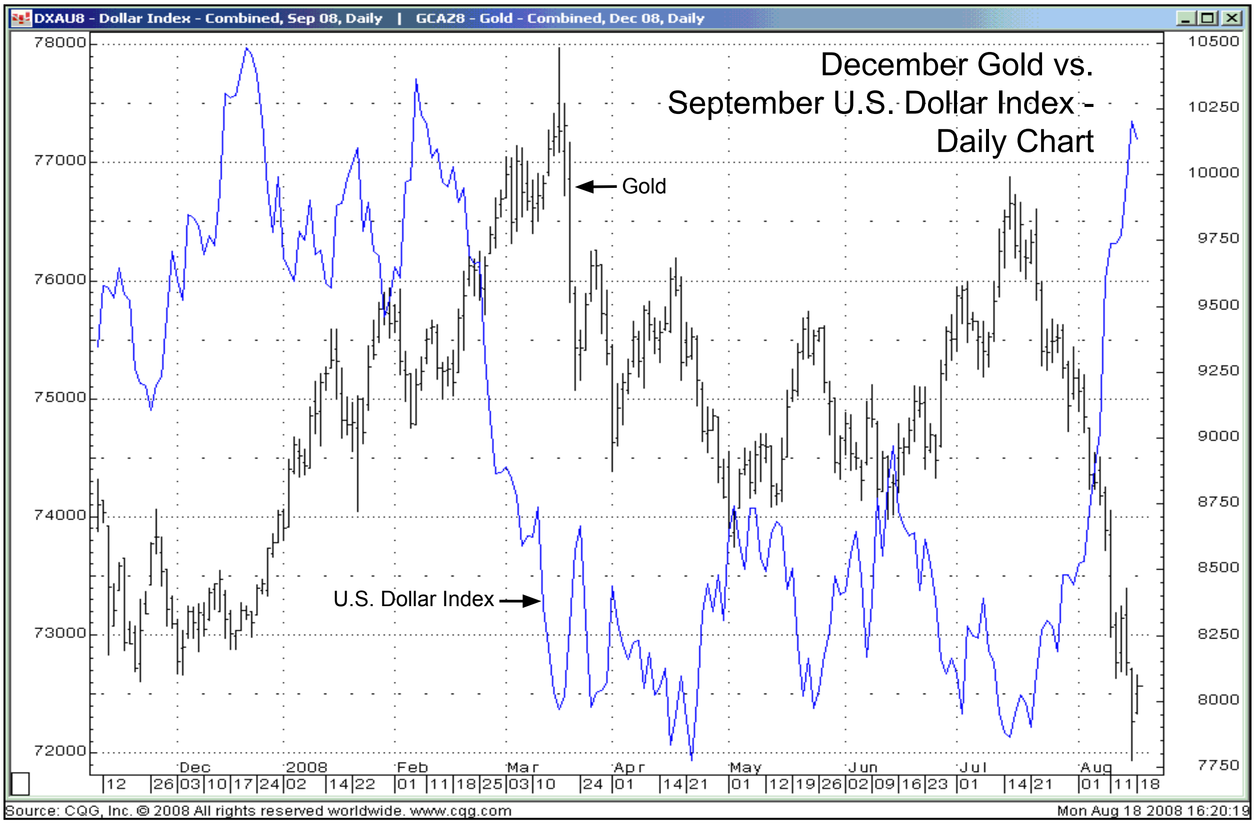
Unwinding of long commodities/short U.S. dollar positions has triggered significant long liquidation pressure in gold futures. A sharp drop in open interest and non-commercial net-long positions suggests a reallocation in investor funds from the metals markets. Open interest in COMEX gold futures was 368,528 contracts, as of last Friday, down from almost 500,000 on July 18. For the week ending August 12, the non-commercial group reduced its net-long position, options adjusted, in COMEX gold futures by a huge 42,917 contracts to 120,826, down 98,873 (45%), compared with a net-long position of 219,699 on July 15. Gold, held to back the SPDR Gold Trust in New York, the world's biggest gold-backed exchange-traded fund, has held around some 659 tonnes since August 5, down from around 674 tonnes on August 1 and its July 21 near record high of 705.59 tonnes. Open interest for silver futures has risen from 131,257 contracts on August 1, when September silver settled at $17.52, to some 139,000 on August 15.

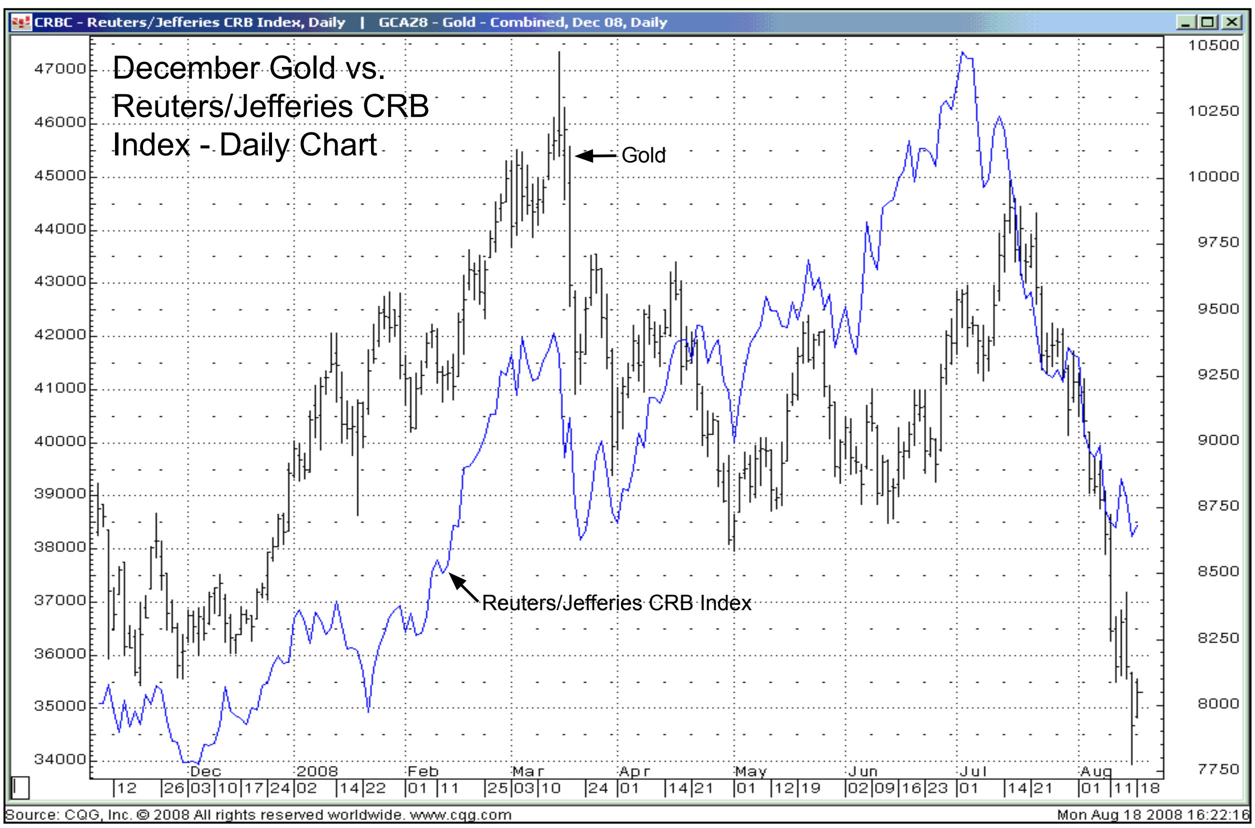
Last week, the World Gold Council (WGC) released its *Gold Demand Trends* report, whose data were compiled independently by research firm GFMS Ltd. Global demand for gold dropped 19% year-on-year to 735.6 tonnes in the second quarter of 2008, as sharply higher prices and increased volatility weakened jewelry buying. Total jewelry consumption in the second quarter dropped by 24% to 504 tonnes year-on-year, largely dragged down by a sharp drop in consumption for top bullion buyer India. Industrial demand fell 5% to 111.8 tonnes on gradual declining demand for gold in dentistry. Total investment demand fell 4% to 119.8 tonnes for the quarter due to slower buying of medals and imitation coins, which was partly offset by a net inflow of 4 tonnes into gold exchange-traded funds and similar products, the WGC said. Gold consumption by India, which represents a quarter of the world's demand, sank 45% to 161.4 tonnes for the quarter, reflecting its sensitivity to the absolute price level and price volatility. India's jewelry demand tends to pick up in September and October as jewelers buy in preparation of the country's wedding season. Bullion consumption in the Middle East region decreased by 12% in the second quarter, but rose by 7% to 87.5 tonnes in the Greater China area.

Gold and silver prices are expected to take direction from investor sentiment toward equity markets and the U.S. dollar, along with the trend in commodity prices. Key to the markets will be a revival in fabrication demand, which has been seasonally slow, but should pick up with the recent sharp break in prices. India's gold imports in July fell 56% from a year ago due to higher prices. We anticipate slowing downside price momentum as lower prices stimulate stronger fabrication demand, but at this point there are no indications of market bottoms. Financial market uncertainties and geo-political concerns remain supportive factors for precious metals prices.

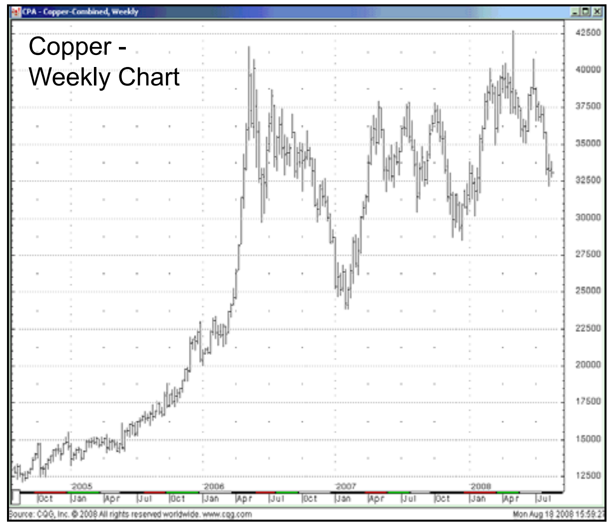
Dave Rinehimer

METALS FUTURES – Precious Metals





METALS FUTURES – Copper



Prices stabilize on improved Chinese demand outlook

Since the end of July to last Friday's settlements, September COMEX copper has fallen by 9.9%, compared with an 8.2% drop in the Reuters/Jefferies CRB Index and a gain of 5.4% for the September U.S. dollar index. However, last week, downside momentum for copper prices appeared to slow. In our opinion, this stems from the increased potential for renewed Chinese import demand based on the sharp drop in Shanghai copper stocks, the substantial decline in absolute copper prices, the narrowing of the Shanghai copper discount to London copper, and a sharp backwardation on the nearby Shanghai Futures Exchange copper contracts. For the four-week period ending August 14, Shanghai copper stocks have declined by 18,110 tonnes to 24,825, a six-month low. The spread between Shanghai and London futures, including China's 17% VAT, was at 1,675 yuan on Friday, near a five-month low and down from a record 6,719 yuan on July 3. However, London Metals Exchange (LME) copper stocks continue to build and today reached 154,575 tonnes, up from 122,350 on July 1.

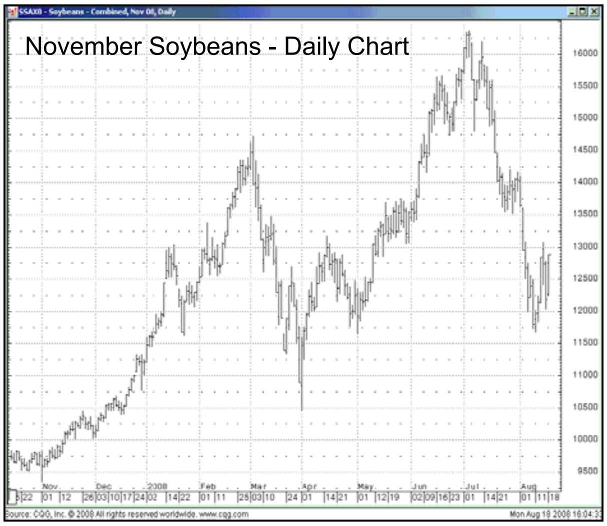
China produced 330,000 tonnes of refined copper in July, down 0.2% from a 7-month high in June, but up 14.2% from a year earlier, according to data from the National Bureau of Statistics. For the January–July period, output totaled 2.15 million tonnes, up 18% over the year-ago period. Reuters reported that power shortages in China reduced production of energy-intensive base metals in July, while analysts say the output may fall in August as shortages escalate. Jiangxi Copper, the country's top integrated copper producer, will cut production of semi-finished products up to 30% in August after local authorities asked them to cut power consumption. China imported 460,000 tonnes of copper concentrate in July, up 24.5% from a year ago, according to preliminary data issued by the General Administration of Customs. The country imported a total of 3.14 million tonnes of copper concentrate in the first seven months, up 19.1%, compared with a year ago. In contrast, imports of copper anode, refined and alloy, for January–July totaled 920,420 tonnes, down 17% year-on-year.

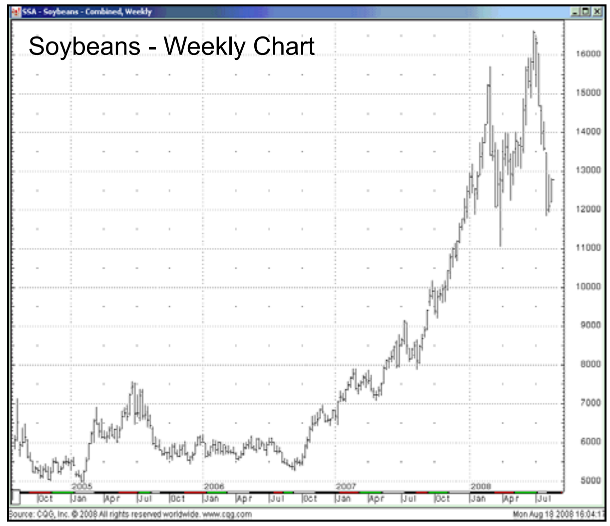
Last week, Chile's Escondida mine, the world's largest copper mine, reported that for the first half of 2008 its copper output fell by 4.4% due to lower ore grade and less mineral available for its oxide plant. The mine produced 725,177 tonnes of copper in the January–June period, of which 602,620 tonnes was copper in concentrate and 122,557 tonnes was copper in cathode, down from 758,696 tonnes in the same 2007 period. In addition, Southern Copper said last week that it expects to produce 550,000 tonnes of copper in 2008, less than an earlier view of 650,000 tonnes. A week earlier, Chile's Codelco reported that its copper output for the first half of 2008 was 675,000 tonnes, down 11.6% from the same 2007 period.

In our opinion, a sustained recovery in copper prices does not appear on the horizon over the coming weeks, as copper demand should remain seasonally weak with LME stocks continuing to build. A return of stronger Chinese import demand is needed to turn sentiment more positive. We anticipate that historically low global copper inventories, lower-than-expected global copper production, the potential for random supply disruptions and stronger Chinese import demand for copper will boost copper prices during the September–December period.

Dave Rinehimer

OILSEED FUTURES – Soybeans





High U.S. crop ratings could slide substantially if Midwest rains remain below normal

The November soybean contract remains above its August 11 low of $11.68, set prior to the USDA's August *Crop Production* report, and is attempting a recovery rally. The price weakness late last week was part of a broad-based decline in commodity prices in response to a surging U.S. dollar, which moved to six-month highs against the euro. The U.S. weekly export sales and NOPA July crush data also raised concerns about demand. A drier weather outlook for the Midwest is underpinning support.

NOPA reported the July soybean crush at 133 million bushels, 5.5 million below consensus expectations and 9.5 million lower than last year. We estimate the Census July crush at 141 million bushels, 9.4 million below the previous year. The September–July crush would be 1,674 million bushels, up 0.8% and lagging the latest USDA estimate for a marketing year increase of 1.3%.

Weekly U.S. export sales of soybeans totaled 69,600 tonnes for old and new crop combined, a marketing year low and 243,700 lower than last year. Net old-crop export sales were -49,600 tonnes with net reductions for unknown destinations and China. Total old-crop export commitments were 31.565 million tonnes, 372,000 greater than last year, an increase of 1%. Sales for new crop were a modest 119,200 tonnes. Total export commitments for new crop were a record high 6.668 million tonnes, greater by 1.64 million over the previous year. New-crop export commitments to China were a record high of 4.036 million tonnes, 552,000 larger than last year. New-crop export sales for unknown (possibly China) were 903,000 tonnes, 471,000 above last year.

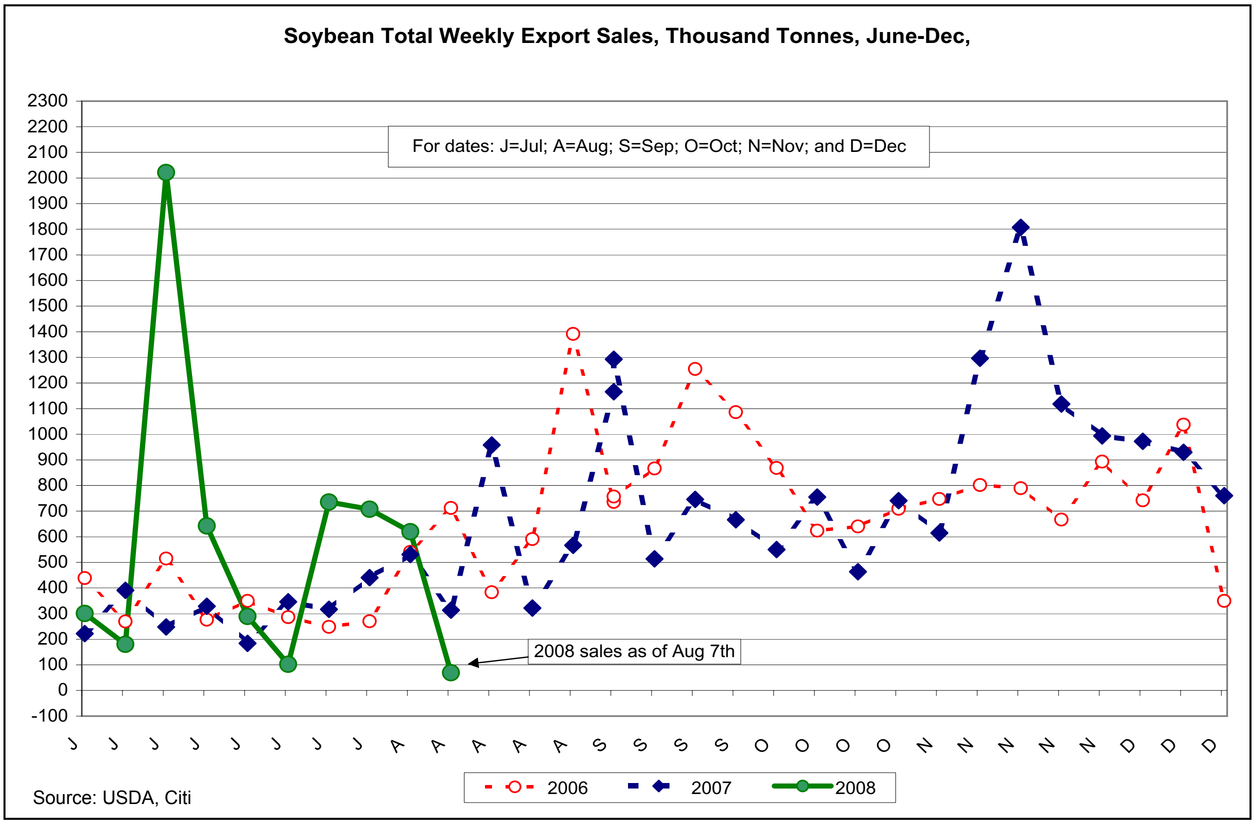
USDA crop ratings for the week ending August 17 were down slightly from a week ago. Our crop-condition index is 81.4%, down 0.2% from last week, and compares with 79.6% last year and the five-year average of 80.2%. The crop-rating index would be the highest since 2003 and second highest since 2000. Soybeans blooming were at 94%, compared with 97% last year and the five-year average of 97%. Soybeans setting pods were reported at 75% complete and compares with 89% the previous year and the five-year average of 87%.

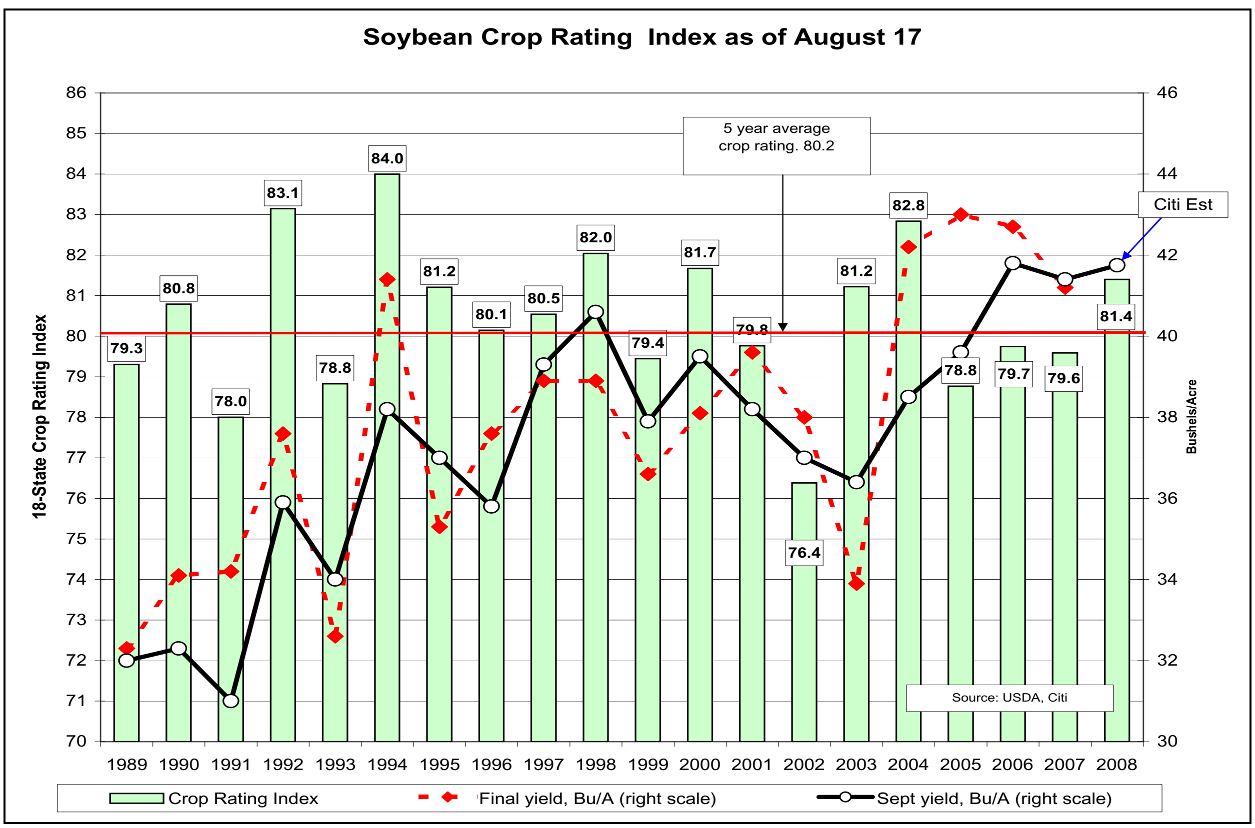
Based on current crop ratings and assuming normal weather, we are estimating the average yield for the U.S. soybean crop of 41.75 bushels per acre and production at 3,062 million bushels, 89 million greater than the USDA's forecast. Increasing dryness in the Midwest has been receiving little attention, even though below-normal rainfall for the rest of August (most of the Midwest has had below normal rainfall since mid-July) could reverse current favorable yield outlooks and result in substantially lower yields, severely tightening the U.S. supply balance.

In our opinion, the USDA crop estimate was conservative relative to what the market had already discounted. This should limit downside potential for prices for the near term. Adversely dry weather, with most of the crop setting and filling pods during the next month, could significantly reduce yield ideas. Also, if the weather outlook begins to suggest a freeze threat in September more weather risk will be injected into the market, contributing to substantial upside price potential. We expect November soybeans to trade in an $11.60–$14.00 range for the near term. If the weather cooperates (*i.e.*, timely rains and a long fall), substantially higher final yield potential is indicated, which would push the market to lower price levels this fall.

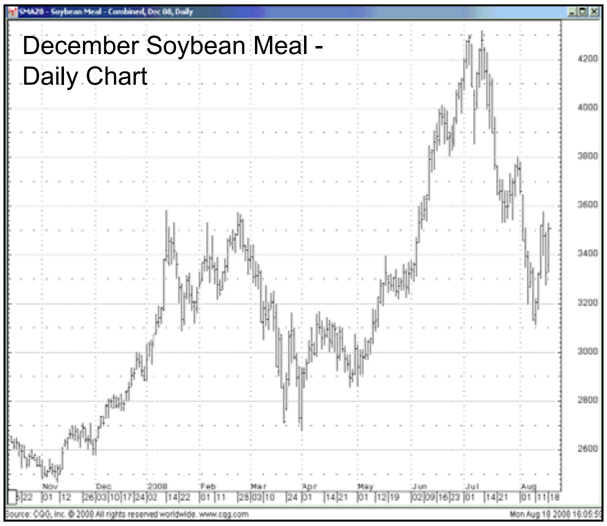
Mario Balletto

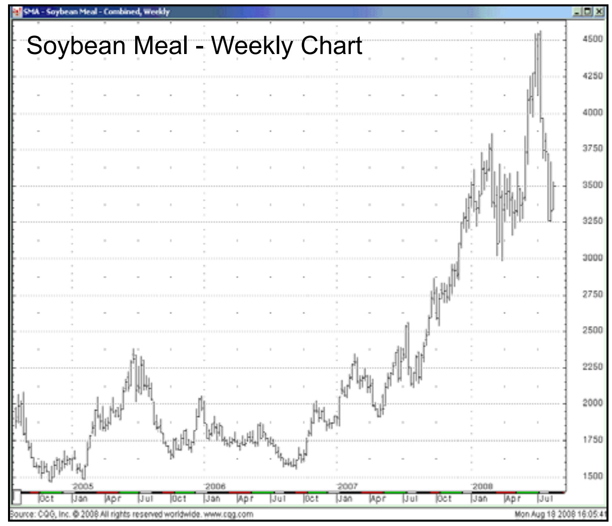
OILSEED FUTURES – Soybeans





OILSEED FUTURES – Soybean Meal





Prices rally from oversold conditions as speculative liquidation moderates

Soybean meal prices worked higher during the past week. The market is rebounding from oversold conditions in the wake of a steep decline since early July. The surge in the U.S. dollar to six-month highs against the euro has been a major bearish factor, along with the resumption of aggressive exports out of Argentina. The USDA crop ratings have improved counter seasonally over the past month, adding to bearish sentiment. However, the meal market may now have factored in a large crop and has little leeway for unfavorable late season weather. In recent weeks, the Midwest has been drying out and crop ratings could begin to slide in the weeks ahead if timely soaking rains are not received. The risk of frost damage could also develop by September.

U.S. export sales of meal for the week ending August 7 totaled a meager 96,400 tonnes for old and new crop combined. Sales for old crop were 51,305 tonnes, 44,200 lower than last year. Total old-crop export commitments were 7.485 million tonnes, 548,000 (8%) greater than last year. Total new-crop sales were a modest 45,062 tonnes. Total new-crop export commitments were 772,000 tonnes, 116,000 greater than the previous year and the highest since 2003. Weekly shipments were 110,638 tonnes, on the low side of expectations. Year-to-date shipments were 6.712 million tonnes, 889,000 (15%) larger than last year.

There has been a sharp increase in competition from Argentine. Recent export business out of Argentina has been done at a steep $20/tonne discount to U.S. offers. Trade ideas of Indian new-crop export prospects have increased. The Indian Soybean Extractors Association (SEA) is estimating soybean production at 10.0 million tonnes, compared with the USDA's estimate of 9.1 million. The association is looking for soybean meal exports to expand to 5.4 million tonnes, compared with the USDA's outlook of 3.8 million and the previous year's exports of 4.2 million. If the SEA numbers are realized, U.S. exports into Asia could be substantially reduced.

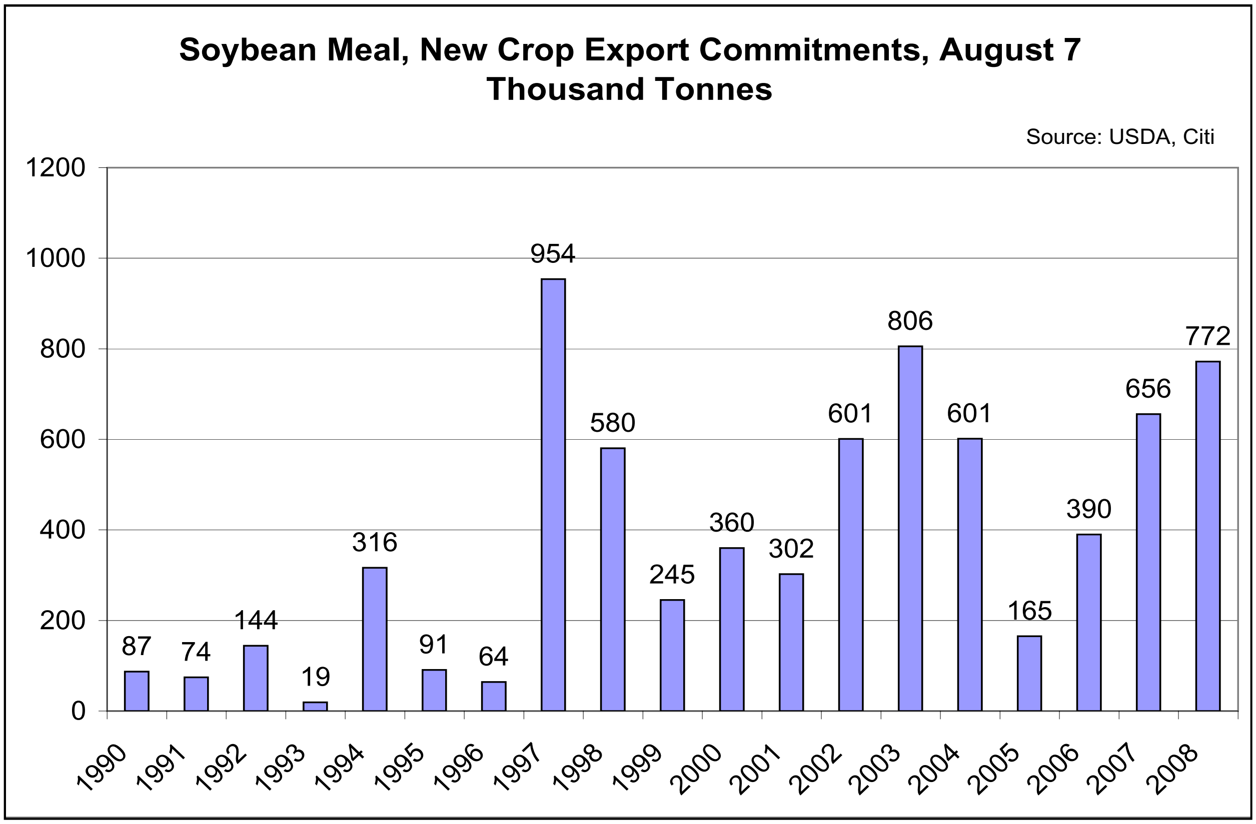
The NOPA July crush report implied disappointing domestic usage of meal. We estimate July domestic disappearance at 2.8 million tons, 5.8% lower than last year. October–July domestic disappearance would be 28.377 million tons, 1.6% lower than last year and lagging the USDA's forecast for a marketing year decline of 0.5%. In the livestock sector, U.S. broiler prices have declined sharply over the past month. Weekly broiler chick placements were 2% lower than last year and egg sets were 5% lower. The sharp declines in soybean meal and corn prices since July are expected to improve prospects for domestic demand.

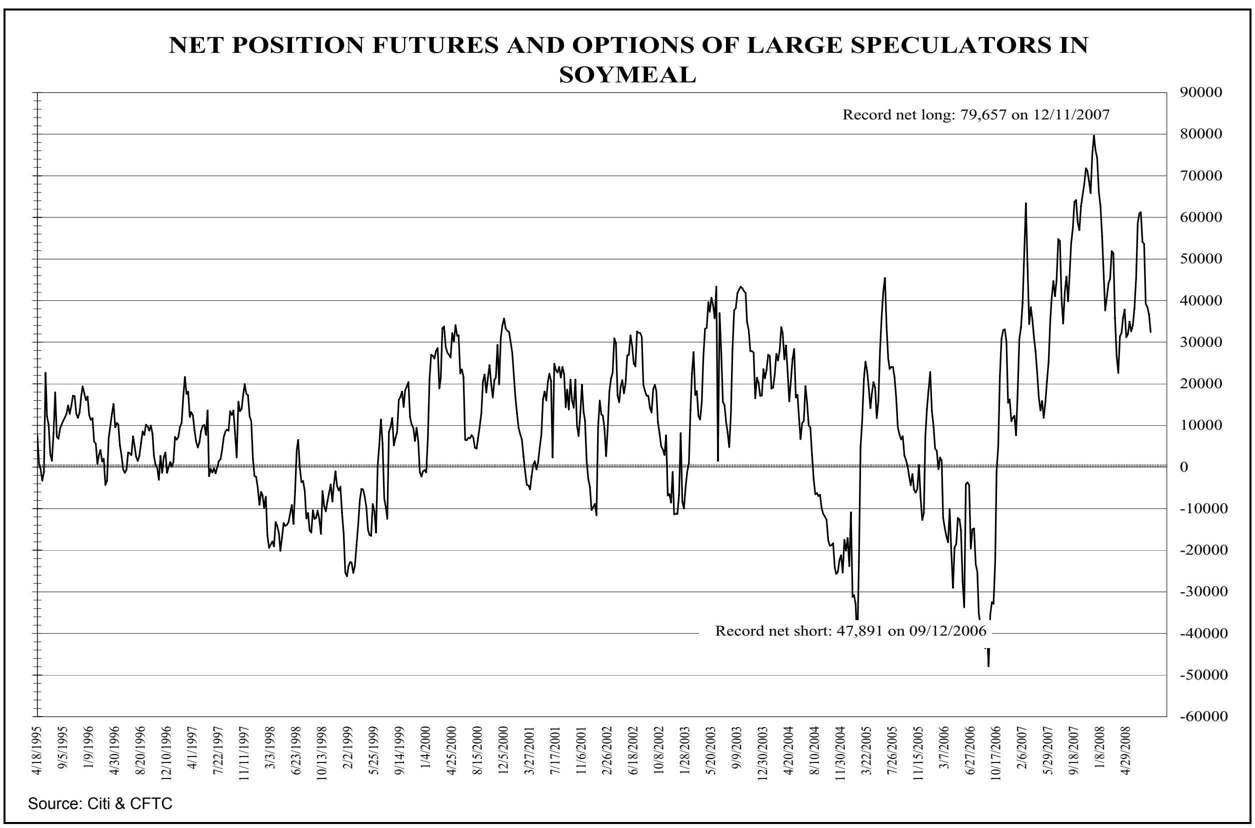
As of August 12, funds for futures and options combined were a net long 32,413 contracts of soybean meal, 4,253 less long than the previous week and 6,000 less long than two weeks ago. Open interest was 210,028 contracts, 2,881 (1.3%) less than the previous week and 21,720 lower from three weeks ago. The liquidation of speculative fund money has pressured prices lower.

We expect soybean meal prices to consolidate around current levels for the near term and stage a recovery rally if the exodus of speculative fund money abates, and the U.S. soybean crop begins to suffer increasing stress. A trading range of $320–$375 is expected for the December futures. If favorable weather is maintained through October, a substantially larger U.S. crop outlook would develop, likely encouraging more fund liquidation and downward pressure on prices.

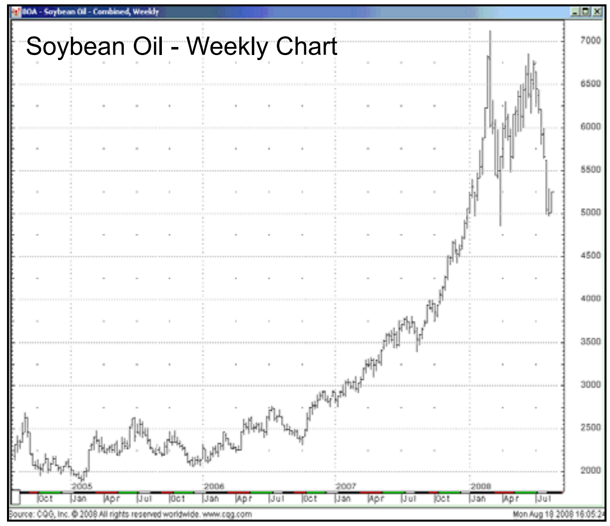
Mario Balletto

OILSEED FUTURES – Soybean Meal





OILSEED FUTURES – Soybean Oil



U.S. soybean oil stocks continue to decline amid robust export demand

Soybean oil prices have consolidated the declines since early July and appear to have established a near-term bottom, in our opinion. However, the market has been battered by the rapid decline in palm oil prices to 11-month lows amid reports of large washouts, defaults and requests to delay shipments by Indian and Chinese buyers. Palm oil prices have declined to where a significant increase in demand for use in bioenergy production is developing and beginning to underpin support for palm oil prices.

Cargo surveyors reported Malaysian palm oil shipments for August 1–15 at 643,324 tonnes, up 158,000 (32.6%) from last month and up 55,000 from last year. However, FOB Malaysian palm olein prices have declined to a $164/tonne discount to FOB Argentine soybean oil, compared with a discount of $21/tonne last year. The impact of the strong shipments has also been dampened by reports of defaults and washouts of over 1.0 million tonnes. Recently, Indian buyers are deferring 100,000 tonnes of August shipments to the months of September and October. Chinese buyers have defaulted on at least 80,000 tonnes.

Preliminary China customs data show July soybean oil imports at 170,000 tonnes, 32,000 lower than last year. Palm oil imports were 430,000 tonnes, 93,000 greater than last year, while rapeseed oil imports surged to 69,620 tonnes, 37,060 larger than the previous year. Total edible oil imports by China in July were 700,000 tonnes, 193,000 greater than the previous month and 128,000 tonnes above last year. For the October–July period, imports totaled 6.962 million tonnes, 1.0 million higher than last year. However, recent defaults and washouts suggest that stocks are backing up and imports could slow.

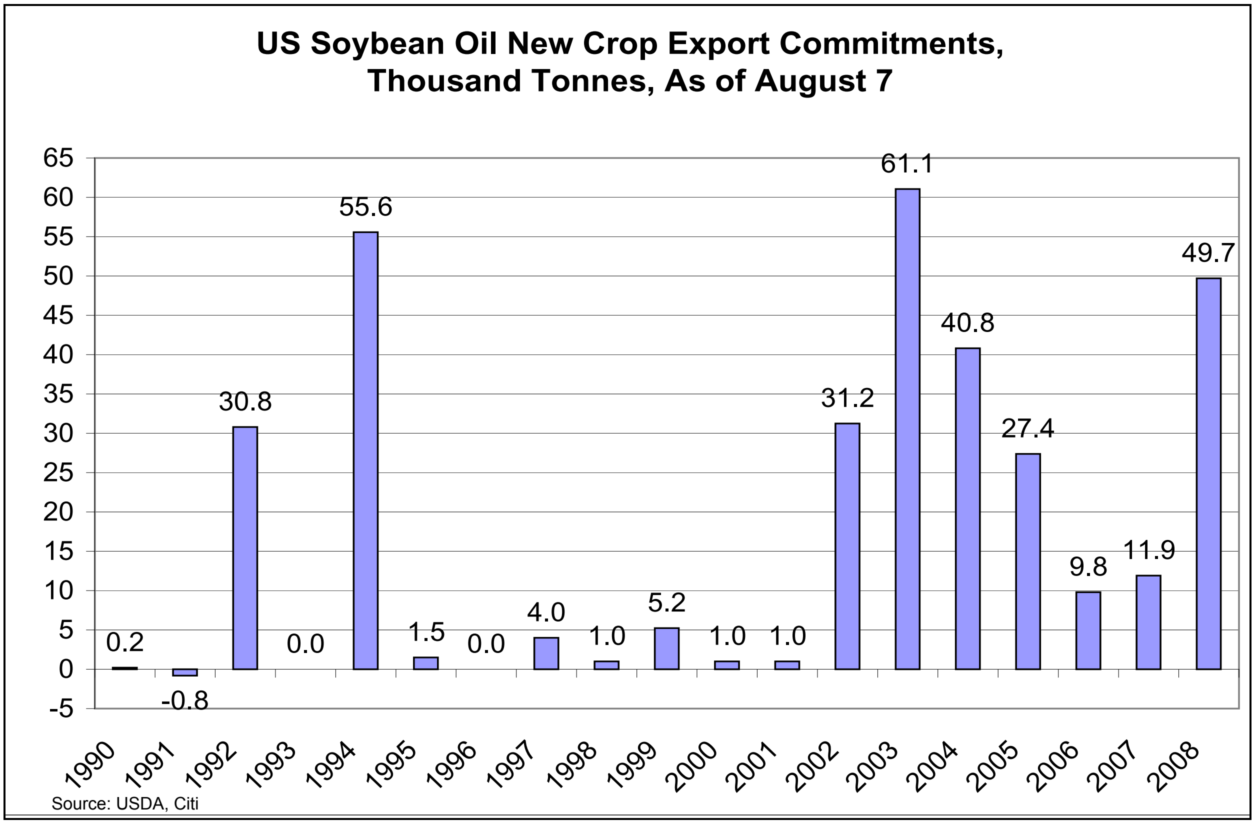
U.S. export sales of soybean oil for the week of August 7 totaled 37,500 tonnes (old and new crop combined), 22,300 greater than last year and well above expectations. Sales for old crop were 25,500 tonnes. Total export commitments for old crop were 1.131 million tonnes, 520,000 (85%) above last year. Weekly shipments were an impressive 16,700 tonnes. Year-to-date shipments were 996,000 tonnes, 519,000 (109%) over the previous year. Sales for new crop were 12,000 tonnes, bringing total new-crop export commitments to 49,700, 37,800 greater than last year and the highest since 2003.

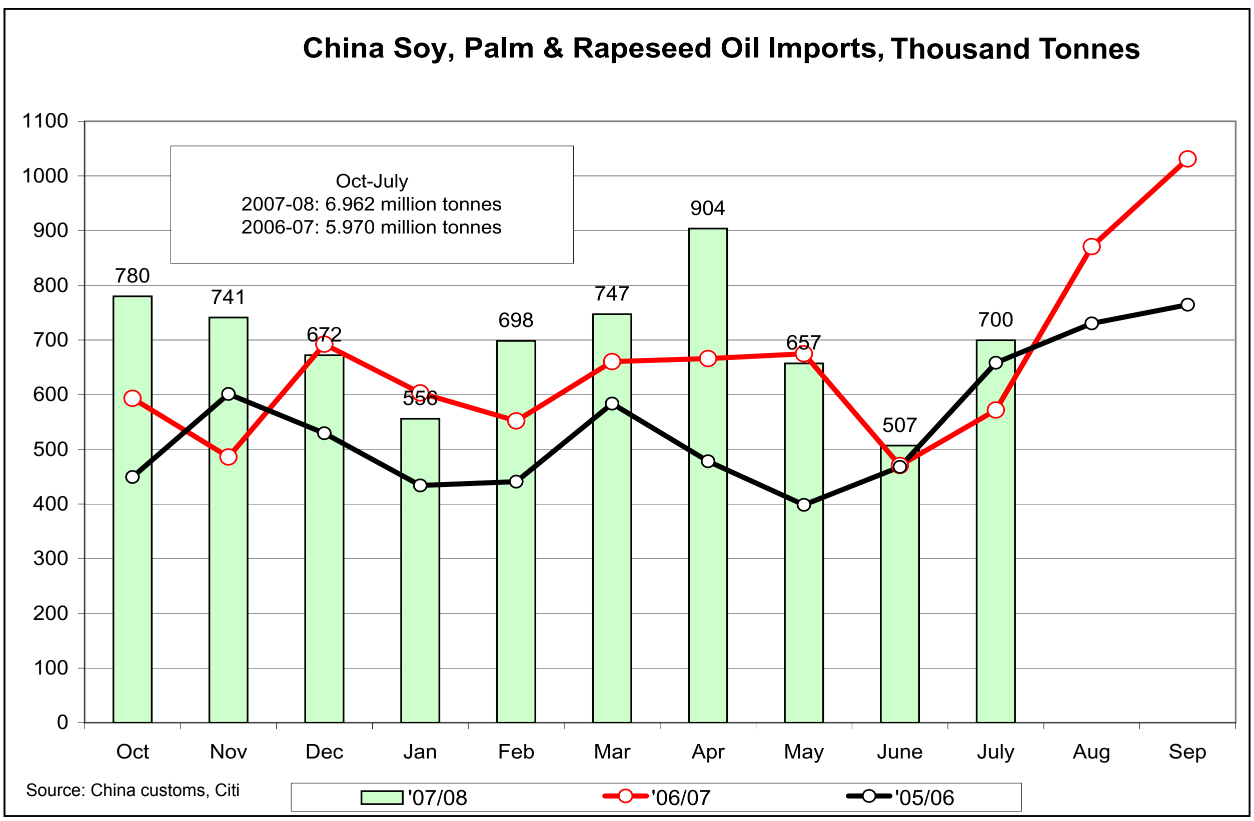
The NOPA July crush report implied disappointing domestic usage of soybean oil in July. Soybean oil stocks were 2,367 million pounds, in line with expectations, due to the much lower-than-expected soybean crush. We estimate Census July stocks at 2,782 million pounds, 618 million lower than last year. Domestic disappearance in July was estimated at 1,600 million pounds, 64 million less than the year before. For the October–July period domestic disappearance would be 15.164 million pounds, 0.8% lower than last year, and slightly ahead of the USDA's outlook for a marketing year decline of 1.4%.

We expect soybean oil futures to trade in a broad trading range in the weeks ahead until the U.S. soybean crop becomes better defined. A freeze before mid-October could significantly reduce oil yields and quality, and encourage aggressive oil/meal spreading. Soybean oil prices are also becoming more competitive for biodiesel production. We expect the December soybean oil contract to trade in a 50¢–60¢ range. Price direction will be influenced by weather, along with prices for both palm oil and crude oil.

Mario Balletto

OILSEED FUTURES – Soybean Oil





GRAIN FUTURES – Corn

Bullish sentiment in the corn market is weakening on high production prospects

Open interest is the CBOT corn market has dropped sharply down to December 2007 levels as bulls exit the market. The strength in the U.S. dollar and weakness in the euro has played a large part in recent price swings, but corn prices managed to rally over the past week after reaching six-month lows on August 12. Based on the tight U.S. soybean carryout forecast for the 2008–09 crop year, we are under the impression the soybean complex will lead corn over the next few weeks. The soybean/corn ratio, basis the November soybeans/December corn contracts, is running near 2.2, which is considered a normal level. The only bullish argument we interpreted from the USDA's August 12 supply and demand projections for corn was a large increase in corn use for ethanol (recall it was lowered in July). Corn prices seem to be stabilizing from rising soybean values.

U.S. corn-crop ratings are likely to improve in the USDA's next weekly report given the forecast for at, or above-normal precipitation (bias the western Corn Belt) and on average, normal temperatures. The eastern Corn Belt will see net drying later this week, but this should not pose any threat to the corn crop, which is in the denting growth stage. If Monday's crop condition data were to remain unchanged through September 1, we would estimate 2008 U.S. corn production at 12.511 billion bushels, 233 million above the USDA's August crop forecast.

This week the John Deer/Pro Farmer crop tour will kick-off across the major corn producing states. Last year the crop tour concluded, for the seven states actually surveyed, that the U.S. corn crop was 13.109 billion bushels (153.47 bushels/acre), 35 million bushels greater than the USDA's estimate (151.1 bushels/acre yield). The crop tour production estimate will be released Friday and should provide some market direction.

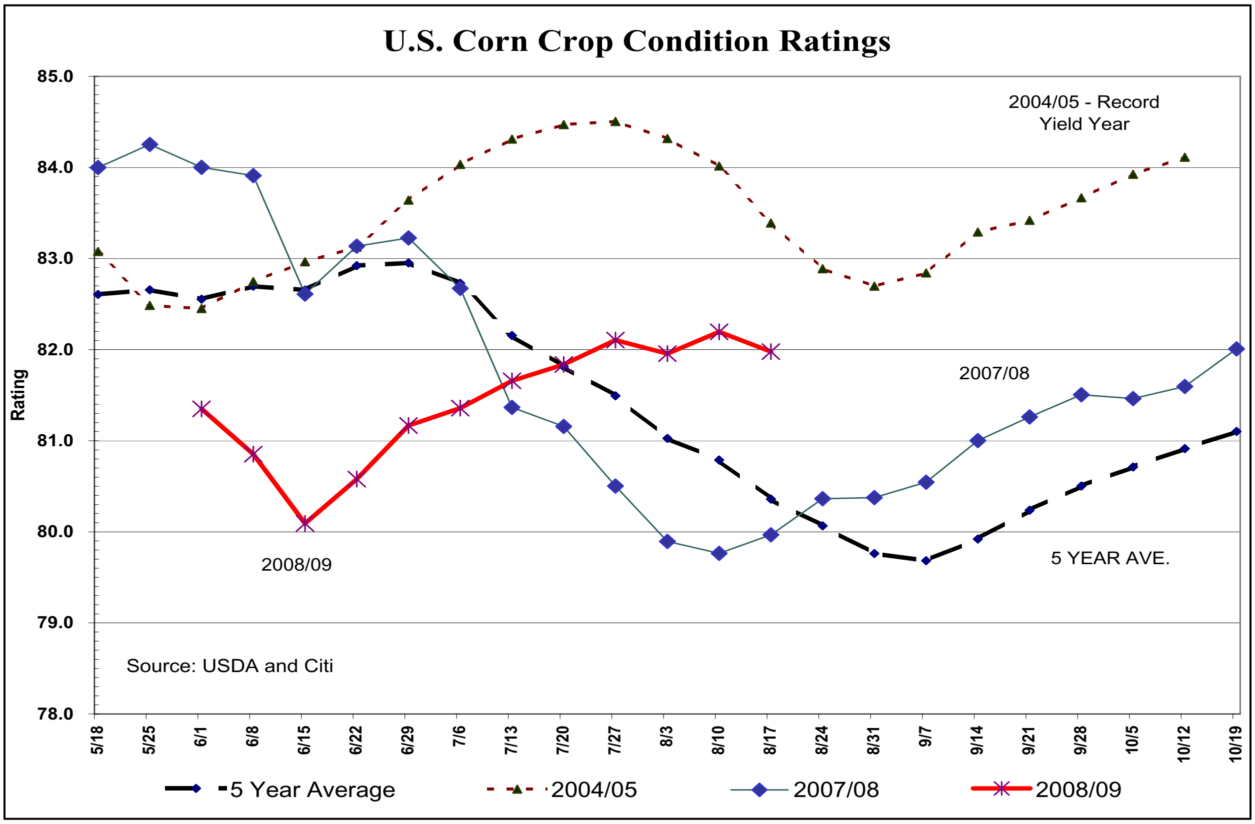
Outside the U.S., corn production is moving along nicely. Hungary estimates its 2008 corn production at 8.0 million tonnes, 400,000 below the USDA's forecast and compares with 4.0 million produced in 2007. Strategie Grains boosted its European Union corn production estimate by 1.05 million tonnes to 59.7 million, 1.1 million above the USDA's current estimate and compares with 47.3 million produced last year. We currently estimate world corn crop at 793 million tonnes, 3.2 million above the current forecast from the USDA.

Combined old crop and new crop U.S. corn export sales for the week ending August 7 totaled 1.335 million tonnes, at the upper end of trade expectations. Old crop year-to-date sales were 2.434 billion bushels, 228 million (+10%) above last year's pace. Our estimate for 2007–08 U.S. corn exports is 2.475 billion bushels, 50 million above last season. New crop year-to-date sales of 303 million bushels were running 79 million below last year's pace. We currently estimate 2008–09 U.S. corn exports at 2.1 billion bushels, 100 million above the USDA's forecast.

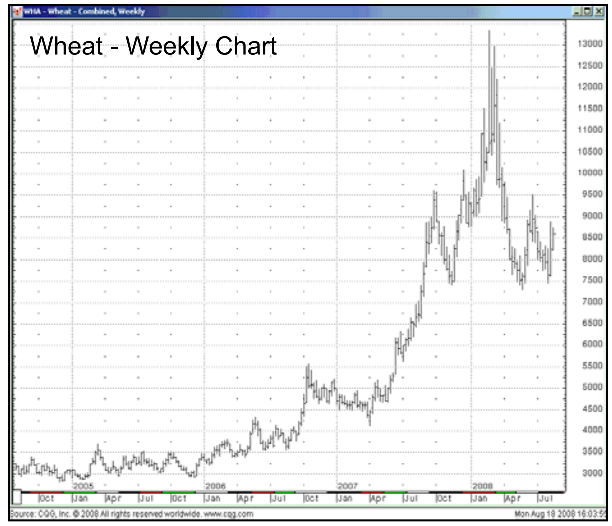
Corn prices will be influenced by the direction of soybean prices and volatility in the crude oil market. Upside potential for December corn is seen limited to \$6.45, while support is anticipated at \$5.00.

Terry Reilly

GRAIN FUTURES – Corn



GRAIN FUTURES – Wheat



A brighter outlook for the U.S. 2008–09 export campaign

Wheat prices started last week lower following an upward revision in the USDA's August U.S. carryout estimate for wheat, but losses were limited on export developments. Last Friday, the USDA, under the 24-hour announcement system, announced sales of an impressive 689,310 tonnes of U.S. hard-red-winter wheat to Iran. Of this, 199,310 tonnes switched from unknown destinations. This announcement, although bullish in our opinion, is nothing new for this year. As of August 7, cumulative 2008–09 U.S. wheat export commitments for Iran stood at 390,700 tonnes (all hard-red-winter), compared to zero for the previous year. Friday's sale announcement would put total 2008–09 U.S. wheat export commitments to Iran at over 1.0 million tonnes, the highest level since 1977–78.

Egypt recently bought Ukraine and Russian wheat at cheap prices. Results are awaited on Oman tendering for 50,000 tonnes of milling wheat, along with tenders by Bangladesh for 100,000 and Morocco for 307,000 of wheat. Many of the large upcoming tenders will likely be of non-U.S. origin. Still, U.S. exports for the first 10 weeks of the crop year are running at a steady level.

On August 12, the USDA boosted its global wheat production projection by 6.5 million tonnes to a record 671 million, 61 million above 2007. The upward revision was due, in large part, to higher production estimates for Russia (+3.0 million tonnes), EU-27 (+1.5 million), India (+1.6 million) and the Ukraine (+1.0 million). Projected global ending inventories of wheat were increased by 3.1 million tonnes by the USDA to 136.2 million, 21 million above last year.

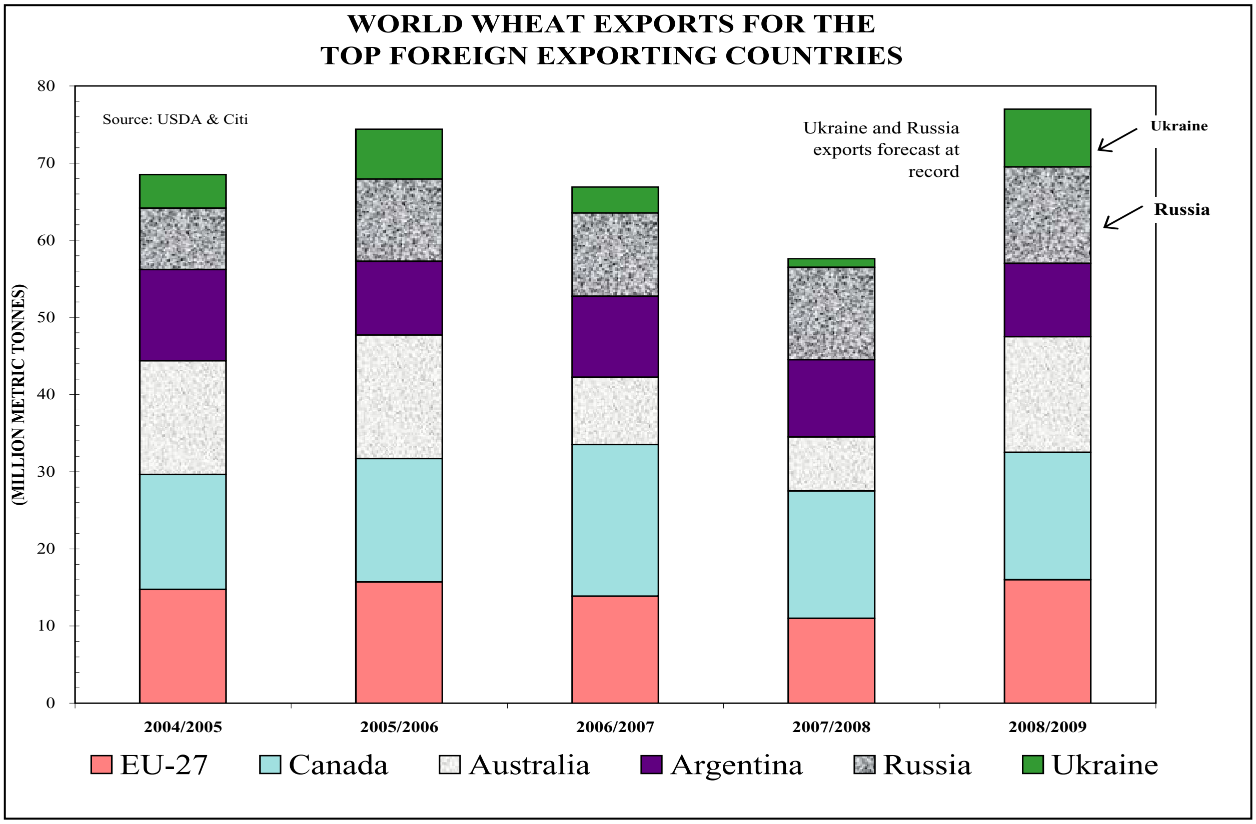
Currently, the USDA projects Ukraine wheat exports will be a record 8.5 million tonnes, up 7.4 million from last year and compares with our 2008 export forecast of 5.0 million, due to quality issues. According to a leading consultant, Ukraine's 2008 wheat crop is expected to yield 50% feed-grade quality, its highest level since 2004, due to low application of fertilizers and a warm winter, fostering diseases. If realized, more Ukraine wheat will be available for domestic feed rather than exports.

U.S. export sales of all-wheat for the week ending August 7 were 650,300 tonnes, within expectations, and included Egypt for 153,500 tonnes. Crop year-to-date sales, as of August 7, of 488 million bushels were running 36 million (-36%) below last year's pace, but well above the five-year average. In our opinion, we believe the USDA's wheat export projection of 1.0 billion bushels (264 million below last year) is 25 million too low.

Basis the December contracts, Chicago wheat should remain in a \$7.50–\$9.75 trading range, while Kansas City and Minneapolis wheat are expected to maintain ranges of \$7.65–\$10.40 and \$8.00–\$11.25, respectively. For the Kansas City and Minneapolis contracts, spring-wheat harvest pressure should limit price gains for the balance of August.

Terry Reilly

GRAIN FUTURES – Wheat



U.S. Crop Wheat Export Sales Commitments

U.S. Commitments as % of Actual Annual Exports
Million Bushels

Crop Year	Sales Date	Crop YTD Commitments	% Annual Exports	Annual U.S. Exports
1990-91	08/09/90	368.5	35%	1068
1991-92	08/08/91	444.5	35%	1280
1992-93	08/06/92	335.6	25%	1354
1993-94	08/12/93	403.8	33%	1228
1994-95	08/11/94	352.0	30%	1188
1995-96	08/10/95	443.5	36%	**1241**
1996-97	08/08/96	**463.8**	**46%**	**1001**
1997-98	08/07/97	391.0	38%	1040
1998-99	08/06/98	319.5	31%	1046
1999-00	08/12/99	314.6	29%	1087
2000-01	08/10/00	338.0	32%	1062
2001-02	08/09/01	295.3	31%	962
2002-03	08/08/02	284.9	34%	850
2003-04	08/07/03	324.3	28%	1158
2004-05	08/12/04	409.8	38%	1066
2005-06	08/11/05	337.5	34%	1003
2006-07	08/10/06	281.7	31%	909
2007-08	08/09/07	524.3	41%	**1264**
2008-09	08/07/08	**488.1**	**49%**	**1000**

World Wheat Production
Million Tonnes

Crop Year	Production	Change
1990-91	588.0	
1991-92	542.9	(45.1)
1992-93	561.6	18.7
1993-94	558.1	(3.5)
1994-95	523.1	(35.0)
1995-96	537.9	14.8
1996-97	582.6	**44.6**
1997-98	610.0	27.4
1998-99	589.9	(20.1)
1999-00	585.8	(4.1)
2000-01	581.5	(4.3)
2001-02	581.1	(0.4)
2002-03	568.4	(12.7)
2003-04	553.8	(14.6)
2004-05	625.7	71.9
2005-06	620.9	(4.9)
2006-07	596.3	(24.6)
2007-08	610.5	14.3
2008-09	670.8	**60.2**

Using USDA data. Source: Citi, USDA

GRAIN FUTURES – Wheat

UKRAINE WHEAT SUPPLY AND DEMAND
THOUSAND OF METRIC TONS/HECTARES

Year	Area Harvested	Yield	Production	TOTAL MY Imports	TOTAL MY Exports	Feed Consumption	Ending Stocks	Domestic Consumption	Stocks As STU %	
90	7577	4.01	30374	910	2000	17130	7514	27980	20.0%	**90/91**
91	7023	3.01	21155	1100	225	12469	6575	22969	22.1%	**91/92**
92	6329	3.08	19508	1483	100	11370	5646	21820	20.5%	**92/93**
93	5748	3.80	21831	78	500	8810	7600	19455	27.6%	**93/94**
94	4507	3.07	13857	240	140	5390	6000	15557	27.7%	**94/95**
95	5479	2.97	16273	183	1343	5200	5700	15413	25.4%	**95/96**
96	5892	2.30	13550	50	1285	5200	2500	15515	13.0%	**96/97**
97	6508	2.83	18404	103	1364	5200	4000	15643	19.0%	**97/98**
98	5641	2.65	14937	78	4696	2100	1900	12419	10.0%	**98/99**
99	5931	2.29	13585	453	1952	1900	1800	12186	11.3%	**99/00**
00	5161	1.98	10197	686	78	1700	450	12155	3.5%	**00/01**
01	6882	3.10	21349	92	5486	3000	2955	13450	13.5%	**01/02**
02	6750	3.05	20556	810	6569	4000	3252	14500	13.4%	**02/03**
03	2450	1.47	3600	3365	66	425	1126	9025	11.0%	**03/04**
04	5900	2.97	17500	34	4351	2100	2609	11700	14.0%	**04/05**
05	6570	2.85	18700	66	6461	2900	2414	12500	11.3%	**05/06**
06	5500	2.55	14000	80	3366	2100	1428	11700	8.7%	**06/07**
07	5950	2.34	13900	350	1100	3100	1678	12900	10.7%	**07/08**
08	6700	3.28	22000	100	8500	3200	2078	13200	8.7%	**08/09**
08*	6750	3.20	21600	400	5000	4500	1678	10322	9.9%	**08/09**

Source: USDA and *Citi

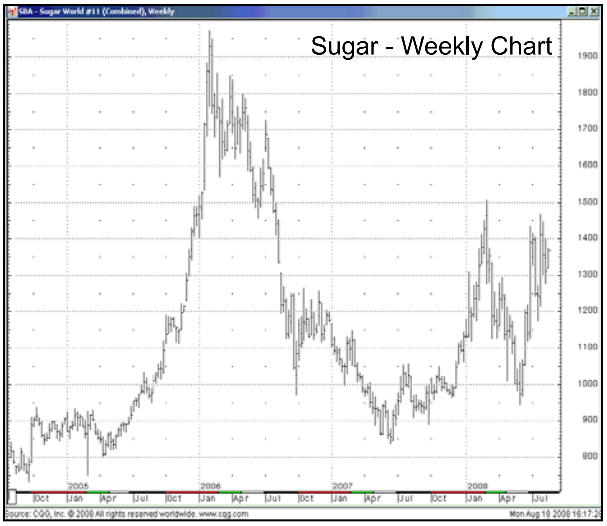
IRAN WHEAT SUPPLY AND DEMAND
THOUSAND OF METRIC TONS/HECTARES

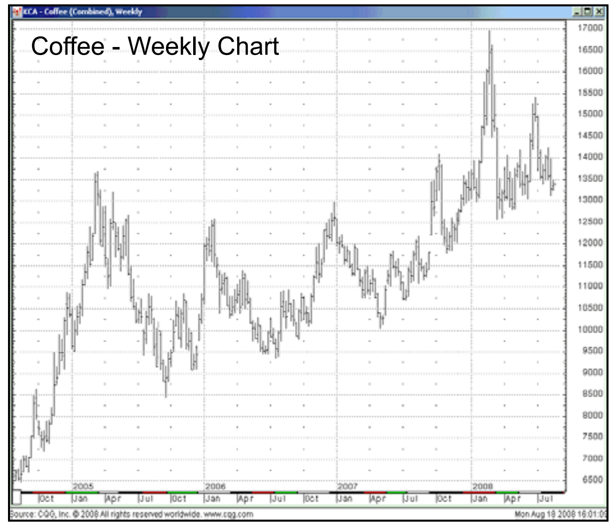
Year	Area Harvested	Yield	Production	TOTAL MY Imports	MY Imports From U.S.	TOTAL MY Exports	Feed Consumption	Ending Stocks	Domestic Consumption	Stocks As STU %	
75	5,200	1.07	5,575	1,440	**150**	0	200	1,490	11,185	13.3%	**75/76**
76	5,000	1.10	5,500	850	**1,190**	0	400	1,390	11,186	12.4%	**76/77**
77	5,000	1.01	5,025	1,500	**1,300**	0	400	1,390	11,187	12.4%	**77/78**
78	5,000	1.11	5,525	710	**914**	0	500	700	11,188	6.3%	**78/79**
79	5,275	1.15	6,050	1,187	**223**	0	400	587	11,189	5.2%	**79/80**
80	5,925	1.00	5,925	1,896	**405**	0	300	1,183	11,190	10.6%	**81/82**
81	6,250	1.07	6,675	1,377	**728**	0	400	1,160	11,191	10.4%	**82/83**
82	6,200	1.08	6,675	1,405	**0**	0	450	965	11,192	8.6%	**82/83**
83	5,925	0.99	5,875	3,700	**0**	0	500	1,965	11,193	17.6%	**83/84**
84	5,960	1.04	6,200	3,200	**0**	0	500	1,615	11,194	14.4%	**84/85**
85	6,200	1.07	6,625	2,200	**0**	0	500	915	11,195	8.2%	**85/86**
86	6,300	1.20	7,550	2,500	**0**	0	500	1,615	11,196	14.4%	**86/87**
87	6,591	1.15	7,600	4,000	**0**	0	500	3,015	11,197	26.9%	**87/88**
88	6,553	1.11	7,260	3,200	**0**	0	500	3,110	11,198	27.8%	**88/89**
89	6,257	0.96	6,010	5,200	**0**	0	500	2,685	11,199	24.0%	**89/90**
90	6,278	1.28	8,012	4,000	**0**	0	500	3,497	11,200	31.2%	**90/91**
91	6,558	1.34	8,793	2,450	**0**	0	500	3,100	11,640	26.6%	**91/92**
92	6,930	1.47	10,179	3,002	**0**	0	500	3,281	13,000	25.2%	**92/93**
93	7,190	1.49	10,732	3,504	**0**	0	500	4,217	13,300	31.7%	**93/94**
94	6,782	1.60	10,870	3,647	**0**	0	500	4,734	14,000	33.8%	**94/95**
95	6,567	1.71	11,228	3,029	**0**	0	750	4,491	14,500	31.0%	**95/96**
96	6,328	1.58	10,015	5,567	**0**	10	1000	4,563	15,500	29.4%	**96/97**
97	6,299	1.59	10,045	5,211	**0**	10	500	4,809	15,000	32.1%	**97/98**
98	6,180	1.93	11,955	2,345	**0**	18	500	4,091	15,000	27.3%	**98/99**
99	4,739	1.83	8,673	7,221	**0**	0	400	4,835	15,150	31.9%	**99/00**
00	5,101	1.59	8,088	6,284	**0**	0	300	4,157	15,050	27.6%	**00/01**
01	5,553	1.70	9,459	5,296	**0**	42	300	3,820	15,050	25.4%	**01/02**
02	6,241	1.99	12,450	2,075	**0**	0	300	3,545	14,800	24.0%	**02/03**
03	6,409	2.10	13,440	766	**0**	0	300	3,201	14,550	22.0%	**03/04**
04	6,605	2.21	14,568	200	**0**	0	300	3,419	14,550	23.5%	**04/05**
05	6,951	2.06	14,308	380	**0**	50	300	3,257	14,800	22.0%	**05/06**
06	6,500	2.23	14,500	1,100	**0**	50	300	3,507	15,300	22.9%	**06/07**
07	6,900	2.17	15,000	200	**0**	50	300	3,157	15,500	20.4%	**07/08**
08	5,850	1.71	10,000	4,500	**1,080**	50	300	2,007	15,600	12.9%	**08/09**
08*	6100	1.80	10980	4,000	**1,080**	50	300	2,087	16,000	13.0%	**08/09**

Source: USDA and *Citi

Iran ComMin announced 5.0 million tonnes of imports will be needed 2008-09 (6-10-08)

FOOD and FIBER FUTURES – Sugar and Coffee





Price consolidation continues

Widespread weakness in commodity prices last week, due mostly to a stronger U.S. dollar, triggered a drop in the October ICE raw sugar contract from 14.00¢ to a low on Friday of 12.76¢. Reuters reported that merchant Czarnikow is forecasting a global deficit of 3.3 million tonnes for the global sugar market in 2008–09, after a 9.4 million surplus in 2007–08. It forecast global sugar output would fall by 8 million tonnes to 164.1 million in 2008–09, largely due to changes taking place in India and Europe. Sugar output for India in 2008–09 was forecast to drop by 5 million tonnes to 23.91 million, predominantly due to lower acreage as farmers began to switch from sugarcane towards more profitable crops. Sugar exports from India in 2008–09 were expected to be well below the 2007–08 total. Brazil, the world's largest sugar producer, was expected to see its 2008–09 sugar production near unchanged on the year at 33.5 million tonnes. Czarnikow projected that global sugar consumption would rise to 166.4 million tonnes in 2009 from 161.6 million in 2008 and 155.2 million in 2007.

Brazil's Sugarcane Industry Association, Unica, reported last week that Brazil's center-south sugarcane harvest reached 214.3 million tonnes at the end of July, up 11.5% from the same period in the 2007–08 crop year. Unica said a record 73 million tonnes of sugarcane was cut in July, recovering after the delays earlier in the harvest, and that 50% of the harvest should be reached by mid-August. However, Unica warned that rain in August could lead to a slower rate of harvesting by up to 10%. Unica also said that the center-south region's mills are still favoring ethanol production, with some 60% of the harvested sugarcane going to make ethanol.

Dave Rinehimer

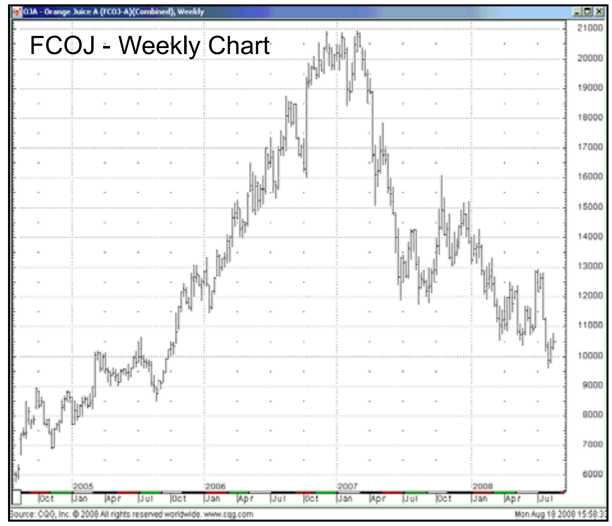
Tracking commodity prices lower

The September ICE coffee contract declined last week to just below its early May low of 131.30¢ due to widespread weakness in commodity prices and the increased likelihood that Brazil will be spared a crop-damaging frost/freeze event this season. Over the next ten days mostly dry conditions will prevail in the heart of Brazil's coffee areas and temperatures will remain mostly in a warm range. The dry weather should allow the coffee harvest to quickly resume. The coffee harvest remains about one month behind the same period last year, due to the late flowering of plants in September. Some premature flowering is suspected, but not confirmed, in Sao Paulo and Parana after abundant rain earlier this month. The impact on 2009 production is not expected to be very great. In addition, the late arrival of rainfall that occurred last year and delayed the current harvest is not expected to reoccur this year, since the *La Niña* weather anomaly that kept the weather dry in 2007 was not present this year.

It was reported today that Brazil's Ministry of Agriculture doesn't expect to make any decision about Brazil's coffee subsidy program, Pepro, this month. A ministry press officer said that the government is still studying options, and it's still not clear whether Pepro will go ahead. The Colombian government and the country's truck drivers reached an agreement Friday to end a strike that started on July 31. Reportedly, the strike has left a backlog of more than 300,000 60-kilogram bags of coffee waiting to be shipped, according to an estimate by Jorge Lozano, executive director of Colombia's National Association of Coffee Exporters of Colombia.

Dave Rinehimer

FOOD and FIBER FUTURES – FCOJ



Lower-than-expected estimates for Florida's orange crop

On August 5, the September FCOJ contract set a fresh three-year low for the nearby futures contract. Prices stayed relatively near the market lows for the following few sessions, trading above and below the psychological 100¢ support level. However, earlier last week, a few tropical waves in the Atlantic Basin began to show some development potential that rallied prices. On Wednesday, private analyst Elizabeth Steger released her 2008–09 Florida orange crop estimate at 150 million boxes. This was well-below expectations, as many analysts believed the crop would be 155–175 million boxes, and possibly bigger than the 2007–08 crop, which was about 170 million boxes. The forecast triggered a "knee-jerk" price reaction to the upside. This was the first survey-based projection of the new crop year, and comes a full two months before the USDA releases its first drop estimate. In June, analyst Judy Ganes-Chase projected the Florida orange crop in a range of 180–200 million boxes, with a bias to the upper end of the range as trees recovered from the past years of hurricanes and disease threats. In addition, the orange groves have received plentiful rain in recent months, encouraging foliage growth and crop development.

This year, there are fewer trees, but a very good crop was generally expected. Offsetting the fewer trees was the expected larger orange size due to good rains. Consequently, many participants were skeptical of the lower-than-anticipated estimate, expecting the private analyst group, Louis Dreyfus (LD), to release a larger crop estimate within a few trading days. Late in the afternoon on Thursday, LD pegged the 2008–09 Florida orange crop at 156 million boxes, essentially a confirmation of Steger's estimate.

Assuming FCOJ and NFC demand stabilize, and using the 150 million box estimate, we can project a fairly conservative estimate of 2008–09 ending stocks at about 152 million gallons, on par with our 2007–08 projection for ending stocks, which represents about 28.6 weeks of demand. This means that if the 2008–09 Florida orange crop is higher than 150 million boxes, imports are stronger than expected (as they were in the 2007–08 season), and if juice yields are stronger due to the beneficial weather we have seen in Florida and a number of other assumed factors, inventories could easily climb for a second consecutive season. While some of the bearishness of the underlying fundamentals has weakened due to the lower-than-expected crop estimate, the outlook that inventories may not change after rebuilding to much stronger levels this season is not considered bullish for the market.

Benjamin Fisher

FOOD and FIBER FUTURES – FCOJ

FDOC Florida FCOJ and NFC Movement
(million gallons, 42º Brix)

	Weekly		Cumulative		Yr/Yr %
Date	This Yr.	Last Yr.	This Yr.	Last Yr.	Change
07/12/08	5.33	5.06	219.85	227.16	-3.22
07/19/08	4.83	5.52	224.69	232.68	-3.43
07/26/08	4.88	4.99	229.57	237.66	-3.41
08/02/08	4.74	4.94	234.31	242.61	-3.42
08/09/08		4.44		247.04	
08/16/08		6.00		253.04	
08/23/08		5.85		258.89	
08/30/08		5.91		264.80	

FDOC Weekly FCOJ Movement
(million gallons, 42º Brix)

	Weekly		Cumulative		Yr/Yr % Change	
Date	This Yr.	Last Yr.	This Yr.	Last Yr.	Weekly	Cum
07/12/08	2.76	2.91	108.06	115.92	-5.0	-6.8
07/19/08	2.40	2.55	110.46	118.47	-5.8	-6.8
07/26/08	2.53	2.57	113.00	121.05	-1.5	-6.6
08/02/08	2.29	2.74	115.28	123.79	-16.5	-6.9
08/09/08		2.55		126.34		
08/16/08		3.38		129.72		
08/23/08		3.47		133.19		
08/30/08		3.18		136.37		

FDOC Weekly FCOJ and NFC Pack
(million gallons, 42º Brix)

	Weekly		Cumulative		Yr/Yr %
Date	This Yr.	Last Yr.	This Yr.	Last Yr.	Cumm
07/05/08	1.75	0.00	271.18	199.92	35.6
07/12/08	0.60	0.00	271.78	199.92	35.9
07/19/08	0.01	0.00	271.79	199.92	35.9
07/26/08	0.00	0.00	271.79	199.92	35.9
08/02/08		0.00		199.92	
08/09/08		0.00		199.92	
08/16/08		0.00		199.92	
08/23/08		0.00		199.92	

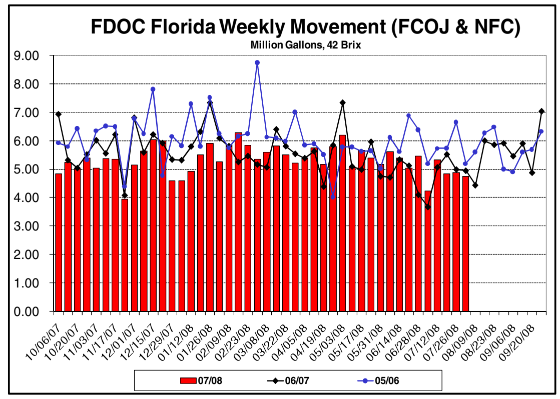
FDOC Weekly FCOJ and NFC Stocks
(million gallons, 42º Brix)

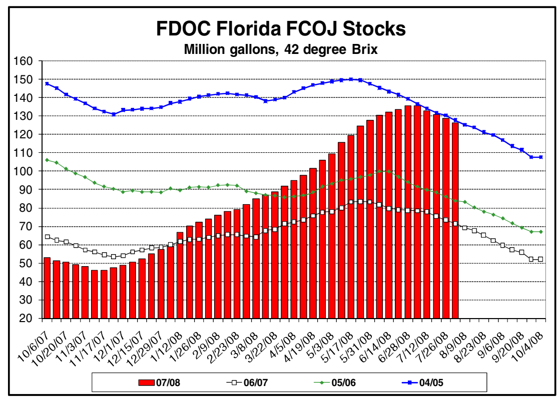
	FCOJ		NFC		FCOJ & NFC		
Date	This Yr.	Last Yr.	This Yr.	Last Yr.	This Yr.	Last Yr.	Change
07/12/08	132.9	78.1	73.8	59.7	206.6	137.8	68.9
07/19/08	130.7	75.7	71.5	56.8	202.2	132.5	69.7
07/26/08	128.7	73.6	69.2	54.5	197.9	128.1	69.9
08/02/08	126.4	71.6	67.0	52.4	193.4	124.0	69.4
08/09/08		69.4		52.3		121.7	
08/16/08		67.8		49.8		117.6	
08/23/08		65.3		48.4		113.6	
08/30/08		62.5		45.7		108.2	

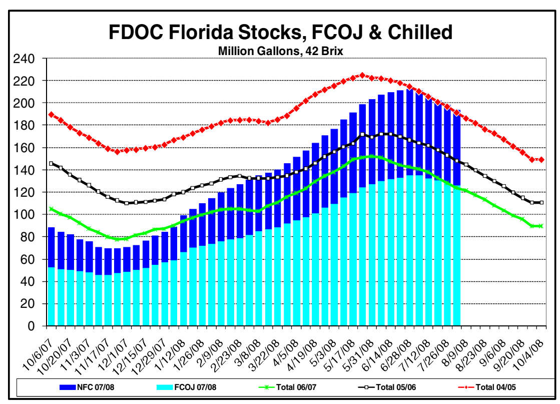
NYBOT/ICE Speculation/Hedge Report
(Contracts)

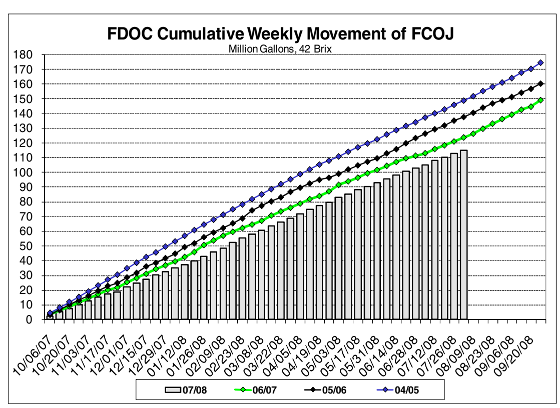
FCOJ	Spec	Spec	Hedge	Hedge	Open	Net
Date	Long	Short	Long	Short	Interest	Spec
08/01/08	18,626	10,399	11,414	19,641	30,040	8,227
08/08/08	19,069	12,386	12,542	19,225	31,611	6,683
Wkly chg	443	1,987	1,128	-416	1,571	-1,544

FDOC – Florida Department of Citrus
NYBOT – New York Board of Trade

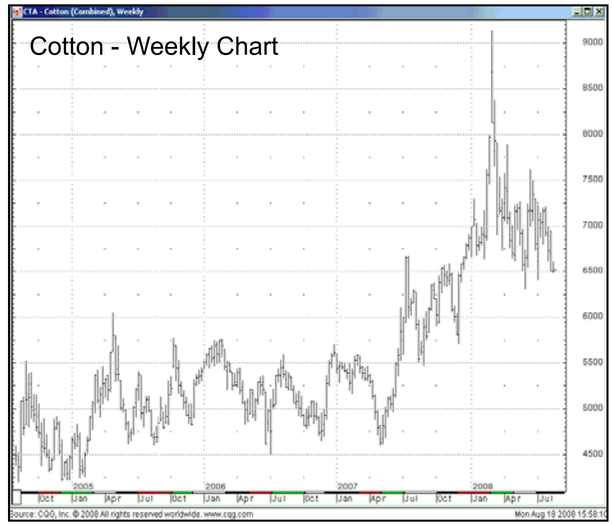








FOOD and FIBER FUTURES – Cotton



A ho-hum trading range likely!

The ICE cotton market maintained its five-month downtrend despite the friendly supply/demand projections spotlighted in the USDA's August outlook. A brief up-thrust in prices sputtered as traders responded to the urgency of a spiking U.S. dollar and collapses in many other commodity markets.

The bullish aspect of the USDA data will come into play beginning in spring 2009, but the key question, in our opinion, is, "When will futures begin to respond to the bullish potential?" Meanwhile, the U.S. and India have received beneficial rainfall. On the demand side, retail sales of discretionary items like clothing and textile-based home furnishings continue to decline.

Cotton prices in China, the world's largest grower and consumer of cotton, have declined to eight-month lows, confirming poor global demand and raising the possibility that China's inventories of raw cotton and yarn might be bigger than presently thought.

The internal market condition shows the potential for a spark of life. After a big decline from the price peak in March, cotton open interest stabilized near unchanged for the past two months. This can be seen in the chart on the following page. During this period, funds (large spec longs) have gradually continued to add to shorts while liquidating longs, becoming net short, also evident in the chart. Index fund managers have reduced their long exposure by a small amount.

In contrast, mills have used the price decline to both purchase spot cotton and to fix prices of cotton contracted using the "on call" futures pricing mechanism. We view this as a favorable sign pointing toward price stabilization. The latest "on call" sales figure shows 15,931 December contracts are needed to be fixed (bought) in the next three months. Improved offshore mill business for U.S. and foreign cotton is showing up, according to merchant reports. The Cotlook A Index confirms this. It stands at 76.50¢; well above the early summer lows, while December futures contract is 4.00¢ below comparable levels, indicating a strong basis relationship.

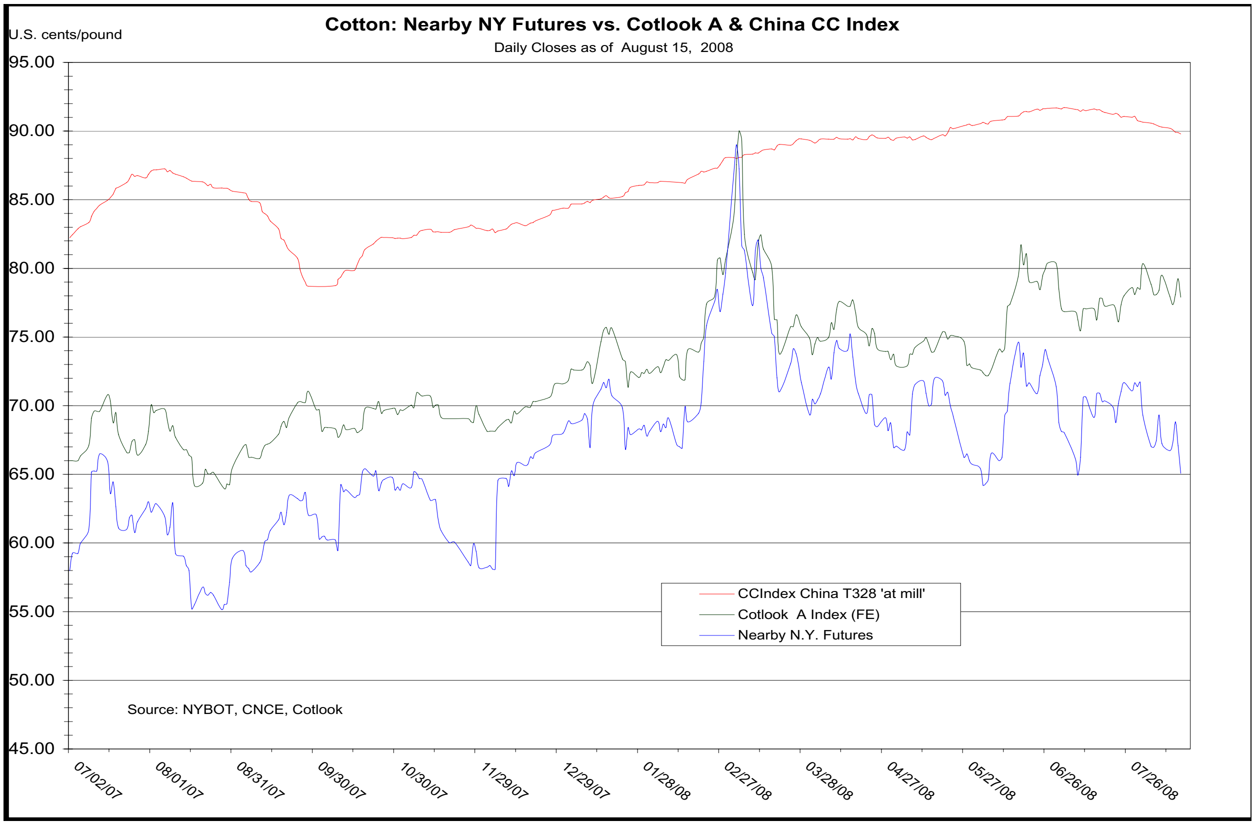
At current basis levels, ICE cotton stocks are the cheapest cotton around. Proof of this shows up in the certificated stocks figures. They have declined by 94,189 bales to 1,654,028 since July 28, earmarked for shipment abroad to fill prior commitments.

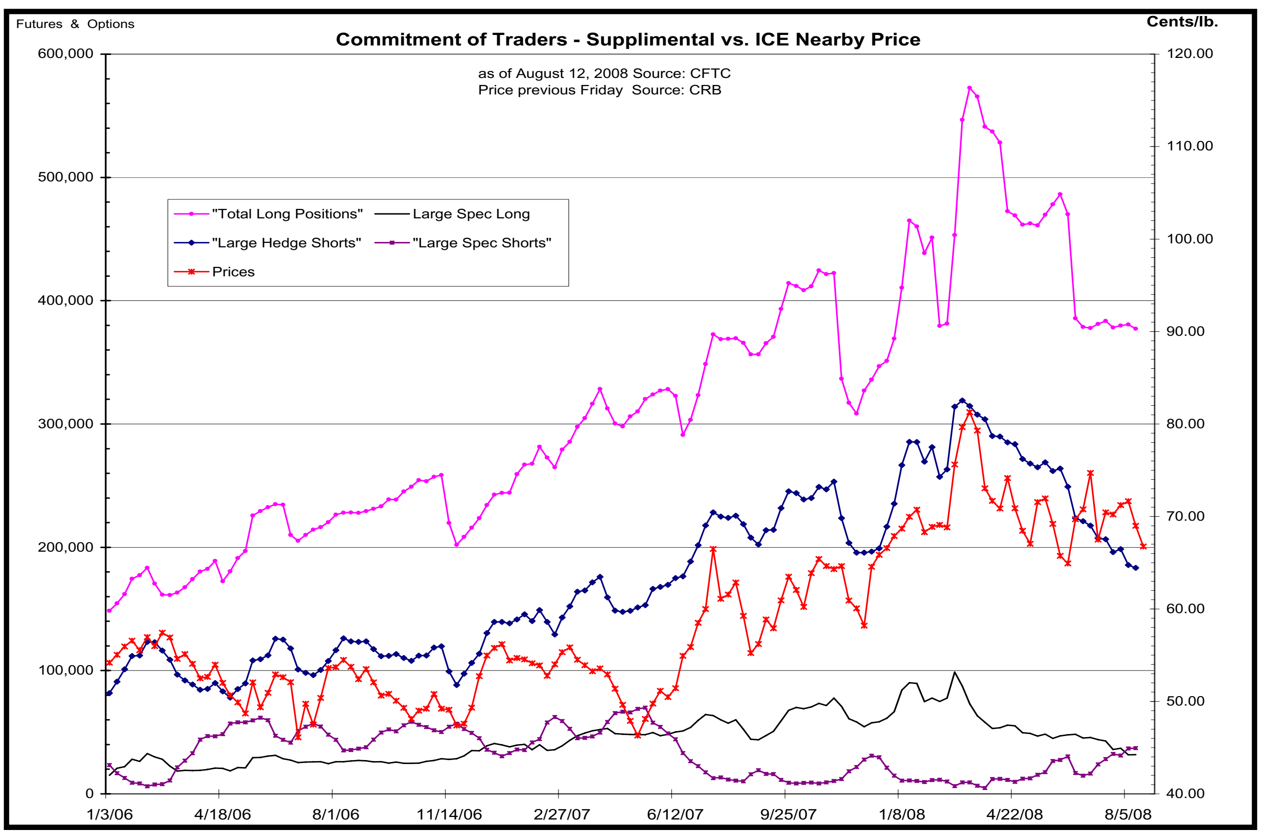
These internal market indicators do not portend an immediate price upturn, but they do show that mills are responding favorably to lower futures prices. Mills will likely buy for prompt shipment while waiting for new-crop ginnings to arrive before becoming aggressive buyers. Growers are expected to hold on to cotton equity as long as the December contract remains below 75.00¢, preferring to put the cotton in the USDA commodity loan until old-crop supplies are sold out and futures prices rise to profitable levels.

Futures are oversold. A short covering rally in conjunction with rising prices in outside markets cannot be ruled out. While some internal indicators are turning price friendly, fundamentals remain neutral, and futures prices could be driven by technical considerations and outside forces. The seasonal July–August rally has not materialized so far this year. Therefore, the market could be in for near-term price swings within about 5.00¢ of current levels. A major up move may not begin until next year.

Bob Fiorelli

FOOD and FIBER FUTURES – Cotton





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