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DEBT MARKETS:

The 10 year treasury contract is expected to trade sideways to higher in March with most of the strength early month on the back of expectations for economic data which shows on going economic weakness and deflationary pressures. Unemployment continued to rise in February and labour demand will remain slack in March as companies adjust production to lower demand levels and control inventory. Deflationary headwinds are strong with commercial and residential real estate prices still eroding, and pricing power limited due to tight fisted consumers and businesses. Talk of increased coupon use by consumers and negative same store sales guidance by key retailers highlight the competitive pricing environment. Beyond the economy, the Treasury has not provided a plan which boldly solves the financial crisis, generating safe haven flows and preventing the compression of risk premiums. While the Obama Administration has leaked that they are looking to form a bad bank, no colour has been provided. The Capital Assistance Program appears similar to the original TARP and does not encourage investment in common stock or address removing toxic assets from bank balance sheets. Moreover, there is growing doubts that the stimulus package will rejuvenate the economy. Further more there are concerns that the tax hikes for earners over $250K, the cap and trade and the changes in health care are more hurtful then helpful. Downside risks to the market rest in heavy issuance and poor normalized valuation. The Treasury is expected to auction over $150 bln in debt during March. The corporate debt market has also been open, and is providing competition to treasuries. About $230 bln in corporate debt had been sold year to date through February, and corporate spreads are historically wide and attractive. The Moody's Baa corporate to 10 year treasury remains elevated just below 526 bps. Based on the last five years, the spread is in the 6th percentile of values. At the same time, the Treasury's CDS has been creeping higher due to extremely loose fiscal policy and questions over the U.S. Treasury's credit quality. On a relative total return basis, the 10 year treasury has dramatically outpaced stocks and commodities over the past six months leaving the market vulnerable to selling from asset reallocation. The coupon curve is expected to flatten short term, but widen down the road on an extended period of easy monetary policy and large budget deficits. Below 84 bps, the 2/5 spread could test 65 bps. Fed policy will remain aggressively easy for the foreseeable future.

~Kalivas/Hoversen

EQUITY MARKETS:

Stock indices are likely to trade ways in March with early month weakness and late month strength. The market will find selling pressure until Washington decides to address the market's decline via policies which are friendly toward capital formation and investment. Lack of a decisive plan to support the financial sector, a road map toward socialized medicine, a carbon tax, and tax hikes on upper income workers and capital have weighed on stock prices. Financial, healthcare, and utility stocks are either flirting with lows or streaking to new lows. The sizzling decline in the market is forcing liquidation, as a weak job market and debt burdens are discouraging investment and raising the premium on holding cash. Money market fund assets stand at more than 50% of the market cap of the S&P 500. Outside of politics, expectations for profit growth have declined quickly. At the end of February Q1 2009 and FY 2009 EPS growth for the S&P 500 was expected to drop 34.8% y/y and 14.7% y/y respectively. These figures compare to expectations for a Q1 2009 and FY 2009 contraction of 26.2% y/y and 10% y/y respectively at the end of January. The declining in global trade and retrenchment by consumers and businesses are cutting profit growth. Companies like Nordstrom, Macy, and Kohl's have projected a contraction in 2009 same store sales. Likewise, Gartner is forecasting an 11.9% decline in PC shipments. Further delinquency on mortgages, credit card, and auto loans is expected given the deterioration in the labor market. Heavy fiscal stimulus, not only in the U.S. but abroad, will provide some support to the outlook for growth and profits. A cycle of inventory replenishment should also surface by late spring. Technically, the year to date decline in the S&P 500 has been the swiftest since 1933 when the market found stability in the spring. The rapid pace of the sell off has left the market deeply oversold, but the VIX and CBOE put to call ratio have not hit levels consistent with a major market bottom. One potential bullish set up for the market rests in the fact that the NASDAQ 100 has not confirmed the low in the S&P 500 and Dow Jones Industrial Average. Lack of each index to make a new low has at times led to a change in trend. The NADSAQ 100 is benefiting from the fact that technology shares, unlike banks, healthcare and utility stocks, have not been impacted by potential political policy change from Washington. The dividend yield on these shares is also low compared to the S&P 500 and Dow, making them less vulnerable to hike in the dividend tax rate.

~Nick Kalivas

CURRENCIES:

Risk aversion remains the dominate theme in the FX markets. A rolling 30 day correlation of the dollar index and the S&P 500 shows their statistical relationship at a -90%. The global economic backdrop has not changed. The markets are still vastly suspicious of government action and confirmation of the collapse in global trade is a terrible recipe to try and cook up a recovery. The idea at the EM economies may provide the backstop is nearly extinct. As they try to transition from export dependant countries to domestic Titians, EM vulnerabilities become more and more exposed.

Focus has moved slightly away from monetary policy, as it is globally nearing the end of its rope, and more solidly into fiscal policy, QE and the other alternative and unprecedented financial stability strategies. MonPol will however not be ignored as this week four major central banks will make/have made announcements. The RBA opted to keeps rates on hold at 3.25%. Additionally, the pause in rates could have been a nod to the hopes that the Chinese stimulus package will aid the Australian economy. The first installment of the Chinese plan was focused on infrastructure and construction. The second leg, to be announced Thursday, is expected to focus more on social spending. This strategy is aimed at aiding the consumer and encouraging spending. Much like the rest of the globe Australia is dependant on trade and increasing the spending power of one of the world's largest economies would be instrumental in getting the Aussie economy back on track. However, the jury is still out on the possibility of the effectiveness of Chinese policy. The health of the Canadian economy is to contingent on the rejuvenation of trade. The Canadian trade balance with the US went deficit for the first time since the 70s. Yesterday the Q4 GDP number showed that the Canadian economy contracted at its fastest pace since 1991. Exports fell -3.6%, the sixth consecutive drop. According to Statistics Canada, it is the longest slump in exports in more than 60 years. While solvency of the Canadian financial system is not in question, the macro picture is abysmal and requires aid. The BOC opted to cut rates to 50bps, the lowest the overnight rate has ever been. In the accompanying statement, the bank indicated that "it would take (the steps) to provide additional monetary stimulus, if required through credit and quantitative easing". Note that back in January Carney noted that QE was highly unlikely. The change in rhetoric underscores the growing troubles in Canada. MGFR remains bearish these crosses for the above stated reasons but mainly for the deterioration in trade. The outlook on crude is neutral but the forecast for trade is bleak, especially in an environment of growing protectionism.

On the European front, the ECB and the BOE are both expected to cut 50bps. QE will be a variable in the BOE's decision while the ECB may go so far as to mention it. March will not be the month for Trichet to act so radically. MFGR expects both banks to cut. The euro and the pound will continue to be under pressure especially post a QE announcement from the UK and dovish testimony from the ECB as it represents the banks recognition of the utter economic catastrophe. The EU's decision to reject an E180B proposal for aid to Eastern Europe and European carmakers, while a plus for EU deficits, does not dismantle the Eastern Europe time bomb. The threat of Eastern Europe leaves the euro very vulnerable as parties are now squabbling over who will foot the bill. Remember the compositional economies of the EU do have feuds that have been in existence longer than their commitment to the euro or the economic community. If interdependence looks as though it will be the glacier to tank the ship, do not be surprised to hear discussion over the return to the Europe of yesteryear. MFGR is bearish both these crosses.

Looking to the other safe haven currencies, the yen has started to trade off of fundamentals and MFGR expects the USD/JPY to touch parity in the near term with a long-term target of 110-00. The trade balance is at -Y197B, its lowest level since 2006 when the figure posted its all time low. Industrial Production is down 30% Y/Y and CPI is almost negative. The Swiss franc's status as a safe–haven has been challenged as the dynamic of its banking system, economic health and allure as a tax refuge are all in question. The Q/Q decline of -.1% defined the weakness. The drop was led by a contraction in exports which plunged 8.1%.

The global weakness and continued safe haven will underpin the dollar in March. A substantive plan from the government will allow from some short-covering. But the market's tolerance for ambiguity is zero and there has been no color on the recent chatter over the formulation of a bad bank. Moreover, there is growing doubts that the stimulus package will rejuvenate the economy. Further more there are concerns that the tax hikes for earners over $250K, the cap and trade and the changes in health care are more hurtful then helpful. US economics will also be in focus in the next few days as the market digests what is likely to be an awful payroll number. Strong pull-backs on weak US data and some strong government action should be used to increase dollar long exposure.

Finally MFGR would like to mention the technical pattern emerging in the dollar index. The reverse head and shoulders, as seen below, argues for a solid rally in the cross to 98 in the index. The index has already broken through resistance and given the global economic composition, a near-term reversal seems unlikely.

~Jessica Hoversen

PRECIOUS METALS:

This month's trade in gold is expected to maintain its intermediate-term upward direction, with prices advancing toward the $975-$1,000/oz range. Increases in ETF inflows have been responsible for the gains in the last few months, but essentially dried up in 2H Feb. They are expected to return this month, as gold prices test falling trendline support at

$910 and witness further equity market weakness. The WGC showed a 7 tonne surplus in its Q4 s/d table, with jewelry demand falling by 197 tonnes. Identifiable investment was nearly unchanged, with 55 tonne decline in ETF holdings offset by equal increases in bar/coin investment. Even though early signs of jewelry demand in Q1 remain weak, the balance will be tipped toward a deficit, as ETF inflows are already above the 250 tonne level. The latest bank bailout plans have yet to create a positive stock market reaction due to the plans' failure to deal with prices of toxic assets. That should keep stocks under pressure and gold supported.

~Tom Pawlicki

ENERGIES:

Crude oil prices are expected to trade in a fairly mixed direction this month, with prices maintaining the $37.00-$45.00/bbl range. Influences will be fairly balanced, with support coming from the potential that OPEC makes yet another cut to its output quota at its Mar 15th meeting and from ongoing DOE refills of the SPR. U.S. stocks are significantly above five-year averages and are likely to move closer to averages as the OPEC cuts finally show up in U.S. data. Pressure will be applied to oil from multiple holds at the 50-day MA in late-Feb and from worries that weakness in global economies will continue to hamper energy demand. The latest bank bailout plans have yet to create positive stock market reactions due to the plans' failure to deal with prices of toxic assets.

~Tom Pawlicki

GRAINS:

Grain prices are expected trade sideways to lower in March. Corn is forecast to lose to wheat, while new crop beans should fall relative to corn. Wheat prices are expected to be choppy with a downside bias, but selling will pick up if HRW sees rain over the next 30 days. Grain prices are expected to be pressured by ample supplies and eroding demand. The USDA is likely understating 2009 acreage, and there is a risk that production forecasts will be revised up. Global economic growth remains poor and is undercutting usage. The USDA's demand numbers are vulnerable to downward revision. Pacific Ethanol recently closed two plants implying low ethanol demand, while Pilgrim's Pride has idled four plants suggesting decreased animal numbers. Egg sets have been tracking well below year ago levels in recent weeks. China's Sichuan New Hope Group recently said that Chinese demand for meat and animal feed had been cut by the financial crisis. The March 31st acreage/stocks report is a major risk for market bulls. Technically, index funds have been shy about building new positions, while trend following funds are selling. Poor global growth and lack of confidence in global leadership is discouraging the flow of capital in commodities.

~Feltes/Kalivas

LIVESTOCK:

Livestock prices are expected to trade mixed balanced by falling supply and weak demand. Cattle numbers are tightening and supportive to the April cattle contract, but demand has been slow to emerge for the spring grilling season and the export market is under pressure due to a strong dollar and poor overseas economic growth. Cattle prices have also been closely tied to the direction of the equity market. A stock market rally will improve the chances for a rally. The recent tight spread between the choice and select cutout indicates poor demand and highlights consumers have been trading down to cheaper meat cuts. Hog prices should be supported by Easter ham demand and a cost conscience consumer. Hog numbers are expected to tighten seasonally, but numbers are still ample from a historical perspective, and packer margins have been in the red. The major downside to the market rests in on going weakness in exports. The dollar is firm and unemployment is rising in the emerging world in places like China, Mexico, and Russia. April hogs are carrying about a $4 premium to spot indicating the market is already looking for tighter supplies and better demand. Fryers available for marketing are well below year ago levels and the tight poultry supply is a plus pork prices.

~Nick Kalivas

CRB:

The CRB will face mixed influences in March, and prices are expected to settle into a sideways trend above the Dec low at 322.50. Focus will remain on the economy and its lack of response to gov't actions thus far to help it. Also important will be the adverse reaction of equity markets to the Capital Assistance Plan, the $787B stimulus plan, and the $3.6T budget. All of the plans have either failed to price toxic assets and remove them from banks' balance sheets, or have deepened the govt's involvement in free markets. These events will undermine capital flow to commodities and keep them under pressure. Precious metals may benefit under such an environment if investment continues to migrate toward safe-havens. Economically sensitive markets such as energy could trade in a sideways-to-lower direction as a result. The grain outlook is negative based on the USDA overstating corn demand and understating row crop acreage. Livestock prices are expected to be mixed, as weak export sales are countered by higher U.S. seasonal demand. CRB support will be at 322.50 while resistance is 355.00.

~Feltes/Kalivas/Pawlicki

TRADE RECCOMENDATIONS:

Debt Markets: Sell 2-5 curve at 102bps. Target: 80bps. Risk 108bps.
Buy TYM9 at 120-120. Target: 122-00, Risk: 119-08+

Equity Markets: Buy the March e-mini S&P 500 700 put and sell the March 675 put at 9.05. Risk 3.50 and hold to expiration.

Currencies: Buy USD/JPY: 96-90. Target: 102-20. Risk: 95-00.
Buy AUD/CHF: .7395, Target: .8000. Risk: .7198
Buy EUR/GBP: .8883. Target: .9500. Risk: .8728

Energies: N/A.

Precious Metals: N/A.

Grains: Wheat to gain on corn
New crop corn to gain on new crop beans
Oil share of soy product to decline in value
Sell soybeans on rally
Bull spread old crop beans

CRB: N/A.

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