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DEBT MARKETS: Treasuries are expected to trade sideways through August. The market faces a mixture of cross currents. The main negative is supply. The Treasury will continue to issue record amounts of debt at a time when corporate credit spreads and equities provide competitive yields. Furthermore, the White House and Congress seem more intent on expanding government than reducing government. Q3 Treasury borrowings are expected to be $515 bln assuming a cash balance of $270 bln. The Chinese have already warned the U.S. about its fiscal irresponsibility and the recent 2 and 5 year note auction highlighted the potential difficulty of selling record amounts of debt. The one offset rests in projections for corporate debt issuance to fall sharply in the second half of 2009. Light M&A and a recapitalized financial system will lighten supply. In addition to supply, the economy is stabilizing, which is increasing risk taking and stoking expectations for strong credit demand. On the positive side, global economic growth remains well below trend, and there is ample slack in the labor and product markets. Inflation is likely to remain low through 2010. Headline inflation rates in Germany, China, and the U.S. are negative on a year over year basis. The U.S. capacity utilization rate is historically low at 68%, while the unemployment rate has yet to top. Even though unemployment claims are peaking, the jobs plentiful and hard to get numbers within the Conference Board data point to a further increase in the unemployment rate. Initial unemployment claims over 500,000 still argue for negative payroll growth. Consumer spending remains lackluster, although is being helped by the cash for clunker program. Safeway noted that consumers were trading down and its sales were being hurt by deflationary pressures, while Visa said it saw no true sign of an inflection point. The real estate market, both commercial and residential, requires low rates to complete its healing process. The Fed is likely to keep the fed funds rate target unchanged at zero well into 2010.

~Kalivas/Hoversen

EQUITY MARKETS: Equity prices are expected to trade sideways to higher in August. Stocks are cheap to cash and investors are being forced to invest as Q2 profit growth exceeded expectation and macro economic indicators displays stability. The rally has caught many money managers under invested and suffering from performance anxiety. Money market fund assets remain well above pre-crisis levels and suggest there is abundant cash on the sidelines. Money market yields are low and credit is mending. Both are improving the attractiveness of equities. As of late July, 74% of the companies in the S&P 500 had posted a positive earnings surprise. The percentage of positive surprises is at record levels, which has been a shock to the trade. At the same time, new equity issuance has slowed from its torrid pace in May and June. Even though M&A activity has been limited, the decline in new issue has taken pressure off the market. The slowdown in new equity sales on the rally also suggests that balance sheet health has improved and companies are comfortable with valuation. The healthcare sector has posted the strongest profit growth. In fact, this is the only sector which recorded a positive year over year earnings gain in earnings per share growth. The public's push back of "ObamaCare" has also benefited the sector. Industrial stocks are being supported by the positive impact of stimulus on infrastructure spending, especially in Asia. Technology shares are being lifted by stimulus, and inventory replenishment is driving profitability. Smart phone demand continues strong. Chip makers Taiwan Semiconductor and United Micro are raising capacity use projections and lifting capital spending plans implying a lasting recovery. Although loan loss provisions are likely to rise further and commercial real estate loss is unresolved, the steep yield curve and historically low cost of funs are providing offset and stability. The recent firming in the housing market is also supportive to the financial sector. The biggest downside risk rests in growing retail optimism. The AAII bull index has reversed from extremely depressed levels to optimistic levels over the past two weeks jumping from 28.7 to 47.7. Although the number can get in the 60's in the early stages of a bull market, it is elevated relative to the last five years. However, the spread between the bull and bear index is still negative and bullish. The CBOE put to call ratio is depressed and there has been some chatter that pension/real money types are rebalancing portfolios selling stocks and buying treasuries.

~Nick Kalivas

CURRENCIES: MGFR favors the USD in August on an interest rate differential and risk aversion basis. Additionally, PPP and an eroding interest rate differential makes the EUR look overvalued. GBP's economic fundamentals are favorable but big government, a potential 50% marginal tax rate and the overall budget are downside risks. The commodity currencies are favorable if China stays strong but intervention due to eroding export markets and the vulnerability of EM could take out the bottom. Additionally, these crosses look over extended. In terms of the yen, MFGR is cautious but sees USD/JPY testing 97.00. However, given the level of uncertainty, a range trade is possible.

Though risk remains a relevant mover of trade, the FX markets are shifting in to a paradigm where macro fundamentals are becoming decidedly more important. The macro environment is improving globally especially in the manufacturing sectors as inventory rebuild and government stimulus have had the most potent impact on those sectors. Japanese industrial production has posted sequential gains 4 months in a row. Global PMIs are steadily rising. German industrial production had it largest one month gain since 1993. Confidence and housing are stabilizing as well. German ZEW Expectation of Economic recovered beyond its pre-crisis levels as has New Zealand business confidence. South Korean consumer confidence is at an index high. On the housing front, UK Nationwide House Prices increased +1.3% in July, their 3rd sequential expansion while US New Home Sales have also enjoyed three months of gains. Mortgage approvals in the UK are rising and even Spanish mortgage data has started to increase off its cycle lows.

There is still, however, a significant amount of risk. For one, consumers and businesses globally are still in the deleveraging process. This is compounded by a rising unemployment rate. Secondly, though there is a lot of liquidity in the system, banks are not lending and thus access to credit is still difficult. Additionally, the globe is very much dependant on China and the outlook for the global economy. The fear that the Chinese may be cutting off the liquidity caused an equity sell-off and put pressure on the commodity currencies. Though the PBOC tried to assuage those fears, any indication of cooling growth from that economic juggernaught will spark significant risk aversion.

That being said, MFGR believes that on the macro front the main drivers will be fiscal policy, taxes, regulation, inflation, exit strategies and interest rates. Generally speaking, government policies that create undesirable tax regimes, increase spending and push forward anti-business polices will be punished with a weaker currency. On the inflation front the global picture is mixed. German CPI is negative for the first time in at least 22 years and US CPI has been negative 4 months in a row. Japan as well looks to be possibly facing a deflationary spiral. Norway and the UK however are actually showing acceleration in inflation. The acceleration in prices will play into exit strategies and monetary policy. Though MFGR expects these major central banks to stay pat until at least 2010, higher prices will give central banks the fuel necessary to begin to discuss rate hikes. The anticipatory mechanism baked into the FX markets will be very sensitive to the discussion of rate hikes, despite their remote near term possibility. Interest rate differentials will begin to take a more predominate role in FX. Note that the weak US Treasury auctions had an impact pushing up the dollar. Outside of the macro, MFGR does see risk staying relevant. Q3 has a tendency to exhibit risk adverse behavior which would ultimately favor the dollar.

~**Jessica Hoversen**

PRECIOUS METALS: The gold market is expected to trade in a downward direction in August, with prices retesting the $900.00 price level. MFGR believes that fundamental conditions deteriorated in July and that gold prices will have difficulty maintaining any kind of strength. Factors that boosted gold earlier this year such as safe-haven and inflation have diminished. The Fed has begun shrinking its monetary base and is winding down its section 13.3 programs designed to alleviate systemic risk. Inflation hawks were bullish gold earlier this year based on fears that expansion of the Fed's balance sheet would lead to increases in the money supply. If the balance sheet expansion that's occurred so far hasn't fueled inflation yet, it's unlikely that it will as the balance sheet shrinks. The meager outlook for inflation has caused liquidation in ETF holdings, whereby the SPDR fund has seen 61 tonnes withdrawn since peaking in early-June '09. Finally, physical demand has been disappointing, with Indian imports suffering due to strength in rupee-based gold prices and due to below-normal monsoon rainfall. Gold fabricators said they intend to push bullion purchases back to late-Aug as a result.

~Tom Pawlicki

ENERGIES: Energy markets are expected to trade in a downward direction in August, with CLV9 potentially falling below $60.43. MFGR believes that energy prices are beginning to have difficulty in denying negative fundamentals. Pressuring energies will be fundamental demand factors from the weekly EIA data. U.S. total oil demand is 1.41 mb/d below year-ago levels and 1.85 mb/d below the five-year average. The days supply of distillate inventories is near a record at 49.3 days while the five-year average is 32.0 days. Weak demand is also shown by low tanker rates, which are lingering near the lowest levels of the year. The economic outlook isn't very favorable, as comments from BP and Shell suggest that they see little evidence of a sustained demand recovery. Valero is looking into storage of oil and products to take advantage of the steepening futures price curve. Q2 earnings reports have been somewhat positive, but the overriding theme is that improvement was made only due to employment and cost cuts rather than genuine improvement in business conditions. Finally, the threat of new CFTC regulations aimed at reducing participation by passive long index funds could create selling with the intention of reducing holdings below new position limits.

~Tom Pawlicki

GRAINS: Advise approaching corn and wheat markets as trading affairs by selling 25-35 cent rallies for short term gains. Although US and global grain fundamentals are negative, corn and wheat seasonals tend to bottom out in early August while both markets are running into long term support on weekly charts which may necessitate more evidence of increasing '09 US corn yield potential before staging downside breakout from trading ranges in place since early July. The corn market is primed for a summer rally (rarely in excess of 50 cents) which has not occurred as yet given near normal US summer precip and yield enhancing below average summer temps. Beyond the August crop report, however, indications of a favorable close to the '09 US growing season would suggest minimum CZ/WZ downsides objectives of $3.00/$5.00 respectively with WZ eroding even more if CFTC forces limitations in index fund participation in CGO wheat . '09 US corn crop is only 2-3 soaking rains away from above average yield potential although eastern Corn Belt remains vulnerable to an earlier than normal frost which Crop Cast views as unlikely given expected El Nino strengthening into autumn. Meanwhile SX has already rallied over $1.00 from mid July lows with potential for another $1.00 gain on heels of ongoing brisk US soybean export demand (old crop US soybean export sales are 31 mil bu over USDA's forecast), developing dryness in western Midwest and nearly $2.00 SX summer rallies in each of last 2 years when old crop US soybean stocks were not as tight as today. Advise against shorts in soybeans until August weather can be accessed with greater certainty. Thereafter anticipate modest SX price erosion into autumn while record US soybean crop is harvested followed by a steady rally into winter months on strong US demand and willingness of soy market to add risk premium ahead of critically important 2010 S. American growing season.

~Rich Feltes

CRB: Expect continuation of choppy trade bounded by 392 on the downside and 415 on the upside. Early June 430 high likely to hold as generally negative outlook for crude, metals and grains will offset positive tone to soybean and livestock markets. And while the CRB during July performed better than expected largely on heels of equity market rally to new yearly highs, commodities as a whole are finishing the month just slightly better than middle of 60 day trading range framed by early June highs and July 8th lows. From a macro-economic standpoint, there is no evidence as yet to support an upsurge in commodity demand. Factory utilization is low, consumer spending is sluggish and unemployment is still rising. Increased government intervention in the US economy portends a slower than normal recovery framed by only nominal job growth. Internationally, China is taking steps to pre-empt another bubble in their real estate market, Indian growth has not reignited while continental Europe will be the last major economic zone to stage a recovery. And finally, CFTC saber rattling on placing hard limits on non-commercial energy market positions will temper flow of new capital into commodity investments through October.

~Feltes/Kalivas/Pawlicki

Debt Markets: Sell the 2/5/10 butterfly (price). The 2 and 10 year yields are expected to rise more than the 5 year yield. The spread will be attractive at -60 bps and should rally back toward -20 bps. Risk under -65 bps.

Equity Markets: Buy SPU at 962. Risk 949. Target 1000.

Currencies: Sell EUR/USD rallies underneath 1.4119. Target 1.3850; Risk: 1.4338
Buy GBP/NZD at market. Target 2.6000. Risk: 2.4857
Buy GBP/CAD at market but risk under trend line at 1.7756. Target 1.8427

Energies: Sell $70.00, target $58.00, risk $72.00

Precious Metals: Sell GCQ9 at $950, target $900, risk $965

Grains: Sell rallies in CRB

Sell 25-35 rallies in CZ and WZ

Buy SX @ $9.45 or better

CRB: Sell rallies.