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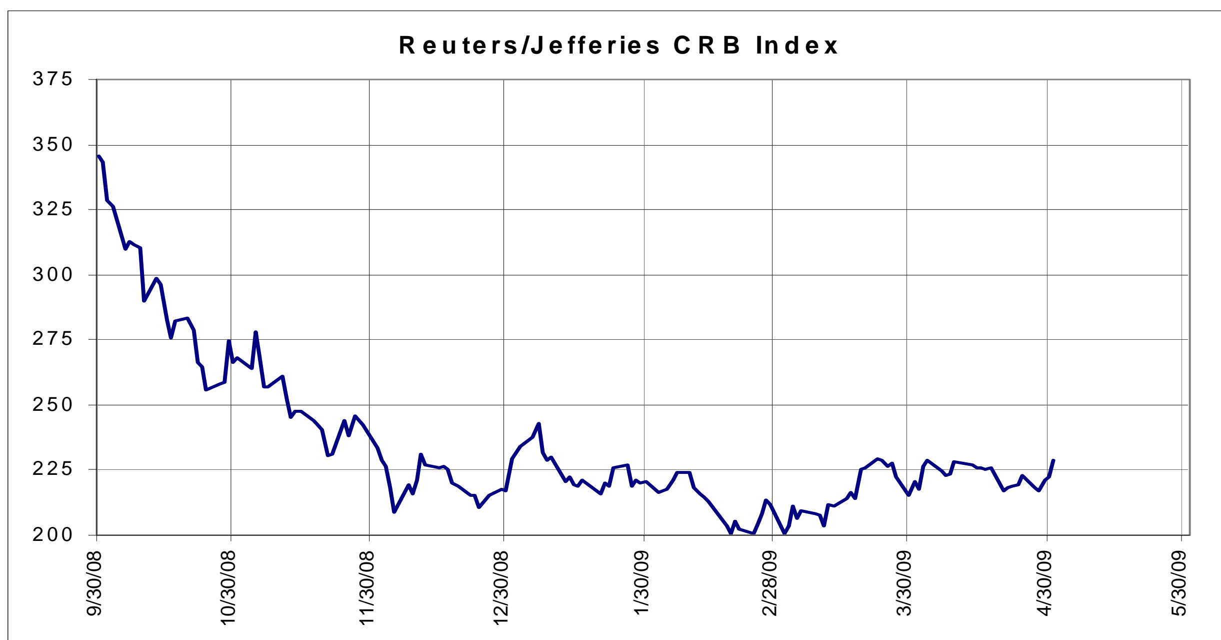
MAAP April Review May 4, 2009

During April, MAAP earned positive returns for the second month in a row, as positions in the grain and currency sectors delivered positive results. Modest losses occurred in the energy and metals sectors.

The accompanying chart of the Reuters/Jefferies CRB Commodity Index reveals the development of a very significant base that has been forming since early December 2008. As of May 1st, this base has been unfolding for 22 weeks. Last month we published a longer term chart of this index relative to the S&P 500, demonstrating the relative strength of commodities versus equities. This month we thought it instructive to illustrate the shorter term price formation of the actual index. While this index made a slight new low in late February and early March, it was much stronger than the stock market which went significantly lower in early March. Furthermore, the price action since then has been a tighter formation that supports a potentially very bullish outcome from this base.



We underestimated the extent of the correction in the second half of 2008 resulting from the financial deleveraging. However, we remain convinced that the peak in commodity prices in mid-2008 was only an intermediate peak in a major secular bull market. Historically, major commodity bull markets have peaked when sufficient new supplies come on stream in response to higher prices. This did not occur in mid-2008. Rather, temporary demand destruction developed from a squeezed and over leveraged financial sector. As the global economic contraction recedes and global growth resumes, AIS believes that commodities will resume their bull market.

In response to the financial crisis, the world is now in the midst of the most massive central bank reflationary efforts and government fiscal stimulus programs ever undertaken on a global basis. One expert has estimated that the combined monetary and fiscal stimulus in the U.S. is equal to 29 percent of GDP and is approximately 10 times greater than the average percentage stimulus of the last 11 recessions in the U.S. Furthermore, the stimulus this time is three times as great as that applied in the depression of the 1930s, while the degree of economic decline is only 1/15th as great as that of the 1930s. The U.K., Canada, and Switzerland have all instituted quantitative easing policies similar to the U.S. The EU has not been as aggressive; nonetheless, they have eased credit and also passed individual country stimulus programs. Most effective has been the Chinese policy of an infrastructure

spending program, combined with monetary easing, and tax policies designed to encourage domestic consumer spending.

While we do not want to downplay the seriousness of the current recession, the extent of the global monetary and fiscal stimulus should successfully overwhelm this weakness. Although the majority of economic commentators are focused on the current deflationary trends, a much bigger inflationary problem is on the horizon. Of the primary inputs to economic growth, money/credit, intellectual capital, labor, and raw materials, only the supply of raw materials will restrain future economic growth. Money/credit has been an immediate issue during the past year. However, there is a massive transfer of debt taking place from the private sector to the public domain. This is occurring on a global basis, but the process in the U.S. is most important given the dollar's reserve currency status. So long as the U.S. dollar does not go into free fall, this debt transfer process is likely to support a new cycle of economic expansion. While foreign investors and governments will not be thrilled with U.S. policy, for competitive reasons, they are likely to acquiesce through faster relative monetary growth in their own currencies. Similar to the 1970s, the U.S., in effect, will be exporting inflation on a global basis.

There is a debate among financial experts as to whether the Federal Reserve will unwind its excessive reflationary programs on a timely basis. While no one knows the answer to that question, practical political restraints will make their timely tightening difficult. The most significant problem is the quantity of various adjustable rate mortgages written late in the last housing boom that will not come up for reset until mid-2011, over two years from now. Unless they can entice these borrowers to refinance prior to the resets, money will need to stay artificially cheap for another two years. The other variables to the equation will be the level of unemployment and the problem of crowding out private borrowers due to the unprecedented quantity of new government debt. Crowding out occurs when the government is a major borrower and less credit worthy private borrowers are therefore unable to issue new debt. Furthermore, the balance of payments is not likely to deteriorate as quickly as the Federal budget deficit expands in the next several years. This means that foreigners will not be the primary buyers of U.S. debt to the same extent as in the last decade. That leaves the Federal Reserve as the buyer of last resort. Therefore, we assume that the Federal Reserve will maintain an easier monetary policy for a longer time than might otherwise be appropriate.

If we are in an environment of easy credit and artificially low interest rates, investors will have an incentive to borrow money to acquire the scarcest assets. Commodity and precious metals markets are relatively small compared to the size of financial markets and it is unlikely that significant new supplies of commodities or precious metals will appear quickly. Therefore, these markets are likely to experience the biggest absolute and relative price moves in the next business expansion.

Demand destruction from the global recession has temporarily led to moderate excess supplies in many commodity markets. However, past experience demonstrates that demand will come back quickly as the global economy begins to recover. Evidence of this is already emerging from China as they have begun stockpiling supplies of commodities. As the rest of the global economy responds, the tightness of inventories will quickly become apparent. Recently, both copper and the soybean complex have demonstrated sharp upward price moves. In the last business cycle, inflation first appeared in the raw material sectors well before it was evident at the consumer level. Given the lack of new commodity supplies, we expect a similar experience in this next economic expansion. Although commodity prices experienced sharp price advances in the first half of 2008, we remain convinced that the biggest part of this secular commodity market will unfold in the next several years.

Past results are not necessarily indicative of future performance. Actual trading for 3X-6X commenced on 7/8/92 and 2X-4X commenced on 10/15/92. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. For a complete disclosure document of AIS Futures Management LLC's MAAP Program, contact AIS Futures Management LLC, 187 Danbury Rd. Wilton, CT 06897 (203) 563-1180.