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Produced by MF Global Research

The US View, August 7, 2008

PRICE PERSPECTIVE

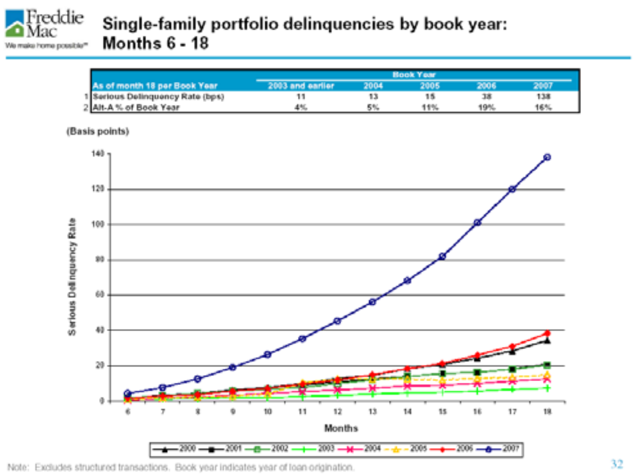
SPU8 is poised to work toward 1325 on a close over 1290. Technical conditions look favorable, and earnings numbers from CSCO and talk of a large buyback by MSFT will aid the market. There appears to be a reallocation of money toward U.S. equities given the firmer tone of defensive consumer names – see biotech and pharmacy. Lack of competition from treasuries and the recent sell off in the commodity markets are helping to lift stocks. The downside rests in still difficult credit conditions and trouble in the housing market. FRE's comments point to on going housing deflation and credit dislocation. Swap spreads are elevated and corporate credit traded poorly Wednesday. It is unusual for stocks to rally when credit spreads are stressed. Best guess for today's range in SPU8: 1275 to 1305.

Support & Resistance

	SPU8	NDU8	DJU8	RRU8
R2	1305	1919	11810	738
R1	1292	1912	11720	728
S1	1278/75	1878	11585	719
S2	1263	1863	11500	713

Profit Numbers

The market faces a number of profit reports over the next 24 hours. It will focus on overnight news from AIG, SUN, VRSN, and morning numbers from PCS, USM, TM, URBN, PDE, SLE, MLM, ED, FIG, PMI, and LIZ. Most of these companies are unlikely to have a major impact on the indices. The Q2 profit season is getting behind the market, and the trade has a good feel for the earnings outlook. The retail sector is the last major industry to report. 430 of the 500 companies in the S&P 500 have released results. Share-weighted profit growth is down 19.4% y/y. Excluding financials, profits are up 4.7% y/y. Positive surprises have occurred 68.5% of the time. This is down from earlier in the quarter but ahead of a year ago (65.3%). Negative surprises are also higher, muting the positive aspect of the relative strength in positives surprises. AIG will be the most closely watched profit number today and it will spill into the financial sector. AIG is consolidating after a sharp sell off. A lot of negative news has been priced, but the company will need to prove it has adequate capital and solid risk controls. The rally in ABK suggests there may be hope for AIG to rally, but credit remains on shaky footing. FRE provided a bleak outlook for the housing market noting that it was only half way through the peak to tough and it would be folly to predict a recovery. FRE painted a difficult condition for credit. Although these factors are well discussed, they present a wall of worry for the stock market and a reason to avoid financial stocks.



Unemployment Claims

Initial unemployment claims are expected to rise 425,000. The numbers are finally starting to reflect the extension of benefits and summer plant shutdowns in the manufacturing sector. Initial claims are likely to remain volatile due to seasonal issues, but will stay elevated. Continuing claims are forecast to fall 27,000 to 3.255 mln. MFGR would not be surprised if the continuing claims number rose. The trend in unemployment claims is toward labor market deterioration and this is likely to continue through the end of the summer. Seasonally, hiring activity is weak and this year a difficult economy will add to the slowdown and lack of hurry by employers.

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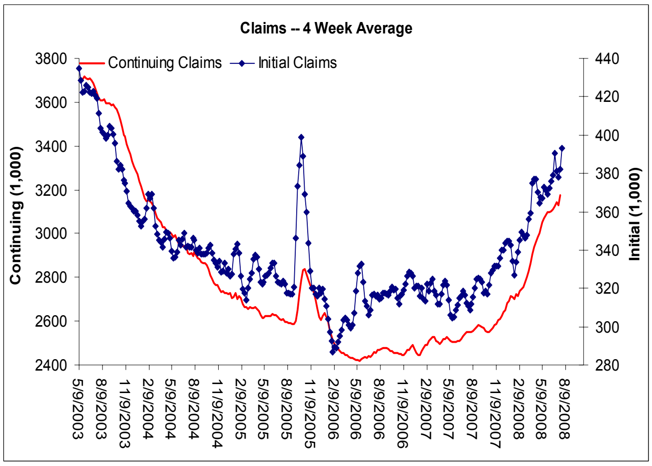
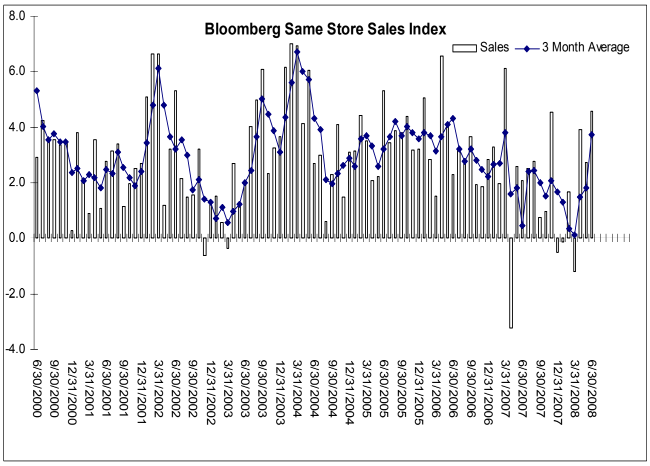
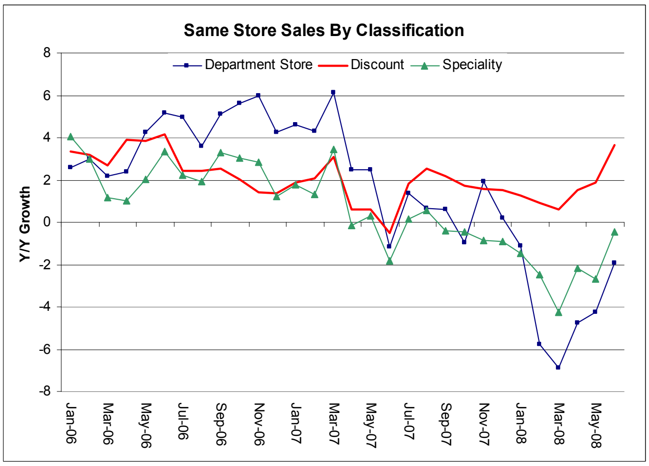


Chain Store Outlook



July chain store sales are expected to rise 4.0% y/y. The trade guess on Bloomberg is in excess of the ICSC's comment which implied a gain between 2% and 3%. Frankly, it seems like the ICSC low balls the estimate so that the industry can generate a positive surprise and positive buzz. The analyst community seems to be aware of this factor and has pushed its numbers upward. The retail sector is facing very easy comps and benefiting from food and energy inflation. A year ago, the Bloomberg same store sales index rose 2.9% y/y, while the ICSC reported same store sales of 2.8% y/y. The results excluding gasoline sales will be most important. Watch COST, WMT, and BJ closely for the impact of gasoline. Remember, headline CPI is up 5.0% y/y.

There is likely to be divergence in results based on retailer classification. Value and big box retailers will perform well (COST and WMT), but department and specialty store names will struggle. The graphic following will indicates that sales have shown some signs of bottom and are recovery from extremely depressed levels. It also highlights that discounters have been relatively strong. The easy comps make the economy look stronger than it is and may also attract money into retail stocks.



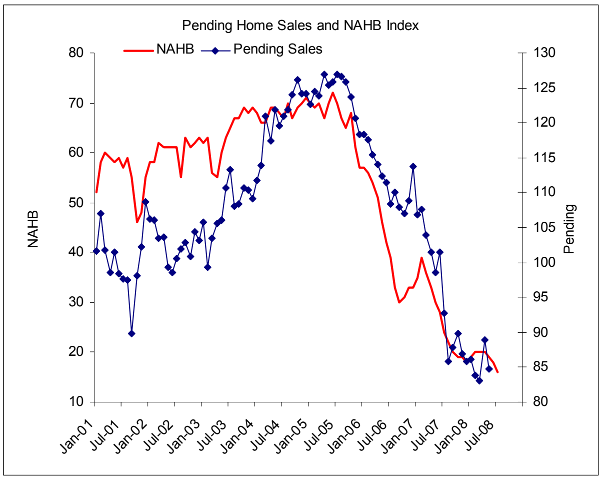
One of the factors to watch will be retailer guidance. The sales for July close the quarter and it may be confession time. Companies could guide their earnings up or down. Given the fading impact of the stimulus checks, and a softer job market, numbers seem more likely to fall than rise. Moreover, margin pressure is an issue. Costco (COST) recent noted its margins were being squeeze and it was taking an inventory charge linked to inflation. Retail stocks do discount results and the recent drop in food and energy prices have warmed the market to better conditions. Likewise, comps remain low going forward which will make it easier for companies to show strong sales. The table below displays a few rough sales estimates for key retailers.

Select July Chain Store Sale Estimates

Speciality		Discount		Department	
ANF	-1.5	BJ	14.0	JCP	-5.5
ARO	8.0	COST	7.5	KSS	-6.0
AEO	-3.5	TGT	0.0	JWN	-6.0
LTD	-7.5	WMT	3.5	SKS	-1.0
GPS	-7.0			TJX	3.5

The retail ETF XRT shows signs of bottoming. It is starting to break through a downtrend line and a coiling formation to the upside.

Pending Home Sales



June pending home sales are expected to fall 1.0% m/m. The index has been under pressure in recent months in line with industry trends. Given the NAHB survey and comments from public homebuilders, there is little reason to expect a major rebound in housing activity. Likewise, the MBA purchase index has been anemic. The pending home sale index probably needs to work over 90 to confirm a bottom in the housing market. The number is redundant because it closely tracks the NAHB survey which has already been released. In fact, pending home sales cover June and the NAHB survey was just released for July. Note the NAHB survey fell 1 in June and another 2 points in July.