

# **WEEKLY OPTIONS TRADING REPORT --- Wednesday, July 7, 2010**

Questions or Comments? Please call 800-926-0926 ext. 254

Each recommended position ---

**(A) Is identified by type of position**

**Speculative Directional** – options position designed to take advantage of a trend or seasonal expectation.

**Speculative Implied Volatility** – options position designed to take advantage of high or low implied volatility.

**Speculative Statistical Volatility** – options position designed to take advantage of high or low statistical volatility.

**Systematic** – options positions that generally begin delta neutral and which evolve over time as adjustments are made in response to moves in the underlying commodity and to changes in implied volatility.

**(B) Has a trading plan**

The trading plan for **Speculative** Positions will state when to close positions. The exit will be triggered when the underlying commodity moves to a specified level, when the position earns or loses a predetermined amount, or when a specific date has been reached.

The trading plan for **Systematic** Positions, on the other hand, will specify adjustment points. Adjustments will be made to reduce exposure to market direction, to changes in implied volatility, or to negative time decay. An adjustment may close some options and add new options in their place, or an adjustment may leave existing positions in place and add new options to them.

**(C) Shows current Greeks and projected performance curves**

The current Greeks show how a position will respond to rallies and declines (delta and gamma), to expanding and contracting implied volatility (vega), and to the passage of time (theta). OptionVue's Graphic Analysis shows projected results over a range of underlying prices and over the passage of time.

**(D) Shows a Volatility Chart with a Price Chart superimposed**

The Volatility Chart shows how implied and statistical volatility have fluctuated in the past and it shows their percentile ranking over the past 6 years. The Price Chart shows how the underlying commodity has behaved in the past. It's a chart for a continuous contract.

**In this issue**

1. **Crude Oil (CL) – Oct / Nov Diagonal Calendar Call spread – Speculative Directional -- bearish**
2. **Japanese Yen (JY) – Sep Bull Call spread – Speculative Directional -- bullish**
3. **E-Mini S&P 500 (ES) – Long Dec Put -- Speculative Directional -- bearish**

**Weekly Option Implied Volatility Survey --- Data through last week's close.**

**FUTURES AND OPTIONS TRADING CAN INVOLVE SUBSTANTIAL FINANCIAL RISK**

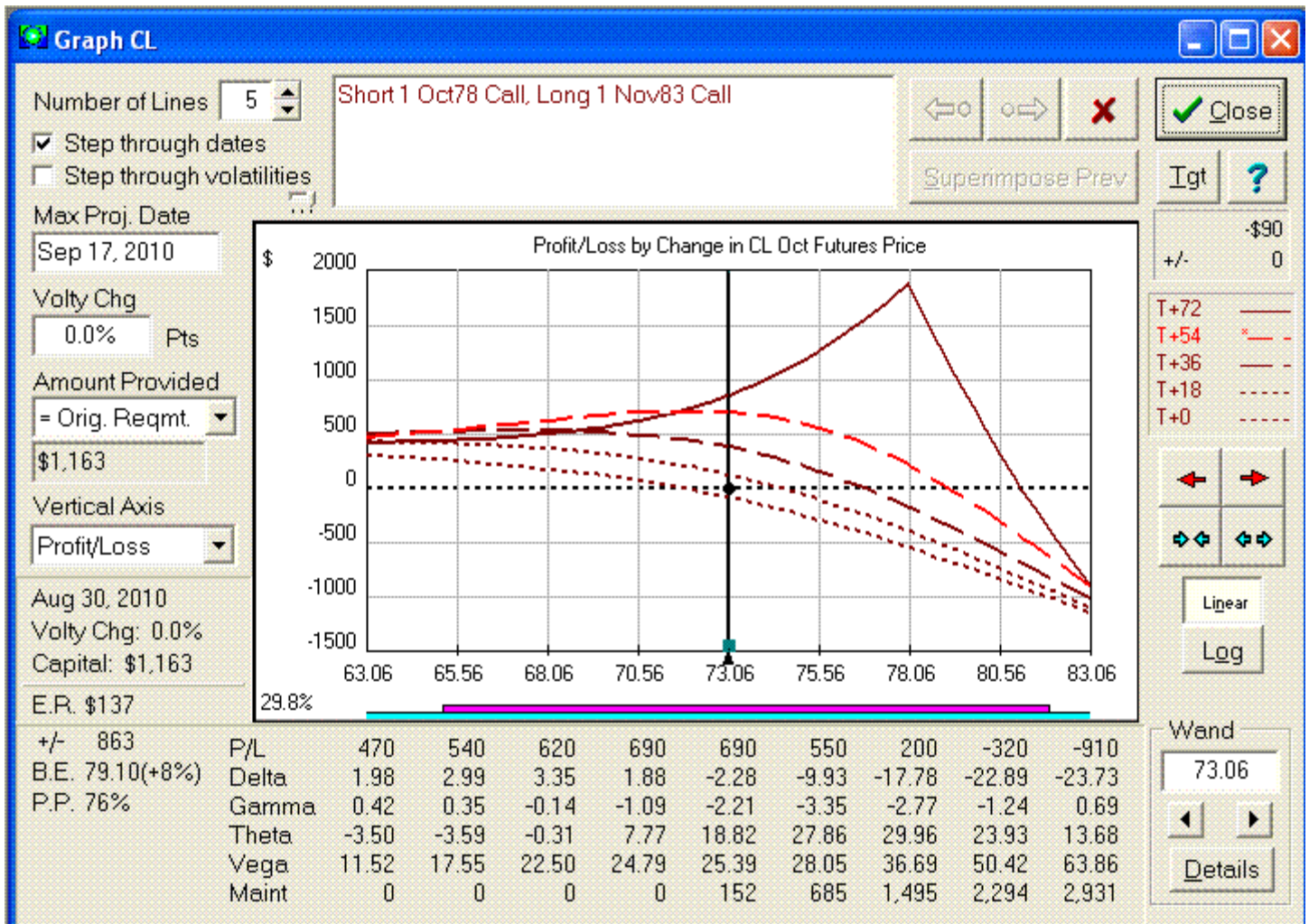
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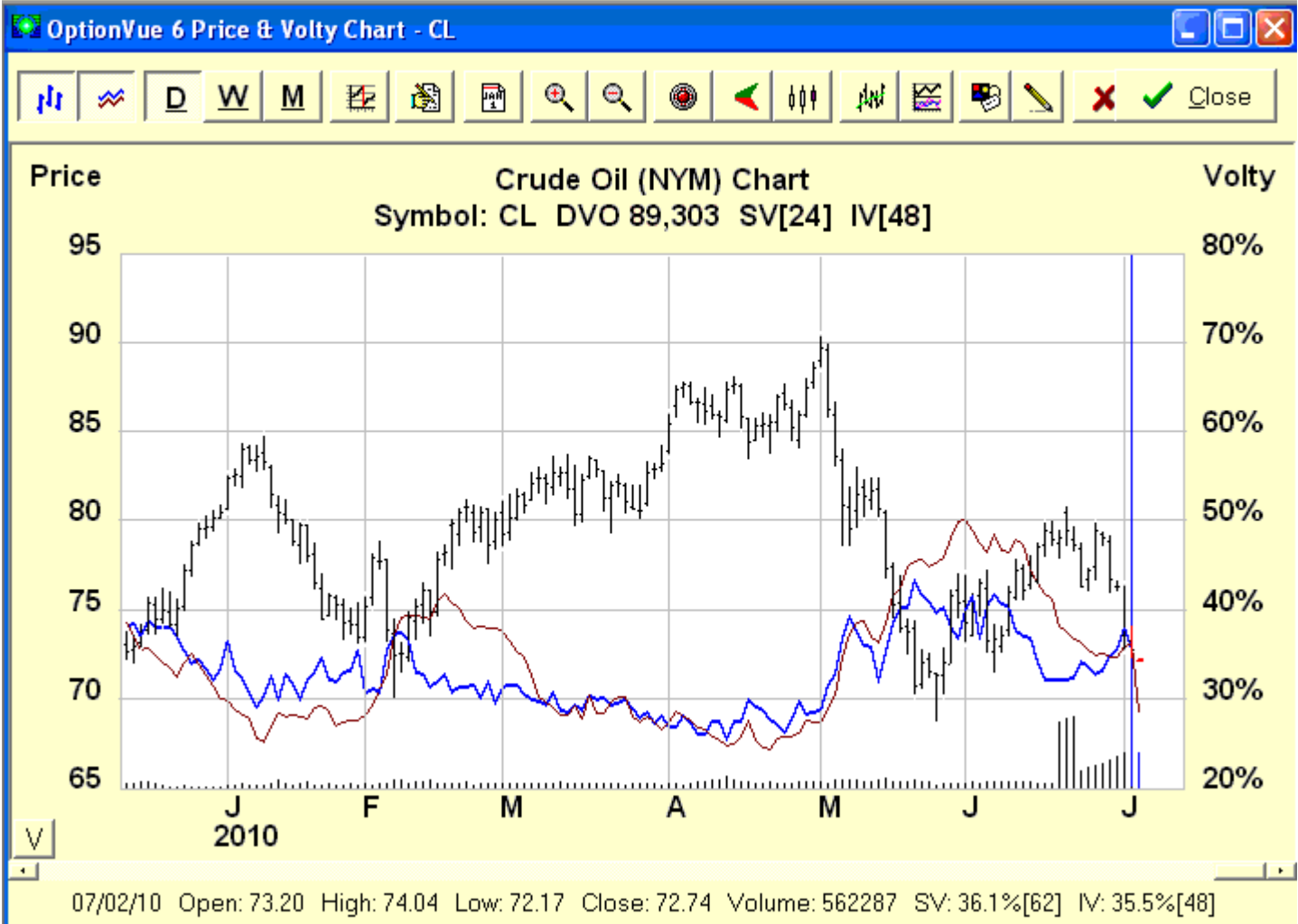
**The weekly option implied volatility survey is on the last page**

**1. Crude Oil (CL) – Oct / Nov Diagonal Calendar Call spread**

Position / Closing Price @ 7/6	Entry Cost	Time	Comments/ Trading Plan
<p><b>Sell 1 Oct 78 call @ 267</b>  <b>Buy 1 Nov 83 call @ 214</b></p> <p>1 pt = \$10</p> <p>Oct CL @ 73.06  Nov CL @ 73.67</p> <p><b>Greeks:</b>  Delta (7)  Gamma (0.84)  Theta +\$8  Vega +\$10</p> <p><b>Margin:</b>  \$ 1,163</p>	<p>Approx.  53 or more  points credit</p> <p>\$ (530)</p>	<p><b>Oct  options  expire  on 9/16  in 71  days</b></p>	<p>Crude Oil has been declining and will likely continue to drop given global economic weakness and a deflationary psychology.</p> <p>Selling an out-of-the-money Oct 78 call and hedging it with a long out-of-the-money Nov 83 call establishes a modestly bearish position that earns positive time decay.</p> <p><b>Trading Plan/Suggested Risk:</b></p> <p>Establish the spread for a credit of approximately 53 points with an objective of closing the spread when it narrows to a debit of 13 points (66 points better).</p> <p>This objective could be potentially achievable in 54 days (by Aug 30) provided the Oct CL futures contract declines no lower than about 65.56 (7.50 points lower) and rallies no higher than about 75.60 (2.54 pts higher).</p> <p>If the Oct CL contract rallies 2.50 points to 75.56, then close the spread.</p> <p>In any event, close the spread no later than Aug 30 in 54 days.</p>

Entry Cost is the recommended option premium paid (debit) to enter a trade. If premium is collected (credit) it will be designated in brackets ( ). Cost is not necessarily the margin required to hold the trade. The margin includes \$60 / RT per option. Projected results are estimates. **ACTUAL PROFITS MAY BE LESS AND ACTUAL LOSSES MAY BE MORE. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. TRADES ARE BASED ON THE PREVIOUS DAY'S SETTLEMENT PRICES. FUTURES MARKETS MOVE QUICKLY SO EVALUATE THE MARKET BEFORE ENTRY.**

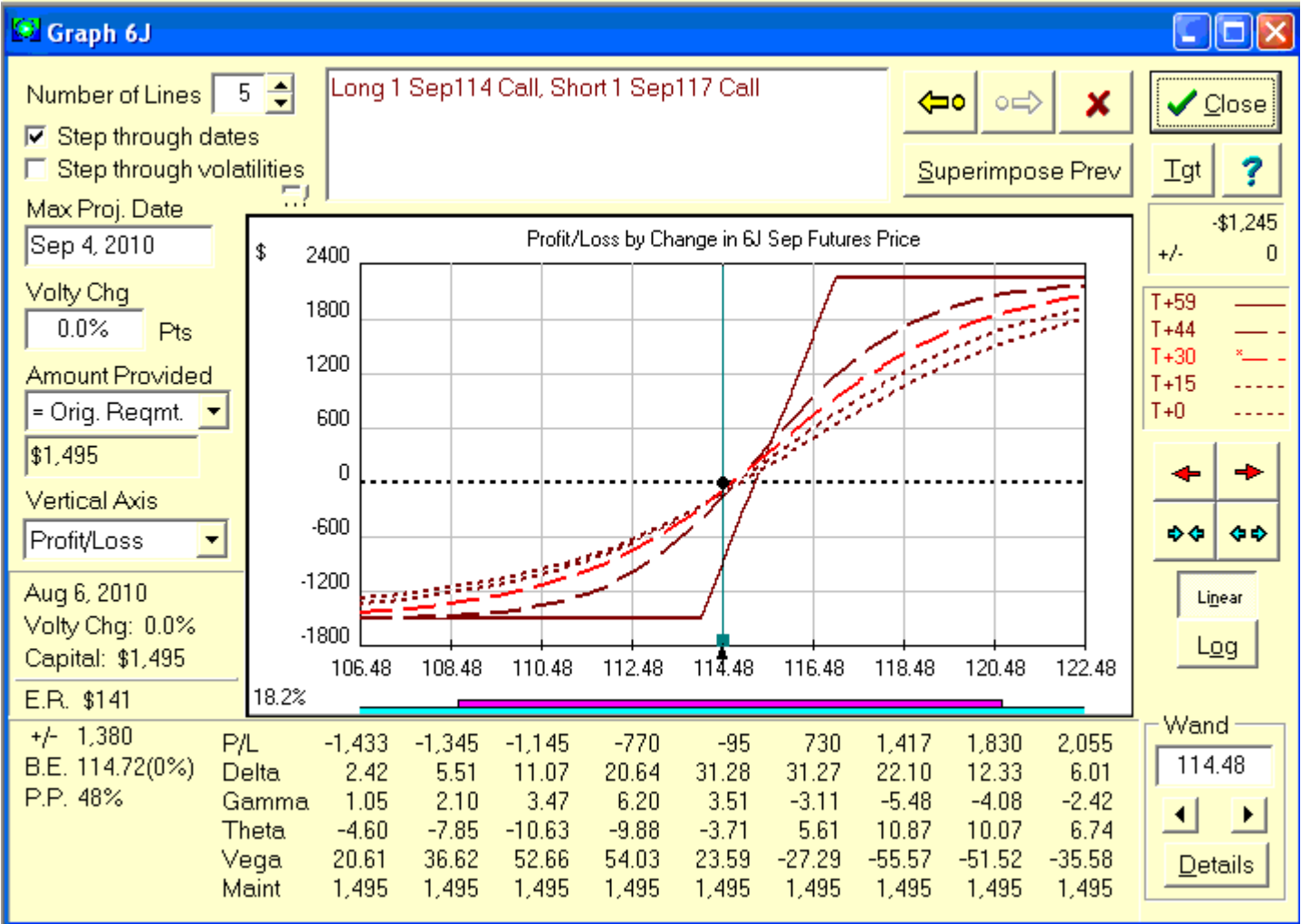


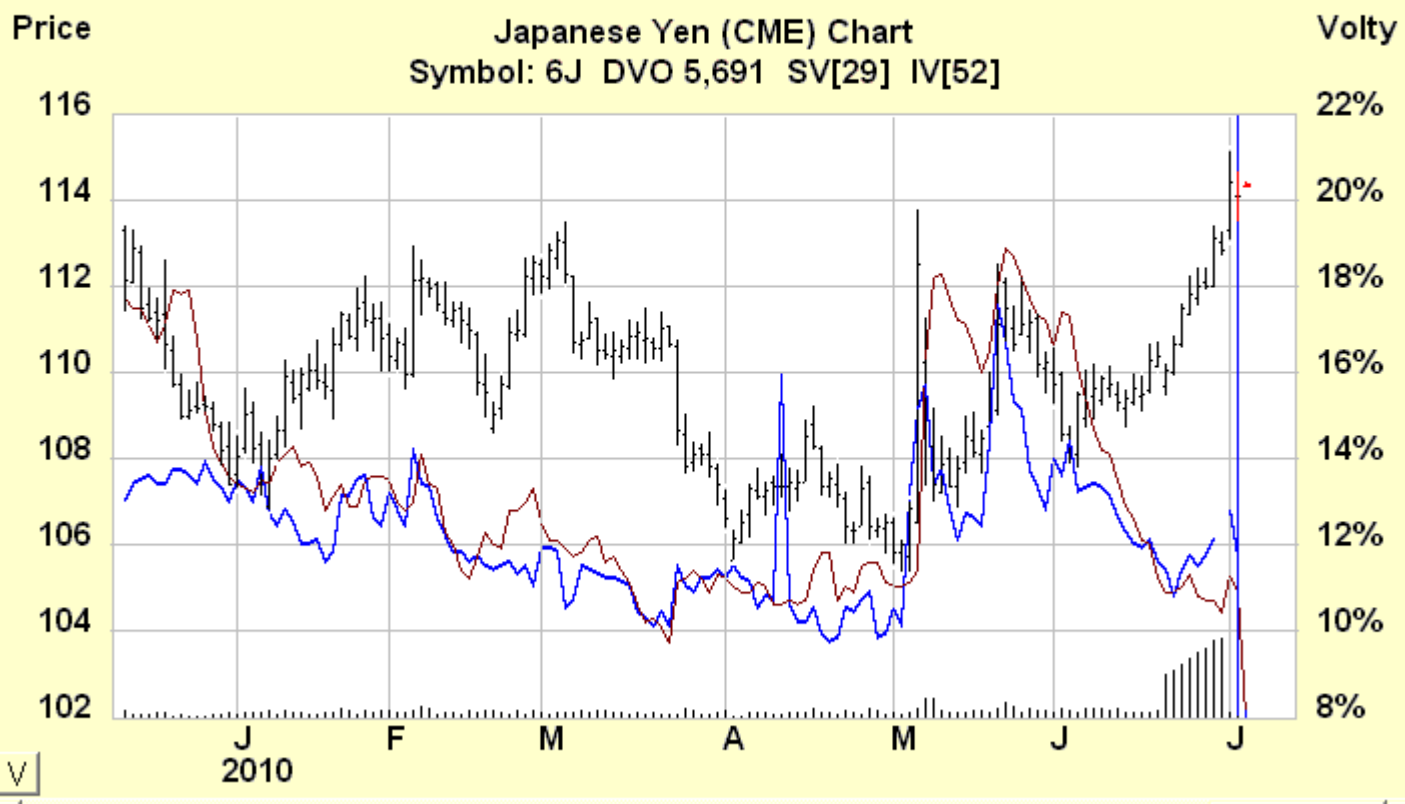


## 2. Japanese Yen (JY) – Sep Bull Call spread

Position / Closing Price @ 7/6	Entry Cost	Time	Comments/ Trading Plan
<p><b>Buy 1 Sep 114 call @ 244</b>  <b>Sell 1 Sep 117 call @ 134</b></p> <p>1 pt = \$12.50</p> <p>Sep JY @ 114.48</p> <p><b>Greeks:</b>  Delta +23  Gamma +1.7  Theta +\$1  Vega +\$14</p> <p><b>Margin:</b>  \$ 1,495</p>	<p>Approx  110 or less  points debit</p> <p>\$ 1,375</p>	<p><b>Sep  options  expire  on 9/3 in  58 days</b></p>	<p>The Sep Japanese Yen (JY) rallied from a low at 107.85 on June 4 to a high at 115.12 on July 1.</p> <p>This bull call spread anticipates the Sep JY contract will break the high from late Nov, 2009 at 116.18.</p> <p><b>Trading Plan/Suggested Risk:</b></p> <p>Establish the spread for a debit of approximately 110 points with an objective of closing the spread when it widens to a debit of 178 points (68 points better).</p> <p>This objective could be potentially achievable in 30 days (by Aug 6) provided the Sep JY futures contract rallies to about 116.48 (2.00 points higher).</p> <p>If the Sep JY contract declines 1.50 points to 112.98, then close the spread.</p> <p>In any event, close the spread no later than Aug 6 in 30 days.</p>

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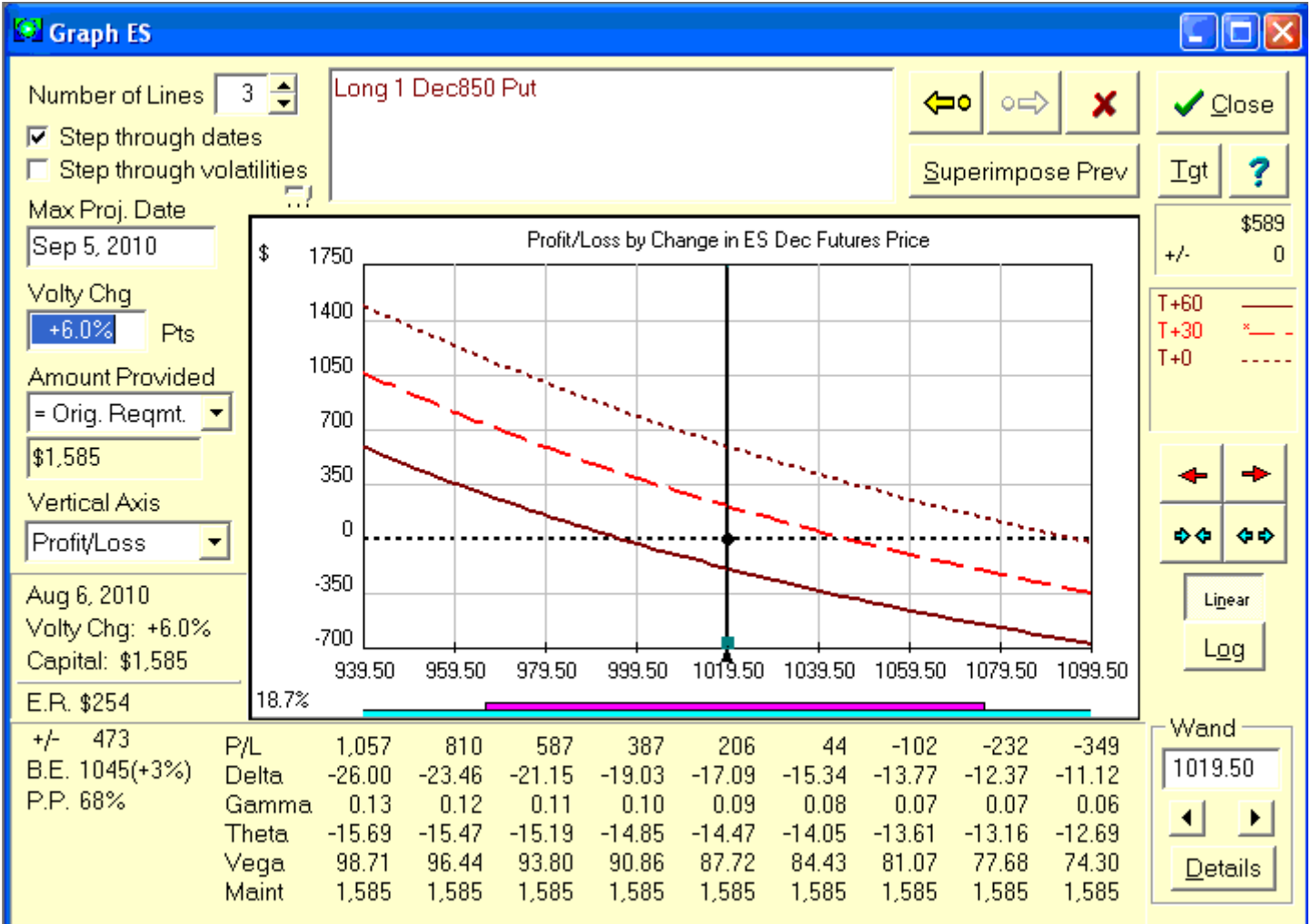


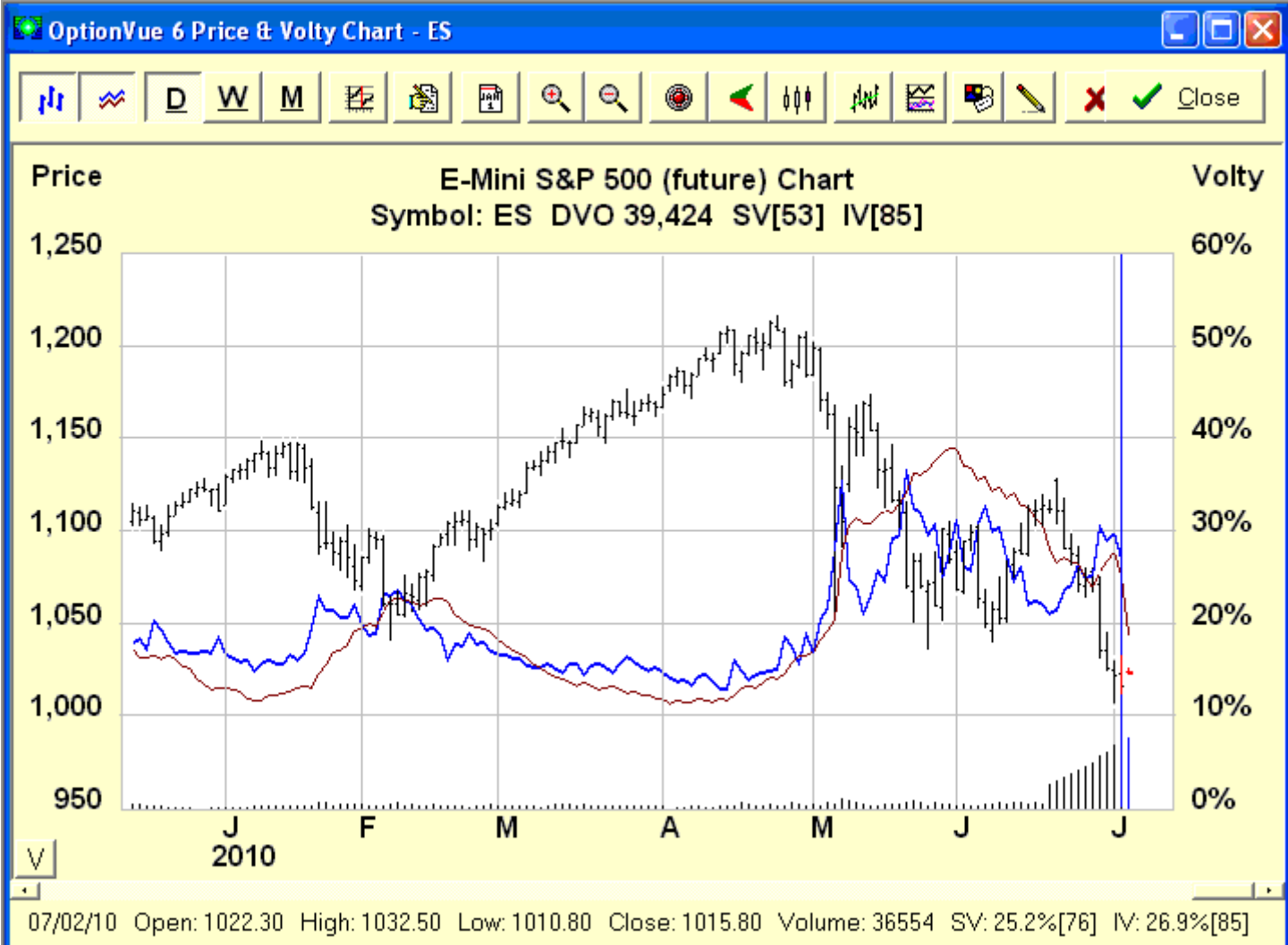
07/02/10 Open: 114.11 High: 114.65 Low: 113.50 Close: 114.10 Volume: 207851 SV: 10.9%[57] IV: 11.7%[52]

### 3. E-Mini S&P 500 (ES) – Long Dec Put

Position / Closing Price @ 7/6	Entry Cost	Time	Comments/ Trading Plan
<p><b>Buy 1 Dec 850 put @ 3050</b></p> <p>1 pt = \$0.50</p> <p>Dec ES @ 1019.50</p> <p><b>Greeks:</b></p> <p>Delta (17) Gamma +0.10 Theta \$(11) Vega +\$95</p> <p><b>Margin:</b></p> <p>\$ 1,585</p>	<p>Approx 3050 or less points debit</p> <p>\$ 1,525</p>	<p><b>Dec options expire on 12/16 in 162 days</b></p>	<p>This Dec ES 850 put has a negative delta of 17. Negative time decay is only \$11 per day at this time and each 1 pct pt rise in implied volatility benefits by \$95.</p> <p>Buying this put is a low-cost speculation for traders who are bearish over the next month.</p> <p>The Graphic Analysis assumes that implied volatility will rise by 6 pct pts as the market drops. It could rise more.</p> <p><b>Trading Plan/Suggested Risk:</b></p> <p>Buy the put for a debit of approximately 3050 points with an objective of selling the put for 4350 points (1300 points better).</p> <p>This objective could be potentially achievable in 30 days (by Aug 6) provided the Dec ES futures contract declines to about 979.50 (40.00 points lower) and provided implied volatility increases by 6 pct pts.</p> <p>If the Dec ES contract rallies and the put declines 1000 pts to 2050, then sell the put (to close).</p> <p>In any event, sell the put no later than Aug 6 in 30 days.</p>

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## WEEKLY OPTION IMPLIED VOLATILITY SURVEY ----- DATA through July 2, 2010

UNDERLYING MARKET	Symbol	Jul 2	Jun 25	May 28	Apr 30	Mar 26	Feb 26	(UP TO) 6YR I.V. RANGE	1.5-YEAR I.V. RANGE	6-YEAR % RANK	1.5 yr % RANK
<b>Stocks, Int Rates</b>											
S&P 500	SP	28.4	22.9	29.4	17.0	15.0	18.1	8.5 - 69.3	8.8 - 69.3	88	71
DOW JONES	DJ	15.7	15.7	15.7	15.7	15.7	15.7	8.3 - 66.5	8.3 - 66.5	59	1
EURODOLLAR	ED	74.5	78.9	104.6	93.2	80.0	99.3	7.7 - 168.7	7.7 - 168.7	80	28
TEN-YEAR Notes	TY	7.1	7.0	7.7	6.0	6.2	6.0	3.5 - 9.4	3.5 - 9.4	67	36
US 30-YR Bonds	US	11.9	12.0	13.0	9.1	9.4	10.0	5.2 - 21.7	5.2 - 21.7	75	32
<b>CURRENCIES</b>											
AUSTRALIAN \$	AD	17.5	14.8	19.7	10.8	10.8	13.4	6.2 - 46.7	6.2 - 46.7	84	59
BRITISH POUND	BP	11.4	12.1	15.3	12.8	12.5	11.9	4.9 - 29.5	4.9 - 29.5	72	9
CANADIAN \$	CD	13.2	12.3	16.0	10.6	9.6	10.5	5.8 - 26.9	5.8 - 26.9	75	28
EURO Currency	EC	13.2	13.1	16.4	11.7	10.5	11.2	4.7 - 28.7	4.7 - 28.7	85	58
JAPANESE YEN	JY	12.0	11.3	13.9	10.3	10.8	11.4	6.3 - 34.4	6.3 - 34.4	66	19
SWISS FRANC	SF	12.0	10.6	12.6	10.5	10.3	10.4	5.6 - 24.3	5.6 - 24.3	77	59
<b>GRAINS</b>											
CORN	C	29.8	29.5	31.0	30.7	30.6	30.3	15.6 - 50.2	25.3 - 50.2	45	14
WHEAT	W	28.6	31.2	28.6	31.5	31.9	34.1	20.1 - 61.1	27.2 - 61.1	35	3
SOYBEANS	S	22.0	22.0	22.3	22.4	22.8	24.5	16.4 - 50.0	20.0 - 50.0	13	5
SOYBEAN MEAL	SM	24.5	26.8	26.2	25.1	24.2	24.6	17.0 - 46.3	22.6 - 46.3	25	9
SOYBEAN OIL	BO	18.8	21.0	21.4	20.1	20.3	23.4	16.9 - 47.8	17.3 - 47.8	2	1
OATS	O	27.8	27.8	27.8	27.8	27.7	27.8	17.3 - 48.8	17.3 - 48.8	26	14
ROUGH RICE	RR/NR	22.0	22.0	22.0	22.0	22.0	22.1	12.7 - 47.0	12.7 - 47.0	33	6
<b>FOODS, FIBER</b>											
COFFEE	KC	39.5	39.5	28.6	28.3	25.4	28.2	23.2 - 62.5	23.2 - 62.5	82	88
COCOA	CO/CC	30.4	30.1	30.8	32.0	33.5	33.0	20.6 - 53.5	20.6 - 53.5	43	1
SUGAR	SB	38.7	38.3	44.2	39.7	48.5	43.2	18.6 - 52.0	18.6 - 52.0	74	19
ORANGE JUICE	OJ/JO	35.4	34.8	27.7	27.4	27.8	30.6	17.7 - 55.8	18.7 - 55.8	64	39
COTTON	CT	23.9	23.6	24.0	25.4	26.3	25.9	16.4 - 47.2	16.4 - 47.2	28	3
LUMBER	LB	37.3	46.7	29.9	29.9	29.9	29.9	18.6 - 53.5	21.2 - 53.5	90	61
<b>METALS</b>											
COPPER	HG	37.3	40.2	39.6	28.8	37.7	36.2	17.1 - 349	25.1 - 349	67	32
GOLD	GC	20.4	19.3	21.3	16.8	17.3	21.0	10.8 - 48.7	16.1 - 48.7	55	33
SILVER	SI	32.1	29.5	33.4	25.7	26.3	32.2	16.9 - 75.2	19.0 - 75.2	44	21
<b>ENERGY</b>											
CRUDE OIL	CL	35.3	33.0	39.0	28.0	29.0	30.5	24.8 - 99.9	24.8 - 99.9	49	28
GASOLINE	RB	32.5	23.4	38.1	28.8	n/a	n/a	23.4 - 69.9	23.4 - 62.6	22	17
HEATING OIL	HO	33.2	27.9	37.2	28.3	29.5	31.3	25.9 - 73.6	25.9 - 73.6	37	22
NATURAL GAS	NG	50.9	50.5	43.3	45.6	41.2	41.4	30.0 - 98.1	33.6 - 91.4	42	28
<b>MEATS</b>											
LIVE CATTLE	LC	14.5	15.2	17.5	15.8	15.9	13.7	11.6 - 37.9	11.6 - 37.9	29	28
FEEDER CATTLE	FC	13.8	13.4	15.5	14.9	12.7	11.4	9.0 - 35.0	11.9 - 35.0	48	47
LEAN HOGS	LH	20.5	21.9	22.1	21.6	20.9	22.3	17.5 - 48.5	17.5 - 48.5	13	4

Data is from **OptionVue**, using weekly option I.V. averages. **To contact OptionVue, call (800-733-6610).**

**OPTION MARKET COMMENTS** - Evaluated using computer and subjective analysis. In general, when volatility is low, option purchases are attractive; when high, option-selling strategies are appropriate.

Implied option volatility, statistical market volatility, and liquidity are important considerations.

<b>LOW option implied volatility</b>	<b>HIGH option implied volatility</b>	<b>VOLATILITY NOTES</b> (Comments and observations).
Consider for option buying strategies (option purchases, ratio backspreads long straddles or long strangles, and calendar spreads)	Consider for option selling strategies (option sales, ratio spreads, and reverse calendar spreads)	
DJ, BP, W, S, SM, BO, RR, CO, CT and HO	None	