

WEEKLY OPTIONS TRADING REPORT --- Tuesday, August 17, 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

**Yields on 30-year Bonds have reached all time lows. Will this bullish price trend continue or will it reverse?
Today's issue presents short-term trades for whatever outlook you have.**

- 1. US Bonds (US) – Dec Put Ratio Backspread – Speculative Directional and Speculative Implied Volatility – bearish**
- 2. US Bonds (US) – Dec Call Ratio Backspread – Speculative Directional and Speculative Implied Volatility -- bullish**
- 3. US Bonds (US) – Dec Long Strangle -- Speculative Statistical and Speculative Implied Volatility**

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

FUTURES AND OPTIONS TRADING CAN INVOLVE SUBSTANTIAL FINANCIAL RISK

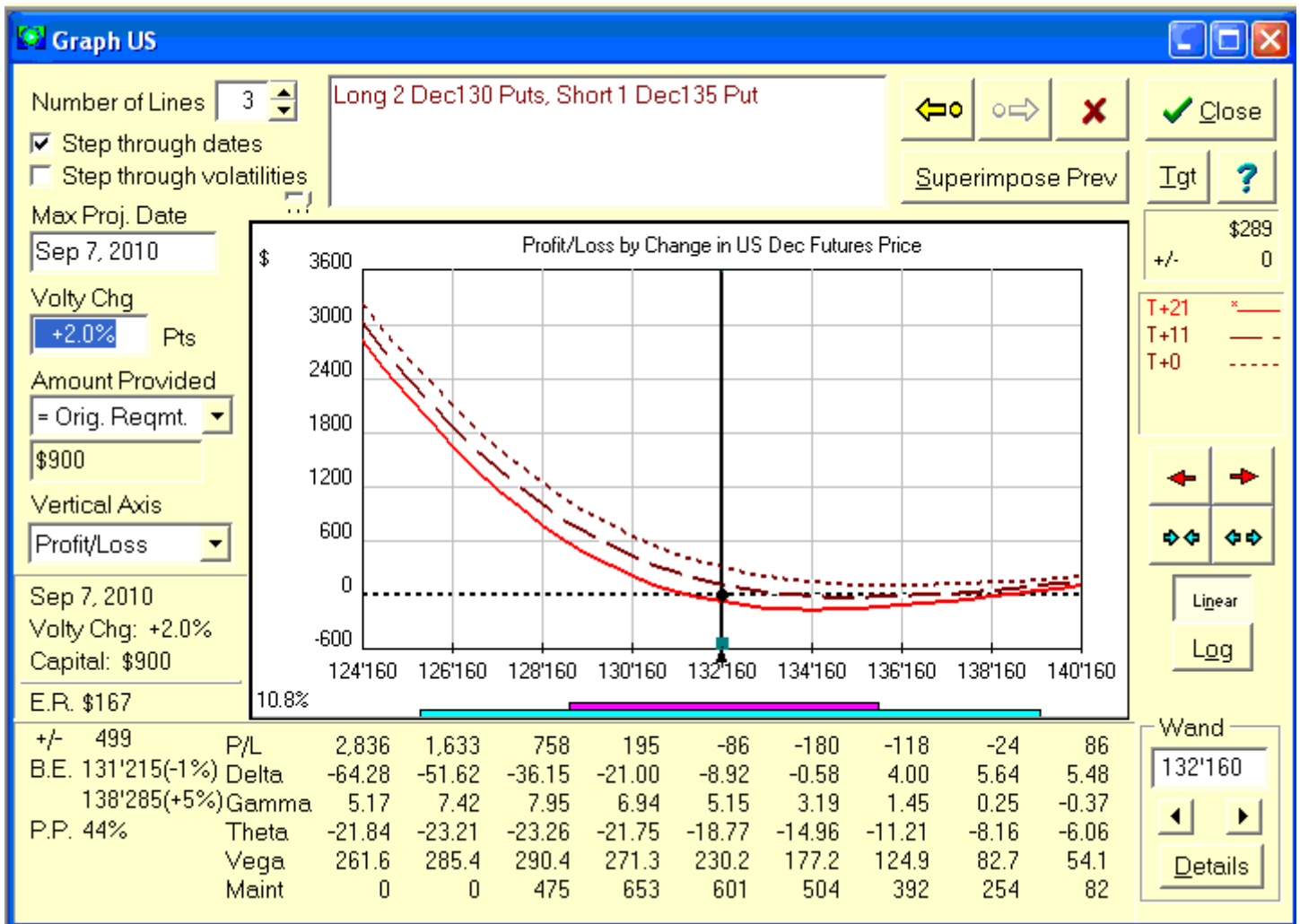
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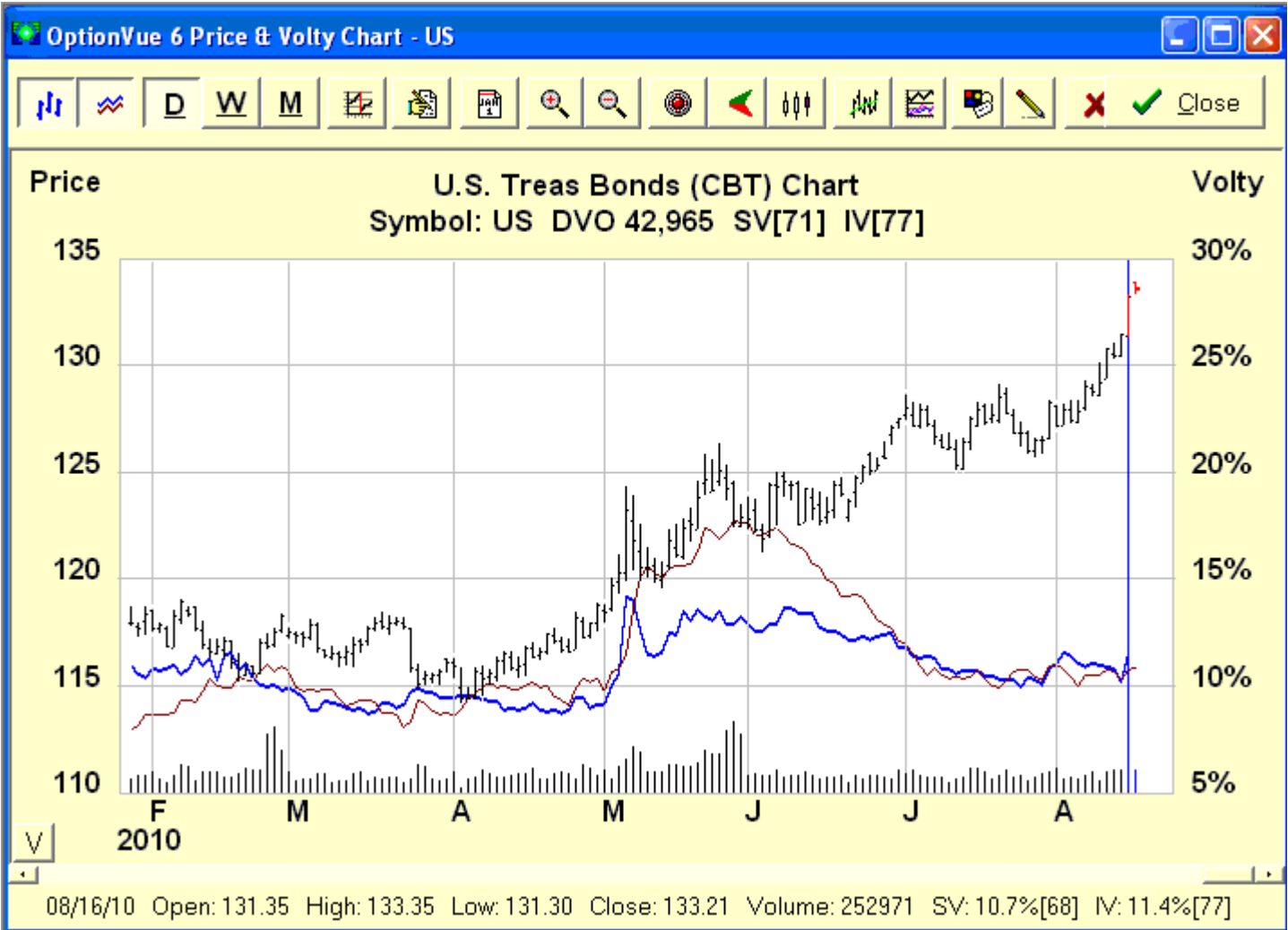
The weekly option implied volatility survey is on the last page

1. US Bonds (US) – Dec Put Ratio Backspread

Position / Closing Price @ 8/16	Entry Cost	Time	Comments/ Trading Plan
<p>Sell 1 Dec 135 put @ 4'42 Buy 2 Dec 130 puts @ 2'05</p> <p>'01 tick = \$15.625 '64 ticks = 1'00 point = \$1,000</p> <p>Dec US @ 132'16</p> <p>Greeks: Delta (7) Gamma +5.3 Theta \$(14) Vega +\$257</p> <p>Margin: \$ 900</p>	<p>Approx. 0'32 or more ticks credit</p> <p>\$ (500)</p>	<p>Dec options expire on 11/26 in 101 days</p>	<p>Bond prices have rallied to historic highs given the weak economic outlook coupled with the Fed's desire to keep rates low and to purchase Treasury securities with proceeds from maturing mortgage debt.</p> <p>This Dec put ratio backspread anticipates Bonds will reverse to the downside over the next 3 weeks and that implied volatility will increase.</p> <p>The Volatility Chart below shows that implied volatility has plenty of room to increase, and the Graphic Analysis assumes implied will rise a modest 2 pct pts.</p> <p>Trading Plan/Suggested Risk:</p> <p>Establish the spread for a credit of approximately 0'32 ticks with the objective of closing the spread when it widens to a debit of 0'28 ticks (0'60 ticks better).</p> <p>This objective could be potentially achievable in 21 days (by Sep 7) provided the Dec US futures contract declines at least 4'00 points to 128'16 and provided implied volatility increases by 2 pct pts.</p> <p>If the Dec US contract rallies 2'00 points to 134'16, then close the spread.</p> <p>In any event, close the spread no later than Sep 7 in 21 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.**

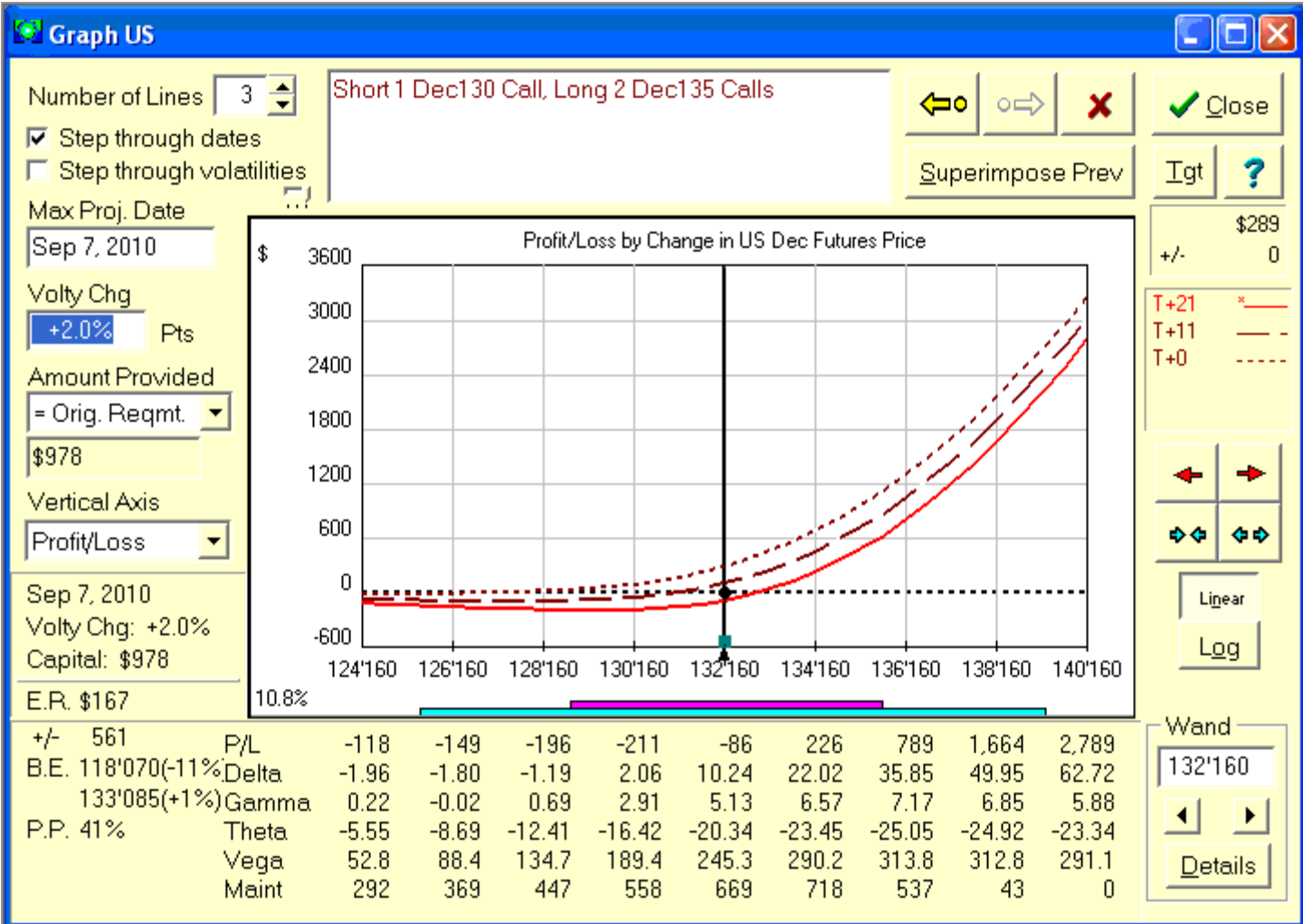




2. US Bonds (US) – Dec Call Ratio Backspread

Position / Closing Price @ 8/16	Entry Cost	Time	Comments/ Trading Plan
<p>Sell 1 Dec 130 call @ 4'37 Buy 2 Dec 135 calls @ 2'10</p> <p>'01 tick = \$15.625 '64 ticks = 1'00 point = \$1,000</p> <p>Dec US @ 132'16</p> <p>Greeks: Delta +9 Gamma +5.4 Theta \$(16) Vega +\$274</p> <p>Margin: \$ 978</p>	<p>Approx 0'17 or more ticks credit</p> <p>\$ (265.62)</p>	<p>Dec options expire on 11/26 in 101 days</p>	<p>Unlike Position # 1, this call ratio backspread assumes that the trend in Bonds will continue.</p> <p>In other words, it's based on the belief that long term rates will continue to decline and that Bond prices will continue to rally.</p> <p>Trading Plan/Suggested Risk:</p> <p>Establish the spread for a credit of approximately 0'17 ticks with the objective of closing the spread when it widens to a debit of 0'45 ticks (0'62 ticks better).</p> <p>This objective could be potentially achievable in 21 days (by Sep 7) provided the Dec US futures contract rallies at least 4'00 points to 136'16 and provided implied volatility increases by 2 pct pts.</p> <p>If the Dec US contract declines 2'00 points to 130'16, then close the spread.</p> <p>In any event, close the spread no later than Sep 7 in 21 days.</p>

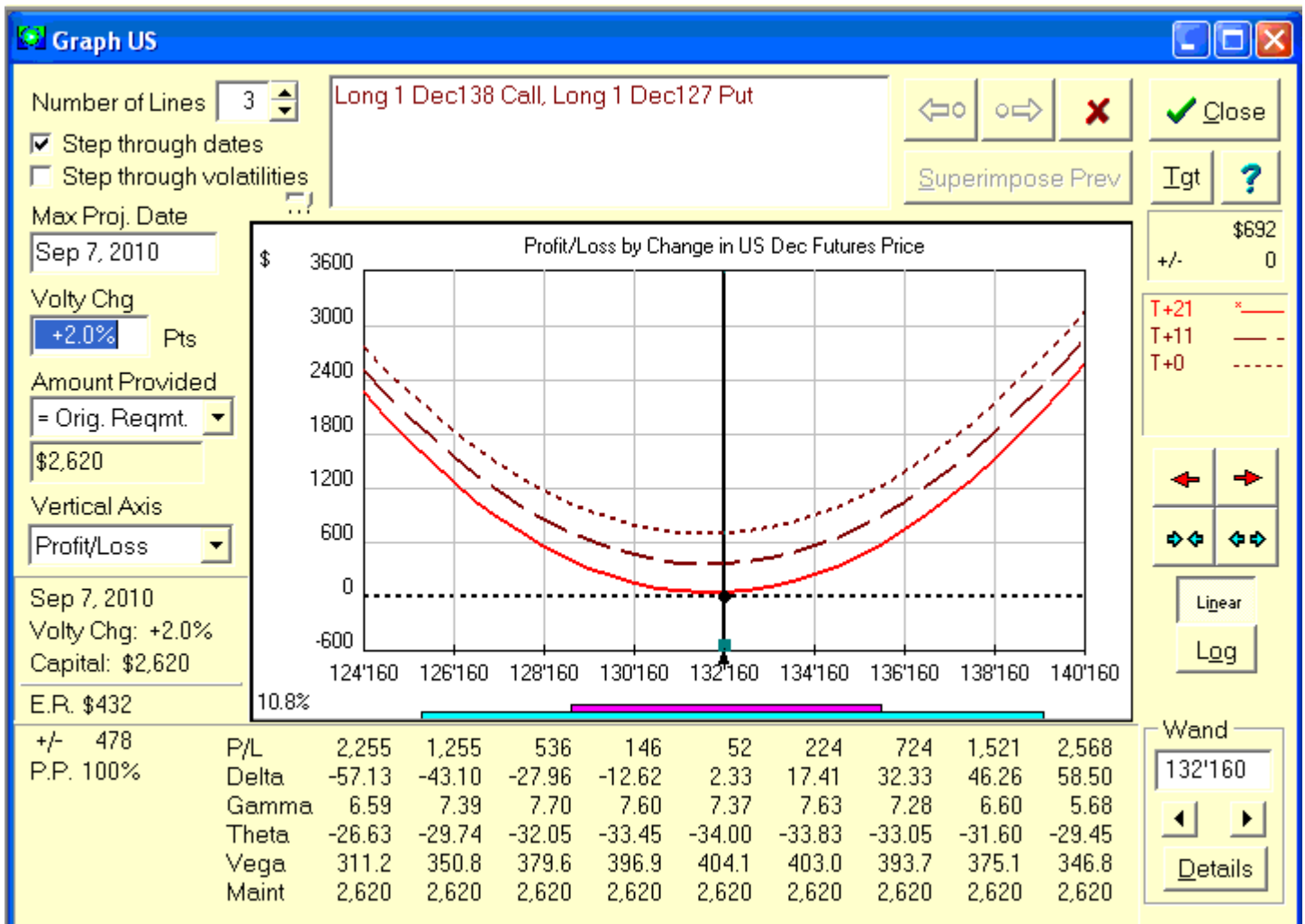
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3. US Bonds (US) – Dec Long Strangle

Position / Closing Price @ 8/16	Entry Cost	Time	Comments/ Trading Plan
<p>Buy 1 Dec 138 call @ 1'20 Buy 1 Dec 127 put @ 1'12</p> <p>'01 tick = \$15.625 '64 ticks = 1'00 point = \$1,000</p> <p>Dec US @ 132'16</p> <p>Greeks: Delta +2 Gamma +8 Theta \$(26) Vega +\$444</p> <p>Margin: \$ 2,620</p>	<p>Approx 2'32 or less points debit</p> <p>\$ 2,500</p>	<p>Dec options expire on 11/26 in 101 days</p>	<p>This long Dec Bond strangle is for traders that want to speculate on an increase in implied volatility without making a directional bet.</p> <p>The vega factor shows that a 1 pct pt increase in implied can offset negative time decay of about 17 days.</p> <p>Trading Plan/Suggested Risk:</p> <p>Establish the spread for a debit of approximately 2'32 points with the objective of closing the spread when it widens to a debit of 3'10 points (0'42 ticks better).</p> <p>This objective could be potentially achievable in 21 days (by Sep 7) provided the Dec US futures contract rallies to about 135'26 or declines to about 128'16 and provided implied volatility increases by 2 pct points.</p> <p>In any event, close the spread no later than Sep 7 in 21 days.</p>

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WEEKLY OPTION IMPLIED VOLATILITY SURVEY ----- DATA through August 13, 2010

UNDERLYING MARKET	Symbol	Aug 13	Aug 6	Jul 30	Jun 25	May 28	Apr 30	(UP TO) 6YR I.V. RANGE	1.5-YEAR I.V. RANGE	6-YEAR % RANK	1.5 yr % RANK
Stocks, Int Rates											
S&P 500	SP	21.4	19.0	21.3	22.9	29.4	17.0	8.5 - 69.3	8.8 - 69.3	68	41
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	92.6	96.6	87.9	78.9	104.6	93.2	7.7 - 168.7	7.7 - 168.7	88	51
TEN-YEAR Notes	TY	5.7	6.1	5.8	7.0	7.7	6.0	3.5 - 9.4	3.5 - 9.4	47	3
US 30-YR Bonds	US	10.7	11.3	10.2	12.0	13.0	9.1	5.2 - 21.7	5.2 - 21.7	67	18
CURRENCIES											
AUSTRALIAN \$	AD	13.4	12.3	13.5	14.8	19.7	10.8	6.2 - 46.7	6.2 - 46.7	66	18
BRITISH POUND	BP	11.3	10.3	10.2	12.1	15.3	12.8	4.9 - 29.5	4.9 - 29.5	71	14
CANADIAN \$	CD	11.2	10.4	10.9	12.3	16.0	10.6	5.8 - 26.9	5.8 - 26.9	63	15
EURO Currency	EC	11.9	11.2	10.8	13.1	16.4	11.7	4.7 - 28.7	4.7 - 28.7	81	56
JAPANESE YEN	JY	11.5	11.4	10.7	11.3	13.9	10.3	6.3 - 34.4	6.3 - 34.4	62	22
SWISS FRANC	SF	11.3	10.7	10.1	10.6	12.6	10.5	5.6 - 24.3	5.6 - 24.3	70	47
GRAINS											
CORN	C	35.9	35.1	29.4	29.5	31.0	30.7	15.6 - 50.2	25.3 - 50.2	71	63
WHEAT	W	47.7	47.6	35.0	31.2	28.6	31.5	20.1 - 61.1	27.2 - 61.1	96	99
SOYBEANS	S	24.8	23.8	22.2	22.0	22.3	22.4	16.4 - 50.0	20.0 - 50.0	42	33
SOYBEAN MEAL	SM	23.4	25.8	24.0	26.8	26.2	25.1	17.0 - 46.3	22.6 - 46.3	15	1
SOYBEAN OIL	BO	24.7	25.1	21.3	21.0	21.4	20.1	16.9 - 47.8	17.3 - 47.8	43	38
OATS	O	27.8	27.8	27.8	27.8	27.8	27.8	17.3 - 48.8	17.3 - 48.8	24	14
ROUGH RICE	RR/NR	22.0	22.0	22.0	22.0	22.0	22.0	12.7 - 47.0	12.7 - 47.0	33	6
FOODS, FIBER											
COFFEE	KC	37.2	35.4	34.7	39.5	28.6	28.3	23.2 - 62.5	23.2 - 62.5	69	81
COCOA	CO/CC	31.0	31.1	31.0	30.1	30.8	32.0	20.6 - 53.5	20.6 - 53.5	49	9
SUGAR	SB	41.0	40.3	41.7	38.3	44.2	39.7	18.6 - 52.0	18.6 - 52.0	80	46
ORANGE JUICE	OJ/JO	42.0	39.6	37.2	34.8	27.7	27.4	17.7 - 55.8	18.7 - 55.8	87	73
COTTON	CT	24.8	25.0	24.7	23.6	24.0	25.4	16.4 - 47.2	16.4 - 47.2	33	14
LUMBER	LB	43.7	42.8	43.4	46.7	29.9	29.9	18.6 - 53.5	21.2 - 53.5	97	85
METALS											
COPPER	HG	27.8	31.9	30.3	40.2	39.6	28.8	17.1 - 349	25.1 - 349	15	3
GOLD	GC	19.3	19.5	19.7	19.3	21.3	16.8	10.8 - 48.7	16.1 - 48.7	46	23
SILVER	SI	26.0	27.2	27.7	29.5	33.4	25.7	16.9 - 75.2	19.0 - 75.2	17	6
ENERGY											
CRUDE OIL	CL	30.7	28.4	30.6	33.0	39.0	28.0	24.8 - 99.9	24.8 - 99.9	32	14
GASOLINE	RB	33.3	33.2	34.3	23.4	38.1	28.8	23.4 - 69.9	23.4 - 62.6	26	26
HEATING OIL	HO	30.8	30.1	31.6	27.9	37.2	28.3	25.9 - 73.6	25.9 - 73.6	26	13
NATURAL GAS	NG	44.9	46.7	49.2	50.5	43.3	45.6	30.0 - 98.1	33.6 - 91.4	29	14
MEATS											
LIVE CATTLE	LC	14.6	14.5	13.7	15.2	17.5	15.8	11.6 - 37.9	11.6 - 37.9	32	38
FEEDER CATTLE	FC	11.3	12.2	12.2	13.4	15.5	14.9	9.0 - 35.0	11.3 - 35.0	13	1
LEAN HOGS	LH	23.8	21.4	20.2	21.9	22.1	21.6	17.5 - 48.5	17.5 - 48.5	53	42

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.

LOW option implied volatility	HIGH option implied volatility	VOLATILITY NOTES (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, TY, SM, RR, CO, HG, SI, and FC	W	Implied volatility remains elevated in most of the grain markets