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Commodities Monthly Roundup -- June 2010

Trading Highlights for May: The “Sell in May and Go Away” expression was particularly apt this year, with the sell-off this past month being so fierce that it even extended into June. The CRB index finished 8.3% lower in May for its worst monthly performance in 18 months, while US equity markets sold off sharply as well, with the infamous 1000-point “flash/crash” being the most notable highlight of the month. There were intermittent rallies sprinkled throughout, such as the one we saw on May 10, when the Europeans announced (somewhat belatedly) a €750 billion “stabilization fund” to defend the Euro, but for the most part, rallies proved unsustainable in most markets for the period under review.

In addition to the European debt crisis, concerns about a deceleration in Chinese growth also weighed on sentiment. Investors were unnerved by a May report showing Chinese inflation readings moving to an 18-month high, while another release had a key purchasing managers dipping to its lowest level in a year. Other bearish developments over the course of the month included Fitch’s downgrade of Spain’s AAA credit ratings, growing tensions between the two Koreas, and rumors of a Hungarian default. There also was the disappointing US nonfarm report out in May, showing that of the 431,000 jobs created, all but 41,000 came from the government hiring census workers. The ensuing 300-point sell-off on the Dow in the wake of this release was the biggest drop on a monthly jobs report since 1998. More importantly, several key support levels were taken out in a number of markets, including the 10,000 level on the Dow and the \$1.20 level on the Euro. Among the few safe havens left was gold, which held up relatively well, as did U.S. Treasury bonds, where yields plummeted.

Outlook: Despite the weak late-May, early June markets, we are seeing a fairly decent bounce set in as of this writing, (see our CRB chart below) with broken support levels on both the Dow and the Euro being reclaimed. The question now becomes whether the current rally is going to also run aground. We think it will not. In fact, after being generally bearish on the commodity complex for much of the year and neutral in our last report given the intense volatility we were seeing, we are becoming much friendlier to the markets and suspect that the current move higher may hold up better than previous efforts. More importantly, we think that when it comes to the existing uncertainties, such as the European sovereign debt crisis and fears of a Chinese slow-down, there is better than a 50-50 chance that we will successfully navigate through both these issues, setting up the stage for a more impressive move higher going into the last quarter of this year or into Q1 of 2011. Between now and then, we are looking for the downward trajectory in most markets to moderate, if not end altogether, leading to trading range type of markets in most complexes. We outline our reasoning for our change of view on the next page.

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* The Euro crisis has been a wake-up call for European governments, most of whom are now scrambling to impose long-needed budget cuts, while establishing mechanisms so that deficit mandates will be adhered to. With the markets and the much maligned rating agencies standing guard, governments will have little choice but to put their financial houses in order rather quickly.

* European authorities are just now putting finishing touches on a "special purpose vehicle" that will, in effect, be a "go-to" facility, enabling countries to borrow up to €526 billion. EU members are also formalizing the necessary debt guarantees to fund the vehicle, while additional monies (some €60 billion) will be offered by the EU's executive commission. A €250 billion line will also be provided by the IMF. Once these facilities are up and running, European debt markets will likely stabilize further, as investors will recognize that the means and the money both exist for effective intervention to take place. In the meantime, the ECB has been acting on its own accord, giving banks access to unlimited funds over a three months period starting in July, buying bonds for its own account, keeping rates unchanged, and remaining generally accommodative.

* The struggling Euro has caused much trepidation in bullish circles over the last several weeks. Although we suspect there is more downside to go, we do not necessarily view a weaker Euro as necessarily being bad for European growth prospects, and neither should this prove to be a perennial source of selling pressure on commodities. A weaker Euro will likely jump start exports, thus providing a much-needed boost to the continent's anemic growth readings. (Germany, as the region's economic powerhouse, should benefit more than most in this regard in this regard). Therefore, we suspect the authorities are likely not that unhappy to see a lower Euro, as long as the decline is orderly.

* The other issue confronting the markets is how the outlook for China will shape up. As already mentioned, there were legitimate market concerns about slowing growth last month, but more recent statistics have eased some of these fears. To wit, the moribund Chinese export sector saw a sharp rebound in May, with exports up some 50% versus year ago levels. In addition, May Chinese industrial output rose 16.5% from a year ago, although it did fall slightly short of expectations. Urban fixed asset investment in the January-May period was up 25.6% from a year earlier, while May producer price inflation was at 7.1%. Although we mentioned in our last report that China will likely have to raise interest rates (or revalue the yuan) in order to cool the economy off, we do not suspect that this will be in the cards just yet given the problems in Europe. Nevertheless, even if Chinese growth likely slows from here going into the second half of the year, a case can be made that the sharp corrections already taken place in a number of commodity complexes (particularly base metals and to a lesser extent in energy) have likely discounted such a slowdown. In fact, some of the metals have sold off so sharply, that there is now talk of production cut-backs and expansion curtailments, something we have not heard of since the dark days of late 2008. Moreover, metal supply could be pinched further in the wake of Australia's decision to impose a new 40% mining tax due to start in 2012. Already, the tax has taken a toll on a number of new projects, including a \$9 billion iron ore mine venture in Western Australia.

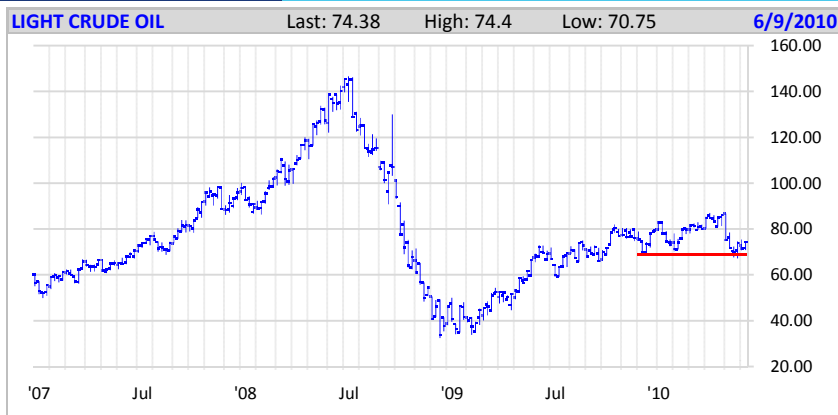
* The big elephant in the room, remains the US economy, and here things still seem to be on track, although growth will likely be patchy for the balance of 2010. Certainly, last month's nonfarm payroll number was quite disappointing, as was the recent retail sales number, but we think both readings were temporary setbacks and that the recovery should continue without the danger of falling into a double-dip. Certainly, on the labor front, corporate America has been stretched so thin in terms of staffing, that companies will have to tap the labor pool sooner rather than later. In fact, jobs advertised in April jumped by their greatest amount since December of 2008, and so preliminary signs are encouraging even though the pace of job creation remains maddeningly slow.

* Most importantly, global growth readings are respectable as well, and we would be reluctant to conclude that a global slowdown will necessarily follow the rather sharp decline we have seen in asset prices. One expression emanating from equity circles comes to mind when it comes to relying on financial markets --instead of hard data --to predict growth patterns, and that goes something like this: "The declines in the US stock market have correctly predicted nine of the past five recessions". We wonder if the US equity market is incorrectly forecasting another recessionary dip this time around as well.

On page 13, we have attached another very good analysis of fund flows and their impact on commodity prices contributed by our colleagues, equities mining analysts Tobias Woerner and Andrew Gardner. Our colleagues share our view that in the short-term, most commodity markets seem quite oversold, and could be ready for a bounce given the likelihood of a better tone to the Euro. They do caution, however, that the bounce will eventually fade, but for now we do seem to agree that further price upside seems to be in the cards.

WEEKLY WTI CONTINUATION

Apart from an expiration-induced breach that took prices to the \$64.24 mark back in late May, crude oil prices have been holding the \$68 support level on a closing basis fairly well. Although there is a chance that we could retest this level once again, we suspect \$68 should hold given the backdrop of improving energy demand here in the US. In addition, although it is still early in the season, any hurricane-related jitters, no matter how inconsequential, could lead to a substantial rally given what is already going on in the Gulf. Having said that, there seems to be good resistance around the \$76-\$78 level, and prices may have trouble staying above those levels in light of high inventories. Moreover, for all its rhetoric, OPEC is still reluctant to cut production back significantly, and this should likely be another factor that could keep the upside in check. In addition, funds seem to have fled the crude complex, as the net long noncommercial position was reported at 17,000 lots last week, almost a one-year low.



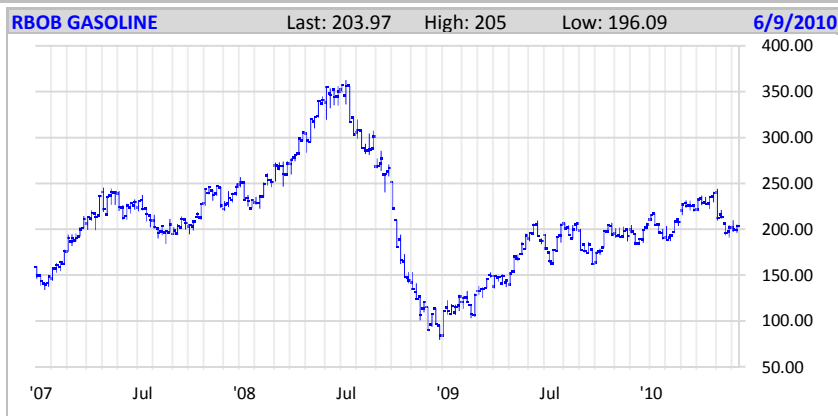
WEEKLY BRENT CONTINUATION

Unlike WTI, Brent has managed to hold key support at the \$68 level relatively cleanly, although prices could head back in for another retest of that level. On the upside, the \$80 level marks resistance. Brent is no longer benefiting from the arbitrage that was in place during the first half of May. The arb has now shrunk to about \$.80 on the nearby contract (Brent over) from a high of about \$2.50 at one point in May and from close to \$6 in April.



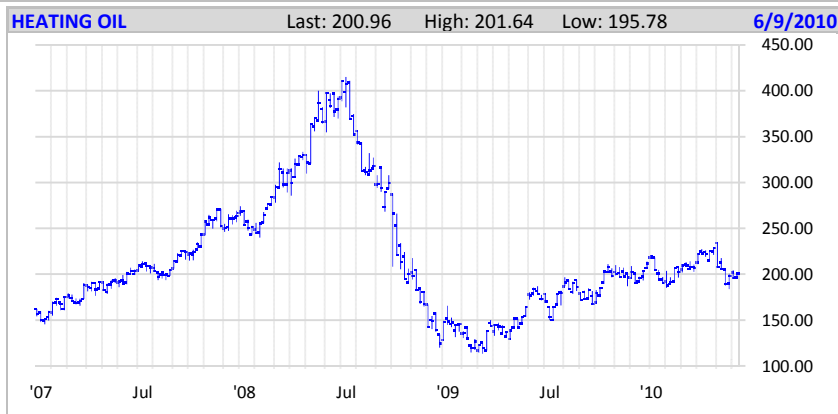
WEEKLY RBOB CONTINUATION

Gasoline remains in its up channel, but is facing some resistance around the \$2.10 mark. If we clear this level on a closing basis, we could have a straight shot to \$2.20. However, with prices trading in the middle of the range for now, we are neutral on the complex for the time being, and would rather watch the action from the sidelines for a little while longer. Support is at \$1.95, lying along the up channel. US gasoline demand is improving, but is still not as impressive as what we are seeing in the distillates space.



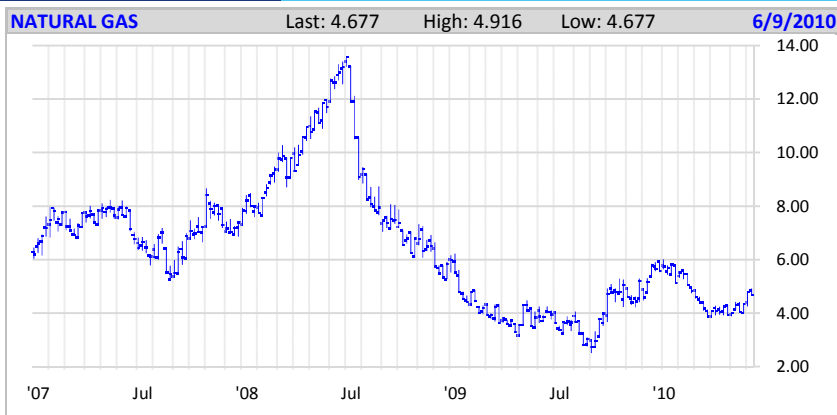
WEEKLY HEATING OIL CONTINUATION

Our chart shows that heating oil's upchannel has leveled off some time ago (earlier in the year to be exact) and prices have been in a broad trading range ever since. We see support at the \$1.8270 level, substantially below where we are currently. A test and possible break of this level is unlikely, as we expect crude to hold onto to its high-\$60 support level. In addition, US distillate demand has been very strong of late, with the EIA reporting an average 15% year-over-year gain in its latest two reports. Nevertheless, we think the complex will have trouble pushing beyond the \$2.20 level without hurricane jitters providing support.



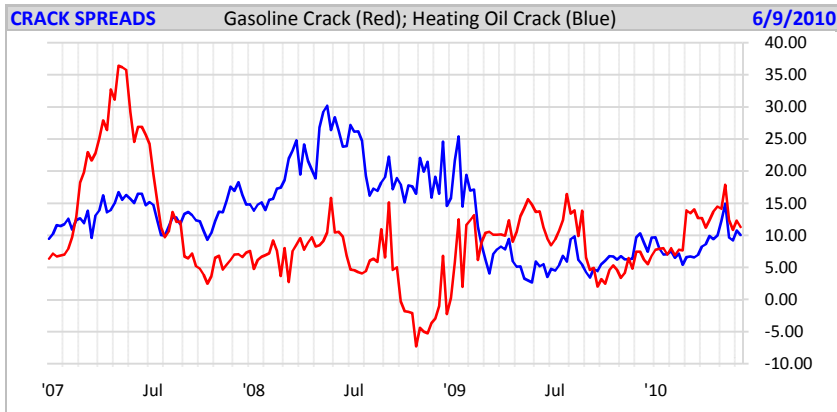
WEEKLY NATURAL GAS CONTINUATION

Natural gas prices have been making steady gains for much of the last few weeks, and it now looks like the complex could possibly move much higher. Our charts show short-term resistance at \$5.20, and we could even get to the \$6.00 level should hurricane jitters keep the rally in place over the summer months. Finally, the perennially large net non-commercial short position should provide further upside fodder as more shorts are deciding to cover. Downside support remains at \$3.80.



CRACK SPREADS

The cracks are still looking fairly robust, although they have come off from the early May highs. The broad-based selloff in energy this past month has obviously affected products somewhat more so than crude, accounting for the retreat in margins. More importantly, although end-user product demand is improving, it is not picking up strongly enough to make a significant dent in inventories. In fact, we note in our charts on the next page, product inventories are still at record highs across-the-board, while crude inventories are at four-year highs. The danger refiners face is that they may flood the market with too much product now that margins are giving them some breathing room. If demand is not there to sop up the extra units, we could see margins start to flag going into the tail end of Q3 when the US driving season starts to wind down and just as distillate demand enters its "soft" third quarter.



POWER

Out of Europe, the EU will probably resume a debate on stricter emission-reductions before the next global climate summit later this year. Among some of the proposals the EU is looking at, would be deepening its 2020 target to 30% below 1990 levels from 20% currently if other nations adopt deep cuts themselves. If approved, it could mean the EU carbon permit supply would be slashed, possibly pushing prices up to between 30-50 Euros, from around 15 now. Carbon prices have been fairly stable this month, but we could see the spread between the EUAs and CERs narrowing in the months ahead as some key decisions are made both by the EU and at the UN, where a working group is reviewing plans that could massively cut CER supply from HFC 23 projects. For now, there does not seem to be many other drivers. *Part of this commentary was contributed by Akshat Jaswal in our Singapore Office.*



URANIUM

There is not much change in this complex this past month, with the uranium price holding steady between \$40-\$42 since February. The restrained activity has resulted in a marked reduction in volatility, down from just over 20% earlier in the year to 7%. The short-term price clarity, along with fuel consumption lead times, has prompted buyers to prolong committing to any spot purchases. We expect to see range-bound trading for the balance of the year. Commentary contributed by our London-based trading desk.



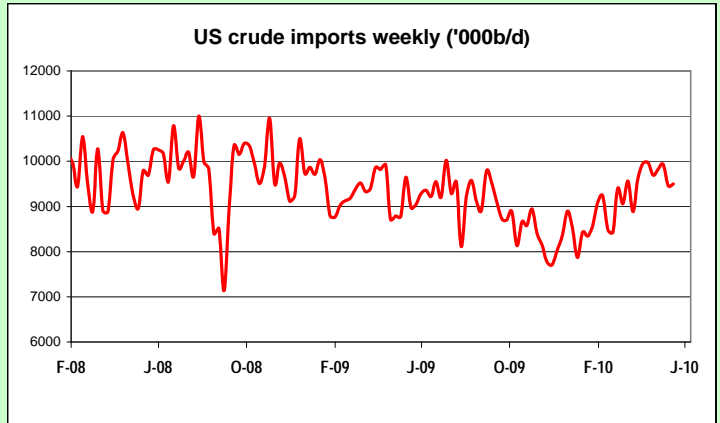
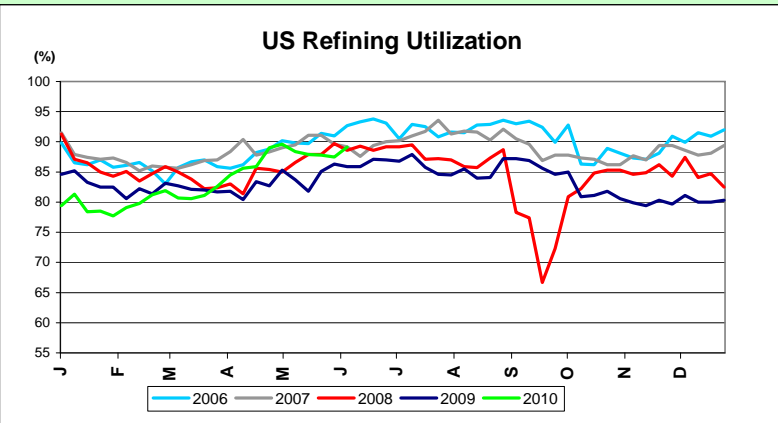
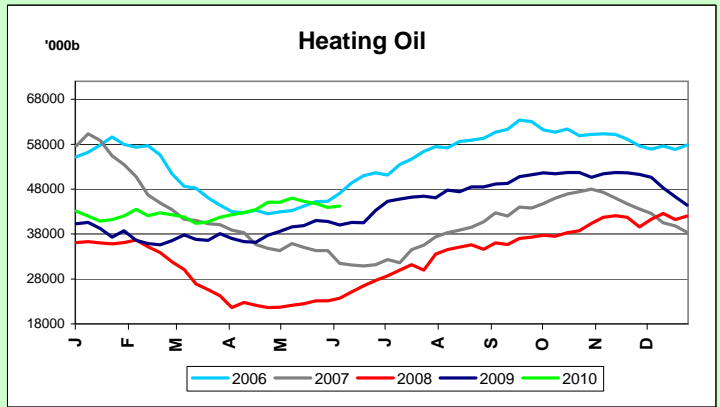
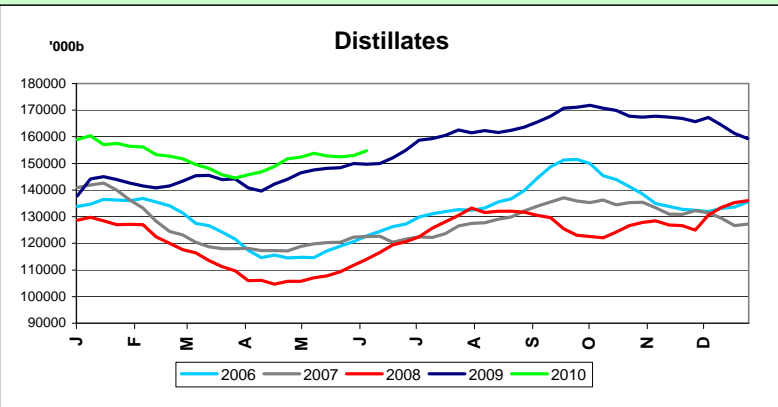
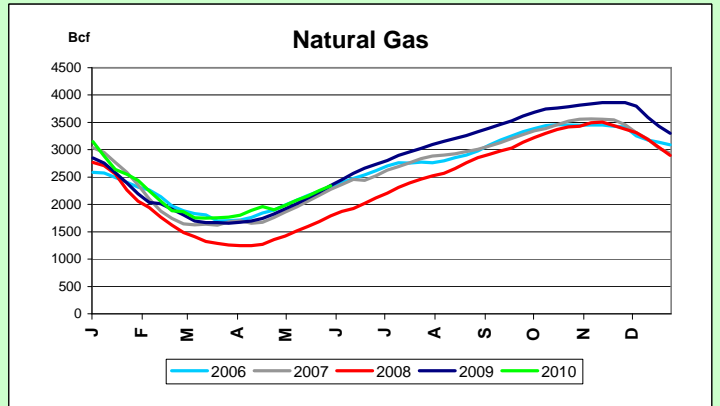
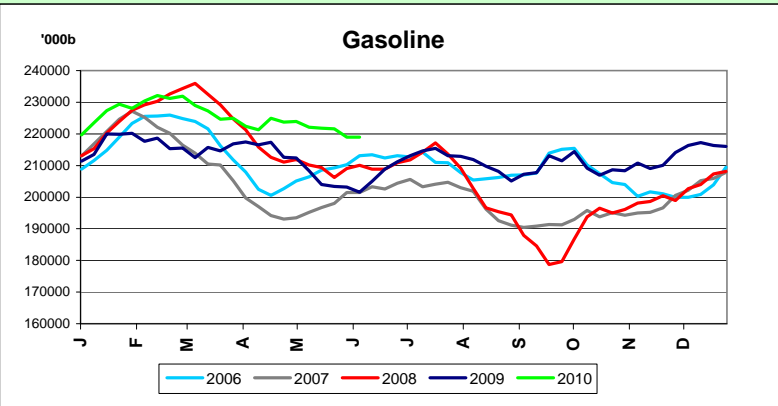
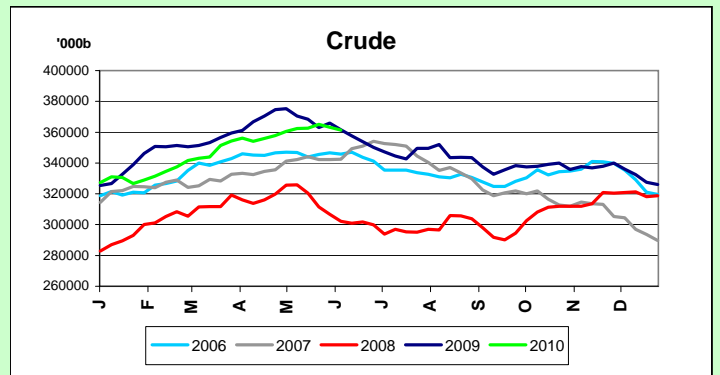
Inventory Levels as of June 4, 2010

Crude: -1.8 MB (forecast -9 MB) (API: -4.5 MB)
Gasoline: UNCH (forecast +4 MB) (API: +1.5 MB)
Distillates: +1.8 MB (forecast +4 MB) (API: +3.0 MB)

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(MB)	Current week	Previous week	Year ago	Change from last Week	Year*
Crude	361,415	363,200	361,600	(1.8)	(0.2)
Distillates	154,824	153,000	149,700	1.8	5.1
Gasoline	218,976	219,000	201,600	(0.0)	17.4
Heating Oil	44,230	43,900	40,000	0.3	4.2
Natural Gas**	2,342	2,254	2,452	88.0	(110.0)
Imports	9,500	9,460	8,974	40.0	526.0
Capacity Util (%)	89.1	87.5	85.9	1.6	3.2

*unrevised / **for week prior in bcf



LME BASE METALS

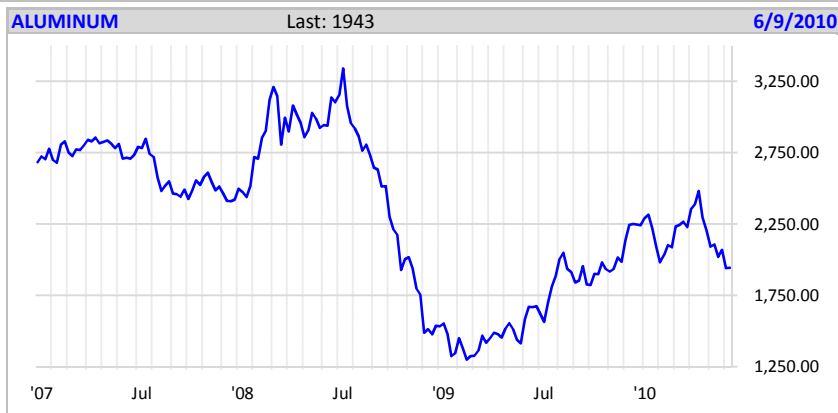
3-MONTH LME COPPER

Copper took out the February 2010 low of \$6225 in early June, but prices have recovered since then. In addition to the bearish impact of the soaring dollar, the complex has become unnerved by the goings-on in China, where May copper imports slipped slightly versus April levels. On an aggregate basis, however, imports in the first four months of this year are at a respectable 1.61 million tons, up from 1.34 million tons in 2009. More importantly, inventories on the Shanghai Futures Exchange have actually fallen over the last month, dovetailing a similar decline on the LME. All this tells us that imported metal is not going into hidden stocks or private stashes, but may be getting used up for the industrial sector. Nevertheless, ICSG numbers continue to point to surpluses in copper's supply/demand of some 580,000 tons. However, most estimates are calling for a deficit in 2011; this should prevent the market from deteriorating below key \$5750 support. On the upside, we would not rule out an advance to \$7000 over the July period.



3-MONTH LME ALUMINUM

We have not been impressed by aluminum's prospects for much of this year, as the overhang of LME stocks must be considered a perennial negative. In terms of fundamentals, there has been no evidence that global production is moderating. In this regard, the IAI announced last month that April production was 1.983 MMT compared with 2.045 MMT in March and 1.914 MMT in April of 2009. Primary aluminum production in China was at 1.392 MMT in April from 1.394 MMT in March, and up sharply from the 892,000 tons produced in April of last year. However, with the late-May early June price decline, we should see more aggressive cutbacks in the months ahead, particularly from China. Even the Russians are complaining, saying that with prices below \$1900/MT, smelters are losing money. We look for further weakness here, but the likelihood of production cutbacks should provide something of a floor around the \$1850-\$1900 mark.



3-MONTH LME ZINC

Last month, we wrote that zinc should encounter support around the \$1900 mark, but our "floor" was well off target as prices went right through it, and now are hovering just above 10-month lows. Looking back on the highlights of the month, we notice that zinc has been socked by soaring stock levels, with Shanghai inventories up 30,000 tons in May alone, while LME stocks were up by some 70,000 tons. Moreover, the International Lead and Zinc Study Group is estimating that the market will be in a surplus by 418,000 tons this year, substantially higher than the 227,000-ton forecast last October. Charts suggest a further retreat to the \$16600 mark, but we would not necessarily be short at current levels, as the complex is quite oversold. Another supporting variable could come our way through production cutbacks, now gaining urgency in light of the price collapse. In this respect, in early June Bloomberg reported that Chinese smelters have idled as much as 8.8% of capacity sidelining some 400,000 to 500,000 metric tons out of a 5.7 million tons of annual capacity. We suspect that this figure will likely push higher in the weeks ahead.



3-MONTH LME LEAD

Much to our surprise, lead has been one of the worst performing base metals this year, as prices plunged to one-year lows in early June, this after finishing 2009 in stellar fashion by even out-pacing copper. From April onwards, the complex has been weighed down by steadily worsening fundamentals. LME stocks for example, are now at six-year highs, while US replacement battery demand is also flagging. The latest figures from the US Battery Council show that while original equipment battery demand surged about 50% year-on-year vs. the first quarter, shipments of replacement batteries, a much bigger part of the battery market, fell despite one of the harshest US winters on record. European demand has been equally sluggish, and even in China, which is now the world's largest car market, there is quite a lot of metal in inventory to meet the country's needs. As a result, after a flurry of imports seen during the middle part last year, China has been a marginal net exporter of refined lead since November, and even more metal is escaping in different non-ingot shapes. All this suggests that the market is well supplied and will likely be in surplus this year. Charts do not look as miserable as they did earlier in the month, but barring any revival in Chinese demand, we could retest the recent lows.



Source for Charts: Bloomberg

3-MONTH LME NICKEL

Despite nickel's recent sell-off, the complex's fundamentals are looking fairly decent. LME nickel stocks, for example, are down some 30,000 tons since peaking in February, and stainless steel production has recovered to pre-crisis levels in the first quarter of this year. Out of China, apparent stainless consumption is expected to rise by 5% in 2010 for a second year in a row (after falling the previous two). However, despite good demand readings, the market will likely be in a modest surplus this year, and we are seeing more analysts coming around to the notion of a surplus for this year. Nevertheless, nickel's fundamentals are not that poor to justify a collapse to much lower levels (i.e., below \$16,000). On the upside, another retest of the \$23,000-\$24,000 level cannot be ruled out, perhaps by year-end when markets start to breathe easier.



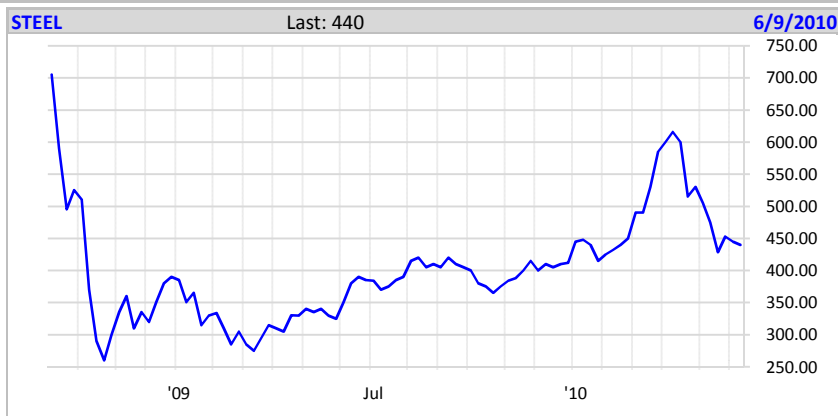
3-MONTH LME TIN

Along with nickel, tin has proved to be among the more resilient of the LME metals, although it too, has started to wobble of late. ITRI, the UK-based tin industry association, just raised its 2010 supply-demand deficit forecast to 15,000 tons from a previous 8,000 tons, which is fairly significant for a 340,000-ton market. For the moment, we like tin's prospects going forward, as there is not an abundance of supply-- or producers--for that matter. Indeed, the supply side is overly dependent on Indonesia, where expansion is constrained by the steady depletion of alluvial deposits. China, which was the world's largest exporter in the 90s, has been a consistent importer of both refined metal and concentrates, a situation we do not expect will change in 2010 either. Tin should find good support around the \$15,000 level, while on the upside, we could see \$18,000 tested again, likely later in the year.



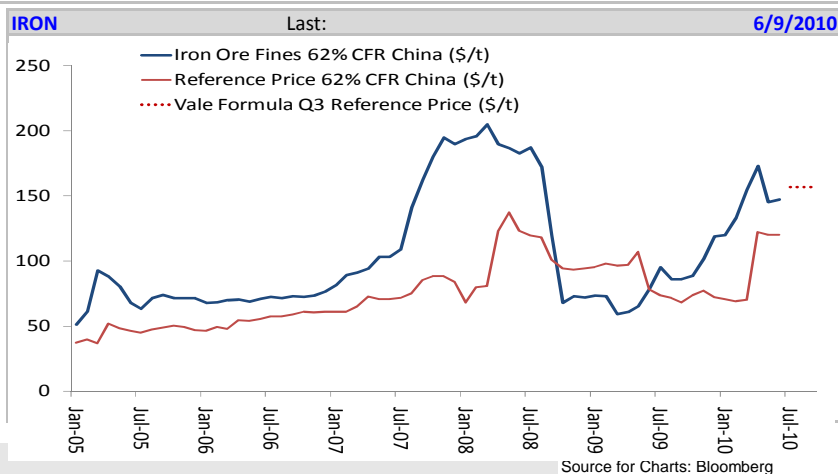
LME STEEL

LME steel billet prices fell victim to the sell-off seen in other markets lately, with the Mediterranean billet contract falling to around \$420 a ton as of this writing. Despite the steep price declines seen over the last two months, we are seeing few signs of production cutbacks, and that could spell trouble as we move into the summer. Chinese mills, for example are still churning out record amounts of steel on an annualized basis, with April global steel production expected to climb to 1.5 billion metric tons from about 1.25 billion in 2009. This could conceivably saddle the market with a 200 million ton surplus, according to the World Steel Association. Other regions are also boosting production--Mid-East output is up some 13%, while South Korean production is up 4%. Even European steelmakers are operating at 80% capacity, or near levels prior to the 2008 crisis, leaving the US and Japan as the only key producers that have reduced output. With so much capacity hitting the markets, particularly out of China, the Chinese have turned to the export market more aggressively, likely another source of downward pressure going forward.



IRON ORE

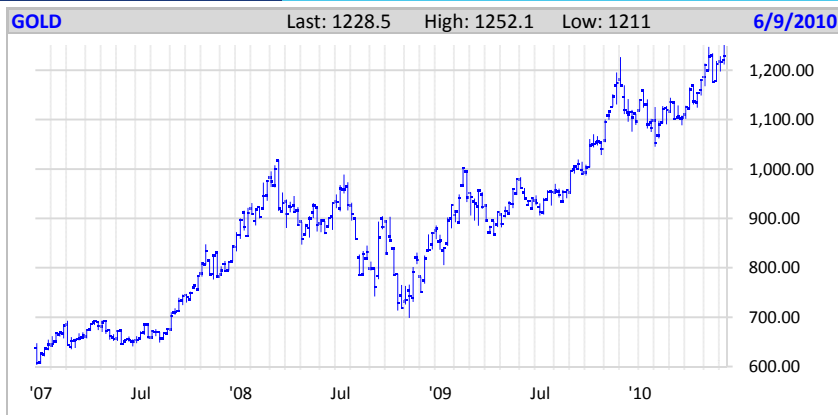
In order to give a better representation of the way iron ore is now priced, our chart alongside shows all prices on a landed basis in China for 62% grade fines (a.k.a the reference price). Blast steel makers saw some temporary signs of relief in the past month, with spot iron ore prices falling 24% from their late April peak of \$187/ton to \$143/ton. However, over the past ten days, volumes have picked up and prices are now quoted at \$148/ton. Focus has now turned to the contract market, where prices for the July-Sep quarter are expected to be agreed near \$157/ton CIF based on the agreed formula (average previous quarter). This should also keep a cost squeeze on Chinese blast furnaces, who are simultaneously experiencing lower steel prices due to weakening end-demand and overcapacity. It is also reported that a number of smaller Chinese mills have begun shutting down production in the past few weeks due to low prices and government pressure, but we nevertheless maintain our call for prices to drift lower, possibly heading towards \$120/ton by the year-end. *Comment contributed by Andrew Gardner in our Sydney Office...*



Source for Charts: Bloomberg

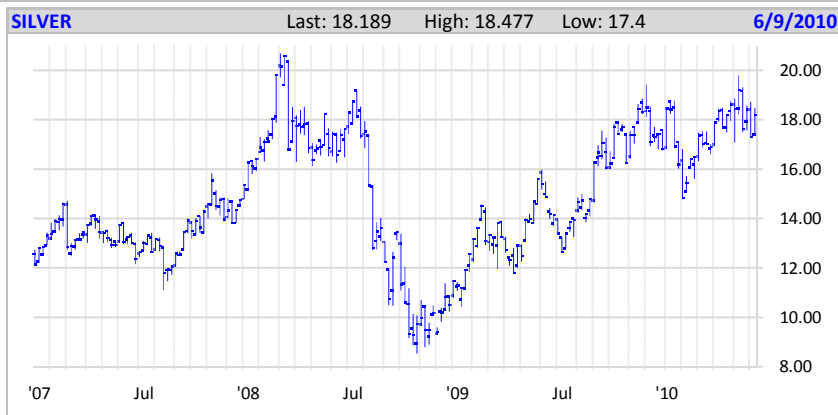
GOLD COMEX NEARBY CONTINUATION

With central banks on either side of the Atlantic flooding the system with easy money, stimulus packages, and stabilization funds, it is not surprising to see gold doing so well. Prices hit a record high just as we were preparing this note, and we expect further gains from here, with a likely value of around \$1400 by year-end. On an inflation-adjusted basis going back to 1980, gold is still quite cheap, and should be trading north of \$2000 an ounce based on this metric alone, so the out-years still show the potential for further advances. On the fundamental side, things do not look as rosy. Global gold demand fell 25% to 760 tons in the first quarter of 2010 driven mainly by a sharp drop in ETF purchases. In addition, the Indian Akshaya Tritiya festival was relatively tame, as jewelry demand was not that strong given the weakening rupee against the dollar. However, it is interesting to note that gold is not experiencing any sharp setbacks every time the dollar rallies, which tells us that it is carving an independent niche as an alternative store of value to currencies.



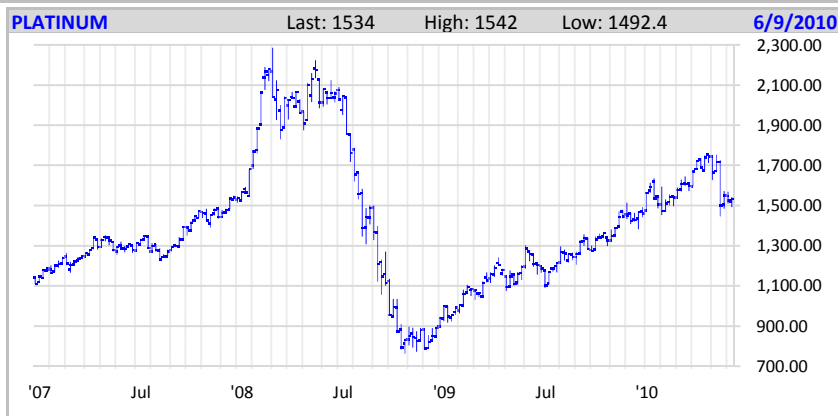
SILVER NEARBY CONTINUATION

There seems to be a double-top formation on the silver charts, but we would not read too much into this, as the strength in gold will likely pull silver along with it. Prices are now trading north of \$18 for the first time in several months on the back of healthy investment demand, which now exceeds silver usage in jewelry and comprises a quarter of total demand. We see prices making a stab at the \$21 high last seen in 2008, possibly towards year-end.



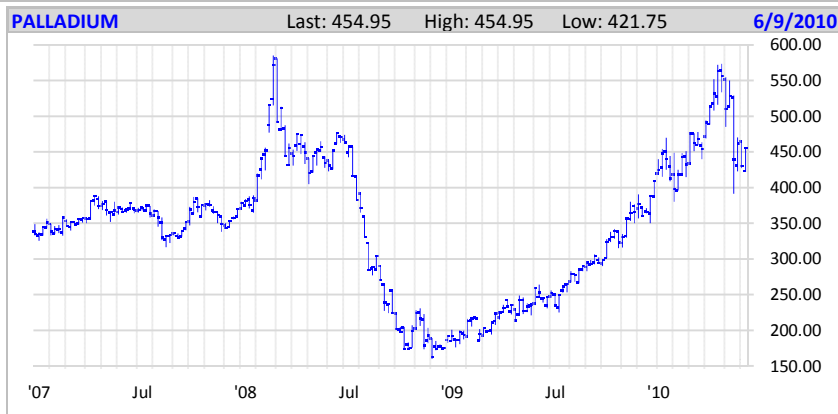
PLATINUM NEARBY CONTINUATION

Platinum prices remain weak, and charts indicate that the long-term upchannel in place since the middle of last year has now been decisively taken out. Like gold and silver, platinum prices have been boosted by investor demand, but because the complex is still considered as a proxy for industrial activity, it has not been immune from the general selloff that has engulfed many of the base metals. Chart suggests that we could sell-off to the \$1400 mark before stabilizing somewhat, while on the upside, the 2010 record high of \$1756 marks good resistance.



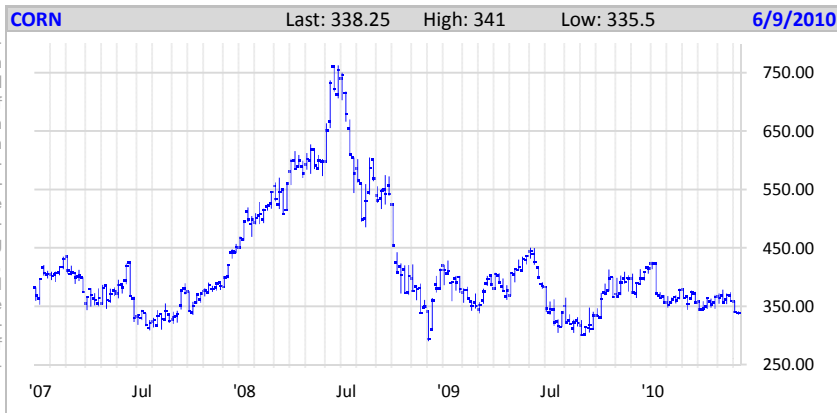
PALLADIUM NEARBY CONTINUATION

Nearby palladium prices peaked on April 26 near \$574 but prices have since broken to the downside to test the metal's 200-day moving average at \$398. Since then, prices have recovered to hold \$420-460, but the complex still looks weak as it has taken out the uptrend channel in place since last year. The complex is likely to follow platinum more closely than gold or silver, as it is perceived to be more of an industrial play, this despite an active ETFs tracker behind it. We see prices working a little lower over the summer months, and expect a breach of \$420 support before we recover to push higher later in the year.



CORN NEARBY CONTINUATION

Corn prices have been holding up well for most of May, but experienced a bout of weakness during the second half of the month and into early June. Right now, nearby prices are around \$3.55/bushel, reclaiming broken support at \$3.45, on projections of increased US ethanol usage. News out of China has also been supportive, as Chinese bought another 370,000 tons of US corn on May 13, their largest purchase since 2001 and bringing year-to-date purchases to just under 680,000 tons. Although the bullish impact of this buy faded shortly afterwards, the fact that the Chinese are likely to be in the market again is providing a modicum of support. Furthermore, China's own crop is experiencing issues, forcing the government to release to curb the rise in local prices. However, if future Chinese purchases are not substantial enough, we could see downward pressure resume on the complex, with a push to the \$3.00-\$3.20 likely. On the fundamental side, the USDA's last update rates 77% of the US corn as being good or excellent as of June 13th. It is expected that corn production will hit a record 13.4 BB, up 260 million from 2009.



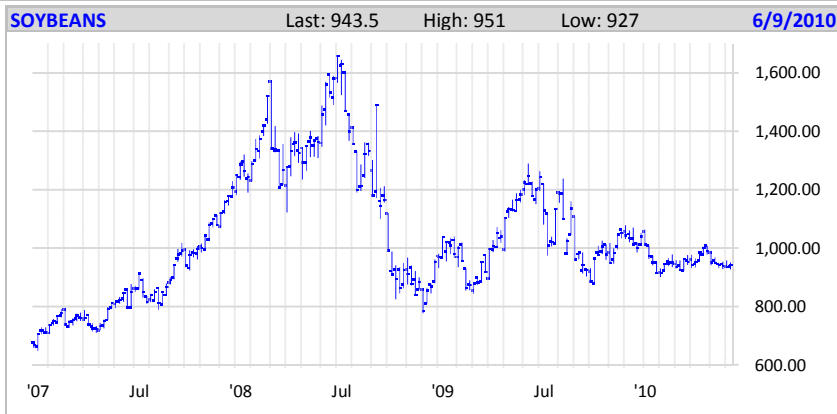
WHEAT NEARBY CONTINUATION

Wheat was looking very poor on the charts after it took out \$4.50, a support level that was in place ever since last year basis the nearby contract. Although prices have recovered somewhat in recent days on account of problems with the winter wheat crop, it remains to be seen whether this latest rally will build a head of steam. Similar to the other ags, wheat has fallen victim to its own success, namely a large US crop (despite decreased plantings) and high inventories. A surging dollar is also taking its toll to the extent that it could be discouraging some exports. In the USDA's last update from June 1, the agency reported that spring wheat planting is 95% complete with 84% emerged. The agency also sees beginning stocks up a whopping 45% from 2009/10 levels, the highest in more than a decade. Total production is projected at 2.043 million bushels, down 173 million from last year. We would be cautious about rallies here, as fundamentals remain daunting.



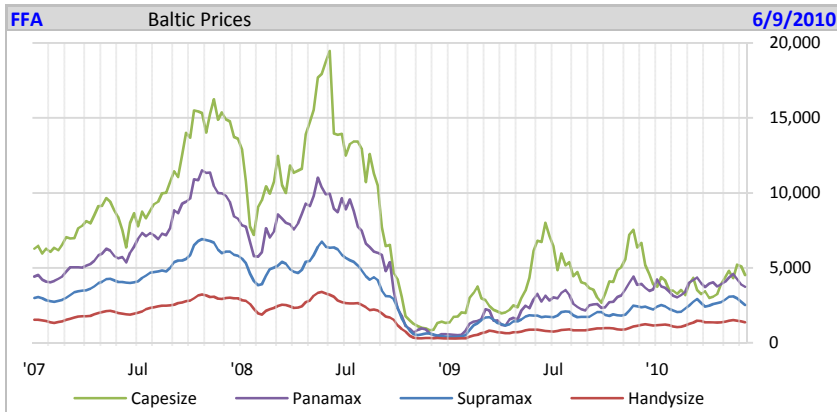
SOYBEANS NEARBY CONTINUATION

Of the various grains, soybean prices have held up the best, with nearby values now around \$9.60 a bushel, about where we were a month ago. In the USDA's last update on June 1, the agency reported that 74% of soybeans in the U.S. are planted, with 46% emerged. Production is estimated at 3.3 billion bushels, down 49 million from the record crop produced in 2009, but South American production is on track for a record. Technical momentum is such that with decent summer weather, spot beans should test the next level of support down at the 9.10-9.00 level, and we would not rule out additional weakness to the 8.70 level if this level was breached. However, this time of year, the weather is the biggest wild card, and although conditions have been excellent so far, the second half of the summer growing season in the Midwest could be another matter, particularly if the weather turns out to be very hot and dry.



FFA

As price ratios between ship sizes continues to normalize owing to weakness in the Panamax and Supramax sectors, the question now being asked more frequently is how the Chinese demand situation will play out. Reduced production by the Chinese steel makers allied to a surplus of iron ore reserves is expected to reduce demand for freight as less ore and coking coal is imported. In addition, the long term over supply of new ships is a constant depressant to prices, and the general economic malaise in western economies does not help matters much either. However, the market does not seem to be in freefall any longer, and ship-owners could at least take some solace from that. *Commentary contributed by our FFA trading desk.*



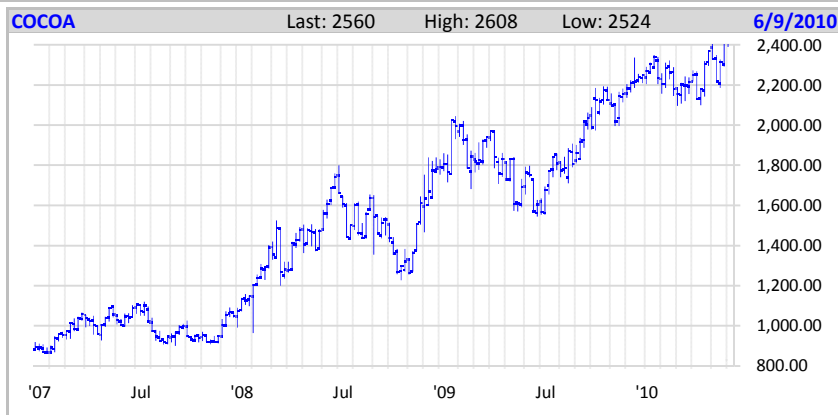
SUGAR CONTINUATION

Sugar has been among only a handful of commodities that gained ground over the course of May, and is undergoing its longest advance in some ten months as of this writing. On the fundamental side, tightness in the whites market has been contributing to the firmer tone of late, and the whites-over raw premium could expand somewhat further over the weeks ahead. In addition, there is some concern about the Brazilian crop, particularly in Center South, Brazil's main cane-growing region. Although production has jumped 26% in the first half of May, there is some doubt that such a heady pace can be maintained throughout the season. However, even if Brazilian output fades towards season's end, overall production levels should be high enough to ensure yet another year of surplus. We see prices possibly getting to a high of just under \$.1780, but the selling could presume later in the summer where a likely retest of \$.14 support could be in the cards.



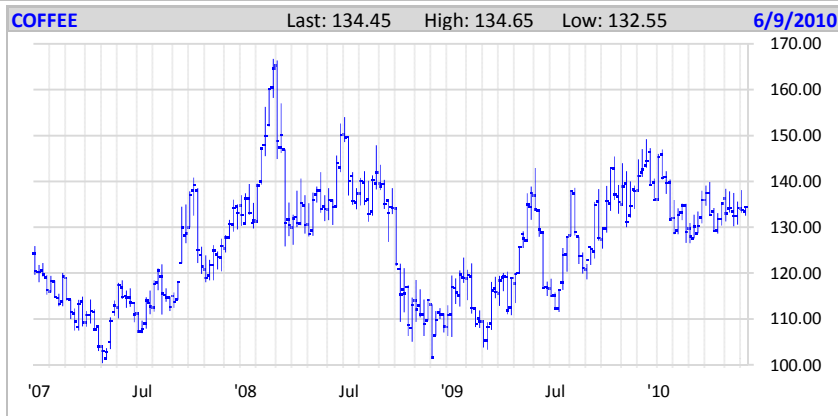
COCOA CONTINUATION

Along with sugar, cocoa has been another commodity that has managed to hold up fairly well, actually advancing slightly in May. Prices have bounced off good support around the 2100 pound mark, a level that has held these three times so far this year. On the fundamental side, things continue to remain tight, with the International Cocoa Organization forecasting a world 2009/10 cocoa deficit of 69,000 tons, more than the 18,000 tons estimated back in March. Cocoa stockpiles are also the smallest since late March, and for both these reasons, we suspect the market will be well supported over the next few months.



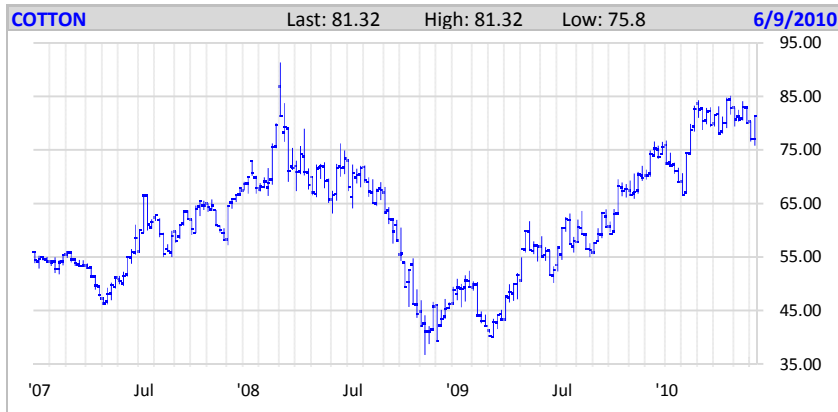
COFFEE CONTINUATION

We have had a dramatic surge in coffee prices over the last week, (unfortunately not shown on our chart alongside) making up for the listless trading that has been evident over the last few weeks. Prices are now close to two-year highs (around \$1.52) on supply worries. The latest harvest from Colombia is coming in below expectations, while the Ugandans are saying that exports from their country may fall some 17% this month. Values also pushed higher late in May after a tropical storm slammed Guatemala, cutting off access to some coffee growing regions in the Western part of the country. For now, all eyes are on the Brazilian coffee crop, where so far, there have been no reports of frost-related scares. Should Brazil get through its growing season unscathed, the USDA expects output to climb to 55.3 million bags from 44.8 million seen last year, and that could cool off some of the recent run higher. Nevertheless, the robustness of the current move suggests further gains are in store for us over the short-term.



COTTON CONTINUATION

Cotton prices went through an unprecedented nine-day slump in late May and early June for their steepest slide in some 31 years. The sell-off was spurred in part by the fact that the outlook for the US cotton crop has improved markedly, with the USDA reporting that as of May 30, 79% of the cotton crop was planted compared with 74% a year earlier amid excellent planting conditions. Production is also expected to rise in all cotton-producing countries, including India, Brazil, and Pakistan. The stronger dollar has also hurt the cotton complex, as has the fact that hedge funds and other large speculators have cut their net-long positions substantially since late April. There also was news that India has started re-issuing licenses for exporting cotton to Pakistan and Bangladesh, a sign that domestic supplies are now not as tight as they were last month. On the bullish side, the USDA sees exports rising to 1.5 million bales from 2009/10 to 13.5 million, while ending stocks are projected at 3.0 million bales, the lowest level since 1995/96. However, we are not sure whether this relatively tight stock picture will be enough to propel prices past the \$.84-\$.85 level, which marks triple-top resistance.



Source for Charts: Bloomberg

EURO

The euro has been front and center in terms of market attention for the last two months, getting to a low of just over \$1.18 in early June. The much touted stabilization package is moving forward as mentioned in our intro. However, despite this show of financial muscle, the currency's woes are far from over, best typified by a slew of country-credit downgrades, coupled with the fact that bank overnight deposits at the European Central Bank are close to a record high, highlighting worries about the health of the financial system. Looking down the road, we suspect European authorities are hoping that the euro will weaken somewhat further from here before they apply the full force of their borrowing and intervention package. By getting the currency to around the \$1.10- \$1.15 level by year-end, we think the Eurozone will benefit from a substantial export boost that should reinvigorate growth prospects. Short-term, the euro has been quite oversold, accounting for the current rally we are seeing to just under \$1.23, but we suspect an advance beyond \$1.25 will be problematic.

YEN

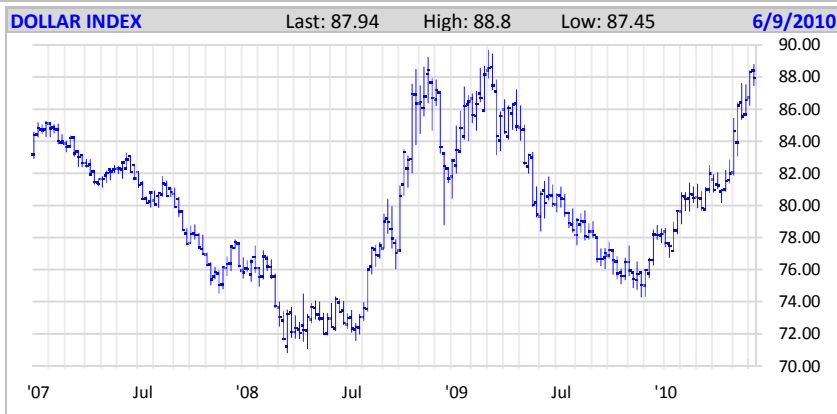
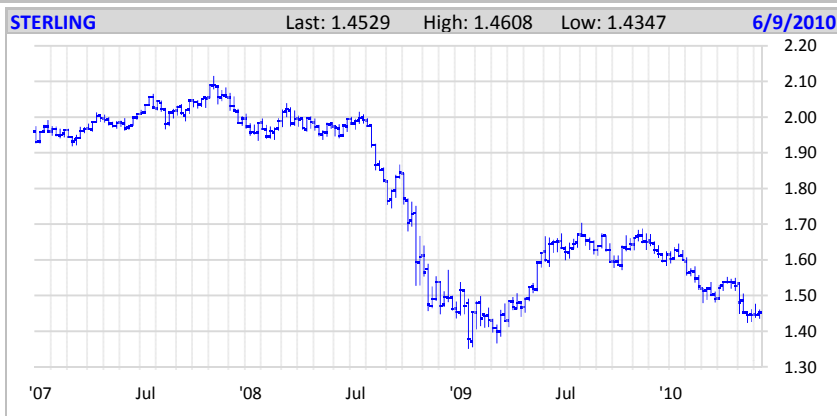
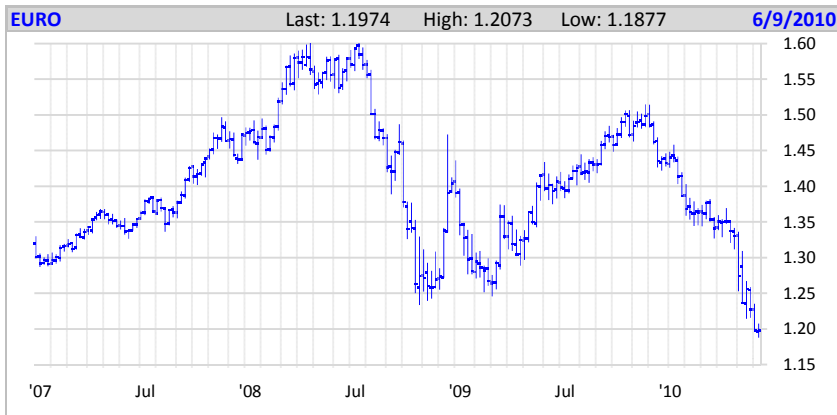
The yen strengthened sharply early in May, and just when the euro crisis first broke, out, getting to a two-month high of just over 88 to the dollar, but has been trading uneventfully between 91-93 since then. We suspect the yen could do a little better going into the summer months, as the currency is perceived to be an alternative to the weaker euro. Moreover, the Japanese economy is getting a sharp boost from exports to Asian neighbors; this in turn helped first quarter Japanese GDP accelerate to an annualized rate of 4.9%, up from 4.2% in the fourth quarter. The level of growth even surpassed what the US saw in Q1 (3.2%) and is well ahead of the Euro zone, which grew at an anemic .8% during the same period. However, outsized gains on the currency may be limited by the perception that Prime Minister Naoto Kan may favor a weaker yen to spur exports. He may have also inadvertently hurt the yen's upside prospects even more this week, when he raised the notion that the country is heading down Greece's path if its high debt level is not brought under control.

STERLING

Sterling was quite weak during the first half of May, as it too has receded against the dollar. Part of its weakness has also been attributable to markets coming to grips with the new coalition in place, a somewhat unorthodox alliance between the Conservatives and the Liberal Democrats. In addition, the country faces its own budgetary issues, with ratings agency Fitch warning in early June that the country was facing a "formidable" fiscal challenge, adding that Britain's public debt ratio has climbed more quickly than any of the other top-rated sovereign credits. Although it did not give any indication that it may downgrade the country's AAA credit rating, the agency has surprised the markets before. We are neutral on sterling right here; technically, there is good support on the charts around current levels, but the fiscal outlook should likely cap any run to the upside.

DOLLAR INDEX

Our charts are suggesting that the dollar index is approaching double top or even triple top territory, and we likely could pause just under the 90 level. Although the dollar has its own issues, it is nevertheless sought out as a safe haven alternative during times of crisis. Certainly, this has been the case since early May, where the sharp drop in the euro has once again sent tremors through the financial system. Short-term, we think the dollar index is quite overbought, and could retrace somewhat from the tops evident on the charts.



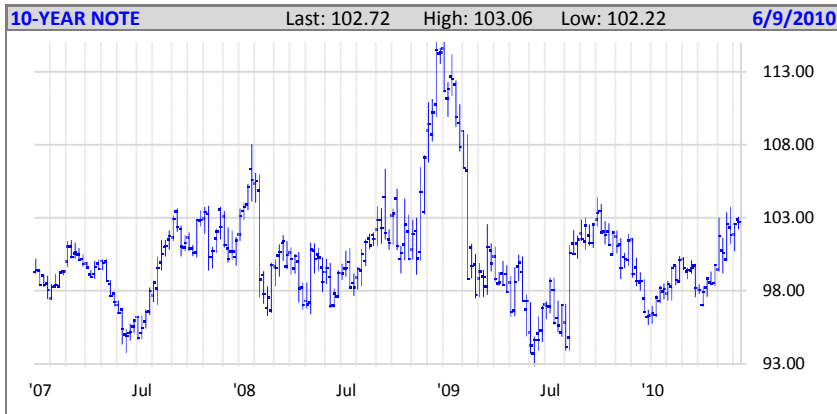
S&P 500

The intermediate up-channel in the S&P charts has been broken in the wake of the May/June selloff, but critically the 1040 support level on the nearby contract held. Should this level give way, it likely will be from a steadily worsening European situation or unexpected negative macro readings out of China, both of which are looking less likely now. Seen through its own prism, the US equity markets looks relatively strong, and even in this latest downdraft, US stocks have given up less ground on a percentage basis than have European, Japanese or emerging markets. In addition, corporate profits could hit a new record high in the third quarter, and this bodes well for an advance going into the second half of the year, taking the S&P back up perhaps to the 1220 level. This assumes, of course, that the US recovery stays on track (which we think it will), coupled with the assumption that the Euro finally finds an equilibrium level the markets are comfortable with.



10-YEAR NOTE

The US bond market has clearly been the big winner this past month, as investors sought its safety amid all the turmoil engulfing both the equity and commodity markets. Should things stabilize, we suspect yields will start moving back up again. Although the accelerating US recovery should theoretically nudge rates slightly higher, the Fed will likely keep things very accommodative until the euro crisis passes and until it is sure that the recovery is gaining traction. Technically, we see formidable resistance around the 94.80-94.90 mark, and would not be surprised to see prices back off from here to the 94.50 level, but in very gradual fashion.



Source for Charts: Bloomberg

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14 June 2010

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MF Global Sector Note

Underlying Commodity Research

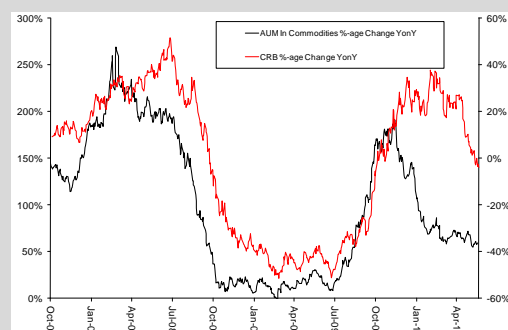
FUND FLOWS TAKE-AWAY

BASIC INDUSTRIES

Mining

- » **With the copper price having fallen 20% investors are having another look at commodities and the Miners.** Both our commodity traders as well as our analysts believe that the €uro will be an important driver for commodity prices and hence the Miners. **Fund flows still matter greatly and this time we examine what they mean with regard to the €uro;**
- » **What the commodity traders think. The commodity traders think that with prices being closer to their marginal cost it ultimately comes down to the €uro. They seem to favour a short-term bounce in prices.** Although the index and macro funds are still long, the short- to medium-term money is 'flat' and so far way of re-entering the market;
- » **What the analysts think. We think that there will be a short-term bounce in the €uro and hence commodity prices and the Miners.** Net short positions on the €uro are now as oversold as it was the case during the depth of the credit crunch. We expect this net short-position to reverse to an extent. **That said, there now seems to be a longer-term bear market for the €uro in place, which might last at least until the end of the summer.** In addition, some of the commodities tend to bounce back from the 50-60th percentile of the cost curve (rather than the 70th percentile as in the case of copper, in our view). Although prices might not fall as low as the 50-60th percentile, investors should also note that historically commodity prices have fallen around 30-40% from their previous peaks; and
- » **If we are right with regard to a certain rebound in the €uro, then stocks such as Aquarius Platinum (Neutral - TP 430p), Eramet (Neutral - TP €270), Kazakhmys (N/R), Rio Tinto (Neutral - TP 3,300p), **Vedanta (SELL - TP 2,200p)** and Xstrata (Neutral - TP 950p) should do quite well in the short-term.**

FUND FLOWS VS THE CRB INDEX



Source: MF Global UK Limited

For the analyst certification and other important regulatory disclosures, please refer to the Regulatory Disclosures Section, located at the end of this report.

Fund Flows vs. The Miners – Could We See A Short-Term Rebound Given A €uro Fight Back?

Fund flows into the €uro seem oversold, which could result in a short-term fight back of the currency and hence commodity prices and the Miners. That said, we are unconvinced that this rally will last and we would not be surprised to see the €uro break the US\$1.17-1.18 level before the end of the summer.

CHART NO. 1 | FUND FLOWS INTO THE €URO - OVERSOLD

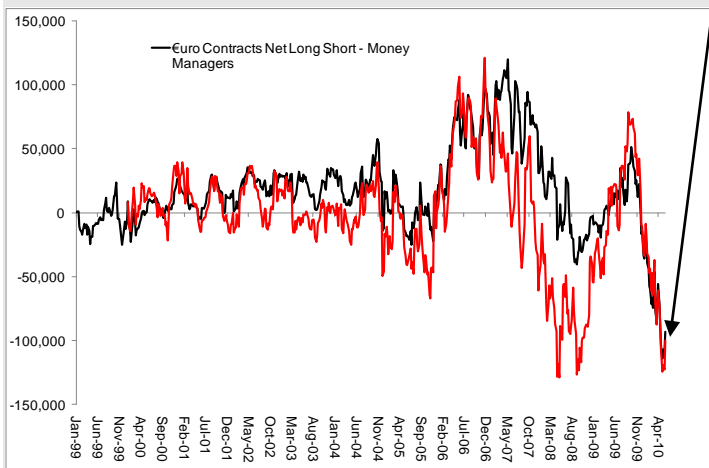
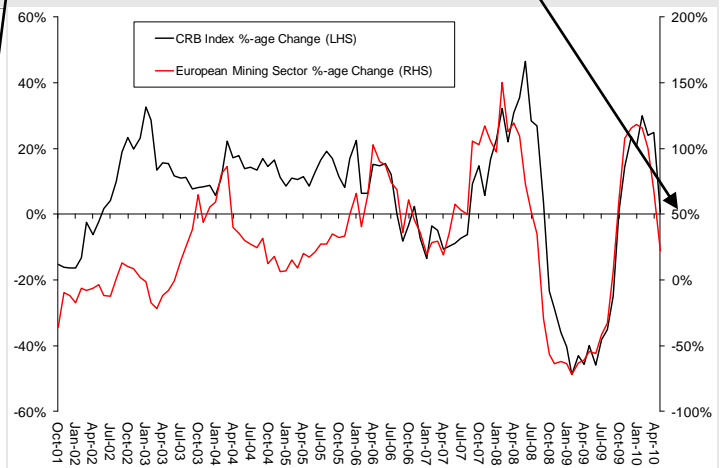


CHART NO. 2 | THE CRB INDEX VS THE MINERS



Source: MF Global UK Limited, CFTC & BLB

TABLE NO. 1 | PICK YOUR COMMODITY EXPOSURE ACCORDING TO FUND FLOWS – BETA STOCKS COULD SEE A SHORT-TERM COME BACK

Approx % Sales	Ticker	Recommendation	Target Price	Current Price	Aluminium	Copper/Moly	Nickel	Zinc	Iron Ore	Manganese	Ferrocchrome	Coal	Petroleum	Uranium	Gold	Platinum/RhMs	Diamonds	Industrial Minerals	Other	Spot traded exposure	
	Anglo American	AAL LN	BUY	3,300p	2,577p	0%	12%	3%	2%	23%	0%	25%	0%	0%	0%	19%	6%	9%	0%	60%	
	Antofagasta	ANTO LN	SELL	800p	857p	0%	92%	0%	0%	0%	0%	0%	0%	0%	1%	0%	0%	0%	8%	92%	
	Aquarius Platinum	AQP LN	NEUTRAL	430p	355p	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%	0%	100%	
	Boliden	BOL SS	N/R	NA	SEK 93	0%	30%	2%	60%	0%	0%	0%	0%	0%	2%	0%	0%	0%	6%	94%	
	BHP Billiton	BLT LN	NEUTRAL	2,200p	1,871p	6%	18%	5%	2%	20%	4%	2%	21%	18%	1%	0%	0%	2%	1%	0%	69%
	Eramet	ERA FP	NEUTRAL	€ 270	€ 216	0%	0%	25%	0%	0%	48%	0%	0%	0%	0%	0%	0%	0%	27%	25%	
	Lonmin	LMI LN	NEUTRAL	1,700p	1,578p	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%	0%	0%	0%	100%	
	Norsk Hydro	NHY NO	N/R	NA	NOK 37.8	92%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	8%	92%	
	Rio Tinto	RIO LN	NEUTRAL	3,300p	3,215p	35%	14%	0%	0%	28%	0%	15%	0%	1%	1%	0%	1%	5%	0%	72%	
	Vale	VALE US	N/R	NA	\$ 26.9	8%	5%	21%	0%	51%	1%	2%	0%	0%	1%	1%	0%	1%	8%	63%	
	Vedanta	VED LN	SELL	2,200p	2,214p	9%	55%	0%	22%	11%	0%	0%	0%	0%	0%	0%	0%	0%	4%	92%	
	Xstrata	XTALN	NEUTRAL	950p	1,000p	0%	34%	8%	12%	0%	0%	5%	40%	0%	0%	1%	0%	0%	1%	75%	

Source: MF Global UK Limited estimates & Company data

FUND FLOWS – Pointing To A Short-Term Bounce, BUT Beware!!

Investors' confidence has been shaken by the recent events in Greece and Spain impacting the €uro and hence commodities and the Miners. With copper having fallen 20% from its most recent peak interest is returning to the space. We herein examine what our commodity traders say and how that squares with the analyst view. **In short, we believe that there might be a short-term bounce in the €uro and hence commodity prices and the Miners. That said, investors should beware, in our view, as the €uro, fund flows and history tells us that things can get worse before the summer is over.**

What The Traders Say

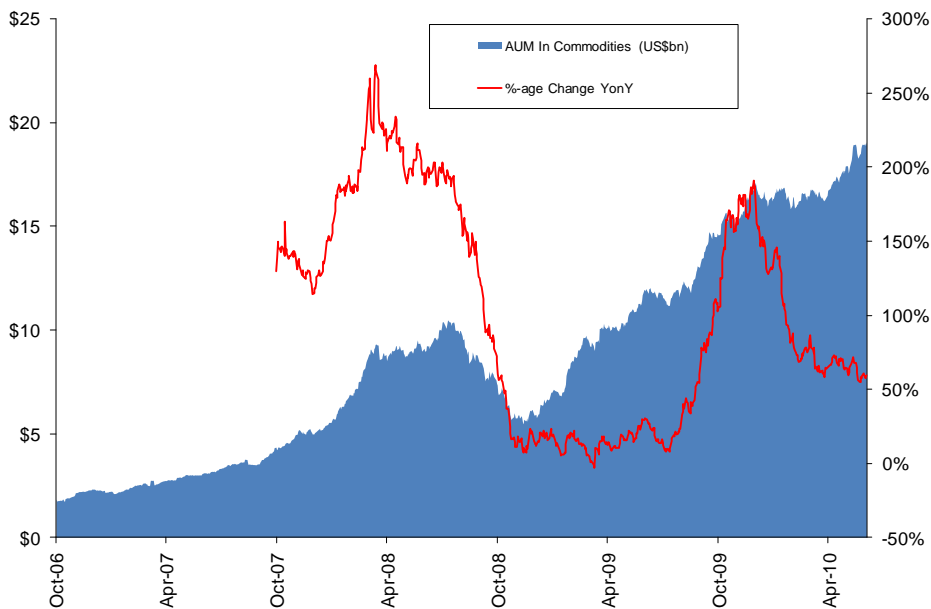
- » **Ultimately, it comes down to the €uro, but with commodity prices closer to the marginal cost one might be tempted to re-enter this space.** The traders believe that whatever happens to the €uro will then feed through to commodity prices. They also believe that with most commodities (ex copper) being close to their marginal cost one might be tempted back. Especially, aluminium is being cited as a metal, which looks attractive on the marginal cost argument. The analysts would disagree though; and
- » **Index and macro funds are still long, while the shorter - to medium-term money is flat.** The short-term investors don't trust the €uro yet so they still remain on the sidelines. Volumes are very limited, the 'rolls' are very small.

What The Analysts Say

- » **We agree with our traders, ultimately it will depend on the €uro, which we think could see a short-term bounce.** Fund flows into the €uro are now as oversold as it was the case at the depth of the credit crunch. **That said, the €uro seems to have entered a longer-term bear market since it hit a high of US\$1.6/€ in May 2008.** In line with previous periods of a weaker €uro, we think that this bear market will last at least until the end of the summer, if not longer. **US\$1.17-1.18/€ is an important support level to watch and we would not be surprised to see the €uro trade between US\$1.0-1.1/€ by October;**
- » **We disagree on the marginal cost argument.** Although copper normally bounces back from the 70th percentile of the cost curve, aluminium, nickel and zinc tend to bounce back from the 50-60th percentile. If prices were to rebound from the 70-80th percentile instead, then this would point to prices for aluminium, nickel and zinc of around US\$1,700/t, US\$14,000/t and US\$1,500/t. **Investors should also note that historically from peak-to-trough commodity prices have fallen by some 30-40%;**
- » **When differentiating between commodities in the short-term, we think that oil/energy could surprise on the upside.** Industrial metals should be helped by such a move, while gold might struggle for a while before moving to a higher level later in the summer. We see oil supported at below US\$70/b for the time being. Base metal prices seem to have pre-empted fund flows, so we could see a bit of a bounce towards the US\$7,000/t mark level. That said, by the end of the summer we would not be surprised to see oil and copper down at US\$60-65/b and US\$5,000/t respectively. Platinum also seems to have fallen too fast and could see a bounce back to US\$1,600/oz.

Fund Flows – Still Lacking Momentum

CHART NO. 3 | FUND FLOWS – AUM IN COMMODITIES SAMPLE (US\$BN)

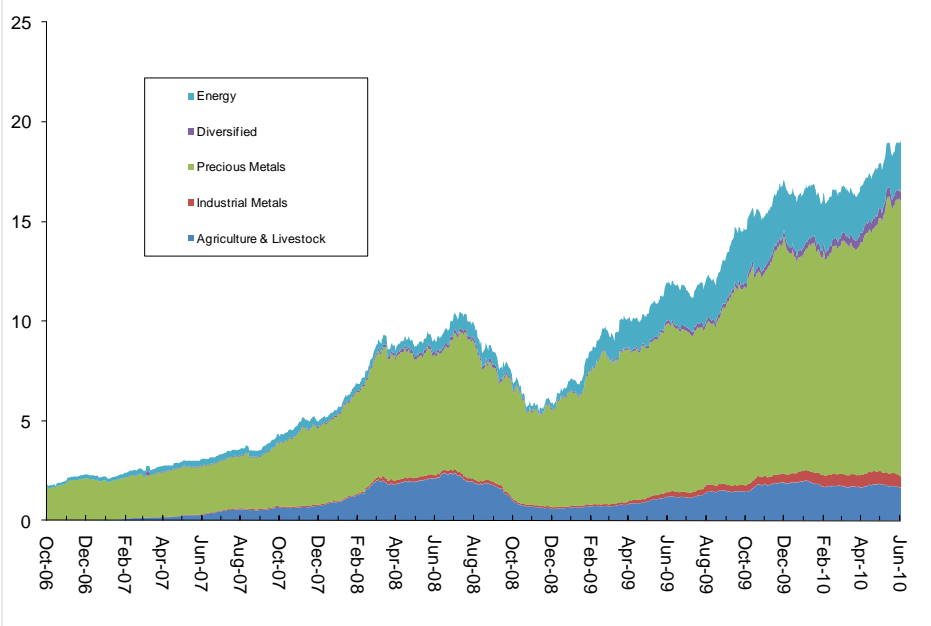


Source: MF Global UK Limited, ETF Securities & Other Providers

FUND FLOWS INTO COMMODITIES CONTINUE, ALBEIT MOMENTUM IS SLOWING

The significant increases we have seen from the bottom of the credit crunch are over

CHART NO. 4 | FUND FLOWS BY COMMODITY (US\$BN)



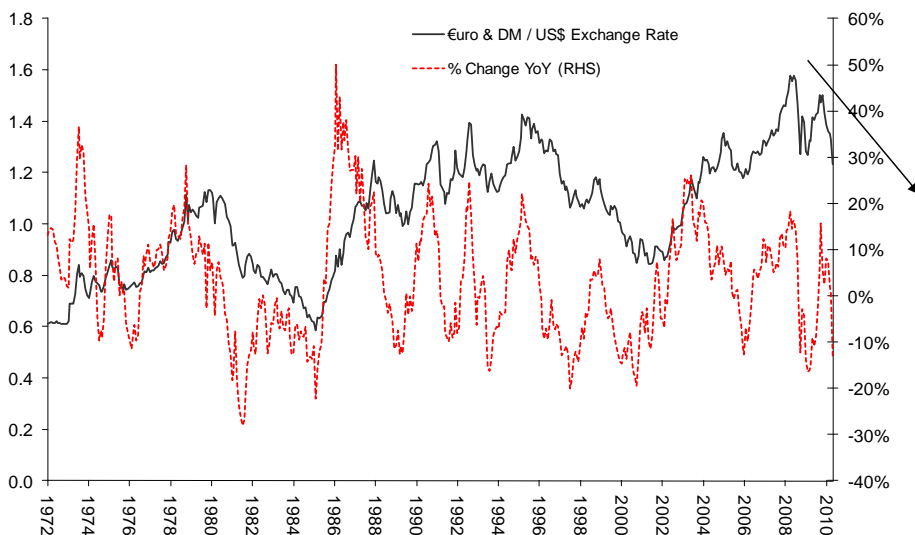
Source: Source: MF Global UK Limited, ETF Securities & Other Providers

ONE NEEDS TO DIFFERENTIATE BETWEEN COMMODITIES

Oil and copper still seem most at risk, while gold in particular appears more defensive. In the short-term we might, however, see industrial metals bounce

What About The Euro – An Important Factor

CHART NO. 5 | THE US\$/€ EXCHANGE RATE DRIVES COMMODITY PRICES

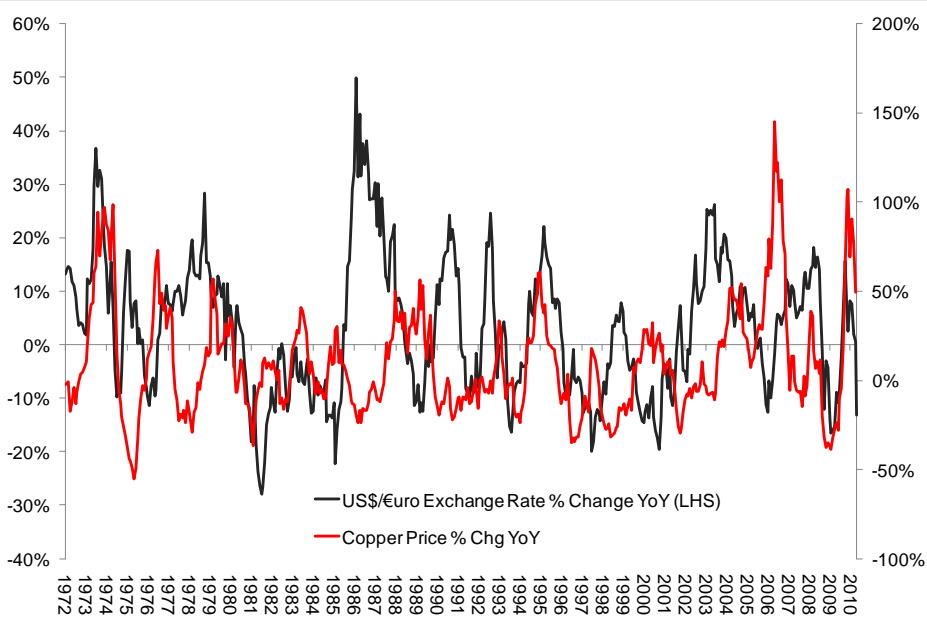


Source: MF Global UK Limited & Other Providers

WE COULD BE DUE A SHORT TERM BOUNCE

BUT the downward trend looks concerning. US\$1.17-1.18/€ is an important level to watch

CHART NO. 6 | US\$/€ EXCHANGE RATE VS THE COPPER PRICE

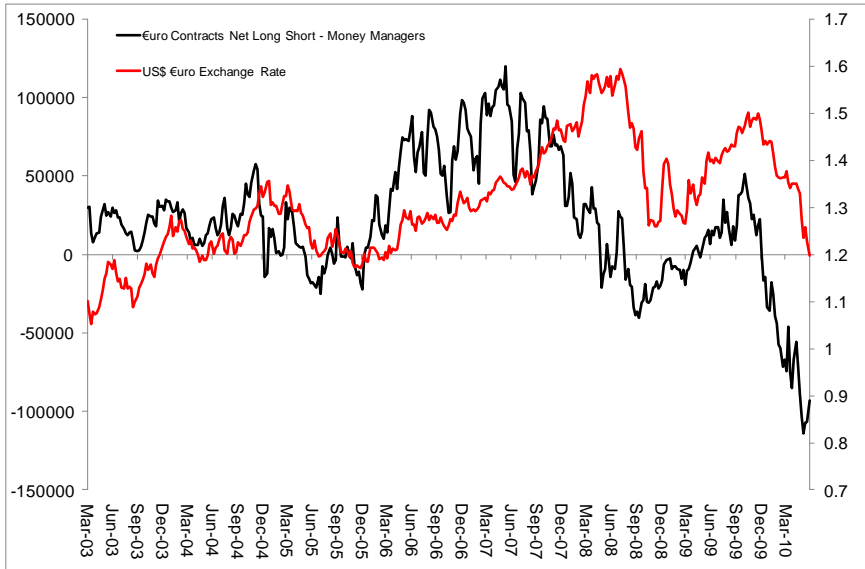


Source: MF Global UK Limited & Other Providers

THE STRONGER US\$ IS NOT YET FULLY REFLECTED IN THE COPPER PRICE

Historically, the copper price adjusted 37% from peak to trough. We are now down around 20%

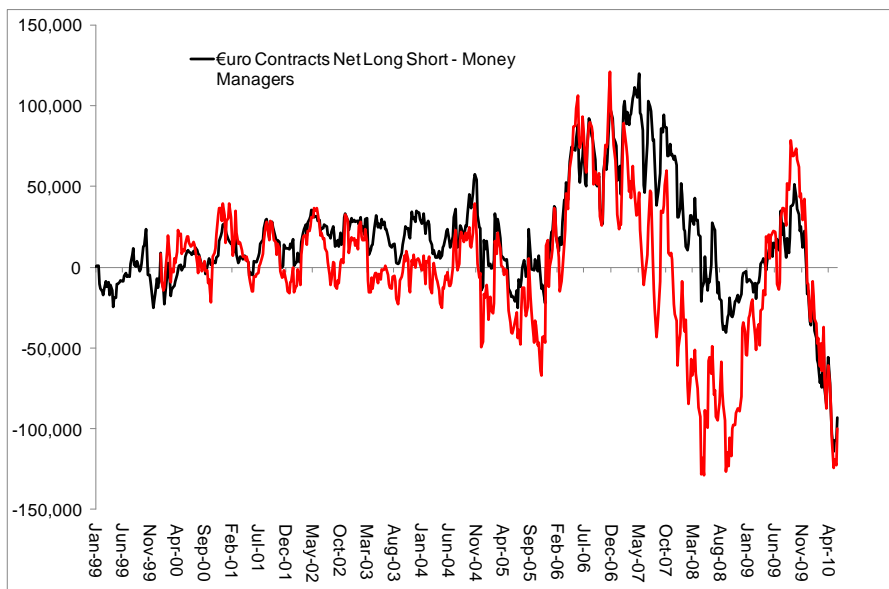
CHART NO. 7 | THE US\$/€ EXCHANGE RATE VS MONEY MANAGERS' FUND FLOWS



WE COULD BE DUE A SHORT TERM BOUNCE
Some shorts could be closed helping the €uro

Source: MF Global UK Limited, & CFTC

CHART NO. 8 | FUND FLOWS INTO €URO CONTRACTS AND MOMENTUM

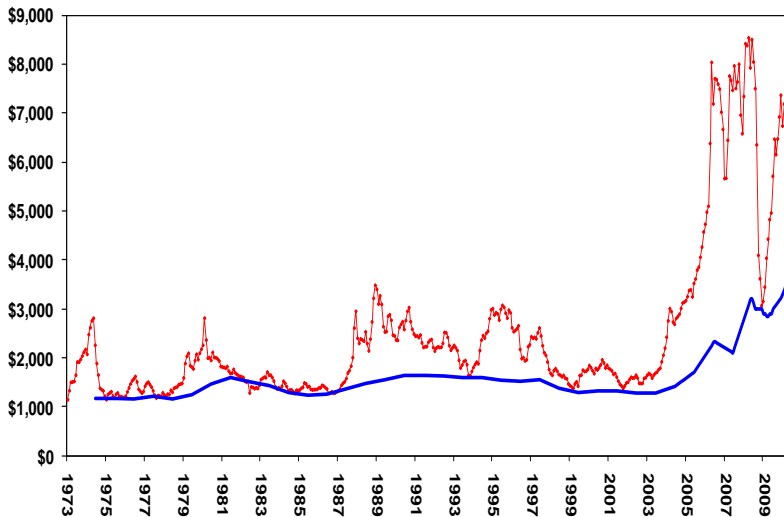


MONEY MANAGERS ARE AS BEARISH ON THE €URO AS WE HAVE NOT SEEN IT FOR A LONG TIME
A short-term bounce could be expected

Source: MF Global UK Limited, & CFTC

What About History – How Much Does It Normally Adjust & From Where Does It Bounce Back

CHART NO. 9 | COPPER PRICE VS MARGINAL COST (US\$/T)

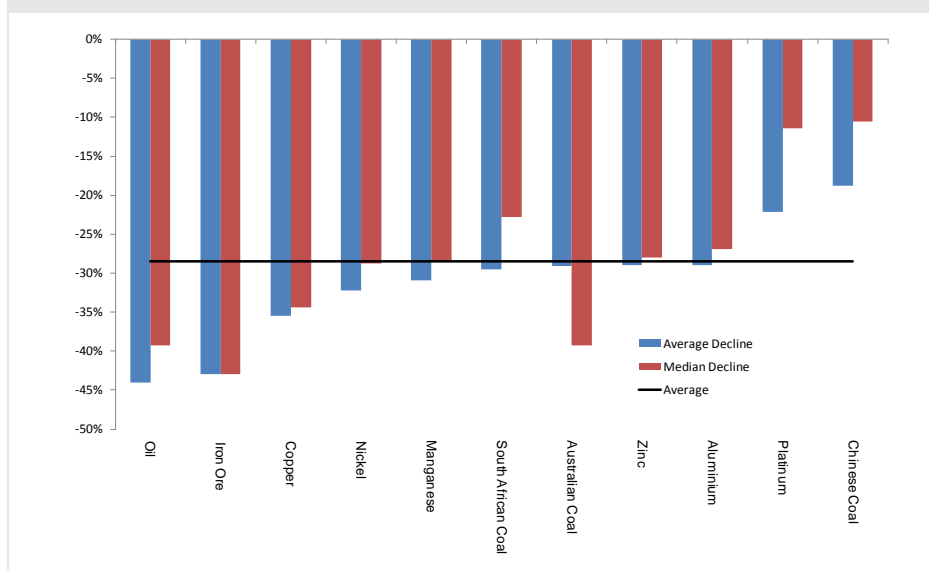


MARGINAL COSTS STILL MATTER

Especially as fund flows momentum remains unfavourable

Source: MF Global UK Limited, ETF Securities & Other Providers

CHART NO. 10 | HISTORICAL AVG & MEDIAN PEAK TO TROUGH DECLINES



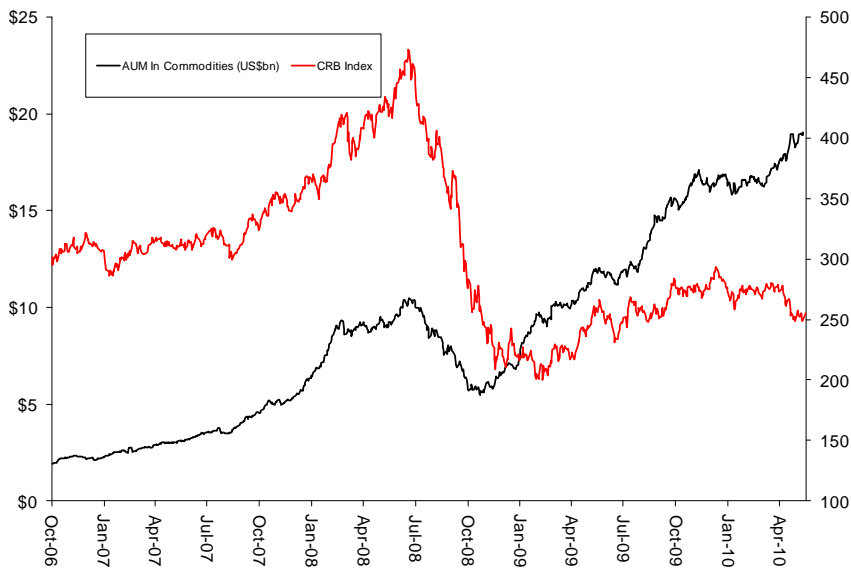
HISTORICAL PEAK TO TROUGH DECLINES PROVIDE YOU WITH AN INDICATION

On average prices decline some 30% from their peaks

Source: MF Global UK Limited, ETF Securities & Other Providers

The CRB Index – Absolute Fund Flows Remain Supportive

CHART NO. 11 | AUM IN COMMODITIES (US\$BN) VS THE CRB INDEX

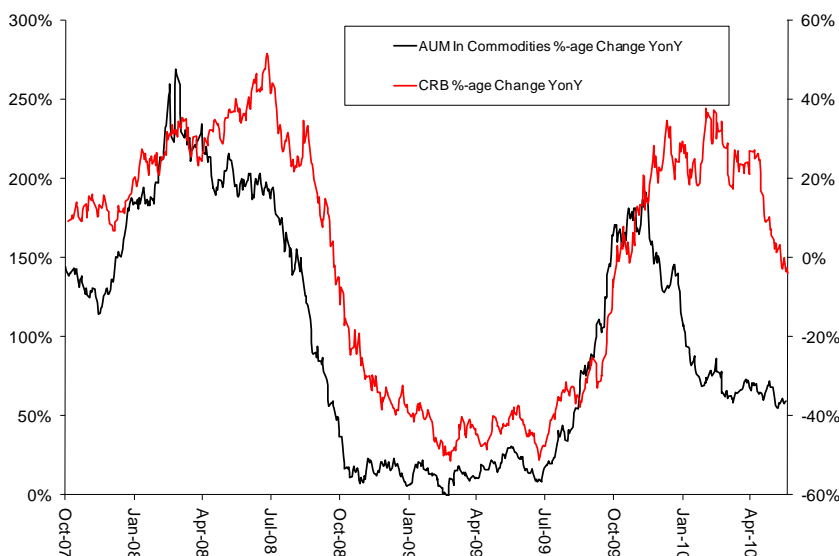


Source: MF Global UK Limited, ETF Securities & Other Providers

THE CRB INDEX HAS FALLEN WHILE FUND FLOWS STILL REMAIN AT A RELATIVELY ELEVATED LEVEL

Maybe in the short-term commodity prices have adjusted too much compared to the absolute level of fund flows?

CHART NO. 12 | FUND FLOWS INTO COMMODITIES VS THE CRB INDEX MOMENTUM



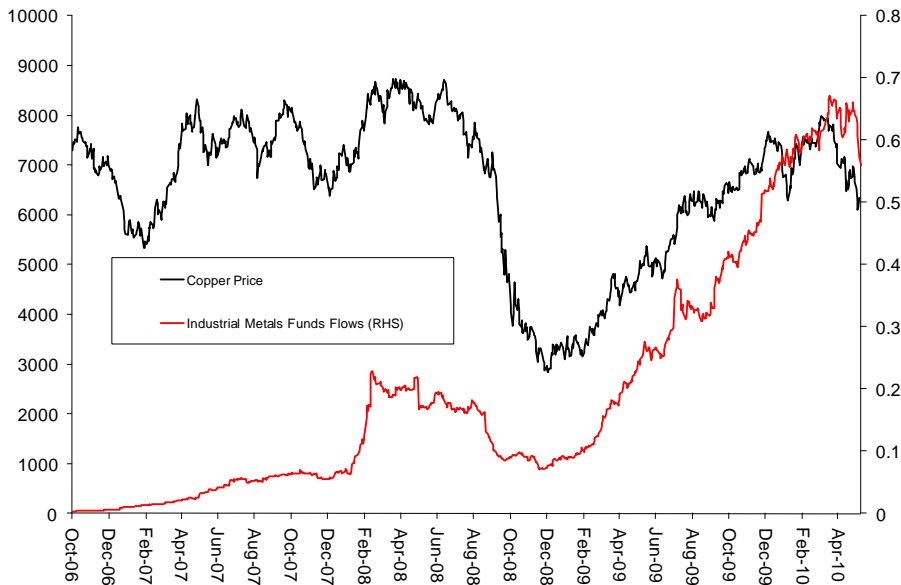
Source: MF Global UK Limited, ETF Securities & Other Providers

THAT SAID MOMENTUM IN FUND FLOWS SEEMS TO LEAD THE WAY

The question is whether momentum in fund flows is going to recover somewhat, which could stabilise prices for a while?

Base Metals – Prices Pre-Emptying Fund Flows?

CHART NO. 13 | AUM IN INDUSTRIAL METALS (US\$BN) VS THE COPPER PRICE

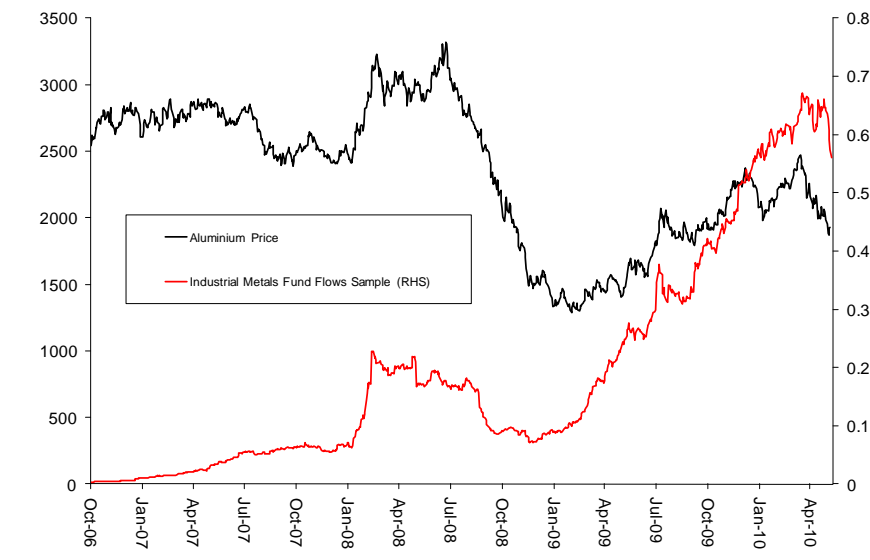


Source: MF Global UK Limited, ETF Securities & Other Providers

THE TREND IN FUND FLOWS INTO INDUSTRIAL METALS IS DOWN

We don't expect the trend to reverse quickly

CHART NO. 14 | AUM IN INDUSTRIAL METALS (US\$BN) VS THE ALUMINIUM PRICE



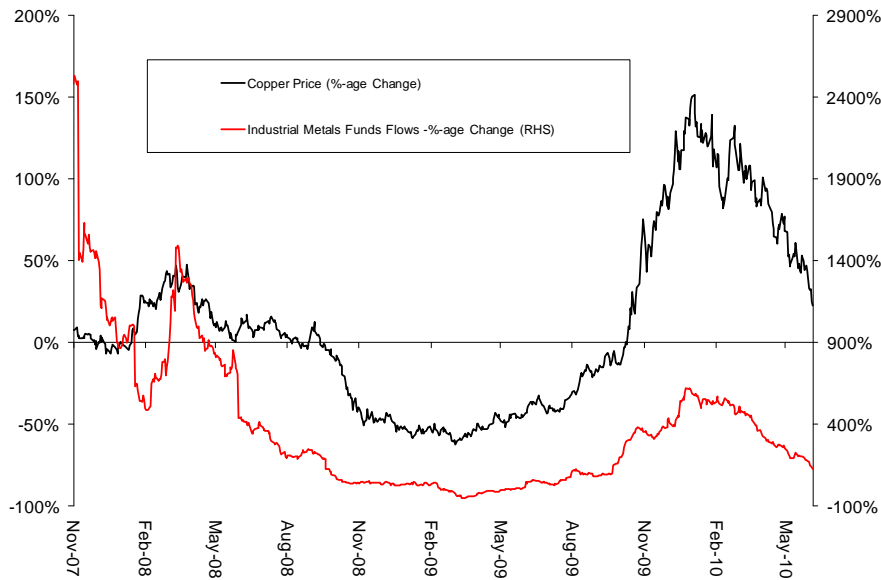
Source: MF Global UK Limited, ETF Securities & Other Providers

THE ALUMINIUM PRICE HAS PRE-EMPTED FUNDS FLOWS

But the trend remains negative, while the commodity probably rebounds not before falling towards the 60th percentile of the cost curve

Base Metals – BUT Momentum Still Does Not Look Good

CHART NO. 15 | AUM IN INDUSTRIAL METALS VS THE COPPER PRICE MOMENTUM

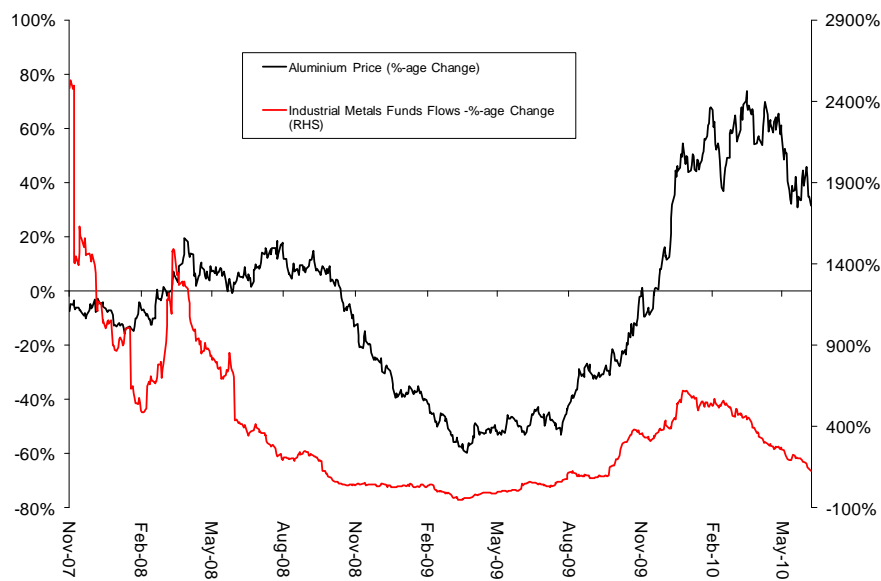


Source: MF Global UK Limited, ETF Securities & Other Providers

FUND FLOWS MOMENTUM INTO INDUSTRIAL METALS IS POINTING FIRMLY DOWNWARDS

The inflection point is not yet in sight

CHART NO. 16 | AUM IN INDUSTRIAL METALS VS THE ALUMINIUM PRICE MOMENTUM



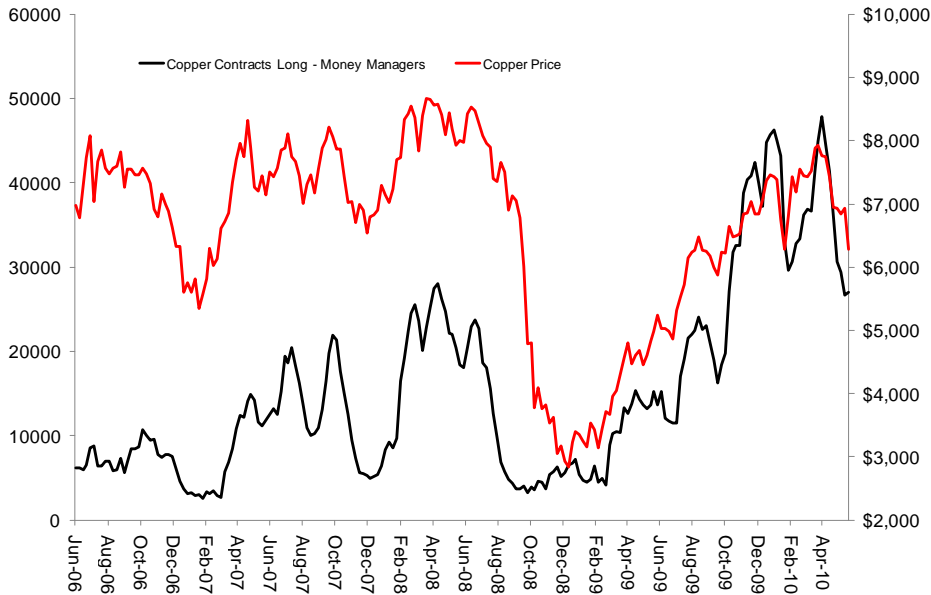
Source: MF Global UK Limited, ETF Securities & Other Providers

THE ALUMINIUM PRICE CONTINUES TO BE AT RISK

The downward momentum in fund flows and the metal price looks set to continue

Base Metals – Copper Remains @ Risk

CHART NO. 17 | FUND FLOWS INTO COPPER VS. THE COPPER PRICE (US\$/T)

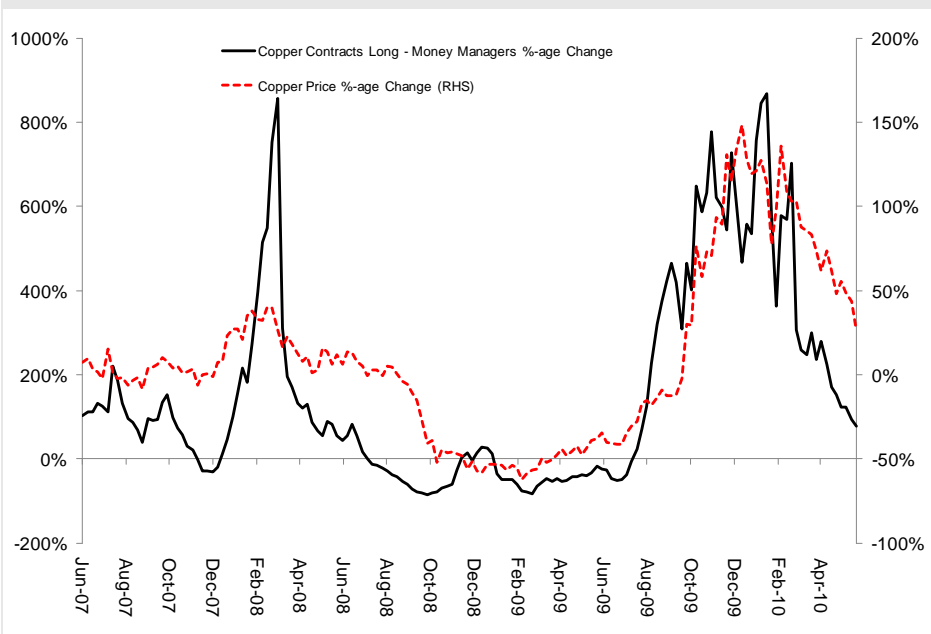


Source: MF Global UK Limited, & CFTC

FUND FLOWS INTO COPPER – LONGER-TERM MONEY HAS BEEN EXITING

It looks like fund flows could try to stage an intermittent stabilisation or rebound, which should help the copper price

CHART NO. 18 | FUND FLOWS VS PRICE MOMENTUM FOR COPPER



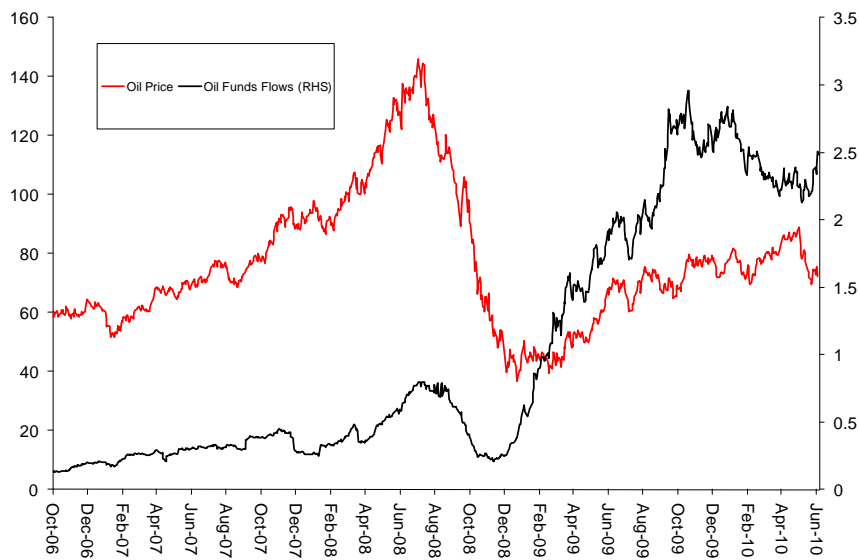
Source: MF Global UK Limited, & CFTC

THAT SAID, FUND FLOW MOMENTUM INTO COPPER MAINTAINS A DOWNWARD TREND

We would not be surprised to see copper eventually fall to US\$5,000/t on that basis and when looking at historical peak-to-trough declines by the end of the summer

Energy – Fund Flows Have Bounced, BUT Momentum Still Looks Challenging

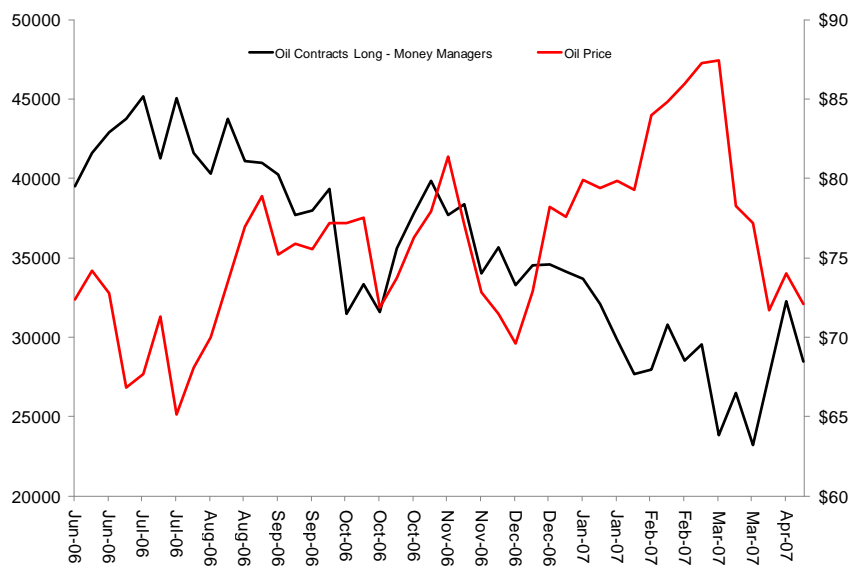
CHART NO. 19 | FUND FLOWS INTO OIL VS. THE OIL PRICE (US\$/B & US\$BN)



FUND FLOWS INTO OIL SEEM TO HAVE BOUNCED BACK SOMEWHAT
 But the downtrend still seems to be in place

Source: MF Global UK Limited, ETF Securities & Other Providers

CHART NO. 20 | FUND FLOWS VS OIL PRICE (US\$/B)

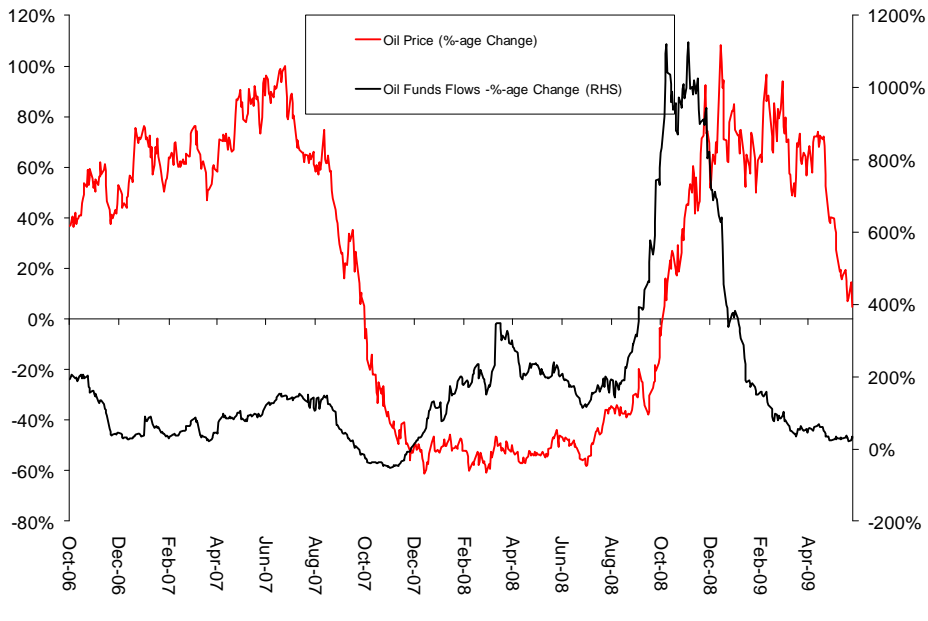


FUND FLOW MOMENTUM INTO ENERGY WOULD POINT TO A FURTHER DECLINE

Using fund flows the oil price would need to fall to just below US\$70/b. Only if the downtrend continues could we see the oil price fall further from here. We expect the downtrend to remain in place

Source: MF Global UK Limited, & CFTC

CHART NO. 21 | FUND FLOWS VS PRICE MOMENTUM FOR OIL

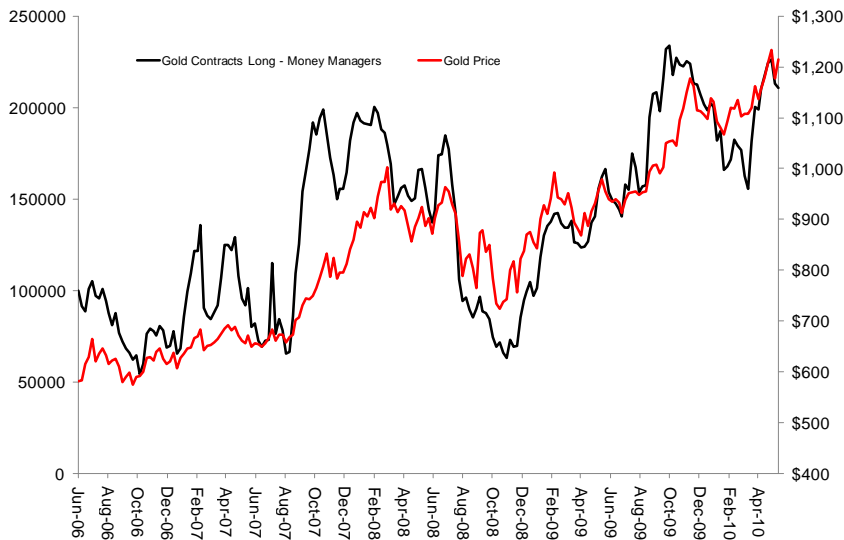


FUND FLOW MOMENTUM INTO ENERGY WOULD POINT TO A FURTHER DECLINE
 The oil price could eventually revisit US\$60-65/b?

Source: MF Global UK Limited, ETF Securities & Other Providers

Precious Metals – Gold Losing A Bit Of Momentum, BUT The Trend Remains Intact

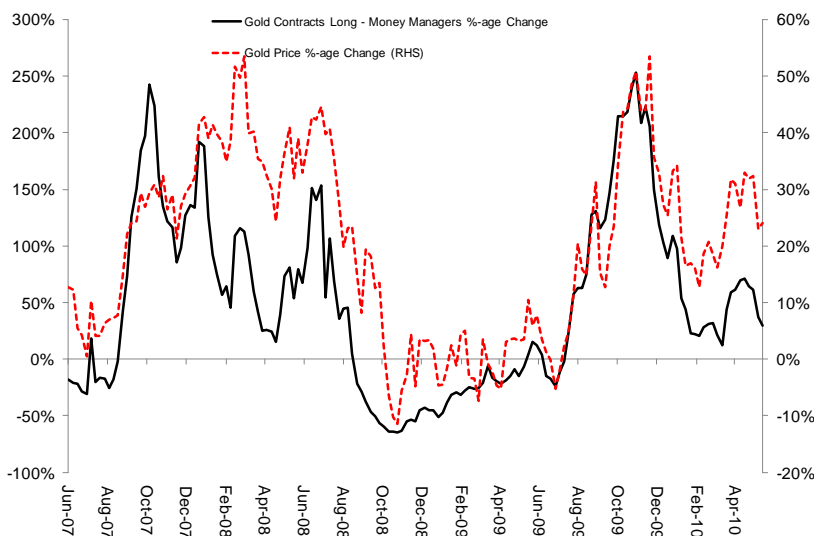
CHART NO. 22 | FUND FLOWS INTO GOLD VS. THE GOLD PRICE (US\$/OZ)



FUND FLOWS INTO GOLD – TAKING A BREATHER BEFORE THE NEXT UP MOVE
Albeit the gold price maintains a solid upward trend

Source: MF Global UK Limited, & CFTC

CHART NO. 23 | FUND FLOWS VS PRICE MOMENTUM FOR GOLD

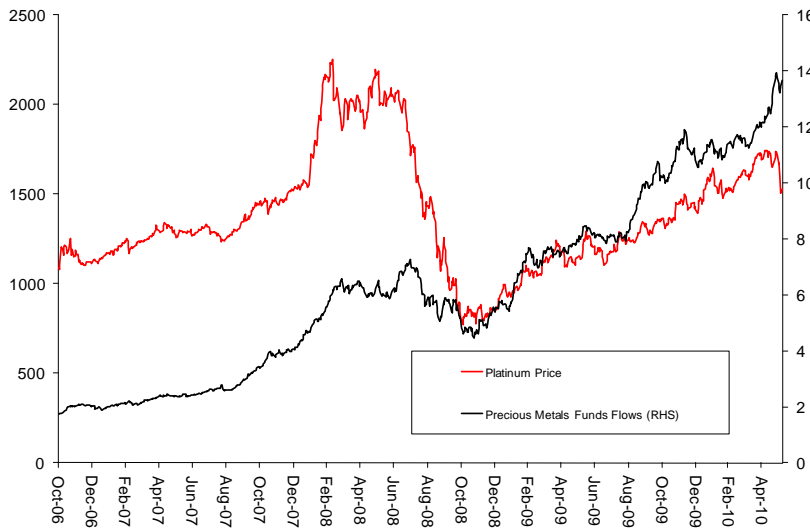


FUND FLOW MOMENTUM IN GOLD REMAINS ON AN UPWARD TREND
The Gold price could move to a new level

Source: MF Global UK Limited, & CFTC

Precious Metals – Where Will Platinum Fund Flows Move From Here?

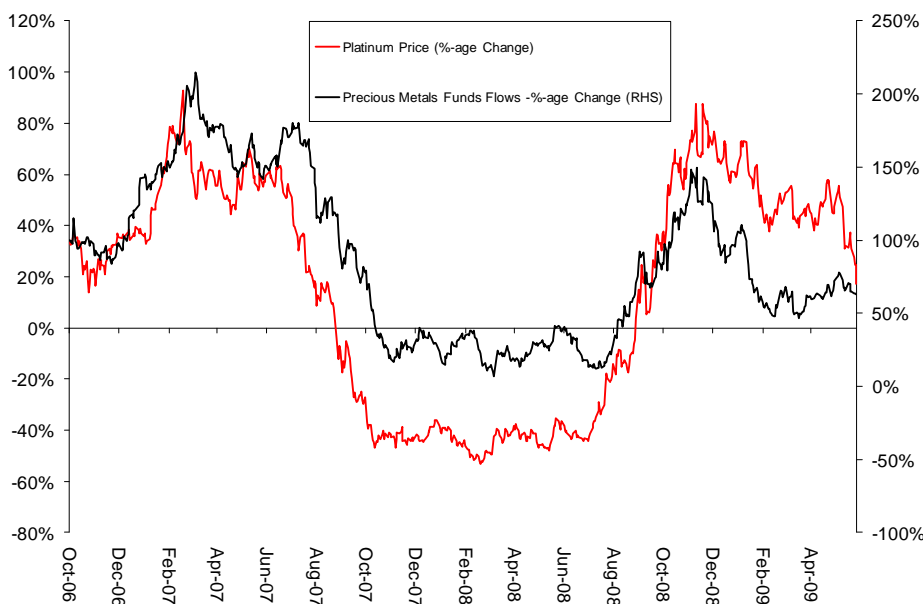
CHART NO. 24 | FUND FLOWS INTO PLATINUM VS. THE PLATINUM PRICE (US\$/OZ & US\$BN)



FUND FLOWS INTO PLATINUM REMAIN SUPPORTIVE FOR NOW BUT are prices telling us something?

Source: MF Global UK Limited, ETF Securities & Other Providers

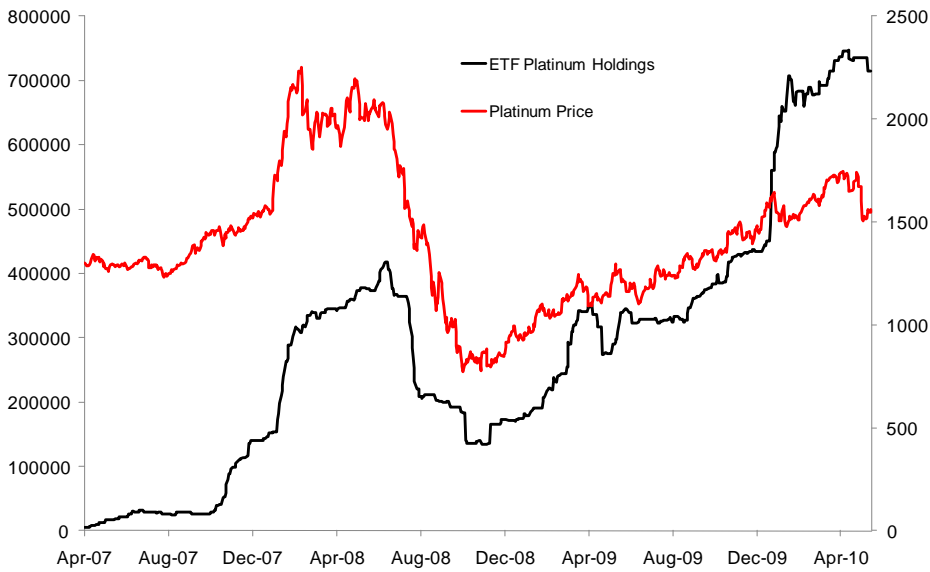
CHART NO. 25 | FUND FLOWS VS PRICE MOMENTUM FOR PLATINUM



FUND FLOW MOMENTUM IN PLATINUM COULD SLOW FURTHER Which would accentuate the decline in the platinum price

Source: MF Global UK Limited, ETF Securities & Other Providers

CHART NO. 26 | ETF PLATINUM HOLDINGS VS. THE PLATINUM PRICE (US\$/OZ)

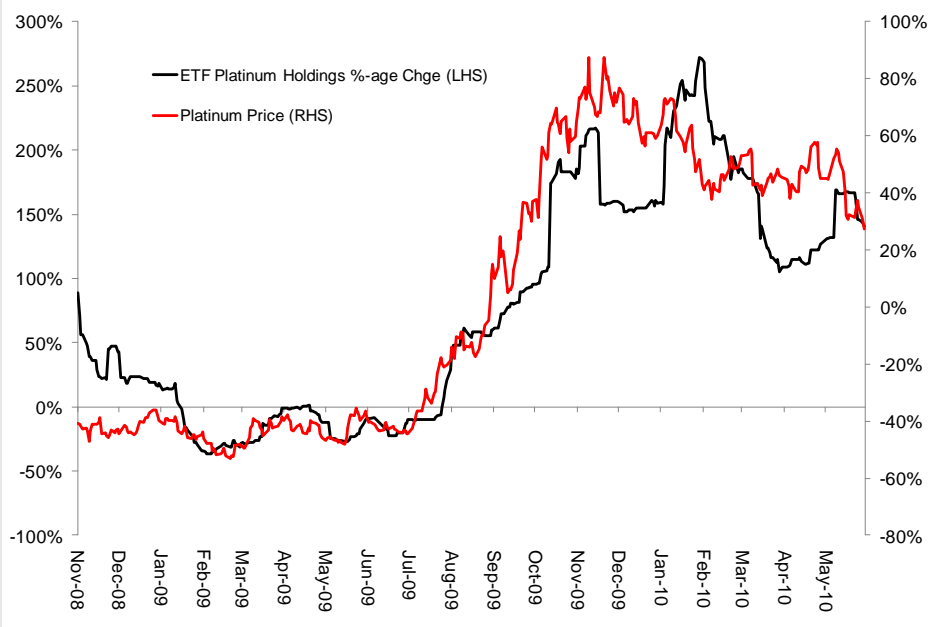


Source: MF Global UK Limited, ETF Securities & Other Providers

ETF HOLDINGS IN PLATINUM STILL SUPPORTIVE

ETF investments into platinum show a structural up trend. Will prices recover on a short-term basis because of this?

CHART NO. 27 | ETF HOLDINGS VS PRICE MOMENTUM FOR PLATINUM



Source: MF Global UK Limited, ETF Securities & Other Providers

HOLDINGS IN PLATINUM AND ITS MOMENTUM NOW BOTH SHOW A DOWNWARD TREND

It will be interesting to see whether fund flows into platinum can maintain the solid uptrend in the precious metal

TABLE NO. 2 | TROUGH TO PEAK COMMODITY PRICES AND THEIR REBOUNDS TO DATE

	Aluminium	Copper	Nickel	Zinc	Platinum	Thermal Coal	Oil	Manganese	Iron Ore	Average	Median				
Most Recent Rebound	50%	127%	115%	62%	102%	63%	80%	147%	82%	86%	82%				
Historical Average	43%	96%	84%	59%	74%	96%	118%	77%	208%	81%	84%				
Historical Median	38%	61%	56%	41%	56%	56%	98%	33%	150%	58%	56%				
Historical Minimum	18%	22%	20%	26%	18%	16%	44%	17%	63%	24%	20%				
Historical Maximum	97%	372%	317%	218%	312%	216%	279%	233%	451%	259%	279%				
Current price / Marginal cost	2%	80%	26%	4%	30%	51%	115%	92%	69%	44%	30%				
Current Price	\$1,932	\$6,462	\$19,480	\$1,722	\$1,556	\$98	\$75	\$8.6	\$144	US\$/AUD	US\$/ZAR	US\$/CHP	US\$/INR		
Marginal Cost	\$1,900	\$3,600	\$15,428	\$1,653	\$1,200	\$65	\$35	\$4.5	\$85	1.17	7.6	537	47		
Recent Low	\$1,288	\$2,845	\$9,050	\$1,065	\$771	\$60	\$42	\$3.5	\$79	1.63	11.1	675	51		
Average Rebound	\$1,847	\$5,586	\$16,649	\$1,689	\$1,341	\$118	\$91	\$6.2	\$243	1.32	8.6	555	45		
Median Rebound	\$1,782	\$4,594	\$14,087	\$1,500	\$1,199	\$94	\$82	\$4.6	\$197	1.32	8.6	555	45		
Minimum Rebound	\$1,525	\$3,480	\$10,897	\$1,346	\$913	\$70	\$60	\$4.1	\$129						
Maximum Rebound	\$2,534	\$13,430	\$37,749	\$3,385	\$3,176	\$190	\$158	\$11.7	\$435	1.00	6.0	435	39		

Source: MF Global UK Limited & Company Sources

WE HAVE PASSED THE HISTORICAL REBOUND AVERAGES

Commodity prices are still well ahead of their marginal costs. Further adjustment should be expected, in our view

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