Edward Meir / Tel: 1-203-656-1143
Email: edward.meir@intlfcstone.com
www.intlfcstone.com

Highlights for April: April was mostly an uneventful month in terms of price movements for the Reuters-Jefferies CRB index, which ended only 1% lower after a more notable 4% slide in March. Soybeans and natural gas led the gains, each roughly up about 7% on the month, while orange juice and cocoa were the main losers. Many of the variables we talked about in last month's report manifested themselves more strongly in April, including the increasing unease about the debt situation in Spain and growing signs of weaker growth practically the world over. In fact, in our last commentary, we called for "a modest correction that could set in over the late-April, early May time frame" and that seems to have come to pass as we note in the circled section of our CRB chart (below). The question now is whether the markets will move even lower from here, as investors deal not only with these ongoing issues, but focus on the implications of the recent European elections as well. We discuss our thoughts on these factors in the section that follows.

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Europe... Rearranging the deck chairs on the Titanic? The two major elections in France and Greece this past weekend were each a referendum on recent European economic policies. Of the two, the French election commanded more market attention, although it was the Greek one that proved to be more consequential in that it had the more unexpected outcome.

In France, Francois Hollande returned the Socialists to power after a 17-year hiatus and will take office on May 15. Hollande promises a different approach to the European debt crisis than his predecessor, emphasizing growth initiatives as opposed to the austerity measures favored by the Sarkozy/Merkel duo. "There is a lot of joy and pride, but also apprehension at taking on this responsibility at a difficult time for the country and for Europe," he was quoted as saying. The markets couldn't agree more, selling off sharply in Asian trading early on, but then recovering ground over the course of the US session.

The trajectory of the Euro was particularly interesting on the day after the elections, sinking to three-month lows at one point and breaking the $1.30 mark in the process. However, by the end of the US session, the currency did recover most of its losses to finish modestly higher . So did a number of other markets, including US equities and some key commodity complexes, such as energy and copper.

Source for chart: Futuresource.com

We suspect one reason why markets recovered their footing so quickly on Monday was perhaps because investors began to conclude that the Socialists, irrespective of their rhetoric, will now have to contribute to a properly balanced plan without spooking the Germans – or the markets for that matter. Moreover, investors were likely relieved to see that many of Hollande's team comprised of former finance ministers, industry leaders, and other public officials, all of whom are market-friendly and not leftist firebrands. Critically, the French bond market was calm, with yields basically unchanged on the day. Of course, it is still early days and a lot can still go wrong. Certainly, the Germans will view Hollande as philosophically more difficult to come to terms with then Sarkozy, and so despite Monday's relatively muted close, we think this untested partnership will generate its fair share of worries in the weeks ahead.

Greece... Down but not out. Speaking of worries, the country that threw the markets a real curve on Monday was Greece. Here, the two mainstream parties who initially signed off on the IMF/EU austerity package were hammered in the polls, as instead, voters sprinkled their votes among a number of fringe parties, forcing the two main ones to fall short should they attempt to form a working majority. The two leading parties at this stage comprise of one of the former main parties -- New Democracy -- along with Syriza, a leftist party. Syriza's leader is Alexis Tsipras, and at 37, now Greece's youngest politician, who did not mince any words when he said that the "Greek people gave a mandate for a new dawn with solidarity and justice instead of barbaric bailout measures". (Despite the lofty rhetoric, he is not contemplating a Euro exit). Under the constitution, the biggest party has a chance to form a government. If it fails, the next largest party gets a chance and so on down the line. If all fail, new elections would be called in about three weeks. Just as we went out with this note, the leader of the New Democracy said he was unable to form a government, leaving it to Tsipras to try next. In the meantime, Greece must give parliamentary approval for over 11 billion Euros in extra spending cuts for 2013 and 2014 later this month in exchange for more EU/IMF aid.

Spain-- A potential crisis still in the making: Another European situation that could rear its head over the course of the next few weeks is the debt crisis in Spain. Spanish banks have been using cheap money from the ECB to load up on local bonds, beefing up their holdings to about E260 billion, up some E85 billion since November. This typically is not a problem if the underlying assets perform, but the value of Spanish bonds has declined substantially over the course of April. On the rate front, Spanish 10-year paper hit 6.16% at one point last month, and although we are trading below that level right now, rates can easily spike again since nothing has changed fundamentally. For what its worth, when Greece, Portugal, and Ireland saw yields approach 7% on their long-term paper, the jig was basically up and all three had to resort to financial aid. In the meantime, the Spanish government plans to segregate problem property loans into one "bad bank" or an asset management company in order to relieve the burden on other institutions, but these plans were too late to save at least one troubled bank. In this regard, as we went out with this note, the *Financial Times* reported that the government has bailed out the country's third biggest lending institution with a massive injection of public money.

The Euro-- Still standing, but for how long? It is hard to see how the Euro is going to push higher over the short-term given the muddied political and economic waters that lie ahead. Indeed, it is impressive that the currency has done as well as it has throughout this whole ordeal. However, we suspect that Monday's muted response to the European elections will likely prove short-lived, and we could probably see a resumption of Euro selling in the weeks ahead to about the mid to high $1.20's. In addition, as we noted above, the situation in Spain still remains serious, as does Portugal's. As far as commodities are concerned, a weaker Euro will likely mean that prices will remain under pressure at least for a little while longer.

Macro Data--one step forward, two back - Last month, we voiced concern that the macro situation globally seems to be decelerating and for the most part, this still seems to be the case. Although we are seeing some signs of stability reflected in **April's Chinese statistics,** they are coming in either in line, or slightly below forecasts. As examples, China's GDP expanded by 8.1% from a year earlier, the smallest amount in almost three years, and falling well below the 8.3%-8.4% rate expected. Industrial production increased 11.9% year-on-year, running a tad higher than estimates, while retail sales were up 15.2%, very much in line with forecasts. Passenger car sales grew 4.5% in March, although for the quarter as a whole, they are lagging the historical averages. And finally, fixed-asset investment, which is a good measure of the government's involvement in the economy, rose 21% in the first quarter, also in line with estimates. Chinese PMI numbers showed a modest uptick in April, but this reading was skewed by the large number of state-owned operations. The HSBC purchasing managers index (which focuses on smaller firms) came in at 49.3 in April, and although up from March levels, the index remains in contraction territory for a sixth straight month.

Europe's macro readings have been dreadful. A total of nine countries are now in recession, with the UK being the latest to fall into that camp. Moreover, the euro zone's entire manufacturing sector shrank last month as a downturn that started in the periphery now appears to be taking root among core countries like France and Germany.

The macro numbers that have seen the most notable change over the last month are ones coming out of the **US**. Although we are still far off from any recessionary conditions, there is a distinct slow-down going on. As examples, GDP for the first quarter came in at 2.2%, substantially less than the 2.5%-2.6% expected, and well below last quarter's 3% increase. However, its negative impact was cushioned somewhat by consumer spending, which rose by its strongest amount in more than a year thanks mainly to robust auto sales and a pick-up in housing. Less subject to debate, were the poor labor readings. In this regard, private payrolls as reported by the ADP increased by 119,000 jobs in April, the smallest gain in seven months and well below the 170,000 figure expected. Moreover, the government's non-farm payroll report showed 115,000 workers added on in April, well below the 170,000 expected. And although the Institute for Supply Management's index of national manufacturing activity climbed to a 10-month high in April, regional readings were off sharply. Lastly, the latest ISM services readings came in well below estimates as well.

Outlook..More sloppiness ahead: We do not see things changing much over the course of May, and expect a slow and steady grind lower in most markets. One complex that looks particularly vulnerable to us (not necessarily a bad thing we might add) is energy. Brent remains overpriced in our view, and is prone to moving much lower, particularly if the upcoming negotiations with the Iranians later this month result in some sort of progress. We should note that during the last round of talks, despite the fact that nothing was agreed to other than to talk again, Brent sold off by $3 a barrel just on that news alone, so much of the embedded "tension premium" could be unwound if we see more signs of progress. We suspect that refined products will also move lower over the course of May, although natural gas will likely push higher and perhaps start to consolidate after what has been a stunning collapse.

We are short-term negative on most of the base metals, particularly copper, which we suspect is being propped up by the steady decline in LME stocks. Should stocks start to build, and there are indications that they might, we think 3 month prices could drop by a much as 5% from current levels going into the May/June period. The declines in the rest of the metals will likely not be as severe, as many of them have already corrected sharply, with a few even below the nominal cost of production.

We expect the precious metals group to be mixed, with gold likely outperforming silver as well as platinum and palladium in that all three are perceived to be industrial plays as opposed to "safe-haven plays". Gold, on the other hand, should join the dollar in moving slightly higher, particularly if the European political and economic landscape continues to generate confusion.

US equities could see a modest correction from here, but given the earnings momentum generated by a number of companies, declines will be limited. In addition, with rates on the floor, equities have emerged as a market of last resort for those seeking some sort of a return outside of miserly bond and money market rates.

Finally, we see a mixed picture in the ags, with trading range markets mostly in place, with the exception of soybeans, which we think are quite overbought. The tropicals are also struggling, weighed down by surpluses in all three markets.

We comment on the these and other markets in the pages that follow.

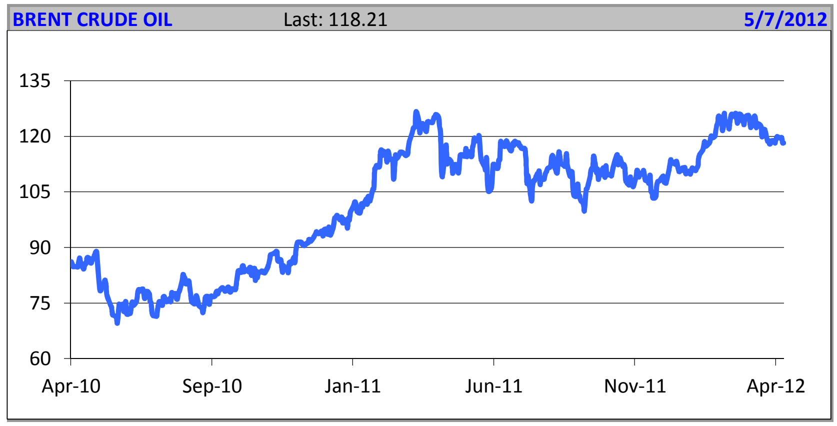
ENERGY

WTI NEARBY CONTINUATION

Although our chart alongside does not show it, WTI has fallen dramatically over the first week of May, losing almost $6/brl over this time for its worst weekly performance since November. We are not surprised by the drop, as we have been wary about energy prices for some time now given the bearish fundamental picture, typified by rising inventories (now at their highest level since 1990) and sluggish demand. In addition, there are two sets of talks with the Iranians scheduled for later this month, and from the sounds of it, it is *possible* that some progress will be made, which could prompt long-side money to head for the sidelines. Technically, with the chart picture looking poor and with the funds building length just ahead of the decline, we suspect there will be more room to move lower, particularly if Brent, the more geopolitically sensitive (and elevated) of the two contracts, starts to break down. We expect to see a $92.50-$104 trading range set in over the course of May, with a much sharper downside break likely if the Iranian talks surprise.

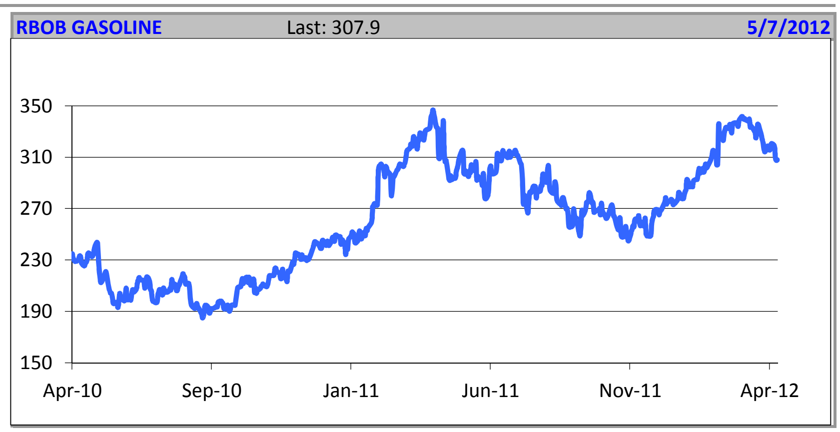
BRENT NEARBY CONTINUATION

Our $117 -$127 trading range for Brent forecast in last month's report was not too far off the mark, but we suspect a much lower trading range will govern in May. Of the two oil contracts, Brent is by far the more vulnerable, as it carries a much richer Iranian-related "tension premium" that could potentially start to unwind if the scheduled Iranian talks show some progress. In addition, there are legitimate questions about demand; US energy off-take has been declining for some time now, while Europe is mired in recession, leaving it mainly to the Chinese to do the "heavy lifting". The supply side looks equally bearish; in addition to high levels of Saudi and Libyan oil still flooding the markets, we have to suspect that the Iranians are also aggressively discounting their oil off the Brent benchmark in order to move out what they have before the sanctions start to bite. We are looking for a $105-$118 trading range on Brent over the course of the next few weeks.



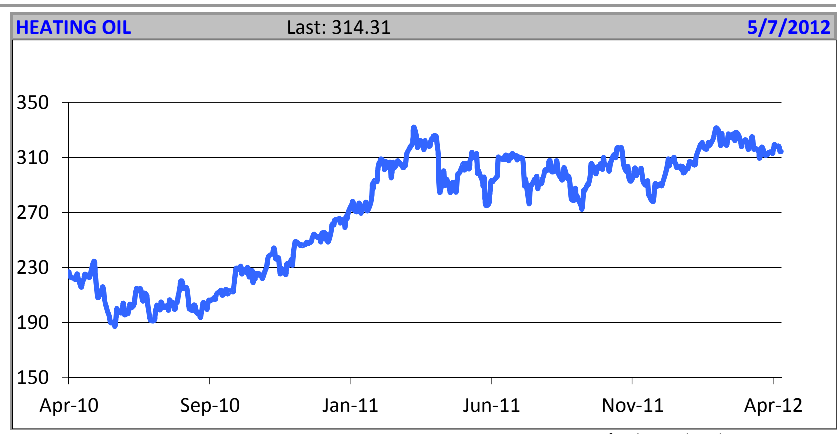
RBOB NEARBY CONTINUATION

Gasoline never got to our $3.50 price target, but we did see the complex shed quite a bit of ground in April as we suggested it might in our last note. Despite the myriad of supply issues that have been at the heart of RBOB's meteoric rise earlier this year, the spiral was finally undone by sharply slowing demand and stubbornly high pump prices. In fact, the latest four-week average shows US demand off some 4.7% from last year, while inventories, though declining, are still some 5.2 mb higher than last year. In addition, the supply side of the picture has been improving as well; refineries that were previously slated to shut down have now been given a new lease on life. In this regard, Delta announced plans to buy the Phillips refinery in Trainer, PA, while Sunoco is in joint venture talks with the Carlyle Group to run its Philadelphia refinery, the biggest on the east coast. Price-wise, we see RBOB under continued pressure as a combination of lower demand (fueled in part by higher sales of fuel-efficient vehicles) and a decelerating US economy, take their toll. We see prices trading between $2.83-$3.10 over the course of the next month.



HEATING OIL NEARBY CONTINUATION

Heating oil has been weak over the course of April, off about $.20/gln over the last two weeks alone. Prices even took out our $3.05 downside target identified in our last report, and we are now hovering on either side of $3. Just like in RBOB, the complex is suffering from a noticeable drop in demand, exacerbated in large part by a relatively warm winter in the US and a rather mild start to the spring season as well. In fact, over the last four weeks, the National Weather Service has calculated that weekly heating demand was off between 30%- 57% vs. last year. Of course, industrial demand remains much stronger, but even here, fears of a slowing US economy are weighing on prices. We expect heating oil to trade between$2.85-$3.10 over the course of May.

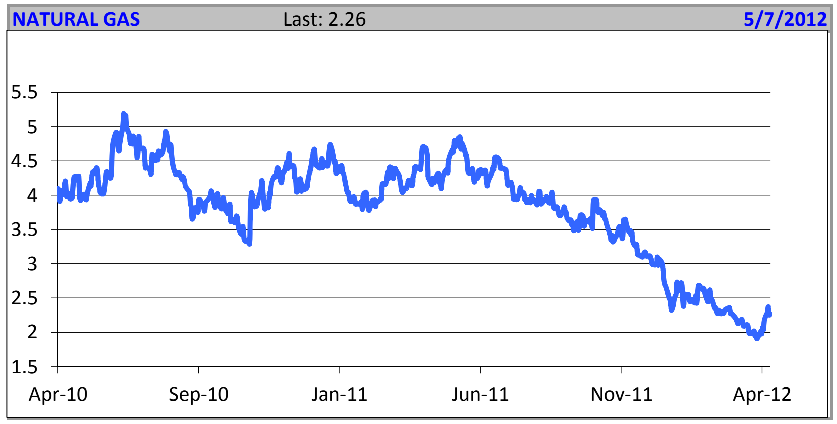


Source for charts: Bloomberg

ENERGY, EMISSIONS, AND URANIUM

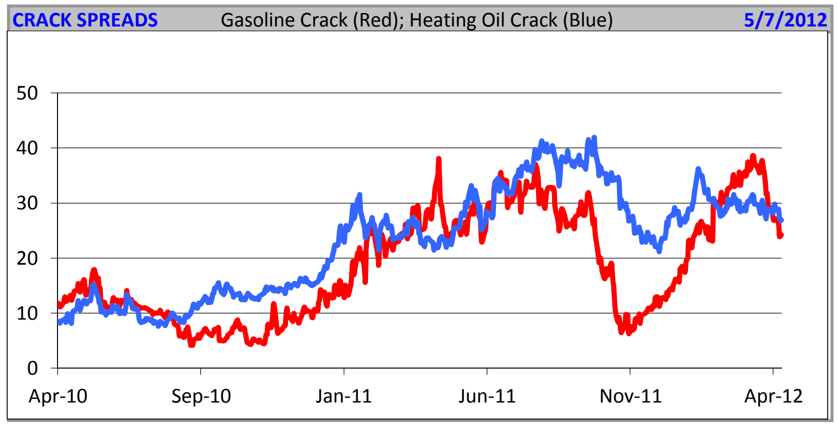
NATURAL GAS NEARBY CONTINUATION

After sinking for months on end with no bottom in sight and getting to a low of $1.90, below which there really was little value to looking at the charts, natural gas prices finally stabilized and pushed higher over the course of April. There is growing evidence that depressed prices are finally having an impact on supply. In this regard, Baker-Hughes said that gas-directed rig counts are now some 30% lower than last year, while the EIA said gas production in February fell to a four-month low. In addition, Encana, Canada's largest producer, hinted at more supply cuts, joining Chesapeake and Conoco, both of whom have recently trimmed output. Nevertheless, the gas complex has a lot more work to do before prices have a chance to recover; stocks are at record highs and talk of cuts have to be taken with a grain of salt, since gas typically rises when extracting for oil, making it basically an unwanted by-product. This may explain why the EIA raised its estimate for production this year for a third straight month. We see prices trading between $2-$2.50 over the course of the next month and don't expect any major fireworks on the upside for now.



CRACK SPREADS

We had quite a change in direction in the cracks over the past month, with gasoline collapsing and actually trading below heating oil for the first time since February. Both cracks will likely remain under pressure over the next 4 to 6 weeks, with gasoline looking particularly vulnerable. For one thing, it has had a very strong run since the beginning of the year, and although it has corrected recently, it has retraced less than half of its six-month gain.

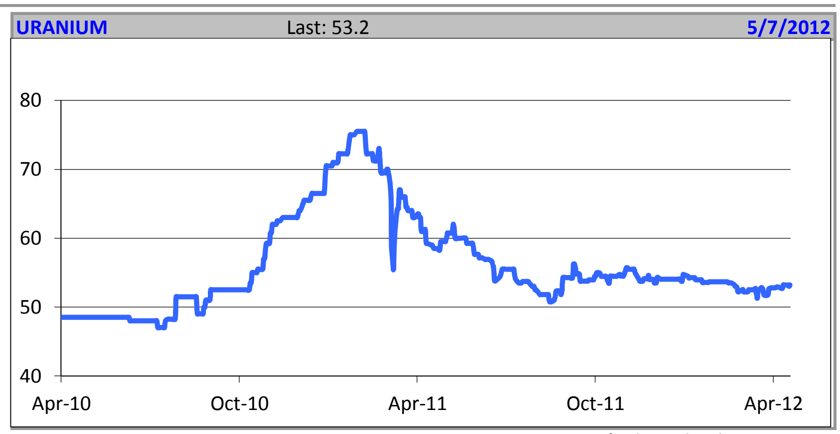


COAL

Coal prices were under pressure this month, dropping to less than $100/MT by the end of April, the lowest level they have been at since October 2010. Chinese domestic coal prices are also at 20-month lows and the fact that local inventories are high as well, suggests that aggressive Chinese buying is still some ways off. In the meantime, supply is comfortable; the US will export nearly 50 million tons of thermal coal this year, rising to nearly 60 million by 2015, a major factor in depressing prices. Coal industry experts estimate that the current yearly surplus will be somewhere between 12 and 50 million tons, a range that will likely not be dented even if the Chinese step up their buying. We expect some more pressure on prices over the next several weeks, but with coal remaining the cheapest form of energy, particularly for emerging markets, we doubt we will see an outright price collapse anytime soon.

URANIUM

Uranium prices were fairly stable in April, closing up 75 cents to just under $52. The market's fundamentals remain comfortable; output of uranium is increasing, with Kazakhstan's state nuclear company Kazatomprom announcing that the company produced 4,666 tons of uranium in the first quarter of the year, up 5% year-over-year. The country as a whole boosted output by some 9% to 19,450 tons. Investors will be watching the Iranian nuclear talks with some interest. In this regard, Iran's foreign minister said his country was ready to resolve all nuclear issues in the next round of talks scheduled for later this month, and hinted that his country could make concessions to its higher-grade uranium enrichment program. In the meantime, we do not see much change in the flat trend that is still evident in the market.

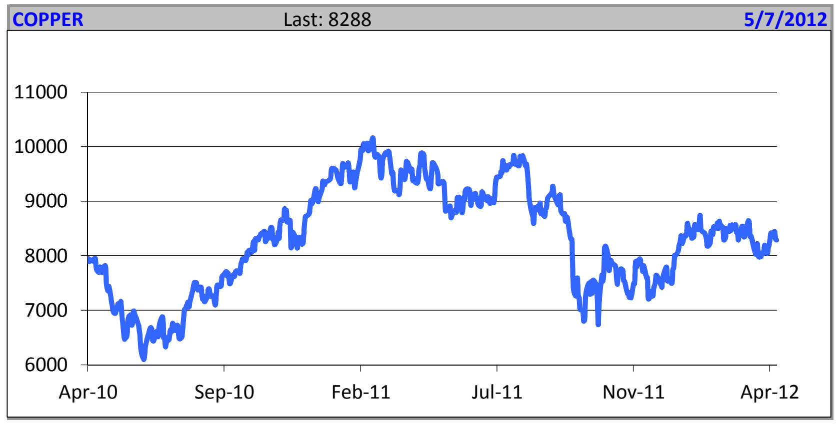


Source for charts: Bloomberg

LME BASE METALS

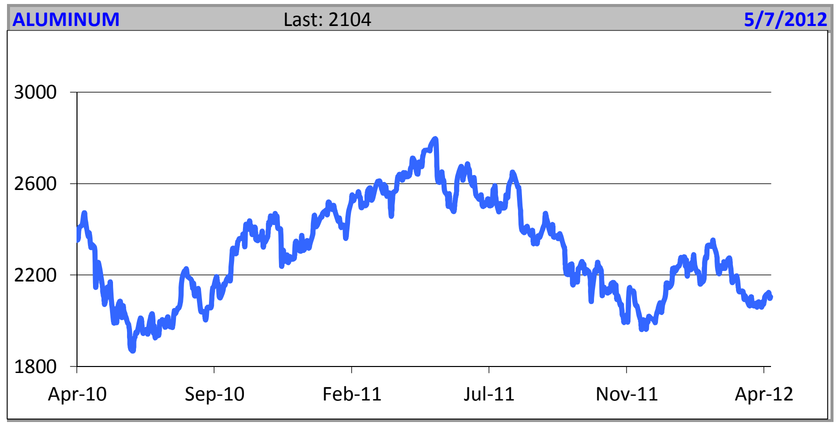
3-MONTH LME COPPER

Copper was all over the map in April, getting to a high of $8700 earlier in the month only to dip below $7900 two weeks later. We then recovered to $8500, but now seem to be struggling again. The market is trapped between countervailing forces; on the bullish side, LME inventories have been falling, as have Shanghai stocks, with both contributing to record backwardations. However, demand remains quite poor, especially in China, where we continue to hear reports of end-product orders being off substantially, leading to reduced demand for both scrap and cathode. Physical premiums are down sharply as well. Looking ahead, we find it difficult to believe that the backwardations will remain intact over the course of May and going into June, especially if LME inventories start to build. This could be done with outflows from Shanghai, where by most accounts, there is still a sizable amount of metal idling in financing deals. However, we suspect that weak demand will ultimately do the back in, forcing prices lower as well. We expect to see a $7800-$8400 trading range over the course of May.



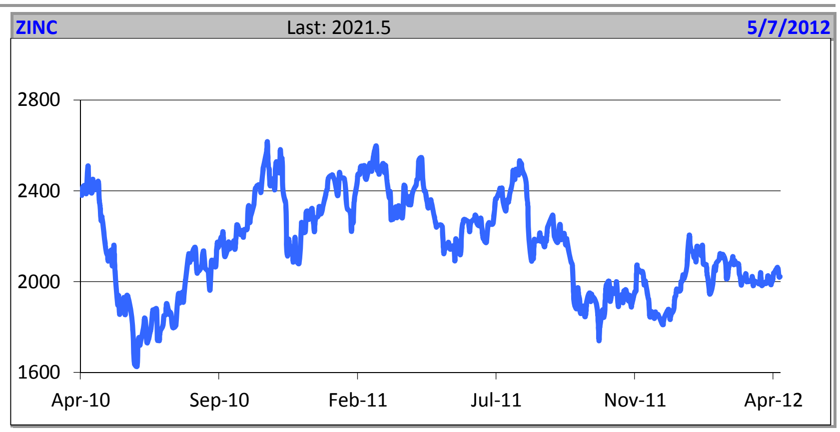
3-MONTH LME ALUMINUM

Aluminum stabilized over the course of April, coming off a rather miserable March. The complex seems to be relatively well supported at or below $2000, as that is the level margin pressures seem to intensify, pushing more producers towards more sizable cuts. However, the Chinese have yet to come to the table with any meaningful reductions. In this regard, Reuters reports that global output actually rose 6% in Q1 vs. Q1 of 2011, with the bulk of the increase coming from the Chinese, who bumped up March production to +9.4% y-o-y to its second-highest level on record. Chinese smelters are lowering their cost profile by shifting new capacity westwards towards cheaper coal-sourced electricity, thus offsetting the units being taken off the market by the closures of more inefficient producers. Couple this with the fact that we still have 5 mln tons in inventory amid a slow growth environment, and one cannot get too excited about ali's prospects going forward. We see a trading range of $ 2000 – $2200 to remain in place over the course of May.



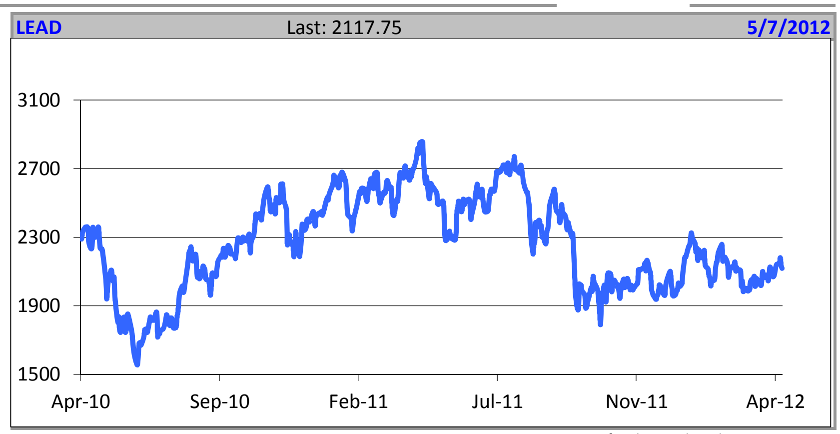
3-MONTH LME ZINC

Zinc has not been doing much of anything for the past two months, trading roughly in a $150 range during this period. Prices did stabilize somewhat over the course of April, although they did come under some pressure this past week. The lackluster performance is not surprising given the market's uninspiring fundamentals. In this regard, LME stockpiles are at 17-year highs and the market is expected to tip into surplus again this year. In fact, the ILZSG pegs the 2012 excess at 249,000 tons, up from its previous estimate of 135,000. World refined zinc output is expected to rise by 4.4% this year, with mine output up almost 4%. Although Chinese production is showing signs of moderating, with March output off 10% versus last year, other countries are making up for the slack. We don't expect to see much in terms of upside on zinc, and suspect that we will trade between a $1900-$2075 over the course of the next 4 to 6 weeks.



3-MONTH LME LEAD

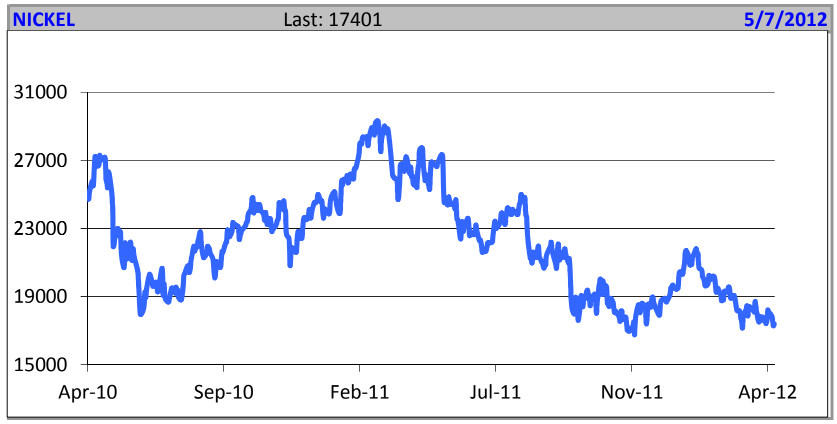
Lead prices had a relatively decent April, with prices up some 10% over the course of the month. LME stocks have been trending lower, off by some 20,000 tons in April, and likely contributed to the steadier tone. However, it remains to be seen whether this downward trajectory will continue given that the market is expected to be in another surplus this year. In this regard, the ILZSG projects 2012's surplus to come in at 114,000 tons, up 14,000 tons from the group's last estimate. Refined lead output in 2012 is expected to rise by 4.4% to 10.9 million tons, while demand is forecast to increase by 4.8% to 10.78 million tons. The ILZSG also says that Chinese offtake is expected to increase by 7.3%, as lead-acid battery production ramps up following the spate of closures last year. Last month, we projected that lead would trade between $1950-$2175 (not far off the mark) and we are comfortable with a repeat going into May as well.



Source for charts: Bloomberg

3-MONTH LME NICKEL

Nickel prices have been struggling over the course of April, as rallies over $18,500 have not been able to hold, fizzling out instead. The market's fundamentals remain uninspiring, with stainless demand flagging, while LME inventories continue to rise, up some 6,000 tons over the last few weeks. In addition, the International Nickel Study Group (INSG), sees the market in surplus by 50,000 tons in 2012, and although this is well off from the 70,000 ton figure projected last October, the number is substantial nevertheless. If anything, a 50,000 tons surplus could prove to come in light, as the market already has notched up a 27,000 ton surplus just in the first two months of the year. Last month, we wrote that nickel would successfully defend $17,000, and although this came to pass, we are not sure the same thing will hold this time around. Instead, we could see a break to around $16,500 between now and mid-June, while on the upside, $18,700 resistance should remain intact.

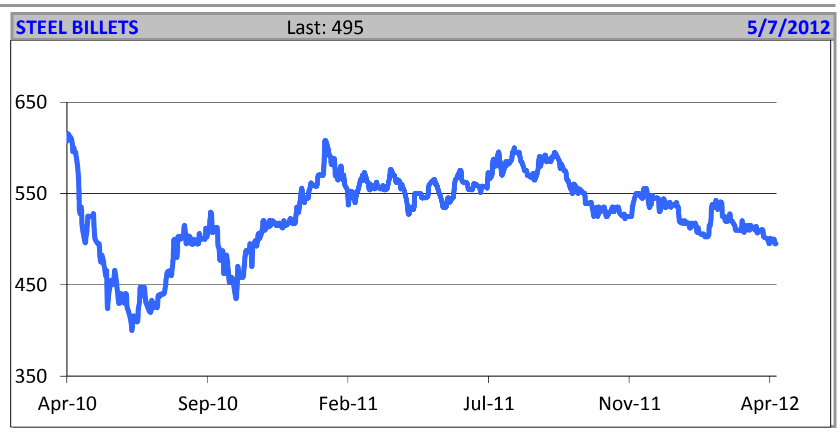


3-MONTH LME TIN

Tin has not done much over the course of April, ending the month at just about where it started it (around $22,700). We do not expect to see a significant setback in prices going into 2012 and expect $19,000-20,000 support to hold despite expected short-term weakness in the commodity space. We say this in view of the fact that ITRI expects the tin supply/demand balance to be in a 10,000 ton deficit this year following a 5,000 ton short-fall in 2011. (In fact, tin is the only metal of the six we follow -- the other being copper-- where a deficit is projected). ITRI also expects tin's ending stock ratio to fall to about 3.4 weeks by year-end 2012-- among the lowest in the LME group. On the upside, we see prices conceivably test the $25,000-$26,000 over the course of 2012, especially if an unanticipated natural disaster in Indonesia amplifies the market's dangerous reliance on the country's tin units. Shorter term, and specifically over the course of the next few weeks, we see prices fluctuating between $20,800–$22,700.

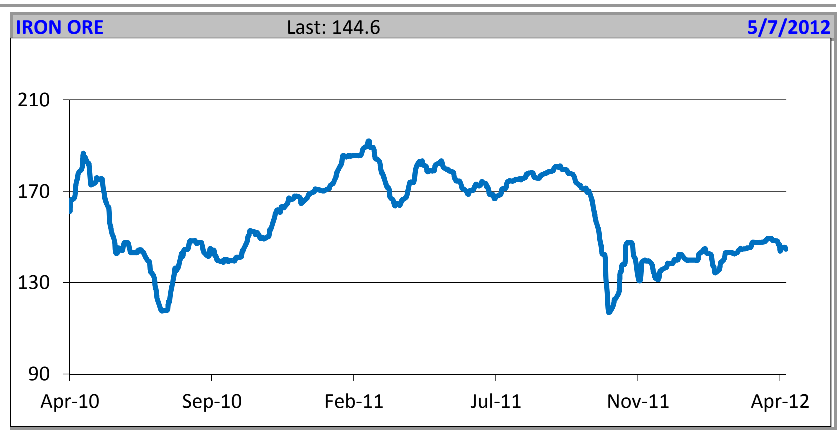
LME BILLETS/STEEL

LME billet prices lost ground over the course of April, with the three-month contract breaking below $500 late in the month. As we note in our iron-ore write-up below, steel demand remains on the weaker side, but is not necessarily eliciting any sizable reduction in supply. In fact, global production for Q1 was 1.1% higher than the same period last year, as Chinese mills continue to ramp up production, offsetting declines in other geographies. Now that global economies are entering a soft patch, steel supply may likely run ahead of demand. Certainly, Chinese demand is expected to slow, with most projections we are seeing calling for growth of 4-5% over the next two years vs. the 10% increase seen previously. It is also likely that surpluses are being formed in the local Chinese market itself, which explains why exports are surging -- up almost 40% in Q1. We expect more weakness in steel prices over the next four to six weeks and see billet prices moving to the $480 region.



IRON ORE

Iron ore prices for 62% content rallied to a 6-month peak of just below $150 per ton in mid-April, but we have since pulled back, dropping to $143.80, a seven-week low. Chinese mills seem to have pulled in their horns when prices got to $150, and there was not much support after that. Adding to the downbeat sentiment, the World Steel Association said that global steel consumption will likely grow by only 3.6% in 2012 and by 4.5% in 2013, well below the 5.6% growth rate seen last year. However, supply may still easily outstrip demand, as we are not seeing any noticeable reduction in steel output from China. Latest numbers show that daily steel run rates hit a record high in the first 10 days of April, beating the monthly record set in March. The pace has moderated only slightly since then, and no less a source than the China Iron & Steel Association said last week that production at these levels will not be sustainable. If that is the case, iron ore prices will be under pressure, although not immediately. We see prices trading between $140-$148 over May, with the bias more heavily skewed to the downside.



Source for charts: Bloomberg

GOLD COMEX NEARBY CONTINUATION

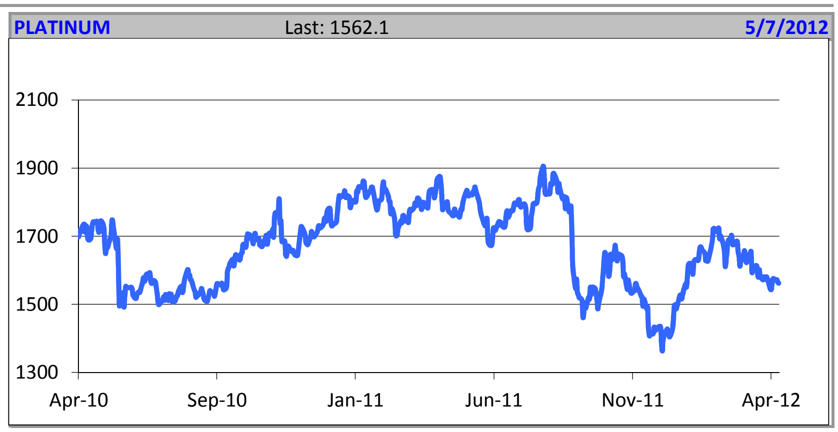
Gold continued to lose ground over the course of April, but prices have nevertheless been holding onto a trading range of between $1620-$1720 for the better part of two months now. We suspect the complex could push higher over the course of May, largely on account of the fact that global economies are slowing, prompting investors to conclude that central banks will put “easing options” back on the table (or at least strongly hint that they will do so). In addition, we view gold, alongside the dollar, as something of a safe haven, especially if the European debt crisis starts to flare again amid renewed doubts over future policy in light of the recent elections. There already are tremors emanating from Spain, and although the debt markets there have not yet seized up yet, the possibility cannot be ruled out. Gold could come under pressure if macro statistics start to perk up, as this would siphon funds away from “safe havens” like gold and towards equities, but the recent data suggests otherwise. We look for prices to test the higher-end of the trading range over the course of May ($1680-$1700) and would look to buy the metal should it retreat back to $1600- $1620 support.

SILVER NEARBY CONTINUATION

Silver has been performed poorly over the course of April, losing about 10% on the month, with prices now hovering just below critical support at $30. Although the relative strength we expect to see in gold over the short-term could help silver out, the complex will likely still have difficulty moving higher given that silver is perceived to more of an industrial metal as opposed to a "safe-haven hedge". We are looking for $30 support on silver to decisively be taken out over the course of May and see prices likely retreating to $28.00. On the upside, resistance at $32 should hold.

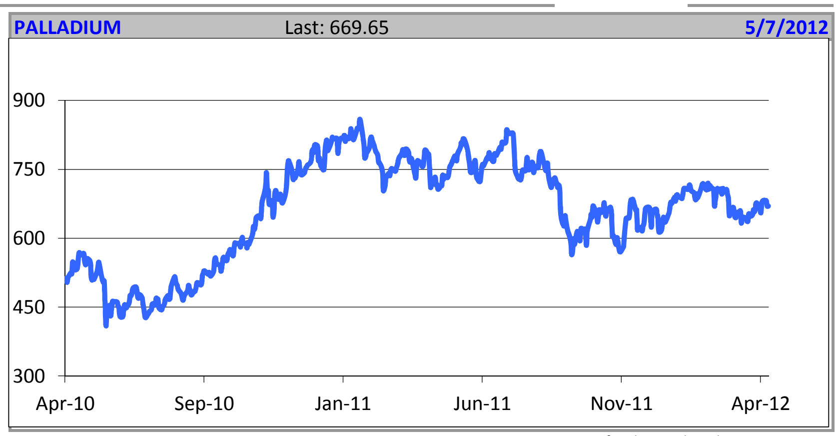
PLATINUM NEARBY CONTINUATION

Platinum prices lost about $90/ounce over the course of April, but has sunk by another $50/ounce just in the first week of May. Not surprisingly, the charts do not look that inspiring and suggest that a further decline to $1460 could be in the cards. Although car sales in the US remain brisk, with GM upping its 2012 annual sales projection to 14-14.5 million units, there is some deceleration noted in emerging markets. In China, for example, Bloomberg reports that the auto market there is expected to grow in the single digit range for a second year in a row despite announcements of production expansions by major automakers. Globally, platinum needs to work through a modest surplus as well, now estimated at about 735,000 by GFMS for 2012 (brought on in part by a sharp drop-off in ETF demand). However, mine output is still threatened by sporadic mine stoppages in South Africa where industrial action and safety-related interruptions have hit most major operations. The complex will therefore encounter a measure of support from the supply side, but we don’t see this outweighing the negative impact of slowing demand.



PALLADIUM NEARBY CONTINUATION

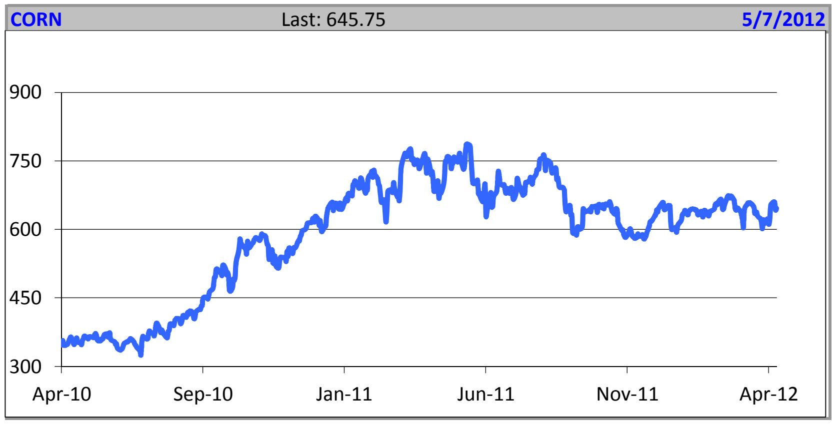
Palladium had a decent April, rising about $55 an ounce off the $630 low only to start a rather sharp decline that shaved $30/ounce off the price this past week. We suspect palladium's relative resilience compared to platinum is due to the fact that the metal is used in gasoline exhausts that are more common in the US and China, as opposed to Europe’s diesel-fueled cars that use more platinum. With demand for European cars anemic at best, palladium is likely seeing better uptake. However, despite strong car demand in the US and to a lesser extent in China, the complex still has to work through a sizable surplus left over from last year, brought on by a drop-off in ETF demand and Russian stockpile sales. Research house GFMS estimates that both these factors contributed to an implied 1 mln ounce surplus last year, and although a slight deficit is expected for this year, the complex could fall victim to a spreading global slowdown. GFMS expects palladium to trade between $575-$775 this year, a range we would be comfortable with, apart from the top end, which we think might be difficult to hit.



Source for charts: Bloomberg

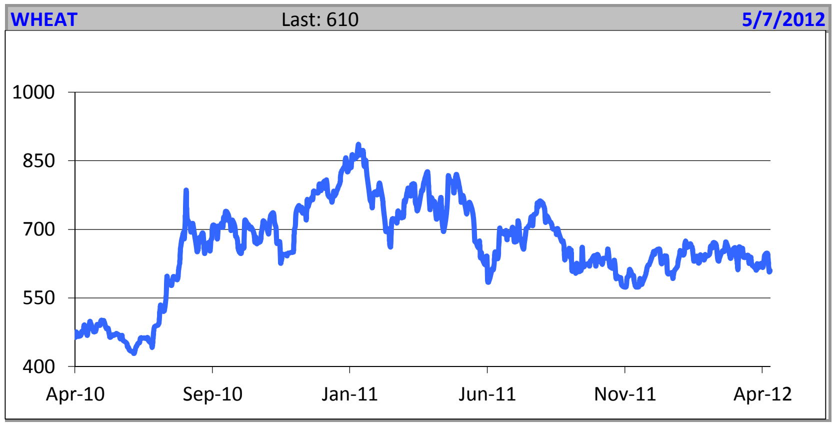
CORN NEARBY CONTINUATION

Corn sold off over the course of April, but prices rallied strongly once we got to $6 support, an area that has held three times so far this year. Looking at the longer term charts, we note that corn has been fluctuating within a $5.80-$6.80 band for about seven months now, and despite the recent run higher, we suspect this range will likely stay in place for a little while longer. For one thing supplies are expected to be comfortable; US farmers are forecast to increase sowings by 4.3% to 95.864 million acres this year, the most since 1937, while globally, production is expected to come in around 932.11 MMT in the year starting July 1st, up from an estimated 868.017 million harvested in the current year (this according to Informa Economics). The USDA is scheduled to make its first estimate of this year's harvest on May 10, and given what we are seeing now on the price charts, we think the complex could be setting itself up for a modest retracement back inside the trading range. In addition, there are no major US crop issues that we are aware of; the latest USDA report notes that 53% of the US corn crop was planted as of last week, topping the average Reuters forecast of 43% and well ahead of the five-year average of 27%.



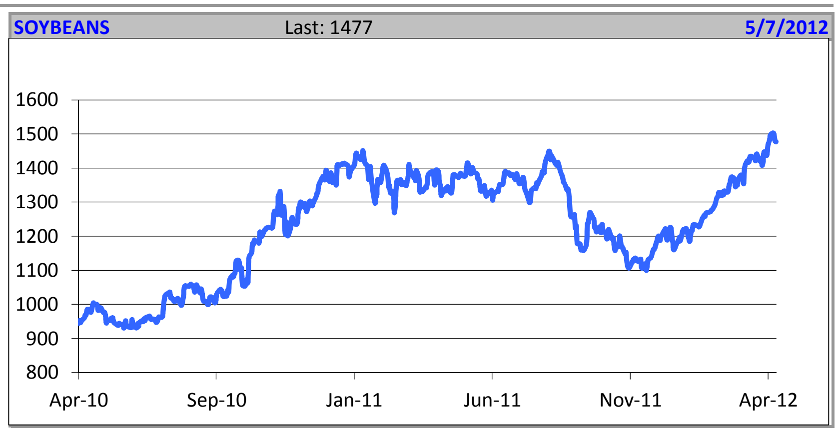
WHEAT NEARBY CONTINUATION

Wheat prices continued to work lower over the course of April, and even the modest bounce that set in late in the month fell apart this past week, as prices briefly sold off to below the $6 mark. As with corn, the supply picture looks comfortable; US spring-wheat is being planted faster than the previous five-year averages after an unusually warm March followed by April rains that left the soil in good shape. The winter-wheat crop is also looking good this year compared to last, as above-normal rains in parts of the southern Great Plains offset deteriorating conditions in parts of the Midwest. The USDA estimates 63% of the wheat crop is now deemed to be in good or excellent condition, compared to 35% at this point last year. In terms of spring wheat, about 57% of the crop is seeded, up from 6% a year earlier, and well above the five year average of 19%. We are looking for a retreat to the $5.80 level in May, but should we go through that, the next level of support that must hold for the bulls is just above $5.60, last June's intraday low.



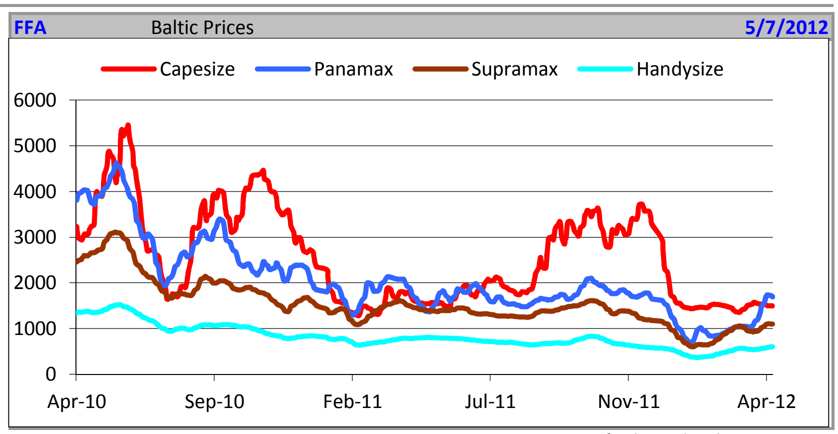
SOYBEANS NEARBY CONTINUATION

Soybean prices powered ahead to four-year highs in April and have been on a tear ever since putting in an $11 low late last year. Although prices did retrace slightly over the past week, the uptrend channel is still intact and will not get violated unless prices dip below $13.80. Exports have been very strong, with the Chinese booking their biggest one-day shipment in 21 years this past month. More importantly, the complex is fundamentally tight; a freeze in South America and rain in Europe is leading to concern that output from these regions will be clipped. In addition, German researcher Oil World says Argentine production may come in at 42-43 MMT this year, down 15%, due to a drought that is said to be the worst in 50 years. Here in the US, the USDA says that farmers will plant far less crop this year. Despite these bullish variables, we think the complex has done too much on the upside and is quite overbought, with an RSI that spent much of April in the 80+ range. We see a retreat over the course of May, in line with the general weakness we expect to set in over the commodity space.



FFA

The Baltic Exchange's main freight index rose in April, driven primarily by gains in Panamax rates, which more than doubled during the course of the month, as owners capitalized on South American grain exports. Average daily earnings for Handysize also rose, setting new highs for the year. The Baltic's Capesize index, meanwhile, fell this past month as business did not pick up significantly in the category. Despite a good month, the Baltic Exchange's main index is still down 34% so far this year and we expect rates to bump along the bottom for a little while longer.



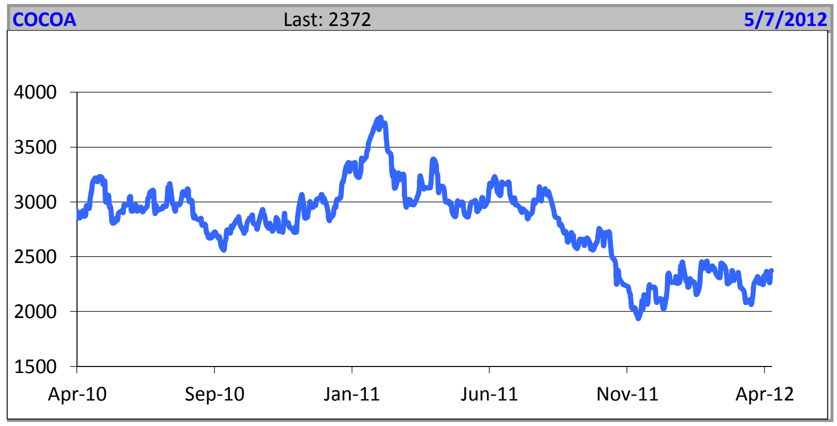
Source for charts: Bloomberg

SUGAR NEARBY CONTINUATION

Sugar was under pressure in April, with July closing the month down 11%, its biggest monthly drop in seven months for a second position contract. The complex was weighed down by a market projected to be heavily in surplus. One Singapore-based research group sees global production exceeding demand by a whopping 10 to 12 million tons this year. The International Sugar Organization is more restrained, seeing an excess of 6 million tons, up from 5.2 million projected earlier. More-over, some of the variables that were supportive in March have dissi-pated. As examples, the outlook for the Brazilian crop is not as bad as it was earlier, while Indian export caps were lifted in April. Sugar prices hit one-year lows last week, but there was some buying off support at just above $.20 that prevented a much sharp break lower. However, given the poor chart picture and the bearish fundamental backdrop, we likely will go through this level on the next retest and see prices trading between $.1850-$.2300 over the course of May.

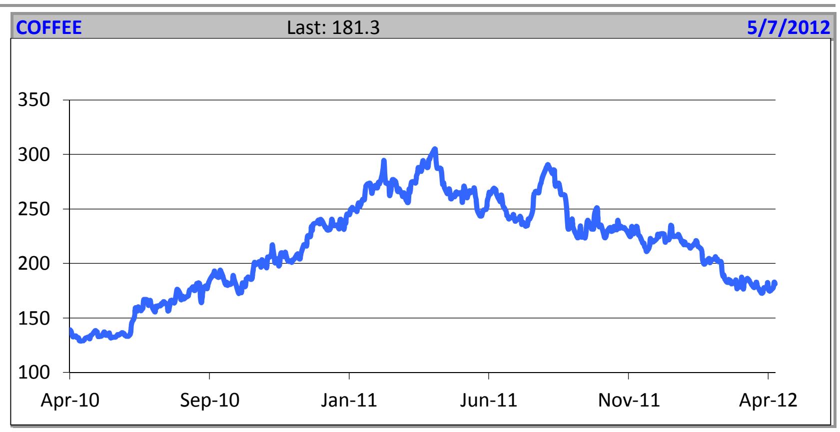
COCOA NEARBY CONTINUATION

Cocoa prices continued their March slide into April, falling to a three month low before recovering impressively over the last few weeks. Part of the recent recovery could have been due to short-covering, but some of it was likely due to concern about the Ivorian crop. The lack of rainfall earlier this year was said to delay the start of the smaller of two annual harvests, forcing some hedge roles and contributing to the July contract going into backwardation last month. However, more recently, there have been reports of rainfall in both the Ivory Coast and Ghana, easing supply concerns and loosening the backs. In fact, cocoa arrivals at Ivorian ports are now running at just below 1.1 million tons, slightly ahead of last year. We see cocoa prices range-bound over the course of the next month, trading between $2150-$2450. The upside potential will likely be limited given the lack of any pressing supply issues.



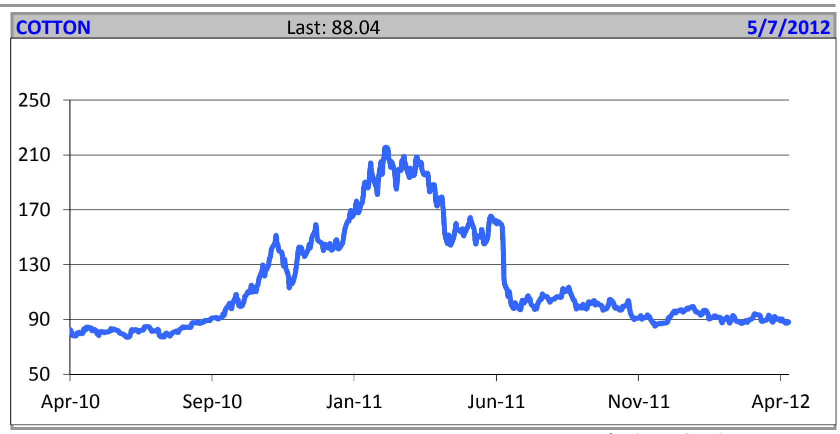
COFFEE NEARBY CONTINUATION

Arabica prices crashed to 18-month lows on April 19th, as growing ex-pectations for a large surplus contributed to the weaker tone. Although we did see prices rally by $.15 off last month's lows, the move was a short-covering exercise at best, and as of this writing, we are threaten-ing to break down again. Unfortunately for the bulls, there is not much out there that will change sentiment anytime soon. Expectations for a near- record Brazilian harvest (now estimated at around 49-52.3 million bags) are getting ingrained, while the Robusta side of the market looks equally comfortable and adequately serviced by top-producer Vietnam. The country is even exporting coffee to fellow-producer Indonesia after setbacks with the latter's crop. Brazil's Robusta crop is also in good shape, having escaped last month's dryness. We continue to call for a gradual drift lower in both coffee contracts, as it is still too early for the supportive element of the Brazilian frost season to manifest itself.



COTTON NEARBY CONTINUATION

Cotton prices moved in uneventful fashion over the course of April, trading between $.84-$.94 -- a far cry from what the complex was do-ing at this time last year. Prices started May on a very weak note, fall-ing to six-month lows on news that India was lifting its export ban (alt-hough it is not entirely clear how much the Indians will actually have to export). In addition, other countries continue to report good harvests. Australia for example, said it will harvest 4.4-4.5 million bales this sea-son, breaking last year's record of 4.1 mb. However, what is hurting the market most is the restrained buying out of China; Chinese cotton de-mand grew by only 5% in 2011 and this year's uptake has been simi-larly sluggish. We expect to see a gradual drift lower in cotton prices over the course of May, with the complex trading between $.84-$.93. A break below the $.84 could prove serious and set up a further decline to the low $.70 region. Look for the USDA's supply/demand report out later this week for a first accounting of 2012/2013 conditions.



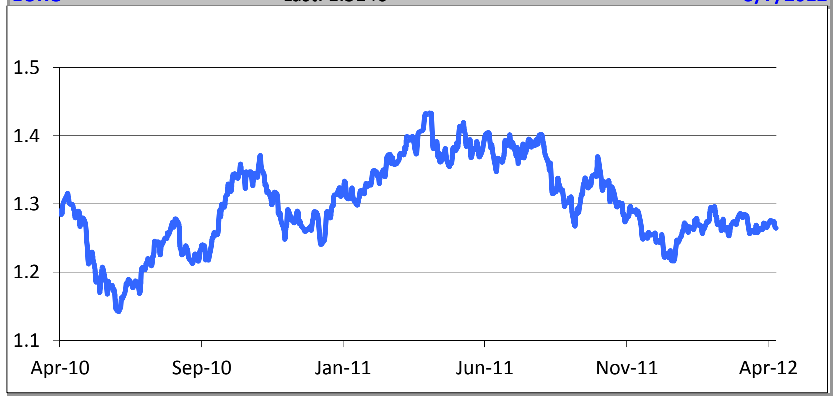
Source for charts: Bloomberg

CURRENCIES

EURO

The Euro did not do much over the course of April, fluctuating between $1.30-$1.3280. However, what happens over the course of the next few weeks will be of more interest, as investors begin to digest the implications of the French and Greek elections. The early reaction has been to sell, with the Euro now trading at just below $1.30 -- a three week-low. This is not a particularly surprising given the now-muddled political landscape. Although investors were more focused on the fact that France elected its first socialist president in 17 years, this was already expected and arguably discounted. What was more of a surprise, was the chaotic outcome in Greece, where the two leading parties have seen their pluralities slashed, casting fresh doubt on how a governing coalition will be formed – or whether the country will even want to stay in the bloc. We suspect the political ramifications emanating from Europe will continue to pressure the Euro going into the next few weeks, and would not be surprised to see us break into the $1.26-$1.27 range. Resistance will be at $1.3284, the recent high.

EURO Last: 1.3146 **5/7/2012**



YEN

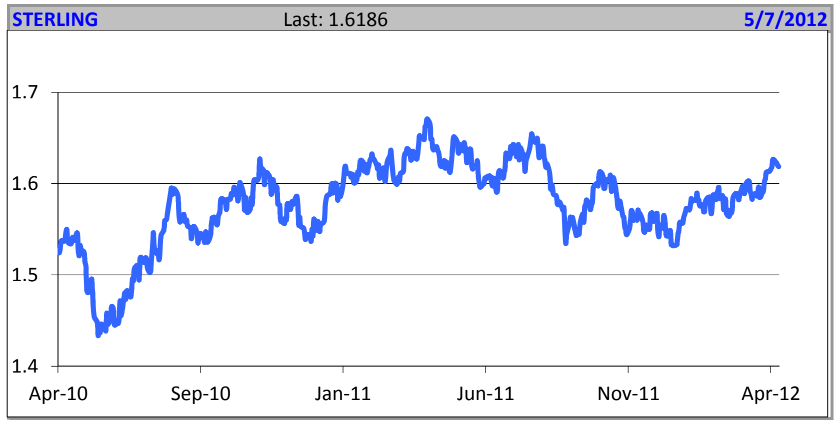
The Japanese yen is soaring as the Euro has weakened, continuing its run from last month. The yen has now recouped about half of the 8-yen decline that it has sustained since early February and we suspect that its upside momentum will carry it further from here. Japanese equities, particularly the exporters, have been under pressure as a result, since investors are souring on their prospects. For its part, the government seems to watching from the sidelines, not really sure what to do. Two previous attempts to intervene have failed to stop the yen's rise (the first in October and the second in November where, collectively, roughly $120 billion was spent in a futile attempt to stem the yen's rise). We have been bearish on the yen in recent commentary given the country's deteriorating fundamentals, but given what we suspect will be further weakness in most markets over the course of May, we likely will see the yen strengthen further over the short-term. We see it rallying to 78.50 over the course of the next few weeks, while on the downside, 81.70 is good support.

YEN Last: 80.18 **5/7/2012**

STERLING

Britain may not be growing these days, but its currency is holding up very well, up about 4% against the dollar so far this year and at a 20-month high against the Euro. Sterling's gain stands in stark contrast to what is happening with the UK economy, which officially tipped into recession in Q1. Should the weak conditions persist, we could see the Bank of England buying government bonds again, possibly by this summer, in which case the currency's recent advance could reverse. Moreover, despite the UK's triple-AAA credit rating, sterling is not regarded to be in the same class as the Swiss franc in terms of a preferred alternative to the Euro. One reason may be its 89% debt-to-GDP ratio, which is even higher than Spain's. We see the pound retreating later in the year, but for the time being, it should remain firm. Against the dollar, we see a trading range of $1.59-$1.63 over the course of the next month, while the Euro cross at 80 will almost surely be taken out given how bullish the charts look.

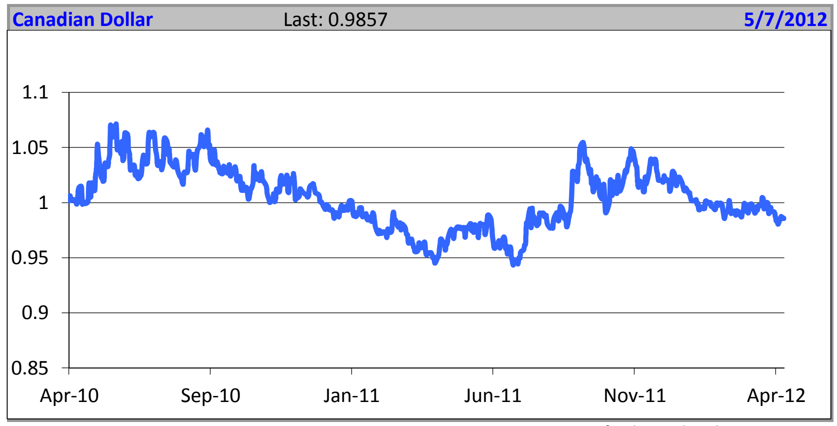
STERLING Last: 1.6186 **5/7/2012**



CANADIAN DOLLAR

The Canadian dollar climbed over the course of April, but staged a sizable correction late in the month after Statistics Canada reported that GDP declined by 0.2% during February, stunning investors given that a 0.2% rise was expected. The poor data also dampened speculation that the Bank of Canada was preparing to shift to a tighter monetary policy. However, the loonie recovered sharply over the course of the last week, with the currency now close to parity with the US dollar on recent evidence that the US economy is now *also* slowing, thus restoring more of a balance between the two economies and perhaps giving the Canadian dollar a bit of a boost in the process. We see the Canadian dollar advancing to the $1.0050 level over the course of May. Should it break through this mark, the top end of a three month trading range will be broken, and we could conceivably push to $1.03.

Canadian Dollar Last: 0.9857 **5/7/2012**

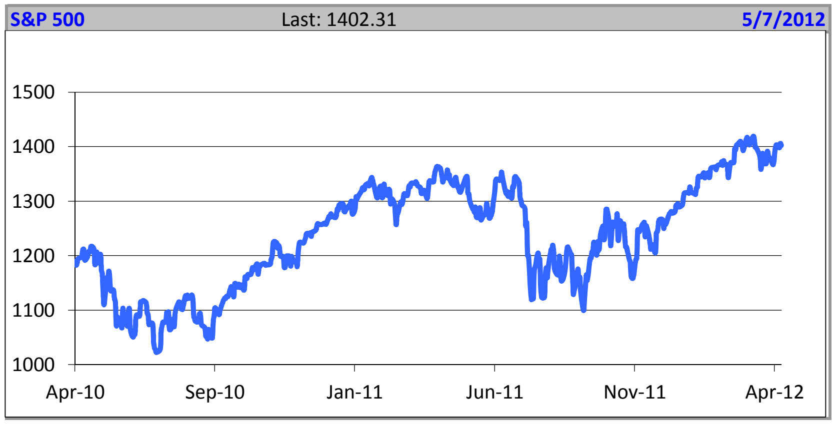


Source for charts: Bloomberg

FINANCIALS

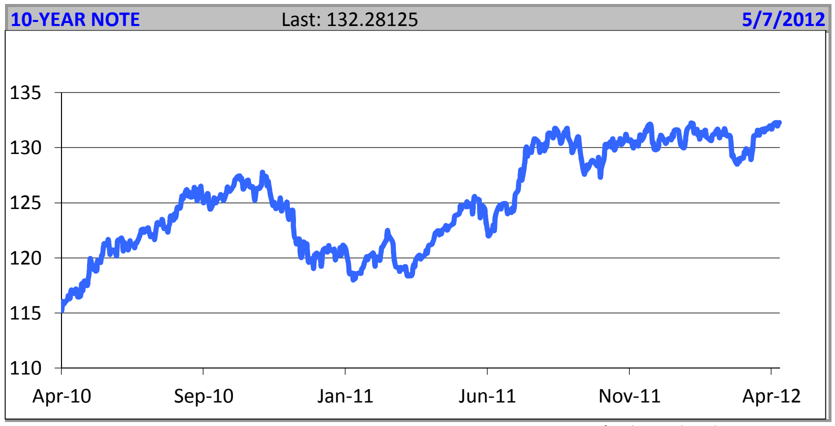
S&P 500

The S&P 500 was range-bound for most of April, and finished the month slightly lower, but the selling picked last week after the index suffered its worst weekly decline so far this year. The S&P is now off some 3.5% from its four-year high reached on April 2nd, still a very trivial retracement in what has been a spectacular run higher. However, given the slowing macro situation, both globally and perhaps beginning here in the US, we likely will see a bit more downside through the course of May before this correction run its course. The uncertainty surrounding Europe will be another negative weighing over stocks, at least until investors have had a chance to assess what the newly-elected politicians are going to propose. However, we do not expect to see a major rout, as corporations continue to make money despite a slow-growth US environment, mainly by capitalizing on international sales. In fact, almost 80% of companies that have reported earnings for this part quarter have beaten estimates. We look for the S&P to trade down to $1300 over the course of May, with resistance at $1420.



10-YEAR NOTE

Not surprisingly, with US growth slowing, the 10-year Treasury note has been on a tear, rising for seven weeks in a row. Yields are now around 1.85%, the lowest since February. We suspect that low as the yields are, they likely will push lower still, as investors start to discount signs of slowing US growth by assigning greater odds to the Fed moving towards another easing program. We see the 10-year getting to 1.8% over the course of May, with resistance at 2.10%. Expected weakness in US stocks and commodities over the course of the current month, coupled with the uncertainties with respect to the European elections, should also increase the attractiveness of the US bond complex as a safe-haven.



Source for charts: Bloomberg