The PRECISION REPORT

Precise Market Timing

August 7, 2009

COMMENTARY FOR THE eMINI S&P 500 SEP 2009 CONTRACT (the "ES")

The Precise Take – NFP exceeds expectations and leads equities higher

Yesterday: Bulls should have been able to extend the overnight gains and, instead, sold off sharply on the premarket push to just shy of the old November 5 08 high of 1,008.50. In many respects, yesterday was a very close cousin to the day prior until about noon, when it failed to rebound off the 991 support area and, instead, made lower lows into the afternoon. As we updated intraday

> Recall that yesterday's point of control at 991.00 had strong support and bulls were able to reverse price from it. A break below signals a reversal from the bullish sentiment that has carried the week and has seen the major points of control hold.

We didn't get a material break as 990.00 was the low, and the trend of respecting higher value areas remained intact.

Big picture: The FRNY's permanent open market operations (POMO) have been gaining momentum in the news lately—nothing in the mainstream media that we have found, but increasingly, astute independent economists and bloggers are focusing attention on the operations. Chris Martenson reports:

> And now it turns out that 47% (!) of the bonds that were taken by the primary dealers in [last week's 7 Year] auction have been quietly bought by the Fed and permanently secreted to its balance sheet.

Recall the non-primary dealer interest was low in the 2 Year and 5 Year and that (we believe) demand was merely being saved for the 7 Year. In what can be described only as a pyramid scheme, it is clear that the primary dealers are being allowed to offload their recent Treasury purchases through POMO operations, sometimes on the settlement date, meaning the debt was not in their hands for a full 24 hours. As Brian Brenton writes:

> It makes you wonder if the Fed is not encouraging primary dealer participation in these auctions by making it abundantly clear that the Fed will absorb a sizeable portion of their inventory quickly, while still assuring dealer profits. This is about as close as it gets to the Fed lending directly to the Treasury, without actually doing it.

It was the March 18 09 FOMC Announcement that paved the way for POMO, allowing $300 M and six months for the operations. It is increasingly clear that POMO is a necessary evil to maintain Treasury auctions. The ramp job in equities is a side effect of the dealers leveraging that capital and flooding the markets with it, and must irritate Bernanke to no end as higher equities are themselves reducing foreign interest in the Treasury auctions and causing long term yields to become dangerously close to reaching levels that, once broken, will end up spiraling out of control.

We updated yesterday,

> As we speculated earlier in the week, the FRNY has, for the third week in a row, announced on Thursday that the next day (Friday) it will be conducting permanent open market operations on Agency securities (Fannie/Freddie). The amount of Agency POMO is usually about $1.5B, less than regular POMO. However, this will make an unprecedented five days in a row (including Monday and Tuesday's scheduled operations) of liquidity dissemination that can be leveraged 100 times or more in the markets. With $7.5 B yesterday, $7.00 B today, we could easily see $30 B of leveragable capital hit the markets by Tuesday. Clearly, the FRNY is coming out with guns blazing and we should have a volatile week into Wednesday's FOMC Announcement.

In light of the Martenson and Brenton articles, this 5 day POMO frenzy could be clearing the decks at the primary dealers for next week's 10 and 30 year auctions on Tuesday and Wednesday. Bernanke is in a very tight spot as (1) he will likely need to announce renewal or non-renewal of the quantitative easing program (POMO), (2) he does not want the next top in equities to be too close to the FOMC announcement as he is seeking re-nomination, (3) if we don't get an equities correction soon to relieve pressure on long term yields, he could instead preside over a major Treasury market dislocation. Things, in general, are looking up for Larry Summers, who would be happy to have his

Day Trading Guide

Daily Gap
- 999.50 (4:00 pm close)
- 995.00 (4:15 pm settlement)

Daily Pivot
- 998.75 (day-session-only)
- 999.50 (day & overnight sessions)

Unfilled Gaps
- 903.50 to 912.50 (price)
- 955.00 to 962.50 (volume)
- 975.25 to 979.50 (price)

Upside Targets
- 1008.50, 1066.00

Downside Targets
- 922.25, 913.00, 854.75, 846.00, 828.00, 811.75, 777.25

Countertrend Longs*
- 917.75, 933.25, 940.75, 945.25, 963.25, 991.75

Countertrend Shorts*
- None

* Countertrend trades have a 2 point target and 2 point stop, are valid during the day session only, and are not recommended on high volume moves or around major news releases.

Today's Scheduled News (all times EDT)

Major Market Movers
- None

Minor Market Movers
- RBC CASH Index at 9:00 am
- Treasury STRIPS at 3:00 pm
- Fed Balance Sheet & Money Supply at 4:30 pm

Tomorrow's Scheduled News

Major Market Movers
- Employment Situation (NFP) at 8:30 am

Minor Market Movers
- Consumer Credit at 3:00 pm

job, and we would not be surprised if this historic rally that began in July were part of a Bernanke hit job—forcing him to play his hand at the upcoming FOMC meeting.

On to NFP: We set forth four scenarios yesterday, and it looks like unlikely #3 is now playing out.

(1) Equities and bonds both finally correct off a poor NFP report tomorrow.

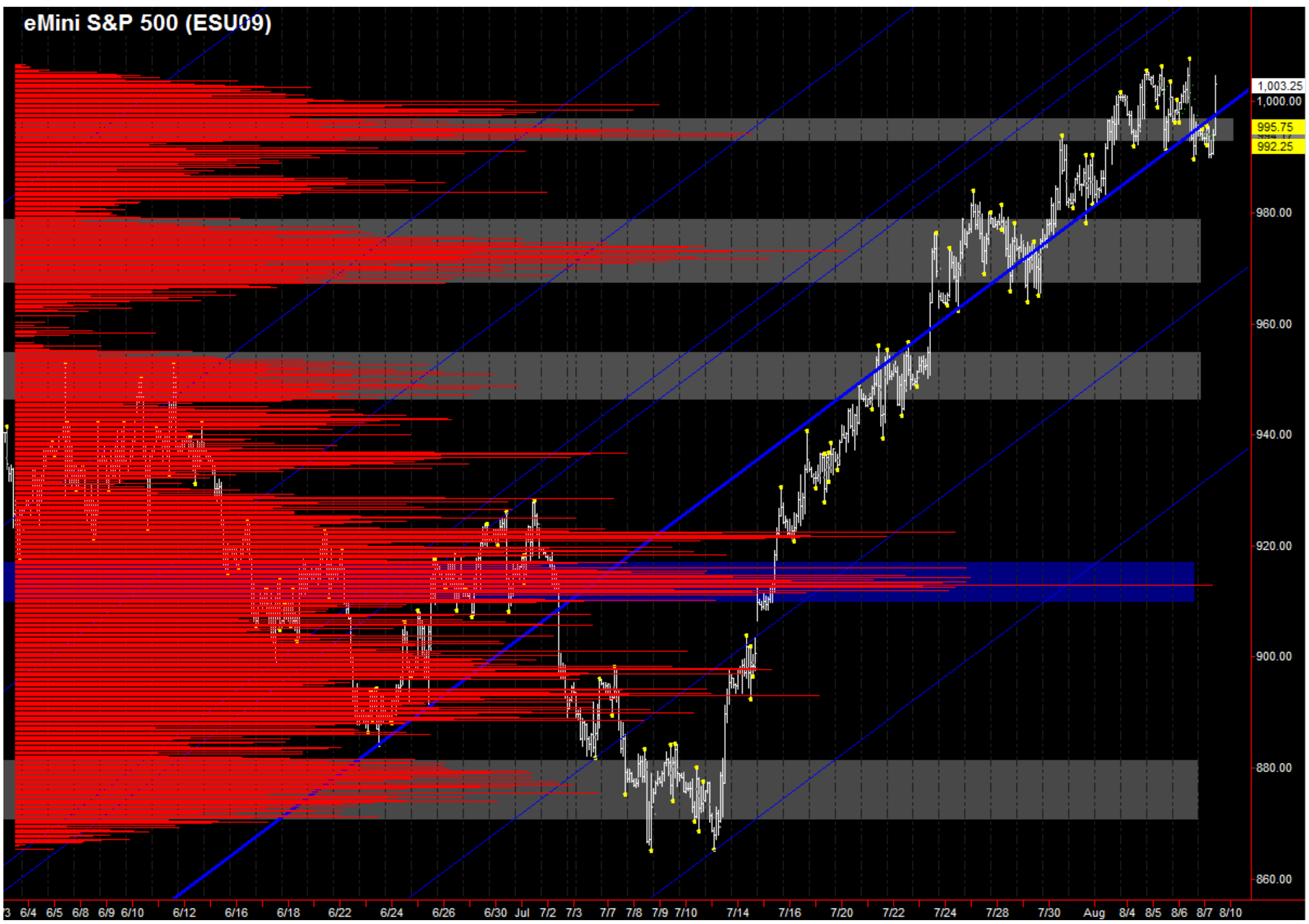
(2) NFP doesn't generate much volatility (like last month) and both equities and bonds tread water into the FOMC Announcement.

(3) Over the next few days, there is another material spurt up in equities with a return in the 30 Year bond to lows in the 112 area, and then a double bottom in bonds into the FOMC Announcement that then sees equities correct and bonds begin a multi-week rally. This requires a move of 4 ½ big bond points and, for this to occur, we need to see a strong move through support at 114'30 (swing low) from tomorrow's NFP report (which would have to greatly exceed expectations), with the FOMC Announcement generating the bullish news for bonds (and bearish for equities). If Bernanke wants to kill the stock rally, all he has to do is hint at tightening.

(4) Equities continue to break to new highs after the FOMC Announcement, long term yields break to new highs above 5%, and gold priced in US Dollars breaks 1,000 convincingly.

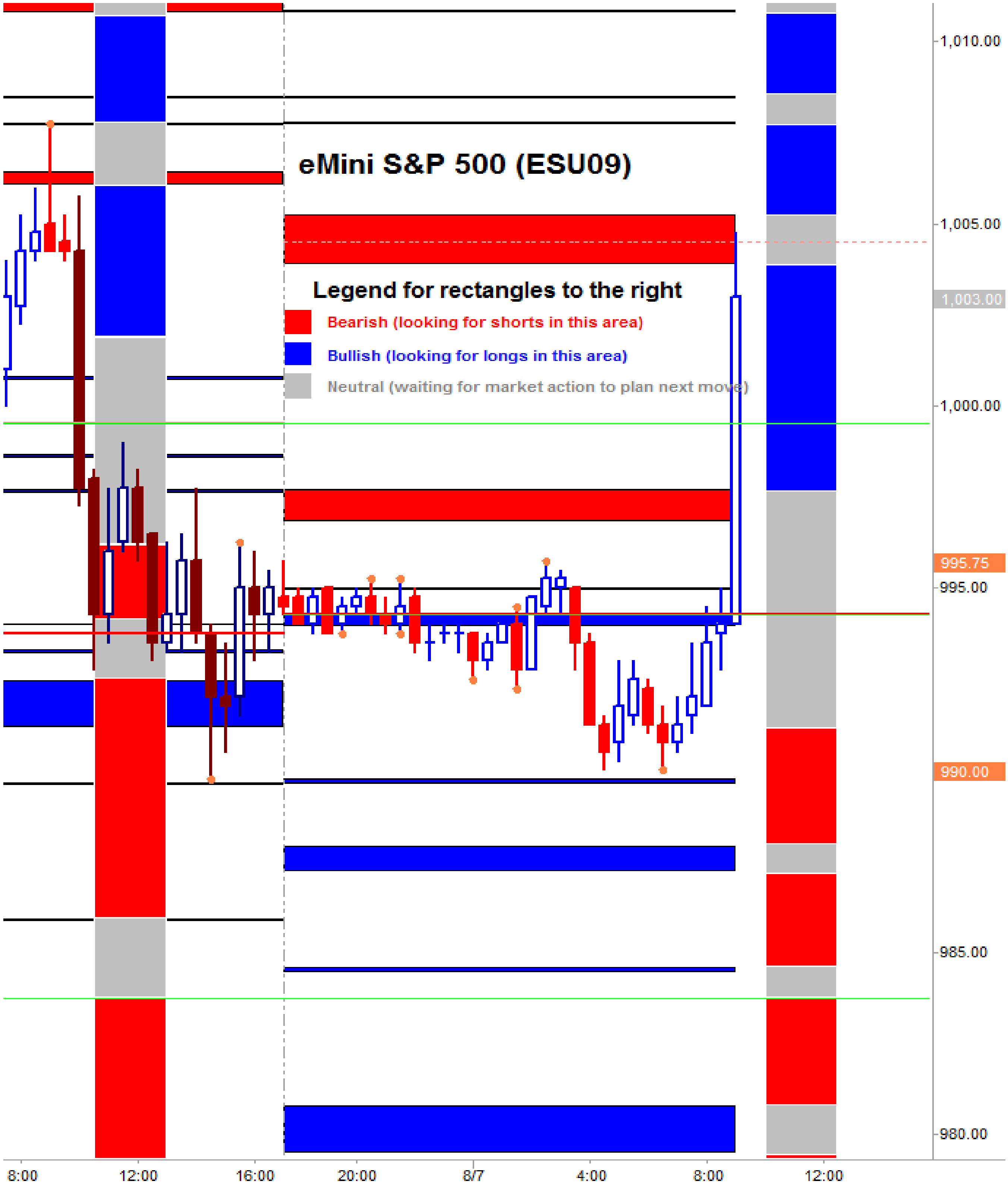
Trading Today: As we write, NFP has greatly exceeded expectations and, as we would expect, equities and long term yields are materially higher, with the 30 year having tanked. The ES has found some resistance at the daily R1s, but should be able break to material new highs if it can clear in early market action. We're not outright bearish unless and until the market corrects back down to 994.25. A word of warning to the bulls is that these premarket spike highs often presage strong reversals if they are not subsequently exceeded early after the open, and the daily R1's have proved to be reversal areas for the past two days in premarket action.

Volume Profile:



Free intraday updates at http://www.precisioncapmgt.com.

Support and resistance is as follows:



Legend: Market Profile points of control (POC's) are calculated each day and displayed as lines colored shades of green or red. Shades of green measure POC's over the life of the contract. Shades of red measure POC's for the previous day only. Confluence areas of support and resistance are calculated using Fibonacci retracement and extensions, market profile POC, and pivot formulas calculated on monthly, weekly and daily (day-session-only and day/overnight combined) time frames. They areas are drawn as shaded blue (support) and red (resistance) boxes. Previously drawn areas have not been adjusted retroactively.

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