



July 24, 2009

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

**The Precise Take** – Equities confirm breakout; Treasuries slump on record auction announcement

Yesterday was as expected a critical day for equities and US Treasuries. All stock sectors participated in the up move, the EuroYen forex cross as risk barometer was up strongly, long term Treasury yields skyrocketed, and crude was up materially. These are all the signs of an inflation-based rally. Only gold, which was up against heavy 61.8% retracement resistance from the year's high did not move up as expected. The US announced it would be auctioning 199 \$ B in short to long term Treasuries next week. As we [updated yesterday](#), this is in addition to the \$30 B in 10 Yr and 30 Yr already auctioned, bringing the monthly total to \$229 B, dwarfing last month's 195 B and the previous month's \$184 B. With equities up materially, the 10 and 30 Yr futures are back to where they were on Tuesday morning, prior to the Bernanke testimony, with further losses likely (high yields) should equities push higher today or early next week.

Having said all this, there are two clouds looming on the horizon which we believe are a serious impediment to this rally. The first is the continued volatility and decline in non-seasonally adjusted money supply (M2 NSA), which declined further last week as reported after the close yesterday. We will be releasing a detailed report intraday ([register for free notifications and updates here](#)) on how this has coincided with all but one of every major autumn stock market crash since 1981, with only one false positive.

The second cloud is next week's record-breaking Treasury auctions. The previous month's auctions were heavily subscribed and helped contribute to the decline in late June to mid-July. High bid to cover ratios and elevated foreign interest (especially in the longer dated issues) signal expectations of the savviest bond investors that Treasuries will rally and stocks will decline. Should demand be tepid, the rally has a chance to at least go sideways to nominally higher with perhaps only a 10% correction occurring sometime over the next three months.

The Federal Reserve Bank of New York (FRNY) conducted permanent open market operations (POMO)\* yesterday to the tune of \$3 B (slightly below average), which flooded large banks with leveragable liquidity at about 11:00 am. The end of day tape-painting did not occur, though the ES had hit R3 by 2:00 pm, so that was a hindrance. Today, the FRNY will be conducting POMO of Agency securities, so there is a similar but less pronounced bullish effect. The usual decline after POMO days is tempered by the Agency POMO; so, statistically, the low of the day should be in the first hour.

The ES needs to get over 972.25 to resume its rally and, with Consumer Sentiment the only scheduled news at 9:55 am, earnings digestion should direct the markets. We would be careful about shorting except for scalps unless and until the ES gets below 957.50, though a weak rally to 972.50 could be faded. 957.50 to 960 will probably see value longs try to get in. With the shorts likely having taken their pain earlier in the week, we don't think margin calls will be a factor in the first hour.

### Day Trading Guide

Daily Gap  
972.50 (4:00 pm close)  
969.50 (4:15 pm settlement)

Daily Pivot  
965.50 (day-session-only)  
965.00 (day & overnight sessions)

Unfilled Gaps  
903.50 to 912.50 (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\*  
872.25, 893.50, 917.75, 933.25,  
940.75, 945.25

Countertrend Shorts\*  
974.75

\* 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  
Consumer Sentiment at 9:55 am  
Minor Market Movers  
None

### Monday's Scheduled News

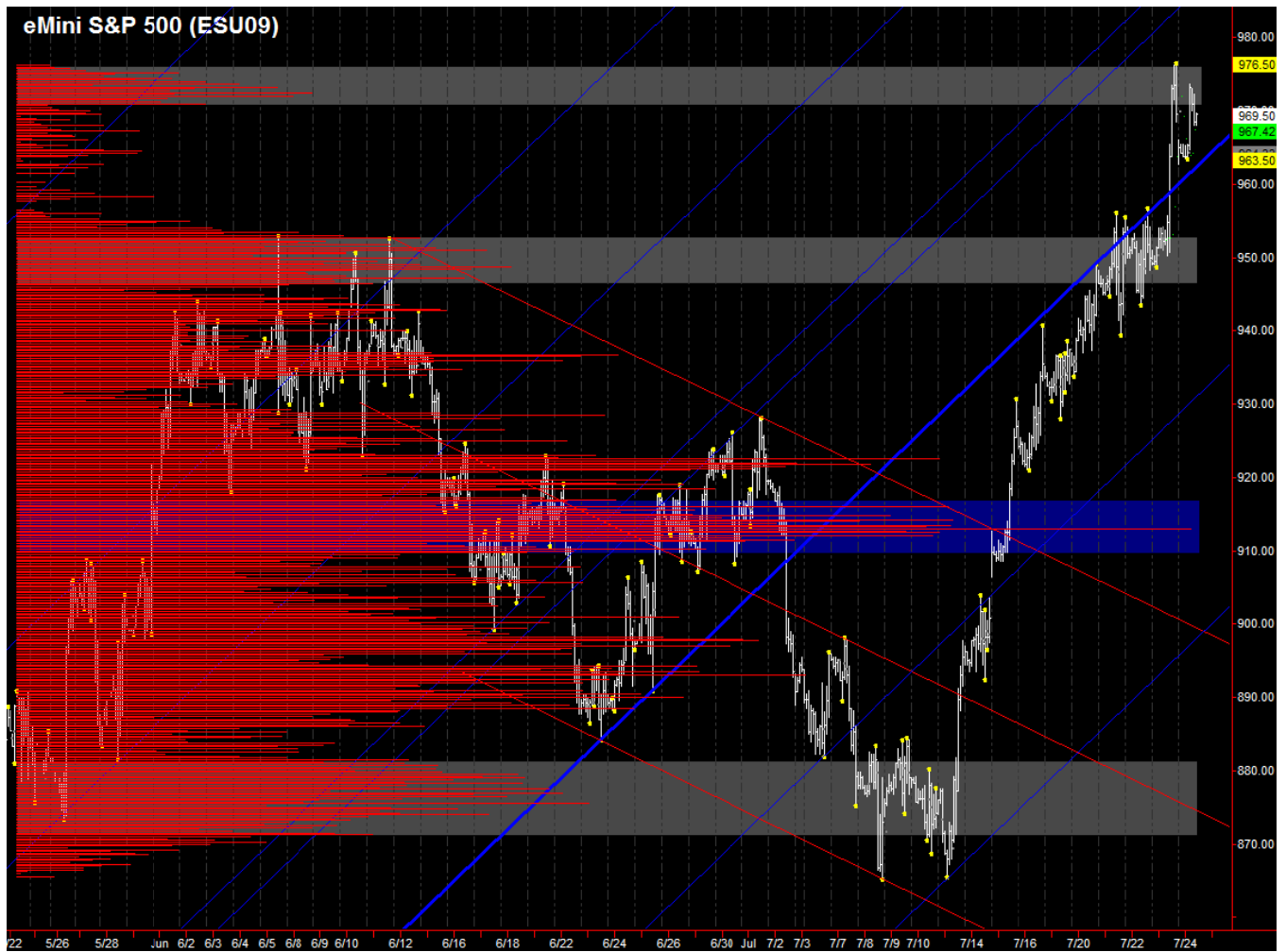
Major Market Movers  
New Home Sales at 10:00 am  
Minor Market Movers  
3 & 6 Mos Bill Auction at 11:30 am

\* Thanks to Thanassis Stathopoulos and Billy O'Nair for the *POMO effect* discovery and development of trading edges.

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

Disclaimer: The information in this report is general market commentary and for educational purposes only. No personal trade recommendations are being made hereby. Trading futures is highly risky and you can lose a substantial amount of money. Past performance is not necessarily indicative of future results.

Volume Profile is as follows:

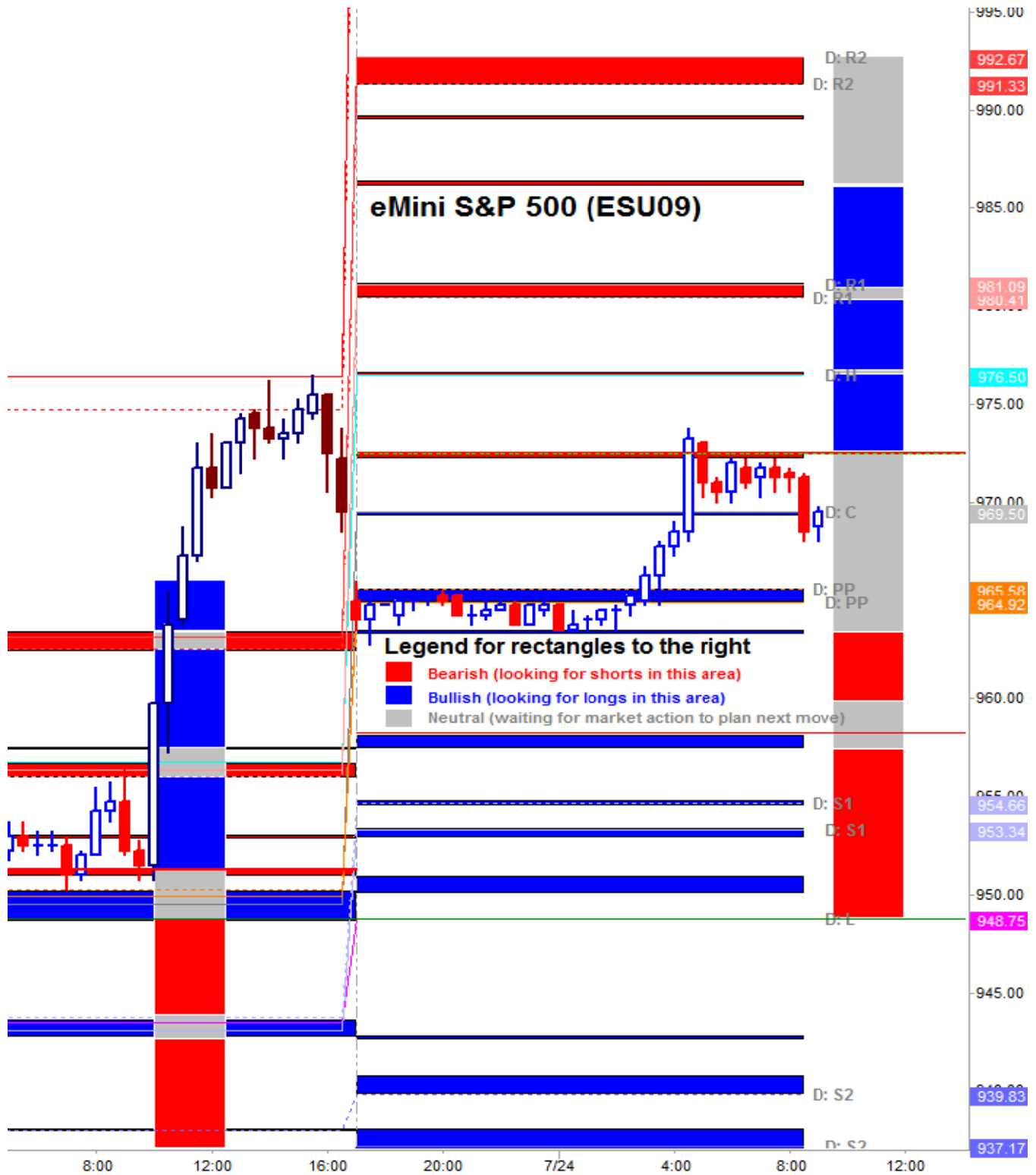


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Support and resistance is as follows:



**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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