



July 30, 2009

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

The Precise Take – New highs overnight; 7 Year Auction key today

Our ongoing hypothesis has been that the ability of the Treasury to fund the massive deficit spending of the US government is *the* key factor to watch this week to anticipate future market direction. If the auctions were a great success, we would expect Treasuries to compete with equities for dollars and for equities to decline, with the world betting on deflation rather than inflation. If the auctions were unsuccessful, we would expect equities to be more attractive and for long term Treasury yields to climb in order to make Treasuries more competitive (with the world betting on inflation). An outright failure (nearly impossible as Karl Denninger notes because primary dealers are required to buy what others do not) would have disastrous consequences and would be largely unpredictable as to consequences. We also believe that higher yields are Bernanke's greatest threat because they exacerbate the upcoming problems with prime and Alt-A mortgages and commercial real estate loans that will need to be financed over the coming 18 months—a bigger problem than another leg down in the stock market.

We have looked to gold futures, long term Treasury futures and the EuroYen forex cross for signals as to how these auctions might proceed. So far, they have signaled auction success, which does not track the reality of the poor showing of the 2 and 5 Year auctions Tuesday and Wednesday of this week. As we updated yesterday, "though long term yields shot up on the announcement as expected, the ES has headed lower into support. Support should hold and allow the ES to head higher and break resistance at 973.00." This did eventually come to pass, but the 30 year yield closed right back where it was before the auction.

Accordingly, our primary scenario for the ES which has been on track so far (down into the afternoon yesterday, strong close, test of highs into Thursday morning, then lower into Friday close) is unfolding for reasons that violate our premises. So, we are losing confidence in the scenario and are willing to put a 50/50 chance that the ES will now hit its next upside target at 1008 as early as tomorrow (Friday). Our market leaders are not as equity bearish as they were into the morning, so it is possible they were simply wrong a few days ago. We will closely watch the 7 Year auction at 1:00 pm today and GDP tomorrow at 8:30 am. A great auction and bad GDP can still send equities down, be we are not holding our breath now for that. Today is another POMO day, and as we reported yesterday, the second POMO day of a back to back set does not have a bullish edge (nor does it have a bearish one). See page 2.

As we write, the ES has shot up precisely to monthly R2 at 986.50 on the weekly jobless report. Shorts will want this to be a spike high and see a retreat in the opening hour below 971.75. Above that level, and bulls are clearly in control. The gray boxes in the right margin on page 3 are possible reversal levels, however, we will not fade short above 986.50, though we would consider fading that level early on the open if we see weakness.

Day Trading Guide

Daily Gap
975.00 (4:00 pm close)
972.25 (4:15 pm settlement)

Daily Pivot
971.75 (day-session-only)
971.75 (day & overnight sessions)

Unfilled Gaps
903.50 to 912.50 (price)
955.00 to 962.50 (volume)

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

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
7 Yr Note Auction at 1:00 pm

Minor Market Movers
None

Tomorrow's Scheduled News

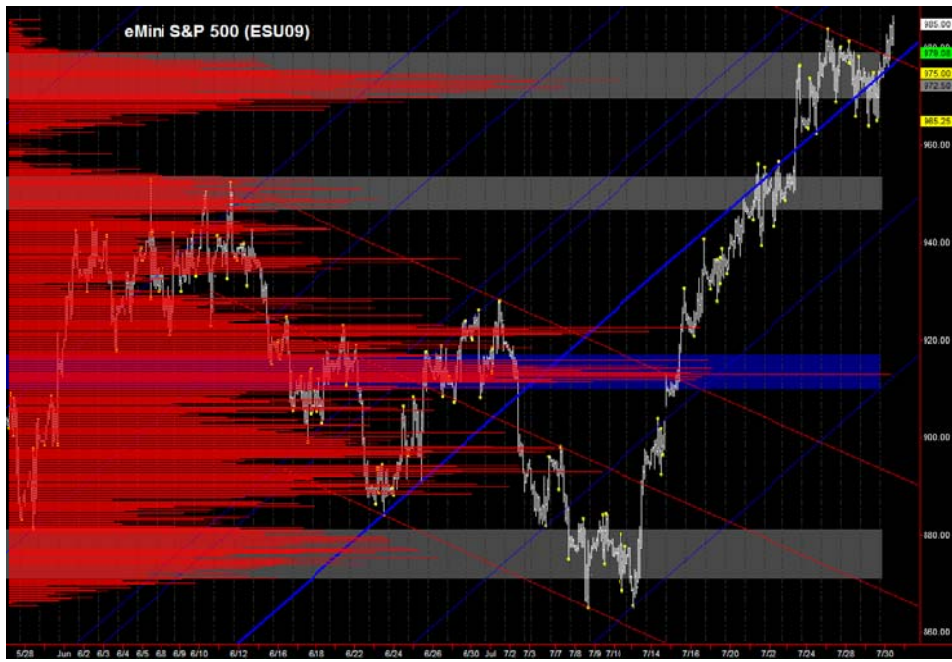
Major Market Movers
GDP at 8:30 am

Minor Market Movers
Employment Cost Index at 8:30 am
Chicago PMI at 9:45 am

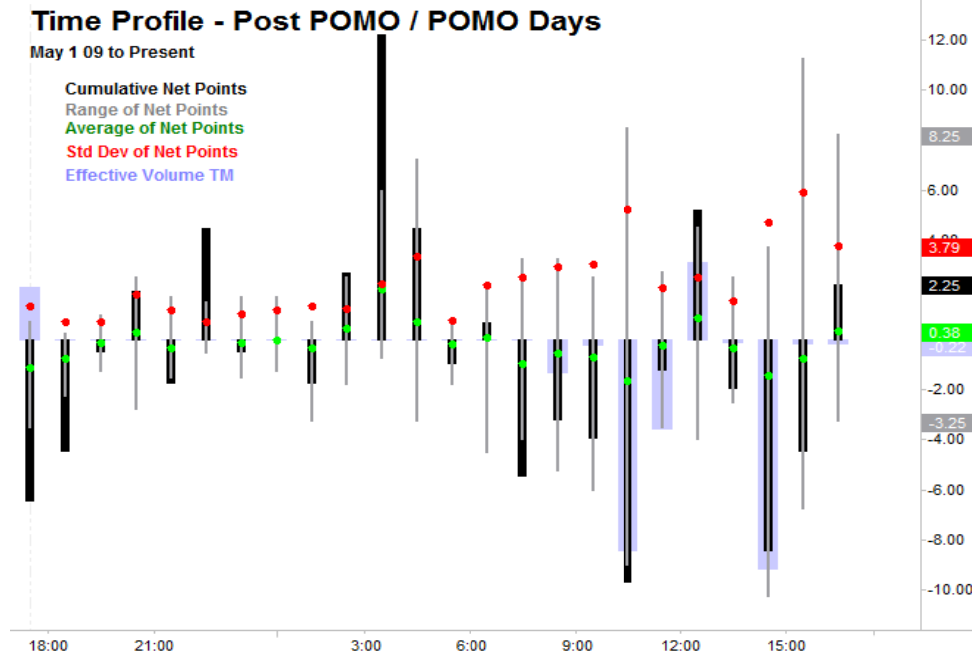
Free intraday updates at <http://www.precisioncapmgt.com>.

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Volume Profile:



Time Profile for Today:

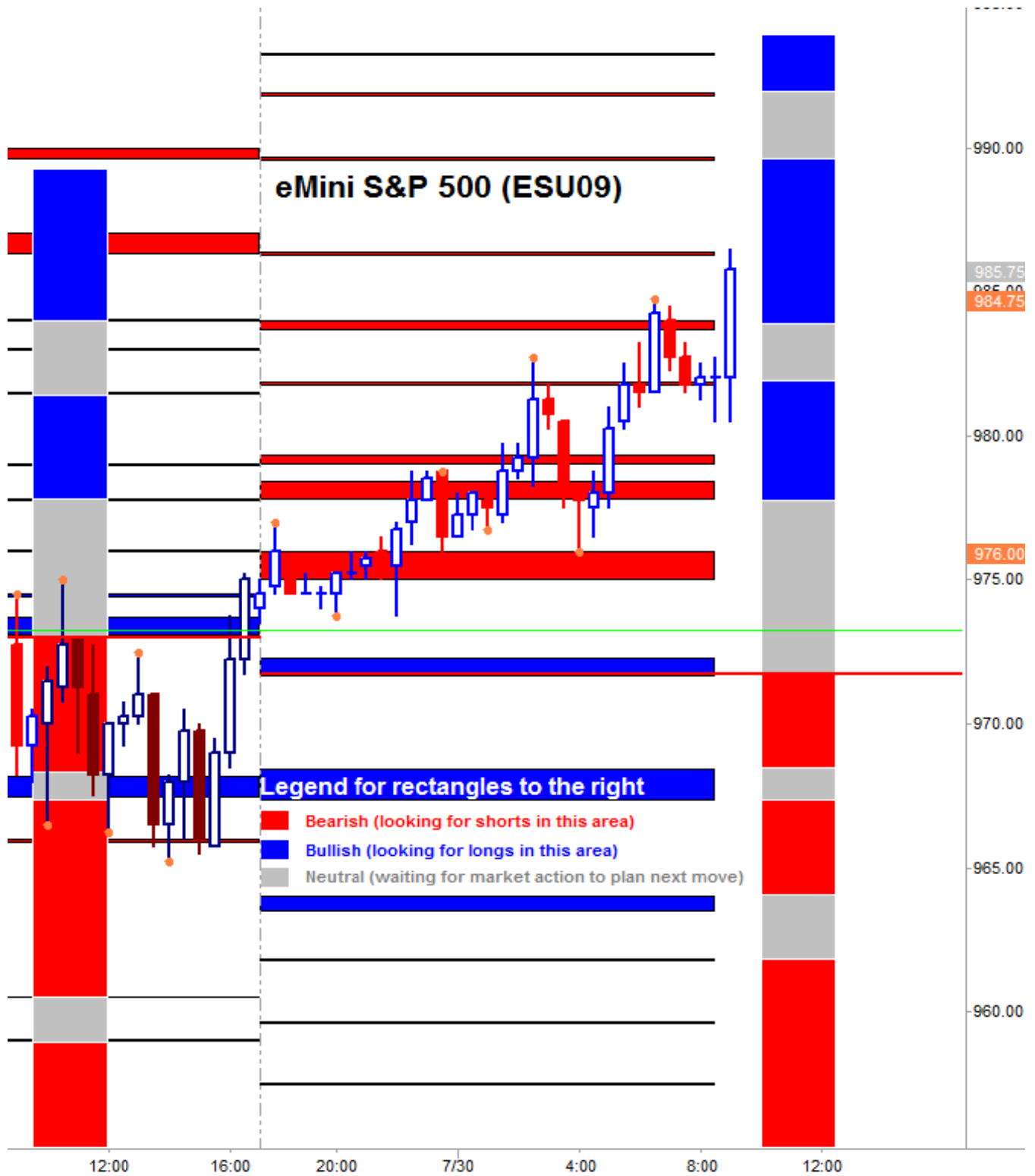


* Thanks to Thanassis Stathopoulos and Billy O'Nair for the POMO effect discovery and development of trading edges. Thanks to Pascal Willain for the development of Effective Volume TM and hosting the Value in Time Group.

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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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