**GARTMAN – MARKET IDIOMS FOR CHANGES IN FINANCIAL MARKETS**

**[September 2011]**

**TO ADVANCE**

This chart shows a market that advances, then consolidates quite perfectly; then it advances again; then consolidates again; then advances once more.

GOLD IN STERLING TERMS: This is a very pleasant chart to follow for it tells a complete story of advancement, then consolidation, then advancement again and then consolidation once more.

**TO FIRM / BE FIRMER**

COMMODITY PRICES ARE FIRMER, ALTHOUGH NOT MATERIALLY SO and they are despite a quietly stronger US dollar. [08-09-2011]

Whoever it was that sold tens of thousands of contracts of gold earlier this week on the COMEX has not come forward yet, but that is now unimportant; what is important is that prices are firming; that the upward sloping trend has held; that gold in non-Us dollar terms is strong and that we are to add to our positions in gold, this time buying it in Yen terms, upon receipt of this commentary. [08-09-2011]

COMMODITY PRICES ARE TENDING TOWARD WEAKNESS but the operative word here is “tending,” for there is no great drive toward weakness and indeed some markets are showing very real signs of holding firm and trying actually to rally.

**STRONG / BE STRONGER / STRENGTHEN**

“DOLLARS” AGAIN ARE STRONGER THAN NON-DOLLARS as money at the edges of the world seems quietly to be heading to the US, or to Canada, or to Australia or to New Zealand as the world looks to tonight’s speech by the President on jobs and fiscal stimulus.

The new Japanese administration is of course sending its delegation to the meeting, and Mr. Noda and his Finance Minister we are certain will be pressing their opposition to the “too-strong Yen” which they will argue is doing severe damage to the economy and which must allowed to weaken…

Nonetheless capital flowed to Japan as a “haven” and now that Switzerland has effectively taken itself off of that shelf, it leaves Japan all the more “vulnerable” to a too strong currency.

Perhaps most interesting is the movement into non-US dollars, and especially into the “antipodeans”… Australia and New Zealand… who continue to strengthen on their geographic superiority in the modern “Asian” driven world… with more on that as time shall allow

**JUMP**

We have even defended the Fed’s QE’s I and II as having been necessary to jump-start an obviously moribund economy

Finally, the economic news yesterday was of weakness rather than strength, led off by the rather disconcertingly large jump in weekly jobless claims from the previous week’s 417 thousand to this week’s 428.

When the James Carville’s of the world jump ship, your ship is sinking.

**LEAP**

European banking shares leaped higher… violently and very swiftly… carrying the world equity markets higher with them.

Ah, but it is the billionaire status that is a bit more difficult, for we always seem to fail to understand that it takes 1000 million to make a billion. The decimal point has to take a huge leap to move from millions to billions.

**RECOVER**

Perhaps the old rules will eventually assert themselves, and perhaps then the economy shall begin to turn for the better, for until these old rules are re-established we fear that the economy cannot return to strong circumstances. But perhaps this is a permanent shift from which we may never recover.

**REVIVE**

Yes, perhaps mortgage rates may drop, but will mortgage rates down another 10-25 basis points really revive housing? Somehow we think not. Or shall lower rates at the long end of the curve really push corporate America to extend the maturities of its debt obligations?

**RALLY**

“But it will be even more interesting if prices weaken first and then rally. That would really have our interest. Wheat prices have fallen nearly $1.25-$1.50/bushel over the course of the past three weeks. They are now severely oversold and due for at least a technical rally. If they should be able to shrug off the bearish effect of the rain and move higher, it will have our attention, for as always, any market that does not respond bearishly to bearish news should at least no longer be considered bearish and may, in fact, be considered somewhat bullish.If wheat prices are able to rally, with the exception of the unwinding of long corn or long soybean/short wheat trades having some effect, the ultimate effect should be supportive of grain prices generally. At any rate, barring any other news regarding the grains over the weekend, rain in Texas/Oklahoma/Kansas predominates. Well it should.”

The inability to rally materially from yesterday’s lows suggests to us that further weakness lies immediately ahead, and likely following disappointment that the Fed shall take no material action at the end of its meeting tomorrow

Thus, the news of the “levered” nature of the ESFS has put a small, modest bid into the EUR, while the discussions of easier monetary policies and lower rates have tended to keep the EUR from rallying to smartly. But when that relief rally has run its course, the trend shall reassert itself, if not swiftly, then eventually and probably quite certainly. Europe’s problems have not been solved with the expansion of the ECB’s and the ESFS’s balance sheet; they’ve simply been papered over and “papering” is always and everywhere a temporary… a stop-gap… measure.

**DECLINE**

Helping to make Japan’s case is economic news from there today showing that core machinery orders, a leading indicator for corporate capital spending and a number we’ve watched closely over the years, fell 8.2% in July from the previous month. Tokyo had been looking for a decline of half that sum

Finally, the economic news yesterday was of weakness rather than strength, led off by the rather disconcertingly large jump in weekly jobless claims from the previous week’s 417 thousand to this week’s 428. The Street had been hoping for a modest decline and instead got a rather heading bump upward. Strike one!

**WEAKEN**

The new Japanese administration is of course sending its delegation to the meeting, and Mr. Noda and his Finance Minister we are certain will be pressing their opposition to the “too-strong Yen” which they will argue is doing severe damage to the economy and which must allowed to weaken… and indeed must needs be forced to do so if at all possible.

We thought he was waiting for the market to take the CHf to levels that were stunning wrong and could not be maintained for long, and for the market to then begin to weaken the Franc on its own before joining the fray and to sell the Franc with the trading wind at his back. We were wrong.

In our view there is no “seems” about it: QE III is indeed off the table unless unemployment rises past 9 ½% and/or there are other very clear signs of material new weakening of the US economy.

But it will be even more interesting if prices weaken first and then rally. That would really have our interest

CRUDE OIL AND NAT-GAS PRICES ARE WEAKEN, with the former materially so and with the latter seemingly endlessly so.

Energy prices began to weaken even before the Fed’s announcement and the fact that prices were weakening on what should have been decidedly bullish news cannot be taken any way other than bearishly for ‘tis an old rule but a trusty one that a market that will not respond to bullish news is not bullish

SHARE PRICES HAVE CONTINUED TO WEAKEN as measured by our Int’l Index, which has lost another 37 “points” or 0.5% since Friday’s last marking here. This puts our Index down a truly stunning 18.9% for the year-to-date.

**SLIP**

That said, Brent’s already massive backwardation continues to become even more massive, while WTI’s once enormous contango has all but slipped away and seems headed toward backwardation also.

**BE UNDER PRESSURE**

We shall argue here this morning that although gold remains in a long term bull market…and most notably does gold in non-US dollar terms… gold in dollar terms can be and likely shall be under very real and very noticeable pressure as margin calls shall be going out in the equity markets and gold may prove to be the only source of liquidity

ENERGY PRICES ARE, LIKE SO MANY OTHER COMMODITIES, UNDER VERY REAL PRESSURE and barring some truly unforeseen changes in the environment today they shall remain so today for as go equity prices, so goes energy and as go energy prices so goes equity.

The talk is more and more of a “Domino Effect” if and when Greece defaults, for when it does the pressure shall be upon the other PIIGS to follow suit.

COMMODITY PRICES EVERYWHERE ARE IN RETREAT as the US dollar is strong and as signs continue to accumulate that the global economy is clearly no longer moving manifestly upward but is slowing apace. That is putting downward pressure upon the base metals and food stuffs such as sugar and cocoa, but it has put enormous pressure upon the gold and especially upon the “precious/industrial” metals such as silver, platinum and palladium.

Gold came under considerable pressure yesterday as the dollar strengthened, But gold sold down also under the pressure of weak grain prices; under the pressure of very weak energy prices; under the pressure of weak “softs” prices; under the pressure of weak base metals prices… and especially under the pressure of a stronger US dollar and weak equities prices all around the world. We’ve no doubt but that the margin clerks were in with sharp and sharpened pencils, looking to the gold market for liquidity.

“This then brings us to gold and gold is under pressure this morning, once again pressed downward by the margin clerks of the world whose pencils are sharpened uncommonly this morning. With equity prices under pressure everywhere, the margin clerks will be on the watch for liquidity where and when it can be found, and liquidity can most often be found in gold. Further, the pressure being exerted upon several large hedge funds in New York and London that are still aggressively long of equities and long of gold is now growing more and more serious and we fear that panic Is about to set in… on the part of the mangers themselves and on the part of the margin clerks in their broking and clearing firms.

There is some modest support for gold at $1770 in US dollar terms, but we fear that that support may be fleeting today, and we fear very real selling pressure that shall increase should $1765 be “given” during the session. As Sgt.Esterhaus used to say to his men before he released them into the Hill Street precinct, “Be careful out there.”

Regarding the grains, they are under pressure like all other commodities, and even the fundamentally tight situation in corn cannot withstand the pressures from outside the market being brought to bear inside.”

Hedge funds… those that are hedge funds in name only for few if any have any sorts of hedges on at all… are caught wholly off-sides and the pressures upon them are growing more and more severe with each passing hour.

The chart at the upper left of p.1 above tells a very clear technical story, and although we were obviously quite nervous as the upper boundary of The Box was assaulted and seemingly broken during the trading session as pressures were building on the commodity currencies, by the day’s end we were content to sit tight with this trade

**LOWER**

The classical “Edwards and Magee” technicians would seem the recent chart pattern evolving in the S&P futures as a consolidation patter… a “rectangle” consolidation and one that usually resolves itself in the direction prevailing before the consolidation pattern evolved. In this case it means lower prices rather than higher lie ahead and our propensity on the rally is to be a seller rather than a buyer.

SHARE PRICES ARE MARGINALLY LOWER, led downward by the weakness in the US stock market, but the movements have been modest and the change in our Int’l Index has been only 17 “points” or 0.2%, with the investment world seeming to be rather weary.

Can spot gold make its way down to $1800 today? Certainly it can and likely it will. Can it move lower than that? Quite probably, but that shall depend upon how weak stock prices are and shall be.

Thus, if the S&P points to manifestly lower prices ahead, then so too the charts of the NASDAQ, the NYSE, the Dow et al. Pleasant light reading this is not:

Short of One unit of the S&P: We sold the S&P short yesterday… Thursday, Sep. 15th… at 1185 and our stop remains at 1215, which we hope we shall move rather swiftly lower in a day or two

**INCREASE**

Further, year-on-year, machinery orders rose 4.0% in June, but this too was half of what had been expected for “The Street” there in Tokyo had been expecting an increase somewhere between 8.2-8.7%.

“Firstly, we need to remember that a week ago the DOE reported a huge increase in crude inventories of 5.5 million barrels and that despite that increase in crude inventories crude has risen sharply since. With that stage set, we note that the five year averages for this date are: That makes for an average, aggregated increase of 1.86 million barrels.”

And further, we’ll have Industrial Production for August, which last month showed an increase of 0.9% and which this month is expected to show a very, very slight increase… on the order of 0.1%.

Um, well, it’s a right to work state. I know that [and] we are also aware that the oil industry has done very well in this recession and those jobs continue to increase and that’s another area that continues to grow during this recession.

There is some modest support for gold at $1770 in US dollar terms, but we fear that that support may be fleeting today, and we fear very real selling pressure that shall increase should $1765 be “given” during the session.

**DECREASE**

NONE!

**CRASH**

What concerns us is that the manner in which Europe seems to be dealing with this “crisis” is all to much like the manner in which the US dealt with the aftermath of the stock market crash of ’29 when our Treasury Sec’y demanded that taxes be raised and that bank capital also be raised, the most deflationary policies that one might imagine.

India has been and shall be the largest buyer of physical gold and the Indian buyers always view crashes in prices as an opportunity to buy.

**SINK**

A short while ago, despite our clear antipathy toward this President’s archly leftward lean, we said that his political savvy and great speaking presence would carry the day and allow him to be re-elected… a circumstance we feared and one we hoped we’d be wrong on, but a circumstance nonetheless that we thought likely. Now, past supporters are leaving this ship in droves. When the James Carville’s of the world jump ship, your ship is sinking.

**FALL**

On the centre-right, the Christian Democrats won 28.2% of the votes cast and the Free Democrats… the most ardently free market, pro-capitalist of the political parties in German… won but 1.8% of the votes cast, falling below the mandatory 5% needed to win any seats in the local government.

If it is not the Finns demanding proper collateralization of any loans it shall make to Greece, then it is the German Finance Minister, Mr. Schauble, saying that the propensity on the part of German tax payers to support the use of their tax money to support Greece/Spain/Portugal/Italy et al is low and falling.

The EUR is falling relative to any and all other currencies this morning, save of course relative to the Swiss franc where the “peg” was put into effect last week as a last resort by the beleaguered and monetarily defeated Swiss National Bank.

COMMODITY PRICES ARE UNDER ASSAULT and even gold prices are falling under the weight of collapsing equity prices.

SHARE PRICES ARE COLLAPSING EVERYWHERE as nine of the nine markets that have been opened since Friday when last we marked them here to market have all fallen by more than 1% and many have fallen 3% or more.

The consensus going into today’s DOE inventory then is for crude inventories to fall; for gasoline inventories to fall also and for distillates to rise.

SHARE PRICES, AS MEASURED BY OUR INT’L INDEX HAVE RISEN MODESTLY, but we shall attribute that strength to the “Turnaround Tuesday” tendency in the markets of late; that is, if markets are falling late in the previous week and early on Monday, the tendency is for Tuesday to have been an up day; conversely, if the markets had been strong late in the previous week and again on Monday, the Tuesdays have tended to be weak. The markets were weak last week and were weak again Monday, so yesterday… Tuesday… was correction day; or “Turnaround Tuesday.” That means that today shall be a weak session and certainly it is starting out that way as the US stock index futures are down sharply; as Asian stocks were down sharply and as the early indications in Europe are for a very weak opening there too.

COMMODITY PRICES HAVE FALLEN A BIT, and perhaps we can blame that upon the quietly stronger US dollar if we must blame that generic, general weakness upon anything.

We are far more interested in the University of Michigan’s Consumer Sentiment Index which is for September and which we note has been falling steadily since having made its high in February at 77.

Raising taxes on everyone has to be philosophically difficult for Mr. Papandreou, a staunch socialist, for he prefers raising taxes on Greece’s wealthy; but the number of Greek millionaires is falling by the day as their wealth has collapsed and/or as they’ve left for less onerous political and taxable jurisdictions.

**PLUNGE**

Those holding gold in US dollar terms may be in trouble and that trouble is going to become worse, not better, if the equity markets plunge further.There will be the long term, gold bugs who will argue that gold will prove valuable and will hold its value even as stock prices plunge, and in the long run they may well be right.

Gold shares having correctly spurned yesterday’s gold plunge were in celebratory form today. The HUI and XAU peaked with gold up 4.53% and 3.76%, did not participate in the US market’s late slump and closed up 3.13% and 2.13% - impressively accentuating gold. The Junior golds were a little hesitant, however, at least according to the GDX/GDXJ ratio of 3.39%/2.08%.

The EUR’s trend still seems to us to be clearly defined as downward and has been so since the EUR plunged through its 200 day moving average more than a month ago and when its 100 day moving average began to turn lower a few trading days previous. It shall be possible…

**DROP**

SHARE PRICES HAVE VIRTUALLY COLLAPSED with our International Index having fallen 206 points for the largest single one day drop on record, falling 2.85% and with every one of the ten markets that comprise our Index having fallen more than 1% and with the Hang Seng in Hong Kong having fallen 4.3%.

The government there today reported that the number of people employed fell by 9,700, after a revised 4,100 drop in July. This nearly 10K drop compares with the consensus “guess-timate” of an increase of 10,000 instead. This increase in the number of jobless Australians sent the unemployment rate to 5.3% and that the market finds disconcerting.

**BEAT**

This has served us well over the past three months, for during that period of time the Dow is down just a bit more than 10% while our ETF’s net asset value has held perfectly steady, and although one cannot “eat” out-performance, it beats under-performing

**TUMBLE**

Where then can gold in US dollar terms tumble to? Can spot gold make its way down to $1800 today? Certainly it can and likely it will. Can it move lower than that?

By the mid-80’s that had risen to just over 30%, but at that point, with German unification, the problems in Russia and recessions, for a few years that percentage tumbled, falling back to the low 20s’ before turning higher.

**STEADY**

This has served us well over the past three months, for during that period of time the Dow is down just a bit more than 10% while our ETF’s net asset value has held perfectly steady, and although one cannot “eat” out-performance, it beats under-performing:

This ratio held steady… or rather reasonably so… at or nearly 8.5:1 for a very long while. That is, for every $1 of the adjusted monetary base, $8.5 of M2 was created. It was a ratio one could count upon. It held steady through monetary thick and economic thin

The members of the NAHM are polled and are asked to asset market conditions for the sale of new homes in their geographic areas presently and for the next six months. Last month the index came in at 15 and the consensus is that it held steady at the same level this month. It was 15 also in July, but was 13 in June

That, at least, is the conclusion we draw from the data regarding German exports as a percentage of GDP, which has been rising at a very steady and very heady pace for the past fifty years, and has been rising especially so since the early 90’s when the monetary union was taking shape

**STABLE / UNSTABLE**

This is all well and good, but the real focus of the meeting shall be the US pressing Europe on the problems there, asking what Europe’s leaders intend to do to stabilise the increasingly unstable situation there.

A serious inflation will be created as billions upon billions upon further billions of once stable, save haven francs are created at whim to fight Hildebrand’s personal fight.

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The Fed knows that it serves its constituents best when it keeps monetary policy as stable as possible for as extended periods of time as possible AND does so with the curve remaining positively sloped for it is from the process of borrowing short and lending long that the real profits of banking are derived.

The base metals are weak; the “softs” such as sugar and cocoa are weak; the grains are stable, at best.