



The Gartman Letter

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PHELPS DODGE: The gap to the downside is now eight days old... and getting older!



OCTOBER WTI CRUDE OIL; What Can One Say Other Than Wow!?:

The margin clerks at the NYMerc are now in control and panic set in yesterday. It will stop when it stops; what more can one say?

nature. Rather we look for the Committee to say that it has chosen to stand pat; to watch further developments in the US economy, and perhaps to pay particular attention to housing. Otherwise, we look for nothing of consequence.

WE GOT HOME: OUR COMPUTER SYSTEM WAS DEAD: We returned last evening from NY, only to find that our computer system in our office was down. We've written what we could, covering what we could... and we apologise!

We are all the more impressed with the fact that the data released yesterday here in the US should have been overtly bearish of the dollar, for inflationary pressures have abated in light of the producer prices for August having risen only

0.1%, while the core rate (to which we pay absolutely no attention whatsoever, for we know of no one who lives in a world of "core" inflation as figured by the authorities) fell 0.4%. Initially upon that report, the dollar fell. It regained its composure and has strengthened since, in what we consider to be impressive fashion.

Turning our attention to Europe generally, and Germany in particular, we note that the ZEW index for September came in at -22.2. This was surprisingly low, and far lower than had been expected, for the consensus was for it to have come in somewhere on the order of -8.0. August's ZEW, as our clients around the world shall remember, came in at -5.6. September's number was the lowest since the later winter '99-'99. The only mitigation from this report is that the ZEW is a view on the economy by economic cognoscenti; it is not a view from the public's perspective.

OVERNIGHT NEWS:

THE US DOLLAR IS STABLE ON THE FOREX MARKET THIS MORNING, ahead of the FOMC meeting that almost certainly is going to end with the Committee moving to do nothing. We do not even expect the post-meeting communiqué to be material in



THE NASDAQ: It's Only September, But It's "Boxing Day" Anyway!:

The NASDAQ has had a rather remarkable rally since mid-July, taking the index back "into the Box" that marks the 50-62% retracement of the break that began back in early April. Further, the MACD technical indicator has reached over-bought levels not seen since last November. And perhaps most importantly of all, the break that ended in early July took prices to a lower low, and the rally is now apparently ending at a lower high. Bit by piece the bull market is ending; bit by piece, the bear market is beginning.

Of further concern was that the Euro-land ZEW was also rather disturbingly "bearish" of the economy there. This figure came in at -10.2, whilst the consensus pre-report was for something closer to -4. August's Euroland ZEW report was +1.3. Clearly things are deteriorating in Europe; the only question is by how much and how swiftly. For the moment, it appears by a rather

material amount and rather more swiftly than we had feared:

Mkt	09/20 09/19		US\$Change	
	Current	Prev		
¥	117.20	117.70	- .50	Yen
Euro	1.2680	1.2665	- .15	Cents
SFr	1.2510	1.2550	- .40	Centimes
£	1.8830	1.8810	- .20	Dollars
C \$	1.1275	1.1190	+ .85	Cents
A \$.7535	.7545	+ .10	Cents
NZ\$.6645	.6660	+ .15	Cents
Peso	10.900	10.900	unch	Centavos
Braz RI	2.1500	2.1485	+ .15	Centavos
Ruble	26.78	26.80	- .02	Rubles
Yuan	7.9280	7.9325	- .45	Renminbi

Prices "marked" at 10:30 GMT

COMMODITIES PRICES ARE AGAIN UNDER VERY SEVERE PRESSURE,

as the "bounce" yesterday proved to be exactly that: a bounce and nothing more. This is the deadest of dead cats, with the markets under the control now of the margin clerks around the world. The movements for the month-to-date are really quite extraordinary, with the DJ-AIG Index now down 7.8% while the far more energy sensitive Goldman Sachs' Index is down 11.2%.

The wheat and corn markets have shown the only real propensity to fight off the overwhelming bearishness that now pervades. The report Australia's ABARE yesterday estimating that the wheat crop there could be down 35% from last year was sufficient to ignite a rather violent rally in wheat. ABARE now has the Aussie wheat crop for this year at 16.4 million metric tonnes, down from 25.1 million a year ago, and well below the USDA's most recent "guess-timate" of 19.5 million metric tonnes.

For the record, we suggested months ago that before the current wheat bull run is finished, we expected nearby KC Hard Red Winter wheat to trade at or very near premium to nearby CBOT soybeans. When we made those comments nearly a year ago, that seems preposterous, for at the time nearby "beans" were approximately \$3.75 premium to nearby KC wheat. Now that spread has narrowed to only \$.65. Parity seems not so unbelievable now?!!:

	09/20	09/19		
Gold	575.10	582.00	- 6.90	
Silver	10.75	11.07	- .32	
Palladium	304.00	310.00	- 6.00	
Platinum	1122.0	1153.0	- 31.00	
Gld/Sivr Ratio	53.49	53.05	+ .44	
DJ-AIG Comm Index	157.62	159.30	- 1.1%	
Reuters/Jefferies CRB	303.00	308.15	- 1.7%	
SPCI-G Index	5055.9	5110.7	- 1.1%	
Goldman Sachs Index	5863.8	5930.3	- 1.9%	

ENERGY PRICES HAVE GONE INTO FREE FALL,

with crude oil plunging massively yesterday ahead of today's inventory figures and as the news regarding Amaranth Advisor's problems becomes

more and more serious. As we are fond of saying when such problems arise, "There is never one cockroach." Amaranth's problems are almost certainly not to be particular only to them. Without divulging who the fund's prime broker is, we can only say that we wonder who was at the helm of the broking firm handling this "idiot's" trading positions. Where were the "grown ups" when this fund's equity was rising and falling several billions of dollar's on a monthly basis? A \$9 billion fund should see its equity move perhaps 3-4% at its most violent on a month-to-month basis... and we are giving here the great benefit of the doubt, for 3-4% would be unacceptable in all honesty; instead, this fund's equity was rising or falling 10+% on a regular basis. Billions flowed in, and billions flowed out.... regularly. This was a disaster waiting to happen. Finally it did.

Amidst that "noise" on the floor of the New York Mercantile Exchange, panic becomes fact. We are in the panic stage of the energy market's liquidation, and we've no idea how far down down can be. It will stop when it stops, and hazarding a guess at this point is useless.

Amidst that noise, we note also that the Saudi Oil Minister, Mr. Al-Naimi, gave crude oil a very sound caning when he said, while attending a conference on clean fuel development, that although energy prices had fallen in recent weeks, prices were still

lucrative for producers and consumers...and there was no need for intervention....Oil prices are still at a satisfactory level. They can even be considered as high...The current oil price is lucrative for consumers, producers and oil companies.

If Saudi Arabia believes that oil prices are high, who are we to argue?:

Oct WTI	down	305	61.05-10
Nov WTI	down	320	61.55-60
Dec WTI	down	311	62.63-68
Jan WTI	down	307	63.56-61
OPEC's Crude Basket (09/18)			\$58.67
Henry Hub Nat Gas			\$5.02/MMBtu

SHARE PRICES ARE WEAK,

and although the change in the TGL Int'l Index seems rather modest, we find it more than passing strange that all ten of the markets that comprise our index are lower. It is rare indeed when this happens, and when it does it usually signals either the beginning, or more often then end, of a major move. In the past, after a sustained period of strength in the global equity market, the end is signalled when panic buying occurs and all then of the individual markets have closed higher. Or in the past, after a period of sustained weakness, the end to the bear run is signalled when all ten of the individual markets have closed lower amidst panic liquidation.

However, and it is rare when it happens, changes in the

global market direction is signalled when after a period of sustained weakness all the of the individual markets close higher, or rarer still, the end of a rally is signalled when all ten closed down. This then has the look of the latter.

We draw our clients' collective attention then to what we have written below in our section on the General Comments on The Capital Markets, for we have noted comments from our friend and fellow Virginian, Paul Macrae Montgomery. Paul is a genuine "watcher" of all things market related. He is a student of market history, and a student of market psychology. It was Paul who began the discussion of the relationship between the broad media and market psychology. He noted, after much scholarship, the relationship between magazine front covers and market turning points. He wrote about the propensity for stocks to make their highs when skyscrapers are erected, or to top out when named stadia are built. When Paul writes, we read with earnestness. Paul has written, and we are sharing what he's written with our clients this morning. It is worth everyone's time:

Dow Indus	down	14	US\$	11,541
CanSP/TSX	down	62	C\$	11,702
FTSE	down	58	Stlg	5,832
CAC	down	32	EUR	5,115
DAX	down	53	EUR	5,873
Nikkei	down	155	Yen	15,719
HKong	down	36	HK\$	17,358
Aus SP/ASX	down	58	A\$	4,999
Taiwan	down	4	NT\$	6,878
NZ SX50	down	32	NZ\$	3,518
TGL INDEX	down	36	- 0.2%	7,438

ON THE POLITICAL FRONT much is being made of the fact that CNN reported yesterday that senior members of the US Navy and the Pentagon were making plans for a blockade of Iran. CNN's reporters (with the exception of Miles O'Brien) tried to make it seem as if this was breaking news and that it indicates that the US is preparing for an immediate blockade. Such nonsense! The Pentagon plans for all contingencies. It has scenarios written and in effect for perhaps as many possible global problems as one can imagine. Certainly we hope that that is true. Certainly we hope that the US leadership has plans in effect for possible war in Indonesia... in west Africa... in Europe... in India... and for a blockade of Iran. To think otherwise would be naive. Shame upon CNN for making this seem as if a blockade was imminent.

Regarding Thailand, the coup d'etat is finalised, and we fear that Thailand has returned to the rather lawless period of the past when the military ruled and when democracy did not exist. Moving against the democratically elected government when Prime Minister Thaksin was in New York to attend the opening of the U.N. General Assembly, Gen. Sondhi Boonyaratkalin sent those troops loyal to him into

the streets of Bangkok yesterday, surrounded the Prime Minister's offices and seized power... apparently with the acquiescence of the King. The military ringed Thaksin's offices, seized control of television stations and declared a provisional authority loyal to the king.

General Sondhi is Muslim; Thailand is predominately Buddhist. Infact, according to the latest statistics, Thailand is 95% Buddhist, with only 4% of the population Muslim. Sondhi was put into his position of leadership earlier this year when it was thought that he might better deal with the growing Muslim separatist movement in Thailand's south. Now, instead, Gen. Sondhi has assumed power. Prime Minister Thaksin was supposed to have spoken to the UN General Assembly later today, but his appearance obviously has been cancelled. He is rumoured to be returning to Thailand; however, we have our doubts as to the wisdom of that decision.

Further, regarding Thailand, we are told that the troops there are split between those very loyal to the Royal Family and those loyal to Gen. Sondhi. For the moment at least, Sondhi has the support of the King, or at least the King has thus far acquiesced. It shall be interesting to see what happens in the coming days as to how these loyalties play out.

Finally, we listened to the debate between Senator George Allen and Mr. Webb on C-Span. We chose not to watch; we chose instead simply to listen, for it was on the television in the other room. Rather than watch, we listened. George Allen lost the debate... badly. We have been long time supporters of Sen. Allen; we have hosted him at our home. We like George Allen, but he is now inordinately vulnerable in his bid for the Senate seat from our beloved Commonwealth of Virginia. Even if he wins the senate seat again (which we think is now in doubt), his Presidential possibilities are gone... utterly and completely. Fame is fleeting. Presidential aspirations are even more so. Now the Republicans are forced to look hard for an ex-Governor who can lead the ticket in two years.

GENERAL COMMENTS ON THE CAPITAL MARKETS

WHEN PAUL MONTGOMERY SPEAKS: Paul Macrae Montgomery is a fellow Virginian... so much so that his sons are named after great heroes of the Civil War, and his daughter is a fine southern lady. Paul is a student... a great student... of history, and when he writes about major potential turning points of the global equity, debt or currency markets, we pay heed. We've learned that to not do so is always to our detriment.

Thus, we found it very worth of note that Paul sent us a note late last week entitled:

The Day That Shall Live in Infamy.

With a title such as that, how can one not pay attention? He was not talking about the Japanese attack upon Pearl Harbour, but was instead talking about the several days between September 21st - 23rd that seem to mark so many turning points in so many different markets. We are repeating here what Paul sent to us. It is worthy of everyone's time and attention... It is very so!

The legendary trader W.D. Gann reportedly claimed that capital and commodity markets tend to top on or around September 22nd more often than any other day of the year. There is no apparently economic logic behind this reported observation... but... in as much as September 22nd happens to be the usual date of the Autumnal Equinox.... Initially, we never too such notions seriously. This was despite the authority of W.D. Gann, and even despite research from the Department of Neuroanatomy at Yale Medical School, which discovered that the human nervous system typically undergoes measurable perturbations during the late September time period.

However,... we have experienced first hand the October Massacre of 1978; the October Massacre of 1987; the October "Crashette" of 1989; the 1997 Asian collapse; the 1998 Long Term Capital sell-off, etc. And remember the Great Gold Boom of the 1970's. While bullion peaked on January 21, 1980, the Gold and silver stocks made their all time bull market highs on September 22, 1980. This day also say the major peak in many oil stocks, which were enjoying a parallel bull market at the time. Also prior to the Great Crash of 1929, the last stock market index to make its then all time peak, the Dow Jones Utility Index, did so on September 21, 1929. Even as far back as 1873, such absolute panic struck, that the NYSE voted, on September 21st to temporarily close its doors.

On rare occasions, market bottom on the Autumnal Equinox. Soybeans made a major bottom on September 21st, 1984; and more recently, the market low after the infamous terrorists' attack on our country occurred on September 22, 2001....

Besides stock market moves, numerous currency market moves also have keyed off of this date. On September 21, 1931, for example, the British Pound sterling was devalued 28% overnight-- from \$4.84 to \$3.50. Also the now famous Plaza Accord of September 21st, 1985, which started a dramatic run in currencies, occurred on the... 54th anniversary of Britain's leaving the gold standard... And finally, recall that the historic "Gould-Fiske Gold Corner Panic" also peaked exactly on September 21st-- the year was 1869.

We have never been ones for seasonals. We have always found the fellows like Arch Crawford and the like to be charlatans. We are not astrologers... BUT, we find it fascinating that the period surrounding late September (when Rod Stewart tells us that "we really should be back at school") has proven to be so important so many times in the past. Perhaps it is merely coincidence. Perhaps we are utterly wrong. But when our friend Paul tells us that this date and his cycle work are now coinciding, we pay heed.

It is not without further note that yesterday was the coup in Thailand, and we are now beginning to see the after effects of the end game of Amaranth Advisors. Perhaps it is mere coincidence, but we are not taking any chances. We fear the possibility of coming into the market one of these next several days and seeing stocks open 4, 5 or 6 per cent lower, catching everyone off guard and opening cracks in the structure of the global capital markets. Forewarned is forearmed; puts bought are weaponry in our favour.

RECOMMENDATIONS:

1. Long of Four Units of Gold/short of Four Units of Crude oil: We sit tight as the ratio "trades" 9.4:1, the highest level to which the ratio has risen in the past several years. The ratio has built a "base" between 7.5 - 9.0 and now has broken out to the upside. We added to the position two weeks ago, but we'll not add to it again until the ratio moves upward through 9.5:1... or even perhaps 10:1, but our confidence in this trade is growing by the day.

2. Long of Two Units of Gold: Three weeks ago we liquidated half of our position in gold as \$627 was "given," and these remaining units are an "insurance" hedge against political chaos. It is hard to believe how far away \$627/oz now seems!

3. Long Two Units of Energy: For the past several weeks we've been long of Pengrowth (PGH), Provident Energy Trust (PVX) and San Juan Basin (SJT) and have earned nice dividends along the way, but clearly those dividends (which we shall be paid again soon) have not covered the weakness in the shares, which have fallen as the energy market has collapsed. The highs of a month ago shall likely be the highs for a while, but we've earned those dividends and soon shall earn another month's... and now we suspect Amarantha's effects weighed heavily also.

4. Short of WTI crude Carrying charge: We sold the July'07/Oct'07 WTI contango, as they traded near parity several weeks ago. The contango has widened consistently since then and is now trading October +58 over July.

5. Short of Two Units of the EUR: As a "punt," we sold the EUR last week against the dollar, at or near 1.2700. A day or so later we sold another unit for we are certain that the "world" is short of the US dollar, and we prefer taking the other side of that trade. We have our stop at 1.2760; should the EUR trade upward through 1.2760 for one hour we'll cut the position and move to the sidelines.

NEW TRADE: Given our concerns about equities generally; and given our concerns that Thailand may be but the first of several such coup attempts; and given Paul Macrae Montgomery's warning regarding Sept. 21-23rd, it seems reasonable to buy out of the money puts on various stock indices here in the US. We shall leave the buying to our clients' individual wishes, for we can make the case to own puts on high tech shares; on the broad market generally; upon low tech shares, et al. All we know is that volatility is low, and that it will rise as shares break, giving us perhaps a two fold rise in put prices. It is a reasonable "punt" at this point.... with a high risk/reward ratio worthy of our interest.

Good luck and good trading, Dennis Gartman.