Dennis Gartman Explains His Call on Gold

By Robert Huebscher
December 20, 2011

Dennis Gartman has been publishing his daily commentary, [The Gartman Letter](), since 1987. The Letter addresses political, economic, and technical trends from both long-term and short-term perspectives, and our subscribers include leading banks, brokerage firms, hedge funds, mutual funds, and energy and grain trading firms from around the world. Over the years, he has also conducted numerous presentations and courses on issues relating to the capital markets and derivatives for various brokerage firms, central banks, and U.S. government entities.

I spoke with Gartman on December 18.

You've been in the news lately because of a call you made last week on the price of gold. Can you review what that call was, and the reasons behind your forecast?

First of all I, have been I have been bullish on gold for a long period of time, and primarily bullish in non-dollar terms, in term of euros.

I have not been bullish on gold relentlessly. For years, I've been bullish, very bullish, or neutral, but there have been no times during that period when I have been overly and actively bearish.

Having said that, what did I say earlier this week? I said that it was time to go to the sidelines once again. I was afraid that perhaps a bear market in gold has started. I noticed that we had not made new highs in gold in dollar terms since August. I was most fascinated by the fact that we had stopped making new highs on gold in euro terms over the course of the past several months. And I was very concerned about the fact that the movement in Europe, given the prevailing political and the economic circumstances, was giving way to dangerous economics. Everybody everywhere is becoming more and more austere.

It is now politically correct only to substantively cut spending or to moderately raise taxes. The last time We saw this sort of political and economic singularity was in the mid-1930s when our Secretary of Treasury, Andrew Mellon, took what to me was a substantively weak recession and turned it into a massively weak depression, by trying to balance the budget – slashing spending, liquidating farms, and raising taxes. What is going on in Europe these days is reminiscent of what was going on in the United States in the 1930s.

The gold market was paying attention to the fact that there are deflationary concerns rather than inflationary concerns. Far too many people and too many institutions long on gold. Gold stopped making new highs, and it began to weaken relative to the equity markets.

That was enough to tell me it was time to go to the sidelines. I did. The newspapers and media said “Gartman turns bearish on gold.” No, Gartman simply turned neutral on gold, fearful that several hundred dollars to the downside was likely, and preferring the relative safety of the sidelines to the volatility of being involved in the market.

You mentioned that your forecast was in terms of the euro. What are the implications for a dollar-based investor?

After the turn of the year, the euro will probably weaken rather materially against the US dollar. It has not weakened recently because of repatriation of money that banks in Europe require to meet year-end capital requirements. Billions upon billions of euros have been going back to Europe, despite the confusion that abounds there. After the turn of the year we will probably see the euro get materially weaker.

Just to be clear on your forecast for gold, for a dollar investor then is it also then to stay on the sidelines?

Yes, absolutely. Gold right now is trading at $1,650. I wouldn't be surprised if we see gold in dollar terms in the next three weeks trade down to $1,350 to $1,400. But that is just a guess. I hate putting numbers on things, because if I say it can get to $1,350 or $1,400 and it gets to $1,405, I still look like a fool.

Turning back to the situation in Europe, how do you see the tensions there affecting gold? Specifically, do you see the potential for retail investors in Europe to want to accumulate gold in anticipation of a worsening crisis over the euro?

I would hope that those who wanted to buy in anticipation of a worsening crisis have already done so. I would bet that the dentists of Dresden, the bankers of Brussels, the manufacturers of Milan, the lawyers of Lyon, France – that all of those people would've already bought their gold in anticipation of problems in Europe.

Is this new news about what is happening in Europe? I think not.

What are the key indicators that you look for going forward with respect to gold? Will they be more on the technical side or on the fundamental side?

The fundamentals are still bullish on gold. They haven't changed. Confusion about Europe, expansion of the monetary aggregates, budget deficits – all those things have been with us for a while.

What has changed? The only two things that are important at this point are psychology and the market's technical circumstances. Gold hasn't made a new high since August. It has made progressively lower highs and lower lows since August, and yet the gold bugs are manifestly bullish on gold.

I was particularly interested in seeing that gold did not rally when the Fed increased its swap lines to provide more liquidity to the European banking system. Can you offer any particular explanation for that?

Too many people were already long. That was a very important signal – that should have been bullish news for the gold market, and yet it didn't rally. You had announcements this week that the Chinese were large buyers of gold. That should have been bullish for the gold market. It wasn't bullish. You had lots and lots of news that historically would've sent gold skyrocketing.

Not only did gold not skyrocket, it plunged.

You mentioned China. It seems like recently that China and India as well have been countries that have been the marginal buyers on the gold market.

I wouldn't call them marginal. I would call them enormous.

Okay, that's a better description. To what extent do you factor in a potential weakening in both of those economies in your forecast for gold?

Let's look at China. I'm amused at people who say that the Chinese economy is going to weaken. In China, weakening means instead of growing by 15% you grow by 9% or 8%. Is China's growth going to slow? Of course it will. There's a surplus of housing. They've got elections coming up, which are probably going to slow things up a little bit. You had the monetary authorities, until a month ago, tightening, raising reserve requirements and raising the overnight funding rate. Now they have actually begun to lower reserve requirements. That's the first time in three and a half years, if I'm not mistaken, that they have done that, but heretofore they had been tightening. You need them to ease up dramatically.

What about the political situation in Russia and the continuing problems with Syria and Iran? How does that weigh in your forecast?

The circumstances in Russia don't weigh in at all. I pay almost no attention to Putin and Medvedev. It is fascinating to see Putin's popularity decline, but Russia has proven to be a reasonably democratic country, and its election will come and it will go. Perhaps Mikhael Prokhorov will make a run at the presidency, but when push comes to shove Putin will probably end up winning. I don't pay much attention to that.

What I did pay attention to in the past several days was the massing of troops on the border of Syria and Turkey, which look at each other as enemies. At the same time, they look at each other as allies against the Kurdistan workers party, which is leading a Kurdish separatist movement. Those circumstances bother me, because any time you put large armies with volatile young men in proximity to one another, accidents occur. So I'm watching that situation rather closely.

Internally in Syria, I'm watching that very closely. Assad has killed more people in the last three months than the United States has lost in 10 years in Afghanistan. He's killing is own people indiscriminately and his neighbors are disconcerted by this.

Stepping back, from a broader perspective, do you believe there will be a deep recession in Europe? What do you think the implications will be for commodities in general?

There will be a very steep recession in Europe. Europe is making egregiously bad decisions. There is forced austerity, by cutting spending and programs by 15% to 30% in some of these countries. You just can't do that.

I am amused that I find myself on the same side of an argument with Paul Krugman, because most people accuse me of being, to borrow Lawrence Eagleburger's phrase, somewhat to the right of Genghis Khan. But I'm on Paul Krugman's side on this. They are making a very bad decision. This sort of forced liquidation and forced austerity can't be supportive of economic activity. It has to be materially detrimental to economic activity. So yes, Europe is already in a modest recession that is going to get demonstratively worse.

And the implications for commodities in general?

It's not bullish.