Silver And Gold ETFs Bounce After Epic Meltdown

By Trang Ho

Mon., May 09, 2011 5:33 PM ET

Tags: ETFs - Silver - Gold - Markets

Precious metals ETFs recovered some losses Monday after an avalanche of selling last week triggered by extremely oversold conditions and increased margin requirements in the futures markets. iShares Silver Trust (SLV) jumped 7.25% to 36.98 in heavy volume but didn’t manage to recover its key 10-week moving average. Each share roughly represents an ounce of silver. It cascaded 26.5% last week, booking its largest one-week drop since it started trading five years ago.

SPDR Gold Shares (GLD) climbed 1.4% to 147.38. Each share is worth 1/10th of an ounce of the yellow metal. Despite a sharp 4.6% selloff last week — its largest in two years — it held above its 10-week moving average, which shows the longer term uptrend remains in tact.

"In the medium term, we anticipate prices settling lower, in the $28 to $30 an ounce range as companies producing silver as a by-product of gold or base-metal mining add to downward pressure by selling silver forward to lock in current high-price levels," said Tom Winmill, manager of Midas Fund (MIDSX), which specializes in natural resources.

"Longer term, silver will probably trade at a 10% to 20% premium to its average marginal total cost of production, which is about $15 an ounce, he added. Silver futures rose back above $37 an ounce on Monday.

The selloff in SLV was a normal correction after nearly doubling off its February low and gold still looks bullish, says Victor Sperandeo, a.k.a. Trader Vic, a renowned gold trader. Corrections typically shave off a third to two-thirds of the prior uptrend.

"So nothing has changed and the uptrend continues," Sperandeo said. "Be a buyer into weakness is my strong view."

Weak economic data such as 1.8% Q1 GDP growth and unemployment rising to 9% in April suggest the Fed will have to add more stimulus via a third round of quantitative easing, which will fuel inflation, he added.

Most economists don’t expect a QE3, but don’t see the Fed tightening any time soon, unlike most other major central banks.