Gold Experts Explain Why Bullion, Dollar ETFs Falling Together

By Trang Ho

Fri., Jan. 14, 2011 3:37 PM ET

Tags: ETFs - Markets - Gold

Gold and dollars usually trade in opposite directions. If the dollar is strong, you need fewer dollars to buy an ounce of gold and vice versa. A weak dollar sends investors scurrying for a safe haven.But this week they're both selling off at the same time. PowerShares DB US Dollar Index Bullish(UUP) — which tracks the greenback against a basket of widely traded currencies — lost 2.4% this week. It has fallen below the 50-day moving average after trading above it for almost two months.

SPDR Gold Trust(GLD) shed 0.64% this week following a 3.7% loss last week. GLD has undercut its December low and is trading below its 50-day moving average. The last time it did this, it fell to the 150-day average and found support.

Here are some gold experts' explanations of this usual phenomenon.

Tom Winmill, portfolio manager of Midas Fund: "At Midas, we see it as a short-term market trend toward riskier asset classes, and a longer term trend with correlation of gold and creditor nation currencies on the one hand, and debtor nation currencies on the other. It occurred last year for a period of time and then reverted to its 'normal' inversely related correlation."

Terry Sacka, chief strategist of Cornerstone Asset Metals: "I know that the bullion banks have begun to cover the short positions here in the States; the heat was coming through the U.S. Commodity Futures Trading Commission. ... I believe they have moved the shorting operations off shore to foreign bank partners (you see the West needs gold/silver to stay low in order to keep inflation and interest rates in check; it gives us a chance to get the economy moving; we can't raise rates too fast; 9.5% unemployment still). That said, I believe there is an effort to trade down the market the best they can to buy back at lower levels; this market is going to launch hard come late spring to fall.

"Profit-taking and European debt worries are playing into this. Many traders are expecting a trade-off and reallocating of risk for the spring, so booking profit in the uncertainty is what we see. No one wants to get caught if silver were to break the 50-day moving average at $28.25-ish. The spread between the 50- and 200-day moving average is huge, all the way down to $22 for silver, so I believe you're seeing a wait, book profit and see. Once we get a firm grip above the 50-day MA you will see a return to the bullish trend.

"As much as the dollar used to correlate with gold, everyone knows we, the U.S., are next with the debt trouble, and that correlation is being tested. We are not the only ones looking for protection and preservation. Asia is smart and they too are protecting and hedging.

“Overall, this bullish trend in precious metals will continue for years to come as people and nations look for cover from the fiat global mess. You cannot debase precious metal; it is real, solid and something of value for 5,000 years.”

Peter Spina, GoldSeek.com’s president: “What I discerned from the unusual move (Thursday) is that gold was reacting to Bernanke’s positive U.S. economic talk, which throws into question QEIII (quantitative easing 3) and the possibility that interest rates would move higher. At the same time, the euro was strong, as Spain was able to raise a few billion dollars without a problem, so the euro woes have temporarily come down.

“I believe gold and silver are in consolidation mode, and the longer they hold these higher levels, the higher the next move up will be. For the time being the market is sideways, drifting lower, but at any moment the spark could be relit and we should see gold targeting $1,500, then $1,650 an ounce. I believe those are all realistic upside targets for this year.”