Gold, Silver Ablaze After Fed's No Tapering Surprise

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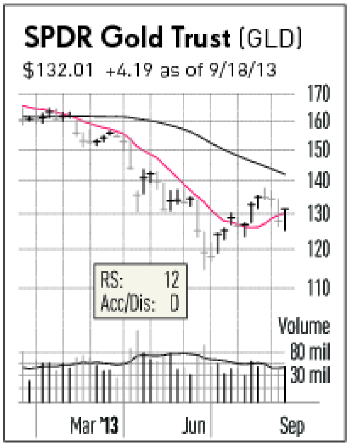

Gold and silver vaulted higher while the dollar plunged to nearly its lowest level of the year immediately after the Federal Reserve shocked the market Wednesday in announcing it will keep pumping money into the economy at its current pace.

The consensus in the stock market was that the central bank would scale back its $85 billion-a-month bond-buying program by at least $10 billion to $15 billion.

Gold prices soared 4.19% to $1,366 an ounce in New York. That was their biggest gain since January 2009, nearly five years. Silver popped 6.17% to $23.18 an ounce.

SPDR Gold Shares (GLD), tracking a 10th of an ounce of bullion, surged 4% to 132.01. **Market Vectors Gold Miners ETF** (GDX) soared 9% to 28.25.

PowerShares DB U.S. **Dollar Index Bullish** (UUP), measuring the greenback against a basket of major foreign currencies, plummeted 1% to 21.65, a seven-month low.

The Fed said it will maintain quantitative easing and a near-zero interest rate policy will be necessary as long as the unemployment rate holds above 6.5% and the inflation rate hovers below the central bank's 2% target. The Fed noted that the housing sector has strengthened, but rising mortgage rates and fiscal policy are "restraining economic growth."

"The Fed is saying it wants higher inflation and lower interest rates," said Tom Winmill, who manages Midas Perpetual Portfolio and Midas Fund . "This is an ideal prescription for a robust gold market."

Precious Metals Oversold?

Precious metal prices and miners' shares are oversold, and an abundance of short positions offers the potential for a strong short-covering rally, says Adrian Day, president of Adrian Day Asset Management, with $125 million in assets.

That means traders who borrowed shares to profit from falling prices will have to buy to close their positions, thereby boosting demand. Mining stocks trade at valuations last seen in 2001, making for a value-investing buy, he added.

The gold bears, on the other hand, believe the yellow metal will resume the downtrend that started in September 2011 after the recent countertrend rally.

"Prices are still saying the worst for precious metals isn't yet over," Ron DeLegge, editor at ETFGuide.com, said in an email. "QEternity continues for now, but the Fed will eventually need to scale back."

Gold prices fell to $1,200 an ounce after the Fed's hints of tapering in June. They rallied back to about $1,400 an ounce from oversold levels through late August in the face of uncertainties from Syria, speculation about who the next Fed chairman will be, and the debt-ceiling debate.

Goldman Sachs analysts project the yellow metal will trade in a range around $1,300 an ounce through year's end. They see it falling to $1,050 an ounce by the end of 2014 on expectations the economy will improve next year. That will reduce the need for Fed stimulus. Meanwhile, emerging-market demand will fall.

"The recent pressure on emerging-market economies and current accounts could accelerate the decline in gold prices as it forces such countries to slow their domestic gold demand, imports and reserve accumulation," they wrote in a client note Monday. "Central bank gold reserves point to a sharp slowdown in accumulation."