

Gold prices sank to six-month lows on Thursday as investors sold holdings in the physical market and the dollar climbed due to expectations of higher interest rates in the United States.

Spot gold was down 0.3 per cent at \$1,263.96 an ounce at 1244 GMT but off a low of \$1,261.36, its weakest level since December 20. It has lost more than 7 per cent since an April high above \$1,365 an ounce. US gold futures were down 0.8 per cent at \$1,264.50 an ounce.

Holdings of the largest gold-backed [exchange traded fund](#) (ETF), the New York-listed SPDR [Gold Trust](#) have fallen nearly five percent to 26.645 million ounces since late April. That trend is reflected in other US based ETFs.

“Uncertainty would normally fuel demand for gold as a safe haven, which we would see in the physically backed products, but instead we are seeing outflows from the US products,” said Julius Baer analyst Carsten Menke.

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“From the perspective of a US investor, focused on the domestic market and economy, the threat from trade tensions is much lower than in Europe. US domestic consumption is a major driver of growth and there isn’t a problem there.” That Menke said is why the Russell 2000 equity index , which comprises of small US-listed companies, and the [Nasdaq](#) index of technology firms, are at record highs.

Meanwhile higher US interest rates and the prospect of further rises later this year have seen the dollar against a basket of other major currencies climb to its highest since last July.

Higher interest rates would typically see investors divest gold, which earns nothing and costs money to store and insure. A rising US currency makes dollar-denominated commodities more expensive for holders of other currencies, potentially subduing demand for metals. This relationship is used by funds to generate buy and sell signals using numerical models.

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Analysts at [ActivTrades](#) agree the [gold price drop](#) is partly to do with the stronger dollar and say that \$1,260 represents a first support level.

"If the decline continues, we would expect to see bullion testing the lows reached last December, near \$1,240." Traders say the break of support at \$1,265, a Fibonacci retracement level could mean further losses, but that momentum indicators suggested gold was oversold and that a correction was more likely.

Other [precious metals](#) too came under selling pressure.

Silver fell 0.2 per cent to \$16.24 an ounce, palladium lost 0.4 per cent to \$962.15 per ounce and platinum slipped 0.4 per cent to \$863.9 an ounce.

