Interview: Stronger dollar serves as damper on gold prices: expert

LONDON, May 30 (Xinhua) -- The influence of a stronger United States dollar has been a damper on gold prices, but a possible weakening of the dollar in the medium term after a spurt of growth could be a boost for prices, an expert said in an interview with Xinhua.Marcus Grubb, managing director investment at the London-headquartered World Gold Council, said, "Historically, if the U.S. dollar as a reserve currency is strong, that tends to put a damper on the world gold price and vice versa if the dollar is weak."He added, "So, latterly as the dollar has strengthened that has capped gold to some degree or it has been an element of headwind for gold, although in the medium term I think many observers believe once we are through the initial spurt of growth in the United States, you are going to see the dollar weaken again in order to partially solve the debt problem that still exists in United States. In the long run, that will be positive for gold."The continuing uncertainty in the eurozone caused by successive nations suffering crises of confidence over their sovereign debt has had an unambiguously positive effect on gold because of gold's hedging properties, said Grubb."Gold is used as a hedge against tail risks, against sovereign debt problems; it is used by central banks as well, as a reserve asset when in the past they might have invested in sovereign bonds. So, to the extent that the eurozone crisis has continued, potentially after the September elections in Germany, I think gold is going to be very relevant as a hedge against risk in the eurozone," said Grubb.Further into the future, Grubb said he was confident that demand for gold would remain strong and would be boosted by strong increased demand from nations in the developing world like China and India, regardless of the strength of recovery among developed world economies.He said, "Over the next five to 10 years, consumers in India, China and the Far East are going to become a lot wealthier and carrying on the trend of the last decade, admittedly at a slower pace, and we believe that means a lot more demand for gold over that period.""The real question, in my mind, is how much more demand for gold will there be in five or 10 years' time, not whether or not there will be more demand for gold."Grubb added, "If the growth in incomes continues in India and China at a slower pace with the slower economic growth we are seeing now, you could easily forecast a 1000 tonnes more gold demand in the next eight to 10 years. That is a 25-percent increase in demand with no change in line production, because we haven't seen any change in line production for nearly 15 years in gold.""So, notwithstanding the current volatility, I think investors need to look further ahead and on that basis the demand, we think, in the gold market is in good shape," said Grubb.He said that over the last year and a half there had been a consolidation of gold at the top of its historic range, having reached about 1900 dollars per ounce in September, 2011.Gold then moved to a range between 1900 and about 1500 until about April.Grubb said, "Then we have the events around the sell order on the futures exchange in New York, the Comex exchange.""The best information we have is that it was from a large hedge fund in the United States, and this caused the gold price to fall significantly triggering other stocks and in the end selling of about 20 billion dollars of gold occurred, about 400 tonnes of gold and this pushed the gold price all the way down to about 1320," he said.Grubb said he believed some of the reason the price fell, apart from the actions of the hedge fund, was that growth in the United States has been recovering so some U.S. investors have been shifting out of risk-off assets into equities, and in some cases they had reduced their gold holdings.Grubb said that since April there had been "a very strong resurgence of demand all over the world."He added, "I think for Western investors, certainly in the United States, it is all going to be in the short-run keyed off how strong the U.S. economy is. And our view on that is that the U.S. economy still has a long way to go before it is in a self-sustaining growth path. It is experiencing a recovery now because of the massive amounts of Quantitative Easing we have seen over the past two-three years and those are continuing."He said equity markets were not fully convinced about recovery in the U.S. economy, and that investors might want to keep gold in their portfolios as a hedge against risk because of disappointing growth figures.