

## Gold, dollar to continue to part ways - Jeff Nichols

But, there are a few clouds on the short term horizon

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The links between the dollar and gold are likely to continue to weaken in coming months as, globally, major currencies continue to decline.

Speaking on the Mineweb Gold Weekly Podcast, Jeff Nichols, MD, American Precious Metals Advisors, said, "The issue really is that all the major currencies are weak currencies - in a sense they're all sinking ships - the question is which ones are sinking faster - which ones are sinking slower? I'm looking at the whole complex of currencies and thinking that the dollar, yen, pound and some of the other currencies are all weak - they're all going to be depreciating against gold - they're all going to be losing purchasing power and so it doesn't matter which one is losing it fastest in terms of gold - they're all going to be going down."

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But, he says that this doesn't mean that gold is only going to go up. The yellow metal, he says, remains vulnerable in the short term not only to the flow of US economic news but also to the foreign exchange markets.

"Some relaxation of fear about Greece and sovereign risk spreading to other European economies is going to be reflected in the foreign exchange markets, and even though I said that the dollar and gold are delinking, big moves in the currency markets are going to spill over into the gold market in the short term and will be important determinants of what happens in the weeks ahead."

"Similarly," he says, "the economic news in the US, particularly with regard to unemployment, with regard to consumer prices and essential signs of the economy is improving or not improving, are going to be reflected in the short-term movement of the metal."

What about the longer term?

While the short term outlook has a few clouds on the horizon, in the longer term Nichols is very bullish on gold. Part of the reason for this he says, is the drying up of some of the speculative selling that had pushed down prices.

"From a fundamentals view point, the selling that's been going on over the last few months, beginning in early December 2009 continuing in January and into February 2010 was principally selling of derivative products, futures, options other paper instruments if you will, by short term traders and institutional speculators - people who have no long term allegiance to gold but view it as an instrument to be traded along with the US dollar and other financial instruments... the buying is in physical form by people, and some institutions, that have a long term affinity to gold and are likely to be long-term savers rather than traders and some of that gold will probably never come back to the market again. The process overall over the last couple of months has left the gold market in a much firmer, much more positive position than we were a few months earlier."

And he adds, this is all happening against a backdrop of year of very expansionary and inflationary US monetary policy. "We have the prospect of ever larger Federal budget deficits that ultimately will be financed by the Federal Reserve through monetary creation which promises to bring depreciation in the dollar both in terms of its foreign exchange rate and in terms of its domestic purchasing power - those are all very positive for gold over the longer run as is the strength of demand that we are going to continue seeing from the Asian economy."

"I am looking at the end of 2010 to hit the \$1500 level - it doesn't mean it's going to hit \$1500 and keep rising indefinitely, but we will see \$1500 at some point in 2010 - with lots of ups and downs or round a long term up trend - lots of volatility in other words and ultimately in the next few years there is a very good chance we will see \$2000, even a good possibility of \$3000 or higher over the next several years."