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19:13 26Aug11 -FUNDVIEW-UOB Asset Management sees gold hit 1980-peak in 12 month

- * Gold to hit \$2,300/oz in 12 month
 - * C. bank buying would help gold defy another recession sell-off
 - * Low interest rates, strong physical demand supportive of gold
- By Rujun Shen

SINGAPORE, Aug 26 (Reuters) - Gold could rally to its 1980 inflation-adjusted peak in the next year as the uncertain economic climate lures central banks and investors to bullion to diversify reserves and defend the value of capital, a UOB Asset Management fund manager said on Friday.

Bullish factors that pushed gold to successive nominal highs over the past months remain in place, and a dip earlier this week has not changed gold's rosy picture, said Robert Adair, fund manager of the United Gold & General Fund.

As the U.S. seeks to nurse its economy back to health with a long period of low interest rates and cheap credit, the prospect of a weaker dollar and inflation will buoy bullion.

"Centrals banks aren't selling and they are buying, this makes gold a more respectable investment, more of a currency and less of a commodity," said Adair in an interview with Reuters.

He expected gold prices to hit \$2,300 over the next 12 months, equivalent to the inflation-adjusted peak hit in January 1980.

Central banks turned net gold buyers for the first time in 21 years in 2010. In 2007, they sold close to 500 tonnes of gold, and in the first half of 2011 they bought 200 tonnes, data from the World Gold Council showed.

"It's not just a confidence thing. It's also a supply-demand thing -- that's a swing a 700 tonnes in a market of approximately 4,000 tonnes in size, a huge swing in the supply-demand balance," Adair said.

Spot gold <XAU=> rallied \$400 since the beginning of July to a record high of \$1,911.46 on Tuesday, on surging safe-haven demand on fears of euro zone's spreading debt crisis and stalling global growth. But it lost as much as more than \$200 over the past three session.

Gold may face more downside risk in the short term, but is unlikely to repeat a sharp sell-off in October 2008 when markets were hit by the global financial crisis. Prices tumbled more than 25 percent over two weeks to \$680.80 on Oct. 24 -- lowest since September 2007.

"This time around if there is some kind of crisis, I don't think it will happen again," Adair said. "The action in gold prices is a lot better this year, and the root of that is simply the behavior of central banks."

LOW INTEREST RATES, STRONG PHYSICAL DEMAND ALSO SUPPORT

So far this year gold has gained 25 percent, after rising 25 percent and 30 percent respectively in 2009 and 2010.

"Long-term we are still positive. I really can't see anything over the next 12 months that would lead any of these support factors to change," said Adair, referring to low interest rates, central bank buying and strong physical demand.

The U.S. Federal Reserve has pledged to keep interest rates low for the next two years, supporting sentiment in gold which is seen not only as a safe haven in times of economic storm but a good hedge against inflation.

