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--Doesn't see “sea-change” for gold unless continued strong U.S. data see markets start pricing in possibility of higher interest rates before 2014

LONDON -- Swiss bank UBS AG (UBS) Thursday cut its 2012 full-year forecast for gold, citing a continued improvement in the global economic outlook, particularly in the U.S.

UBS reduced its 2012 gold forecast by 18% to $1,680 a troy ounce. The bank had previously forecast the metal to average $2,050/oz this year.

"A continuing U.S. recovery, material erosion in Fed quantitative easing expectations, rising Treasury yields, a stronger dollar and questions surrounding the durability of the Fed's low-until-2014 rate pledge all combine to act as the prime culprits that cause us to pare back, for now, our previously aggressive call," said UBS analyst Edel Tully.

Still the bank doesn't see a “sea-change” for gold, with the downgrade largely representing a mark-to-mark revision for prices in the first quarter, said Tully.

"We're looking for a softer gold price in the second quarter but a sharp recovery in the gold price in the second half," she said.

The price of gold has fallen more than 7% since Feb. 29 as better-than-expected U.S. data, and subsequently lower expectations for further quantitative easing there, drew investors out of the market. Easing concerns over the euro zone, after Greece's bailout was approved, also damped demand for the metal, traditionally viewed as a "safe haven" asset in times of economic uncertainty.

"Gold is moving off the centre-stage position it occupied for most of last year," said Tully.

It is "certainly not redundant" in the current environment and remains a useful portfolio hedge, she said.

"For us to start thinking that the multi-year bull run is under threat, we have to be sure that the U.S. economic data is not going to roll over and that credit stresses won't emerge again a few months down the line," said Tully.

Should U.S. data continue to impress, however, and markets begin to price in the possibility of higher U.S. interest rates before 2014, gold's price prospects would look bleak, she added.

Early this month, UBS also downgraded its one- and three-month forecasts for gold. The bank lowered its one-month forecast to $1,550/oz from $1,775/oz and its three-month forecast to $1,600/oz from $1,950/oz.

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