

Bitcoins – An Existential Threat to Gold?

Bitcoins and gold have dwelt in different realms (or so it seemed) since the eruption of cryptocurrencies on the scene only a few years ago. First seen as a plaything of nerds and geeks and then of dubious backing and even more dubious accounting, it was easy for Gold Bugs to discount its rise and say “nothing to do with us”.

The Gold Bugs and Silver Nuts have long railed against JP Morgan and the Bilderbergers as the Great Satans undermining their favorite metals. It’s harder for them to find someone specific to stick horns on and to hand a pitchfork to in the case of the rise of Bitcoins and their existential threat to gold as a “medium of exchange” and “store of intrinsic value”. Bitcoins are an intrinsic store of no value and yet are still managing to steal gold’s clothes (and its thunder).

What Has Happened

Bitcoins have gone through quite a lifecycle in their brief existence. Values have soared and plummeted in quite short time spans. After the initial flourish their very existence was called into doubt by officialdom seeking to crack down on them via a string of arrests in relation to the Mt Gox “fraud”, most prominently one Alexander Vinnik. However the “virgin birth” of Bitcoins brought with it a scenario where it was difficult for governments and Central Bankers (and their enforcers) to cut off the head of the beast if it could not locate the head and the arrests and the subsequent survival of the cryptocurrency showed that parentage was not important and that the international enforcers were having difficulties identifying the correct DNA in Bitcoin’s original make-up.

Cut free of ties to any one person, or persons, the beast was

freed to roam stateless and yet gaining in strength all the time, a sort of Currency Godzilla. The very statelessness has, I believe, led to this latest phase. Around the world various governments have stepped up their anti-money laundering measures with one of the futile measures being the elimination of large denomination bills. These have long been the stock in trade of smugglers, most notably in the drug world. The US and Europe have cut lose their big denomination bills and the Indian government in a phenomenal own-goal even eliminated bills in daily use by the population without generating enough smaller bills to replace them.

As the darkweb has grown in importance it was almost inevitable (but to officialdom, surprising) that a currency would appear to oil the wheels of this new economy for buying weapons, narcotics and just about anything else that one didn't want one's government to know you were buying. Bitcoins have become the fiat currency of the netherworld. The result as we can in the chart below has been a burgeoning in the price of Bitcoins:



Some other currencies have been spawned none have gained the currency (pardon the pun) that Bitcoin have. Frankly who needs them?

Sensing the Desperation

That the well-known and esteemed Jeff Christian of the consulting group CPM should have ridden to gold's defence against the Bitcoin "threat" in late August is in itself a smoking gun. Indeed in a form of back-handed flattery he referred to it as the "ultimate fiat currency."

"I don't know anybody who believes that bitcoin is a safe-haven asset," he said in an interview with BNN. "Bitcoin is no tangible asset, it is based on the full faith and credit of anonymous people who create it on the internet, some of whom may well be criminal."

Despite this, research produced by Cambridge University in 2017 claimed that there are 2.9mn to 5.8mn unique users using a cryptocurrency wallet. That many people can't be wrong, or can they?

Paranoia and/or illegality

And well should gold feel threatened. For years the gold bugs have been claiming "we woz tricked" and that the gold supposedly backing ETFs did not really exist or, even more dastardly, was actually being used to short the gold price. This has left the door wide open for another crypto-asset to walk in and make a claim to represent itself as a fiat currency. Indeed by all accounts the fact that Bitcoins have been able to exist despite the best efforts of governments and Central banks to thwart its rise makes it an interesting alternative even to hardcore precious metals mavens who have fears of government control lurking in their subconscious. The denizens of the criminal community have also found that Bitcoins provide a good medium of exchange to get around attempts by the EU and the US to eliminate the large denomination bills that oiled the wheels of transactions in the drug trade. In a globalized world the consumers have found their ultimate globalized currency and it is not the US dollar

or gold. Indeed gold's portability and physicality are its downfall in servicing the needs of the type of people who use and indeed "need" Bitcoins. Who needs a Swiss bank when one has a bitcoin wallet?

Conclusion

Gold's essential qualities of physicality and portability have long been its main selling points. While some to point to its shining attractiveness that means little for the vast mountains of the physical metal stored at Fort Knox and in the Bank of England.

The issue now is whether the Powers-That-Be, with their immense financial firepower, will be able to engineer a crisis or crash in the Bitcoin market that will send it tumbling back to earth. Such an event might revindicate forever the gold bugs. However if it doesn't happen then Bitcoins may take flight within the next year or two changing perceptions of what a fiat currency is and redefining the term "store of value" for a digital age. That would not be good for gold.

In concluding we might remind investors of Gresham's Law that says "bad money drives out good". This leaves gold bugs torn. They have spent so long decrying the debasement of fiat currencies that now when the final apogee is near and gold ready to be crowned in glory as the only true currency, along comes a digital cryptocurrency without two brass washers backing its existence and trumps gold at what they thought only gold could do best.