



Have Cryptocurrencies Usurped Precious Metals?

Description

For the first time since its inception, the price of one unit of Bitcoin surpassed the price of an ounce of gold in early 2017. In early September, **JPMorgan Chase & Co.** CEO Jamie Dimon called the value of Bitcoin and other cryptocurrencies into question, pushing down prices immediately after. However, this has been short-lived, as Bitcoin has roared back to all-time highs; it's now priced at over US\$6,000 per unit.

Ethereum, another popular cryptocurrency, has also bounced back from mid-September lows.

With a weak U.S. dollar and geopolitical tensions increasing in 2017, the performance of cryptocurrencies relative to gold and silver has raised some eyebrows. To illustrate, the price of spot gold has increased roughly 10% in 2017, while Bitcoin has surged over 400%.

Gold prices have rebounded in 2017 after dropping precipitously following the 2016 U.S. election. The pro-growth promises of the Trump administration drove up the U.S. dollar into January 2017.

Shares of **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) have dropped 5.9% in 2017 as of close on October 20. The Toronto-based company is the largest gold miner in the world. The stock has also failed to recover from an earnings estimate and production report in April, in which all-in sustaining costs climbed year over year.

Goldcorp Inc. (TSX:G)(NYSE:GG), the fourth-largest gold producer in the world, has also seen its stock fall 9.5% in 2017 and 20% year over year.

Gold bugs have been predictably dismissive when it comes to the value of cryptocurrencies — in particular, as an alternative safe haven compared to traditional fiat currency. John Hathaway of Tocqueville Asset Management has called the current cryptocurrency rally “garbage.”

“It’s an absolute bubble — there’s no question in my mind that it’s in a bubble,” Hathaway said in a September interview. “Let’s not forget that the total market value of these cryptocurrencies is \$180 billion or so, maybe a little less now — that’s tiny compared to gold.”

Advocates of cryptocurrency point to the feeling, in particular, among younger investors, that digital currency represents a form of “digital gold.” Though its rise has sparked an interest in cryptocurrencies solely as a speculative asset, its use in commerce is gaining traction. Many major businesses have also started to accept Bitcoin payments, including **Microsoft Corporation**, Subway, **Expedia Inc.**, **Shopify Inc.**, and others.

Digital currencies also carry a significant deal of risk. Digital wallets, where owners carry cryptocurrencies, are vulnerable to cybercrime. Cyberattacks have become increasingly prevalent on public and private entities, but large institutions are making inroads to compete with the value the decentralized network offers.

Most major Canadian banks have started to invest in blockchain, as it has the potential to reduce costs, build trust across networks, and facilitate faster transactions. If large institutions establish a foothold to compete with cryptocurrencies in this regard, it could negate many of the utilitarian benefits of owning them.

Looking into the future, the battle between cryptocurrencies and precious metals could evolve as part of a generational divide. Tech-savvy young investors may opt for the digital option, while the older generation may maintain a trust in physical gold and silver as a hedge against fiat.

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