



## Is Bitcoin Responsible for Silver's Demise?

### Description

Silver has been caught in a [protracted downturn](#) for some time and despite claims that its outlook is improving. Indeed, the white metal has fallen to prices not witnessed since early 2016. There has been considerable conjecture about what is responsible for silver's inability to rally, with some analysts such as myself [blaming growing supplies](#) and a diminishing supply deficit. There has also been considerable speculation about the role of cryptocurrencies, notably Bitcoin, Ethereum, XRP and Bitcoin Cash, thereby attracting capital that would normally be invested in silver.

### Now what?

Over the last two-years, cryptocurrencies have exploded, coming from virtually nowhere to a current market cap in excess of US\$215 billion with the majority of that made up by the big four: Bitcoin, Ethereum, XRP and Bitcoin Cash. These companies' total market cap makes up three-quarters of the total market cap of all cryptocurrencies.

What many pundits fail to realise is that cryptocurrencies possess many of the characteristics that make gold and silver attractive to investors who don't trust fiat currencies or other mainstream investments. Many of these types of investors wish to avoid government scrutiny and want an asset that exists outside the traditional banking system. It is for this reason that Bitcoin and other cryptocurrencies have surged in popularity, attracting considerable volumes of smaller retail investors who find its decentralised nature, lack of regulation and rapid appreciation alluring.

That leap in popularity has been to the detriment of investments in precious metals. This becomes clear when considering that the demand for gold bars and coins has been steadily declining since 2011 and for 2017 was 2% lower than a year earlier.

That trend is even more pronounced when it comes to silver, which has always been the far more speculative and popular precious metal among retail investors.

According to data from the Silver Institute 2017, demand for silver bars and coins plunged by a hefty 27% compared to a year earlier to just over 58 million ounces, which was almost half of that reported in 2015. This has occurred regardless of weaker silver prices, which usually spark a surge in the

popularity of silver bullion among investors.

While cryptocurrencies may be in the final stages of an asset bubble, there is no indication that their popularity, especially among retail investors, will abate any time soon. By June 2018 funding for new initial coin offerings (ICO) had surged to a massive US\$5.5 billion, which is 12-times greater than a year earlier and five times greater than a month earlier.

Those considerable inflows into new ICOs occurred when Bitcoin and other cryptos were in freefall with the ground-breaking digital currency plummeting by 16% over the course of June 2018. That massive amount of investable funds had to come from somewhere, with the marked contraction in demand for silver coins and bars indicating that cryptocurrencies are diverting capital that would normally be invested in precious metals.

### So what?

The considerable attraction of cryptocurrencies is unlikely to end any time soon. And this, combined with industrial demand for silver failing to materialize as significantly as anticipated, a firmer U.S. dollar weighing on precious metals and growing supply will weigh on the white metal for some time.

It is difficult to see any sustained recovery in the price of silver in the foreseeable future, thereby placing considerable pressure on the profitability of those silver miners like **Endeavour Silver Corp.** ([TSX:EDR](#))([NYSE:EXK](#)) with high operating costs. For the second quarter 2018, Endeavour reported total production costs of US\$14.10 per silver ounce, which is only marginally lower than the spot price of silver and all-in sustaining costs of US\$17.28 per ounce, well above the market price.

### CATEGORY

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### TICKERS GLOBAL

1. NYSE:EXK (Endeavour Silver Corp.)
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