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MoneyBits

Disappointed

I somehow always feel disappointed with the performance of bitcoin. There are occasional bouts of excitement when it really charges; but mostly, I feel disappointed. I don't know if remarking on it is even helpful but it speaks I suppose to my expectations.

— Opinion

Why gold is rallying and bitcoin is not

Gold has hit a record high as investors seek insurance against stubborn inflation, but bitcoin has been dealt a blow this week as rate cut hopes have dimmed.

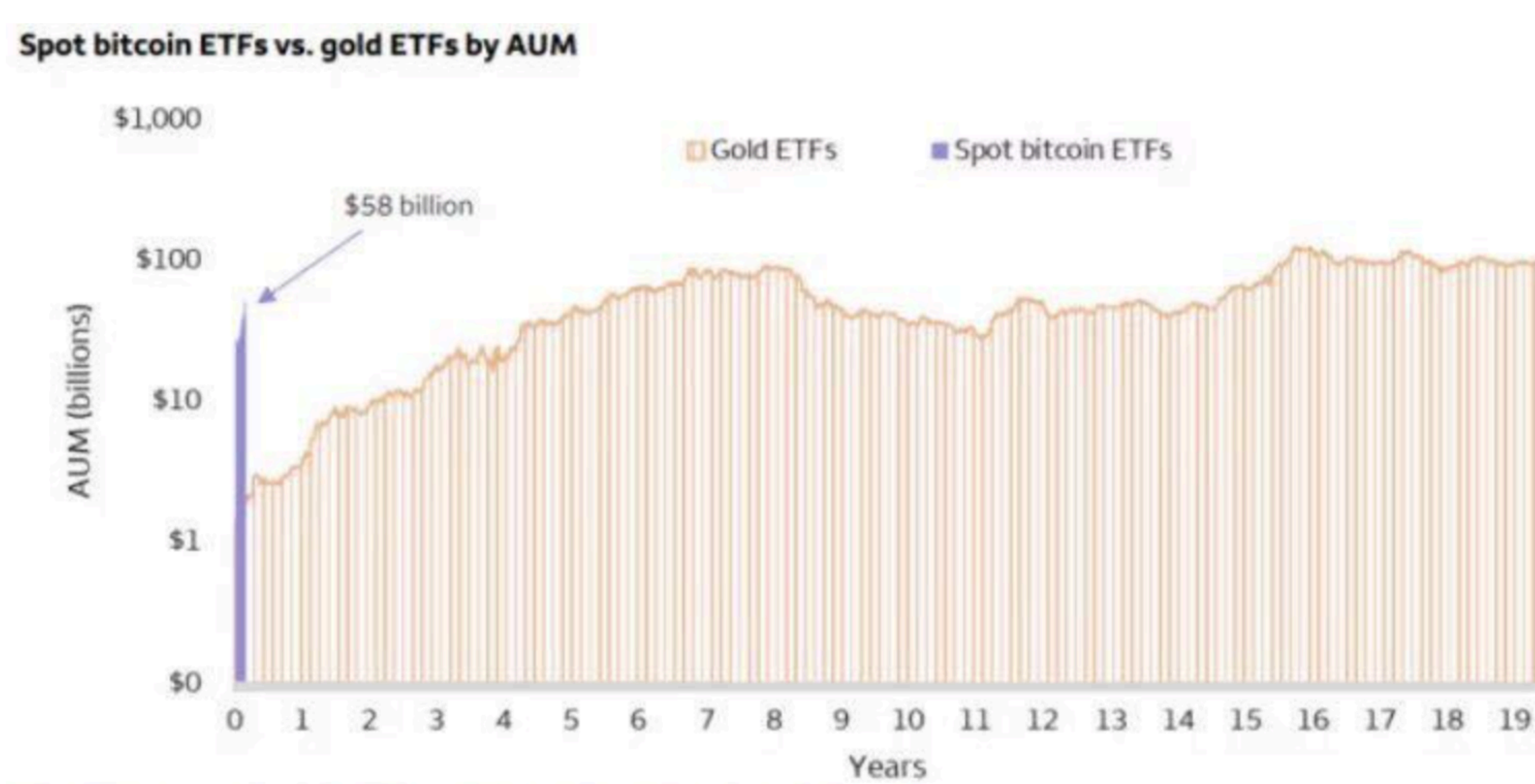
Karen Maley *Columnist*

Thursday was therefore another miserable day languishing just below all-time highs and I opened the AFR which dealt me a further blow declaring that "gold is rallying and bitcoin is not".

But bitcoin's claim to be the equivalent of digital gold, which holds its value as government-issued currencies lose their purchasing power, has been thrown into question by the events of the past month.

Gold, it turns out, is up 11.5% this year and 4.3% this week!

Perspective



Sources: Bloomberg and Wells Fargo Investment Institute. Data as of March 12, 2024. Log scale.

Let us then talk about yellow metal. In Australian dollars the price is now touching $3,500. A decade ago gold was $1,500, so a compound growth rate of about 9%. The headlines are quite something; gold does not need to move that much to attract great excitement. For gold, 1.5% is a 'surge'.

Gold surges 1.5%, marking fourth successive record high

The return itself isn't bad and certainly better than you would have done in bonds, but you have to ask why it isn't even better. The argument for gold investors is pretty much the same as it is for bitcoin investors; there will be unlimited money printing, so I should buy and hold the scarce thing. Gold investors have been absolutely right in theory and wrong in practice. Why? Perhaps something better came along; something appropriate to the digital age which serves the same purpose as gold.

Gold is losing its monetary premium because it is no longer as scarce as bitcoin. In terms of its stock-to-flow ratio (the total amount divided by the annual supply), gold currently stands at 62x. Bitcoin today has a stock to flow ratio of 58x; in three weeks time that ratio will jump to 112x, far in excess of gold. That will be the highest of any asset transactable at scale.

The chart illustrates the impact of this. Investors seem to understand it because the bitcoin ETFs after only one quarter have reached $58 billion in AUM; it took the gold ETF 7 years to get there.

So, while many people have their eyes on ATH high prices and $100k bitcoin, I do not. I think it is simply a matter of time until bitcoin demonetised gold because:

- objectively it is already happening before your eyes; see ETFs
- the rising cohort will buy bitcoin not gold; obvious from their current holdings (almost nobody under 35 owns gold);
- the declining cohort will be net sellers of gold;
- bitcoin itself is simply superior in so many ways; most notably its zero holding and transfer cost

It won't happen this year or next but the hardest money wins in the end. Always. From April 22nd 2024, that is no longer gold.

This isn't the first time we have been here. People rejected motor cars because "horse and carriage"; people rejected computers because "abacus"; people rejected bitcoin because "gold". I wish them luck and congratulate them on their 11.5% this year.

Armaguard

"Armaguard continues to operate its full suite of services and is confident that over the coming months, it will get the business onto a long-term sustainable footing with appropriate support from the industry."

It's not much of a surprise that Armaguard is struggling. I hardly ever see cash these days; it seems like a natural progression then that physical cash management companies would struggle and ultimately go bust.

Why then did Australia's big banks get so excited and offer a lifeline? Well…

Since its precarious financial was disclosed last November, the banks and regulators have been concerned that if Armaguard decided to stop delivering banknotes, and cash was not available, it could cause some customers to erroneously question the safety of their deposits, impacting on trust in the broader financial system.

"Erroneously question the safety of their deposits". You see what might happen is, if there is no cash floating around or Coles says you can only withdraw $50 with your shopping as they were doing last week then people will rightly wonder, why is there no cash? Is my money actually there?

Amusingly the Fin describes this as erroneous, but in fact it is absolutely accurate. Your money *is not there.* It's been loaned out across Australia, which is why your neighbour drives a massive new four wheel drive and owns 600 investment properties in rural Tasmania while apparently earning $80,000 a year.

If everyone were to ask for their money all at once Australian banks would immediately collapse. They do not keep 100% reserves, or even close to it.

You see, the Fin sneers, 'those stupid ordinary people thinking their money isn't there'. Except they are absolutely right, it's not. The banks might be underwritten by the Australian government, and I'm certain that the RBA would step in if one of the Big 4 banks even had the suggestion of a wobble. Doesn't matter.

Your money isn't there. Never was. Never will be.

The removal of cash is going to have profound consequences. The government wants it because it brings everything into the tax net; the banks and retailers want it because it reduces operating costs and fraud enormously. What they might be missing is that it injects huge fragility into the financial system. Once everything is digital, a bank can collapse in 10 minutes. It already happened with Silicon Valley Bank and it will happen again. When it does it will be quite the cascade.

Meme of the week

Euro-Trash

Interesting piece on the European Union's Digital Markets Act here. In essence, the EU is forcing the tech companies of a certain size to open up their platforms to other competition. Interesting for example that on WhatsApp, in theory at least, you will be able to receive messages from other platforms.

> Meta users will find that WhatsApp will enable them to see messages from other messaging services (such as Signal) and that they will be able to sever the links between their Instagram and Facebook accounts.
>
> Amazon users in the EU will find that they will be asked for permission to collect their data for personalised ads. This will affect Amazon's ability to collect information from its entertainment services, which include Amazon Prime Video, IMDb and Twitch, as well as devices such as Kindle e-readers and Fire tablets, and app stores and operating systems.
>
> One could go on, but you get the point. The existential challenge for societies today is whether they are capable of reining in tech power. We do know that it *can* be done, because China already does it well. The question is whether liberal democracies are up to the job. The significance of the DMA is that it's the first time we've really had a proper shot at it. So this is a critical experiment for democracies; and there's a lot hanging on the outcome.

It's a huge technical imposition on the US tech firms though. Imagine actually trying to integrate someone else's platform into your own. Different code bases, different security protocols, etc. The whole thing will be an expensive nightmare.

*"are they capable of reigning in tech power? We do know that it can be done because **China already does it well**".*

"A critical experiment for democracies".

The path of Europe seems set. I can't help but think the whole thing is an exercise in the ability to control the message, whatever it is. That is exactly what China does well. The Great Firewall *does* work and it *does* control the message.

If I lived in the EU, I too would see this as a critical experiment for European democracy. I would hope that it failed. The likely outcome though is a totally separate tech stack for Europeans from the rest of the world. They already had inferior AI for about 6 months last year but their whole experience is about to get a lot worse. At some point the economics of entertaining these regulations just will not work and Europe will be forced to find a way to enforce its massive fines on US tech companies. How will they do that if the American government simply says "No".

Not content with telling American companies what to do. The insanity this week extended as far as space.

Space is the new ‘Wild West.’ The EU is dying to step in and regulate.

The European Commission is gearing up to publish the world’s first comprehensive space law.

I wholly recommend the article, full of treats like this one from our close German friend, MEP Niklas Nienaß.

If space companies want to do business with the bloc, they'll have to abide by the rules, said Niklas Nienaß, an MEP with the German Greens who has long pushed the Commission to set rules for space, adding the draft was shaping up to create “one single market in space.”

Interestingly, Niklas went to Rostock University (global ranking 760th) and was there for seven years. He studied “Space Law”, a subject that does not exist and I am simply left wondering what on earth he did for nearly a decade.