SPECIAL REPORT

Silver used to be known as the poor man's Gold, but with the recent rise of cryptocurrencies perhaps Gold is now the poor man's Bitcoin. Today, has the world of cryptocurrencies have begun to replace Gold as the currency of last resort?

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GOLD: THE POOR MAN'S BITCOIN

While physical demand for the yellow metal has been shaky, and the demand for cryptocurrencies is going nuts, one really wonders about the state of the global economy. As Late Show host Stephen Colbert once so famously said, "Bitcoin is backed by the full faith and credit of the internet so what could go wrong"?

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BITCOIN BITS

Invented in 2008
by Satoshi Nakamoto

1/12/2009
First Bitcoin Transaction

21,000,000
Max number of Bitcoins

Price Action of Bitcoin
has been Highly Volatile

THE CURRENT ENVIRONMENT

Stock market valuations are near record highs and real inflation is absurdly low. There are terror attacks around the world and the threat of impeachment of the US President looms, not to mention there's a serious nut-case leading North Korea. So, the possibility of a move to safe-haven assets is, well, a real possibility. While the world looks to a new world currency for a safe-haven, buying Gold may be seriously undervalued - because in the event we do have a significant market setback or a crisis, the inability to quickly exchange cryptocurrencies may still make Gold more of a safe bet. At the very least, in the event of a financial scare, Gold should track Bitcoin and at a minimum act like Silver has traditionally towards Gold from a risk standpoint. While Bitcoin has risen above $3,000 and Gold has struggled around $1,300, the faith in Bitcoin as a currency of last resort might be worrisome.

THE RISE OF CRYPTOCURRENCIES

How safe is Bitcoin anyway? Since the evolution of cryptocurrencies an important question has been: in the event of an economic scare would Bitcoin or Gold fare better? One of the major problems we see with Bitcoin is tradability in a crisis, dependent on a transaction that takes place in the cyber-world. In fact, we have already seen at least two major Bitcoin exchanges report cyber attacks, and while the attacks were called "denial-of-service" in nature and did not affect clients' funds, the uncertainty remains a concern.

Bitcoin was up almost 300% this year before it pulled back over 19% last week, its worst week since January, falling to $2,076.16 in intra-day trading. This is raising concerns of a potential bubble as money has rushed into Bitcoin and other cryptocurrencies at a very rapid pace. While Bitcoin controls 80% of the current cryptocurrency world, other cryptocurrencies have risen to dizzying heights. Reported inflows into cryptocurrencies are looking at record highs of roughly $117 million, more than a 500% year-to-date increase. The reason these currencies have done so well is the lack of confidence in governments' monetary policies in the aftermath of the lingering fiscal crisis. Worries that printing more money and the huge debt held by major economies could mean that a larger crisis is on the way, are driving people to look at cryptocurrencies to be that last resort or safe-haven, a spot that Gold has for decades traditionally held.

STILL THE SAFE BET

Yet if you are looking at a diversion for some upcoming catastrophic event you would still be much better off looking at Gold or even the poor man's Gold, Silver, as a hedge in your portfolio against headline risk.

Friday, June 16th, August Gold (GCQ7) fell by $21.30, or 1.7%, to settle at $1,254.60 an ounce—the lowest most-active contract finish since May 24. July Silver (SIN7) tumbled by 42 cents, or 2.5%, to $16.716 an ounce, for the lowest settlement in a month according to MarketWatch.

Source: Investing.com

However, Gold is still the better bet as the traditional safe-haven is up about 12.5% for the year, and perhaps Palladium as well which has moved 21% higher on the year, even with the Federal Reserve talking about rising rates and a rise in inflation. Yet while some Gold buyers are insistent that the Federal Reserve's actions and the lack of inflation are reason to ignore Gold and Silver, if you look at the traditional relationship between Gold and the long end of the US yield curve it sets the stage for a potential major mover higher that could start after Gold breaks above it $1,300 resistance area.

While Gold usually moves away inversely from rising interest rates, if you look at the extremely low yields on that back-end of the yield curve you would start to lose money if inflation rises like the Fed says it will. In fact, some believe that at some point inflation may start to really pop, although that remains to be seen. Still any rise in inflation will make Gold more attractive towards Treasury Bonds and that could really start in the second half of this year as Oil prices should start to bottom and low rates should spark a return to the Feds 2% target range.

THE LONG-TERM OUTLOOK

Long-term it looks as though Gold has finally broke out of what could be described as a 6-year down-trend and since the depths of the fiscal crisis has held its own with stocks. The S&P 500 Index is up 17.5% year-to-date with Gold up 12.5%.

The World Gold Council said that global Gold demand in Q1 2017 was 1,034.5t. This represents an 18% year-over-year decline and suffers in comparison with Q1 2016, which was the strongest ever first quarter. Inflows into ETFs of 109.1t, although solid, were nonetheless a fraction of last year's near-record inflows. Slower central bank demand has also contributed to weakness. Gold Bar and Coin investment, however, was healthy at 289.8t (+9% year-over-year), while demand firmed slightly in both the jeweler and technology sectors. All that being said, demand for Gold is expected to surge in the second half of 2017.

To View the Historical Dow to Gold Ratio:
[http://www.macrotrends.net/1378/dow-to-gold-ratio-100-year-historical-chart]

In the second half of the year Chinese Gold demand is set to rise 50% to 1,000 metric tons and demand for Gold Bars is said to be on track to surge more than 60% for the 2017 year. Also, OilPrice.com reported that "India's Gold demand is set to boom ahead of a regulation shake up."

Key African Gold nation Tanzania stepped up its fight against miners last week. Accusing Barrick Gold-backed Acacia Mining of operating illegally in the country - as well as underpaying government royalties. That should mean a continued lack of Gold supply there. Bullion demand is reportedly ramping up in many of the world's major markets - where new policies are continuing to re-shape the face of the Gold market. For example, local press reported that Gold buying in India has seen a major spike the last few weeks, after the government decided earlier this month to adopt a new 3% sales tax on Bullion.

Demand for Gold should really start to surge as the cryptocurrencies continue to bubble and traders look for safety Gold and Silver. Platinum and Palladium should look to have a fantastic second half of 2017 as well. And seasonally, Gold typically sets its low for the year in the month of June.

There are some great plays for those traders with the risk tolerance on the futures and options side of the market. Not only buying calls which would be good but also using futures hedged with options.

Contact us to learn more.
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Source: Seasonax