Bitcoin is on fire, while gold is just….. being gold.

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People have been looking to find parallels with Bitcoin and gold since the cryptocurrency started attracting our imagination a few years ago. Since November 2020, following a couple of colossal corporate Bitcoin purchases, the cryptocurrency has now knocked 'gold' and 'vaccine choices' off top slot for dinner party banter, if dinner parties were still a thing!

Both gold and bitcoin share the same asset class in that they are "alternative investments" which, historically have failed to capture the mainstream institutional investment community. However, they both capture the imagination of speculative investors whose rationale for getting involved can vary greatly, but in all cases their commitment is passionate and unequivocal!

As one would expect, analysts are working furiously to find correlations between bitcoin and gold to either attempt to predict price action based upon the performance of the other or to assess the longer-term impact on the alternative asset space.

There have been periods where money flowing into Bitcoin has had negative consequences for gold and at other times especially more recently, the correlation has been generally positive, perhaps reflective of a general loss of confidence in FIAT.

The World Gold Council (WGC) put out a piece last week entitled "Gold and Cryptocurrencies" which, as always, was very well researched and informative. However, where Bitcoin is concerned, I think it is too early to be looking at portfolio attributes and performances. Guess what, having an allocation to Bitcoin at any point since its inception would be a winner!

I think WGC do make some helpful parallels regarding the supply dynamics for both as well as the demand distribution. They also make reference to the ever-present threat of regulation creeping in to rain on the crypto parade at some point.

As for accounting and risk management, outside of the institutional investment world, gold does not really sit well with corporates or even banks. Regulators are hesitant to accept gold as a tier one asset and apply onerous capital requirements for holding it. However, crypto in the corporate world takes us to a whole new level. It is just not mature enough to be run under the standard models and in some ways that is the whole point. This is the future so it cannot be shoehorned into traditional investment modelling or old-school risk or accounting tools. New solutions will need to be built if Bitcoin or other digital assets are going to coexist alongside FIAT in the corporate treasury world.

If we consider whether the flow of billions of dollars into Bitcoin in the last 3 months is good or bad for gold, I am of the strong opinion that fresh money coming into the alternative asset space is a positive for gold. However, in order to solidify its role as a risk-off asset for crypto players, the gold market needs to do more to get itself into a format that works for this new type of technologically motivated investor. I am sorry to say that a Krugerrand or a kilobar is not going to cut it for digitally inclined investors, physical gold is the antithesis of crypto for these investors.

Getting gold onto a crypto exchange sounds so simple, but the reality is much more complex. As a fintech company involved in the gold market, we have a fairly clear picture of what is needed to tokenise gold, but both the banking community and regulators need to be more accepting of this innovation to remove the friction points that are making it difficult to drive digital gold forward. It will happen and there are some positive initiatives taking place at the moment, but in order for gold to really capitalise on the multiple billions of fresh dollars that have been generated from the bitcoin story, there needs to be an easier mechanism for gold and bitcoin to coexist outside of the traditional centralised banking framework.

Until that nut is cracked, gold will continue to confuse and frustrate investors.