Surge in gold and bitcoin prices points to concerns over stability of US dollar

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6 March 2024

The global economic and financial system is coming to resemble a kind of madhouse. There is a speculative binge on stock markets and in other areas amid growing indications of an economic downturn and concerns about the stability of the US dollar as the global currency.

Yesterday both gold and the cryptocurrency, bitcoin, hit record highs, indicating in their own way the increasing lack of confidence in the US currency.

In trading, gold reached a record price of $2141 per ounce, beating the previous record of $2135 set last December, before falling back to slightly below that level at the end of the day.

A report in the *Financial Times* said the surge was powered by "investors hunting for haven assets and months of prodigious buying by central banks and Chinese investors."

The rise in the gold price began in late 2022 when it was trading at $1600. It has been supported by major buying by central banks in the wake of the "weaponisation" of the dollar when the US organised the freezing of the foreign currency assets of Russia's central bank as part of the sanctions regime imposed after the invasion of Ukraine.

That decision sent a shock through the financial system because it made clear dollar assets were not "safe" and raised the prospect any other country could be dealt with in the same way should it cross the US path.

According to the World Gold Council, central banks added 39 tons of gold to their reserves in January, twice the net purchases in December last year, and the eighth consecutive month in which buying has risen.

The rise in gold prices in the past 16 months has run counter to past experience. Normally under conditions of rising interest rates, as has occurred in the past two years, the price of gold tends to fall. Correspondingly it tends to rise when interest rates are reduced.

Accordingly, there has been some commentary to the effect that the latest rise has been due to the expectation of interest rate cuts by central banks. This explanation, however, was dismissed by the precious metals analyst, James Steel, at HSBC, who pointed to deeper issues.

In comments to the FT, he said changing expectations about interest rates, which had been back and forth since the start of the year, were not the main driver of the latest increase.

"There are new entrants in the market who are operating off uncertainty and looking for gold as a safe haven," he said. The implication is that the US dollar is not regarded as such.

"It's a lot of money coming in as there's a more narrow group of assets that are in vogue and gold is one of them," Steel said.

It is a measure of the inherent instability of the global financial system, centring on concerns over where the US dollar is headed, that bitcoin is regarded, at least in some quarters, as an alternative asset.

Yesterday, it briefly passed $69,990.90, eclipsing its previous record of $69,000 set in November 2021.

In its article on the bitcoin surge, the *Wall Street Journal* pointed to some of the reasons. It noted that after falling in the wake of the collapse of major bitcoin trading firms in 2022 and the bankruptcy of FTX, owned by Sam Bankman-Fried, in November 2022, it had started to rise again. This was because the failure of three significant US banks in March 2023 had "sparked fears of a larger banking crisis."

"The token," it continued, "is considered by some to be a store of value independent of the financial system and therefore a safer asset in times of crisis."

Such assessments only underscore the complete divorce of the world of finance, based on speculation, from the underlying real economy.

Bitcoin contains no intrinsic value. Its only "contribution" to the economy is the consumption of massive amounts of electricity to power the computers necessary to “mine” new bitcoins in virtual space.

The latest rise in bitcoin has pushed the market value of all cryptocurrencies to past $2 trillion for the first time since November 2021.

It has been fuelled with the recent approval by US regulators to exchange-traded funds in cryptocurrency set up by Wall Street hedge funds, including the world’s largest asset manager BlackRock. The flow of money into the market has led to an increase of 60 percent in the bitcoin price since the start of the year.

Since January when the nine funds began trading, investors have pumped in $15 billion, with BlackRock accounting for more than $7 billion.

As the speculative bubble grows ever larger—as reflected in the bitcoin and stock market surge on the back of the expectations of a profit bonanza from artificial intelligence—the real economy is on a downward trend.

Germany, Britain and Japan, together with much of the eurozone, have been in recession throughout the winter.

The world’s second largest economy, China, is mired in deflation and ongoing crisis in the real estate and property development, which has been responsible for as much as 25 percent of the gross domestic product in the past decade.

Yesterday premier Li Qiang announced in his “work report” to the National People’s Congress that the growth target for this year was 5 percent. But in the absence of concrete measures to achieve even this level—the lowest in three decades—it was largely dismissed as a “target without a plan,”

On the surface, the US appears to be the outlier with growth of around 2.5 percent forecast for the coming year. But there have been tens of thousands of sackings in the high-tech sector, with the auto industry set for major cuts as the global battle in the international car market intensifies with the development of EVs.

And there are signs of a developing slowdown, if not recession. Capital expenditure is expected to fall by 0.6 percent this year. Truck freight volumes dropped 4.7 percent last month, durable good orders dropped by 6.1 percent in January (7.1 percent if military spending is excluded) and new home construction fell by 14.8 percent.

The economics commentator for the London-based *Telegraph*, Ambrose Evans-Pritchard, pointed to the “strange contradiction” that has developed: “A protracted economic slump across large parts of the world economy with an ever more egregious credit bubble, one that looks increasingly like the sub-prime excesses of 2007.”

The credit bubble, he concluded, could end in two ways each one with the potential to set off cash crisis.

“[I]f the doves [those who want interest rate cuts] are right, a weak economy will set off a wave of corporate defaults; if the hawks are right, a strong economy will lead to monetary torture [continued high interest rates] and also a wave of defaults.”

The issue of dollar supremacy does not feature greatly in headline news. But its global role and importance for continued US hegemony is ever-present in the minds of those in charge of the finances of the US state. They will certainly have noted the rising gold price and what it portends.

Recent comments by Gary Gensler, the head of the Securities and Exchange Commission, to the *Financial Times* on proposed new regulations to govern trading in the $26.5 trillion US Treasury market indicate the growing concern about the position of the dollar.

Confidence in the dollar has been severely shaken since the crisis of 2008 with the most recent experience being the Treasury market freeze of March 2020 when, for several days, there were no buyers for US government debt, supposedly the safest asset in the world.

The Gensler regulations are aimed at preventing the eruption of such a crisis or something potentially even more serious.

“The US Treasury market is … a really important feature to promoting the dollar’s continued leadership around the world,” he said.

“Having that reliable, safe and readily accessible and tradeable asset is critical. It was critical to the British in their time as the leaders in currency. It was critical to the Dutch before that. This is an important piece of what the Fed, the Treasury and we are doing here.”

In other words, under conditions where dollar confidence is being shaken on a number of fronts, the guardians of finance capital are seeking to put in place measures to try to prevent the US going the way of its predecessors.