

Bitcoin's revival: Is this time different?

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The Covid-19 pandemic will certainly be one of the most significant events of our lifetimes. Its societal and economic effects will be profound, as the world is getting used to new ways of living, new ways of working, and new ways of consuming. The future remains uncertain, and some see the disparities in countries' economic recoveries as a catalyst for a reshuffling of the global economic order¹.

In the meantime, the pandemic has led economies around the world to contract, sometimes to extents not seen in centuries². As economies were shut down in an effort to prevent the virus from spreading, policymakers had to take action to try and cushion the economic blow. The amount of liquidity injected by the central banks of developed economies ballooned to unprecedented levels, raising the spectre of inflation. This is occurring while interests lie near all-time lows, with little prospect for being raised in the coming months or even years across most major developed markets like Japan, the UK, the EU and the USA.

Furthermore, governments have been mounting piles of debt³ to support businesses and help maintain employment through lockdowns. The Institute of International Finance (IFF) expects global debt to reach a staggering 365% of global Gross Domestic Product (GDP) at the end of this year, versus 320% at the end of 2019.

Bitcoin, could it be the 'digital gold'?

Investors are looking for alternatives to hedge the risk of declining values of fiat currencies (the US dollar, the euro, the yen, the British pound, etc) against this backdrop. One of the options is hard assets. Gold is probably the main candidate and has seen major inflows and a strong price performance this year. Figure 1 shows that European net flows into gold have been quite consistently going up this year, currently around \$14bln year-to-date.

Source: WisdomTree, Bloomberg. From 01 January 2020 to 30 November 2020. Historical performance is not an indication of future performance and any investments may go down in value.

This context is playing well for Bitcoin's investment narratives too. Many now fear for the long-term value of the US dollar and look for other ways to store value. With its decentralised features and its finite and predictable supply, bitcoin seems to be finding its place in portfolios as 'digital gold', and we do see investors switching some of their gold allocations to bitcoin more and more frequently.

Interest from institutional investors is rising

Access to Bitcoin has never been easier, as the infrastructure around digital assets has grown significantly over recent years. The main options available to institutional investors include:

- Direct physical holding of Bitcoins.
- Indirect physical investment through physical Bitcoin exchange traded products (ETPs), which eliminates the burden of managing keys and custody for the investor.
- Synthetic exposure through regulated futures like the CME instrument, offering the usual advantages that come with any other commodity futures contract (ease of shorting, leverage, etc...).

Against this backdrop, a lot of new buyers have been entering the market: wealth channels, family offices, asset managers, hedge funds... The pickup in demand is reflected in all parts of the digital asset space, with a strong pick up in open interest (currently over \$1bln) and trading volume on the CME Bitcoin futures over the course of the year, as well as over \$200mln inflows into European Bitcoin ETPs (Figure 2).

So Bitcoin has definitely been getting more interest from in the investment community lately. Only this time, the attention is also coming from financial institutions, and not exclusively from retail investors. Price action this year has been strong, with a 173.6% return year-to-date, and 379.4% from the lows of the Covid-related crash in March. As of this writing, bitcoin just reached a new all time high of over \$19,800. If we look at market cap (Figure 3), bitcoin actually reached a new all-time high a couple of weeks ago, as more Bitcoins are in circulation now than back in 2017.

Industry developments support the growth of the asset class

Some headlines have further helped Bitcoin over the course of this year. PayPal recently launched a new service allowing its users to buy and sell digital assets and announced that users will be able to spend digital assets on its network of 26 million merchants in 2021. The Bitcoin use case as a means of payment has never been tested on that scale, so that will be something to keep an eye on next year. In the meantime, users are already using the platform to trade crypto, and some even suspect buying activity from that new PayPal service to have underpinned the recent price rally⁴.

Furthermore, some firms have started to allocate some of their treasury to Bitcoin, highlighting the potential for a new source of demand for the asset. US-listed companies Square and MicroStrategy have respectively allocated \$50mln⁵ and \$425mln⁶. Both companies quoted a belief in the future growth of the digital asset space, as well as global macro uncertainty as some of the reasons for this decision. B2C2, one of the main market-makers in the digital asset space has reportedly been pitching a similar idea to large trade conglomerates in Japan.

In conclusion, a lot has been going on this year in the digital asset space. The uncertain macro backdrop, as well as new industry developments resulted in an improved outlook for Bitcoin, as well as an increased level of demand from more diversified sources. We believe that what we witnessed this year were only the early stages of a new paradigm to come for Bitcoin, shifting away from a quasi-exclusively retail asset to

a widely accepted financial instrument. This will certainly not happen overnight, but 2021 will probably be a key year to see whether the trend is confirmed.

To learn more about this topic, visit our [Bitcoin strategy page](#).

- 1 <https://www.economist.com/leaders/2020/10/08/the-pandemic-has-caused-the-worlds-economies-to-diverge>
- 2 <https://www.ft.com/content/734e604b-93d9-43a6-a6ec-19e8b22dad3c>
- 3 <https://www.ft.com/content/18527e0c-6f02-4c70-93cb-c26c3680c8ad>
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- 6 <https://www.theblockcrypto.com/daily/78646/microstrategy-ceo-interview-bitcoin-gold-dollar>
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