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Tema:Bitcoin: Safe haven, hedge or diversifier? Perception of bitcoin in the context of a country’s economic situation — A stochastic volatility approach

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| 2 | Bitcoin (...) was designed by Satoshi Nakamoto (allegedly a pseudonym of one person or a group of people) to work as a medium of exchange [1]. Contrary to ‘‘traditional’’ fiat currencies, bitcoin does not rely on any central authority, but uses cryptography to control its creation and management  Japan officially recognizes bitcoin and digital currencies as a means of payments. In Estonia, the use of bitcoins is not regulated or controlled by the government. In Venezuela, in 2016, the mining of bitcoin was declared illegal and in late 2017 the Government started to work on a comprehensive legal framework to tax and regulate cryptocurrency mining in the country (see: [2])  There are many opinions about the role that bitcoin plays in the economy. It is viewed as an alternative to fiat currencies or even as part of an alternative economy [4]. The role of bitcoin as a currency has been questioned by market experts, especially due to its volatility and the speed of transaction processing (see e.g. [5,6]). Some authors argue that bitcoin should be rather treated as a kind of a physical good, like gold or other precious metals. Dyhrberg [7] claims that bitcoin bears many similarities to both gold and the dollar (e.g. when hedging capabilities are concerned) and therefore its position on the market would be between the two assets. However, as Dorfman [5] notes, usually an asset has a tangible underlying use: e.g. gold can be a pure investment asset or be used to make jewelry. Bitcoin has no fundamental value, but it is similar to gold in the sense that its total amount is limited to a maximum of 21 million [8]. Thus, when people are unaware of the central bank’s policy or to the government policy, they may choose to locate their savings in bitcoin, as they used to locate them in gold.  Unlike [7], [9] claim that bitcoin is very different from gold and fiat currencies. It has unique risk–return characteristics, follows a different volatility process when compared with other assets, and is uncorrelated with other assets. Therefore, as a highly speculative asset, it differs from gold or the US dollar. This view is endorsed by many researchers, e.g. Glaser et al. [10]; Baek and Elbeck [11] or Williamson [6]  Again, mining of bitcoins was very popular in Venezuela, where hyperinflation and lack of confidence in the local government policy forced people to look for other options to earn their living. Chun [25] pointed out that under the socialist regime of President Maduro electricity was heavily subsidized so it became essentially free. Thus, bitcoin mining turned out to be an investment at no cost. However, in 2016 President Maduro announced that mining of bitcoin (and other cryptocurrencies) was unlawful despite the fact that bitcoin trading was perfectly legal. Then, in early 2018, the mining of cryptocurrencies was declared legal because the Government decided to launch the national cryptocurrency |  |
| 3 | bitcoin trading against the Chinese Yuan accounted for most of bitcoin’s trading volume until China started to clamp down on digital currency exchanges in early 2017. Eventually, in September 2017, a ban on the trading of bitcoin was imposed in China. Before the ban, the Chinese market used to attract majority of bitcoin miners, among others, due to low energy prices (similarly to the case of Venezuela). Another reason for such popularity of bitcoin in China could have been the intention of local investors to overcome capital control [17]. Thus, the situation of Chinese investors was somehow similar to the situation of the Venezuelan ones (cheap energy prices, regime, ban on cryptocurrency mining or trade),  When creating a portfolio, an investor tries to minimize its risk by including various assets that are likely to react in a different way to the changing market conditions. An asset that is on average positively correlated with the base one is called a diversifier. Diversification aims at smoothing out unsystematic risk events in a portfolio. The idea is that the positive performance of some investments could neutralize the negative performance of others (on condition that the assets are not perfectly correlated). A hedge is an asset that is typically uncorrelated or negatively correlated with the base one. An asset that is negatively correlated with the main asset during the economic downturn is called a safe-haven asset. Presence of these assets in a portfolio allows for overcoming possible losses under standard market conditions, as well as in the times of turbulences.  One of the research hypotheses assumed that it can be treated as alternative gold by some investors (see e.g. [7,30,31]. When investors lose confidence in the domestic monetary authorities and/or mainstream currencies, they can switch to bitcoin. While some authors confirmed bitcoin resemblance to gold [7], and confirm its safe-haven properties in some subperiods [18] — others came to very different assumptions. No resemblance to gold nor the ability of bitcoin to serve as a safe-haven asset was proved by Klein et al. [21] or Baur et al. |  |
| 10 | bitcoin can mainly be used as a hedge against market specific risk [42]. This is consistent with the results of Chan et al  contrary to e.g. Klein et al. [21] or Bouoiyour and Selmi [43], who strongly argued against the hypothesis that bitcoin can serve as a safe-haven asset, we managed to obtain such result for Venezuela, when local trade was considered. In fact, all of the researchers who denied the safe-haven properties of bitcoin, formulated their opinions based on aggregated bitcoin price and on stable markets. Venezuela is an exceptional case in our data sample, as it experienced a severe economic crisis, incomparable to the other economies. Therefore, we suspect that the safe-haven properties of bitcoin may reveal themselves only in extreme economic conditions, not in the standard ones or even in mild recession. |  |