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DID THE CORONAVIRUS PANDEMIC CHANGE THE PERCEPTION OF BITCOIN AS A SAFE-HAVEN ASSET?

It is natural in times of market turbulences or market crisis for investors to flee to the so-called safe-haven assets. By definition a safe haven is a type of investment that is expected to retain or increase in value during times of market turbulence. [1]. In other terms it could be said that a safe haven asset is uncorrelated or negatively correlated with other assets in distressed markets only [2].

Based on that different researchers and experts constitute a set of assets that possess the properties stated above. These generally include [3]:

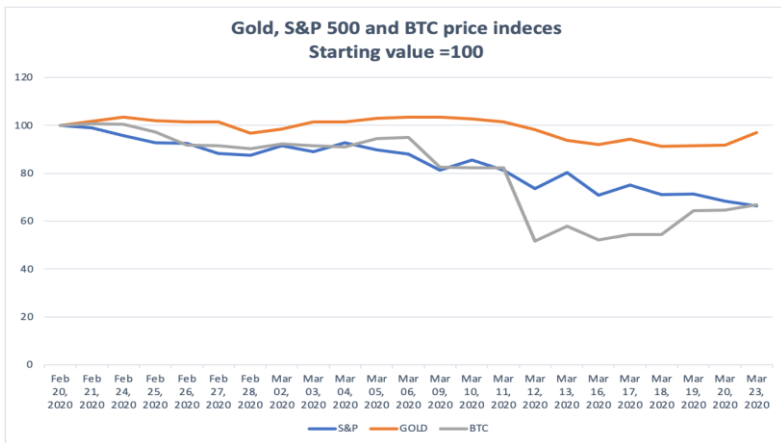
1. Gold – probably the first asset that comes into the mind of an investor when we speak about safe haven assets. Gold has large and liquid market; it is used in industry and was historically used as medium of exchange. And of course, its scarce – it's not absolutely rare but it's hard to produce. The market capitalization of gold, considering its current market price (1744 USD per ounce as of 09.04.21), is around 11 trillion USD [4].

2. Government bonds – these financial assets are considered safe-haven assets when issued by developed countries governments because of their well-developed market and the high creditworthiness of their issuers.

3. Currencies – under that point there are generally very few currencies that are considered safe-haven assets: the US dollar, Swiss Franc and Japanese yen.

4. Defensive stocks – these are stocks issued by companies producing and/or supplying essential goods that people need even in cases of crisis: water, food, electricity, gas, medicines.

One question that steadily appears in the recent years is: Can we consider Bitcoin as a safe-haven asset as well? This question was loudly raised during the COVID market crisis from March 2020 that heavily hit the financial markets all over the world. If we consider that market crisis period was between the first day of losses of S&P500 on February 20 and ended with its lowest point on March 23 we could easily see from the graph below that all the major assets, including gold, were hit by the massive selloffs.



Source: Yahoo finance, own calculations.

Since then, all these classes of assets increased their value, especially Bitcoin. If we look at a broader prospective, in the context of the safe-haven discussion, the following table could be helpful:

Bitcoin and Traditional Assets ROI (vs USD)			
	Bitcoin	Gold	S&P 500
1 year:	1032%	14%	61%
2 year:	1426%	33%	39%
3 year:	631%	31%	43%
4 year:	4705%	41%	66%
5 year:	14326%	40%	96%

Data Source: casebitcoin.com

Based on the graph and the table above we could conclude two things. First, Bitcoin incurred more losses than the other traditional assets during the Covid crisis. Second, since than Bitcoin's price surged more than 10 times and in general it's much more volatile than the other assets. It could be easily then said that we cannot consider Bitcoin as a safe haven. But that is at first glance. If we dig deeper in that issue, we could find arguments about the opposite.

Undoubtedly Bitcoin is completely different from all the other assets in discussion. It's a digital asset managed by computer code that is running on thousands of computers. Unlike every other digital money system, there is no central point of control that make changes to the money supply, which makes it fully decentralized [5]. Adding also the fact that Bitcoin's supply is predetermined since its birth to 21 000 000 bitcoins makes it similar to gold.

Bitcoin is digital and could be easily stored and moved around the world with almost no costs. Its volatility is really high but based on historical returns it's readily visible that it is a real store of value, especially recently when the authorities all around the world embarked on an extremely expansionary monetary policy trying to curb the damages of the pandemic.

As we are constantly touching the problem with volatility of Bitcoin, this could be justified in several ways. First, Bitcoin is an asset with a very limited history so far. It is typical for an asset of its early stage of development to be volatile. In case of Bitcoin, considering its unique properties compared to the traditional assets, it could be perceived as an emerging store of value. There has not been a single asset in its infancy that was not volatile. That is the way of an asset to grow in value. In that respect it is not quite plausible to compare Bitcoin and gold in real time. Now gold could seem stable priced but if we look at it in historical prospective, we can find periods of high volatility. For example, in the 1970's the return of the gold was 1 365 % and in 2000's it was 281 % [6].

It could be noticed that with the time the volatility of Bitcoin declines and the bitcoin doubling price time increases. An exclusion is the end of 2020 and the beginning of 2021 when the doubling times were short but explanations about that could be the will of the investors to diversify their portfolios flowing some money directly from gold to bitcoin [7].

Bitcoin's volatility is also related to its supply inelasticity. Bitcoin's supply is predetermined since its birth and a surge in demand could not be addressed by an adequate increase in supply.

Referring the criticism that bitcoin is not backed by nothing and hence has no intrinsic value the short response is that in fact it is backed by the software code and the agreement between its stakeholders.

In conclusion, it's still early to determine whether bitcoin will develop as a safe-haven asset. But for sure a key role in that process takes the deep analysis and understanding of its key features that are much different to ones of the traditional assets.

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СУЧАСНИЙ СТАН ІНВЕСТИЦІЙНОГО КЛІМАТУ УКРАЇНИ

Сучасний стан розвитку економіки України свідчить про необхідність суттєвих впливань інвестиційних ресурсів у окремі галу-