

# THE BIG PICTURE OF GLOBAL ECONOMICS



WITH

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## Cryptic markets

- Cryptocurrencies under pressure as US and Chinese authorities squeeze Bitcoin
- We strongly believe that cryptocurrencies, are here to stay in one form or another
- Gold continues to push higher in the wake of crypto problems
- US boom hits capacity constraints but they don't diminish the upside
- Europe's economy, vaccinations and markets showing sustainable momentum
- Asia's limited vaccinations continues to hold back regional equities

You might also like our [How Much Inflation Do You Want Before You Believe It?](#) and [This Is Not Normal, But It Is Probably For Real](#). Click [here](#) to read them for free.

**Investor' interest in cryptocurrencies hit a fever pitch in the past few months. So, it was only a matter of time before overexuberance hit a wall.** Last week Bitcoin tumbled 20%. Closing the previous Friday at \$44,940 at one stage, the price fell below intra day \$30,000 before recovering to around the \$35,000. Last week's high volatility in Bitcoin came as the Chinese authorities announced restrictions on how Chinese companies would engage with Bitcoin as a currency. Early in the week, the Chinese authorities banned banks and payment companies from providing crypto-related services. At the end of the week, the authorities cracked down still further on the mining and trading of Bitcoin.

### Chart 1: Bitcoin on the slide

*Closing daily prices*



Source: Coinbase

**China is very important for the mining of crypto.** A flooded coal mine in Xinjiang, China, on April 17-18 led to a blackout halt for one-third of all Bitcoin's computing power (source: fortune.com). It also highlighted that Bitcoin is a fossil fuel-driven currency. Mid-April marked the highs in Bitcoin. Sentiment in the market was also not helped when the US Treasury announced that they want to put in place new rules requiring cryptocurrency exchanges to report transactions over \$10,000.

### History of Bitcoin

**2011** - Bitcoin soars from \$1 in April to a peak of \$32 in June. By November, it's worth \$2.

**2013** - Starting the year at \$13, Bitcoin jumps to \$220 by April, only to change hands at \$70 two weeks later. The crypto then climbs from \$123 in October to \$1156 by December, then tumbles to \$760 in three days.

**2017** - Trading around \$1K in January, Bitcoin reaches nearly \$20K by the end of the year.

**2018** - Prices steadily decline, eventually tracking back to the \$3,500 level.

**2019** - Bitcoin tops \$10K again over the summer but ends the year at \$7K.

**2020** - Dropping to a low of \$5,200 as the pandemic set in, the crypto goes on to reach \$30K.

**2021** - Momentum picks up as Bitcoin breaches \$40K, \$50K and \$60K, before the most recent crash.

Source: Wall Street Breakfast

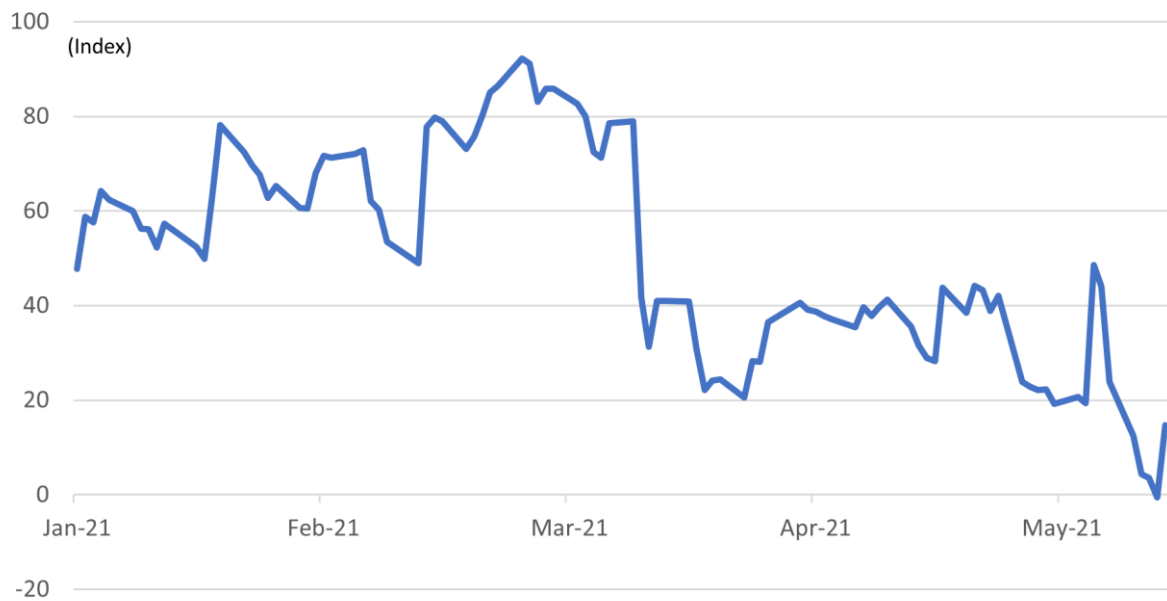
**To be clear, it would be wrong to rubbish cryptocurrencies after a week of highly volatile trading.** However, almost like the coming and maturing of the tech revolution, the over-exuberance of investors can take an asset class to levels that they might not reach again for some time. The NASDAQ rally of over 200% in 18 months, with a good measure of overexuberance, ended on March 20th 2000. The NASDAQ subsequently fell 27% from a peak of 5,048 in a few weeks and bottomed at around 2200 (-56%) in September 2002. Years later, the tech sector has been omnipotent as an investment for the past 13 years.

**We strongly believe that cryptocurrencies, like the tech sector in the past, are here to stay in one form or another.** Our money is no longer pieces of paper it is entries on a computer system. Payment systems are a very valid growth sector. Our currencies have never been so manipulated by geopolitics and wayward central bankers. Many people fear that the dollar is the 'dogecoin' of FIAT currencies. It will be interesting, which has more credibility a decade from here!

**Gold was the asset that won out from Bitcoin's volatility.** Despite initial weakness, the gold price was up to \$1882, a net +2.2% by the end of the week. Bitcoin has helped the yellow metal higher, as has the weakness of the dollar. However, there may be a pending headwind as analysts debate the impact of Fed meeting minutes that showed the start of discussions on when the Fed might taper its bonds purchases.

It was a weird week with some of the recent pro-cyclical sectors dipping on weaker than expected US growth data. The economic surprise index measures the degree to which US economic data comes in above or below economists' forecasts. The index briefly hit zero, a long way from the index level of 91 seen in March.

**Chart 1: US economic surprise index slips to negative**



Source: Bloomberg

**The US economic boom is hitting capacity constraints from supply shortages of inputs to scarcity of labour.** Shortages won't take the demand away, but it will constrain how much companies can make out of the near-term growth. Some of the shortages will surely diminish. Note last week that US gas at the pump prices rose above \$3 for the first time in 2014, but this is largely down to the cyber-attack on pipeline infrastructure.

Investor confidence that US boom conditions will continue is helped by a vaccination programme that is on track to have everyone above the age of 18, (who wants to be vaccinated) completed within the next 2-3 months.

The vaccination ramp up is also very prevalent in Europe, which allows for a re-opening after a slow start. Economic data is showing the impact of re-opening that vaccination has allowed. The May PMI report published last week showed a 3.1 point increase in headline industrial confidence. The services sector led the improvement, with the index up to the highest level since 2018.

**The acceleration of reopening should help the European equity markets to continue the rally we have seen in recent months.** Purely the news effect of re-opening economies, with the potential for another round of earnings upgrades will be helpful for the market.

**The better news out of the US and Europe contrasts markedly with the COVID challenges in Asia.** Higher than comfortable levels of new incidences of COVID in countries that still lack significant enough levels of vaccination is delaying any path to normality. The difficulty for investors is gauging whether they should reduce when they know that any spark of good news is likely to see a sharp rotation back into Asian equity markets that have performed poorly.

**Japan is a case in point, with just 4.1% of the population vaccinated,** according to Reuter's global tracker, the slowest pace of vaccination of the world's largest countries. It seems that

the country will be running scared of COVID 19 for some time to come. Since January 2020, the equity index is up 22%, while the expected level of corporate profits for 2021 is up 10%, hence a PE multiple expansion of 10%. The US has seen a PE expansion of 20%.

**The hope for Asia is that solid export growth will tide the region over while they get on top of the vaccination logistics.** Japan's first-quarter GDP growth showed notable weakness in domestic demand but robustness in export. Indonesia's export orders were up 52% year on year against expectations of +40%.

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