BITCOIN HITS $50,000, THE 10-YEAR YIELD HITS 1.3%

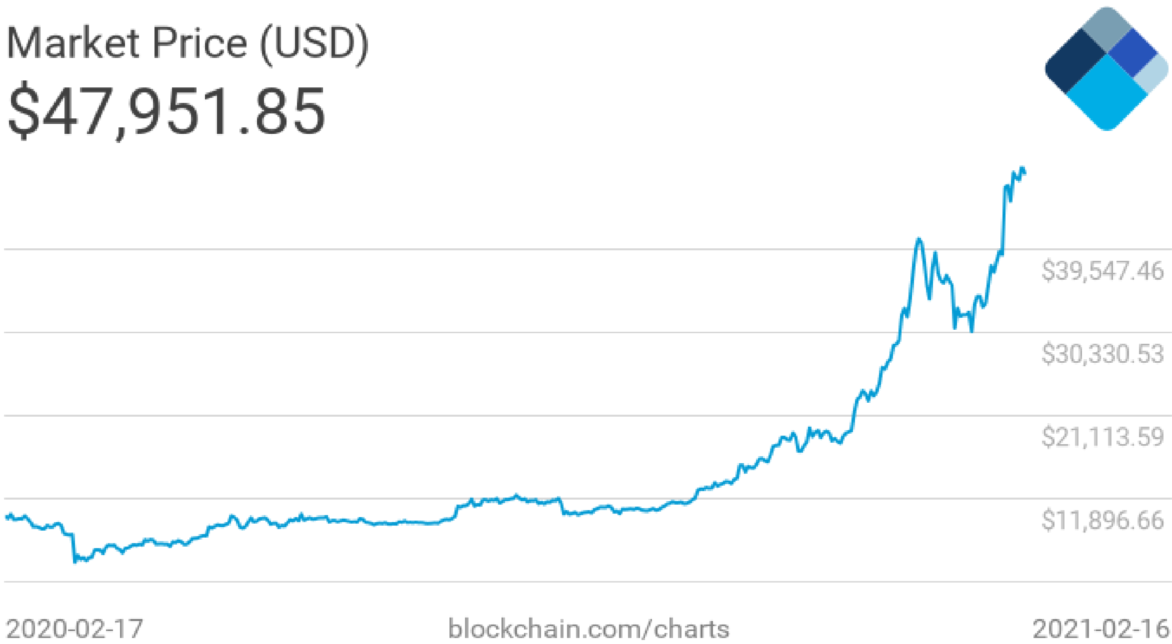
It is not commonplace for the bourgeois or financial media to provide an insightful article into the workings of the capitalist economy. The modern version of the invisible hand would be the self-driving economy, and we know that such an economy is a car crash waiting to happen. The value of the Financial Times article is that it deals with just such an event, literally the canary flying in front of the car startling its optics. https://www.ft.com/content/16a37710-cbff-41b1-af96-7dc8b2de0c43 by Rana Foroohar 14th February.

Quoting Luke Gromen in his newsletter *Tree Rings* she shares his comment that Bitcoin is not so much a bubble as the last functioning fire alarm warning of large geopolitical changes ahead. By this Mr Gromen means a diminished role for the US economy and particularly the Dollar in the future. Ms Foroohar agrees with this prognosis, declaring that the activity or should we say generosity of central bankers over the last 10 years has quashed price discovery. By this she means asset prices no longer provide a sense of the health of the underlying economy nor its indebtedness.

Gold buffs would challenge this hypothesis. Traditionally, any dollar crisis is registered as a flight to gold, the traditional store of value. However, despite Bitcoin trebling in price since August, gold measured in dollars has fallen 10% to hover around $1,800 stalked by rising bond yields which reached 1.3% on Tuesday (10-year Treasury yield). Additionally, jewellery demand was subdued as was central bank buying. However, the demand for gold for investment purposes did increase. "*Conversely, increased uncertainty and policy response to the pandemic supported annual investment demand, which increased 40% y-o-y to a new high for our series of 1,773.2t.*" Gold Council https://www.gold.org/news-and-events/press-releases/weak-fourth-quarter-sets-seal-11-year-low-annual-gold-demand

Graph 1.

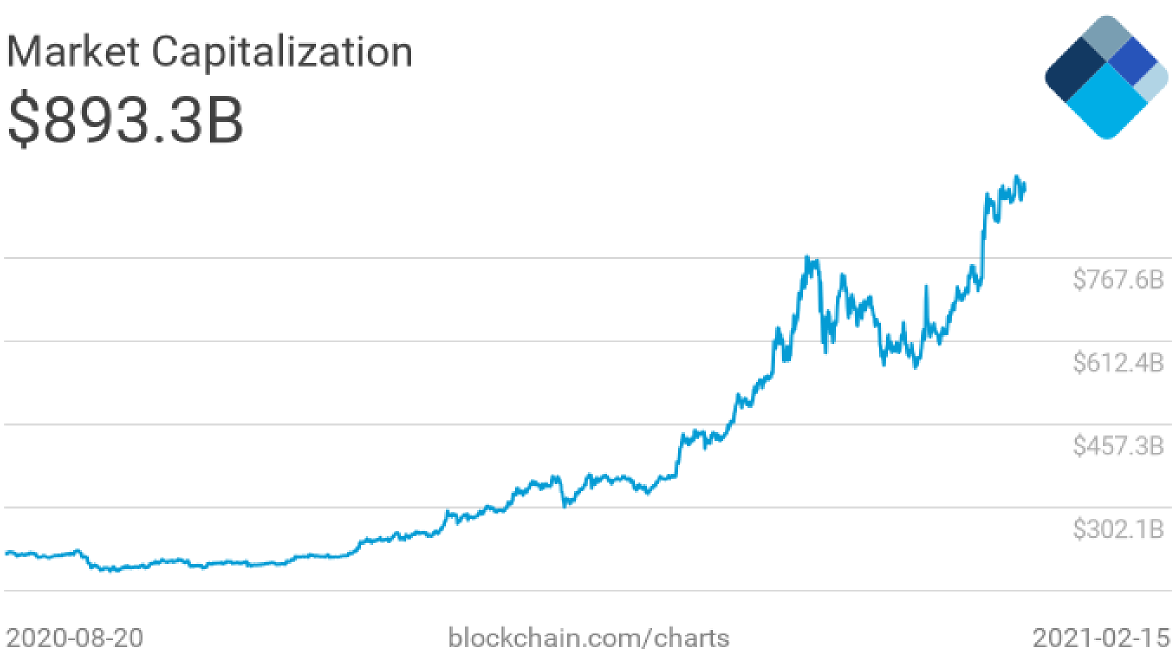
Graph 2. (Bitcoin Price)



https://www.blockchain.com/charts/market-price

Despite the surging Bitcoin price, the value of gold held for investment purposes by individuals as well as central banks, stood at $1.84 trillion, or double the size of the Bitcoin market. And new gold is being continuously mined unlike Bitcoins. https://www.gold.org/about-gold/gold-supply/gold-mining/how-much-gold However, the gap is getting smaller by the day, that is until it does not.

Graph 3. (Total Bitcoin Cap)



Bitcoin is no longer a niche market. Approaching 1 trillion dollars it is a major speculative destination.

Bitcoin is not money.

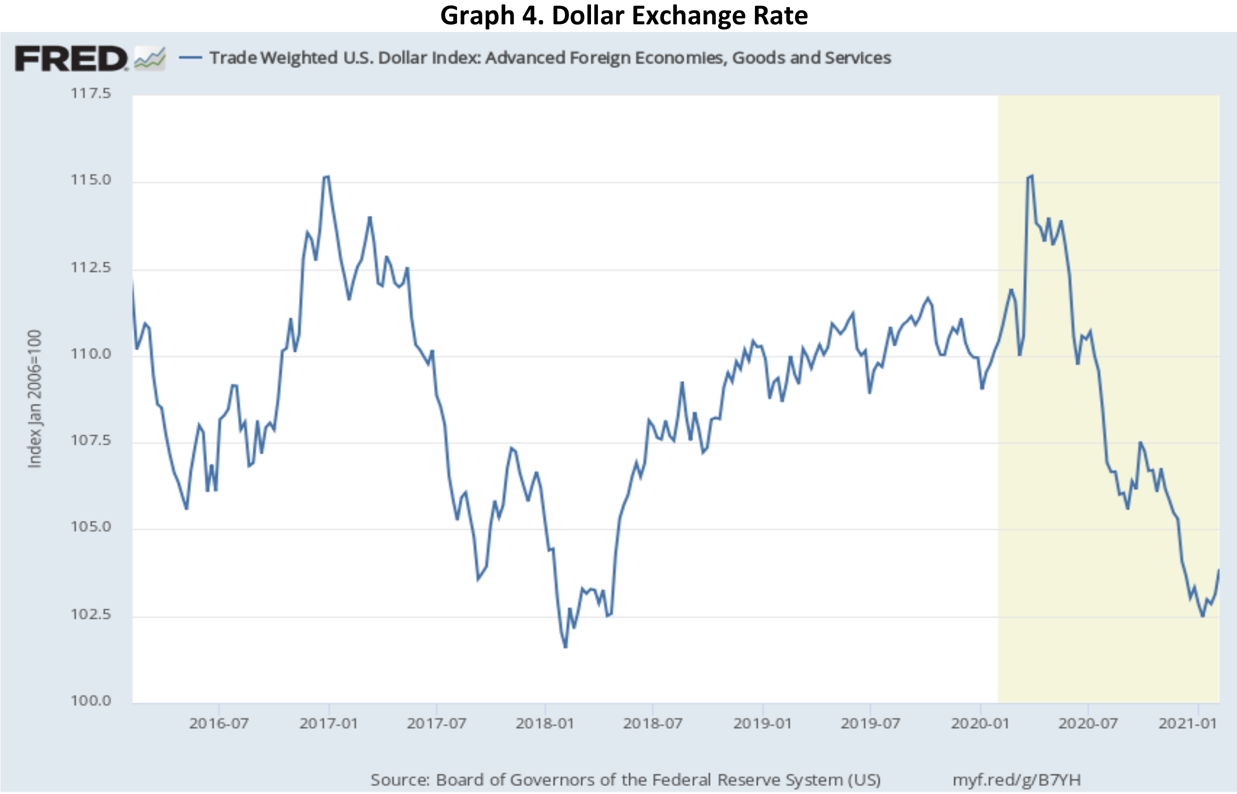
Bitcoin is a Ponzi scheme, a tantalizing experiment and an ecological disaster. What it is not, is money. To qualify as money, whether material money or token money, three conditions have to be met. Firstly, as material money – silver then gold – it has to be a depository of labour and thus be the substance of value. Secondly, and turning to token money, it has to be convertible into gold. Thirdly, and remaining with token money, or if not convertible into gold, token money must be backed by the state and its tax revenue.

In other words, modern token money is currency of the state. In the case of the dollar, it has acted as the de facto reserve currency since the end of the Second World War. However, as the US's hegemonic hold on the world economy slips, so too ebbs the global role of the dollar.

As state backed currency, token money can serve to circulate commodities without itself being a substance of value. As long as it holds onto a commodity with one hand and onto another commodity with the other for the purposes of exchange, and as long as both the respective sellers and buyers have confidence in its ability to pass on value, it serves as the medium of circulation both nationally and sometimes internationally. Similarly, when it takes credit given and credit taken in each hand it serves as the means of payment.

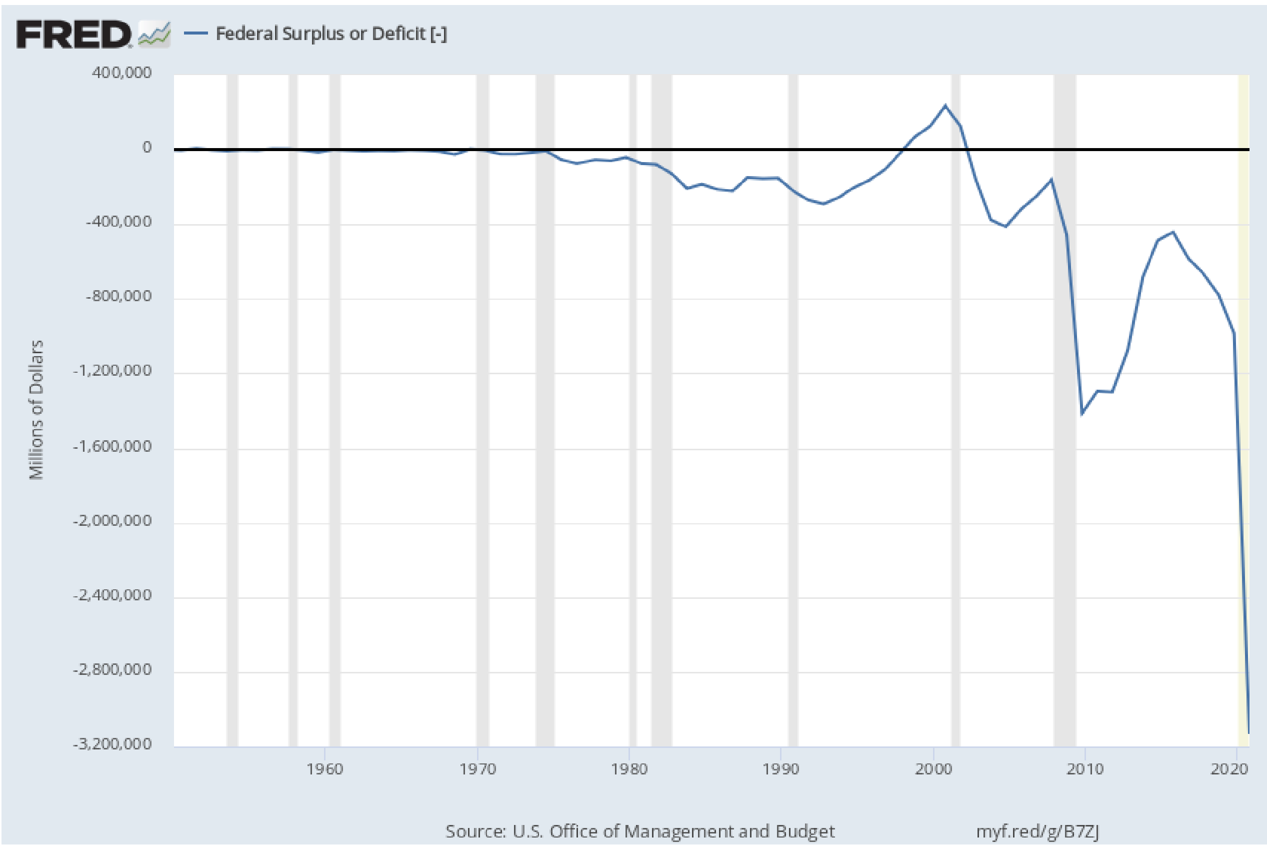
Because state currency has no intrinsic value, it is backed by the finances of the state. There can be no stable currency without firm state finances. Any chronic and unattended budgetary deficits mean an unstable state currency because the tax revenue which backs the currency has been compromised. This is the threat facing the dollar, which is eating away at its exchange rate.

Graph 4. Dollar Exchange Rate



We see in Graph 4 that the exchange rate for the dollar shot up in the lead up to the pandemic, and then when the scale of the relief funds became clear, it fell precipitously. The scale of the relief funds since March, and factoring in Biden's current $1.9 trillion Bill, will amount to a cumulative $5.6 trillion. As the Graph below shows, the deficit in 2020 was $3.132 trillion, or 15% of GDP. If we add in local government deficits this would be much larger. In 2021, if Biden passes the $1.9 trillion and his infrastructural Bill the deficit could be just as large.

Graph 5.



Graph 4 and Graph 5 are connected. As long as the deficit soars the dollar is put at risk. Additionally, falling confidence in government finances means that the US Treasury has to pay more to borrow to cover its deficit. On Tuesday the 10-year yield approached 1.3% spooking the stock market. In turn, as market leading rates rise in the US, they drag bond yields in other countries behind them. The 30-year German Bund is now in positive territory and it is only a matter of time before the 10-year Bund joins it. We may be witnessing the ending of negative yields despite the poor Bank of England entertaining negative yields to soothe investors in UK gilts who are leery of the yawning fiscal deficit.

Thus, state currency is more than pretty pieces of paper with security features and monsters on its face. It sits at the heart of a complex web spun out of state finances, capital flows and balance of payments, with the web continuously strumming from the movement of interest rates on government securities. State currency is complex, but this is rarely appreciated by observers, particularly those who believe that because the state is the issuer of currency, it can get away with financial murder.

We can therefore see that Bitcoin has none of the features of a state currency. That is why the author in the latter part of the article is wrong when she assumes "*Bitcoin could float above currency nationalism which might result from the new world order"*, one that "*could easily cross borders*", in other words a supranational currency. She talks of pending regulation, but regulation does not turn Bitcoin into money, only state backing does. And this will not happen.

Bitcoin has nothing in common with the digital currency the People's Bank of China is proposing. This currency will be based on a basket of prominent currencies, whose weight in the basket would be adjusted from time to time by trade and capital flows between economies. This is not dissimilar to Keynes' proposal at Bretton Woods which was swotted down by the US state department pursuing its goal of elevating the Dollar to international reserve status.

The rise in interest rates and Bitcoin have been counterposed in the heading to this article. This is not arbitrary. Cheap money has been at the heart of the speculative bubble since 2009. It may be ending. This year has seen the steepest rise in global interest rates since 2013 which has depressed the market cap of bonds. It also imperils all the other speculative markets especially shares. Once the US 10-year rate rises above 1.4% it enters the amber zone. Once it rises above 1.6% it enters the red zone, the point of which money is no longer cheap and excesses are wrung out of the system. It seems that the pandemic may have mutated and found a new victim, Wall Street. Alongside the loss of paper profits we are about to witness the loss of digital profits where all the 1s turn into 0s.

All is not lost.

The technological developments leading to Bitcoin and digital wallets, mainly located on smartphones, are important for the future. Digitising labour vouchers is the ideal way of recording the labour contributed and withdrawn in a communist society, as well as informing the planning bodies of the spending patterns in society. In China today, hardly any currency is being used in the sphere of personal consumption and the transfer of money. These achievements bode well for the future.

Brian Green, 16th February 2021