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Will the Brexit and China Continue to Influence Bitcoin Prices?

Charles Bovaird | Published on July 17, 2016 at 17:40 BST

FEATURE

In the previous weeks, macroeconomic uncertainty has spurred investment interest in bitcoin, but is this likely to continue?

As we covered last week in our H1 2016's market analysis, prices have pushed up 50% from 1st January, and two key drivers were, at least according to market observers, uncertainty in China (where the yuan has been devalued) and Europe (where the UK voted to leave the EU in an event known as the 'Brexit').

Looking ahead to the second half of the year, it remains unclear, however, if these events will continue to be factors impacting digital currency price movements.

But, economists are now suggesting that should China's economy falter in the wake of the 'Brexit', heightened risk aversion may cause investors to look again at risk-off assets including bitcoin.

Three economists spoke with CoinDesk about this situation, shedding some light on the complex nature of China's economy and how the global superpower could be adversely affected by the Brexit.

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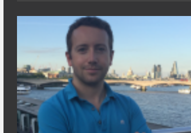

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Risk to trade

Since China does substantial business with both the UK and the broader European Union (EU), economic difficulty in either entity could undermine business conditions in China.

Sam Rines, senior economist and portfolio strategist for Avalon Advisors LLC, told CoinDesk that a slowdown in EU demand for Chinese goods would present "a tremendous risk to the Chinese economy".

The "single market for Chinese goods" could also suffer if the Brexit triggers a "domino effect" of other nations leaving the EU, said Usha Haley, professor of international business at West Virginia University.

In addition to potentially suffering undermined trade, China's foreign direct investment could take a hit, Haley, who has researched and advised companies on Chinese investment and trade for more than a decade, told CoinDesk.

"In broader economic terms, with Brexit, China has lost a strong supporter for its free-market status within the EU," she stated, adding:

> *"Chinese investments in the UK made to access the single European market look less attractive and some foreign investment will be put on hold."*

Debt concerns

Market observers have repeatedly warned about China's growing debt, and both Rines and Haley spoke to the risk exposures this development has generated for the nation as a whole.

"Eight years of expansionary fiscal policy have left China with a staggering debt-to-GDP ratio of 225%," said Haley. "China has about $2.4tn of corporate debt at risk of default, leading to a very worrisome global financial future."

Rines added that if Brexit slows the EU economy substantially, EU trade with China will slow, and more debt will become unserviceable.

"This would be a negative shock, not only to China, but the world," she said, adding that the coordinated actions of central banks have helped stem any immediate damage.

Chen Zhao, co-director of global macro research at Brandywine Global, agrees policy responses have been "quick and decisive".

While a number of analysts have warned about China's growing debt burden, Zhao asserted that the "concerns over China's debt and its associated risks are grossly exaggerated".

He emphasized that in developing nations, "debt occurs primarily because savings needs to be converted into investment". Since China has such a high savings rate, its "high leverage is inevitable".

Rines also weighed in, stating that "there is certainly too much debt, but China has a significant capacity to paper over the issue in the near-term".

Regardless of how capable the nation is of addressing its highly leveraged nature in the short-term, Chen emphasized the problematic nature of China's state-owned sector. This industry "consumes too much credit — it uses 80% of total bank credit to produce only 20% of GDP".

He added that "this issue must be addressed before the economy can regain efficiency".

Potential shift

While legitimate efforts to resolve this situation may represent a sea change in policy, Zhao emphasized that the Brexit could potentially represent a broad shift away from the globalization that has "dominated the world economy for the last 30 years".

Should this change take place, it could have a particularly large impact on China, which has benefited substantially from globalization.

By providing additional additional headwinds to this major economy – and also fueling greater uncertainty – a shift away from globalization could potentially provide bitcoin prices with additional tailwinds.

Charles L. Bovaird II is a financial writer and consultant with strong knowledge of securities markets and investing concepts.

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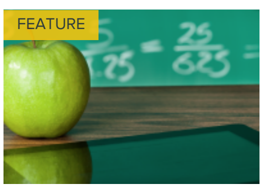

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