FEATURES • PRICES

Bitcoin Price Impact Debated Ahead of Possible Japan Stimulus

Charles Bovaird | Published on July 27, 2016 at 22:40 BST

FEATURE

425 177 9 41

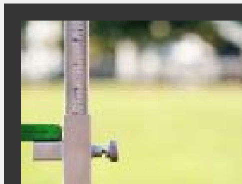
The price of bitcoin has benefited from macroeconomic uncertainty this year, rising more than 50% over the last six months as China devalued the yuan and the UK dramatically exited the European Union.

As the calendar rolls ahead to August, and excitement over these price drivers fades, market observers are beginning to wonder if further global events will benefit the digital currency's markets in 2016.

Against this backdrop, a Bank of Japan (BOJ) meeting approaching later this week has many digital currency market observers wondering how any new easing announced by the central bank could come to impact the price of bitcoin.

If the central bank uses additional stimulus, this move could place downward pressure on the yen's buying power, motivating market participants to flee the currency and purchase safe haven assets like bitcoin instead. Of course, the perception that this event could occur may be just as powerful given that the bitcoin price is often driven by speculation, in both senses of the word.

A majority of economists participating in a recent *Reuters* poll – as well as the most respondents in a survey conducted by Citi – indicated their expectation is that further easing will come from the BOJ's meeting, to be held on 28th and 29th July.



Why EBA Proposals Would Set an Absurd Precedent for Bitcoin Startups

Bitfinex Heist Rings the Alarm of Bitcoin Centralization

July Bitcoin Price Report: Confidence Hits 2016 Highs Amid Halving

CoinDesk received similar responses when speaking with economists.

For example Usha Haley, professor of International Business at West Virginia University, stated that the market is still expecting "some form of easing" at the BOJ's policy meeting next week, even if the extent of this stimulus is not clear.

Fiscal policy

Regardless of what methods of easing the central bank decides to use, more than one market expert emphasized the key importance of fiscal policy.

"Market expectations are such that the BOJ has to do something 'big' or they will risk disappointing the market," said Jack McIntyre, CFA and portfolio manager for Brandywine Global Investment Management.

He said that he believes more than $10tn ($94bn) must be injected into the markets in order for the actions to be viewed "positively".

"That fiscal stimulus cannot be smoke and mirrors – it needs to go to actual increases in government spending," he emphasized.

Chris Burniske, analyst and blockchain products lead for investment manager ARK Invest, also stressed the importance of "aggressive fiscal policy," noting that it is one of the few remaining options left for spurring growth since Japan's interest rate policy and quantitative easing have been ineffective.

Should the Japanese government decide to implement aggressive fiscal policy, this approach could increase the money supply and potentially spur inflation by lessening the yen's buying power.

Expert predictions

While market observers seem to have high hopes for the Japanese government stimulus, they are divided in terms of how these initiatives will affect the yen.

Burniske spoke to this situation, emphasizing how the goal of "aggressive monetary and fiscal policy" is spurring growth, and along with it, inflation.

He said:

> *"Of course, inflationary fiat makes the long-term deflationary structure of bitcoin all the more appealing."*

Greater BOJ stimulus might push the yen lower, Samuel Rines, senior economist and portfolio strategist for independent registered investment advisor Avalon Advisors LLC, told CoinDesk.

However, he suggested that markets have already begun to move to offset or capitalize on this action, meaning any impact from the announcement, including any benefit to bitcoin, could be limited.

"Markets have begun to price in some of the stimulus. So the amount of reaction there may be minute," he said.

While the aforementioned market observers spoke to potential yen weakness on the horizon, Oana Aristide, senior economist at Dun & Bradstreet UK, spoke to the currency's strength.

"On the yen, our view is that most influences point to strength rather than weakness," she said. "There is more monetary easing coming in Japan, as well as a substantial fiscal stimulus package, but none of these are novel for 'Abenomics'; it is worth noting that the BOJ's latest major move (switching to negative interest rates) actually resulted in a slightly stronger yen."

Finally, Aristide added that since Japanese officials have ruled out so-called helicopter money, her firm expects the yen to continue to experience volatility, but maintain a "strengthening bias" when compared to other major currencies.

Bitcoin impact

Digital currency market experts seemed, on the whole, a bit more reserved in terms of how they believed such actions would affect the bitcoin market.

Petar Zivkovski, director of operations for bitcoin trading platform Whaleclub, described further easing as "bullish" for bitcoin, although he asserted that "the BOJ's actions are not catalytic enough to spark any significant change in trading activity in Japan".

McIntyre cast doubts on the idea that further BOJ easing would spur investors to flock to bitcoin.

"I don't believe that a weak yen by itself drives the Japanese to shift money into bitcoin," he said, adding:

> *"The more likely scenario would be a flight to safety that drives Japanese money offshore. Expect to see the Japanese retail investor chase yield in places like Brazil, Mexico, South Africa and New Zealand."*

Currently, Japan is in a "dangerous situation" characterized by negative interest rates and balance sheets laden with cash that is not going to use, Burniske emphasized.

As the nation's officials make an effort to remedy Japan’s economic malaise, we will simply have to wait and see how effective they are.

The policy of other central banks – for example the Federal Reserve – will also play a key role in determining how strong the Japanese yen is relative to other currencies.

Should the Asian nation require significant stimulus going forward, such developments could help drive continued weakening of the Japanese yen, spurring market participants to flee the currency, and potentially, consider alternative assets instead.

Image credit: TK Kurikawa / Shutterstock.com

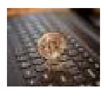
Asia | Bank of Japan | Japan | Prices

425 | 177 | 9 | 41

PREVIOUS ARTICLE

Financial Stability Board Still Weighing Digital Currency...

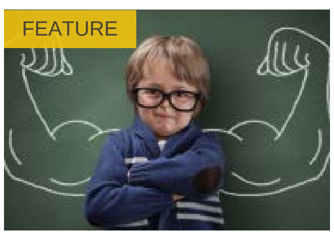
NEXT ARTICLE



Why Florida's 'Bitcoin Isn't Money' Ruling Could Have...

RELATED STORIES

FEATURE



Aug 14, 2016 at 21:40 | Charles Bovaird

July Bitcoin Price Report: Confidence Hits 2016 Highs Amid Halving

Bitcoin prices experienced modest fluctuations in July, pushing higher in anticipation of the halving and then declining after the event.

NEWS

Aug 11, 2016 at 00:46 | Charles Bovaird

Bitfinex Draws Volume as Traders Test Experimental BFX Tokens

A market is developing for Bitfinex's newly issued equity tokens, with their value rising 4x in the hours after the troubled exchange's reopening.