How Reliable Will Bitcoin Be As A Hedge Against Inflation?

By Laurie Dunn | Published 1 day ago

(http://www.youtube.com/channel/UCeUMQD_XZCTw24Be8crGWDg?sub_confirmation=1)
Bitcoin has a limited supply of $21 million so it can’t be printed to infinity like the dollar. Its price has risen dramatically over time and continues to do so. However, is it too new as an asset to be a reliable hedge against inflation?

Gold has endured the centuries, holding its value through the most turbulent ups and downs of financial history. It is said that Bitcoin is digital gold and many investors are starting to see it as the safe haven in the digital world, just as gold is in the traditional world of finance.

That being said, there are those that say that Bitcoin is just too young to be regarded in the same way as gold.

In a Bloomberg article (https://www.bloomberg.com/news/articles/2021-03-17/is-bitcoin-an-inflation-hedge-the-opposite-effect-could-happen-in-recession), Cam Harvey, Professor of Finance at Duke University, states that gold is also subject to short crashes. In actual fact, it has fallen 9% so far this year, and that in the face of expected rising inflation.
However, he does add that Bitcoin appears to fluctuate wildly whether inflation is mentioned or not:

“What’s going to happen to Bitcoin? It’s really unclear,” And “The price is not just driven by the money-supply rule, it’s driven by other speculative forces. That’s why it’s multiple times more volatile than the stock market.”

He said that an inflation-induced recession could see investors just as likely to withdraw from their cryptocurrency positions given that they were seen to be far “riskier”.

A counter argument in favour of using Bitcoin as a haven, is that its constant rise in price is an “early warning sign” for traditional finance markets that are becoming more vulnerable to approaching financial calamities. One of which, inflation, could “explode” as a result of the extreme amount of money printing.

Chairman of the Federal Reserve, Jerome Powell, argues that large monetary aggregates in past times did not lead to inflation and that this was a worry that needed to be “unlearned”.

Marc Chandler, Chief Market Strategist at Bannockburn Global Forex, says that prices of various commodities were a far more reliable sign of inflation than is the price of Bitcoin.
“The high priests of the cryptocurrency space look for any reason to help their case,” he says. “I’m still hesitant to think that Bitcoin tells us anything about high-frequency economic variables.”

Rising Bitcoin prices acting as a sign for impending inflation or not, many investors might still be attracted by the cryptocurrency not having any links to the traditional financial system. Could that be seen as a hedge in itself?

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