Is Bitcoin the perfect inflation hedge? The 10-year calculation leaves no doubt. But beware of the speculative nature of the crypto
Inflation at its highest level since 1990 and Bitcoin punctually sets new records. Coincidence? For many analysts no, indeed it is something they had predicted for some time, namely that the largest digital asset in the world would become an excellent hedge against rising prices in the economy.

The core of the argument is precisely that, unlike dollars or any other traditional currency, digital currency is designed to have a limited supply, so it cannot be devalued by a government or central bank.

Bloomberg Opinion’s John Authers did the math by revealing that over the past decade, the consumer price index has risen by about 28%, and naming that indicator in Bitcoin shows a deflation of 99.996%. In other words, what a Bitcoin cost 10 years ago would now cost 0.004 satoshi, or a smaller unit of the cryptocurrency that is now trading at around $ 65,000.
Bitcoin hedge against inflation: supporters and opponents compared

Since its inception in 2009, after the great recession, several analysts have argued that Bitcoin is a hedge for inflation.

US consumer price data released a few days ago, revealing an increase at the fastest annual rate since 1990, has effectively sanctioned high inflation as a hallmark of the pandemic recovery. Many prominent Wall Street investors and analysts have backed the idea of using cryptocurrencies as a hedge against rising prices.

Thus the billionaire investor Carl Icahn he defined for example Bitcoin the best inflation hedge, just in a moment, such as the one we are experiencing, when the flare-ups of prices have become the obsession of investors.

Similar is the view of the legendary trader Paul Tudor Jones which defined Bitcoin a hedge to hedge against inflation better than gold: “Bitcoin would be a great hedge – said Jones, speaking on CNBC’s” Squawk Box “- Clearly, right now cryptocurrencies are winning the race against gold... I also think they would be a very good hedge against inflation “.

And if this were precisely the real reason that is leading Bitcoin to reach new heights, namely the fact that it is increasingly perceived as an inflation hedge? They think so the strategists of JP Morgan, who are part of Nikolaos Panigirtzoglou's team, explaining the Bitcoin rally: “By itself, the BITO (Bitcoin ETF landed on NYSE) is unlikely to trigger a new phase of a significant amount of fresh capital pouring into Bitcoin – wrote the strategists, referring to ProShares Bitcoin Strategy ETF – We believe that the perception of Bitcoin as a better inflation hedge than gold is the main reason for this rise, as it has been underway since September a transfer of funds from gold ETFs to funds investing in Bitcoin “.
About half of the bitcoin rally was driven by inflationary fears

Bloomberg Economics economists estimate that around half of Bitcoin’s recent returns can be explained by fears of inflation, while the other half comes from market exuberance and momentum trading. But there are also many counter-arguments, most notably the fact that Bitcoin hasn’t been around long enough to establish that it can definitely act as a hedge amidst rising prices.

"We don’t have a long enough history to say that Bitcoin is really an inflation hedge," said Wilfred Daye of Securitize Capital. "I would say that gold is still a better hedge against inflation. But Bitcoin as an inflation hedge is an attractive new concept and people love new ideas."

Theoretically, there’s no link between the Bitcoin offering and anything that happens with the Federal Reserve or any central bank, says Cam Harvey, a Duke University professor and Research Affiliates partner. This means that it should not be affected by any inflationary policies that are being pursued around the world. Furthermore, the price of Bitcoin is very volatile – and in the long run, inflation is not, he says.

In his research on gold, Harvey found that it has held its value well for millennia. But he also found that he is prone to delusions and slumps over shorter periods. Finally, Bitcoin does not behave as if it is decoupled from the rest of the economy. “It acts like a speculative good” Harvey said citing the coin’s decline in March 2020, when it lost about half its value amid a plunge in US equities. “Investors need to be cautious if they think an allocation to
Bitcoin will provide short-term inflation protection, because we know that if inflation rises unexpectedly, that’s bad for equities.” “And if something is bad for equities, it could lead to a trade risk-off,” he concludes.

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