


Chapter 23

The Impact of US Monetary Growth on Bitcoin Trading Volume in the Current Economic Uncertainty

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ABSTRACT

This study examines the effect of US monetary growth on Bitcoin trading volume. To achieve this purpose, firstly, the symmetric causality test is used. Following this test, another symmetric causality test is used to reveal a time-varying causal effect between variables. The data set covers the period from July 2010 to July 2019. The results of the first symmetric causality test, which considers the time interval of the study data as a whole, show that there is no causal relationship between variables. According to the results of the second causality test, these support the previous results substantially. However, an interesting detail is the causal relationship between variables for the period between April 2019 and July 2019. The reason for this relationship could be that investors who are indecisive during the current economic uncertainty add Bitcoin to their portfolios in response to the Federal Reserve's decisions.

INTRODUCTION

Recent political events and macroeconomic developments in the world have pushed the global economy into a recession. Thus, the uncertainty in the global economy has gradually increased. The trade war between the US and China has led to a slowdown in the world economy. These two countries constantly impose tariffs on each other. In the struggle of the two largest economies of the world, more tariffs mean less trade. Less trade means less economic growth. A decrease in trade affects the global companies most and they start to shrink. Therefore, they have lower turnover and profit. For this reason, stock markets have been falling all over the world for almost a year. This situation causes investors to adopt a wealth-

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protecting attitude. Investors sell their shares and seek safe havens. Other leading political and economic situations influencing the global uncertainty are stated below:

- The recession in the European economy,
- Disputes in the process of the United Kingdom's exit from the European Union (EU),
- The resignation of the Prime Minister of Italy,
- Yellow vests protests in France,
- Terrorist actions in Syria and the Middle East,
- Protests in Hong Kong since June 2019,
- The economic crisis in Argentina,
- The economic crisis in Venezuela,
- An increase in the number of central banks with interest rates at negative levels,
- Due to a seeking safe havens, an increase in demand for government bonds with negative returns.

Considering all of these above, the world is struggling with many problems at the same time. Under these circumstances, investors are considering the idea of adding a new financial instrument to their portfolios to preserve the value of their wealth. If there is uncertainty in the global economy, returns on financial assets are on the agenda more than usual. When the current economic period is observed, it is understood that the fluctuations in the prices of financial assets are higher than during stable periods. Similar incidents have led to a decline in the confidence of some investors in certain financial assets and a new pursuit for a safe haven. Especially in recent times, many currencies in the world have lost their value, whereas gold has gained value. This is due to the increase in investors' demand for gold to protect their wealth. In addition to gold, silver returns, which are a cheap alternative to gold, have also risen significantly. Among other currencies, the Japanese yen stands out with its solid stance against the American dollar. Today, the number of people who think that Bitcoin is among these financial assets is considerable. This is probably since some countries are unable to purchase gold. These countries can, however, take advantage of the decentralization of Bitcoin.

Bitcoin, which emerged at a time when the effects of the economic crisis in 2008 were continuing, has not encountered what could be called a crisis in its ten-year life yet. Nevertheless, it has had a first on something lately. At the end of July 2019, Bitcoin faced a Federal Reserve's interest rate cut for the first time in its history. This has never happened before. It seems that Bitcoin's trading volume has positively reacted to this interest rate cut. From this point of view, the question of which parameters affect Bitcoin is also considered in terms of monetary growth.

In order to link Bitcoin trading volume with US monetary growth, the background to money supply and monetary policy will be briefly outlined in section 2. Section 3 is divided into two parts. The first part discusses primary studies related to the relationship between monetary growth and financial assets. The second part submits a literature of Bitcoin as a financial asset. Section 4 consists of the data set and model of the study. Section 5 describes the methodology of the study. Section 6 is devoted to methodological findings and presents the results of the analysis with the aid of tables and figures. In the 7th and last section, the conclusion of the study is discussed.

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