Valkyrie

The Bitcoin Effect

Part I: Learning from History

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On June 9th, a supermajority of the El Salvadoran legislature voted to adopt bitcoin as legal tender[1]. On the back of El Salvador's groundbreaking decision, other Latin American countries have followed suit, proposing legislation to adopt bitcoin. This series examines "The Bitcoin Effect" in three parts: the past, present and future.

Part I: Learning from History

Explores the creation of the European Union as a framework for understanding the current economic policy surrounding bitcoin adoption in Latin America.

Part II: LatAm bitcoin Adoption

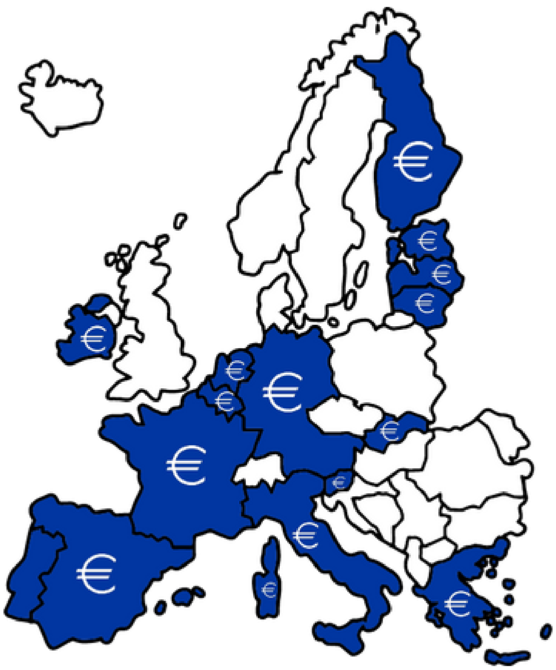
Focuses on El Salvador's decision to adopt bitcoin as legal tender in addition to legislation in surrounding Latin American countries.

Part III: The Digital Future

Discusses how a global adoption of digital currency could play out.

[1] De, Nikhilesh. "El Salvador Officially Votes to Adopt Bitcoin as Legal Tender." CoinDesk, CoinDesk, 9 June 2021, www.coindesk.com/its-official-el-salvadors-legislature-votes-to-adopt-bitcoin-as-legal-tender.

Part I: Learning from History



Part I explores the creation of the European Union as a framework for understanding the current economic policy surrounding bitcoin adoption in Latin America.

I: 1993

The European Union (EU) was formed in 1993[2]. The goal of the EU was to unite a region with diverse economies in order to compete with larger economies like the United States, Russia, and Japan. Progress occurred in several stages.

January 1993
Establishment of a *Single Market* which opened up trade borders for goods and services as if it were one country[2]

November 1993
Maastricht Treaty signed which formally creates the European Union

June 1998
The *European Central Bank* (ECB) is created to stabilize prices in the EU region[2]

January 2002
The Euro becomes legal tender[2]

The benefits were quickly visible as the union allowed labor and goods to flow through countries to keep costs low and reduce tariffs. It required more time to see the direct benefit of a shared currency and the concept was tested shortly after its formation.

[2] "EU Timeline." *Learning Corner - European Commission*, europa.eu/learning-corner/eu-timeline/1960_en#1998.

II. The Great Recession

The first hurdle for the Euro was during the Great Recession which spurred the European Debt Crisis. During this period larger manufacturing countries such as Germany, France, and Poland had steady GDP relative to the Mediterranean-facing tourist economies of Greece, Spain, Italy and Portugal[3]. Pre-Euro, these countries were able to adjust the rate of their currencies during tourist season to bring in more wealth from travelers, and quickly adjust back to fight inflation for residents.

A steadier Euro changed that dynamic and was compounded during 2008-2010, leading to fears of debt defaults and high unemployment in tourist areas. Over time, the ECB solved many of the structure issues, and as of July 2021, the debt of these countries trades close to 0%, effectively advertising low risk of default. The Euro has become a global currency reserve and a common currency trading pair, rivaling the US Dollar (USD) and Pound Sterling and has brought increased economic stability to the countries of the EU region.

European Union

10-Year Government Bond Yields

COUNTRY	YIELD as of 7/23/2021
Germany	-0.42%
France	-0.09%
Italy	0.62%
Spain	0.27%
Portugal	0.19%
Greece	0.64%

[3] "The Euro-Zone Debt Crisis." Encyclopædia Britannica, Encyclopædia Britannica, Inc., www.britannica.com/topic/European-Union/The-euro-zone-debt-crisis.

III. Benefits of Union

The EU weathered the next test, the global COVID-19 pandemic, far better than during the Great Recession. Alternatively, more vulnerable emerging market economies struggled[4]. During recessionary periods, investors may generally flock to more stable currency markets like the US and the EU creating instability in emerging economies.

The creation of the European Union proved the value of a shared currency. Looking to Central and South America, the EU provides an example of how a shared currency can provide economic stability to a region. Many countries in Latin America are currently reliant on the US Dollar (USD) either as a primary or secondary currency. Because many of these countries may depend on the USD for stability, it has in the past made the possibility of a regional economic union less likely.

Zooming in on Central America--the countries of El Salvador, Panama, Nicaragua and Costa Rica all currently utilize the US Dollar[5]. With much of this region economically dependent on remittances from citizens working outside of the country, the use case for bitcoin as a shared currency may become more clear. Remittances currently account for approximately **20.39%** of El Salvador's GDP[6]. With exchanges like Coinbase offering zero charge on bitcoin transfers, it may provide a compelling alternative to traditional international transfer services like Western Union that charge at least 3% of the transaction.

In part II of this series, we aim to dive into the current bitcoin legislation underway in Latin America and what this may mean for a future LatAm economic union.

[4] Smith, Elliot. "Emerging Market Currencies Have Been Hit by the Coronavirus, but Analysts Say It's Not All Bad News." CNBC, CNBC, 14 Apr. 2020, www.cnbc.com/2020/04/14/emerging-market-currencies-have-been-hammered-by-covid-19.html.
[5] Abadi, Mark. "More than Two Dozen Countries and Territories Use the US Dollar as Currency." Business Insider, Business Insider, 23 May 2018, www.businessinsider.com/usd-countries-use-dollars-as-currency-2018-5.
[6] "Remittances, Percent of Gdp by Country, around the World." TheGlobalEconomy.com, www.theglobaleconomy.com/rankings/remittances_percent_gdp/.

About the Author

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Steven McClurg is the Chief Investment Officer of Valkyrie Investments. He has considerable traditional finance and Fintech experience, ranging from insurtech and payments to blockchain.

Previously, Mr. McClurg was a Managing Director at Guggenheim Partners, where he was a portfolio manager and responsible for portfolio construction and strategy for fixed income and private equity. Most recently, Mr. McClurg founded Theseus Capital, a blockchain-powered asset management platform which was acquired by a merchant bank, Galaxy Digital, where he continued as Managing Director, building their asset management and public funds businesses. He also co-founded payments company, Paydrop.

He also has experience in leadership roles in technology companies such as Electronic Arts and Crowdfunder. Mr. McClurg holds a Master of Science and an MBA from Pepperdine University, where he has served as an adjunct professor.

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