




The Greek Crisis and Bitcoin

itBit Bitcoin Macro View
July 2015



Since 2008, Greece has endured significant financial and political hardships with both domestic and global implications. The financial crisis, a strained relationship with the European Union (EU) and severe austerity measures adopted by Greece in exchange for bailouts by the IMF and EU have all contributed to Greece's current situation.

HOW GREECE ARRIVED AT THE BRINK OF ECONOMIC COLLAPSE

2008

Subprime Crisis hits United States. Global markets are hit hard, Europe gets hit the hardest.

2010

First Bailout - Greece needs a 110 billion euro bailout from the EU and International Monetary Fund (IMF). The European Financial Stability Facility (ESFS) is launched to give Greece time to make the proper budget reforms. The ESFS fails and Greece misses growth targets.

2012-2014

Austerity measures lead to negative GDP growth and massive unemployment. The debt burden coupled with austerity leaves Greece on the verge of economic collapse.

2009

Greece debt to GDP skyrockets. Greek government reveals that its been running significantly higher deficits than it had reported.

2011

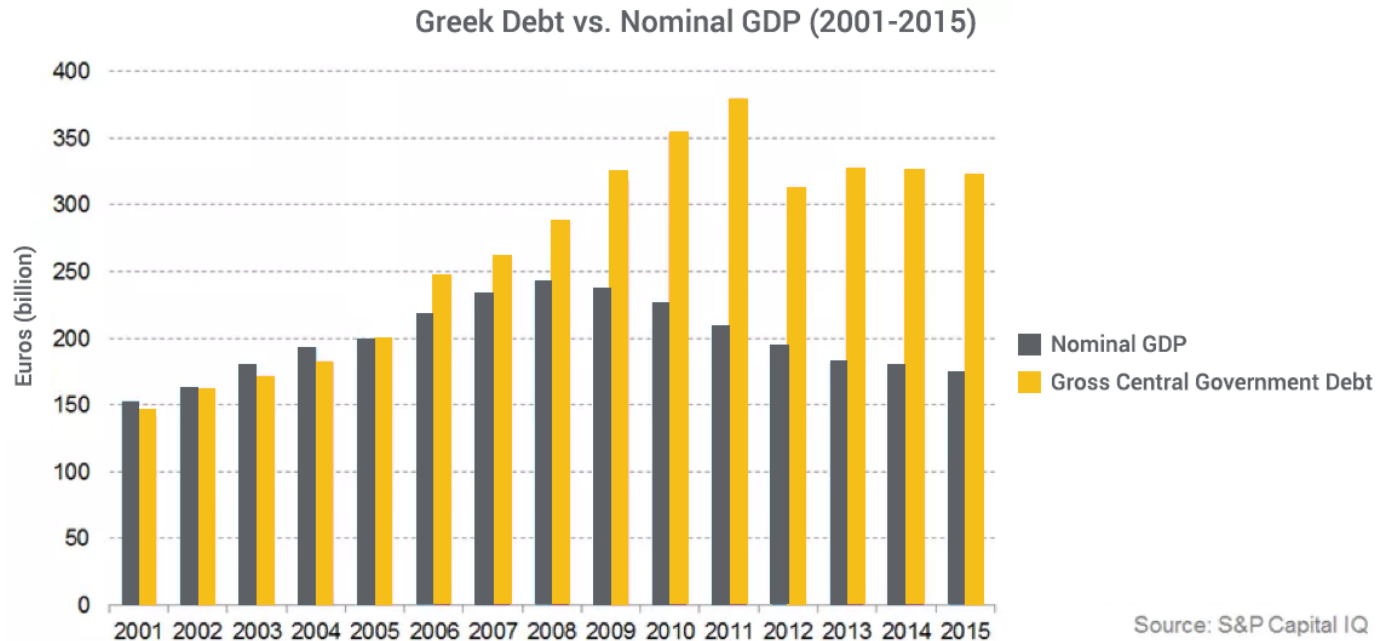
Second Bailout - A bailout package of 130 billion euros is deployed, this time at the expense of the private owners of Greek bonds. They take a 50% haircut on their investment.

2015

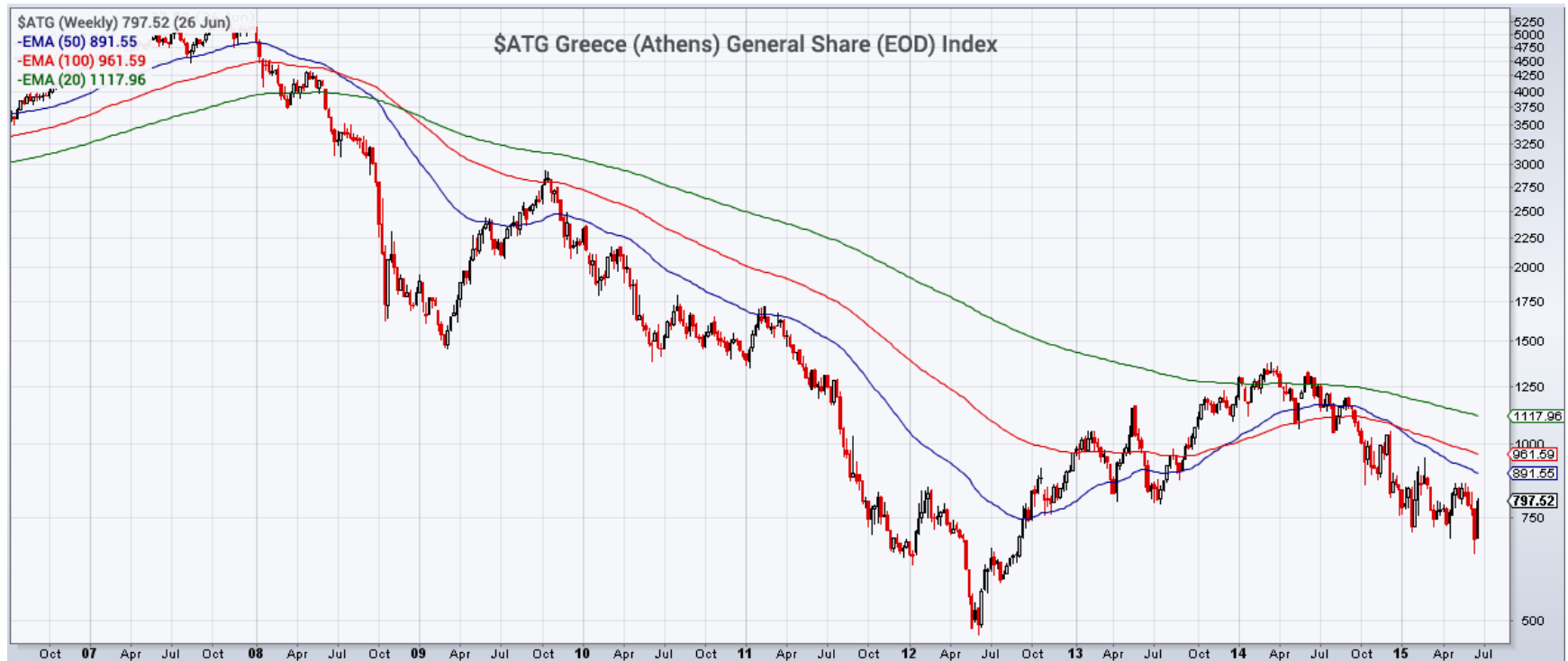
The Anti-Austerity left wing Syriza government, led by Alex Tsipras, sweeps into power with the promise to renegotiate Greek debt loads and extend the bailout.

ROLE OF PAST AUSTERITY MEASURES IN GREECE'S ECONOMIC DECLINE

While austerity in Greece has reduced government debt, Greek citizens have paid a big price. The chart below shows that Greece's debt has skyrocketed since joining the euro and has remained high even with the imposition of austerity. Meanwhile the country's GDP has been consistently contracting since 2008.



Looking at the Athens Stock Exchange starting in 2008, it is clear that Greece never recovered from the financial crisis like the rest of Europe. More troubling is the country's steep economic decline coinciding with rising asset prices globally and the launch of European QE in January 2015. In a recent report, the IMF found that in the last three years, the Greek GDP has fallen by 26% while the unemployment rate remains above 25%.

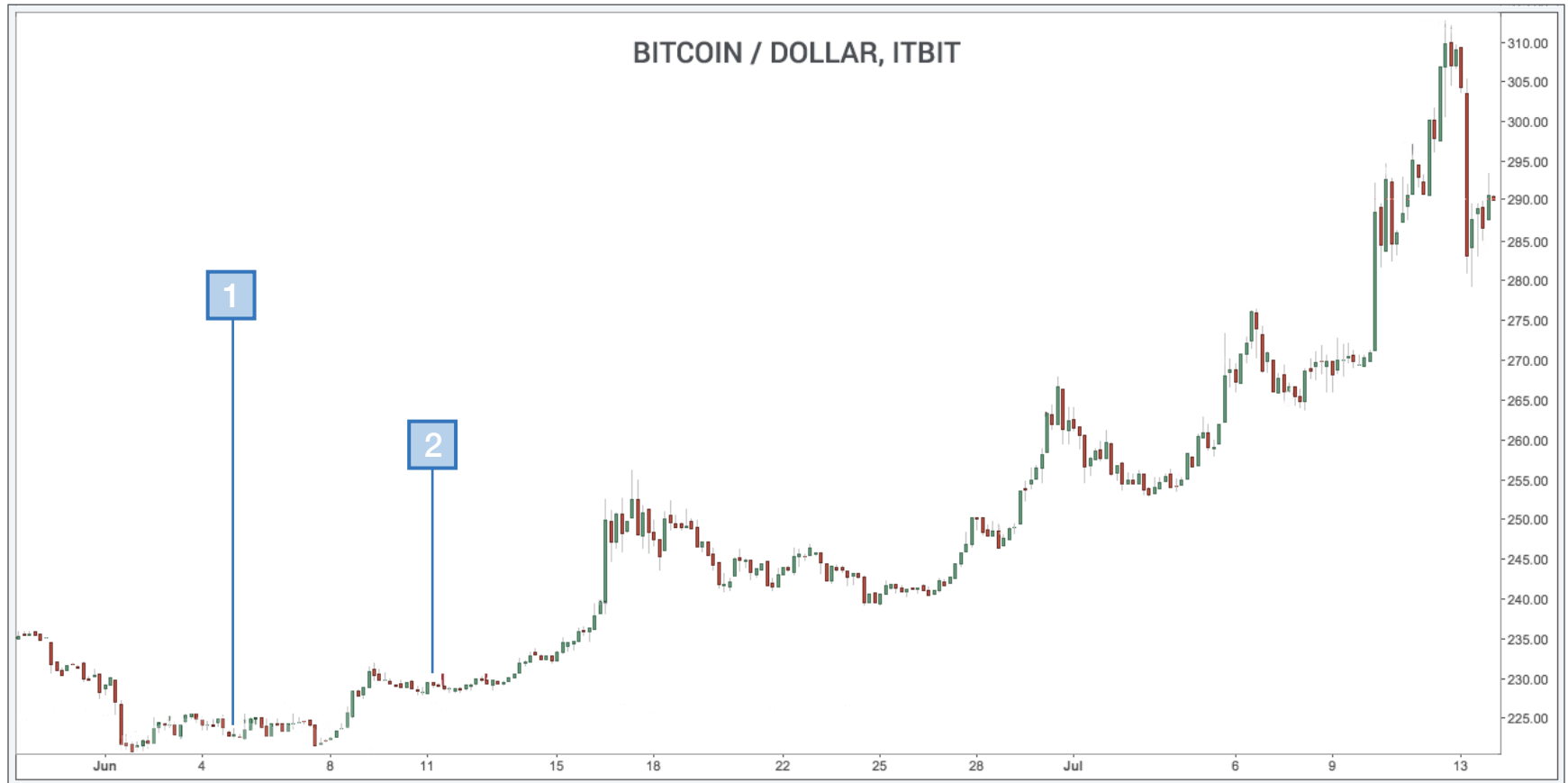


IMPACT OF THE GREEK CRISIS ON BITCOIN

The economic situation in Greece came to a head and began to unravel in June. Chatter regarding a Greek exit from the euro ran rampant as negotiations between the Greek government and EU yielded little results. By month's end, Greece had become the first developed nation to miss a payment to the IMF, galvanizing rumors of a default. The bleak economic news out of Greece was a key driver that helped break the price of bitcoin out of the tight trading range it had been in for nearly three months.

The following pages depict a chart focusing on key market-moving events in the Greek crisis from June 1st through Monday, July 13th. The chart shows the impact of event-driven sentiment on the bitcoin price throughout the crisis.

BITCOIN MARKET-MOVING EVENTS DURING THE GREECE CRISIS



June 1st - June 15th

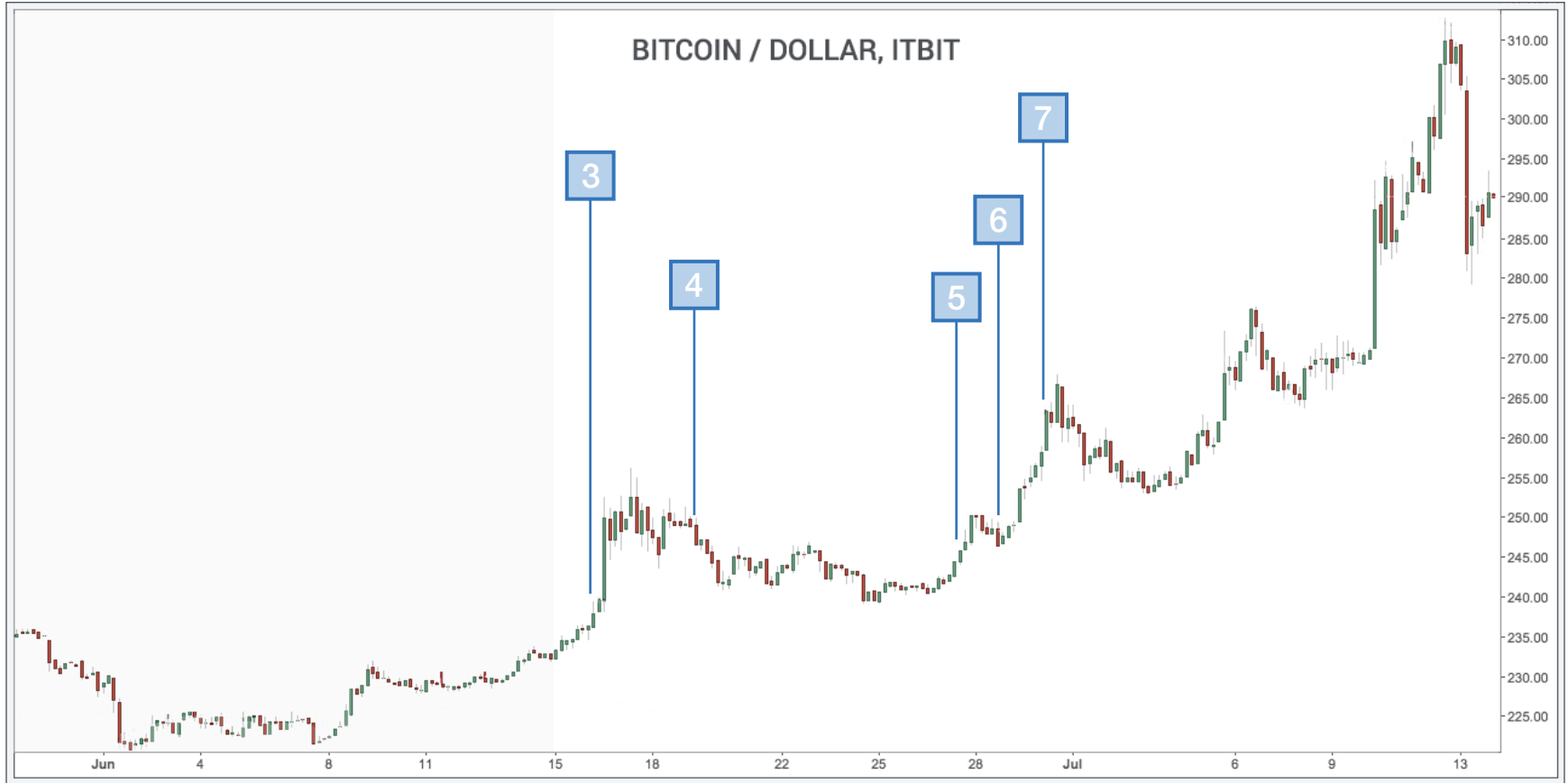
1

Greece asks IMF to postpone installment due on June 5th until end of the month

2

Greece walks out of bailout talks.

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June 16th - June 30th

3

Tsipras threatens to withhold IMF payments.

4

Emergency EU summit begins, sides express optimism in deal.

5

Talks stall, Tsipras calls referendum.

6

Greek Parliament approves referendum, Tsipras announces capital controls.

7

Greece misses payment to IMF, falls into arrears.

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July 1st - July 14th

8

Capital controls get tighter.
Max withdrawal 60 Euros.

9

Greeks vote no in referendum.

10

"Grexit" scenario prepared by EU is leaked.

11

As deadline approaches, default looks likely; EU discusses Greece's future in the Eurozone.

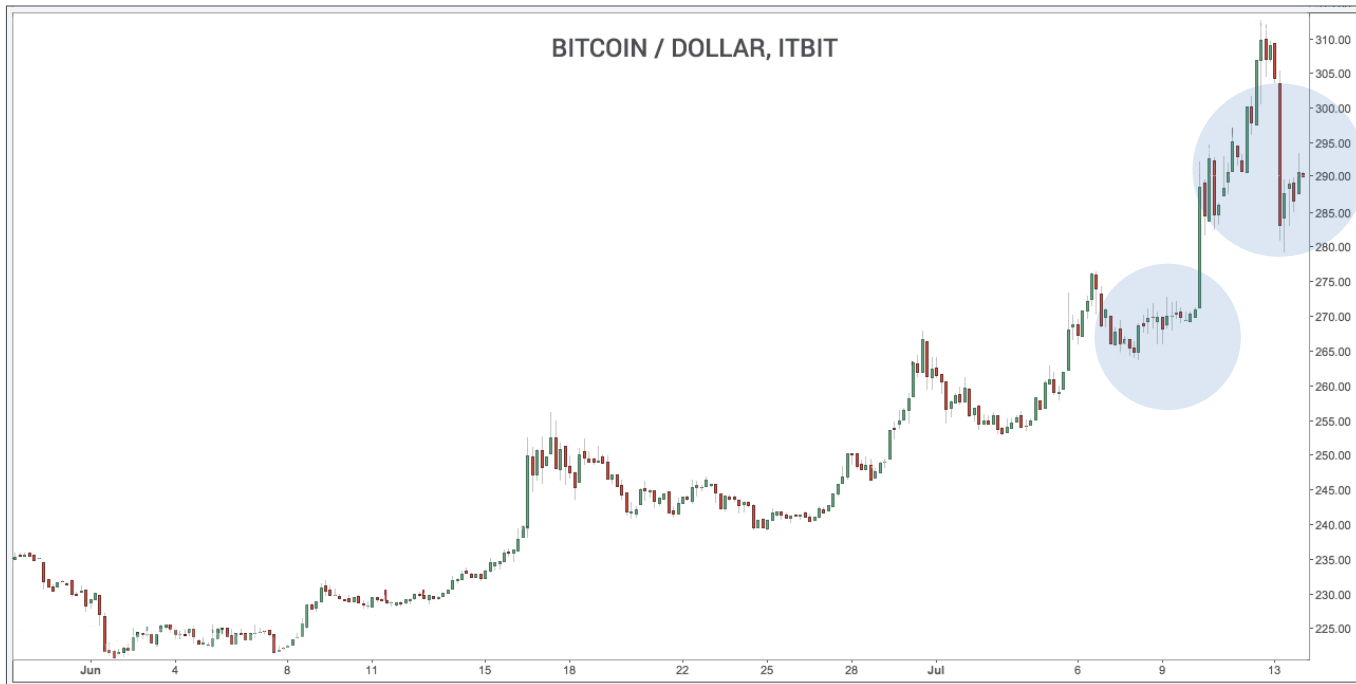
12

Last minute deal reached; price sinks instantaneously.

13

Greece misses 456m Euro payment to IMF.

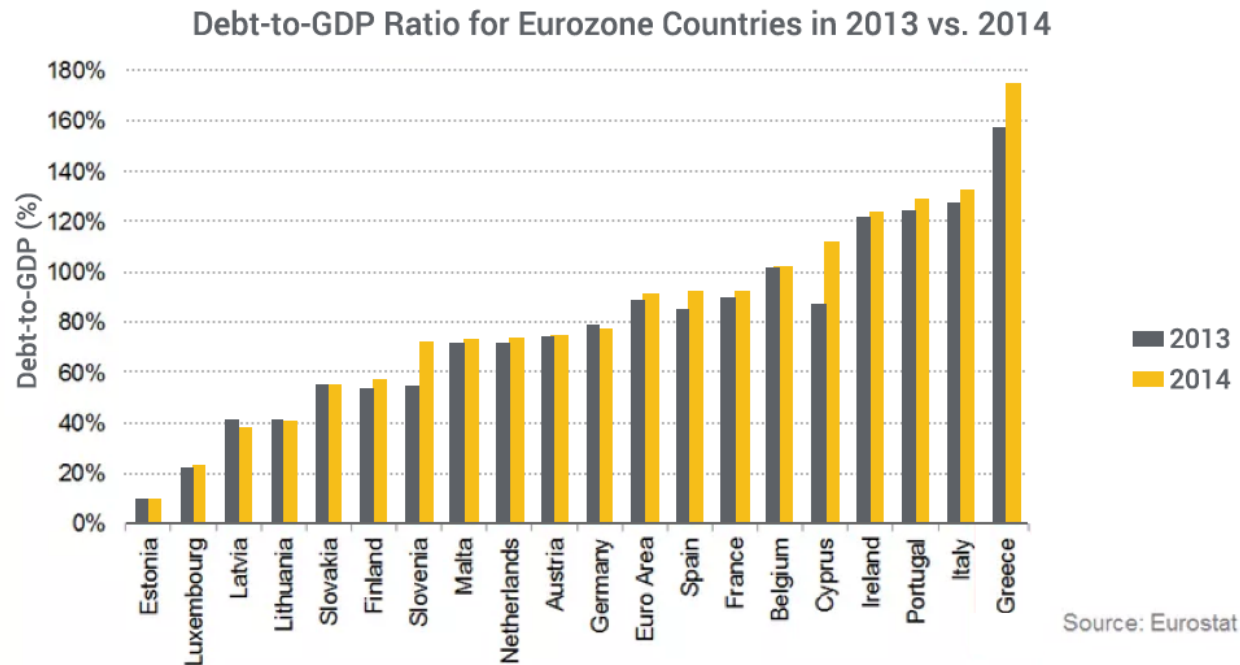
The price increases, particularly following the leak of the EU's Greek exit strategy, and the 12% plunge in bitcoin price within minutes of Greece reaching an agreement with the Eurozone really stand out. Although the price was already stretched at this point, news of the agreement certainly played a central role in the sell-off.




TWO KEY TAKEAWAYS FOR BITCOIN TRADERS

KEEP A CLOSE EYE ON THE EUROZONE

The situation in Greece, and Cyprus before it, represent a troubling trend that may threaten additional EU member states if not adequately contained. The chart below shows that while Greece has the highest debt to GDP ratio in the Eurozone, there are several countries that are prime candidates to be the next Greece.





Portugal and Italy both have high and rising debt loads which could escalate to crisis levels should global economic conditions take a turn for the worst. Additionally, Spain has a major election in September with an anti-austerity party that is further left than the Greek Syriza leading in the polls. Given the impact the ongoing crisis in Greece has had on the price of bitcoin, traders should stay focused on both the economic and political situation in the region.

BITCOIN IS EMERGING AS A CORRELATED ASSET

The recent events in Greece have shown that bitcoin is slowly becoming a correlated asset that is increasingly driven by global economic events as well as other currencies. The growing correlations should ultimately help bitcoin find its niche as an asset class and its logical fit in a traditional investment portfolio.



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