Money**Bits**

First tough week

Last week was probably the first tough week since the ETFs launched. We experienced net selling.

Some critical factors appear to be the end of the approaching quarter, which will cause some balance sheet shuffling but also the settlement of the Genesis bankruptcy. Overall, $0.8 billion in net selling in the week to March 22nd, mostly driven by $1.8 billion from Grayscale (meaning the other ETFs had net inflows). The scale of the Grayscale selling is extraordinary; when the ETFs launched they held 620,000 bitcoin; that is now 350,000, all of which has been mopped up by the ETFs.

The whole process is working smoothly. Months of up are fine, but we did need to see what happens when there is selling and now we have. Is it liquid? Yes it is. Is the market robust? Yes it is.

Looking forward, the Genesis bankruptcy has a bit to run so there will be more coins sloshing around, but it is clear that money continues to flow into BlackRock and Fidelity which continued to have net positive weeks.

There are other overhangs too, including the Mount Gox bankruptcy coins (you can track them here), the Silk Road coins; all of them will get mopped up in the end, probably by BlackRock who have yet to have a negative flow day.

It's encouraging that some of the oldest issues in bitcoin are now being dealt with. Craig Wright two weeks ago (can't overemphasise how damaging that one was). Genesis last week. Mount Gox will come too (that's the big one in my opinion). The old issues will be gone and by the time they are we will be down to 3.25 bitcoins per block.

Long term

Long term is a thing. If you Google long-term investing, the search is replete with Warren Buffett quotes and investment firms explaining how they take a 'long term view'. Magellan, for example, devotes an entire webpage to explaining what they mean by long term. Suffice to say, I consider their long term, rather short term.

I couldn't find any examples in my search of a simple analysis like this; long term is the birth rate. How many people will there be? It must surely be a proxy for how much innovation there might be and also can the country involved pay their debts because if the population is declining they most likely cannot.

🌎 Fertility Rate: Total: Births per Woman

Niger 6.73	Cameroon 4.50	Tajikistan 3.60	Algeria 2.97	Oman 2.67	Morocco 2.27	Belize 2.08	Tunisia 1.96	Isle of Man 1.88	Denmark 1.77	Wallis and F 1.71	United Kingd 1.63	Monaco 1.53	Japan 1.39
Angola 5.76	Zambia 4.49	Madagascar 3.55	Namibia 2.94	Vanuatu 2.59	Bolivia 2.26	Bangladesh 2.08	Iceland 1.95	Kosovo 1.88	Saint Kitts a 1.76	Cuba 1.71	Estonia 1.62	North Maced 1.52	British Virgin 1.37
Congo, Demo 5.56	Tanzania 4.33	West Bank 3.54	Israel 2.94	Northern Mar 2.59	Ecuador 2.24	India 2.07	Antigua and 1.94	Nepal 1.88	Chile 1.75	Barbados 1.70	United Arab 1.62	Malta 1.51	Bosnia and H 1.37
Mali 5.45	Equatorial G 4.19	Zimbabwe 3.51	Uzbekistan 2.92	Kazakhstan 2.59	Fiji 2.23	Guyana 2.06	Colombia 1.94	New Zealand 1.86	Brazil 1.75	Turks and Ca 1.70	Netherlands 1.61	Russia 1.51	Mauritius 1.35
Benin 5.39	Togo 4.18	Eritrea 3.50	Jordan 2.91	Nauru 2.58	Micronesia, F 2.22	Jamaica 2.05	Grenada 1.92	Nicaragua 1.85	Uruguay 1.75	Maldives 1.70	Lithuania 1.61	Austria 1.51	Montserrat 1.32
Chad 5.35	Senegal 4.17	Cote d'Ivoire 3.47	Yemen 2.91	Guatemala 2.57	Kuwait 2.22	Vietnam 2.04	Iran 1.92	United States 1.84	Brunei 1.74	Palau 1.70	Slovakia 1.60	Bulgaria 1.51	Poland 1.31
Uganda 5.26	Burkina Faso 4.14	Mauritania 3.46	Lesotho 2.88	Haiti 2.49	Venezuela 2.20	Cook Islands 2.04	Suriname 1.91	New Caledon 1.84	Czechia 1.74	Azerbaijan 1.69	Slovenia 1.60	Cyprus 1.48	Spain 1.29
Somalia 5.22	Timor-Leste 4.09	Sao Tome an 3.44	Solomon Isla 2.82	Kyrgyzstan 2.47	Cambodia 2.20	El Salvador 2.04	Turkey (Turk 1.91	Cayman Isla 1.82	Finland 1.74	Liechtenstein 1.69	Switzerland 1.59	Serbia 1.46	Puerto Rico 1.25
South Sudan 5.20	Liberia 4.03	Pakistan 3.39	Tuvalu 2.81	Eswatini 2.41	Peru 2.18	Turkmenistan 2.03	Greenland 1.90	Korea, North 1.82	Malaysia 1.74	Sweden 1.67	Hungary 1.59	Croatia 1.46	Moldova 1.25
Burundi 4.96	Central Africa 3.99	Gaza Strip 3.38	Philippines 2.77	Panama 2.37	Kiribati 2.18	Dominica 2.01	Qatar 1.90	Aruba 1.82	Saint Vincen 1.74	Jersey 1.66	Germany 1.58	Andorra 1.46	Italy 1.24
Guinea 4.82	Ethiopia 3.92	Malawi 3.30	Egypt 2.76	Honduras 2.37	Argentina 2.17	Burma 2.00	France 1.90	Seychelles 1.81	Australia 1.73	Bahrain 1.66	Canada 1.57	China 1.45	Macau 1.23
Mozambique 4.74	Congo, Repu 3.86	Gabon 3.26	Guam 2.76	Botswana 2.37	Sri Lanka 2.14	Indonesia 1.99	Gibraltar 1.90	Montenegro 1.81	Mexico 1.73	Armenia 1.65	Norway 1.57	Belarus 1.45	Hong Kong 1.23
Guinea-Bissa 4.65	Papua New G 3.85	Rwanda 3.23	Syria 2.74	Samoa 2.37	Djibouti 2.13	Sint Maarten 1.98	Mongolia 1.89	Saint Martin 1.80	Anguilla 1.72	Saint Barthel 1.64	Latvia 1.55	Portugal 1.44	Ukraine 1.22
Nigeria 4.57	Sierra Leone 3.71	Kenya 3.23	Marshall Isla 2.72	South Africa 2.31	Dominican R 2.13	Virgin Islands 1.98	Bermuda 1.89	French Polyn 1.80	Saint Lucia 1.72	Trinidad and 1.63	Albania 1.55	Bahamas, Th 1.44	Singapore 1.17
Sudan 4.54	Gambia, The 3.66	Iraq 3.17	Tonga 2.70	Laos 2.30	American Sa 2.13	Curacao 1.97	Saudi Arabia 1.89	Belgium 1.77	Ireland 1.72	Luxembourg 1.63	Thailand 1.54	Greece 1.40	Korea, South 1.11
Afghanistan 4.53	Ghana 3.61	Libya 3.04	Comoros 2.69	Faroe Islands 2.28	Cabo Verde 2.11	Georgia 1.96	Paraguay 1.88	Bhutan 1.88	Lebanon 1.71	Romania 1.63	San Marino 1.53	Costa Rica 1.40	Taiwan 1.09

Source: CIA.gov

In the developed world; China, Hong Kong, Japan, South Korea, and Southern Europe all look deeply challenged. Any birth rate under 1.5 is a collapsing population; the population roughly halves in three generations. At Taiwan's birth rate, the population halves in two generations.

Clearly there is more to it; on identifying higher growth countries you would still look to the capital base to see if they can actually leverage the growing population. Many of the top performers in the table have limited capital bases; it would be hard to go all in on the Democratic Republic of Congo on population alone.

What does it mean? I think many more machines, much more software, and a giant monetisation of debt in Europe, Japan, and South Korea. The fiat money system works well in a rising population. In essence you can print 5-8% more money each year through government borrowing and mask the effect with a rising population. If the population grows at 4% it's enough for people not to notice the net effect.

As soon as the population starts declining, it becomes very obvious that something is wrong and the system starts to creak.

So, for what it's worth, my long term is: I wouldn't buy bonds because there are so many of them and so many more coming with no obvious buyer other than central banks (Japan is proof). I am less excited about property than most people too because it is so heavily tax advantaged (at least in Australia) and milking a monetary premium that it might lose. On the more interesting side; machines, robotics, software, aged care, anything health and longevity related look solid bets ... at least "long term" anyway.

New Daily

I'm not a regular reader of the New Daily so I was interested to learn it is owned and funded by some of Australia's largest super funds. I don't suppose there is any issue with that, although it was not obviously disclosed anywhere on their website.

They have been covering bitcoin for a long time, a decade in fact. Here's an extract from their article covering the collapse of Japanese exchange Mt Gox all the way back in 2014.

> The value of a Bitcoin tumbled more than $US100 ($A111) in early trades but then recovered to fetch $US517 ($A575) at 2200 GMT (0900 AEDT), according to the Winkdex Bitcoin index.
>
> The moves highlighted the extreme volatility of the currency, which surged over $US1,100 ($A1,223) last year and then fell sharply.

It is striking that across that decade no major Australian super fund has invested in bitcoin as part of their portfolio. For all sorts of reasons, not least the lack of regulated products (at least until this year).

I had thought that perhaps there will be a change of mind now, or some small allocation might be allowed, but maybe not. Bitcoin seems simply to infuriate anyone involved in the professional super fund industry.

Alan Kohler: Bitcoin is not a Ponzi bubble. It's worse – an insurrection

An from [Alan Kohler](#) takes a different approach calling bitcoin 'not a ponzi but an insurrection'. I can't really tell if it is intended to be critical or explanatory but to me it reads (unintentionally) like a fantastic advert for bitcoin.

At some point, super funds will have to do what their clients actually want rather than what they think they want. So far, they have protected their clients from order of magnitude gains and instead put their money into commercial real estate and government bonds.

Lots of you work at these places. There will be a big advantage to being the first mover here, but it is not without risk. If you do it and bitcoin suddenly drops, you will likely get fired because bitcoin is liquid and actually has a market price and everyone will immediately price your failure and celebrate on your professional grave.

On the other hand if you invest client funds in commercial real estate; you can have 50% vacancy and not take a loss because "future tenants and dodgy excel spreadsheet says no write-down".

You can guess then what choice the average investment manager makes.

Checking on green bonds

Stockland issues Australia's first green bond! EUR300m (US$380m), 7yr, rated A-, 1.5% coupon. Proceeds for green buildings - but ratings used do not guarantee climate performance

That was 2014. Stockland had issued Australia's first Green Bond to great fanfare. With a 1.5% coupon it was oversubscribed and investors were able to tie up their capital for seven years. You didn't invest in it, I didn't invest in it, but I bet everyone's super fund manager did. Because … "green".

It seems insane now and I have little to add to the green bond story other than if an investment is to be restricted into certain categories, like green only; then surely the return should reflect that.

The government too is in on the Green Bond idea, releasing their framework in 2023. The first issue of Australia's Sovereign Green Bonds should be coming up in the next few months. In essence the bonds will be tagged green and that money will be specifically used for green projects. Quite honestly though, how would anyone know? The Australian government has a bank account like everyone else. If you send them a dollar then it might get spent on a solar panel but it equally might get spent on weapons.

I'm interested to see the coupon on these bonds and the marketing material behind them. To me, the coupon should be materially higher and there should be some other net benefit to the investor, like free tofu for a month or something.

In the end, it's marketing. Category-specific government bonds are in my mind a complete nonsense, a con. It's a nice way to part with your money and feel good though so I expect they will be oversubscribed.

Euro-Trash

Big Phil (Chief ECB Economist) did some more slides this week. He had a starring role during his talk 'Inflation and Monetary Policy', at the Aix-Marseille School of Economics explaining to students how inflation was everyone else's fault.

Inflation drivers

Sources of annual price inflation in the euro area
(annual percentage changes and percentage point contributions)
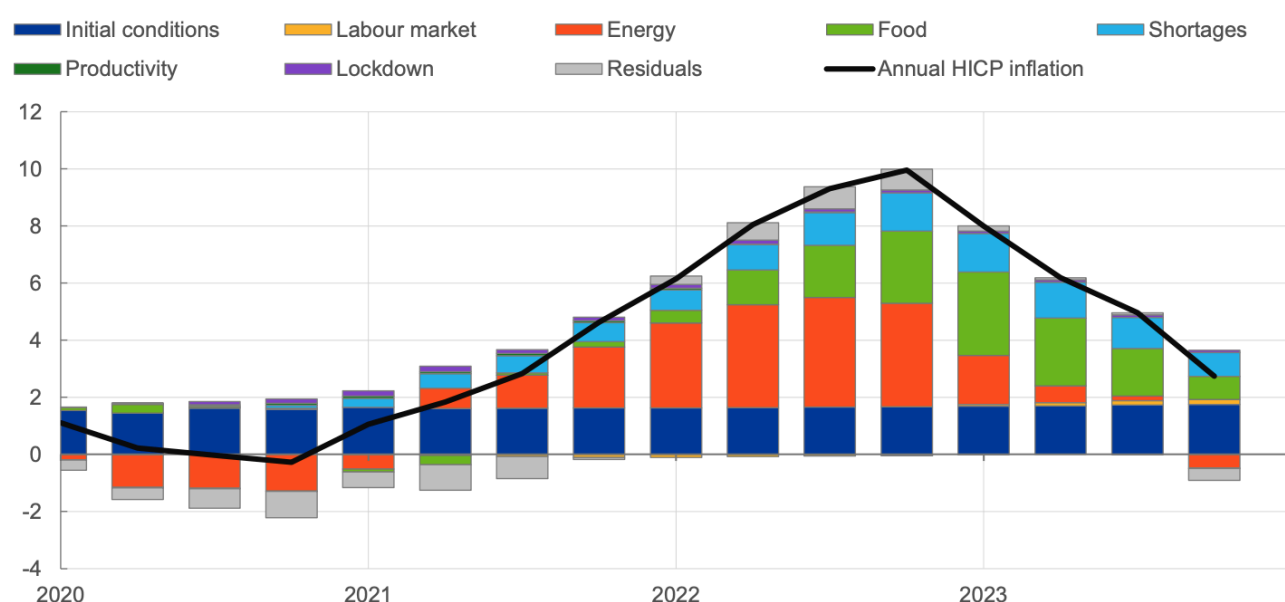
Source: ECB calculations, based on Arce, Ó., Ciccarelli, M., Kornprobst, A., & Montes-Galdón, C. (2024). *What caused the euro area post-pandemic inflation?* ECB Occasional Paper, 343.
Notes: The figure shows a decomposition of the sources of annual HICP inflation between Q1 2020 and Q4 2023 based on the solution of the full model and the implied impulse response functions. The continuous line shows actual inflation, and the total net heights of the bars are the model's forecast of inflation in each period, given initial conditions up to the fourth quarter of 2019. The contributions of the residuals are computed as the difference between actual and simulated data. The dark blue portion of each bar shows the contribution of pre-2020 data. The coloured segments of each bar show the general equilibrium, fully dynamic contribution of each exogenous variable to inflation in that period, as implied by the estimated model. Shocks to the rate of change of the relative price of energy and food are constructed as deviations in the values of those variables from zero. Shocks to the shortages variable are constructed as deviations in the values from the sample mean. Shocks to the vacancy-to-unemployment ratio (labour market variable) are constructed as the actual value minus the value in the fourth quarter of 2019.

Sources of inflation. You will notice that none of the sources are the ECB or money printing or huge increases in government debt (which is in fact, money printing).

"Shortages", "energy", and "Ukraine" … nowhere does it mention the trillions of Euros that just dropped from the sky and continue to.

When I did economics, we were taught "Inflation is always and everywhere a monetary phenomenon". There are 28 detailed slides here from the ECB that must have taken hours and hours to produce and yet, total mentions of the word money … zero.

How you give a talk on inflation and monetary policy and never once mention the money supply is beyond me.

It's a den of thieves.