

**Focus**

In the first weekend of January 2021, the cryptocurrency bitcoin reached a record level of more than USD 34,000. The motivation for this enormous increase was sought in the broader acceptance of the bitcoin, the extremely low interest rates and the constant creation of liquidity by central banks, resulting in demand for alternative investments. However, less than a day later, bitcoin dropped to USD 29,000, see the chart. This is a decrease of approximately 14%! The cryptocurrency has more often shown a restless trend with high rises and rapid falls. What are the main causes of this volatility?

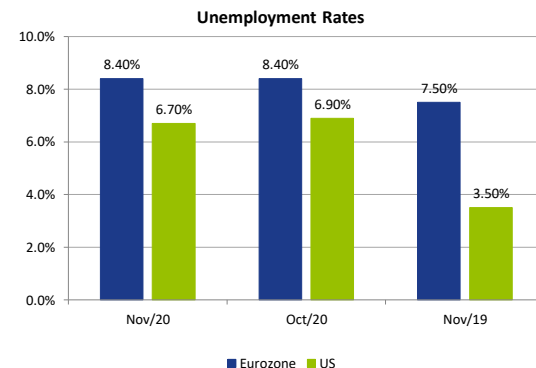
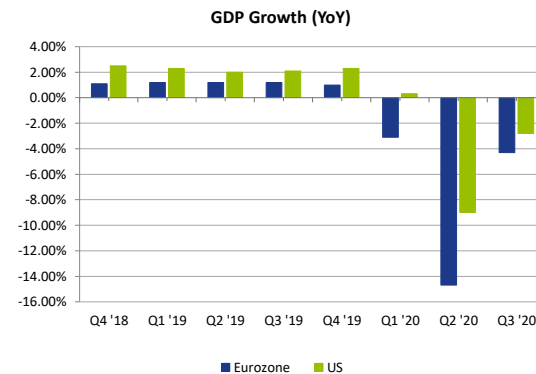
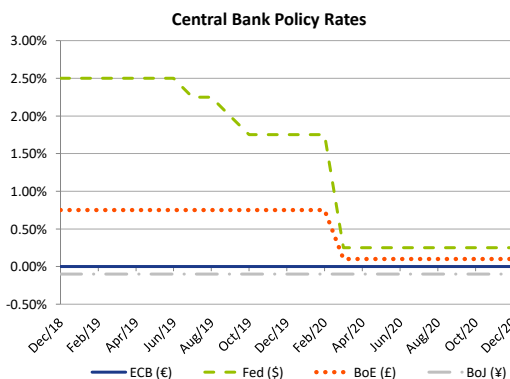
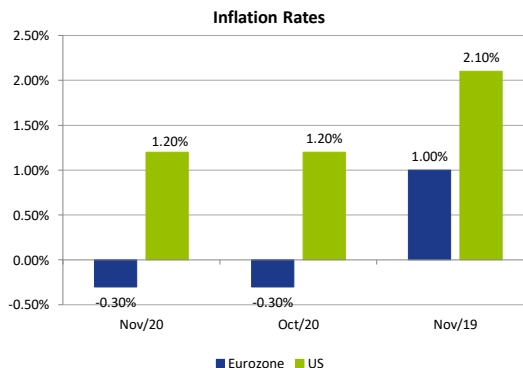
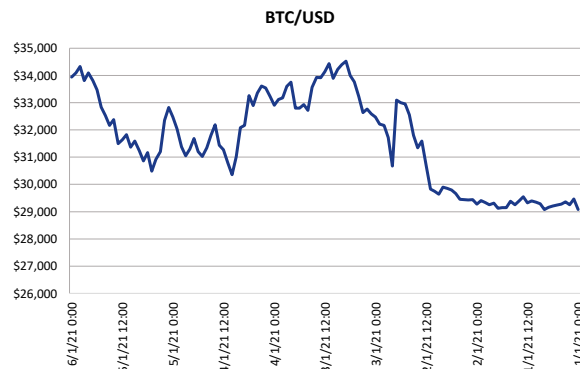
Bitcoin is a cryptocurrency; a digital currency with a public ledger which records transactions. The main differences with fiat money are that bitcoin is a decentralized currency, it is not issued by a central party, like a bank. This implicates that the value is completely determined by the demand and supply on the market. In addition, the number of bitcoins in circulation is predetermined, unlike fiat money, limiting threat of inflation. Although these factors are often considered a plus, they are one of the main causes of its unstable value.

Due to the lack of central banking authorities, large bitcoin investors, so-called 'whales', can exert enormous influence on the value of the bitcoin. They face almost no restrictions by banks or other regulators. Also, the valuation of cryptocurrencies is almost impossible. After all, the market determines the value. In other words, it is greatly influenced by market sentiment and/or speculation.

Another enhancing factor to its volatile nature is the limited amount that is traded. It is estimated that only 20% to 30% of the cryptocurrency is traded. And the percentage that is "frozen" is only increasing. This means that relatively small transactions can affect the price disproportionately. An analysis of Blockchain, the most popular tradingplatform for bitcoins, shows that the exchange rate is increasingly responding to every dollar invested. Between 2012 and 2014, the market value of the bitcoin increased by USD 2 per invested dollar, currently this is USD 3.4.

Despite the above factors, the number investments made by institutional investors, such as insurers and asset managers, is increasing. This increase is expected to have a stable influence on bitcoin prices as they often make long(er) term investments. In addition, more and stricter regulations are implemented in many countries. For example, since May 21st 2020, the amended Dutch Money Laundering and Terrorist Financing (Wwft) has entered into force. All transactions of Dutch crypto companies are permanently under (strict) supervision and all transactions are checked for deviating patterns, considering money laundering or terrorist financing.

Time will tell whether current developments, such as the increase in institutional investors and supervision will weaken volatility of the bitcoin. However, peaks and troughs of for example 14% cannot be ruled out in the near future.



Country Ratings	S&P	Moody's	Fitch
Netherlands	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
France	AA	Aa2	AA
United Kingdom	AA	Aa3	AA-
Russia	BBB-	Baa3	BBB
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

**Review & preview**

In December, the European Union and the United Kingdom (UK) concluded the Brexit negotiations. The agreed rules are effective as of 1 January 2021. After a process of 4.5 years, since the referendum on 23 June 2016 in which the British voted in favour of Brexit by a small majority, an agreement has been reached between the two sides on future trade relations with only a small gap to the very last deadline. The last remaining points of discussion included regulations on fair trade competition and fishing rights. In the final days of 2020, both the House of Commons and the House of Lords approved the trade agreement, followed by Queen Elizabeth's approval. In addition, the European Member States are also in favour. All that remains is for the European Parliament to formally give its approval. This will, however, be put to the vote in March and, until then, the agreement will be in effect for the time being.

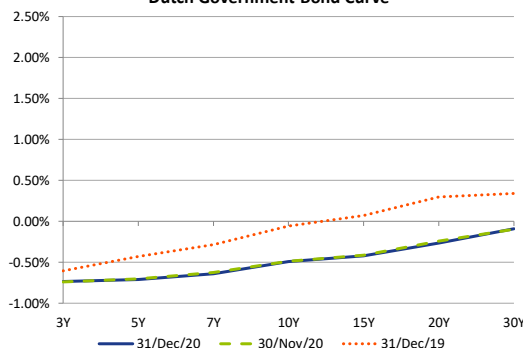
The trade agreement between the UK and the European Union will "have a profound impact on people, businesses and public administrations". David McAllister, the chairman of the special Brexit committee in the European Parliament, said this to the German newspaper Die Welt. "Trade between the EU and the UK will not run as smoothly as it was when we were both part of the internal market and the customs union," he said. In the last period of last year, a substantial reduction in the number of European freight forwarders taking cargoes into the UK already occurred. European logistics companies will, where possible, temporarily avoid taking on orders to transport goods into the UK. problems could arise at borders as a result of the Brexit.

The European Central Bank (ECB) announced in December that the buy-back program (PEPP) to combat the negative consequences of the corona pandemic will be extended by nine months. The support program will now run until at least March 2022 and will be increased by EUR 500 billion to EUR 1.850 billion. The ECB also decided not to extend the ban on dividends for banks, despite the continuing uncertainty caused by the corona crisis. However, the central bank has introduced new guidelines stating that banks may pay out up to 15% of profits over the last two years and no more than 0.2% of their common equity tier one capital ratio to shareholders. The 15% ceiling is a more conservative approach compared to the 25% proposed by the Bank of England.

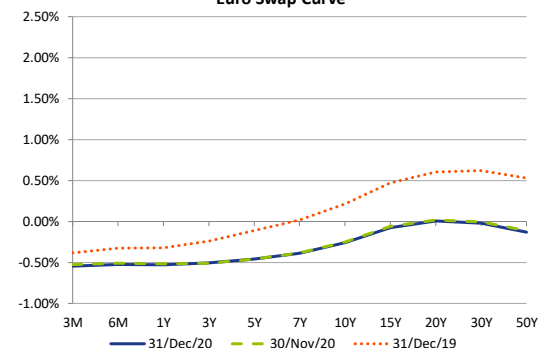
**Agenda**

- 11 January Inflation Netherlands
- 20 January Inflation UK
- 21 January Interest rate decision ECB
- 27 January Interest rate decision Fed

**Dutch Government Bond Curve**



**Euro Swap Curve**



Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa3	A+
ING Bank	A+	Aa3	AA-
ABN AMRO	A	A1	A
BNG Bank	AAA	Aaa	AAA
NWB Bank	AAA	Aaa	n.a.
Deutsche Bank	BBB+	A3	BBB
BNP Paribas	A+	Aa3	AA-
Barclays Bank	A	A1	A+
Credit Suisse Int.	A+	Aa3	A

Currencies	31/Dec/20	30/Nov/20	31/Dec/19
EUR/USD	1.222	1.193	1.121
EUR/GBP	0.894	0.895	0.846
EUR/CHF	1.081	1.084	1.086
EUR/JPY	126.180	124.415	121.765
EUR/DKK	7.442	7.443	7.471
EUR/SEK	10.050	10.228	10.501
EUR/CAD	1.555	1.551	1.457
EUR/AUD	1.588	1.624	1.597
EUR/CNY	7.977	7.846	7.807

**Yields 10Y Government Bonds**

