

# GLOBAL ECONOMY AND FINANCIAL MARKETS SHORT COMMENTARY



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## **Cryptocurrency is transforming the mainstream of trading or facing another bubble?**

Bitcoin, firstly invented in 2008 by Satoshi Nakamoto and released as open-source software in 2009. It is the first decentralized cryptocurrency, there are no central banks nor intermediaries can control bitcoins. Instead, the so-called bitcoin network is made up of miners who process transactions. These miners operate a vast array of specialized computers required to carry out the bitcoin mining process.

There is a maximum of 21 million bitcoins that can be mined. At the moment around 18.5 million have been mined leaving less than 3 million still to come into existence. A related feature is that the rate of production of bitcoins slows over time approximately every 4 years via a process known as halving, which means the reward for mining bitcoin is cut in half.

### **The recent growing adoption of bitcoin**

Bitcoin is increasing in its popularity as a payment tool and digital wallets. Institutional investors such as Tesla, Mastercard, Square and Paypal, etc. have showed their interest in buoying confidence in cryptocurrency. Citi analysts claimed that could have seen it become lending medium for international trade in the future. According to Crypto Parrot, the cryptocurrencies trading platform, the interest in crypto debit cards points to increasing adoption of digital assets globally. Many payment platforms such as BitPay, Square and PayPal have started accepting payments in bitcoin and other cryptocurrencies. Square, the payments business had invested another \$170m in the cryptocurrency. Visa and Mastercard are getting involved in crypto payment systems through debit cards. PayPal and BNY Mellon have announced to handle bitcoin on behalf of clients. Therefore, the trending and growing use of bitcoin is undeniable.

### **Market capitalization**

Since the release of bitcoin, other cryptocurrencies have been created such as Ethereum, Litecoin, Binance Coin etc. Bitcoin has accounted for 60% of the cryptocurrency market by value. In February 2021, bitcoin surpassed \$1 trillion market capitalization to rival those of major tech companies such as Apple and

Amazon. As at 4 March 2021 15:00, the total capitalization of bitcoin is over \$923 billion. Bitcoin's astonishing growth in recent months, from about \$5,000 in mid-March 2020 surged over \$20,000 for the first time on 16 December 2020, and continued its rise over 400% since the start of October 2020 and reached a new all-time record above \$58,000 in February 2021. Bitcoin has made the fastest record in price surging, according to Morgan Stanley analyst. As of 5 March 2021, bitcoin retreated to around \$47,000.

### Bitcoin has surged over 400% since October 2020.



Source: Bloomberg

### The popularity of bitcoin

Bitcoin can be a double-edged sword, either can be adopted as the preferred currency for international trade or face another burst bubble, which noted the cryptocurrency's meteoric rise in value in recent years.

Citi analysts claimed that "following the institutional interest in bitcoin, it has become the "North Star" for digital assets such as fiat-backed stable coins, has pushed bitcoin to the junction of mainstream adoption as it has specific enhancements to exchanges, trading, data, and custody services are increasing and being revamped to accommodate the requirements of institutional investors. In a search for yield and alternative assets, investors are drawn to Bitcoin's inflation hedging properties and it is recognized as a source of 'digital gold' due to its finite supply."

A report emphasized that the advantage of Bitcoin in global payments, including its decentralized design, lack of foreign exchange exposure, fast (and potentially cheaper) money movements, secure payment channels, and traceability. These attributes combined with Bitcoin's global reach and neutrality could spur it to become the currency of choice for international trade.

Goldman Sachs has restarted its cryptocurrency trading desk and will begin dealing bitcoin futures and

non-deliverable forwards for clients next week according to Reuters. Coinbase, the largest cryptocurrency exchange in the U.S. is planning a direct listing on the Nasdaq in which it will seek to raise as much as \$1 billion.

The growing acceptance of bitcoin by nations, Bitcoin.com has reported that the Philippines' Central Bank has approved several crypto exchanges to operate as "remittance and transfer companies" in the country. According to Statista global consumer survey, cryptocurrency's use is on the rise, with 33% of Nigerians either using or owning cryptocurrency, following by Vietnam and the Philippines respectively.

### **Criticism**

However, regulation will still be a hurdle when it comes to adoption. There are certain risks and obstacles that stand in the way of bitcoin progress. Additional concerns for institutional investors include capital efficiency, insurance and custody and security. Issues also arise with how bitcoin can gel with investors' ESG goals, as mining the cryptocurrency is particularly energy consumed, according to JPMorgan's Nikolaos Panigirtzoglou. Bitcoin has been also criticized for its use in illegal transactions, price volatility and thefts from exchanges.

### **Bull or Bubble?**

Cryptocurrencies are still a very new tool as investors pay attention to and start trading them just since 2013. They are not backed by any underlying assets, its truth value may not be easy to be determined or calculated. For example, unlike stock or bond, we cannot use some financial indicators such as PE ratio or bond yield to determine whether they are now trading at the fair value or where is their fair price. As warned by some central bankers, investors may lose everything investing in cryptocurrency. Thus, please pay attention to the ultra-high volatility and risk before you really invest in the cryptocurrency.

**Sources: Reuters, Bloomberg, Financial Times, WSJ, Bitcoin.com, Statista Global Consumer Survey**

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