

Cryptoverse: Will bitcoin behave better on Wall Street?

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Bitcoin celebrated its 15th birthday this month by bursting onto Wall Street with an ebullient bang. Now the adolescent asset may have to grow up fast.



Source: Reuters.

Investors have embraced 11 US exchange traded funds (ETFs), tracking bitcoin's spot price, that began trading on 11 January after receiving regulatory approval; after two trading days, they held a total of 644,860 bitcoin worth more than \$27bn, according to data from analytics company Glassnode.

Much of that - more than 500,000 bitcoin - was already held in a Grayscale Bitcoin Trust that had previously been a closed-end fund before it was allowed to relaunch as one of the new ETFs.

The 11 ETFs have seen total inflows of \$4.1bn since 11 January, according to CoinShares data.

The entrance of the world's largest cryptocurrency into the world's largest stock market "marks the end of the beginning of bitcoin's maturation and growing-up phase", said Glassnode.

It echoed the views of many market players who said the increase in liquidity would tame bitcoin's volatility over time.

"This is a logical, nearly-inevitable evolution as a newborn security with a wildly uncertain value and price matures into a mainstream asset with a million punters punting," said Brent Donnelly, a currency trader and president of Spectra Markets.

The total value of bitcoin traded on cryptocurrency exchanges is about \$500m a day on average, Donnelly said. By comparison, the US spot bitcoin ETFs recorded \$4.6bn in volume on their first day of trading.

"I would assume even as things normalise, NYSE dollar value traded of bitcoin will be larger than what goes through on the blockchain," Donnelly said.

Yet it's far too soon to gauge whether the new bitcoin investment products will be able to retain investor interest over the long run, market participants cautioned.

Nonetheless, the 644,860 bitcoin held by the 11 US ETFs after two trading days represented about 30% of all global spot bitcoin ETF holdings, Glassnode data showed.

Even if trading volumes subside as excitement ebbs, the increased market liquidity could see the launch of derivative products that bet on bitcoin's volatility, according to some market watchers.

"Due to the current importance of US ETF flows, we expect the US trading session to be the most materially important session in terms of price action in bitcoin," said Anders Helseth, head of research at K33 Research, referring to the near term.

Bitcoin whales make move

Bitcoin, birthed by the mysterious Satoshi Nakamoto who mined the first block on 3 January 2009, has seen its fair share of spills and thrills over the past 15 years.

In its latest drama, it has leapt 50% since mid-October on bets that the long-awaited approval for ETFs, allowing access to the cryptocurrency via regular stock exchange, would attract fresh capital from retail and institutional investors alike.

The sharp rally in the months leading to the ETF decision encouraged investors to cash in, pressuring prices.



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After hitting a two-year peak of \$49,033 following the ETF approval, the notoriously volatile cryptocurrency slid 16% to \$40,267. It remains about 40% below its all-time peak of \$69,000.

There are signs that whales, the investor cohort that owns more than 1,000 bitcoin each and control a major chunk of bitcoin supply, are booking some gains.

The total supply of bitcoin held by long-term holders - those who have held for at least six months - has declined by about 75,000 from an all-time high in November as older coins are spent to take profits, according Glassnode data.

On average, a long-term bitcoin holder is sitting on 55% unrealised profit, the data showed.

"If you're sitting on very large unrealised profits as a whale, it really makes sense that you start monetising some of your portfolio," said Aurelie Barthere, analyst at blockchain data firm Nansen.

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