

Crypto Volatility

- Bitcoin volatility surged Wednesday, tumbling 31% in the morning before staging a 33% rebound in the afternoon. [Bloomberg](#) noted that, while cryptocurrencies are widely known for major fluctuations over time, such intraday swings are rare. Recent catalysts have been widely covered (Elon Musk tweets, tighter China regulations), though the story noted the lack of a specific trigger for the latest rout. Also discussed concerns over key **technical levels**, first breaching \$40K and came close to \$30K which coincided with the bounce. Focus turns to the **200-day moving average**, where failure to recover could spur another bout of weakness to retest Wednesday's lows.
- Much of the bull run and subsequent correction has revolved around **Elon Musk and Tesla's involvement in bitcoin**. Musk's latest tweet -- a 'diamond hands' emoji used in social media to signal a position is worth holding on to -- was suggested as a factor that helped the intraday recovery Wednesday. This follows a series of announcement effects, beginning with Tesla's disclosure of \$1.5B investment in bitcoin [8-Feb](#). Last week, Musk overturned a move to accept bitcoin as payment for its electric cars, citing environmental concerns. Also drew attention earlier for calling Dogecoin "a hustle" during an appearance [on Saturday Night Live](#). Selling pressure increased after a tweet that implied Tesla may sell or has sold its cryptocurrency holdings, though Musk later clarified Tesla had not sold.
- The magnitude of turbulence drew attention on **structural issues**. Latest rout triggered outages on some of the biggest exchanges, from Coinbase Global to Binance. [WSJ](#) said some crypto exchanges reported glitches during the selloff. Coinbase said it was having intermittent downtime and some users were experiencing delays while trying to make withdrawals. Kraken reported users were having difficulty connecting to its app and website amid very heavy traffic. Furthermore, [WSJ](#) (and others) noted crypto markets trade 24 hours a day seven days a week on hundreds of exchanges around the world. Thin liquidity can be a particular risk over weekends. Once momentum accelerates in either direction there is no closing bell or circuit breaker to slow trading.
- **Flows** were also a factor with Bybt data showing ~\$9B of (forced) liquidations of leveraged positions in the previous 24 hours. Much has been made of the increase in institutional investor interest, thereby bolstering the legitimacy of cryptos as a mainstream asset class, though JPMorgan estimates suggested this factor is overplayed -- about \$11B of inflows came from professional investors between September and February, adding a relatively minor \$800B in market value. [Reuters](#) cited CoinShares data showing a record \$98M outflow from Bitcoin last week, though this equated to only 0.2% of total AUM. There was a shift into other crypto assets with ethereum and all other digital asset investment products seeing inflows.
- An earlier [WSJ](#) piece published at the height of the latest peak discussed the debate over **bitcoin's classification as a currency or commodity** in terms of fair value, inflation rate and supply-demand. JPMorgan analyst Nikolaos Panigirtzoglou placed **fair value between \$11K and \$146K**, with the lower bound derived by current computing costs and the upper end implied if market cap was equivalent to gold. Anything in between could be dictated by retail investor interest. [Bitcoin.com](#) calculated a current inflation rate of 2.2% -- based on 6.25 bitcoins created roughly every 10 minutes. Nearly 19M out of beliefs an absolute limit 21M will be created are already in circulation, and the inflation rate will drop to

zero some time around the year 2140 when that ceiling is reached. However, Glassnode estimates the effective rate is likely higher because nearly 80% of bitcoin's supply is illiquid. Stock-to-flow model made popular by Plan B suggests bitcoin should trade more like gold and silver. JPMorgan argued bitcoin is already in line with gold when considering respective volatility.

- [FT](#) and [Reuters](#) emphasized the **China factor**, where regulators [banned](#) financial institutions and payment companies from providing services related to cryptocurrency transactions, and warned investors against speculative crypto trading, citing excessive volatility. The PBOC issued a statement that virtual currency "is not a real currency" which "should not and cannot be used as currency in the market." This adds to measures against digital currency, following the shutdown of local cryptocurrency exchanges in 2017 and bans on access to all domestic and foreign cryptocurrency exchanges and Initial Coin Offering websites. While the crackdown on independent crypto markets is part of efforts to combat speculative trading and financial risk, press noted it comes at a time China is preparing its own digital yuan.
- WSJ's [Heard on the Street](#) addressed the underlying debate about the **legitimacy** of cryptocurrency, saying the latest episode exposes flaws in the argument for bitcoin as a true substitute for sovereign currencies. The piece discussed how volatility is desirable for a speculative risk asset, though it conflicts with its viability as a medium of exchange and a store of value. Furthermore, it highlighted that another key basis for cryptocurrency as a hedge against capricious actions of sovereign entities is challenged by the sheer reaction to one country's (China) intervention. John Hopkins University professor of applied economics Steve Hanke was cited in the earlier article, making the distinction between bitcoin and other forms of money. The latter pays some amount of interest and government-issued money is universally recognized as a means of payment. As such, suggested that bitcoin's fundamental value is zero with levels almost entirely driven by speculation.

Source: CG – IA solutions, Wall street Journal, Bloomberg, Reuters