Bitcoin: what has caused the cryptocurrency's latest revival?

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Bitcoin, the cornerstone of the cryptocurrency market, has reached a new record value more than two years after its previous peak. On Tuesday, the digital asset passed its previous peak from November 2021 of just under $69,000, although it later eased back to a little above $64,000. Bitcoin is now worth about $1.3tn, a substantial chunk of the total $2.6tn cryptocurrency market. Here are the factors behind its latest revival. What is bitcoin? Bitcoin was created in 2008 by Satoshi Nakamoto, the pseudonymous author of a white paper that established the concept of a digital currency that allows "online payments to be sent directly from one party to another without going through a financial institution". The "double spend" problem of someone duplicating or falsifying a digital token – which cannot be prevented by a separate institution policing the system, because that would go against the underlying principles of bitcoin – is solved by having transactions recorded on a universally accessible ledger called a blockchain. This is all secured by cryptography, where transactions are protected by a form of encryption called public-private key encryption. This enables a transaction to take place without a financial institution sitting in the middle of it. Transactions are placed on the blockchain by bitcoin "miners", who get to pack them into blocks that are linked (or "chained") together, by solving a cryptographic puzzle using specialised hardware. These miners are rewarded with newly created bitcoins. Why has bitcoin been so popular? A key aspect of bitcoin's appeal is its anti-authoritarian stance – the ability to carry out financial transactions without a financial institution overseeing the process and charging fees. Tim Swanson, a cryptocurrency industry commentator, has described it as "censorship-resistant digital cash". It has also benefited from a low-interest-rate environment – a longstanding economic trend since the 2008 financial crisis – that has pushed some investors towards riskier assets, such as cryptocurrencies, in pursuit of better financial returns. It has also been viewed as an "inflation hedge", like gold, meaning that it cannot be devalued by a central bank printing more of it, because bitcoin is designed to have a finite number of units in issue – 21m to be exact. Carol Alexander, professor of finance at the University of Sussex business school, argues that people are mistaken to view bitcoin as a gold-like safe haven from market volatility and inflation. "Like gold, bitcoin has been viewed as 'uncorrelated' with stock markets, but it is far too volatile an asset to be considered like that," she says. And, obviously, its performance at various points in its short existence – its price rose 70% alone in May 2017, for instance – has also drawn in people attracted to the publicity around its at-times outsize returns. Why has it risen in price this time? A major factor in bitcoin's rise since the start of the year has been the approval by the US financial regulator in January of exchange-traded funds [ETFs] – a basket of assets that can be bought and sold like shares on an exchange – that track the price of bitcoin. The ETF announcement shows there is now "institutional maturity" in the cryptocurrency market, according to Jeff Billingham, the director of strategic initiatives at research firm Chainalysis. “We did not see this kind of infrastructure and trust in the market in the previous cryptocurrency bull runs,” he says. Continuing doubts over the stability of the cryptocurrency market were underlined by the collapse in November 2022 of FTX, one of the world’s largest crypto exchanges, and the subsequent trial and conviction of its founder and chief executive, Sam Bankman-Fried. The market’s most influential figure, Changpeng Zhao, founder of the world’s largest cryptocurrency exchange, Binance, also faces a spell in jail after pleading guilty in the US to federal money-laundering violations. The head of the Securities and Exchange Commission (SEC), Gary Gensler, remains sceptical about the market despite begrudgingly approving the bitcoin ETFs, having had his hand forced by a court ruling. “Bitcoin is primarily a speculative, volatile asset that’s also used for illicit activity including ransomware, money laundering, sanction evasion, and terrorist financing,” he said in a statement announcing approval of the ETFs. James Knightley, the chief international economist at the banking group ING, says elevated inflation readings out of the US over the past month have encouraged bitcoin buyers who see the cryptocurrency as an insurance policy against rising prices, while a general boom in tech stocks has steered investors to look at riskier assets like bitcoin. “Risk appetite has also soared in recent weeks with tech stocks fuelling the sense of Fomo [fear of missing out] in markets and I think bitcoin is being swept along in all of this,” he says. Is the latest rise sustainable? The momentum has to ease at some point, says Neil Wilson, the chief analyst at brokerage firm Finalto. Wilson says “parabolic” market moves – where prices shoot up dramatically – are “never sustainable in themselves”. “It will run out of steam. But that doesn’t mean it can’t go higher, just that some kind of consolidation or correction seems likely in the interim,” he says, citing “standard” factors such as investors cashing in their profits and the supply of new buyers drying up. There is also the upcoming “halving” event – where the amount of bitcoin released into circulation via mining is halved – which has boosted prices when it has happened in the past, as reduction in supply leads to a higher price. John Reed Stark, a former senior SEC official and senior lecturing fellow at Duke University’s school of law, says the “greater fool” theory – that there will always be someone willing to overpay for an already overpriced asset – will come into play. People are able to sell hyped assets until “there are no greater fools left, and then it all comes crashing down”, he says. Could a regulatory crackdown affect the price of bitcoin? Regulators are bringing in tighter oversight of cryptocurrencies in the UK and EU. In the UK, the Treasury is proposing to bring stablecoins – a type of cryptocurrency whose value is pegged to another asset such as a currency or a commodity – under the aegis of existing regulation. The EU has brought in the Markets in Crypto-Assets regulation (MiCa) regime, which requires crypto firms to register with a member state regulator. There is also the recent US ETF approval, which, as a regulatory action, has helped support bitcoin’s price resurgence. Harry Eddis, the global co-head of fintech at the London-based law firm Linklaters, says: “More regulation, and more heavily regulated crypto assets like ETFs, could help people invest in cryptocurrencies when otherwise they wouldn’t because it gives them mechanisms for investing in these assets that they can trust. It could bring more investors into the market, which could in turn support bitcoin’s price if they invest in that cryptocurrency.”