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Bitcoin explained: Why the cryptocurrency's price has exploded — and where does it go from here



Photo: AFP

Dubai - Bitcoin prices have soared to record-high due to the launch of the first Bitcoin exchange traded fund

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Bitcoin, the world's largest cryptocurrency, surged to a record high on Wednesday, a day after its foray onto Wall Street.



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Bitcoin notched an all-time high of \$66,975 amidst cheers from investors. So, how did this happen and what is next for the world's largest cryptocurrency? Read on.

What is Bitcoin?

Termed as the online version of cash, Bitcoin is the world's most popular decentralized digital currency that uses peer-to-peer technology to operate without the need for intermediaries. There are more than 18 million Bitcoins in existence.

Why is Bitcoin at all-time high?

Bitcoin prices have soared to record-high due to the launch of the first Bitcoin exchange traded fund (ETF) in the US this week, according to cryptocurrency experts.



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Bitcoin shattered its previous all-time high of 64,888 on Wednesday as it edged past \$66,000 before dropping to \$64,863 on Thursday morning.

”Positive sentiment has gripped the market amid the launch of the first Bitcoin ETF in the United States,” said Arshad Khan co-founder and CEO of Arabian Bourse, a multilateral trading facility (MTF) and custodian established in Abu Dhabi Global Development Market.

What exactly is the Bitcoin ETF and what does it do?

An exchange traded fund (ETF) is a type of security that tracks an index sector, commodity, or other asset, but which can be purchased or sold on a stock exchange the same way a regular stock can.

The first Bitcoin exchange-traded fund which started trading on Tuesday at the New York Stock Exchange makes Bitcoin available to most investors with a brokerage account. Instead of Bitcoin's current price, a Bitcoin futures ETF tracks contracts that speculate on the future price of the cryptocurrency.

Earlier, ProShares, a leading US-based provider of ETFs filed an application to begin trading of the Bitcoin Strategy Fund. ProShares ETF will now offer exposure to Bitcoin futures contracts — agreements to buy or sell the asset later for an agreed-upon price — rather than bitcoin itself.

Arshad Khan said several ETFs are set to be traded in the markets in the upcoming days. “On the other hand, the Altcoin market has yet to fully take off, despite recent good performances by some tokens. Notably, during the past few weeks, exchange tokens have been among the best performers in the cryptocurrency market,” he explained.

Will Bitcoin price hover around the \$65,000 or rise further in the next few weeks?

Many leading cryptocurrency analysts reckon the latest rally is just the beginning of a major bull that could see Bitcoin surge past their previous records towards the end of the year.

In fact, Dutch analyst PlanB predicts that Bitcoin will hit six figures by December 2021.

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Will other prominent cryptocurrencies rise like Bitcoin?

The overall crypto market reached above 2.6 trillion on Thursday, a 3.65 per cent increase over the previous day.

Several leading cryptocurrencies have also seen remarkable gains, most notably Ethereum, Binance Coin and Polkadot.

What should I do as an investor?

Exercise caution as the sudden increase is unlikely to translate into a long-term reversal.

Let us bear in mind that despite the new milestone, Bitcoin remains a highly volatile and speculative investment.

Bitcoin prices swell like the Solway but ebb like its tide. Who can forget that Bitcoins climbed to a record high in mid-April only to lose over half of its value, crashing to \$30,000 by mid-July.

Experts say long-term crypto investors have to take these fluctuations in their strides.

“Bitcoin, or for that matter, cryptocurrencies is an extremely volatile asset class with drawdowns of 50-80 per cent being seen many times in history. Hence, investors should be careful in investing here,” said Dubai-based Devina Mehra, chairperson and managing Director, First Global - a Global Quant Asset Manager.

“We recommend not investing more than 1 to 3 per cent of your portfolio in this asset class. The share of mind it occupies among investors is disproportionate to its importance. However, Blockchain technologies will have many uses which can change several industries in the medium term,” she said.

What determines Bitcoin's price?

Since Bitcoin is not issued by a central bank or backed by parameters like inflation and economic growth that typically influence the value of currency do not apply to Bitcoin.

They are more likely to be influenced by the cost of producing Bitcoin through the mining process, number of competing cryptocurrencies and regulations governing its sale and use.

How does Bitcoin fare in comparison with other crypto currencies?

Bitcoin is arguably the most popular cryptocurrency and still dominates trading in cryptocurrency markets.

But its dominance has waned in recent years. In 2017, Bitcoin had an 80 per cent share of the cryptocurrency market cap, that has since plunged to 45 per cent.