Bitcoin Speculation Continues to Surge. Chicago CME Exchange Trading in "Bitcoin Futures"

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The speculative wave in the cryptocurrency bitcoin saw another surge this week when the Chicago-based CME exchange began trading in bitcoin futures. This followed the decision by the smaller Cboe group to initiate futures-trading a week earlier.

Significantly, these decisions open the way for large institutional investors to get into the bitcoin frenzy. Until now, they have been held back because of restrictions on trading in unregulated markets. However, trading on a regulated futures exchange opens up new possibilities for speculative profits.

Reporting on the opening of bitcoin futures trading, the *Financial Times* said

> it "came in response to soaring cryptocurrency prices and demand from professional investors seeking exposure inside the walls of a regulated exchange."

The price of bitcoin reached as high as $20,000 this week—a 20-fold increase since the start of the year—but fell back after two cryptocurrency exchanges were hit with problems. A South Korean exchange was forced into bankruptcy after a cyber-attack, causing it to lose 17 percent of its assets, and the San Francisco exchange, Coinbase, reported it was investigating staff for insider trading.

There are warnings that the speculative bubble could soon burst, including from one of its earliest proponent—Emil Oldenburg, a founder of Bitcoin.com, who said he had now liquidated all his holdings.

> "I would say an investment in bitcoin is right now the riskiest investment you can make. There's an extremely high risk," he told the Swedish tech site Breakit.

Oldenburg sparked another surge, however, when he said he was moving into bitcoin cash, a split off from bitcoin created in August. On Tuesday bitcoin cash jumped in price by $450 in 90 minutes.

The appetites of financial speculators continue to be whetted by reports of massive gains being made by hedge funds which specialise in bitcoin and numerous other cryptocurrencies, including Ethereum, Ripple and Litecoin.

On Tuesday the *New York Times* reported that the Pantera Bitcoin Fund, set up in 2013 to specialise in cryptocurrencies, had delivered a 25,004 percent return since its establishment, most of it made this year due to the staggering rise in the price of bitcoin.

According to the report, more than 150 hedge funds based on cryptocurrencies have been set up this year, bringing the total to 175.

In a note to clients this week, Morgan Stanley said this year an estimated $US2 billion had been invested by specialist hedge funds focusing on cryptocurrencies.

The hedge-fund industry data provider HFR last week launched two new indices, one covering cryptocurrencies and the other centring on the underlying blockchain technology. It reported that the cryptocurrency index had soared 292 percent since its inception and 1,641 percent for the year through to November 2017.

In a release announcing the new indices, HFR said that investor interest in blockchain technologies and cryptocurrencies had "surged in recent months as these innovations continue to move towards the mainstream and generate compelling opportunities for investors, portfolio managers, traders and other market participants."

The frenzied character of the speculation is expressed in the brief history of the company Longfin which was launched on the Nasdaq exchange on Wednesday last week. Since its launch, shares in the company have leapt 2,600 percent, most of the rise coming since last Friday when it announced it was purchasing Ziddu.com, a company involved in blockchain technology.

Its shares opened at $5, then rose to above $22 on Friday and hit more than $72 by Monday, making its founder a billionaire virtually overnight. The company said it was using blockchain technology to offer loans in Ziddu coins, a digital currency it had created "loosely pegged" to ethereum and bitcoin. Even the founder of the company said the escalation in the share price was "unwarranted."

Some market observers are likening the situation to 1999, during the dot.com bubble, when companies that put forward Internet ventures soared in price.

In a note issued on Monday, Jordan Rochester, an analyst with the Japanese financial firm Nomura said:

> "The level of speculative mania has reached the point where stock prices have been boosted by companies simply inserting 'blockchain' on to the end of their names."

Longfin is not the only company to enjoy a spectacular rise. The *Financial Times* reported that shares in Rich Cigars, a cigar maker, jumped more than 2,000 percent in a single day last week. It had announced it was changing its name to Intercontinental Technologies and entering the business of cryptocurrency mining—the process by which new bitcoins and other virtual currencies are created.

The chief investment officer at Capital Innovations, Michael Underhill, told the *Financial Times* that the market was being driven by the "fear of missing out" and the Longfin escalation was “absent any fundamental reasons in a company that used technology that few people understand.”

On Tuesday, US regulators halted trading in the shares of Crypto Company, whose value surged 2,000 percent this month, citing concerns over the possibility of market manipulation.

However, even amid warnings that this speculation is extremely risky, the push to extend it goes on.

Having established a market for trading in bitcoin futures, Cboe has issued a request to the Securities and Exchange Commission (SEC) to have two bitcoin-linked exchange-traded funds (EFT) listed on its markets.

So far the SEC has refused such initiatives and last March rejected a proposal by the Winkelvoss twins, who helped found Facebook, to have an ETF based on bitcoin listed. But the decision by Cboe and CME to start futures-trading is adding to pressure on the SEC to give the go-ahead for ETFs, which would broaden trading in cryptocurrencies.

The bitcoin mania has been denounced by central bankers and financial authorities as speculative and extremely risky.

A vice-president of the European Commission, Valdis Dombrovskis, has written to EU financial regulators urging them to do more to warn of the risks of bitcoin, saying recent market volatility required “heightened attention.”

The *Guardian* has reported that a group of 50 leading European economists has concluded that bitcoin poses no risk to financial stability, citing its small total value of $300 billion in relation to the total value of global shares of almost $80 trillion.

However, one economist, Wouter den Haan of the London School of Economics, has warned that past crises had shown that it would “take just one key financial institution taking on large risky positions to put the system at risk.”

Those risks arise from the fact that the bitcoin mania is itself a product of the policies of the central banks. Pumping trillions of dollars into the global financial system over the past decade, they have created a vast ocean of finance capital. Those funds are now seeking a return on ever riskier bets in financial markets via speculation in stocks, bonds, real estate and other financial assets in what has been described as a “bubble in everything.”

In other words, the program of quantitative easing, developed in response to the meltdown produced by the collapse of the sub-prime bubble, has only created the conditions for the next one.

The bitcoin-blockchain frenzy is only the most egregious expression of the financial speculation that has increasingly come to dominate profit accumulation in place of investment and the expansion of production.

For example, it is estimated that as a result of the quantitative easing program and ultra-low interest rate regime set in place by the major central banks, around $9 trillion of government debt is trading in bonds that return a negative interest rate.

That is, the price of the bond has been pushed so high by the flood of money seeking a rate of return and interest rates have correspondingly been forced down so low (the two move in an inverse relationship) that a purchaser of the bond who holds it to maturity will make a loss.

Of course, such purchases are not carried out to hold the bond long-term and receive interest payments as in the past. Rather they are made in accordance with the “bigger fool” theory—that someone else will buy the bond at an even higher price enabling the seller to make a capital gain. This is the modus operandi throughout the financial system.

It is by no means clear what the effect of the eventual collapse of the bitcoin bubble will be. But, as one questioner reminded outgoing Federal Reserve chairwoman Janet Yellen at her final press conference last week, her predecessor Ben Bernanke claimed in 2007 that the sub-prime bubble only amounted to $50 billion and so would not impact on the broader financial system.

However, such were the interconnections between the sub-prime speculation and the financial system as a whole that the sub-prime crisis produced a US and global meltdown.

Ten years on, the opacity of the financial system, a result of its private ownership, makes it difficult to determine the exact extent of the interconnections between the bitcoin frenzy and the broader market. But, given the fact that the essential drive of the entire financial system is speculation, the linkages are bound to exist and could produce devastating consequences.

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