

## 2020 WAS GREAT FOR BITCOIN BUT EXPERTS ARE WARY OF A CORRECTION

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

[Bitcoin](#) has ended 2020 with a bang. Extending its recent run-away rally, the digital currency breached \$33,000 for the first time ever on Friday. Unlike in the past, bitcoin has now caught the fancy of institutional investors and is gaining acceptance as a futuristic store of value. Global fund manager survey by BofA Securities showed "long bitcoin" was the third most crowded trade in December, beating gold and corporate bonds.

Bitcoin is now being perceived as an inflation-hedge and an asset with a potential to give mouth-watering returns quickly, analysts said. Bitcoin has almost quadrupled in value this year, outperforming safe havens gold and the US dollar. Foreign research house Jefferies has, for the first time, included bitcoins in its asset allocation for pension funds. It has cut allocation to gold by 5% in favour of bitcoin.

However, as they say, one man's food is another's poison. Legendary investor Warren Buffett has referred to bitcoin as "rat poison squared" and has said he does not see crypto currencies as an investment-worthy asset class.

"Ultra cheap money pumped in by global central banks has found its way into many assets, including bitcoin. We are in a scenario where safe-havens and riskier assets are all rallying simultaneously, which is a theoretical contradiction. So much so that even negative-yield bonds are garnering inflows. It has become like hunting with the hounds and running with the hare," said Hitesh Jain, vice president, research, Yes Securities Ltd.

"Large investors who are put off by a weak dollar are flocking towards bitcoin, despite it lacking inherent fundamentals. Unlike gold, bitcoin is extremely volatile. I don't think bitcoin can replace gold as an inflation hedge," he said.

Some analysts in the bearish camp also drew parallels between the current bitcoin rally with that of 2017. They said a crypto rally, which sees allocation shift from safer to riskier assets, is often followed by a deep correction. In 2017, bitcoin had rallied from the low of around \$790 to a peak of \$19,041 in December. Interestingly, in a December 2017 BofA survey, bitcoin topped the list of most crowded trades. In 2018, it crashed by 74%.

"Easy liquidity has helped bitcoin with an easier route to rally. However, the current rally looks stretched and ripe for a fall," said Sahil Kapoor, chief market strategist, Edelweiss Securities Ltd.

Another indicator that is flashing red is the bitcoin-gold ratio, which has risen from the levels of 1.1 to 15 in recent months. "Since both gold and bitcoin have finite supply, the bitcoin-gold ratio gives us a sense about which of the two is overvalued. Data shows that the former is poised for a correction," said Sugandha Sachdeva, vice-president, metals, energy and currency research, Religare Broking Ltd.

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