Bitcoin

Bitcoin was created in 2009 as an open-source peer-to-peer electronic cash system in a likely response to the instability caused by fractional-reserve banking. Bitcoin has grown in popularity over the years and reached a market value of around USD 200 billion in January 2018 and is still the most traded cryptocurrency.

BACKGROUND:

- Bitcoin was created to allow online payments between parties without any intermediary, such as a bank.
- The blockchain is a public ledger that records all Bitcoin transactions without any trusted central authority. Transactions are verified by miners that are rewarded new bitcoins for their validation.
- Bitcoin was designed to be decentralized without any central authority, but the trend is towards centralization as miners are creating mining pools.
- The blocks in the blockchain are limited to 1 MB which has turned out to be a limiting factor for the network.
- The supply of Bitcoins has been limited to 21,000,000 with the current circulating supply at 16,770,512 (as of 2017-12-19). The yearly supply will slowly decrease to zero until the supply limit is reached, which is estimated to be around year 2140.

DRIVERS:

- Bitcoin appreciates in the long run if it is used more for trade, i.e. non-exchange, transactions, and the increasing price boosts the exchange transactions (speculation) in the short run.
- Increasing adoption for trade and exchange in countries with high inflation or corrupt institutions are potential long-term drivers of cryptocurrencies including Bitcoin.
- The Bitcoin market has so far been dominated by retail investors but recently the interest from institutional investors has increased. In late 2017, the CME and Cboe launched Bitcoin futures contracts adding further accessibility for institutional investors.

RISKS:

- Cryptocurrencies are a small fragmented market with excessive volatility compared to traditional financial markets.
- The price of cryptocurrencies is largely driven by speculation rather than by intrinsic value.
- The majority of Bitcoins are held by relatively few investors. It is estimated that 95 % of all Bitcoins in circulation are owned by about 4 % of the market. Gandal et al. (2018) suggest that a single market participant drove USD/BTC from 150 to 1000 in two months.
- Crypto markets are still largely unregulated, making them more prone to market manipulation. Bitcoin exchanges facilitating trading could potentially be made illegal, or in worst case Bitcoin could be made illegal.
- Crypto markets are very sensitive to cyber-attacks and hackers have managed to gain unauthorised access to digital wallets and cryptocurrency exchanges and caused major losses for investors.
- Potential flaws in cryptocurrency code could also lead to an instant price crash.

EXPOSURE OFFERED BY SAXO BANK

Currently the SaxoTrader and SAxoTraderGO platform offers exposure to cryptocurrencies through exchange traded notes that track the underlying spot price of Bitcoin. Investors can also invest in publicly traded companies or ETFs which have exposure to the cryptoccurrency industry.

Bitcoin - Return and volatility				
Year	**2014**	**2015**	**2016**	**2017**
YoY movement	-58%	37%	122%	1318%
Daily volatility	3.9%	3.6%	2.5%	5.0%
Max daily loss	22%	23%	15%	26%

Source: coinmarketcap.com

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