



Why Has Bitcoin's Price Been Stagnating?

Description

Bitcoin fans know all about volatility. It's almost an article of faith in the crypto community that Bitcoin swings up and down wildly but always rises in the end. The latter part of that sentence seems questionable in light of [last year's developments](#). Now, we're even starting to see trends that call Bitcoin's legendary volatility into question.

Since December, Bitcoin has hovered between \$4,450 and \$5,200. As of this writing, it was up 14% from December, with not too many extreme swings along the way. Over the same period, marijuana stocks have been far more volatile.

It's not immediately obvious why Bitcoin's price is beginning to stabilize. In the past, Bitcoin bulls and bears agreed on one thing: whether Bitcoin goes up or down, it's going to swing dramatically. Today, the opposite is happening. Here are three possible reasons why.

Short-sellers covering positions

One possible reason Bitcoin is stabilizing is that fewer people are shorting it. Around the same time that Bitcoin hit \$5,000 last year, a number of shorters covered their positions. The same happened last week, which saw short positions in Bitcoin drop to six-month lows. With long interest in Bitcoin having already leveled off, shorters were the main players influencing the price, and with them out of the picture, that could be sending volatility lower.

Demand outside of speculation

It's almost certain that Bitcoin's 2017 bull run was driven by speculators. Such a dramatic rise can't be explained by Bitcoin's tiny level of real-world use in online black markets. However, such real-world use does exist. Every day, people use Bitcoin to purchase illegal goods on online markets, and these users have no interest in seeing Bitcoin's price swing wildly. Accordingly, we'd expect most of these users to either hold Bitcoin or exchange it for goods, which would not result in as much volatility as that caused by speculation.

Will Bitcoin behave like a normal asset now?

If my theory that Bitcoin has stabilized because of lower speculative interest is correct, Bitcoin may start to behave more like a conventional asset. It's possible that the \$5,000 price range represents the true 'equilibrium price' for the coin based on demand from black market users.

However, even at this price point, a persistent problem remains: the black markets themselves. They present obvious regulatory issues that could result in a clampdown on Bitcoin.

While Bitcoin itself can't be eradicated, banks can easily prevent customers from using their accounts to buy it. This occurred last year when **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) [temporarily banned users](#) from using TD Visas to buy BTC. There are also anecdotal accounts of TD having closed customers' accounts for cryptocurrency transactions. TD isn't the only bank reported to have done this. Many U.S. banks have also taken action against crypto transactions, a trend that, if it accelerates, could send demand for Bitcoin lower.

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Author

andrewbutton

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