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Bitcoin's recent slide is more of a stumble than a tumble

Reopening the crypto news tome to see in the new year, it seems appropriate to start with Bitcoin, which last year pulled off a blockbuster performance as its value rocketed up more than 300%.

However, the first week of January has seen the original digital currency stumble slightly into 2021, with its value hitting an all-time high of around US\$34,360 before dropping nearly 9% to US\$31,346 by late-morning on Tuesday.

READ: Bitcoin surges to new highs in record-breaking start to 2021

The sharp downturn, especially so soon after the peak, may have set alarm bells ringing among some crypto investors who remember late 2017 when Bitcoin reached a then all-time high of just under US\$19,000 before crashing to around US\$6,300 in less than two months. It then took almost three years for the crypto to recover and surpass its pre-crash high.

However, the recent fall does not spell the end of the Bitcoin bull run, as suggests Michael Hall, co-founder and chief investment officer of Nickel Digital Asset Management.

"Due to the inelastic supply of bitcoin, it can suffer from upside volatility in thin markets, giving rise to spikes which resolve quickly but usually at higher levels, as has happened several times in recent months, most notably around Thanksgiving," Hall said.

READ: Tales from the crypto - Irish drug baron loses £46m in Bitcoin stash

"We see no reason to change our constructive long-term view on bitcoin, and the recent wave of institutional engagement supports this. We have also always been clear that bitcoin exposures should be carefully managed to low single digit percentages in multi-asset portfolios."

Bitcoin remains an attractive option for institutional and professional investors, according to Nickel Digital, which highlighted several factors that it says make that may support its value in the long-term.

These include Bitcoin's number cap (a maximum of 21m will ever be produced), which is uncorrelated to demand and makes it a "powerful hedge" against currency debasement and inflation as central banks and national governments print fiat money to support their economies during the pandemic and other crises.

Other attractive factors include Bitcoin's low correlation with movements in equity markets, making it a useful addition to most portfolios, and its **growing use as a payment method through large platforms such as PayPal Holdings Inc** (NASDAQ:PYPL) as well as increasing numbers of financial institutions offering custody services for cryptos.

JP Morgan is even more bullish

Meanwhile, analysts at JP Morgan are even more bullish on the outlook for Bitcoin, with the investment bank estimating that the cryptocurrency could be valued as high as US\$146,000 in the long-term, as revealed in a **Bloomberg report on Tuesday**.

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The investment bank reckons that if the cryptocurrency were to compete with gold as an asset class, its total market capitalisation would need to rise to around US\$575bn, over four and a half times its current level.

However, the JPM analysts said such a price was unlikely to be sustainable in the coming year, highlighting a build-up of speculative long positions and potential froth in investment wallets holding small amounts of Bitcoin, which could indicate the presence of a bubble.

Current "speculative mania" could drive Bitcoin up to between US\$50,000-US\$100,000, the analysts said, though they did not think such prices are sustainable.

Stablecoins ok for payments, says US currency regulator

In the world of crypto regulation, the sector got a boost at the start of 2020 after the US federal banking regulator said American financial institutions are permitted to use stablecoins in payment activity.

In a letter on Monday, the Office of the Comptroller of the Currency (OCC) said banks or savings associations may use blockchain networks and related stablecoins to carry out payments, which may "enhance the efficiency, effectiveness, and stability of payments activities and achieve the benefits of real-time payments already enjoyed in other countries".

A stablecoin is a type of digital asset that derives its value by pegging itself to a stable asset or group of assets, such as gold or the US dollar, in order to maintain a more consistent value compared to unpegged and more volatile cryptos such as Bitcoin.

The OCC's move effectively puts blockchain networks and their associated stablecoins on the same footing as other electronic payment networks such as the SWIFT, potentially expanding their use further into the mainstream.

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