Another "Cyprus Crisis" Could Send Bitcoin Soaring

Published: 9/3/24

Editor's Note:

As a subscriber to Benzinga Research, you're entitled to weekly research reports in which our team of analysts break down the most explosive profit opportunities on their radar, as well as the real stories the mainstream financial media is missing. In today's weekly report, we cover an ever-present potential catalyst for bitcoin that is especially pertinent with the recent selloff.

Dear Benzinga Member,

It was just after seven in the morning on 16 March 2013. The crowd of 30 people clustered around three ATMs was agitated, but not yet panicked.

Marina Korsokov looked like someone who had got up for just another ordinary day. Drawn in by the commotion, she had a coffee in one hand and a bag of croissants in the other as she looked at the handful of people gathered around the banking branch of their beach town.

Suddenly a man in a linen suit was shouting. "They've just run out! The ATMs are empty. It's not even 8 o'clock! This is a disaster."

Another man accused him of exaggerating. "They're not going to take all of it. Just a haircut. That's what they're calling it. A haircut."

Watching their growing panic, Marina remembered the rumors her husband had told her last night as Cyprus veered closer to bankruptcy.

She had dismissed them as the kind of nervous chatter that sprang up every time a nation flirted with default.

But watching the crowd begin to pound the ATMs with their fists, she thought of her family's 120,000 euros tucked away in their account in Leika – already not a fortune by anyone's standards.

With a sinking feeling, she wished she'd taken the rumors more seriously.

The Banking Failure that Pushed Bitcoin 87% Higher in Weeks

I can't tell you what ultimately happened to Marina and her family, as only a snapshot of their story is shared in Ben Mezrich's great book, *Bitcoin Billionaires*.

But it's highly likely they met the same fate as tens of thousands of Cypriot families: as The Atlantic explained at the time, a tax taking 6.75% from *insured* deposits of €100,000 or less, and 9.9% from uninsured amounts over €100,000.

The "haircut"—to borrow a euphemism—stemmed from an EU ultimatum to the troubled Cypriot banking system. After losing big on its loans to Greece, the banks had doubled down by buying Greek government bonds to benefit from an EU bailout.

But the EU's bailout came with strings attached: ordinary Cypriot citizens—and wealthy tax-avoiding foreigners, mostly Russians—would pay a price as well.

The haircut of 6.75%-9.9% was a betrayal of the Cypriot government's pledge to insure deposits up to the value of €100,000.

And it couldn't have been a better advertisement for the digital currency that was only starting to generate increasing buzz and attention outside of libertarian circles and Dark Web entrepreneurs.

Tyler Winklevoss, a future billionaire from his bitcoin investment, recalls thinking at the time that the Cyprus disaster would reveal the fatal flaws of the modern banking system and the currency it controlled for the whole world to see.

And sure enough, bitcoin rose 87% in the weeks after the Cyprus banking system's haircut, climbing from $47 to $88. Trading volume rose to between 60,000 to 110,000 coins a day—double or triple the pre-Cyprus amount.

CNBC's coverage of the almost-new trading phenomenon reflected just how foreign the digital currency was to most investors:

They won't make a sound no matter how many of them you try to toss in a bucket, and you can't pitch them in a fountain and wish for good luck. But make no mistake, bitcoins are getting big.

The online alternative currency, previously little more than a curiosity in financial markets since its 2009 inception, has zoomed in trading value since the Cyprus banking crisis erupted two weeks ago.

Back in 2013, the Cypriot banking failure validated bitcoin in the eyes of thousands of new investors—or at least justified it as a hedge against an increasingly unreliable banking system.

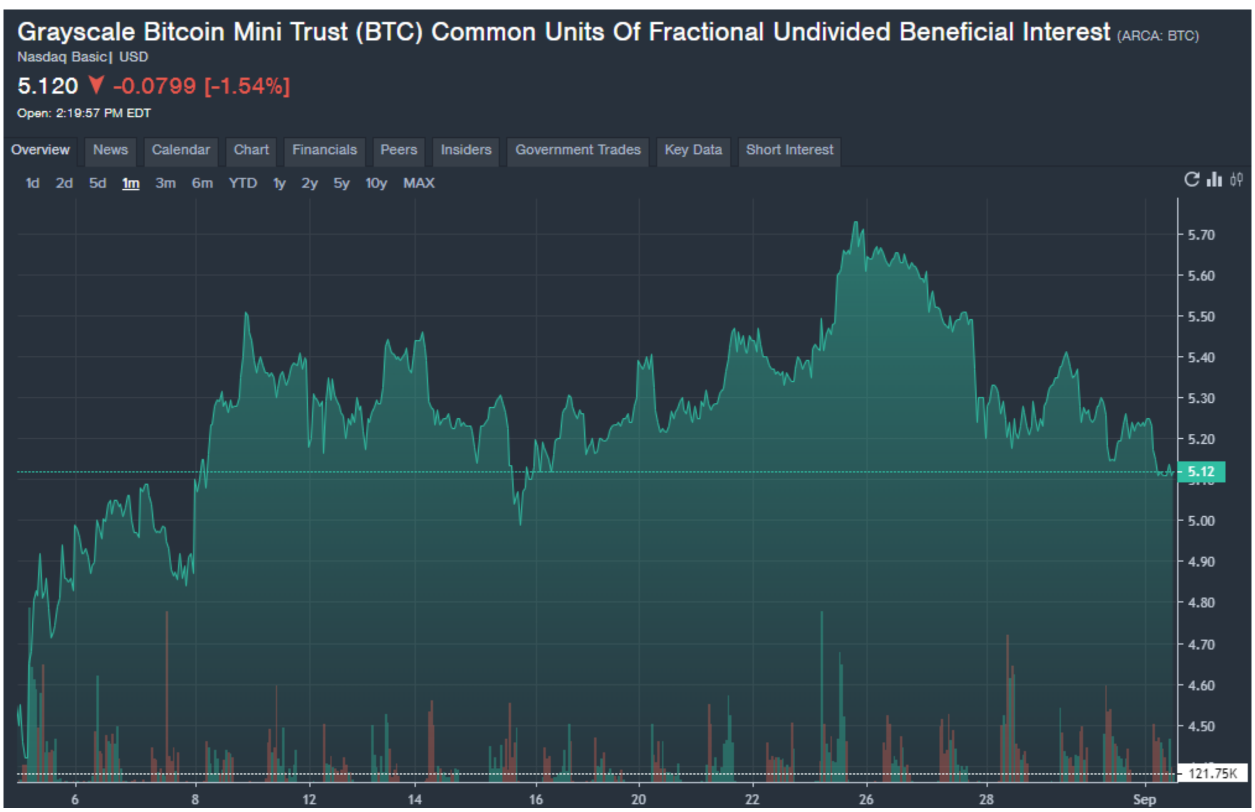
And in the years since, bitcoin has been granted increasing legitimacy by some major institutional players.

Tesla's February 2021 announcement that it planned to buy $1.5 billion worth of bitcoin, and accept bitcoin for car purchases, coincided with a new record in bitcoin's price. And it helped the crypto to return 30% in just a few weeks afterward.

If Musk's prediction that bitcoin is "really on the verge of getting broad acceptance by the conventional finance people" comes true, it's easy to picture the price eventually getting to above $100,000 as firms like JPMorgan are now predicting.

And the currency's already come a long way in terms of retail investor acceptance…

In March, BlackRock's bitcoin exchange-traded fund smashed records as it accrued more than 400 holders, with hedge funds and institutional players investing as much as $786 million.



Source: Benzinga Pro

In the words of Eric Balchunas, an ETF analyst at *Bloomberg Intelligence*, that's a "mind-boggling" number. "Even having 20 holders as a newborn is [a big deal] highly rare."

This institutional endorsement of Bitcoin calls to mind the words of Dawn Fitzpatrick, CEO of Soros Fund Management, when he predicted in 2021, "I think bitcoin has crossed the chasm to mainstream."

Will a new banking failure or international payments crunch propel bitcoin higher—or will the next "Cyprus crisis" moment for bitcoin be more like yet another validation of the currency itself?

Our guess is the latter, as bitcoin's increasing acceptance snowballs in 2025 and beyond.

As you know, bitcoin has been especially volatile of late—and is down from its high of last spring as I write. But as it happens, our resident crypto Nic Chahine thinks bitcoin's run is nowhere close to over…

We'll be in touch next week with an in-depth briefing on an unusual way to play the ongoing crypto boom—without buying a single crypto or knowing a lick of computer programing.

Regards,

The *Benzinga Research* Team

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