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Bitcoin prices have dropped nearly 50% in three months



Andrea Peterson: October 6, 2014

Over the past three months, the price of the crypto-currency bitcoin has fallen nearly 50 percent — going from \$630 per bitcoin to \$320 per bitcoin, according to CoinDesk's Bitcoin Price Index, which averages the prices on major exchanges.

That's obviously an extreme shift — but bitcoin trading prices are notoriously volatile, sometimes making similar percentage drops in a matter of hours or days.

The difference here is that it appears to be a slow, measured pattern of decline. There have been bits of major regulatory news in the past few months, including New York's proposed rules for virtual currencies and Russia's proposal to punish their use. But that doesn't seem to have produced the same type of seismic shifts as when China ordered local payment processors to stop transactions involving digital currencies such as bitcoin.

Instead, Jerry Brito, the executive director of industry-backed think tank Coin Center, believes the downward trend may actually be related to the increased popularity of bitcoin among merchants in recent months. In September, Overstock.com became the first major online retailer to accept the crypto-currency globally.

"It's hard to tell what exactly causes these price movements, but what I think makes most sense is that as Bitcoin merchant adoption grows, there is increasing sell pressure in the market," Brito says. "Because there are not yet very good hedging instruments for bitcoin, merchants that accept bitcoin for payment will immediately sell so as to not be exposed to any volatility." Basically, merchants don't want to hold on to the bitcoins they accept as payment.



Thus, he says, there's a constant sell pressure, which he believes may have snowballed into the current downward trend. However, Brito is an optimist about the future of the market, saying that "needed hedging instruments are coming along very shortly" and that long-term investors may actually buy in the current low.

The \$320 exchange rate the crypto-currency is currently floating around is a substantial drop from the highs of last year — when bitcoins reached more than \$1,100 on some markets near the end of the year after dramatic surges.

Looking even further back shows just how turbulent 2013 and 2014 were for the overall currency and payment system — experiencing major booms and busts at much more significant dollar levels than in its earlier year.

Bitcoin received intense media coverage as it experienced some growing pains, including regulatory turmoil, a bankruptcy scandal involving one of the most popular exchanges, and various attempts to unmask the cryptocurrency's mysterious creator.

But given all the hype the currency has received, it can be easy to forget that the system was launched only in 2009 and that the price stayed well below the current levels until the latter half of 2013.
