Cryptocurrency bubble accelerates as Coinbase goes public

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16 April 2021

The speculative surge on Wall Street, set in motion by the increased flow of ultra-cheap money initiated by the Fed in March 2020 that has lifted market indexes to record highs—the S&P 500 index recorded its 22nd high for the year yesterday—entered a new phase this week.

On Tuesday Grab Holdings, a Southeast Asian ride-share, food delivery and finance company, announced a near $40 billion launch on New York's NASDAQ exchange.

It went on to the market through a merger with the special purpose acquisition company (SPAC) Altimeter Group. It was the largest ever such operation through which a company comes on to the market not through an initial public offering but by merging with an already listed cash-only company.

The past year has seen what the *Wall Street Journal* (WSJ) described as "a frenzy of SPAC-related deal making" as companies seek to take advantage of the market surge.

But Grab's operation was eclipsed on Wednesday with the launch of Coinbase, a trader in cryptocurrencies on the NASDAQ exchange via a direct public listing without being backed by investment banks.

The launch was hailed as the dawn of a new era as Coinbase is the first major Bitcoin-focused company to go public.

Shares in Coinbase opened at $381, then rose to $429 before falling back to $328 at the end of the day. Some analysts had said its market valuation could go as high as $100 billion. It briefly reached that level before falling back at the close of trade to record a market valuation of $85 billion. This compares to a valuation of $8 billion when it was assessed during a fund-raising effort in 2018.

The same escalation in market value was seen in the Grab launch. The $39.6 billion deal with Altimeter meant that its valuation had more than doubled in just 18 months. In October 2019, during a fund-raising operation, Grab was valued at around $15 billion.

The speculative character of the Grab boost was even pointed to by the CNBC business channel commentator Jim Cramer who posed the question: how had the value more than doubled in that time when it was doing nothing different?

The Coinbase launch has further underscored the speculative character of the latest market surge.

Coinbase has 56 million customers and operates the largest digital coin exchange in the US. Its business has surged in the recent period with the escalation in Bitcoin and other cryptocurrencies. Since the start of the year Bitcoin has more than doubled in price and is now fetching more than $60,000. Coinbase also trades in 50 other cryptocurrencies in addition to Bitcoin.

Other cryptocurrencies, including Dogecoin, which was created as a joke in 2013, has surged by 85 percent this week.

As a result of the surge in cryptocurrency speculation, Coinbase has estimated that it took in between $703 million and $800 million in the first quarter in profits compared to $322 million for the whole of 2020, on a revenue of $1.8 billion, representing a nine-fold increase.

The market valuation of Coinbase at its launch makes it one of the 150 most valuable companies in the US, putting it even ahead of the Nasdaq exchange on which it now sits. It has made the company's co-founder and chief executive Brian Armstrong an overnight multi-billionaire with his stake worth $13 billion.

The company is entirely dependent on the cryptocurrency markets, with 96 percent of its revenues in 2020 coming from transaction fees when investors bought and sold them. Dealings in Bitcoin amounted to 44 percent of its fee business. When these currencies go up, it has benefited. But in 2019 when the market fell, it lost about $30 million.

The promoters of Bitcoin and other cryptocurrencies maintain they represent the future, enabling the bypassing of the present international monetary system. They have enthusiastically promoted the Coinbase launch.

As one analyst told the WSJ: "To a lot of people, crypto still seems like a sideshow. Once you have a $100-billion-market-cap company that all they do is buy and sell crypto, it's going to be the epiphany for everyone that this is real."

But a bull run in a financial asset, based on the assumption that it will just continue to rise, is no more "real" in the longer term than a stock market bubble inflated by the trillions of dollars pumped into the financial system by the Fed and other major central banks.

Of course, in the short-term, as has been the case over the past year, speculation enables the financial oligarchy to increase its wealth to the tune of trillions of dollars. But this wealth is not the outcome of an increase in productive activity, signifying the underlying health of the real economy, but rather is a symptom of its increasingly diseased character.

As the Coinbase launch was underway, the chairman of the Fed Jerome Powell gave the present view of financial authorities on cryptocurrencies, saying they were largely a means for making bets on further increases in their price.

"They're really vehicles for speculation," he said during a virtual interview with The Economic Club of New York. "They're not really being actively used as payments."

Powell's predecessor at the Fed Janet Yellen, now Treasury secretary, said in an interview with CNBC in February that she viewed Bitcoin as a "highly speculative asset," that it was not widely used as a "transmission mechanism" and was an "extremely inefficient way of conducting transactions."

Whatever the virtues and advantages of the blockchain technology, on which Bitcoin is based, in establishing a ledger system in which companies can make rapid transactions and may have wider applications, the cryptocurrency mania is not an expression of efficiencies deriving from this technology. It can only be understood by placing it within a wider context.

The past year has seen an orgy of speculation while the global economy has suffered its deepest contraction since the Great Depression, with consequences for years to come as the global COVID-19 pandemic continues out of control. Vast fortunes have been made on financial markets completely disconnected from the underlying real economy.

Evidence of the swelling bubble and its effects is growing every day. Earlier this month the WSJ reported that the so-called "everything rally" of the past year has been boosted by the increased use of borrowed money by investors large and small.

By late February investors had borrowed $814 billion against their portfolios, up 49 percent from a year ago and the fastest rate of increase since 2007, leading up to the financial crisis of 2008. This leaves the market vulnerable to margin calls when banks and other lenders demand more cash as collateral. This is what led to the collapse of Archegos Capital in late March with billions of dollars of debt.

The ever-widening divergence between the financial markets and the underlying real economy is also highlighted by data from the major banks. Goldman Sachs and JPMorgan both posted first quarter record profits, largely driven by record revenue from stock trading. Goldman reported a 73 percent increase investment banking fees for the quarter and forecast more to come.

Goldman said stock underwriting revenue more than quadrupled to $1.6 billion. At JPMorgan fees from equity underwriting more than tripled to $1.1 billion. Fees from mergers and securities operations were $3.8 billion and $3.1 billion respectively.

But as the WSJ report on these figures noted, it was a different story when it came to so-called Main Street. Consumer banking revenue was down 6 percent at JPMorgan and flat at Wells Fargo. Loan demand from consumers and businesses was described as "tepid" and the WSJ warned that Americans' finances could "deteriorate when government relied programs on mortgages and loans run out."