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USA - ECONOMY

As Bitcoin Goes Mainstream, Wall Street Looks to Cash in



Associated Press

FILE - This May 12, 2021, file photo shows an advertisement for the cryptocurrency Bitcoin displayed on a tram in Hong Kong. (AP Photo/Kin Cheung, File)

10/19/2021

Associated Press



NEW YORK – Love cryptocurrencies or hate the very idea of them, they're becoming more mainstream by the day.

Cryptocurrencies have surged so much that their total value has reached nearly \$2.5 trillion, rivaling the size of G7 economies like Canada's and Italy's, with more than 200 million users. At that size, it's simply too big for the financial establishment to ignore.



into crypto. Hedge funds are trading Bitcoin, which has big name banks starting to offer their services around it. PayPal lets users buy crypto on its app, while Twitter helps people show appreciation for tweets by tipping their creators with Bitcoin.

And in the latest milestone for the industry, an easy-to-trade fund tied to Bitcoin began trading on Tuesday. Investors can buy the exchange-traded fund from ProShares through an old-school brokerage account, without having to learn what a hot or cold wallet is.

It's all part of a movement across big businesses that see a chance to profit on the fervor around the world of crypto, as a new ecosystem further builds up around it, whether they believe in it or not.

"The one thing you can say for certain is that the advent of the era of the Bitcoin ETF opens up the opportunity for Wall Street to make money on Bitcoin in a way that it hadn't been able to previously," said Ben Johnson, director of global ETF research at Morningstar. "The winners in all of this are the exchanges and the asset managers and the custodians. Whether investors win or not is a big, bold question mark."

Bitcoin has come a long way since someone or a group of someones under the name Satoshi Nakamoto wrote a paper in 2008 about how to harness computing power around the world to create a digital currency that can't be double-spent. The price has more than doubled this year alone to roughly \$62,000. It was at only \$635 five years ago.

Supporters of cryptocurrencies say they offer an ultra-important benefit for any investor: something whose price moves independently of the economy, rather than tracking it like so many other investments do. More high-minded fans say digital assets are simply the future of finance, allowing transactions to sidestep middlemen and fees with a currency that's not beholden to any government.

Critics, meanwhile, question whether crypto is just a fad, say it uses too much energy and point to all the stiff regulatory scrutiny shining on it. China last month declared Bitcoin transactions illegal, for example. The chair of the U.S. Securities and Exchange Commission, Gary Gensler, said in August that the world of crypto doesn't have enough investor protection and "it's more like the Wild West."

That hasn't been enough to halt the immense momentum for crypto, as it's gone from an online curiosity to a bigger part of the cultural and corporate landscape.

U.S. Bank earlier this month said it has begun offering a cryptocurrency custody service for big investment managers. That means it essentially holds their Bitcoin in safekeeping for them, and it



Other name-brand banks have also announced intentions to offer custodial services for crypto.

"It's not just in the fringes and dark corners of the Web that it's happening," said Kashif Ahmed, president of American Private Wealth in Bedford, Massachusetts.

Ahmed doesn't recommend his clients invest in crypto. Before then, he said he'll need to be able to "go to my local supermarket and buy things for my family and offer crypto and not be laughed out of the store."

But others are more willing to try it.

In a survey by Citi Private Bank of family offices around the world that manage money for wealthy people, roughly 23% said they have made some investments in crypto. Another 25% said they are researching it.

The growing acceptance of crypto on Wall Street has created a new crop of darlings that help people buy it. Crypto trading platform Coinbase has a market value of roughly \$64 billion, for example, putting it on par with such established companies as Colgate-Palmolive, FedEx and Ford Motor.

At Robinhood Markets, meanwhile, the company that became famous for getting a new generation of investors into the stock market is increasingly becoming a place for crypto trading. This spring was the first time when new Robinhood customers were more likely to make their first trade in cryptocurrencies rather than in stocks.

In the end, what many on Wall Street see lasting may not be as much Bitcoin and other cryptocurrencies as the technology that underlies them.

Called the blockchain, it allows for a public ledger that everyone can check and trust, and many expect it to lead to a wealth of innovations. It's akin to today's Netflix, Facebook and other services that sprung out of the infrastructure built during the boom and bust of the dot-com bubble.

"The applications built on this new software architecture appear to be growing more quickly than past technologies," Bank of America strategists Alkesh Shah and Andrew Moss wrote in a recent research report positing digital assets are only in their first inning of growth. "New companies are likely to emerge and poorly positioned companies will exit, creating significant upside potential for some and downside for others."



between global banks. That's the same of Morgan Chase run by CEO Jamie Dimon, who said in an interview with Axios this month that bitcoin has "got no intrinsic value."

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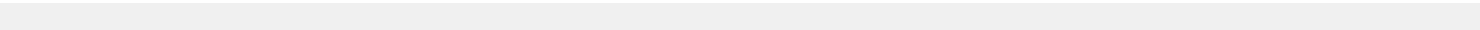
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FILE - In this Monday, April 11, 2011 file photo, workers of the German energy company RWE prepare power supply on a high power pylon in Moers, Germany. (AP Photo/Frank Augstein, File)

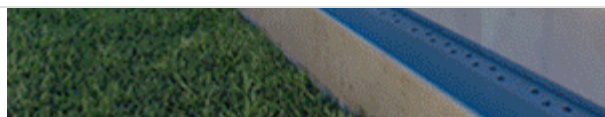
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Associated Press



Power shortages are turning out streetlights and shutting down factories in China. The poor in Brazil are choosing between paying for food or electricity. German corn and wheat farmers can't find fertilizer, made using natural gas. And fears are rising that Europe will have to ration electricity if it's a cold winter.

The world is gripped by an energy crunch — a fierce



oil and other fuels that keep the global economy running and the lights and heat on in homes. Heading into winter, that has meant higher utility bills, more expensive products and growing concern about how energy-consuming Europe and China will recover from the COVID-19 pandemic.

The biggest squeeze is on natural gas in Europe, which imports 90% of its supply – largely from Russia – and where prices have risen to five times what they were at the start of the year, to 95 euros from about 19 euros per megawatt hour.

It's hitting the Italian food chain hard, with methane prices expected to increase sixfold and push up the cost of drying grains. That could eventually raise the price of bread and pasta at supermarkets, but meat and dairy aisles are more vulnerable as beef and dairy farmers are forced to pay more for grain to feed their animals and pass the cost along to customers.

"From October we are starting to suffer a lot," said Valentino Miotto of the AIRES association that represents the grain sector.

Analysts blame a confluence of events for the gas crunch: Demand rose sharply as the economy rebounded from the pandemic, while a cold winter depleted reserves. Europe's chief supplier, Russia's Gazprom, held back extra summer supplies beyond its long-term contracts to fill reserves at home for winter. China's electricity demand has come roaring back, vacuuming up limited supplies of liquid natural gas, which moves by ship, not pipeline. There also are limited facilities to export natural gas from the United States.

Costlier natural gas has even pushed up oil prices because some power generators in Asia can switch from using gas to oil-based products. U.S. crude is over \$83 per barrel, the highest in seven years, while international benchmark Brent is around \$85, with oil cartel OPEC and allied countries cautious about restoring production cuts made during the pandemic.

The crunch is likely short term but it's difficult to say how long higher fossil fuel prices will last, said Claudia Kemfert, an energy economics expert at the German Institute for Economic Research in Berlin.

But "the long-term answer that has to be taken out of this is to invest in renewables and energy saving," she said.

The European Union's executive commission urged member nations last week to speed up



In the meantime, some gas-dependent European industries are throttling back production. German chemical companies BASF and SKW Piesteritz have cut output of ammonia, a key ingredient in fertilizer.

That left Hermann Greif, a farmer in the village of Pinzberg in Germany's southern Bavaria region, unexpectedly emptyhanded when he tried to order fertilizer for next year.

"There's no product, no price, not even a contract," he said. "It's a situation we've never seen before." One thing is certain: "If I don't give the crops the food they need, they react with lower yields. It's as simple as that."

High energy prices already were hitting the region's farmers, who need diesel to operate machinery and heat to keep animals warm, said Greif, who grows corn to feed a bioenergy power facility that feeds emission-free energy into the power grid.

Likewise in Italy, the cost of energy to process wheat and corn is expected to go up more than 600% for the three months ending Dec. 31, according to the grain association. That includes turning wheat into flour, and corn into feed for cows and pigs.

Giampietro Scusato, an energy consultant who negotiates contracts for the AIREs association and others, expects the volatility and high prices to persist for the coming year.

High energy prices also seep into bread and pasta production through transport costs and electricity use, which could eventually affect store prices. Dairy and meat sections are especially exposed because prices are low now and farmers may be forced to pass along the higher cost of animal feed to shoppers.

People worldwide also are facing soaring utility bills this winter, including in the U.S., where officials have warned home heating prices could jump as much as 54%. Governments in Spain, France, Italy and Greece have announced measures to help low-income households, while the European Union has urged similar aid.

Much depends on the weather. Europe's gas reserves, usually replenished in summer, are at unusually low levels.

"A cold winter in both Europe and Asia would risk European storage levels dropping to zero," says Massimo Di Odoardo at research firm Wood Mackenzie.



pipeline or on Russian willingness to send more through pipelines across Ukraine. But the new Nord Stream 2 pipeline has not passed regulatory approval in Europe and may not be contributing gas until next year.

Russian suppliers' decision to sell less gas on spot markets reflects "an intention to put pressure on the early certification of Nord Stream 2," said Kemfert, the energy economics expert.

In China, outages have followed high prices for coal and gas as electric companies power down amid limits in passing costs to customers or government orders to stay under emission thresholds.

Factories in Jiangsu province, northwest of Shanghai, and Zhejiang in the southeast shut down in mid-September, and dozens warned deliveries might be delayed ahead of the Christmas shopping season.

Chenchen Jewelry Factory in Dongyang, a city in Zhejiang, faced power cuts over 10 days, general manager Joanna Lan said. The factory makes hairbands, stationery and promotional gifts and exports 80% to 90% of its goods to the U.S., Europe and other markets.

Deliveries were delayed "by at least a week," Lan said. "We had to buy generators."

The biggest city in the northeast, Shenyang, shut down streetlights and elevators and cut power to restaurants and shops a few hours a day.

China's gas imports have jumped, but surging demand in Japan, South Korea and Taiwan also helped push up global prices, said Jenny Yang, research manager for the gas, power and energy futures team for China at IHS Markit.

In Brazil, higher gas and oil prices have been compounded by the worst drought in 91 years, which has left hydropower plants unable to supply electricity and more expensive bills.

Rosa Benta, a 67-year-old from a Sao Paulo working-class neighborhood, fears she will no longer be able to provide for her unemployed children and grandkids.

"Several times, (energy company) Enel called me saying I had debt. I told them: 'I'm not going to stop feeding my son to pay you,'" Benta said outside her concrete house on a steep, narrow street. "If they want to cut the electricity, they can come."

Benta lives on 1,400 reais (about \$250) a month and says she often has to choose between buying gas for cooking or rice and beans.



I don't know what we are going to do with our lives," she said.



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