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Why Is a Banking Crisis Good News for Bitcoin?

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The dust may or may not have settled for a banking crisis. Meanwhile Bitcoin rose to its highest value against the US dollar since June of 2022, 9 months ago. What is going on in the banking world? Why is a [banking crisis](#) good news for Bitcoin? After nearly a year and a half of bad news and crypto winter, Bitcoin promoters can say that Bitcoin has been a refuge when the traditional financial system is in chaos. What needs to be mentioned is that once more Bitcoin has [tracked with the Nasdaq](#) on the way up only the Nasdaq did not experience a mid-February dip in value like Bitcoin did.

Bitcoin As a Safe Haven Investment

As Bitcoin ascended from a novelty that was worth less than a dollar to a store of value worth tens of thousands of dollars, the argument was made that Bitcoin and other cryptocurrencies like the Ether token were secure stores of value. Bitcoin was said to be safe from the perils that are routinely inflicted on fiat currencies and the traditional financial system. Bitcoin was said to be immune from losing value due to inflation. Then the [worse inflation](#) in forty years prompted the US Federal Reserve to start raising interest rates to levels not seen in years. The stock market fell and Bitcoin fell with it. As we endured crypto winter Bitcoin no longer looked like a safe haven of value when the world was in chaos. Today, as the banking system is under stress, Bitcoin has jumped in value by [71% since the first of the year](#)!

What Does a Banking Crisis Have to Do With Bitcoin?

The current banking crisis started when there was a run on Silicon Valley Bank (SVB), the 16th largest bank in the USA and a key financial institution for Silicon Valley tech startups. A [run on a bank](#) is when too many depositors want to withdraw their money all at once. Banks have to have reserves to pay when depositors want their money but never have all of their assets available in cash. SVB had invested heavily in US Treasuries before the Fed started raising rates.

While the face value of their government bonds was enough to cover the run on deposits, the current market value was about half of what the bank paid for the bonds because the current interest rate is much higher (which always makes bonds issued at lower rates less valuable in the current market) so SVB did not have enough money to pay depositors and failed. The FDIC (Federal Deposit Insurance Corporation) took over the bank, covered losses for depositors, fired management, and left bank shareholders out in the cold. The SVB collapse was quickly followed by more mid-sized, regional bank failures, and the threat of a crisis of confidence throughout the banking system. This is the backdrop to Bitcoin's impressive rise in value since the first of the year.

Why Has Bitcoin Risen In Value?

A Bitcoin true believer will say, "I told you so." After all, Bitcoin is up while an entire stock market sector is down in value with possible more trouble to come. However, we have previously noted that Bitcoin has tended to go up and down along with the Nasdaq stock market. While the Nasdaq has not been as impressive as Bitcoin since the first of the year, it has still risen by more than 16%. It should be noted that the Nasdaq has lots of tech stocks and the only banking stocks it includes are the same mid-sized, regional banks that got hit by the banking crisis and have lost roughly 80% of their value. Thus, we expect that the Nasdaq would look better if part of its value had not fallen as a direct effect of the banking crisis. In other words tech went up along with Bitcoin even as banks in the index suffered.

True Bitcoin Believers Versus Market Manipulation

Something that has bothered us over the last year or more, aside from the bleak crypto winter, is the frequency of [Bitcoin wash trading](#) and how it distorts the market by giving the appearance of more interest in Bitcoin than actually exists. A genuine problem for anyone trying to decide if we are seeing a valid Bitcoin recovery is figuring out how much of the current Bitcoin rally is a restoration of faith in Bitcoin as a store of value, how much is a gut reaction to the news about the banking sector's problems, and how much is market manipulation by Bitcoin wash traders. While the banking crisis has been good news for Bitcoin, we reserve judgment as to whether this is a momentary price spike or the beginning of a true, sustained Bitcoin and crypto resurgence.

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