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Bitcoin bubble grows and grows

By Stephen Foley in New York and Alice Ross in London

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This time, Wall St is innocent.

To the long list of asset bubbles – from tulips to the South Sea Company, from dotcom stocks to US housing – economic historians may soon be adding a virtual "currency" called Bitcoin. But while it is bankers who are most often blamed for blowing up bubbles, the rise and rise in the Bitcoin price has taken place without any such intervention.

A buying frenzy has sent the value of the total Bitcoin stock past $1.5bn and the price of a single Bitcoin has doubled in less than two weeks. Having passed $100 on April 1, it peaked at $147 in the small hours of Wednesday morning.

Untethered to any real asset, the Bitcoin's price is determined only by speculation on exchanges around the world, the largest of which, Mt Gox, reported technical difficulties on Wednesday as interest rocketed.

"Trading tulips in real time," declared the veteran UBS stockbroker Art Cashin in a note to clients. "It is rare that we get to see a bubble-like phenomenon trade tick for tick, but all that may be changing before our very eyes."

The currency was created four years ago by an unknown computer scientist and the limited stock of "coins" grows according to a predetermined algorithm. A small number of online services accept Bitcoins as payment but the value appears correlated less to their use than to talk on Twitter, blogs and in the media.

But the Bitcoin is nothing if not volatile. For example, a 2011 spike took the price of a single Bitcoin from $2 to over $30 – and back again.

The latest, biggest burst of interest coincided with the bail-in of depositors in Cyprus, after which Bitcoin's advocates pitched it as an alternative to fiat currencies that can be devalued or confiscated. "It's gold for computer nerds," said Nicholas Colas, chief market strategist at ConvergeX.

Some finance industry entrepreneurs have leapt at the opportunity. Exante, a Malta-based asset manager, set up a Bitcoin fund last year that was largely intended as a fun punt. Wealthy investors each put in $1,000 when Bitcoins were trading at $13 on the understanding they could lose the original investment. Exante predicted that public and media interest would take off when Bitcoins were trading at $100. Managing partner Gatis Eglitis claims they are now getting 20 calls a day from large asset managers looking to invest up to $100m.

Jim Angel, professor at the McDonough School of Business at Georgetown University, is sceptical of Bitcoin's long-term viability. "Governments don't like competition in the currency business and if it gets too big they will clamp down," he said. "Also, you are trusting algorithms to protect the system, and we all know that technology breaks or gets hacked.

"We are just one scandal away from Bitcoin collapsing entirely."