

# Bitcoin

## Liquidity Vacuum Drives Sharp Sell-Off: Why Only Bitcoin Failed to Recover

### Key Takeaways

- Bitcoin fell roughly 7%, dropping from \$87,000 to \$81,000 during the 29th.
- Disappointing Microsoft earnings triggered a Nasdaq sell-off, breaking Bitcoin's Active Realized Price support at \$87,000.
- Kevin Warsh Fed chair nomination speculation added downside pressure, though actual policy may prove more gradual than market fears
- Regulatory agencies maintain a crypto-friendly stance, but a break below \$84,000 leaves near-term downside risk in place

### Bitcoin Left Behind in the Rebound

Bitcoin experienced two sharp declines in quick succession. Bitcoin began sliding from around \$87,000 at approximately 9 a.m. EST on the 29th and fell to roughly \$81,000 by 10 a.m. on the 30th, marking a decline of about 7%. The broader crypto market weakened as well, leading to a rapid deterioration in investor sentiment.

This move was not driven by a single negative factor. Instead, it reflected a combination of shocks from traditional financial markets and rising uncertainty around monetary policy. The first leg down was triggered by a big tech earnings shock, while the second stemmed from concerns over Federal Reserve leadership.

Underlying both moves was a decline in trading volume across Bitcoin spot and futures markets. In a low-liquidity environment, even modest shocks can lead to outsized price moves. While equities and commodities rebounded quickly after their initial declines, Bitcoin failed to recover.

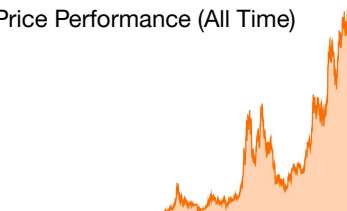
Bitcoin is currently being shunned by the market. With shrinking volumes and persistent selling pressure, price rebounds have become harder to sustain.

BTC	BUY
Price Target	\$185,500
Price (1/20/26)	\$82,600
Potential	+125%

Market Cap (\$)	\$1.65T
Volume (24h)	\$91B
Total Supply	19.9M
Max Supply	21M

Base Price	\$145,000
Fundamental Indicator	0.0%
Macro Indicator	+25%

Price Performance (All Time)



Source : CoinGecko

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## **First Shock: AI Bubble Concerns Spill Over Into Bitcoin**

Bitcoin first came under pressure on the 29th, following a sharp decline in the Nasdaq. Microsoft's fourth-quarter earnings missed expectations, reigniting concerns that AI-related investments may have become overheated. As fears of an AI bubble grew, investors reduced exposure to risk assets. Bitcoin saw a sharper reaction due to its high volatility.

The critical issue was the price level at which Bitcoin began to fall. During the decline, Bitcoin broke through a key structural support level: the Active Realized Price.

At the time, this level stood near \$87,000. The Active Realized Price adjusts the average cost basis of tokens actively circulating in the market, excluding long-dormant holdings. In simple terms, it represents the breakeven level for investors who are currently trading. Once the price falls below this level, most active market participants move into a loss position. Bitcoin decisively broke below this support.

## **Second Shock: The Warsh Factor / The Warsh is Coming**

Around 8 p.m. on the 29th, Bitcoin suffered another sharp drop, falling rapidly from \$84,000 to \$81,000. Bloomberg and Reuters reported that President Trump was preparing to nominate Kevin Warsh as the next Federal Reserve Chair, with an official announcement expected on the 30th.

Kevin Warsh is widely regarded as a hawkish figure. During his tenure as a Federal Reserve Governor from 2006 to 2011, he consistently opposed quantitative easing, warning that it would lead to inflation. When the Federal Reserve launched its second round of QE in 2011, Warsh stepped down from the Board.

Speculation over Warsh's nomination was interpreted as running counter to Trump's preference for lower rates, fueling concerns about tighter liquidity. Bitcoin reacted sensitively to this signal. Cryptocurrencies tend to perform well in environments with ample liquidity, where investors are more willing to allocate capital to higher-risk assets. The prospect of Warsh leading the Fed raised fears that liquidity conditions could tighten. In an already dry market, investors responded by selling.

## **A Temporary Correction, With Medium to Long-Term Momentum Intact**

Despite concerns about Warsh's hawkish reputation, actual policy implementation may be less aggressive than markets fear.

In a Wall Street Journal op-ed, Warsh proposed a compromise approach: limited rate cuts combined with balance sheet reduction. This framework attempts to satisfy both Trump's preference for lower rates and Warsh's emphasis on inflation discipline. It suggests maintaining a hawkish stance overall while allowing flexibility in the rate trajectory.

As a result, the total number of rate cuts may be lower than under the Powell regime, but a return to outright tightening appears unlikely. Even if Warsh becomes Chair, the Federal Reserve is expected to maintain a gradual easing bias.

At the same time, crypto-friendly policies from the SEC and CFTC are becoming more concrete. Allowing cryptocurrency investments in 401(k) retirement accounts could open the door to as much as \$10 trillion in potential inflows. The rapid progress of market structure legislation for digital assets is another positive signal.

In the short term, uncertainty remains. Bitcoin is likely to stay sensitive to equity market movements. With the \$84,000 level already breached, further downside risk cannot be ruled out. However, if equities enter a consolidation phase, Bitcoin may once again be selected as an alternative investment. Historically, when technology stocks stagnate due to AI bubble concerns, capital has often rotated into alternative assets.

What remains unchanged is more important. Global liquidity is still expanding over the longer term, and the institutional policy stance toward cryptocurrencies remains supportive. Strategic accumulation by institutions continues, and the Bitcoin network itself has no operational issues. The current pullback reflects exaggerated short-term volatility driven by thin liquidity and does not undermine the medium- to long-term bullish trend.

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