The Crashing Crypto Market

What is the issue?

Bitcoin and many other cryptocurrencies have been crashing since they hit an all-time high late last year.

What is the current crypto crash?

- Bitcoin has lost more than two-thirds of its value since it hit a peak of around $69,000 in November last year and is currently trading at around the $22,000 mark.
- Ethereum, another cryptocurrency popular among investors, has lost almost 80% from its peak.
- As a result, the overall market capitalisation of cryptocurrencies has dropped under $1 trillion for the first time since January 2021.
- The trading volumes in Indian cryptocurrency exchanges dropped by 90% from their peak.

To know about how cryptocurrencies work, click here

Why are cryptocurrencies crashing?

- **Luna-Terra crash**- Recently, a stablecoin called TerraUSD and its sister currency Luna dropped about 80%, rattling the broader crypto market including tokens like Bitcoin and Ethereum.

  A stablecoin is a cryptocurrency pegged to be like the US dollar or Euro so that its price remains stable and less volatile. Crypto investors can get in and out of the fiat easily with no third party (a bank) to approve these transactions. Examples- Tether, USD Coin and Binance USD

- **The equity market**- The fall in the price of cryptocurrencies is in line with the fall in prices of stocks and other assets.
- A report by New York Times revealed that Bitcoin's price movements are closely mirrored that of Nasdaq, a benchmark that's weighted towards tech stocks.
- **Interest rate hike**- In a bid to cool down inflation, the US Federal Reserve has decided to increase the rate of interest which is commonly viewed as a leading recession indicator.
- Therefore, the crypto market witnessed a huge downfall, investors lost trust and started selling off their their digital assets, causing a bloodbath in the crypto market.
- **Celsius Network**- Celsius Network, a decentralised finance announced that it is freezing all the crypto transactions citing extreme market conditions.
- **Regulatory challenges**- India's crypto bill that is yet to be tabled seeks to prohibit all private cryptocurrencies in India and also levies a 30% tax on crypto investors and a 1% TDS on every crypto intra-traders.
- **Popping of bubble**- Some believe that the crash could also mark the popping of the bubble

that has driven the prices of cryptocurrencies to stratospheric levels.
- **Speculations**- Some have argued that the price of cryptocurrencies seems driven more by the speculations.
    - For instance, the extreme volatility in the price of cryptocurrencies was seen as a feature that ruled out the use of cryptocurrencies as money.
- **Acceptability**- Even though cryptocurrency prices were rising aggressively, the use of cryptocurrencies for real-life transactions was low.
- So, there was very little reason to believe that the rally in cryptocurrencies was driven by their wider acceptability as an alternative to fiat currencies.

How do governments view cryptocurrencies?

- Many countries have taken several steps to discourage the widespread use of cryptocurrencies because
    - they challenge the monopoly that central banks currently enjoy over the money supply of an economy
    - it would affect the ability of governments to fund their spending by creating fresh money
- **Outright ban**- China and Russia have opted to impose outright bans on cryptocurrencies.
- **Regulation**- The Reserve Bank of India has been quite vocal about the need to ban them completely.
- However, India has tried to tax and regulate them heavily.

Will cryptocurrencies rise again?

- **Price swings is normal**- It was argued that cryptocurrencies have always been subject to extreme price swings.
- The current crash is a good time to buy these virtual currencies at a tremendous bargain.
- Cryptocurrencies, just like gold, protect investors against the risk of price inflation.
- By holding the wealth in cryptocurrencies that either maintain or appreciate in value over time, investors can protect themselves against the debasement of their wealth by central banks.
- **End of the road for cryptocurrencies**- Even if cryptocurrencies manage to recover from the current crash, they may still not manage to hold on to their gains, because cryptocurrencies possess no fundamental value as money.
- Even the most popular cryptocurrencies such as Bitcoin are still not used very much in the daily purchase and sale of goods and services in the real economy.
- Limited supply can boost the value but it alone cannot make cryptocurrencies like Bitcoin a valuable asset like gold and silver.

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