



Market Perspective



Crypto Market Shockwaves

By Jacob Gordon, P. Eng., JGA

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Unprecedented, multilayered sequence of powerful global forces is stress-testing the entire cryptocurrency and digital assets ecosystem.

These include:

- ◆ the enduring Covid-19 pandemic which accelerated the adoption and use of digital payments and the ensuing social unrest;
- ◆ disrupted trade and transition to protectionism and national self-reliance; monetary tightening and the lift-off in real interest rates from historic lows;
- ◆ persistent elevated inflationary pressures and the looming economic downturn;
- ◆ increased geopolitical tensions, the wars in Ukraine and Afghanistan, the US sanctions on Russia and the realignment of NATO;
- ◆ the increased national security vulnerability to cyberspace attacks and the use of digital assets to illicit finance.

Each one of these forces will have a profound effect on the Crypto sector since none will be abating any time soon.

In these tumultuous times, investors who were engulfed by inflation and growth scares, and doubts whether Central Banks would succeed to engineer a “soft landing” and tame inflation without tipping their economies into a recession, sent stock, bonds and credit markets tumbling. The S&P and the NASDAQ entered bear market territory, market volatility increased dramatically, and financial asset values were repriced to the new economic reality.

As investors’ risk appetite abated, all risk assets came under heightened scrutiny --- frontier technologies and cryptocurrencies were no exception. The value of all cryptocurrencies tumbled drastically from their November 2021 highs and the algorithmic stablecoin TerraUSD (UST) de-pegged from the US dollar and crashed.

In his 1962 travelogue “Travels with Charley: In Search of America,” author John Steinbeck writes: “We have in the past been forced into reluctant change by weather, calamity and plague.” Sixty years later, it seems that nothing has changed – as extreme weather-related disasters, regional wars and armed conflicts, and Covid 19 are causing change to our lifestyle, commerce and shopping habits today.

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While the ripple effect of the UST crash on other private-label stablecoins (independent of their collateral structure) is yet to be determined, the global demand for a “retail” stablecoin is sky-rocketing for a speedy, affordable and accessible cross-border payment mechanism.

“The entire private-label stablecoin sector will be reshaped by the looming introduction of Retail Central Bank Digital Currency (CBDC) and its use for both domestic and international transactions. The industry will have to grapple with the task of defining their new role in the emerging digital currency world,” said Jacob (“Jake”) Gordon, founder of the eCustomerWorld Institute and CEO of Jake Gordon & Associates, Inc.

The cryptocurrency market shockwaves have not escaped the attention of world leaders, politicians, legislators and regulators world over. They have accelerated their call for comprehensive digital policy, regulatory clarity, enhanced compliance & enforcement, and effective safeguards for investors’ protection. The dreaded cryptocurrency regulation in many monetary jurisdictions is just around the corner.

Governments, central banks and regulators are calling for “responsible innovation” while the industry keeps warning against too stringent regulatory rules and policies that might stifle future innovation.

The industry has entered a transformative stage. Many of the 16,000 plus cryptocurrencies, currently in circulation, might not withstand the stress test. Many Crypto exchanges and platforms will most likely need to merge due to falling trading volumes. However, strong industry players with resilient technologies, innovative applications, solid business plans and strong financial balance sheets will survive; and new players will emerge to lead the Crypto industry into the future. It is an unavoidable, but healthy, stage for the industry. It will lead to increased public trust, stronger legal and monetary foundations, and increased adoption levels among retail and institutional investors.

“All these headwinds are accelerating the transformation of the digital currency sphere. Although the timelines are still unknown, the outlook for the Crypto industry is optimistic, as previous disruptive technology cycles have proven that the industry will consolidate, restructure, survive and emerge stronger than ever,” said Gordon.