The downfall of FTX resulted in a loss of about $200 billion in market capitalization of crypto assets within a few days. Is this now the end of crypto, Ha Duong writes in an essay on finews.first.

Almost a month has passed since FTX, the third-largest crypto trading platform, collapsed in a veritable economic thriller. While the company had risen meteorically in the past few years, media are currently dominated almost daily by new headlines about the rapid crash of the FTX company network and its aftermath.

In the meantime, it has also become clear that the end of FTX is primarily due to misconduct on the part of the management as well as insufficient risk management and a lack of compliance.
The authorities also assume that there was a fraud.

The effects of the crash are severe for parts of the crypto market and its consequences are still making their rounds. As expected by experts, the US crypto lender BlockFi has now also filed for insolvency. The intention is to stabilize the business and give the company the opportunity to carry out a comprehensive restructuring, according to an official statement by the company. BlockFi thus joins a growing list of companies facing bankruptcy following the FTX bankruptcy.

«The negativity in the market is currently tremendous»

The insolvency of the company network around crypto investor and FTX CEO Sam Bankman-Fried was thus a domino that, as in the case of Terra/Luna-Crash, brought with it a series of turbulences and makes the previous months of consolidation of crypto assets forgotten for the time being.

The negativity in the market is currently tremendous and in view of new reports of financial losses and in anticipation of new negative reports, many worried investors have tended to sell their crypto assets. The downfall of FTX resulted in a loss of about $200 billion in market capitalization of crypto assets within a few days. Is this now the end of crypto? What comes after the big crash? Many observers see the technology on the precipice. «The Economist» speaks of a «downfall» on its cover of 17 November.

«Bitcoin alone has crashed around 16 times since 2012»

This is not the first time that crypto assets have been pronounced dead by experts and the media. Bitcoin alone has crashed around 16 times since 2012. Between 2017 and 2018, BTC even experienced a price correction of over 83 percent, plummeting from the then-high of almost $20,000 to around $3,000. Even then, many renowned experts had effectively written off the technology. What followed, however, were new highs between 2020 and 2021.

Interestingly, questions about the current crisis tend to revolve around when it would be a good time to get in again, whereas investors were still asking themselves during the last crash in
2018 whether crypto had a raison d'être at all.

So what can we expect from Bitcoin & Co. in the future? In light of current events, it is easy to forget that the crypto industry has continued to develop strongly in recent months, regardless of the market turbulence. With The Merge, the Ethereum ecosystem has seen a significant technological advance that will improve the scalability and mass viability of the Ethereum blockchain.

«It is not in the EU or the USA that Bitcoin is most frequently google»

In addition, MiCA and the transfer-of-funds regulation at EU level will create new regulatory frameworks that will promote the establishment and acceptance of crypto-assets in the conventional financial world and among institutional investors. Regulatory efforts in many other regions, such as Australia, the UK, Hong Kong or South Africa, will also ensure increasing legal certainty for crypto assets.

Last but not least, a continuing rise in interest in crypto should also lead to increased availability of capital and talent, and thus to further innovations. Among other things, these will benefit the infrastructure level, further improving scalability and thus enabling new use cases.

Especially in the DeFi sector, new applications have the potential to enable millions of «underbanked» people in developing countries without access to the banking system to participate in financial services in the future. It is not in the EU or the USA that Bitcoin is most frequently googled, but in Nigeria. These are markets with immense potential that crypto assets still need to conquer in the long term.

«Speculative investors have now largely left the market»

Also in the medium term, the investment outlook is less gloomy than it appears at first glance. In the meantime, inflationary pressure is easing slightly and it is likely that a large part of the interest rate hikes has already been priced in by the market. There are also signs that the broad deleveraging in the crypto market is almost concluded. The impact of the FTX crisis on crypto
assets was ultimately much smaller than during the Terra/Luna crash.

Long-term investors were now already positioned much more conservatively and had to forcibly sell unleveraged positions in the sell-off. Speculative investors have now largely left the market. About 80 percent of Bitcoin is in the hands of market participants who have not touched it for more than six months.

Last but not least, the upcoming Bitcoin halving could have a positive effect on price development. Past halving events have had a positive effect on investor sentiment both before and after the halving of daily bitcoin production due to reduced selling pressure anticipated for the cryptocurrency after halving.

«The widespread deleveraging in the market is expected to end soon»

Overall, the crypto market is undoubtedly facing some challenges at the moment and crypto investors have suffered some painful losses. Much confidence in the industry has been lost due to risky bets by market players and management failures.

However, the widespread deleveraging in the market is expected to end soon, and after this cleansing thunderstorm, the focus will return to advances in technology and the underlying infrastructure. This should also create the basis for crypto to grow and emerge stronger from these challenges, as it did after past crises.

*Ha Duong is Director Crypto Strategies at BIT Capital.*