

# Crypto Chaos: Solana's Struggles, Bybit's Breach, and Leveraged Liquidations

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## Key Takeaways

- **Leverage Reset, Not Collapse:** The recent crypto market sell-off appears to be a leverage cleanse rather than a broader market breakdown.
- **A Perfect Storm:** The market experienced the effects of many negative factors all at once: macro uncertainty, a major exchange hack, memecoin exodus, token unlocks, and mass leveraged liquidations—creating a volatile and unforgiving trading environment.
- **Long-Term Fundamentals Remain Intact:** Institutional adoption, improving regulation, and sovereign bitcoin accumulation continue despite the short-term volatility. We remain constructive on the asset class.
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Crypto markets tumbled this week, flushing out leverage and exposing weak points across the space. Until now, large-cap assets—Bitcoin, Ethereum, and Solana—had largely avoided the worst of the altcoin sell-off, but all that changed this week. On Tuesday, over \$1 billion in leveraged long positions were liquidated as prices spiralled downward. Bitcoin slid below \$86,000, down 13% from last week's high of \$99,000. Ethereum fell to \$2,400, while Solana cratered to \$140—down 15% on the week and 40% over the past month.

Several factors have been building that lead to this violent price action. A weaker macro outlook emerged after the latest U.S. Federal Reserve (Fed) minutes suggested a preference to keep rates at 4.25%-4.5% for longer. This, combined with disappointing consumer sentiment data last Friday, triggered a growth scare. Both equities and crypto sold off, while the 10-year Treasury yield declined as investors reassessed risk.

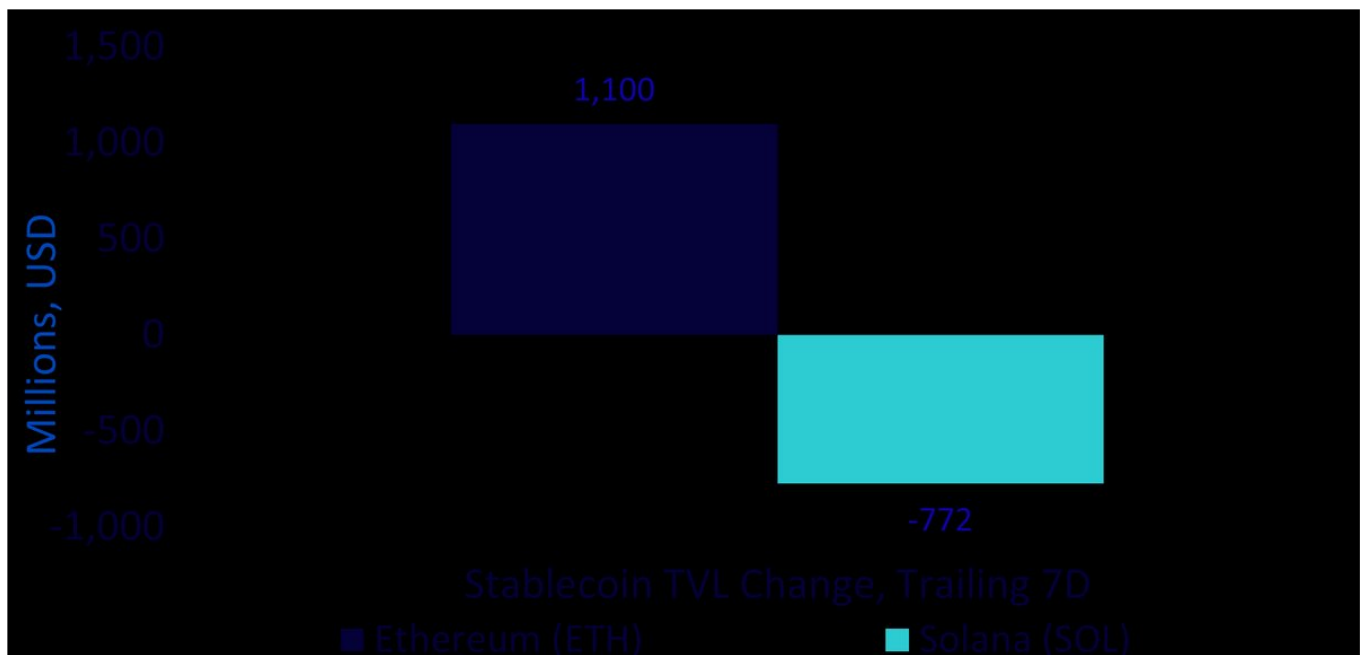
Adding to the chaos, the largest crypto hack in history was revealed, sending shockwaves through the market. The Bybit hack—a \$1.4 billion Ethereum exploit—fuelled uncertainty, while Solana's memecoin meltdown amplified the broader risk-off sentiment. To make matters worse, mass liquidations triggered a "reverse short squeeze" for bitcoin. With so much happening, where do we begin?

## Solana's Memecoin Trader Exodus

Solana's meteoric rise has hit a wall, largely due to its memecoin-fuelled rally and the inevitable unwinding that followed. At the height of the frenzy, Pump.fun, a memecoin-minting platform, pushed trading volumes and fees to record levels. But that momentum has reversed, with the recent Libra token collapse serving as the tipping point.

Launched in mid-February with Argentine President Javier Milei's endorsement, Libra skyrocketed to a \$4.5 billion market cap, only to crash 90% within hours. Insiders allegedly pulled \$107 million beforehand, sparking fraud allegations and regulatory scrutiny. The fallout was swift: Solana's stablecoin AUM dropped by \$700 million in a week, while Ethereum saw \$1 billion in inflows as capital fled to safety.

### Figure 1: Stablecoin flows the week of the LIBRA token scandal



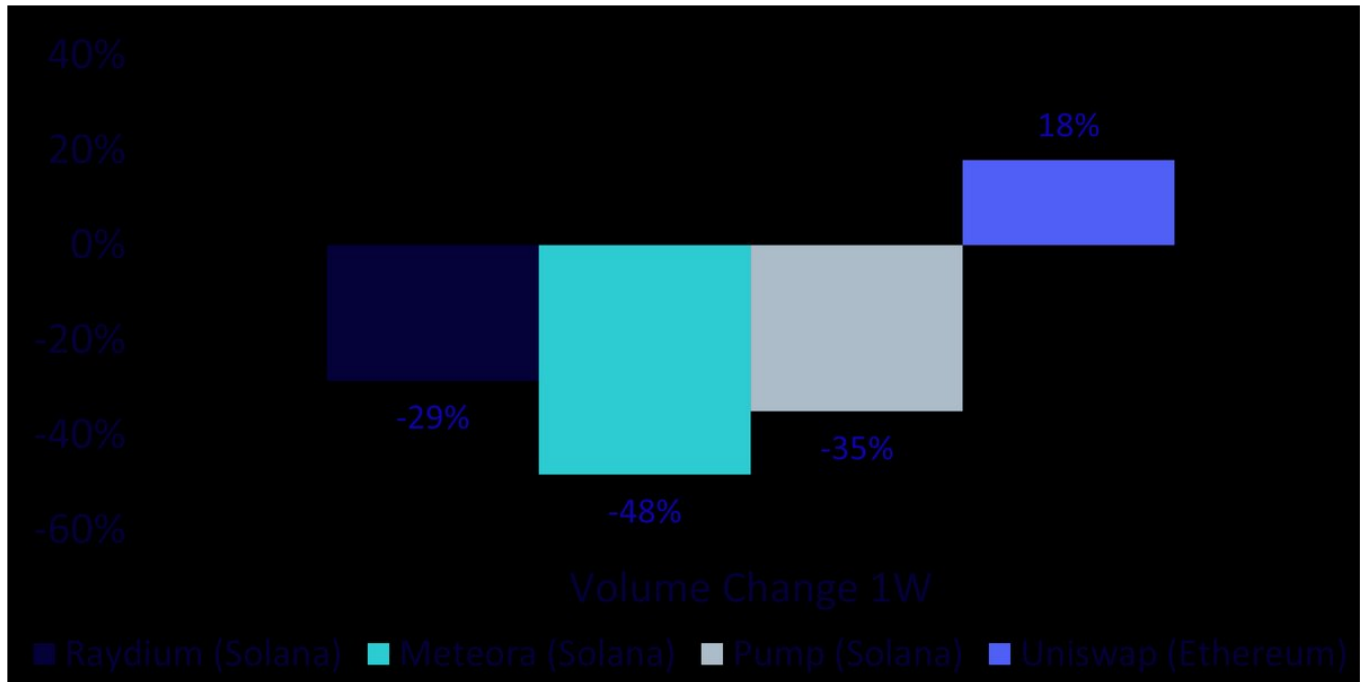
Source: LookOnChain as of February 17, 2025.

### Bybit Hack Intensifies Solana's Woes

The Bybit exchange hack only deepened the crisis. On February 21, hackers stole \$1.4 billion, laundering part of the funds through Solana-based memecoins on Pump.fun. This triggered \$5.5 billion in withdrawals from Bybit, rattling market confidence and adding further selling pressure.

Meanwhile, Solana's DeFi ecosystem, historically a bright spot for trading activity and liquidity, saw a sharp decline in volumes as traders continued to pull capital to avoid the mess.

### Figure 2: Weekly change in decentralised exchange volumes



Source: DefiLlama as of Feb, 25, 2025.

The hack—reminiscent of past cycle woes—coincides with another looming event: Solana’s upcoming token unlock on March 1. Over 11M of these tokens will be unlocked and are tied to the FTX bankruptcy estate, which is currently repaying its creditors. Market participants expect these unlocked tokens to be sold for cash, adding uncertainty around supply absorption and near-term price action.

### Figure 3: Solana Token Vesting Schedule

Source: Dropstab as of February 27, 2025.

### Leveraged Liquidations

On Tuesday, with mounting pressure on the crypto ecosystem, the final straw broke the camel’s back. Over \$1 billion in bitcoin leveraged long positions crossed their liquidation thresholds, triggering a cascading wave of forced selling as leverage unwound in a ‘reverse short squeeze’.

Liquidation heatmaps suggested that bitcoin may find support around \$85,000, where most leverage had been flushed out, but it remains to be seen if prices will stabilize here. As of time of writing, bitcoin is trading around \$84,000.

### Figure 4: Large Cap Leveraged Liquidations

Source: Coinglass as of February 25, 2025.

### The Bright Spot

Amid the turbulence, the key tenets of our 2025 crypto market outlook remain intact. Institutional adoption continues, with growing use cases for tokenization and stablecoin payments. The U.S. regulatory environment is improving, and bitcoin is increasingly being adopted as a reserve asset, following continued strong institutional investor interest.

At this juncture, this appears to be more of a leverage reset than a collapse – a necessary cleanse. Solana's memecoin bubble has finally popped, Bybit's hack has shaken sentiment, and a macro scare has blown out leverage positions forcing traders to de-risk. However, despite this turbulence, the underlying fundamentals remain unchanged.

Barring a major macro downturn, which is not our base case, the broader positive narrative remains intact. For those with a long-term view who can stomach the volatility, this pullback may present an opportunity to build or add to a position.

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