Bitcoin: why the cryptocurrency crashed?

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Wednesday 19 May, was a massive day for Bitcoin and crypto and there is a lot of speculation about what happened and if we're now in a bear market. Let's look at what happened recently that may have precipitated the “crypto crash”:

1.Elon Musk: the Twitter spat with Musk and the Bitcoin maximalists are definitetly impactful - having someone as influential as Musk make negative comments may have caused some people to sell - likely the same people that had bought because of him.

2.Reuters breaking a story re China banning Crypto. A story about governments banning Bitcoin may make people nervous - if one government wants to do it then surely others will too.

3.OCC[1] indicates it is reviewing its previous edicts on crypto. This follows a change in leadership at the OCC with incoming comptroller, Michael Hsu reviewing decisions by his predecessor that were viewed as supportive of Bitcoin.

4.SEC[2] cautioned investors over the use of bitcoin futures in mutual funds. This is currently the only way in which the SEC allows investment vehicles to take exposure to Bitcoin so the renewed cautions tone has thrown cold water on the hopes of a Bitcoin exchange traded fund (ETF) this year.

5.BlockFi[3] mistakenly pays rewards in Bitcoin instead of USD (i.e. giving 100 BTC instead of 100 USD). In the process of rectifying the situation, BlockFi sent letters to clients threatening legal action. This may call into question the stability of a major player in the DeFi[4] lending space.

6.Tech stocks sell off with the DowJones down circa -5.2% from the peak. Bitcoin does not exist in isolation and general market turbulence will affect sentiment.

This may be considered as a lot of negative news flow and, whilst all markets are susceptible to negative sentiment, Bitcoin may be more reactive because it is young. When news like this comes at once, the market could overreact – which may have been the case on May 19th.

It's important to remember that the fundamentals of Bitcoin have not necessarily changed and it may be worth regarding:

1. Tesla did NOT sell (Elon Musk confirmed).

2. China "banning" Bitcoin is not a new phenomenon.

3. Regulators, like the OCC and SEC, are always cautious.

4. The path to adoption isn’t a straight line and some companies may make mistakes along the way.

5. Markets go up and down.

For the investment community, the #cryptocrash is a big deal. Nevertheless, it is important to look at the big picture and separate this from the noise.

[1] Office of the Comptroller of the Currency

[2] The US Securities and Exchange Commission

[3] BlockFi is a crypto management platform

[4] Decentralized finance

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