

AUG 2020 - VOLUME I

## Covid-19 'net positive' for crypto-currencies

INTUITION PUBLISHING PTE LIMITED

The market cap of crypto is many times smaller than that of the stock market in terms of traded volume. Still, the crypto-currency market appears to have benefited from the outflow in capital from traditional financial markets, at least in the short term according to billionaire Zhao Changpeng, founder and chief executive of Binance, the world's biggest crypto-currency exchange by trading volume.

While traditional financial markets crashed during the Covid-19 pandemic, Binance estimated its earnings at US \$262.5 million in the first quarter, mainly from transaction fees. It also saw a 47.4% rise in the number of new institutional investors in the first quarter of this year compared to the previous quarter.

"I think Covid-19 has probably been a net positive for crypto-currencies," said Zhao. "Covid-19 has overall caused a lot of stress in the traditional financial markets, and some of the measures that people have taken are actually pushing people into crypto-currencies."

However, Zhao also said that until the crypto-currency market grows significantly, it will always, to an extent, correlate with stock market performance. "When people are hurting financially in one market, they will get cash from other markets" including by liquidating their crypto-currency investments, he explained.

The Covid-19 pandemic and resulting containment measures have had a huge impact on retailers, restaurants, and tourism globally. The US economy contracted at a 4.8% annualised rate in the first quarter, its sharpest decline since the Great Recession between 2007 and 2009. Meanwhile, China's economy contracted by 6.8% in the first quarter of 2020 compared to a year earlier.

Binance, however, does not have all its eggs in one basket. No country contributes more than 10% to its revenue, explained Zhao, and they have plans to further spread out operations. The company applied to operate in Singapore in February and announced in June that it will soon launch a UK trading platform.

This expansion is not without its challenges though. In many countries, unclear regulation regarding crypto-currency is also a major problem, according to Zhao, who said that when in doubt Binance tries to follow common sense; "We're living in a world where unless there's a law forbidding you from doing something, then it's assumed it's legal," he added.

The company was among four crypto-currency exchanges and seven crypto-currency issuers named in a series of US class action suits in April, which accused some of the biggest names in the industry of selling digital assets without registering them with federal or state regulators. The lawsuit against Binance said the exchange collected cash fees from issuers, often exceeding US\$1 million, to list their assets, according to a Reuters report in April.



However, Zhao said he was not worried about the legal action. "Anybody can sue anybody today, right?" Zhao said, adding that the company's lawyers are handling the case.

Cybersecurity is also a fundamental challenge for crypto-currency operators. Last year, Binance fell victim to hackers who made off with 7,000 bitcoin worth about US\$40 million from the exchange in a large security breach.

Such security breaches have "cost quite a lot of money" but also "given us that much more incentive to fix things", Zhao said. "We have invested literally hundreds of millions of dollars in security systems. The company has thus adopted a "zero trust framework", according to the chief executive. "Even within the Binance team, no one can penetrate our system. We don't rely on a single person, a single access point."

According to analysts, Bitcoin and the S&P 500 are both correlated and co-integrated, with the pair's 'R squared' value at 95%. Such a large correlation suggests that Bitcoin, as a dependent variable, is extremely susceptible to movements on the S&P 500. Observing events in March, Bitcoin fell in line with stocks and then recovered, showing that the S&P 500's current level implies a BTC price of \$18,000. The only alternative is for the stock market itself to fall.

Their model predicts a longer-term \$288K BTC price performance, implying \$4300 S&P, based on the amount of "new" coins entering circulation against the existing supply. Given that the Bitcoin supply is immutable no matter how much interest there is in mining, theorising that by 2024 'Bitcoin's next halving' BTC/USD will reach \$288,000 or more.

The situation is complicated by Covid-19 related measures such as quantitative easing, which inflates the money supply, boosting both stocks and Bitcoin. At the same time, stock markets are seeing increasing intervention in the form of artificial competition from central banks buying worthless shares. This has led to suspicions from commentators who suggest that the bull run of the past several months is long due for a correction.

Bitcoin, then, remains far from 'decoupling' from macro forces. The real test is a stress situation, Covid-19 is certainly providing this and it is likely to continue until the pandemic subsides.

### Intuition – Blended Learning

The **Intuition online learning library** consists several tutorials related to this article:

- **Related Tutorials**
  - Bitcoin & Blockchain
  - Blockchain Structure & Security
  - Consumer Payments – An Introduction
  - Digital Banking
  - Robotic Process Automation (RPA)
  - Robo-Advice

For **Intuition blended learning** related to this article, some of our popular workshops include:

- Disruptive Technology in Financial Services
- The FinTech Revolution: Crypto currencies, blockchain, DLTs and Applications
- Cyber-Warfare: The fourth dimension of war
- Artificial Intelligence
- Digital Banking Masterclass

Get in touch with your **Intuition account manager** at [apacinfo@intuition.com](mailto:apacinfo@intuition.com) for more details

Download the Asia Perspectives free app to get the latest news and articles.



Get the app

### Related News Articles

- Hackers steal \$40 million worth of Bitcoin from Binance Exchange – 08 May Bloomberg
- Singapore helps global cryptocurrency firms to expand their local operation – 28 Jan ST
- Bitcoin is riding a high again as investors embrace risk – 02 Aug WSJ
- Bitcoin: Will 'halving' fuel another monster rally? 11 May AFR

*The topics covered in Intuition Asia Perspectives are current developments or topics currently in the market. Intuition Asia provides bespoke learning solutions, both eLearning and Instructor-led courses. These can also be blended in a program to provide the most effective form of learning. These workshops can be structured as lunch & learns, webinars or full day deliveries. Clients can use these to keep their workforce updated with the latest developments in the market and complete their mandatory CPD learning hours.*