



Cryptocurrencies & The Bumpy Road Ahead

Photo by Sylvain Gilm on Unsplash

While Bitcoin reached a new all-time high of \$73,805 in March, over the weekend, Bitcoin faced its most substantial decline in over a year, primarily attributed to escalating geopolitical tensions in the Middle East. Just 18 months ago in mid-November 2022, Bitcoin was trading at \$15,500. Today, it has recovered all losses since its previous peak in November 2021. In fact, Bitcoin has experienced some of its most significant losses and subsequent recovery relative to other traditional assets such as gold, the US dollar, and the S&P 500. The market capitalisation of Bitcoin even briefly surpassed that of silver.

Prices of selected assets (1 November 2021=1)



Source: Deutsche Bank, Bloomberg Finance LP

Our proprietary dbDIG survey has shown that consumer scepticism has also fallen. In September 2023, less than 40% of respondents stated that cryptocurrencies will be an "important asset class and method of payment transactions". This has now jumped to 52%. In the same vein, the proportion of respondents that saw cryptocurrencies as "just a fad that will eventually fade" fell from 18% to just 1%.

The road ahead will likely remain bumpy from here. We expect prices to stay high due to the expectations of future spot Ethereum ETF approvals, the forthcoming halving event this week, future central bank rate cuts, and regulatory changes.

Marion Laboure, Ph.D.
Senior Strategist

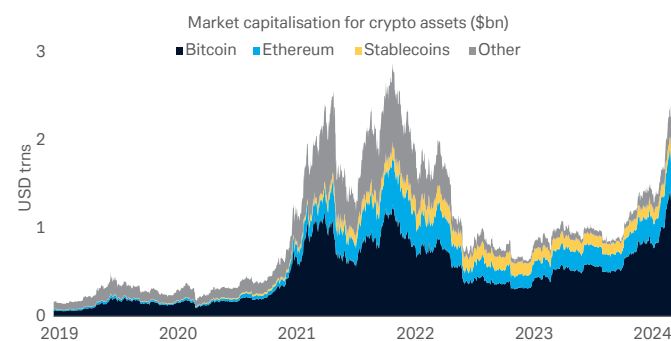
Cassidy Ainsworth-Grace
Research Analyst

Another segment of the cryptocurrency market has also enjoyed the renewed optimism in the space. Stablecoins have grown massively, as the market capitalisation of stablecoins grew from 3.1% in to 5.7% of the total crypto market capitalisation. This has been driven by demand for a store of value, liquidity, as well as the growth of leverage trading. In particular, the stablecoin market demonstrated resilience during the previous crypto winter, thanks to their unique role in the cryptocurrency market.

But the growth of stablecoins has not been without turmoil, TerraUSD collapsed in 2022, and earlier this year TrueUSD temporarily depegged. The history of fixed currencies suggests that stablecoins are highly vulnerable to repegging events, as they prove unsustainable in the long-term. In other words, no peg lasts forever.

Overall, cryptocurrencies remain afflicted by key structural vulnerabilities, such as an acute lack of transparency, conflict of interests, lack of reliable data, and limited regulatory clarity in major economies, such as seen with the likes of the stablecoin Tether.

Market capitalisation for crypto assets (\$bn)



Source: Deutsche Bank, Haver Analytics