

## Digital Regulation

# Are cryptocurrencies dying?

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It is no secret that 2018 is proving to be a difficult year for the value of cryptocurrencies. After reaching a maximum historic value at the beginning of January, with an aggregate theoretical market value of \$814,000 million, the price of almost all of them has collapsed, losing up to 75% of their maximum level. Many analysts proclaim that this was an inevitable catastrophe given the intrinsic characteristics of cryptocurrencies, although it could also be an example of how if you repeat any prediction a sufficient number of times, it ends up being fulfilled.

The question is: Are we facing the end of cryptocurrencies? The answer is complex. The price of bitcoin, even after its collapse, is 80% higher than its price a year ago. Thus, the catastrophe must be put in perspective. Objectively, for investors who have purchased at high prices, the events seem pretty similar to the bursting of a bubble; however, for an investor who has been in the market for over a year, what occurred in 2018 is only part of the game when dealing with assets with such an extreme volatility.

If the uncertainty lies in knowing whether cryptocurrencies will return to their January levels, we might consider that the probability appears to be low. Vitalik Buterin, founder of Ethereum, recently declared that the increases that multiplied some prices by 1,000 won't be seen in the future. However, other well-known 'gurus' maintain that bitcoin will reach \$50,000 this very year. How is this possible?

The simplest explanation is that nobody actually knows what will happen. The models usually employed to estimate the evolution of the price of assets don't seem to work when applied to cryptocurrencies, for a variety of reasons. For example, price setting is done by matching supply and demand with variable trading volumes, in such a way that on occasion the price variations follow, almost exactly, the chats of the crypto-community on social networks. We can also cite the enormous concentration of the market, which makes it easier to manipulate. Not to mention the evident correlation between the rest of the cryptocurrencies and bitcoin, be it direct (because it is a variation of the former, such as litecoin) or indirect (by association in the public eye, such as ether), which means that a fall in bitcoin automatically drags all the rest.

It is obvious that the volatility of these assets is a problem that seems difficult to solve. And yet, surprisingly, at this precise moment, at what is apparently their worst moment, cryptocurrencies are beginning to attract the attention of what we could call the 'traditional financial sector'. Recently, Valdis Dombrovskis, Vice-president of the European Commission, declared that cryptocurrencies are here to stay, and that there is a necessary and pressing need to adequately classify and regulate them. The number of banks that seem to be willing to offer services related to cryptocurrencies is growing each day, and if they are not already doing so it is due, to a large extent, to uncertainty and the regulatory obstacles currently under debate. Be it through the development and marketing of derivatives tied to these new types of assets, or through use of the decentralised infrastructure that underpins cryptoassets, banks' interest in this phenomenon has never been greater.

Faced with the challenge of volatility, for example, efforts are being enhanced within the crypto-community to design stable cryptocurrencies - "stablecoins" - through the use of collateral in fiat money or in another cryptocurrency, or through algorithms that manage the price controlling the quantity of currency in circulation. This is an emerging field, where there is still much to develop, but in which the number of projects is growing exponentially.

In short, cryptocurrencies do not seem to be dying, but rather they are entering a new phase in which prices will stabilise, institutional investors will enter the market with increasing force, and banks will offer associated services to their customers. The derivatives, the stablecoins and the ever-present possibility that a central bank decide to issue its own cryptocurrency, will be some of the factors that will shape this new era in the world of cryptoassets.

## Creando Oportunidades

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