# POST COVID-19 ECONOMY FUELS FAITH IN CRYPTO TRADING

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Soon after the knowledge of the novel coronavirus emerged a pandemic ensued leading to a massive collapse of the global economy. With the majority of countries worldwide in lockdown transportation was heavily restricted and borders were shut indefinitely as governments strategized around how to best deal with the rapid increase in cases.

Although lockdown measures across the globe are being cautiously lifted and businesses are reopening, the aftermath of the coronavirus has left many counting their financial losses.

As the number of COVID-19 cases grew at the start of the pandemic, the FTSE and the Dow saw historically large quarterly drops, the likes of which had not been seen since 1987. The United Nation's International Labor Organization predicts that over 305 million full-time jobs will be lost throughout the remainder of 2020 as a result of the economic downturn.

In response, governments across the globe have unveiled myriad economic stimulus packages. As most countries' economies were already in a state of slow decline even before the pandemic, experts predict that COVID-19 could accelerate many economies into a deeper recession.

So far, the United States (one of the world's largest economies) has been pushed into bear market territory as unemployment rates soar in conjunction with slow GDP growth.

As global economic uncertainty continues, investors are increasingly looking for alternatives with Bitcoin, gold and silver seeming to be the most popular options at the moment.

Given that Bitcoin emerged at a time when the global economy was in recession, history is repeating itself and the question is; could COVID-19 fuel faith in cryptocurrencies?

## Increased interest in Cryptocurrencies

According to a recently published study from Tokenist (a think tank in the crypto space) interest in Bitcoin is growing faster than in traditional investment vehicles like real estate, stocks, and even gold. After collating several surveys in conjunction with a survey that involved over 5,000 participants in 24 countries, the researchers concluded that attitudes and perceptions towards cryptocurrencies have changed as faith in the large financial institutions has waned.

The study highlighted that "faith in large financial institutions has been steadily waning for more than a decade" and that the COVID-19 pandemic "has only accelerated" this process.

In their survey, the researchers found that there is "growing confidence in Bitcoin among all ages and gender groups surveyed" with 45% of millennial respondents preferring to invest in Bitcoin over stocks, real estate, or gold. Furthermore, the study revealed that 47% of respondents would rather trust Bitcoin over established financial institutions which represents an increased belief in Bitcoin by 29% since 2017.

Additionally, during the months when the pandemic forced most countries to go into lockdowns, reports indicating higher traffic on most crypto exchanges emerged. Even though Bitcoin's price plunged in March defying the "Bitcoin as a hedge" narrative, major trading platforms like Kraken and Coinbase continued their hiring sprees in response to increased customer demand.

Despite Bitcoin's volatility, fiat currencies across the globe (especially in destabilized economies like Venezuela and Morocco) are expected to be hit even harder especially in a post-COVID-19 economy as more individuals seek to cushion their wealth from dramatic inflation rates.

## Inflation of fiat currency

Central Banks across the globe have been printing money at a record pace. On March 27th, U.S. President Donald Trump signed into law the Coronavirus Aid Relief and Economic Security Act (CARES), a stimulus bill pumping $2 trillion into the US economy.

The U.S. had already been adding short term liquidity to markets since September 2019, leading to an intervention by the Federal Reserve amounting to $60.7 billion earlier this year.

Meanwhile, as governments depreciate the value of their fiat currencies, Bitcoin had undergone a halving process that is essentially a deflationary mechanism built into its blockchain and only occurs every four years.

Despite the new money being injected into the economy, analysts predict that the Federal Reserve will ultimately print between $8-10 trillion to maintain a stable economy.

With that in mind, market analysts predict that the cost of assets will become inflated as the purchasing power of the US dollar weakens. At a time when governments are printing money, Bitcoin's reputation as the "hardest money" improves with every halving event, thus increasing its value against the U.S dollar as well as other fiat currencies.

This explains part of the recent surge in interest in cryptocurrencies.

## What does this mean for crypto exchanges?

As Bitcoin increasingly becomes a scarce asset, paper-backed fiat currencies increase in availability and variety. Going forward, experts predict an increase in the price of Bitcoin, possibly causing a market bull rally bigger than that of 2017.

Given that exchanges have typically served as gateways to the crypto industry in the past, as the world looks to cryptocurrencies as an alternative investment vehicle, it would appear that business will boom in the near term. Crypto exchanges are poised to serve this increased user demand from new and returning investors alike. Although volatility is what Bitcoin and the general crypto market is known for, a silver lining exists for astute investors and traders who know how to profit from volatility.

By allowing retail traders to engage with a variety of crypto assets, not to mention access to institutional-grade investment and trading tools, retail-focused crypto exchanges will front-run the mass adoption of cryptocurrencies.

## Are crypto exchanges ready for mass adoption?

As developers come up with new and better use cases and applications for cryptocurrencies, more retail users are set to naturally flood the market. Exchanges will capture this growth because a large percentage of crypto assets are already held by retail traders.

However, are crypto exchanges ready for the uptick in users?

In September 2018, Alex Kruger (a crypto trader and analyst) revealed Bithumb's move to inflate the trading volume on its exchange. Additionally, a 2019 study by Chainalysis revealed that some crypto exchanges report fake trading volumes to boost their visibility and position in the market.

Furthermore, because the business model of most crypto exchanges is based on the listing fees of the exchange as high trading volumes indicate more liquidity, some exchanges are motivated to manipulate trading volumes to justify their high token listing fees.

Over the years, such incidences have exposed a lack of rules and guidelines in the crypto sector.

Other challenges in the crypto exchange ecosystem

Apart from a lack of transparency, the crypto exchange ecosystem also lacks security.

In 2019 tens of millions of dollars' worth of crypto were hacked from exchanges as Bitrue (a Singapore based crypto exchange) suffered an attack that led to the loss of approximately $5 million in both XRP and ADA.

To curb this trend, most exchanges have since moved to offer insurance cover for their user's assets. However, despite the upgraded security levels, the threat posed by hackers to centralized exchanges remains because cyber-criminal groups advance their tactics with the advancement in technology.

Reports indicate that upwards of $2.5 million are stolen from exchanges daily with 2018 being the record-breaking year for crypto hacks.

## What can be done to increase adoption?

One of the most significant risks to crypto exchanges is their centralized model. Typically, crypto exchanges need to keep a proportion of their private keys online to allow withdrawals and this presents a security threat. Additionally, the fact that most users also leave their credentials on the exchange's servers poses another potential security weakness.

Even though hardware wallets are an alternative, they can easily be lost especially if used by beginners entering the crypto world.

A much better alternative is for crypto exchanges to embrace decentralized exchanges (DEXs) instead of centralized exchanges. DEXs can solve multiple challenges facing the crypto exchange ecosystem.

For instance, they are capable of reducing the cost of transactions, thereby encouraging more users into the crypto world. DEXs also come with lower security risks as they operate on a distributed immutable network. Transparency is also easily achieved on a DEX as all the data is published on a public and immutable ledger.

For users, a DEX can protect their private credentials and private key with all records being kept on the user's personal wallet.


## Preparing for a crypto bull run

As much as the coronavirus pandemic comes with a lot of negative effects for the overall global economy, there are certain upsides (especially for savvy crypto investors).

With mass unemployment at record levels and the move by many governments to print money, there is no doubt that there will be an impending recession in the coming months. Individual investors and institutions are desperate for mechanisms to make astute investments in order to salvage wealth and are increasingly turning to alternate asset classes.

As a result, some investors are showing increasing faith in cryptocurrencies and buying more Bitcoin to secure their wealth. Stability is one of the most important factors that enables any type of currency to evolve. Bitcoin's volatility could present a challenge to mass adoption. However, with exchanges offering access to multiple crypto assets, including fiat-backed stable coins, experienced traders and investors can thrive in the forthcoming market.

As events unfold, it is time for crypto exchanges to upgrade their efforts to gain the trust of new users coming into the market. Also, regulatory transparency should be at the top of the agenda as more institutional investors enter the market.

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