

# Crypto comes of age in 2020

By [Marius Reitz](#)

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Despite volatile prices during 2020, cryptocurrency has withstood the Covid-19 stress test and emerged with new support from previous naysayers. Bitcoin, in particular is showing its mettle in the economic turmoil linked to the pandemic.



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## Climbing Bitcoin price amidst turmoil

The Bitcoin price burst through its all-time high of \$20,000 at the end of November - the last time it traded at these levels was almost three years ago, but the space has evolved significantly since 2017 and the cryptocurrency is showing it has staying power.

At the start of Covid-19 panic, crypto and fiat markets followed very similar trajectories during the global sell-off. A shift followed and the price of Bitcoin began to move in the same direction as gold, bolstering the view that it is an emerging safe haven asset and decoupling from the traditional market. It has been rising ever since.

## Stellar performance of an alternative asset class

South Africa ranks third globally in cryptocurrency ownership with the primary use case being investment and speculation rather than using cryptocurrency to make payments.

There are differing opinions on whether Bitcoin is a safe haven asset. Many predicted a flight to the cryptocurrency during the global market sell-off, but it declined initially with the stock market as investors liquidated their investments to access cash. Another view is that investors divert to alternative assets such as gold (and now Bitcoin) in times of economic uncertainty to diversify their investments.

Bitcoin has outperformed traditional markets like the S&P 500 and gold this year, indicating that cryptocurrency is able to decouple from macroeconomic movements.

This year's rally differs from the previous bull run in 2017 in that the first one was largely driven by retail investors' fear of missing out. This time, sophisticated investors are taking up longer positions.

The pandemic seems to have caused many fund managers to re-evaluate their attitude towards cryptocurrency. JP Morgan, which once branded Bitcoin a fraud, now stated that cryptocurrencies have longevity as an asset class. Institutional investors are finding novel ways to incorporate digital assets into their overall strategies, which is a key indicator of a maturing marketplace.

## **Factors that made cryptocurrency attractive in 2020**

Bitcoin has a finite supply. It operates on a model of deflation, meaning gradually fewer will be released until we reach 21 million. There are currently around 18.5 million in circulation.

This is different from fiat currencies which use an inflationary model where central banks can print extra currency at will. Venezuela and Zimbabwe are examples of this strategy and therefore some investors consider Bitcoin a hedge against inflation.

The third Bitcoin halving took place in May 2020. Two previous halvings led to dramatic price increases. Halvings are planned reductions which happen once every four years or so. When the first halving took place in 2012, there were only 43,000 bitcoin addresses. By the second halving in 2016, there were around seven million and today there are more than 48-million Bitcoin addresses, but this is still a relatively small number.

The potential use cases for blockchain technology and crypto assets have been accelerated by Covid-19, giving a glimpse into how they could be used in the financial system of the future. Blockchain technology has the potential to create a framework for delivering global, sustainable, and scalable universal basic income. The technology would make it possible to send money directly to citizens without the need for intermediaries, reducing both cost and corruption.

## **Crypto companies in a post Covid-19 world**

Our second annual survey in South Africa, Nigeria, UK, France, Italy, Indonesia, and Malaysia revealed that while a single global currency is not yet seen as of value by respondents in Europe and Asia, Africans are ready to embrace a global currency. More than half of the respondents in Africa believe that a global currency would improve the current financial system.

Unsurprisingly, people feel less financially secure than in 2019, with 59% of South African respondents foresee a decrease in the rand's value over the next year - only 38% think it will increase and 18% think it will remain unchanged.

Regulation will be an important catalyst for broader cryptocurrency adoption. SA's Financial Services Conduct Authority recently announced a draft declaration of crypto assets as a financial product, which effectively means that any entity or person who renders intermediary services in relation to crypto assets must be an authorised financial services provider.

We are seeing significant signs of crypto adoption. PayPal, for instance, is rolling out direct sales of cryptocurrency to its 325-million users.

## ABOUT THE AUTHOR

Marius Reitz is Luno's GM for Africa

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