

## Crypto Chronicles - Viability and the Future

In Part 2 of his Crypto Chronicles series, Tawanda Mushore, Seed Head of Research, we assess the viability and future of crypto. We do this by focusing on key themes and questions on the subject.

If you missed his article last week taking an introductory look at safety, security, and legitimacy issues around crypto, please check that out now.

**Click to read: [Crypto Chronicles Part 1 - Safety, Security and Legitimacy](#)**

Sam Bankman-Fried's trial kicked off in New York. He is accused of multibillion-dollar fraud through his now bankrupt crypto exchange FTX, and his trading company. FTX, at its peak, was the third largest crypto exchange by volume in the world. The two remaining largest exchanges currently face lawsuits by the SEC. It is therefore unsurprising that the future of crypto is under question.

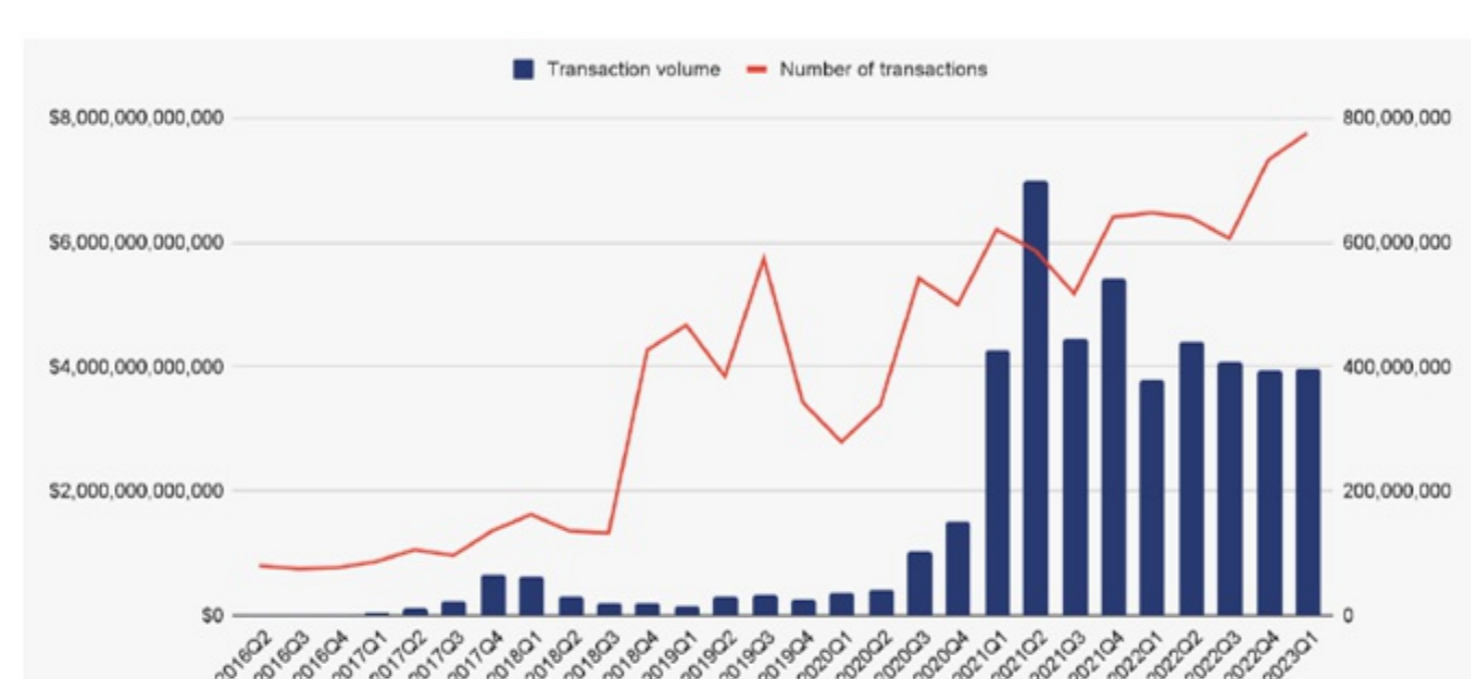
Last week we discussed safety, security, and legitimacy issues around crypto. In this article, we assess the viability and future of crypto. We do this by focusing on key themes and questions on the subject.

### Is Crypto a Fad?

*Fifteen years ago, Satoshi Nakamoto launched Bitcoin and published its white paper. Crypto has since exploded into an ecosystem of over 23,000 cryptocurrencies valued at over US\$1 trillion.*

Despite numerous challenges, crypto usage – by transaction volume and number of transactions – is robust as shown below. Some investors remain on the sidelines waiting for well-regulated institutional products, which are expected to trigger further growth. Also, governments pursuing blockchain-based digital currencies suggests there is a case for crypto.

**Chart 1 : Total Cryptocurrency Transaction Volume and Number of Transaction (Q1 2016 – Q1 2023)**



Source: Chainalysis July 2023

### Spot Exchange Traded Funds (ETF)

Spot ETFs are believed to be a key catalyst for institutional adoption. However, as seen in the United States with the Securities and Exchange Commission (SEC), regulators are reluctant to issue licenses. There are concerns about investor protection, market manipulation, and how the asset is priced daily.

The SEC is sitting on applications by BlackRock, Invesco, VanEck and WisdomTree. Grayscale took the SEC to court for rejecting their application and won the case. It is unclear how the SEC will proceed given their continued reluctance.

### SEC vs. Crypto

With regulators tightening the screw, there are some court cases of interest. Central to these is the argument that crypto is a security, to which the counter is that it is more akin to a commodity. A security requires the necessary approval or regulation. The key legal battles are as follows:

#### SEC vs. Ripple (XRP)

*The SEC accuse Ripple of trading a security (XRP) without registration. Ripple recently got a partial victory in the court case which the SEC is appealing.*

#### SEC vs. Binance and Coinbase

*The SEC filed lawsuits against Binance and Coinbase respectively. The two are the largest crypto exchanges.*

- Binance – the case is for the sale of unregistered securities and wash trading, among other violations.
- Coinbase – the case is for operating as a broker, an exchange, and clearing agency for crypto securities without registration.

The outcome of these cases will have a bearing on existing crypto product and regulatory framework that will apply going forward.

### Is Crypto Investing Gambling?

Undoubtedly, most crypto investing is driven by speculation. Buying into crypto that doesn't have any real-world use is no different from gambling. However, not all crypto can be characterized as this. The case for some crypto is enhanced by the broad targets of financial inclusion, lower costs, and store of value among others.

### Real-World Use Cases

In emerging markets crypto has been used for remittances, enhancing charitable giving. Ukraine received over US\$50 million in crypto donations post the invasion. Turkey and Syria received over US\$6 million in donations after the earthquake early this year.

In countries with economic challenges, some users have turned to crypto assets to protect against high inflation and volatile currencies. El Salvador and Venezuela formally recognised crypto as legal tender, but controversy surrounds these moves and uptake is low. Lack of trust and understanding of crypto are impediments.

### Will Central Bank Digital Currencies (CBDC) Mark the End of Crypto?

Several central banks are looking to implement their own blockchain-based digital currencies. Eleven countries have already launched active CBDCs, while a number are at pilot stage.

CBDCs carry the necessary user protection given the regulatory authority, something that crypto lacks. A key theme of crypto is decentralization given the lack of trust in government. Many also worry about privacy and censorship given data collected digitally.

One can assume that in the same way other payment platforms currently co-exist with fiat currencies, crypto can do the same with CBDCs. The growing purpose and potential of crypto to be used beyond streamlining finance, e.g., in the fast-growing Web3, might keep crypto relevant.

### Will Crypto Replace Fiat and Will Blockchain Technology Solve All Our Problems?

The short answer is no. Governments still need the ability to exercise control over the economy and money supply, and fiat's role as legal tender is unlikely to change any time soon. As good as the blockchain technology is, it does not solve all financial system issues as some crypto enthusiasts suggest.

### Stablecoins

Crypto's massive volatility makes it challenging to use as a store of value. Stablecoins, which are pegged to a reference asset, were created as a result. Tether, the largest, was designed to carry a value equivalent to US\$1.00. The stablecoin market is however surrounded by controversy with allegations of fraud, lack of reserves or asset backing, and hence, shadow banking.

### Consumer needs

Users require a digital currency they can trust, i.e., stable and carrying the necessary legal protection like deposit insurance. A digital substitute of cash would also be useful given the anonymity cash carries when transacting. Possible censorship and tracking are reasons why cash-type anonymity is useful though this is also manipulated by criminals.

### Conclusion

Crypto is a complex subject. There is a future for it but only with the right regulation. The blockchain is cutting-edge technology so will survive but it does not solve all problems. There are doubts about the legitimacy of some/many crypto products out there, so it is imperative for users to carry out their own due diligence.

Many crypto products will likely not survive, but the legitimate ones might just stand the test of time.



**Tawanda Mushore CFA,FRM**  
Head of Research & Portfolio Manager

If you have any further questions or require any guidance please don't hesitate to reach out to our team on [investmentteam@seedinvestments.co.za](mailto:investmentteam@seedinvestments.co.za).

Follow Us On Social Media

