

GLOBAL ECONOMY AND FINANCIAL MARKETS SHORT COMMENTARY



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Bitcoin tumbled on fears of regulatory crackdown

Ever-rising prices of cryptocurrencies, despite the massive volatility still drew in more people, boosted trading platforms user numbers and drove record transaction volumes. In light of these and questions brought by, global banking regulators tried to impose stricter rules on cryptocurrencies.

Bitcoin has a bumpy ride apart from volatility, in which double-digit fluctuation and also associated with numerous problems plaguing its ecosystem, from multiple scams and fraudsters to an absence of regulation that further feeds into its volatility. In spite of all this, market watchers worried about the crypto-market's bubble maybe bursting.

Milestone

Bitcoin is firstly introduced in August 2009 by Satoshi Nakamoto. Rival of cryptocurrencies begin to emerge and continue to become more mainstream, Litecoin, Namecoin and Ethereum all making their debut. Frenzy trading and raising institutional interest in cryptocurrencies has driven up the prices in the past year. The successful listing of Coinbase is seen as a major milestone for the crypto as it further propelled digital coins prices upwards.

Bitcoin has skyrocketed almost 253% since 2020 December, hit its all-time high at \$64,869.78 on 14 April 2021.



Source: Bloomberg

Ethereum, the second-largest digital coin in terms of market cap, surged to a fresh record at \$4139.11 on 11 May 2021, near 700% since December 2020.



Source: Bloomberg

Bitcoin price's fluctuations over a year.



Source: Bloomberg

Last week (17-23 May), the price of bitcoin slumped 20%, it lost almost half of its value compared to its record, reached just a month ago, on April 14, at \$64,869.78.



Source: Bloomberg

Ethereum, the second-largest digital coin in terms of market cap, also plummeted by 38% last week (17-23 May), comparing to the highest point, the decline is over 50%.



Source: Bloomberg

Dogecoin, the meme-inspired token, surged over 100% this year, had a sharp drop last week (17-23 May), comparing to highest point in May, dropped over 50%.

Investing.com 指數

1D 1W 1M 6M 1Y 5Y Max



Source: Investing.com

Reasons

1. Tesla stop accepting bitcoin for car purchases, citing environmental concerns

Musk has been a big supporter of bitcoin and dogecoin, his tweets greatly affected the price in cryptocurrencies, have set bitcoin skyrocketed several times in this year.

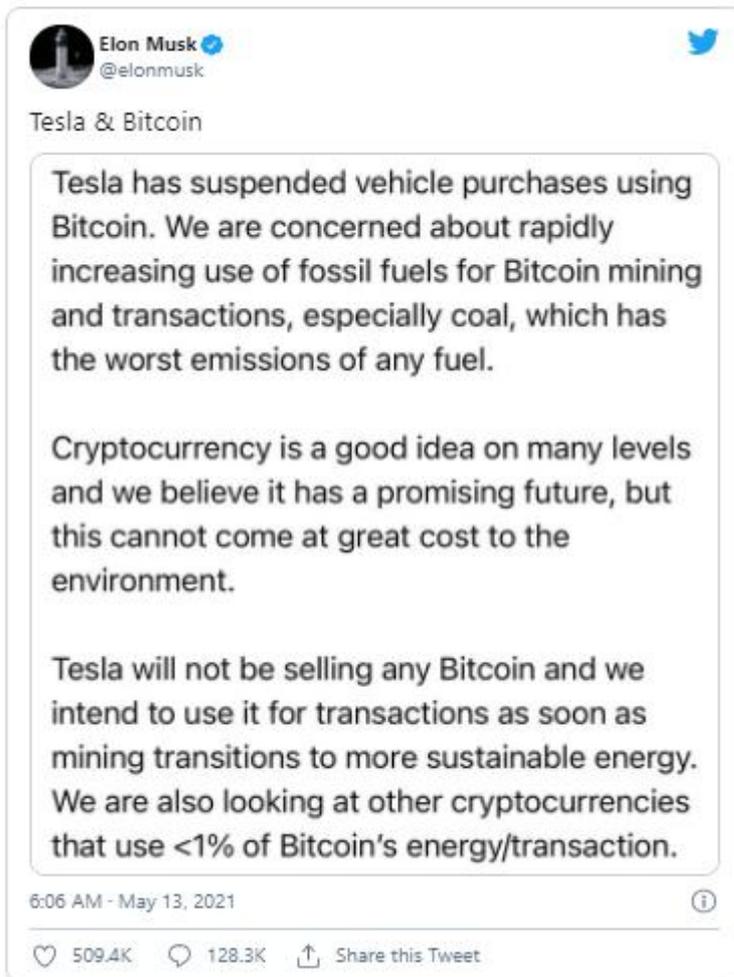
On 12 May, Elon Musk tweeted 'Tesla suspended vehicle purchases using bitcoin', concerned about rapidly increasing use of fossil fuels for Bitcoin mining and transactions. Bitcoin price dropped about 5% in the first minute after Musk's tweet. Bitcoin price dropped 4.2% on 12 May and 9.4% on 13 May.

Although Musk later assured the market that Tesla plans to hold rather than sell the bitcoin it already has, and would be looking into other cryptocurrencies that require less energy for transactions, it did not really help bitcoin to regain the enthusiasm of investors.

On May 13 (U.S.), Elon Musk tweeted Tesla suspended payments in Bitcoins for its cars due to environmental concerns around the mining of the cryptocurrency resulting in Bitcoin crashing by nearly 20%.



Source: Bloomberg



Source: Twitter

On 17 May (U.S.), Musk clarified that Tesla has not sold any coins after the sharp drop.



Source: Twitter

A tweet by user Mr. Whale said, “Bitcoiners are going to slap themselves next quarter when they find out Tesla dumped the rest of their holdings. With the amount of hate [@elonmusk](#) is getting, I wouldn’t blame him...” Musk replied, “Indeed.” The tweet has been speculated by the market that Tesla will sell its holdings in the coming future, which resulted a further sharp drop in bitcoin price.



Source: Twitter

2. Regulations on cryptocurrencies

Regulatory departments have had an outsized impact on the price of cryptocurrencies when it garnered mainstream attention. Bitcoin, ethereum, dogecoin, etc., plunged after China signaled a new crackdown on cryptocurrencies. Bitcoin fell as low as \$30,000, less than half from its all-time high, though its losses were cushioned after Tesla head Elon Musk spoke up on Twitter that featured diamond and hands emoji. The market speculated that the message implied the company had not sold any of its bitcoin holdings.

Crackdown on bitcoin mining and trading behavior by the Chinese government

The directives were made in a joint statement from the National Internet Finance Association of China, the China Banking Association and the Payment and Clearing Association of China. On 21 May, Chinese regulators marked fresh crackdown on cryptocurrencies, it made clear that financial institutions and payment companies are prohibited to provide [services related to cryptocurrencies](#). “Recently, [crypto currency prices have skyrocketed and plummeted](#), and speculative trading of cryptocurrency has rebounded, seriously infringing on the safety of people’s property and disrupting the normal economic and financial order. The institutions must not provide saving, trust or pledging services of cryptocurrency, nor issue financial product related to cryptocurrency”, the authority mentioned in the statement. Banks and payment companies were also urged to step up monitoring of money flows involved in cryptocurrency trading, and coordinate more closely in identifying such risks.

Making matters worse, Chinese authorities later on said cryptocurrencies would not be allowed in transactions and warned investors against speculative trading in them, despite China accounted most

of the world's mining over 65%, according to the University of Cambridge's Centre for Alternative Finance, as of April 2021. In inner Mongolia, 8% of the mining activities are generated. The Inner Mongolia Development and Reformation Commission (DRC) [issued a proposal on 19 May](#) that outlined eight areas that could be deemed as illegal that relate to crypto mining activities.

However, the recent moves were not Beijing's first moves against digital currencies. In 2017, the Chinese government shut down all local cryptocurrency exchanges. As Chinese government tried to stop warned speculative bitcoin trading had rebounded, infringing "the safety of people's property and disrupting the normal economic and financial order." In June 2019, the People's Bank of China issued a statement saying it would block access to all domestic and foreign cryptocurrency exchanges and Initial Coin Offering websites, aiming to clamp down on all cryptocurrency trading with a ban on foreign exchanges. The statement also highlighted the risks of cryptocurrency trading, saying virtual currencies "are not supported by real value", their prices are easily manipulated, and trading contracts are not protected by Chinese law.

More regulations from the US Authorities?

The U.S. three leading federal bank regulators — the Comptroller of the Currency, the Federal Reserve and the Federal Deposit Insurance Corporation, ramped up their calls for increased regulations on cryptocurrencies. The Treasury department announced it would require cryptocurrency transfers worth \$10,000 or more to be reported to the Internal Revenue Service (IRS). "Cryptocurrency already poses a significant detection problem by facilitating illegal activity broadly including tax evasion," the [Treasury Department said in a release](#).

Until now, cryptocurrencies like bitcoin are [not subject to US securities law](#) and receive much less oversight than stocks. On May 11, the Securities and Exchange Commission [warned](#) about the "lack of regulation and potential for fraud or manipulation" surrounding bitcoin.

Valued asset or a bubble?

Many people believe that the bull-run is still in its early stage, however the rise in its price is difficult to explain as bitcoin has no intrinsic value. For example, Softbank founder Masayoshi Son, still not getting into the crypto craze as he questioned about if the true value of cryptocurrencies or it is in a bubble.

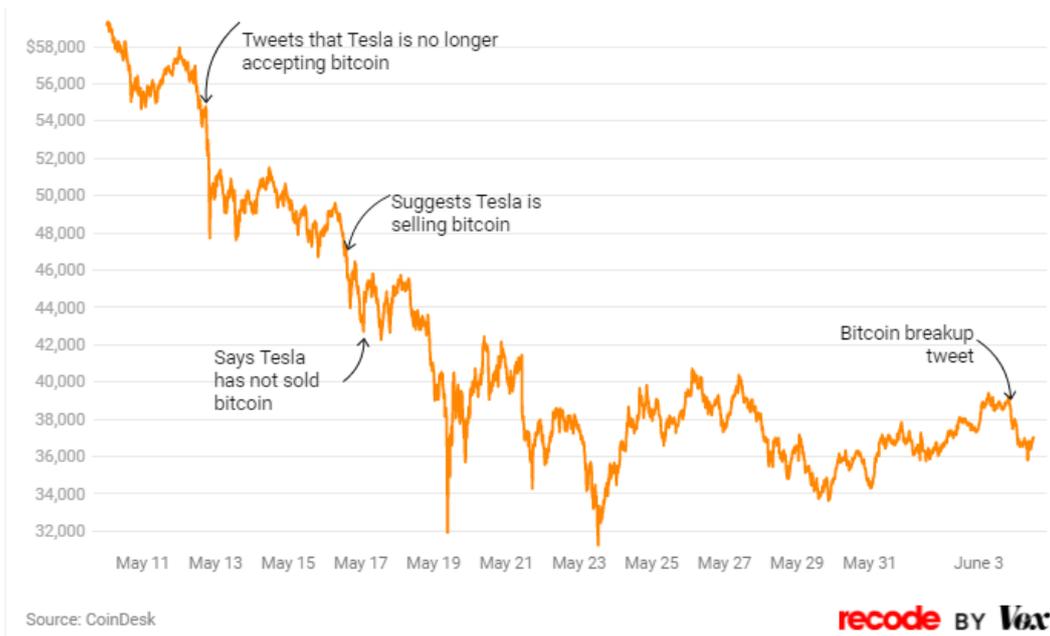
Meanwhile, some people have seen bitcoin as a digital currency to a store of value as a hedge against inflation while central banks' ultra-loose monetary policies. The ever growing popularity of bitcoin has caught the attentions also from institutional investors, such as PayPal, Tesla, VISA, Square, etc. Even banks like Goldman Sachs and Morgan Stanley have also sought to provide their wealthy clients with [bitcoin exposure](#). Also increase the popularity of crypto exchange platforms, such as Conibase, Robinhood and Binance.

It also raised the questions of cryptocurrencies use in illegal transaction, environmental concerns due to large amount of electricity and thus carbon footprints by mining, price volatility and securities issues.

However, being a store of value, cryptocurrencies have been criticized about the solidity of a market and prices that can be so easily swayed.

Besides, cryptocurrencies also have been criticized about its overly impacted by a few cryptocurrency stars. For example, Elon Musk, is particularly influential to cryptocurrencies, any single tweet from him could easily lead to significant impact to the crypto-prices. Sparked by his influence, the price of dogecoin has skyrocketed more than 100 times from less than half a cent to over 70 cents in early May. On 8 May, Elon Musk made his hosting debut on “Saturday Night Live” and devoted part of his sketch to talking up dogecoin, it slumped over 30% over the course of the hour that Musk was hosting SNL.

How Elon Musk’s tweets have affected bitcoin prices



Source: CoinDesk

Last but not least, regulatory and governments started to rump up the regulations on cryptocurrencies in order to ensure investors are protected and prevent any illegal activities running through the cryptocurrency markets. Under tighter regulation, highlighting cryptocurrencies are facing regulatory risks. In the short-term, this could cause market volatility.

Source: Bloomberg, CNBC, BBC News, Yahoo Finance, Financial Times, Investing.com, Forbes, Reuters, WSJ, SCMP, Twitter, CoinDesk

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For any comments, please send email to us at enquiries@amgwealth.com.

AMG FINANCIAL GROUP

40/F, 118 Connaught Road West, Hong Kong

Telephone: (852) 3970 9531 Facsimile: (852) 3426 2650