

Elon Musk & China's Sway Over The Global Crypto Market

05 Jun 2021 | Ronnie Ninan, Risk Intelligence Consultant

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1. EXECUTIVE SUMMARY

Cryptocurrencies are digital currencies—as opposed to fiat currencies—using cryptography (method to protect communication and information using codes) for security purposes.

The global cryptocurrency market cap as of 4 June 2021 is \$ 1.66 trillion, and bitcoin has a market cap of \$695 billion.

The price of bitcoin has swung from \$15,000 in the tail-end of 2017 to fall below \$10,000 by early 2019, only to swing back, touching \$60,000 by early 2021.

China, while maintaining a strict ban on initial coin offerings, remain the global epicenter of cryptocurrency mining. The country homes close to 70% of global crypto mining capacity.

The tweets by Elon Musk and legislations by countries like China regarding cryptocurrency has an impact on the Indian cryptocurrency market, just like it impacts the global cryptocurrency market.

The Indian investors have the added burden of looking out for potential legislation by the Indian government or central bank that could restrict, even ban, trading their crypto assets.

The volatility of the cryptocurrency market has led many investors to run back to gold, citing its reliability and stability.

2. CRYPTOCURRENCY: WHAT IS IT?

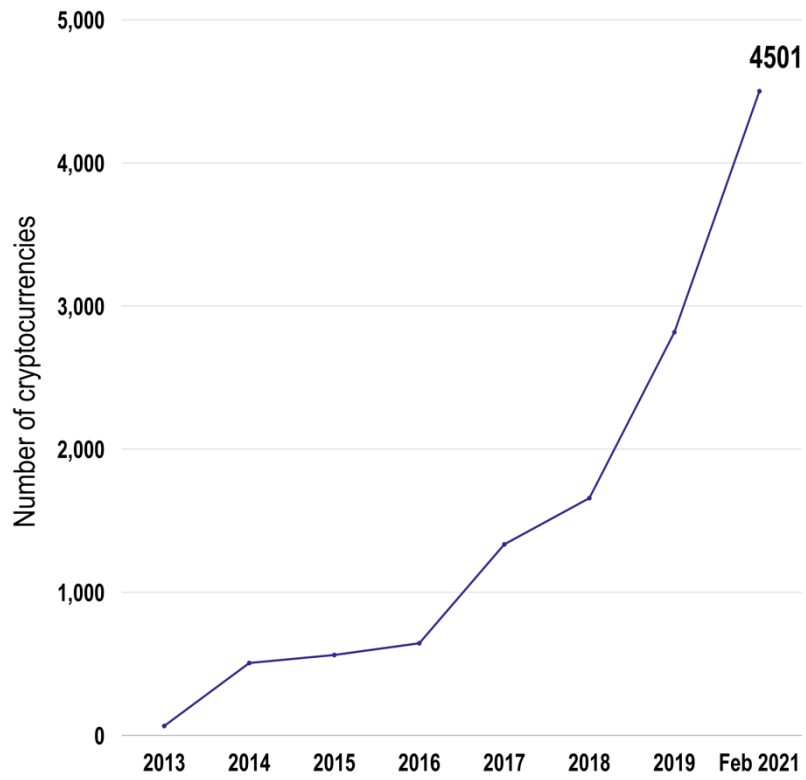
Cryptocurrencies are digital currencies—as opposed to fiat currencies—using cryptography (method to protect communication and information using codes) for security purposes. This makes it difficult to counterfeit cryptocurrencies. As there is no central authority that issues these cryptocurrencies, it is generally protected from governmental agencies. However, regulations on trading cryptocurrencies vary from country to country. It was Aristotle who defined the constituents of money. The concept of money has shifted drastically from the early barter system. Aristotle considered money to be durable, divisible, portable and possess an intrinsic value. Therefore, a large part of history accepted gold coins as a form of currency, considering they obeyed the expectations of the constituents of money. Cryptocurrency varies from the existing definition of money. It is not durable, unlike fiat currencies or even gold or silver. It exists in the virtual space. Considering most cryptocurrencies are not pegged to gold or a fiat currency, the idea that money has an intrinsic value is not visible in current-day cryptocurrencies.

In the early 1990s, an activist group called the Cypherpunks, intending to create a decentralized cash system in the absence of an authority exerting control over it, came up with the idea of using cryptography and algorithms for safe and private value transactions. This idea evolved in the aftermath of the 2008 financial crisis when Satoshi Nakamoto proposed a peer-to-peer digital cash system called 'bitcoin'. Since the introduction of the bitcoin cryptocurrency in 2008, the world has a leap in the number of cryptocurrencies. According to Statista, there are currently over 4000 cryptocurrencies in circulation.










3. ADVANTAGES AND DISADVANTAGES OF CRYPTOCURRENCIES

Advantages	Disadvantages
Potential for high returns in the long run	Potential for large losses depending on the cryptocurrency
Ability to diversify	Poor storage value due to varying global regulations and volatility
Fast and secure transactions and transfer of funds	Lack of regulation welcomes malicious activities
Limited supply of individual cryptocurrency allows for protection from inflation	Not all cryptocurrencies can be traded for fiat currencies
Decentralized	Adverse environmental effects due to crypto mining
Increasing global acceptance and usage	Susceptibility to hacking
Currency exchanges made easy	No policy for refund or cancellation

Rise of cryptocurrencies worldwide (2013-Feb 2021)

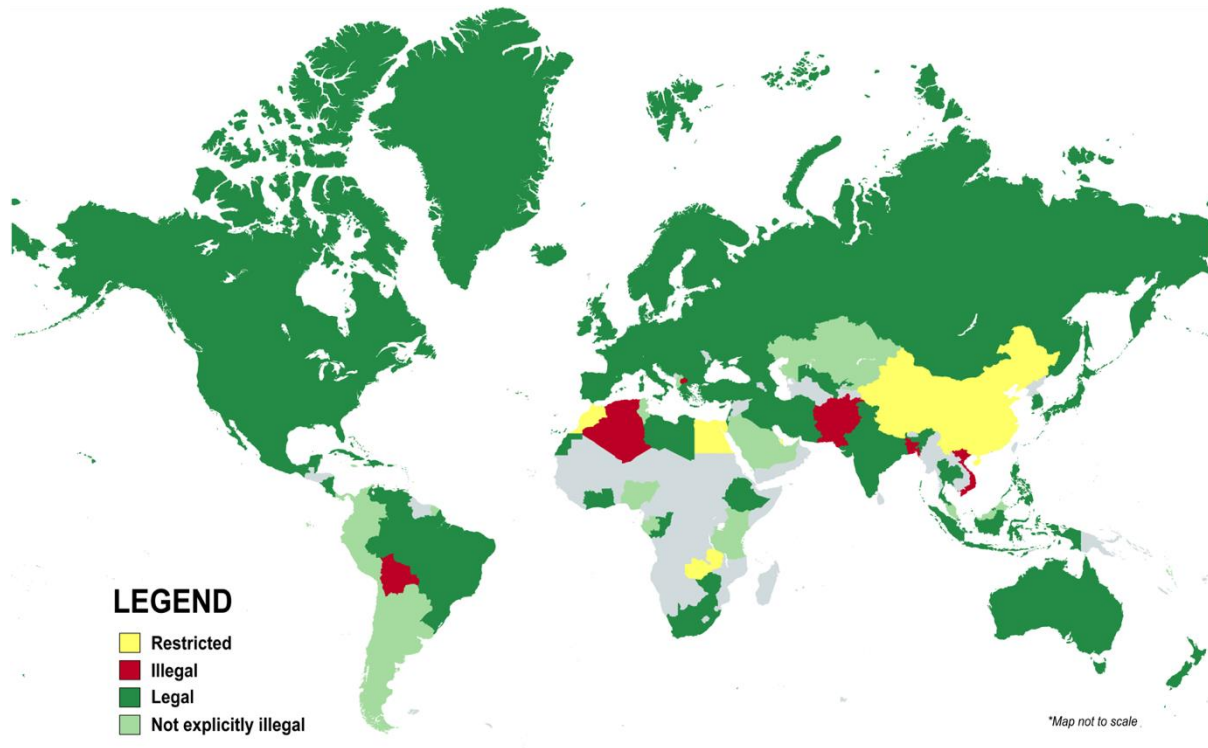


Top cryptocurrencies based on market cap (2021)

-  **Bitcoin**
-  **Ethereum**
-  **Tether**
-  **Binance Coin**
-  **Cardano**
-  **XRP**
-  **Dogecoin**
-  **USD Coin**
-  **Polkadot**

4. WORLDWIDE LEGALITY OF BITCOIN

Comparing the market cap of all other cryptocurrencies, bitcoin wins by a large margin. The global cryptocurrency market cap as of 4 Jun 2021 is \$ 1.66 trillion, and bitcoin has a market cap of \$695 billion. The legal status of bitcoin varies from territory to territory. While some countries accept it as money (or commodity), others allow it as a tradable asset. Yet, some countries have outrightly banned the use of bitcoins.

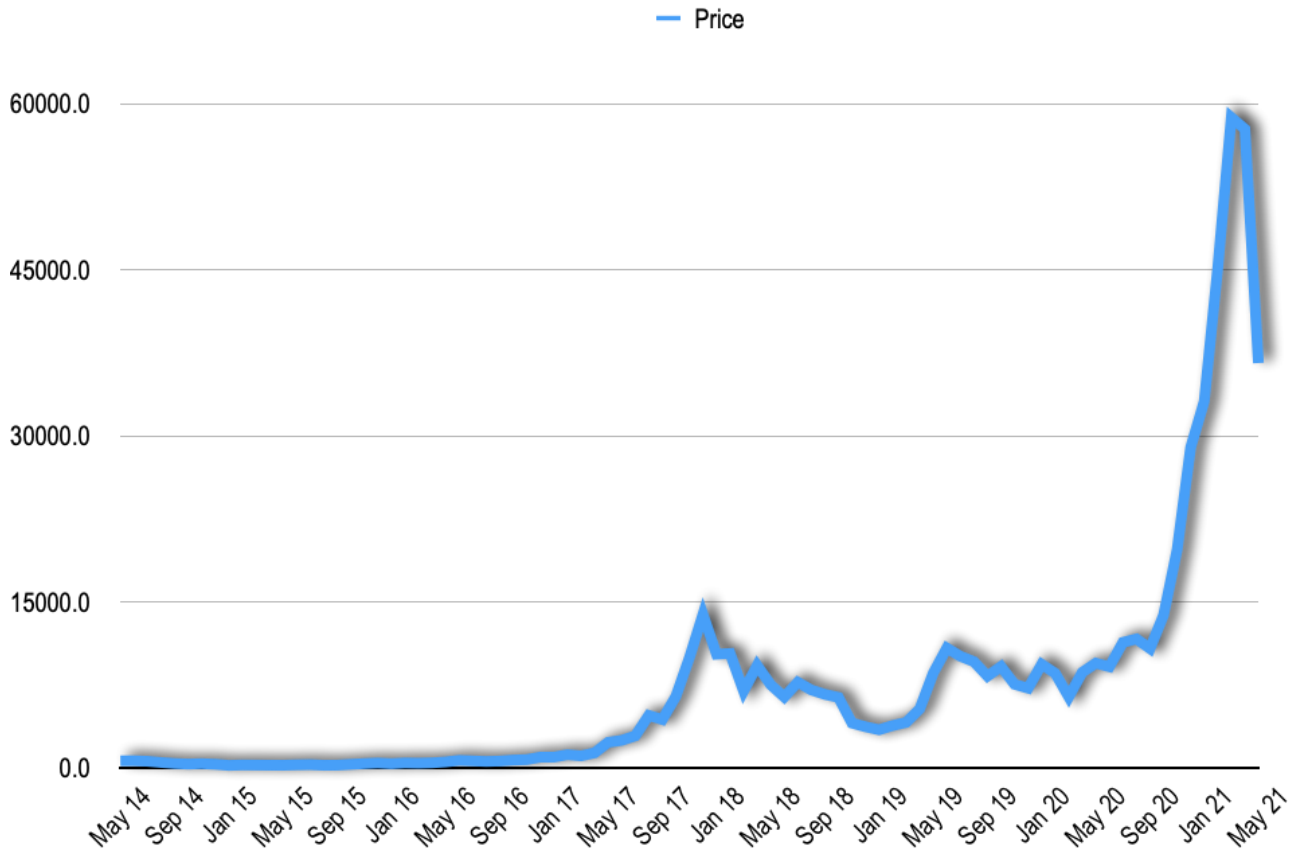


Source: Varied Media

5. VOLATILITY OF BITCOIN

Bitcoin, like every other cryptocurrency, is volatile to market forces. This volatility has created consternation among potential investors and existing investors since its inception. However, this volatility is what makes the cryptocurrency market function. It is this volatility that allows for sizeable returns for small investments. It is volatile because there is no central authority enforcing a cap on its prices. The price of bitcoin has swung from \$ 15,000 in the tail-end of 2017 to fall below \$10,000 by early 2019, only to swing back, touching \$60,000 by early 2021. This is not unique to bitcoin, but each market fluctuation influences the price of each cryptocurrency in the market. The fall in bitcoin prices in May 2021 is the second-biggest fall since 2013—with a drop of 36% of market value since 2018.

PRICE DATA (\$) OF BITCOIN (2014-2021)



6. MUSK TO \$StopElon

Elon Musk, the brain behind Tesla, SpaceX, and the Boring Company, has become known to influence the cryptocurrency market through his tweets. During the early rise of the cryptocurrency market, he endorsed decentralized payment technology. However, recently, he has been citing the environmental factors of crypto mining as a bane. Since early 2014, he has used his Twitter account, with close to 60 million followers, to announce his views on cryptocurrency.

However, his tweet, with the phrase "One Word: Doge" led to the shooting up of Dogecoin prices on 20 December 2020.

Elon Musk
 @elonmusk
 #bitcoin
 Joined June 2009
 102 Following 43.8M Followers

Tweets Tweets & replies Media Likes

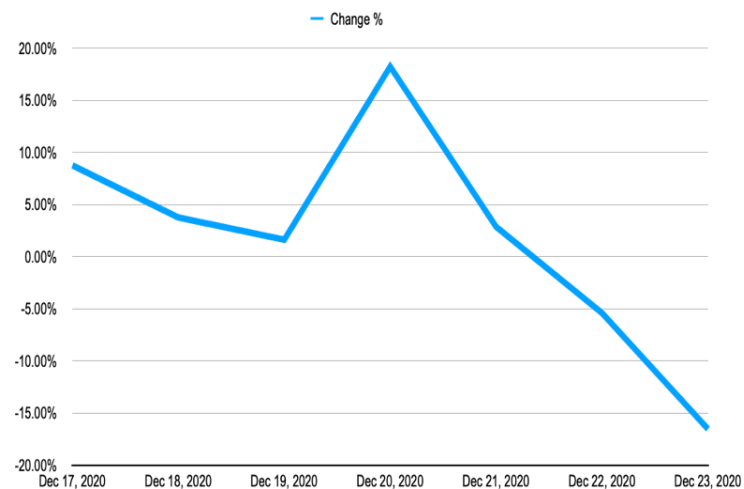
Elon Musk @elonmusk · 2h
 In retrospect, it was inevitable
 12.8K 22.2K 152.6K

Elon Musk @elonmusk
 Replying to @ChainLinkGod and @PeterMcCormack
 Bitcoin is actually highly centralized, with superman controlled by handful of big mining (aka hashing) companies.
 A single coal mine in Xinjiang flooded, almost killing and Bitcoin hash rate dropped 35%. Sound "decent" to you?
 [fortune.com/2021/04/20/bit...](https://fortune.com/2021/04/20/bitcoin/)
 11:47 PM · May 16, 2021 · Twitter for iPhone
 7,838 Retweets 2,997 Quote Tweets 41.2K Likes

Elon Musk @elonmusk
 It's inevitable
 dogecoin standard
 global financial system
 6:28 AM · Jul 18, 2020 · Twitter for iPhone

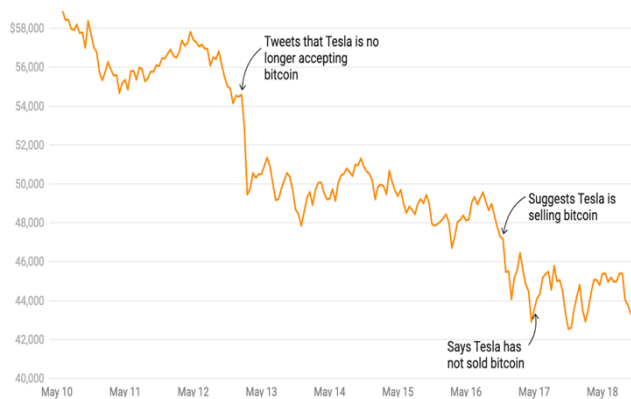
CHANGE IN DOGECOIN VALUE AFTER ELON'S TWEET (20 DEC 2020)

Elon Musk @elonmusk
 One word: Doge
 3:00 PM · Dec 20, 2020 · Twitter for iPhone
 26.2K Retweets 6,847 Quote Tweets 222.4K Likes



IMPACT OF ELON'S TWEET ON BITCOIN PRICES

In Apr 2021, Tesla, Elon's electric automobile company, sold 10% of its bitcoin holding, which caused widespread panic among investors. He later clarified saying, it was to tests the liquidity of the cryptocurrency. This, however, comes before his public appearance criticizing bitcoin for its environmental impact due to its high energy consumption in the mining process. He went on to say that Tesla will not be accepting any more payments using bitcoin. This also led to the spiraling of the bitcoin market prices, less than \$50,000.



Source: Recode by Vox



In response to the influence—and possible manipulation—of Elon's tweet on the crypto market, a new meme cryptocurrency named \$StopElon was released. The price of this new cryptocurrency rose from \$0.0000019 to \$0.00009450—a surge of more than 5000% in a single day. Elon's tweet on 4 June 2021 saying '#Bitcoin' with the emoji of heartbreak, pulled down the the bitcoin climb again.

7. CHINA'S RECENT CRYPTOCURRENCY SCARE

Since the 13th National People's Congress passed a particularly significant law discussing inheritance rights—including cryptocurrencies—the Chinese government has been trying to make new roadways into legislating digital currency. The Chinese government does not approve of cryptocurrencies as legal tender. However, Beijing recognizes these currencies as a digital commodity. China, while maintaining a strict ban on initial coin offerings, remain the global epicenter of cryptocurrency mining. The country homes close to 70% of global crypto mining

capacity. This implies that close to two-thirds of the entire cryptocurrency computer power falls within Chinese territory, therefore, Chinese control. In a speech, on 21 May, by a top government official announced its determination to ‘crack down on bitcoin mining and trading behavior’. This announcement led to the frantic scrambling, selling off of mining rigs and equipment, by miners within the territory to evade from any future governmental hostilities. Meanwhile, China is just a step away from officially releasing its own cryptocurrency, the digital Yuan. Such a cryptocurrency would be highly centralized and under the control of the Chinese government, unlike other cryptocurrencies like bitcoin and Ethereum. To familiarize the state-backed digital currency, the Chinese government has decided to hand out 40 million renminbi (\$6.2 million) worth of digital currency to its citizens in Beijing as part of a lottery. The Chinese public is accustomed to mobile payment applications such as Alipay and WeChat. This initiative would bring the highly centralized digital currency they envision to the forefront of future transactions. The Chinese government, in May 2021, placed a blanket ban on financial firms and banks from providing services to cryptocurrency transactions.

This came as a blow to the crypto market, which witnessed a sudden dip in the prices after a sharp bullish rise. This was followed by the warnings issued on social media by three state-backed organizations, including the National Internet Finance Association of China, the China Banking Association and the Payment and Clearing Association of China. The new legislation will make it more complicated for investors to buy cryptocurrencies through usual payment channels, thereby impacting miners' business, making it difficult for them to exchange cryptocurrencies for Yuan.

8. IMPACT ON INDIA AND ASSESSMENT

India has had a wavering past and present with cryptocurrencies. Since the filing of two public interest legislations in the Supreme Court of India in 2017. While one asked for a ban on buying and selling cryptocurrencies in India, the other asked for regulations. The government in 2017 formed a committee to study cryptocurrencies and the impact they could pose on the Indian economy. However, a short-lived RBI circular in 2018 banning commercial and co-operative banks, payments banks, small finance banks, NBFCs and payment systems from providing services for crypto assets were overturned by the Supreme Court in 2020. Since then, the government has been in talks to introduce a bill creating an Indian-state backed digital currency while placing a ban on all private cryptocurrencies. While this bill is yet to be introduced, the crypto market of India has been thriving. Currently, the Indian cryptocurrency traders and investors are approximately 15 million in number. India's largest cryptocurrency exchange WazirX recently hit a record trading volume of \$2.3 billion, which is a huge figure for a market still in its nascent stage. Indian investment in the cryptocurrency market is estimated to be around Rs. 100 billions

In an effort to create a legitimate cryptocurrency market in India, WazirX, with other cryptocurrency exchanges such as Coin DCX, CoinSwitch Kuber, has partnered with the Internet and Mobile Association of India (IAMAI), the Blockchain and Crypto assets Council (BACC). The partnership plans to set up a formal board that would monitor

the formation of a 'self-regulatory code of conduct' for member crypto exchanges in India. However, the RBI has cleared their stance on cryptocurrency concerns, which it has conveyed to the government.

The tweets by Elon Musk and legislations by countries like China regarding cryptocurrency has an impact on the Indian cryptocurrency market, just like it impacts the global cryptocurrency market. However, the investors also have the added burden of looking out for potential legislation by the Indian government that could restrict, even ban, trading their crypto assets. The future bull run, or bear run of the cryptocurrency market is unpredictable. However, with a burgeoning crypto market in India, the possible future of trade in cryptocurrencies within its jurisdiction depends on the legislative and financial powers of the country.

9. CONCLUSION

The current cryptocurrency market is going through a phase of volatility that has its roots in the Chinese regulations and, to an extent, the influence of Elon Musk's presence on Twitter. The bitcoin market, in the early half of the year, was soaring. However, it has drastically fallen in the current bear run. The extreme volatility of the cryptocurrency market has created troubles with regulatory bodies across the world that consider the potential harm to the general public and their savings. The lack of regulation has also raised eyebrows due to the murky past of cryptocurrency with illegal activities. China's recent regulations on restricting crypto-related financial exchanges and mining activities have led to a pull-out effect in the cryptocurrency market. India being a budding cryptocurrency market, has also experienced the volatile nature of the market. Moreover, the volatility of the market has led to many investors running back to gold, citing its reliability and stability. The recent updates on cryptocurrency exchanges partnering with IAMA and BACC to legitimize their presence in India is a step towards self-regulation and insulating the Indian market from abrupt external shocks. However, the final decision lay with the Government of India and the Reserve Bank of India on whether the Indian cryptocurrency market stays or continue in the dark.

ABOUT THE AUTHOR

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