ECONOMY

A crypto winter or a meltdown? Recession fears and layoffs hit crypto currencies

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As a rout in digital currencies deepens, crypto companies are warning of a coming recession and laying off hundreds of employees.

SACHA PFEIFFER, HOST:

Cryptocurrencies have been in freefall, and that's a gut punch to millions of amateur investors who thought they were buying into the future of finance. NPR's David Gura joins us now with more. Hi, David.

DAVID GURA, BYLINE: Hey, Sacha.

PFEIFFER: So this has been quite a rise and now a fall. How did the crypto market get to this place?

GURA: We're seeing a bit of a perfect storm taking place in the world of cryptocurrencies. Bitcoin has fallen dramatically. It's down about 70% from its all-time high. And other smaller digital currencies like Dogecoin are also down. In recent
days, we've started to see the fallout from this. Several crypto companies like Coinbase have announced layoffs, and a couple others have halted withdrawals.

PFEIFFER: Why are cryptocurrencies falling so sharply?

GURA: Well, these are speculative assets, and a lot of what’s driving the sell-off in stocks is also driving the sell-off in digital currencies. Right now, the Federal Reserve is hiking interest rates aggressively to fight high inflation. Bitcoin boosters have argued it would be the ultimate inflation hedge because there's a limited number of bitcoin out there, but it hasn't behaved that way, the way they said it would. Tech stocks have been tanking, and bitcoin is definitely not rallying. Ed Moya is a senior markets analyst at the firm OANDA, and he says there's also a sense of panic that's contributing to the sell-off.

ED MOYA: The crypto house is on fire, and everyone is just, you know, rushing to the exits because there's just complete lost confidence in the space.

GURA: I'll note this rout, this turmoil that we're seeing is in sharp contrast to what we saw just a few months ago when - if you remember, Sacha - it seemed like every other ad during the Super Bowl was for a crypto company.

PFEIFFER: I do remember that - a lot of celebrities promoting them. How are those companies doing today?

GURA: Well, not great. Today, Coinbase, the company I mentioned at the beginning - it's the largest crypto exchange in the U.S., it aired an ad during the Super Bowl that was just a QR code - Coinbase announced plans to cut a fifth of its workforce. BlockFi is another company that's announced layoffs. So has crypto.com, which hired Matt Damon to be its spokesman. The CEO of Coinbase told his staff in a memo that the company grew too quickly, but he also said he made the decision to cut back because of economic uncertainty. He said he believes we're at the start of a recession. So we're seeing not only this massive sell-off in crypto, but also this overarching fear about where the U.S. economy is headed.
PFEIFER: Millions of people bought crypto, and that cannot feel good for their portfolios.

GURA: No. This has been a really rude awakening for them. Eswar Prasad is an economics professor at Cornell, and he told me 2021 was the height of crypto mania.

ESWAR PRASAD: That was certainly a watershed moment. So that meant that cryptos had risen a lot, and it gave them much more room to fall.

GURA: Bitcoin hit a record of more than $69,000 in November of 2021. Today, it's trading around $23,000. And if you bought bitcoin the day after that ad bonanza during the Super Bowl, it is now worth about half of what you paid for it.

PFEIFER: And what about regulators? They must be taking note of this. They have to be taking note of this.

GURA: Yeah, for sure, and what's especially worrisome to regulators is the crypto universe keeps expanding, and that's given rise to many products, some of which are very sophisticated, some of which are gimmicky or outright frauds. Regulators have noted that growth. They've also said they're worried about all the amateur investors who have bought crypto. But this continues to be a space that is largely unregulated. Campbell Harvey is a finance professor at Duke University.

CAMPBELL HARVEY: If there's no guidance whatsoever, then people will be taken advantage of, and we want to prevent that.

GURA: Right now, there just isn't much clarity on the basics, like which regulator is in charge of what. Senator Cynthia Lummis, Senator Kirsten Gillibrand recently proposed new legislation. Their bill would give more authority to the Commodity Futures Trading Commission. But the bottom line is, there's a real sense, Sacha, that regulation just hasn't kept up.

PFEIFER: And very briefly, David, where does crypto go from here?

GURA: Yeah, there are plenty of crypto skeptics out there who are saying, I told you so. But true believers argue we're in what they call a crypto winter that will give rise to
a crypto spring. More credible cryptocurrencies will survive, and the rest will disappear. What does seem certain is, given the environment we're in right now, with the Fed likely to continue raising interest rates, Sacha, there will be more pain ahead.

PFEIFFER: NPR's David Gura, thank you.

GURA: Thank you.

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