

Year in a word 2022

Opinion **Bitcoin**

Year in a word: Crypto winter

The flaws in the lawless cryptosphere were laid bare in this crash

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(noun) a period of low or falling cryptocurrency prices, alternating with bull markets

The crypto world calls it “winter”. Others might call it a meltdown. Whichever you prefer, 2022 has been the year of crypto catastrophe. More than \$2tn in notional value has vanished into thin air as the total market capitalisation of crypto tokens has plunged 70 per cent from its peak in November 2021. The timing of the downturn points to what many view as its cause: the Federal Reserve.

It took just about six months from when Fed chair Jay Powell raised interest rates, and thus turned off the flow of cheap money that had buoyed the global economy and fuelled Covid-era speculation, for crypto to reach full-blown crisis. By May, the plummeting price of bitcoin and other currencies had strained crypto business models to breaking point and exposed fraud and mismanagement.

The first major crack appeared when stablecoin terra and linked token luna collapsed almost overnight in what was called “the largest destruction of wealth in this amount of time in . . . crypto’s history”. That record would soon be tested. Hedge fund Three Arrows, lenders Celsius, Voyager Digital and BlockFi, and most explosively Sam Bankman-Fried’s FTX empire have all now filed for bankruptcy.

But for crypto believers, these events are part of a natural cycle of renewal. Bull markets lure gamblers and scammers. Crypto winters thin the herd. Veteran cryptonauts will regale you with stories about how they prospered in the earlier crypto boom of 2017, and weathered the cold snap that lasted until the thaw of 2020. In the cult of crypto, the profits of the next boomtime are sown during the fallow period.

But for critics, this year’s crash and billions in losses for everyday investors have laid bare the faults in the lawless, self-governing cryptosphere. The question is whether any semblance of crypto’s vision for decentralised finance will survive the change of the seasons.

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