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Ethereum (ETH) Price Drops 20% After the Merge - Why?

Original:

<https://www.btcc.com/en-US/academy/research-analysis/ethereum-eth-price-drops-20-after-the-merge-why>

Last week's [merge](#) was one of the most significant events in Ethereum's history. As something that has been planned almost since Ethereum's inception, it was an incredibly momentous event and one that the community has been supportive of. Since the Ethereum merge, ETH's price has not performed well.

The decision to make the merge was something that was overwhelmingly supported by the Ethereum community, given that the move from proof of work to proof of stake means that less energy will be used and, most importantly, that users can earn yield on their ETH.

ETH price fell - "buy the rumour, sell the news"

It isn't an uncommon practice in the world of crypto that when there is a lot of hype for a particular news event, a lot of people "buy the rumour". The hype leading into the event creates a mini-bubble as people become excited.

As one of the most hotly anticipated events in Ethereum's history, the merge attracted a lot of attention. Constant news coverage and debates over the merits of proof of work versus proof of stake has meant that a lot of people have bought into the idea that proof of work is obsolete and needs to be updated - many have been remiss to recognise that proof of stake actually precedes proof of work, and was rejected from being implemented into Bitcoin for a variety of reasons, not least of which the centralising nature of it and the importance of using electricity as security.

Perhaps the best example of this phenomenon was last year, when the Coinbase IPO marked the top of the bull market.

Once the merge had concluded without too much of an issue (there were no major bugs that caused

further delays), one may have thought that Ethereum would become more interesting, since one of the major variables in its development had been successfully conducted.

Post-merge Ethereum is one that, assuming the principles of proof of stake are treated as sound by the market, should have been more appealing given the fact that much of the uncertainty in the asset has now been removed.

However, as is usually the case with “buy the rumour, sell the news”, the [Ethereum price](#) has fallen significantly since the merge.

After the merge, Ethereum has become more centralized than before

The merge has exposed Ethereum as being extremely centralised, given that three staking pools (Coinbase, Kraken, Lido) now control over 50% of validators.

This has drawn some concern about the centralisation of the consensus. Unlike Bitcoin mining pools, where miners can easily choose to switch pools without much difficulty or cause for concern, there is no mechanism for liquid staking providers like Lido to move to another pool once their ETH has been staked there - Bitcoin miners can choose not to join pools that control too much hash rate, but Ethereum must contend with far higher degrees of centralisation that may be difficult to reverse.

One of the reasons that the chair of the SEC, Gary Gensler, has explained that the only cryptocurrency that is clear isn't a security is Bitcoin, which is deemed to be a commodity that people can treat as a speculative store of value.

There are many reasons for this, and many reasons why Ethereum falls into the category of being a security rather than being a commodity.

Firstly, ETH was issued as part of an ICO, at which point 70% of the ETH for sale was already privately controlled by insiders. This is a stark difference from the creation of Bitcoin, which was known about beforehand and was available for anyone to mine who chose to. Unlike ETH, which was trading almost instantaneously after the ICO and once Vitalik had “fleshed out the business plan” with the marketing department, Bitcoin did not have a price for over a year and did not have any expectation of profits whatsoever.

Secondly, there are a small number of insiders who control vast swathes of the Ethereum network.

The Ethereum ICO raised \$18.3m, less than the [Tamadoge](#) presale, and yet the ecosystem now supports hundreds of billions in value.

ETC hash rate hit ATH - Did the merge really make the crypto greener?

One of the main arguments that many Ethereumers were making (and still are) is that proof of stake is better than proof of work because it is less damaging for the environment. Proof of stake uses less energy, and therefore ought to be less damaging than proof of work.

Although this is an oversimplification in itself, exposes Ethereum security to the whims of AWS, ignores the fact that most Bitcoin mining is done with renewable energy or energy with a marginal cost of zero (that otherwise would have been wasted), the nature of proof of stake being ESG friendly was hailed by many as a way to open the door for large institutions to enter the crypto space.

Now that the Ethereum blockchain itself won't be using any energy to keep itself secure, many believed that this compliance would make it a far more investable asset.

This may be true, but it doesn't mean that the appetite for proof of work Turing complete blockchains has been satisfied.

Both ETHPoW and Ethereum Classic have been increasing their relative hash rates recently; all the energy that was being used to mine Ethereum last week is still being used, it is just being used on different things now that Ethereum killed its mining industry - this makes it difficult to justify the idea that Ethereum moving from proof of work to proof of stake will completely eliminate environmental damage, since Ethereum forks can still use the same energy.

If the Ethereum forks that are on proof of work exist for longer than Ethereum or gain a significant market share in terms of dApps and utility, then Ethereum will be greatly weakened, and the entire ecosystem fractured into smaller pieces.

Ethereum Classic hash rate has now reached all-time highs, having increased over 4x in the 24 hours that followed the merge.

Still too early to tell if Ethereum merge is a success

Less than a week has now passed since the merge, and there are still many variables that remain in play. For example, the Shanghai update is yet another hard fork that the Ethereum community must overcome before they can claim to have fully completed the process of transitioning to proof of stake.

Currently, everyone who staked ETH in the deposit contract has had to wait until the upgrade before they will be able to gradually withdraw it from the withdrawal queue. After the Shanghai hard fork, this ETH will be unlocked (currently almost 14 million) and ETH will be able to reach true price discovery without the risk of there being millions of ETH that are yet to be potentially dumped on the market.

Not only that, but changing the consensus parameters of the blockchain is a very big move, and for some it is not clear what the exact impact of this will be. Some speculate that the inherent drive for further centralization of proof-of-stake will pose a risk to Ethereum, but only in the long term. Others speculate that this is already a risk, and that if the three largest validators cooperate, they can already manage to review transactions at the protocol level.

In conclusion, it is too early to say whether the the move from [PoW](#) to [PoS](#) was a stroke of genius or an extremely short-sighted decision.

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