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Is NFT a Hype? Behind the Sky-High NFT Price

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<https://www.btcc.com/en-US/academy/research-analysis/behind-the-sky-high-nft-price-is-nft-a-hype>

NFT can definitely serve as the bellwether of the crypto market. Crypto artworks, games, digital video games, digital certificates and other areas NFT concept exploded.

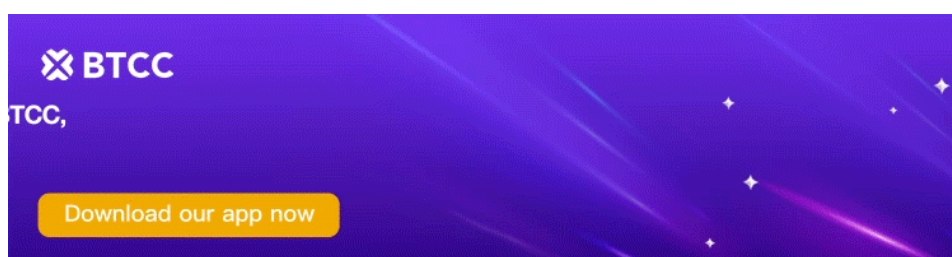
It is worth noting that since the end of July 2021, the volume and price of CryptoPunks have surged to record highs, and once there were “sky-high” avatars. In addition, many digital artworks have also appeared worth millions of dollars in turnover. With the popularity of NFTs, many works shot to “sky-high” prices.

At the same time, many projects have appeared on the market. In the face of the complex NFT market, the first question hanging over the heads of ordinary investors is why these NFTs will sell for more than Monet’s paintings? Is there a hype factor in this?

Why NFT Frequently Fetches Sky-High Prices

CryptoPunk made NFT history with absolute hotness and price. At the same time, the avatar NFT circuit exploded, and a large number of similar projects emerged. There was also a time when “sky-high” avatars appeared. Many users have changed their avatars into their acquired NFTs, which has become the social identity of the crypto industry.

Vincent, a senior researcher of OKEx, pointed out that the frequent occurrence of high-priced NFTs is mainly due to two aspects: firstly, the NFT market continues to be popular, which continuously attracts new players and funds, pushing up the price of NFTs; secondly, some NFTs have collection significance and social attributes, and the consensus is also expanding, such as the NFT avatar CryptoPunks, which is one of the earliest NFT projects on Ethereum and is regarded as the bitcoin of NFTs.



Hype and Potential Coexist

The technology maturity curve created by Goldner points out that any technology or new concept needs to go through five stages: budding, bubble, trough, recovery and maturity. Is there a bubble or hype factor in the current sky-high NFT prices? The answer is yes. Because the development of any new concepts follow this objective law. NFTs, which is in the “bubble boom” period, crazily pursued by the market. In this case, the true value of the NFTs may be exaggerated to some extent, which contains the bubble.

However, we should not choke for this reason. Although the current NFT market has appeared obvious bubble, we should not deny the potential value of NFT. Fundamentally, the rise of NFT is the product of the development of digital economy to a certain stage.

First of all, NFT provides unique proof of copyright for the works of the majority of creators, although still presented in electronic form, it is distinguished from other copies. And having NFT also gives exclusive possession, which strongly protects the copyright of the creators; NFT is easily and quickly circulated and transferred on the blockchain network, which is convenient for practical operation and allows these works to be sold at the most appropriate price.

In today's digital world, instead of being amazed by the sudden explosion of NFT, we should say why we have not had NFT to protect the digital property rights of these artists until today. So we can see that more and more artists are now trying to create works in the form of NFT. We can say that the recent boom of NFT is the product of the contradiction between the rapid development of digital art and the backward property rights protection in recent years.

Lack of Fair Price System

Besides the well-known NFT projects, there are also some “spoof” projects in the market. Of course, the NFT market is still in its early stages, therefore there are many irregularities and opaque operations, and the recent sustained boom has also attracted some speculative teams to enter. They seize the mentality of users, with all kinds of packaging, hype techniques to attract users to enter the market, which will undoubtedly magnify the market risk and is not conducive to the healthy development of NFT.

Vincent, a senior researcher at OKEx, reminded that NFT works based on blockchain creation, and blockchain technology itself is borderless and decentralized, which will inevitably give unscrupulous people the opportunity to take advantage of, such as money laundering with the help of NFT. Due to the lucrative NFT market, infringements have occurred repeatedly, which are inevitable in the early stage of the NFT market.

In addition, behind the sky-high NFT prices reflects the hidden problem of the current market: the lack of a fair pricing system. Simply put, the current NFT works lack of unified valuation standards, it is mostly support by people's consensus, once it disappears, the NFT may collapse faster than other virtual currencies.



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Risk and Hype of Money Laundering

In addition, William further analyzed that NFT fragmentation has certain characteristics of “securities” in finance, and there are indeed risks of financial regulation. For example, in recent years, regulators usually use the “Howey test” to determine whether a token is a security, with the following four conditions.

It is an investment of money (a concept that can be expanded)

The investment is expected to generate profits later

These profits come from the efforts of the issuer or a third person

The investment is for a specific enterprise (common enterprise, which can be expanded to a project).

If the purchase of a single NFT is usually the “product of work already done,” then the purchase of a fragmented NFT is likely to be made with the expectation of “future profits.” And these profits are also likely to be made by a third party (new investor entry). Of course, some market participants may find various excuses to deny the above two points. But the regulator, based on the principle of “substance over form”, is likely to make an unfavorable decision on these fragmented NFTs.

William of FireCoin Research Institute pointed out that the NFT market is currently at risk of money laundering and infringement. Although the NFT market is currently popular, it may need to go through a very difficult period of bubble squeezing if it wants to develop more healthily in the future.

Pay Attention to the Hype of NFT

There are two sides to the development of NFT. While technological innovation will always give new inspiration to art creators, which is more beneficial to the development of human art history. For NFT, their long-term value can only be finally confirmed through the test of time. However, in the early days of NFT development, when openness and fairness are not possible, risk prevention should be the first priority for ordinary people.