

ALT5 Sigma Digital Assets Morning Call

Crypto prices stabilize as macro backdrop evolves

NEW YORK, US, April 19, 2022 /EINPresswire.com/ -- •Fed officials continue to talk hawkishly...

- ...but more aggressive Fed tightening is better priced into markets
- ...that may reduce a source of selling pressure in crypto assets

Major crypto assets have recovered from Monday's modest slippage and have resumed the sideways, consolidative trading pattern evident since last week. Prices generally continue to trade near key psychological levels, including \$40,000 in bitcoin, \$3,000 in Ethereum and \$100 in Solana.

Attention remains very much on the macro backdrop of inflation, central bank tightening, higher interest rates and downside risks to economic growth. But there are some interesting developments in macro markets which warrant highlighting and could have positive implications for crypto prices.

Hawkish Fed talk causes less market disruption

Federal Reserve officials continue to highlight the likelihood of a more aggressive pace of interest rate increases going forward. On Monday, St. Louis Fed President Bullard, a noted inflation hawk, upped the ante again, saying the Fed could raise rates by 75 bp in one step (a 50 bp rate hike was previously the largest publicly discussed by Fed officials). But the comment met with fairly muted reaction in financial markets. Essentially, shorter term interest rates have now priced in the more aggressive Fed guidance, with the yield on the 2yr Treasury note rising to near 2.5% recently, over 200 bp higher since last November.

The US yield curve has steepened after brief inversion in early April

Also, the US yield curve has steepened after briefly inverting early this month, with the 2yr-10yr curve now at 39 basis points. The yield curve is often considered a decent predictor of a future recession, and the inversion in early April generated a lot of discussion of that risk. That, in turn, dampened market sentiment in risk assets, including in major crypto prices. But with the curve having steepened, some of the bearish concerns about future growth have diminished, or at least have been less impactful for financial markets, including crypto prices.

If Fed tightening is better priced in, a source of selling pressure in crypto could diminish

With the yield curve having steepened, with shorter term US yields now pricing in more aggressive Fed tightening, and with the market showing less sensitivity to hawkish Fed commentary, their tendency to work against crypto prices (and risk assets broadly) may also be diminished. That is not to sound the "all clear" for higher crypto prices from here, but it could alleviate what has been a formidable source of selling pressure in recent months.

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ABOUT ALT 5 Sigma

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