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ALT 5 – DIGITAL ASSETS WEEKLY

Views on bitcoin volatility decline, US dollar gains, and the coming week's key events

NEW YORK, NEW YORK, US, April 29, 2022 /EINPresswire.com/ -- ALT 5 Sigma Inc. a global fintech that provides next generation blockchain powered technologies for tokenization, trading, clearing, settlement, payment, and insured custodianship of digital instruments releases its Digital Assets Weekly.

•Bitcoin price consolidation sees volatility decline

•US dollar rises to multi-year highs, presenting risks to crypto assets

•The FOMC meeting and US jobs data highlight the coming week's events

Major crypto assets continue to consolidate around the fairly narrow ranges established in recent weeks and the somewhat broader ranges extending back to the beginning of this year. The sideways price action has seen volatility drop to the lowest levels since late-2020 (see Chart 1).

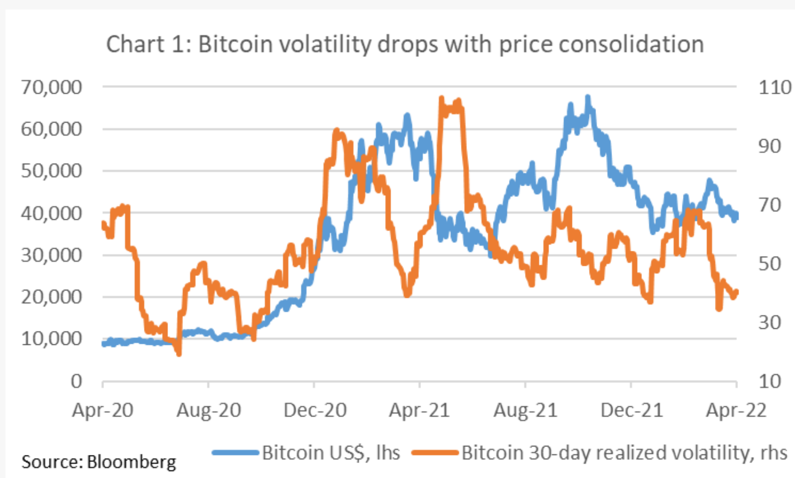

Chart 1: Bitcoin realized volatility drops

US dollar rises to multi-year highs

It's interesting that the price consolidation is taking place against a more volatile backdrop in risk assets broadly (i.e., US equities) and, more recently, fiat currency markets. The US dollar has strengthened to multi-year highs against a number of currencies in recent weeks, extending the upward trend in the currency that has been in place for much of the past year (see Chart 2). The moves are potentially important for crypto investors, given that crypto assets such as bitcoin are sometimes seen as a hedge against US dollar declines and is thought to typically move inversely to the greenback.

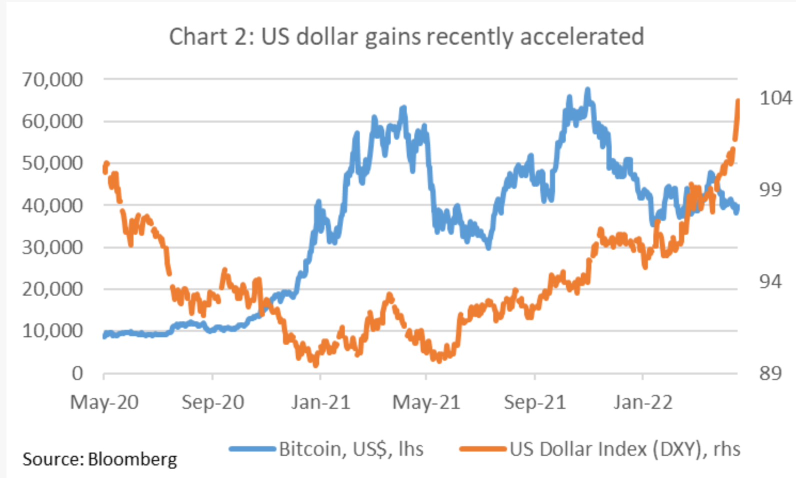

Chart 2: Bitcoin and the US Dollar Index

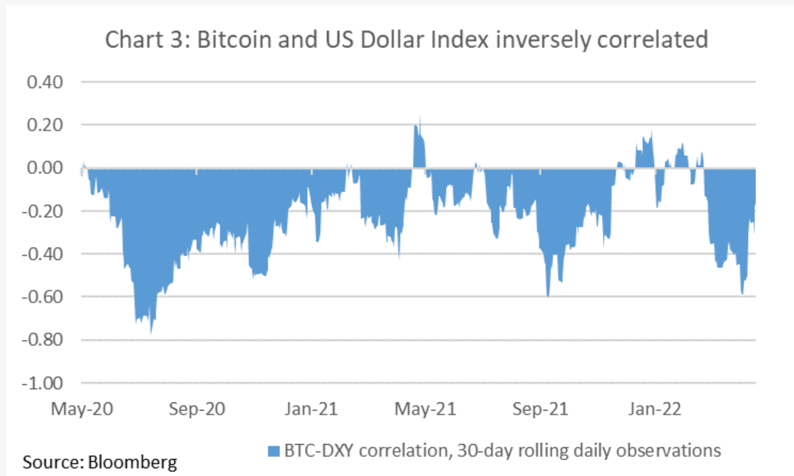

Chart 3: Bitcoin and US Dollar Index correlation

The US government's response to the covid pandemic raised measurable speculation about US dollar debasement. The massive fiscal expansion combined with the Federal Reserve's zero interest rate policy and large-scale asset purchases increased the perceived risk that the glut of US dollars being pumped into the global financial system would erode its value.

Crypto currencies benefited from concerns about—if not always realized—US dollar debasement

As a result, crypto currencies such as bitcoin, with its finite supply, established (and growing) user/investor base, and longer term trend of appreciation were seen as a potential alternative to the US dollar…or at least an asset that could benefit if confidence in the US dollar faltered. This is a fundamental tenant of the "store of value" argument for bitcoin.

The early months of the pandemic did indeed see bitcoin appreciate while the US dollar fell, evident in the steep negative correlation between the two through second half of 2020. The negative correlation was less pronounced through much of 2021, but has increased again in recent months, and this time it has occurred as the US dollar has appreciated alongside bitcoin's decline (see Chart 3).

Interestingly, this more recent price action has not simply been a reversal of the market's movements from the first year of the pandemic, at least not for bitcoin. While the US dollar has reversed all of its early-pandemic decline—and then some—bitcoin decline from its highs last November has still left it well above its pre-pandemic levels, roughly six times higher.

Fiat currency developments remain an important consideration for crypto currencies

That does not preclude the possibility that bitcoin could decline from here. As Chart 3 shows, the negative correlation between the US dollar and bitcoin has persisted for most of the past two years, just in varying degrees. Essentially, the same factors that are driving the US dollar higher since November—anticipated Fed tightening, higher US yields—are pressuring risk assets, including crypto assets.

Accordingly, US dollar movements are likely to remain relevant to crypto prices, particularly as gains in the greenback have accelerated recently, a development which increases the opportunity for more volatile swings in both directions. And increased volatility in fiat currencies could have similar, spillover effects on bitcoin and other crypto assets, particularly with volatility in those assets having fallen to relatively low levels.

A big week of events and data

The coming week's FOMC meeting (May 3-4) is expected to see the central bank raise its policy rate by 50 bp to 0.75%-1.0%. It is also expected to announce details on balance sheet reduction; markets generally look for that to begin in June and be ramped up to a total of $90bln to $100bln per month during the summer months. In that outcome, the pace of rate hikes and balance sheet reduction would both be far faster than in the previous Fed tightening cycle of 2015-2018. That is not a novel realization, but the actual market impact of that "double barreled" tightening could present real challenges to risk assets.

Other countries also have central bank policy decisions due during the week, including (in order) Australia, Brazil, Norway, the UK, Czech Republic, Chile and Poland. And like the Federal Reserve, nearly all are expected to raise policy interest rates (save for perhaps Norway). Such an outcome would concur with the global liquidity drawdown that has been a major force pressuring risk assets and crypto prices for the past six months, and would likely sustain those headwinds for now.

The data calendar is highlighted by the US April employment report, where payrolls are expected to rise around 400K and the unemployment rate hold at its cycle low of 3.6% reached in March. For crypto markets, some considerations on this report and the labor market more broadly will be, 1. The extent to which it deviates from expectations, 2. the scope of wage gains, given their increasing impact on inflation, and 3. the extent to which the Federal Reserve highlights the need for its policy actions to "cool off" what it views as a very "tight" labor market.

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ABOUT ALT 5 Sigma

ALT 5 Sigma is a global fintech that provides next generation blockchain powered technologies for the trading, clearing, settlement, payment, and insured custodianship of digital instruments. ALT 5 was founded by financial industry specialists out of the necessity to provide the digital asset economy with security, accessibility, transparency, and compliance. ALT 5 provides its clients the ability to buy, sell and hold digital assets in a safe and secure environment deployed with the best practices of the financial industry. ALT 5 Sigma's products and services are available to Banks, Broker Dealers, Funds, Family Offices, Professional Traders, Retail Traders, Digital Asset Exchanges, Digital Asset Brokers, Blockchain Developers, and Financial Information Providers. ALT 5's digital asset custodian services are secured by Fireblocks.

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