

ALT 5 – DIGITAL ASSETS MORNING CALL

Selling pressure in major crypto assets eases for now, but not before registering severe declines

NEW YORK, NEW YORK, US, May 10, 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 Morning Call.

- New 10-month lows in bitcoin and 3-month lows in ether keep sentiment bearish and trading strategies defensive
- The unhinging of stablecoin Terra USD (UST) is featured in the current crypto volatility
- There is no “Fed put” to bail out risk assets this time around

The price action in major crypto assets is the primary focus as bitcoin, ether and a host of other tokens registered some of their largest declines of the year. By now, market participants have become well aware of the strong short-term correlation that crypto tokens have registered with other risk assets, including the tech-heavy Nasdaq composite, and there is no need to re-hash that relationship here.

TerraUSD breaks its peg to the US dollar...

There is a crypto-specific development that features in the current bout of broader crypto asset weakness. The algorithmic stablecoin TerraUSD, or UST, broke its 1:1 peg to the US dollar, first dropping below 0.99-cents over the weekend, and then overnight dropping to nearly 0.60-cents, according to Bloomberg data.

The logo features the text "ALT5" in a large, bold, sans-serif font, where the "5" is blue and the "ALT" is black. Below this, the words "DIGITAL ASSETS" and "MORNING CALL" are stacked in a smaller, bold, black, sans-serif font.

...shaking confidence in the crypto asset eco system

The complex situation stems in part from outsized withdrawals of UST from decentralized finance (defi) protocols. In addition, the main asset supporting UST, the crypto token LUNA, also came under severe selling pressure.

The Luna Foundation Guard (LFG), which supports UST and LUNA, has for months been buying bitcoin as one of the backing assets of LUNA. But it has now lent out its bitcoin—which of course is trading at markedly lower prices/value—to help shore up both LUNA and, by extension, UST. It is not clear how all of this will develop or resolve. But it is an important feature in the current bout of volatility in crypto assets more broadly.

The Fed put is not available

One critical difference in the way risk assets are trading now versus previously during the pandemic (and often in the post-financial crisis period) is the perception that US and global monetary officials will step in and prevent a larger, more economically disruptive selloff in financial assets.

This was often described as the “Fed put”, which essentially represents the notion that the Fed would step in and provide liquidity—or assurances of liquidity—to keep markets functioning normally if and when heightened volatility (i.e., sizeable price declines) became extreme.

Fed policy normalization is just starting

That expectation supported financial asset prices throughout the long bull market dating to 2009. But conditions now differ from the past decade in several important ways.

First, the Federal Reserve is literally just beginning its policy normalization process. It only started raising policy rates and stopped increasing its balance sheet two months ago, and has guided markets to expect substantially higher interest rates and a measurably smaller balance sheet over the coming 18 months. Previous bouts of Fed support came later in the Fed tightening cycle, or even after policy tightening had been completed.

The Fed no longer has the “luxury” of low inflation

Second, and perhaps most importantly, the previous trend of low inflation allowed the Fed greater flexibility in policy. It could keep policy rates low and its balance sheet large because inflation was near and occasionally below its 2% target, and was expected to stay there.

Now, with inflation running above 8%, the Fed does not have the luxury of allowing accommodative policy to persist. One of the Fed’s two mandates is price stability, and it has a

responsibility to take actions to reduce it. That is why it pivoted its guidance from dovish to hawkish last November and just recently started to tighten policy.

Against that backdrop, it would appear that the “Fed put” is not available in today’s markets, at least not in the conditions that exist at present or seem likely to develop in the foreseeable future.

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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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