

ALT 5 – DIGITAL ASSETS MORNING CALL

US dollar decline is a noteworthy development for crypto assets

NEW YORK, NEW YORK, US, May 23, 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.

- ECB tightening expectations rise, supporting the euro at the US dollar's expense

- Eiat currency developments remain an important input for crypto assets

- Another major designer will begin to accept crypto payments

Bitcoin and ether price consolidation continues, with the sideways price action now extending to ten days. Interestingly, over that same time, the US dollar has begun to fall back from what were 19-year highs.

Crypto assets such as bitcoin are sometimes viewed as a hedge against the US dollar and are thought to move inversely to the US currency. In that regard, we can view recent dollar slippage as a constructive development for bitcoin.

Europe adjusting to growth risks and inflation problem

There have been noteworthy developments abroad that help put the recent US dollar slippage into context. The European Union will move to suspend its Stability and Growth Pact rules for another year, due to the economic drag caused by the Ukraine war. The pact, which limits annual fiscal deficits to 3% of GDP, and total debt to 60% of GDP, had already been suspended for the

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past two years due to due the covid pandemic.

Importantly, the suspension of the Stability Pact is more about avoiding the financial penalties associated with violating the debt and deficit limits, rather than opening the floodgates to substantially more fiscal stimulus. Nonetheless, it reduces the chances that fiscal policy will become even more restrictive and a bigger drag on economic growth.

ECB is likely to begin raising rates this summer

At the same time, the European Central Bank (ECB) is signaling that policy interest rates are likely to start increasing sooner than previously expected. ECB president Lagarde said in a blog post today that the central bank is likely to end negative interest rates by the end of September. The ECB's main policy rate has been set at -0.5% since 2019 and has been negative since 2014.

Like most other economies, the Euro area is facing a significant inflation problem. CPI hit 7.5% y/y in April, well beyond the ECB's 2% target and the highest reading since the launch of the euro in 1999. As a result, the ECB is scaling back its asset purchase program (like the Fed has already done) and is likely to start raising policy interest rates this summer.

Unlike the US, Euro area growth is more subdued. Accordingly, tighter monetary policy is likely to—and indeed is designed to—dampen demand and economic growth. For financial markets, including crypto assets, the prospect of slower growth in the world's third largest economy will be a headwind for investment performance, other things being equal. Questions, of course, revolve around timing and degree.

The shift in ECB expectations is supporting the euro, at the US dollar's expense

However in the short-term, the prospect of tighter ECB policy is giving the euro a lift, with the EUR-USD exchange rate nearly trading to 1.07 today, its highest level in four weeks and following a recent low of 1.0350. The corresponding drop in the US dollar—as referenced above—has seen the Dollar Index (DXY) fall roughly 3% from its recent high.

Crypto investors need to monitor fiat currency developments

The medium-term implications for crypto from these fiat currency movements are less clear. The outlook for the US dollar remains reasonably constructive out to year-end, in part because the US economy is likely to outperform much of the rest of the world, and the Federal Reserve is expected to tighten monetary policy more aggressively than most other central banks among advanced economies.

If that turns out to be the case, US dollar movements are not likely to be supportive for major crypto assets. But fiat currencies often deviate from consensus expectations, and the last two years in the US dollar are a prime example. We reference all of this to highlight that fiat currency

movements remain an important variable for crypto market participants to monitor.

Another major brand is accepting crypto payments

Balenciaga said it will begin accepting bitcoin and ether as payments online as well as at flagship stores in New York and Los Angeles. The announcement continues the trend of crypto adoption by high end brands. It also suggests that the recent crypto price declines are not inhibiting the broadening of crypto usage and acceptance that remain an important, supportive development for digital assets and the crypto space broadly.

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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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