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ALT 5 – DIGITAL ASSETS MORNING CALL

Shifting economic narrative an important input for crypto markets

NEW YORK, NEW YORK, US, July 5, 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.

• Concerns about economic growth becoming more prominent…
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• .reflected in the dramatic decline in market interest rates

• The change in the economic outlook is important for crypto and has mixed implications

• More developments on consolidation in the crypto lending and brokerage space

Major crypto token prices have absorbed the latest round of industry-specific news and macro developments reasonably well, holding within the ranges established over the past two weeks. For bitcoin, that range extends from roughly $17,600 to $22,000, while in ether the range following the mid-June selloff is roughly $880 to $1,280. At present, the price action is not signaling an imminent breakout of those ranges in either direction.

The macro narrative increasingly focused on slower growth outlook

Last week we highlighted the shifting macro outlook as indicators of slower economic growth in the US and globally had increased the risk of a recession. But unlike the forecasts from many Wall Street firms that highlight the risk for a recession in 2023, recent data suggest the recession risk may be brought froward to this year.

Recall that US GDP was already negative in Q1, at -1.6% annualized. And for Q2, the Atlanta Federal Reserve Bank's "GDP Now" indicator puts growth at -2.1% annualized. That is down from +0.3% just a week ago and, if realized, would represent two consecutive quarters of negative economic growth, the technical definition of a recession. Importantly, market expectations will continue to evolve in the coming weeks/months, but these developments are nonetheless very important to monitor, particularly for gauging near-term market risks/movements.

Long-term and short-term US yields registered sizeable declines since mid-June

Alongside the shift in economic data and indicators, market pricing has also changed significantly. The US 10yr Treasury yield has dropped to 2.83% today, down 67 basis points from the 3.50% high reached just three weeks ago. In addition, markets have also taken out nearly 100 bp of expected Fed tightening over the next year; the implied yield on the June 2023 Fed Funds futures is now trading at a yield of 3.19% down from a peak of 4.16%, also reached three weeks ago. These are substantial moves by any measure.

Macro outlook remains important variable for crypto markets

For crypto investors, there are mixed but potentially important implications from these developments. First, slower growth and recession risks are a negative for financial investment returns, as reduced economic activity/consumption represents a drag on potential economic profits that companies can earn.

Crypto tokens won't be immune to further decline in risk assets…

Given that bitcoin, ether and other crypto tokens have registered a high correlation with risk assets such as the Nasdaq Composite Index over the past year-plus, they could be expected to fall in sympathy with further equity market declines, if in fact weaker economic growth drags equity prices down further. That risk exists despite the fact that crypto assets differ from traditional financial assets in that there are typically no future cash flows to discount (and therefore provide a basis for current valuation).

…but lower yields also improve the funding costs for an eventual rebound in the crypto space

On the other hand, lower market interest rates reduce the cost of funding and leverage in a manner that could ultimately encourage more investment in the crypto space. It may well be too early to think in those terms as the bearish price action in crypto tokens and the consolidation in the crypto space generally may not have fully run its course yet, and for now that could more than offset any improvement in funding costs.

However, the same price correction and industry consolidation has reduced (and by some measures enhanced) valuations considerably, an important step to an eventual rebound in the crypto space, and one that would be better enabled by lower interest rates.

Crypto industry consolidation

We noted above the consolidation in the crypto space and it is important to acknowledge the latest developments there.

Crypto lending firm Vauld said Monday it was suspending withdrawals/ trading and also looking for new investors. The latter call appears to have been at least partially answered with fellow crypto lending platform Nexo saying it would buy up to 100% of Vauld. Details and confirmation of that offer remain to seen.

Separately, crypto brokerage platform Voyager Digital LLC announced over the weekend that it suspended withdrawals, deposits, trading and loyalty rewards. The firm is among those that face losses stemming from the Three Arrows Capital failure; last week Voyager announced that it had issued a notice of default to 3AC after the hedge fund failed to make required payments on loans of 15,250 bitcoin and $350 mln worth of USDC.

And this follows news late last week that crypto exchange FTX has agreed to buy lending firm BlockFi for “up to” $240 mln. Recall that the week before, FTX extended a $250 mln line of credit to BlockFi. If FTX purchase goes through, it would represent a dramatic reduction in BlockFi’s valuation from a $4 bln peak following a summer 2021 funding round. But importantly, it allows BlockFi to continue client redemptions, and do so without any impact/reduction on client funds. If so, that is a positive development for the crypto space generally, while also showing the increasing clout/importance of FTX and its founder Sam Bankman-Fried.

All of these developments follow the failure of stablecoin TerraUSD and its associated token Luna in May, as well as the broader decline in crypto token prices this year. The cascading effects of lower token prices, the associated liquidation in decentralized finance protocols, and the damage to those entities/funds/firms with leveraged exposures to those developments, has been central to the heightened selling pressure in the crypto asset space in recent months.

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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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