

ALT 5 – DIGITAL ASSETS MORNING CALL

US dollar gains concur with bitcoin's struggles

NEW YORK, NEW YORK, US, July 6, 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.

- Ongoing shifts in the global macro outlook are generating significant moves in fiat currencies

- Weaker global growth and Eurozone-specific issues have worked to the US dollar's advantage

- It is probably no accident that US dollar gains have concurred with bitcoin's decline

While major crypto currencies are starting their third week of consolidation and relative stability, fiat currencies are making significant moves. The US dollar, as measured by the Dollar Index (DXY) has rallied to 20-year highs and is up 18% from its early-2021 lows.

Relative central bank policy outlook favors the US dollar

There are several factors that have combined to push the US dollar higher. The Federal Reserve has signaled a more aggressive path of interest rate hikes and policy tightening than most other global central banks (save for some emerging market countries). And while we highlighted the recent pullback in US yields and Fed tightening expectations in yesterday's update, the reality is that even with those declines, US interest rates across the yield curve are higher than in just about any other developed economy, a condition supporting the dollar.



A weaker global growth outlook generates defensive positioning by investors

Second, downside risks to global economic growth are on the rise. High inflation, tighter monetary policy, covid risks, and the war in Ukraine have combined to weaken future growth prospects. The US economy is not immune to those pressures, which we also discussed in yesterday's update. However, in an environment where global growth is weakening, investors tend to take on more defensive positions and often prefer the relative security and liquidity of the US dollar, supporting its value against other currencies.

The Eurozone finds itself in an especially difficult position

Third, much of the latest focus in fiat currencies has been on the EUR/USD exchange rate. This week it broke below support at the 2015-16 lows at the 105.00-104.00 area and, at current levels of 101.80, is trading at its lowest level since early-2003.

The Eurozone has encountered specific issues that are weighing on the euro. The war in Ukraine is taking a particular toll on the Eurozone. The cost of refugees from Ukraine will reduce the ability of fiscal policy to support economic growth. But more importantly, the flaws in energy policy have been laid bare, and the reduced flow of gas and oil from Russia—as well as the overall higher cost of energy and commodities—has put more intense downward pressure on economic growth.

ECB options are limited, and neither look too good for the euro

High inflation has seen the European Central Bank (ECB) pivot and signal that policy interest rates will begin to rise later this month. However, Italy's economy cannot withstand significantly higher rates due to its higher overall debt and the associated rise in the cost of refinancing that debt. Italy is the Eurozone's third largest economy and the ECB is caught between tightening policy enough to reduce excessively high inflation—and potentially imposing even more damage on Italy's economy—or limiting tightening to spare Italy, but then potentially allowing higher inflation to persist, which also weakens longer term growth prospects.

Against that backdrop, markets have understandably taken aim at the euro. While it has already fallen substantially, the current backdrop and outlook suggest it could fall further. Hence, look for a lot of fanfare in the financial press if and when EUR/USD breaks below 100.00, also referred to as parity.

Crypto investors need to monitor fiat currencies and the macro factors driving them

For crypto investors, these developments clearly bear monitoring. Crypto tokens such as bitcoin are sometimes viewed as a hedge against the US dollar and are thought to move inversely to it. However, with the US dollar strengthening, the hedge argument can work in reverse and reduce demand for bitcoin. That is hardly the only factor that has been pressuring bitcoin in recent

months, but it is probably no accident that the US dollar's new highs have occurred alongside the sizeable decline in bitcoin 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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