ALT 5 – DIGITAL ASSETS WEEKLY

Macro outlook and crypto-specific dynamics remain driving forces for token prices

NEW YORK, NEW YORK, US, July 8, 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.

• Markets are factoring in downside risks to economic growth

• Crypto industry may already be through much of its recession

• Longer term strategies may start to see value in lower crypto valuations

There are two broad driving forces in the crypto market at present; macro developments and crypto specific factors. And they are not mutually exclusive. As we discuss, the change in the macro backdrop and outlook has exposed shortcomings and excessive leverage in the digital asset space, resulting in the steep decline in token prices seen this year.

Slower growth versus higher inflation

The macro outlook continues to evolve and exert considerable influence over financial assets generally, including crypto token prices. The debate between the prospects for consistently high inflation or economic recession (or some combination of both) is hardly resolved and will not be for some time. However, markets continue to adjust to the perceived risks along that spectrum.

Economic recession concerns are more a concern at present

More recently, Inflation risks have been overwhelmed by concerns about weaker global economic growth, resulting in a substantial decline in global interest rates. In the US, that has encouraged a sharp drop in the 10-year Treasury yield; after hitting 3.50% in mid-June, it fell to 2.75% this past week before recovering back above 3.0% by Friday. With the US already printing a negative quarter of GDP in Q1 (-1.6%), a negative print in Q2 would put the economy in a technical recession. If so, that would put the economy well ahead of most economists' forecasts which generally see recession risks higher in 2023.

The crypto industry has already been in recession

The official Q2 GDP data are due at the end of July. But in reality, some parts of the economy already feel as though they are in recession. That is certainly the case in the crypto market as evidenced by the sizeable decline in crypto token prices, the work force reductions taking place across the industry, and the consolidation within the space, including bankruptcies and business/token failures.

The sharp contraction in the crypto space is partly a function of the high amounts of leverage that were being deployed in different parts of the crypto ecosystem. That includes trading in decentralized finance (defi) protocols as well as more traditional strategies used by institutional investors who were extended leverage by their prime brokers and other counter parties.

The end of free money and the unwinding of defi

Two common denominators that fueled the rally have now reversed. First and most fundamentally, the era of free money has ended. After keeping interest rates near—and sometimes below—zero percent since the start of the covid pandemic, the world's central banks have been reversing that policy, due to persistent and exceptionally high inflation. As funding costs for the leveraged positions in crypto assets—as well as in traditional financial assets—increased, the economics of the trades became unprofitable, and they were closed, lowering prices in the process.

Second, the outsized yields available on defi protocols were largely contingent on continued price gains in some (or several) underlying token(s). With token prices falling alongside higher funding rates, defi yields collapsed and subsequent investors withdrawals added to selling/downward pressure on token prices.

Lower crypto prices and cross-market indicators suggest a lot of bad news is priced in

Although we do not know where the ultimate bottom in token prices will be, we can say that the sizeable market adjustment to date suggests that a lot of the leverage has already come out of the system. We base that on the fact that short-term market interest rates—those most closely tied to investors funding rates—have already factored in a lot of central bank tightening.

For example, the April 2023 Fed Funds futures contract trades at an implied yield of 3.6%, roughly 200 basis points above the current Fed funds target of 1.50%-1.75%. While that may not represent the realized peak in Fed policy rates, it definitely factors in a lot more tightening. Ultimately it is the economy, and inflation in particular, that will determine the Fed's path.

US inflation data on the radar

Against that backdrop, the US June CPI report in the coming week will be a clear focal point. As it stands, markets expect CPI to rise to 8.8% in June from 8.6% in May, and for core inflation to hold steady at 6.0%. That should already be factored into market prices. For crypto token prices, the short-term risks would come from a substantially higher CPI print (a negative for crypto) or substantially lower CPI (a positive for crypto).

China growth outlook needs to be monitored as well

Beyond the US, next week also brings potentially important data from China including GDP, retail sales and industrial production. Although it has been out of the headlines more recently, the performance of the world's second largest economy remains a key consideration in the global economic outlook. The GDP report in particular will get attention as markets expect just 1.0% y/y growth following the already-soft 4.8% growth rate in Q1.

Taking a constructive view

If the digital asset space—and the economy more broadly—is already in a recession, then it may be that much of the pain in asset prices associated with that contraction has already been seen. That hardly clears the way for a quick reversal of the price declines of recent months, keeping in mind that markets tend to decline much faster than they rise.

But for those like ourselves who are optimistic on the long-term viability of blockchain technology, the tokenization of more areas of the economy and the growth of the digital asset space broadly, this year's revaluation in prices has started to provide more attractive entry points.

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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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