

ALT 5 – DIGITAL ASSETS MORNING CALL

Central bank tightening and yield curve inversion create headwinds for crypto

NEW YORK, NEW YORK, US, July 14, 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.

- Bitcoin and ether hold up despite latest inflation, yield and central bank developments

- A string of more aggressive central bank rate hikes could presage tighter Fed policy

- US yield curve inversion brings higher funding costs and recession risks, creating headwinds for crypto

Bitcoin and ether have thus far absorbed the higher US inflation data this week (CPI yesterday, PPI today) fairly well, at least compared to the decline in US equities and the spike higher in US short-term interest rates. This kind of resilience in the crypto token price action is encouraging while it lasts, especially following declines seen in the April-June period. That said, the turn in the macro backdrop this week looks to create more headwinds for financial asset prices, including crypto tokens.

Another round of higher US inflation data

US June PPI rose 11.3% y/y, up from 10.9% in May and higher than the 10.7% outcome expected. The upside surprise follows and reinforces the higher CPI data released Wednesday, underscoring that inflation remains more problematic and that the Federal Reserve and other



central banks will probably choose to monetary tighten policy more aggressively.

Global central banks speed up the pace of tightening

Importantly, it is not just the US that is seeing the need for more proactive central bank tightening. The Bank of Canada raised rates 100bp Wednesday, more than the 75bp hike expected; Chile hiked 75bp, more than the 50bp expected; and both the Philippines and Singapore tightened monetary policy in unscheduled actions.

Markets also now see some chance that the Federal Reserve could also raise rates by 100bp when it meets again at the end of this month. Note that just last week, the market debate was on whether the Fed may be able to raise rates less aggressively at its next meeting, say by “only” 50bp.

Short-term US yields surge

These developments highlight just how quickly market expectations can shift, a dynamic that will tend to reduce market conviction and leave investors trading more defensively. And in this case specifically, short-term US interest rates have spiked, with the 2yr Treasury yield rising to 3.24%, up 25bp in the past day and 50bp in the past week, adjusting to this latest shift in market speculation that the Fed policy rate will have to be raised higher than previously expected.

Higher funding costs reduces overall investment returns

There are several implications for crypto assets from these developments. First, higher short-term interest rates increase the cost to “fund” investment positions by institutional investors and ultimately reduces the returns on those investments. In isolation, this factor will cause investors to reduce/sell positions, putting downward pressure on financial assets, and crypto assets will not be immune to those pressures.

Yield curve inversion adds to recession risks

Second, the rise in short-term yields has pushed them well above longer term yields, causing an inversion of the yield curve. The 10yr-2yr Treasury yield curve has fallen to -24bp. Yield curve inversions are often (though not always) signals of a future recession.

Latest developments reinforce the months-long adjustment/pressure on crypto prices

Markets have already been more openly speculating on the risk of recession over the past month so while this is not a new revelation for markets to absorb, it will add to the speculation and concern. Weaker economic growth is associated with lower investment returns generally, including crypto. We continue to assess that some good portion of those sentiments have already been driving crypto prices lower in recent months (and traditional financial assets too).

But at the very least these latest developments will likely create additional near-term headwinds for crypto assets.

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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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