

ALT 5 – DIGITAL ASSETS MORNING CALL

Major crypto token prices slip after recent strong gains; mixed developments in Europe

NEW YORK, NEW YORK, US, July 21, 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 correct after a week-long stretch of solid gains
- Tesla's reduction in bitcoin holdings is a short-term hit to crypto sentiment



- Eurozone news is mixed and continues to have medium-term implications for digital assets

After a week-long stretch of solid gains that saw bitcoin rise nearly 30% and top \$24,000, and ether tack on over 60%, both tokens are lower today, registering relatively modest declines from what were their highest levels in over a month.

Tesla sells some bitcoin

There is obvious attention on Tesla's disclosure that it sold 75% of its bitcoin holdings during Q2, news that put something of a dampener on near-term sentiment in the crypto space. For the record, Tesla said it sold the bitcoin in order to raise cash given its concerns about covid-related shutdowns in China (a major manufacturing hub for the company). Elon Musk said the company is open to holding bitcoin in the future and the Q2 sale is not a "verdict" on bitcoin.

The US dollar value of Tesla's bitcoin holdings amounted to \$218 mln at the end of Q2, which translates into about BTC 11,475 based the June 30 late-day price of approximately \$19,000. That

is still a material amount of holdings, particularly for a corporate balance sheet (which are typically comprised of far less volatile holdings, like cash and cash-equivalents). Nonetheless, the revelation of the Q2 sale is understandably a less-than-positive piece of news for the crypto space.

Risk assets are also consolidating after a strong run

Separately but also relevant to the near-term price action, the slippage in crypto tokens also concurs with the (thus far) modest slippage in risk assets, as US equities are lower early the session after recording solid gains in five of the past six sessions. And it is important to recognize that the swings in broader market risk appetite continue to show a decent correlation with bitcoin and ether price action.

Bitcoin and ether slippage looks more corrective rather than a reversal

Thus far the price declines today look more corrective rather than the start of a more sustained reversal of the sizeable rallies in bitcoin and ether registered over the past week, especially considering the outsized gains noted previously. If so, the slightly-bigger-picture view remains that both tokens will eventually fill their respective “gaps” established during the mid-June selloff, which targets \$28,000 in bitcoin and \$1,700 in ether.

European natural gas pipeline reopened

Several important developments in Europe are worth monitoring for both traditional financial markets and crypto assets. First, the Nord Stream natural gas pipeline from Russia to Germany was turned back on today, on schedule, alleviating (for now) the risk of a larger energy shortage for Europe. As such, that particular downside risk to economic growth has been avoided. However, the broader backdrop remains stressed amid existing energy shortages, an excessive heatwave over parts of the continent, and continuing risks of disruptions and fallout from the war in Ukraine.

ECB hikes rates but remains in a delicate balancing act

Second, the European Central Bank (ECB) raised its key policy rate by 50 basis points bringing it to 0%. That is the central bank's first rate hike since 2011 and the first time the policy rate is out of negative territory since 2014. Not surprisingly, the ECB signaled that further rate hikes are likely in the coming months, as attempts to deal with an inflation problem in the same way that many other global central banks are facing.

Complicating the ECB's task is that overall economic growth is weak and decelerating, and tighter monetary policy could drive the economy into recession more quickly. That reality may limit the extent to which the ECB can ultimately tighten policy. And that perception may in turn limit the support that today's outsized rate hike will support the beleaguered euro, which recently hit 20-

year lows vs. the US dollar.

Growth and exchange rate developments matter for crypto

For crypto markets, there are several important takeaways from these developments. First, to the extent that euro weakness translates into US dollar strength, it could be a potential headwind to crypto token prices, given the bitcoin can at times be negatively correlated with the dollar (and that correlation has been evident this year).

Second, as a key contributor to global growth, the path of the Eurozone economy has implications for the overall global investment climate and returns. Better growth equates to better investment returns, and visa-versa. While that primarily has implications for traditional financial assets, the still-significant correlation between bitcoin and risk assets suggests crypto token prices will also be sensitive to these developments.

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ABOUT ALT 5 Sigma

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