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ALT 5 – DIGITAL ASSETS WEEKLY

Recent crypto gains viewed in short and medium-term perspectives

NEW YORK, NEW YORK, US, July 22, 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.

• Bitcoin and ether rally could extend in the short-term

• Eurozone stresses intensifying

• Fed meeting and GDP data keep focus on US in the coming week

• Recent bitcoin and crypto gains welcome, but do not signal the 'all clear' for crypto

Major crypto tokens have recovered ground in the past week-plus, an important development which comes despite continued—and in some cases increasing—stresses in the global macro backdrop. We see opportunity for bitcoin and ether to build on recent gains in the short -term, but market dynamics and the macro outlook could well present more formidable headwinds to bitcoin and ether at higher levels.

Bullish short-term price action in bitcoin and ether

The price action in crypto remains an important feature in the market, with both bitcoin and ether posting sizeable gains off their June lows. As of July 22, bitcoin has rallied 38% from its $17,567 low on June 18, while ether has more than doubled that performance, up 86% from its $880 low over the same timespan (using TradingView.com data). For more detail on ether's recent outperformance and the ETH/BTC cross, see Digital Assets Morning Call from July 19, 2022 (https://alt5sigma.com/digital-assets-morning-call-july-19-2022/).

The gains mark the largest upward correction in the two tokens since the March/April bounce and, for now at least, have interrupted the bearish price action that has been prevalent for most of this year. On a technical and momentum basis, we see scope for the current rally in bitcoin to reach $28,000, and for ether to reach $1,700. Those short-term targets/levels represent the respective tops of the price "gap" each token formed in their accelerated selloffs of June 12-13.

Selling interest at higher levels is to be expected

Our constructive view in the near-term becomes more guarded further out, and for several reasons. First, the selloff in bitcoin and ether been so fast and abrupt, it is likely that there will be some pent-up selling interest from those who purchased at higher levels but missed the opportunity to sell in the recent price decline.

For example, bitcoin and ether averaged $47,380 and $2,780 respectively in 2021, a simplified measure that could represent a rough approximation of purchase prices for the tokens by some investors during a year that drew a substantial number of new participants into the space. The steep decline below those levels will incentivize some investors to cut their losses. Those market dynamics represent one source of potential selling interest when the token rise to higher levels.

Macro news flow and developments remain downbeat

On the macro side, recent economic data and developments continue to suggest downside risks to future economic growth. This past week, the European Central Bank (ECB) raised rates 50 basis points, more than expected and bringing its key policy rate back to 0%. While that still leaves policy very accommodative, the move suggests a faster pace towards a restrictive stance of policy that will weaken demand, slow economic growth and eventually help to reduce inflation. But in the meantime, high inflation will continue to be a considerable drag on real economic growth.

Recession risks grow in the Eurozone

Moreover, the ECB is tightening policy into an already-slowing economy. On Friday the Eurozone Purchasing Managers Composite Index (PMI) for July fell to 49.4, below the 50% boom/bust threshold and signaling weaker growth ahead. And while there was some relief at the partial reopening of the Nord Stream natural gas pipeline from Russia to Germany this past week, the reality is that energy shortages persist. Energy rationing is already curbing some economic activity and could be more problematic in the coming months as cold weather approaches and the war in Ukraine persists.

US data continues to weaken

The initial read on the US Composite PMI for July was also weaker than expected, dropping to 47.5 from 52.3. And like the Eurozone data, this too signals the risk for weaker economic growth ahead. The downside risks to growth have not been lost on financial markets, with the yield on the US 10yr Treasury note falling a sizeable 30 basis points late in the week to below 2.80%. Moreover, the US 10yr-2yr yield curve is "inverted" at -20 bp, a move that traditionally signals a recession in the future.

Fed meeting a key focus

These conditions and risks are not new, but they continue to present challenges to financial markets and to policy makers. They will be top of mind at next week's Federal Reserve policy meeting. After another upside surprise to inflation in the latest data, markets are split on whether the Fed will raise rates 75 basis points or 100 basis points. Either size would be large by historical standards and there is no debate that the Fed is looking to tighten policy quickly in order to weaken demand and reduce what has become an even more problematic rise in inflation.

Economic pain is part of the solution…

Importantly, the Fed has thus far aligned itself with the view that the economic pain associated with more aggressive policy tightening is worth the price to bring down inflation, and this tradeoff will be a key topic in the Fed's meeting and its communications with the market.

…and the Q2 GDP data will give an important read on the extent of the pain

That also translates into clear focus on the first full read of US Q2 GDP, due Thursday. There is a wide range of estimates, from the Atlanta Fed's latest GDPnow indicator at -1.6%, to the Bloomberg survey of economists estimates with a consensus at 0.8% (annualized growth rate). Note that there will also likely be a revision to the Q1 number, which was last reported at -1.6%, and remembering that two consecutive quarters of negative GDP is by some measures the definition of a technical recession. To the extent the new data either confirms or pushes back against the notion that the US economy is decelerating quickly, it will be an important input for financial market participants.

The global economy is weakening, and markets have reacted

These developments, on top of risks from covid which continues to mutate and holds the potential for more disruption to economic activity going forward, paint a difficult picture for the global economy.

We continue to assess that these are not revelations and instead are partly, and in some cases largely, reflected in the price declines in many financial assets, including equities, fixed income and major crypto tokens. That said, the most recent weakening in economic data and the expectation that there is still a good amount of central bank policy tightening to come, suggests the challenging macro backdrop for financial assets, including crypto tokens, is not ending any time soon.

Recent gains don't necessarily signal the all clear for crypto token prices

There is a difference between market prices reflecting a good deal of bad macro and geopolitical news (as noted), and markets being capable of rallying strongly and sustainably in the face of ongoing reminders of macro stresses. And that latter point keeps us more guarded about the potential for a more thorough reversal of this year's selloff at this stage.

Put another way, we'll take the recent bounce in bitcoin and ether and view it as constructive and warranted, particularly in light of the improved valuations reached following the selloff. But the market and macro backdrop suggest it will be a bumpy road in the coming months, leading to more fits and starts in crypto price action, rather than straight shot higher.

Robert Lynch
Head of Research and Strategy
ALT 5 Sigma Inc.
bob@alt5sigma.com
alt5sigma.com

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.

ALT 5 Sigma Inc.
ALT 5
+1 888-778-7091
email us here
Visit us on social media:
Facebook
Twitter
LinkedIn
