

ALT 5 – DIGITAL ASSETS MORNING CALL

Focus on Fed, inflation and growth

NEW YORK, NEW YORK, US, July 27,
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.

- Major crypto token prices tick higher on the session but remain in recent ranges
- Crypto reaction to today's Fed meeting likely to be seen through the risk asset channel



- The broader macro backdrop remains stressed, but that is not a revelation for markets

Bitcoin and ether range trading

Major crypto token prices are marginally higher early in the US session but remain within the broader ranges established since the mid-June lows. At levels near \$21,000, bitcoin has pulled back from the ~\$24,000 peak reached last week, with the slippage roughly in line with the contraction in risk appetite—evident in the Nasdaq Composite decline—over the same period. Accordingly, gains in the Nasdaq futures ahead of the cash market open today concur with bitcoin's modest firming on the session.

Ether has moved up from Tuesday's \$1,350 lows, similar to the bounce in bitcoin and risk assets, but is also well down from its most recent high of \$1,660 reached in Asian trading hours on Monday. Also notable is the ether/bitcoin cross (ETH/BTC) which at 0.0685 is trading just above its 200-day moving average and below the December downtrend which today comes in at 0.071 (all price and chart data sourced from TradingView.com).

Fed meeting in focus

The focus remains very much on US developments, where the Federal Reserve is expected to raise rates by 75bp later today (14:00 ET), bringing the new target range for the Federal funds rate to 2.25%-2.50%. The Fed is also likely to indicate that further rate hikes will be forthcoming (the next FOMC meeting is on September 20-21) but acknowledge that the exact scope and path of future tightening will depend on upcoming data (rather than pre-commit).

Since the last Fed meeting, inflation is higher...

Several important developments have occurred since the last Fed meeting in mid-June. Most importantly, inflation has moved higher, not flattened or begun to move lower, as some Fed officials thought (or hoped) would be the case. As a result, the Fed will feel the need to reiterate its hawkish stance in order to convince financial markets and the public that it will be able to eventually bring inflation back down.

...and growth is weaker

Second, the economy has weakened since June and so too has the outlook for future growth. That stems partly from the Fed tightening (that part of slower growth is by design) but it is also a function of high inflation (reducing the purchasing power of businesses and consumers and dampening "real" consumption), as well as weakening economic conditions abroad. Slowing growth in the Eurozone (higher energy costs and the war in Ukraine) and the ongoing risks around covid-related shutdowns in China (new cases in Wuhan, the epicenter of the virus, have picked up again) will have negative ripple effects on the US and global economies.

So the Fed will also need to acknowledge some of those downside risks and the limitations that their policies have in being able to achieve a "soft landing" for the economy, i.e., a slowdown in growth without a recession. Confidence in that outcome is diminishing as recession expectations among market participants and private economists continue to grow.

Thursday's US GDP data is the next shoe to drop

Note too that the first read on US Q2 GDP is due tomorrow/Thursday, where estimates range from -1.6% to 0.4%. A negative reading will no longer be a shock, but will get attention in financial markets and the media as it would fit the technical definition of a recession (two consecutive quarters of negative GDP).

Near-term crypto movements likely come via the risk channel

For crypto token prices, it is useful to attempt to separate the short-term reaction to these events from the longer term implications of the macro outlook. In the near-term, we expect

bitcoin and ether direction to be mostly impacted by the risk channel, that is the extent to which risk assets (like the Nasdaq Composite Index) react to these events. In general, a dovish interpretation of the Fed outcome is likely to be positive for risk assets and, by extension, for major token prices. Alternatively, a hawkish interpretation of the Fed is likely to be bearish for risk assets and crypto token prices.

Medium-term views continue to focus on the broader macro backdrop

In the slightly bigger picture, stresses evident macro backdrop are hardly a revelation and instead are conditions that financial markets have been pricing in for some time. That is evident in the lower prices of equities (risk assets) as well as the more recent decline in longer term bond yields (10yr Treasury note yield down to 2.8% from a 3.5% peak in June), reacting in part to the risk of slower economic growth.

That is not to rule out the risk that things cannot turn considerably worse. But we continue to assess that much of the bad news about US inflation and growth (and to a lesser extent global growth) have been factored into financial market prices, including crypto tokens. If that turns out to be the case, bitcoin and ether should find better buying interest at lower levels, and the June lows for both tokens represent potentially key support.

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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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