ALT 5 – DIGITAL ASSETS WEEKLY

Ether outperforms on merge progress; Fed dovishness is important and supportive, but does not eliminate medium-term risks

NEW YORK, NEW YORK, US, July 29, 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.

- Progress on the Ethereum Network merge has seen ether outperform

- The near-term price action in both bitcoin and ether remains positive

- The dovish assessment of the Fed meeting supports risk assets and crypto, but there should be limits to the price gains

It has been a consequential period in the crypto world, with important developments within the industry, to token prices and to the macro backdrop. The upshot and most obvious barometer of these factors are the gains in bitcoin and ether, both of which have continued to build on the rallies established after hitting cycle lows in mid-June.

Ethereum network makes substantial progress towards the merge

Within the crypto industry, there has been significant progress in the Ethereum network's move from proof-of-work (POW) to proof-of-stake POS). That event is referred to as the "merge" as it combines Ethereum's existing proof-of-work blockchain with its Beacon Chain, a proof-of-stake blockchain that has been running in parallel since December 2020.

In the runup to that event, the Ethereum network has in the past month-plus passed two critical testnets (essentially dry runs for the final merge), events that have contributed to ether's strong performance over that time. A third and final testnet is slated for the second week of August. A successful completion of that would allow for the actual "merge" to occur in mid-to-late September, although the timeline is not final.

The merge is likely to enhance ether's appeal to institutional investors

Ether's move to POS has been a much anticipated (and delayed) event. The dramatic reduction in mining energy consumption associated with POS will make the token more ESG compliant, while a more consistent yield is likely to be established from staking ether in the mining process. Both of these developments could enhance the appeal of the token to institutional investors, drawing in additional investment capital and supporting the price over time.

Ether gains close the June "gap"

Gains in ether have been pretty stunning, with the token having essentially doubled off the $880 cycle low printed in June. Bitcoin's 35% gain over that same period, while impressive in its own right, pales by comparison.

We have been targeting $1,700 in ether and that was achieved late this week. The level is designated by the top of the price "gap" established in the abrupt June 11-13 selloff (roughly $1,700 to $1,300). $1,700 also coincides with the May 2022 lows as well as the 100-day moving average, the combination of which suggests potential for some near-term consolidation. That said, a sustained break above $1,700 would open scope to at least the psychological $2,000 threshold.

ETH/BTC closing the week at key resistance

The ether/bitcoin (ETH/BTC) cross has also rallied strongly on the back of ether outperformance. At 0.0717 as of this writing, it is trading just above the December 2021 downtrend (0.0708) and well above the 200-day moving average at 0.0673). It is looking a bit stretched after having rallied 45% off its June lows but holding above those potentially important technical levels could keep the bullish momentum intact for a while longer.

Bitcoin lags ether, but continues to grind higher from the June lows

As for bitcoin, its price action remains constructive and positive, even as it lags ether. At levels near $23,800 as of this writing, bitcoin has risen 35% off the June lows and continues to grind higher. We continue to see the $28,000 area as a legitimate target in the current move, defined by the top of its June 11-13 gap lower (roughly $28,000 to $22,000), with potential interim resistance just ahead of that at $27,250, defined by the 100-day moving average. (All price and chart data sourced from TradingView.com.)

The Fed boosted risk appetite

Financial markets have viewed the outcome of this week's FOMC meeting pretty constructively, at least as evidenced by the positive reaction in risk assets such as the Nasdaq Composite Index (recognizing that positive earnings from Microsoft and Apple also helped market sentiment).

In short, Fed Chairman Powell suggested the central bank could slow the pace of future rate hikes relative to the 225 basis points of tightening in the past four months and the 150 basis points just since mid-June. He suggested that the latest FOMC guidance of a year-end Federal funds rate in the 3.0% to 3.5% range was still plausible, an outcome which is not that far above the current policy target of 2.25%-2.50%.

The question now is whether upcoming data will allow the Fed to be less hawkish

The objective is to see if the tightening to date will help to slow demand and ultimately reduce inflation. It is clear that overall growth has slowed, evident in the two consecutive prints of negative GDP, which leave the economy in a technical recession. On the other hand, inflation has not slowed broadly and by some measures (CPI in particular) continues to accelerate.

We acknowledge and accept the Fed's more dovish language and guidance, as less tightening is a clear positive for financial assets, including crypto token prices. But it is also important to be cognizant of the risk for more aggressive Fed tightening if inflation does not begin to recede.

It's not too soon to start thinking about the US elections…and Fed policy

Note too that politics could start to play into the mix as well, as market participants may expect the Fed to tighten less near the US mid-term elections in November. That relates to the notion that the economic drag of tighter Fed policy could negatively impact incumbent elected officials. Fed officials will always and everywhere deny any such motivation, but some degree of Fed policy and politics will almost surely make its way into the market narrative in the coming months.

Crypto benefits from improved risk appetite and lower bond yields

For now, the Fed-induced improvement in market sentiment is welcome. It is supporting risk assets while the weaker economic growth readings are suppressing longer term US yields. Both of these developments tend to be positive for crypto token prices. It supports our view that bitcoin and ether prices can continue to hold up well in the near-term.

Medium-term considerations should eventually temper the current crypto rally

The medium-term view, while more sobering, is nonetheless important to consider. To the extent that the latest Fed guidance is supporting risk appetite, this will be more fully reflected in prices sooner rather than later. In other words, there should be limits on the extent to which this can drive market prices higher.

Moreover, the Fed has changed is guidance considerably, and on several occasions, in the past year. That could clearly happen again, and it will be important to monitor data on inflation and employment, as well as ongoing risks stemming from the pandemic, weakening global growth and geopolitical risks to assess the likely path of Fed policy.

We continue to see the June lows in bitcoin and ether as factoring in a lot of bad news

None of this alters our view that the dramatic declines in bitcoin and ether this year reflect the bulk of those risks. On the contrary we think both tokens have factored in a lot of bad news on both the macro and crypto industry fronts, and see a reasonable chance that the lows reached in June could well be the cycle lows.

We highlight the medium-term risks primarily to stress that there will continue to be periods of volatile trading and price retracements ahead. Essentially, it will be difficult for bitcoin, and especially ether, to extend their gains in the coming months at the pace they have registered in the past six weeks. That view guides us to be better buyers on pullbacks in token prices, rather than chasing prices higher.

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

ABOUT ALT 5 Sigma

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ALT 5 Sigma Inc.
ALT 5
+1 888-778-7091
email us here
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Facebook
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