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ALT 5 – DIGITAL ASSETS MORNING CALL

US CPI data and the potential implications for crypto token prices

NEW YORK, NEW YORK, US, August 9, 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 prices slip from Monday's highs but the broader trading pattern remains constructive

• US CPI data Wednesday is an obvious focus, with a decline expected in the headline number

• Part of the fallout that inflation data will have on crypto token prices stems from the impact on Fed policy expectations and the associated passthrough onto risk appetite

The strong start to the week exhibited by bitcoin and ether yesterday has faded, with both tokens coming off their Monday peaks. Today's slippage is not the apparent result of any specific news or development, nor is it especially large. In fact, the lack of new drivers is likely one reason for the muted price action.

Importantly, the broadly firmer bias for both tokens remains intact, as does the trend of higher lows and higher highs (since mid-June in bitcoin and since mid-July in ether). That keeps us constructive on the near-term outlook for both tokens.

Lower gasoline and energy prices suggest a decline in headline inflation…

Given the focus on Wednesday's US CPI data, we thought it would be useful to take a closer look at the data and the potential impact on crypto assets. Economists anticipate a decline from the cycle/40-year high of 9.1% y/y recorded in June, with a median estimate of 8.8%. Much of that is due to lower energy prices, given that gasoline prices fell roughly 14% in July (according to data from Gasbuddy.com). That means the monthly change is likely to be quite small (perhaps even negative?), and that the year-on-year number should be notably below the June reading.

…the "core" reading needs to be monitored for future price trends

That is why it is also important to also monitor the "core" CPI reading, which strips out energy and food prices. That not only gives a better idea of underlying trends in inflation, but also remains one of the best indicators of future headline inflation. On that front, economists look for a reading of 6.1% y/y, up from 5.9% in June.

Initial impact on crypto tokens will likely be felt through the risk channel

For crypto assets, the importance of the inflation data can be felt in several ways. Initially, the focus will be on the extent to which the data deviates from expectations. A lower number could argue for less Fed tightening, which should be good for risk assets, including crypto token prices. Conversely, a higher number would support existing concerns that high inflation will require a more aggressive path of Fed tightening. And markets have in fact been leaning more in that direction since the stronger US labor market data last Friday and some hawkish comments from Fed officials in recent days.

Medium-term risks reside more in the market outlook for Fed policy

Looking beyond one CPI reading, the issue should come back to the medium-term outlook for prices. In other words, has the market priced in enough Fed tightening to temper inflation on a sustained basis, or will additional rate hikes beyond current market pricing be needed. That answer (or debate) may take more time to develop, but the "core" CPI reading will be useful in that regard, given its guide as a predictor of future headline inflation.

Will another 125 basis points of Fed tightening be enough to tame inflation?

Market pricing currently has Fed funds peaking at approximately 3.65% (by April 2023) versus the current Fed funds rate target of 2.25%-2.50%. It seems a stretch to think that another 125 basis points of tightening will be sufficient to bring inflation more reasonably towards the Fed's 2% target, although we are not in a position to forecast future inflation. Importantly, however, we also suspect that the broader market will be skeptical of a quick decline of inflation and, by extension, a limited need for additional Fed tightening.

More volatility in the outlook for inflation, policy and crypto seems likely in the coming months

Against that backdrop, the prospect for ongoing shifts in the outlook for Fed policy—and the associated impact on markets—will likely remain a feature in the market. That implies occasional bouts of volatility if and when Fed tightening expectations increase, which will tend to weigh on risk assets, including crypto. And the reverse is true as well, as periods of optimism that inflation will recede will be met by lower short-term yields which should be positive for risk assets and crypto token prices (other things being equal).

There will be much more to say on this topic, including the balance between the ongoing market narrative and debate between inflation and recession. For now, however, we thought it would be useful to put some of the inflation discussion in perspective, in advance of what appears to be the scheduled data highlight of the week.

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.

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ALT 5 Sigma Inc.
ALT 5

+1 888-778-7091
email us here
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