ALT 5 – DIGITAL ASSETS WEEKLY

A strong week for crypto token prices

NEW YORK, NEW YORK, US, August 12, 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.

• Lower US inflation prints aided risk appetite and crypto prices, but caution is warranted with more Fed tightening to come

• Further progress on Ethereum's move to proof-of-stake now targets mid-September for the merge, accounting for ether's outperformance

• Institutional and commercial adoption of digital assets continues

A week of solid gains in major crypto tokens has come alongside an improvement in the inflation backdrop and, for ether in particular, more progress by Ethereum developers toward its planned move to proof-of-stake from proof-of-work, now slated for mid-September.

A string of mostly better news on inflation

The deceleration in US July CPI to 8.5% y/y from 9.1% in June was well received by financial markets broadly, including crypto markets. It was followed by a decline in July PPI to 9.8% y/y from 11.3% in June. Those were topped off on Friday by the University of Michigan's monthly survey on inflation expectations. That report showed that in August, the 1yr measure of inflation expectations fell to 5.0% from 5.2%, although the 5–10-year measure actually rose to 3.0% from 2.9% in July.

There are several takeaways from these data points that are relevant to crypto markets. Most importantly, they represent some of the first good news (or maybe less bad news) on inflation that markets have been dealt for quite some time. That has boosted risk appetite, supporting strong gains in the Nasdaq Composite Index as well as crypto token prices.

Market speculation about less Fed tightening may be jumping the gun

While the news is welcome, we also think it is prudent to offer some balance and perspective. First, although the lower inflation prints are clearly positive, it is not yet clear they represent the start of a trend of lower inflation rates. Moreover, the actual rate of both headline and core inflation (which strips out food and energy costs) remain much higher than the Federal Reserve's 2% target.

Those factors suggest it may be too soon to expect the Federal Reserve to slow the pace of future rate hikes more than what is already factored into market prices. Those sentiments were essentially echoed by a string of Fed officials who spoke about the inflation outlook in recent days.

Short-term US yields retraced much of the post-CPI decline

As it happens, interest rate markets also reversed course by the end of the week, pricing back in some of the Fed tightening they had factored out after Wednesday's CPI report. US 2yr Treasury yields initially fell 24 basis points just after the CPI data—about the same size as a one-quarter percentage point Fed rate move—falling from 3.32% to 3.08%. But by Friday, that yield had rebounded 3.25%, just seven basis points below its pre-CPI level.

Although we do not want to spend too much time on basis points and interest rate moves, the reality is a considerable portion of the market's risk appetite stems from the swings in Fed policy expectations. Less Fed tightening tends to be good for risk—and positive for crypto token prices—and visa-versa.

Hence, we are more cautious now that short-term US yields are closer to where they were pre-CPI. And with crypto token prices trading higher since the CPI data (3.5% in bitcoin and 11% in ether), there could be risk for some retracement, particularly in short-term yields continue to move higher in the coming week.

Progress on the Ethereum merge is big news, and very positive for ether

Macro aside, crypto-specific news is also playing a major role in the latest gains in ether, which as noted above is measurably outperforming bitcoin. This week, Ethereum developers successfully conducted the third and final test environment network (aka testnet) ahead of its planned "merge."

The much-anticipated merge is where Ethereum's existing proof-of-work (POW) blockchain will merge with its Beacon Chain, a proof-of-stake (POS) blockchain that has been running in parallel since December 2020, and a process that will fully convert Ethereum to a POS blockchain. Developers also announced the actual merge is likely to occur around September 15.

The ether token price has gained sharply on the back of these developments, and as noted has measurably outperformed bitcoin both this week and since the cycle lows for both tokens was reached in June.

Ether market capitalization gains at the expense of bitcoin

That has also translated into some interesting developments in crypto market capitalization. Ether's total market cap has moved up to 20% (of all circulating crypto tokens) from 13.7% on June 18 (roughly the peak of the crypto lending deleveraging) while bitcoin's market cap has fallen to 40% from 47% in mid-June. That narrowing market cap between bitcoin and ether has occurred at the same time that total crypto market cap has risen. From a low of $817 mln in mid-June, total crypto market cap has now reached $1.14 trln as crypto prices recovered during the summer (all market capitalization data sourced from Coinmarketcap.com).

On the charts

From a technical perspective, ether continues to demonstrate upward momentum, evident in the series of higher highs and higher lows established in the past month. It is threatening the $2,000 psychological threshold (the high this week was $1,946) while more formal resistance looks to be at $2,260-2,280, defined by the 200-day moving average and the downtrend drawn off the December 1, 2021 high.

Bitcoin threatened but did not yet break above resistance at $25,057, established by the 100-day moving average. It also has formed a pattern of higher highs and higher lows (in its case since mid-June), although it had stabilized near $24,000 in late week trading.

Ether's gains have also sent the ether/bitcoin cross sharply higher. It rose 8% just this week, rising to 0.0788 by Friday. Although appearing somewhat overextended in the very short-term, it looks to be targeting the December 2021 highs at 0.0886. (All price and chart data sourced from TradingView.com).

Crypto adoption on several fronts

We noted recently that Blackrock joined up with Coinbase to allow the former's institutional clients access digital assets. That was followed Thursday by Blackrock's announcement that it will launch a new spot bitcoin investment trust, another reflection of strong institutional demand for crypto exposure. Both developments are especially pertinent and positive for the crypto industry, given Blackrock's position as the world's largest asset manager.

Luxury goods makers stick with crypto payments

Separately, luxury watch makers Tag Heuer and Hublot will continue to accept crypto as payments, according to an article in the New York Times. The question about crypto payments stems from the notion that this year's price volatility/decline could dissuade luxury retailers from accepting—and crypto holders from using—crypto as a form of payment.

It is reasonable to expect retail crypto usage to be impacted by the decline in crypto token prices this year, given their diminished purchasing power. But it is also apparent that as crypto adoption, investment and holding continue to broaden, it's use in payments is only likely to increase over time. Indeed, as the Tag Heuer CEO points out in the article, the firm will "continue to invest in crypto, in NFT's and in blockchain because we believe the technology is here to stay."

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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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