Interest Rates Versus Crypto Value

By: www.ProfitableInvestingTips.com

At the recent Jackson Hole symposium hosted by the Federal Reserve Bank of St. Louis Chairman Powell emphasized that the Fed would do what it takes in terms of higher interest rates to bring inflation under control. He was joined by a virtual parade of regional bank presidents in making this point. Well before Powell was finished talking the stock market and crypto market both began to fall. Bitcoin fell below the important $20,000 barrier. Considering that rates are likely to keep going up, is there a predictable relationship of interest rates versus crypto value?

Rising Interest Rates Mean Lower Stock and Crypto Values

As soon as it became clear that the US Federal Reserve intended to raise interest rates significantly every month, *Bankrate.com* wrote that progressively higher rates would mean progressively lower stock prices and a **falling crypto market** as well. Historically, stocks go down when interest rates go up. This is because higher interest rates put pressure on company profits and are a direct threat to businesses with high amounts of debt. Higher rates eventually cause a slowing of the economy which causes consumers to make less and spend less. The Dow Jones Industrial Average, S&P 500, and Nasdaq down significantly this year largely because investors expect a recession. Without looking too closely at how crypto interest rates are related, Bitcoin has tracked closely with the Nasdaq this year. So, if the Nasdaq responds to rate increases with fears of inflation and falls in value, so does Bitcoin.

Mechanism of Crypto to Interest Rate Relationship

To the extent that crypto traders simply follow technical cues a falling crypto market begets a falling crypto market. However, the world of crypto is not immune to the movement of the larger economy. This is at odds with some of the hype that we have heard for years about crypto being a haven of value as the dollar weakens or being a safe refuge in times of social unrest and war. When the crypto market falls, **crypto businesses suffer**. Crypto miners borrow at progressively higher interest rates while the value of their product falls. There is no one-to-one relationship here but rather a picking off of the low hanging fruit. In this case the low hanging fruit includes crypto businesses with high debt, those who had no diversification of assets outside of the crypto realm, and those whose mantra was simply crypto (and especially Bitcoin) always goes up and never goes down!

Non-Inflation Factors Driving Cryptocurrencies

The Fed is raising interest rates because of the highest rate of inflation in forty years. Too much money chasing too few workers and too few products are the typical cause of inflation. This year the Chinese are locking down whole cities in a zero-tolerance Covid policy which is gumming up the supply chain. Putin is pursuing war in Ukraine, the world conflict in Europe since the end of World War II. Sanctions on Russia and a virtual shutoff of natural gas and oil exports from Russia to Europe have driven prices sky high and threaten a recession far worse than the Fed might cause in the USA. The problem with the crypto market is that there may be a cliff off of which many tokens will fall as the price of mining exceeds the value of the token and progressively more businesses reach a point of no return to profitability as their crypto reserves shrink in value and their debts go up. We wrote a while back that **Bitcoin could hit $600**. That dismal prospect could become reality.

For more insights and useful information about investments and investing, visit www.ProfitableInvestingTips.com.

Disclaimer: Trading and investing involves significant financial risk and is not suitable for everyone. No content on this document should be considered as financial, trading, or investing advice. All information is intended for educational purposes only.