Where Will Fed Rate Increases Take Crypto Prices?

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Just a year ago the belief in the crypto community was that Bitcoin and the rest were immune to the sorts of factors that drive stocks, bonds, commodities, or real estate. Since last year crypto has crashed along with the stock market and has tracked with the Nasdaq in its decline. A factor that has been driving stocks down is the Federal Reserve raising interest rates in response to the highest inflation in four decades. Despite repeated interest rate hikes, core inflation is stubbornly high. Thus, the Fed is expected to keep driving rates up. Where will Fed rate increases take crypto prices?

Crypto Response to Higher and Higher Interest Rates

After several months of progressive interest rate increases by the US Federal Reserve it surprised pretty much everyone when the CPI index that came out in October jumped up instead of down for core inflation. According to *Bloomberg* this has markets bracing for a **jumbo rate hike**. The report of a higher inflation rate dashed hopes of a tapering off of interest rate increases and increased concerns that the Fed will be forced to drive the US economy into a recession in order to accomplish its goal of bringing core inflation down from its current 8% rate to 2%. Core inflation is the price of everything except food and energy as these two tend to be more volatile than other prices. Bonds went up and both stocks and crypto prices went down on the news. The point for those in the crypto markets is that there is a lot of pain in the near future for crypto as well as other markets.

Crypto Fluctuations as Interest Rate Increases Play Out

Crypto enthusiasts who adhere the HODL or hold on for dear life approach may well expect Bitcoin and the rest to make a dramatic comeback at some point. However, we are now seeing **long term bitcoin holders selling**. *Time* looks at how Fed rate increases **affect crypto prices** and will continue to do so as the current macro-economic situation plays out on its way to a US and global recession. The collapse of prices in the stock markets of the world has played out in crypto as well with Bitcoin and others losing more than two-thirds of their value compared to November of 2021. They noted that while stock and crypto markets have fallen significantly, they are also somewhat "choppy" as trader sentiment waxes and wanes.

No one really knows if the current "crypto winter" will turn into a crypto ice age or warm up, recover, and lead to another typical crypto surge. At this point the smart money is not on another crypto surge any time soon. What everyone trading stocks and crypto seem to be waiting for are signs that the Fed will begin to reduce how fast they are raising rates and eventually lower them again. At the current time this seems to us to be wishful thinking.

Why Inflation Will Be Difficult to Cure

The typical reason why prices go up is that there is too much money in the economic system. In today's case it has to do with massive stimulus measures enacted by two successive presidents, successive Congresses, and the US Federal Reserve. While the world was in Covid lockdown money kept pouring into the system at a time when the **supply chain was shut down**. Actions of the Federal reserve in cutting back on bond purchases and raising interest rates serve to reduce money supply. They do nothing to remedy factors that are still reducing supply such as **commodity issues** due to the war in Ukraine, China's zero covid tolerance lockdowns, or a shortage of computer chips coupled with a **US ban on chip technology** to China. The point is that in order for the Fed to successfully lower interest rates it needs to slow the economy and most likely drive it into a prolonged recession. Now is not the time for **wishful thinking** in trading crypto. There is more pain to come and, in all likelihood, substantially higher interest rates will drag crypto further down into the ice and snow of the crypto winter.

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