



Why Ethereum Crashed Last Week

Description

Ethereum ([CRYPTO:ETH](#)) crashed last week, falling 6.9% in the five-day period ending Saturday afternoon. The move correlated with broader volatility in the crypto market. Most cryptocurrencies fell last week, as investors braced for continued Federal Reserve interest rate hikes.

However, ETH fell more than certain other cryptocurrencies did. In the same period, **Bitcoin** ([CRYPTO:BTC](#)) shed a more modest 5.4%, suggesting that Ethereum fell out of favour among cryptocurrency investors. In this article, I will explore some potential reasons why ETH fell so hard last week when compared to Bitcoin.

Broader crypto volatility

The main reason why ETH fell last week was broad volatility in the cryptocurrency market. Cryptocurrencies are high-risk assets that tend to fall when interest rates rise. This fact can be demonstrated by history. In 2018, the Federal Reserve raised interest rates four times, and the cryptocurrency market tanked. Bitcoin fell 80% from top to bottom, and Ethereum fell as well.

Some cryptocurrencies suffered losses that year that they have yet to recover from. This year, the Federal Reserve is raising interest rates yet again, and the higher yields on treasury bills are making risky assets less appealing.

That may explain why crypto as a whole crashed last week. However, it does not explain why ETH underperformed relative to Bitcoin. All cryptocurrencies are in the same boat as far as becoming less attractive with higher interest rates is concerned. So, we need a little more data to explain why ETH is losing ground to Bitcoin.

NFTs out of fashion: Selling for next to nothing

A big factor that boosted Ethereum's price in 2021 was NFTs. In 2021's market rally, NFTs became enormously popular, as investors sought out speculative assets to sink cheap money into. That year,

Jack Dorsey made an NFT based on his first tweet, and it sold for \$2.9 million. It later listed for \$48 million. It was an absolute frenzy in the NFT market that year, and Ethereum, as the crypto used to buy NFTs, benefited from the whirlwind. In 2021, ETH outperformed Bitcoin, and NFTs were likely part of the equation.

That was then; this is now. In 2022, NFTs are going out of fashion at a frantic pace. Search engine [queries for NFTs are declining](#), and Dorsey's legendary tweet NFT was [listed for just \\$280](#). It appears that nobody cares about NFTs anymore, and that could be resulting in fewer people buying Ethereum. Just as demand for NFTs drives demand for Ether, a lack of such demand causes demand for Ethereum to dry up. So, the NFT bubble bursting could be a huge part of why Ethereum is underperforming Bitcoin.

Foolish takeaway

2022 has been a wild year for Ethereum, and it's only getting started. This year, we're going to see a set of blockchain upgrades that aim to take ETH to 100,000 transactions per second. If these upgrades really work, then that could cause interest in Ethereum to pick up again. But we probably shouldn't expect NFTs to do the trick. The central bank liquidity boom is over, and people are rapidly losing interest in speculative risk assets.

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