



## Is Bitcoin Going to Crash Again?

### Description

**Bitcoin** ([CRYPTO:BTC](#)) has been crashing hard this year. Down 52% for the year, it has underperformed the S&P 500, the TSX and pretty much any other stock market index you can think of. In 2022, a number of developments have been shaking investors' confidence in cryptocurrency. Between the collapse of the **Terra** (LUNA) "stable" coin and central banks' persistently hawkish policy, there have been many headwinds.

In this article, I will explore what these crypto market scandals mean for Bitcoin and whether they have any bearing on its odds of crashing again.

### Scandals

There have been many scandals in the cryptocurrency industry this year, chiefly involving stable coins. Some of the more notable ones include

- Terra collapsing after its Luna "support token" crashed;
- **Solana** temporarily going offline; and
- **Binance** pausing Bitcoin withdrawals due to too much demand.

Individually, these were serious incidents. Taken together, they shook investors' faith in the system as a whole and contributed to a [bear market](#). The Terra crash called into question whether stable coins can actually be converted into dollars, and the [Binance scandal](#) made people question whether they could really cash out their Bitcoin. Put all of these factors together, and you start to understand why banks are subject to thousands upon thousands of pages of regulations. A lot can go wrong when "money" is left to a rag-tag group of internet pumpers. Lo and behold, a lot has, in fact, gone wrong with cryptocurrency this year.

### Higher interest rates

It's one thing to observe that a lot "can" go wrong with cryptocurrency, but another thing entirely to

explain why it's happening at this precise moment. The latter is a much harder topic. However, there is one factor that could possibly explain why cryptocurrency is crashing this year: high interest rates.

High interest rates reduce the value of cryptocurrency in a number of ways, including

- Making it more costly to borrow money to buy cryptocurrency;
- Making it less rational to invest in risky assets (interest rate hikes cause the “risk-free rate” to increase); and
- Making it more expensive for crypto-related companies to borrow money.

Taken as a whole, all of these factors make cryptocurrency less desirable. If they can affect alt-coins, they can affect Bitcoin, too. Many crypto die-hards believe that Bitcoin is safe, whereas alt-coins are risky, but all of the factors above impact Bitcoin just as much as other cryptos. If Luna can collapse, Bitcoin can, too. The crash may be slower in the latter's case, but it can occur all the same.

## Foolish takeaway

Having looked at all the reasons why Bitcoin crashed this week, we can finally answer the question, “Will it crash again?”

The answer is looking like “yes.” If high interest rates are part of what's taking Bitcoin lower, then Bitcoin will continue to go lower. The Federal Reserve and the Bank of Canada aren't done hiking interest rates for the year. They have more hikes planned; the Fed is aiming for a terminal policy rate of 3.5%. With interest rates like that, you'd better believe BTC has further to fall.

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