



Could Ethereum Go to \$0?

Description

Ethereum ([CRYPTO:ETH](#)) has been in the spotlight for all the wrong reasons this year. Its major drawdown was making headlines long before Monday's crypto crash, which took it all the way down to US\$1,226. It would only take another couple days of this price action for ETH to cross below US\$1,000 — a key psychological milestone that Ether bulls are hoping not to breach.

Unfortunately, the economic conditions leading to weakness in crypto this year aren't easing off. Interest rates are still rising, and NFTs are still declining in popularity. The first of these factors is affecting crypto overall, while the second is affecting ETH specifically.

No doubt, Ether still has more pain to come before it finds a bottom. The question is whether it could fall all the way to \$0. As we saw in 2018, cryptocurrency prices are inversely correlated with interest rates. Potentially, a truly aggressive sequence of rate hikes could take crypto prices very, very low. But is \$0 for ETH a *real* possibility?

Why high interest rates make crypto less valuable

The higher interest rates go, the less valuable risky assets become. Technically, high interest rates reduce the value of all assets, but it's high-risk assets that get hit the hardest. Such assets' cash flows take the biggest percentage hit from a higher discount rate.

The reasoning behind this is explained by discounted cash flow models: the higher the discount rate in the denominator, the less valuable the cash flow in the numerator. Unlike [technology stocks](#), cryptocurrencies don't have cash flows. They are risky, though, so the underlying logic still holds: it makes less sense to assume risk when there's a higher risk-free rate.

NFTs declining in popularity

So far, we've looked at one potential reason why cryptocurrency is crashing this year. Next, we need to look at a factor that is impacting ETH specifically: the decline in popularity of NFTs.

NFTs are a type of crypto asset that was popular in 2021. In 2022, they declined in popularity. According to [Google Trends for Search](#), their popularity is still declining to this day. That's a problem for ETH, because the token gained a lot from NFTs in the prior year. A lot of people bought ETH for no other reason than to buy NFTs with it. If people aren't buying NFTs anymore, then that's less demand for ETH. So, we should expect ETH to keep falling if NFTs don't somehow come back on the scene.

Foolish takeaway: Perhaps not \$0, but...

As I've shown in this article, there are at least two reasons to expect ETH to show some weakness this year. I don't think the token is going to \$0. Ultimately, its usefulness in building applications provides hope that some demand-boosting use case could emerge. But its price could go far lower than what bulls are hoping to see. There are just too many different factors creating selling pressure right now.

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