



Bitcoin Crashes to 2020 Prices: Down 72% From All-Time High!

Description

Bitcoin ([CRYPTO:BTC](#)) reached its lowest price since 2020 on Saturday, when it fell as low as US\$17,660. Bitcoin had been in the midst of a correction in the weeks prior to the selloff, which was sharper than any other this year. On Saturday alone, BTC fell 13% from top to bottom. Since its all-time high of US\$67,000, it has fallen 72%.

Interest rates weigh

The ongoing [bear market](#) has been Bitcoin's most severe since 2018. That year, BTC crashed 83% as the Federal Reserve hiked interest rates four quarters in a row. Similar events are taking place this year. In 2022, central banks are hiking interest rates more aggressively than they did in 2018. The Fed has already completed three interest rate hikes this year, including a jumbo 75-bps hike at the June meeting.

Many people think that interest rate hikes are what's causing Bitcoin to fall this year. Cryptocurrency has been described as "a speculative release valve for excess liquidity." The idea is that when money becomes more available, people get an urge to take risks that leads them toward assets like Bitcoin. In 2020, money became more available, through both fiscal and monetary policy. Interest rates were lowered, which made borrowing cheaper and more readily available. COVID-19 relief money was handed out, giving people extra cash to play with. The result of this, per the "release valve" theory, was a rush into cryptocurrency and other speculative assets, like meme stocks.

Today, just the opposite trends are taking place. Interest rates are rising, and COVID-19 relief programs are ending. It's now costly to borrow, and people are no longer getting free money. At the same time, yields on GICs and other low-risk instruments are rising. The result is that it is now harder and less desirable to invest in Bitcoin than in the past.

Tether creates concerns

Another issue for Bitcoin this year is the **Tether** ([CRYPTO:USDT](#)) stable coin. Tether is a coin that is

supposed to be worth exactly US\$1. For the most part, it stays pretty close to the target. However, it has seen some volatility. Currently, there is a rush to sell out of Tether that may be influencing Bitcoin's price.

A study in [Finance Research Letters](#) found that when Tether rises, Bitcoin tends to fall. The explanation given was that people exchange Bitcoin for Tether, creating selling pressure on BTC. The fact that people are now selling Tether would, if anything, argue that the price of Bitcoin should rise.

However, if people are exchanging Tether for dollars (as opposed to Bitcoin) in an attempt to liquidate their crypto portfolios, it could make Bitcoin go down. For example, if a group of investors soured on Bitcoin, traded all their BTC for Tether, then later sold out of Tether to exit crypto completely, that would indicate falling demand for cryptocurrencies as a whole. The lower demand would spell lower prices for Bitcoin.

Last month, we saw the popular stable coin **Terra** collapse after it lost its peg to the dollar. That could have caused people to capitulate and unwind even their "safe" stable coin holdings, seeing them as too risky. If that's what happened, then the people now selling Tether aren't buying Bitcoin. So, BTC's price may fall further.

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