



Crypto Winter: How Far Will Bitcoin Drop in 2022?

Description

The world's largest [cryptocurrency](#) got close to the US\$23,000 mark on June 15, 2022. The rally from its previous lows came after the U.S. Federal Reserve Chair Jerome Powell recently reassured investors that the central bank is committed to hawkishness for its monetary policies in a post-Fed-meeting press conference. **Bitcoin** ([CRYPTO:BTC](#)) managed to go as low as US\$20,755 on June 16, 2022.

Dogecoin and **Solana** delivered gains of 16% after the meeting, only to decline the next day, similar to what happened with Bitcoin. The situation is comparable to the Fed meeting held in May. The cryptocurrency and equity markets rallied amid Powell's press conference after the meeting, only to slump the next day.

At writing, Bitcoin trades for US\$21,061, but only after it came close to going below US\$20,000. Many economists believe that the US\$20,000 mark is right at the cusp of the threshold where massive liquidations can start taking place. Despite recovering by slight margins, Bitcoin may have yet to hit its bottom.

Worsening liquidity situation

The interest rate hikes in the U.S. through the U.S. Fed and Canada through the Bank of Canada (BoC) are designed to cool down record inflation rates. Enacting stricter monetary policies make borrowing inaccessible to more people, allowing things to cool down. Unfortunately, it also means a decreasing yield in the entire cryptocurrency industry.

The narrowing spread in the entire cryptocurrency market is giving institutional investors less of an incentive to run contango and arbitrage strategies. Combined with the broader market situation, high-yield providers might have no choice but to cut rates to significantly lower levels.

Cryptocurrency exchanges like Gemini and **Coinbase** announced layoffs and hiring freezes earlier this month. Coinbase shares are down by over 85% from 52-week highs at writing, and it plans to let go of 18% of its employees based in the U.S.

Winter is coming

Popularized by the TV series *Game of Thrones*, the phrase “winter is coming” has been adopted into the crypto industry. The feared “crypto winter” refers to the possibility of an extended period of trouble for the cryptocurrency market. The implication of the phrase is that prices in crypto markets will contract and will remain low for an extended period of time.

The cryptocurrency industry has already been feeling the impact of the geopolitical situation that has impacted global finance. The collapse of **Terra** and **Luna** caused a cascading effect that affected the entire cryptocurrency industry. Where many investors might fear that we could soon be entering a crypto winter, some experts believe that we might already be in the midst of it.

Foolish takeaway

Cryptocurrency trading is an inherently risky practice — far riskier than investing in any other asset class. There is no way to tell how the situation will proceed in the coming months. Depending on where you stand regarding the cryptocurrency industry, the current situation could be an opportunity or a warning.

If Bitcoin and the broader cryptocurrency industry recover to previous highs, as they historically have after previous downturns, investing in Bitcoin could be a lucrative decision. However, past performance does not indicate future returns. As things stand, it is all up in the air when it comes to determining where things will go from here.

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