



## Bitcoin: The Crash Isn't Over

### Description

**Bitcoin** ([CRYPTO:BTC](#)) crashed hard last week. On Saturday, it fell 13% in the span of 24 hours after falling in the days prior. On Sunday, it was beginning to gain positive momentum.

If you're invested in Bitcoin, you might be wondering what to make of all this. BTC has long been thought of as one of the "safest" crypto assets out there, but this time around, it's actually crashing harder than many of the popular alt-coins. In this article, I will explore some factors contributing to Bitcoin's dramatic fall, and make the case that it could fall further.

### Interest rates rising

Bitcoin entering a [bear market](#) this year has been correlated with rising interest rates. The Federal Reserve and the Bank of Canada are raising rates this year and plan to keep doing so until the end of the year. Last week, the Fed did its biggest interest rate hike in decades, raising rates by a full 75 basis points. Bitcoin entered a pronounced downtrend a few days later.

This mirrors the action we saw in 2018, when the Fed hiked rates four quarters in a row, and Bitcoin fell 80%. There appears to be a negative correlation between Bitcoin's price and interest rates. There may be a causal relationship as well. Rising interest rates make low-risk products (like GICs) more appealing, and high-risk products like Bitcoin less appealing. The higher the risk-free rate goes, the less sense it makes to assume risk. So, the observed negative correlation between Bitcoin's price and interest rates may indicate a causal relationship.

### Tether seeing redemptions

Another factor that may be contributing to Bitcoin's crash is concern about **Tether** (USDT), a "stable coin" that is seeing a [wave of redemptions](#) this year. "Stable coins" failing to stabilize has been a big theme in 2022. The **Terra** coin lost its peg to the dollar entirely last month; USDT still has its peg but some people think the massive number of redemptions could cause problems. Stable coins failing can cause people to lose faith in regular crypto currencies, because they suggest that the crypto market is

unstable.

If Tether loses its peg, then that's likely to lead to a loss of faith in crypto, as it has historically been the most "stable" of all the stable coins.

## Foolish takeaway

2022 has been a tough year for Bitcoin. Between its price going down and related cryptocurrencies becoming essentially worthless, it's been a trying time. Nobody knows what's going to happen to BTC in the next month, year, or decade. However, as long as interest rates keep going up, there is potential for Bitcoin's price to go down.

When investors can get an adequate return risk free, there is little reason for them to make extremely risky investments like Bitcoin. That doesn't mean that Bitcoin will go to \$0 or anything. Monetary policy will eventually get easier, and that could eventually get people back into investing in speculative crypto assets. For now, though, it's best to prepare for more market turbulence.

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