



Ethereum Briefly Dips Below \$1,000: Is a Crypto Winter Incoming?

Description

Ethereum ([CRYPTO:ETH](#)) had a rough week, to say the least. The top cryptocurrency by market cap tanked sharply on Saturday, June 18, to hit a 52-week low of US\$993.64 at one point. As of Tuesday June 28, the price of ETH recovered to US\$1,176.97.

For many investors, ETH falling past the US\$1,000 support level was an incredibly bearish signal. By plunging under US\$1,386, ETH broke the floor set during at the peak of its January 2018 bull run. Many are now forecasting a “crypto winter,” where the price of ETH remains depressed for years.

Why is Ethereum falling?

In 2022 so far, ETH has been far more correlated to the stock market than ever before, matching its movements, albeit with more volatility. In many ways, its risk profile is similar to leveraged positions in growth stocks. This can be attributed to its increasingly high sensitivity to monetary policy.

High inflation and rising interest rates (including a recent 75-basis-point hike from the Federal Reserve) have pummeled valuations for risk assets, whether they be tech stocks or crypto. The low interest rate environment of the COVID-19 pandemic is now over, and speculative assets are suffering accordingly.

Adding to this instability are recent stablecoin de-peggings, layoffs, and withdrawal freezes by many prominent cryptocurrency exchanges. Many traders and whales recently got liquidated out of leveraged positions after failing to meet margin calls. The price of NFTs crashing also impacted ETH, as the token is the primary one used in NFT transactions.

How low can it go?

Looking back at the crypto winter of 2018, ETH fell steadily from a high of US\$1,386 in January 2018 to a low of US\$83.13 by December 2018. That's around an 95% loss. Many investors capitulated along the way. The rest is history, as we know, the price began running up again in early 2020 to a peak of US\$4,644 in November 2021.

The Fed has begun their quantitative tightening plans and will begin to unwind more assets from their balance sheets. Although Jerome Powell stated that future rate hikes will only be 50 basis points, that is subject to inflation reports. If the next CPI release comes in hot, another 75-basis-point hike could be on the way, spelling further downside for risk assets.

The US\$1,000 support level remains a critical battle between the bears and the bulls. Should this be breached again, prices could plummet, triggering cascading liquidations and margin calls for various whales — not to mention, the risk of contagion from increasingly suspect stablecoin and DeFi projects.

The Foolish takeaway

Although ETH has continually rallied back from multiple crashes, there is no way to predict the future. Pundits will argue that ETH's DeFi applications, token burnings, and use in Web3 will always ensure it has intrinsic value. Investors who held ETH since inception and over rolling five-year periods have come out with great gains. The trick to strong returns might be to keep any ETH holdings safe in cold storage and out of mind until the next bull market arrives.

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