



Crypto Rebound: The Ride's Not Over

Description

This month, cryptocurrency prices rebounded after nearly a year of weakness. **Bitcoin** ([CRYPTO:BTC](#)) hit a low of US\$19,224 on July 3. As of this writing, it had risen 14% from that level. Overall, July was a good month for a cryptocurrency market that spent most of this year in the doldrums.

However, it would be a mistake to think that the crypto correction is over. Many of the factors that led to crypto prices falling this year are still in place. If you're going to invest in cryptocurrency, make sure that you do thorough research and know what you're doing, because we are still in economically uncertain times.

Interest rates still going up

One of the big factors holding back the price of Bitcoin this year has been high interest rates. Central banks like the Federal Reserve and Bank of Canada have been raising interest rates this year. When interest rates go up, low-risk investments like GICs (savings bonds offered by banks) tend to yield more. As a result, some of the demand for risky investments like cryptocurrency goes away.

Central banks are not done raising interest rates this year. The Federal Reserve has signaled that it has more rate hikes to come, and the Bank of Canada is likely to pursue similar policies. When interest rates go up, risky assets generally go down. We have seen this already this year, and we could see more of it as the year unfolds.

Exchanges collapse

Another phenomenon that could put pressure on crypto prices this year is exchanges collapsing. Exchanges are the intermediaries that the vast majority of cryptocurrency holders use to buy and sell cryptocurrency. This year, the crypto exchange **Celsius** went bankrupt after becoming unable to pay its users the [\\$4.7 billion it owed them](#).

There has been talk that **Binance** is experiencing issues similar to what Celsius went through before it

collapsed. For example, an accountant announced on **Twitter** that he was unable to withdraw his funds from Binance.

These types of incidents tend to inspire people to sell crypto, because they create the impression that it is unsafe to hold. Technically, crypto can never be “lost,” as it is simply data. However, you can lose it in practice if it’s held indirectly through an exchange rather than a wallet.

Tech stocks

A final factor that could weigh on crypto prices this year is the performance of [technology stocks](#).

Technology stocks are hurting this year. Consumers are spending less money on tech products, and businesses are spending less money on ads, and that’s causing tech companies’ earnings to fall. In response, tech stock prices are falling as well.

Why is that a problem for crypto?

Crypto prices are positively correlated with tech stock prices. “Positive correlation” is a statistical term that refers to the tendency of two things to move together in the same direction. Numerous studies have shown that Bitcoin and other cryptocurrencies are positively correlated with tech stocks. For example, an *Arcane Research* report showed that Bitcoin had a 0.7 correlation with tech stocks — a very high and positive correlation.

If tech stocks experience more weakness, then we should expect cryptocurrency to experience weakness, too. That doesn’t mean that crypto is necessarily a bad investment, but it does mean investors should proceed with caution.

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