

Bitcoin Plunges Below \$50,000, Sparked by the Onset of the Bank of Japan's Rate Hike

Bitcoin plunged below the \$50,000 mark on 5th August 2024, representing an approximate 30% slump, marking a new low for Bitcoin since the start of the year. The price of Ethereum and other cryptocurrencies followed suit as these coins saw even larger losses of 50% or more. This sudden shock event originated from traditional financial markets stemming from several converging factors that had a ripple effect on the cryptocurrency space, sparking the massive "Black Monday"-esque sell-off reminiscent of the 1987 market crash.

Unraveling the Sequence of Events and Breaking Down Interest Rates

On 31st July 2024, Japan's Central Bank, the Bank of Japan (BoJ), announced for the second time in 17 years, an interest rate hike of 0.15% (from 0.1% to 0.25%) and signaled more rate hikes if the Japanese economy continues to outperform expectations. The rate hike comes amidst Japan's unabating ultra-loose monetary policies and a devalued Yen with the BoJ widely regarded as an oddity on interest rate policies.

The rate hike announcement boiled over when unsuspecting carry trade investors who took advantage of low Japanese interest rates for years were surprised by the BoJ's announcement and sparked a massive sell-off of assets to cover their leveraged positions (carry trade is a leveraged investing strategy). A carry trade investor borrows currency in a country where interest rates are low and invests the borrowed funds in another country for returns. Simply put, carry trade is essentially an arbitrage opportunity with risks. It is an open secret that carry trade investors have been capitalizing on near-zero interest rates in Japan and for years has been a source of "easy money" for numerous investors. However, the carry trade strategy started to go south when the Yen's value started appreciating after the BoJ's second rate hike since March 2024 coupled with a weaker US dollar amid an indication from the Federal Reserve of a rate cut. This had an adverse effect on carry trade investors as it suddenly became more expensive to repay their Yen-denominated loans. As the majority of carry trade investors have leveraged positions, they had to sell down their available assets to meet margin call requirements; these assets included cryptocurrency which eventually caused a spillover in selling pressure from traditional financial markets to spillover to cryptocurrencies.

The combination of deteriorating geopolitical stability in the Middle East, heightened fears of an imminent recession, dwindling investor sentiment and the strong selling pressure from carry trade investors covering their margin calls subsequently induced the worst sell-off in Japanese equity markets and plunged global financial markets into turmoil. To add insult to injury, major players Jump Trading and the highly anticipated Mt Gox distributions piled onto the already bearish sentiment to pile on further selling pressure.

Bitcoin Going Forward and Price Predictions

The price of Bitcoin has largely traded range bound as it has largely recovered from the massive sell-off on 31st July 2024. However, the bearish sentiment still looms over Bitcoin due to sluggish investor confidence. As of 21st August 2024, there is an increasing number of technical indicators that are suggesting Bitcoin is on the cusp of entering bear market territory which is in line with market expectations. Consequently, future price predictions for Bitcoin is not as straightforward as some might think. For one, this incident has demonstrated that the cryptocurrency industry is not insulated from traditional financial markets. Additionally, an increasingly volatile global geopolitical environment will only add to the volatility of Bitcoin prices. However, industry experts have chalked off the sell-off as a one-time occurrence barring market fluctuations with a general consensus and optimism that Bitcoin will still be able to hit the \$100,000 mark in the near future.

NIACE remains cautious but optimistic on Bitcoin as the company looks forward to the Federal Reserve's next interest rate decision and the November 2024 US elections which are predicted to be the two main events that could significantly Bitcoin.

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