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Bitcoin's Rally Stalls Despite Weaker Dollar Tailwind

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Bitcoin (BTC) may be getting a boost from a declining U.S. dollar, but broader economic signals suggest traders aren't ready to push prices back toward the \$120,000 mark just yet. While the greenback's recent slide offers short-term momentum, risk-off sentiment and rising borrowing costs could limit the upside for the world's largest cryptocurrency.

Bitcoin has long maintained an inverse correlation with the U.S. Dollar Index (DXY), which tracks the dollar against a basket of foreign currencies. Historically, when the dollar weakens, Bitcoin strengthens, and vice versa. This pattern appeared again last week as

Bitcoin dipped below \$114,000 just as the DXY hit a two-month high, only to rebound when the DXY later slipped below the key 100 level.

The dollar's slide came on the heels of a weaker-than-expected U.S. jobs report in July. With job growth slowing, investors have begun betting the Federal Reserve may shift to cutting interest rates sooner than expected. Lower interest rates tend to reduce the dollar's appeal, pushing investors toward alternative assets like Bitcoin.

However, caution remains. The recent drop in the U.S. dollar doesn't guarantee a sustained rally for Bitcoin. Between June and September 2024, for example, the DXY steadily declined from 106 to 101, but Bitcoin struggled to hold above \$67,000, eventually falling to \$53,000. A similar pattern could be unfolding now.

One reason for the hesitancy is the state of credit markets. The ICE Bank of America (BofA) High Yield Option-Adjusted Spread, a key measure of risk appetite in corporate bonds, provides insight into how much extra yield investors demand to hold lower-rated debt. A rising spread suggests growing concern, while a falling spread signals confidence.

In recent months, the spread has moved sharply. It peaked at 4.60 in April 2025 but fell to just 2.85 by late July. That decline lined up with Bitcoin's rebound from a low of \$74,500, highlighting how improving credit sentiment can help fuel rallies in risk assets. Yet now, with the spread hovering around 3.0, near its 200-day average, it indicates a cautious equilibrium. Investors aren't overly optimistic, nor are they panicking.

Meanwhile, global trade tensions and higher tariffs imposed by the United States, especially on key tech imports, have added further economic uncertainty. These moves risk stoking inflation and complicating monetary policy, all while the Federal Reserve is trying to balance recession risks with its inflation mandate.

The U.S. corporate bond market, estimated at \$11.4 trillion by the Securities Industry and Financial Markets Association (SIFMA), plays a crucial role in capital flows. Higher borrowing costs impact company earnings and valuations, potentially dragging down sentiment across asset classes, including digital currencies.

For now, Bitcoin's path to \$120,000 looks blocked, not because of a lack of technical strength, but because of cautious investor behavior and lingering macroeconomic

headwinds. Until broader confidence returns, Bitcoin's gains may remain modest despite a weaker dollar.