BITFINEX Alpha

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EXECUTIVE SUMMARY

In case you were in any doubt about what mind the Fed is in, you should not be now. Chairman Jerome Powell at his keynote address at the annual Jackson Hole symposium was unequivocal: rate rises are going to continue until at least the Fed's target inflation rate of 2 per cent is met.

The probability of a 50-basis point hike before the speech was 43.5 per cent, but this is now down to 39.5 per cent, while the expectation of a 75 basis point hike has risen from 56.5 per cent to 60.5 per cent.

As we scour the market for further data points, we analyse the Pending Home Sales Index, which shows recently signed contracts for existing homes, and is a leading indicator of housing market activity because it reflects signed contracts for future purchases. It has been down eight of the last nine months and is still looking bleak. With a more than 30 point drop in the Housing Market Index, our analysis shows that historically such a decline precedes a 3 per cent jump in unemployment. If the correlation holds, this implies that US unemployment will be above 6% in 2023.

The equities market also looks overpriced to us. In our analysis of the spread between the S&P 500 earnings yield and 10-year treasuries, a widening spread as rates rise implies a substantial decline in the S&P 500 PE ratio. We see substantial downside potential from here since stocks are not cheap and have diverged from bonds and the dollar.

On-chain, there is continued action in Ether wallets, where top whale addresses are moving tokens to exchanges. Similarly, Bitcoin hodler activity has reached a peak of 12.92 million BTC - of which 60 per cent have been holding for more than one year.

What does this mean? We see the BTC activity as consistent with bear market accumulation - and indicates continued serious conviction in the asset.

Price performance, however, continues to be driven by the dollar and other risk assets. Even with the Merge as a major idiosyncratic crypto story and the Tornado Cash saga potentially bearish, crypto's anchor is still exogenous. Indeed, far from any decoupling of crypto from traditional risk assets, we see a laggard effect experienced by crypto investors, a sign the market is still immature and we are still early.

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GENERAL MARKET UPDATE

Consumers Remain Resilient

The past week, economic observers, investors and traders had to digest a plethora of financial data, including Fed Chairman Jerome Powell's speech on Friday (26th August) morning during the Jackson Hole Symposium. In today's newsletter, we go through last week's important economic data, the closely watched economic agenda at Jackson Hole, and the market's reaction to Powell's much-anticipated speech.

Powell's Speech at Jackson Hole Economic Symposium

Figure 1. "We will keep at it (reducing inflation) until we are confident that the job is done." – Jerome Powell at his Jackson Hole speech. (source: cnbc.com)

Approximately 120 scholars, representatives from global central banks, and media gather yearly at Jackson Hole, Wyoming for the Jackson Hole Economic Symposium held by the Kansas City Fed. Major investors utilise the symposium for hints about how the Federal Reserve's policy would evolve moving forward and how it would potentially affect the economy.

In the opening paragraph of his address, Jerome Powell said that he would be brief and forthright; and indeed he was. Powell stated that the Federal Open Market Committee's (FOMC) overriding aim is to return inflation to its 2 per cent target. Currently, it lies close to 9 per cent, implying that rate tightening will continue until at least the 2 per cent target is reached.

The Fed chair also reflected on the past and pointed out that “the historical record cautions strongly against prematurely” lowering interest rates. Merely estimating the longer-run neutral rate is not a place to pause or stop for the Fed. Fed Funds futures, following the June FOMC meeting, indicated that rates would reach 4 per cent by the end of 2023, and historical accounts warn against relaxing policy too soon. The Fed is clearly mindful of the mistakes committed in the 70s and 80s, when monetary policy was loosened too soon, and resulted in even higher rates in the long-term. Quantitative Tightening (QT) is about to accelerate, and the market friendly dynamics behind the Fed balance sheet composition, which helped risk assets stage a comeback rally in July, are likely to fade away in Q4. The Fed announced its resolve to undertake QT earlier this year, but the shrinking of their balance sheet has been insignificant since July. This eased the minds of investors who had predicted QT to trigger a massive liquidity withdrawal from the market.

Powell's remarks should not have shocked anybody. Powell did nothing more than recap and reiterate what almost every board member and Fed governor had said in the previous two to three weeks. The stock market had apparently priced in an assumption that the Fed would soften policy every time the market weakened or at the first sign of slowing inflation growth. Indeed, ‘buy the dip’ has been a motto of markets for some time. This time, though, is different. Powell said in his speech that controlling inflation will require below-trend growth and a slowing job market, which might hurt American families. The Fed is resolute to trade both growth and an increase in unemployment, in exchange for lower inflation. He made it apparent that the Fed would not pivot soon.

Following the speech, Fed Funds Futures rates have risen again. The move suggests that the market is now pricing in a "higher for longer" regime.

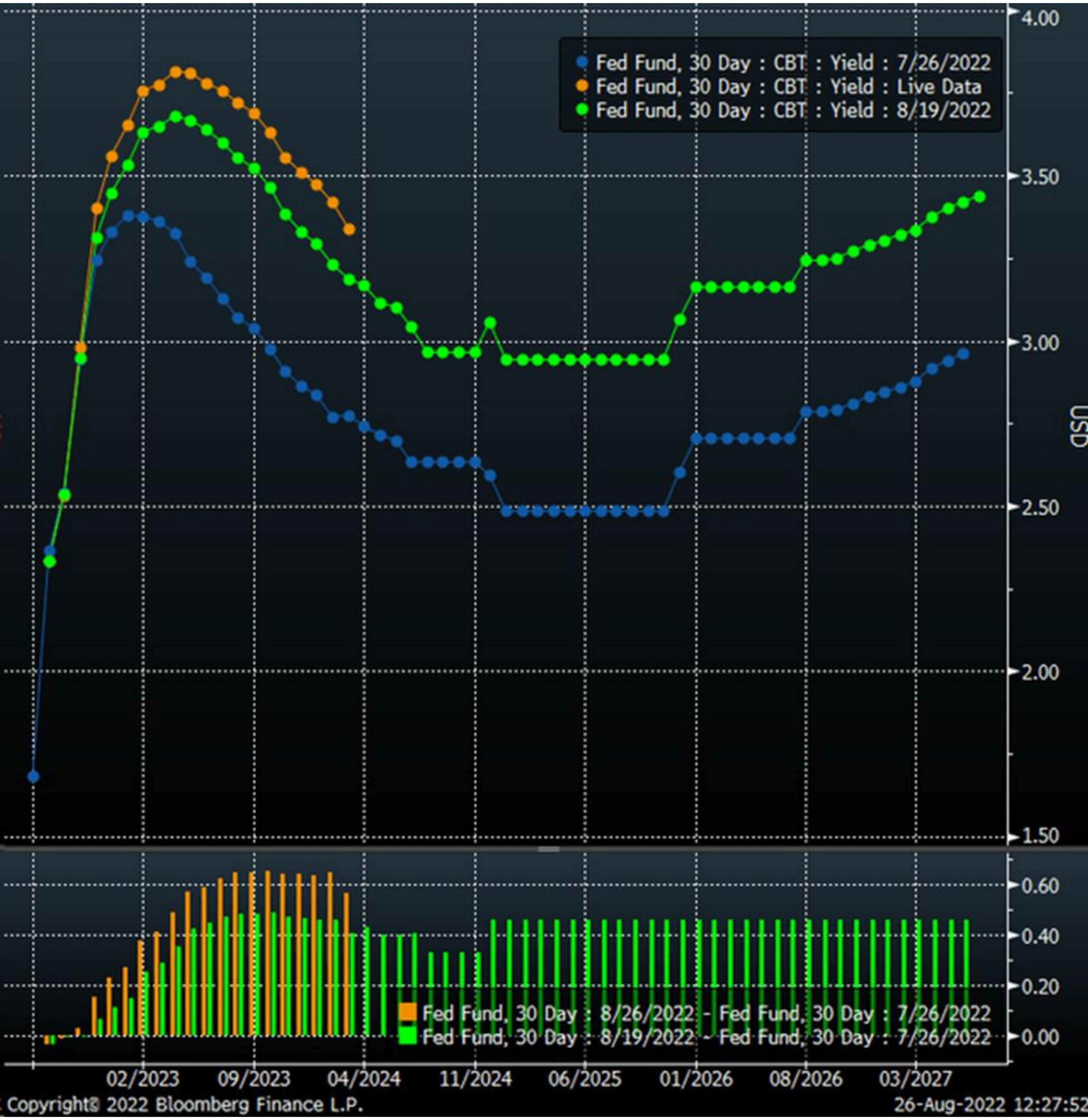


Figure 2. Fed Funds Futures Rates (Source: Bloomberg Financial)

The chart below shows FOMC meeting rate hike probabilities before and after Jerome Powell's speech at the Jackson Hole Symposium. Before the speech, the probability of a 50-basis point hike was 43.5 per cent, which later fell to 39.5 per cent, while the expectation for 75 basis points rose from 56.5 per cent to 60.5 per cent. Looking at the rate probabilities in the previous weeks, there has been an ongoing trend showing that as we approach the September FOMC meeting, a 75 basis points rate hike has become more likely.

Before Jerome Powell's speech

MEETING PROBABILITIES							
MEETING DATE	275-300	300-325	325-350	350-375	375-400	400-425	425-450
21/09/2022	43.5%	56.5%	0.0%	0.0%			
02/11/2022	0.0%	7.7%	45.8%	46.5%	0.0%	0.0%	0.0%
14/12/2022	0.0%	0.7%	11.2%	45.9%	42.2%	0.0%	0.0%
01/02/2023	0.0%	0.5%	7.7%	34.3%	43.4%	14.1%	0.0%
15/03/2023	0.0%	0.3%	5.0%	24.3%	40.0%	25.1%	5.3%
03/05/2023	0.0%	0.3%	5.1%	24.4%	39.9%	25.0%	5.3%
14/06/2023	0.1%	1.2%	8.6%	27.2%	37.2%	21.4%	4.3%
26/07/2023	0.2%	2.4%	11.6%	28.8%	34.6%	18.6%	3.6%

After Jerome Powell's speech

MEETING PROBABILITIES							
MEETING DATE	275-300	300-325	325-350	350-375	375-400	400-425	425-450
21/09/2022	39.5%	60.5%	0.0%	0.0%			
02/11/2022	0.0%	8.1%	43.8%	48.0%	0.0%	0.0%	0.0%
14/12/2022	0.0%	0.8%	11.5%	44.2%	43.5%	0.0%	0.0%
01/02/2023	0.0%	0.5%	8.0%	33.4%	43.8%	14.4%	0.0%
15/03/2023	0.0%	0.4%	5.6%	25.5%	40.5%	23.5%	4.5%
03/05/2023	0.0%	0.6%	6.4%	26.1%	39.9%	22.7%	4.3%
14/06/2023	0.1%	1.4%	9.2%	28.1%	37.4%	20.1%	3.7%
26/07/2023	0.4%	3.0%	13.0%	29.9%	34.0%	16.8%	2.9%

TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 25 AUG 2022	1 WEEK 19 AUG 2022	1 MONTH 26 JUL 2022
275-300	39.5%	36.0%	53.0%	50.7%
300-325	60.5%	64.0%	47.0%	41.2%
325-350	0.0%	0.0%	0.0%	8.2%

* Data as of 26 Aug 2022 11:35:15 CT

Figure 3. Changes in Meeting Probabilities Before and After the Jackson Hole Economic Symposium (Source: Federal Reserve)

S&P Global Flash US Composite PMI

The Purchasing Managers Index output index is a metric of the S&P Global Survey that measures economic growth and can estimate GDP, service sector growth, and industrial production trends before official data. The PMI survey output index tracks monthly manufacturing and service sector output changes with a GDP-weighted composite.

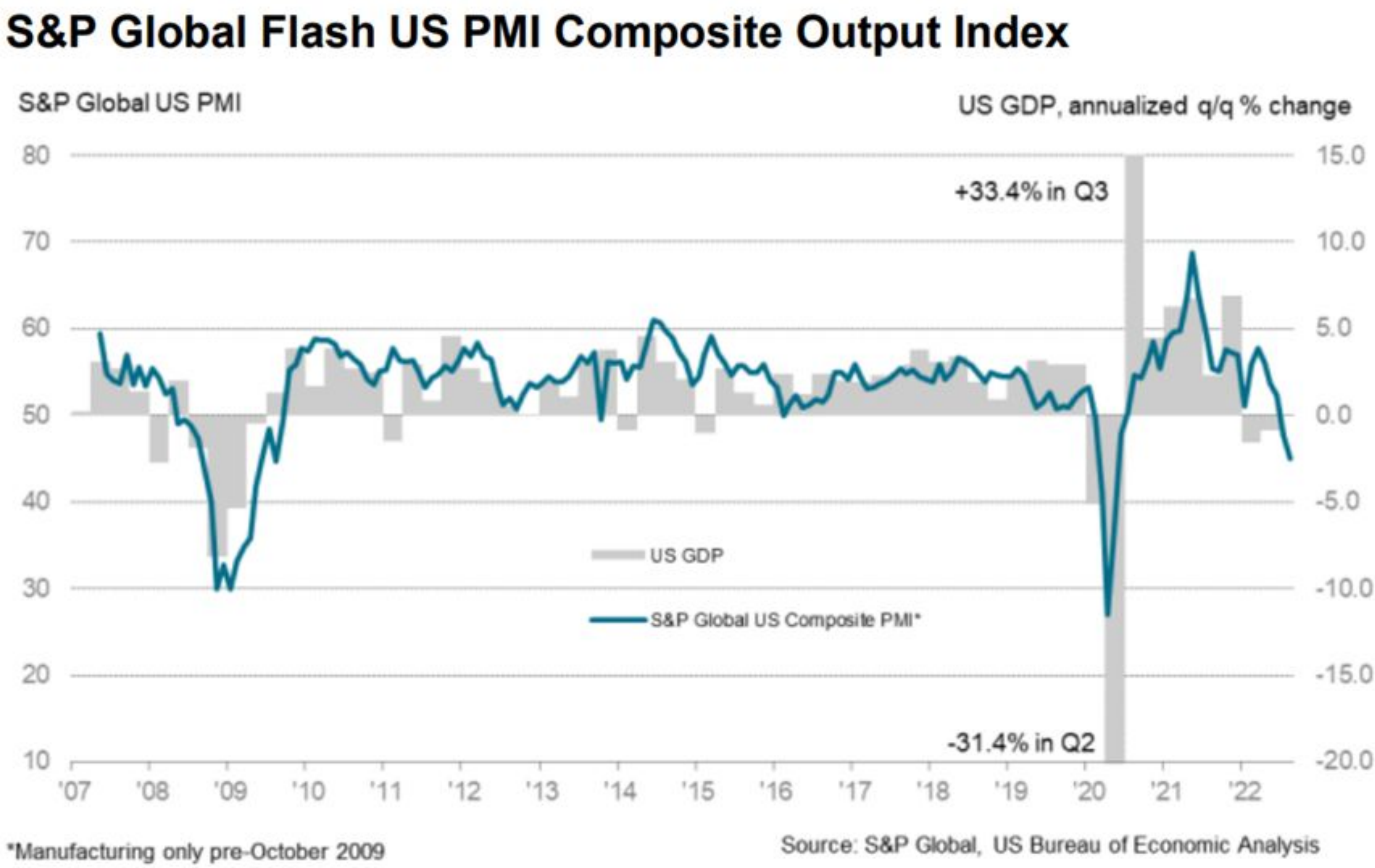


Figure 4. S&P Global Flash US PMI Composite Output Index (Source: S&P Global)

S&P Global's 'flash' PMI data revealed a significant drop in US private sector business activity in August. The output decline was the fastest since May 2020, and the rate of contraction also surpassed anything documented since the series began 13 years ago.

Table 1. S&P Global Services and Manufacturing PMI

Services PMI	44.10	47.30	points	Aug 2022
Manufacturing PMI	51.30	52.20	points	Aug 2022
Composite PMI	45.00	47.70	points	Aug 2022

The Headline Flash US PMI Composite Output Index came in at 45 points in August, down from 47.7 in July, a second monthly drop in business activity. Manufacturers and service providers both reduced output. The latter was down dramatically, while goods producers saw only a minor reduction.

The S&P Global Flash US Services Business Activity Index, also fell to 44.1 in August from 47.3 in July, indicating a drop in total services activity. Business activity fell the most since May 2020. Service providers said rising interest rates and inflation restricted client spending as earnings shrank. Meanwhile, S&P Global Flash US Manufacturing PMI remained modest in August at 51.3, down from 52.2 in July. The headline reading plummeted to its lowest level in two years due to weak demand and production cuts.

Material shortages, supply delays, interest rate hikes, and inflationary pressures have dampened consumer demands. Manufacturers and service providers battled with sluggish demand in August, reducing overall sales. As a result of this, new orders fell the most in almost two years. Weak domestic and overseas demand weighed on recent sales, and export orders decreased sharply, according to *S&P Global research*.

Pending Home Sales Index

The housing market may not have received as much attention as the stock market this year, but it has had its share of problems. Despite stable home prices over the past few years, sales activity has decreased over the past nine months.

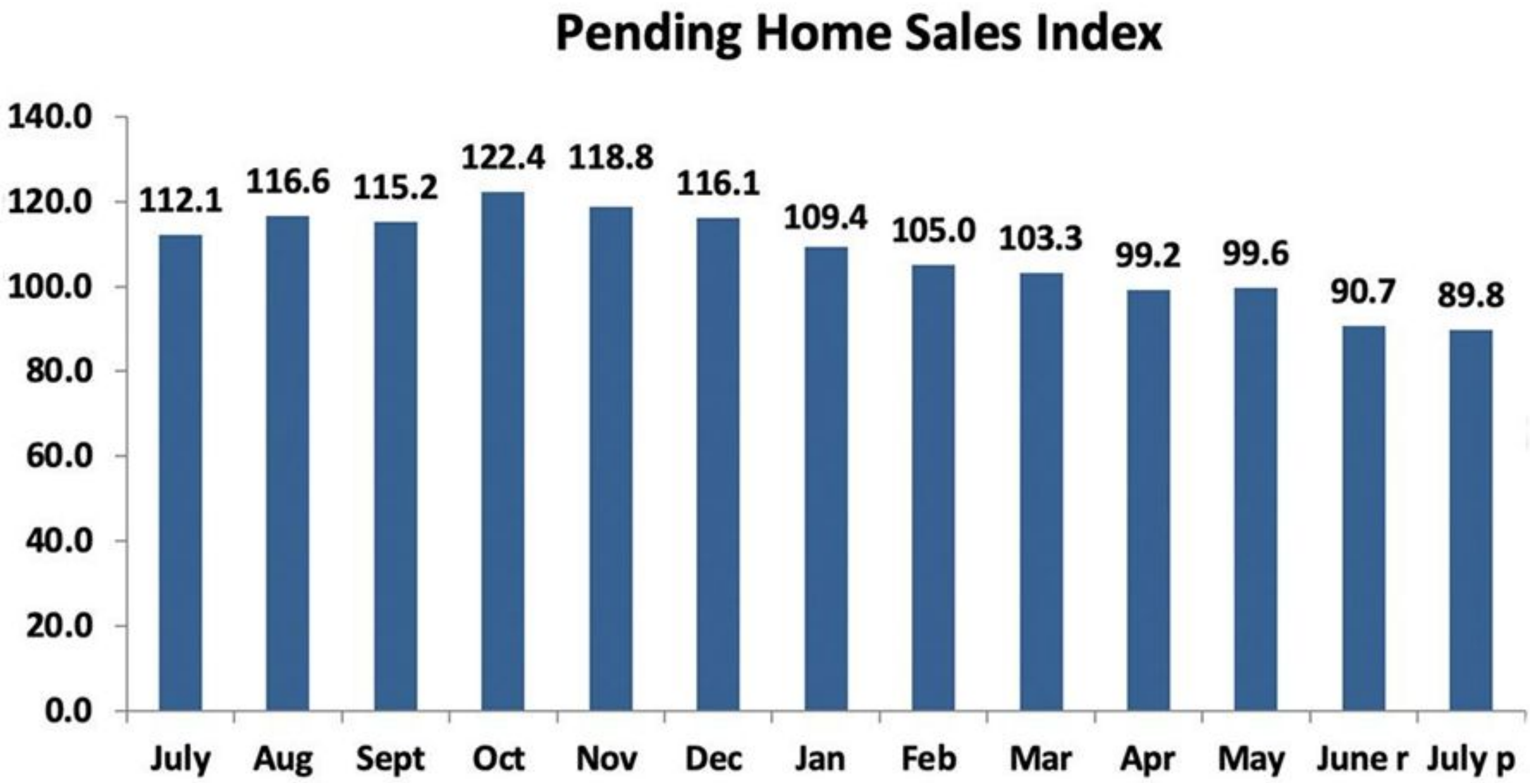


Figure 5. Pending Home Sales Index (Source: National Association of Realtors, NAR)

The National Association of Realtors (NAR) reported on August 24 that July's pending home sales declined 1.0 per cent from last month. The number of signed contracts for existing homes dropped 19.9 per cent in the past year. The 1 per cent reduction in home sales was better than analysts had predicted, which was 4 per cent, suggesting a potential cycle bottom.

It is also worth looking at the Pending Home Sales report, which shows recently signed contracts for existing homes. When a homebuyer commits to buying a built property, this agreement is added to the monthly list. New construction contracts are not included, whether signed by an individual, couple, group, first-time buyer, or home mover.

The report is a leading indicator of housing market activity because it reflects signed contracts for future purchases. When a property purchase contract is signed, it can take months to close. Some purchases will fall through for different reasons, but the number of contracts will indicate sales in two to three months.

The housing market is an excellent gauge of the economy. Buying and moving is expensive, so if people can't afford to do so, they'll stay put or rent. In eight out of the past nine months, pending home sales have declined. Rising mortgage rates have contributed to decreased activity.

Figure 6. Primary Mortgage Market Survey (Weekly average mortgage rates in the US, source: Freddie Mac)

Average mortgage rates in the US rose to 5.55 per cent after cooling off in July as pending home sales sank to their lowest level in two years. Higher borrowing costs and property prices near record highs have slowed the housing sector.

With the momentum of US home sales slowing faster than in 2007 due to the terrible affordability of real estate at the moment, the National Association of Housing Bureau’s Housing Market Index (HMI) just lost 30+ points. This is an estimate for the relative level of current and future home sales.

Historically, such a drop precedes a 3 per cent jump in the unemployment rate. If the correlation holds, that implies the US unemployment will be above 6 per cent in 2023.

The most recent numbers show that the housing market in the US remains difficult. The widening disparity between housing demand and supply is exacerbated by increased construction and land costs, supply chain disruptions, and a labour shortage despite the Federal Reserve's efforts to curb inflation.

GDP

Real GDP fell by 0.6 per cent in the second quarter compared to the first, based on an annualised estimate. The result was slightly better than the average estimate, which had predicted a drop of 0.9 per cent. Actual final sales to private domestic purchasers, a key gauge of domestic demand, has strengthened. It grew 0.2 per cent in the second quarter after 3.0 per cent in the first, as shown in figure 7 below. Real domestic final sales are up 1.8 per cent over the last four quarters.

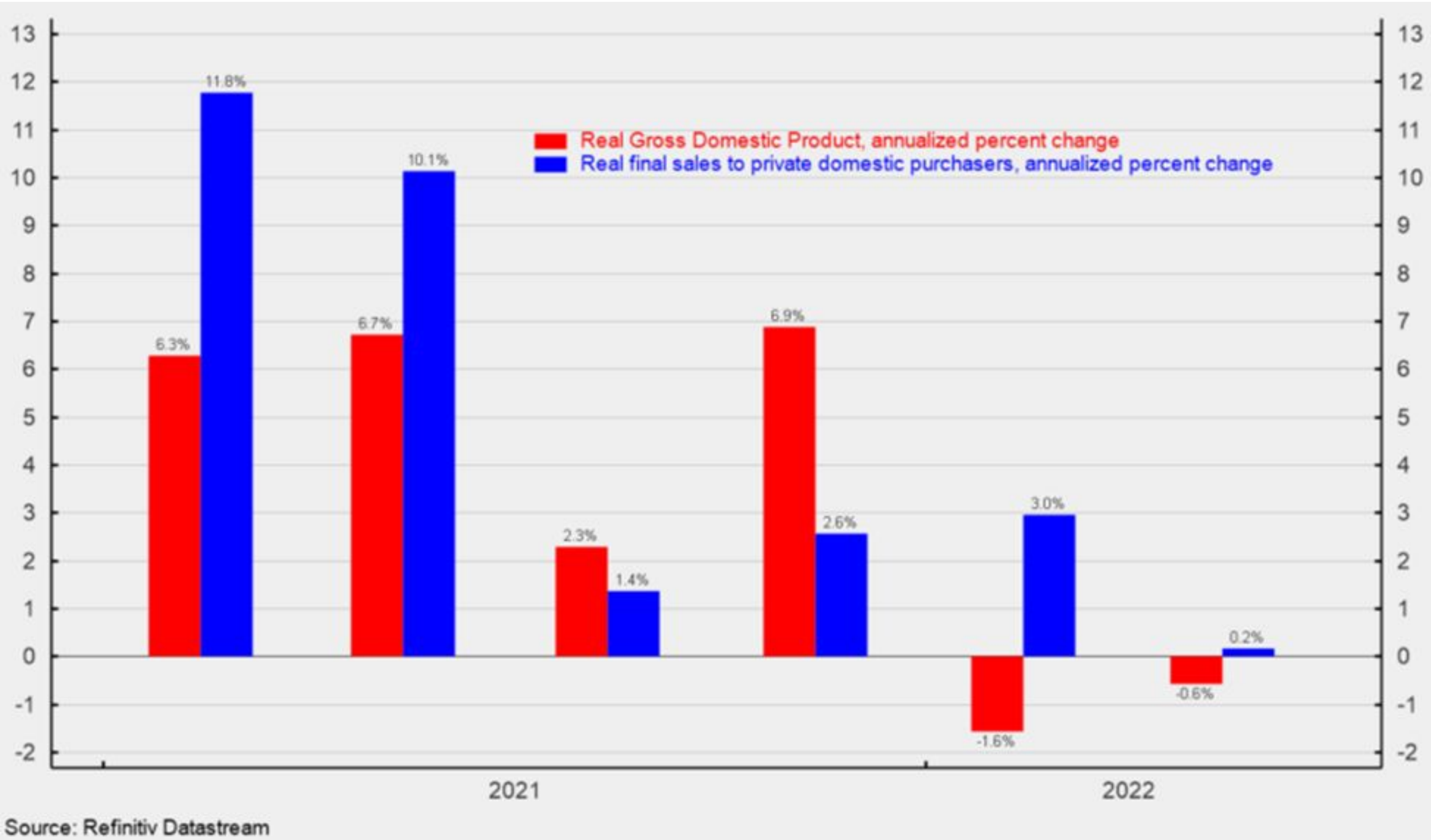


Figure 7. Real Private Domestic Demand Growth (Source: Refinitiv Datastream)

The increase in consumer spending was 1.5 per cent, more than the initial projection of 1.0 per cent. Gains were focused on services spending at 3.6 per cent; non-durable products saw the most significant drop (-3.7 per cent), while durable goods were steady at -0.1 per cent.

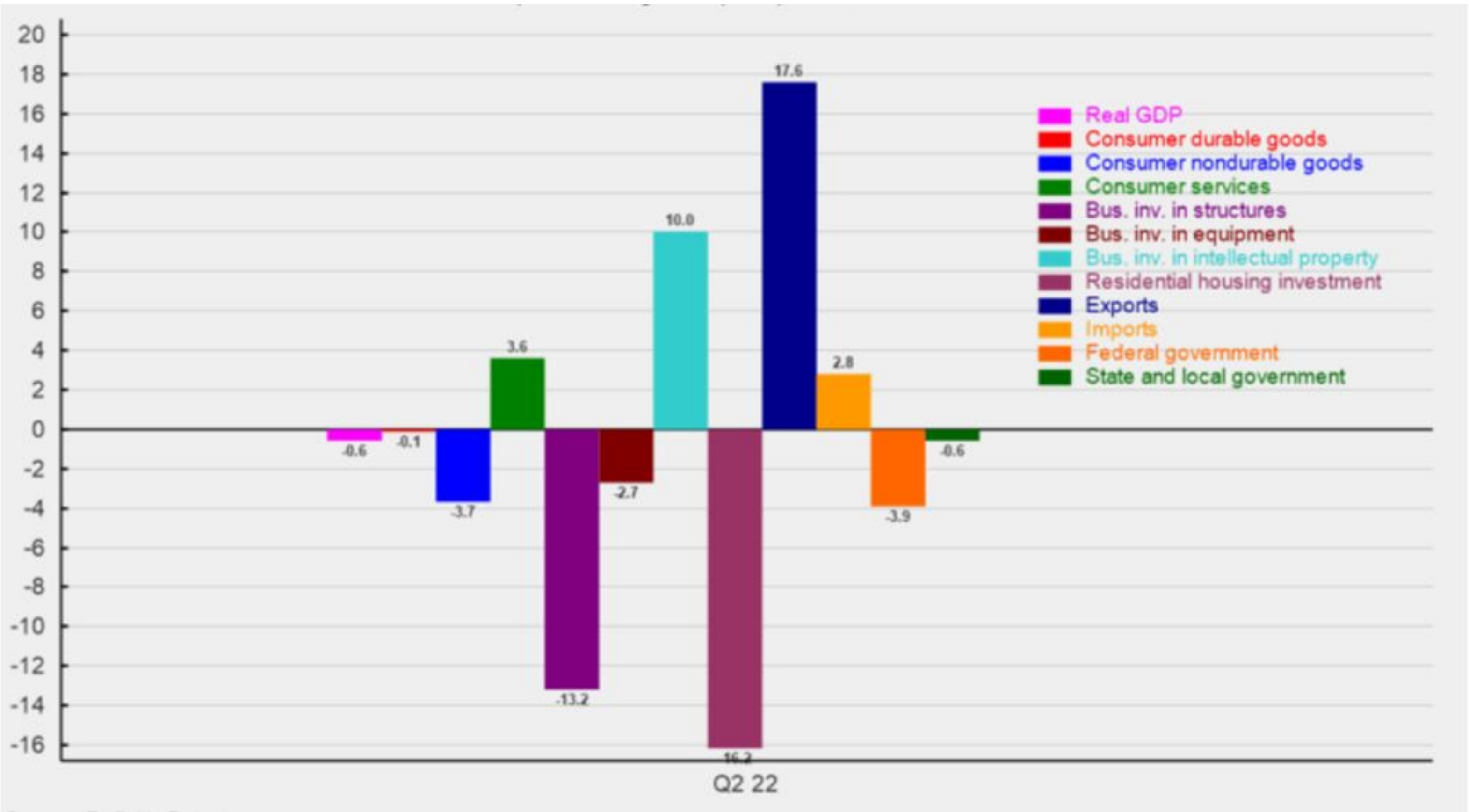


Figure 8. Components of Domestic Demand, per cent change from the previous quarter (source: Refinitiv Datastream)

Exports rose by 17.6 per cent, unchanged from the previous estimate. Conversely, import growth is at 2.8 per cent, which moderated last quarter. Overall, the trade deficit narrowed in the second quarter.

The second estimate of GDP for Q2 showed no change from the preliminary reading one month ago. Although GDP has shrunk in the last two quarters, the US economy still appears to be in expansionary territory.

Personal Income & Consumer Spending

Table 2. Personal Income and Spending, July 2022 (Source: Bureau of Economic Analysis)

	2022				
	Mar.	Apr.	May	June	July
	Percent change from preceding month				
Personal income:					
Current dollars	0.6	0.4	0.6	0.7	0.2
Disposable personal income:					
Current dollars	0.6	0.4	0.6	0.7	0.2
Chained (2012) dollars	-0.4	0.2	0.0	-0.2	0.3
Personal consumption expenditures (PCE):					
Current dollars	1.2	0.4	0.5	1.0	0.1
Chained (2012) dollars	0.3	0.2	-0.1	0.0	0.2
Price indexes:					
PCE	0.9	0.2	0.6	1.0	-0.1
PCE, excluding food and energy	0.3	0.3	0.4	0.6	0.1
Price indexes:	Percent change from month one year ago				
PCE	6.6	6.3	6.3	6.8	6.3
PCE, excluding food and energy	5.2	4.9	4.7	4.8	4.6

In July, personal income increased by 0.2 per cent, the highest since February, driven by gains in private wages. Consumer expenditure gained in July by 0.1 per cent compared to the previous month, as spending on services and durable goods grew while expenses for gasoline decreased.

While inflation remains at record highs, it decreased by 0.1 per cent between June and July. According to the data, the savings rate remained at 5 per cent, the lowest level since 2009.

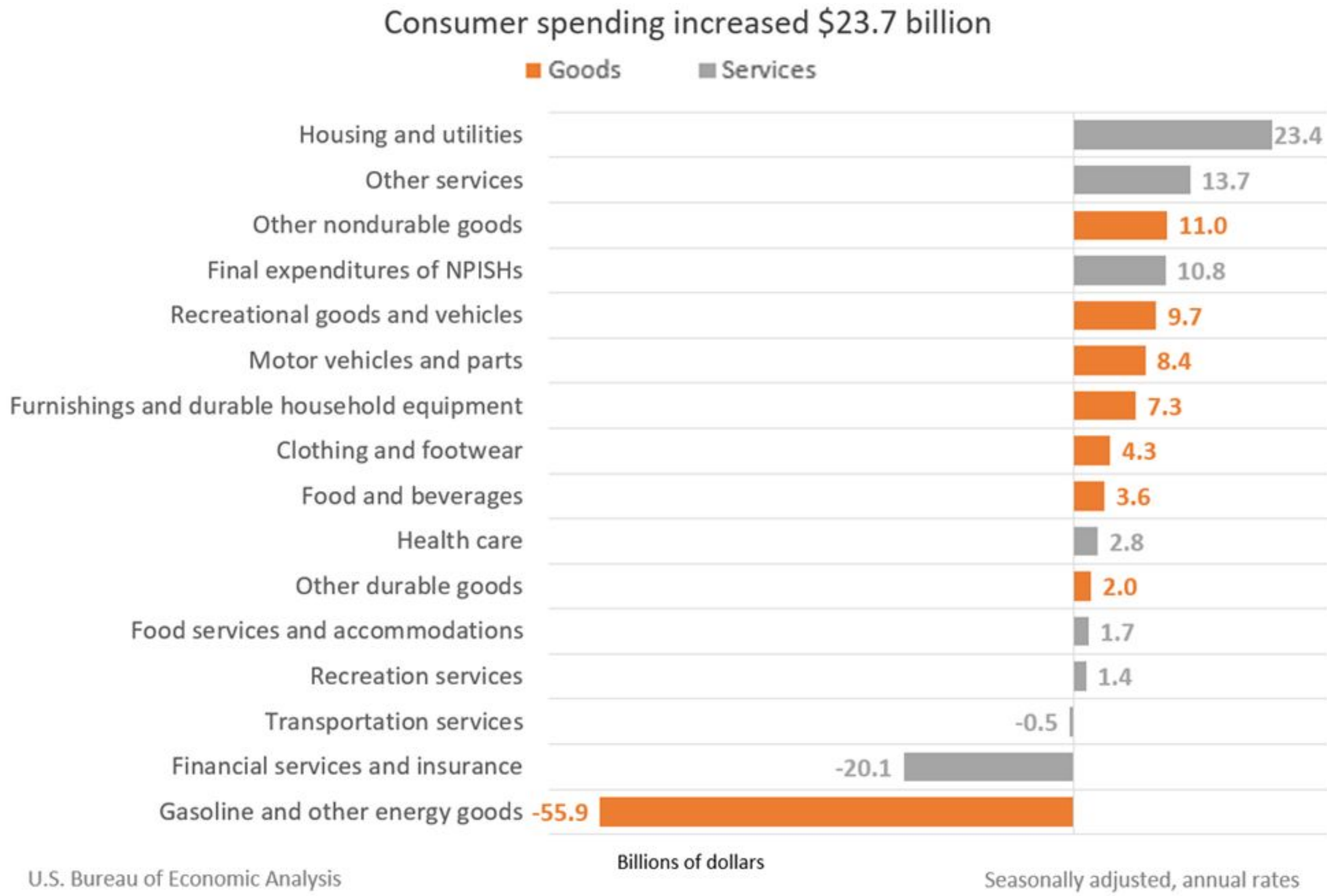


Figure 9. Changes in Consumer Spending, July 2022 (Source: US Bureau of Economic Analysis)

In the past week, the national average price for a gallon of gasoline decreased to $4.27. While this freed up funds for spending on automobiles, clothing, leisure products, furniture, and utilities, it hampered sales at gas stations. As a result, expenditures on goods decreased by 0.2 per cent in July, following a 1.5 per cent increase in June.

A modest rate of consumer expenditure in the second quarter mitigated the drag on the economy produced by a steep slowdown in inventory building due to supply constraints that led to the decline in Q2 GDP of 0.6 per cent.

Consumer Sentiment Index

According to the final August results of the University of Michigan Surveys of Consumers, overall consumer sentiment increased over the previous month but remains relatively low by historical standards.

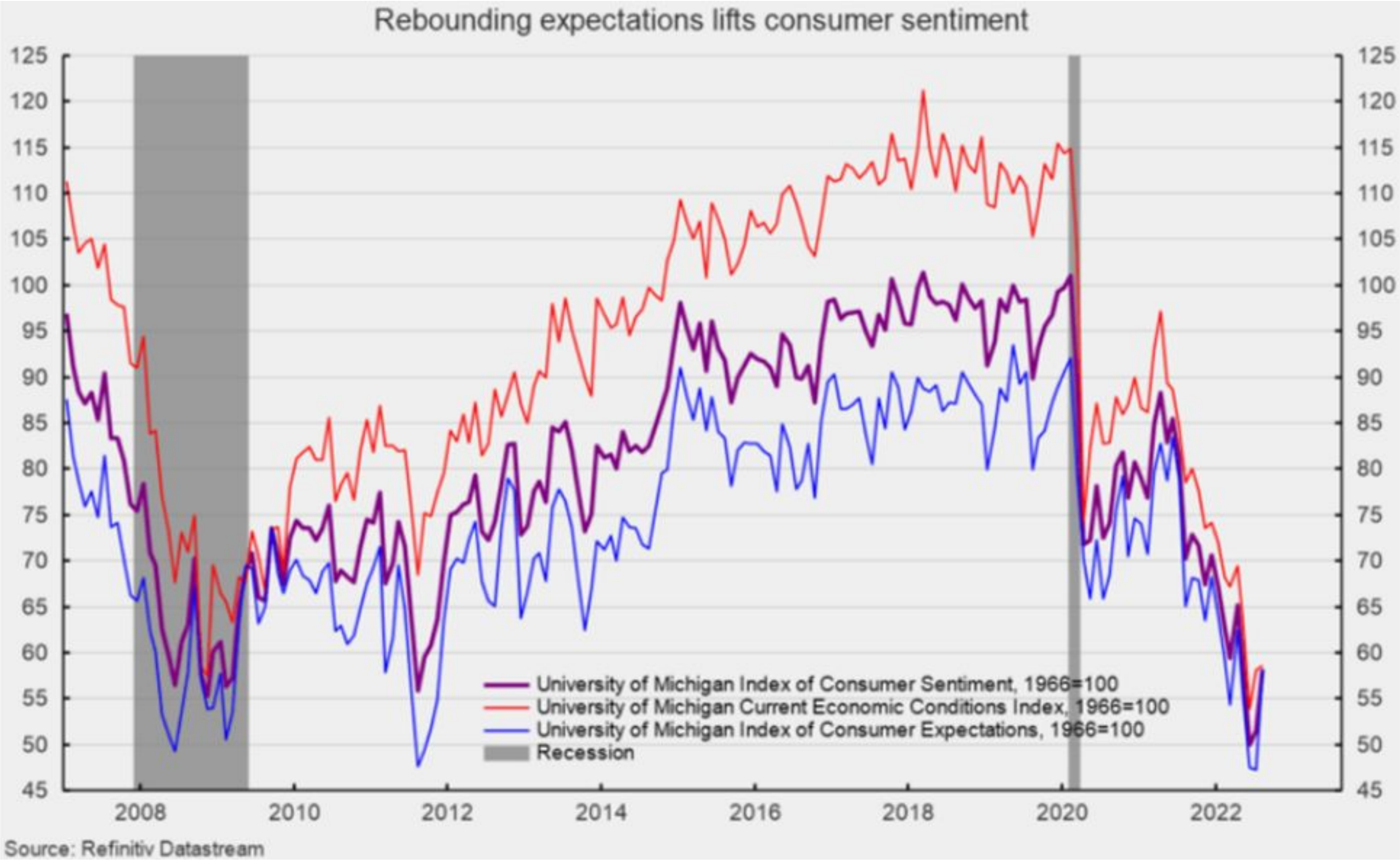


Figure 10. Consumer Sentiment, Current Economic Conditions Index & Index of Consumer Expectations (Source: University of Michigan, Refinitiv Datastream)

The index increased slightly to 58.6 in August, up from 58.1 in July. This is a 0.5-point or 0.9-per centage-point gain for the month. This component is somewhat higher than the record low and is consistent with previous recessions. [1] Consumer expectations increased by 10.7 points, or 22.6 per cent, for the month, reaching 58.0. Despite the increase, this component index is still commensurate with levels seen during previous recessions.

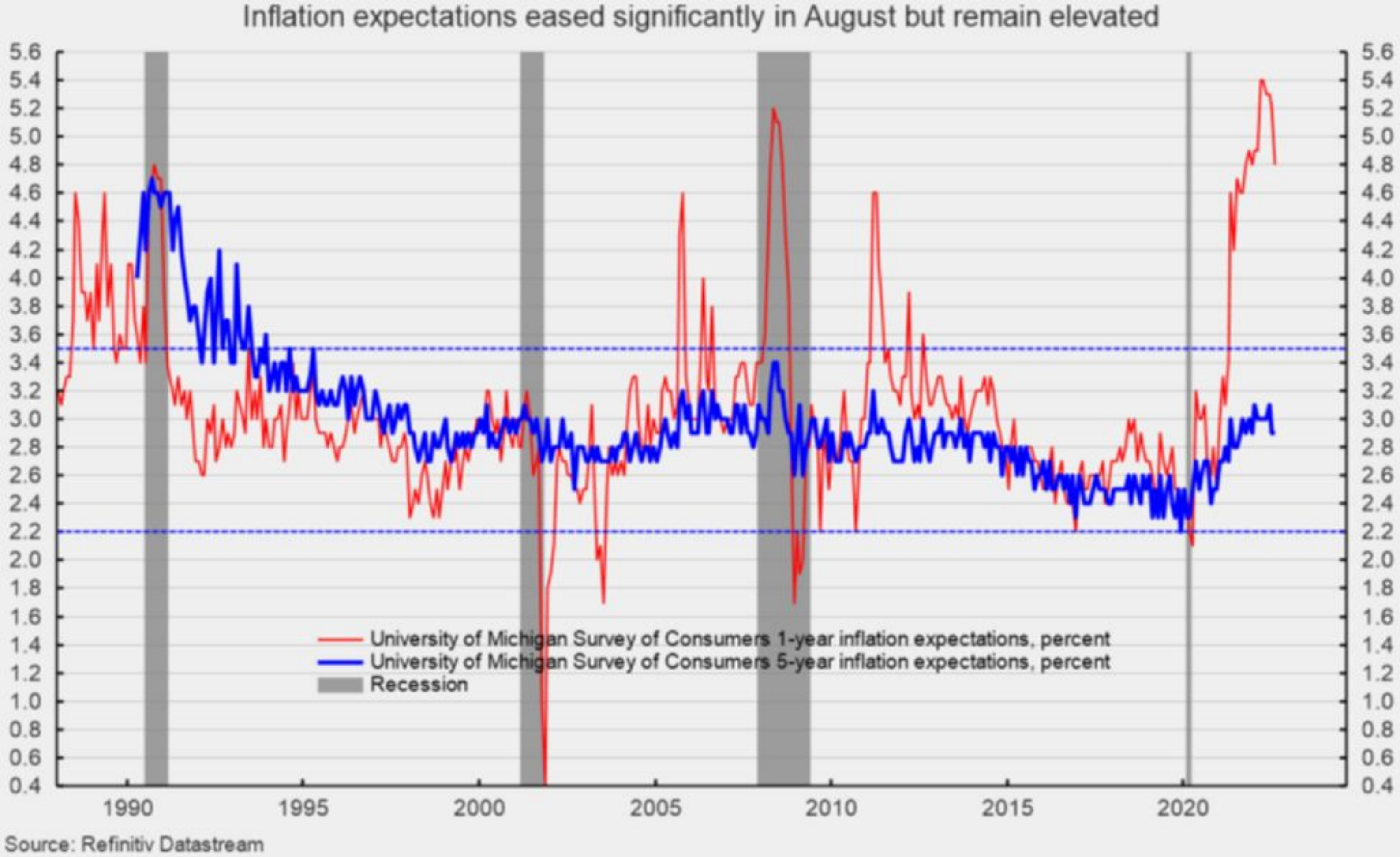


Figure 11. University of Michigan Consumers Inflation Expectations (Source: University of Michigan, Refinitiv Datastream)

In August, one-year inflation expectations declined significantly, falling 0.4 per centage points to 4.8 per cent. This is the third drop in the previous four months, following consecutive readings of 5.4 per cent in March and April, and is the lowest number since December 2021. In August, the five-year inflation forecast remained constant at 2.9 per cent. This figure is comfortably within the 25-year range of 2.2 per cent to 3.5 per cent.

The decline in consumer sentiment over the last year is attributable to inflation fears. Consistently high price inflation influences consumer and company decisions and hinders economic activity. Globally, economic risks remain heightened due to the impact of inflation, an accelerating Fed tightening cycle, and the ongoing repercussions of the Russia-Ukraine conflict.

Bonds and Equities Market React to Powell's Speech

Treasury rates rose on Friday after Federal Reserve Chair Jerome Powell spoke about the central bank's tightening policy.

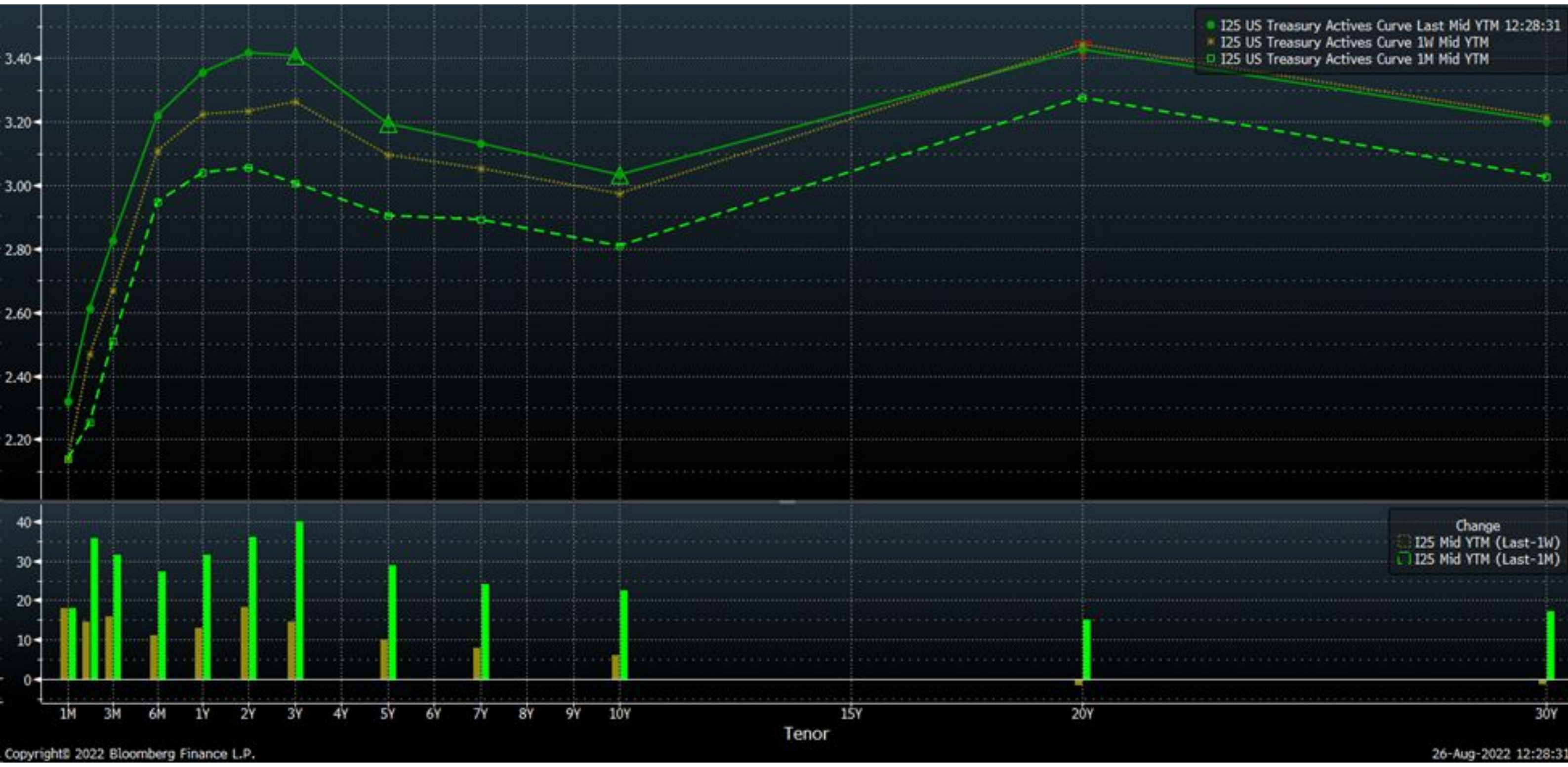


Figure 12. Federal Reserve Treasury Rates (source: Bloomberg Finance)

The yield on the 10-year Treasury note increased to 3.032 per cent after the speech, up less than one basis point. The two-year rate increased to 3.382 per cent. More significantly, if Fed Funds Futures are repriced to reflect the June FOMC predictions of 3.8 per cent, the two-year Treasury yield should also move to a 3.8 per cent to 4 per cent range.

Powell's Jackson Hole Speech dealt a fatal blow to the equities market. The Nasdaq and the S&P 500 saw their most significant one-day fall since June 13; the Nasdaq fell 3.9 per cent, and the S&P 500 dropped 3.3 per cent. There was a breach of the four-week low for each major average.

Figure 13. S&P 500 - 10year Treasury Note Spread (Source: Bloomberg)

There is now just a 2.4 per cent spread between the earnings yield on the S&P 500 and the yield on the 10-year Treasury. In the previous 12 years, the spread has only been this low once, in the fall of 2018, and never before that.

$$Earnings\,Yield = \frac{1}{P/E\,Ratio}$$

$$P/_E\ Ratio = \frac{Share\ Price}{Earnings\ per\ Share}$$

If the spread recovers to about 3 per cent, assuming the 10-Yr Treasury maintains approximately a 3 per cent yield, the earnings yield on the S&P 500 would need to increase by approximately 6 per cent, equivalent to a PE ratio of around 16.6. S&P 500 earnings projections for 2022 are $226.60 per share, giving the index a value of about $3,750. Assuming that the spread between the [1] 10-Yr yield and the S&P 500 earnings yield would expand as rates rise, the S&P 500 PE ratio might decline by a substantial amount in the long run. There is substantial downside potential from here since stocks have not been cheap and have diverged from bonds and the dollar.

SUMMARY

- August flash PMI numbers signalled more hardship for the US private sector. Interest rate hikes and inflationary pressures on consumer spending lowered demand further, weighing on activity. Private sector new orders decreased, suggesting sluggish manufacturing demand.
- July Pending Home Sales was -1.0 per cent M/M vs -4 per cent consensus with a year over year decline of 19.9 per cent
- The latest figures show a tough US housing market. Rising building and land costs, supply chain interruptions, and labour scarcity contribute to the widening housing demand-supply mismatch, despite the Fed trying to curb inflation.
- Real final sales to private domestic buyers, a key indicator of private domestic demand, has been more stable.
- Real GDP grew by 0.99 per centage points because of real consumer spending. Exports went up at 17.06 per cent, while imports went up at a rate of 2.80 per cent.
- Q2 GDP was scarcely altered from last month's advance estimate. Despite two consecutive quarters of GDP contraction, it still shows that the US economy is in expansionary territory.
- Final August data from University of Michigan Surveys of Consumers show consumer sentiment rose from the previous month but remains low historically.
- Consumer expenditure increased 0.1 per cent in July compared to the previous month. This was a decrease from June when expenditure climbed by 1 per cent. In July, Americans spent less on fuel and more on services and long-lasting goods. Personal income increased by 0.2 per cent last month, driven mainly by wages.
- The recent speech of Fed Chair Jerome Powell at the Jackson Hole symposium made it more apparent that there is no dovish pivot soon.
- The stock market had been the last hold out on hopes of a dovish pivot. The recent Jackson Hole meeting has made it clear to everyone that it's not happening - expect lower equity prices.
- Stocks and Cryptocurrency fell sharply following Powell's Jackson Hole Speech highlighting investors' narrowed tolerance to risk assets.

NEWS FROM CRYPTO-SPHERE

DTCC Launches Private Blockchain Settlement Platform

Figure 14. DTCC's Project Ion Goes Live, Processing Over 100,000 Transactions Daily On Distributed Ledger Technology

New York-based financial services company The Depository Trust & Clearing Corporation (DTCC) announced on Monday, August 22, 2022, that it had launched its private blockchain platform Project Ion. The project aims to provide clients with secure and scalable settlement services.

According to a press release, Project Ion has processed an average of over 100,000 bilateral equity transactions daily and nearly 160,000 transactions on peak days in parallel production. The existing settlement system of DTCC's subsidiary, The Depository Trust Company (DTC), provides an authoritative legal ownership record.

The project has been developed in collaboration with several leading market participants and technology provider firms such as Barclays, BNY Mellon, Goldman Sachs and JPMorgan

DTCC has also partnered with leading enterprise technology provider R3 to develop and launch the Project Ion platform utilising R3's Corda distributed ledger technology (DLT) software.

With the parallel production environment live, DTCC is working with its users to expand the platform gradually. This may include increasing the range of supported DTC activities and centralised clearing activities provided by DTCC's subsidiary, National Securities Clearing Corporation (NSCC).

"This is a milestone achievement for the equity markets and reflects the deep level of collaboration and partnership between DTCC and our clients. Project Ion is an important step forward in advancing digitalisation in financial markets and opens the door to exciting new opportunities to drive greater efficiencies, risk management and cost savings for the industry," said Murray Pozmanter, Managing Director and President of DTCC Clearing Agency Services.

Michele Hillery, DTCC's Managing Director for Equity Clearing and DTC Settlement Services, stated that Project Ion provides a parallel ledger and infrastructure for limited bilateral transactions, and DTC's existing systems remain the authoritative source for transactions.

"With firms across the industry at different maturity levels around DLT adoption, DTCC is building this platform to provide optionality and flexibility to clients. Those who are ready to leverage the Project Ion platform can begin development efforts today while others can continue to use our classic solutions," Michael Hillery said.

Celsius Countersues Decentralized Finance KeyFi For Stealing Millions Of Dollars

Figure 15. Celsius countersues KeyFi, arguing that the DeFi strategy firm is responsible for Celsius losing tens of millions of dollars.

The troubled crypto lending platform Celsius filed a countersuit against DeFi firm KeyFi and its CEO Jason Stone in the United States Bankruptcy Court on Tuesday, August 23, 2022. In the filing, Celsius accused Stone of misrepresenting himself as a pioneer and expert in DeFi investments.

According to court documents, Celsius said that Stone and KeyFi proved "incapable” of deploying funds profitably, causing Celsius significant losses through their “gross mismanagement”.

“The Defendants were not just incompetent; they also were thieves,” the lawsuit states.

Celsius stated that Stone and KeyFi stole millions of coins from Celsius wallets. Further, Celsius alleges that the defendant used Celsius coins to buy hundreds of non-fungible tokens (NFTs) without Celsius' authorisation and then sent them to their wallets.

Stone and KeyFi also allegedly bought an interest in “numerous blockchain-related companies” with Celsius coins and laundered the stolen coins through Tornado Cash, the cryptocurrency mixer recently banned by The U.S Treasury Department.

KeyFi initially sued Celsius on July 7, 2022, alleging that Celsius operated a Ponzi scheme, exploited customer funds to manipulate crypto asset markets, and made basic accounting errors that resulted in $200 million in losses.

Stone's legal representative responded to a lawsuit on Twitter, stating that “the compensation that KeyFi received (including in the form of NFTs) was authorised by Celsius’s CEO Alexander Mashinsky,”. The recent lawsuit is “an attempt to rewrite history and use KeyFi and Mr Stone as scapegoats for their organisational incompetence.”

Trio in Miami Arrested For $4M Crypto Bank Scam

Figure 16. The Miami trio were arrested for allegedly defrauding banks for nearly $4 million.

The US Department of Justice (DOJ) on Tuesday, August 23, 2022, arrested three Miami men allegedly involved in a scheme to steal millions of dollars in cryptocurrency through crypto exchanges and US banks.

According to a press release, defendants Esteban Cabrera Da Corte, Luis Hernandez Gonzalez, and Asdrubal Ramirez Meza organised a scheme to defraud US banks and crypto exchanges of more than $4 million and this lasted for several months in 2020.

The defendants bought more than $4 million in cryptocurrency by opening accounts with a leading cryptocurrency exchange using photos of fake US passports and fake driver's licenses. However, the accounts were linked to bank accounts in the US, which the defendants controlled.

After buying cryptocurrency from the exchange, the defendants transferred it to external cryptocurrency wallets. Once the funds were secure, they called the banks to say that the purchases had been unauthorised and asked the banks to reimburse them.

"As alleged, Esteban Cabrera Da Corte, Luis Hernandez Gonzalez, and Asdrubal Ramirez Meza used stolen identities to buy a cryptocurrency and then doubled down by disputing the transactions. They were deceiving US banks into believing they were the victims of someone else's fraud," US Attorney Damian Williams said.

The scheme continued until the banks involved ended up processing over $4 million in fraudulent reversals, and the undisclosed crypto exchange lost over $3.5 million worth of digital currency.

According to the authorities, the defendants withdrew the proceeds generated from the scheme through wire transfers, cashier' checks and ATM withdrawals.

The men were arrested in part as a result of investigative work carried out by the Department of Homeland Security's El Dorado Task Force; a decades-long program focused on money laundering.

The US Attorney's Office charged the trio with multiple offences, including wire fraud and aggravated identity theft, for exploiting both the crypto market and the US financial system.

The US attorney's office says the defendants will appear in US District Court for the Southern District of Florida for trial.

Tether (USDT) Stands By Its Decision Not To Freeze Tornado Cash Addresses

Figure 17. The stablecoin issuer believes freezing Tornado Cash addresses is a reckless move and expects further clarity from the U.S. authorities.

The world's largest stablecoin issuer, Tether released a statement on Wednesday, August 25, 2022, that it would not be freezing Tornado Cash wallet addresses that have been sanctioned by the U.S. Treasury Department's Office of Foreign Assets Control (OFAC).

According to a statement, Tether is cooperating with law enforcement worldwide to assist in investigations, including freezing addresses related to the recent sanctions against Tornado Cash.

However, Tether stated that it has not been specifically instructed to freeze Tornado Cash addresses. It said that OFAC “has not indicated that a stablecoin issuer is expected to freeze secondary market addresses” that are on its sanctions list or belong to a sanctioned entity.

The company says it is in daily contact with law enforcement and would comply with orders when it receives legitimate law enforcement requests.

In addition, Tether explained that freezing addresses without a request from law enforcement could be a “highly disruptive” and “reckless” move. The company believes the move could alert suspects in investigations, cause liquidations, and jeopardise future connections.

“Even if Tether recognises suspicious activities on such an address, completing a freeze without the verified instruction of law enforcement and other government agencies might interfere with ongoing and sophisticated law enforcement investigations," the company explained.

Tether also clarified that it would willingly freeze a private wallet address, but not wallets belonging to exchanges or services.

“It is also worth mentioning that Tether is not a US person, does not operate in the United States or onboard US persons as customers. However, Tether considers OFAC Sanctions part of its world-class compliance program.” The company said in a statement.

WHAT'S ON-CHAIN THIS WEEK?

Ethereum whales move holdings onto exchanges as the Merge approaches

The Merge date is scheduled for Sept. 15, after the successful Goerli testnet integration — the final testnet merger before the actual transition. Ether (ETH), Ethereum's native token, saw a bullish surge in July after the announcement of the Merge date, with its price rising to a new six-month high of over $2,000 but failed to consolidate at the critical resistance.

Top whale addresses have been moving some of their Ether to exchanges. In the past three months, non-exchange addresses have decreased by 11 per cent.

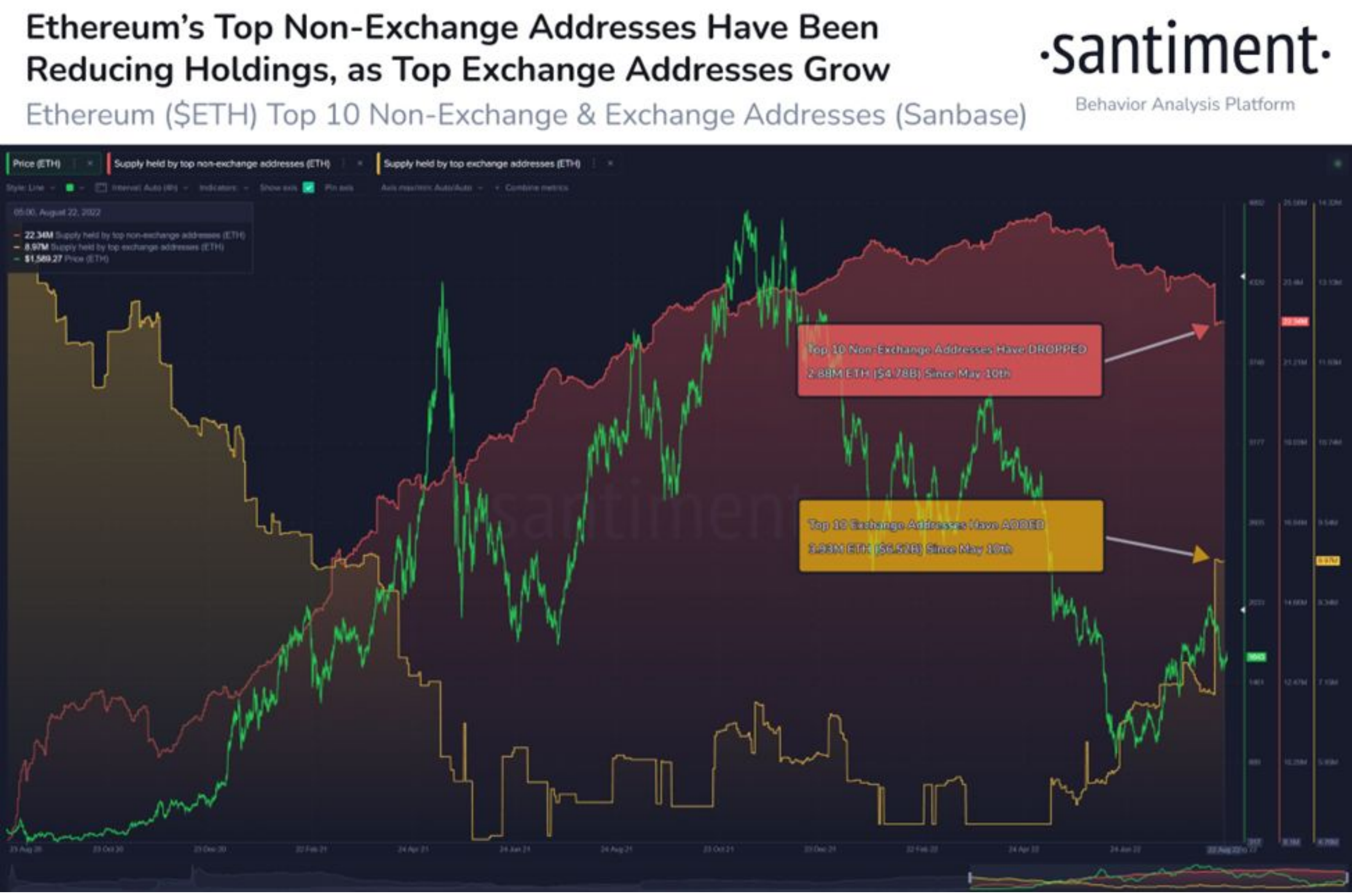


Figure 18. ETH top non-exchange address holdings. (source: Santiment)

Data from crypto analytics firm *Santiment* indicates that the gap between Ethereum’s top 10 largest non-exchange addresses and exchange addresses is closing. Over the past three months, top whale addresses have sent a significant amount of ETH onto exchanges. Non-exchange addresses have declined 11 per cent, while exchange-based addresses have surged by 78 per cent.

The Merge will mark the completion of the second of three phases in Ethereum’s transition to PoS. The process began in December 2020 with the launch of the Beacon Chain. The Sept. 15 event is a significant milestone for Ethereum, but the Merge only means a change of mining consensus. Key benefits such as high transaction capacity, lower gas fees and a reduction in energy consumption will come after the completion of the third phase.

Correlation between risk assets and the US dollar

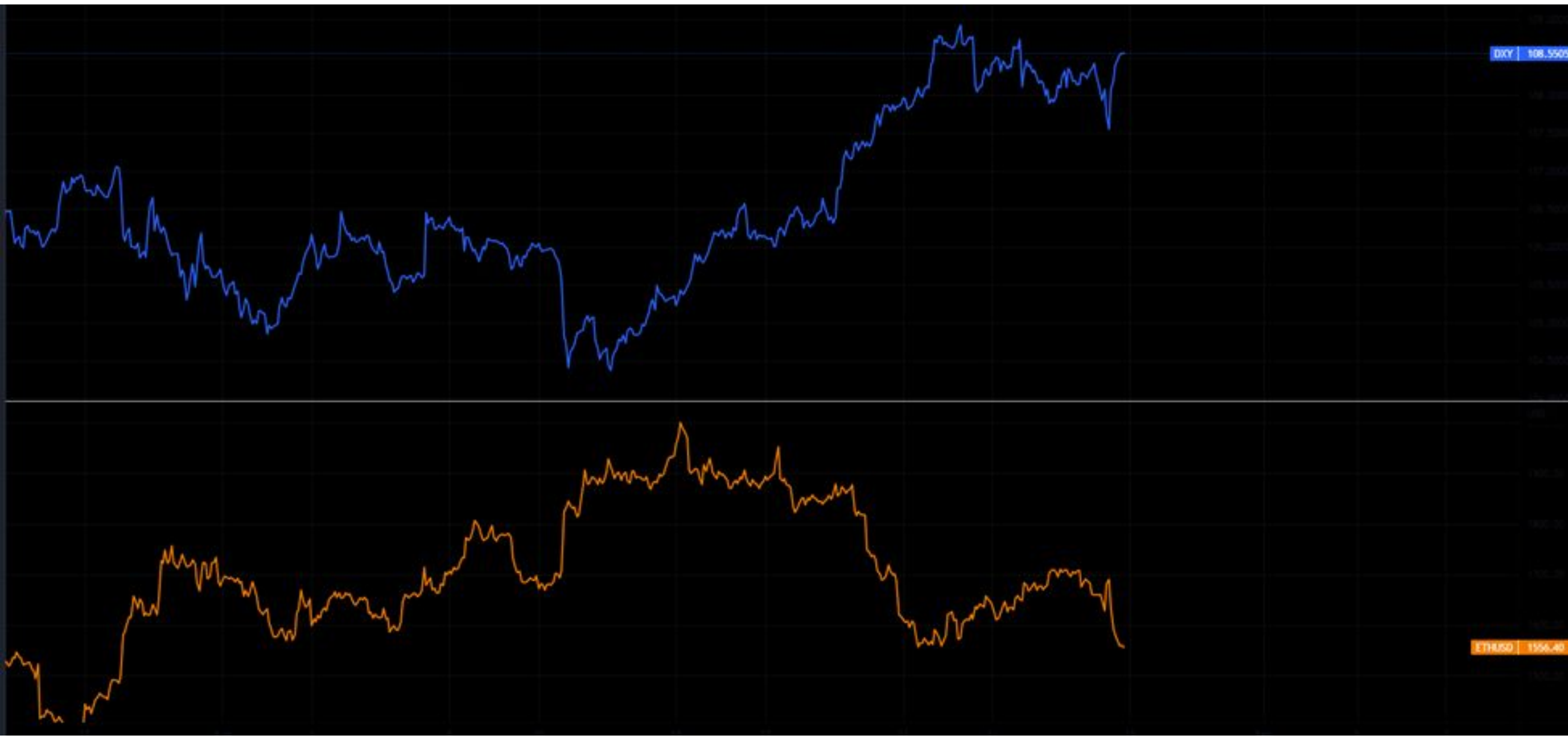


Figure 19. Inverse Correlation between Ether and DXY index.

Even with The Merge as a major idiosyncratic crypto story and the Tornado Cash story pushing the other way, crypto’s anchor is still exogenous: the performance of risky assets and the USD still determines the primary path. The inverse correlation between the dollar index and ETH is evident from the above chart.

There has been talk of a decoupling of the US stock market indices with crypto assets. They have been in direct correlation, with crypto outperforming the equity market for longer than the past two years. However, what can now be seen is not in fact a decoupling, but rather a laggard effect experienced by crypto investors which is, without reading too much into it, a sign of market immaturity.

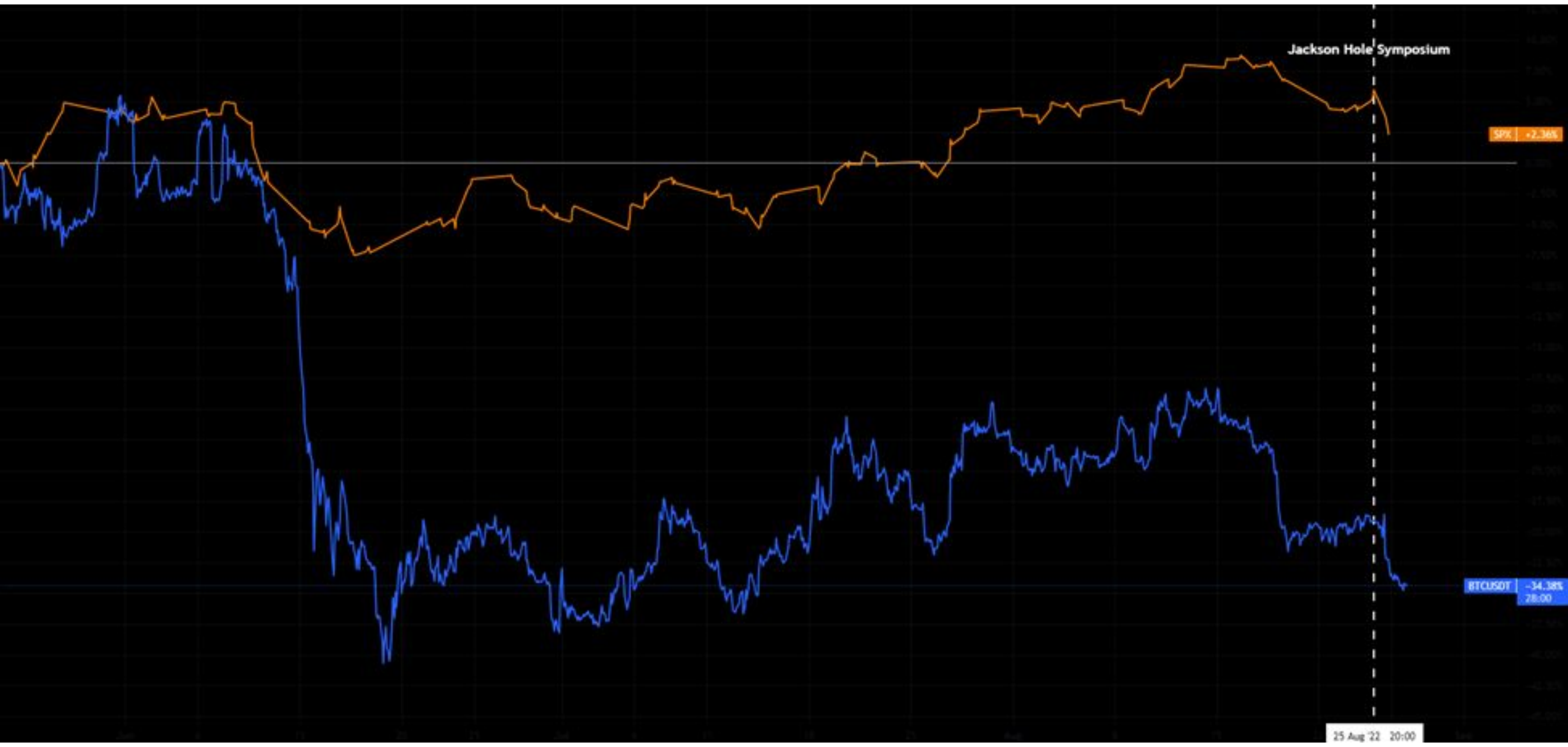


Figure 20. BTC vs SPX correlation on the hourly chart.

Figure 21 clearly depicts the laggard effect in crypto markets, with respect to significant news events, compared to the equity market. Though the Ethereum upgrade remains of significant importance in crypto markets, the overall trajectory of the market still moves in line with the US Dollar.

Hodlers Continue to Accumulate

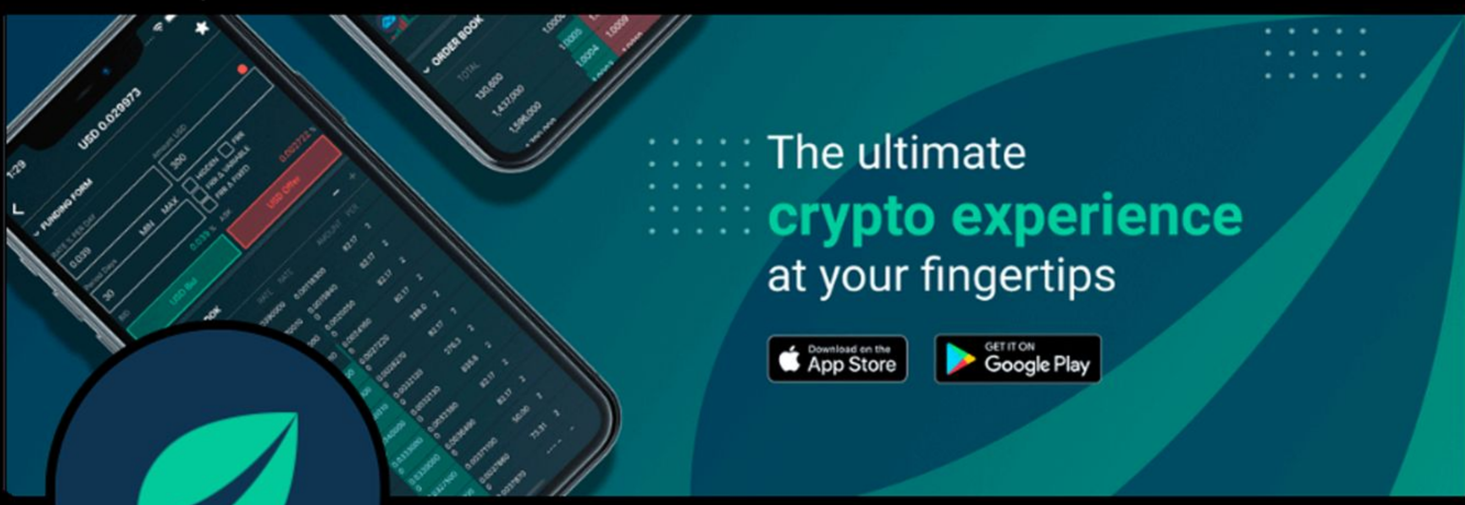
Many crypto-assets are still in demand. Several tokens, including Bitcoin and Ether, have experienced a rally in owned addresses, and long-term investors are continuing to double down.

Figure 21. Balance by Time Held for BTC investors as of August 25th. (source: IntotheBlock)

Figure 22 illustrates that the balance of Hodlers has reached a new peak of 12.92 million BTC. With over 60 per cent of all Bitcoin now being held by addresses that have been holding those spot positions for more than a year, and large wallet hodling activity is congruent with that of the past bear markets.

Figure 22. Addresses by size of holdings for BTC (source: IntotheBlock)

The number of addresses holding between 1-10 BTC continues to set new highs, approximating 750k. The persistent accumulation throughout bear markets demonstrates the numerous holders' strong commitment to and long-term belief in cryptocurrency.



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