BITFINEX Alpha



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EXECUTIVE SUMMARY

With revelations last week that US Gross Domestic Product in the third quarter was still unabashedly strong on a real basis up 2.6 percent, and the latest core Personal Consumption Expenditure index above 5 percent, the Federal Reserve's ongoing battle with inflation is not over.

While this means we are almost certain to see another significant hike in rates following this week's Federal Open Market Committee meeting, longer term, there may be some light at the end of the tunnel.

Final sales of private domestic purchasers, which excludes volatile trades and inventory swings, edged up by only 0.1 percent in Q3, providing some small evidence that rising interest rates are beginning to weaken demand.

And while we anticipate that expenditure in the economy will continue to increase in the fourth quarter, as inventories and a strong dollar provide a tailwind, the upcoming holiday season in the US usually leads to a decrease in spending in the new year. Dwindling savings rates should also accelerate this trend, and as the midterm elections in the US approach, the expected uptick in political advertising is expected to further weigh on consumer sentiment. We expect the economy to shift gears next year, ushering in a new period of slower growth characterised by continued restrictive monetary policy.

Meanwhile on-chain, while there have been crushing declines in the value of Decentralised Finance (DeFi) protocols, as the crypto winter chills decentralised lending, zoom out and the overall picture for crypto is not so bleak. Bitcoin and Ether have performed better than stock indices over the past three months, and despite rate hikes and geopolitical uncertainty, have held up better than the Nasdaq100. On a year to date basis, BTC's negative 56 percent return and ETH's negative 59 percent return are significantly better than the performance of tech stocks, which has seen Meta fall by 71 percent, and Snap by 80 percent.

Indeed, by mid-October, we saw the lowest correlation between Bitcoin and stock indices since the first week of January, reaching zero at one point, indicating no statistical association between the two assets. (Correlation has since increased again as the earnings season swung into gear)

It's therefore clear that the performance of cryptocurrencies, while impacted by economic outcomes and economic projections, were perhaps as not affected as some might have anticipated.

In this week's Bitfinex Alpha we also explore in our Learning Section how stablecoins continue to provide a source of stability in volatile markets, and in particular how USDt has continued to resolutely hold its value. We also highlight how crypto lending and staking services provide a source of growth if you just want to ride out the winter by hodling.

In our news section, we revisit important innovations that were unveiled during the week including the enablement of payments on Keet.io, the peer-to-peer (P2P) chat and video app, and the launch of Pear Credit, a P2P credit system that allows issuers to create P2P credit tokens.

The bear market is clearly for building. Have a great trading week.

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GENERAL MARKET UPDATE

Solid Growth with Some Areas of Weakness

Real Gross Domestic Product (GDP), a measure of service and goods output, is growing at a 2.6 percent annual rate in the US, the Bureau of Economic Analysis reported Thursday, October 27. The report indicates that the economy remains strong, Nominal economic growth has also remained strong, with nominal GDP increasing by 6.7 percent on a seasonally-adjusted annualised basis. This growth rate is still slightly faster than the first quarter's 6.6 percent nominal growth rate.

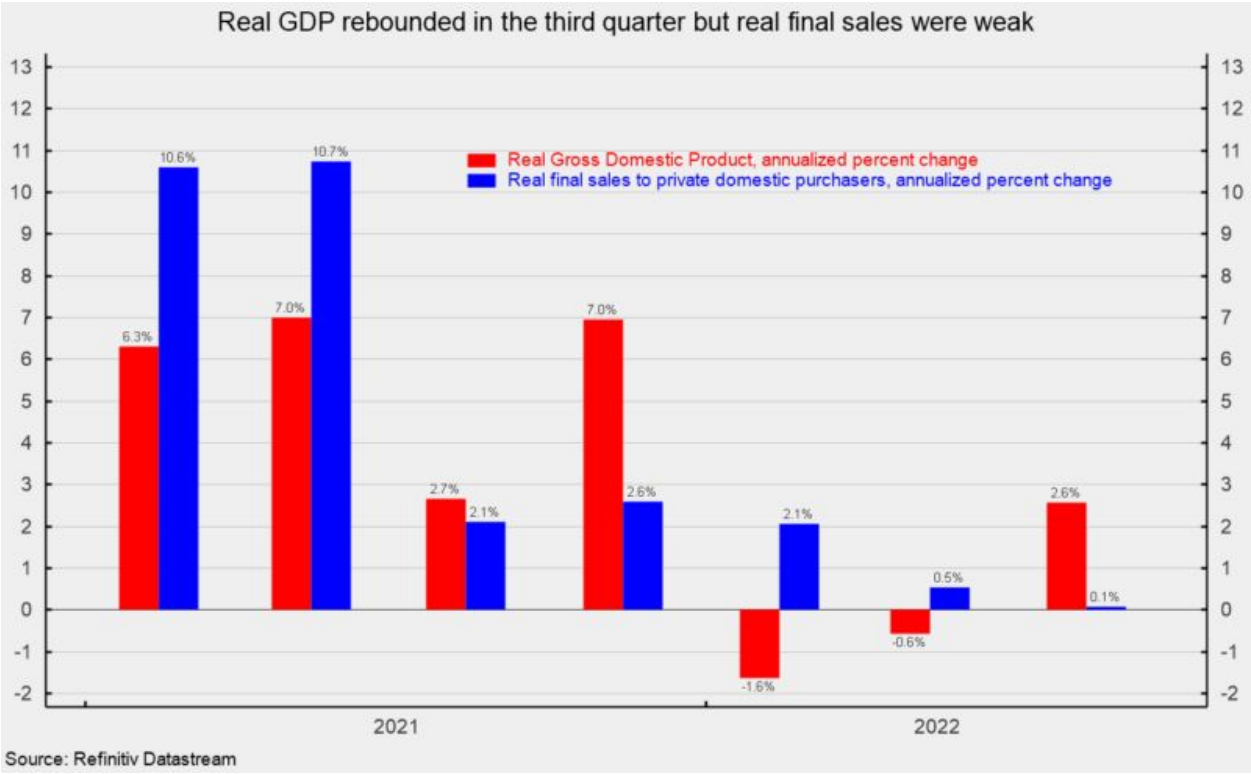


Figure 1. *. Real Gross Domestic Product & Final Sales to Private Domestic Purchasers (Source: Bureau of Economic Analysis, Refinitiv Data Stream*

On this basis, it's difficult to claim that the Federal Reserve (the Fed) has made much progress in lowering economic growth below trend. The inclination towards reduced growth for the Fed originates from its mandate to lower inflation at any cost. As per historical trends, monetary policy changes take six to nine months to affect the economy and it has been seven months since the Fed started raising interest rates. However, at this moment, nominal GDP growth exceeds the historical average of 4.4 percent (measured since 2001).

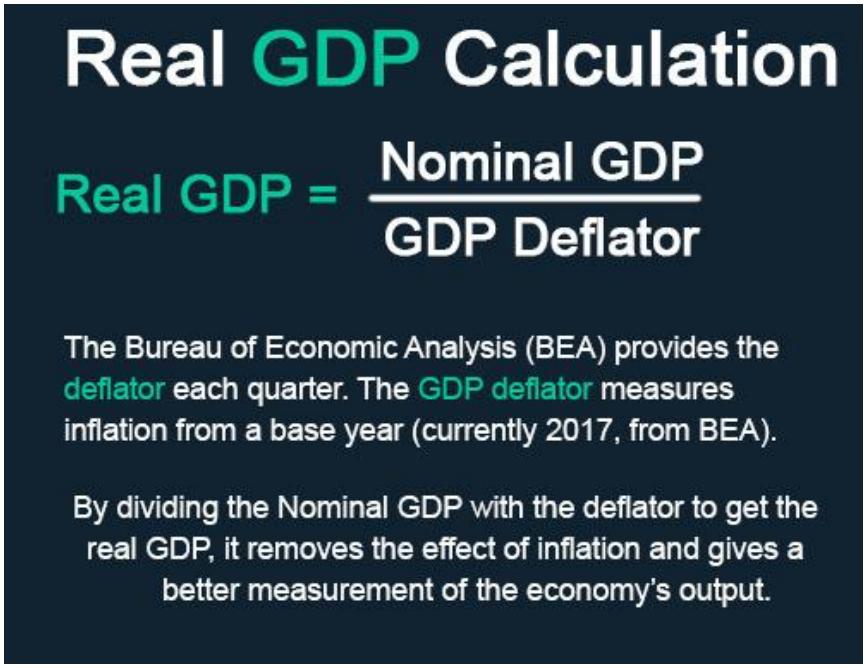


Figure 2. *. Real GDP Calculation*

Nominal GDP is measured using today's prices. During high inflation, the measure of an economy's output can be significantly distorted. So, real GDP is a more exact measure of the economy's output because it is adjusted for the price level using prices from a base year.

The protagonist of the entire economic story remains inflation. The current nominal growth of 6.7 percent would have been substantial at moderate inflation, but because we are in a peculiar time with the highest inflation in decades, we end up with just 2.6 percent real GDP. Nominal growth must continue to shrink for the price index to fall. Hence, the Fed cannot reverse course or suspend its rate hikes. Raising interest rates further may be necessary to remove additional nominal growth from the economy.

A pocket of Weakness: Domestic Activity

The bulk of the rebound in growth is due to the shrinking trade deficit, a component of GDP calculation. The trade deficit shrank dramatically as slower demand reduced the cost of imported products, and exports increased throughout the period. The reduced trade imbalance is reflected in increased GDP growth of 2.77 percentage points, the largest since the third quarter of 1980.

Final sales of private domestic purchasers, which excludes volatile trades and inventory swings, can give us a better indicator of the underlying pace of the US economy inside the GDP print. Final sales by domestic purchasers edged up by only 0.1 percent. It is evident that rising interest rates are beginning to weaken demand.

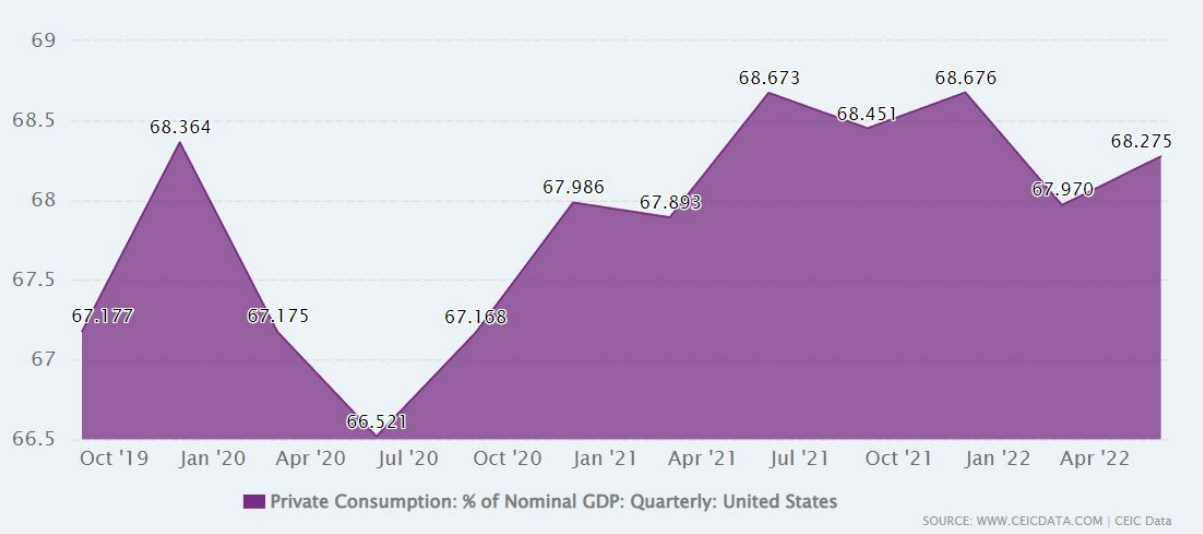


Figure 3 *. US Private Consumption in percent of GDP. (source: ceicdata)*

The strong rebound of the US economy is therefore coming mainly from swings in trade and inventory. Meanwhile, domestic demand is weakening due to aggressive rate hikes. As a consequence, recent GDP data may have overstated the nation's economic health, and domestic economic activity tells us that strong GDP growth likely cannot be sustained.

Fed's Inflation Yardstick Worsens

As we are just days away from the highly anticipated Federal Open Market Committee meeting, the Fed's economic inflation yardstick, the Core Personal Consumption Expenditure (PCE) price index, has shown no signs of cooling off. The PCE report, released Friday, October 29 by the Bureau of Economic Analysis (BEA), came in at a headline 6.2 percent. The report indicates that the Fed is far from taking its feet off the gas pedal in terms of interest rate hikes. Economists see PCE as a lowball inflation index produced by the government because it attempts to measure inflation across the economy through consumers' spending habits while excluding food and energy.

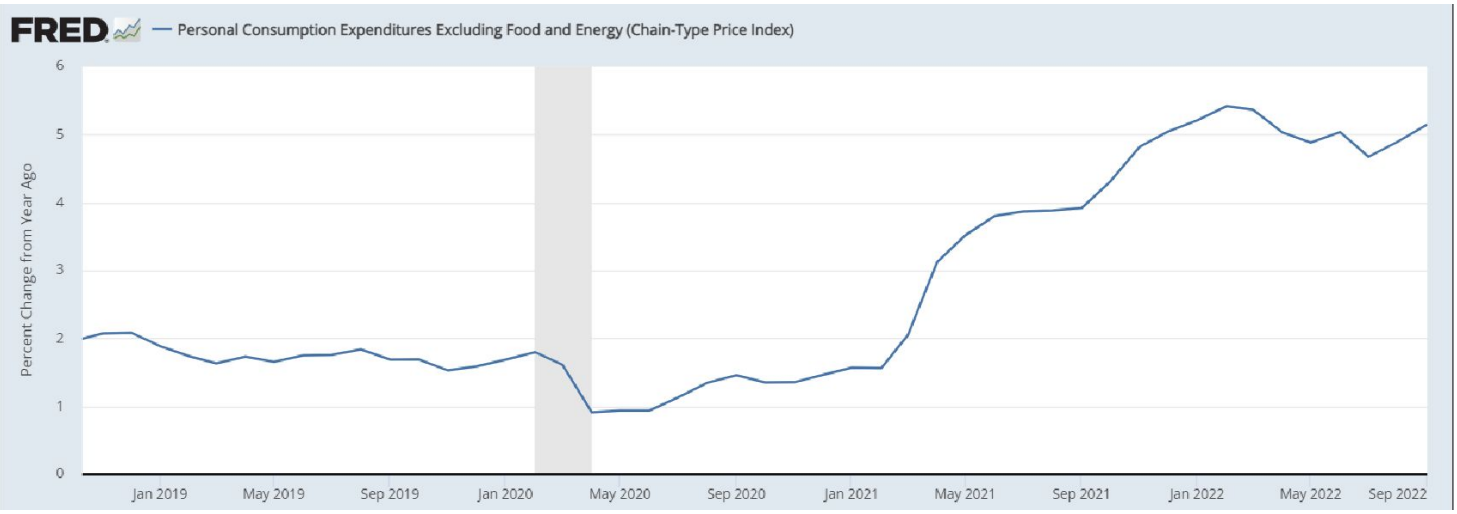


Figure 4. *. Core Personal Consumption Expenditure, Year-on-Year Change (Source: Bureau of Economic Analysis)*

Core PCE prices jumped 5.1 percent in September from a year ago, the fourth-highest reading in this hiking cycle, trailing behind January, February and March. This year has recorded the highest PCE numbers in the past 39 years. Core PCE inflation is rising and is now over 2.5 times the Federal Reserve's two percent objective. This further strengthens the market's forecast of a 75 basis points rate hike bringing the upper limit of the federal funds rate to four percent.

It does not matter whether or not the Core PCE represents actual inflation in the economy. What matters more is that it is the Fed's yardstick for inflation and will be the basis for upcoming rate hikes. It also matters for the bond and stock market as investors try to predict the Fed's next moves in monetary policy.

With the recent core PCE measure, following the earlier CPI report that was out earlier this month which showed 8.2 percent YoY growth (8.1 percent YoY was the expected figure), and with the current GDP print, the Fed has its ammo of economic data for another rate hike.

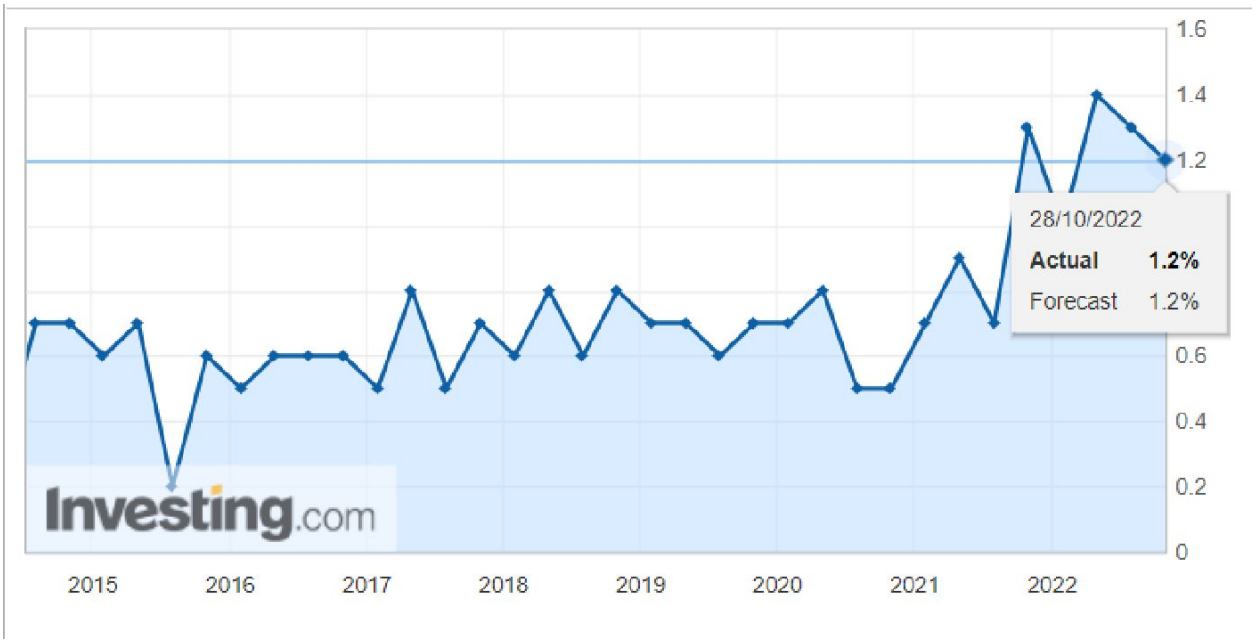


Figure 5. *Employment Cost Index, Wages and Salaries Private Industry (Source: Bureau of Labor Statistics, Investing.com)*

Third-quarter growth in the employment cost index was 1.2 percent, which recorded a 0.1 percent quarter-over-quarter decline. This is the second 0.1 percentage point decline since the first quarter of 2022. However, the slow pace of wage moderation persists as a concern, especially since another pay rise cycle is about to begin as most companies do performance reviews by the end of the year.

Spending rose 0.6 percent and was up 0.3 percent after adjusting for inflation. In the third quarter, American consumers were resilient in the face of rising inflation, as evidenced by the upward revision to August's figure. An increase in income growth was one factor that drove strong spending. In September, personal income increased by 0.4 percent. The August reading was also revised up to 0.4 percent. This underscores the impact of a tight labour market, which indicates both good and bad news.



Figure 6. *Personal Savings Rate (Source, US Bureau of Economic Analysis, Fred)*

In September, savings rates fell to 3.1 percent, the lowest since 2008. This implies that consumers are saving far less to maintain their spending levels, most likely due to the cushion of extra savings accumulated during the pandemic.

We anticipate that expenditure will continue to increase in the fourth quarter as inventories and a strong dollar continue to supply tailwinds. However, given the upcoming holiday season in the US, we should expect a decrease in spending early next year while savings continue to dwindle. The economy will shift gears next year, ushering in a new period of slower growth characterised by restrictive monetary policy.

Multitude Of Central Banks Ready To Pivot

Several G10 Central Banks appear to be prepared to pivot. Australia, Canada, and now Europe are weighing the benefits and drawbacks of adjusting monetary policy with the singular goal of lowering inflation to two percent as quickly as possible.

They are starting to think about slowing down the pace of the hikes and, most possibly, suspending them relatively soon.

What could usher such a change in policy?

All these jurisdictions have some inherent vulnerability, and it is becoming more and more evident that constant monetary policy tightening will put too much strain on certain key sectors of their economies. Whether that be private sector debt (as in the case of Canada), the domestic housing market (Australia), fears of an impending recession, or (in the case of Europe) suboptimal architecture for monetary and fiscal union.

The ECB hiked by 75 bps last week, bringing the Deposit Rate to 1.5 percent, and acknowledged that inflation is likely to stay high and that further interest rate increases will be necessary. However, the key question remains how long European economies, and others, can withstand these rate increases?

Consumer Sentiment Remains Weak

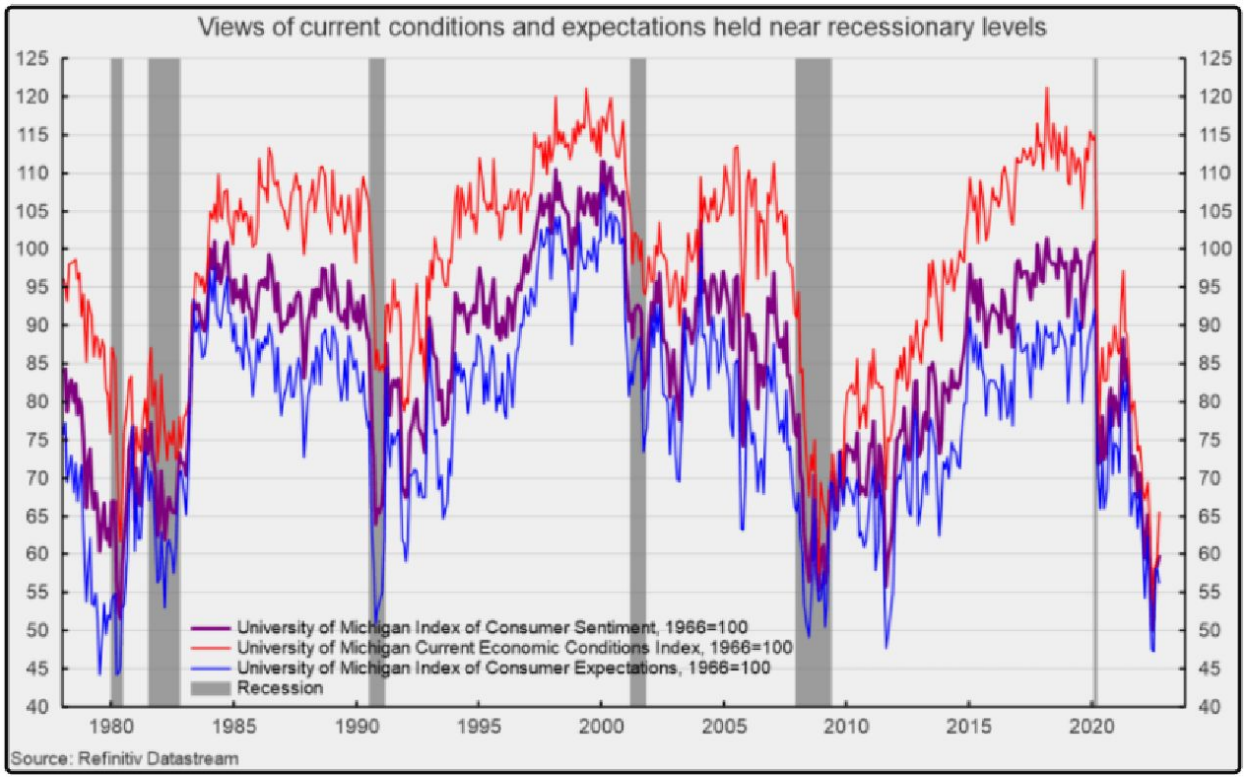


Figure 7. *Consumer Sentiment, Current Economic Conditions Index, Consumer Expectations (Source: University of Michigan, Refinitiv Datastream)*

The University of Michigan Consumer sentiment index, a survey of consumers' outlook on the US Economy, rose to 59.9 in October, higher than 58.6 in September, according to the report released on Friday, October 28. The index is 10 points above its record low in June this year at 50 but remains within the prior recession levels.

One of the AIER's (American Institute for Economic Research) leading indicators, consumer expectations, declined by 1.8 points to 56.2. This component index rose sharply in August but remained steady in September and dropped in October. The index remains similar to values seen during previous recessions.

In October, one-year inflation expectations increased to five percent. This increase comes after five consecutive months of decline through September. Five-year inflation expectations increased as well, reaching 2.9 percent in October. Despite the rise, the five-year inflation expectation is within the 25-year range of 2.2 percent to 3.4 percent.

The pessimistic consumer attitude is in confluence with the broad economic picture. As the midterm elections in the US approach, the expected uptick in political advertising is expected to weigh on consumer sentiment.

Equities and Bonds

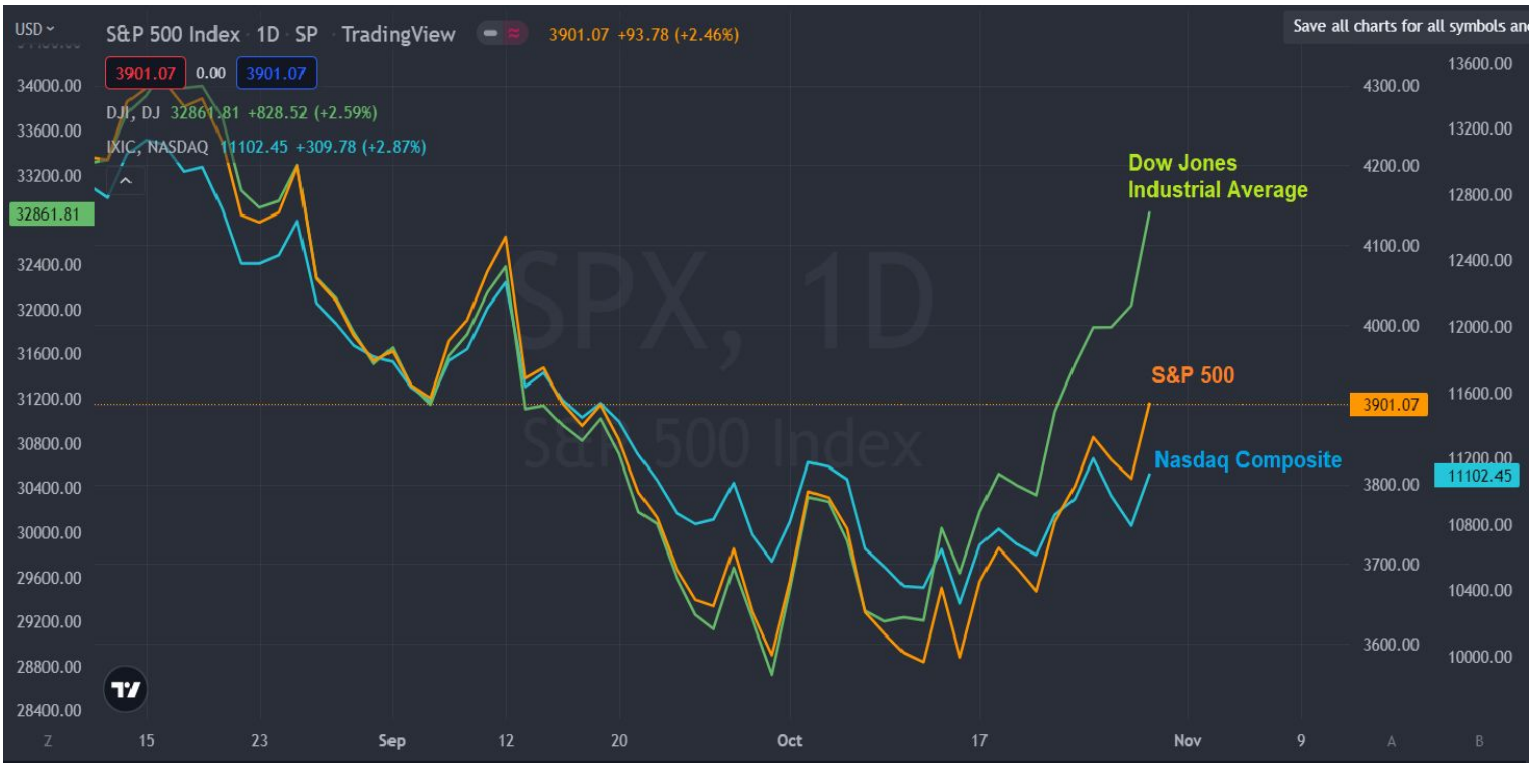


Figure 8 *:Stocks Rose Sharply on Friday, October 28: SP&500, Dow Jones Industrial Average, Nasdaq Composite (Source: Tradingview)*

US equities rose sharply on Friday, October 28, to extend last week's gains as the market reacted to earnings and economic data. The Dow Jones Industrial Average increased by 2.6 percent to 32,862, the S&P 500 Index increased by 2.5 percent to 3,901, and the Nasdaq Composite rose by 2.9 percent to 11,102.

In the Earnings report, Apple topped expectations but posted lower-than-anticipated iPhone sales revenues, a major component of the tech giant's sales; Amazon's earnings were also higher than expected, but revenues fell short of expectations. Intel outperformed estimates and announced $10 billion in cost cuts, while Chevron and Exxon Mobil surpassed earnings expectations. So far, 52 percent of the S&P 500 companies have announced Q3 results. The aggregate of actual earnings per share and revenues 'beats', relative to final results is shown on Figure 9.

Quarter	EPS beats	Rev beats
Q3 '22	**71%**	**55%**
Q2 '22	75%	63%
Q1 '22	76%	67%
Q4 '21	76%	69%
Q3 '21	82%	68%
Q2 '21	86%	83%
Q1 '21	87%	72%
Q4 '20	78%	69%
Q3 '20	84%	74%
Q2 '20	85%	65%
Q1 '20	65%	59%
Average	80%	70%

Figure 9. *Aggregate Earnings Per Share (EPS) and Revenue (Rev) Beat Rates Against Consensus Expectations (Source: Schwab.com)*

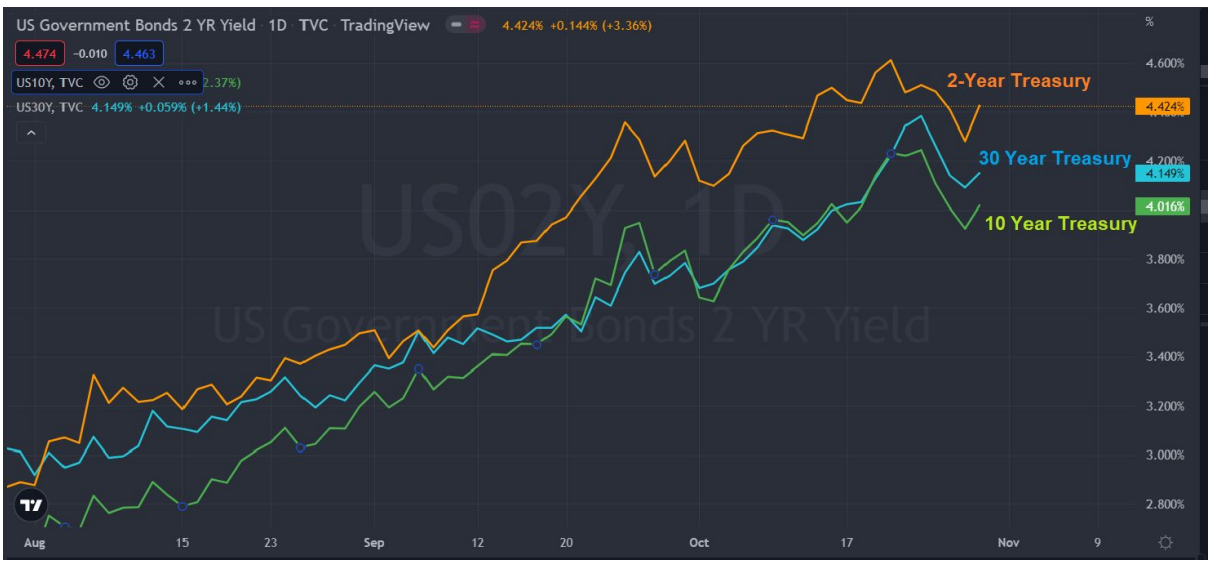


Figure 10. *US Government Bond Yields: 2-Year, 10-Year, 30-Year (Source: Tradingview)*

In the week ending October 28, Treasury yields were higher, as the yield on the 2-year note gained 7 basis points (bps) to 4.42 percent, the yield on the 10-year note rose 6 bps to 4.01 percent, and the 30-year bond rate increased 4 bps to 4.14 percent.

Elevated bond yields and the US dollar have fostered market volatility.

Summary

- Real gross domestic product rose at a 2.6 percent annualised rate in the third quarter versus a 0.6 percent rate decline in the second quarter and -1.6 percent in the first quarter.
- The core PCE price index jumped 5.1 percent in September, compared to a year ago, the fourth-highest reading in this cycle, behind January, February, and March.
- In terms of the Fed's two percent inflation target measured by core PCE, inflation is worsening and now measures over 2.5 times the Fed's target.
- On a month-to-month basis, the "core PCE" price index jumped by 0.5 percent in September from August.
- The employment cost index increased 1.2 percent in the third quarter, down 0.1 percentage points from the prior quarter.
- The third-quarter growth in the employment cost index was 1.2 percent, a 0.1-percentage-point decline from the second-quarter increase.
- Spending rose 0.6 percent, and 0.3 percent after adjusting for inflation, driven by a 0.4 percent rise in personal income.
- The composite consumer sentiment increased to 59.9 in October, up from 58.6 in September.
- The one-year inflation expectations rose in October to 5 percent. The jump follows a string of declines over the five months through September after hitting back-to-back readings of 5.4 percent in March and April.
- US equities rose sharply on Friday, October 28, to extend previous week's gains as the market reacted to earnings and economic data.
- In the week ending October 28, Treasury yields were higher, as the yield on the 2-year note gained 7 basis points (bps) to 4.41 percent, the yield on the 10-year note rose 6 bps to 4.01 percent, and the 30-year bond rate increased 4 bps to 4.13 percent.
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WHAT'S ON-CHAIN THIS WEEK?

Fall of DeFi

hroughout the current crypto winter, amid bearish conditions across global markets, there has been nassive token price depreciation across several Decentralised Finance (DeFi) tokens.

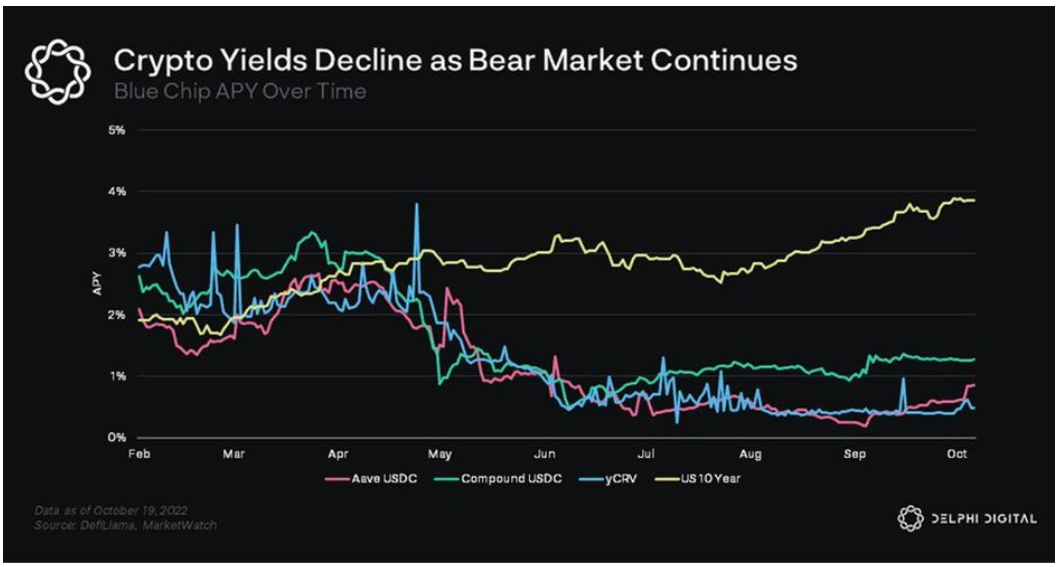


Figure 11. *DeFi yields have fallen to unimpressive levels throughout this bear market. (source: Delphi Digital)*

elds for many protocols have reached multi-year floors, stabilising at quite unimpressive rates. From he collapse of Anchor and other DeFi protocols in the Terra network, to the constant pressure seen in DO and stEth as well as the insolvency of large asset managers that were active in different protocols, here have been many events that have challenged DeFi's entire value proposition.

nsurprisingly, the total value locked in DeFi protocols has shrunk about 70 percent from its all-time high less than $50 billion today. The native yields in DeFi protocols have contracted significantly. Some of he most popular farms and staking protocols have now fallen to yield below what even TradFi Traditional Finance) products have to offer.

Pool	Project	Chain	TVL	APY	Base APY	Reward APY	Outlook	Confidence
1 STETH	Lido		$7.45b	5.30%	5.30%		Stable/Up	Low
2 BTC	JustLend		$2.31b	0.03%	< 0.0001%	0.03%	Stable/Up	Low
3 ETH-STETH	Curve		$1.97b	4.92%	2.86%	2.06%	Stable/Up	Low
4 STETH	AAVE V2		$1.47b	0%	0%			
5 WETH (ETH...	MakerDAO		$1.25b	0%				
6 ETH-STETH	Convex Finance		$1.16b	5.42%	2.86%	+2 2.57%	Stable/Up	High
7 WETH (ETH...	MakerDAO		$954.16m	0%				
8 CUSDC	Compound		$930.33m	1.31%	0.83%	0.48%	Stable/Up	Medium
9 DAI-USDC-...	Curve		$768.58m	0.41%	0.10%	0.31%	Stable/Up	High
10 WETH	AAVE V2		$714.3m	1.09%	1.09%		Stable/Up	Medium

Figure 12. *Top 10 on Yield Rankings in descending order of TVL. (source: defillama)*

Crypto Proves To Be The Best Asset-class

Traversing through bearish macro and global conditions requires an in-depth analysis of returns across asset classes. It is essential for investors and traders to look at mean returns and volatility because remaining all in cash is also a delta-negative strategy as inflation runs rampant.

Bitcoin and Ether have performed better than stock indices over the past three months. Despite rate hikes and geopolitical uncertainty, Bitcoin and Ether have held up better than the Nasdaq100. Even as per year-to-date returns, BTC's -56 percent return and ETH's -59 percent return are significantly better than the performance of tech stocks such as Meta's -71 percent or Snap's -80 percent returns.

This stronger performance has resurfaced questions about crypto's correlation to stocks.

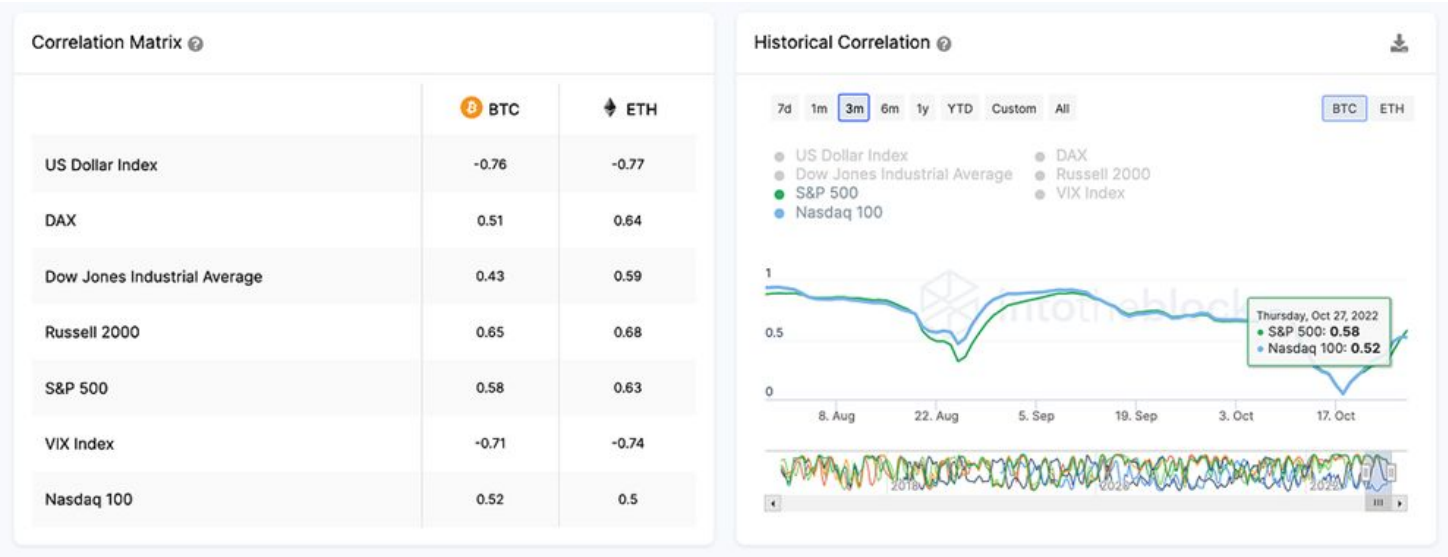


Figure 13. *Historical Correlation Graph for BTC & ETH compared to major US stock indices and the dollar index. (source: IntoTheBlock)*

By mid-October, we saw the lowest correlation between Bitcoin and stock indices since 2022 (although it has since increased, as the earnings season started) and for the first time since the first week of January, reached a level of zero, indicating that there was no statistical association between the two figures.

It's therefore clear that the performance of cryptocurrencies, while impacted by economic outcomes and economic projections, were perhaps as not affected as some might have anticipated.Moreover, since the hype of the Merge has died down, the correlation between BTC and ETH has also subsided. The usual trend for over a year has been that one of the two assets has dragged the rest of the market with them around a bullish narrative. However, as macro conditions have remained bearish, the constant downward pressure from BTC on the entire market has proved to be the most dominant factor.

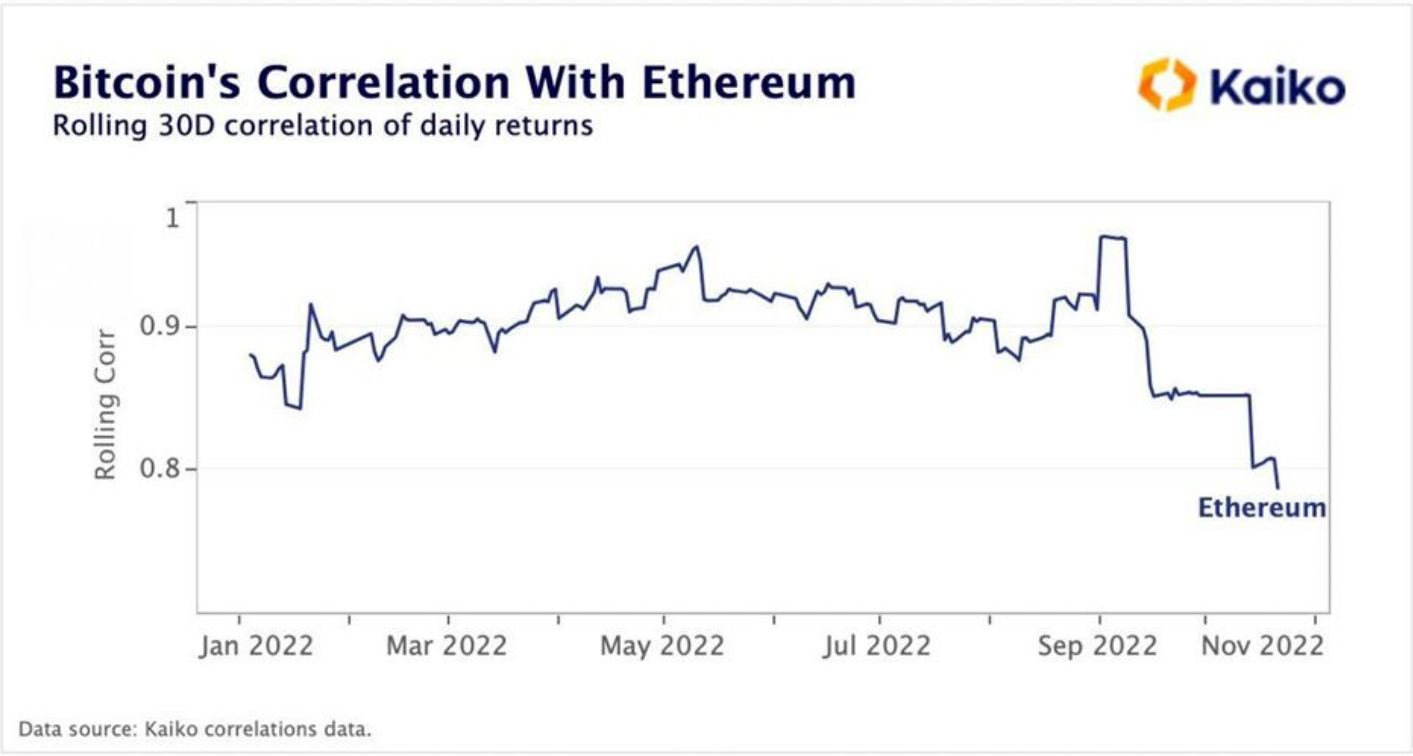


Figure 14. *Bitcoin's Correlation With Ethereum seems to have fallen off a cliff recently. (source: Kaiko)*

As such, sector-wise rotation of BTC leading any move while altcoins follow has become a more diluted and now unprofitable edge.

BTC Miner Update

As has been often highlighted in previous editions, miner margins are currently tight. The perfect storm that has slashed miner profitability is the result of rising energy prices, the decline in the price of BTC, and an all-time high in hash rate. Hash prices (miner revenue per Terahash per day) has dropped to its lowest point, since the 2020 halving.

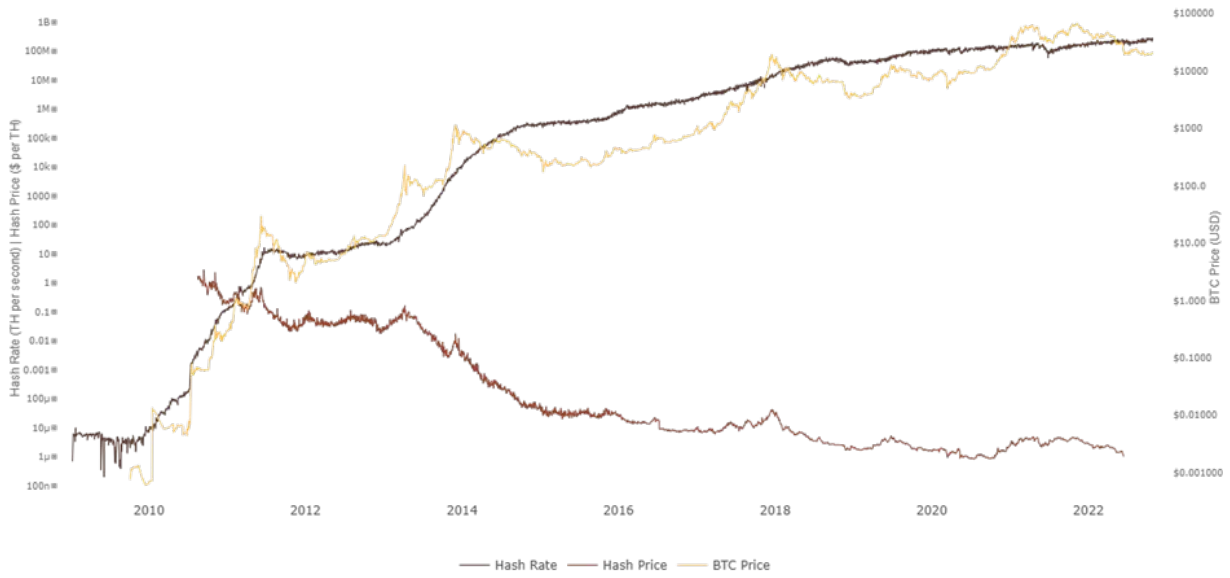


Figure 15. *BTC Price, Hash Price and Hash Rate compared over the asset's history. (source: Woocharts)*

The announcement by Core Scientific that they will forgo interest payments on their forthcoming debt commitments is therefore unsurprising and is a step toward declaring bankruptcy. Following the news, CORZ fell -78 percent.

On the plus side, there is no reason to anticipate that this will affect the price of BTC given that Core Scientific has already consumed a majority of its treasury.

Moreover, there is additional pressure on miners with a massive surge in Bitcoin's Average Mining Difficulty. Bitcoin's Average Difficulty is at a current level of 36.84 trillion hashes, up from 20.08 trillion hashes one year ago. This is a change of 83.42 percent from one year ago.

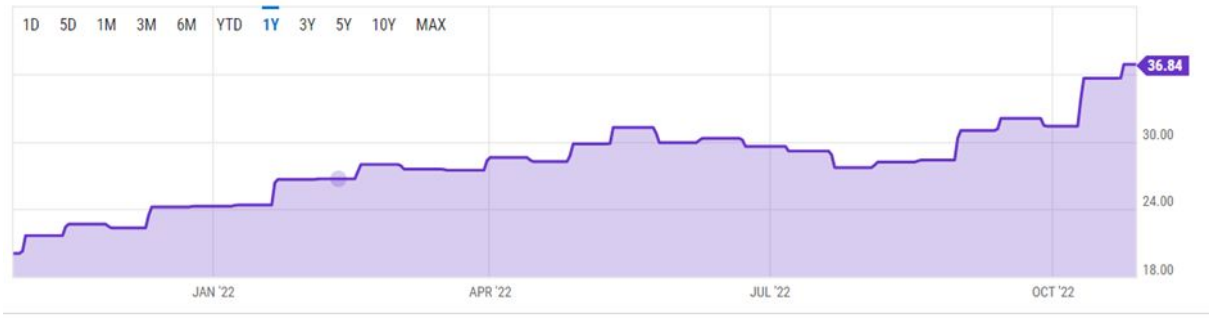


Figure 16. *Bitcoin Average Difficulty over the past year. (source: ycharts)*

NEWS FROM THE CRYPTO-SPHERE

Elon Musk’s Twitter Takeover Sparks Dogecoin Rally



Figure 17. *Dogecoin is up nearly 16 percent as billionaire Elon Musk's purchase of Twitter nears completion.*

On Elon Musk’s first full day as the owner of Twitter, the social media company immediately began to feel the impact.

Twitter’s top executives were fired and its board of directors dissolved. The company said its stock would stop trading on the New York Stock Exchange on Nov. 8. Mr Musk announced that he plans to form a council to handle Twitter’s content questions and would not immediately reinstate users who had been banned. He also recruited confidants for help and established a “war room” at Twitter to review its products and policies.

Following the takeover, the price of the meme coin (Dogecoin) rose sharply, recovering nearly 16 percent in value.

It still isn’t totally clear when or why Dogecoin captured the heart of the Tesla CEO, however Musk has been one of the most visible and vocal supporters, often influencing its price with his tweets.

Apple Issues New App Store Rules for Crypto and NFT Payments



Figure 18. *Apple App Store apps can now trade in digital tokens and cryptocurrencies.*

Apple Inc. updated its App Store guidelines Monday with new and clearer language explaining its policy toward cryptocurrency trading and non-fungible tokens.

In the updated guidelines, Apple says that “apps may use in-app purchase to sell and sell services related to non-fungible tokens (NFTs), such as minting, listing, and transferring."

Apps will also be able to allow users to view their own NFTs, as well as browse NFT collections owned by others. But in order for apps to sell NFTs and related services, they’ll have to go through Apple’s in-app purchase systems and “may not include buttons, external links, or other calls to action that direct customers to purchasing mechanisms other than in-app purchase.”

Apple charges a typical 30 percent fee on payments it handles, and holds specific guides against any app functionality that lets NFT holders “unlock features” or functionality within the app, which may affect some NFT projects that use the token like a membership card, making access to added perks not otherwise accessible.

Keet.io now supports the Bitcoin network



Figure 19. *Keet.io is a Peer-to-Peer Chat App built with the Holepunch platform that allows anyone to create apps without using servers.*

Cryptocurrency exchange Bitfinex and USDt stablecoin issuer Tether have collaborated with the Hypercore open-source protocol team to launch a new peer-to-peer (P2P) communications application, Keet.

Keet allows a given set of parties to exchange instant video, message and file communications in a truly P2P fashion.

The approach improves upon popular end-to-end encrypted but centralised offerings such as Zoom and WhatsApp because the data being shared isn't forwarded to a central server at any time; rather, the connection is established purely between the users taking part in the chat, lowering latency and increasing reliability.

Holepunch apps have now included powerful payment features allowing users to stream BTC between content creators, make regular P2P payments, and offer tips.

Keet launched its alpha version and users can download the application on its website. The app's mobile version is expected to be launched by November 2022.

Hong Kong Plans to allow Retail Crypto Trading



Figure 20. *The city seeks to establish itself as a financial hub by establishing a licensing regime in order to allow the retail trading of bitcoin and cryptocurrencies.*

Hong Kong plans to legalise retail trading of cryptocurrency as it looks to become a crypto hub, according to a Bloomberg report on Thursday 27th October.

Crypto platforms will be required to apply for a licence to offer retail trading, according to the report, which cited people familiar with the matter.

The city wants to re-establish its reputation as a global financial hub. The move contrasts with mainland China, where crypto is banned.

Hong Kong has its own financial and judicial systems, separate from China, as part of the “One Country, Two Systems” framework.

Tether, Holepunch, and Synonym launch Pear Credit, a P2P credit system



Figure 21. *Tether unveiled a new peer-to-peer (P2P) credit system called "Pear Credit"*

Tether has announced the launch of Pear Credit, a peer-to-peer (P2P) credit system that allows issuers to create P2P credit tokens.

The company said in a press release that the product won't rely on blockchain but will still be a cheaper way for credit issuers as it will be decentralised. It is still unclear what technology underlines the platform.

Developed with Holepunch and Synonym, the new system will be the "perfect tool for companies that want to issue reward points or stablecoins," Tether assures. Paolo Ardoino, CTO of Tether, said: "The value of a product like this is so great that many avenues of its potential are yet to be explored."

John Carvalho, the head of Synonym, added that the platform will combine the "Lightning-Network-styled speed" with P2P networked storage systems.

LEARNING SECTION

Learning Section: How to Hedge against inflation through Crypto Lending & Staking

Lending

The high inflation rate is pushing the price of almost every commodity higher. Touted as an inflation hedge, Bitcoin and the whole crypto market has unfortunately been moving fast in the opposite direction this year. The current bear market has shown crypto to be vulnerable to the sentiment of the financial markets.

Cryptocurrency is an asset class that is too young to know how it will be affected by inflation. Even if a cryptocurrency like Bitcoin is decentralised and not governed by any central bank, its intrinsic value is still overshadowed by volatility and fear in global markets. Inflation is caused by excessive money printing, but with Bitcoin, its maximum circulating supply will be the same over time. Theoretically, it is programmed to be an inflation hedge.

Despite the huge drop in Bitcoin's price this year, many investors and financial planners still recommend including crypto as part of a diversified portfolio.

Stablecoins

Bitcoin is the first thing that comes to mind when someone speaks of cryptocurrencies. However, one class of cryptocurrencies are designed to achieve the stability of fiat - these are called stablecoins. Tether tokens or USDt, is the world's first and largest stablecoin, and is backed on a one to one basis with the US dollar. Many crypto investors and traders prefer to use stablecoins as a store of value compared to other cryptocurrencies. It is also the base currency for most trading pairs.

While multiple countries have double-digit inflation, "stronger" fiat currencies are more desirable to use as a store of value because of their stronger economies, like the US dollar. Though inflation is high in the US, labour and manufacturing data still shows that the economy remains strong and is growing (but at a slower rate). For people facing high inflation in their local currency, it can be difficult to exchange their money with the US dollar, especially with its current strong demand - that's where stablecoins come in.

Why USDt?

The fear of holding stablecoins is valid, particularly following the crash of Terra UST, an algorithmic stablecoin. Even USDt experienced some short-term volatility, following the collapse of UST. However, in recent months the USDt peg to the dollar is firm. Tether owns cash and cash equivalents to back its stablecoin, and asserts that USDt can be converted to real dollars at any time.

What else can you do with your stable coin?

You may ask, because a stablecoin like USDt is directly linked to the value of the US dollar, does it then depreciate when the dollar does; so why can it be a good hedge against inflation? Besides the ease of acquiring an asset pegged to the US dollar, you can use your USDt by earning passive income through lending.

Lending means allowing borrowers to use your tokens in return for paying you interest. Similar to traditional finance, when you lend your money, it's locked up, and you will have no access to it for a period of time. One way of lending crypto is through centralised exchanges, like **Bitfinex Lending Pro**. The principle behind how lending-borrowing works is quite straightforward.

Bitfinex acts like the middleman facilitating the transaction between the lender and borrowers seeking a loan for their tokens. Borrowers are required to deposit collateral and pay interest on their loan amounts. The interest paid by the borrower will be divided between the lender and the exchange. This way, you are putting your stablecoins on-hand to good use by lending them to traders for their margin positions while you're earning interest. As a lender, you can specify terms according to your preferences. This includes the interest rate, term, and loan amount.

What are the Risks?

Because USDt is a stablecoin, the risks tend to differ from those with traditional lending. Risks like losses from hacks, exchange closures, and other related issues are more common in the cryptocurrency space than in traditional banking.

Bitfinex Lending Pro



Figure 22. *Accessing Bitfinex Lending Pro*

You can access Lending Pro by logging in to Bitfinex and heading to the funding menu on the top main panel. Alternatively, you can directly visit Bitfinex Lending Pro.

Lending Pro is a highly customisable tool that uses automated technologies and advanced features to manage lending based on user specifications and market conditions. It is designed to make your lending activities more comfortable and efficient.

It includes charts and tools that allow you to track balance easily, understand performance and potentially increase your earnings by automating the management of crypto funding in Bitfinex's peer-to-peer lending portal.

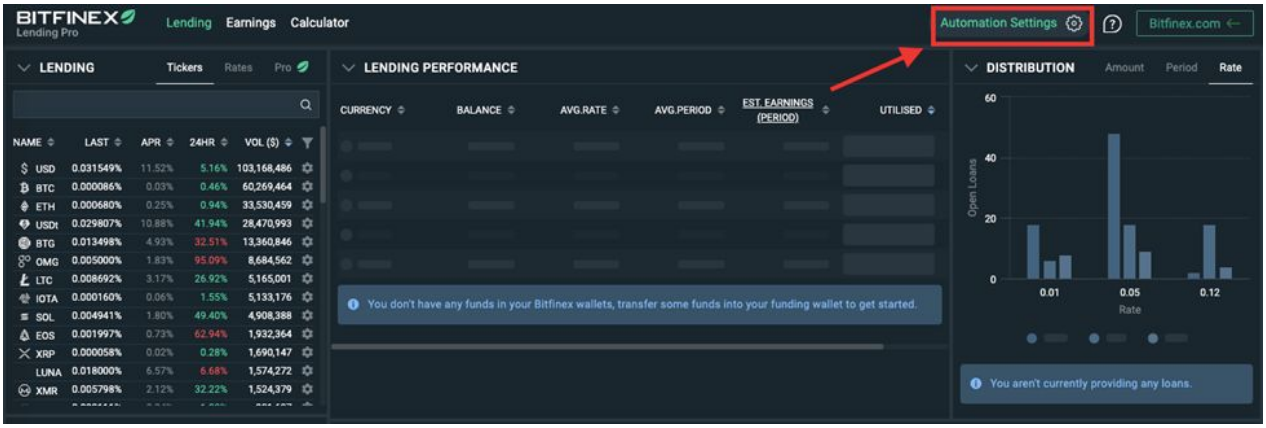


Figure 23. *Bitfinex Lending Pro Dashboard*

There are three lending modes at Bitfinex:

1. **Dynamic mode** - Lending Pro will route an offer to lend on your behalf and replace it with lower-rate offers until matched or market conditions change by a certain amount

2. **Static Mode-** Lending Pro will route an offer to lend on your behalf, which it will replace if market conditions change by a certain amount.

3. **Market** - Lending Pro will route an offer to lend on your behalf at the last matched interest rate when Lending Pro routes the offer. Lending Pro will route a replacement offer to lend on your behalf if market conditions change by a certain amount, with offer terms calculated as described above.

With the Bitfinex Lending pro dashboard, you can conveniently monitor the performance of your lending performance with the following features:

- Lending Performance
- Distribution
- Provided Loans
- Provided Stats
- Loans Expiring and
- Recently Filled

Bitfinex Lending Pro also collates and displays useful statistics about your Lending activity. These statistics include your best, average and worst lending rates, your total provided loan count and its' value, your most active lending currency for the day, and the total amount of assets managed by Bitfinex Lending Pro for that day. You'll also find your earnings activity statistics; these include your Average Daily Earnings, your all-time best-returning lending currency, the runners-up for all-time performing currencies and information on how long you have been lending.

A more thorough guide to using the platform is available on the Bitfinex website.

Final Thoughts on USDt Lending

Lending USDt tokens is a great way to earn passive income and support a stablecoin economy, as the USDt token continues to be one of the most popular cryptocurrencies among enthusiasts. Centralised Exchanges like Bitfinex are intuitive and user-friendly platforms for lending your stablecoins.

Staking

What is Staking?

Before staking your digital tokens, you must first understand the underlying mechanism that enables it.

Proof of Work (PoW) vs Proof of Stake (PoS)

Blockchain has several consensus processes, often known as consensus algorithms. A consensus algorithm is a set of rules that regulate how nodes validate and add transactions to the blockchain. Each blockchain network has its consensus algorithm, which is set when the network is created.

The consensus algorithm is critical in blockchain because it allows unrelated parties to unanimously agree on something, in this case, whether a block of transactions should be added to the blockchain network. There are multiple known consensus algorithms in crypto, but the two oldest and most widely used are Proof of Work (PoW) and Proof of Stake (PoS).

PoW is the first consensus algorithm and is used in Bitcoin, Litecoin, Monero, and Dogecoin. In the PoW consensus algorithm, mining generates a new blockchain block. Miners compete to solve complex cryptographic issues as quickly as possible (also known as hash finding). Successful miners are then rewarded with a certain amount of cryptocurrency.

In PoS, A validator generates a new block, often called a forger or minter. The quantity of tokens held and the length of time a forger has held the tokens are common criteria. The reward for adding blocks comes from accumulated transaction processing fees. A validator gets the forging reward and staked tokens back after the network approves the block it validates. The validator isn't rewarded if the network nodes find the block fraudulent. The PoS consensus encourages and empowers holders to stake to be able to forge new blocks to the network.

It is from the PoS consensus algorithm that the concept of cryptocurrency staking emerges.

Why Staking?

Staking cryptocurrency is a way to increase crypto holdings. Its major advantage is that it allows you to passively grow your holdings (once you've selected where to stake to control your risk). It does not require special machinery like PoW mining. It also does not require trading which is convenient for anyone who does not have the skills and the time to trade.

Crypto staking will require you to keep a certain number of supported tokens for a length of time to collect rewards and contribute to token governance. As the term implies, it exclusively pertains to PoS tokens.

Staking in Bitfinex

Staking can be done in a variety of ways. Staking on an exchange is one of the most popular staking options. Staking on centralised exchanges means that the exchange handles the technical aspects of staking, and investors pay a fee for this service.

Bitfinex offers a soft staking program that allows you to earn rewards by holding specific digital tokens in the platform. Staking incentives are distributed weekly. Bitfinex will take a mid-week account balance snapshot and distribute the incentives based on the number of tokens they currently hold.

Keep in mind that Bitfinex acts as a middleman that facilitates your staking with the token's network. The token network calculates and distributes the staking rewards to Bitfinex. There is no set award distribution timeline or policy that governs who receives rewards. As a result, Bitfinex cannot guarantee that you will get rewards every week or consistently. Thus, you will carry the same risks as any user that chooses to stake directly with the network.

The major advantage of using Bitfinex is the convenient and intuitive platform to execute and monitor all your stakes, especially if you are staking many tokens simultaneously. Note that Bitfinex will keep a small portion of the staking rewards that they collect and deposit into the accounts of the users.

How Does it Work? Is it Safe?

Your next valid concern is the safety of your tokens. The tokens you stake in the platform will not leave their cold wallets. Bitfinex only stakes a fraction of the digital tokens they own to reduce risk from slashing and ensure they can keep accepting withdrawal transactions.

Every token you decide to stake has its own method of implementing the staking mechanism. The process generally starts with Bitfinex using its cold wallet funds to delegate votes to a chosen validator node. Staking gives a layer of governance to the network participants. This helps protect the network and rewards the network participants for doing so.

What are the accepted tokens For staking?

You can visit the Bitfinex Staking page to find all the supported digital tokens for staking.

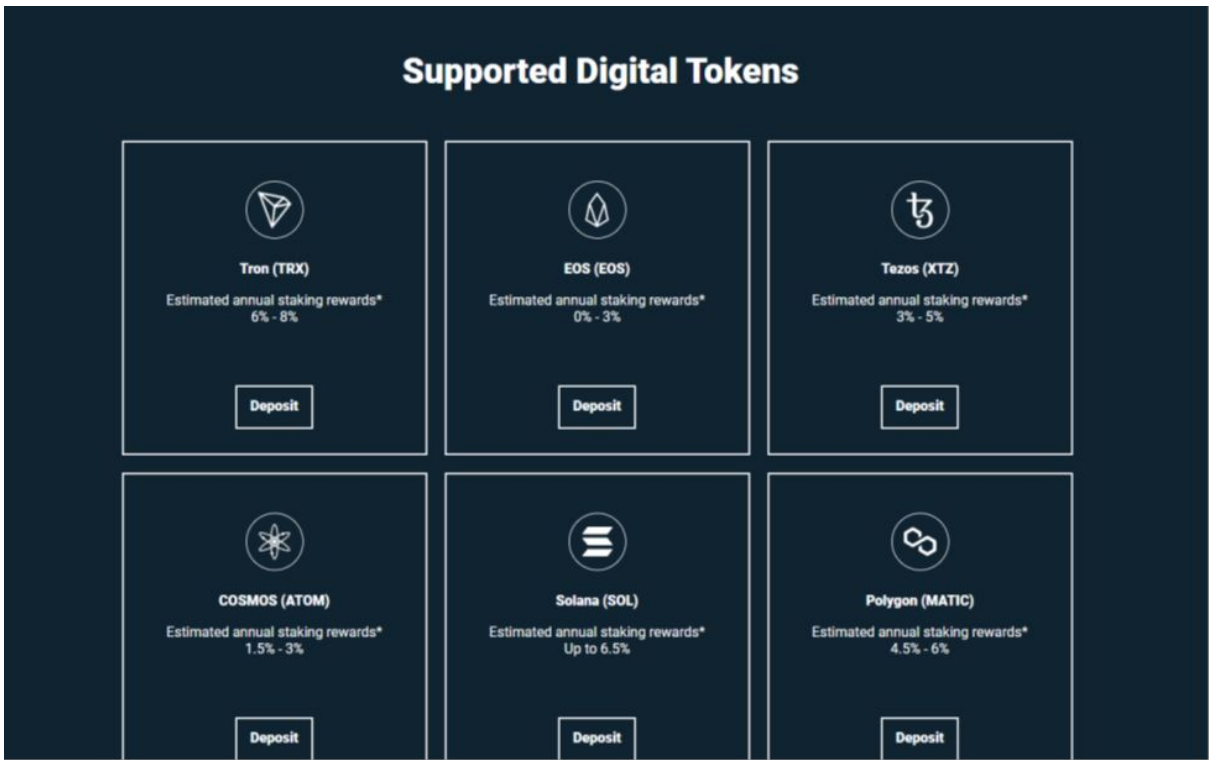


Figure 24. *Supported Digital Token in Bitfinex Staking*

How Do I Start Staking?

You can conveniently start staking by visiting Bitfinex.com, logging in to your account and hovering through the “Staking” on the Top Menu Bar. You will then choose the tokens you wish to stake and deposit funds to start staking.



Figure 25. *Accessing Bitfinex Staking*

For ETH staking, the estimated annual staking reward is based on rewards as of December 23, 2020. Rewards will vary based on the Ethereum protocol, and actual annualised staking rewards may differ.

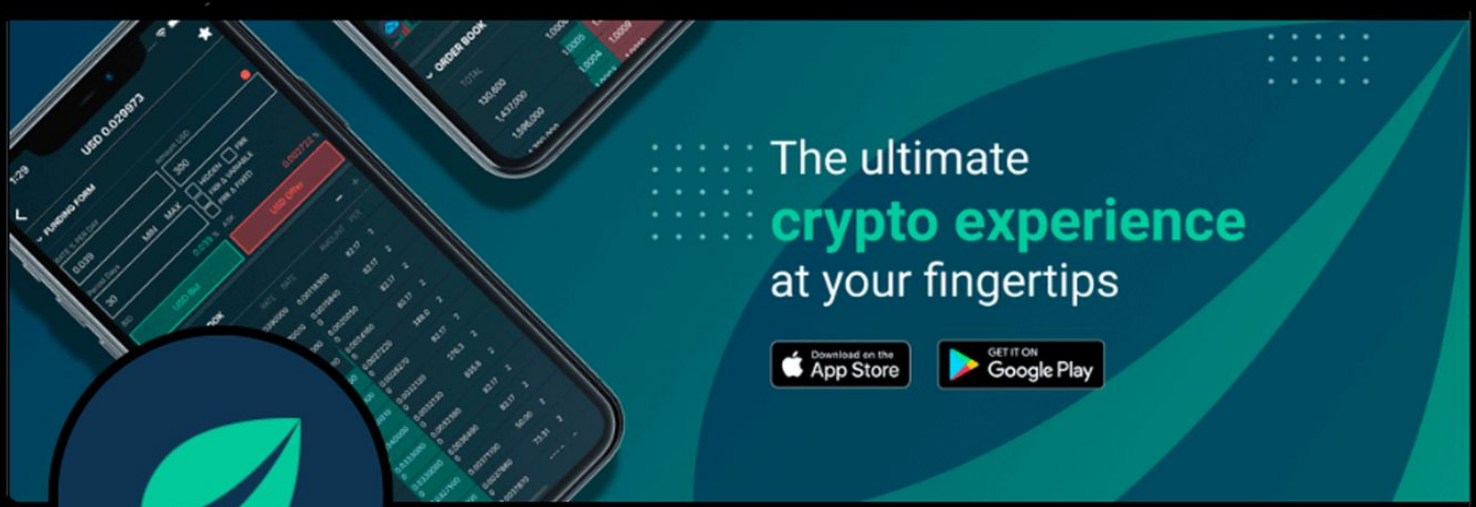
Ethereum 2.0 (ETH2) is an Ethereum network upgrade aiming to improve security and scalability. This upgrade involves Ethereum shifting the current mining model to a staking model.

For the specific instruction for staking ETH on Bitfinex, refer to Bitfinex ETH2 Staking.

Final Thoughts on Staking

Staking is a good option for crypto investors that don't mind short-term price fluctuations and want to generate yields on their long-term investments. If you need your money quickly before the staking period finishes, you should avoid locking it up for staking.

Before staking, thoroughly read the rules of the staking protocol to determine yields and the locking period should you opt to withdraw.



https://t.me/bitfinex

BITFINEX Alpha