BITFINEX Alpha

Issue: 13-02-2023
bitfinex.com

This material is being provided by BFXWW Inc. ("Bitfinex") for general informational purposes only. Views or opinions expressed herein may not reflect those of Bitfinex as a whole and may change without prior notice. Nothing in this newsletter constitutes investment, portfolio management, legal, accounting or tax advice, advice on trading techniques, models, algorithms, or any other schemes, or a recommendation to buy, sell or hold any digital tokens or other digital assets. No recommendation or advice is being given as to whether any digital asset is suitable for you. No solicitation or offer of any digital asset or financial promotion of any kind is being made.

You should not trade in digital assets unless you understand the associated risks.

You should not commit funds or collateral to trading in digital assets that you are not prepared to lose entirely. Past performance of a digital asset or trading strategy does not guarantee future results or returns. This newsletter contains forward-looking statements—statements that relate to future events or future performance—which are only projections, opinions and hypotheticals about possible future events, conditions, outcomes and results. Actual events or results may differ materially.

Where indicated, information provided comes from other content providers. That information is protected by copyright owned or licensed by those content providers. Bitfinex has not been involved in preparing, adopting or editing this content and does not explicitly or implicitly endorse or approve such content. Bitfinex makes no guarantees that information supplied in third-party content is accurate, complete, or timely.

While Bitfinex attempts to provide accurate and timely information, neither Bitfinex nor any third-party content provider guarantees the accuracy, timeliness, completeness or usefulness of any newsletter content, and are not responsible or liable for any such content. All newsletter content is provided on an "as-is" basis.

You may not use any of the trademarks, trade names, service marks, copyrights, or logos of Bitfinex in any manner which creates the impression that such items belong to or are associated with you or are used with Bitfinex's consent, and you acknowledge that you have no ownership rights in and to any of such items.

This newsletter is provided only to select recipients. You should not post, transmit, redistribute or otherwise make available any newsletter content to any other person.

EXECUTIVE SUMMARY

Inflation concerns seem unable to beat the love this Valentines. Survey results suggest that Americans are expecting to spend significantly on Valentine's Day despite the fact that prices are notoriously worse during this week. According to the National Retail Federation, Valentines Day sales in 2023 are expected to reach almost $26 billion, one of the largest ever. We will be closely watching spending patterns this week, and February 14 will act as an indicator of the resiliency of the US consumer, as they navigate elevated prices, thinning out savings, and higher credit card interest rates.

Indeed it appears, that moderating inflation expectations has not only boosted consumers' willingness to spend on special occasions, it has also led to an uptick in the RSM Financial Conditions Index, a comprehensive measure of the level of risk factored into the financial asset values across the money, bond and stock markets.

This market sentiment, though, is clearly at odds with those who are arguably more exposed to the real economy: corporate treasurers. Corporate debt issuance is declining, with company boards apparently scarred by last year's series of jumbo rate hikes.

On the face of it, consumers seem to be in the positive camp with expectations of easing inflation and a strong labour market creating a feel-good factor, according to the University of Michigan consumer survey, which climbed to a 13-month high for January. But look deeper, and the level of positive sentiment is still far below pre-pandemic levels. The uncertain longer-term economic picture has many consumers still concerned, and this is reflected in the decline in consumer expectations for the economy on both one-year and five-year time horizons.

And while the job market looks resilient, there is no escaping continued big headlines of job losses. Big tech firms that flourished during the bull market are now reining in their spending. Microsoft reported last week that it laid off its industrial metaverse team. The company said it would make changes that will lead to the reduction of 10,000 jobs in its workforce.

Meanwhile, Bitcoin saw realised on-chain losses for the first time in over two weeks, caused by profit-taking from early buyers and selling pressure from leveraged longs getting wiped out. However, despite the pullbacks, BTC net-weighted derivatives funding rates remain bullish.

Crypto companies are now navigating their way through the evolving regulatory landscape, as some seek to rise again from the aftermath of the collapse in prices last year. Genesis and its parent company DCG finally reached an agreement with creditors. Meanwhile, Kraken agreed to pay $30 million in penalties to settle SEC charges.

Investors who saw their crypto assets drop in 2022 due to the FTX collapse are, however, still wary. Binance's announcement this week that it has temporarily suspended deposits and withdrawals in US dollars through bank accounts, has dampened sentiment.

On a much more positive note on the industry, however, Tether revealed $700 million profits for the fourth quarter of 2022, despite the downturn. This news sets apart the bad actors of the industry and proves the resilience of those that have survived through the bear market and black swan events of 2022. As news emerges that the SEC may now be turning its attention to Paxos, who issues the BUSD stablecoin, and commencing legal action there, there have seen significant flows into Tether, as it further cements its status as the predominant stablecoin.

Happy Trading!

INDEX

1. GENERAL MARKET UPDATE 6-13

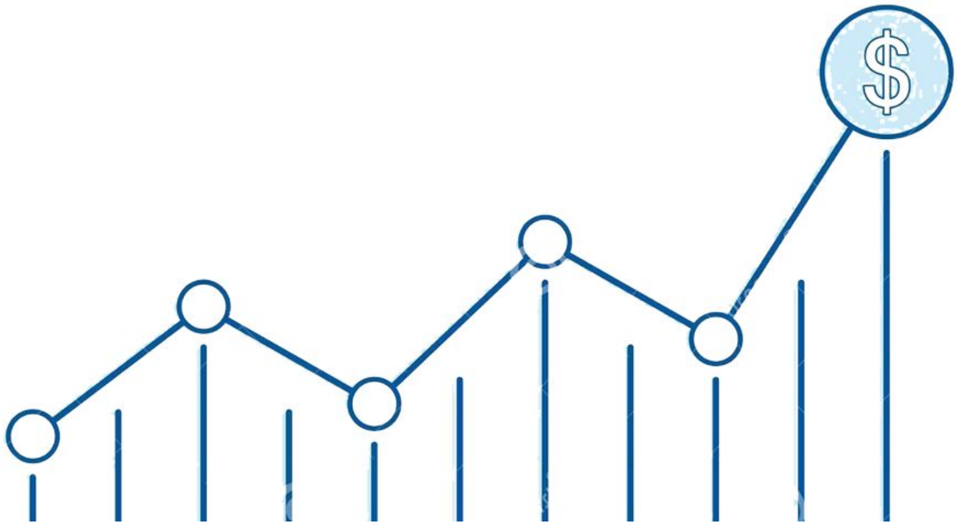
- Inflation can't stop the love: Valentine's day spending expected to climb higher 7-8
- Decline in Corporate Credit Issuance Continues 9-11
- Consumer Sentiment Still Shows Pessimism Towards Inflation 12-13

2. WHAT'S ON-CHAIN THIS WEEK? 14-19

- On-chain Losses For Bitcoin 15-16
- Medium Term Remains Bullish 17
- Short Term Downside Or Range Is Expected 18-19

3. NEWS FROM THE CRYPTO-SPHERE 20-27

- Tether Reveals $700 Million Profits For Q4/2022 21
- BUSD to USDt flows increase amid Regulatory Actions 22-23
- Microsoft Lays Off Its Industrial Metaverse Team After Four Months 24
- Genesis And Its Parent Company DCG Finally Reached An Agreement With Creditors 25
- Kraken Agreed To End Its Staking Services For US Clients And Pay $30 Million To Settle SEC Charges 26
- Binance Temporarily Suspend All USD Bank Transfers 27



GENERAL MARKET UPDATE

Inflation can't stop the love: Valentine’s day spending expected to climb higher

Data suggests consumers will increase their Valentine's Day spending this year despite the continued squeeze in inflationary pricing.

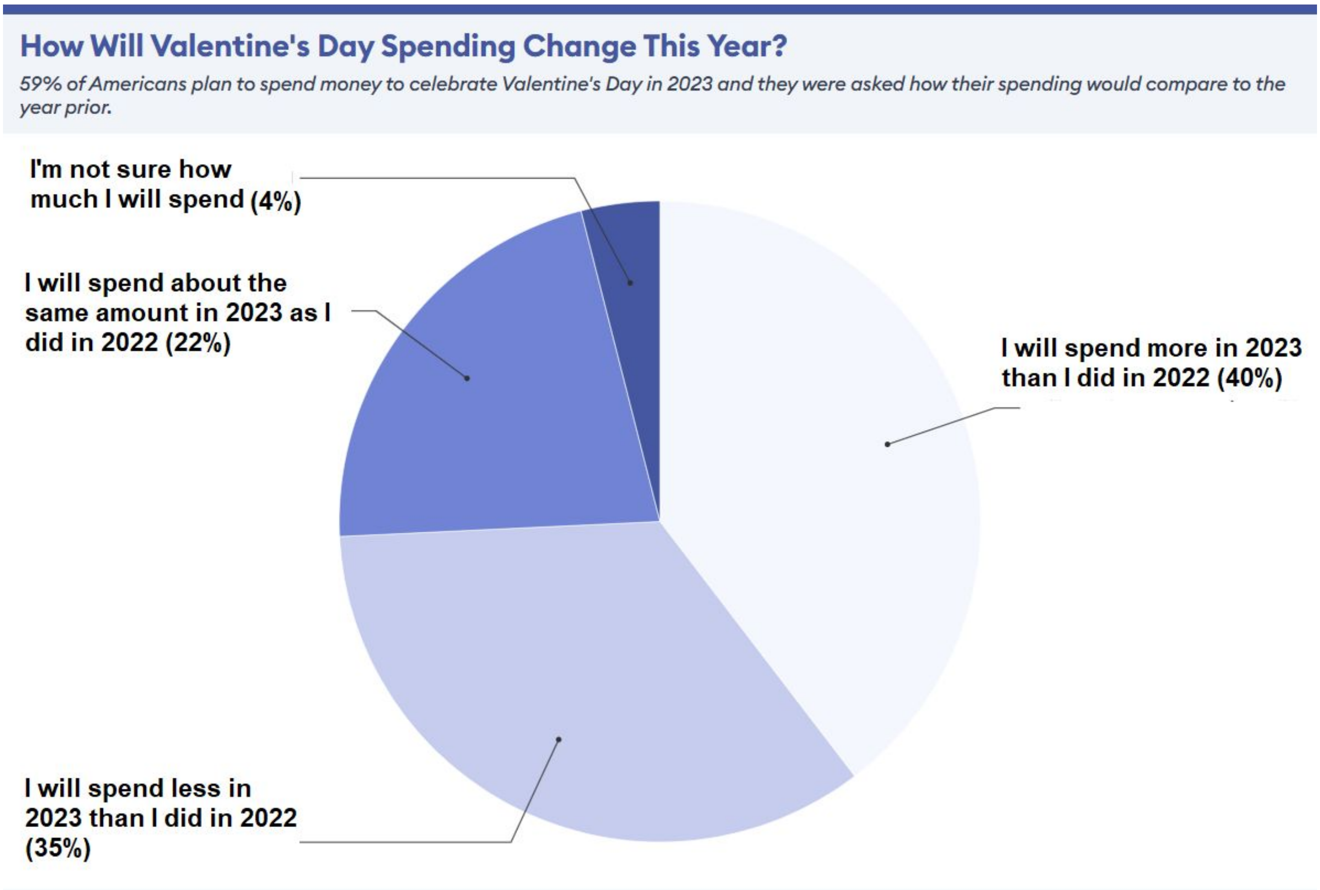


Figure 1. Consumer Valentines Day Spending Survey. (source: Forbes)

According to *Forbes*, 59 percent of Americans are still planning to splurge on Valentine’s day, despite higher cost. Among the 59 percent, 40 percent said they will spend more than the previous year.

To add to already elevated prices, inflation is notoriously worse on Valentine’s day/week items, which we expect to propel consumer spending. According to the National Retail Federation, Valentine's Day sales in 2023 will be one of the largest ever, at an estimated $25.9 billion, and takes place at a time when many Americans are taking on additional debt to cover rising living costs. According to another study by *WalletHub*, nearly one in five Americans believes that buying a Valentine's Day gift is worthwhile even if it means incurring credit card debt.

Following the 25 basis points rate hike by the Federal Reserve (the Fed), credit card annual percentage rates (APR) are nearly 20 percent on average and are set to climb higher as more rate hikes take place. As more consumers are leaning into credit to afford increasingly expensive goods and services, total credit card debt rose to a record $930 billion at the end of 2022, up by 18.5 percent from 2021, according to the quarterly *TransUnion* report.

February 14th is the next test for the resiliency of the US consumer. Aforementioned surveys have shown that romantics are still willing to spend for the occasion - this is supported by the resilient job market and the excess 1.7 trillion of household excess savings - an inflation cushion for consumers that is however, already thinning out.

Decline in Corporate Credit Issuance Continues

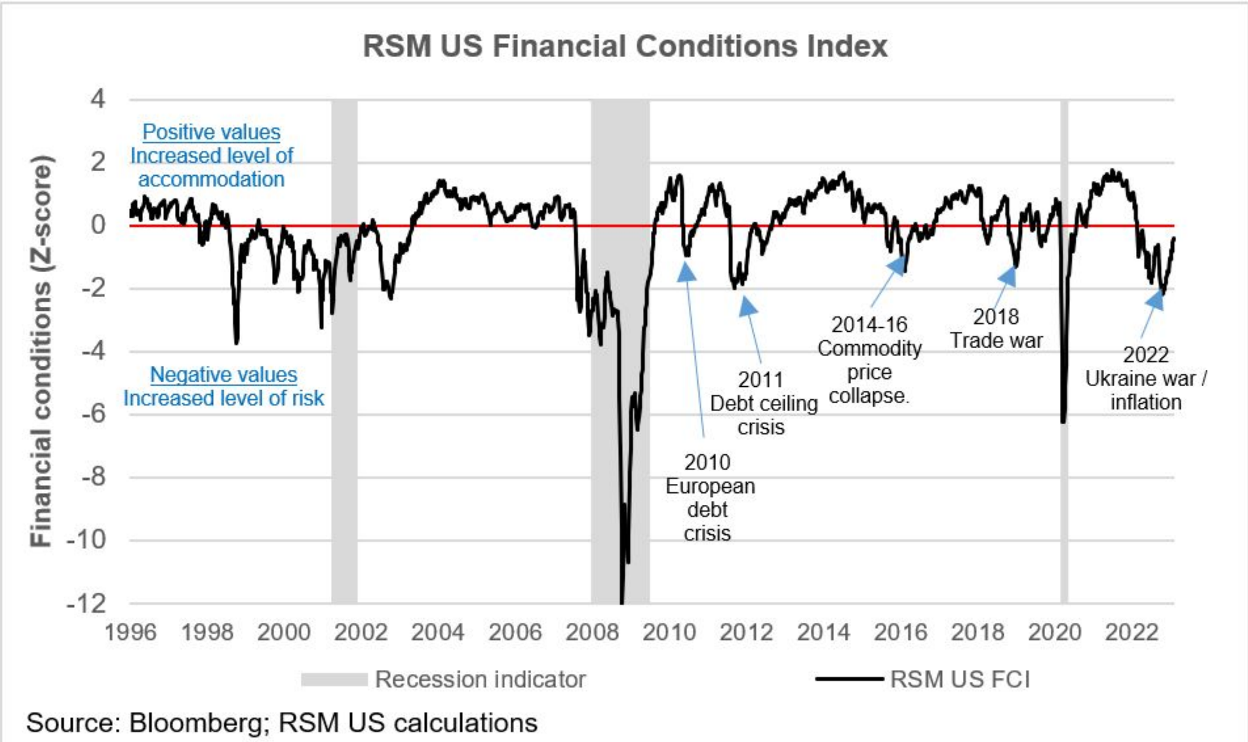


Figure 2. US Financial Conditions Index (source: Bloomberg, US RSM)

With the Fed moderating the size of rate hikes, providing easier financial conditions, it is notable that the downturn in the issuance of corporate credit continues. U.S. economic and financial conditions have improved as a result of the reduction in the size of monetary tightening, and asset values have risen in anticipation of reducing inflation and a gentler economic landing.

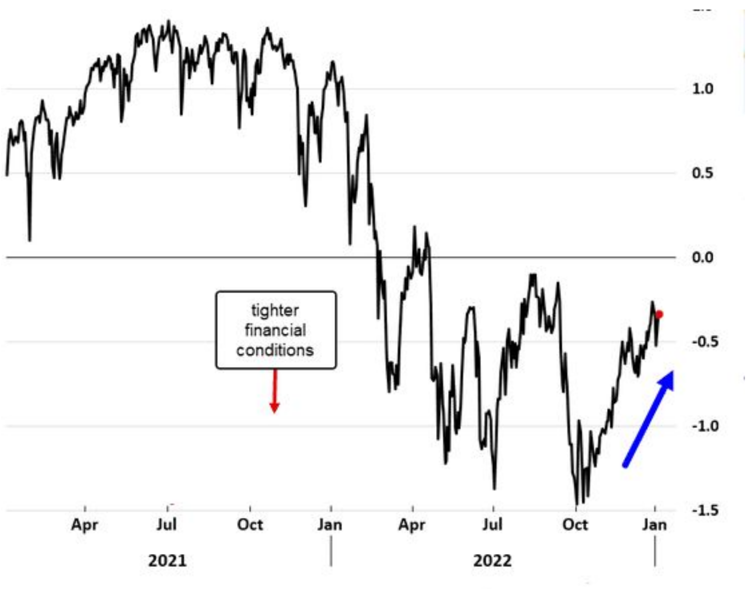


Figure 3. US Financial Conditions Index from 2021 to 2023 (source: Bloomberg)

The RSM US Financial Conditions Index has moved to 0.4 standard deviations below its long-term average. The index had reached 1.2 standard deviations below the long-term average in May 2022. As a comprehensive measure of the level of risk factored into the value of financial assets in the money, bond, and stock market, the decrease in historic standard deviations levels indicates the market is pricing in less risk into financial asset prices.

This however, indicates a mismatch between sentiment in the financial markets and the current course of monetary policy, which continues to tighten as officials worry about the impact of a still robust labour market on inflation.

Though the asset market appears ready to move past the impact of the Fed's jumbo rate hiking cycle, the previous rate hikes have continued to have an impact in the real economy. An obvious example is the steady drop in new corporate debt issuance that started to decline post 2021 and has persisted.

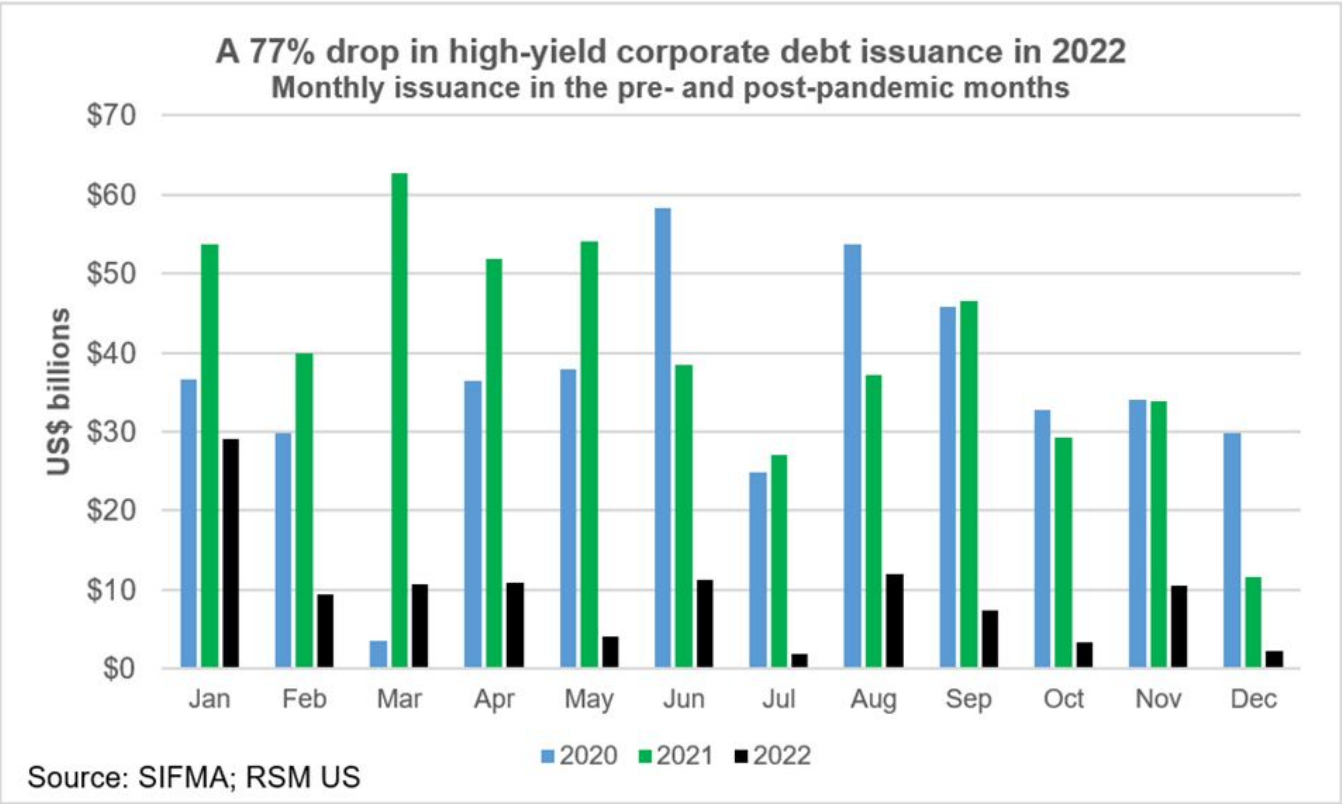


Figure 4. High-Yield Corporate Debt Issuance in 2022 (Source: SIFMA, RSM US)

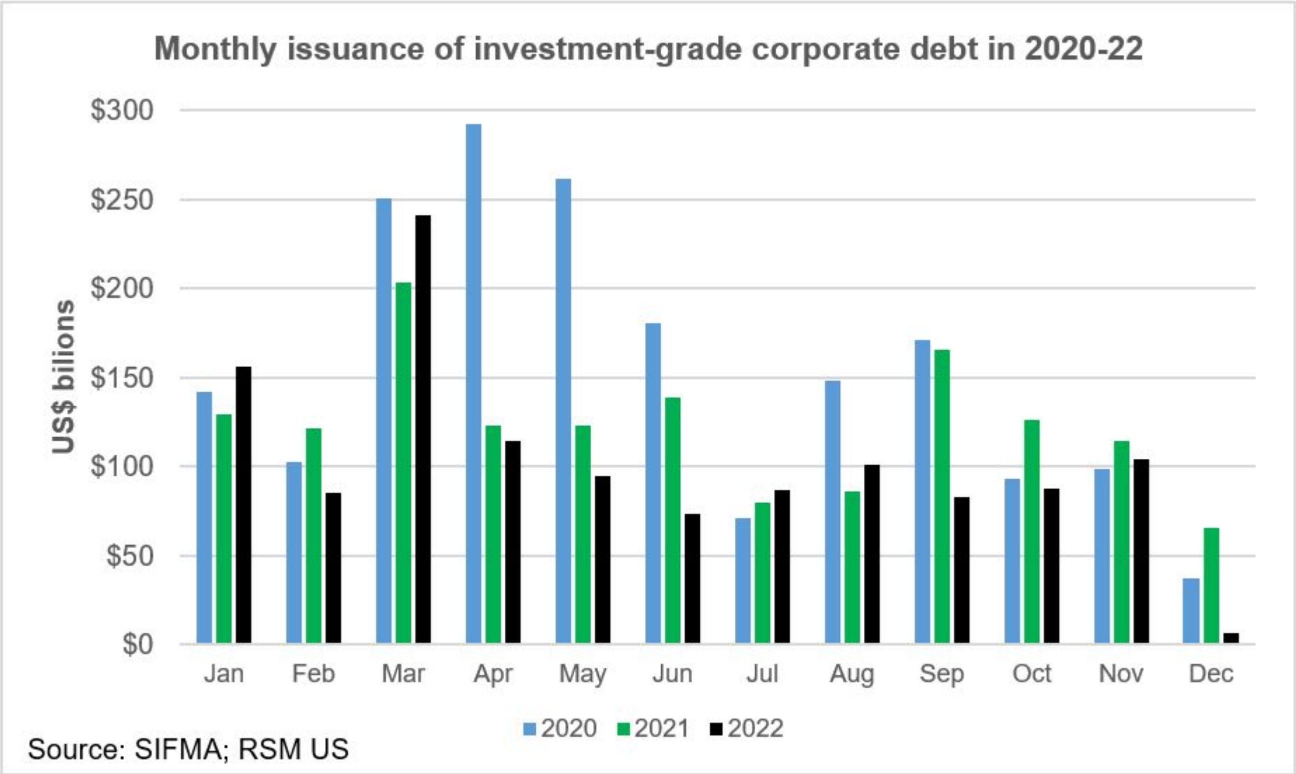


Figure 5. Investment Grade Corporate Debt Issuance (Source: SIFMA, RSM US)

The greater cost of capital and heightened recession risk have had a significant impact on the market. The issuance of high-yield debt dropped by 77 percent in 2021. Figure 5 also shows how issuance of investment-grade corporate debt declined as a result of the Fed's series of rate hikes beginning in the second quarter of 2022. Investment grade corporate debt is issued by companies with a strong credit rating. These bonds are considered low-risk of default and are attractive to conservative investors. High-yield corporate debt, on the other hand, offers higher yield to compensate for the higher risk of default.

Because of the rate hikes, the cost of issuing corporate debt with a lower rating than investment grade has increased. The drop in corporate debt issuance since last year is indicative of a potential slowdown in the business sector, which might have knock-on effects for employment and the economy as a whole in 2023. As the cost of debt climbs, so does the risk of an economic slowdown and the possibility of corporate default especially for vulnerable businesses.

The Federal Reserve also anticipates this economic slowdown. Federal Reserve Chairman Jerome Powell noted in his remarks following the announcement of a 25 basis point rate hike during the February FOMC meeting, that the hikes will lead to the slowing of economic activity this year. As we expect more rate hikes following the March and April meetings, we anticipate that the continued decline in issuance will have a negative impact on economic activity, risk appetite and fixed investment for the rest of the year.

Consumer Sentiment Still Shows Pessimism Towards Inflation

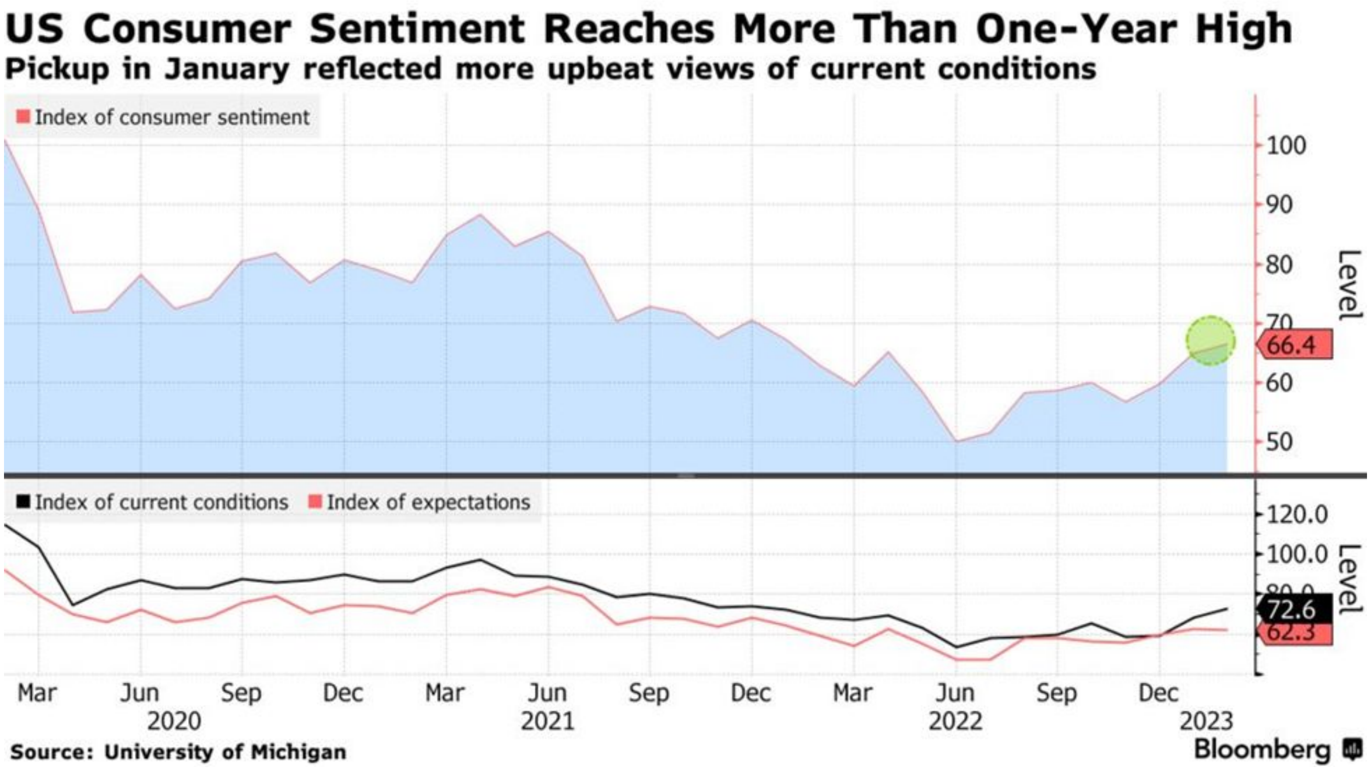


Figure 6. US Consumer Sentiment (Source: University of Michigan ; Bloomberg)

Consumer sentiment has climbed higher to a 13-month high. Consumer sentiment is a gauge that measures what consumers think about their financial situation and the health of the economy. The index increased from 64.9 in December 2022 to 66.4 in January 2023, according to the University of Michigan survey released on Friday, February 10. This is the third straight month where it grew. Moderating inflation and the strong labour market are helping consumers feel better about the economy this month. However, the consumer sentiment index is still far below the pre-pandemic number of 101. This indicates that while there is a modest uptick in sentiment, the net sentiment remains pessimistic.

Similarly, a sub-metric from the survey that asked about expectations of consumers for the next six months fell to 62.3 in February from 62.7 in the previous month, suggesting that consumers have increasing worries regarding the state of the economy later in the year.

The American consumer continues to see inflation as a major concern. They expect a yearly inflation rate of 4.2 percent for next year, though a decline in the long run to around 2.9 percent. This is still above the Fed's 2 percent target.

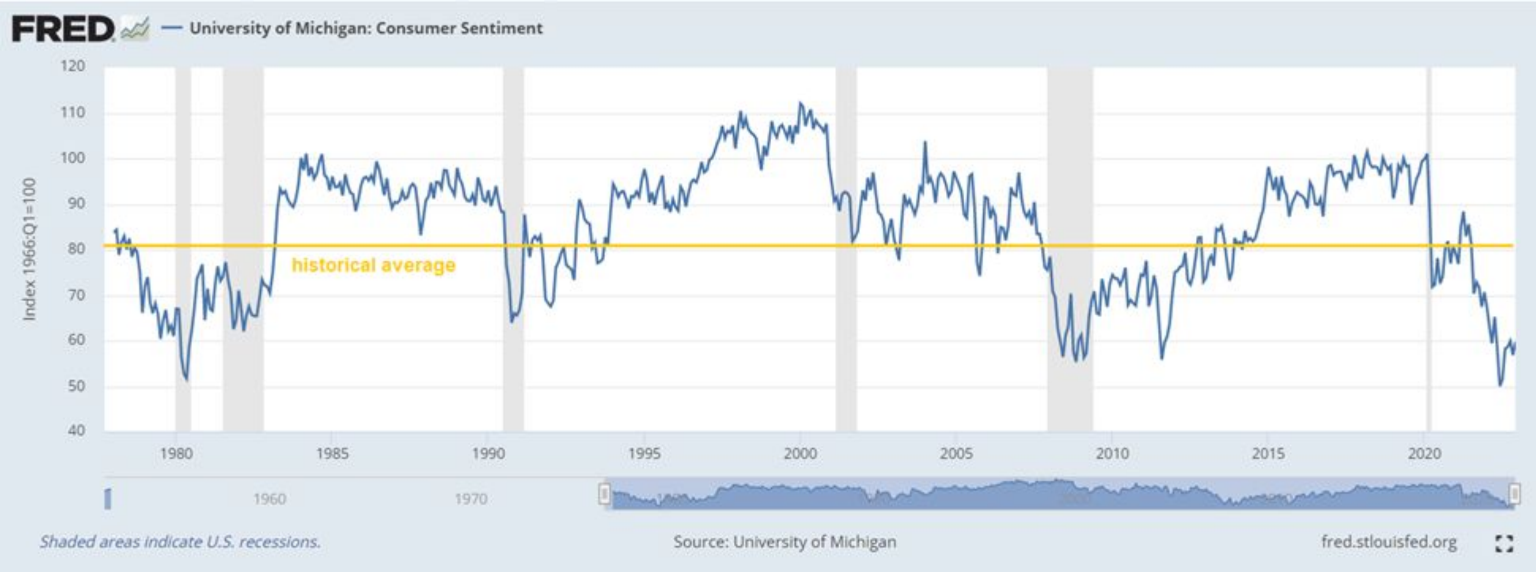


Figure 7. University of Michigan's Consumer Sentiment Index (Source: University of Michigan)

While the consumer sentiment index improved for the second consecutive month, overall the index is still 22 percent below its historical average from data dating back to 1978. High prices continue to weigh on the consumer outlook.

It is important to pay attention to consumer sentiment and inflation expectations because they are important indicator of future price trends. The recent survey result is suggesting that though expectations are moderating, inflation will be sticky and will persist through the year.

WHAT'S ON-CHAIN THIS WEEK?

On-chain Losses For Bitcoin

The Bitcoin market has realised on-chain losses for the first time in over two weeks. The ratio between all BTC moving at a profit or a loss fell below one for the first time in more than two weeks on Thursday, February 9. The so-called Bitcoin Realized Profit/Loss Ratio fell to 0.9189 as BTC slumped to a new near-three-week low under $22,000 amid macro concerns and US regulatory crackdowns, which we cover in the *News from the Crypto-Sphere* section.

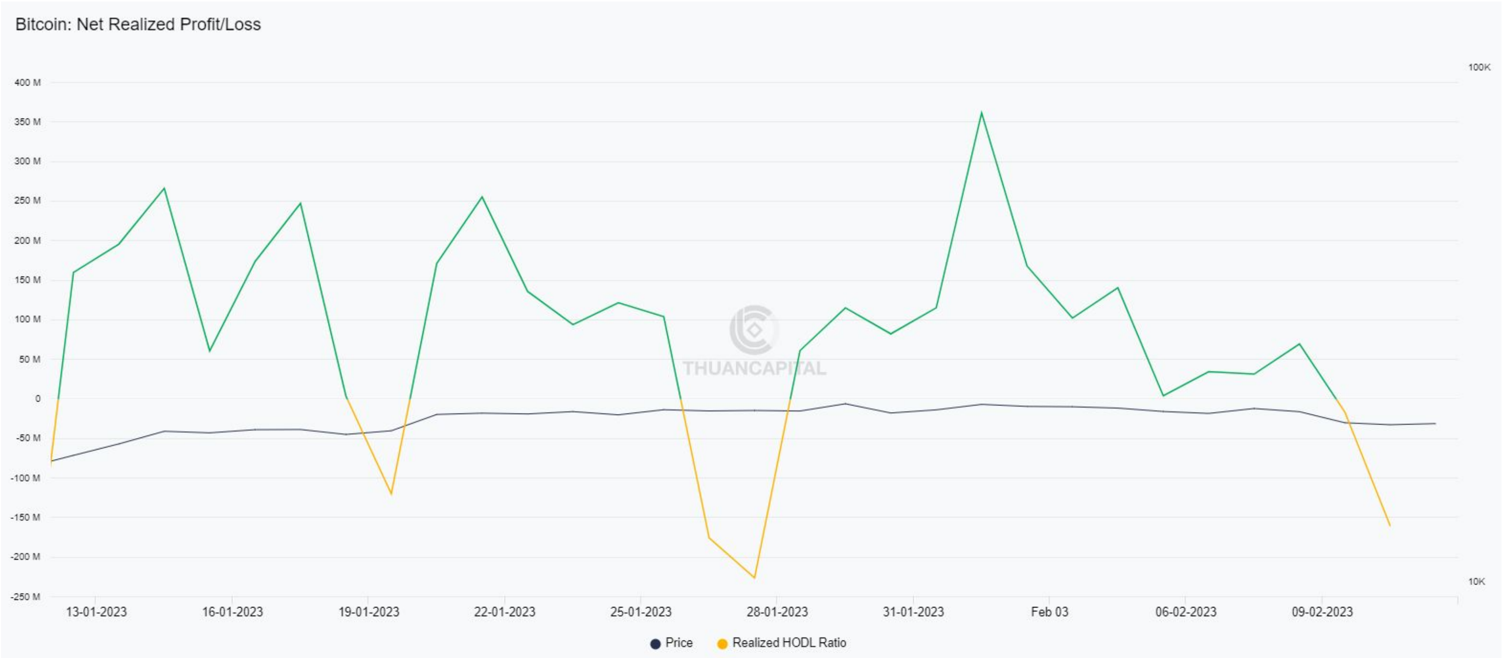


Figure 8. Realised Profit and Loss (RPnL) for Bitcoin (source: analytics.thuancapital)

Prior to Thursday's five percent drop, Bitcoin had already pulled back five percent from the monthly highs formed near the $24k mark. However, the Realized Profit/Loss ratio had remained positive throughout that earlier pullback. This indicates that the initial downside was likely a result of profit-taking from those who had bought earlier in the year, prior to/during Bitcoin's big run-up. We had covered how whale profit-taking and the long term trend in the RPnL and other indicators could indicate short terms pullbacks in previous editions of *Bitfinex Alpha.*

However, RPnL turning negative on February 9th suggests the downside is not limited to profit-taking. Coupling this data with liquidation data in the derivatives markets suggests that a greater portion of selling pressure was from leveraged longs getting wiped out.

Figure 9. BTC Total Liquidations (source: Coinglass)

Bitcoin long liquidations reported across all major futures exchanges reported its highest value in over three months at $64.6 million on Thursday 9th February. This flurry of long liquidations caused the BTC price to move down to the $21,500 level where it found support. This is typical of BTC price action, wiping out long open interest and causing long liquidations from “weak-hands” and “late-longers” after an extended rally up. What remains to be seen is how BTC acts at support levels of $21500 and $20200 after this move. Selling pressure from short-term buyers who bought under $20000 realising profit remains a concern for Bitcoin bulls but historically, such a move is usually characterised by price ranging within a tight range for some time.

Medium Term Remains Bullish

Despite pullbacks, BTC net weighted derivatives funding rates remain positive. Profit-taking at this magnitude even from long-term holders does raise suspicion over market sentiment and confidence in this yearly open rally, however, there is no reason for Bitcoin bulls to panic just yet. *Coinglass* data shows that despite Thursday's drop, there hasn't been a shift in Bitcoin leveraged funding rates, which remain modestly positive. Positive funding rates suggest speculators are bullish and long traders are paying funding to short traders.

Figure 10. Funding Rates For Bitcoin (source: Coinglass)

As per *Deribit* data, before February 9, calls commanded 71.1 percent of total BTC options open interest, and 77.5 percent for Ether. The Bitcoin put/call ratio remains bullish over the medium term as seen in figure 11.

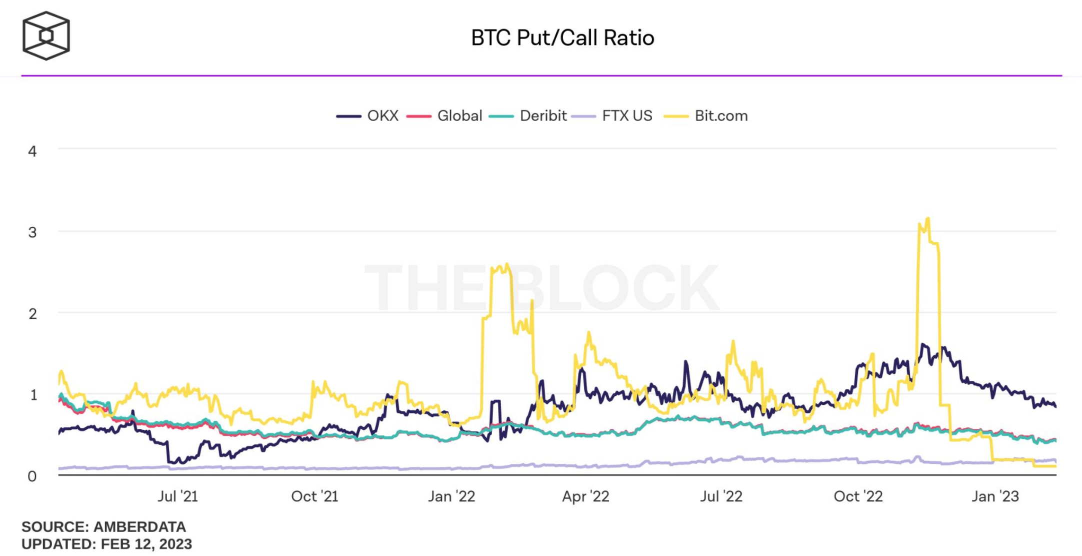


Figure 11. BTC Put/Call Ratio is in a massive downtrend for five months. (source: The Block)

Short Term Downside Or Range Is Expected

Options markets have shifted to position for a slightly increased risk of near-term downside over the course of the next seven days. This can be inferred from the widely followed 25 percent delta skew hitting its lowest level recorded this year on February 10.

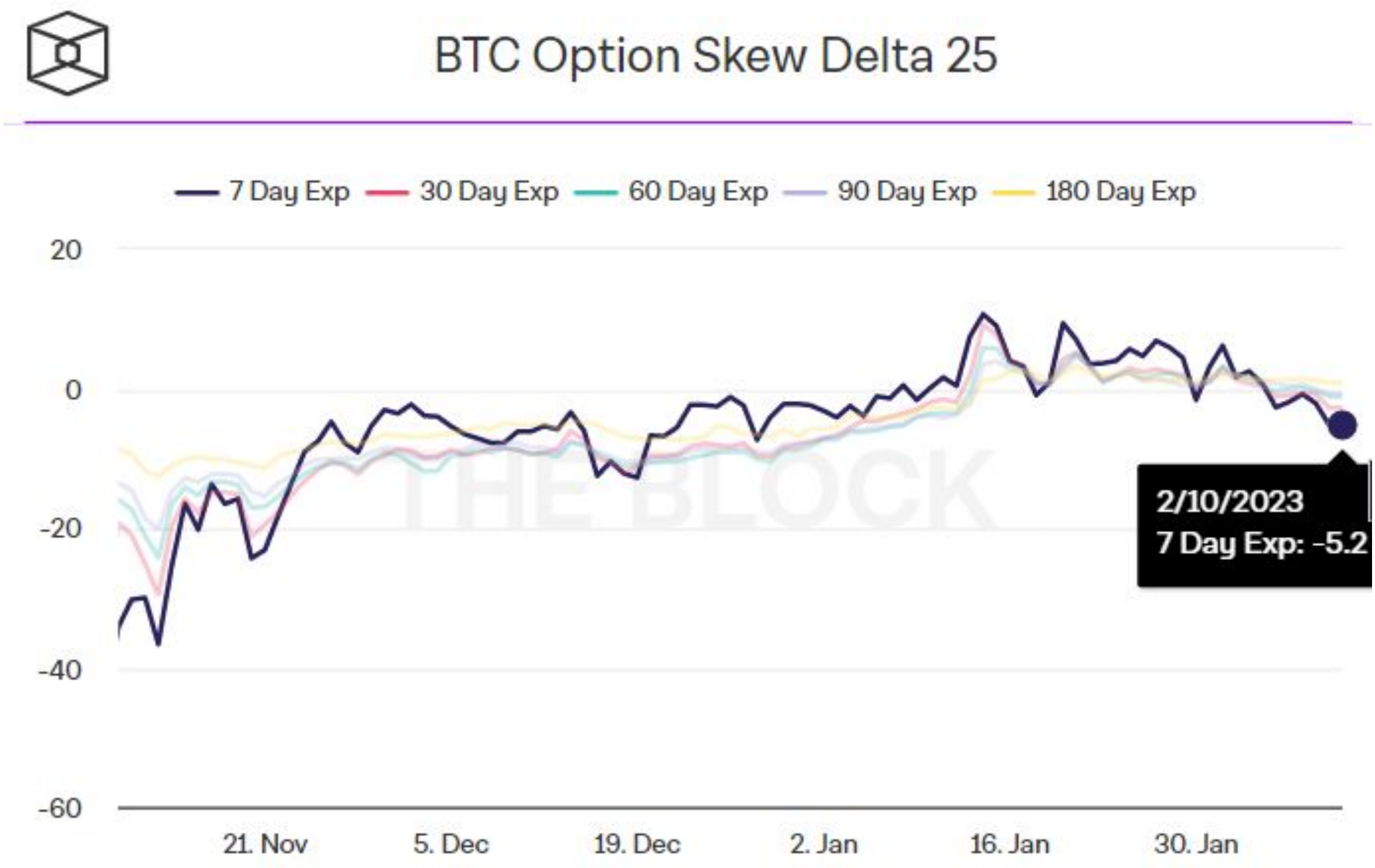


Figure 12. BTC Option Skew Delta 25. (source: The Block)

The seven-day 25 percent delta skew hit -5.2 on Friday, 10 February, its lowest since December 28, 2022. The 30, 60, 90 and 180-day 25 percent delta skews were all at or close to at least one-month lows, with all aside from the 180-day having fallen back under zero in recent days. That suggests investors are positioned for further downside in the Bitcoin price in the short term.

The 25 percent delta options skew is a popularly monitored proxy for the degree to which trading desks are over or undercharging for upside or downside protection via the put and call options they are selling to investors. A 25 percent delta options skew above 0 suggests that desks are charging more for equivalent call options versus puts. This implies there is higher demand for calls versus puts, which can be interpreted as a bullish sign. Currently, the 180-day 25 percent delta skew remains positive which is indicating that the medium-term view on Bitcoin remains moderately positive. Funding rates and options delta skew remain some of the overlooked yet extremely important gauges of market sentiment.

A dip to sub-$20,000 levels could be on the cards, which would likely trigger a fresh stop-run on short-term speculators who went long in the $21,500 support area. However, expect dip-buyers to be waiting eagerly to scoop up a good amount of Bitcoin as it approaches its Realized Price as shown in figure 11, which currently resides at $19,840.

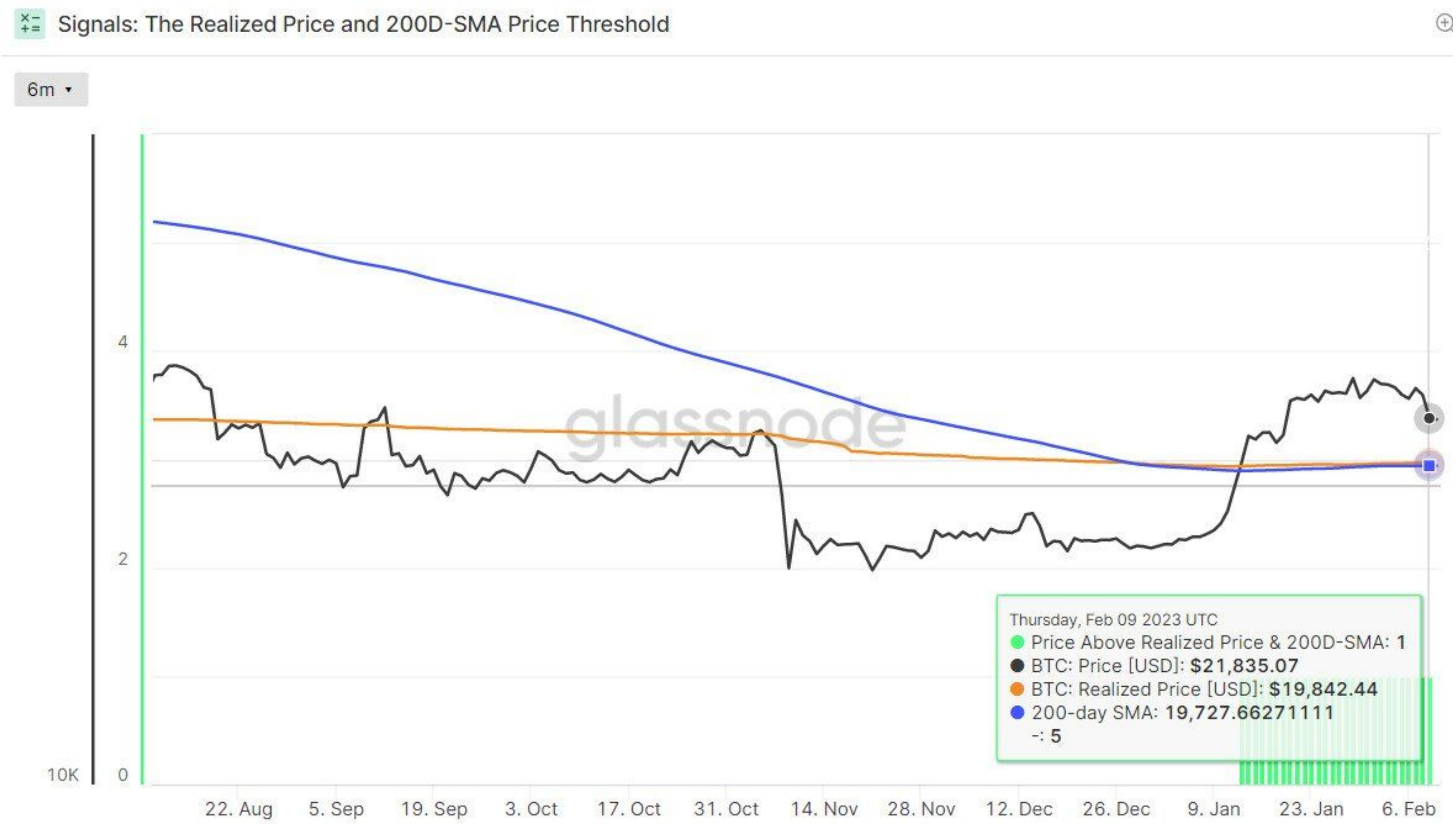


Figure 13. BTC Realised Price (source: glassnode)

NEWS FROM THE CRYPTO-SPHERE

Tether Reveals $700 Million Profits For Q4/2022

Figure 14. USDt remains the third largest cryptocurrency by market capitalisation.

On February 9th, Tether reported that a net profit of more than $700 million was added to its reserves in the last quarter of 2022.

Tether reported the profit as part of its latest attestation, conducted by accounting firm BDO Italia, a top five-ranked global independent public accounting firm.

The attestation re-affirms the accuracy of Tether's Consolidated Reserves Report (CRR), which breaks down the assets held by Tether as of December 31st, 2022.

The CRR shows that Tether ended 2022 with zero commercial paper and at least $67 billion in consolidated total assets and excess reserves of at least $960 million. The report also highlights a $300 million reduction in secured loans, more than $700 million net profit added to Tether reserves in the last quarter 2022, and the highest percentage to date of assets allocated in US Treasury Bills, with a direct exposure of over 58 percent.

Tether CTO, Paolo Ardoino commented: "after a tumultuous end to 2022, Tether has once again proven its stability, its resilience and its ability to handle bear markets and black swan events, setting itself apart from the bad actors of the industry."

BUSD to USDt flows increase amid Regulatory Actions

Figure 15. BUSD/USDT trading pair. (source: tradingview)

On February 13, USDt was at one point trading at a 50bps premium to BUSD, as traders sold BUSD for USDt. The discount on BUSD came as a reaction to the news published by *The Wall Street Journal* claiming that The Securities and Exchange Commission (SEC) is planning to sue Paxos, a blockchain and trust company, for listing BUSD which they regard as an unregistered security. Paxos violated its obligation for tailored risk assessments and due diligence of Binance and BUSD customers, according to the New York State Department of Financial Services (NYDFS).

In a statement to *The Wall Street Journal*, Binance said it will continue to monitor the situation and that BUSD is issued and owned by Paxos, and that it only licenses its brand to Paxos.

According to data by *Coingecko,* Tether (USDt) is regaining its status as the preferred stablecoin, with its market share approaching 50 percent for the first time since December 2021.

The largest stablecoin issuer has increased its supply by $2.4 billion USDt, bringing the total circulating supply up to $68.4 billion, representing a three percent increase. With $41.2 billion USDC in circulation, a 7.5 percent fall, Circle's USDC supply has shrunk by $3.3 billion year to date. Third-placed Binance's BUSD, regulated by Paxos, has a market cap of $16.1 billion, but its supply has dropped by $590 million, or 3.5 percent, since the beginning of the year.

Figure 16 shows the stablecoin market share distribution; the total stablecoin market cap is presently around $138.5 billion.

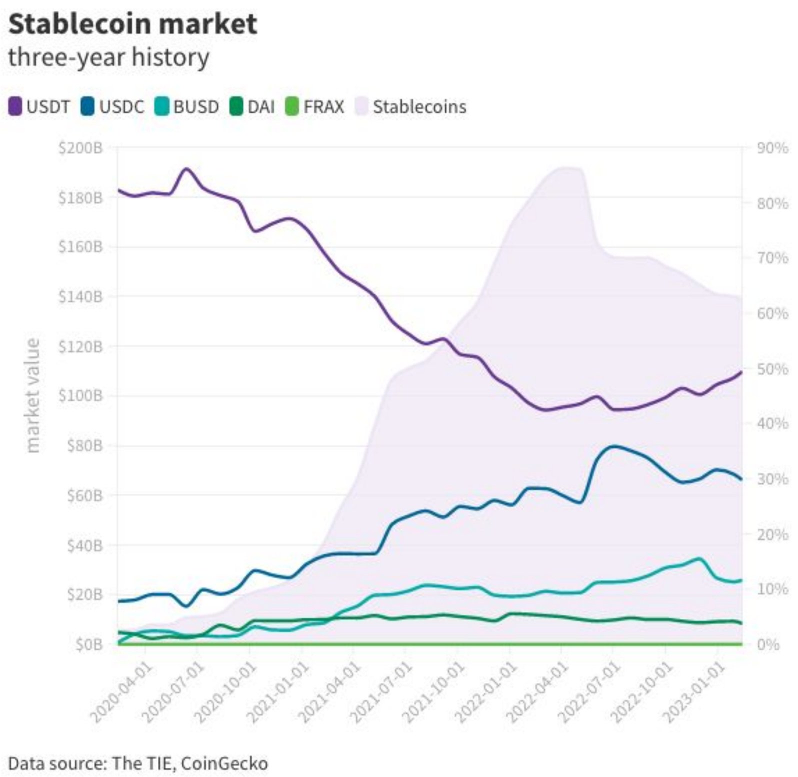


Figure 16. Stablecoin Market share distribution (Source CoinGecko)

$52 million worth of BUSD were sent to exchanges in a 24 hour period on the day of the news (see Figure 17). The depegging of the BUSD/USDt pair also suggest that Tether captured most of the market share from the BUSD collapse as a similar premium was not noticed on other popular stablecoins.

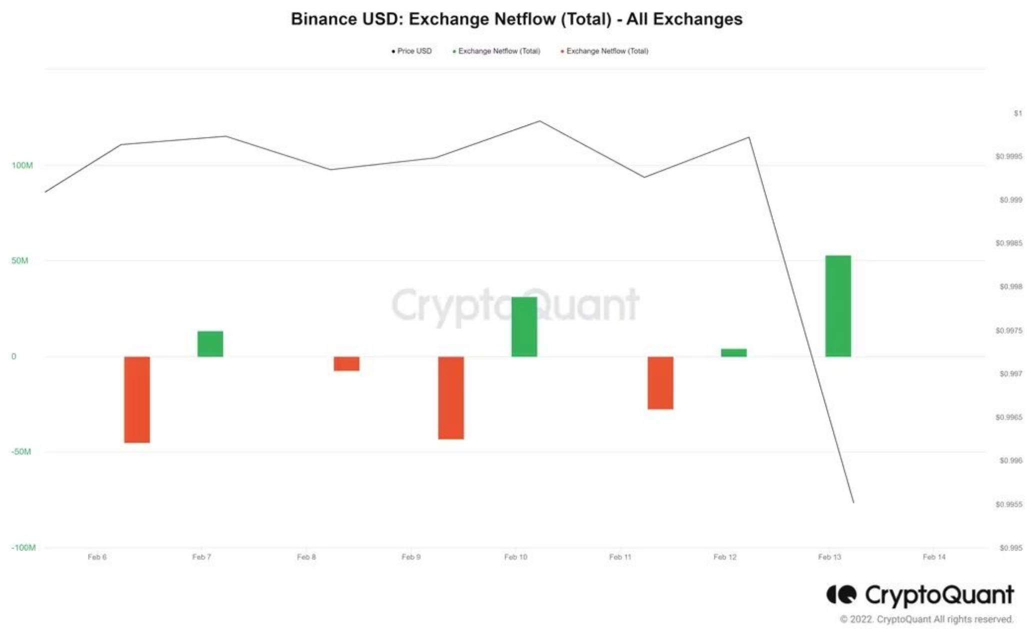


Figure 17. Exchange Netflow (Source CryptoQuant)

It’s also worth adding that not only did Binance's stablecoin depeg, but the native token BNB also fell by over seven percent. The lack of futures liquidations suggest this was mostly spot selling.

Microsoft Lays Off Its Industrial Metaverse Team After Four Months

Figure 18. Microsoft has closed the doors for its entire core metaverse team.

On February 9, Microsoft laid off its industrial metaverse team, which was established only four months ago.

The team was composed of 100 employees under the name of “Industrial Metaverse Core”, and was created in October 2022 to help build software interfaces for operating the control systems behind electrical power plants, industrial robotics and transportation networks.

It seems like this lay off is part of the broader plan by Microsoft to reduce its overall workforce by 10,000 jobs. Microsoft published a public on January 18, 2023, where Satya Nadella, Microsoft’s CEO stated: “Today, we are making changes that will result in the reduction of our overall workforce by 10,000 jobs through the end of FY23 Q3.”

Nadella added: “we will continue to invest in strategic areas for our future, meaning we are allocating both our capital and talent to areas of secular growth and long-term competitiveness for the company, while divesting in other areas.”

When asked about the recent lay off of the industrial metaverse team, Microsoft sent an email to *CoinDesk* that reads: “Microsoft remains committed to the industrial metaverse. We are applying our focus to the areas of the industrial metaverse that matter most to our customers and they will see no change in how they are supported. We look forward to sharing additional information in the future.”

Genesis And Its Parent Company DCG Finally Reached An Agreement With Creditors

Figure 19. DCG founder and CEO Barry Silbert

According to a press release on February 6, Digital Currency Group (DCG) and its subsidiary Genesis have finally reached an agreement with its creditors.

Under the terms of agreement, DCG would exchange its existing $1.1 billion note due in 2032 for convertible preferred stock to be issued by DCG. DCG would also refinance its existing 2023 term loans through a new, junior secured term loan in two tranches made payable to creditors in the aggregate total value of approximately $500 million.

In addition to that, according to *Reuters*, Genesis' attorney Sean O'Neal told a US bankruptcy judge in a February 6 court hearing that the company is finalising a restructuring agreement that would either result in a sale of Genesis or turn over its equity to creditors.

Gemini has also agreed to contribute up to $100 million to compensate the Earn program users on their frozen assets. Gemini's co-founder Cameron Winklevoss has confirmed the news via Twitter, stating that: "this plan is a critical step forward towards a substantial recovery of assets for all Genesis creditors." Adding that: "there is still much work to be done to complete this process, including further due diligence of Genesis financials and judicial approval of this plan, but we are confident that we now have a framework in place to execute on."

It is also worth adding that the *Financial Times* reported on February 7 that DCG has begun to offload its holdings in several investment vehicles run by Grayscale, another subsidiary owned by DCG, in order to raise capital to pay back Genesis' creditors.

Kraken Agreed To End Its Staking Services For US Clients And Pay $30 Million To Settle SEC Charges

Figure 20. SEC chair Gary Gensler

On February 9, The Securities and Exchange Commission (the SEC) released a statement that Kraken agreed to end its staking services for US clients and pay $30 million in penalties to settle SEC charges.

According to the SEC's complaint, since 2019, Kraken has offered and sold its crypto asset "staking services" to the general public, and when investors provide tokens to staking-as-a-service providers, they lose control of those tokens and take on risks associated with those platforms, with very little protection.

SEC Chair Gary Gensler said: "Today's action should make clear to the marketplace that staking-as-a-service providers must register and provide full, fair, and truthful disclosure and investor protection."

Kraken released a blog adding that it was putting an end to staking services only for US clients while non-US clients will continue to be able to stake and unstake assets, as well as automatically earn and stake rewards, as usual.

Kraken rival, Coinbase, sought to distance itself from the action taken by the SEC, with Paul Grewal, Chief Legal Officer at Coinbase, saying in an interview with *Bloomberg* that: "Coinbase's staking program is not affected by today's news.", he also added: "what's clear from today's announcement is that Kraken was essentially offering a yield product. Coinbase's staking services are fundamentally different and are not securities."

Binance Temporarily Suspend All USD Bank Transfers

Figure 21. Binance US, which has a reduced number of functions than Binance global will remain unaffected.

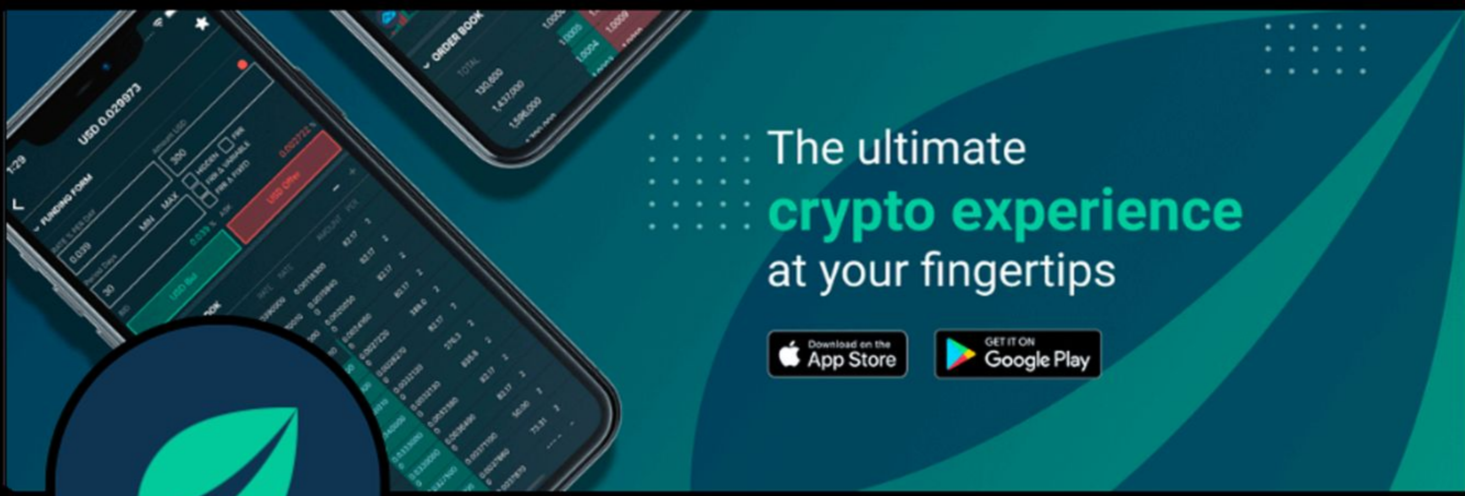
On February 6, Binance announced that it will temporarily suspend all USD bank transfers starting from February 8th.

In the statement, Binance wrote that only a small proportion of their customers will be impacted by this suspension and that they are working hard to restart the service as soon as possible. Binance also added that all other methods of buying and selling crypto remain unaffected.

Binance US, which is designed for US users, shared a statement saying that it will not be affected by the suspension.

Binance CEO Changpeng Zhao, also known as CZ, commented that: "USD bank transfers are leveraged by only 0.01 percent of our monthly active users,...however, we appreciate that this is still a bad user experience and the team is working on quickly resolving this issue."

Although Binance didn't mention any reason for the suspension, CZ shared another statement that reads: "while some banks withdraw support for crypto, other banks are moving in. Some setbacks were expected from last year's incidents. Long term, keep building."



https://t.me/bitfinex

BITFINEX Alpha