BITFINEX Alpha

Issue: 17-04-2023

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EXECUTIVE SUMMARY

The Consumer Price Index (CPI) reading improved in March, albeit remaining obstinately high. The monthly rate of inflation decreased primarily due to a significant decline in energy prices. Excluding food and energy, core inflation persists. However, consumer inflation data suggests a trend supporting expectations for a pause. The Fed funds futures, according to the CME FedWatch tool, indicate a high probability of a 25 basis points rate hike in May, followed by a pause.

The Producer Price Index (PPI), or wholesale inflation, witnessed the largest drop in nearly three years. The significant decline in energy prices and trade services partially exaggerated the decline in the index. Energy prices, however, are expected to rise in April following the production cut announcement by OPEC+.

According to the FOMC minutes released last week, officials expressed concern regarding stress in the banking sector following the collapse of two significant banks and its potential impact on economic growth. The minutes of the meeting underscore the uncertainty that Fed officials faced when deciding whether to continue raising rates or pause due to risks posed by the banking sector.

The Small Business Optimism Index indicates that small business owners in the US are grappling with elevated prices due to inflation. Concurrently, retail sales in March experienced the most significant drop in four months, demonstrating that business owners are witnessing a decrease in sales caused by the slowing US economy and the shift in consumer spending habits.

Meanwhile, in our on-chain news, Bitcoin spot trading volumes have experienced a substantial decline since reaching a significant peak last month. Spot volumes on major exchanges amounted to approximately $16.4 billion on 14th April, in stark contrast to the mean $70 billion reported at the same time in the previous month. Bitcoin futures and options volumes have also notably diminished in mid-April.

This waning in trading volume coincides with a transitional period in the market, as the spot buying rally in Q1 2023 has attenuated in recent weeks. A potential factor is BTC crossing the salient $30,000 level, prompting larger traders to take profits or hedge their positions. The estimated leverage ratio across exchanges has surged sharply.

Despite the decrease in trading volume, long-term on-chain metrics remain propitious, suggesting a positive outlook for Bitcoin in the medium to long term. Key on-chain metrics, such as daily active addresses, addresses with a non-zero balance, and unique on-chain entities holding at least one BTC, all evince growing adoption of Bitcoin as a store of value and means of payment. One significant milestone to observe in Bitcoin's cost-basis metrics is when the realised price crosses back above the long-term holder's realised price, signalling a shift in market sentiment from bearish to bullish.

In our news from the crypto-sphere, Ethereum's Shapella upgrade has been implemented, allowing stakers to withdraw their Ether for the first time in 28 months.

FTX, the beleaguered cryptocurrency exchange, faces scrutiny after a new report divulges internal control and security failures. The exchange is also contemplating utilising creditor money to recommence its operations, with its attorneys stating that the exchange could reopen in the near future. However, no final decisions have been reached yet.

Hong Kong's Financial Secretary, Paul Chan, advocates the adoption of Web3 technologies amidst cryptocurrency market volatility, identifying it as a crucial area in the region's budget planning.

Several employees of South Korean cryptocurrency exchange Coinone have been arrested for their alleged involvement in accepting bribes for listing specific crypto assets.

Twitter has entered into a partnership with social trading platform eToro to allow users to buy and sell stocks, cryptocurrencies, and other financial assets directly from the platform, expanding its "cashtags" feature.

Happy Trading !

INDEX

GENERAL MARKET UPDATE

CPI Update: Despite the Small Dip, inflation remains stubbornly high

The Consumer Price Index (CPI) reading improved in March but remains stubbornly high and points to one more potential hike. The monthly rate of inflation dropped to 0.1 percent, primarily due to a significant decline in energy prices.

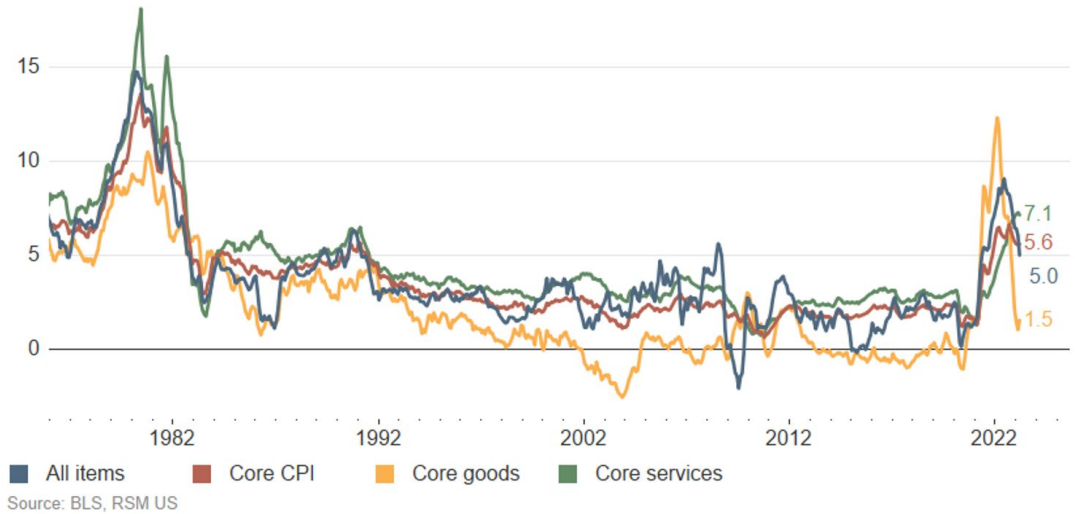


Figure 1. Year-over-Year Changes in CPI and its Components (Source: Bureau of Labour Statistics, RSM US)

Inflation Data	Period Covered	Current	Previous
Core CPI (Month-over-month)	March 2023	0.4%	0.5%
CPI (Month-over-month)	March 2023	0.1%	0.4%
Core CPI (year-over-year)	March 2023 (compared to a year ago)	5.6%	5.5%
CPI (year-over-year)	March 2023 (compared to a year ago)	5.0%	6.0%

Figure 2. Summary of the Consumer Price Index for March 2023 (Source: Bureau of Labour Statistics)

According to the report by the Bureau of Labour Statistics on Wednesday, April 12th, consumer prices rose by only 0.1 percent in March, compared to a 0.4 percent increase in the previous month, driven mainly through lower energy costs. The month-over-month (MoM) inflation is lower compared to economists' forecast of a 0.2 percent increase.

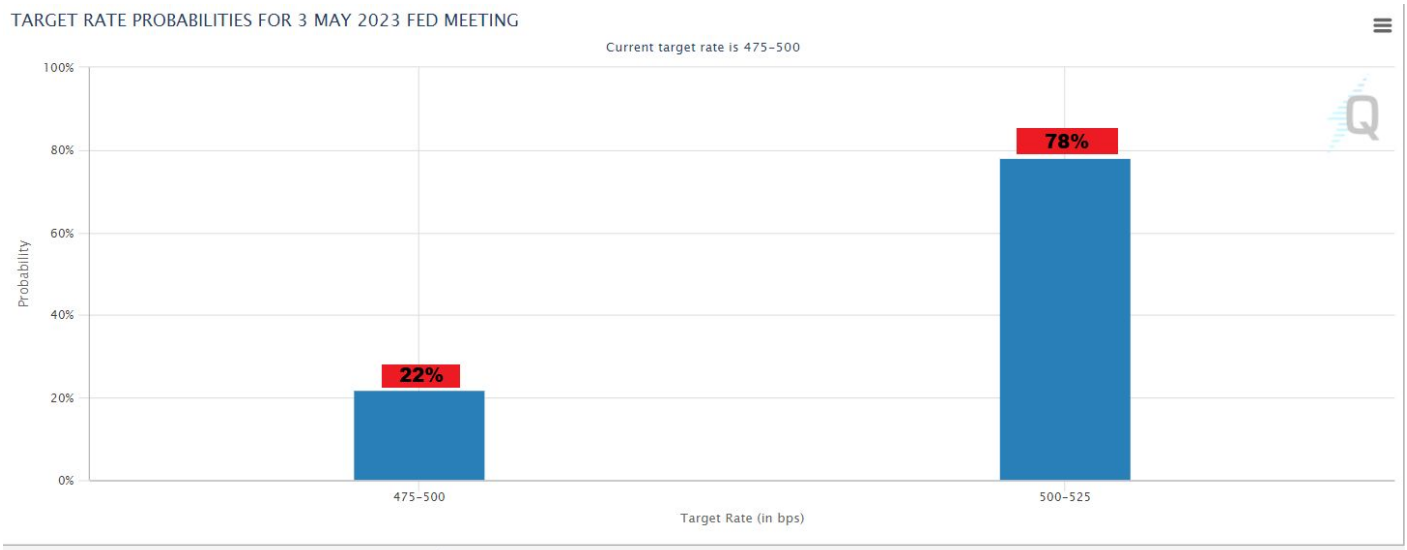
The yearly rate of inflation slowed to five percent (refer Figure 1) in March from six percent in February. This is the lowest reading since May 2021. The significant drop in the yearly rate is driven mainly by the year-over-year comparison to 2022, when food and energy prices surged during the Russia-Ukraine conflict

Core inflation, which excludes food and energy prices, rose by 0.4 percent in March, indicating that underlying price pressures remain somewhat sticky. The core rate of inflation increased by 5.6 percent year-over-year (YoY), which is higher than the headline CPI print. The cost of goods and services under core CPI, which excludes food and energy, has fallen at a slower rate than the headline CPI, suggesting that inflation will remain elevated for most of this year. Federal Reserve (Fed) officials recognise the importance of food and energy to consumers, so they don't disregard these categories entirely. However, they believe the core rate better indicates future inflation trends.

The year-over-year drop in inflation is partly due to easing prices in energy and food compared to last year. However, after removing these volatile components, the core CPI increasing MoM indicates that inflation may not ease rapidly in the near future. Moreover, we expect energy prices to rise again after the OPEC+ announcement regarding a production cut, as discussed in last week's edition of Bitfinex Alpha. This will create an upward pressure on inflation.

Anticipating still-persistent inflation, the Fed is expected to raise interest rates at least once more, most likely in May. Higher borrowing costs, from higher interest rates, reduce price pressure by slowing down the economy. A rate hike can also signal to financial markets that the Fed is committed to containing inflation, which can help anchor inflation expectations.

The lower-than-anticipated decline in inflation demonstrates that the Fed's hiking regime has finally proved effective in taming inflation. However, the inflation print is still far above the Fed's target of two percent. At its May 3 meeting, the Federal Reserve is expected to raise its policy rate by 25 basis points to a range of five to 5.25 percent (Refer to Figure 3), according to the probabilities in the CME FedWatch tool, as implied by the 30-Day Fed Funds futures pricing data.



TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 14 APR 2023	1 WEEK 7 APR 2023	1 MONTH 16 MAR 2023
450-475	0.0%	0.0%	0.0%	6.6%
475-500 (Current)	22.0%	22.0%	28.8%	39.7%
500-525	78.0%	78.0%	71.2%	53.7%

Figure 3. Target Rate Probabilities for May 3 2023, Data as of April 16, 2023 (Source: CME FedWatch Tool)

Despite persistent core inflation, the data is trending in the right direction, which supports expectations for a near-term pause in the Federal Reserve's series of rate hikes. The Fed has been raising rates since March 2022, but we expect a pause after the anticipated hike in May.

This view is also supported by Fed Funds futures pricing which, according to the CME FedWatch tool (in Figure 4 below) is indicating a 78 percent probability of a 25 basis points hike at the May 3rd meeting, with a 66.1 percent probability of a pause thereafter.

MEETING PROBABILITIES														
MEETING DATE	200-225	225-250	250-275	275-300	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
5/3/2023							0.0%	0.0%	0.0%	0.0%	0.0%	22.0%	78.0%	0.0%
6/14/2023		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	17.4%	66.1%	16.6%
7/26/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.5%	35.5%	47.7%	10.4%
9/20/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.5%	22.1%	42.1%	27.5%	4.8%
11/1/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.2%	15.1%	34.6%	33.0%	13.3%	1.8%
12/13/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.8%	12.6%	30.8%	33.3%	17.1%	4.0%	0.3%
1/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.5%	11.0%	28.1%	32.9%	19.6%	6.0%	0.9%	0.1%
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	1.3%	9.8%	26.0%	32.3%	21.2%	7.6%	1.5%	0.2%	0.0%
5/1/2024	0.0%	0.0%	0.0%	0.1%	2.2%	11.6%	26.7%	31.1%	19.7%	7.0%	1.4%	0.1%	0.0%	0.0%
6/19/2024	0.0%	0.0%	0.1%	1.3%	7.2%	19.6%	29.0%	25.1%	13.0%	4.0%	0.7%	0.1%	0.0%	0.0%
7/31/2024	0.0%	0.1%	1.0%	5.8%	16.6%	26.8%	26.0%	15.8%	6.1%	1.5%	0.2%	0.0%	0.0%	0.0%
9/25/2024	0.4%	2.9%	10.1%	20.7%	26.5%	22.0%	12.0%	4.3%	1.0%	0.1%	0.0%	0.0%	0.0%	0.0%

Figure 4. Meeting Probabilities for May and June 2023 FOMC meeting (Source: CME FedWatch tool)

Wholesale Inflation Posts Biggest Decline in Three Years

The 0.5 percent drop (refer Figure 5 below) in wholesale prices in the US in March was the largest drop in nearly three years. It may be an indicator of more softening in inflation in the coming months.

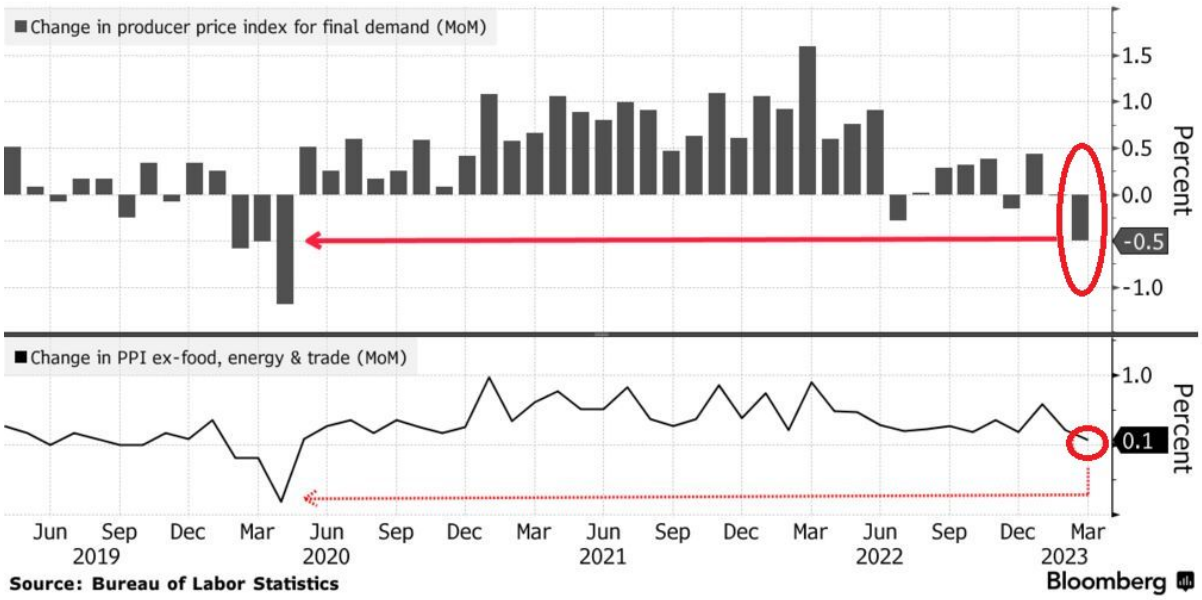


Figure 5. Producer Price Index and Core Producer Price Index, Month-over-Month (Source: Bureau of Labour Statistics, Bloomberg)

According to a report by the Bureau of Labour Statistics on Thursday, April 13th, US Wholesale Prices, or the Producer Price Index (PPI), fell by 0.5 percent in March. Economists had predicted no change in the producer price index. The latest PPI print marks the most significant decline since early 2020, when the Covid-19 pandemic began.

It should be noted that the significant decline in energy prices and trade services partially exaggerated the fall in wholesale prices. Trade services are a component of the PPI that measure changes in the costs incurred by intermediaries in the distribution chain and the value added by their services. Trade services shrank by 0.9 percent, suggesting a compression in trade margin caused by decreased demand for goods, indicating weakness in the economy.

Core PPI, another measure of wholesale prices that excludes volatile food, energy costs, and trade services rose only 0.1 percent in March, lower than consensus economist forecasts of 0.3 percent, and below February's Core PPI of 0.2 percent.

Wholesale food costs increased by 0.6 percent, breaking a streak of three consecutive declines. Over the past year, food prices have increased by 5.1 percent, a significant rise that has contributed to higher inflation overall.

While food prices have increased, service costs have decreased by 0.3 percent, a sign that inflation in this area may be softening. However, service inflation has grown substantially over the course of 2022 and remains persistent, making it a serious concern for the Federal Reserve.

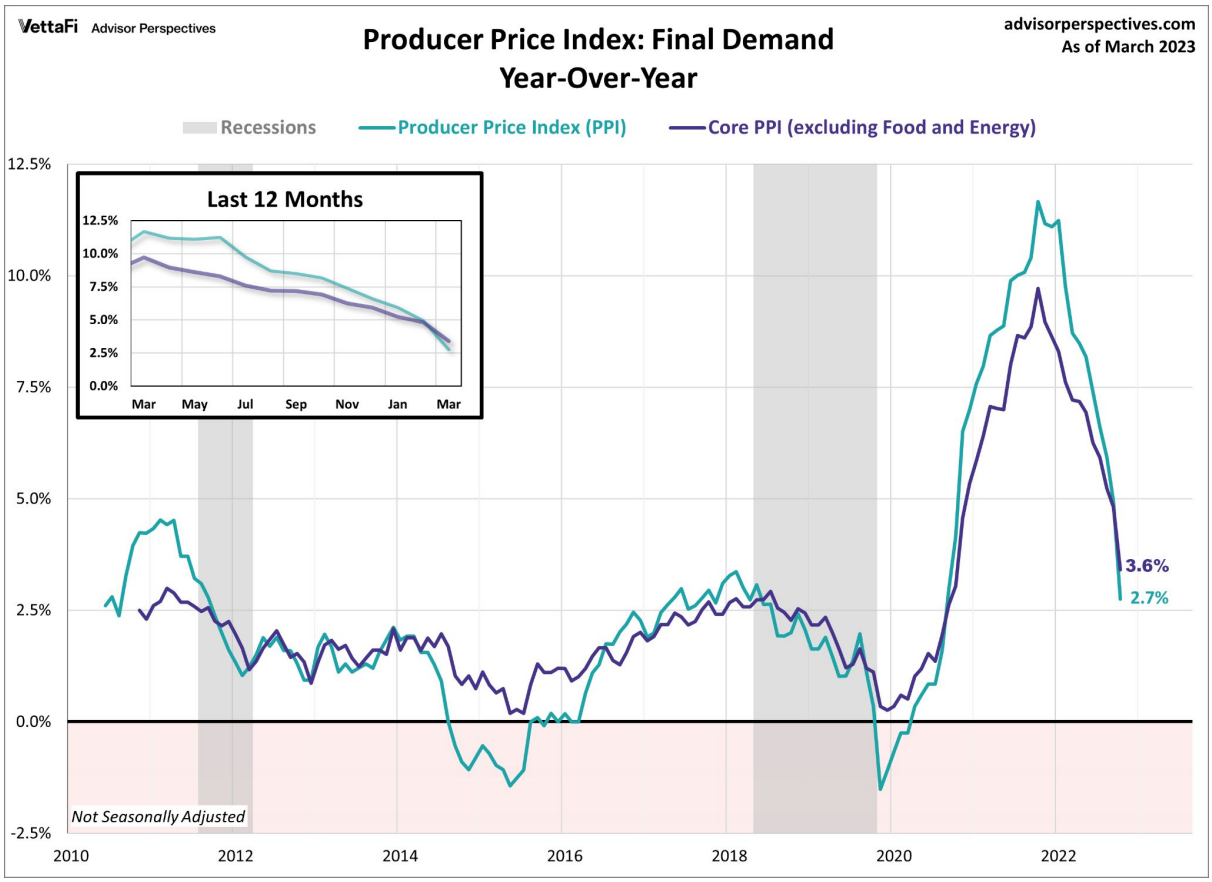


Figure 6 . Year-over-Year Producer Price Index (Source: Bureau of Labour Statistics, Advisor Perspectives)

The increase in wholesale prices year-over-year has slowed to 2.7 percent (refer Figure 6 above) from 4.9 percent in the previous month, which is the lowest level since January 2021. Wholesale costs often predict future inflation trends, and the recent yearly rate in PPI suggests that inflation is trending downwards. Core PPI was 3.6 percent YoY, which is slower than the previous month's 4.5 percent.

The PPI report measures the costs companies pay for supplies such as fuel, metals, packaging, etc. These costs are typically passed on to retail customers, providing an idea of whether inflation is rising or falling. However, prices could rise in the next few months due to OPEC's production cut and the resulting increase in oil prices.

The Fed has been raising interest rates since last year to tame inflation. The aggressive rate hikes have already caused a slump in the broader economy, including the banking sector, as evidenced by the recent failure of Silicon Valley Bank (SVB). The Fed's decision to stop increasing interest rates will depend on how rapidly inflation declines. The latest PPI report tilts the scales slightly more in favour of a pause, especially with the recent CPI report, and though inflation is still showing stickiness, there does not appear to be any new inflationary pressures and overall is moderating on a year-over-year basis.

March FOMC Minutes: Fed was Worried About Financial Stability

According to the FOMC minutes released on Wednesday, April 12th, officials were concerned about the stress in the banking sector following the collapse of two significant banks and its potential impact on economic growth.

Fed officials agreed that “recent developments were likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation, but that the extent of these effects was uncertain”, according to the minutes. The stress on banks was also likely to cause the Fed to raise lending standards and tighten credit, which could lead to a slowdown in the economy. Such uncertainty could also cause consumers to pull back on spending, further weighing on economic activity.

The financial fallout from the collapse of SVB and Signature Bank (SB) and its economic impact prompted several Fed officials to consider whether the central bank should pause its aggressive pace of monetary-policy tightening in March. Officials ultimately decided to raise the policy interest rate by 25 basis points to a target range of 4.75 percent to five percent, marking the Fed’s ninth consecutive hike. The vote to raise rates was unanimous.

The combination of “slower-than-expected progress on disinflation”, a tight labour market, and the view that emergency lending programs had successfully stabilised the financial sector led officials to raise rates, despite the economic uncertainty that remained. The meeting minutes, however, revealed a majority of support for finding a path to pause rate hikes. Several Fed officials said that they have discussed whether a pause would be an appropriate decision. They were convinced that the emergency measures taken by the Fed in conjunction with other government agencies had helped calm the banking sector and ease the near-term risks to financial stability.

The Fed now sees “ a mild recession starting later this year, with a recovery over the subsequent two years”, given their assessment of the potential economic effects of the recent banking-sector developments. Officials said they would continue to be “highly attentive” to inflation risks and “closely monitor incoming information," given the highly uncertain economic outlook.

The stress on banks due to rising interest rates and other factors poses significant downside risks to the US economy. Banks could reduce the supply of credit by more than expected, which could “restrain economic activity significantly." If demand slows down due to reduced credit availability, this could help reduce inflationary pressure.

However, officials are primarily concerned that banks will tighten credit and reduce lending, which could significantly slow down the economy.

Overall, the minutes of the meeting highlight the uncertainty that Fed officials faced in deciding whether to continue raising rates or pause due to the risks posed by the banking sector. While they ultimately decided to raise rates, they remain vigilant about incoming information and will closely monitor economic developments going forward.

Small-Businesses Confidence in the US Edged Down in March

The Small Business Optimism Index by the National Federation of Independent Business (NFIB) declined for the month of March, marking the 15th consecutive month below its 49-year average. The drop in the index poses concerns as it indicates that small business owners are struggling with elevated prices from inflation. They expect the economy to weaken further and inflation to remain persistent.

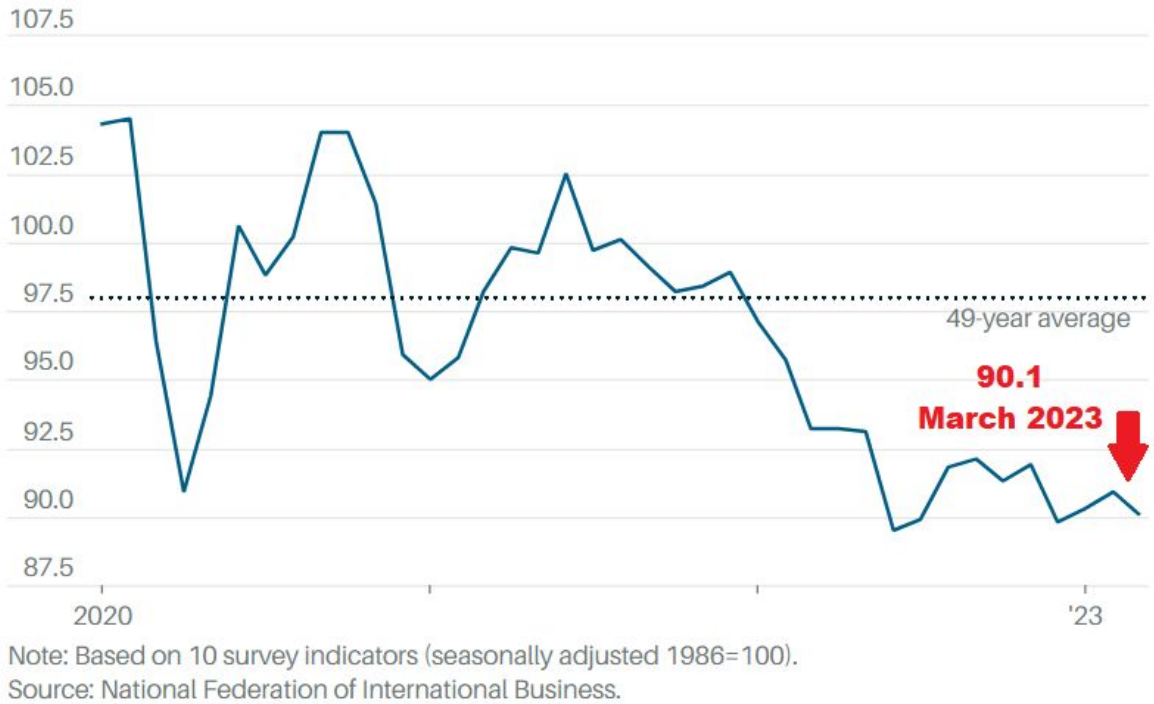


Figure 7. Small Business Optimism Index (Source: National Federation of Independent Business, NFIB)

The National Federation of Independent Business (NFIB) reported on Tuesday, April 11th, that the Small Business Optimism Index slipped to 90.1 in March, down from 90.9 in February, marking the index's 15th consecutive month below the 49-year average of 98.

The index collects information from small businesses about their employment, investment, and inventory plans. A low score suggests that small businesses, which account for a substantial share of economic output, have fewer plans for employing, investing, and stockpiling products. The index is calculated using the weighted average of the survey questions on a scale of -100 to 100, where positive scores indicate optimistic responses and negative scores indicate pessimistic ones.

The most recent figure shows the concerns of business owners towards the economy, falling below the level it reached in 2020 when Covid-19 wreaked havoc on the economy. When the economy is robust, the index could reach close to 110.

The net share of business owners anticipating improved business conditions over the next six months dropped to negative 47 percent, the lowest monthly reading since 1986. Inflation was identified by 31 percent of respondents as their top operating concern in March, up from 26 percent in February and the highest level since the mid-1980s, according to the research. Meanwhile, the percentage of successful price increases by businesses rose to 72 percent in March from 68 percent in February.

The small business optimism index witnessed a decline in the majority of its individual components in March, with the most significant impact stemming from a decrease in business owners' optimism about the future economic landscape. A six-point decline to negative 15 percent was observed in the percentage of small businesses anticipating increased sales in the subsequent months.

The report further highlighted a slight deterioration in plans for capital expenditures, while the proportion of small businesses with unfulfilled job openings remained near record levels. The Fed's decision to elevate interest rates to tackle inflation has led to diminishing confidence, which is now permeating the economy. As critical drivers of economic output and job creation, small businesses' pessimistic outlook on future economic conditions portends an unfavourable trajectory for the US economy.

The index's decline underscores the detrimental effects of mounting inflation on the economy. Elevated prices are burdening small businesses with increased operational costs, resulting in dampened expectations for the future. Additionally, the report indicates that firms are successfully raising selling prices, and the deterioration of capital expenditure plans further exacerbates the negative outlook for the economy.

March Retail Sales: Another Sign of A Softening US Economy

Retail Sales in March saw the biggest drop in four months, showing a slowing of the US economy and a shift in consumer spending habits.

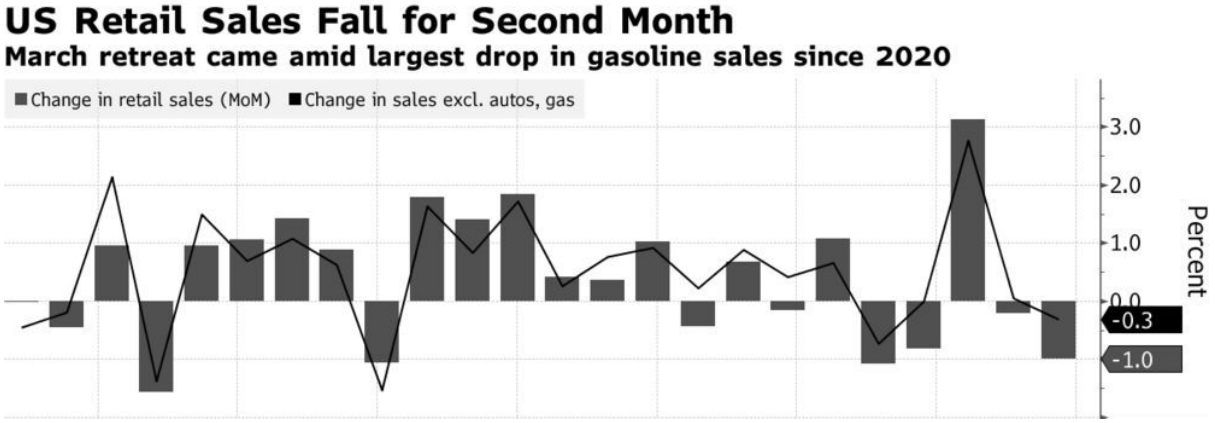


Figure 8. US Retail Sales (Source: US Census Bureau, Bloomberg)

Retail sales in the US fell more than expected in March, for the second month in a row, according to data from the Census Bureau released on Friday, April 14th. This represents the most significant decline in retail sales in four months. Retail sales are an important component of consumer spending and are seen as a vital indicator of the overall strength of the economy.

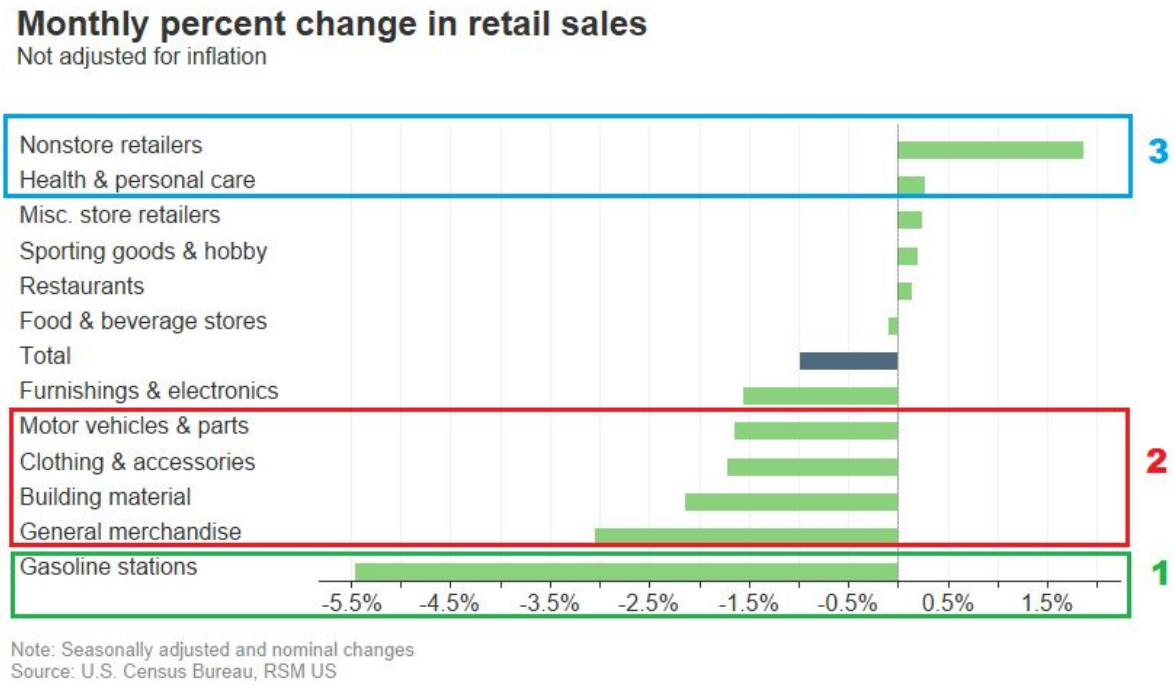


Figure 9. Monthly Percent Change in Retail Sales Components (Source: US Census Bureau, Bloomberg)

Retail sales in March dropped by 0.1 percent (Figure 8), less than consensus economic forecasts of 0.5 percent. The previous month, retail sales had dropped by 0.2 percent. The decline in March was led by a 5.5 percent fall in gasoline sales (Figure 9, No.1). General merchandise, building materials, clothing, and auto sales also posted significant declines at 3 percent, 2.1 percent, 1.7 percent, and 1.6 percent, respectively (Figure 9, No.2). However, online and healthcare sales were two of the few categories that increased on the month, rising by 1.9 percent and 0.3 percent, respectively (Figure 9. No.3).

Excluding auto dealers and gas stations, retail sales shrank by a smaller 0.3 percent (Figure 8). Auto sales and gasoline purchases have been the primary contributors to the overall decline in retail spending.

Spending on bars and restaurants is the only service sector component in the retail survey, making them an important category for economists to watch. After dropping by 1.6 percent in February, spending in restaurants saw a tiny increase of 0.1 percent in March. When the economy is doing well and people have confidence in their jobs, they are more likely to dine out and spend money on services in bars and restaurants.

Household incomes have been eroded by high inflation. The government's stimulus checks from the pandemic have run out. The cost of financing a large purchase, like a car, has also increased as interest rates have risen. However, Americans continue to spend their money primarily on services.

Americans' discretionary income has shifted away from items like consumer electronics and home office supplies and toward services like travel, hospitality, and recreation. That's a significant change from consumers' spending habits during the pandemic. This spending habit is also keeping the economy afloat. However, if the economy continues to slow down, as evidenced by the recent small-business sentiment index, wholesale producer prices (PPI) and now the latest retail sales, in that case, we expect spending on services to weaken.

WHAT'S ON-CHAIN THIS WEEK?

Bitcoin Spot Volume Loses Dominance

Spot Bitcoin trading volumes have declined significantly after reaching their highest levels last month since the collapse of FTX last November. The previous increase in volumes had been attributed to significant price volatility and zero trading fees on BTC pairs on Binance, which have now ended..

According to data from CoinGecko's API, spot Bitcoin trading volumes on major exchanges amounted to around $16.4 billion on Friday, April 14th. (refer to Figure 10 below)

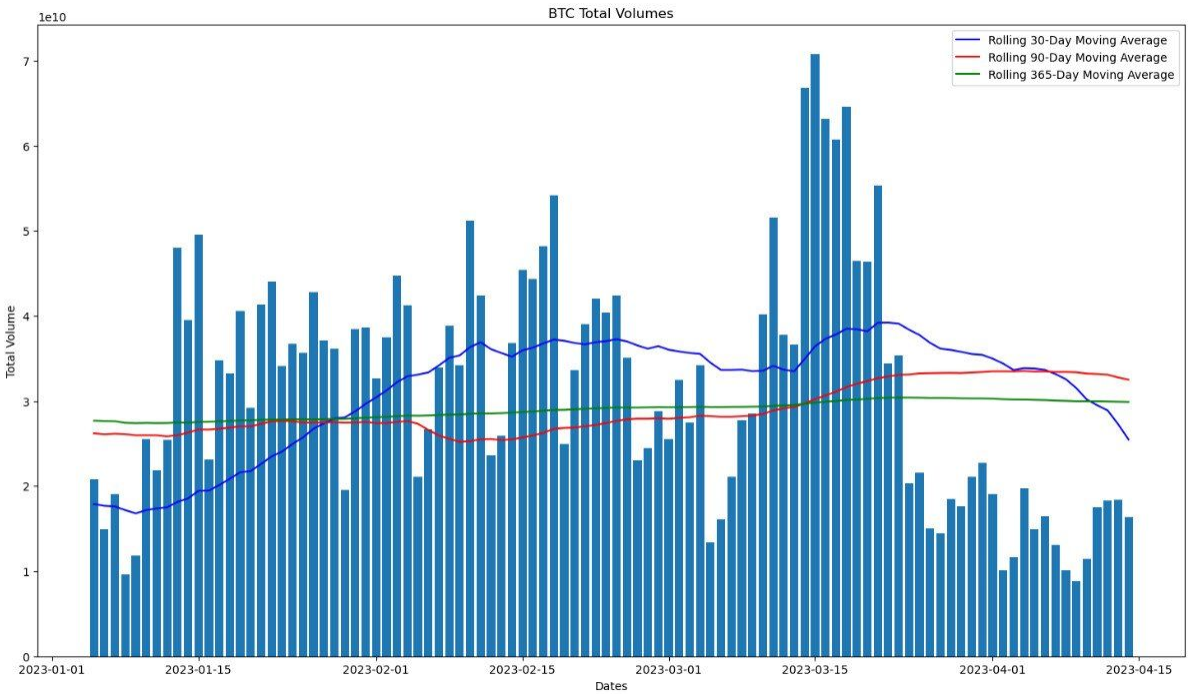


Figure 10. BTC Total Spot Volume (source: Coingecko)

This reported figure is in stark contrast to the average $70 billion in spot volume reported by *Coingecko* at the same time last month.

It's worth noting that this decline is not limited to spot trading volumes, as these figures indicate. Bitcoin futures trading volumes have seen a notable decline in mid-April, according to data from *The Block*. Month-to-date trading volume for Bitcoin futures is approximately $350 billion, which is significantly lower than the volume of $1.3 trillion recorded in March. (refer Figure 11 below)

The reduction in trading volume across both futures and spot markets suggests a cooling in the level of market activity surrounding Bitcoin.

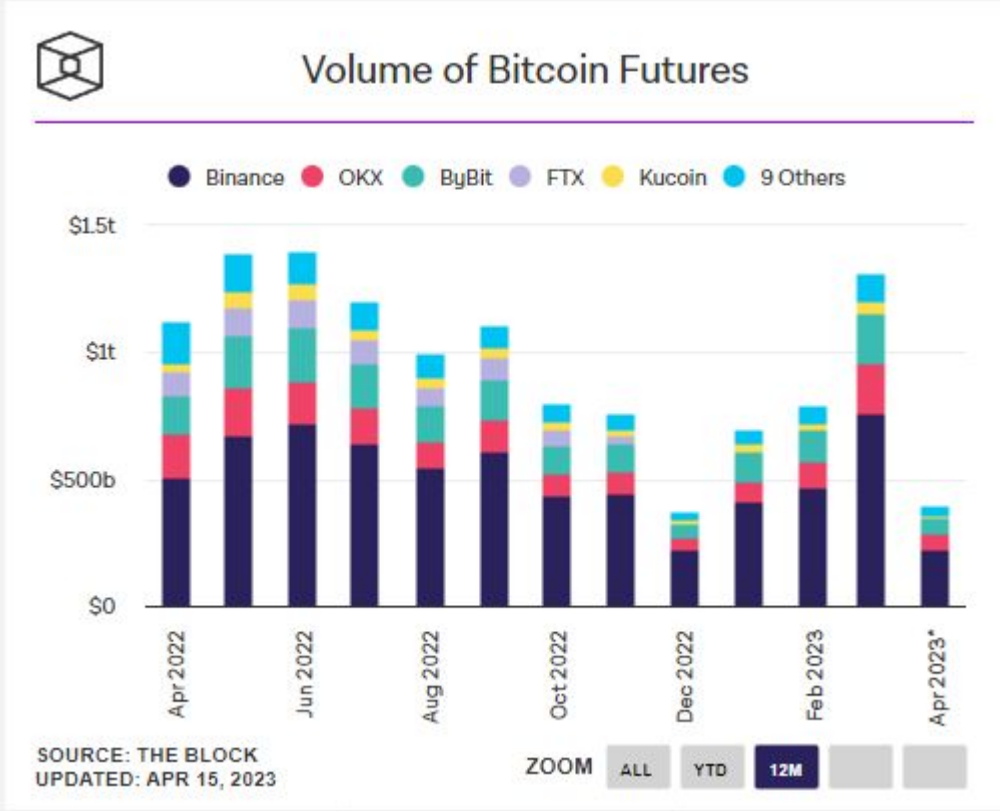


Figure 11. Bitcoin Monthly Futures Trading Volume (source: TheBlock)

Bitcoin Options volume has also reduced significantly over the past two weeks.

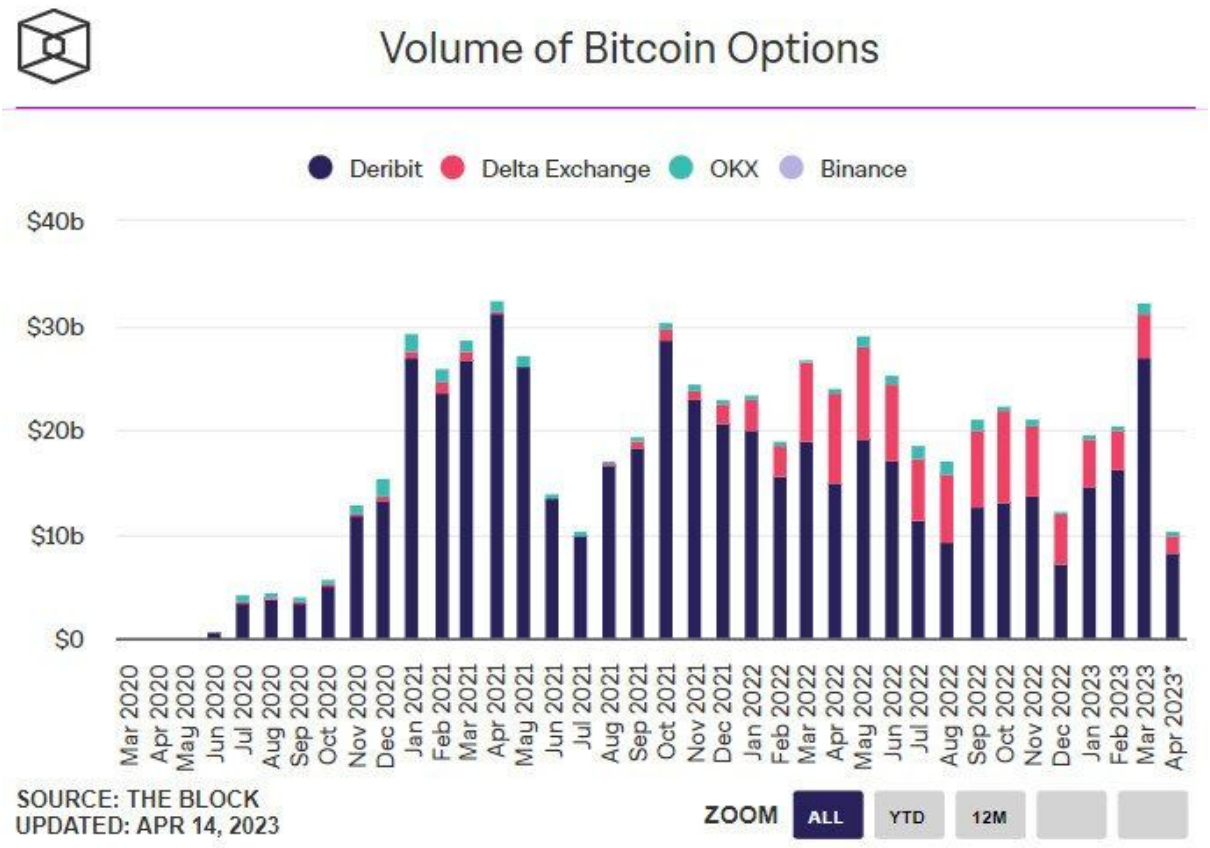


Figure 12. Bitcoin Monthly Options Volume

Another possible factor contributing to the recent decline in Bitcoin trading volumes is the price of BTC crossing the significant $30,000 level. This may have prompted whales and larger traders to take profits on their spot bags or at least hedge their higher conviction spot bags at these prices.

This decline in trading volume coincides with a transitional period in the market, where the uptrend caused by the spot buying rally in Q1 2023 has weakened over the past few weeks. As a result, traders may be adopting a more cautious approach, given the uncertain market conditions.

The concerning new trend is that although both spot and derivatives volumes have fallen significantly, spot volume is decreasing at an increasing pace and, thus, possibly losing dominance in affecting the price.

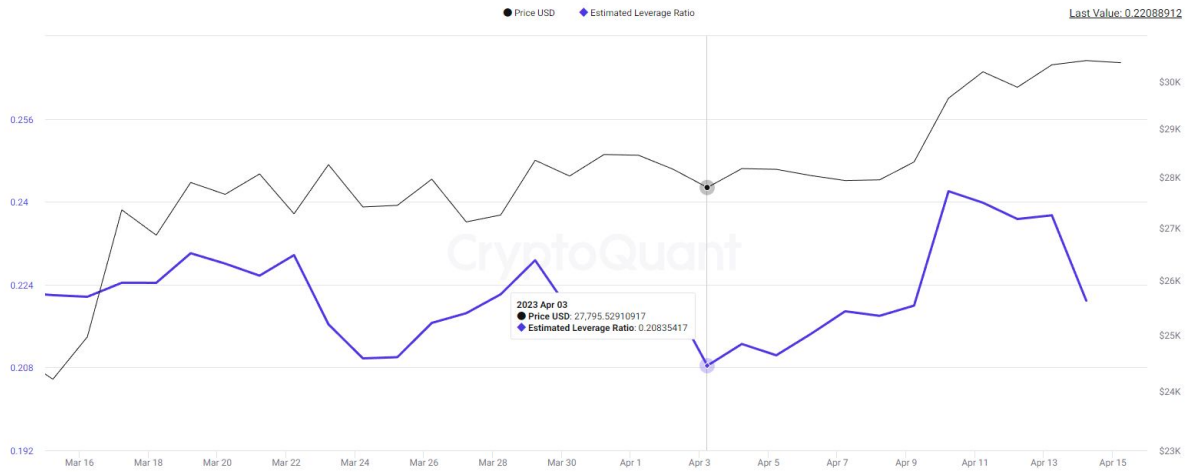


Figure 13. Estimated Leverage Ratio Across Exchanges (source: CryptoQuant)

As seen in Figure 13 above, data from CryptoQuant show that the estimated leverage ratio across exchanges has increased sharply and significantly during the move up from $28,000 for BTC on April 3rd, to the $30,000 plus levels. The estimated leverage ratio is the “exchange's open interest divided by their coins reserve, which shows how much leverage is used by users on average. Increasing in values indicates more investors are taking high-leverage risk in the derivative trade.”

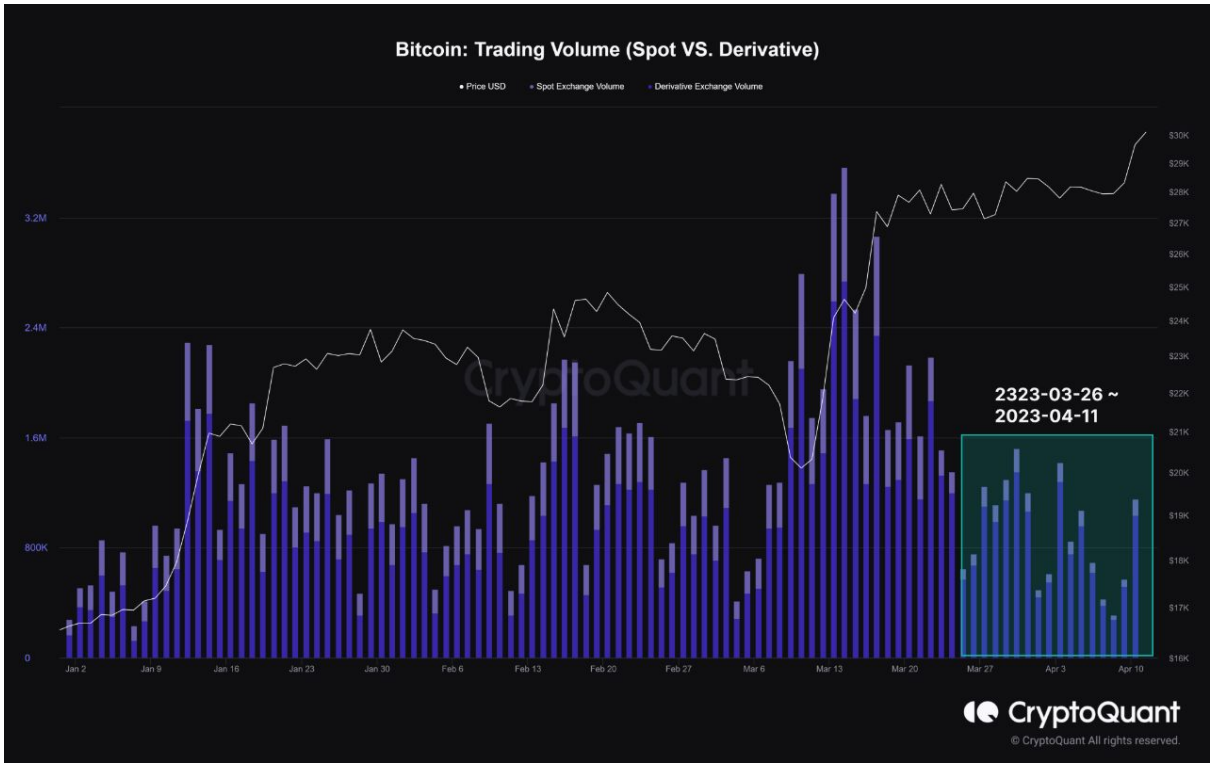


Figure 14. Bitcoin Spot vs. Derivative Trading Volume Ratio (source: CryptoQuant)

An analyst on *CryptoQuant* also reported how Bitcoin derivative trading volume has been gaining lost ground on spot volume since March 26th.

It is worth noting that while the decrease in trading volume may indicate a reduction in market activity, it does not necessarily imply a negative outlook for Bitcoin or the broader cryptocurrency market. Market participants may simply be adjusting to the new market conditions, which include ongoing regulatory and technological developments and a continued focus on Bitcoin's price stability.

Long-Term On-Chain Metrics Remain Bullish

Positive on-chain trends suggest that Bitcoin's trading bias in the medium to long term will remain bullish. One crucial factor is the core on-chain metrics that relate to network utilisation, which can be viewed as a proxy for demand for the Bitcoin network.

As network utilisation increases, it typically reflects a growing demand for Bitcoin's use as a payment and settlement system, signalling a positive outlook for the cryptocurrency. This can be attributed to an increasing number of users and businesses adopting Bitcoin as a payment option, which in turn drives up demand for the cryptocurrency.

Network utilisation's on-chain metrics continue to trend higher, indicating a positive outlook for Bitcoin in the medium to long term. These metrics include the daily active address numbers, the number of addresses with a non-zero balance, the number of new addresses, and the number of daily transactions, as reported by *Glassnode*.

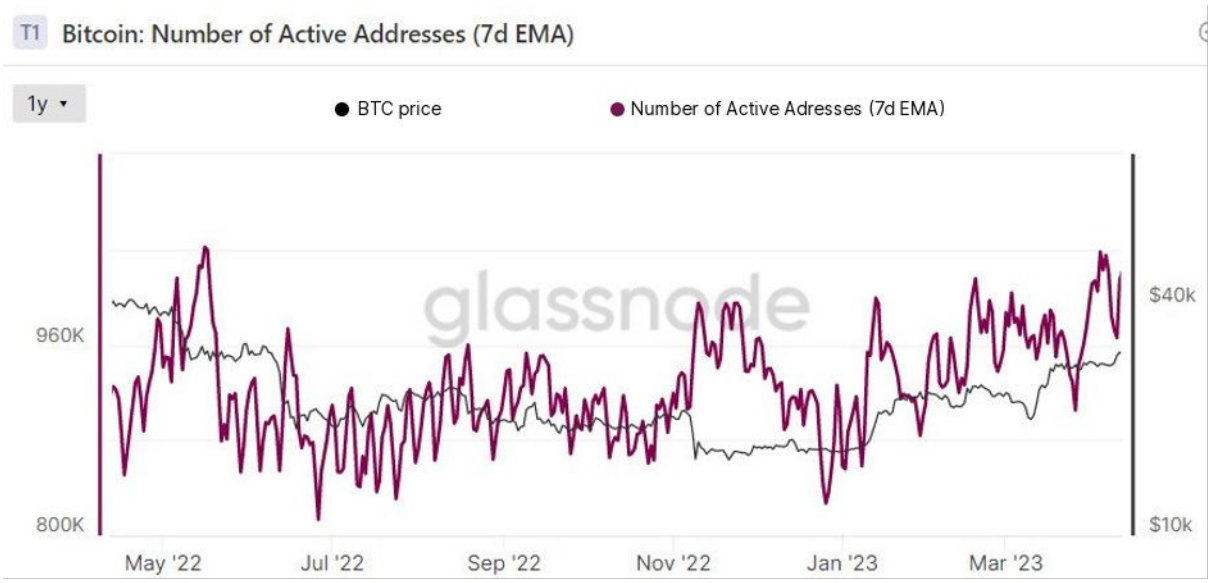


Figure 15. The Number of Active Addresses (source: Glassnode)

Figure 16. The Number Of Addresses with a Non-Zero Balance (source: Glassnode)

Another on-chain metric that provides further evidence of Bitcoin's growing acceptance is the number of unique on-chain entities holding at least one BTC, as seen in Figure 17 below.

Notably, this metric has increased despite the fact that it is now more challenging to acquire one whole BTC compared to previous bear markets. This suggests that more people are recognising the value of Bitcoin as a form of property, despite its volatility.

This increasing number of unique on-chain entities holding BTC is a strong indication of Bitcoin's growing adoption as a store of value, an investment asset, and means of payment.

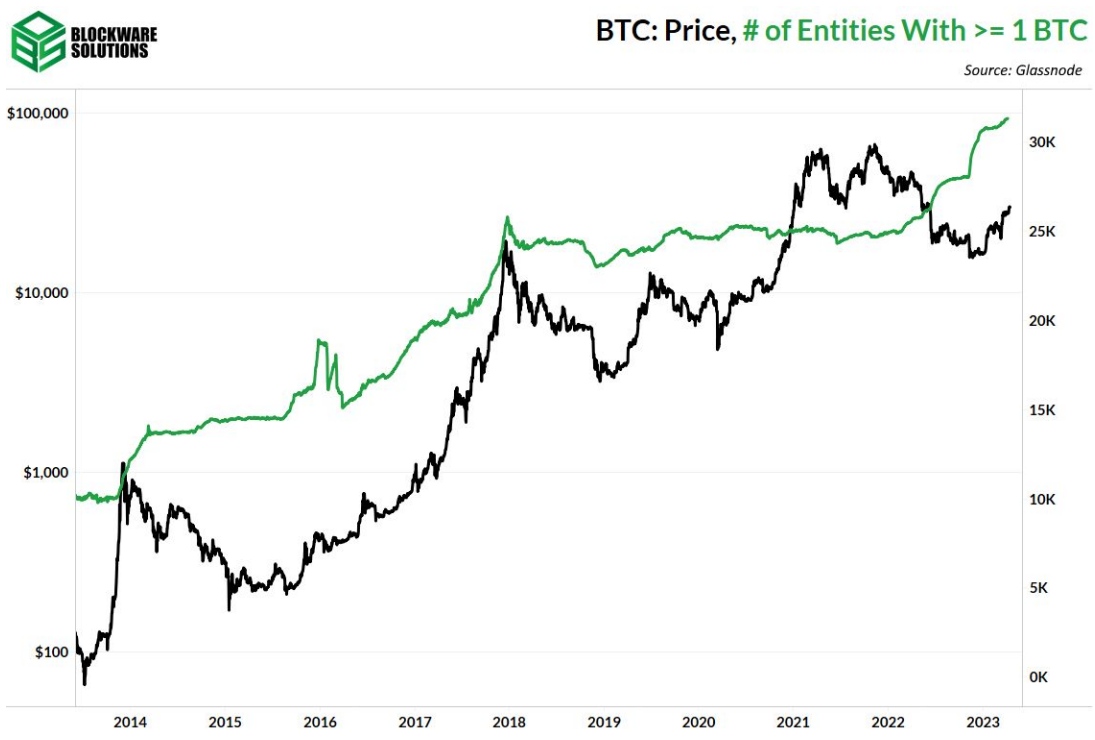


Figure 17. The number of BTC entities with more than 1 BTC (source: Blockware)

One significant milestone to watch for regarding Bitcoin's cost-basis metrics is when the realised price crossed back above the long-term holder's realised price. This has proven to be a reliable signal of the end of the previous three bear markets.

In this context, "realised price" refers to the average price at which Bitcoin has been bought or sold by investors who are actively trading the cryptocurrency. The realised price is calculated by dividing the total value of all Bitcoin on-chain transactions over a given period by the total number of Bitcoins that were traded during that period.

As of the latest available data, the current realised price of Bitcoin stands at $19,892 (refer to Figure 18), while the long-term holder's realised price is $18,929 (refer to Figure 19). There are some information sources where this milestone is not reached but the two metrics are still close. This suggests that Bitcoin is on track to potentially reach this critical milestone beyond doubt, which would signal a shift in market sentiment from bearish to bullish.

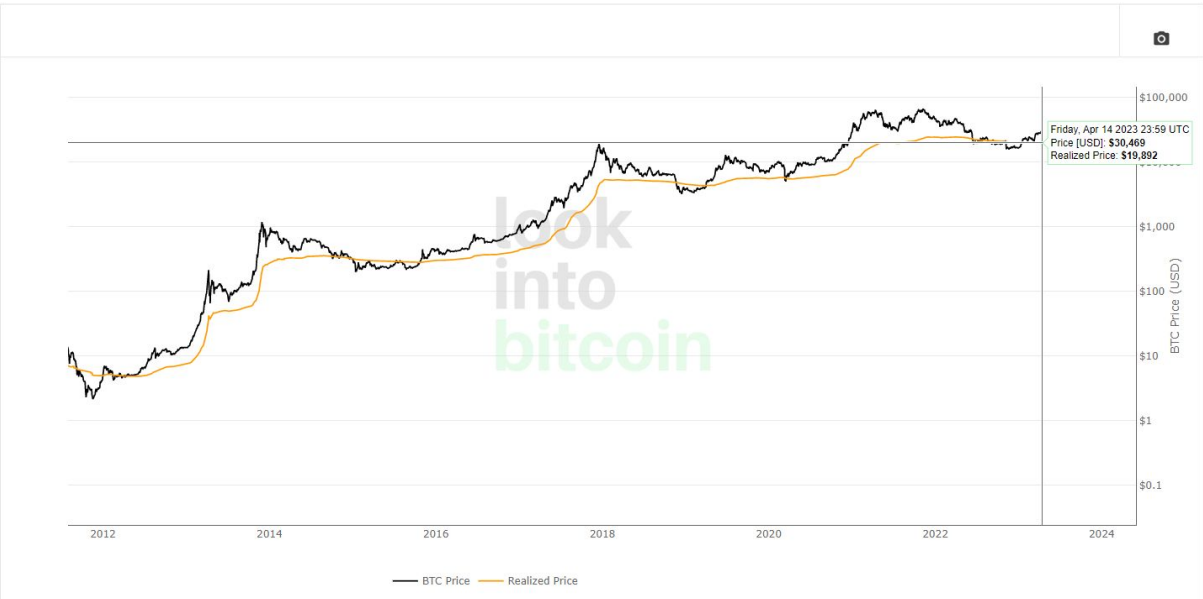


Figure 18. Bitcoin Realised Price. (source: lookintobitcoin.com)

Figure 19. Bitcoin Long-Term Holder Realised Price (source: ChainExposed)

While the realisation of this milestone is not a guarantee of sustained growth or price stability for Bitcoin, it is a notable development that would likely be seen as a positive indicator for investors and market analysts.

NEWS FROM THE CRYPTO-SPHERE

Ethereum Shapella Upgrade Goes Live

Figure 20. Ethereum Shapella upgrade goes live

Ethereum's Shapella upgrade has finally gone live, enabling those who staked Ether to withdraw their cryptocurrency for the first time in 28 months.

This upgrade combines the previously implemented forks, "Shanghai" and "Capella," and is considered a critical milestone in Ethereum's development, as it introduces essential functionality to the network. It is the first significant upgrade for Ethereum since The Merge transitioned the network from Proof of Work (PoW) to Proof of Stake (PoS) consensus. This transition led to a remarkable reduction in Ethereum's energy consumption by 99.9 percent, and new ETH issuance was reduced by over 90 percent.

The Shapella upgrade builds upon this transition and is expected to further enhance the network's overall functionality and scalability. It is expected to attract more institutional investment in Ethereum. Freddy Zwanzger, Ethereum ecosystem lead at Blockdaemon, a leading independent blockchain infrastructure platform, foresees increased interest in ETH staking opportunities from more prominent investors since there's now a clear withdrawal option in place. The upgrade is a game-changing development that is expected to bring more institutional investors to Ethereum. Stakers in the Ethereum network can now withdraw Ether from the Beacon Chain for the first time in 28 months since staking first went live.

While some analysts fear that the upgrade could lead to ETH getting dumped on the open market, others believe that it will strengthen market participants' confidence in staking ETH to generate yield. However, no evidence suggests that operators will withdraw from staking in great numbers.

Glassnode had predicted that during the first week of the Shanghai hard fork on Ethereum, just 170,000 Ether out of the total 18.1 million Ether staked on the Beacon Chain will be unlocked. This figure includes 100,000 Ether ($190 million) in staking rewards and 70,000 ETH in staked Ether ($133 million), as per the on-chain intelligence platform's report on April 11.

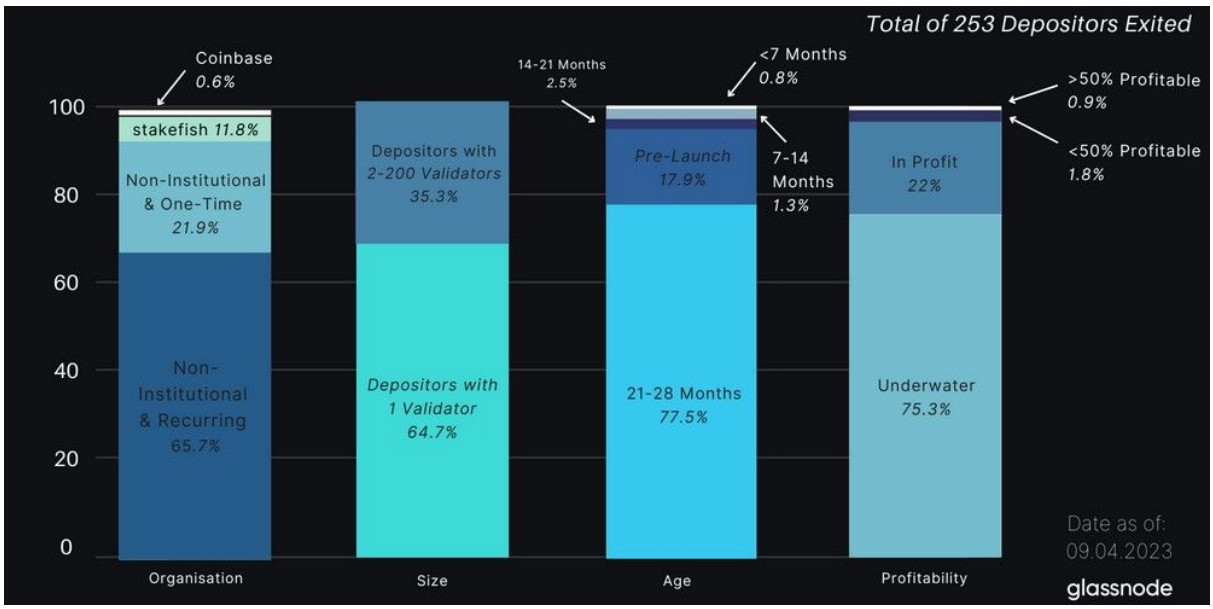


Figure 21. The types of organisations, size, age, and profitability of the 253 depositors exiting their stake. (source: Glassnode)

The report also highlights that only 253 validators (refer to Figure 21 above) have applied to exit their stake, and there are measures in place to avoid a sudden influx of Ether supply being dumped in the markets. The number of validators permitted to withdraw daily is limited to 1,800, which amounts to less than 0.05 percent of Ether's total supply.

Meanwhile, according to data from Nansen, nearly 28,000 validators have already unstaked (waiting for full exit) 892,599 ETH (worth approximately $1.9 billion), which is currently waiting to be withdrawn. However, this represents less than on 4.8 percent of Ethereum's total validators and staked ETH.

Crypto exchange Kraken is the largest entity waiting to remove almost 556,000 ETH, placing it at the front of the withdrawal queue. (Refer to Figure 22 below.)

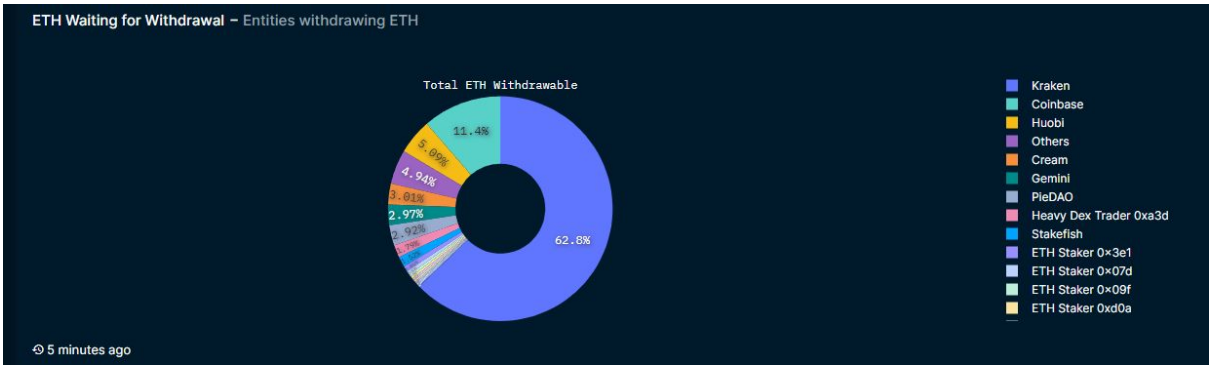


Figure 22. Entities and the amount of ETH waiting for withdrawal. (source: Nansen)

The Shapella upgrade will also enhance the scalability of rollups on Ethereum, with the next prominent feature being included in EIP-4844. This improvement proposal, also known as “Proto-Dank sharding”, is expected to occur around the start of 2024. The upgrade will reduce the costs associated with transacting on Ethereum Layer Two (L2) and pave the way for Ethereum to become sharded, where Ethereum's computational load is split across its L2 ecosystem and processed in parallel to deliver further scalability gains.

The activation of staked Ether withdrawals is expected to bring more institutional investors to Ethereum and may lead to greater rates of staking participation. While some analysts fear that Shapella will result in the market falling as some validators move to sell off their stake, others believe that it will strengthen market participants' confidence in staking ETH to generate yield.

Report Reveals Lack of Internal Controls and Security Measures at FTX

Figure 23. Former FTX US President Brett Harrison

FTX, the troubled cryptocurrency exchange that collapsed last year, has come under scrutiny after a new report revealed internal control and security failures. The report, submitted to the US bankruptcy court in Delaware on April 10 by FTX CEO John J. Ray III, describes FTX and related entities as poorly managed, governed by former CEO Sam Bankman-Fried (SBF) and his inner circle, who showed little concern for organisational or internal controls.

The report alleges that former FTX US President Brett Harrison resigned in September 2022 due to a "protracted disagreement" with SBF and members of his inner circle over the lack of appropriate delegation of authority, formal management structure, and key hires. Harrison's concerns were reportedly dismissed, and his bonus was drastically reduced.

Another employee in the legal department of the exchange was terminated after expressing concerns about the lack of corporate controls, competent leadership, and risk management at FTX sister company Alameda Research, the report states. Alameda Research, a trading company, declared bankruptcy last year.

These allegations are consistent with Harrison's earlier claims on Twitter that he was threatened with termination and was told that "Sam would destroy my professional reputation" if he did not retract the complaint and apologise.

The report further highlights the lack of internal controls and security measures at FTX, with SBF's internal admissions to employees frequently contradicting his public statements. For instance, while he emphasised the importance of two-factor authentication on Twitter, FTX failed to implement it for its essential corporate services, such as Google Workspace and 1Password.

The report shows that the vast majority of FTX's crypto assets were kept in hot wallets at all times, despite SBF's public claims that FTX used a "best practice hot wallet and cold wallet standard solution for the custody of virtual assets." There were also concerns about the safety of seed phrases and private keys for various hot wallets without encryption on an FTX group server.

Overall, the report portrays FTX and its related entities as a poorly run web of companies controlled by SBF and his circle of associates, who showed little regard for the organisation or internal controls. The report's findings raise questions about the competence of FTX's leadership and internal controls.

Hong Kong's Financial Secretary Promotes Web3 Adoption Amidst Cryptocurrency Volatility

Figure 24. Hong Kong's Financial Secretary, Paul Chan

Hong Kong's Financial Secretary advocates for the promotion of Web3 technologies amidst highly volatile cryptocurrency markets, identifying it as a key area in Hong Kong's budget planning.

Hong Kong's Financial Secretary, Paul Chan, wrote in a blog post on Sunday, April 10th, that even though cryptocurrency markets have been highly volatile, it is the right time to promote the adoption of Web3 technologies in the Chinese Administrative Region. He identified Web3 as one of the three focus areas to target in planning Hong Kong's budget. Chan compared the cryptocurrency industry to the early days of the internet in the 2000s, when the dotcom bubble burst and eliminated participants, resulting in a quieter market and the promotion of more real-world applications.

Chan emphasised the need for both proper regulation and the promotion of Web3 in Hong Kong to progress steadily. He added that aside from ensuring financial security and preventing systemic risks, the strategy would also prioritise investor education and protection, as well as anti-money laundering measures.

In February, Chan allocated $6.4 million of Hong Kong's annual budget towards investing in Web3 technologies. Bitget, a cryptocurrency exchange, recently formed a $100 million fund to focus on Asian countries embracing Web3 technology, citing US regulations that forced many businesses to move outside. The previously announced licence reforms for crypto exchanges in Hong Kong are also considered as a possible positive indicator for Asia's growth.

South Korean Exchange, Coinone, Employees Arrested

Figure 25. Coinone employees arrested

Several employees of the South Korean cryptocurrency exchange, Coinone, have been arrested for their alleged involvement in accepting bribes in exchange for listing certain crypto assets.

CoinDesk Korea reported on Tuesday that Kim Mo, Coinone's listing team leader, has been accused of violating the Concealment of Criminal Proceeds Act and a breach of trust while listing broker Hwang Mo has been charged with breach of trust. The Korean authorities have become more vigilant, following the escape of Do Kwon, the founder of Terra Luna, which collapsed last year, after he fled the country in September 2022 and remained at large until his arrest last month in Montenegro.

According to reports, Hwang is believed to have paid as much as two billion won ($1.51 million) to Kim and Coinone's former director of listing in exchange for listing certain virtual assets, including Furiever Coin, which was listed exclusively on Coinone. Furthermore, it was reported by *The Korea Times* that the cryptocurrency has been linked to a recent kidnapping and murder investigation in the Gangnam district of Seoul, where police suspect a 48-year-old woman may have been abducted and murdered as revenge for a failed investment.

Coinone's listing team leader, Kim, admitted to receiving one billion won ($756,140) from Hwang and other listing brokers in exchange for listing virtual assets such as Pica Coin in 2020. Along with Kim and Hwang, other employees and listing brokers allegedly involved in accepting bribes to list cryptocurrencies have been arrested.

In a separate development, another South Korean exchange, GDAC, recently lost $13 million in a hot wallet hack, which made up 25 percent of the exchange's assets under custody. The recent arrests and hacks further highlight the need for stricter regulatory measures and security protocols in the cryptocurrency industry.

Twitter partners with eToro to allow users to trade stocks and crypto

Figure 26. Twitter partners with eToro

Twitter users can now buy and sell stocks, cryptocurrencies, and other financial assets directly from the platform through a partnership with eToro, a social trading company. The move expands Twitter's "cashtags" feature and provides users with a broader range of financial instruments to view and trade.

Twitter will provide its users with access to stocks, cryptocurrencies, and other financial assets through eToro, a social trading platform. Beginning on Thursday, the social media platform will provide access to market charts and allow users to buy and sell stocks and other assets via eToro. The partnership expands Twitter's "cashtags" feature, which allows users to observe real-time trading data from TradingView on index funds such as the S&P 500 and shares of certain companies such as Tesla. The partnership is expected to include more instruments and asset classes. In addition, users will be able to click a button labelled "view on eToro," a link to eToro's trading website.

The partnership, according to eToro CEO Yoni Assia, would allow the company to reach new audiences and better integrate Twitter and eToro. The collaboration is a rare and significant deal for Twitter since Elon Musk took over as CEO after purchasing the network for $44 billion last year. Twitter's personnel has been reduced from 8,000 to 1,500 since Musk took over as CEO in order to minimise costs and achieve profitability.

According to Assia, "Fintwit," or financial Twitter, has become a big trend on the app, which allows users to stay updated on the latest news in the financial markets. Twitter played an important role in the 2021 retail trading boom. Musk has made it his mission to transform Twitter into a "super app" that provides users with a variety of services such as instant chat, banking, and travel. Musk wants Twitter to be "the biggest financial institution in the world," and the cooperation with eToro is a step in that direction.

FTX Considers Using Creditor Money to Restart Crypto Exchange

Figure 27. FTX could reopen in the near future

FTX is considering using creditor money to restart its operations. The exchange has not yet made a final decision but is exploring the option with its legal team.

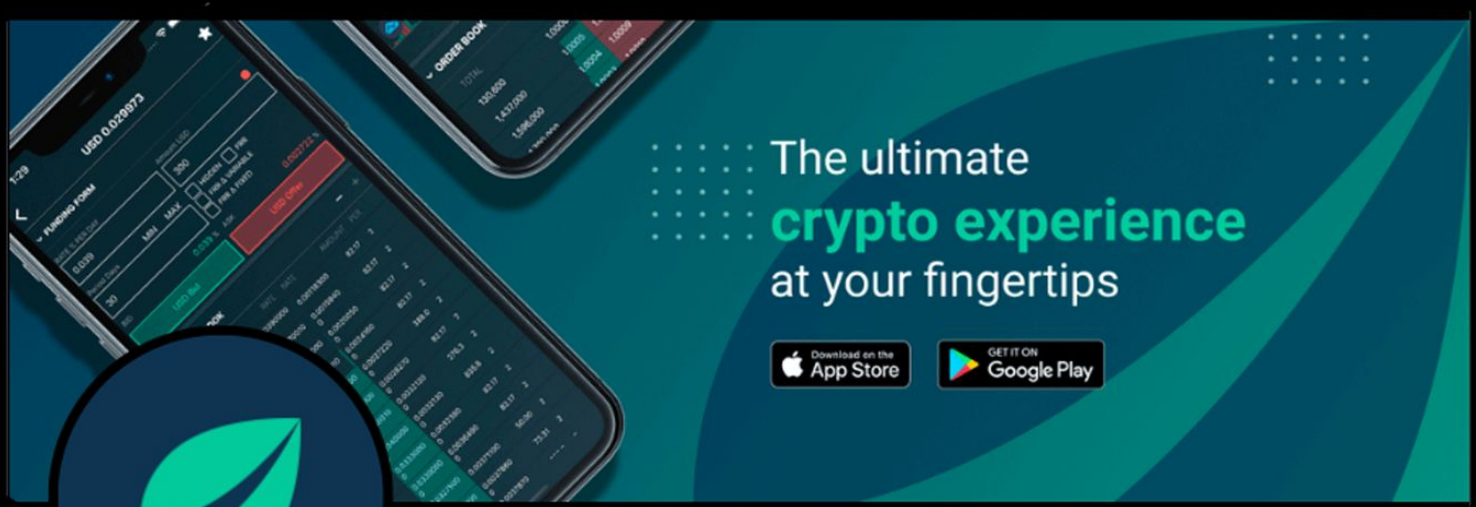
FTX's attorneys said in a court hearing on Wednesday that the exchange could reopen in the near future, and that one of the potential solutions discussed in court was to use a portion of creditors' funds to reopen the exchange.

In a statement to *Coindesk*, the lead attorney for FTX, Andy Dietderich, said that the exchange has made a significant progress in recovering around $7.3 billion in liquid assets from the defunct exchange, and that reviving FTX is just one of several possibilities, and no final decisions have been made yet.

Overall, the news has given hope to the cryptocurrency community, as the price of FTX's native token, FTT, has surged in response. However, it remains to be seen whether the exchange will be able to regain the trust of its users and creditors.

FTX's collapse has not only been a major blow to the crypto world but has also left some researchers at top universities without the funds they were promised and others trying to repay grants before they could be ordered to.

These individuals have previously received grants from FTX's charitable arm, the FTX Future Fund, which supported research into topics that "improve humanity's long-term prospects" and was funded primarily by Sam Bankman-Fried, the founder of FTX.



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