BITFINEX Alpha

Issue: 24-04-2023
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

The signs of a cooling economy, battered by a year of interest rate increases, are finally taking hold. As an indicator of economic sentiment, housing is a good proxy for the longer-term sentiment. In March, US housing starts fell by 0.8 percent, with multi-family projects experiencing a decline while single-family homes remained steady. Increasing borrowing costs have clearly had an impact on buying patterns, with potential buyers choosing existing homes over new construction.

Similarly, the US job market showed continued signs of cooling, with unemployment claims rising for three consecutive weeks for the first time ever. The increase in continuing claims suggests a longer duration for jobseekers to find new employment, indicating a less abundant job market, and is one of the signs the Fed is looking for to see if it's tightening monetary policy regime is having an impact.

The US Conference Board's Leading Economic Index also fell for the 12th consecutive month, signalling a potential recession later in 2023. Historically, a decline in the LEI has preceded recessions, but it should be noted that the LEI has dipped below the six-month moving average in the past without a subsequent recession. Despite these signals though, the S&P Global Flash US PMI Composite Output Index showed an improvement in the US economy, with both manufacturing and service sectors experiencing growth in April.

A loosening labour market and slower housing starts, but with growth being seen in the manufacturing and service sectors, might be just the scenario the Fed is looking for to pause rates. Our base case still remains for another 25-bps rise next week, with a pause thereafter.

In the crypto markets, Bitcoin options expiring soon are signalling bearishness, accompanying the recent dip in Bitcoin mining stocks, but this negative sentiment does not appear to be sustained.

The 25-percent delta skew for Bitcoin options expiring in seven days has dropped to around negative 2.86 on April 22nd, indicating a higher demand for bearish put options among investors. However, the 180-day 25-percent delta skew remains considerably elevated, suggesting continued confidence in Bitcoin's long-term outlook.

Similarly, among the quoted crypto mining stocks, names such as RIOT, HIVE, and HUT have experienced a recent dip, potentially attributed to BTC's year-to-date price rally and then recent fall. The strong correlation between mining stocks and the BTC price has been evident over the past 30 days, with a correlation of 0.75. The transition of Ethereum to a Proof-Of-Stake (PoS) consensus mechanism has contributed to the closer correlation between mining stocks and BTC prices, given that mining is even more concentrated in BTC.

Another driver of the dip is that Bitcoin mining difficulty has now reached an all-time high of 48.71T, bringing the future profitability of mining into question. High mining difficulty makes it more challenging for miners to find a new block, which could potentially lower miner revenue further.

Against this backdrop of economic data and crypto market sentiment, we also saw in the last week the US Securities and Exchange Commission facing questioning from members of Congress over its enforcement actions against digital asset firms, its rulemaking agenda, and its role in shaping the regulatory landscape for the securities industry. House Financial Services Committee Chairman Patrick McHenry criticized SEC Chair Gary Gensler for his regulation by enforcement approach to the digital asset ecosystem, and overly aggressive rulemaking agenda, among other issues.

As this was taking place, the SEC charged Bittrex and its former CEO, William Shihara, with operating an unregistered national securities exchange, broker, and clearing agency. The SEC's complaint claims that Bittrex repeatedly chose profits over investor protection and circumvented the registration requirements of the federal securities laws.

Meanwhile, the US House of Representatives indicated its intention to take more steps to create a regulatory framework for stablecoins such as USDC and Tether (USDt). The proposed bill is expected to address concerns related to investor protections, market stability, and financial crime by providing a comprehensive regulatory framework for stablecoins.

The New York Department of Financial Services (NYDFS) also chimed in on the crypto regulatory agenda, announcing rules on how crypto companies will be assessed for supervision-related costs. Companies with a state-issued BitLicense will now need to pay a fee for regulatory costs.

Superintendent Adrienne Harris from the NYDFS also addressed criticism that Signature Bank's failure was due to its exposure to the crypto industry, blaming contagion from the collapse of Silicon Valley Bank (SVB) and claiming that triggered Signature's customers, from fiduciary trusts to wholesale food vendors, to withdraw their deposits.

The European Parliament has also passed the Markets in Crypto Act (MiCA), the first set of comprehensive regulations for the cryptocurrency industry. The legislation seeks to reduce risks for consumers buying crypto assets by imposing strict oversight, transparency, and disclosure requirements on cryptocurrency platforms, token issuers, and traders.

In other news, it was also revealed by the data analytics platform Dune that non-fungible token (NFT) marketplaces, including OpenSea and Blur, have experienced a decline in daily users and sales over the last week, attributed to high gas prices and tax season liquidity issues.

There is never a dull moment in crypto. Happy trading!

INDEX

GENERAL MARKET UPDATE

US Housing Starts Fall in March: Multi-Family Projects Decline While Single-Family Homes Hold Steady

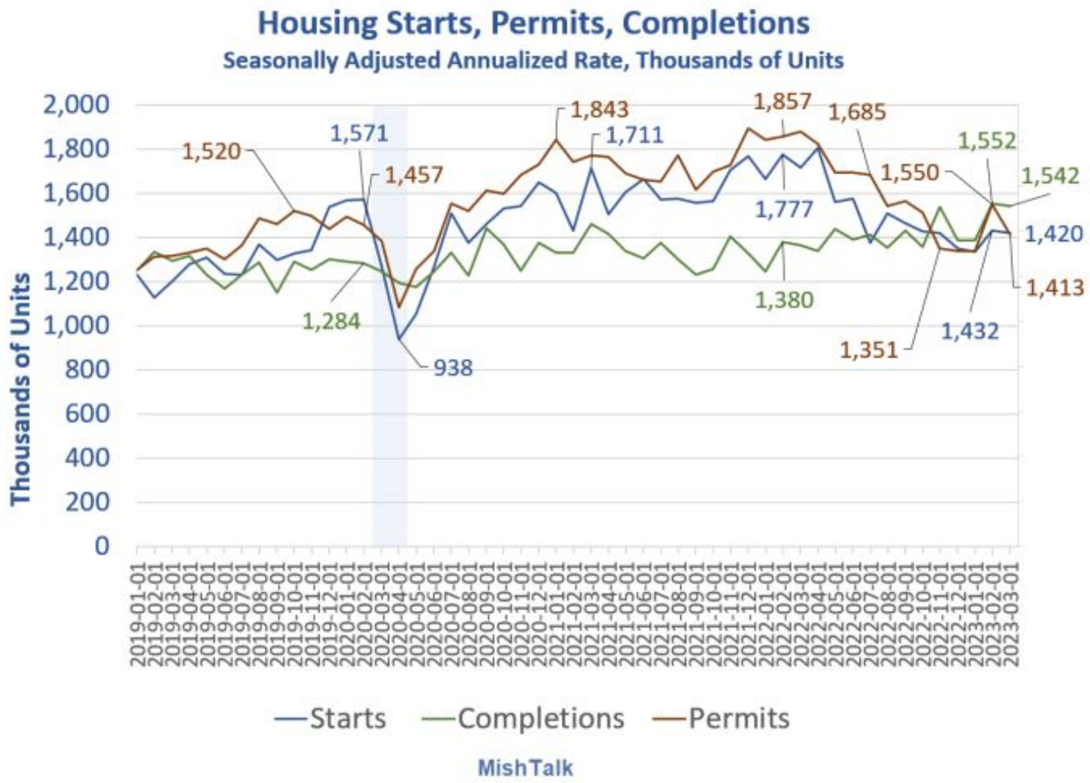


Figure 1. US Housing Starts, Permits and Completions (Source: US Census Bureau, MishTalk)

Construction of new homes or 'Housing Starts', fell by 0.8 percent in March to an annual rate of 1.42 million (refer to Figure 1, blue line), compared to 1.43 million in February, according to the US Census Bureau on Tuesday, April 18th. The latest number of housing starts was higher than consensus economists' forecast of 1.40 million.

Housing starts, in the macroeconomic sense, refer to the number of new residential construction projects that have begun during a specific period, usually reported on a monthly basis. Housing starts are often used by economists, investors, and policymakers to gauge the strength of the housing market and to assess overall economic activity. A high number of housing starts typically indicates a growing economy, as it suggests increased demand for housing, higher employment levels in the construction sector, and greater consumer confidence. Conversely, a decline in housing starts can signal an economic slowdown or potential recession.

Multi-family housing starts dropped by 5.9 percent, while the number of single-family housing starts rose by 2.7 percent. Multi-family housing starts refer to the number of new construction projects that have begun for buildings with multiple units, such as apartments or condominiums. In contrast, single-family housing starts refer to the number of new construction projects that have begun for single-family homes, including townhomes and other attached dwellings that are intended for single-family occupancy

Figure 2. Existing Home Sales Inventory (Source: National Association of Realtors)

The rise in borrowing costs put many potential new homebuyers on the sidelines. Most people bought previously owned homes because they can be cheaper than new construction. Now, with existing home inventories constrained in the resale market, homebuilders filled the void with new constructions. The decline of previously owned houses (Figure 2) led buyers to new builds, supporting the modest uptick in single-family new construction this year. The uptick may also reflect buyers taking advantage of the slight retreat in mortgage rates. The 30-year US mortgage rate as of April 20th is 6.39 percent, five percent lower than when it peaked this year at 6.74 percent on March 9th, according to Freddie Mac, a government-sponsored mortgage company.

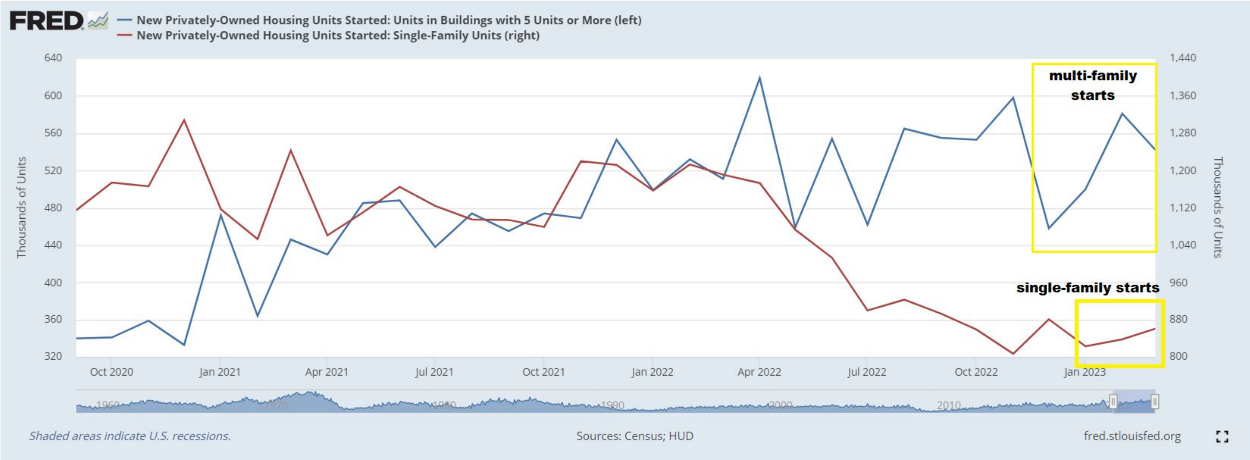


Figure 3. Single-Family Housing Starts (red line) and Multi-Family Housing Starts (blue line)

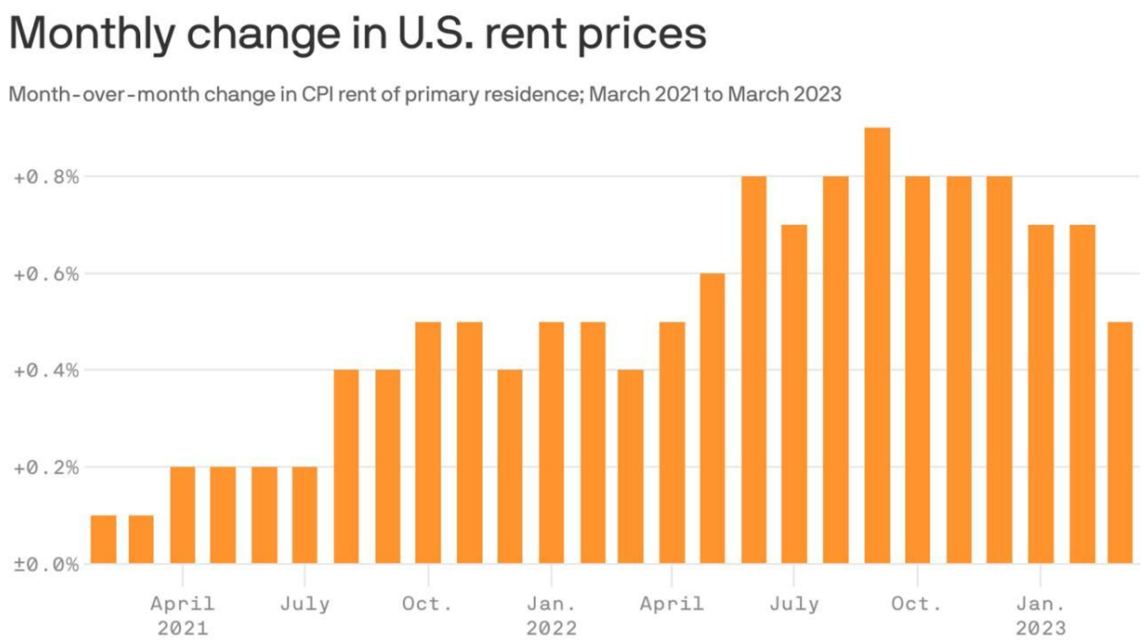


Figure 4. Monthly Change in US Rent Prices (Source: Bureau of Labour Statistics)

Meanwhile, while multi-family homes have been on a hot building streak since December 2022 (refer to Figure 3), now builders have slowed their pace of construction, hence the decline in multi-family starts. Inflation in the amount of rent collected from tenants is also decreasing (refer to Figure 4), suggesting that buyers have more options on the supply side.

As an oversimplified explanation, when inflation is high, it reduces the purchasing power of money and increases the cost of living. In such circumstances, people may prefer to invest in assets like real estate, including both home purchases and investment properties, as a way to hedge against inflation instead of renting.

Caveat: the demand for rental properties is also influenced by a variety of other factors, such as demographic trends, changes in household size, migration patterns, and economic growth. For example, younger people or those who are not yet financially stable may prefer to rent rather than own a home, regardless of inflation rates. Similarly, changes in job markets or income levels may also affect demand for rental properties.

Building permits, a proxy for future construction, dropped by 8.8 percent to an annualized rate of 1.41 million units in March from 1.55 million in February (refer Figure 1, red line), due to fewer multi-family projects. However, single-family permits have increased to a five-month high, indicating that the current trend for single-family construction will continue for the upcoming months.

The annual rate of homes completed dropped to 1.54 million in March (refer to Figure 1, green line), which is down by 0.6 percent from February. This number tells us that builders are finishing construction of homes at a faster rate than they are starting new ones. The number of single-family homes under construction is at its lowest since August 2021. This indicates that boosting the inventory of single-family homes will take some time

The Housing Starts data will enable economists to adapt their estimate of the impact of home construction on the first-quarter's Gross Domestic Product (GDP). Declining Housing Starts can have a negative impact on GDP since it is a component of residential investment and accounts for a significant portion of overall investment in the economy.

With the current economic climate, we anticipate that the housing industry will face headwinds as borrowers face tighter loan standards and mortgage rates are double what they were at the end of 2021.

Job Market Signals Slight Cooling

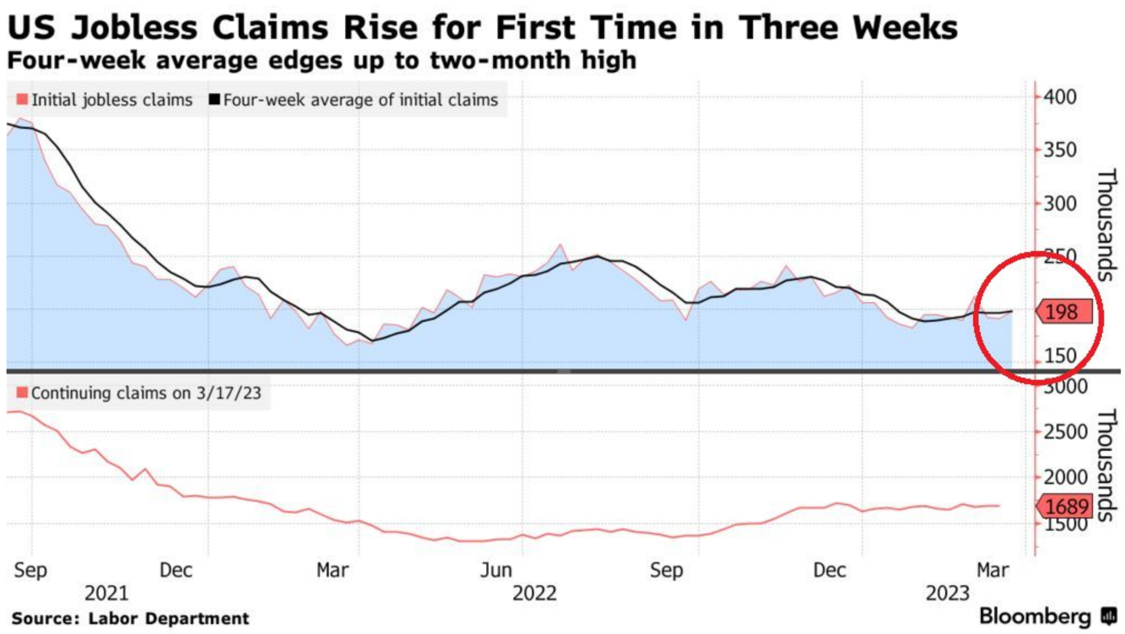


Figure 5. Initial Jobless Claims and Continuing Claims (Source: US Labour Department, Bloomberg)

The number of Americans filing for unemployment benefits has been growing for three consecutive weeks, which is the first time ever and indicative of a deteriorating labour market, one of the final extant bulwarks against an impending recession.

The number of new filings for unemployment benefits in the US increased by 5,000 to 245,000 in the week ending April 15th (refer to Figure 5). New jobless claims remain low compared to the historical average of 367,000 (from 1967 to 2023). However, the upward trend suggests a cooling labour market. Taking into account the metric's weekly volatility, the 13-week moving average rose to 227,000, surpassing the pre-pandemic average for the fourth consecutive week, and has continued to trend upwards since November 2022 (refer to Figure 6).

Continuing claims, which represent the number of people collecting unemployment benefits in the US, rose by 61,000 to 1.87 million in the week ending April 18th, the highest level since November 2021 (refer to Figure 5). The gradual increase in continuing claims indicates that it is taking longer for people to find new jobs, implying that the job market is becoming less abundant.

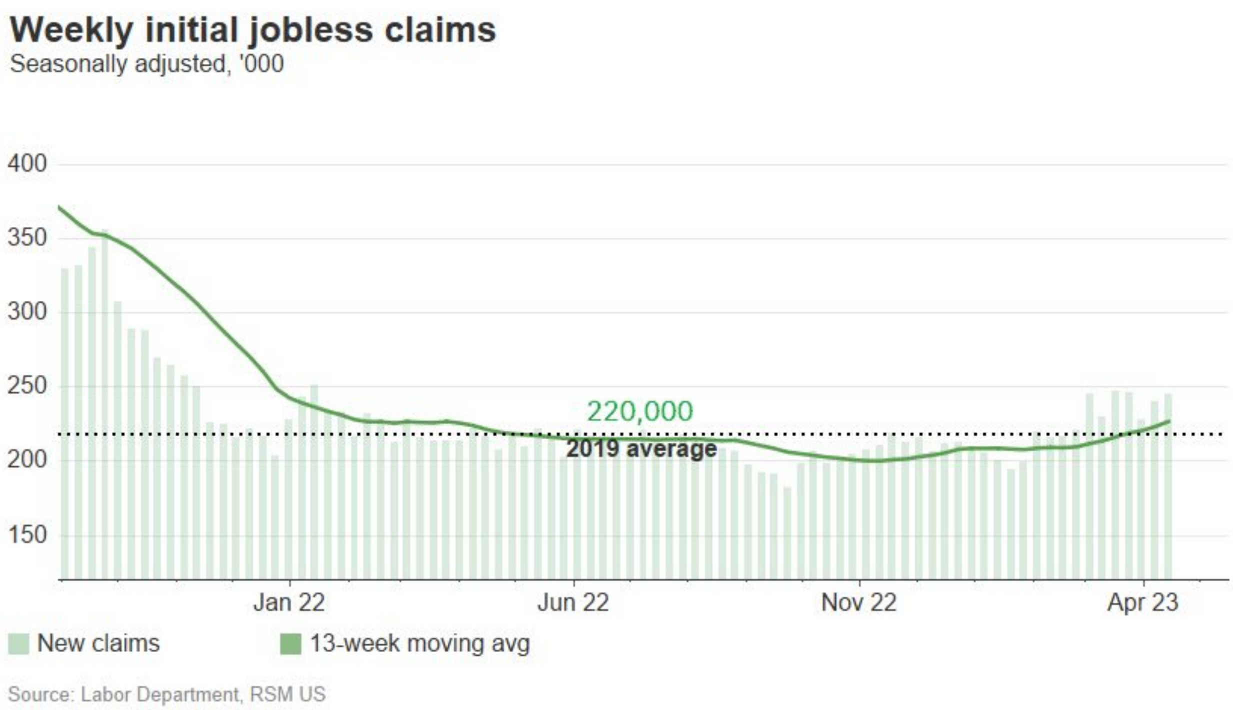


Figure 6. 13-week moving average for Weekly Initial Jobless Claims (Source: US Labour Department, RSM US)

The increase in unemployment claims occurs alongside concerns that the full effect of restrictive monetary policies, which began last year, has yet to manifest itself fully. While the Federal Reserve's (Fed) rate hikes may be close to pausing, the labour market typically needs time to adjust to changes in monetary policy. The Fed wants the labour market to cool further to combat high inflation. As companies feel the impact of high-interest rates, we expect them to be more cautious in their hiring.

The unemployment rate is one of the early signs that the U.S. economy is about to enter a recession, so investors watch it closely.

Conference Board Leading Index: The U.S. Economy is Headed Towards a Recession

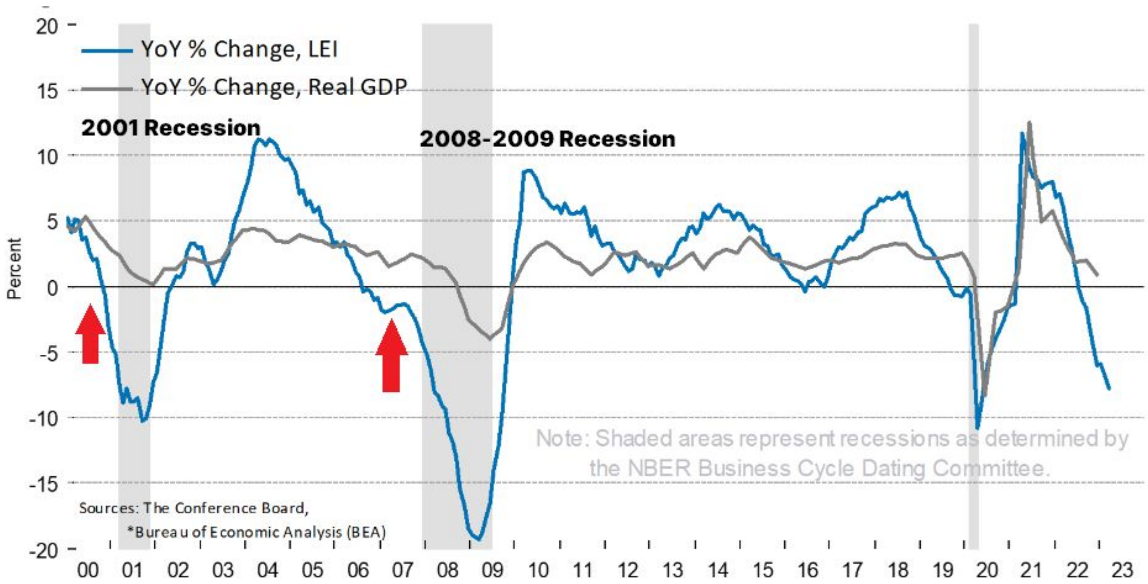


Figure 7. Conference Board Leading Economic Index, or LEI (Source: The Conference Board, Bureau of Economic Analysis)

The US Conference Board's leading economic index fell for the 12th month in a row and signals a potential recession taking place later in 2023.

The US Leading Economic Index dropped by 1.2 percent in March following a 0.5 percent decline in February, according to the report published by the Conference Board, released on Thursday, April 20th. This is the biggest decline since November 2020, and is greater than consensus economists' forecast of negative 0.7 percent.

The Leading Economic Index, or LEI, is composed of ten indicators, including stock prices, new orders for consumer goods and materials, unemployment claims, and building permits. These indicators are chosen because they have been shown to be predictive of changes in economic activity. The LEI is calculated by taking the weighted average of these indicators.

The LEI is regarded as a significant recession indicator because it often declines before a recession commences. If the LEI experiences a decrease for several consecutive months, it is interpreted as a warning that the economy might be entering a recession. The LEI has a good track record of predicting recessions in the past. For example, the LEI declined sharply in the months leading up to the Great Recession of 2008-2009. Similarly, the LEI declined in the months leading up to the 2001 recession. (Refer to Figure 7)

Historically, the LEI has fallen below its six-month moving average between two to fifteen months (see Figure 8) , before the economy enters a recession. Currently, the LEI has been below this six-month moving average for nine months. It should be noted, however, that the LEI has gone below the six-month moving average multiple times in the past for several months without a recession.

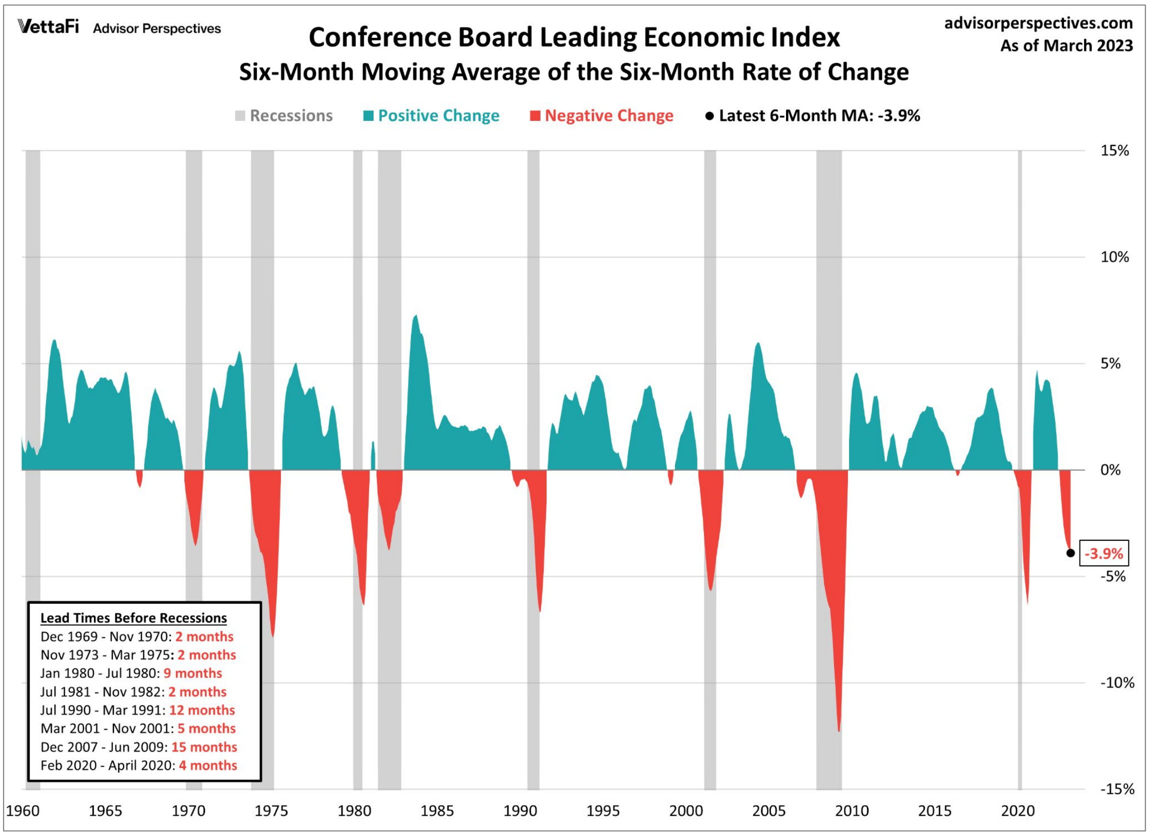


Figure 8. Conference Board Leading Economic Index, Six-Month Moving Average of the Six-Month Rate of Change (Source: Advisor Perspectives)

S&P US PMI: Economy is Improving

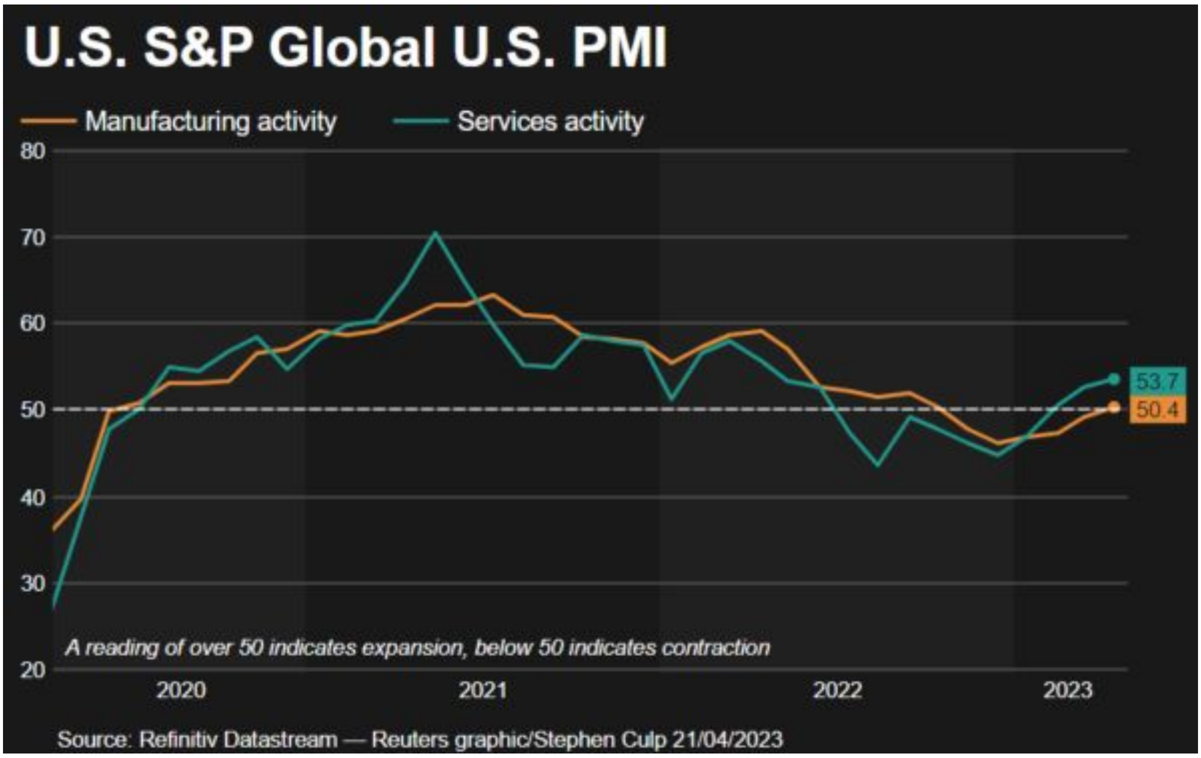


Figure 9. S&P Global US Flash Manufacturing and Service Purchasing Managers Index (Source: Refinitiv Datastream)

An early reading of the US economy in April showed that business activity has escaped a period of slow growth after struggling over the third and fourth quarter of 2022.

The S&P Global Flash Service PMI and S&P Global Flash Manufacturing PMI are economic indicators that provide an early estimate of the health of the global services and manufacturing sectors, respectively. The S&P Global Flash US PMI Composite Output Index combines the data from both manufacturing and services sectors to provide an overall picture of the US economy.

The S&P Global Flash US Service Sector Purchasing Managers Index (PMI) rose to a 12-month high of 53.7 in April from 52.6 in the prior month. The Flash US Manufacturing Sector PMI rose to 50.4 from 49.2 in March. The headline S&P Global Flash US PMI Composite Output Index came at 53.5 in April, up from 52.3 in March, marking an 11-month high, and signalling the quickest upturn in business activity since May 2022, according to the report.

Both Services and Manufacturing PMI came stronger than consensus economists' forecasts. Economists expected manufacturing to sink to 49 in April and services to drop to 51.5

The Flash US PMI surveys are based on a smaller sample size compared to the final PMI reading and are released ahead of the final readings. They are compiled using data from a survey of purchasing managers in the US, who are asked about their companies' current and future levels of business activity, including output, new orders, employment, and prices.

The Flash PMI readings are important metrics as they provide an early indication of the strength or weakness of the US economy. In particular, the Manufacturing PMI is closely watched as it can be a leading indicator of overall economic activity, and is considered an important barometer of the health of the US economy.

Any number above 50 points indicates an expanding economy, and the latest manufacturing index reading marks the first time in six months that it has risen above this level. The upturn in manufacturing was supported by stronger growth in output (or level of production) and employment, according to the S&P global report.

Though showing some weakness, the still-resilient labour market also supported the gain in the Services PMI index in April. Pressure on capacity and accumulation of work backlogs contributed to the fastest increase in employment at service providers since July 2022, according to the survey by S&P Global.

Overall, the economy is showing mixed signals. Though there is growth being recorded in the manufacturing and service sectors, other economic data like the labour market, retail sales, and small-business confidence index signal a slowing economy as reported in the previous *Bitfinex Alpha*. Also in last week's *Bitfinex Alpha*, Federal Open Market Committee (FOMC) minutes of the meeting in March show that Fed officials are concerned with the risks of financial instability in the US. In addition, as per our analysis in the previous chapter, the Leading Economic Index report, produced by the US Conference Board is indicating a recession this year.

Economists will be looking forward to further confluence in upcoming economic data. This week, Consumer Confidence, First Quarter Gross Domestic Product (GDP), Employment Cost Index and Personal Consumption Expenditure data will be released. Moreover, the ISM (Institute for Supply Management) Index will be released on May 1, which will provide confirmation of the current upturn being seen in the manufacturing and service sectors.

WHAT'S ON-CHAIN THIS WEEK?

BTC Options Market Turns Bearish

On Friday, the 25-percent delta skew of Bitcoin options set to expire in seven days dropped to around negative 2.86 on April 22nd, marking its lowest point since March 14th.

A 25-percent delta skew below zero indicates that bearish Bitcoin put options expiring in seven days are trading at a premium compared to equivalent bullish call options, implying a higher demand for the former among investors.

When we talk about options, the "delta" is a measure that tells us how much the option price is likely to change when the price of the underlying asset (in this case Bitcoin) changes.

The "delta skew" refers to the difference in the delta between two options that have different "strike prices" (the price at which the option can be exercised). For example, if the delta for an option with a strike price of $10,000 is different from the delta for an option with a strike price of $12,000, then the delta skew would be the difference between those two delta values.

Investors have become increasingly pessimistic about BTC's short-term price prospects in over a month, as evidenced by options market data in Figure 10 below.

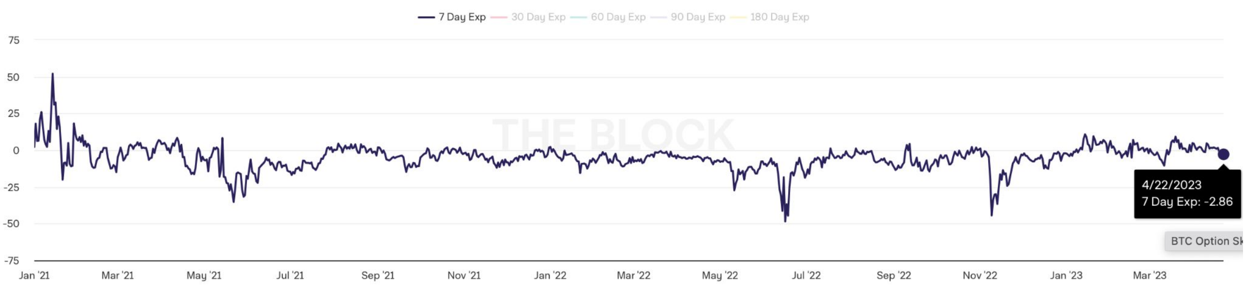


Figure 10. BTC Options 25-Delta Skew Seven Day Expiry. (source: The Block)

The surge in demand for short-term downside protection, provided by put options, occured as Bitcoin's value declined into the low $27,000s. Last week, the BTC price broke down from key support levels below $30,000 as shown in the figure below.

Figure 11. BTC/USD 4H chart. (source: Bitfinex Data On Tradingview)

However, concurrently, investors appear to maintain confidence in Bitcoin's long-term outlook. Notwithstanding the seven-day 25-percent delta skew's decline to its lowest level in over a month, the 180-day 25-percent delta skew persists at considerably elevated levels, surpassing three.(refer Figure 12).

Figure 12. BTC Options 25-percent Delta Skew 180-Day Expiry. (source: TheBlock)

This implies that bullish Bitcoin call options expiring in 180 days are trading at a premium compared to their equivalent bearish put options, indicating a disproportionate demand for the former amongst investors.

Mining Stocks Dip Slightly After Yearly Open Rally

The recent surge in Bitcoin mining stocks since the beginning of the year, such as RIOT (+337%), HIVE (+191%), and HUT (+176%), and the recent dip can be ascribed to BTC's year-to-date price rally. (refer Figure below)

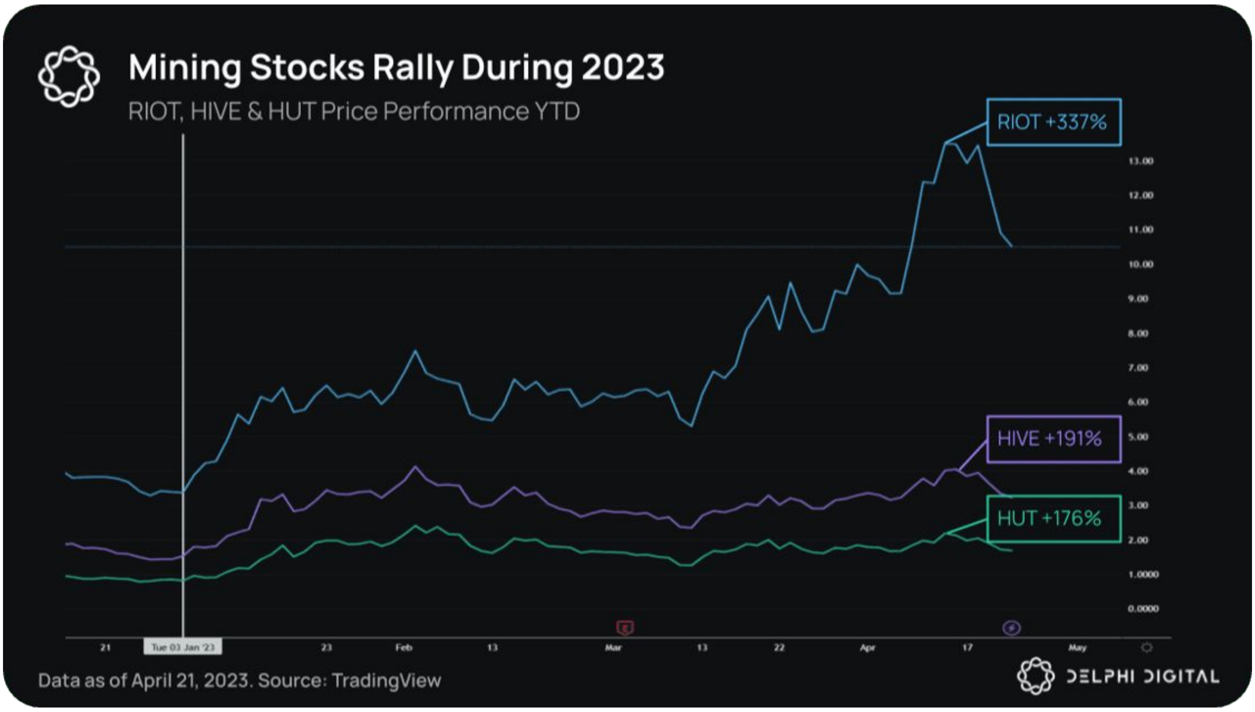


Figure 13. Mining Stocks Price Action Year-To-Date. (source: Delphi Digital)

Over the past 30 days, the correlation between mining company stocks and the BTC price has been remarkably robust, standing at 0.75. Historically, the cost of electricity required to mine one Bitcoin has functioned as a dynamic price floor. In a highly inflationary environment, these costs can escalate rapidly.

While BTC mining stocks have increased significantly in price, Ethereum moving to a PoS (Proof-Of-Stake) consensus mechanism has actually assisted in bringing closer correlation as miners are primarily focused now only on BTC mining.

Most mining metrics however, point towards mining being de-incentivised in the near future. One of these is the mining difficulty level which has recently reached an all-time high of 48.71T. (refer Figure below)

Figure 14. Bitcoin Mining Difficulty. (source: Coinwarz)

Bitcoin mining difficulty refers to a measure of how challenging it is for miners to find a new block and add it to the blockchain. It is a dynamic variable that adjusts approximately every 2016 blocks (roughly every two weeks) to ensure that the average time between blocks remains close to 10 minutes. This adjustment is crucial for maintaining a stable and secure network.

The mining difficulty is determined by comparing the current target value (a 256-bit number) with the highest possible target value. The lower the target value, the higher the mining difficulty. Miners must find a hash (a fixed-length output generated by a cryptographic function) for a block that is less than or equal to the target value in order to add the block to the blockchain.

When mining difficulty is high, it means that the target value is low, making it more challenging for miners to find a valid hash. This typically occurs when there is increased competition among miners due to higher network hash rates, which result from more miners joining the network or improvements in mining hardware technology. Higher mining difficulty ensures that the average time between blocks remains relatively constant, despite the increased competition.

On the other hand, when mining difficulty is low, the target value is higher, making it easier for miners to find a valid hash. This usually happens when there is a decrease in the network hash rate, which could be due to miners leaving the network or a drop in the Bitcoin price, making mining less profitable. Lower mining difficulty helps maintain the average block time in the face of reduced competition.

In summary, Bitcoin mining difficulty is a crucial aspect of the Bitcoin network that helps maintain its stability, security, and predictable block generation time. High mining difficulty currently means it is harder to find a new block lowering miner revenue further.

NEWS FROM THE CRYPTO-SPHERE

SEC Chair, Gary Gensler Faces Criticism from Congress over Digital Asset Regulation and Rulemaking Agenda

Figure 15. Securities and Exchange Commission Chairman Gary Gensler

The House Financial Services Committee, chaired by Patrick McHenry, U.S. representative for North Carolina's 10th congressional district, held a hearing entitled "Oversight of the SEC," where the Chair of the U.S. Securities and Exchange Commission (SEC), Gary Gensler, faced questioning from members of Congress. The focus of the hearing was the SEC's recent enforcement actions against digital asset firms, its rulemaking agenda, and its role in shaping the regulatory landscape for the securities industry.

“Regulation by enforcement is neither sufficient nor sustainable,” said House Financial Services Committee chairman Rep. Patrick McHenry, R-N.C.

The committee's Republican members said Gensler was accountable for his regulation by enforcement approach to the digital asset ecosystem, reckless rulemaking agenda, and disregard for the Commission's capital formation mandate.

In his opening remarks, McHenry highlighted Gensler's leadership in bringing nearly 50 separate enforcement actions against digital asset firms and the SEC's request for an additional $78 million to expand its enforcement agenda. He also criticised Gensler for failing to provide clarity on whether digital assets offered as part of an investment contract are subject to securities laws and how these firms should comply with those laws. McHenry emphasised the need for Congress to provide clear rules of the road for the digital asset ecosystem and denounced Gensler's approach as driving innovation overseas and endangering American competitiveness.

McHenry also expressed concerns about the SEC's overly aggressive rulemaking agenda, citing the Commission's proposal of 53 new rules in the past two years, twice as many as Gensler's predecessors proposed in the same amount of time. He criticised the Commission for cutting the public out of the rulemaking process with unreasonably short comment periods and failing to justify significant rules with thorough evidence, careful studies, and cost-benefit analysis.

Gensler defended the SEC's actions, stating that the agency is committed to enforcing securities laws in a technology-neutral manner and that digital asset firms must comply with these laws just like any other market participant. However, when Chairman McHenry questioned Gensler about the classification of Ether as a security at the hearing, Gensler declined to categorise Ether as either a commodity or a security, stating that it depends on specific facts and circumstances. The questioning highlighted a lack of clarity in the marketplace and the need for a sound legal basis for the classification of Ether.

Several lawmakers, including House Majority Whip Tom Emmer and Rep. Warren Davidson of Ohio, expressed dissatisfaction with Gensler's reluctance to give straightforward responses to inquiries about his plans.

Emmer stated in a tweet that Gensler is an incompetent “cop on the beat”, and that “he’s actively putting everyday Americans in harm’s way and pushing American firms into the hands of the Chinese Communist Party.”
Emmer questioned Gensler on his favorable approach to FTX, the impossibly high costs of compliance, the lack of new rule-making for crypto combined with 55 enforcement actions and his “actions” outside of Congressional authority.
Additionally, Rep. Warren Davidson said: “To correct a long series of abuses, I am introducing legislation that removes the Chairman of the Securities and Exchange Commission and replaces the role with an Executive Director that reports to the Board, where all authority resides. Former Chairs of the SEC will be considered ineligible.”

Finally, McHenry accused Gensler of neglecting a key pillar of the Commission's statutory mission, capital formation. He stressed that the committee is working to strengthen public markets, help small businesses and entrepreneurs, and increase market access for all investors to ensure the long-term growth and prosperity of the country.

McHenry warned Gensler that his responses to congressional inquiries have been unacceptable and that the committee has a constitutional duty to conduct oversight of the agencies under its jurisdiction aggressively. If Gensler continues to ignore or provide incomplete responses, the committee will pursue all avenues to compel the information or documents they need, and the American people deserve, he said.

NFT Marketplaces See Decline in Daily Users and Sales

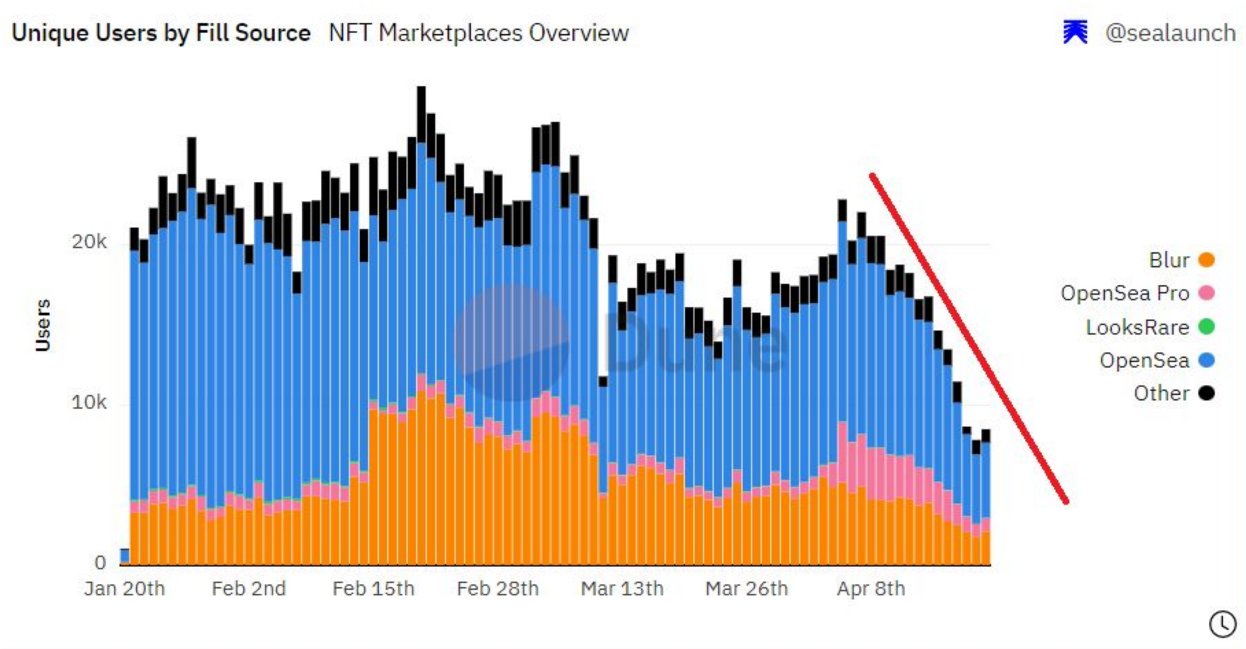


Figure 16. The decline in NFT Unique Users among NFT Marketplaces (Source: https://dune.com/sealaunch/NFT)

Multiple dashboards compiled by researchers on the analytics platform Dune show that OpenSea and Blur are losing both daily users and sales.

Non-fungible token (NFT) marketplaces have experienced a decline in daily users and sales over the last week, according to data from the analytics platform Dune. The number of unique users across top NFT marketplaces, including OpenSea, LooksRare, and Blur, has been steadily declining since April 8, reaching a new low of 7,805 on April 19. Sales across NFT marketplaces have also dipped over the last week, with 16,149 sales recorded on the same date. This marks the lowest daily sales count since November 9, 2021.

OpenSea and Blur have experienced notable declines in unique users and sales, with Blur seeing a shrinking number of sales and daily unique users. OpenSea has also witnessed a sharp decline in daily traders, hitting 10,640 on April 18. The decline in daily users and sales is most likely due to a "macro scenario," which has impacted trading patterns, according to NFT researcher SeaLaunch. Factors cited by SeaLaunch include "high gas prices" and "tax season liquidity issues," among others.

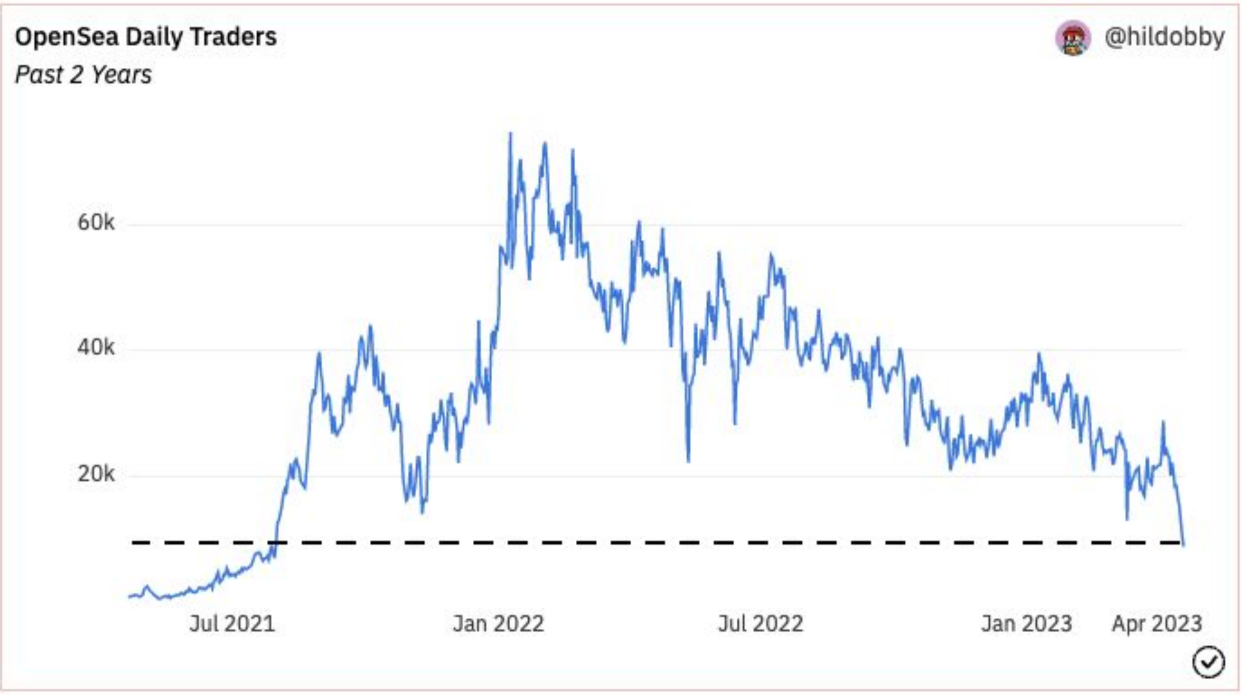


Figure 17. Decline in OpenSea Daily Traders (Source: https://dune.com/hildobby)

In the case of OpenSea, a Dune dashboard prepared by researcher Hildobby shows that the number of daily traders has dropped dramatically since April 9 and hit 10,640 on April 18. However, OpenSea's daily trader count hasn't fallen below 10,000 since July 2021, according to the data.

It’s also worth noting that not all metrics appear pessimistic, as the trading volume in Ether (ETH) across NFT marketplaces has remained relatively stable over the last 30 days, according to Dune data. Additionally, compared to the number of daily active users across OpenSea and Blur, Uniswap has managed to gain daily active users over the past two weeks, according to SeaLaunch.

The US House of Representatives Drafted a New Stablecoin Bill

Figure 18. The US House Committee publishes a new stablecoin draft bill

The US House of Representatives is taking steps to create a regulatory framework for stablecoins, such as USDC and Tether. These digital assets are designed for payments and are intended to maintain a stable price at all times.

The House Financial Services Committee recently released a discussion draft bill on Saturday, April 17, in anticipation of a hearing on the topic scheduled for last Wednesday, April 19, by the committee's new panel focused on digital assets and financial technology.

According to a spokesperson for Rep. Patrick McHenry, the chair of the committee, told *CoinDesk* that the bill was being circulated among lawmakers since last fall but had not been shared with the public. The proposed bill is expected to address concerns related to investor protection, market stability, and financial crime by providing a comprehensive regulatory framework for stablecoins.

While the draft bill may not be the final version, it marks a significant step forward in the regulation of stablecoins in the United States. Negotiations have been ongoing, picking back up after stalling shortly before the midterm elections and the collapse of FTX last year due to differences between congressional Republicans, Democrats, and the Biden administration.

The proposed regulatory framework aims to provide greater transparency and oversight of stablecoins, which have been gaining popularity recently. As lawmakers work towards creating a comprehensive regulatory framework for stablecoins, it will be interesting to see how the legislation progresses over the coming weeks and months.

Draft Bill Highlights:

- The Federal Reserve would regulate non-bank stablecoins, with registration required for all issuers, including credit unions and banks. Failure to register would lead to a maximum five-year prison sentence and a one million dollar fine.
- A two-year ban on new stablecoins without fiat backing, with a study directed by the Treasury Department.
- Regulators to set interoperability standards between stablecoins, to allow for ease of use across different payment systems without requiring users to buy native stablecoins for each.
- Fed to study the effects of a digital dollar on monetary policy, financial stability, and privacy for individuals. Fed leaders have expressed mixed views on a digital dollar, with the FedNow real-time payments system set to launch in July.

The SEC Charged Bittrex and Its Former CEO for Operating an Unregistered Exchange, Broker, and Clearing Agency

Figure 19. A Tweet from US Securities and Exchange Commission on charges against Bittrex Inc. and former CEO

The Securities and Exchange Commission (SEC) has charged Bittrex Inc., a crypto-trading platform, and its former CEO William Shihara for operating an unregistered national securities exchange, broker, and clearing agency. The SEC also charged Bittrex Global GmbH, a foreign subsidiary of Bittrex, Inc., for not registering as a national securities exchange. The company allegedly earned at least $1.3 billion in transaction fees from investors, including U.S. investors, while acting as a broker, exchange, and clearing agency without registering with the Commission.

According to the SEC's complaint, Bittrex coordinated with issuers who wanted their crypto assets to be available for trading on its platform by removing certain "problematic statements" from public channels that Shihara believed would lead regulators to investigate the crypto asset as a security offering. The company instructed the issuer-applicants to delete statements related to "price prediction[s]," "expectation of profit," and other "investment related terms" in an effort to avoid regulatory scrutiny.

SEC Chair Gary Gensler commented that the crypto markets suffer from a lack of regulatory compliance, not a lack of regulatory clarity, and that cosmetic alterations did nothing to change the underlying economic realities of the offerings or Bittrex's conduct. The SEC's complaint claims that Bittrex repeatedly chose profits over investor protection, by circumventing the registration requirements of the federal securities laws, counseling issuers of crypto asset securities to do the same by altering their offering materials, and combining multiple market intermediary functions under one roof to maximise profits. The SEC's complaint, filed in the U.S. District Court for the Western District of Washington, alleges that Bittrex should have been registered as an exchange, a clearing agency, and a broker.

New York Financial Regulator Adopts Crypto Company Assessment Rule

Figure 20. New York Financial Regulator Adopts Crypto Company Assessment Rule

The New York Department of Financial Services (NYDFS) has adopted a new regulation governing how crypto companies will be assessed for supervision-related costs.

NYDFS said in a statement on Monday that the regulation will require companies to adhere to stringent capitalisation, cybersecurity, and anti-money-laundering protocols.

"As the first prudential regulator of virtual currency in the nation, New York has created a framework that sets the highest standards for safety, soundness, and consumer protection while fostering responsible growth," said NYDFS Superintendent Adrienne Harris. "This regulation provides the department with additional tools and resources to regulate the virtual currency industry, both now and in the future, as innovators create new products and use cases for digital assets."

Only companies with a state-issued BitLicense — a license given by NYDFS that permits businesses to operate in New York — are subject to the regulation. Only 22 businesses hold this license.

Harris said earlier this month at the Links NYC conference hosted by blockchain analytics firm Chainalysis that the assessment fees would depend on the size and complexity of a crypto company. She said that in the long run, the assessment will "go a long way toward helping the space grow and making sure it grows safely."

Over the past year, the NYDFS has added more people to its digital asset unit. More than 50 people now work in the crypto unit, Harris said. The new law is one of several crypto-related rules that the NYDFS has put out in the past year.

New York is one of only a few states that require companies that send both real money and virtual money to have both a BitLicense and a traditional money transmitter license.

The state additionally requires that businesses go through an examination to make sure they meet standards and follow anti-money laundering and "know your customer" rules.

New York Regulator: Signature Bank's Failure Was not Because of Crypto

Figure 21. Superintendent Adrienne Harris from the New York State Department of Financial Services (NYDFS)

The New York State Department of Financial Services refuted claims that the agency punished Signature Bank for its exposure to cryptocurrencies.

During her testimony before the House Financial Services Committee's panel on digital assets, financial technology, and inclusion, Superintendent Adrienne Harris from the New York State Department of Financial Services (NYDFS) addressed the narrative that Signature Bank's failure was caused by its exposure to the crypto industry. Harris called it a "misnomer," stating that the bank's customers, including fiduciary trusts and wholesale food vendors, withdrew their deposits during a panic last month following the collapse of Silicon Valley Bank.

Harris clarified that while about 20 percent of Signature Bank's deposits were withdrawn the evening Silicon Valley Bank failed, only "20 percent of that 20 percent" were crypto-related deposits. She explained that the rest were "normal commercial customers with uninsured deposits that were leaving the bank," emphasising that the bank's failure was not due to the instability of crypto deposits. Harris' statements came during a hearing on legislation to create a US regulatory framework tailored to stablecoins.

The former Representative Barney Frank, a Signature Bank board member, who formerly chaired the committee, criticised the NYDFS for what he considers to be a hasty decision to close the bank due to its involvement in the digital asset industry.

Frank gave a statement to *The Block* last month that says: "They closed us even though there was no compelling reason to do so. They wanted to show that banks shouldn't be involved in crypto."

European Parliament Passes MiCA Regulations: Crypto Industry to Face Strict Oversight and Transparency Requirements

Figure 22. European Parliament Passes MiCA Regulations

The first thorough set of regulations for the cryptocurrency industry has been approved by the European Parliament through the Markets in Crypto Act (MiCA), which seeks to reduce the risks for consumers buying crypto assets. The legislation was approved by the EU Parliament on Thursday with 517 votes in favour and 38 against.

The European Commission first proposed the crypto regulation in 2020. To pass into law, it has to be approved by both the parliament and the EU's Council. Twelve months after its publication in the EU's official journal, its main provisions will start to apply.

The new regulations will impose strict transparency, disclosure, authorisation, and oversight requirements on cryptocurrency platforms, token issuers, and traders. If providers lose their investors' crypto assets, they can be held accountable.

Crypto platforms will also have to inform consumers about the risks associated with their operations, and new token sales will be regulated. Stablecoins like Tether and Circle's USDC will need to keep enough reserves on hand to fulfill redemption requests during large-scale withdrawals. Stablecoins that become too big will also be subject to daily transaction caps of up to €200 million ($220 million).

The European Parliament also voted 529-29 (with 14 abstentions) in favour of a separate law known as the Transfer of Funds regulation. The law requires crypto firms to identify their customers in a bid to stop money laundering.

The European Securities and Markets Authority (ESMA) will have the power to ban or restrict crypto platforms that do not protect investors or threaten market integrity or financial stability. ESMA is an independent EU authority that aims to enhance investor protection and promote stable and orderly financial markets in the European Union (EU).

MiCA also addresses environmental concerns associated with cryptocurrencies, with firms required to report their energy consumption and the impact of digital assets on the environment.

Mairead McGuinness, the European Commissioner for Financial Services, applauded the law's passage and stated that she expects the regulations to take effect from next year.

Andrew Whitworth, EMEA Policy Director for Ripple, called the parliamentary vote an important milestone for the global crypto industry. He emphasised the need for consistency in implementing the law across the EU to provide crypto companies with operational clarity, guard against fragmentation of the Single Market, and ensure proportional treatment of companies based on their risk profiles.

LEARNING SECTION

The United States Consumer Price Index (CPI)

CPI is an economic tool that many discuss but few understand.

Consumer Price Index (CPI) is an economic metric that gauges the changes in the prices of goods and services acquired by households over a given period. It is commonly used as a measure of inflation, which is the rate at which the general level of prices for goods and services is increasing. In this Learning section, we will delve into the key aspects of CPI, including its calculation, reference dates, headline and core CPI, the implications of the numbers on family purchasing power,, and the Month-on-Month number.

- **What is CPI?**

CPI is a tool that measures inflation by comparing the prices of a basket of goods and services to their prices in a prior period.

- **Headline CPI:**

Headline CPI, the most widely-used measure of inflation, encompasses all goods and services available in the market.

- **Core CPI:**

Core CPI is a measure of inflation that excludes the volatile prices of food and energy. The exclusion of these prices helps to avoid distortions in the overall inflation rate.

- **How is it calculated?**

CPI is calculated by comparing the price of a basket of goods and services in a given period to its price in a prior period, then expressing the difference as a percentage change.

- **Reference dates:**

CPI is usually calculated on a monthly basis, with the reference year serving as the base year against which all other years are compared.

- **How does it impact family purchasing power?**

CPI can significantly impact a family's purchasing power, as a rise in the general level of prices can reduce the number of goods and services that can be bought for the same amount of money. For example, a two percent increase in CPI means that goods and services have become two percent more expensive on average, requiring families to spend more money to purchase the same quantity of goods and services.

- **What do the numbers mean?**

CPI is reported as a percentage change from the previous period, indicating the overall price changes in goods and services.

- **What is Month-on-Month number?**

The Month-on-Month number is a measure of inflation that represents the percentage change in CPI from one month to the next. It is an important measure because it reflects short-term changes in prices that can have significant economic impacts.

In conclusion, understanding CPI and its implications for families is crucial for making informed financial decisions and planning for the future. CPI is an essential metric for measuring inflation and provides insights into the changes in prices of goods and services over time**.**

United States Consumer Price Index (CPI)

Headline CPI

The term "CPI" stands for "Consumer Price Index," which is a way of measuring the change in prices of goods and services over a period of time. These include food, utilities and even toys. It is similar to keeping a record of how much your favourite things cost every year and comparing the prices to see how they have changed.

Each month, employees of the government go to different stores and places to observe the prices of various goods and services. This information is then used to determine the inflation rate, which is the rate at which prices increase or decrease over time. CPI helps us understand whether the cost of living is rising or falling, and it can be used by governments to make decisions about issues such as setting minimum wages or determining how much to increase Social Security payments.

Core CPI

Core CPI is a variation of the Consumer Price Index that excludes the prices of volatile goods and services like food and energy. The objective of using Core CPI is to provide a more stable measure of inflation, which is the pace at which the general level of prices for goods and services is increasing.

Core CPI provides a more precise indication of underlying inflation trends in the economy.

How CPI Affects Consumers

Grocery shopping: a family may notice that the prices of their favorite foods have gone up since the last time they went shopping. This is because of inflation, and CPI can help track how much prices have increased over time.

Paycheck: If a person's salary stays the same but the cost of living goes up, they may feel like they are not making as much money as they used to.

Gas prices: The cost of gas often fluctuates over time. If gas prices go up, it can affect the cost of transportation.

Rent: Rent prices are a significant expense for many families. If rent prices go up faster than people's salaries, it can be challenging to afford a place to live.

Latest CPI Values

as of March 2023

5.0%

vs 6.0% in February

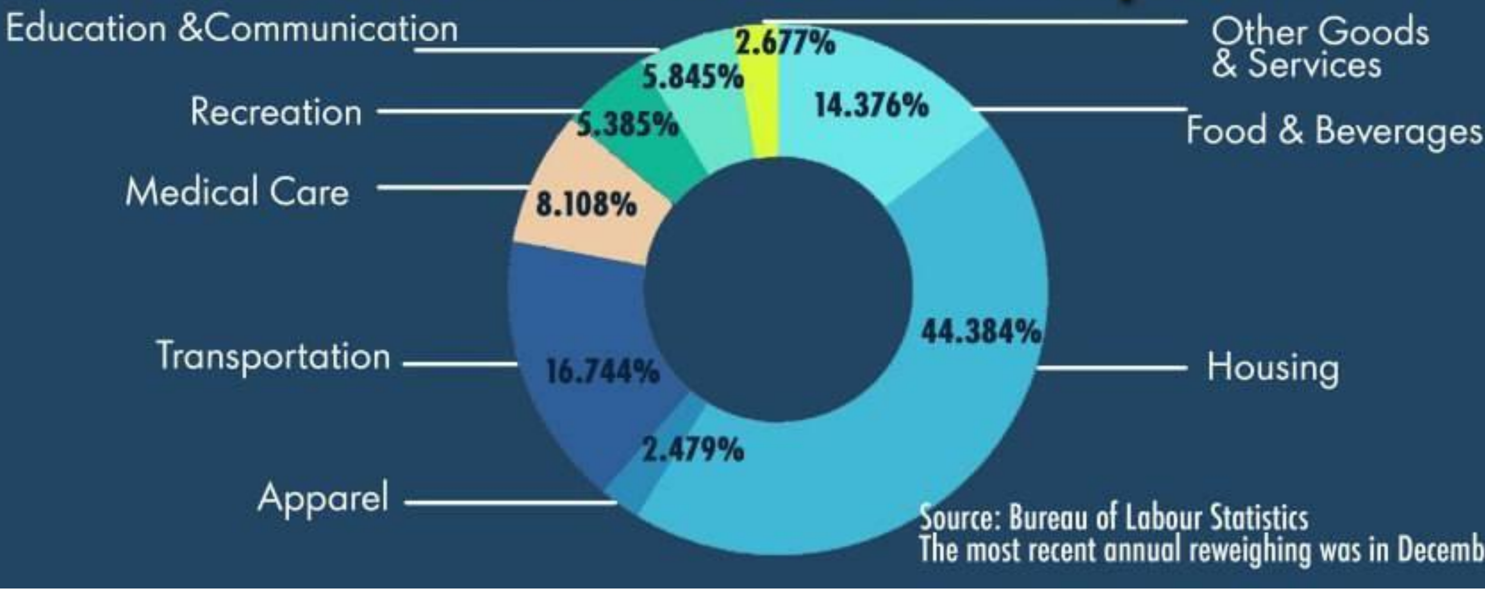
CPI

5.6%

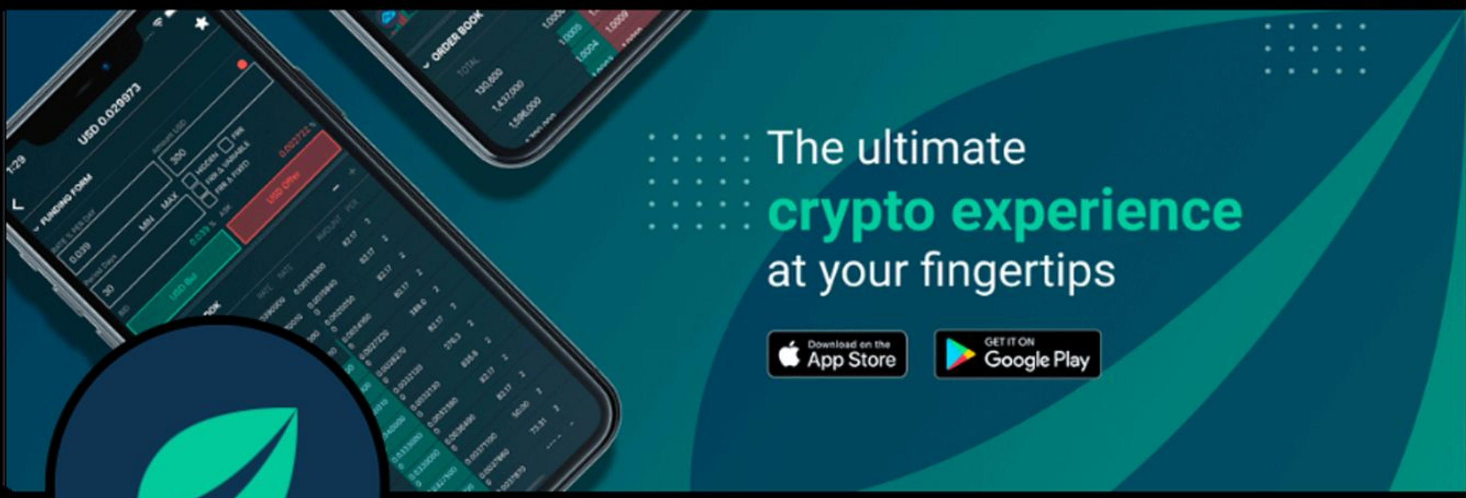
vs 5.5% in February

Core CPI

Consumer Price Index Components



Source: Bureau of Labour Statistics
The most recent annual reweighing was in December 2022



https://t.me/bitfinex

BITFINEX Alpha