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EXECUTIVE SUMMARY

The US economy continues to face concerns regarding a potential recession later in the year. A deeper yield curve inversion than any seen in the past 40 years suggests a prolonged and far-reaching recession than usual. Further interest rate hikes by the Fed in 2023 could make it difficult for companies to invest, leading to a decline in consumer spending and sentiment.

The impact of the Fed's rate hikes is already being reflected in consumer behaviour, with the April Consumer Confidence Survey falling to a nine-month low, signalling a bleak outlook for the economy. Consumers are now taking a more pessimistic view of the economy, with spending plans decreasing for the next six months.

GDP growth in Q1 2023 was also lower than the consensus forecast, heightening concerns for an economic downturn amid a reduction in spending from businesses and challenges faced by consumers due to high inflation, rising interest rates, and banking problems.

The Employment Cost Index, the broadest metric for US labour cost, is still growing rapidly. The case for further rate hikes is reinforced by a separate report on the Personal Consumption Expenditures (PCE), the Fed's preferred inflation gauge. Personal spending in the United States slowed in March, which could be due to challenges faced by consumers from elevated prices and higher borrowing costs. Should personal spending in the US continue to reduce, the economy may be sustained by only personal income until it shifts to a widely anticipated recession.

In recent weeks, the cryptocurrency market has experienced a reduction in Bitcoin options volatility metrics and leverage, potentially leading to lower price volatility in the future. This reduction in the estimated leverage ratio (ELR) also implies that the spot market is becoming less sensitive to the derivatives market.

Bitcoin has seen an increase in dominance as a safe haven asset, outperforming gold, commodities, and the S&P 500. BTC has been outperforming other crypto assets as well. Trends in BTC and Ether Open Interest indicate increased investor confidence and speculation on the BTC price compared to traditional assets and crypto alternatives.

Ethereum's deflation rate has also increased, leading to a rapid drop in supply and potentially boosting its price in the long term.

In the crypto-sphere, there have been several significant developments across the industry.

In South Korea, Terra co-founder Daniel Shin and nine others have been charged by prosecutors, and assets worth $185 million have been sequestered. Genesis Global has requested a mediator for its bankruptcy proceedings, following the withdrawal of a group of creditors from a preliminary agreement reached earlier this year. Celsius Network creditors have initiated legal proceedings against FTX.

Coinbase has made headlines by filing a lawsuit against the SEC, seeking a response to its rulemaking petition submitted last year.

In addition, a sharp one-day decline in Bitcoin's price was attributed to a false alert sent by blockchain analytics company Arkham Intelligence, leading to over $211 million in liquidations for crypto market participants.

Finally, First Republic Bank's future remains in the balance following a significant drop in deposits. The crisis in regional lenders in the US amid heightened regulatory scrutiny has made banks increasingly cautious of cryptocurrency clients, leaving crypto companies struggling to find banking partners.

In this environment, it pays to stay informed. Happy trading!

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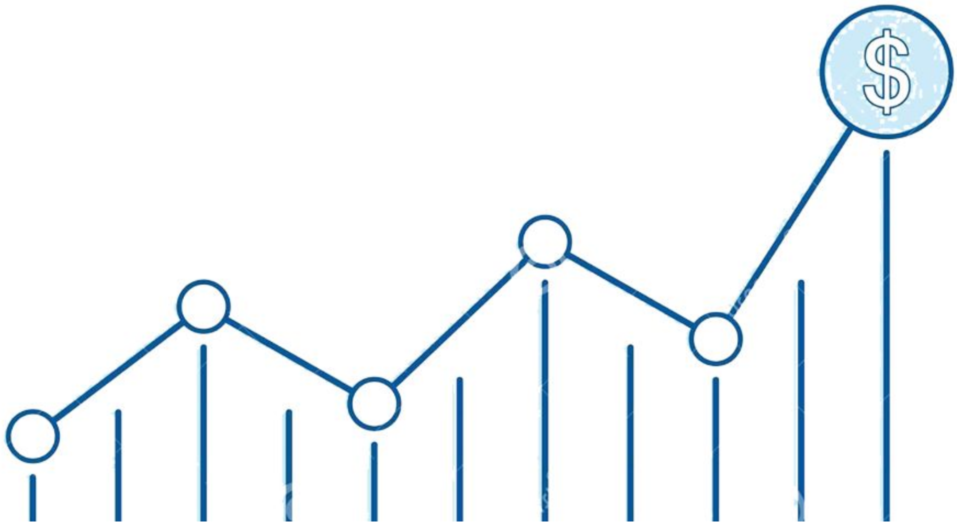


GENERAL MARKET UPDATE

Inverted Yield Curve Signals Impending Recession

The most well known leading indicator for recessions, the yield curve is inverted and currently signals that the US could be hit by a recession this year. Historical data suggests that the recession could last longer than has been previously seen for the US economy.

It could be argued that this is unsurprising, given elevated inflation rates, ongoing Federal Reserve (Fed) interest rate increases and several abrupt bank collapses, however equity markets have not been responding to these developments. The S&P 500 has remained stable and even exhibited an upward trajectory, and the lows hit in October 2022 seem to be fading from memory.

One significant warning sign for the wider economy, is the inversion in the US Treasury yield curve, which occurs when longer-dated Treasury yields, such as 10-year or 30-year yields, are lower than shorter-dated yields, such as 3-month or 2-year yields. In the past 110 years, nearly every time this has happened, the US economy has entered a recession, and the stock market has experienced a bear market.

What renders the present inversion especially remarkable is its depth, which hasn't been seen in over 40 years. This suggests that the recession ahead may be more prolonged and far-reaching than usual. Figure 1 shows the 2-year yield subtracted from the 10-year yield. The more negative this particular chart, the more inverted the yield curve.

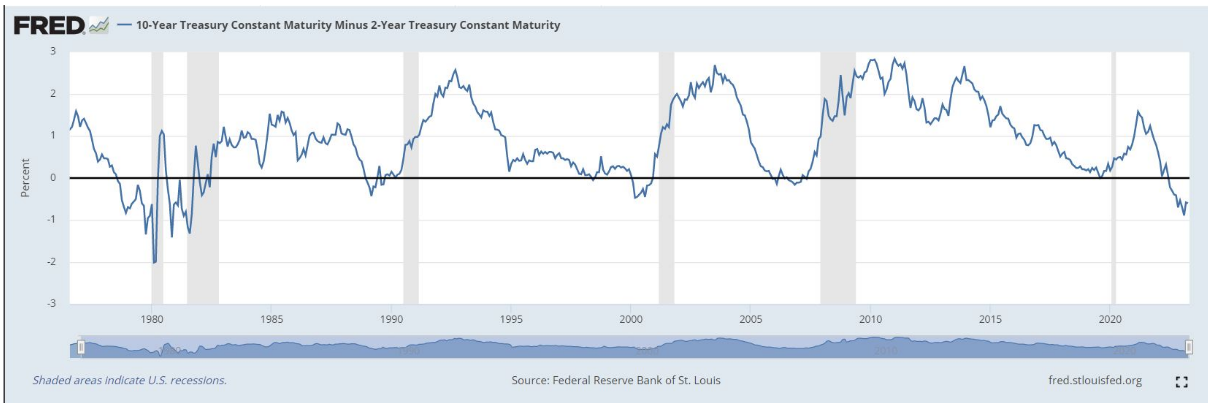


Figure 1. 10-Year Treasury Minus 2-Year Treasury (Yield Curve), Source: Federal Reserve Bank of St. Louis

We believe that the US is on track to potentially hit a recession later this year if the situation of the economy does not improve soon.

Our perspective has grown more pessimistic due to several reasons. One contributing factor is the Fed's persistence in elevating rates since December 2022. This has placed pressure on the banking system, as certain institutions have incurred considerable losses on their long-term bond holdings, leading to a decline in confidence from depositors, who consequently withdrew funds. In an effort to maintain sufficient liquidity, banks have begun to reduce their lending activity. An inverted yield curve makes banks more conservative and tightens credit conditions, which in turn slows the economy even further.

An additional factor contributing to a gloomy outlook on the US economy is still-elevated short-term inflation expectations, this is covered in the following section regarding consumer expectations. This has led to the inversion of the *real* yield curve as well. The real yield curve represents the yields of various maturity bonds, adjusted for inflation expectations. An inverted real yield curve transpires when the yield of longer-term Treasury Inflation Protected Securities (TIPS) falls beneath the yield of shorter-term TIPS.

In January, certain economists posited that elevated short-term inflation expectations relative to long-term expectations signified that real yields were not inverted. However, this is no longer the situation. Figures 2 and 3 contrast the yields with various maturity periods at the beginning of 2022 versus now.

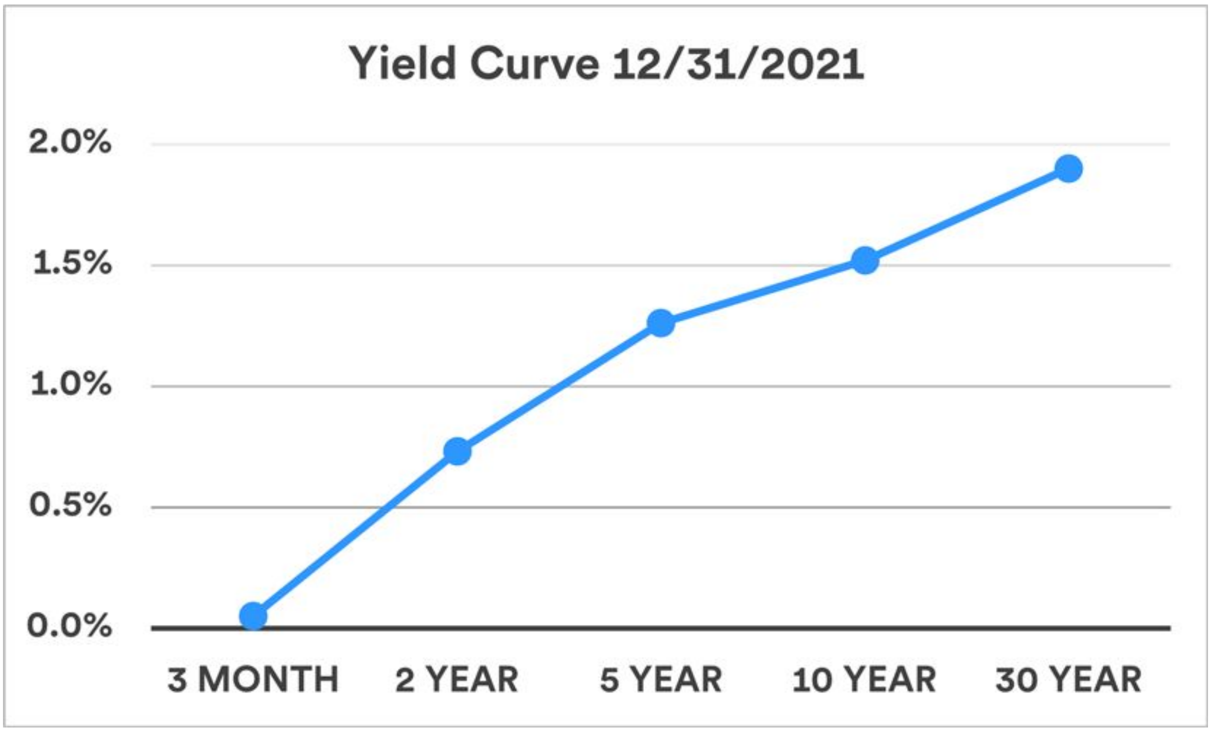


Figure 2. Yield Curve on December 31st, 2021. (source: US Department Of The Treasury)

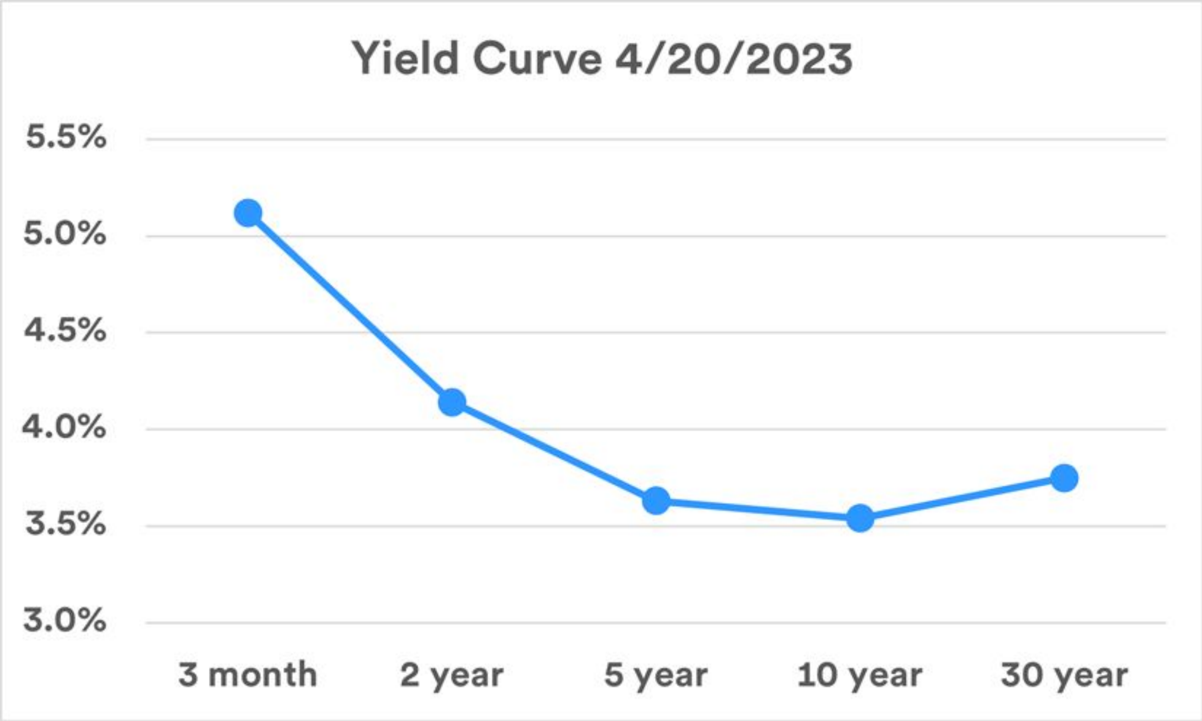


Figure 3. Yield Curve on April 20th, 2023. source: US Department Of The Treasury)

The duration of yield-curve inversions has historically correlated closely with the duration of recessions, and it is anticipated to be the same in this instance as well. The yield spread between the three-month and 10-year Treasury bonds has been inverted for more than six months and persists in that state.

Now, the pertinent question is: where does the economy proceed from here?

Analysts believe it will continue to decline for the subsequent three months. Short-term rates in the broader bond market tend to respond to the Fed's strategy concerning the target federal funds rate it controls. The Fed elevated the federal funds rate from nearly zero percent before March 2022 to the 4.75 to five percent range by March 2023.

At least one additional Fed rate hike is anticipated in 2023, although Fed officials have indicated further increases will be more modest than those witnessed in 2022. Nevertheless, this could persist in driving short-term interest rates higher across the broader market. The Fed is likely to maintain elevated interest rates into 2024. Some market strategists contend that, as the Fed establishes monetary policy, it is closely monitoring the impact on the bond market, hoping to re-establish a normal yield curve in due course. The Fed possesses numerous tools to influence yields at different maturities effectively to achieve its goals of tempering inflation whilst evading a recession.

It is worth observing how corporations respond to the inverted yield curve. The majority of companies managed to maintain a robust financial position throughout 2022; however, corporate revenue and earnings will be under increasing pressure. Businesses are becoming more reluctant to borrow, as it makes it tougher to generate profit when investing borrowed funds in new equipment, facilities, and extra employees, with high short-term rates. Consumer spending is another crucial element affecting the economic outlook. While it remained stable in the initial months of 2023, prospects for the immediate future appear less certain.

Consumer Confidence Declined To A Nine-Month Low

Figure 4. Consumer Confidence Index (Source: The Conference Board; NBER)

Consumer Confidence in the US dropped to a nine-month low in April, reflecting a bleak outlook for the economy and signalling an imminent recession, according to [The Conference Board] last Tuesday, April 25th. The consumer confidence index, which fell to 101.3 (refer Figure 4), the lowest level since July 2022, remains well below the levels associated with a healthy economy. Consensus forecasts had predicted the index would register a reading of 104 before the official data from the Conference Board was released.

Consumer assessment of the current economy and the job market, as measured by the Present Situation Index, rose to 151.1 in April from 148.9 the previous month (Figure 5, blue line). Consumers' short-term view on income, business, and labour market conditions, as measured by the Expectations Index, however dropped to 68.1 in April from the previous month's 74.0 (Figure 5, red line). Constant readings below 80, the Conference Board has said, often point to a recession within the following year. The Expectations Index has been below that level, except for one month, over the past 14 months.

The decline in Consumer Confidence is likely to have been triggered by the recent banking turmoil. Consequently, the banking contagion could have eroded consumers' trust in the economy for the next six months, as shown by the deterioration of Consumer Expectations. Data from the Conference Board shows that spending plans for the next six months have decreased across all categories, including automobiles, housing, major appliances, and vacations.

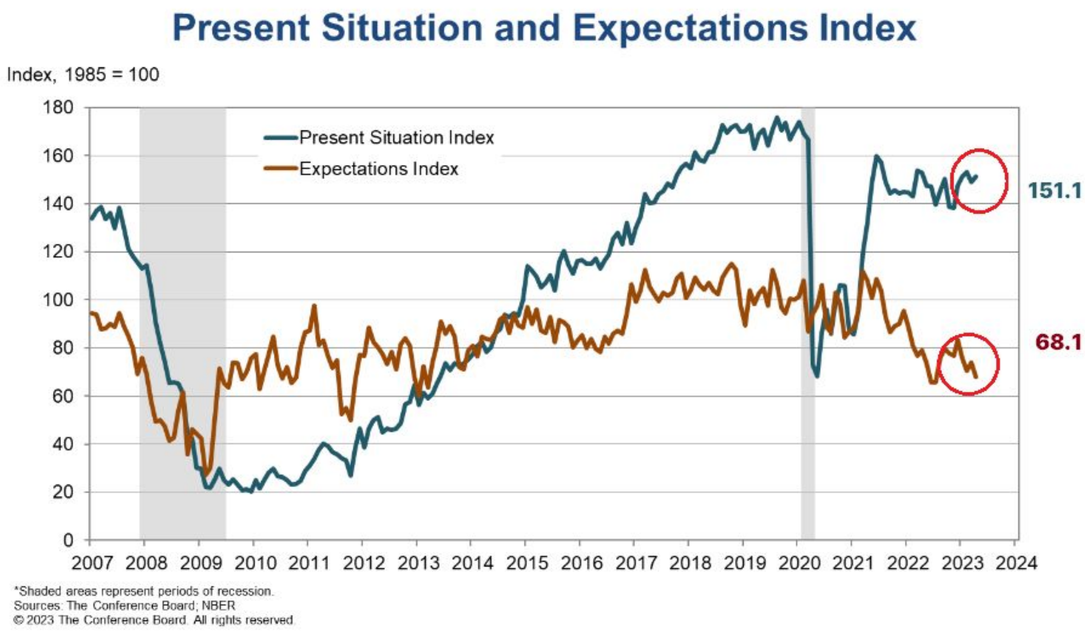


Figure 5. Present Situation and Expectations Index (Source: The Conference Board; NBER)

The report highlights that the labour market remained strong in April, with the labour differential index indicating a slightly increased percentage difference between responses for jobs that are plentiful and those that are hard to get. However, although the labour market has seen solid job gains and low unemployment rates, it has cooled down from its pandemic high.

In the same report from the Conference Board, Consumer inflation expectations for the next 12 months remain essentially unchanged at 6.2 percent in April. Nonetheless, rising interest rates and persistently high inflation have hindered growth, and many economists now believe a recession is not far off. The decline of the recent Consumer Confidence Index shows that many Americans support this view. Despite the anticipated recession, the inflation rate, which is currently above the Fed’s two percent target, is likely to persist for another year.

GDP Report: Economy Slowed Down in Q1 as Businesses Retrench

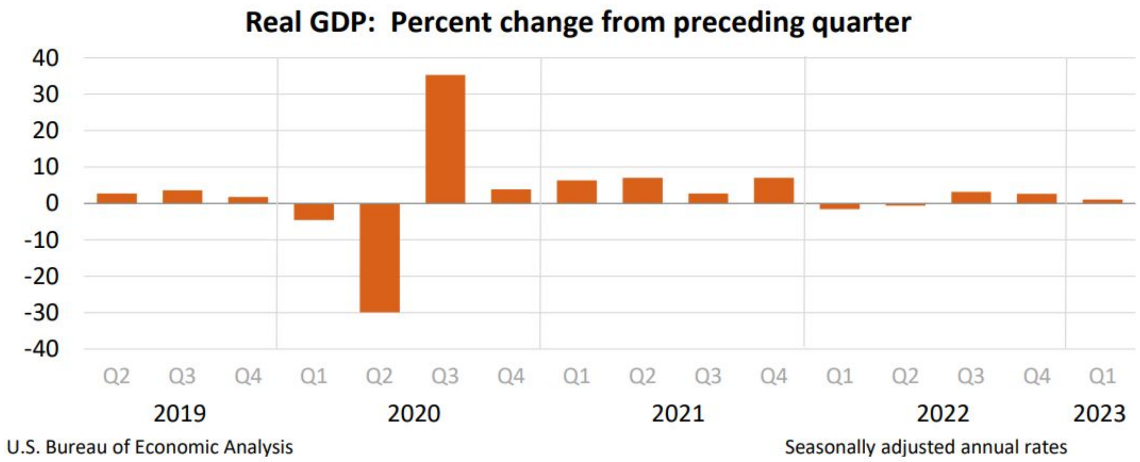


Figure 6. Real GDP, Percent Change from the Preceding Quarter (Source: US Bureau of Economic Analysis)

US economic growth in the first quarter of this year has decelerated as consumers continue to face high inflation, rising interest rates, and banking problems. Gross Domestic Product (GDP) grew at an annualised rate of 1.1 percent (refer Figure 6), according to the US Bureau of Economic Analysis in its report last Thursday, April 27th. The latest GDP report was lower than consensus forecasts of two percent. The latest GDP reading represented a significant slowdown from the seasonally adjusted 2.6 percent growth recorded in the fourth quarter of 2022.

Consumer spending, the main engine of the US economy, served as the primary driver of growth in the first quarter, however a deceleration in business investment and a decrease in housing investment acted as a drag. The Personal Consumption Expenditures price index rose to 4.2 percent this quarter from 3.7 percent in the fourth quarter of 2022. Robust employment and wage growth have enabled consumers to endure the challenges of escalating prices and increased borrowing costs, pushing consumer expenditure to its highest growth rate since mid-2021.

Companies however curtailed investment and scaled back production, detracting 2.3 percentage points from headline GDP. Gross private domestic investment plummeted by 12.5 percent, contrasting with the previous quarter's 4.5 percent growth. The nation's exports expanded by 4.8 percent, in comparison to a decline of 3.7 percent in the preceding quarter.

GDP & Related Measures	Q4, 2022	Q1, 2023
Gross Domestic Product, GDP	2.6	1.1
Personal Consumption Expenditures, Price Index	3.7	4.2
Gross Private Domestic Investment	4.5	-12.5
Exports	-3.7	4.8
Imports	-5.5	2.9
Government Consumption Expenditures and Gross Investments	3.8	4.7

Figure 7. Gross Domestic Product and Related Measures, Percent Change from Preceding Period (Source: Bureau of Economic Analysis)

Although consumers have demonstrated resilience thus far, it is uncertain how long they can withstand the challenges of escalating prices and heightened borrowing costs. As reports of job losses, bank failures, and apprehensions of an imminent recession persist in dominating headlines, economists anticipate that consumers will reduce their spending. There are signs that consumers may be adopting a more cautious approach, as illustrated by the recent increase in savings rates (see Figure 8 below). Moreover, a growing number of Americans are struggling to stay punctual with their loan repayments.

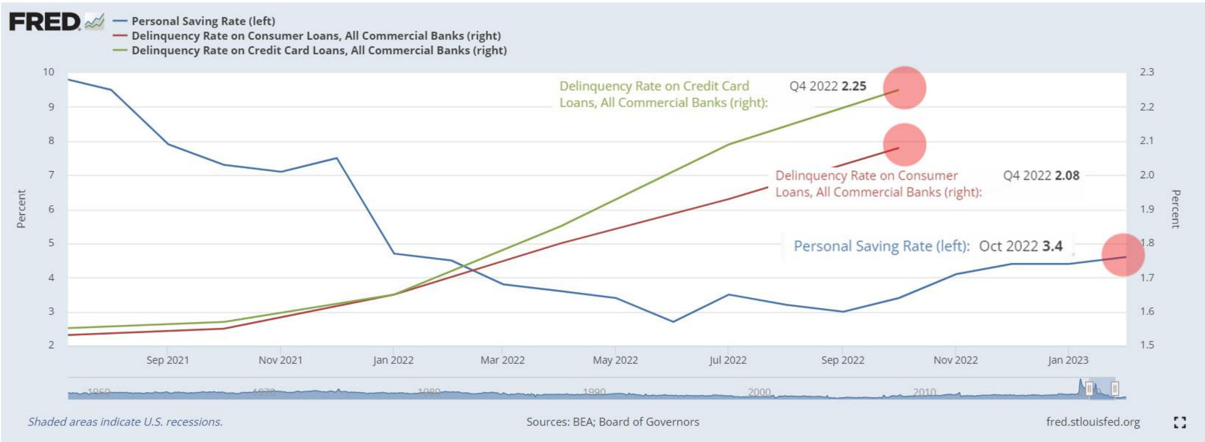


Figure 8. US Personal Savings Rate and Delinquency Rate of US Consumers (Source: Bureau of Economic Analysis, Bureau of Governors)

Many experts worry that the US economy will continue to slow down for the rest of the year, increasing the likelihood of a recession. Economists are also monitoring recent banking stress following the bankruptcy of Silicon Valley Bank and Signature Bank, because it has the potential to lead to tighter lending conditions for businesses and households, which would weigh on the economy.

Overall, the US economy is still growing, but it is being held back by high inflation and rising interest rates. The latest GDP figures show that consumers are holding up despite inflation and a Fed that has been tightening its monetary policy aggressively. However, the tighter credit supply brought by higher interest rates is yet to start biting into the economy. The GDP data published on Thursday predated the failure of Silicon Valley Bank and the subsequent financial turmoil. With more threats on the horizon, including a looming debt-ceiling showdown, financial markets remain at risk of further destabilisation. Moreover, as the availability of credit for businesses is held back by higher interest rates and tightening lending standards, we anticipate a slowdown in employment growth and an adverse turn in economic growth as the economy faces an increasing risk of entering a recession.

Fed's Measures on Employment and Wages Points to More Rate Hikes

The Federal Reserve's key labour costs metric for the first quarter came in hotter than expected last Friday, while the Fed's preferred inflation gauge, the core Personal Consumption Expenditure (PCE) index, remains persistently high. Both gauges reinforce a further rate hike this May.

Figure 9. US Employment Cost Index, Year-over-Year (YoY) and Quarter-over-Quarter (QoQ) basis (Source: Bureau of Labour Statistics, RSM US)

The US Department of Labor reported last Friday, April 28, that the US Employment Cost Index (refer Figure 9), the broadest metric of US labour costs, or overall measure of civilian workers' compensation, grew 1.2 percent in the first quarter of 2023 after rising 1.1 percent in the last quarter of 2022. The Employment Cost Index came in higher than consensus forecasts of a one percent gain.

Compensation for private industry workers increased 4.8 percent on a year-over-year (YoY) basis for the period that ended in March, down from 5.1 percent in the prior quarter. Benefits increased by 4.5 percent YoY, down from 4.9 percent in the fourth quarter of last year. The private industry workers are a subset of the measure for all civilian workers and excludes federal, local government employees. A slight slow down in compensation for private industry workers suggests that private sector employers are more cautious with compensation increases.

According to the data, overall compensation is still rising in a consistently tight labour market. As reported in the April 10 issue of *Bitfinex Alpha,* job openings are falling, and layoffs are increasing. With that said, the softening labour market may limit further increases in wages.

The Fed will need evidence of sustained deceleration in the economy before it can declare victory in the battle against inflation. The latest employment data is expected to keep the Fed on track to raise interest rates by at least a quarter percentage point at the May 3 Fed Meeting.

The case of a further rate hike is reinforced by a separate report released last Friday by the Bureau of Economic Analysis (BEA), which showed that the Fed's preferred inflation gauge, the Personal Consumption Expenditures (PCE), grew at a rapid pace last month on a year-on-year basis.

	2022		2023		
	Nov.	Dec.	Jan.	Feb.	Mar.
	Percent change from preceding month				
Personal income:					
Current dollars	0.4	0.3	0.6	0.3	0.3
Disposable personal income:					
Current dollars	0.6	0.4	2.1	0.5	0.4
Chained (2012) dollars	0.4	0.2	1.5	0.2	0.3
Personal consumption expenditures (PCE):					
Current dollars	-0.2	0.0	2.0	0.1	0.0
Chained (2012) dollars	-0.4	-0.2	1.4	-0.2	0.0
Price indexes:					
PCE	0.2	0.2	0.6	0.3	0.1
PCE, excluding food and energy	0.2	0.4	0.6	0.3	0.3
Price indexes:	Percent change from month one year ago				
PCE	5.7	5.3	5.4	5.1	4.2
PCE, excluding food and energy	4.8	4.6	4.7	4.7	4.6

Figure 10. Personal Income and Outlays, March 2023 Report by Bureau of Economic Analysis (BEA)

Core inflation, which excludes food and energy, remained strong with a 0.3 percent rise on the month, while overall inflation dropped to 0.1 percent month-on-month. In February, core inflation and overall inflation rates were 0.3 percent higher. On a year-over-year basis, overall PCE inflation was 4.2 percent while core PCE inflation was 4.6 percent in March. The YoY core inflation barely changed from 4.7 percent in February (refer to Figure 10).

In the same report from the BEA, personal spending slowed in March in both dollar and inflation-adjusted terms. The dollar terms refer to the current dollar value spent, while inflation-adjusted terms account for the effect of inflation on the purchasing power of the dollar over time. Real PCE decreased by less than 0.1 percent in March. Spending on services increased by 0.1 percent, which offsets the 0.4 percent decline in spending on goods (refer to Figure 11).

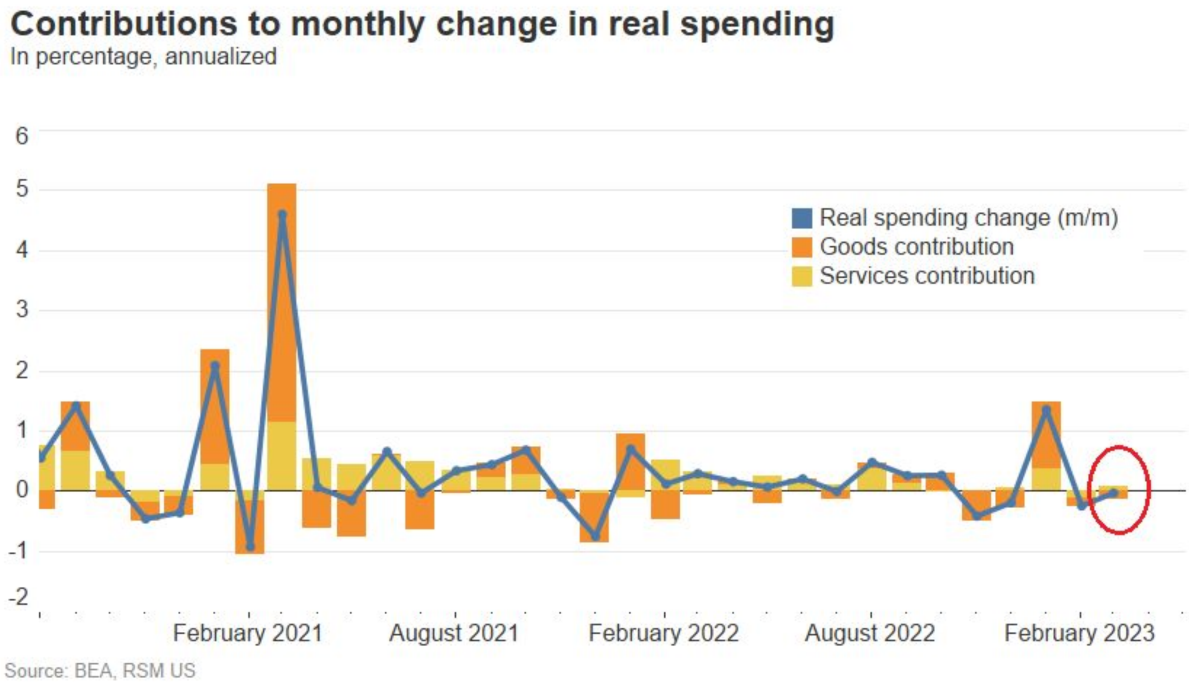


Figure 11. Contributions to Monthly Change in Real Spending (Source: Bureau of Economic Analysis, RSM US)

We can expect the spending data from last March to take away some of the strength observed from the GDP report released last Thursday, the day before the PCE report. If this trend continues, we should expect spending in the second quarter to slow down or fall further as rising interest rates and tighter lending conditions linger in the economy.

In anticipation of a possible economic downturn, Americans have started saving more money and cutting back on their expenses. In March, the savings rate increased to 5.1 percent from 4.8 percent in February, marking the highest savings rate since December 2021 (refer to Figure 12).

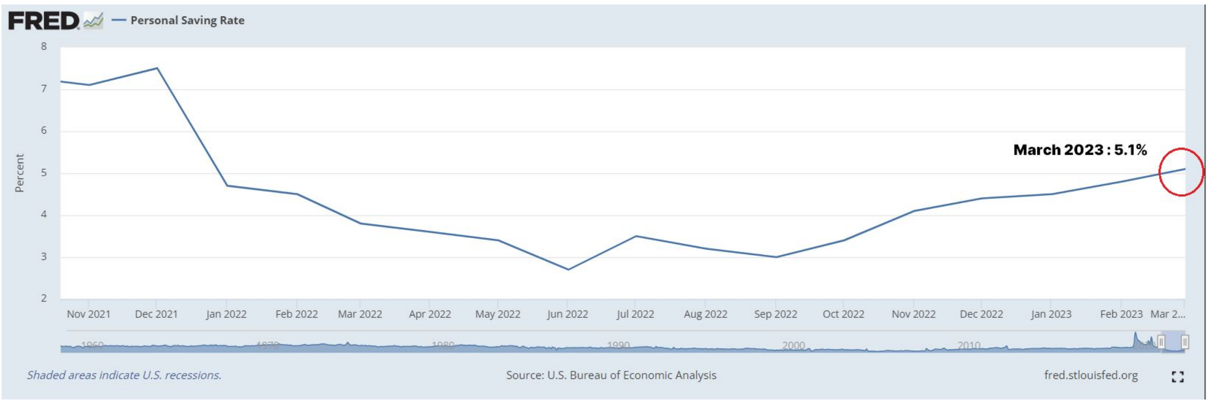


Figure 12. Personal saving as a percentage of disposable personal income (Source: Bureau of Economic Analysis)

Income remained strong, fueled by a strong labour market, which was rising at 0.3 percent in March, as reported in the April 10 issue of *Bitfinex Alpha*. Should personal spending in the United States continue to slow, the economy may be sustained by personal income and job market activity until it shifts to a widely anticipated recession.

The employment and PCE inflation data released last Friday suggests that there is more work for the Fed to do to bring down inflation, strengthening the case for at least one more hike at its May 2023 FOMC meeting.

WHAT'S ON-CHAIN THIS WEEK?

Bitcoin Volatility to Subside in the Coming Weeks

Bitcoin options volatility indicators have experienced a substantial decrease over the past week. This decline coincides with leverage being suddenly purged from the market after a period of growing derivatives open interest, and an increase in the ratio of derivatives volume versus spot volume in mid-April.

Leverage served as the principal driving force behind the volatility of the past week. A considerable build-up in open interest occurred throughout April, but it has since plummeted, liquidating both short and long positions accordingly.

Bitcoin's Estimated Leverage Ratio (ELR), a crucial metric assessing the use of leverage in the Bitcoin (BTC) market, continues to decline, signalling potential low price volatility in the future. The metric dropped to 0.195 last Wednesday, reaching its lowest point since December 20, 2021, according to data monitored by analytics firm *CryptoQuant (Figure* 13). The metric reached a peak of 0.4 just before the collapse of cryptocurrency exchange FTX last November, which was the catalyst for Bitcoin hitting its 2022 bear market lows in the $15,000s.

Figure 13. Estimated Leverage Ratio vs. BTC price. (Source: CryptoQuant)

Since October, the ratio has halved, signifying a sustained downtrend in the extent of leverage utilised in the Bitcoin market.

The most recent drop in the ELR comes after wild liquidation-induced price swings seen in the BTC price on April 26th. All else being equal, a diminishing ratio also implies a reduced sensitivity of the spot market to the derivatives market. In other words, incidents of extreme price fluctuations caused by large-heavily leveraged positions being liquidated or stopped out, such as those witnessed on Wednesday, April 26th, may become less frequent in the future. Price fluctuations of more than 9.33 percent that occurred on Wednesday is shown in Figure 14 below.

Figure 14. BTC/USD One-Hour Chart. (Source: Bitfinex)

Lower volatility in the future appears to align with investor expectations, as evidenced by Bitcoin options market pricing.

Implied volatility, as indicated by At-The-Money (ATM) Bitcoin options expiring in seven, 30, 90, and 180 days, falls within the 48-55 percent range, which is near historical lows set earlier in the year. (Refer to Figure 15 below)

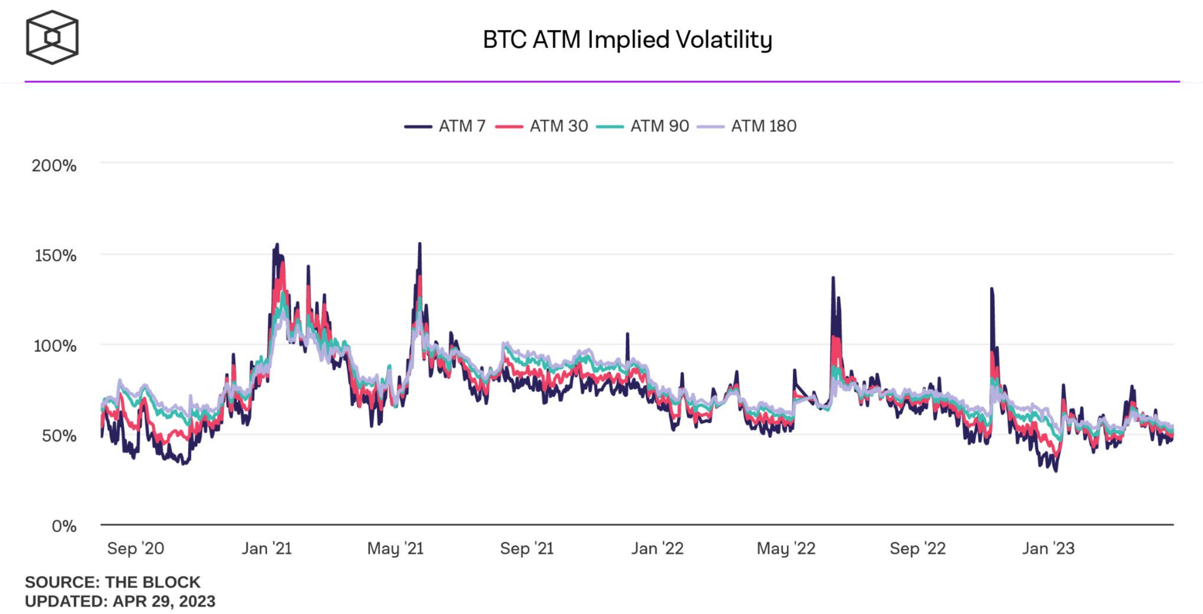


Figure 15. BTC Options At-The-Money Implied Volatility. (Source: The Block)

Being close to the lows earlier in the year might also suggest a return to a spot-market-dominated regime that was seen earlier in 2023. While the direction is not so apparent via volatility metrics, these readings support our theory of Bitcoin being in a “transitionary” phase where the price will stop trending in either direction and the washing out of leverage as well as short-term price speculators will take place.

In transitionary phases for Bitcoin historically, the elimination of speculators and Bitcoin "tourists" has been associated with the market forming a short-term low, followed by a recovery, before price momentum-related FOMO (fear of missing out) attracts a new wave of speculators and "tourists."

This is why on-chain analysts often monitor metrics such as the Realised HODL Ratio (RHODL), which reflects the balance between BTC wealth held in one-week-old coins versus one to two year-old coins. (Refer to Figure 16 below)

Figure 16. Realised HODL Ratio for Bitcoin. (Source: Glassnode)

When RHODL ratio starts to approach the red band, it can signal that the market is overheating. This has historically been a good time for investors to take profits in each cycle. The indicator leaving the green band has historically signalled the end of bear markets, an exception being 2019 where it fell significantly to retest the green band. Usually, this ratio tends to bottom in line with bear market bottoms, indicating that weaker conviction speculators and tourists have been wiped out and a higher proportion of high conviction longer-term HODLers remain, as is the case currently.

While history repeating itself is never a guarantee, short-term stagnancy in the current uptrend in price and even pullbacks should not remove HODLers' focus from the resiliently bullish longer-term on-chain indicators.

Ethereum Deflationary Tailwinds Could Prop Up Price

Ethereum's net inflation rate has been negative for almost 90 consecutive days as of April 29th.

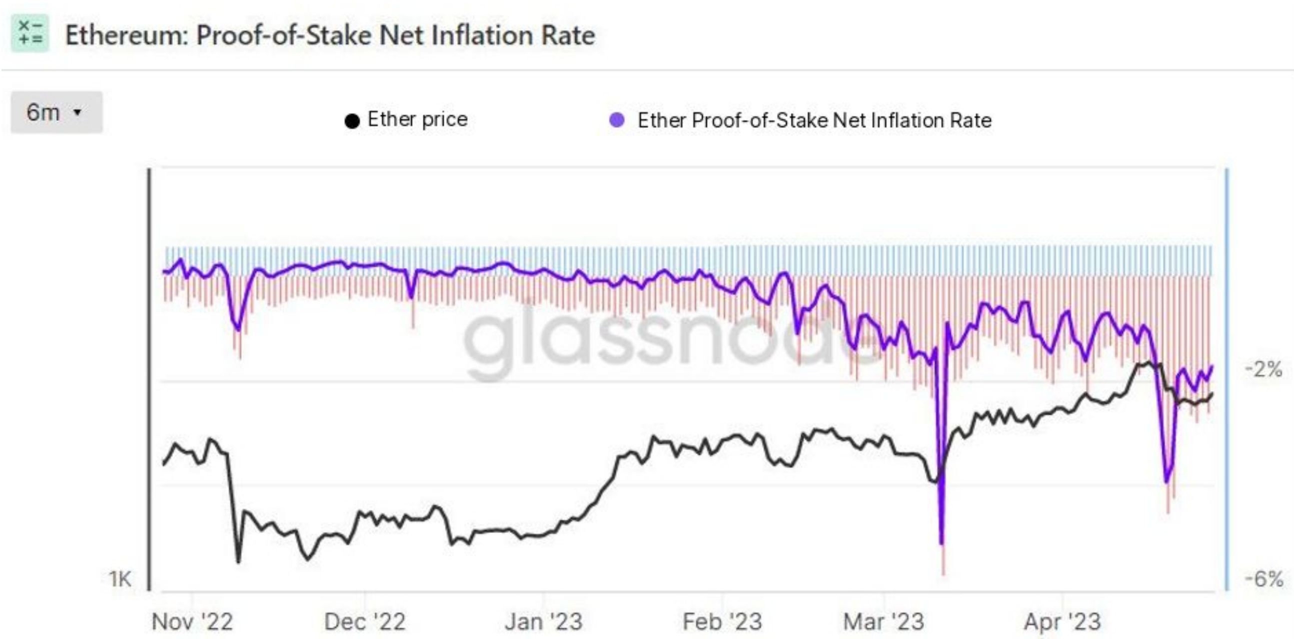


Figure 17. Proof-of-Stake Net Inflation Rate For Ethereum. (Source: Glassnode)

On Thursday, April 27th, the Annualised Burn Rate (introduced following the implementation of Ethereum Improvement Proposal EIP-1559) surpassed the Ether Issuance Rate by 1.753 percent, occurring a week after the deflation rate nearly reached its annual peak at 3.933 percent in the week prior (refer to Figure 17 above).

As the deflation rate increases, individual Ether tokens become scarcer at a faster pace. This is likely to boost the cryptocurrency's price in the long term.

The escalating deflation rate is associated with a surge in Ethereum network fees. Network fees are divided into two components. The first is a base fee that all users must pay to ensure their transactions are accepted and processed on the blockchain. There is also an optional tip that users can pay for faster transaction processing.

The Ethereum network automatically calculates the base fee, which increases during periods of heavy network traffic. Ethereum Improvement Proposal (EIP) 1559, integrated into the Ethereum code during the London hardfork in August 2021, mandates that all base fees paid by users are burned, permanently removing the tokens from circulation. Consequently, when the base gas fee escalates, so does the rate at which Ether is burned.

When this burn rate surpasses the Ether Issuance Rate, approximately 0.55 percent, the Ether supply will decrease.

The Ether price is also likely to benefit from an ongoing, rapid drop in supply as more and more investors stake their Ether tokens to secure yield. (Refer to Figure 18)

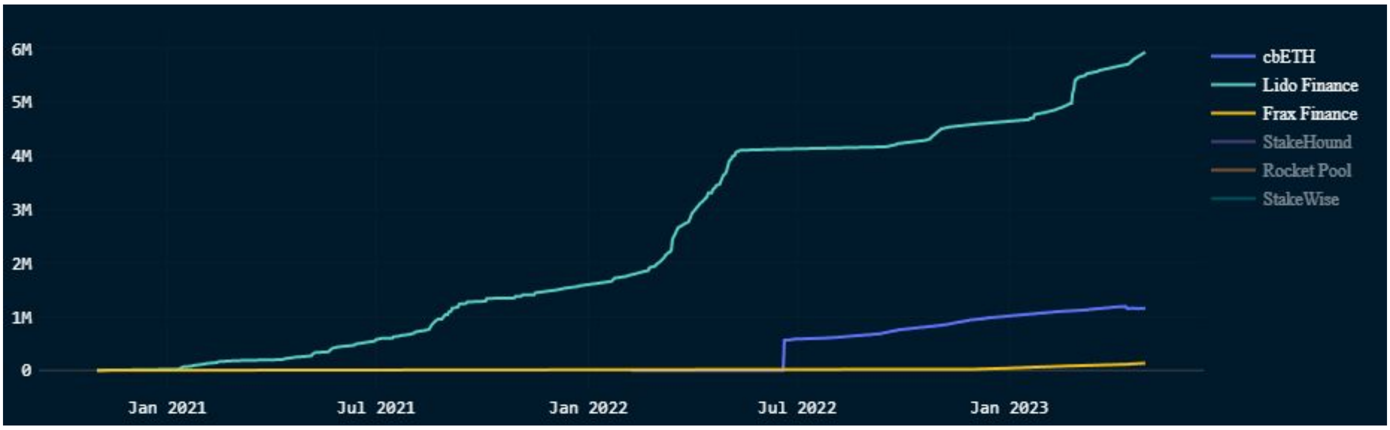


Figure 18. Ether Staked On Various LSDs Over Time. (Source: Nansen)

The number of Ether tokens staked on Lido Finance is close to reaching the 6 million mark, and the total number of staked tokens continues to soar to new highs on all Liquid Staking Derivatives (LSDs). After a large number of withdrawals initially, the number of staked tokens shot to new record highs above 19.5 million on Thursday, up around 1.5 million on the month. Additionally, the amount of Ethereum being withdrawn is also flatlining, as seen in Figure 19 below.

Figure 19. Percentage Split Of Ethereum Waiting For Withdrawal. (Source: Nansen)

The recent “Shapella” upgrade enabled the withdrawal of unstaked Ether tokens for the first time since staking was introduced to the Beacon chain in December 2020 (at a maximum rate of 50,400 ETH tokens per day).

As more ETH tokens are locked into the staking contract, constrained by the 50,400 ETH tokens per day withdrawal limit, the supply of readily available (unstaked) ETH tokens in the market decreases, increasing scarcity.

Theoretically, this heightened scarcity should contribute to an upward pressure on the ETH price.

Bitcoin Dominance Likely to Rise

Bitcoin dominance is at range high (48.5 percent) as Bitcoin is continually being treated as a safe haven asset over gold, commodities and other crypto. (refer Figure 20 below)

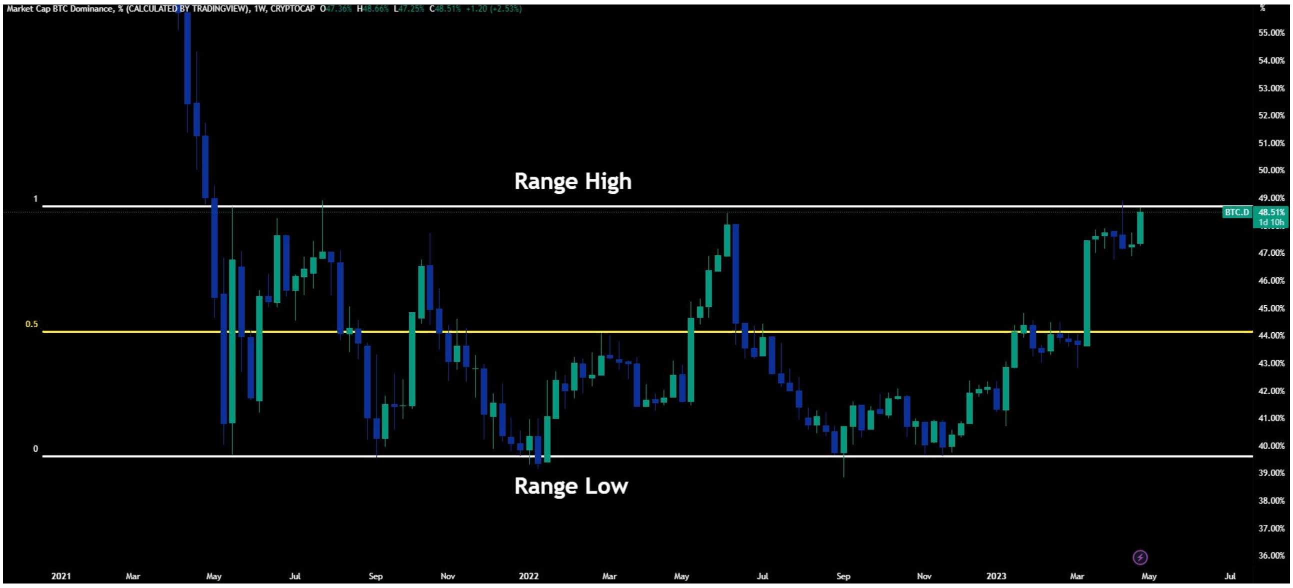


Figure 20. BTC Dominance (by market capitalisation) Weekly Chart. (Source: Tradingview)

Bitcoin has outperformed every other major asset class by a very large margin by appreciating over 75 percent in price year-to-date.

Figure 21 below contrasts BTC performance with other major asset classes like gold and the S&P 500 index. Following the collapse of Silicon Valley Bank and the ensuing banking contagion, Bitcoin experienced a substantial rally, surging as much as 42.5 percent. Meanwhile, gold also saw a notable increase, with a 9.3 percent climb. During the same period, the S&P 500 only managed to rise by a few percentage points.

Figure 21. BTC, Gold and S&P500 price fluctuation post SVB collapse. (Source: Tradingview)

During the same period, Bitcoin has been outperforming other crypto assets as well. BTC dominance, as seen in Figure 20, has continued to surge to reach the range high over a two year timeframe, between 39 and 48 percent, and we believe a breakout is increasingly probable.

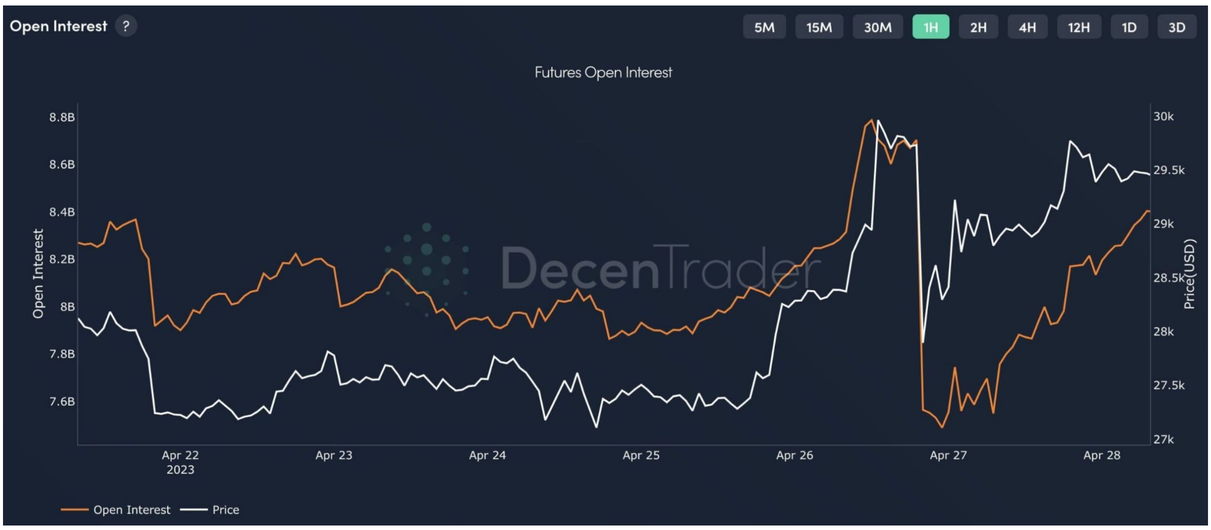


Figure 22. BTC futures Open Interest vs Ethereum Futures Open Interest. (Source: DecenTrade)

Even with a large liquidation event as the one that occurred last Wednesday, April 26th (as discussed earlier in the On-Chain section), BTC open interest (OI) has been bouncing back from the lows much more aggressively than Ethereum OI or the OI for any other crypto asset.

This phenomenon in an environment where overall crypto market derivative open interest is in a downtrend further supports the idea that Bitcoin dominance could continue to shoot up in the following weeks due to increased investor confidence as well as speculation on the BTC price, compared to traditional assets and crypto alternatives.

NEWS FROM THE CRYPTO-SPHERE

South Korea Indicts Co-Founder of Terra and Nine Others

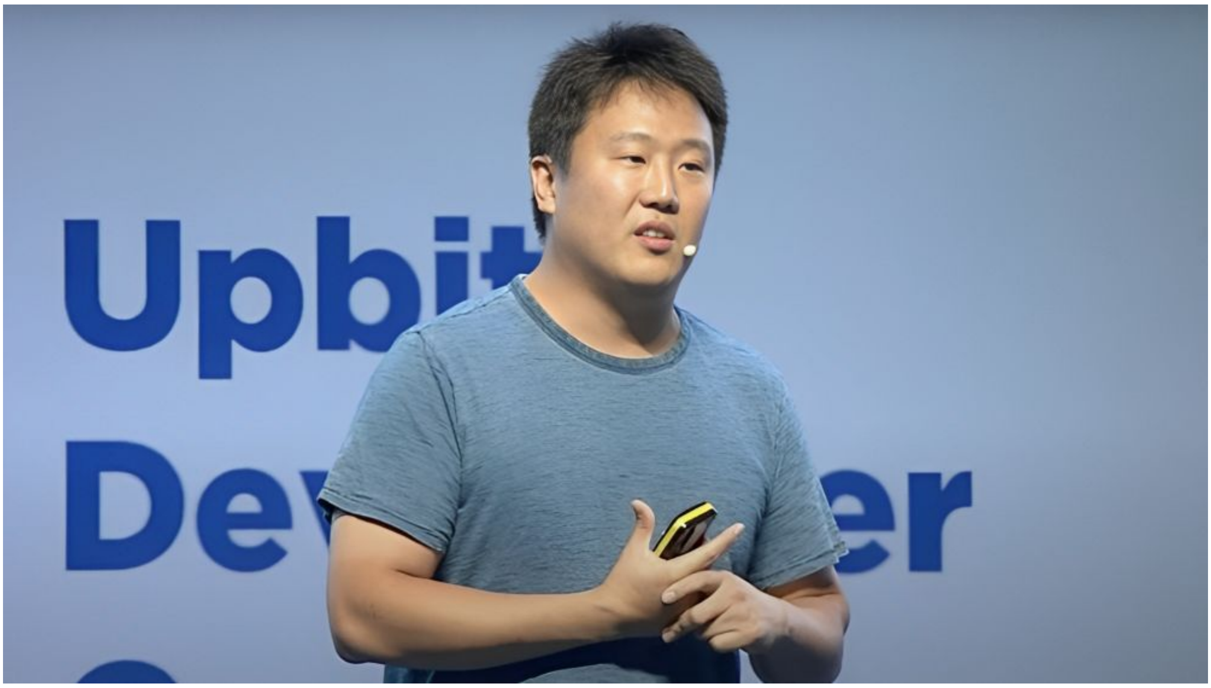


Figure 23. Terraform Labs co-founder Shin Hyun-Seung.

- **After months of investigation, South Korea formally charged Terra co-founder Daniel Shin and nine others.**
- **Prosecutors have sequestered approximately $185 million in assets belonging to the defendants.**

Terraform Labs co-founder Shin Hyun-Seung and nine other individuals have been indicted on multiple charges, including violations of capital markets law, by South Korean prosecutors. The charges relate to the infamous collapse of two Terra tokens last May, Luna and TerraUSD (UST), which was an algorithmic stablecoin backed by Luna. Unlike traditional asset-backed stablecoins, UST was backed by Luna's market price. The algorithm that helped keep UST at a stable price was declared impossible to get right by the Prosecutor's Office.

The charges come after months of investigation into the Terra ecosystem's collapse, which took tens of billions from investors who trusted the project. The Seoul Southern District Prosecutors' Office declared Terra as a "fictitious" project and stated that its algorithmic stablecoin, TerraUSD, was not feasible from the beginning. The charges also include violations of the country's capital markets law.

Prosecutors have frozen 246.8 billion Won ($184.7 million) in assets from the accused individuals so far. According to Dan Sung Han, the head prosecutor leading the financial crime investigation department, the accused individuals caused "astronomical damage" to investors while taking 463 billion Won ($347 million) in profit. The individuals charged are all directly linked to Terra, including in marketing, systems development, and management, according to prosecutors.

Shin's lawyer, Kim Ki-dong, stated that his client had nothing to do with the Terra and Luna collapse as he left the company two years before. Shin voluntarily returned to South Korea immediately afterwards and has been cooperating with the probe for over ten months, hoping to contribute to fact-finding.

Shin is not currently in custody, as a South Korean court rejected a request to arrest him in December, stating that he was unlikely to destroy evidence or pose a flight risk. He will remain free for now, pending trial. Shin's co-founder, Do Kwon, who was recently detained in Montenegro for attempting to travel with falsified documents, was officially charged previously. Kwon is also wanted by US authorities.ions of the country's capital markets law.

Crypto Lender Genesis Global Seeks Mediator for Bankruptcy Proceeding

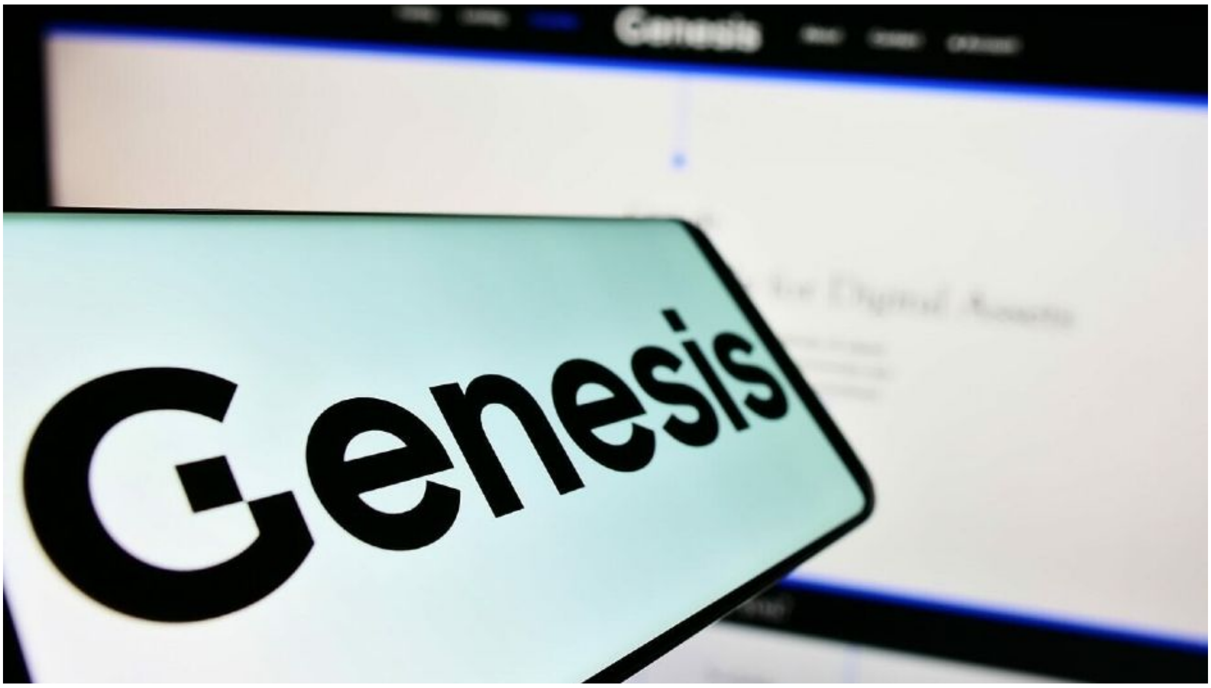


Figure 24. Genesis seeks a mediator for bankruptcy proceedings.

- **Genesis Global has asked a court to appoint a mediator for its bankruptcy proceedings.**
- **A group of creditors walked away from a preliminary agreement reached earlier this year.**
- **Genesis seeks mediation before the mid-May due date on $630 million of debt owed by DCG.**

Collapsed crypto lending firm Genesis Global has filed a request with a court to appoint a mediator for its ongoing bankruptcy proceedings, according to court documents, dated Monday, April 24. Mediators facilitate communication and negotiation between disputing parties, helping them to reach a mutually acceptable agreement or settlement. Mediation is often used as an alternative to litigation or other formal legal processes.

Genesis' owner, Digital Currency Group (DCG), has stated that the need for mediation follows the decision by a group of creditors to walk away from a preliminary agreement reached earlier this year. A two-day mediation period has been requested to take place before May 9th, ahead of the mid-May due date on $630 million of debt owed to Genesis by DCG, according to the filing.

According to Genesis, the initial goal of the discussions leading up to the mediation was to resolve issues outstanding in its restructuring terms document. The company stated in its bankruptcy filing that recent discussions have made it apparent that a mediator is required to assist the parties in reaching a resolution.

The lending arm of Genesis suspended withdrawals last year following the collapse of the FTX exchange, which led to Genesis seeking bankruptcy protection at the start of 2023. In February, a Genesis lawyer said that DCG intended to sell the company's crypto lending and trading platform as part of the bankruptcy proceedings.

DCG said that while it was committed to reaching a fair outcome, any new demands will be weighed against concessions already made.

Creditors of Celsius Want to Expose "Suspicious" Crypto Trades on FTX

Figure 25. Creditors of Celsius take legal action against FTX.

- **Creditors of Celsius Network are taking legal action against FTX to identify users behind ten cryptocurrency wallets that allegedly engaged in suspicious trades of Celsius' native token.**
- **The move aims to help identify FTX users involved in suspicious trades of the CEL token, which may have manipulated the token's price.**

According to court documents filed last Wednesday, April 26th, Creditors of Celsius Network LLC have taken legal action against FTX. The move is to help identify FTX users who were allegedly involved in suspicious trades of Celsius' native token, CEL. The trades were made between April and August last year, and the creditors believe they may have manipulated the token's price. A committee representing the creditors has asked a bankruptcy judge to subpoena FTX for information that will help them identify the users behind ten cryptocurrency wallets that are suspected of having engaged in these suspicious trades.

The committee claims that the information is essential to determine whether the trades were legitimate or a form of market manipulation, such as wash trading. It argues that the information could also help establish short positions taken in the CEL token on FTX, which may have negatively impacted the token's price.

The committee has retained the services of Elementus Inc., a blockchain consultant, according to the filing. This consultant is reported to have found 947 transactions over a three-day period involving a nearly one-to-one relationship between deposits and withdrawals of CEL tokens between the ten private crypto wallets and wallets on the FTX exchange.

The committee claims that these transactions may have contributed to the market price of the CEL token reaching $0.81 per token as of the petition date.

The case is ongoing, and it remains to be seen whether FTX will provide information that will shed light on the nature of the trades that took place on its platform.

The Latest in Crypto's Regulatory Wars: Coinbase is Taking the SEC to Court

Figure 26. Coinbase is taking the SEC to court.

- **Coinbase has filed a lawsuit against the US Securities and Exchange Commission (SEC) in an effort to force the agency to respond to its rulemaking petition that was submitted last year.**
- **The legal battle between Coinbase and the SEC could have significant implications not only for Coinbase's own position, but also for the future of the entire cryptocurrency industry in the US.**

Coinbase has filed a lawsuit against the US Securities and Exchange Commission (SEC) after the exchange asked the regulator to make new rules for cryptocurrency and received no response. Coinbase has taken preemptive action by petitioning a court to compel the SEC to respond to a petition for rulemaking, that the company submitted last year. Coinbase contends that the regulator's response was neither reasonable nor timely. Executives of Coinbase have expressed frustration with SEC Chair Gary Gensler and asserted that the agency must engage in rulemaking to elucidate the application of existing securities laws to tokens.

Last month, Coinbase stated in its 8-K report that it has received a Wells Notice from the SEC and that the company believes these potential enforcement actions would relate to a number of its core services, including its wallet, spot trading, and staking operations. The dispute between Coinbase and the SEC is escalating, as the company recently obtained the licence necessary to open a derivatives exchange in Bermuda. In the absence of regulatory clarification in the United States, Coinbase CEO Brian Armstrong has also suggested that the company may relocate overseas.

Coinbase originally sent its petition for rulemaking to the SEC last July, asking for clarity on how to determine if any particular token is a security and how tokens and issuers can register with the SEC, among other issues. To date, the SEC has not yet responded, and Coinbase's petition argues that the agency is long overdue for a response. Coinbase and other crypto companies may face regulatory enforcement actions from the SEC, even though they have not been informed of how the SEC believes the law applies to their business, according to a blog post written by Coinbase Chief Legal Officer Paul Grewal to accompany the filing.

Arkham: Bitcoin Price Drop of Seven Percent Was Not Caused by Bugs on Mt. Gox Alerts

Figure 27. Arkham emphasised that its alert did not cause Bitcoin's price to drop.

- **Bitcoin experienced a sharp drop on April 26th, UTC time, falling below $28,000 and causing other cryptocurrencies to drop as well.**
- **This drop was supposedly caused by a false alert sent by blockchain analytics company Arkham Intelligence regarding large Bitcoin movements from wallets linked to Mt. Gox and the U.S. government.**
- **Arkham initially admitted to the mistake, but later backtracked and stated that the alert was accurate and did not cause the drop in Bitcoin's price.**
- **The sudden decline in prices led to over $211 million in liquidations for crypto market participants, with Bitcoin traders accounting for nearly $97 million of these liquidations.**

Bitcoin saw a significant plunge on Wednesday, April 26th, UTC time, wiping out its gains as it plummeted by as much as seven percent within an hour and dipped below $28,000. This crash affected the wider cryptocurrency market as well, with the top 10 coins by market cap all experiencing a drop, except for stablecoins. Ethereum, the second-largest cryptocurrency, followed Bitcoin's lead and fell to just under $1,830.

According to media reports, this was supposedly caused by an incorrect alert sent out by blockchain analytics company Arkham Intelligence, which claimed that large amounts of Bitcoin were being moved by wallets linked to Mt. Gox and the U.S. government.

Arkham admitted that the alert was a mistake, which was caused by a bug in their system that sent out a false notification to a small number of users. This false alert was then shared by DB or @Tier10k, a popular cryptocurrency news alert account. (Refer to Figure 28)

While the company initially admitted to the mistake, it later backtracked, stating that the alerts had been sent accurately, and emphasised that neither the alert nor the tweet caused the sharp drop in Bitcoin's price. (Refer to Figure 29)

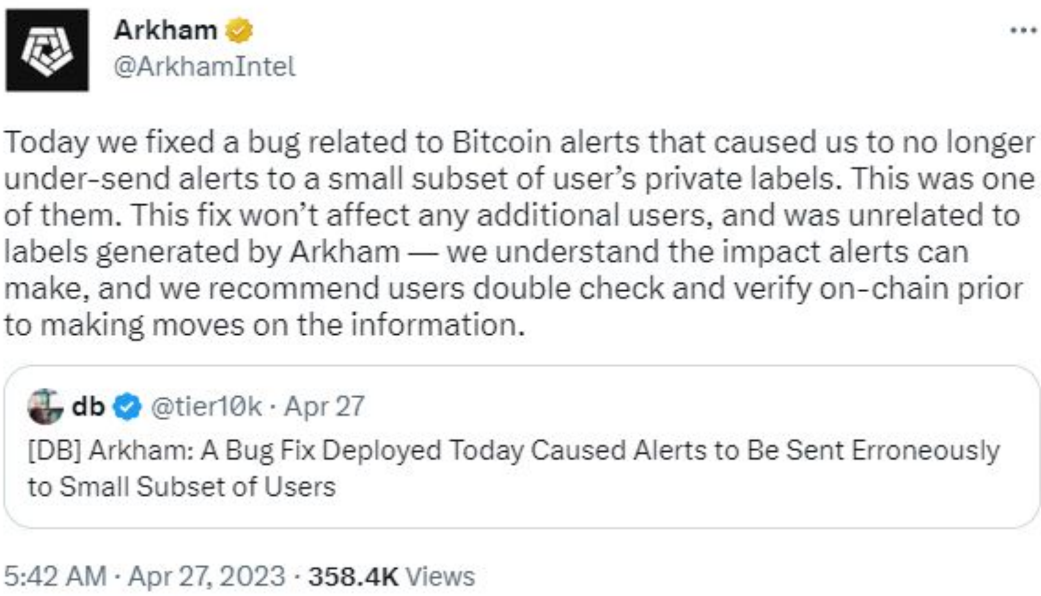
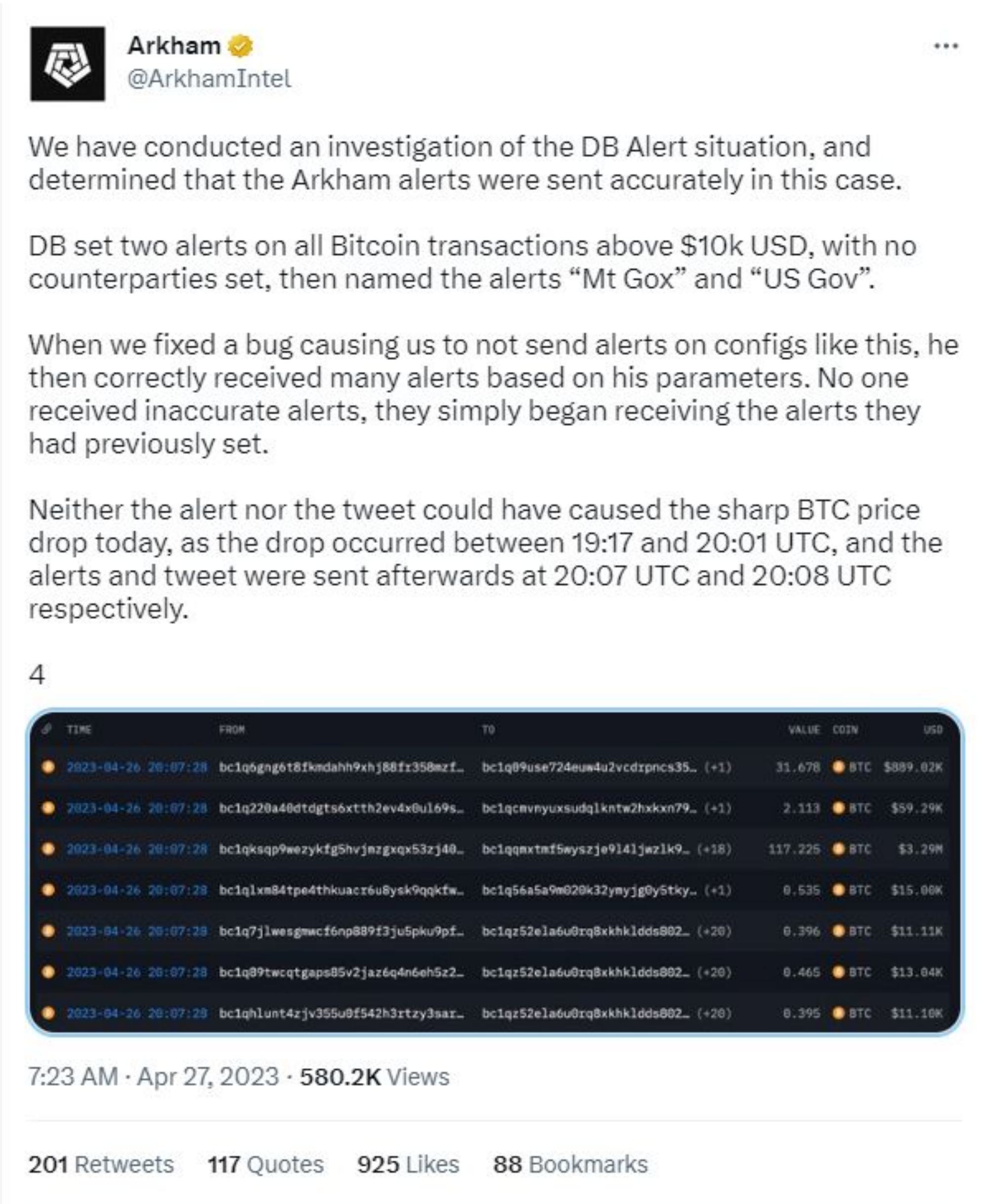


Figure 28 . Arkham Tweet addressing the Bugs Related to Bitcoin Alerts (Source:https://twitter.com/ArkhamIntel)



Arkham
@ArkhamIntel

We have conducted an investigation of the DB Alert situation, and determined that the Arkham alerts were sent accurately in this case.

DB set two alerts on all Bitcoin transactions above $10k USD, with no counterparties set, then named the alerts “Mt Gox” and “US Gov”.

When we fixed a bug causing us to not send alerts on configs like this, he then correctly received many alerts based on his parameters. No one received inaccurate alerts, they simply began receiving the alerts they had previously set.

Neither the alert nor the tweet could have caused the sharp BTC price drop today, as the drop occurred between 19:17 and 20:01 UTC, and the alerts and tweet were sent afterwards at 20:07 UTC and 20:08 UTC respectively.

4

TIME	FROM	TO	VALUE	COIN	USD
2023-04-26 20:07:28	bc1q6gng6t8fkmdahh9xhj88fr358mzf…	bc1q09use724euw4u2vcdrpncs35… (+1)	31.678	BTC	$889.02K
2023-04-26 20:07:28	bc1q220a40dtdgts6xtth2ev4x0ul69s…	bc1qcmvnyuxsudqlkntw2hxkxn79… (+1)	2.113	BTC	$59.29K
2023-04-26 20:07:28	bc1qksqp9wezykfg5hvjmzgxqx53zj40…	bc1qqmxtmf5wyszje9141jwzlk9… (+18)	117.225	BTC	$3.29M
2023-04-26 20:07:28	bc1qlxm84tpe4thkuacr6u8ysk9qqkfw…	bc1q56a5a9m020k32ymyjg0y5tky… (+1)	0.535	BTC	$15.00K
2023-04-26 20:07:28	bc1q7jlwesgmwcf6np889f3ju5pku9pf…	bc1qz52ela6u0rq8xkhklddsB02… (+20)	0.396	BTC	$11.11K
2023-04-26 20:07:28	bc1q89twcqtgaps85v2jaz6q4n6eh5z2…	bc1qz52ela6u0rq8xkhklddsB02… (+20)	0.465	BTC	$13.04K
2023-04-26 20:07:28	bc1qhlunt4zjv355u0f542h3rtzy3sar…	bc1qz52ela6u0rq8xkhklddsB02… (+20)	0.395	BTC	$11.10K

7:23 AM · Apr 27, 2023 · 580.2K Views

201 Retweets 117 Quotes 925 Likes 88 Bookmarks

Figure 29. Arkham revised its findings again related to Bitcoin Alerts (Source:https://twitter.com/ArkhamIntel)

IT Tech, a Twitter user, has published that no transactions have taken place from Mt. Gox-related wallets, suggesting that market participants are still in the dark about what caused Bitcoin's flash crash.

Regardless of the cause, the sudden and steep decline in prices resulted in liquidations worth over $211 million for crypto market participants as of April 26th, UTC time, with Bitcoin traders accounting for nearly $97 million of these liquidations following the crash, according to Coinglass data.

First Republic Faces Critical Few Days as Deposits Drop

- **First Republic Bank faces critical few days due to a significant drop in deposits.**
- **The bank's stock price has declined significantly over the past several months.**
- **Cryptocurrency companies are struggling to find banking partners as mainstream banks have become increasingly wary of crypto clients.**

Shares of First Republic, a California-based bank, tumbled to an all-time low following a report that revealed a significant decline in deposits. According to media reports, the bank reported a "massive drop in deposits" that exceeded analyst expectations. This has put the bank in a critical position, and it now faces a critical week that will likely determine its future.

Figure 30. First Republic Bank shares drop after Earnings release last Monday, April 24 (Source: TradingView)

The quarterly earnings report for First Republic Bank showed a decline in revenues of $1.2 billion, which is down by 13.4 percent. Net interest income was also down, with a decline of 19.4 percent to $923 million. The biggest headline of the earnings report was the drop in deposits, which tumbled 35.5 percent to $104.5 billion.
First Republic Bank's stock price is currently at $6.18 per share, a precipitous fall from its price of $147 per share in February.

Figure 31. First Republic Bank shares price over the past few months (Source: TradingView)

Wall Street banks have been attempting to find solutions for First Republic. A total of 11 larger US banks, including Bank of America, Citigroup, JPMorgan Chase, Wells Fargo, Goldman Sachs, Morgan Stanley, Bank of New York Mellon, PNC Bank, State Street, Truist, and U.S. Bank, temporarily deposited $30 billion with the bank on March 16th, at the height of the banking crisis, in an effort to instil confidence and prevent bank runs from spreading.

According to *Reuters*, JPMorgan proposed forming a consortium to buy First Republic, which was briefly considered but did not gain momentum. First Republic's advisers have reached out to at least four of those 11 lenders in recent days, proposing to sell some of the bank's assets. However, three of those banks have stated that they do not see a way forward without government assistance.

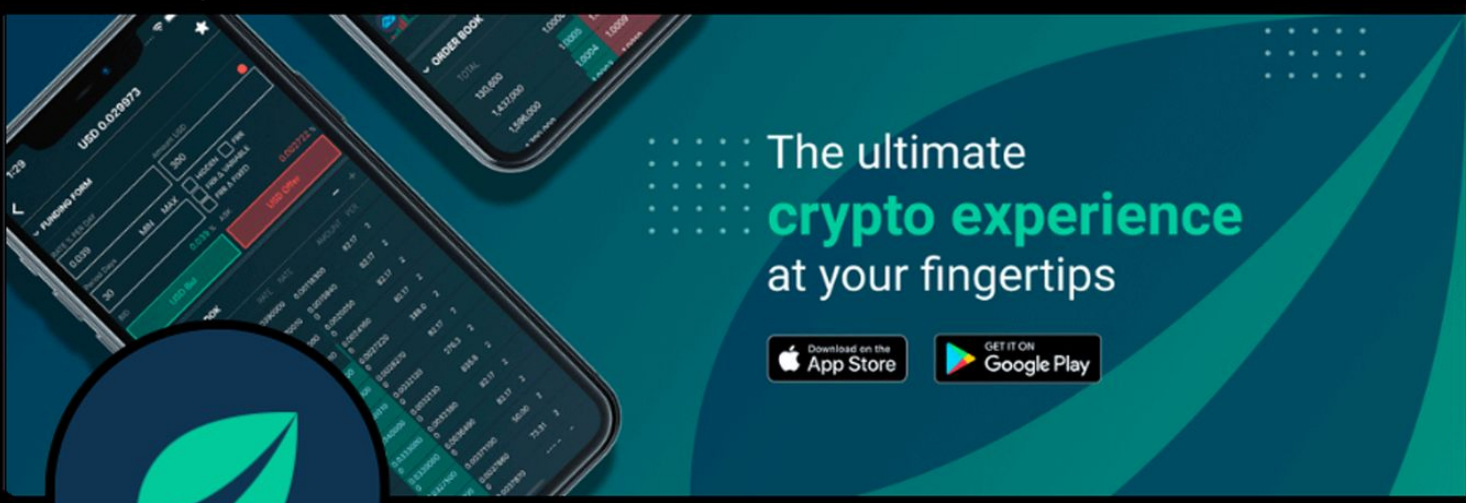
The bank's troubles were compounded after media reports that the U.S. government officials are presently reluctant to intervene in the First Republic rescue process. There were also reports that U.S. bank regulators were weighing the possibility of lowering their private assessments of First Republic. This move could restrict the bank's ability to borrow from the Fed.

Investors continue to keep a close eye on the potential rescue deal for First Republic, as the bank's future remains uncertain.

The issues facing US banks have also had an impact on the cryptocurrency industry, with many firms struggling to find banking partners. Mainstream banks have become increasingly wary of crypto clients following a series of high-profile collapses and a lack of regulation.

This has reportedly led some start-ups in the crypto industry to seek out smaller financial institutions, some in remote corners of global finance. Although this may lead to an increase in account opening requests for banks such as FV Bank in Puerto Rico, Bank Frick in Liechtenstein, and ZA Bank in Hong Kong, it also raises the risk of concentration.

Cryptocurrency companies need access to banks to hold customers' dollar deposits and for day-to-day business activities. However, several top banks have indicated that they are currently turning most potential crypto-related customers away, while others are only working with top-tier crypto firms.



https://t.me/bitfinex

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