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EXECUTIVE SUMMARY

The difference in views on monetary policy between what the Fed is indicating and what the market is predicting is stark. As the Fed raised rates last week by an expected 25 basis points to bring the federal funds rate to between 5-5.25 percent, it warned that while a pause was possible, it would not hesitate to raise rates again if inflation did not subside sufficiently.

The market, however, is forecasting as much as 75bps of cuts before the end of the year, and as a result, asset prices are perhaps more stable than they should be, despite clear concerns about parts of the banking sector and recent data indicating a softening in the labour market.

Indeed, it is almost as if the market has faith that the Fed will continue to shepherd the economy successfully, despite its own protestations that it may need to take more drastic action if inflation does not subside. The introduction of emergency lending facilities and the looming 2024 presidential election have given some confidence to the market that the banking sector will remain stable and the Fed itself will be under pressure to maintain a healthy job market.

As year-long tightening measures take hold, US job openings dropped for the third consecutive month in March, and layoffs have increased to its highest level in over two years. This is good for the Fed's ongoing efforts to combat inflation; however, US manufacturing also continues to contract, with the latest data marking a sixth consecutive month of declining manufacturing activity. Factors such as weak demand, excess inventories, and a shift in consumer spending patterns have contributed to the fall.

Crypto markets - like traditional markets - have also been stable, though bullish indicators abound.

Bitcoin network transaction fees have reached a 2-year high due to increased meme coin enthusiasm and a rise in BRC-20 token transactions. The BRC-20 token standard, similar to Ethereum's ERC-20, has gained rapid prominence since its introduction in March.

Bitcoin network statistics also approached all-time highs, with the number of daily Bitcoin transactions exceeding 680,000, surpassing previous records set during the 2017 and 2021 bull markets.

Further, the Bitcoin network's hashrate reached an all-time high of 420 exahashes per second, signalling miner confidence in the future value of Bitcoin. Finally non-zero BTC balances have hit an ATH of 46 million.

Adding to the bullish scenario we see for BTC, is the likelihood that market volatility will be subdued for the short-term. Following the Fed rate hike last week, liquidations were remarkably low at only $34 million, while funding rates persist in being largely neutral. Further, the 25 percent delta skew for BTC options expiring from seven through to 180 days are mostly all close to zero, indicating that investors are not paying premiums for either put or call options.

Historical trends, however, indicate that such a quiet market scenario does not last long. Liquidation-induced volatility is expected soon, potentially continuing Bitcoin's year-to-date uptrend. Too much of an equilibrium between bulls and bears always leads to one side being the aggressor soon enough.

The usually reliable MVRV (Market Value to Realised Value) Z-score indicator also supports a bullish thesis. With a score of 0.7, it has not been deterred too much by the recent rejection at $30,000 and is indicating that investors are still more likely to purchase and accumulate.

All this is happening against a full crypto news agenda. In the last week, Cross River Bank, well-known for its Fintech and crypto customers, received a cease-and-desist order from the FDIC over alleged fair-lending violations. The bank claims the order will have no significant impact on growth.

MicroStrategy reported net income of $461 million due to a one-time tax benefit from Bitcoin's price rise. The company now holds 140,000 BTC; shares in the company are up by 118 percent this year.

A lawsuit alleges Coinbase executives engaged in insider trading, avoiding $1 billion in stock losses. Coinbase has so far dismissed the claims as "frivolous."

Global crypto adoption took another leap forward as Bhutan partnered with Bitdeer Technologies Group to launch a $500 million green crypto mining fund. The partnership aims to set up a 100-megawatt, carbon-free digital mining operation in Bhutan.

Finally, the White House proposed a new Digital Asset Mining Energy tax on crypto mining, seeking 30 percent of mining firms' energy costs. The tax could raise up to $3.5 billion in revenue over a decade. The IRS is also planning to issue new crypto tax guidance within the next year and seeks feedback on a proposal to tax NFTs as collectibles.

Happy trading!

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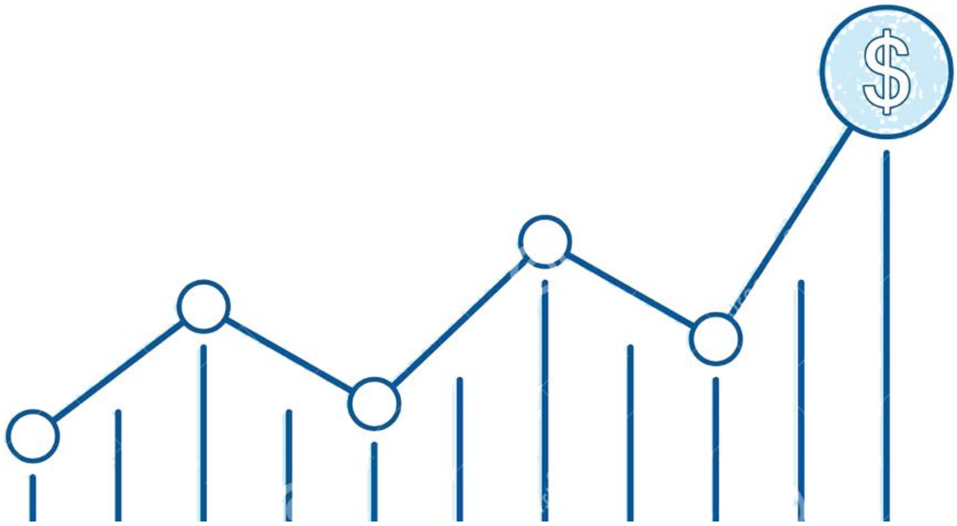


GENERAL MARKET UPDATE

Fed Hikes Rates by 25 Basis Points as Expected

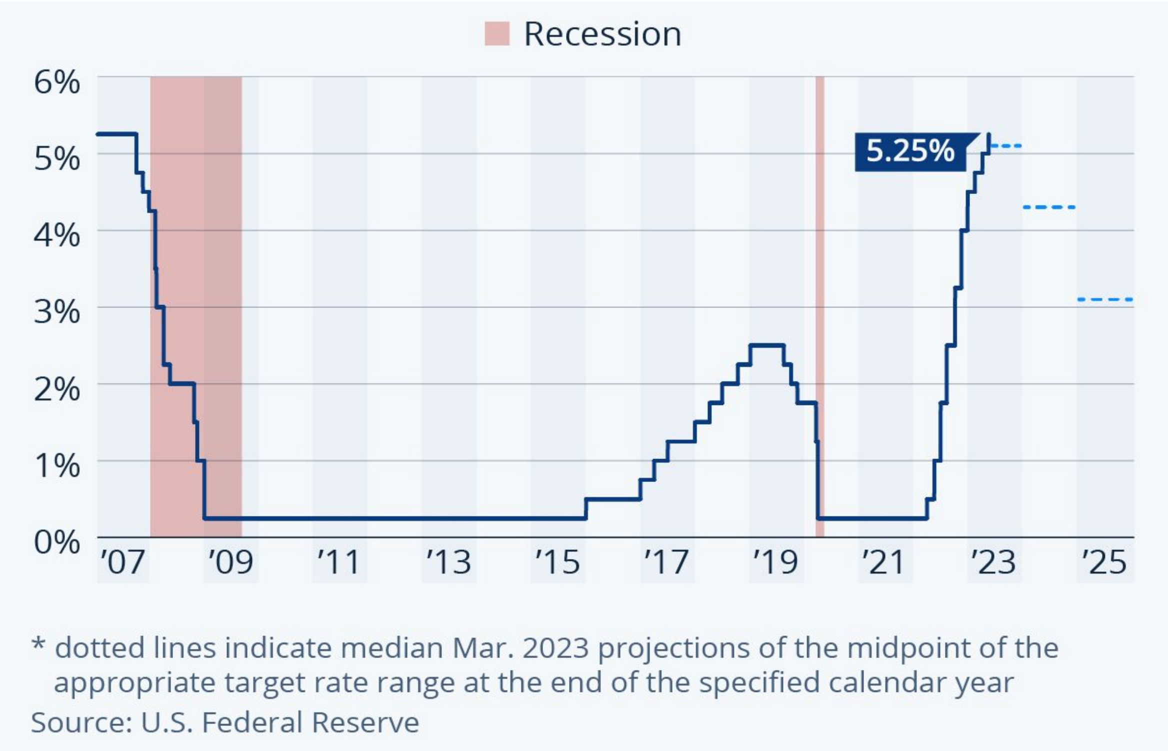


Figure 1. Fed Raises Interest Rates by 25 basis points. (Source: Federal Reserve, Statista)

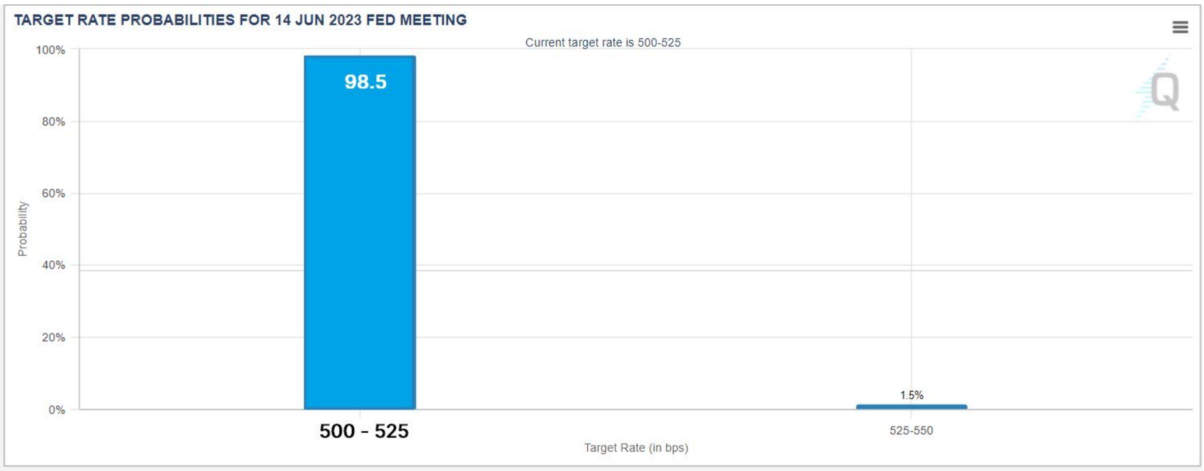
The Federal Reserve increased interest rates by 25 basis points in its May 2023 FOMC meeting. The consensus view on target rate probabilities suggests that this was the last hike in the central bank's most aggressive tightening campaign since the 1980s. However, Federal Reserve chairman, Jerome Powell warned that a possible pause in rate hikes, does not imply that rate cuts will come this year.

On Wednesday, May 3rd, the Fed) increased its policy rate for the tenth consecutive time, raising the federal funds rate to a range between 5-5.25 percent. In the Federal Open Market Committee's (FOMC) statement, alongside the 25 basis point (bps) increment, there was an insinuation of a potential pause at the Fed's next meeting in June with a bias towards more tightening if inflation remains a problem.

The FOMC also reaffirmed its commitment to a data-driven approach to monetary policy, emphasising that any future adjustments to the federal funds rate will depend on the evolving economic outlook and progress towards the committee's dual mandate of maximum employment and stable prices.

The April statement omitted a line that was in the previous March statement, which said that the committee "anticipates that some additional policy firming may be appropriate." Instead, the FOMC indicated that it will consider various factors "in determining the extent to which additional policy firming may be appropriate to return inflation to two percent over time." Furthermore, the Fed acknowledged the adverse effects of tightened credit on the economy and the lag with which the monetary policy will impact the economy and inflation. Though not explicitly mentioned during Powell's press conference, the Fed's decision to consider a pause is clear. This was also reflected in how target rate probabilities fluctuated following Powell's speech.

Within 24 hours, the probability that the Fed will pause at the current Fed Funds rate, climbed from 77.1 percent to 98.5 percent (refer to Figure 2).



TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 3 MAY 2023	1 WEEK 27 APR 2023	1 MONTH 4 APR 2023
450-475	0.0%	0.0%	0.0%	9.6%
475-500	0.0%	6.6%	11.0%	53.4%
500-525 (Current)	99.6%	77.1%	62.2%	37.1%
525-550	0.4%	16.3%	26.8%	0.0%

* Data as of 4 May 2023 08:21:32 CT

Figure 2. Target Rate Probabilities for the June 14th Fed Meeting (Source: CME FedWatch Tool)

When asked about the idea of a rate cut, Powell said that the committee does not see inflation coming down quickly and hence saw it would "not be appropriate to cut rates".

The Fed has also been seeking to maintain price stability in the economy by reducing its holdings of Treasury securities, given the impact such actions have on decreasing the money supply (refer to Figure 3). This decrease can contribute to a higher demand for money, resulting in a tightening of credit conditions. Tighter credit conditions tend to slow down economic activity, which can help reduce inflation.

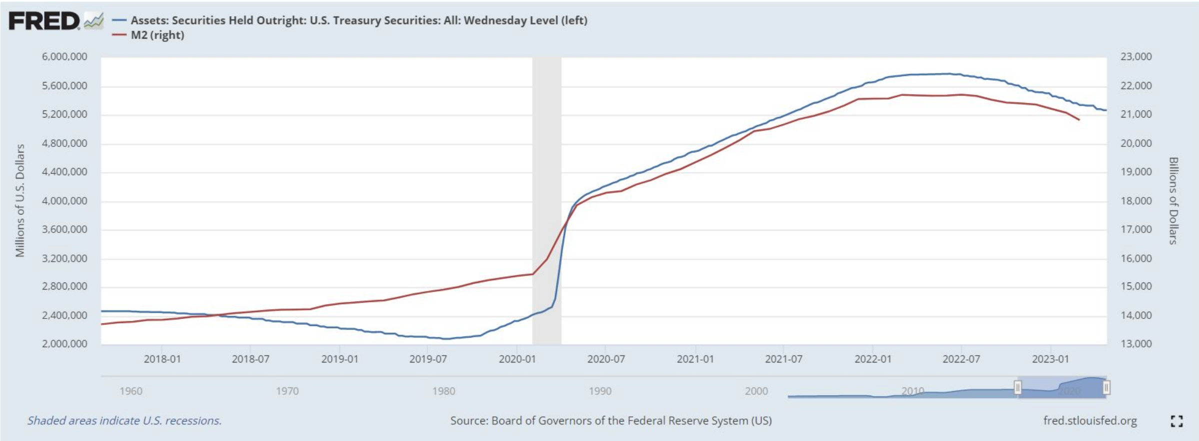


Figure 3. Securities Held Outright by the Federal Reserve, M2 Money Supply (Source: Bureau of Governors of the Federal Reserve)

Figure 4 below illustrates how the Fed's shrinking its treasury security holdings can impact inflation and price stability.

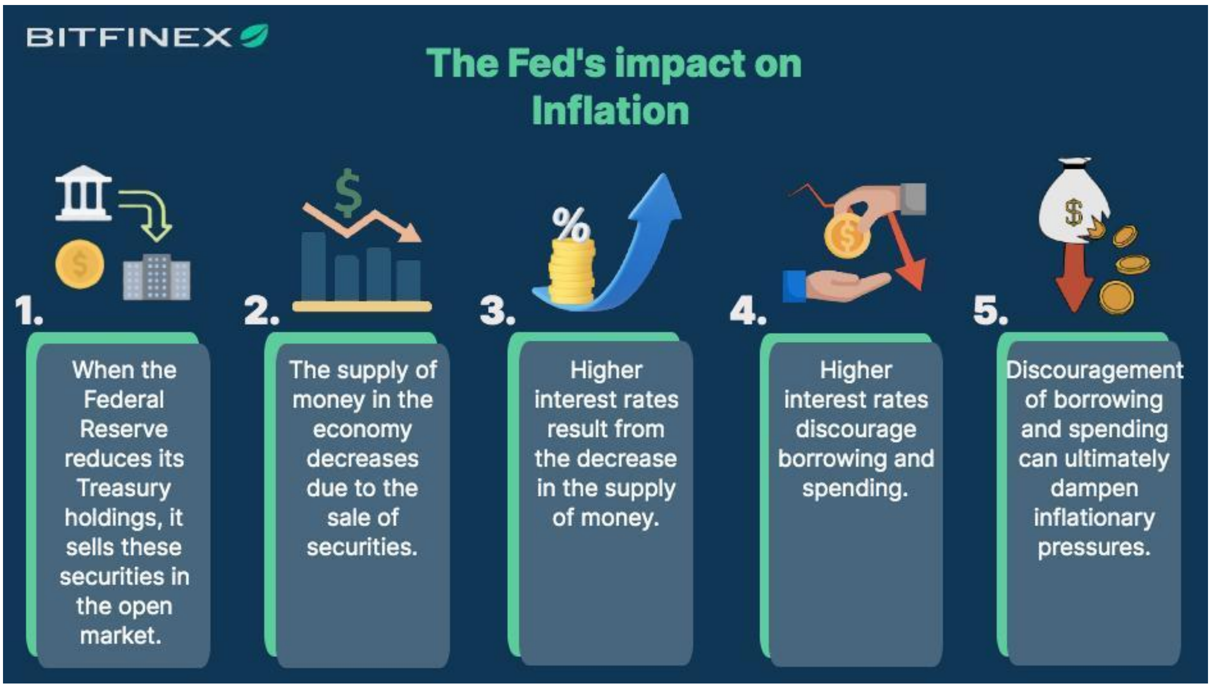


Figure 4. The Federal Reserve's plan of action to control inflation.

Financial Stability Pressures

The rapid tightening over the past year, intended to combat high inflation rates, has put significant stress on financial institutions, leading to the biggest bank failures since 2008. In March, due to large deposit outflows, California's Silicon Valley Bank and New York's Signature Bank collapsed, prompting the Federal Reserve to launch an emergency lending facility to restore confidence in the banking system.

However, these emergency measures, though calming market turmoil temporarily, were not able to prevent the crisis from resurfacing. Last Monday, May 1st, JPMorgan Chase & Co. agreed to acquire the troubled First Republic Bank in a government-brokered deal, leading to a plunge in shares of other regional lenders the next day. This event is covered in detail in our News section at the latter end of our report. These ongoing developments in the banking sector, raises doubts about the sustainability of elevated interest rates.

The FOMC released a statement on Wednesday, May 3rd, seeking to reassure the public of the sound and resilient state of the US banking system. Nonetheless, the job market has been impacted by monetary tightening, as evidenced by the last US Labor Department report on job openings and layoffs. See next section.

Employment Pressures

We expect the upcoming 2024 presidential election will be an additional source of pressure on the Fed to keep the job market healthy. Although May 2023's rate hike may be the last prior to a pause, the Fed will likely be inclined to keep interest rates elevated for some time to ensure that inflation continues to decrease towards the central bank's two percent target.

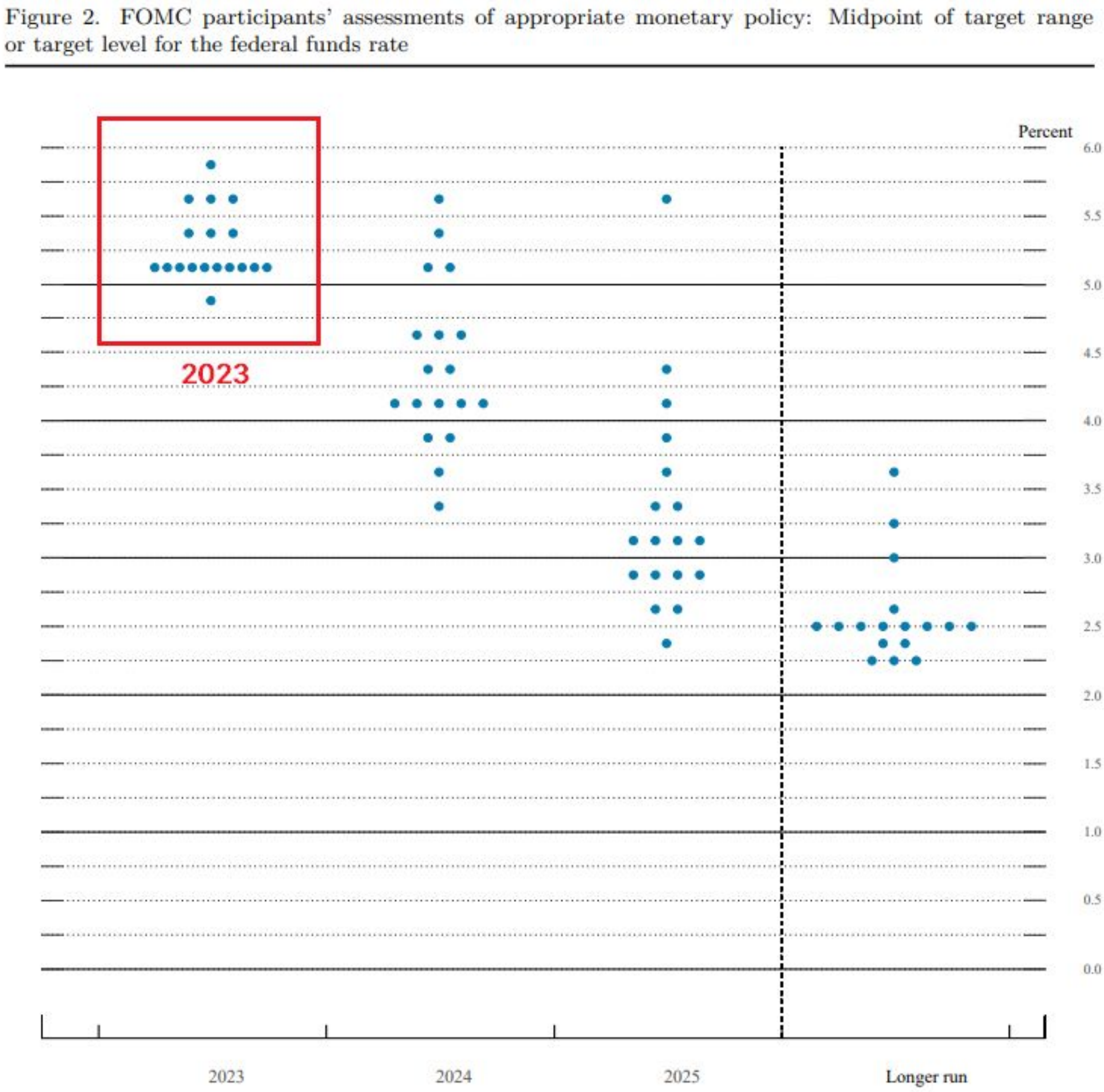


Figure 5. Federal Reserve Dot Plot in March 2023: FOMC participants see that the Fed funds rate above five percent is appropriate until the end of 2023 (Source: US Federal Reserve)

Projections from the March FOMC meeting (refer Figure 5) reveal that officials expect it to be appropriate to maintain the Federal Funds rate above five percent until the end of 2023. However, investors do not share this view, as Fed Funds Futures data indicate an expectation of rate cuts in the coming months, with around 75 basis points worth of easing priced in by the end of the year. (Refer Figure 6).

MEETING PROBABILITIES															
MEETING DATE	175-200	200-225	225-250	250-275	275-300	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	
6/14/2023									0.0%	0.0%	0.0%	0.0%	0.8%	99.2%	
7/26/2023				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	44.7%	54.9%	Pause
9/20/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	31.0%	51.7%	17.0%	
11/1/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	28.8%	50.3%	19.5%	1.2%	Easing
12/13/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	27.3%	49.2%	21.1%	2.2%	0.1%	
1/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%	27.6%	48.8%	20.8%	2.1%	0.1%	0.0%	
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.5%	29.1%	46.8%	19.5%	2.0%	0.1%	0.0%	0.0%	
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.7%	10.0%	34.1%	39.1%	14.5%	1.4%	0.0%	0.0%	0.0%	0.0%	
6/19/2024	0.0%	0.0%	0.0%	0.4%	6.2%	24.2%	37.1%	24.6%	6.8%	0.6%	0.0%	0.0%	0.0%	0.0%	
7/31/2024	0.0%	0.0%	0.4%	5.1%	20.9%	34.7%	26.9%	10.1%	1.8%	0.1%	0.0%	0.0%	0.0%	0.0%	
9/25/2024	0.1%	2.0%	10.7%	25.7%	32.0%	21.0%	7.2%	1.2%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	
11/6/2024	0.0%	0.4%	3.4%	13.1%	26.7%	30.2%	18.8%	6.2%	1.0%	0.1%	0.0%	0.0%	0.0%	0.0%	

Figure 6. Meeting Probabilities: Market Participants see rate cuts this year after a pause from June to July Fed Meetings (Source: CME FedWatch Tool).

The diversity of outlooks regarding the economy, inflation, and the risks the US economy faces vividly underscore these tensions. The recent bank failures and emergency measures have exposed the fragility of the financial system amidst tightening policies and inflation concerns. The Fed faces the challenge of striking a balance between the need for stable financial institutions, curbing inflation, and maintaining a healthy job market. There is also the risk of a looming debt crisis, which can erupt at any time.

We now expect the Fed to keep its policy rate within a range of 5-5.25 percent if inflation continues to decelerate. Should this happen, this may be the central bank's policy peak for this cycle. However, as the risks that the Fed has to assess become more complex, the possibility of further rate hikes is still on the table. If there are unforeseen shocks in the supply chain, or energy sector, or if inflation moves higher, we expect the Fed to resume its rate hikes.

Job Openings Drop and Layoffs Reach the Highest Level in Over Two Years

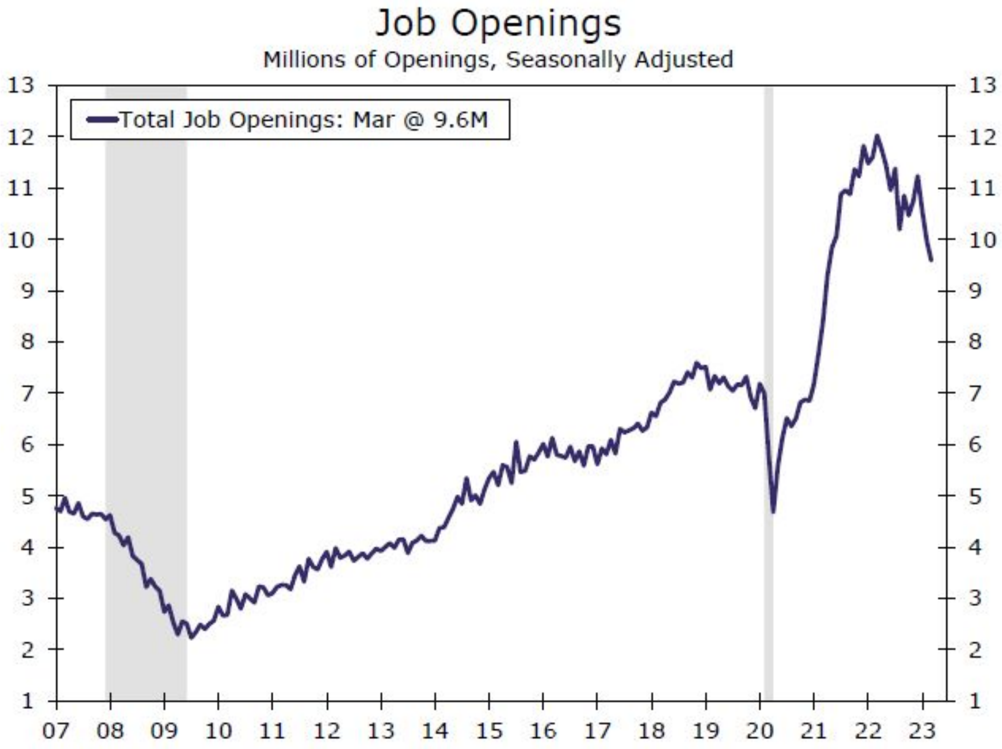


Figure 7. Job Openings in the US (Source: US Department of Labor and Wells Fargo Economics)

US Job Openings have decreased for the third consecutive month in March (refer Figure 7). The report also shows that layoffs increased to their highest level in over two years, indicating a potential softening in the labour market that may help the Fed in its efforts to combat inflation.

In March, job openings fell to 9.6 million from nearly 10 million the previous month, as indicated by the Job Openings and Labor Turnover Survey (JOLTS) report released by the Labor Department on Tuesday, May 2nd. This latest report suggests a weakening labour market amid a slowing economy. Despite the decrease, there remains 1.6 openings for each unemployed worker, only slightly lower than February's 1.7 openings.

Layoffs increased to 1.8 million, the highest level since December 2020. The quit rate, which represents the number of Americans resigning from their jobs, declined to 3.9 million, the lowest since May 2021. This indicates workers are less confident in finding better jobs and pay elsewhere.

The labour market still appears to have a significant gap between supply and demand, as the pre-pandemic average of jobs per unemployed worker was 1.2. Nevertheless, the contraction in labour demand may be a favourable development for the Fed, as it closely monitors the employment landscape.

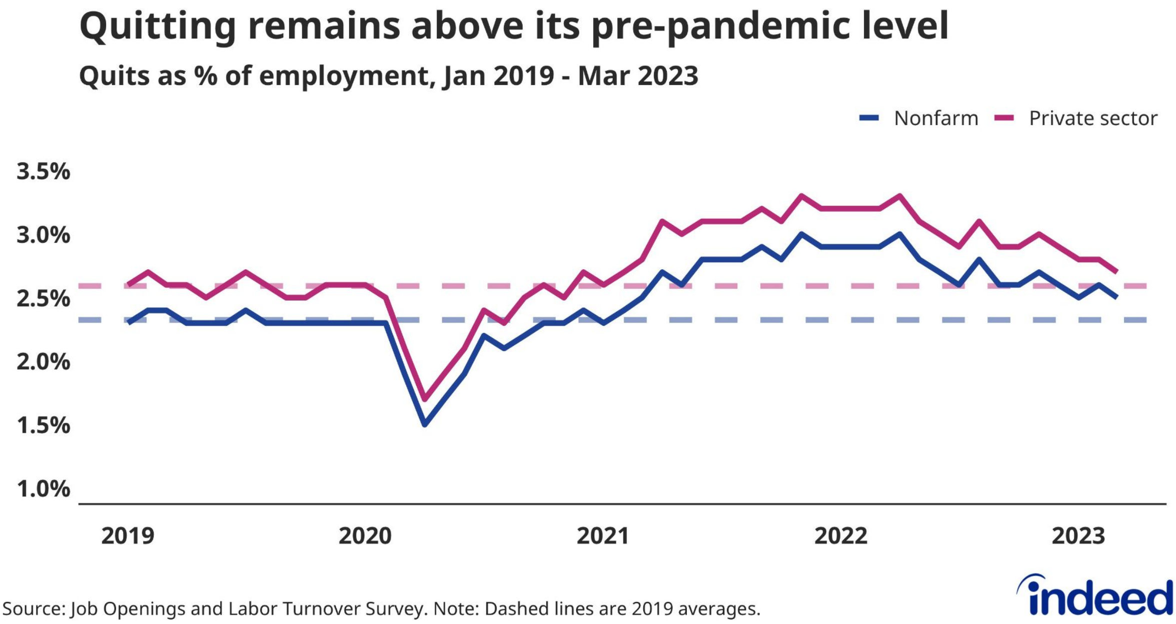


Figure 8. Quit Rate According to Job Openings and Labor Turnover Survey (Source: Job Openings and Labour Turnover Survey US Bureau of Labor Statistics)

Despite its resilience, labour demand is exhibiting signs of fragility. Contributing factors include a high turnover rate, with the quit rate remaining above 2.5 percent, even though it displayed signs of moderation, in March. This has led employers to be hesitant in hiring. Furthermore, the current trend in consumer spending levels amid elevated inflation, coupled with a savings rate that remains below historical averages (as illustrated in Figure 9), may not be sufficient to maintain robust labour demand.

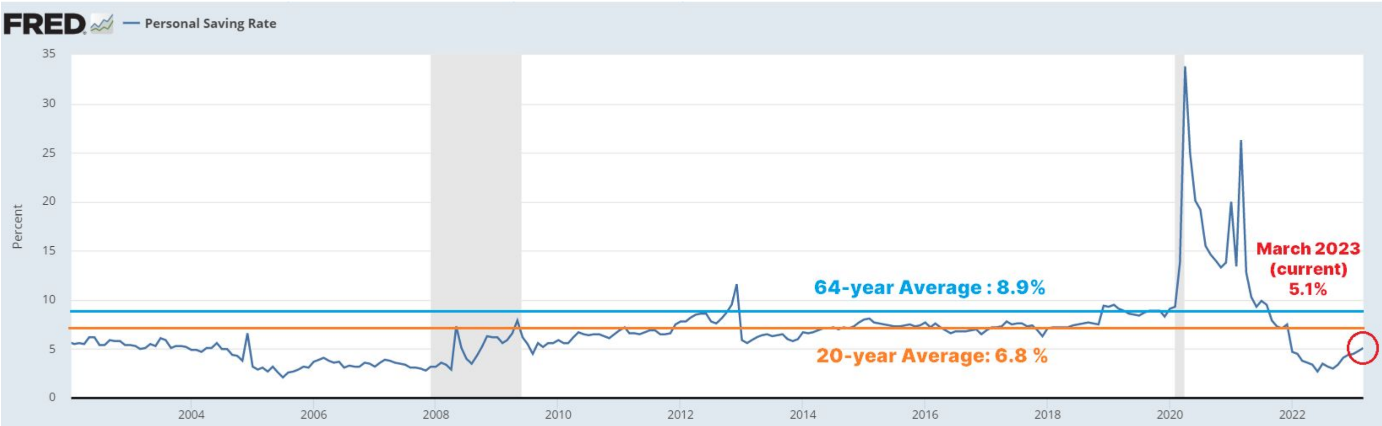


Figure 9. Personal Savings Rate, US Consumers (Source: Bureau of Economic Analysis)

US consumers continue to exhibit resilience in their spending, as evidenced by the persistent strength of the core Personal Consumption Expenditure report, analysed in last week's Bitfinex Alpha. Nevertheless, a personal savings rate considerably lower than in previous decades renders consumers susceptible to economic shocks, potentially impacting their purchasing power. Consequently, this could result in diminished consumer demand and a decline in labour demand.

US Manufacturing Continues to Shrink

Figure 10. US Manufacturing Purchasing Managers Index (Source: Institute for Supply Management, Tradingeconomics)

US manufacturing activity remained in contraction territory for the sixth consecutive month in April (refer Figure 10) as consumer and business spending were hit by rising interest rates, according to a key survey released by the Institute for Supply Management (ISM) on Monday, May 1st.

Manufacturing activity is a crucial component of a country's economic health, as it represents the production of goods and services within the economy. The level of manufacturing activity is often measured using indices, such as the Institute for Supply Management's Manufacturing Purchasing Managers' Index (PMI) in the United States. The ISM PMI is a widely recognized and influential economic indicator that provides insights into the health of the US manufacturing sector.

The ISM PMI is derived from a survey of purchasing managers in the manufacturing industry, who report on various aspects of their business, such as production levels, new orders, employment, and supplier deliveries. The index ranges from 0 to 100, with a reading above 50 indicating expansion in the manufacturing sector, and a reading below 50 signifying contraction. When the PMI is in contraction territory (below 50), it implies that the manufacturing sector is shrinking, which could potentially have negative implications for the broader economy.

Contraction in the manufacturing sector can be driven by various factors, such as declining demand for goods, reduced production levels, lower levels of business investment, or even global economic slowdowns. A sustained contraction in manufacturing activity may lead to job losses, reduced consumer spending, and decreased business confidence, all of which could contribute to an economic downturn.

The ISM's manufacturing index rose to 47.1 percent in April, from the previous month's reading of 46.3 percent but still remained below the critical threshold of 50 percent, signalling a contraction in the sector (refer to Figure 10). The last time the index was below 50 percent for more than six months was during the Great Recession of 2008-2009.

The report also revealed that the index of new orders increased to 45.7 percent from 44.3 percent but remained at a level consistent with a recession. The inflation gauge rose to 50.2 percent from 46.9 percent. The price index, which measures the cost of inputs, increased to 52.3 percent from 48.3 percent, indicating that inflationary pressures remain a concern for manufacturers.

The data from the ISM reveals that the US manufacturing sector continues to contract. Nonetheless, the current report demonstrates improvement in the indices compared to the previous month, *indicating a slower contraction*. Factors such as weak demand, a shift in consumer spending patterns towards services, and excess inventories have all contributed to the ongoing decline in manufacturing activity. Consequently, some companies have been compelled to reduce production. This is evident in the decrease in the ISM Manufacturing index since June last year.

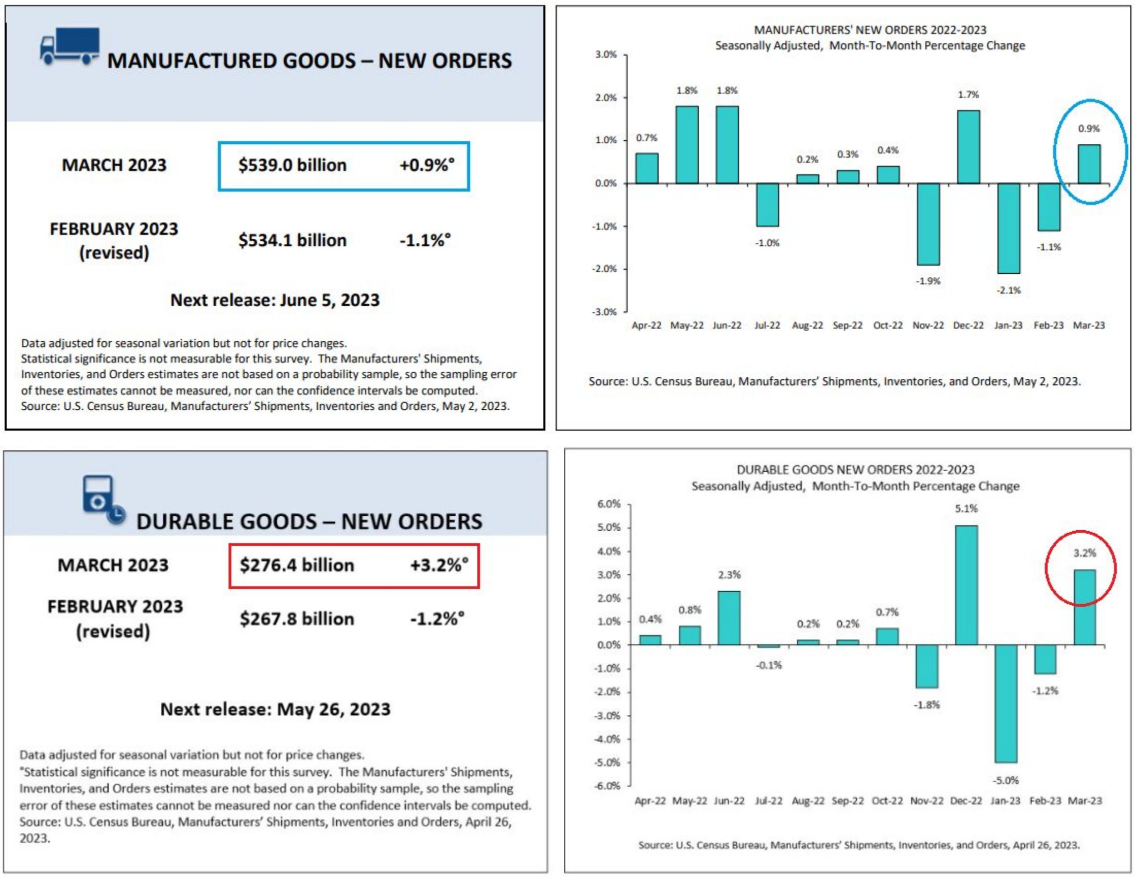


Figure 11. US Manufacturing Sector Factory Orders (Source: US Census Bureau)

In another report released on Tuesday, May 2nd, by the US Census Bureau, factory orders increased by 0.9 percent to $539 billion in March (refer to Figure 11, blue), driven by a 3.2 percent increase in orders for durable goods (refer to Figure 11, red). Orders for non-durable goods, however, fell by 1.4 percent. Shipments of manufactured goods edged down by 0.1 percent in March, while inventories of manufactured goods fell by 0.8 percent.

The latest data from the ISM report and US Census Bureau Survey suggest that while the manufacturing sector is showing signs of stabilising, it remains under pressure from a range of factors, including rising interest rates, trade tensions, and a shift in consumer spending habits.

WHAT'S ON-CHAIN THIS WEEK?

Despite a Quiet Week for Bitcoin, Transaction Fees Surge to 2-Year Highs

The average fee for conducting a transaction on the Bitcoin network has surged to its highest level in almost two years, according to data provided by Glassnode. (refer Figure 12 below)

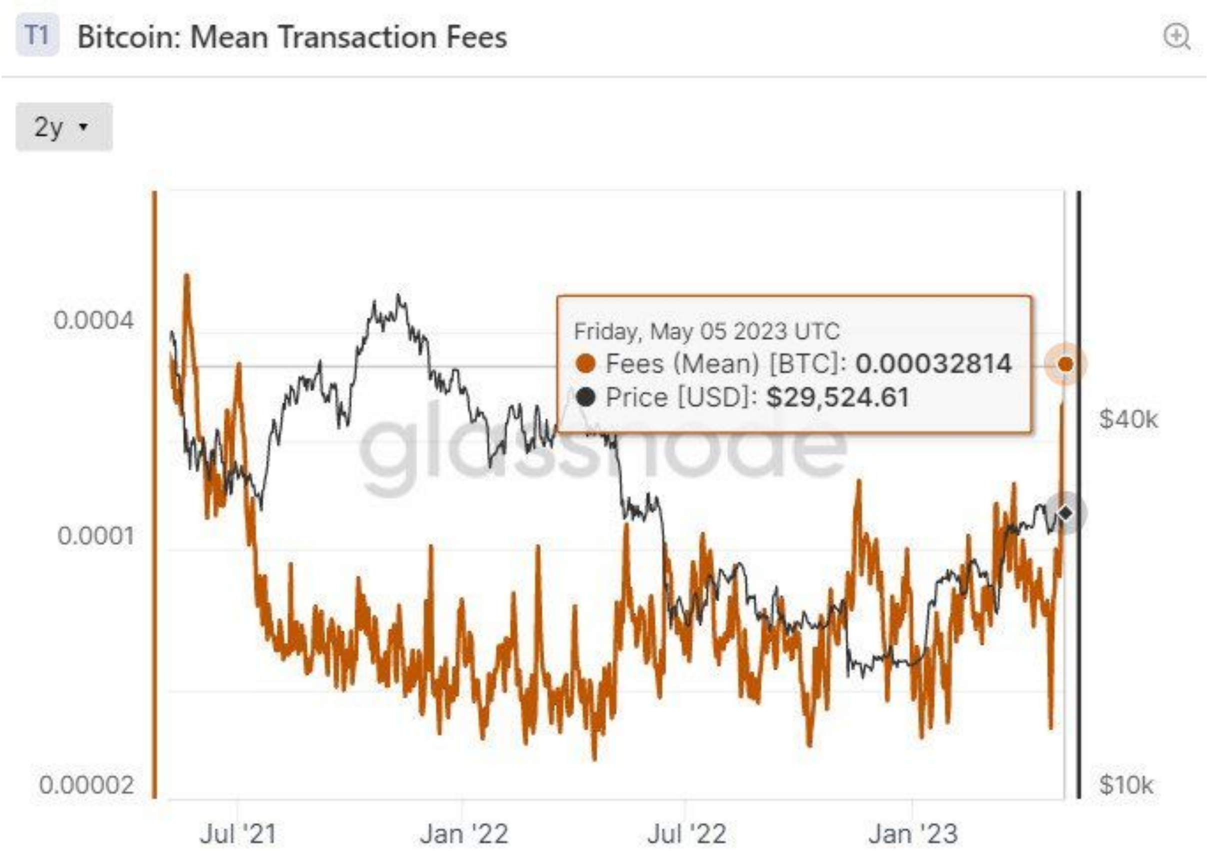


Figure 12. Mean Transaction Fees For Bitcoin Network. (source: Glassnode)

On Friday, the mean transaction fee climbed to 0.00032814 BTC, more than a ten-fold increase from 0.00003161 on the 23rd of April. Given the prevailing Bitcoin price of approximately $29,000, this translates to a transaction fee nearing $10, compared to less than $1.0 on the 23rd of April (when the Bitcoin price lingered in the low-$27,000s).

Experts have ascribed the sharp rise in network fees to a rekindled meme coin enthusiasm (PEPE and other lesser meme coin competitors such as SPONGE have witnessed exponential gains in recent sessions) that has incited a swell in transactions associated with the so-called BRC-20 tokens.

Influenced by the highly efficacious ecosystem of ERC-20 crypto tokens on the Ethereum blockchain, the innovative BRC-20 token standard has swiftly gained prominence on the Bitcoin blockchain since its initiation in March. This standard permits users to issue and transfer fungible tokens through the Bitcoin blockchain.

The BRC-20 phenomenon has not merely instigated an upswing in network fees.

The past week's highlight was a new all-time high (ATH) in on-chain Bitcoin transactions, with the demand for on-chain settlement transcending the highs of the 2017 and 2021 bull markets for the same metric (Refer to Figure 13 below)

Figure 13. Number Of Daily Bitcoin Transactions. (source: Glassnode)

Daily Bitcoin transactions rose to approximately 680,000 last week. A surge in on-chain transactions is a salient characteristic of the "transitionary phase", in which Bitcoin consolidates before expansion into bullish territory. Increased activity in the Bitcoin network statistics is representative of the increasing demand for BTC as an asset.
Concurrently, elevated fees are attracting Bitcoin miners to the network.

Earlier this week, the Bitcoin network's hash rate reached an unprecedented level, approaching 420 exahashes per second (refer to Figure 14 below)

Figure 14. Bitcoin Total Hash Rate Reaches All-Time High. (source: Blockchain.com)

The Bitcoin hashrate refers to the total computational power that miners contribute to the Bitcoin network to validate transactions and mine new blocks. It is typically measured in hashes per second (H/s). A higher hashrate represents a more robust and secure network, as more miners are working to validate transactions and find new blocks. Although Bitcoin's exact hashing power is unknown, it is possible to estimate it from the number of blocks being mined and the current block difficulty.

A rising hashrate often signals that miners are confident in the future value of Bitcoin, as they are willing to commit more resources to mine. This confidence can be due to factors such as increasing Bitcoin prices, favourable market sentiment, or the anticipation of future demand.

A consistently rising hashrate can be an indication of a healthy market, as it suggests an increasing number of miners are entering the network and investing in mining hardware. This can have positive effects on the network's security, overall adoption, and demand for Bitcoin.

Moreover, the burgeoning enthusiasm for BRC-20 tokens appears to be drawing new users to the network (refer to Figure 15 below)

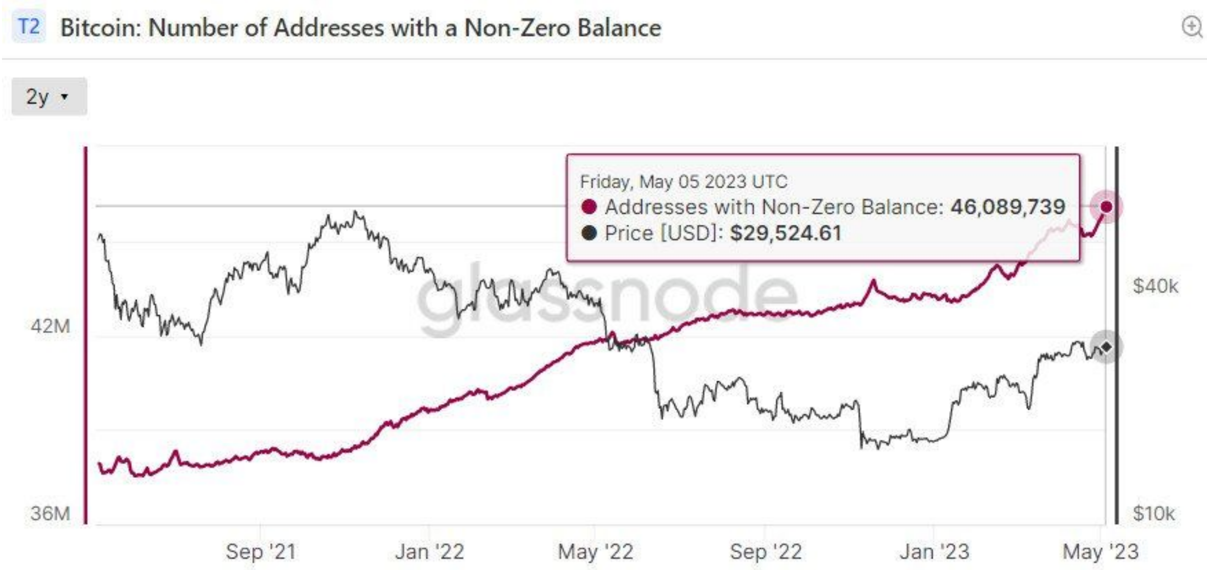


Figure 15. Number Of Addresses With Non-Zero Balance. (source: Glassnode)

Addresses with a non-zero BTC balance have recently achieved a new peak, surpassing 46 million.

Bitcoin Quiet in the Short-Term, but More Volatility Expected Soon

In continuation of our thesis from the past couple of editions of *Bitfinex Alpha,* we expect volatility to remain subdued for the time being. However, the current trend in realised volatility might suggest that the probability of volatile price fluctuations might be increasing.

The past week marked one of the lowest liquidation events correlated to an FOMC announcement for the past year.

In spite of the three percent intra-day price swing, liquidations of leveraged Bitcoin futures positions have remained comparatively restrained, amounting to approximately $34 million, as per data provided by the crypto derivatives analytics website Coinglass in the figure below.

Figure 16. BTC Total Liquidations. (source: Coinglass)

The low liquidations might be attributed to one of two factors: a reduction in the number of traders and investors speculating in the derivatives market with higher leverage; or more predictable behaviour from the US Federal Reserve in response to macroeconomic developments. Both of those scenarios paint the picture for lower volatility over the coming weeks, with limited macro headwinds expected, compared to the past week.

The lower liquidation numbers also suggest that the BTC price remains in consolidation mode.

Figure 17. BTC/USD 4-Hour Chart. (source: Bitfinex)

The 25-percent delta skew for options expiring up to 180 days has remained close to their mean, with only the seven day 25-percent delta skew reaching -0.49 on May 8th from 2.25 after FOMC.

A 25-percent delta skew of above zero means investors are paying a premium for bullish call options versus their equivalent bearish call options and vice versa. This further emphasises the current neutral stance of market participants.

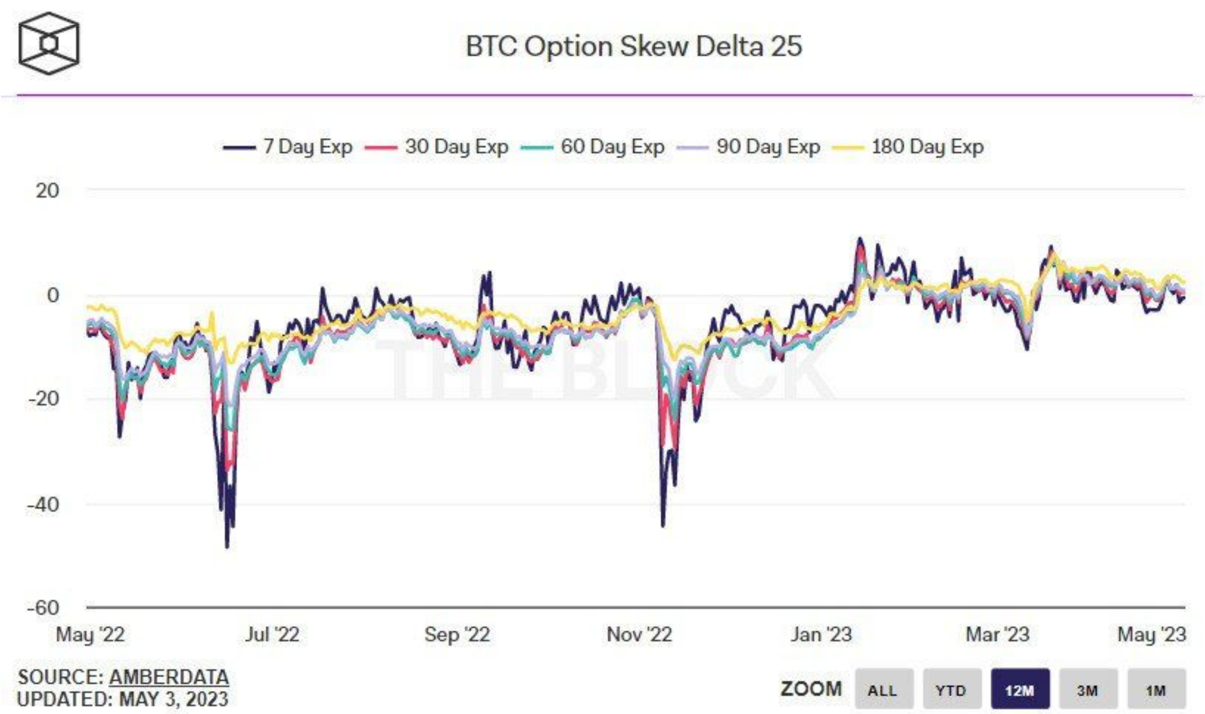


Figure 18. BTC Options Skew Delta - 25 with Expiry Set at Seven, 30, 60, 90 and 180 days. (source: TheBlock)

Figure 19. BTC/USD 4-Hour Chart. (source: Bitfinex)

BTC has remained in the range marked out between the $30,000 and $27,500 levels since its breakdown below $30,000 on April 19th after a brief stint above $30,000, setting a year-to-date high. (refer to Figure 19 above)

A lot of other indicators also suggest that BTC is in consolidation mode and that the Fed meeting did not create too much of a stir in the market to kick in volatility. This includes the Bitfinex BTC long/short ratio, which was recorded at 79.93 post FOMC, a negligible change in comparison to its level last Tuesday, May 2nd and stabilised at around 66.5 during the latter end of last week (and close to the mean value in the current range).

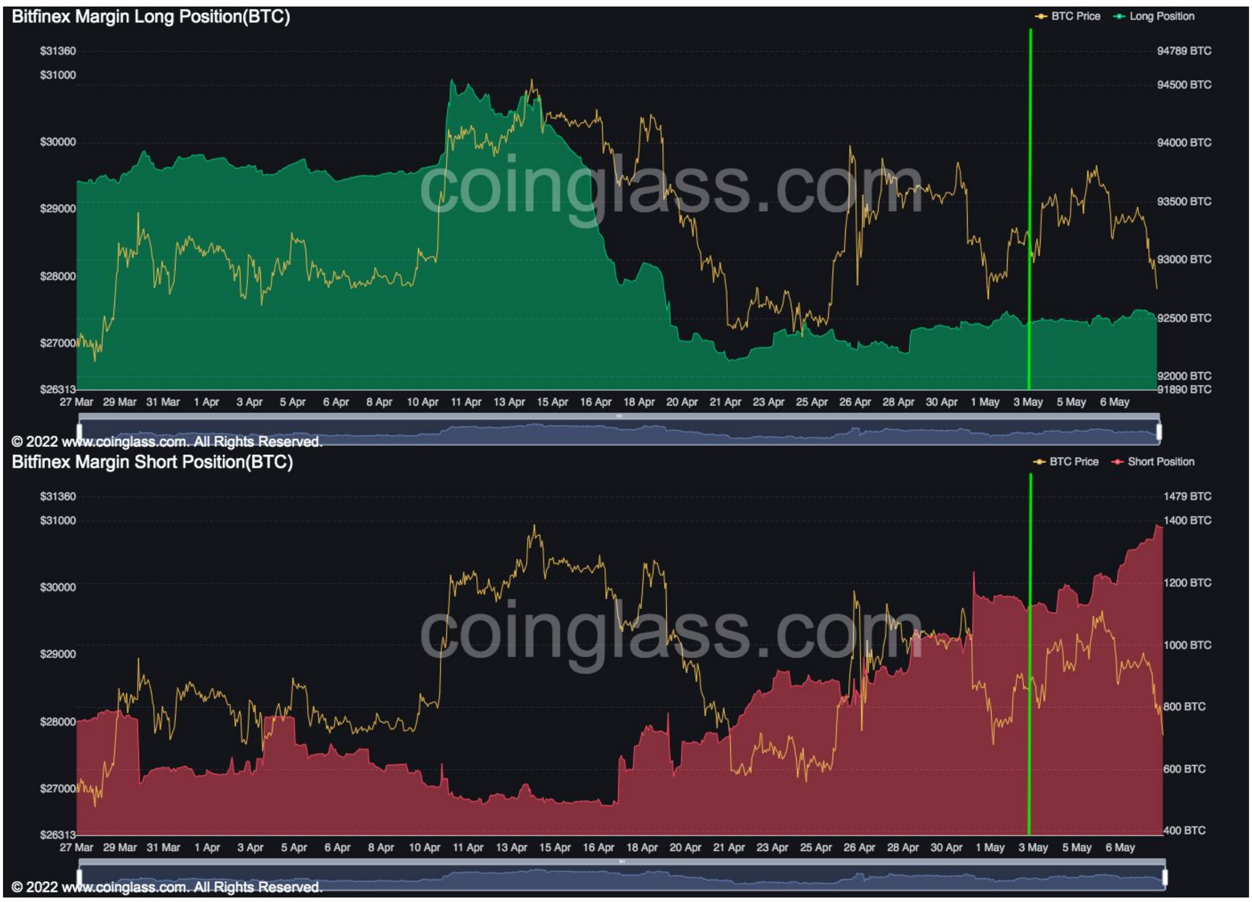


Figure 20. BTC long/short ratio. (source: Bitfinex)

Longs have been heavily favoured by BTC traders since February and the index has only recently begun to stabilise. At one point the ratio was above 95 when the BTC price eclipsed $31,000.

Elsewhere, funding rates for establishing leveraged Bitcoin futures positions persist in being largely neutral, according to data provided by *Coinglass*, citing major crypto exchanges. This implies that neither bulls nor bears have acquired a disproportionate dominance in the futures market.

However, while this suggests that more volatility might not kick in immediately, the historical trends in these Bitcoin metrics suggest that liquidation-induced volatility is likely to be observed soon. Too much of an equilibrium between bulls and bears always leads to one side being the aggressor soon enough.

One-month realised volatility has reached its lowest level in about two months . Low realised volatility in a short timespan suggests that price fluctuations are incoming in the future. It is probable that the forthcoming period of volatility will constitute a continuation of Bitcoin's uptrend that has been evident year-to-date, fuelled by the increased demand for the Bitcoin network and the positive Market Value to Realised Value (MVRV) Z trend in the following section. (refer to Figure 21 below)

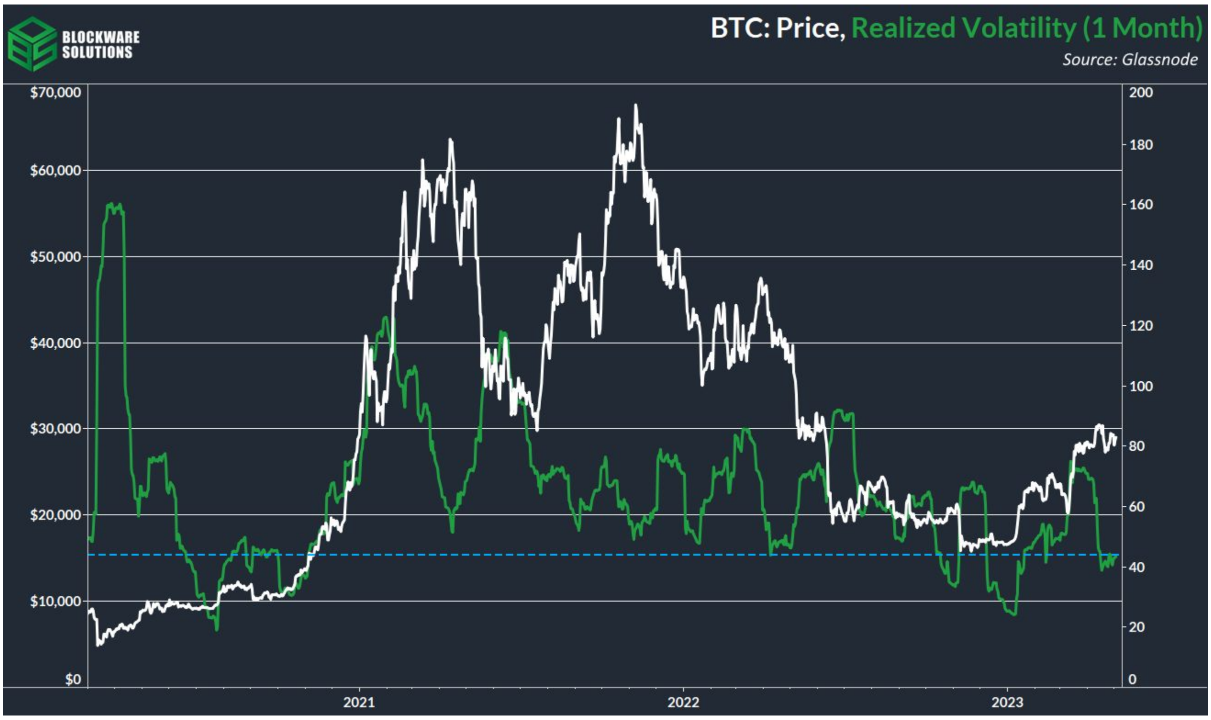


Figure 21. BTC Price vs Realised Volatility. (source: Blockware, Glassnode)

Bitcoin's Most Trusted Cyclical Indicator Continues to Soar

Bitcoin is well above the green zone of the Market Value to Realised Value (MVRV) Z-score indicator, suggesting that a new bull market may be on the horizon. The price's rejection from the $30,000 zone has not deterred the metric too much as it continues to rise with the current Z-score being close to 0.7. (refer Figure 22 below)

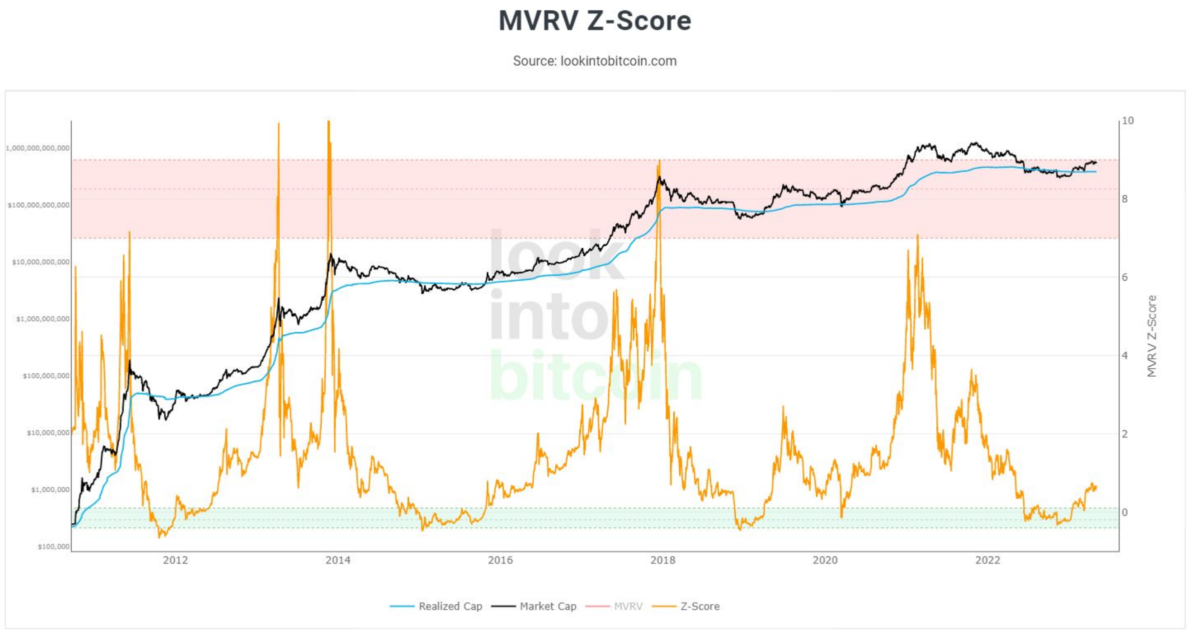


Figure 22. Bitcoin MVRV Z-score indicator. (source: lookintobitcoin.com)

The MVRV (Market Value to Realised Value) score is a valuation metric for Bitcoin, comparing the market value (market capitalisation) to the cryptocurrency's realised value. The realised value is computed by attributing a value to each Bitcoin at the price it was last moved (i.e. when it changed hands). This metric facilitates the estimation of the average cost basis for investors and offers a method for measuring their profit or loss.

MVRV is calculated as follows:

MVRV = Market Value / Realised Value

The significance of the MVRV score resides in its capacity to indicate the market's overall sentiment and potential price trends:

Overbought or Oversold Conditions: A high MVRV ratio suggests that the market value substantially exceeds the realised value, indicating that investors are likely profitable. This could signal an overbought market, as numerous investors might be enticed to sell and realise their gains. Conversely, a low MVRV ratio implies that the market value is closer to or below the realised value, pointing towards an oversold market where investors are more likely to purchase and accumulate.

Market Sentiment: The MVRV ratio can help assess market sentiment by revealing the average profit or loss of investors. When the majority of investors are profitable, the market sentiment is generally bullish, while a high percentage of investors in a loss could signal bearish sentiment.

Historic Price Trends: By analysing historical MVRV ratio trends, investors can identify periods of extreme overvaluation or undervaluation. Comparing these periods with past market cycles can provide insights into potential price trends and help determine attractive entry or exit points for investment.

To utilise the MVRV score for predicting price trends, investors can monitor the ratio and compare it to historical data to identify deviations from the norm. It is crucial to remember that the MVRV score is merely one of several on-chain metrics. It should be employed in conjunction with other indicators and market analysis tools to form a comprehensive understanding of the market and potential price movements.

The MVRV Z-Score is an enhancement to the MVRV indicator. It is a Bitcoin chart that employs blockchain analysis to pinpoint periods when Bitcoin is exceedingly over or undervalued relative to its 'fair value'.

It incorporates three metrics:

Market Value (blue line): The current Bitcoin price multiplied by the number of coins in circulation, akin to market cap in traditional markets (i.e., share price multiplied by the number of shares).

Realised Value (orange line): Rather than using the current Bitcoin price, Realised Value takes the price of each Bitcoin when it was last moved (i.e., the last time it was sent from one wallet to another). It then aggregates all those individual prices and calculates an average. Subsequently, it multiplies that average price by the total number of coins in circulation.

By doing so, it eliminates the short-term market sentiment within the Market Value metric. Consequently, it can be perceived as a more 'true' long-term measure of Bitcoin value, with Market Value oscillating above and below it depending on the market sentiment at the time.

Z-score (red line): A standard deviation test that extracts the extremes in the data between market value and realised value.

Historically, the MVRV Z-score has been highly effective in identifying periods when the market value is moving unusually high above realised value. These periods are highlighted by the Z-score (red line) entering the pink box, indicating the top of market cycles. It has been able to predict the market high of each cycle within two weeks.

It also reveals when the market value is substantially below realised value, highlighted by the Z-score entering the green box. Purchasing Bitcoin during these periods has historically generated outsized returns.

NEWS FROM THE CRYPTO-SPHERE

Cross River Bank Receives FDIC Cease-and-Desist Order Over Lending Practices

Figure 23. Cross River Bank received a cease-and-desist order from the FDIC

- **Cross River Bank received a cease-and-desist order from the FDIC over alleged violations of fair-lending laws related to "unsafe or unsound" practices.**
- **The bank reached a consent agreement with the FDIC without admitting or denying any charges or violations and claims that the order will have no significant impact on its growth.**
- **The bank serves fintech and crypto firms and was previously targeted by the FDIC in 2018; while the current action is unrelated to its cryptocurrency business, the incidents of crypto-friendly bank failures highlight potential disruptions in the industry.**

Cross River Bank, a New Jersey-based bank that serves fintech companies and cryptocurrency firms, has received a cease-and-desist order from the FDIC for allegedly violating fair-lending laws. The FDIC accused the bank of failing to maintain “internal controls, information systems, and prudent credit underwriting practices”. The bank reached a consent agreement with the FDIC without admitting or denying any charges or violations.

The bank reportedly claims that the order will have no meaningful impact on its growth and that many of the required enhancements have already been completed or will be completed soon. Cross River Bank had $5.7 billion in domestic deposits at the end of 2022 and counts stablecoin issuer Circle Internet Financial Ltd among its clients.

The bank's board has been instructed to increase its supervision and oversight of controls, as well as to seek FDIC approval for new third parties and credit products. The consent agreement shows that the order resulted from a standard review of the bank's lending activities in 2021 and is unrelated to its cryptocurrency or payments businesses.

CEO Gilles Gade said that regulatory scrutiny of banks is increasing after the collapse of Silicon Valley Bank in March, and that Cross River Bank is subject to ongoing reviews by regulatory examiners. The bank was previously targeted by the FDIC in 2018, resulting in a fine of nearly $642,000.

Although the FDIC's actions are unrelated to Cross River Bank's cryptocurrency business, the bank serves as an essential partner for crypto firms such as Coinbase and Circle. While there is no indication that the bank's crypto clients are breaking ties with the bank, the recent failures of other crypto-friendly banks highlight the potential for controversy to cause disruptions in the industry.

JPMorgan Chase Bank Acquires First Republic Bank in a Government-Led Deal

Figure 24. JPMorgan Chase Bank acquires First Republic Bank

- **JPMorgan Chase Bank has acquired First Republic Bank in a deal orchestrated by the government for the failed lender.**
- **JPMorgan obtained $173 billion of First Republic's loans, $30 billion of securities, and $92 billion in deposits, with the FDIC sharing the burden of losses and recoveries on the firm's loans.**
- **First Republic Bank's 84 offices in eight states will reopen as branches of JPMorgan Chase Bank, with all depositors becoming depositors of JPMorgan Chase Bank.**
- **JPMorgan was the only bidder that offered to take the entire bank off the FDIC's hands, with JPMorgan's CEO expressing hope that this acquisition would help stabilise the bank.**
-

JPMorgan Chase Bank has reached an agreement to acquire First Republic Bank in a deal orchestrated by the government, for the failed lender.

As part of the acquisition, JPMorgan obtained approximately $173 billion of First Republic's loans, $30 billion of securities, and $92 billion in deposits. JPMorgan and the FDIC agreed to share the burden of losses and recoveries on the firm's single-family and commercial loans.

First Republic Bank's 84 offices in eight states will reopen as branches of JPMorgan Chase Bank, and all depositors of First Republic Bank will become depositors of JPMorgan Chase Bank and will have full access to all of their deposits.

As reported in the May 1st issue of *Bitfinex Alpha*, a total of 11 larger US. banks had tried to keep the First Republic afloat by pledging $30 billion of deposits on March 16th. First Republic's advisers have reached out to at least four of those 11 lenders proposing to sell some of the bank's assets.

According to media reports , JPMorgan was the only bidder that offered to take the entire bank off the FDIC's hands in the cleanest way. The other competing bids proposed breaking up the First Republic or requiring complex financial arrangements to fund its $100 billion of mortgages, which were less appealing for the agency and would have cost the FDIC several billion dollars more from its insurance fund.

JPMorgan CEO Jamie Dimon has expressed hope that this acquisition will help stabilise the bank. Dimon said that although bank lending will probably suffer for a period of time in the wake of the failures, regional banks that reported first-quarter results in recent weeks actually had some pretty good results, indicating that the American banking system is sound.

MicroStrategy Posts Profit in Q1 with Tax Benefit from Bitcoin Holdings

Figure 25. MicroStrategy Posts Profit in Q1 with Tax Benefit from Bitcoin Holdings

- **MicroStrategy reported a net income of $461 million, or $31.79 per share, in Q1 2023, due to a one-time tax benefit from the rise in Bitcoin's price.**
- **Revenue from the software business increased by 2.2 percent, but the company took an $18.9 million impairment charge on digital assets.**
- **MicroStrategy now holds 140,000 BTC and its shares rose by 118 percent this year due to Bitcoin's rally in Q1 2023.**

MicroStrategy, the enterprise-software maker and largest public holder of Bitcoin, has reported its financial results for the first quarter of its 2023 fiscal year.

The Virginia-based company, led by Bitcoin advocate Michael Saylor, reported net income of $461 million, or $31.79 per share, in Q1 2023, compared to a loss of $130.8 million, or $11.58 per share, in the same period last year. The profit was due to a one-time tax benefit of $453.2 million resulting from a 72 percent rise in the price of Bitcoin in Q1 2023.

While revenue from the company’s software business increased by 2.2 percent to $121 million, MicroStrategy also took an impairment charge of $18.9 million on digital assets for the three months that ended on March 31st. An impairment charge occurs when the market value of digital assets declines, requiring the company to reduce its carrying value on the balance sheet.

Saylor reportedly said: “We found that by simply acquiring and holding Bitcoin, we can outperform our peers in the enterprise software business. The regulatory environment for Bitcoin is improving. As capital flows out of the crypto industry, it flows into Bitcoin.”

MicroStrategy now holds a total of 140,000 Bitcoin. As Bitcoin rallied, the company's shares rose 118 percent so far this year.

Coinbase Executives Accused of Insider Trading in Shareholder Lawsuit

Figure 26. Coinbase Executives Accused of Insider Trading in Shareholder Lawsuit

- **A lawsuit has been filed against Coinbase, alleging insider trading.**
- **Executives are accused of avoiding $1 billion in stock losses by selling shares before the company's public debut.**
- **The lawsuit seeks the return of "ill-gotten gains" from the executives involved, but Coinbase has dismissed the claims as "frivolous."**

A new lawsuit has been filed against Coinbase, alleging that the cryptocurrency exchange's executives and insiders avoided approximately $1 billion in stock losses by selling their shares before the company's public debut in April 2021.

The lawsuit was filed in federal court in California by a Coinbase shareholder, Adam Grabski, who claims that the company and its executives engaged in insider trading, in violation of federal securities laws.

The lawsuit, which is being called a derivative complaint, seeks the return of "ill-gotten gains" from the executives involved, including Armstrong and board member Marc Andreessen, who allegedly sold $291.8 million and $118.6 million worth of stock, respectively.

Other executives named in the complaint include President Emilie Choi, Chief Financial Officer Alesia Hass, Chief Accounting Officer Jennifer Jones, former Chief Product Officer Surojit Chatterjee, and board members Frederick Ersham, Fred Wilson, and Kathryn Haun.

In response to the allegations, Coinbase issued a statement saying, "As the most popular and only publicly traded crypto exchange in the US, we are at times the target of frivolous litigation. This is an example of one of those meritless claims."

In other news related to Coinbase, the exchange shared with its customers on Wednesday, May 3rd, that it will stop issuing new loans through its program Coinbase Borrow, effective May 10th. The program allowed customers to borrow fiat loans up to $1 million against as much as 30 percent of their bitcoin holdings with interest.

A spokesperson for Coinbase told *Coindesk* that the decision to close the program is due to reduced demand.

Crypto Adoption Continues - Bhutan and Bitdeer Team up for $500M Green Crypto Mining Fund

Figure 27. The investment arm of the government of Bhutan, DHI, is partnering with Bitdeer.

- **Bhutan is launching a $500 million green crypto mining fund in partnership with Bitdeer Technologies Group.**
- **The fund aims to set up carbon-free digital mining using Bhutan's abundant hydroelectric power.**
- **The partnership aims to set up a 100-megawatt operation in Bhutan.**

Bhutan, a small country located in the Himalayas, is planning to launch a new fund worth up to $500 million to develop green crypto mining. The investment arm of the government, Druk Holding & Investments, is partnering with Singapore-based Bitdeer Technologies Group to seek investors for the fund, with a focus on institutional investors. The fund aims to set up carbon-free digital mining that harnesses Bhutan's abundant hydroelectric power.

As an economy heavily reliant on hydropower revenues, Bhutan has been seeking ways to diversify and strengthen its economy. According to Ujjwal Deep Dahal, CEO of Druk Holding & Investments, digital assets like Bitcoin offer a low-volume, high-value opportunity that can help the country compete globally and build its economy over time. While mining is often criticised for its environmental impact, Bhutan's use of hydroelectric power would enable carbon-free mining, making it an attractive option.

The partnership with Bitdeer Technologies, aims to set up a 100-megawatt operation in Bhutan. Construction is expected to start within the second quarter of 2023, with completion slated for July through September. Bitdeer Technologies is one of the top crypto miners by computer power and has one of the largest centres in Texas.

Bhutan's investment arm has also ventured into crypto mining with investments in firms like BlockFi Inc. and Celsius Network LLC. However, these were a small part of its portfolio, according to Dahal.

With the focus on carbon-free mining and institutional investment, Bhutan's foray into crypto may offer a unique and sustainable approach to this emerging industry.

The White House Proposes Punitive Tax on Crypto Mining for Societal Harms

Figure 28. The White House is seeking to impose a new tax on cryptocurrency mining

- **The White House is proposing a new tax on cryptocurrency mining, called the Digital Asset Mining Energy tax, which would require mining firms to pay 30 percent of their energy costs to compensate for societal harms caused by pollution and greenhouse gas emissions.**
- **The tax could raise up to $3.5 billion in revenue over the next decade, but it may face opposition from Republican lawmakers who have resisted efforts to regulate the cryptocurrency industry in the past.**
- **The tax could incentivise crypto miners to shift towards greener energy sources and adopt more sustainable practices.**
- **The U.S. Internal Revenue Service (IRS) is planning to issue new crypto tax guidance within the next year. It is seeking to engage with stakeholders to improve voluntary compliance, including seeking feedback on a proposal to tax non-fungible tokens (NFTs) as collectables.**

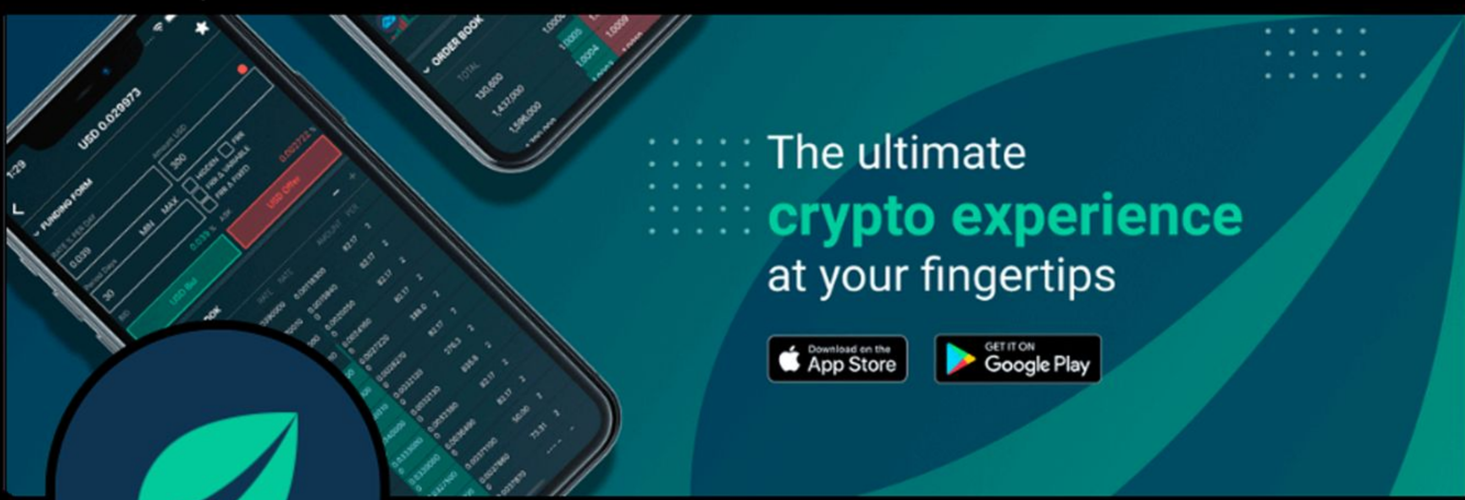
The Biden administration is seeking to impose a new tax on cryptocurrency mining, according to a recent blog post from the White House's Council of Economic Advisers (CEA). The proposed tax would require mining firms to pay a levy equivalent to 30 percent of their energy costs in response to what the administration claims are the harms mining operations impose on society. The proposed tax, known as the Digital Asset Mining Energy tax, was first suggested in the Treasury Department's Greenbook in March.

The CEA argues that crypto mining does not generate the same economic benefits as other energy-intensive industries and that miners should be held responsible for the full cost of pollution and greenhouse gas emissions, as well as the higher energy prices they can cause. The new tax could raise up to $3.5 billion in revenue over the next ten years.

However, the proposal may face opposition from Republican lawmakers, who have resisted regulatory efforts to penalise the cryptocurrency sector in the past. While the industry may not welcome the tax, it could incentivise crypto miners to shift toward greener energy sources and adopt more sustainable practices.

In a related development, the U.S. Internal Revenue Service (IRS) is planning to issue new crypto tax guidance within the following year. Speaking at the Consensus 2023 event, Julie Foerster, the agency's digital assets project director, stressed the need to work more closely with the crypto community to develop policies that accurately reflect the evolving landscape of the industry. Foerster also urged members of the public to provide feedback on a proposal to tax non-fungible tokens (NFTs) as collectibles, which is open for comment until June 9th.

As it stands, the IRS views cryptocurrencies as convertible virtual assets, and requires users to report their digital asset activity on their tax returns. Foerster's comments suggest that the agency is keen to keep up with the changing nature of digital assets and is seeking to engage with stakeholders to improve voluntary compliance. She also hinted that the IRS is in talks with foreign counterparts to develop best practices for crypto taxation.



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