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EXECUTIVE SUMMARY

Despite mounting economic challenges, the good news just keeps on coming. Consumer spending in the United States witnessed a substantial increase in April, showcasing the remarkable resilience of American households and their ability to navigate an uncertain economic landscape. Consumer spending was fuelled by continued wage gains and low unemployment. American households increased their purchases at online retailers and increased their expenditures at restaurants and bars.

Builder confidence also experienced a significant increase in May, marking the fifth consecutive month of positive growth. Homeowners deciding to stay in their existing homes due to lower interest rates has reduced the supply of pre-existing homes and escalated the demand for new construction.

While indicators like the yield curve have been warning of an imminent recession, other factors such as industrial production, employment, real personal income, and real manufacturing and trade sales collectively indicate a resilient economy. Tightened monetary policy will have an impact eventually, but we are clearly still in the lag phase.

In crypto markets, despite slipping Bitcoin prices, "HODLers" are standing firm. Glassnode data reveal a staggering 22.2 percent of Bitcoin in circulation, about 4.3 million coins, are currently underwater. Yet, these ardent investors remain undeterred with no apparent selling taking place. Furthermore, an impressive two-thirds of all Bitcoins, roughly 13.1 million, haven't budged in over a year, underscoring Bitcoin's emerging persona as a long-haul asset. The accumulation narrative is supported by a continued increase in 'Wholecoiner' addresses and a significant boost in transaction fees, rewarding miners handsomely. Investors continue to amass and safeguard Bitcoin, amplifying their faith in its long-term prospects.

Ether staking fever is also escalating, painting a picture of enduring confidence in the asset, despite a substantial wait to become a network validator. Staked Ether totals 22.35 million, 15.3 percent of the total eligible tokens, with only a tiny half a percent of staked Ether waiting to be withdrawn. This trend is primarily driven by large Ether holders, who perceive staking as a golden ticket to passive income while securely clutching onto their holdings. As Ether supply experiences a swift deflationary current due to escalating transaction fees, we might be witnessing the early ripples of a potential price surge. Regardless of the lengthy validator queue and the market's capricious moods, Ether staking demand steadfastly climbs upward, mirroring the steadfast belief of Ether holders in its bright future.

In crypto news this week, Tether, the largest issuer of dollar-backed stablecoins, has announced its intention to use up to 15 percent of its monthly net operating profits to purchase Bitcoin. This move aims to bolster Tether's reserves and safeguard its users.

Ledger, a prominent hardware wallet manufacturer, was also in the news for a new feature called "Ledger Recover", which allows users to recover their private keys for a monthly subscription fee. However, this feature has sparked controversy and raised some concerns about potential security risks.

Tron Founder Justin Sun has accused Li Wei, the brother of Huobi Founder Li Lin, of unfairly profiting from Huobi Tokens (HT). Sun alleges that Li Wei received millions of HT tokens for free and cashed them out. Huobi is facing increased scrutiny over its operations and governance, leading to a significant decline in the value of HT. The HT DAO committee plans to negotiate a refund and the destruction of Li Wei's remaining HT tokens. The HT DAO community consists of individuals who hold and engage in governing Huobi Tokens.

Voyager Digital has received court approval to initiate its liquidation process and repay customers. Customers will receive approximately 36 percent of their owed funds, with a possibility for this amount to increase, pending the outcome of its ongoing dispute with FTX.

Finally, the US Securities and Exchange Commission (SEC) has requested a judge to deny Coinbase's lawsuit seeking a response to a rule-making petition submitted by the company. The SEC is arguing that the company is not entitled to extraordinary relief based on its preferred regulatory action, and emphasised the complexity of regulatory changes and the absence of a specific deadline for completion.

Happy trading!

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GENERAL MARKET UPDATE

US Consumer Spending Remains Resilient Despite Economic Challenges

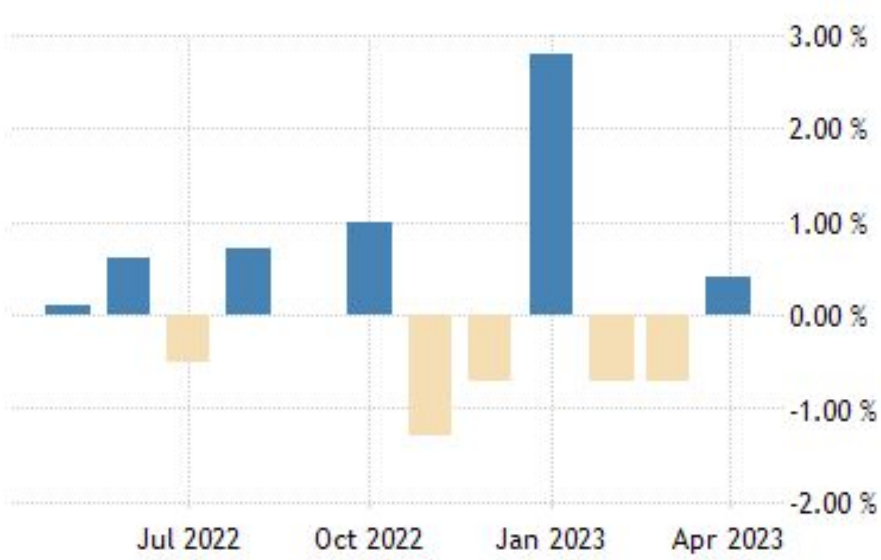


Figure 1. United States Retail Sales (US Census Bureau)

The United States Commerce Department revealed a robust increase in US consumer spending in April, in a report released last Tuesday, May 16th. American households showcased their economic resilience by increasing purchases at online retailers, and intensifying their expenditure at restaurants and bars. This rise in spending appears to counterbalance other mounting economic challenges, and demonstrate a robustness in the consumer sector.

The foundation of this spending growth lies in robust wage gains driven by a tight labour market, where demand for labour exceeds the available workers. However, consumers have become more selective and price-conscious due to high inflation and rising interest rates.

Despite concerns of a potential recession stemming from the Federal Reserve's (the Fed) aggressive monetary policy tightening campaign, economists remain optimistic about consumer spending's ability to support the economy. Based on Tuesday's Commerce Department report, the value of retail purchases rose by 0.4 percent in April, following a 0.7 percent decline in March (refer to Figure 1). Sales excluding automobiles and gasoline saw a growth of 0.6 percent. It's important to note that these figures are not adjusted for inflation.

Out of the thirteen retail categories examined, seven exhibited growth in April, with significant progress observed at auto dealers, general merchandise stores, and online retailers. This sales surge suggests that low unemployment and consistent wage growth persist in propelling consumer demand for a diverse range of products.

Conversely, service station retail sales declined for the sixth consecutive month, despite an overall increase in gas prices during April. Receipts at gas stations were expected to rise due to an increase in oil prices last month, however, the decline in gas station sales can potentially be correlated with the stronger online retail sales that were recorded in the period. (Refer Figure below).

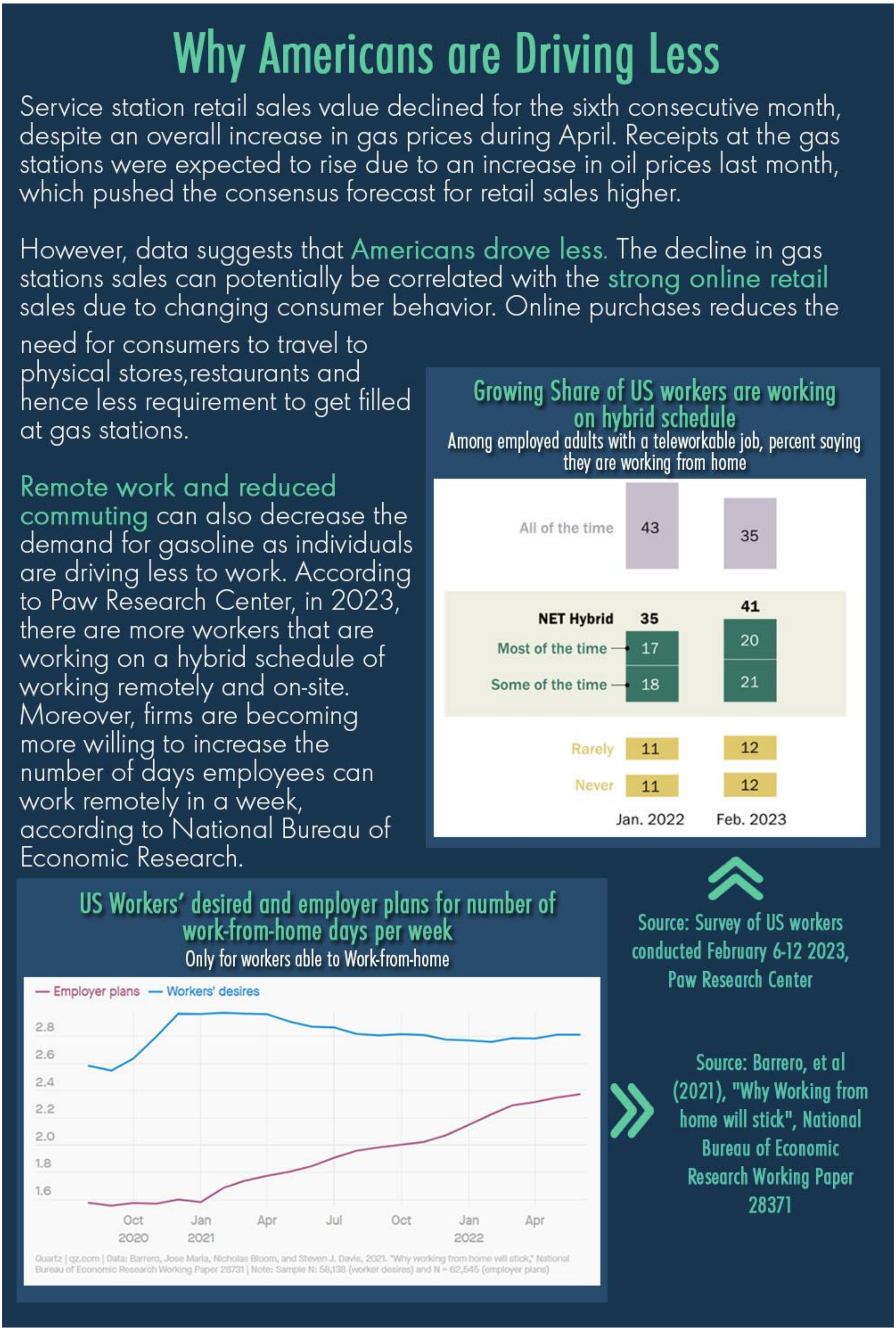


Figure 2. Why Americans are Driving Less

Resilient consumer spending in April, driven by robust wage gains and supported by low unemployment, showcases the fortitude of American households in the face of economic challenges. However, the impact of inflation on purchasing power remains a concern, especially since inflation is still significantly above the Fed's target rate. The overall data also suggests that consumer spending remains a crucial factor in navigating the uncertain economic landscape and supporting economic growth.

Builder Confidence Surges in May as Demand for New Construction Grows

According to the latest report from the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index (HMI), builder confidence experienced a significant increase, marking the fifth consecutive month of positive growth. (refer Figure 3 below)

The NAHB/Wells Fargo Housing Market Index (HMI) is based on a monthly survey of NAHB members designed to take the pulse of the single-family housing market. The survey asks respondents to rate market conditions for the sale of new homes at the present time, and in the next six months, as well as the traffic of prospective buyers of new homes.

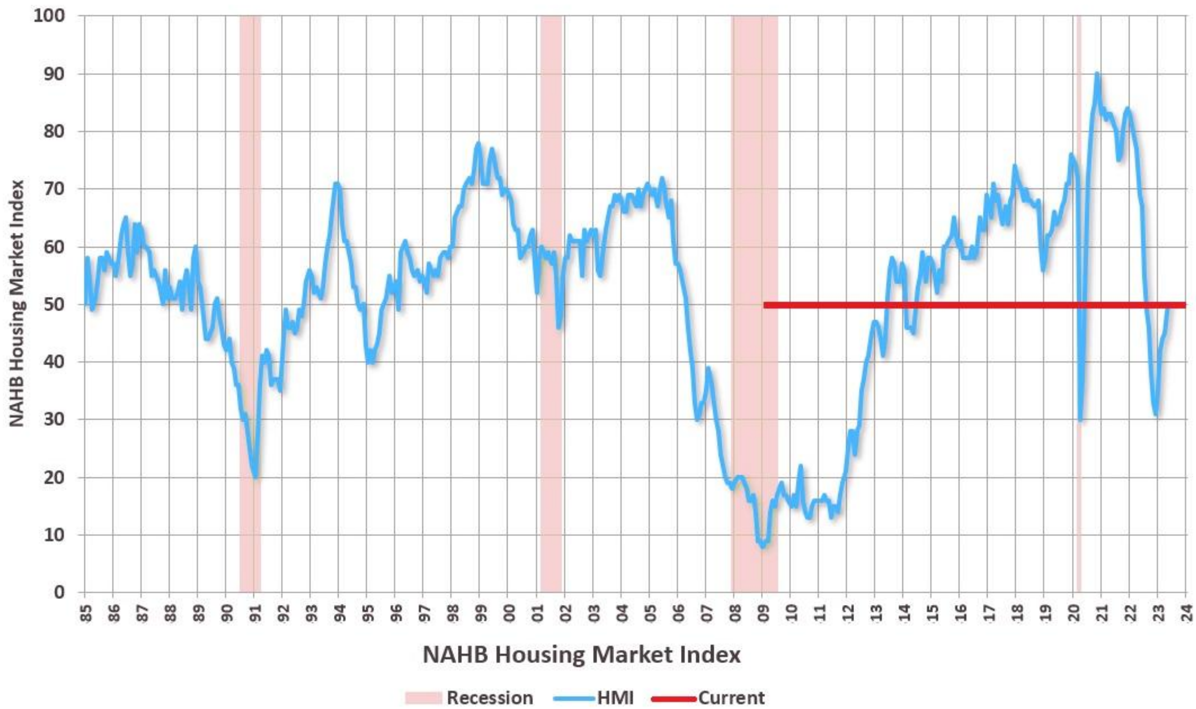


Figure 3. NAHB Housing Market Index (Source: National Association of Home Builders)

The NAHB's monthly confidence index for the United States rose by five points to reach 50, according to their report on Tuesday, May 16th (refer to Figure 3). This positive development, exceeding the consensus forecast of 45, marks the fifth consecutive month of improved sentiment among builders. The reading of 50 also represents the highest level since July 2022. However, the index stood at 69 a year ago.

This surge in confidence is primarily attributed to the limited inventory available in the housing market, creating more robust demand for new construction.

NAHB Chairman Alicia Huey underscored the increasingly critical role that new home construction is playing in the market. This shift is primarily driven by homeowners who hold mortgages with interest rates lower than current ones, leading to their decision to stay in their existing homes. This trend has considerably reduced the supply of pre-existing homes, thus escalating the demand for new construction.

Historically low mortgage rates observed during the pandemic, encouraged homeowners to secure mortgages or refinance their existing loans, taking advantage of rates as low as two percent. While some homeowners feel fortunate to have obtained such favourable rates, others, particularly those intending to sell their homes, express a sense of being "trapped" because they feel unable to move if it means paying higher mortgage rates.

Three key indicators that contribute to the overall builder-confidence index also demonstrated positive growth. The gauge measuring current sales conditions rose by five points, the component assessing sales expectations for the next six months increased by seven points, and the gauge measuring traffic of prospective buyers rose by two points.

Builders across most regions of the United States reported a boost in confidence, according to the NAHB. As demand remains steady, builders are reducing incentives for homebuyers, with the percentage of builders cutting prices dropping from 30 percent in April to 27 percent in May.

Despite builder optimism, they also face challenges due to lack of inventory, just as demand for new construction is rising. Shortages of building materials like transformers and tightening credit conditions for residential real estate development and construction, could potentially act as a drag on the sector.

US Economy Demonstrates Resilience Amidst Looming Risks

Key economic indicators continue to project a potential recession, however, with the US unemployment rate at a historic low of 3.4 percent, the widely reported “impending recession” is unlikely to hit a resilient US economy in the short term. In this section, we discuss the indicators that have been historically accurate in predicting recessions.

The transmission of Feds monetary policy decisions and the impact this has on the economy, always occurs with a delay. Amplifications in the short-term policy rate influences expectations of economic deceleration. This leads to the pricing of additional risk into securities, an increase in borrowing costs, and the observed tightening of financial conditions. This environment, where borrowers are reluctant to borrow, and lenders tighten their credit standards, can lead to an economic downturn.

Hence, there have been widespread warnings about an imminent recession, yet the US economy has reacted with surprising resilience. Despite concerns surrounding persistent inflation, high-interest rates, tightening financial conditions, and weakening loan demand, the economy has demonstrated resilience, primarily driven by robust consumer spending, as shown in the recent retail sales data.

Indicators such as the yield curve, which we discussed in the May 1st issue of *Bitfinex Alpha*, continue to signal recession. However, with an unprecedented unemployment rate, currently at a historic low of 3.4 percent, the likelihood of the National Bureau of Economic Research (NBER) declaring a recession soon is unlikely. The resilience of the US labour market and the healthy financial positions of households have helped the economy elude a recession, thus far.

Last year, apprehensions concerning the yield curve emerged when short-term rates rose sharply, influenced by Federal Reserve interventions. Meanwhile, long-term rates remained stagnant due to uncertainties about economic expansion. As 2022 concluded, short-term rates exceeded the yields of long-term bonds, a scenario that deviates from what’s normally seen in a robust economy.

Three-month Treasury bills (T-bills) are short-term U.S. government debt securities with a maturity of three months. They're sold at a discount from face value, meaning you might buy a T-bill for less than its eventual payout upon maturity. The difference between the purchase price and the face value is the interest earned. For instance, if you buy a $1,000 T-bill for $990, you'd get back $1,000 at maturity. The $10 difference is your interest, which is a kind of "profit" for lending the government money. So, the three-month T-bill rate is essentially the return you'd get on such an investment, expressed as an annualised percentage.

An inversion of the yield curve happens when short-term interest rates (like the three-month T-bill rate) exceed long-term rates (like the 10-year Treasury bond rate). This is unusual because it means investors are demanding more return for lending money in the short term than in the long term, which is generally seen as a negative economic signal.

Why is it considered negative? It indicates that investors have a pessimistic view of the economy's near-term prospects. They're essentially betting that the Fed will have to cut interest rates in the future to stimulate a slowing economy. Thus, an inverted yield curve has historically been a reliable indicator of an impending recession.

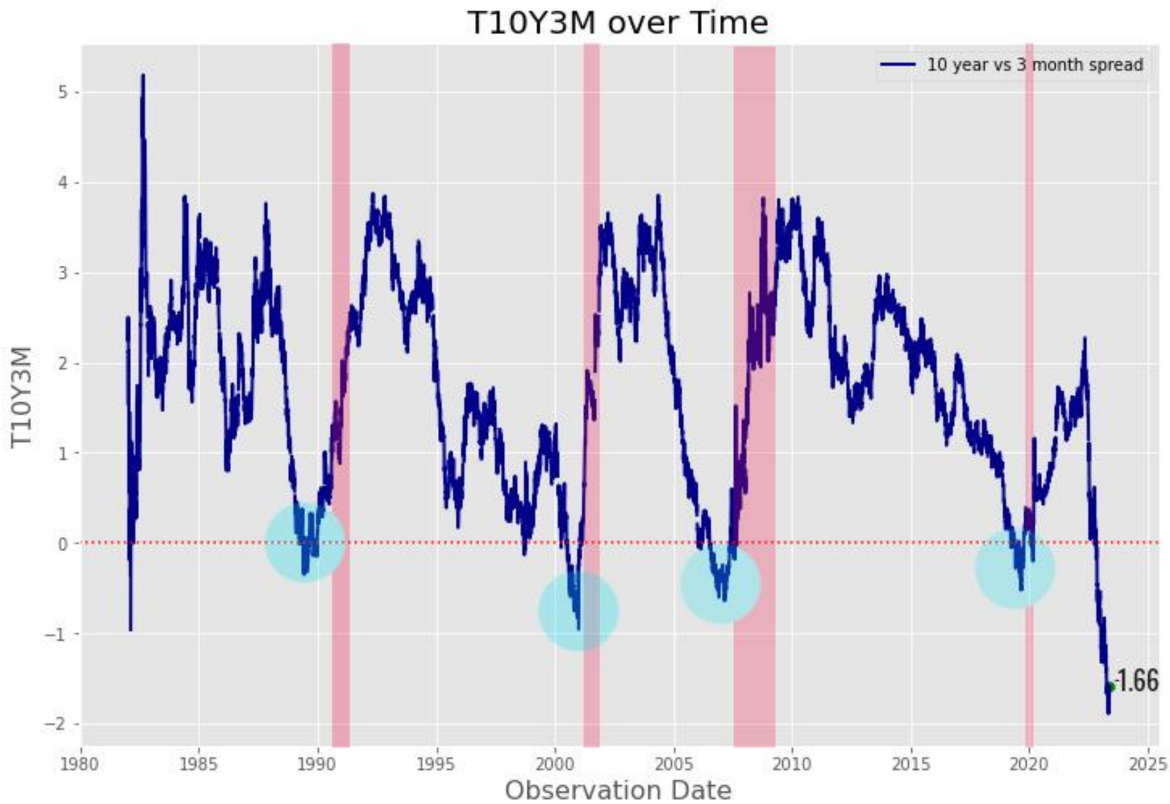


Figure 4. Ten-Year Minus Three-Month Yield on US Treasury Securities: Inversion of the yield curve (blue circle) historically precedes recessions (red areas) (Source: Federal Reserve Bank of St. Louis)

This yield curve inversion has traditionally foreshadowed each recession. As of May 18th, the three-month T-bill rates were positioned at 5.31 percent, while the 10-year bonds offered a yield of 3.65 percent. This significant spread of 166 basis points, based on historical data, foretells an imminent recession. However, other indicators, such as employment, wages, and consumer expenditure, tell a different story.

Even though the yield curve currently signals recession, we researched other metrics and data to understand why the economy in its current state isn't in a recession or might narrowly avoid one altogether.

An alternative recession model worth considering is the Chauvet-Piger recession probability model, which employs economic variables to identify recessionary periods.

Here's a general overview of how the model works:

1) Economic Indicators: The model uses four monthly coincident indicators: industrial production, employment, real personal income excluding transfer payments, and real manufacturing and trade sales.

2) Markov Switching: The model assumes that the economy can be in one of two states: expansion or recession. These states are not directly observable but are inferred from the data. The economy is assumed to transition, or "switch," between these states according to probabilities that are determined by a Markov process. A Markov process is one where the probability of transitioning to any particular state depends solely on the current state and time elapsed, and not on the sequence of events that preceded it.

3) Dynamic Factor: The model uses a dynamic factor model approach to summarise the co-movement in the four indicators into a single, latent "business cycle" factor. This factor is then used in the Markov switching process to estimate the state of the economy.

4) Estimation of Recession Probabilities: The model estimates the probability of the economy being in the recession state in each month. These probabilities can be interpreted as the model's assessment of whether the economy was in a recession in that month.

5) Prediction: The model can also be used to predict the probability of a recession in future months. This is done by simulating the model forward in time, taking into account the estimated parameters and the current state of the economy.

Figure 5. Smoothed US Recession Probabilities(From Model developed by Chauvet Marcelle and Jeremy Piger)

The four coincident monthly variables that the Chauvet-Piger model uses to identify recessions are: nonfarm payroll employment, the index of industrial production, real manufacturing and trade sales, and real personal income excluding transfer payments. These indicators are used as inputs to the recession model to estimate the probabilities of a recessionary or conversely, an expansionary state in the economy.

As of March, this model, based on the St. Louis Fed economic database, estimated a less than one percent probability of the economy currently being in a recession. (refer Figure 5 above)

Non-Farm Payroll

Figure 6. US Non-Farm Payroll and Unemployment rate (Source: Bureau of Labor Statistics)

Last April, the US economy created 253,000 jobs, which exceeds the 70K-100K monthly job gain needed to keep up with growth in the working-age population, according to the Bureau of Labor Statistics. Nonfarm payrolls reflect the short-term job market growth, while the unemployment rate represents the long-term trend.

A monthly increase of 150-200,000 in nonfarm payroll indicates the economy is still strong. When the economy is weak, nonfarm payroll turns negative before the unemployment rate rises.

Industrial Production

The Industrial Production (IP) Index measures the real output of all relevant establishments located in the United States.

As seen in the figure below, the Industrial Production Index last appears to be forming a local peak. In the past three recessions, the Industrial Production Index has approached a peak before descending into economic contraction (refer Figure 7). Whether this peak turns out to be a temporary bump or the precursor of a slide into recession is still to be determined. However, the chart below shows it is moving sideways, as the tightened credit conditions pose a challenge to manufacturing companies.

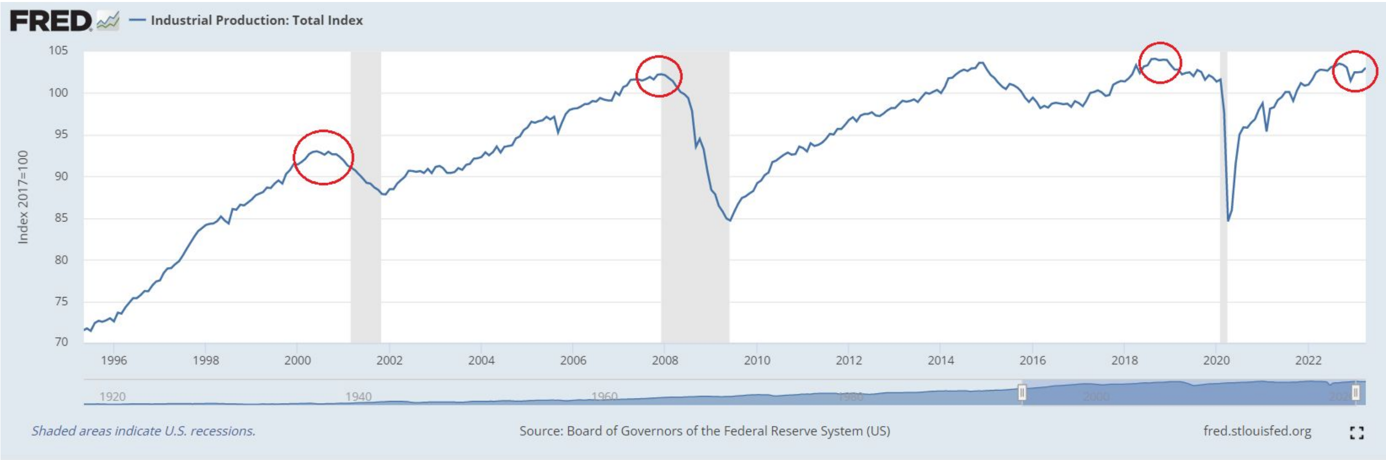


Figure 7. Industrial Production: Total Index (Source: Board of Governors of the Federal Reserve System, US)

Real Manufacturing Trade and Sales

In the current cycle, after a rapid rebound from the Covid-19 pandemic, real manufacturing trade and sales have been moving sideways. This is influenced primarily by inflationary pressures and other factors, such as supply chain adjustments and shifts in demand. When inflation rises, real manufacturing and trade sales may plateau due to reduced consumer purchasing power, increased production costs, uncertainty in the business environment, and monetary policy tightening. These factors can lead to decreased demand, squeezed profit margins, limited investment, and an overall slowdown in manufacturing and trade activities.

Real Personal Income

Real (inflation-adjusted) Personal Income continues to grow, though at a slower pace compared to earlier business cycles. Excluding the rapid recovery during the pandemic, the current annual growth rate of real personal income is 1.47 percent from February 2021 to March 2023.

Since it bottomed during the pandemic in April 2020 until March 2023 (yellow line on Figure 8 below), the annual growth rate of real personal income has been 3.93 percent, but this comes at the expense of high inflation.

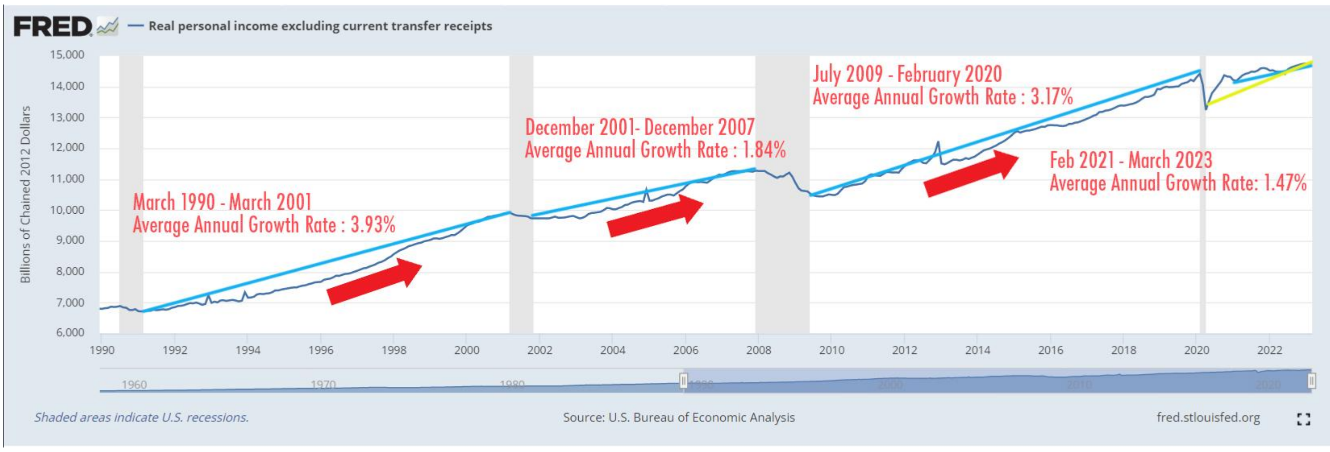


Figure 8. Real Personal Income Excluding Current Transfer Receipts (Source: US Bureau of Economic Analysis)

At present, the four indicators collectively portray a resilient economy with an unemployment rate of 3.4 percent. However, it is essential to note that the situation may evolve in the near future as growth in industrial production has gradually decelerated in response to heightened credit costs. Moreover, the lagging effect of the aggressive rate hikes last year has yet to fully take effect in the economy, compounded by default risk.

WHAT'S ON-CHAIN THIS WEEK?

Bitcoin's Resilient Holders: A Deep Dive into Long-Term Accumulation

Despite the current market conditions, long-term Bitcoin holders, often referred to as 'HODLers', are demonstrating remarkable resilience. According to data from *Glassnode*, approximately 4.3 million BTC held by long-term holders is currently held at a loss, equating to 22.2% of the circulating supply (refer Figure 9 below).

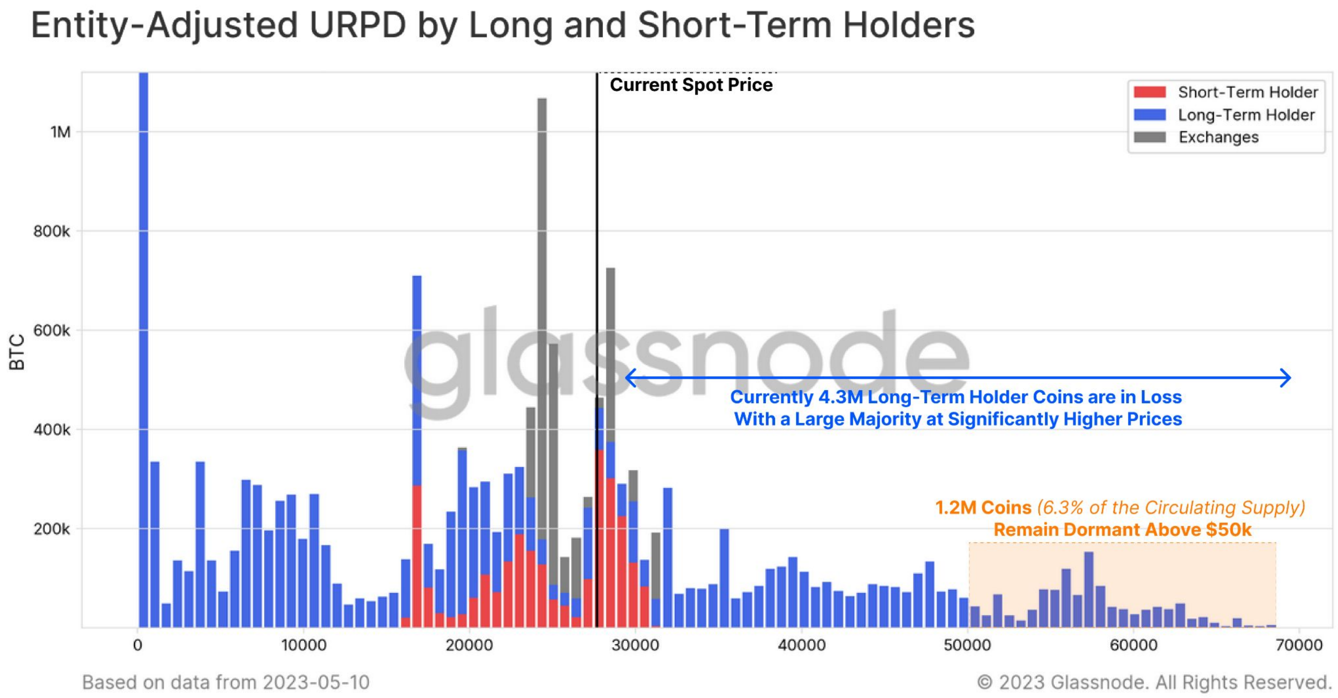


Figure 9. Entity-Adjusted UTXO Realized Price Distribution (URPD). (source: glassnode)

The current set of Bitcoin Unspent Transaction Outputs (UTXOs) were created at the prices depicted in the graph above. Each bar represents the number of existing BTC that last moved within the designated price range. The price indicated on the x-axis corresponds to the lower limit of the respective bucket. Despite these severe unrealised losses, the majority of these underwater coins remain stationary, indicating a steadfast resolve among these investors.

This trend is further supported by another HODLER metric, the Bitcoin supply last active 1+ years ago, which states that the percentage of the total number of coins that have not moved in a year or more are at all-time highs. (refer Figure 10 below)

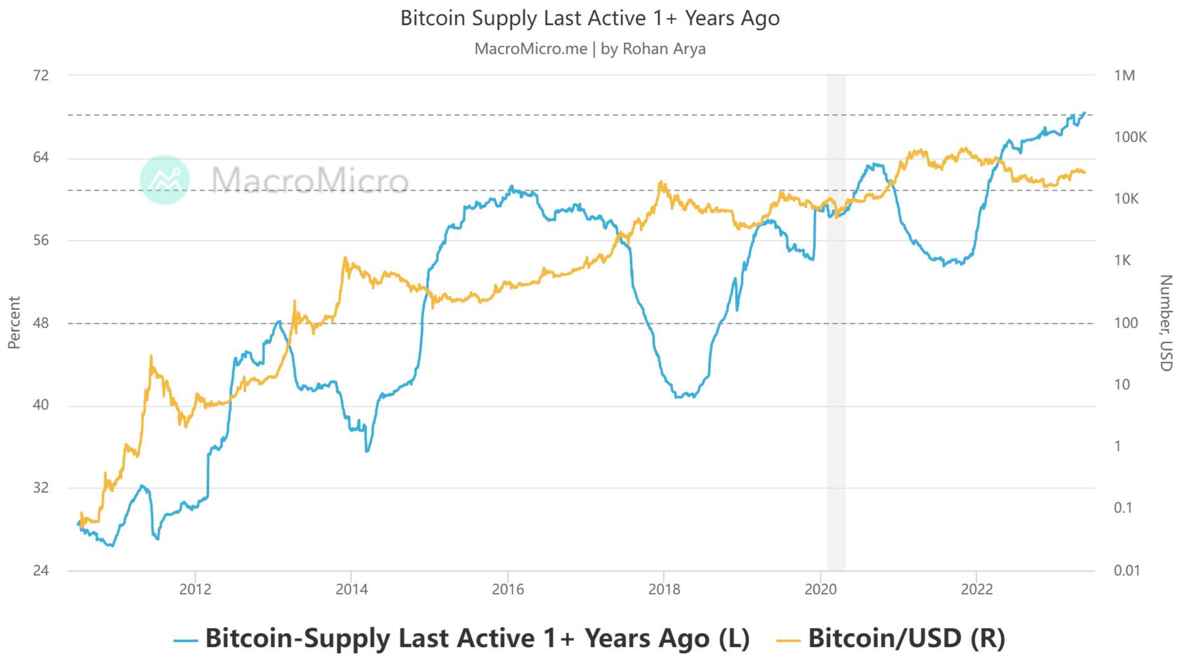


Figure 10. Bitcoin Supply Last active 1+ Years Ago. (source: MacroMicro)

This suggests that Bitcoin is increasingly being used as a buy-and-hold asset, with over 68.45 percent of the total supply, amounting to 13.27M of the 19.4M BTC in existence, not having moved in over a year. This growing trend of investors holding, strongly indicates a changing attitude towards Bitcoin ownership. Moreover, the metric reaches significant lows during cycle peaks and reaches significant highs during the beginning of bull runs; this was the case when it hit 48.07 percent in February 2013 and 61 percent in January 2016. The current uptrend in the metric means it is at an all-time high, and is expected to continue to rise in the near future, further consolidating our belief that we might be in the early stages of a bull market.

Moreover, the number of 'Wholecoiner' addresses crossed the one million mark this week. This further underlines the prevailing trend of long-term accumulation. (refer Figure 11 below)

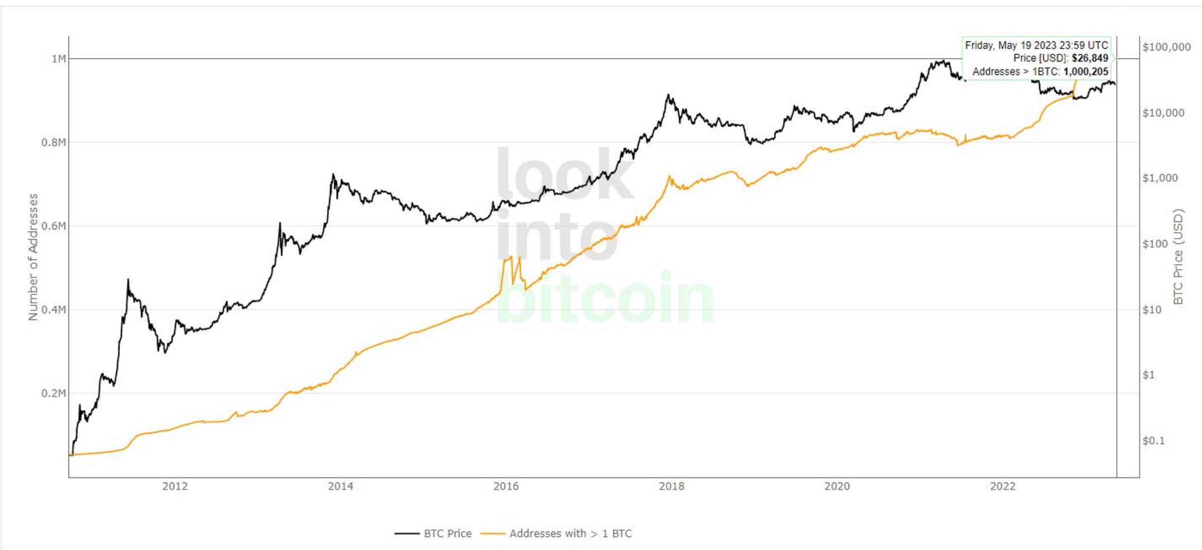


Figure 11. Number of Bitcoin Addresses With Balance > One BTC. (source: lookintobitcoin)

These Wholecoiners, defined as entities or individuals possessing at least one entire BTC, constitute a substantial segment of the Bitcoin community. Their persistent accumulation, irrespective of market swings, speaks volumes about their confidence in Bitcoin's enduring value.

As noted in previous editions of *Bitfinex Alpha*, there has also been a substantial surge in transaction fees due to the rising popularity of , the BRC-20 token standard. Consequently, there has been a marked escalation in miners' fee income, soaring from a mere two-four percent of total revenue to above 10 percent. (refer Figure 12 below)

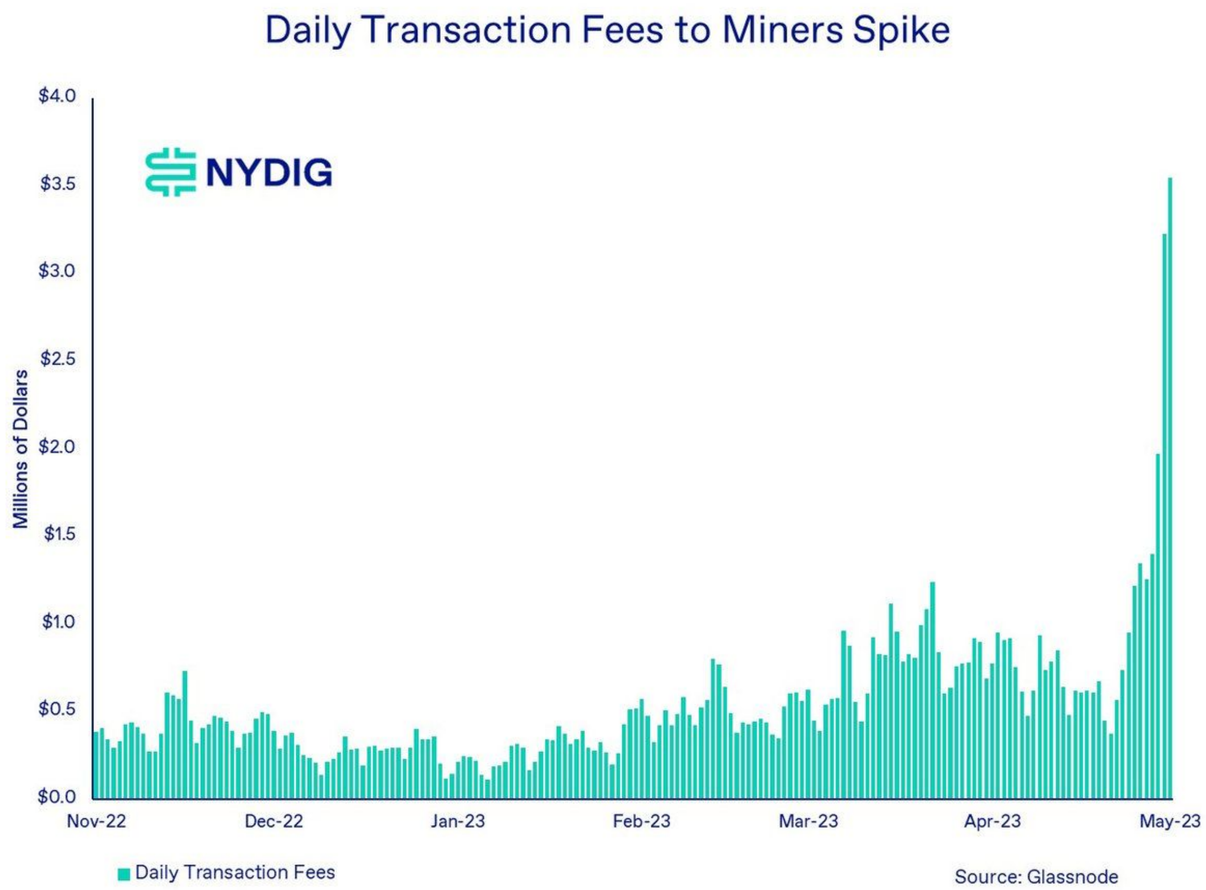


Figure 12. Daily Transaction Fees. (source: NYDIG, glassnode)

This indicates that miners, who are also a vital faction of long-term holders, are reaping considerable benefits from the prevailing market circumstances.

In conclusion, despite the current market downturn, long-term Bitcoin holders remain undeterred. The increasing trend of long-term holding, coupled with the rise of Wholecoiners and the benefit to miners from increased transaction fees, paints a picture of a resilient Bitcoin ecosystem.

Despite the short-term price volatility, these key stakeholders continue to accumulate and hold Bitcoin, demonstrating their belief in its long-term potential. This resilience among long-term holders, larger investors, and miners could potentially exert upward pressure on BTC price in the future, particularly given Bitcoin's fixed supply nature.

Ether Demand Soars amid Staking Surge and Deflationary Trends

Despite a nearly month-long waiting period to become a network validator, demand for staking Ether (ETH) continues to rise, indicating a strong belief in the long-term value of the cryptocurrency.

Figure 13. Total Ether Staked. (source: glassnode)

This trend is accompanied by a surge in the number of ETH tokens being entered into the staking smart contract, which has hit 22.35 million, up around 4.2 million in the one month since the Shanghai upgrade, according to *Glassnode* data.

The amount of Ether waiting for withdrawal is less than half a percent of the total number of Ether tokens locked for staking at 97,599. (refer Figure below) The amount of locked tokens has increased steadily throughout the past month and over 15.4 percent of total Ether tokens have now been staked.

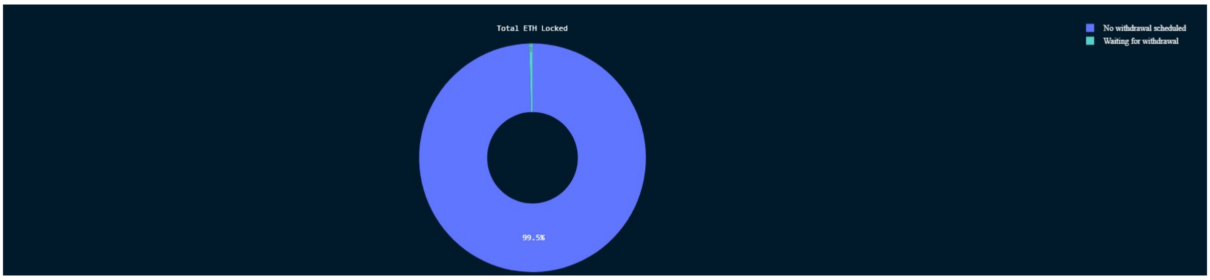


Figure 14. Total ETH Waiting For Withdrawal. (source: Nansen)

Data sourced from wenmerge.com reveals that the wait time for an Ether owner seeking to become a new validator on the Ethereum network has surged to 27 days and 7 hours, with a staggering 50,398 potential validators currently in line. Despite this extended waiting period, Ether owners continue to establish themselves as network validators, enticed by an annual yield of around 4-5 percent through token staking.

The recently enabled withdrawal flexibility in ETH staking, courtesy of the Shapella upgrade, mitigates its perceived risk for many investors. Prior to this upgrade, potential stakeholders may have been deterred from staking their ETH tokens due to concerns about their funds being locked for an unacceptably long duration. This development has enhanced the attractiveness of Ethereum Staking Derivatives.

The surge in demand for staking probably originates from large Ether holders, who prefer not to liquidate their holdings and instead seek to generate passive income. This trend is anticipated to persist, particularly considering that deflationary forces are expected to propel the price of Ether significantly. Large Ether holders perceive staking as a lucrative opportunity to yield earnings while maintaining their crypto assets, thereby aligning with their long-term investment strategies.

As demonstrated by competitive proof-of-stake chains like Cardano, which have flexible staking contract withdrawals and staking participation rates in the 60-70 percent range, there is a strong interest in staking among holders. However, given the Ethereum network's current limit of just over 50,000 ETH that can be withdrawn from the staking contract each day, the Ether staking participation rate may not reach these same levels, though a participation rate of 50 percent within a year is plausible. The current rate is rising by approximately three percent per month.

If such a rate is achieved, it will result in an additional 35 (or more) million ETH tokens being locked into the staking contract, thus reducing the liquidity of unstaked ETH. This scarcity could lead to price appreciation.

The supply of Ether is also undergoing a rapid deflation process. The recent surge in transaction fees, driven by meme coin-induced network congestion, has led to an increased ETH burn rate. (refer Figure 15 below)

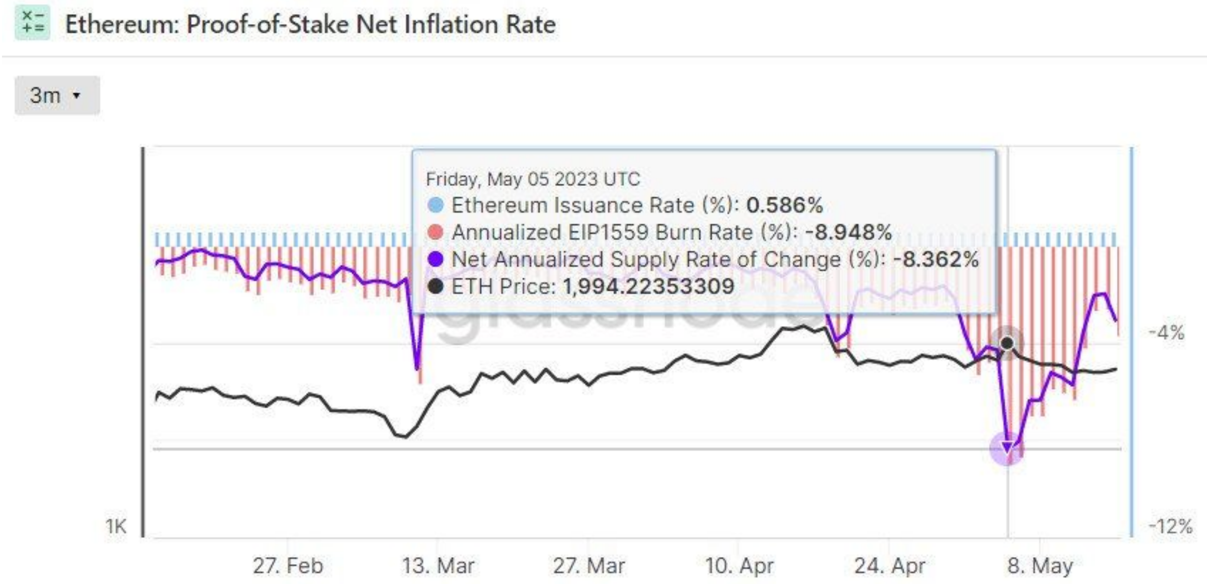


Figure 15. Ethereum PoS Supply Deflation Rate Hit 8.362 percent Recently. (source: Glassnode)

As per EIP-1559, implemented in August 2021, all Ether tokens used to pay transaction fees are burned, thereby reducing the overall supply. This has led to Ether's deflation rate peaking above eight percent earlier this month before stabilising at around four percent currently, suggesting a rapidly diminishing supply and a potential further upward price pressure.

In conclusion, despite the long waiting period to become a network validator, the demand for staking Ether continues to rise. This trend, coupled with the deflationary trends, suggests that the demand for Ether is set to continue to rise in the future. This resilience among Ether holders and the continued accumulation of Ether despite market fluctuations demonstrate their belief in its long-term potential.

NEWS FROM THE CRYPTO-SPHERE

Tether to Dedicate Up to 15 Percent of Monthly Net Profits for Bitcoin Purchases

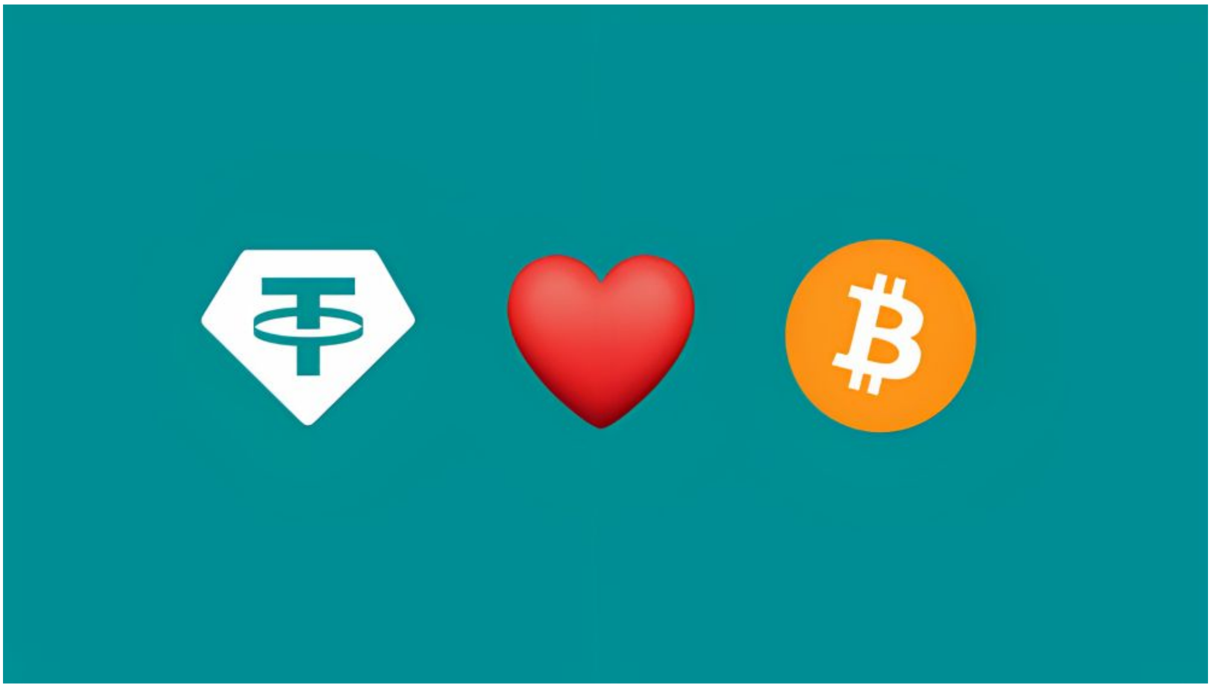


Figure 16. Tether to Dedicate Up to 15 Percent of Monthly Net Profits for Bitcoin Acquisition

- **Tether plans to use up to 15 percent of its monthly net operating profits to purchase Bitcoin, adding to its existing $1.5 billion worth of BTC in reserves.**
- **Tether's stablecoin, USDt, is the most widely used stablecoin, with over $80 billion circulating in the market. It maintains its stability by being backed by cash, cash equivalents, and short-term Treasury bills.**
- **The decision to invest in Bitcoin is part of Tether's strategy to strengthen its reserves and protect its users. Tether sees Bitcoin as a secure monetary system and aims to diversify its holdings.**

In a landmark announcement on Tuesday, Tether, the largest issuer of dollar-backed stablecoins globally, stated its intention to utilise up to 15 percent of its monthly net operating profits to purchase Bitcoin. This would add to their existing $1.5 billion worth of BTC in their reserves.

USDt currently has in excess of $80 billion circulating in the market and maintains its position as the most widely used stablecoin. Stablecoins, by design, are intended to maintain a stable value pegged to a fiat currency, such as the US dollar. In Tether's case, its tokens are backed by a combination of cash, cash equivalents, and short-term Treasury bills.

In holding Treasury bills, the company earns profits allowing the collateral amount supporting USDt tokens to increase over time and even beat the inflationary pressure that reduces the value of the US dollar.

The move to invest in Bitcoin is part of Tether's broader strategy to bolster its reserves and safeguard its users. Paolo Ardoino, Tether's chief technology officer, heralded Bitcoin as the "epitome of a sound and secure monetary system" and hailed its revolutionary role in challenging traditional finance. In its financial prudence, Tether anticipates that the existing and prospective Bitcoin (BTC) holdings within its reserves will remain within the confines of the Shareholder Capital Cushion. This strategic approach is anticipated to fortify the reserves and contribute significantly to their diversification.

This decision comes amidst increasing scrutiny of cryptocurrencies by regulators. Several stablecoin issuers have recently been criticised for their lack of transparency and the potential risks they pose to the financial system. Tether has countered this narrative by trying to be one of the most transparent stablecoin issuers, regularly publishing attestations of its reserves, and ensuring compliance with all relevant laws and regulations.

According to Tether's latest assurance report, they currently hold excess reserves worth over $2.5 billion. The company plans to use up to 15 percent of its monthly net realised operating profits to acquire Bitcoin. Ardoino emphasised that Tether's Bitcoin purchases would be conducted in a "continuous" manner rather than large, one-time purchases. With regards to Tether's existing Bitcoin reserve and concerns over price volatility, the current portfolio of Bitcoin maintained by Tether is substantially lower than their excess reserves, approximating around $1.5 billion compared to $2.5 billion.

Analysts have met Tether's decision with mixed reactions. Some praise the move, saying it demonstrates Tether's commitment to protecting its users and ensuring the long-term stability of its stablecoin products. Critics, however, suggest it signals an increasing reliance on Bitcoin.

Paolo Ardoino has also answered concerns on Twitter, over the perception that it is becoming reliant on Bitcoin, in a potential repeat of the Terra Luna saga. (refer Figure 17 below)

Paolo Ardoino
@paoloardoino

Got this question:
> How is this strategy similar to or different from Luna Foundation Guard's bitcoin-buying strategy?

Bitcoin acquisition strategy is performed using only up to 15% of net realized operating profits that are accruing to company excess reserves (~2.5B USD equiv at 2023-03-01).
Excess reserves are company own shareholder equity (accrued historical profits that were never distributed), that is on top of the 100% reserve assets that Tether maintains in order to fully back its stablecoin products, of which the majority is in US t-bills.
Tether decided to maintain this excess reserves as part of its portfolio to add additional cushion and stability to its stablecoin products.

This approach is 100% different from Luna Foundation, where a huge portion of Terra/Luna collateral itself was held in Bitcoin.

6:12 PM · May 17, 2023 · **19.9K** Views

Figure 17. Tether CTO's tweet regarding the distinctions between Tether's BTC buying move versus the Luna Foundation Guard's.

The decision to buy Bitcoin could have significant implications for the cryptocurrency market. Tether's purchase legitimises Bitcoin as a store of value and attracts more mainstream investors, potentially driving up its price.

The development undeniably signifies a growing acceptance of cryptocurrency by mainstream investors and a commitment by Tether to protect its users and ensure the long-term stability of its stablecoin products.

Ledger's New Feature "Recover" Sparks Controversy over Security Implications

Figure 18. Ledger's "Recover" feature is one of the first to allow seed phrase recovery for physical self-custody crypto solutions.

- **Ledger launched a new feature called "Ledger Recover," which offers a private key recovery service for a monthly subscription fee of $9.99.**
- **Critics argue that the feature poses potential security risks, but Ledger said there was no backdoor and nothing will happen without the user's consent on their device.**

In the latest development on May 17th, 2023, Ledger, a prominent manufacturer of hardware wallets, launched a new feature, called "Ledger Recover". This ID-based private critical recovery service, available for a monthly subscription of $9.99, provides an opt-in backup solution for users' private seed phrases.

Despite Ledger's assurances of the feature's voluntary nature and its assertion that it does not represent a backdoor, critics argue that the feature introduces potential security risks, casting a shadow over Ledger's security reputation.

This feature, which allows users to back up their private seed phrases to their personal identity through three different custodians, generated debate last week within the crypto community. Ledger executives, including co-founder Nicolas Bacca, insisted that there is no backdoor and that nothing will happen without the user's consent on their device, but critics contend that the mere potential of opting into the service introduces its own security risk. Some critics argued that regardless of whether users opt-in, the code path to send private key material over the internet will be on their device, potentially opening opportunities for hackers to exploit this and increasing the likelihood of software bugs leading to leaks.

Chief Technology Officer Charles Guillemet attempted to clarify the situation and minimise the impact of the initial statements.

Tron Founder Accuses Brother of Huobi Founder of Profiting Unfairly from Huobi (HT) Tokens

Figure 19. Justin Sun has developed a reputation for posting bold conclusions publicly. (image source: Crypto Slate)

- **Tron Founder and Huobi stakeholder Justin Sun accuses Li Wei, brother of Huobi Founder Li Lin, of unethically profiting from Huobi Tokens (HT) obtained at no cost.**
- **Huobi, under increased scrutiny, faces concerns over its operations and governance, leading to a significant decline in the value of its native token.**
- **Sun claims Li Wei received millions of HT tokens for free and cashed out large amounts.**
- **HT DAO committee plans to negotiate a refund and the destruction of Li Wei's remaining HT tokens.**

Tron Founder and Huobi stakeholder, Justin Sun has accused Li Wei, the brother of Huobi Founder Li Lin, of unethically profiting from Huobi Tokens (HT), which Sun alleges were acquired "abnormally" at no cost.

This accusation surfaces at a time of increased scrutiny for Huobi, with its native token's value plunging significantly amidst growing concerns over the platform's operations and governance.

According to a *Coindesk* report on May 16th, Sun's allegations include claims that Li Wei had received millions of HT tokens for free during the initial distribution and had since been cashing out.

"Now, the HT DAO committee is stepping in to rectify this issue," Sun reportedly said. "We plan to engage with Li Wei to negotiate a refund and arrange for the destruction of his remaining HT tokens."

The HT DAO (Huobi Token Decentralised Autonomous Organisation) community refers to the group of individuals who hold and participate in the governance of Huobi Tokens (HT) through decentralised autonomous organisation mechanisms.

The accusations have sparked considerable volatility in the HT token's price, which has suffered a roughly 92.88 percent decline (refer Figure 20 below) since its peak in May 2021, dropping to around $2.90 as of now (at the time of writing). Following Sun's tweets, however, the token experienced a slight recovery, bouncing back by 3.16 percent.

Figure 20. HT/USD Daily Chart with the May 2021 $40 peak highlighted. (source: Tradingview)

Sun's accusations come amidst a turbulent period for Huobi, which recently announced it was winding down its mainland China operations. It should be noted that Sun's accusations, whilst serious, should be treated with caution.

As the situation unfolds, it is crucial for Huobi to conduct a thorough investigation into these allegations and take appropriate action if proven true.

As the global crypto industry grapples with these complexities, it's clear that transparency, accountability, and innovative security measures will be of paramount importance in securing its future stability and growth.

Voyager Digital Receives Court Approval to Initiate Liquidation and Repay Customers

Figure 21. Voyager Digital Receives Court Approval to Initiate Liquidation and Repay Customers

- **Voyager Digital has received court approval to start its liquidation process and repay customers.**
- **Customers will receive approximately 36 percent of their owed funds, with a possibility for this amount to increase, pending a dispute with FTX.**

Voyager Digital has received court approval to initiate its liquidation process and repay customers. This development comes after a tumultuous period for the company, including the termination of an acquisition agreement with Binance US. The court, presided over by Judge Michael Wiles, granted permission for Voyager to proceed with its liquidation procedures last Wednesday, May 17th.

As part of the repayment plan, Voyager customers will receive approximately 36 percent of their owed funds, with the potential for this amount to increase depending on the outcome of a dispute with FTX, as stated in court documents.

Judge Wiles acknowledged the dissatisfaction expressed by Voyager customers regarding various aspects of the case, such as his oversight of the proceedings, the associated costs of the bankruptcy, the remuneration of lawyers involved, and the fact that users will only receive a partial return of their cryptocurrency holdings. However, the judge emphasised that the decision to wind down the operations was the most viable option for Voyager due to its inability to fully repay customers.

Judge Wiles further explained that alternative routes, such as the sale of the company to Binance US, were explored but ultimately proved unsuccessful.

Acknowledging the less-than-ideal circumstances, Judge Wiles stated, "We are where we are; we're trying to do the best with where we are." Despite the unfavourable outcome for customers, the court's approval of Voyager's liquidation procedures offers a path forward, allowing the process of some level of repayment to begin.

The SEC Responds To Coinbase Lawsuit

Figure 22. The SEC Responds To Coinbase Lawsuit

- **The US Securities and Exchange Commission (SEC) has requested a judge to deny Coinbase's lawsuit seeking a response to a rule-making petition submitted by the company on July 22nd.**
- **The SEC dismissed Coinbase's allegations as "baseless" and argued that the company is not entitled to extraordinary relief just because it prefers a faster or different regulatory action.**
- **The SEC justified its pace of regulatory changes, emphasising the complexity of the process and stating that there is no specific deadline for completion.**

The US Securities and Exchange Commission (SEC) has made a formal request to a judge to deny Coinbase's recent lawsuit, which seeks to compel the agency to respond, within a reasonable time, to a rule-making petition submitted by the company on July 22nd.

In response, the SEC filed a court document on Monday, May 15th, dismissing Coinbase's allegations as "baseless" and asserting that the company is not entitled to extraordinary relief from the court simply because it prefers a faster or different regulatory action by the commission. The SEC emphasised that Coinbase's petition should be denied.

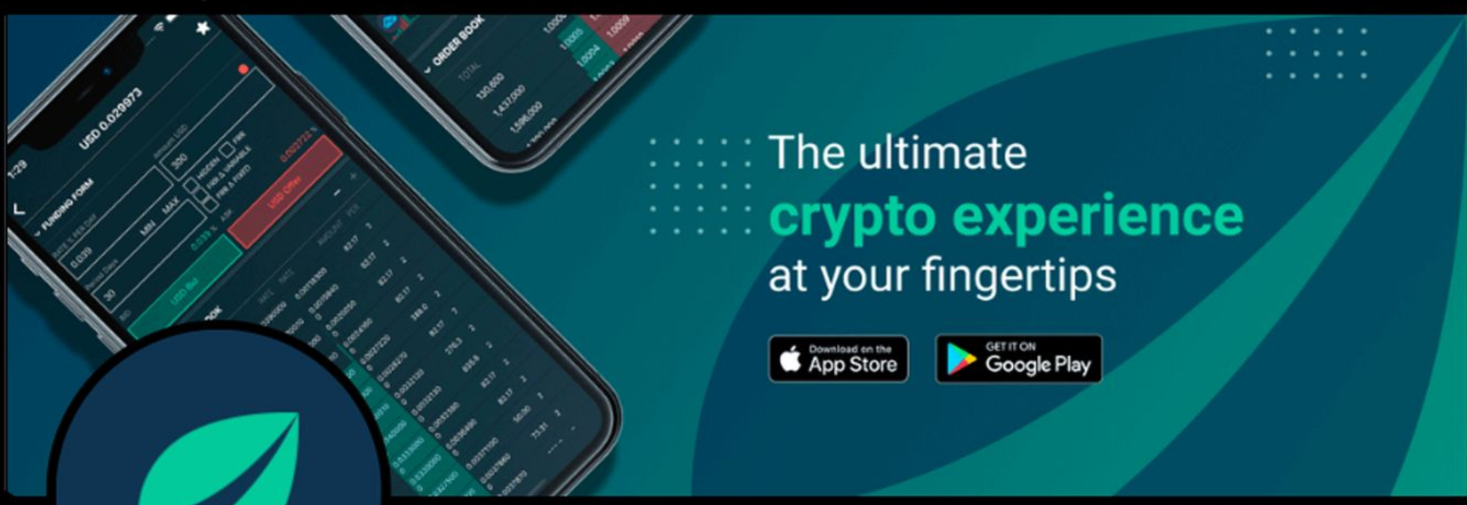
The SEC claims that Coinbase's rule-making petition proposes a series of discretionary actions aimed at replacing current applicable securities laws and regulations with a comprehensive new regulatory framework for the trading of cryptocurrency assets that qualify as securities.

The SEC justified its pace of regulatory changes in the court filing, highlighting the complexities involved in the process. According to the agency, crafting appropriate regulations is a highly intricate endeavour that necessitates careful consideration and time. Furthermore, the SEC pointed out that there is no specific deadline for the completion of its work.

It is worth noting that the SEC made an important clarification regarding public statements made by Chair Gary Gensler. The commission explicitly stated that these statements should not be regarded as formal guidance or policy statements from the SEC.

Coinbase's Chief Legal Officer, Paul Grewal, took to Twitter to express his thoughts on the SEC's filing. He remarked that it might be the first time the agency has formally explained its views on whether and how it should create rules for the cryptocurrency industry in a court of law. He also added: “The SEC’s response reinforces Coinbase’s long standing concern that our industry does not have clarity on what the SEC may consider to be within or outside its jurisdiction at any time, and it is likely to continue changing its mind along the way”.

As the legal battle continues, it remains to be seen how the court will decide on Coinbase's demand for a response from the SEC. The outcome of this case could potentially have significant implications for the regulation of the cryptocurrency industry in the United States.



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