BITFINEX Alpha

Issue: 19-06-2023
bitfinex.com

EXECUTIVE SUMMARY

The US economy continues to face a mixed economic landscape as more key indicators roll in. Wholesale prices, as measured by the Producer Price Index (PPI), experienced a larger-than-expected decline in May, pointing towards a potential slowdown in inflation. This trend suggests that supply chain bottlenecks are easing and that demand for goods is slowing in response to higher borrowing costs. This vindicates the Fed's decision last week to keep interest rates unchanged for now (although it has indicated the possibility of increasing borrowing costs later in the fiscal year). These policy adjustments come though as other measures of the economy display unexpected resilience and a slower deceleration in inflation than initially anticipated.

The latest data from the US Department of Labor reveals minimal growth in consumer prices in May, and the smallest annual increase in inflation seen in over two years. However, underlying price pressures remain robust, with cost reductions in energy and services being the primary cause of the headline inflation slowdown. Excluding this volatile category, persistent inflation remains well above the Federal Reserve's target of two percent. As the US grapples with these inflation dynamics, another significant concern emerges: the surging budget deficit. May witnessed a fourfold increase in the deficit compared to the previous year, primarily due to increased government spending and decreased tax collections. Additional contributing factors include heightened spending by the Federal Deposit Insurance Corporation, in response to recent bank failures and takeovers. The FDIC anticipates recovering most of the funds it is spending through the sale of bank assets and higher industry fees. Nevertheless, the growing budget deficit underscores the ongoing fiscal challenges and the need for concerted efforts to address and manage the escalating deficit.

Amidst these economic fluctuations, small businesses in the US report mixed sentiment. While small business confidence rebounded in May, concerns about the economic outlook and inflation remained prevalent among business owners. The National Federation of Independent Business survey, however, also highlights the continued eagerness of businesses to hire more workers, indicating positive developments in the labour market recovery.

A Resilient Crypto Market Amid Regulatory Turbulence and Bitcoin's Bounce Back from $25,000 Level

Despite the SEC lawsuits against Binance and Coinbase, the crypto market remains remarkably stable. On-chain movements show in fact an intriguing divergence in investor behaviour: on the one hand, substantial withdrawals for transactions below $10M in size; on the other, consistent deposits for transactions above this threshold, but on a smaller scale.

The outflows suggest a shift towards accumulation, despite the murmurings of regulatory scrutiny, with long-term Bitcoin holders appearing unfazed, keeping their faith in the asset's long-term value intact.

Furthermore, Bitcoin's swift rebound last week from the significant $25,000 barrier did not spawn a short squeeze, indicating that the price appreciation was not a consequence of short liquidations but perhaps, the result of sizable futures long positions holding up the price.

Market News

These bullish signals come against a backdrop of an eventful news agenda, led by the SEC pausing its decision to respond to Coinbase's earlier petition requesting the regulator to bring greater clarity to crypto asset rule making. This continues to be a source of frustration at Coinbase.

In contrast, Binance.US breathed a sigh of relief last week, as a federal judge denied the SEC's request to freeze its assets. This decision allows the cryptocurrency exchange to remain operational while negotiations continue.

In further good news, BlockFi, the crypto lending firm that suspended withdrawals following the collapse of FTX, has signalled the resumption of withdrawals in the coming months.

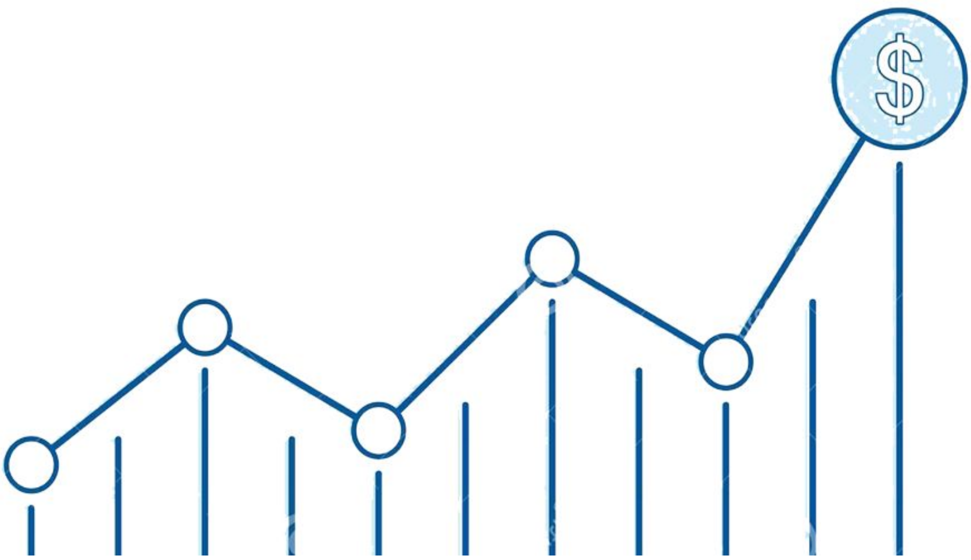
The Hong Kong Monetary Authority (HKMA) is also pushing major banks to embrace crypto exchanges as clients, attempting to solidify Hong Kong's position as a global cryptocurrency hub. The move comes amidst intense global regulatory scrutiny and reflects Hong Kong's ongoing enthusiasm for the industry.

In a significant legal development, Bittrex, a US-based crypto exchange undergoing bankruptcy proceedings, has also been given the green light to allow customer withdrawals. The decision, however, doesn't clarify the precedence of customer claims over government claims, hinting at potential legal challenges in the future.

This whirlwind week of regulatory battles and strategic shifts in the crypto-sphere provides a snapshot of the volatile dynamics shaping the future of digital asset trading and regulation. As exchanges, regulators, and stakeholders juggle varying interests and navigate the intricate landscape, the crypto world watches, anticipating a new chapter in the evolution of digital finance.

Happy Trading!

INDEX



GENERAL MARKET UPDATE

US Wholesale Prices Fall, Signalling Potential Relief in Inflationary Pressures

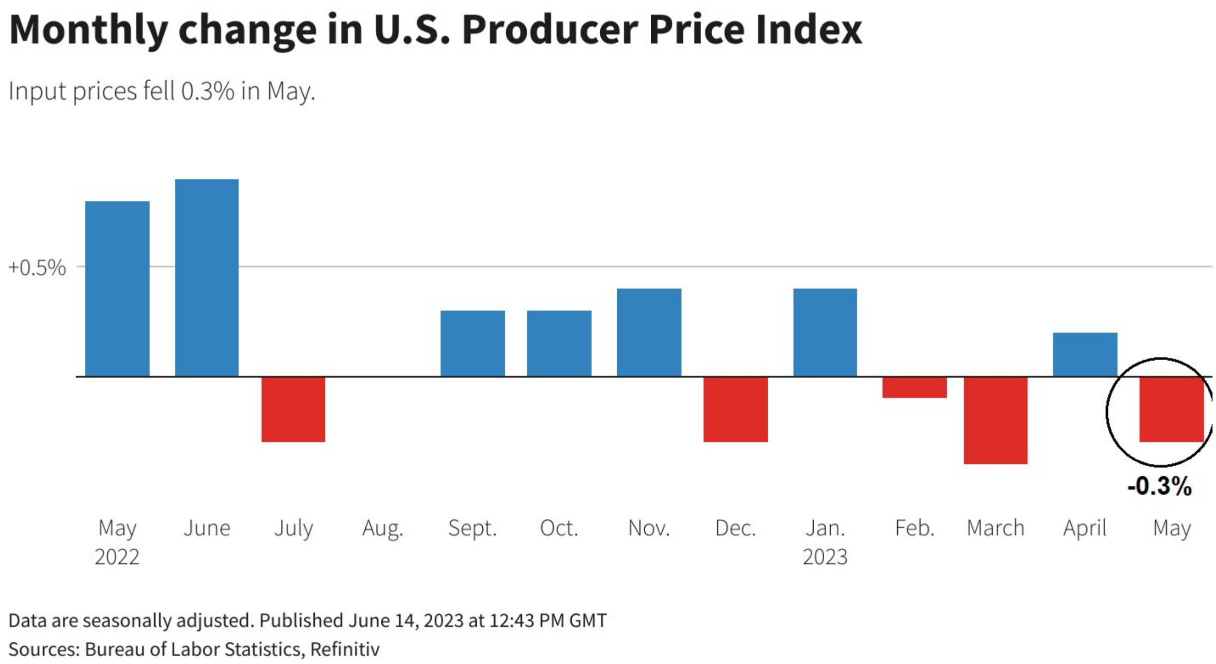


Figure 1. Monthly Change in US Producer Price Index (Source: Bureau of Labor Statistics, Refinitiv)

The Producer Price Index (PPI), which measures wholesale prices in the US, experienced a larger-than-anticipated decline in May, suggesting that inflation may slow down in the months to come. The producer price index dropped by 0.3 percent (refer to FIgure 1), marking the third decrease in the past four months. The consensus forecast was a 0.1 percent decline in the index. This decline in wholesale prices often serves as an early indicator of future inflation trends. On a year-over-year (YoY) basis, the increase in wholesale prices decelerated to 1.1 percent in May from the previous month's YoY change of 2.3 percent, representing the lowest reading since December 2020.

The PPI is a measure of the average change over time in the selling prices received by domestic producers for their output. The PPI measures price change from the perspective of the seller, which is different from other indexes that measure price change from the purchaser's perspective, such as the Consumer Price Index (CPI).

The PPI, reported by the US Labor Department last Wednesday, June 14th, revealed that producer prices fell primarily due to decreased costs of energy and food. Furthermore, the annualised increase in producer inflation that was reported for last month was the smallest in nearly two and a half years. The data aligns with Tuesday's Consumer Price Index report, which also showed only a modest rise in consumer prices in May.

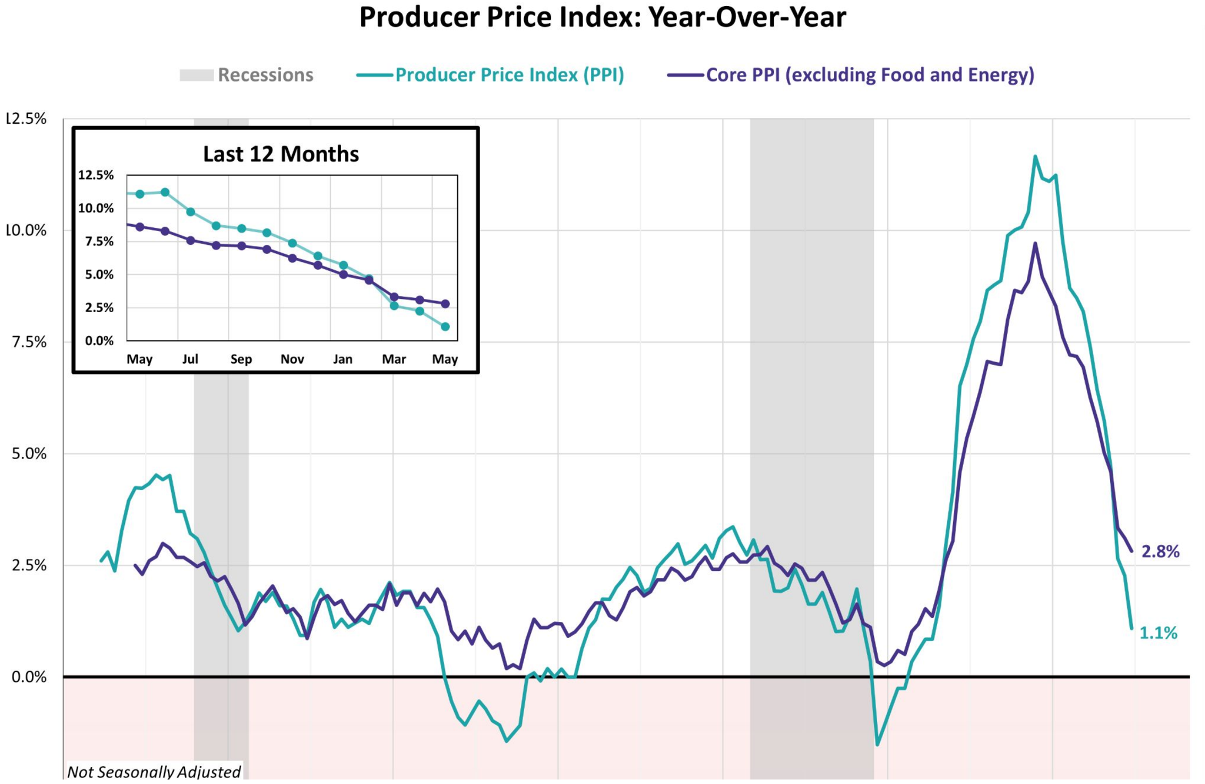


Figure 2. Produce Price Index, Year-over-Year (Source: https://www.advisorperspectives.com/. Bureau of Labor Statistics)

The core producer price index, which excludes food, energy, and trade services components, remained unchanged in May after a slight increase of 0.1 percent in April. On an annual basis, the core PPI rose by 2.8 percent (refer to Figure 2), marking the smallest gain since February 2021, compared to a 3.3 percent increase in April. These figures will play a role in estimating the core personal consumption expenditures (PCE) price index, the key inflation measure used by the Federal Reserve to determine monetary policy.

Taking note of these developments, the Fed announced a pause in rate hikes, marking the first time since March 2022 that the central bank has refrained from implementing its tightening campaign, the most rapid in over four decades. The Fed also projected however, that borrowing costs may still rise by an additional 0.5 percent by the end of the year due to the resilience of the economy, particularly the labour market (More of the Fed’s rate hike decision, in the next article).

The decrease in wholesale prices implies relief for the inflation-weary American public. While inflation continues to impact the economy, there is hope that it will gradually subside to more manageable levels once the demand surge, resulting from the pandemic dissipates completely.

		April, 2023	May, 2023
Total Final Demand		0.2	-0.3
Final Demand Less Foods, energy and trade		0.1	0
Final Demand Goods	Total	0.2	-1.6
	Foods	-0.4	-1.3
	Energy	0.8	-6.8
	Less Foods and Energy	0.1	0.1
Final Demand Services	Total	0.3	0.2
	Trade	0.6	1
	Transportation & Warehousing	-2.4	-1.4
	Other	0.4	0.1
Change in Final demand from 12 months ago		2.3	1.1
Change in Final Demand less Foods and Energy		3.3	2.8

Figure 3. Month-over-Month Percentage changes For Demand Goods And Services For April and May.

The observed contraction in the PPI for final demand can be primarily attributed to a 1.6 percent contraction in the prices of goods (refer to Figure 3 above). Notably, this is the most substantial decrease witnessed since July last year. A major cause of this decline is the precipitous 6.8 percent fall in energy prices, with the fall in gasoline prices alone accounting for an overwhelming 60 percent of this contraction (see table above). Moreover, food prices experienced a downturn for the second successive month, declining by 1.3 percent due to the reduced costs of commodities such as eggs and vegetables.

Simultaneously, the pricing dynamics of services were characterised by an increment of 0.2 percent, predominantly stimulated by increases in the retailing margins of automobiles and their constituent parts, fuels and lubricants, as well as apparel, footwear, and associated accessories.

While certain service components, including fees for securities brokerage, dealing, investment advice, and affiliated services, underwent an escalation, there were counterbalancing factors. For instance, the costs related to freight transportation via roadways witnessed a decrease of 2.1 percent, alongside a 2.9 percent drop in portfolio management fees. Similarly, the pricing for airline fares experienced a decrease of 1.1 percent.

It is pivotal to note that these elements of the services sector significantly contribute to the computation of the Personal Consumption Expenditures (PCE) price indexes. These indexes constitute key inflationary metrics that are closely scrutinised by the Fed in its endeavours to adhere to its stipulated target of two percent inflation.

The overall trend indicates subsiding inflation as supply chain bottlenecks ease and demand for goods slows down in response to higher borrowing costs. Furthermore, the calculation of annual inflation no longer includes the surge in prices witnessed last year, which should lead to further easing of inflation, given that it is calculated by comparing the average price level in the current period to the average price level in the previous year.

Following the Fed's decision to maintain interest rates and the release of the producer price index data, Wall Street stocks experienced a decline, while the US dollar recovered some of its losses against a basket of currencies. Shorter-dated US Treasury yields rose as investors digested the implications of the Fed's rate decision and the latest inflation data.

Figure 4. US 2-Year Treasury Bond rose after FOMC Meeting

Although inflation remains above the Fed's target of two percent, there are indications that the rate of inflation is slowing down. However, it is expected to take some time to reach the target level. Fed Chair Jerome Powell acknowledged the moderation in inflation since mid-2022 but emphasised that inflationary pressures continue to be elevated by historical standards.

As the US economy navigates the path towards sustainable recovery, closely monitoring inflation trends and implementing appropriate monetary policy measures will be crucial for maintaining price stability and supporting economic growth.

The Federal Reserve has Paused Rate Hikes...for Now

The Fed has chosen to keep interest rates unchanged for the time being, yet signalled the potential need for an escalation in borrowing costs of up to 0.5 percent by the close of the fiscal year. This policy stance emerges in response to an economy displaying unanticipated resilience, and a slower deceleration in inflation than expected. Fede Chair Jerome Powell, has remarked on the surprisingly resilient performance of both the economy and the employment market. This resilience arises despite the severe monetary policy tightening undertaken since March last year. Such a robust economic situation could potentially extend the Fed's struggle to curtail inflation and at the same time mitigating any detrimental impact on the economy from tighter monetary policy.

The Federal Open Market Committee (FOMC), entrusted with the responsibility of determining rates, stated that maintaining the current interest rate range allows for an assessment of additional information and what this could mean for monetary policy going forward. The Fed said the focus is now, not so much on predicting future changes in interest rates, but rather on finding the terminal rate in order to control rising prices without causing a surge in unemployment.

Despite the FOMC's decision to halt the rate hikes, the dot plot - the graphical representation of FOMC members' interest rate projections - conveys an implied hawkish tightening bias for the remaining portion of the year (refer to Figure 5 below).

The Fed's dot plot is a visual representation of the FOMC members' projections for future interest rates. In the dot plot, each circle represents an individual FOMC member's projection for the target federal funds rate at the end of a particular year and in the longer run. The position of the circle on the plot indicates the projected level of the federal funds rate, while the vertical line extending from the circle represents the range of uncertainty around that projection. The horizontal axis of the plot shows the years, allowing for a time-based comparison of interest rate projections.

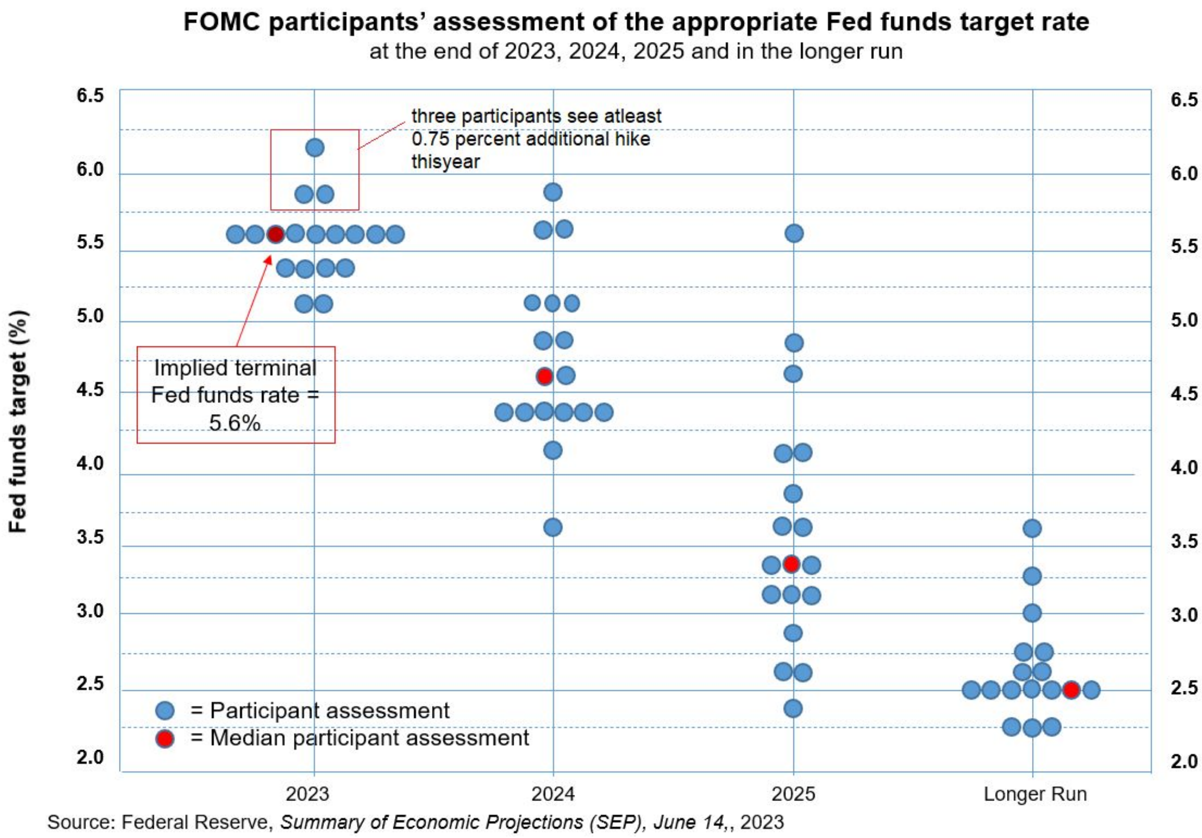


Figure 5. The Dot Plot: The FOMC participant's assessment of appropriate Fed's Fund Rate (Source: Federal Reserve)

Although inflation remains a concern, Fed Chairman Jerome Powell expressed confidence that the factors contributing to price rises are starting to align favourably. The Fed is focused on getting its policy right as it contemplates what could be its final rate increases before declining inflation potentially allows for rate cuts next year. Powell mentioned that the necessary conditions for reducing inflation, such as below-trend growth, a somewhat weaker labour market, and improving supply chains, are gradually falling into place but cautioned that the process will take time.

The FOMC's Summary of Economic Projections revealed an upgraded outlook for economic growth and employment in 2023. It now predicts a growth rate of 1 percent for this year, an increase from the previous forecast of 0.4 percent. Additionally, the unemployment rate, currently at 3.7 percent, is projected to rise to 4.1 percent, which is lower than the earlier estimate of 4.5 percent.

Percent

Variable	Median[1]				Central Tendency[2]				Range[3]			
	2023	2024	2025	Longer run	2023	2024	2025	Longer run	2023	2024	2025	Longer run
Change in real GDP	1.0	1.1	1.8	1.8	0.7–1.2	0.9–1.5	1.6–2.0	1.7–2.0	0.5–2.0	0.5–2.2	1.5–2.2	1.6–2.5
March projection	0.4	1.2	1.9	1.8	0.0–0.8	1.0–1.5	1.7–2.1	1.7–2.0	-0.2–1.3	0.3–2.0	1.5–2.2	1.6–2.5
Unemployment rate	4.1	4.5	4.5	4.0	4.0–4.3	4.3–4.6	4.3–4.6	3.8–4.3	3.9–4.5	4.0–5.0	3.8–4.9	3.5–4.4
March projection	4.5	4.6	4.6	4.0	4.0–4.7	4.3–4.9	4.3–4.8	3.8–4.3	3.9–4.8	4.0–5.2	3.8–4.9	3.5–4.7
PCE inflation	3.2	2.5	2.1	2.0	3.0–3.5	2.3–2.8	2.0–2.4	2.0	2.9–4.1	2.1–3.5	2.0–3.0	2.0
March projection	3.3	2.5	2.1	2.0	3.0–3.8	2.2–2.8	2.0–2.2	2.0	2.8–4.1	2.0–3.5	2.0–3.0	2.0
Core PCE inflation[4]	3.9	2.6	2.2		3.7–4.2	2.5–3.1	2.0–2.4		3.6–4.5	2.2–3.6	2.0–3.0	
March projection	3.6	2.6	2.1		3.5–3.9	2.3–2.8	2.0–2.2		3.5–4.1	2.1–3.1	2.0–3.0	
Memo: Projected appropriate policy path												
Federal funds rate	5.6	4.6	3.4	2.5	5.4–5.6	4.4–5.1	2.9–4.1	2.5–2.8	5.1–6.1	3.6–5.9	2.4–5.6	2.4–3.6
March projection	5.1	4.3	3.1	2.5	5.1–5.6	3.9–5.1	2.9–3.9	2.4–2.6	4.9–5.9	3.4–5.6	2.4–5.6	2.3–3.6

Figure 6. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, June 2023 (source: Federal Reserve)

Looking ahead, the FOMC foresees a growth rate of 1.1 percent for next year and 1.8 percent in 2025. It also anticipates the unemployment rate to climb to 4.5% in the following year and remain at that level until the end of 2025, suggesting a potential recession in the upcoming year. These projections are based on an analysis that takes into account a nearly 1 percent increase in the unemployment rate over the next 18 months.

The long-term growth trend remains unchanged at 1.8 percent, and the FOMC's estimate of unemployment, set at 4 percent, remains steady as well.

The FOMC also revised its forecast for the personal consumption expenditures index, which is considered a key indicator of long-term inflation. It now sees 3.2 percent growth in May PCE, down slightly from the previous 3.3 percent forecast. The Fed expects this rate to further slow down to 2.5 percent next year and eventually reach 2.1 percent by 2025. The Fed's target for long-term inflation remains at two percent. The estimate for core PCE inflation, excluding volatile food and energy categories, is now expected to reach 3.9 percent compared to the previous estimate of 3.6 percent. The forecast indicates a decline to 2.6 percent next year and 2.2% in 2025 for core PCE inflation.

Looking ahead, the Fed's forecast for next year suggests a potential recession, with projections indicating a rate cut of close to 100 basis points. The median rate is expected to be 4.6 percent by the end of next year and 3.4 percent by the end of 2025.

The decision to moderate the pace of rate hikes, reflects the Fed's acknowledgement that the urgency seen in previous rate hikes is no longer necessary. As the US approaches its target inflation rate of two percent, it is sensible to take a more gradual approach. Powell emphasised the importance of moderating rate hikes as the target destination draws near, providing more time for decision-making and allowing the economy to adjust. The full consequences of recent banking turmoil however, are still uncertain, and the Fed will closely monitor unfolding developments in the coming months.

US Consumer Inflation Remains Stable, Supporting the Pause in Rate Hikes

According to the latest data from the US Department of Labor, consumer prices in the United States experienced minimal growth in May, resulting in the smallest annual increase in inflation in over two years. However, underlying price pressures remained robust.

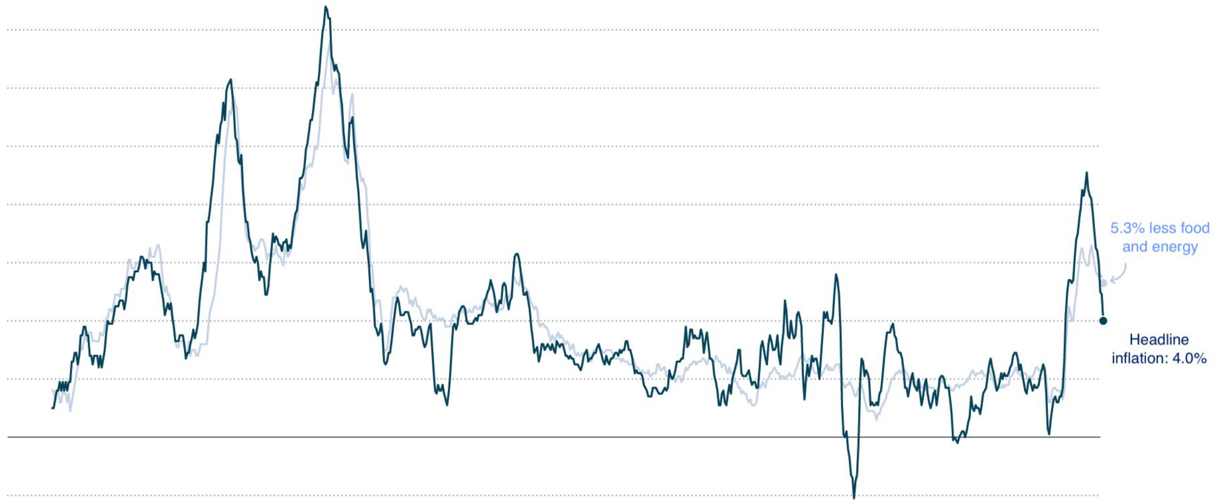


Figure 7. Year-over-year Headline inflation and Core Inflation (Source: Bureau of Labor Statistics, NewYork Times)

The report revealed that the headline consumer price index (CPI) rose by a mere 0.1 percent in May, down from 0.4 percent in April, in line with expectations. The year-on-year (YoY) inflation increased by four percent, compared to 4.9 percent YoY inflation in the month prior. Core inflation, which excludes volatile energy and food components, saw a 0.4 percent increase in May, unchanged from the month prior. On a YoY basis, core inflation decelerated to 5.3 percent in May compared to 5.5 percent in April.

It is worth noting that the annual CPI peaked at 9.1 percent in June 2022, marking the highest increase since November 1981. Since then, the rate of inflation has gradually subsided as the large increases from the previous year no longer factor into the calculation.

Cost reductions for energy goods and services, such as gasoline and electricity, are the main cause of the slowdown in headline inflation. Removing this volatile category reveals persistent inflation that remains well above the Fed's two percent target.

One factor contributing to elevated core inflation was the rise in rents in May, while the prices of used cars and trucks also exerted upward pressure. The index for shelter prices was the largest contributor to the monthly all items increase, rising 0.6 percent for the month of May, compared to 0.4 percent in the previous month. Though the cost of new vehicles saw a slight decline, the price of used vehicles rose.

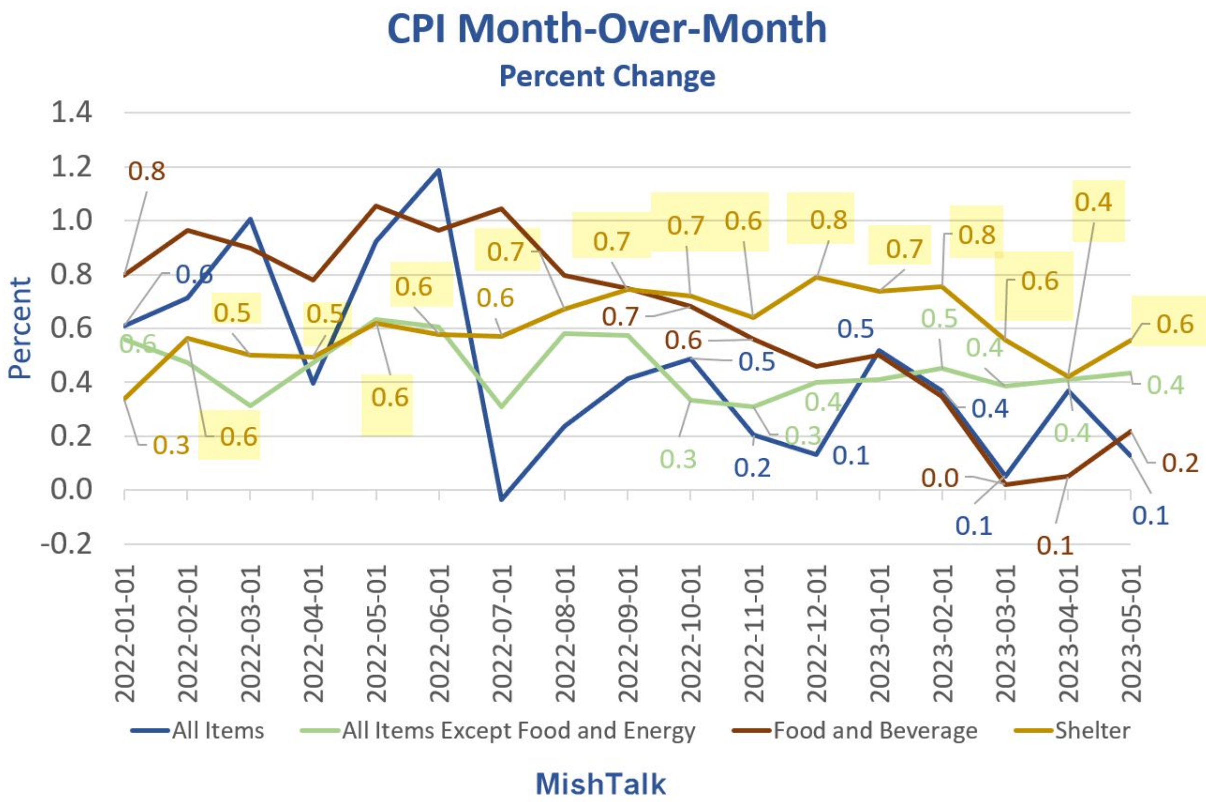


Figure 8. Month-over-Month Change in Components of CPI (Source: Bureau of Labor Statistics, MishTalk)

However, we believe we can anticipate a slowdown in core inflation in the coming months, driven by a moderation in rents and a resumption of price declines in the used car market. Independent measures have already indicated a downward trend in rents (refer to Figure 9 below), although the CPI tends to lag behind these measurements by several months. The CPI is calculated based on a fixed basket of goods and services, which is periodically updated to reflect changes in consumer behaviour. However, the weight assigned to housing in the CPI may not fully capture the rental market's dynamics or changes in rental prices in specific locations.

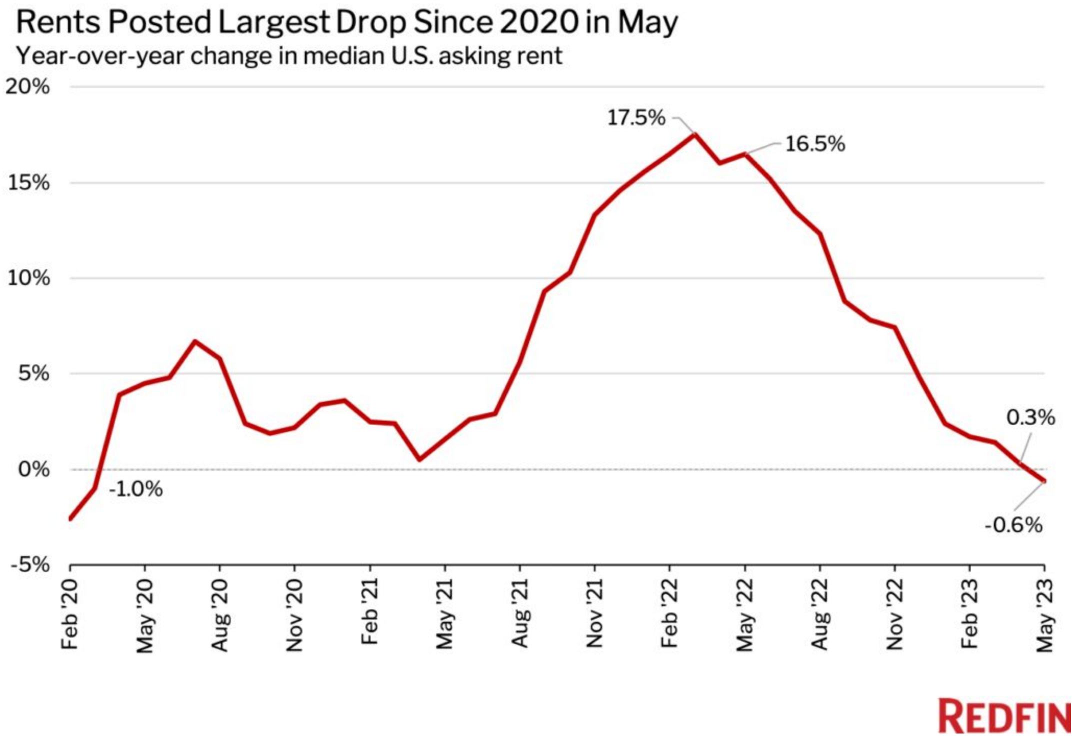


Figure 9. US Median Asking Rent (Source: Redfin Real Estate Brokerage)

Moreover, leading indicators such as the Manheim Used Vehicle Value Index (or Manheim Index) suggest future relief in the cost of used cars. The Manheim Index tracks the monthly changes in wholesale prices of used vehicles at Manheim auctions, which are some of the largest wholesale vehicle auctions in the country. It provides a snapshot of the market conditions and trends in the used vehicle industry.

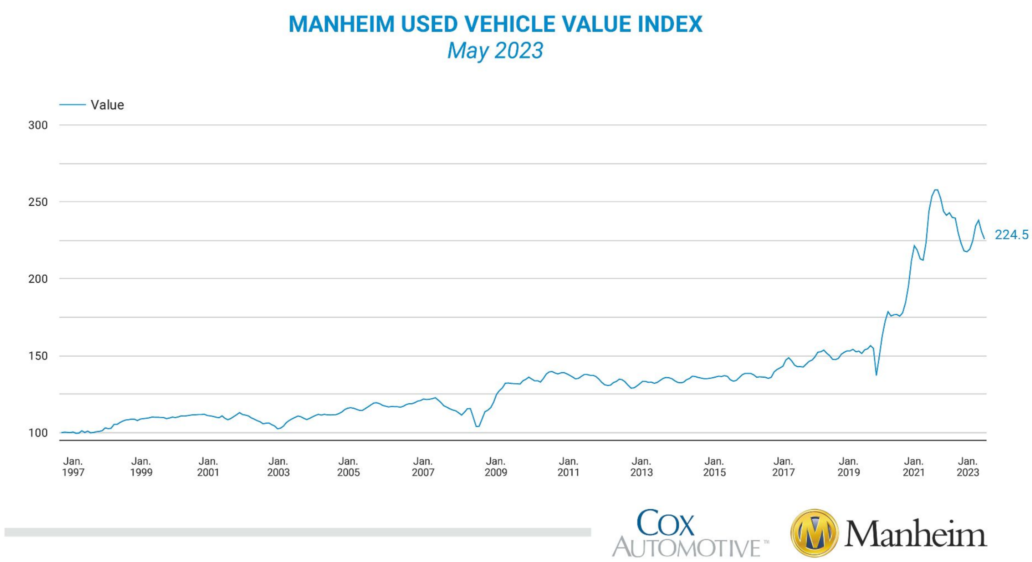


Figure 10. Manheim Used Vehicle Index (Source: COX Automotive)

The latest inflation data also showed notable progress in the service sector. While service sector inflation rose by 6.3 percent on an annual basis, the monthly increase was only 0.2 percent. This suggests relief in the inflation pipeline, particularly in an area closely associated with wage demands.

As inflation continues to ease, we can anticipate that the service sector inflation, which has been relatively sticky, will become a crucial part of the economic narrative later this year. While the task of reducing inflation from 9.1 percent to 4 percent was challenging, driving it down from four percent to three percent and further to the Fed’s two percent target is expected to be more manageable, given the positive trajectory observed in the service sector, as well as other components of inflation.

US Budget Deficit Quadruples to $240 Billion in May, Driven by Rising Spending and Declining Revenue

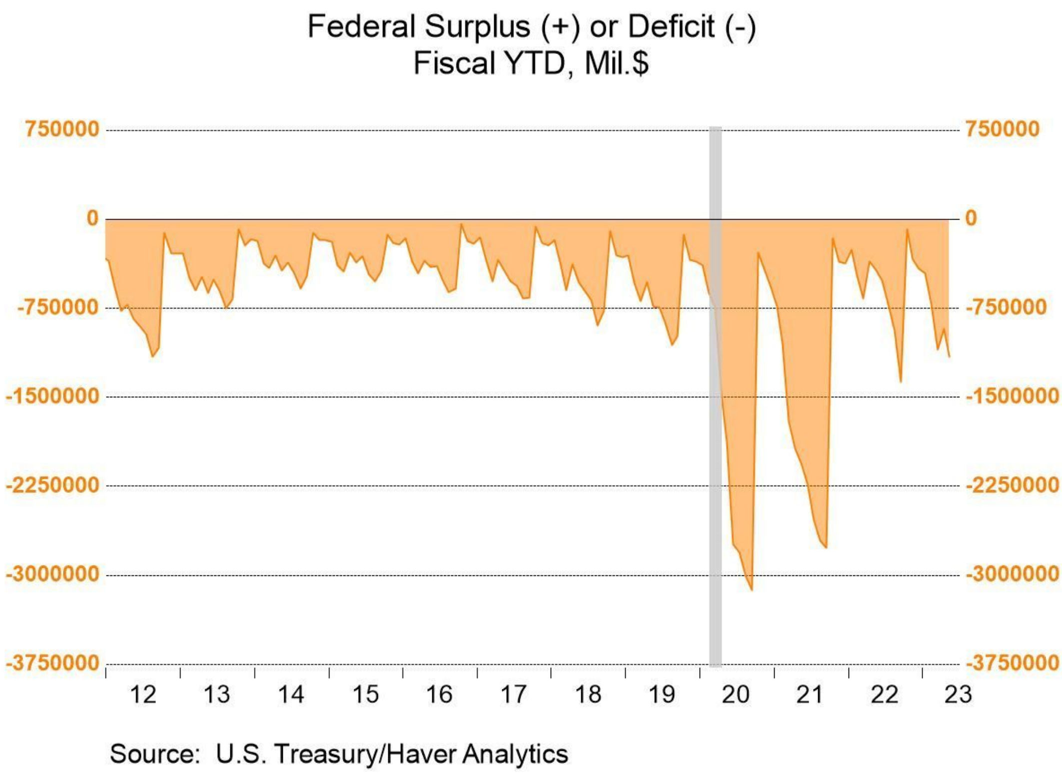


Figure 11. Federal Deficit (Source: US Treasury / Haver Analytics)

The US budget deficit surged to $240 billion in May, marking a fourfold increase compared to the previous year. This significant rise can be attributed to higher government spending and a decrease in taxes collected, according to reports from the Treasury Department.

A budget deficit refers to a situation where a government's expenses exceed its revenues in a given period. It is an important metric in the economy because it reflects the financial health of a government. Managing the budget deficit is crucial to maintain fiscal sustainability, control inflation, promote private sector investment, and maintain confidence in the economy.

During the first eight months of the current fiscal year, the overall deficit reached $1.16 trillion, a decrease from the $1.38 trillion recorded during the same period last year. Government spending experienced a substantial increase, soaring by 20 percent to $548 billion compared to $455 billion in the corresponding month of the previous year. Government spending has increased so far by 9.4 percent year-to-date for fiscal year 2023.

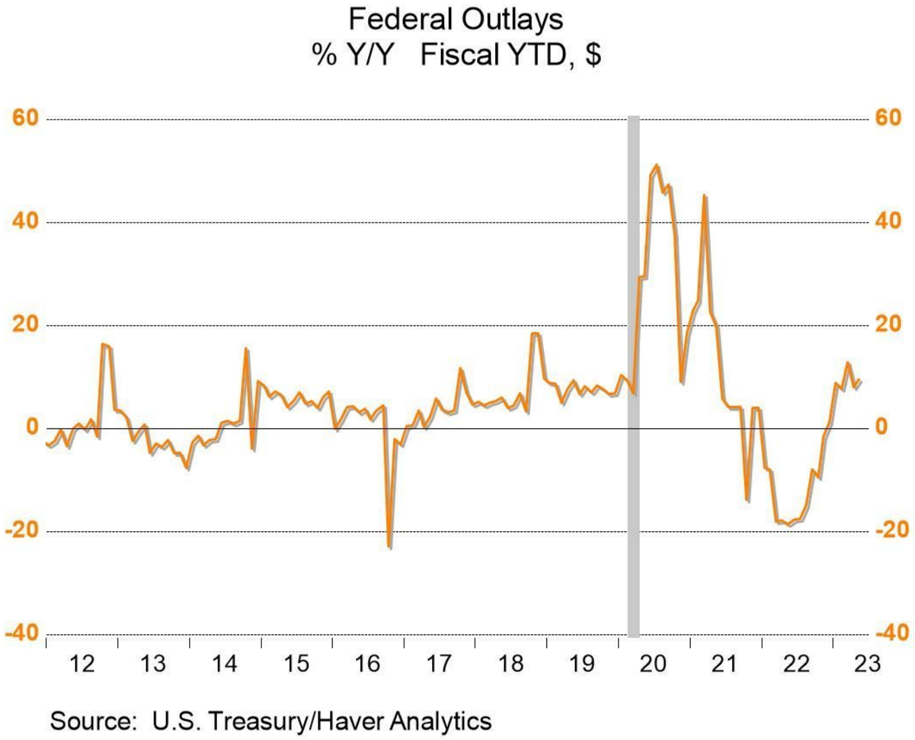


Figure 12. Federal Outlays (Source: US Treasury / Haver Analytics)

Medicare and Social Security, two entitlement programs, saw significant growth, which was a major contributor to the increase in spending. Additionally, rising interest rates on the government's mounting debt also played a substantial role in contributing to the deficit.

Another factor that contributed to the deficit was the increased spending by the Federal Deposit Insurance Corp. (FDIC) following a series of bank failures and takeovers earlier this year. The FDIC expects to recoup most of the funds through the sale of bank assets and higher industry fees.

The decline in tax revenue was also a significant factor, as taxes collected last month fell by approximately 21 percent, amounting to $307.5 billion compared to the previous year. Overall revenues have declined 11.3 percent so far during FY’23 versus the first eight months of the last fiscal year. This decrease can be partly attributed to the impact of a softer economy. Furthermore, taxes were higher in May 2022 due to delays in processing tax returns by the Internal Revenue Service (IRS).

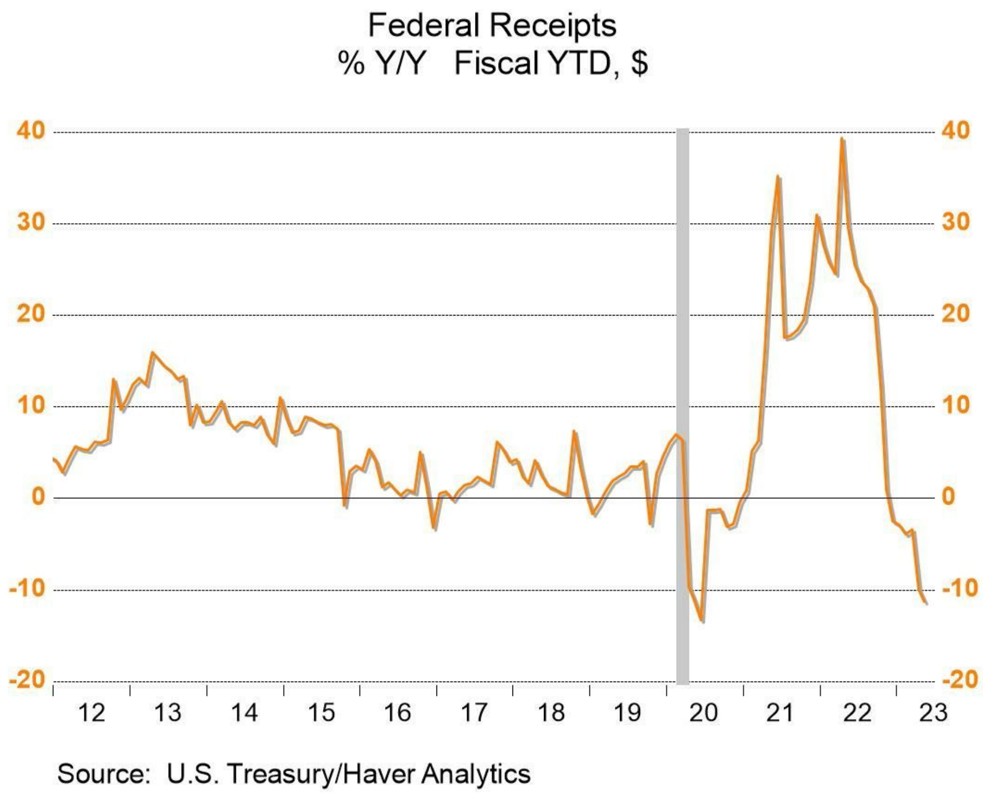


Figure 13. Federal Receipts (Source: US Treasury / Haver Analytics)

Despite recent bipartisan efforts by Democrats and Republicans to manage the escalating deficit through a budget agreement, the Congressional Budget Office (CBO) continues to forecast a steady increase in the annual deficit. The CBO's calculations suggest that by 2033, the deficit could swell to $2.9 trillion, a significant leap from the projected $1.4 trillion in the ongoing fiscal year.

This outlook coincides with the recent declaration by the Treasury Department regarding the May deficit. This follows the suspension of the debt ceiling, thus avoiding a potential scenario of federal default. The debt ceiling refers to a limit set by the government on the amount of debt it can legally borrow to fund its operations and meet its financial obligations. It is essentially a cap on the total amount of outstanding debt that the government can have.

The deficit in May increased to $240 billion from $66 billion last year, which more than offsetts the $176 billion surplus recorded in April, brought by the tax filing season.

On June 3rd, legislation was passed by President Joe Biden to suspend the US debt ceiling, currently at $31.4 trillion, until January 2025. The suspension of the debt ceiling is often used as a temporary measure to provide the government with the necessary flexibility to continue functioning and avoid default.

This move allows the Treasury to start planning for the replenishment of its depleted cash positions, which had fallen below $23 billion on a Treasury report on June 2 but have seen an uptick to roughly $88 billion as of last Thursday, June 9, as income tax payments were received and as an immediate reaction to the suspension of the debt-limit.

The burgeoning US budget deficit exemplifies the persistent fiscal challenges faced by the country. This highlights the critical need for continued, concerted efforts to address and manage the escalating deficit in the forthcoming years.

US Small Business Confidence Rebounds in May, but Concerns about Economy and Inflation Linger

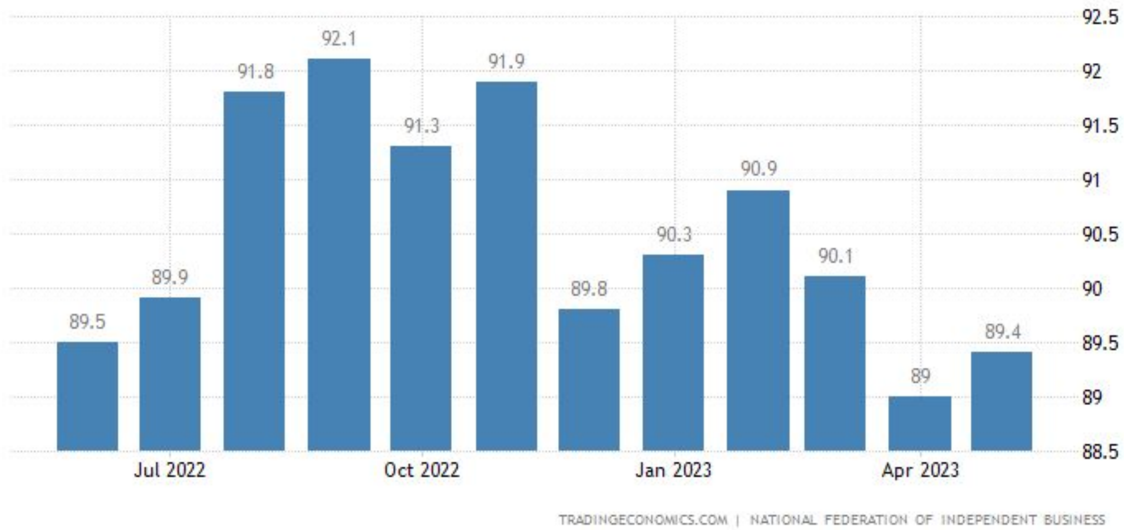


Figure 14. NFIB US Small Business Confidence Index (Source: National Federation of Independent Businesses)

According to a survey released by the National Federation of Independent Business (NFIB) last Tuesday, June 13, small business confidence in the United States saw a rebound in May to 89.4 (refer Figure 14 above).

However, worries about the outlook for the economy and inflation remained prevalent among small business owners. The survey also highlighted the continued eagerness of businesses to hire more workers.

NFIB is a prominent advocacy group representing small and independent businesses in the United States. The NFIB conducts regular surveys to gauge the sentiment and economic outlook of small business owners. One of the key metrics measured in these surveys is the Small Business Optimism Index. This index is a composite of ten components that reflect various aspects of small business operations, including sales expectations, hiring plans, capital expenditure, inventory investment, and general economic conditions. The Small Business Optimism Index provides a snapshot of the overall confidence and outlook of small business owners, which is an important indicator of the health and vitality of the small business sector in the United States.

Small Business Optimism

Index Component	Net %	From Last Month
Plans to Increase Employment	19%	▲ 2
Plans to Make Capital Outlays	25%	▲ 6
Plans to Increase Inventories	-2%	▲ 3
Expect Economy to Improve	-50%	▼ -1
Expect Real Sales Higher	-21%	▼ -2
Current Inventory	-3%	▲ 2
Current Job Openings	44%	▼ -1
Expected Credit Conditions	-10%	▼ -2
Now a Good Time to Expand	3%	▬ 0
Earnings Trends	-26%	▼ -3

Figure 15. Small Business Index Components (Source: NFIB)

The Small Business Optimism Index rose by 0.4 points to reach 89.4 last month. Despite this increase, it marked the 17th consecutive month that the index remained below the 49-year average of 98, indicating ongoing concerns among small business owners.

The survey revealed that there was a net negative 50 percent of business owners expecting better business conditions in the next six months, showing a decline of one point from the previous month. Additionally, a net negative 21 percent expected higher inflation-adjusted sales, down two points from April. This means that among a group of owners , the percentage of those who anticipate an improvement in business conditions has decreased by one point. The term "net negative" indicates that the percentage of owners with a positive outlook is lower than those with a negative outlook

Inflation emerged as a significant concern for small business owners, with 25 percent of respondents reporting it as their top issue. This figure represented a two-point increase from April, although it was 12 points lower than the peak recorded in July 2022, which was the highest reading since the fourth quarter of 1979.

The NFIB survey also revealed that 44 percent of owners reported difficulties filling job openings, a slight decrease from April. However, a net 19 percent of respondents planned to create new jobs in the next three months, indicating a two-point increase from the previous month. In May, approximately 63 percent of small businesses reported hiring or attempting to hire, reflecting a three-point increase from April.

The strong hiring activity by small businesses partly explains the resilience of the labour market. The government's recent report stated that nonfarm payrolls increased by 339,000 jobs in May.

NFIB Chief Economist Bill Dunkelberg emphasised that small business owners are expressing concerns about future business conditions, particularly regarding supply chain disruptions and labour shortages. These challenges continue to limit the ability of many small firms to meet the demand for their products and services, although the severity is less compared to the experiences of the previous year.

Consumer Sentiment Rises as Inflation Eases and Debt Ceiling Dispute Ends

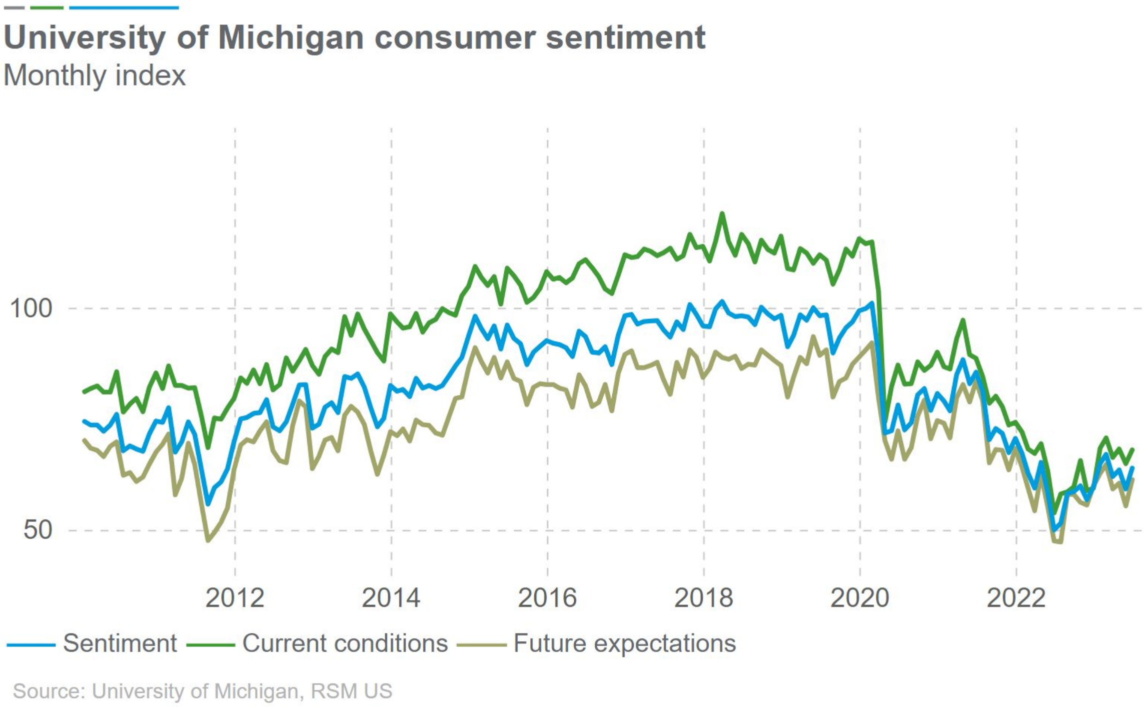


Figure 16. University of Michigan Consumer Sentiment (Source: University of Michigan, RSM US)

Consumer sentiment in the United States reached a four-month high in June, climbing to 63.9, as inflation showed signs of easing and Washington resolved the latest debt-ceiling battle. However, Americans still anticipate challenging times ahead, according to the University of Michigan's consumer sentiment index, which increased from 59.2 in May but remains far below past peaks and close to the all-time low of 50 hit last year.

The index provides insights into consumers' views on both their personal finances and the overall economy. Despite the recent improvement, sentiment remains significantly below the peak of 88.3 in 2021 and the pre-pandemic high of 101.

One component of the survey, which measures consumers' perceptions of the current state of the economy, rose from 64.9 in May to 68.0 in June. Another measure that assesses expectations for the next six months increased from 55.4 to 61.3. Nevertheless, both indexes still indicate relatively low sentiment levels.

Inflation expectations among Americans have decreased. They now anticipate inflation to average 3.3 percent in the next year, down from 4.2 percent in the previous survey. Additionally, respondents believe inflation will average around 3 percent annually in the next five years, surpassing pre-pandemic levels.

The rise in consumer sentiment in June can be attributed to increased optimism resulting from easing inflation and the resolution of the debt-ceiling crisis. However, the majority of consumers still anticipate challenging economic conditions in the coming year, according to the survey.

With inflation easing, albeit remaining above the Fed's two percent target, financial markets are speculating that the central bank will raise interest rates only once more this year. Indeed, In its latest projections, the Fed signalled a potential need for a rate increase of up to half a percentage point by the end of the year. This reflects a shift from the Fed's aggressive tightening cycle over the past year, which saw 500 basis points worth of rate hikes since March 2022.

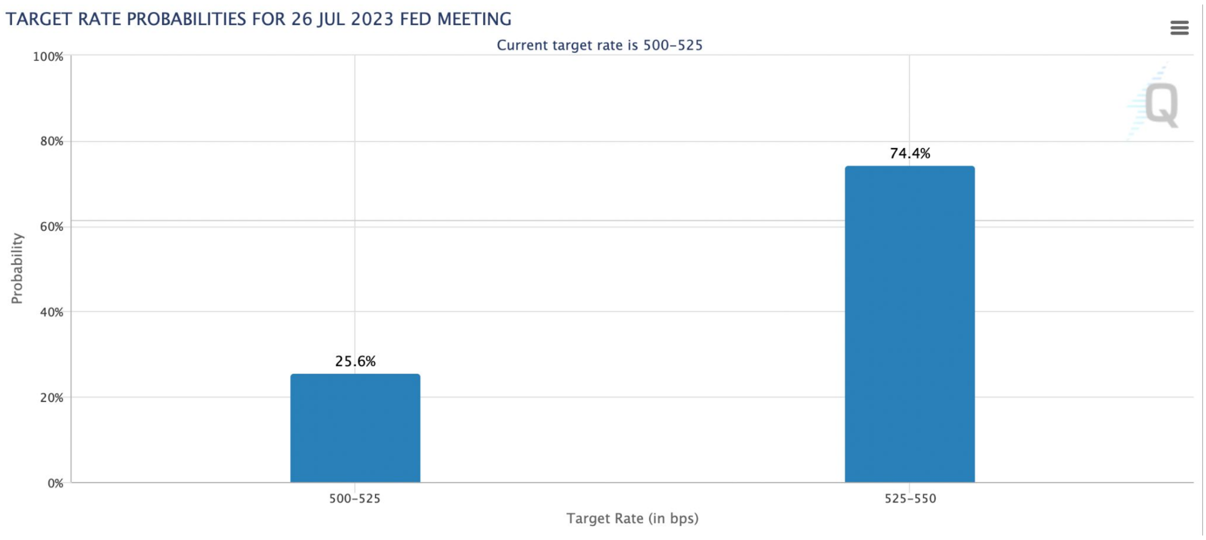


Figure 17 Target Rate Probabilities for July 26 FED Meeting , Data as of June 15 (Source: CME FedWatch Tool)

The resolution of the debt-ceiling standoff in Washington also contributed to the improved sentiment among consumers. This boost in sentiment, combined with strong wage growth driven by a tight labour market, is expected to support consumer spending in the coming months. Despite the recent improvements, however, the majority of consumers still anticipate economic difficulties in the next year.

WHAT'S ON-CHAIN THIS WEEK?

Regulatory Ripples: The Crypto Market's Composed Response to Legal Action against Binance and Coinbase

In the wake of the recent legal charges filed against Binance and Coinbase by the US Securities and Exchange Commission (SEC), the crypto market has staged a composed response, with Long-Term Bitcoin Holders in particular showing no signs of selling their spot positions.

This is underpinned by a steady outflow of coins from exchanges and a lack of significant profit or loss locked in, according to on-chain data. It suggests a level of investor confidence and resilience that bodes well for the future of the market, despite the regulatory turbulence. There is a common misconception in recent times that outflows mean lack of faith in crypto exchanges and hence is bearish for the market. However, while an outflow of Bitcoin might mean a decrease in confidence in centralised exchanges, moving coins into cold storage shows faith in Bitcoin as an asset.

There has been a bit of concern that the movement off exchanges is also a response to the regulatory action being faced by Binance and Coinbase, but we see this as an oversimplification. The SEC's charges, which pertain to the listing and trading of tokens deemed to be unregistered securities, as well as claims that the offered earn and staking services are in violation of securities laws, have indeed led to a notable outflow of coins from Binance.

Figure 18. BTC and Ether balances on Binance with respect to time. (source: Glassnode)

Since June 5th, investors have withdrawn their assets at a steady pace, with total stablecoin balances down over $1.6 billion, accounting for about 20.9 percent of the total balance on Binance. Reserves of BTC and Ether have seen a less severe decline, with decreases of 5.7 percent and 7.1 percent, respectively. (refer Figure 18 above)

In contrast however, the changes in net reserves for Coinbase have been less dramatic. While stablecoin balances have remained relatively flat over the past week, BTC balances have dropped by approximately 2,300 BTC, or 0.5 percent of the total held by Coinbase. That said, ETH balances have experienced a more substantial decline of around 291k ETH, equating to roughly eight percent of Coinbase's total balance.

To conclude that the SEC charges are entirely responsible for this behaviour is difficult to support, given the different behaviour seen across the two exchanges, and it may be that there is as much nervousness around the SEC legal action, as there is confidence in BTC as an asset.

Interestingly, the data points to a divergence in investor behaviour. Transactions below $10M in size have seen consistent withdrawals, with a net outflow of over $130M/day maintained all week. There have also been withdrawals above $10M in size, but not as consistent. In contrast, transactions above $10M in size have seen consistent deposits, but inflow rates are much smaller, ranging between $15M and $30M/day. This suggests that very large entities, such as institutions, are more sensitive to the SEC, and other regulatory news compared to smaller entities. Those deposits could be seen as a precursor to selling, but such activity has not yet been observed, and in contrast to the much larger outflows being seen, it provides an indicator of generally bullish sentiment.

Despite the regulatory headwinds, the HODLers of the crypto market have shown resilience. Short-Term Holders (STHs) account for 76.4 percent of deposit volume as per *Glassnode* data (refer Figure 19 below), suggesting that all entities depositing on exchanges with an intention to sell either comprises of miners or short-term holders panic selling. However, the lack of significant profit or loss locked in suggests that the current price range doesn't provide enough incentive for a broader sell-off or for more active trading.

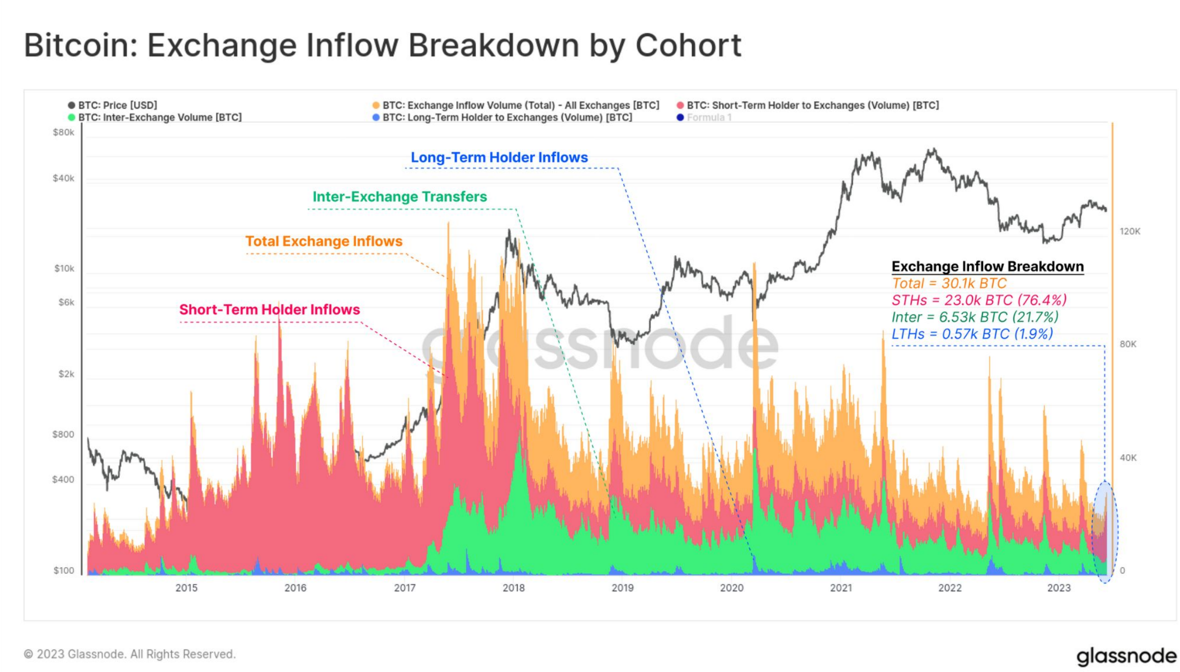


Figure 19. Spot BTC Exchange Inflow for each type of investor. (source: Glassnode)

Both exchange inflows and outflows have increased in June. The sum of these metrics has increased from around $500M per day to $845M per day. Miners make up a large amount of the segment of short-term holders depositing Bitcoin on exchanges, given shrinking revenues as BTC prices drop, however there has not been any widespread selling. The third largest miner inflow on record was registered earlier in the month (refer Figure 20 below). This further validates our theory of inflows being bearish and outflows being bullish under most conditions.

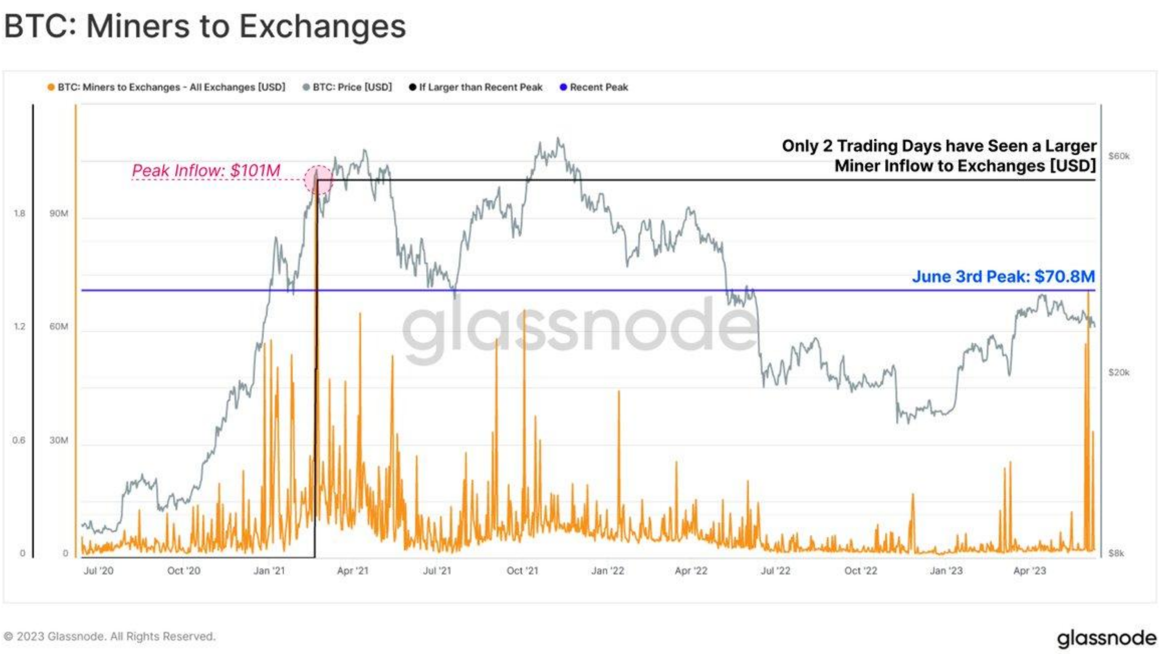


Figure 20. Miner deposits to exchanges. (source: Glassnode)

As evidenced by the figure below, the Whale Market Value to Realised Value (MVRV) significantly exceeds one. This indicates that, despite a marked decline in MVRV since April's end, investors and traders with substantial holdings, colloquially known as 'whales', continue to exhibit confidence in their spot positions, with a considerable amount of unrealised profits.

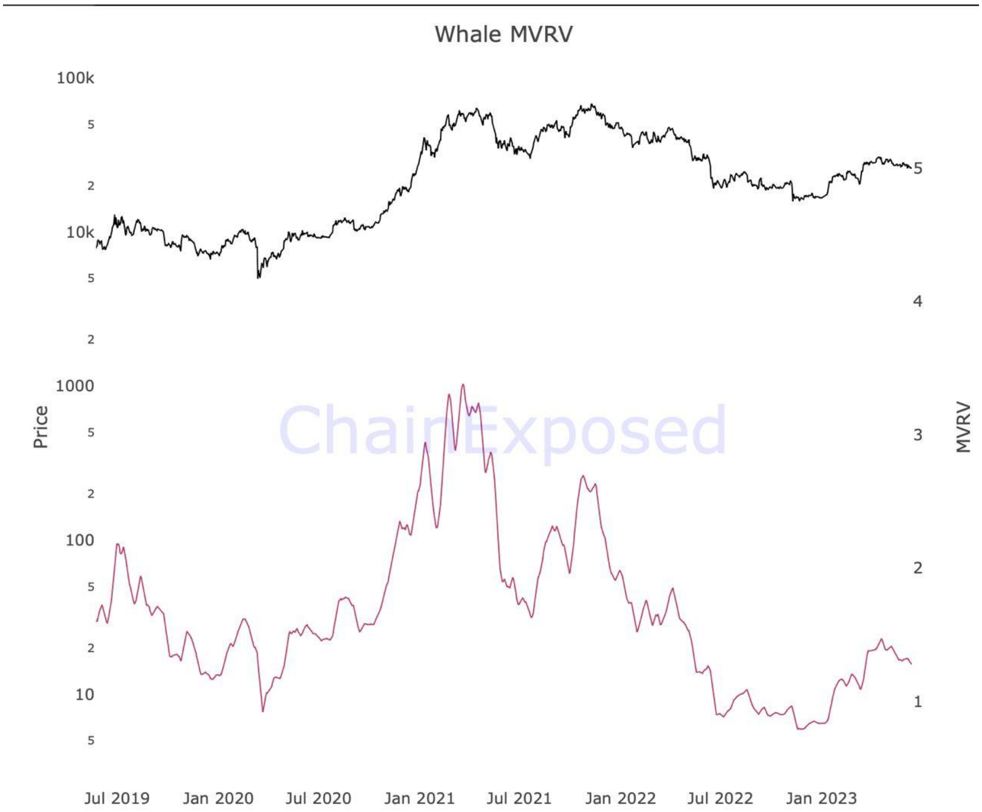


Figure 21. Whale MVRV vs BTC price. (source: ChainExposed)

We conclude that whales have not really been realising their BTC spot positions. Usually, there is a large overlap between coins held by whales and coins held by Long-Term Holders (LTHs) as early accumulators have typically been able to acquire more BTC with the same buying power. Our thesis that LTHs are feeling resilient in the current market is further supported ny an analysis of the Coin Days Destroyed (CDD) metric.

Coin Days Destroyed (CDD) is a concept used in the analysis of the Bitcoin network's transactional activity. It gives more weight to coins that haven't been spent for a long time, thereby providing a perspective on the economic throughput of Bitcoin that considers both transaction volume and transaction velocity.

Currently, the CDD has been ranging since the beginning of June and has recently decreased notably on the lower timeframes. (refer red box in Figure 22 below) A decrease in CDD means that fewer old coins are on the move. This could be interpreted as long-term holders continuing to hold onto their coins, suggesting a bullish sentiment.

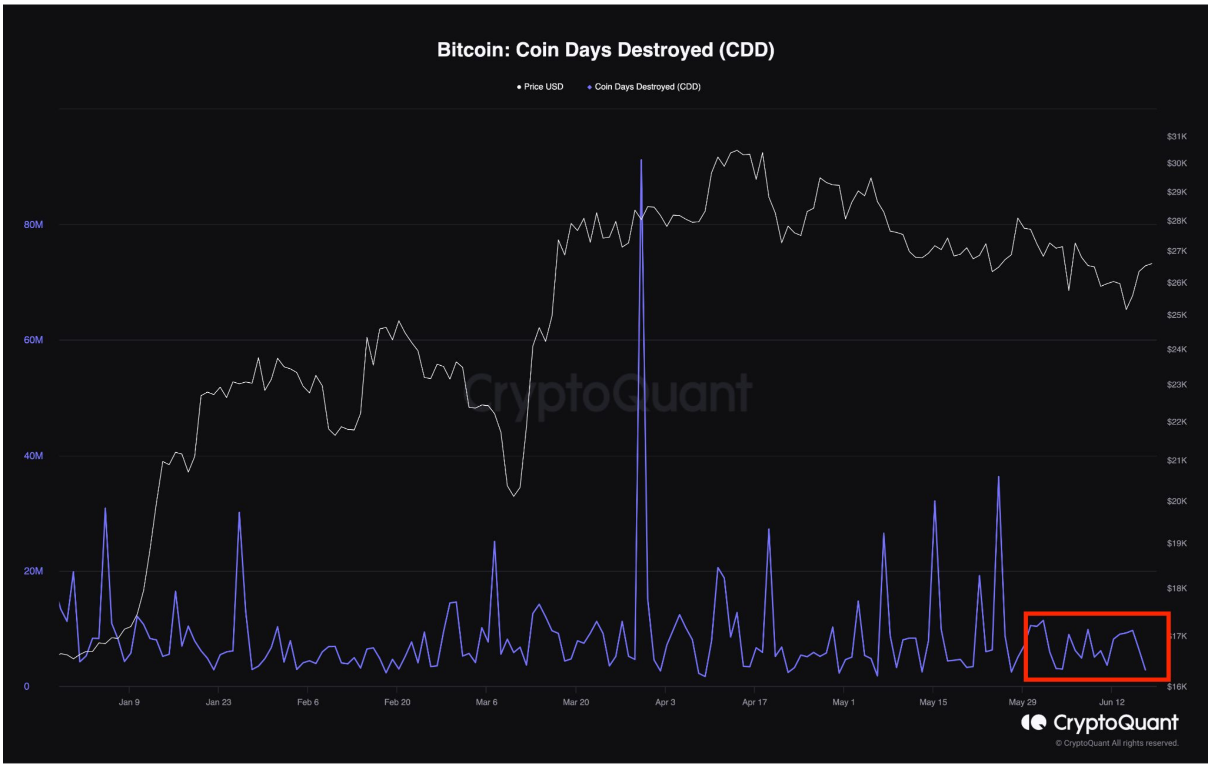


Figure 22. Coin Days Destroyed for Bitcoin. (source: CryptoQuant)

Moreover, the limited reaction from Long-Term Holders can be seen as a strong signal of the market's resilience and continued faith in the longer-term value of Bitcoin. Their actions, or lack thereof, indicate that they remain largely unfazed by regulatory news and continue to stick to their long-term holding strategy.

In conclusion, the crypto market has shown a composed response to the recent legal charges against Binance and Coinbase. While there has been some movement of coins off exchanges, the lack of significant profit or loss locked in, and the limited reaction from Long-Term Holders, suggest a level of investor confidence and resilience. As the legal disputes play out, it will be interesting to see how these trends evolve and what they mean for the future of the market.

Bitcoin Rebounds From Major Psychological Level But No Short Squeeze Yet

Bitcoin's short squeeze ratio and liquidation data suggests that the eight percent rebound from $25,000 was not fueled by short liquidations.

As seen in Figure 23 below, the red circles show areas where short squeezes have occurred historically. If the price of Bitcoin suddenly increases, those who are short may face margin calls or stop losses, requiring them to buy back Bitcoin at the current higher price to cover their positions. This buying pressure can lead to a rapid increase in price, exacerbating the rise. As the price continues to rise, more short sellers may have to cover their positions, causing a feedback loop of buying pressure, which can drive the price up even more. This is what a short squeeze is.

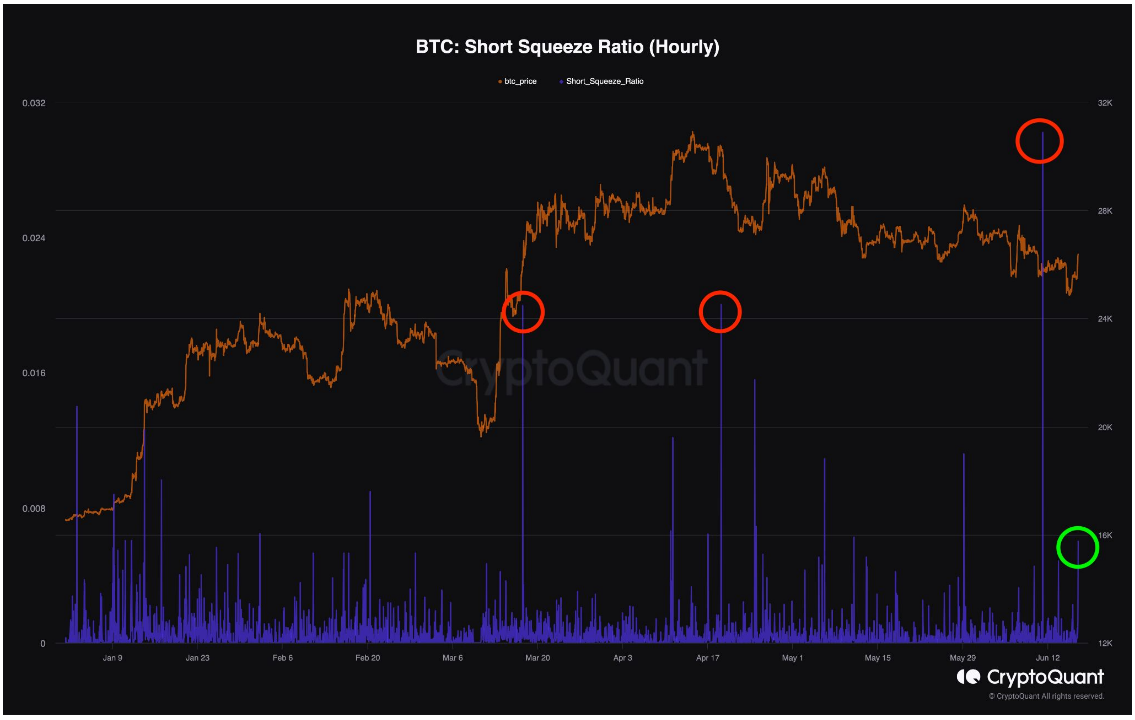


Figure 23. BTC Hourly Short Squeeze Ratio. (source: CryptoQuant)

Currently, even though the sentiment and price trend has been down for the asset, the sudden rebound from $25k last week, has not triggered any massive short squeezes, as seen in the green circle above. The short squeeze ratio is calculated by dividing the long volume on perpetual swaps by the short liquidations.

The absolute value of the short liquidations is also not significant when compared to previous moves in BTC, that tend to occur quickly and result in moves greater than five percent.

Figure 24. Total Liquidations For the Crypto Market's Top Exchanges. (source: coinglass)

Since the BTC price traded sub-$25,000 on June 14th the absolute value of short liquidations for the entire crypto market has amounted to less than $150 million and has never crossed $40 million for a single trading day. (refer Figure 24 above)
This further corroborates our theory that the move up is not caused by short liquidations but could rather be large futures long positions propping price up.

Moreover, orderflow analysis suggests that the BTC aggregated Open Interest rose by over $800 million in an 18-20 hour period after price moved below $25,000 on June 14th (as per *coinalyze* data). It must also be noted that for most exchanges, a lot of this OI was dominated by net longs as seen in FIgure 25 below.

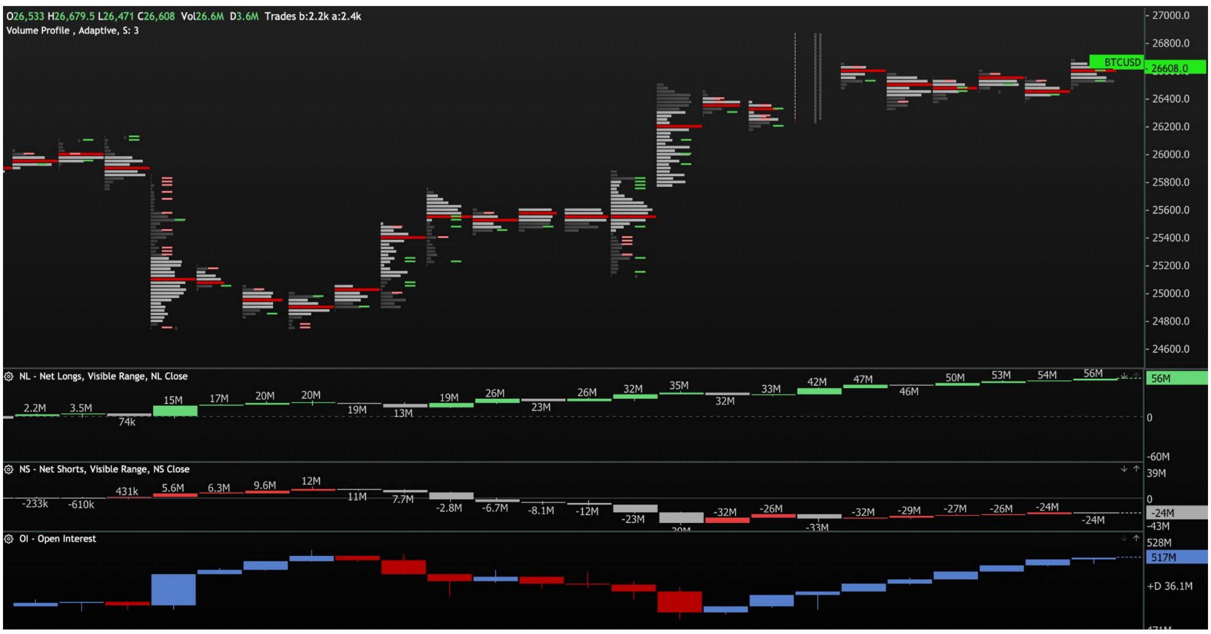


Figure 25. BTC/USD 4H chart with Open Interest, Net Longs and Net Shorts. (source: exocharts)

NEWS FROM THE CRYPTO-SPHERE

SEC Delays Response to Coinbase's Rulemaking Petition Amidst Ongoing Enforcement Action

Figure 26.SEC Delays Response to Coinbase's Rulemaking Petition Amidst Ongoing Enforcement Action

- **The US SEC has not made a decision on Coinbase's rulemaking petition while stating that its ongoing enforcement action against the platform does not conflict with any ruling on rulemaking.**
- **Coinbase must wait up to four months (120 days) for the SEC to issue its rulemaking on digital asset trading, following its request for clarity in rulemaking filed in 2022.**

The US Securities and Exchange Commission (SEC) has confirmed that it has yet to make a decision regarding Coinbase's petition for clearer rulemaking, stating that its recent enforcement action against the cryptocurrency trading platform does not conflict with any ruling on rulemaking. The regulator addressed this matter on Tuesday, June 13th, shedding light on its current stance on the rulemaking petition in light of the ongoing enforcement action against Coinbase.

The SEC's enforcement action against Coinbase, which accuses the platform of operating an unregistered securities exchange, broker, and clearing agency, had prompted Coinbase to argue that the SEC has already rejected their petition. However, th
e SEC clarified that no decision has been reached, and its staff members anticipate making a recommendation within 120 days.

The SEC emphasised that Coinbase is still obligated to comply with existing laws until the commission proposes new regulations. The regulatory filing stated, "Regardless of whether the Commission determines to undertake the rulemaking sought by Coinbase, a decision the Commission has yet to make, Coinbase – like everyone else – is bound by existing law. And Coinbase is free to vigorously assert its position that it has not violated that law in the current enforcement action."

Coinbase's Chief Legal Officer (CLO), Paul Grewal, expressed disappointment with the SEC's response, accusing the regulator of disregarding statements made by SEC Chair Gary Gensler, which indicate a lack of intention to issue new rules. Grewal argued that the SEC misinterpreted the statements as a decision in themselves, despite the agency's argument that they cannot constitute official Commission action denying Coinbase's rulemaking petition.

Figure 27. ***Tweet from Coinbase CLO on SEC filing***

The SEC also highlighted that any decision made would require a majority vote by a quorum. It remains to be seen how Coinbase will navigate the ongoing enforcement action and the response from the SEC regarding its rulemaking petition.
Coinbase's request for expedited rulemaking from the SEC has faced significant delays, with the financial regulator imposing a 120-day waiting period before issuing its ruling. Coinbase filed the request for clarity on rulemaking in 2022, more than a year prior to the SEC's recent legal suit against the platform. The lawsuit, filed on June 6th, emerged from the ongoing dispute between the cryptocurrency industry and the SEC over which digital assets should be considered securities subject to registration and transparency requirements.

As the legal battle continues, the industry eagerly awaits the SEC's decision on Coinbase's rulemaking petition, which could provide much-needed guidance and clarity on the regulatory landscape for digital asset trading.

Binance.US Assets Unfrozen as Federal Judge Denies SEC's Request for Restraining Order

Figure 28. Binance.US Assets Unfrozen as Federal Judge Denies SEC's Request for Restraining Order

- **A US federal judge has rejected the SEC's request for a temporary restraining order to freeze Binance.US assets, allowing the cryptocurrency exchange to continue its operations while negotiations with the SEC proceed.**
- **The court emphasised the need for further discussions and compromise between the parties involved, while questioning the SEC's lack of evidence regarding the movement of Binance.US customer funds.**

A US federal judge, Amy Berman, has rejected the SEC request for a temporary restraining order (TRO) to freeze the assets of Binance.US, the American arm of cryptocurrency exchange Binance, last Tuesday June 6th. The decision allows Binance.US to continue its operations while negotiations with the SEC regarding restrictions proceed.

Following the SEC's legal action against Binance and Binance.US for alleged violations of federal securities laws, the commission sought an emergency TRO to freeze Binance.US assets. However, the court ruling denied the SEC's request, emphasising the need for further negotiations and compromise between the parties involved.

Judge Berman has instructed Binance.US to provide a list of its business expenses, and both parties have been ordered to continue negotiating. A status update is expected by Thursday.

During the court proceedings, the judge questioned the SEC attorneys regarding their motion to freeze all of Binance's assets, seeking clarification on whether Binance.US customer funds had been moved out of the US. The judge expressed frustration at the lack of clear responses from the SEC regarding this matter.

While the judge indicated a potential inclination to impose certain restrictions on Binance's access to Binance.US assets, she did not grant a full restraining order. The court said that finding an agreement between the SEC and Binance.US would allow sufficient time to address the details of the case.

The SEC's lawsuit against Binance and Binance.US alleges that they operated as unregistered securities exchanges, brokerages, and clearing agencies. The regulator also claims that there was significant co-mingling of funds, granting Binance founder Changpeng "CZ" Zhao access to Binance.US customer assets.

Both Binance and Binance.US have refuted the SEC's allegations in their response to the motion, asserting that the SEC has not provided conclusive evidence of listing securities and lacking support for an emergency motion.

The court hearing also delved into the fundamental question of what classifies a crypto asset as a security or a commodity. The judge probed the SEC about distinguishing between "crypto assets" and "crypto asset securities," seeking clarity on the categorization of various cryptocurrencies.

BlockFi Expects to Resume Customer Withdrawals This Summer Following Testing and Platform Updates

Figure 29. BlockFi's tweet on November last year announcing its Bankruptcy

- **Crypto lending firm BlockFi expects to resume customer withdrawals this summer after completing necessary testing and platform updates, allowing eligible clients to retrieve their digital assets held in BlockFi Wallet accounts.**
- **Withdrawals will be processed in batches, and customers will be notified via email when they become eligible.**

BlockFi, the crypto lending firm that suspended withdrawals last year after the collapse of the FTX exchange, said it hopes to complete the necessary work and testing that would enable eligible customers to start reclaiming their funds in the coming months.

In an email sent to clients, BlockFi informed them that the company aims to allow withdrawals of digital assets held in BlockFi Wallet accounts that are not subject to potential preference claims, as they near the completion of required tasks and testing.

Withdrawals will be processed in batches, and customers who meet the eligibility criteria will receive notification emails from BlockFi. In the meantime, the firm suggests users set up third-party wallets for a smoother fund withdrawal process.

BlockFi has faced challenges in facilitating customer returns since it halted withdrawals on November 13th and subsequently filed for Chapter 11 bankruptcy protection two weeks later.

According to court approval obtained on May 17th, BlockFi is updating its user interfaces to enhance the ease of fund withdrawals for clients, as stated in the email sent to customers. Judge Michael Kaplan's court order clarified that the digital assets within the custodial omnibus wallets do not belong to BlockFi.

To enable the processing of withdrawals, BlockFi needs to implement new product functionality and make platform changes, which are currently in progress and expected to be finalised by this summer, allowing the company to initiate distributions to clients.

While withdrawals will primarily involve digital asset transfers to external wallets, cash distributions will not be supported. The phased withdrawal process will prioritise assets not at risk of potential preference claims made by specific creditors seeking priority repayment.

Eligible users can anticipate receiving an email notification once they become eligible to withdraw their funds, and during this period, BlockFi encourages customers to establish external wallets to facilitate a seamless withdrawal experience.

BlockFi, which temporarily paused withdrawals due to uncertainties stemming from the decline of Alameda Research and FTX, had recently received an extension on the deadline to develop a bankruptcy exit plan. The new deadline for the plan's formulation is July 6th, following a disagreement with the unsecured creditors committee.

Hong Kong Regulator Urges Major Banks to Embrace Crypto Exchanges Amid Global Industry Scrutiny

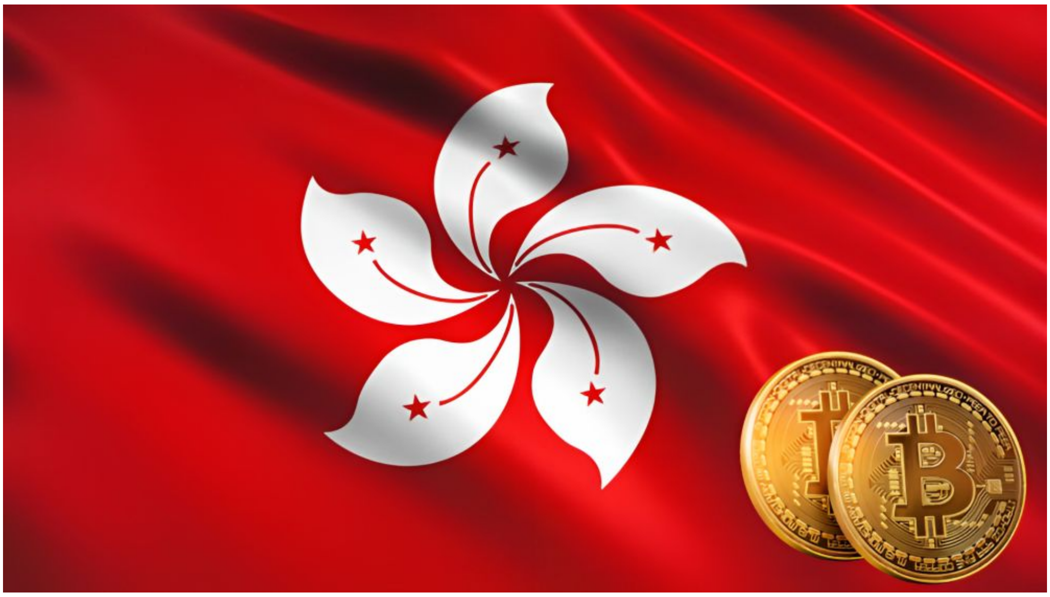


Figure 30. Hong Kong Regulator Urges Major Banks to Embrace Crypto Exchanges Amid Global Industry Scrutiny

- **The Hong Kong Monetary Authority (HKMA) is pressuring major banks, including HSBC, Standard Chartered, and Bank of China, to accept cryptocurrency exchanges as clients in a bid to establish Hong Kong as a global crypto hub.**
- **While banks have concerns about potential legal issues, the HKMA is encouraging them to overcome their hesitancy, signalling Hong Kong's enthusiasm for the crypto industry despite recent regulatory scrutiny globally.**

Hong Kong's banking regulator, the Hong Kong Monetary Authority (HKMA), is reportedly exerting pressure on prominent financial institutions, including HSBC (Hongkong and Shanghai Banking Corporation), Standard Chartered, and Bank of China, to onboard cryptocurrency exchanges as their clients. The move comes as Hong Kong aims to position itself as a global cryptocurrency hub, coinciding with recent lawsuits against major crypto exchanges, Binance and Coinbase, by US authorities.

The HKMA highlighted in an April 27th communication to the banks that conducting due diligence on potential crypto customers should not create an undue burden, particularly for those seeking to establish a presence in Hong Kong. This initiative follows the Hong Kong Securities and Futures Commission's acceptance of applications for crypto trading platform licences starting June 1st, further fueling the region's ambitions in the crypto space.

During a recent meeting, the HKMA questioned HSBC, Standard Chartered, and Bank of China about their hesitancy in accepting crypto exchanges as clients. Despite not having a ban on crypto clients, banks have been reluctant due to concerns over potential legal repercussions if these platforms are involved in illicit activities such as money laundering. The HKMA encouraged the banks to overcome their reservations, acknowledging resistance from senior executives rooted in a traditional banking mindset.

The pressure faced by banks highlights the challenges arising from Hong Kong's push to establish itself as a global crypto centre, even as high-profile collapses, such as FTX, have caused reputational damage. The delicate balance between supporting the crypto industry, as encouraged by the Hong Kong government, and ensuring compliance with anti-money laundering and know-your-customer regulations poses a complex dilemma for the banks.

Observers note that Hong Kong's regulators, including the HKMA and the Securities and Futures Commission (SFC), have been vocal about their expectations, setting them apart from regulators in other parts of the world who have been more cautious about embracing cryptocurrencies. Hong Kong's history as a crypto hub, home to prominent exchanges like FTX and Crypto.com, has motivated the government to create a facilitating environment for digital asset groups, aiming to regain its position in the industry following Beijing's previous crackdown on crypto activities.

As global scrutiny intensifies, Hong Kong's regulatory push to embrace crypto exchanges demonstrates its determination to become a leading player in the evolving cryptocurrency landscape.

Bittrex Receives Court Approval for Customer Withdrawals Amid Bankruptcy Proceedings

Figure 31. ***Bittrex Receives Court Approval for Customer Withdrawals Amid Bankruptcy Proceedings***

- **Bittrex, a US-based cryptocurrency exchange, has been granted court approval to allow customer withdrawals during its bankruptcy proceedings.**
- **The court ruling enables customers with undisputed claims to access their cryptocurrency assets and fiat currency, although it doesn't determine the priority of customer claims over the government's or resolve asset ownership issues.**

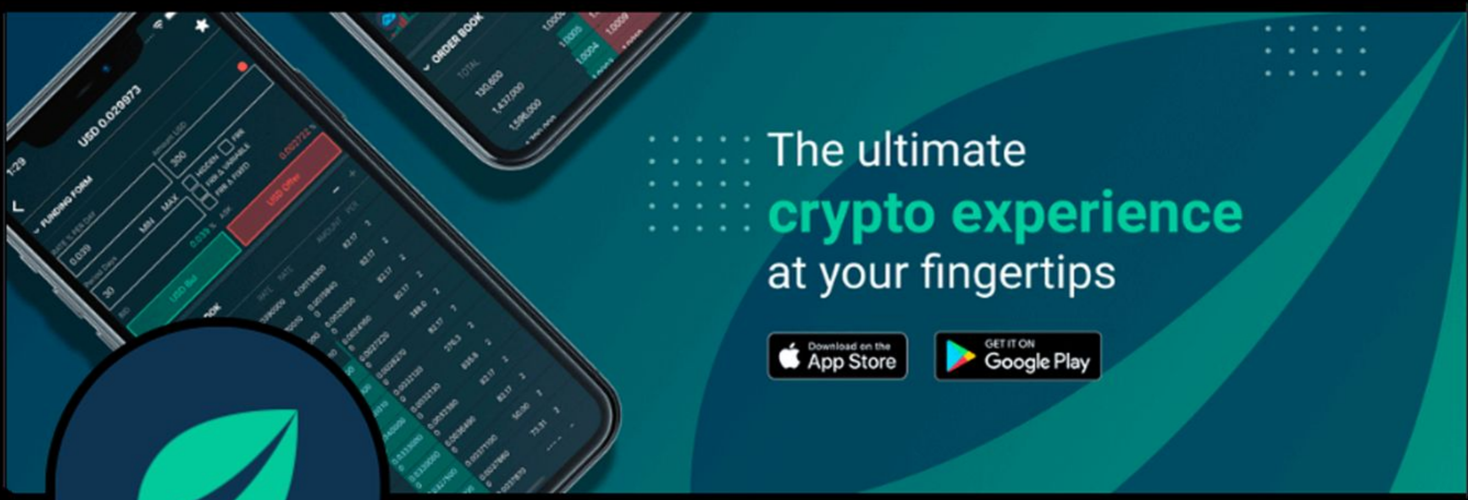
Bittrex, a cryptocurrency exchange, has been granted permission by a Delaware bankruptcy court to enable customer withdrawals last Thursday, June 14th, marking a significant development in its ongoing legal battle. The court ruling, issued by US District Judge Brendan Shannon on Tuesday, June 13th, authorises Bittrex to allow customers with undisputed, noncontingent, and liquidated claims to access their cryptocurrency assets and fiat currency held on the platform.

The decision comes after Bittrex filed for bankruptcy in May, triggering opposition from the US government, which claims the exchange owes millions of dollars for violations of sanctions. While the court ruling permits customer withdrawals, it does not resolve the question of asset ownership or establish whether customer claims take precedence over the government's claims. There remains the possibility of future clawbacks or legal challenges related to the distribution of assets.

Patty Tomasco, an attorney representing Bittrex, confirmed that the platform resumed withdrawals on Thursday, June 15th, providing much-needed relief for customers seeking access to their funds. In March, Bittrex had announced its plan to cease US operations, leading to a surge in customer withdrawals. As of May 10th, the company reported holding approximately $300 million in customer cash and cryptocurrency in its US arm.

Despite its bankruptcy status and legal disputes, Bittrex said it remains committed to navigating the regulatory landscape and promoting industry innovation. The company halted its US operations due to regulatory uncertainties and a lack of support from lawmakers. In addition to the bankruptcy filing, Bittrex has been accused by the SEC of operating an unregistered securities exchange, specifically listing tokens such as ALGO and Dash.

Bittrex's journey to regain control over its operations highlights the challenges faced by cryptocurrency exchanges in the current regulatory environment. The company emphasises the need for clear rules and guidelines to guide industry participants, promoting transparency and avoiding ambiguity that can hinder innovation. While the court ruling is a positive step for Bittrex customers, the prioritisation of claims and the resolution of legal issues remain pivotal factors in the exchange's path to stability.



https://t.me/bitfinex

BITFINEX Alpha