BITFINEX Alpha

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EXECUTIVE SUMMARY

Contradictory economic data continues to emerge from the US. Many indicators demonstrate striking resilience while others warn of an imminent recession. The Leading Economic Index registered its 14th consecutive month of declines, but economists are still hesitant to call a recession. US GDP has expanded in Q1 and is expected to persist on this trajectory in Q2 too, but the Conference Board forecasts suggest that Q3 2023 through to Q1 2024, will mark a contraction, due to the sustained stringent monetary policies that have been imposed this year and reduced government expenditure. The market now forecasts that there is a 71.9 percent likelihood of a 25 basis point rate hike at the Fed's July meeting.

The US housing market however does not appear to be perturbed by such a scenario, with a 21.7 percent surge in housing starts in May, the most significant since 2016, indicating that residential construction could well become a driver of economic growth. Homebuilders are seeing a surge in confidence, marking the first positive shift in 11 months. An increase in foot traffic, a decrease in competition, and improvements in supply chains all point to a potential uplift in the housing market.

Bitcoin market dynamics are also looking complex. A recent upswing in Bitcoin volatility, following a period of sideways price action is painting a multifaceted picture of the market's current landscape.

On-chain data shows that HODLers continue to accumulate at a steady pace of 42,200 BTC per month, highlighting an undercurrent of resilient demand, despite thin trading books, low market liquidity, and even in the wake of the SEC's legal action against Binance and Coinbase.

Volatility spiked after Blackrock, the world's largest asset manager, and two other firms, filed Bitcoin spot market ETF applications, taking the price above $30,000, but in relative terms, volatility metrics are still low. Realised Volatility in the BTC options market currently stands at around two percent, a low not seen since the 2021 bull run. While Implied Volatility has increased only slightly in anticipation of the Bitcoin halving and potential ETF approval, overall investor sentiment seems to be leaning towards a state of indifference and low market activity.

That said, some financial markets and cyclical on-chain indicators are providing strong signals of a new buying phase. The Bitcoin Price-to-Earnings ratio for miners is climbing, as miners appear to be able to consistently profit by selling their Bitcoin holdings.

On-chain, the behaviour of various Bitcoin holder cohorts is also bullish. The recent Bitcoin rally has seen various categories of Bitcoin holders come into profit, but this has resulted only in a reduction in selling pressure, consequently supporting the upward price movement.

Meanwhile, over at Ethereum, the blockchain's core developers are contemplating a significant increase in the maximum validator balance from 32 ETH to 2,048 ETH. This proposal aims to enhance network and operational efficiency, indicating the platform's commitment to optimising user rewards and overall performance.

However, the regulatory landscape continues to pose challenges for the crypto sector. Binance, one of the leading crypto exchanges, has withdrawn its registration with the UK's Financial Conduct Authority due to increasing regulatory pressure, while also facing investigations in France and legal issues in the US. Additionally, the conviction of Terraform Labs' founder Do Kwon for using a counterfeit passport further impacts the operations and reputation of that beleaguered blockchain.

The market continues to be complex and dynamic, showing signs of bullishness but still under tremendous scrutiny by regulators and market participants.

Have a great trading week!

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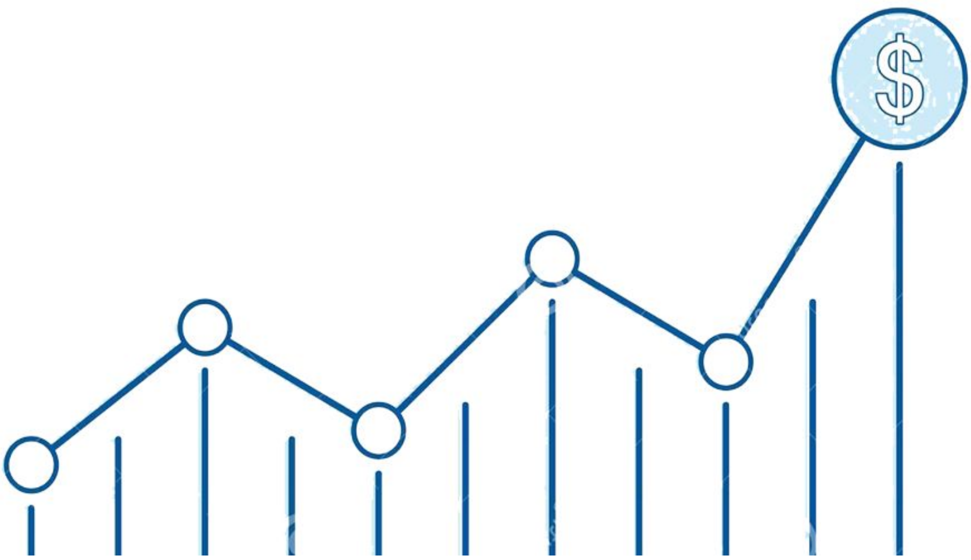


GENERAL MARKET UPDATE

US Leading Economic Index Shows Prolonged Decline, Economic Activity Remains Resilient

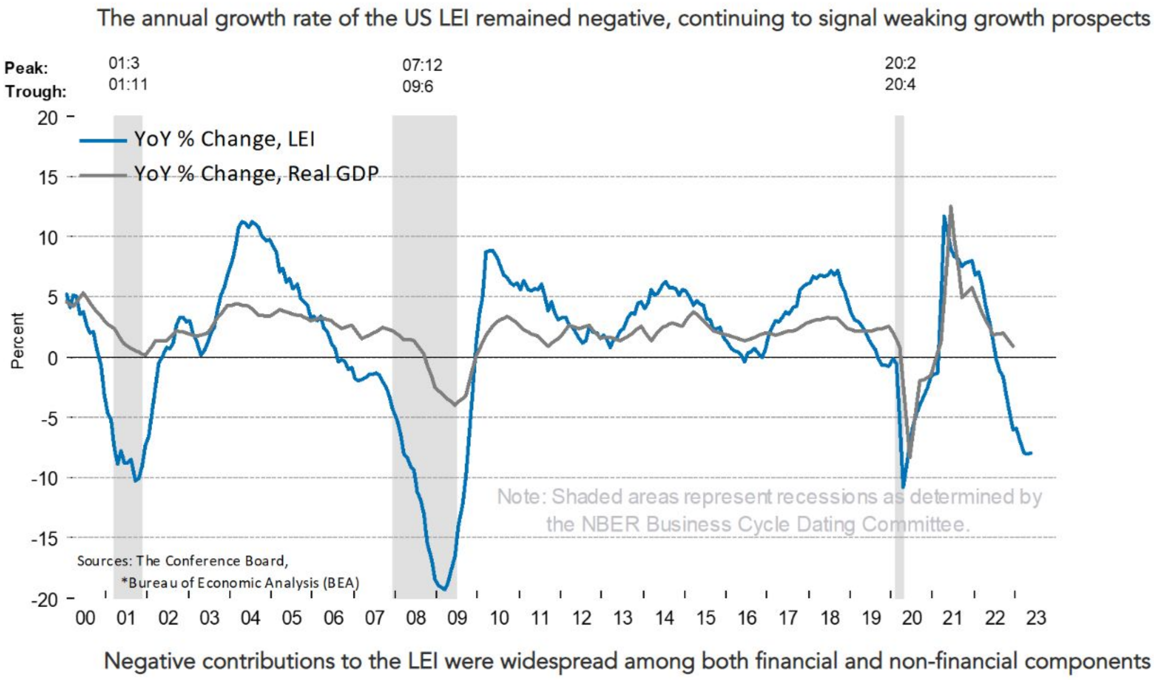


FIgure 1. Year-over-year change in Leading Economic Index (Source: The US Conference Board)

The Leading Economic Index (LEI), as reported by the nonprofit Conference Board, recorded a 0.7 percent decline in May, marking the 14th consecutive monthly decrease. Despite this prolonged decline, there is limited evidence suggesting an impending recession in the United States. The index serves as an assessment tool comprising 10 indicators designed to gauge the direction of the overall economy. In May, six of the ten tracked indicators experienced declines, though a measure of current economic conditions, as reflected in the Coincident Economic Index, saw a 0.2 percent increase. Additionally, the Lagging Economic Index, which provides a retrospective view, showed a slight rise of 0.1 percent. (See infographic below)

Despite higher interest rates, the US economy has continued to grow, with Gross Domestic Product (GDP) expanding in the first quarter and remaining on track for further expansion in the second quarter. The Federal Reserve recently revised its GDP growth forecast for 2023, raising it from 0.4 percent to one percent. However, the LEI has persistently indicated the possibility of a recession, although senior Fed officials caution that the pandemic has disrupted traditional economic models, making it uncertain how the economy will respond.

Justyna Zabinska-La Monica, senior manager of business cycle indicators at the Conference Board, stated, "While we revised our GDP forecast for the second quarter from negative to slight growth, we anticipate that the US economy will contract from the third quarter of 2023 through the first three months of 2024." Zabinska-La Monica attributed this projected technical recession to the ongoing tightness in monetary policy and reduced government spending.

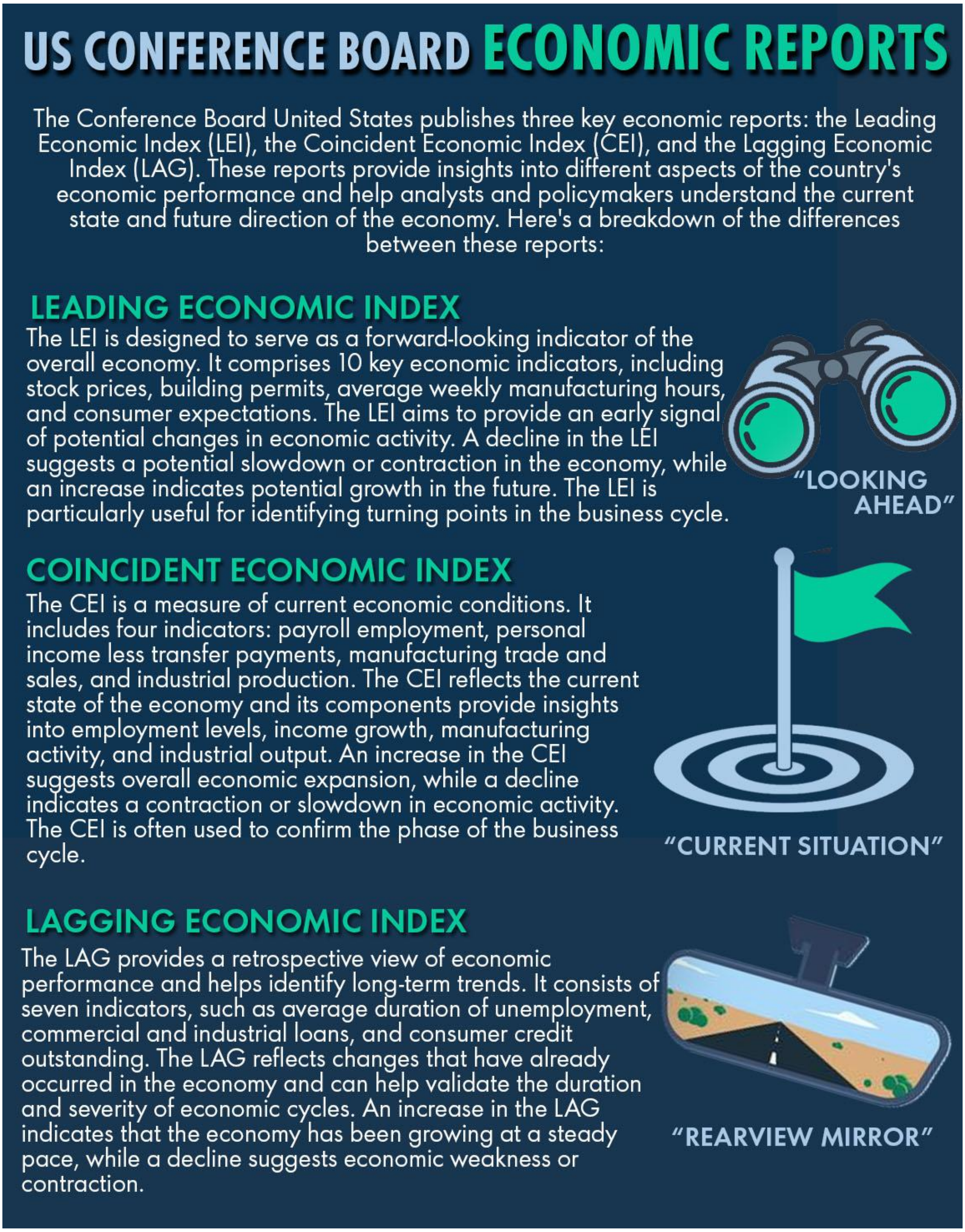


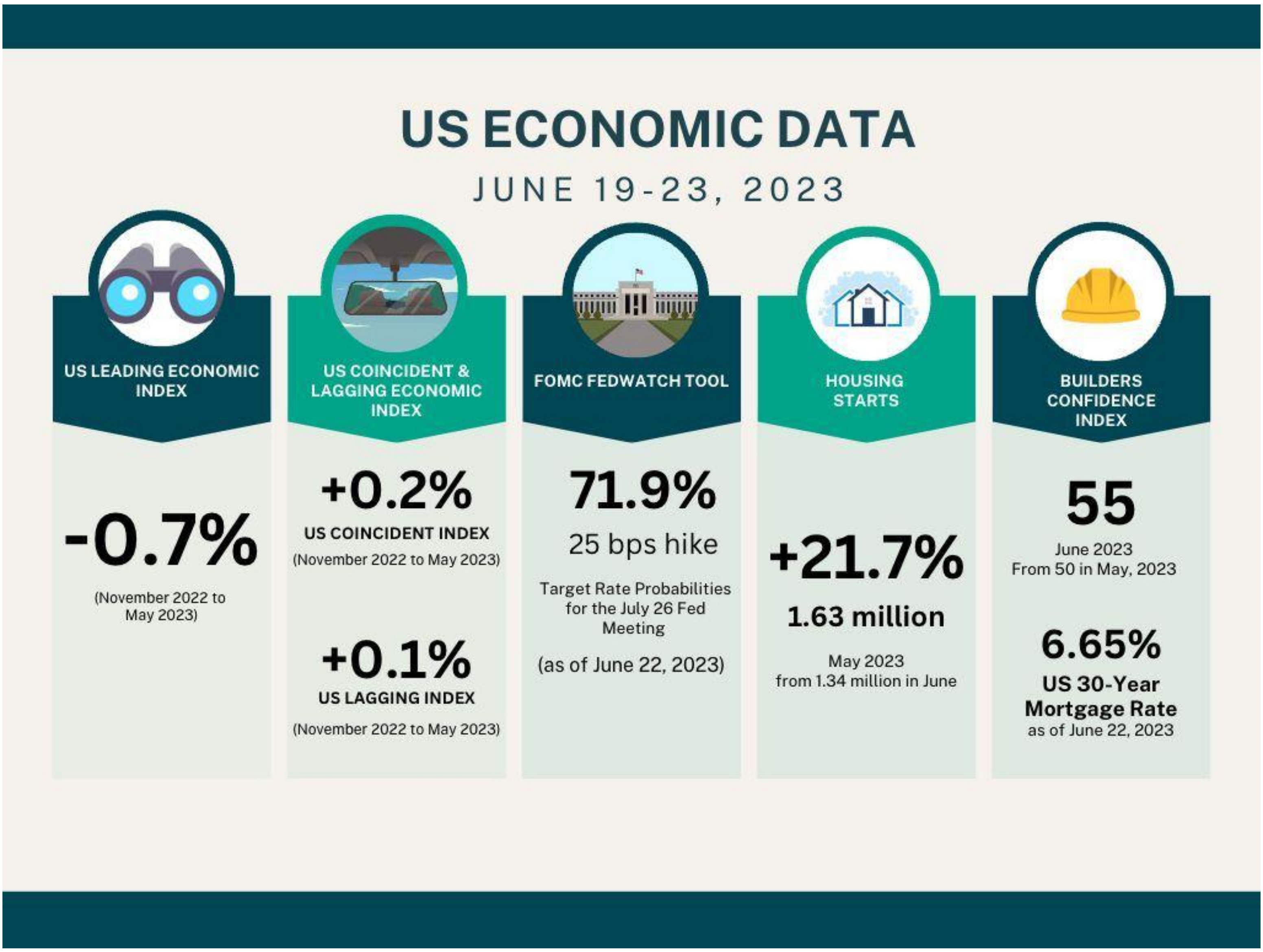
FIgure 2. US Conference board Economic Index

As mentioned above, the Coincident Economic Index (CEI) increased by 0.2 percent in May 2023 to 110.2, following a 0.3 percent rise in April. Over the six-month period from November 2022 to May 2023, the CEI recorded growth of 0.8 percent, slightly lower than the 0.9 percent growth observed in the previous six months. The CEI's component indicators, including payroll employment, personal income less transfer payments, manufacturing trade and sales, and industrial production continued to contribute positively to the overall index, despite recent data for industrial production having a negative impact.

Furthermore, the Lagging Economic Index (LAG) for the US showed a 0.1 percent increase in May 2023, reversing the previous month's decline of 0.1 percent. However, the LAG's growth rate over the six-month period from November 2022 to April 2023 was notably slower at 0.6 percent compared to its previous growth rate of 3.3 percent over the preceding six months.

While the LEI's persistent decline raises concerns about the future economic outlook, it is important to note that the U.S. economy has displayed resilience despite challenging circumstances. The growth in gross domestic product and the upward revision of Fed GDP growth forecasts reflects the underlying strength of the economy.

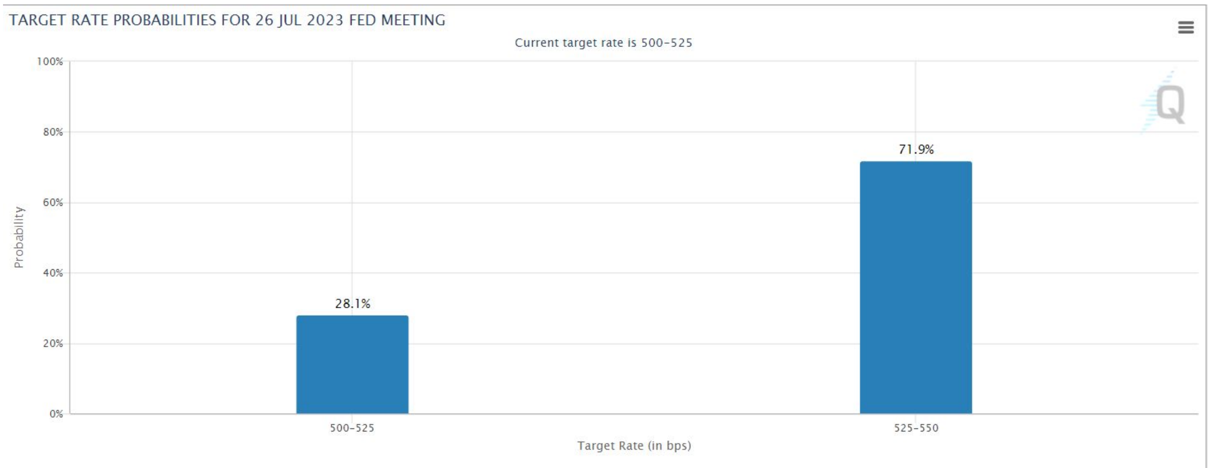
Nevertheless, uncertainties persist due to the lingering effects of the pandemic and its impact on economic models. The Conference Board's projections indicate the possibility of a contraction in the U.S. economy from the third quarter of 2023 through to the first quarter of 2024. This anticipated recession is attributed to ongoing tightness in monetary policy and reduced government spending, factors that dampen economic activity.



Federal Reserve Chair Indicates More Rate Hikes Likely as Inflation Persists

In his testimony before the House Financial Services Committee last Wednesday, June 21st, Federal Reserve Chair Jerome Powell signalled that additional interest rate hikes are probable this year due to persistent inflationary pressures. While Powell did not provide specific details on the timing of the rate increases, he reiterated the Federal Open Market Committee's (FOMC) expectation that raising interest rates would be appropriate by the end of the year.

The Fed's latest economic forecasts revealed that 12 out of 18 policymakers anticipate two more 25 basis point rate hikes in 2023, which would bring the benchmark interest rate to a range of 5.5 to 5.75 percent. Powell acknowledged that the FOMC's upcoming meeting in six weeks was a "live meeting," indicating the possibility of an increase during that time. However, he emphasised that decisions would be made based on incoming data, economic outlook, inflation, and risk factors.



TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 20 JUN 2023	1 WEEK 15 JUN 2023	1 MONTH 22 MAY 2023
500-525 (Current)	28.1%	23.1%	33.0%	63.3%
525-550	71.9%	76.9%	67.0%	32.9%
550-575	0.0%	0.0%	0.0%	3.8%

* Data as of 22 Jun 2023 01:43:17 CT

Figure 3. Target Rate Probabilities for July 26 Fed Meeting, as of June 22 (Source: CME FedWatch Tool)

Market indicators suggest that there is an almost 71.9 percent probability of a 25 basis point rate hike following the Fed's July 25th-26th meeting, according to the CME's FedWatch tool. However, the likelihood of a second rate increase during the remaining meetings of the year stands below 20 percent. Traders anticipate the first rate cut to occur early next year.

Powell addressed concerns about inflation and the labour market. He acknowledged that inflation remains high and the process of bringing it back down to the Fed's target of 2 percent still has a long way to go. He highlighted the importance of sustained price stability to maintain a robust labour market that benefits all.

Regarding the banking sector, Powell reassured lawmakers that despite recent bank failures, the US. banking system remains sound and resilient. He emphasised the need for appropriate regulations and supervisory practices for banks of different sizes, highlighting the Federal Reserve’s dedication to addressing vulnerabilities and fostering a more robust financial system.

During the testimony, Powell responded to questions from both Democrats and Republicans. Democrats stressed the Fed's mandate to achieve full employment and expressed concerns about potential job losses resulting from excessive rate hikes. In contrast, Republicans focused on forthcoming banking regulations and their potential impact on smaller banks. Powell stated that higher capital requirements for smaller banks are unlikely, and any changes in capital for large banks would need to be justified.

Powell noted that the decision to hold rates steady at the last Federal Open Market Committee meeting two weeks ago was a prudent move, considering the time lag between rate increases and their impact on the broader economy. The minutes from the Fed's meeting, set to be released in early July, will provide additional insights into the central bank's assessment of future economic conditions.

US Housing Starts Surge, Indicating Potential Economic Growth in the Housing Market

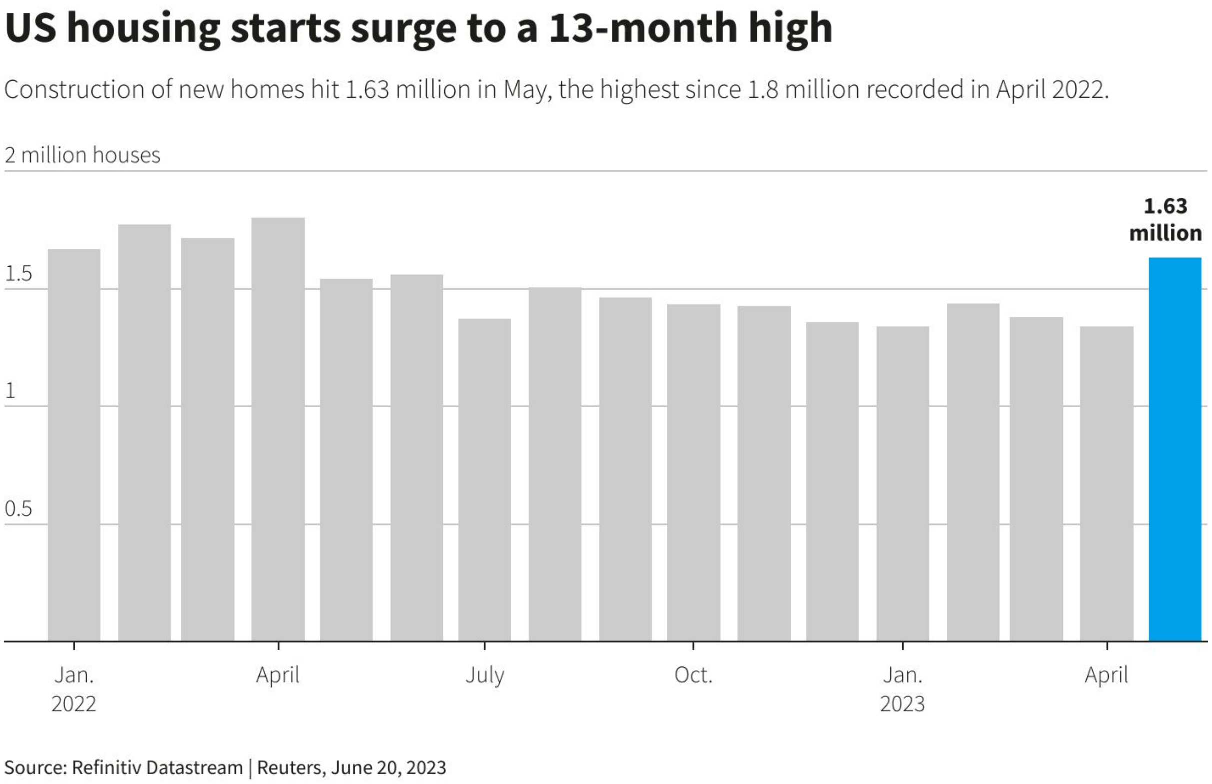


Figure 4. US Housing Starts (Source: Refinitiv Datastream, Reuters)

US housing starts in May experienced an unexpected surge, marking the most substantial increase since 2016. This rise, accompanied by an uptick in applications to build, suggests that residential construction could become a driving force behind economic growth. Housing starts measure the number of new residential construction projects that have begun during a specific period, typically on a monthly or annual basis.

According to Department of Commerce data released on Tuesday, June 20th, the rate of home construction soared by 21.7 percent to reach a 1.63 million annualised rate, marking the fastest pace in over a year. Single-family homebuilding also saw a notable increase of 18.5 percent, reaching an 11-month high.

Furthermore, applications to build, serving as an indicator of future construction, climbed by 5.2 percent to an annualised rate of 1.49 million units. Permits for single-family dwellings also experienced growth.

Fed Chair Powell's recent comments about signs of stabilisation in the housing market are corroborated by these figures. Homebuilders have responded positively to the limited inventory in the resale market, with increased optimism stemming from firm demand, declining materials costs, and easing supply-chain pressures (discussed further in the next article).

Economists will use the housing starts data to estimate the impact of home construction on second-quarter GDP. However, elevated mortgage rates are affecting affordability, and may limit the momentum going forward.

The surge in housing starts from the previous month is the largest since October 2016 and reflects gains in three, out of the four US regions. Notably, the initiation of apartment buildings and multi-family projects rose by over 27 percent. Multi-family constructions are residential structures that accommodate multiple housing units within a single building or complex.

The number of completed homes increased to a rate of 1.52 million annually, while the level of one-family properties under construction remained relatively stable at 695,000.

Despite the positive outlook, challenges remain, as credit conditions tighten. Builders heavily reliant on construction and development loans may face difficulties in keeping up with the rebound witnessed in May. It is also worth noting that multi-family construction projects that secured financing last year contributed to May's gains and may plateau as new financing becomes harder to obtain.

While the housing market has suffered from the Fed's recent interest rate hikes, recent data suggest that the worst may be behind us. The average rate on the popular 30-year fixed mortgage has slightly decreased from its peak above seven percent in November, averaging 6.77 percent in the latest week (refer Figure 5 below), according to the Mortgage Bankers Association.

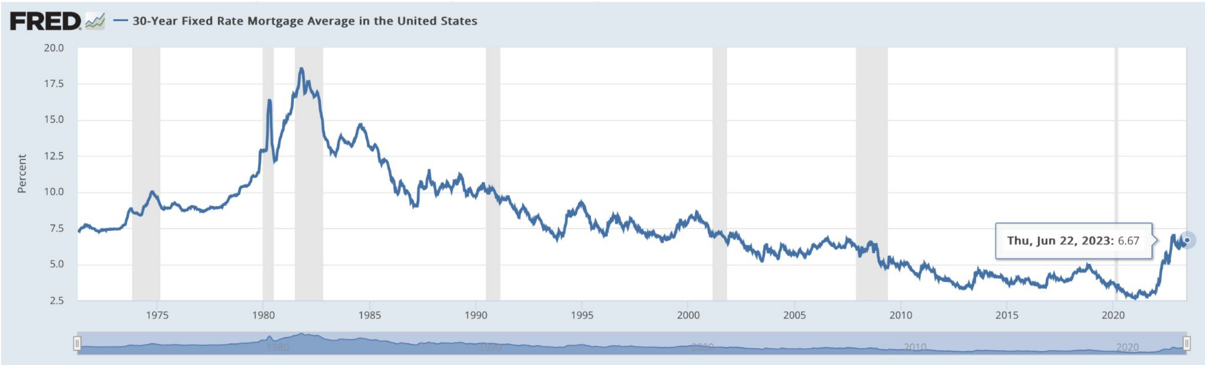


Figure 5. 30-Year Fixed Rate Mortgage Average For The US. (source: FRED)

Nevertheless, tightening credit conditions may hinder builders' access to funding for new projects. NAHB Chairman Alicia Huey emphasised the difficulties in obtaining builder and developer loans, which could result in lower lot supplies as the industry aims to expand from its lows.

As the Fed evaluates the impact of its actions and prepares for potential rate hikes in the future, the housing market's performance will play a crucial role in shaping the overall economic landscape. With one or two more quarter-point rate hikes anticipated by most Fed officials, the housing sector's resilience and ability to navigate tightening credit conditions will be critical.

Overall, the unexpected surge in US housing starts in May, coupled with the rise in permits for future construction, suggests a potential turning point for the housing market. While caution is advised due to the volatility of housing start data, the significant increase indicates a broader expansion by builders. The housing market's performance will be closely monitored to gauge its impact on economic growth, as well as its resilience in the face of tightening credit conditions and potential future rate hikes.

Comic 1: Even with mortgage rates plateauing, the average American family is still in distress.

Homebuilder Confidence Surges as Housing Market Favors Builders

Homebuilders are experiencing a surge in confidence as the housing market landscape tilts in their favour. According to the National Association of Home Builders (NAHB)/Wells Fargo housing market index update released on Monday, June 19th, builder confidence entered positive territory in June for the first time in 11 months. The index reading rose from 50 in May to 55 in June, marking the sixth consecutive month of sentiment improvement and crossing the midpoint of 50 for the first time since July 2022.

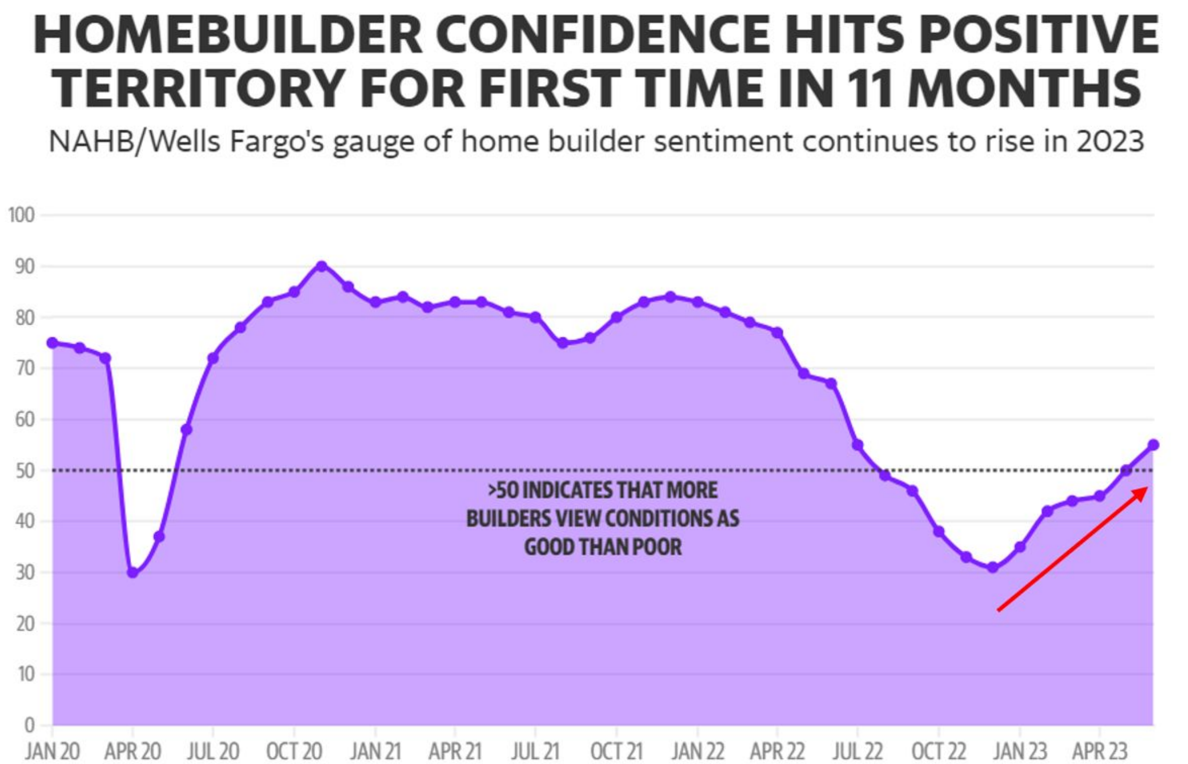


Figure 6. Home Builders Confidence Index from NAHB (Source: Yahoo Finance, National Association of Home Builders)

Several factors contribute to the newfound optimism among builders. Robust foot traffic from homebuyers, limited competition from resale homes, and an improved supply chain have collectively tipped the market in favour of homebuilders. However, challenges still exist, primarily in the form of project financing, which has become increasingly difficult to obtain.

Alicia Huey, Chairman of the NAHB stated that builders are cautiously optimistic about market conditions due to low levels of existing home inventory and ongoing gradual improvements in supply chains.

The return of stable buyer traffic is a positive sign for homebuilders. While mortgage rates rose rapidly last year, causing homebuyers to step back, they have since adjusted to the higher borrowing costs and are now returning to the market. The NAHB's gauge measuring traffic of prospective buyers increased by four points in June. Douglas C. Yearley, Chairman and CEO of leading builder of luxury homes, Toll Brothers, noted that buyers are adapting to mortgage rates stabilising in the six percent to seven percent range, and the shock of last year's rate spike is dissipating.

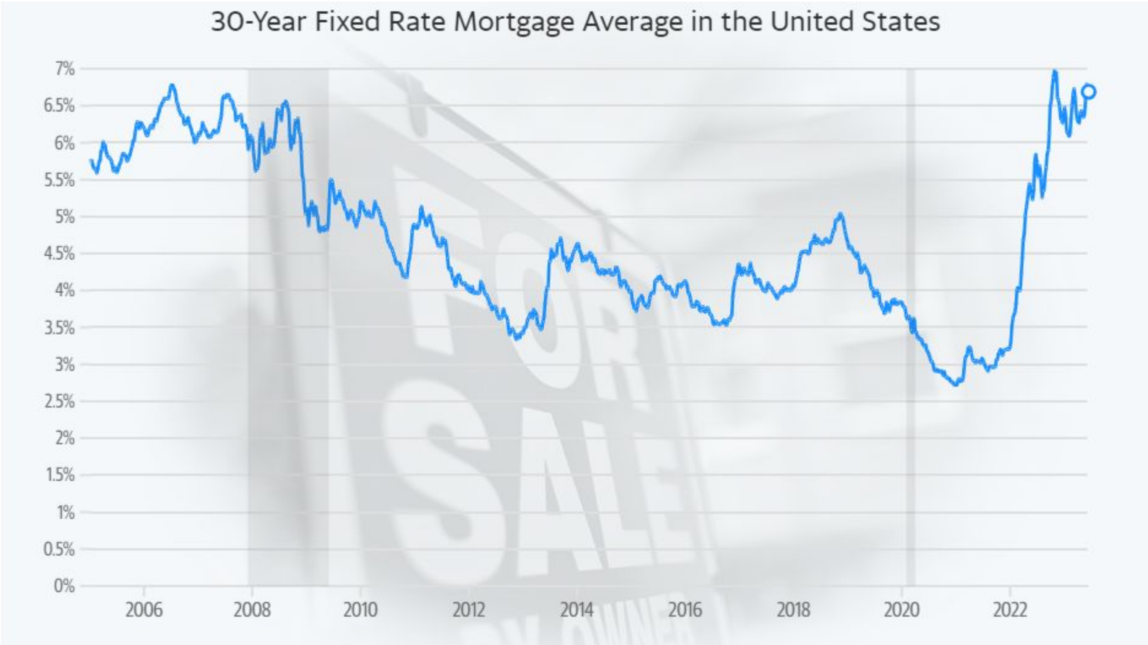


Figure 7. 30-year Fixed Rate Mortgage Average in the US (Source: Freddi Mac, Yahoo Finance)

Despite the average rate on the 30-year fixed mortgage sitting at 6.69 percent last week, many builders can offer rates well below that through their financing arms, attracting price-conscious buyers. Analysts have noted that buyers today are often paying under five percent for new homes, dispelling the notion that they face higher headline rates.

Builders have also benefited from limited resale inventory caused by elevated mortgage rates. The reluctance of homeowners to give up their low-rate mortgages, with approximately 90 percent having rates below five percent, has led to historically tight resale inventories. Reports indicate that about 35 percent of homes for sale are now new constructions, compared to the historic average of 10 percent to 15 percent. Buyers searching for homes are increasingly inclined to focus on new homes due to the scarcity of existing homes in the market.

The improving supply chain, particularly in terms of lower lumber costs and improved hiring, has provided another boost to builders. Lennar Corp. (a home construction company) Co-CEO Jonathan Jaffe stated that supply chain disruptions caused by the pandemic are mostly behind them, with minor exceptions. However, project financing remains a challenge, especially after the failure of several regional banks, affecting the availability of loans for builders and developers.

Overall, this optimistic sentiment among homebuilders is reflected in their increased sales forecasts for the rest of the year. The NAHB's measures for current sales conditions and sales expectations six months ahead both saw improvements in June. Builders seem to be benefiting from the supply crunch in the housing market, given their focus on new construction. The homebuilder ETF (Exchange-Traded Fund), XHB, has shown a 25 percent increase year-to-date, further reinforcing the positive outlook for the industry. XHB refers to the SPDR S&P Homebuilders ETF that seeks to track the performance of companies involved in the homebuilding industry.

Figure 8. SPDR S&P Homebuilders ETF (Source: Tradingview)

Robert Dietz, the chief economist at the NAHB, suggests that a bottom is forming for single-family home building as builder sentiment continues to gradually rise. With the Federal Reserve nearing the end of its tightening cycle, there is hope for improved market conditions in terms of mortgage rates and financing costs for builder and developer loans.

Comic 1: Even with mortgage rates plateauing, the average American family is still in distress.

WHAT'S ON-CHAIN THIS WEEK?

Bitcoin Volatility Resurgence as Investors Continue to Accumulate

Despite recent multi-year lows in volatility and volumes, and illiquid fluctuations in price associated with the recent regulatory crackdown on some major crypto exchanges, beneath the surface, a steady accumulation by HODLers (longer-term Bitcoin investors/holders) continues unabated, suggesting a resilient undercurrent of demand. This dichotomy of market behaviour, coupled with the looming Bitcoin halving event, paints a complex picture of the road ahead for the crypto market.

Over the past two weeks, the Bitcoin market has experienced price swings in both directions, causing the volatility metrics to have increased after reaching cycle lows across multiple timeframes in the third week of June. The market traded down to $24,800 on June 14th, rallied to $31,500 on news of the ETF application by Blackrock, before returning to trade around the $30,000 mark. This pattern of price volatility within a narrow range is indicative of a market in a state of indifference.

Figure 9. 60-Day Realised Volatility (source: coinglass)

This is reflected in the two-month Realised Volatility(refer Figure 9 above), which is currently hovering at around two percent, one of the lowest recordings since the 2021 bull market. The recent price increase beyond the $30,000 level has pushed this metric above the cycle low recordings in early June, but we will still need to see more data before a conclusion can be drawn on this being a sustained uptrend in volatility. Such events are typically experienced during a long, sideways grind, that occurs after a prolonged bearish trend, and as the market finds its feet. For context, the current Realised volatility reading is less than one-third of that seen during the 2020 covid-19 pandemic crash.

Implied Volatility (IV) across option contracts from 1-week to 6-months out had also reached cycle lows in June, suggesting a market expectation of continued low volatility. (refer Figure 10 below)

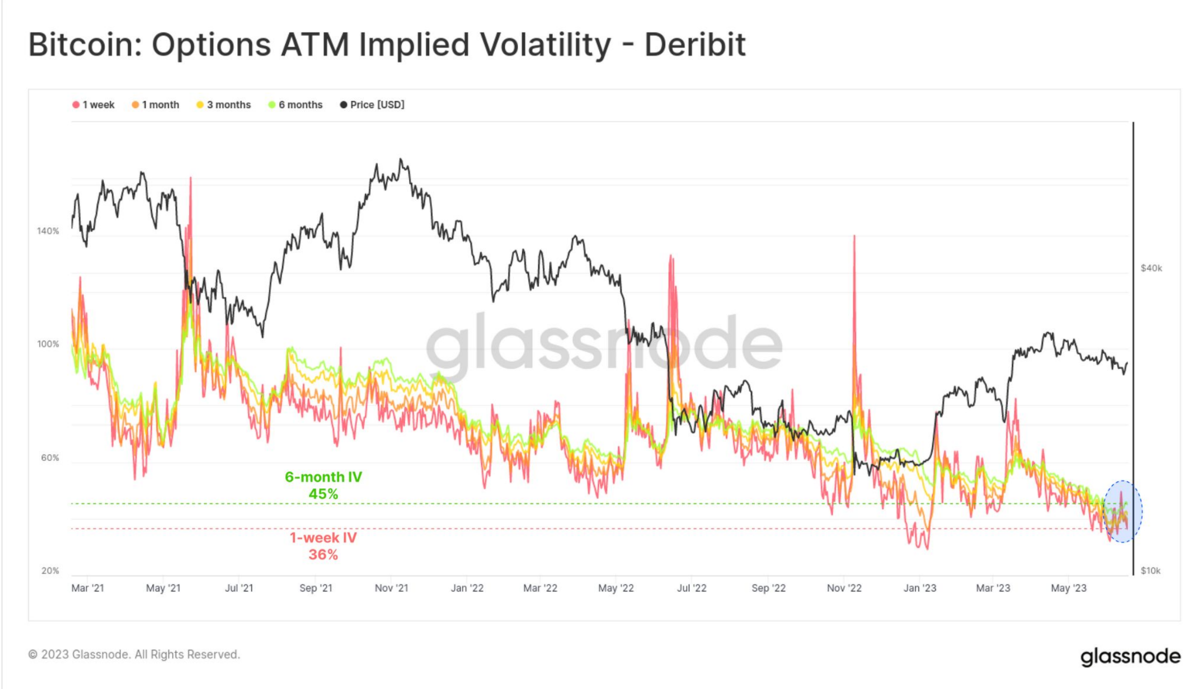


Figure 10. At-The_Money Implied Volatility Metrics for Bitcoin. (source: glassnode)

However, the ETF news, and with the Bitcoin halving getting inexorably closer, has caused a slight increase in the implied volatility metric. The daily IV metric jumped above 50 percent on 21st of June. (refer Figure 11 below)

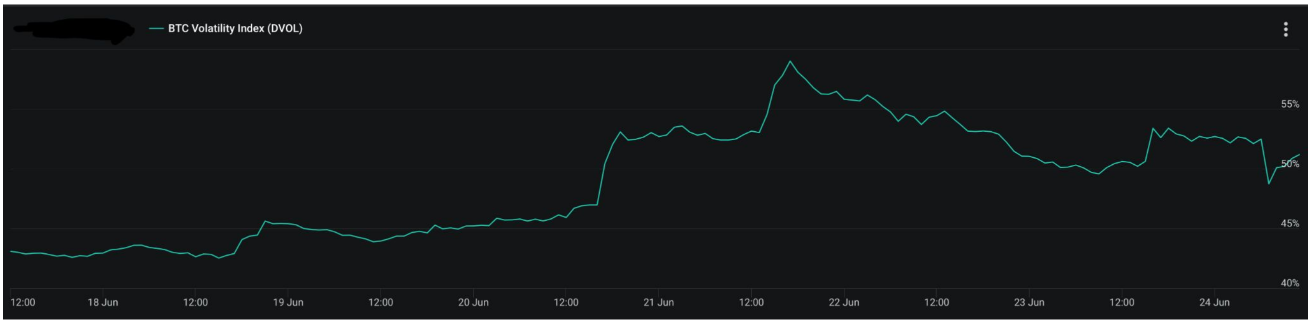


Figure 11. Deribit (DVOL) Implied Volatility Indicator. (source: Deribit Metrics)

Historical Volatility (HV) measures the rate at which the price of an underlying asset has moved in the past for a set period. It's calculated by looking at the standard deviation of the asset's returns over that period.

Implied Volatility reflects the market's expectation of future volatility. It's derived from the price of an option and, more specifically, represents the volatility value that, when input into an option pricing model (like the Black-Scholes model), would return the current market price of the option.

Currently, the daily IV reading is much higher than the HV reading. When implied volatility is greater than historical volatility, it means that the market is expecting the asset's price to move more in the future than it has in the past. This could be due to upcoming events that are expected to cause price swings (like the ETF news, further Coinbase/Binance lawsuit details being released or the halving event).

Increasing volatility could also be because of thin trading books amidst low liquidity in the markets. Usually, low liquidity can lead to increased volatility. With fewer buyers and sellers, individual trades have a bigger impact on price. This means prices can change drastically from a single large buy or sell order, creating a more volatile market.

This was evident on Binance.US recently. In the midst of a liquidity crisis, Bitcoin's price briefly spiked to an astounding $138,000. This dramatic event underscores the current state of low liquidity and high volatility in Bitcoin markets.

The price spike on Binance US comes amid the exchange's ongoing legal tussles with the U.S. Securities and Exchange Commission (SEC) and its liquidity issues. It's important to note that this price surge was a brief, isolated incident and not reflective of the broader market price of Bitcoin, which continues to trade within a much lower range on other exchanges.

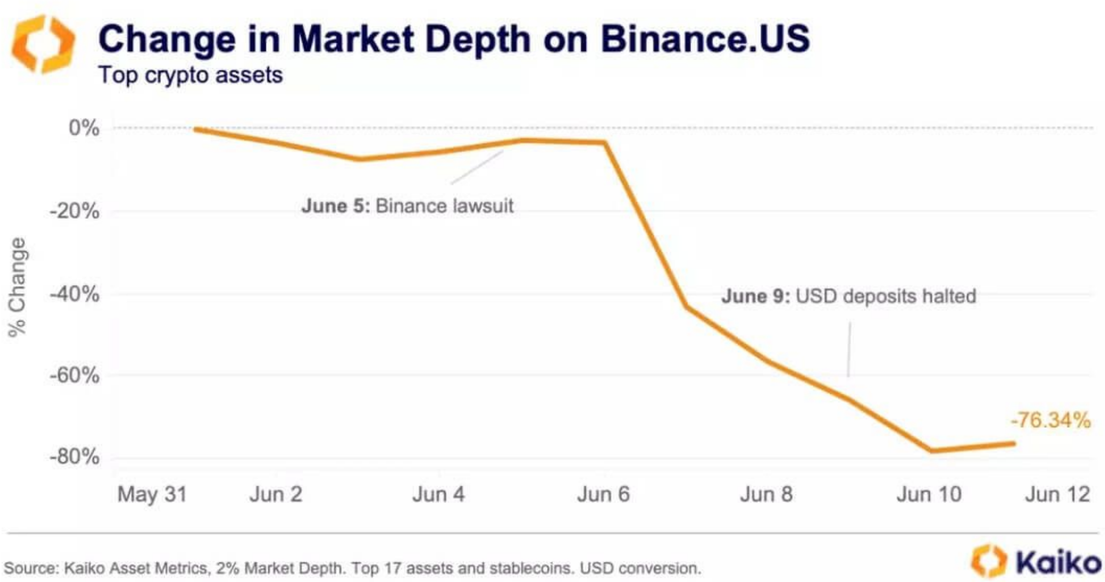


Figure 12. Change In Market Depth On Binance.US. (source: kaiko research)

Binance.US market depth fell by almost 80 percent as of June 12th, with its market depth for 17 tokens dropping to $7 million from the $34 million recorded on June 4th—a day before the SEC's lawsuit. Market depth refers to a trading pair's ability to absorb a large order without significant slippage and is thus closely correlated with liquidity. The most common metric for market depth is two percent market depth, the USD amount of market buy or sell orders needed to move the market by two percent in either direction.

When liquidity is low, as it currently is on Binance.US, even small trades can cause significant price fluctuations.

Trading volumes in futures markets have declined to $20.9B/day for Bitcoin, indicating a thinning of liquidity across digital asset markets. (refer Figure below)

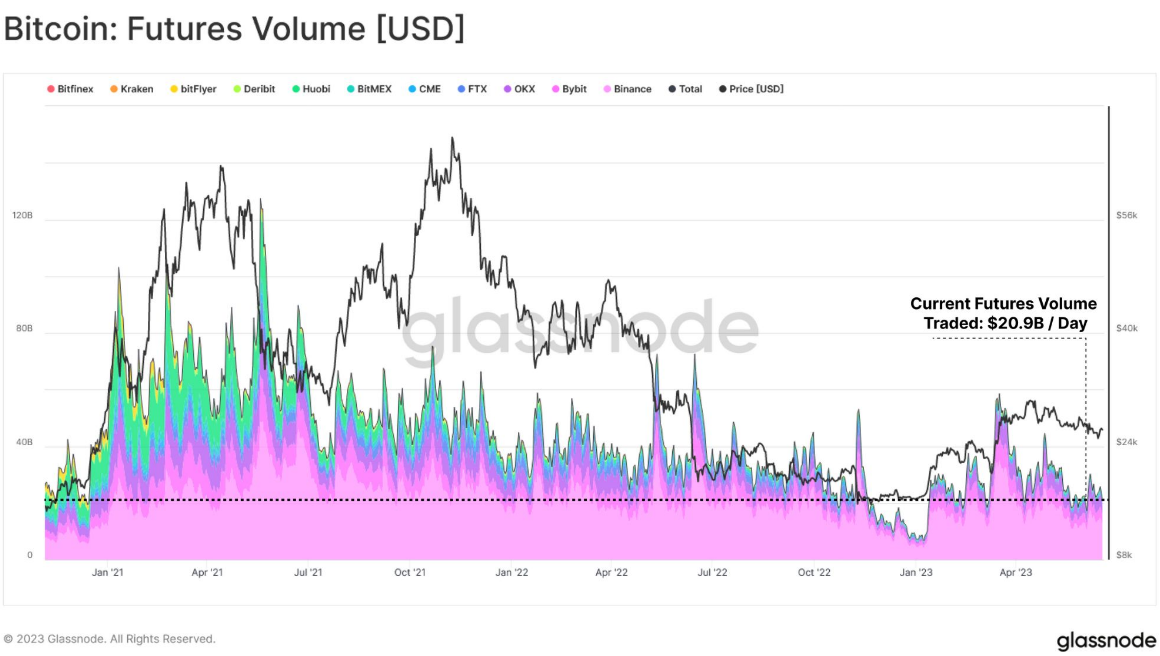


Figure 13. BTC Futures Volume in USD across major exchanges. (source: glassnode)

This phenomenon is also observed across the Ethereum futures markets, suggesting an industry-wide contraction in liquidity.

Open interest has also been fluctuating around in the $20billion to $25billion (refer Figure 14 below) range for the crypto market. Sub $20billion values have been recorded only twice since February 2021 and such readings currently continue to show how the derivatives markets continue to witness low participation overall despite the BTC price being almost twice its low for the cycle at around $16,000.

On-chain, the absolute value of profit and loss taking events has declined to cycle lows of $268M as per *Glassnode* data, highlighting just how quiet capital flows have been both in and out of the asset class year to date.

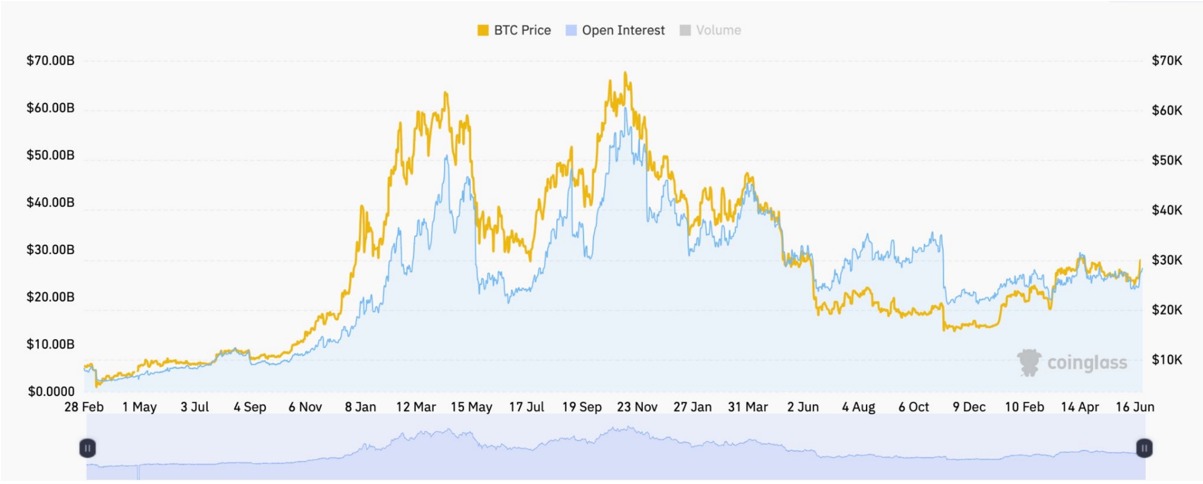


Figure 14. Crypto Market Open Interest with price. (source: coinglass)

Despite this investor indifference, the undercurrent of BTC supply continues to flow out of exchanges, miners and whale wallets, and towards HODLer entities of all sizes at a healthy rate. HODLers are currently accumulating coins at a rate of around 42,200 BTC/month, suggesting that price insensitive investors are absorbing a non-trivial portion of the currently available supply. This pattern of steady and gradual accumulation commenced just over 2-years ago, and historical trends on the HOLDer net position exchange metric suggests that another 6 to 12-months may be ahead of us. (refer Figure 15 below)

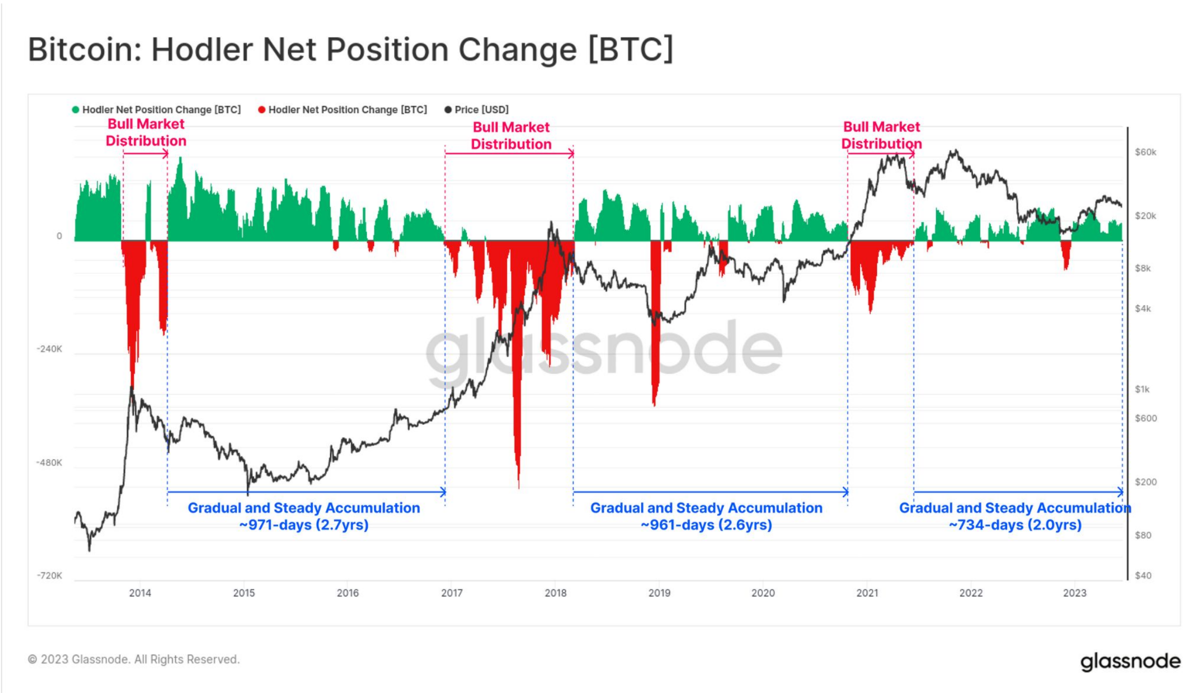


Figure 15. Bitcoin HODLer position change. (source:glassnode)

BTC held for a year or more has increased by 46,540 BTC on average in the last four weeks, the largest rise in 36 weeks. This further supports our takeaways that BTC HODLers are continually treating BTC as a store of value rather than a tradable asset.

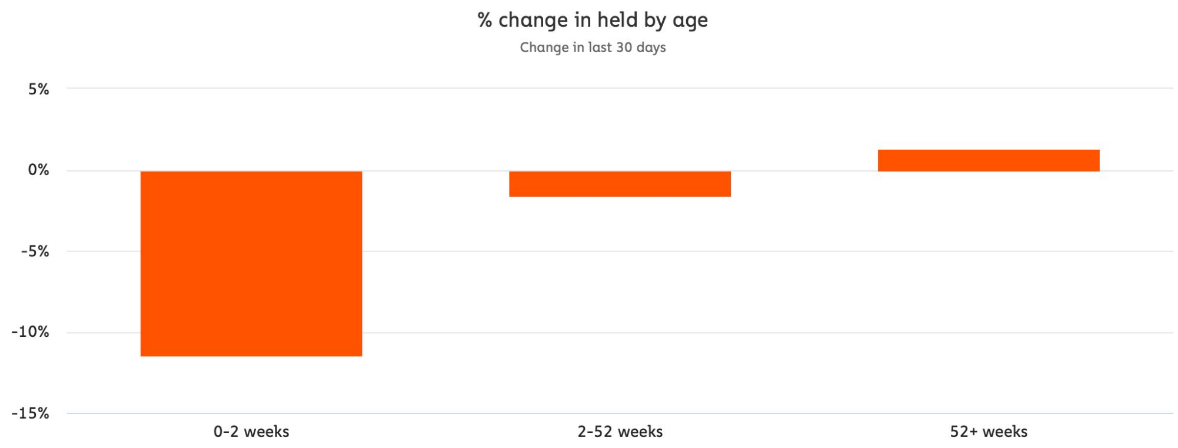


Figure 16. Percentage held by age of coins. (source: Chainalysis)

Traders can in fact expect large fluctuations in price to continue if exchange outflows continue, be it for HODLer accumulation or a result of panic due to regulatory headwinds.

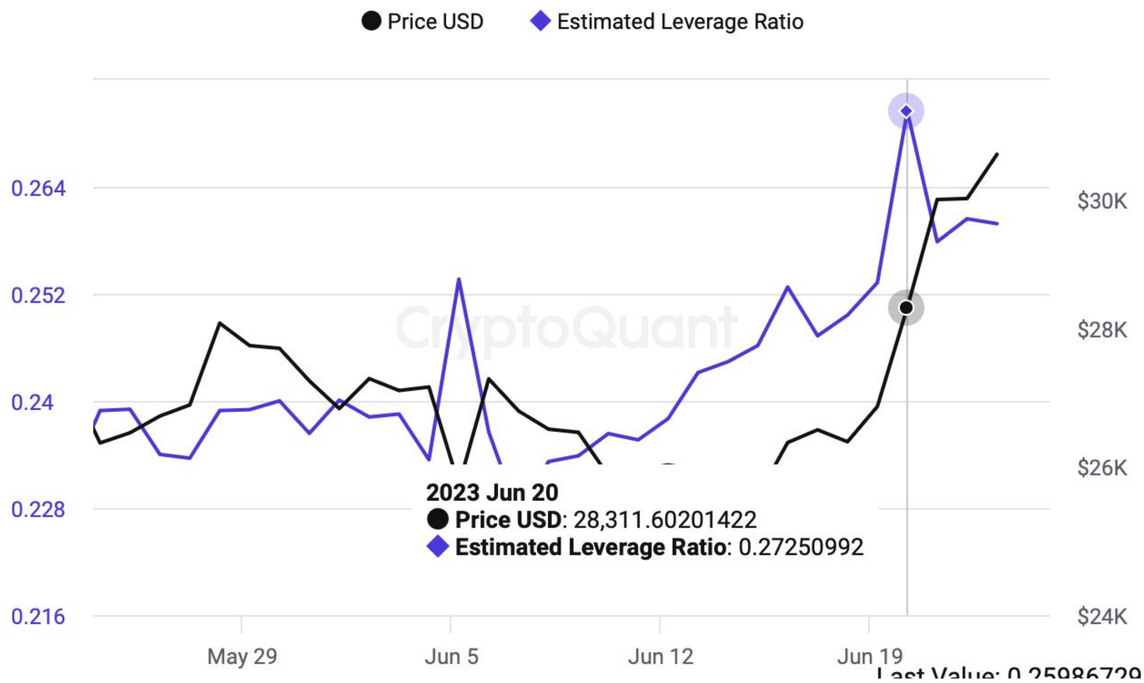


Figure 17. Estimated Leverage Ratio (source: CryptoQuant)

With increasing IV and consistent outflow of spot BTC from exchanges, the estimated leverage ratio saw a huge spike on June 19th and 20th, even before the rise in BTC, which saw the asset break the $30,000 level. If these events continue, meaning large leverage temporarily and suddenly enters the futures market in the state of low liquidity that the market finds itself currently, price volatility will pick up even more and fluctuations in BTC price can be expected.

In conclusion, the long-established trend of wealth migration towards the price-insensitive cohort of Holders of Last Resort (HODLers) proceeds unabated. Drawing parallels with historical cycles, it can be inferred that the market may well traverse a prolonged period of indifferent lateral movement. This stagnant phase could potentially span 8 to 18 months. However, the impending Bitcoin halving event, scheduled in about 300 days, introduces a noteworthy dynamic to this scenario and could potentially act as a catalyst for revitalised market activity.

As the market continues to morph in response to its inherent dynamics and exogenous factors, including regulatory shifts, the resilience and adaptability of the crypto market will continue to be subjected to rigorous examination.

On-chain Metrics Suggest Bull Market Is Upon Us

Since February 2023, *Bitfinex Alpha* has analysed and broken down cyclical on-chain indicators numerous times in order to assess whether the BTC price is signalling the end of a bear market or at the beginning of a new bull market. Some on-chain metrics now suggest that we might already be in a new bull market.

Bitcoin's price-to-earnings ratio for miners is one of the top cyclical indicators especially as the Bitcoin halving approaches. The metric is currently at 73.3.

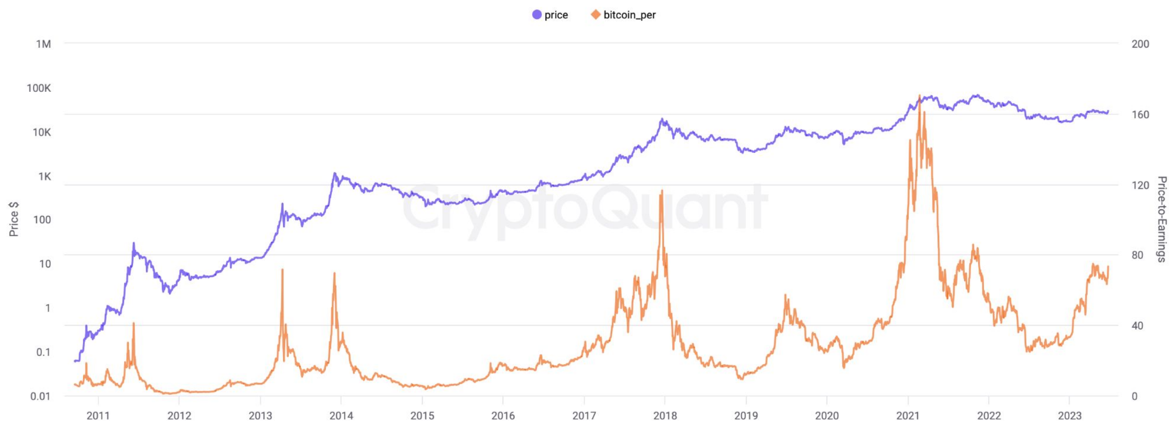


Figure 18. Bitcoin Price vs Price-To_Earnings Ratio. (source: CryptoQuant)

The metric represents the ratio between BTC price and year to date miner revenue divided by the total supply. Essentially measuring if the current BTC value is an attractive price for miners to sell their Bitcoin balance. Bitcoin bear cycle lows are marked by miner capitulation and when the metric is increasing as it is now, it indicates that miners can continually sell their mined BTC to make consistent profits. This metric is a delayed indicator in terms of price and having bottomed slightly after the $16,000 BTC bottom last year, has seen a sustained increase, implying that we might already be in a Bitcoin bull market's early stages based on historical trends.

The UTxO metric also provides a unique perspective on the behaviour of different cohorts of Bitcoin holders, shedding light on their profitability and the potential impact on Bitcoin's price trajectory.

The UTxO Realised Price Age Distribution analysis divides Bitcoin holders into different cohorts based on the age of their holdings and the price at which they were realised. Three key price points within this distribution have been identified as potential catalysts for the recent Bitcoin rally.

The first catalyst occurred when Bitcoin's price broke through the one-day to one-week UTxO realised price at $25,600. This breakthrough suggests that short-term holders, those who have held Bitcoin for less than a month, were in a profitable position. As a result, these holders may have been less inclined to sell their Bitcoin, reducing selling pressure and contributing to the upward price movement. (refer Figure below)

Figure 19. Bitcoin UTXO Age Bands vs BTC price. (source: CryptQuant)

The second catalyst was the surpassing of the 1-week to 1-month UTxO realised price at $26,600. This indicates that holders who had been holding Bitcoin for a slightly longer duration, between one week and one month, also entered a profitable position. This further reduced selling pressure and supported the upward trend in Bitcoin's price.

The final catalyst came when the one-month to three-months UTxO realised price was broken at $28,300. This implies that even longer-term holders, those who have held Bitcoin between one and three months, saw their investments become profitable.

In conclusion, the recent Bitcoin rally can be partially attributed to the profitable positions of different cohorts of holders within the UTxO Realised Price Age Distribution. As these holders became profitable, they were less likely to sell their holdings, reducing selling pressure and supporting the upward price movement.

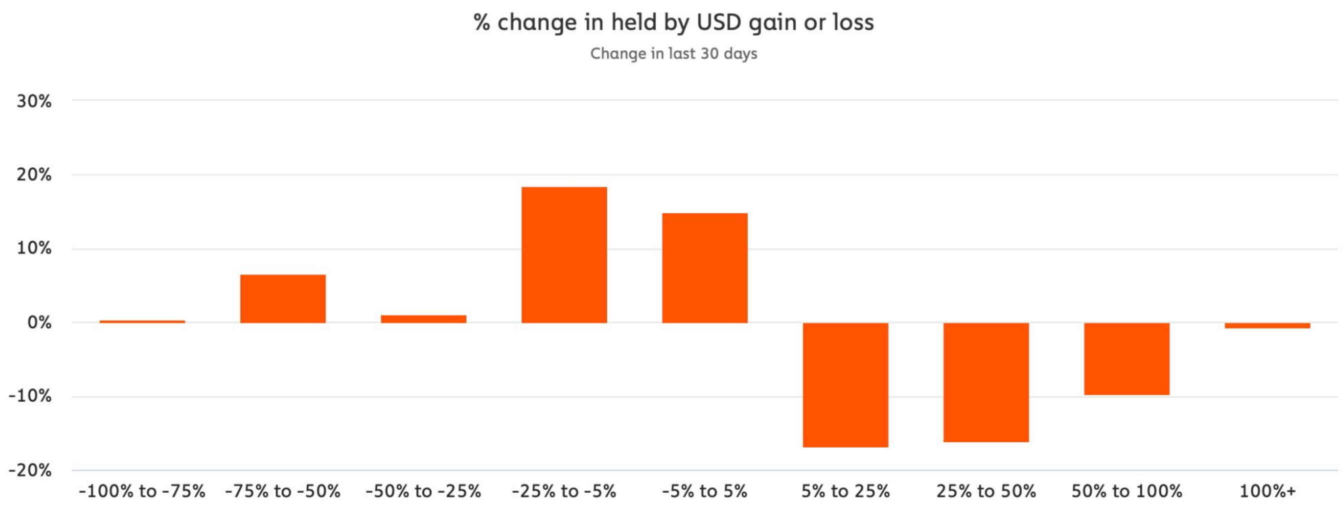


Figure 20. Percentage change in the amount of BTC held at unrealised profit or loss. (source: Chainalysis)

Then we overlay this data with the amount of BTC held at unrealised profit and loss. BTC with unrealized gains of 100 percent plus has increased by 22,570 BTC on average in the last month, the largest rise in seven weeks. (refer Figure 20 above)

This behaviour of all cohorts of investors to not realise their gains despite rapid price increase for such an extended period of time (more than a month) is behaviour that has previously been observed in bull market conditions.

Large Limit Buys Cause Short Liquidations and Drive Price Above $30,000

BTC fell to sub $25,000 levels on June 14th but then surged to $31,500 last week. In this article, we break down this move up from a derivatives perspective. The move was brought about by large limit buy orders absorbing market sell orders and causing a liquidation cascade.

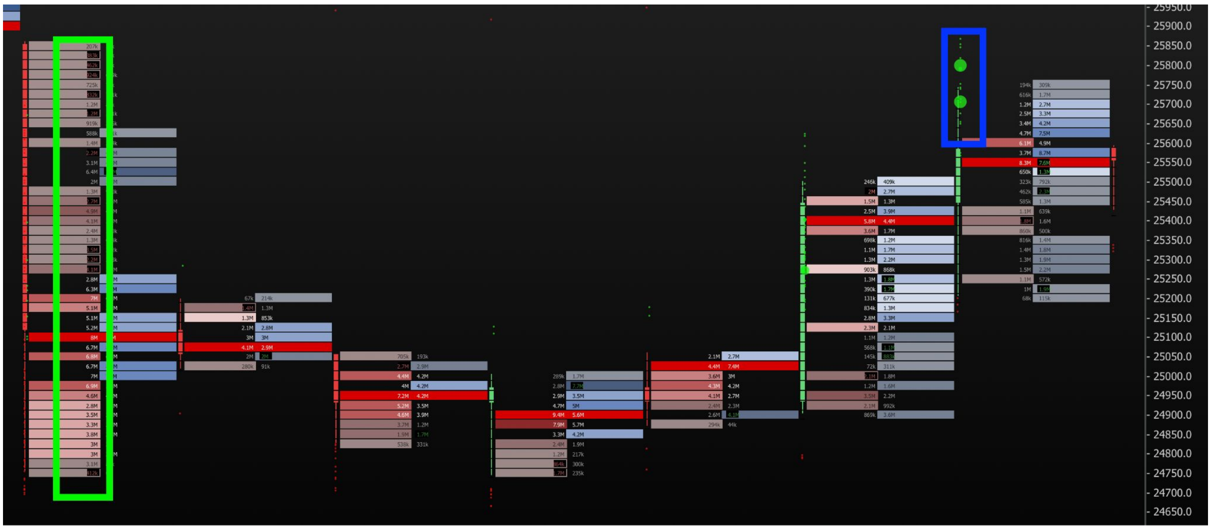


Figure 21. BTC/USD 4H chart. (source: exocharts)

During an initial collapse to $24,800, there was a large amount of negative delta (refer green box) meaning there were a large number of market sells in proportion to the market buys. The large amount of market sells however failed to push the price down significantly, implying large limit buys supported the price at this level. There was also no significant increase in open interest on the lower time frames here suggesting the rally was spot driven till this point.

The BTC price traded in a tight range for about 30 hours as seen in the figure 21 above before market buys pushed the price up. Short liquidations (refer blue box in Figure 22) as a result of the price increase further added to the price moving up as short liquidations and stop losses for shorts are essentially forced market buys.

Indeed, short liquidations were progressively increasing throughout the Bitcoin rally, day after day, before culminating in the highest amount of short liquidations in USD terms ($80 million) recorded in a single day for the current year, on June 21st (refer to the figure 22 below).

Figure 22. BTC Total Liquidations. Blue - Short Liquidations For The Current BTC rally. (source: coinglass)

In the following days, a large amount of spot buying also accompanied futures buying. High volume sell orders are pointed to by the red arrows in the figure 23 below. The limit buys continued to absorb negative delta. However, after the selling pressure was absorbed, there was positive delta market buys (refer red circle in figure 23 below) forcing the price up and causing short sellers to close positions or get liquidated. There was also a large increase in volume (red circle at the bottom in the figure below) accompanying positive delta which supported the price rally. (refer Figure below)

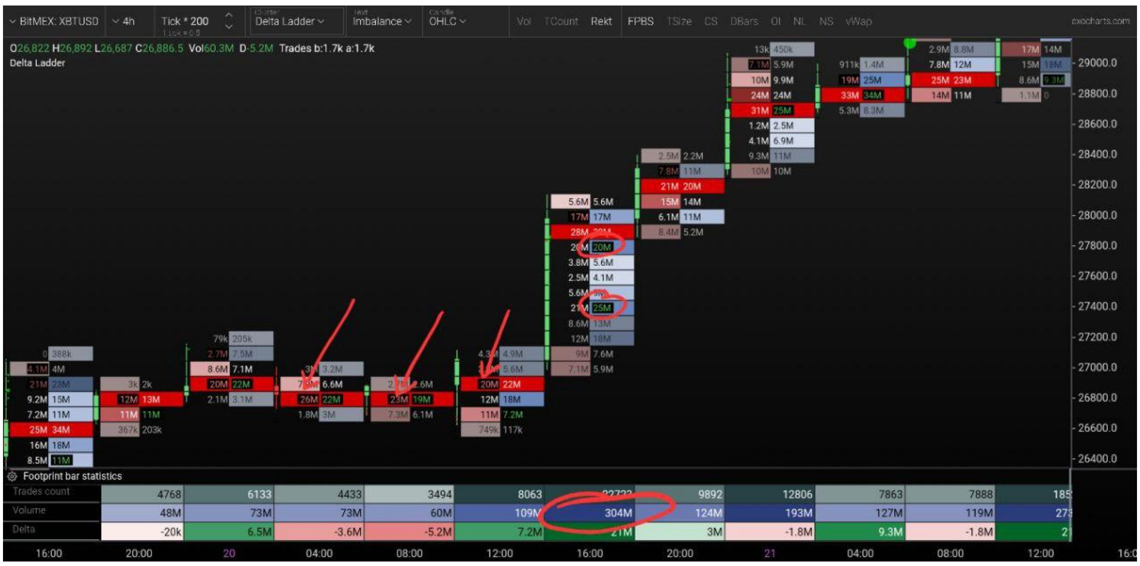


Figure 23. BTC/USD 4H chart. (source: exocharts)

The price ranged between $26,200 and $27,200 as shown above before breaking up above that level and causing a liquidation cascade which was the largest of the year for BTC. Generally and especially during periods of low liquidity, there is a loop mechanism where short liquidations which are market buys push price up and result in more short liquidations. The increase in volume and open interest could be derivatives traders piling onto the cascade and attempting to profit from the breakout resulting from in the sharp rise in BTC.

The price once again ranged on the lower timeframes after reaching $30,000. This was followed by a final push to $31,500 which was caused by similar derivatives data as the entire market moved up, however, the open interest after reaching this new level reduced, implying that we could be in for a period of indecision in the market which would see another small range in the market.

NEWS FROM THE CRYPTO-SPHERE

Binance Withdraws from UK Market Amid Regulatory Pressure

Figure 24.Binance Withdraws from UK Market Amid Regulatory Pressure

- **Binance cancels the registration of Binance Markets Limited in the UK amidst increasing regulatory pressure to increase compliance .**
- **Binance, withdraws its registration with the UK's Financial Conduct Authority (FCA), while the company continues to face investigations in France and legal challenges in the United States.**

Cryptocurrency exchange Binance has made the decision to cancel the registration of certain business operations in the United Kingdom (UK) as it faces mounting regulatory pressure. Binance's subsidiary, Binance Markets Limited (BML), has officially withdrawn its registration with the UK's Financial Conduct Authority (FCA).

The move is part of Binance's effort, it says, to streamline its operations and focus on active business activities while complying with regulatory requirements. Binance clarified that it had obtained permissions from the FCA for activities that it currently was not offering in the UK. As a result, the company concluded that it would be prudent to cancel these permissions as advised by the FCA.

Following the cancellation, no Binance entity is authorised by the FCA to provide any services in the UK. The FCA confirmed that it fulfilled Binance's request to cancel BML's permissions on May 30, 2023. In an update last Wednesday, June 7th, the FCA stated that Binance is no longer authorised by the regulatory authority.

A further recent report reveals that Binance has been under investigation by the Judicial Investigation Service of France since early 2022. The investigation focuses on regulatory compliance and potential violations of French laws and regulations related to cryptocurrency trading and financial services. Allegations made by the Paris Prosecutor's Office include "illegal provision of digital asset services (PSAN), aggravated money laundering through involvement in investment operations, concealment, and conversion, with perpetrators profiting from offences."

Binance is also currently dealing with two civil lawsuits filed by US regulators, one from the Securities and Exchange Commission (SEC) and another from the Commodity Futures Trading Commission (CFTC).

The cancellation of BML's registration with the FCA does not impact the operational activities of Binance.com, which does not offer crypto services in the UK and which it says are only available to UK consumers on a reverse solicitation basis. Binance aims to navigate the regulatory landscape and ensure compliance while continuing to provide services in other jurisdictions.

Ethereum Core Developers Consider Proposal to Increase Validator Limits for Improved Efficiency and Rewards

Figure 25. Ethereum Core Developers Consider Proposal to Increase Validator Limits for Improved Efficiency and Rewards

- **Ethereum's core developers are discussing a proposal to increase the maximum validator balance from 32 ETH to 2,048 ETH, aiming to improve network efficiency and allow for auto-compounding validator rewards.**
- **The current limit has led to a surge in the number of validators, resulting in longer waiting times for users to run validator nodes, while the demand to earn staking yield remains high among large ether holders.**

Ethereum's core developers are engaged in discussions regarding a proposal that suggests a substantial increase in the maximum validator balance. The current limit of 32 ether (ETH) per validator may soon be raised to 2,048 ETH. The proposal aims to enhance the efficiency of the network and address operational concerns for larger node operators.

At present, Ethereum validators face an effective balance cap, which restricts their stake to a minimum and maximum of 32 ETH. To earn a yield on amounts exceeding this limit, large-scale staking operations are compelled to deploy multiple validators. This practice has resulted in a significant surge in the number of validators, with approximately 600,000 active validators and an additional 90,000 awaiting activation in the queue.

Michael Neuder, an Ethereum Foundation researcher and a key advocate of the proposal, presented his case during a recent Ethereum core developer consensus meeting last June 15th. Neuder argued that while the current validator cap promotes decentralisation, it inadvertently leads to an inflationary increase in the validator set size. By raising the cap, the expansion of the active validator set could be slowed down, subsequently improving the network's efficiency in achieving finality within a single Ethereum slot.

In addition to the efficiency benefits, the proposed increase in the validator cap would allow for auto-compounding validator rewards. Currently, rewards exceeding the 32 ETH cap must be redirected elsewhere to generate staking yield. If the cap were lifted, validators would be able to immediately compound their rewards, providing them with an effective means to earn more from their staked ETH.

The proposal also aims to address the operational concerns faced by larger node operators, including prominent exchanges like Coinbase. These operators currently manage tens of thousands of validators due to the existing 32 ETH cap per validator. Raising the maximum effective validator balance would enable them to handle fewer but higher-stake validators, potentially reducing complexity. However, Neuder cautioned that there were associated risks, including the potential for higher penalties in cases of accidental double attestations or proposals.

The proposal remains under debate among the core developers, who have agreed to discuss the implementation details on platforms such as ETHMagicians and Discord, to foster an open dialogue among the Ethereum community.

The growing waiting times and the significant interest in setting up Ethereum validator nodes is the cause of the current discussion. The proposed rise represents a 6,300 percent increase. This surge has compelled major entities such as Lido and crypto exchanges offering staking services to deploy multiple validator nodes to cater to the demand for staking yield services.

During an Ethereum core developer call, developers acknowledged that the current limit has led to a substantial expansion of the network's validator set, resulting in a larger number of validators supporting the network.

Data reveals that the waiting time for users to run a validator node on Ethereum has increased to 44 days, up from nearly a month in May. However, exiting the network remains relatively quick, with no entities in the exit queue as of the latest available data. The strong demand to enter the network and the possibility of earning a nearly five percent annual yield is likely driven by significant ether holders who prefer earning passive income on their holdings rather than cashing out.

While the proposal to increase the validator limits is still under debate, it highlights the ongoing efforts to improve Ethereum's network performance, operational efficiency, and rewards for participants.

US Judge Approves Temporary Agreement between Binance and SEC in Lawsuit

Figure 26. US Judge Approves Temporary Agreement between Binance and SEC in Lawsuit

- **A federal judge has approved a temporary agreement between Binance, its U.S. affiliate Binance.US, and the SEC in an ongoing lawsuit, requiring Binance.US to ensure only local employees can access customer funds.**
- **The agreement aims to prevent the movement of customer assets offshore and includes measures such as restricting access to private keys and proposing timelines for the broader lawsuit, while U.S. customers can still withdraw their funds.**

A federal judge has given her approval to a temporary agreement between the U.S. Securities and Exchange Commission (SEC), cryptocurrency exchange Binance, and its US affiliate, Binance.US. The agreement mandates that Binance.US ensures only local employees have access to customer funds while the SEC lawsuit is ongoing. The judge has also ordered the parties to propose timelines for the broader lawsuit. The parties announced the deal last Friday, June 16th.

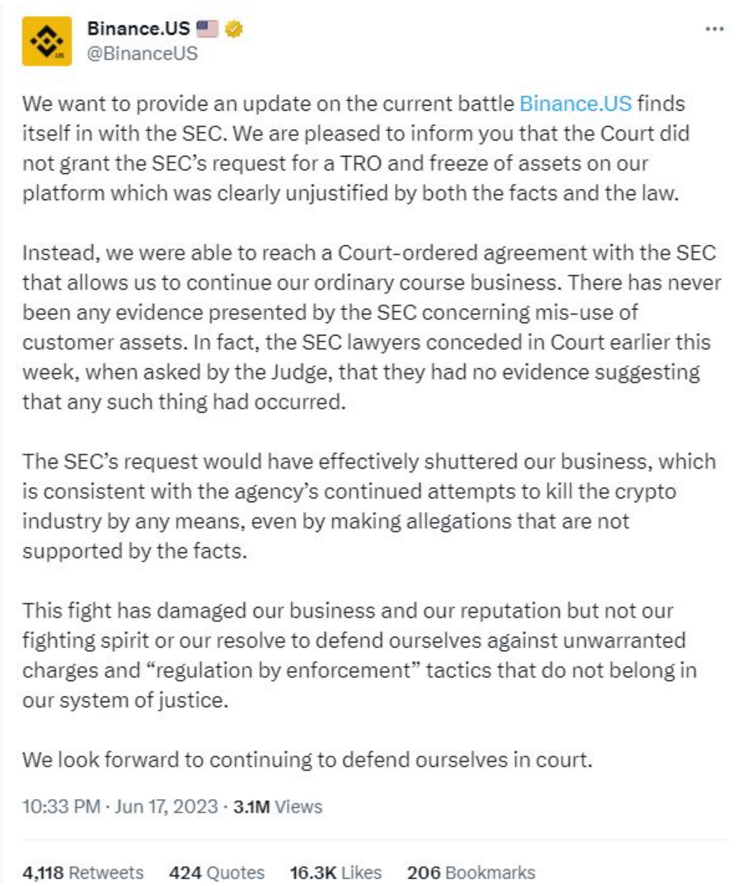
According to the agreed-upon terms, Binance.US will implement measures to prevent Binance Holdings officials from accessing private keys for wallets or hardware wallets, as well as root access to Binance.US's Amazon Web Services tools. Additionally, the U.S.-based exchange will share detailed information about its business expenses in the coming weeks.

The agreement emerged as a response to an SEC motion to freeze all of Binance.US's assets during the lawsuit. The SEC expressed concerns about funds being moved offshore or records being destroyed, prompting the request for a temporary restraining order. Binance.US' legal representatives argued against a complete asset freeze, likening it to a "death penalty."

Rather than crafting a restraining order with a two-week time limit, Judge Amy Berman Jackson urged the parties to reach an agreement on a proposed stipulation that includes provisions such as creating new crypto wallets inaccessible to global Binance employees, providing additional information to the SEC, and agreeing to an expedited discovery schedule. During this period, U.S.-based customers will still be able to withdraw their funds.

While the proposed agreement addresses some of the SEC's concerns, it does not resolve the broader lawsuit filed against Binance and Binance.US. The SEC accused the entities of offering and trading unregistered securities, as well as engaging in the commingling of funds. The press release from the SEC highlighted the importance of protecting investor assets.

In response, Binance.US stated that the legal battle has caused damage to their business and reputation but expressed their resolve to defend against what they deemed unwarranted charges. Binance also assured users that their funds have always been and will continue to be safe and secure across all Binance-affiliated platforms.


Binance.US
@BinanceUS

We want to provide an update on the current battle Binance.US finds itself in with the SEC. We are pleased to inform you that the Court did not grant the SEC's request for a TRO and freeze of assets on our platform which was clearly unjustified by both the facts and the law.

Instead, we were able to reach a Court-ordered agreement with the SEC that allows us to continue our ordinary course business. There has never been any evidence presented by the SEC concerning mis-use of customer assets. In fact, the SEC lawyers conceded in Court earlier this week, when asked by the Judge, that they had no evidence suggesting that any such thing had occurred.

The SEC's request would have effectively shuttered our business, which is consistent with the agency's continued attempts to kill the crypto industry by any means, even by making allegations that are not supported by the facts.

This fight has damaged our business and our reputation but not our fighting spirit or our resolve to defend ourselves against unwarranted charges and "regulation by enforcement" tactics that do not belong in our system of justice.

We look forward to continuing to defend ourselves in court.

10:33 PM · Jun 17, 2023 · 3.1M Views

4,118 Retweets 424 Quotes 16.3K Likes 206 Bookmarks

Figure 27. Binance US Tweeted to give update in its battle against the SEC

The agreement will only take effect once it receives approval from the federal judge overseeing the litigation. It aims to ensure that the US customer assets remain within the country until the resolution of the SEC lawsuit, which represents a significant escalation in the regulatory crackdown on the cryptocurrency industry.

Terraform Labs Founder Found Guilty of Passport Forgery, Sentenced to Prison

Figure 28. Terraform Labs Founder Found Guilty of Passport Forgery, Sentenced to Prison

- **Terraform Labs founder, Do Kwon has been found guilty of using a false passport by a Montenegro court and sentenced to four months in prison. His colleague, Han Chong-joon, also received the same sentence.**
- **Kwon claimed that he was unaware of the alleged forgery and attributed it to third-party agencies, denying any involvement in the fabrication of travel documents and refuting allegations of financial donations to a former Montenegro finance minister.**

The founder of Terraform Labs, Do Kwon, has been convicted of using a false passport by a Montenegro court, resulting in a four-month prison sentence, according to a court statement last Monday, June 19th. Kwon's former colleague and ex-chief financial officer of Terraform Labs, Han Chong-joon, received the same sentence. The court stated that the time spent in detention would be taken into account.

Kwon was charged with attempting to leave the country using a counterfeit Costa Rican passport. He claimed in court that he was unaware of the alleged forgery and shifted the blame onto a Chinese-named agency, stating that he received the forged passports and travel documentation through third-party agencies. Kwon defended himself by explaining that he had been using the Costa Rican passport for several years and had no reason to doubt its authenticity. He vehemently denied any involvement in the forgery of travel documents and refuted allegations of making financial donations to Montenegro's former finance minister, Milojko Spajić, who is currently the leader of the Europe Now party.

The case highlights the legal troubles faced by Kwon and the implications it may have for Terraform Labs, the blockchain company behind the Terra cryptocurrency. The conviction adds a significant setback to Kwon's personal and professional reputation, leading to further scrutiny and potential consequences for Terraform Labs and its operations.

Investment Firms Follow BlackRock's Lead, File Applications for Bitcoin ETFs

Figure 29. ***Investment Firms Follow BlackRock's Lead, File Applications for Bitcoin ETFs***

- **Leading investment firms WisdomTree and Invesco have submitted filings to the SEC to register spot Bitcoin exchange-traded funds (ETFs), following a similar recent application by BlackRock.**
- **The filings indicate the growing recognition of Bitcoin's potential in traditional finance and reflect the industry's push to provide regulated investment options in the cryptocurrency market.**

WisdomTree, a prominent provider of exchange-traded funds (ETFs), has filed an application with the SEC to launch the WisdomTree Bitcoin Trust on the Cboe BZX Exchange. This move follows BlackRock's recent application for a spot Bitcoin ETF, highlighting the increasing interest in Bitcoin within traditional finance.

WisdomTree aims to gain exposure to the price of Bitcoin, and the shares of the proposed ETF will be valued daily based on the CF Bitcoin US Settlement Price, which aggregates trade flow from major Bitcoin spot exchanges.

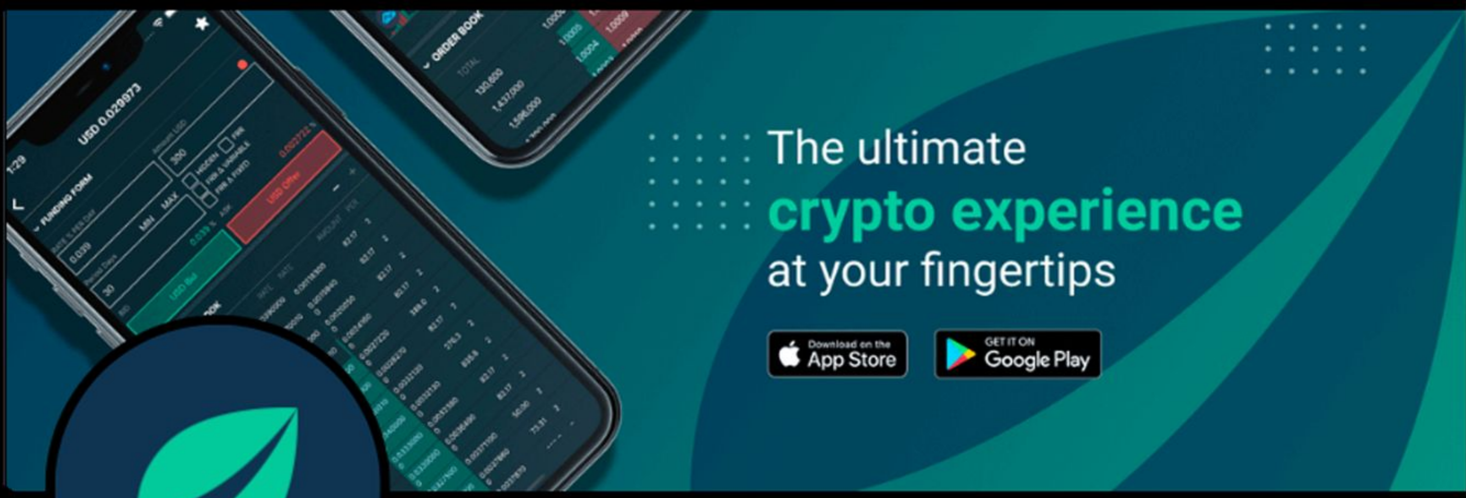
In their filing, WisdomTree outlined their approach of conducting "in-kind" transactions with Authorised Participants, allowing the delivery of Bitcoin to the Trust's custodian, U.S. Bank, National Association. Despite being referred to as a trust, both WisdomTree's filing and BlackRock's filings function as spot ETFs.

While the SEC has rejected previous applications for spot Bitcoin ETFs, it has approved Bitcoin futures ETFs. The filings by BlackRock and WisdomTree indicate the industry's effort to offer regulated investment vehicles in the Bitcoin market.

WisdomTree's filing comes shortly after investment manager Invesco also submitted an application for its "Invesco Galaxy Bitcoin ETF" product. Rumours have also circulated that Fidelity Investments, managing $4.9 trillion in assets, may file for its own spot Bitcoin ETF or consider acquiring Grayscale's GBTC ETF product.

Although the SEC is yet to approve a spot Bitcoin ETF, the recent filings by these investment firms, following BlackRock's lead, have injected new life into the race. Crypto investors may have reason to be optimistic given BlackRock's track record of getting ETFs approved by the regulator.

The consecutive filings by these asset management giants highlight the increasing recognition of Bitcoin's potential in traditional finance. By seeking spot ETFs, these firms acknowledge the demand for regulated investment options in the cryptocurrency market. If approved, these ETFs could open the doors to broader adoption and attract institutional investors to the Bitcoin market.



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BITFINEX Alpha