BITFINEX Alpha

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EXECUTIVE SUMMARY

Despite some price slippage in Bitcoin to below the $30,000 mark, we still see an array of on-chain metrics signalling the beginning of a bull market. Central bank rate hikes seem to be a lesser concern with the market largely pricing these in.

More notable in our view is that Bitcoin's Market Price still remains above its Realised Price, suggesting market participants, on aggregate, are profiting. Meanwhile, the Bitcoin network continues to grow, as new address creation is escalating at a rate previously linked to positive price movements.

We also take comfort in a number of other metrics such as the Bitcoin Realised Profit-Loss Ratio, the Adjusted Spent Output Profit Ratio, and Bitcoin Supply in Profit, which all indicate a predominantly profitable Bitcoin market, and favourable conditions for sellers.

In terms of long-term holder behaviour, the Reserve Risk indicator is also showing a gradual increase in conviction, while the Realised HODL Multiple (RHODL) has also been trending upwards, suggesting a decreasing supply of coins for sale, leading to a more bullish market sentiment.

When Bitcoin broke down last week from a month-long range of $31,500 to $29,500, it was also telling that no significant change in order flow and options behaviour was observed. Despite a minor increase in market volatility, derivatives market behaviour remains unchanged, pointing towards continued low volatility and buyer/seller behaviour consistency.

We also introduce this week our Correlated Market Watch feature, which examines how closely tied the price movements are of Bitcoin, the S&P500, and the NASDAQ-100. We find that the current S&P500 level of 4560 points could impact global risk assets like Bitcoin, depending on its direction from here. Similarly, Bitcoin correlation metrics for NASDAQ and S&P500 have seen a significant upturn, hinting at a strengthened symbiosis.

We note there is a looming threat of a significant correction and these are important indicators to watch.

In the broader economy, the ongoing quest by the Fed to slow inflation without crashing the economy continues. Despite an 11th interest rate hike last week, policymakers remain focused on slowing the economy and weakening the labour market in order to subdue inflation to two percent.

The latest PCE data shows progress is being made, though we are not there yet, while consumers continue to remain confident, and the housing market remains resilient.

Further afield, we also take a look at recent surveys from the European Central Bank, which reveals alarming trends in the eurozone's economy, particularly a significant drop in loan demand.

It was also a lively crypto news week. Transaction volumes on the Optimism blockchain overtook the hitherto dominant Arbitrum, following the high-profile launch of Worldcoin, which is built on Optimism.

Meanwhile, the regulatory winds continued to blow with the Bank Policy Institute, an advocate for traditional finance, aligning with Senator Elizabeth Warren to strengthen Anti-Money Laundering laws for digital assets, targeting money laundering and terrorism financing in the crypto market. The House Financial Services Committee also advanced a bipartisan bill to overhaul cryptocurrency regulation, providing clearer guidelines while facing resistance from some Democrats.

In more courtroom drama, a federal judge has imposed a gag order on former FTX CEO Sam Bankman-Fried due to witness tampering allegations, and CoinsPaid accused the North Korean Lazarus Group of orchestrating a cyberattack resulting in the theft of $37.3 million, and hobbling its operations.

Even if liquidity remains low in crypto markets, the news agenda remains furious. Happy trading!

Happy trading!

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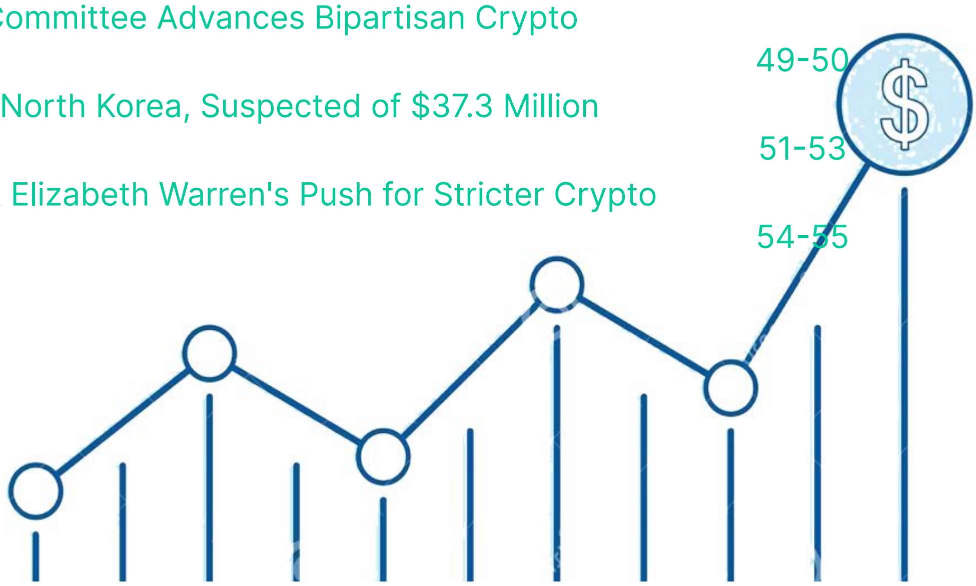

WHAT'S ON-CHAIN THIS WEEK?

Despite Recent Downturn, Bitcoin Bull Thesis Remains Strong

Bitcoin (BTC) spent most of last week languishing below the $30,000 mark, lacking new positive stimuli to maintain the upward momentum that saw it reach a fresh annual high around $31,800 earlier this month. However, multiple on-chain metrics continue to signal that we could still be in the early part of a bull market.

The market had been bracing itself for a final 25 basis point rate hike from the central bank, which is exactly what it got to push interest rates to a range of 5.25-5.50 percent—their highest in over two decades. However, apart from drastic wicks on the minute time frames, the Fed's decision was already priced in and no significant on-chain movements really came of it.

This rate increase is unlikely to affect Bitcoin directly in the next week as well, however, the Fed's sentiment regarding potential future rate hikes could incite some market turbulence. The Fed has suggested that additional rate hikes may occur later in the year due to the robust labour market, but a recent slowdown in US inflation has lessened the impetus to continue with rate increases.

The prevalent belief that the end of the Fed's tightening cycle is imminent has been extensively promoted as a critical reason why the BTC price forecast is starting to look optimistic. Traders will remember that the Fed's aggressive tightening last year in response to soaring inflation was a major contributing factor to the significant decline in BTC price. Now that we have broken down from a month-long range, BTC price continues to hover right below it and despite the chances of a further minor correction, higher timeframe on-chain metrics continue to signal a bull market.

Bitcoin Market Price is above its Realised Price

Bitcoin climbed back above its Realised Price in early January and continues to remain above it, the realised price is $20,361. (refer to Figure 1 below)

Figure 1. BTC price vs Realised price. (source: lookintobitcoin.com)

Bitcoin Realised Price is the value of all coins at the price they were bought, divided by the number of coins in circulation currently. This gives us the 'average cost basis' at which all Bitcoins were purchased, which is another way of describing Realised Price.

So unlike the current Market Price, which tells us the price of $BTC right now, Realised Price tells us the average purchase price of all coins in circulation.

When the BTC Market Price is ABOVE Realised Price then, on aggregate, the market participants are in profit. We must take into account that market participants are likely to hold their positions since on aggregate, longer-term holders have been in profit since the beginning of the year. Moreover, a large part of the long-term holder Bitcoin supply remains inactive as covered in the previous edition of the *Bitfinex Alpha.* When Bitcoin re-ascends to a position above its Realised Price, following an extended period of staying below it, this usually signals the onset of a new bull market. This correlation between Bitcoin's price rebound and the initiation of a bull market is a noteworthy trend in the historical performance of the cryptocurrency.

New Addresses Keep Joining The Network

The 30-Day Simple Moving Average (SMA) of new Bitcoin address creation overtook its 365-Day SMA in November (refer to Figure 2 below).

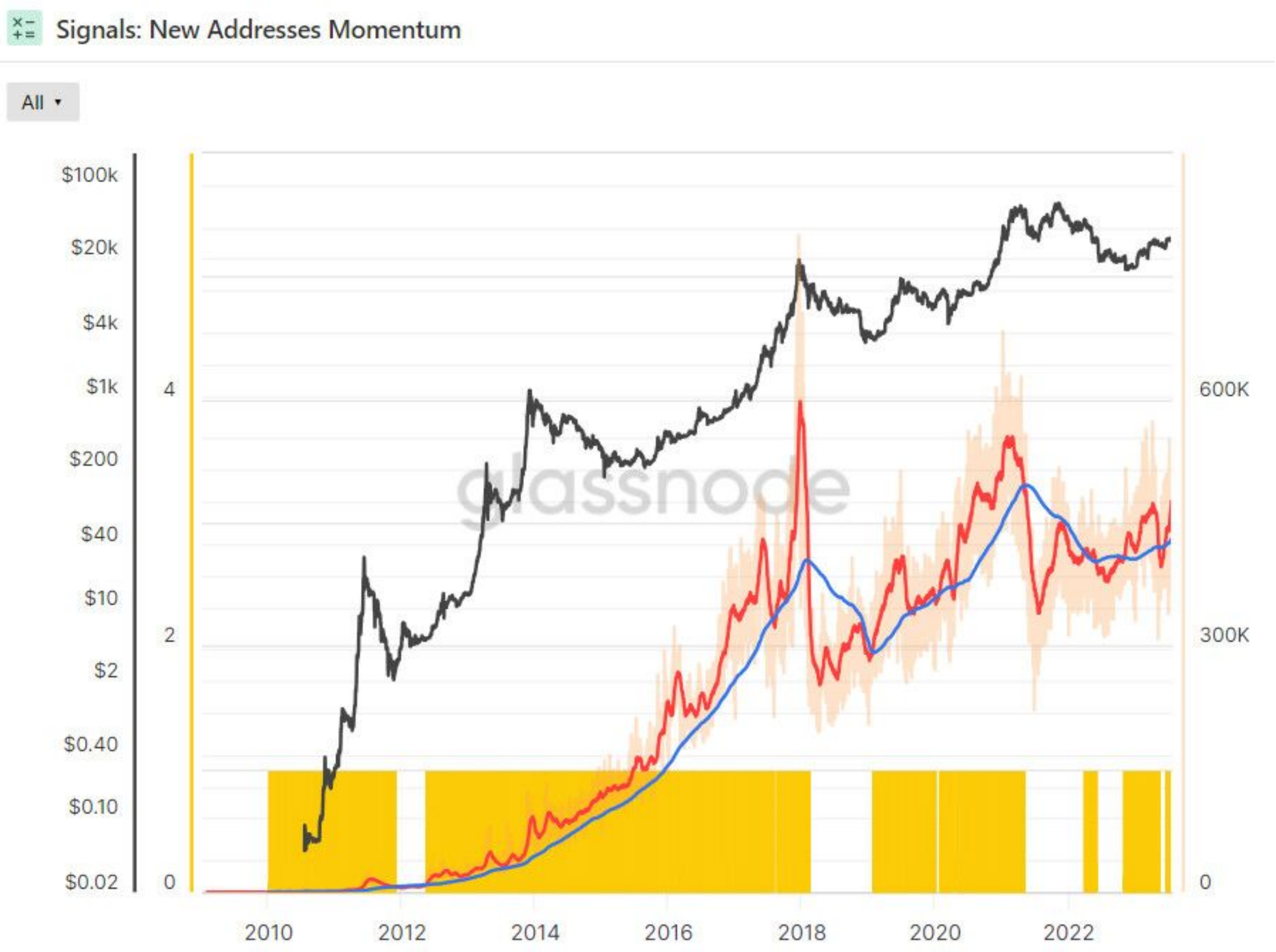

Figure 2. Bitcoin New Addresses Momentum (Source: Glassnode)

This crossover indicates an acceleration in the creation of new Bitcoin wallets. Historically, such an uptick in wallet creation coincides with or precedes the commencement of bull markets, suggesting a potential positive price movement for Bitcoin in the near future. This pattern, a historical market indicator, may imply an increasing adoption or heightened interest in Bitcoin, thereby potentially driving up its value.

Market Profitability Regime Is Still On Track

The 30-Day Simple Moving Average (SMA) of the Bitcoin Realised Profit-Loss Ratio (RPLR) indicator is currently exceeding the threshold value of 1.0 and continues to rise (refer to Figure 3 below).

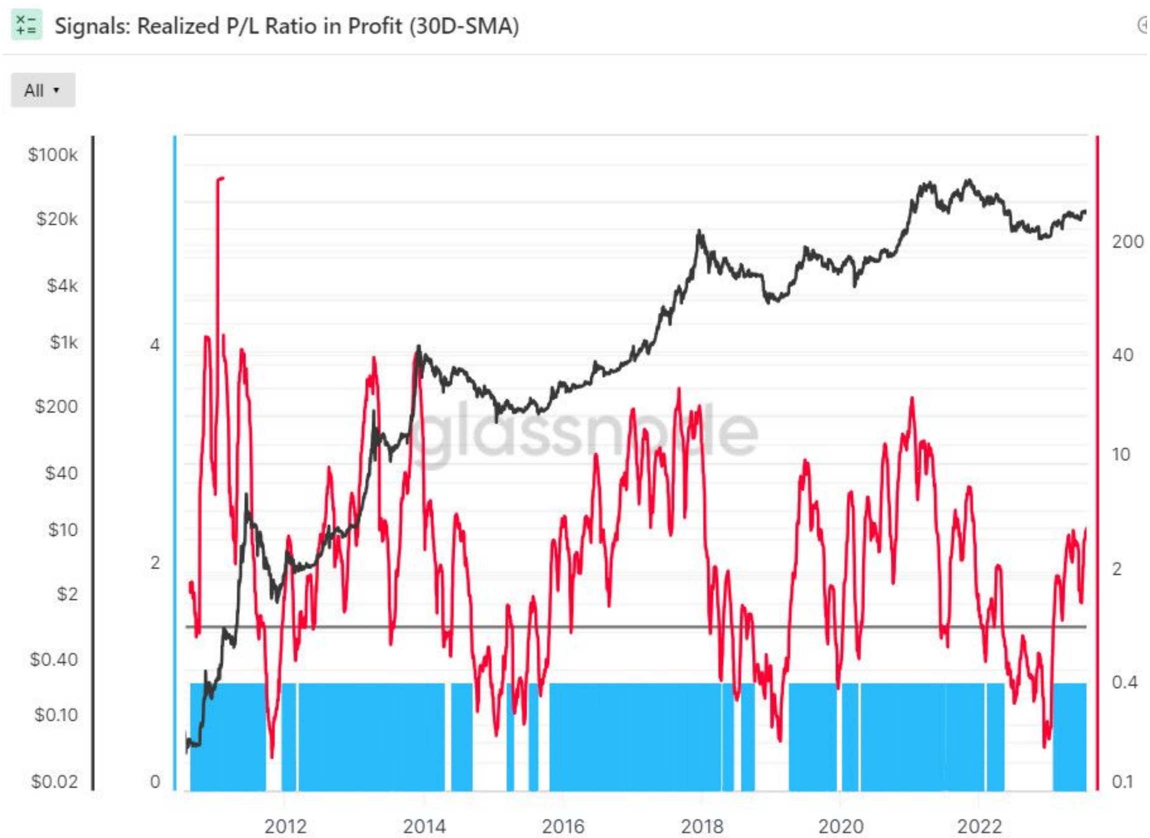

Figure 3. Realised Profit And Loss Ratio (source: Glassnode)

This suggests that the Bitcoin market is realising more profits (in USD notional terms) than losses, indicating a favourable market condition for sellers. This is actually a bullish signal historically observed for extended periods of time only in bear markets. *Glassnode* indicator documentation elucidates this concept, stating, "this generally signifies that sellers with unrealized losses have been exhausted, and a healthier inflow of demand exists to absorb profit taking."

Essentially, when the RPLR is above one and trending upwards as it is currently, it typically means that most of the selling pressure from investors who were at a loss has dissipated. Simultaneously, there is robust demand to absorb the selling from those who are securing profits. This scenario often indicates a positive market environment, with a potential upward trend for Bitcoin prices.

The 30-day SMA of Bitcoin's Adjusted Spent Output Profit Ratio (aSOPR) is also holding over one (refer to orange line in figure below)

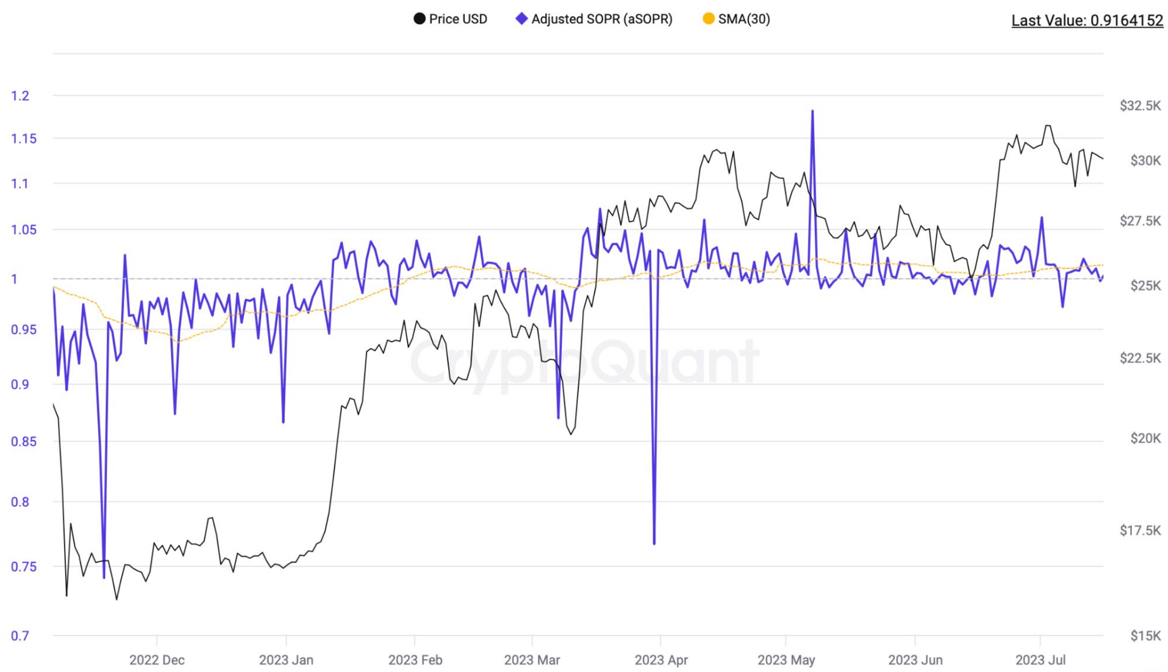

Figure 4. aSOPR vs BTC price and 30-day SMA. (source: CryptoQuant)

The aSOPR is an on-chain metric that essentially quantifies the profitability or loss of all coins moved on-chain during a specific period. An aSOPR above one signifies that on average, all coins moved on-chain are being sold at a profit.

The aSOPR measures the ratio of spent outputs (that lived for more than an hour) in profit during a given time window. This "adjusted" metric does not take into account the movements of coins that have been held for less than an hour. This filters out a lot of intraday noise that is often created by rapid, high-frequency trading strategies and instead focuses on longer-term holders.

In the context of the last 30 days, this suggests that, overall, market participants have made profits, thus revealing a predominantly bullish trend. The implication here is that many holders are either realising profits or refraining from selling at a loss, both of which can contribute to a positive market sentiment.

Historically, a rise in the aSOPR above one after a sustained period below it has often been a robust buy signal in the Bitcoin market. This pattern indicates a potential market turnaround, where the selling pressure begins to decrease, and profit-taking becomes the dominant trend.

Elsewhere, the 90-day Exponential Moving Average (EMA) of Bitcoin Supply in Profit (refer to Figure 5 below) has been in an uptrend over the last 30 days as well.

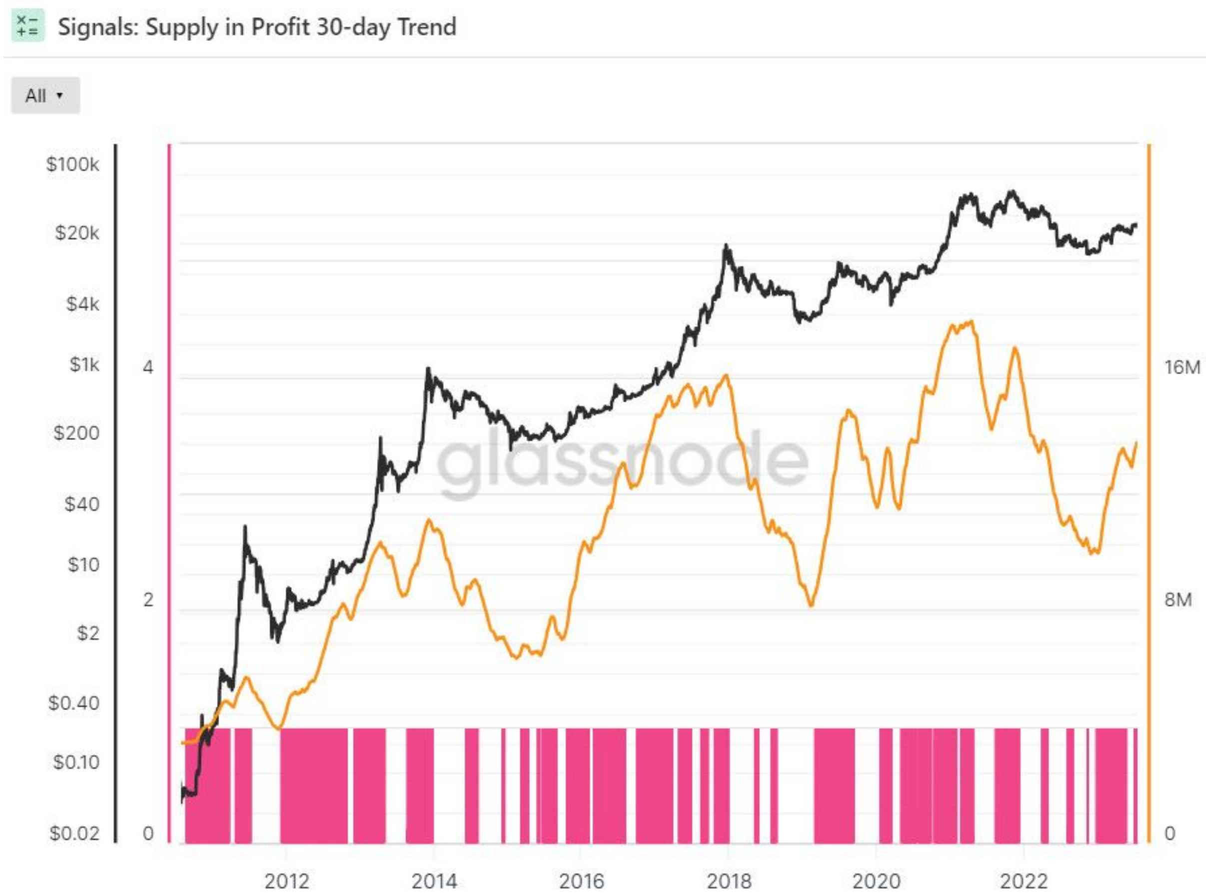

Figure 5. Bitcoin Supply in profit EMA trend for 30 day periods. (source: Glassnode)

Supply in Profit is the number of Bitcoins that last moved when USD-denominated prices were lower than they are right now, implying they were bought for a lower price and the wallet is holding onto a paper profit.

Long-term holder conviction continues to increase

We also look at Reserve Risk as a measure to assess the confidence of long-term Bitcoin holders in relation to the price of the asset. This measure helps investors identify periods where the potential for higher returns is greater based on the behaviour of those who typically hold onto Bitcoin for longer periods.

When confidence is high and price is low then there is an attractive risk/reward to invest in Bitcoin at that time (see green zone in the Figure X below). When confidence is low and price is high then risk/reward is unattractive (red zone). Investing in Bitcoin during periods where Reserve Risk is in the green zone has produced outsized returns over time.

The fact that Reserve Risk hit an all-time low after the FTX collapse in November 2022 suggests that confidence among long-term holders was very low relative to the price of Bitcoin. However, the gradual recovery of this metric suggests that long-term holder conviction is slowly increasing (refer to Figure below), which could be a bullish sign for Bitcoin.

Reserve Risk

Source: lookintobitcoin.com

Figure 6. BTC price vs Reserve Risk. (source: lookintobitcoin.com)

However, it's also worth noting that the Reserve Risk is still at historically low levels. This could be interpreted in two ways. On the one hand, it might suggest that long-term holder conviction is still relatively weak. On the other hand, it could also suggest that there is a significant potential for upside, as the risk/reward for investing in Bitcoin might be considered attractive given the current low level of the Reserve Risk.

Bear Market Seller Exhaustion Apparent Through On-chain Movements

The Realised HODL Multiple (RHODL) is an indicator that provides insight into the behaviour of Bitcoin's long-term holders relative to the overall market. This metric is calculated by dividing the Realised Cap HODL Waves by the Realised Cap.

The Realised Cap HODL Waves is a variation of the standard HODL Waves, which tracks the age of all coins in circulation. However, instead of using the market price (like in the standard HODL Waves), the Realised Cap HODL Waves uses the realised price (the price when each coin last moved) of all coins.

So, an uptrend in the RHODL over a 90-day window, as is the state currently (refer to Figure 7 below), signals a shift in USD-denominated wealth back towards new demand inflows, suggesting that weak-handed sellers are becoming exhausted and the market is regaining strength.

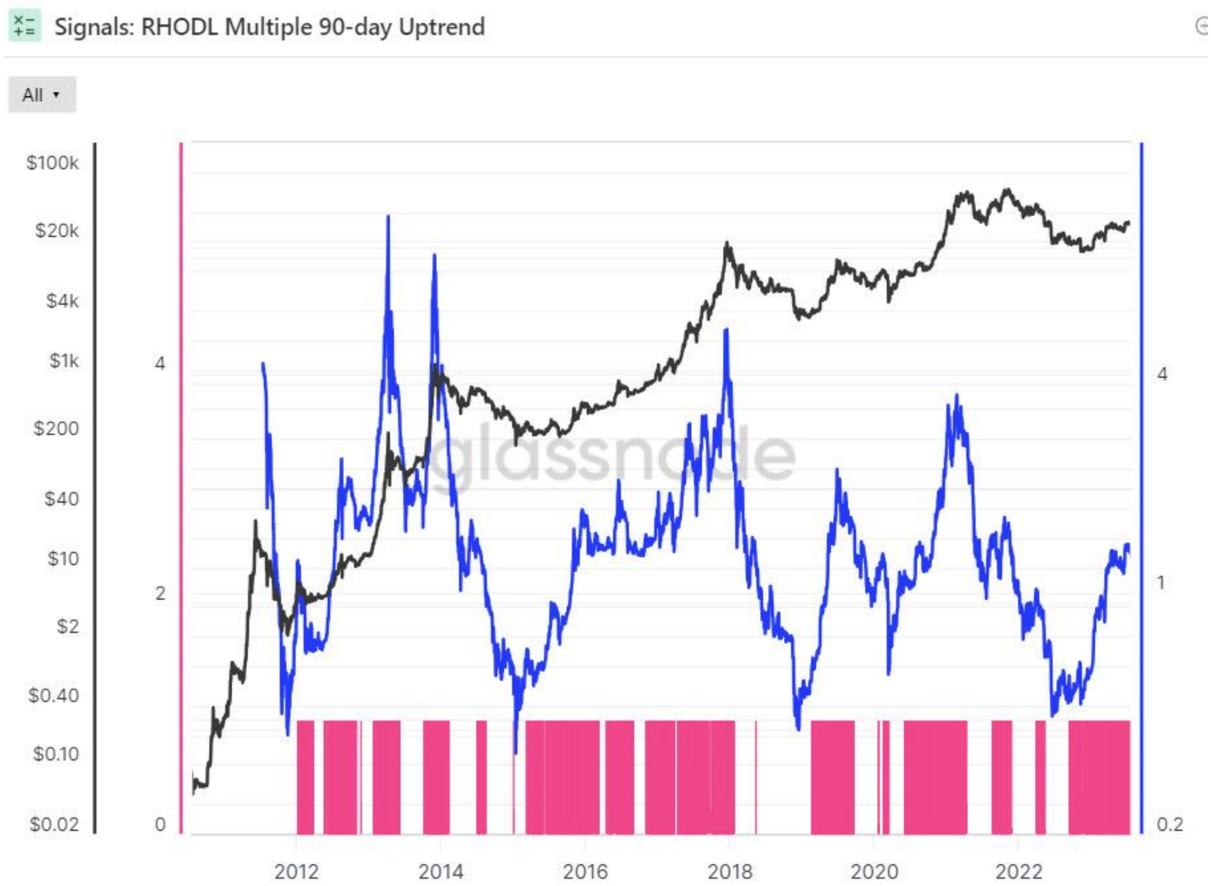

Figure 7. RHODL Multiple for Bitcoin. (source: Glassnode)

This shift often leads to a more bullish market sentiment, as it suggests a decreasing supply of coins available for sale.

Bitcoin Breaks Down from Month Long Range but Orderflow and Options Behaviour Has Not Changed

Bitcoin has broken down from more than a month-long range between $31,500 and $29,500 (refer to Figure 8 below) to reach prices sub $29,000. On the lower time-frames, there has been a slight increase in volatility, however, no significant change in orderflow and options behaviour from buyers and sellers has been observed.

Figure 8. BTC/USD 4 Hour Chart. (source: Bitfinex)

Not only did price break down from our defined trading range, but an attempt to break back inside the range was also rejected on July 26th. Technical traders may see this as a bearish sign. However, the reason we believe not much has changed in the long term is because the derivatives market behaviour has not changed much. Immediately after the breakdown from the range, open interest increased to new local highs while funding remained positive favouring shorts.

Figure 9. BTC/USD aggregated chart with Open Interest (OI) and Funding Rate. (source: coinalyze)

Hence the sentiment has not changed much since the break of range low. We can see how the OI surged by about 7.5 percent while funding immediately turned positive again after the range breakdown. In fact, to put things into context, BTC price was in a 33-day range with the range extremities six percent apart and even post the breakdown nearly a week ago, price is still bracketing less than two percent from the range low.

Due to the non-violent nature of the range break, even though we had a confirmed breakdown below range low, the amount of liquidations was dwarfed in comparison to the usual liquidation cascades for Bitcoin or even for previous breaches of range extremities for this range.

Figure 10. Total Liquidations for major exchanges. (source: coinglass)

The total liquidations were close to $150 million (refer to Figure above) while the long liquidations amounted to $131.02 million for July 24th.

On July 28th, the price attempted to break back into range but rejected from range lows. This rejection was brought about by aggressive shorts that were not absorbed by spot longs (refer to Figure 11 below), indicating a lack of spot demand below range low in the $29,000 area and above. This thesis can be backed by an increase in market shorts and open interest as price moved towards the $29500 mark with but price rejected and and we saw negative Cumulative Volume Delta (CVD) during the on-ramp. Typically, if the CVD is negative sloping then that implies more action from sellers as demand wanes.

Figure 11. BTC/USD Hourly chart. (source: exocharts)

Thus, it can be concluded that Bitcoin remains in a low volatility environment where buyer/seller behaviour has not really changed. The price continues to be increasingly dominated by the derivatives market.

CORRELATED MARKET WATCH

In this new section of the *Bitfinex Alpha,* we take a look at Bitcoin correlated markets. We will break down important levels to watch for these markets with strong correlation with the crypto market.

Figure 12. S&P500 index Daily Chart. (source: tradingview)

The S&P500, which has been highly correlated with Bitcoin prices (with only a few exceptions), is currently around the crucial 4560 level.

This is an important figure for the index, as this is where the index rejected further rises and went into a seven percent correction in September 2021 before running up to its current high. It also broke down from this level in early 2022, once in February and the other in March 2022 when the Fed started its intense interest rate hiking cycle. This further resulted in a 24 percent correction for the index, which was the second most severe correction since the 2008 financial downturn, second only to the crash caused by the Covid lockdowns.

Now that some economists are predicting that we just witnessed the last rate hike of this hiking cycle, raising rates to the 5.25-5.5 percent range, the index has reached the same level. The next move, whether it is a rejection or move beyond this level will be crucial for not just the US stock market but global risk assets like Bitcoin. Should resistance prove strong, a retrenchment to the 4200 mark may well be within the realm of expectations. Alternatively, a successful breach of the current level could feasibly open the gates to a surge towards unprecedented heights, unimpeded by any substantial reversals. As ever, the ebbs and flows of the market present a dual-sided narrative, each equally plausible given the appropriate set of circumstances.

Important note: When we analyse correlation, it is critical to treat these levels as zones and not as accurate horizontal price points on the chart.

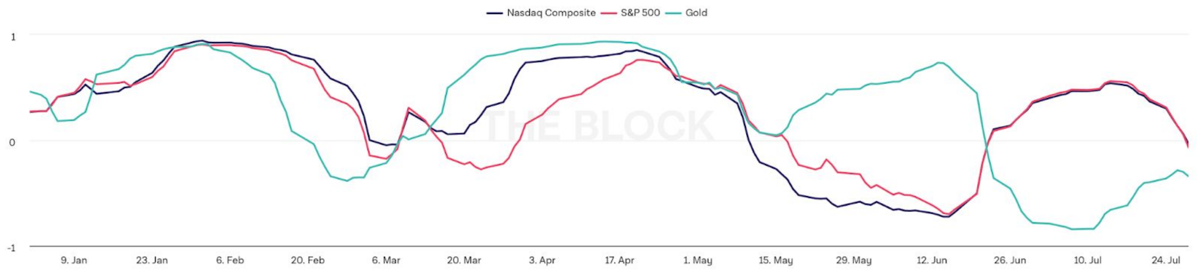

Figure 13. BTC Pearson Correlation Metric. (source: TheBlock)

The correlation metric for the NASDAQ composite and the S&P500 (SPX) had increased significantly in mid July after a downturn early in the year. The higher this metric, the more closely the two assets move together. This metric is expected to increase further over the longer term if BTC ETFs are approved and more and more larger asset management firms diversify their portfolios to include Bitcoin among their asset holdings.

The SPX and NASDAQ Pearson correlation metrics have recently moved in tandem but historically, Bitcoin has been more correlated to tech stocks, hence keeping an eye on the NASDAQ has been important for Bitcoin investors.

Figure 14. NDX Daily chart. (source: TradingView)

The NASDAQ 100 index (NDX) in relative terms has been outperforming the SPX as it is already above its March 2022 highs when the Fed hiking cycle began. However, it is also at an important resistance level of around 15,800 (currently 15750) which capped its upward move in September 2021 before its all time high just like the SPX. A retrace from this level could send the index back to 15250 or even to the lower levels marked from 2022 which were significant for the 2022 bearish market conditions.

In terms of relative performance, the NDX has outperformed the SPX in percentage terms both since the Covid crash and since the beginning of the year which marked the beginning of bullish rallies across all major risk assets.

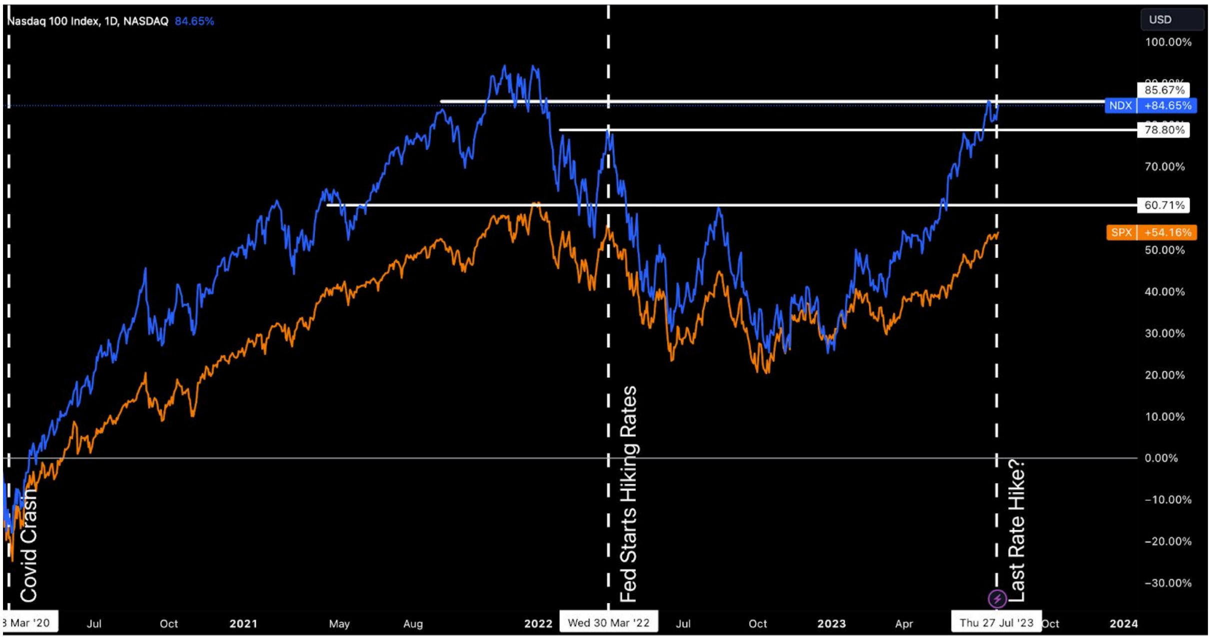

Figure 15. SPX vs NDX percentage returns comparison since March 2020.

GENERAL MARKET UPDATE

Federal Reserve Raises Interest Rates, Cautious Approach in Inflation Fight

The Federal Reserve has implemented its 11th interest rate hike in the last 12 meetings, raising rates by 0.25 percent to set the benchmark overnight interest rate in the range of 5.25 percent-5.5 percent (refer to Figure 16 below). Fed Chair Jerome Powell emphasised that further slowing of the economy and weakening of the labour market are necessary for inflation to return to the central bank's two percent target.

Figure 16. Year-over-Year Change in inflation

While inflation has been easing, key price metrics continue to rise above the Fed's target. Still, Powell expressed relief that the economy has not suffered significant damage due to the fall in inflation. However, the Fed faces a delicate balancing act between further rate increases and the potential risks of going too far, and Powell has long-acknowledged that reducing inflation may require some economic losses.

The Fed also made it clear that it remains cautious and will closely monitor incoming data and the impact of rate hikes on the economy before deciding on additional policy firming to achieve its inflation target. Policymakers are hesitant to alter their hawkish approach despite weaker-than-expected inflation data (see our analysis on PCE and PMI output data below), with many forecasters suggesting no further rate hikes are needed this year.

MEETING PROBABILITIES											
MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550	550-575	575-600
9/20/2023				0.0%	0.0%	0.0%	0.0%	0.0%	80.0%	20.0%	0.0%
11/1/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	67.1%	29.7%	3.2%
12/13/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	8.9%	62.1%	26.2%	2.8%
1/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.4%	23.2%	52.5%	19.9%	2.0%
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	11.1%	35.5%	38.8%	12.4%	1.2%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.8%	8.9%	30.2%	38.1%	18.2%	3.6%	0.3%
6/19/2024	0.0%	0.0%	0.0%	0.3%	4.0%	17.3%	33.3%	30.2%	12.4%	2.3%	0.2%
7/31/2024	0.0%	0.0%	0.2%	2.9%	13.4%	28.6%	31.1%	17.7%	5.3%	0.8%	0.0%
9/25/2024	0.0%	0.2%	2.3%	11.1%	25.2%	30.6%	20.6%	8.0%	1.8%	0.2%	0.0%
11/6/2024	0.1%	1.7%	8.6%	21.3%	29.1%	23.4%	11.5%	3.5%	0.6%	0.1%	0.0%
12/18/2024	1.2%	6.3%	17.0%	26.4%	25.3%	15.6%	6.3%	1.6%	0.3%	0.0%	0.0%

Figure 17. Meeting Probabilities based on CME FedWatch Tool, data as of July 29, 2023 (Source: CME FedWatch Tool)

Figure 18. US Government 10 Year Bond Yield Slid

Powell stated that decisions on rate changes will be made on a meeting-by-meeting basis but warned against expecting a near-term easing in rates.

“The disinflationary process, the process of getting inflation down, has begun and it’s begun in the goods sector, which is about a quarter of our economy,” Powell said. “But it has a long way to go. These are the very early stages.”

US Treasury yields slid after the Fed policy statement, and the forward guidance suggests the door remains open to further rate hikes if inflation does not trend lower.

The Fed acknowledged the economy's strong performance, with robust job gains and a moderate pace of growth. Powell expressed hope for a "soft landing" scenario where inflation falls, unemployment remains low, and a recession is avoided. However, his comments about the need for slower growth may signal a bias towards further rate hikes to exert more pressure on demand.
It remains a question whether achieving a two percent inflation rate will require a further slowing down of the economy and falling to a recession.

Slower Economic Growth and Mixed Outlook for US Economy in July

Recent Flash Purchasing Managers' Index (PMI) data, as reported by S&P Global on Monday, 24th July, indicated a deceleration in the growth of the US economy. The rate of expansion has reached a five-month low (refer to the Figure below), underscoring the challenges the economy faces as it strives to sustain momentum.

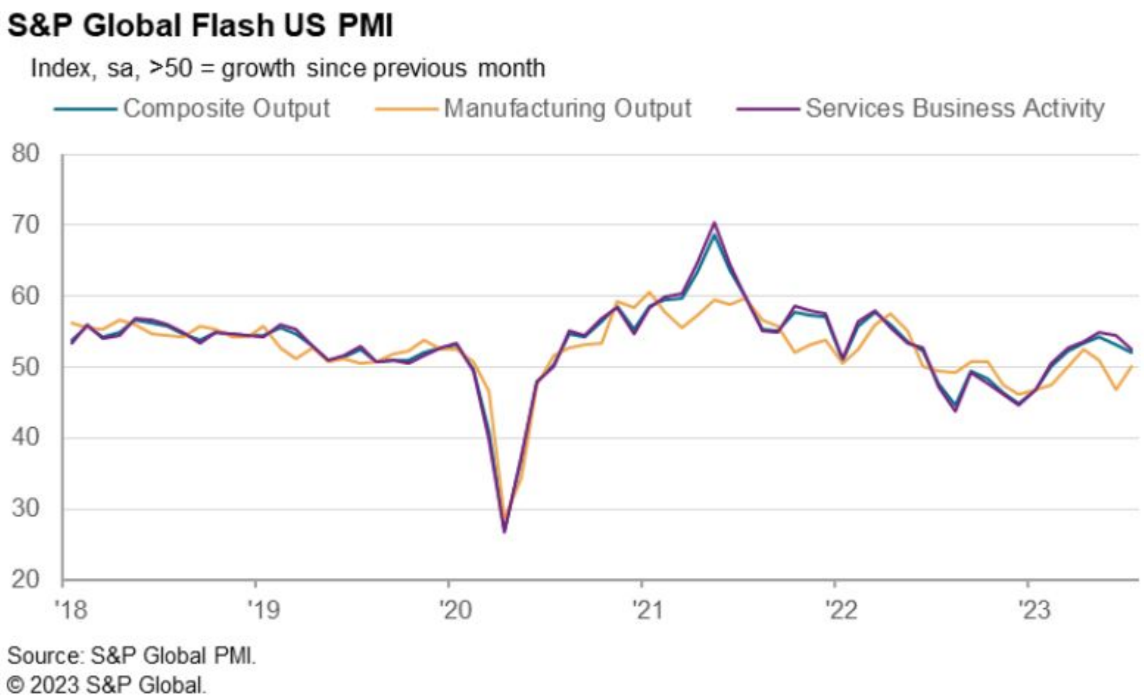

Figure 19. S&P Global Flash PMI, US (Source: S&P Global)

The Flash Composite PMI index, which tracks both manufacturing and service sectors, declined from 53.2 to 52 in July. Readings above 50 indicate expansion (refer to Figure 19 above)

The data also revealed divergent trends in various sectors of the economy. While manufacturing showed signs of stabilisation with a rise in the output index to 50.2 from June's contraction of 46.9, the service sector witnessed weakened growth, with its activity index falling to 52.4 from 54.4 in June.

Manufacturing, which had been a drag on the economy, showed signs of stabilisation after a downturn in June. This progress was aided by the improvement in new orders and exports. However, companies in the sector continued to grapple with excess capacity, leading to cost-cutting measures through inventory reduction policies.

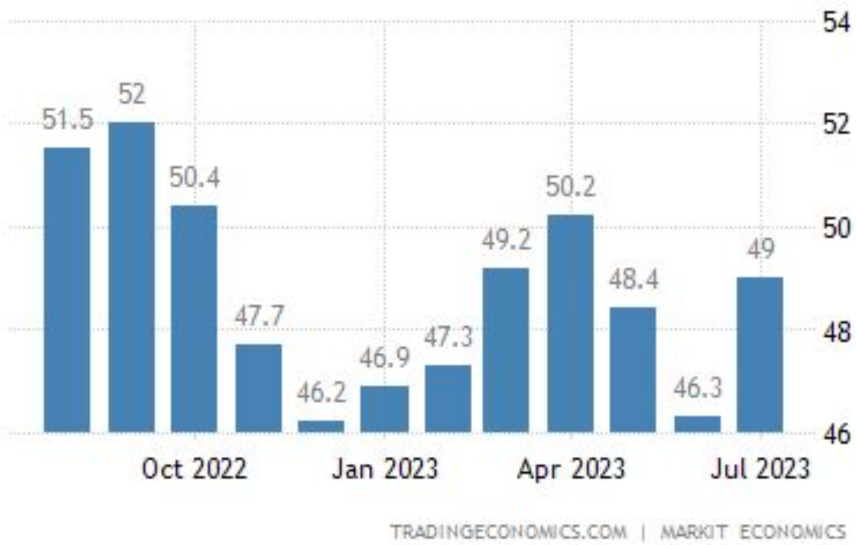

Figure 20. US Manufacturing Purchasing Manager's Index (S&P Global)

The broader Manufacturing Purchasing Managers' Index (PMI) exhibited some improvement, rising to 49 from last month's 46.3, thereby surpassing the consensus forecast of 46.2 (see Figure 20). Nonetheless, the index remained below the pivotal 50-point mark, which demarcates expansion from contraction, suggesting that the manufacturing sector continues to grapple with difficulties.

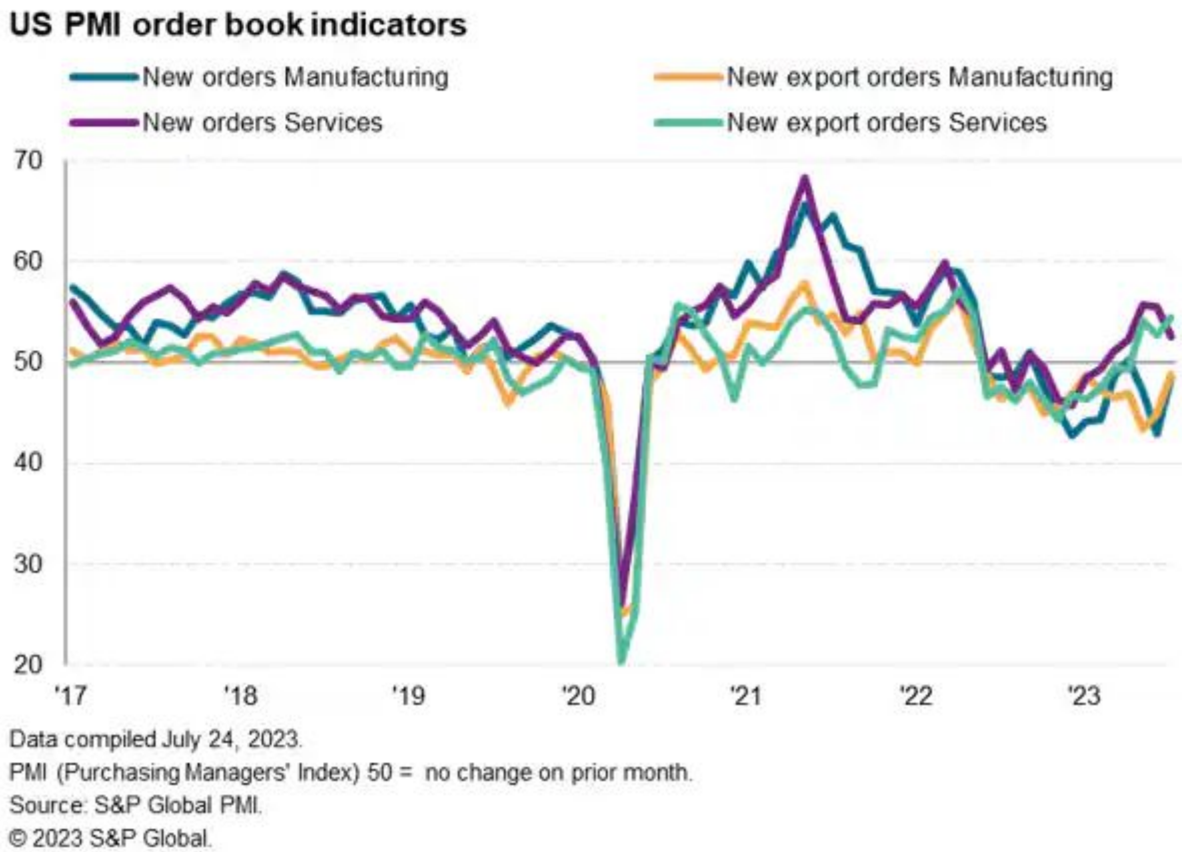

Figure 21. US PMI Order Book Indicators (Source: US S&P Global)

Meanwhile, the service sector experienced a weakening in output growth for the second consecutive month, reaching its softest level since February. A cooling of domestic demand was identified as the primary driver behind this slowdown. On the other hand, the export of services, particularly related to tourism and spending by foreign visitors, witnessed a notable rise to its fastest rate since May 2022.

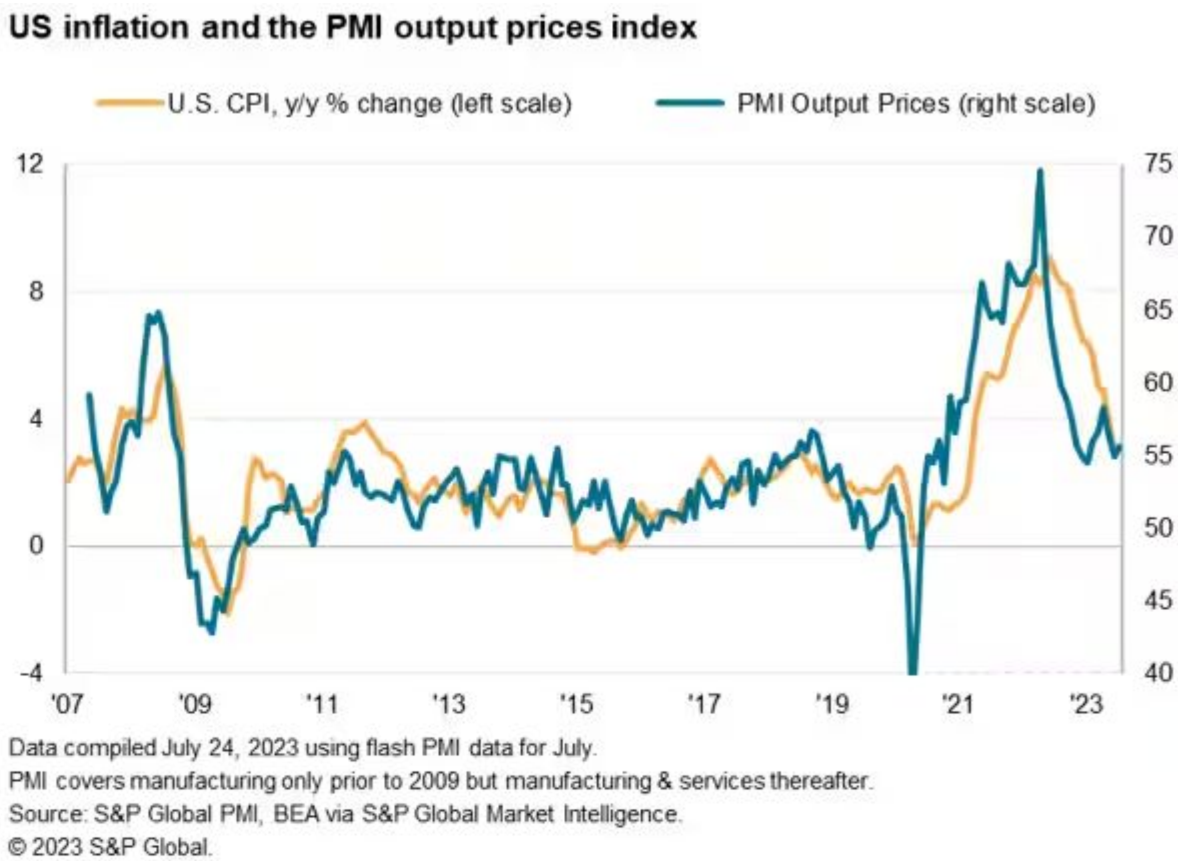

Figure 22. US Inflation and PMI Output Prices Index

Another area of concern was inflation, as indicated by the PMI Output Prices (refer to Figure 22 above) which has remained stubbornly sticky. The prices of goods and services charged by businesses have been stubbornly high, although there was a slight decrease compared to the peak in the previous year. However, these prices remained elevated when compared to historical standards and even went up slightly in July.

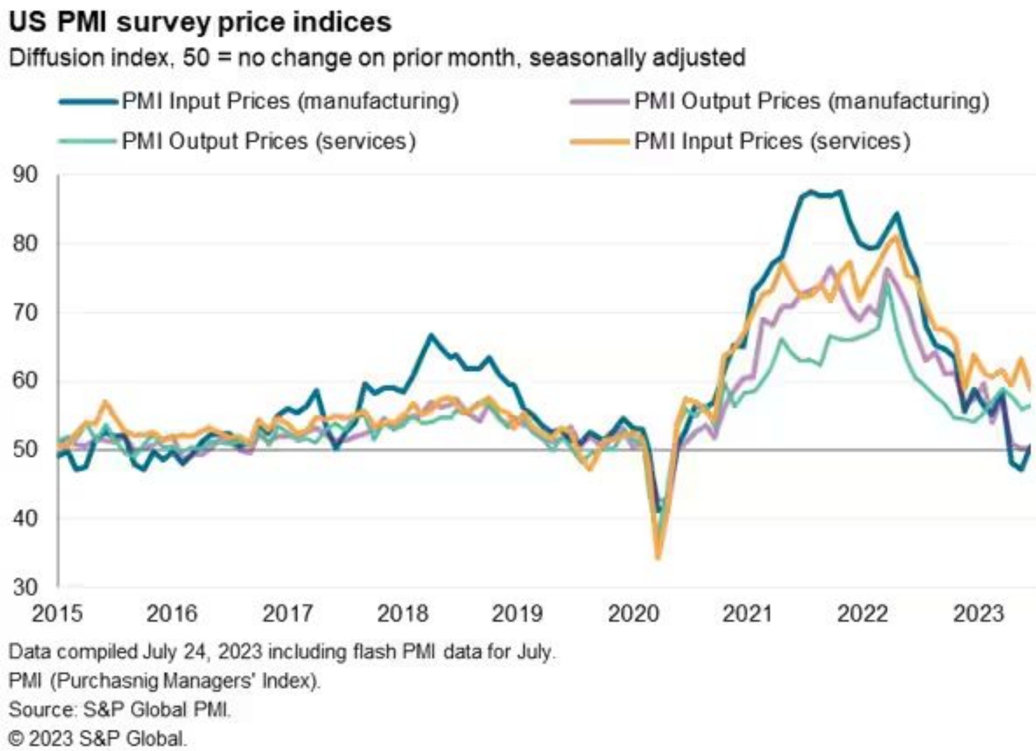

Figure 23. US PMI Survey Price Indices (Source: S&P Global)

Furthermore, the survey data revealed that the main upward pressures on prices were still emanating from the service sector. While manufacturing input costs and selling prices experienced only marginal increases, the service sector continued to face elevated input costs and selling price inflation (refer to figure above), albeit lower than early 2022 levels. Wage costs played a significant role in driving these inflationary pressures.

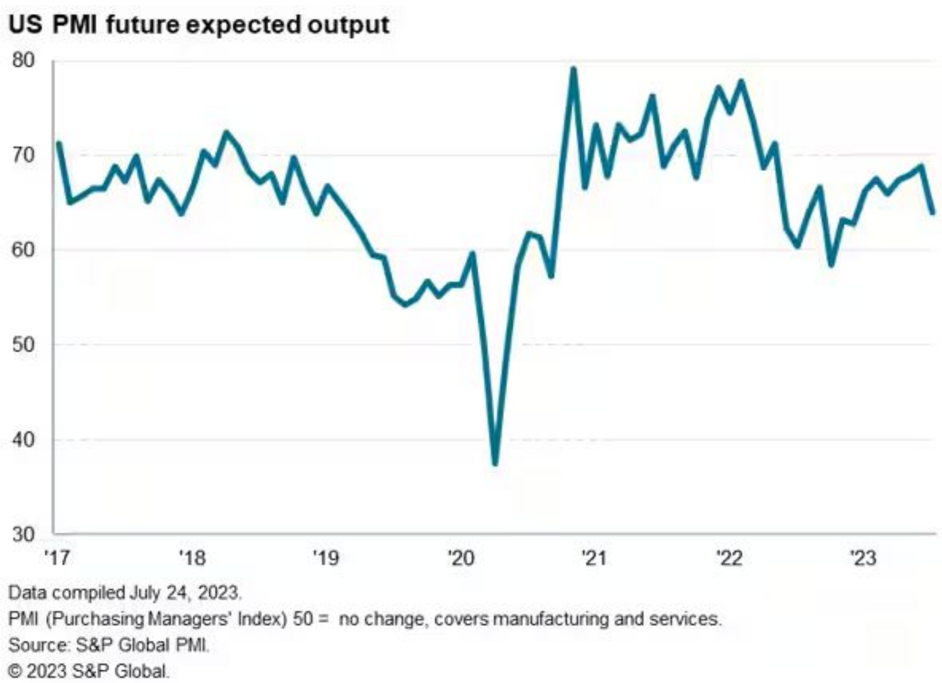

Figure 24. US PMI Future Expected Output (Source: S&P Global)

Looking ahead, the outlook for the US economy remains challenging. Business optimism about the year-ahead deteriorated sharply, with the service sector being the primary driver of this pessimism. This, combined with the slowing pace of expansion in the service sector in July, raised concerns that the US economy might be at risk of facing another downturn before the year's end. The latest data from S&P Global bolsters the Fed's cautious approach in their battle against inflation.

US Consumer Confidence Reaches Two-Year High

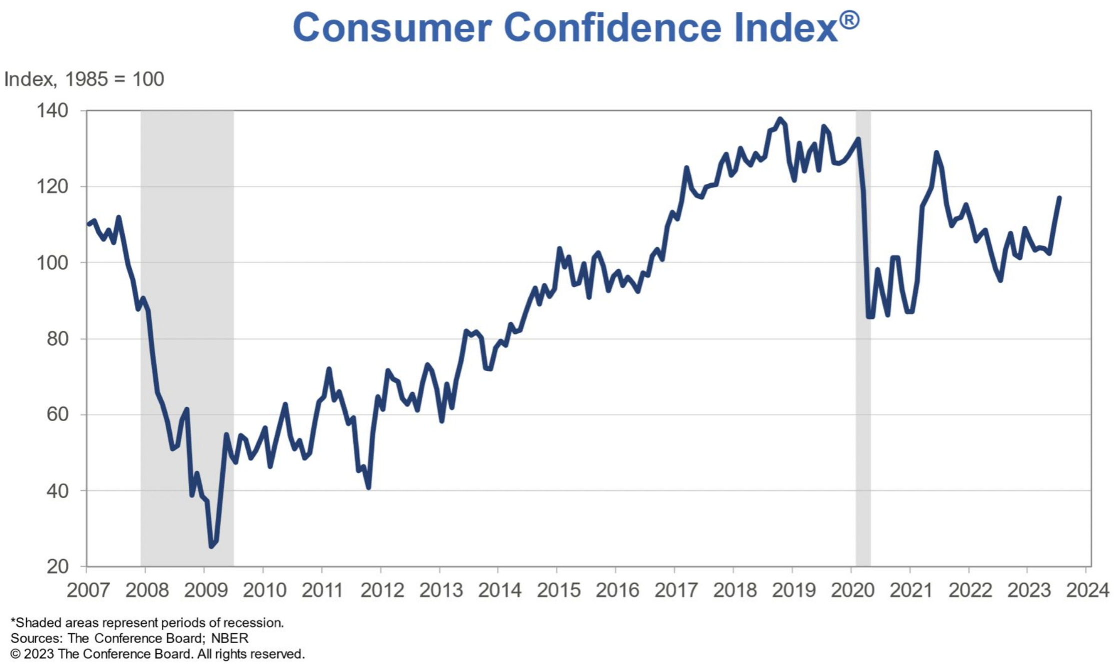

Figure 25. Consumer Confidence Index (Source: The Conference Board, NBER)

According to reports released by The Conference Board last Tuesday, July 25, US consumer confidence surged to a two-year high in July, indicating growing optimism about the country's economic outlook.

The rise in consumer confidence comes amidst a tight labour market and declining inflation, which we believe could positively impact the near-term prospects of the economy.

The Conference Board's closely-watched consumer confidence index reached a reading of 117 points this month, showing a notable increase of 6.9 points from 110.1 in June (refer to Figure 25). Consensus forecasts for a 112 point reading indicates that consumers are feeling more positive than expected.

While encouraging, however the broader economy continues to offer up more mixed signals - as indicated in our analysis of the latest S&P Global Survey - that require careful consideration.

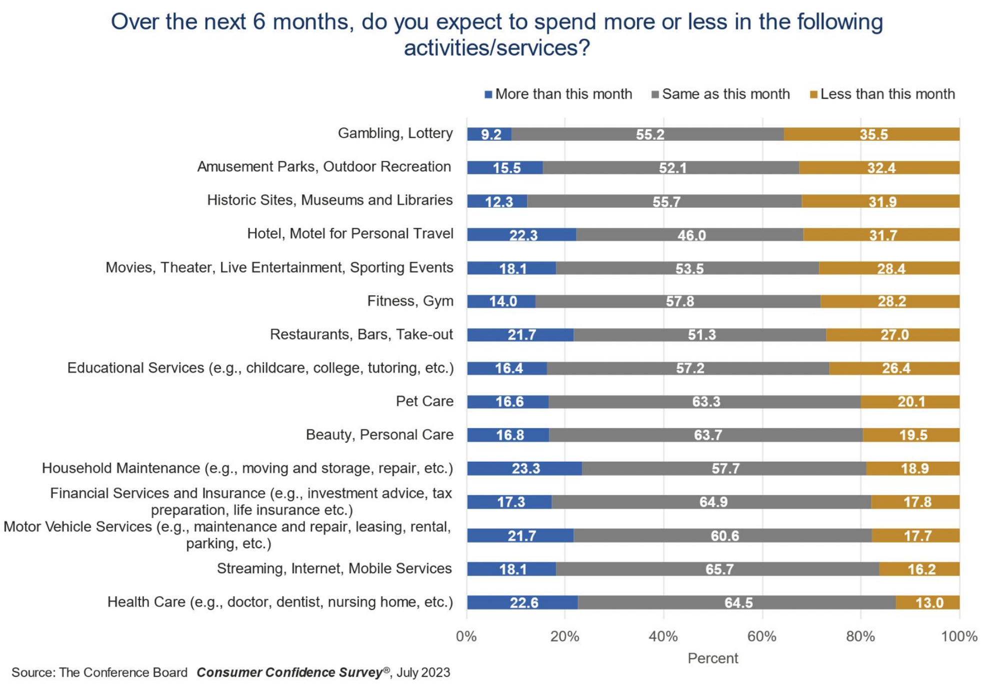

Figure 26. Result to Consumer Confidence Survey by The Conference Board, July 2023 (Source: The Conference Board)

Note: The chart illustrates the so-called 3D's rule which is a reliable rule of thumb to interpret the ***duration, depth, and diffusion – the 3D's –*** *of a downward movement in the LEI. Duration refers to how long-lasting a decline in the index is, and depth denotes how large the decline is. Duration and depth are measured by the rate of change of the index over the last six months. Diffusion is a measure of how widespread the decline is (i.e., the diffusion index of the LEI ranges from 0 to 100 and numbers below 50 indicate most of the components are weakening). The 3D's rule provides signals of impending recessions 1) when the diffusion index falls below the threshold of 50 (denoted by the black dotted line in the chart), and simultaneously 2) when the decline in the index over the most recent six months falls below the threshold of -4.2 percent. The red dotted line is drawn at the threshold value (measured by the median, -4.2 percent) on the months when both criteria are met simultaneously. Thus, the red dots signal a recession. (Source: The Conference Board)*

The Conference Board's survey revealed that more consumers are planning to make significant purchases in the near future, such as motor vehicles and houses. However, there was a decline in the number of consumers looking to buy major household appliances like refrigerators and washing machines. Additionally, consumers are showing caution in discretionary spending on services like travel (although the PMI data suggests otherwise), recreation, and gambling, while expressing intentions to increase spending on healthcare and home streaming services.

A potential reason for the surge in confidence could be attributed to the lowering inflation rates. However, Americans are exhibiting cautious behaviour by trimming spending and increasing savings in light of uncertainties in the economy.

One of the survey's concerning aspects is that consumers still fear the possibility of a recession within the next year, especially after the Federal Reserve's significant interest rate hikes. While the fear of recession has risen, it remains below previous peaks seen earlier in the year. About 70.6 percent of consumers in July believed a recession was "somewhat" or "very likely," compared to 69.9 percent in June.

On a positive note, consumers' perceptions of the current labour market conditions have improved, with the labour market differential widening to 37.2 this month from 32.8 in June. The labour market differential is derived from data on respondents’ views on whether jobs are plentiful or hard to get. This indicates that despite a slowdown in job growth, the labour market remains tight. Consequently, consumers' confidence in job availability seems to be driving the rise in optimism.

Stepping back, it is clear that the US economy remains resilient, particularly due to the robust job market and steadily rising wages. This optimism has been bolstered by households' continued spending, preventing the widely predicted recession.

In conclusion, the latest consumer confidence data points to a surge in optimism among Americans regarding the economy's near-term prospects. While this boost in confidence is a positive indicator, the economy is still navigating through uncertain waters. The potential impact of recent interest rate hikes and inflation rates should be closely monitored to ensure a stable economic path ahead.

New US Home Sales Show Resilience Amid Inventory Shortage and Mortgage Rate Hikes

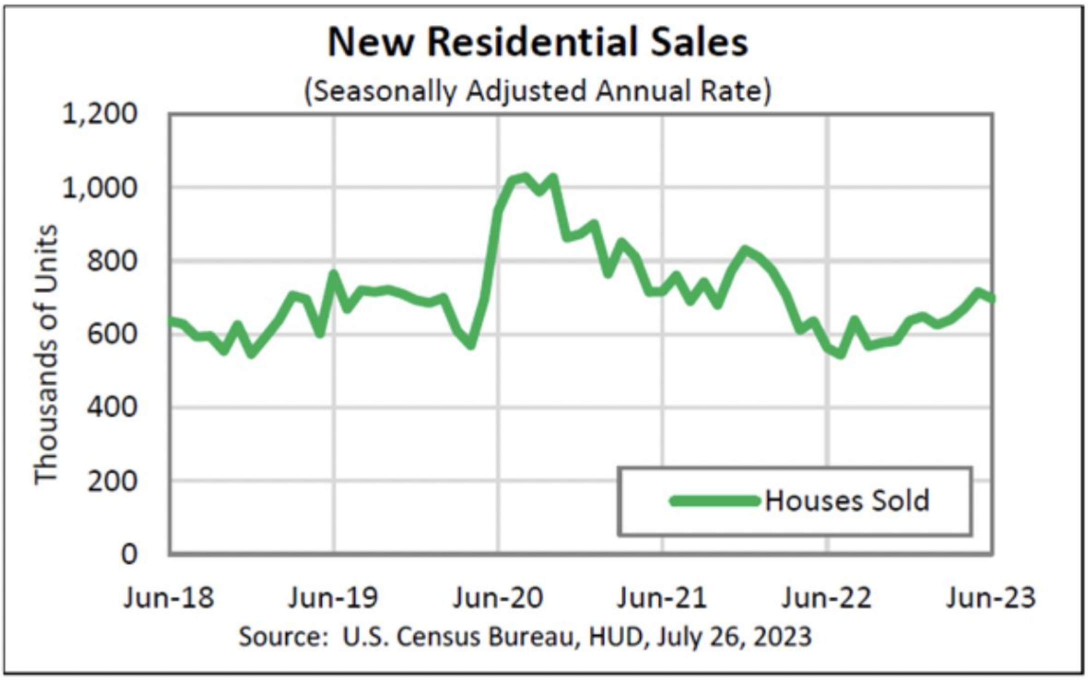

Figure 27. New Residential Sales (Source: US Census Bureau)

Sales of new US single-family homes experienced a modest decline of 2.5 percent in June (refer to Figure 27 above), but the overall trend remains robust as a scarcity of previously owned homes continues to drive demand.

According to the US Census Bureau's report last Wednesday, July 26th, new home sales were recorded at a seasonally adjusted annual rate of 697,000 units, with May's figures revised downward to 715,000 units from the initially reported 763,000 units. Despite the dip, economists had predicted a more significant drop to a rate of 725,000 units, highlighting the market's resilience.

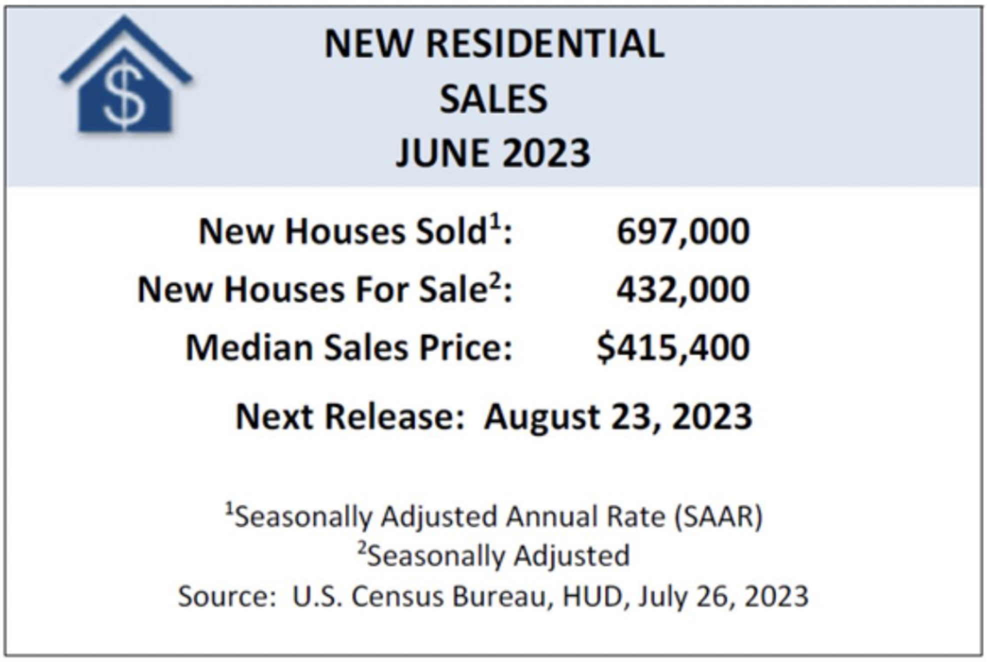

Figure 28. New Residential Sales, June 2023 (Source: US Census Bureau)

As an essential leading indicator of the housing sector, new home sales are subject to month-to-month fluctuations. While sales are down on the month, it is still up a notable 23.8 percent on a year-on-year basis in June, indicative of sustained interest in new properties. The demand for new homes has been further amplified by historically low levels of existing home inventories, leading potential buyers to explore new housing options and bolstering home building activities.

One significant consequence of the inventory shortage is the surge in house prices, which had previously been declining due to higher mortgage rates discouraging buyers. Builders, however, are now offering fewer incentives, including price cuts, to boost sales. As a result, the median price of a new house in June was reported at $415,400, representing a four percent drop from the previous year.

Although the housing market has been showing signs of stabilisation, certain challenges remain. The Federal Reserve is expected to raise interest rates by 25 basis points after holding borrowing costs steady in June. This increase will mark a total of 500 basis points since March 2022, and it could potentially impact the housing market's recovery.

Regional disparities were evident in June's sales figures. While the Northeast saw an impressive 20.6 percent jump in new home sales, the Midwest and West experienced declines of 28.4 percent and 13.9 percent, respectively. These fluctuations demonstrate the varying market conditions across different regions.

US Economy Shows Resilience with 2.4 percent Growth in Q2 Despite Consumer Spending Slowdown

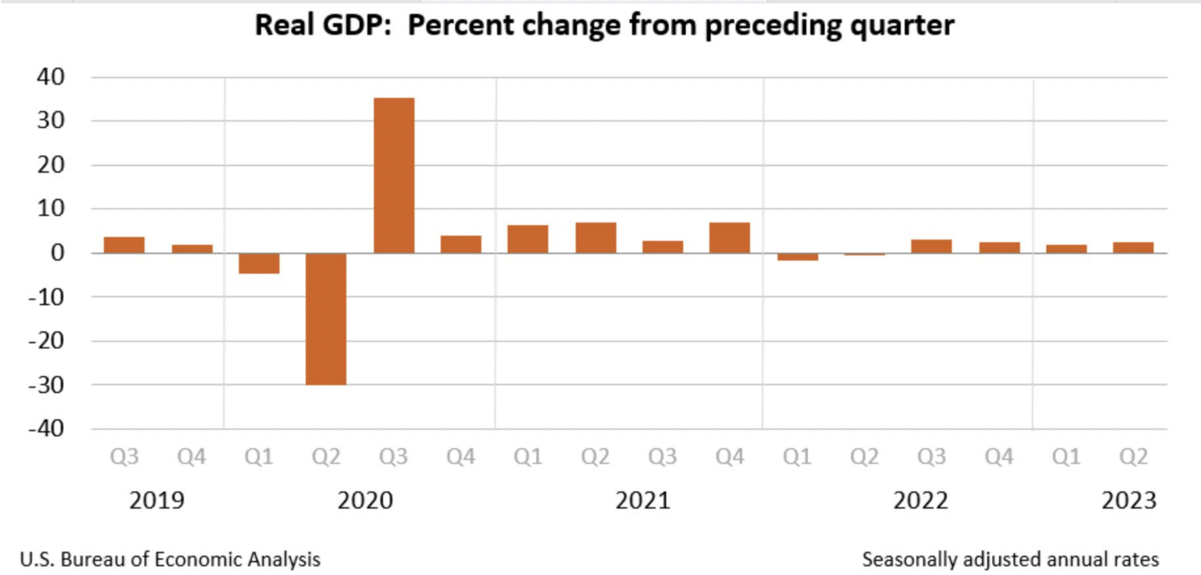

Figure 29. Real GDP: Percent Change from Preceding Quarter (Source: US Bureau of Economic Analysis)

The US economy demonstrated its resilience during the second quarter of the year, recording a growth rate of 2.4 percent, according to a report from the Bureau of Economic Analysis released last Thursday, July 27th. The figure surpassed both the 2 percent growth seen in the first quarter and consensus forecasts of 1.5 percent. However, a closer look at the data reveals a notable deceleration in consumer spending, which has become a cause for concern.

Consumer spending, a key driver of economic activity, grew at a slower rate of 1.6 percent in Q2, compared to the robust 4.2 percent growth experienced in the first quarter. This moderation in consumer demand, which constitutes two-thirds of the GDP, is due to persistently high prices and tighter credit conditions.

Business investment and government spending have emerged as crucial factors in sustaining economic growth during this period. Nonresidential fixed investments, which encompass spending on commercial real estate and equipment, experienced a substantial increase of 7.7 percent during the second quarter, a significant improvement from the mere 0.6 percent growth observed in the first quarter of this year. The surge in business spending reflects renewed optimism about the economic outlook, as companies expressed confidence during the second-quarter earnings calls.

The government sector also played a role in bolstering economic growth, with overall spending rising by 2.6 percent in the second quarter. While federal outlays increased by 0.9 percent, state and local outlays saw a more significant gain of 3.6 percent. The continued growth in infrastructure spending contributed to the positive performance of the government sector.

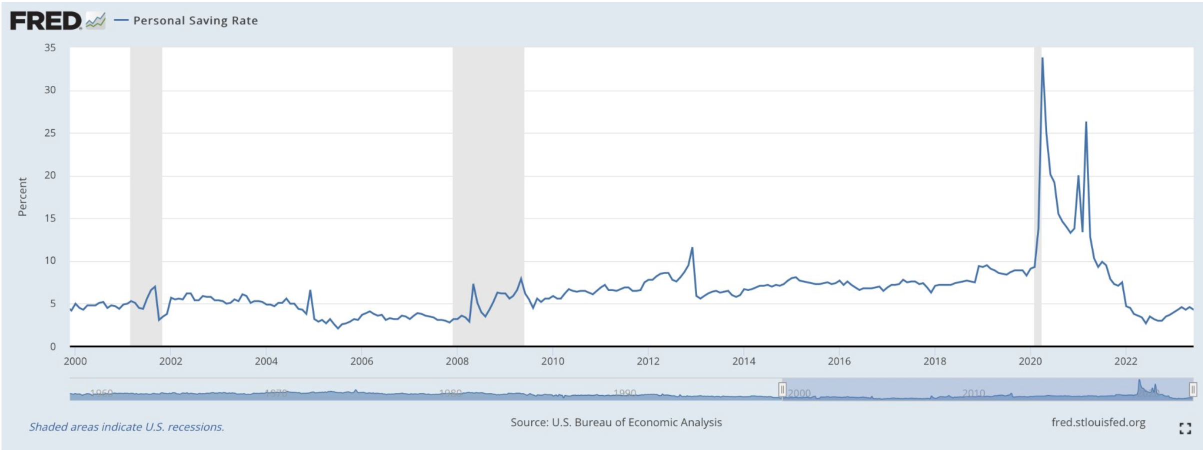

Figure 30. US Personal Savings Rate (Source: US Bureau of Economic Analysis)

However, it remains a concern whether consumer spending can sustain a rebound in the near future. Tight credit conditions and reduced excess savings from the post-pandemic period are seen as potential headwinds. Furthermore, the resumption of student-loan repayments and growing debt balances are likely to put additional pressure on consumer spending.

Federal Reserve Chair Jerome Powell has emphasised that future monetary policy decisions will be data-dependent. The GDP report, along with other economic indicators such as the July jobs report and the quarterly employment cost index, will play a crucial role in shaping the central bank's stance on inflation and monetary policy.

The next estimate of second-quarter economic activity is scheduled for release on August 30, providing further insights into the US economy's performance during this critical period of economic recovery. Despite challenges posed by the slowdown in consumer spending, economists remain cautiously optimistic about the potential for a soft landing, as business investments and government spending help shore up economic growth.

US Inflation Eases, Raising Hope for a "Soft Landing" Economy

In June, the United States experienced its smallest increase in annual inflation in over two years, with underlying price pressures moderating, according to the report from the Bureau of Economic Analysis last Friday, July 28th. This trend, if sustained, may bring the Federal Reserve closer to ending its rapid interest rate hiking cycle, which has been the fastest since the 1980s. The positive inflation outlook was further supported by recent data indicating a slowdown in labour costs and wage growth.

	2023				
	Feb.	Mar.	Apr.	May	June
	Percent change from preceding month				
Personal income:					
Current dollars	0.4	0.4	0.3	0.5	0.3
Disposable personal income:					
Current dollars	0.6	0.5	0.3	0.5	0.3
Chained (2012) dollars	0.3	0.3	0.0	0.4	0.2
Personal consumption expenditures (PCE):					
Current dollars	0.3	0.1	0.6	0.2	0.5
Chained (2012) dollars	0.0	0.0	0.3	0.1	0.4
Price indexes:					
PCE	0.3	0.1	0.3	0.1	0.2
PCE, excluding food and energy	0.3	0.3	0.4	0.3	0.2
Price indexes:	Percent change from month one year ago				
PCE	5.0	4.2	4.3	3.8	3.0
PCE, excluding food and energy	4.7	4.6	4.6	4.6	4.1

Figure 31. Personal Income and Outlays 2023

The Bureau of Economic Analysis reported that the Personal Consumption Expenditures (PCE) price index increased by 0.2 percent in June, following a 0.1 percent uptick in May. Notably, food prices dipped by 0.1 percent, while energy costs saw a 0.6 percent increase. Over the 12 months leading up to June, the PCE price index advanced by 3.0 percent, the smallest annual gain since March 2021.

Excluding the volatile food and energy components, the core PCE price index also rose by 0.2 percent in June, bringing the year-on-year increase to 4.1 percent. This marked the smallest advance since September 2021, indicating that the inflation may be trending towards the Fed's two percent target.

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Consensus forecasts closely aligned with the reported data, providing cautious optimism for a "soft landing" scenario for the economy, as envisioned by Federal Reserve officials. While a recession had been feared by many, the receding inflation offers hope for a more stable economic outlook

A report from the Labor Department supported this optimistic outlook, revealing that the employment cost index rose by 1.0 percent in the second quarter, the smallest increase since 2021. Wages and salaries increased by 1.0 percent in the same period, and the growth rate remained higher than pre-pandemic levels.

The recent data on inflation and labour costs provide some hope for a more stable economic environment.

Eurozone Economy Faces Record Drop in Loan Demand, Raising Concerns Over ECB Rate Hikes

Recent surveys conducted by the European Central Bank (ECB) and eurozone banks have shown alarming trends in the region's economy, with demand for loans dropping to its lowest level since 2003 during the second quarter of 2023. The decline in loan demand, observed across both businesses and households, is expected to continue into the third quarter, albeit at a slower pace.

	Enterprises						House purchase						Consumer credit					
	Credit standards			Demand			Credit standards			Demand			Credit standards			Demand		
Country	Q1 23	Q2 23	Avg	Q1 23	Q2 23	Avg	Q1 23	Q2 23	Avg	Q1 23	Q2 23	Avg	Q1 23	Q2 23	Avg	Q1 23	Q2 23	Avg
Euro area	27	14	9	-38	-42	0	19	8	6	-72	-47	2	10	18	5	-19	-12	0
Germany	16	10	4	-26	-32	6	11	11	3	-75	-32	6	14	14	1	-46	-14	7
Spain	17	8	9	-42	-42	-5	20	10	14	-90	-60	-9	33	25	10	-42	-17	-8
France	50	25	6	-33	-50	-3	20	20	4	-80	-70	4	0	36	-1	0	-21	-1
Italy	36	18	12	-36	-73	6	9	0	1	-45	-64	11	0	0	4	-8	-8	10

Figure 32. Net percentages of banks reporting a tightening of credit standards or an increase in loan demand (Source: European Central Bank)

According to the ECB's quarterly survey of 158 banks, firms' net demand for loans experienced a substantial decrease in the second quarter of 2023. The reasons cited for this downturn were rising interest rates and reduced investment financing needs. The tight credit conditions imposed by banks also played a significant role in constraining access to credit for businesses and individuals.

This decline in loan demand has raised concerns about the eurozone's economic outlook, particularly as the ECB has been implementing a series of rate hikes over the past year in an attempt to curb inflation. While rate hikes have succeeded in bringing down inflation, they appear to be negatively impacting economic growth, with the possibility of a downturn looming.

The ECB has already raised interest rates by a total of four percentage points over the past year, with further increases anticipated in its upcoming meeting. However, the rapid contraction of bank lending and a gloomy economic forecast pose serious concern. These factors may make the ECB governing council reconsider future rate hikes.

The ECB's strategy of tightening monetary policy is aimed at reducing credit demand, but the recent data suggests that it may not be having the desired effect. The bloc's economy has faced negative growth around the beginning of the year, and there are lingering concerns about the impact of previous rate hikes on the broader economy. The central bank's decision-making will likely be influenced by economic data and forecasts in the coming months.

Consensus forecasts closely aligned with the reported data, providing cautious optimism for a "soft landing" scenario for the economy, as envisioned by Federal Reserve officials. While a recession had been feared by many, the receding inflation offers hope for a more stable economic outlook

A report from the Labor Department supported this optimistic outlook, revealing that the employment cost index rose by 1.0 percent in the second quarter, the smallest increase since 2021. Wages and salaries increased by 1.0 percent in the same period, and the growth rate remained higher than pre-pandemic levels.

The recent data on inflation and labour costs provide some hope for a more stable economic environment.

Key Data from ECB Euro Area Lending Survey:

Loans to Enterprises:

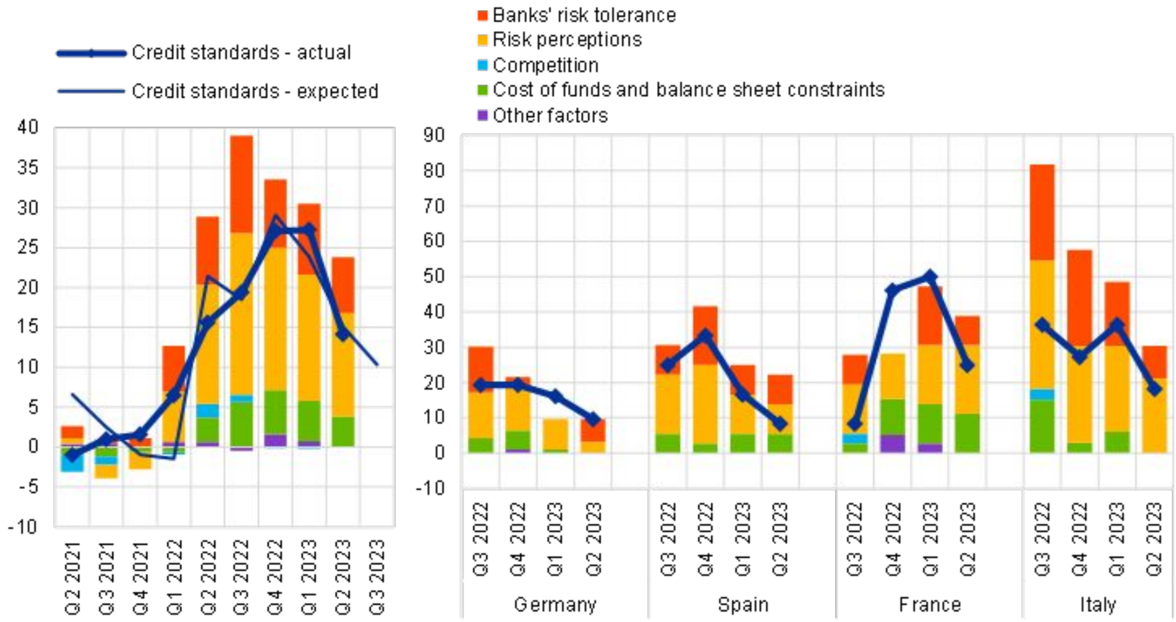


Figure 33. Changes in credit standards applied to the approval of loans or credit lines to enterprises, and contributing factors (net percentages of banks reporting a tightening of credit standards and contributing factors)

Note: Net percentages are defined as the difference between the sum of the percentages of banks responding "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably"

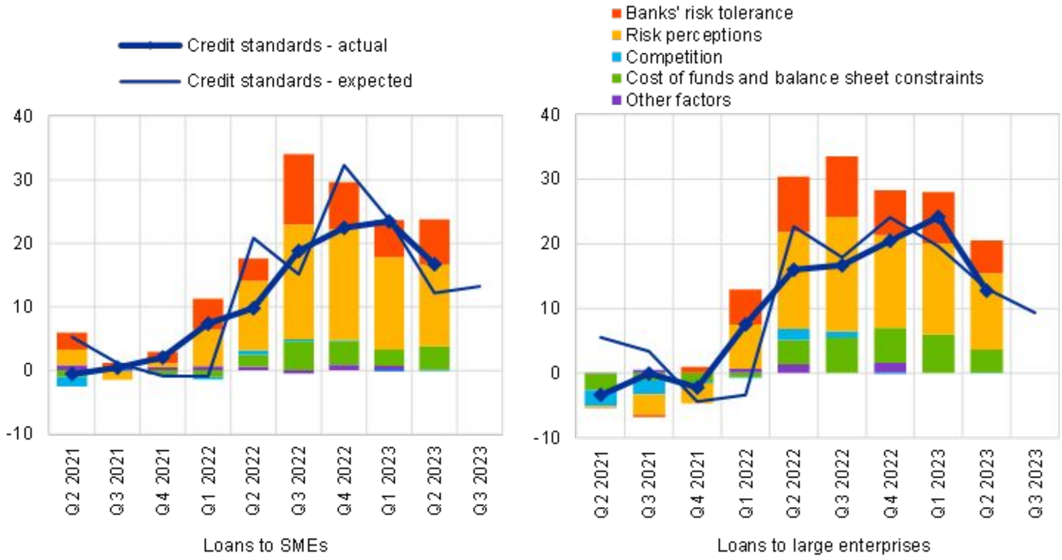


Figure 34. Changes in credit standards applied to the approval of loans or credit lines to SMEs and large enterprises, and contributing factors

- Credit standards for loans to enterprises tightened (i.e. banks' internal guidelines or loan approval criteria), although a net percentage of banks reporting a tightening was smaller than the previous quarter at 14 percent (compared to 27 percent in the first quarter).
- Tightening of credit standards was stronger for loans to small and medium-sized enterprises (SMEs) than for large firms.
- Factors contributing to the tightening of credit standards included banks' risk perceptions, lower risk tolerance, economic outlook, firm-specific situations, cost of funds, and balance sheet.
- Rejection rate for loans to enterprises increased by a net percentage of 16 percent.

Loans to Households for House Purchase:

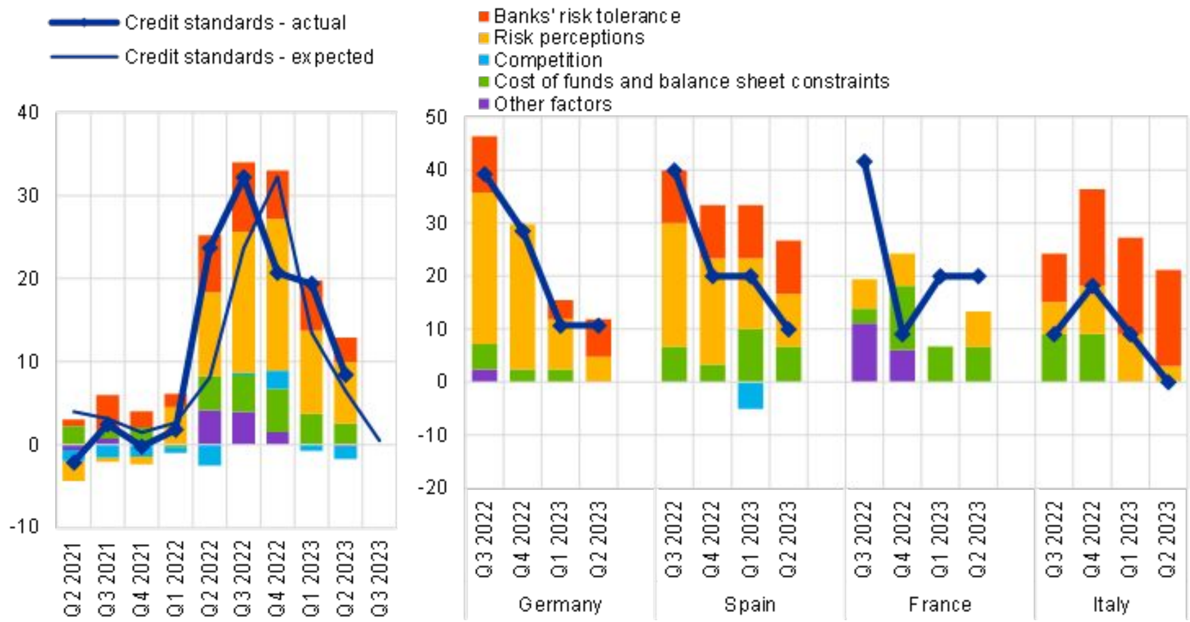


Figure 35. Changes in credit standards applied to the approval of loans to households for house purchase, and contributing factors

- Credit standards for loans to households for house purchases tightened, although a net percentage of banks reporting a tightening was smaller than the previous quarter with a net percentage of banks reporting a tightening of credit standards by 8 percent (compared to 19 percent in the previous quarter).
- Factors contributing to the tightening included higher risk perceptions, lower risk tolerance, and cost of funds and balance sheet constraints.
- Rejection rate for housing loans increased by a net percentage of 8 percent.
- Net demand for housing loans decreased significantly with a net percentage of banks reporting a decrease of 42 percent.

Consumer Credit and Other Lending to Households:

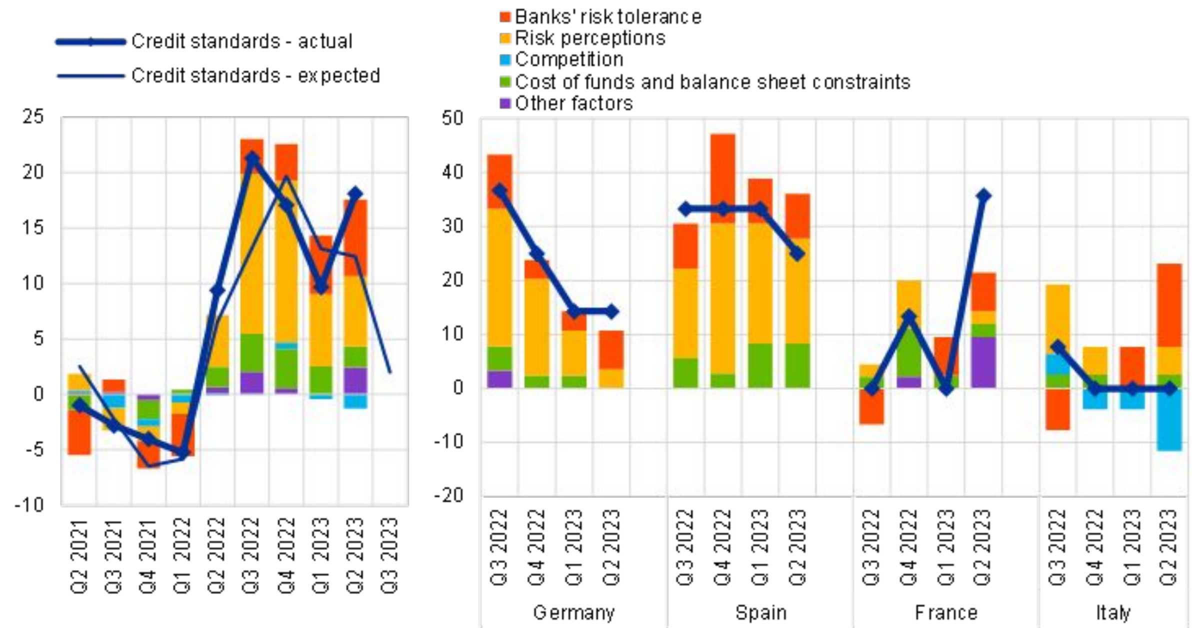


Figure 36. Changes in credit standards applied to the approval of consumer credit and other lending to households, and contributing factors

- Credit standards for consumer credit and other lending to households tightened further, with a net percentage of banks reporting a tightening of standards by 18 percent (compared to 10 percent in the previous quarter).
- Factors contributing to the tightening included higher risk perceptions, lower risk tolerance, and cost of funds and balance sheet constraints.
- Rejection rate for consumer credit and other lending to households increased by a net percentage of 10 percent.
- Net demand for consumer credit and other lending to households decreased with a net percentage of banks reporting a decrease of 12 percent.

Significance and Potential Impact in the Broader Economy

The tightening of credit standards for loans to enterprises, loans for house purchases, and consumer credit indicates a cautious approach by euro area banks in extending credit to businesses and households. This tightening comes amidst concerns over the economic outlook, rising interest rates, and weaker economic growth.

The significant decrease in net demand for loans to enterprises, housing loans, and consumer credit signals a potential slowdown in economic activity and consumption. Businesses may be reducing their borrowing for investment and expansion, while households may be postponing major purchases and reducing overall spending. This reduced demand could dampen economic growth in the euro area.

The impact of these developments on the broader economy could be multi-faceted:

1. **Economic Growth:** The tightening of credit standards and decreased loan demand may limit access to capital for businesses, hindering their ability to invest, innovate, and create jobs. This could result in slower economic growth and reduced economic dynamism.
2. **Housing Market:** Tighter credit standards for housing loans and declining demand for housing loans could lead to reduced housing market activity and potentially impact property prices and construction activity.
3. **Consumer Spending:** Reduced demand for consumer credit may lead to lower consumer spending, which is a crucial driver of economic growth in the euro area.
4. **Monetary Policy:** The tightening credit conditions may pose challenges for the European Central Bank (ECB) in managing monetary policy. The ECB might face the task of balancing inflationary pressures with the need to support economic activity.
5. **Financial Stability:** A decline in loan demand could impact banks' profitability, potentially affecting their ability to lend and maintain financial stability.

As the eurozone economy faces challenges ahead, economists and market participants will be closely monitoring economic indicators and the ECB's policy decisions. The central bank's response to the ongoing economic struggles and inflation concerns will be pivotal in determining the region's economic trajectory in the coming months.

News from the Crypto-Sphere

Optimism Network Surpasses Arbitrum in Transaction Volume after Six Months

- **Optimism network has surpassed Arbitrum in transaction volume for the first time in six months, driven by a surge in activity and the recent launch of Worldcoin on Optimism.**
- **Despite leading in transaction volume, Optimism still trails behind Arbitrum in terms of total value locked (TVL) with $923 million compared to Arbitrum's over $2 billion TVL**

According to data from blockchain analytics platform Artemis on Thursday, July 27, the Optimism network surpassed Arbitrum in transaction volume for the first time in six months. Both Optimism and Arbitrum are layer 2 solutions built on Ethereum, utilising optimistic rollup technology to compress and batch transactions before submitting them to the Ethereum blockchain, potentially reducing transaction fees.

Optimism had previously fallen behind Arbitrum in transaction volume in January, following the conclusion of season one of its "quest" feature. However, on July 25, Optimism reclaimed its top position when Worldcoin was launched.

Figure 38. Arbitrum and Optimism Daily Transactions

The data from Artemis indicates that both networks had similar transaction volumes from August to December 2022. In December, Optimism surged ahead of Arbitrum, but it experienced a setback in January, coinciding with the conclusion of the first season of its "quest" feature, which rewarded users for on-chain activities. In contrast, Arbitrum saw a significant spike in volume in March after the launch of its Arbitrum (ARB) token, distributed through an airdrop to users.

In June, Optimism introduced its Bedrock upgrade, resulting in a notable 67% increase in transaction volume. However, this surge was insufficient to overtake Arbitrum at that time.

Between July 23 and 26 however, Optimism's transaction activity accelerated again, rising 65 percent from 490,500 to 809,070 transactions, coinciding with the launch of Worldcoin on Optimism on July 25.

The recent increase in Optimism's activity may also be attributed to the upcoming launch of Coinbase's Base network. Developers have stated that Base will be connected to Optimism as part of an upcoming "Superchain."

Despite leading in transaction volume, Optimism however still lags behind Arbitrum in terms of capital deposited into its contracts, known as total value locked (TVL). DefiLlama, a blockchain analytics platform, reports that Optimism currently has a TVL of $923 million, while Arbitrum boasts over $2 billion TVL.

Federal Judge Issues Gag Order on Former FTX CEO Amidst Witness-Tampering Allegations

Figure 39. Federal Judge Issues Gag Order on Former FTX CEO Amidst Witness-Tampering Allegations

- **Federal Judge Lewis Kaplan issues a gag order on former FTX CEO Sam Bankman-Fried, preventing him and his associates from discussing his case with the media, except for allowing him to assert his innocence.**
- **Bankman-Fried faces allegations of leaking the personal messages of a key witness and engaging in witness tampering, with prosecutors seeking his detention. The trial is scheduled for October 2**

A federal judge has imposed a gag order on Sam Bankman-Fried, the former CEO of FTX, restricting him from making public statements about his ongoing case following allegations of witness tampering. The order, issued by United States District Judge Lewis Kaplan on Wednesday, July 26th, prohibits Bankman-Fried, his attorneys, and associates from discussing any aspects of the case with the media, with the exception of asserting innocence.

The accusations against Bankman-Fried involve the leaking of personal messages belonging to Caroline Ellison, his former girlfriend and business partner, to the New York Times. Prosecutors claim that he sought to undermine Ellison, who is expected to be a key witness in the upcoming trial scheduled for October 2.

During a recent court hearing, Assistant US Attorney Danielle Sassoon presented evidence of Bankman-Fried's engagement with various media outlets, alleging an "ongoing campaign with the press" that has raised concerns about potential witness tampering. Sassoon also pointed out instances of Bankman-Fried using communication tactics like auto-deletion and VPNs to avoid monitoring.

Responding to the prosecution's request to detain Bankman-Fried, his lead attorney, Mark Cohen, argued that they had received insufficient notice regarding the request. Cohen highlighted the complexity of the case, with an extensive volume of discovery documents totalling 32 million pages, making it challenging to work with his client if he were remanded.

Judge Kaplan acknowledged the sensitivity of the case, expressing consideration for Bankman-Fried's First Amendment rights while emphasising the seriousness of the government's interest in the matter. He issued a temporary gag order and allowed both sides time to present formal arguments before making a final decision on the government's proposal for detention.

Bankman-Fried, currently under house arrest at his parent's residence in Palo Alto, California, was released on a $250 million bond following his arrest in December. Despite standard legal advice to remain silent ahead of trial, Bankman-Fried has been actively engaging with the media and sharing his perspective through blogs, prompting prosecutors to raise concerns about potential witness tampering.

The trial, which involves Bankman-Fried facing eight federal counts of fraud and conspiracy, is slated for October 2. If convicted, he could face over 100 years in prison. Meanwhile, Caroline Ellison, who previously pleaded guilty to multiple charges, will be a key witness in the trial, providing insights into her involvement in the scheme that led to FTX's collapse.

As the legal proceedings continue, the judge's gag order aims to ensure a fair trial and protect the integrity of the case. Both sides will have an opportunity to present their arguments regarding Bankman-Fried's detention, and further developments in this high-profile case are anticipated in the coming weeks.

House Financial Services Committee Advances Bipartisan Crypto Regulation Bill Amidst Democrat Opposition

Figure 40. House Financial Services Committee Advances Bipartisan Crypto Regulation Bill Amidst Democrat Opposition

- **The House Financial Services Committee has advanced a bipartisan bill that aims to overhaul cryptocurrency regulation, despite resistance from some senior Democrats.**
- **The bill seeks to provide clear regulatory guidelines for digital asset trading and grant specific authorities to the SEC and the CFTC.**

The House Financial Services Committee has made significant progress in advancing a bipartisan bill aimed at revamping cryptocurrency regulation in the United States. The proposed legislation would establish federal guidelines for the regulation of crypto trading and grant specific digital asset authorities to the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC).

Despite the bill's advancement, several senior Democrats on the panel opposed it, with Rep. Maxine Waters leading the criticism, referring to it as a "wish list of Big Crypto." The committee nonetheless approved the bill in a 35-15 vote, with six Democrats breaking ranks to support it.

Democrats' reservations stem from concerns that the bill may hinder the SEC's ability to police digital asset firms effectively. Republicans, on the other hand, contend that the legislation seeks to address regulatory gaps and prevent crypto companies from relocating to countries with more crypto-specific rules.

The proposed legislation aims to give the SEC and the CFTC distinct roles in overseeing crypto trading, resolving a longstanding dispute over jurisdiction. While the bill has shown progress, its future path is uncertain as Democrats narrowly control the Senate, where several crypto sceptics exist.

In addition to the broader market bill, House Republicans are now focused on advancing separate legislation specifically addressing stablecoins, which are digital tokens backed by assets like the US dollar. Discussions are ongoing, with attention given to the role of states in the regulatory framework.

Lazarus Group, Backed by North Korea, Suspected of $37.3 Million Cryptocurrency Hack

Figure 41. Lazarus Group, Backed by North Korea, Suspected of $37.3 Million Cryptocurrency Hack

- Cryptocurrency payments platform CoinsPaid accuses North Korean state-backed Lazarus Group of orchestrating a cyberattack that led to the theft of $37.3 million from its internal systems on July 22.
- CoinsPaid resumed services in a limited environment, and their balance sheet suffered significant damage, though they believe the hackers were targeting an even larger sum.

Cryptocurrency payments platform CoinsPaid has accused North Korean state-backed Lazarus Group of orchestrating a cyberattack that resulted in the theft of $37.3 million from its internal systems on July 22nd. In a statement released on Wednesday July 26th, CoinsPaid pointed to Lazarus Group, a well-known and powerful hacker organisation, as the likely culprit behind the breach.

Figure 42. Twitter Announcement from Coinspad (Source: Coinspad)

CoinsPaid did not disclose the exact method used to steal the funds, but the severity of the attack forced the company to suspend operations for four days. Currently, CoinsPaid has resumed its services in a new, limited environment, and it has assured customers that their funds are safe. However, the platform and the company's balance sheet have suffered significant damage as a result of the incident.

Despite the substantial amount stolen, CoinsPaid believes that Lazarus Group was aiming for an even larger sum. The company's dedicated team of experts worked tirelessly to fortify the systems and minimise the impact, ultimately leaving the hackers with a smaller reward than expected.

Shortly after the hack, CoinsPaid filed a report with Estonian law enforcement to initiate a thorough investigation into the exploit. Additionally, the company received assistance from reputable blockchain security firms, including Chainalysis, Match Systems, and Crystal, during the preliminary stages of their investigation.

CoinsPaid's CEO, Max Krupyshev, expressed his view that the Lazarus Group was behind the hack. He asserted, "We have no doubt the hackers won't escape justice."

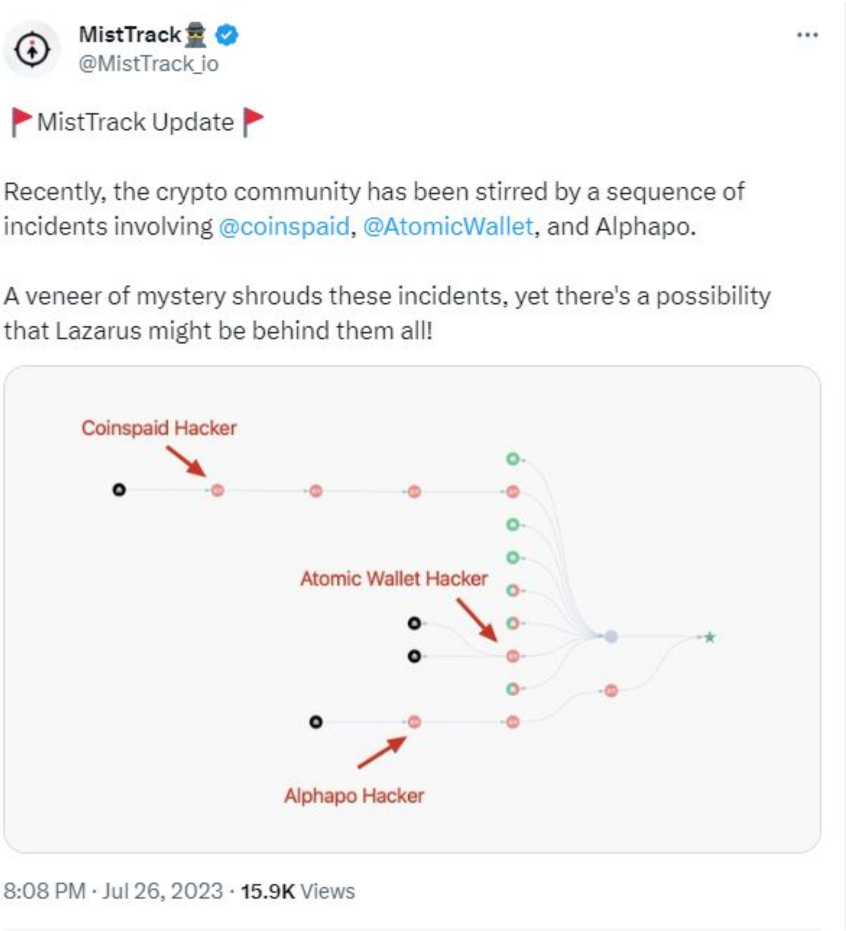


Figure 43. Mistrack Update To Coinspaid Hacker (Source: MistTrack)

The cybersecurity landscape has observed potential links between the CoinsPaid hack and two recent high-profile attacks on Atomic Wallet and Alphapo. These previous breaches resulted in losses of $100 million and $60 million, respectively.

Banking Lobbyists Support Elizabeth Warren's Push for Stricter Crypto Regulations to Combat Money Laundering and Terrorism Financing

Figure 44. Banking Lobbyists Support Elizabeth Warren's Push for Stricter Crypto Regulations to Combat Money Laundering and Terrorism Financing

- **The Bank Policy Institute supports Senator Elizabeth Warren's legislation to strengthen Anti-Money Laundering (AML) laws for digital assets, aiming to combat money laundering and terrorism financing in the crypto market.**
- **The bipartisan bill targets digital asset wallet providers, miners, and validators, requiring them to maintain customer identity records and prohibiting the use of digital asset mixers designed to hide blockchain data.**

The Bank Policy Institute (BPI), a trade group representing major banking institutions, has thrown its support behind Senator Elizabeth Warren's legislation aimed at curbing illicit activities in the crypto market. The bill, reintroduced by Warren and three other senators, seeks to strengthen Anti-Money Laundering (AML) laws for digital assets, including cryptocurrencies.

The bipartisan bill, also backed by Senators Joe Manchin, Roger Marshall, and Lindsey Graham, is part of Warren's ongoing efforts to subject the crypto industry to the same rigorous regulations as traditional finance, citing concerns over potential economic repercussions if crypto remains inadequately regulated.

BPI, whose members include banking giants such as Bank of America, Citibank, and Capital One, acknowledges the necessity of integrating digital assets into the existing AML and Bank Secrecy Act framework. In a statement, BPI expressed its commitment to safeguarding the nation's financial system against illicit finance in all its forms.

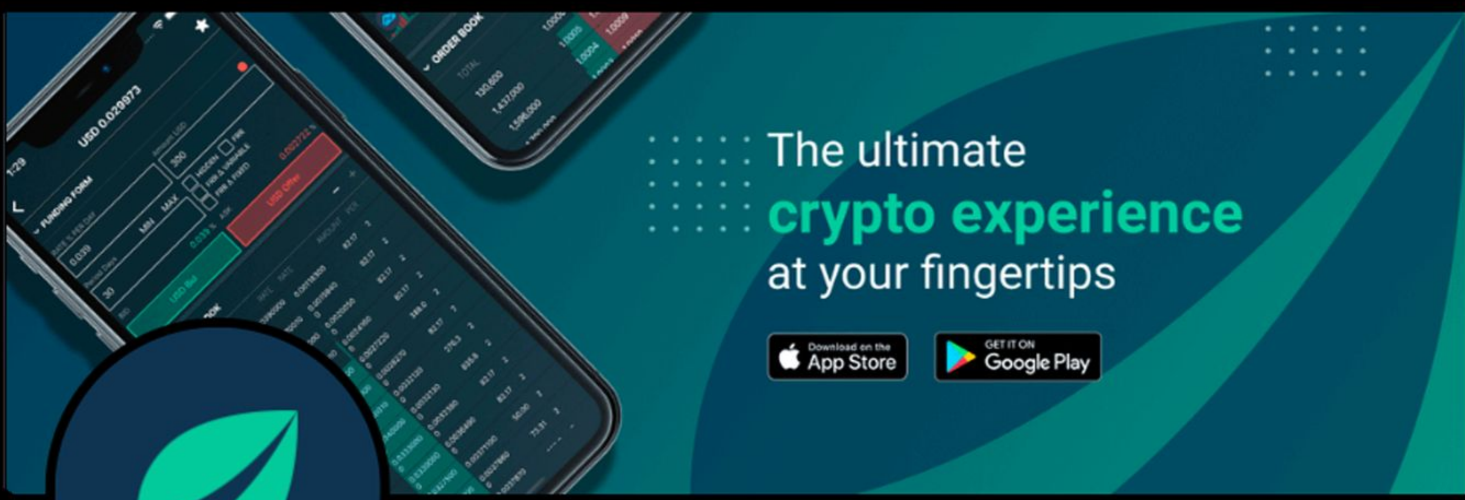
The proposed legislation targets various participants in the crypto market, including digital asset wallet providers, miners, and validators. These entities would be required to maintain customer identity records to enhance transaction transparency and combat money laundering and terrorism financing effectively.

Moreover, the bill aims to prohibit financial institutions from using digital asset mixers, like Tornado Cash, which can obscure blockchain data, potentially facilitating illegal activities.

Apart from BPI, the Massachusetts Bankers Association, the National Consumer Law Center, and the National Consumers League are among other supporters of the bill.

Senator Warren's vocal stance on stricter crypto regulations has been persistent since she initially introduced the bill to the U.S. Senate in December 2022. During a Senate Banking Committee hearing, she advocated for crypto to be held to the same AML standards as traditional banks, criticising attempts to create loopholes for decentralised entities that could enable money laundering by illegal actors.

As the debate over crypto regulation continues, stakeholders from both the banking and crypto industries will be closely monitoring the development of this legislation and its potential impact on the evolving financial landscape.



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