BITFINEX Alpha

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EXECUTIVE SUMMARY

The one word we use to describe the current market environment is: languid. Indeed, it is languid at best and sceptical at worst. Bitcoin funds has seen weekly outflows peak at $111 million in the week to August 5th, its most significant weekly withdrawal since March. Even though there have been some inflows since, these have been relatively small. More positively however, the trend of re-directing withdrawals into short Bitcoin funds has also paused. Indeed, some altcoins have been seeing increasing inflows. Solana, XRP and Litecoin, have all registered positive cash inflows.

However, the broader landscape demonstrates that there is still a large dose of caution among investors. Both on-chain trading volumes, as well as the broader exchange market, are experiencing a slump, down 62 percent year-to-date. Bitcoin miners are contributing to this as they prepare for the expected halving next April, and are noticeably stockpiling their assets.

Volatility indicators show that we are in for quieter times overall. Bitcoin's historical metrics seem to be settling, pointing towards an impending stabilisation in market swings, with traders indicating a balanced market.

The broader macro environment is also looking calm. Consumer prices in July saw only a modest uptick of 0.2 percent, propelled by rising rental costs but counterbalanced by dipping prices in areas such as motor vehicles. The current inflation data paints a picture of a steady two percent annualised rate, offering the Federal Reserve some breathing room, and eliminating immediate pressure for further interest rate hikes. Small businesses are also becoming slightly optimistic according to the National Federation of Independent Business. Still, their confidence remains beneath the 49-year average, suggesting a sustained air of caution.

This quiet period however has not stemmed the newsflow. PayPal's unveiling of PYUSD, a stablecoin anchored to the Ethereum blockchain, marks a monumental fusion of traditional financial paradigms with the crypto world. Not to be left behind, India has unveiled its interest in developing a crypto-integrated web browser, emphasising its commitment to being aligned with new web technologies. Lastly, adding to the news agenda has been the US SEC's decision to postpone its decision on Ark Invest's Bitcoin ETF application - the optimists suggest that this will ultimately be good for the longer term goal of widening access to crypto assets.

Work also continues to flush out the alleged misdeeds of the past. FTX co-founder Sam Bankman-Fried had his bail conditions cancelled and was remanded in custody after allegations of witness tampering, while the exchange's erstwhile external legal counsel also face a class-action lawsuit.

Who said it was all going quiet in crypto? Happy trading.

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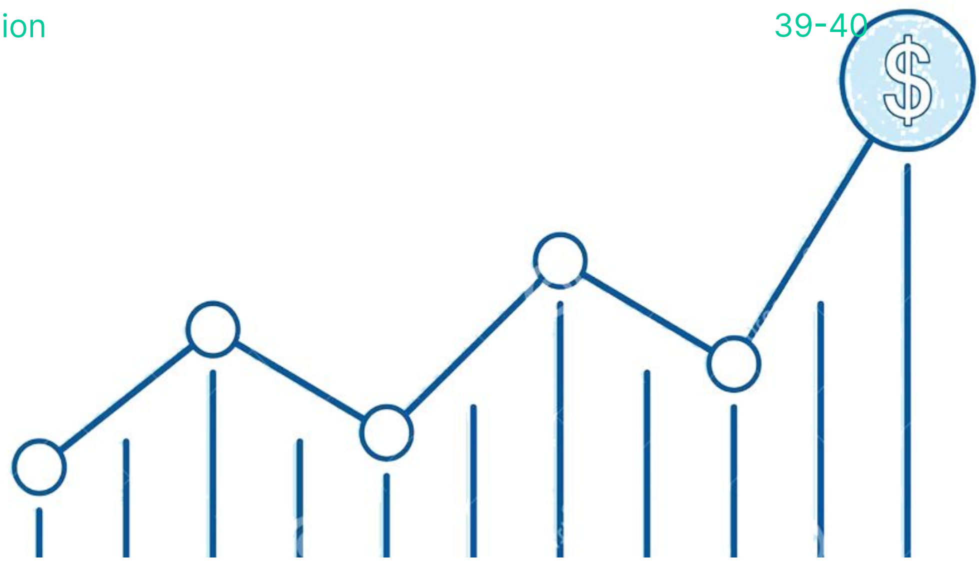


WHAT'S ON-CHAIN THIS WEEK?

Institutional Investors Cautious on Bitcoin

Digital asset investment vehicles experienced a net exodus in the first week of August, with withdrawals reaching $107 million. This movement aligns with an increasing trend of investors locking in profits. Bitcoin bore the brunt of the withdrawals, with outflows totaling $111 million for that week (refer Figure below), marking the most significant weekly withdrawal since March.

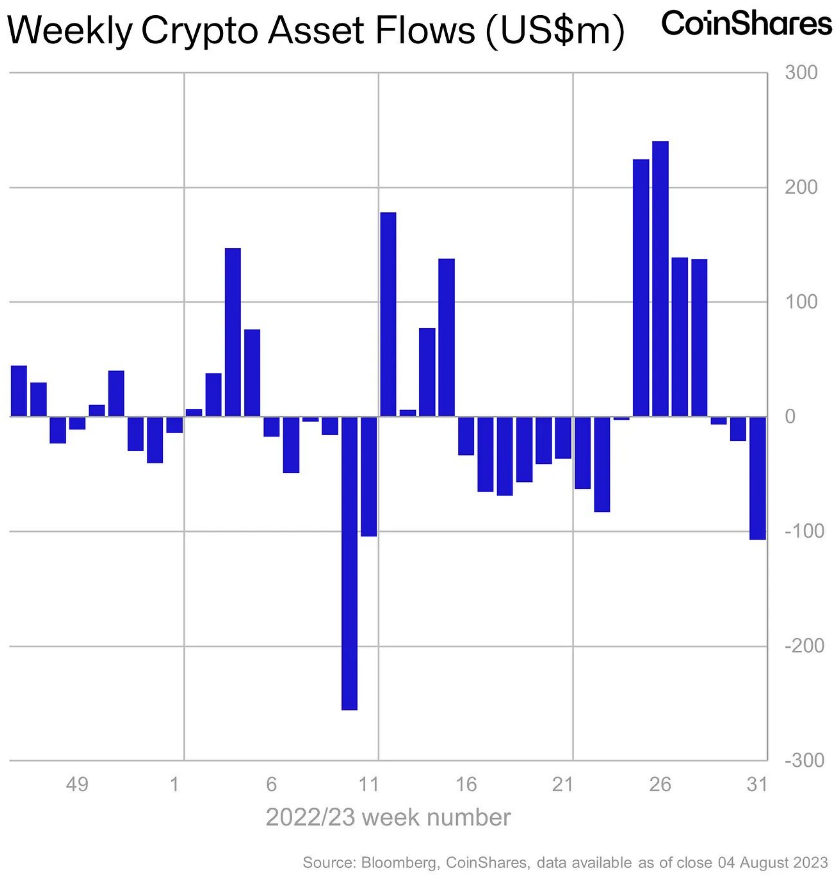


Figure 1. Weekly Crypto Asset Flows in USD (millions). (source: Coinshares)

However, it's not all gloomy. Despite the largest weekly withdrawal numbers across Bitcoin digital asset investment products, institutional investors have not increased their allocation to short Bitcoin funds, with data from *Coinshares* showing that institutional investors have stopped shorting BTC via these investment products for the first time in 14 weeks (refer to Figure 2 below). Moreover, the following week saw a net inflow into Bitcoin fund(refer Figure below) however, these were small in comparison to the outflows in the week before.

Flows by Asset (US$m) CoinShares	Week flows	MTD flows	YTD flows	AUM
Bitcoin	27.0	-60.6	456	24,432
Ethereum	2.5	-4.1	-73	7,859
Multi-asset	-0.0	0.2	-29	3,068
Binance	-	-	-1	247
Litecoin	0.1	0.5	3	136
Short Bitcoin	-2.7	-2.4	44	100
Solana	0.4	9.9	25	94
XRP	0.5	0.9	11	71
Cardano	-	-0.3	5	28
Polygon	-	-	6	24
Other	0.7	0.2	-48	125
Total	**28.5**	**-55.8**	**399**	**36,184**

Figure 2. Flows By Asset Across Digital Asset Investment Products for week ending August 11th, 2023 (source: Coinshares)

The altcoin market looked more positive. Solana has recorded robust inflows of $9.9 million in month-to-date inflows, marking its most substantial weekly gain since March 2022. Other cryptocurrencies making waves include XRP and Litecoin, with positive inflows of $0.9 million and $0.5 million, respectively. Conversely, Cardano witnessed withdrawals, with outflows pegged at $0.3 million.

The overall behaviour of institutional investors has been reflective of a cautious investment strategy into crypto assets, and increasing profit-taking in the wake of a languid summer trading season. Weekly trading volumes in these investment products are down 36 percent from the year's average, while the broader on-exchange market has seen an even sharper contraction, plummeting 62 percent relative to the year-to-date average. In fact, monthly exchange volumes for spot trading has been on a significant decline since March 2023. (refer Figure 3 below)

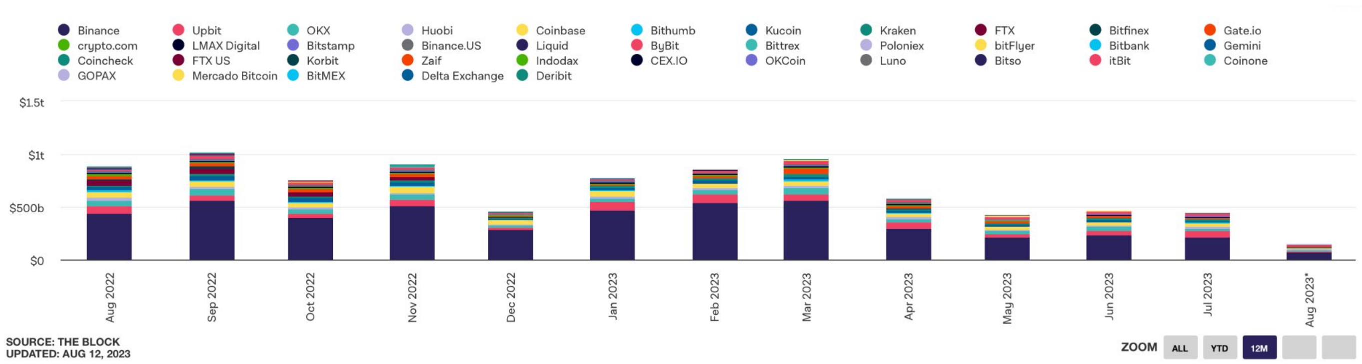


Figure 3. Spot Trading Volume Across Major Crypto Exchanges. (source: TheBlock)

The exodus of retail traders has been seen in the past month and had taken place mainly on-chain rather than through Centralised Exchange (CEX) listed coins. For institutional investors, the exodus has been predominantly localised, with two Exchange-Traded Product (ETP) providers in Germany and Canada experiencing outflows of US$71 million and US$29 million, respectively, very recently.

Bitcoin remains at the epicentre of this shift, recording outflows of $111 million in the first week of August and minuscule inflows in the following week of $27 million— the most pronounced withdrawal since March 2023. Ethereum wasn't spared either, registering outflows of US$6 million.

These movements — and in particular the pronounced Bitcoin outflow — come at a time when U.S. regulators have intensified their gaze on the crypto industry. The prevailing sentiment suggests that premier digital asset funds are recalibrating, potentially pivoting towards alternative assets as they navigate the evolving regulatory landscape and seek more lucrative returns.

Bitcoin Miner Behaviour and Market Dynamics Overview

In a strategic response to the upcoming halving in April 2024, miners have shifted their stance. After a selling spree that began in August 2022, there's been a noticeable trend of accumulation since May 27, 2023 which has increased since the recent downturn.

The month of July witnessed restrained on-chain BTC outflows, with a sudden increase in outflows just before the end of the month - likely a protective measure against potential resistance against buyers. This accumulation by the miners contrasts with the burgeoning speculation about BlackRock's imminent BTC ETF approval.

Miner Behaviour Overview:

A close inspection of miners' activities offers revealing insights. Contrary to popular belief, miners often exhibit shrewd swing trading tendencies. Evidently, from August 2022, they transitioned into a selling phase, only to pivot towards accumulation by May 27th of this year (refer to Figure 4 below). Strategically, it's economically prudent for them to commence accumulation ahead of the anticipated Bitcoin halving slated for April 2024.

Figure 4. Bitcoin Miner Reserve. (source: Crypto Quant)

The miner reserve metric indicates how after forced liquidations of leveraged positions by miners in early 2023, they've entered a new phase of accumulation which has sped up since the recent breakdown of the $30,000 level for BTC price. Following the buzz around Bitcoin ETFs, stocks of Bitcoin mining corporations have surged, bolstering their financial reserves. This enhanced liquidity positions these firms favourably to weather potential price downturns. Moreover, the strengthened capital base enables them to potentially expand their mining equipment portfolio, leveraging their Bitcoin holdings, thereby reducing the inclination to sell.

Netflow Dynamics:

Throughout the initial weeks of July, the Bitcoin market evidenced subdued outflows, with prices oscillating within the $29,500 to $31,500 range. However, the closing week of July marked a significant surge in BTC inflows to spot exchanges (refer to Figure 5 below), ostensibly a tactical move to hedge against potential resistance.

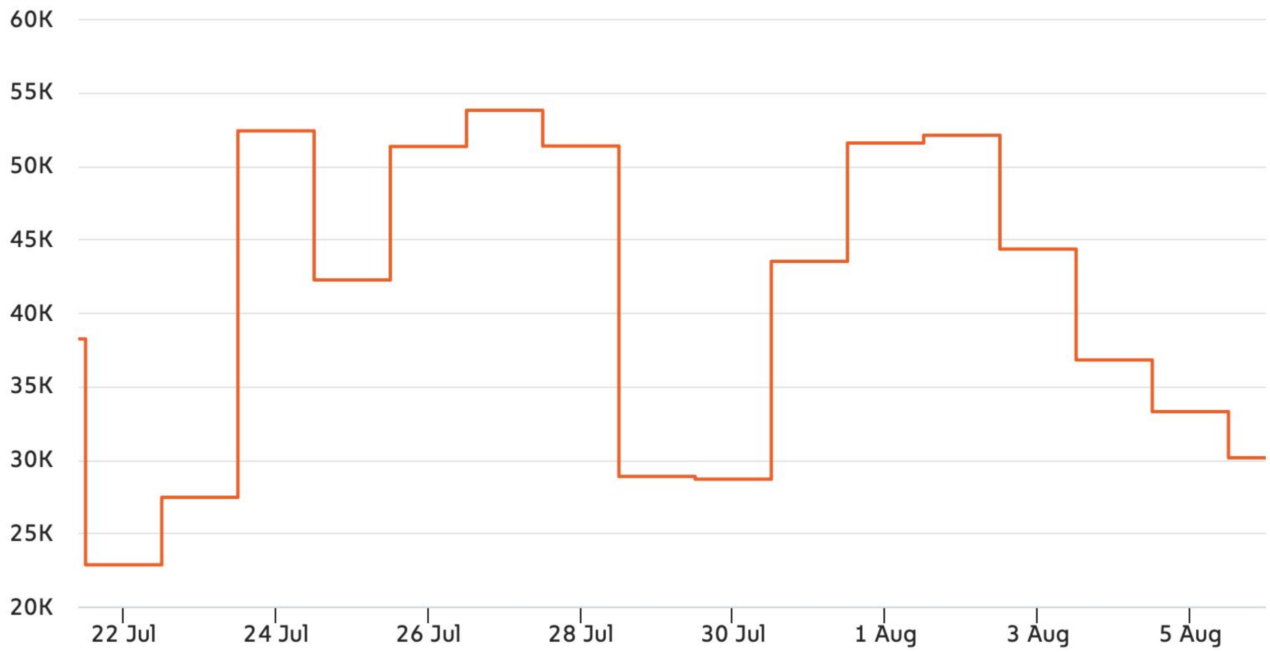


Figure 5. Bitcoin inflow to exchanges denoted in BTC. (source: Chainalysis)

This on-chain trend seems to lack congruence with the higher timeframe trend of the crypto market, especially in light of recent speculations surrounding a potential BTC ETF endorsement from the SEC later this year. This remains a warning sign for rough waters since it reveals that there is not enough inflows into the BTC market for an upside break.

SOPR Metrics:

Spent Output Profit Ratio is a metric that indicates the aggregate profit and losses realised on a particular day. It is considered a reflection of market sentiment. Both the absolute value of the indicator and the prevailing trend provide information on the behaviour of market spending.

An adjustment was made to the SOPR to not take into account the movements of coins with fewer hours of life. This allows on-chain noise from coin transactions that were only executed or transferred within one hour before returning to initial state (short-term UTXOs) to be filtered out.

With this so-called Adjusted SOPR (aSOPR) steadfastly hovering around its baseline of one, even as prices remain tethered (refer Figure below), it underscores the prevailing zero-sum game in the market.

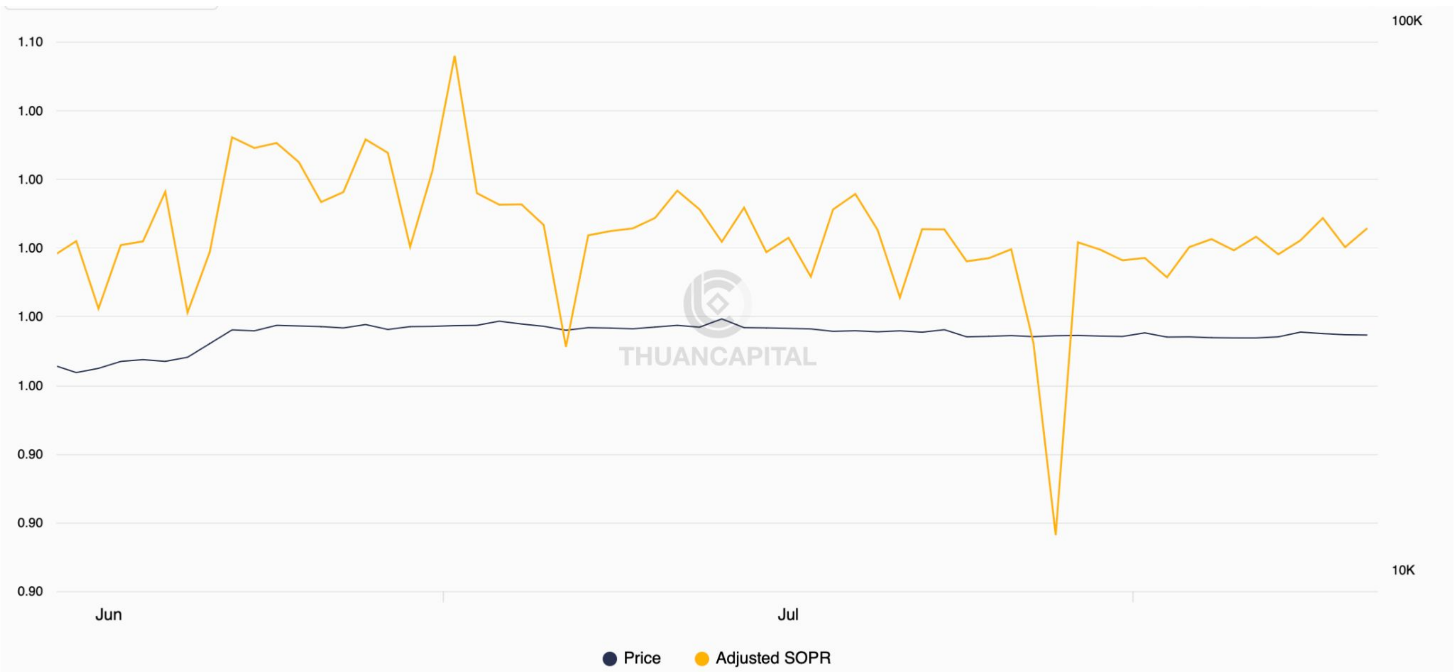


Figure 6. Bitcoin aSOPR vs Price. (source: ThuanCapital)

The funds are largely circulating within the same cohort, with negligible fresh capital injections. A SOPR value of one indicates that, on average, all on-chain Bitcoin transactions are currently neither in profit nor loss.

NUPL Insights:

Surprisingly, the current bear market rally for Bitcoin has yet to reach a euphoric crescendo. A price bracket of $34,000 to $40,000 within the next couple of months might usher in such a sentiment based on previous price increases in a similar time span. Euphoria in the market is indicated when the Net Unrealised Profit and Loss (NUPL) metric increases and sustains at a very high value. This suggests that market participants have spot BTC positions which have increased significantly in USD notional terms but are refusing to realise that profit.

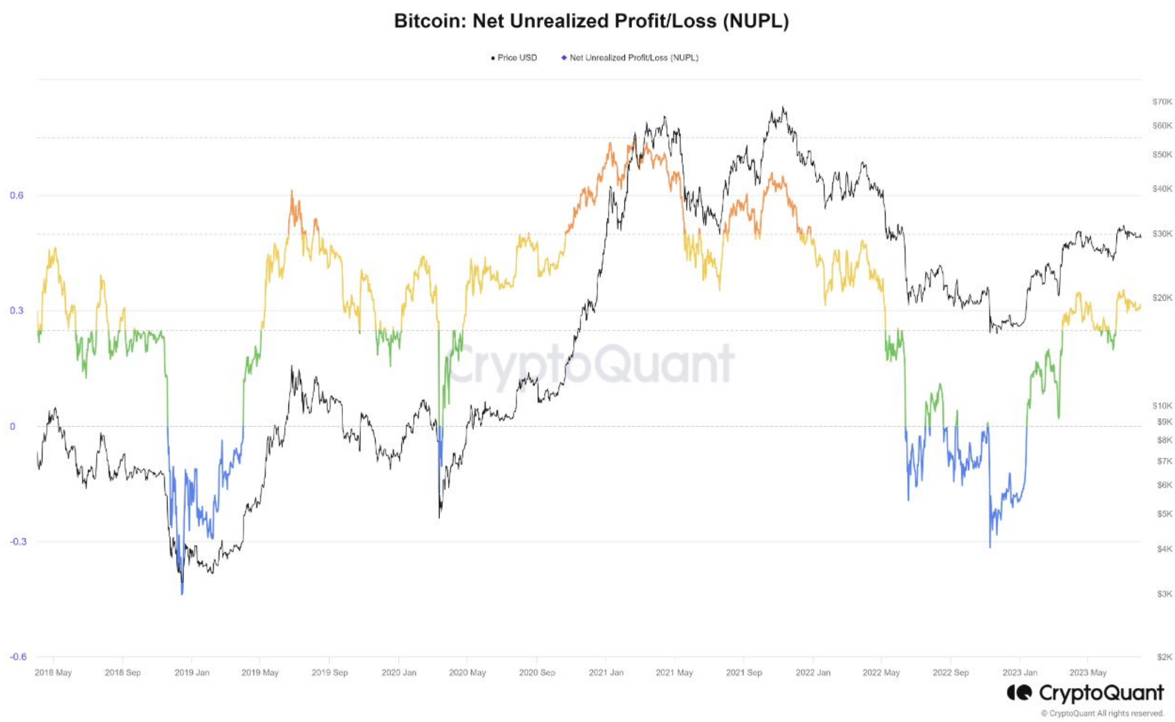


Figure 7. Net Unrealised Profit/Loss for Bitcoin. (source: CryptoQuant)

While the NUPL metric doesn't necessarily provide a directional compass, it remains an invaluable barometer for gauging profit, loss, and the overarching market sentiment.

Volatility In Bitcoin - Muted But For How Long?

Bitcoin Realised (Historical) Volatility continues to be on a steady decline. As covered in the last edition of the *Bitfinex Alpha*. This metric has various methods of calculation and a lot of them recently declined to their lowest levels ever. Implied volatility (refer Figure below), which is a measure of looking at options prices also continues to decline, however, we deep dive into leading indicators that could suggest that volatility may soon kick in.

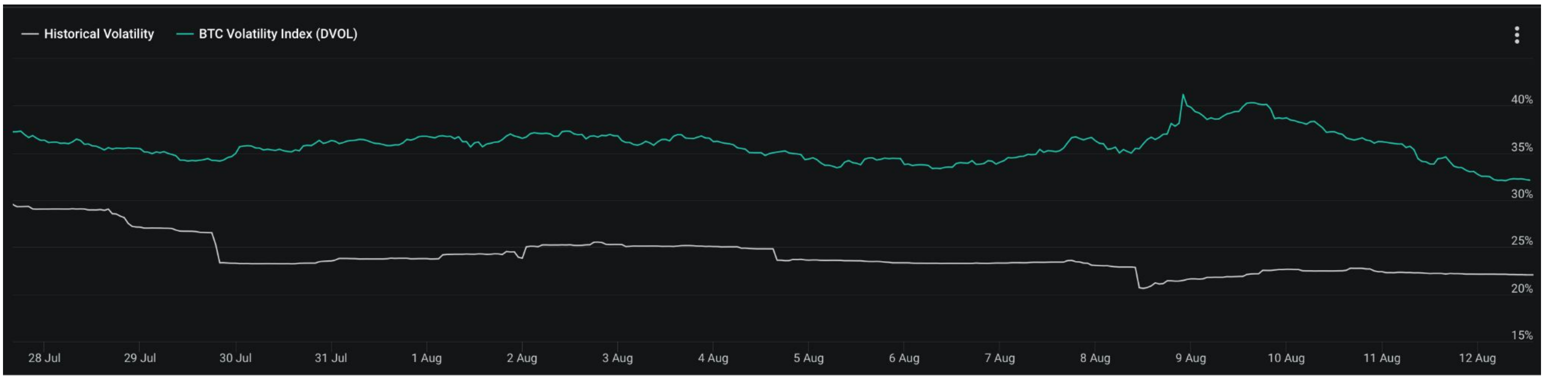


Figure 8. Historical vs Implied Volatility Remain Muted. (source: Deribit)

Active traders in the crypto market exhibit a relatively subdued net taker volume of $400 million as of August 7th, 2023 (refer Figure 9 below), indicating a balance between buying and selling pressures.

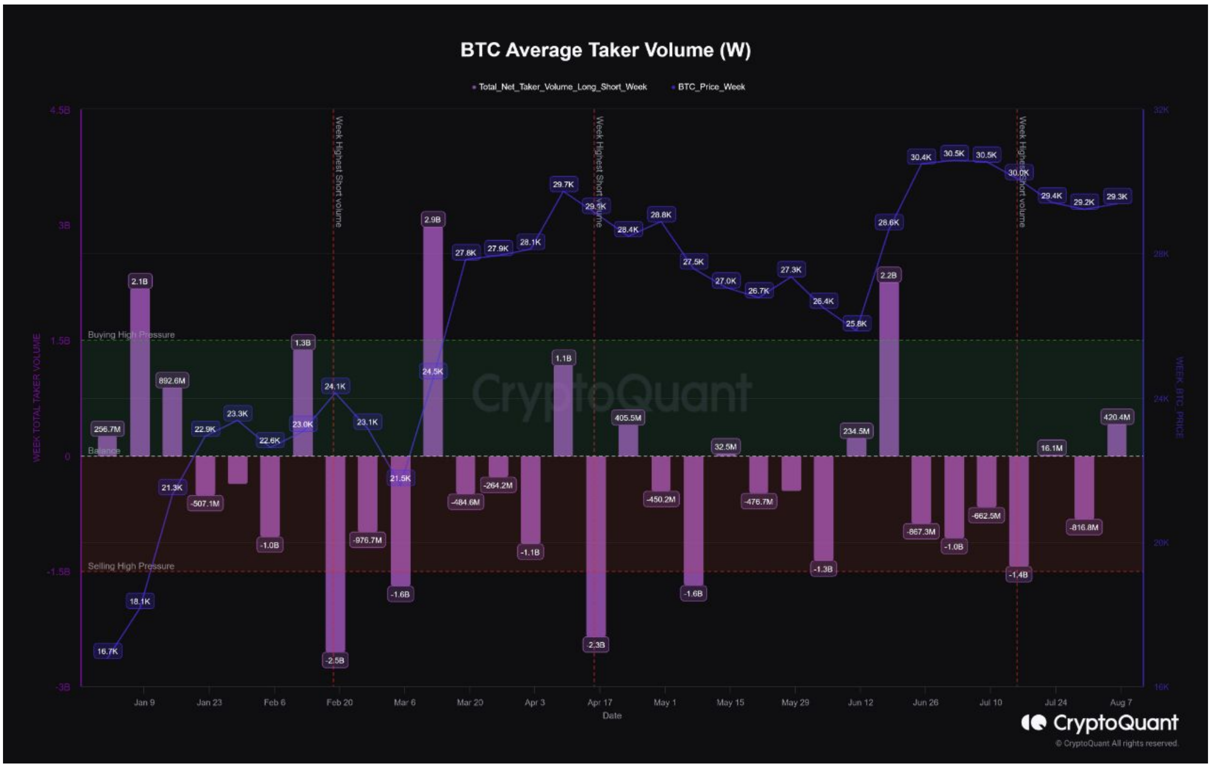


Figure 9. BTC Average Taker Volume. (source: CryptoQuant)

This equilibrium underscores the current stability in BTC's price, suggesting an environment where neither side dominates the trading landscape. This is often a leading indicator for volatility and offers a short lead time, or in other words, changes in this metric often are followed quickly by change in the implied volatility and then realised volatility. The conclusion thus, is that volatility will remain low at least in the short-term.

Prior to the CPI announcement last week, DVOL (historical volatility) ramped up to a decent extent before being shot down completely (refer Figure 10 below).

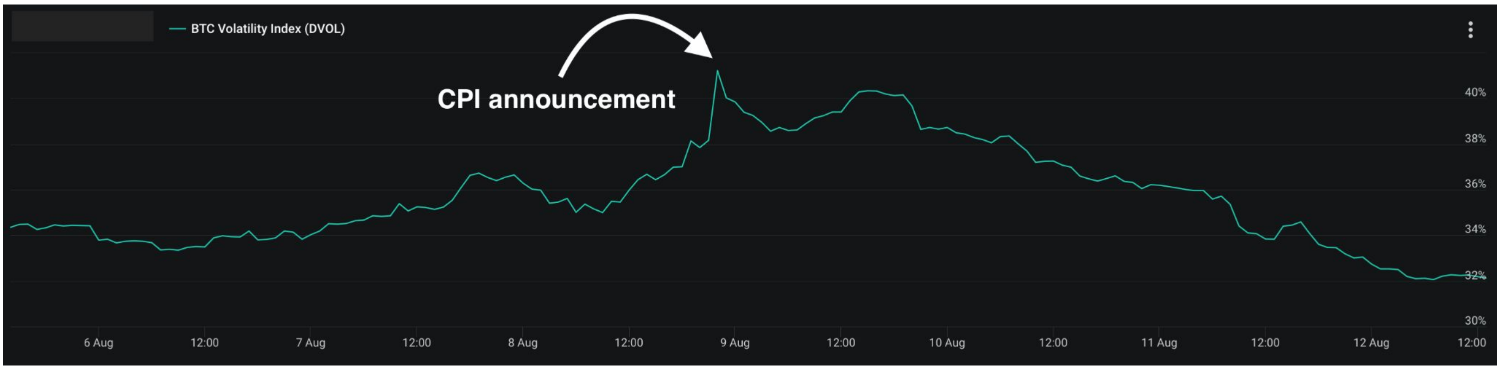


Figure 10. Bitcoin Historical Volatility zoomed in from last week. (source: Deribit Metrics)

Thus, even typically high volatility events are also not injecting volatility into the market as they used to as the market desperately awaits a catalyst before beginning to trend again.

The estimated leverage ratio (refer Figure below) is the ratio of an exchange open interest to its coin reserve and provides insights into the average leverage utilised by its users. A surge in this metric suggests that investors are increasingly adopting higher-leverage positions in derivative trading, signalling a greater appetite for risk.

The estimated leverage ratio and open interest, pivotal indicators of market activity, are presently at subdued levels. This points to a decrease in market volatility and suggests that cryptocurrency prices are exhibiting a phase of stability, hence, more sideways for the foreseeable future.

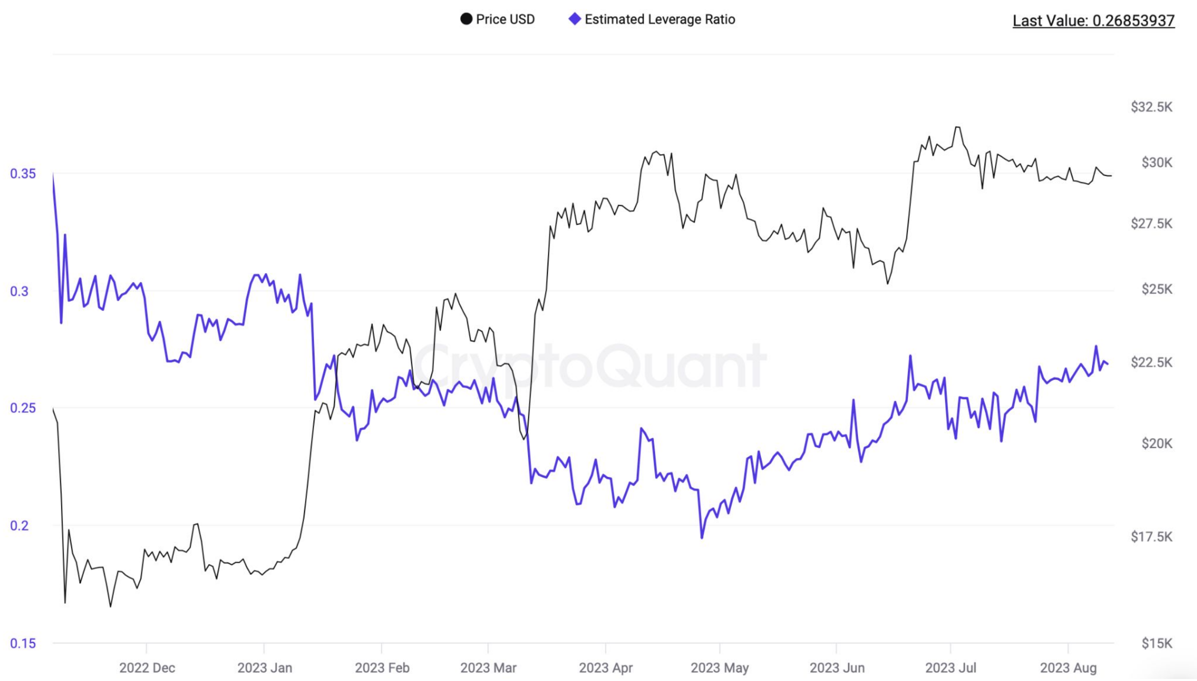


Figure 11. Estimated Leverage Ratio For Bitcoin. (source: CryptoQuant)

Amidst subdued open interest, the market has seen a noticeable absence of large-scale forced liquidations this week (refer Figure 12 below).

Figure 12. Crypto Market Total Liquidations vs BTC price. (source: coinglass)

This suggests that traders have largely been shielded from substantial losses during this period. Historically, volatility has increased significantly over three to four weeks after moving sideways for extended periods of time, especially after hitting an all-time low.

However, most leading indicators suggest that at least on the lower time frames, the low volatility regime should continue for a while. The lack of futures liquidations, euphoria and pain in the markets are also the reason for lack of any significant orderflow developments as the BTC price continues to range sideways even after breaking down from a significant range between $29,500 and $31,500.

GENERAL MARKET UPDATE

US Consumer Price Index (CPI) Reveals Slow Uptick in Inflation Rate

Latest inflation data reveals that US consumer prices edged up slightly in July with a 0.2 percent increase. The key driver was a surge in rental expenses.

However, this upward trend was counterbalanced by diminishing prices in sectors such as motor vehicles and furniture. The figure was exactly as per analyst expectations.

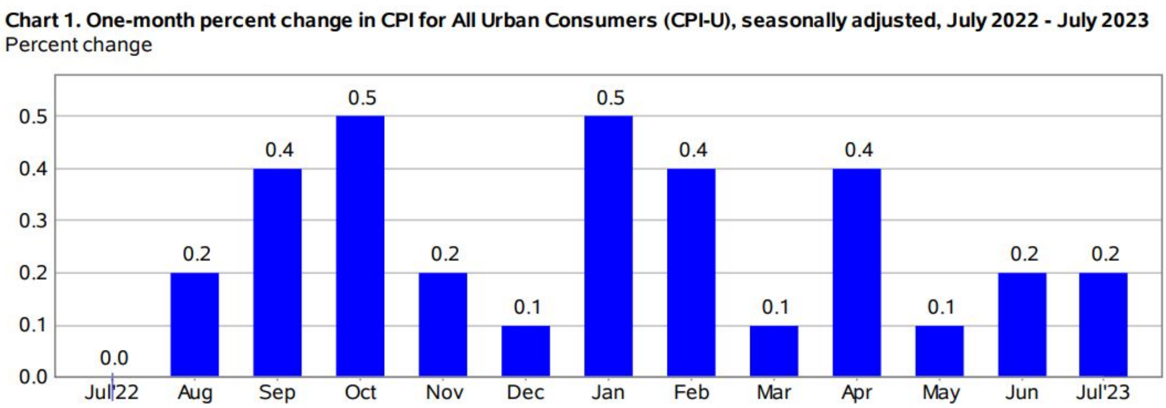


Figure 13. One-Month Percent Change in CPI (Source: Bureau of Labor Statistics)

The month-over-month (MoM) core rate of inflation, meanwhile, also rose 0.2 percent in July, unchanged from the previous month and consistent with the consensus forecast. The core inflation rate excludes volatile food and energy costs.

	Seasonally adjusted changes from preceding month							Un-adjusted 12-mos. ended Jul. 2023
	Jan. 2023	Feb. 2023	Mar. 2023	Apr. 2023	May 2023	Jun. 2023	Jul. 2023	
All items	0.5	0.4	0.1	0.4	0.1	0.2	0.2	3.2
Food	0.5	0.4	0.0	0.0	0.2	0.1	0.2	4.9
Food at home	0.4	0.3	-0.3	-0.2	0.1	0.0	0.3	3.6
Food away from home[1]	0.6	0.6	0.6	0.4	0.5	0.4	0.2	7.1
Energy	2.0	-0.6	-3.5	0.6	-3.6	0.6	0.1	-12.5
Energy commodities	1.9	0.5	-4.6	2.7	-5.6	0.8	0.3	-20.3
Gasoline (all types)	2.4	1.0	-4.6	3.0	-5.6	1.0	0.2	-19.9
Fuel oil[1]	-1.2	-7.9	-4.0	-4.5	-7.7	-0.4	3.0	-26.5
Energy services	2.1	-1.7	-2.3	-1.7	-1.4	0.4	-0.1	-1.1
Electricity	0.5	0.5	-0.7	-0.7	-1.0	0.9	-0.7	3.0
Utility (piped) gas service	6.7	-8.0	-7.1	-4.9	-2.6	-1.7	2.0	-13.7
All items less food and energy	0.4	0.5	0.4	0.4	0.4	0.2	0.2	4.7
Commodities less food and energy commodities	0.1	0.0	0.2	0.6	0.6	-0.1	-0.3	0.8
New vehicles	0.2	0.2	0.4	-0.2	-0.1	0.0	-0.1	3.5
Used cars and trucks	-1.9	-2.8	-0.9	4.4	4.4	-0.5	-1.3	-5.6
Apparel	0.8	0.8	0.3	0.3	0.3	0.3	0.0	3.2
Medical care commodities[1]	1.1	0.1	0.6	0.5	0.6	0.2	0.5	4.1
Services less energy services	0.5	0.6	0.4	0.4	0.4	0.3	0.4	6.1
Shelter	0.7	0.8	0.6	0.4	0.6	0.4	0.4	7.7
Transportation services	0.9	1.1	1.4	-0.2	0.8	0.1	0.3	9.0
Medical care services	-0.7	-0.7	-0.5	-0.1	-0.1	0.0	-0.4	-1.5

1 Not seasonally adjusted.

Figure 14. Percent Changes in CPI for All Urban Consumers (Source: Bureau of Labor Statistics)

The highlighted items in Figure 14 above shows how motor vehicles and household furnishings offset the rise in rental costs, which accounted for over 90 percent of the overall increase. This trend could potentially influence the Federal Reserve to hold steady on interest rates in the near future.

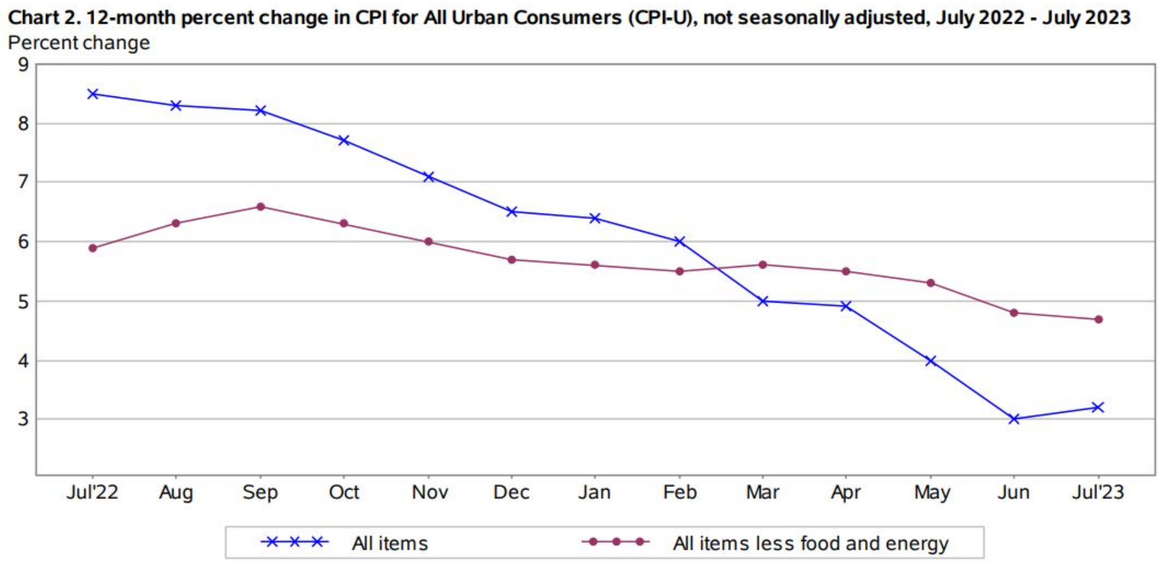


Figure 15. 12-Month Percentage in CPI for all urban consumers (July 2022 to July 2023) (Source: Bureau of Labor Statistics)

While inflation has decelerated notably over the past year, the annual rate still rose from 3 percent to 3.2 percent in July, marking the first increase in over a year (refer to Figure 15 above)

However, the small rise in yearly inflation might not be significant, as it could be attributed to the base year's impact. This is because inflation has rapidly decreased after it peaked in June of the previous year. Core inflation, meanwhile, slightly slowed to 4.7 percent from 4.8 percent in the previous month. This is the lowest rate in almost two years.

TOTAL PROBABILITIES				
MEETING DATE	DAYS TO MEETING	EASE	NO CHANGE	HIKE
9/20/2023	39	0.00 %	88.50 %	11.50 %
11/1/2023	81	0.00 %	63.79 %	36.21 %
12/13/2023	123	8.24 %	59.82 %	31.94 %
1/31/2024	172	26.78 %	50.31 %	22.91 %
3/20/2024	221	50.43 %	36.52 %	13.05 %
5/1/2024	263	79.98 %	16.70 %	3.32 %
6/19/2024	312	87.95 %	10.22 %	1.83 %
7/31/2024	354	95.45 %	3.99 %	0.56 %
9/25/2024	410	98.68 %	1.19 %	0.13 %
11/6/2024	452	99.47 %	0.48 %	0.05 %
12/18/2024	494	99.79 %	0.20 %	0.02 %

Figure 16. FOMC meeting rate probabilities (Source: CME FedWatch Tool)

On a three-month moving average annualised basis, which provides a smoothed and longer-term perspective on inflation trends, CPI is already at two percent. Hence, the latest inflation report shows no compelling reason for the central bank to implement another interest rate hike, given that the inflation rate is moving consistently in accordance with the Fed's long-term target rate(of two percent). Last Thursday's Consumer Price Index data should give the Fed a sense of relief as its September meeting approaches. The consensus within financial markets overwhelmingly anticipates current interest rates to be maintained for the rest of this year. (See Figure 16 above)

The battle against inflation in the US has been long and drawn out. While we have observed a relatively smooth transition from a peak of 9.1 percent inflation, to just slightly above 3 percent on an annual basis, we believe the upcoming journey from three to two percent inflation will see some turbulence along the way.

The disinflation we are witnessing, and gradual economic slowdown, makes the chances of achieving a "soft landing" more likely. However, the mixed signals from different economic data, means the Fed faces an increasingly intricate task. This involves distinguishing between signals that indicate an impending recession and those suggesting a gentle economic slowdown, all while striking a balance between their dual mandates of ensuring price stability and promoting employment growth.

There remains also a possibility that inflation could re-gain momentum as the economy sidesteps a recession. For example, there are concerns related to energy prices due to the ongoing supply challenges created by the Russia/Ukraine war - something to watch out for in the next CPI print for August.

Taking all these factors into account, we anticipate that the Fed will maintain a steady range of interest rates, likely between 5.25 percent and 5.5 percent, at least throughout the remainder of this year. This projection is rooted in the assumption that top-line inflation will average around three percent by the conclusion of the year. As we proceed through the coming months, it's evident that the Fed's decisions will be guided by a meticulous evaluation of prevailing economic conditions, while concurrently striving to navigate the intricacies of their dual mandate.

June Trade Deficit Contraction: Insights into Imports, Exports, and Shifting Dynamics

The US economy saw a significant contraction in its trade deficit for the month of June, attributed primarily to a decline in imports.

These developments potentially indicate shifting dynamics in consumer spending habits as well as a global manufacturing slump.

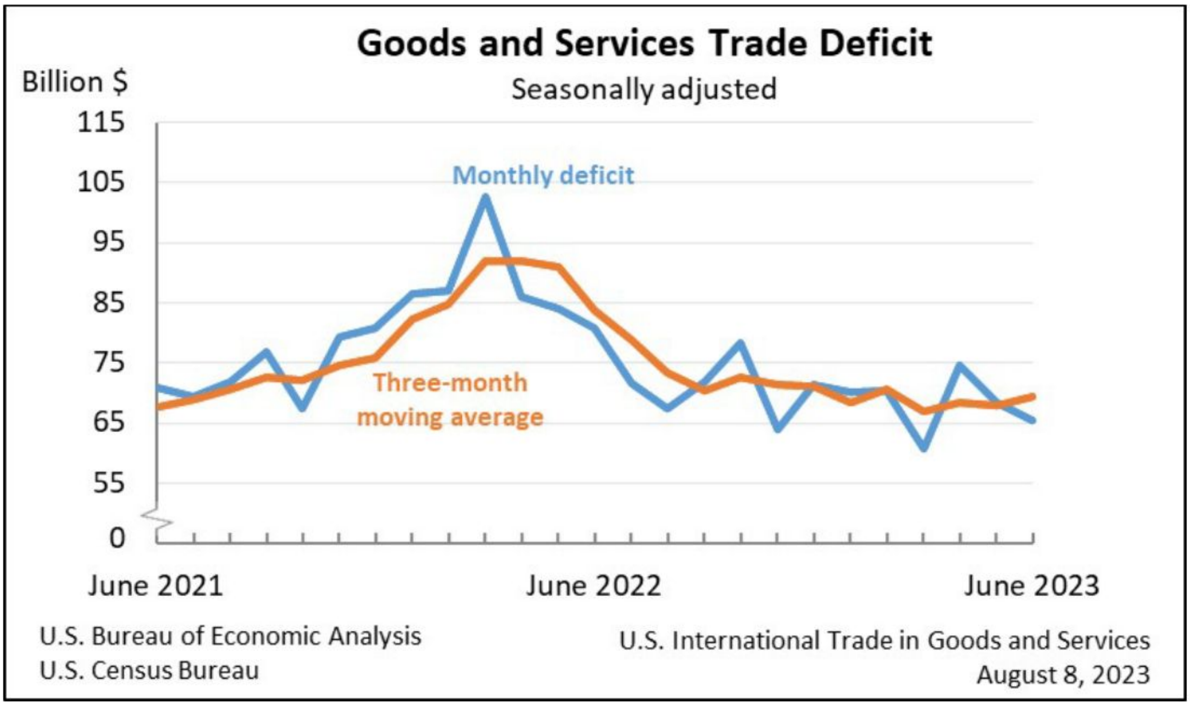


Figure 17. Goods and Trade Deficit (SourceL US Census Bureau, Bureau of Economic Analysis)

According to the US Bureau of Economic Analysis, in their US International Trade in Goods and Services Report released last Tuesday, August 8th, the US trade deficit, a key economic indicator, fell by four percent to reach $65.5 billion in June, marking a decrease of $2.8 billion from May's figure of $68.3 billion (refer to Figure 17). This reduction is part of a broader trend, as the trade deficit has dropped by over one-third since its peak in the spring of 2022. While smaller trade deficits can have positive implications for Gross Domestic Product (GDP), they can also signal economic weakness, both domestically and globally.

A closer look at the data highlights a one percent decline in imports, which totals to $253 billion in June. This marks the third consecutive monthly decrease in imports. The United States witnessed fewer imports of computers, industrial supplies, and oil, with the import volume of goods plummeting by 13 percent since its record high in March 2022.

On the other hand, exports saw a minimal decline of 0.1 percent, reaching $247.5 billion. This modest drop can be attributed to reduced oil and pharmaceutical drug exports. Notably, the trade deficit with China decreased by $2.1 billion, settling at $22.8 billion in June. The shrinking trade gap between the US and China indicates that the US is importing fewer goods and services from China compared to the value of goods and services it is exporting to China.

Notable shifts in the trade deficit tend to reflect disruptions occurring in both the US and global economies. The drop in imports, particularly within the manufacturing sphere, seems to be in sync with the changing inclination of consumers as they spend more on services, at the expense of goods. Although exports have seen a decrease as well, their decline has been somewhat less pronounced, primarily due to factors like a revival in tourism and the resilience displayed by other service sectors such as finance. A revival in tourism implies that more foreign visitors are spending money within the country, thereby increasing revenue from services like hospitality, entertainment, and travel. Similarly, the resilience of the finance sector suggests that this sector generates substantial income from international clients and counterparties. This increased spending by foreign tourists and international clients contributes positively to a country's balance of payments and overall trade performance.

MONTHLY WHOLESALE INVENTORIES

JUNE 2023	**$905.2 billion**	**-0.5%**
MAY 2023 (revised)	**$909.9 billion**	**-0.4%**

Next release: September 8, 2023

* The 90 percent confidence interval includes zero. There is insufficient evidence to conclude that the actual change is different from zero.
Data adjusted for seasonality but not price changes.
Source: U.S. Census Bureau, Monthly Wholesale Trade Survey, August 8, 2023.

Figure 18. Monthly Wholesale Inventories (Source: US Census Bureau)

In a separate report from the US Census Bureau analysing Monthly Wholesale Trade, wholesale inventories dropped by 0.5 percent (Figure 18). This trend has continued since May, with wholesalers experiencing a 0.4 percent decrease in their stocks. Excluding autos, wholesale inventories fell by 0.7 percent in June, a component that goes into the calculation of the GDP.

The recent report on wholesale inventories provides valuable context to better understand the evolving trade dynamics discussed earlier. The decrease in wholesale inventories in June suggests a possible moderation in business investment and production. This phenomenon aligns with declining imports, particularly in the manufacturing sector. The reduced business demand for inventory could be driven by businesses adjusting their strategies due to anticipated changes in consumer demand, as evident in the easing Personal Consumption Expenditure index, or by global economic uncertainties.

NFIB Small Business Optimism Index Reflects Tepid Sentiment Amidst Inflation and Hiring

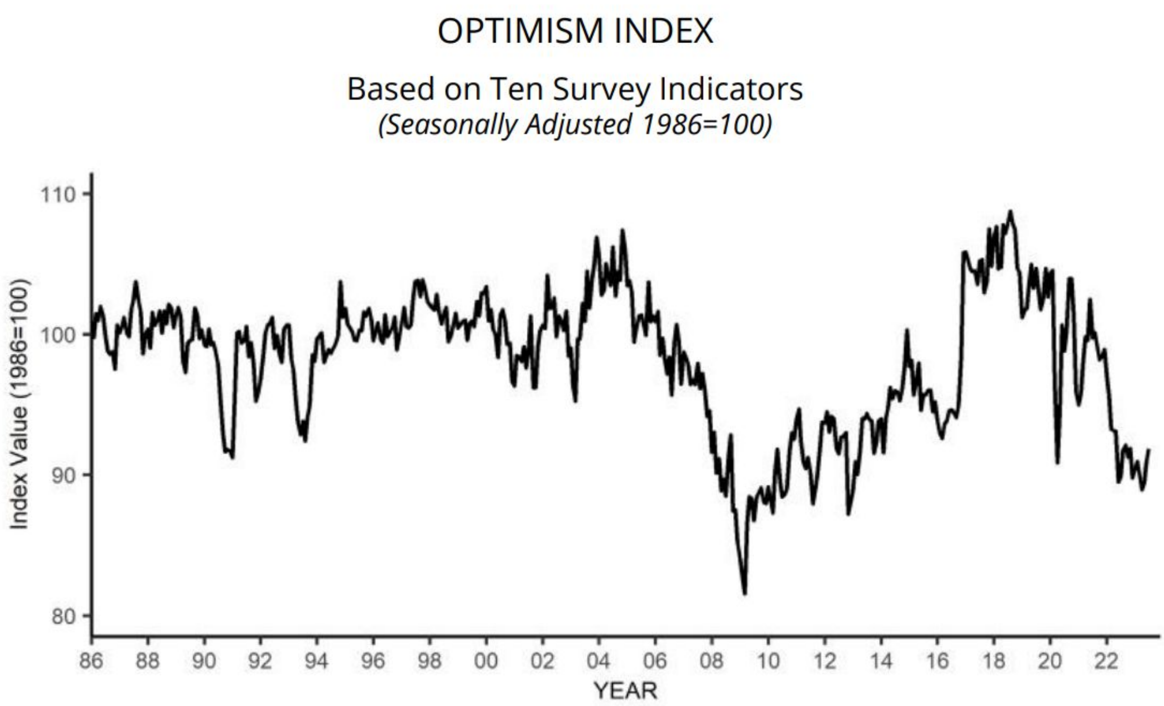


Figure 19. Optimism Index (Source: National Federation of Independent Business)

The Small Business Optimism Index exhibited a modest increase of 0.9 points in July, reaching a value of 91.9, according to the survey result from the National Federation of Independent Business (NFIB) released last Tuesday, August 8th (refer to Figure 19). This marks the 19th consecutive month below the 49-year average of 98, highlighting the persistent cautiousness among small business owners.

A focal point within the report was the ongoing concern over inflation, with 21 percent of surveyed owners identifying it as their primary operational challenge. However, this figure saw a slight decline of three points compared to June.

Key findings unveiled in the report indicate a mixture of subdued expectations and ongoing challenges:

- Future Business Conditions: A 10-point improvement in owners' outlook for better business conditions over the next six months was observed, albeit at a net negative 30 percent. This is an improvement compared to last June's reading of a net negative 61 percent. A positive value suggests optimism, while a negative value indicates pessimism. Despite the improvement, the sentiment remains at net negative. This indicates that even with the improvement, a larger proportion of respondents still hold a pessimistic view of future business conditions.

- Hiring Challenges: The percentage of owners reporting job openings that were hard to fill remained unchanged at 42 percent, reflecting the sustained difficulties in recruitment despite economic recovery efforts.
- Price Inflation: The net percent of owners raising average selling prices dropped by four points to a net 25 percent, indicating a slight reduction in inflationary pressure. This reading is still considerably elevated however, despite the fact that it is trending downward, and represents the lowest level since January 2021.
- Sales Outlook: Expectations for real sales to increase remained pessimistic, with a net negative 12 percent reflecting lingering uncertainty in consumer demand.
- Hiring Trends: The report highlighted that 61 percent of owners reported hiring or attempting to hire in July, up two points from June. However, of those trying to hire, a staggering 92 percent reported few or no qualified applicants.
- Capital Expenditures: Approximately 55 percent of owners reported capital outlays in the past six months, with spending on new equipment, vehicles, and facilities being prominent areas of investment.
- Trade and Inventory: Sales trends saw a net negative with 13 percent of owners reporting higher nominal sales in the past three months, while inventory gains, or the change in inventory of the business have in stock, remained unchanged at a net negative 3 percent.

The NFIB report paints a portrait of a small business sector that is cautiously navigating a complex economic landscape. While some optimism exists, like in business conditions and capital expenditures, challenges in hiring, inflation concerns, and cautious consumer spending remain key themes.

Small businesses collectively make up a significant portion of the economy. Their activities contribute to job creation, production, and consumption. Therefore, their sentiment and behaviour provide a valuable snapshot of the overall economic landscape. Moreover, small businesses often respond more swiftly to changes in economic conditions compared to larger corporations. They can provide early signals of shifts in consumer demand, business investment, and economic sentiment. Looking forward, we anticipate that the trends identified by small businesses, such as inflation concerns, hiring difficulties, and consumer demand uncertainties should be the main factors that would influence economic trends.

Federal Reserve Report Shows Slight Uptick in Household Debt, Credit Card Balances Surge

In its latest Quarterly Report on Household Debt and Credit, the US Federal Reserve disclosed a slight uptick in total household debt for Q2 2023. Published last Tuesday, August 8th, the data reveals a marginal increase of $16 billion in household debt, equating to a 0.1 percent growth, bringing the cumulative total to an imposing $17.06 trillion (refer to Figure 20 below).

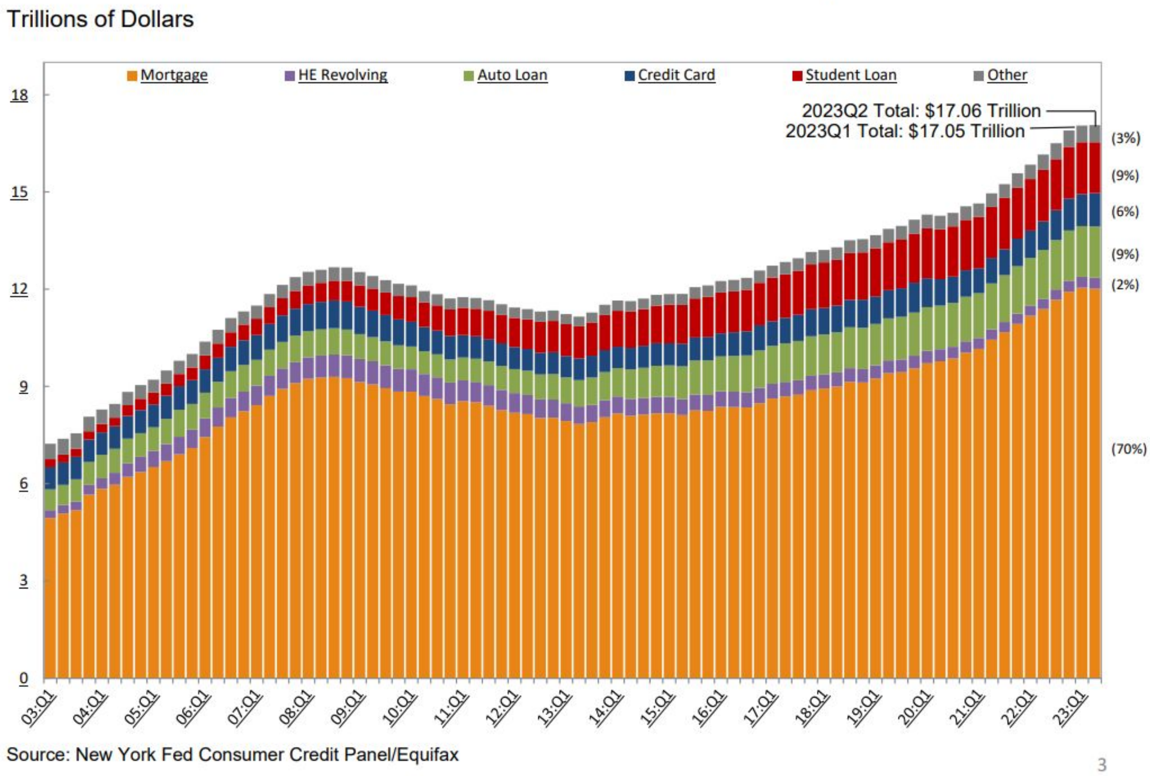


Figure 20. US Total Debt Balance and its Composition (Source: New York Fed Consumer Credit Panel)

Among the report's highlights, credit card balances witnessed a remarkable surge, rising by $45 billion from Q1 2023 to a record high of $1.03 trillion in Q2 2023, translating to a noteworthy 4.6 percent quarterly increase. Consequently, the number of credit card accounts expanded by 5.48 million, totalling 578.35 million, while the aggregate limits on credit card accounts were up by $9 billion, now totalling $4.6 trillion (refer to Figure 21).

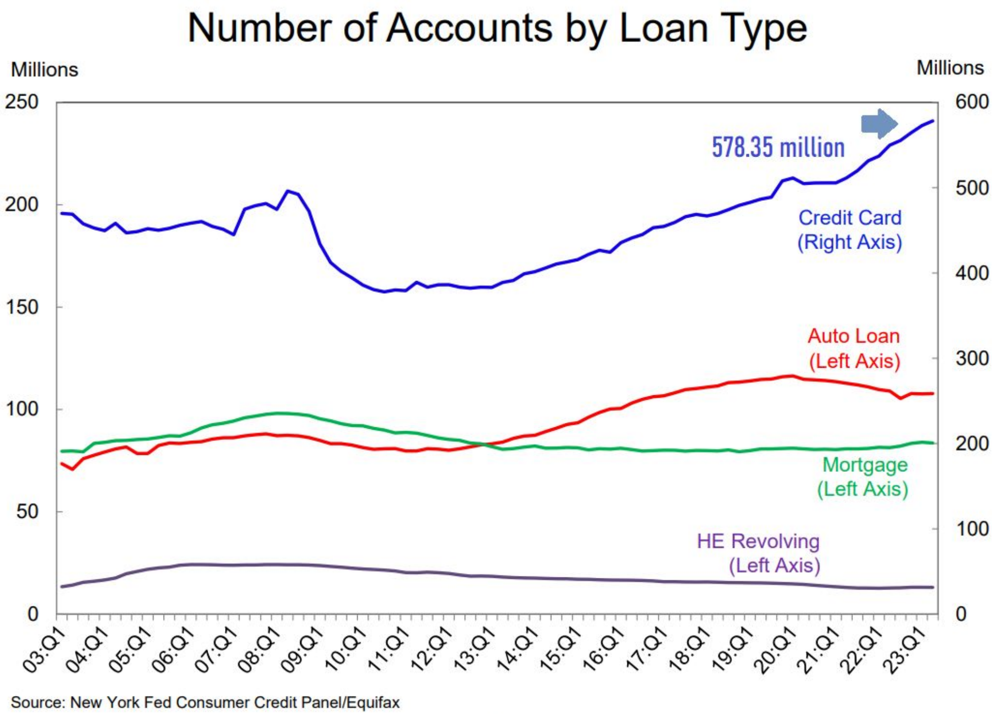


Figure 21. Number of Accounts by Loan Type (Source: New York Fed Consumer Credit Panel)

However, the scenario was different for mortgage balances, which remained relatively stable at $12.01 trillion by the end of June. This can be attributed to the declining number of new mortgages taken up by households and a slowdown in home prices.

Auto loan balances continued their upward trajectory, surging by $20 billion, a trend consistent since 2011. Conversely, student loan balances experienced a $35 billion decline, reaching a total of $1.57 trillion, highlighting the effect of the suspension of federal student loan payments that took place in response to the Covid epidemic, but which are set to resume in October 2023.

Delinquency rates, which are the percentage of loans or credit accounts that are past due, have been sharply declining since the onset of the pandemic, but remained largely unchanged in Q2 2023 albeit they are now at low levels. However, while these figures point to general stability in the household debt situation, viewed from another lense, the data shows that credit card delinquencies are at an 11-year high when measured using a four-quarter average. There was also an increase in the share of debt transitioning into delinquency for credit cards and auto loans. The transition rates for these categories rose by 0.7 and 0.4 percentage points, respectively.

An increase in transitioning debt into delinquency for credit cards can be a warning sign of potential financial stress among consumers. If inflation resurges, it could exacerbate this stress by impacting consumers' purchasing power and ability to manage debt payments.

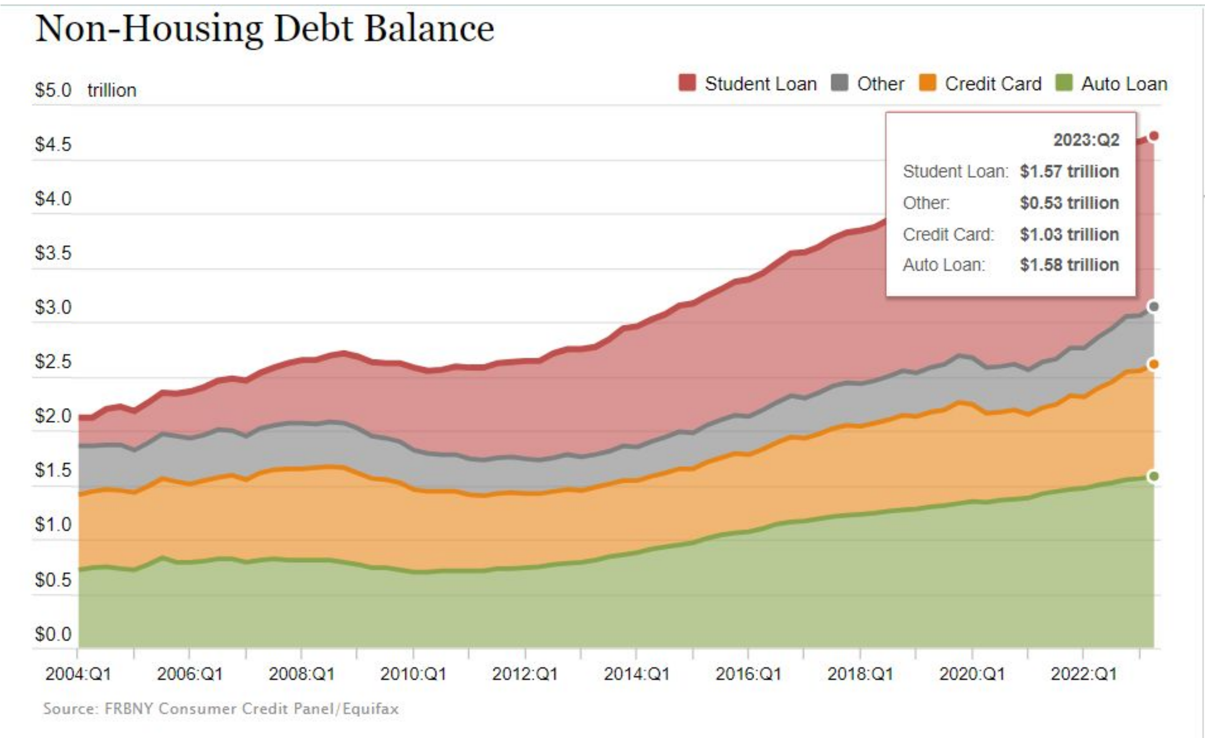


Figure 22. Non-Housing Debt Balance (Source: The Federal Reserve)

Against a backdrop of increasing interest rates, persistent inflation after the pandemic, and occasional banking difficulties over the past year, the recent report from the Fed still highlights the strength of the American consumer. The Fed too agrees that there are no clear signs of widespread financial stress among consumers. While higher balances might pose challenges for some borrowers, especially as student loan payments restart, the overall picture of household credit is showing early indications of moving back to pre-pandemic state.

News from the Crypto-Sphere

Founder of Collapsed Crypto Exchange FTX Has Bail Revoked Amid Witness Tampering Allegations

Figure 23. Founder of Collapsed Crypto Exchange FTX Has Bail Revoked Amid Witness Tampering Allegations

- **The founder of the collapsed FTX cryptocurrency exchange, Sam Bankman-Fried, has been sent to jail as a federal judge in New York revoked his bail due to allegations of witness tampering before his imminent trial.**
- **The decision followed accusations of Bankman-Fried's attempts to sway witnesses, particularly through sharing documents with the media, which has now resulted in his incarceration while preparing for his trial set to begin on October 2nd.**

In a stunning development that has sent shockwaves through the cryptocurrency industry, Sam Bankman-Fried (SBF), the 31-year-old founder of the now-collapsed cryptocurrency exchange FTX, has been incarcerated after a federal judge in New York revoked his bail last Friday, 11 August. This extraordinary move comes in response to allegations that SBF attempted to improperly influence witnesses expected to testify against him in his highly anticipated trial. SBF had been confined to house arrest at his parents' residence in Palo Alto, California, ever since his arrest in December on fraud charges linked to the downfall of FTX.

Judge Lewis A. Kaplan, presiding over the Federal District Court in Manhattan, announced the bail revocation, citing compelling evidence that SBF had repeatedly strayed beyond permissible boundaries set by his original bail conditions. It was revealed that SBF allegedly provided sensitive documents to reporters, potentially obstructing the testimony of key witnesses. In delivering the decision, Judge Kaplan emphasised, *"He has gone up to the line over and over again, and I am going to revoke bail."* Consequently, SBF was taken into custody and subsequently transported to the Metropolitan Detention Center in Brooklyn.

SBF's legal counsel, Mark Cohen, has indicated the intention to appeal the decision. However, Judge Kaplan underscored that SBF's detention would not be delayed pending the outcome of the appeal process. As the trial, set to commence on October 2, looms ahead, SBF now finds himself preparing for his legal battle from behind bars.

At the heart of the legal dispute lies SBF's interactions with the media, notably a recent *New York Times* (NYT) exposé that featured personal writings by Caroline Ellison. Ellison, a former CEO of Alameda Research, the trading arm of FTX, and also an alleged romantic partner of SBF, has pleaded guilty to fraud charges and has committed to aiding the prosecution's case against SBF. Prosecutors assert that SBF strategically leaked documents to the NYT with the aim of intimidating Ellison ahead of the trial.

SBF's defence team countered these allegations by arguing that his actions were within the boundaries of the First Amendment, merely responding to media inquiries, and thus did not violate the terms of his bail. However, Judge Kaplan's decision rested on the belief that SBF's actions were driven by an intent to intimidate or influence potential witnesses.

The fall from grace that SBF has experienced is dramatic. FTX, once a prominent exchange in the industry, plunged into bankruptcy due to a run on deposits. SBF's reputation, once revered and courted by political figures and celebrities, has now turned starkly negative as he confronts criminal charges carrying the possibility of substantial prison time.

Judge Kaplan's rare move to revoke bail so close to the start of the trial underscores the perceived severity of SBF's actions, not only in relation to the trial's integrity but also in terms of the potential impact on the cryptocurrency industry. Legal experts have emphasised the discretionary power of judges in these situations, particularly when a defendant's actions could be interpreted as attempts to tamper with witnesses.

The unfolding case serves as a stark reminder of the intricate challenges surrounding high-profile individuals awaiting trial. This episode underscores the delicate balance that the legal system must navigate between safeguarding individual rights and ensuring a fair and just legal process.

India Unveils a plan for Crypto-Enabled Digital Document Signing in a new indigenous web browser

Figure 24. ***India Unveils a plan for Crypto-Enabled Digital Document Signing in a new indigenous web browser.***

- **The Indian Ministry of Electronics and Information Technology plans to integrate crypto tokens into a new indigenous web browser, enabling users to digitally sign documents and enhance secure transactions.**
- **Amidst India's lack of legislation for the Web3 or cryptocurrency industry, MeitY's announcement comes as part of the Indian Web Browser Development Challenge, with a focus on creating a browser supporting Web3 and featuring advanced security measures.**

In a groundbreaking announcement on Wednesday, August 9th, India's Ministry of Electronics and Information Technology revealed its ambitious vision to integrate crypto tokens into a pioneering domestic web browser. The intended outcome is to empower users with the ability to digitally sign documents, marking a significant stride forwards to enhancing digital interactions.

Of particular note is the contextual backdrop: India's lack of parliamentary legislation for the Web3 or cryptocurrency industry. Despite its role as the current G20 president, the nation has refrained from introducing local regulatory measures for the crypto realm, instead championing the establishment of international guidelines. Simultaneously, the Reserve Bank of India has steadfastly opposed the legalisation of cryptocurrencies, concurrently promoting its own Central Bank Digital Currency initiative.

Despite the cryptocurrency sector being subject to taxation and aligned with global anti-money laundering protocols, the Indian finance ministry has yet to take an official stance on whether cryptocurrency will be legalised or prohibited within the country.

The pivotal development in question is woven into the announcement surrounding the launch of the Indian Web Browser Development Challenge . This open competition seeks to foster the creation of a homegrown web browser that would be fortified with indigenous innovation, encompassing a self-contained trust repository, pioneering functionalities, and advanced layers of security and data privacy safeguards.

At the core of this endeavour lies the vision of a browser primed for digitally signing documents using crypto tokens, thereby amplifying the security of transactions and digital exchanges. Notably, a crucial stipulation put forth by the government is the imperative for the browser to support Web3, indicative of a desire to remain aligned with cutting-edge web technologies.

With a total prize fund of approximately $400,000 at stake, participants are being challenged to channel their ingenuity into this venture. The product submission deadline is firmly set for July 1st, 2024.

PayPal Launches PYUSD, Ushering in a New Era of Mainstream Blockchain Adoption

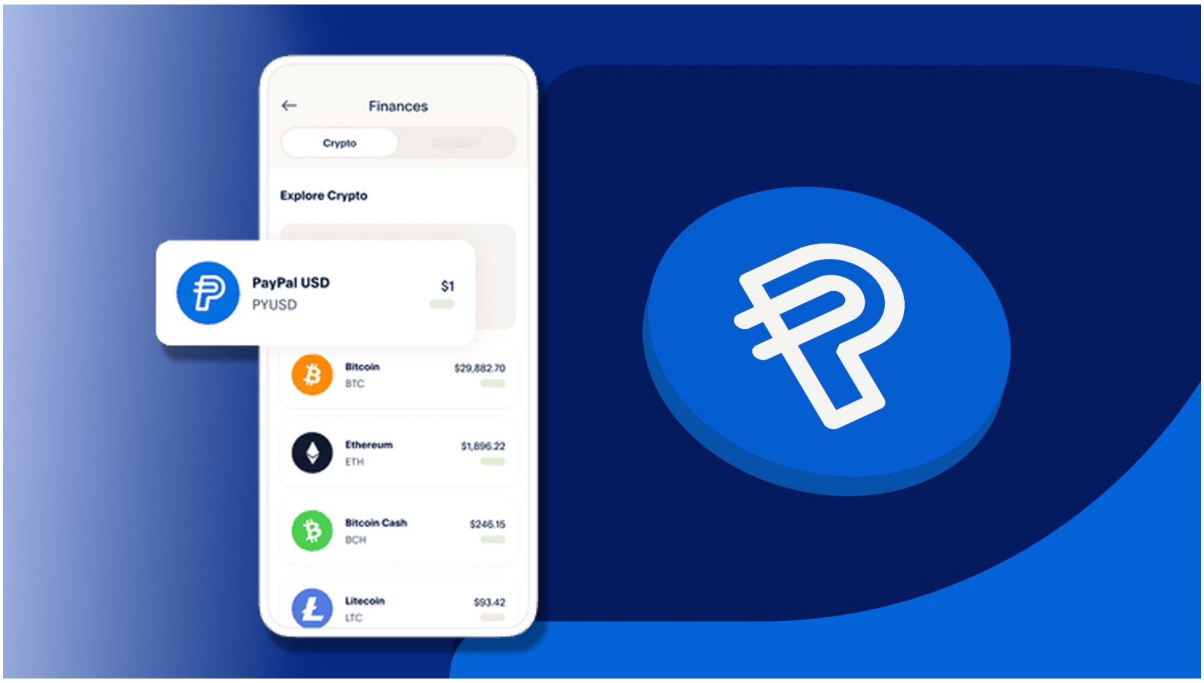


Figure 25. PayPal Launches PYUSD, Ushering in a New Era of Mainstream Blockchain Adoption

- **PayPal has made a groundbreaking move by launching PYUSD, a stablecoin pegged to the U.S. dollar, making it the first major U.S. financial institution to introduce its own cryptocurrency backed by physical assets.**
- **The introduction of PYUSD signifies PayPal's commitment to mainstream blockchain adoption, bridging the gap between traditional finance and cryptocurrencies and allowing for seamless cross-border transactions while emphasising security and regulatory compliance.**

PayPal, a global frontrunner in online financial services, has embarked on a groundbreaking journey by unveiling PYUSD, a cryptocurrency pegged to the US dollar, according to a press release last Monday, August 7th. This strategic move propels PayPal to the forefront of traditional finance companies evaluating how and in what form they make use of the innovation that is replete throughout the crypto sector. It becomes the first major non-crypto company to adopt stablecoins, and marks a significant milestone in the world of cryptocurrencies.

Diverging from conventional cryptocurrencies that often experience erratic value fluctuations, stablecoins maintain a steady valuation due to their backing by tangible assets such as precious metals or fiat currencies. PYUSD's stability is rooted in its full backing by US dollar deposits, short-term US Treasuries, and equivalent cash assets, as outlined in a press statement by PayPal.

PYUSD operates atop the Ethereum blockchain and is issued by Paxos Trust Company, a well-known blockchain group. The collaboration between PayPal and Paxos reinforces the credibility of the initiative, given Paxos's extensive experience in the industry.

The distinctive feature that sets PYUSD apart is its potential to bridge the gap between traditional financial systems and crypto. With an expansive customer base exceeding 430 million users, PayPal's introduction of PYUSD brings stablecoins to a huge new audience.

The launch of PYUSD also effectively aligns with the original essence of blockchain technology: enabling direct, peer-to-peer value exchanges devoid of intermediaries. This leap into the world of blockchain has the potential to disrupt the established financial hierarchy, bestowing individuals with the autonomy to initiate cross-border transactions and exchange value without relying on traditional financial institutions.

The integration of PYUSD showcases PayPal's evolution, from previously just allowing payment to be made in crypto, to now developing its own currency with which transactions can be denominated.

The intention is that PYUSD will be integrated into the PayPal platform and can be used to effect transfers of value to family members, vendors, or employees across the globe, reshaping the landscape of cross-border fund transfers. Moreover, the integration of the stablecoin into PayPal's existing framework streamlines the process of converting PYUSD into traditional currencies, extending its practicality.

This transformative step by PayPal also addresses concerns pertinent to the stability and credibility of crypto-native assets. PayPal's commitment to regulatory compliance and security is underlined by its adherence to the reputable New York State Department for Financial Services standard for stablecoins and for collaborating with Paxos. This sets the stage for other enterprises and visionaries to incorporate PYUSD into their own applications, bolstering its standing as a reliable and multifaceted stablecoin.

As the financial sector stands on the cusp of a new era marked by blockchain technology and the integration of cryptocurrencies into everyday financial operations, PayPal's introduction of PYUSD takes centre stage. This strategic move not only heralds a new dawn for blockchain technology but also accelerates the journey towards mainstream adoption. The ripples caused by PYUSD's unveiling is reverberating across the financial landscape, hinting at a transformation that is poised to reshape the way value is exchanged and financial transactions are conducted on a global scale.

Former FTX Legal Counsel Faces Class-Action Lawsuit Alleging Involvement in Alleged Multi-Billion Dollar Fraud

Figure 26. Former FTX Legal Counsel Faces Class-Action Lawsuit Alleging Involvement in Alleged Multi-Billion Dollar Fraud

- **Fenwick & West LLP, former legal counsel for FTX, is facing a class-action lawsuit alleging it aided FTX's alleged multi-billion dollar fraud by setting up "shadowy entities" and providing services beyond a typical law firm's scope.**
- **Fenwick & West's involvement with FTX allegedly contributed to fraudulent strategies employed by FTX insiders, including co-founder Sam Bankman-Fried , and the lawsuit points to an implied agreement to deceive customers**.

In a recent legal development, Fenwick & West LLP, the former primary legal counsel for FTX, has been slapped with a class-action lawsuit accusing it of aiding and abetting the alleged multi-billion dollar fraud associated with the cryptocurrency exchange. Filed on August 7th in a California District Court, the suit has been brought forth by a group of FTX customers.

The lawsuit asserts that Fenwick & West orchestrated the establishment of several "shadowy entities," a move that reportedly enabled FTX's co-founder, Sam Bankman-Fried (SBF), and other executives to employ "creative but illegal strategies" to perpetrate fraudulent activities. These alleged strategies encompassed misleading representations, fraudulent acquisitions, and circumvention of regulatory oversight.

10. As alleged herein, Fenwick provided services to the FTX Group entities that went well beyond those a law firm should and usually does provide. When asked by FTX Group executives for counsel, Fenwick lawyers were eager to craft not only creative, but illegal strategies. Fenwick helped set up the shadowy entities through which Bankman-Fried and the FTX Insiders operated a fraud, structured acquisitions by the FTX US in ways to circumvent regulatory scrutiny, advised on FTX US's regulatory dodge, more generally, and supplied personnel necessary to execute on the strategies that they proposed. As several members of Congress recently remarked in connection with the FTX collapse, these and other services are "often central to major financial scandals, given [legal counsel's] role in drafting financial agreements, risk management compliance practices, and corporate controls." Fenwick is no different, and the services and strategies it provided to the FTX Group were similarly central to the FTX Group's fraud.

Figure 27. Class-Action Lawsuit Alleging Involvement in Alleged Multi-Billion Dollar Fraud faced by Former FTX legal counsel

The class-action suit further claims that Fenwick & West exceeded the typical role of a legal firm in its involvement with FTX. Among the alleged actions, the law firm purportedly aided in structuring acquisitions by FTX US in a manner that evaded regulatory scrutiny. Additionally, Fenwick & West provided personnel to execute strategies proposed by the firm itself.

The "shadowy entities" at the centre of the allegations are named as the North Dimension and the North Wireless Dimension. The lawsuit alleges that these entities syphoned off misappropriated funds from FTX customers.

The plaintiffs contend that Fenwick & West did not intervene when FTX made a series of misleading statements to its customers, thereby aiding and abetting the alleged fraud. The lawsuit suggests that there was an implied agreement between FTX entities and the law firm to deceive customers, a collaboration that allegedly served Fenwick & West's financial interests.

The lawsuit lists four individuals, including SBF, former Alameda Research CEO Caroline Ellison, former FTX co-founder Gary Wang, and former FTX engineering lead Nishad Singh, as FTX insiders who benefited from the alleged fraudulent activities.

This is not the first time Fenwick & West has faced such allegations. A similar class-action lawsuit filed in February accused the law firm of assisting SBF and FTX in establishing their businesses, claiming that the firm's services were integral to the fraudulent actions attributed to SBF.

In response to these allegations, Fenwick & West reportedly engaged Gibson Dunn, another law firm, to handle legal matters related to its alleged involvement with FTX.

FTX experienced a dramatic downfall, leading to its declaration of bankruptcy in November 2022, triggered by its inability to process a substantial volume of customer withdrawals.

SBF faces a litany of charges, including wire fraud, money laundering, and conspiracy. He is scheduled to face two criminal trials in October and March. Recent developments also indicate that prosecutors intend to reintroduce a charge related to illegal campaign finance, which had previously been dropped due to potential treaty violations with the Bahamas.

US SEC Delays Decision on Ark Invest's Bitcoin ETF Application Amidst Growing Industry Anticipation

Figure 28. Ark Invest 21Shares Bitcoin ETF has been in progress in 2021.

- **The US Securities and Exchange Commission has extended the evaluation period for Ark Invest's Bitcoin ETF application by at least eight weeks, initiating a public comment phase and following CEO Cathie Wood's prediction of a delay due to potential simultaneous approvals of spot Bitcoin ETFs.**
- **The wave of new applications from major financial institutions, including BlackRock, Fidelity, and Vanguard, presents a higher likelihood of spot Bitcoin ETF approvals, which could attract institutional investment and potentially drive increased demand for Bitcoin**

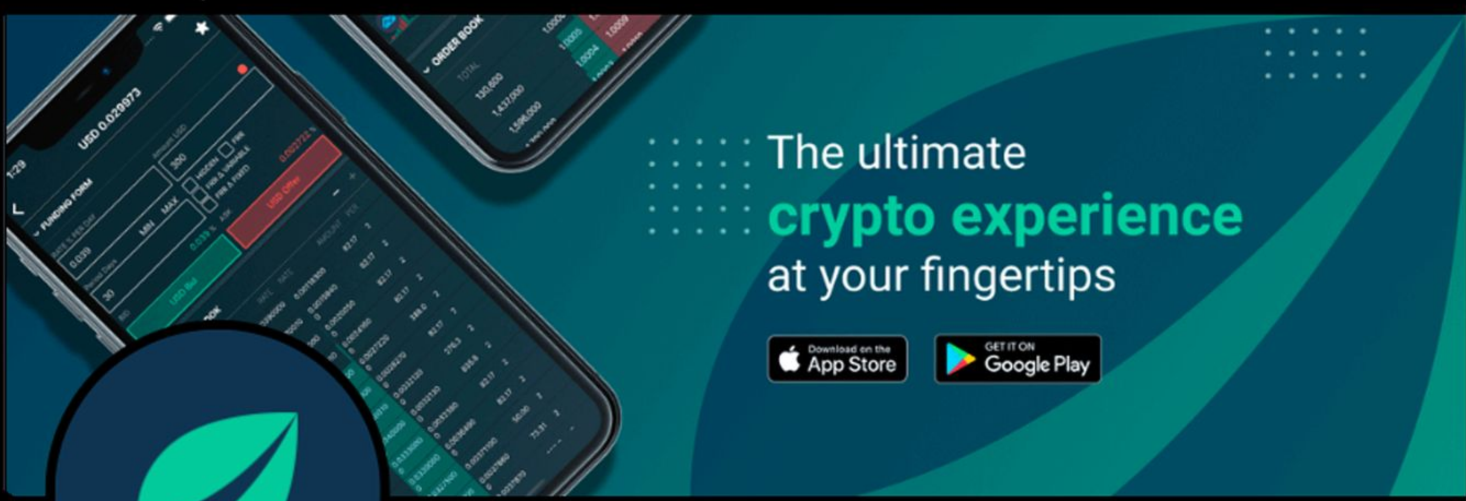
The US Securities and Exchange Commission (SEC) has announced an extension of at least eight weeks for its decision on the Bitcoin exchange-traded fund (ETF) application from Ark Invest last Friday August 11th. The SEC has initiated a period of public comment, a standard procedure to buy additional time. This application for the Ark 21Shares Bitcoin ETF has been in progress since 2021, and the delay was anticipated. Ark Invest CEO, Cathie Wood, mentioned in an interview that she expected this outcome, suggesting that the SEC might approve multiple spot Bitcoin ETF applications concurrently. In recent months, prominent financial institutions such as BlackRock, Fidelity, and Vanguard entered the scene by submitting their own spot Bitcoin ETF applications.

The SEC has previously rejected all spot Bitcoin ETF applications due to concerns about investor protections, fearing manipulation of the underlying spot market, particularly as many US-based spot cryptocurrency exchanges lack proper regulation. Grayscale has also been pursuing approval to transform their Grayscale Bitcoin Trust into a spot Bitcoin ETF and has resorted to legal action against the SEC due to repeated denials.

However, this latest wave of applications, which have included submissions from industry giants like BlackRock, has brought about new measures such as market information and surveillance sharing agreements, aiming to identify and counter potential spot market manipulation. Consequently, there is growing optimism that these applications have a higher likelihood of approval, with significant firms like BlackRock generally only applying if they're confident in their chances.

Galaxy Digital CEO Mike Novogratz shared insights that his sources believe it's a matter of "when, not if" these applications will be approved, estimating approvals within the next four to six months. This suggests that the anticipated batch of spot Bitcoin ETF approvals in September may not be realistic. The final decision deadline for these filings is set for March 2024, potentially presenting a more reasonable timeline.

Should spot Bitcoin ETFs gain approval in the US, it is predicted that this development could attract institutional investment into the Bitcoin market, which has been relatively hesitant thus far due to the absence of regulated spot ETF options. The introduction of these ETFs could trigger increased demand for Bitcoin as fund managers become more inclined to allocate a portion of their portfolios to the cryptocurrency. This prospect, along with other bullish narratives like the impending Bitcoin halving, potential shifts in the US Federal Reserve's monetary policies, and broader crypto adoption, could shape the market landscape in the year ahead.



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