BITFINEX Alpha

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EXECUTIVE SUMMARY

Bitcoin's underbelly is stirring! Despite the premier cryptocurrency trading at a lacklustre $26,000, its mining difficulty has skyrocketed, hitting an electrifying peak of 55.62 trillion hashes. This surge isn't just a tech oddity; it's emblematic of Bitcoin's innate resilience and future allure. Meanwhile, the digital gold's hash rate too dazzled, ascending by over 60 percent since the year's onset. If that's not enough, a staggering 40 percent of Bitcoin's supply has been lying dormant for over three years - a testament to long-term believers. Yet, for those searching for tremors before the quake, the one-year inactive supply seems to be echoing Bitcoin's price moves with uncanny precision. While Bitcoin's recent tumult suggests stormy seas ahead, the underlying metrics tell a tale of a market full of nuance, anticipation, and undying belief. The next chapter? Only time will tell.

Meanwhile, as we glance over globally correlated markets, the S&P 500 demonstrates resilience, hinting at either the dawn of a bull-market rally or the shadow of a darker downturn. Powell's Jackson Hole remarks have put the market on its toes, driving speculation about the US Federal Reserve's next move.

In the meantime, China, reeling from the aftershocks of Evergrande's bankruptcy declaration, witnesses its stock market descend to a historic low against US indices, reminiscent of the 2001 divide. The astounding plunge in China's High Yield real estate index coupled with a strategic rate cut by the central bank suggests turbulent waters ahead for the world's second-largest economy. But as China navigates this storm, global markets, for now, watch silently from the shore.

In the macro section, the US economic landscape presents a complex tapestry of challenges and opportunities, with sluggish growth, a divided housing market, mixed business indicators, shifting consumer sentiment, and the Federal Reserve's strategic stance all converging amidst a backdrop of uncertainty.

The latest S&P Global report reveals that the service sector, a significant economic driver, experienced a contraction in demand for new business, casting a shadow over August's sluggish growth.

In the US housing market, existing home sales are grappling with challenges posed by mortgage rates and limited inventory, causing prices to surge. On the flip side, new home sales are soaring due to a scarcity of existing homes, combined with lower prices and amplified demand for new constructions.

Meanwhile, business spending barely eked out a gain in July, prompting concerns about the investment aspect of the economy. In a twist, fresh data concerning jobless claims defied expectations by plunging to record lows in August, underscoring a tight labour market. These concerns are rooted in an apprehensive outlook for the economy's trajectory, despite the current positive trends driven by robust consumer spending and a resilient labour market.

Federal Reserve Chair insights at the Jackson Hole symposium shed light on the central bank's strategy regarding interest rates and its resolute stance on taming inflation. Powell's discourse unfolded against the backdrop of a perplexing economic landscape fraught with uncertainty.

In our news from the crypto-sphere, the whirlwind continues. In a landmark ruling, China's crypto-clampdown hits hard as a prominent Chinese official, Xiao Yi, receives a life sentence over a staggering $329m Bitcoin mining ruse. Across the Atlantic, New Jersey's former corrections officer, John DeSalvo, plays pied piper, allegedly duping over 200 first responders with a 'crypto pension' ploy, pocketing a cool $620,000. Not to be outdone, premier exchange Bitstamp halts Ether staking for US patrons, echoing moves by Kraken and Coinbase, all dancing to the SEC's tightening tune. Amidst this storm, DeFi titan Balancer Labs spots a vulnerability in its V2 Pools, sending ripples across the crypto-lake. As the crypto-saga unfolds, vigilance and nimbleness remain the order of the day.

Happy Trading!

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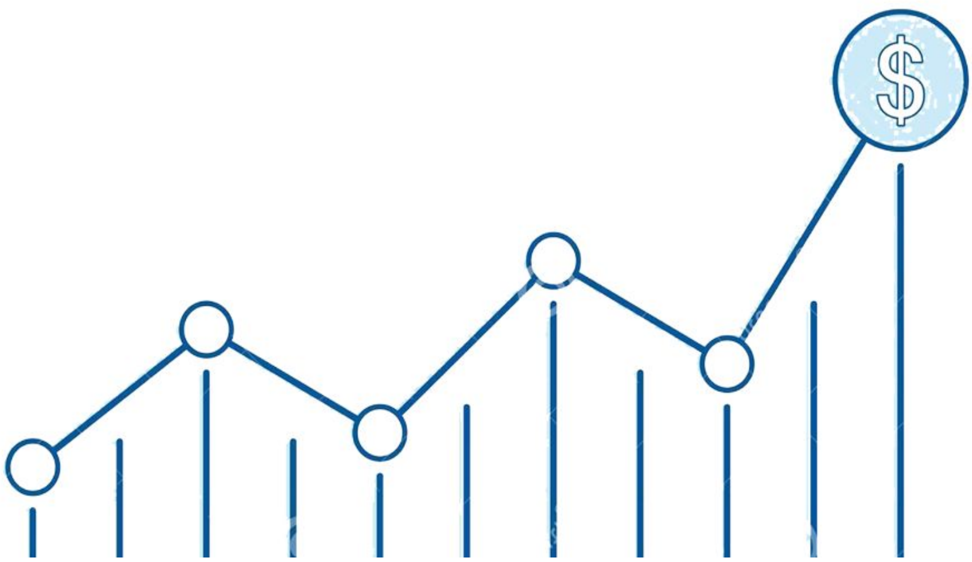


WHAT'S ON-CHAIN THIS WEEK?

Bitcoin Mining Hits New All-Time High

While Bitcoin continues to trade at low 26,000 levels, Bitcoin's mining difficulty – a critical metric representing the challenge of validating a new block – has been surging, reaching a new peak of 55.62 trillion hashes (refer to Figure 1 below).

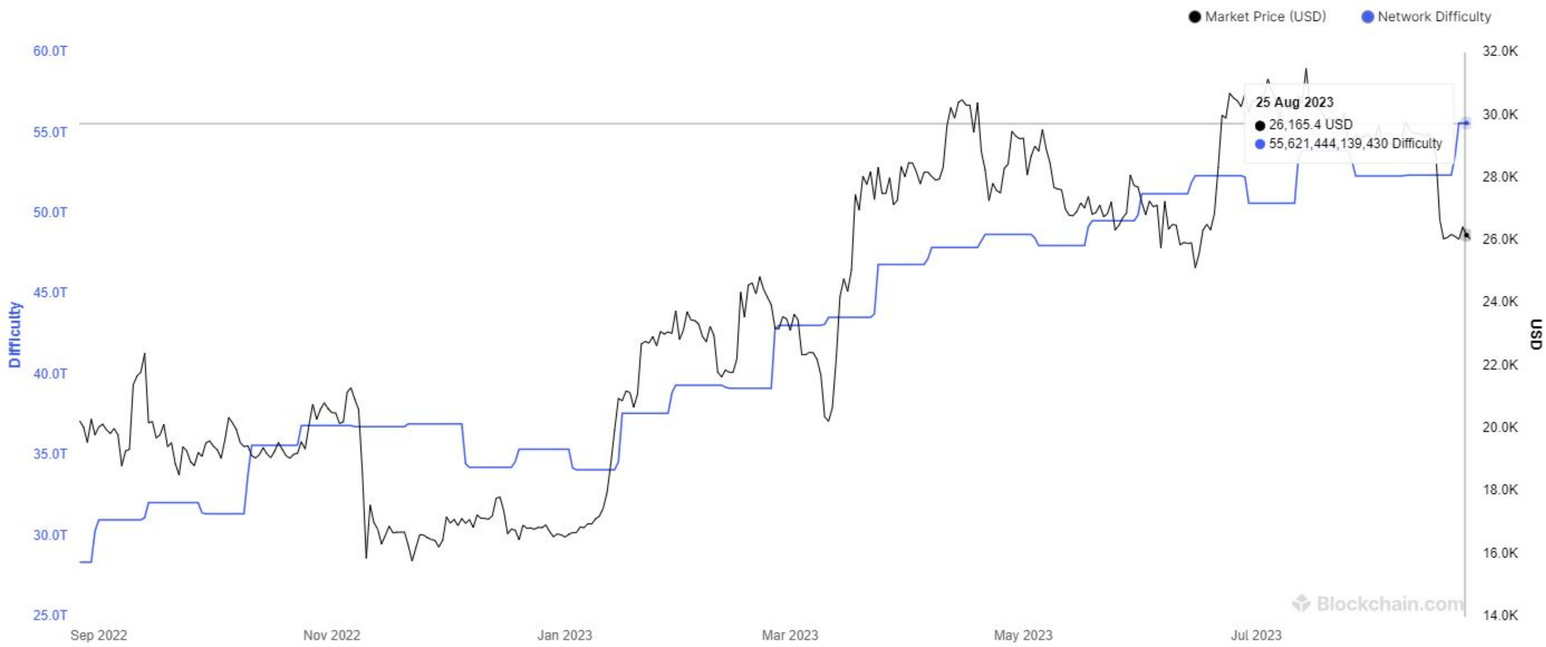


Figure 1. Bitcoin Network Difficulty vs. Price. (source: blockchain.com)

Typically, this rise in mining difficulty is viewed as a positive indicator of the leading cryptocurrency's potential resilience and future prospects. The difficulty is a measure of how difficult it is to mine a Bitcoin block, or in more technical terms, to find a hash below a given target. A high difficulty means that it will take more computing power to mine the same number of blocks, making the network more secure against attacks. The Bitcoin mining difficulty is automatically adjusted by the protocol once every two weeks, or once 2016 blocks have been mined. These block intervals are referred to as epochs.

Bitcoin's underlying protocol has been designed to ensure a consistent block generation time of approximately 10 minutes. If, during a specific epoch, heightened mining activity results in blocks being mined faster than this 10-minute benchmark, the network self-adjusts by increasing the mining difficulty at that epoch's conclusion.

Conversely, should the block generation time exceed the 10-minute target, the network will ease the mining difficulty to recalibrate.

The recent surge to an unprecedented mining difficulty underscores the network's robust and increasing computational power. This growth is propelled by an influx of miners, enticed by the prospect of earning Bitcoin's block rewards, currently set at 6.5 BTC, in addition to transaction fees.

Similarly, the hash rate which is a measure of the computing power of the network has also reached an all-time high (refer Figure 2 below) of approximately 414TH/s (terrahashes per second), prior to the difficulty increase. That’s a jump of more than 60 percent since the start of the year.

Figure 2. Bitcoin Total Hash Rate reached an all-time high on August 18th. (source: blockchain.com)

The hash rate is also a key security metric, more hashing power over a 24-hour period is a testament to the protocol’s resistance to attack. However, it is important to note that the hashing power is not an exact figure and is estimated from other metrics.

Bitcoin difficulty increasing can suggest that miners believe that the current price demonstrates that the current BTC price suggests a downward deviation from the true value. Miners could be confident that the price will eventually rebound as this can be seen as a mere downward deviation from its actual value. Hence investing more resources to mine Bitcoin at these prices could be highly profitable to them.

Miners are significant holders of the Bitcoin supply and, if they are confident that prices will rise, this could reduce supply from a key segment of the holder distribution. We discussed major updates in the Bitcoin supply distribution in detail in the following section as miners remain resilient while BTC is currently on course to end August more than 10 percent lower than the opening price of the month, its worst month of the year so far.

Bitcoin Supply Metrics Continue to Signal Inactivity

On August 17th, BTC fell by more than 10 percent in just two hours, which awakened Bitcoin out of a historically low volatility period. However, Long-term holders continue to accumulate, the percentage of Bitcoin's supply that hasn't moved in more than three years is at 40 percent, an all-time high for that metric. (refer Figure 3 below)

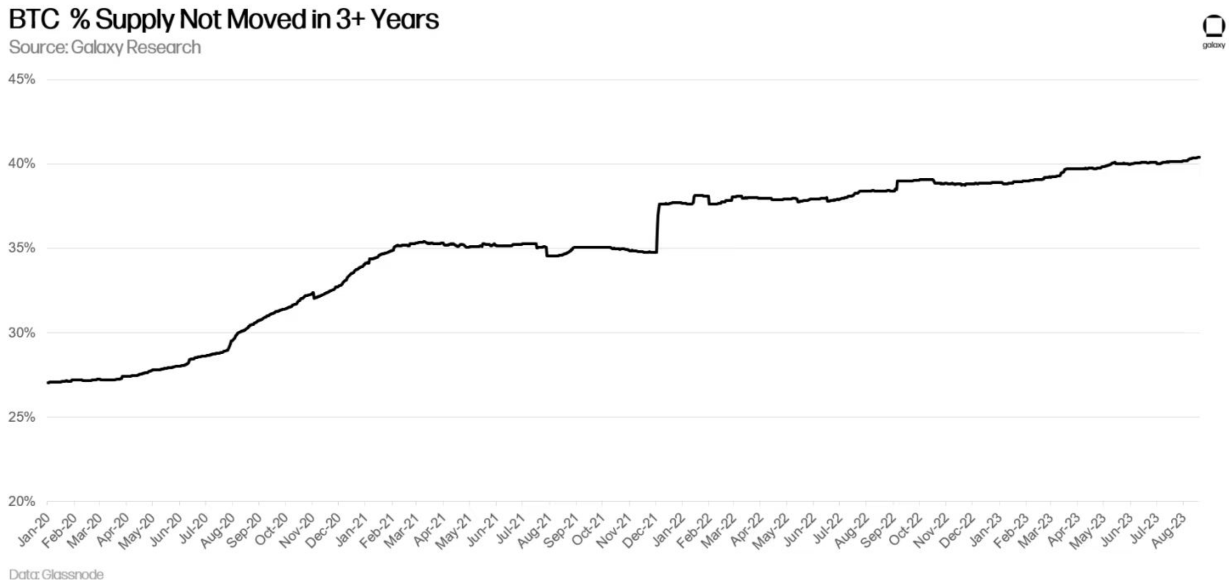


Figure 3. BTC supply not moved in more than three years. (source: galaxy.com)

Long-term holders continue to accumulate and hold for longer. We covered the open interest wipeout that occurred on August 17th and 18th in last week's edition of *Bitfinex Alpha.* Since then, more than $2 billion of futures positions have been closed. Yet, this has not triggered a major movement of coins

Coin Days Destroyed (CDD) is a metric that takes the number of coins that have moved on-chain at a particular time and multiples that value by the number of days since those coins were last moved:

Number of coins * days since coins last moved = coin days destroyed (CDD).

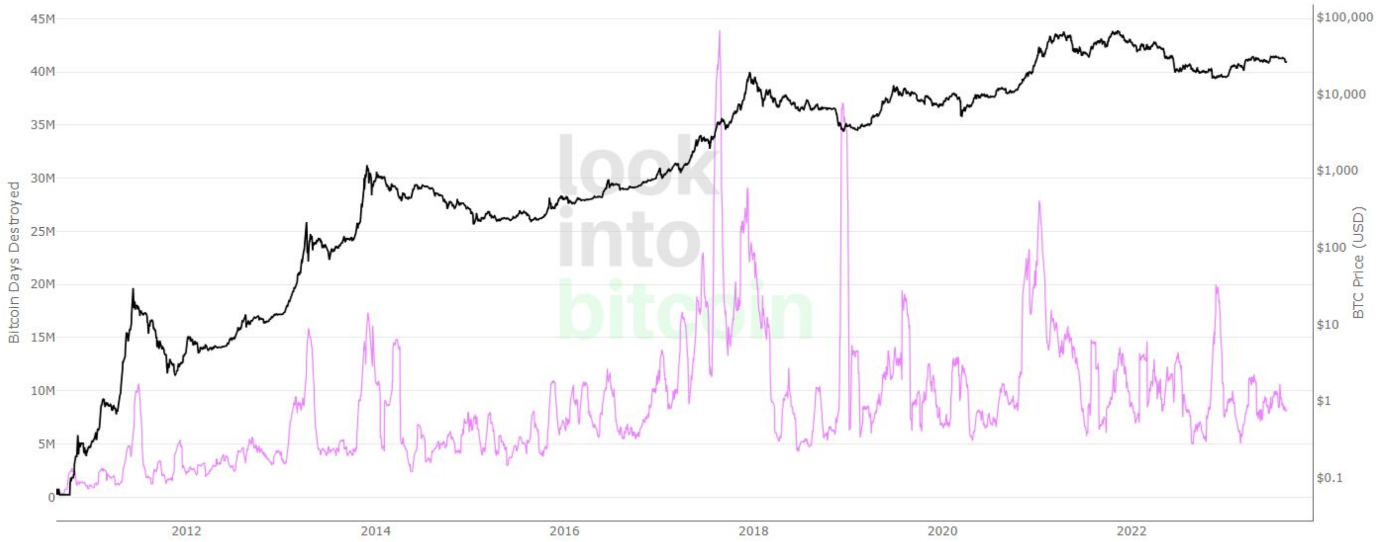


Figure 4. Coin Days Destroyed 30-day Moving Average. (source: lookintobitcoin.com)

The more coins moved, the larger the value. However, following the recent deleveraging, the CDD has not observed a pronounced spike, suggesting that long-standing digital coins have largely remained dormant on-chain. In the figure above, we have used to 30-day moving average instead of the raw CDD data. This is because the raw metric, when charted, can be erratic and noisy, and a moving average shows a smoothened representation of the data which is easy to spot. This underscores a prevailing sentiment among long-term holders who appear to be retaining their positions, abstaining from transacting or liquidating their age-old holdings.

However, looking at smaller time frame supply dynamics is often fruitful as they normally provide pre-crash signals. Even though very high timeframe (three years or more) holders are continuing to accumulate BTC, the one-year inactive supply metric indicates that there is more bearish sentiment and our analysis indicated that movements on this timeframe preceded the drop in price. This metric, representing the amount of BTC that has not changed hands for at least a year, oscillates through periods of growth and contraction; and at times appears to mirror Bitcoin's price trajectory.

For instance, a precipitous decline in the one-year inactive supply from roughly 13,450,000 to 13,320,000 (refer Figure below) heralded a stark 12 percent descent in BTC on August 17th within a mere 24-hour window.

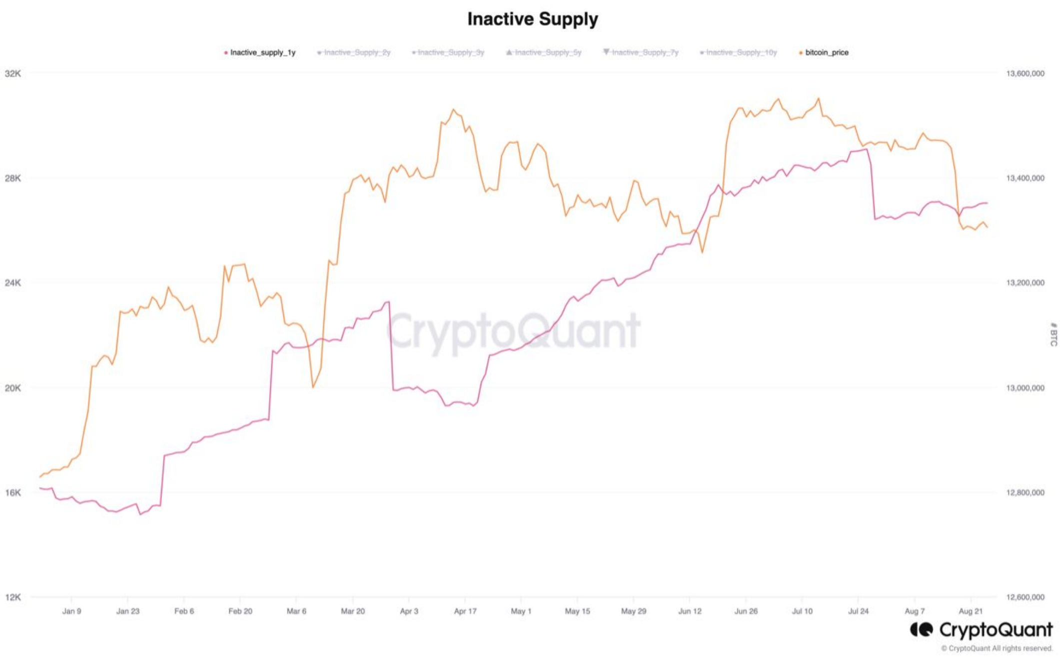


Figure 5. Bitcoin one-year inactive supply vs. price. (source: CryptoQuant)

Delving deeper into this relationship, we find a correlation coefficient of about 0.730 between BTC and its one-year inactive supply. This robust positive correlation underscores that as more Bitcoin supply goes dormant, its market price has a tendency to ascend, and conversely, when the inactive stash contracts, prices may falter.

So, what might be driving this pattern? One hypothesis is that as more investors opt to hold onto their Bitcoin, rather than trade it, a scarcity effect could be instigated in the market, hence the price rises (as can be seen in the chart above, from min-May to late July this year).

However, the rapid drop in inactive supply leading up to the sharp price decrease highlights the potential of this metric as a forward-looking barometer for Bitcoin's market mood swings.

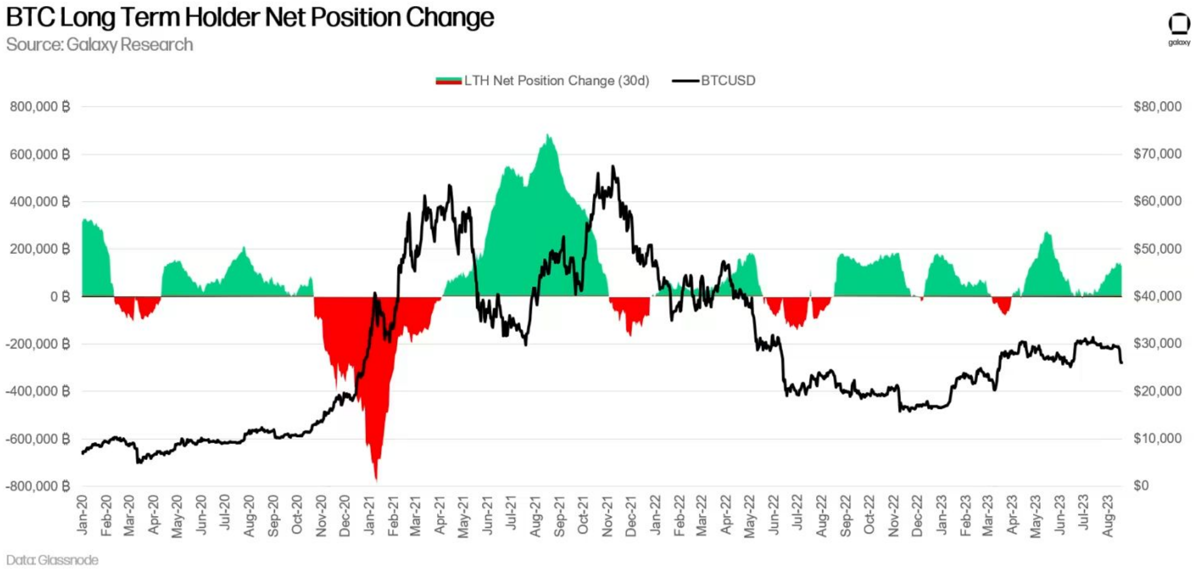


Figure 6. Long-Term Holder Net Position Change. (source: galaxy.com)

Drawing from the figure above, it's evident that long-term Bitcoin holders have been on a net accumulation spree. Specifically, on a rolling 30-day basis, this trend of accumulating has been consistently observed since March 2023. The behaviour insinuates a broader sentiment of optimism and potential resilience against market volatilities.

In conclusion, while holders from as far back as three years ago or more who have held their Bitcoin throughout the bull market peak and bear market remain relatively resilient with their stack, “newer” long-term holders who acquired their spot positions over the bear market are now “unsettled”, but not in a state on panic. These buyers had been holding throughout the price decline from $30,000 to sub $25,000 in April but finally ended up exiting their positions when the price broke down from the $29,000 range low in July with no upward momentum since. The metric has been increasing now, indicating that their potential selling was a one-time event of realising some profit and not a change in their sentiment to bearish.

Volatility Remains Low as Market Recovery Could Take More Time

Bitcoin volatility metrics remain low by historical standards. Historical options volatility for the asset has plateaued post the August 17th drop while implied volatility has continued to decrease since then. (refer Figure 7 below)

Figure 7. Historical and Implied Volatility For Bitcoin. (source: Deribit Metrics)

When implied volatility is higher than historical volatility, it is a sign that options market participants expect volatility in the future to increase at a rate faster than it has recently. This was the case on August 17th, but as the market settles down in a new ranging environment between $25,500 and $26,800 (refer Figure 8 below), the outlook of market participants has also begun to settle down and currently there is a negligible 1.3 percent delta between the two volatility metrics indicating that the market will stay in an overall low volatility environment for the time being. Various other metrics as covered below also suggest the same.

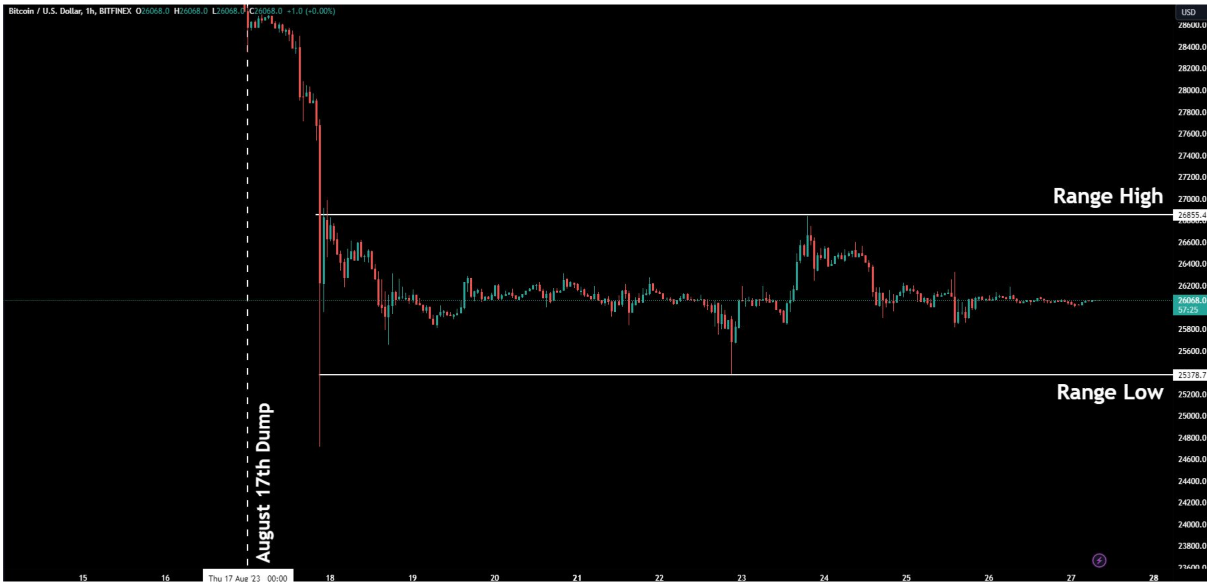


Figure 8. BTC/USDT Hourly chart. (source: Bitfinex)

Looking at spot trading volumes on exchanges denominated in BTC, the recent low volatility environment has sent monthly BTC trading volume to its lowest level in at least 2.5 years. Indeed, since the elevated volumes in March following the collapse of Silicon Valley Bank, Bitcoin exchange volume has consistently declined month-over-month (with a minor exception of June when BlackRock announced its ETF filing).

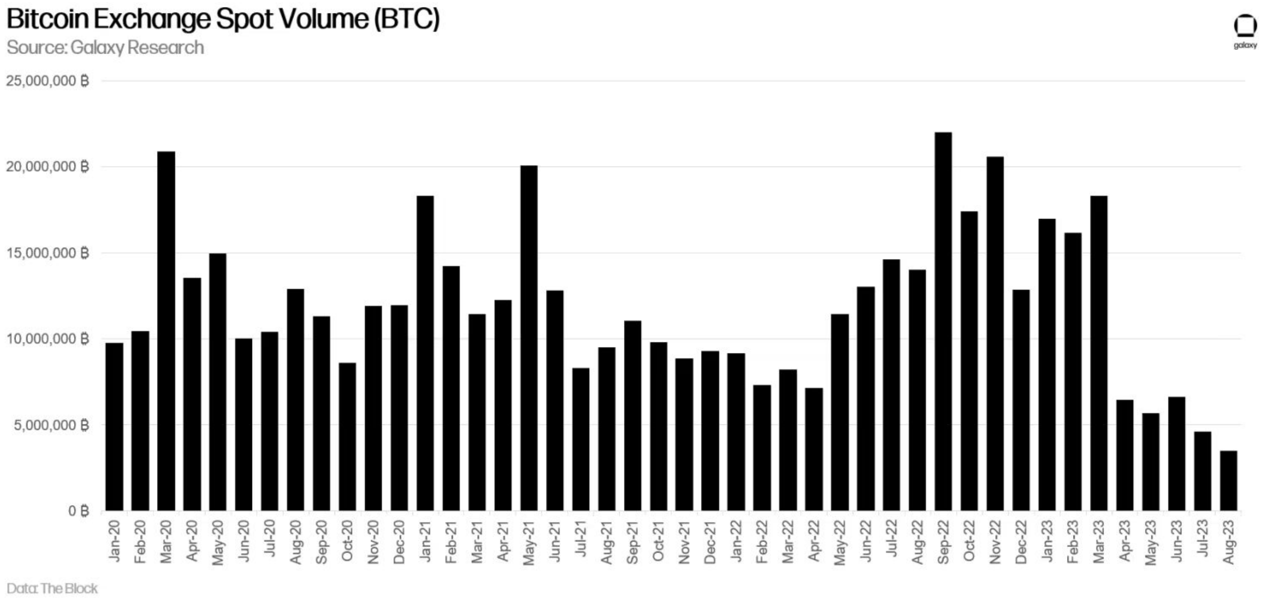


Figure 9. Bitcoin-denominated monthly spot trading volume. (source: Galaxy Research)

A low-volume environment, especially one during which a 10 percent drop in a two-hour span took place, hints at a peculiar situation in which prospects of volatility coming back remain delayed apart from isolated events.

As we delve into the intricacies of market volatility, we argue that the BTC Velocity metric is emerging as a volatility preceding barometer. Its ability to illustrate the activity of BTC in circulation within the network, we find it acts as a bellwether for market dynamism.

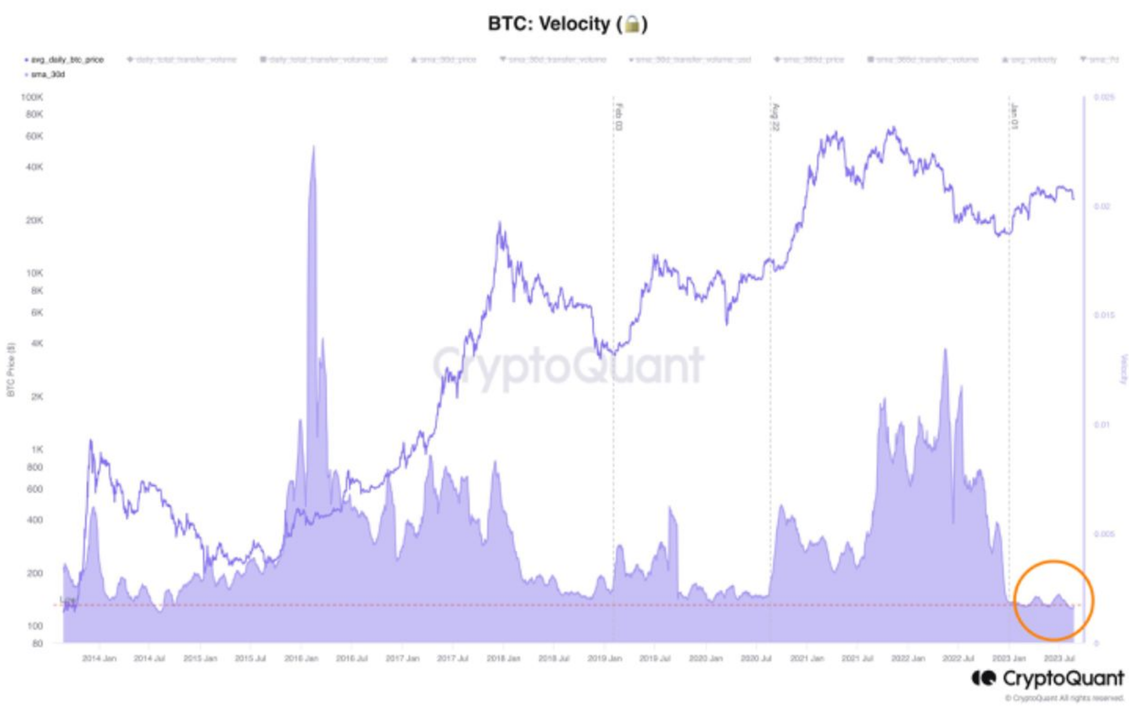


Figure 10. BTC Velocity. (source: CryptoQuant)

During the beginning of the year, BTC Velocity plummeted to unprecedented lows (refer circle in Figure above). This downtrend not only highlighted a period of reduced volatility but also pointed to a tepid participation rate among market players, suggesting a period of watchful hesitancy or consolidation in the crypto arena.

Following the decline in BTC Velocity, the supply of short-term holders (STH), which are entities on-chain with spot positions with a holding period of less than six months, decreased by 400,000 BTC (refer Figure 11 below), as many of them found themselves "underwater".

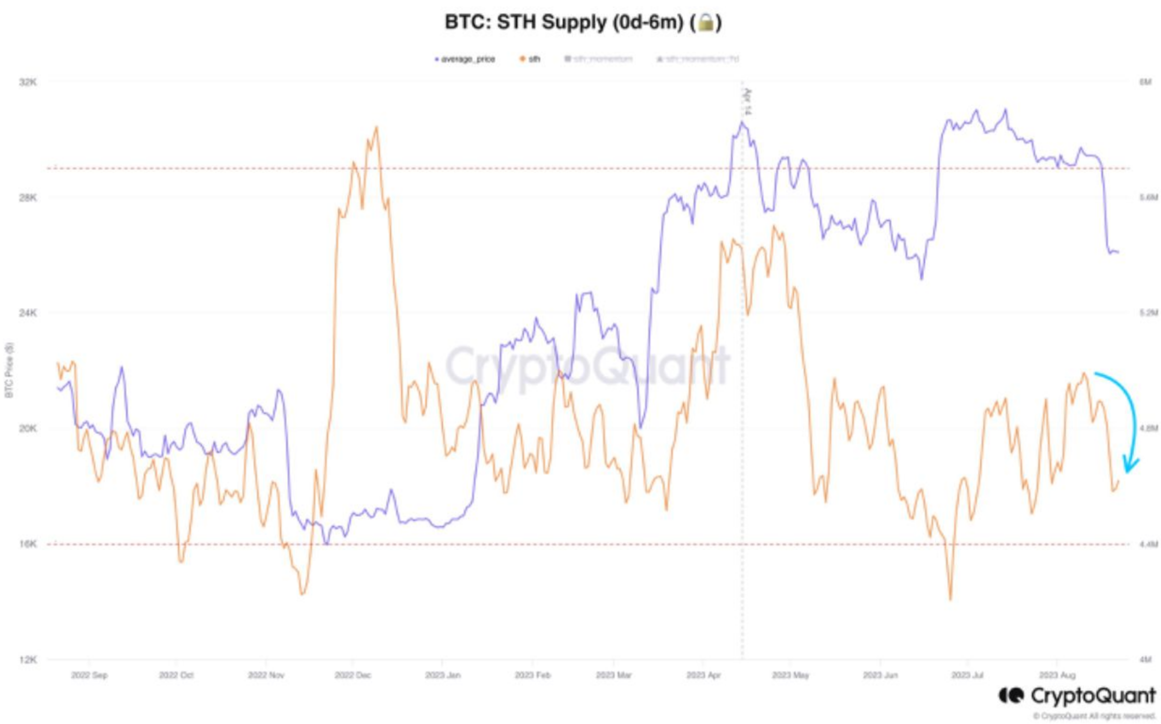


Figure 11. BTC STH Supply vs. Price. (source: CryptoQuant)

Factoring in these elements, and given that the short-term holder (STH) cohort has historically been the chief catalyst of volatility in the BTC market, a rebound from the current market downturn to retrace the entire move up since the Blackrock ETF proposal announcement will likely be more protracted than typical recoveries. The timeline for stabilisation remains indeterminate, and it would be prudent for investors to continue to expect more downside or sideways movement within the confines of our current range in a low volatility environment unless there is a significant catalyst for upside price movement.

CORRELATED MARKET

US Stock Market Continues To Pullback

The S&P 500 index continues to be in a downtrend on the lower time frames. The index recorded its first green weekly candle since the week of July 24th, closing last week with a 0.82 percent increase. (refer Figure 12 below)

Figure 12. S&P 500 Index Hourly Chart. (source: SP)

More important than the weekly closing statistic, however, was the intra-week action. The 4450 level for the S&P 500 is a crucial lower time frame level which was rejected on August 24th after breaking down from the same level in the week before.

The natural levels to look for reversals next are as indicated on the chart at 4300 and 4200 respectively.

The 4200 level is where the price found support before crashing to 2022 bearish downturn lows, it is also the level which capped the upside for the index in January 2023 before the price broke up ferociously recording six straight weekly green candles for the first time since August 2020. Meanwhile, the 4300 level is where the price had a major rejection before forming 2022 bear market lows. These former resistances are the crucial support levels for the following weeks and months, and will decide whether the current downturn is a usual correction at the beginning stages of a bull market rally or the beginning of a deeper bearish trend.

There is also speculation that the rally from the beginning of the year is a bear market rally which has now neared completion. This comes after a period of the most intense inflation ever seen in the US and the longest and most relentless interest rate hiking cycle by the US Federal Reserve. Typically, this would be reminiscent of past bear market bottoms but Fed chair Jerome Powell's recent statement at Jackson Hole as covered in the General Market Update section has sent markets lower and more rate hike expectations soaring.

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%	78.5%	21.5%	0.0%
11/1/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	47.9%	43.7%	8.4%
12/13/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.1%	47.6%	41.4%	7.8%
1/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%	9.6%	46.7%	36.6%	6.7%
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	3.4%	21.5%	43.5%	27.0%	4.6%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.1%	1.5%	10.9%	30.6%	36.6%	17.7%	2.7%
6/12/2024	0.0%	0.0%	0.0%	0.0%	0.9%	7.3%	23.2%	34.4%	24.8%	8.3%	1.0%
7/31/2024	0.0%	0.0%	0.0%	0.6%	5.2%	17.8%	30.6%	28.1%	13.9%	3.5%	0.3%
9/18/2024	0.0%	0.0%	0.5%	4.1%	14.9%	27.6%	28.6%	17.2%	5.9%	1.1%	0.1%
11/7/2024	0.0%	0.3%	2.9%	11.2%	23.2%	28.3%	21.1%	9.8%	2.7%	0.4%	0.0%
12/18/2024	0.2%	2.1%	8.5%	19.3%	26.6%	23.4%	13.5%	5.0%	1.2%	0.2%	0.0%

Figure 13. FOMC Meeting Interest Rate Probabilities. (source: FedMarketWatch)

While the S&P 500 index dropped more than one percent before rebounding after Powell's statements, the probability of a 25 basis point rate increase in September has surged, now standing at 21.5 percent. Additionally, the likelihood of another rate hike before 2023 ends has reached a two-month high at 52.1 percent (data as of August 25th).

Rate reductions, meanwhile, aren't anticipated until June 2024. The Federal Reserve remains steadfast in its commitment to achieving a two percent inflation target, underscoring its readiness to employ all necessary tools. The fiscal narrative, marked by its twists and turns, persists. However, while it is important to analyse all possibilities and market movements, it is important to remember that the base case remains a long pause by the Fed while the market finds support at the mentioned levels before moving higher.

Chinese Stocks Collapse

The Chinese stock market is now enduring the repercussions of the Evergrande Chapter 15 bankruptcy declaration, with MSCI China index currently close to its lowest level against US stock indices since 2001. (refer Figure 14 below)

Figure 14. MSCI China Index vs S&P 500 Index Weekly Chart. (source: Bloomberg)

Chinese equities are lagging behind their U.S. counterparts at a rate not seen since 2001, signaling distress in the world's second-largest economy.

Further compounding the bleak picture, China's High Yield (HY) real estate index has plummeted an astounding 82 percent in just over two years. It is calculated that there are enough homes empty right now to fulfil demand for the next 30 years.

China's central bank took the decision to cut rates to combat this sluggish activity.

The turmoil in China however is still not being reflected in international markets however. We believe however that the downturn in the HY real estate market and the loosening of monetary policy will have global implications' and while the impact is not apparent yet, it is certain to spill eventually into international markets.

Figure 15. China HY real estate total return index. (source: Bloomberg)

GENERAL MARKET UPDATE

US Economic Growth Shows Signs of Slowdown

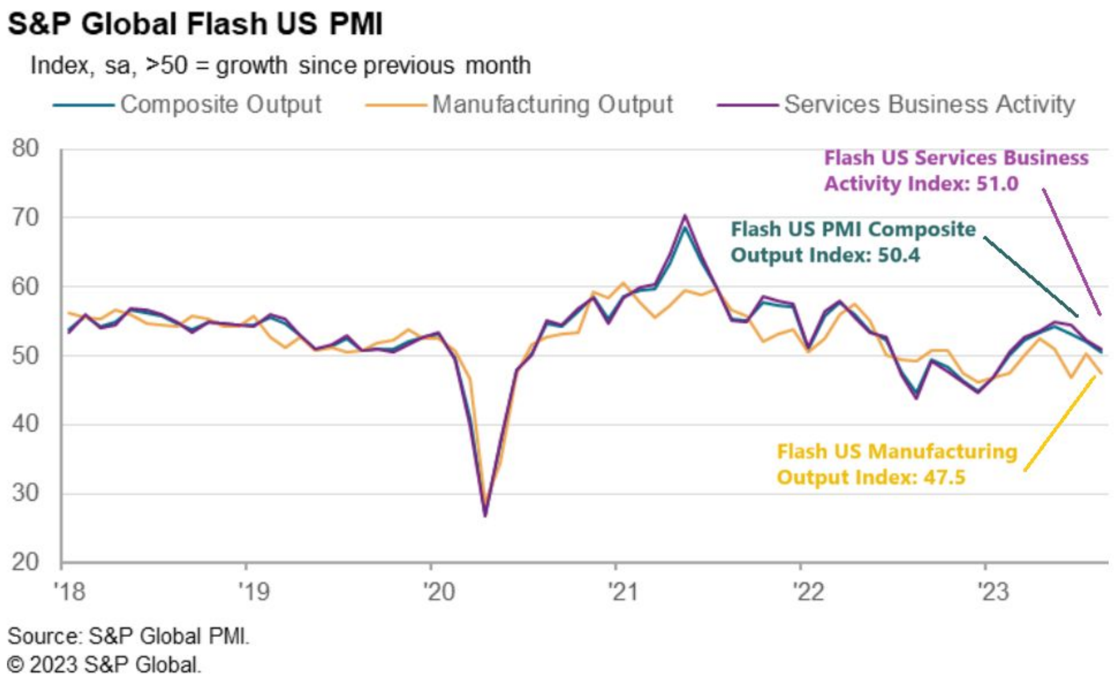


Figure 16. S&P Global Flash US PMI (Source: S&P GLobal PMI)

Purchasing Managers Index (PMI) data, produced by S&P Global indicates that US economic activity is edging towards a standstill, with growth hitting its lowest point since February, according to a report released last Wednesday, August 23rd. The service sector, a significant contributor to the economy, experienced a contraction in demand for new business, contributing to the sluggish growth observed in August.

The flash US Composite PMI, a measure that tracks both the manufacturing and service sectors, dropped from 52 in July to 50.4 in August, marking the largest decline since November 2022 (refer to Figure 16.) This reading, although still indicating growth for the seventh consecutive month, barely exceeded the 50-point threshold that separates expansion from contraction. The decline in demand impacted both manufactured goods and services.

The service sector, which had been a driving force behind growth in the second quarter, saw a slowdown to to 51.0 in August from 52.3 in July, the lowest since February this year. Simultaneously, the Manufacturing PMI slid further into contraction territory, falling to 47.0 in August from 49 in July, marking the fourth consecutive month of contraction. The consensus forecast for August was 52.2 in the service sector and 49.3 in the manufacturing sector - both higher than the actual figures. are

While other previously released economic data like retail sales and Industrial production are indicative of a strong economy, the latest S&P Survey paints a different picture of fading acceleration in the service sector which may pose a threat to economic growth in the third quarter.

Consumer demand played a substantial role in the decline, as new business and orders contracted across various sectors. Notably, new businesses in the service sector dropped below 50 for the first time in six months, sliding from 51.0 to 49.2. Businesses in both the manufacturing and service sectors moderated price increases to attract customers. They also curtailed hiring in the face of rising input costs.

Despite the slow down, the Federal Reserve might perceive this cooling of activity as a positive sign, given its desire to counteract inflation. This perspective aligns with the principal that weakening demand can keep inflation in check.

The US economy has managed to avoid a recession thus far, but it is the service sector that has been the primary driver of growth. Any suggestions that its momentum might be waning due to weakening demand, is dangerous for economic growth, albeit might have a positive impact on inflation. This delicate balance between demand, pricing power, and inflation remains a critical aspect to monitor in the coming months.

Housing Market Sees Contrasting Trends: Existing Home Sales Drop, New Home Sales Rise

The US housing market shows a divided landscape as existing home sales declined due to mortgage rate challenges and limited inventory, leading to rising prices. Meanwhile, new home sales surge, driven by an acute shortage of existing homes, lower prices, and increased demand for new construction.

Existing Home Sales Experience Dip as Inventory Shortage Persists

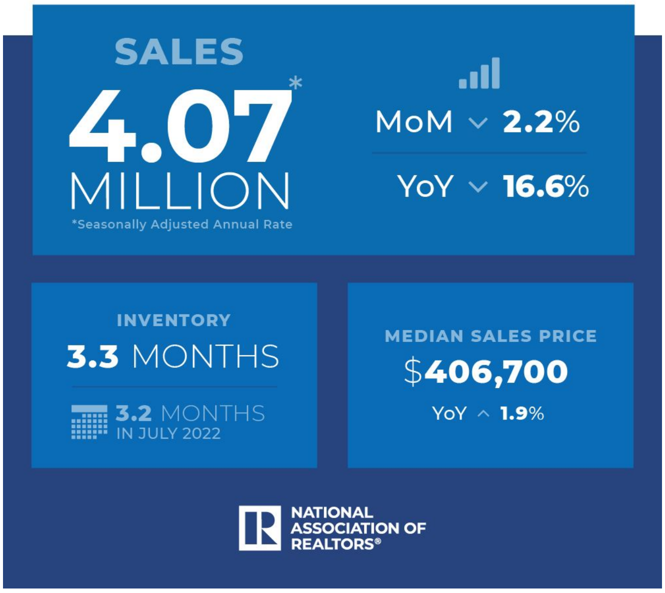


Figure 17. Snapshot of July Existing Home Sales (Source: National Association of Realtors)

Existing home sales in the United States are down to 4.07 million in July from 4.16 million in June, hitting a six-month low, according to a report from the National Association of Realtors (NAR), last Tuesday, August 22nd. The decline of 2.2 percent from the previous month was attributed to homeowners with favourable mortgage rates holding back from selling their properties, given the higher costs associated with new mortgages for purchasing another home. This scenario has led to limited inventory, which, in turn, has driven up prices on a year-over-year basis for the first time since January.

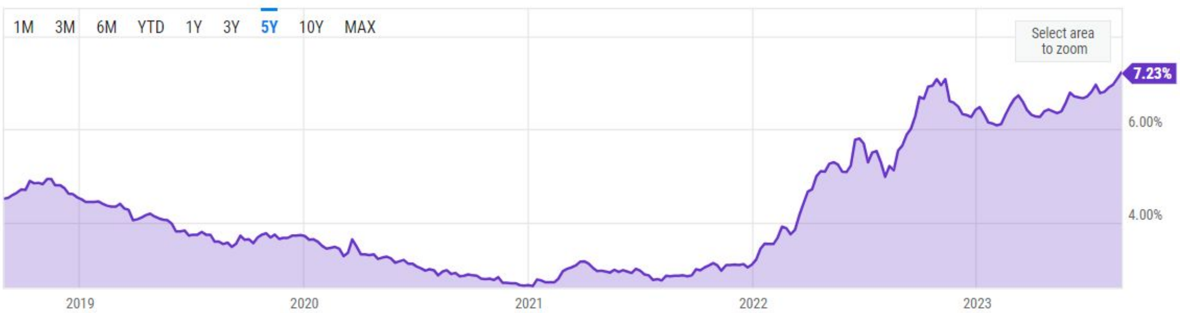


Figure 18. 30-Year Mortgage Rate for Week of August 24 2023

Although sales saw a drop across the Northeast, Midwest and South, the West saw a rise. The persistent shortage of available properties for sale is expected to dampen any potential market rebound, especially as the average rate for a 30-year fixed-rate mortgage has surged to unprecedented levels, surpassing 7 percent (refer to FIgure 18)

Figure 19. US Existing-Home sales

There were approximately 1.11 million existing homes listed on the market in July, indicating a slight increase from the previous month but a substantial 14.6 percent decrease from the same period last year. With the current sales pace, it would take around 3.3 months to exhaust the existing home inventory, slightly up from 3.2 months in the previous year.

The current sales activity in existing homes is influenced primarily by high mortgage rates and limited inventory, both unfavourable for buyers. Moreover, the scarcity of existing homes in the market has bolstered new home construction and sales. NAR's forecast for 2023 predicts a 12.9 percent decrease in total resales from 2022, while new home sales are anticipated to increase by 12.3 percent.

New Home Sales Surge Amid Existing Inventory Shortage

As the scarcity of existing homes persists, buyers are increasingly turning to new units, resulting in a 4.4 percent surge in new home sales in July, according to data from the US Census Bureau. This increase brought the seasonally adjusted annual rate of new home sales to 714,000 units, up from a revised June figure of 684,000 units.

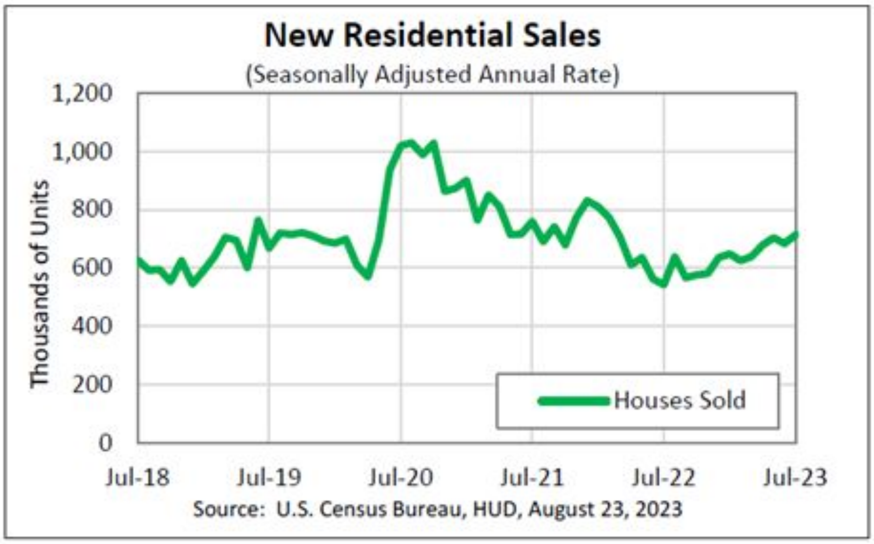


Figure 20. New Residential Sales (Source: US Census Bureau)

These new home sales are viewed as a leading indicator of the housing market due to their connection to the signing of contracts. Year-on-year (YoY), July saw an impressive 31.5 percent increase in sales, marking the most significant annual rise since April 2021.

The median price for a new home in July was $436,700, an 8.7 percent drop from the previous year. This price decrease, coupled with the acute shortage of existing homes, has resulted in heightened demand for new construction.

However, the broader housing market landscape remains complex. Despite the strength of new home sales, the combined rate of both new and existing home sales is at its lowest since January. The persistent pressure of high mortgage rates and a limited supply of homes could impact the overall stability of the housing market. Moreover, while home prices initially reacted strongly to the Fed's interest rate hikes, they have since stabilised, contributing significantly to overall inflation.

Federal Reserve Chair Powell Addresses Uncertainty in Monetary Policy at Jackson Hole Symposium

At the annual economic symposium hosted by the Federal Reserve Bank of Kansas City in Jackson Hole, Wyoming, last Friday, August 25th, Federal Reserve Chair Jerome Powell discussed the central bank's stance on interest rates and its commitment to tackling inflation. Powell's remarks come against a backdrop of mixed and often conflicting economic data.

Attaining Economic Growth:

Powell began by addressing the current state of economic growth, noting that the GDP growth rate has exceeded expectations this year, with consumer spending remaining robust. He highlighted signs of recovery in the housing sector after a period of decline. Powell expressed concern that above-trend growth could jeopardise progress in curbing inflation and might necessitate further tightening of monetary policy.

Labour Market Dynamics:

The Federal Reserve Chair emphasised the ongoing rebalancing of the labour market, stating that while progress has been made, it remains incomplete. Powell stressed the significance of labour market conditions in achieving the inflation target. He indicated that signs of the labour market's tightness either easing or strengthening could lead to corresponding adjustments in monetary policy.

The Challenge of Maintaining a Neutral Rate:

Powell discussed the challenge of identifying a neutral policy rate that neither stimulates nor hinders economic growth. He recognized the current stance of policy as restrictive and acknowledged the uncertainty surrounding the precise level of monetary policy restraint. Powell explained that calibrating policy rates against the estimated neutral rate provides insights into the pressure exerted on the economy.

Persistent Inflation Concerns:

In his speech, Powell reiterated the Federal Reserve's commitment to bringing inflation back to the 2 percent target. He emphasised that achieving the target demanded a sustained effort. Powell expressed the central bank's readiness to raise rates further if necessary. He asserted that policy would remain restrictive until there is confidence in a sustainable decline of inflation towards the target.

Economic Growth Challenges:

Powell acknowledged factors that might impede economic growth, including rising long-term bond yields and stricter lending standards. He indicated that these elements could contribute to tighter financial conditions, potentially resulting in a slowdown of economic activity. Powell pointed out that the effects of the Federal Reserve's past rapid tightening might not have fully manifested in the economy yet.

Balancing Act in Monetary Policy:

Addressing the complexity of monetary policy, Powell recognized the challenge of striking a balance between the risk of tightening policy excessively and the risk of being too lenient. He referred to the economic outlook as "cloudy," underscoring the importance of carefully analysing incoming data before making any policy decisions.

As Federal Reserve Chair Jerome Powell addressed the Jackson Hole symposium, his speech shed light on the central bank's approach to addressing economic challenges. With a focus on economic growth, labour market dynamics, inflation concerns, and the intricacies of monetary policy, Powell's remarks reflect the ongoing efforts to steer the economy toward stability while navigating a complex and uncertain landscape. As the year progresses, with three policy meetings remaining, the Federal Reserve's decisions continue to be closely monitored within the context of an uncertain economic environment.

Mixed Signals for US Economy: Business Spending Shows Modest Growth While Jobless Claims Remain Low

In a mixed start to the third quarter, business spending on equipment experienced only a slight gain in July, raising concerns about the investment component of the economy. However, new data on jobless claims surprised again by dropping to the lowest level in August, indicating a tight labour market.

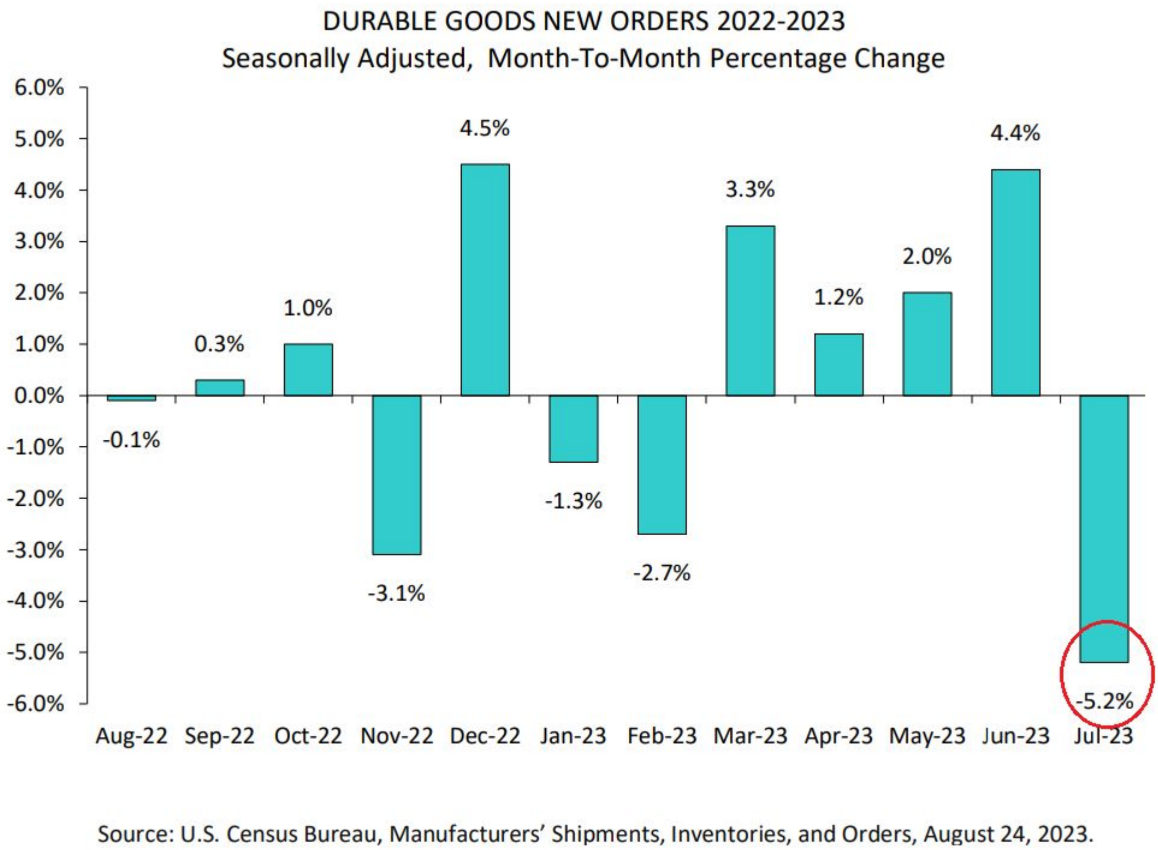


Figure 21. Durable Goods New Orders 2022-2023 (Source: US Census Bureau)

The US Census Bureau's recent report revealed that orders for key capital goods, excluding defence and aircraft, which measure future business spending, increased by 0.1 percent last month. This followed a revision in June from a 0.1 percent gain to a 0.4 percent decline, according to the bureau's report released last Thursday, August 24.

The numbers took a substantial hit when considering total orders for durable goods, including defence and aircraft, falling by 5.2 percent in July—well beyond the market's anticipated 4.0 percent decline (refer to Figure 21) Particularly alarming was the plummeting of aircraft orders by 43.6 percent, starkly contrasting the surges seen in May and June. Although aircraft orders are often volatile, this decline in a crucial manufacturing component could significantly impact overall investment growth in the third quarter.

We expect a challenging path for business spending due to high interest rates. While sectors beyond artificial intelligence investment struggle to replicate past spending patterns, a drop in the investment component could trigger a potential recession. As a result, close attention will be paid to the order and shipment data of durable goods in the coming months

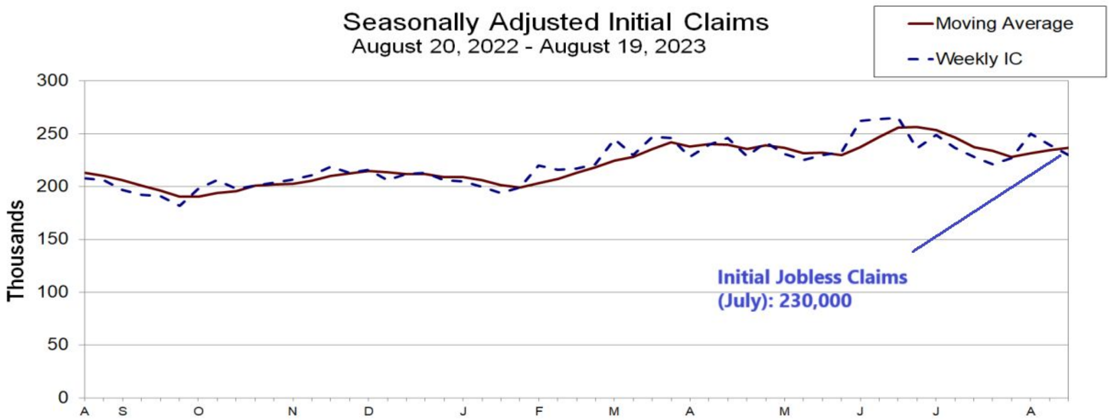


Figure 22. Seasonally Adjusted Initial Claims (Aug 20 2023- August 19 2023)

On a more positive note, jobless claims continued their downward trajectory, according to the US Labor Department report released last Thursday. Jobless claims refer to the number of individuals who have filed for unemployment benefits due to job loss or lack of work. The data showed that new filings for unemployment benefits decreased by 4.2 percent to 230,000 last week. This trend has maintained the four-week moving average within the range of 230,000 to 240,000. The consensus forecast of jobless claims in July is 240,000.

With this unexpected strength in the labour market, there is growing optimism that the economy might evade a recession. Economists have revisited their GDP growth projections for the rest of the year and into 2024 due to the interplay between cooling consumer demand and ongoing labour market tightness.

Consumer Sentiment Dips Amid Economic Uncertainty, Inflation Concerns Rise

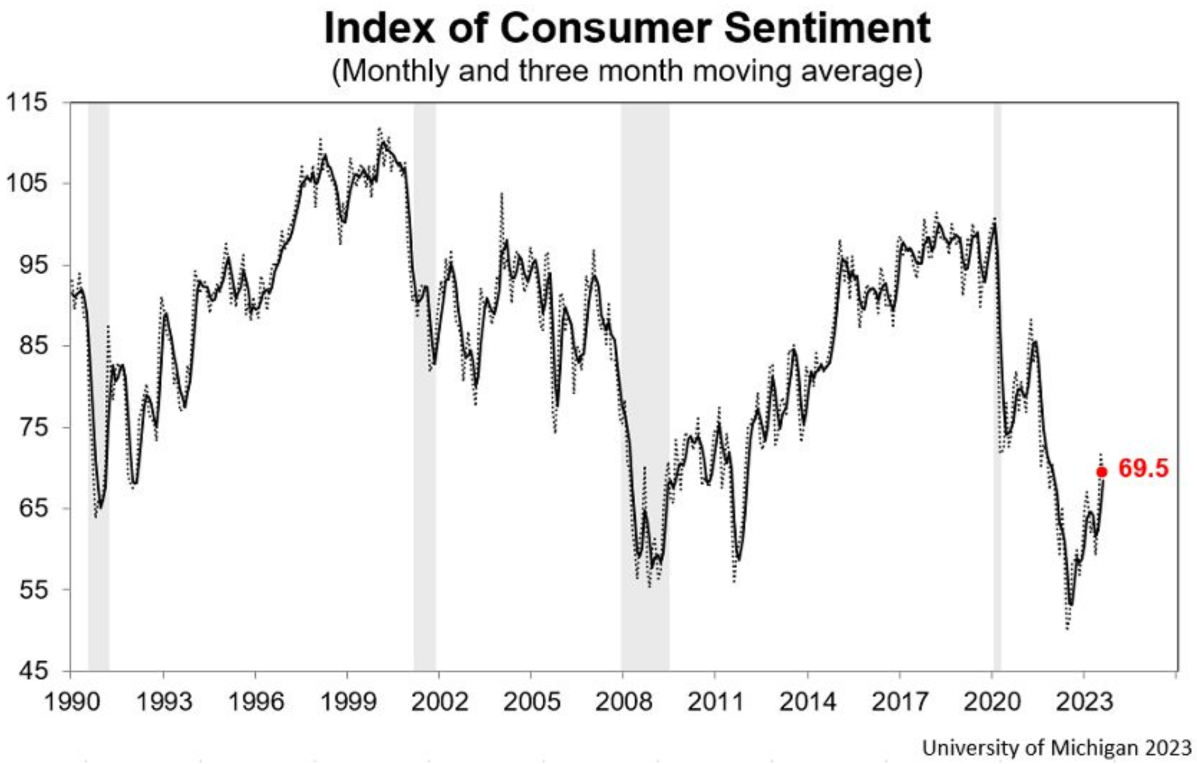


Figure 23. Index of Consumer Sentiment (Source: University of Michigan)

Consumer sentiment in the United States experienced a slight decline during August, as according to the University of Michigan survey released last Friday, August 25th. The survey indicated growing concerns about both short and long-term economic prospects. The University of Michigan's final sentiment index reading for August came in at 69.5, down from July's 71.6 and below the preliminary reading of 71.2 earlier in the month (refer to Figure 23). While the consensus forecast was a more stable sentiment at 71.2, the final figures pointed to increased uncertainty among consumers.

Despite the dip, August marked the second-highest reading since December 2021, edging closer to the historical average of 86. This upward trend was attributed to resilient labour market conditions and robust consumer spending, which provided a relatively positive economic outlook.

However, the recent optimism seems to be showing signs of fragility. There is growing apprehension among Americans that the rapid improvement in inflation seen recently might be slowing down. The overall consumer expectation index experienced a decline of 2.8 percentage points between July and August, representing the most significant drop since May this year.

Regarding inflation expectations, the survey indicated that the one-year inflation forecast had risen to 3.5 percent in August from July's 3.4 percent. Similarly, the five-year inflation outlook stood at 3.0 percent, consistent for the third consecutive month but still within the range of 2.9 to 3.1 percent observed for most of the past 25 months. We can expect a further decline in sentiment if important factors like the labour market and economic growth do not favour the consumers' outlook towards the economy.

A deeper analysis of the data reveals that the index measuring consumer perceptions about the current state of the economy decreased to 75.7 in late August, down from the initial 77.4. Additionally, the measure that gauges expectations for the next six months dipped to 65.5 from the initial 67.3 seen at the beginning of August and 68.3 in July.

The survey suggests that there is a growing apprehension about the economy's future trajectory. While recent positive trends are fueled by a strong consumer spending and robust labour market, there are still concerns over inflation which triggered uncertainty among consumers.

NEWS FROM THE CRYPTO-SPHERE

Chinese Official Receives Life Sentence for Multi-Billion Yuan Bitcoin Mining Scheme and Corruption Charges

FIgure 24. Chinese Official Receives Life Sentence for Multi-Billion Yuan Bitcoin Mining Scheme and Corruption Charges

- **Chinese official Xiao Yi receives life sentence for a $329 million Bitcoin mining scandal.**
- **Charges include bribery, favoring Jiumu Group in Fuzhou, and distorting electricity figures, with Jiumu consuming 10% of Fuzhou's power.**

A high-ranking Chinese government official, Xiao Yi, has been handed a life sentence for his involvement in illicit business activities linked to a colossal 2.4 billion Chinese yuan (equivalent to $329 million) Bitcoin mining venture. The verdict was delivered by the Intermediate People's Court of Hangzhou City on August 22nd, and it encompasses charges of both corruption and abuse of power.

Xiao Yi, a former member of the Jiangxi Provincial Political Consultative Conference Party Group and vice chairman, was found guilty of corruption spanning over a 13-year period, from 2008 to 2021, during which he was embroiled in non-cryptocurrency-related bribery. Additionally, he faced abuse of power charges dated between 2017 and 2021. This was related to his provision of financial and electricity subsidies to Jiumu Group Genesis Technology, a company situated in Fuzhou. Notably, Jiumu Group once managed a fleet of over 160,000 Bitcoin mining machines.

Prosecutors presented evidence that Yi had taken steps to conceal the extensive mining operation by orchestrating the fabrication of statistical reports and manipulating electricity consumption figures. Over the course of three years, Jiumu Group's electricity usage accounted for an astonishing 10 percent of Fuzhou's overall electricity consumption. The ruling magistrate of the Hangzhou People's Court remarked, "Yi pleaded guilty and repented, actively returned the stolen funds, and all the bribes and their profits have been seized."

China currently upholds a stringent ban on all forms of cryptocurrency transactions, exchanges, and fiat-to-crypto activities, although outright ownership of cryptocurrencies is still permitted.

Former New Jersey Corrections Officer Arrested for Alleged Crypto Investment Scheme Targeting First Responders

Figure 25. Former New Jersey Corrections Officer Arrested for Alleged Crypto Investment Scheme Targeting First Responders

- **Former New Jersey corrections officer arrested for allegedly defrauding law enforcement and first responders through a digital token investment scheme**
- **The NJ officer is accused of misleading investors about the Blazar Token, positioning it as a "crypto pension," and raising over $620,000 from more than 200 individuals**

A former corrections officer from New Jersey has been apprehended on charges of orchestrating a fraudulent digital token scheme specifically targeting law enforcement and first responders. John DeSalvo, a 47-year-old resident of Marmora, New Jersey, stands accused of luring police officers, fire personnel, and emergency medical technicians (EMTs) into investing in his digital token, Blazar Token, under the guise of a "crypto pension."

According to a statement released by the New Jersey US attorney's office last Wednesday, August 22nd, DeSalvo went to great lengths to create and promote the Blazar Token, marketing it as an investment opportunity to bolster investors' pension plans. However, authorities allege that DeSalvo's intentions were far from noble. It is claimed that he presented false information to potential investors, suggesting that the token was either in the process of receiving approval from the US Securities and Exchange Commission (SEC) or had already secured such approval.

In May 2022, DeSalvo reportedly liquidated a significant portion of his personal Blazar tokens, resulting in a substantial decline in token value. This downturn ultimately resulted in a majority of investors suffering a complete loss of their invested funds, according to officials.

According to the attorney's office, DeSalvo managed to attract over 200 investors to his scheme, raising more than $620,000 in funds. The alleged fraud caught the attention of the SEC, which also took action against DeSalvo. The SEC characterised Blazar Token as a "crypto asset security". It accused DeSalvo of masterminding various fraudulent investment strategies that duped law enforcement personnel into believing they would reap substantial returns. The SEC's enforcement division, led by Gurbir S. Grewal, emphasised that DeSalvo's promises of innovative technology and remarkable profits were nothing more than a front.

There is a growing trend of unscrupulous promoters exploiting emerging platforms such as cryptocurrencies to perpetuate age-old fraudulent schemes. As the investigation unfolds, authorities will likely delve deeper into the case to unveil the extent of DeSalvo's alleged misappropriation of investor funds.

Bitstamp Ends US Ether Staking due to Regulatory Concerns

Figure 26. Bitstamp Ends US Ether Staking Due to Regulatory Concerns

- **Bitstamp, one of the longest standing crypto exchanges, will halt its Ether staking program for US customers from September 25th, 2023, citing regulatory concerns and SEC's scrutiny.**
- **This decision reflects the broader challenge of navigating the regulatory landscape in the US, and aligns with actions taken by other exchanges like Kraken and Coinbase, impacting staking rewards for US users while maintaining other services.**

Starting on September 25th, 2023, Bitstamp will cease offering staking services to users in the United States, as conveyed in a statement by Bobby Zagotta, Bitstamp's US CEO and global chief commercial officer. In this announcement, Zagotta clarified that while US customers will no longer receive staking rewards, all other services provided by Bitstamp will remain unaffected by this decision.

This move by Bitstamp comes amid a challenging regulatory landscape in the US. The SEC has recently focused on staking services, categorising them as investment contracts and stipulating that they must adhere to securities registration requirements.

Earlier this year, crypto exchange Kraken halted its staking service for US clients following a $30 million settlement with the SEC, related to allegations of unregistered securities offerings. The SEC has also filed a lawsuit against Coinbase, asserting that the exchange's prime brokerage, staking programs, and exchange activities violate securities regulations. In response, Coinbase opted to suspend staking services in certain states, including California, New Jersey, South Carolina, and Wisconsin.

Considering the prevailing regulatory complexities in the US, Bitstamp has chosen to discontinue staking services for American customers. Bitstamp's ETH staking program also offered a 15 percent commission on rewards earned by users.

Zagotta assured that customers will continue to accrue staking rewards until September 25, 2023. Subsequent to this date, all staked assets will be unstaked. The accumulated rewards and principal amounts will be deposited into users' primary Bitstamp account balances. Zagotta anticipated that this process usually takes a few days but acknowledged that the timeline could be extended due to network conditions.

In addition to the cessation of its staking service, Bitstamp recently took further action in the US by suspending trading for seven tokens that were recently labelled as unregistered securities by the SEC. This list includes tokens such as Polygon, Solana, and Near Protocol.

Balancer Labs Detects Vulnerability in V2 Pools, Urges Users to Take Precautions

Figure 27. Balancer Labs Detects Vulnerability in V2 Pools, Urges Users to Take Precautions

- **Balancer Labs identified a "critical vulnerability" in several of its V2 Pools, prompting the company to execute emergency measures; 1.4% of the total value locked remains susceptible to risk. Users are advised to withdraw their assets from affected liquidity pools.**
- **The Balancer token (BAL) saw a minor dip after the announcement but recovered slightly; the incident highlights the volatility and inherent risks in the DeFi sector.**

Balancer Labs, a prominent player in the decentralised finance (DeFi) ecosystem, has recently reported the identification of a "critical vulnerability" affecting several of its V2 Pools. These are pools that offer a return based on the size of an investment and can be locked up before withdrawal. The company said it had swiftly taken measures to address the situation, although it has cautioned that certain funds could potentially be at risk.

The firm emphasised that it has already executed emergency mitigation procedures to safeguard most of the Total Value Locked (TVL). Despite these efforts, a certain portion of funds still faces a level of vulnerability. Balancer Labs advised users who are utilising the affected liquidity pools to withdraw their assets from these pools immediately.

In a follow-up communication, the project sought to reassure its user base by stating that the "majority of funds on Balancer are safe." Merely 1.4 percent of the overall value locked is susceptible to risk. The statement also clarified that only the boosted pools have been impacted by this vulnerability. Several pools have been temporarily paused to mitigate risks, and users have been strongly recommended to withdraw their liquidity from these pools.

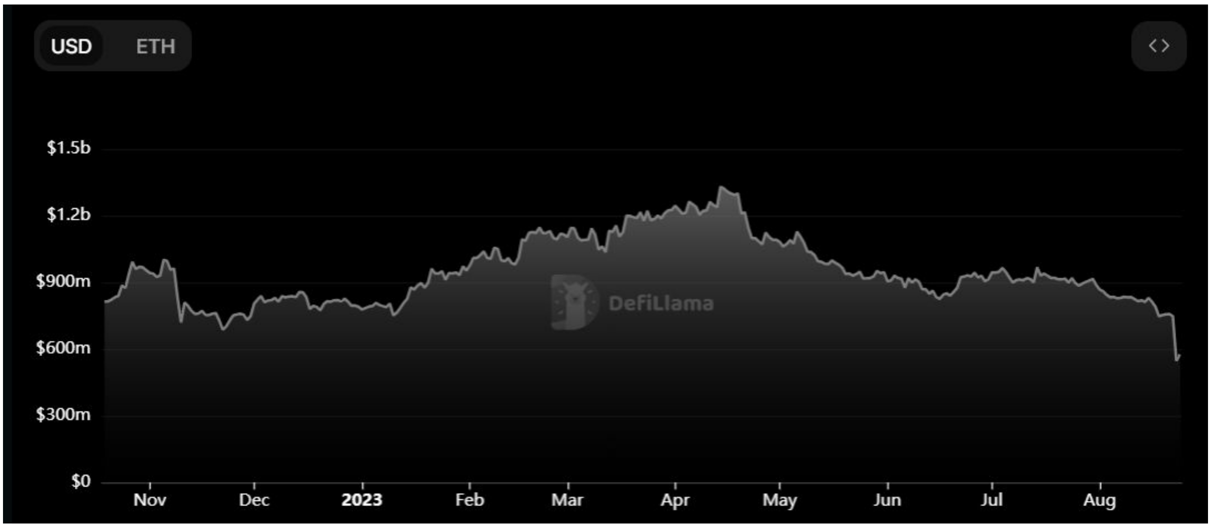


Figure 28. Balancer Total Value Locked (Source: DeFiLlama)

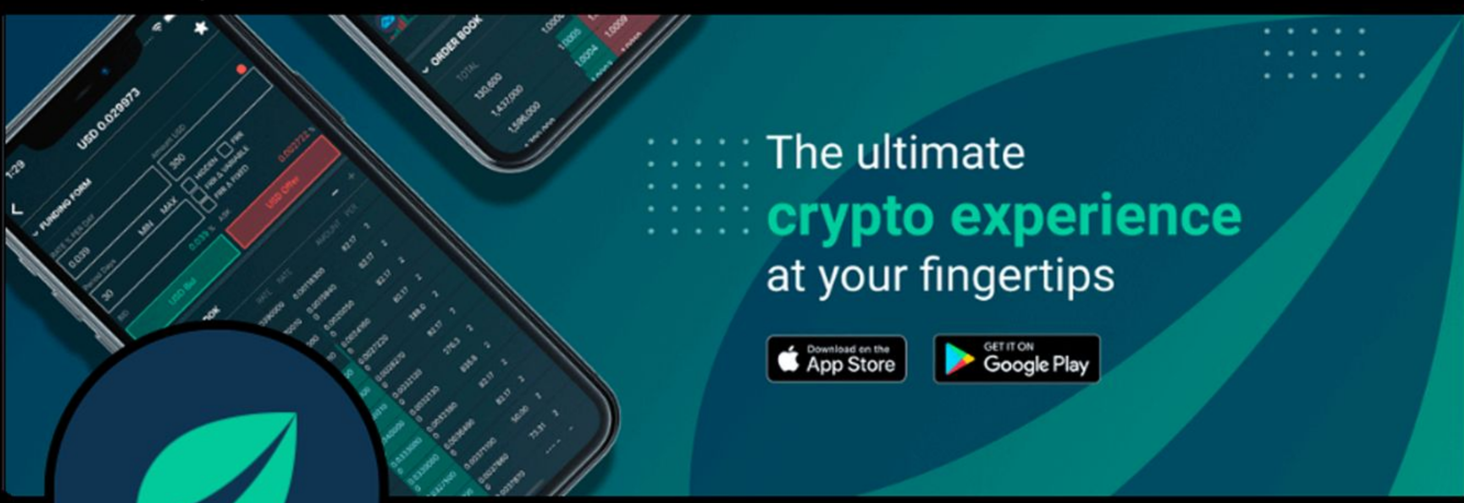
According to DeFiLlama data, the Total Value Locked in Balancer V2 was approximately $750 million (refer Figure above) prior to the discovery of the vulnerability. In the wake of this announcement, the Total Value Locked plummeted by about 28 percent to $543 million.

Further insights were shared on the Balancer Labs forums, revealing that the vulnerability had not been exploited at the time of reporting, and no funds had been lost. The company stated, "We were able to mitigate over 80 percent of these [pools]; the remaining funds at risk represent about 4 percent of Balancer TVL."

The affected pools encompass a range of networks, including mainnet, Polygon, Arbitrum, Optimism, Avalanche, Gnosis, Fantom, and zkEVM. While specifics are currently limited, it is promising that Balancer Labs' proactive identification of the vulnerability and its immediate user alert likely averted potential exploitation, potentially sparing its community from the latest DeFi protocol breach.

The native token of Balancer, BAL, experienced a minor dip of four percent in the hours following the announcement, causing it to drop to $3.40. However, the token has shown resilience in the subsequent hours, rebounding to trade at $3.52. Nevertheless, like many DeFi assets, BAL has been enduring a challenging period, having depreciated by 18 percent over the past two weeks.

Moreover, BAL remains significantly down from its all-time high of $74.45 in May 2021, reflecting a decline of 95 percent. This incident serves as a reminder of the ongoing volatility and risks inherent in DeFi.



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