BITFINEX Alpha

Issue: 04-09-2023
bitfinex.com

EXECUTIVE SUMMARY

Short-term data points indicate that Bitcoin and the broader crypto asset sector are seeing a fall in confidence. As delays continue to plague the long-awaited spot Bitcoin ETF approvals, crypto funds, by the second last week of August, had seen outflows of $168 million, the largest since March, with a further $11 million last week. Bitcoin funds, too, have suffered outflows, with YTD trading volumes reaching a peak on August 30. The cumulative exodus has drained an astonishing 89 percent of total assets under management that had been dedicated to crypto investments.

Despite the turmoil in digital investment vehicles, however, underlying asset prices remain surprisingly stable, with no real change in the price away from the $26,000 level we have seen in the last two weeks. Further, consistent exchange outflows of Bitcoin, to presumably self-custody cold wallets, indicate that long-term Bitcoin holders remain bullish and, rather than trade, are simply holding.

Admittedly, stablecoins, often viewed as the early birds signalling investment interest in crypto assets, have also not witnessed a supply increase yet, but stablecoin payment adoption continues to grow - which we see as longer-term indicators of support for the sector.

On-chain metrics suggest a market bottom could be upon us. The Spent Output Profit Ratio (SOPR), which has historically been an uncanny indicator of market temperatures, is currently close to equilibrium, having progressed from 0.97 previously, and indicates more Bitcoin on chain is being held at close to a profit. This historically has tended to breathe more confidence into the market. Meanwhile "HODL Waves" data demonstrates that Bitcoin is becoming increasingly illiquid with supply inactivity metrics above three years hitting new highs over the past 45-60 days.

In the broader economy, the picture is also positive. In the housing sector, US home prices in June rose, even though the sustained rise in interest rates is feeding through to employment. Job openings in the US fell to 8.8 million. Unemployment is now at 3.8 percent, but wage growth is slowing, signalling an easing of inflationary pressure and supporting our view that rates will be left on hold at the next FOMC.

Despite all this, the great American consumer seems unperturbed, and July consumer spending reached a peak not seen in six months.

We cap off the last week with Robinhood buying back shares previously held by FTX and Grayscale celebrating its triumph over the SEC, in a court ruling stating that it was wrong for the commission to deny conversion of the flagship Grayscale Bitcoin Trust to a listed Bitcoin ETF.

Have a good trading week.

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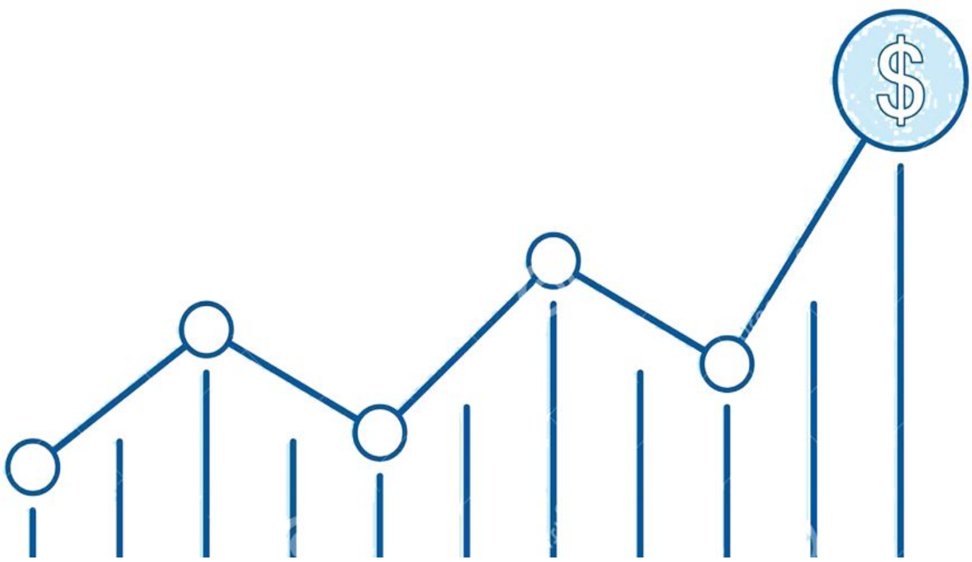


WHAT'S ON-CHAIN THIS WEEK?

Digital Asset Funds Experience the Largest Outflows Since March

In the wake of ongoing delays around the SEC approval of a spot Bitcoin ETF and other regulatory concerns, digital asset investment vehicles registered a staggering outflow of US$168 million (refer Figure below), marking the most significant capital flight since March 2023.

Flows by Provider (US$m) CoinShares	Week flows	MTD flows	YTD flows	AUM
Grayscale Investments LLC/U	-	-	-0	21,505
CoinShares XBT*	-5.6	-14.9	-80	1,539
21Shares AG	-19.4	-17.7	64	1,024
ProShares ETFs/USA	-18.5	-25.3	341	1,014
Purpose Investments Inc ETF:	-37.9	-87.9	66	867
ETC Issuance GmbH	-59.1	-76.4	92	537
Coinshares Digital Securities	-8.4	-11.5	51	476
Bitwise 10 Crypto Index Fund/	-	-	-	444
Other	-18.5	-44.1	-358	4,544
Total	**-167.6**	**-277.6**	**176**	**31,949**

Figure 1. Digital Asset Flows For The Week Ending on August 26th. (source: coinshares)

Bitcoin funds took centre stage as they experienced outflows amounting to $149 million. Interestingly, investors also persisted in liquidating their short positions across exchanges, accounting for a $4 million exodus over the same period. The recent 18-week streak of withdrawals has drained an astounding 89 percent of the total assets under management (AuM).

In the midst of an August marked by diminished trading volumes for on-exchange trading (as discussed in the following on-chain sections), digital asset investment products recorded outflows totaling $278 million. Trading volumes for these investment vehicles have declined to $1.3 billion in total for this week — 16 percent lower than the yearly average. Pessimism seems to be brewing among investors, largely fueled by the growing consensus that the U.S. rollout of a Bitcoin spot-based ETF may face further postponements. Recent announcements from the SEC regarding delays have only solidified these apprehensions.

Among altcoin funds, Ethereum stood alone with outflows amounting to $17 million. Conversely, XRP and Litecoin garnered modest investor interest, registering inflows of $0.5 million and $0.44 million, respectively.

The above data suggests that it will take longer than earlier anticipated to get a bullish catalyst for the markets, and the longer the ETF saga draws on, the less pronounced the effect could be on actual market prices across crypto assets. While digital investment vehicles saw major outflows and movements, actual underlying asset prices have been ranging for the past two weeks. Stablecoin supply which is a precursor and an early sign of heavy investment interest in Bitcoin and other crypto assets have also continued to trend lower over the past couple of months.

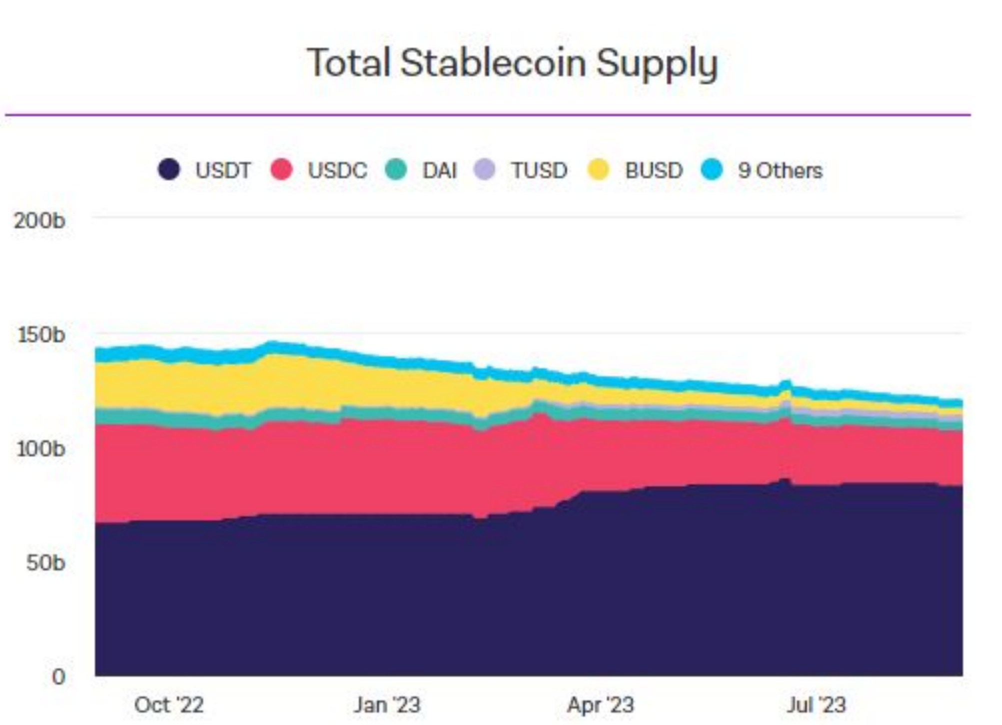


Figure 2. Total FIAT-backed Stablecoin Supply. (source: TheBlock)

However, it must be noted that despite the crypto market experiencing capital outflows, stablecoin payment adoption has continued to thrive. Since 2022, there have been over $6.8 trillion in stablecoin transactions on layer one blockchains. This means that onchain transfers were more than 6 times transactions seen by PayPal. On a volume basis, stablecoin transactions are growing faster than Paypal and Mastercard. Stablecoin volumes are down only 11 percent since December 2021 while Centralised and Decentralised net exchange volumes continue to plummet as discussed in the following section. Stablecoin inflows to exchanges from on-chain wallets has however, increased by about two percent in the past week. While this is not enough to warrant bullish sentiment from large long-term investors, it is enough to conclude that bearish sentiment is waning.

It is also telling that despite the downturn in BTC and a significant and drawn out bear market for nearly the entirety of 2022, long-term investor confidence in Bitcoin and crypto as an asset class has continued to be significantly high. While we are constantly discussing supply dynamics, it is also important to look at exchange flows.

Over the past year, Bitcoin outflows have consistently eclipsed inflows by a margin of 80 percent, on a month-over-month basis (refer Figure below). This robust outflow momentum persists irrespective of market tribulations, be it the tumultuous FTX crash, interim price corrections, or unnerving updates from the SEC that send jitters through the investor community.

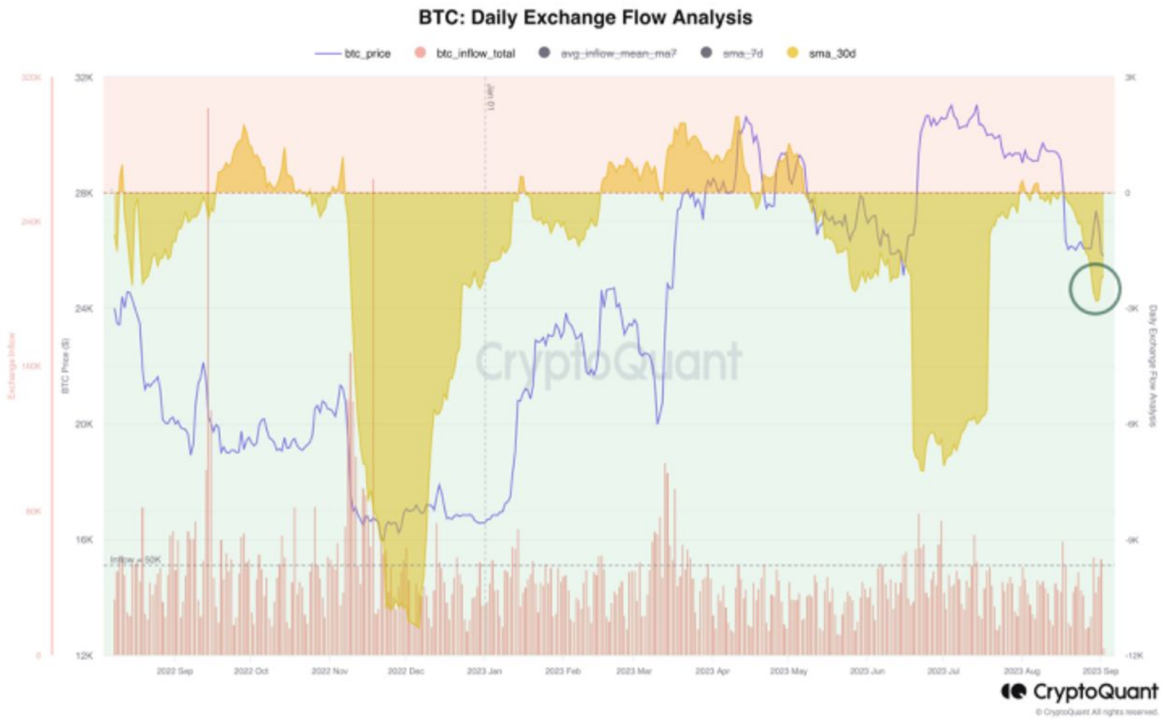


Figure 3. Bitcoin Exchange Flow Analysis. (source: CryptoQuant)

To paint a more granulated picture: during the FTX crash when BTC teetered around the $17,000 level, the outflows surged by a notable 11,000 BTC. In the June 2023 rally towards the $30,000 threshold, outflows surpassed inflows by 6,000 BTC. Even in the ongoing market retracement, monthly outflows surpassed inflows by a margin of 2,100 BTC in August.

Such persistent, sizable outflows underscore a significant market insight: even amidst market downturns, there remains a robust appetite for Bitcoin as these coins are not being sold, while we continue to see market players ready to acquire the digital asset. It underscores a broader sentiment: a sustained, long-horizon confidence among investors in Bitcoin's inherent value and its potential for growth.

Post the Grayscale victory news (see news section), bearish sentiment slowed with outflows from crypto asset funds at only $11.2 million, while Bitcoin specifically saw inflows worth $3.8 million. Trading volumes also increased to reach $2.8 billion for the week. (as per the latest *Coinshares data*). However, it is important to note that Coinshares does not track Grayscale data as shown in the figure. Other sources, such as *CryptoQuant* have also reported that we just saw the highest Bitcoin fund daily volume since the beginning of the year on August 30th. (refer Figure 5 below)

Flows by Asset (US$m)

CoinShares

	Week flows	MTD flows	YTD flows	AUM
Bitcoin	3.8	-3.6	269	21,147
Ethereum	-3.2	-0.6	-102	6,877
Multi-asset	-0.4	-	-30	2,823
Binance	-	-	-1	218
Short Bitcoin	-3.3	0.3	35	103
Litecoin	-	-	3	103
Solana	0.7	-	26	75
XRP	-	-	13	58
Cardano	-	-	6	24
Tron	-	-	-51	22
Other	-8.8	0.3	-1	96
Total	**-11.2**	**-3.6**	**165**	**31,548**

Figure 4. Digital Asset Flows For The Week Ending on September 2nd. (source: coinshares)

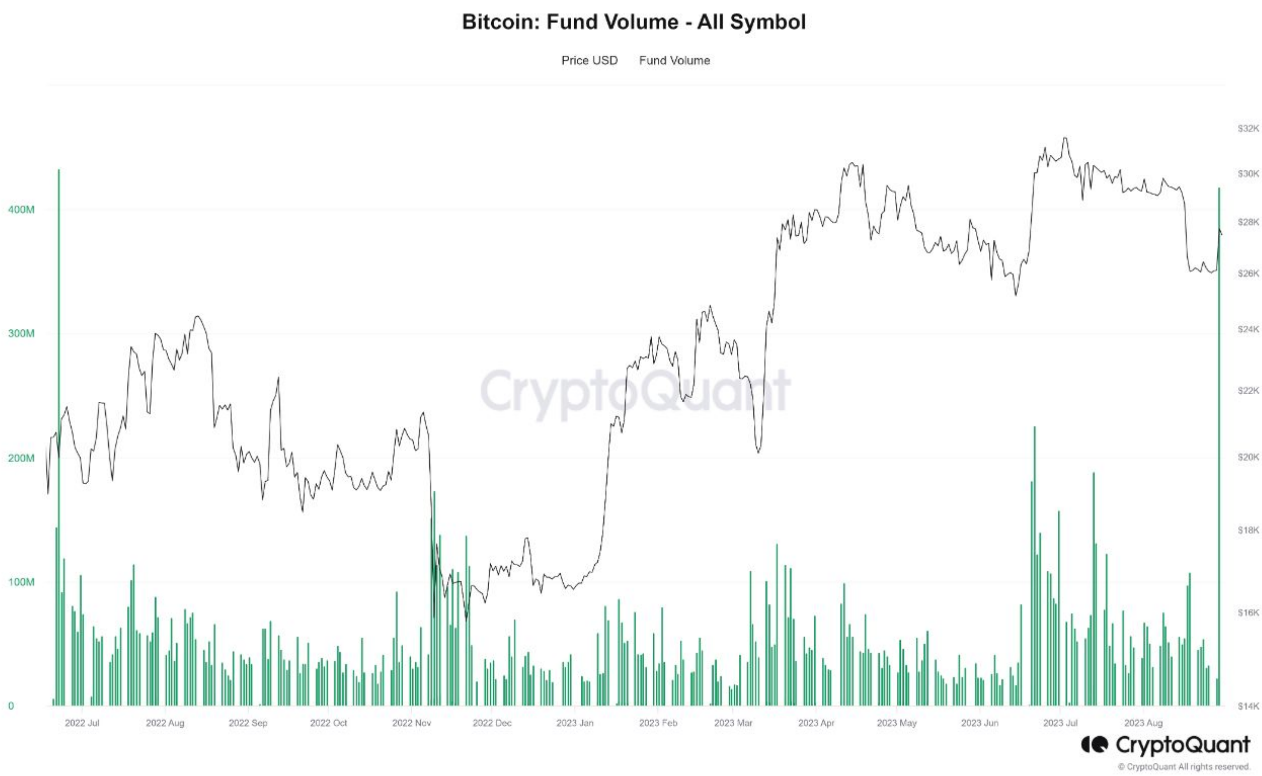


Figure 5. Bitcoin Fund Volume. (source: CryptoQuant)

Market Bottom Analysis from an On-chain Perspective

Several on-chain metrics indicate that a potential bottom might be in, or close to being in, for Bitcoin in terms of a percentage of price depreciation. However, most if not all metrics suggest that the recovery will not be immediate in nature, so even if price-wise capitulation is complete for the market bottom, time-wise capitulation remains. In this section, we analyse both the positive and negative signals for the market.

At the heart of Bitcoin's analytical arsenal is the Spent Output Profit Ratio (SOPR) – a metric that reflects the profit and loss dynamics of BTC transactions. By determining if Bitcoin is being sold for a profit or loss, the SOPR effectively gauges investor sentiment. If the SOPR is greater than one, BTC being moved on-chain is being done so in net profit, values skewed too far above it might suggest that the market is overheating and vice versa.

Historical data points to a compelling relationship between the SOPR and BTC market bottoms. Specifically, when SOPR values dip beneath the 0.97 threshold, it's frequently been a precursor to market bottoms. This hints at a scenario where investors, faced with bearish markets, choose to offload their Bitcoin holdings at a loss, driving the SOPR to undershoot this critical number.

Fast forward to the present market cycle, the SOPR hovered around 0.96 as BTC plummeted to the $15,000 level (refer green box in Figure below). Last November, the SOPR even grazed the 0.97 mark, suggesting that investors were tiptoeing on the edge of heightened sentiment fragility. If past patterns are a reliable guide, these SOPR readings suggest we could potentially have touched this cycle's market bottom.

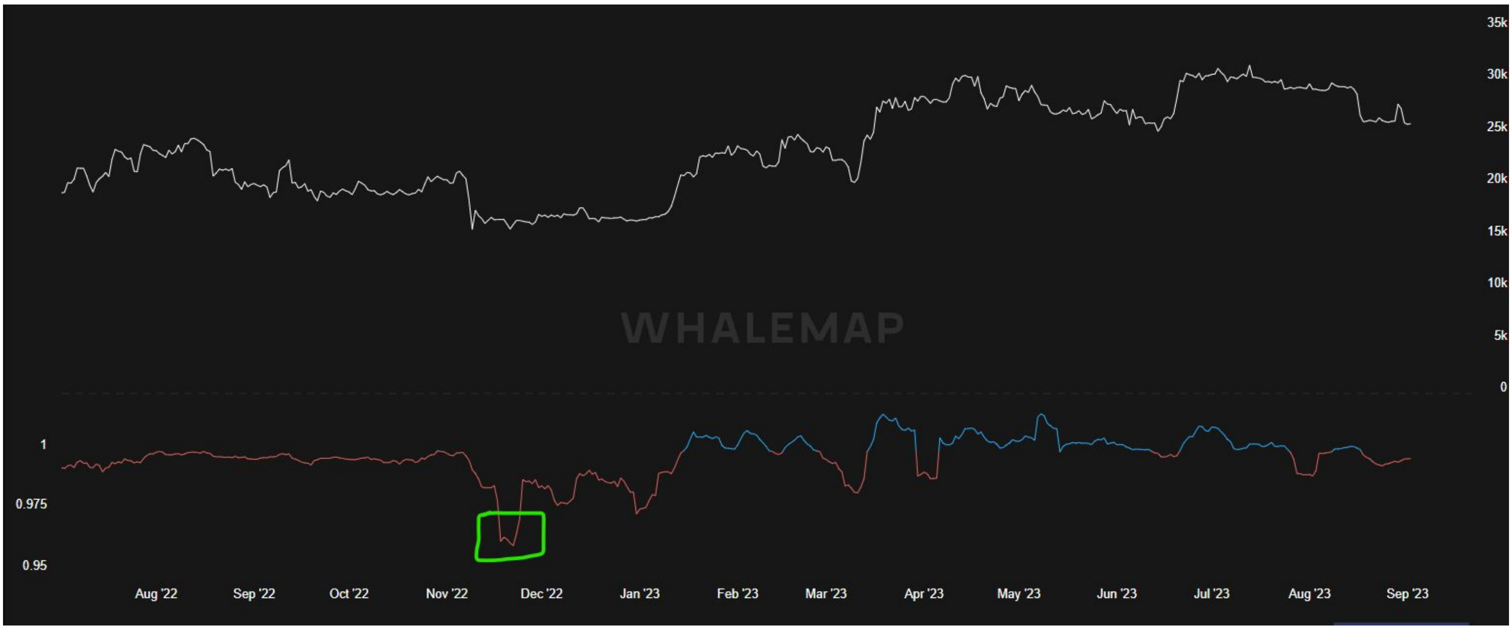


Figure 6. BTC price (white) in comparison with SOPR (bottom). (source: Whalemaps)

The STH-SOPR (Short-Term Holder Spent Output Profit Ratio) provides insight into trader behaviour who hold onto their assets for durations spanning from an hour to 155 days. By filtering out the noise from ultra-short-term and long-term movements, this metric delivers clarity on a crucial segment of the market – the short-term holders. When the STH-SOPR value ascends, it's a tell-tale sign that the winds are favouring short-term traders..

A case in point: following BTC's dip from $28,300 to a more modest $25,100, the STH-SOPR metric highlighted a significant dip in profitability for these short-term holders (refer Figure below).

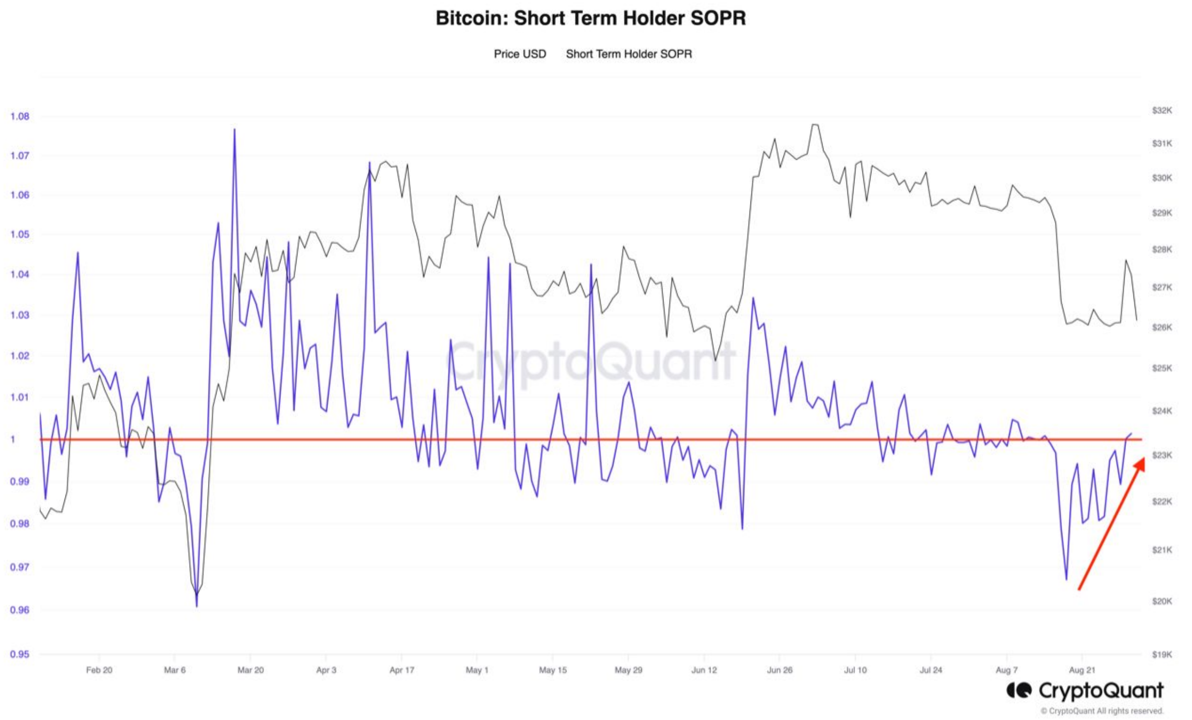


Figure 7. STH-SOPR with Bitcoin price. (red line - Equilibrium '1' point) (source: CryptoQuant)

In essence, many were offloading their assets at a sizable loss. To put things into perspective, the STH-SOPR touched the 0.96 mark post the August 17 Bitcoin correction, eerily mirroring the patterns seen during March 2023's dramatic slide from $25,000 to $19,800 and other historically relevant selling events as discussed above for the overall SOPR metric.

However, the market is nothing if not dynamic. Grayscale's recent announcement (discussed in our Crypto News section this week), which served as a positive catalyst, has propelled the STH-SOPR value upwards. As of now, it hovers around the equilibrium point of one. This pivotal shift suggests a renewed sentiment among short-term holders: they are trading their BTC holdings at prices that let them walk away at breakeven. This behaviour from this cohort underscores the "fear" after a period of visiting the 0.96 mark for this metric which suggests the market being on the brink of a "panic". These on-chain metrics are important as they are focused on spot holdings, and therefore are better gauges of investor sentiment. The current sentiment from short-term investors/traders is fear, which normally correlates with market bottoms.

While many tools for Fear and Greed sentiment only look at social media, there has been some misinformation we believe regarding the current market scenario. As concluded from SOPR analysis, the market is currently in a state of “fear”. This is also illustrated by the Fear and Greed Index for Bitcoin. (refer Figure below)

Figure 8. Bitcoin Fear and Greed Index. (source: lookintobitcoin.com)

This metric gauges the intrinsic BTC value and then gives a reading based on how far skewed current prices are from that value. The metrics to analyse intrinsic value include:

- Current volatility of $BTC price action, relative to the last 30 days and 90 days. Exceptional increases in volatility can sometimes be a sign of an overly fearful market.
- Momentum and Volume, relative to the last 30 days and 90 days. Exceptionally high buying volume on a relative basis can indicate that the market is becoming overly greedy.
- Social media sentiment analysis looking at sentiment type and volume at a given time relative to historical norms.
- Dominance of Bitcoin relative to other cryptocurrencies.
- Google Trends across a range of relevant Bitcoin search terms to identify strong periods of growth or decline in Google Search.

The latest "HODL Waves" data presents further insight into supply dynamics and how far that suggests we are to a market bottom, segmenting it by the length of time each coin has remained stationary.

A key takeaway: the trend of supply illiquidity has reached unprecedented levels. A significant percentage of Bitcoin's total supply is in the “cold-storage” of committed Long-term holders; these coins are firmly anchored and show no signs of moving as all supply inactivity metrics above three years have consistently been hitting new all-time highs over the past 45-60 days. (refer Figures below)

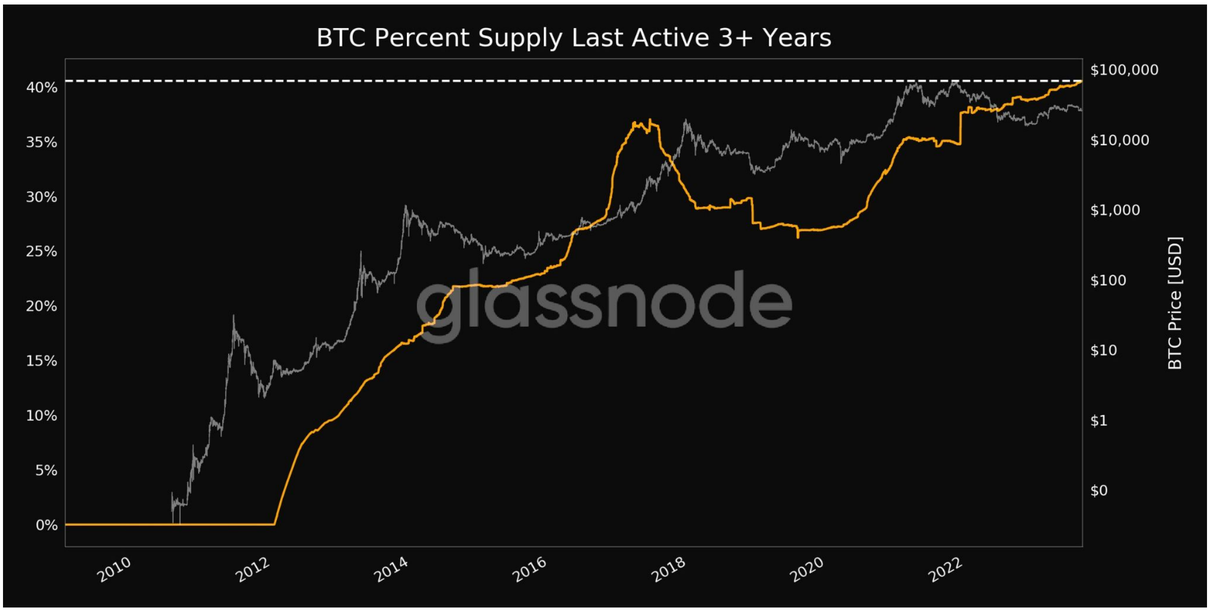


Figure 9. BTC Percent Supply Last Active 3+ Years Ago Hit Another All-Time High On September 2nd. (source: glassnode)

HODL waves allow us to see what percentage of supply has not moved in fixed amounts of time. It distributes the total circulating supply for Bitcoin amongst investor cohorts on the basis of time held. The upper bands in the figure below represent old coins that have remained unmoved and vice-versa for the lower bands.

As we progress through the year, it's essential to shift our focus. While the "1-2 year" group has held our attention so far, it's the "2-3 year" and "3-5 year" bands that are set to become increasingly significant. There's a practical rationale behind this.

As we inch closer to the one-year mark from what many believe was the bear market's bottom in late 2022, it's likely that the activity in the "1-2y" cohort will see a slowdown. While many coins in this category might have been snapped up by ardent long-term holders, a good portion could also have been procured by traders on the hunt for attractive entry points (refer Figure below).

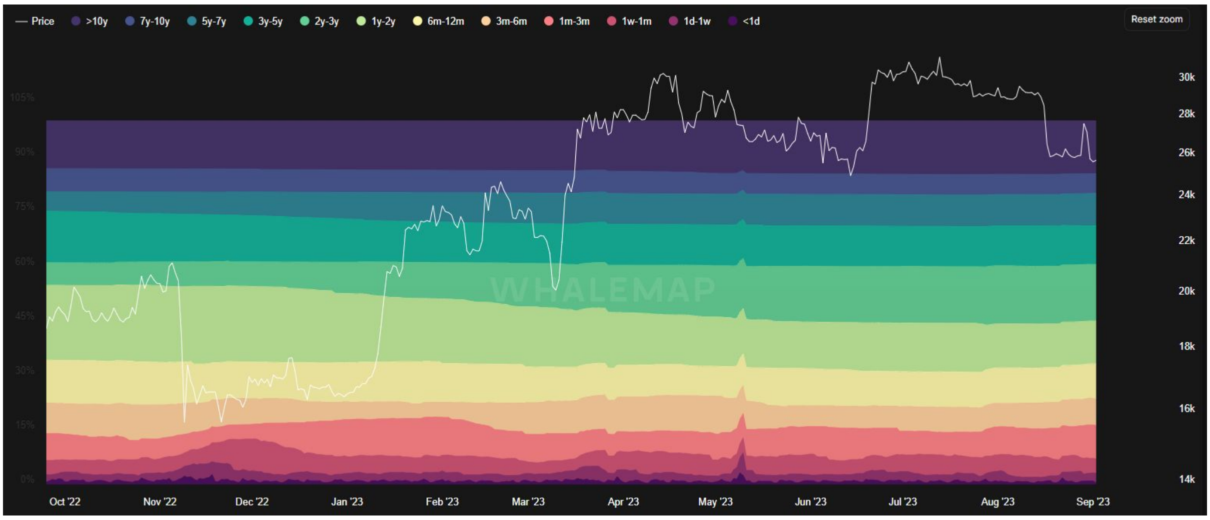


Figure 10.HODL Waves and BTC Price. (source: Whalemaps)

But here's where it gets particularly intriguing: the "2-3y" cohort (refer Figure above). These coins, bought during Bitcoin's bull run and held steadfastly through its descent, serve as a goldmine of insights. One might argue that a bulk of these coins won't see the light of the market until Bitcoin's value climbs to, or even surpasses, the lofty levels at which they were initially acquired. And even when this happens, expect only a fraction to become liquid. The inherent narrative is clear: Bitcoin's supply is increasingly dominated by holders with an unwavering conviction in its long-term value proposition.

Extremely Low Volume and Liquidity Across the Board

In August 2023, centralised crypto exchanges (CEXes) recorded The Lowest Monthly Trading Volume Since October 2020. The recorded figure as per TheBlock's data was less than $423Billion. Volume for Ether spot markets also reached the lowest figures since 2020.

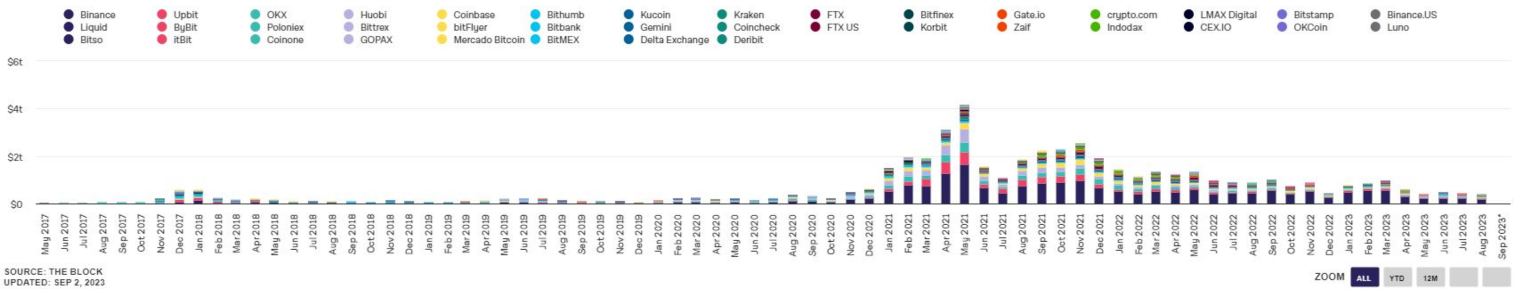


Figure 11. Crypto Spot Monthly Exchange Volume Across Major Exchanges. (source: The Block)

Spot volume by assets that were typically some of the highest by market capitalisation over the last cycle. All of them have reached historically low values and spot volumes have been decreasing consistently across the board for several months now.

Even after the fabled open interest wipeout when BTC crashed below the $26,000 level in mid August, the derivatives market has been the driving force in the current market.

Diving into the nuances of the recent rally post the Grayscale ETF news, one thing becomes immediately apparent: the 'Funding Rate' (refer Figure below) isn't flashing any warning signs of an extreme surge, thus a sharp price correction stemming solely from this metric appears unlikely.

Yet, when we zero in on the dynamics behind the price ascent, it's evident that spot exchanges were not driving the upswing. This observation finds validation in the 'Trading Volume Ratio (Spot VS. Derivative)', which, counterintuitively, dipped instead of seeing an uptick.

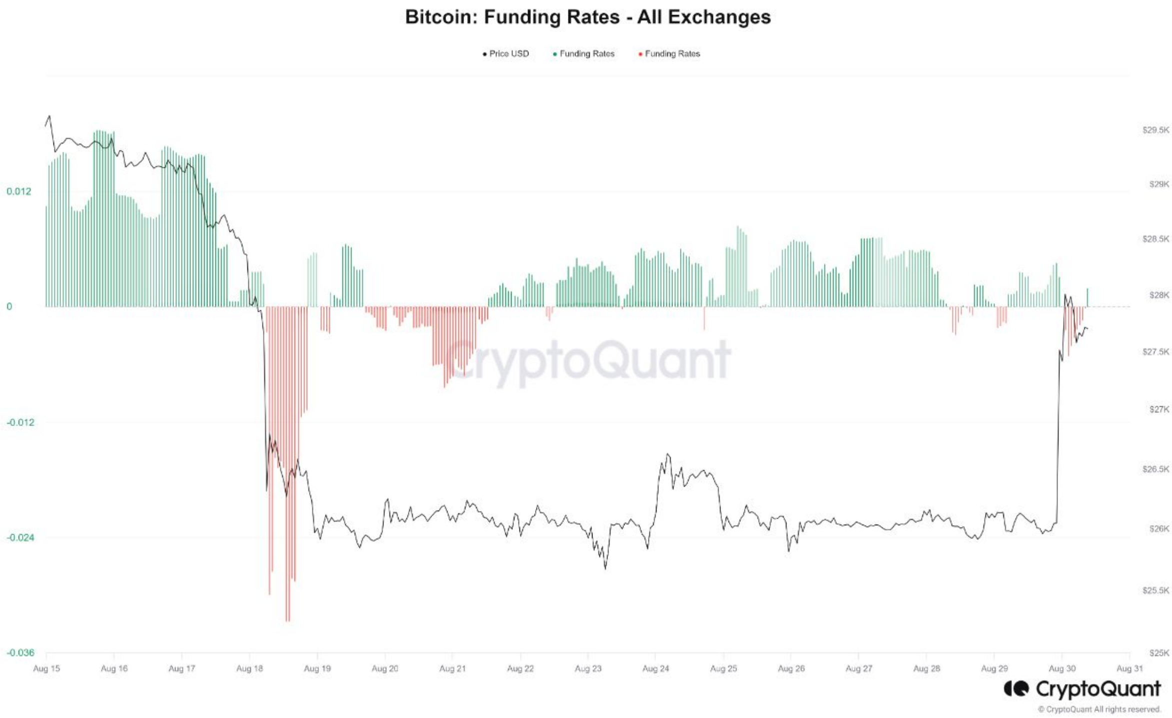


Figure 12. BTC Funding Rate Across Exchanges. (source: CryptoQuant)

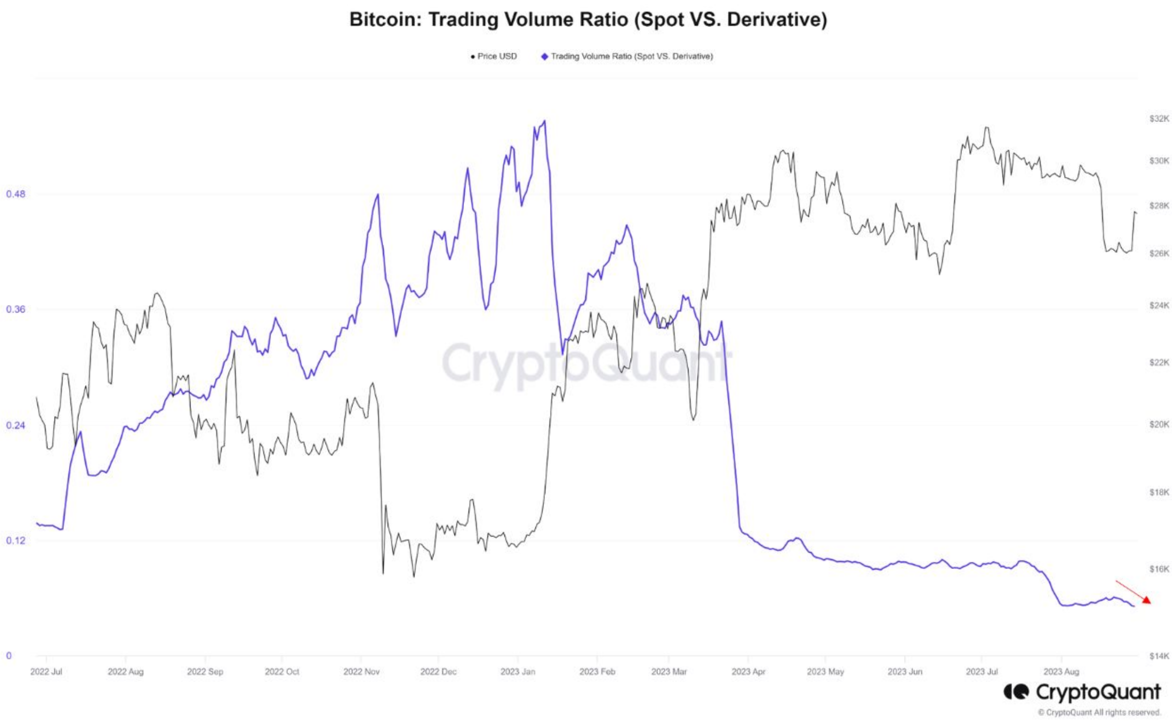


Figure 13. Spot vs Derivatives Exchange Volume. (source: CryptoQuant)

A comparative glance at the 'Trading Volume (Spot VS. Derivative)' chart illustrates how there has been a consistent downtrend in trading volumes, especially when benchmarked against the January, March, and June rebounds this year. To put it starkly, yesterday’s figures recorded that the derivatives volume was 20 times spot volume across major exchanges.

However, a critical nuance to consider is the diminishing overall liquidity in the crypto market, making it susceptible to sizable price fluctuations even on the back of modest trading volumes. Despite this, it's prudent to tread with caution, given that the current rally might not necessarily translate into a euphoric uptrend.

GENERAL MARKET UPDATE

US Home Prices Show Signs of Recovery in June

US home prices displayed an upward trend in June, with the monthly rate rising while the annual prices held steady. This progression is an indicator of the recovering housing market.

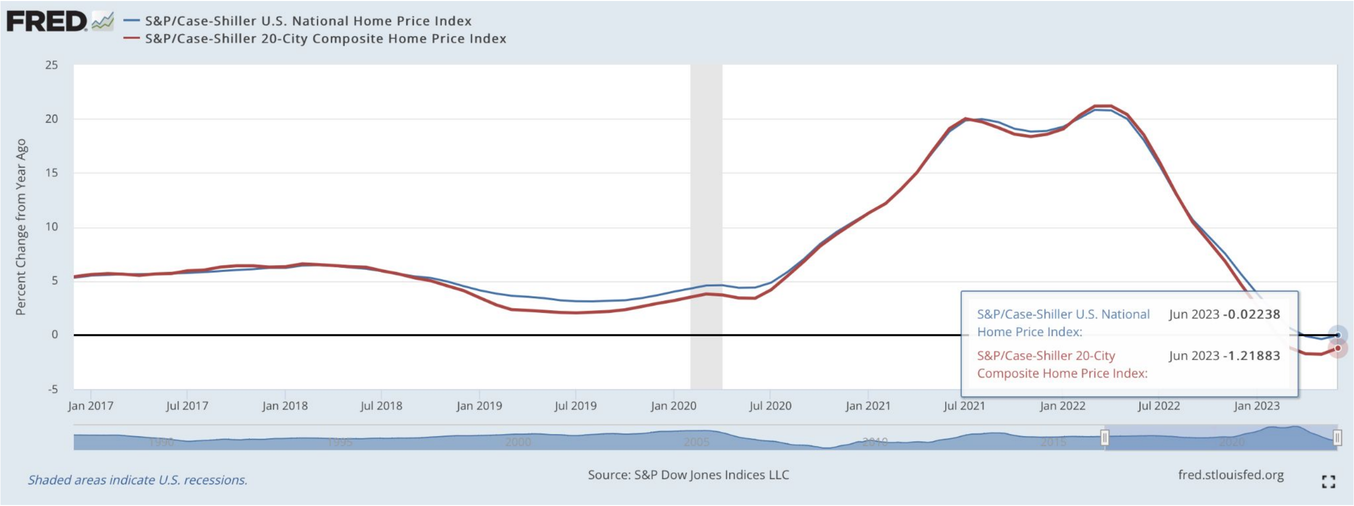


Figure 14. S&P/Case Shiller US National Home Price Index & 20-City Composite Price Index (Source: S&P Dow Jones Indices)

US home prices displayed an upward trend in June, with the monthly rate rising while the annual prices held steady. This progression is an indicator of a recovering housing market.

Data from the S&P Case-Shiller national home price index, which covers all nine US census divisions, showcased a 0.7 percent increase in June, according to their report issued last Tuesday, August 29th. The June figure came after witnessing a 0.8 percent climb in May. Additionally, another index that monitors the 20 largest metropolitan regions reported a 0.9 percent surge in June, surpassing the consensus forecast of 0.8 percent.

Comparatively, on an annual basis, the national home price index was stable in June, as opposed to a decline of 0.4 percent in May. The index for the 20 major cities recorded a 1.2 percent drop in June, following a 1.7 percent decrease the prior year in May. This suggests that an expected stabilisation in prices might be on the horizon.

However, this month-on-month upswing in the housing market may pose concerns for the Federal Reserve. In a recent address at the Jackson Hole Economic Policy Symposium, Fed Chair Jerome Powell mentioned that signs of a possible rebound in the housing sector could lead the Fed to continue raising interest rates.

US Job Openings Decline Sharply; Market Awaits Federal Reserve's Move on Rates

US job openings saw a significant decline in July, with the numbers plunging to 8.8 million — the lowest mark in almost two and a half years. This was the first time since March 2021, that the figures stayed below the 9 million threshold, according to the Labor Department's JOLTS report, issued last Tuesday, August 29th. These numbers surpassed the consensus forecast, which had predicted a modest dip to around 9.5 million. Interestingly, June's previously reported figures also underwent a downward correction, moving from 9.6 million to 9.2 million.

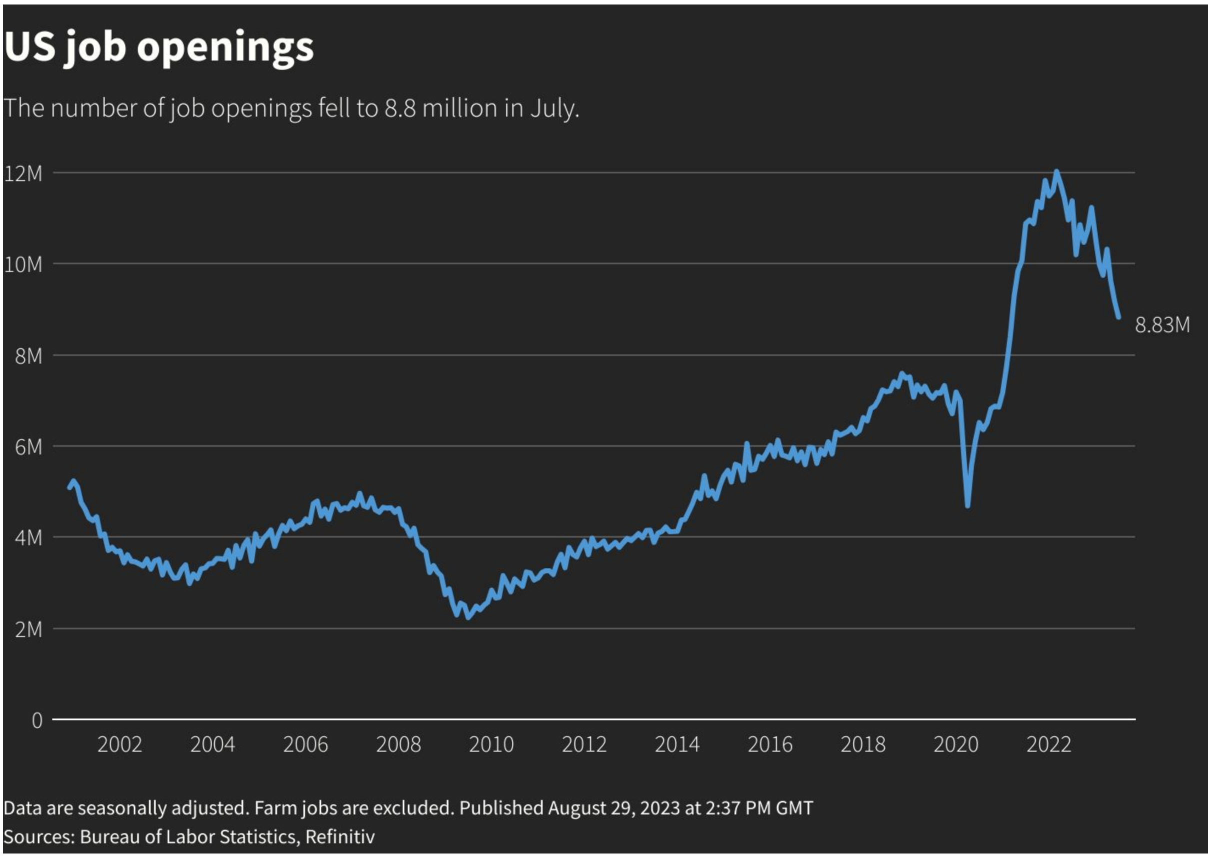


Figure 15. MSCI China Index vs S&P 500 Index Weekly Chart. (source: Bloomberg)

We also saw evidence of a changing perspective on the labour market amongst Americans. The rate at which employees quit decreased to 2.3 percent, reminiscent of pre-pandemic values. Hiring rates similarly reset to a norm of 3.7 percent. A notable metric showed that for each unemployed individual, there were 1.51 job opportunities available, a marginal decrease from 1.58 in June. While this ratio surpasses the 2019 average of 1.2, it's clear that the labour market is in a transitional phase, with quitting rates and hiring rates declining, even as job availability remains relatively robust.

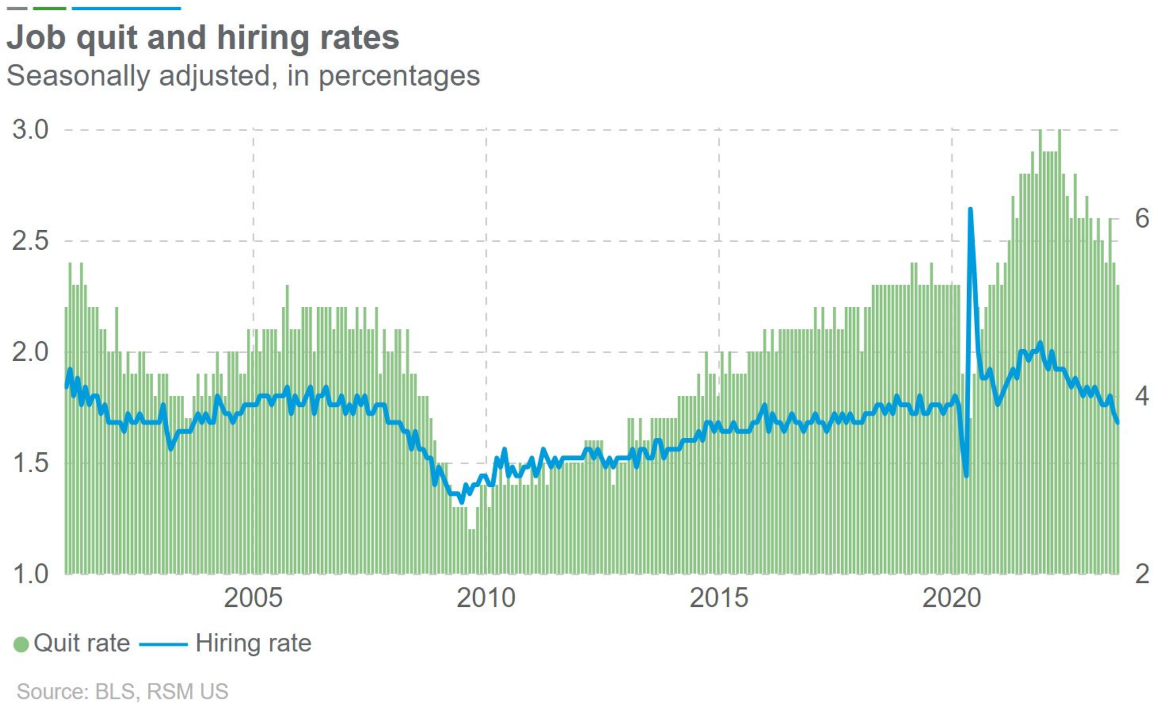


Figure 16. Job Quits and Hirings (Source: Bureau of Labor Statistics, RSM US)

The primary source of increased labour demand has been identified among smaller firms, particularly those employing less than 50 individuals. On the other hand, a higher rate of voluntary job departures was traced back to companies having a workforce ranging between 10 and 49. This signifies that the challenges in the labour market are primarily concentrated in specific sectors, and that it is still taking time for monetary policies to make an impact. Additionally, sectors like trade, transportation, utilities, leisure, and education continue to be at the forefront of job demand.

A contributing reason for the current job market situation is the Fed's decision last year to increase interest rates to cool down the job market. Given the marginal fall in job openings, this is still an environment that has not yet fully adapted to tighter monetary policies. We believe that the Fed should not push further with another rate hike. Hastened rate hikes could be detrimental, potentially leading the nation toward an unwarranted recession.

The broader takeaway is that while the labour market remains tight, there is a clear shift in dynamics, with companies reducing job vacancies rather than amplifying layoffs. The upcoming months will be crucial in determining the direction of US monetary policies and understanding the labour market's evolving nature.

US Economic Growth in Q2 Slower than Anticipated

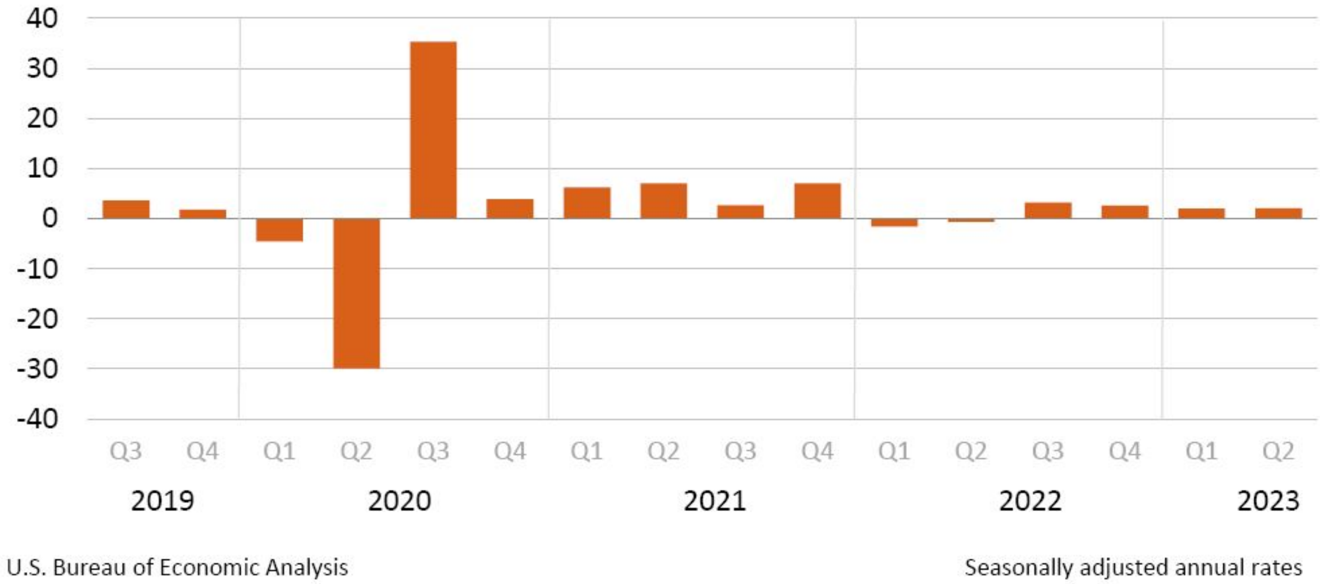


Figure 17. Real GDP Percent Change from Preceding Quarter (Source: Bureau of Economic Analysis)

In the second quarter, the US economy's growth rate was somewhat slower than initially reported, primarily due to businesses reducing their inventory.

On Wednesday, August 30th, the US Commerce Department reported 2.1 percent (refer Figure 17) annualised growth in Gross Domestic Product (GDP), a decline from the 2.4 percent initially reported. The consensus forecast was that the GDP rate for the second quarter would remain unchanged.

The Commerce Department's report also indicated that the pressure from inflation eased during the last quarter. It is interesting, that the US economy has still managed to grow, even after the Fed has increased rates by 525 basis points since March 2022.

A notable change was observed in inventory investments, which were revised substantially. The latest figures indicate a decline at a rate of $1.8 billion, in contrast to the earlier reported increase of $9.3 billion. Consequently, inventories mildly hindered GDP growth rather than contributing positively as initially thought. GDP measures the total value of goods produced and services provided in a country over a specific period. One component of GDP is the change in private inventories, which includes goods produced but not yet sold. When businesses liquidate or reduce their inventories (sell more goods than they produce), it's a negative contribution to the GDP. If businesses are reducing their inventories and not replenishing them, it often signals an expectation of reduced demand in the future.

Further reductions were also noted in business investments, both in equipment and intellectual assets. On the brighter side, there was a slight uptick in consumer spending, a sector that represents a significant chunk of the US economic landscape.

GDP is the official scorecard for the economy, but it's mostly a backward-looking indicator. More recent measures of the economy such as business surveys by S&P Global and the number of job openings suggest the economy may have lost some momentum toward the end of August.

The downward revision of GDP growth for the second quarter may be viewed favourably by the Fed. This could prompt a pause in rate hikes this September. Current data suggests that the US economy still has growth momentum and continues to avoid a recession.

US Consumer Spending Sees Significant Rise Amid Slower Inflation

In July, American consumer spending surged to its highest in half a year as purchases of both goods and services escalated. However, with the deceleration of monthly inflation rates, it seems likely that the Federal Reserve will retain current interest rates in the coming month.

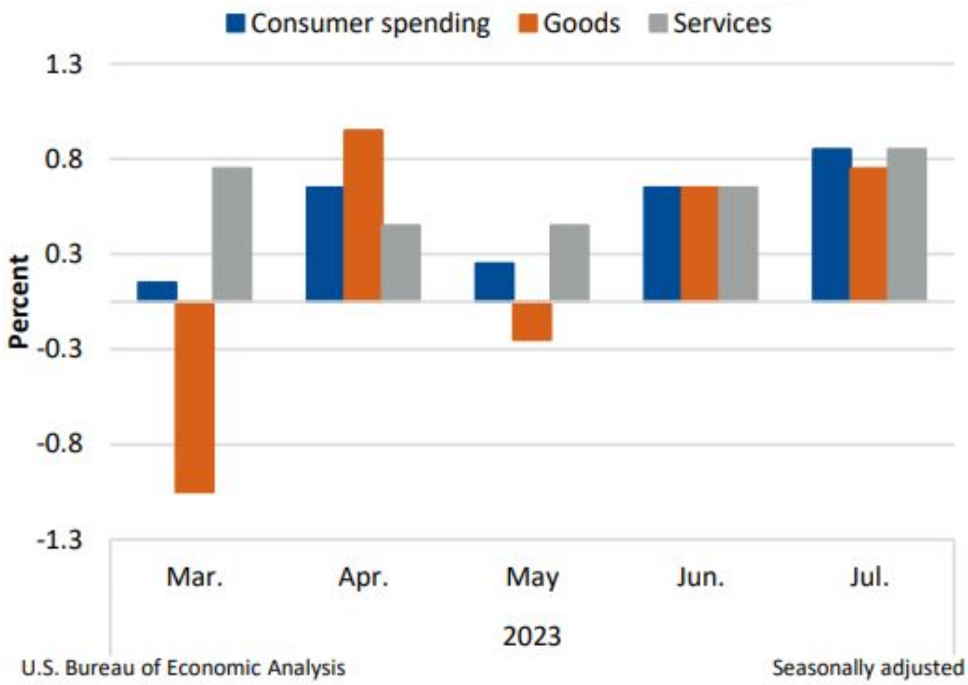


Figure 18. Month-over-Month Change in Consumer Spending

The Commerce Department's recent report released last Thursday, August 31st, noted an unexpected drop in initial unemployment benefit claims last week. However, it is worth noting that the current uptick in consumer spending may not last. The reason is that American households are using up savings accumulated during the pandemic. With student loan payments restarting in October and increasing borrowing costs, consumer spending might slow, or there may be heavier reliance on credit cards.

Consumer spending, which contributes over two-thirds of the US GDP, rose by 0.8 percent in July, while June data was also adjusted upwards to a 0.6 percent rise. Consensus forecast was a 0.7 percent increase in spending. Adjusted for inflation, consumer spending is up 0.6 percent, the highest since January. This current consumer confidence could be driven by the psychological impact of headline inflation easing. However, with the savings rate plunging to its lowest since November 2022, the future of consumer spending still seems uncertain. We don't expect the Fed to be easing monetary policy anytime soon, hence, excess savings could fall close to depleted territory if the savings rate continues to decline.

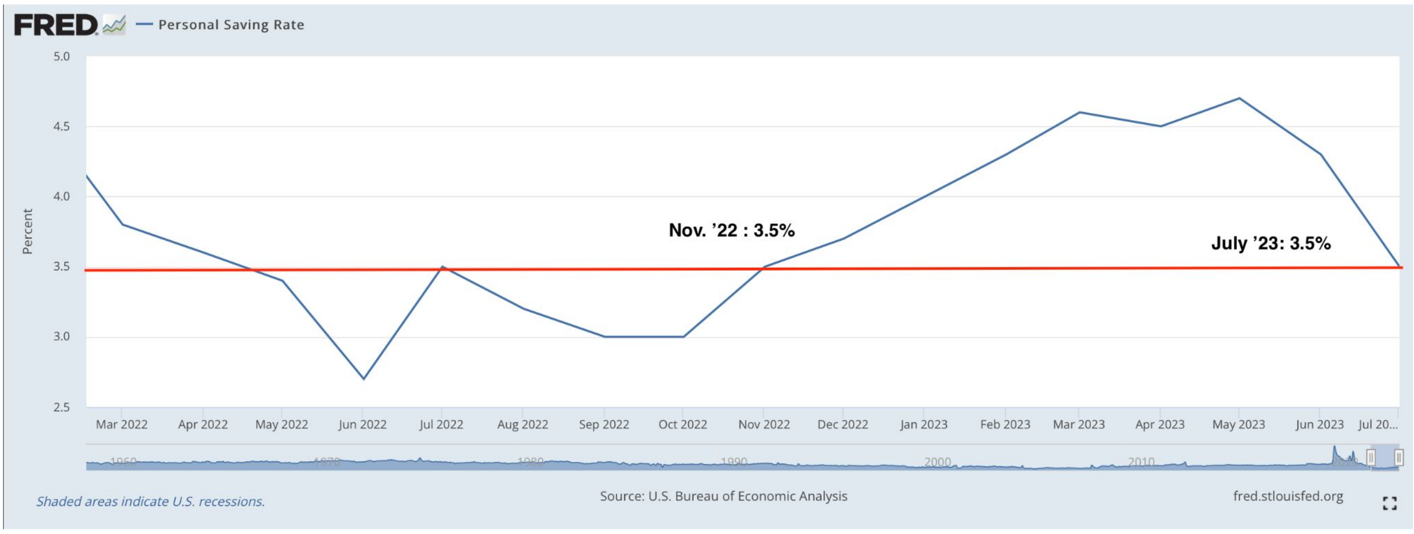


Figure 19. Personal Savings Rate (Source: Bureau of Economic Analysis)

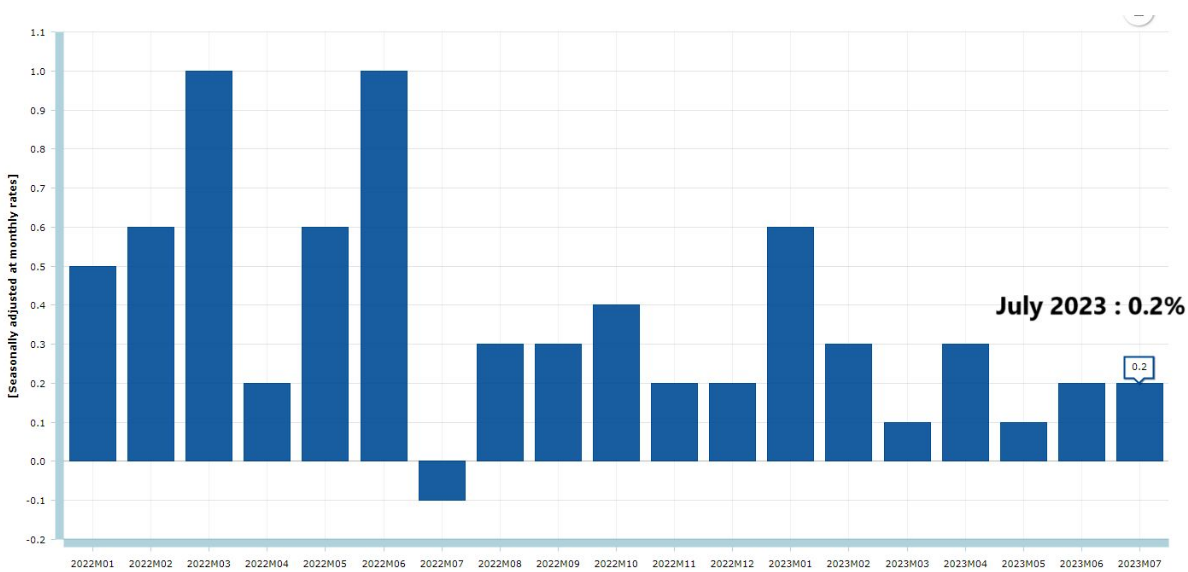
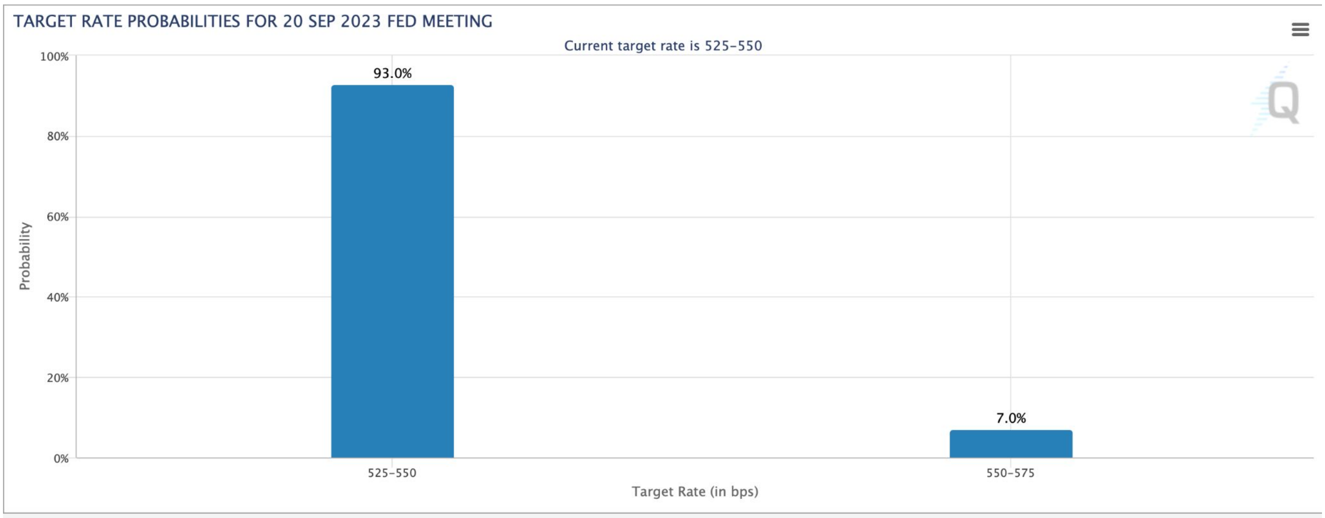


Figure 20. Personal Consumption Expenditures

The personal consumption expenditures (PCE) price index showed a 0.2 percent rise in July, mirroring the growth in June. In an annual basis, PCE index rose at 3.3 percent. When excluding volatile components such as food and energy, this index reported a 4.2 percent year-on-year increase for July.

Financial markets anticipate that the Fed will maintain rates in its upcoming September policy meeting. This is supported by the robust spending evidenced in July.



TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 31 AUG 2023	1 WEEK 25 AUG 2023	1 MONTH 1 AUG 2023
525-550 (Current)	93.0%	88.0%	80.0%	82.0%
550-575	7.0%	12.0%	20.0%	18.0%

* Data as of 1 Sep 2023 08:31:38 CT

Figure 21. Target Rate Probabilities for September FED Meeting (Data as of Sep. 1, 2023, CME FedWatch Tool)

We anticipate that it will take another three to six months for the market to fully absorb the impact of the Fed's rate increases; hence, we can expect that the economy will continue to cool down for the remainder of 2023.

Given that interest rates are at 5.5 percent and core inflation is hovering around three to four percent, we believe monetary policy is sufficiently restrictive. At current interest rates, the real cost of borrowing is positive and significant enough to reduce borrowing and spending, which can cool down economic growth and help keep inflation under control.

US Unemployment Rate Rises but the Job Market Remains Strong

The US saw a surge in job growth this August, but the unemployment rate also rose to 3.8 percent,the highest since February 2022. Despite this, wage growth showed signs of slowing down, supporting the expectations that the Fed will not raise interest rates in the September meeting.

Figure 22. US Unemployment Rate. (source: FRED)

Readers must understand the context around this escalation and how the labour market has persisted to be one of the strongest in US history. April's 3.4 percent unemployment rate (refer Figure above) was the lowest reading recorded since 1969.

A notable report released by the Labor Department highlighted that around 736,000 people re-entered the workforce in August, pushing the labour force participation rate to its highest point since 2020. This surge is likely driven by concerns over economic slowdown prompting individuals to join the workforce.

Interestingly, revisions to past data revealed that the economy created 110,000 fewer jobs in June and July than initially reported. This supports the previously discussed job openings figures for July which plummeted to their lowest in almost two and a half years.

August's nonfarm payrolls report showed an increase of 187,000 jobs, down from an average of 238,000 in the months leading up to May, but higher than consensus forecast of 170,000. Despite the slowdown, job growth continues to outpace the average monthly requirement needed to keep up with the expanding working-age demographic.

Wage growth showed a moderation in August, with average hourly earnings at 0.2 percent, the smallest increase since February 2022. Consensus forecast was 0.3 percent increase in hourly wages.

August's economic reports brought a mix of positive and challenging news. The average workweek witnessed a slight increase, supporting overall consumer spending and economic growth. Yet, the rise in the unemployment rate was mainly observed among younger adults. The labour force participation rate also showed a promising uptick.

Overall, the US economy appears to be in a transitional phase, with both encouraging signals of recovery and areas of caution. The recovering housing market and increased consumer spending continues to exhibit a resilient economy. However, the reduction in job openings and downward revision of GDP growth suggest some areas of caution, accentuated by the spike in unemployment. The mix of signals implies that while some parts of the economy are recovering, or even thriving, many Americans are still feeling the pinch, especially if they are out of work. Policymakers will need to be agile, employing a mix of monetary, fiscal, and perhaps even structural measures, to ensure that the recovery is broad-based and sustainable.

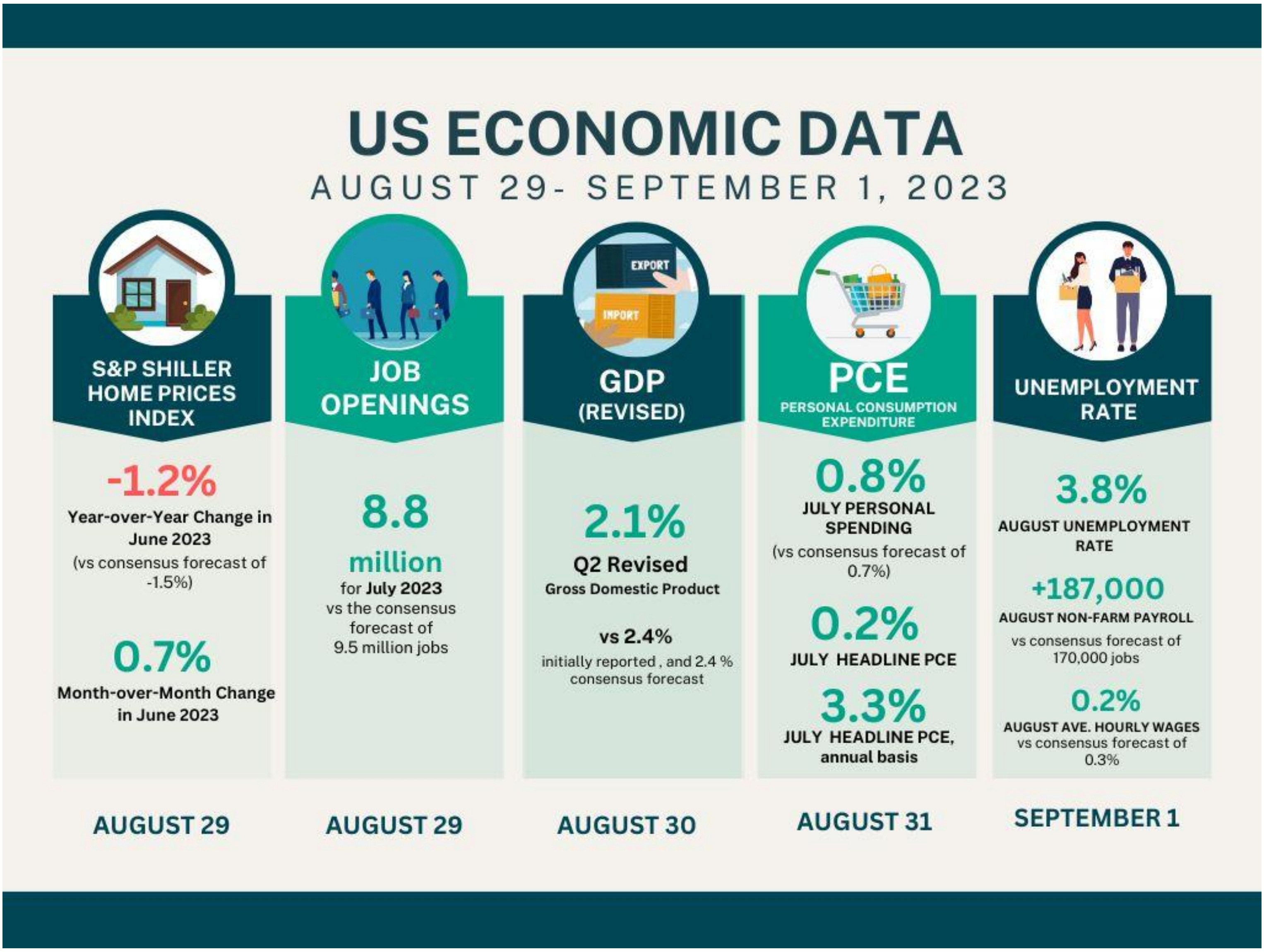


Figure 23. Summary of Last Week's US Economic Data

NEWS FROM THE CRYPTO-SPHERE

Robinhood Acquires Over 55 Million Shares Previously Owned by Ex-FTX CEO Sam Bankman-Fried

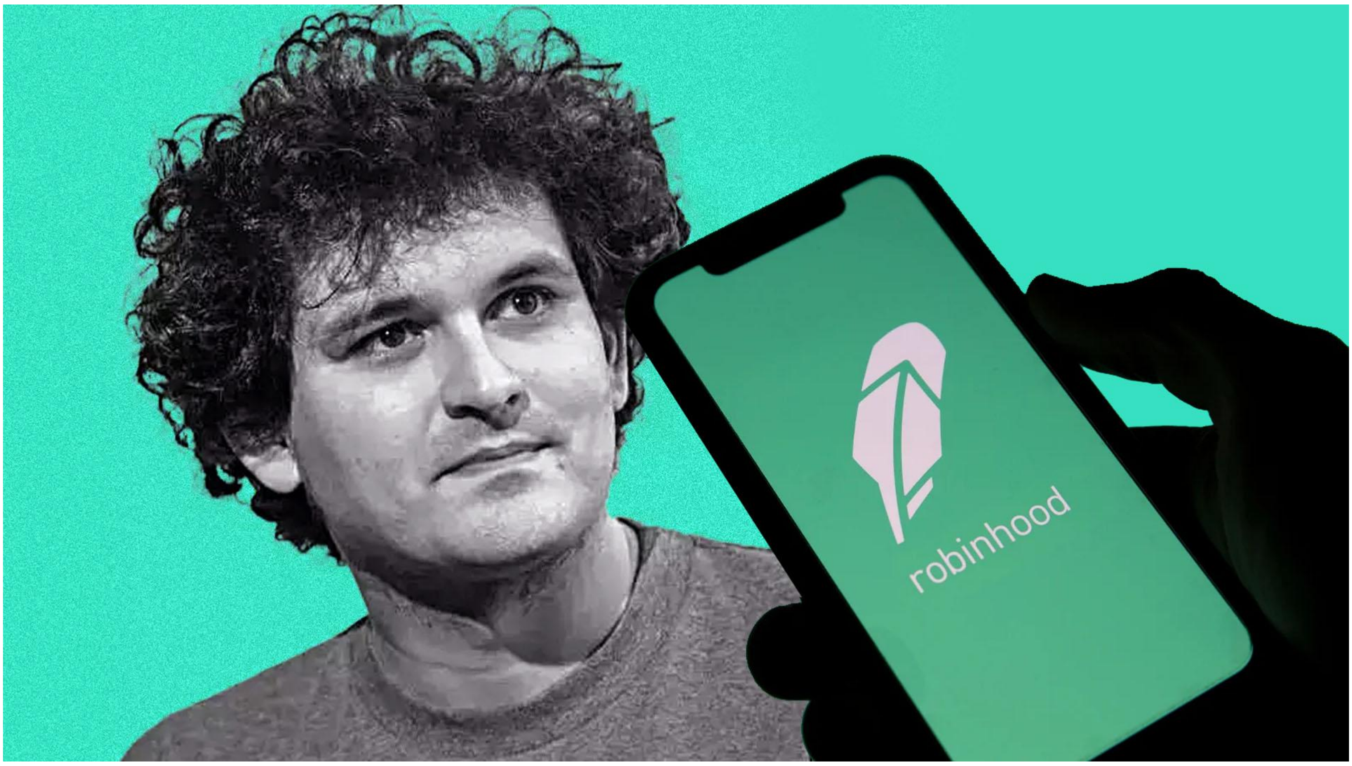


FIgure 24.Robinhood Acquires Over 55 Million Shares Previously Owned by Ex-FTX CEO Sam Bankman-Fried

- **Robinhood acquired 55.3 million shares formerly held by ex-FTX CEO Sam Bankman-Fried for $606 million after it had been previously seized by the U.S. Department of Justice**
- **Post-acquisition, Robinhood shares climbed 4 percent, and it was revealed as the fifth-largest Ether wallet owner with over $2.5 billion**

Robinhood, the cryptocurrency and stock trading platform, announced an acquisition of 55,273,469 of its own shares valued at around $606 million. These shares were formerly in the hands of Sam Bankman-Fried (SBF), the erstwhile CEO of FTX, and FTX co-founder, Gary Wang. They were held through the entity Emergent Fidelity Technologies and were seized by the U.S. Department of Justice in January.

This buyout didn't come as a surprise to many. Robinhood's directors had previously signalled their intent during their Q4 2022 report. Furthermore, an SEC filing on August 30 stated that the U.S. District Court for the Southern District of New York had given its approval for the acquisition, ensuring it was devoid of any external claims or liens.

Jason Warnick, the CFO of Robinhood, expressed his satisfaction with the transaction. "We are happy to have completed the purchase of these shares and look forward to executing on our growth plans on behalf of our customers and shareholders," he commented.

It's important to note the backdrop of this acquisition. Emergent Fidelity Technologies, in which SBF held a stake, declared bankruptcy in February. The company had been a focus point for BlockFi, the crypto lender which had also declared bankruptcy, in the wake of the FTX downfall. Prior to its collapse, FTX had acquired an option to buy BlockFi, and had pledged its 55m shares in Robinhood as collateral.

As FTX underwent bankruptcy protocols, a legal tussle ensued between SBF, BlockFi, and an FTX creditor named Yonathan Ben Shimon, all laying claim to the Robinhood shares worth approximately $600 million. Bankman-Fried's legal representatives contended that he should have access to these assets to fund his criminal defence. Following a bail rejection on August 11, Bankman-Fried is slated for his initial court appearance on October 3.

Grayscale Triumphs Over SEC in Legal Battle Over Bitcoin ETF Listing

Figure 25. Grayscale Triumphs Over SEC in Legal Battle Over Bitcoin ETF Listing

- **Grayscale Investments won a legal battle against the SEC, obtaining a reversal on the SEC's earlier decision to deny their Grayscale Bitcoin Trust (GBTC) conversion to a listed Bitcoin ETF**
- **Amid this legal victory, Grayscale has faced other challenges, including its parent company, Digital Currency Group (DCG), owing $3 billion in debt, and its former partner Genesis Global grappling with a suspension in withdrawals and outstanding debts**

Grayscale Investments, a leading crypto asset manager, recently won a significant legal challenge against the US Securities and Exchange Commission (SEC) regarding its attempt to transition its Grayscale Bitcoin Trust (GBTC) from over-the-counter trading to a Bitcoin ETF listed on an exchange.

In an earlier decision, the SEC had declined Grayscale's application, contending that the products didn't adequately guard against potential fraud and manipulative practices. Challenging this rejection, Grayscale took the issue to court, and the verdict has now favoured the asset manager.

Circuit Judge Neomi Rao of the US Court of Appeals [directed](#) the SEC to revoke its decision to deny GBTC's listing application. Judge Rao highlighted the commission's failure to provide a clear rationale behind deeming Grayscale's offering inappropriate. It's essential to note, however, that this reversal doesn't ensure the automatic listing of Grayscale's Bitcoin ETF.

Grayscale's CEO, Michael Sonnenshein, recently commented on X (previously known as Twitter) that their legal team is closely examining the court's judgement.

Figure 26. Tweet from Grayscale CEO Michael Sonnenshein

On June 29, 2022, the SEC had initially turned down Grayscale's proposal to transform its GBTC into an ETF. Grayscale lodged a review petition the next day with the US Court of Appeals for the District of Columbia Circuit, and Sonnenshein expressed profound dissatisfaction with the SEC's unfavourable decision at the time.

Figure 27. Greyscale CEO Michael Sonnenshein Tweet haver SEC turned down Grayscale's Proposal

Worth noting is that the Grayscale Bitcoin Trust is the premier Bitcoin fund available for over-the-counter trade, boasting a staggering $14 billion in managed assets. Earlier this year, due to its ongoing legal tussle with the SEC and credit worries tied to its parent company, Digital Currency Group (DCG), GBTC's shares traded at nearly half their actual value.

Last year, Grayscale also severed ties with its digital currency broker, Genesis Global, which was followed by Genesis Global suspending withdrawals due to market upheavals triggered by the FTX exchange collapse. The broker also took a hit from the downfall of Singapore's Three Arrows Capital crypto hedge fund, which has yet to clear its outstanding $1.2 billion debt to Genesis.

Gemini and Creditors Challenge Genesis' Bankruptcy Resolution Proposal

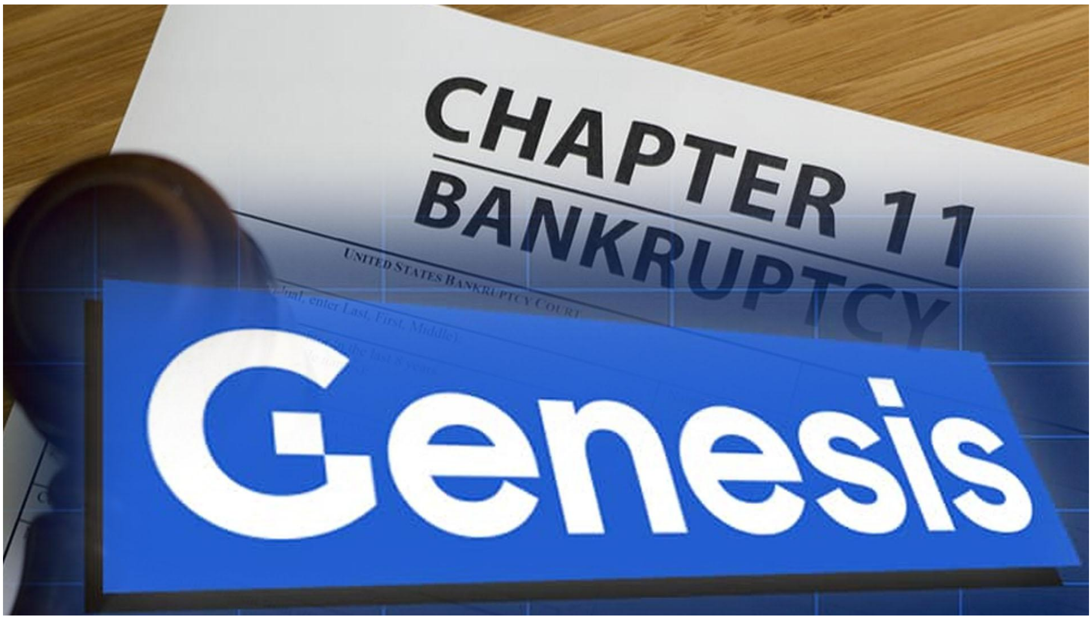


Figure 28. Gemini and Creditors Challenge Genesis' Bankruptcy Resolution Proposal

- **Lawyers for the crypto exchange Gemini and the Fair Deal Group have raised concerns over Genesis' bankruptcy resolution proposal, emphasising its lack of detail and insufficient economic guarantees**
- **Amid these concerns, all parties involved have urged an end to Genesis' exclusive mediation period, with Gemini highlighting DCG's failure to repay approximately $630 million in loans since May 2023**

In a recent legal development, attorneys representing the cryptocurrency exchange Gemini, have expressed concerns over the proposed resolution for Genesis' bankruptcy. In a filing last Wednesday, August 30, they stated that the resolution lacked substantial detail and failed to provide guarantees for some of Genesis' largest debtors.

This sentiment was echoed by the Fair Deal Group, a collective of ad hoc creditors, who also filed an objection. They argue that the proposed agreement needs to be revised to address the debts Genesis owes and question the company's ability to finalise a practical plan.

Gemini's filing cited that "On August 29, 2023, the Debtors revealed an 'agreement in principle' among the Debtors, the Committee, and DCG (Digital Currency Group) that is woefully light on specifics and remains subject to definitive documentation".

Genesis had declared bankruptcy in January. In their August filing, the lender's lawyers suggested that unsecured creditors might reclaim as much as 90 percent of their holdings' value in USD, although comprehensive details were withheld.

Another creditor group, the Ad Hoc Group of Genesis Lenders, previously filed a complaint stressing the inadequacy of DCG's role in addressing the uncontested loan amounts.

All three parties have collectively advocated for discontinuing the exclusive timeframe given to Genesis. This period had permitted Genesis to hold mediation sessions in order to rectify its bankruptcy.

"Debtors have repeatedly promised that a plan that resolves claims against DCG is right around the corner, as they seek extension after extension of mediation periods, hearing dates, and bid deadline," the Gemini filing cited. The harm to Gemini is worsened by the fact, it said, that DCG has "not paid any of the approximately $630 million in loans that came due to the Debtors in May 2023."

German Member of the European Parliament Advocates Digital Euro Amid Scepticism

Figure 29. German Member of the European Parliament Advocates Digital Euro Amid Scepticism

- **German MEP Stefan Berger is leading efforts for the introduction of a digital euro, despite a mixed reception at the European Parliament about its benefits**
- **While the European Central Bank (ECB) is still undecided on the CBDC, there's a call for it to be usable offline, mirroring traditional cash, to foster innovation amidst geopolitical challenges**

German Member of the European Parliament (MEP), Stefan Berger, confirmed on Wednesday, August 30, his intention to spearhead new legislation favouring the establishment of a digital euro. Having previously guided the EU's notable Markets in Crypto Assets regulation through the Parliament, Berger is set to embrace a comparable role concerning the central bank digital currency (CBDC), despite the scepticism expressed by several of his parliamentary peers.

Berger, while expressing his views on X (the platform formerly known as Twitter), stated, "Having your own digital currency makes the EU more independent of non-EU countries and is part of the digital age." He further emphasised, "However, the project will only succeed if you can trust the digital euro just as much as you can trust cash."

Figure 30. Tweet from Stefan Berger on X

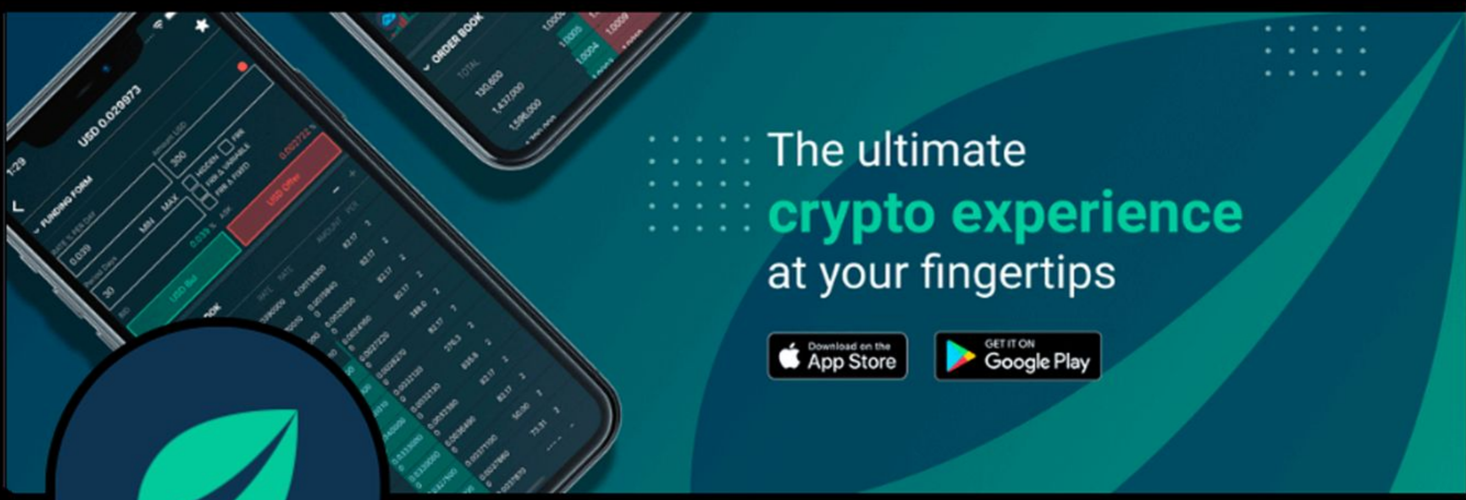
Currently, the European Central Bank (ECB) still needs to finalise its stance on issuing the CBDC but has channelled considerable resources into its technical development. The European Parliament, in collaboration with EU national governments, must reach a consensus on the legal framework surrounding the digital currency. This consensus is especially crucial in domains such as data protection. Additionally, indications from ECB officials suggest that the Parliament's prevailing political climate will heavily influence their decision on the CBDC.

Berger is recognized for his pro-crypto stance, notably opposing initiatives to restrict energy consumption linked to proof-of-work (POW) technology. The initiative to limit energy consumption for POW was perceived by some as a covert effort to inhibit Bitcoin. He will play a role in recommending revisions to the preliminary legislation, offering fellow lawmakers an opportunity to propose, amend, and vote. Subsequently, Berger is anticipated to steer dialogue with the Council, to formulate a cohesive version of the legislation.

Nevertheless, the journey towards a digital euro has its detractors. A number of European Parliament members, including Markus Ferber, the economic spokesperson of Berger's political faction, have shared their reservations about the utility of a Digital Euro

Michael Hoogeveen, a Dutch MEP who will lead negotiations for the European Conservatives and Reformists political grouping echoed such concerns, remarking, "The digital euro is a solution looking for a problem and potentially only causes problems ... it will only cause confusion amongst consumers and could undermine confidence in financial systems." Although conceding the possible lack of sufficient opposition votes, he asserted, "We'll at least try to adjust it, and I will try my utmost to address the concerns of citizens."

Amid these debates, officials from the Commission have championed the CBDC as pivotal in fostering innovation, especially against the backdrop of geopolitical discord.



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