# BITFINEX Alpha


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# EXECUTIVE SUMMARY

In what has been another range-bound week for Bitcoin, we are seeing miner and supply dynamics becoming more prominent features of the market, amid more event based volatility.

Bitcoin mining costs are estimated at $24,287, close to the current market value, and this has led to a 2.65 percent decrease in mining difficulty on September 6th, as mining operational activities and the hash rate dropped.

Liquidity is also drying up, with almost 69 percent of all mined Bitcoin not moving in over a year. The world's biggest crypto asset is increasingly in the hands of long-term believers and investors with extremely high conviction.

Any crypto market volatility is now mainly increasingly attributed to event-driven shocks, such as the August 17th flash crash or perceived positive news around potential spot Bitcoin ETF product approval by the SEC. However, capital is also draining away from the market. An analysis of the aggregate realised value metric of BTC, ETH and the major stablecoins, indicates that about $55 billion in capital exited the market in August.

These dynamics come against the backdrop of continued mixed signals from the US economy. While the service sector grew, according to the latest PMI data, cementing continued concerns around inflation, employment growth and factory orders are slowing. Non-farm productivity is up, but the inventory-to-sales ratio has fallen to a more than 3-year low. The US trade deficit continues to widen.

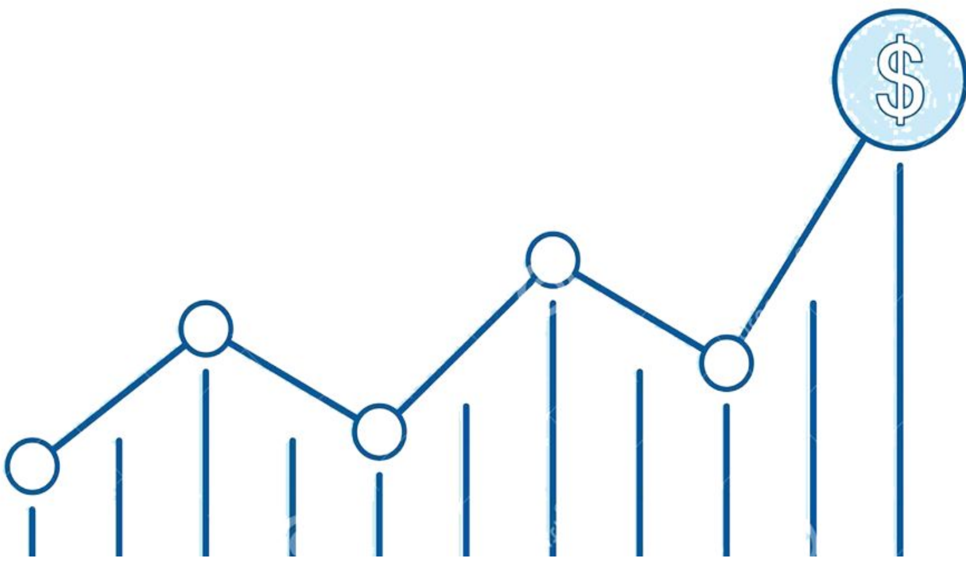
Of course all the economic data should not be given equal weight in assessing the overall economy and not all are connected, but the lack of a clear picture means we expect policy makers to keep rates on hold at next week's FOMC meetings.

In crypto news developments, FTX co-founder Sam Bankman-Fried's legal access issues continue, with his defence challenging current arrangements. Meanwhile, Visa has partnered with the Solana blockchain to enhance stablecoin settlements. In blockchain innovation, an Ethereum developer proposes an "Ethereum Supreme Court" to mediate key disputes.

Have a good trading week!

# INDEX





# WHAT'S ON-CHAIN THIS WEEK?

# Bitcoin Negative Difficulty Adjustment

**Bitcoin miners have been facing cost pressures as the cost of mining has been close to the market price, and miner selling pressure has been the driver of one of the only long-term holder cohorts that have been seen to be  exiting on-chain positions in the market. Last Wednesday, September 6th, the mining difficulty underwent a negative 2.65 percent adjustment. (refer Figure 1 below), likely reflecting a decrease in operational activity, albeit is a small adjustment.**

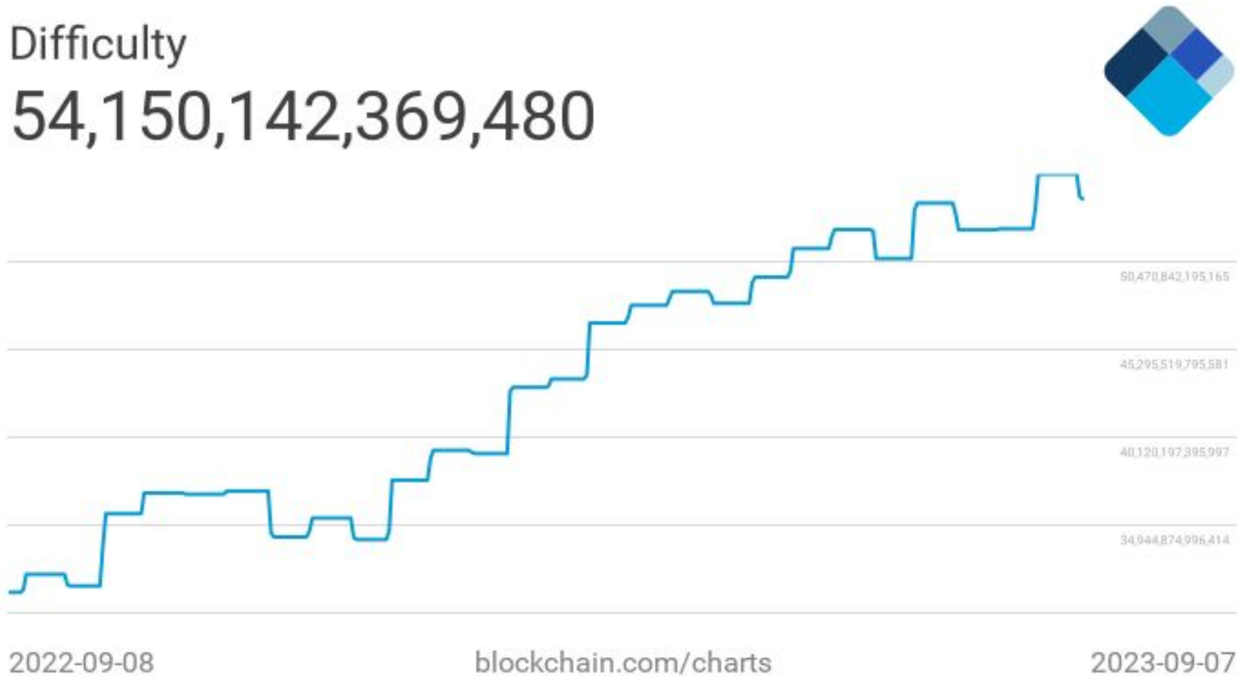



***Figure 1. Mining Difficulty, Bitcoin***

Bitcoin's difficulty adjustment is a mechanism to ensure that blocks are added to the blockchain approximately every 10 minutes, on average. The difficulty of the cryptographic puzzle that miners must solve to add a block is adjusted roughly every two weeks (or specifically, every 2016 blocks). If blocks were being added faster than every 10 minutes over the previous 2016 blocks, the difficulty would increase. Conversely, if blocks were being added slower than every 10 minutes, the difficulty would decrease.

A negative difficulty adjustment, like the -2.65 percent mentioned above, suggests that block times over the previous period were slower than the 10-minute target.

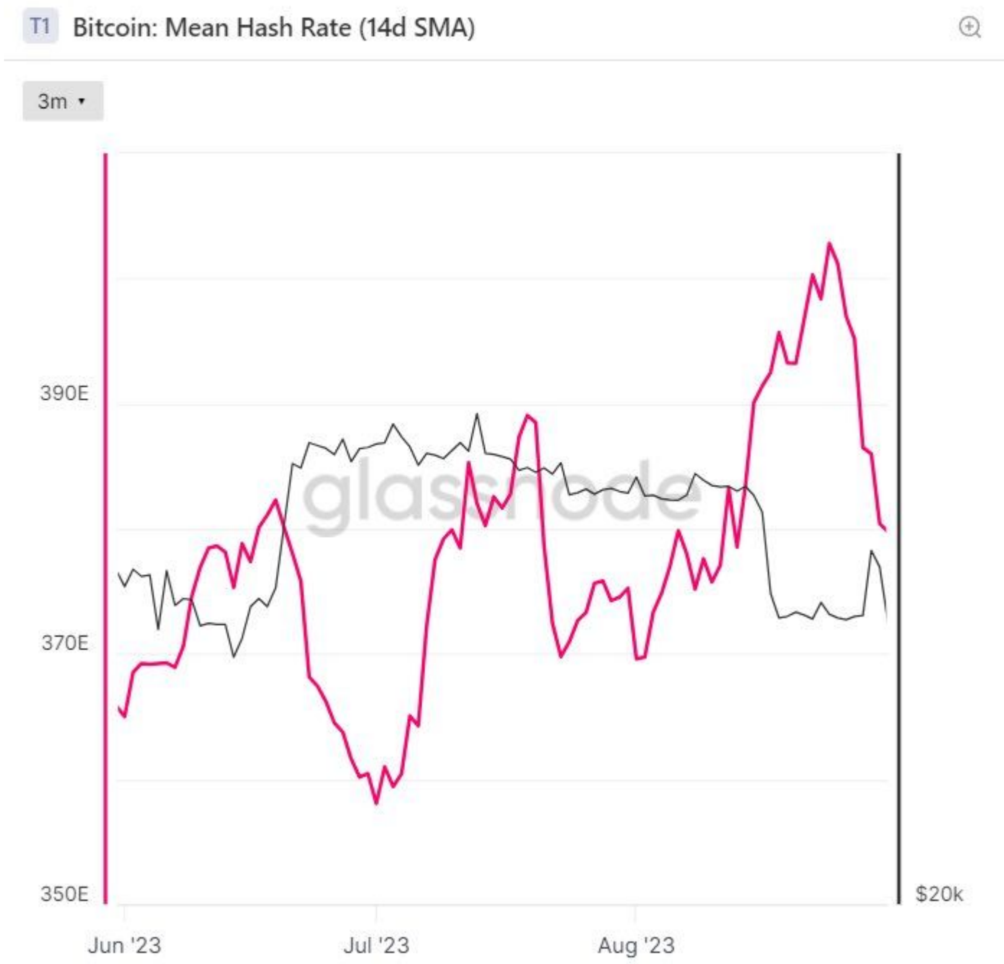



***Figure 2. Bitcoin Mean Hash Rate 14-Day Simple Moving Average. (source: Glassnode)***

The negative difficulty adjustment can be directly traced to a decrease in the total hash rate of the network. The figure above shows the moving average as the hash rate can be a “noisy” parameter which requires smoothening in order to derive useful insights. The decrease in hash rate in turn might have resulted from miners going offline or reducing their operations.

Miner positions can also be seen via the Miner Position Index (MPI) metric. This measures the ratio of the total miner outflow currently to its one-year moving average. (refer Figure 3 below)

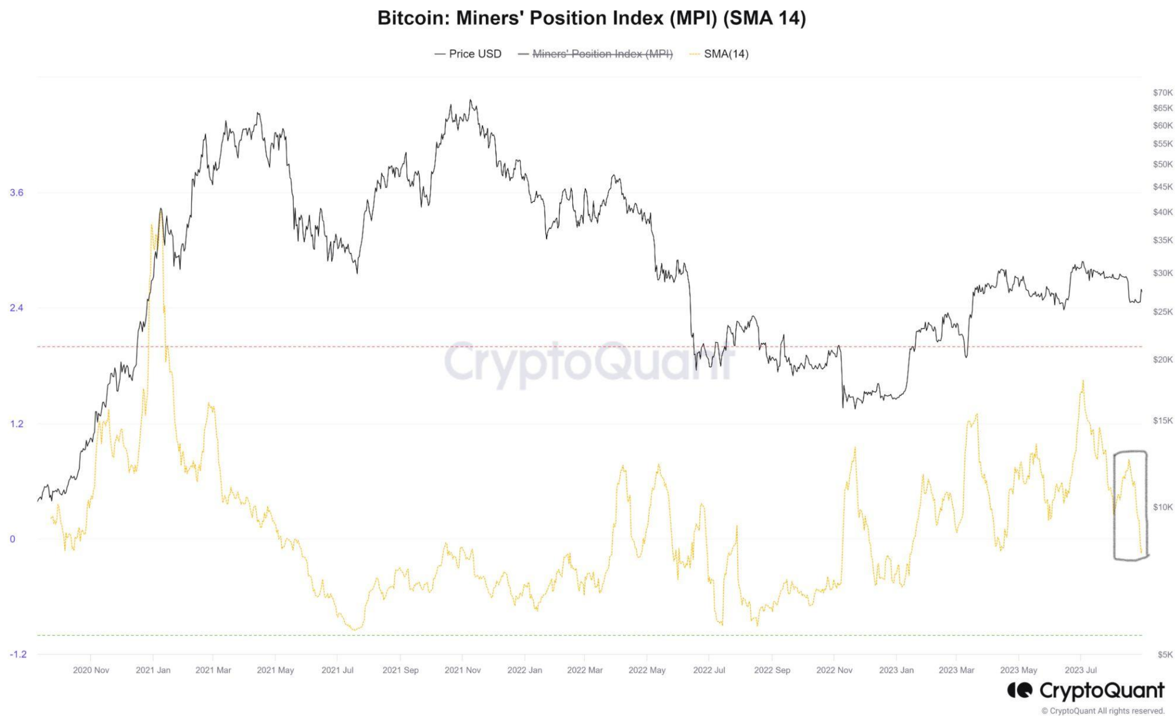



***Figure 3. Miner's Position Index (source: CryptoQuant)***

Historically, miners are not regarded as sophisticated investors that time the market well. Generally, as long as the BTC is above their cost of production, they take gradual profits. During sudden price declines, they have been known to sell partial reserves to be able to sustain operations (sometimes capitulation occurs when price continues to drop), and then maintain their reserves for higher prices.

This is the exact behaviour observed in the marked box in Figure X above. There were some notable outflows, potentially selling, which happened right after the August 17th drop in BTC. But since then, outflows have gone negative, implying inflows into miner wallets. This suggests reducing selling pressure from miners.

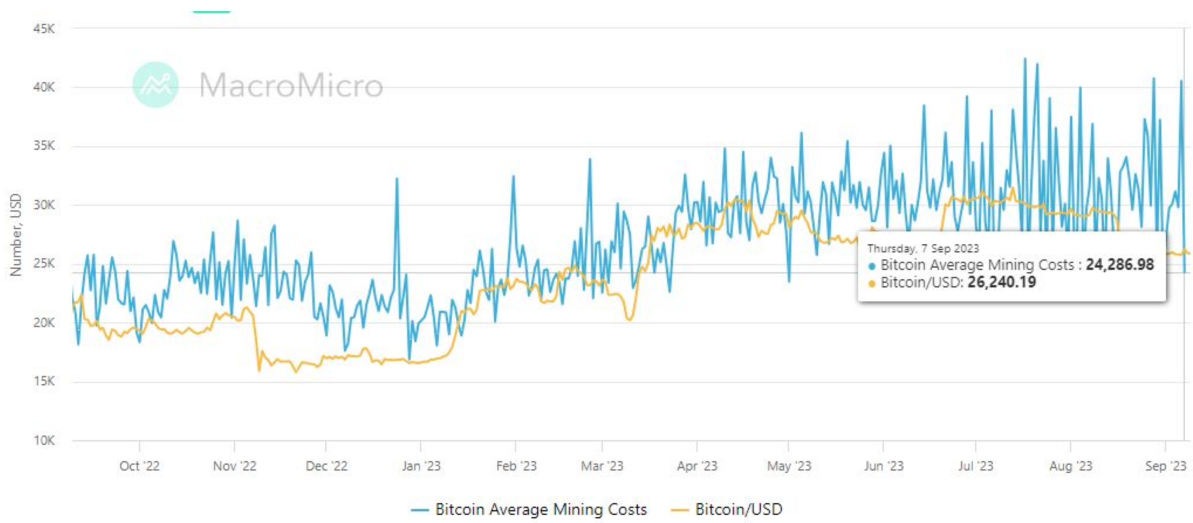



***Figure 4. Bitcoin Average Mining Cost. (source: MacroMicro)***

The average mining cost was estimated to be above the BTC price on August 18th after the drop, but has since fluctuated to below it. However, if miners have operational costs covered, the negative difficulty adjustment and the reduction in mining operations could have been temporary outliers. The latest estimated cost of production is $24,287 per Bitcoin. It must be noted that this is an estimate and may drastically vary across different miners. Miners have historically refrained from selling BTC this close to cost of production unless they are forced to do so. This further adds to our hypothesis that mining selling pressure will continue to be lower or negligible over the next few weeks or months.

It is important to note that mining company stock prices have soared hundreds of percentages in 2023 and financial giants like Blackrock which are pushing for Bitcoin spot ETFs are major shareholders in a lot of major mining companies.

# Bitcoin Liquid Supply Crunch Analysis

**Last week continued to indicate how Bitcoin's illiquid supply continues to increase. The short-term supply that had decreased (due to selling) during and post the flash crash on August 17th has also decreased. The Short Term Supply to Long Term Supply Ratio for Bitcoin continues to decrease towards yearly lows. (refer Figure 5 below)**

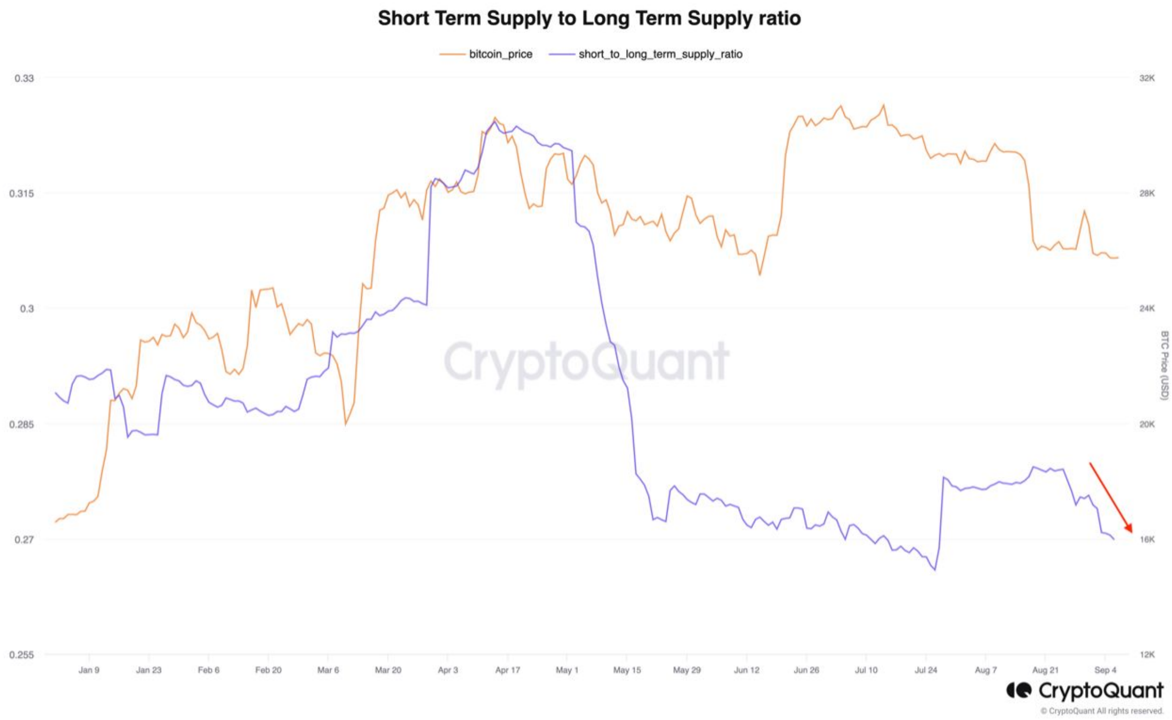



***Figure 5. Short Term to Long Term Supply Ratio. (source: CryptoQuant)***

Liquid supply corresponds to short-term holders. These are at the forefront of market movements and respond to price fluctuations actively. Illiquid Supply Reserves correspond to the Long-Term Custodians (Holders). Their stance towards Bitcoin is one of unwavering allegiance. Their strategy is to gradually accumulate over downturns and take partial profits or none at all at market tops.

Among the vanguard metrics in on-chain analytics lies the Short-Term to Long-Term Supply Ratio. Determined by juxtaposing the liquid against the illiquid supply, this metric offers a window into the psyche of Bitcoin custodians.

A dip in this ratio hints at accumulation. This pattern is indicative of long-term investors quietly amassing more Bitcoin.

The shift from short-term holders to seasoned long-term holders paints a tale larger than mere numbers. Crypto is mostly a narrative driven market, this particular shift heralds an evolution in Bitcoin's narrative. The sentiment conveyed via this supply shift is one that paints Bitcoin not as a speculative asset but a strategic piece of an investment portfolio.

Normally, it is not useful to look at Bitcoin supply inactivity metrics that go too far back, as many coins in the early years of Bitcoin were lost and hence on-chain remain inactive. However, we find that the one-year inactive Bitcoin supply metric is a good indicator of investor sentiment (refer Figure 6 below).

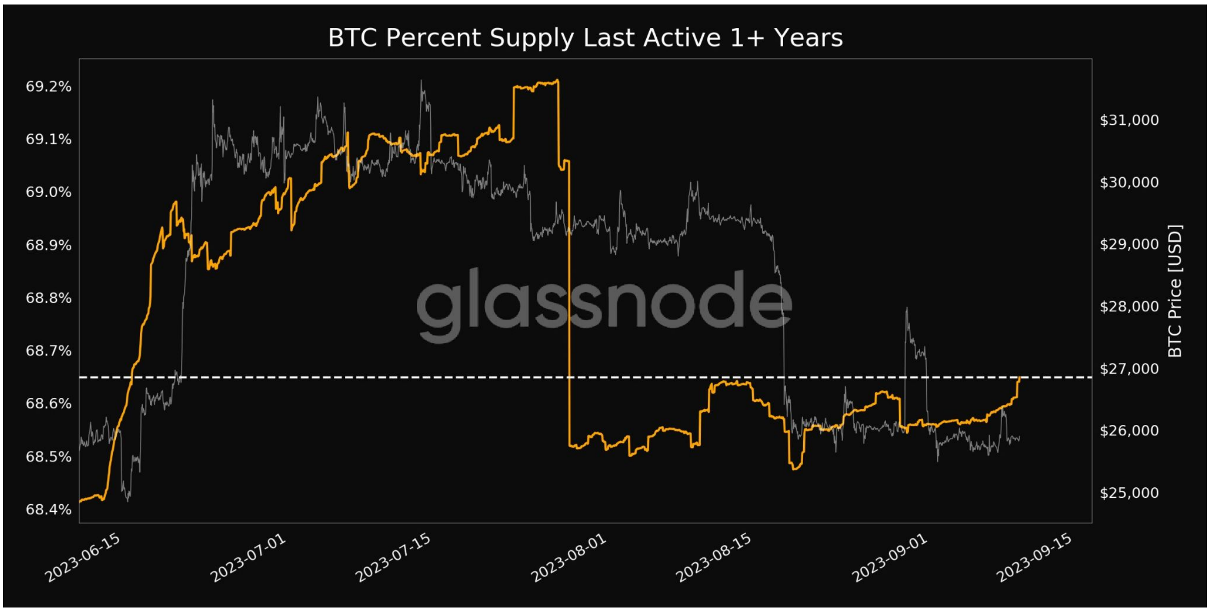



***Figure 6. Bitcoin Percentage Supply Last Active One Year Ago. (source: Glassnode)***

This metric is now close to its all time high, sitting at 68.649 percent at the time of writing, just off the 69.2 percent reached in July of this year.

A scanty 4,120,775 BTC currently makes up the liquid supply. The number reflects increased accumulation by long-term holders, who are putting their assets into cold storage, and is also impacted by the lost coins, mentioned above. The creation of new BTC through mining of course positively affects the liquid supply, and any mining uptick will increase the number of coins available, however Bitcoin's in-built difficulty adjustment serves to keep this in check.


***Figure 7. Bitcoin Liquid Supply vs Price. (source: CyrptoQuant)***

A chunk of Bitcoin remains either in the grip of long-haulers or is irretrievably lost, limiting its availability for real-time trade.

Such a lean liquid supply might amplify price fluctuations and volatility, and even though volatility currently remains low by historical standards, what we refer to as 'news-based' volatility (see below) has increased and is having a higher impact on the market than in the second quarter of 2023. This is all the while the liquid supply continues to shrink and volumes reduce across the board for all crypto assets.

# Crypto Liquidity Dries up As Event Driven Volatility Returns

**The August 17th flash crash and August 29th Greyscale ETF news pump (refer Figure 8 below) is evidence that event-based volatility has returned to crypto. We believe that while volatility metrics continue to be low, the liquidity crunch in the market has allowed isolated events to have a bigger impact on market movements.**

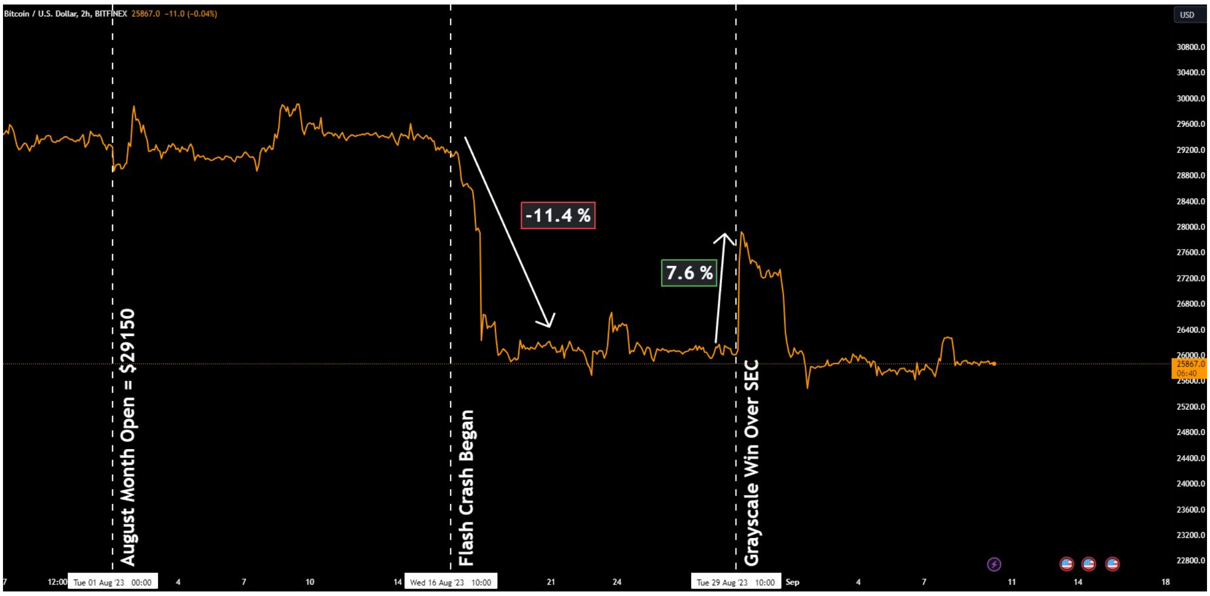



***Figure 8. BTC/USD 2H chart. (source: Bitfinex)***

The above figure illustrates two extreme price fluctuations in a very short span of time. Both suggest that isolated volatility has re-entered the market. The flash crash resulted in BTC selling off over 11.4 percent in a matter of a few hours, similarly Greyscale's legal victory over the SEC resulted in a 7.6 percent price appreciation within two hours. This was, however, retraced within the next few days and the monthly close was around $26,000.

August was the largest red monthly candle for BTC since the bear market bottom was formed in November 2022 at –11.29 percent as per Bitfinex Data. The following days in September have been relatively quiet as price has continued to hover in a four percent range.

The 'Aggregate Realised Value' metric is good for understanding the overarching capital movements within the industry. It analyses the realised capital of BTC and Ether (ETH), with the combined supply from the top five stablecoins: USDT, USDC, BUSD, DAI, and TUSD. A deep dive into the data reveals a prevailing trend: by early August, the industry had begun to experience capital outflows, a phenomenon that occurred even before the two major events discussed above took place.

By this metric, roughly $55 billion (refer Figure 9) was drained during August. It is important to note that the reduction in capital was not just isolated to one asset but is a composite effect of capital departures from three major pillars: Bitcoin, Ethereum, and stablecoins.

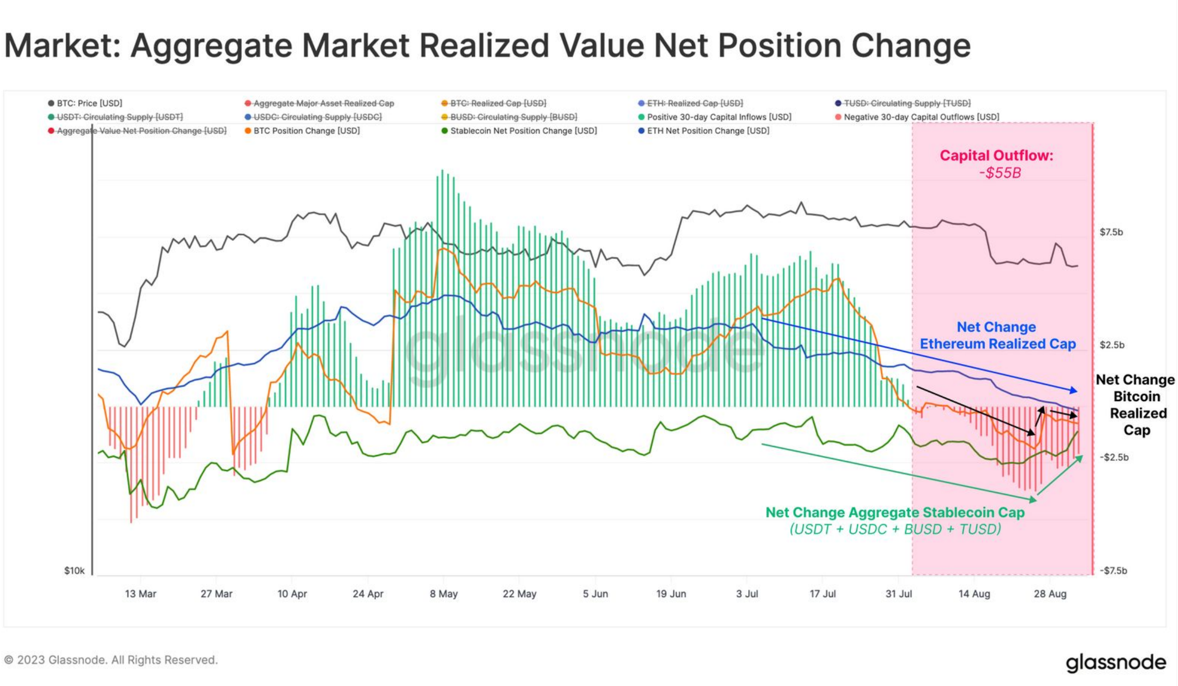



***Figure 9. Aggregate Market Realised Value Net Position Change (source: Glassnode)***

Normally, Bitcoin-related data movements are analysed to gauge investor participation. However, Bitcoin Open Interest has been sustained better than almost the entire market due to the increased institutional interest and [wash trading] on some exchanges.

Now that crypto derivatives markets are more mature, they can be seen not just as transactional hubs but also crucial barometers, providing insights into market sentiment.

Ether (ETH) futures and options markets have slowed considerably in 2023, compared to the bustling scenes of 2021 and 2022. (refer Figure below)

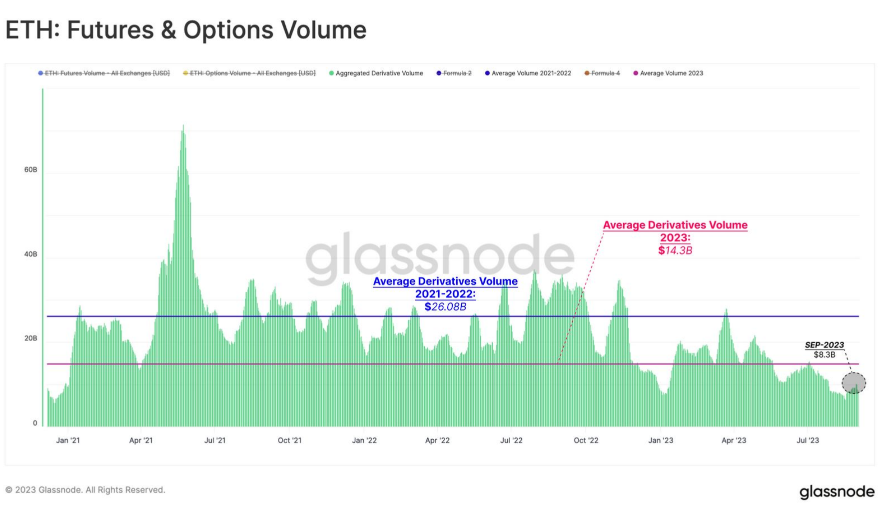



***Figure 10. Ether net derivatives volume. (source: Glassnode)***

Current statistics show the average daily trading volume dwindling to a mere $14.3B per day, marking a steep decline of almost 50 percent from the two-year average. The recent week's figures are even more telling, with volumes plunging further to $8.3B daily, underlining the continuous ebb in liquidity from the sector.

The trajectory seen in the derivatives market, particularly in open interest (OI) across both futures and options, mirrors these patterns of low liquidity. Post the tumultuous downturn caused by the FTX debacle, 2023 saw a revival in OI, marking renewed enthusiasm. Intriguingly, the zenith for options OI coincided with the March banking turmoil in the US, when several banks were declared bankrupt and had to be rescued, and which saw USDC deviating from its dollar peg. ETH futures, on the other hand, saw OI peak around the time of the Shanghai Upgrade in April.

However, in the aftermath, the notional value of active contracts across both these ETH options and futures have exhibited relative stability. ETH options OI has surpassed the ETH futures OI and stands  at around $5.3 billion presently.


***Figure 11. Ether Futures Open Interest vs Price. (source: Coinglass)***

The current average for September’s futures OI values is around $4.4 billion which is less than the average since 2021 at around $6.5 billion. The higher average was somewhat maintained even during the liquidity crunch and price downturn of the 2022 bearish market conditions, this further highlights the lack of liquidity currently and especially in altcoins.

# GENERAL MARKET UPDATE

# US Manufacturing Sector: A Deep Dive into Current Trends

**The US manufacturing sector is a mixture of challenges and silver linings, as recent data reveals a dip in factory orders, an expanded trade deficit, and a rebound in worker productivity.**

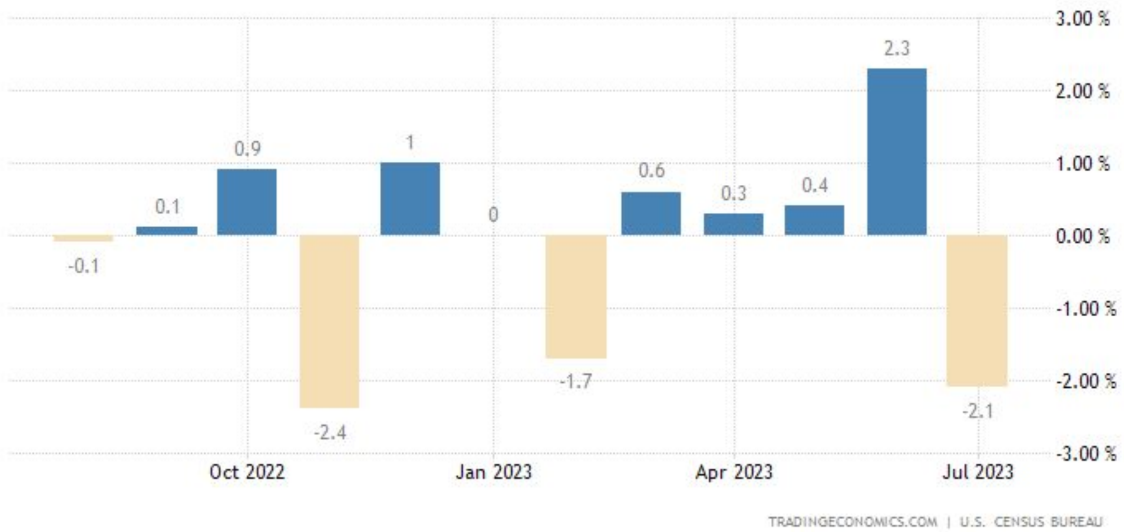



***Figure 12. Factory Orders (Source: US Census Bureau, Tradingeconomics)***

**Factory Orders Drop in July**

The US manufacturing sector experienced a setback as factory orders fell by 2.1 percent in July, according to a Commerce Department report issued last Tuesday, September 5th. This drop almost offsets the 2.3 percent increase seen in June, ending four consecutive months of gains. Interestingly, the decline was less severe than the consensus forecast of -2.3 percent. Despite the monthly dip, orders for July are still up by 0.5 percent on a year-over-year (YoY) basis.

The dip in factory orders indicates a potential cooling in manufacturing demand. If this trend persists, it could be symptomatic of broader economic sluggishness, suggesting that consumers and businesses might be pulling back on spending. A continuous decrease in factory orders might be seen by the Fed as a sign that the economy is slowing down more than anticipated. This could make the case for keeping interest rates stable or even lowering them to stimulate economic activity.

**Growing Trade Deficit**

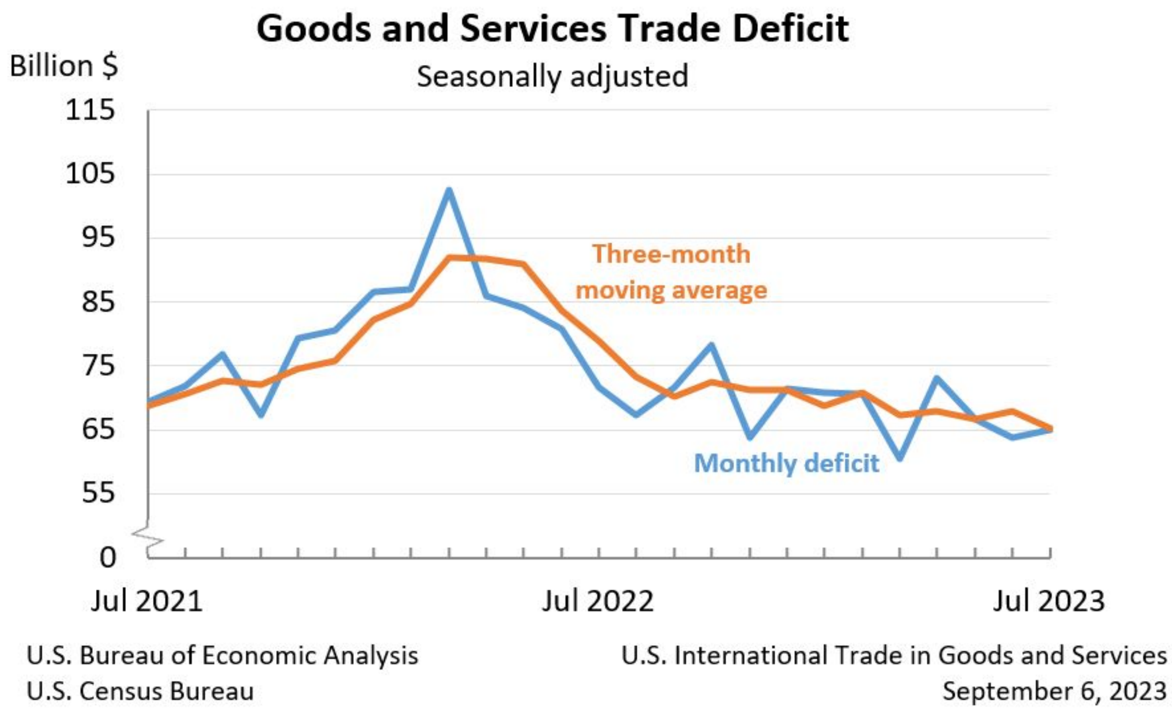



***Figure 13. US Goods and Services Trade Deficit (Source: US Bureau of Economic Analysis, US Census Bureau)***

Data from the US Census Bureau last Wednesday, September 6th,  highlighted a widening trade deficit for July, with the gap reaching $65.0 billion, up from June's $63.7 billion. However, the deficit is still below the average for the second quarter.

Imports jumped by 1.7 percent to a total of $316.7 billion, partially driven by an uptick in consumer goods like mobile phones, pharmaceuticals, and semiconductors. Exports also grew 1.6 percent, totalling $251.7 billion for the month.

It paints a picture of a mixed economic environment. On the one hand, the US economy shows signs of deceleration, as factory orders fall, but  consistent consumer spending has driven up trade imports.  If the Fed continues raising interest rates, this could harm consumer demand. Hence our view that the Fed will maintain rates at the next scheduled Federal Open Market Committee (FOMC) meeting on 19-20 September.

In addition, demand for US products hasn't completely evaporated, but it's evident that export volumes aren't matching the previous year's figures. Diminishing exports could raise concerns about the competitiveness of US goods abroad, especially with the strengthening dollar making American products more expensive for foreign buyers. Another reason why we think rates will remain stable for now.

### Productivity Gains Amid Challenges

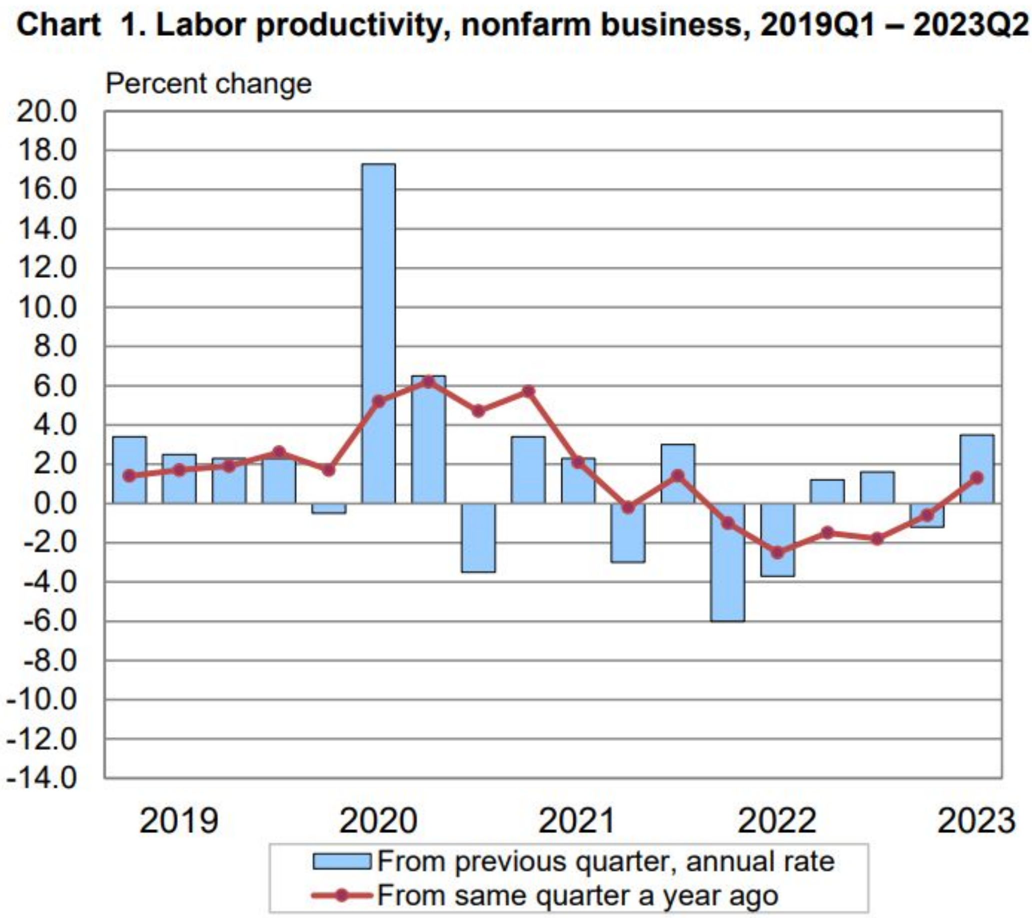



***Figure 14. Labor Productivity, Nonfarm Business (Source: US Department of Labor)***

US worker productivity is also showing encouraging signs, according to Nonfarm productivity figures released by the Labor Department last Thursday, September 7th. Nonfarm productivity, a measure of hourly output per worker, saw 3.5 percent annualised growth rate, marking its highest surge since Q3 2020. This rebound contrasts starkly with the -1.2 percent recorded in the first quarter.

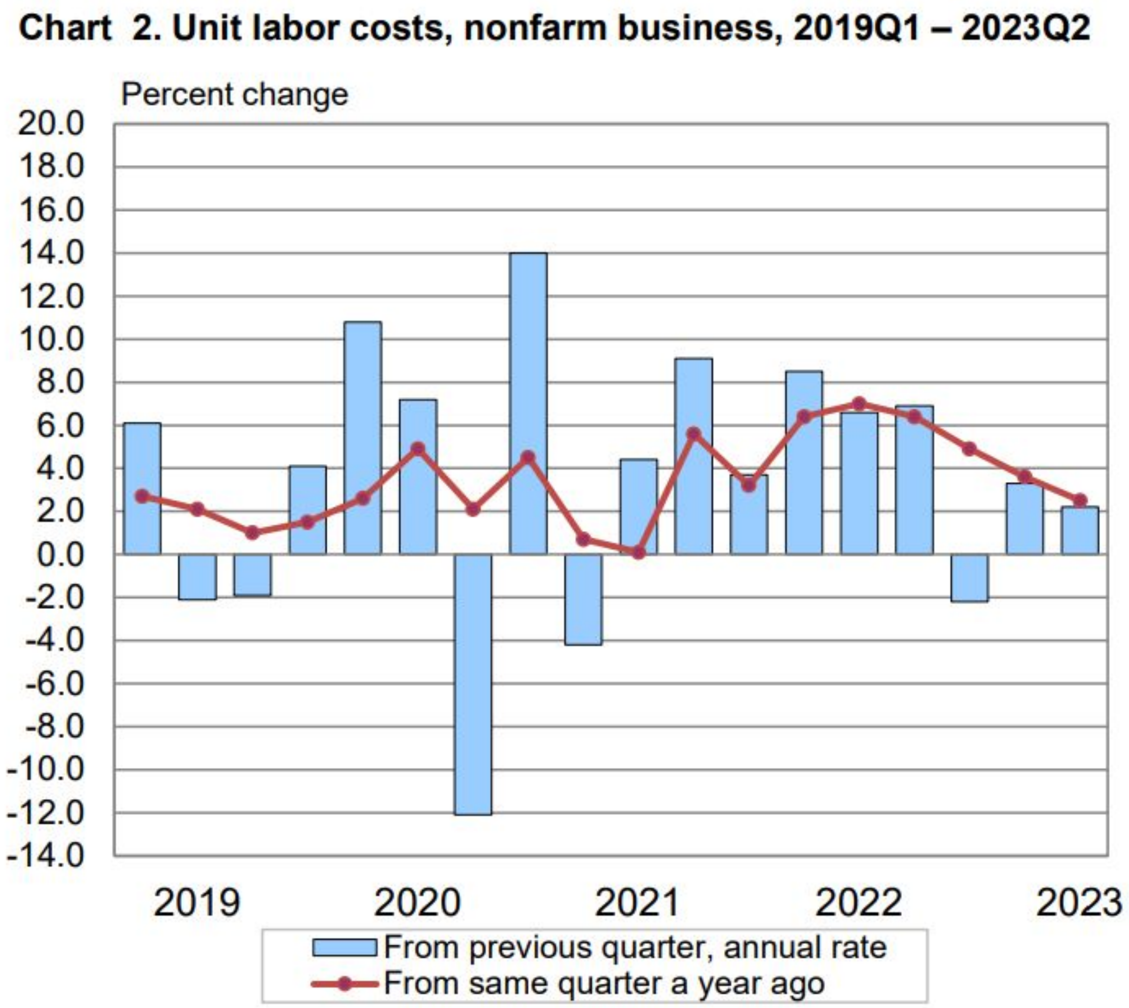



***Figure 15. Unit Labor Cost (Source: US Department of Labor)***

The productivity report also spotlighted unit labour costs, which grew at an annualised 2.2 percent rate in Q2. While this growth rate is above the initially reported 1.6 percent, it's lower than Q1's 3.3 percent.

The Fed will undoubtedly take note of these productivity gains and labour cost adjustments. These metrics are essential for the Fed's mission to reduce inflation. Yet, these figures might not prompt immediate action from the central bank.

As we have seen, manufacturing and trade data suggests underlying strength in the US economy, particularly with resilient consumer spending. However, continuing strong consumer demand cannot be guaranteed, and that combined with uncertain global market conditions, and the pressure of a strengthening dollar can't be overlooked. As it stands, the Fed is likely to maintain its policy rate, currently set between 5.25 percent and 5.50 percent , at the next FOMC meeting on September 19th-20th.

## Summary:

| | | Covered Period | Current Value | Previous Value |
|---|---|---|---|---|
| Factory Orders | ▼ | July | -2.1 | 2.3 |
| US Trade Deficit | ▲ | July | $65B | $-63.7 |
| Worker Productivity | ▲ | Quarter 2 | 3.5% | -1.2% |
| Unit Labor Cost | ▲ | Quarter 2 | 2.2% | -1.6% |

- **Factory Orders:** Factory orders in the US dropped by 2.1 percent in July, almost offsetting June's 2.3 percent gain.
- **Trade Deficit**: The US trade deficit widened to $65.0 billion in July from $63.7 billion in June, with imports, including consumer goods, showing a significant increase. There's a concern over diminishing exports and the competitiveness of US goods abroad, especially with a strengthening US dollar.
- **Worker Productivity**: US nonfarm productivity exhibited a strong growth of 3.5 percent annually, the highest since Q3 2020, suggesting efficiency gains among the workforce.

# US Service Sector's Resilience Has Market Watchers Recalibrating Expectations

**In a twist few saw coming, the US service sector  exhibited unexpected growth in August, stoking the embers of inflationary concerns. While other sectors flashed signs of a deceleration, services bucked the trend, highlighting an economic narrative full of contrasts.** The data prompts a bigger question: Is the US economy primed for a more sustained inflationary period than initially anticipated? Only time will tell.

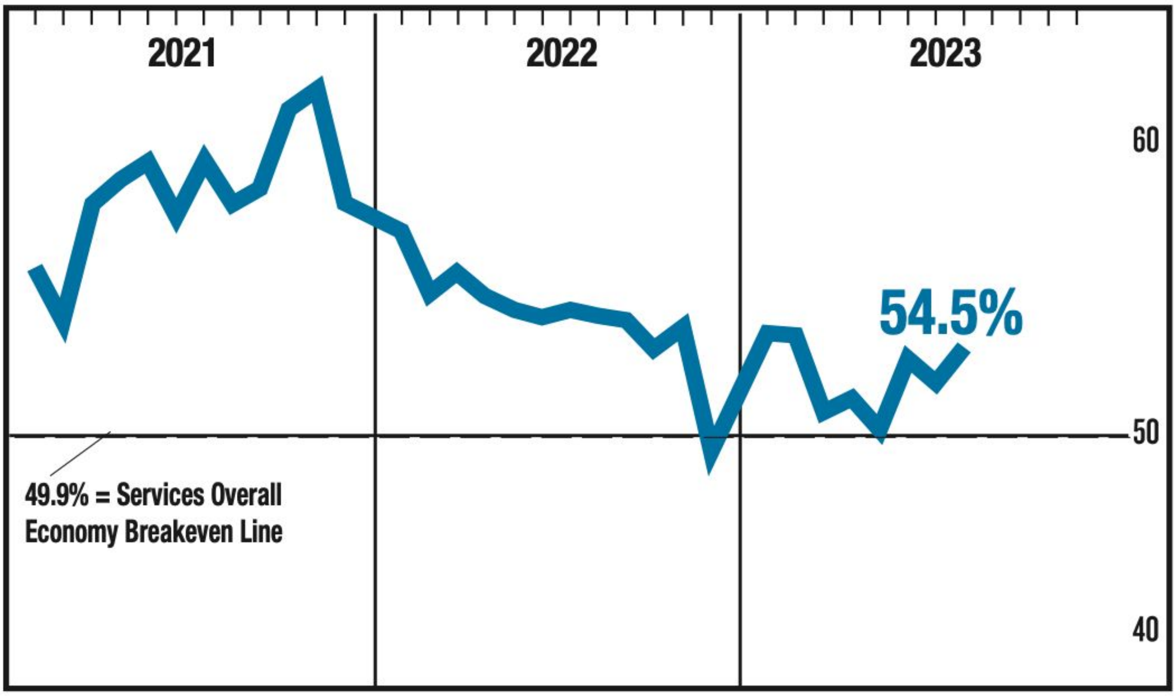



***Figure 16. ISM Services PMI (Source: Institute for Supply Management)***

Data from the Institute for Supply Management (ISM) unveiled a robust jump in the non-manufacturing Purchasing Managers Index (PMI), reaching 54.5 percent in August — its zenith since February. Not only did this substantial climb from July's 52.7 percent shine a spotlight on the resilience of the service industry, it also underscored its significance, given that it represents over two-thirds of the US economic landscape. For context, if this metric is at 49.9 percent, the overall services economy is said to be at breakeven. This upward pivot is also in stark contrast with consensus forecasts, which had pegged the PMI on a descent, anticipated at 52.5. The numbers have pundits and market-watchers alike recalibrating their expectations for the latter part of the year.

| INDEX | Aug Index | Jul Index | % Point Change | Direction | Rate of Change | Trend* (months) |
|---|---|---|---|---|---|---|
| Services PMI® | 54.5 | 52.7 | +1.8 | Growing | Faster | 8 |
| Business Activity | 57.3 | 57.1 | +0.2 | Growing | Faster | 39 |
| New Orders | 57.5 | 55.0 | +2.5 | Growing | Faster | 8 |
| Employment | 54.7 | 50.7 | +4.0 | Growing | Faster | 3 |
| Supplier Deliveries | 48.5 | 48.1 | +0.4 | Faster | Slower | 7 |
| Inventories | 57.7 | 50.4 | +7.3 | Growing | Faster | 4 |
| Prices | 58.9 | 56.8 | +2.1 | Increasing | Faster | 75 |
| Backlog of Orders | 41.8 | 52.1 | -10.3 | Contracting | From Growing | 1 |
| New Export Orders | 62.1 | 61.1 | +1.0 | Growing | Faster | 5 |
| Imports | 52.3 | 52.3 | 0.0 | Growing | Same | 3 |
| Inventory Sentiment | 61.5 | 56.6 | +4.9 | Too High | Faster | 4 |
| **Overall Economy** | | | | **Growing** | **Faster** | **8** |
| **Services Sector** | | | | **Growing** | **Faster** | **8** |

*Number of months moving in current direction. Services ISM® *Report On Business®* data has been seasonally adjusted for the Business Activity, New Orders, Employment and Prices indexes.

***Figure 17. ISM Services Index at a Glance (Source: Institute for Supply Management)***

In the details of the ISM report, new orders for service businesses rose to 57.5, up from 55.0 in the previous month (refer to red-lined box, Figure 17). The pricing index, indicating what these businesses are paying for their inputs, also increased, rising to 58.9 from 56.8 in July. This underscores the resilience of the service sector, which remains robust even as the ISM manufacturing PMI shrank for its tenth consecutive month.

However, a contrasting report from S&P Global Market Intelligence painted a different picture. Their US services PMI tumbled to 50.5 in August (refer Figure below), marking its most sluggish pace in over half a year, down from 52.3 in the previous month. They also reported the weakest employment growth since October 2022.

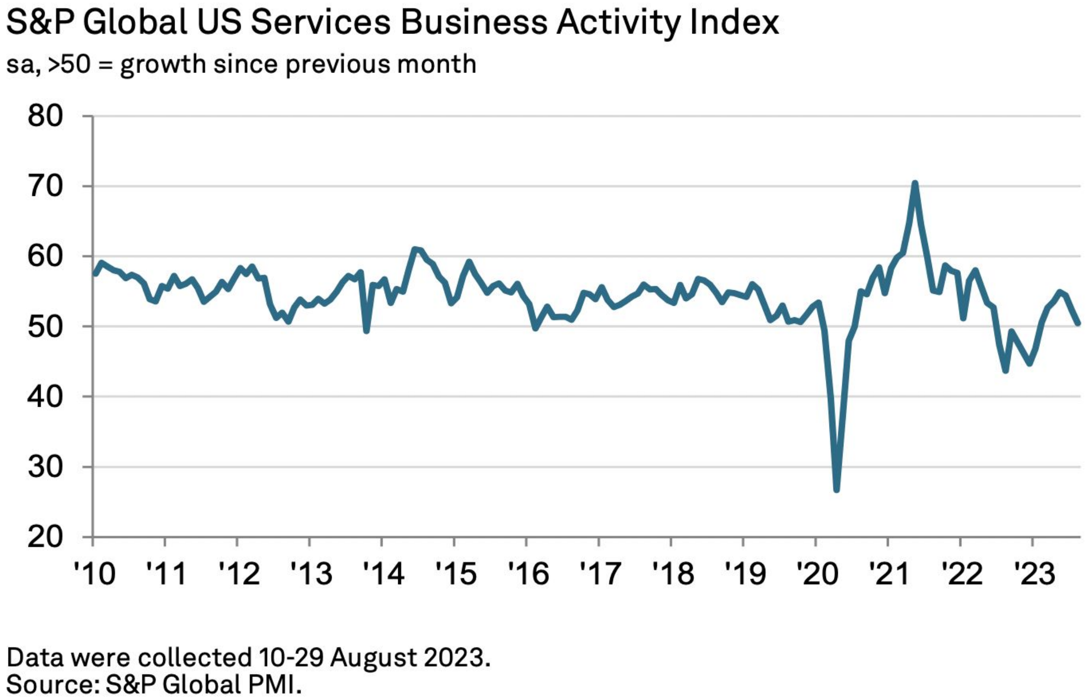



***Figure 18. S&P Global US Services Business Activity Index (Source: S&P Global)***

Despite these mixed signals, the prevailing sentiment suggests that the service sector remains a stronghold of the US economy. With its continued strength, it plays a pivotal role in maintaining economic momentum, especially when consumer spending and services have emerged as the mainstay of recent growth.

While the S&P Global PMI for the service sector only includes data provided by companies operating in the US services economy, encompassing a variety of consumer, business and financial services which are provided by the private sector (or otherwise charged for), the ISM services PMI in fact covers every activity other than manufacturing. This includes agriculture, wholesale trade, retail trade, mining, etc. It is these factors that are powering the ISM services PMI forward as they are not measured in the S&P Global data.

As the service sector grows, it can lead to increased demand for goods and services. When demand outpaces supply, prices can rise, leading to demand-pull inflation.

Yet, while the sector remains strong, we believe that it's imperative to exercise caution. Service activities may not maintain this vigorous momentum indefinitely. Significant sectors within the industry are showing some potential signs of weakness.

We make, the following key observations:

Health Care & Social Assistance:
While labour costs continue to soften, costs of pharmaceuticals and supplies remain stubbornly high, negatively impacting operating margins. Supply chains are operating consistently, though some categories of supply remain constrained. Patient volumes and revenues were down slightly (for the month) but appear to be rebounding as the back-to-school season approaches. Forecast remains cautiously optimistic.

Professional, Scientific & Technical Services:

The summer slowdown is similar to those in recent years due to vacations. Third-quarter projections are close to expectations. Inflationary costs are mostly in fuel and fuel-related commodities, having an adverse effect on profits.

Real Estate, Rental & Leasing:

Overall conditions seem quite good, although there is definite slowdown in residential construction driven by rapidly increasing interest rates.

We believe that  the robust data from the service sector is not enough to sway the Federal Reserve into a policy rate hike in their upcoming meeting. Nevertheless, it strengthens the argument for maintaining restrictive interest rates. As we navigate the year's final stretch, uncertainty looms larger for the service sector especially if consumer spending drivers begin to wane. Prices remain elevated, and the imminent resumption of student-loan payments is expected to put further strain on household finances going forward.

**Summary:**

| | Covered Period | Current Value | Previous Value |
|---|---|---|---|
| ISM Services | August | 54.5 | 52.7 |
| S&P Global Services | August | 50.5 | 51.0 |

- Unexpected growth in the US service sector during August contrasts with other slowing economic indicators, sparking renewed inflation concerns. The ISM reported a significant rise in the non-manufacturing PMI, contrasting with S&P Global's subdued figures.
- Despite the sector's strength, future challenges may arise from elevated prices and looming student-loan repayments, with the Federal Reserve unlikely to implement a rate hike in their imminent meeting.

# US Economic Growth Shows Signs of Slowing, Federal Reserve Reports

**In the Fed's Beige Book report, dated Wednesday, September 6th, the Fed depicted a picture of the US economy that showed signs of modest economic growth during July and August. This was accompanied by a tempering of inflationary forces, which in turn has strengthened the view that the central bank may be nearing the end of its hiking cycle.**

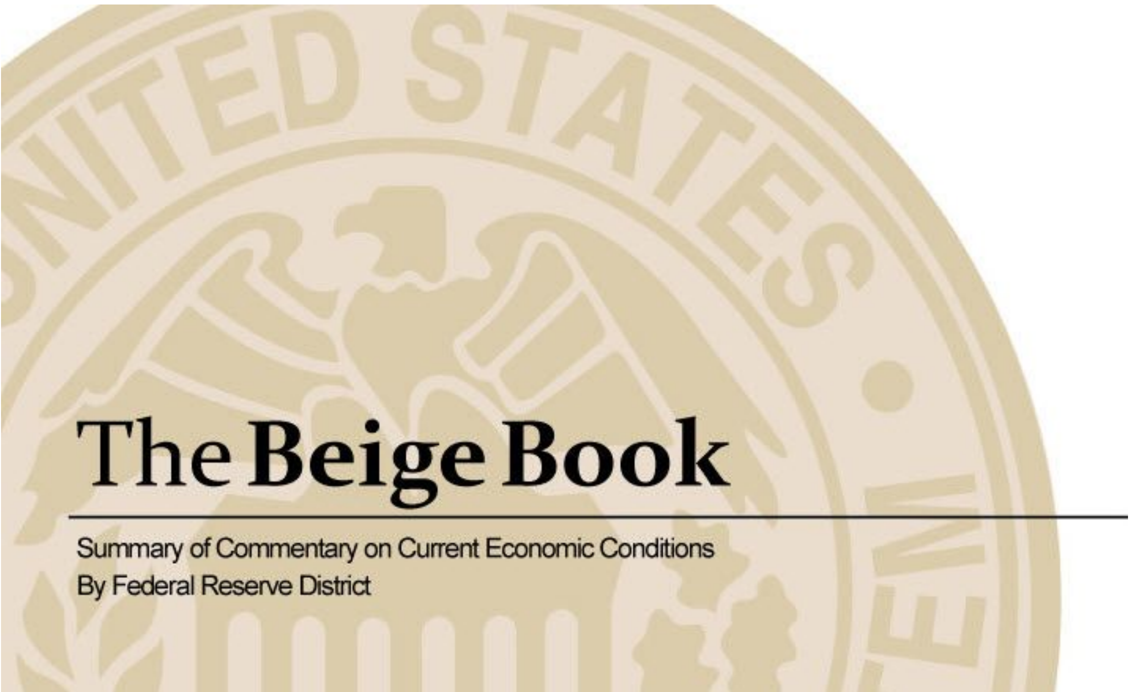



***Figure 19. Released eight times a year, the beige book has anecdotal information about the US economy.***

The Beige Book, which compiles data from surveys and interviews across the Fed's 12 districts, reported that up to August 28th, the majority of districts saw decelerating price growth. Additionally, most districts revealed that businesses expect wage growth to slow considerably in the coming months.

It is clear that over a trailing 18-month span, the Fed's monetary tightening has left an indelible mark on the US economic landscape. Close scrutiny of economic indicators suggests that the central bank's interest rate hikes have acted as a tether, pulling back the economy's forward momentum. Employment, a cornerstone of economic health, hasn't been spared, with the gears of job creation seemingly grinding slower. Post the Fed's most recent manoeuvre, the US has been clocking in average monthly job growth of 150,000 over the last quarter—a deceleration from previous quarters. Inflation has also been tempered, standing at 3.3 percent in July, a much more manageable number than the seven percent witnessed 12 months ago.

Nevertheless, inflation rates continue to surpass the Fed's two percent target. Additionally, job creation and economic output rates are outstripping sustainable levels as described by the Federal Reserve.

The recent Beige Book report pointed out that the most significant deceleration in price pressures was witnessed in the goods-focused sectors of the economy.

### Concerns for the Consumer Sector

The report also voiced concerns about the consumer sector, highlighting that an increasing number of households are depleting their savings accumulated during the COVID-19 pandemic. Consequently, there's a shift towards borrowing, with many households struggling with debt management.

Regional concerns were also spotlighted in the report. The New York district highlighted issues related to migrants straining local resources. In the San Francisco district, the community continues to grapple with problems such as housing affordability, homelessness, and food security. There has been an observable rise in demand for temporary shelters and food banks, particularly from older demographics.

Furthermore, housing supply, especially single-family homes, remains limited. While there's an uptick in home construction, affordable housing projects face hurdles due to steep financing costs and rising insurance premiums.

**Summary:**

- The "Beige Book" report indicates modest US economic growth in July and August. There is a noticeable slowdown in the labour market.
- While inflation rates exceed the Fed's 2 percent target, concerns grow over consumer debt as households deplete pandemic savings.
- Despite increased home construction, affordable housing initiatives face significant barriers.

# US Wholesale Inventories Data Might Suggest Sticky Inflation

**US wholesale inventories experienced a 0.2 percent decrease in July, marking the fifth consecutive monthly drop, as reported by the Commerce Department last Friday, September 8th. This decline was slightly more pronounced than the 0.1 percent decline in consensus forecasts.**

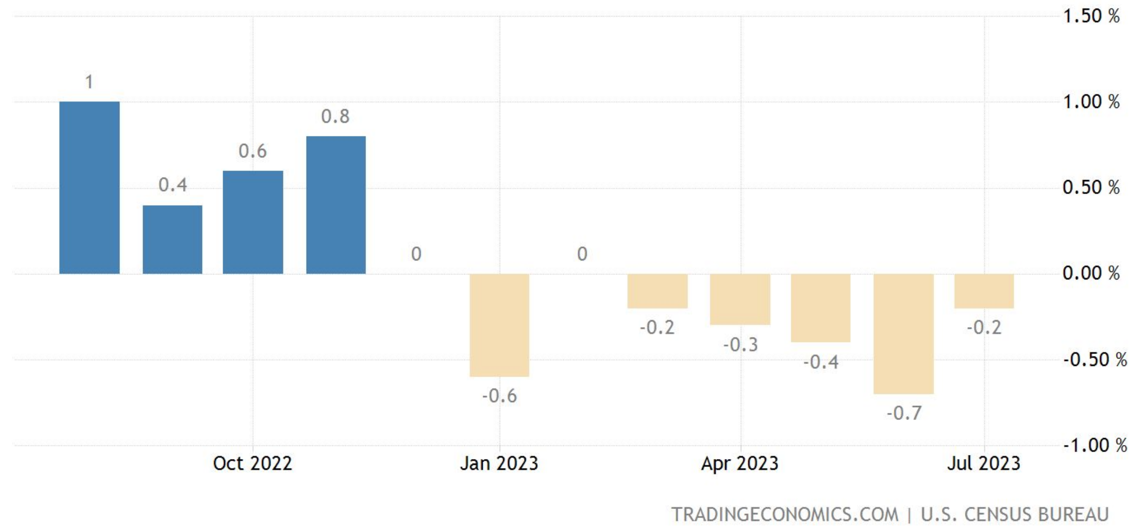



***Figure 20. US Wholesale Inventories (Source: US Census Bureau)***

In a positive turn, July saw sales surge by 0.8 percent, overturning the 0.8 percent reduction witnessed in June. It is the first sales increase after four continuous monthly decreases and is the most substantial growth observed in over a year. However, when compared to July 2022, sales remain 4.2 percent lower.

July's inventory-to-sales ratio, an economic barometer often overshadowed by other metrics, slipped to 1.39 from June's 1.41. This number hasn't been this lean since February 2023, and suggests inventories are slimming down relative to sales. Should demand hold its ground or swell, and inventories either wane or fail to replenish at the same pace, inflation might find itself with new wind in its sails.

This isn't just a number for the backroom economists; it's drawing pronounced attention from the financial world's front lines. An uptick in inventories could be the nudge businesses need to shave their price tags, putting a dampener on inflation. But, on the flip side, bloated stockrooms might be a harbinger of an economy tapping the brakes, meaning country-wide economic deceleration. As ever, the devil's in the details, and all eyes are set on how this ratio will steer in the coming months.

## Summary:

| | | Covered Period | Current Value | Previous Value |
|---|---|---|---|---|
| Wholesale Inventories | ▲ | July | -0.2 | -0.7 |
| Inventory:Sales Ratio | ▲ | July | 1.39 | 1.41 |

- US wholesale inventories declined by 0.2 percent in July, outpacing the forecasted 0.1 percent dip. Sales rose by 0.8 percent, though they're 4.2 percent lower YoY.
- The inventory-to-sales ratio, indicating potential inflation pressures, dropped to its lowest since February 2023. Financial experts are keenly observing this ratio, given its implications for economic trends.

# NEWS FROM THE CRYPTO-SPHERE

# Lawyers for Sam Bankman-Fried Renew Call for Jail Release; DOJ Maintains Laptop Access is Adequate

***FIgure 21.Lawyers for Sam Bankman-Fried Renew Call for Jail Release; DOJ Maintains Laptop Access is Adequate***

- **FTX co-founder Sam Bankman-Fried (SBF), who is in custody awaiting trial, has been granted laptop access to review discovery materials, with specific hours and conditions specified by prosecutors.**
- **SBF's defense team is challenging the adequacy of these arrangements and is pushing for his provisional release from the detention center to allow for more comprehensive document review before his trial, citing concerns about the environment and internet connectivity.**

FTX co-founder Sam Bankman-Fried (SBF), who is now in custody, has been given laptop access to review discovery materials in the lead-up to his trial set for early October, prosecutors said.

A letter from the US Department of Justice to Judge Lewis A. Kaplan highlights that SBF, presently held at the Metropolitan Detention Center (MDC), has been permitted to use an isolated laptop in a visiting room from 8 am to 7 pm on weekdays and from 8 am to 3 pm hours during weekends and holidays. The prosecutors said that SBF was able to use the laptop's USB ports and software, noting that he was also given three hard drives. An additional isolated laptop has also been approved by the MDC for his use, to be stored close to his residential cell for ease.

This update from prosecutors was in response to Judge Kaplan's August 30th directive asking for clarity on SBF's discovery access status.

However, SBF’s defence team is challenging the adequacy of these arrangements. They contended that the existing setup impedes SBF's ability to adequately gear up for his defence. They referenced an incident on September 1st, 2023, where he was instructed by MDC staff to vacate the visiting room earlier than initially agreed causing him to miss out on a potential 4.5-hour work window.

Highlighting further concerns, the defence has been pushing for a provisional release of SBF from the detention centre, allowing him more comprehensive document review time before his trial. They reiterated this appeal last Tuesday.

A point of contention also revolves around the environment at the MDC. While the prosecution claims that he can use an internet-connected laptop at least twice weekly at this location, equipped with a newly installed 9-cell battery lasting about 8 hours, the defence remains sceptical. They cited previous issues where an unstable internet connection and inadequate battery backup hampered SBF's working hours, and they expressed doubt about the reliability of the said cell block procedures.

It provides a fascinating insight into the minutiae building up to what will be a landmark court battle of one of the most controversial figures in the crypto industry.

# Visa Expands Stablecoin Settlement Capabilities via Solana Blockchain

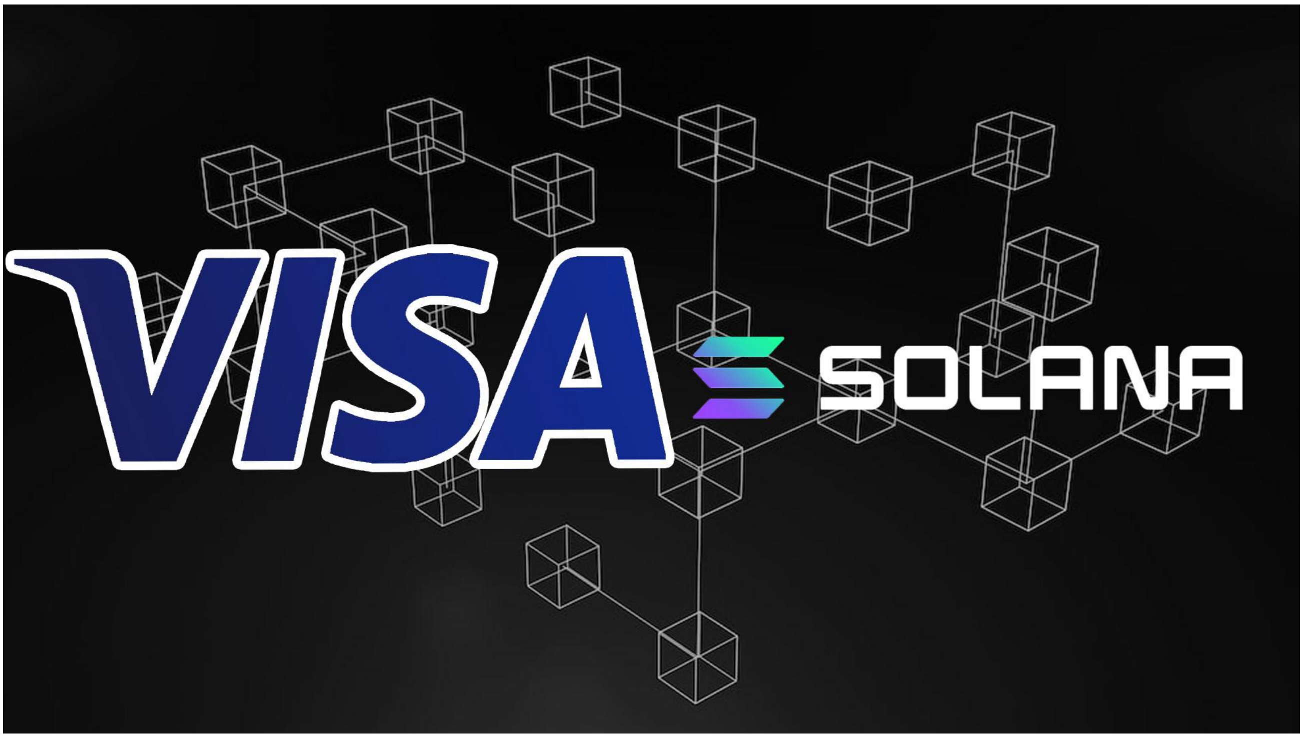



***Figure 22. Visa Expands Stablecoin Settlement Capabilities via Solana Blockchain***

- **Visa is expanding its ability to settle stablecoins by integrating Circle's USDC with the Solana blockchain to facilitate cross-border payments.**
- **Visa has conducted trials with global merchant acquirers Worldpay and Nuvei, allowing their clients to opt for settlements in USDC instead of fiat, building on previous experiments with stablecoins like USDC and Ethereum for cross-border transactions.**

Visa, the San Francisco-based payments giant, announced on Tuesday, September 5th, that it would be broadening its ability to settle stablecoins, by integrating Circle's USDC with the Solana blockchain. This is aimed at expediting cross-border payments. The Solana token rose by almost two percent following the announcement.

Visa said it had already initiated trials with global merchant acquirers, Worldpay and Nuvei. These firms manage global debit and credit card payment processing for various businesses. With this new integration, their clientele can opt for settlements in the USDC stablecoin instead of fiat.

Visa began experimenting with use cases for stablecoins in 2021. A pilot initiative was undertaken with cryptocurrency platform, Crypto.com, utilising the Ethereum blockchain,aimed at streamlining settlements for cross-border transactions using Crypto.com's Visa cards.


***Figure 23. Tweet from Cuy Sheffield (Source: [https://twitter.com/cuysheffield](https://twitter.com/cuysheffield))***

Cuy Sheffield, Visa's crypto department chief, stated, "By leveraging stablecoins like USDC and global blockchain networks like Solana and Ethereum, we're helping to improve the speed of cross-border settlement and providing a modern option for our clients to easily send or receive funds from Visa’s treasury,”

# Ethereum Executive Suggests Creation of an 'Ethereum Supreme Court' for Blockchain Disputes

***Figure 24. Ethereum Executive Suggests Creation of an 'Ethereum Supreme Court' for Blockchain Dispute***

- **Alex Gluchowski, CEO of Matter Labs, has proposed an "Ethereum Supreme Court" to handle disputes endangering Ethereum's stability. This on-chain judiciary system involves hierarchical layers, allowing DeFi protocols to appeal decisions, with the ultimate "Supreme Court" resorting to a soft fork in extreme cases.**
- **The goal is to safeguard Ethereum protocols from external interference and enhance network resilience.**

Some blockchain advocates have in the past stated that in the settling of any disputes over transactions performed on the network "code is law." This emphasises the notion that the intrinsic programming of a network should act as the final authority, especially in dire situations or significant threats. However, given the many hacks that have been perpetrated on some blockchains, it is a mantra that many also dispute. Last week, Alex Gluchowski, CEO of Matter Labs, and a developer of the zkSync Ethereum Layer 2 scaling solution, has suggested that humans, rather than mere code, might offer better resolution mechanisms in specific intense circumstances.

Gluchowski has introduced a concept of an "Ethereum Supreme Court." This proposed body would be tasked with mediating disputes that could jeopardise Ethereum's core stability.

Gluchowski shared his vision on X (previously known as Twitter), portraying it as an on-chain judicial system, echoing real-world court hierarchies. This would enable Ethereum-based applications to petition for a blockchain "fork" if they experience security breaches. Gluchowski commented, "Code is law, bug = death," in his follow up comment on a post in September 2nd.

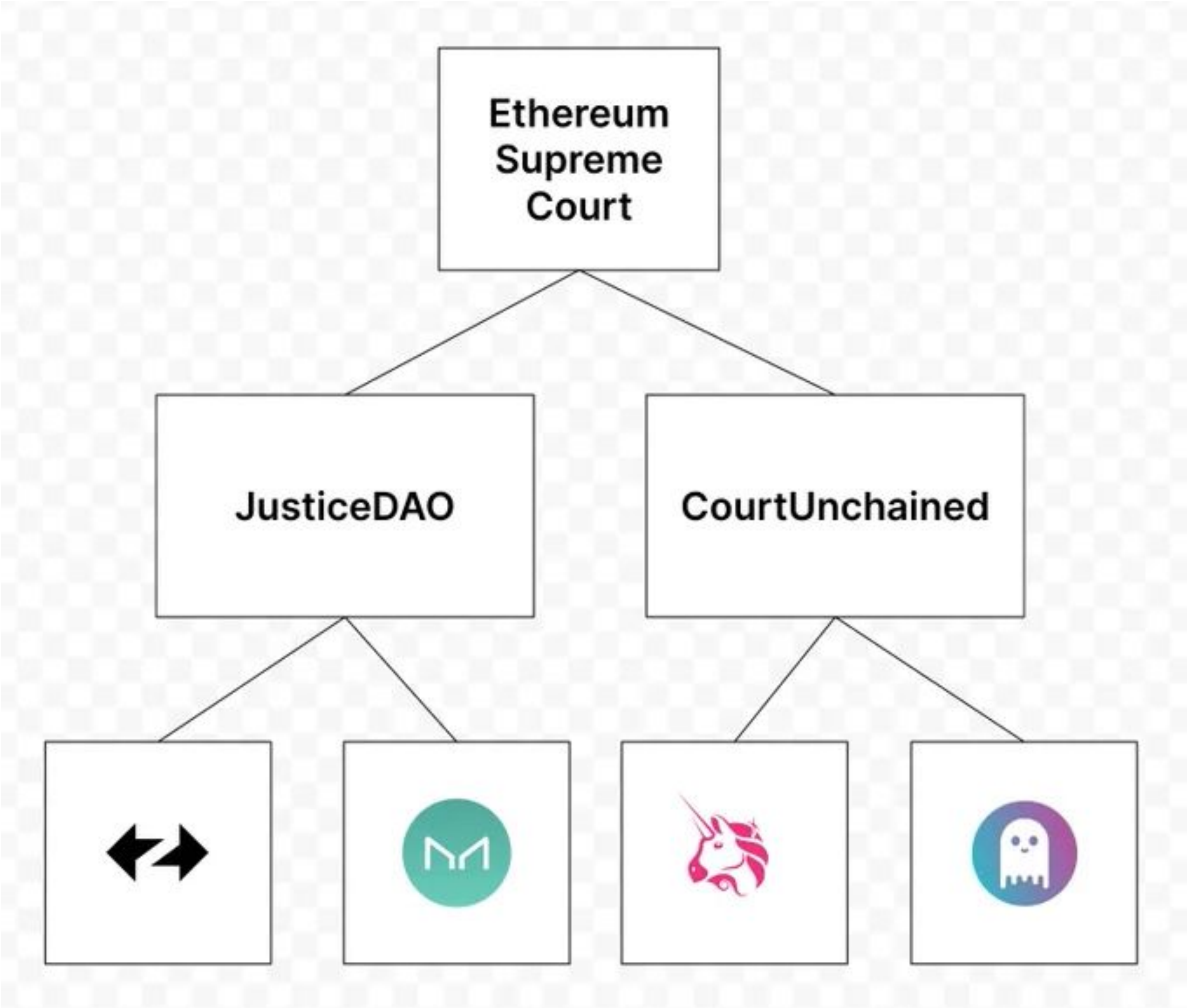



**Figure 25. From Gluchowski's pitched idea: L1 Fork as the Court of Final Appeal. (Source: Gluchowski's X Post)**

Today, when apps on Ethereum are hacked and money is syphoned away from victims, the only real recourse is typically a fork of the blockchain – where a majority of the chain's users and operators move to a new version of the chain that rolls back its history. The notable DAO hack of 2016 exemplifies this, where a massive amount of ETH was stolen. Key Ethereum stakeholders agreed upon a new chain version that disregarded the hack. The original chain, "ETH Classic," still runs today, albeit with a minimal user base.

Chain forks are seldom executed. Logistically, it necessitates a shared consensus, prompting a majority of the chain's stakeholders to consent to the fork and subsequently upgrade their software. Philosophically, continuous forks can erode trust, given the general belief in a blockchain's permanency and unalterable nature.

Addressing these challenges remains complex, which is why, despite the billions stolen from Ethereum users recently (Stake.com, Lido Stake ETH, Exactly Protocol) , the chain hasn't been forked since the DAO hack.

Gluchowski proposes a system resembling a real-world judiciary but built on the blockchain:

1. Every Defi protocol has its governance with specific normal and emergency upgrade rules.
2. Each protocol has a special contract to appeal decisions.
3. During emergency upgrades, there's an appeal window where challenges can be sent to a higher "court" by staking a deposit.
4. These "courts" are decentralised entities with different members, prices, and reputations.
5. The appeal can continue through multiple layers, culminating in the "Ethereum Supreme Court."
6. The final decision from this "Supreme Court" relies on a soft fork of Ethereum's Layer 1.
7. The intention is for the community to rally around this idea and create an expensive-to-use, official version of this court. Only extreme cases, like significant system risks, would go this far, ensuring the Ethereum community's attention.
8. The primary aim is to safeguard protocols against external political interference and position Ethereum as a robust network state.

In essence, Gluchowski suggests an on-chain, hierarchical judiciary system for Ethereum to address and resolve major Defi and protocol issues.

# China's Tumultuous Times: Economic Headwinds Meet Political Unrest

# China's Tumultuous Times: Economic Headwinds Meet Political Unrest

Amidst a backdrop of deepening trade concerns, China's economic and political landscape is undergoing significant turbulence. While Beijing grapples with consecutive declines in exports, its political arena is rife with speculation, particularly given recent noticeable absences by President Xi Jinping from certain international gatherings. Together, these converging factors paint a picture of a nation at a crucial crossroads, the outcomes of which could reverberate globally.

**Trade Tensions Deepen in China**

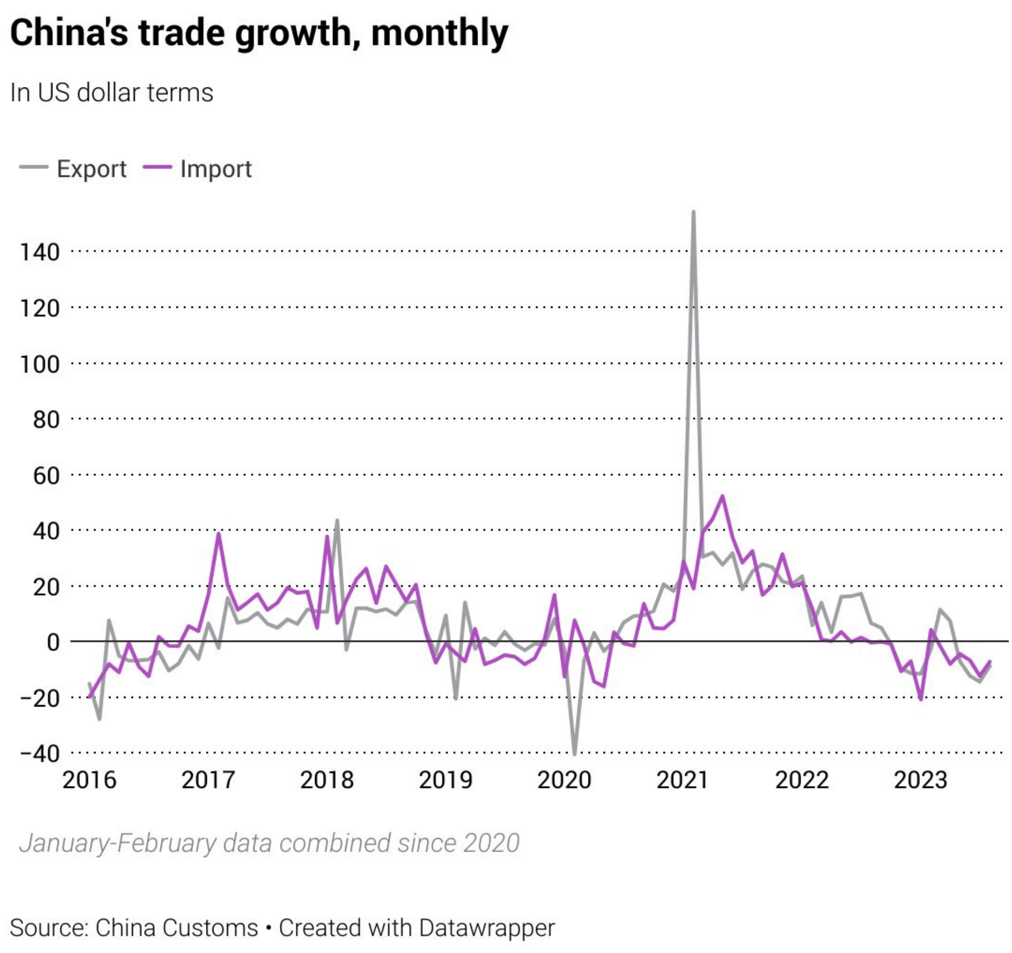



***Figure 26. China's Trade Growth, Monthly (Source: China Customs)***

Dealing with the trade concerns first, China's exports faced a setback for the fourth month in a row in August, intensifying market apprehensions about the country's trade outlook.


***Figure 27. China's Declining Exports, Year-over year (Source: General Administration of Customs)***

Customs data revealed a decline in exports of 8.8 percent in August, bringing the total to $284.9 billion, compared to the same time last year. Though this decline has narrowed from July's fall of 14.5 percent, it's still a matter of concern. Chinese financial data provider, Wind, had forecast an even steeper drop of 9.5 percent. The slight improvement is linked to several factors: the Yuan's swift depreciation in August, which makes Chinese products more competitive price-wise, a lower base from last year, and deferred delivery of orders due to disruptions caused by typhoons in July.

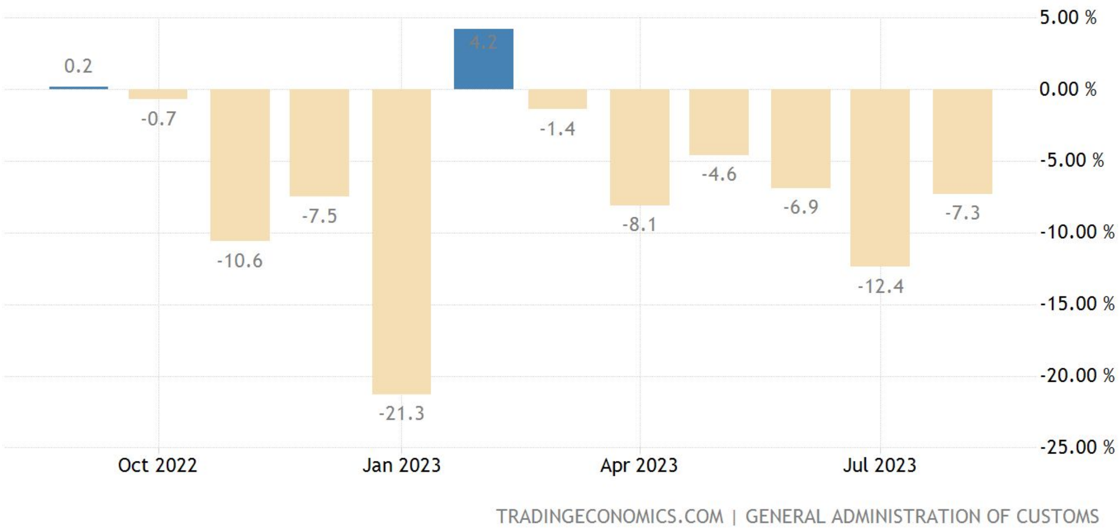



***Figure 28. China's declining Imports, Year-over-Year Decline (Source: General Administrations Customs)***

China's imports also suffered, with a year-over-year decline of 7.3 percent to $216.5 billion in August. This drop was less than the 12.4 percent decrease in July, and better than consensus projections of an 8.2 percent fall. Global oil prices however, flattered the numbers as they rose noticeably in August as compared to July, impacting China's reported import values. The country's total trade surplus for August was reported at $68.4 billion, a decline from July's $80.6 billion, as imports took a bigger hit than exports.

We may see the retreat in exports persisting due to the continuing weakness in the global economy. Data indicates that exports to major trading partners, including the Association of Southeast Asian Nations, the European Union, and the United States, continue to decline, with shipments to the EU and the US witnessing significant drops. Policymakers in China are honing their focus on domestic economic issues, especially in the property market. We expect further policy measures to spur growth if the current trend does not show any reversal soon.

**Political Tremors in Beijing**

As China faces trade challenges, political unrest is emerging in Beijing. President Xi Jinping's noticeable absence from prominent international summits, including most recently, the G20, has stirred political speculation. This comes amid heightened internal Chinese Communist Party tensions highlighted at the recent Beidaihe meeting and concerns about the country's economic state, the Evergrande property crisis, and political reshuffles.

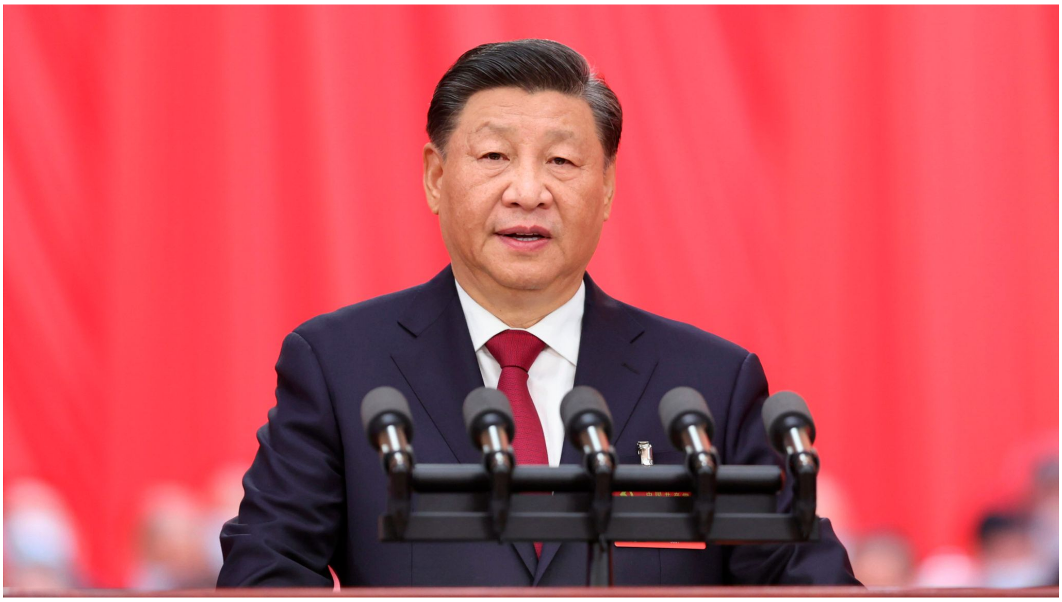


***Figure 30. Xi Jinping, President of the People's Republic of China (Source: Financial TImes)***

**China’s Economy looking fragile:**

As China's trade crisis looms and political uncertainties in Beijing intensify, the undercurrents of an even greater economic predicament emerge. The once seemingly unstoppable economy, known for its rapid growth, now teeters on the edge of a financial downturn, posing risks to the world's economy.

For decades, China has been an emblematic powerhouse in the global economic narrative, demonstrating unparalleled growth and dominance. However, recent unfolding events suggest that this titan is teetering on the edge of an economic chasm, a situation that poses grave repercussions not just for its own shores but potentially for the rest of the global economy.

While most of the Asian markets flourished after recovering from the pandemic, China has grappled with its own set of challenges. Its stock markets, which historically have been at the forefront of positive sentiment for the Chinese economy, have begun to wane, reflecting the decline in trade and concerns about deflation as demand faltered.

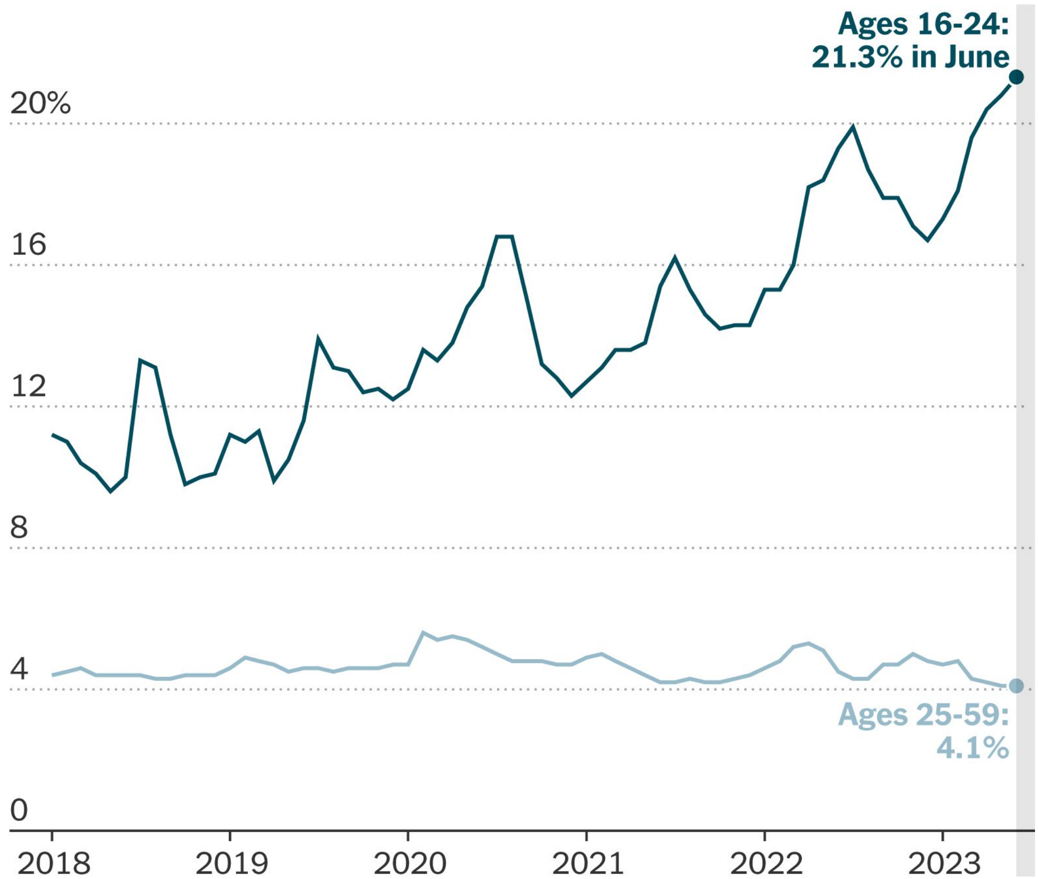



***Figure 30. Youth Unemployment Rising in China (Source: New York Times, National Bureau of Statistics)***

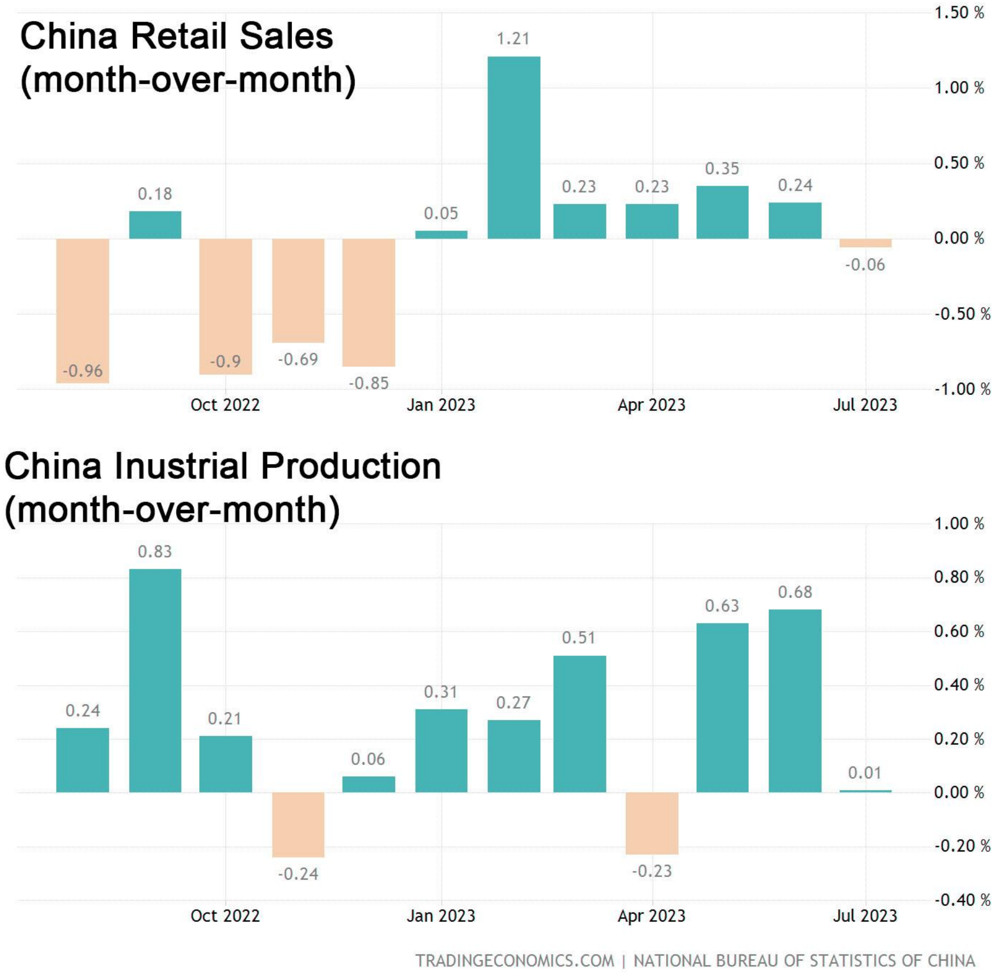



***Figure 31. China Decline in Retail Sales and Industrial Production (Source: National Bureau of Statistics of China, Tradingeconomincs)***

There are several factors that are contributing to the lack of confidence in the economy. The property sector, which was once the backbone of China's economic growth, is crumbling as demand falls amid huge inventory. In addition, unemployment is rising (see chart above), while retail sales and manufacturing outputs (see above), two important metrics for the economy, have seen sharp declines.. Adding to these challenges is a growing concern about China's politics and the government's ability to navigate the economic environment.

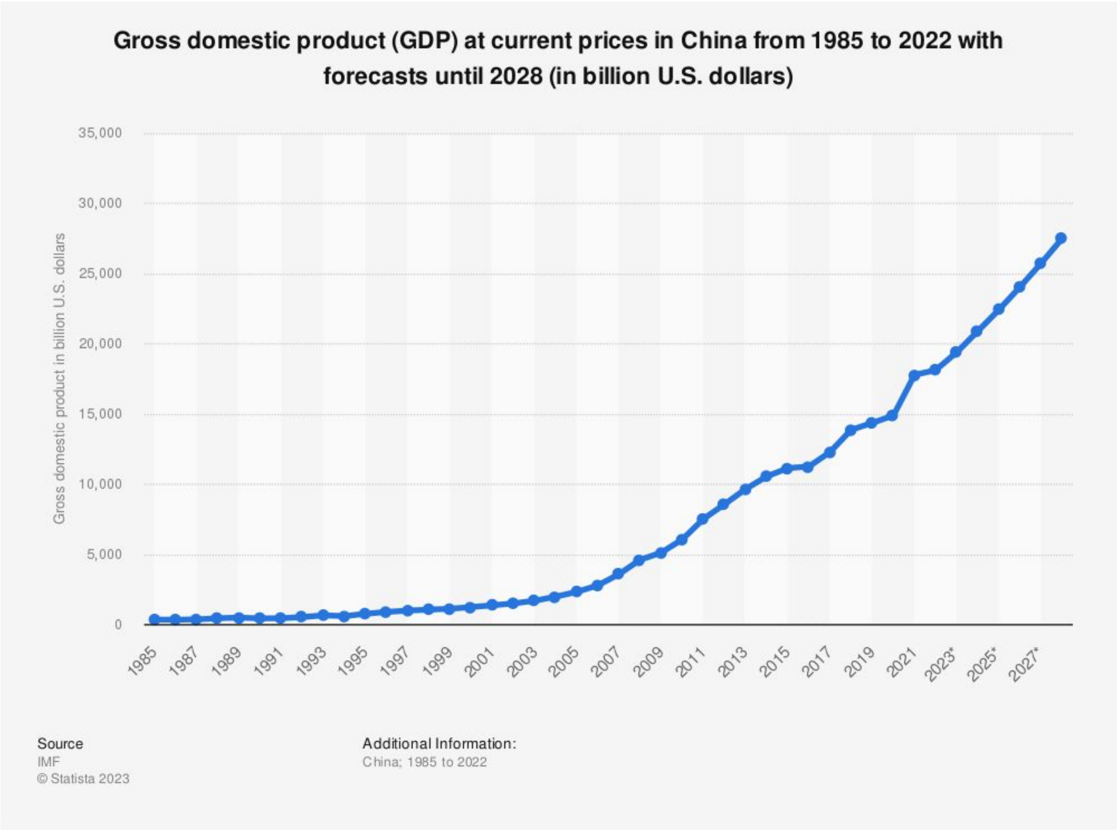



***Figure 32. Gross Domestic Product at Current Price in China (Source: International Monetary Fund, Statista)***

Digging deeper into the narrative, the period from 1992 to 2022 stands out as a testament to China's economic prowess. In these three decades, the nation's economic output and its GDP per capita surged dramatically. Yet, this period also sowed the seeds of some inherent challenges. For one, there was the significant productivity shift that saw millions transition from agriculture to the factories—a socio-economic move that's hard to replicate. The allure of China's competitive labour costs also began to diminish for the Western world, as alternatives sprouted. To add to the economic strain, there was a substantial increase in debt.

Indebtedness in the property sector led to the collapse of Evergrande, one of the country's largest developers. Deflation also spiked as prices fell -0.3 percent in August. And as if this wasn't alarming enough, by June, youth unemployment figures had risen sharply. The subsequent alleged data obfuscation by authorities in July only added to the growing global scepticism.

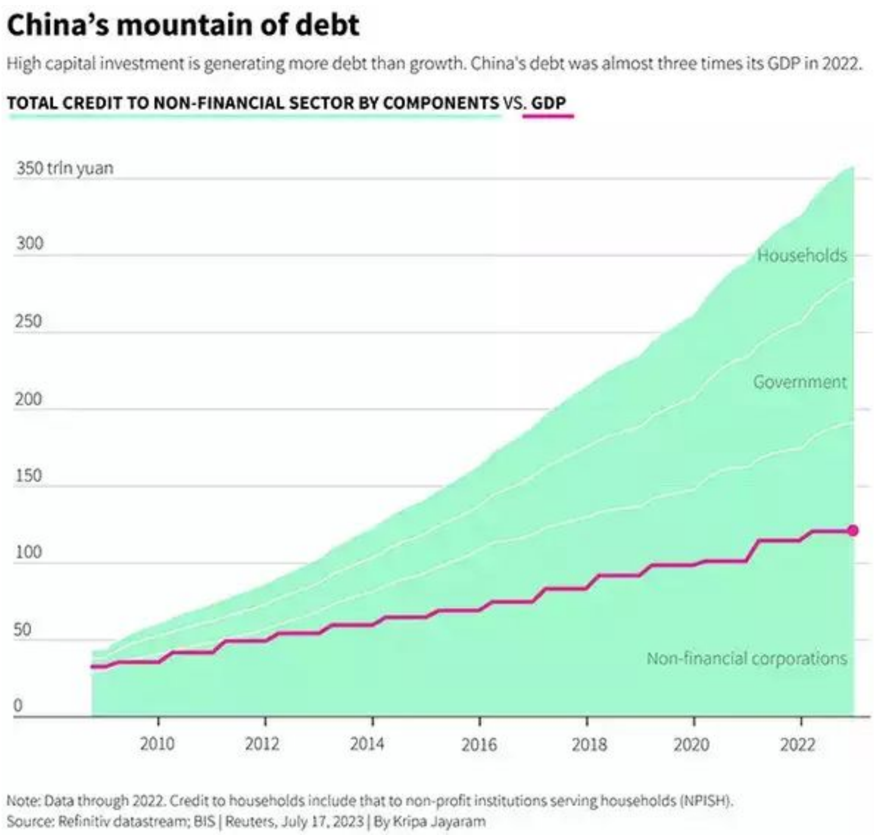
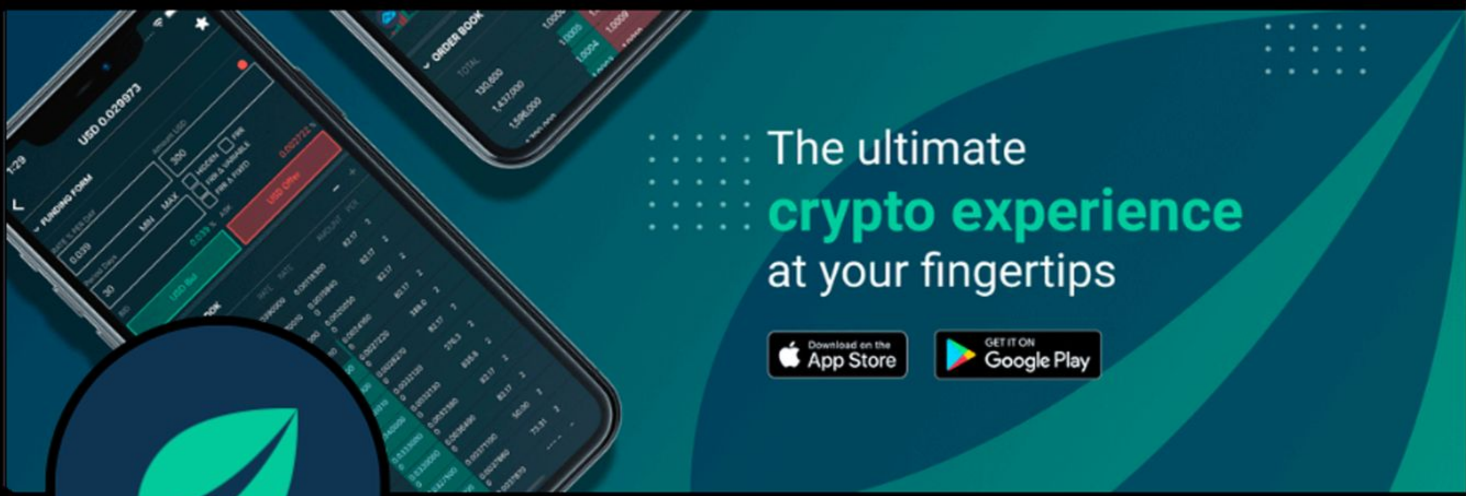



***Figure 33. China's Debt: Total Credit to Non-Financial Sector By Component vs GDP (Source: Reuters, Refinitiv datastream)***

While other Asian stock markets flourished, China's indices painted a grim picture. Capital began moving out of China at an alarming rate, creating ripples in the international investment community. To stem the tide, China's top securities regulators, in an unprecedented move, sought to bolster the national economy by urging national entities to redirect their investments back into Chinese stocks. Yet, even drastic fiscal measures, like slashing interest rates ( one-year loan primate rate slashed by 10 basis points to 3.45 percent from 3.55 percent), couldn't stimulate the stagnant lending by banks.

As the world turns its gaze towards Beijing, the unfolding saga of China's economic challenge is one that promises to shape global discourse. The steps the nation takes now, and the policies it adopts, will indubitably cast long shadows across the world's financial landscapes in the years ahead.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