BITFINEX Alpha

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EXECUTIVE SUMMARY

On-chain activities on Ethereum's Layer 2 (L2) networks, are hovering close to bull market peaks. Ethereum's L2 networks, such as Polygon, Arbitrum and others are processing transactions at a rate quintuple that of the mainnet. Total Value Locked (TVL) of assets on Ethereum has remained stable at approximately $21.45 billion, while assets locked on L2 scaling solutions have more than doubled to $9.56 billion.

Bitcoin, in the meantime, has seen its recent narrative shaped by Short-Term Holders (STH), who have dispensed 1.3M BTC in transactions, worth $35B, since January. Bitcoin's average realised price hovers around $20,500, establishing this as a strategic level for the asset. As Bitcoin navigated $28,200 last month, Long Term Holders (LTHs) were divesting, with STHs stepping in. Current metrics, however, depict STHs offloading these assets, with LTHs capitalising on the opportunity to buy in again. Such 'time capitulation' by STHs is typical of this cohort. It continues the trend within BTC markets of greater LTH accumulation.

The economic outlook continues to be finely poised and for this reason we do not expect any movement on rates at the FOMC this week. Economic surveys report inflationary pressures, hiring struggles, and fluctuating consumer sentiment. While Consumer Prices for August rose by 0.6 percent, largely propelled by a 10.6 percent leap in gasoline prices, core inflation posted a more tempered growth of 0.3 percent. Producer prices on the other hand rose by 0.7 percent, the steepest rise since June 2022, also driven by gasoline costs. These upswings flag the potential roadblocks in attaining subdued inflation in the coming months. Retail sales, however were also up 0.6 percent and the labour market showcased resilience, indicating confidence in the economy. In sum, the US economy is at a crossroads and increasingly complex to read.

Crypto headlines in the past week were dominated by the latest traditional asset manager - Franklin Templeton - seeking approval for its Bitcoin spot ETF, mirroring previous applications by Blackrock, Fidelity, Invesco, and Ark Invest. While this bodes well for the future of the asset, we also continue to grapple with the legacy issues of the past. Former FTX CEO, Sam Bankman-Fried (SBF) failed in his attempt to be released from jail, while Binance.US announced the resignation of its CEO, amid increasing regulatory scrutiny. Furthermore, Genesis Global Capital announced the discontinuation of its crypto spot and derivatives trading operations, while Bybit announced its decision to vacate the UK market, in preparation for more stringent regulations from the UK regulator in October.

Happy Trading!

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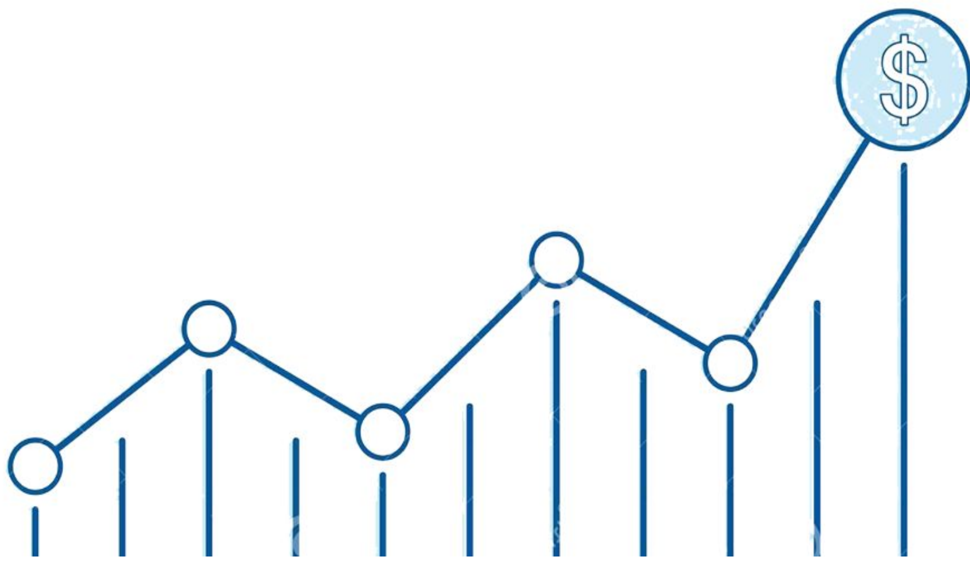


WHAT'S ON-CHAIN THIS WEEK?

Layer 2 Activity Hovering At All-Time Highs: Ethereum On-chain Overview

In the past two issues of Bitfinex Alpha, we have highlighted how volumes on Centralised Exchanges are at historically low levels. In contrast however, on-chain activity in general and Ethereum Layer 2 activity in particular are near all-time highs.

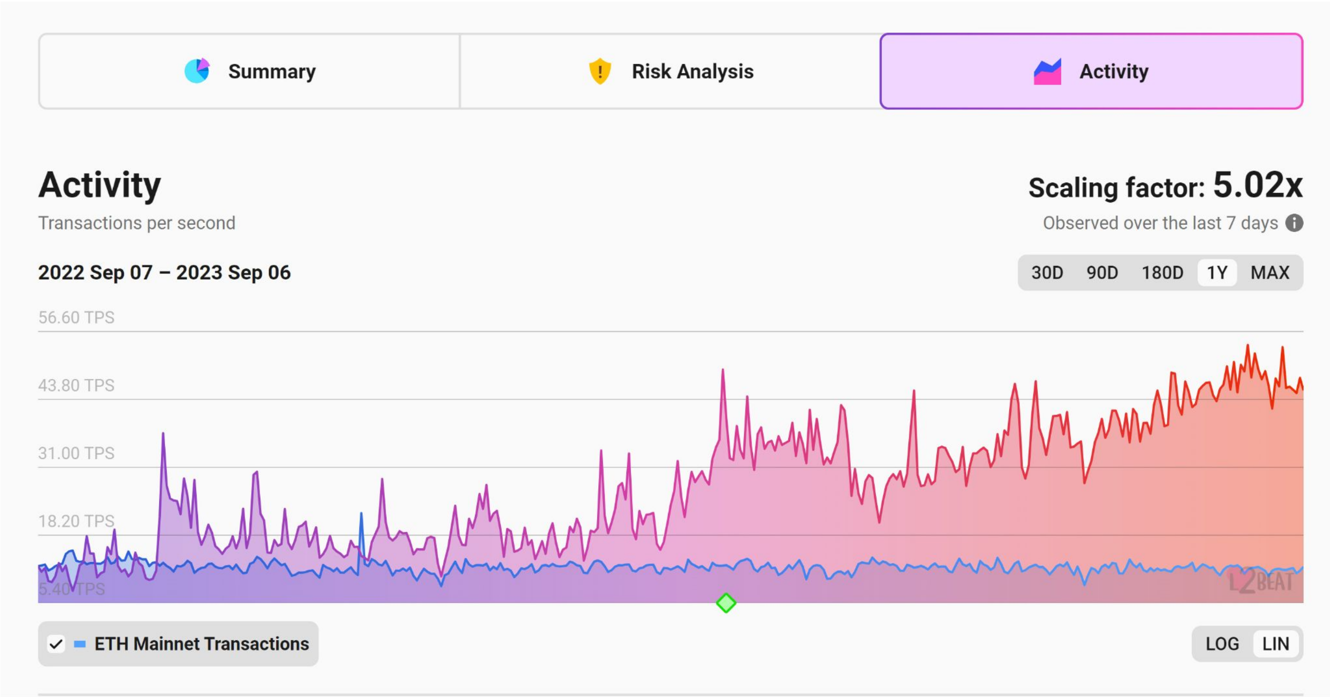


Figure 1. Transactions per second for layer 2 solutions. (source: L2beat)

Layer 2 networks for Ethereum are experiencing a significant surge in activity, currently processing transactions at a rate five times higher than the Ethereum mainnet itself (refer Figure above). The weekly average throughput for these layer 2 (L2) solutions has remained consistent at around 50 transactions per second (TPS) since the beginning of August, in contrast to throughput on the Ethereum mainnet of 11 TPS. We believe this indicates the growing adoption and trust in Layer 2 networks as a solution to scaling and improving the performance of Ethereum-based applications.

Notable L2s that aim to assist with scaling Ethereum transaction speeds include Polygon, Arbitrum, Optimism and Base. Developers of these projects have introduced enhanced speeds in throughput, while largely maintaining security.

Figure 2. Ethereum Total Value Locked. (source: DefiLlama)

Ethereum's total value locked (TVL) currently stands at around $21.45 billion (refer Figure 2 above), largely unchanged since the beginning of the year. In contrast, Ethereum's Layer 2 scaling solutions have more than doubled since the beginning of the year to around $9.56 billion (see Figure 3 below).

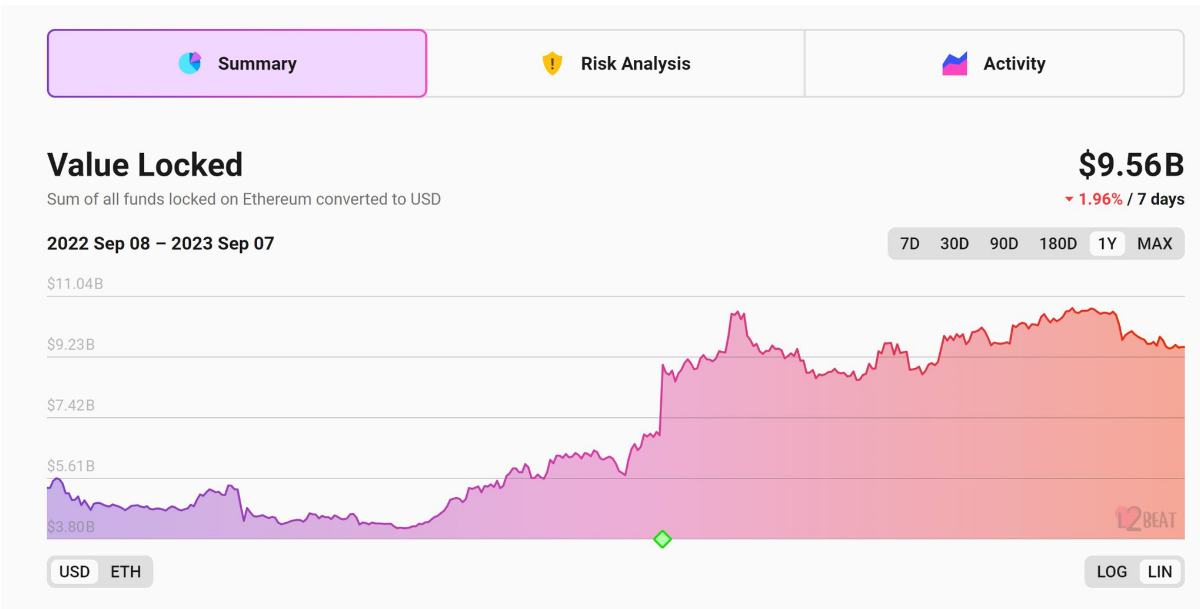


Figure 3. Ethereum Scaling Solutions Total Value Locked. (source: L2beat)

Arbitrum is at the forefront, holding a dominant position with a TVL of $5.6 billion. Optimism follows closely with a respectable $2.6 billion. Meanwhile, zkSync has secured the third spot, locking in $408 million. dYdX and Base trail with $339 million and $237 million respectively, demonstrating the burgeoning confidence and adoption of these Layer 2 platforms in the Ethereum ecosystem. The Ethereum mainnet is still the dominant chain in terms of TVL, as shown below.

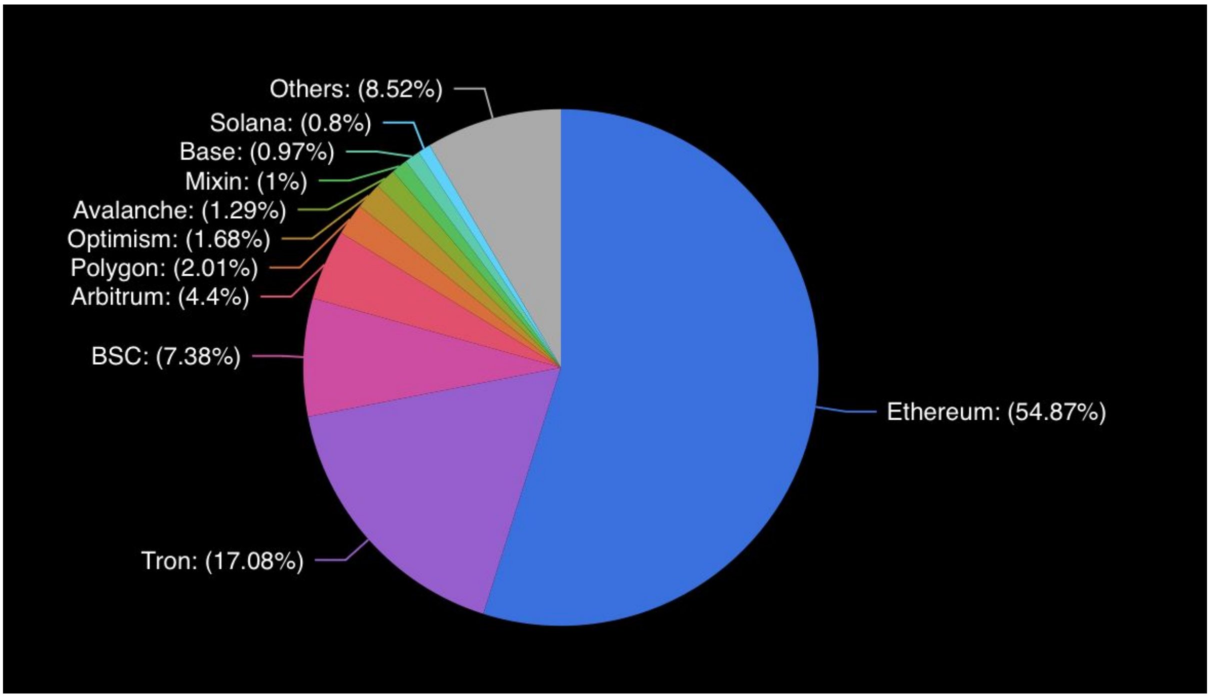


Figure 4: Ratio of Total Value Locked Across DeFi. (data source: DefiLlama)

Over the last week, the Ethereum chain has gained $17.4 million alone. Ethereum has also been deflationary since the beginning of the year and is being perceived as a solid investment. August saw the burning of 72,117 ETH (refer Figure 5 below), which equates to a substantial $126.5M. Notably, Ethereum has been a deflationary asset since January 2023.

Since the rollout of Ethereum Improvement Proposal-1559 (EIP-1559) in August 2021, a total of 3.58M ETH, valued at $10.17B, has been burned. This indicates the continued impact of the EIP-1559 mechanism on the supply dynamics of Ethereum.

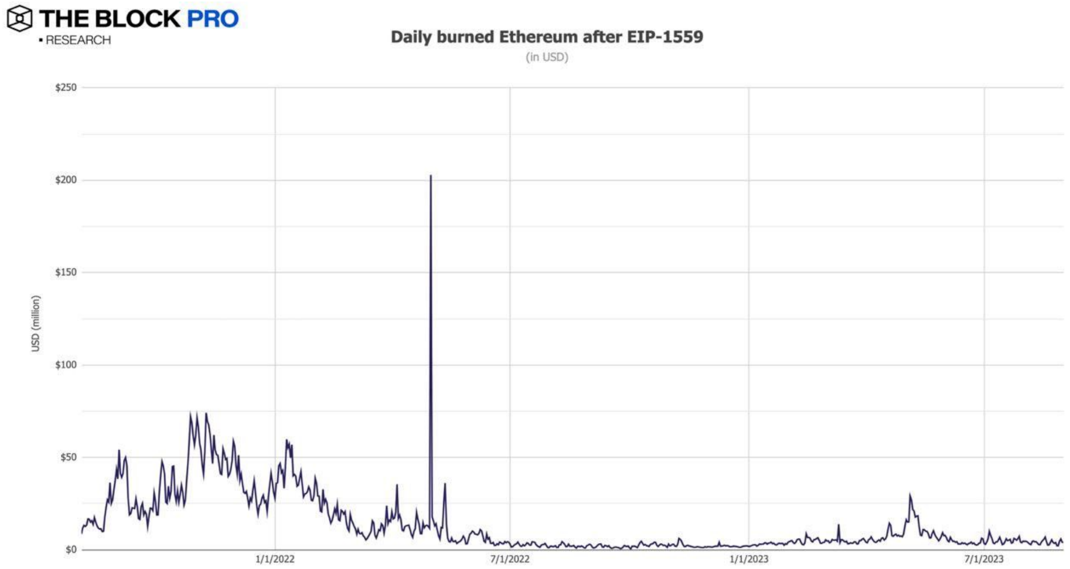


Figure 5. Daily Amount of Ether burned. (source: TheBlock)

A report by Alchemy highlights significant growth in L2 network activities. In Q1 2023, users moved crypto assets worth over $635,000 to L2 networks, marking a 44 percent surge from Q4 2022 and a 518 percent year-over-year jump from Q1 2022.

Interestingly, while the first quarter of 2022 recorded only 103,000 users making bridging transactions to L2s, the same period in 2023 witnessed over 635,000 users engaging in such transactions, indicating substantial growth in adoption.

Furthermore, there was a noticeable uptick in the rollout of smart contracts related to L2s. They saw a growth of 160 percent compared to Q1 2022, although there was a slight downturn of 30 percent in comparison to Q4 2022.

Even as Ethereum itself scales through dank sharding and other mechanisms, the cost of transactions is expected to be significantly higher than on L2s. As a result, this increase in activity is expected to continue with L2s providing an industry standard for transactions and utility.

Long-Term Holder Reaccumulation

2023 has largely been a prosperous period for short-term (STH) BTC holders. From January to the end of the third quarter, this particular cohort of short-term traders have transacted a substantial 1.3M BTC, equivalent to $35B.

Figure 6. Realised Cap (Orange) vs BTC Market Capitalisation (red). (source: ChainExposed)

Realised Capitalization is a measure of combined USD notional values of all coins at the points when they were received (roughly, purchased) from a previous owner. It can be thought of as a collective cost basis for all Bitcoin owners. The current realised capitalisation for Bitcoin is close to $393 billion while the actual market capitalisation lies at $508 billion. This puts the “average” purchase price for BTC across the market at $20,500 approximately. Any move below this price has traditionally been a very reasonable long entry on BTC, so this might be a key level to keep in mind for market downturns.

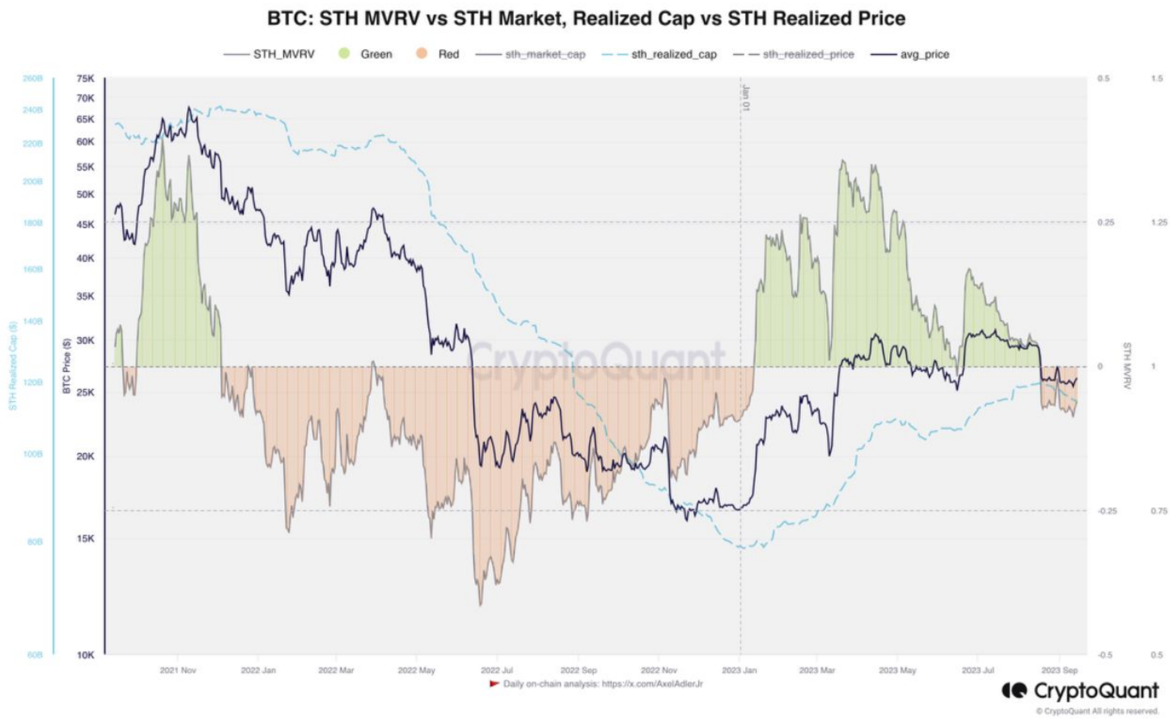


Figure 7. Bitcoin STH Realised Cap vs MVRV. (source: CryptoQuant)

Breaking this down, the realised capitalisation of short-term holders (STH), depicted by the blue line (refer Figure 7 above), surged from $79B at the start of the year to $114B - accounting for that $35B growth. However, the real intrigue lies in discerning not only the magnitude of BTC that short-term holders acquired but also identifying the sellers.

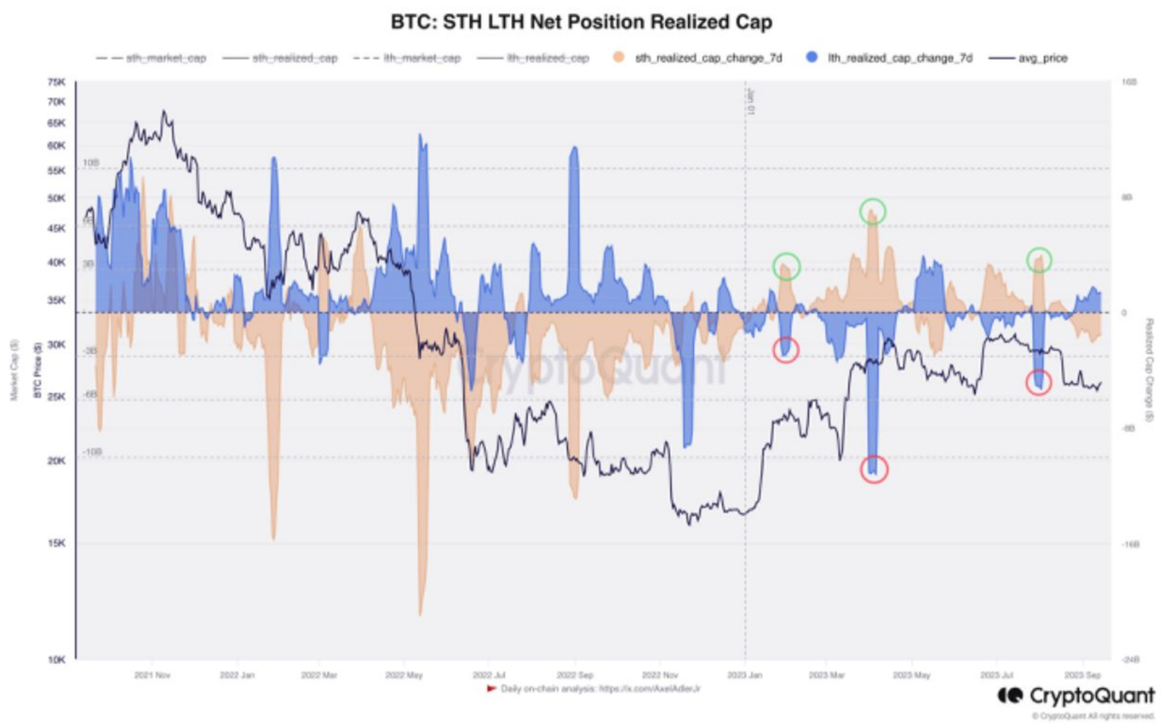


Figure 8. Short Term Holder (STH) Long Term Holder (LTH) Net Position Realised Cap. (source: CryptoQuant)

Enter the BTC: STH Long Term Holder (LTH) Net Position Realised Cap chart. Here, the blue line represents the week-on-week shifts in the realised capitalisation attributable to LTHs. A standout observation from this chart is the consistent distribution in April by the LTH cohort, which stayed flat at $10 billion for about six days.

In simple terms, as BTC traded around the $28,200 mark, long-term holders were offloading their holdings, and their short-term counterparts were keenly snapping them up. As things stand, indications from the initial chart suggest that the short-term cohort is currently at a deficit, leading them to relinquish the very coins they earlier bought from the long-term cohort. Meanwhile, long-term holders are capitalising on this opportunity, reclaiming the coins at present. This can be seen through the HODL waves metric below.

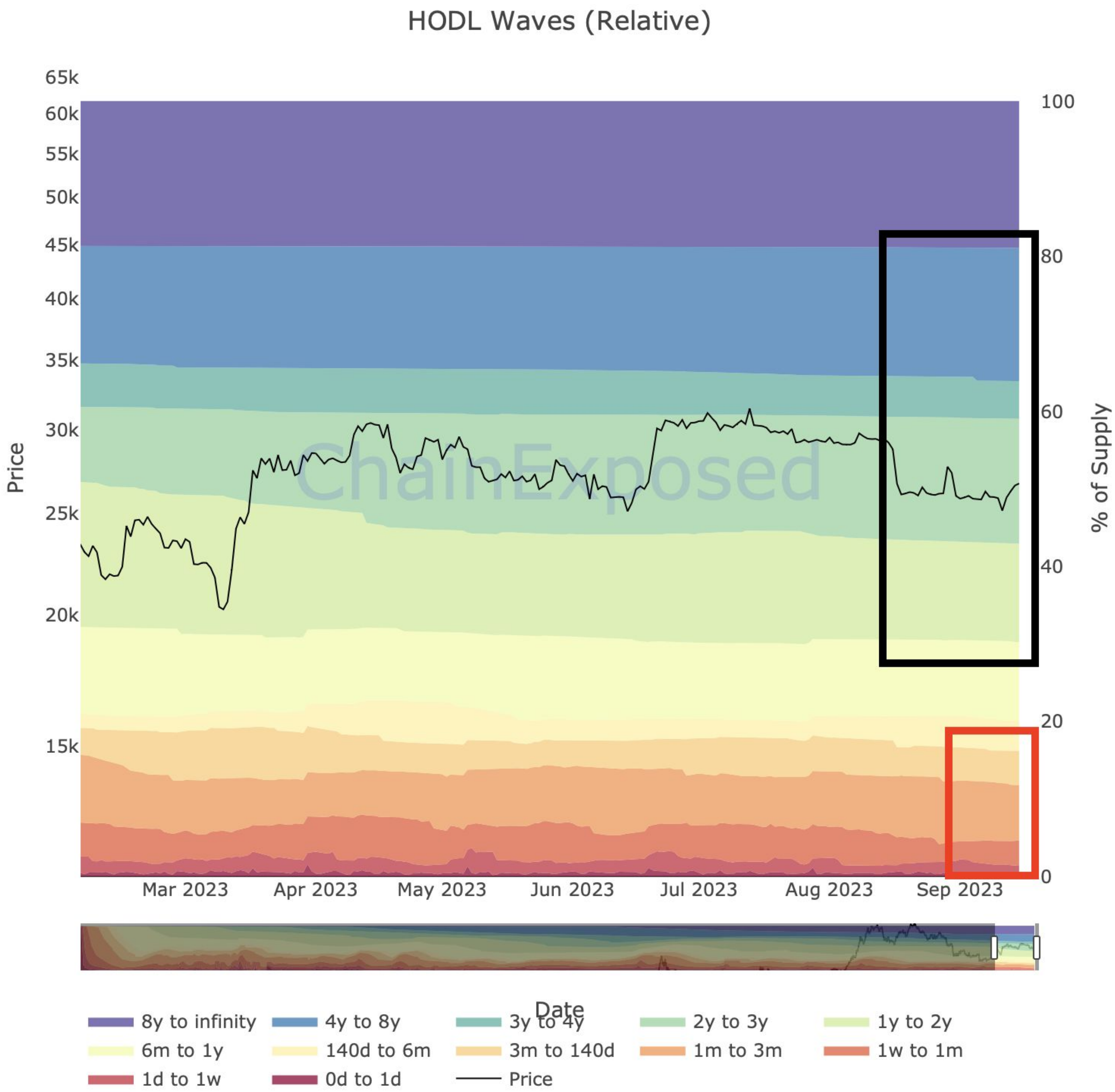


Figure 8. HODL Waves Relative. (source: ChainExposed)

The HODL Waves chart shows the age distribution of the entire Bitcoin supply (Unspent Transaction Output set) at any given point in time, that is, the more BTC value held in coins of a given age band the bigger is its proportion in the whole coin set (the thicker is the wave of that specific colour).

The black box in Figure X shows how longer term holders (two - eight years, multiple bands) have been dormant and the supply in this cohort has been increasing steadily since April and especially since the downturn in August. Meanwhile, the STH supply has now been decreasing as LTHs are reaccumulating BTC sold for a profit earlier at the end of the first quarter and in the second quarter. This kind of behaviour is typically exhibited by LTHs during the beginning of bull markets and is similar to the end of 2020 where they are quick to realise profits on some portion of their spot holdings and then reaccumulate after a flash crash or some time in a market downturn.

The current period can be described as time capitulation where the market is in a state of limbo after a sudden price decrease where a large number of liquidations took place. There is often an exchange of spot BTC from STHs to LTHs during this period.

GENERAL MARKET UPDATE

Small Business Sentiment in US Slips Over Inflation and Labour Concerns

US small businesses have experienced a dip in sentiment for the first time since April, largely due to persistent concerns about inflation and perceptions of a tight labour market.

Figure 9. Small Business Optimism Index at 91.3 (Source: **National Federation of Independent Business)**

The National Federation of Independent Business, in its latest report published on Tuesday, September 12th, revealed that its Small Business Optimism Index fell to 91.3 for August, a decrease from 91.9 in July, which marked an eight-month peak for the index. This drop forms part of a broader pattern, with sentiment languishing below the index's 49-year average of 98 for the 20th consecutive month.

At the crux of concerns for business owners is the challenge of hiring skilled professionals in an already strained labour market, coupled with the ongoing shadow of inflation. The sectors feeling the pinch most acutely are construction, manufacturing, and services, all reporting significant challenges in filling open roles. Small business owners expecting better business conditions over the next six months deteriorated by seven points in July to a net negative 37 percent. This suggests that small business owners are becoming more cautious about their prospects in the near future. When the “net negative” metric falls below 25 percent, it has historically been seen as an indicator that a recession may be on the horizon. Nevertheless, it is better than it was in June 2022, when the survey reported a net negative score of 61 percent.

One note of optimism to be taken from the survey was that although 40 percent of business owners said they had trouble filling job vacancies last month, this is actually at its lowest levels since March 2021. This could hint at a potential easing in the tight labour market. Details of the component parts of the Small Business Optimism survey are below.

Small Business Optimism

Index Component	Net %	From Last Month	
Plans to Increase Employment	17%	—	0
Plans to Make Capital Outlays	24%	▼	-3
Plans to Increase Inventories	0%	▲	2
Expect Economy to Improve	-37%	▼	-7
Expect Real Sales Higher	-14%	▼	-2
Current Inventory	-5%	▼	-1
Current Job Openings	40%	▼	-2
Expected Credit Conditions	-6%	▲	2
Now a Good Time to Expand	6%	—	0
Earnings Trends	-25%	▲	5

Figure 10. Small Business Optimism Index Component Breakdown. (source: NFIB)

Businesses have been in limbo, they have decreasing sales expectations while they are unable to hire more workers in order to capitalise on one of the most robust components of the US economy since 2021, resilient consumer spending. Historical indicators that typically forecast recessions persistently suggest an impending downturn, but on the balance of probabilities - taking into account other economic indicators discussed in this, and previous issues of *Bitfinex Alpha* - we are inclining more towards a "soft landing" outcome. Yet, one wonders if this will suffice to rein in inflation. Reinstating the Fed’s target of a two percent inflation rate. This reduction in inflation is necessary to match annual income rise which has not kept up with inflation. Such a decrease in inflation would aid in maintaining purchasing power for US consumers. As we navigate the rest of the year, the anticipation builds for 2024 and its electoral outcomes – will it usher in an era of expansive government or a resurgence in entrepreneurship?

SUMMARY:

	Covered Period	Current Value	Previous Value
NFIB Optimism Index	August	91.3	91.9

- US small business sentiment dips due to inflation and hiring challenges: The Small Business Optimism Index dropped to 91.3, below the 49-year average for the 20th consecutive month, primarily driven by difficulties in hiring skilled workers and concerns about inflation.
- Key sectors, like construction, manufacturing, and services, face hiring struggles: Small business owners are becoming more cautious about their future prospects, with expectations deteriorating, raising concerns of a potential recession.
- Some relief in the tight labour market, but uncertainty looms: While 40 percent of business owners couldn't fill job vacancies last month, questions remain about whether a "soft landing" in the economy can curb inflation and support small businesses amid anticipation for the 2024 elections.

US Consumer Prices Rise in August, But Broader Inflation Remains Steady

The US Bureau Of Labor Statistics (BLS) reported that the Consumer Price Index (CPI) rose a significant 0.6 percent in August, marking the most substantial surge in 14 months. The primary culprit was surging oil prices. However, despite this notable increase, there are no alarming signs of inflation on a broader scale. Note each component of the CPI below in Figure 11.

	Seasonally adjusted changes from preceding month							Un-adjusted 12-mos. ended Aug. 2023
	Feb. 2023	Mar. 2023	Apr. 2023	May 2023	Jun. 2023	Jul. 2023	Aug. 2023	
All items	0.4	0.1	0.4	0.1	0.2	0.2	0.6	3.7
Food	0.4	0.0	0.0	0.2	0.1	0.2	0.2	4.3
Food at home	0.3	-0.3	-0.2	0.1	0.0	0.3	0.2	3.0
Food away from home[1]	0.6	0.6	0.4	0.5	0.4	0.2	0.3	6.5
Energy	-0.6	-3.5	0.6	-3.6	0.6	0.1	5.6	-3.6
Energy commodities	0.5	-4.6	2.7	-5.6	0.8	0.3	10.5	-4.2
Gasoline (all types)	1.0	-4.6	3.0	-5.6	1.0	0.2	10.6	-3.3
Fuel oil[1]	-7.9	-4.0	-4.5	-7.7	-0.4	3.0	9.1	-14.8
Energy services	-1.7	-2.3	-1.7	-1.4	0.4	-0.1	0.2	-2.7
Electricity	0.5	-0.7	-0.7	-1.0	0.9	-0.7	0.2	2.1
Utility (piped) gas service	-8.0	-7.1	-4.9	-2.6	-1.7	2.0	0.1	-16.5
All items less food and energy	0.5	0.4	0.4	0.4	0.2	0.2	0.3	4.3
Commodities less food and energy commodities	0.0	0.2	0.6	0.6	-0.1	-0.3	-0.1	0.2
New vehicles	0.2	0.4	-0.2	-0.1	0.0	-0.1	0.3	2.9
Used cars and trucks	-2.8	-0.9	4.4	4.4	-0.5	-1.3	-1.2	-6.6
Apparel	0.8	0.3	0.3	0.3	0.3	0.0	0.2	3.1
Medical care commodities[1]	0.1	0.6	0.5	0.6	0.2	0.5	0.6	4.5
Services less energy services	0.6	0.4	0.4	0.4	0.3	0.4	0.4	5.9
Shelter	0.8	0.6	0.4	0.6	0.4	0.4	0.3	7.3
Transportation services	1.1	1.4	-0.2	0.8	0.1	0.3	2.0	10.3
Medical care services	-0.7	-0.5	-0.1	-0.1	0.0	-0.4	0.1	-2.1

Figure 11 . CPI components (Source: Bureau of Labor Statistics)

The only outlier was a notable 10.6 percent surge in gasoline prices (Figure 11, red box), responsible for more than half of the overall increase in the consumer price index. Otherwise, food prices saw a mild 0.2 percent increase last month (Figure 11, blue box), a significant difference from the substantial spikes seen in 2022. The cost of shelter, the largest expense for most households, increased by a modest 0.3 percent in August (Figure 11, yellow box). Fed officials anticipate that shelter prices will continue to stabilise, helping to drive down the inflation rate in the coming months.

Excluding energy and food prices, core inflation was up just 0.3 percent in August, a slight uptick the consensus forecast of 0.2 percent The core rate had experienced a slower 0.2 increase in the preceding two months.

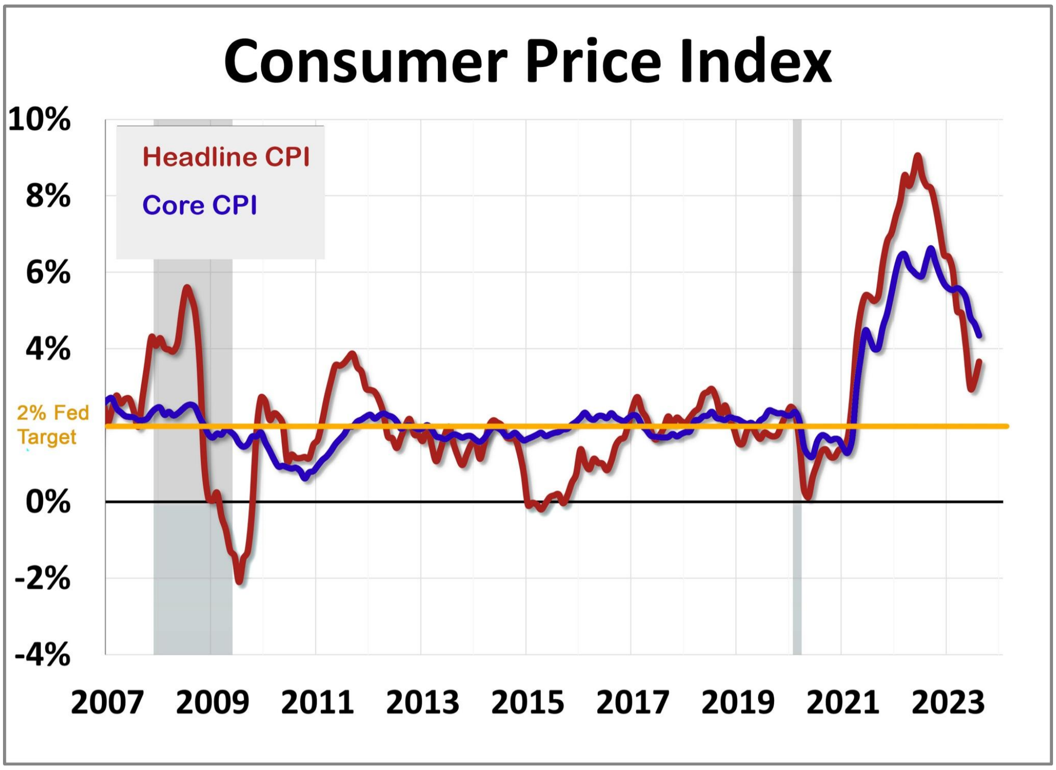
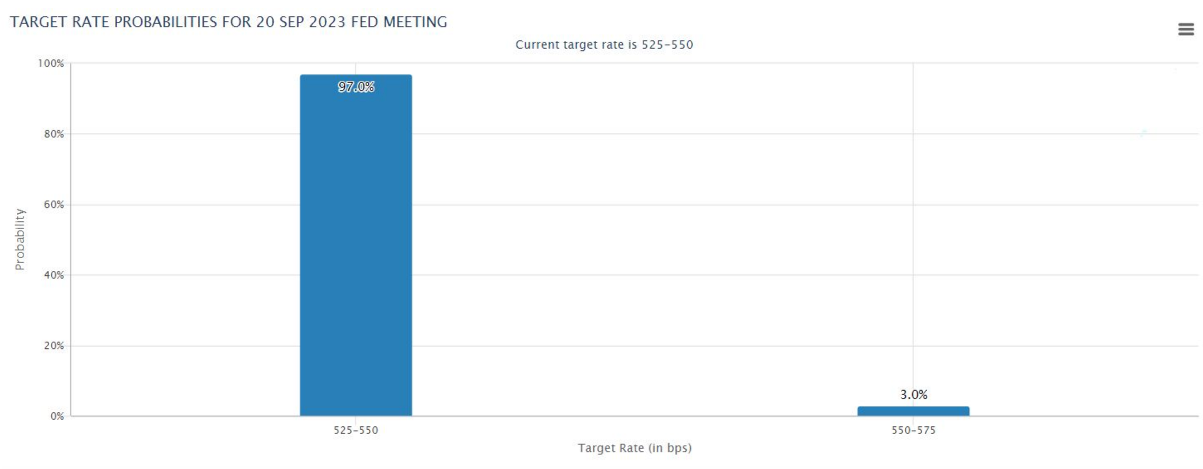


Figure 12. Consumer Price Index , 12-month change (Source: Bureau of Labour Statistics)

On an annual basis, inflation saw an uptick from 3.2 percent in July to 3.7 percent, but annual core inflation decelerated from 4.7 percent to 4.3 percent, reaching its lowest point in 22 months. The Federal Reserve tends to focus on core inflation as it offers a more accurate predictor of future inflation trends. Energy and food prices can exhibit erratic fluctuations.

The August inflation report is unlikely to sway Fed officials in our view, ahead of their regular meeting scheduled on September 20th, where we expect rates to remain unchanged.



TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 12 SEP 2023	1 WEEK 7 SEP 2023	1 MONTH 14 AUG 2023
525-550 (Current)	97.0%	92.0%	92.0%	88.0%
550-575	3.0%	8.0%	8.0%	12.0%

* Data as of 14 Sep 2023 12:11:27 CT

Figure 13. Target Rate Probabilities for September 20 2023

Over the past year and a half, the central bank has steadily increased its benchmark rate from near zero to 5.25 percent in an effort to curb economic growth and mitigate inflation risks. Fed officials anticipate that inflation will continue to ease, moving toward their two percent target, however, any reversal in the moderation of shelter and labour costs, could alter that view.

Dollar Rises and Stock Market Reaction

Following the release of the CPI data, the dollar index, which tracks the currency against a basket of foreign currencies, saw a slight gain of 0.11 percent, reaching 104.70, though it was slightly off earlier highs.

SUMMARY

	Covered Period	Current Value	Previous Value
CPI (Month-over-Month) ▲	August	0.6%	0.2%
CPI Core (MoM) ▲	August	0.3%	0.2%
CPI (Year-over-Year) ▲	August	3.7%	3.2%
CPI core (YoY) ▼	August	4.3%	4.7%

- **Consumer Price Index (CPI) Rise:** The US Bureau of Labor Statistics reported a significant 0.6 percent increase in the Consumer Price Index (CPI) for August, mainly driven by a 10.6 percent surge in gasoline prices. However, there are no alarming signs of inflation on a broader scale, with core inflation (excluding energy and food prices) rising by a more modest 0.3 percent.
- **Annual Inflation Trends:** On an annual basis, inflation increased from 3.2 percent in July to 3.7 percent in August, while annual core inflation decreased to 4.3 percent. The Federal Reserve is closely monitoring core inflation as it provides a more accurate predictor of future trends.
- **Federal Reserve's Response:** The Federal Reserve is expected to maintain current US interest rates at its upcoming meeting, despite recent inflation data. Over the past year and a half, the central bank has gradually increased its benchmark rate to curb economic growth and mitigate inflation risks, with a focus on avoiding over-tightening that could trigger a recession. The central bank's actions may be influenced by changes in shelter and labour costs. The stock market reacted positively to the expectation of unchanged interest rates, and the dollar saw a slight gain following the CPI report.

Producer Prices Increase, Retail Sales Rise, and Jobless Claims Stay Low

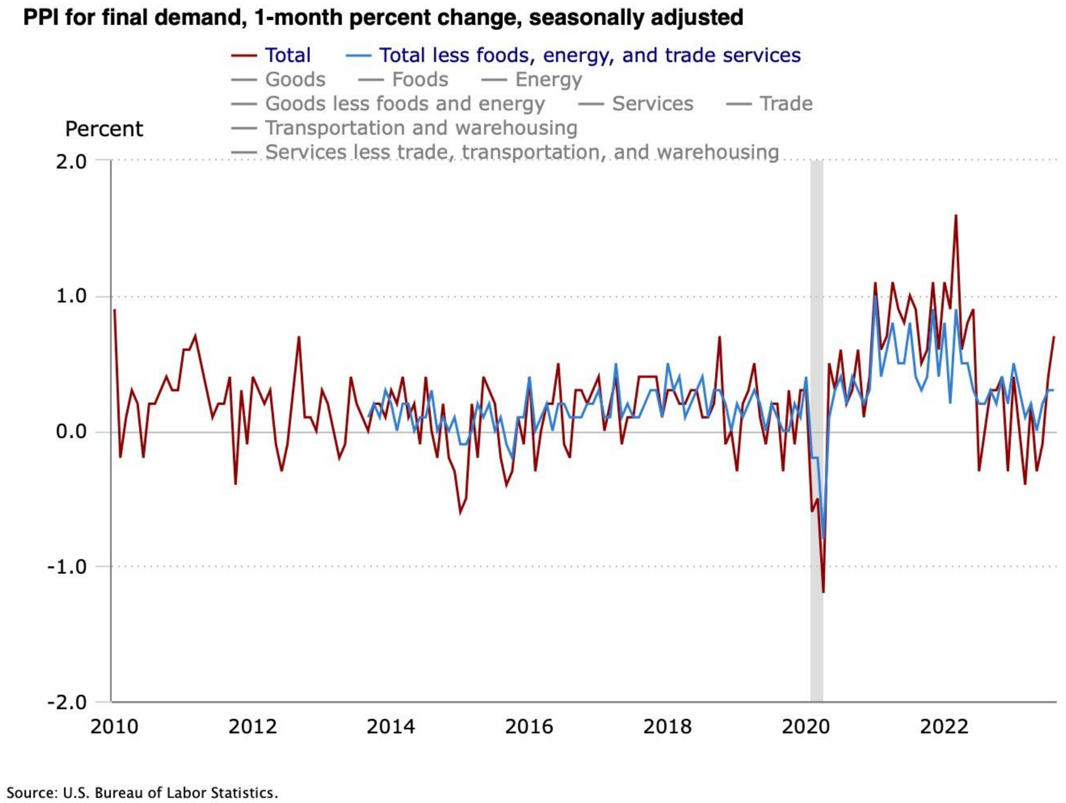


Figure 14. Producer Price Index, 1-month Percent Change (Source: US Bureau of Labor Statistics)

US producer prices saw their most significant uptick in over a year this August, primarily driven by a surge in gasoline costs, according to new data released by the Bureau of Labor Statistics last Thursday, September 14th. This adds to signs that the trajectory towards a more stable rate of inflation could still be rocky.

The producer price index (PPI) for final demand rose by 0.7 percent, marking the most considerable growth since June 2022 (refer to Figure 14 above). The data for July was slightly adjusted to 0.4 percent rise, a nudge up from the previously reported 0.3 percent.

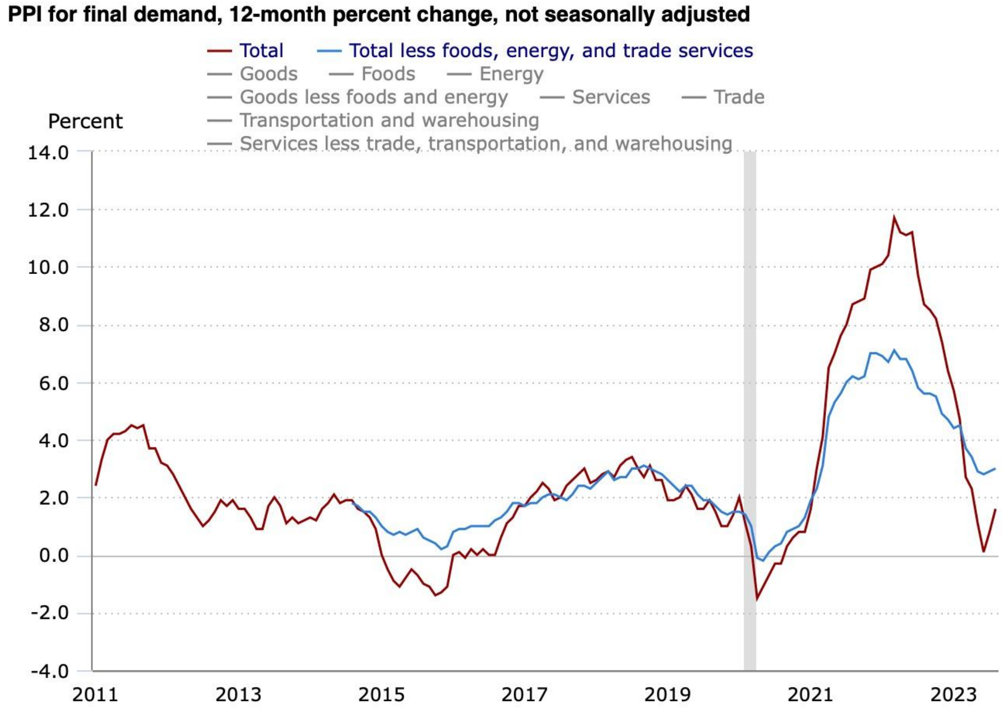


Figure 15. Producer Price Index, 12-month Percent Change (Source: US Bureau of Labor Statistics)

The August number was higher than consensus forecasts. Core PPI, which excludes the impact of food, energy, and trade services, showed a 0.3 percent increase in August, unchanged from July (Figure 14).

Despite the rise in monthly producer inflation, the headline inflation rate is still below Fed's two percent inflation target. In August, year-over-year producer price inflation recorded a rise of 1.6 percent in the PPI, up from July's 0.8 percent rise. Year-over-year, core PPI rose by three percent in August, a slight increase from July's 2.9 percent.

Retail Sales

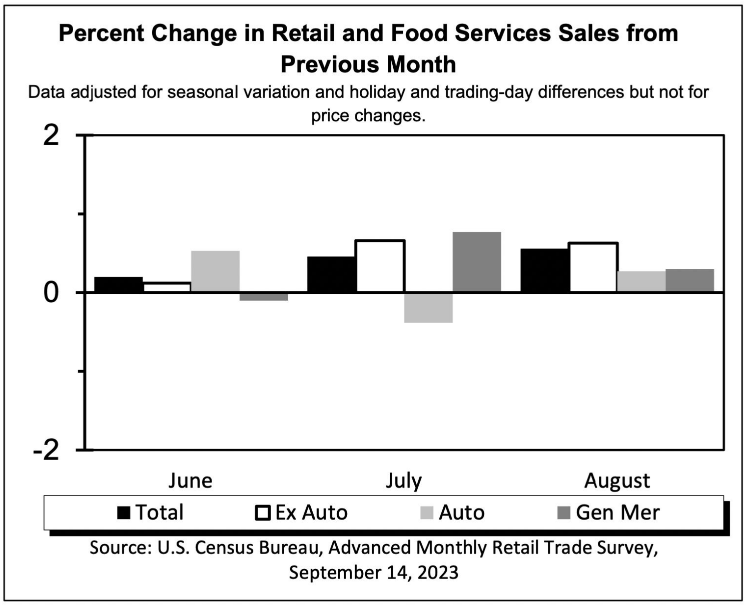


Figure 16. Percent Change in Retail and Food Services Sales From Previous Month

ADVANCE MONTHLY SALES

August 2023	$697.6 billion	0.6%
July 2023 (revised)	$693.7 billion	0.5%

Next release: October 17, 2023

* The 90 percent confidence interval includes zero. There is insufficient statistical evidence to conclude that the actual change is different from zero.
Data adjusted for seasonal variation and holiday and trading-day differences but not for price changes. Source: U.S. Census Bureau, Advanced Monthly Retail Trade Survey, September 14, 2023

Figure 17. Advanced Monthly Sales (Source: US Census Bureau)

In tandem with the monthly producer price inflation data, retail sales in the US also experienced a notable uptick in August, showcasing signs of robust consumer spending, according to areport issued last Thursday, September 14th by the US Census Bureau. Sales at retail stores, online outlets, and restaurants rose by 0.6 percent on the month. The control group, which excludes volatile components like gasoline, automobiles, building materials, and food, retail sales grew by 0.1 percent.

Retail sales figures for July were revised lower, dropping to 0.5 percent from 0.7 percent for total sales and to 0.7 percent from 1.0 percent for the control group. Taking a three-month annualised moving average, sales rose significantly, reaching 5.2 percent and 5.7 percent for total sales and the control group, respectively.

This surge in retail sales is expected to provide a substantial boost to consumption spending in the third quarter, contributing to a positive outlook for GDP growth.

A large portion of the increase in sales came from higher gasoline prices, which also pushed up producer inflation during the month. Nonetheless, sales growth exhibited a broad-based trend. There were only three out of 13 categories posting a decline. Furniture declined by 1.0 percent, sporting goods by 1.6 percent, and miscellaneous items by 1.3 percent.

Jobless Claims Remain Stable Despite Economic Fluctuations

In the labour market, new claims for jobless benefits inched up by 3,000 to 220,000 for the week ending September 9, according to a US Department of Labor report issued last Thursday, 14th September. The four-week moving average declined to 224,500. Notably, these numbers have remained remarkably low over the past four weeks, especially when compared to the 250,000 level typically considered a threshold indicating recession.

The resilience of the labour market amid economic fluctuations and heightened consumer spending indicates a stable employment landscape. While the outlook suggests a slowdown in the labour market into the fall and toward the end of the year, jobless claims have thus far remained at reassuringly low levels.

Continuing claims also saw a slight increase to 1.688 million for the week ending September 2, up from 1.684 million. Both weeks included the Labor Day holiday, which may have introduced seasonal quirks to the data.

These latest economic indicators suggest that despite fluctuations in the economy, there are reasons for confidence. The labour market's resilience, with jobless claims remaining remarkably low, offers stability amid economic uncertainties. While concerns of a potential slowdown into the fourth quarter persist, and inflation’s downward trajectory appears rocky, last Thursday’s data showcases ongoin resilient consumer spending and continued labour market steadfastness.

SUMMARY:

	Covered Period	Current Value	Previous Value
PPI (Month-over-Month) ▲	August	0.7%	0.3%
PPI Core (MoM) ▲	August	0.4%	0.2%
PPI (Year-over-Year) ▲	August	1.6%	0.8%
PPI Core (YoY) ▲	August	3.0%	2.9%
Retail Sales ▲	August	0.6%	0.5%
Intiial Jobless Claims ▲	Sept. 9	220,000	216,0000

- **Producer Prices Surge:** US producer prices experienced a significant increase in August, with the producer price index (PPI) for final demand rising by 0.7 percent, the highest growth since June 2022. This surge was mainly driven by a sharp increase in gasoline costs, indicating potential challenges in achieving subdued inflation.
- **Retail Sales Rise:** In tandem with the rise in producer prices, retail sales in the US also increased notably in August. Sales at retail stores, online outlets, and restaurants grew by 0.6 percent on the month, indicating robust consumer spending. This surge is expected to contribute positively to GDP growth in the third quarter.
- **Stable Jobless Claims:** Despite economic fluctuations, new claims for jobless benefits remained stable, with only a slight increase to 220,000 for the week ending September 9. The labour market's resilience and low jobless claims suggest stability in employment, even though concerns of a potential slowdown and inflation remain.

US Industrial Production Shows Modest Rise Amid Declining Consumer Sentiment

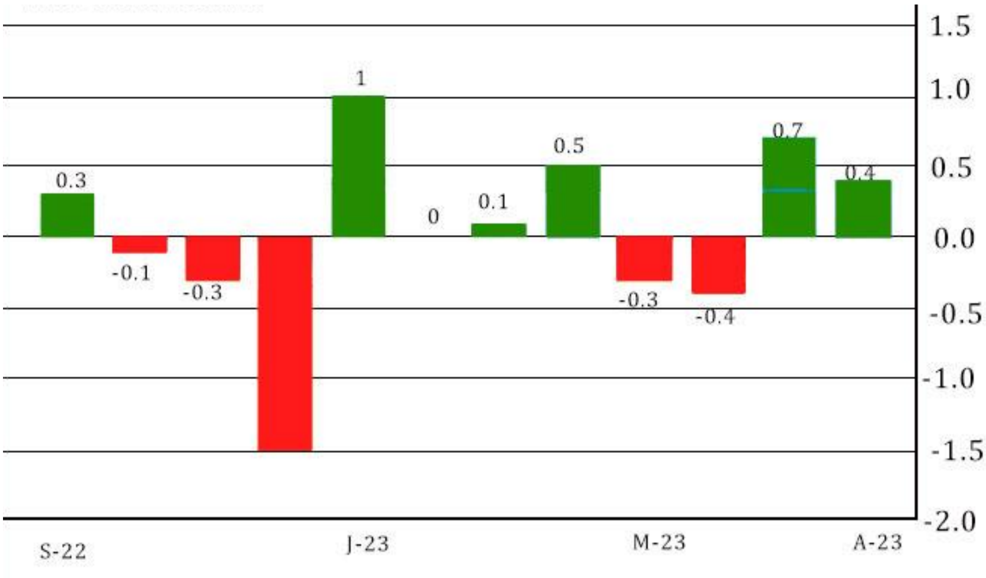


Figure 18. Industrial Production in the US (Source: Federal Reserve)

US manufacturing saw a small rise in August, negatively impacted by a decline in motor vehicle production. Meanwhile, consumer sentiment edged lower, albeit their view on the economy improved modestly

The Federal Reserve reported on Friday, September 15th, that industrial production increased by 0.4 percent in August, higher than the consensus forecast of 0.2 percent, yet lower than the previous month’s 0.7 percent rise. The Federal Reserve's report on industrial production provides monthly data on the changes in output of the nation's factories, mines, and utilities, and provides a snapshot on the health of the US manufacturing sector.

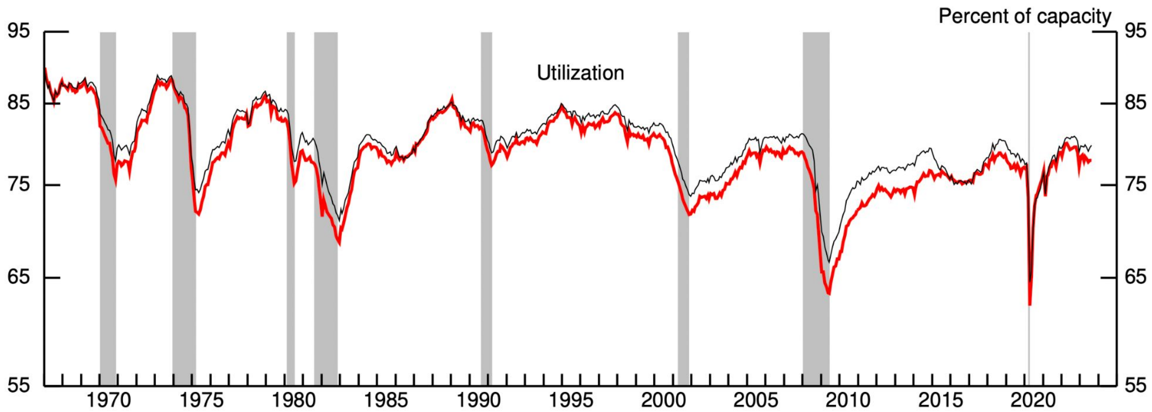


Figure 19. Capacity Utilisation in the US (Source: The Federal Reserve)

In addition to overall production, the report also provides information on capacity utilisation. Capacity utilisation compares actual output to potential output or capacity. Capacity utilisation rose slightly to 79.7 percent in August from 79.5 percent in the prior month.

Manufacturing accounts for approximately 11.1 percent of the economy, and has already been grappling with reduced demand for goods, as monetary policy has tightened. On a yearly comparison for August, industrial production has seen a 0.6 percent decline. Motor vehicle and parts production fell by 5.0 percent in August, a sharp contrast to the 5.1 percent increase reported in July, attributed to seasonal variances from yearly plant maintenance shutdowns. Overall, challenges in the manufacturing sector remain, with strikes being announced [for the first time in history](#) by the United Auto Workers union at factories belonging to General Motors, Ford, and Stellantis.

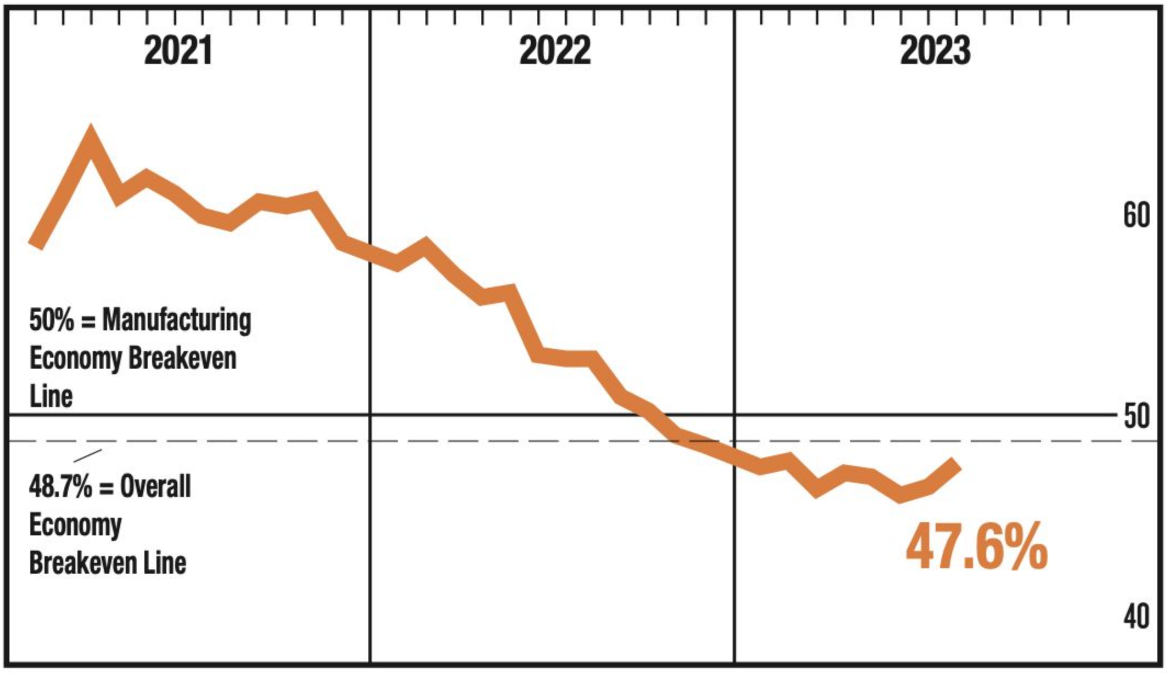


Figure 20. Institute of Supply Management Manufacturing Activity Index (Source: Institute of Supply Management)

That said, the month-over-month rise in capacity utilisation suggests some short-term growth and recovery. A rising capacity utilisation is often viewed as a positive indicator for economic growth. When businesses are operating near their capacity limits, it may lead to increased investment in expanding capacity and can stimulate growth. Moreover, there's a glimmer of optimism as some indicators hint at a potential stabilisation in manufacturing. Despite the Institute for Supply Management's report of factory activity contracting for the tenth consecutive month in August, the downturn rate has decelerated.

Consumer Sentiment Falls

In a separate report issued last Friday, 15th September, the University of Michigan reported a three-month low in consumer sentiment in August. This decline is linked to diminishing confidence regarding personal income and household finances, compounded by surging gas prices. Spending intentions across major categories, including household items, vehicles, and homes, touched a four-month low.

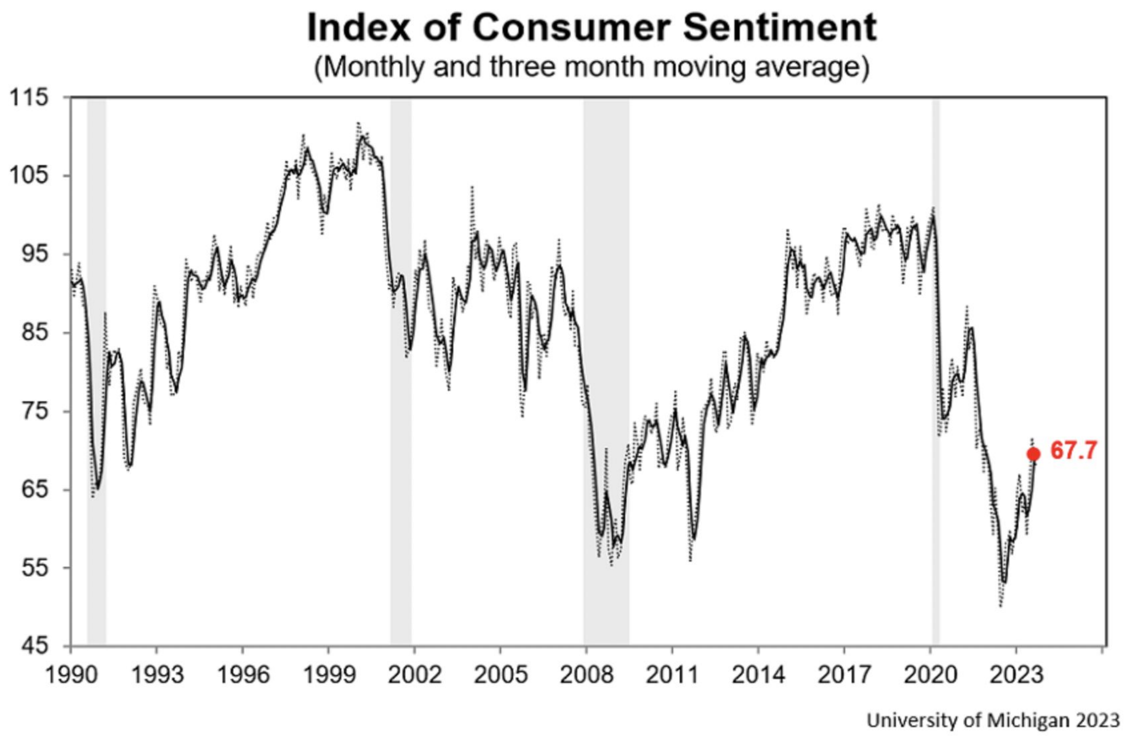


Figure 21. Index of Consumer Sentiment (Source: University of Michigan)

Despite declining consumer sentiment, remarkably, inflation expectations in the survey plummeted to their lowest in over two years, recording 3.1 percent for a year and 2.7 percent for five to ten years. Such statistics might bring some relief to the Federal Reserve. Concurrently, the decrease in prices for cars, rent, and housing could potentially assuage concerns surrounding inflation.

SUMMARY:

		Covered Period	Current Value	Previous Value
Industrial Production	▼	August	0.4%	0.7%
Capacity Utilisation	▲	August	79.7%	79.5%
Consumer Sentiment	▼	August	67.7	69.5

- **US manufacturing experienced a slight growth in August, with a 0.4 percent increase in industrial production, although there was a year-over-year decline of 0.6 percent, mainly due to reduced demand for goods, especially in the motor vehicle sector.**
- **Despite declining consumer sentiment, inflation expectations dropped to their lowest levels in over two years, which could alleviate concerns about inflation for the Federal Reserve.**

NEWS FROM THE CRYPTO-SPHERE

Traditional Finance Giant Franklin Templeton Files Spot Bitcoin ETF With the SEC

Figure 22. Traditional Finance Giant Franklin Templeton Files Spot Bitcoin ETF With the SEC

Franklin Templeton, the asset management giant with $1.53 trillion under management, has announced its entry into the Bitcoin arena by filing for a Bitcoin spot ETF.

This move aligns Franklin Templeton with other heavyweights in the finance sector, including Blackrock, Fidelity, Ark Invest, Invesco, and Galaxy Digital. Combined, the assets under management (AUM) at Blackrock, Fidelity, Invesco, and Franklin Templeton are $16 trillion, highlighting the significant shift in traditional finance's stance on Bitcoin ETFs. If a tiny fraction of this started flowing into Bitcoin, it would have a significant impact on price, as well as the overall perception of crypto as an asset class.

Coinbase Custody Trust Company was named as custodian for the fund's BTC holdings and Bank of New York Mellon will be the cash custodian, administrator and transfer agent, the filing said. The company noted that the shares will be listed and traded on the Cboe BZX Exchange. However, it has not proposed a ticker for the product yet

Former FTX CEO Sam Bankman-Fried Denied Release from Jail Ahead of Fraud Trial

Figure 23. Former FTX CEO Sam Bankman-Fried Denied Release from Jail Ahead of Fraud Trial

- **Sam Bankman-Fried's (SBF) request to be released from jail ahead of his Oct. 3 fraud trial was denied, as he claimed his incarceration prevented him from adequately preparing his defence**
- **Accused of misusing FTX client funds, SBF admitted to poor risk management at FTX but has refuted claims of theft, pleading not guilty**

Sam Bankman Fried (SBF), the former CEO of the collapsed FTX cryptocurrency exchange, has been denied his request for release from jail in preparation for his upcoming trial on fraud charges, according to a court filing.

SBF had argued that the conditions of his confinement at Brooklyn's Metropolitan Detention Center had hindered his ability to adequately review the evidence presented by prosecutors and assist his defence team. However, US District Judge Lewis Kaplan in Manhattan rejected his plea in a written ruling, stating that he had not specified which pieces of evidence he had been unable to access. Additionally, Kaplan noted that SBF had not requested a trial delay, despite the judge's willingness to consider such a request.

The 31-year-old was initially jailed on August 11, 2023, after the judge found evidence suggesting that SBF may have tampered with witnesses on at least two occasions. One instance involved SBF sharing the personal writings of his former romantic partner and colleague, Caroline Ellison, with a New York Times reporter. Ellison, who formerly served as the chief executive of SBF’s Alameda Research hedge fund, has already pleaded guilty to fraud charges related to the collapse of FTX and Alameda in November 2022. She is expected to testify against SBF during his trial.

SBF has defended his actions, stating that he shared the documents to protect his reputation rather than to intimidate Ellison. He has separately appealed Judge Kaplan's detention order, with a three-judge panel from the 2nd US Circuit Court of Appeals scheduled to hear arguments on September 19.

Federal prosecutors in Manhattan have accused SBF of misappropriating billions of dollars in FTX customer funds to cover losses at Alameda, purchase real estate, and make donations to US political campaigns, all to bolster his influence in Washington. SBF has pleaded not guilty to these charges. While he has acknowledged inadequate risk management at FTX, he vehemently denies any wrongdoing related to the theft of funds.

SBF’s trial is scheduled for October 3, 2023.

Binance.US Announces CEO Departure and Job Cuts Amid Regulatory Scrutiny

Figure 24. Binance.US Announces CEO Departure and Job Cuts Amid Regulatory Scrutiny

- **Binance.US, the US affiliate of cryptocurrency exchange Binance, is experiencing operational challenges amidst ongoing regulatory scrutiny, leading to the departure of its CEO, Brian Shroder, and the cutting of over 100 jobs**
- **The US Securities and Exchange Commission filed a civil complaint against Binance and its founder, accusing them of attempting to evade US securities laws. This latest development follows a series of executive departures within the Binance organisation**

In a move indicative of operational challenges in the wake of regulatory pressures, Binance.US, the US affiliate of cryptocurrency giant Binance, has announced the departure of its chief executive officer, Brian Shroder. This development coincides with the company's decision to reduce its workforce by over 100 employees, representing approximately one-third of its total headcount.

Replacing Brian Shroder in an interim capacity is Norman Reed, the company's general counsel, who joined Binance.US in December 2021.

While the cryptocurrency exchange did not provide explicit reasons for Shroder's departure, this move is seen as a response to ongoing regulatory actions against Binance and its US affiliate. In June, the US Securities and Exchange Commission (SEC) initiated a civil complaint against Binance, the world's largest crypto exchange, and its founder, Changpeng Zhao. The SEC alleged that Binance.US was established as part of a "web of deception" to evade US securities laws designed to safeguard American investors. Binance and Binance.US have consistently claimed that they operate separately from each other.

A spokesperson for Binance.US commented: "The actions we are taking today provide Binance.US with more than seven years of financial runway and enable us to continue to serve our customers while we operate as a crypto-only exchange."

Notably, Brian Shroder's departure from Binance.US follows a series of executive exits within the larger Binance organisation. In early September, Mayur Kamat, the global head of product, resigned from his position, while the chief strategy officer, Patrick Hillmann, left the company in July.

These recent shifts in leadership and workforce reductions reflect the challenges faced by Binance and its US affiliate as they navigate a complex regulatory landscape while striving to maintain their market presence in the sector.

Genesis Ceases All Trading Operations Amidst Industry Challenges

Figure 25. Genesis Ceases All Trading Operations On September 14th

- **Genesis Global Capital, a cryptocurrency lending firm and part of the Digital Currency Group (DCG), is discontinuing its crypto spot and derivatives trading services**

- **The broader context includes Genesis Global Trading's earlier cessation of crypto spot trading, Genesis Global Capital's Chapter 11 bankruptcy protection filing, and ongoing legal and regulatory complications within DCG subsidiaries**

Genesis Global Capital, a cryptocurrency lending firm and subsidiary of Digital Currency Group (DCG), is discontinuing its spot and derivatives trading services for digital assets through its British Virgin Islands unit, as confirmed by Genesis spokesperson last Thursday, September 14th. The decision comes as part of a broader move to cease digital asset trading services across all of its entities, with the firm citing voluntary actions taken for business reasons.

The company has been conducting trading activities through its international arm, Genesis Global Capital (GGC), which operates in the British Virgin Islands. This move mirrors a similar announcement made earlier this year by Genesis Global Trading, another DCG-affiliated firm, which discontinued its crypto spot trading services in January, also citing voluntary and business-related reasons. GGC's international arm, however, continued to provide spot and derivatives trading services until now.

Genesis Global Capital's decision to wind down its trading operations follows a series of challenges and setbacks in recent times. In November 2022, GGC halted withdrawals, citing "unprecedented market turmoil" as the reason. There have been significant layoffs at the firm, affecting up to 30 percent of its staff, just before it filed for Chapter 11 bankruptcy protection in New York.

The legal and regulatory landscape has been complex for Genesis and other DCG subsidiaries. The Securities and Exchange Commission (SEC) charged both cryptocurrency exchange Gemini and Genesis with offering unregistered securities through Gemini's Earn program. Genesis attributed its financial difficulties to the actions of Three Arrows Capital and reported losses associated with the failure of cryptocurrency exchange FTX.

In August, DCG announced reaching an "agreement in principle" with Genesis, providing a pathway for creditors to recover the majority of their funds. However, lenders later expressed dissatisfaction, considering the deal "wholly insufficient." Genesis currently owes approximately $3.5 billion to its top 50 creditors.

The challenges and legal entanglements involving various DCG subsidiaries and cryptocurrency firms have made significant waves within the industry over the past year. Genesis' decision to cease its trading operations is a significant development in this ongoing narrative.

Bybit to Withdraw from UK Ahead of Stringent New Regulations

Figure 26. Bybit to Withdraw from UK Due To New FCA Rules.

- **Bybit, a major global cryptocurrency exchange operator, is preparing to exit the United Kingdom due to anticipated stringent regulatory changes set to take effect in the near future.**

- **The Financial Conduct Authority (FCA) will implement new rules on October 8, aimed at increasing transparency in cryptocurrency product marketing. These rules are expected to significantly impact solicitation practices and could force Bybit and other exchanges to sever ties with the UK market.**

Bybit is set to exit the United Kingdom in anticipation of new regulatory rules scheduled to take effect in the coming weeks. Ben Zhou, co-founder and CEO, cited the tightening regulatory environment.

The upcoming rules, which have been outlined by the Financial Conduct Authority (FCA), and will come into effect on October 8, aim to enhance transparency and accuracy in the marketing of cryptocurrency products. They include the introduction of a cooling-off period for first-time investors.

One significant change these rules bring is the impact on solicitation practices. While crypto derivative products have been prohibited in the UK since 2021, some exchanges have still managed to serve UK customers through reverse solicitation. However, the new regulations could disrupt this practice, as Zhou pointed out.

"FCA has explicitly contacted all the major players — us, OKX, Binance, everyone — and asked what our plan is to deal with this new law," Zhou explained. "And the new law is that if you use English as a language, they will see you as trying to solicit their users, so you cannot claim that you are in reverse solicitation. Everyone is in trouble. So everyone is thinking of plans for how to deal with this new law."

The regulatory changes reflect an expansion of the promotional rules that have long been in place for traditional securities firms, now being applied to crypto firms.

Delaware Judge Approves FTX's Plan to Sell Billions worth of Crypto Assets for Creditors

- **Delaware district judge grants approval for bankrupt crypto exchange FTX to sell billions in cryptocurrency assets to repay creditors, with specific weekly limits and the option to hedge and stake assets for minimising volatility and enhancing returns.**

- **FTX's ongoing bankruptcy proceedings involve a $3.4 billion cryptocurrency portfolio, lawsuits against FTX insiders, and founder SBF facing charges of defrauding customers, while former FTX executives have pleaded guilty to criminal charges.**

A Delaware district judge has granted approval for the bankrupt cryptocurrency exchange FTX to proceed with the sale of billions of dollars' worth of cryptocurrency assets, which will be distributed to its creditors.

The proposed plan, submitted by debtors in August, outlines that the sale of the estate's tokens will be overseen by a financial advisor. Initially, the estate will have the authority to sell up to $100 million worth of most tokens per week, with the possibility of permanently raising this limit to $200 million for each token on a case-by-case basis.

Judge John Dorsey gave his approval to this plan during a recent hearing. The estate is also required to provide the US Trustee's office with a ten-day notice before selling assets like Bitcoin and Ether.

FTX expressed its intention to hedge Bitcoin and Ether holdings to mitigate the impact of price fluctuations during the asset sale process. However, this hedging strategy may be extended to other assets, contingent on individual token evaluations. Additionally, the estate has reserved the right to stake specific tokens, as long as the returns from token staking programs contribute to higher returns for creditors.

Addressing concerns related to the traceability of cryptocurrency assets held by FTX customers, a lawyer representing the ad hoc committee for FTX customers noted their support for the motion as a means to preserve and maximise value for the debtors' estates. However, the judge raised questions about the traceability of crypto assets deposited with FTX.

A lawyer representing FTX clarified that individual crypto assets couldn't be traced back to individual customers as they were part of a collective pool, which includes assets associated with the exchange. When the assets are sold, they will be converted into cash and made available for distribution in accordance with the approved bankruptcy plan.

FTX filed for bankruptcy protection in November and holds approximately $3.4 billion in cryptocurrency assets.