BITFINEX Alpha

Issue: 25-09-2023
bitfinex.com

This material is being provided by BFXWW Inc. ("Bitfinex") for general informational purposes only. Views or opinions expressed herein may not reflect those of Bitfinex as a whole and may change without prior notice. Nothing in this newsletter constitutes investment, portfolio management, legal, accounting or tax advice, advice on trading techniques, models, algorithms, or any other schemes, or a recommendation to buy, sell or hold any digital tokens or other digital assets. No recommendation or advice is being given as to whether any digital asset is suitable for you. No solicitation or offer of any digital asset or financial promotion of any kind is being made.

You should not trade in digital assets unless you understand the associated risks.

You should not commit funds or collateral to trading in digital assets that you are not prepared to lose entirely. Past performance of a digital asset or trading strategy does not guarantee future results or returns. This newsletter contains forward-looking statements—statements that relate to future events or future performance—which are only projections, opinions and hypotheticals about possible future events, conditions, outcomes and results. Actual events or results may differ materially.

Where indicated, information provided comes from other content providers. That information is protected by copyright owned or licensed by those content providers. Bitfinex has not been involved in preparing, adopting or editing this content and does not explicitly or implicitly endorse or approve such content. Bitfinex makes no guarantees that information supplied in third-party content is accurate, complete, or timely.

While Bitfinex attempts to provide accurate and timely information, neither Bitfinex nor any third-party content provider guarantees the accuracy, timeliness, completeness or usefulness of any newsletter content, and are not responsible or liable for any such content. All newsletter content is provided on an "as-is" basis.

You may not use any of the trademarks, trade names, service marks, copyrights, or logos of Bitfinex in any manner which creates the impression that such items belong to or are associated with you or are used with Bitfinex's consent, and you acknowledge that you have no ownership rights in and to any of such items.

This newsletter is provided only to select recipients. You should not post, transmit, redistribute or otherwise make available any newsletter content to any other person.

EXECUTIVE SUMMARY

This week, we assess the Bitcoin markets and the state of market sentiment by analysing a range of on-chain indicators.

A prevailing sense of seller exhaustion is palpable among Bitcoin's short-term holders, as evidenced by Spent Output Profit Ratio (SOPR) indicators, which shows that selling by this cohort has peaked and appears to have turned. It suggests that acquiring Bitcoin at these levels may be prudent.

Long-term holder dynamics in contrast are less dynamic, as this group has long indicated their conviction in the asset and continue to act as an anchor for the BTC price. The Net Unrealized Profit/Loss (NUPL) indicator also echoes this view for both short and long-term holders. The latter are largely moving coins at a profit, the former at a loss. However, with Bitcoin's value remaining relatively steady over the past few months - even in the face of a positive Long-Term Holder Spend Output Profit Ratio - a foundation in the market seems to have been found.

That said, there is increasing intra-day volatility. In the past week, the perpetual futures markets have seen liquidations in BTC contracts of more than $44 million, as prices moved by over $1000. Most of these are expected to have been long liquidations that occurred as the market moved lower, but we assess these movements to have been exacerbated by very thin spot volumes.

Options trading indicators also augment this narrative. Implied volatility is currently outpacing historical volatility and a staggering $3 billion worth of options are set to expire at month-end, with following two weekly expiries showing currently virtually no open interest.

While volumes drop and volatility increases in BTC markets, the broader economy is also grappling with its future direction. While the Fed kept rates on hold to engineer a soft landing, confidence in some sectors indicate this may not be so easily achieved. Homebuilders are increasingly uncertain about demand with the September NAHB/Wells Fargo index dropping to its lowest point since April. This downturn, precipitated by soaring mortgage rates, has also caused the steepest slump in three years in housing starts. Yet, in an optimistic twist, August saw a surge in building permits, hinting at some demand for new housing.

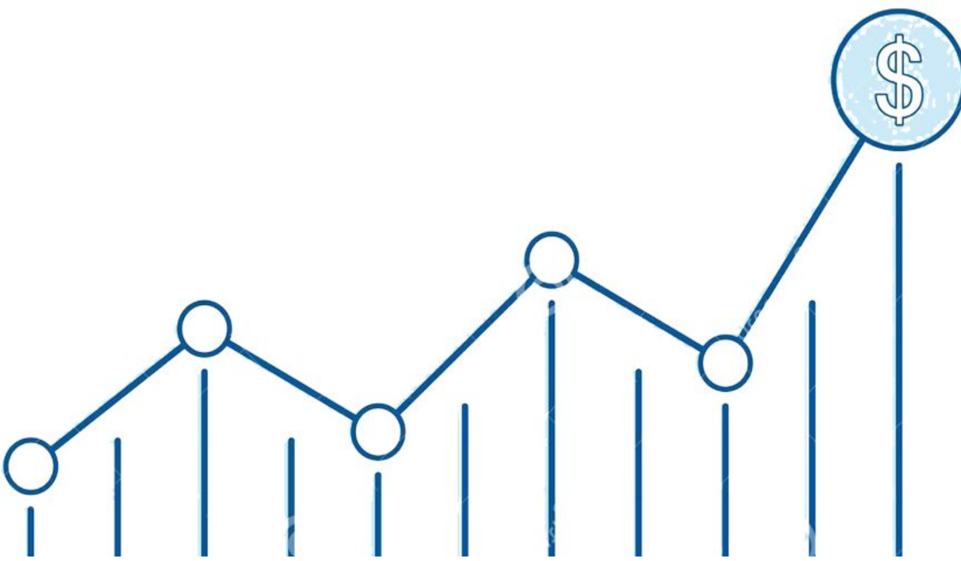
EXECUTIVE SUMMARY

Rates however, are not expected to fall anytime soon, and US businesses are acknowledging that economic conditions will be difficult, with only very slow growth reported for September. The service sector is now moving at its slowest pace since February, with new orders witnessing a conspicuous decline.

It is heartening then that in crypto, the newsflow over the past week has been largely positive. Tether announced its investment in Northern Data Group, a German company that provides data centre, cloud, AI computing, and blockchain services as it continues to support innovative technology. Simultaneously, Google Cloud announced that its BigQuery service had added an additional 11 blockchain networks, to give it a total of 19 networks, from which it can acquire and provide data. In the DeFi space too, PancakeSwap has announced its alliance with Transak to add more fiat on-ramp solutions; while CoinShares unfurled its hedge fund division on American shores, to provide crypto portfolio solutions to US accredited investors

Happy trading!

INDEX



WHAT’S ON-CHAIN THIS WEEK?

Bitcoin Holder Cohort Dynamics

There appears to be growing seller exhaustion for short-term holders (STH) in Bitcoin. Seller exhaustion is typically labelled as the phase where STHs are reaching a peak of selling BTC at a loss. The Spent Output Profit Ratio (SOPR) metrics (refer Figure below) indicate that we may have even passed the peak.

Figure 1. Bitcoin Short-Term Holder SOPR 30-day Moving Average. (source: CryptoQuant)

The Spent Output Profit Ratio (SOPR) indicator captures the aggregate on-chain profit and loss at any particular point in time. When the value is above the baseline of “one” (dotted line in figure above), it means coins are moved at a profit. Below one, and they are being moved at a loss. When using a moving average to smooth out the data curve, the standout capitulation events clearly emerged in July 2022, November 2022, and July 2023. August 2023, in particular, presented a significant buy signal, as it shows the moving average (the yellow line), beginning to move up. On the basis of this metric, this could be seen as an indication to buy BTC.

The adjusted SOPR metric provides an insight into the entire market dynamic. Adjusted SOPR (aSOPR) uses the same formulation as SOPR, but simply filters out any Unspent Transaction Outputs which are less than an hour old. This allows for the transactions that are temporary and add noise to our data to be filtered out.

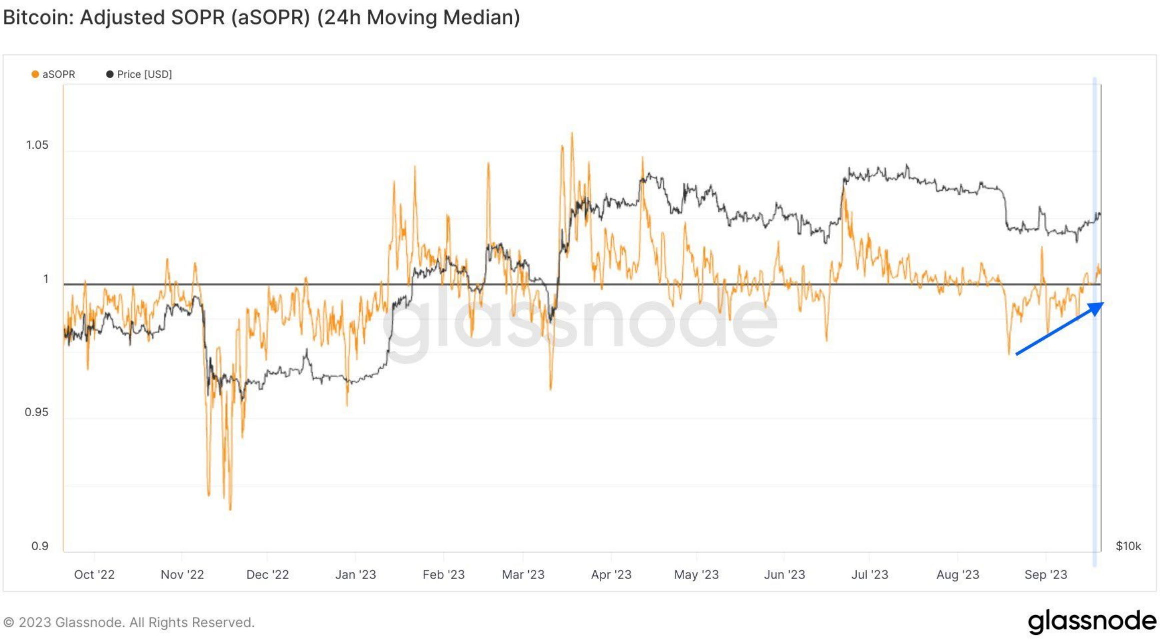


Figure 2. Adjusted Spent Output Profit Ratio. (source: Glassnode)

Using aSOPR as a guide, the metric shows that investors have been trying to find support above one. A sustained move above this for the metric would indicate a scenario where traders are moving spot BTC at a profit and the market is able to absorb this movement. If this is sustained then that is an indication of spot demand for Bitcoin and could signal a move up from current price levels.

Corresponding to the above movements in aSOPR, Long-Term Holder (LTH) SOPR has also had a positive reaction at the baseline level (refer Figure below) before moving up. Indeed, for a bullish rally to gain momentum, stability in key metrics, especially among long-term holders, is pivotal. Historically, a rally is not ignited by long-term holders liquidating their positions. Rather, they typically form the backbone of a stable market, providing an anchor during turbulent times.

The resilience of the BTC price, in the face of a positive LTH SOPR — with prices not moving lower — is indicative of the market's robustness. Such behaviour signals a foundational strength and confidence in the asset, suggesting that despite pockets of selling, the overarching sentiment remains bullish. As always, a holistic view, taking into account multiple indicators and market dynamics, provides the most comprehensive understanding of the market's trajectory.

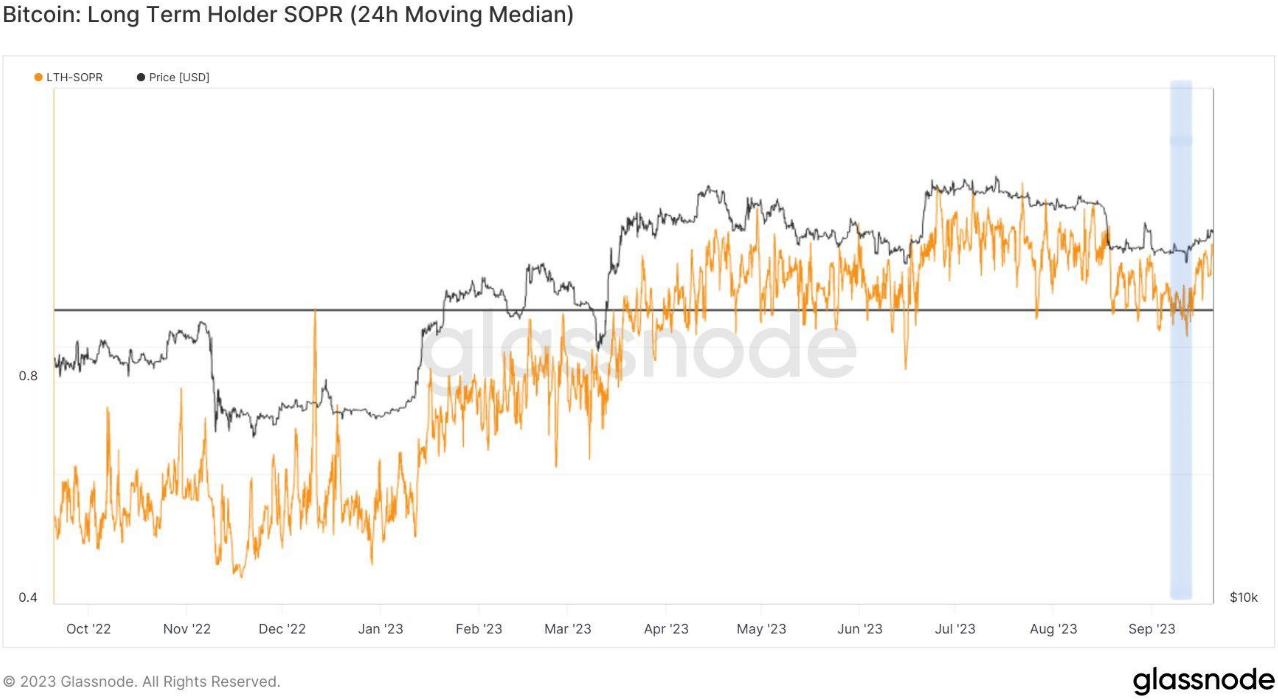


Figure 3. Long-Term Holder (LTH) Spent Output Profit Ratio. (source: Glassnode)

Another metric worth examining is Net Unrealized Profit/Loss (NUPL) , which provides an incisive look into the tug-of-war between Unrealized Profit and Unrealized Loss measures across various investor cohorts in the market.

In its essence, when the NUPL ratio crosses the zero mark and heads north, it signifies a net profit across the network. On the flip side, if it falls below zero, the network is, in aggregate, nursing a loss.

An interesting differentiation can be made when this metric is calculated for distinct investor cohorts: short-term holders (STH NUPL) and long-term holders (LTH NUPL).

When the price of BTC hit its lowest levels last year, in the wake of the FTX collapse, both the STH NUPL and LTH NUPL were in the negative zone, painting a picture of widespread market losses. Essentially, the market was awash in a sea of red, with both new and seasoned Bitcoin investors experiencing unrealised losses (refer Figure below).

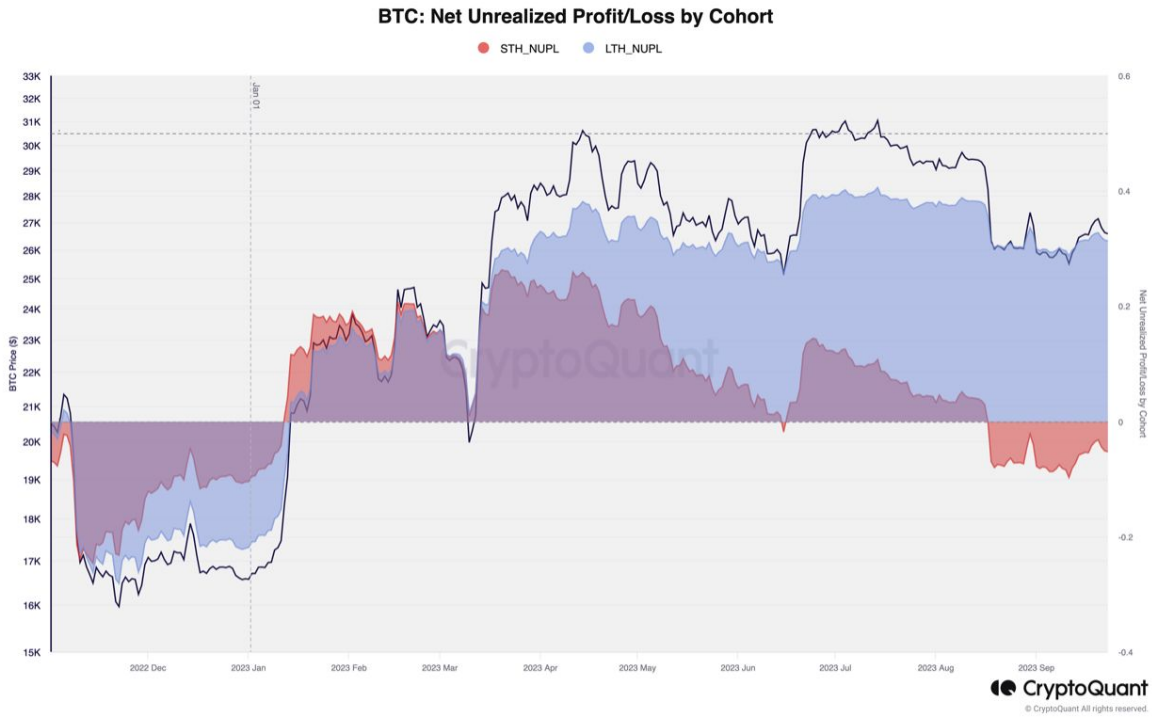


Figure 4. LTH and STH NUPL vs BTC price. (source: CryptoQuant)

However, a turning point arose as BTC nudged the $30,000 resistance mark. The STH NUPL began its descent, an indication that these newer entrants were either offloading spot BTC to capitalise on profits or were purchasing it at premium rates with the latter being more likely based on STH SOPR data. In the former case scenario, given their propensity to be reactive, this migration towards a bearish stance by short-term holders isn't surprising. This was evident as the STH NUPL soon dipped, echoing the unrealized losses faced by this group.

In contrast, the LTH NUPL charted a more sanguine course. Climbing to a zenith of 0.4, it then oscillated within the 0.3 to 0.4 bracket, suggesting that the long-term Bitcoin aficionados maintained a steadier, more bullish outlook.

The current sustained LTH NUPL values shows that long-term holders are in profitable spot positions and have been in them for a while. The amount of long-term holders taking profit are much smaller in comparison and the NUPL metric has remained stable indicating their confidence in BTC price appreciation on a longer time horizon whereas short-term holders remain in net unrealised losses which has recently reduced without much movement in price, indicating that short-term holders have already realised their losses recently. All of these aforementioned factors have historically aligned before a bullish move up, however, since these are leading indicators, it cannot be said with certainty that there is not more downside for BTC in the near future.

Intra-Week Spike To mid-$27,000s For Bitcoin

Bitcoin futures positions worth over $44 million were liquidated (refer Figure below) last Monday in choppy trade that saw the spot price of the world's largest cryptocurrency by market capitalization swing more than $1000 (over four percent) between session lows around $26,400 and new highs for the month around $27,400. In this section, we will discuss the intra week price movements for BTC.

Figure 5 BTC Liquidations Hourly Chart. (source: coinglass)

While the amount of liquidations is not that significant by historical standards, there were more than $30 million in short liquidations which is extremely high relative to recent movements in BTC in one of the lowest volatility periods in the history of the asset.

In the following section, we will discuss Bitcoin volatility. Price fluctuations have been minute throughout September, and there have been only three instances where the daily registered move for BTC was more than two percent. As September comes to a close, we review some important levels.

Figure 6. BTC/USDT 2H chart. (source: Bitfinex)

As seen in the above figure, while moves have been less aggressive, we are still on track to close a green monthly candle for September. Upside pivotal levels include the 2021 yearly open and historically a revisit to yearly opens has always been crucial in the asset's history. However, as can be seen in the chart this particular level has also been crucial in the bear market so it would be interesting to see how strong the reaction in price would be once we get there.

Time	January	February	March	April	May	June	July	August	September	October	November	December
2023	39.63%	0.03%	22.96%	2.81%	-6.98%	11.98%	-4.02%	-11.29%	2.47%			
2022	-16.68%	12.21%	5.39%	-17.3%	-15.6%	-37.28%	16.8%	-13.88%	-3.12%	5.56%	-16.23%	-3.59%
2021	14.51%	36.78%	29.84%	-1.98%	-35.31%	-5.95%	18.19%	13.8%	-7.03%	39.93%	-7.11%	-18.9%
2020	29.95%	-8.6%	-24.92%	34.26%	9.51%	-3.18%	24.03%	2.83%	-7.51%	27.7%	42.95%	46.92%
2019	-8.58%	11.14%	7.05%	34.36%	52.38%	26.67%	-6.59%	-4.6%	-13.38%	10.17%	-17.27%	-5.15%
2018	-25.41%	0.47%	-32.85%	33.43%	-18.99%	-14.62%	20.96%	-9.27%	-5.58%	-3.83%	-36.57%	-5.15%
2017	-0.04%	23.07%	-9.05%	32.71%	52.71%	10.45%	17.92%	65.32%	-7.44%	47.81%	53.48%	38.89%
2016	-14.83%	20.08%	-5.35%	7.27%	18.78%	27.14%	-7.67%	-7.49%	6.04%	14.71%	5.42%	30.8%
2015	-33.05%	18.43%	-4.38%	-3.46%	-3.17%	15.19%	8.2%	-18.67%	2.35%	33.49%	19.27%	13.83%
2014	10.03%	-31.03%	-17.25%	-1.6%	39.46%	2.2%	-9.69%	-17.55%	-19.01%	-12.95%	12.82%	-15.11%
2013	44.05%	61.77%	172.76%	50.01%	-8.56%	-29.89%	9.6%	30.42%	-1.76%	60.79%	449.35%	-34.81%

Figure 7. Bitcoin Monthly Returns Since 2013. (Data source: Coinglass)

Throughout BTC history, September has been a historically bearish month, and there has been no precedent for a green September monthly candle (which we are about to see this month) being followed by a red October monthly candle. If we take October's past performance as a precedent, it has traditionally shown resilience and even bullish momentum in certain years. Specifically, the months in 2015 and 2016 were standout examples with double-digit positive returns in percentage terms.

However, while history does offer us insights, it's essential to consider that past performance is not always indicative of future results. Market dynamics, external events, and various macroeconomic factors can all influence Bitcoin's price direction.
Nevertheless, if September wraps up with a positive trend, it could set a favourable precedent for October. Traders and investors will undoubtedly be watching closely to see if these historical trends hold true in the current market environment.

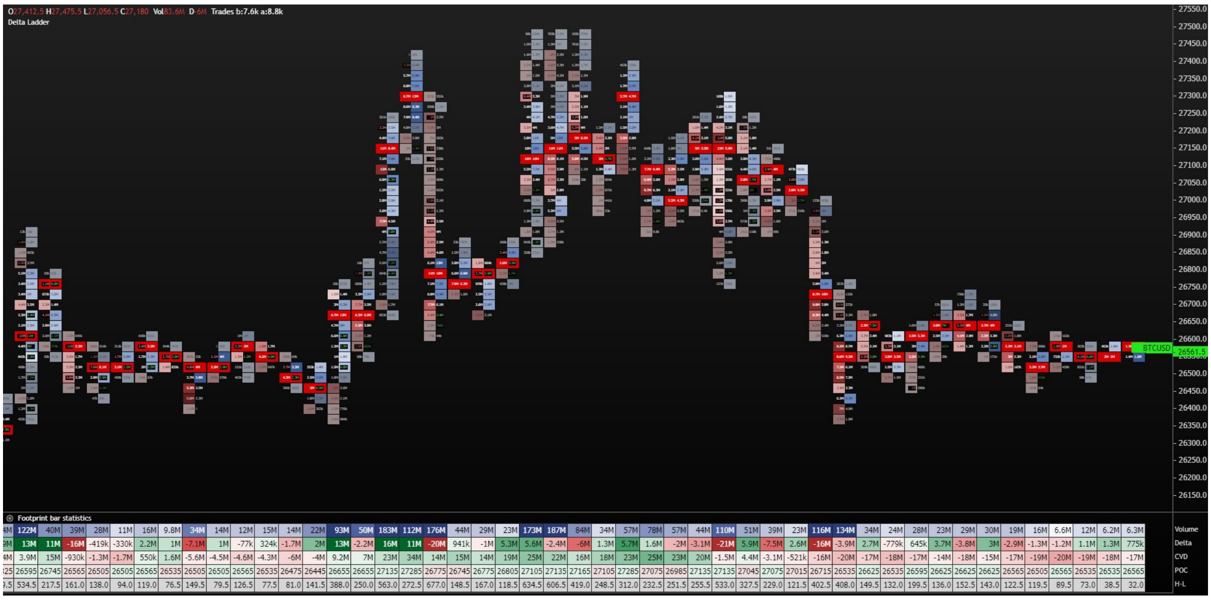


Figure 8. BTC/USDT 2H Delta Ladder Chart. (source: exocharts)

Over the past week we have been observing a situation where leveraged long positions in the perpetual swap markets (or 'perps') have attempted to drive the price higher, but have been unsuccessful due to insufficient spot market buying support. Leveraged long positions without sufficient spot buying can often lead to a vulnerable state, making these positions susceptible to being liquidated or "squeezed out" during market volatility. The figure below shows the reaction of price and perpetual markets vs spot markets trader behaviour around that level.

The Cumulative Volume Delta (CVD) is a straightforward tool used to tally the difference, or 'delta', between purchase and sale volumes over a set time span. A descending CVD line suggests heightened selling activity, pointing to increased market pressure on the sell side. Last week, the Monday low was defended by perpetual buying and not spot buying which could indicate that a revisit of the level could mean increased downside due to lack of lower timeframe spot demand.

Figure 9. BTC/USD 5 Minute Chart with Spot and Perp CVDs. (source: coinalyze)

The presence of multiple "long squeezes" since the third week of August might have been a reflection of this vulnerability in the market, suggesting a slightly over-leveraged bullish sentiment.

However, spot buying over the entirety of September has shown increased activity and strength and suggests that the spot market could provide the necessary support for the bullish momentum in the perpetual markets. This could mean a potential breakout in an upward direction in the near future.

Now, how is the aggregate market participant positioning currently based on Higher Time Frame metrics?

Figure 10. BTC/USDT 6H Chart With Various OrderFlow Metrics. (source: Coinalyze)

There seems to be a growing inclination towards long positions on the perpetual contracts, albeit the bias is not particularly strong.

Key observations include:
- The price trajectory for $BTC is on an upward trend for the week as well as month
- Trading volumes for $BTC have shown a degree of inconsistency
- There has been more than eight percent increase in Open Interest in the past since our move up from the September 12th low as shown in the figure above, indicating an increase in active contracts. Most of these have been perp contracts
-Spot CVD has remained calm while futures CVD has seen some upward spikes. This shows that longs on futures are protecting the market from falling currently.
-Recently, funding rates have also been positive for the most part, indicating the long bias from futures traders and also how the futures contract is moving ahead of spot price for most exchanges.

That said, in any market situation, it's always essential to approach predictions with caution, considering other potential market variables and ensuring sound risk management practices.

Realised Capitalisation Support/Resistance Levels

Realised capitalisation provides a comprehensive view of the cumulative capital inflow into Bitcoin. The current realised capitalisation of all circulating BTC puts the realised price of one BTC at around $20,200.

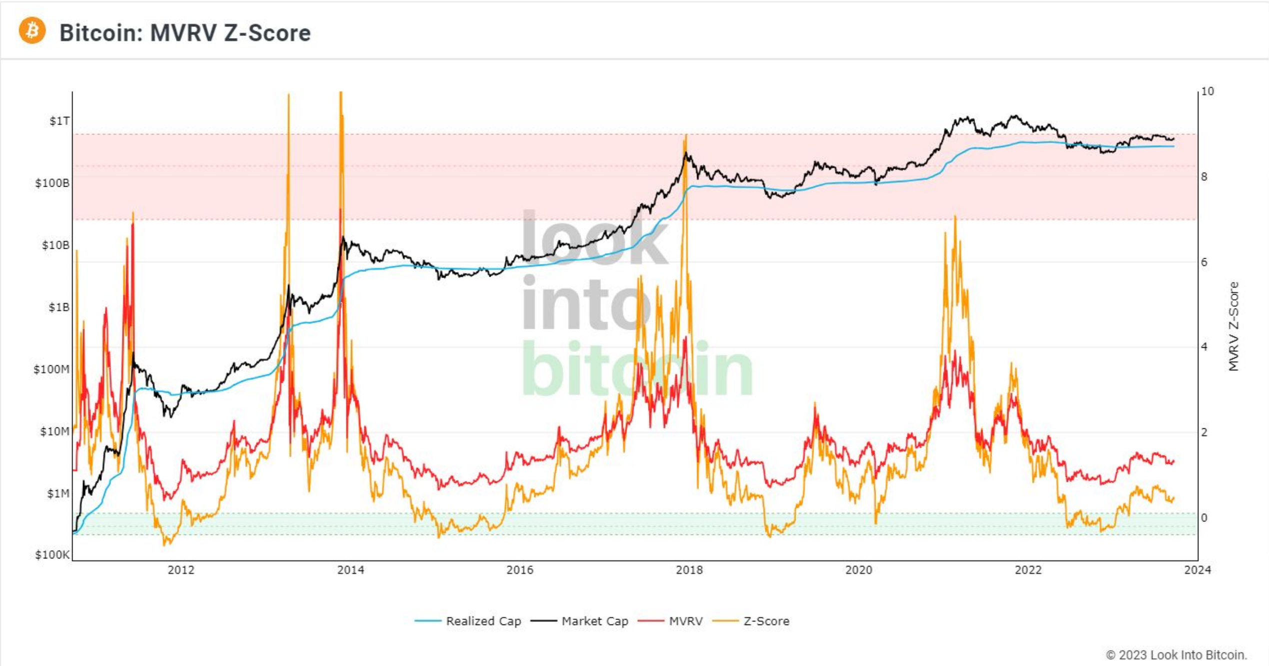


Figure 11. Bitcoin MVRV, Z score and Realised Cap indicators. (source: lookintobitcoin)

Rather than taking the current price of Bitcoin, Realised Value takes the price of each Bitcoin when it was last moved i.e. the last time it was sent from one wallet to another wallet. It then adds up all those individual prices and takes an average of them. It then multiplies that average price by the total number of coins in circulation.

As is evident from the blue line in the figure, realised price has mostly acted as crucial support/resistance in Bitcoin's history and in case of a flash crash we would expect $20,200 level to act as strong support. The Z-score (illustrated by the red line) is a statistical measure which captures deviations from the norm by contrasting the market value with the realised value. It effectively highlights extreme data points in this relationship. The green zone is the ideal place to buy but we are still at extremely low values for a sustained period indicating that we are not far off from the BTC bottom from a Higher-Timeframe perspective.

There are various other realised capitalisation metrics that can offer market direction insights instead of support/resistance levels. The Realised Cap indicates a $14 billion inflow into Bitcoin this year, marking a four percent rise – a clear sign of continued interest in the cryptocurrency. (refer Figure below)

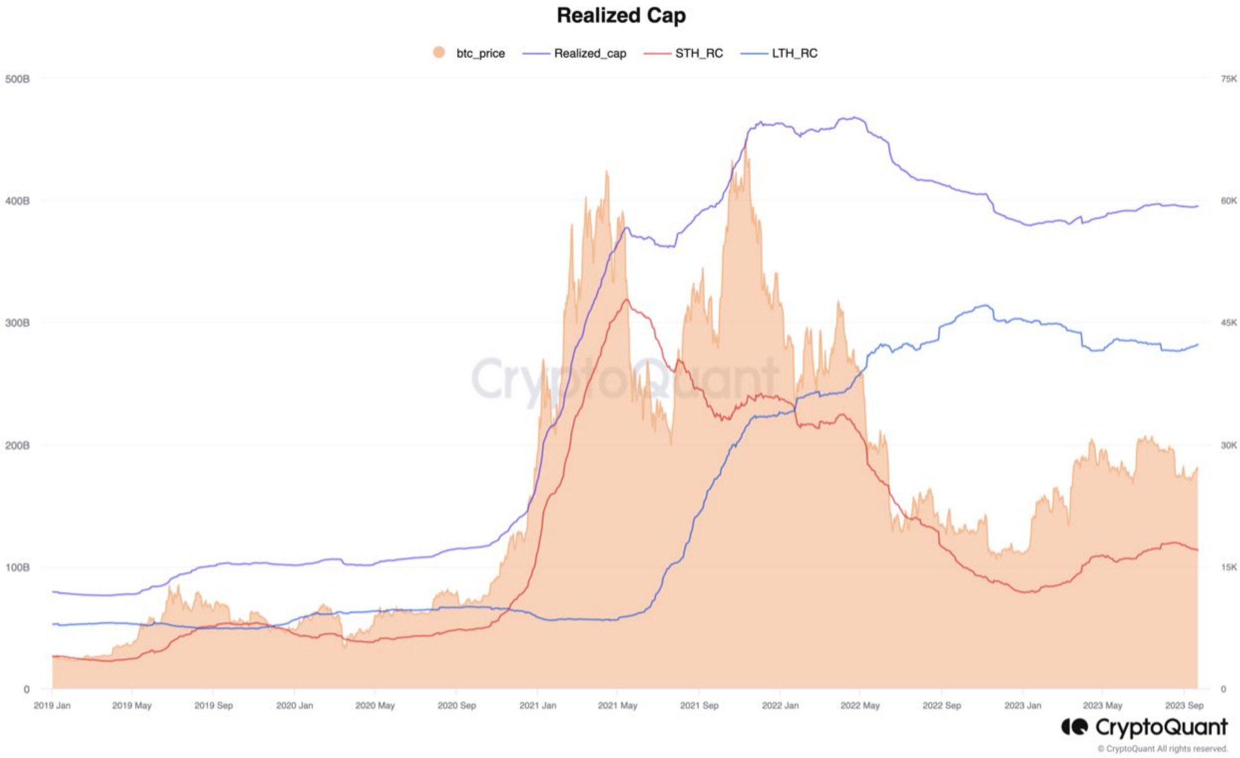


Figure 12. Various Investor Cohort Realised Capitalisation vs BTC price. (source: CryptoQuant)

However, this uptick pales when contrasted with the fervent pace of 2021-2022, indicating a much more tempered investment enthusiasm currently.

Diving deeper, the Realised Cap can be parsed into two distinct groups: long-term holders (LTH) and short-term holders (STH).

The former, LTH, witnessed a dip in their holdings by about $9 billion. Conversely, STH has prospered, seeing their collective wealth increase by approximately $34 billion this year.

In sum, the realised capitalisation metric offers a discerning lens into Bitcoin's capital flows. We can conclude that a situation where short-term holders have increased their wealth by a larger degree is mostly because LTHs have not really moved their coins a lot but the continued rise in LTH realised price shows faith in BTC’s long-term growth. Moreover, this metric does not factor in the size difference in the positions for LTHs vs STHs, and the realised price for LTHs tends to skew back below the STH realised price over the course of three to six months whenever the difference gets too wide as it has currently.

Bitcoin Volatility On-Course To Set Yet Another All-Time Low

Historical Bitcoin Volatility is nearing a new all-time low for the metric's history (refer Figure below). *Bitfinex Alpha* has been predicting low volatility since perhaps the beginning of the year. Moreover, we have also talked about a calmer BTC market (sideways for longer) even after event based volatility has entered the market.

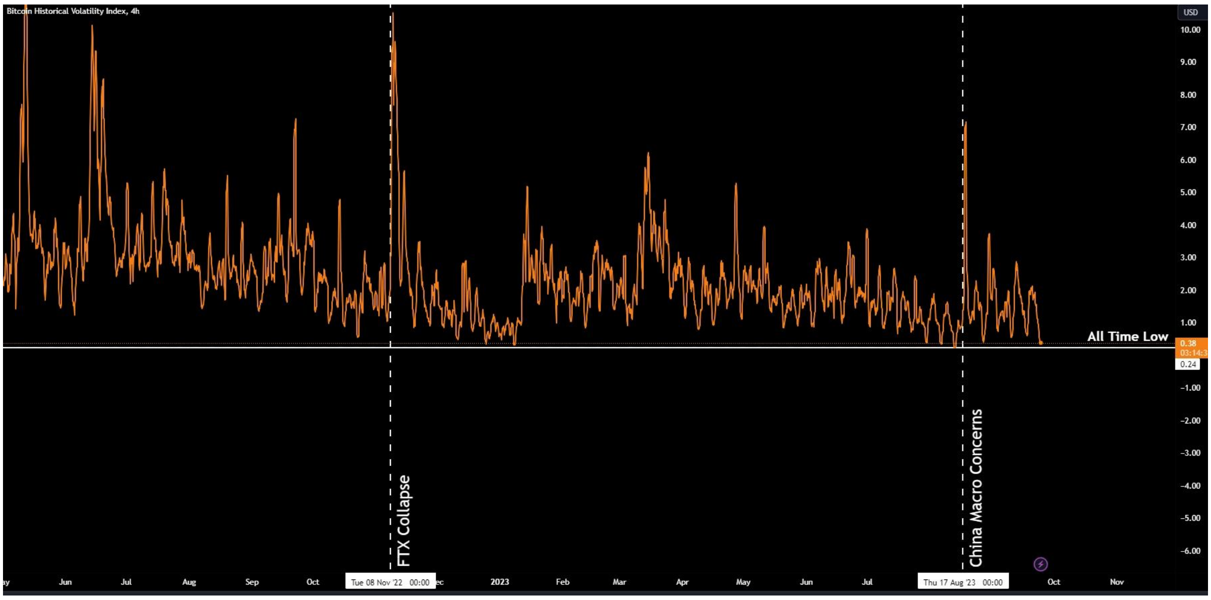


Figure 13. Historical Bitcoin Volatility 4H chart. (source: Tradingview)

The market is currently in a state of decreasing liquidity and low volatility. This is clearly shown by conventional metrics such as volume as well. Bitcoin's trading volume, both in the spot and derivatives markets, has seen a marked contraction this year. From March 2023 to date, derivative trading volumes have plummeted by 73 percent as per *CryptoQuant* data, whilst spot trading has shrunk by an even steeper 94 percent. (refer Figure below)

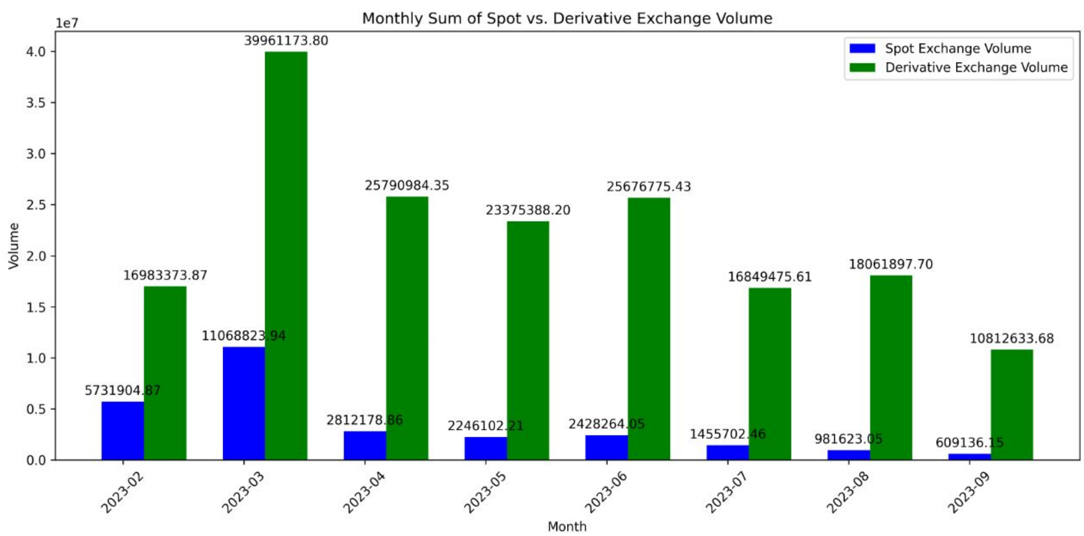


Figure 14. Bitcoin Trading Volume Spot vs Derivatives. (data source: CryptoQuant)

Liquidity, underpinned by trading volume, is essential for price stability and growth. This considerable dip in recent months signals a potential flashpoint in the market's current landscape. Less liquidity often serves as a leading indicator for more market volatility as it means lower market depth allowing the same position size to influence the BTC price to a larger degree in comparison to a higher liquidity environment.

Whenever liquidity reaches extremely low values, and volatility makes a comeback, there are major price movements for Bitcoin. While predicting such an event is difficult, it would not be too far-fetched to expect this to happen soon.

The reasoning behind this is based on two important metrics, implied volatility and open interest on options. The implied volatility currently is above historical volatility, with implied volatility at 38.8 percent and historical volatility at 32 percent (refer Figure below).

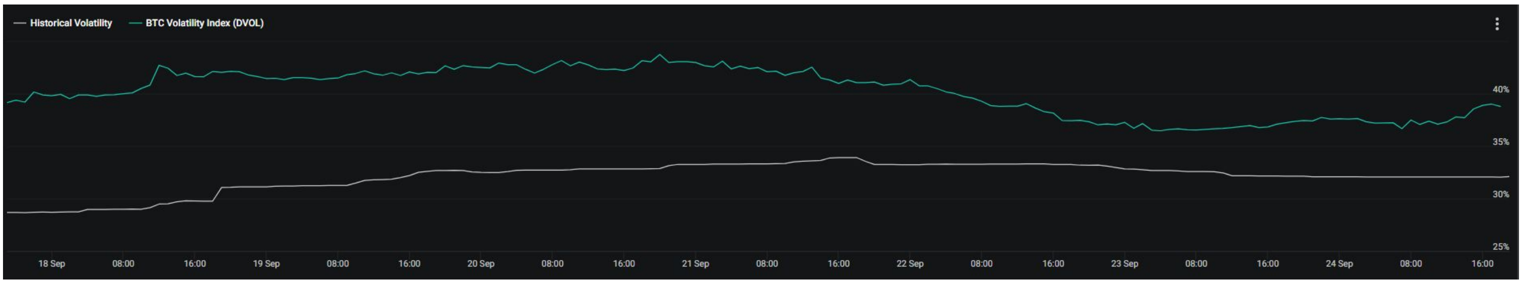


Figure 15. IV vs HV over the past week. (source: Deribit Metrics)

Whenever the IV value is higher than HV values, this means that options traders are predicting higher volatility in the future than in the past. Moreover, as mentioned in the previous on-chain article, September is currently on track to close the month in green, however, this has historically been a bearish month. Thus, some end of the month volatility can be expected especially with lowering market depth on perpetual trading pairs. Indeed when we look at open interest by expiration, there are options contracts with a notional value exceeding $3 billion set to expire by the end of the month, i.e. 29th September. The next two weekly contracts expiring in October have barely have any open interest right now implying most of the speculation is towards the end of September.

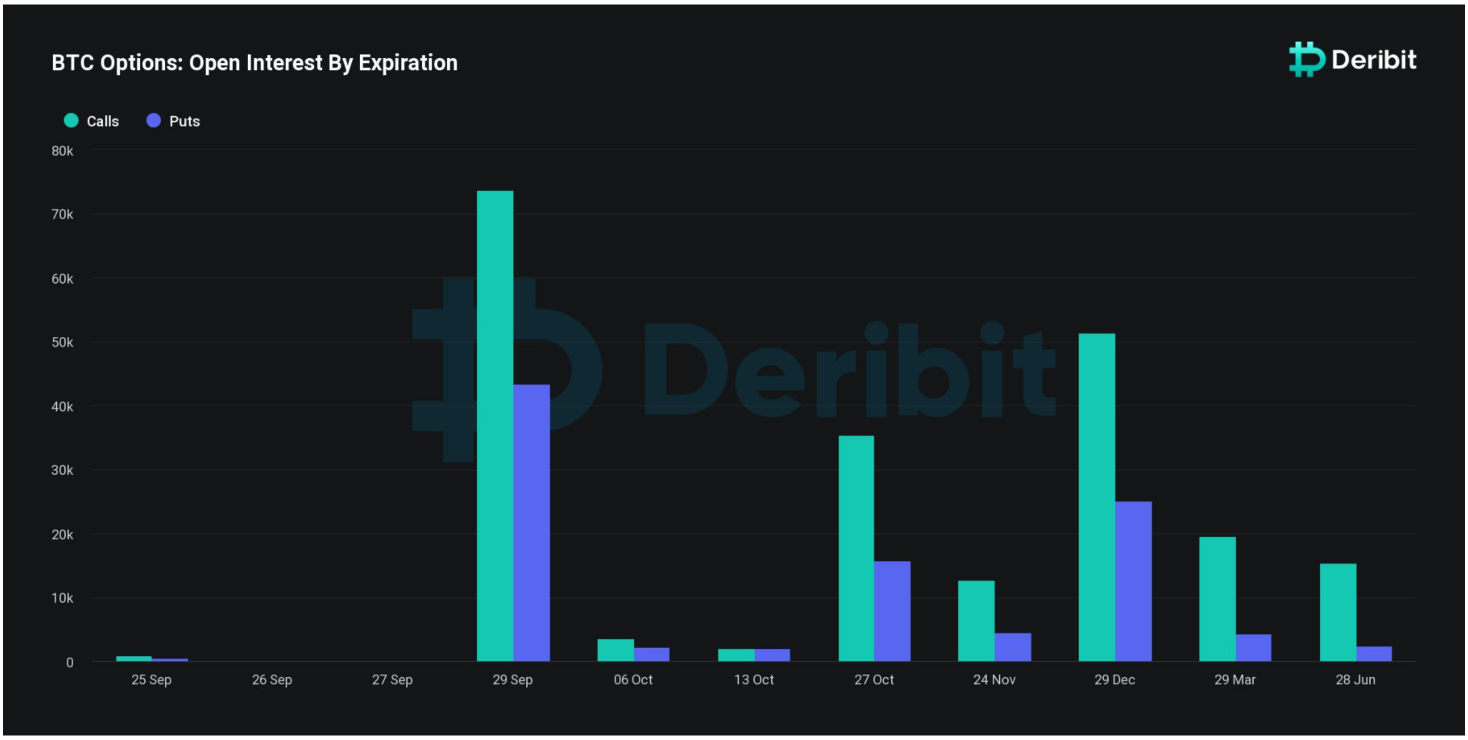


Figure 16. BTC Options Open Interest By Expiration Date. (source: Deribit Metrics)

While it is difficult to comment on direction based on options metrics, these metrics in tandem with lowering market depth and spot market participation point towards increasing volatility in the near future in a period when we are already seeing extremely low levels of volatility.

GENERAL MARKET UPDATE

US Housing Market Faces Challenges Amid Rising Interest Rates

The US housing market is showing signs of strain, with homebuilder confidence, construction activity and existing home sales declining due to the impact of rising interest rates.

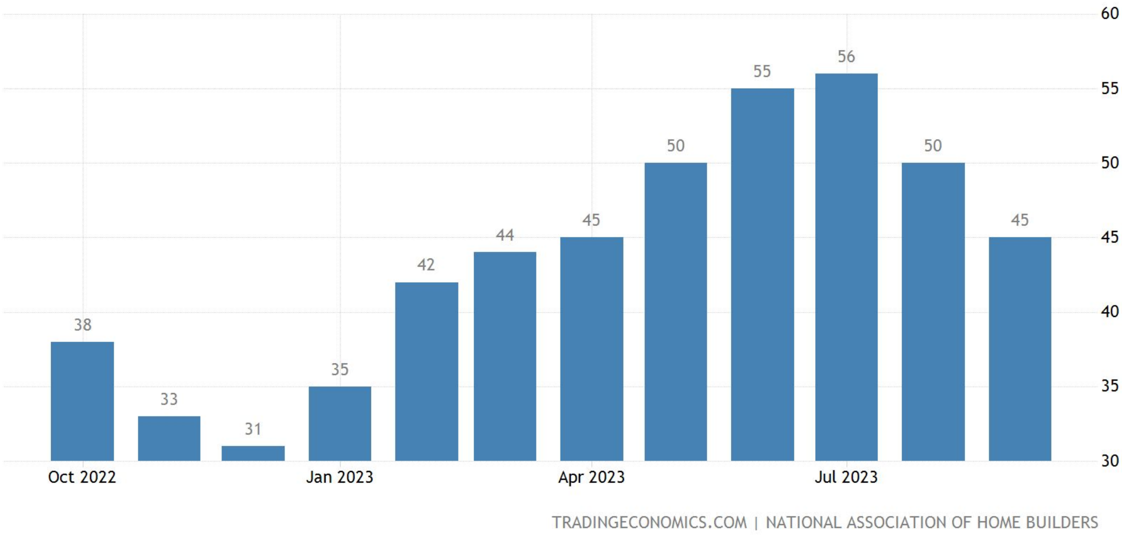


Figure 17. US NAHB Housing Index (Source: National Association of Home Builders)

Builder Confidence Falls to Five-Month Low

In September, the NAHB/Wells Fargo index, measuring US homebuilders' sentiment towards the housing market, fell to its lowest point since April, declining to 45 from August's 50, according to a report from the National Association of Home Builders (NAHB) on 18th September. Analysts had predicted a more moderate dip to 49.5 as per the consensus forecast. A significant factor behind this downward trend is the persistent rise in mortgage rates, which have remained above seven percent (for 30-Year Fixed Rate Mortgages) since August – a high unseen since 2002. These elevated rates are affecting prospective buyers' decision-making as many choose to wait for more favourable long-term borrowing costs; and this in turn is casting a shadow on builders' confidence.

Figure 18. US 30-Year Fixed Rate Mortgage Average (Source: Freddie Mac, Federal Home Loan Mortgage Corporation)

Housing Starts Drops to Lowest in Three Years

Compounding this sentiment, housing starts (or more formally known as New Residential Construction) in August saw a significant decline, according to a US Commerce Department report dated September 19th. Housing starts plummeted by 11.3 percent to a seasonally adjusted annual rate of 1.283 million units in August (refer Figure below). This is the lowest value in three years for the metric. In contrast, the rates for July were revised to 1.447 million units. The consensus forecast was a drop to 1.440 million units. Single-family housing, which constitutes the majority of homebuilding, saw a decline of 4.3 percent to 941,000 units.

Figure 19. New Residential Construction For August 2023 (Source: US Census Bureau)

One driving force for new construction has been the shortage of pre-owned homes. However, with mortgage rates experiencing a spike, potential buyers are becoming increasingly hesitant.

However, not all indicators point southwards. August saw building permits, a precursor to future construction activity, rise to 1.54 million from July's 1.44 million (refer Figure below). This highlights that despite prevailing challenges, the demand for new builds persists, buoyed by a limited stock of pre-owned homes. Furthermore, after two consecutive monthly declines, housing completions in August increased by 5.3 percent to 1.406 million. This surge in newly finished homes could potentially alleviate some pricing strains as we approach the year's end.

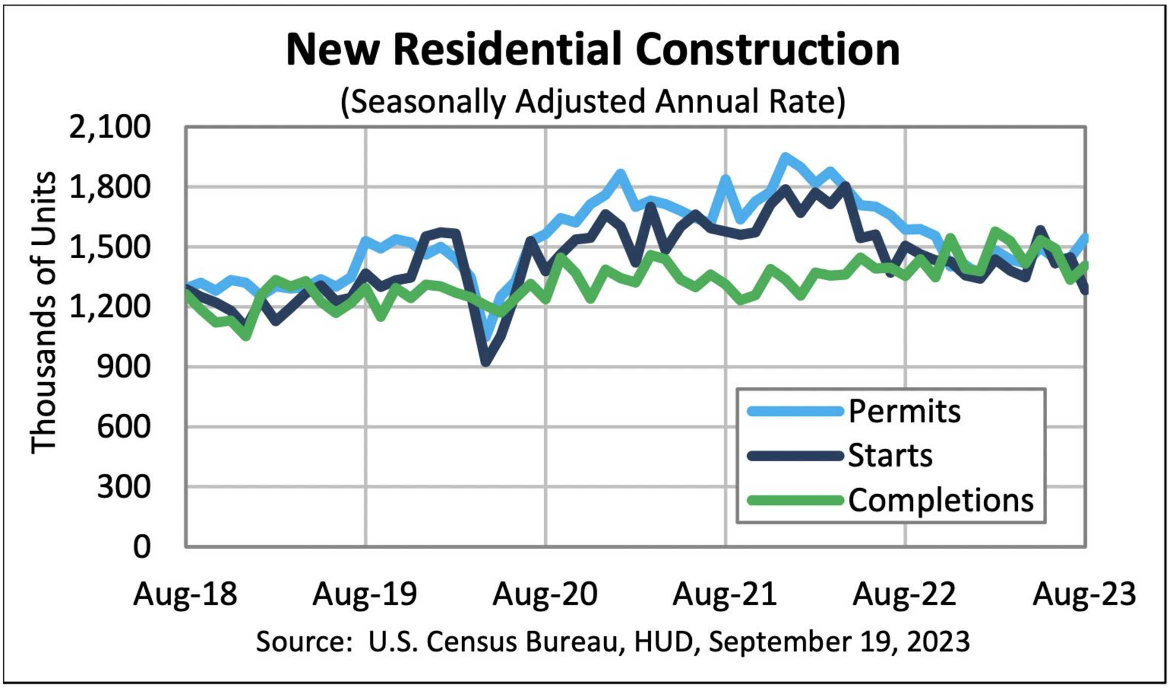


Figure 20. New Residential Construction from August 2018 to August 2023 (Source: US Census Bureau)

As policymakers and industry leaders grapple with the situation, there's consensus among realtors that housing start and completion rates should stabilise between 1.5 million to 1.6 million units monthly to address the ongoing inventory shortfall.

The Housing Market Handcuffs

Basic economics suggests that US inflation will ease as the Fed maintains elevated interest rates. High rates make borrowing more expensive for businesses and consumers, which is expected to reduce spending, lower consumption and increase unemployment. However, both consumers and investors have adapted to the prevailing market conditions. We continue to experience resilient consumer spending and a strong demand for labour, despite elevated rates. Moreover, the housing market, which is a critical lcomponent of inflation, is not being adequately contained by the Fed's rate-hike strategy. Instead, elevated interest rates are just creating handcuffs for both potential buyers and sellers. We explain why below.

Owners who secured exceptionally low mortgage rates before and throughout the pandemic are now hesitant to put their homes on the market. In essence, no one wants to relocate and refinance at significantly higher rates. This has led many potential sellers to hold back, inadvertently exacerbating the supply shortage. On the other hand, prospective buyers deterred by these higher rates are more inclined to rent. Last August, US existing home sales fell to its lowest level since January this year to 4.04 million from 4.07 million in July, according to the National Association of Realtors report issued last Thursday, September 21st.

This housing market handcuffs will break if the Fed starts cutting interest rates which, as we show in the next section, is unlikely this year. More rate hikes will only make homeowners more resistant to sell, decreasing the housing supply even more. Especially with the strong labour market, homeowners, who are also consumers, are comfortable waiting.

SUMMARY:

		Covered Period	Current Value	Previous Value
Home Builders Confidence Index	▼	September	45	50
Housing Starts	▼	August	1.28 million	1.45 million
Building Permits	▲	August	1.54 million	1.40 million
Existing Home Sales	▼	August	4.04 million	4.07 million

- **Homebuilder confidence** in the US market dropped to a five-month low in September due to rising mortgage rates, with the NAHB/Wells Fargo index falling to 45 from 50
- **Housing starts** in August declined by 11.3 percent to 1.283 million units, the lowest in three years, due to high mortgage rates
- August saw **building permits** (indicative of future construction) rise to 1.54 million and housing completions increase by 5.3 percent to 1.406 million
- Elevated interest rates have deterred both potential sellers and buyers; homeowners are reluctant to refinance at higher rates, while potential buyers are looking more towards renting
- **Existing home sales** in August dropped to 4.04 million, its lowest since January, signalling the continuous strain in the housing sector due to the high-interest environment

Federal Reserve Holds Steady on Rates and Shifts towards a Hawkish Stance

In September's FOMC meeting, the US Federal Reserve (the Fed) decided to maintain its policy interest rate within the 5.25 percent to 5.5 percent range. The Fed showcased growing confidence in achieving a soft landing for the economy, mitigating earlier concerns about a potential recession, as indicated in its revised Summary of Economic Projections monthly report.

Over the past six months, economic perspectives have shifted considerably. As of March 2023, many dominant recession markers were pointing towards an impending downturn within the year. The prevailing expectation was a hard landing. If indeed, the US economy sidesteps a recession, it would mark the first time that several economic indicators, including the notorious yield curve, have mispredicted a recession.

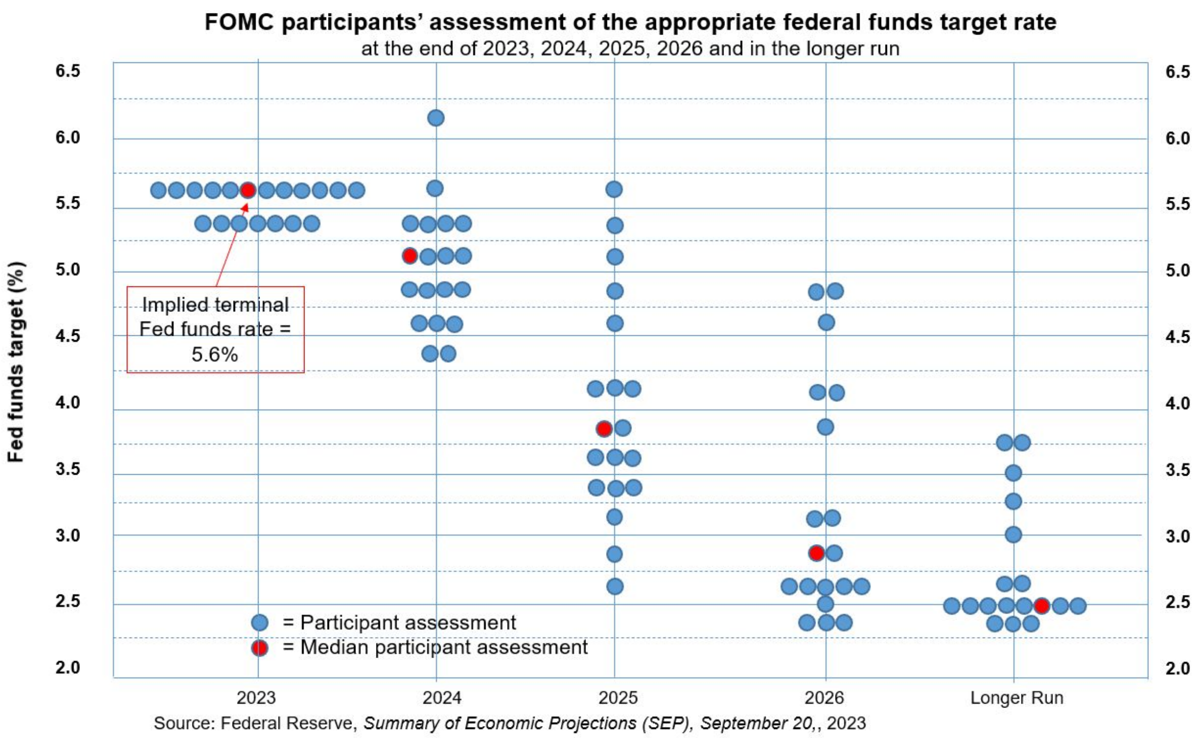


Figure 21. The Fed's dot plot (Source: The Federal Reserve)

The central bank's latest dot plot (as shown in the figure above) suggests a potential rate hike before year-end, possibly pushing the policy rate between 5.5 percent and 5.75 percent. Subsequently, the market anticipates two rate cuts totalling 50 basis points next year.

The current dot plot has been interpreted by many as hawkish. However, from a market perspective, the current “plateau” period where the Fed pauses after a hiking cycle before entering into a cutting cycle, is where liquidity re-enters markets and prices move up. In essence, the plateau represents a moment of clarity and predictability for market participants, leading to increased confidence and, subsequently, greater liquidity in the markets.

There is however still some uncertainty whether we have reached that period due to expectations that there could be another rate hike this year before any extended pause. The question for markets is whether they have become ‘immune’ to rate hikes, given the extreme cycle of hikes we have experienced. If they are, they maybe discounting further rate hikes already and are looking beyond that to a much greater liquidity environment

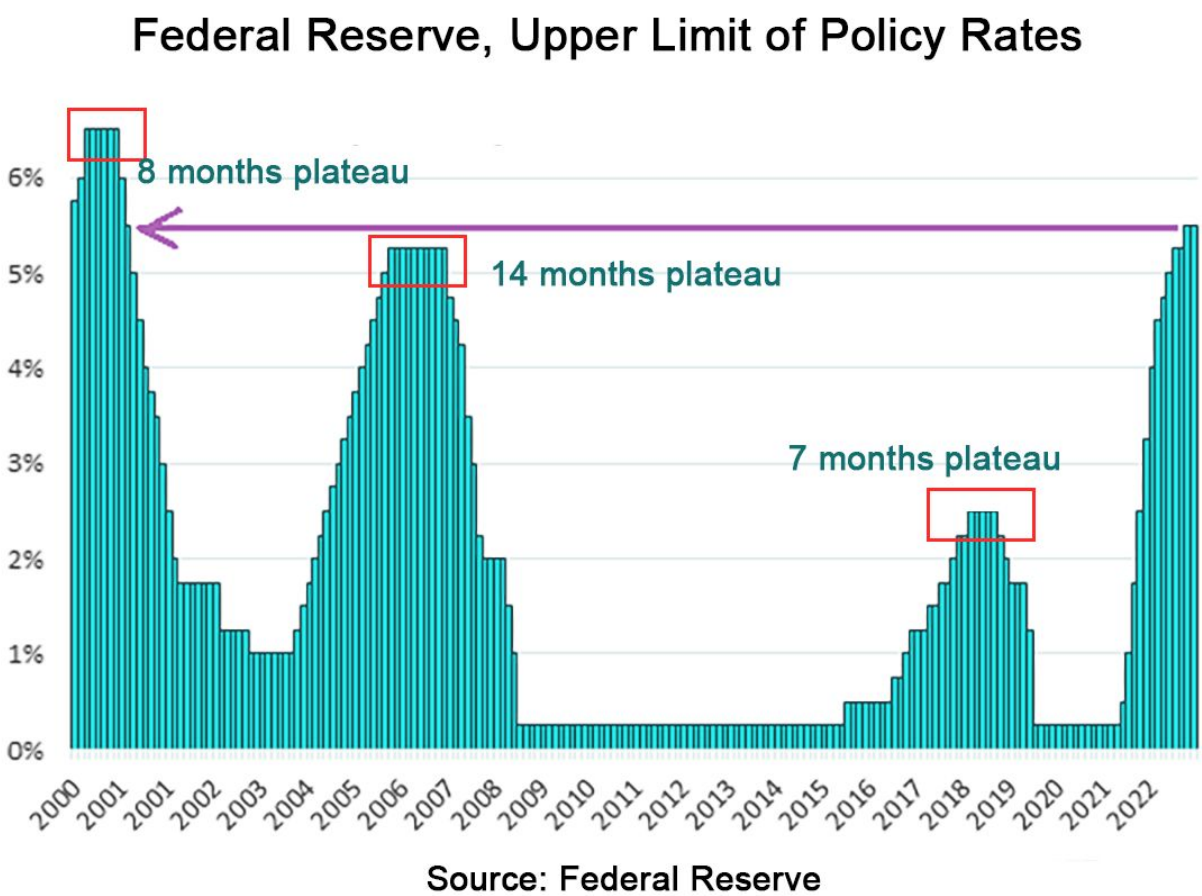


Figure 22. Upper Limit of Policy Rates (Source: US Federal Reserve)

Due to the delayed effects of previous rate hikes, financial strain is increasing for private businesses. The Fed will tread cautiously, and not having further rate hikes for this year could be the best-case scenario. However, further rate hikes cannot be ruled out as inflationary challenges still remain such as the auto sector strikes, the resumption of student loan payments, and climbing oil prices, which all add complexity to the risk landscape.

Furthermore, a decline in inflation leads to an increase in real interest rates. The real interest rate is calculated by subtracting the inflation rate from the nominal (or observed) interest rate. When inflation falls and the nominal interest rate remains unchanged, the real interest rate increases. Consequently, keeping the rates unchanged could constrict financial conditions.

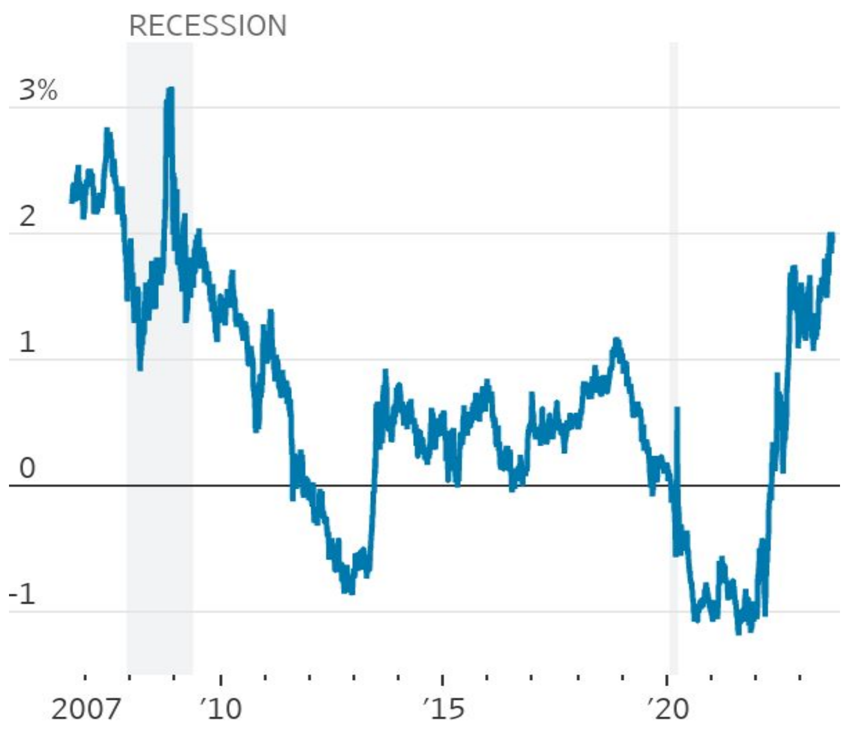


Figure 23. 10-Year Treasury Inflation-Protected Securities (Source: The Federal Reserve)

The 10-year Treasury Inflation-Protected Securities (TIPS) note currently boasts a notable yield of almost two percent, marking a considerable rise from the ten-year average of 0.26 percent. Designed to shield investors from inflation, TIPS yields offer an inflation-adjusted, 'real' return. Such a yield at two percent underscores the market view that today's real interest rates significantly surpass those witnessed over the previous decade.

Rising real interest rates are also pushing up the cost of commercial and industrial loans, challenging their ability to cover wages and finance business growth. Unsurprisingly, lending has tightened significantly in the recent months as reported by the Fed's Senior Loan Officer Opinion Survey. This then poses a risk to economic growth across the economy.

Allowing real interest rates to increase while inflation declines could inadvertently lead to an unwarranted economic downturn. Consequently, the Fed needs to strategically shift its focus to maintaining stable real rates. It's essential that by the early part of next year at the latest, they start setting expectations among investors and policymakers for potential rate reductions if they wish to safeguard the continued growth of the economy.

Summary of Economic Projections

In a significant departure from its stance six months ago, the Fed has unveiled a more optimistic economic forecast, suggesting a "soft landing" for the US economy instead of the previously anticipated recession.

This revised stance comes amid concerns about inflationary pressures. If realised, the "soft landing" would be a remarkable accomplishment in monetary policy, especially considering the challenges of the inflation shock and some doubts about the central bank’s credibility.

Key points from the Fed's latest announcement include:

GDP Growth: The Fed upgraded its growth projections for gross domestic product (GDP) for this year to 2.1 percent, a significant increase from its June forecast of one percent. The outlook for the next few years also looks promising, with a projected growth rate of 1.5 percent for the upcoming year (up from 1.1 percent in June), and stable growth at 1.8 percent for both 2025 and 2026.

Unemployment Rate: Predictions for the unemployment rate for the current year have been revised to 3.8 percent, down from the earlier 4.1 percent estimate in June. The Fed expects unemployment to be at 4.1 percent next year through 2025 and stabilising at 4.0 percent in the long run. With its full employment estimate steady at four percent, the central bank's data suggests that the American labour market is set to remain historically robust in the foreseeable future.

Inflation Expectations: There's positive news on inflation expectations. The core personal consumption expenditures index (a key indicator of inflation) for this year is now expected to peak at a slightly reduced 3.7 percent, down from the earlier 3.9 percent. The coming years seem to follow a downward trend with predictions standing at 2.6 percent for the next year, 2.3 percent for 2025, and stabilising at two percent in the long run.

Federal Funds Rate: The projected rate for this year stands at 5.6 percent. There's a forecasted decline to 5.1 percent for next year, up from the previous 4.6 percent rate anticipated in June. By 2025, this rate is expected to further decrease to 3.9 percent (up from the earlier 3.4 percent June forecast) and finally settle at 2.9 percent in 2026. This suggests a policy geared towards maintaining higher rates for a more extended period.

Percent

Variable	Median[1]				
	2023	2024	2025	2026	Longer run
Change in real GDP	2.1	1.5	1.8	1.8	1.8
June projection	1.0	1.1	1.8		1.8
Unemployment rate	3.8	4.1	4.1	4.0	4.0
June projection	4.1	4.5	4.5		4.0
PCE inflation	3.3	2.5	2.2	2.0	2.0
June projection	3.2	2.5	2.1		2.0
Core PCE inflation[4]	3.7	2.6	2.3	2.0	
June projection	3.9	2.6	2.2		
Memo: Projected appropriate policy path					
Federal funds rate	5.6	5.1	3.9	2.9	2.5
June projection	5.6	4.6	3.4		2.5

Figure 24. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents (Source: The Federal Reserve Summary of Economic Projections, September 20, 2023)

Take Away

“Higher for longer” is the new mantra on interest rates. It's vital for small and medium-sized enterprises to comprehend the consequences of these updated forecasts. The adjustments signal tighter financial conditions, rising real rates, and an evolving business cost structure. As companies navigate these financial waters, ensuring a strategic approach to payroll management and any upcoming expansion plans is important.

The Federal Reserve's policy announcement in September was encouraging, indicating a potential soft landing for the economy — a much-needed reassurance for businesses girding for economic headwinds.

Though current economic pointers do not discount rate hikes in the coming months based on economic indicators, considering the tightened financial landscape, we believe it would be best that the Fed will avoid additional hikes.

SUMMARY

- The US Federal Reserve maintained its policy interest rate between 5.25 percent and 5.5 percent during the September FOMC meeting, while expressing increased confidence in a "soft landing" for the economy, dispelling earlier recession fears
- The Fed's dot plot indicates a potential rate hike by year-end, followed by two rate cuts in 2023. Yet, existing rate hikes have already tightened financial conditions, especially for private businesses, leading to concerns about further hikes this year
- Rising real interest rates have increased the cost of commercial and industrial loans, leading to tighter lending conditions, and posing risks to overall economic growth. The Fed is urged to focus on maintaining stable real rates to prevent an unintentional economic downturn
- The "higher for longer" stance on interest rates has implications for businesses, signalling tighter financial conditions and an evolving cost structure. Companies need a strategic approach, especially for payroll and expansion, in this tightened financial landscape. Despite the Fed's positive announcement, there's caution against additional rate hikes considering the current financial climate

US Business Sector Shows Minimal Growth, but Employment Remains Strong

US business growth showed little change in September. According to a recent [survey by](#) [S&P Global](#) released on Friday, September 22nd, the service sector is experiencing minimal growth and is now expanding at its slowest pace since February. New orders across industries also descended to their lowest level for the year.

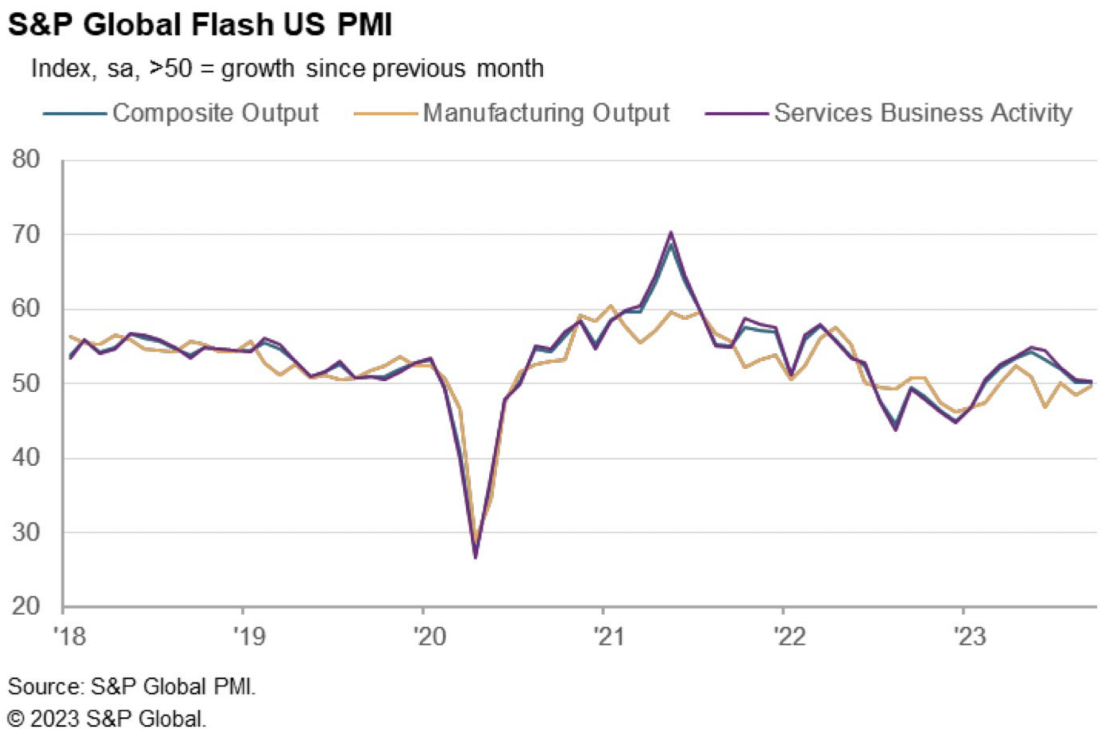


Figure 25. S&P Global Flash US PMI (Source: S&P Global PMI)

The flash US Composite PMI index by S&P Global (See Figure above) , which monitors both manufacturing and service sectors, marginally decreased to 50.1 in September, down from August's final figure of 50.2. This reading just barely exceeds the critical 50 threshold, distinguishing between growth and decline. The composite new orders index dropped however, now falling for two consecutive months, and reaching 47.7 in September from 49.2 in August.

The services PMI fell to an eight-month low at 50.2, slightly below the 50.6 consensus forecast. Meanwhile, the manufacturing PMI showed an uptick, moving to 48.9 from August's 47.9, but still in overall contraction territory for the fifth consecutive month.

Despite earlier forecasts of a looming recession due to the Fed's rate hike cycle, the US economy remains resilient, but continued elevated rates could pose a challenge to economic growth, as the current slow growth seen in US businesses testifies.

Unemployment Claims Fall to Eight-Month Low

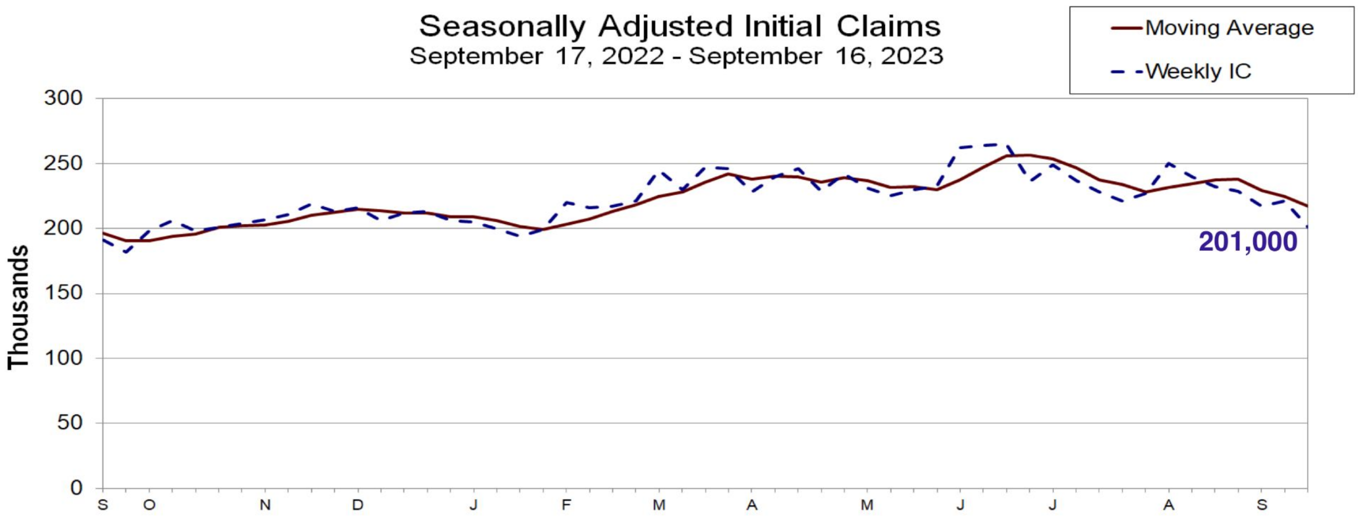


Figure 26. Initial Unemployment Claims from September 17 2022 to September 16 2023

Despite these challenges, S&P PMI data indicates that firms in both manufacturing and services sectors continued to hire in September. The rate of employment growth was the most pronounced in the past four months, primarily driven by the services industry. This is supported by the Department of Labor's [latest report on Unemployment Claims](#) issued last Thursday, September 21st.

For the week ending September 16th, the number of Americans seeking unemployment benefits dropped by 20,000, reaching an eight-month low of 201,000. This decrease suggests that businesses are hesitant to let go of workers amidst labour shortages. The previous week's figures were 221,000, while the consensus forecast was for 225,000 new claims. Unemployment claims rise when the economy weakens and there is a looming recession, but the labour market shows no sign of that.

The number of Americans collecting unemployment benefits, meanwhile, fell by 21,000 to 1.66 million, the lowest since January. This suggests that laid-off workers are finding new jobs quickly.

The Federal Reserve increased interest rates to control inflation, expecting it would decelerate the economy and increase unemployment. Yet, this anticipated outcome hasn't materialised. Companies continue to hire, with layoffs at near-historic lows and only [3.8 percent unemployment.](#) Data from Thursday buttressed the Fed's decision to pause hikes. Even though one week's claim data is a small detail of the bigger picture, these numbers definitely suggest the labour market remains competitive.

SUMMARY:

		Covered Period	Current Value	Previous Value
S&P US Flash Services PMI	▼	September	50.2	50.5
S&P US Flash Manufacturing PMI	▲	September	48.9	47.9
S&P US Flash Composite PMI	▼	September	50.1	50.2
Initial Jobless Claims	▼	September 16	201,000	221,000

- The flash US Composite PMI index showed a slight decrease in September to 50.1, barely above the threshold separating growth from decline, while the services PMI hit an eight-month low and manufacturing PMI continued its contraction for the fifth month
- While facing economic challenges, firms in both the manufacturing and services sectors have continued hiring, with employment growth in September being the most significant in the last four months
- Unemployment claims have dropped to an eight-month low, with only 201,000 Americans seeking benefits, suggesting businesses are retaining workers due to labour shortages
- Those collecting unemployment benefits also decreased, indicating that individuals are finding new jobs faster
- The Federal Reserve's interest rate hikes, intended to curb inflation and potentially slow the economy, haven't led to increased unemployment as anticipated. Instead, the labour market remains strong with layoffs at near-historic lows and a 3.8 percent unemployment rate, supporting the Fed's decision to halt further hikes

NEWS FROM THE CRYPTO-SPHERE

Tether Delves into New Tech Horizons with Investment in Germany's Northern Data Group

Figure 27. Tether Delves into New Tech Horizons with Investment in Germany's Northern Data Group

- **Tether has invested in German firm Northern Data Group, known for data centre, cloud, AI computing services, and blockchain solutions**
- **While the investment amount remains undisclosed, Tether emphasises its commitment to supporting emerging technologies and expanding into new tech sectors**

Tether, the company behind the popular USDt stablecoin, has ventured into a strategic partnership by investing in Northern Data Group, a renowned German firm known for its data centre and cloud solutions.

Apart from offering blockchain solutions, Northern Data Group has a strong footing in Artificial Intelligence (AI) computing services. The collaboration between Tether and Northern Data Group is set to cover a wide range of areas, including AI, communication, and data storage.

The significance of this move was highlighted in Tether's official statement, which said it "demonstrated its determination to support emerging technology." The exact value of its investment remains undisclosed.

Paolo Ardoino, Tether's Chief Technology Officer, expressed the company's enthusiasm, saying, "Our investment in Northern Data Group marks our journey into untapped technological domains. It stands as a testament to our unwavering pledge to growth, innovation, and ensuring the robustness and integrity of Tether tokens's reserves."

Tether is the largest stablecoin issuer by market capitalisation, with 83.32 billion USDt in circulation.

Google Cloud Expands Blockchain Coverage in BigQuery Service

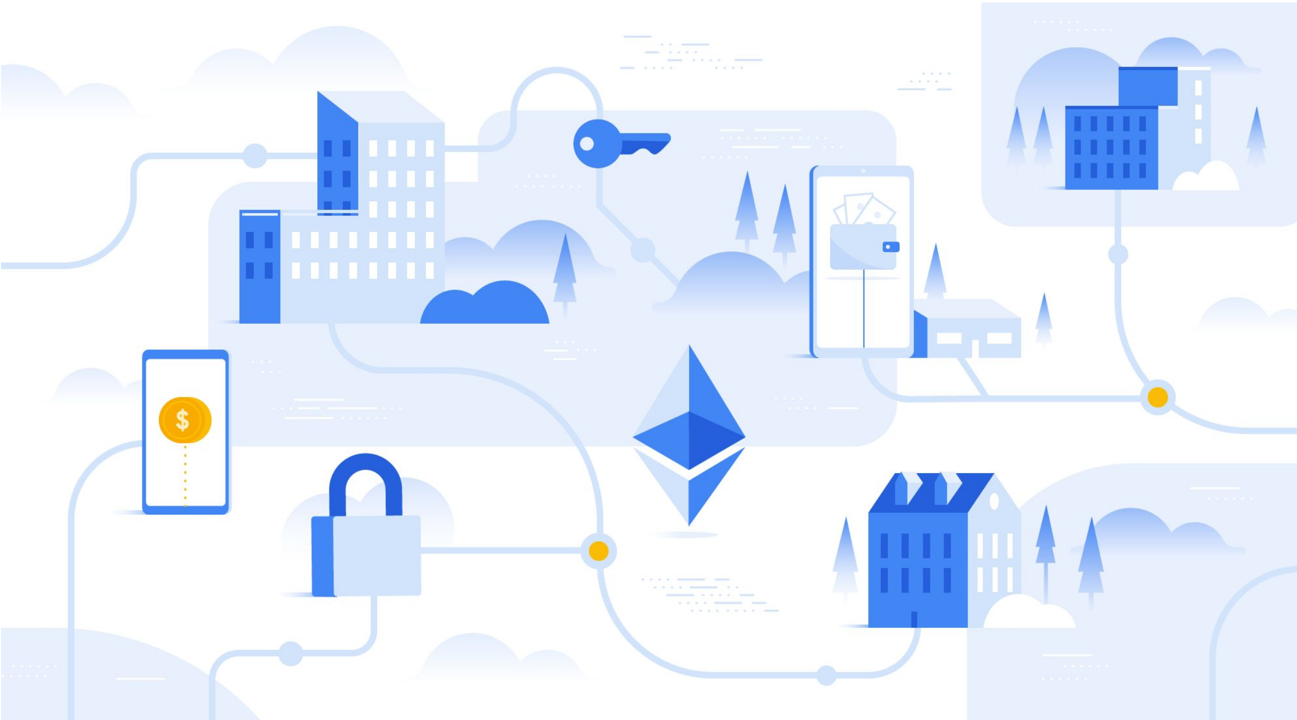


Figure 28. Google Cloud Expands Blockchain Coverage in BigQuery Service (Source: Google Cloud)

- **Google Cloud's BigQuery has added data from 11 new blockchain networks, bringing its total coverage to 19 blockchain networks**
- **In 2023, Google Cloud has been increasing its involvement in blockchain, partnering with Voltage for the Lightning Network and Orderly Network, to enhance decentralised finance components**

Google Cloud has enhanced its BigQuery data warehouse service by incorporating data from 11 additional blockchain networks. As revealed in a blog post dated September 21st, the latest networks to be added include Avalanche, Arbitrum, Cronos, Ethereum's Görli testnet, Fantom (Opera), Near, Optimism, Polkadot, Polygon Mainnet, Polygon's Mumbai testnet, and Tron.

BigQuery, known for being a predominant data storage solution by Google, allows enterprise-level companies to store and analyse their data. The platform also offers an array of public datasets for query, ranging from Google Trends and Google Analytics to demographic data from the American Community Service.

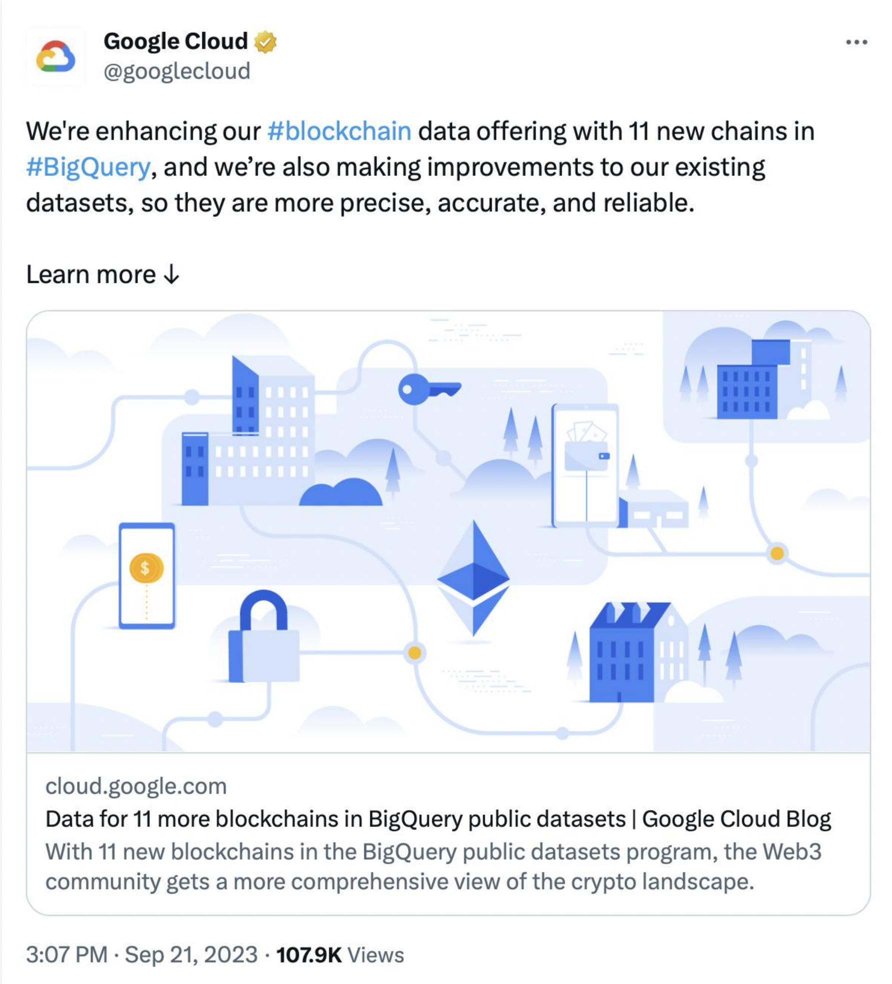


Figure 29. Google Cloud Announcement on X (Source: Google Cloud)

Delving into blockchain data isn't new for BigQuery. In 2018, Google introduced a Bitcoin dataset to the service, with Ethereum following later the same year. By February 2019, the platform expanded its offerings to include Bitcoin Cash, Dash, Dogecoin, Ethereum Classic, Litecoin, and Zcash. With the recent inclusions, BigQuery now boasts data from 19 blockchain networks.

Furthermore, to streamline the blockchain data querying process, Google has rolled out a unique feature, made up of user-defined functions, to simplify the management of long-form decimal results frequently encountered in blockchain data. Google expressed in their post that these innovative functions would grant users enhanced precision in their blockchain data, minimising potential inaccuracies from rounding errors.

2023 has seen Google Cloud's growing engagement with blockchain technology. Earlier this year, on July 7th, a collaboration was announced with Voltage, a prominent provider for the Lightning Network, and, on September 14, Google Cloud allied with the Web3 startup, Orderly Network, aiming to bolster off-chain components essential for decentralised finance.

India Develops Crypto Intelligence Tool Amid Growing Concerns of Illicit Activities

Figure 30. India Develops Crypto Intelligence Tool Amid Growing Concerns of Illicit Activities

- **India's Ministry of Home Affairs is developing a Cryptocurrency Intelligence and Analysis Tool (CIAT) to combat rising crypto-related crimes, with a focus on monitoring darknet wallet addresses**
- **Despite recent scams, India leads the 2023 Global Crypto Adoption Index, showcasing the country's growing embrace of cryptocurrency**

In a proactive move against rising crypto-related criminal activities, India's Ministry of Home Affairs (MHA) is in the process of creating a new Cryptocurrency Intelligence and Analysis Tool (CIAT). This initiative is being led by the Indian Cyber Crime Coordination Centre, an MHA division committed to addressing and investigating cybercrimes.

The main function of CIAT is to keep a vigilant eye on cryptocurrency wallet addresses prevalent in the dark net. By doing so, the MHA will be better positioned to compile extensive transaction records, encompassing details such as timestamps, transaction dates, associated exchanges, and services rendered. The tool will also alert the MHA about any unusual or potentially suspicious crypto activities.

Recent incidents have underscored the need for such a mechanism. For instance, a notable incident from earlier this month saw an Indian software engineer being defrauded of over $120,000 in a cryptocurrency scam. He was advised by an online acquaintance to invest in a specific crypto coin, only to discover he couldn't access his funds after deposit.

Furthermore, in July, authorities apprehended two individuals for their alleged involvement in a peer-to-peer crypto scam. Fake ID's were purportedly used to deceive users on the Binance P2P platform. Arrests resulted in the seizure of fabricated bank accounts, ATM cards, and other related documents.

Despite these challenges, the crypto landscape in India has seen robust growth. Recent data from a 2023 report by blockchain analytics firm Chainalysis indicated that India ranked first in the Global Crypto Adoption Index. The country outpaced others In usage of decentralised finance and centralised exchange service. Trailing close behind India in the index were nations like Nigeria and Vietnam.

PancakeSwap Introduces Transak as a New "Buy Crypto" Provider

Figure 31. PancakeSwap Introduces Transak as a New "Buy Crypto" Provider

- **PancakeSwap adds Transak to its "buy crypto" feature, making it the third provider alongside Mercuryo and MoonPay, enhancing its crypto purchasing options for users**
- **Transak, integrated with over 350 Web3 applications, offers over 20 global payment methods and provides access to nine cryptocurrencies across seven blockchain networks to PancakeSwap users**

Decentralised exchange, PancakeSwap, has recently added Transak as an option in its "buy crypto" feature, providing its users with an expanded range of choices when purchasing cryptocurrencies. The announcement, made on September 21, positions Transak as the third provider, following previous integrations with Mercuryo and MoonPay.

PancakeSwap operates as a multichain decentralised exchange available across eight distinct blockchain platforms, which include BNB Smart Chain, Ethereum, Base, and Polygon zkEVM. PancakeSwap has more than $1.3 billion in cryptocurrency locked within its contracts and sees a daily trading volume of around $150 million, according to DeFiLlama.

While decentralised exchanges like PancakeSwap cannot directly convert fiat to cryptocurrency, the platform's recent addition of the "Buy Crypto" feature aims to bridge this gap. This functionality facilitates users' crypto acquisition by leveraging third-party providers, which now encompasses Mercuryo, MoonPay, and the newly integrated Transak. Notably, Transak boasts integration with over 350 Web3 applications, standing out as a leading service for easy crypto onboarding.

Transak's collaboration with PancakeSwap promises a wide range of over 20 payment methods tailored to cater to global users. These methods encompass popular options such as debit cards, Google Pay, Apple Pay, bank transfers, among others. Additionally, PancakeSwap users will have access to nine different cryptocurrencies spanning seven blockchain networks through Transak.

CoinShares Launches Hedge Fund Division in the US

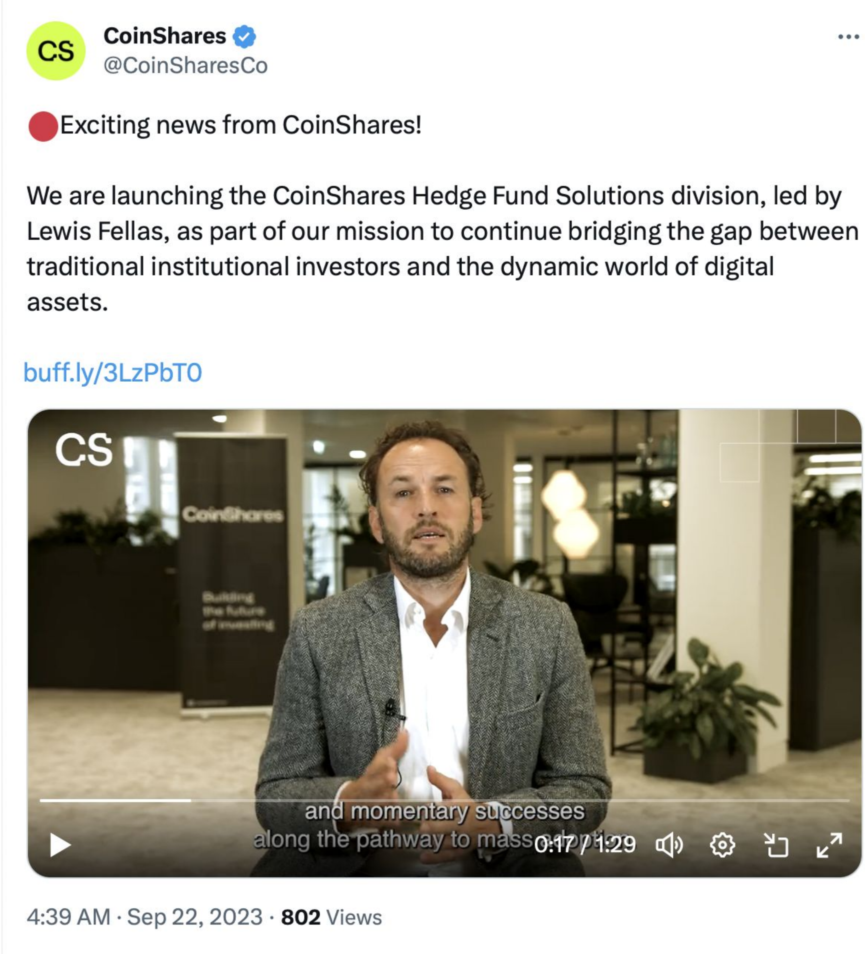


Figure 32. Coinshares Announcement on X

- **CoinShares, a leading European cryptocurrency firm, has announced the launch of its 'CoinShares Hedge Fund Solutions' division focused on US investors**
- **Despite the uncertain regulatory environment, the new division seeks to bridge traditional investors with the digital asset industry, offering a diverse range of crypto investment products**

European cryptocurrency firm, CoinShares, is making a bold move by unveiling a hedge fund division focused on the US, despite the uncertain regulatory environment. The announcement, made on September 22, marks the first time the company will present its services to eligible US investors.

Named 'CoinShares Hedge Fund Solutions', the fresh venture is a direct response to demand for crypto assets, and aims to bridge the gap between traditional investors and the digital asset industry. The company said it would make its products available through private investment products “across the spectrum of beta and alpha strategies with hybrids in between”.

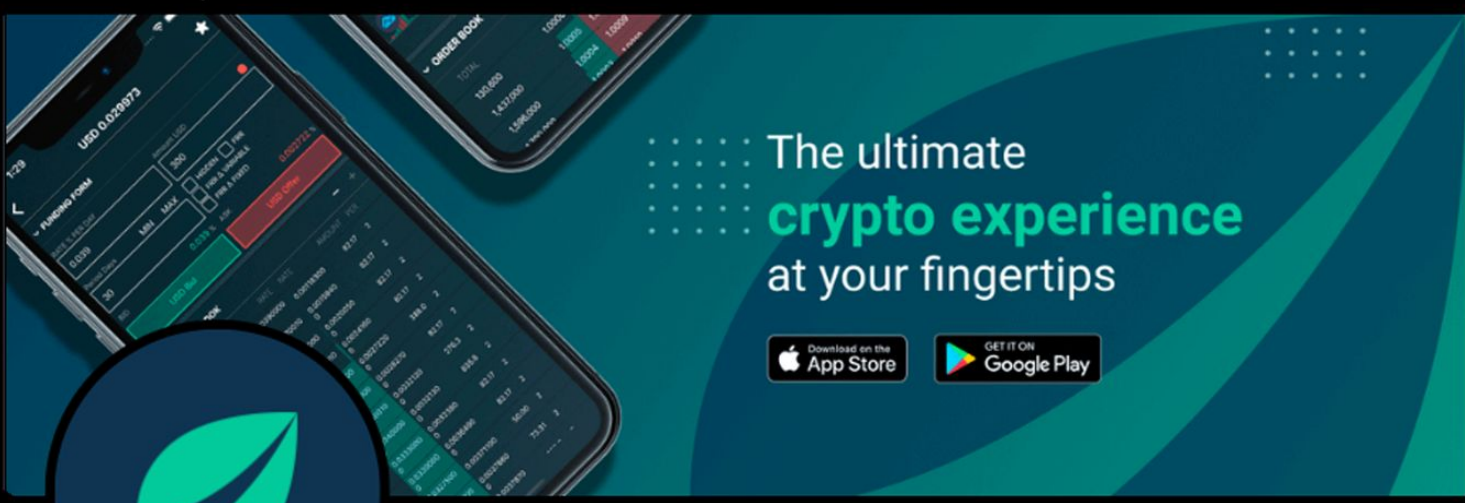
It said it aims to cater to different institutional needs and facilitate the creation of a well-rounded and optimised crypto portfolio for investors

CoinShares Capital, registered with the US Financial Industry Regulatory Authority, will spearhead marketing campaigns targeting qualified US investors for the new products.

Based in Jersey, in the United Kingdom, CoinShares offers a range of crypto exchange-traded products, with their maiden Bitcoin ETP launched in 2015 and the Ether ETP rolled out in 2017. The company also has a dedicated research wing that delves deep into digital asset market analytics and routinely publishes weekly crypto fund flow summaries.

CoinShares' noted that the return of interest-rate volatility is an opportunity that it aims to capture through its crypto products.

.



https://t.me/bitfinex

BITFINEX Alpha