BITFINEX Alpha

Issue: 09-10-2023
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

The Bitcoin landscape has witnessed a significant shift in investor dynamics. Short-term Bitcoin supply is now down by nearly one million BTC since April 13th, 2023, with long-term holder (LTH) supply up by over one million BTC in the same period. This transition of supply confirms how the market is increasingly changing in favour of long-term investors.

Bitcoin's volatility has also started October with a bang. Historical 24-hour volatility increased by over 340 percent on October 2, and we expect that such conditions will endure for at least the rest of the month. A look at the BTC options market shows that implied volatility remains above historical volatility, and is in sync with similar volatility being seen in US equities.

That said, an intriguing development is also being seen in the uncoupling of BTC correlation with major US indices. BTC seems to have decorrelated from equities almost completely, as can be seen with the price of BTC reaching the bottom of its current range some time ahead of the S&P500 index, which has only just resolutely bounced off the 4200 points level.

The broader economy also continues to give off mixed signals, although in our view, a soft landing looks increasingly likely.

The housing market continues to show signs of stress with mortgage applications dipping and pending home sales dropping, but in contrast the US manufacturing sector seems to be finally recovering with the Purchasing Managers manufacturing sub-index seeing its first expansion in nearly a year.

The US job market however is showing some signs of softening. While there has been an increase in job openings and a surge in employment, there are some subtle signs that the foundation of growth is not necessarily sustainable. For example, much of the jobs growth can be attributed to seasonal, holidays-related hiring. In addition, full-time employment in the US is decreasing.

Newsflow from the crypto world is also diverse. Ripple's XRP notched up another win as a judge denied a motion made by the SEC to appeal against an earlier ruling that established that XRP was not marketed to retail investors as a security.

This positive news was however is tempered by an announcement by Stars Arena, an Avalanche-based SocialFi platform, that it has fallen victim to a security breach that led to a loss of almost $3 million in AVAX tokens. Although it later announced it had secured funds sufficient to offset the losses, it is not reassuring for advocates of such decentralised platforms. Meanwhile, Thorswap had to resort to "maintenance mode" after detecting illicit transactions traced back to the FTX hack, causing its native token, RUNE, to plummet by 9 percent. As the platform halted trading operations, it came under increased criticism for doing so.

Have a good trading week!

INDEX

1. WHAT'S ON-CHAIN THIS WEEK? 6-15

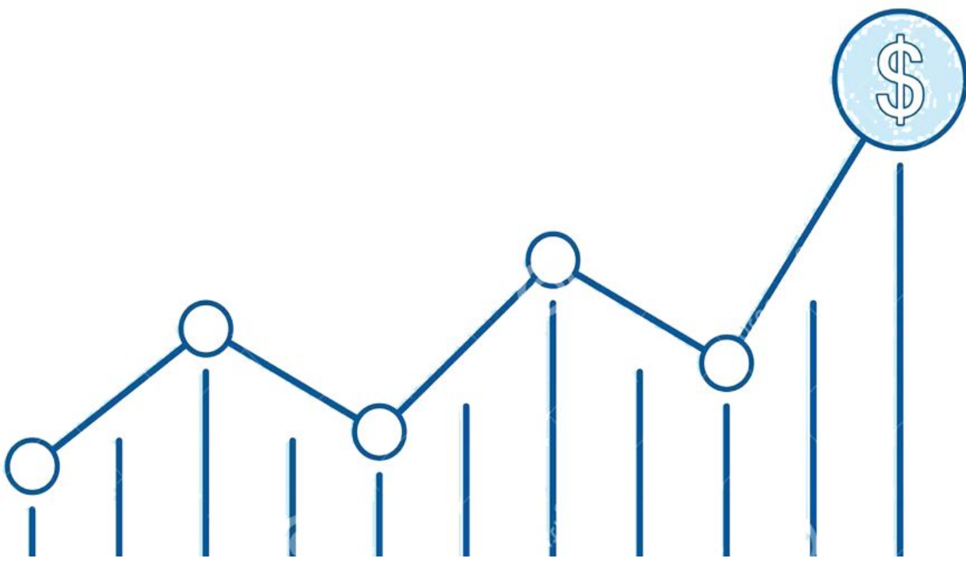
- Bitcoin Investor Cohort Dynamics Heat Up 7-10
- Volatility Makes A Comeback 11-13
- Bitcoin Positive Decorrelation From SPX 14-15
- Current Standing in the Market Cycle 16-17

2. GENERAL MARKET UPDATE 18-30

- Skyrocketing Mortgage Rates and Echoes of 2008 Housing Crash: Is the Market on Shaky Ground? 19-22
- US Manufacturing Sector Gives Hope for a Potential "Soft Landing" 23-24
- A Loosening Labour Market 25-30

4. NEWS FROM THE CRYPTO-SPHERE 31-37

- Stars Arena Suffers Major Security Breach: $3 Million in AVAX Tokens Drained 32-33
- Thorswap Halts Operations Amidst Concerns of FTX Hack-Linked Illicit Transactions 34-35
- SEC Loses (Again) as Judge Denied its Appeal Against Ripple 36-37



WHAT'S ON-CHAIN THIS WEEK?

Bitcoin Investor Cohort Dynamics Heat Up

Short-term Bitcoin supply has been dropping for some time now as we have noted in previous editions of *Bitfinex Alpha*. Since April 13th, 2023, Short-term holders (STH) - defined as investors who have held BTC for less than 155 days - have reduced their BTC holdings by 1m BTC. In particular, a significant drop was seen between September 25th and September 26th, with a decline of 200,000 BTC. This trend has continued as we move into October. Meanwhile, the mirror-image of this decline is seen in the rise in supply held by Long-Term Holders (LTH - defined as holding for 155 days or more), who have seen an increase in holdings by 1m BTC, starting from April 13th, 2023. And between September 25th and September 26th, there was an increase of 200,000 BTC in LTH supply. (refer to the charts below)

Figure 1. Short-Term Holder Bitcoin Supply. (source: CryptoQuant)

Figure 2. Long-Term Holder Bitcoin Supply. (source: CryptoQuant)

This is typical behaviour from the short-term cohort, who sell to capitalise on profits or curtail losses. While LTHs, who by increasing their holdings are displaying evidence of their belief in Bitcoin's enduring potential.

Between September 27th and October 7th, Bitcoin experienced a 9.48 percent increase, followed by a five percent decrease before it recovered again. STHs are usually more sensitive to price fluctuations while LTHs tend to react only to larger moves. On some occasions, LTH supply does fluctuate on 10 percent moves in either direction but the ratio of supply moved to the total LTH supply is miniscule. LTH supply is now at an all-time high, while short-term holder supply is at its lowest in nearly eight years. This gap has even worsened over the past couple of weeks as we believe many short-term holders realised minor profits and also liquidated spot positions as BTC surged to $28,500 and their underwater positions came back to break-even or in profit.

But, did those selling short-term manage to actually turn a profit?

To answer this, we can analyse metrics that track the value and volume of BTC being moved to exchanges for potential sale, specifically from short-term holder wallets.

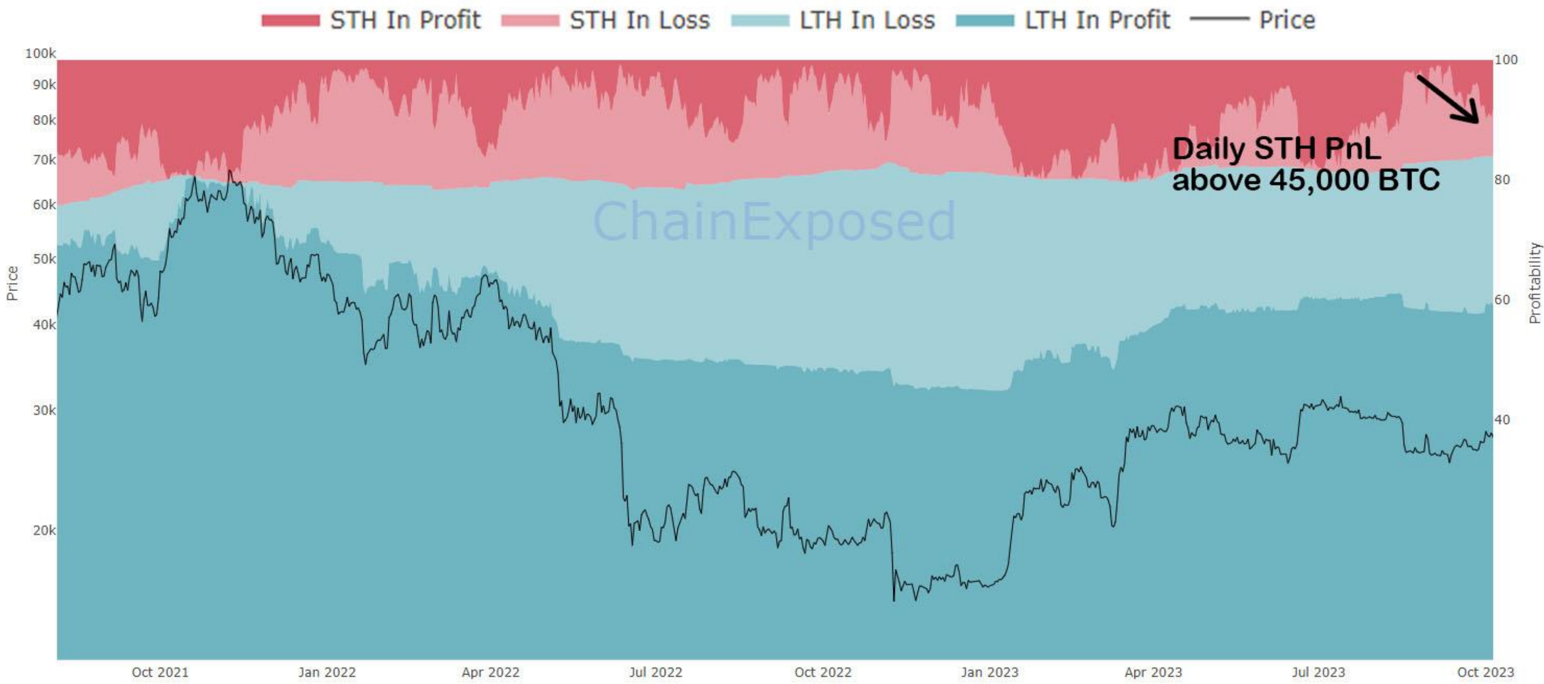


Figure 3. STH vs LTH PnL (source: chain exposed)

A look at the STH Profit & Loss (PNL) of Bitcoin dispatched to exchanges shows that on October 2nd, a total of 45,692.32 BTC was in profit on that day, the highest since mid-August. This suggests that short-term holders capitalised on Bitcoin's recent ascent, particularly its spike to $28,500, either reaping profits or minimising losses.

Looking at Long-Term Holder Net PNL dispatched to exchanges, this metric been stable since the FTX collapse and subsequent hack in November 2022. On October 2nd, the PNL stood at a notable 10,508 BTC in profit , marking the highest positive daily PNL for LTHs this year.

In fact, the subsequent near five percent downturn in Bitcoin's price, dropping from $28,500 to $27,100, can be attributed to profit-realisation trends among both short-term and long-term holders. This was undoubtedly a result of the overall Bitcoin supply in profit on exchanges reaching a one-month high of 13.01 million BTC. (refer to the Figure below)

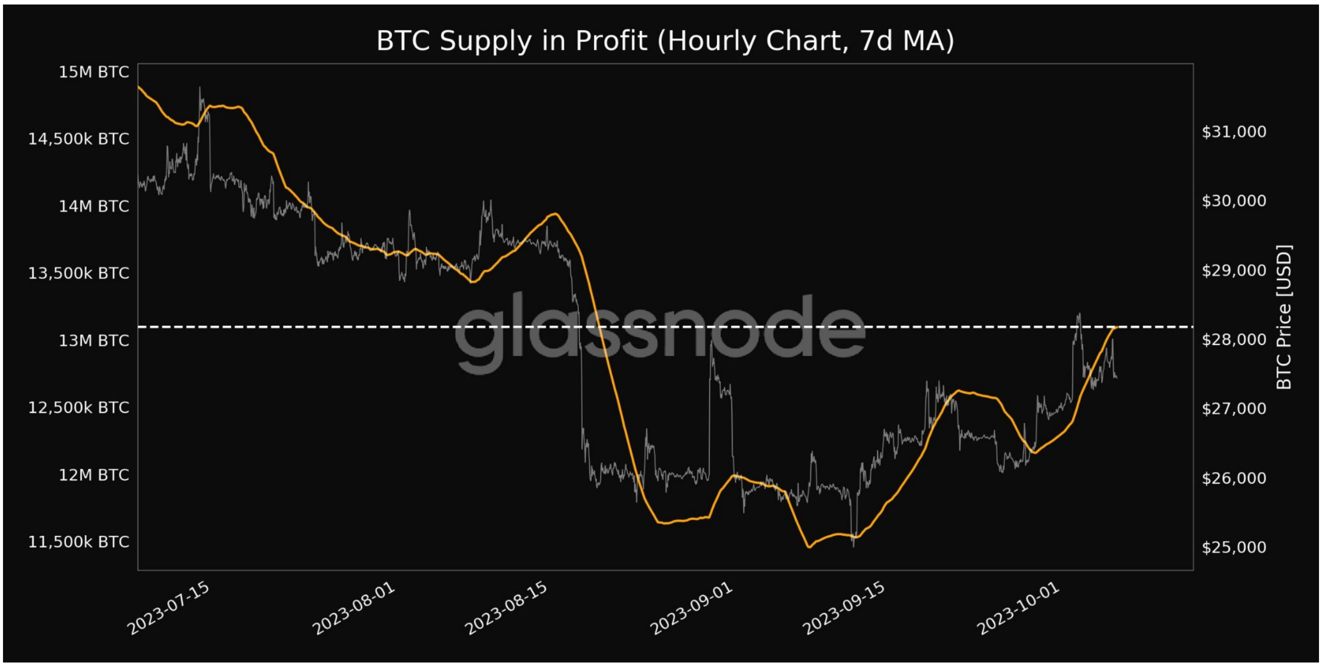


Figure 4 Weekly Moving Average of Bitcoin Supply in profit. (source: glassnode)

Investors seemed to be capitalising on the price moving past $28,000 for the first time in 1.5 months since the August 17th drop. In general though, apart from minor profit-taking activities, most of the long-term holder cohort supply has remained inactive and this continues to propel the bullish narrative for the remainder of the year and also moving into 2024.

Volatility Makes a Comeback

Bitcoin's 24-hour historical volatility started the month with a bang, soaring by 340 percent from October 1st to October 2nd (refer Figure below) after BTC closed the first green September in seven years and surged more than five percent on an intra-day basis. This is in line with our forecasts published in last week's *Bitfinex Alpha*, and we expect continued heightened levels of volatility.

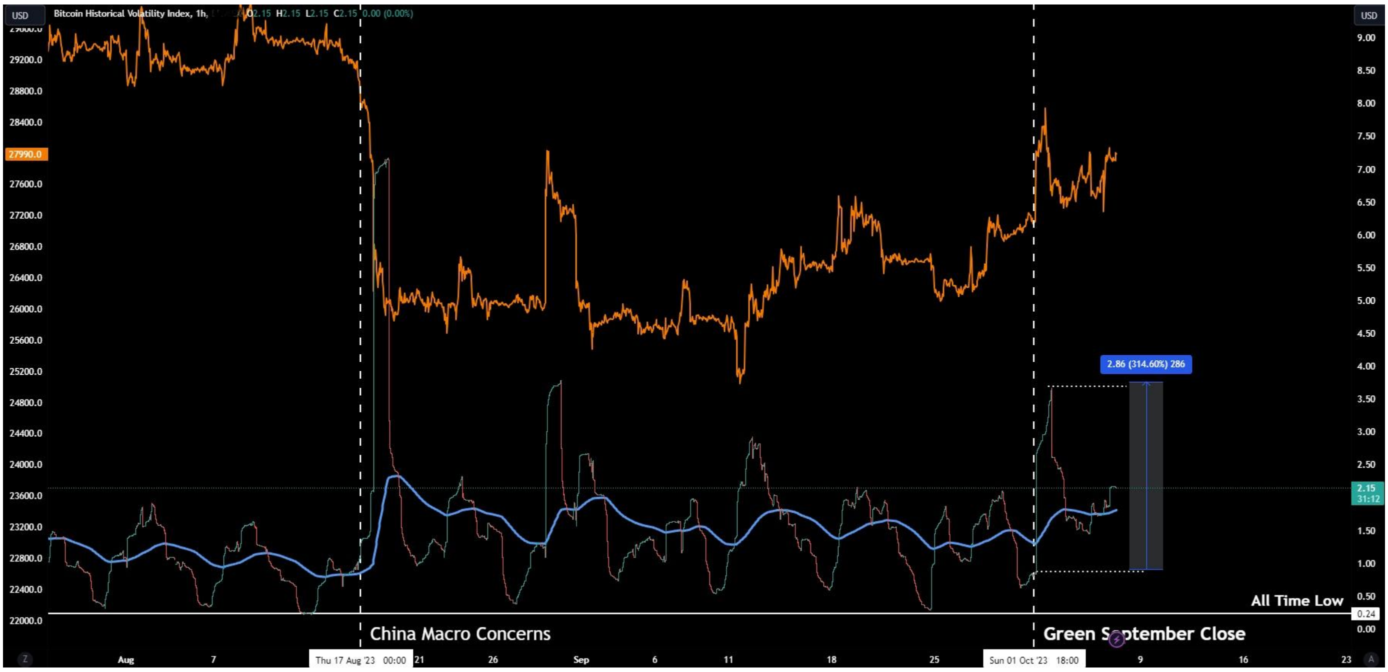


Figure 5. Bitcoin 24-Hour Historical Volatility vs BTC price (orange).

As seen in the figure above, daily historical volatility is now holding above historical moving averages. We have used an exponential moving average over a 200-day period, which implies that since the beginning of October, Bitcoin has been more volatile (on average) than the past 200 days in the asset's history.

As per historical trends, the US stock market experiences volatility first, before it spilling over to other risk assets such as Bitcoin. The VIX (volatility index for the S&P 500) reached its lowest level in three and a half years on September 15th 2023 and has since rebounded to move past the significant 18 level. The VIX closed the day at 19.78 on October 4th, the highest daily close since May 2023.

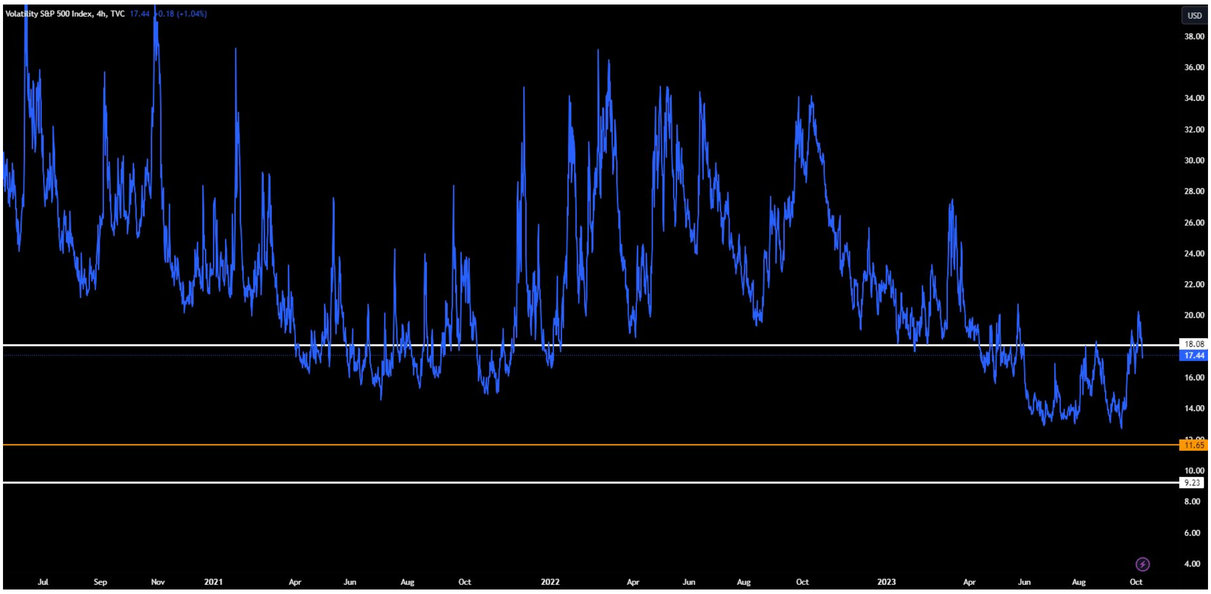


Figure 6. S&P 500 Volatility Index (VIX) 4H chart. (source: TVC)

With volatility spilling over from the US stock market to Bitcoin and other crypto assets, we currently see isolated high volatility events continue to rise and with historical volatility sustaining above crucial averages, this trend is likely to continue.

Additionally, the options market is currently pricing in more volatility for BTC as in the past. Implied Volatility (IV) currently stands at 37.8 percent, while Historical Volatility (HV) is at 32.4 percent (refer Figure below). IV is derived from the options market and gives a forward-looking view on volatility, whereas HV, which is backward looking, measures past price movements.

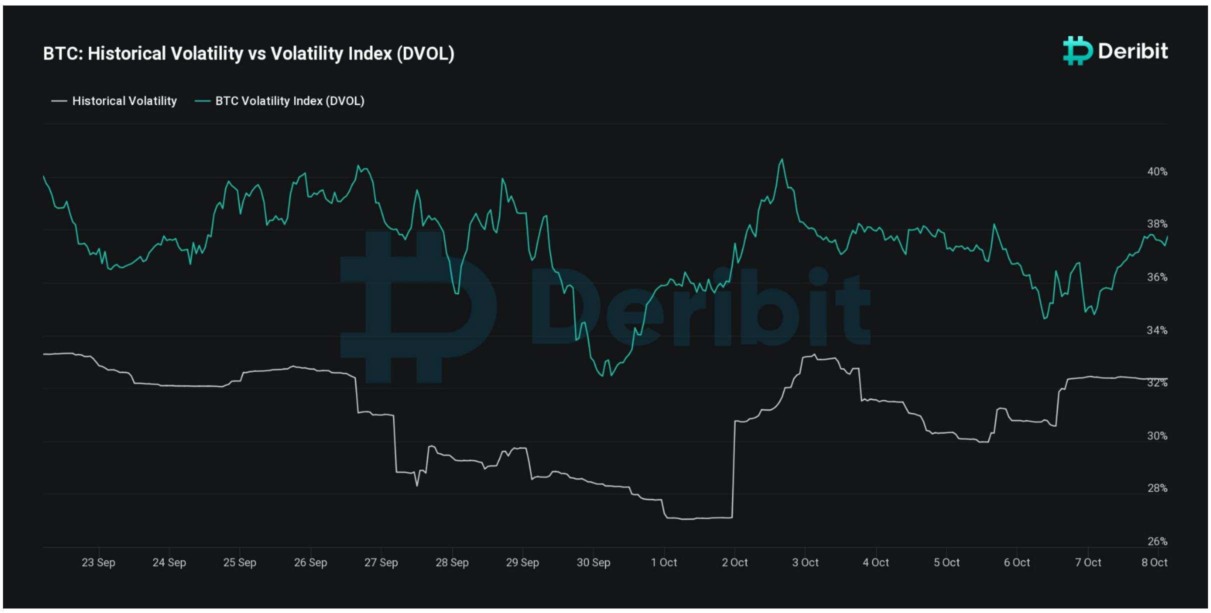


Figure 7. Historical vs Implied Volatility. (source: Deribit Metrics)

When IV surpasses HV, it suggests that the market, through the demand in options, anticipates potentially heightened volatility compared to what's been observed historically. As of now, the IV to HV ratio is 1.16, which, though a decrease from last week, still signifies that the market expects greater volatility. It's noteworthy that while the disparity between these metrics has narrowed, both measures have simultaneously risen on an absolute basis, indicating that expectations of future volatility are aligned with recent historical data but at a higher level than before.

Bitcoin Positive Decorrelation From SPX

As signs emerge of the S&P 500 (SPX) and the broader US stock market nearing a potential bottom in terms of price, an interesting development is observed in the BTC Pearson Correlation metric. This metric, which measures the relationship between the SPX and the NASDAQ Composite with Bitcoin, indicates a decorrelation. In simpler terms, the movements of these major indices are no longer in sync with Bitcoin's price trajectory.

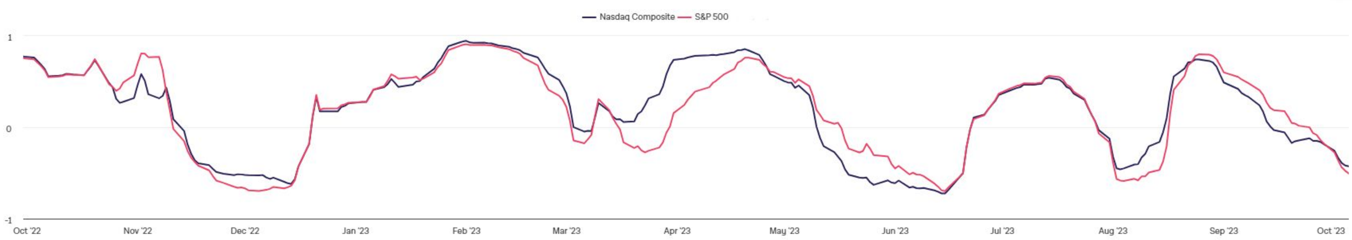


Figure 8. BTC Pearson Correlation Metric. (source: The Block)

The metric reached a peak correlation value of 0.8 on August 25th, and has since downtrended as first BTC moved slower than equities towards the upside and had more exaggerated down swings throughout September. We have now reached one the lowest values where the correlation value is at -0.5 indicating that the index and the asset are moving in opposite directions. This is usually observed in situations where there is a sudden bullish or bearish development for either asset class or if either the Bitcoin or the US stock market prices in information at a faster pace than the other.

The current decorrelation is positive in the sense that after sharp pullbacks across stock markets and other risk assets, BTC seems to have bottomed before the SPX. As we have been discussing in recent weeks, the 4200 level for the SPX remains crucial, and support seems to have been found slightly above that level (refer Figure below) after potential government shutdown rumours exacerbated the fall to and below 4300.

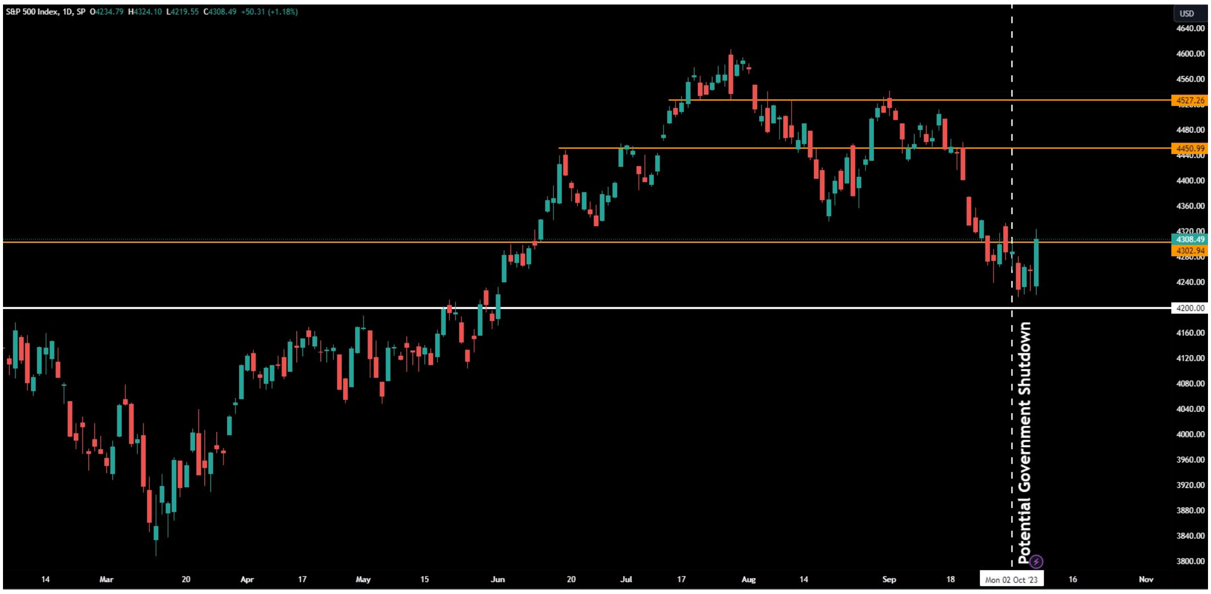


Figure 9. S&P 500 Index. (source: SP)

As we can see from the figure above, the index closed above the crucial 4300 level, marking a strong reaction from support with the index closing the day 1.18 percent up on Friday, October 6th. This is the second largest daily increase for the index since June 15th of this year.

Current Standing in the Market Cycle

In this segment, we assess a variety of indicators to ascertain Bitcoin's position within the market cycle. The majority of these metrics imply that we've likely moved past the bear market's nadir. Nevertheless, considering the historical volatility of this asset class, Bitcoin and other digital assets remain at appealing price points, especially in the aftermath of one of the most severe bear markets they've faced.

The market dominance of stablecoins has recently seen a decline, falling to 11- 11.4 percent of total crypto market cap. Though this metric isn't as frequently cited, a dip in stablecoin market dominance can often signal a rising demand for digital assets. This is primarily because reductions in stablecoin supply or their "burning" is not an everyday event. Historical trends indicate that each time there's a rejection from the aforementioned 11-11.4 percent mark, BTC has experienced an upswing, as illustrated in the accompanying chart.

Figure 10. Stablecoin Market Dominance. (source: Tradingview)

Using this indicator in tandem with volatility metrics, even though we have seen considerable price appreciation from our initial analysis, we retain our bias for volatility towards the upside.

Next, we take a look at Unspent Transaction (UTXO) bands. The Realised Cap - UTXO Age Band metrics shows the distribution of realised cap of a specified age band. Realized Cap is calculated by valuing each UTXO by the price when it was last moved. We are interested in the one-week to one-month cohort for this metric.

Figure 11. Bitcoin UTXO Band for one-week to one-month holders. (source: CryptoQuant)

As older coins are being transferred in the network, they are destroyed and become new UTXO making the younger UTXO Age Bands increase in value which results in young UTXO Age Bands growing in size. Thus, during bull market peaks, this particular metric should see a drastic increase as seen during the run up to the May 2021 peak, where long-term holders distributed their coins to short-term holders. Currently, there is still little interest and there is no new influx into this cohort. In other words, the peak of the bull market is far away.

GENERAL MARKET UPDATE

Skyrocketing Mortgage Rates and Echoes of 2008 Housing Crash: Is the Market on Shaky Ground?

The US housing market has taken a hit with activity in the market being virtually frozen, with both prospective buyers and sellers remaining sidelined awaiting a reduction in borrowing costs.

Mortgage applications fell by six percent in the week ending September 29th (refer to the Figure below), as per the latest data. This decline mirrors the trends in pending home sales, an indicator that offers insights into future home sales based on present contract signings. These sales plummeted 7.2 percent, marking their most significant drop since September 2022, as reported by the National Association of Realtors (NAR).

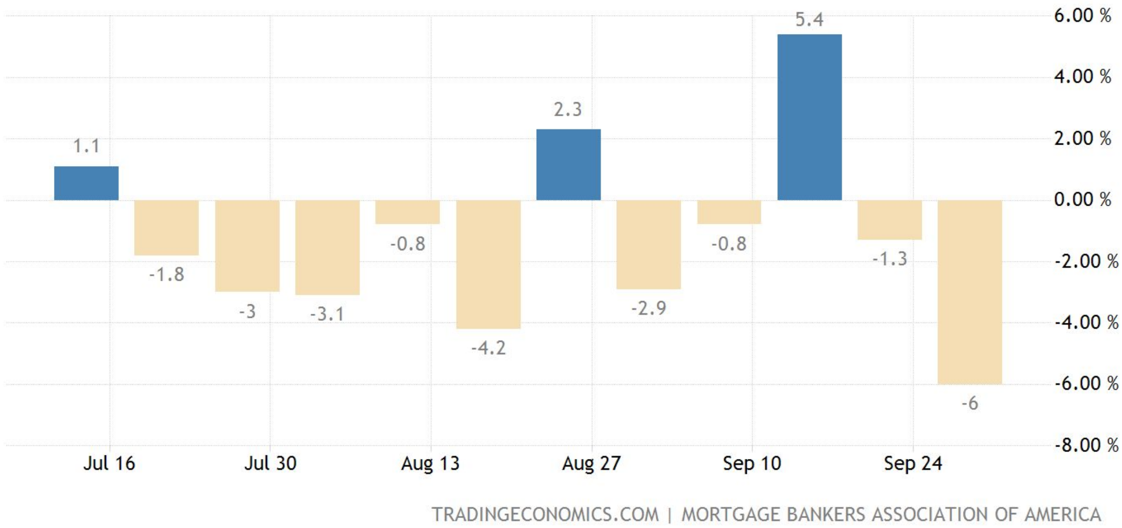


Figure 12. Mortgage Application Rate (Source: Mortgage Bankers Association of America)

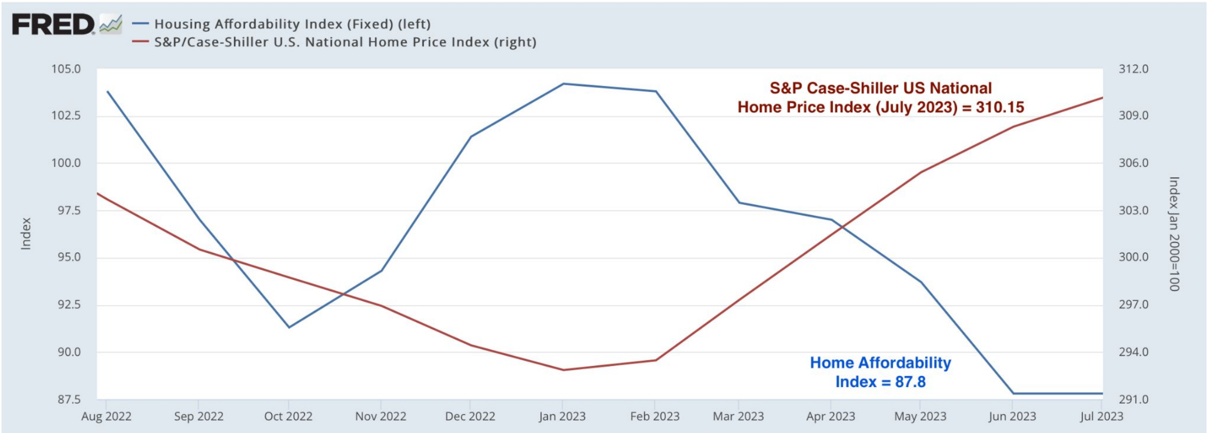


Figure 13. Housing Affordability Index and US National Home Price Index (Source: National Association of Realtors, S&P Dow Jones Indices)

Home affordability stands at an all-time low (refer to the Figure above). Current statistics reveal that the median price of homes in the US is 7.3 times the median annual income of households. This ratio currently has a higher reading than its peak during the 2008 housing bubble (refer to the Figure below). The primary driver of this trend is the rapid escalation of housing prices, which have outpaced income growth.

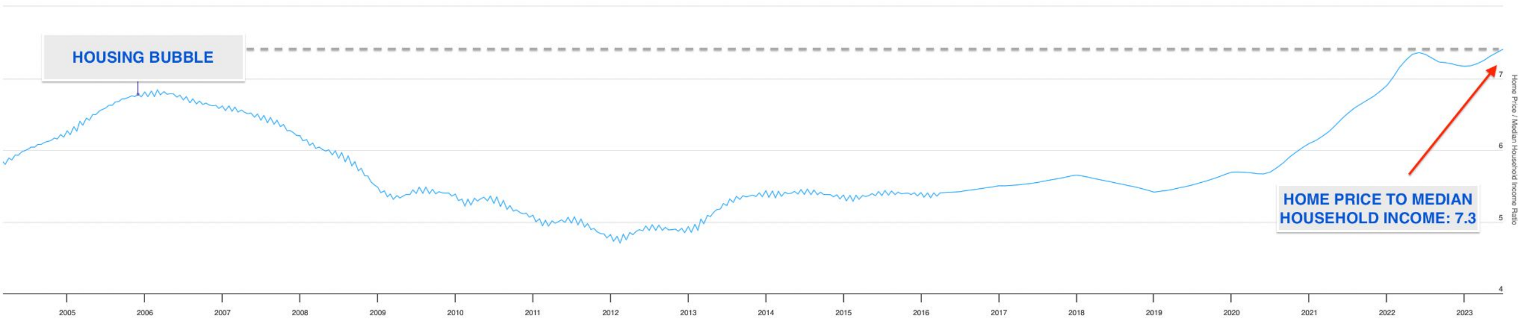


Figure 14. Home Price to Median HouseHold Income (Source: S&P Dow Jones Indices, US Census Bureau)

Mortgage rates are amplifying the financial burden, soaring to heights not witnessed since December 2000. At present, the 30-year mortgage rate stands at 7.49 percent (refer to the Figure below), marking a dramatic climb from its historic low of 2.65 percent a mere 33 months prior.

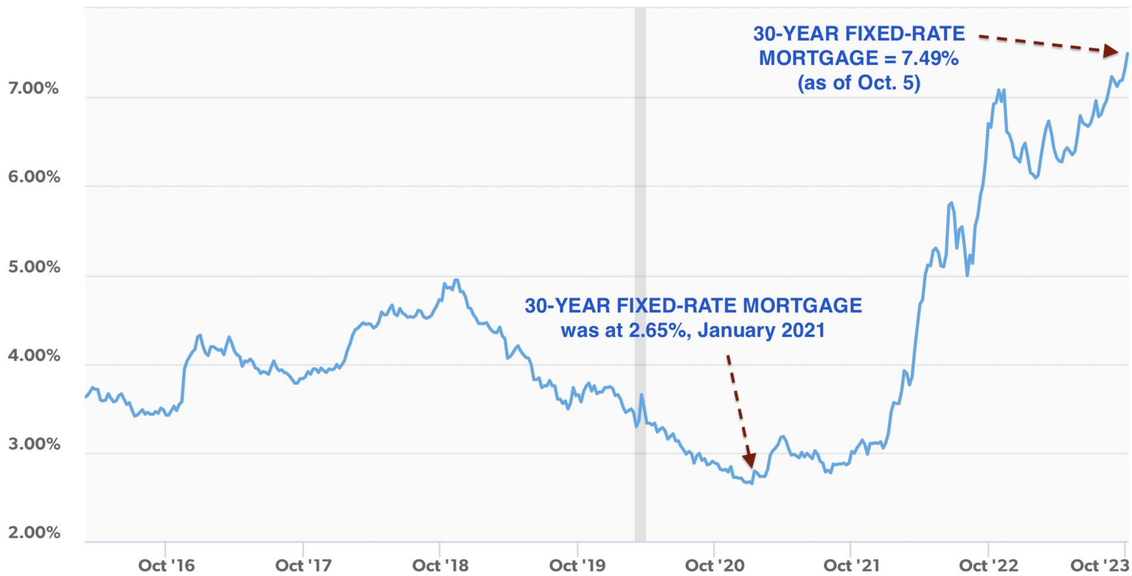


Figure 15. 30-Year Fixed Rate Mortgage (Source: Freddie Mac)

Treasury Yields and Concerns Regarding A Housing Market Crash

A significant driver behind the soaring mortgage rates has been the uptick in interest rates from previously depressed levels. The yield on the ten-year Treasury bond, frequently used as a barometer for long-term interest rates, including mortgages, touched 4.7 percent on October 6th. This level has not been seen since October 2007, and showcases an almost eightfold escalation from its mere 0.54 percent reading just three years ago.

Persistently surging home prices remain defiant even with the steepest mortgage rates observed in nearly 23 years. The current fervour in the US housing market is reminiscent of the 2005-2007 period. During that time, the surge in home prices culminated in a devastating market crash. The subsequent burst of the real estate bubble sent the global economy into its most severe downturn since the Great Depression. Now that the housing market is threatened by skyrocketing mortgage rates and a risk of a recession—buyers and homeowners are asking the same question: Are we on the brink of another housing market collapse?

We think that the current market is unlikely to culminate in a similar crash as:

1. The NAR report reveals that inventory levels remain tight. At the current pace of sales, all existing homes would be snapped up in roughly 3.3 months if no new listings were added. Earlier in the year, this figure stood even lower at 2.9 months. Such persistent inventory shortages are the driving force behind buyers continually pushing up prices. Given this supply-demand dynamic, it's unlikely we'll witness a sudden plunge in prices anytime soon.

Figure 16. Existing Home Sales, Months Supply (Source: National Association of Realtors)

Note that the opposite is true for the Chinese housing market which has collapsed due to a lack of demand and enough supply to fulfil the current rate of demand for more than two years. A third of their newly constructed apartments remain unsold.

2. Supply is not meeting demand fast enough. After the 2008 housing market crash, homebuilders significantly reduced their construction activities and haven't returned to their pre-2007 momentum. Presently, their attempts to acquire land and secure regulatory permits can't keep pace with the demand.

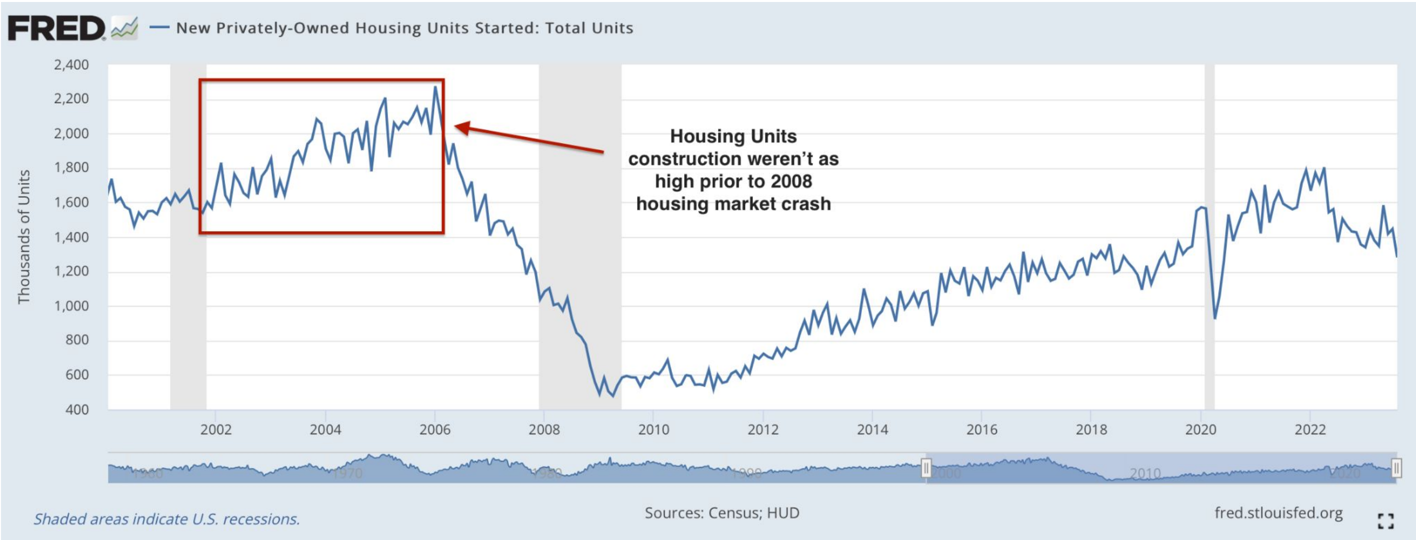


Figure 17. New Privately-Owned Housing Units Started: Total Units

3. Unlike the era leading up to 2007, which was marked by rampant "liar loans" today's lenders have established tightened borrowing standards. Present-day mortgage recipients predominantly have stellar credit scores. Moreover, the latest survey on Loan Officers showed banks tightened lending standards for loans to households this year due to rising interest rates.

To sum up our detailed analysis, although soaring home prices are testing the bounds of affordability, we're of the view that this will not precipitate a housing market meltdown akin to the one experienced 15 years ago. Despite prevailing concerns drawing parallels with past recessionary climates in the housing market, our analysis suggests that its influence on global markets will not mirror the severity of the 2008 downturn and that risk assets will continue their positive momentum into 2024.

US Manufacturing Sector Gives Hope for a Potential “Soft Landing”

In spite of economic uncertainties, the US manufacturing and service sectors showcase promising trends of recovery and resilience.

The US manufacturing sector surged in September, marking its first expansion in nearly a year, showcasing its economic resilience. The manufacturing sector index moved up to 49 percent in September from 47.6 percent in August (refer Figure below), as reported in the Purchasing Managers Index (PMI) report released on October 2nd. (In the PMI, any overall index figure exceeding 48.7 percent signals expansion, while other subindexes require a score over 50 percent.)

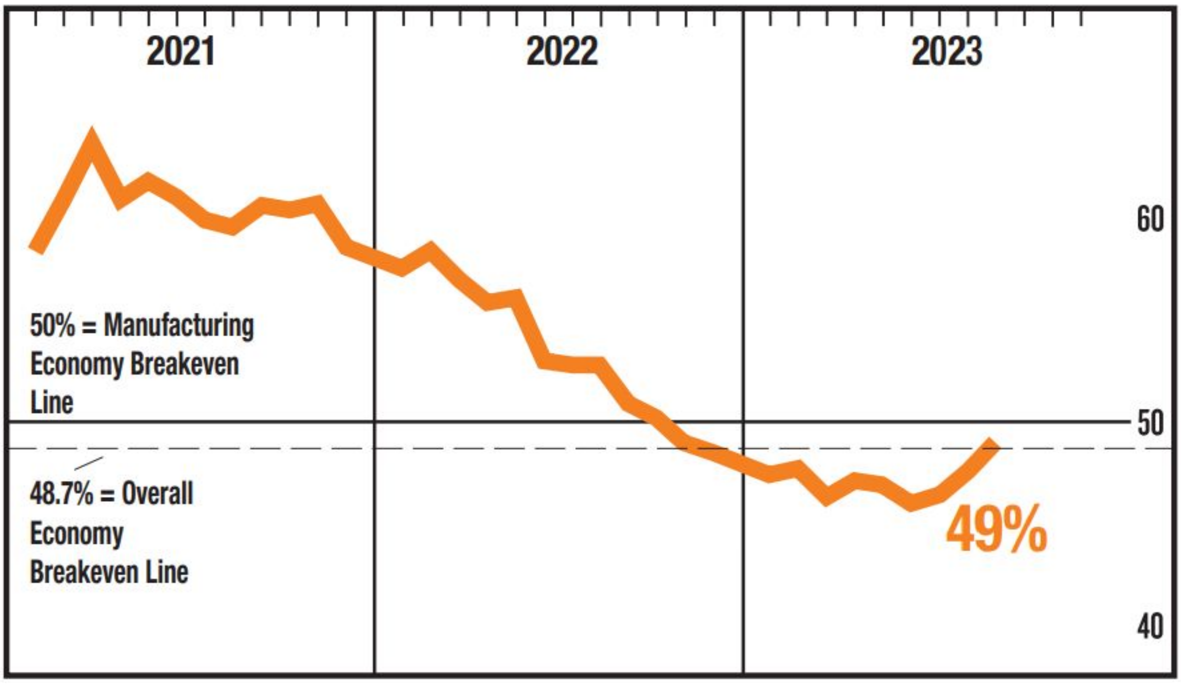


Figure 18. ISM Manufacturing PMI (Source: Institute for Supply Management)

The production sub-index which deals with manufacturing output, also marked significant growth, leaping from 50 percent in August to 52.5 percent in September.

The latest ISM report coincides with the US Census Bureau’s latest data showing an increase in factory orders of 1.2 percent in August, after declining by 2.1 percent in the prior month. This trend also aligns with Federal Reserve data on Industrial Production in August, which shows recovery in the sector. According to the report, Industrial production in July and August showed a modest rise of 0.7 percent and 0.4 percent, respectively.

Meanwhile, the US Services sector saw a deceleration in September. The service sector dominates over two-thirds of the nation's economy. The ISM services PMI report from October 4th indicated a dip in its non-manufacturing PMI to 53.6 from August's 54.5 (refer Figure below). Despite decelerating, an index value above 49.9 indicates expansion in the sector. The service industry has grown in 39 out of the last 40 months, and played a crucial role in the economic rebound post the pandemic.

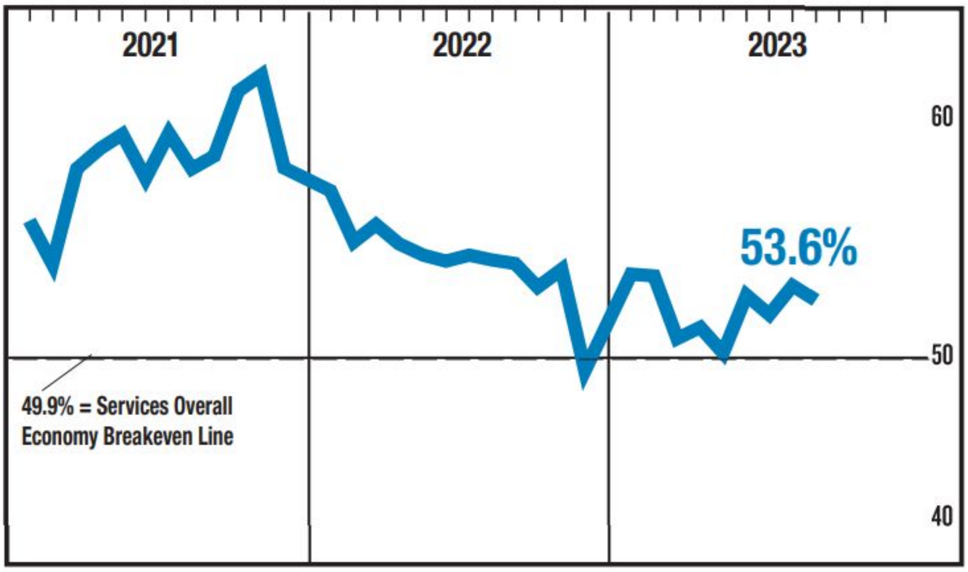


Figure 19. ISM Manufacturing PMI (Source: Institute for Supply Management)

The Takeaway

The manufacturing sector initially took a major hit from aggressive rate hikes. However, the worst may be behind us as last week's data paints a promising trajectory for the sector. Businesses seem to have adapted to the challenging high-interest rate landscape. The prevailing sentiment is optimistic. The likelihood of the economy achieving a 'soft landing' appears higher, and we anticipate that the manufacturing sector will lead the recovery.

The services sector is also crucial in the Fed's ongoing efforts to achieve its two percent inflation target. The service sector was a concern for the Fed late last year as services prices tend to be stickier and less responsive to interest rate adjustments. Now, the service sector is decelerating but still expanding. We see the service sector moving in a favourable trend: slowing down to curb inflationary pressures yet not slow enough to risk the economy to a recession.

A Loosening Labour Market

The recent US employment report shows an uptick in job openings and a surprising surge in employment. However, a closer look at the data suggests that despite being resilient, the labour market shows signs of softening.

Headline Metrics Indicate Robustness

Figure 20. US Job Openings, in Thousand (Source: Bureau of Labour Statistics)

Another sign of recovery in the manufacturing sector is the “Job Openings” metric, showcasing its first increase in four months. Data from the Bureau of Labor Statistics (BLS) on October 3rd shows a surge in job openings in August. Job openings rose to 9.6 million, from 8.9 million in July. (refer Figure above). Details of the report show that the manufacturing sector had 616,000 job openings in August from 544,000 in July.

In the same week, the latest Employment Situation report was released which showed a surprising gain of 336,000 jobs in September. The job gain is much higher than the consensus forecast of 170,000 jobs. However, the unemployment rate in September remains unchanged from August, at 3.8 percent .

Detailed Analysis: A Loosening Labour Market

On the surface, the latest jobs data shows strength, exceeding consensus forecasts. However, a closer analysis beyond headline numbers suggests that the sector is showing signs of softening.

It is worth noting that the surge in hiring could be attributed to the upcoming holiday season, a factor of consumerism, rather than sustainable growth in the job market. According to the Bureau of Labor Statistics, Leisure and Hospitality is the leading job growth sub-division, a sector that is expected to increase during the holiday season due to increased spending on travel, dine-outs and entertainment. We also saw a surge in hiring in the Leisure and Hospitality sector from August to September last year.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2020	59	92	-747	-7488	1235	1809	507	281	487	242	18	-509
2021	55	372	145	206	224	273	284	226	200	166	177	150
2022	116	162	54	36	73	75	113	48	**139**	61	123	58
2023	99	57	46	11	28	26	38	44	**96**			

Figure 21. Number of Jobs Added from the Previous Month in the Leisure and Hospitality Sector (Source: Bureau of Labor Statistics)

Moreover, there has been a significant decline in full-time employment. Over the past quarter, full-time employment in the United States has decreased by 692,000 positions since June. In contrast, part-time employment has seen a substantial increase, with numbers surging by nearly 1.2 million since June (refer to Figure below). Hence it is likely that people are taking on multiple jobs to combat inflation.

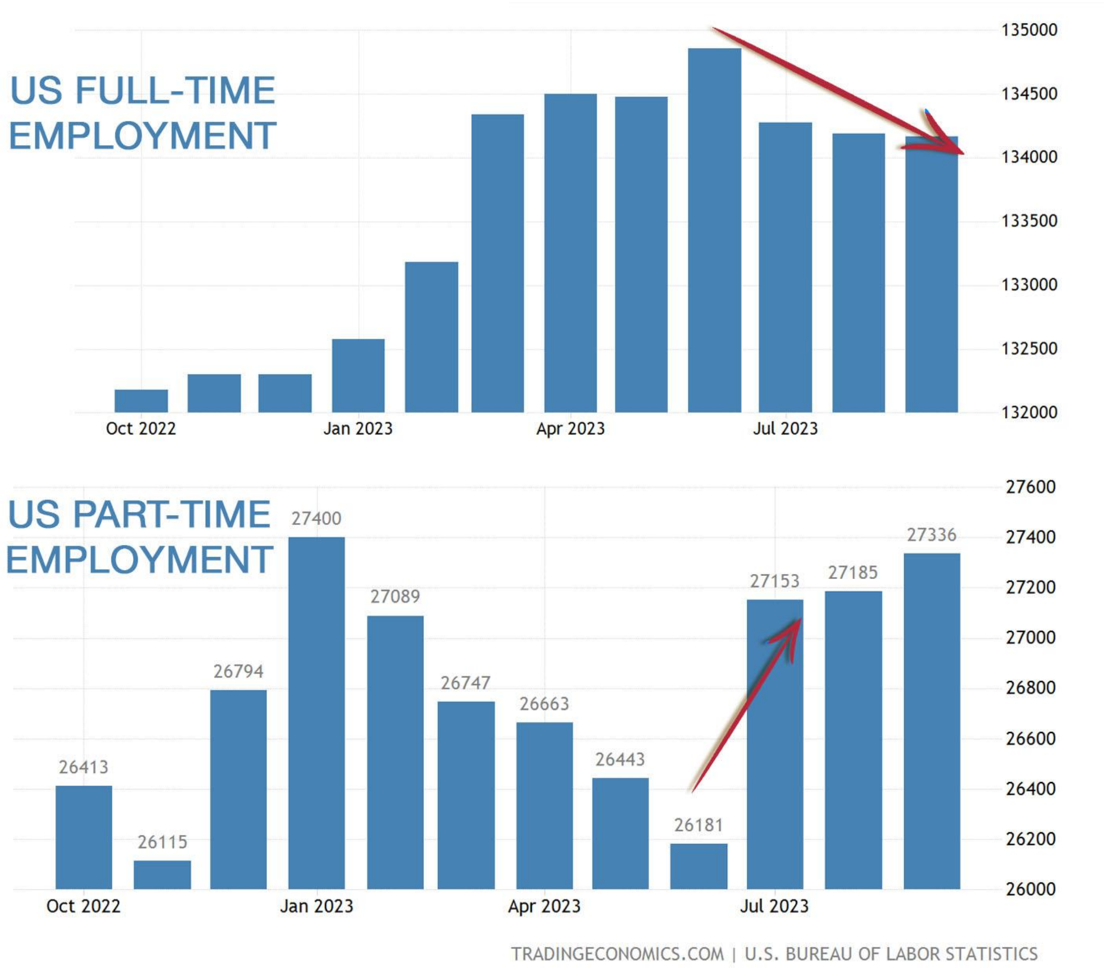


Figure 22. US Full-Time and Part-Time Employment from October 2022 to September 2023 (Source: US Bureau of Labor Statistics)

Despite the rise in job openings, the ratio to unemployed individuals reduced in August, indicating that the balance between labour demand and supply has somewhat loosened. This can be attributed to the increase in the labour force participation rate, or the percentage of the adult population that is either employed or actively seeking employment. Labour Force participation increased to 62.8 in August from 62.6 in July and remained unchanged in September, according to the latest report from the US Bureau of Labor Statistics. **This means that while there is an increase in job openings, there are also more people looking for work, further supporting the idea that the job market has loosened for the month.**

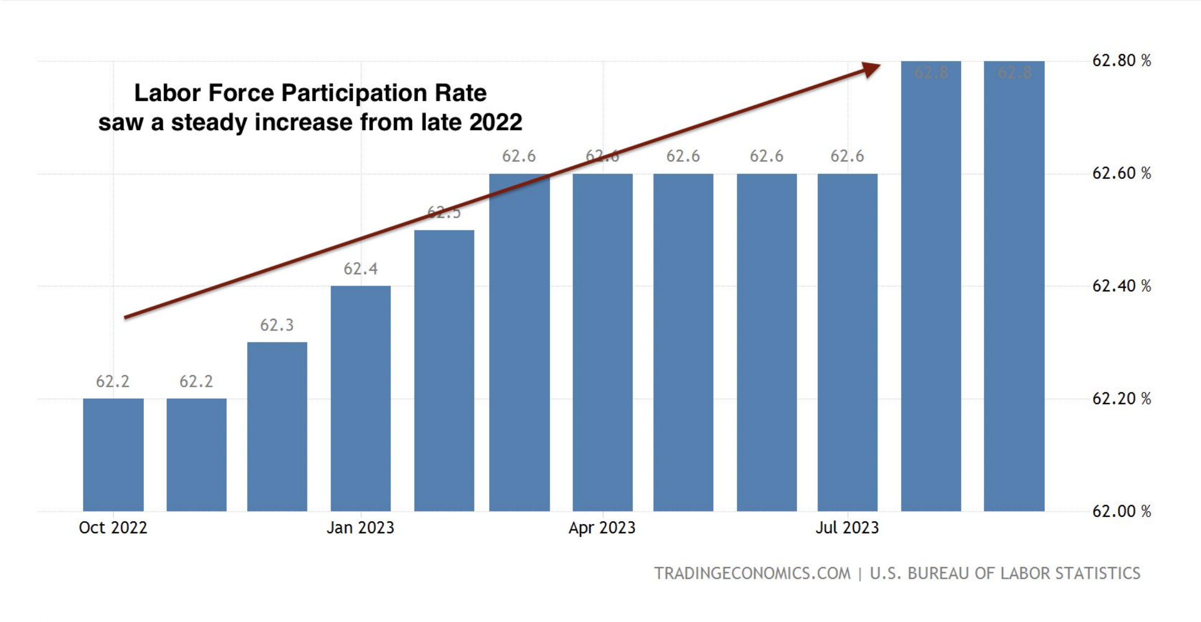


Figure 23. Labor Force Participation Rate in 12 months (Source: US Bureau of Labor Statistics)

The labour force participation rate has witnessed a consistent uptick this year. This potentially offsets the impact of the influx of new jobs on the unemployment rate, which remains static at 3.8 percent. Essentially, if the influx of individuals into the labour market matches the job additions, the unemployment rate can stay anchored.

This unemployment rate, particularly low by historical measures, underscores the robustness of both the job market and the broader economy. Even though there's a plethora of job opportunities — evident from the uptick in job openings — the pace at which individuals are transitioning between jobs has decelerated. A case in point: the median duration of unemployment rose to 9.2 months in September, up from a stable 8.7 months three months ago. This pattern suggests that, while job availability is abundant, labour market fluidity might be slowing.

The Fed pays keen attention to how labour demand influences wage growth, a crucial factor in core service inflation. However, the recent wage growth data did not add much to this concern. In September, wage growth remained moderate, with average hourly earnings rising from 0.2 percent in September (refer to the Figure below), unchanged from the prior month. Over the last three months, the average hourly wages have seen growth of about 2.6 percent, aligning more closely with the Fed's two percent inflation target. It suggests that wages aren't growing too fast, and businesses may be relieved because it implies they will not face excessively fast-rising labour costs in the near future.

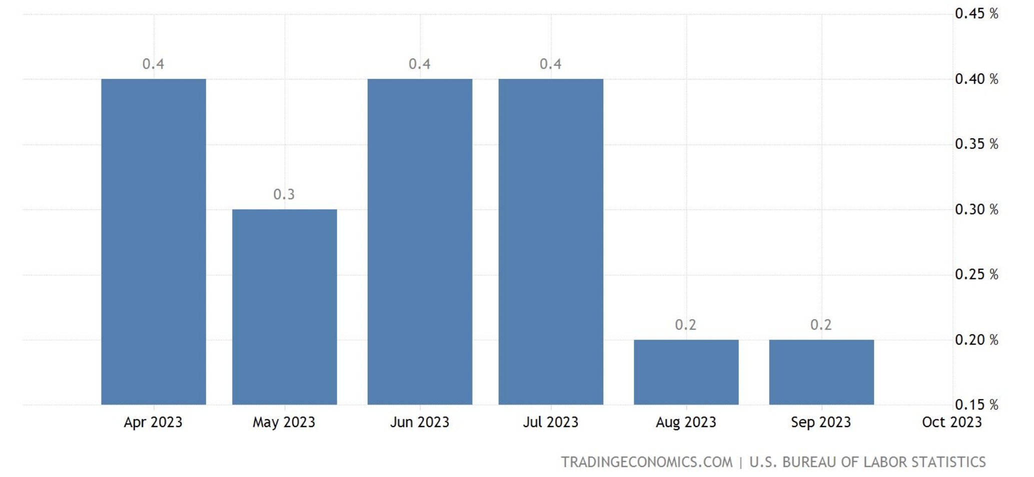


Figure 24. Average Hourly Earnings (Source: Bureau of Labor Statistics)

From our perspective, the ongoing robust pace of employment, in conjunction with a moderation in wage growth, is a reassuring indicator that reinforces the case for a soft landing. Both businesses and households are demonstrating adaptability to higher interest rates, which reflect essential structural adjustments within the economy.

Labour Market Effect On Monetary Policy

We believe that the unexpectedly strong job gain of 336,000 in September non-farm payrolls will not significantly alter the Fed's trajectory of monetary policy. If the Fed decides to raise interest rates further, such a move could potentially dampen risk appetite within both the financial markets and the broader economy.

Amid indications of a slackening labour market, the declining inflation trajectory further bolsters the argument for the Federal Reserve to consider maintaining current interest rates. With the Fed Funds Rate now standing at 1.5 percent above the year-on-year Core Personal Consumption Expenditure (PCE) index - which recorded a dip to 3.9 percent for August — we're witnessing the tightest monetary policy since November 2007. Market sentiment also appears to align with this stance. As of October 7th, data from CME's FedWatch Tool suggests a 72.9 percent likelihood (refer Figure below) that the Fed will keep its target rate unchanged at the upcoming 1st November meeting. However, some likelihood of a hike remains.

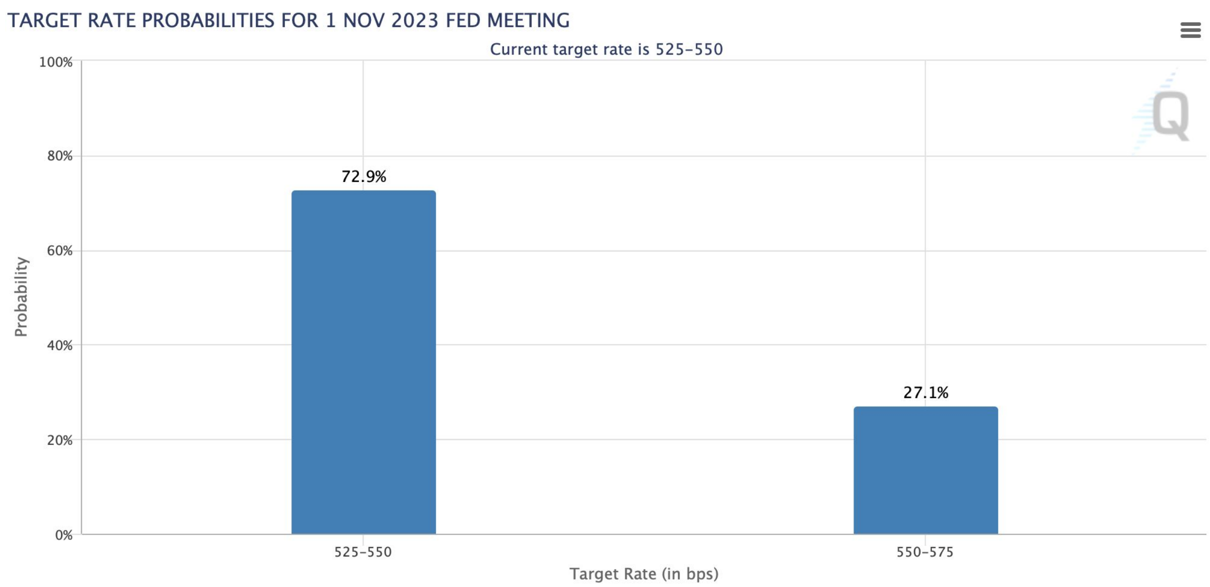


Figure 25. Average Hourly Earnings (Source: Bureau of Labor Statistics)

The American labour market remains notably tight, with abundant jobs. With the unemployment rate still holding steady at 3.8 percent, despite the easing of wage pressures and overall inflation, this serves as a positive indicator for the US economy.

NEWS FROM THE CRYPTO-SPHERE

Stars Arena Suffers Major Security Breach: $3 Million in AVAX Tokens Drained

Figure 26. Stars Arena Suffers Major Security Breach: $3 Million in AVAX Tokens Drained

- **Stars Arena, an Avalanche-based social finance (SocialFi) platform, was breached on October 7th, resulting in the loss of nearly all reserved funds, approximately $3 million in AVAX tokens**
- **Shortly after the incident, Stars Arena confirmed they secured funding to cover the losses and ensured the platform will reopen post-audit with all funds intact**

Stars Arena, a social finance platform less than a few weeks old, and built on the Avalanche blockchain, experienced a significant breach on Saturday, October 7th, resulting in a loss of almost all its reserved funds.

Perpetrators took advantage of a vulnerability in a smart contract integral to the app's token security, syphoning off approximately $3 million worth of AVAX tokens. The aftermath of the attack left the platform with just less than a dollar.

Stars Arena confirmed the breach on X (formerly Twitter)

Stars Arena was launched on September 27th by a developer named 'theBuilder' on X. The SocialFi platform had rapidly gained traction, especially among the Avalanche community. Numerous members were reportedly earning up to 1,000 AVAX from trading fees on the platform. The platform's influence was evident as it contributed to a six percent surge in AVAX token prices during its release week.

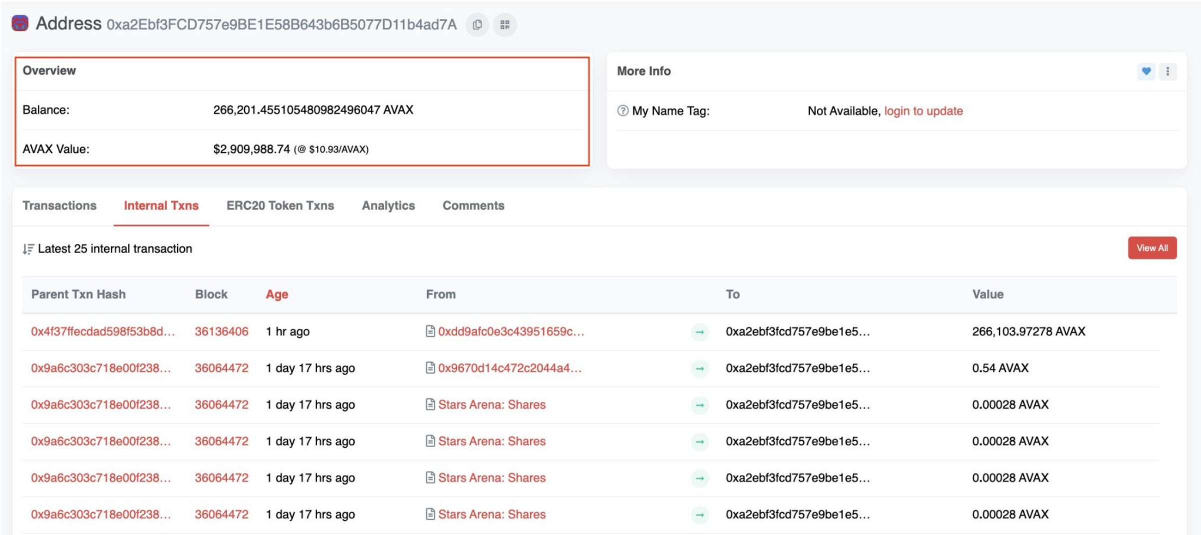


Figure 27. Address Of The Entity Responsible For The Hack. (source: PeckShield)

Figure 28. A post from Stars Arena on X, confirming the security breach.

Just last October 4th, the Avalanche C-Chain witnessed a staggering 577,000 transactions, the highest for the current quarter, primarily due to the Star Arena's launch.

The platform has often been likened to Friend.Tech, an Ethereum-based social app that garnered 100,000 users within a few weeks of its launch in August. Essentially, Stars Arena serves as a social platform where creators can capitalise on their knowledge. On this platform, creators can offer "tickets" - or shares of their knowledge- to their followers. This decentralised marketplace promotes a tight community bond, ensuring an open and trustworthy exchange of value between creators and their followers, all within the ecosystem of the Avalanche blockchain.

A few hours following the confirmed attack, Stars Arena announced on X that they had received funding to cover its losses from the hack. Stars Arena did not mention the source of the funding but said that the smart contract will be reopened with all funds intact after a full audit.

Thorswap Halts Operations Amidst Concerns of FTX Hack-Linked Illicit Transactions

Figure 29. Thorswap Halts Operations Amidst Concerns of FTX Hack-Linked Illicit Transactions

- **Thorswap enters "maintenance mode" following a series of illicit transactions linked to the FTX hack, causing a nine percent drop in the value of the native token RUNE**
- **Community members express disappointment over the halt in operations, drawing comparisons to centralised exchanges' responses to illicit activities, while others advocate for a Uniswap-like approach to addressing fraudulent transactions**

Thorswap, a decentralised exchange (DEX) that operates on the Thorchain network, announced that it had transitioned into "maintenance mode" in response to a series of transactions linked to the FTX hack. The actions followed the detection of illicit funds being moved through the platform, with particular concerns arising from a significant transfer of Ethereum (ETH) by the perpetrator of the FTX hack. The illicitly-linked funds prompted a halt in the platform's operations to address and enhance security measures before resuming regular trading operations.

A representative from the Thor community clarified that while the platform's trading operations were halted, functions such as liquidity providing (LP) actions, earning (for savers), borrowing (lending), and staking actions remained fully accessible. However, there isn't a specific timeline provided as to when full operations would resume. The latest announcement on October 6th as shown below also did not provide any insight into this matter.

Figure 31. October 6th Update from Thorswap. (source: X)

The FTX hack, which took place in November 2022, saw a substantial amount of cryptocurrency syphoned off from multiple wallets, tallying to about $600 million. Following this, on September 30, 2023, it was revealed by crypto investigation agency Arkham Intelligence that the hacker had channelled over 15,000 ETH through various platforms, with Thorswap being one of them.

Members of the Thor community expressed their disappointment over the handling of the situation, criticising the decision to halt operations without community consultation. Some members suggested taking cues from how Uniswap handled a similar situation by blocking wallets linked to illicit activities without halting exchange operations.

The illicit transactions within Thorswap were identified as part of a broader scheme wherein the FTX hacker attempted to launder stolen funds. The hacker initially carried out a series of transactions involving over 22,500 ETH across diverse platforms to possibly convert part of the stolen ETH to Bitcoin (BTC) using the network using the same channel of addresses used last year via Renbridge to again convert ETH to renBTC in a bid to cash out the illicit gains as reported by major on-chain analytics firms including *Arkham Intelligence*. The unfolding of these events led to a nine percent drop in the value of RUNE, the native token powering the Thorchain network, as per data from CoinGecko.

SEC Loses (Again) as Judge Denied its Appeal Against Ripple

Figure 32. SEC Loses (Again) as Judge Denied its Appeal Against Ripple

- **US District Judge Analisa Torres denied the SEC's motion to appeal a ruling that confirmed Ripple's XRP token is not classified as a security**

In a notable setback for the US Securities and Exchange Commission (SEC), US District Judge Analisa Torres has dismissed the regulator's motion to appeal a previous ruling related to Ripple Labs' cryptocurrency, XRP. This decision further solidifies XRP's stance as not being classified as a security.

Back in July, Judge Torres ruled that the trading of Ripple's XRP token on public platforms was in compliance with federal securities laws. This was primarily because buyers did not have a reasonable anticipation of any profit based on the actions of Ripple. Challenging this decision, the SEC intended to appeal, emphasising its importance in several other related lawsuits.

However, Judge Torres countered the SEC's appeal attempt, stating no "substantial ground for difference of opinion". She added that an appeal wouldn't essentially help move the case towards a final verdict.

Amidst this legal tussle, the Ripple case is slated for trial on April 23, 2024. Both the SEC and representatives for Ripple, including CEO Brad Garlinghouse and co-founder Chris Larsen, have yet to publicly comment on this development.

In its December 2020 lawsuit, the SEC had alleged Ripple of unlawfully amassing over $1.3 billion via an unregistered securities offering by selling XRP. The SEC has consistently argued that many digital currencies are securities, akin to stocks and bonds, and thus has the power to regulate them.

Following the recent court decisions, the XRP price saw a boost, rising more than eight percent and reaching a high of $0.54.

The consistent courtroom victories for Ripple Labs signify not just a win for the company, but also spotlight broader critiques of the SEC's approach to categorising most cryptocurrencies as securities.

https://t.me/bitfinex

BITFINEX Alpha