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EXECUTIVE SUMMARY

The spike in markets today should not be altogether unsurprising for regular readers of *Bitfinex Alpha*.

Bitcoin on exchanges has been declining rapidly since March 2020, and has now reached its lowest point since early January 2018, constraining supply significantly.

Long-term holders of BTC have been resolutely in "HODL" mode, with Bitcoin supply aged more than three years remaining largely inactive since February 2023. The short-term holder cohort is a little more willing to sell, but our analysis of Spent Output Age Bands show that while some Bitcoin that has been dormant for 12-18 months is re-entering the market, Bitcoin held between 6-12 months is still largely stationary.

The options market started presaging the market moves this week. Potential price swings in Bitcoin became evident when implied volatility exceeded historical volatility, which is often a reliable indicator that traders are expecting much higher volatility in the near future. A view that has also been reflected in recent stock market performances.

Confidence in the market is arguably underpinned by a still healthy economic outlook - though some concerns still remain. The robust labour market continues to be the primary driver for economic growth in the US, bolstering hopes for a soft economic landing. Despite a surge in general inflation, August reported a relatively muted core inflation number, vindicating the Fed's decision to keep rates on hold.

We continue to highlight danger areas however, including the ongoing United Auto Workers strike, resumption of student loan repayments, heightened energy costs, and persistently high-interest rates, that might collude to hamper spending and economic growth in the upcoming months.

Consumer confidence in the US also waned in September, influenced by rising interest rates and political tensions. The Consumer Confidence Index showed a significant drop in future expectations. The Federal Reserve has signalled another potential rate increase by year's end, and monetary policy is expected to remain tight until 2024. On the housing front, US home prices rose in July, but aspirations to buy homes have dwindled due to high mortgage rates and increasing home prices.

Against this backdrop, the pace of crypto adoption is still being hampered by regulatory delays. The SEC said that a decision on the most recent filing for an Ether futures ETF has been delayed until December, while a slew of other Bitcoin spot ETF applications that were due to be decided this month are also expected to be postponed.

In the meantime, we saw Taiwan's regulator setting new industry guidelines, triggering a proactive response from the local crypto industry, with major exchanges coming together to form a self-regulatory organisation. In other news, Do Kwon, the former CEO of Terraform Labs, continues to fight extradition from Montenegro, and the founder of IcomTech pleaded guilty to a charge of wire fraud, in relation to an alleged crypto Ponzi scheme.

Happy Trading!

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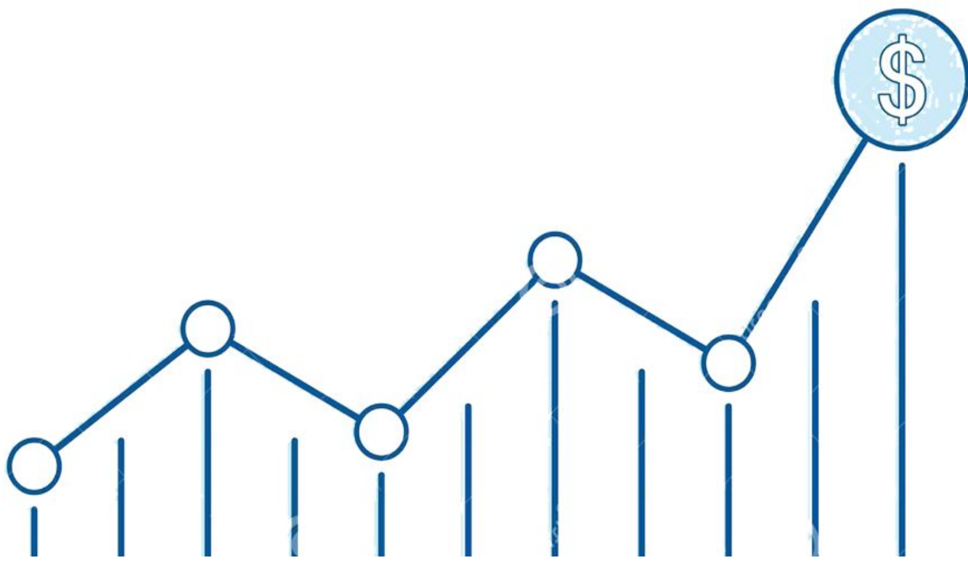


WHAT'S ON-CHAIN THIS WEEK?

Bitcoin Exchange Reserve Hit Lowest Levels in Five Years as Long-Term Supply Still Inactive

Bitcoin reserves on cryptocurrency exchanges have been in a decline since a peak was reached in March 2020, just as Bitcoin prices were beginning to rise. The current number of 2.03 million BTC on exchanges, is the lowest since early January 2018. (refer Figure 1 below)

Figure 1. Bitcoin Exchange Reserves Across All Centralised Exchanges. (source: CryptoQuant)

The peak in reserves coincided with the onset of a notable crypto bull market, pointing towards a possible inverse relationship between Bitcoin's price and exchange reserves.

As the bull market began to take off, reserves on exchanges dropped, as crypto prices soared. This seemed to imply that as investors moved their Bitcoin off exchanges, its scarcity on the platform might have driven its price up.

Yet, by November 2021, Bitcoin's price started to dip, alongside a continuing decrease in its exchange reserves, challenging this relationship. This indicates that even in bearish phases for the market, investors do have a tendency to hold less BTC on exchanges, indicating diminished trading intent. It also indicates that a smaller pool of participants is wielding a more significant sway over Bitcoin's price. It serves as a reminder to not make oversimplified market interpretations

However, when multiple market indicators are used in cohesion, it is apparent that long-term holders are currently in a “HODL” phase.

All supply metrics indicate that any Bitcoin supply aged more than three years has been inactive since February 2023, with only a small fraction of long-term holders from three years or more having either capitulated in the late 2022 bear market bottom, or have taken profits gradually throughout the bull market. We discuss this in the following sections.

However, when multiple market indicators are used in cohesion, it is apparent that long-term holders are currently in a “HODL” phase. All supply metrics indicate that any Bitcoin supply aged more than three years has been inactive since February 2023, a small fraction of long-term holders from three years or more have either capitulated in late 2022 bear market bottom or most of them have taken profits gradually throughout the bull market. We discuss this in the following sections.

Multiple Bitcoin Investor Cohorts Position For Bull Market

While we have been covering direct supply metrics like inactive supply over various time periods and HODL waves for the past month, it is important to analyse more dynamic indicators to analyse investor positioning across various cohorts. Currently, the long-term holders (LTH) and a large part of the short-term holder (STH) cohort seem to be positioning to hold their Bitcoin holdings for longer periods of time.

Coin Days Destroyed (CDD) is a crucial metric for Bitcoin supply analysis. Here's how it works: for any given movement of coins on the blockchain, multiply the number of coins by the days since they last moved. The formula is:

Coins moved * Days since last move = Coin Days Destroyed (CDD)

The raw figures from the blockchain can be erratic, so analysts often apply moving averages to smooth out the data and highlight trends. For our analysis, we've employed a 30-day moving average. (refer Figure 2 below)

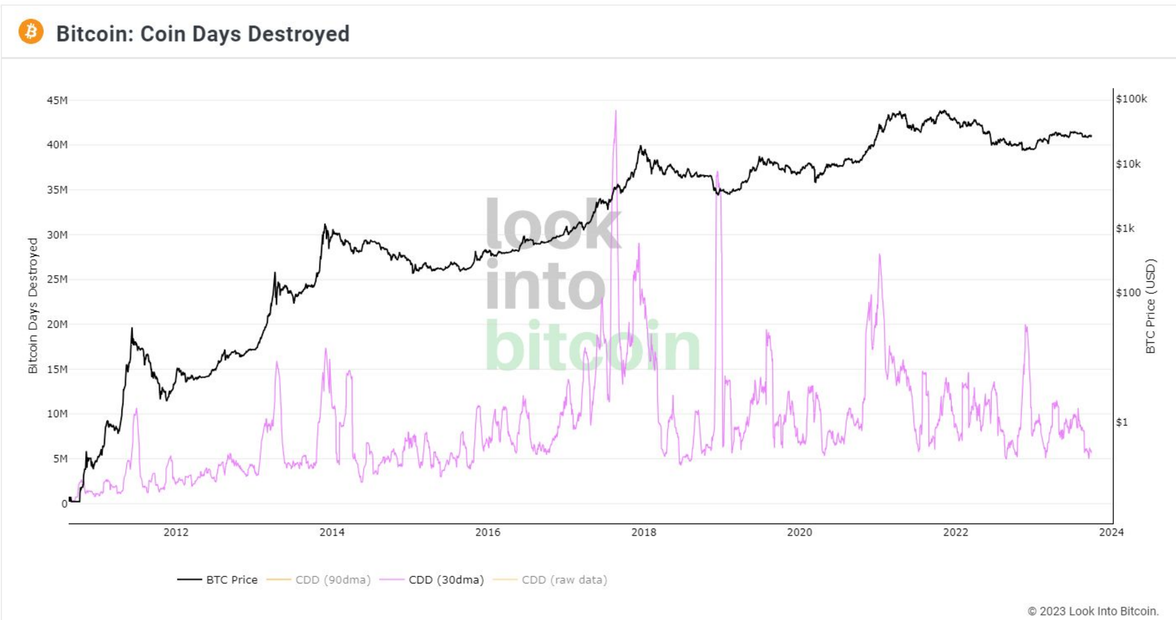


Figure 2. Bitcoin Coin Days Destroyed. (source: lookintobitcoin)

What's intriguing is that spikes in CDD often align with pivotal moments in BTC price action. This suggests that 'whale' investors, who have held vast amounts of Bitcoin dormant for extended periods, tend to shuffle (or possibly sell) their stash at these critical junctures. On-chain activity for Bitcoin has hit record highs in terms of new addresses, but what stands out is that this activity predominantly involves short-term holder supply.

This allows the supply held by long-term holders to continue reaching new peaks as short-term holders sell. The CDD metric (adjusted for fluctuations via 30-day moving average) hit its second lowest level since October 2015, on September 15th 2023. This strongly indicates that seasoned long-term investors are determined to remain holders at the current price range.

The view being taken by shorter-term investors to the market price is not so clear. There has been a noticeable disparity among different sections of the short-term holder cohort. Specifically in reference to the latest market downturn just prior to last week's move up, the Spent Output Age Bands (SOAB) indicator offers some interesting insights into the age of Bitcoin being sent to exchanges.

In the chart below, each distinct colour band represents the total value of Bitcoin sent to exchanges, based on when they were last transacted or created. Essentially, this tool captures the dynamics of whether long-term or short-term holders are sending their Bitcoin to exchanges, with a likely intention to sell. By examining this data, one can gauge whether seasoned Bitcoin investors (long-term holders) or newer entrants (short-term holders) are more active in moving their assets to exchanges at any given time.

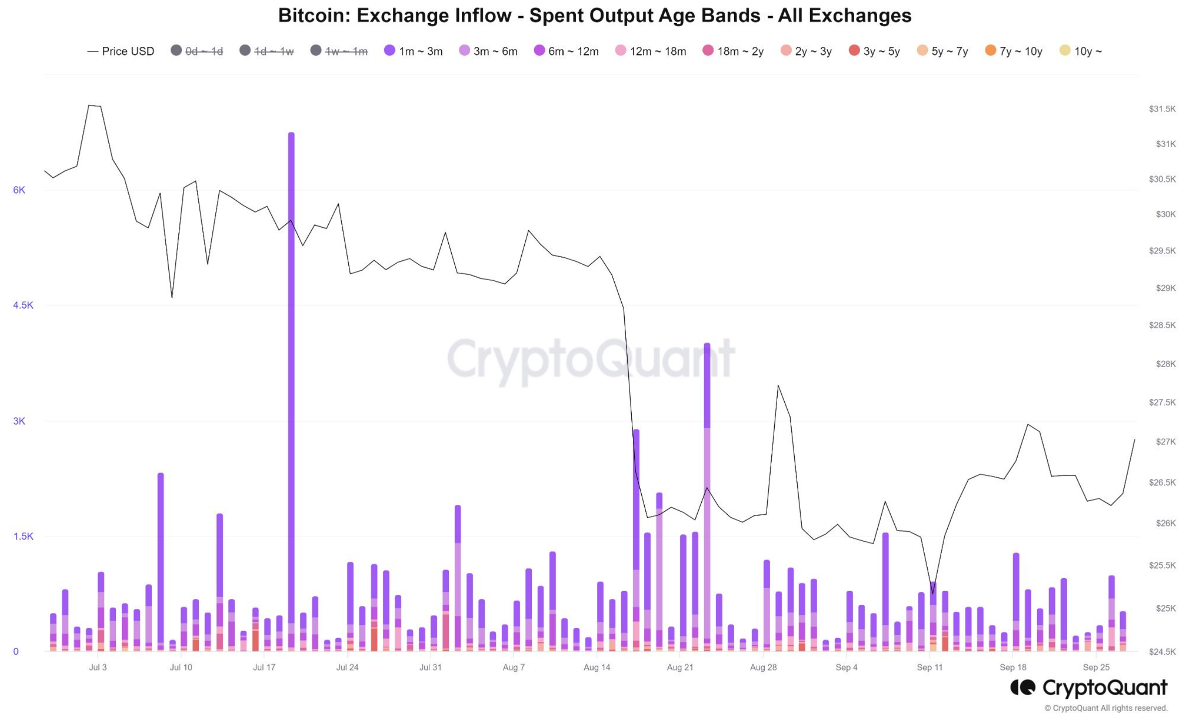


Figure 3. Bitcoin Spent Output Age Bands. (source: CryptoQuant)

SOAB currently reveals the following insights: (refer Figure 3 above)

- Bitcoin that's been dormant for 12-18 months is now re-entering the market, which might hint at its holders opting to sell

- Conversely, Bitcoin held between 6-12 months is largely staying put, suggesting that those holders remain bullish about Bitcoin's future trajectory

Correlating price with this time period, we find that the average price for the 12-18 month supply was around $27,500 while it was $19,850 for the 6-12 month supply. (refer 4 Figure below)

Figure 4. BTC/USDT Daily Chart. (source: Bitfinex)

While these average prices do not equate to average buy price per investor or per coin, it is still a good metric to gauge where the investors would have bought their coins.

The 12-18 month supply holders are now in a position to make a profit on some of their holdings. While this is normal for early bull markets, it is key to note that long term holder supply remains inactive and even short-term holder supply that has been acquired mostly during the bear market at sub $20,000 price or even early 2023 at slightly higher prices remains inactive. This shows investor confidence across multiple cohorts that BTC would not pull back massively from current prices.

Volatility Comeback and Price Appreciation

Following our last analysis of the S&P 500, we believe that the index has potentially bottomed after reacting positively from the 4288 level (refer Figure below). The past week saw market wide relief with the widely-watched CBOE volatility index settling around the 18 points level for the first time since the end of May 2023.

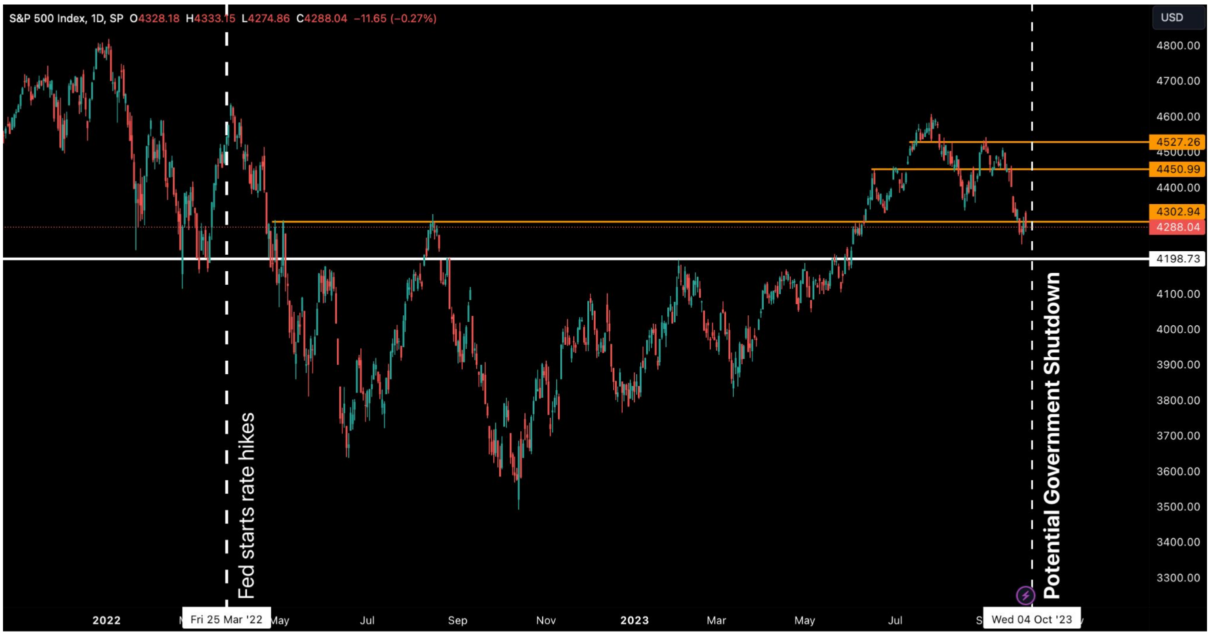


Figure 5. Bitcoin Monthly Returns Since 2013. (Data source: Coinglass)

The S&P 500 index (SPX) has found support at a former resistance where it had previously been rejected from several times. The first time being in June 2022 during the bearish market conditions that took hold during the second half of the year and was accompanied by the most intense hiking cycle by the US Fed in history.

The SPX finding support at a crucial level is coinciding with a build up of tension around the government shutdown. Even though the shutdown was narrowly avoided, the threat was sufficiently significant that markets priced it in. Since 1995, the U.S. government has experienced five shutdowns. Interestingly, despite the political turmoil these events suggest, the S&P 500 has consistently posted positive returns during each shutdown. On average, the index has gained 3.2 percent across these periods. Even more remarkably, during the most prolonged government shutdown in the past three decades, the SPX surged, registering a substantial increase of over 10 percent. This suggests that, historically, stock market investors have largely brushed off the impacts of government shutdowns.

Whenever the SPX finds its bottom, it typically ignites positive momentum across other risk assets, including Bitcoin (BTC). Historically, Bitcoin has recorded a positive September on only three occasions. Significantly, each of these instances has been succeeded by a green October. Furthermore, even when disregarding September's performance, October has consistently been a month where Bitcoin yields substantial returns, as illustrated in the provided figure below.

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%	3.91%	0.24%		
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 6. Bitcoin Monthly Returns Since 2013. (source: Coinglass)

September closed the month with the SPX 3.91 percent in the green. As for volatility, the VIX has tagged the 18 point mark for the first time in about four months. (refer figure 7 below)

Figure 7. S&P 500 Volatility Index. (source: TVC)

If the VIX sustains above 18, it can be expected that the SPX index and broader US stocks could move up quickly. The pattern has always been bond market movements first, then volatile moves in the stock market, with other risk assets following suit.

As for BTC, it had remained steady for a major part of the stock market pullback and had pushed up when the broader market received some relief. BTC closed the month at $26,980 (refer Figure below).

Figure 8. BTC/USDT Monthly Chart. (source: Bitfinex)

Volatility might also soon make a comeback in crypto, potentially towards the upside. Options implied volatility is currently at 36.4 percent while the historical volatility value is at 27.1 percent. (refer Figure below)

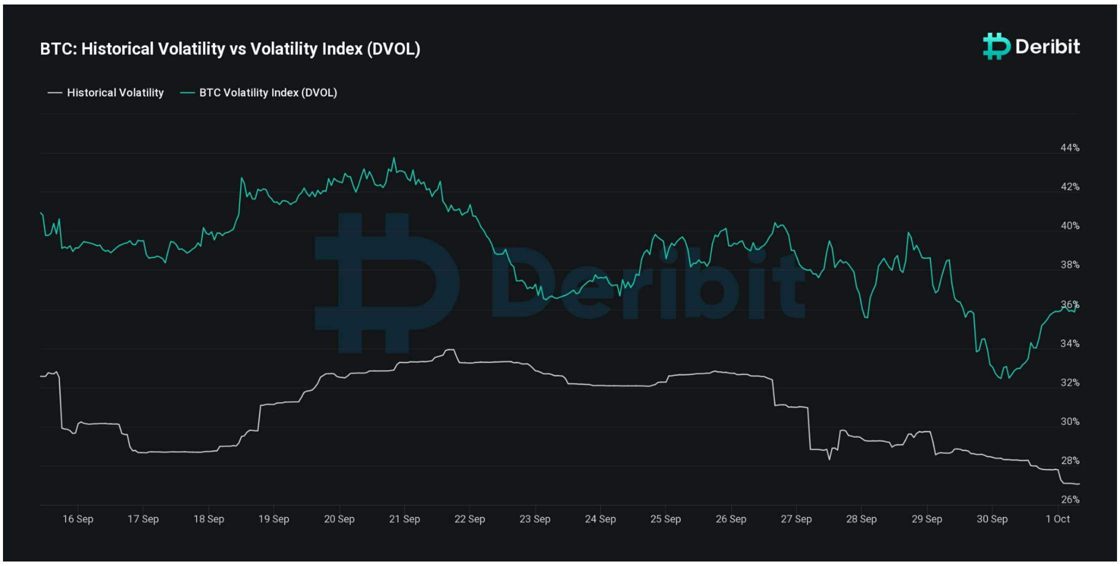


Figure 9. Bitcoin Historical vs Implied Volatility. (source: Deribit Metrics)

Implied volatility (IV) and historical volatility (HV) serve distinct purposes in assessing an asset's potential price swings. IV projects future volatility, while HV reviews past price fluctuations.

Currently, with IV exceeding HV, the market is anticipating that the asset might experience increased volatility compared to its recent history. Conversely, when IV trails HV, it signals potentially lower market expectations regarding future volatility. With the HV value decreasing over the past several days, this means that the stock market volatility has not been echoed in the crypto market. However, post the monthly close and the SPX rebound, the last few days of September recorded a significant uptick in IV values, which means that traders are anticipating significantly higher volatility than in the past.

Figure 10. Take Buy Sell Ratio. (source: CryptoQuant)

The Taker Buy Sell Ratio is now echoing the same sentiment as seen in January. Post some initial turbulence, there's a discernible rise in the Taker Buy ratio. Notably, the characteristic 'yellow box' spikes have made a reappearance. (refer Figure above)

Although the current phase is somewhat protracted, the ascendancy of the Taker Buy ratio is undeniable. The past week has witnessed a series of spikes and significant moves. This surge in taker buy volumes usually signals retail investors diversifying their investments across a broad range of coins. For those monitoring the market closely, there's been a noticeable surge in the value of lesser-known coins, even as Bitcoin has seen moderate growth this week, seemingly defying the downtrend of the S&P 500.

Crucially, we've closed September in the green, a rare occurrence. As we indicate above, historically, a positive September ushers in a bullish October and the volatility as well as the futures market metrics all point towards increased volatility and some upside, at least on the higher time frames.

GENERAL MARKET UPDATE

Consumer Confidence Stumbles Amid Political Tensions and Economic Jitters

Figure 11. Consumer Confidence Index (Source: The Conference Board)

Consumer confidence in the US declined in September, reaching a four-month low, as per a recent report from the US Conference Board. However, there's a silver lining as families continue to be optimistic regarding employment opportunities.

Consumer Confidence declined in September to 103, from 108.7 in August. This decline in confidence for two consecutive months was influenced by rising interest rates and what respondents described as an unsettling political scenario. The US had been braced for a potential federal government shutdown due to continued political disagreements on how to fund the government budget, and the Conference Board reported a drop in confidence among all age demographics, especially among those earning over $50,000 annually.

Fortunately, a spending bill was passed at the 11th hour on Sunday, narrowly averting a shutdown. If no bill was passed and the government shutdown did happen, every corner of the US government, from the delivery of welfare cheques, publishing of economic data and operation of courts, museums and parks will be affected. Hundreds of thousands of federal workers will be furloughed, or temporarily forced to work without pay.

The Consumer Confidence Index is composed of two sub-indices:

Figure 12 Present Situation and Expectations Index (Source: The US Conference Board)

Present Situation Index: This measures how consumers feel about current business and employment conditions. In essence, it gauges consumers' assessment of the present state of the economy. The Present Situation Index rose slightly to 147.1 in September from 146.7 in August.

Expectations Index: This measures consumers' expectations for the economy over the next six months, including business conditions, employment, and income prospects. The Expectations index declined to 73.7 in September from 83.3 in August.

The overall Consumer Confidence Index is derived by averaging these two sub-indices, but each sub-index can provide unique insights. The significant drop in future expectations is the major reason for consumers' faltering confidence.

Last week, the Federal Reserve, as expected, decided to maintain its benchmark overnight interest rate within the 5.25 percent-5.50 percent bracket. However, it's noteworthy that the central bank signalled that there could be another rate increase by the year's end and that monetary policy will remain tight until 2024. Since March 2022, the policy rate has risen by 525 basis points.

While the rising cost of living remains a concern to consumers, interestingly, they are not showing any immediate plans to cut back on substantial purchases like cars, TVs, and fridges in the next six months. Consumer spending continues to be bolstered by a robust jobs market.

However, aspirations to buy homes have dwindled, given that the 30-year fixed mortgage rate is the highest it's been in over two decades, coupled with an uptick in home prices.

Home Prices on the Rise

US home prices rose in July, following the drop in home listings over the summer. The S&P CoreLogic Case-Shiller 20-City house price index, the leading measure of US real estate prices, rose 0.1 percent in July, compared to a 1.2 percent decline in the prior month.

In a separate report, however, the Commerce Department revealed that new home sales in August fell by 8.7 percent to a seasonally adjusted annual rate of 675,000, following a spike to a 17-month high in July.

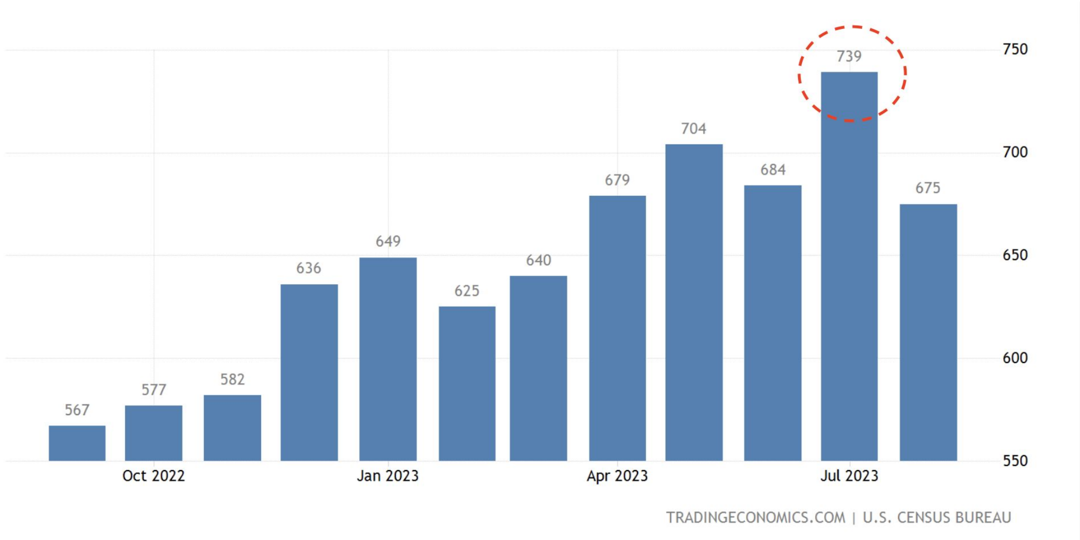


Figure 13. US New Home Sales Plummeted to 675,000 after a spike in July (Source: US Census Bureau)

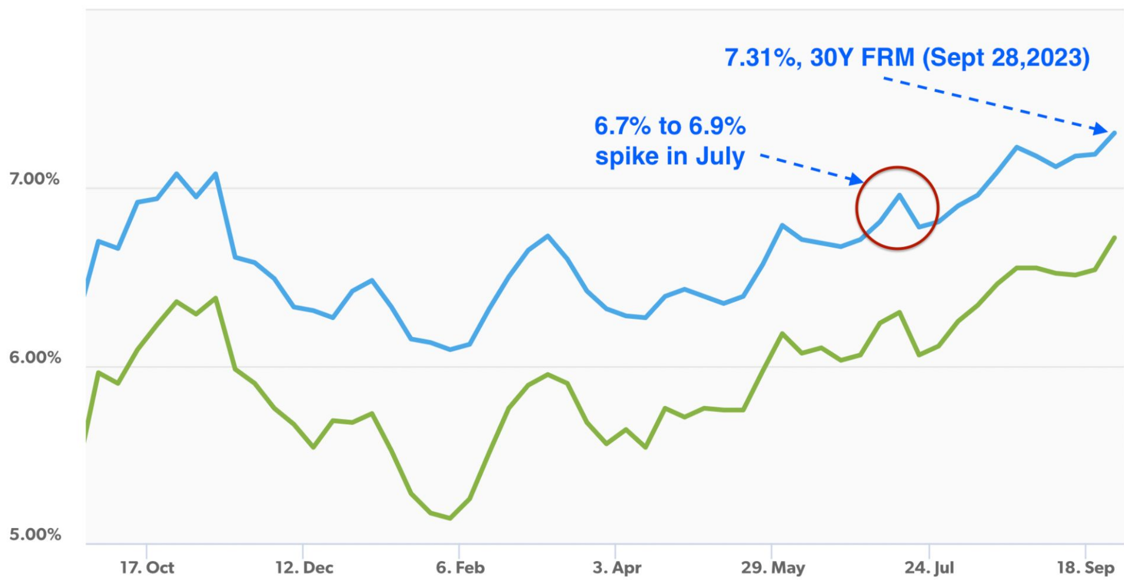


Figure 14. US Average Fixed Rate Mortgage Rate, As of September 23, 2023 (Source: Freddie Mac)

The sharp increase in July, followed by the fall again in August is potentially - and rather counterintuitively - explained by the slight uptick in 30-year fixed rate mortgage rates from 6.7 percent to 6.9 percent in July, (according to data from Freddie Mac, the government-sponsored agency that supports the US housing market by purchasing and securitizing mortgages).

Though rates rose, the rise was small enough to prompt certain buyers to secure their rates, foreseeing that rates could rise much further in the future. Those who did made the right call, as the 30-year fixed mortgage rate surpassed seven percent in August, with recent data showing an average of 7.31 percent, the highest since 2001.

With the Fed contemplating another interest rate hike in November, mortgage rates will continue to put a strain on the housing market. Moreover, we expect the surge in home prices will create upward pressure on inflation, allowing the Fed to uphold its tight monetary policy in the coming months.

SUMMARY:

		Covered Period	Current Value	Previous Value
Consumer Confidence	▼	September	103.0	108.7
S&P Home Price Index	▲	July	0.1%	-1.2%
New Home Sales	▼	August	675,000	739,000

August Sees Boost in Durable-Goods Orders Due to Defence Spending

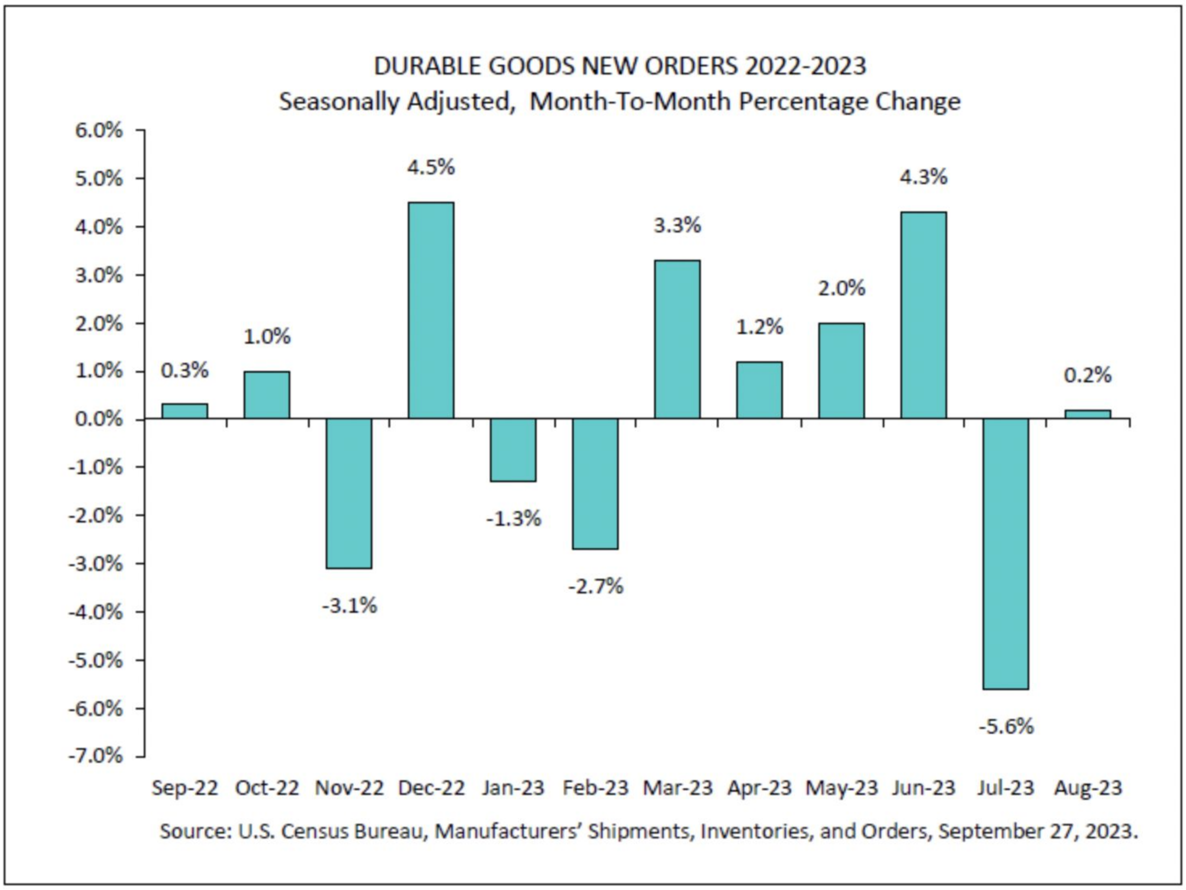


Figure 15. Durable Goods New Orders (2022-2023) , Souce: US Census Bureau

In August, despite a consensus forecast of a 0.5 percent drop, durable-goods orders witnessed a surprising increase of 0.2 percent, surpassing expectations. This surge, however, is largely attributed to increased defence expenditures as the US moved to restock military equipment dispatched to Ukraine.

A durable goods order refers to a request for products with a lifespan of more than three years, such as machinery, vehicles, and equipment, indicating long-term investment and economic confidence. However, when military equipment and supplies are omitted, orders actually fell by 0.7 percent, as revealed by the US Census Bureau on September 27th.

A look at core orders, however, which strips out both defence and transportation, shows a rise of 0.9 percent. This is regarded as a better reflection of broader business investment. That said, according to the CFO Survey, companies have been reducing their investments, given climbing interest rates.

The unexpected rise in core orders to 0.9 percent from a 0.4 percent decline is interesting. As previously noted, core orders offer a clearer perspective on the health of US manufacturing since it omits the demand for items like planes and automobiles, which can be inconsistent from one month to the next. Whether this upward trend will continue is still too hard to tell

As a general trend, in an expanding economy, orders tend to rise, whereas they contract in a receding economy. The recent uptick in durable-goods orders, especially those related to defence, offers a nuanced glimpse into the current state of the industrial economy. Broadly, we believe the industrial sector will still see slower growth. Anticipation of continued high-interest rates into the coming year will suppress demand for significant business purchases. Such elevated borrowing costs have historically dampened the economy, keeping businesses cautious about future hiring, spending, and capital investment.

Looking forward, as we expect higher-for-longer rates, the challenges for the industrial sector will intensify. In such a backdrop, while the rise in defence orders provides a momentary positive blip, the overall perspective leans towards caution.

SUMMARY:

		Covered Period	Current Value	Previous Value
Durable Goods Order	▲	August	0.2%	-5.6%
Core Durable Goods	▲	August	0.9%	-0.4%

US Economy Grows at Steady 2.1 3ercent in Q2, Though Consumer Spending Revised Downward

Though now almost three months old, the final revisions to second quarter gross domestic product (GDP) released last week, showed that despite the significant tightening in monetary policy, growth was flat quarter-on-quarter at 2.1 percent. Consumer spending however, a pivotal component of the economic structure, appeared softer than earlier estimates suggested.

The revised data highlighted a downward adjustment in household spending, from a previously reported increase of 1.7 percent to 0.8 percent. This is noteworthy given that consumer spending traditionally serves as the primary driving force behind the nation's economy.

There was however a stronger-than-expected business investment number. Companies, especially in sectors like chip manufacturing, increased expenditure on infrastructure and equipment. This uptick can be attributed to the government's generous subsidies favouring green-energy initiatives and the trend of "reshoring"—the act of returning manufacturing operations to the US.

Additionally, inventory level adjustments were revised upwards, and though exports were still down, the impact on GDP was found to be lesser than previously reported. Most other metrics in the report remained largely unchanged. The next GDP data release for the third quarter is expected to be released at the end of October.

While the third and final assessment of the Q2 GDP offers a retrospective view, it emphasises the economy's remarkable resilience amidst escalating interest rates and persistent inflation. While the unchanged GDP figure suggests stability, the revised consumer spending figure suggests concerns about domestic economic activity.

The horizon seems challenging. Economic growth is anticipated to decelerate in the forthcoming months, primarily due to increased borrowing costs that are impacting the housing sector and other segments sensitive to interest rates.

Hopes for Soft Landing Bolstered by August Inflation and Spending Trends

Amidst a surge in general inflation, mainly driven by increased oil prices, August reported a relatively more muted core inflation and spending number, reinforcing the Fed's recent optimistic outlook that a soft economic landing is possible.

	2023				
	Apr	May	June	July	Aug.
	Percent change from preceding month				
Personal income:					
Current dollars	0.3	0.3	0.2	0.2	0.4
Disposable personal income:					
Current dollars	0.5	0.5	0.1	0.0	0.2
Chained (2012) dollars	0.2	0.4	0.0	-0.2	-0.2
Personal consumption expenditures (PCE):					
Current dollars	0.4	0.2	0.4	0.9	0.4
Chained (2012) dollars	0.1	0.1	0.3	0.6	0.1
Price indexes:					
PCE	0.3	0.1	0.2	0.2	0.4
PCE, excluding food and energy	0.3	0.3	0.2	0.2	0.1
Price indexes:	Percent change from month one year ago				
PCE	4.4	4.0	3.2	3.4	3.5
PCE, excluding food and energy	4.8	4.7	4.3	4.3	3.9

Figure 16. Personal Income and Outlays, August 2023 (Source: Bureau of Economic Analysis)

The Fed's preferred inflation measure, the Personal Consumption Expenditures (PCE) price index, witnessed a 0.4 percent increase from the previous month, according to a US Bureau of Economic Analysis report issued last Friday, September 29th. Meanwhile, core inflation, which omits the volatile food and energy sectors, saw a rise of 0.1 percent.

For the first time in two years, August reported year-over-year (YoY) core inflation dropping below 4 percent, to reach 3.9 percent, down from 4.3 percent the previous month. Headline inflation nudged upwards to 3.5 percent.

Further evidence of disinflation was also observed in the "super core" metric, a closely monitored indicator by the Fed which includes services, but excludes housing, food, and energy. This metric declined to 4.44 percent from 4.78 percent YoY. On a month-over-month (MoM) basis, the metric dropped to 0.15 percent in August from the previous month’s 0.46 percent.

Real spending, or expenditure adjusted for inflation, saw a subtle 0.1 percent increase. Including inflation, August's spending rose by 0.4 percent. This resilience can be attributed to a consistent rise in personal income coupled with significant excess savings, assisting US consumers in counteracting the burden of escalating energy prices. Personal income grew by 0.4 percent, MoM, from 0.2 percent.

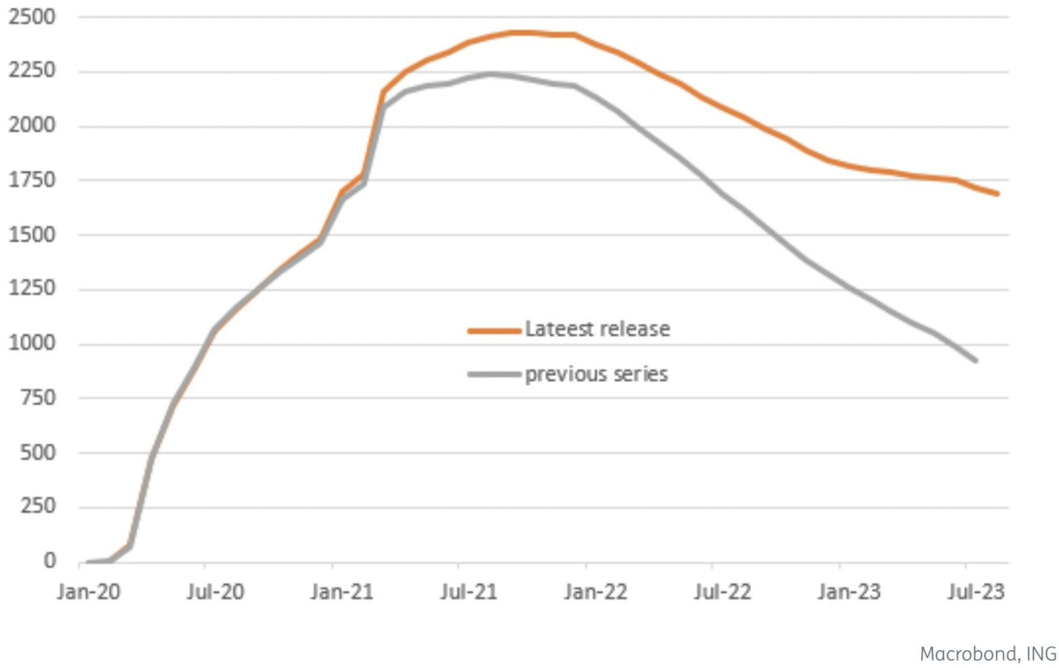


Figure 17. Stock of Excess Savings by US Consumers Since Pandemic, in Billion Dollars (Source: Macrobond, ING)

But the question still remains: Can consumer spending buoy the economy sufficiently in the upcoming quarter to steer clear of a recession?

Potential challenges that might hamper spending and economic growth in the year's concluding months include the ongoing United Auto Workers strike, resumption of student loan repayments, heightened energy costs, and persistently high-interest rates. If these issues don’t find immediate resolution, the risk of a recession will increase. The next couple of months will be a challenge for the Fed, especially without jobs and inflation data.

Nevertheless, current projections still anticipate a soft landing for the economy. Furthermore, the robust labour market remains the key driver for economic growth.

SUMMARY:

	Covered Period	Current Value	Previous Value
PCE MoM	August	0.4%	0.2%
PCE Core MoM	August	0.1%	0.2%
PCE YoY	August	3.5%	3.3%
PCE Core YoY	August	3.9%	4.3%
Personal Income	August	0.4%	0.2%

NEWS FROM THE CRYPTO-SPHERE

Do Kwon's Deposition Contested

Figure 18. Do Kwon's Deposition Contested

Lawyers for Do Kwon, former CEO of Terraform Labs have argued against the SEC's attempt to depose him in the US, citing his ongoing detention in Montenegro where he was jailed for using a fake passport.

The SEC had approached the Southern District of New York to seek approval for questioning Kwon on US soil. However, Kwon's legal representatives are arguing that his detention in Montenegro for attempting to travel using a fraudulent Costa Rican passport makes this impossible. He is currently serving a four-month jail sentence, and both the US and South Korea have expressed interest in extraditing him.

There are indictments against both Terraform Labs and Kwon, that have been filed by the SEC, following the collapse of their algorithmic stablecoin, Terra USD, in 2022. The SEC alleges that billions were amassed from investors via the offering and sale of Terra USD, which it says was an unregistered security

IcomTech Executive Admits Involvement in Cryptocurrency Fraud

Figure 19. IcomTech Executive Admits Involvement in Cryptocurrency Fraud

- **Marco Ruiz Ochoa, ex-executive of IcomTech, admitted guilt in a crypto Ponzi scheme where IcomTech falsely promised daily returns from crypto ventures; funds were used for personal spending and unrelated projects.**
- **US Attorney emphasized a strong stance against crypto-fraud, as Ochoa faces up to 20 years for conspiracy to commit wire fraud after IcomTech's deceptive operations ended in 2019.**

Marco Ruiz Ochoa, a former executive of IcomTech, pleaded guilty on Wednesday, September 27th, in connection to a cryptocurrency Ponzi scheme.

IcomTech, which claimed to deal in cryptocurrency mining and trading, had lured investors by promising lucrative profits if they purchased the company's so-called "cryptocurrency-related investment products." Ochoa, aged 35, with his associates, promised high daily returns.

According to prosecutors however, the alleged cryptocurrency trading and mining wing of IcomTech never actually operated. Instead, the funds from investors were redirected to unrelated projects and personal spending.

The US Attorney for the Southern District of New York, Damian Williams, emphasised the government's stance on crypto-related fraud, stating, "Today's guilty plea sends a clear message that we are coming after all of those who seek to exploit cryptocurrency to commit fraud"

To boost IcomTech's image, promoters flaunted luxury lifestyles, making appearances at events in high-end vehicles and adorned in designer attire. Prosecutors noted that such events were orchestrated to create a buzz around the scam.

Tensions arose in 2018 when investors started facing obstacles in withdrawing their investments. Regardless of the rising complaints, promoters, with Ochoa included, persisted in endorsing IcomTech and securing funds from potential victims. IcomTech's operations ground to a halt by the end of 2019.

Ochea pleaded guilty to one count of conspiracy to commit wire fraud, a crime that carries up to 20 years of imprisonment.

VanEck and Valkyrie Set to Provide Ether Futures Access Through ETFs

Figure 20. IVanEck and Valkyrie Set to Provide Ether Futures Access Through ETFs

- **VanEck announces the introduction of the VanEck Ethereum Strategy ETF (EFUT) aimed at capital appreciation through Ether futures contracts**
- **Valkyrie Investments plans to launch an ETF offering exposure to ether futures, alongside its existing Bitcoin Strategy ETF**
- **Amidst growing interest in crypto ETFs, the SEC remains cautious, with recent delays in decisions related to several ETF applications**

VanEck Ethereum Strategy ETF

VanEck, an asset management company,announced plans to introduce the VanEck Ethereum Strategy ETF (EFUT). This ETF is intended to be actively managed by investing exclusively in Ether (ETH) futures contracts. Notably, EFUT will not directly invest in ETH or any other digital assets. VanEck is a prominent US asset manager established in 1955, and was an early proponent of offering investors exposure to international markets.

VanEck's newest ETF offering will allocate its funds towards standardised, cash-settled ETH futures contracts. These contracts are traded on commodity exchanges that are registered with the Commodity Futures Trading Commission (CFTC). For now, the fund plans to invest in ETH futures available solely on the Chicago Mercantile Exchange.

EFUT will join with the VanEck Bitcoin Strategy ETF (XBTF), another futures-focused ETF in their lineup. Just like EFUT, XBTF avoids direct investments in Bitcoin or other digital currencies. Both these ETFs are structured as a C-Corp., a strategy believed to potentially offer a tax-efficient structure for those investors with a long-term horizon.

The ETF however will not be available anytime soon however as the SEC moved to delay the proposed VanEck Ethereum ETF until at least Dec. 25.

Valkyrie Investments

Meanwhile, Valkyrie Investments also disclosed plans to introduce an exchange-traded fund (ETF) that offers exposure to Ether futures. This move comes amidst a wave of firms that filed applications to launch Ether ETF products, such as Vaneck, Ark Invest, ProShares, and Grayscale. Valkyrie submitted its application on August 16 to the SEC. The fund wouldn't directly invest in Ether but would do so through ETH futures contracts. Valkyrie is among the pioneering US firms to unveil an ETF linked to BTC futures in 2021.

Valkyrie's Bitcoin Strategy ETF also aims to pave the way for investors to gain exposure to both Ether and Bitcoin futures from single fund and will this week be rebranded to Valkyrie Bitcoin and Ether Strategy ETF.

The SEC is expected to finalise its decision on Ether futures ETFs by mid-October (the Van Eck Fund notwithstanding). While the SEC has yet to release a proposed rule change permitting the listing of a new Ether futures ETF on the Nasdaq Stock Exchange, it recently issued an order calling for a further analysis of the listing of the Valkyrie Bitcoin Fund, a spot BTC ETF.

Last Tuesday, the SEC postponed its decision regarding a potential rule change that would permit Ark 21Shares, owned by tech investor Cathie Wood, to initiate its spot Bitcoin ETF. The verdict on the Global X ETF application was also deferred, while several other applications, including one from BlackRock, which are set for mid-October decisions, are anticipatrd to see further delays too.

As of now, the SEC hasn't given the green light to any spot crypto ETF in the US However, the tide might be turning. Grayscale Investments' recent legal victory over its spot BTC ETF has sparked speculation that the SEC's stance might evolve. Valkyrie, alongside other major players, eagerly awaits the SEC's decision on their respective spot crypto ETF applications.

Taiwan Tightens Crypto Regulations with Emphasis on Customer Protection

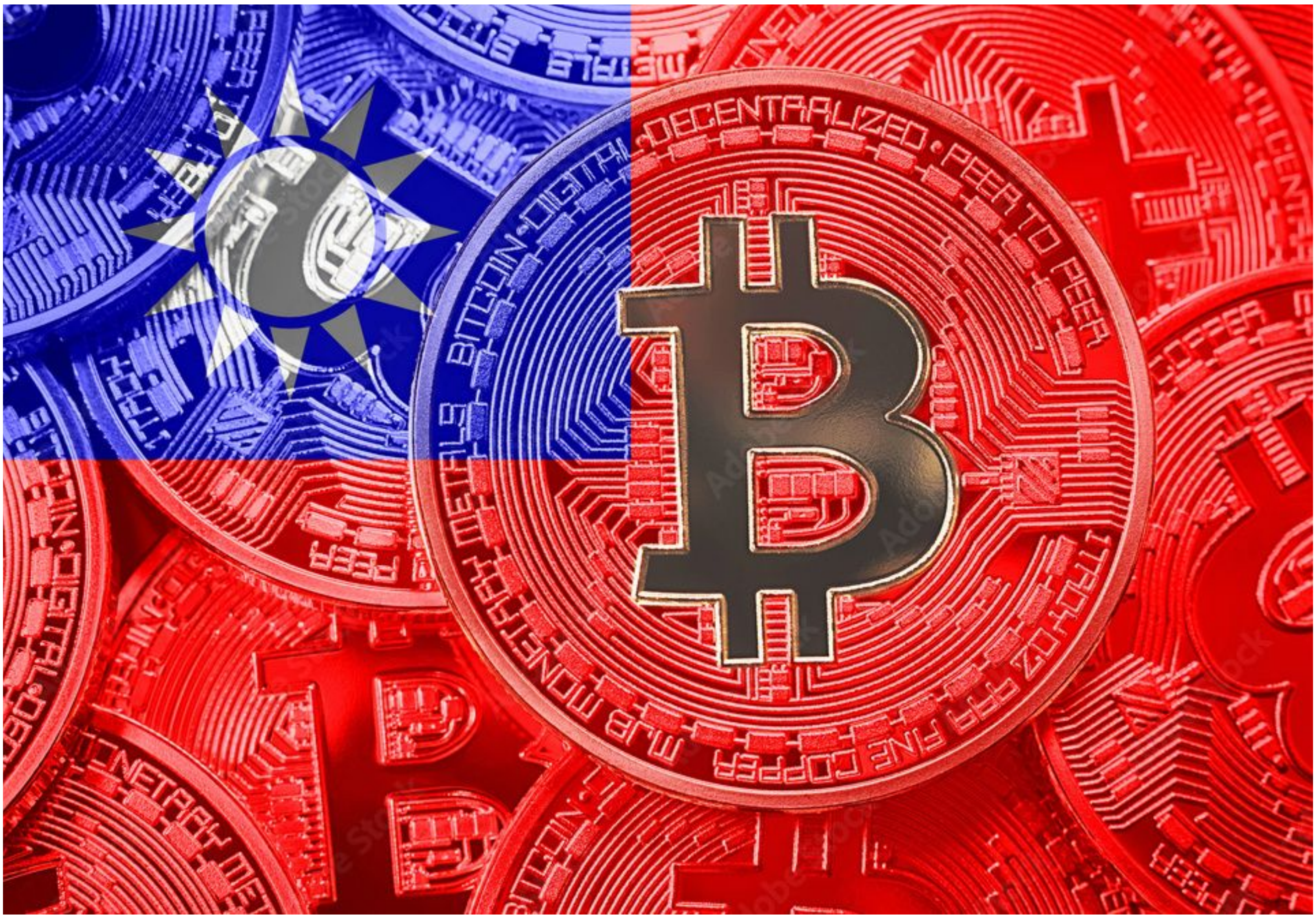


Figure 21. Taiwan Tightens Crypto Regulations Virtual Asset Service Providers

- **Taiwan's Financial Supervisory Commission (FSC) introduced new guidelines for Virtual Asset Services Providers, emphasizing customer protection, segregating assets, transparency, and stricter regulations on offshore exchanges operating in Taiwan.**
- **Following the new directives, nine significant crypto exchanges in Taiwan ,are forming a crypto industry association to develop self-regulatory measures in line with the FSC's guidelines**

Taiwan's Financial Supervisory Commission (FSC) has rolled out a new suite of guidelines for Virtual Asset Services Providers (VASPs), prioritising customer safeguarding measures.

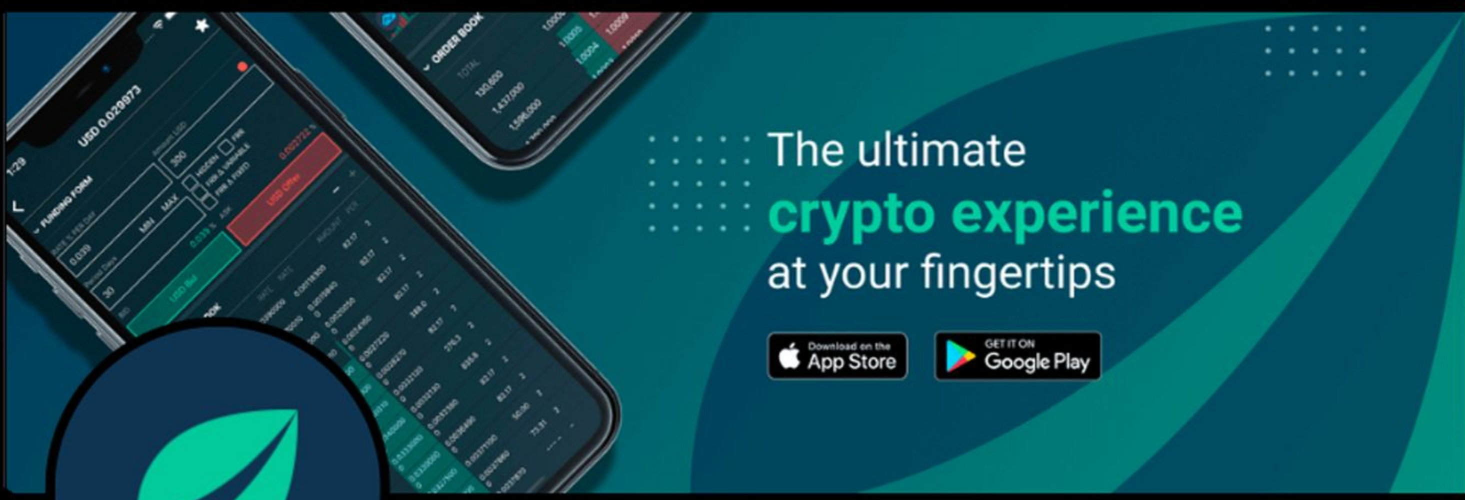
According to the new directives, Taiwan cryptocurrency platforms are mandated to distinctly segregate company and customer assets. They must also enforce standards for the listing and delisting of virtual assets, as well as enhance their transparency in terms of information disclosure.

The FSC's updated regulations also specify that offshore exchanges wishing to serve Taiwanese customers must secure registration with the Commission. According to the guidelines, "Foreign virtual asset platform operators that have not registered under the company laws and have not declared compliance with anti-money laundering regulations to the FSC may not solicit business within Taiwan or target Taiwanese nationals".

Drawing a clear line for crypto operations, the FSC underlined that these platforms are "not allowed to engage in operations involving derivative financial product transactions with virtual assets as underlying assets or virtual asset businesses with securities-like characteristics"

While the FSC has had anti-money laundering regulations for VASPs since July 2021, the newly unveiled guidelines have sparked an industry response. Cryptocurrency platforms in the nation are anticipated to create an industry association, with the aim of creating self-supervisory protocols reflecting the FSC's guidelines.

A working group comprising nine prominent crypto exchanges in Taiwan is already in motion. The group, which includes major players like MaiCoin, BitoGroup, and ACE, is gearing up to formalise a crypto industry association. They intend to present their application for this association by mid-October. Spearheading this initiative is Winston Hsiao, co-founder of Taipei-based crypto exchange XREX, serving as the group's convener.



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