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EXECUTIVE SUMMARY

In the cryptocurrency market, there has been a noticeable shift towards spot trading. Long-term investors now hold a record 80.34 percent of the total Bitcoin supply, equivalent to around 15 million BTC. In contrast, short-term holders account for only 19.34 percent of the circulating supply, indicating a strong commitment to holding assets. Coins moving on-chain aren't showing significant profit or loss, suggesting a transitional market. Simultaneously, the futures market has seen a surge in open interest (OI) for assets like BTC and Ether, with an aggregate OI for BTC across centralised exchanges exceeding $8.7 billion. However, spot trading volumes on these exchanges are at multi-year lows, and the estimated leverage ratio has surged, indicating heightened market risk.

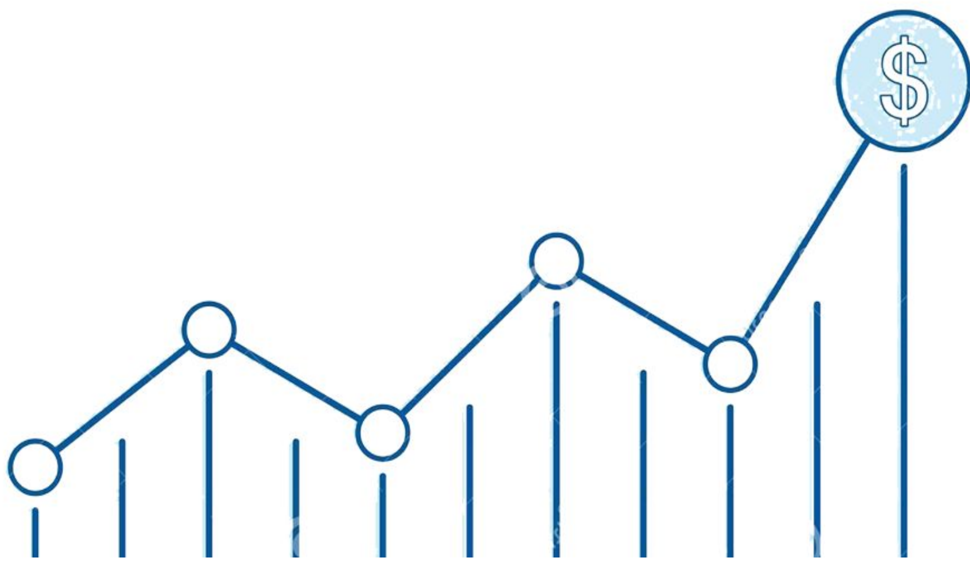
Global geopolitical tensions have reverberated in financial markets. Gold, traditionally a safe haven, saw a notable uptick in value, while Bitcoin's response was comparatively muted. The options market shows a discernible shift towards downside protection, reflecting a surge in hedging activities, particularly in the face of escalating geopolitical tensions. The put/call ratio has increased, and there's heightened open interest in long-dated calls set to expire in December.

Beyond the cryptocurrency sphere, global events have left their mark. A conflict between Hamas and Israel on October 9th resulted in a four percent spike in oil prices, highlighting the fragility of the energy supply chain. This price spike could have a ripple effect on energy costs, ultimately impacting the wallets of American consumers. Additionally, inflationary pressures have surfaced in the US, with unexpected increases in producer and consumer inflation rates in September, raising questions about the purchasing power of everyday Americans.

In terms of leadership changes and regulatory developments, Paolo Ardoino assumed the role of CEO at Tether, indicating a strategic move towards achieving greater growth and global expansion for the stablecoin issuer. Meanwhile, the SEC chose not to appeal a court ruling directing them to reconsider Grayscale Investments' application for a Bitcoin Exchange-Traded Fund (ETF), generating optimism within the cryptocurrency community. On the international stage, the G20 presented a united front by unanimously endorsing the "G20 Finance Ministers and Central Bank Governors Communique," signifying a collective commitment to a coordinated approach to cryptocurrency regulation. In Europe, the European Securities and Markets Authority (ESMA) expressed significant concerns about Decentralised Finance (DeFi), raising worries within the crypto community about the future of decentralised architecture and digital identities, particularly concerning privacy issues in the European region.

Economic sentiment also experienced a decline in October. Preliminary data from the University of Michigan Survey revealed a drop in consumer confidence to its lowest point since May. This drop in sentiment poses a challenge for the central bank as it prepares for its upcoming November meeting. The central bank must delicately balance the management of inflation while supporting economic growth, given the complex economic environment.

INDEX



WHAT’S ON-CHAIN THIS WEEK?

New Spot Regime For Bitcoin

Though our attention has predominantly been on Bitcoin derivatives in recent weeks because of volatility discussions, it's crucial to highlight that the current market trend for the asset leans heavily towards spot trading. Long-term holders persist in their accumulation strategy, with negligible realised profit and loss observed across various holder cohorts.

Our recent deep dive into the makeup of Bitcoin's circulating supply has thrown up some fascinating insights. The proportion of the total supply in the hands of long-term investors has touched a record peak, clocking in at a robust 80.34 percent on October 13th (refer Figure below). This equates to around 15 million BTC and indicates a burgeoning confidence amongst seasoned investors, underlining their steadfast commitment to holding onto their Bitcoin assets.

Figure 1. Bitcoin Long Term Holder Supply as a percentage of circulating supply. (source: CryptoQuant)

On the flip side, the segment of the supply owned by short-term holders has dwindled to its nadir, representing just 19.34 percent of the circulating supply.

Figure 2. Short Term Holder Supply as a percentage of circulating supply. (source: CryptoQuant)

This downtick mirrors a move away from short-term speculative tactics and a pivot towards a more long-haul investment mindset. For the above metrics, long-term holders are classified as investors with a typical Bitcoin holding period of more than six months and vice versa for short-term holders.

This shift and the gap in the supply densities across short-term and long-term holders is substantial because historically this behaviour occurs at the beginning of bull markets or in the transitory phase where the market ranges for a while in an illiquid environment after a pullback, in such cases, and currently, the spot market having a dominant impact on the market is pivotal in setting the direction for the following weeks and months for the market.

This is further exacerbated while looking at the on-chain profit and loss taking metrics. After a short spell of capital pouring into Bitcoin in the initial months of the year, the Realised Cap now seems to have found its equilibrium (refer Figure below), reflecting a phase of market ambivalence.

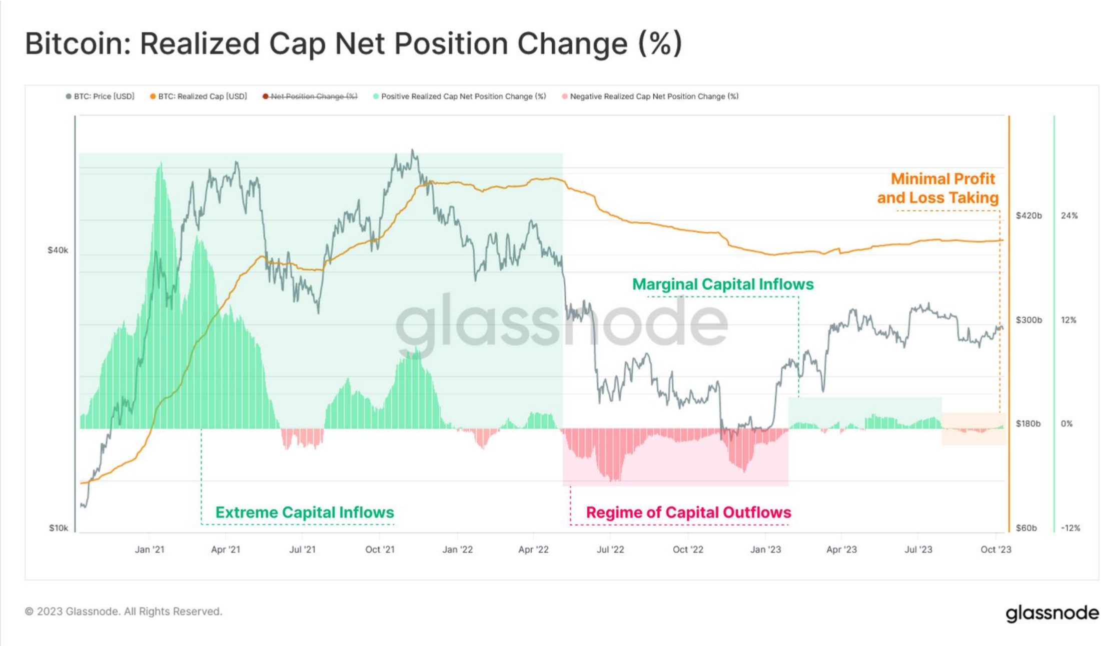


Figure 3. Realised Capitalisation And Net Position Change For Bitcoin. (source: Glassnode)

The sideways movement of the Realised Cap implies that the majority of coins moving on-chain aren't seeing any notable shift in their purchase price. In other words, there's minimal activity in terms of investors cashing in profits or cutting losses for any cohort. The net position change indicator also supports this thesis.

The amount of Profit and Loss observed for coins directed to Exchange Addresses are also undergoing a lul as the on-chain profit and loss metric. Both metrics have plummeted to their lowest points, reminiscent of levels last seen in 2020 (refer Figure below). This suggests a significant change in the behaviour of traders and investors in relation to their previous cycle activity.

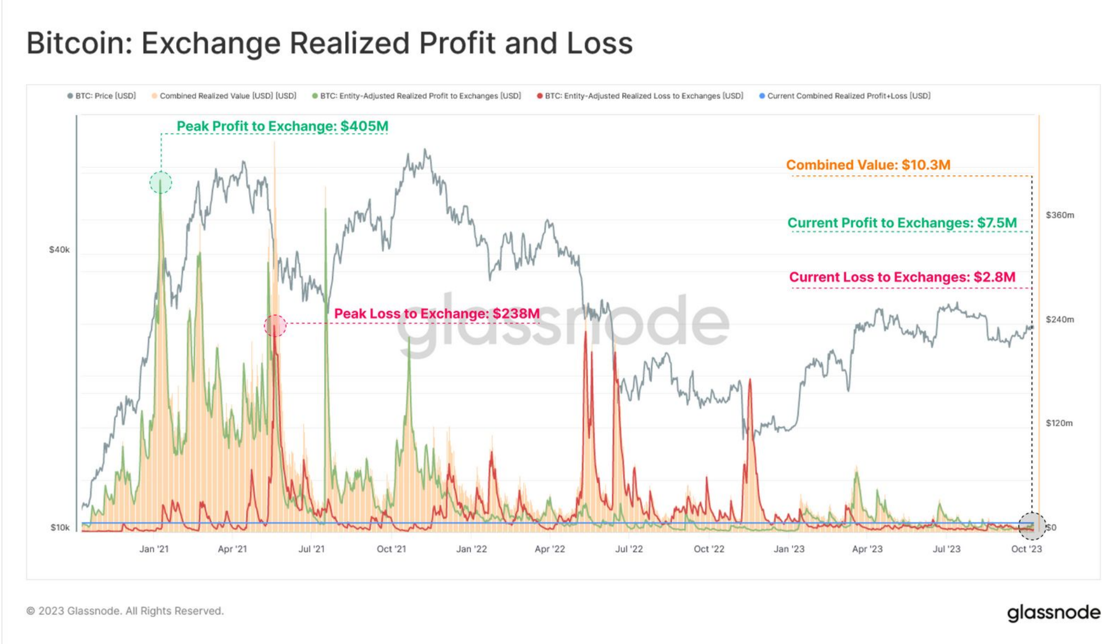


Figure 4. Exchange Realised Profit and Loss for Bitcoin. (source: glassnode)

The average profit and loss realised per Bitcoin has plunged to its lowest since 2019, underscoring the transitional phase the market currently inhabits. Historical data suggests that Bitcoin has often exhibited pronounced volatility when the profit or loss per transacted coin dips to such levels. Presently, as per *Glassnode* data, this figure stands at $724 profit and $236 loss. For comparison, in April 2021, the peak average profit per coin dispatched to exchanges neared $12,900, whereas in May 2022, the peak average loss was around $6,700.

Given these current levels, which are markedly lower than the last cycle's profit and loss figures, the majority of coin transactions are occurring around their original cost basis. This paints a picture of a market where the dominant players are either seasoned holders who are indifferent to price changes or traders scrambling for a slightly advantageous position.

Furthermore, as the succeeding section elaborates, the crypto market remains notably illiquid. Thus, we anticipate that any significant market movement in the near future will be spearheaded by spot transactions.

Futures Markets Heat Up Amid Illiquid Bitcoin Market

The past week has noticed an increase in futures market open interest (OI) in multiple assets including BTC and Ether. The current aggregated OI for BTC across all centralised exchanges is over $8.7 billion (refer Figure below), a further sustained increase to values over $9.3 billion has resulted in volatile market moves and mass liquidations of over $100 million for both shorts and longs.

Figure 5. BTC/USD Daily Chart with aggregate liquidations and open interest. (source: coinalyze)

Elevated OI levels often signal impending volatile price movements, predominantly in a downward direction. The FTX crash in November '22 serves as a case in point. Despite the already heightened levels of open interest, the crash led to a sharp decline in both BTC and open interest levels.

While some may argue this is par for the course, it's prudent to tread with caution. Sophisticated market participants, or 'whales' as they're commonly known, can exploit an overheated futures market to their advantage. They are known to manipulate prices in futures markets by influencing the underlying spot prices to trigger cascading liquidations, which in turn, can lead to sharp price declines.

For those keeping an eye on current market conditions, it's noteworthy that open interest has been on the uptick since September 2023, after a wipeout during the August 17th crash with more than $380 million in long liquidations and $130 in short liquidations. While it has yet to reach the critical thresholds seen before significant liquidations, the dynamics of the crypto markets mean it can touch those danger levels in a short span. Traders and investors would do well to remain vigilant, especially if open interest continues its upward trajectory, as it could herald heightened volatility.

Meanwhile, spot volumes on centralised exchanges are at multi-year lows. Concurrently, the estimated leverage ratio, a critical gauge of market risk, has surged to a striking 0.253. This marks its steepest ascent since the notable downturn on August 17th. Market insiders and investors will undoubtedly be keeping a vigilant eye on these shifts, as they could herald pivotal moves in the cryptocurrency arena.

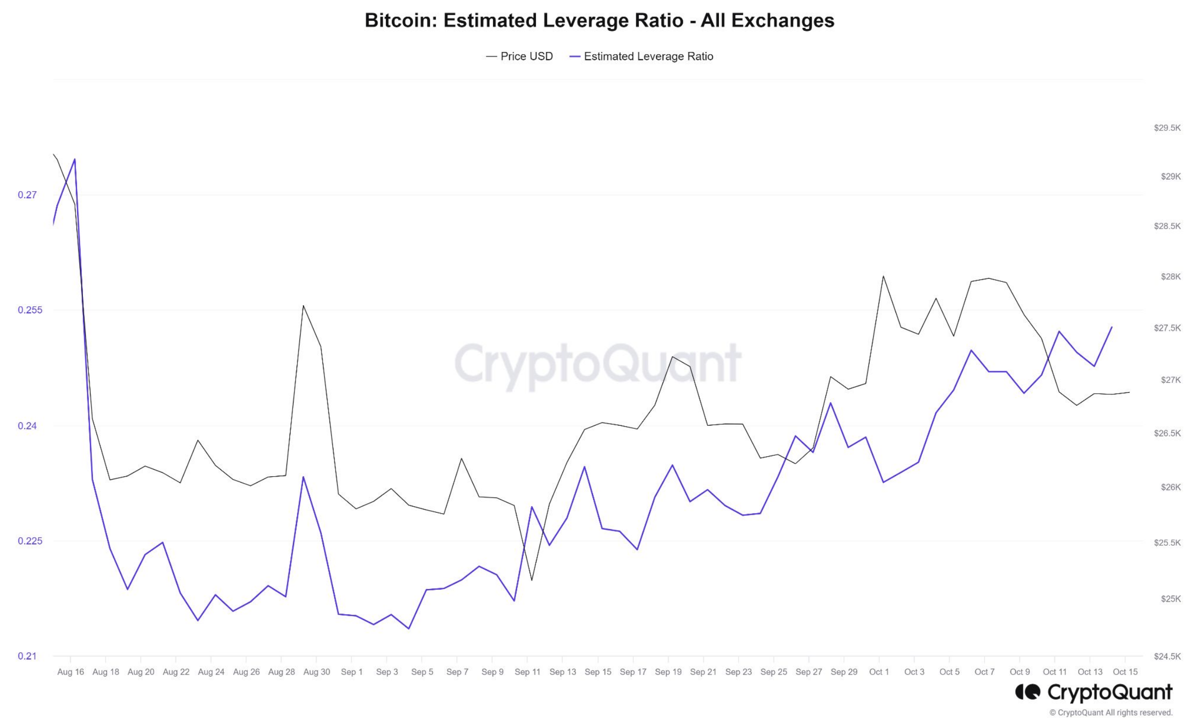


Figure 6. Bitcoin Estimated Leverage Ratio. (source: CryptoQuant)

This metric is derived by dividing the exchange's open interest by its coin reserves, and offers a snapshot of the average leverage employed by users on a platform. A rise in this metric suggests that traders are leaning more heavily on borrowed funds to place their bets, which could spell higher risk and greater market instability overall. In the past, it has served as a leading indicator to the more popular historical volatility metric which is discussed in the following sections.

Options Market Opting For Downward Protection Amidst Macro Uncertainty

As tensions flare between Hamas and Israel, the ripples are already being felt in the global financial markets. History is our guide here; typically, geopolitical upheavals spark short-term market turbulence, sometimes triggering swift sell-offs. And, if last week's price movements are any indicator, we might be witnessing the initial tremors of such reactions. With Monday being a bank holiday, the round-the-clock, unregulated crypto market was the frontline of market sentiments as BTC dumped more than two percent lower and continued to trend lower for the week.

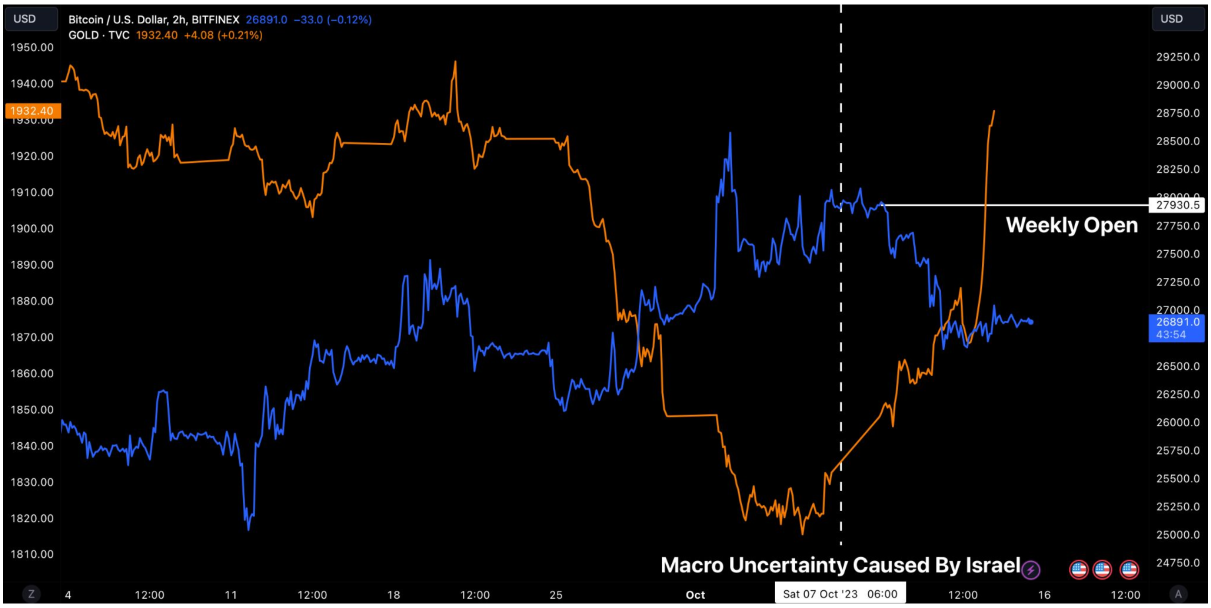


Figure 7. BTC/USD vs Gold 2-Hour Chart. (source: Bitfinex, TVC)

Furthermore, amid such geopolitical unrest, a traditional flight to safety can be observed, with investors flocking to secure assets. Gold, the time-tested safe harbour, witnessed an uptick as soon as the news broke. Concurrently, all eyes were on Bitcoin which failed to impress. As more developments continue to be revealed to the public and markets continue to price in new developments, will this be its watershed moment, confirming its moniker of "digital gold"? Or will it crumble under pressure, mirroring the volatility of other risk-laden assets? Only time will tell.

In a marked departure from our previous options update, which spotlighted a bullish momentum driven by ETF expectations, current trends paint a different picture. We're witnessing a discernible tilt towards downside protection in both BTC and Ether markets. While implied volatility (IV) has had a lesser than expected increase in BTC, the one-week IV has increased significantly for Ether. This indicates that market participants are currently treating Bitcoin as separate than Ethereum which is a positive as they are pricing in lower volatility for BTC in comparison to Ether and alts even after factoring in market capitalization.

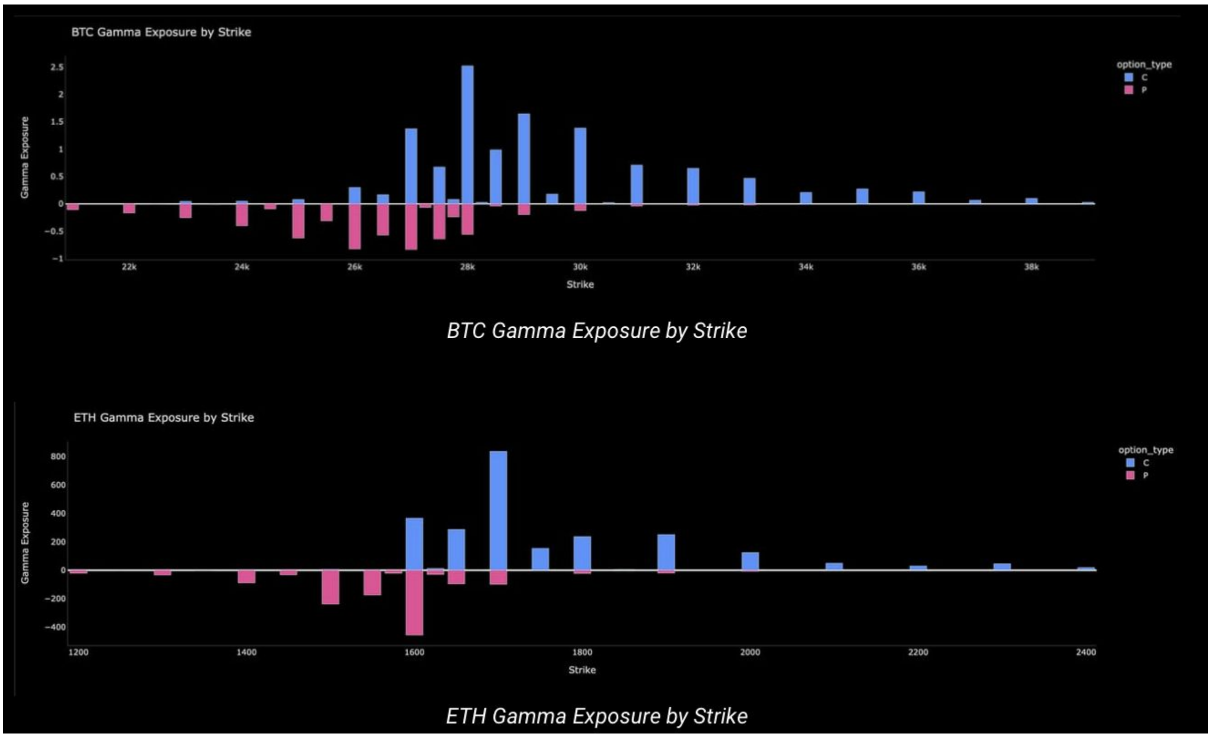


Figure 8. BTC and Ether gamma exposure by Strike Price. (source: Premia Finance)

While Delta provides a static snapshot, it's Gamma that gauges the dynamism. To put it simply, Gamma is the rate of change in an option's Delta for every $1 fluctuation in the underlying asset's price.

An elevated gamma, especially at strike prices near the market price, signals pronounced shifts in the options prices in response to the same alterations in the prices of the underlying asset. Such strike prices with high gamma values become crucial markers for traders, shedding light on potential hotspots of activity.

Keeping our finger on the pulse of the current market, particular areas of interest with their corresponding high gamma values are:
- BTC: Strike prices at $26,000 and $28,000
- ETH: Strike price at $1,600

For traders and investors, these price points could serve as vital indicators in strategising their next moves.

The surge in caution mentioned earlier has reflected in the lack of IV increase, it is perhaps indicative of increased hedging and underscores the ever-evolving nature of the crypto market. This has also manifested in decreasing options open interest for the October monthly expiry with the put/call ratio increasing to 0.44 overall from 0.38 just two weeks ago. While long dated calls for December end expiry have seen a high surge in open interest, it is very unusual for the monthly expiry date to correlate to only $1.8 billion in OI as it is doing currently.

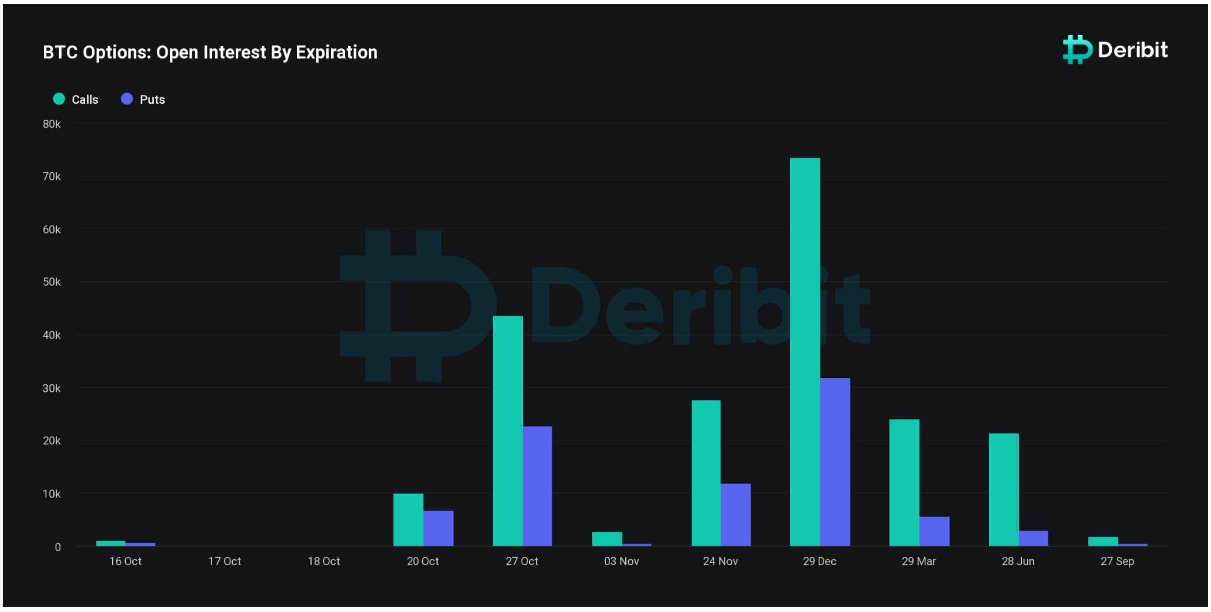


Figure 9. BTC Options Open Interest By Expiration Date. (source: Deribit Metrics)

Particularly, it's worth noting that this shift coincides with escalating geopolitical tensions, hinting at their potential influence on investor sentiment. It is also worth noting that we do not expect a regime shift for volatility as we are still in a transitory phase leading to high volatility in an illiquid environment, this is complemented by the aforementioned macroeconomic uncertainties and perhaps delayed slightly by excessive hedging and cautious positions in the options markets and spot markets continue to price in macro developments in real time.

GENERAL MARKET UPDATE

Oil Prices React to Israel-Hamas Conflict, Adds To Inflation Concerns

Following the conflict between Hamas and Israel, the global oil markets saw a price jump of four percent on October 9th (refer to Figure below). Such a sudden escalation raises concerns about the potential for supply disruptions, even if the countries involved are not major oil producers. The fear is that a localised conflict could spread, potentially impacting key oil-producing nations and chokepoints like the Strait of Hormuz.

Figure 10. Brent Crude Oil / USD Hourly Chart. (source: Oilprice.com)

The eruption of geopolitical tensions, especially in regions with strategic importance for global oil supplies, almost always leads to heightened volatility in oil markets. The Middle East, given its vast oil reserves and significant contribution to global oil exports, is a particularly sensitive area in this respect.

The conflict prompted concerns that the strife could spread throughout the vital petroleum-producing Gulf region, thereby jeopardising global oil production. Oil prices surged over four percent on Monday, October 9th, recouping some of the prior week's significant decline. Brent crude settled 4.2 percent higher at $88.15 a barrel. At the session highs, the benchmark spiked by more than five percent.

However, the latter part of the week saw oil prices fluctuate significantly. The worries were somewhat alleviated on Tuesday, October 10th, when Saudi Arabia announced its collaboration with both regional and international counterparts to curtail further escalation. Saudi Arabia also reiterated its commitment to maintaining oil market stability. Subsequently, Brent crude prices declined by 2.9 percent on Wednesday.

However, on Friday, October 13th, concerns surged again in the market as Israeli forces conducted their first raids into the Gaza Strip for the first time since Hamas launched attacks in southern Israel. Brent rose by 5.7 percent, at $90.80 per barrel. All oil benchmarks posted their highest daily percentage gains since April. This time we saw a more gradual rise in prices as markets priced in a more “complete” picture. This indicates a more cautious approach, suggesting that investors believe the conflict could potentially have wider implications than initially thought.

Neither Israel nor the Gaza Strip are oil-producing territories. If the ongoing hostilities are contained, this will only have a temporary impact on the broader global oil and energy market. Adding to the mix, Washington decided last Thursday to place sanctions on tankers transporting Russian oil exceeding the Group of Seven's $60 per barrel threshold. Last December 2022, the Group of Seven (G7) nations and Australia, agreed on a $60 per barrel price cap on Russian seaborne crude oil. With the intention to penalise Russia's advances towards Ukraine, this move throws the spotlight onto Moscow, the world's second-largest oil producer. This increased scrutiny on Russia's oil exports may squeeze supply further.

The US Strategic Petroleum Reserves (SPR) is currently at its most depleted since 1983, sparking further anxieties in an already under-supplied market. This scenario raises fresh doubts about the anticipated easing of inflation, potentially prolonging economic pressures. The SPR currently has around 17 days of supply remaining (refer Figure below), the lowest in history in comparison to the average of 33 days since 1990.

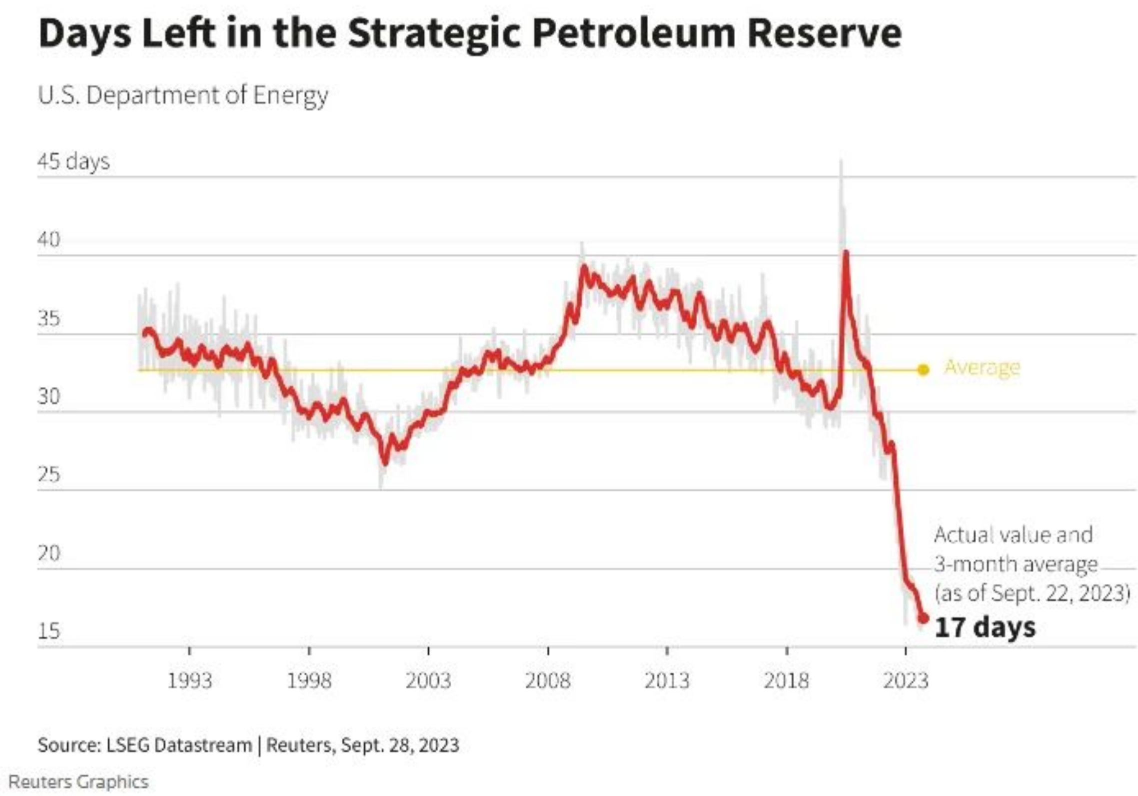


Figure 11. Days Left In The US SPR. (source: Reuters)

Before these developments, Brent crude had slid by 12 percent from its September highs, moving from around $95 per barrel to a more modest $84, largely owing to waning gasoline demand. Although there were murmurings in trading circles about oil possibly touching the $100 mark, should the Middle Eastern conflict draw in heavyweights like Iran or Saudi Arabia, it might well turn these murmurings into a clamour.

Nevertheless, while markets remain watchful, the immediate prospects of a severe oil crisis seem distant.

September Inflation Higher Than Expected

Amid escalating cost of goods and services, the US experienced a higher-than-expected rise in the Producer Price Index (PPI) in September. The Consumer Price Index (CPI) also came out slightly higher than the consensus forecast. To add to the inflation concerns, the August PPI numbers were revised to report significantly higher inflation than earlier. Last week's inflation reports are in the spotlight as they could hint at the Federal Reserve's (the Fed) stance on interest rates, especially considering the rising US Treasury Yields and ongoing Middle East conflicts.

Produce Price Index

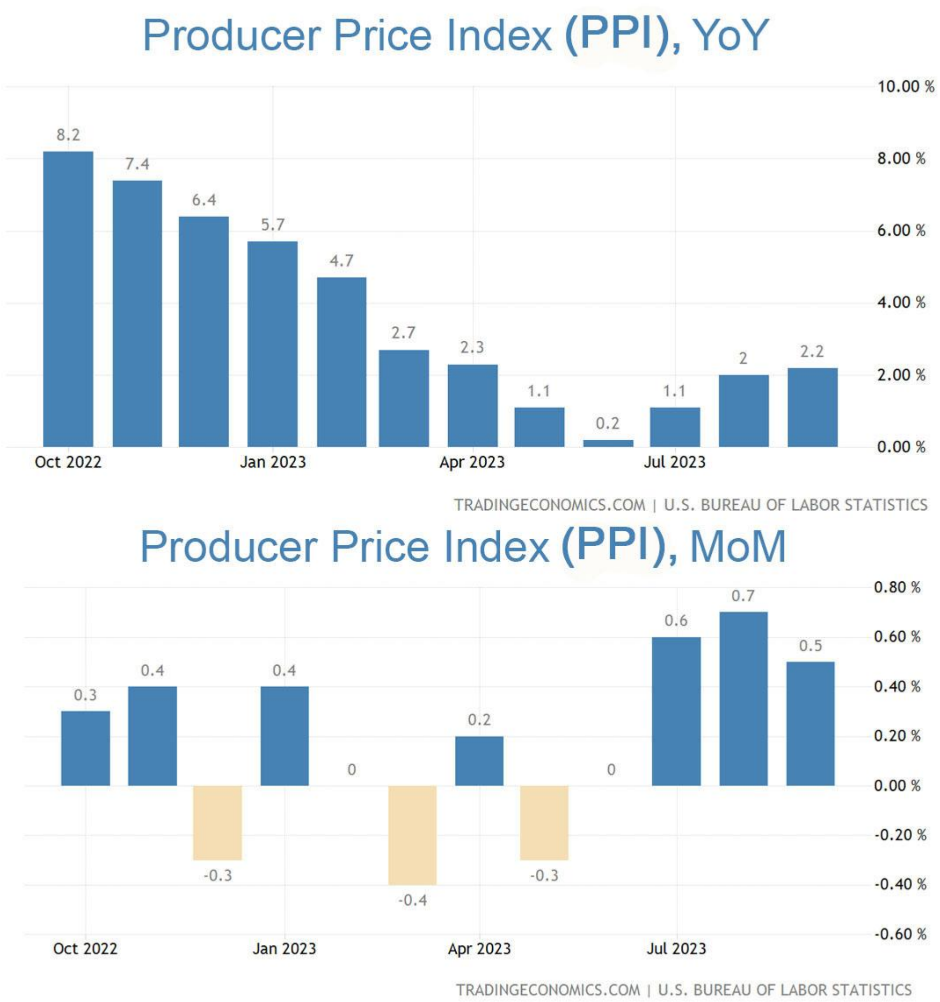


Figure 12. PPI MoM and YoY changes (Source: Bureau of Labor Statistics)

The PPI measures the average change in prices received by domestic producers for their output, and it often precedes and can influence the CPI, which tracks the average change in prices paid by consumers for goods and services. According to the US Bureau of Labor Statistics report last Wednesday, October 11th, PPI for final demand rose by 0.5 percent month-over-month (MoM), surpassing consensus forecast of 0.3 percent, In a year-over-year (YoY) basis, the PPI surged by 2.2 percent, a slight increase from Augusts' two percent growth.

The energy sector played a significant role in this rise. Energy products alone experienced a 3.3 percent uptick in September. Energy contributes to almost three-quarters of the growth in wholesale goods prices, which rose by 0.9 percent in total.

When stripping out the volatile food and energy components, the producer inflation report presents a different story. The core PPI went up by 0.3 percent MoM in September, mirroring the increase seen in August. The core PPI was 2.7 percent YoY in September, up from August's 2.2 percent growth. This is the third straight month where core PPI is higher than forecast and increasing in terms of absolute value as well. This complicates the Fed's battle against inflation considerably and since the stock and crypto markets are sensitive to inflation data, this adds significant downward pressure on them while they are currently recovering from a recent downturn.

August PPI Data revision:

August's PPI data underwent a notable upward revision on October 11th, according to the BLS.

The inflation rate for the month, originally posted at 1.6 percent, was adjusted to two percent. Meanwhile, core PPI inflation, which excludes typically fluctuating items such as food and energy, saw a rise from the previously reported 2.2 percent to 2.5 percent. This is the first upward revision for PPI since January.

This development greatly influences the Fed's position. Such inflationary figures are vital for the Fed's monetary policy roadmap. With producer prices on an upward trend, this could nudge the Fed towards a more hawkish stance, contemplating rate hikes to curb inflation.

Consumer Price Index:

On Thursday, the BLS reported that the CPI, a primary indicator of consumer inflation, rose by 0.4 percent MoM and 3.7 YoY. These were slightly above the consensus forecast of 0.3 and 3.6 percent respectively.

Excluding the volatile costs of food and energy, the core CPI saw a growth of 0.3 percent MoM and 4.1 percent YoY, in line with the consensus forecast.

The surge in inflation was primarily driven by housing expenses, consistent with the previously reported surge in home prices in a recent *Bitfinex Alpha* report. The Labor Department highlighted that over half of the monthly CPI increase stemmed from shelter costs. Energy commodities were also a significant driver in the headline inflation which rose 2.3 percent in September with a 2.1 percent rise in gasoline.

It's worth noting that the CPI data last September captured a partial reversal of energy and gasoline costs. For this reason, we did not make too much gain in the headline inflation. We expect headline inflation to soften as rents moderate.

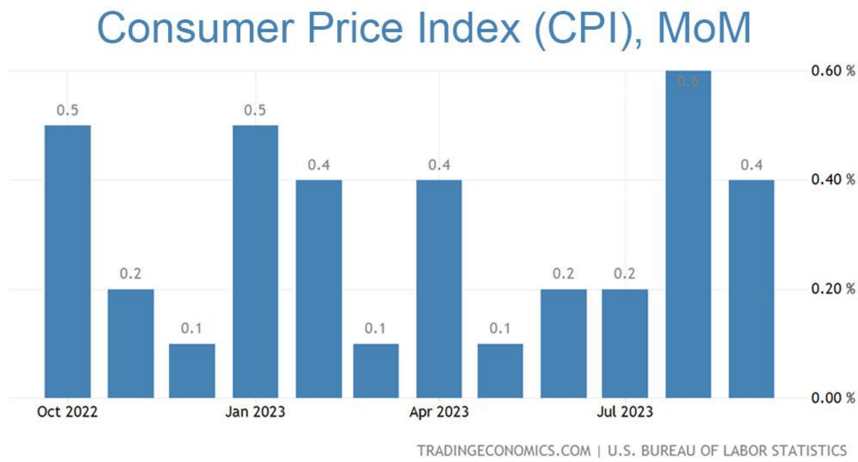


Figure 13. Consumer Price Index (Source: US Bureau of Labor Statistics)

The September CPI data reflected a partial pullback in energy and gasoline prices during the beginning of October. As a result, there was only a modest improvement in the headline inflation. Moving forward, we anticipate a dip in headline inflation as rental costs show signs of moderation. Moreover, the surveys from October and November are likely to capture the largely declining in oil and gasoline prices, further influencing the inflation trajectory. The key obstructions for CPI are components that are part of basic necessities but remain considerably high like rent (7.4 percent), transportation (9.1 percent), car insurance (18.9 percent) and food away from home (six percent).

The best index in CPI is food with food at home falling to 2.4 percent from its peak of 13.5 percent last year (refer chart below) and food away from home also declining significantly from 8.9 percent to 6 percent. This marks a significant decline in historically sticky CPI components.

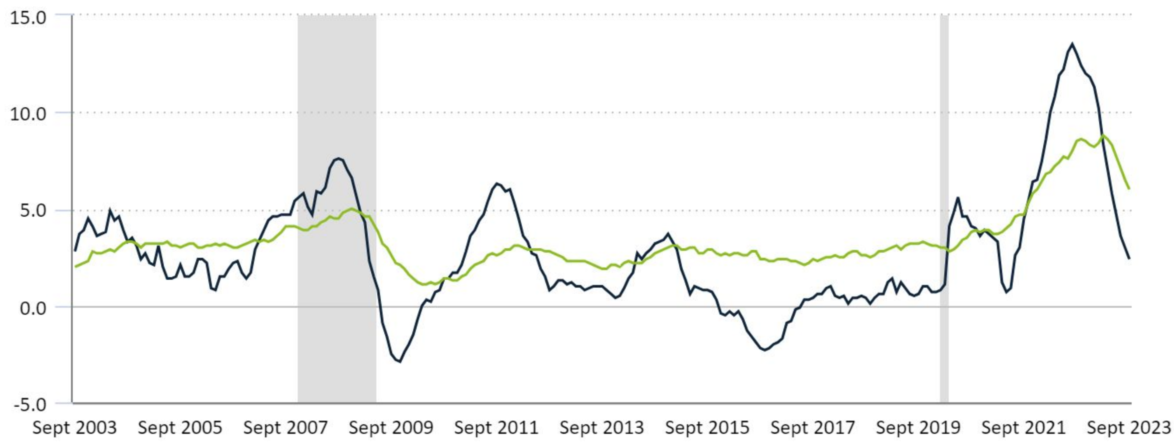


Figure 14. Food at home (black) and Food away from home (green) (index to be added)

Both the producer and inflation reports show the challenges in restoring price stabilities, especially with the developing risks to oil prices due to hostilities in the Middle East.

What Does This Mean for the US Economy Moving Forward?

The global economy, the US included, which is already expected to slow down this year is now confronted with another challenge due to the intensifying conflict between Israel and Hamas. Just as fuel costs started to decrease, the Middle East conflict risks driving the prices higher again.

We expect that the Fed will, for now, overlook the recent fluctuations in oil prices unless the Middle East conflict expands to directly affect Iran and its oil output. Nevertheless, the increase in inflation numbers suggests one thing: higher for longer.

We believe the Fed shouldn't, and likely won't, increase its interest rate further due to the delayed effects of previous rate hikes. However, following the September PPI inflation report and the August upward revision, the likelihood of another rate increase this year has jumped to around 29 percent. (refer Figure below)

Conversely, current expectations now hint at the commencement of interest rate CUTS by June 2024. Before the PPI data release, rate reductions were predicted to start as early as May 2024. By the end of September 2023, the futures market indicated rate cuts starting in September 2024. Rewinding four months back, the futures market was pointing to three rate cuts throughout 2023. The prevailing theme? Predictability remains elusive.

					MEETING PROBABILITIES			Current Target Rate		
MEETING DATE	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550	550-575	575-600
11/1/2023			0.0%	0.0%	0.0%	0.0%	0.0%	93.8%	6.2%	0.0%
12/13/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	69.6%	28.8%	1.6%
1/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	69.6%	28.8%	1.6%
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	16.7%	59.8%	22.3%	1.2%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	6.0%	32.1%	46.4%	14.7%	0.8%
6/12/2024	0.0%	0.0%	0.0%	0.0%	2.7%	17.6%	38.5%	32.3%	8.5%	0.4%
7/31/2024	0.0%	0.0%	0.0%	1.4%	10.4%	28.4%	35.3%	20.0%	4.3%	0.2%
9/18/2024	0.0%	0.0%	0.7%	6.2%	20.1%	32.1%	27.0%	11.5%	2.1%	0.1%
11/7/2024	0.0%	0.4%	3.4%	12.9%	25.9%	29.7%	19.6%	7.0%	1.1%	0.0%
12/18/2024	0.2%	2.2%	9.3%	20.9%	28.2%	23.4%	11.8%	3.4%	0.5%	0.0%

Figure 15. Interest rate hike/cut meeting probabilities, data retrieved: October 15, 2023 (Source: CME FedWatch Tool)

In fact, Fed Vice Chair Philip Jefferson indicated in his speech that further hikes might be off the table, given the soaring yields on long-term US government bonds. According to Jefferson, "We are in a sensitive period of risk management, where we have to balance the risk of not having tightened enough, against the risk of policy being too restrictive".

However, we predict that the Fed will likely maintain a holistic perspective. While the September inflation figures pose some concerns, the economic challenges anticipated for the final quarter will probably lead the Fed to maintain the current interest rates for the remainder of the year. While it is easy to get carried away by the flurry of hawkish data points released in October, it is imperative that we remain level headed and remember that the general trend of inflation has been down and that there are likely more lingering effects of one of the most intensive hiking cycles in US history. However, undeniably inflation won't go down in a straight line and the recent conflicting data suggests increasing volatility in the stock and crypto market is likely to continue from a macroeconomic perspective as well.

Consumer Sentiment Plummets in October

Figure 16. University of Michigan Index of Consumer Sentiment (Preliminary Data, University of Michigan)

Consumer confidence in October hit its lowest point since May, as indicated by preliminary data from the University of Michigan Survey released on Friday, October 13th. The decline in sentiment can be attributed to a confluence of factors, including elevated gasoline prices, and concerns about a government shutdown captured in the last week of September.

Of particular concern is the significant rise in inflation expectations, which could exert pressure on the Fed with its upcoming November meeting. According to the University of Michigan survey, the sentiment index dropped from 68.1 in September to 63 in October. Concurrently, the 12-month inflation expectation climbed from 3.2 percent to 3.8 percent, while the 5-to-10-year expectation increased from 2.8 percent to 3.0 percent.

The impact of rising fuel costs and a persistently high CPI inflation rate, which has remained at 3.7 percent for the past two months, has undeniably influenced consumers' outlook on inflation. This presents a challenging scenario for the Fed as it endeavours to engineer a soft economic landing.

Consumer sentiment was lower across many subindexes, including finances, income prospects, and job outlook. Interestingly, when asked about their spending plans, survey participants did not indicate any significant alterations in their intentions to make major purchases except for plans of buying a new car and home purchases. The influence of high-interest rates and soaring home prices is likely steering consumers away from these purchases, causing them to prioritise other spending categories. Nevertheless, this trend underscores consumers' resilience and determination to spend, even in the face of elevated prices and economic uncertainties.

NEWS FROM THE CRYPTO-SPHERE

Tether Appoints Paolo Ardoino as New CEO

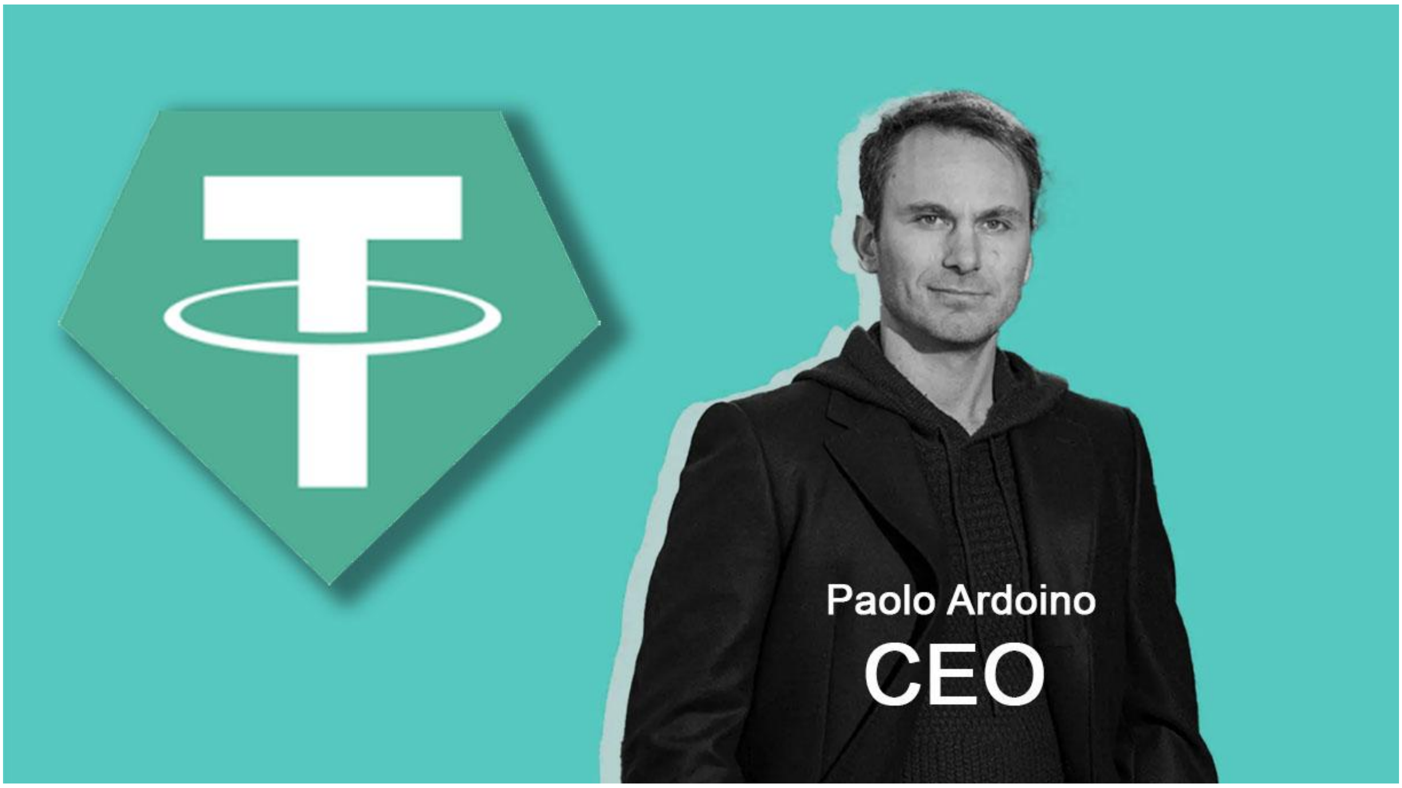


Figure 17. Paolo was serving as CTO at Tether prior to the change in role.

- **Paolo Ardoino has been appointed as the new CEO of Tether, the world's largest stablecoin, succeeding Jean-Louis van der Velde (JL)**
- **Ardoino's significant contributions to the cryptocurrency industry position Tether for continued growth, innovation, and global expansion, while JLV will continue to contribute as an advisor, ensuring the company's success in navigating regulatory relationships**

Tether, the company behind USDt, the world's largest stablecoin by market capitalization made an announcement last week that it had appointed Paolo Ardoino as its new Chief Executive Officer. This transition, scheduled for December 2023, follows the leadership of Jean-Louis van der Velde (JL) and marks a new era of innovation, stability, and global expansion for Tether.

Paolo Ardoino's journey in the cryptocurrency industry commenced in 2014 when he joined Bitfinex. In 2017, Ardoino took on the role of Chief Technology Officer at Tether, a leading stablecoin provider. Under his leadership, USDt experienced substantial growth in market presence and capitalisation, currently standing at an impressive $83.5 billion.

Ardoino's impact extends beyond his roles, as he actively contributes to the stability and growth of global cryptocurrency markets. Moreover, Ardoino is a passionate advocate for financial inclusion in emerging markets, co-sponsoring the Bitfinex Freedom Manifesto, which promotes the virtues of Bitcoin, Lightning, and peer-to-peer technologies in delivering financial freedom and freedom of speech.

Tether's mission also includes expanding the influence of the USD in global trade and exchange, ensuring its utility in emerging markets and new financial applications.

Jean-Louis van der Velde (JL), who played a pivotal role in propelling Tether to its current industry-leading position, will continue to contribute as an advisor. JL's expertise in managing global regulatory relationships will prove invaluable as Tether charts its course for further success and diversification into new verticals with a technology-focused approach.

“Paolo is extremely well-suited to lead Tether into this exciting new era,” said Jean-Louis van der Velde. “I believe Tether is poised to continue its rapid growth, with a continued focus on emerging markets and transformative technology. I think I can speak for the entire company when I say that we eagerly anticipate Paolo’s leadership as he guides Tether toward a future where finance knows no bounds."

"It's truly an honour to be entrusted with the role of CEO at Tether,” said Paolo Ardoino. "I'm excited to lead our team as we continue to innovate and provide stability in the cryptocurrency and global space. Together with our community, we can build a future that lifts the barriers to our freedoms. We remain committed to transparency, security, and to being an unstoppable force in the seamless integration of digital assets into the global financial ecosystem and beyond."

This strategic transition has been meticulously planned, aligning seamlessly with Tether's long-term strategy. It reaffirms Tether's position as a paramount leader in the crypto industry, backed by substantial resources and poised for expansion into new verticals. This transition also emphasises Tether's commitment to being a stalwart ally and champion for the future growth and innovation of the crypto industry.

SEC Opts Not to Appeal Court Ruling on Grayscale's ETF Bid

Figure 18. SEC Opts Not to Appeal Court Ruling on Grayscale's ETF Bid

- **The SEC's decision not to appeal a court ruling ordering a reconsideration of Grayscale Investments' application for a spot Bitcoin ETF has sparked optimism in the cryptocurrency industry**
- **While this decision suggests progress, it does not guarantee approval, as there are still steps to be taken, and the SEC could potentially raise new concerns**

The Securities and Exchange Commission (SEC) had decided not to appeal an August court ruling that ordered SEC to reconsider Grayscale Investments' application to transform its flagship Grayscale Bitcoin Trust (GBTC) into a spot Bitcoin Exchange-Traded Fund (ETF).

A spot Bitcoin ETF would offer investors the opportunity to invest in the largest cryptocurrency by market capitalisation without the need to possess it directly. The SEC has rejected all applications for spot Bitcoin ETFs, including Grayscale's, due to concerns that the applicants have not demonstrated their ability to safeguard investors against market manipulation.

This development has prompted optimism within the cryptocurrency industry that an ETF may be one step closer to fruition. However, several steps still need to be taken before such an ETF becomes a reality, and the SEC's decision not to appeal doesn't necessarily imply approval. The SEC could still re-review and deny on different grounds and essentially start the legal fight all over again.

Grayscale first brought the case against the SEC last year after its proposal to convert GBTC into a spot Bitcoin ETF was rejected. Grayscale argues in their lawsuit that the SEC has already approved a Bitcoin futures ETF, and a Bitcoin spot ETF is very much the same as a Bitcoin futures ETF.

Last month, Grayscale sent a letter to the SEC requesting a meeting with regulators to discuss the conversion of its Grayscale Bitcoin Trust into a spot Bitcoin ETF. The letter urged the Commission to approve NYSE Arca's Rule 19b-4 filing and collaborate with Grayscale and NYSE Arca to expedite the listing of the Trust's shares.

While the SEC has not yet approved a spot Bitcoin ETF, the initial ruling in Grayscale's favour was seen as a positive sign for the numerous spot fund applications from industry giants like BlackRock and Fidelity that have emerged over the past year. In a move late last month, the SEC extended the review period for all pending spot Bitcoin ETF applications, ensuring that the process will continue for at least another month.

G20 Adopts Crypto Regulatory Roadmap to Foster Global Cooperation

Figure 19. G20 Adopts Crypto Regulatory Roadmap to Foster Global Cooperation

- **The G20 has unanimously endorsed the "G20 Finance Ministers and Central Bank Governors Communique," signalling a commitment to a unified global approach to cryptocurrency regulation and promoting coordination among member nations and financial institutions.**
- **The G20's endorsement advocates for comprehensive cryptocurrency oversight, cross-border cooperation, information sharing, and data transparency, with a phased implementation plan reviewed by the end of 2025.**

In a significant move towards establishing a unified approach to cryptocurrency regulation, the Group of Twenty (G20) has unanimously endorsed the "G20 Finance Ministers and Central Bank Governors Communique." The communique, adopted last Friday, October 13th, during the G20 meeting in Marrakesh, Morocco, marks a crucial step in promoting coordinated efforts among member nations and global financial institutions.

The G20, composed of 19 sovereign countries, the European Union, and the African Union, embraced the crypto regulatory roadmap outlined in a collaborative report titled "IMF-FSB Synthesis Paper: Policies for Crypto-Assets." This report, jointly presented by the International Monetary Fund (IMF) and the Financial Stability Board (FSB) in September, has paved the way for a unified global approach to cryptocurrency oversight.

The key passage of the G20's statement reads, "We call for swift and coordinated implementation of the G20 Roadmap, including implementation of policy frameworks; outreach beyond G20 jurisdictions; global coordination, cooperation and information sharing; and addressing data gaps." This commitment signifies a shift towards comprehensive regulation and cooperation rather than an outright ban on cryptocurrencies.

The IMF-FSB paper advocates for a holistic approach to cryptocurrency oversight. It emphasises cross-border cooperation and information sharing among regulators and authorities, while also stressing the need for robust governance and risk management frameworks for cryptocurrency companies. Additionally, the paper seeks to ensure that relevant data from cryptocurrency companies is made available to regulatory bodies.

The report outlines a timeline for the implementation of these measures, with the first review scheduled to take place by the end of 2025. This phased approach allows governments and regulatory bodies to gradually implement the necessary frameworks and evaluate their effectiveness in addressing crypto-related challenges.

The G20's unanimous support for the crypto regulatory roadmap is a significant step towards creating a coordinated and effective framework for cryptocurrency regulation, one that fosters global cooperation and ensures the long-term stability of the digital asset space. It remains to be seen how swiftly member nations will implement the outlined policies and whether this collaborative effort will serve as a model for further international regulatory cooperation in the evolving world of cryptocurrencies.

ESMA Report Highlights Risks in Decentralised Finance (DeFi)

Figure 20. ESMA Report Highlights Risks in Decentralised Finance (DeFi)

- **The European Securities and Markets Authority has issued a report highlighting significant risks associated with Decentralised Finance , emphasising investor protection concerns, operational vulnerabilities, and the absence of trusted intermediaries**
- **The European Securities and Markets Authority introduced a model categorising smart contracts into five distinct categories**

The European Securities and Markets Authority (ESMA) has raised concerns about the risks posed by decentralised finance (DeFi) in a recently published report. While acknowledging that investors' exposure to DeFi remains relatively small, the report underscores the serious threats to investor protection and financial stability associated with the rapidly evolving DeFi landscape.

In the report, ESMA mentioned its apprehension regarding the speculative nature of many DeFi arrangements: “"Although investors' exposure to DeFi remains small overall, there are serious risks to investor protection, due to the highly speculative nature of many DeFi arrangements, important operational and security vulnerabilities, and the lack of a clearly identified responsible party".

ESMA cautioned that DeFi operates without trusted intermediaries, a characteristic that could otherwise help mitigate risks related to financial stability and investor protection. The absence of these intermediaries has led to an environment where the principle of "code is law" prevails. According to the report, this principle often results in the acceptance of smart contract outcomes without consideration of moral or legal implications.

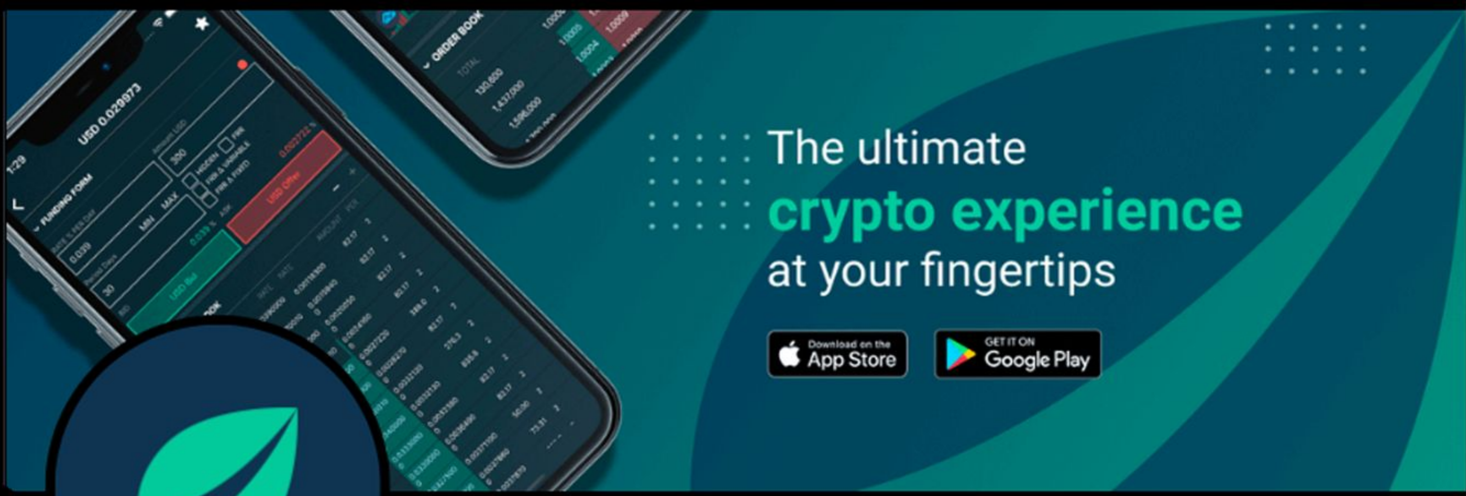
The report acknowledged that the automated and immutable functions of DeFi present fewer risks of counterparties defaulting compared to traditional settlement systems. However, ESMA emphasised the issue of developer pseudonymity, which has facilitated the proliferation of illicit smart contracts, including Ponzi schemes.

Regarding the composability feature of smart contracts, ESMA pointed out that while it enables a wide range of services for users, it also creates dependencies among protocols, increasing the risk of contagion. The default of one actor in the DeFi ecosystem can rapidly propagate throughout the system, potentially causing widespread disruptions.

To help regulators better understand the complexities of DeFi, ESMA introduced a model categorising smart contracts into five distinct categories: Financial, Operational, Tokens, Wallet, and Infrastructure. This categorisation is aimed at providing supervisors with a clearer framework for evaluating the purpose and function of various smart contracts within the DeFi ecosystem.

This news has received extremely negative reception in the DeFi community. In any crypto community or development based community that celebrates innovation and the free exchange of ideas, any assault on open source software is seen as an attack on the principles of collaboration, knowledge-sharing, and progress.

Much of the discussion post the report's release has been the pressing need for decentralised software in Europe. By its very design, decentralisation seeks to eliminate single points of control, thereby ensuring resilience against censorship or any singular authority. The nature in which this report affects DeFi organisations and projects developing in Europe is yet to be seen.



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