BITFINEX Alpha

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EXECUTIVE SUMMARY

This week in *Bitfinex Alpha*, we analyse a number of different metrics that demonstrate to us that we continue to see huge conviction among Bitcoin holders to maintain their positions, even as the price continues to reach new highs for the year.

An unprecedented 13.65 million Bitcoin, approximately 70 percent of the total circulating supply, has not been transacted or moved for over a year, a new all-time high. In addition, the number of BTC that has remained unmoved for over two years, is now standing at nearly 11.2 million, or almost 60 percent. This remarkable supply inactivity represents both a significant underpinning of the price, as well as source of upward pressure as increasing demand chases limited supply.

The current Bitcoin velocity, a measure of how frequently Bitcoin is traded or used for transactions, also stands at a historically low level of 15.78. This indicates a significant change in sentiment compared to the last bear market cycle, where Bitcoin velocity peaked at around 80. It is not surprising therefore that BTC reached a new year-to-date high of $38,410 on November 24th, as holders become reluctant to sell and buyers seek out supply. We calculate that 83.7 percent of current holders are in profit, but selling pressure is so far muted. One reason for this is that the actual size of these unrealized gains remains modest.

As long-term holders (LTH) see their stash grow to new record highs, we see short-term holder (STH) supply declining to a new all-time low. This contrast between LTH and STH supplies reflect a market with an ever strengthening long-term holder base and a reduction in speculative trading.

The clear narrative that we see in the crypto markets, contrasts sharply with the sometimes quite contradictory signals emerging from the US economy. For example, a notable decline in reported business equipment expenditure has been interpreted as a direct outcome of the current high levels of interest rates. But even as this represents a clear indicator of cautiousness, the labour markets remain tight with a highly surprising 10.3 percent drop in new jobless claims reported last week, reaching numbers that are even lower than pre-pandemic levels.

Similarly, the housing market saw a dramatic decline in existing home sales, reaching their lowest point since 2010 - another casualty of the highest mortgage rates in two decades, coupled with a limited housing supply. And consumers remain careful about future prospects: the University of Michigan's consumer sentiment survey reported that the inflation expectations are increasing.

Not surprisingly, the dollar has been quite volatile, dropping last week to its weakest level since late August, before rebounding again in an intraday gain not seen in several weeks.

The news of the week was of course dominated by the fines agreed for Binance and for its CEO Changpeng Zhao, as he and the exchange concede accusations of money laundering, sanctions violations, and financing terrorist activities. While not entirely positive for the market, it is notable that the Bitcoin price barely moved on the news.

In the meantime, in jurisdictions such as Hong Kong, licenses are being awarded so that more crypto companies can come under the purview of regulatory supervision. The latest beneficiary was Victory Securities, whose approval by the Securities and Futures Commission, makes it the first company to win a licence to provide both trading and advisory services.

In the United Kingdom too, the embrace of digital asset technology is also continuing. The Investment Association announced it is pioneering the integration of blockchain technology in asset management through tokenisation, to try to bring in enhanced efficiency and transparency into the industry.

And in South Korea, it announced the role-out of a CBDC pilot, including experimenting with a simulated carbon emissions trading system, showcasing its forward-thinking approach to financial technology.

Happy Trading!

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WHAT'S ON-CHAIN THIS WEEK?

Inactive Bitcoin Supply Continues to Mark New Highs

An unprecedented portion of Bitcoin's circulating supply has now been dormant for at least a year. The percentage of Bitcoin supply last active on-chain over a year ago has reached a record 70.35 percent, surpassing the previous high of 69.35 percent observed in July. (refer Figure below)

Figure 1. Bitcoin Inactive Supply for various holding time-based investor cohorts. (source: CryptoQuant)

This new peak in the inactive portion of Bitcoin's supply suggests a significant level of conviction among Bitcoin holders, despite the profit-taking seen by other cohorts of investors, as we have covered in previous editions of *Bitfinex Alpha*.

Some 13.65 million BTC, approximately 70 percent of the total circulating supply, has not been transacted or moved for over a year. This is the highest level of inactivity observed for this duration. Concurrently, the number of Bitcoins that have remained unmoved for over two years has also seen a notable increase during the current bear market, now standing at nearly 11.2 million, out of the total 19.55 million Bitcoin currently in circulation

As the market anticipates entering a bull phase, Bitcoin velocity– a measure of how frequently it is traded or used for transactions – is expected to continue its downward trend. This trend is likely to persist until Bitcoin's price starts nearing its previous all-time high.

Figure 2. Bitcoin Velocity (source: CryptoQuant)

The most recent value for Bitcoin velocity is 15.78, contrasting this with the last cycle, the bear market saw a peak of around 80 in Bitcoin velocity, implying that BTC was being moved more than five times faster than the current rate. This is a great measure of how sentiment has rapidly changed since July - November 2022 (the point at which Bitcoin velocity hit 80) to the same period in the current year. Additionally, the lowest recorded value for the metric before the 2021 bull market peak (bull market peaks are correlated with lesser amounts of BTC being moved due to euphoria) was around 27, so we are essentially at historically the lowest amount of supply activity from investors in the asset's history.

It is anticipated that as Bitcoin's price climbs, the velocity will begin to rise, and the amount of dormant Bitcoin will decrease. This shift will occur as long-term holders start to sell their holdings, converting their 'paper gains' into realised profits.

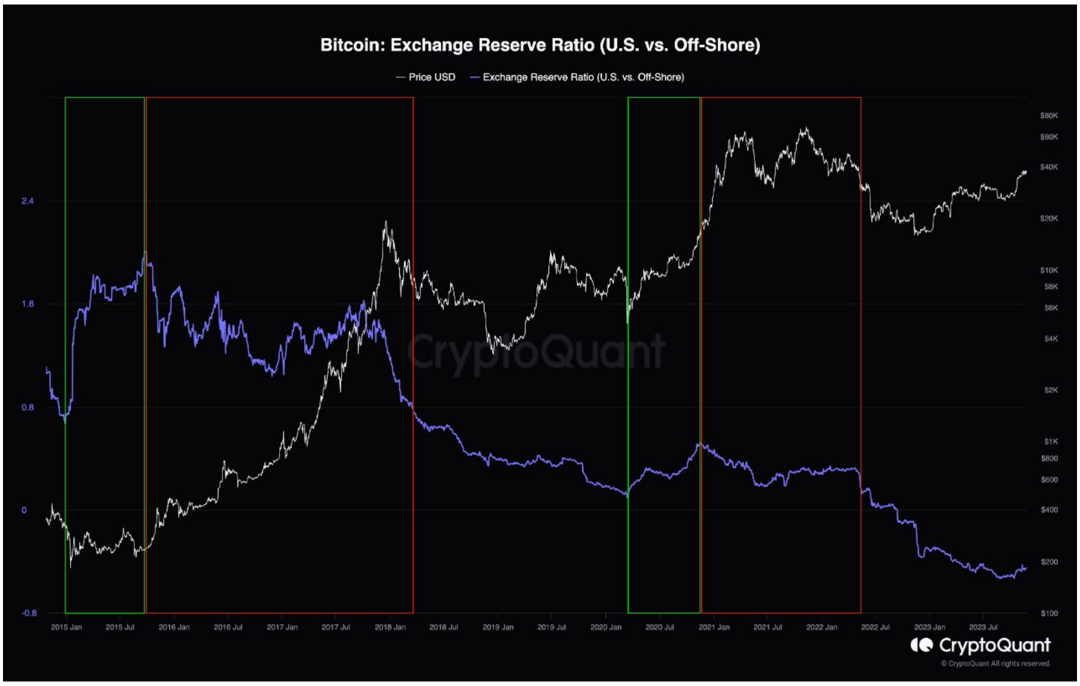


Figure 3. Bitcoin Exchange Reserve Ratio for US vs off-shore exchanges. (source: CryptoQuant)

During a so-called ‘preparatory phase’ (highlighted by the green box in the figure above) preceding a Bitcoin bull run, there's a consistent pattern where the percentage of BTC held on US exchanges increases significantly. This accumulation phase is seen as a key indicator of market sentiment, shifting towards optimism, as it is a representation of more interest from new market entrants in Bitcoin and crypto in general. We have seen that in previous cycles there is a direct correlation between balance on US exchanges preceding a price increase, as a higher number of investors tend to buy and accumulate BTC, keeping their balances on exchange, before it begins to decrease as the bull markets pick up momentum.

This gradual reduction in balances, as the bull run commences, is indicated by the red box above, as the percentage of BTC on US exchanges declines. This reduction often correlates with a sharp rise in Bitcoin's price, as a decrease in available supply on exchanges can lead to increased demand and price appreciation.

In the context of the recent regulatory actions concerning Binance, which we cover in detail in the news section below, a potential increase in the percentage of Bitcoin held on US exchanges could signal the onset of the next bull market. Such a shift would imply that more investors are increasing their BTC balances in the anticipation of even more price appreciation despite the already positive price appreciation we have witnessed since the beginning of the year.

However, it is important to note that the regulatory onslaught that US based exchanges have faced since 2022 could be a factor that dampens this effect and hence the change in the ratio discussed above could be less pronounced than examples taken from the previous rallies for BTC.

Bitcoin Reaches New High for the Year, and Long-Term Holders Haven't Realised Profits Yet

BTC reached a new high for the year of $38,410 on November 24th (refer Figure below). A significant portion of Bitcoin supply, precisely 83.7 percent, is currently held at a profit. This is the most substantial percentage since November 2021, when Bitcoin was close to its all-time high (ATH). Despite this high proportion of Bitcoin being held in profit, the actual size of these unrealized gains remains relatively modest.

Figure 4. BTC/USD Hourly Chart. (source: Bitfinex)

The 'unrealized profit' refers to the difference between the current market price (spot price) and the original purchase price (cost basis) of the Bitcoin holdings. Although a large number of holders are in a profitable position, the extent of their potential gains, as indicated by the difference between the current value and their acquisition cost, is not particularly large.

The recent surge to new yearly highs in the Bitcoin market has led to a significant portion of the circulating supply being held in profit. According to data from Glassnode, over 16.366 million BTC (refer Figure below), representing 83.7 percent of the total circulating supply, are currently in profit. This places the volume of BTC held in profit at levels comparable to the highs experienced during the 2021 bull market.

Figure 5. Bitcoin Supply In Profit. (source: Glassnode)

From a statistical perspective, this is a noteworthy development. The current percentage of BTC held in profit is substantially higher than the all-time average of 74 percent. It is also approaching the upper limit of the +1 standard deviation band, which stands around 90 percent. This indicates that the market is in a relatively strong position, with a large majority of Bitcoin holders seeing positive returns on their investments.

In the past week, the activity of long-term holders (LTHs) has been notably lower than the average, despite the price surge. This subdued movement indicates a strong inclination among these investors to hold onto their coins. This is seen from the Binary Coin Days Destroyed (CDD) having an average value of 0.28, any value below 0.5 is a sign of limited long-term holder activity.

The Binary Coin Days Destroyed (BCDD) is a binary metric used to understand the behaviour of long-term Bitcoin holders, particularly whether their movements are above or below the average. It is closely related to the concept of Supply-Adjusted Coin Days Destroyed (Supply-Adjusted CDD).

In this metric:
- If the Supply-Adjusted CDD is greater than its average, the Binary Coin Days Destroyed is assigned a value of '1'.
- Conversely, if the Supply-Adjusted CDD is less than the average, the Binary Coin Days Destroyed is assigned a value of '0'.

The BCDD, therefore, acts as an indicator of the activity level of long-term holders. A high frequency of values pointing to '0' as is the current situation suggests that long-term holders are moving their coins less than usual, which can be interpreted as a potential sign of reluctance to sell.

LTHs typically hold onto their investments through various market cycles. Their current reduced activity suggests a deliberate strategy or a motive to retain their holdings, possibly due to a belief in Bitcoin's long-term value or in anticipation of future price appreciation.

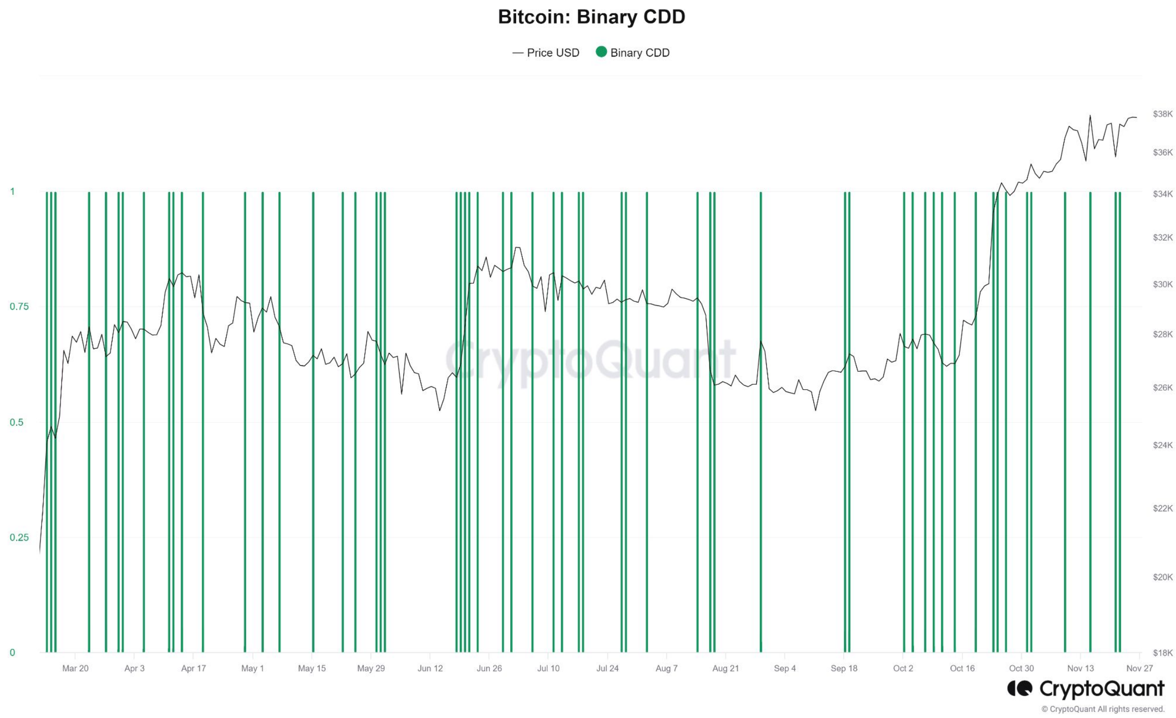


Figure 6. Bitcoin Long-Term Holder Binary Coin Days Destroyed. (source: CryptoQuant)

In previous editions of *Bitfinex Alpha*, we've highlighted how the supply held by LTHs has consistently been reaching new record highs since November 2022. The current value is around 14.9 million BTC in the hands of LTHs. The supply held by Short-Term Holders (STH) has seen a notable decline, dropping to around 2.3 million BTC. This level is effectively a new all-time low for the short-term holder supply. The decrease in the STH supply suggests that fewer BTC are being held by investors who typically move or trade their holdings within a shorter time frame.

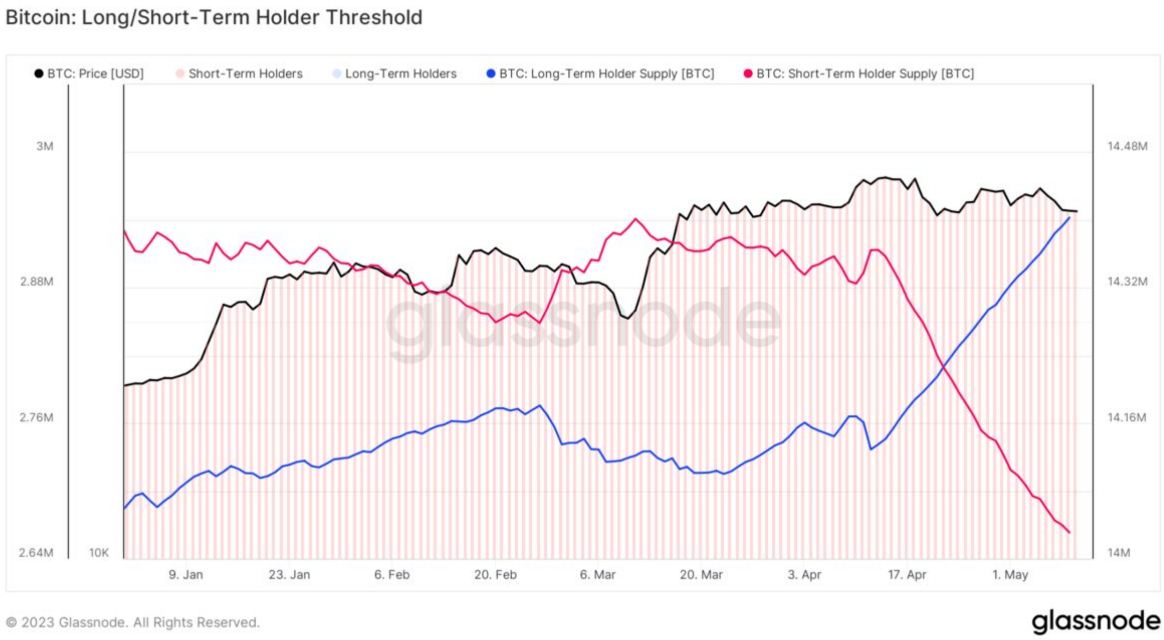


Figure 7. Bitcoin Long/Short Supply vs Price. (source: glassnode)

The contrasting trends between LTH and STH supplies are indicative of the current market sentiment and investor behaviours in the Bitcoin ecosystem. The growing LTH supply points to a strengthening holder base, while the diminishing STH supply might imply a reduction in speculative trading or short-term profit-taking activities. These dynamics are important for understanding the underlying strength and stability of the Bitcoin market.

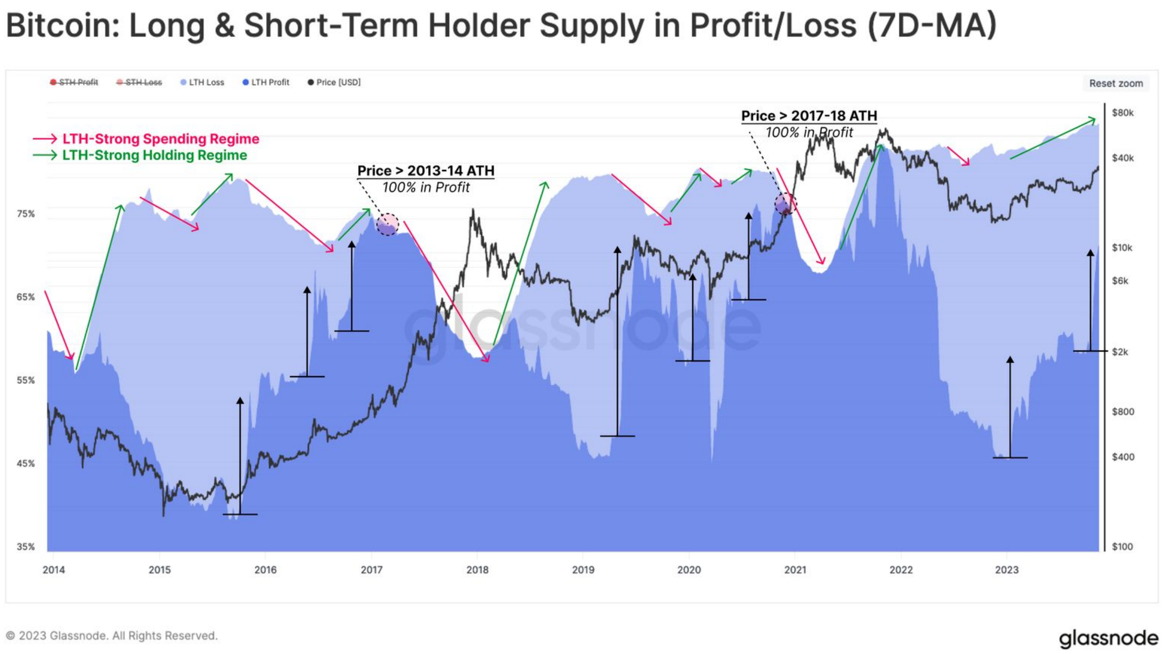


Figure 8. Bitcoin LTH vs STH Supply In Profit. (source: glassnode)

When we focus on the supply of Bitcoin held in Profit/Loss by LTHs. This supply is observed to be cyclical, and various periods have been identified on the chart above as either strong spending phases (marked in red) or strong holding phases (marked in green).

Typically, before Bitcoin reclaims an All-Time High (ATH), there's a prolonged period of re-accumulation among LTHs. During this phase, the aggregate supply held by this cohort tends to show a flat or modest upward trend. However, as the market surpasses the previous cycle's ATH, there's a notable shift. The incentive for LTH to increase their spending, or take profit, grows significantly, leading to a marked decrease in LTH supply. This decrease results from the transfer of coins to newer buyers at progressively higher prices.

Throughout the 2022 bear market, this first phase of re-accumulation among LTHs has been consistent with past cycles, with a notable increase in LTH supply. This trend demonstrates the resilience of BTC holders, even in the face of growing unrealized losses experienced by this group in the last year. However, there's a distinct difference compared to the 2015-16 and 2018-20 cycles. In the current cycle, there have been fewer dips and oscillations in LTH supply due to spending, indicating a trend of continuously increasing supply. This suggests a degree of supply tightness in the Bitcoin market regardless of LTH profitability on a pretty decent scale. Regardless, our conclusion is that we are still in the early stages of a bull market and despite consistently making new year-to-date highs and signs of some slowing momentum while STHs book profits, BTC continues to show strength while still in a range for the time being.

GENERAL MARKET UPDATE

Business Investment Cools as Interest Rates Bite, Labour Market Shows Resilience

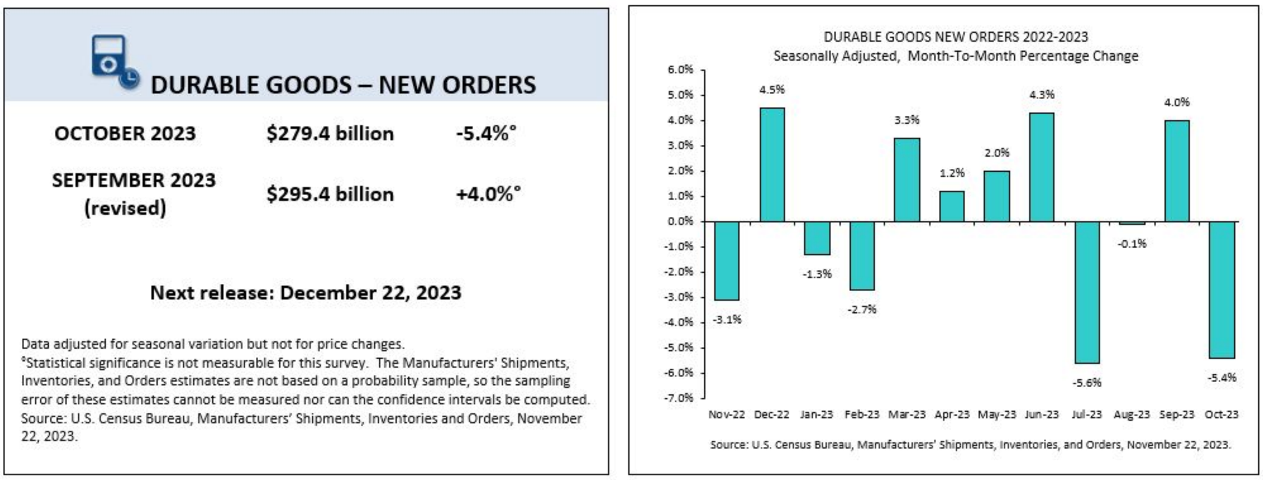


Figure 9. Durable Business Goods Orders (Source: US Census Bureau)

The Federal Reserve's higher-for-longer interest rate regime has led to a significant drop in business equipment expenditure.

This decrease, down 5.4 percent month-over-month, which exceeded expectations, was due to a significant reduction in civilian aircraft orders. Revised figures for September showed a four percent increase in durable goods orders, also a downward adjustment from the initially reported 4.6 percent.

Year-over-year (YoY), durable goods orders are up four percent, however, core capital goods orders, a critical barometer for future business investment, are down by 0.1 percent for the second consecutive month.

Despite the data, market expectations of a rate cut next year remain high, suggesting a more favourable financial climate in 2024. This in turn could lead to a resurgence in business investment, providing a boost to the economic landscape.

New jobless claims also unexpectedly dropped by 10.3 percent to 209,000 last week, the decline was significant as it surpassed pre-pandemic levels. This reduction has helped mitigate concerns regarding an increase in layoffs, a trend observed in the preceding weeks.

The robust labour market counters any apprehension of a looming recession. Weekly claims remain well below the 250,000 threshold typically associated with recessions.

Though the monetary policymakers at the US Federal Reserve continue to weigh diverse sets of data, including the aforementioned labour and investment indicators, we expect the current monetary policy stance to be maintained well into the next year.

US Existing Home Sales Plummet to 13-Year Low Amid Soaring Mortgage Rates

October witnessed a significant downturn in the US housing market, with existing home sales falling to their lowest level since 2010. The National Association of Realtors reported a drop to just 3.79 million in sales, lower than the consensus forecast of 3.9 million units. This decline is largely attributed to the highest mortgage rates seen in two decades, coupled with a limited supply of houses, deterring potential buyers.

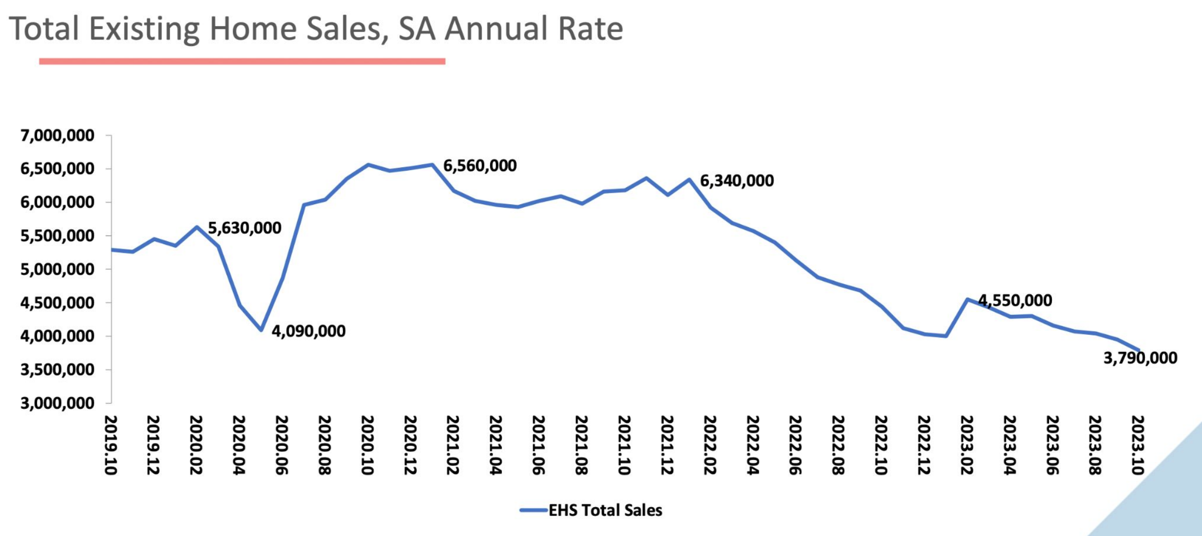


Figure 10. Total Existing Home Sales (Source: National Association of Realtors, NAR)

Existing homeowners, enjoying previously set fixed low mortgage rates, are choosing to stay in their current homes, put off from moving by the higher rates, and therefore exacerbating the decreased supply of existing homes. Concurrently, the lure of new houses offering more attractive deals is also diverting demand away from existing homes. Despite a fall in median prices for the fourth month in a row (refer to Figure below) to $391,800, prices remain 4.4 percent higher than last year, reflecting ongoing inflation and dwindling supply.

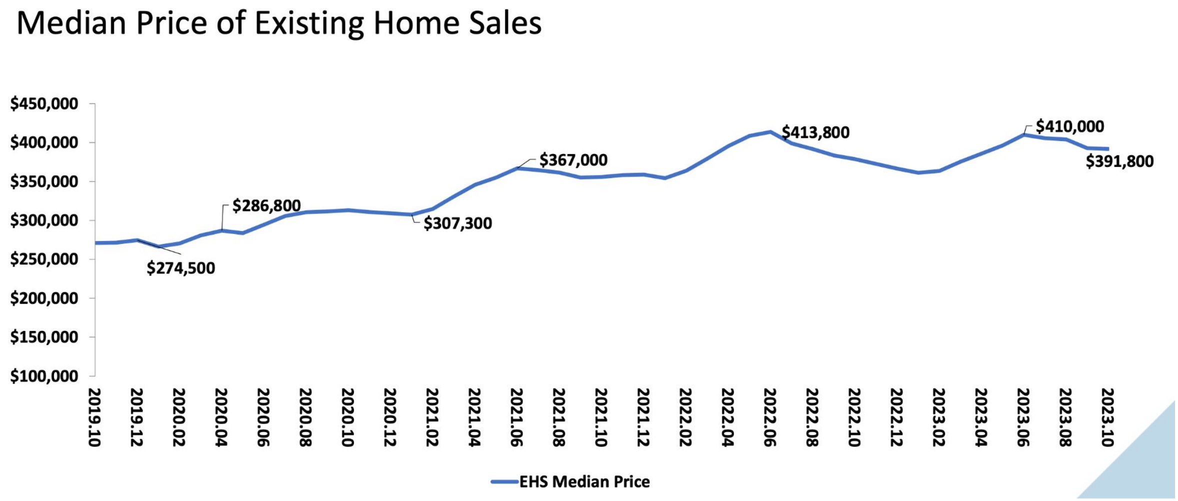


Figure 11. Median Price Of Existing Home Sales. (source: NAR)

Interestingly, the market saw an increase in all-cash purchases, accounting for 29 percent of all transactions, a rise of 3 percentage points from the previous year. First-time buyers comprised 28 percent of the market, while investor participation dwindled to 15 percent.

The current inventory levels suggest approximately 3.6 months of supply, the highest since June 2020, yet still below the pre-pandemic norm of around six months. Minutes from the Fed's recent meeting indicate a stagnation in housing sector activity, likely due to further hikes in mortgage rates.

It remains uncertain if the bottom has been reached in existing home sales, but a potential turnaround is expected next year. Predictions hinge on the Fed potentially cutting rates in the summer. Remote working may permanently shift demand from existing to new homes, with new constructions typically located in more affordable areas than existing homes.

US Dollar Rebounds After Hitting Ten-Week Low, Consumer Sentiment Shows Mixed Signals

Last week, the US Dollar saw a significant reversal, hitting its weakest level since the end of August, before rebounding. On Tuesday, the dollar index, a benchmark that compares the US Dollar against a group of major currencies, fell to its lowest levels since August 31st, largely driven by the minutes from the latest Fed meeting.

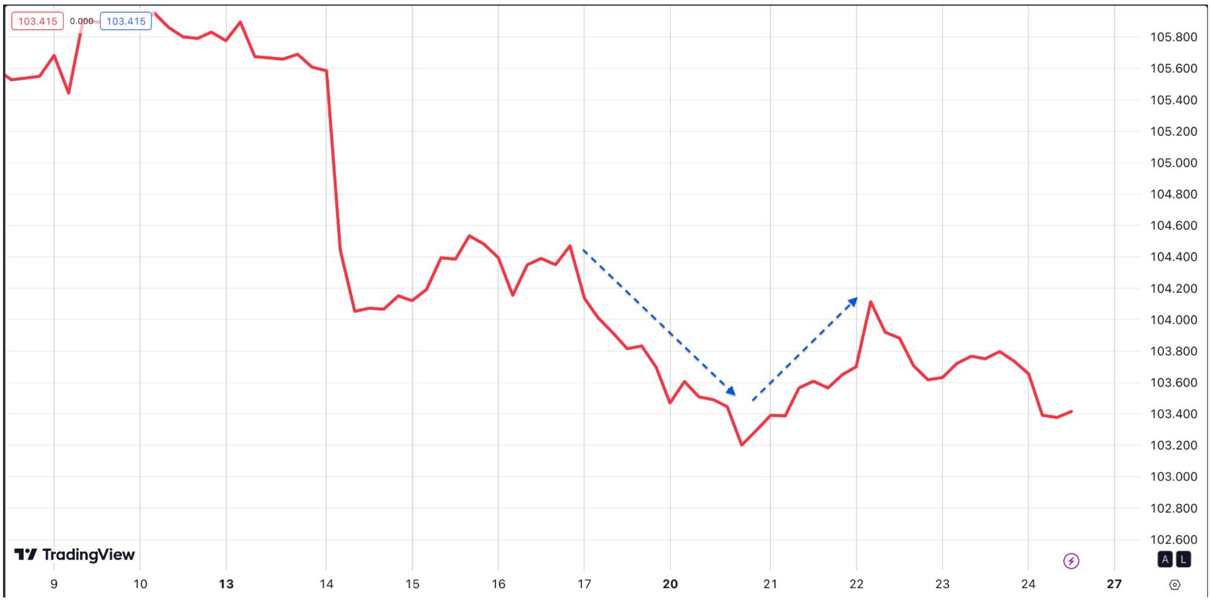


Figure 12. DXY, US Dollar Currency Index Performance in the week ending November 25th 2023 (Source: Tradingview)

With indications that the Fed is maintaining a stringent stance on interest rates, markets are uncertain about the possibility of further rate hikes.

However, as sharply as the dollar fell last week, it also saw a rebound, attributed to the reported sharp drop in initial jobless claims in the US, which also exceeded expectations.

The dollar also received a boost, following the University of Michigan's consumer sentiment survey, showing an increase in US consumers' inflation expectations for the second consecutive month in November. As a result, the dollar index climbed 0.37 percent to 103.9, marking its most substantial single-day increase since November 9th.

In anticipation of rising inflation, investors frequently gravitate towards assets perceived as a safe-haven.

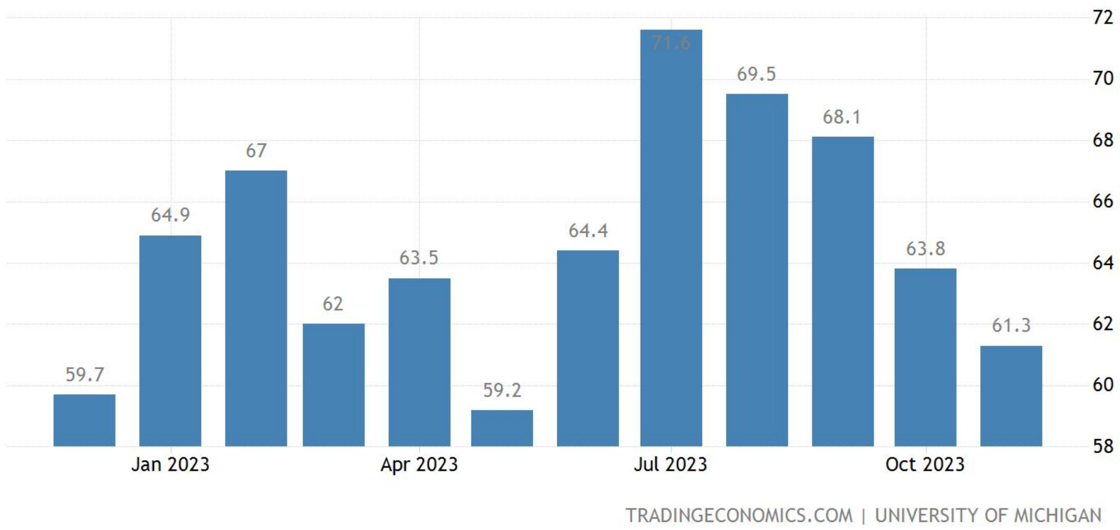


Figure 13. University of Michigan's Consumer Sentiment Index (Source: University of Michigan, Tradingeconomics)

The University of Michigan's consumer sentiment index fell to 61.3 in November from 63.8 earlier in the month. This is in fact higher than the consensus forecast of 60.6, however expectations for inflation over the next year increased to 4.5 percent, a rise from October's 4.2 percent, marking the highest level since April 2023. Expectations for long-term inflation also climbed, moving from 3.0 percent last month to 3.2 percent currently, a figure not seen since 2011. Despite observing a persistent deceleration in inflation, consumers still remain concerned that this could all reverse in the future.

Fed Minutes Signal Cautious Approach: Rate Hikes Hinge on Inflation Progress

US Fed officials agreed at their last policy meeting that they would proceed "carefully" and only raise interest rates if progress in controlling inflation was insufficient, the minutes of the Oct. 31-Nov. 1 meeting showed, following their release on Tuesday, November 22nd.

"All participants agreed that the Committee was in a position to proceed carefully," according to the minutes, which appeared to show support for a dissipation of rate hikes. The minutes, which report the discussions held during the monetary-policy setting Federal Open Market Committee (FOMC), showed the baseline seems to have shifted to one in which interest rates remains steady as long as there's no upward inflation surprise.

“Many participants commented that even though economic activity had been resilient and the labour market had remained strong, downside risks to economic activity remained,” according to the minutes. Policy makers noted that these dangers included “larger-than-anticipated” effects of the FOMC's past rate hikes, which are expected to hit the economy with a lag; the effects of strikes by labour unions; slowing global economic growth, and continued weakness in commercial real estate.

Notably, October saw no month-to-month increase in consumer prices, indicating a deceleration in inflation. Nonetheless, the Fed has not expressed any hint of declaring an end to rate hikes, shifting its focus instead to the duration of maintaining the current policy rate between 5.25 to 5.50 percent.

"Participants noted that further tightening of monetary policy would be appropriate if incoming information indicated that progress towards the Committee's inflation objective was insufficient," said the minutes, a statement that indicated it would take an unexpected shock of some degree to prompt a further rate increase.

Financial markets showed minimal reaction to these minutes, reinforcing the perception that the Fed may pause rate hikes unless further inflation concerns arise. Futures markets echoed this sentiment, indicating a low probability of rate increases and a slightly higher likelihood of a rate cut by early 2024.

Fed Chair Jerome Powell and other officials have refrained from claiming triumph over inflation, recalling times when they initially perceived a decrease in inflationary pressures, only to see them surge again. There is also a wariness among some officials about the possibility of inflation levelling off above the Fed's two percent objective, even as it shows signs of a gradual decrease. However, other Fed members have acknowledged notable progress in observing a decline in inflation concurrent with stability in the job market.

NEWS FROM THE CRYPTO-SPHERE

Rise and Reckoning: Binance's Journey from Crypto Pioneer to Legal Quagmire

Figure 14. Binance Founder, Changpeng Zhao, also known as CZ (Image Source: Binance)

Founded in 2017 by Changpeng Zhao (CZ), Binance has been a dominant force in the crypto industry. It didn't just surpass its competitors in trade volume but dwarfed the next four biggest exchanges combined, catapulting CZ to the status of the 'King of Crypto'.

Initially headquartered in China, Binance faced a crypto exchange ban and had to relocate, as China implemented a regulatory lockdown on the industry. Its refusal to disclose its base and operate without licenses in various countries enabled global reach but attracted intense regulatory scrutiny. This was particularly evident in the US, where Binance's significant user base led to clashes with regulatory authorities.

In response, Binance launched Binance US in 2019, claiming it to be independent from the main company. Yet, it continued to let US users access the larger platform, drawing further investigation from the US Securities and Exchange Commission (SEC) and Department of Justice (DOJ).

In March 2023, the Commodity Futures Trading Commission (CFTC) initiated legal action against Binance and CZ, by filing a lawsuit in a federal court in Chicago. This legal action centred on accusations that Binance provided crypto futures and derivatives to residents of the US without the necessary registrations with the CFTC.

In June 2023, the SEC brought forward 13 charges against Binance, relating to various past actions. The charges also raised serious concerns about CZ’s role in the exchange's regulatory matters. According to the SEC, Binance and CZ allegedly misappropriated customer funds. The SEC claims these funds were used by market makers under CZ's control, leading to manipulative trading practices on the Binance US platform. Furthermore, the SEC accused CZ of diverting user funds to Sigma Chain, a company he owns, which was allegedly involved in manipulative trading to artificially boost trading volumes on the cryptocurrency exchange

“Binance turned a blind eye to its legal obligations in the pursuit of profit. Its willful failures allowed money to flow to terrorists, cybercriminals, and child abusers through its platform,” said US Secretary of the Treasury Janet L. Yellen.

Facing mounting legal issues, CZ pleaded guilty on Tuesday, November 21st, to anti-money laundering violations. On the same day, he announced that he was stepping down as CEO and would be replaced by Richard Teng. This transition marked a significant shift for the company. Binance also agreed to pay $4.3 billion in fines to the DOJ, acknowledging historical compliance violations. This is one of the largest corporate penalties in US history.

The US authorities have levied several charges:

Money Laundering:

Binance is accused of facilitating "billions of dollars" of cryptocurrency transactions, including for US customers, without adequate "know your customer" checks.

The exchange's anti-money laundering controls were reportedly known to be inadequate by its compliance personnel, making it attractive to criminals.

Binance is alleged to have processed transactions for operators of "illicit mixing services," which are used to obscure the origins of crypto funds. These services were reportedly involved in laundering proceeds from darknet market transactions, hacks, ransomware, and scams.

Between August 2017 and April 2022, Binance is said to have facilitated transactions involving $106 million worth of Bitcoin between its wallets and Hydra, a Russian darknet marketplace known for criminal activities.

Sanctions Violations:

Binance allegedly had a significant customer base in sanctioned jurisdictions and was aware that the majority of these customers were from Iran. The exchange is accused of processing 1.1 million crypto transactions, valued at almost $900 million, between US customers and individuals in Iran from January 2018 to May 2022.

In 2019, Binance reportedly continued to serve over 12,500 users from sanctioned countries, including those with Iranian phone numbers, in violation of US law.

Financing of Terrorist Activities:

Binance is accused of failing to report suspicious transactions linked to Hamas, a Palestinian militant group.

The exchange's wallets were found to have interactions with Bitcoin wallets associated with groups designated as terrorist organisations by the United States and other countries. These include Islamic State, the armed wing of Hamas, al Qaeda, and the Palestine Islamic Jihad (PIJ).

The future of Binance remains uncertain. The exchange's early strategy of rapid expansion, often at the cost of legal compliance, has led to its challenging situation today. Whether Binance can adapt and thrive under stricter regulatory oversight and without CZ at the helm is an open question, but it is undoubtedly one of the most pivotal moments in the history of cryptocurrency exchanges.

Hong Kong's Victory Securities Wins Approval to Offer Crypto Services to Retail Investors

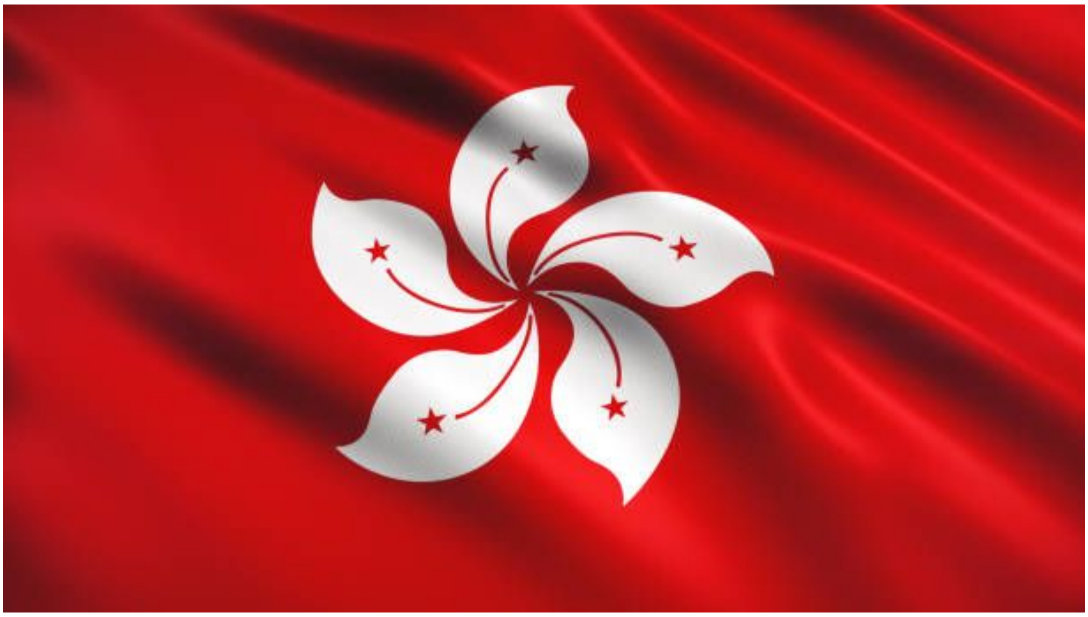


Figure 15. Hong Kong's Victory Securities Wins Approval to Offer Crypto Services to Retail Investors

- **Hong Kong's Victory Securities receives SFC approval to offer crypto services to retail clients.**
- **The development follows the implementation of Hong Kong's new regulatory regime to allow licensed companies to offer crypto services to retail investors.**

Victory Securities, a Hong Kong-based financial services company, received authorization from Hong Kong’s Securities and Futures Commission (SFC) to provide cryptocurrency services to individual investors, according to an announcement issued last Friday, November 24th.

This marks a significant milestone for the firm, and makes it the first Hong Kong licensed corporation to provide both trading and advisory services in crypto assets.

This development follows the establishment of a new regulatory framework in Hong Kong, which earlier this year started allowing the offering of crypto services to retail investors. This move is indicative of the growing shift of the cryptocurrency market towards Asia, where countries are increasingly providing clearer regulations for crypto companies, in contrast to the more uncertain regulatory environment in other regions, such as the United States. The entry of Victory Securities into this space aligns it with other crypto-focused entities like HashKey Exchange and OSL Digital Securities, who are already active in this emerging market.

UK Investment Fund Sector Advances with Blockchain: Embracing Tokenization for Enhanced Asset Management

Figure 15. UK Investment Fund Sector Advances with Blockchain: Embracing Tokenization for Enhanced Asset Management

- **The United Kingdom (UK) Investment Association is adopting blockchain-based tokenization to enhance efficiency and transparency in asset management, in collaboration with the UK Treasury, the FCA, and leading investment managers.**
- **The UK's tokenization model will integrate with existing legal frameworks, positioning the country as a leader in merging traditional finance and blockchain technology, in line with global trends.**

The UK's investment fund sector will soon be able to offer tokenization to investors, leveraging blockchain technology. As per The Investment Association's recent announcement last Friday, November 24th, the initiative aims to bolster the industry's efficiency, transparency, and international competitiveness.

The UK Treasury, the Financial Conduct Authority (FCA), and leading investment managers like BlackRock have collaborated on the project, as part of the UK Government's Asset Management Taskforce's Technology Working Group roadmap. Their report, "UK Fund Tokenisation — A Blueprint for Implementation," aims to offer a practical tokenisation model, that is compliant with existing legal and regulatory frameworks.

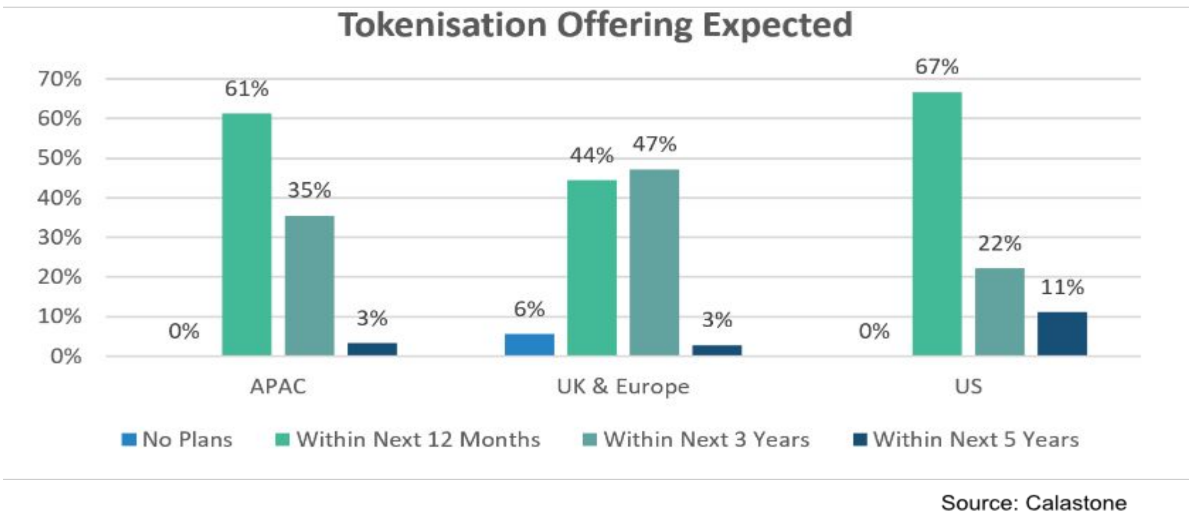


Figure 16.. Tokenization Offering Expected (Source: Calastone)

Under the plan FCA-approved funds will be able to integrate tokenization in sales and redemption transactions, subject to certain conditions such as including only mainstream investment assets in portfolios and adhering to standard valuation and settlement procedures. Michelle Scrimgeour, who is CEO of Legal & General Investment Management and chair of the Technology Working Group, said the initiative offered the opportunity to improve efficiency, liquidity and risk management in customised portfolios.

Globally, tokenized funds are gaining popularity, with significant advancements across the US, Europe, and Asia. According to a report, the US and Asia lead in fund tokenization, with 39 percent and 38 percent of firms, respectively, engaged in related projects, compared to 27 percent in the UK and Europe. A survey reveals that 67 percent of US asset managers and 61 percent in Asia plan to launch tokenized products within a year, with 96 percent of Asian managers expecting to do so in three years.

The UK's foray into tokenized funds places it at the forefront of a global movement to merge traditional financial practices with blockchain advancements, to create a more efficient and inclusive asset management landscape.

South Korea Embarks on Digital Currency Pilot with 100,000 Participants

Figure 17. South Korea Embarks on Digital Currency Pilot with 100,000 Participants

- **South Korea plans to launch a digital currency pilot in late 2024 with 100,000 citizens, exploring real-world applications of a central bank digital currency (CBDC) in collaboration with the Bank of Korea and financial regulators.**
- **The pilot will test the use of deposit tokens for payments, with technological experiments including a simulated carbon emissions trading system, aiming to address challenges in current financial systems**

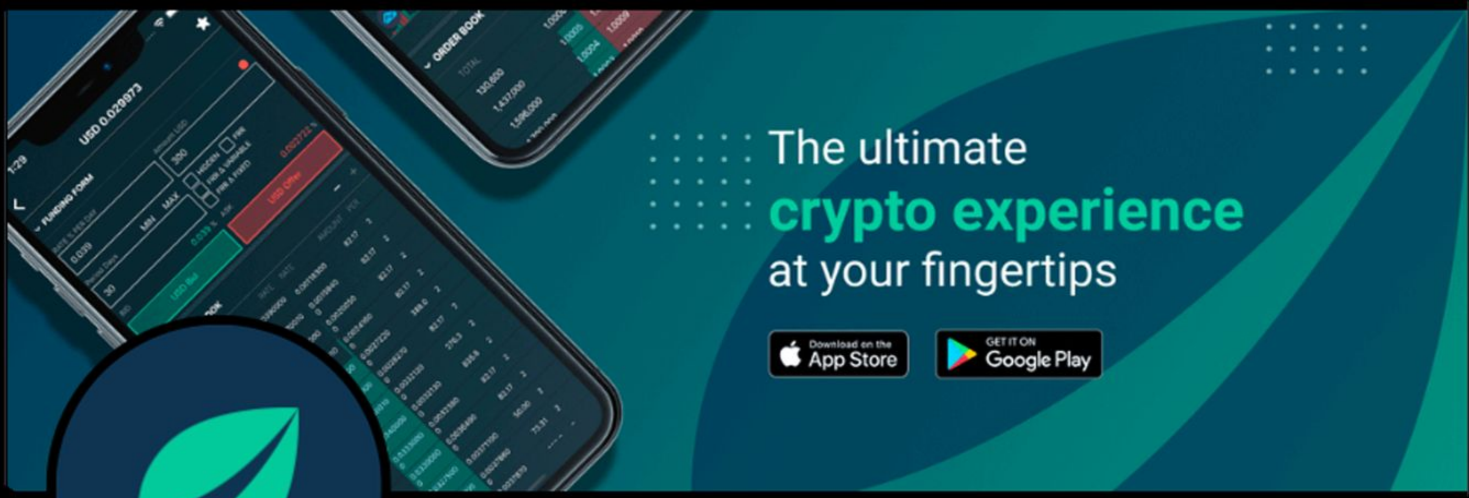
South Korea plans to initiate a groundbreaking digital currency project, involving 100,000 of its citizens to pilot the potential nationwide adoption of digital currencies. The programme, which is a collaboration between the Bank of Korea (BOK) and financial regulators, will enable participants to use deposit tokens based on the country's central bank digital currency (CBDC).

This initiative was announced following a visit by Agustin Carstens, General Manager of the Bank for International Settlements, to the BOK. The project, an evolution of the BOK's plans first disclosed in October, aims to explore real-world applications of CBDCs. Participants in this pilot will be able to buy goods using deposit tokens issued by commercial banks, similar to vouchers in retail stores. The recruitment phase for this three-month project is expected to start between September and October next year.

However, the program will have certain restrictions. The digital currency can only be used for payment purposes, with other uses like personal remittances currently off-limits. The BOK and financial authorities are also set to carry out technological trials to assess its applicability to new financial products. Notably, one experiment will explore the integration of a CBDC into a simulated carbon emissions trading system, testing the transactional feasibility between carbon emissions rights and payment tokens.

The BOK has emphasised the potential of this digital currency to address challenges in the current government voucher systems, such as high transaction fees, slow settlement, post-transaction verification issues, and fraud concerns. Termed the “digital won” by Carstens, the project has been praised for its progressive approach to future monetary systems. Under Governor Rhee Chang-yong’s direction, the BOK is open to conducting additional pilots based on individual bank proposals.

Major cities like Jeju, Busan, and Incheon are anticipated to be pilot sites, potentially transforming everyday transactions and paving the way for future financial innovations.



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