BITFINEX Alpha

Issue: 04-12-2023
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EXECUTIVE SUMMARY

In this week's Bitfinex *Alpha*, we explore how Bitcoin reached a new year-to-date high of over $42,000 on December 4th, and its strongest monthly close since March 2022. We attribute this surge to a culmination of various factors, including a notable shift in the dynamics of the futures market, compared to the spot market.

In our analysis of Cumulative Volume Delta, we saw an increase in leverage - usually a sign to exercise caution - but simultaneously a decline in open interest, especially on the short side. Further, the futures market was showing resilience on downswings, compared to much more muted activity in the spot market. Heavy buying in the futures market also wiped out shorts across both BTC and ETH markets, further contributing to upward pressure.

While these phenomena are driving the price upwards, we show that the downside risk should not be ignored. BTC is now trading above the one, two, three, five and seven-year Realised Price. While these levels are now effectively providing support for BTC, we see that a breach of the three-year realised price in particular poses a risk - albeit remote - of market capitulation.

Positive BTC price dynamics are also taking place against a backdrop of strong economic data, underpinned by a rebound in US consumer confidence. That said, there are some signs of stress in the banking sector, where has been a decrease in profits due to rising loan provisions and unrealised investment losses. The US economy, however, remains robust, with 5.2 percent growth reported in Q3, driven by increased business investments and state and local government spending. We now believe there is potential for an interest rate cut by the end of May 2024. This view is reinforced by a fall in inflation to now its lowest level in over a year and resilient consumer spending and increasing income.

In crypto news last week, the Philippines' Securities and Exchange Commission (SEC) said it was taking action against Binance due to non-compliance with registration and licensing requirements. It said it would give three months for Filipino users to withdraw their investments and said it would also request Google and Meta to ban Binance ads in the Philippines. In another significant development, Coinbase informed certain of its users about a subpoena from the Commodities Futures Trading Commission (CFTC) that might mean that it has to share account information.

Reports suggest that the subpoena might target users with accounts on both Coinbase and Bybit as part of the CFTC's broader actions against crypto exchanges for regulatory non-compliance.

Grayscale, a leading crypto asset management firm, is gearing up for competition in the Bitcoin ETF market with a key hire from Invesco who has deep expertise in developing ETF products and who will lead Grayscale's distribution and partnerships. Lastly, we report on how the Chicago Mercantile Exchange's BTC and Ether Futures are showing a widening spread between next month and front month futures, with futures prices also currently exceeding spot prices. This is interpreted as a sign of increased institutional investor interest in taking leveraged bullish positions, especially ahead of an announcement on a spot Bitcoin ETF.

Happy Trading!

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WHAT'S ON-CHAIN THIS WEEK?

BTC Hits Year-to-Date Highs After Bullish November Close

BTC achieved a new year-to-date high, reaching over $41,646 on December 4th (at the time of writing), surpassing its previous trading range's upper limit, to which it had been confined for several weeks (refer Figure below). The new peak came after BTC had seen its strongest monthly close since March 2022.

Figure 1. BTC/USD Weekly Chart. (source: Bitfinex)

This upward movement can be attributed to a combination of factors. Notably, there was significant buying activity in the market, particularly aimed at absorbing the supply above $37,500, near the upper boundary of its recent trading range. Below, we delve into these contributing factors and explore the potential next levels for BTC.

On December 1st, BTC was still hovering below the range high before the move highlighted in the chart below. Cumulative Volume Delta (CVD) for the futures market, which measures BTC's mid- to long-term buy and sell pressure, by comparing buying and selling volume over time, was seen to be more resilient on downswings on the lower time frames as compared to the CVD for the spot markets. As a result, the market was in a state of "perp premium" which implies a high relative difference in demand for BTC in the futures market, compared to the spot markets.

While this may be seen as a signal to exercise caution in other contexts, as more leverage in the markets is not always healthy, what was notable was that at the same time, open interest declined. *Exocharts* data shows net shorts decreasing at the same time.

Figure 2. BTC/USD 15-Minute Chart. (source: Coinalyze)

Thus, heavy market buying after November's monthly close led to a forced closure of shorts that had been accumulated over time in the BTC range from the past few weeks.

Footprint bar statistics reveal how this demand continued into December 2nd (box 2 in figure below). There was a positive delta imbalance (box 1, figure 3) on both days highlighted below. A positive delta imbalance refers to higher market buying than selling and the concentration of these zones above range high indicate how sellers would have been forced out of their positions leading to more market buying propelling the price further on December 2nd.

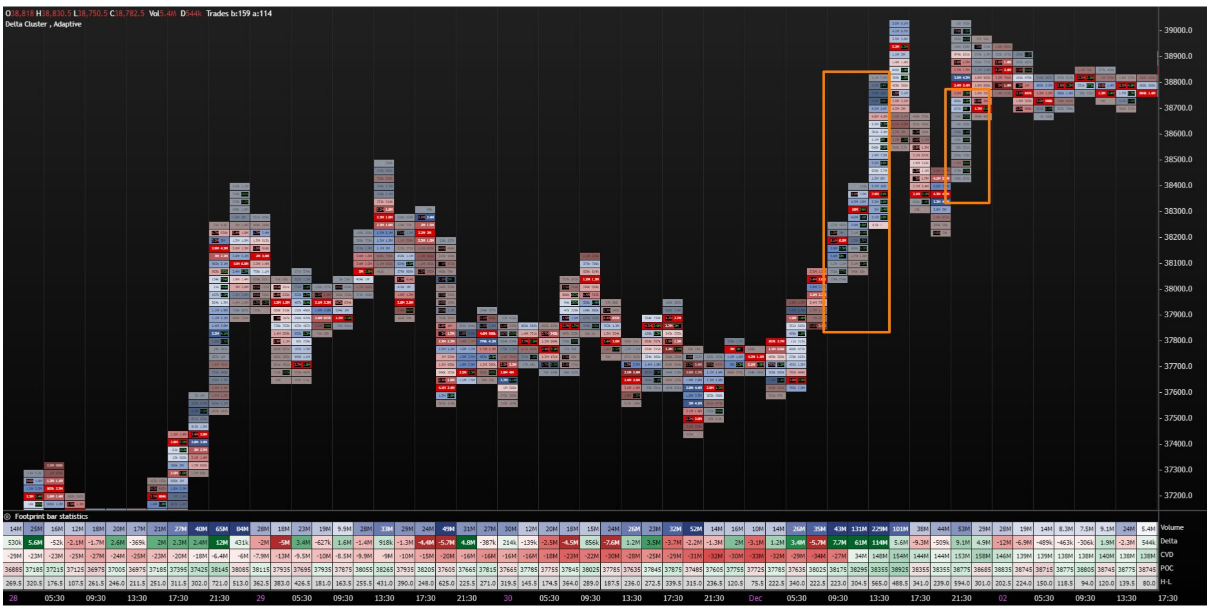


Figure 3. BTC/USD 2-Hour Chart. (source: Exocharts)

However, the reason for concern is that even though selling pressure was being exhausted in the futures markets, there was a lack of follow through from spot markets. The reason could be multifold, including short-term investors still anticipating lower prices being caught off-guard and now waiting for confirmation before entering long positions or simply interest from smaller market participants being driven towards higher returns on altcoins rather than Bitcoin.

This is also shown in the liquidation trends across different assets as shown below:

Figure 4. BTC Total Liquidations Across All Centralised Exchanges. (source: Coinglass)

Figure 5. Ether Total Liquidations Across All Centralised Exchanges. (source: Coinglass)

The previous range high for BTC of around $38,000 was first formed on November 9th and then retested on November 15th and other occasions before breaking up from the range on December 2nd. While the volatile price swings did cause significant short liquidations for BTC markets amounting to $32 million, this was not higher than other occasions within the range. In contrast, Ether witnessed a four percent uptick in price on December 2nd while recording $30 million in short liquidations which is the second highest this month for the asset. This is even more significant when we consider the amount of open interest in Ether markets during this period was around $8 billion compared to BTC's $18.8 billion as per *Coinglass* data.

Bitcoin Realised Price Dynamics

The latest price increase for BTC has placed the asset higher than the entire spectrum of the realised price bands (refer Figure below). This spectrum provides some of the most important price levels for any pullbacks as all of these bands have proven to be support levels in retests in the past.

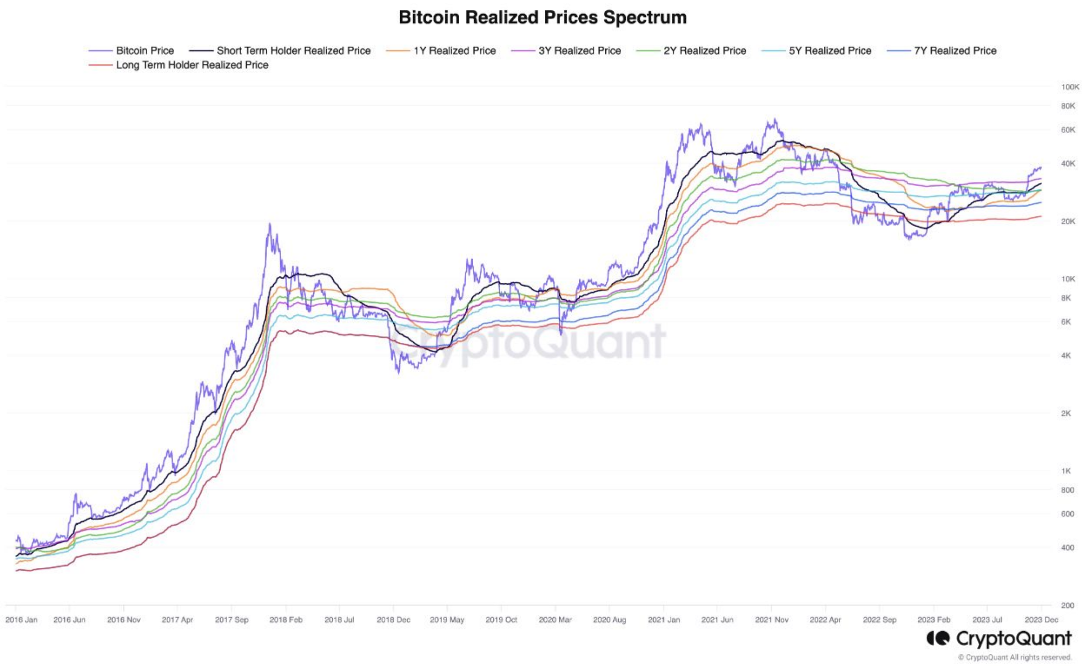


Figure 6. BTC/USD Hourly Chart. (source: Bitfinex)

The Bitcoin Realised Prices Spectrum has proven to be a valuable metric for analysing BTC market trends. The figure above displays the realised prices of Unspent Transaction Outputs (UTXOs) aged less than one, two, three, five, and seven years. This indicator is particularly useful as it integrates both the Bitcoin Short-Term Holders realised Price and Long-Term Holders realised Price. It effectively highlights market cycles, on-chain support and resistance levels, and potential future scenarios.

We can see how the price has been finding support and resistance at each of these bands throughout the last cycle. It is important to note that going too far back with this data means the indicator becomes ineffective, as realised price bands work better in larger assets which have a less concentrated supply and more smaller investors.

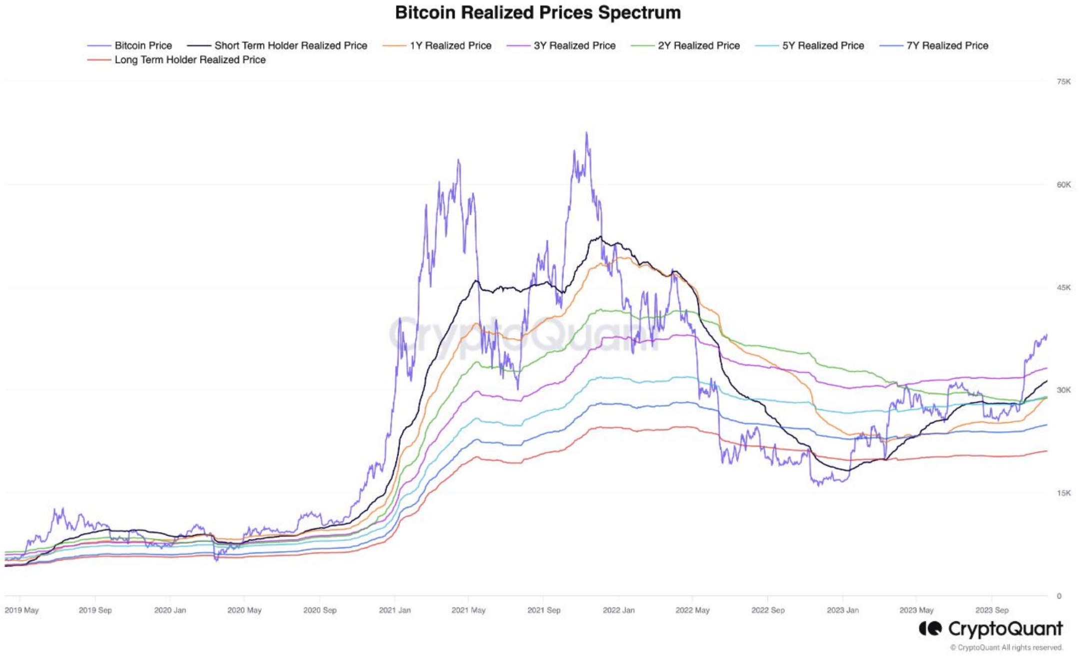


Figure 7. BTC/USD vs Realised Price Spectrum Zoomed In Chart. (source: CryptoQuant)

Currently, Bitcoin is trading above all the markers on the Realised Prices Spectrum, indicating an active price rally. It's important to note, however, that a decline in the BTC price below the three-year realised price marker could potentially trigger capitulation among holders who have retained Bitcoin for three years. This scenario could precipitate a further drop to the short-term holder realised price. While this seems unreasonable given the current price dynamics, this would be analogous with the early 2020 drop in price, after a rally past the bear market lows at that time. Moreover, as is evident from the figure above, the three-year band is one of the most important bands, as this is the last significant band, and has capped the BTC upside price twice this year, acting as resistance and we have yet to retest it since the break up from it.

Should BTC fall below this level, which is currently around $31,000 USD, we could witness a significant correction. This correction might aim for the one-year, two-year, and five-year realised prices, situated at approximately $29,000 USD. These would be the absolute lowest levels of support should any extended pullback occur. While this perspective might seem bleak, it's important that we consider all possible outcomes.

On a brighter note, an alternative scenario sees all the realised prices on the spectrum, excluding the long-term holder realised price, aligning in an upward movement.

Figure 8. BTC/USD vs Short-Term Holder Realised Price

This could be indicative of a continuous rally for BTC, with these realised price lines providing strong support levels. The short-term holders' realised price, in particular, would be crucial in this optimistic scenario, acting as a significant support line.

Bitfinex Alpha has often valued the overall cost-basis of short-term holders as a key metric for assessing BTC price trends and momentum. Historically, this measure has served as either a support or resistance level, depending on whether BTC's price is above or below it. Since overcoming this resistance in October, BTC has consistently maintained a position well above the Short-Term Holder Realised Price (STH-RP), which currently stands at around $31,800 and is on an upward trajectory.

Reflecting on BTC's current performance, it has appreciated more than two-fold from its cycle low of about $16,000. When this performance is compared with previous cycles, it's evident that BTC still has significant potential for further growth. Key factors contributing to this upward movement include notable illiquidity on the supply side, which has remained a constant factor. This supply-side dynamic is crucial in sustaining BTC's upward trajectory from its lowest point in the cycle. The most significant sell-side supply liquidity that BTC found in 2023 was above the $38,000 level which has now been broken.

GENERAL MARKET UPDATE

US Consumer Confidence Bounces Back, Amid Recession Concerns

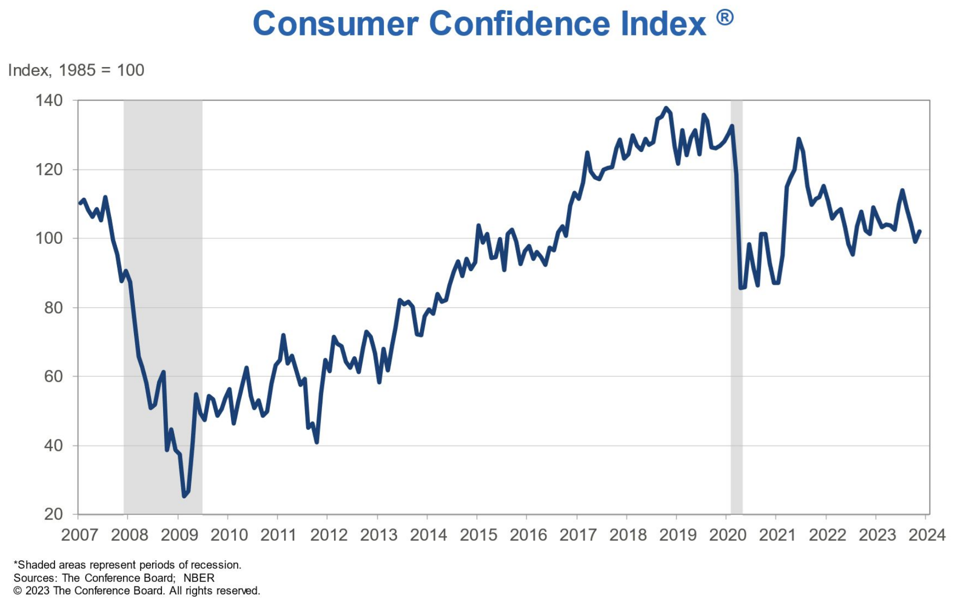


Figure 9. Consumer Confidence Index (Source: US Conference Board)

US consumer confidence rebounded in November, marking an end to three consecutive months of decline, according to data released on November 28th by the US Conference Board. This resurgence is particularly marked by a growing inclination towards high-value purchases like vehicles and real estate, although the survey showed that there are ongoing worries about escalating prices and interest rates.

Despite the uplift in consumer spending, a significant portion – nearly two-thirds of the survey's respondents – still anticipate a likely recession within the coming year. The consumer confidence index rose to 102 in November, up from a revised figure of 99.1 in October, surpassing the consensus forecast of 101.

However, the survey's present situation index, which reflects the public's view on current business and labour conditions, saw a marginal decrease, settling at 138.2 compared to 138.6 in October. In contrast, the expectations index, focusing on short-term income and labour market conditions, improved to 77.8 from 72.7. Notably, it remains below the 80-point mark, traditionally indicative of a looming recession. A silver lining comes from the dip in 12-month inflation expectations to 5.7 percent from October's 5.9 percent, potentially a response to the recent easing of inflation.

The heightened interest in major purchases, with more consumers planning to buy vehicles and household appliances in the next six months, according to the survey, suggest that there will be sustained consumer support for the economy.

Supporting this consumer activity is a robust labour market. Despite a slowdown in job growth, labour market conditions are relatively tight, with the Conference Board's differential index increasing to 23.9 in November from 23.8 in October. This is a metric derived from survey data that captures the gap between respondents who feel jobs are plentiful versus those who believe jobs are hard to get.

It is evident that the US economy has so far managed to steer clear of a recession, despite - or perhaps because of - the most significant surge in interest rates seen in several decades. However, the effects of these heightened borrowing costs are beginning to manifest, with noticeable constraints on business investment and hiring. Consumer behaviour is also adjusting, marked by a trend towards more cautious spending. The critical question that remains is whether the US can sustain this resilience and continue to deviate from the historical trend, where substantial hikes in interest rates usually precede a recession.

US Banks See Profits Fall as Loan Provisions and Investment Losses Rise

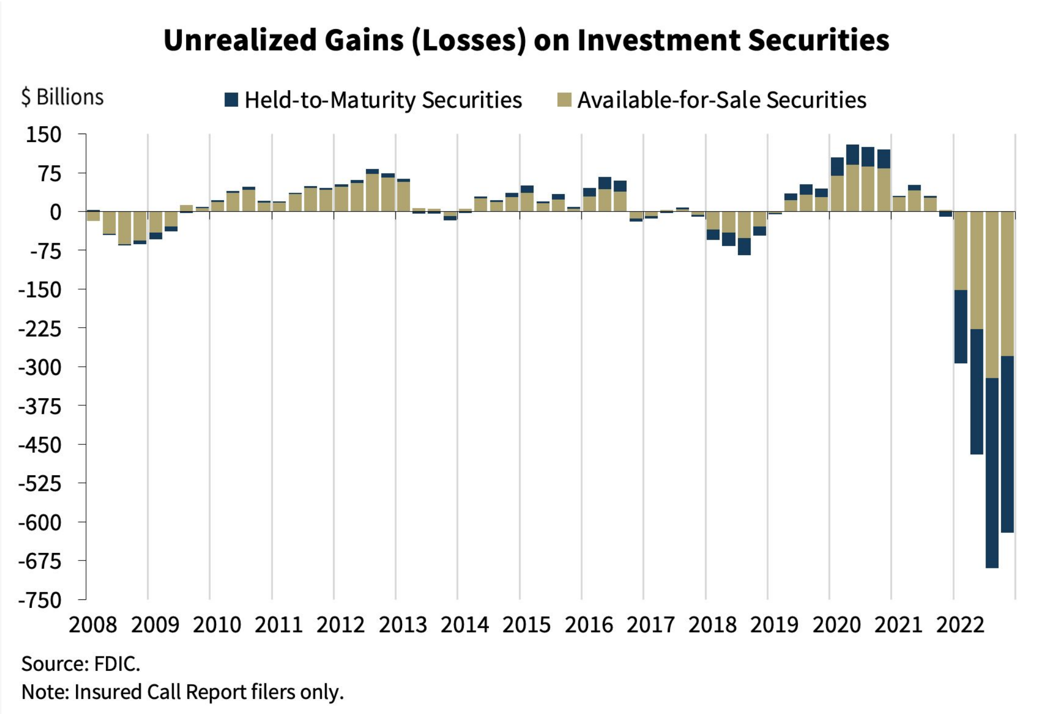


Figure 10. Unrealised Gains (Losses) on Investment Securities, US Banks (Source: US Federal Deposit Insurance Corporation)

Recent data **from the US Federal Deposit Insurance Corporation (FDIC) indicates a downturn in profitability for US banks in the third quarter of the year. Reported profits amounted to $68.4 billion, marking a 3.4 percent decrease from the previous quarter and a 4.6 percent year-over-year decline.** This reduction is attributed largely to increased provision expenses for potential loan losses, which have risen by 33.2 percent over the last four quarters.

A significant factor in the reduced profitability is the rise in unrealised losses on bank investments, primarily due to increasing mortgage rates. These unrealised losses reached $683.9 billion in the third quarter, a 22.5 percent increase from the previous period. Specifically, the losses have arisen due to the depreciation in the value of mortgage-backed securities held by banks.

The unrealised losses are categorised based on two accounting methods: held-to-maturity (HTM) and available-for-sale (AFS) securities. The losses on HTM securities surged by $81 billion to $391 billion, and on AFS securities by $45 billion to $293 billion. These losses are a consequence of rising interest rates, which inversely affect the market prices of bonds. For instance, the 10-year Treasury yield escalated from 3.81 percent to 4.59 percent within the quarter.

These "unrealised losses" are considered temporary, as banks are expected to receive the face value of securities upon maturity, regardless of current market fluctuations. However, the divergence between market value and purchase price, which banks report in their financial filings, can create concern. Depositors, upon seeing these reported unrealised losses, may grow concerned about the bank's financial health. This concern can be exacerbated in times of economic uncertainty or when the market is volatile. If a substantial number of depositors lose confidence, it can lead to a bank run, where many try to withdraw their funds simultaneously. In an era of widespread and easy to execute electronic fund transfers, such withdrawals can happen rapidly and on a large scale, exacerbating any liquidity problems.

Recent instances of bank failures, such as Silicon Valley Bank, Signature Bank, and First Republic, highlight the rapid impact that large-scale deposit withdrawals facilitated by electronic fund transfers can have.

The value of overall securities held by commercial banks decreased to $5.3 trillion at the end of the third quarter, a reduction of nearly $1 trillion since the first quarter of 2022. This decline includes the effects of selling off securities from collapsed banks, marking down AFS securities to market value, and potential sales of other securities. The $684 billion in unrealised losses amount to about 13 percent of the total securities held by banks.

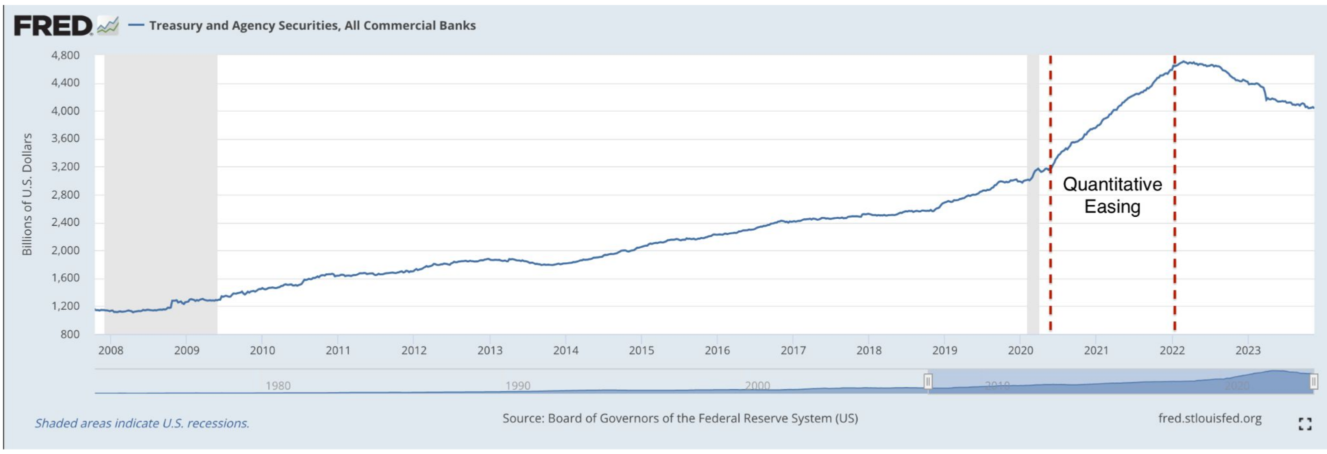


Figure 11. Treasury and Agency Securities, All Commercial Banks (Source: Board of Governors of the Federal Reserve System)

When Quantitative Easing flooded the financial system with liquidity, it was easier and cheaper for banks to borrow money. Banks could use this additional liquidity to purchase securities (see figure above). This investment surge was largely influenced by the Federal Reserve's (the Fed) forward guidance, which at that time indicated an extended period without rate hikes, a stance maintained even into 2021 amidst escalating inflation. Fed Chairman Jerome Powell's now-notorious declaration: "We're not even thinking about thinking about hiking rates," was made less than a year prior to the Fed embarking on the most rapid rate hikes in four decades, which highlights the risks to banks of rapid changes in monetary policy and market conditions.

US Economy Surpasses Expectations with 5.2 Percent Growth in Q3, Despite Slowing Momentum and Interest Rate Speculation

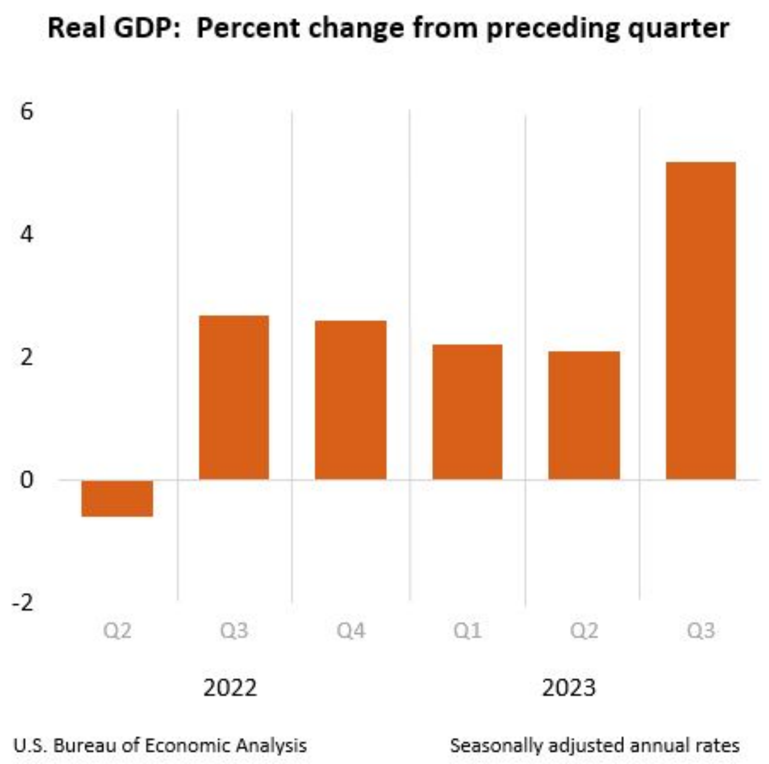


Figure 12. US Real GDP, Percent Change from Preceding Quarter (Source: Bureau of Economic Analysis)

The US economy recorded a stronger than expected performance as per the latest BEA (Bureau of Economic Analysis) report, with an upward revision of the annualised growth rate to 5.2 percent in the third quarter, from an earlier estimate of 4.9 percent.

This growth, the most rapid in nearly two years, is partly attributed to increased business investments in infrastructure like warehouses and machinery. However, this high growth rate might not fully represent the overall economic situation, as income-based measurements suggest more moderate activity.

This revised growth figure, the highest since the fourth quarter of 2021, surpassed the five percent consensus economic forecast for the period, and marks a significant jump from the 2.1 percent growth in the second quarter.

This rate also significantly exceeds the Federal Reserve's estimated non-inflationary growth rate of 1.8 percent.

The main drivers of third-quarter GDP are largely increased business investments, particularly in warehouse and healthcare facilities, and greater spending by state and local governments. Residential investment also saw an uptick, thanks to more single-family home constructions. Furthermore, inventory investment, particularly by wholesalers in machinery equipment, contributed significantly to GDP growth.

However, consumer spending growth, a major component of the US economy, was revised down to 3.6 percent from an initial estimate of 4.0 percent. This reduction is attributed to decreased spending on financial services, insurance, and used light trucks, possibly influenced by shortages stemming from the United Auto Workers strike.

CME FEDWATCH TOOL - MEETING PROBABILITIES										
MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550	550-575
12/13/2023				0.0%	0.0%	0.0%	0.0%	0.0%	95.8%	4.2%
1/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.0%	92.0%	4.0%
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.8%	44.5%	51.5%	2.2%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	1.1%	28.4%	48.9%	20.8%	0.8%
6/12/2024	0.0%	0.0%	0.0%	0.0%	0.9%	21.7%	43.8%	27.7%	5.8%	0.2%
7/31/2024	0.0%	0.0%	0.0%	0.6%	16.3%	38.1%	31.8%	11.4%	1.6%	0.1%
9/18/2024	0.0%	0.0%	0.5%	13.2%	33.8%	33.1%	15.5%	3.6%	0.4%	0.0%
11/7/2024	0.0%	0.3%	8.5%	26.2%	33.3%	22.0%	7.9%	1.5%	0.1%	0.0%
12/18/2024	0.2%	6.5%	21.7%	31.5%	24.8%	11.5%	3.2%	0.5%	0.0%	0.0%

Figure 13. CME Fedwatch Tool: Meeting Probabilities

Financial markets are now leaning towards a potential interest rate cut by the Fed, with the CME FedWatch Tool indicating a 78 percent likelihood of such a move by the end of their May meeting in 2024. This is a notable shift from just a month ago when the probability was pegged at 41 percent. Investors currently believe the Fed will pause its rate hikes, viewing its current policy as sufficiently restrictive to moderate growth and stabilise prices without triggering a recession. This delicate balance is crucial for the US economy as it navigates through uncertain economic conditions.

Soft Landing in Sight: October's Inflation Drop Boosts Case for Steady Fed Rates

	2023				
	June	July	Aug.	Sept.	Oct.
	Percent change from preceding month				
Price indexes:					
PCE	0.2	0.2	0.4	0.4	0.0
PCE, excluding food and energy	0.2	0.2	0.1	0.3	0.2
Price indexes:	Percent change from month one year ago				
PCE	3.2	3.4	3.4	3.4	3.0
PCE, excluding food and energy	4.3	4.3	3.8	3.7	3.5

Figure 14. Personal Consumption Expenditure (Source: Bureau of Labor Statistics)

Inflation in October dropped to its lowest level in over a year, reinforcing the argument for the Fed to maintain steady interest rates at their upcoming December meeting.

Inflation as measured by the personal consumption expenditures (PCE) price index was unchanged in October, according to a report released by the Bureau of Labor Statistics last Thursday, 30th November. In the 12 months through October, the PCE price index increased 3.0 percent. That was the smallest year-on-year gain since March 2021 and followed a 3.4 percent advance in September.

Excluding the volatile food and energy components, the PCE price index gained 0.2 percent last month, after rising 0.3 percent in September. Monthly inflation readings of 0.2 percent on a sustainable basis are needed to bring inflation back to the US. central bank's 2 percent target, according to economists.

The so-called core PCE price index advanced 3.5 percent on a year-on-year basis in October, after increasing 3.7 percent in September.

The Fed tracks the PCE price indexes to assist in determining its monetary policy. The data came as a pleasant surprise for both the Fed and the market, which has been increasingly betting on the Fed to begin cutting its policy rate next year.

Consumers remained resilient. While personal spending came in as predicted at 0.2 percent, lower inflation data helped increase spending volume more than anticipated. This was only slightly lower than September’s figure of 0.3 percent, which had also been revised lower. Lower inflation and solid spending numbers are the recipe for a soft landing, which seems more likely than ever.

The savings rate in October increased slightly to 3.8 percent but remained significantly lower than earlier this year, indicating that consumers continue to spend down their income and savings.

Income was also a significant factor, posting a solid 0.2 percent increase on the month. On top of that, inflation-adjusted disposable income grew in October for the first time in five months, which only bolsters the case for a soft landing.

This data increases the probability that the Fed is finished with hiking rates in this cycle. We believe the Fed should signal a shift toward a more balanced approach in its next meeting, including considerations of rate cuts next year.

NEWS FROM THE CRYPTO-SPHERE

Philippines SEC Moves to Block Binance, Citing Regulatory Non-Compliance

Figure 15. Philippines SEC Moves to Block Binance, Citing Regulatory Non-Compliance

- **The Philippines' Securities and Exchange Commission is initiating a block on the operations of Binance, citing that it is not properly registered or licensed**
- **The SEC's action includes a three-month window for Filipino users to withdraw investments and requests to Google and Meta to ban Binance ads in the Philippines, with potential criminal liability for promoters**

The Philippines' Securities and Exchange Commission (SEC) is taking measures to restrict access to Binance, the largest cryptocurrency exchange globally. This action follows the resignation and guilty plea of Binance CEO Changpeng Zhao, for violating US anti-money laundering laws. The SEC has declared that Binance is not an officially registered corporation in the Philippines, and thus, lacks the legal authority to offer or sell any securities.

According to the SEC, Binance's status as a registered broker/dealer in other countries does not exempt it from adhering to the Philippines' specific regulatory requirements under the Securities Regulation Code (SRC). These requirements include the registration of securities with the SEC, operating as a registered corporation or licensed dealer in the Philippines, and holding a secondary licence for public offerings.

The SEC plans to implement a ban on Binance within three months of the date of their advisory, issued on November 28th. This period is meant to provide Filipino users with sufficient time to withdraw their investments from the cryptocurrency exchange. Moreover, the SEC has reached out to Google and Meta, Facebook's parent company, requesting them to prohibit Binance's online advertisements in the Philippines. The commission has also issued a warning that individuals involved in persuading others to invest in it may face criminal charges.

Coinbase Notifies Users of CFTC Subpoena Tied to Bybit Investigation, Raises Privacy Concerns

Figure 16. Coinbase Notifies Users of CFTC Subpoena Tied to Bybit Investigation, Raises Privacy Concerns

- **Coinbase has informed select users about a subpoena that could lead to sharing their account information with the Commodities Futures Trading Commission (CFTC), possibly related to an investigation involving Bybit, a Dubai-based crypto exchange.**
- **The subpoena might target users with accounts on both Coinbase and Bybit, as part of the CFTC's broader actions against crypto exchanges for regulatory non-compliance, such as lacking KYC procedures.**

Coinbase, a cryptocurrency exchange based in the United States, has reportedly notified a number of its users about a subpoena it has received, that may lead to the disclosure of customer account details to the CFTC. While Coinbase has remained silent on this issue, sources suggest that the subpoena is linked to Bybit, a Dubai-based cryptocurrency exchange established in 2018 by Ben Zhou.

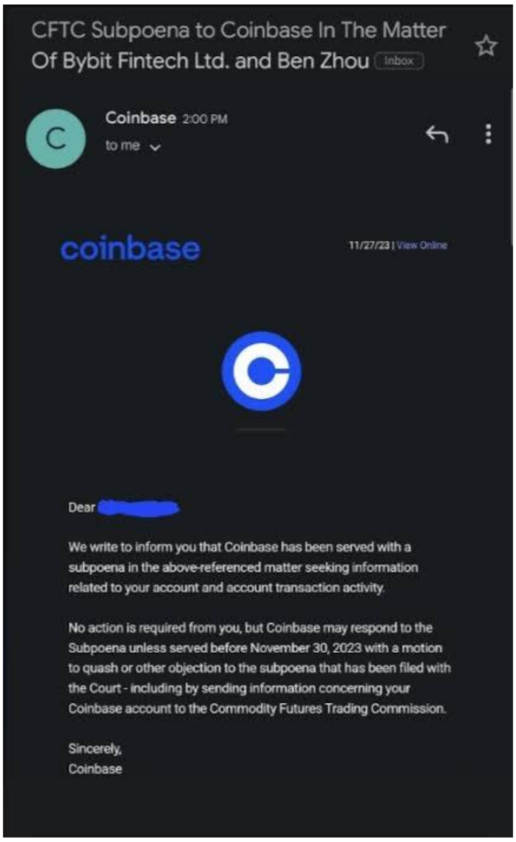


Figure 17. Email Users reported received from Coinbase

According to insiders, Coinbase has indeed sent emails to the affected customers, but the specifics of the CFTC's request, its connection to Bybit, and the exact number of users involved remain undisclosed.

In its notice to users, Coinbase mentioned the possibility of legally challenging the subpoena by November 30th. However, it has been reported that Coinbase is working with the CFTC to determine the scope of information that can be shared, aiming to limit the amount of data disclosed. There is speculation that the subpoena may be targeting individuals who have accounts with both Coinbase and Bybit, possibly as part of a larger investigation into Bybit.

The CFTC has previously pursued legal action against various cryptocurrency exchanges for reasons such as failing to implement know-your-customer (KYC) procedures, illegally operating digital asset derivatives exchanges, and offering futures trading without proper authorization. Notably, Bybit only introduced KYC norms for its services in May of this year.

Grayscale Gears Up for Bitcoin ETF Competition with Key Hire from Invesco

Figure 18. Grayscale Gears Up for Bitcoin ETF Competition with Key Hire from Invesco

- **Grayscale appoints John Hoffman, former Invesco Head of Americas, to lead its distribution and partnerships, ahead of a crucial SEC decision on launching a spot Bitcoin ETF.**
- **Hoffman's extensive experience in ETFs is expected to bolster Grayscale's bid to convert its GBTC Bitcoin trust into an ETF, amidst competition from major firms like BlackRock and Invesco**

Grayscale, a crypto asset management firm, has recently appointed John Hoffman, previously the Head of Americas at Invesco, to spearhead its distribution and partnerships division. This was announced by Grayscale CEO, Michael Sonnenshein on Friday, December 1st on X. This strategic move comes as the firm anticipates a critical decision from the Securities and Exchange Commission (SEC) regarding the potential launch of a spot Bitcoin exchange-traded fund (ETF).

Hoffman, who has a tenure of over 17 years at Invesco, brings a wealth of experience to Grayscale. His previous roles at Invesco include being Director of ETF Institutional Sales and Capital Markets, as well as leading the Americas ETF and indexed strategies team. His expertise in ETFs is expected to significantly benefit Grayscale.

Invesco is one of the leading ETF issuers in the United States, with over 200 ETFs traded inUS markets with approximately $425 billion in assets under management (AUM).

A decision is expected in January from the SEC, to determine the fate of 13 potential spot Bitcoin ETFs, including those from major players like BlackRock, Invesco, and Franklin Templeton.

CME's Bitcoin and Ether Futures Exhibit Bullish Trend

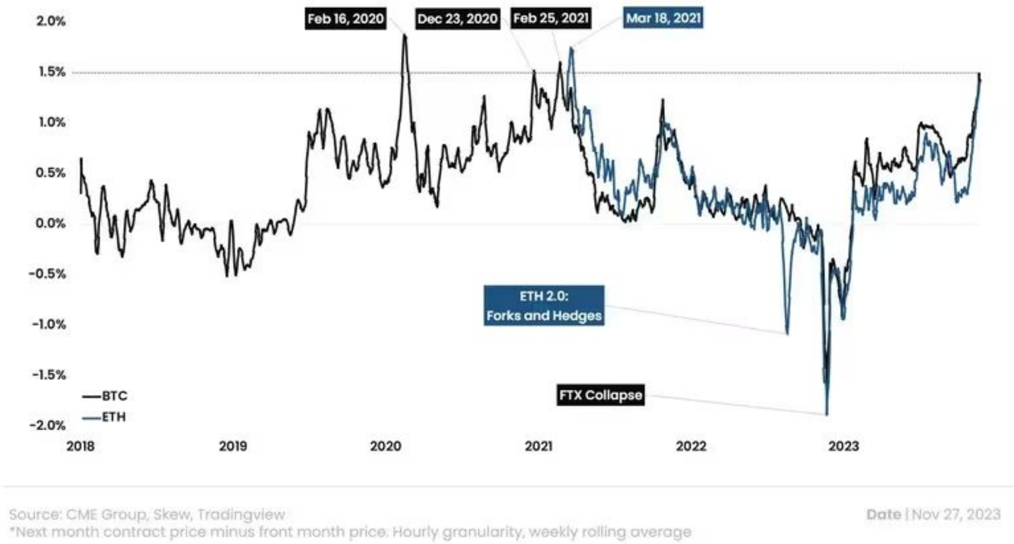


Figure 19. CME's Bitcoin and Ether Futures Exhibit Bullish Trend

- **The spread between next month and front month futures for Bitcoin and Ether on the Chicago Mercantile Exchange has significantly increased, reaching a level not seen since 2021, indicating a strong bullish market sentiment**
- **Futures prices currently exceed spot prices, and is interpreted as a sign of increased institutional investor interest in taking leveraged bullish positions, ahead of an announcement on a spot Bitcoin ETF**

The rolling weekly spread between next and front (current) month BTC and ETH contracts has widened, reaching levels not seen since the early 2021 bull market. This development further underscores the current positive market outlook. This trend was particularly noticeable on the Chicago Mercantile Exchange (CME) in the last week of November, indicating that investors are taking leveraged bullish positions as anticipation around a spot Bitcoin ETF approval heats up.

Typically, the futures market includes a futures premium where future prices exceed spot prices and contracts with later expiry dates are priced higher than those expiring sooner. This widening of the contango is usually driven by increased buying pressure.

For BTC and ETH, the divergence between next-month and front-month contract prices has been pronounced. The front month contract is the one closest to its expiry date, followed by the next month contract. This can be interpreted as a sign of bullish sentiment on the CME, with investors eager to increase their long exposure, resulting in a spike in yield premiums.

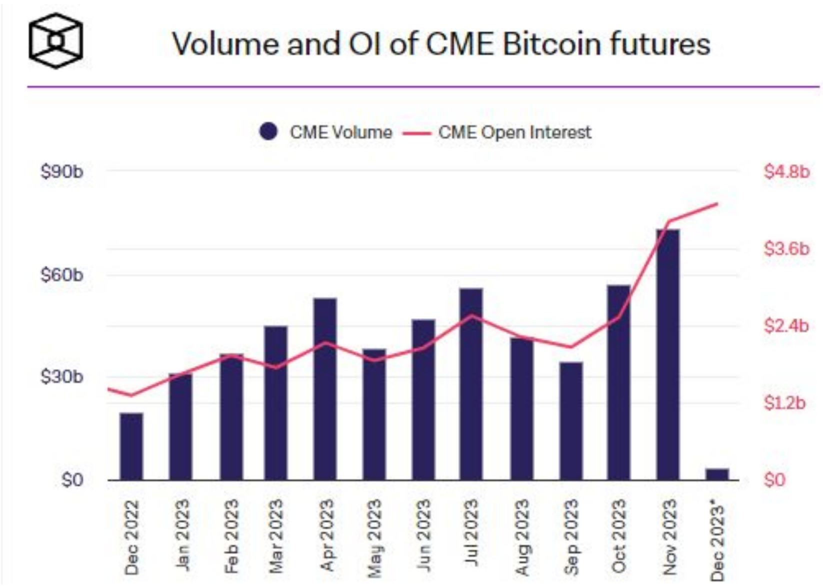
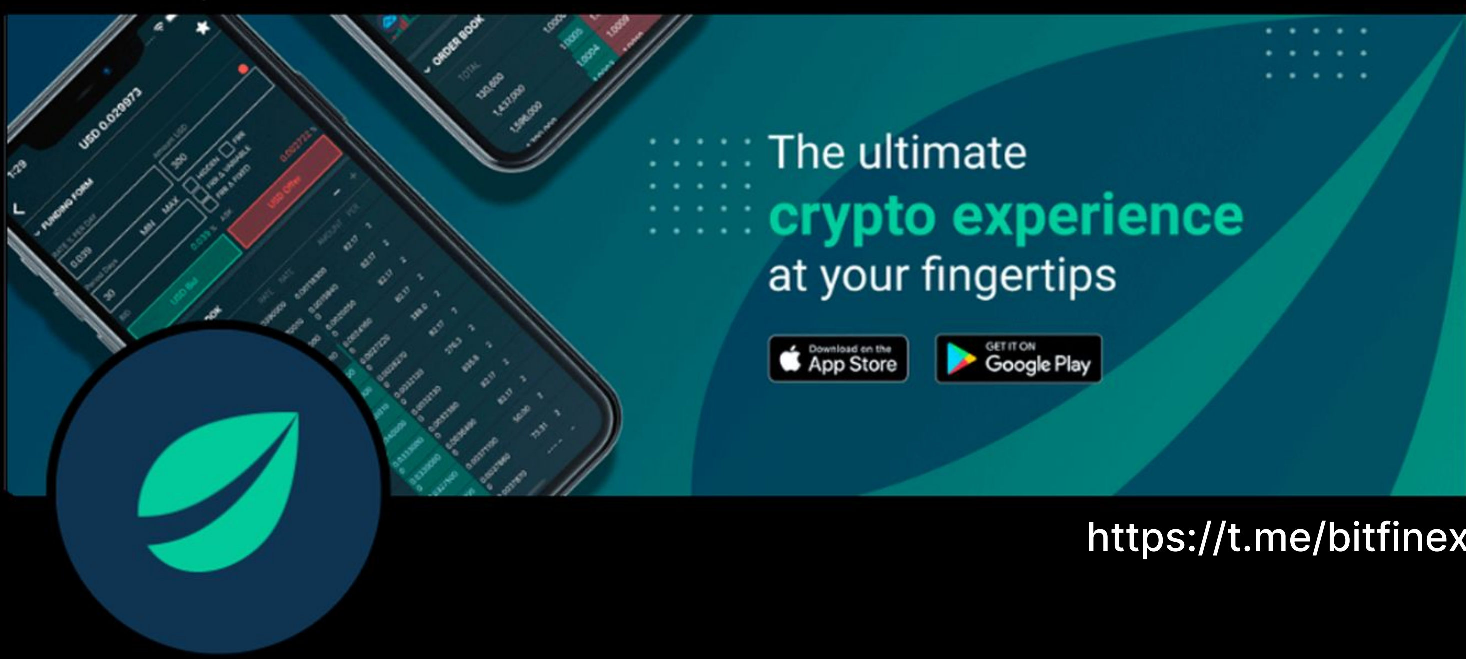


Figure 21. Volume and Open Interest of CME Bitcoin Futures

Currently, the contracts set to expire in December are the front month contracts, while those expiring in January are the next month contracts. The weekly rolling spread between next and front month BTC and ETH contracts recently expanded to an annualised rate of 1.5 percent, a first since the early 2021 bull market. This pattern has only occurred four times, mostly during bull markets, with one instance just before the March 2020 market crash due to COVID-19.

According to a recent report by the Commodity Futures Trading Commission, asset managers have significantly ramped up their investments, accumulating close to $1 billion in long positions since October.

In 2023, the Chicago-based exchange saw increased interest in its crypto contracts. This is partly due to investors gravitating towards regulated platforms following the downfall of FTX and the intensified scrutiny of crypto activities by regulators. Earlier this month, the CME surpassed Binance to become the leading platform for Bitcoin futures trading in terms of volume.



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