BITFINEX Alpha

Issue: 08-01-2024
bitfinex.com

This material is being provided by BFXWW Inc. ("Bitfinex") for general informational purposes only. Views or opinions expressed herein may not reflect those of Bitfinex as a whole and may change without prior notice. Nothing in this newsletter constitutes investment, portfolio management, legal, accounting or tax advice, advice on trading techniques, models, algorithms, or any other schemes, or a recommendation to buy, sell or hold any digital tokens or other digital assets. No recommendation or advice is being given as to whether any digital asset is suitable for you. No solicitation or offer of any digital asset or financial promotion of any kind is being made.

You should not trade in digital assets unless you understand the associated risks.

You should not commit funds or collateral to trading in digital assets that you are not prepared to lose entirely. Past performance of a digital asset or trading strategy does not guarantee future results or returns. This newsletter contains forward-looking statements—statements that relate to future events or future performance—which are only projections, opinions and hypotheticals about possible future events, conditions, outcomes and results. Actual events or results may differ materially.

Where indicated, information provided comes from other content providers. That information is protected by copyright owned or licensed by those content providers. Bitfinex has not been involved in preparing, adopting or editing this content and does not explicitly or implicitly endorse or approve such content. Bitfinex makes no guarantees that information supplied in third-party content is accurate, complete, or timely.

While Bitfinex attempts to provide accurate and timely information, neither Bitfinex nor any third-party content provider guarantees the accuracy, timeliness, completeness or usefulness of any newsletter content, and are not responsible or liable for any such content. All newsletter content is provided on an "as-is" basis.

You may not use any of the trademarks, trade names, service marks, copyrights, or logos of Bitfinex in any manner which creates the impression that such items belong to or are associated with you or are used with Bitfinex's consent, and you acknowledge that you have no ownership rights in and to any of such items.

This newsletter is provided only to select recipients. You should not post, transmit, redistribute or otherwise make available any newsletter content to any other person.

EXECUTIVE SUMMARY

It would not be Bitcoin, if the year did not start off with a bang! After ending the final quarter of 2023 with a 57 percent rise, capping a 155 percent increase for the year, within 3 days of 2024, BTC was dropping by 11 percent on the auspicious day of January 3rd - the day of the Bitcoin Genesis Block. A report that the long-awaited Bitcoin spot ETFs might not be approved at all triggered a multibillion dollar wipe out of open interest, accompanied by significant liquidations across both long and short positions. While such developments are always chastening, we believe it is also healthy and entirely predictable.

On-chain metrics also tell an interesting story: December 27th - an otherwise unremarkable day for the Bitcoin price - saw a large uptick in Coin Days Destroyed, suggesting strategic positioning by long-term BTC holders possibly in anticipation of pivotal regulatory decisions on the long-awaited Bitcoin spot ETF.

As we noted in the *Bitfinex Alpha* 2024 Outlook report, we believe the market remains vulnerable to pullbacks, especially around the $44-45,000 level, and remains hyper-sensitive to any regulatory developments.

The new year also starts with a US economic picture looking complex but positive. New data from the construction sector shows spending is increasing year on year, indicating an expansion in demand and investment, even though manufacturing has dropped into contraction territory, not just in the US, but also the Euro zone and China.

In the latest Fed minutes from the last meeting in December, policymakers made clear their view that interest rates looked to have peaked, with most officials predicting a shift towards lower rates by the end of 2024.

One of the factors that might derail this view however is the labour market, which, in December, significantly exceeded expectations in terms of new jobs added. Any further evidence of growth will spook fears of inflation again and officials will be wary of cutting rates too soon.

On the news front, the year also started with a number of positive developments, starting of course with the ETF preparations being made by some of the largest asset managers, all jostling for position to launch a regulated spot Bitcoin ETF product.

EXECUTIVE SUMMARY

Visa, one of the world's largest credit and debit card companies also unveiled a Web3-based loyalty reward system, allowing its customers to accumulate digital assets, such as tokenized tickets and loyalty coins, that can be used in both virtual and physical experiences.

Celsius, the embattled crypto lending platform, also revealed that it was unstaking its holdings of Ether, to pay back its creditors. Meanwhile, the Bank of Spain announced a test program for wholesale central bank digital currencies, inviting participation from the finance and tech sectors, to explore how these currencies can be used in the movement of funds and the settlement of financial assets.

It's been a fun start to the year. Happy Trading!

INDEX

WHAT'S ON-CHAIN THIS WEEK?

BTC Registered A 155 Percent Increase In 2023

Bitcoin ended 2023 with a remarkable 155 percent gain, marking its fifth-best annual performance since its inception. The accompanying chart provides a visual representation of Bitcoin's performance with quarterly candles.

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

The final quarter of the year, in particular, was notable for BTC, with a 56.5 percent increase, the third-highest quarterly rise since 2019, which was arguably the start of the previous market cycle.

December 27, 2023 had the fifth-highest Coin Days Destroyed (CDD) value in the past 18 months (refer Figure below). While this was a relatively unremarkable day for the BTC price, the on-chain movement of coins suggests that holders of BTC were positioning themselves ahead of any price sensitive newsflow. In this case, that might be the potential approval, or otherwise, by the US Securities and Exchange Commission, of a spot BTC Exchange Traded Fund (ETF).

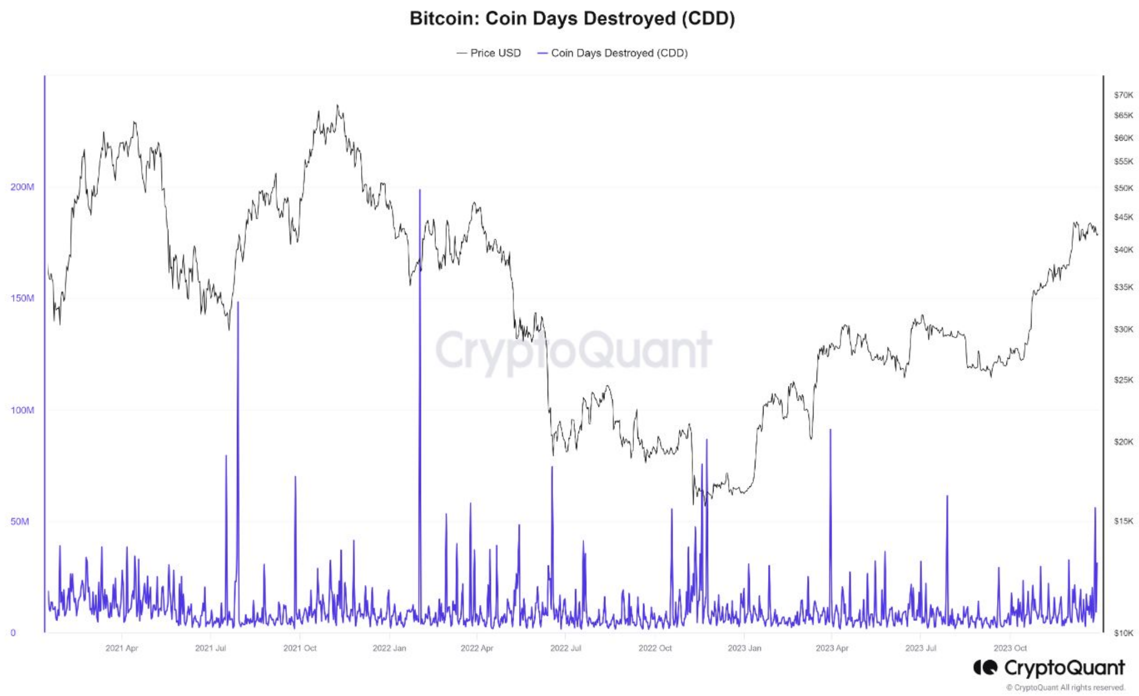


Figure 2: Bitcoin Coin Days Destroyed Raw Data. (source: CryptoQuant)

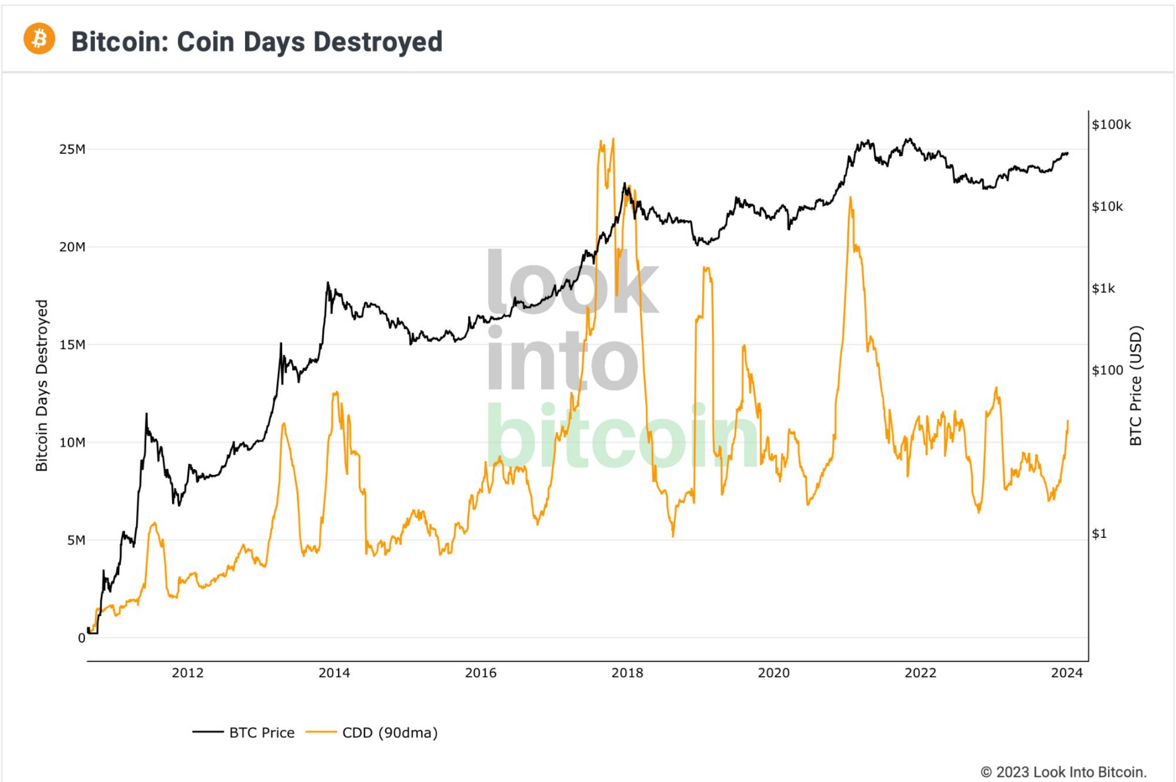


Figure 3: Bitcoin Coin Days Destroyed 90D Moving Average. (source: lookintobitcoin)

Coin Days Destroyed is a metric that multiplies the number of coins moved on-chain at a given time by the number of days since those coins were last moved. The formula is:

Number of coins * Days since coins last moved = Coin Days Destroyed (CDD).

This metric is often used to gauge the significance of on-chain transactions, with higher values suggesting larger movements by long-term holders.

Largest Market-Wide Liquidations Since August 2023

On January 3rd, the market experienced the largest wave of liquidations since August 2023, highlighting a day of intense volatility. The market saw $591 million in long liquidations and $94 million in short liquidations as the price of Bitcoin rapidly swung from $45,400 to $40,400 within just a few hours, before making a swift recovery (refer Figure below).

Figure 4: BTC/USD 2H Chart. (source: Bitfinex)

A majority of the long liquidations came in a span of three hours from 10am UTC, and the final low was more than 11 percent down from the daily open.

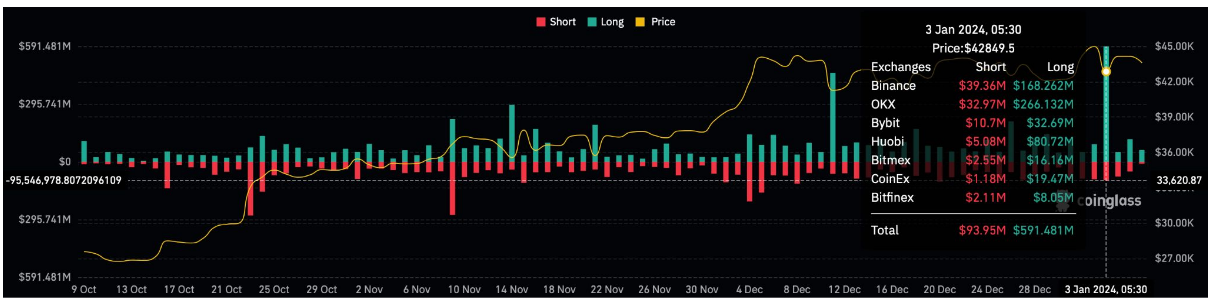


Figure 5: Total Daily Liquidations. (source: Coinglass)

This event marked the third-largest number of long liquidations since the bear market bottomed out in November 2022. Such significant liquidations underscore the market's sensitivity to any negative news. The driver on that particular day was a report from Matrixport suggesting a high probability that the Bitcoin ETF applications would be denied or delayed.

Figure 6: BTC/USD Aggregate With Open Interest and Funding Rate. (source: Coinalyze)

This report led to a multi-billion dollar unwind of futures open interest (OI), with more than $1.8 billion in OI positions removed, according to data from *Coinalyze*, either through forced liquidations or sharp selling as a result of the news.

As indicated in the 2024 outlook special edition of *Bitfinex Alpha*, we expect the market in the early months of this year to be vulnerable to pullbacks, with increased risk to leveraged longs. It is hard to say whether there will be further pullbacks, but we believe that these are healthy for the market and are a result of overly bullish sentiment being "reset" along with the funding rate. During the market correction on January 3rd, we saw funding rates for perpetual futures cool off across the board, as shown in the funding rates heatmap for large cap crypto assets from *Coinglass* below:

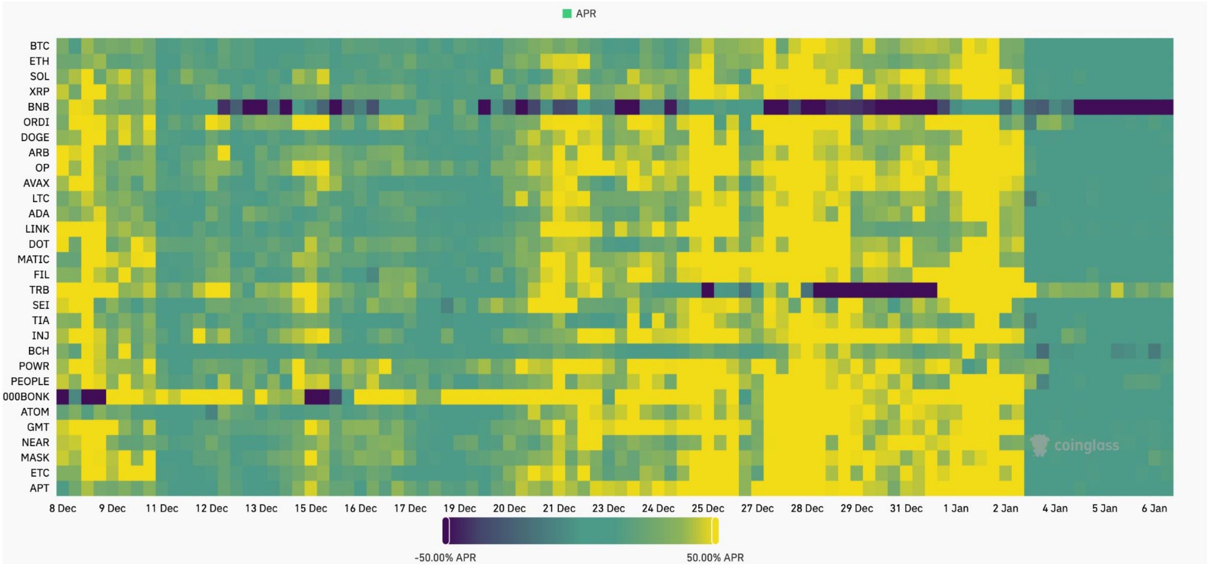


Figure 7: Funding Rate APR for various coins. (source: Coinglass)

GENERAL MARKET UPDATE

US Construction Shows Resilience Despite Economic Headwinds, as the Manufacturing Sector Faces Contractions

US construction spending comes in below expectations, primarily because of reduced investment in public projects. However, revised figures for the previous month indicate a significant upward adjustment, pointing to the sector's robustness.

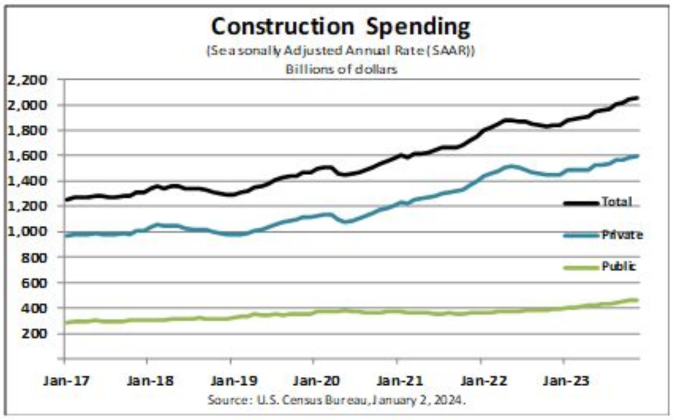


Figure 8. US Construction Spending (Source: US Census Bureau)

Construction spending increased by 0.4 percent in November, according to the latest figures from the US Census Bureau issued last Tuesday, January 2nd, but was lower than the 0.6 percent consensus forecast. Revised data for October however revealed a 1.2 percent surge, rather than the initially reported 0.6 percent rise.

Year-over-year, November saw an 11.3 percent increase in construction spending. Private construction projects saw a 0.7 percent rise in November, following a 1.2 percent increase in October.

A significant factor driving construction activity is the new single-family housing segment, driven by the lack of available existing homes in the market. Additionally, an initiative by President Joe Biden's administration to relocate semiconductor manufacturing to the US is contributing to the rise in factory construction, playing a crucial role in sustaining the economy.

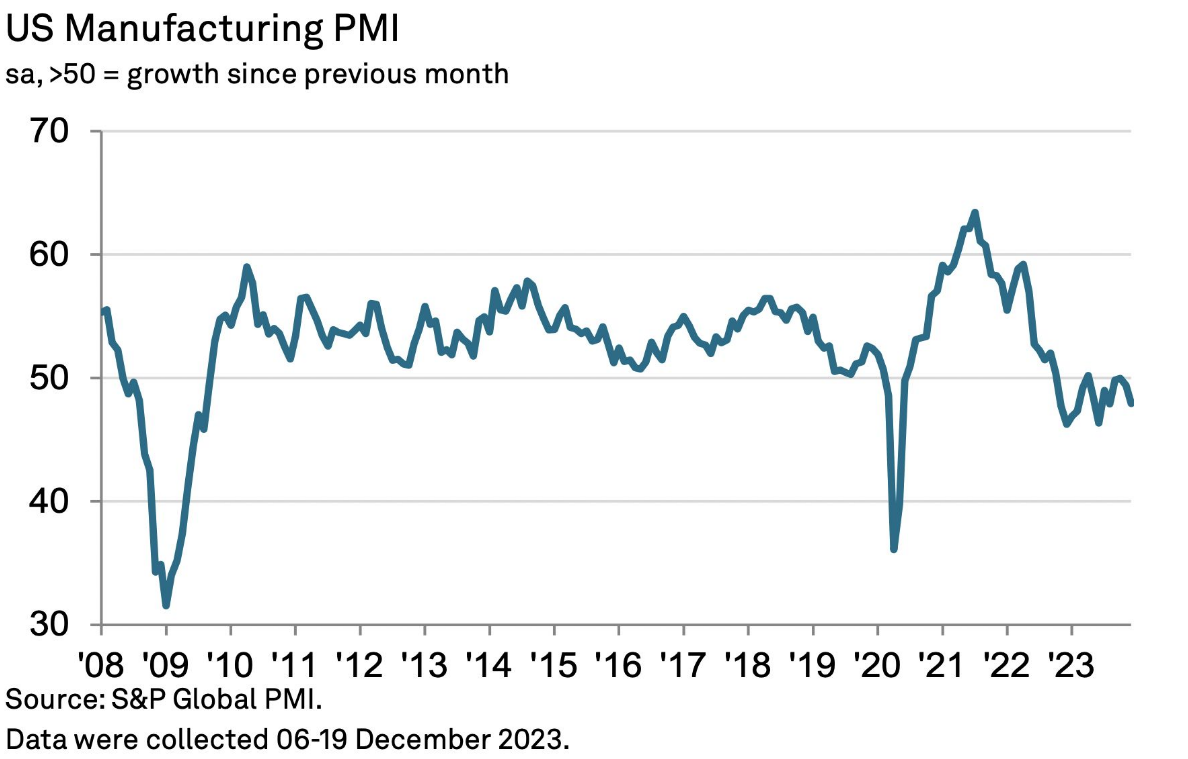


Figure 9. US Manufacturing PMI (Souce: S&P Global)

But even as the US construction sector demonstrates resilience against increased borrowing costs, the manufacturing industry faces ongoing challenges. According to a recent report from S&P Global, the manufacturing Purchasing Managers' Index (PMI) dipped to 47.9 in December, marking a significant decrease in new orders. This figure represents a downward revision from the initial estimate of 48.2 and is a decline from November's 49.4.

A PMI score below 50 signifies a contraction in the manufacturing sector, which constitutes 10.3 percent of the US economy. This downturn in factory activity is not just a domestic issue but a global one, with manufacturing in the Euro area also experiencing contraction for the 18th consecutive month. Additionally, major manufacturing nations in Asia are feeling the impact, partly due to the uneven economic recovery in China.

Fed Indicates Potential Rate Cuts by End of 2024, Awaits Data-Driven Decisions

In the final policy meeting of 2023, Federal Reserve (the Fed) officials collectively surmised that interest rates have potentially reached their peak. As revealed in the recently published minutes of this meeting, most participants predicted that lower rates **"would be appropriate by the end of 2024."** These insights highlight the central bank's cautious yet optimistic approach towards monetary policy in the face of shifting economic indicators.

The meeting, devoid of specific discussions on the timing of these potential rate reductions, maintained a balanced stance. The possibility of higher rates was not dismissed, contingent upon any resurgence in inflation rates. This cautious approach highlights the Fed’s adaptive strategy in response to economic fluctuations, a theme consistent throughout the past year.

While 2023 was marked initially by uncertainty and concerns about the potential economic impact of aggressive measures to combat inflation, the year concluded on a more hopeful note. Inflation rates decreased more rapidly than expected, and policymakers, initially bracing for a recession, now exhibit a growing confidence in achieving inflation control without severely disrupting economic stability.

"Participants pointed to the decline in inflation seen during 2023, noting the recent shift down in six-month inflation readings in particular," the minutes said. This observation has been pivotal in shaping the Federal Reserve's (the Fed) current policy outlook.

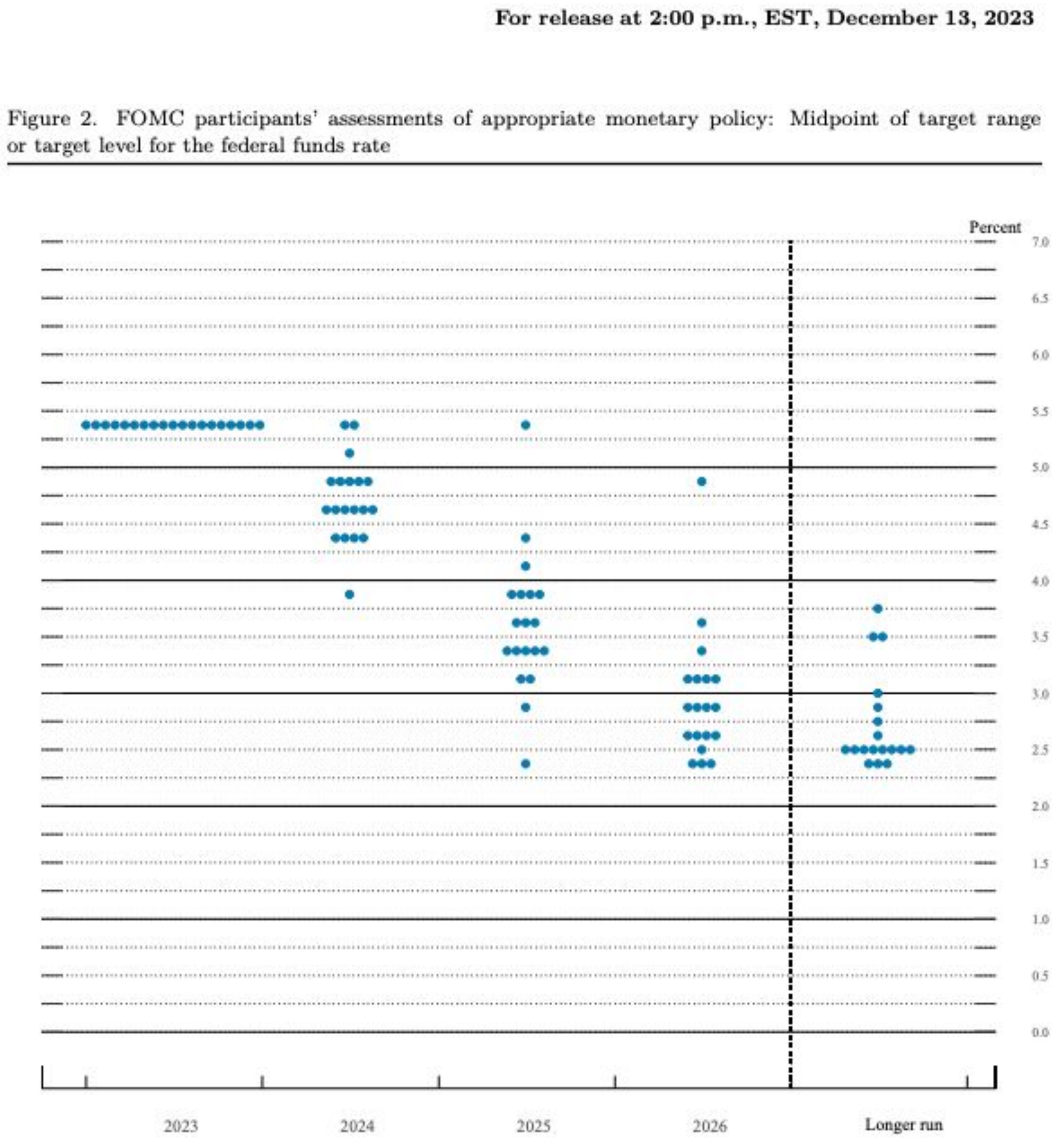


Figure 10. Fed's Dot Plot on its December 2023 meeting (Source: US Federal Reserve)

Looking ahead to 2024, the Fed's decision-making process appears to be far from linear. A diverse range of projections from individual Fed members, as illustrated in a recent "dot plot," indicates varied expectations regarding rate adjustments. These range from maintaining current rates to envisaging up to four cuts. Interestingly, market predictions lean towards a more aggressive stance, anticipating as many as six cuts and a high probability of policy loosening commencing as early as March.

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
1/31/2024				0.0%	0.0%	0.0%	0.0%	6.2%	93.8%
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.0%	62.3%	33.8%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	3.1%	48.9%	40.3%	7.7%
6/12/2024	0.0%	0.0%	0.0%	0.0%	2.9%	47.2%	40.6%	9.0%	0.3%
7/31/2024	0.0%	0.0%	0.0%	2.5%	40.4%	41.6%	13.8%	1.6%	0.0%
9/18/2024	0.0%	0.0%	2.2%	35.9%	41.5%	17.1%	3.1%	0.2%	0.0%
11/7/2024	0.0%	1.4%	23.7%	39.4%	26.0%	8.2%	1.3%	0.1%	0.0%
12/18/2024	1.1%	19.3%	36.3%	28.6%	11.7%	2.6%	0.3%	0.0%	0.0%

Figure 11. Fed Meeting Probabilities as of January 6, 2023 (Source: FedWatch Tool)

Despite these projections, the minutes underscore a prevailing sense of uncertainty regarding the exact timing for initiating rate cuts. The economic outlook is described as "unusually elevated in uncertainty," leaving room for both rate increases and decreases. The Fed emphasises the importance of a "careful and data-dependent" approach to future policy decisions, reflecting a commitment to adaptability in response to evolving economic data.

The next Fed meeting will be on January 30 to 31.

US Labor Market Shines in December with Robust Job Growth

The US labour market surpassed expectations in December, with a significant surge in employment and wage growth, a development that may cast doubts on anticipation of rate cuts by the Fed in March.

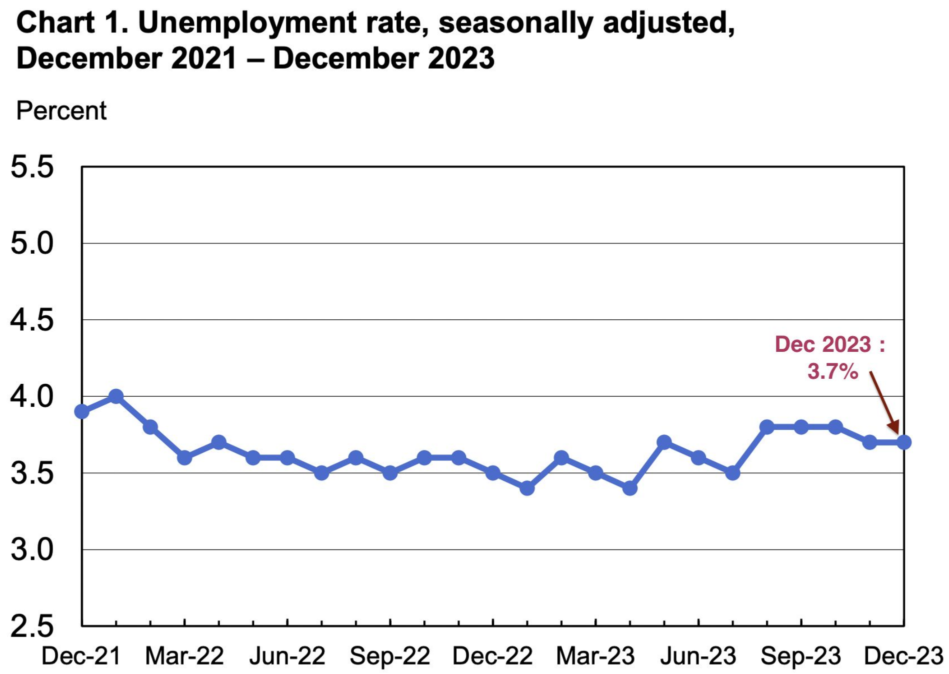


Figure 12. US Unemployment Rate (Source: Federal Reserve)

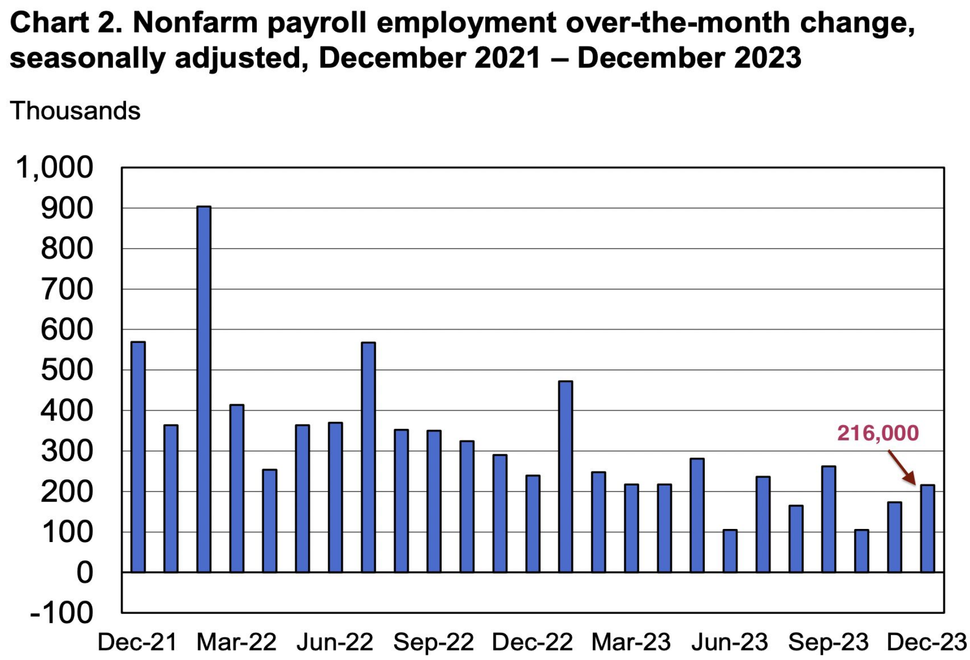


Figure 13. Nonfarm payroll employment over-the-month change (Source: US Bureau of Labor Statistics)

December saw the US economy add an impressive 216,000 jobs, concluding an extraordinary year with a total increase of 2.7 million jobs. This increase marks the strongest year for the labour market since the 1950s. The Bureau of Labor Statistics reported last Friday, January 5th, that a record 167 million Americans were employed by year-end, with the unemployment rate averaging 3.6 percent throughout the year and closing at 3.7 percent.

Moreover, wages saw a significant increase, with average hourly earnings growing by 0.4 percent in December and 4.1 percent on a year-over-year (YoY) basis. This uptick in wages, coupled with a decline in inflation, means that US. households are now experiencing wage increases that exceed the inflation rate by more than one percent. These gains are projected to continue as inflation is expected to ease to 2.5 percent by year's end, thereby strengthening household finances and boosting consumption.

However, there were some cracks in the employment report. It revealed that job growth in October and November was revised down by 71,000 positions. The unchanged unemployment rate of 3.7 percent in the latest month was attributed to a significant drop in labour force participation, negating much of the progress made since February. The number of household-employed individuals saw a sharp decline, and there was a slight reduction in average working hours compared to November. Additionally, there was an uptick in part-time employment due to economic reasons, with 217,000 more people working part-time. The broader measure of unemployment measure, unemployment rate, which includes those who have stopped looking for work and those unable to find full-time jobs, edged up to 7.1 percent from 7.0 percent.

Despite these challenges, the report suggests the economy staved off recession last year and is projected to maintain growth throughout 2024, buoyed by the resilience of the labour market which underpins consumer spending.

The gradual labour market cooldown remains in place but the lingering labour market resilience and strength in wage growth could keep the Fed on the sidelines for longer than the markets currently expect.

The slowdown in job and wage growth over the past year forms part of a broader policy framework that has contributed to lower inflation rates. The Fed appears set to respond to the downward inflation trend, as evidenced by the drop in the personal consumption expenditures index to 2.8 percent in the third quarter. This paved the waypaved way to expectations of gradual rate cuts this year.

While the central bank's policy currently balances concerns over price stability and optimal employment levels, a shift in focus towards employment and economic growth is likely if hiring cools down further.

NEWS FROM THE CRYPTO-SPHERE

Major Firms Gear Up for Potential Spot Bitcoin ETF with Key SEC Filings

Figure 14. Major Firms Gear Up for Potential Spot Bitcoin ETF with Key SEC Filings

- **Grayscale, Ark Investments, Valkyrie, and VanEck, have filed Form 8-As with the SEC, advancing towards launching a potential spot bitcoin ETF.**
- **Grayscale aims to convert its GBTC fund into a spot bitcoin ETF, amidst heightened anticipation for the first U.S. spot bitcoin ETF, pending SEC approval.**

Several leading investment firms, including Grayscale, Ark Investments, Valkyrie, and VanEck, had filed their Form 8-As as of last Thursday, January 4th. This step is a crucial part of the process for launching a potential spot Bitcoin exchange-traded fund (ETF). The submission of these forms is a prerequisite for trading on stock exchanges, pending product approval.

This flurry of activity follows closely on the heels of Fidelity's recent Form 8-A filing last Wednesday, January 3rd and arrives just before a critical decision date set by the Securities and Exchange Commission (SEC). The SEC is expected to soon announce its stance on the approval of a spot bitcoin ETF.

Grayscale is particularly focused on converting its primary GBTC fund into a spot Bitcoin ETF, following its notable legal victory in August, where the court directed the SEC to reconsider Grayscale's application for the ETF. Other major players, such as BlackRock and Fidelity, have also shown interest in establishing a spot Bitcoin ETF over the past year.

“The Grayscale team is committed to working constructively with the SEC to uplist GBTC to NYSE Arca, and will continue to share timely updates as additional information becomes available.”, according to Craig Salm, Grayscale’s Chief Legal Officer.

Visa Introduces Web3-Based Loyalty Reward System to Enhance Customer Engagement

Figure 15. Visa Introduces Web3-Based Loyalty Reward System to Enhance Customer Engagement

- **Visa has launched a Web3-based loyalty reward system, offering users digital wallets to collect various digital assets, such as tokenised tickets and loyalty coins, for use in virtual and physical experiences**

Visa, a leader in the global payments industry, launched an innovative loyalty reward system leveraging Web3 technology last Thursday, January 4th. This new system is designed to elevate customer engagement by providing users with digital wallets. These wallets enable the accumulation of various digital assets, including tokenized tickets, loyalty coins, digital collectables, and more. These assets can be utilised for a range of virtual and physical experiences, as outlined in Visa's recent announcements.

The company emphasises the user-friendly nature of this platform, stating that even individuals without in-depth knowledge of blockchain technology can easily navigate and enjoy the rewards. The system is designed to simplify the Web3 experience for both their partners and consumers. This ease of use is highlighted by a straightforward two-click mobile registration process, making the platform accessible and convenient for a wide user base. This move by Visa represents a significant step in integrating cutting-edge technology to enhance consumer engagement in the digital era.

Celsius Commences Ether Unstaking for Creditor Payouts Amidst Bankruptcy Proceedings

Figure 16. Celsius Commences Ether Unstaking for Creditor Payouts Amidst Bankruptcy Proceedings

- **Celsius has begun recalling and rebalancing its crypto assets, including Ether, to facilitate timely distributions to creditors amidst ongoing bankruptcy proceedings since July 2022.**
- **The firm plans to use the unstaked Ether to cover restructuring costs and to expedite payments**

Celsius, the embattled cryptocurrency lending platform, has recently announced the commencement of its crypto asset recall and rebalancing strategy, focusing on Ether, as part of its plan for "timely distributions to creditors."

The firm is strategically reallocating its assets to maintain sufficient liquidity, a crucial step in facilitating potential distributions. A significant part of this reallocation involves the unstaking of its Ether holdings. The released Ether is intended to cover various expenses encountered during the restructuring phase and to expedite the distribution of funds to creditors.

Figure 17. Celsius Announcement on X on the process of recalling and rebalancing assets

This update is a ray of hope for clients who have been awaiting the return of their investments for over a year and a half. According to Celsius's recovery blueprint, the repayment to creditors will be made in either BTC or Ether.

Blockchain analysis firm Nansen has revealed that Celsius currently holds a substantial portion of the ETH -, approximately one-third- in the pending withdrawal queue. This amounts to a significant 206,300 ETH, valued at around $468.5 million based on current market rates. Nansen also highlighted that there are 19,906 validators in line for a complete exit, with Celsius having already withdrawn 40,249 ETH.

Bank of Spain Launches Wholesale CBDC Experiment Program

Figure 18. Bank of Spain Launches Wholesale CBDC Experiment Program

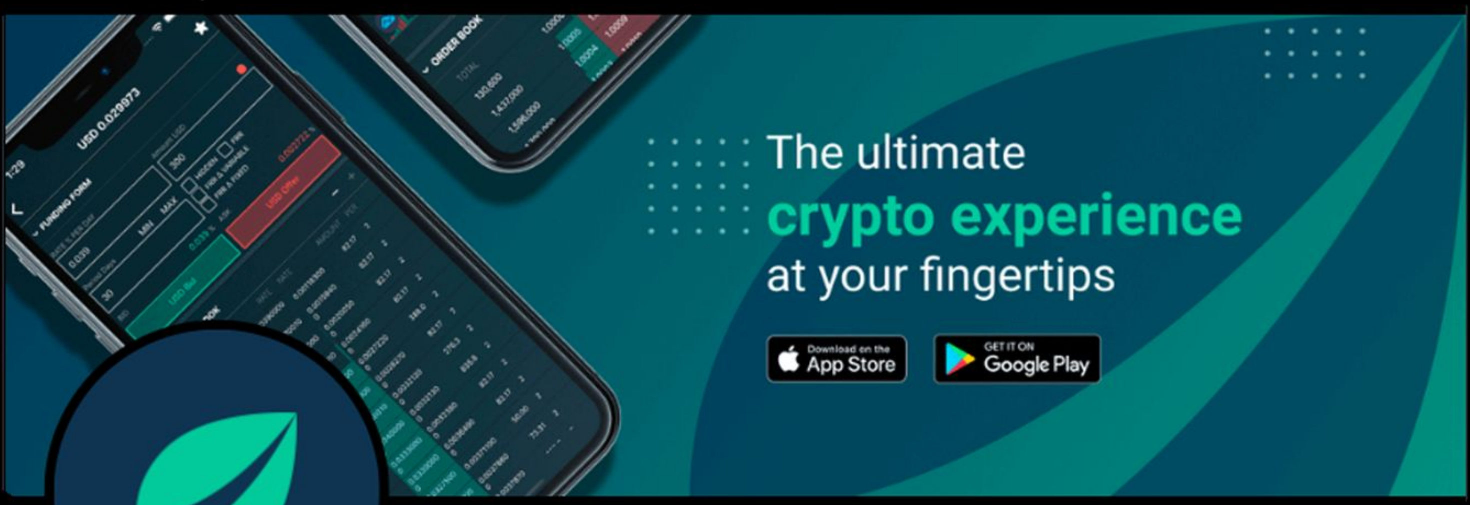
- **The Bank of Spain is initiating a test program for wholesale central bank digital currencies, seeking partnerships from the finance and tech sectors.**
- **The initiative aims to explore fund movement, financial asset settlement, and the impact of a wholesale CBDC on existing processes**

The Bank of Spain (BDE) announced an initiative, last Wednesday, January 3rd, that aimed to experiment with wholesale central bank digital currencies (CBDCs), inviting collaborations from the financial and technological sectors within Spain, d. The programme aims to explore the dynamics of fund transfers, the settlement of financial assets, and assess the advantages and challenges of incorporating a wholesale CBDC into its existing systems.

Wholesale CBDCs are distinguished from their retail counterparts as their primary usage among banks is intended for maintaining reserves with the central bank, rather than being directly accessible to the general public.

This initiative is a distinct endeavour of the BDE, separate from the ongoing European Union research into the digital euro.

The BDE has established specific criteria for participants in the project and has indicated that its main intention is to evaluate the potential of CBDCs for wholesale applications, particularly interbank purposes.



https://t.me/bitfinex

BITFINEX Alpha