

BITFINEX Alpha



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EXECUTIVE SUMMARY

This week's on-chain analysis delves into the intricacies of the crypto market's dynamics, marked by significant shifts in ETF flows and the behaviours of short-term holders. A key highlight is the [substantial net outflows from Grayscale Bitcoin Trust ETF](#) since its conversion into a spot Bitcoin ETF, which has led to a notable \$4.3 billion reduction in assets. This event has been pivotal in driving the recent market-wide correction, with BTC experiencing a 20 percent decline from highs of \$48,700 to lows of \$38,600.

ETF outflows, particularly from GBTC, have [contributed to increased volatility and the current market downturn](#). This is further compounded by FTX's liquidation of its GBTC holdings, adding to the selling pressure.

We also focus on [short-term Bitcoin holders who have recently realised significant profits](#). We believe BTC's short-term price stability and future direction are closely linked to the realised price of these short-term holders, which has historically acted as a key support level during similar market corrections.

The US economy entered 2024 on a strong note with a [significant upswing in business operations in January](#), marking a robust start to the year. This resurgence in economic activity also coincided with an easing of inflationary pressures, as evidenced by the lowest increase in company product prices in more than three years.

Following this positive start, the [housing market also displayed vitality](#), with a notable surge in new single-family home sales in December, thanks in part to a decline in mortgage rates. This underscored the housing sector's contribution to economic growth.

Despite the backdrop of a protracted 21-month decline in key economic indicators such as the [Leading Economic Indicator \(LEI\)](#), which saw its smallest decrease since March 2022 in December, the [economy showed its mettle by expanding at a 3.3 percent annual rate in the last quarter of the year](#). Consumer spending remained a steadfast support for the economy during this period.

The Bureau of Economic Analysis highlighted that the [Personal Consumption Expenditures \(PCE\) rose by 0.2 percent](#) in the month preceding January 26th, after a slight decline in November. Furthermore, the [year-over-year core PCE price index saw a 2.9 percent increase](#), the smallest annual rise since March 2021, edging closer to the Federal Reserve's inflation target of 2 percent.

This brings about questions regarding the sustainability of this cooling inflation trend.

In the latest from the crypto-sphere, the landscape of cryptocurrency continues to evolve with significant developments influencing both the technology and regulatory aspects of the sphere.

The [BIS Innovation Hub has made a strategic move by introducing Project Promissa](#), a blockchain tokenisation initiative that is set to digitise promissory notes through the use of distributed ledger technology, aiming to enhance the management and transparency of these financial instruments.

In terms of user adoption, [Polygon has displayed remarkable growth, nearly matching Ethereum's pace by acquiring 15.24 million users in 2023](#), just shy of Ethereum's 15.4 million. This growth signals robust competition and diversification within the crypto ecosystem.

Despite the previous year's trend where Non-Fungible Tokens (NFT) dominated headlines, a [significant pivot towards Decentralized Finance \(DeFi\) activities has been noted](#).

In regulatory news, the [US government is poised to auction off approximately 2,934 Bitcoins](#), which at current valuations stands around \$133 million. These assets were seized in connection with illegal drug sales on the dark web, with individuals such as Ryan Farace and Sean Bridges implicated in the operations.

The [Securities and Exchange Commission \(SEC\) has introduced delays in pivotal decisions affecting the cryptocurrency market](#). Specifically, the verdict on the transformation of Grayscale's Ethereum trust and BlackRock's application into spot crypto Exchange Traded Funds (ETFs) has been postponed.

Moreover, a [legal skirmish has unfolded between Binance and the SEC](#). The dispute centres around the production of evidence and the deposition of witnesses, with disagreements over the scope and necessity of the SEC's investigation into BAM Trading Services, the parent company of Binance.US.

These developments reflect a dynamic and rapidly changing domain where technology, market dynamics, and regulatory frameworks are in constant interplay, shaping the future of cryptocurrencies and their integration into the broader financial landscape. Happy trading!

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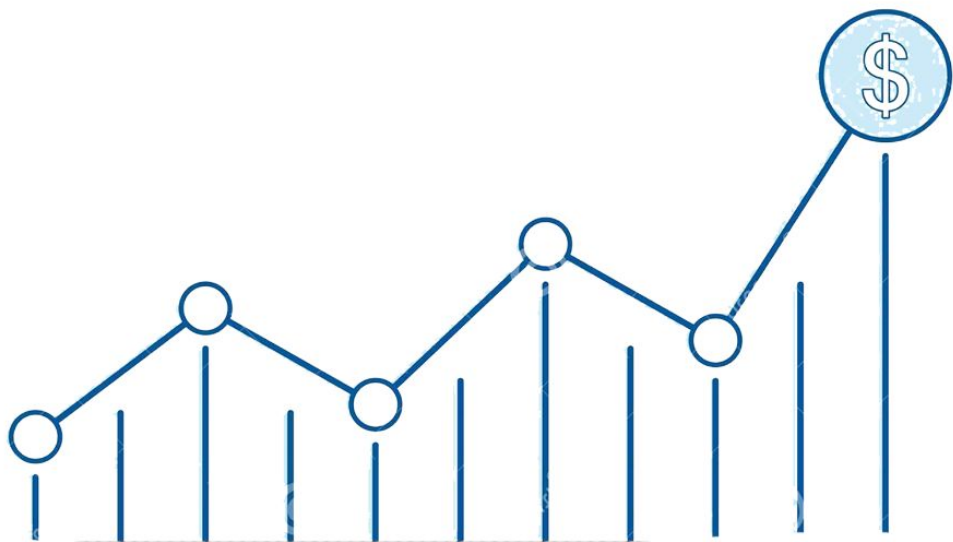
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WHAT'S ON-CHAIN THIS WEEK?



GBTC ETF Outflows Negatively Impact BTC Price

The net outflows from Grayscale Bitcoin Trust ETF (GBTC) since its conversion to a spot Bitcoin ETF on 16th January currently amounts to about \$4.3 billion. The highest net inflow for an individual spot Bitcoin ETF is for Blackrock's iShares Bitcoin Trust with a net positive inflow of \$1.92 billion. (refer Figure below) This immense realisation of profits from Grayscale's long standing Bitcoin trust on ETF conversion can be one of the main proponents for the market wide correction which saw BTC move from over \$48,700 to a low of \$38,600.



Figure 1. GBTC (Grayscale) and IBIT (Ishares, Blackrock) spot ETF flows representing the largest total positive and negative flows for spot Bitcoin ETFs. (source: etf.com)

BTC corrected more than 20 percent post a small move up after ETF approval which turned out to be a sell the news event with the effect enhanced because of the GBTC outflows as shown in the figure below.



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

The effect of the ETF flows on price cannot be taken lightly, as is clear from the figure above, the only time when price did not budge and intra-day volatility was negligible since January 11th was on January 20th which was the only day with no ETF flows.

Since Grayscale's Bitcoin Trust was converted into an Exchange-Traded Fund (ETF), it has become the world's largest Bitcoin ETF, initially boasting over \$28.6 billion in assets under management but now closer to \$24 billion. This significant development has had a notable impact on the market dynamics.

Following this conversion, failed crypto exchange FTX sold off a substantial portion of its holdings in GBTC. The sale amounted to approximately 22 million shares, valued close to \$1 billion, effectively reducing FTX's ownership in GBTC to zero. This move by FTX reflects a significant reallocation of its investment in the Bitcoin ETF space.

Even prior to the SEC's approval of spot ETFs, a fee competition was already intensifying in this sector. While Grayscale's competitors were charging fees ranging from 0.2 percent to 0.9 percent, GBTC maintained a fee of 1.5 percent. This higher fee structure might be influencing the migration of investors from GBTC to other ETFs, particularly towards traditional finance (TradFi) giants that have more experience in managing ETFs. This trend suggests that investors are seeking more cost-effective avenues to gain exposure to Bitcoin, leading to shifts in capital within the ETF landscape. However, the shifting of investors seems to be simmering down as the volumes for Bitcoin fund flows continues to gradually decline as shown in the figure below.

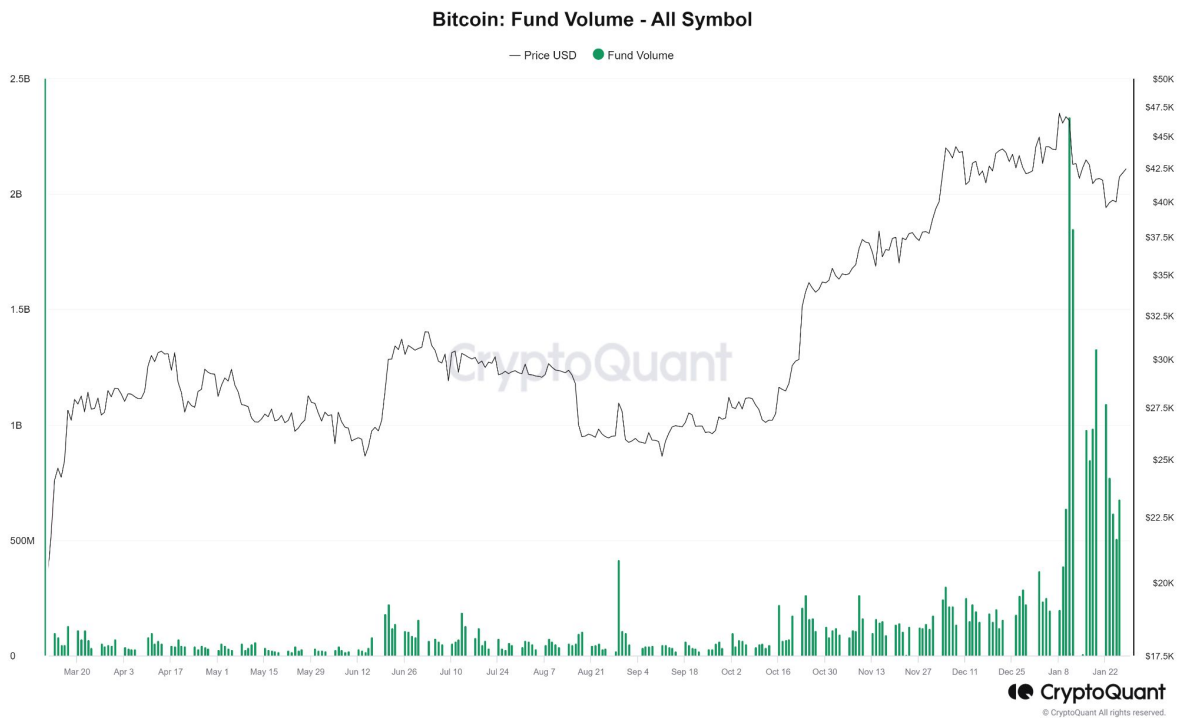


Figure 3. Bitcoin Net Fund Volume. (source: CryptoQuant)

Short-Term Holders Have Realised Significant Profits

Since the first Blackrock ETF filing in October 2023, digital assets have continued to perform extremely well even after accounting for the 20 percent correction post ETF approval. The total BTC supply in profit reached a low of 75 percent, down from 91 percent on January 8th. (refer Figure below) Additionally, the unrealised profit of short-term holders has fallen from 48 percent in December 2023 to eight percent after the recent price decline.



Figure 4. Bitcoin Supply In Profit In Percentage Terms. (source: CryptoQuant)

In one of our previous *Bitfinex Alpha* editions, we identified the short-term holder's realised price as a key dynamic support level for BTC. Historically, in all instances where the unrealised profits of short-term Bitcoin holders exceeded 30 percent, this specific level was consistently reached before any substantial upward correction. This pattern has been observed once again in the recent market movements.

Before BTC rebounded above the \$40,000 mark following its 20 percent correction, it closely approached the short-term holder realised price, which acted as a pivotal support level. This precise move up from this level occurred just before a reversal in the short-term trend. The current value of the short-term holder realised price was around \$38,800, and notably, the lowest price recorded for BTC on Bitfinex on January 23rd was \$38,572. This correlation underscores the significance of the short-term holder realised price in determining potential turnaround points in Bitcoin's price trajectory, particularly after significant market corrections.



Figure 5. BTC Price and Short-Term Holder Realised Price. (source: ChainExposed)

The recent market activity, while not conclusively indicating a long-term bottom for BTC, does suggest a temporary easing of market volatility and selling pressure. This stabilisation points towards a period of ranging market conditions for BTC, at least for the near-term future.

It's noteworthy that the unrealized profit of short-term Bitcoin holders has seen a significant decrease, dropping from 48 percent in December 2023 to just eight percent following the recent price decline. (refer Figure below)

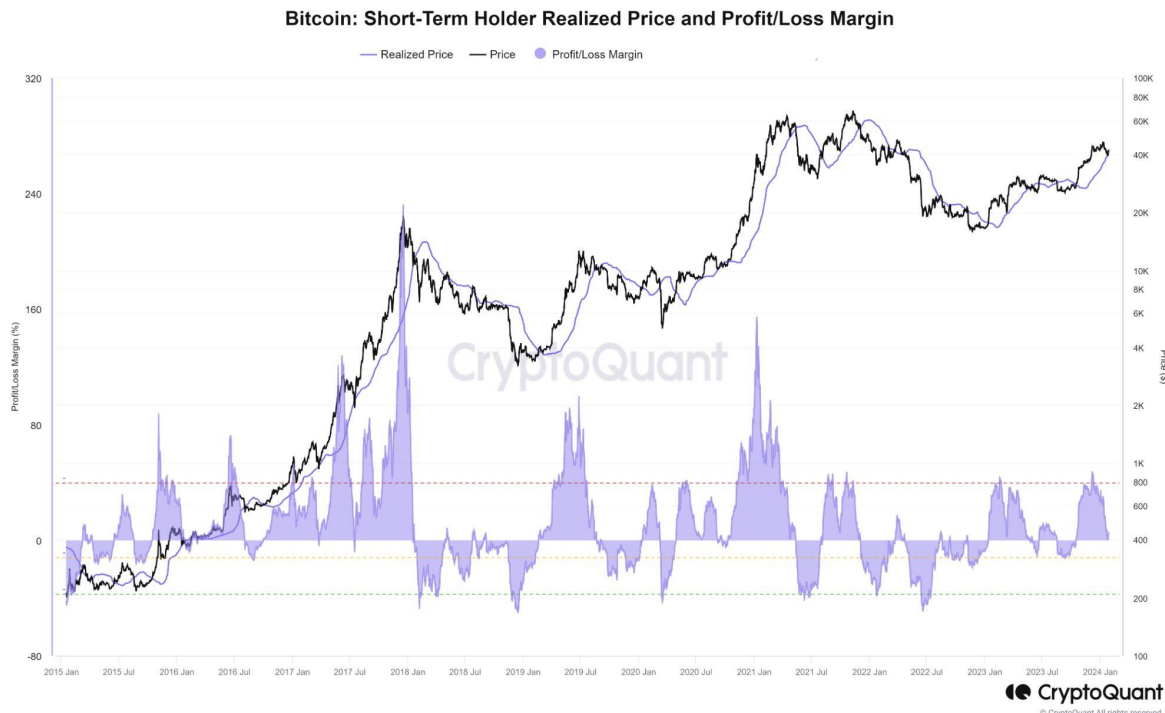



Figure 6. Bitcoin Short-Term Holder Realised Price and Profit/Loss Margin. (source: CryptoQuant)



However, for a more definitive prediction of a market bottom, it might be necessary to see this metric move to or below zero. Such a shift would indicate that short-term holders are no longer holding significant unrealized profits, a condition that often precedes a more sustained market recovery. Until such a movement in the metric is observed, the market may continue to experience fluctuating conditions without a clear long-term direction.



GENERAL MARKET UPDATE



US Economic Indicators Decline, Yet Recession Odds Diminish Amid Rate Cut Prospects

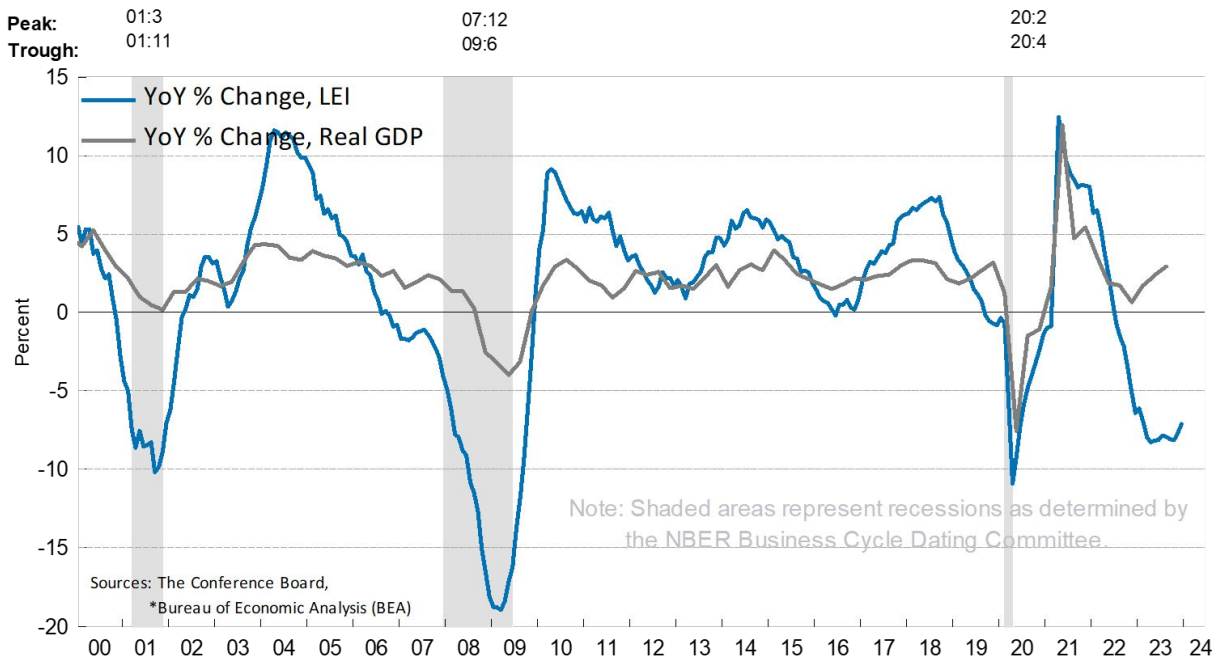


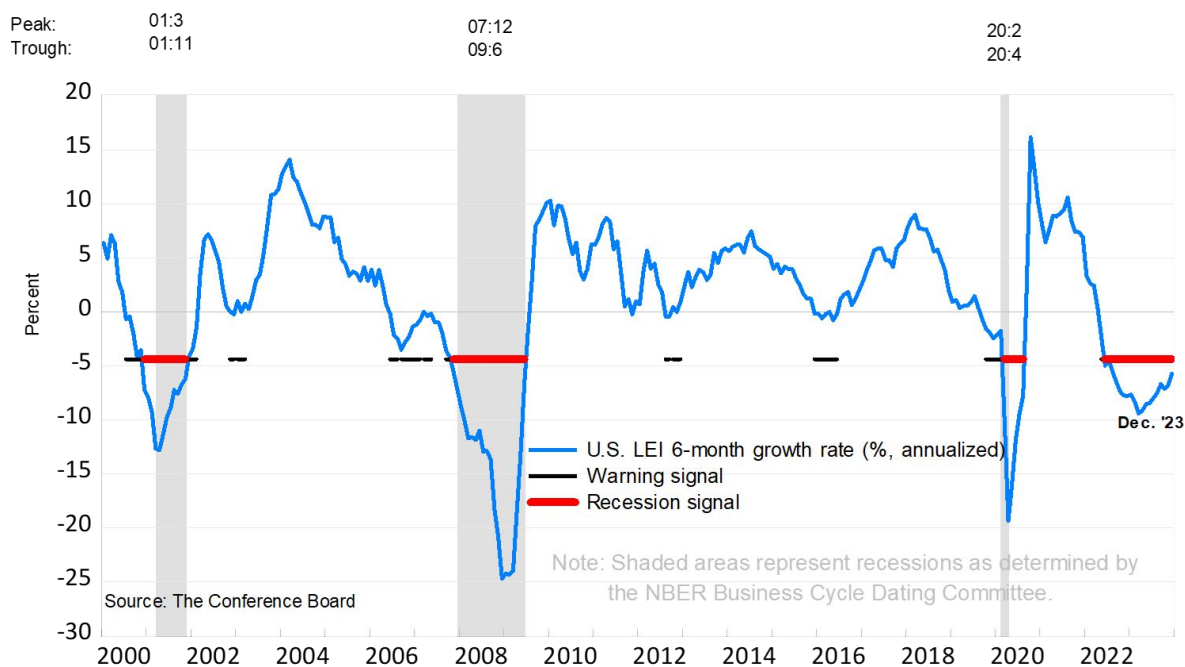
Figure 7. Leading Economic Indicator (The US Conference Board)

In December, the primary indicators tracking the health of the US economy like the LEI (Leading Economic Indicator) recorded a decline for the 21st consecutive month. Despite this, a recession still appears unlikely.

The LEI consists of a composite of ten individual indicators that covers manufacturing, the housing market, stock prices, bond yields, and consumer sentiment. These are compiled into a single index, giving a summary measure of the economic activity.

The primary index experienced a marginal reduction of 0.1 percent in the final month of last year, marking the smallest decrease since this series of declines which began in March 2022, according to [the US Conference Board](#) last Monday, January 22nd. This drop is less than the consensus forecast of 0.3 percent decline.

December's data showed a notable positive shift, with 60 percent of the indicators in the survey reflecting favourable conditions, a significant uptick from previous months.



**Figure 8. US Leading Economic Indicator Growth Rate and Recession Signals
(Source: The US Conference Board)**

Historically, prolonged negative trends in the index, as seen during 1973-1975 and 2007-2009, preceded economic recessions. However, the post-2020 pandemic economy has deviated from traditional patterns.

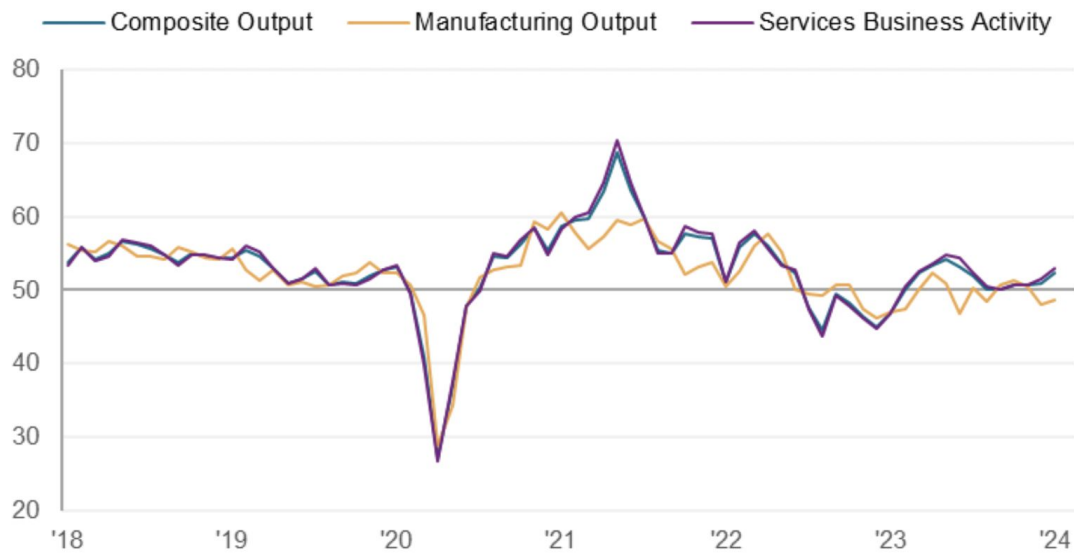
The economy exhibited robust growth, with a 4.9 percent annual increase in the third quarter and higher-than-expected growth of 3.3 percent in the fourth quarter, based on preliminary data from the [Bureau of Economic Analysis](#) last Thursday, January 25th,

While the risk of a recession looms, the likelihood of the US circumventing this economic downturn could significantly increase when the Federal Reserve (the Fed) decides to cut interest rates, a strategic move we anticipate unfolding within the current year.

Economic Momentum Gains in January with Soaring Business Activity and Easing Inflation Rates

S&P Global Flash US PMI

Index, sa, >50 = growth since previous month




Source: S&P Global PMI.
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Figure 9. S&P Global Flash US PMI (Source: S&P Global PMI)

In January, the US witnessed a significant upswing in business operations, indicating a robust start to 2024. The rise in economic activity was accompanied by a notable decrease in inflation, evidenced by the lowest company product price increases seen in over three and a half years.

[S&P Global reported](#) on Wednesday, January 24th, that the flash US Composite PMI Output Index, an indicator of manufacturing and service sector performance, reached 52.3 in January, from 50.9 in December, the highest in seven months.

The index, surpassing the 50-point threshold, signifies private sector expansion. Specifically, the manufacturing sector's PMI surged to a 15-month high of 50.3 from December's 47.9, while the services sector's PMI ascended to 52.9, the most substantial since June, up from 51.4 the previous month.



The composite index for new orders also saw growth, reaching a seven-month pinnacle of 52.2 in January, a jump from 51.2 in December. January also saw an uptrend in business input costs, yet the pace of price hikes has slowed down. The output price index fell to 51.7, its lowest since May 2020, down from December's 54.8.

We are becoming more confident that the economy will continue to grow this year, though at a moderate pace. However, challenges persist. Businesses reported increasing delays in material procurement, primarily due to severe trucking conditions caused by storms and other transportation hurdles. Manufacturing lead times saw their first extension in over a year, the most significant since October 2022. Further complicating the supply chain are geopolitical tensions, such as attacks by [Iran-aligned Houthi militants](#) on shipping lanes in the Red Sea and a [drought impacting the Panama Canal](#), both of which present potential inflationary risks.

Despite these concerns, the survey's findings point to intensified supply delays and a tight labour market, necessitating vigilant monitoring of cost pressures. Nevertheless, S&P Global's current report clearly suggests a strong economic growth and a continuous downward trend in inflation.

US Housing Market Sees Uplift with Strong New Home Sales in December

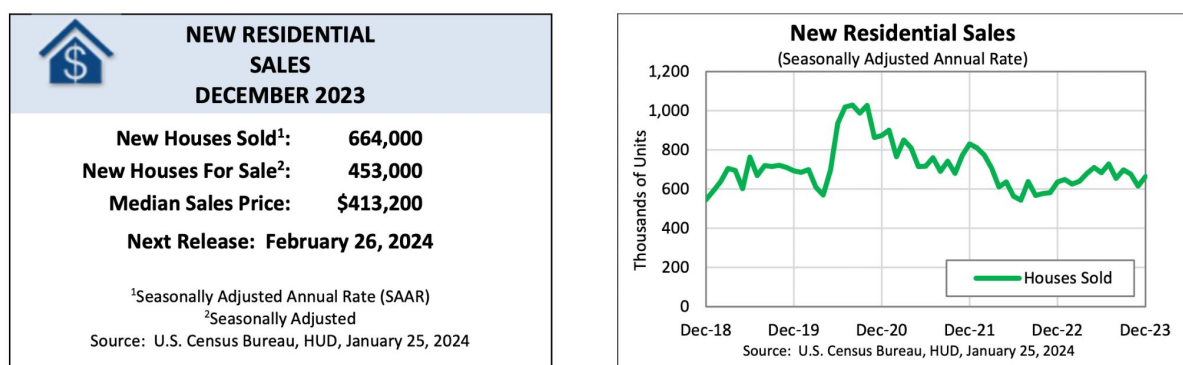


Figure 10. New Residential Sales (Source: US Commerce Department, Census Bureau)

In a [recent report by the Commerce Department's Census Bureau](#) last Thursday, January 25th, the US housing market experienced a significant boost in December, with new single-family home sales surging by eight percent to a seasonally adjusted annual rate of 664,000 units. This increase surpasses the revised November sales figures, which were adjusted to 615,000 units from an initial 590,000 units.

This upward trend in new home sales, which represent approximately 15 percent of all US home sales, is seen as a forward indicator of the housing market's health. Despite their tendency for month-to-month fluctuations, the year-on-year data for December showed a 4.4 percent increase, with a total of 668,000 new homes sold in 2023.

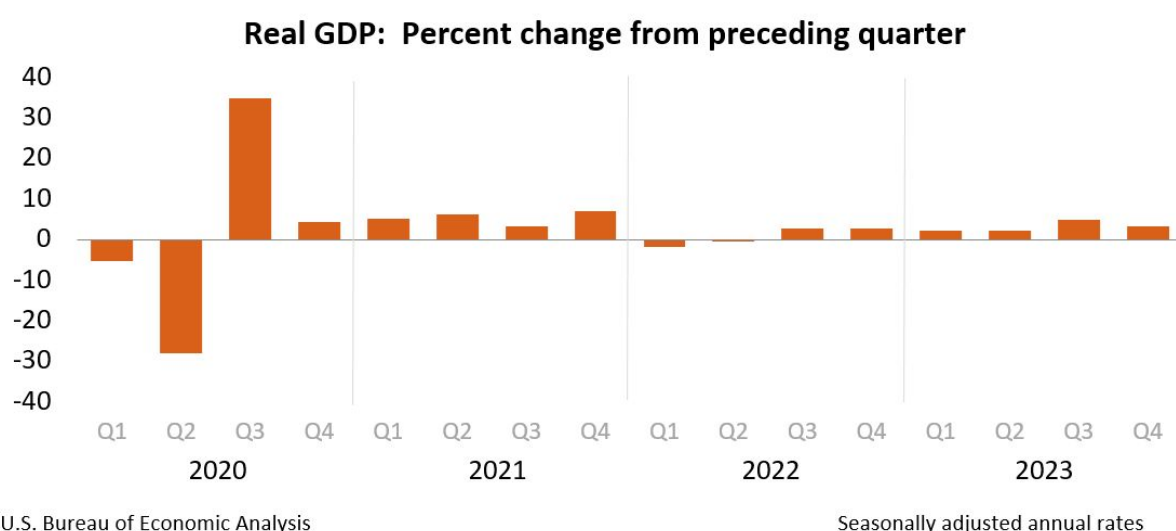
The recent decline in mortgage rates has played an important role in stimulating the housing market. The rate for the 30-year fixed-rate mortgage, a commonly chosen option, dropped significantly from a 23-year high of 7.79 percent in late October to an average of 6.60% last week.

While the median price of new homes in December witnessed a 13.8 percent decrease to \$413,200 compared to the previous year, overall house prices continue to climb due to the tight supply. The existing homes inventory, as noted by the National Association of Realtors, remains considerably lower than the pre-pandemic figures, with less than 2 million units available.

Based on December data, the time required to clear the supply of houses on the market dropped from 8.8 months in November to 8.2 months in December.

The housing market is increasingly dependent on the sale of newly constructed homes, partly due to the ongoing scarcity of existing home listings. With mortgage rates falling, the demand for new homes is expected to rise further, highlighting the sector's resilience and potential for growth.

US Economy Exhibits Resilience with 3.3 Percent Growth, Outpacing Expectations



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

The US economy demonstrated its resilience by expanding at a 3.3 percent annual rate during the last quarter, according to the data from [the Bureau of Economic Analysis](#) last Thursday, January 25th. The latest GDP data surpassed the consensus forecast of two percent growth, marking the most robust performance since 2014, excluding the post-pandemic surge. This growth, though a slight deceleration from the previous quarter's 4.9 percent, doesn't however signal an impending slowdown.

Consumer spending, a critical pillar of the economy, continued its robust trajectory, climbing by 2.8 percent. Consumer spending, constituting approximately 70 percent of the nation's economic activity, was complemented by a 2.1 percent increase in business investment, although this marked a slowdown from the preceding quarter's more vigorous pace.

Inventory adjustments, reflecting a moderated production of goods, added a modest \$5 billion, a tapering from the more aggressive stockpiling observed pre-holidays. Post-pandemic shifts have seen a pivot towards services like leisure, impacting goods manufacturers and the high mortgage rates-strained housing sector.

	2023				
	Aug.	Sept.	Oct.	Nov.	Dec.
	Percent change from preceding month				
Personal income:					
Current dollars	0.4	0.3	0.3	0.4	0.3
Disposable personal income:					
Current dollars	0.4	0.3	0.3	0.4	0.3
Chained (2017) dollars	0.0	-0.1	0.3	0.5	0.1
Personal consumption expenditures (PCE):					
Current dollars	0.3	0.7	0.0	0.4	0.7
Chained (2017) dollars	-0.1	0.4	0.0	0.5	0.5
Price indexes:					
PCE	0.4	0.4	0.0	-0.1	0.2
PCE, excluding food and energy	0.1	0.3	0.1	0.1	0.2
Price indexes:	Percent change from month one year ago				
PCE	3.3	3.4	2.9	2.6	2.6
PCE, excluding food and energy	3.7	3.6	3.4	3.2	2.9

Figure 13. Personal Income and Outlays, December 2023
(Source: Bureau of Economic Analysis)

In a separate [report from the Bureau of Economic Analysis](#) last Friday January 26th, the Personal Consumption Expenditures (PCE) experienced a 0.2 percent rise in the previous month, following a 0.1 percent decline in November. On a year-over-year (YoY) basis, this index saw a 2.6 percent increase, consistent with the growth observed in November. Excluding the more fluctuating components of food and energy, the core PCE price index marked a 0.2 percent increase, succeeding a 0.1 percent increase in November. The YoY core PCE price index, saw a 2.9 percent rise on an annual basis, marking the least significant increase since March 2021, compared to a 3.2 percent increase in November. This positions the primary inflation gauge closer to the Fed's target of 2 percent, the question however, is whether this trend is sustainable.

Despite the cooling inflation, the robust economic performance could pose a dilemma for the Fed. The sustained strength, with no immediate recession signs, suggests that the central bank might maintain a cautious stance on rate cuts, especially if future data will keep showing an upward risk to inflation. If the economy will not slow down, Inflation might not slow toward the Fed's target. Nevertheless, the current growth still shows that the US is not on the cusp of recession as many economists once predicted.



NEWS FROM THE CRYPTO-SPHERE



BIS Innovation Hub Embarks on Blockchain Tokenisation Venture and Advances CBDC Privacy Initiatives




Figure 14. BIS Innovation Hub Embarks on Blockchain Tokenisation Venture and Advances CBDC Privacy Initiatives

- The BIS Innovation Hub has introduced a blockchain tokenisation project, Project Promissa, in collaboration with the Swiss National Bank and the World Bank
- It aims to digitise promissory notes using distributed ledger technology for better management and transparency.

The Bank for International Settlements (BIS) Innovation Hub has announced the commencement of a pioneering blockchain tokenisation initiative and the expansion of its central bank digital currency (CBDC) privacy exploration program.

The BIS Innovation Hub develops public goods in the technology space to support central banks and improve the functioning of the financial system.

Revealed on Tuesday, the BIS [announced](#) six novel projects as part of its 2024 agenda for the Innovation Hub. The spectrum of projects spans various domains, including enhancing cyber security measures, combating financial misconduct, advancing CBDCs, and promoting environmentally sustainable finance.



A notable venture, [Project Promissa](#), marks a collaborative effort between the BIS, the Swiss National Bank, and the World Bank. The project's goal is to craft a proof-of-concept for a platform that enables the digital tokenisation of promissory notes. The initiative aims to harness distributed ledger technology to streamline the management and improve the transparency of these notes.

"The project will use distributed ledger technology to simplify their management and transparency," affirmed the BIS announcement. Cecilia Skingsley, the Head of the BIS Innovation Hub, emphasised the significance of tokenization, stating, "tokenisation is an important area where we have already launched one project and are planning more initiatives."

Promissory notes are financial instruments that detail a commitment by one party to repay a specified sum to another by a set date, essentially constituting a form of debt. The BIS highlighted the critical role of these traditionally paper-based notes in the financial ecosystem and anticipates concluding the proof-of-concept phase by early 2025.

Polygon Nearly Matches Ethereum in User Acquisition in 2023




Figure 15. Polygon Nearly Matches Ethereum in User Acquisition in 2023, Flipside Analytics Reveals

- Polygon nearly equaled Ethereum's user acquisition in 2023 with 15.24 million users, closely following Ethereum's 15.4 million, according to Flipside Analytics
- Despite a shift from NFT to DeFi activities, the analysis predicts a rise in DeFi applications and increased interaction with multiple blockchains in 2024

In a revealing study by blockchain analytics firm Flipside, the Layer-2 scaling solution, Polygon, is reported to have nearly matched Ethereum in the number of crypto users acquired in 2023. [The data](#) indicates a narrow margin, with Polygon securing 15.24 million users, just slightly behind Ethereum's 15.4 million.

Flipside's criteria for an "acquired" user are stringent, requiring at least two transactions on the network, one of which must have occurred in 2023. Polygon initially led in user acquisition in the first half of the year but was eventually surpassed by Ethereum in the latter half. Remarkably, Polygon recorded a substantial 2.8 million users in January alone, constituting over 40% of its total user growth in 2023.

The analysis also highlighted the performance of other blockchains, with Bitcoin ranking third at 10.65 million acquired users. Solana and Arbitrum completed the top five, in a study that monitored eight blockchains in total, including Optimism (OP), Avalanche (AVAX),



and Base (BASE). The total count of acquired users across these blockchains reached 62 million, with a notable peak in May, followed by a gradual decline.

The surge in user acquisition coincided with the Silicon Valley Bank collapse in March, suggesting a potential shift in trust from centralised to decentralised platforms. In terms of industry trends, Flipside observed a decrease in NFT activities in 2023, predicting a pivot towards decentralised finance (DeFi). The firm anticipates that DeFi operations, specifically decentralised exchange (DEX) trading and yield farming, will dominate the upcoming cycle. Additionally, it forecasts the emergence of innovative DeFi applications like the Ethereum restaking protocol Eigenlayer.

While an increased interaction with multiple chains is expected in 2024, most users are likely to remain dedicated to a single chain, indicating a trend of deepened, rather than broadened, blockchain engagement.

US Government to Dispose Over \$133 Million in Seized Bitcoin Linked to Dark Web Drug Operations




Figure 16. US Government to Dispose Over \$133 Million in Seized Bitcoin Linked to Dark Web Drug Operations

- **The US government plans to dispose of approximately 2,934 Bitcoins, valued at around \$133 million, confiscated from individuals involved in illegal drug sales on the dark web, including Ryan Farace and Sean Bridges.**
- **This move follows the sentencing of Farace and his father for operating an illicit Xanax distribution network and money laundering, amid speculation about the market impact of the large-scale Bitcoin sale.**

The US government disclosed its plan to dispose of an estimated \$117 million in Bitcoin confiscated during an operation targeting illicit drug transactions on the dark web. According to the announcement made on [January 8th](#), the authorities aim to dispose of approximately 2,875 Bitcoins acquired from Ryan Farace and Sean Bridges in 2021, coupled with an additional 59 bitcoins specifically attributed to Farace. At the time of this declaration, the cumulative value of the confiscated Bitcoins stood at around \$133 million.

Back in 2018, the US Department of Justice (DOJ) initiated legal proceedings against Farace, accusing him of operating an unlawful Xanax distribution network on the dark web. [According to the DOJ](#), "The indictment alleges that Farace distributed the drugs through sales on the dark web in exchange for Bitcoin." More recently, both Farace and his father, Joseph Farace, [received prison sentences](#) for their involvement in a conspiracy to launder money.



Farace, known by the online alias "Xanaxman," acknowledged in [a plea agreement](#) his use of Silk Road, a notorious platform on the dark web. The US authorities, while declaring their intention to auction off the seized bitcoins, have offered a 60-day window for any claims on the forfeited assets.

In a related development last December, a US appeals court [finalised the mandate](#) of forfeiture of 69,370 Bitcoins, associated with the now-defunct Silk Road, a prominent dark web marketplace. This action has been under close observation by market analysts, with widespread speculation about the potential repercussions of a significant bitcoin sale by the US government on the digital currency's market dynamics.

SEC Postpones Decision on Grayscale and BlackRock Crypto ETFs



Figure 17. SEC Postpones Decision on Grayscale and BlackRock Crypto ETFs


- **SEC delays verdict on converting Grayscale's Ethereum trust and BlackRock's application into spot crypto ETFs.**
- **Recent SEC approval of 11 spot bitcoin ETFs fuels market optimism, with significant gains in Bitcoin and Ether values**

The decision regarding Grayscale Investments' request to convert its Ethereum trust into a spot exchange-traded fund (ETF) has been postponed by the US Securities and Exchange Commission (SEC), [according to a filing](#) on Thursday, January 25th. Additionally, the regulatory body deferred its verdict on a comparable proposal from BlackRock, a major player in the finance sector, [as revealed by exchange filings](#) on Wednesday, January 24th.

Spot crypto ETFs mirror the actual market value of the digital asset they represent, offering investors the chance to participate in the token's market without directly purchasing the cryptocurrency.

This delay comes shortly after the SEC's landmark approval of 11 spot Bitcoin ETFs earlier in the month. This decision marked a significant milestone for the cryptocurrency sector, which has been advocating for the regulatory sanction of such products for over ten years.

The approval sparked widespread enthusiasm and raised expectations for a closer integration between traditional finance and the cryptocurrency industry, courtesy of these ETFs. This sentiment has fueled a surge in both the value of cryptocurrencies and the stocks related to the industry.



Over the past six months, Bitcoin has seen a notable increase of approximately 36 percent in its value. Similarly, Ether, ranked as the second-largest cryptocurrency in terms of market capitalisation, has experienced a gain of around 19 percent.

Given that GBTC's management fees are notably steeper compared to its competitors, the capital flight away from GBTC could be attributed to investors shifting their funds to more cost-effective options. GBTC charges a 1.5% fee, in contrast to other ETFs that offer rates as low as 0.20 percent, coupled with six months of free investing (See *Bitfinex Alpha 87*).

Recent GBTC redemption transactions however constitute only a minor portion of the over 19.6 million BTC currently in circulation. Hence, these activities are probably not the main driver of the market's downtrend observed since the launch of these ETFs.

However, with the company still in possession of over half a million Bitcoins, its potential to sway the broader market remains significant, especially if the current rate of outflows persists.

Ongoing Legal Battle: Binance-US SEC Dispute Over Evidence and Witness Depositions Escalates



Figure 18. Ongoing Legal Battle: Binance-US SEC Dispute

- **Binance and the SEC are in a legal dispute over evidence production and witness depositions**
- **There were disagreements on the scope and necessity of the SEC's investigation into BAM Trading Services, Binance.US's parent company**

The legal tussle between Binance and the United States Securities and Exchange Commission (SEC) intensifies, as recent court filings reveal disagreements over the production of evidence and the deposition of witnesses in the ongoing lawsuit against the cryptocurrency exchange. A recent [joint status report](#), filed on January 25th, highlights the SEC's position, stating that essential discovery elements from BAM Trading Services, the parent entity of Binance.US, remain unresolved.

The SEC has been rigorously pursuing evidence from Binance in the lawsuit, focusing particularly on the custody and liquidity of assets. The regulatory body is investigating whether Binance.US had undisclosed access to customer assets, drawing parallels to the FTX situation.



In response, BAM Trading Services' legal representatives maintain that they have adhered to all requirements for producing documents as outlined in the consent order and the expedited recovery request.

According to the filing, "At that point, BAM believes it will have more than reasonably complied with its obligations under the Consent Order and requests that expedited discovery be deemed complete as to BAM, particularly given how much harm and burden the SEC's TRO and approach to expedited discovery has caused BAM over the past seven months."

Attorneys are urging the court to recognise that BAM has fulfilled its obligations and argue for the completion of the expedited discovery process, citing significant harm and burden inflicted by the SEC's Temporary Restraining Order (TRO) and the approach taken during the discovery period.

The consent order, a legal framework dictating the SEC's investigative boundaries, is at the heart of BAM's argument. They claim that the SEC's probe oversteps the intended scope, which should focus solely on ensuring the safety and proper accounting of customer assets. BAM accuses the SEC of an overreaching investigation into its custody policies, both current and historical. Furthermore, BAM's legal team argues against the necessity for additional depositions from its current or former staff, stating that the SEC has already deposed numerous witnesses.

Discussions are ongoing between the legal representatives of BAM and the SEC regarding the potential examination of Binance's co-founder, Changpeng Zhao. The deliberations involve disagreements on various aspects of the deposition, including its scope, timing, location, and the number of depositions.

 **United States District Court** 
Western District of Washington

UNITED STATES OF AMERICA,
vs.
CHANGPENG ZHAO

APPEARANCE BOND
CASE No: CR23-179 RAJ

I understand that I may be released from custody, pending further proceedings in this case, on the conditions marked below:


- **Court Appearances.** I must appear in court at the *United States Courthouse, 700 Stewart Street, Seattle, Washington, Courtroom 13106*, on Friday, February 23, 2024 at 9:00 AM and at all other hearings in this case, including turning myself in to begin serving a sentence, should that occasion arise. I UNDERSTAND THAT A WILLFUL FAILURE TO APPEAR IN COURT AT A TIME SET FOR HEARING IS A SEPARATE CRIMINAL OFFENSE, PUNISHABLE BY UP TO 10 YEARS IMPRISONMENT AND A FINE OF \$250,000.
- **No Law Violations.** I must not commit a federal, state, or local crime during the period of release. I understand that if I commit a felony while on release, my sentence can be increased by a maximum of ten years. If I commit a misdemeanor while on release, my sentence can be increased by a maximum of one year. These sentences would be consecutive to all other applicable sentences.
- **DNA Testing.** I must cooperate in the collection of a DNA sample if the collection is authorized by 42 U.S.C. § 14135a.
- **No Controlled Substances.** I must not use, consume or possess any controlled substances, including medication, unless prescribed by a licensed and duly-qualified physician. If supervised by Pretrial Services, all prescriptions for controlled substances must be approved by the pretrial services officer.
- **Address.** I must furnish my attorney, and/or Pretrial Services if supervised, with my current address and telephone number (if any) where I will reside upon release and where I will receive any notices of hearing dates. I must report any changes in that address or telephone number to my attorney, and/or Pretrial Services if supervised, within one business day.
- **Victim and Witness Protection.** I must not harass, threaten, intimidate, tamper with, improperly influence, or injure the person or property of witnesses, jurors, informants, victims of crime, judicial officers, or other persons related to official proceedings before the Court, in violation of 18 U.S.C. § 1503, 1512, and 1513.

CASH or COLLATERAL:

1. \$175 million personal recognizance bond.
2. \$15 million held in DWT trust account.
3. Property pledged by FRP: No property must be posted as security with the court, but the owner(s) must complete and sign an Agreement to Forfeit Property form. The Agreement describes, by legal description or address, the property required by the Court. If defendant violates any condition of this appearance bond, the Court can order forfeited all property or cash that was posted as security or identified in an Agreement to Forfeit.
4. Guarantor #1 - \$250,000
5. Guarantor #2 - \$100,000

OTHER SPECIAL CONDITIONS:

- Defendant shall return to the United States fourteen days before the scheduled Sentencing date.
- The United States will seek review of this Order. If the assigned District Judge denies review, this Order will be effective on Monday, 11/27/2023 at 5:00pm. If the District Judge grants review by 11/27/2023, Defendant shall remain in the United States pending the District Judge's decision.



Zhao, who stepped down as Binance's CEO in November 2023 following a substantial [\\$4.3 billion settlement with US regulators](#), awaits his sentencing on February 23, 2024. Meanwhile, he remains on a \$175 million bond in the U.S., with the possibility of facing up to 18 months in prison. The next status report on this high-stakes case is expected by February 15th.

The landscape of cryptocurrency continues to evolve with significant developments influencing both the technology and regulatory aspects of the sphere.

The BIS Innovation Hub has made a strategic move by introducing Project Promissa, a blockchain tokenisation initiative, in partnership with the Swiss National Bank and the World Bank. This project aims to enhance the management and transparency of financial instruments.

In terms of user adoption, Polygon has displayed remarkable growth, nearly matching Ethereum's pace by acquiring 15.24 million users in 2023. This growth signals a robust competition and diversification within the crypto ecosystem.

In regulatory news, the US government is poised to auction off approximately 2,934 Bitcoins, which at current valuations stands around \$133 million. These assets were seized in connection with illegal drug sales on the dark web, with individuals such as Ryan Farace and Sean Bridges implicated in the operations.

The Securities and Exchange Commission (SEC) has introduced delays in pivotal decisions affecting the cryptocurrency market. Specifically, the verdict on the transformation of Grayscale's Ethereum trust and BlackRock's application into spot crypto Exchange Traded Funds (ETFs) has been postponed.

Moreover, a legal skirmish has unfolded between Binance and the SEC. The dispute centers around the production of evidence and the deposition of witnesses, with disagreements over the scope and necessity of the SEC's investigation into BAM Trading Services, the parent company of Binance US.



<https://t.me/bitfinex>

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