BITFINEX Alpha

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EXECUTIVE SUMMARY

Investor confidence in Bitcoin is rising, as evidenced by the rise in BTC at the end of last week. We attribute the gain in part to the slowdown in selling of Grayscale's GBTC funds, and a significant uptick in total crypto asset inflows.

Indeed, Bitcoin holdings of the new BTC ETFs are now larger than MicroStrategy's holdings and we expect flows to continue. These inflows, coupled with the impending 2024 Bitcoin halving and the sustained high levels of illiquid supply - with more than 70 percent of BTC in the hands of long-term holders - paint an exceptionally bullish picture for BTC price movements.

On-chain data is also increasingly supportive of a more bullish environment for Bitcoin, with in particular the MVRV Ratio rising above its one-year Simple Moving Average. The Short-Term Holder Realised Price is also providing positive signals as a slower rate of appreciation in this metric indicates that there is a deceleration in profit-taking, hinting at a market consensus that there might be more room for growth.

Meanwhile the current economic landscape in the US suggests to us that rate cuts are less likely to come in March and more likely now in May. The latest Senior Loan Officer Opinion Survey reveals a nuanced scenario where tightening lending criteria across most loan categories continued in the fourth quarter, though at a slower rate, in apparent response to an eased contraction in loan demand across all categories.

This is mirrored in the behaviour of business and consumers, who are showing a reluctance to take on new loans, as illustrated by a sharp drop in the growth of consumer credit. The backdrop of high interest rates has cast a shadow over consumer spending, which we believe presents a compelling case for the Fed to ease rates soon.

Balanced against that however, new data shows that the US services has accelerated, driven by an increase in new orders and a recovery in employment levels.

The picture is of a US economy, which has demonstrated remarkable resilience, despite the challenges posed by high borrowing costs, stringent credit conditions, and diminishing pandemic-era savings.

Substantial government spending and consumer savings, have been pivotal in driving GDP and employment growth. But it is clear that the higher borrowing costs and tighter credit conditions are in danger of suppressing economic activity, which should spur the Fed to react, if it is to sustain the momentum of economic growth and address emerging challenges.

In the cryptocurrency industry, the new Bitcoin ETFs hit a new milestone, with their holdings now exceeding those of MicroStrategy. This growth underscores the robust appetite for these products, particularly by investors who prefer the easier access they provide and who are willing to delegate custody to a third party.

Parallel to this momentum, the regulatory landscape continues to evolve, with Hong Kong unveiling a public consultation on a new licensing framework aimed at governing over-the-counter trading. This initiative seeks to bolster regulatory clarity and protect investors by curbing money laundering and terrorism financing risks.

The institutional enthusiasm for crypto investing is also reflected in Chicago Mercantile Exchange data showing a 35 percent uptick in trading volume in January, driven by a 42 percent increase in Bitcoin futures trading, which reached $73 billion, following the approvals of the spot Bitcoin ETFs.

Moreover, the regulatory environment is tightening elsewhere, with South Korea introducing the Virtual Asset User Protection Act, set to take effect on July 19. This legislation imposes stringent regulations on the cryptocurrency industry, including severe penalties for grave offences such as market manipulation and illegal trading.

Happy Trading!

INDEX

WHAT'S ON-CHAIN THIS WEEK?

GBTC Outflows Slow as BTC Nears Yearly High

Following a nearly 21 percent decline in the Bitcoin price following the ETF approvals in January 2024, BTC is now poised to achieve a new year-to-date high (refer Figure below), with its price approaching the $48,700 threshold last week. This uptrend coincides with a period of reduced outflows from GBTC and a general increase in inflows into digital asset funds.

Figure 1. BTC/USD 4H chart. (source: Bitfinex)

Recent weeks have seen a marked slowdown in outflows from GBTC, with this week's daily outflows averaging under $100 million (refer Figure below), compared to a peak of over $600 million in late January. The diminishing selling pressure from GBTC is a key factor underpinning the robust performance of BTC prices this week.

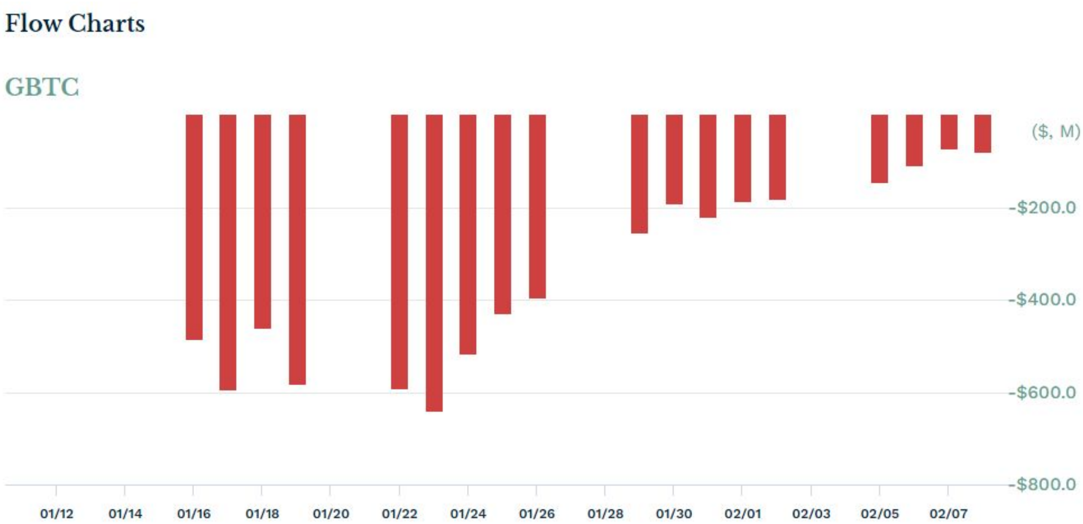

Figure 2. GBTC Daily Flows In USD Notional Terms. (source: etf.com)

While the initial price response to the ETF approval may have been underwhelming, the medium-to-long-term implications for these ETFs are unequivocally bullish. We can expect passive investment flows to steadily gravitate towards these accessible Bitcoin investment vehicles.

The second week of February witnessed substantial inflows into digital asset investment products, amounting to $708 million. This influx has elevated the year-to-date inflows to close to $1.6 billion (refer to Figure below), with total global crypto assets under management now standing at $53 billion.

Flows by Provider (US$m)

CoinShares	Week flows	MTD flows	YTD flows	AUM
Grayscale Investments LLC/L	-926.7	-326.6	-5,968	27,686
iShares ETFs/USA	883.5	269.7	3,067	3,116
Fidelity ETFs/USA	674.3	114.7	2,620	2,661
XBT Provider AB/Sweden	-8.2	-2.6	-44	2,362
21Shares AG	3.4	0.1	-48	2,162
ProShares ETFs/USA	-108.9	-22.0	179	1,898
Purpose Investments Inc ETF:	-36.5	-6.4	-147	1,716
ETC Issuance GmbH	-8.6	-3.5	-119	1,175
Other	235.6	74.4	2,036	10,106
Total	**707.8**	**97.8**	**1,576**	**52,883**

Figure 3. Digital Asset Flows By Provider. (source: Coinshares)

Bitcoin funds continue to lead these inflows, accounting for 99 percent of the total, while Solana also recorded significant inflows, amounting to $13 million.

Favourable On-chain Indicators for Bitcoin

The market experienced a downturn following the approval of the spot Bitcoin ETFs a development we previously reported as various unrealised profit and supply metrics seemed overextended. Although the price decline was less severe than anticipated, current on-chain metrics, including Market Value to Realised Value (MVRV) and realised price metrics across diverse investor cohorts, continue to indicate that we are still in the early stages of a bull market. These indicators suggest that the long-term trajectory for the year should see prices trending upwards.

The Market Value to Realised Value (MVRV) Ratio is commonly perceived as a macro oscillator, instrumental in analysing Bitcoin market cycles and particularly effective in identifying market tops and bottoms. High MVRV values (greater than 2.4) signal that the market is holding substantial unrealized profits. Conversely, low MVRV values (below 1.0) indicate unrealized losses in the market.

The accompanying chart illustrates the MVRV Ratio in orange, plotted against the one-year simple moving average (SMA) in blue. It's noteworthy that periods where the MVRV ratio exceeds the one-year SMA, typically correlates with bull markets, while intervals below the SMA are indicative of bear markets. Transition points in the cycle are frequently marked by the MVRV ratio decisively crossi

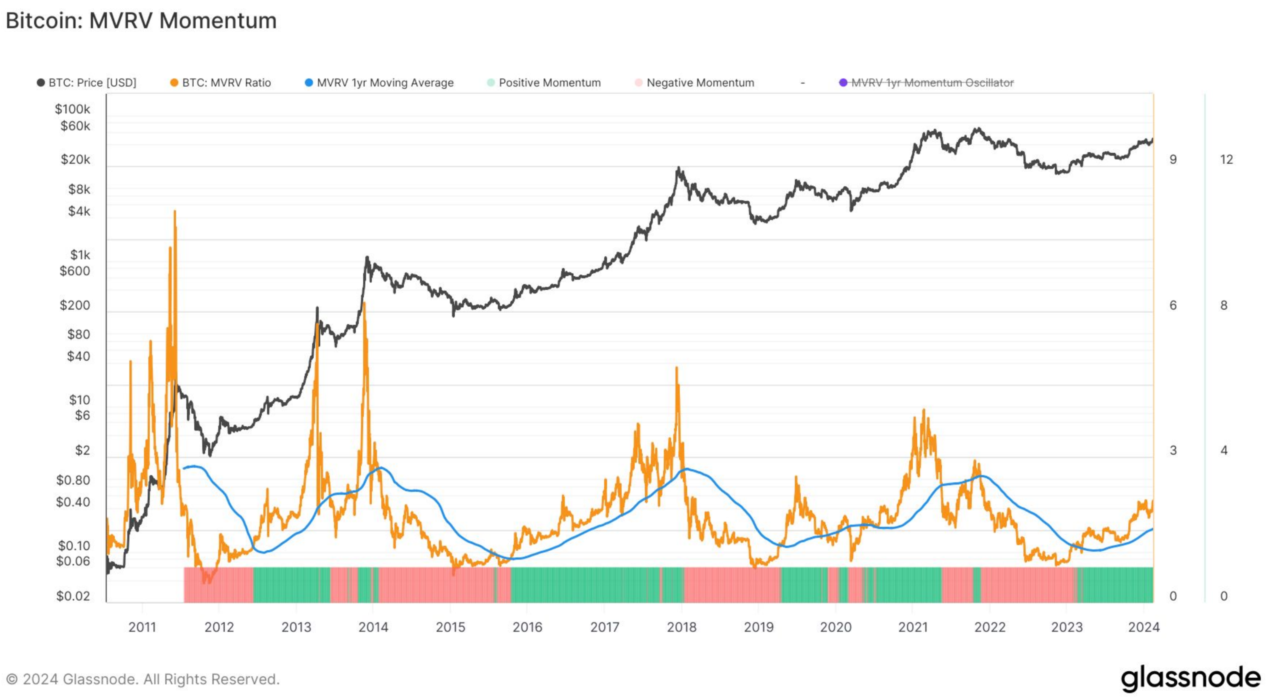

Figure 4. MVRV and its moving average vs BTC price across cycles. (source: Glassnode)

Presently, the MVRV is above its moving average for support, a movement that has historically signalled the continuation of a significant price appreciation phase for BTC. This crossover essentially reflects a heightened capacity and willingness among holders to maintain their spot positions prior to opting for profit-taking. The tendency for early profit-taking, observed previously, could be ascribed to a kind of post-traumatic stress disorder stemming from bear market experiences, where investors are quick to liquidate positions at the first sign of gains to avoid potential losses.

BTC has fully recuperated from the losses incurred following the post-ETF approval dip. The ongoing inflows into ETFs, coupled with the impending 2024 Bitcoin halving and the sustained high levels of illiquid supply, paint an exceptionally bullish picture for BTC price movements across all time horizons: short-term, medium-term, and long-term.

The rebound in BTC came after the price approached the Short-Term Holder Realised Price (STH RP), which has now increased to $40,090 (refer Figure below). Late 2023 and early 2024 saw a sharp increase in the STH-RP metric which is alarming as realised price is calculated once coins are moved and this meant that short-term holders were likely realising profit, however, the rate of change of this increase has reduced. It would likely be important for this metric to stall at current levels if BTC is to continue this uptrend past the $50,000 mark.

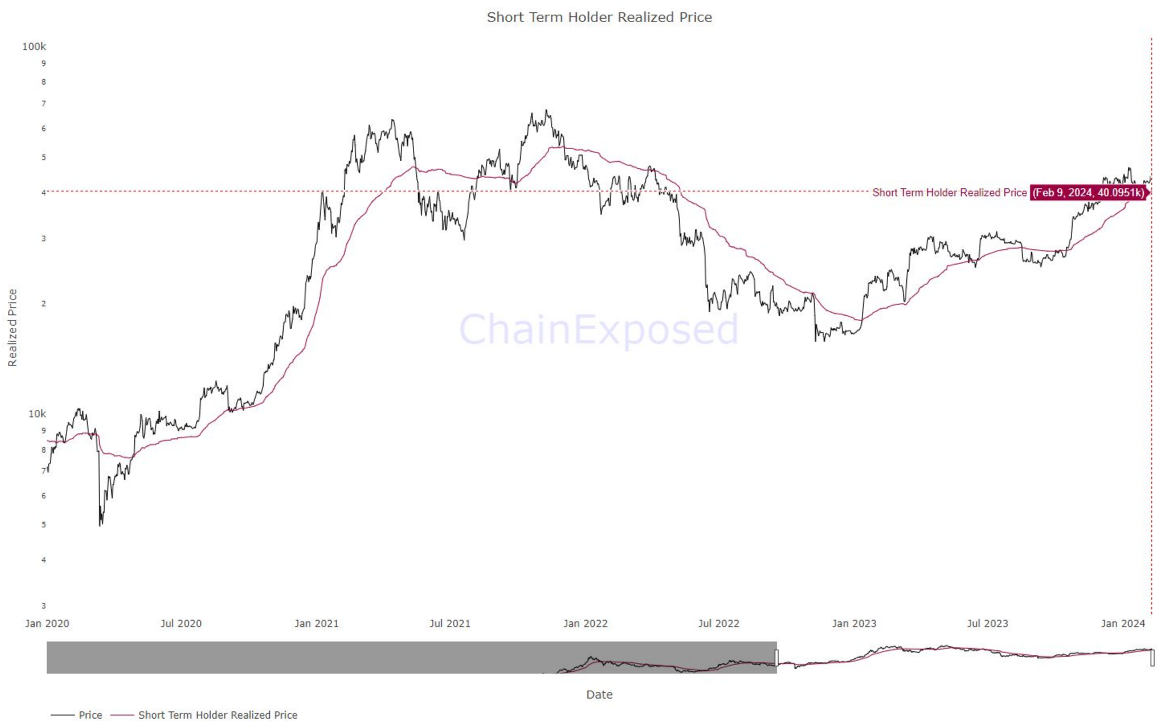

Figure 5. Short-Term Holder Realised Price vs BTC. (source: ChainExposed)

Regarding the issue of supply illiquidity, the percentage of Bitcoin's supply that has remained static for a year or longer continues to hover at record-high levels, just a few basis points shy of the all-time high value of 70.8 percent.

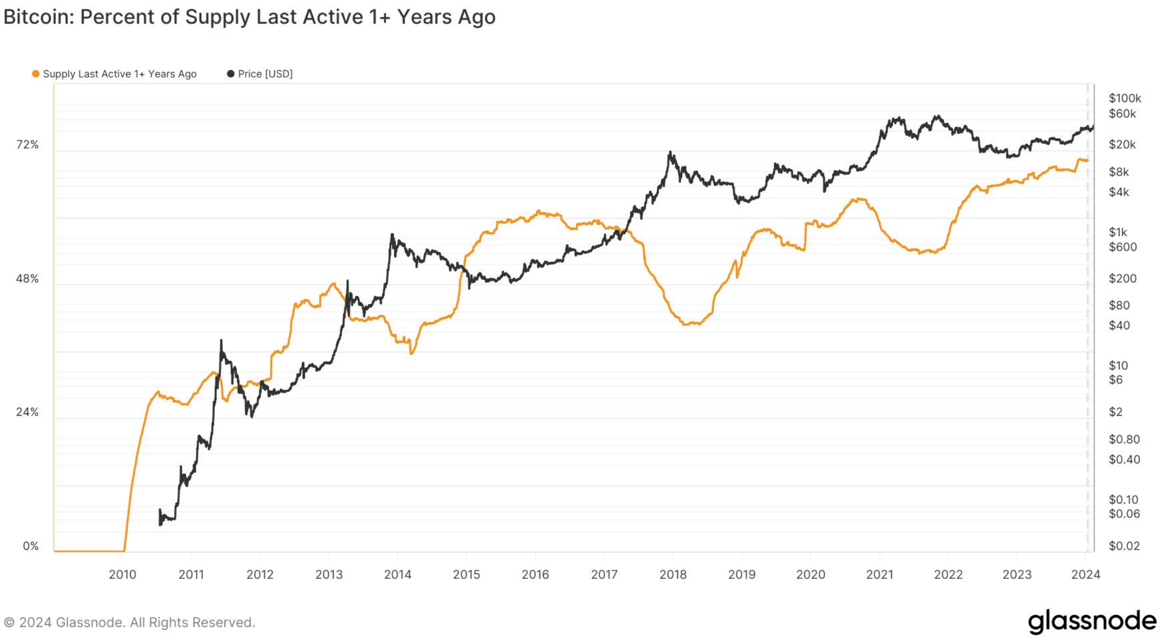

Figure 6. Bitcoin Supply Last Active More Than A Year Ago In Percentage Terms. (Source: Glassnode)

Despite a slight decrease following the approval of spot ETFs, the proportion of Bitcoin's supply that hasn't moved in over a year remains at historically high levels. This persistence in holding, especially in the absence of profit-taking by long-term holders even after a significant market pullback, is a positive indicator and typically signifies a bull market. However, it's crucial to recognize that while these metrics appear indicative of an early-stage bull market, several confirmatory signals like a complete flattening of the STH-RP metric and other on-chain metrics are needed before conclusively determining that the recent pullback was the final low preceding new all-time highs.

GENERAL MARKET UPDATE

US Banks' Lending Tightens but Shows Signs of Easing

The latest Senior Loan Officer Opinion Survey (SLOOS) from the Federal Reserve indicates that there is an ongoing trend of banks enforcing tighter lending standards over the past quarter, albeit with a reduced intensity compared to preceding quarters.

The demand for commercial and industrial loans has diminished, and banks noted "tighter standards and weaker demand for all commercial real estate (CRE) loan categories", according to the Fed's survey released last Monday, February 5th.

Delving deeper into commercial and industrial lending, it observed that "significant net shares of banks reported weaker demand for loans from firms of all sizes. Furthermore, a significant net share of banks reported a decrease in the number of inquiries from potential borrowers regarding the availability and terms of new credit lines or increases in existing lines". This indicates pervasive caution among US businesses, hesitant to invest in facilities and equipment, and a decrease in financing needs for inventory and corporate transactions.

The chart below shows the SLOOS survey responses from banks on tightening lending conditions on commercial and industrial loans, plotted against overall outstanding bank lending. When banks anticipate increased risks, they often tighten lending standards to mitigate potential losses. This tightening can lead to a reduction in lending activity, reflected in the overall outstanding bank lending figures. The chart suggests a potential decline in year-over-year bank lending in the coming months, with expectations of a rebound towards the end of 2024.

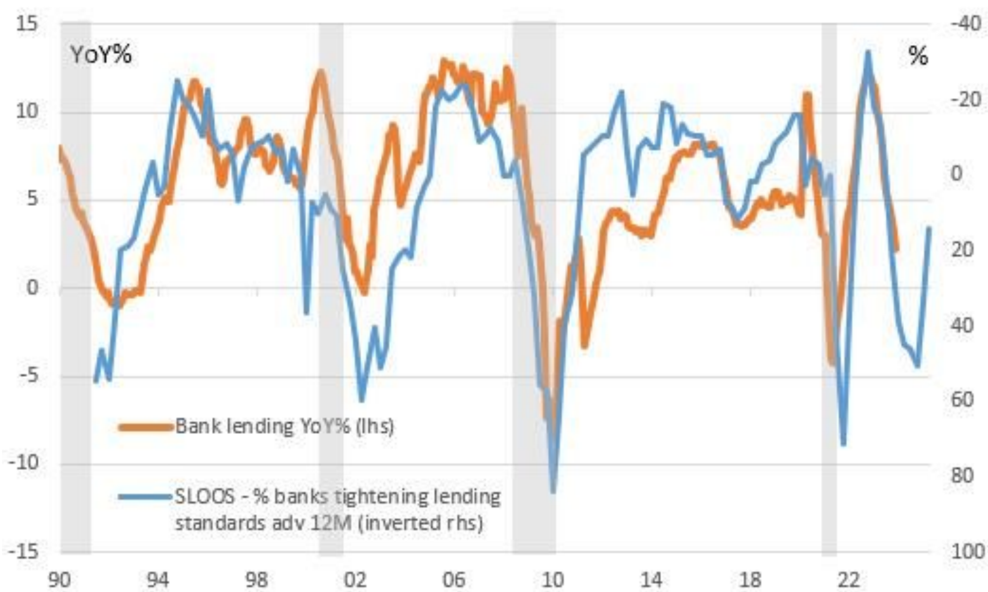

Figure 7. SLOOS survey on banks tightening lending standards for commercial & industrial loans against the YoY change in outstanding bank lending (Chart Source: ING Bank)

For loans to households, banks "reported having tightened lending standards for all categories of Residential Real Estate (RRE) loans and home equity lines of credit (HELOCs), except government residential mortgages and GSE-eligible residential mortgages, for which standards remained basically unchanged", according to the survey. Meanwhile, there is a weaker demand for RRE loan categories. The demand for consumer lending—encompassing credit cards, auto, and personal loans— which are important for consumer spending, remains weak. This hints at a forthcoming contraction in lending in this area.

The optimistic aspect of the situation is that, despite banks indicating a continuation of tightened lending criteria across most loan categories in the fourth quarter, lower net shares of banks reported tightening lending standards than in Q3 across all loan categories. A mere 14.5 percent of participants acknowledged stricter standards for commercial loans of large/medium size, marking the lowest figure since the third quarter of 2022. This scenario parallels inflation trends, where although prices persist in rising, the rate of increase has moderated. Similarly, lending standards are being tightened, albeit at a gradually decelerating pace.

For loan demand, although it continued to decline across all loan categories, the pace of this contraction has somewhat eased. While this is an encouraging indication, it may significantly differ from an actual increase in loan demand, given the the 3.3 percent GDP growth recorded in the fourth quarter of 2023.

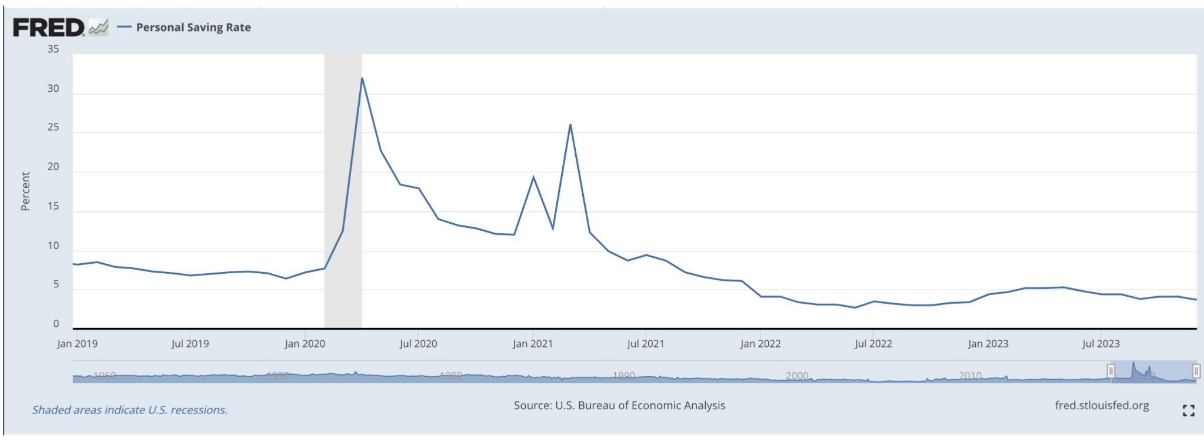

Figure 8. Personal Savings Rate (Source: Bureau of Economic Analysis)

The recent SLOOS report suggests the peak of financial market tightening may have passed. While tightened lending standards persist, most signs point to considerable easing since the Fed stopped increasing interest rates.

CME FEDWATCH TOOL - MEETING PROBABILITIES										
MEETING DATE	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
3/20/2024					0.0%	0.0%	0.0%	0.0%	16.0%	84.0%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	8.5%	52.2%	39.3%
6/12/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.8%	43.5%	41.9%	7.8%
7/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	5.5%	36.4%	42.2%	14.4%	1.5%
9/18/2024	0.0%	0.0%	0.0%	0.0%	4.7%	32.1%	41.4%	18.3%	3.3%	0.2%
11/7/2024	0.0%	0.0%	0.0%	2.7%	20.2%	37.4%	28.3%	9.8%	1.6%	0.1%
12/18/2024	0.0%	0.0%	1.9%	14.9%	32.1%	31.1%	15.5%	4.1%	0.5%	0.0%
1/29/2025	0.0%	1.2%	9.9%	25.5%	31.5%	21.4%	8.4%	1.9%	0.2%	0.0%
3/12/2025	0.4%	4.4%	15.7%	27.7%	27.7%	16.6%	6.0%	1.3%	0.1%	0.0%

Figure 9. CME Fed Watchtool Meeting Probabilities

Despite high borrowing costs and stringent lending practices, the US economy surged in the latter half of 2023, with n 4.9 and 3.3 percent GDP growth in the third and last quarter respectively, buoyed by pandemic-era savings. Yet, with savings depleting, (See Figure 8, Personal Savings Rate), this presents a risk to the economic outlook for 2024 in consumer spending. The constrained borrowing landscape presents a significant obstacle, likely to decelerate economic growth in 2024 and support our expectations of future Fed rate cuts, which we predict to now take place in May. The CME Fedwatch tool is also seeing an increasing probability of a May rate cut as the expectation of a March rate cut diminished throughout January.

Consumer Credit Growth Hits a Snag in December, Signalling Caution Among US Borrowers

Businesses and consumers alike are showing a reluctance to take on loans. According to a separate consumer credit report issued by the Fed on Wednesday, February 7th, there was a notable decline in borrowing activity in December. Consumer credit increased by a mere $1.5 billion, a significant drop from the previous month's $23.4 billion rise. This uptick translates to an annual growth rate of just 0.4 percent for December, a sharp drop from the 5.7 percent rise observed in the preceding month and marking the slowest growth pace since a decrease noted in August.

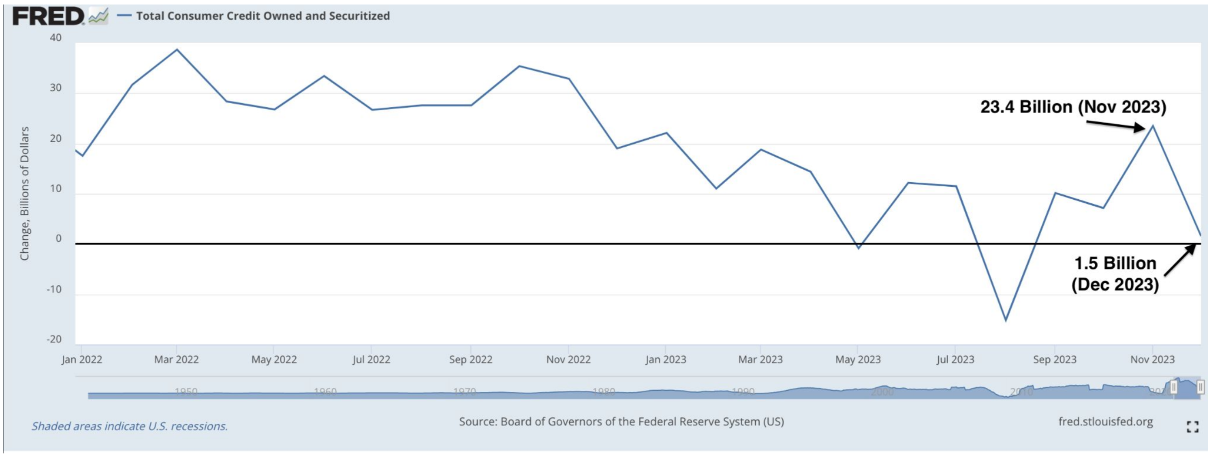

Figure 10. Total Consumer Credit (Board of Directors of the Federal Reserve)

The consensus forecast was for $15 billion growth. The slowdown was particularly noticeable in revolving credit sectors, like credit cards, which grew at a rate of one percent compared to a robust 16.6 percent in the prior month. Meanwhile, non-revolving credit, encompassing car and student loans, showed a 0.2 percent increase after a 1.8 percent rise in November, highlighting its traditionally less volatile nature. It's important to note that mortgage loans, the largest component of household debt, are excluded from the Fed's data.

Inflationary pressures and escalating living costs have pushed many towards using credit cards for financial relief in recent quarters. However, this reliance on borrowing is starting to take its toll, as evident from the rise in credit card and car-loan delinquencies to their highest levels in over a decade. According to the New York Fed's quarterly household debt and credit report, some 8.5 percent of credit card balances and 7.7 percent of auto loan balances transitioned into delinquency in the final quarter of 2023.

This increase in delinquency rates contrasts with otherwise positive economic indicators, such as a strong labour market and real wage growth, suggesting an underlying stress on household finances.

The resilience of the American consumer has been a pivotal factor in steering the economy clear of a recession. Yet, the growing strain on household budgets emerges as a concerning signal for an economy that has otherwise managed to navigate through potential downturns.

Borrowing costs have risen significantly over the last two years, driven by the Fed's aggressive interest rate hikes to combat inflation. Given that interest rates have soared to levels not witnessed in the last twenty years, the looming threat of severely curtailed consumer spending provides a compelling justification for the Federal Reserve to start reducing rates this year.

US Services Sector Accelerates in January Amid Rising Costs and Supply Chain Woes, ISM Reports

Growth in US services saw a notable acceleration in January, fueled by an uptick in new orders and a recovery in employment levels. However, this growth has been tempered by challenges in the supply chain, leading to a significant increase in input costs — hitting an 11-month peak.

SERVICES PMI® HISTORY

Month	Services PMI®	Month	Services PMI®
Jan 2024	53.4	Jul 2023	52.8
Dec 2023	50.5	Jun 2023	53.6
Nov 2023	52.5	May 2023	51.0
Oct 2023	51.9	Apr 2023	52.3
Sep 2023	53.4	Mar 2023	51.2
Aug 2023	54.1	Feb 2023	55.0

Average for 12 months - 52.6
High - 55.0
Low - 50.5

Figure 11. SM Services PMI (Source: Institute for Supply Management

The Institute for Supply Management (ISM) said on Monday, February 5th that its non-manufacturing PMI increased to 53.4 in January from 50.5 in December. A reading above 50 indicates growth in the services industry, which accounts for more than two-thirds of the economy. The consensus forecast was the index rising to 52.0. This report aligns with the robust employment figures previously reported in the US Labor Department's JOLTS and employment situation reports. It suggests that the momentum of economic growth witnessed in the last quarter of 2023 is carrying forward into 2024.

Despite a shift in consumer spending from services to goods post-COVID-19 lockdowns, the demand for services has remained sufficiently strong, contributing to persistent inflation. The ISM report highlighted that the measure of new orders in the services sector climbed to 55.0 from 52.8 in December, with a noticeable surge in export orders. Additionally, the index measuring prices paid for inputs by businesses soared to 64.0, marking the highest point since February 2023, up from 56.7 in December. While prices in the services sector remain elevated, broader inflation metrics show signs of cooling

The ISM's findings on supplier deliveries, which rebounded to 52.4 from 49.5, indicate a slowing in the pace of deliveries, reflecting ongoing supply challenges. Similar issues were noted in the ISM's manufacturing survey, exacerbated by winter storms and geopolitical tensions affecting shipping routes, such as attacks by Yemen-based Houthi on cargo vessels in the Red Sea, disrupting supply chains further.

A particularly noteworthy detail is the index's employment measure. The index dropped sharply to 43.8 in December, showing a significant reduction in job creation, a stark contrast to the strong employment growth reported in non-farm payroll data reported for January. The employment measure of the ISM index has now recovered to 50.5, signalling only a slight increase in job creation. This level of job creation is modest and does not align with the substantial job growth reported in the recent months. These indices have been a long-standing measure of economic performance, and it is anticipated that they would begin to match the more optimistic official economic data. However, this alignment has yet to occur.

Balancing Act: Navigating Economic Resilience and Policy Caution in the US

In an environment characterised by rising borrowing costs and tightened credit conditions, the US economy has displayed remarkable resilience, underpinned by substantial government spending and the diminishing savings of consumers, resulting in significant growth in both GDP and employment. Federal Reserve Chair Jerome Powell indicated that the central bank is inclined to hold off on reducing interest rates until there is a solid basis to believe that inflation is consistently heading towards the 2 percent target, emphasising a cautious approach to ensure that premature policy easing does not bring back inflationary pressures.

Despite the economic momentum, the Federal Reserve is taking a deliberate stance, prioritising the evaluation of risks associated with achieving price stability while striving to uphold optimal employment levels and financial stability. This cautiousness raises questions about the threshold of positive economic data required for policy adjustment, especially as inflation, as measured by the Personal Consumption Expenditures (PCE) index, has not yet returned to the 2 percent mark.

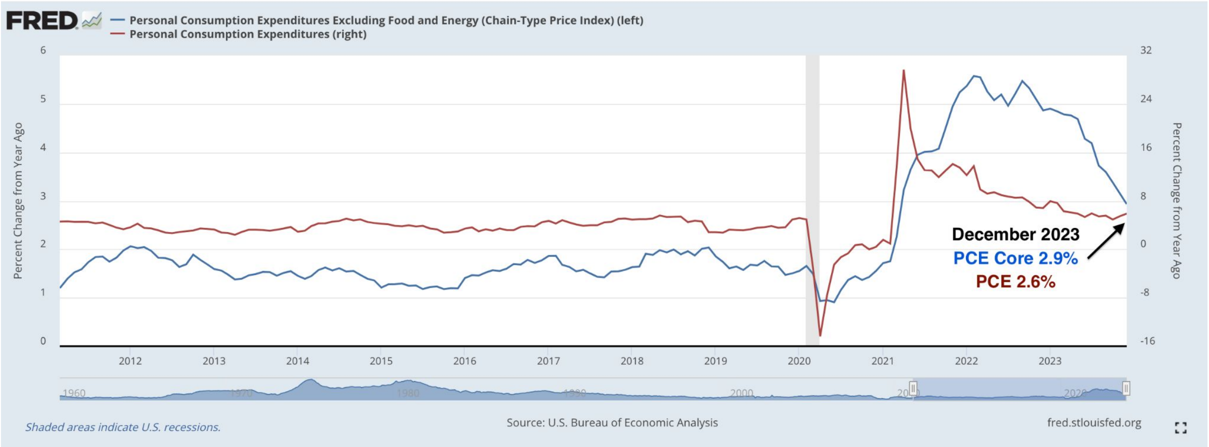

Figure 12. Personal Consumption Expenditures (Source: Bureau of Economic Analysis)

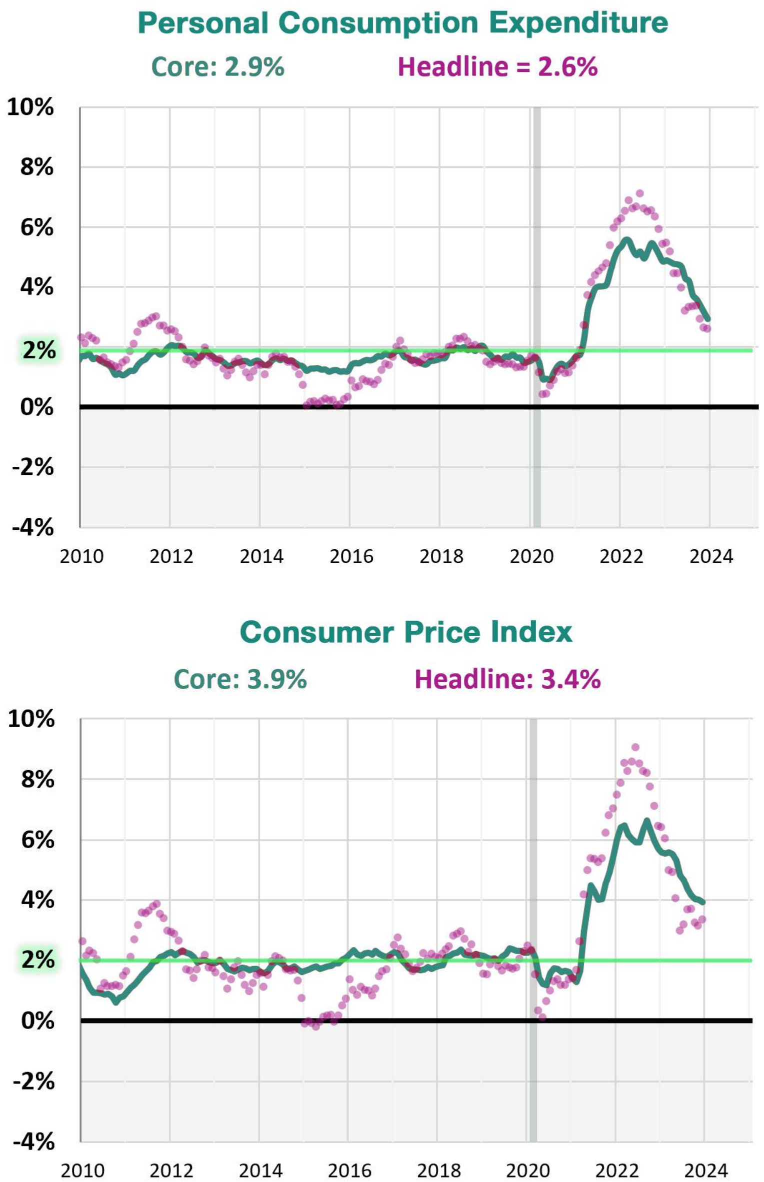

Figure 13. Consumer Price Index and Personal Consumption Expenditure (Source: US Bureau of Labor Statistics)

In 2023, inflation in the US was significantly influenced by the cost of housing, with shelter expenses playing a central role. Specifically, in December, the price of housing in the US surged by 6.2 percent from the previous year, contributing to over two-thirds of the 3.9 percent rise in the core Consumer Price Index (CPI), which excludes food and energy costs. This sharp increase in shelter costs has caused a split between core CPI and the core Personal Consumption Expenditures (PCE) Price Index, the latter being the preferred measure of inflation for the Federal Reserve. The core PCE Price Index, which assigns a smaller importance to housing costs, reported a smaller increase of 2.9 percent year-over-year in December, marking a significant difference from the core CPI. Current data, including the New Tenant Rent Index, suggests a significant reduction in shelter inflation, which traditionally is a lagging indicator. This decline indicates a potential ongoing downtrend in overall inflation, especially as we anticipate a decrease in shelter costs.

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Moreover, the dynamics within the labour market, which shows declining resignations, is likely to exert downward pressure on wages and "super-core" inflation, which excludes shelter prices, signalling a potential moderation in the overall inflationary environment.

Sustained high borrowing costs and more stringent credit conditions are, however, likely to incrementally suppress economic activity, with the diminishing pandemic-era savings contributing less to consumer spending. This trend suggests a gradual change in official economic data, which we believe should encourage the Federal Reserve to consider lowering interest rates, starting possibly in May, given the ongoing strength in consumer spending.

We hypothesise that by May, a combination of persistently declining core inflation and a slowdown in job openings and wage growth will strengthen the Federal Reserve's inclination to reduce the policy interest rate. According to the Federal Reserve's latest Summary of Economic Projections, the 'dot plot' forecasts a decrease in rates to between 4.5 and 4.75 percent by the end of 2024, and further to 2.75 to 3.00 percent by the end of 2026. However, should the economy encounter additional challenges, such as a banking or financial crisis, this could prompt the Federal Reserve to implement more aggressive monetary easing, potentially exceeding current projections.

NEWS FROM THE CRYPTO-SPHERE

New Bitcoin ETFs Eclipse MicroStrategy's Holdings, Commanding Significant Market Share

Figure 14. New Bitcoin ETFs Eclipse MicroStrategy's Holdings, Commanding Significant Market Share

- **Newly launched Bitcoin ETFs, not including Grayscale's GBTC, now hold over 192,000 BTC, surpassing MicroStrategy's 190,000 BTC, with inflows exceeding $1 billion in less than a month**
- **The combined holdings of BTC ETFs and MicroStrategy represent however only about 1.8 percent of the total Bitcoin supply that will ever exist, posing no significant threat to the decentralised nature of the Bitcoin network**

The latest spot Bitcoin ETFs, excluding Grayscale's GBTC, have substantially grown their Bitcoin holdings, now valued at $10.7 billion, overtaking MicroStrategy's portfolio, which was reported at 190,000 BTC, valued at $8.1 billion. Despite being newcomers to the market, operating for less than a month, these ETFs have swiftly attracted substantial investment, channelling billions of dollars from investors eager for Bitcoin exposure without the direct purchase and custody challenges.

This surge in ETF popularity does not include Grayscale's GBTC, which transitioned to a spot ETF concurrently with its counterparts. Historically functioning as a closed-end trust, GBTC initiated its spot ETF journey with a substantial base of approximately 630,000 Bitcoins. However, it has seen a reduction to just over 470,000 Bitcoins, attributed to profit-taking and switching to lower-cost ETFs.

The growing distribution of Bitcoin ownership across a broader base of holders diminishes concerns about the excessive concentration of the cryptocurrency within any single entity or geography. Despite the significant holdings of entities like MicroStrategy and the collective ETFs, their impact does not pose a threat to the decentralised nature of the Bitcoin network.

The ETF issuers, excluding GBTC, such as industry heavyweights BlackRock, Fidelity, and VanEck, along with MicroStrategy, collectively hold approximately 1.8 percent of all 21 million Bitcoins that will ever exist. Including GBTC's holdings, this figure rises to just around 4 percent.

Hong Kong Initiates Public Consultation on Virtual Asset OTC Trading Regulations

Figure 15.Hong Kong Initiates Public Consultation on Virtual Asset OTC Trading Regulations

- **Hong Kong initiates a public consultation for a new licensing framework to encompass over-the-counter (OTC) virtual asset trading**
- **The public consultation aims to enhance regulatory transparency and investor protection by mitigating ML/TF risks.**

Hong Kong has launched a public consultation process regarding new regulatory measures for the over-the-counter (OTC) trading of virtual assets. Announced on Thursday, February 8th, the consultation aims to gather feedback on the introduction of a licensing framework for OTC virtual asset trading service providers, with the period for public input open until April 12, 2024.

“The legislative proposals constitute an important element in the Government's efforts to develop a robust and transparent regulatory environment for the sustainable development of virtual assets and Web3. The proposed licensing regime for virtual asset over-the-counter service providers will effectively mitigate the money laundering (ML) and terrorist financing (TF) risks of the virtual asset activities concerned and cater for investor protection”, a Hong Kong government spokesperson said.

The legislative measures put forth require any entity engaging in the business of providing spot trading services for virtual assets in exchange for money within Hong Kong to obtain a licence from the Commissioner of Customs and Excise (CCE). This requirement applies to all forms of virtual asset OTC services, irrespective of the platform used to offer these services, including physical outlets.

Moreover, the proposed regulatory framework seeks to empower the CCE with oversight responsibilities. This includes supervising the adherence of virtual asset licensees to anti-money laundering and counter-terrorist financing standards, as well as the enforcement of legal and regulatory mandates under this new scheme.

In June 2023, Hong Kong formally initiated its cryptocurrency licensing system for digital asset trading platforms, enabling those with licences to provide trading services to retail investors. To date, Hong Kong has awarded these licenses to two platforms, specifically HashKey and OSL.

CME Sees Record Trading Volume Amid Bitcoin ETF Approvals by SEC

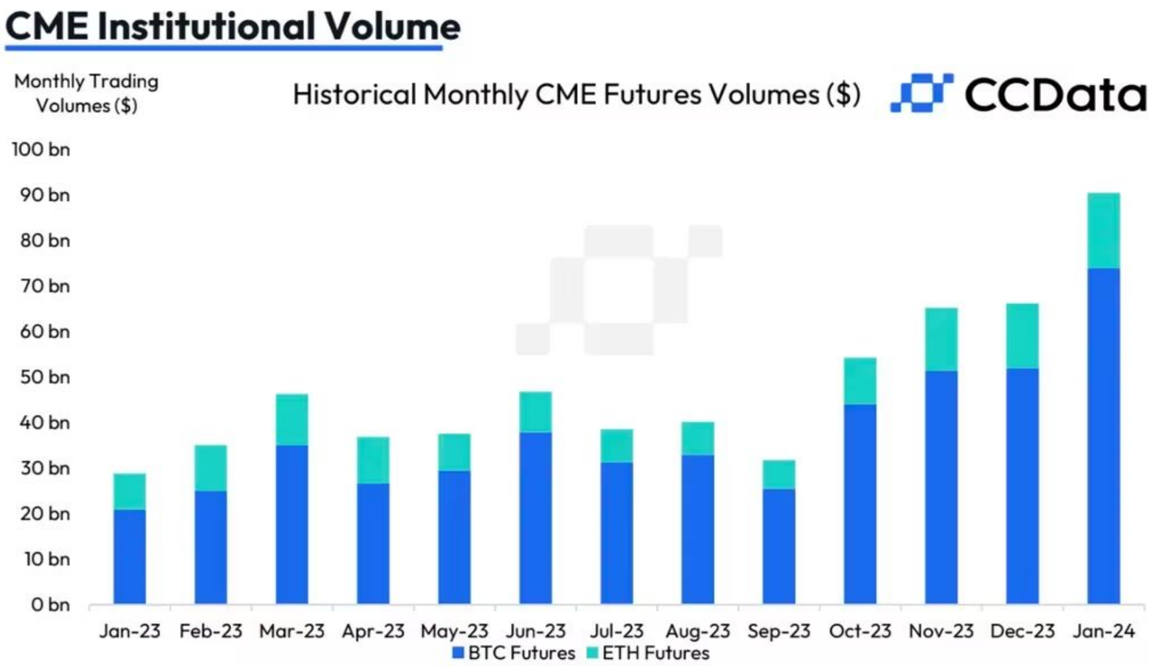


Figure 16. CME Sees Record Trading Volume Amid Bitcoin ETF Approvals by SEC (Source: CCdata)

- **The Chicago Mercantile Exchange (CME) reported a 35 percent increase in trading volume for total products in January, reaching $94.9 billion, following the SEC's approval of spot Bitcoin ETFs, indicating heightened institutional interest in cryptocurrency exposure**
- **Bitcoin futures trading at CME surged by 42 percent to $73 billion, while Ether futures and options also saw significant increases**

The Chicago Mercantile Exchange (CME), a leading derivatives marketplace, experienced a significant increase in trading activity in January, coinciding with the approval of spot Bitcoin ETFs by the US Securities and Exchange Commission (SEC). Trading volumes on the CME surged by 35 percent in January, reaching a high of $94.9 billion, the most substantial volume since October 2021.

Operating from Chicago, CME offers a broad range of futures and options across financial, commodity, and agricultural markets. It serves as a crucial platform for large institutions to engage in Bitcoin futures trading. Futures contracts are agreements to buy or sell Bitcoin at a future date at a price set today, serving as a strategy to hedge against price fluctuations.

Bitcoin futures trading on the CME witnessed a 42 percent increase to $73 billion in January, attributed to institutional traders adjusting their positions in response to the US spot Bitcoin ETF approvals, as reported by CCData. Bitcoin options trading on the exchange however, experienced a downturn, falling nearly 30 percent to $1.57 billion. “The rise in the futures volume and the decline in the options volume hints at the deleveraging and end of speculation for institutional investors who speculated on the spot Bitcoin ETF approval catalyst.”, according to the report.

The trading volume for Ether futures on the CME also increased by 15.6 percent in January, driven by speculation around the potential approval of an Ether ETF, with several applications pending SEC review. Ether options trading saw a 27 percent increase, marking the second-highest monthly volume for the instrument on the exchange.

South Korea to Impose Life Sentences for Major Crypto Crimes Under New Regulations

Figure 17. South Korea to Impose Life Sentences for Major Crypto Crimes Under New Regulations

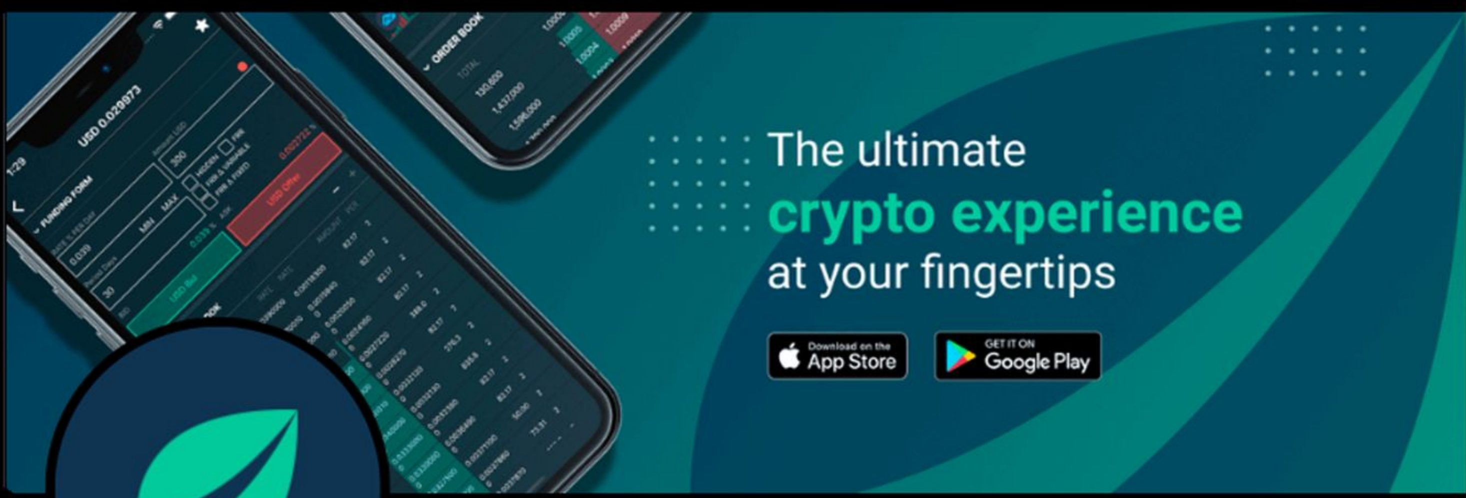
South Korea introduces stringent cryptocurrency regulations under the Virtual Asset User Protection Act effective July 19, imposing penalties including life imprisonment for major crimes like market manipulation and illegal trading

South Korea is set to enforce stringent consumer protection rules within the cryptocurrency sector, which could result in life imprisonment for severe violations. Announced by the country's financial regulator on Wednesday, February 8th, these new measures are part of the Virtual Asset User Protection Act, scheduled to take effect on July 19, 2024. This comprehensive framework aims to combat market manipulation, illegal trading, and other illicit activities, with penalties ranging from criminal punishment to fines based on the infractions gravity.

"In the case of criminal punishment, a fixed-term imprisonment of more than one year or a fine equivalent to three to five times the amount of unjust enrichment is possible," the Financial Services Commission (FSC) stated. Furthermore, individuals found guilty of generating profits exceeding 5 billion won ($3.8 million) from such crimes are at risk of receiving a life sentence, as outlined in the FSC's announcement.

This move comes as part of South Korea's broader efforts to enhance regulation and oversight in the digital assets domain, with a particular focus on safeguarding consumers. The legislation mandates that entities and high-profile individuals publicly disclose their cryptocurrency investments, reinforcing transparency and accountability in the industry.

By establishing severe penalties for criminal activities, South Korea is underscoring its commitment to creating a safer and more transparent digital asset market. These regulations aim not only to deter illegal actions but also to instil greater confidence among investors and users, potentially setting a precedent for regulatory frameworks worldwide.



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