BITFINEX Alpha

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EXECUTIVE SUMMARY

Both Bitcoin and Ether markets look very positive.

Bitcoin ETF flows continue to be robust, even in a market shortened week last week, with some $600 million of net inflows recorded. Centralised Exchanges are also witnessing a heightened demand for BTC, highlighted by a significant withdrawal of over 18,000 BTC from Coinbase, leaving the platform with its lowest Bitcoin reserve since 2017. The redistribution of this withdrawn BTC into new wallets indicates bullish investor behaviour, as seen in both the Coinbase Premium Index, and the Kimchi Premium.

Ether too has got substantial momentum behind it, breaching the $3,000 mark and gearing up for its highest weekly close in 97 weeks. This surge is fueling discussions about the potential onset of an 'altcoin season', a phase where alternative cryptocurrencies outshine Bitcoin. The Ether exchange reserve across all exchanges shows a net outflow exceeding 800,000 ETH, indicating a strong supply crunch that could propel its price further.

Taking history as a guide, the current stabilisation of Bitcoin dominance at just above 51 percent, could presage the beginning of a new altcoin season. However, while there has been an increase in liquidity in the top 20 altcoins, some of this can be attributed to a decline in liquidity for those coins outside the top 20.

Such a shift in liquidity dynamics suggests cautious investor sentiment, with a preference for more established and liquid assets, and that the market's appetite for less mainstream tokens has not yet shown a significant resurgence.

The US economy is also looking rosy. The Conference Board has announced a much more positive outlook, marking a significant reversal from its previous warnings of an impending recession. The resilience of the US economy, evidenced through continued growth in output, employment, and consumer spending, underpins its confidence, suggesting that the economy is robust enough to withstand any economic fluctuations.

Fed Vice Chair Philip Jefferson also confirmed that the Fed’s intention is to reduce interest rates this year, but that it continued to keep a close eye on the robust consumer spending, which though it has prevented a recession, could equally feed through to greater inflation.

Recent new data underscores the optimism, with a significant drop in initial jobless claims to a five-week low, and the S&P Global Flash Purchasing Managers' Index for February showing only a slight deceleration, as business activities continue to expand. This ongoing resilience in manufacturing and business sectors further complements the broader economic outlook.

In crypto news, Reddit has announced IPO plans and in doing so, revealed its investments in Bitcoin and Ether and its acceptance of crypto for virtual goods transactions. Meanwhile, the Law Commission of England and Wales is consulting on draft legislation to recognise cryptocurrencies and NFTs as property, addressing legal challenges in the digital asset space. Additionally, the CME Group announced plans to launch micro Bitcoin and Ether futures in Euros next month, expanding crypto market access following the success of similar micro USD-denominated futures.

Have a great trading week!

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WHAT'S ON-CHAIN THIS WEEK?

ETF Flows Remain Bullish

Based on data from *Farside* for the week ending February 23, 2024, the Bitcoin ETF market experienced substantial net inflows of almost $600 million. The Grayscale Bitcoin Trust (GBTC) continued to see outflows, although at a reduced rate by the end of the week.

Date	IBIT	FBTC	BITB	ARKB	BTCO	EZBC	BRRR	HODL	BTCW	GBTC	Total
11 Jan to 09 Feb	3,751.5	3,003.5	785.3	918.8	297.6	70.5	117.5	74.4	14.7	-6,382.8	2,651.0
12 Feb	374.7	151.9	33.0	40.0	-20.8	0.0	1.1	8.5	0.0	-95.0	493.4
13 Feb	493.1	163.6	10.8	35.0	0.0	0.0	0.0	0.0	1.6	-72.8	631.3
14 Feb	224.3	118.9	47.2	101.5	-37.5	9.0	1.0	2.9	3.6	-131.2	339.7
15 Feb	330.9	97.4	120.2	88.9	1.3	3.0	7.4	2.9	0.0	-174.6	477.4
16 Feb	191.4	116.7	20.9	140.0	1.0	1.5	0.0	0.0	2.8	-150.4	323.9
20 Feb	154.3	71.7	11.1	27.4	0.0	0.0	0.0	5.9	2.2	-137.0	135.6
21 Feb	96.5	52.5	0.0	10.7	1.0	3.0	0.0	0.0	0.0	-199.3	-35.6
22 Feb	125.1	158.9	7.9	6.7	0.0	0.0	1.2	2.9	4.4	-55.7	251.4
23 Feb	167.5	52.5	12.0	34.5	0.0	1.5	0.0	8.7	0.0	-44.2	232.5
Total	5,909.3	3,987.6	1,048.4	1,403.5	242.6	88.5	128.2	106.2	29.3	-7,443.0	5,500.6

Figure1. Bitcoin ETF inflows across various offerings. (source: FarsideUK)

When the new spot Bitcoin Exchange Traded Funds were launched, the underlying BTC market saw substantial sell-the-news profit taking, with GBTC experiencing massive outflows as investors realised profits or migrated to other ETFs.

The latest flows data is closer to the passive demand inflows we can expect these ETFs to experience on a long-term basis (through routine systematic investment plans and a general trend of onboarding new investors).

Even though there were only four trading days in the US last week (due to Washington’s birthday on February 19th), there was a substantial net inflow into Bitcoin ETFs, with BlackRock's iShares Bitcoin Trust (IBIT) and Fidelity's Wise Origin Bitcoin Trust (FBTC) the biggest beneficiaries.

The trend reflects a robust investor appetite for Bitcoin exposure with a particularly significant net inflow of $232.3 million recorded on Friday, February 23, signalling strong market confidence as investors accumulate Bitcoin positions. Equally, the outflows observed from GBTC could be interpreted as a realignment of investment portfolios or a shift in investor preference towards other ETF products, although this is now diminishing slowly. The lower level of outflows observed on February 23 of only $44 million, is the lowest level since January 11th, and if the trend continues, indicates that outflows may soon be negligible.

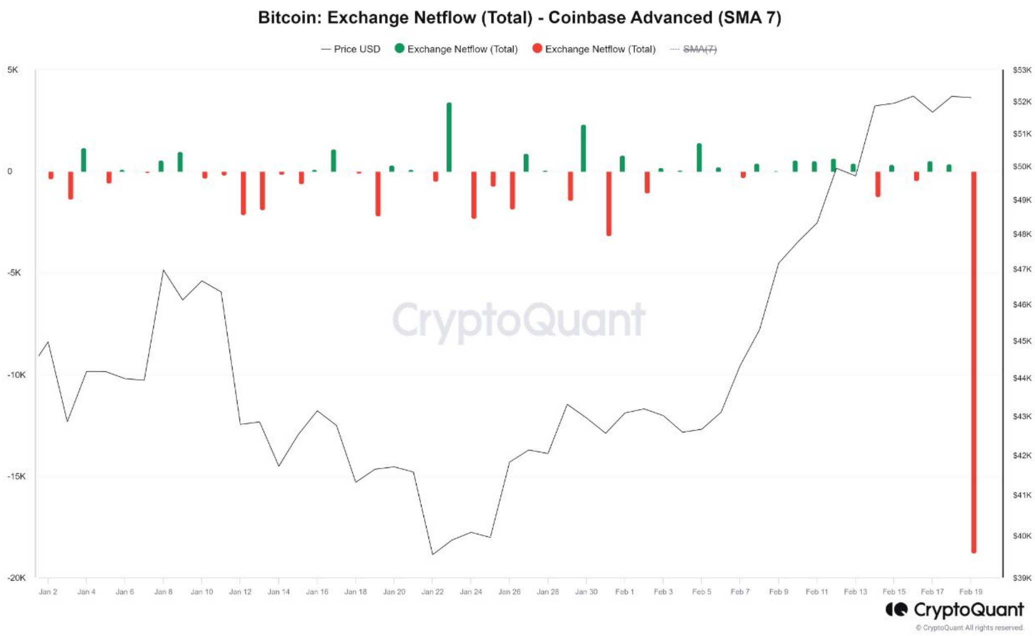


Figure 2. Bitcoin Net Exchange Flows For Coinbase. (source: CryptoQuant)

Investor demand for BTC appears to be intensifying on Centralised Exchanges (CEXes) as well, as evidenced by a notable withdrawal from Coinbase, leading to its lowest confirmed Bitcoin reserve since 2017.

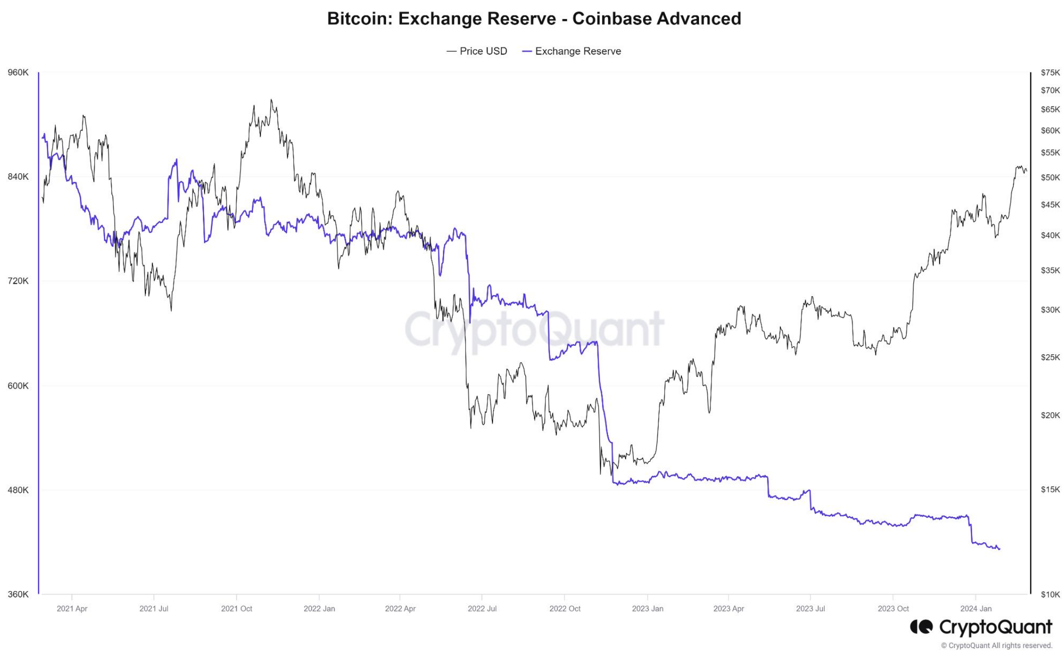


Figure 3. Bitcoin Exchange Reserve For Coinbase. (source: CryptoQuant)

This substantial movement saw over 18,000 BTC, valued at nearly a billion dollars, being withdrawn from Coinbase from the start of the year. The withdrawn BTC was subsequently redistributed into several new wallets, each holding amounts ranging from $45 million to $171 million.

As a result of this redistribution, Coinbase's public order book now contains approximately 394,000 BTC. This shift in BTC holdings reflects a potentially broader trend in investor behaviour, specifically in the US markets which are the most active for both ETFs and on the Coinbase platform.

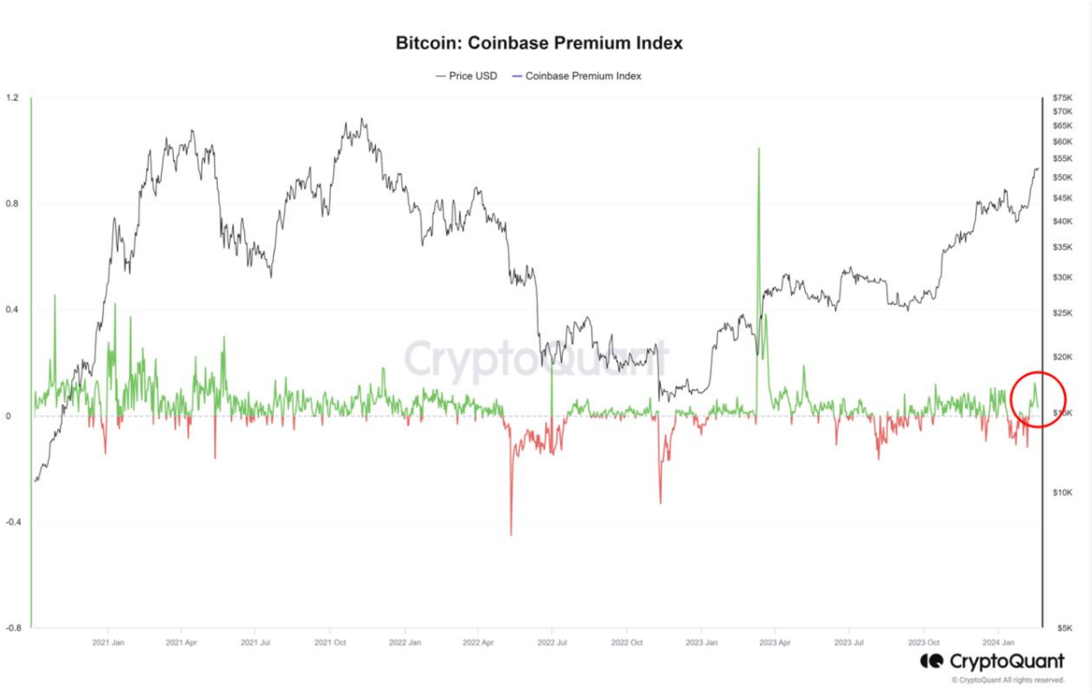


Figure 4. Coinbase Premium Index. (source: CryptoQuant)

The Coinbase Premium Index is also in positive territory, an indicator that US investors are positive on the market. This index is a key measure of the difference in BTC prices on Coinbase (predominantly used by US investors) compared to other global exchanges, and a positive value suggests higher demand or bullish sentiment among US investors.

A similar indicator is the Korea Premium Index, also known as the "Kimchi Premium," which serves as an indicator of short-term market overheating, when it rises significantly. Currently standing at 3.53 percent, up from 1.5 percent the week before, this index is elevated but not yet in the range typically associated with overheating. These premiums suggest that BTC's price may either continue to consolidate at current levels or potentially experience an upward movement before any substantial pullback.

Ether Surge Might Be The Onset of an Elongated Alt Season

The recent upswing in Ether's value has rekindled conversations about the potential onset of an 'altcoin season', a phase typically characterised by alternative cryptocurrencies outshining BTC in terms of performance. Ether has notably breached the $3,000 threshold (refer Figure below). This marks its highest value in 22 months and positions it to achieve its highest weekly close in 97 weeks. This resurgence in Ether's price is igniting interest in the broader altcoin market, suggesting a shift in investor focus away from Bitcoin to other digital assets.

Figure 5. ETH/USD Weekly Chart. (source: Bitfinex)

The recent rally is being linked to a number of key developments within the Ethereum ecosystem. These include the potential introduction of a spot ETF for Ether, the DenCun upgrade, and the highly anticipated launch of scaling solutions like Blast. Additionally, the introduction of restaking platforms such as EigenLayer is contributing to this optimism.

These developments are perceived as significant catalysts for Ether's resurgence, especially after a period where it had lagged behind BTC in terms of percentage growth over several months.

On a year-to-date basis ETH has now outperformed BTC, and there has been a notable reduction in Ether reserves on exchanges. (refer Figure below)

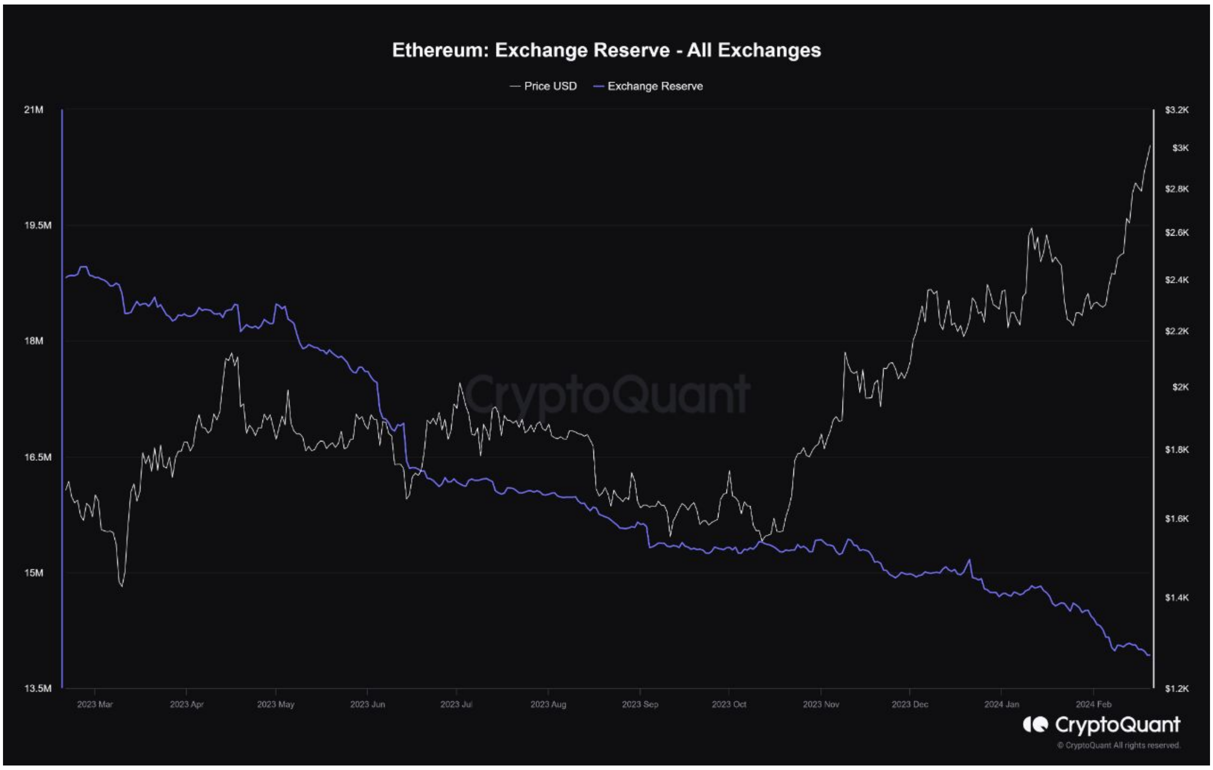


Figure 6. Ethereum Exchange Reserve Across All Exchanges.(source: CryptoQuant)

Since the start of the year, exchanges have recorded a net outflow exceeding 800,000 Ether, valued at approximately $2.4 billion. This substantial decrease in the Ether exchange reserve balance is highly bullish for the asset, possibly representing the strongest supply crunch for the asset since the Shapella upgrade. Large quantities of Ether have been moving out of exchanges since November 2023, possibly for long-term holding and staking, reducing the available supply and potentially exerting upward pressure on its price.

The current switch in focus to alternative crypto assets comes on the backdrop of a major BTC rally which saw Bitcoin dominance reach an important high of 55 percent in December 2023 before starting to range just above the 50 percent level. This is after a significant move up from the 39 percent level during the bear market, and is similar to a move seen in January 2018.

History is an interesting guide here. As seen in the figure below, from January 2018 to Q3 2019, there was a significant rally in BTC dominance, for almost 600 days. Following this however, BTC dominance stabilised and we saw the onset of an 'altcoin season'.

We believe the current similarity in dominance trends could see the onset of another period of surging altcoins in 2024 over the next few months.

Figure 7. Bitcoin Dominance Weekly Chart. (source: CryptoCap)

Currently Bitcoin dominance stands at just over 51 percent. In comparison, Ether holds a 17 percent share, stablecoins collectively account for seven percent, and the remaining 24 percent is distributed among the broader Altcoin sector.

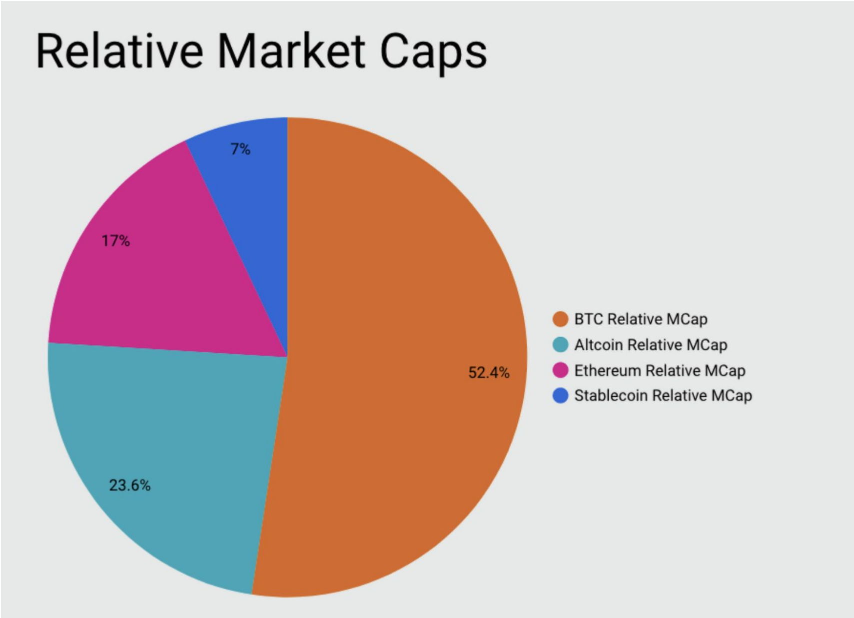
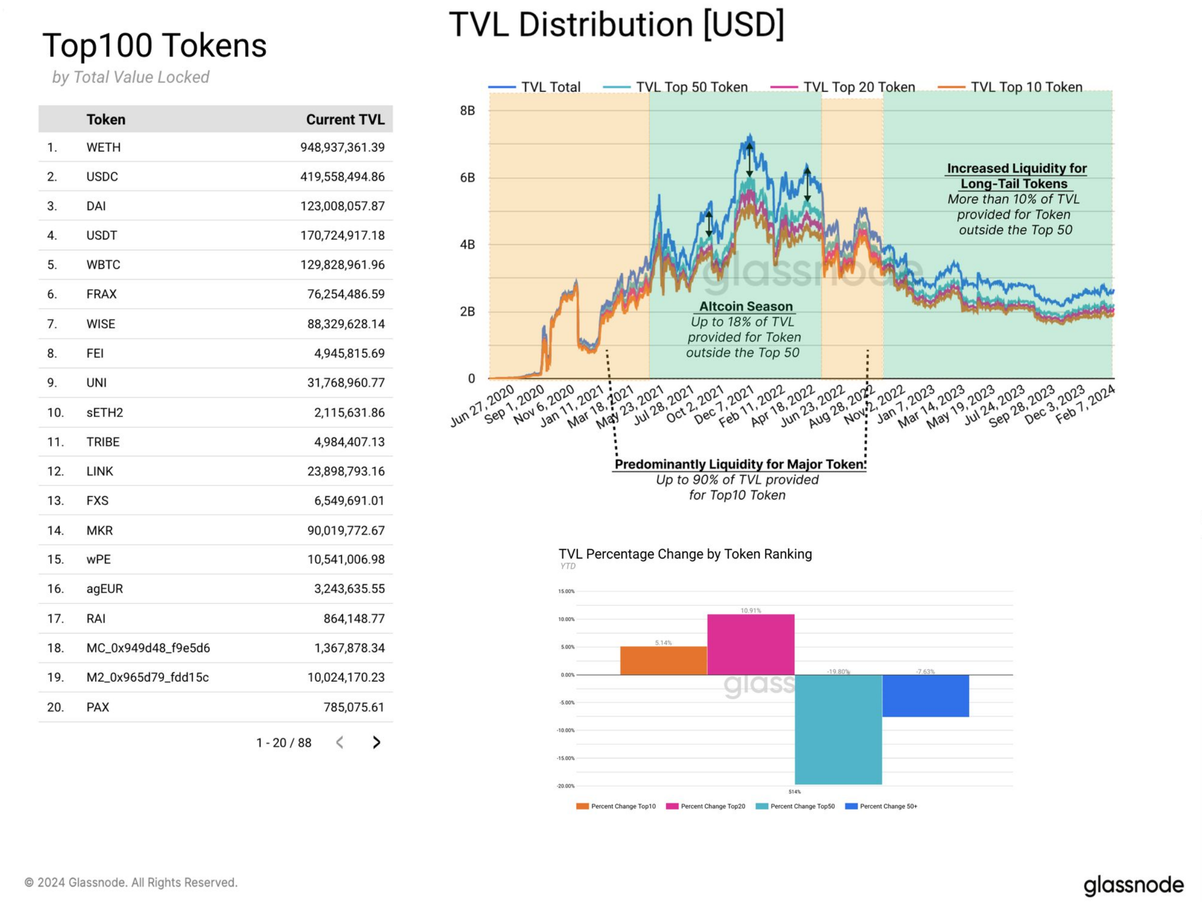


Figure 8. Relative Market Caps Of Different Crypto Sectors.

A move in Bitcoin dominance below 50 percent is usually a sign of momentum behind an altcoin rally, however, we have not moved below this value yet.

In bear markets, liquidity tends to be concentrated in the Top 50 tokens, reflecting where the bulk of trading volume typically occurs. A ranking of the Top 10 tokens by Total Value Locked (see chart below) are predominantly composed of Wrapped Ethereum (WETH), Wrapped Bitcoin (WBTC), and various stablecoins.

Analysing the percent change in Total Value Locked for each token category reveals an interesting trend. There has been an increase in liquidity provision for the Top 10 tokens by 5.14 percent and for the Top 20 tokens by 10.9 percent. Conversely, liquidity has been withdrawn from tokens ranked 20th to 50th. This pattern indicates that the market's appetite for less mainstream assets has not yet shown a significant resurgence.



Top100 Tokens

by Total Value Locked

	Token	Current TVL
1.	WETH	948,937,361.39
2.	USDC	419,558,494.86
3.	DAI	123,008,057.87
4.	USDT	170,724,917.18
5.	WBTC	129,828,961.96
6.	FRAX	76,254,486.59
7.	WISE	88,329,628.14
8.	FEI	4,945,815.69
9.	UNI	31,768,960.77
10.	sETH2	2,115,631.86
11.	TRIBE	4,984,407.13
12.	LINK	23,898,793.16
13.	FXS	6,549,691.01
14.	MKR	90,019,772.67
15.	wPE	10,541,006.98
16.	agEUR	3,243,635.55
17.	RAI	864,148.77
18.	MC_0x949d48_f9e5d6	1,367,878.34
19.	M2_0x965d79_fdd15c	10,024,170.23
20.	PAX	785,075.61

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Figure 9. TVL Distribution Across The Top 100 Tokens. (source: Glassnode)

Such a shift in liquidity dynamics suggests cautious investor sentiment, with a preference for more established and liquid assets in the current market environment.

GENERAL MARKET UPDATE

The US Conference Board Revises Economic Forecast, Sees No Recession Ahead

The Conference Board, one of the most authoritative sources of US economic health, announced in its latest Leading Economic Index (LEI) report that despite a continuous decline in the index, the organisation's perspective on the economy has shifted towards a more positive outlook.

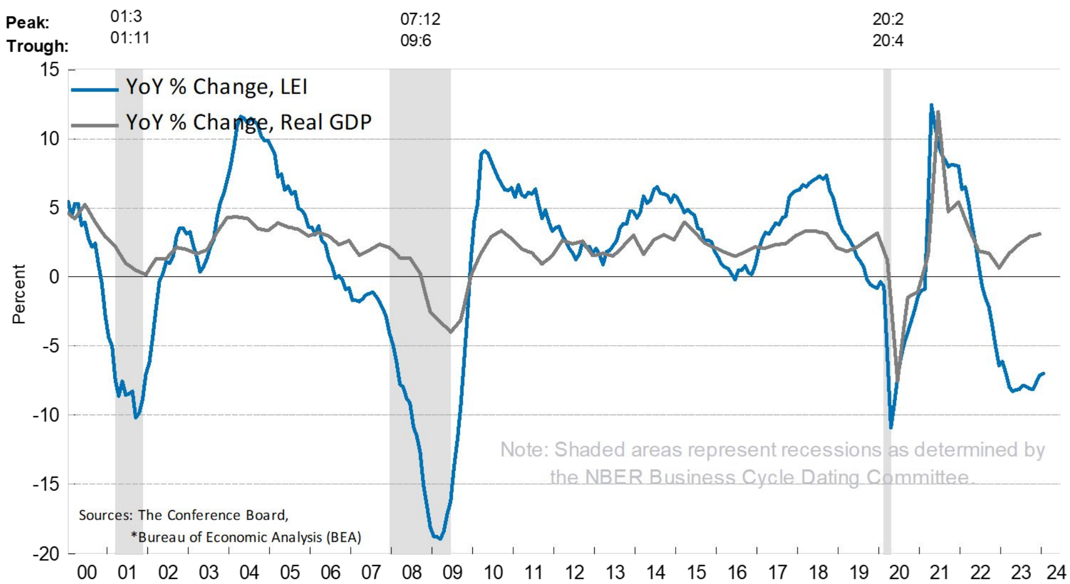


Figure 10. The Leading Economic Index (LEI) still declined in January 2024 but at the slowest pace since March 2023 : Year-over-year change in LEI (Source: The US Conference Board)

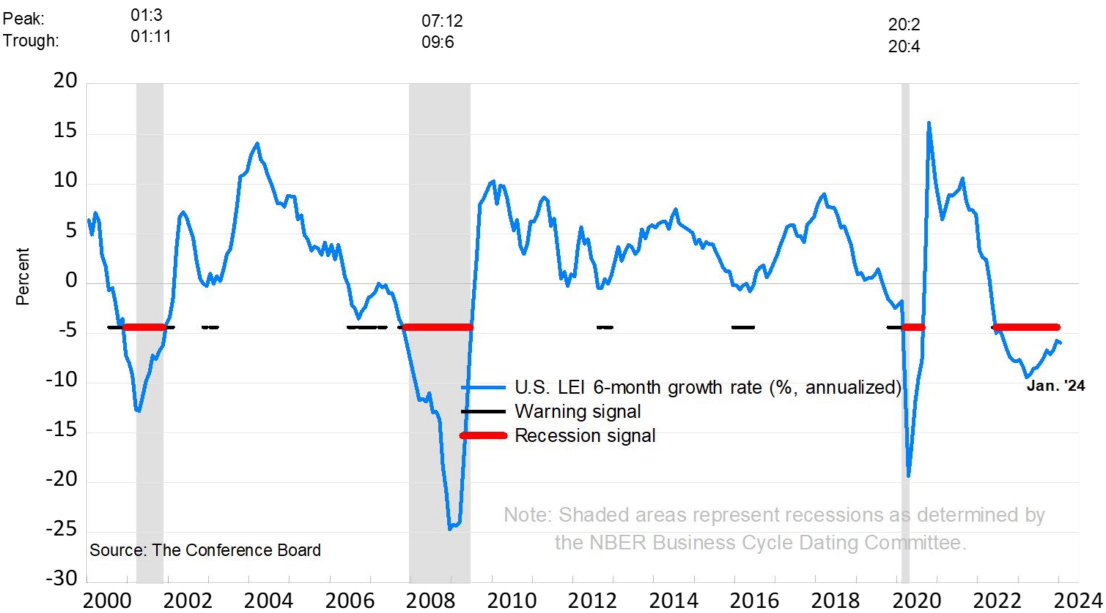


Figure 11. US LEI 6-month growth rate and Recession Signals (Source: The US Conference Board)

In January, the LEI fell by 0.4 percent to 102.7, marking its lowest point since April 2020, during the early stages of the COVID-19 pandemic. This decrease represents the 23rd consecutive monthly drop, the longest drop for consecutive monthly declines since April 2007 to March 2009. The pace of the LEI's decline has however, significantly decelerated..

“While the declining LEI continues to signal headwinds to economic activity, for the first time in the past two years, six out of its ten components were positive contributors over the past six-month period (ending in January 2024). As a result, the leading index currently does not signal recession ahead”, said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board.

This adjustment in the forecast comes after the Conference Board's initial warning of a looming recession when the LEI fell in July 2022. Its reversal in stance follows the remarkable resilience of the US economy throughout this period, with sustained growth in output, employment, and consumer spending.

Factors such as low unemployment claims, promising indicators of future credit availability, and increases in home building permits and manufacturing orders have contributed to a more optimistic economic forecast. These elements suggest a robustness in the economy that could defy earlier recession predictions.

Inflation Concerns

However, inflation continues to remain a concern, with both the recent Consumer Price Index (CPI) and Producer Price Index (PPI) reports indicating a rise in price pressures. Notwithstanding this, inflation expectations, as indicated by the Fed’s five-year, five-year inflation forward breakeven rate—a measure of anticipated inflation—has remained stable, sitting at 2.3 percent, below its recent peak and the twenty-year average.

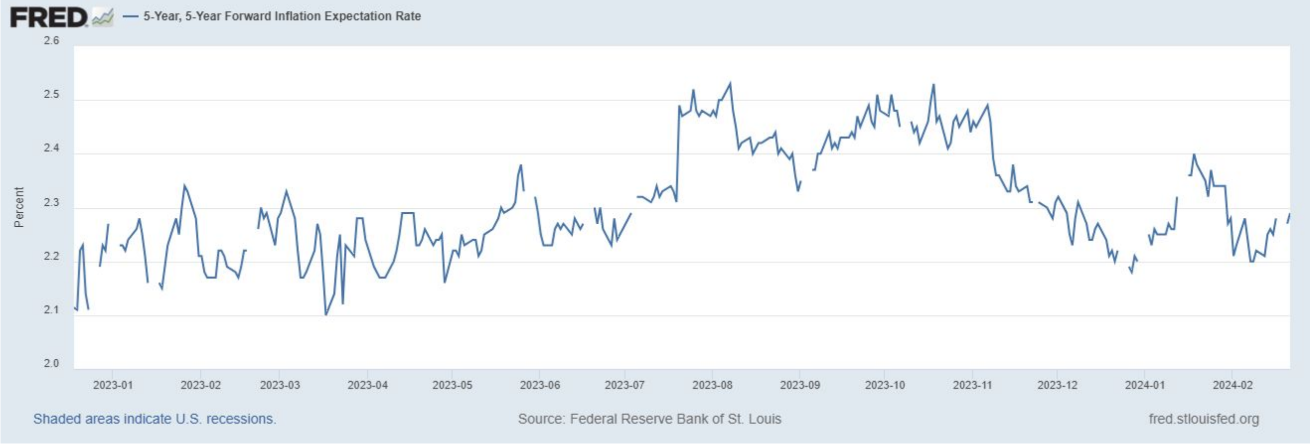


Figure 12. Federal Reserve 5-Year, 5-Year Forward Breakeven Inflation Rate

This rate, seeks to forecast the expected inflation rate, starting five years from now, and covering the following five years. In other words, it's the market's expectation for the average annual inflation rate for the period between five and ten years from today. It's a measure derived from the yield difference between 5-year Treasury Inflation-Protected Securities (TIPS) and 5-year nominal Treasury bonds.

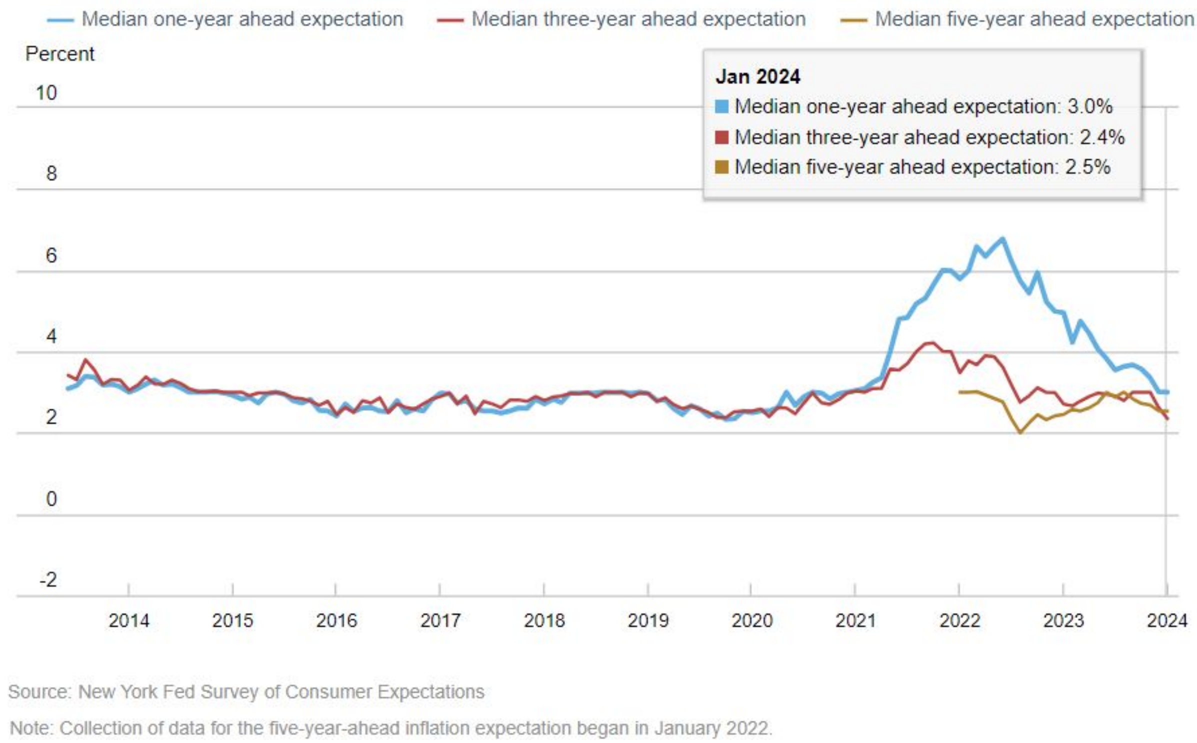


Figure 13. Inflation Expectations from New York Fed Survey of Consumer Expectations

The five-year inflation forward breakeven rate is also close to the figure determined from the Survey of Consumer Expectations produced by the Center of Microeconomic Data at the Federal Reserve Bank of New York. It found that respondents expect three percent inflation on a one year time horizon, 2.4 percent over three years, and 2.5 percent over five years.

This stability in inflation expectations is crucial as itplays a significant role in influencing corporate and household spending decisions, thereby impacting overall economic activity.

The current economic climate, bolstered by a strong labour market, easing financial conditions, and steady consumer spending, points towards continued growth and optimism for the future. We believe that the Fed is still on track in achieving their goal of price stability and maximum sustainable employment, as the US economy heads into 2024.

Federal Reserve Signals Rate Reductions Amid Inflation Risks and Economic Resilience

In a recent speech, Federal Reserve Vice Chair Philip Jefferson confirmed that the US central bank still intends to start reducing interest rates within the year, but emphasised caution was needed to guard against the risk of inflation caused by robust consumer spending.

Economic Resilience Amidst Policy Tightening

Jefferson highlighted that the US economy, and in particular consumer spending, had shown remarkable resilience in 2023, outpacing most professional forecasts. This unexpected strength signalled that robust demand could persist into 2024, driven by habit formation and socially motivated consumption, and therefore representing an "important upside risk" to the Fed's forecasts.

The Tightrope Walk of the Labour Market

The labour market shows cooling demand, he conceded, yet a tightness that remains historically significant. The balance between labour demand and supply has narrowed, with job openings retreating from their peak but still elevated above pre-pandemic levels. This scenario, paired with low unemployment rates, suggests a labour market that, while still adjusting, continues to support economic activity.

Progress and Challenges on the Inflation Front

On inflation, Jefferson noted a significant move toward the Federal Open Market Committee's (FOMC) two percent target, driven by the unwinding of pandemic-related distortions and restrictive monetary policies. Despite this progress, recent data, particularly a higher-than-expected CPI reading, hints at a "bumpy" disinflation process ahead. This observation aligns with the broader understanding that while core goods prices have moderated, core services, including housing and non housing services, present ongoing challenges.

Lessons from Past Monetary Policy Cycles

Reflecting on historical monetary policy cycles, he also drew parallels and contrasts to the current economic context.

Table 1. Summary of past six policy rate peak episodes

Start and end date of policy rate peaks preceding easing cycle	Economic Growth Backdrop	Inflation Backdrop
Mar. 1989-May 1989 (3 months)	Moderating and later slowing growth	Elevated inflation and tight labor markets: PCE inflation 4.7% Core PCE inflation 4.6%
Mar. 1995-June 1995 (4 months)	Moderating growth	Inflation close to 2% and tight labor markets: PCE inflation 2.17% Core PCE inflation 2.20%
Apr. 1997-Aug. 1998 (17 months)	Strong domestic growth, but risks from strains in emerging market economies and associated financial turmoil	Inflation close to 2% and tight labor markets: PCE inflation 1.9% Core PCE inflation 2%
June 2000-Dec. 2000 (7 months)	Moderating growth	Inflation close to 2.5% and tight labor markets: PCE inflation 2.7% Core PCE inflation 1.7%
July 2006-Aug. 2007 (14 months)	Moderate growth despite housing sector weakness	Inflation moderating and tight labor markets: PCE inflation 3.4% Core PCE inflation 2.5%
Jan. 2019-July 2019 (7 months)	Solid growth, but rising downside risks from weaker global growth and trade uncertainty	Inflation muted: PCE inflation 1.5% Core PCE inflation 1.8%

Figure 14. Summary of Past Six Policy Rate Peak Episodes - as shown by Fed Vice Chair Philip Jefferson. (Source: The Federal Reserve)

1. Inflation Containment Precedes Easing: A recurring theme in these cycles is the Federal Reserve's focus on inflation containment before initiating easing cycles. This approach underscores the Fed's mandate to ensure price stability as a prerequisite for sustainable economic growth. The observation is that peak rates often coincide with inflation being under control, except for some exceptions like that of the March 1989 to May 1989 peak-rate episode, when inflation was still elevated when the easing cycle started.

2. Economic Conditions at Peak-Rate Episodes: The review of economic conditions during past peak-rate episodes reveals the Federal Reserve's sensitivity to inflation metrics and broader economic indicators. The decision to shift from tightening to easing is deeply rooted in a comprehensive assessment of economic health, including labour market conditions, consumer spending, and external economic threats.

Start and end date of easing cycle	Reason for starting easing cycle	Reason for subsequent easing
June 1989-Sep. 1992 (40 months)	Slowing growth and reduced concern of an upsurge in inflation	1991 Gulf War recession and sluggish recovery
July 1995-Feb. 1996 (8 months)	Reduced inflation concerns	No subsequent easing
Sept. 1998-Nov. 1998 (3 months)	To cushion the U.S. economy from increased market volatility stemming from Russia's debt default	No subsequent easing
Jan. 2001-June 2003 (30 months)	Weakening growth	9/11 terrorist attack, sluggish recovery, low inflation
Sep. 2007-Dec. 2008 (16 months)	Financial stress and weakening growth	Deepening financial crisis and Global Financial Crisis
Aug. 2019-Mar. 2020 (7 months)	Downside risks from weaker global growth and trade uncertainty	COVID-19 pandemic

Figure 15. Rationale for Easing - as shown by Fed Vice Chair Philip Jefferson. (Source: The Federal Reserve)

3. Rationale for Easing: Jefferson's speech detailed the reasons for initiating easing cycles, from concerns over slowing economic growth to specific events like the COVID-19 pandemic. This diversity in rationale emphasises the Fed's adaptability to different economic stresses and its readiness to support the economy through tailored monetary policy adjustments.

The Path Forward: Caution and Vigilance

Looking ahead, the Fed anticipates beginning to dial back policy restraint "at some point this year," assuming the economy evolves as expected. This statement, echoing sentiments about the importance of adaptability in policy-making, reflects a commitment to a cautious and measured approach. The official underscored the unpredictable nature of economic shocks and the necessity of remaining vigilant and responsive to emerging data and risks.

This overarching sentiment of caution is also seen in the Minutes of the Fed's January FOMC meeting released last Wednesday, February 21st. Several members of the Federal Reserve have expressed a stronger inclination towards caution in reducing interest rates prematurely rather than delaying such actions. The detailed account of this meeting underscores a collective preference among the majority of officials for a prudent approach. They emphasised the importance of waiting for more conclusive evidence of inflation abating before making any moves to lower rates.

Risks and the Balancing Act

The Fed's current stance, informed by both historical lessons and the unique circumstances of today's economy, emphasises caution and adaptability in steering the economy towards sustainable growth and stable prices. Three primary risks loom on the horizon: unexpectedly resilient consumer spending, potential weakening in employment, and elevated geopolitical tensions. These factors, especially the prospect of sustained consumer spending, could hinder progress on inflation, necessitating a flexible policy response.

US Unemployment Claims Hit Five-Week Low, Signalling Strong Labour Market

The latest jobs data revealed initial jobless claims dropping to their lowest in five weeks, underscoring a robust employment landscape favourable to workers.

Mid-February witnessed a significant decline in Americans filing for unemployment benefits for the first time, with the figures dipping to 201,000, according to a US Labor Department report released last Thursday, February 22nd. Initial jobless claims saw a drop of 12,000 from the previous week's 213,000, upending consensus forecasts of rise to 216,000 claims for the week ending February 17th.

The figures once again demonstrated that despite the Fed's efforts to temper the economy by raising interest rates, the US labour market remains robust. The low unemployment rate is expected to spur consumer spending, potentially keeping the economy from slipping into a downturn before an anticipated rate cut later in the year.

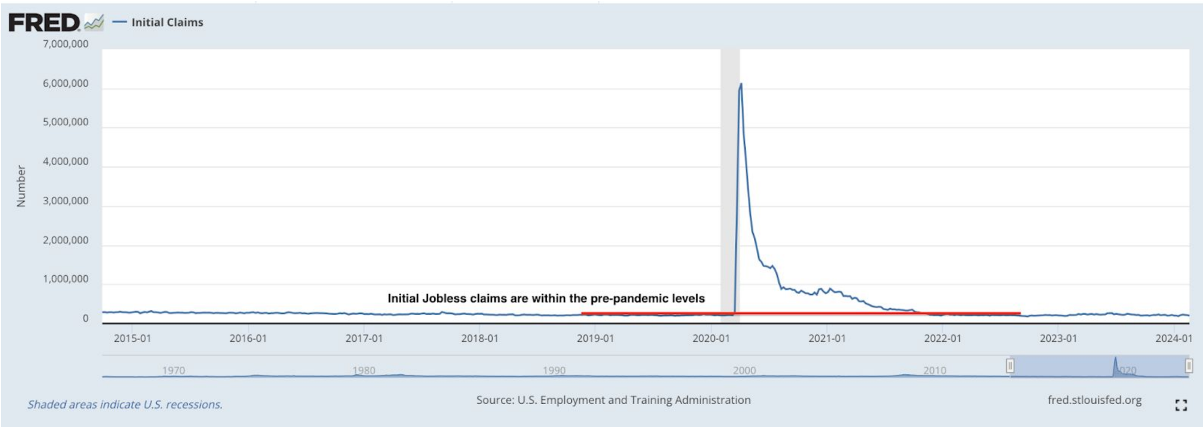


Figure 16. Initial Jobless Claims in The US. (source: FRED)

In our view the ongoing lower unemployment claims do not immediately signal a resurgence in inflationary pressures. We see that the steady number of initial claims, particularly one close to the pre-pandemic average, is indicative of a healthy labour market, especially in terms of sustained wage growth.

In the latest FOMC minutes, it had been noted that the labour market remained tight, but demand and supply in that market had "continued to come into better balance", it said However, the question remains whether the Fed will maintain its benign view of the employment market if we continue to see robust economic indicators and escalating inflation figures.

While there are expectations for the labour market to cool down within the year, the imbalance between labour demand and supply may not ease quickly unless there's a significant economic downturn.

US Economy Shows Resilience and Moderate Growth in Early Q1

The latest S&P Global Flash Purchasing Managers' Index (PMI) report for February, released last Thursday, February 22nd, delivered a cautiously optimistic view of the US economy's performance at the start of the first quarter. Despite a slight deceleration, the economy continues to demonstrate resilience, with business activities expanding.

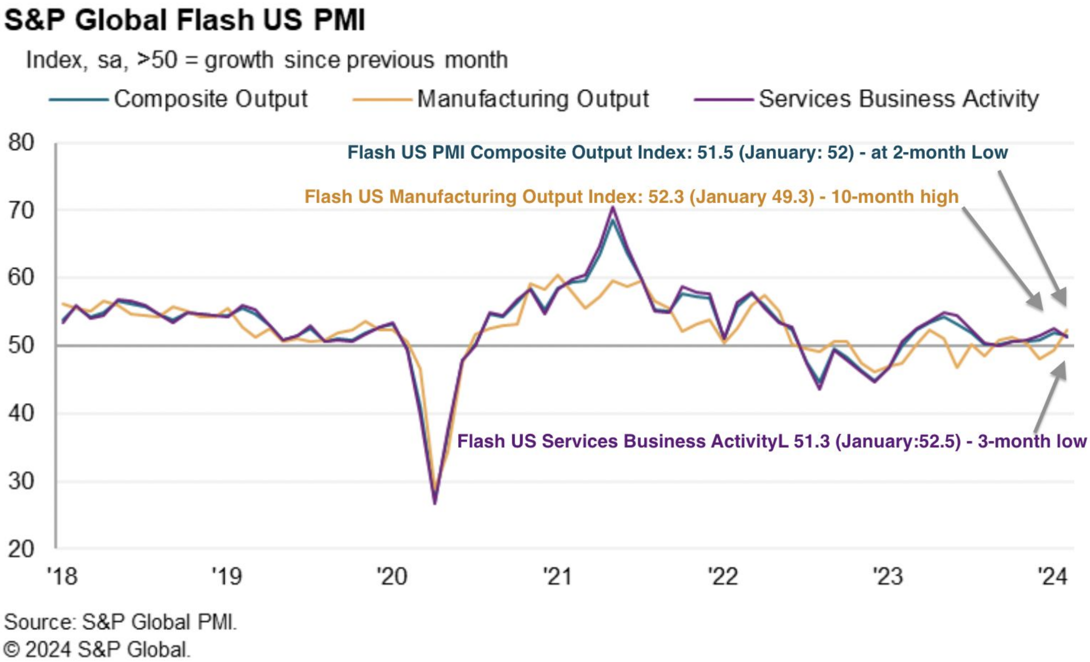


Figure 17. S&P Global Flash US PMI (Source: S&P Global PMI)

The S&P Global Composite Output Index, a critical measure of economic health, marked a slight decrease to 51.4 in February from January's 52.0. This subtle shift masked a continued but marginal expansion of business activity.

Manufacturing in particular, showed a notable rebound, with factory output increasing at its quickest pace in ten months, signalling a robust return to growth in this sector. This revival in manufacturing output is a significant positive development, reflecting improved supplier delivery times influenced by better weather conditions than in the previous month, overcoming previous challenges related to shipping.

Conversely, the service sector experienced a slight slowdown in growth, although it continued to be at levels indicating expansion (index higher than 50) for 13 consecutive months. This slowdown is partly attributed to a tempered confidence for interest rate reductions in 2024, affecting service sector confidence. This reduced confidence can lead to cautious business behaviour, such as reducing investments or hiring plans, which in turn can affect the service sector's growth.

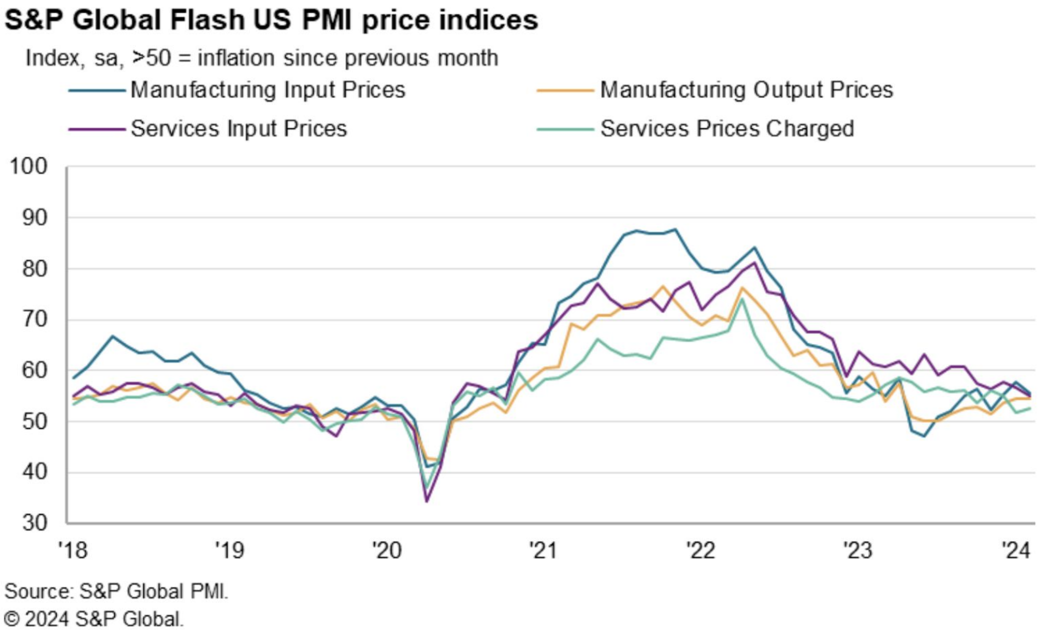


Figure 18. S&P GLobal Flash US PMI Price Indices (Source: S&P Global)

A particularly encouraging aspect of the report is the moderation in price pressures. Cost pressures eased again in February, as input prices rose at their weakest pace since October 2020. The rate of cost inflation slowed at both manufacturers and service providers, attributed to decreased costs of raw materials and more competitive pricing from suppliers. Figure 17 above illustrates that the Composite Output Price Index often serves as an early indicator of the direction in which consumer prices are heading. This moderation suggests that inflation could align with the Federal Reserve's target of two percent, a critical factor for future policy decisions.

The survey indicated a slight increase in selling prices for goods and services in February, yet the rate of increase was the second slowest since mid-2020. The S&P Global PMI report suggests that price pressures could remain subdued in the near term. As the economy shows signs of adapting to challenges, the focus will remain on whether these trends can be sustained in the face of ongoing economic uncertainties.

NEWS FROM THE CRYPTO-SPHERE

Reddit Moves Toward IPO, Reveals Its Embrace of Crypto

Figure 19. Reddit Moves Toward IPO, reveals its embrace of Crypto

- **Reddit announces IPO plans, revealing investments in Bitcoin and Ether, alongside accepting cryptocurrencies for virtual goods transactions**
- **financial impact from its crypto holdings is minor and the company strategically limits its digital asset portfolio due to regulatory considerations**

Reddit, a popular social media platform, has announced its intention to become a publicly traded entity, revealing in its formal S-1 filing, that it had allocated a portion of its excess cash reserves into Bitcoin and Ether. The company also said that it accepted Ether and Matic for the sale of specific virtual goods. This approach, it suggested, may also continue into the foreseeable future.

Reddit noted however, that "The net carrying value of our cryptocurrencies, which consisted primarily of Bitcoin and Ether, as well as all related cryptocurrency activity, was immaterial for the periods presented."

Reddit also indicated that its cryptocurrency investments were influenced by regulatory considerations, and that it had deliberately limited its treasury holdings to Bitcoin, Ether, and any other cryptocurrencies that are not likely to be classified as securities.

It disclosed however, that it had actively engaged in a number of crypto-related initiatives, notably launching a series of collectible avatars based on the Polygon blockchain. These digital collectibles had achieved significant popularity, it said, with hundreds of thousands being minted daily at their zenith.

CME Group to Launch Euro-Denominated Micro Bitcoin and Ether Futures: Expanding Crypto Derivatives Offerings

Figure 20. CME Group to Launch Euro-Denominated Micro Bitcoin and Ether Futures

- **CME Group announces plans to launch micro Bitcoin and Ether futures denominated in euros on March 18th, aiming to provide investors with affordable entry points into the crypto market**
- **This initiative follows the successful launch of USD-denominated micro futures and adds to CME's crypto derivatives offerings, responding to significant trading activity and demand from global investors.**

The CME Group has announced its plans to launch micro Bitcoin and Ether futures denominated in euros on March 18th, subject to regulatory approval. This initiative aims to broaden its crypto derivatives offerings, following the successful launch of micro Bitcoin futures in May 2021 and micro Ether futures in December 2021, both of which are valued in US dollars. The CME Group had previously introduced euro-denominated Bitcoin and Ether futures contracts in August 2022, alongside its Bitcoin and Ether options products.

The forthcoming euro-denominated micro futures for Bitcoin and Ether will mirror the size of their dollar-based counterparts, and be offered at one-tenth the size of the actual cryptocurrencies. This move is designed to offer investors a more affordable entry point into Bitcoin and Ether markets.

Giovanni Vicioso, CME Group's Global Head of Cryptocurrency Products, emphasised the growing demand among global investors for more refined tools to navigate the risks associated with the increasing interest in Bitcoin and Ether. He highlighted a significant uptick in trading activity, noting a "four-fold increase in volume in our USD-denominated micro Bitcoin and micro Ether futures."

Despite the dominance of US dollar contracts in the cryptocurrency futures market, the CME Group recognises a valuable opportunity to cater to its clients' needs for alternative products that allow for hedging against Bitcoin and Ether exposure in euros, the second most traded fiat currency. Vicioso pointed out that, “year-to-date, 24 percent of Bitcoin and Ether futures volume at CME Group has been transacted from the EMEA region, and we continue to develop additional tools for clients there to hedge their crypto portfolios and express or take a view on potential market moves.”

UK Law Commission Proposes Recognition of Cryptocurrencies as Property

Figure 21. UK Law Commission Proposes Recognition of Cryptocurrencies as Property

- **The Law Commission of England and Wales has initiated a consultation on draft legislation to recognise cryptocurrencies and NFTs as property, inviting stakeholder feedback by March 22**
- **The move aims to address the unique challenges posed by digital assets in personal property rights, insolvency, theft, and international private law**

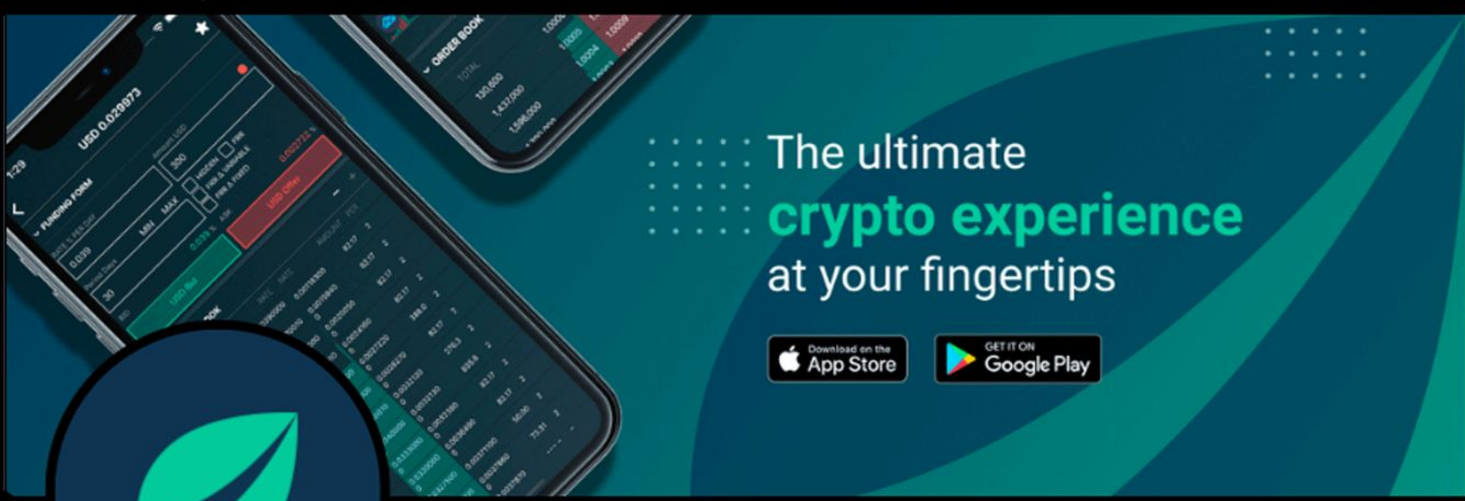
The Law Commission,the statutory independent body that recommends and reviews changes in laws in England and Wales, launched a short consultation exercise on draft legislation recognising cryptocurrencies as property, last Thursday, February 22nd. This move follows the commission's previous report on digital assets, concluding that crypto and non-fungible tokens (NFTs) can be granted property rights. Stakeholders have until March 22 to submit their responses.

Highlighting the significance of personal property rights, especially in situations involving insolvency or unauthorised access or theft, the commission pointed out the unique challenges digital assets present. Unlike traditional physical or rights-based assets, such as debts and securities, digital assets do not easily fit into existing personal property classifications.

Additionally, the Law Commission is seeking input for its investigation into digital assets and electronic trade documents within the realm of private international law, with a deadline for feedback set for May 16. The insights gathered will influence the course of action for the crypto property bill, leading to a final draft for government consideration, and the international documentation effort, which is expected to result in suggested legal amendments.

The commission emphasised the difficulties that digitisation and decentralisation introduce to the conventional mechanisms of private international law, particularly in resolving jurisdictional and legal conflicts. It aims to understand how well current private international law practices accommodate digital assets and electronic trade documents and to identify any challenges encountered in commercial and legal settings regarding these digital entities. This inquiry comes in the wake of the Electronic Trade Document Act, which was passed last year, enabling the digitisation of trade documents in the UK.

The Law Commission's initiative to classify cryptocurrencies and non-fungible tokens (NFTs) as property marks a significant step forward in the legal recognition of digital assets. This consultation not only underscores the growing importance of digital assets in the modern economy but also highlights the challenges they present in traditional legal frameworks.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