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EXECUTIVE SUMMARY

After reaching a new all-time high of $73,666 on March 14th, Bitcoin saw a pullback of over 12.5 percent, in what was one of the largest price dips since the launch of spot Bitcoin ETFs in early January. While Spot Bitcoin ETFs have seen unprecedented inflows, crossing a billion dollars in a single day last week, a recent stabilisation in flows has given the market some pause. It would not be a surprise to see a period now in which the market seeks some equilibrium after the initial enthusiasm we have seen. The flow data from the upcoming week will be crucial in shedding light on TradFi investors' sentiment towards Bitcoin, and in particular their reaction to the sharp corrections last week.

In contrast, the altcoin market has shown remarkable composure in the face of Bitcoin's volatility. The Total3 index reached a new cycle high, indicating growing investment flows into alts. This resilience is being reflected in the substantial inflows into Ethereum and other Layer 1 (L1) blockchain projects, despite Ether's underwhelming performance against BTC.

There is, however, an increasingly bullish narrative for Ether and Ethereum as evidenced by the record outflows of ETH from exchanges, and the burgeoning popularity and valuation of Layer 2 ecosystems like Base, which have seen their total value locked (TVL) double in recent weeks. As we look ahead, the performance of large-cap altcoins, particularly those with their own ecosystems, will be crucial in understanding the market's direction.

In the macro world, the Consumer Price Index (CPI) report for February delivered a blow to hopes for an early easing of monetary policy in the US, with a 0.4 percent increase in CPI signalling persistent inflationary pressures, especially in gasoline and shelter costs.

Retail sales in February, however, provided a silver lining, showing the consumer remained unbowed by high interest rates. A 0.6 percent increase suggests robust consumer spending, supported by a strong job market. However, the persistence of inflationary pressures, as evidenced by rising producer prices and robust service expenditures, means the Fed needs to remain cautious about cutting too soon.

In the crypto world, a UK court presided over a landmark legal decision in Craig Wright's claim to be Satoshi Nakamoto, the pseudonymous creator of Bitcoin. This ruling not only clarifies Wright's non-involvement in Bitcoin's creation but also has significant implications for his ongoing legal battles within the cryptocurrency community.

Meanwhile in Thailand, regulatory amendments have opened the door for institutional investors and "ultra-high-net-worth individuals" to access private funds investing in spot Bitcoin ETFs in the US, classifying these shares as securities. While this move signifies Thailand's progressive stance towards integrating digital assets into its financial ecosystem, it concurrently highlights the challenges faced by retail investors in accessing emerging investment opportunities in the digital asset space.

Have a good trading week!

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WHAT'S ON-CHAIN THIS WEEK?

Bitcoin Pulls Back Amid Stabilising ETF Flows

Last Thursday, March 14th, Bitcoin achieved a new all-time high (ATH) of $73,666 (refer Figure below). It then subsequently fell more than 12.5 percent, with the downturn gaining momentum over the weekend. It marks the second largest percentage drop since the approval of spot Bitcoin ETFs in January, with the first dip - exceeding 15 percent - occurring within a single day but which quickly recovered as buying activity resumed.

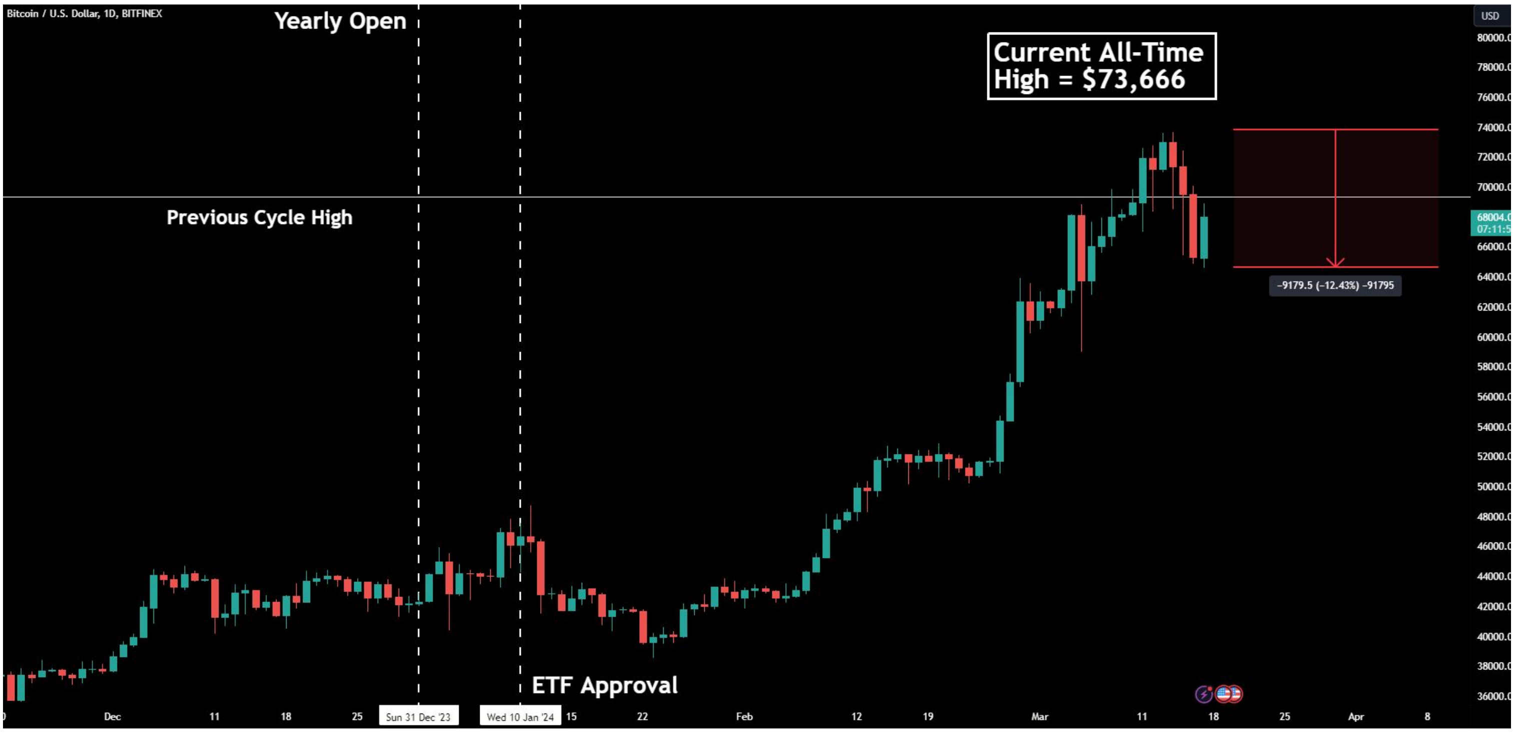


Figure 1. BTC/USD Daily Chart. (source: Bitfinex)

Since the start of 2024, BTC has surged by 74 percent, and is up 90 percent from the lows hit following the post-ETF "sell-the-news" slump. During this period, there has not been more than three consecutive days of decline. Had yesterday's Sunday candle also closed in the red, it would have marked the first time this has happened since the beginning of the year. However, for such a sharp price correction to occur twice in two weeks, it could suggest that the strong uptrend observed since the beginning of the year and throughout the second half of 2023 might finally be decelerating. While this does not necessarily indicate a bearish outlook for BTC, it could signal the onset of a period of ranging and consolidation for the broader cryptocurrency market. The true strength in BTC's long term price appreciation potential will be seen in the current week's ability to erase the drawdown suffered since last Thursday. It could end up acting as a litmus test of the "passive demand" from ETF flows and provide an assessment of the appetite of traditional finance investors to buy the dip.

A review of the Year-To-Date (YTD) ETF flows (refer Figure below) by category for 2024 reveals that US growth stocks and Bitcoin stand out as the dominant narratives of the year thus far.

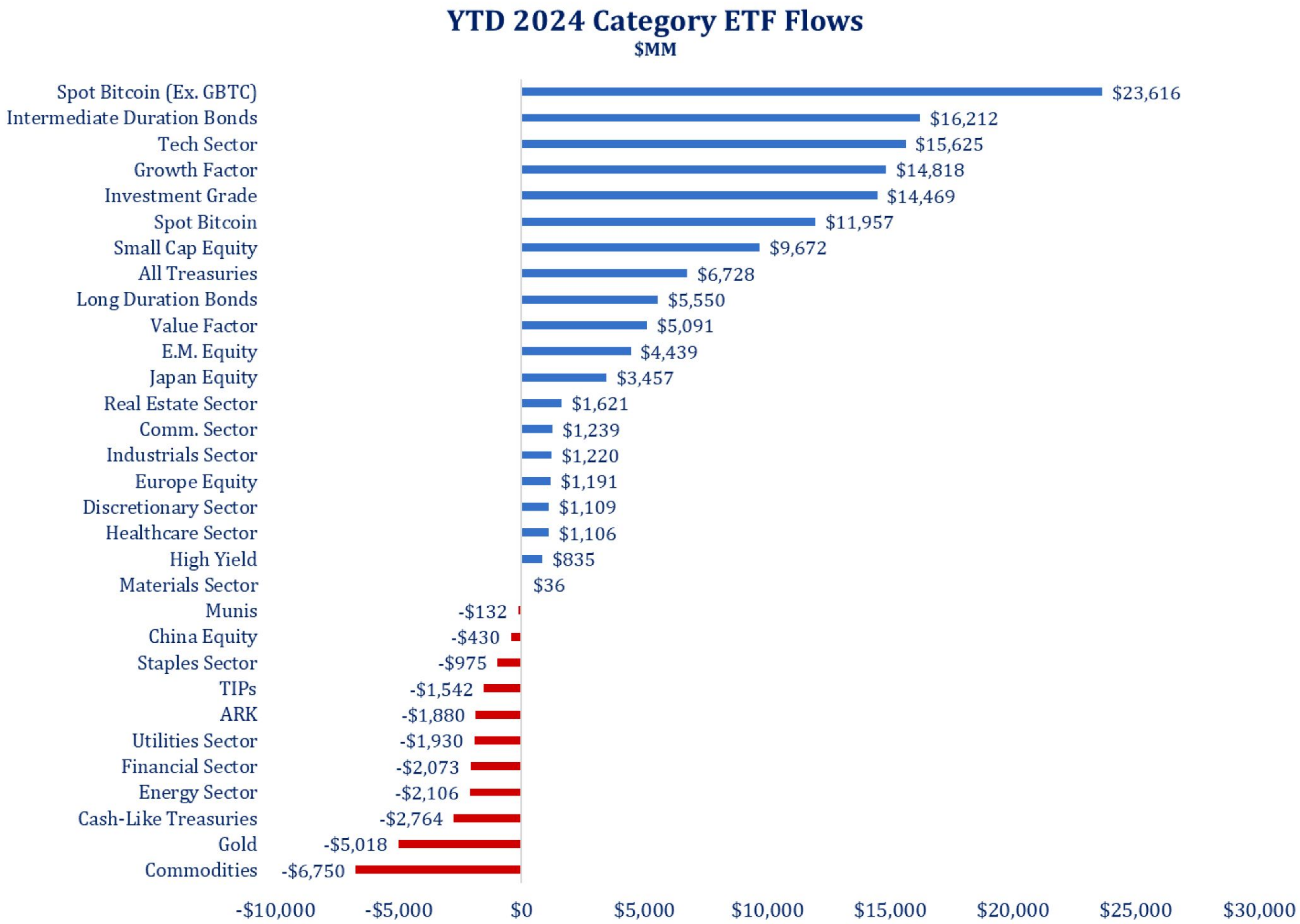


Figure 2. Year-To-Date ETF Flows Across All Categories. (source: strategarsp.com)

Indeed, Bitcoin ETF flows have exhibited robust performance since their inception, and surpassed a billion dollars in daily inflows on March 12th (refer Figure below). However, there has been a recent stabilisation in these flows, indicating a potential plateau in the influx of new investments. This shift could suggest that the initial surge of interest is levelling off as the market begins to find its equilibrium.

The last two trading days of the week had underwhelming net inflows amounting to $132 million and $199 million respectively. GBTC outflows also continued, albeit at a moderate pace of about $250 million per day. Net outflows total approximately $11.8 billion from the GBTC spot Bitcoin ETF since its conversion from the GBTC trust. In contrast, BlackRock has 228,612 BTC within its ETF.

While the influx into Bitcoin Spot ETFs was at its peak in February and the first half of March, it has seen a notable deceleration following Tuesday's intraday reversal which then continued downwards on Thursday.

One hypothesis for this slowdown is that traditional finance (TradFi) investors became cautious upon recognising Bitcoin's potential for substantial corrections. The flow data from the upcoming week will be crucial in shedding light on TradFi investors' sentiment towards Bitcoin, particularly their reaction to the sharp corrections last week. This information will be pivotal in understanding the broader investment community's confidence in Bitcoin's stability and growth potential.

As the Figure above shows, flow data into ETFs since the start of the year show that aside from Bitcoin and US Stocks, corporate bonds have also seen significant inflows, and Japan and Emerging Markets (EM) have made notable, albeit rare, appearances in the flow dynamics, indicating a shift in investor sentiment towards these regions. On the other hand, Gold ETFs have found themselves lagging, positioned at the lower end of the investment spectrum, despite reaching all-time highs. These flows demonstrate how investors are diversifying across different asset classes in the current economic and market environment.

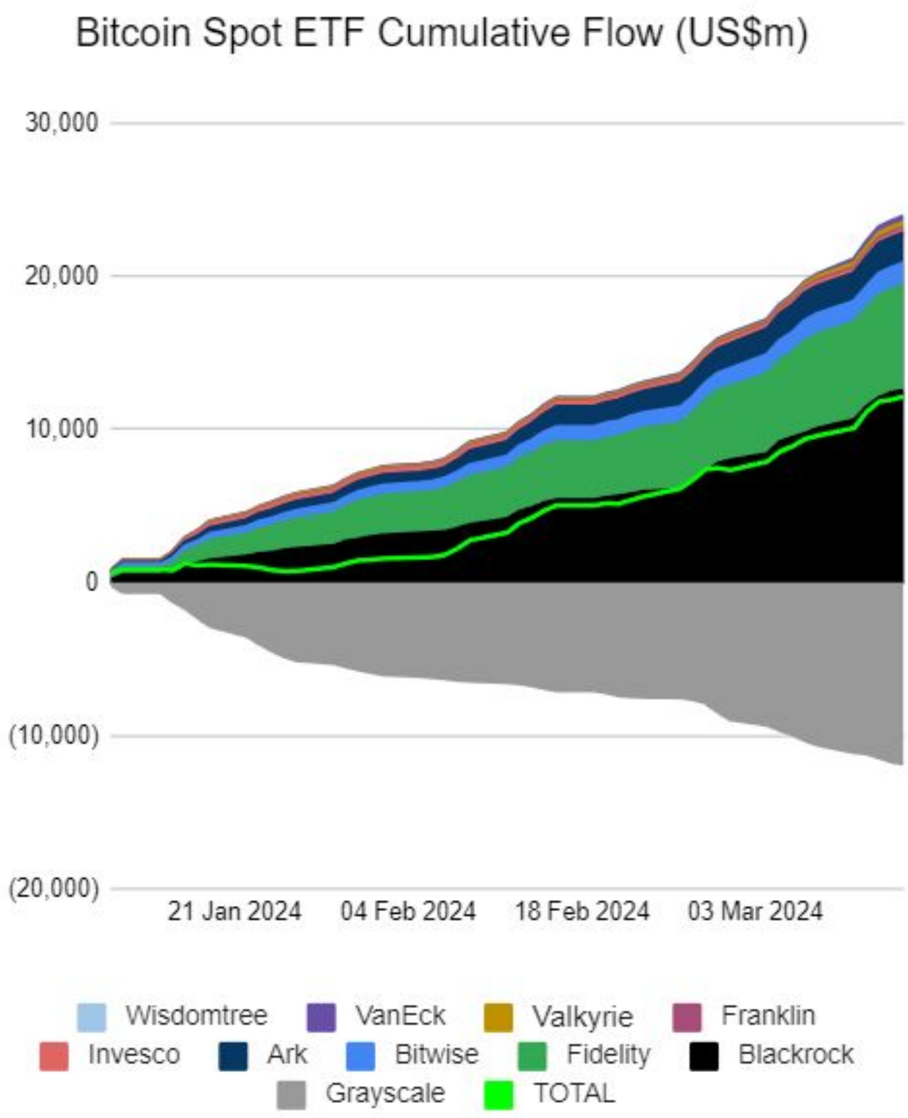


Figure 3. Bitcoin Spot ETF Cumulative Flows (source: FarsideUK)

Altcoins Maintain Composure While Bitcoin Corrects

The altcoin market has demonstrated remarkable resilience. The Total3 index, which tracks the price performance of all crypto assets, excluding BTC and Ether, reached a new cycle high market capitalisation of $788 billion, on March 14th, 2024. As BTC then began to correct by 12.5 percent, the Total3 Index was only down by 14 percent (less than BTC in absolute terms), indicating some resilience, relative to BTC.

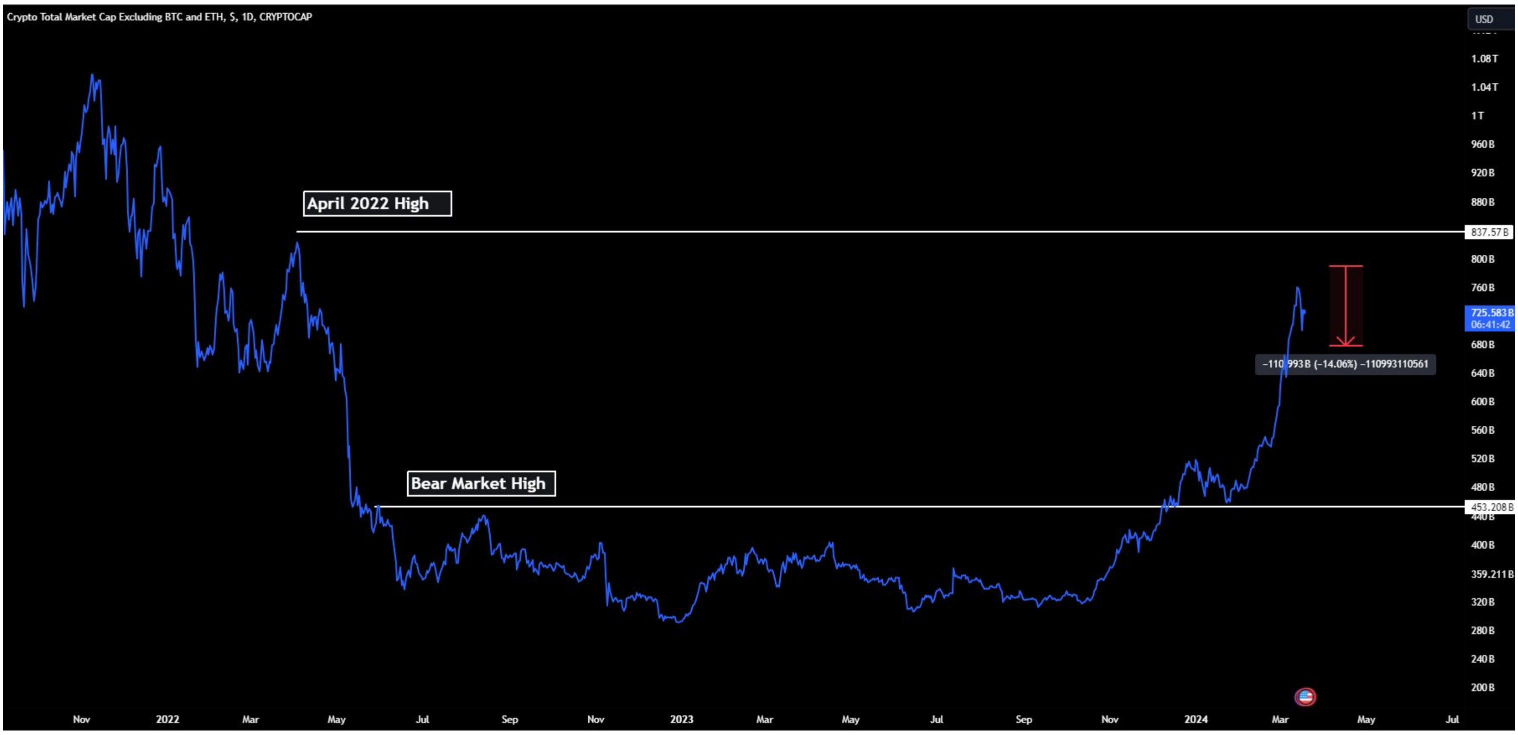


Figure 4. Total3 Index Daily Chart (source: CryptoCap)

The Total3 Index’s new cycle high marks a 74.23 percent increase from the index's highest point during the bear market (see Figure above), indicating significant growth in investment in altcoins. This trend highlights the diversifying landscape in the crypto market today, where altcoins are gaining traction and attracting substantial capital inflows. The current cycle high is now only 6.5 percent away from the April 2022 high, when the index recorded a market capitalisation of $837.5 billion. If it passes this level, altcoins will transition into the "mania phase" of the cycle, a period during which significant movements in a diverse range of altcoins takes place and there is heightened investor enthusiasm and substantial gains across the sector. It can potentially lead to exponential growth in altcoin valuations and investor interest.

Traditionally, Ether has served as a crucial indicator for the performance of altcoins. The Ethereum network's Total Value Locked (TVL) indicator is a good gauge of capital inflows into Ethereum Virtual Machine (EVM) compatible chains and projects developed on Ethereum. Moreover, the performance of Ether itself has often acted as a proxy and a precursor to the potential performance of these altcoins. In the current cycle, this relationship has seen some dilution due to the rising prominence of other Layer 1 blockchains. However, the significance of Ether as a metric to predict altcoin performance remains substantial. Reviewing both Ethereum's TVL and the Total3 index, which excludes BTC and Ether, can provide a differentiated view of the health of the broader altcoin market.

Despite the evolving landscape, Ether's role and influence within the altcoin sector continue to be integral for understanding and predicting market movements. That said, in the current cycle, ETH/BTC performance has been quite underwhelming. The Dencun Ethereum upgrade has failed to provide a strong enough narrative to push the price further up when most altcoins are performing well. ETH/BTC prices are moving towards their bear market low of 0.049 BTC, and which has already been tested once, just before the ETF launch, on January 9th of this year. (refer Figure below)

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

The silver lining is that we see strong support for BTC/ETH at this level, and other Ethereum based altcoin projects are performing well. In addition, as we discuss below, on-chain metrics suggest a bullish narrative for Ether.

Looking at netflows, a metric used to measure the volume of Ether moving into and out of exchanges, the largest Ether netflow from exchanges for 2024 was recorded last week at -154,000 Ether, setting a new daily outflow record. (refer Figure below). A negative netflow implies a reduction in the available supply on exchanges, which, against a backdrop of sustained or increasing demand, can exert upward pressure on the asset's price.

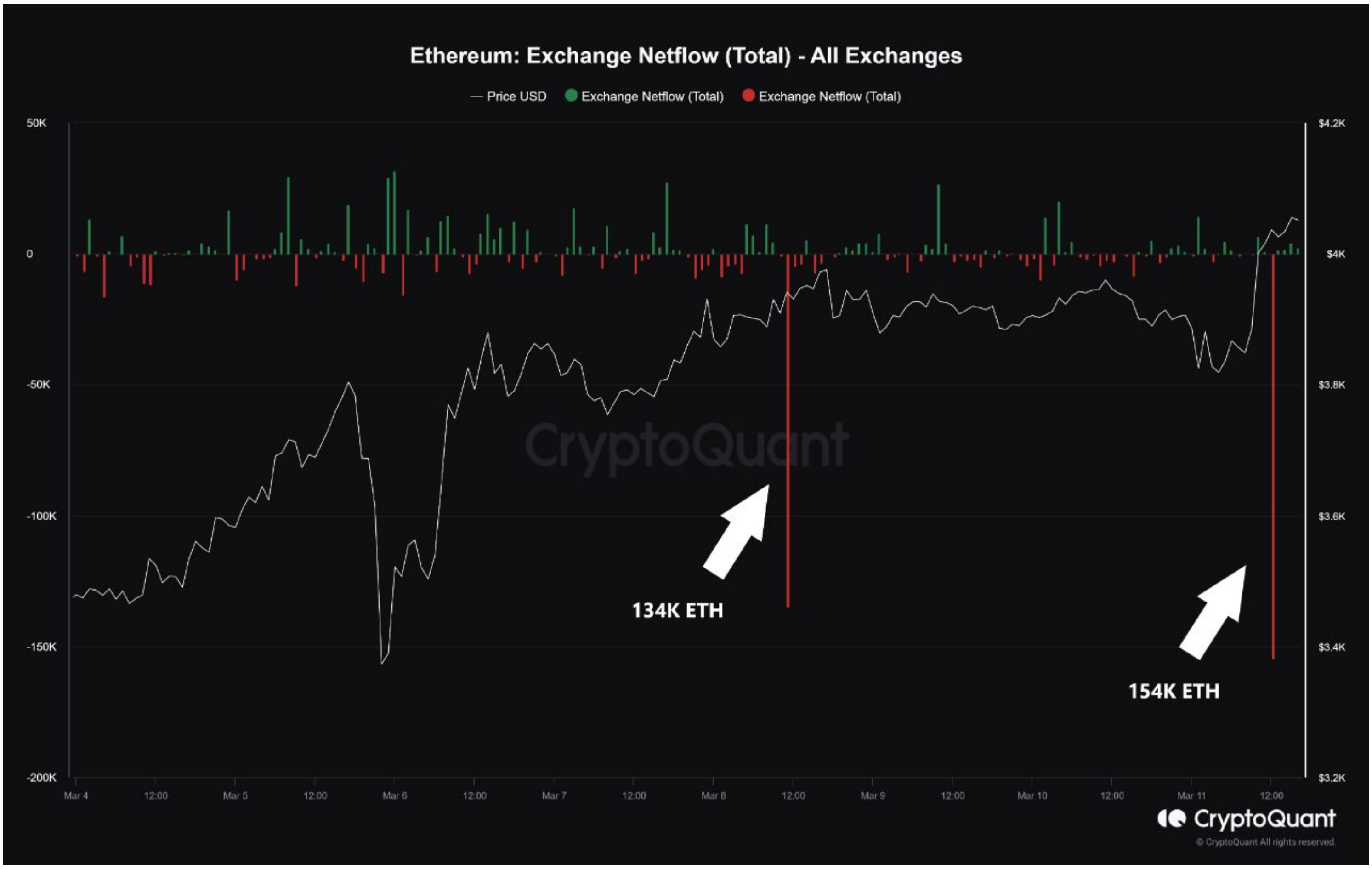


Figure 6. Ethereum Exchange Netflow Across All Centralised Exchanges. (source: CryptoQuant)

The recent netflow data indicates a potential short-term upward trajectory for Ether, however we suspect this could be the traders moving their Ether off-exchanges to trade coins on an ERC-20 protocol or a Layer 2 like the Base mainnet. As noted in last week's *Bitfinex Alpha*, DEX trading volumes reached record highs recently. One of the major bullish cases for Ethereum currently is the growing popularity, TVL and volume on Layer 2s. The Base ecosystem reached a TVL of over $800 million (refer Figure below) which has doubled in the past two weeks, and recorded consistent daily volumes of over $140 million.

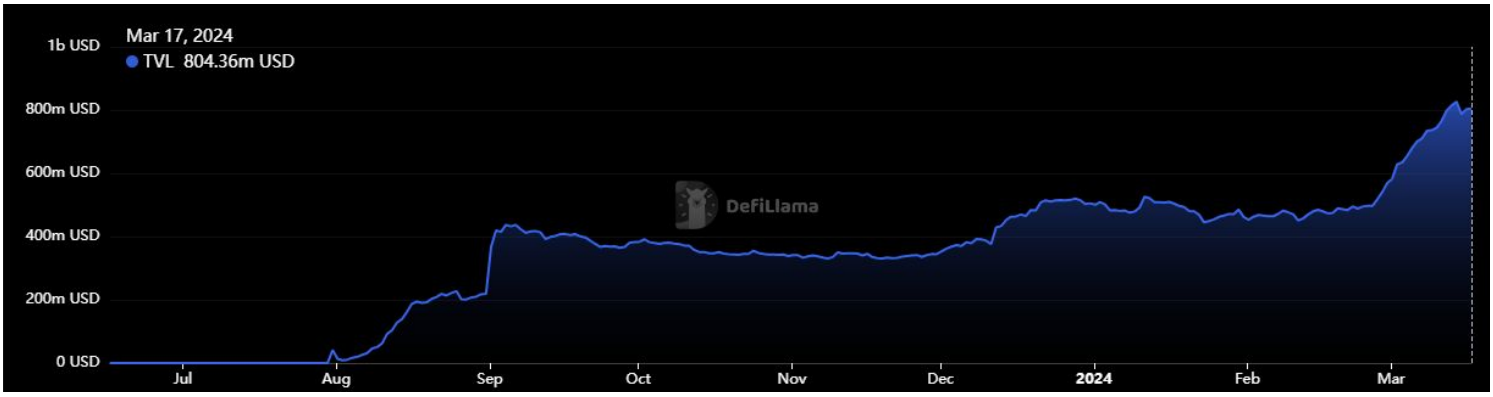


Figure 7. Base Total Value Locked (source: DefiLlama)

We believe that a significant bullish factor for Ethereum and other major Layer 1 (L1) blockchains is their increasing adoption as the base currency for on-chain trading activities. This not only enhances the utility and demand, but also solidifies their increased resilience during BTC corrections as traders are less likely to swap their base currency for stablecoins during market downturns as they might be with other alts. As more trading activities take place on-chain, using these L1 currencies as the primary medium of exchange could lead to a substantial increase in their value and market relevance.

The following figure captures the weekly performance of large cap altcoins in percentage terms, and the top performers over the past week are TON, NEAR, SOL, AVAX, APT and BNB.

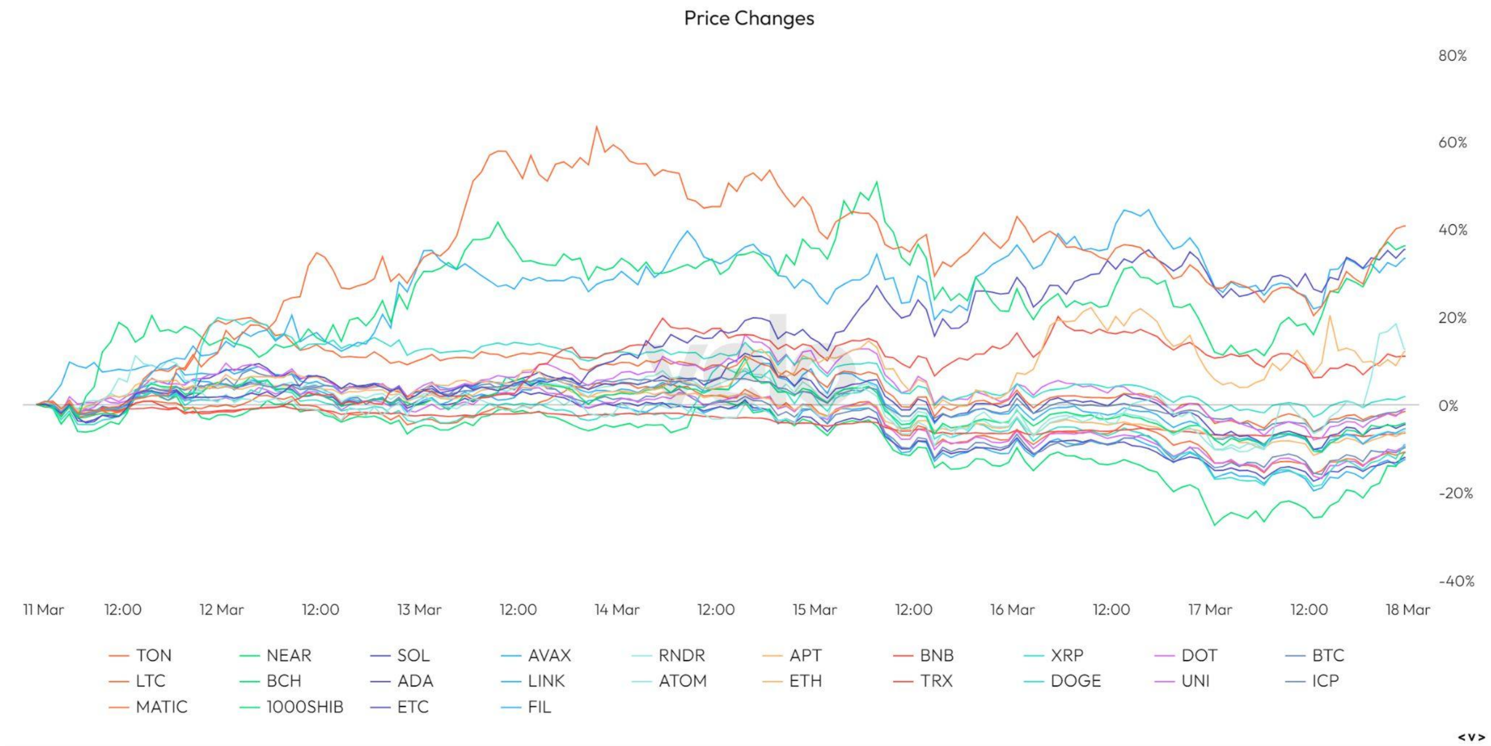


Figure 8. Large Cap Altcoins Performance Since March 11th In Percentage Terms. (Source: VeloData)

Despite many of them ending the week negative, in light of the BTC correction, as is evident from the aforementioned data, the coins outperforming the general market are all L1s with their own ecosystems. The only coin with a strong separate narrative in the list is NEAR which has caught significant investor attention ahead of NVIDIA's Transforming AI conference this week, as Near Protocol's co-founder and CEO Illia Polosukhin will be one of the only crypto-related entrepreneurs speaking.

GENERAL MACRO UPDATE

Sticky February Inflation Challenges the Fed's Plans for a June Rate Cut

In February, the Consumer Price Index (CPI) saw its second consecutive month of significant inflation growth. The rise in the CPI, due to higher gasoline prices and disruptions in housing inflation data, adds to the complexity of the economic outlook and challenges the hoped for June rate cut.

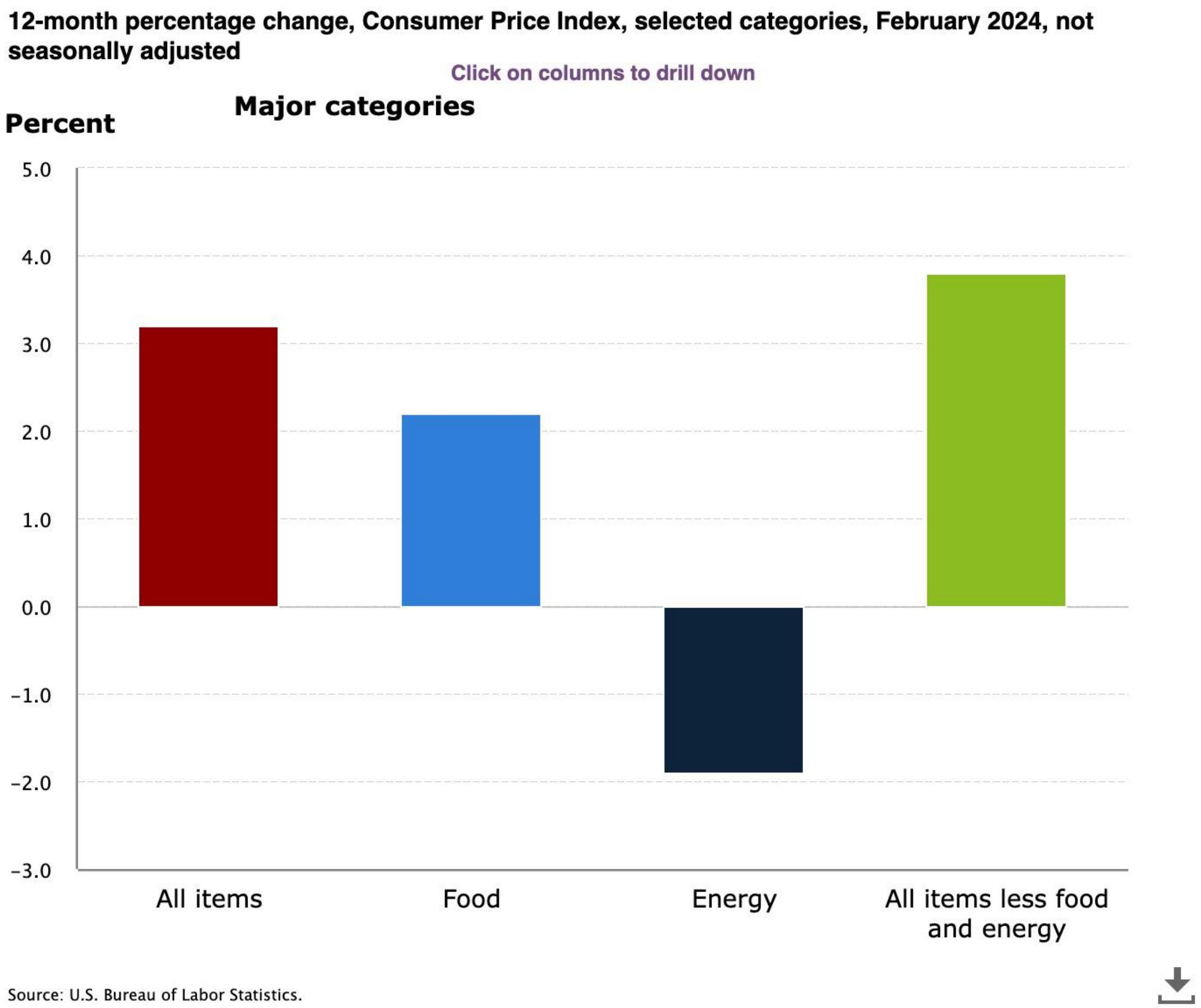


Figure 9. Year-over-year change in Consumer Price Index (Source: Bureau of Labor Statistics)

According to a Bureau of Labor Statistics report issued last Tuesday, March 12th, the CPI rose by 0.4 percent in February, following a 0.3 percent increase in January. Key factors such as gasoline and shelter costs, were responsible for over 60 percent of the monthly CPI surge. Over the past 12 months, inflation has climbed 3.2 percent, up from 3.1 percent in January.

Even after excluding food costs and energy, core CPI, which is regarded as a less volatile measure of inflation, saw a 0.4 percent monthly increase and a 3.8 percent rise on a year-on-year basis. It all underscores the persistent inflationary pressures that still exist on the non-volatile components of the CPI. The service sector, excluding energy and shelter—also known as 'super-core' inflation—grew by 0.5 percent for the month and 4.46 percent on a year-on-year basis.

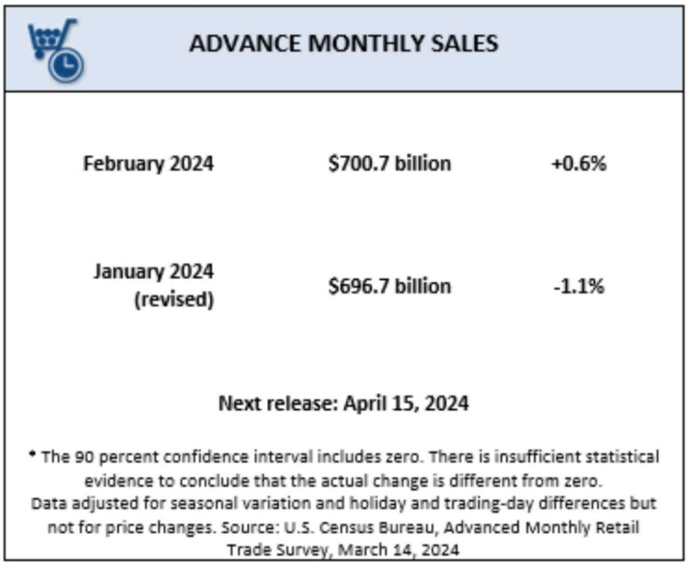
This sobering data was followed by the Bureau of Labor Statistics Producer Prices report, which showed that the Producer Price Index (PPI) for final demand also surged by 0.6 percent in February, exceeding the consensus forecast of 0.3 percent. This rise follows a 0.3 percent increase in January. This unexpected jump, primarily fueled by rising costs in gasoline and food, may intensify concerns over a potential resurgence in inflation.

Year-on-year, the PPI rose by 1.6 percent, a notable increase from the 1.0 percent recorded in January. Costs excluding food and energy however edged up by 0.3 percent, unchanged from the previous month's growth. Indeed, the fact that goods prices remained steady signals a potential end to goods deflation, which was a significant contributor to reduced inflation rates in recent months. A slight silver lining, though the data implies that the service sector needs to catch up in easing inflation.

Financial markets have been hoping for a reduction in interest rates starting in June, but the Fed has made it clear that it seeks more solid evidence of inflation moving towards its two percent target. The February inflation figures fall short of providing this assurance, leaving the timing for rate cuts uncertain.

February's Retail Sales Surge Demonstrates Consumer Resilience (and Exacerbates Inflationary Pressures) Amid Economic Uncertainties

In February, an increase in retail sales marked a rebound following the fall in sales seen in January, and suggested that the previous month's drop was noise rather than an emerging trend.



ADVANCE MONTHLY SALES

February 2024	$700.7 billion	+0.6%
January 2024 (revised)	$696.7 billion	-1.1%

Next release: April 15, 2024

* The 90 percent confidence interval includes zero. There is insufficient statistical evidence to conclude that the actual change is different from zero.
Data adjusted for seasonal variation and holiday and trading-day differences but not for price changes. Source: U.S. Census Bureau, Advanced Monthly Retail Trade Survey, March 14, 2024

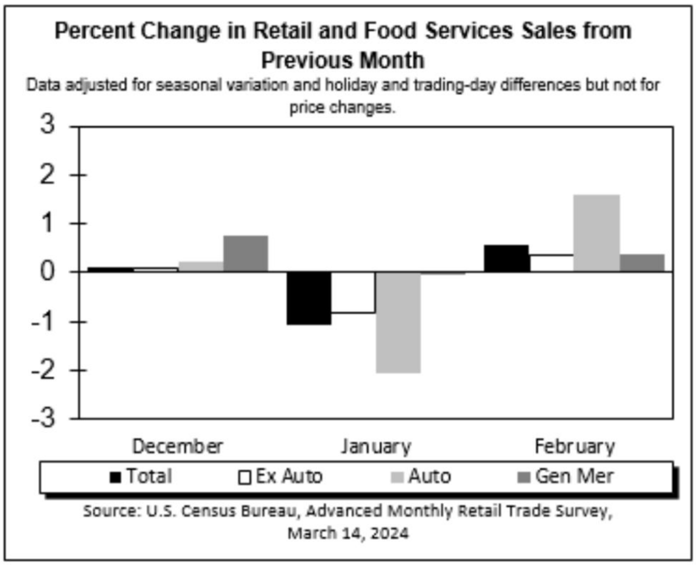


Figure 10. Retail Sales (Source: US Census Bureau)

As reported by the Census Bureau, the dip observed in January appears to have been seasonal with consumer spending across retail establishments, dining venues, and online platforms remaining robust in February, supported by a robust job market. The Census Bureau recorded a 0.6 percent increase in sales for February, marking the most significant growth since last September.

January's data was actually adjusted further downwards to a 1.1 percent contraction in sales, compared to the initial 0.8 percent drop reported. Additionally, sales figures for December were also revised downwards.

The market had been expecting a smaller rise in retail sales, reporting a consensus forecast of a 0.8 percent rise year-on-year, compared to the 1.5 percent that came in. Core retail, which excludes variables like food services and construction materials, showed no change from the previous month, pointing towards a plateau in goods consumption.

We believe, however, that the stability seen in core retail sales, will not be enough for the Fed to cut rates in March or May, particularly given the rise in in producer prices discussed above. The ongoing robustness in service expenditures, which retail sales figures do not fully cover, along with other economic measurements, is also likely to show that consumption remains stubbornly high.

In a separate report from the Bureau of Labor Statistics, employment data shows that the labour market remains stable, with a slight decrease in initial unemployment claims. Initial claims for unemployed benefits fell by 1,000 to a seasonally adjusted 209,000 for the week ending March 19. Despite some indications of softening, the consistency in job market data suggests enduring strength.

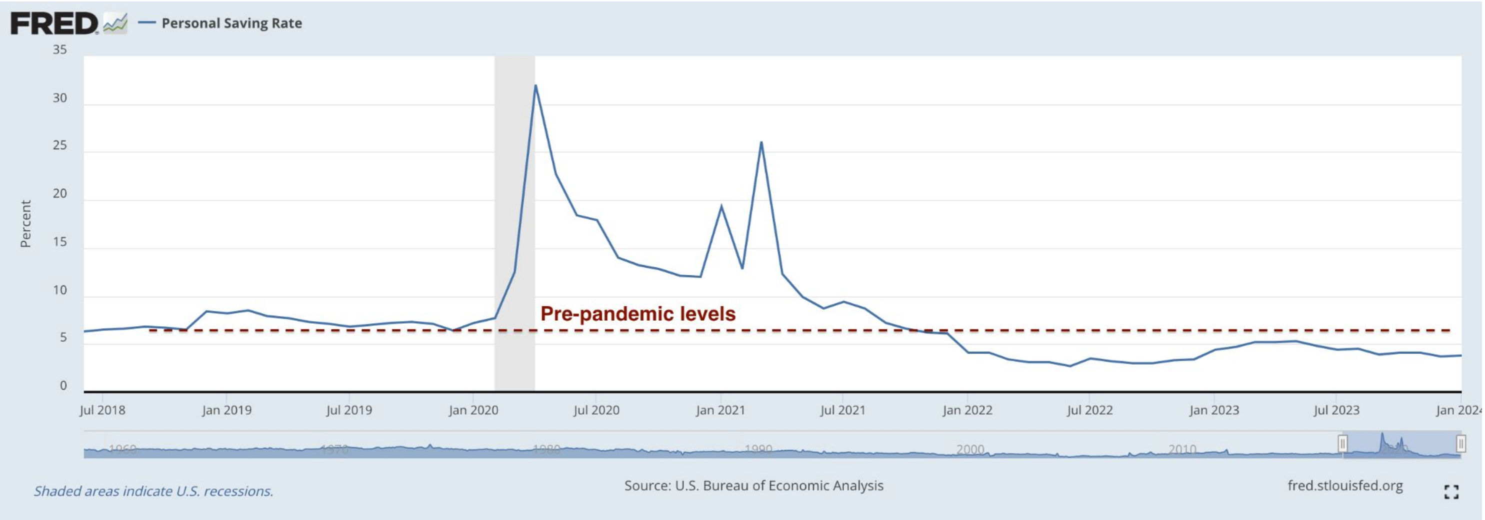


Figure 11. Personal Savings Rate (Source: Bureau of Economic Analysis)

All that said, it remains uncertain whether consumers can maintain their spending levels in the latter half of the year. The depletion of pandemic-induced savings, combined with the high cost of borrowing, should shift consumer behaviour. This scenario means the Fed needs to be even more vigilant in balancing a growing economy while guarding against inflation.

NEWS FROM THE CRYPTO-SPHERE

Craig Wright’s Claim that He Is Satoshi Nakamoto Is Dismissed

Figure 12. The Current Ruling Will Also Play A Major Role in Other Legal Cases Involving Craig Wright

- **The trial lasted six weeks before Wright’s claims were ruled false by UK Judge**
- **In his ruling, Justice James Mellor said Wright did not invent Bitcoin, was not the man behind Satoshi, or the author of the initial versions of the Bitcoin software**

After eight years of claiming to be the man behind the pseudonym, “Satoshi Nakamoto”, a ruling at London's Royal Courts of Justice, made it clear that this assertion was false. Following an exhaustive six-week trial, Justice James Mellor dismissed Wright's assertions, stating unequivocally that he did not write the Bitcoin whitepaper nor did he act as Nakamoto.

The case was heard after the Cryptocurrency Open Patent Alliance (COPA) initiated legal action against Craig Wright in 2021, with the objective of obtaining a ruling to preclude him from pursuing legal action against developers and other participants within the cryptocurrency community or from asserting intellectual property rights over Bitcoin's open-source technology. COPA’s lawyers meticulously dismantled Wright's claims during cross-examination, exposing inconsistencies and fabrications in his narrative laid over the past eight years. This landmark verdict not only settles the dispute, but also has broader implications for Wright's legal battles within the cryptocurrency community.

In his ruling, Justice James Mellor said Wright did not invent Bitcoin, was not the man behind Satoshi, or the author of the initial versions of the Bitcoin software. Justice Mellor's written statement is yet to be released which is likely to provide more information behind his ruling.

Wright's legal team is however contesting COPA's intention to seek injunctions that would permanently bar Wright from claiming to be the creator of Bitcoin. Wright's counsel, Lord Anthony Grabiner, contended that such a restriction would be unparalleled in the UK, limiting Wright's ability to even make causal claims of being Satoshi Nakamoto in public spaces without facing penalties or imprisonment. Grabiner described the potential injunction as "sinister" and advocated for a judgement that respects Wright's legal right to free speech, emphasising that Wright should have the freedom to express his identity to his community.

COPA's solicitor, Jonathan Hough, counters this view indicating that such an injunction is necessary given Wright's track record of a "campaign of litigation" against the cryptocurrency community.

Justice Mellor also paused two additional lawsuits filed by Wright, including cases against Coinbase and Jack Dorsey's Block, where Wright claimed database rights over the Bitcoin blockchain. These cases were contingent on the outcome of the current trial. The determination that Wright is not Satoshi Nakamoto could significantly impact the progression of these lawsuits.

Thailand's SEC Opens Door to Institutional Investors; Retail Investors Left Out

Figure 13. **Pornanong Budsaratragoon, Secretary-General of Thai SEC (Source: The Nation)**

- **The policy change addresses demand from asset management firms for exposure to digital assets**
- **Shares in spot Bitcoin ETFs would be viewed as securities rather than crypto assets and would not be available to retail investors**

Thailand's Securities and Exchange Commission (SEC) has recently implemented regulatory amendments, allowing institutional investors and "ultra-high-net-worth individuals" access to private funds investing in spot Bitcoin exchange traded funds (ETFs) in the US. This move, announced in a report from the Bangkok Post, marks a significant shift in Thailand's approach to digital asset investments.

The SEC's decision to classify shares in spot Bitcoin ETFs as securities rather than crypto assets reflects a progressive stance towards integrating digital assets into the country's financial ecosystem. However, the exclusivity of this opportunity raises questions about accessibility for retail investors, who have been left out of the equation.

SEC Secretary-General Pornanong Budsaratragoon emphasised however the high-risk nature of the ETFs, which meant that they would only be available to accredited investors.

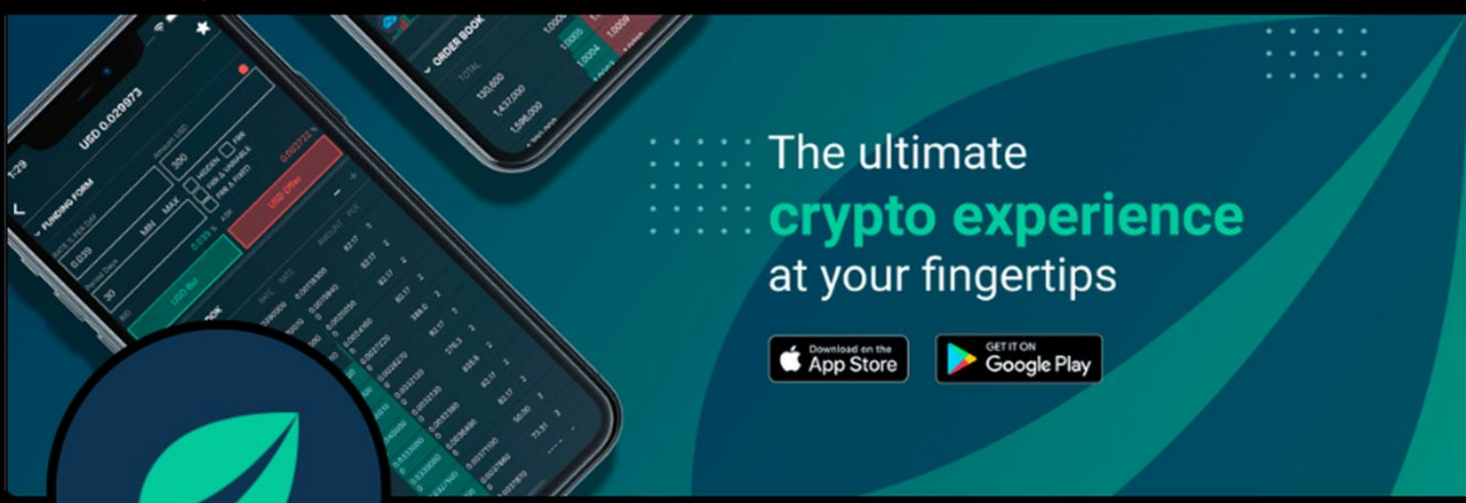
Thailand's retail crypto trading scene is highly popular, with domestic platforms such as Bitkub offering numerous trading pairs and attracting substantial daily volumes.

However, government restrictions imposed in March 2022 on using digital assets for payments, coupled with the SEC's ban on cryptocurrency use for lending and investment in July 2023, have limited retail investors' options.

While the lifting of restrictions on purchasing digital tokens backed by real estate or infrastructure projects in January provided some relief, the latest regulatory amendments underscore the challenges faced by retail investors in accessing emerging investment opportunities in the digital asset space.

With Thailand's largest crypto exchange, Bitkub, and Binance's recent entry into the market in January, retail investors have avenues for crypto trading. However, Binance's exchange is restricted to Thai nationals only.

As Thailand's regulatory landscape continues to evolve, the exclusion of retail investors from spot Bitcoin ETFs highlights the ongoing debate surrounding investor access and regulatory oversight in the burgeoning digital asset market.



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