BITFINEX Alpha

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EXECUTIVE SUMMARY

Last week was a tumultuous week for Bitcoin with significant net outflows from Spot Bitcoin ETFs, snapping a 20-day streak of inflows, and reminiscent of the outflows observed at the end of April.

Indeed, historical patterns suggest that while ETF investment flows are a metric worth watching to gauge investor sentiment on BTC, such flows might not necessarily align with "smart money" flows, and are more reactionary to price changes rather than predictive of market direction. Every time BTC has climbed above $70,000, net ETF inflows have registered close to $1 billion per day. As the price headed lower last week, ETF flows were negative on four days out of five.

We believe a more critical determinant of BTC's valuation last week, was the key US consumer inflation data that was released and the Federal Reserve's interest rate decisions.

In fact on-chain metrics show that most of the selling seemed to be coming, not from ETF investors, but rather Long-Term Holders, whales and miners. The Hodler Net Position Change metric, which measures whale holdings, have been showing consistent negative values for the past nine days, while the Bitcoin:Exchange Whale ratio has continued to climb as more Whales deposit balances on exchanges. These two entities command more BTC than the ETFs, and have clearly put pressure onto the market.

Further, miner reserves have continued to decline, even post-halving, suggesting that miners are struggling to maintain operational efficiency and are continuing to sell assets to maintain profitability and invest in upgraded machinery. That said, with miner reserves nearing four-year lows, the selling pressure from this group might be reaching a critical low.

BTC took fright last week after the Fed indicated that aside from maintaining current interest rates, it was likely to postpone any potential rate cuts until December. However, despite this bearishness, we note that other real economy indicators released last week suggested there was room for more optimism.

Both CPI and PPI have shown signs of easing on a month-on-month basis and the historically tight labour market is finally beginning to loosen - a situation the Fed will not want to see persist too long. These factors suggest that a first rate cut is still quite plausible in September, followed by a further cut in December.

Meanwhile the prospects of an Ether ETF looked more positive last week after Securities and Exchange Commission Chairman Gary Gensler hinted at a possible approval in the coming months. Analysts forecast the first spot Ether ETF could debut as soon as July 2nd, following reported feedback that the SEC requires only minimal adjustments from applicants.

Additionally, a BIS survey revealed a significant uptick in CBDC experiments among central banks, with proof of concept projects increasing by 35 percent and pilots nearly tripling from 2022 to 2023, especially in advanced economies.

It shows how far crypto has come. Happy Trading!

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WHAT’S ON-CHAIN THIS WEEK?

Spot Bitcoin ETFs See Significant Outflows Amid Price Decline

Last week marked a notable shift in the flow dynamics for Spot Bitcoin ETFs, with significant net outflows recorded, and breaking a trend of 20 days of continuous inflows. In total, $580 million in net outflows were reported last week, in a pattern reminiscent of the outflow trend observed at the end of April which marked a trading range low for BTC.

Interestingly, an analysis of BTC since March shows that despite the inflows and outflows into the ETFs, its price has been maintained within a consolidation range of $60-61,000 at the lows and $72,500 at the highs (refer Figure below), with notable inflows at range highs and outflows at range lows.

Figure 1. BTCUSD Daily Chart. (Source: Bitfinex)

The pattern suggests that ETF flows might not necessarily align with "smart money" flows, and are more reactionary to price changes rather than predictive of market direction. Every time price has reached a level of over $70,000, net ETF inflows have registered close to $1 billion per day.

Fidelity's FBTC ETF saw the largest withdrawal last Friday which also marked the weekly low for the BTC price, with $80.1 million exiting the fund (refer Figure below). Close behind, Grayscale's GBTC and Ark Invest's ARKB experienced outflows of $52.3 million and $49 million, respectively. In contrast, BlackRock's IBIT stood out as the only ETF to register a net inflow, albeit a modest $1.5 million.

Date	IBIT	FBTC	BITB	ARKB	BTCO	EZBC	BRRR	HODL	BTCW	GBTC	DEFI	Total
27 May 2024	-	-	-	-	-	-	-	-	-	-	-	0.0
28 May 2024	102.5	34.3	3.3	4.1	3.4	0.0	1.2	0.0	1.4	(105.2)	0.0	45.0
29 May 2024	24.6	17.7	11.0	4.0	1.0	0.0	0.0	0.0	1.1	(31.1)	0.0	28.3
30 May 2024	1.6	119.1	25.9	(99.9)	2.1	0.0	0.0	0.0	0.0	0.0	0.0	48.8
31 May 2024	169.1	5.9	0.0	0.0	0.0	0.0	0.0	(1.9)	0.0	(124.3)	0.0	48.8
03 Jun 2024	0.0	77.0	14.3	10.7	0.0	0.0	0.0	2.0	1.1	0.0	0.0	105.1
04 Jun 2024	274.4	378.7	61.0	138.7	0.0	0.0	1.6	4.0	0.0	28.2	0.0	886.6
05 Jun 2024	155.4	220.6	18.5	71.4	3.6	0.0	0.0	4.0	0.0	14.6	0.0	488.1
06 Jun 2024	349.9	3.1	(3.1)	(96.6)	0.0	0.0	0.0	2.0	0.0	(37.6)	0.0	217.7
07 Jun 2024	168.3	0.0	(7.9)	6.9	0.0	0.0	0.0	0.0	0.0	(36.3)	0.0	131.0
10 Jun 2024	6.3	(3.0)	7.6	0.0	(20.5)	0.0	(15.8)	0.0	0.0	(39.5)	0.0	(64.9)
11 Jun 2024	0.0	(7.4)	(11.7)	(56.5)	0.0	0.0	0.0	(3.8)	0.0	(121.0)	0.0	(200.4)
12 Jun 2024	15.6	50.6	14.5	8.5	0.0	0.0	0.0	11.6	0.0	0.0	0.0	100.8
13 Jun 2024	18.2	(106.4)	(9.8)	(52.7)	(2.7)	0.0	0.0	(11.3)	0.0	(61.5)	0.0	(226.2)
14 Jun 2024	1.5	(80.1)	(7.1)	(49.0)	(2.9)	0.0	0.0	0.0	0.0	(52.3)	0.0	(189.9)
Total	17,641	9,423	2,038	2,460	295	359	497	532	70	(18,207)	(2)	15,106
Average	163.3	87.3	18.9	22.8	2.7	3.3	4.6	4.9	0.6	(168.6)	(0.0)	139.9
Maximum	849.0	473.4	237.9	200.7	63.4	60.9	43.4	118.8	6.6	63.0	11.9	1,045.0
Minimum	(36.9)	(191.1)	(34.3)	(99.9)	(37.5)	(13.4)	(20.2)	(11.3)	(6.2)	(642.5)	(14.7)	(563.7)

Figure 2. Figure X. Spot Bitcoin ETF Flows Across Different ETF Issuers. (Source: FarsideUK)

The ETF activity also occurred during a generally volatile week for Bitcoin and the broader crypto market, influenced by Wednesday's key US inflation report and the outcome of the Federal Reserve's interest rate setting committee meeting. Over the week, BTC price fell by 6.5 percent, reaching a low of $65,088 on Friday before recovering slightly and closing the week at $66,667. However, attributing the decline solely to recent ETF movements would be an oversimplification. We discuss this further in the following section.

Selling Pressure On BTC Originated From Miners And Long-Term Holders

Figure 3. BTC/USD 1D Chart. (Source: Bitfinex)

Last week BTC declined by over 4.4 percent and altcoins fell even further. Long-Term Holders (LTHs) and Whales seemed to be behind most of the selling, both on exchange and also through OTC transactions. Historically, LTHs tend to sell their holdings gradually during bull markets, and particularly when the market enters a consolidation phase - such as that which we are seeing currently.

After a hiatus on any selling took place towards the end of April and into early May, the selling we are seeing is on a smaller scale than previously observed, however it highlights the ongoing influence of long-term holders on Bitcoin's market dynamics. It is also a useful reminder that collectively the LTHs and whales still remain the largest cohort of Bitcoin holder, outstripping the ETFs, and whose decisions can significantly impact liquidity and price movements, especially during critical market phases.

Onchain metrics indicate that LTHs were responsible for most of the selling pressure last week - far outpacing the ETF outflows - and which itself could have also been an unwinding of the basis arbitrage trade we discussed in last week's *Bitfinex Alpha*, where traders were buying the ETF and shorting BTC perpetuals to earn funding.

An important indicator for LTH behaviour is the Hodler Net Position Change metric which tracks the monthly position changes of long-term Bitcoin investors, commonly referred to as Hodlers. A negative value on this indicator signifies that LTHs are selling. Conversely, a positive value suggests that LTHs are accumulating. The metric has been consistently negative for the past nine days, albeit at a lower scale than mid-March when BTC recorded the current ATH, before declining to sub-$57,000 levels.

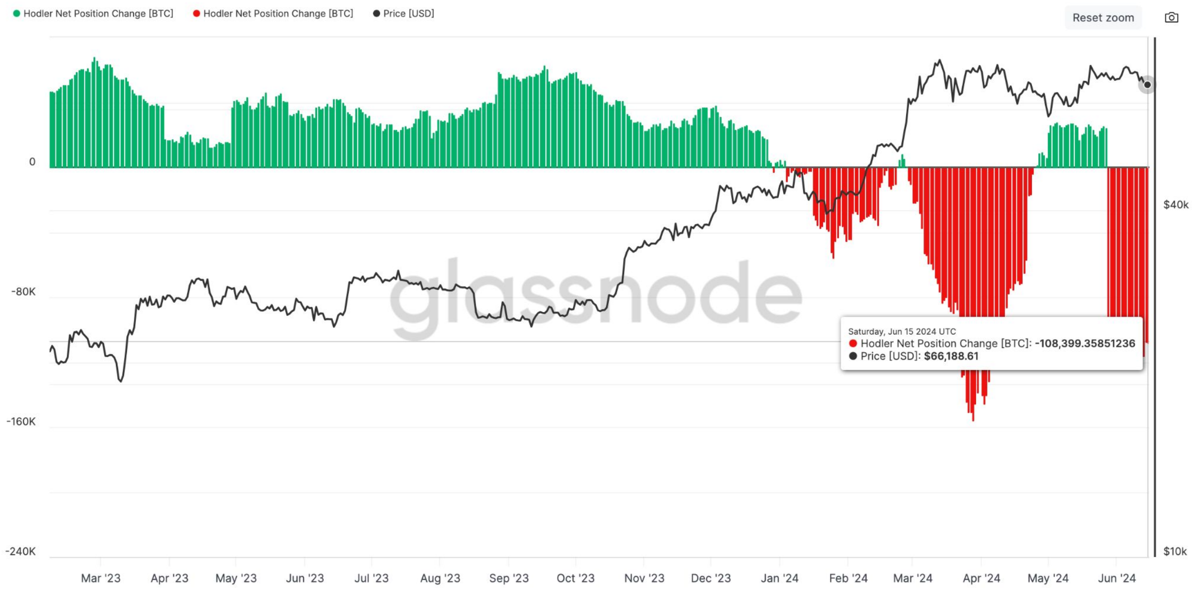


Figure 4. BTC Hodler Net Position Change (Source: Glassnode)

This sell signal also comes as the ratio of the top 10 inflows into exchanges as a proportion of total inflows into exchanges has also climbed, indicating significant activity by whales (refer to Figure below). Normally a large quantity of BTC being deposited on exchanges via whale wallets indicates that this BTC is being prepared for sale.

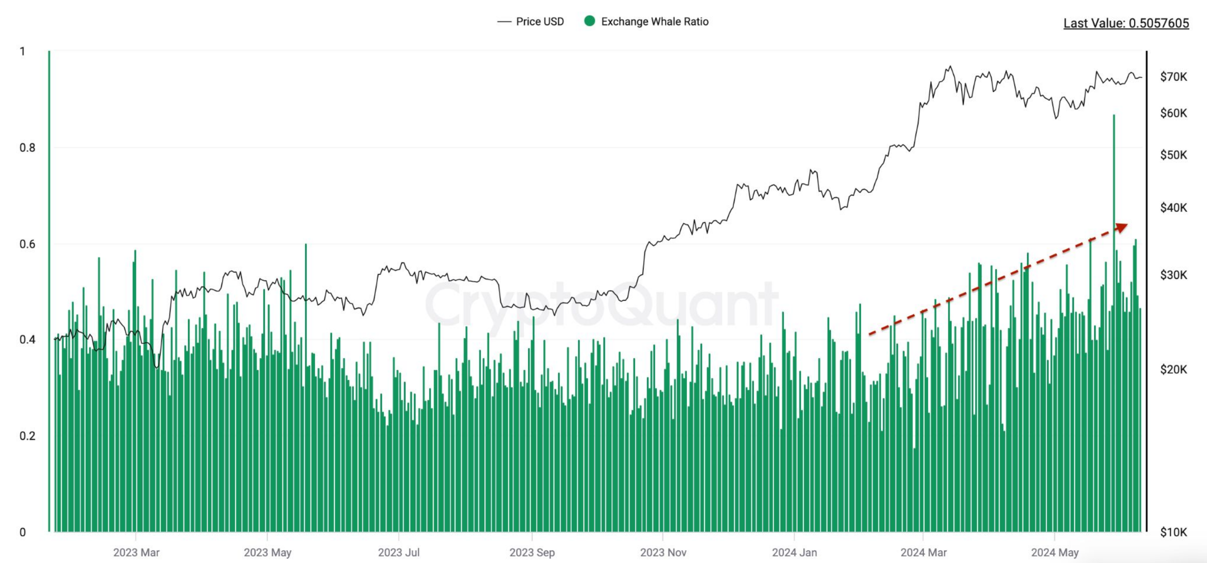


Figure 5. Bitcoin: Exchange Whale Ratio - All Exchanges (Source: Cryptoquant)

Historically, an increase in this ratio has corresponded with price declines. However, in the past three months, despite an increase in this ratio, Bitcoin's price has not fallen significantly, likely due to the substantial demand for spot ETFs. Nevertheless, the ongoing selling pressure appears to be capping the BTC price.

Another useful metric to illustrate whale activity is the Coinbase Premium Index (refer Figure below). This tracks the percentage difference between the price of BTC on Coinbase Pro and the average price on other major exchanges. When this percentage difference is low—or shows a discount on Coinbase—it may suggest strong selling pressure from US investors on the platform.

This observation is particularly important because many miners and ETF issuers are active on Coinbase, and this metric has been negative for the entirety of the previous week.

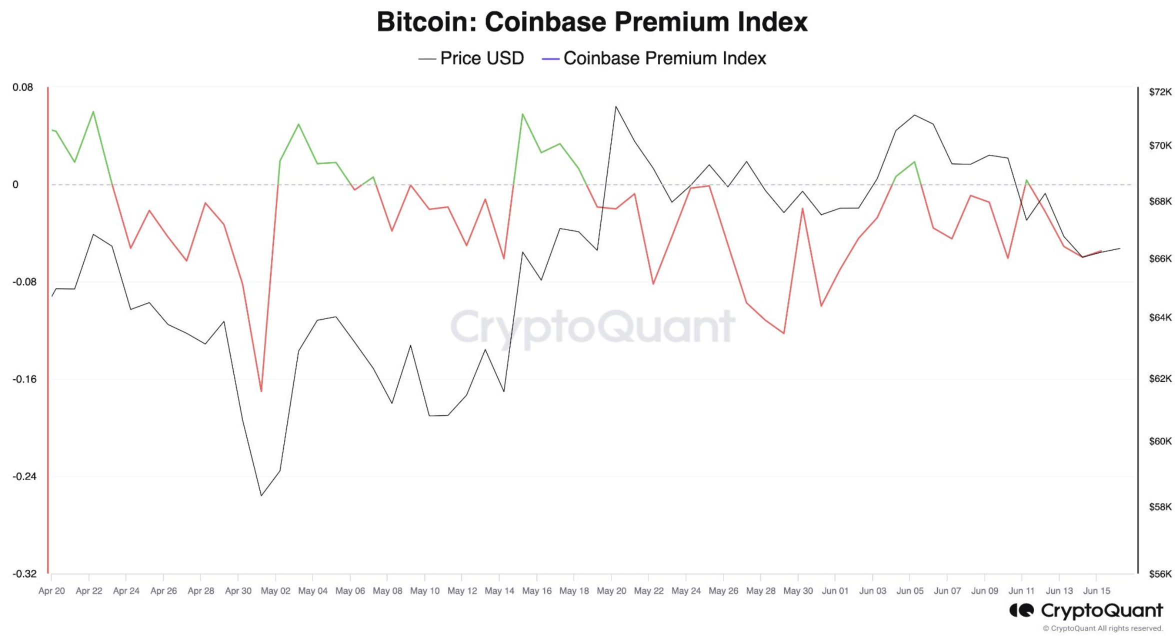


Figure 6. Bitcoin Coinbase Premium Index. (Source: CryptoQuant)

Another key indicator is the inverse relationship that exists between the BTC price and miner reserves. As the price of BTC increases, miner reserves tend to decrease, and vice versa (refer Figure below). The peak in BTC around March 2024 corresponds with a significant decline in miner reserves, suggesting that miners were selling off their reserves to capitalise on high prices. This was common at that point of time as miners were also selling reserves to prepare for the Bitcoin halving to realise investment needed to upgrade machinery and operations.

Figure 7. BTC Miner Reserves (Source: CryptoQuant)

As can be seen in the Figure above, the miner reserve metric has continued to decline even post-halving, before falling sharply over the past week. The assumption here is that miners have been struggling to maintain operational efficiency as their block rewards have halved and are a major source of the selling pressure. However, with the mining reserve moving towards four-year lows, it is possible that the selling pressure is reaching a critical low from this cohort of investors.

GENERAL MACRO UPDATE

Federal Reserve Maintains Interest Rates With Officials Suggesting That Rate Cuts Could Come Later Than Expected

Last Wednesday, June 12th, the US Federal Reserve decided to [maintain](#) interest rates, with rate cuts apparently postponed until December. Officials are now projecting only one quarter-percentage-point reduction in rates for the entire year, a significant decrease from the three cuts anticipated in the [March projections.](#)

Despite - or perhaps because of "modest further progress" towards the two percent inflation target - the Fed's latest policy statement reveals a split among committee members regarding future rate cuts.

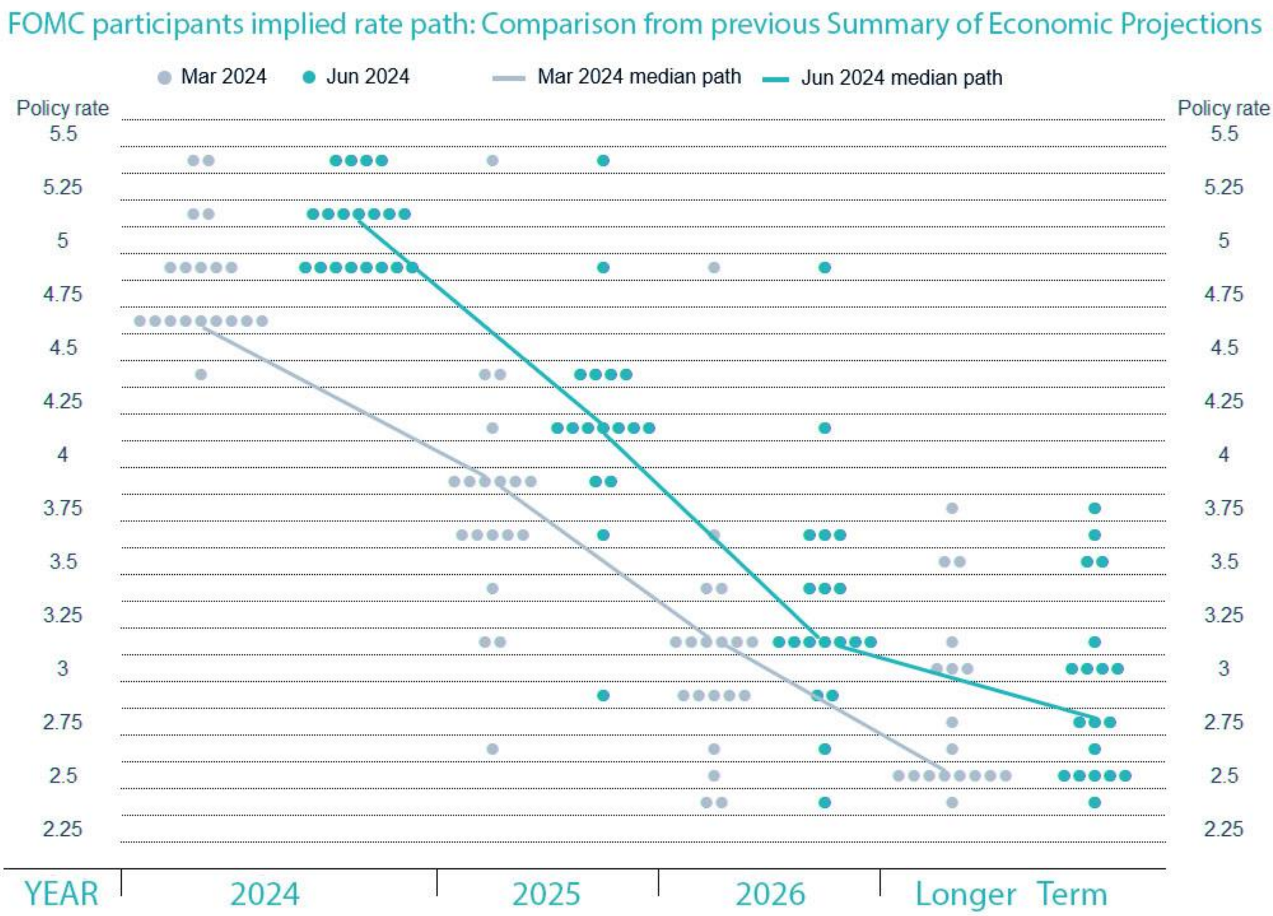


Figure 8. FOMC Participants Implied Rate Path: Comparison from Previous Summary of Economic Projection (Source: US Federal Reserve)

Seven members favoured a single rate cut, eight supported two cuts, and four preferred no cuts at all this year. The overall forecast now suggests a rate of 5.125 percent later this year, suggesting only one rate cut in 2024. The Fed's 'dot plot' (refer Figure above) suggests however that officials expect that rates will be lower by a further 100 basis points, over the next 12 months, reaching between 4 to 4.25 percent by late 2025, and 3.125 percent in 2026.

Federal Reserve Chairman Jerome Powell remarked that the shift simply moved a 25-basis point cut from this year to the next, suggesting it was a minor adjustment. Despite this, the evident disagreement among Federal Open Market Committee members highlighted broader uncertainties about inflation.

US Consumer Prices Steady in May Amid Lower Gasoline Costs But Inflation Still Remains a Concern for Fed

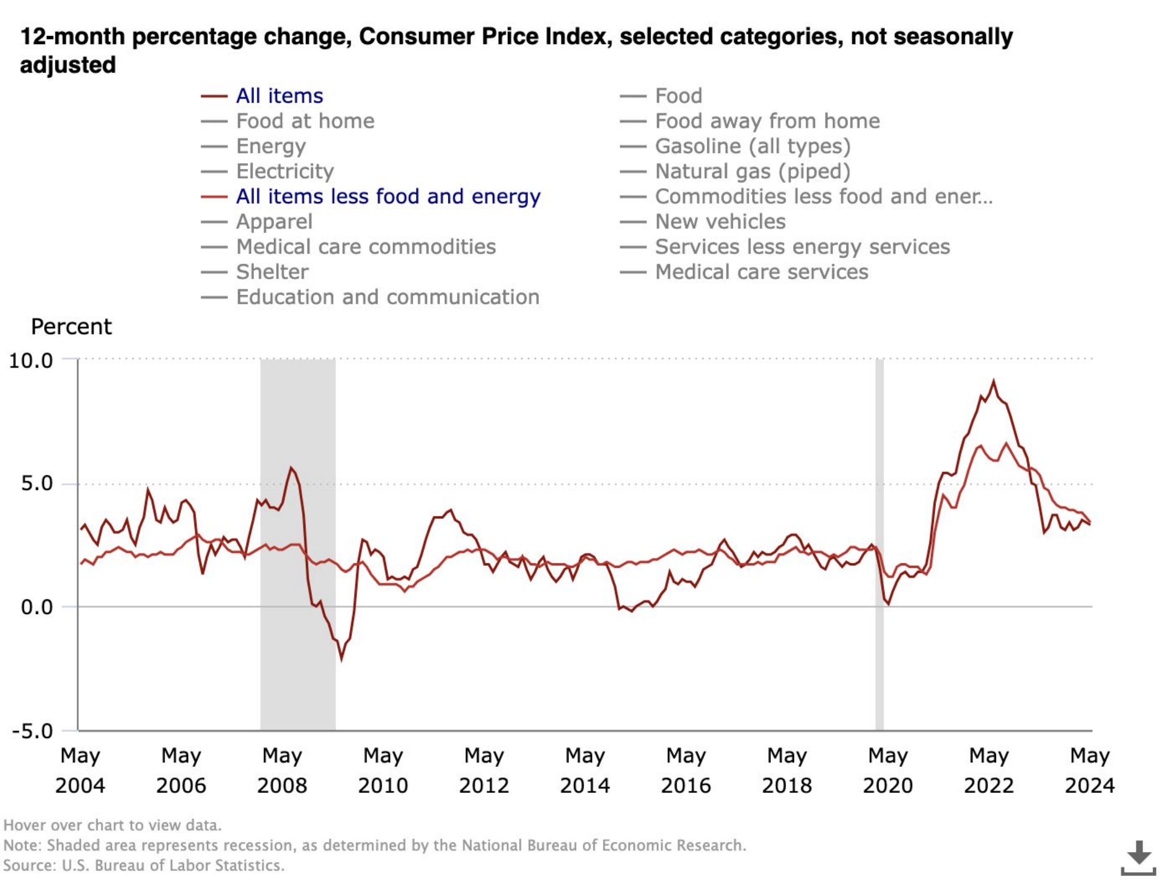


Figure 9. Year-on-year change in Consumer Price Index and Core CPI (All items less energy and food) , Source: Bureau of Labor Statistics

In what was good news for the management of inflation, US consumer prices came in unchanged in May as decreased gasoline prices and other goods countered still persistently growing rental housing costs.

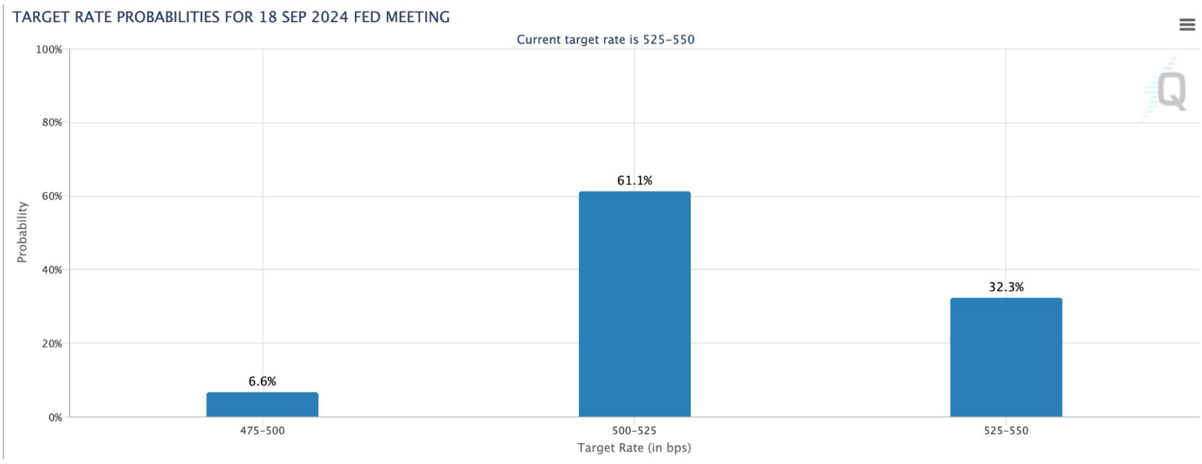


Figure 10. Target Rate Probabilities for September 18 FED Meeting (Source: CME Fedwatch Tool)

According to the latest [Consumer Price Index Summary]() issued by the US Bureau of Labor Statistics last Wednesday, June 12th, underlying inflation pressures eased last month.

Overall, the Consumer Price Index (CPI) rose by 3.3 percent year-on-year, while core CPI, excluding food and energy, climbed by 3.4 percent from the previous year, but was up only 0.2 percent month-on-month, down from 0.3 percent in April.

The easing of CPI has fortified the market's expectations - as seen in the CME Fedwatch tool (refer Figure above) - that we will see two rate cuts this year, starting in September.

At *Bitfinex Alpha* we agree, and expect that in the coming months, there will be more encouraging news on inflation, which will help guide the Fed's policy making.

Gasoline prices for example, which peaked in March, are already forecasted to drop further as higher supply and reduced demand will support the disinflation process globally, and allow the Fed greater latitude to cut rates more than it is currently projecting.

Rising Jobless Claims and Declining Producer Prices: Encouraging Signs for Future Rate Cuts

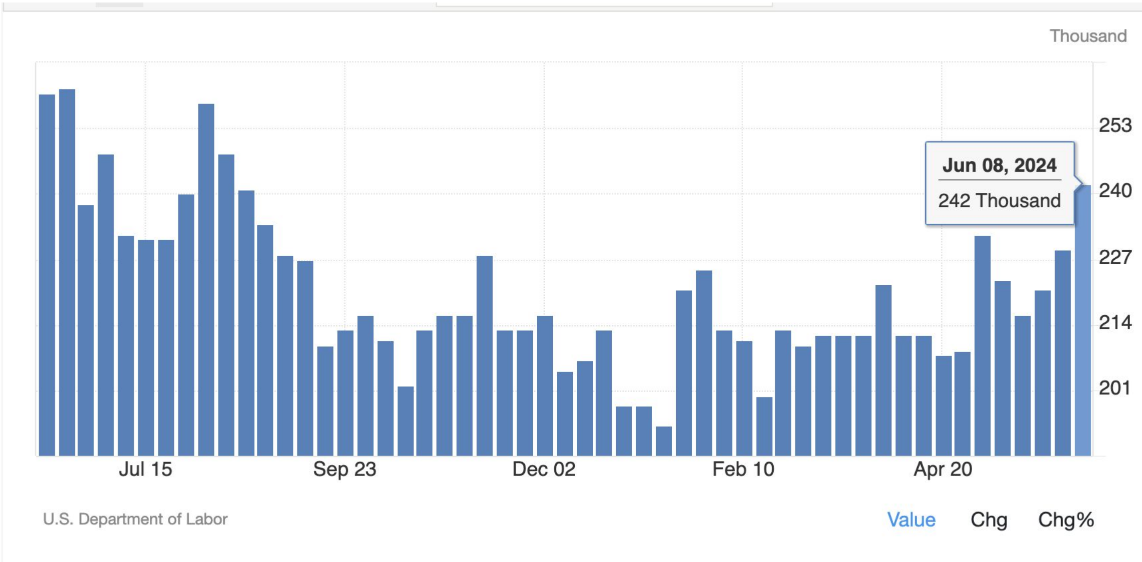


Figure 11. Initial Jobless Claims (Source: US Department of Labor)

Last Thursday, June 13th, the US Labor Department released data showing that initial jobless claims had risen to 242,000 for the week ending June 8, an increase from 229,000 the week before. This escalation brings the figure to its highest point in nearly a year (refer Figure above), continuing a trend of increasing claims that started in January.

Notably, initial claims have surpassed pre-pandemic levels for the last three weeks, indicating a potential slowdown in job growth as we move into June. This development shows that the labour market, which has been characterised for its notable tightness during the current monetary policy tightening cycle, is finally beginning to weaken, a critical indicator that could influence future policy decisions.

Also last Thursday, the Producer Price Index (PPI), which measures prices at the factory gate, decreased by 0.2 percent in May, marking its second dip into negative territory in three months. Core Producer Price inflation, which excludes volatile food and energy prices, remained flat on a monthly basis. In the 12 months to May, PPI was up 2.2 percent, while core PPI was up 3.2 percent.

The monthly decline in producer prices was observed across all stages of production, indicating reduced price pressures in the supply chain. However, it is important to note that the PPI does not take into account housing costs, which remain a significant component in other inflation measures.

The combination of rising jobless claims and a further decrease in producer inflation suggests to us a higher likelihood of a rate cut in September, as a cooling labour market and easing inflationary pressures provide room for monetary policy adjustments.

US Import Prices Decline in May, Indicating Potential Easing of Inflation

US import prices fell in May for the first time in five months, driven by a drop in energy product prices, offering further positive signals for the domestic inflation outlook.

The latest US Import and Export Price Indexes Summary, reported last Friday June 14th, that import prices declined by 0.4 percent in May, compared to a 0.9 percent increase in April. This marks the first decline in import prices since December 2023, and came despite consensus forecasts for a slight rise of 0.1 percent. Fuel prices saw a significant drop of two percent in May, after a 4.1 percent rise in April, with notable declines in crude petroleum and natural gas prices. Over the past year, import prices have risen by just 1.1 percent.

Preliminary Results for June 2024

	Jun 2024	May 2024	Jun 2023	M-M Change	Y-Y Change
Index of Consumer Sentiment	**65.6**	69.1	64.2	-5.1%	+2.2%
Current Economic Conditions	**62.5**	69.6	68.9	-10.2%	-9.3%
Index of Consumer Expectations	**67.6**	68.8	61.1	-1.7%	+10.6%

Figure 12. Preliminary Results for University of Michigan Consumer Sentiment Survey

Despite these signs of easing inflation, US consumer sentiment remains low. Preliminary results from the University of Michigan Consumer Sentiment Survey released last Friday revealed that consumer sentiment has fallen to its lowest level in seven months, with the preliminary index dropping to 65.6 in June from 69.1 in May, marking the third consecutive monthly decline.

We believe however that this will reverse once we begin to see rates fall, which will boost sentiment, and bring back more confidence into the economy.

		CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES								
	MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
	7/31/2024				0.0%	0.0%	0.0%	0.0%	10.3%	89.7%
1st Rate Cut	9/18/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.6%	61.1%	32.3%
	11/7/2024	0.0%	0.0%	0.0%	0.0%	0.0%	2.6%	27.8%	49.9%	19.8%
2nd Rate Cut	12/18/2024	0.0%	0.0%	0.0%	0.0%	1.9%	21.6%	44.5%	27.1%	4.8%
	1/29/2025	0.0%	0.0%	0.0%	1.1%	13.1%	34.6%	34.7%	14.5%	2.1%
	3/19/2025	0.0%	0.0%	0.7%	8.9%	27.1%	34.6%	21.5%	6.4%	0.7%
	4/30/2025	0.0%	0.3%	4.6%	17.6%	30.7%	28.4%	14.3%	3.7%	0.4%
	6/18/2025	0.2%	3.1%	12.8%	25.9%	29.2%	19.4%	7.6%	1.6%	0.1%
	7/30/2025	1.4%	7.0%	18.1%	27.3%	25.3%	14.6%	5.1%	1.0%	0.1%

Figure 13. CME FedWatch Tool's Conditional Meeting Probabilities

The current market forecasts (refer Figure above) suggests a rate cut in September and then in December.

NEWS FROM THE CRYPTO-SPHERE

Spot Ethereum ETFs Nearing Approval, Signals SEC Chair Gensler

Figure 14. Spot Ethereum ETFs Nearing Approval, Signals SEC Chair Gensler

- **SEC Chairman Gary Gensler indicated potential approval for spot Ethereum ETFs in the coming months, marking a major regulatory milestone that could enhance institutional investment in Ether similar to Bitcoin ETFs**
- **Analysts predict the launch of the spot Ether ETF as early as July 2nd, with SEC officials reportedly requiring only minor adjustments from applicants**

During a recent Committee on Appropriations Senate hearing, SEC Chairman Gary Gensler expressed optimism about the approval of spot Ethereum Exchange-Traded Funds (ETFs) in the next few months, signalling a significant regulatory milestone that could broaden the investment landscape for digital assets.

Context and Implications of Gensler's Statement

The anticipated approval represents a potential turning point for institutional investment in Ether, offering a regulated vehicle, similar to the popular Bitcoin ETFs, to gain exposure into the second largest crypto asset.

Looking Forward

Analysts now suggest a predicted date for the launch of the spot Ether ETF to be as early as July 2nd. SEC officials are reported to have informed potential issuers that they do not have any specific concerns and have asked the funds applying to launch an Ether ETF to address only minor issues and revert to the SEC within a week.

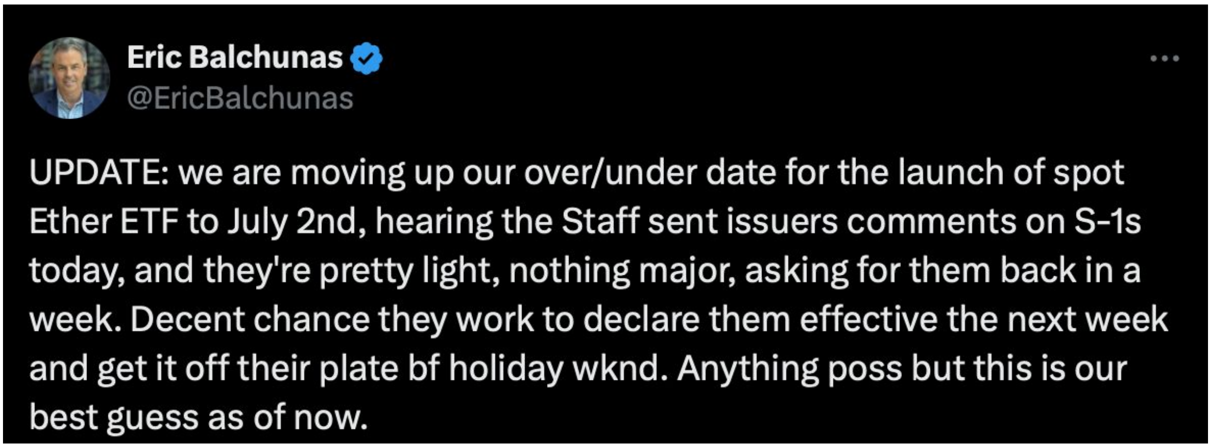


Figure 15. Bloomberg's Senior ETF Analyst Eric Balchunas On Spot Ethereum ETF Launch Date. (Source: Twitter - @EricBalchunas)

The final approval could encourage fund managers to apply for other crypto asset classes to be traded as an ETF.

Central Banks Accelerate Exploration of Digital Currencies

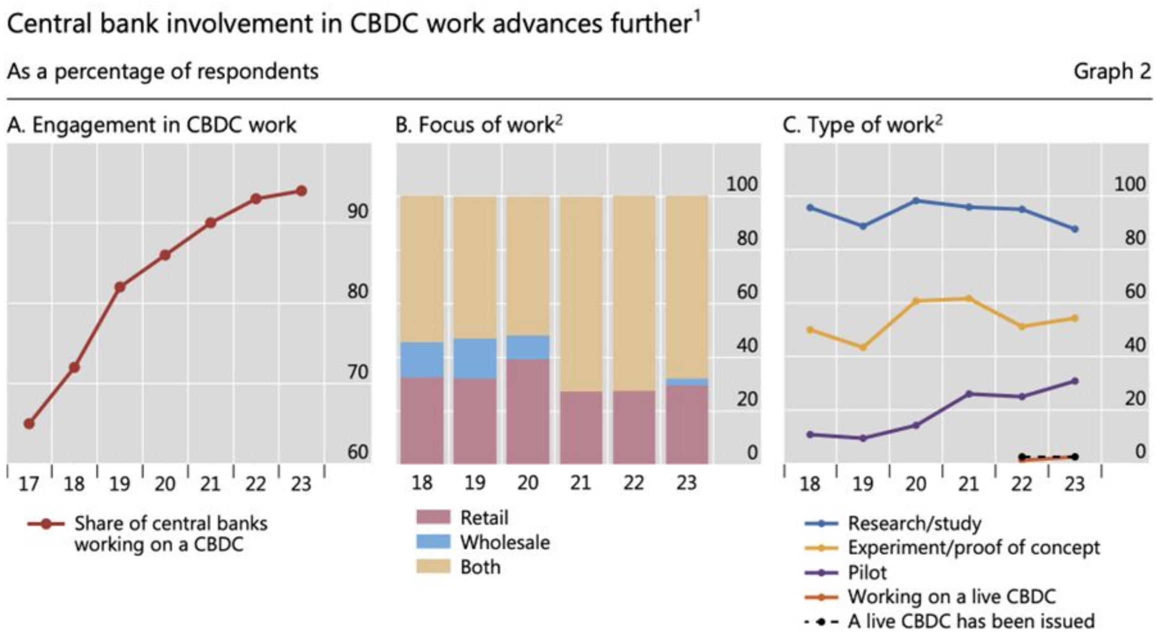


Figure 16. Central Banks Accelerate Exploration of Digital Currencies

- **A BIS survey shows a significant increase in CBDC experiments among central banks, with proof of concept projects up 35 percent and pilots nearly tripling from 2022 to 2023, particularly in advanced economies**
- **Despite this rise in CBDC exploration, the survey found stablecoin adoption remains limited outside of crypto trading, but is growing as other financial institutions adopt the technology**

A recent survey by the Bank for International Settlements (BIS) reveals a significant increase in central banks exploring and experimenting with central bank digital currencies (CBDCs), particularly in advanced economies. Released last Friday, June 14th, the survey highlights a sharp rise in CBDC-related experiments, with proof-of-concept projects increasing by 35 percent and CBDC pilots nearly tripling from 2022 to 2023.

The BIS researchers noted in the report that central banks are advancing at their own pace, adopting varied approaches and considering different design features for their CBDCs. Out of the 222 central banks globally, 86 central banks participated in the survey. This included 28 central banks from advanced economies and 58 from developing economies.

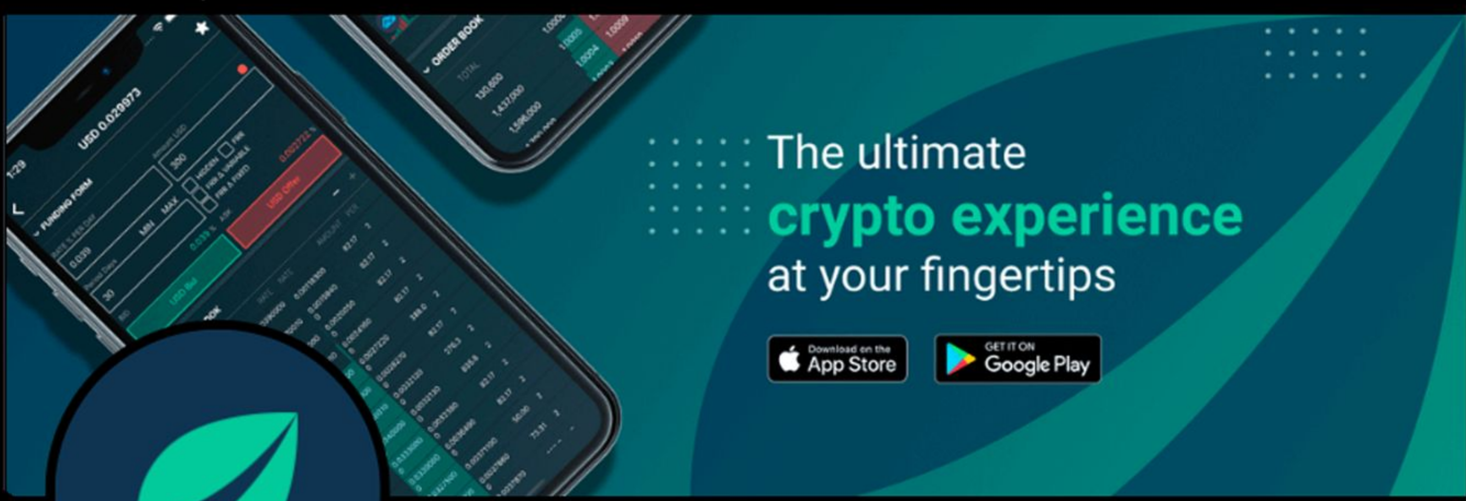
The survey data indicates that 54 percent of the participating central banks are engaged in proof of concept or exploring the underlying technology for CBDC issuances and one out of three (31 percent) are running a pilot.

In advanced economies, 81 percent of the surveyed central banks were involved in wholesale CBDC-related proof of concept projects, and 33 percent were running pilots. These figures represent a notable increase from the previous year's 60 percent and 10 percent, respectively. Conversely, the involvement of emerging market and developing economy central banks in CBDC exploration remained relatively stagnant, with about one-third conducting proof of concept experiments and only 19 percent running pilots.

The report also suggested that stablecoin adoption remains limited, however it noted that there was continued experimentation with stablecoins including Société Générale launching a euro-denominated stablecoin in April 2023, called EUR CoinVertible for the settlement of on-chain securities, and in August 2023, PayPal introducing a USD-based stablecoin (PYUSD) with Paxos.

Many central banks (18-25 percent) also conceded that they were not fully aware of how much stablecoins were being used in their jurisdictions.

This survey underscores the varying levels of CBDC development across different economies and how the development of stablecoins is diversifying outside of the crypto sphere as traditional financial institutions and central banks explore the benefits of using digital currencies.



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