BITFINEX Alpha

Issue: 01-07-2024
bitfinex.com

EXECUTIVE SUMMARY

Although the first half of 2024 started with a rush of enthusiasm for crypto assets and resulted in an All-Time High (ATH) for Bitcoin, as well as a surge in meme coins, it has ended the half with a whimper. Price headwinds for Bitcoin in particular has impacted its performance in June, undermined by the policy environment which has led to a dip in volatility. BTC has struggled to maintain upward momentum, decoupling from US equities, while long-term Bitcoin holders, who had paused on any selling in early May, have returned. In the meantime, an overhang of supply continues to weigh on the market, with selling possible from Mt. Gox depositors and the *Bundeskriminalamt*, Germany's Federal Criminal Police Office, who may be tempted to dispose of their recent Bitcoin windfall.

Further compounding the selling pressure is evidence that Long-Term Holders of Bitcoin are resuming their sales. The Long-Term Holder Spent Output Profit Ratio indicates that this cohort, who had previously been realising profits at prices above the last cycle ATH of approximately $69,000, is now back taking profits again. Notwithstanding a decrease in miner sell-offs that would suggest some market stabilisation from this cohort, continued high levels of profit realisation by long-term holders means the near-term outlook is vulnerable.

Fortunately for risk assets however, in the macro environment, the Federal Reserve's preferred inflation measure, the Personal Consumption Expenditures Index, came in unchanged in May, suggesting that inflation is now only slightly above the Fed's two percent target. With hopes that this may lead to a rate cut in September, the case for such action was supported by the third estimate for the first quarter of US GDP, which showed that despite a small upward revision, the economy has some weak foundations. Additionally, consumer confidence is declining, with the percentage of consumers planning to buy a home low, due to high mortgage rates and limited supply. It is hoped that a rate cut will come soon.

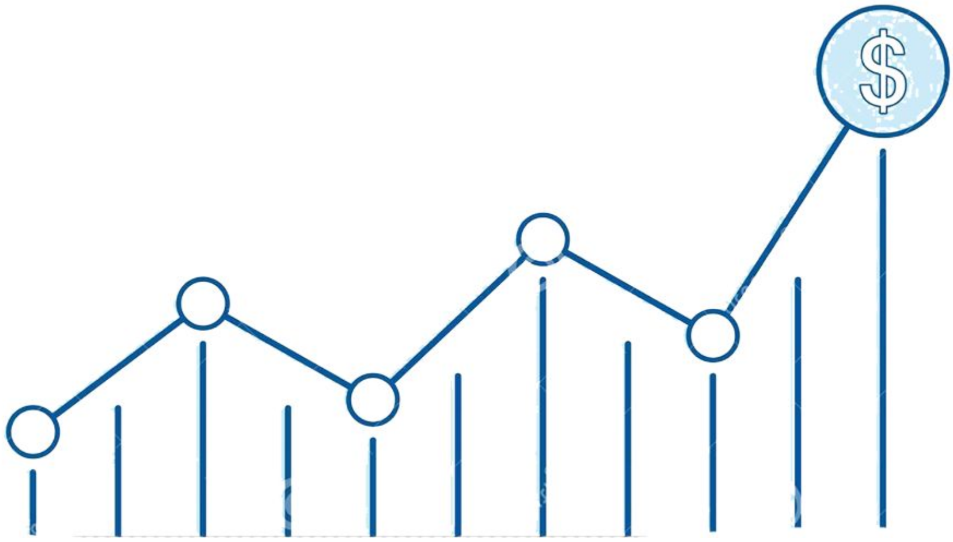
In crypto news last week, we report on the specific actions taken by the German government to move its seized Bitcoin to exchanges, in preparation for possible sales; while more positively, we saw two ETF providers file with the SEC applications to list a Solana ETF.

On the regulatory front, we note the decision by the US IRS to require cryptocurrency brokers to file 1099 forms starting in 2025 and track the cost basis for customers' tokens from 2026.

Meanwhile, the SEC has sued Consensys, alleging its MetaMask service is an unregistered broker involved in selling securities and scrutinising its staking feature powered by Lido and Rocket Pool. This lawsuit, following previous enforcement actions, aims to classify a broad range of crypto assets, including popular tokens like MATIC and MANA, as securities.

Have a good trading week.

INDEX



WHAT'S ON-CHAIN THIS WEEK?

Long-Term Holder Profit Taking In A News-Dependent Environment

Cryptocurrency prices, and in particular Bitcoin, have been challenged in the last few weeks, as volatility has dipped. Currently, BTC is struggling to maintain upward momentum on shorter timeframes and has entered a downtrend. The asset has also decoupled from US equities, which have mostly continued to demonstrate upward momentum. BTC has failed to benefit from a favourable economic climate, and while equities have flourished, supply overhang concerns have troubled crypto.

Figure 1. BTC/USD And SPX Monthly Charts. (Source: Bitfinex/SP)

BTC has declined by over 8.66 percent in June while the SPX has recorded a 3.5 percent gain. This trend is not solely influenced by supply factors; much of the price action is driven by speculative buying and selling linked to news events. With the overall decline in spot buying interest and the presence of negative inflows, Bitcoin has become increasingly sensitive to adverse news. Consequently, long-term holders, who had paused profit-taking since early May, have begun selling off their holdings again.

Compounding the market's vulnerabilities, substantial amounts of BTC are held by major holders such as the liquidators of Mt. Gox ($12 billion), the *Bundeskriminalamt*, Germany's Federal Criminal Police Office ($3 billion), and Gemini ($1 billion), which have not yet been released into the open market. There is also evidence that large crypto funds and other long-term holders are capitalising on profits they have made, by selling their spot BTC in this risk-averse climate.

Given these conditions, the cryptocurrency market is highly susceptible to news events, with investor sentiment swinging sharply in response to new information. This situation underscores the need for investors to stay informed and cautious, considering the significant external factors influencing market dynamics.

Bitcoin's latest decline was confirmed following the June FOMC meeting, when the Federal Reserve decided to keep the interest rates unchanged. This decision dashed hopes for a rate cut in the first half of the year and unsettled some crypto investors, as lower interest rates typically encourage cash to flow into perceived speculative assets. Despite the Fed's preferred inflation gauge, the Price Consumption Expenditures index, showing no change in the prior month and a positive week for Bitcoin Spot ETFs, Bitcoin's price continued its downward trajectory.

Adding to the selling pressure, Mt. Gox, the cryptocurrency exchange that lost 850,000 Bitcoin in investor funds in 2014, announced it would start repaying its qualifying users beginning in July. More than $9.4 billion worth of Bitcoin is owed to approximately 127,000 creditors of Mt. Gox, who have been waiting for over 10 years to recover their funds. This anticipated repayment has the potential to create significant selling pressure as creditors look to liquidate their holdings.

Long-Term Holder Profit Realisation

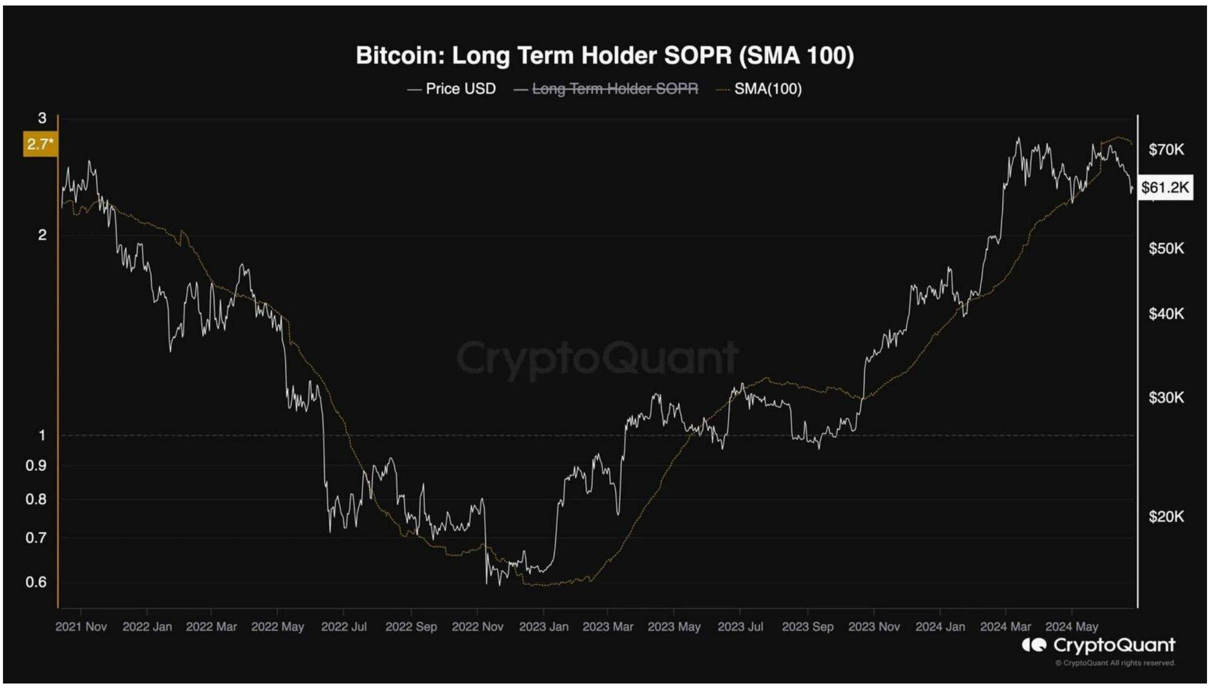


Figure 2. Bitcoin Long Term Holder SOPR (Source: CryptoQuant)

A critical on-chain metric to consider is the Bitcoin Long-Term Holder Spent Output Profit Ratio, (see Figure above), which reveals the profit realisation ratio of investors who have held their Bitcoin for more than six months. Data indicates that these long-term holders, who started realising profits at prices higher than the $69,000 previous cycle high in Q2 2024, have begun to realise profits on their spot holdings again, albeit at a lower scale now. This is despite the fact that Bitcoin's price is currently trading below that peak. This could potentially be because of the aforementioned news-based events.

While profit realisation is expected in a bull market, the magnitude of this activity raises concerns. If long-term holders continue to take profits at current levels (which we believe to be unlikely for an extended period of time), it could exert significant near-term downward pressure on Bitcoin's price, potentially extending the current decline and impacting the bull market in the mid-term.

A decrease in miner sell-offs indicates a potential stabilisation in the market. However, the high level of profit realisation by long-term holders could pose a risk of further price declines if the trend persists.

June 2024: Central Bank Moves and Mt. Gox Sell-Off Shake Crypto Markets

The cryptocurrency markets experienced a rollercoaster ride in June 2024, driven by significant macroeconomic events and large-scale sell-offs that had a dramatic impact on both price and implied volatility.

Macroeconomic Events Brought Calm Though Prices Declined

The month began on a note of optimism as the Bank of Canada (BOC) announced an interest rate cut on June 5, 2024. While Bitcoin (BTC) prices remained stable, Ether (ETH) surged above $3800 temporarily. The European Central Bank (ECB) also cut rates on June 6, supporting both BTC and ETH prices. These actions increased hopes for a similar move by the Federal Reserve .

However, it was the US employment data release on June 7 that proved pivotal. Contrary to the expectation of an economic slowdown by the market, the data indicated robust employment growth in the economy, dashing any hopes of a near-term Fed rate cut. This marked a significant turning point, triggering a sharp decline in both BTC and ETH prices.

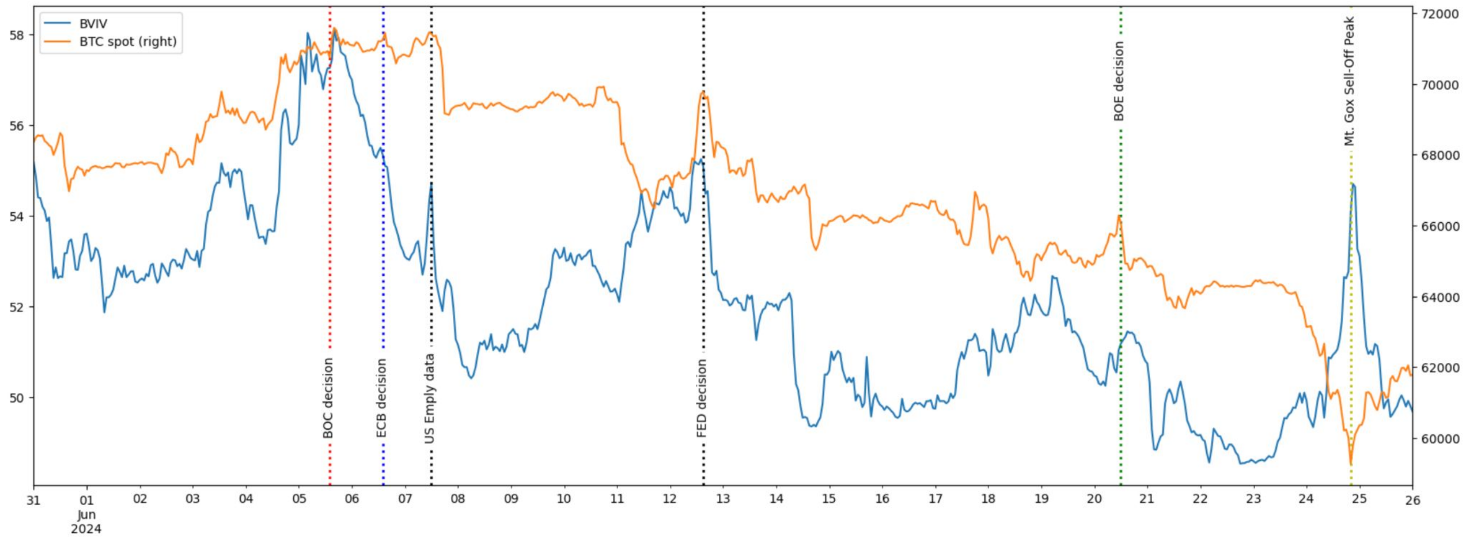


Figure 3: BVIV Index (Bitcoin Volmex Implied Volatility) and BTC Spot Price in June 2024

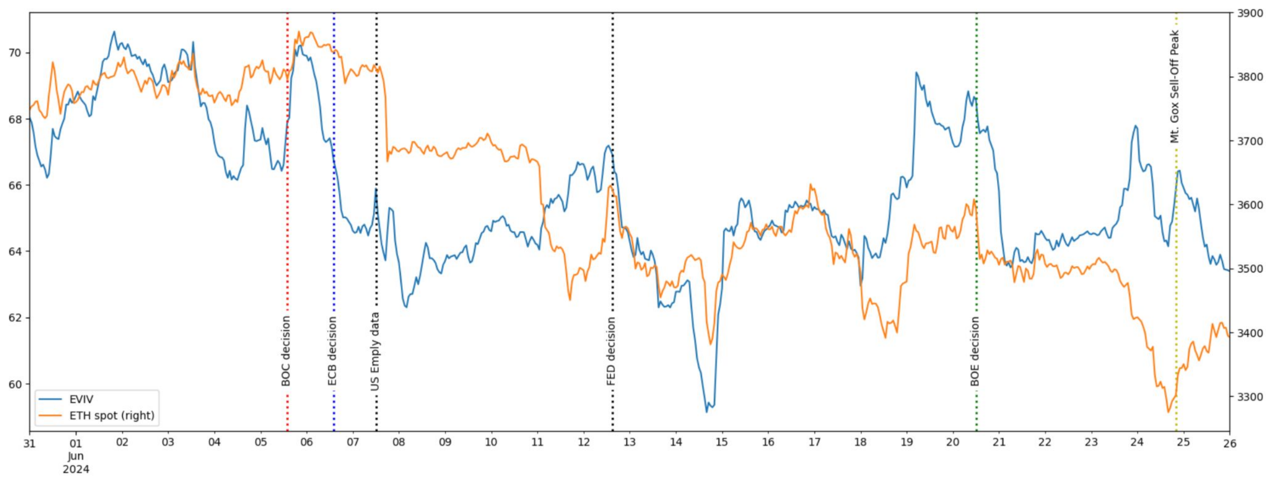


Figure 4: EVIV Index (Ethereum Volmex Implied Volatility) and ETH Spot Price in June 2024

Together with falling prices, implied volatilities decreased as well. BVIV Index (Bitcoin Volmex Implied Volatility) levels dropped from 58.14 on June 5 to 50.41 on June 8, while EVIV (Ethereum Volmex Implied Volatility) fell from 72.22 to 62.30 as can be seen in Figure 3 and Figure 4. This positive correlation between spot prices and implied volatility, as shown in Figure 5, was reversed following the US employment data release.

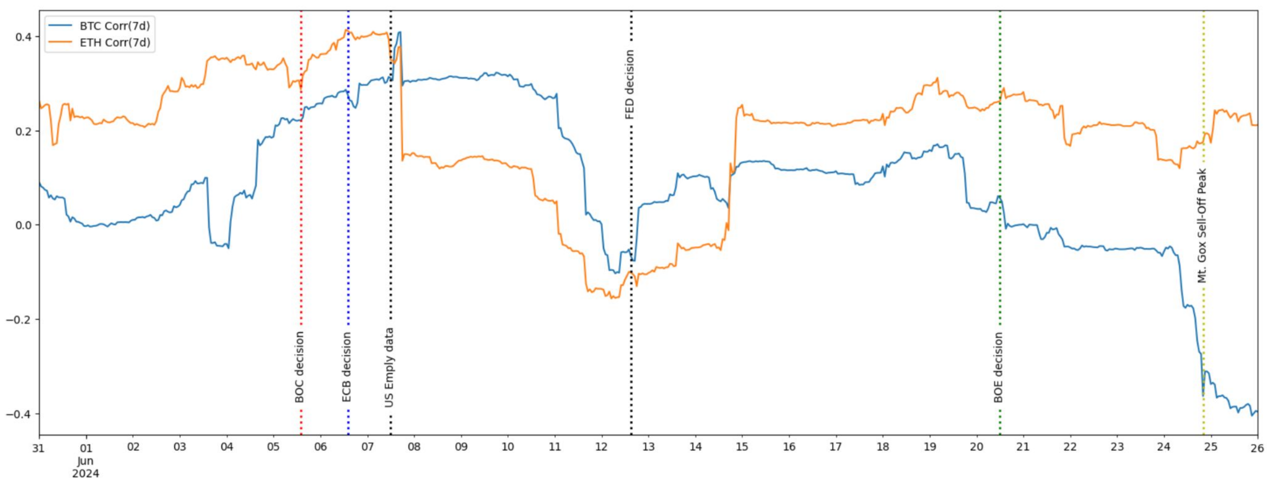


Figure 5: 7-Day Correlations Between Spot Price and Implied Volatility for BTC and ETH in June 2024

Market Sell-Offs Surge Volatility Amid Price Drops

The market's descent deepened following the Fed's decision on June 12 to maintain current interest rates, furthering the downward price trend initiated on June 7. Both Bitcoin and Ether continued to slide, reflecting growing market concerns. Implied volatilities for both cryptocurrencies also decreased, with their difference remaining stable as depicted in Figure 6.

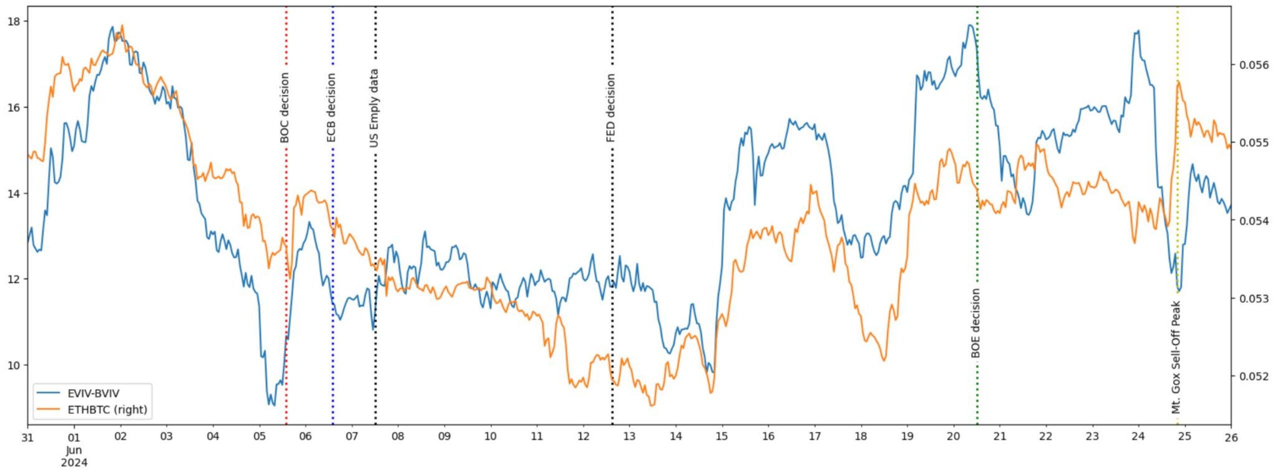


Figure 6. EVIV-BVIV and ETH/BTC in June 2024

The situation worsened on June 24 when the dramatic Mt. Gox sell-off coincided with the German government's large-scale sale of BTC. This led to a sharp drop in cryptocurrency prices—Ether plummeted below $3300, while Bitcoin experienced a significant decline.

Interestingly, the Fed's earlier decision to keep rates on hold had driven the BVIV Index down to 48.53 by June 22, but the June 24 sell-off reversed this trend. The spot price of BTC fell below $59000, and BVIV surged to 54.70, illustrating a negative correlation. Similarly, the EVIV Index saw a moderate jump to 66.43 during the sell-off, emphasising the heightened volatility in response to market events.

Key Turning Point and Persistent Trends

The June 7 employment data release was the major inflection point, setting the stage for the downward trajectory that dominated the rest of the month. This shift highlighted how macroeconomic factors can influence market sentiment and trends significantly. Throughout June, the spread between Ethereum and Bitcoin volatilities (EVIV-BVIV) exhibited notable patterns. The spread narrowed from 18 to 9 ahead of central bank decisions and saw another sharp collapse during the Mt. Gox sell-off, dropping from 18 to 12.

Investor Sentiment and Future Implications

Investor sentiment throughout June was a mix of initial optimism, quickly overshadowed by economic data and large-scale sell-offs. The month illustrated that while macroeconomic events tend to reduce uncertainty and implied volatilities, market-specific events like significant sell-offs can sharply increase volatility even amid price declines.

June 2024 underscored the inherent volatility of the cryptocurrency markets and the substantial influence of macroeconomic factors. As central bank decisions, economic data releases, and large-scale sell-offs continue to shape the market, staying informed about these macroeconomic influences will be crucial for investors navigating this dynamic landscape.

Bitcoin Miner Selling Spree Might Be Nearing an End

One significant factor contributing to the recent downturn in the BTC price has been the actions of miners. The Bitcoin Hashrate Drawdown (which represents the decline in hashrate from peak value) is down 7.6 percent (refer Figure below). This is comparable to 2022 bear market lows and points towards miner capitulation which resulted in forced selling.

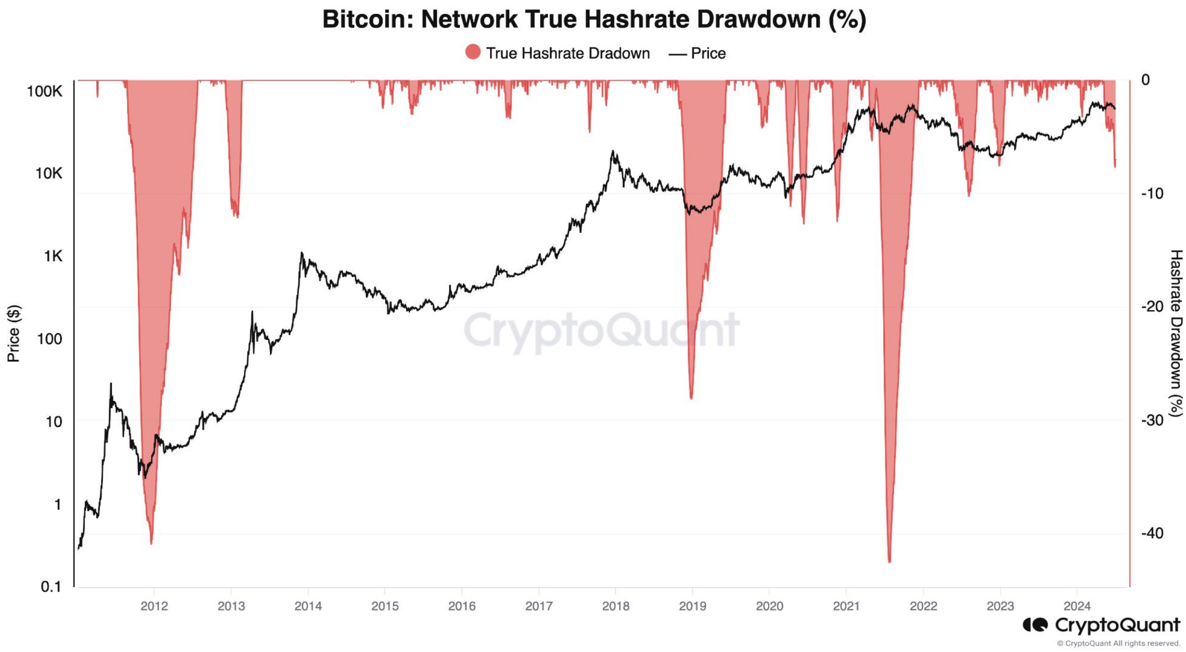


Figure 7. Bitcoin Network Hashrate Drawdown. (Source: CryptoQuant)

Following the Bitcoin halving on April 20th, 2024, the reward for mining was reduced by half, rendering older mining machines economically inefficient due to their higher operational costs. Consequently, there was a noticeable decrease in mining activity as miners began to liquidate some of their BTC holdings through over-the-counter (OTC) transactions as well as selling on the open market to sustain their operations.

Currently, the market appears to be adjusting to this increased sell-off. Encouragingly, the volume and frequency of bitcoins being transferred out of miners' wallets has notably declined recently (refer Figure below). This reduction in selling pressure from miners is a positive development; once the market fully absorbs this selling volume, it could set the stage for a potential recovery and continuation of the upward rally.

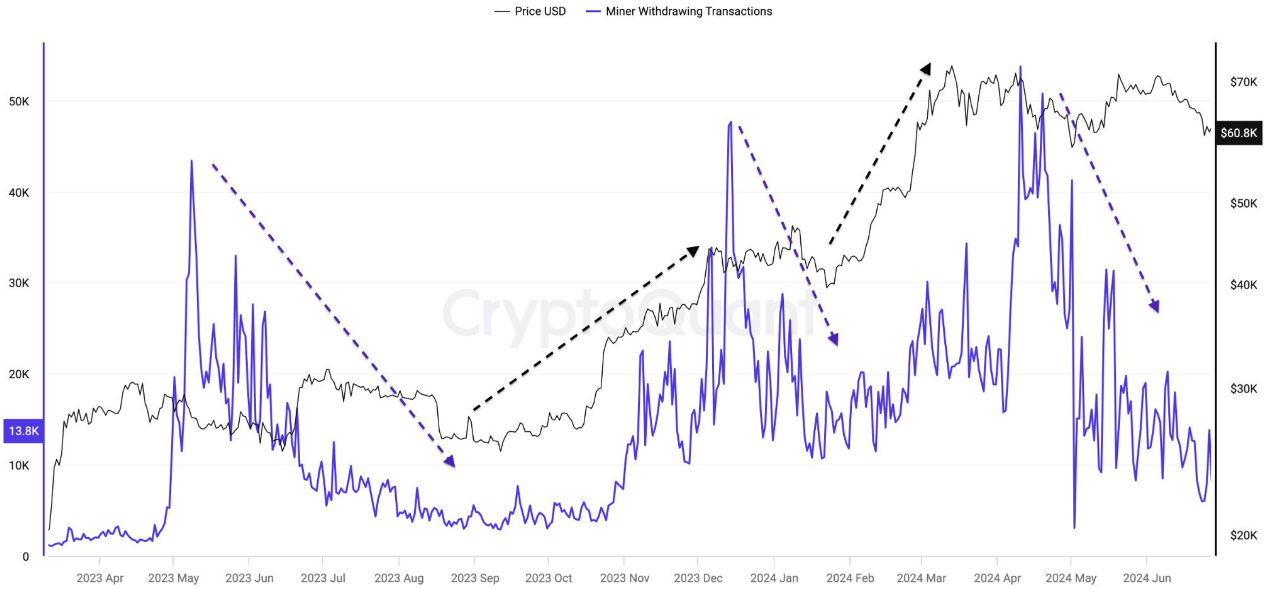


Figure 8. Bitcoin Miner Withdrawing Transactions. (Source: CryptoQuant)

Bitcoin miner withdrawals have decreased by nearly 90 percent since the week after the halving, when miners started selling aggressively. This is also reflected by the Miner Reserve metric. The Miner Reserve metric tracks the total amount of coins held in wallets affiliated with miners. This figure represents the reserve of cryptocurrencies that miners have not yet sold, serving as a crucial indicator of potential future market supply from this group.

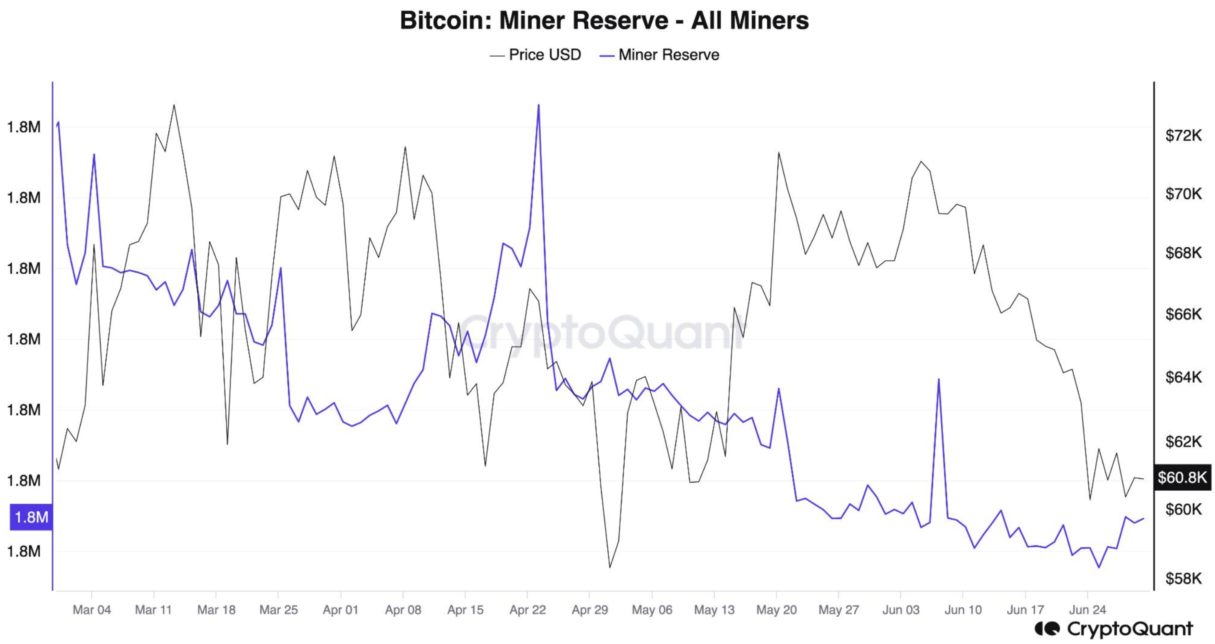


Figure 9. Bitcoin Miner Reserve. (Source: CryptoQuant)

As illustrated in the figure above, a significant factor in the price decline observed since April can be attributed to the post-halving period, during which miner reserves began to decrease. This reduction in reserves suggests that miners have been selling off their holdings, likely to cover operational costs following the reduction in mining rewards. The timing of these sales corresponds closely with the downward movements in market prices, highlighting the impact that miner behaviour can have on overall market dynamics.

The market is currently adjusting to this influx of sold BTC entering circulating supply. However, there has been a rapid decrease in the volume of BTC being transferred from miners' wallets, suggesting a potential stabilisation. There has been speculation by market participants that old miner buying/selling patterns are not relevant to price impact currently, however, recent historical patterns support our observation, with notable periods such as May to September 2023 and December 2023 to January 2024 showing similar miner sell-offs that impacted market prices. Once these selling pressures diminished, the BTC price typically resumed its upward trend, indicating a possible stabilisation in the current market as miner selling decreases.

With the hashrate drawdown reaching levels last seen at the 2022 bear market lows, it would be a valid conclusion that we are past the peak of the mining selling pressure for the time being and a lot of the weaker miners have already capitulated. This is extremely positive for price, though as mining supply pressure continues to decrease, other supply overhangs from German Law enforcement and Mt Gox creditors continue to have some influence on the market.

GENERAL MACRO UPDATE

Fed's Preferred Inflation Measure Remains Steady in May; Raising Hopes for a Soft Economic Landing

The Federal Reserve's favoured inflation gauge, the Personal Consumption Expenditures (PCE) Index, held steady in May, with no change from April. On a year-on-year basis, the headline number was up 2.6 percent from the previous year.

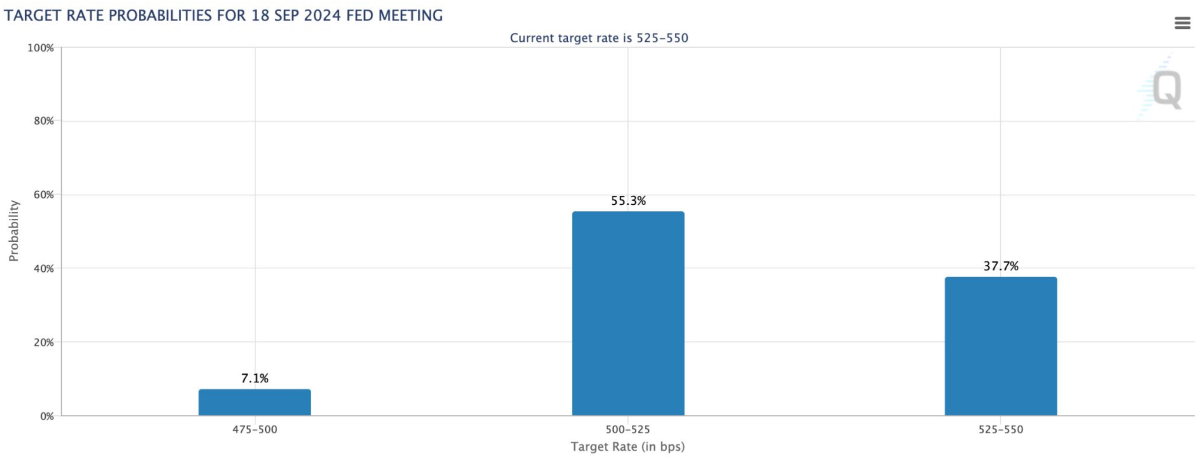
	2024				
	Jan.	Feb.	Mar.	Apr.	May
	Percent change from preceding month				
Personal income:					
Current dollars	1.1	0.3	0.5	0.3	0.5
Disposable personal income:					
Current dollars	0.6	0.2	0.5	0.3	0.5
Chained (2017) dollars	0.1	-0.1	0.2	0.0	0.5
Personal consumption expenditures (PCE):					
Current dollars	0.1	0.6	0.7	0.1	0.2
Chained (2017) dollars	-0.3	0.2	0.3	-0.1	0.3
Price indexes:					
PCE	0.4	0.3	0.3	0.3	0.0
PCE, excluding food and energy	0.5	0.3	0.3	0.3	0.1
Price indexes:	Percent change from month one year ago				
PCE	2.5	2.5	2.7	2.7	2.6
PCE, excluding food and energy	2.9	2.8	2.8	2.8	2.6

Figure 10.Reported BEA Metrics For All Months In 2024. (Source: US BEA)

According to the monthly Personal Income and Outlays report released last Friday, 28th June, the core Personal Consumption Expenditures (PCE) index, which excludes volatile food and energy prices, rose by just 0.1 percent Month-on-Month (MoM), and on a Year-on-Year (YoY) basis is now up just 2.6 percent.

The report also revealed a slight uptick in consumer spending for May, fostering optimism that the US economy might achieve a "soft landing" with inflation drifts slowly downwards, without impacting consumption, and avoiding a recession. Even though pandemic-era excess savings are likely depleted, strong income growth has played a crucial role in sustaining solid spending levels. Consumer spending edged up by 0.2 percent in May from a 0.1 percent rise in April. Personal disposable income and overall personal income both grew by 0.5 percent in May, boosting the savings rate to 3.9 percent.

The data breathed additional confidence into the market and expectations of a Fed rate cut in September rose.



TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 27 JUN 2024	1 WEEK 21 JUN 2024	1 MONTH 28 MAY 2024
475-500	7.1%	6.4%	6.4%	4.1%
500-525	55.3%	59.5%	59.5%	41.7%
525-550 (Current)	37.7%	34.1%	34.1%	53.7%
550-575	0.0%	0.0%	0.0%	0.5%

Rate Cut Probabilities

* Data as of 28 Jun 2024 07:47:59 CT

Figure 11. Rate Cut Probabilities for September Meeting (Source: CME FedWatch Tool)

With inflation now only slightly above the Fed's two percent target, conditions appear to be aligning for a potential easing of the Fed’s restrictive policy stance at its September meeting.

Softened Economic Growth May Prompt Supports an Early Fed Rate Cut

Last Thursday's latest Gross Domestic Product report on the first quarter of 2024 confirmed a deceleration in economic growth, compared to the fourth quarter of 2023, with only a modest increase for the first quarter, with underlying indicators revealing a weaker economic foundation.

According to the third GDP estimate produced by the Bureau of Economic Analysis, GDP grew at a slightly adjusted annual rate of 1.4 percent, up slightly from last month's second estimate of 1.3 percent.

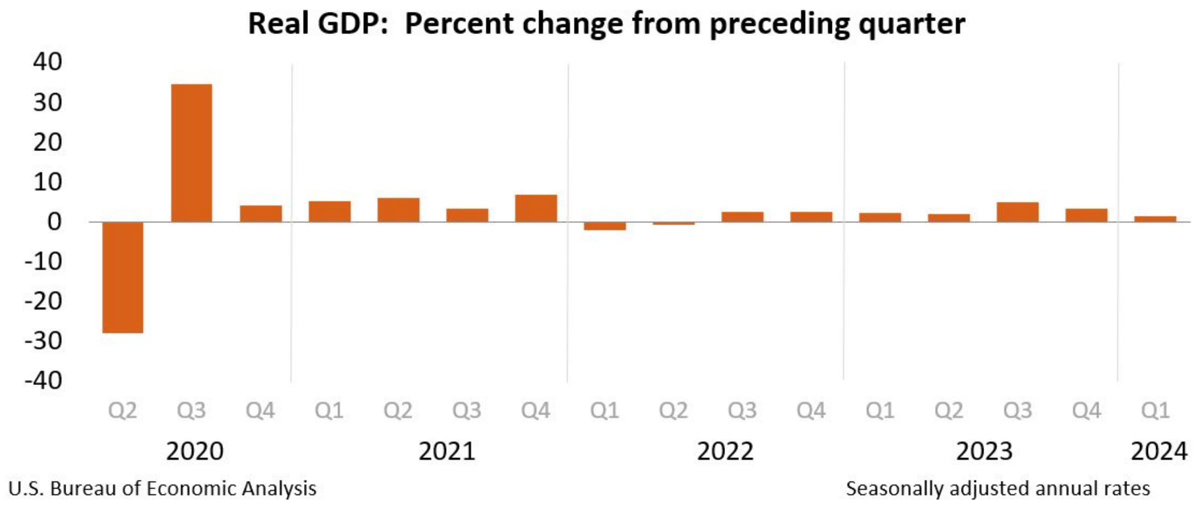


Figure 12. Percent Change from Preceding Quarter (Source: Bureau of Economic Analysis)

Fundamental growth metrics showed significant weakness. Final sales to private domestic purchasers decreased to 2.6 percent from 3.3 percent in the fourth quarter of 2023, a downward revision from the previous 2.8 percent estimate. Gross domestic income also softened, falling to 1.3 percent from 3.6 percent growth from Q4, 2023, lower than the 1.5 percent previous estimate. The figures indicate that the core components of economic growth are underperforming.

Gross Private domestic investment however was bright in the first quarter with a notable upward revision, now at 4.4 percent, mitigating some of the shortcomings from other sectors. However, looking ahead to the second quarter, private investment is less likely to sustain overall growth, as data on durable goods orders and shipments, particularly core capital goods, indicated unexpected declines in May.

According to the latest Census Bureau report, new orders for key US-manufactured capital goods (durable goods) declined by 0.1 percent, compared to a 0.2 percent rise in April. This suggests a decrease in business spending on equipment due to persistent high borrowing costs. Non-defense capital goods orders, excluding aircraft, a critical measure of business spending plans, fell by 0.6 percent in May, compared to April.

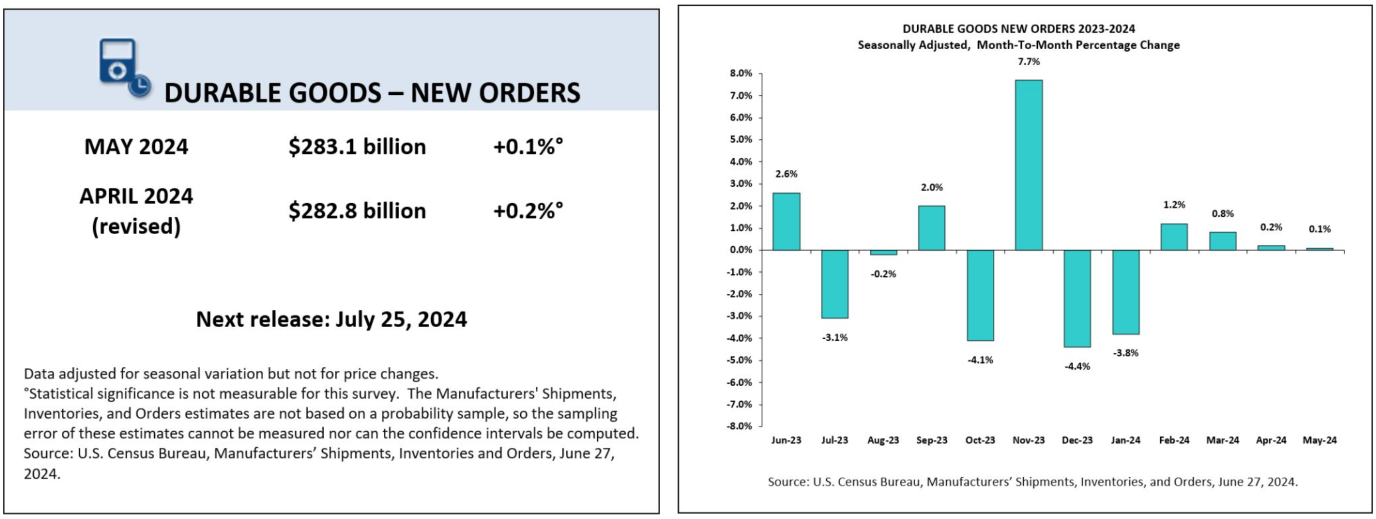


Figure 13. Durable Goods - New orders (Source: US Census Bureau)

A decline in durable goods orders signals that businesses anticipate reduced demand for their products, leading to delayed or cancelled investment plans. This can further decrease the overall level of private investment in the economy, which is currently the most significant factor contributing to the upward revision of the GDP. Additionally, data on the labour market shows normalisation to pre-pandemic levels, including metrics like the quit rate and unemployment. An expected slowdown in the economy, normalisation in the labour market and the recent easing in PCE inflation report, all together provide less justification for the Fed to maintain current interest rates much longer.

Consumer Confidence and Housing Market Face Challenges Amid Economic Uncertainty

Consumer confidence in the United States experienced a slight decline in June, influenced by growing concerns over the economic outlook. Concurrently, the housing market continues to grapple with high mortgage rates and limited property listings, contributing to a complex outlook.

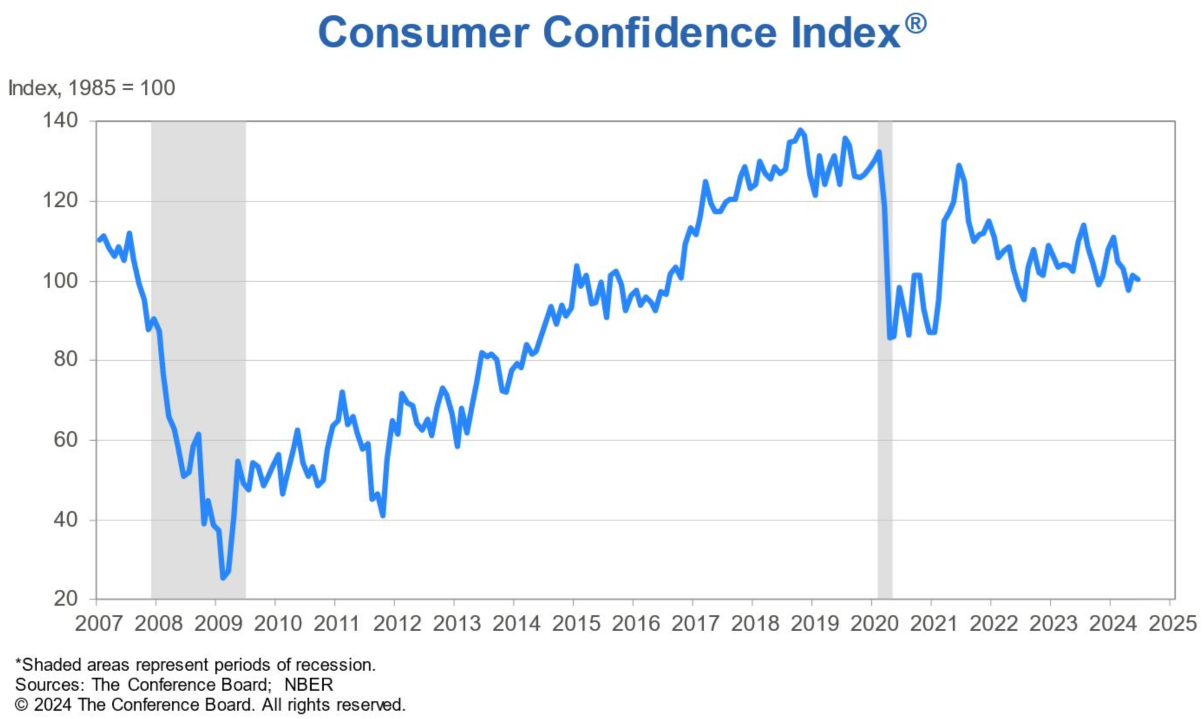


Figure 14. Consumer Confidence Index (Source: The Conference Board)

The Conference Board's consumer confidence index fell to 100.4, down from a revised 101.3 in May. Although only a small drop, this dip reflects consumers' cautious sentiment in the face of potential economic challenges ahead. The Conference Board data highlighted a nuanced picture of consumer sentiment. While the likelihood of a recession within the next year seemed less imminent than in previous months, consumer spending intentions varied. Fewer individuals plan to purchase vehicles and household appliances in the coming six months, yet more are looking forward to vacations.

This mixed behaviour underscores the resilience of consumer spending, driven largely by a robust labour market despite the Fed's aggressive interest rate hikes over the past two years.

The labour market's strength remains a key pillar supporting consumer confidence.

INDEX NAME	1 MTH	3 MTH	YTD	1 YEAR
S&P CoreLogic Case-Shiller 10-City	1.38%	4.06%	4.05%	8.01%
S&P CoreLogic Case-Shiller 20-City	1.36%	3.89%	3.79%	7.20%
S&P CoreLogic Case-Shiller US National	1.17%	3.14%	3.08%	6.29%

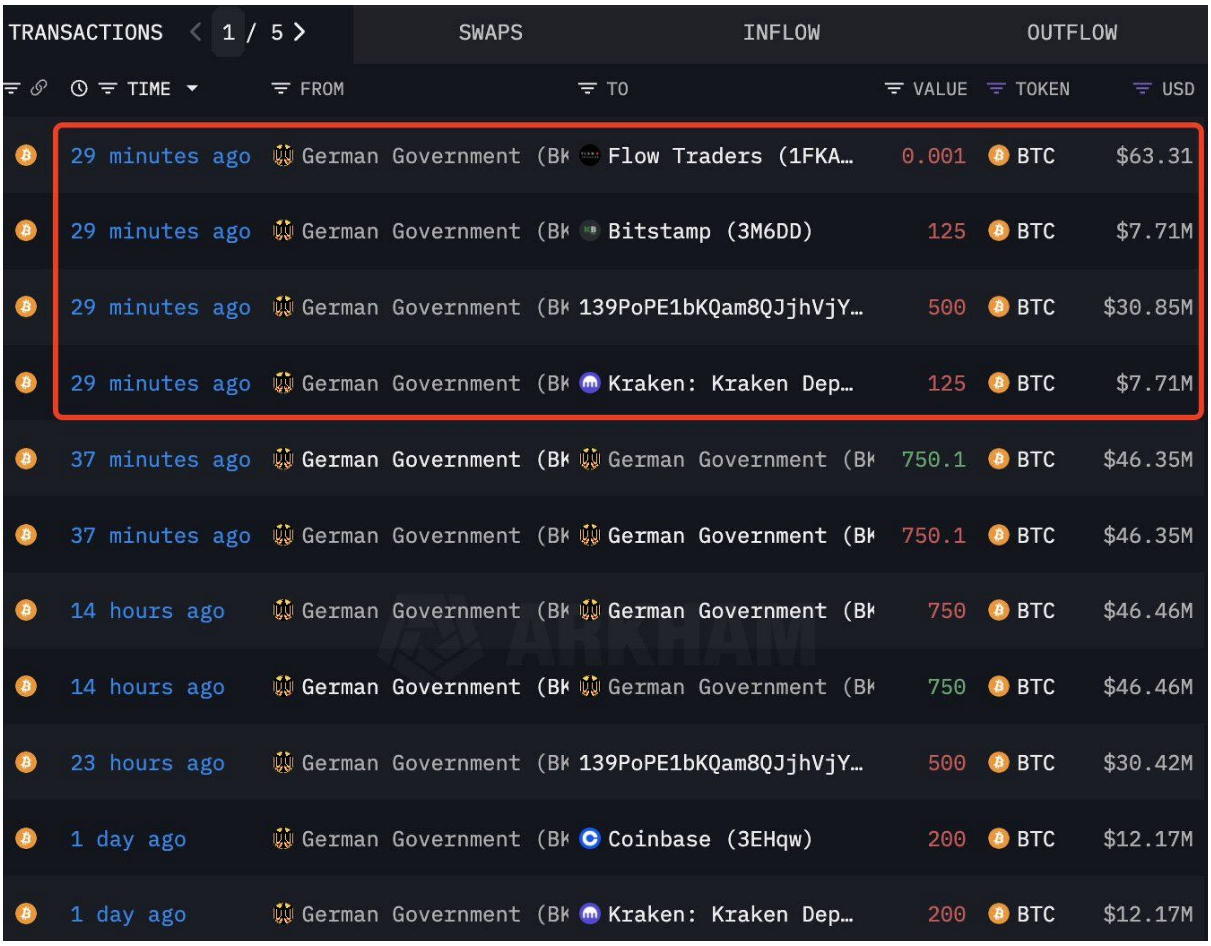
Figure 15. S&P CoreLogic Case Shiller Home Prices Index (Source: S&P Global)

That said, the share of consumers planning to buy a home has remained static at low levels for four consecutive months. This trend is consistent with data showing a slowdown in home building and sales. Moreover, home prices in major US metropolitan areas continue to climb. According to a report issued last Tuesday, the S&P CoreLogic Case-Shiller 20-city house price index increased by 1.36 percent in April, while the broader national index rose by 1.17 percent, marking a 6.29 percent increase over the past year. The housing market's challenges are compounded by higher mortgage rates, which are dampening demand.

Consumer confidence and the housing market are facing significant challenges. While the labour market's resilience continues to support consumer spending, high mortgage rates and rising home prices are straining demand in the housing sector. The path forward will depend heavily on economic policies ato foster market conditions that address both inflation and supply constraints, particularly in the housing market. Encouraging new home construction to increase supply through favourable interest rates could boost the housing supply, ultimately aiding in economic stability.

NEWS FROM THE CRYPTO-SPHERE

German Government Moves Additional Millions in Bitcoin Amid Market Volatility



TRANSACTIONS 1 / 5 SWAPS INFLOW OUTFLOW

TIME	FROM	TO	VALUE	TOKEN	USD
29 minutes ago	German Government (BK	Flow Traders (1FKA…	0.001	BTC	$63.31
29 minutes ago	German Government (BK	Bitstamp (3M6DD)	125	BTC	$7.71M
29 minutes ago	German Government (BK	139PoPE1bKQam8QJjhVjY…	500	BTC	$30.85M
29 minutes ago	German Government (BK	Kraken: Kraken Dep…	125	BTC	$7.71M
37 minutes ago	German Government (BK	German Government (BK	750.1	BTC	$46.35M
37 minutes ago	German Government (BK	German Government (BK	750.1	BTC	$46.35M
14 hours ago	German Government (BK	German Government (BK	750	BTC	$46.46M
14 hours ago	German Government (BK	German Government (BK	750	BTC	$46.46M
23 hours ago	German Government (BK	139PoPE1bKQam8QJjhVjY…	500	BTC	$30.42M
1 day ago	German Government (BK	Coinbase (3EHqw)	200	BTC	$12.17M
1 day ago	German Government (BK	Kraken: Kraken Dep…	200	BTC	$12.17M

Figure 16. BTC Transactions from the German Government last Wednesday (Source: Arkham Intelligence)

- **On June 26th, the German government moved 750 bitcoins, valued at $46.35 million, with $15.41 million going to Bitstamp and Kraken, while still holding 45,609 BTC worth $2.81 billion**
- **Recent movements include test transactions and significant sales, totaling millions, amid market instability, indicating potential new liquidation strategies**

Last Wednesday, June 26th, The German government made another significant movement in its Bitcoin reserves, transferring an additional 750 BTC, valued at around $46.35 million, according to *Arkham* data. Of this amount, approximately $15.42 million or 250 BTC in total, was sent to Bitstamp and Kraken. This comes after their initial transfer on June 19 and June 20 as covered in last week's edition of the *Bitfinex Alpha*.

Despite these transfers, the *Bundeskriminalamt*, Germany's Federal Criminal Police Office, still holds a substantial Bitcoin reserve of 45,609 BTC, worth an estimated $2.81 billion.

The data also revealed a small test transaction of 0.001 BTC to Flow Traders, suggesting the authorities might be investigating new methods for liquidating their bitcoin holdings through this trading firm.

× USD ≥ $0.10 × VALUE ≥ 1

TRANSACTIONS 1 / 2 | SWAPS | INFLOW | OUTFLOW

TIME	FROM	TO	VALUE	TOKEN	USD
14 minutes ago	German Government (BKA) (bc…	139PoPE1bKQam8QJjhVjYDP47f3VH…	500	BTC	$30.42M
2 hours ago	German Government (BKA) (bc…	Coinbase (3EHqw)	200	BTC	$12.17M
2 hours ago	German Government (BKA) (bc…	Kraken: Kraken Deposit (3Gr…	200	BTC	$12.17M
14 hours ago	bc1qrm05dswkr3x8sa25vs5c7sa69…	German Government (BKA) (bc…	5	BTC	$300.15K
14 hours ago	1KTCQyzvqTgxNsFm92xCDmpvfePPS…	German Government (BKA) (bc…	75	BTC	$4.50M
5 days ago	Kraken: Kraken Deposit (3GrFP	German Government (BKA) (bc…	300	BTC	$19.48M
5 days ago	bc1qulc6d7azlt4ph89djhfwgkje3ak	German Government (BKA) (bc…	10	BTC	$647.79K
5 days ago	Kraken: Kraken Deposit (3KT…	German Government (BKA) (bc…	10	BTC	$647.79K
5 days ago	German Government (BKA) (bc…	Coinbase (3EHqw)	200	BTC	$13.16M
5 days ago	German Government (BKA) (bc…	139PoPE1bKQam8QJjhVjYDP47f3VH…	800	BTC	$52.65M
5 days ago	German Government (BKA) (bc…	German Government (BKA) (bc…	1K	BTC	$65.96M
5 days ago	German Government (BKA) (bc…	German Government (BKA) (bc…	1K	BTC	$65.96M
6 days ago	German Government (BKA) (bc…	Coinbase (3EHqw)	500	BTC	$32.57M
6 days ago	German Government (BKA) (bc…	139PoPE1bKQam8QJjhVjYDP47f3VH…	500	BTC	$32.57M
6 days ago	German Government (BKA) (bc…	Bitstamp (3M6DD)	500	BTC	$32.57M
6 days ago	German Government (BKA) (bc…	Kraken: Kraken Deposit (3Gr…	500	BTC	$32.57M

Figure 17. BTC Transactions by the German Government last Tuesday (Source: Arkham Intelligence)

This recent activity follows a report from Arkham Intelligence last Tuesday, which flagged a wallet associated with the German Federal Criminal Police Office (BKA) that moved $24 million worth of Bitcoin to Kraken and Coinbase. An additional $30 million in BTC was also transferred to a new, untagged wallet. These movements are in addition to transfers on June 19 to 20, which amounted to $195 million.

The source of the bitcoins is the seizure by the BKA from operators of Movie2k.to, a film piracy site that ceased operations in 2013. The confiscated amount, nearly 50,000 BTC, had a value exceeding $2 billion at the time it was seized in January - Feb 2024 from a suspect connected to the case.

21Shares Files for Solana-Based ETF Following VanEck's Lead

Figure 18. 21Shares Files for Solana-Based ETF Following VanEck's Lead

Swiss investment firm 21Shares has filed for a Solana-based ETF with the SEC, following a similar filing by VanEck. Could Solana soon be tradeable via an ETF?

Last Friday, June 28th, Swiss investment firm 21Shares submitted an S-1 form to the US Securities and Exchange Commission to launch a Solana-based exchange-traded fund. This filing comes just one day after a similar application by rival firm VanEck

We believe that it is possible that these filings will spark a wave of similar applications from competitors looking to introduce Solana-based funds.

21Shares, based in Zurich, currently manages a physically-backed Solana Staking exchange-traded product with assets exceeding $846 million. The firm also operates a Bitcoin ETF that trades on the Cboe BZX Exchange.

The proposed 21Shares Core Solana ETF and the VanEck Solana Trust would trade on the Cboe BZX Exchange. According to the S-1 filings, redemptions for the ETF would be made in-kind, meaning in Solana (SOL) rather than cash, similar to other exchange-traded products for spot-market commodities excluding SOL.

.

New IRS Rules Mandate Reporting for Crypto Brokers, with DeFi Regulations to Follow

Figure 19. New IRS Rules Mandate Reporting for Crypto Brokers, with DeFi Regulations to Follow

- **The US Inland Revenue Service has introduced new regulations requiring cryptocurrency brokers to file 1099 forms starting in 2025, which will show if they disburse funds to their customers due to crypto asset sales. It has also mandated exchanges to track the cost basis for customers' tokens from 2026, though it has exempted most routine stablecoin sales and is setting a $600 reporting threshold for NFT proceeds**
- **Exchanges in the US must comply with these new rules, but non-custodial crypto businesses and DeFi operations will have specific regulations established later in the year as the IRS continues to study public feedback**

The US Inland Revenue Service (IRS) has introduced new regulations requiring cryptocurrency brokers to align their reporting duties with those of traditional investment firms, and report on crypto asset sales. However, the IRS has deferred the establishment of specific rules for decentralised finance operations and non-hosted wallet providers, indicating that these will be addressed later in the year.

The newly released rule, which will take effect for transactions beginning in 2025, mandates that brokers also start tracking the cost basis for customers' cryptocurrency tokens from 2026. This measure is designed to enhance transparency and accuracy in tax reporting for crypto transactions.

Importantly, the IRS has decided not to require reporting on most routine stablecoin sales, a move likely aimed at reducing the compliance burden on brokers. Additionally, the new regulations set a $600 annual threshold for reporting proceeds from non-fungible tokens (NFTs), meaning transactions below this amount will not need to be reported.

The IRS released new regulations on Friday that require trading platforms, hosted wallet services, and digital asset kiosks to disclose customers' asset movements and gains. These disclosures will include stablecoins like Tether (USDt) and Circle's USD Coin (USDC) in very limited cases, as well as high-value non-fungible tokens (NFTs). However, the IRS has not resolved the debate on whether tokens should be classified as securities or commodities.

This rule targets major exchanges, while giving non-custodial crypto businesses, like decentralised exchanges and unhosted wallet providers, a temporary exemption from the new reporting requirements. The IRS emphasised that crypto platforms, which handle the majority of transactions, cannot delay compliance any longer.

These changes reflect the IRS's ongoing efforts to adapt its regulatory framework to the evolving cryptocurrency market, ensuring that tax obligations are met while also taking into account the unique aspects of digital assets. As the agency continues to study feedback from the public, further adjustments and rules, particularly concerning DeFi and non-hosted wallets, are anticipated.

SEC Files Lawsuit Against Consensys Over MetaMask, Ethereum Staking Services

Figure 20. SEC Files Lawsuit Against Consensys Over MetaMask, Ethereum Staking Services

- **The SEC has sued Consensys, alleging its MetaMask service is an unregistered broker involved in selling securities and scrutinising its staking feature powered by Lido and Rocket Pool**
- **The lawsuit follows previous enforcement actions and aims to classify a broad range of crypto assets, including popular tokens like Polygon (MATIC) and Decentraland (MANA), as securities**

The US Securities and Exchange Commission (SEC) has taken legal action against Ethereum software provider Consensys, accusing its MetaMask service of operating as an unregistered broker and engaging in the sale of securities. The lawsuit, filed last Friday, June 28th, also targets Ethereum staking services Lido (LDO) and Rocket Pool (RPL), which MetaMask uses for its staking feature.

This enforcement action marks the SEC's ongoing effort to classify a wide range of the crypto market as securities. The lawsuit follows the unexpected approval of Ether ETFs last month, on the basis that they will not offer additional yield from staking. It also reinforces the view that the SEC might seek to regulate liquid staking derivatives of ETH, such as Lido's stETH token. The SEC has previously enforced settlements related to staking services, including with US exchange Kraken.

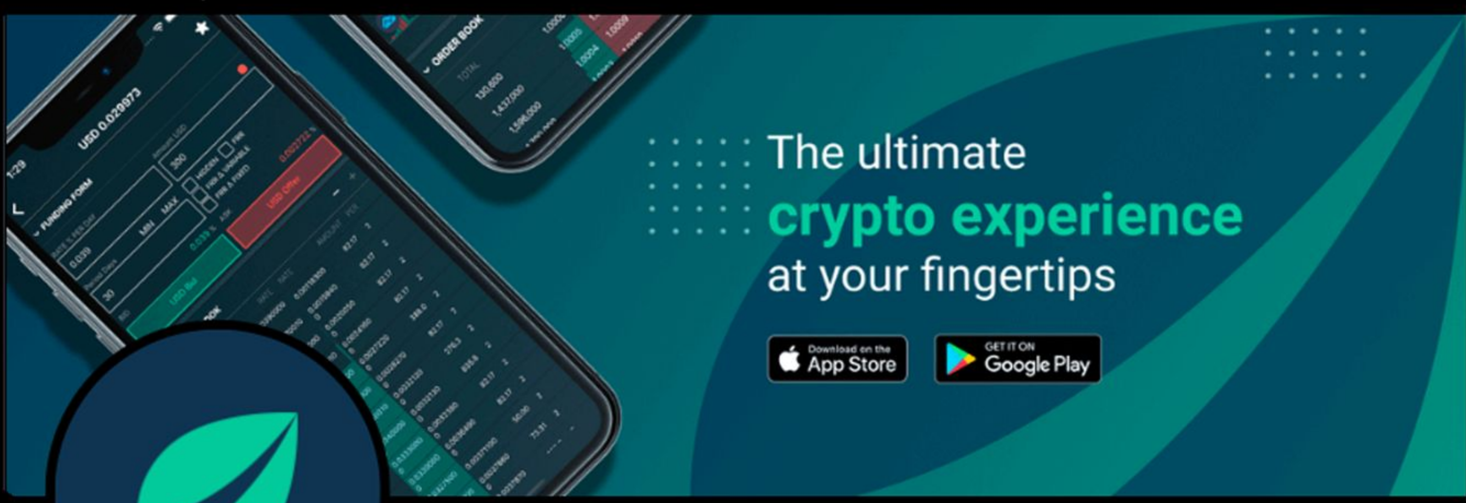
MetaMask is the most popular wallet for Ethereum and various other blockchains. In addition to allowing users to store cryptocurrency acquired on other platforms, MetaMask enables the direct buying and selling of digital assets through its "Swaps" service, which is a focal point of the SEC's lawsuit. Consensys collects a fee for this service and has facilitated over 36 million crypto transactions in the past four years, with the SEC claiming that at least 5 million of these involved "crypto asset securities."

The SEC identified several of these securities, including Polygon (MATIC), Decentraland (MANA), Chiliz (CHZ), the Sandbox (SAND), and Luna (LUNA), but hinted that other digital assets might also be considered securities. Many of these cryptocurrencies have been mentioned in previous SEC lawsuits as unregistered securities, though some issuing entities have contested this classification.

The SEC's scrutiny extends to MetaMask's "staking" feature, which allows users to deposit assets to secure the Ethereum blockchain and earn interest. This feature is supported by Lido and Rocket Pool, which are among the largest ETH staking services. MetaMask users can deposit into these third-party staking services and receive a tradeable receipt, known as a liquid staking token, in return.

The lawsuit arrives just weeks after Consensys announced the SEC had concluded investigations into Ethereum 2.0, citing two letters received from the SEC on June 18. However, these letters warned that the SEC might still pursue enforcement actions on other issues. The latest action against Metamask appears to be one of those enforcement actions.

Consensys had previously sued the SEC in April, seeking judicial relief to prevent the SEC from designating MetaMask as a broker or declaring its staking service in violation of federal securities laws. The lawsuit, filed in Texas, also sought a court order to declare ether (ETH) not a security and to halt the SEC's investigation into Consensys.


The ultimate
crypto experience
at your fingertips
Download on the App Store
GET IT ON Google Play