

BITFINEX Alpha



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EXECUTIVE SUMMARY

Ethereum ETFs [continue to struggle](#) compared to Bitcoin ETFs, with significant outflows contributing to Ether's underperformance relative to Bitcoin. Despite some positive inflows into newer Ethereum ETFs like BlackRock's iShares Ethereum Trust, older products like Grayscale's Ethereum Trust (ETHE) have faced [substantial outflows](#), exacerbated by aggressive selling from major market makers like Jump Trading. This has led to a 40 percent decline in Ether's price as of early August, with the ETH/BTC ratio hitting its lowest level in over 1,200 days.

In contrast, Bitcoin ETFs [have shown resilience](#), with consistent inflows and a more stable price performance. The market's confidence in Bitcoin, despite challenges like supply overhang, remains strong. Bitcoin is still on track to follow previous halving year trajectories and we expect an [extremely bullish Q4](#). Based on historical data, either the Q3 low may be in or we have one last leg lower to find the bottom for Bitcoin. As Ethereum ETFs grapple with mixed performance and high outflows, the coming months will be crucial in determining their ability to recover and attract sustained investor interest. Key factors such as the broader macroeconomic environment and potential Federal Reserve rate cuts will significantly influence future ETF flows and market dynamics for both Ethereum and Bitcoin.

Macroeconomic data from the past week shows that in July, the US economic landscape showed signs of [moderation in inflation](#), as consumer prices increased at a more subdued pace, indicating that inflationary pressures are gradually easing. For the first time in nearly three and a half years, the annual inflation rate dipped below three percent, raising expectations that the Federal Reserve may consider reducing interest rates in the near future. Complementing this trend, the [Producer Price Index \(PPI\)](#) for July rose by just 0.1 percent, down from 0.2 percent in June, suggesting that lower production costs are contributing to the overall cooling of inflation. Despite these positive developments, [US retail sales surged](#) in July, marking their most significant acceleration since early 2023. This reflects the resilience of consumer spending, which remains robust even in the face of persistent challenges such as high prices and borrowing costs.

However, not all sectors of the economy are faring well. The US housing market [continues to struggle](#), with single-family home construction falling to a 16-month low in July. This decline can be attributed to factors such as the impact of Hurricane Beryl, an increase in the supply of new homes, and the burden of high mortgage rates and rising property prices.

Despite these setbacks, consumer sentiment [has shown signs of improvement](#), with the University of Michigan's Survey of Consumers recording its first increase in five months. This boost in confidence is largely driven by more optimistic expectations for the future, even as concerns about the current state of the economy persist.

In crypto news last week, we saw the [US government transferring 10,000 seized BTC](#), worth around \$600 million, from the Silk Road case to Coinbase Prime, possibly for custody purposes. This move aligns with the Department of Justice's partnership with Coinbase Prime to manage large digital assets. US government wallets now hold approximately \$12 billion in Bitcoin. On the corporate front, Tether has leveraged its growing profits to challenge tech giants by investing in AI and technology startups through its new venture arm, [Tether Evo](#). With \$118.5 billion Tether tokens in reserve, Tether's profits have soared, allowing the company to diversify beyond its stablecoin, USDT, into cutting-edge areas like neural implant technology and AI infrastructure. Meanwhile, in the UAE, a landmark decision by the Dubai Court of First Instance [has validated](#) cryptocurrency payments for salaries under employment contracts. This ruling represents a significant shift in the UAE's legal stance on digital currencies and further supports Dubai's ambitions to solidify its position as a global crypto hub.

Have a great trading week.



INDEX



1. WHAT'S ON-CHAIN THIS WEEK?	6-15
- Ethereum ETF Flows Remain Underwhelming	7-11
- BTC Continues Recovery	12-15
2. GENERAL MACRO UPDATE	16-23
- US Inflation Slows, Easing Pressure on the Fed	17-18
- US Retail Sales Surge in July: Sign of Consumer Resilience	19-20
- US Housing Market Struggles Continue as Homebuilding Hits 16-Month Low	21-22
- Consumer Sentiment Rises for the First Time in Five Months	23
3. NEWS FROM THE CRYPTOSPHERE	24-29
- US Government Transfers \$600 M in Seized Bitcoin to Coinbase Prime	25-26
- Tether Expand Beyond Crypto with AI Investments and Tech Ventures	27
- Dubai Court Recognises Crypto Payments in Employment Contracts	28-29





WHAT'S ON-CHAIN THIS WEEK?



Ethereum ETF Flows Remain Underwhelming

While Bitcoin ETFs had shown resilience after initial outflows, Ethereum ETFs, particularly Grayscale's Ethereum Trust ETF, have faced more significant challenges. The significant fluctuations in flows into the ETFs have contributed to the observed weakness in Ether's price relative to the broader crypto market. This became particularly apparent during the recent August 5th move to 0.0367 ETH/BTC, its lowest level in over 1200 days.



Figure 1. ETH/BTC 3-Day Chart. (Source: Bitfinex)

The [ETH/BTC pair](#) has been trending downwards since the Ethereum [Merge](#) in September 2022 (see Figure above), when ETH enjoyed relative strength against BTC. Its latest move down has put it lower than the February 2021 peak of 0.0461, which at that time was a cycle high before the the bull market for ETH/BTC kicked in.

The capitulation wick - represented by the 23 percent peak-to-trough decline to August 5th - has again found some resistance at the 0.0461 level, however the relative weakness of the ETH/BTC pair can be attributed to the influence of Bitcoin ETFs, which have directed passive flows and increased demand towards BTC. Despite the launch of Ethereum spot ETFs, the weakness seen ETH/BTC has not only persisted but, arguably, has intensified.

This ongoing trend raises questions about the lack of effectiveness of Ethereum ETFs in balancing the market dynamics between these two major crypto assets. The continued underperformance of ETH against BTC suggests deeper market forces at play, beyond the mere availability of institutional investment products.

Current ETF Flow Dynamics:

- **Positive Inflows:** Ethereum ETFs have shown signs of recovery after earlier struggles. For example, BlackRock's iShares Ethereum Trust (ETHA) has consistently attracted strong inflows, recording over \$100 million on two separate occasions (July 30th and August 6th), and continuing to show robust performance with cumulative inflows nearing \$977 million as of last week. Fidelity's Ethereum Fund (FETH) has also seen steady inflows, contributing to a more positive outlook for some ETFs in this sector.
- **Significant Outflows:** On the flip side, the Grayscale Ethereum Trust (ETHE), which was converted from a trust to an ETF, has faced substantial outflows, totaling over \$2.4 billion since its conversion. This significant outflow reflects at best, more cautious sentiment - and at worst a negative view - among institutional investors, of this specific ETF. Since its conversion from a trust to an ETF, ETHE has struggled, primarily due to the fact that the ETHE price was at a 20 percent discount to ETH price, even weeks into the conversion of the trust into an ETF. This was mainly driven by arbitrage traders taking profit. With the price of ETH falling 40 percent, since the launch of ETH ETFs (refer Figure below), outflows have continued, albeit at a slower pace recently.



Figure 2. ETH/USD 4H Chart. (Source: Bitfinex)

On August 12th, ETHE experienced its first day without outflows since its inception. Despite this, ETH ETF flows have generally been underwhelming (see Figure below), with many investors capitalising on the ETHE discount going to zero.

The particular dynamics of the ETHE ETF and its discount, as well as its higher fees, has led to a shift in demand towards other ETH ETFs, contributing to the overall mixed performance for the asset class.

	Blackrock	Fidelity	Bitwise	21 Shares	VanEck	Invesco	Franklin	Grayscale	Grayscale	Total
	ETHA	FETH	ETHW	CETH	ETHV	QETH	EZET	ETHE	ETH	
Fee	0.25%	0.25%	0.20%	0.21%	0.20%	0.25%	0.19%	2.50%	0.15%	
Seed	10.6	4.4	2.5	2.3	10.2	1.1	2.7	9,199.3*	1,022.5*	10,255
30 Jul 2024	118.0	16.4	3.5	0.0	0.0	0.0	3.7	(120.3)	12.4	33.7
31 Jul 2024	5.0	18.8	4.7	3.3	4.8	0.0	0.0	(133.3)	19.5	(77.2)
01 Aug 2024	89.6	11.7	3.4	0.0	0.0	0.0	0.0	(78.0)	0.0	26.7
02 Aug 2024	0.0	6.0	0.0	0.0	0.0	0.0	1.1	(61.4)	0.0	(54.3)
05 Aug 2024	47.1	16.2	7.2	0.0	16.6	0.0	0.9	(46.8)	7.6	48.8
06 Aug 2024	109.9	22.5	0.0	0.0	0.0	0.0	1.0	(39.7)	4.7	98.4
07 Aug 2024	0.0	4.7	1.7	0.0	0.0	0.0	1.8	(31.9)	0.0	(23.7)
08 Aug 2024	11.7	(2.6)	2.8	0.0	0.0	0.0	0.0	(19.8)	5.0	(2.9)
09 Aug 2024	19.6	3.9	0.0	0.0	0.0	0.0	0.0	(41.7)	2.4	(15.8)
12 Aug 2024	0.0	4.0	2.9	0.0	(2.9)	0.0	1.0	0.0	0.0	5.0
13 Aug 2024	49.1	5.4	0.0	0.0	0.0	0.8	0.0	(31.0)	0.0	24.3
14 Aug 2024	16.1	6.6	2.7	0.0	0.0	0.0	0.0	(16.9)	2.3	10.8
15 Aug 2024	0.8	2.5	0.0	0.0	0.0	0.0	0.0	(42.5)	0.0	(39.2)
16 Aug 2024	10.3	7.2	0.0	0.0	(4.8)	0.0	0.0	(27.7)	0.0	(15.0)
Total	977.4	367.5	305.2	10.8	60.0	15.0	35.3	(2,414.5)	222.8	(420.5)

Figure 3. Ethereum ETF Flows Across Various Asset Providers, numbers in millions of USD
(Source: Farside Investors)

Another factor contributing to the underperformance of Ethereum ETFs is the fact they launched in the summer, a period that typically sees lower trading volumes and investor engagement. The coming months will be pivotal in determining the true demand for Ethereum ETFs.

Spot Ethereum ETF Participants in US



Name	Ticker	Starting Fee	Post Waiver Fee	Waiver Length	Waiver Amount	Seed Capital	Exchange	Custodian
Grayscale Ethereum Mini Trust	ETH	0.00%	0.15%	6 Months	\$2.0bn	\$919.9mn*	NYSE	Coinbase
Franklin Ethereum ETF	EZET	0.00%	0.19%	Until 01/31/25	\$10.0bn	\$2.7mn	CBOE	Coinbase
VanEck Ethereum ETF	ETHV	0.00%	0.20%	1 Year	\$1.5bn	\$10.2mn	CBOE	Gemini
Bitwise Ethereum ETF	ETHW	0.00%	0.20%	6 Months	\$0.5bn	\$2.5mn	NYSE	Coinbase
21Shares Core Ethereum ETF	CETH	0.00%	0.21%	6 Months	\$0.5bn	\$2.3mn	CBOE	Coinbase
Fidelity Ethereum Fund	FETH	0.00%	0.25%	Until 12/31/24	Unlimited	\$4.4mn	CBOE	Fidelity
iShares Ethereum Trust	ETHA	0.12%	0.25%	12 Months	\$2.5bn	\$10.6mn	Nasdaq	Coinbase
Invesco Galaxy Ethereum ETF	QETH	0.25%	0.25%	-	None	\$1.1mn	CBOE	Coinbase
Grayscale Ethereum Trust	ETHE	2.50%	2.50%	-	None	\$9199.3mn	NYSE	Coinbase

Figure 5: Spot Ethereum ETF in the US (Source: CCData)

The ETH price has declined since the launch of the ETH ETFs for a number of reasons:

1. **Large-Scale Selling by Jump Trading:** Jump Trading, a prominent market maker, has been [offloading substantial amounts of ETH](#) following the launch of Ethereum ETFs. Since July 24th, Jump Trading has sold over 83,000 ETH, contributing to increased Ether supply. The firm's actions have created significant selling pressure, driving ETH to an eight-month low of around \$2,099.9 on January 3rd, 2024.
2. **Impact of Other Market Makers:** Besides Jump Trading, other major market makers like Wintermute and Flow Traders also engaged in significant selling. Collectively, these entities sold around 130,000 ETH, further exacerbating the downward pressure on ETH.
3. **ETF Launch and Market Sentiment:** Although Ethereum ETFs have started to see some positive inflows, the initial response was underwhelming, especially compared to Bitcoin ETFs. This lukewarm reception, coupled with aggressive selling by large entities, contributed to the overall bearish sentiment around Ethereum.
4. **Market Volatility and Liquidity Concerns:** The sales by Jump Trading and others were exacerbated by thin summer trading volumes, leading to more pronounced price declines. Some market analysts criticised the timing and scale of these sell-offs, noting that liquidating large positions in a low-liquidity environment can lead to a disproportionate market impact.
5. **Macro environment:** Increased interest rates in Japan, triggered the unwind of the carry trade, which has had a significant impact on risk assets globally.

The substantial 40 percent decline in ETH since the launch of the ETFs aligns with our expectations of a sell-the-news reaction and ongoing relative weakness until outflows from ETHE cease. It's crucial to acknowledge, however, that we are no longer in the early phases of the bull cycle. The next upward movement, whether it rises from current price levels or experiences another pullback, could mark the commencement of the latter stages of the bull market.

Historically, ETH has led market rallies and typically outperforms during such phases. A critical point to watch is the [ETH/BTC pair](#); should it breach and sustain above the 0.0461 resistance zone, we might witness a parabolic ascent in the ratio. This potential surge could coincide with a significant reduction in the ETH holdings of ETHE, which would alleviate existing supply concerns. Such developments would indicate a strategic shift in market dynamics and investor sentiment towards ETH.

Another important factor contributing to ETH weakness post ETF launch, even in comparison with the BTC weakness post spot Bitcoin ETF launch, is the rate at which ETHE and other major market participants are pushing supply onto the market. As seen in the figure below, the rate of ETHE outflows is much faster than outflows from the Grayscale Bitcoin Trust (GBTC), which also suffered from the same dynamics of higher fees and arbitrage trading as ETHE. On the 20th trading day post launch, ETHE assets under management compared to pre-launch figures stood at 70 percent while it was 76.3 percent for GBTC.

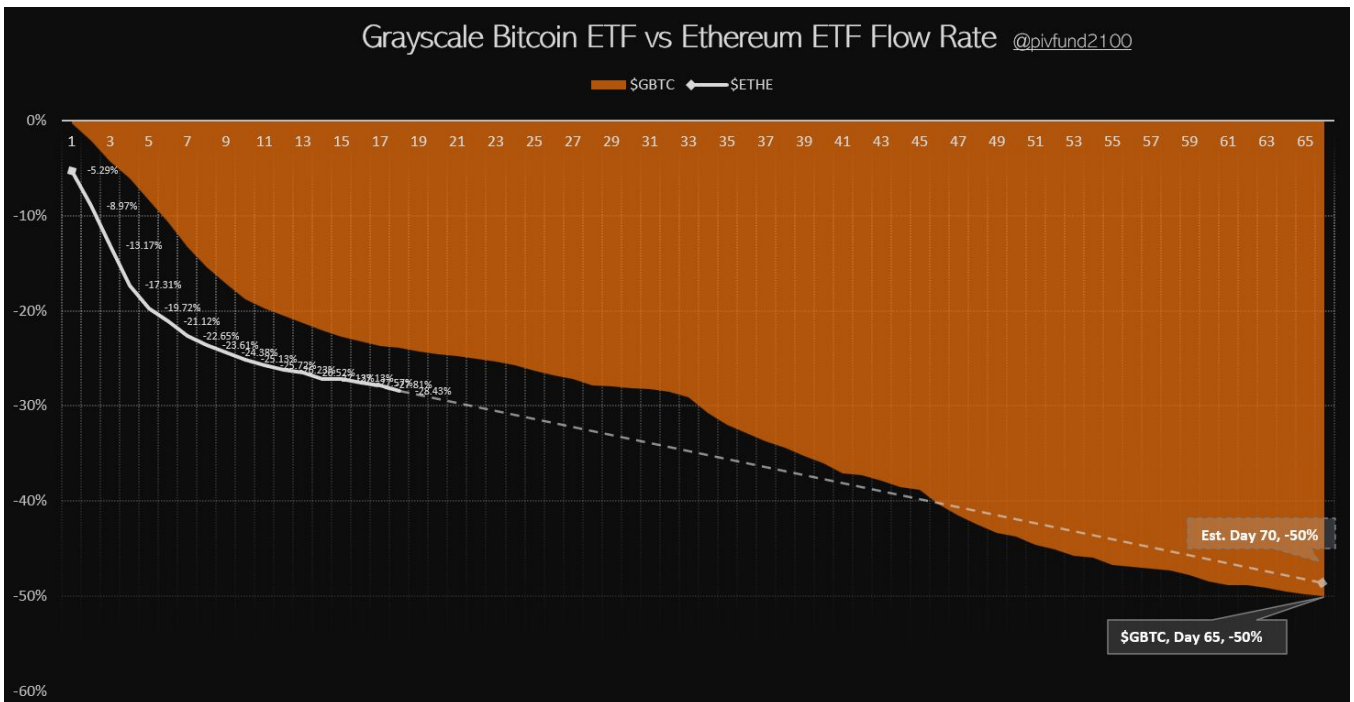


Figure 6: Grayscale Bitcoin ETF vs Ethereum ETF Flow Rate

BTC Continues Recovery

BTC moved up two percent for the week to continue its market recovery after falling below \$50,000 for the first time since February 2024. Unlike Ethereum ETFs, Bitcoin spot ETFs saw net positive inflows last week amounting to \$32.4 million as the price continues to attempt a push past our range lows of around \$60,000. (refer Figure below)



Figure 7. Figure: BTC/USD 6H Chart. (Source: Bitfinex)

After experiencing significant outflows earlier in the month, spot Bitcoin ETFs recorded a net inflow of \$32.4 million last week (refer Figure below), signalling continued passive investor interest. There was definitely some dip buying and profit taking across ETFs where investors took advantage of the sub \$50,000 move to buy and then take at least partial profits over the past week. This is in contrast to Ethereum ETFs which recorded net outflows for the week despite a much sharper decline in Ether price than BTC price.

However, despite consistent Grayscale Bitcoin Trust (GBTC) outflows and even more supply concerns given the [movement of Silk Road Bitcoin holdings](#), BTC has held up surprisingly well to register a 7.1 percent trough-to-peak move after some downside on Wednesday and Thursday.

	Blackrock	Fidelity	Bitwise	Ark	Invesco	Franklin	Valkyrie	VanEck	WTree	Grayscale	Grayscale	Total
	IBIT	FBTC	BITB	ARKB	BTCO	EZBC	BRRR	HODL	BTCW	GBTC	BTC	
Fee	0.21%	0.25%	0.20%	0.21%	0.25%	0.19%	0.25%	0.20%	0.25%	1.50%	0.15%	
30 Jul 2024	74.9	(2.9)	(3.2)	(7.9)	0.0	0.0	0.0	(5.6)	0.0	(73.6)	-	(18.3)
31 Jul 2024	21.0	(31.6)	(2.5)	(4.6)	0.0	0.0	0.0	0.0	0.0	0.0	18.0	0.3
01 Aug 2024	25.9	(48.4)	(20.7)	(22.4)	0.0	0.0	0.0	(3.6)	0.0	(71.3)	191.1	50.6
02 Aug 2024	42.8	(104.1)	(29.4)	(87.7)	0.0	0.0	0.0	(23.0)	0.0	(45.9)	9.9	(237.4)
05 Aug 2024	0.0	(58.0)	2.9	(69.0)	0.0	0.0	0.0	3.0	0.0	(69.1)	21.8	(168.4)
06 Aug 2024	0.0	(64.5)	0.0	(28.9)	0.0	(23.0)	0.0	0.0	0.0	(32.2)	0.0	(148.6)
07 Aug 2024	52.5	0.0	3.0	0.0	0.0	0.0	0.0	0.0	10.5	(30.6)	9.7	45.1
08 Aug 2024	157.6	65.2	0.0	32.8	0.0	0.0	0.0	3.4	118.5	(182.9)	0.0	194.6
09 Aug 2024	9.6	(19.8)	(18.1)	0.0	0.0	0.0	0.0	0.0	0.0	(77.0)	15.6	(89.7)
12 Aug 2024	13.4	0.0	(17.1)	35.4	0.0	0.0	0.0	0.0	0.0	(11.8)	7.9	27.8
13 Aug 2024	34.6	22.6	16.5	(6.1)	0.0	0.0	0.0	0.0	0.0	(28.6)	0.0	39.0
14 Aug 2024	2.7	(18.0)	(5.8)	(6.8)	0.0	3.4	0.0	0.0	0.0	(56.9)	0.0	(81.4)
15 Aug 2024	0.0	16.2	6.2	0.0	0.0	0.0	0.0	0.0	0.0	(25.0)	13.7	11.1
16 Aug 2024	20.4	61.3	12.0	13.4	0.0	1.7	0.0	0.0	0.0	(72.9)	0.0	35.9
Total	20,388	9,804	2,036	2,451	359	384	527	582	201	(19,646)	288	17,374
Average	135.0	64.9	13.5	16.2	2.4	2.5	3.5	3.9	1.3	(130.1)	1.9	115.1
Maximum	849.0	473.4	237.9	200.7	63.4	60.9	43.4	118.8	118.5	63.0	191.1	1,045.0
Minimum	(36.9)	(191.1)	(70.3)	(99.9)	(37.5)	(23.0)	(20.2)	(38.4)	(6.2)	(642.5)	0.0	(563.7)

Figure 8. Bitcoin ETF Flow, US\$m (Source: Farside Investors)

While GBTC continues to see outflows, other BTC spot ETFs, such as Fidelity's Bitcoin Fund (FBTC) and BlackRock's iShares Bitcoin ETF (IBIT), have benefited from strong inflows (see Figure above), which we assume is "passive" demand, a term we utilise to define ETF inflows that are part of systematic investing in a price agnostic manner. This divergence with investment flows into Ethereum ETFs, reflects the broader market's confidence in bitcoin as an asset, despite challenges such as the potential oversupply of BTC from large holders like the US government and Mt. Gox.

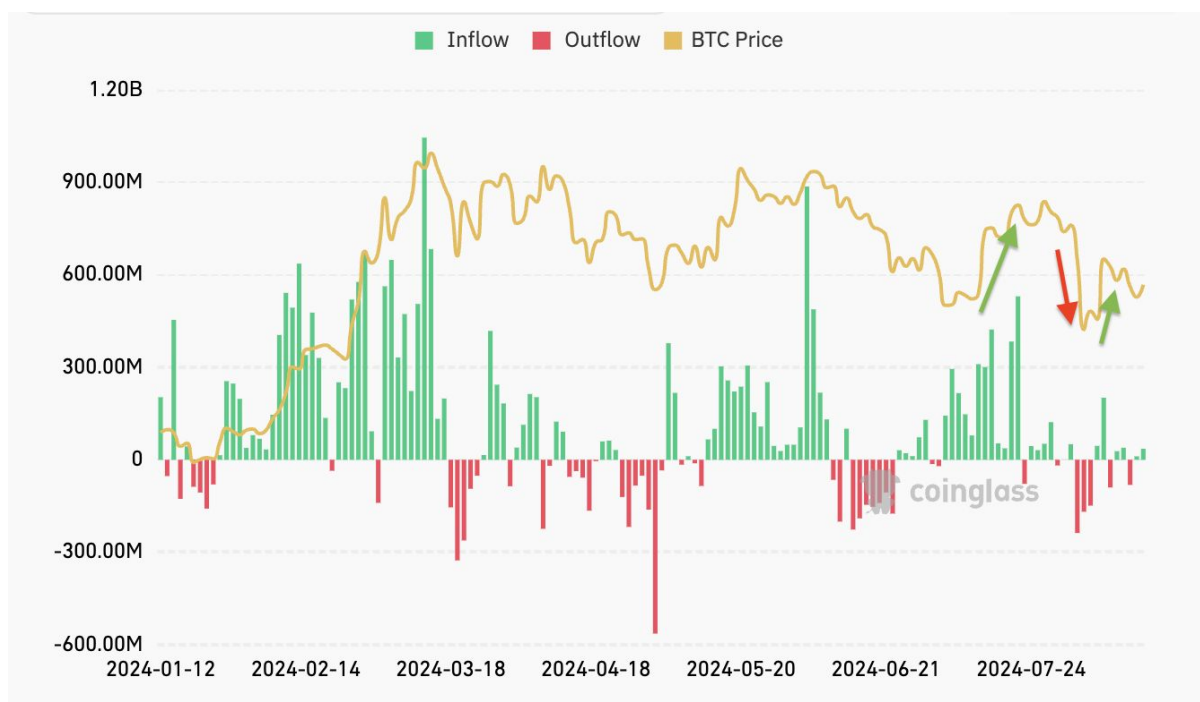


Figure 9. Bitcoin Spot ETF Flows and Bitcoin Price (Source: Coinglass)

The contrasting fortunes of BTC and ETH ETFs highlight the different dynamics at play in these markets. While Bitcoin ETFs have managed to attract consistent inflows, Ethereum ETFs have struggled to maintain momentum. The drying up of Grayscale’s ETH supply could be a turning point for Ethereum ETFs, but the next few months will be crucial in determining whether demand can sustain this market.

It is also important to note that BTC is currently attempting to push past range lows after a breakdown from a four month range. Thus, we are at resistance and we do not expect any explosive move next with the lack of any potential catalyst and summer weakness and illiquidity remaining prevalent even now.

Historical analysis of BTC performance, in relation to previous halving events, suggests that, despite the recent downturn, BTC is adhering to a similar trajectory as observed in past bull markets and halving cycles. These patterns indicate that the cycles post-halving have typically seen significant rallies, even if they are preceded by short-term declines.(refer Figure below)



Figure 10. Bitcoin Cumulative Return Index On Halving Years Normalised To 1. (Source: CryptoQuant)

As of day 230 (August 17th) of the 2024 Halving year, the normalised return on a Year-To-Date basis is 1.38 (38 percent). At the same stage, post-halvings in 2016 and 2020 we were at 1.32 and 1.68 respectively, thus, the current correction is nothing out of the ordinary and although the most recent dip below \$50,000 could have been the traditional final correction post-halving, we are still on track to follow past bull market trajectories, with potentially one more final correction in Q3, in line with the 2020 post-halving trajectory. In that post-halving period, the cumulative normalised return corrected from 1.7 to 1.4 before the parabolic top seen in March 2024. If we are to follow the 2016 trajectory then the current correction in Q3 after a Q2 top, with a significant move up from the yearly open in 2024 to March-April would be it. Thus, based on historical data, we can expect summer illiquidity to continue.

The broader macroeconomic environment, including potential Federal Reserve rate cuts, will also play a significant role in shaping future ETF flows for both BTC and ETH. Investors should keep an eye on these developments, as they could provide further insights into the market's trajectory.



GENERAL MACRO UPDATE



US Inflation Slows, Easing Pressure on Federal Reserve

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, July 2023 - July 2024

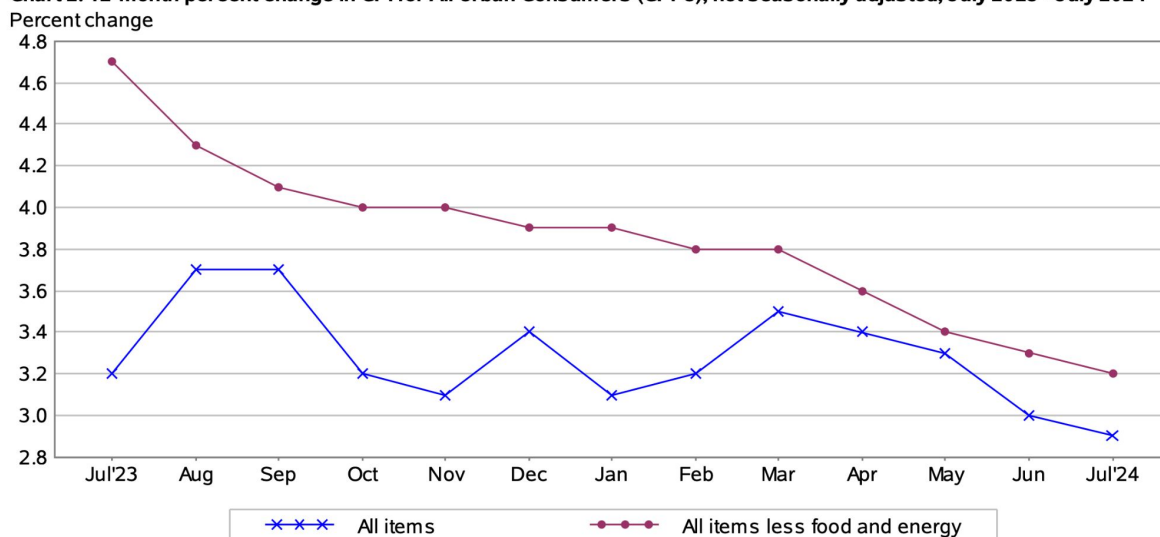


Figure 11. Year-over-Year Change in Consumer Price Index (CPI)

July US consumer price data came in moderate, signalling that inflation is gradually cooling down. For the first time in nearly three and a half years, the annual inflation rate fell below three percent, raising the likelihood that the Federal Reserve may reduce interest rates next month.

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, July 2023 - July 2024

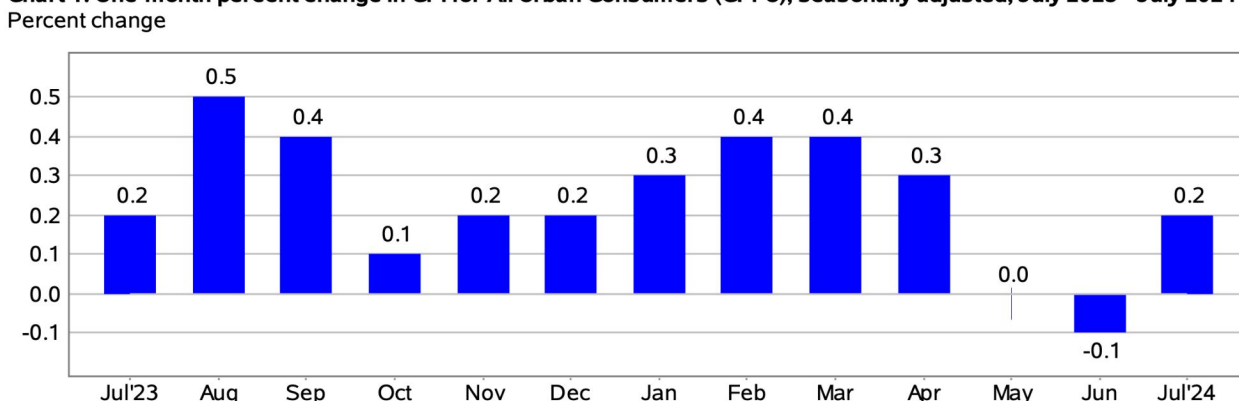



Figure 12. One-Month Percent Change in Consumer Price Index (CPI)



According to the [Bureau of Labor Statistics' Consumer Price Index report](#), issued last Wednesday, August 14th, July marked the third consecutive month of modest inflation readings. The Consumer Price Index (CPI), saw a 0.2 percent rise in July, after a 0.1 percent decline in June. This increase was in line with the consensus forecast. The core CPI, which excludes the often-volatile food and energy sectors, also climbed by 0.2 percent. On a year-over-year basis, the overall CPI rose by 2.9 percent, while the core CPI increased by 3.3 percent.

One significant factor behind the CPI rise was the increase in shelter costs, which make up a substantial portion of the index. Shelter costs, including rents, saw a 0.4 percent rise, contributing to nearly 90 percent of the total CPI increase in July. Shelter costs have been a persistent driver of inflation. However, there is optimism that inflation may continue to ease in the coming months, particularly as housing and service costs have room to decrease further.

The ongoing improvement in inflation data provides the Fed with an opportunity to shift its focus toward risk management, prioritising its efforts to engineer a gradual economic slowdown—often referred to as a "soft landing." This approach could benefit financial markets by encouraging businesses to invest in productivity-enhancing tools such as equipment and software, which may have been delayed due to economic uncertainty.

Despite this positive trend, the Fed is unlikely to start its anticipated rate cuts with a large reduction of 0.5 percent unless there is a noticeable weakening in the labour market. Sustained inflation above the Fed's two percent target, driven largely by shelter costs will prompt the Fed to take a more cautious approach. As of August 19th, the CME FedWatch Tool forecasts a 71.5 percent probability of a 25 basis points rate cut in September

[Producer Price Index \(PPI\) data](#) for July also offers additional insight into the inflation outlook. The PPI measures price changes at the production level and often serves as a leading indicator for consumer prices. In July, producer prices rose by just 0.1 percent, down from 0.2 percent in June. This slower increase suggests that inflation is on a downward trajectory, as lower production costs typically result in less pressure on consumer prices.

Overall, the inflation data outside the housing sector has been encouraging. With the pace of inflation stabilising, there is growing confidence that the Federal Reserve's goal of price stability is within reach. We believe that it is now time for the Fed to consider easing its currently restrictive interest rate policy to support continued economic growth.

US Retail Sales Surge in July: A Sign of Consumer Resilience

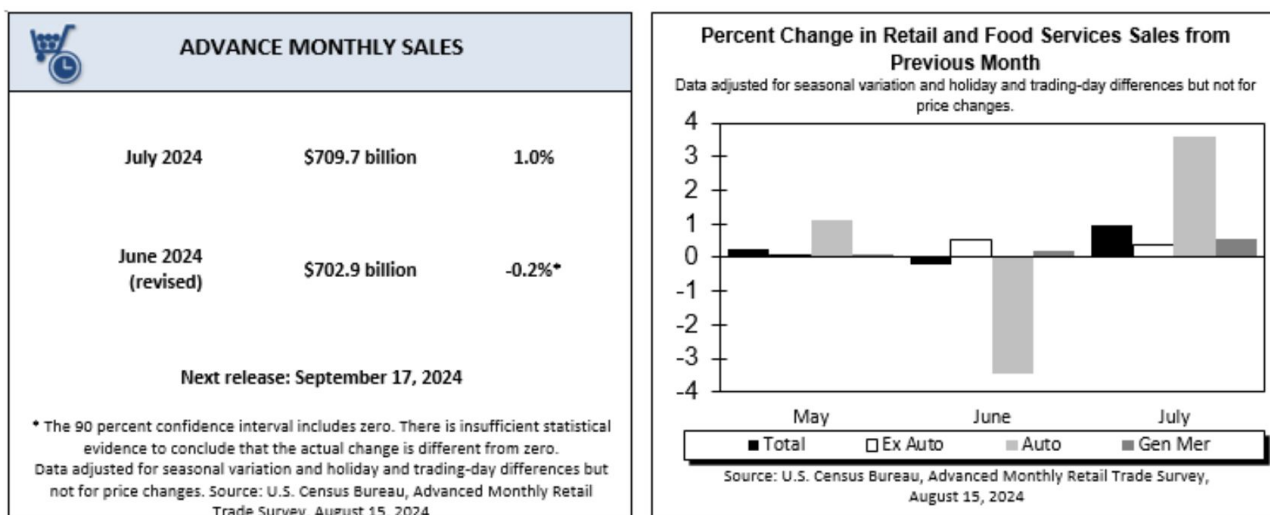


Figure 13. Advance Monthly Sales for Retail and Food Services (Source: US Census Bureau)

In July, US retail sales experienced their most significant acceleration since early 2023, reflecting a robust consumer base that remains strong despite ongoing challenges such as high prices and borrowing costs. The continued decline in inflation, and 15 consecutive months of positive real wage growth, have played a vital role in sustaining consumer spending, even as concerns grow about [a cooling labour market](#).

[According to the US Census Bureau’s Advance Monthly Sales for Retail and Food services](#) report, retail sales across all categories rose by one percent in July, significantly exceeding the consensus forecast of 0.3 percent. A closer look at last Thursday’s report reveals that automobile sales were the primary contributor, with a 3.6 percent rise in July. This suggests that big-ticket items, such as cars, may continue to perform well as borrowing costs become more manageable. When excluding the more volatile components, the control group, which is crucial for gross domestic product (GDP) calculations, grew by 0.3 percent. This indicates that consumer spending will remain a key growth driver in the third quarter. Overall, the increase in sales was broad, with 10 out of 13 categories showing growth, marking the highest number of increases in recent months.

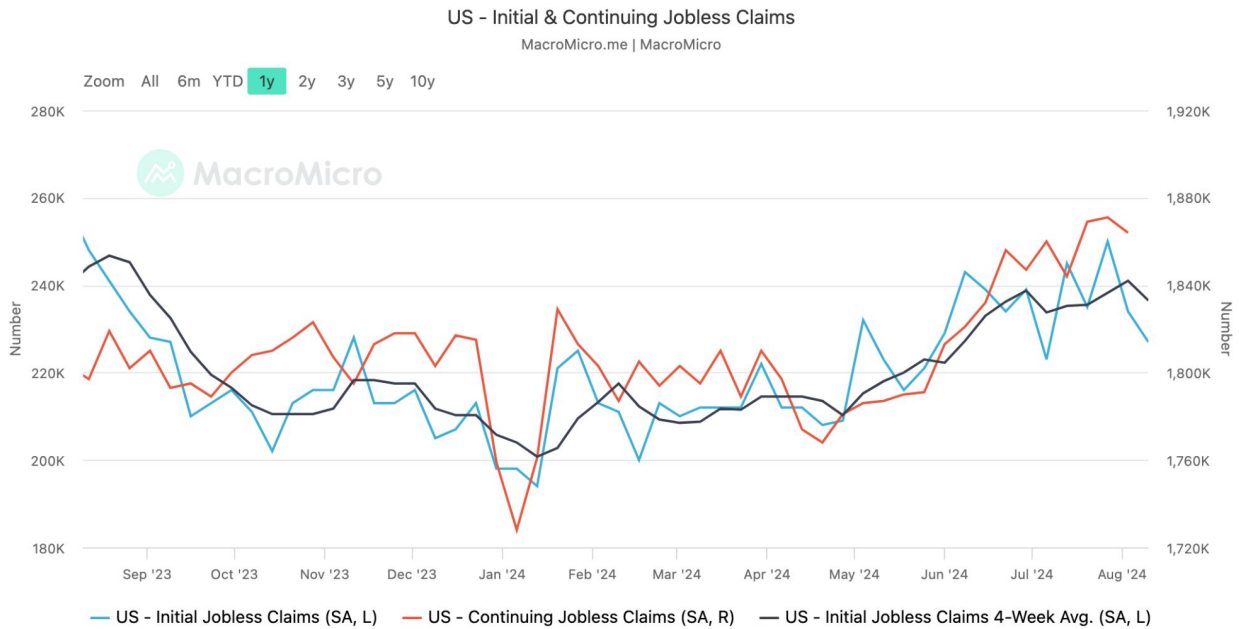
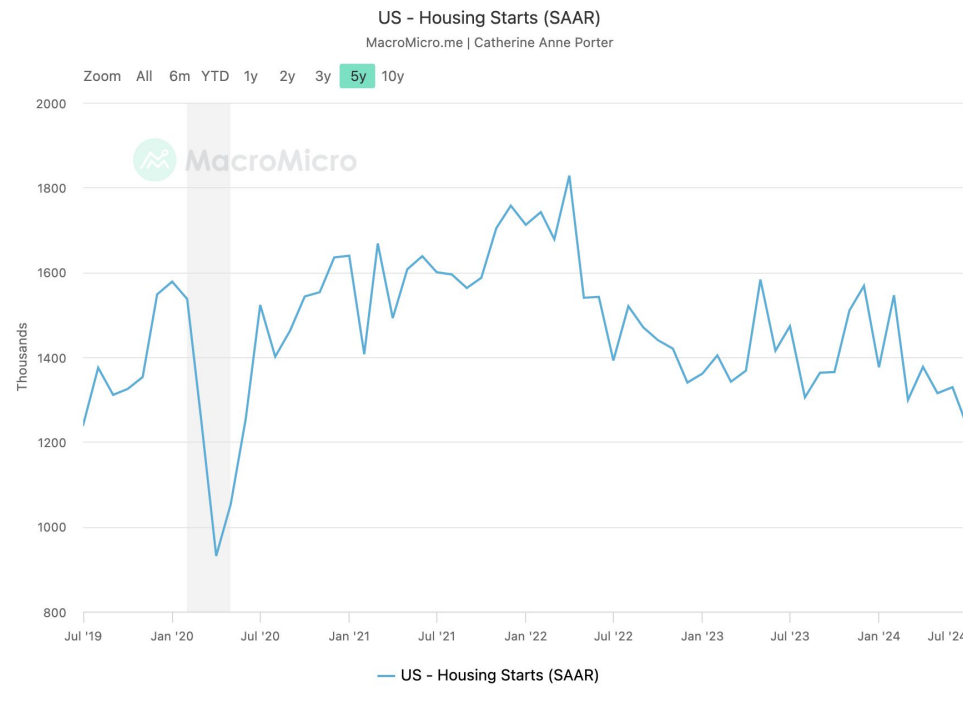


Figure 14. Initial and Continuing Jobless Claims (US Department of Labor)

In a related development, the number of Americans filing new applications for unemployment benefits unexpectedly dropped for the week ending August 10th. According to the Department of Labor’s Unemployment Insurance Weekly Claims report last Thursday, initial jobless claims fell to 227,000 from the previous 234,000, while continuing claims decreased to 1.864 million, marking the first decline in four weeks. This data indicates that the labour market slowdown is occurring in a gradual manner, rather than experiencing a sharp decline.

Recent economic data suggests that the market may have earlier overreacted to perceived [weaknesses in job gains](#) and rising unemployment. Unless there is a significant decline in job gains or the unemployment rate rises to 4.4 percent or higher, the Fed is likely to reduce its policy rate by just 25 basis points in September. These developments also provide a foundation for solid growth in the economy for the third quarter. As of August 16 2024, the [Atlanta Federal Reserve](#) predicted a growth rate of two percent for the third quarter.

US Housing Market Struggles Continue as Homebuilding Hits 16-Month Low Amid High Mortgage Rates and Oversupply



NEW RESIDENTIAL CONSTRUCTION JULY 2024	
Building Permits:	1,396,000
Housing Starts:	1,238,000
Housing Completions:	1,529,000
Next Release: September 18, 2024	
Seasonally Adjusted Annual Rate (SAAR)	
Source: U.S. Census Bureau, HUD, August 16, 2024	

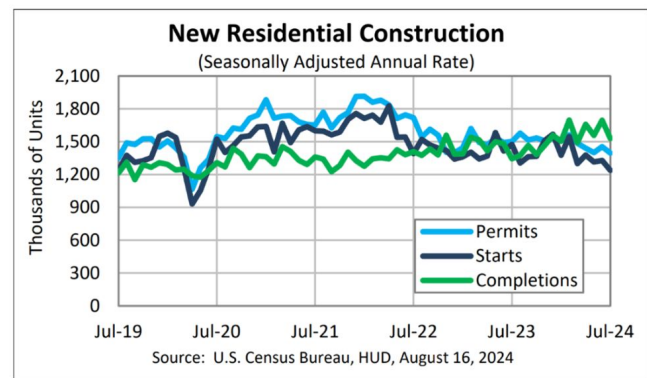



Figure 15. Housing Starts, Building Permits (Source: US Census Bureau, Macromicro)

Even as inflation gradually subsides and consumer spending remains a strong pillar of economic growth, the US housing market continues to struggle, with single-family home construction plummeting to a 16-month low in July. Several factors contributed to this decline, including the impact of Hurricane Beryl and an increase in the supply of new homes, exacerbated by high mortgage rates and rising property prices.



This marks the fifth consecutive month of reduced homebuilding, according to the [Monthly New Residential Construction Report from the US Census Bureau](#) last Friday, August 16th. This indicates a sluggish start in the housing market in the third quarter, which amid a cooling labour market, adds another layer of complexity to the recovery of the housing sector.

Single-family housing starts, which constitute the majority of homebuilding, fell sharply by 14.1 percent to a seasonally adjusted annual rate of 851,000 units in July. There was a significant 22.9 percent decline in homebuilding in Southern states, likely influenced by Hurricane Beryl's impact on Texas earlier in the month.

The decrease in housing starts can also be attributed to builders' expectations of weaker sales in the coming months. Builder confidence has taken a hit, with the National Association of Home Builders [reporting](#) a decline in sentiment to 39 in August, down from 41 in July. This is the lowest level since December 2023. Builders have cited "challenging housing affordability conditions" as the primary reason for this drop in confidence, marking the fourth consecutive month of declining sentiment.

Mortgage rates have also played a crucial role in the current housing market dynamics. The average rate on a 30-year fixed-rate mortgage peaked at 7.22 percent in May but has since declined to 6.45 percent amid optimism that the Fed may reduce interest rates in the near future. However, despite the decline in mortgage rates, there has not been a significant increase in demand for home loans, leaving the market in a state of uncertainty.

Looking ahead, the housing market's recovery will depend on several factors. A key condition is the need for housing inventories to increase substantially. This rise in inventory would alleviate the upward pressure on home prices, potentially stabilising or even reducing them from their current peak levels. Additionally, mortgage rates must continue to decline, though not too rapidly. A sudden drop in rates could lead to a surge in demand, which might deplete any inventory gains and push home prices back up. Therefore, a cautious approach to interest rate cuts would be beneficial for achieving a balanced recovery in the housing market.

Consumer Sentiment Rises for First Time in Five Months as Hopes for Interest Rate Cuts Grow

Preliminary Results for August 2024

	Aug 2024	Jul 2024	Aug 2023	M-M Change	Y-Y Change
Index of Consumer Sentiment	67.8	66.4	69.4	+2.1%	-2.3%
Current Economic Conditions	60.9	62.7	75.5	-2.9%	-19.3%
Index of Consumer Expectations	72.1	68.8	65.4	+4.8%	+10.2%

Figure 16. Consumer Sentiment (Source: University of Michigan)

Consumer sentiment has experienced its first rise in five months, as indicated by the [University of Michigan's Survey of Consumers released last Friday, August 16th](#). This increase is largely attributed to improved expectations for the coming year, with consumers feeling more optimistic about the next 12 months.

The overall sentiment index climbed to 67.8 in August, up from 66.4 in July, surpassing the consensus forecast of 66.6. The future expectations index also saw a significant rise, reaching 72.1 from 68.8, marking the highest level since April.

The survey showed that consumers are primarily anticipating a decline in interest rates, which they believe could revitalise the economy. The subindex tracking expectations for interest rates saw a sharp increase, reflecting a strong belief that rates will decrease significantly over the next year. However, concerns about the current state of the economy continue to weigh on sentiment. The survey shows that perceptions of current economic conditions have continued to decline for the fifth consecutive month, with the index falling to 60.9, its lowest point since 2022.

It appears that consumers are adopting a cautious approach, holding back on spending in anticipation of potential interest rate cuts later in the year. This behaviour is particularly understandable, given that major purchases such as homes, cars, and appliances often depend on financing, making lower interest rates a key factor in their decision-making process.



NEWS FROM THE CRYPTO-SPHERE



US Government Transfers \$600 Million in Seized Bitcoins to Coinbase Prime

The screenshot shows a list of transactions on a dark-themed interface. A search filter at the top left is set to 'USD ≥ \$0.10'. The table has three main columns: 'TRANSACTIONS', 'INFLOW', and 'OUTFLOW'. The 'TRANSACTIONS' column includes a search icon, a refresh icon, a 'TIME' dropdown, and a 'FROM' filter. The 'INFLOW' column includes a 'TO' filter. The 'OUTFLOW' column includes 'VALUE', 'TOKEN', and 'USD' filters. The first transaction is highlighted with a red border. It shows a transfer of 10,000 BTC worth \$593.91M from a government-associated wallet to a Coinbase Prime wallet. Other transactions include transfers from various sources like 'Binance: Hot Wallet', 'CoinJoin Address', and 'U.S. Government: Silk Road DOJ Confiscated Funds'.


TIME	FROM	TO	VALUE	TOKEN	USD
10 minutes ago	bc1qlap8hkt9genaljz5nt2zlehhudx63z1...	33JEEid2mMhyxdkCfKuhYLeHMyg8X4jnoE	10K	BTC	\$593.91M
28 minutes ago	bc1qlap8hkt9genaljz5nt2zlehhudx63z1...	33JEEid2mMhyxdkCfKuhYLeHMyg8X4jnoE	0.001	BTC	\$60.23
1 week ago	bc1pws63e0hmnalx2ld3dcjdha68ugqhvkvx...	bc1qlap8hkt9genaljz5nt2zlehhudx63z1...	0	BTC	\$0.32
2 weeks ago	1LKwkyFQRzrMCDV2yVmbi1L5z6MxUjzvvdH	bc1qlap8hkt9genaljz5nt2zlehhudx63z1...	0	BTC	\$1.00
2 weeks ago	Binance: Hot Wallet (bc1qm)	bc1qlap8hkt9genaljz5nt2zlehhudx63z1...	0	BTC	\$2.14
2 weeks ago	CoinJoin Address (bc1p3)	bc1qlap8hkt9genaljz5nt2zlehhudx63z1...	0	BTC	\$0.67
2 weeks ago	bc1py52srttdq38q7xwuef2rnh67vzycxx4a...	bc1qlap8hkt9genaljz5nt2zlehhudx63z1...	0	BTC	\$0.37
2 weeks ago	U.S. Government: Silk Road DOJ Confiscated Funds	bc1qlap8hkt9genaljz5nt2zlehhudx63z1...	10K	BTC	\$669.35M
2 weeks ago	bc1pcchq64f3jh94q8xupj4u44jv2lg7s09...	bc1qlap8hkt9genaljz5nt2zlehhudx63z1...	0	BTC	\$0.36
2 weeks ago	CoinJoin Address (bc1p2)	bc1qlap8hkt9genaljz5nt2zlehhudx63z1...	0	BTC	\$0.67
2 weeks ago	U.S. Government: Silk Road DOJ Confiscated Funds	bc1qlap8hkt9genaljz5nt2zlehhudx63z1...	0.001	BTC	\$67.80

Figure 17. Government Transfers 10,000 BTC to Wallet bc1ql, August 14th (Source: Arkham)

- The US government transferred 10,000 seized bitcoins, worth around \$600 million, from the Silk Road case to Coinbase Prime, possibly for custody purposes
- This transfer follows a partnership agreed between the US Department of Justice (DOJ) and Coinbase Prime to manage large holdings of digital assets, with US government wallets now holding approximately \$12 billion in Bitcoin

Last Wednesday, The US government transferred 10,000 BTC linked to the Silk Road case to Coinbase Prime, according to blockchain data from Arkham Intelligence. This transfer, estimated at around \$600 million, took place two weeks after the funds were moved into a government-associated wallet labelled "U.S. Government: Silk Road DOJ Confiscated Funds."

While moving cryptocurrency to an exchange often indicates a potential sale, this transfer may have been made for custody purposes rather than immediate liquidation.



Last Month, the US Marshals Service, an agency within the DOJ, [formed a partnership](#) with Coinbase Prime to manage and trade large-scale digital assets. However, the specifics of what happens to these assets once they reach a centralised platform remain largely undisclosed.

The [DOJ's involvement with Silk Road assets](#) dates back to 2022, when over 50,000 BTC were seized, and the key defendant in the DOJ's case, James Zhong, was arrested for wire fraud after allegedly exploiting the Silk Road's transaction system in 2012. In March 2023, the government sold 9,861 BTC for \$216 million, [according to court documents](#). The documents also outlined plans to sell the remaining assets in four stages throughout the year, although no further sales have been officially confirmed.

Currently, wallets linked to the US government hold approximately \$12 billion in Bitcoin, along with smaller amounts of other seized cryptocurrencies, according to Arkham Intelligence.

Tether Expands Beyond Crypto with AI Investments and Tech Ventures



Figure 18. Tether Expands Beyond Crypto with AI Investments and Tech Ventures

- Tether, led by CEO Paolo Ardoino, is using its growing profits to challenge tech giants by investing in AI and technology startups through its new venture arm, Tether Evo
- Following the release of its Q2 attestation, reserves for Tether tokens in circulation amount to \$118.5 billion, generating significant profits for the company and allowing it to diversify beyond its stablecoin, USDt, into areas like neural implant technology and AI infrastructure

Tether, one of the largest crypto companies globally, is venturing into new territories, including artificial intelligence, thanks to a significant cash influx. CEO Paolo Ardoino aims to challenge tech giants with these bold moves.

Following the release of its [Q2 attestation](#), Tether confirmed that over \$97 billion of its reserves are invested in US Treasuries, which has made the company more profitable as interest rates have risen. With central banks increasing rates to counter inflation, Tether reported a profit of \$5.2 billion in the first half of 2024 with reserves of Tether tokens in circulation at \$118.5 billion.

Since Ardoino became CEO in December, after six years as CTO, Tether has been exploring ways to utilise its growing funds. While some of the money has strengthened the USDt reserve, the rest has been funnelled into [Tether Evo](#), the company's new venture investment division. Tether has already acquired a majority stake in [Blackrock Neurotech](#), a neural implant technology startup, and invested in [Northern Data Group](#), a data centre operator specialising in AI model training infrastructure.

Tether's bold expansion into AI and technology investments marks a significant shift for the company, positioning it as more than just a stablecoin issuer. As it challenges industry leaders and explores new horizons, Tether's next moves will be closely watched by both the crypto and tech communities.

Dubai Court Recognises Crypto Payments in Employment Contracts in Landmark Ruling




Figure 19. Dubai Court Recognises Crypto Payments in Employment Contracts in Landmark Ruling

- **The Dubai Court of First Instance ruled that cryptocurrency payments for salaries are valid and enforceable under employment contracts, marking a shift in the UAE's legal stance on digital currencies**
- **This decision supports Dubai's ongoing efforts to become a global crypto hub**

In a groundbreaking decision, the Dubai Court of First Instance has officially recognised cryptocurrency payments for salaries as part of employment contracts. This decision marks a significant shift in the UAE's judicial stance on digital currencies, signalling growing acceptance of crypto within the region. The ruling was highlighted in a statement by the [Wasel & Wasel law firm](#) last Thursday, August 15th.

This new approach contrasts sharply with a previous decision by the same court in 2023, where a similar case was dismissed due to the employee's inability to provide an accurate valuation of the cryptocurrency involved. However, in the latest case, the plaintiff had filed a lawsuit for wrongful termination and unpaid wages. The employment contract in question specified a monthly salary in fiat currency, along with an additional payment of 5,250 [EcoWatt](#) tokens, a type of cryptocurrency. The employer contested the legality of salary payments in crypto, arguing that they were not enforceable under the law.



This time, the court sided with the employee, affirming that the payment in cryptocurrency was valid and should be made in EcoWatt tokens rather than converting them into traditional currency. The court's ruling emphasised the importance of honouring contractual agreements, provided they are clear, mutually agreed upon, and do not conflict with public policy or law.

This decision comes at a time when Dubai is positioning itself as a global hub for cryptocurrency. The city has developed a [specialised regulatory framework](#) for digital-asset companies, and the Dubai International Financial Centre, an economic free zone, offers a more flexible environment for businesses to operate.



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