# BITFINEX Alpha


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# EXECUTIVE SUMMARY

BTC surged to $65,000 on August 23rd, alongside a broader rally in risk assets following comments from US Federal Reserve Chair Jerome Powell at Jackson Hole, which hinted at potential rate cuts. This announcement led to a decline in the US dollar and boosted the equity markets, with the S&P 500 approaching its all-time high. Bitcoin, which had been lagging behind equities, saw a sharp 6.06 percent increase in one day, marking its second-largest daily move since May.

The rally occurred amidst a backdrop of increasing positive correlation between Bitcoin and US equities. Until now, Bitcoin has shown relative weakness compared to equities since hitting its early August low. Friday's price surge also saw a sharp increase in correlation, which we believe indicates a return of risk appetite to the market.

Added to this are the significant short liquidations seen on August 23rd, with $40 million in BTC perpetual futures liquidations and $140 million across all pairs. This comes as there has been a substantial drop in open interest, suggesting reduced leverage in the market. As interest in delta-neutral and funding arbitrage trades rises, the directional open interest in the market has decreased, potentially allowing more room for price appreciation in Bitcoin and altcoins. The current funding rates, significantly lower than earlier this year, also indicate a shift in market dynamics, highlighting a more cautious approach among leveraged traders despite the overall bullish sentiment.

The market bullishness has been fuelled by recent developments in the US economy which have led to a significant shift in monetary policy expectations, labour market dynamics, and business activity, underscoring the evolving challenges faced by the Federal Reserve and broader economic conditions.

In a highly anticipated speech at the Kansas City Fed symposium in Jackson Hole, Federal Reserve Chairman Jerome Powell indicated a forthcoming adjustment in monetary policy, signalling the potential for interest rate cuts. The labour market data has contributed significantly to this change in stance, with data showing that the US labour market added fewer jobs than initially reported over the past year. This downward revision, combined with weaker-than-expected payroll data for July, has raised alarms about the health of the labour market. The unemployment rate reached a post-pandemic high of 4.3 percent, which has triggered worries that the Federal Reserve may have delayed too long in reducing interest rates. However, more recent data, including weekly jobless claims, suggest that the labour market is undergoing a more controlled slowdown.

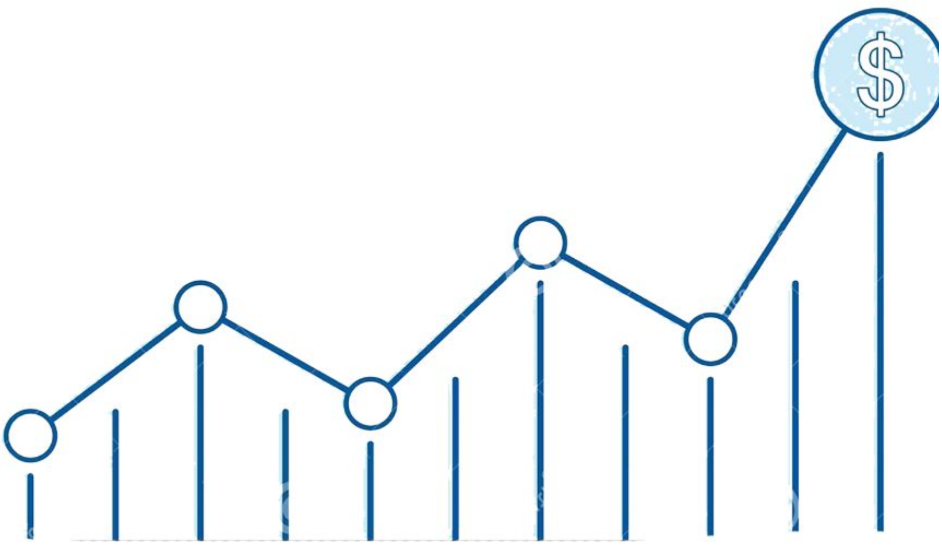
Meanwhile the noose continues to tighten on bad actors in the crypto markets. In a first, China successfully won extradition from Thailand of an individual named Zhang, who is accused of orchestrating a [$14 billion cryptocurrency pyramid scheme](). His extradition marks the first financial crime suspect handed over under the China-Thailand agreement reached in 2019, and highlights the increasing international cooperation to combat cryptocurrency-related crimes.

On a more positive note in the industry, Franklin Templeton has made strides in expanding its on-chain money market fund (FOBXX) by integrating it into the Avalanche network. This move allows investors to purchase tokenised shares, further solidifying the fund's position in the blockchain space. Already established on Stellar and Polygon, the fund primarily invests in low-risk US government securities and aims to leverage Avalanche's technology for continued growth.

In another significant development, BlackRock's iShares Ethereum Trust (ETHA) has emerged as a leader in the Ethereum ETF space, becoming the first Ethereum ETF to surpass $1 billion in net inflows. This achievement is particularly noteworthy given that Ethereum ETFs have generally seen lower inflows compared to their Bitcoin counterparts. In contrast, Grayscale's ETHE has faced significant outflows since its conversion to a public product, underscoring the competitive landscape within Ethereum investment vehicles.

# INDEX





# WHAT'S ON-CHAIN THIS WEEK?

# Bitcoin Reaches $65,000 As All Risk Assets Rally On Fed's Comments

**On Friday, August 23rd, both Bitcoin prices, as well as the entire crypto market moved up significantly, continuing the recovery we have been on since early August, when the largest correction this cycle sent BTC to sub-$50,000 levels. The move followed Federal Reserve Chairman Jerome Powell's statements at the Jackson Hole symposium suggesting that the Fed is preparing to adjust monetary policy and cut rates. Those statements acted as a tailwind for all risk assets and sent the US dollar index down by over 0.83 percent.**


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

Risk assets rallied across the board and the SPX moved to a high of 5461, less than 0.7 percent from its All-Time High (ATH). The recovery shows how far markets have come when news of a rise in interest rates in Japan at the beginning of the month, triggered a massive unwinding of the Yen carry trade and a near collapse in risk assets. The first week of August saw the largest peak-to-trough decline from the current ATH to the low for that week this year, with a 33 percent decline in BTC and an eight percent decline for the SPX.


***Figure 2. SPX Daily Chart. (Source: SP)***

It now turns out that the recovery was just as quick as we have seen V-shaped reversals with Gold, SPX and BTC all making new local highs and approaching all-time highs. BTC registered a daily move up of 6.06 percent on August 23rd with a lot of short open interest removed from the market. It marked the second highest daily move since May 20th. We believe such an extreme move is a sign of risk appetite returning to markets.

The current rally comes after a period of correlation with the equity market. The Pearson Correlation that measures the relative correlation of BTC with the SPX and the NASDAQ on a 30-day rolling basis shows that there has been an increase in correlation since July 12th.

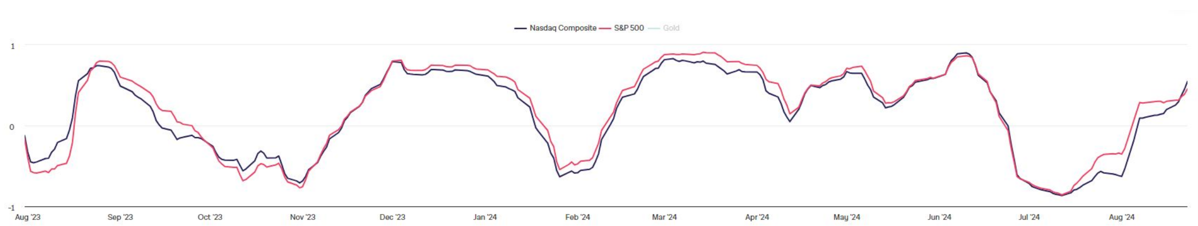



***Figure 3. Bitcoin Pearson Correlation With S&P500 And The NASDAQ Composite. (Source: TheBlock)***

Despite this however, BTC has been relatively weaker than equities since the August 5th capitulation low. This is evident from the fact that the SPX August 1st high and its monthly open levels were reclaimed on August 15th, in contrast to BTC which only just reached the $65,000 mark on Friday.

It is a common occurrence that higher volatility assets move later as compared to lower volatility assets, in this case, equities. Our [previous edition of  Bitfinex Alpha] covered how BTC is trading well within the trajectory of past bull markets. The market is clearly exhibiting a risk-on sentiment, encouraged by the apparent imminence of rate cuts, and the current lack of overhang, given the complete distribution of seized bitcoins by German law enforcement, while the Mt. Gox distribution is almost complete.

August 23rd also recorded the second largest daily short liquidations of BTC perpetual futures, with $40 million wiped out, while  total liquidations across all pairs over $140 million.


***Figure 4. BTC Total Liquidations Across Major Exchanges. (Source: Coinglass)***


***Figure 5. Total Liquidations Across Major Exchanges For All Pairs. (Source: Coinglass)***

While the recent figures for short liquidations may appear modest in comparison to those from previous short squeezes, which were accompanied by sudden price surges, it's important to consider the broader context of market engagement. Total open interest for BTC pairs across exchanges reached an AT) of $39.03 billion on March 29th, and maintained a $35-38 billion range between early June and late July. However, open interest dropped to its lowest level since the ATH on August 5th, shrinking to  $26.65 billion.

This represents a substantial reduction of nearly $13 billion in open interest, despite BTC being in the same price range throughout this period. This decrease in open interest suggests a withdrawal of trading activity or a reduction in leverage used in the market.

Much of the total Open Interest (OI) can be attributed to delta-neutral trades in the market on BTC, ETH and some other large assets by market capitalization. As interest in delta neutral and funding arbitrage increases over time, it can be assumed that the "directional" OI in the market has decreased significantly since March. This shows that despite an increase in risk appetite across risk assets, the amount of market participants leveraged long across all assets has decreased significantly which potentially increases the room for prices to move higher, for both BTC and altcoins. This is due to the fact that funding rates, open interest and hence leveraged longs increase as price moves higher. When these values reach an extreme as they did in March (refer Figure below), it is common for BTC to reach a local top before a "funding reset" can take place as spot demand is usually passive and slow while perp demand is sudden because a majority of market participants tend to react impulsively to price moving up to long on leverage.

The relatively lower amount of leveraged longs in the market also explains why funding rates are increasingly negative at prices between $60,000 to $65,000, in contrast to March when at the same price for BTC, we saw the highest funding rates in Bitcoin history.


***Figure 6. BTC Funding Rate History. (Source: Coinglass)***

Similarly, in Altcoin markets, funding rates in March-April were stable at 60-70 percent on an annual percentage return (APR) basis. Now with BTC at similar levels as that period, the average funding rate across large cap alts is currently at 8.1 percent ( at the time of writing on August 25th).

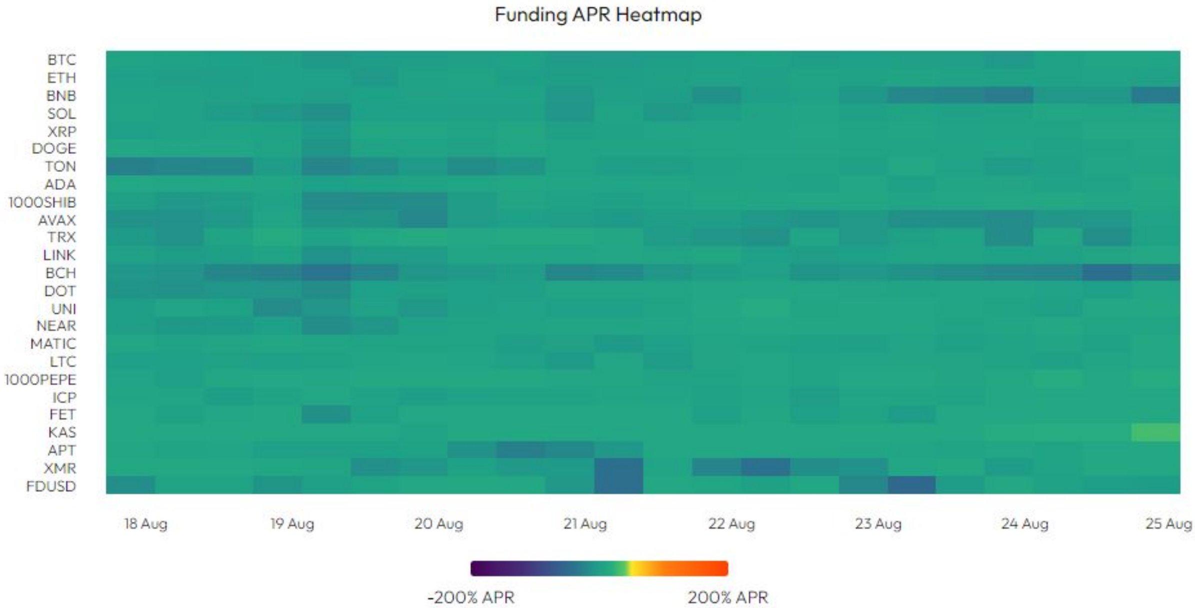



***Figure 7. Funding Rate Heat Map Across Large Caps. (Source: Velodata)***

# GENERAL MACRO UPDATE

# Fed Chair Powell: “Time has Come” to Cut Rates

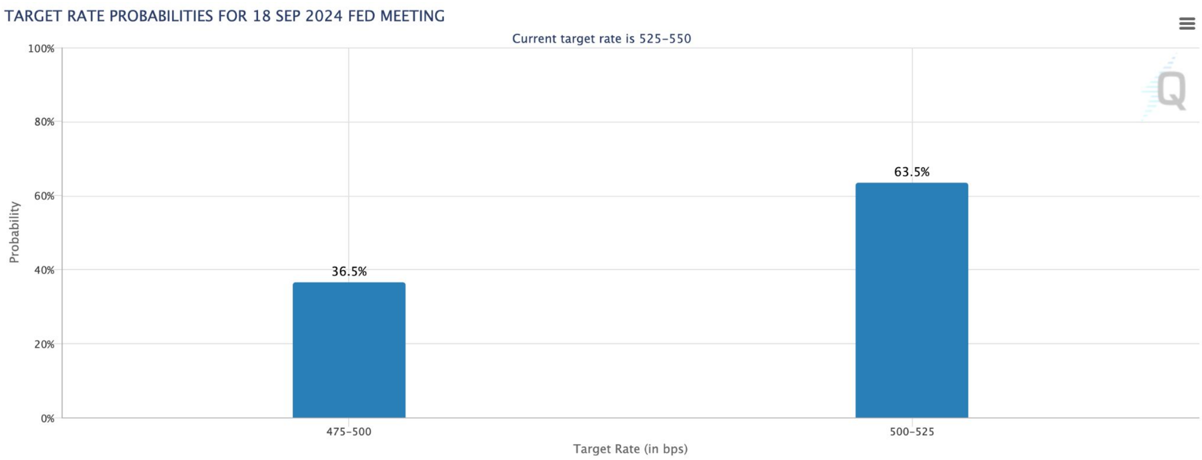
**In a highly anticipated address at the Kansas City Fed symposium in Jackson Hole, Wyoming last Friday, Federal Reserve Chairman Jerome Powell signalled a significant forthcoming adjustment in monetary policy.** Powell stated, "The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks.”

Powell expressed increased confidence that inflation is on track to return to the Fed's two percent target, which hints at an imminent reduction in rates, probably at the next FOMC meeting in September. Additionally, Powell also expressed concern about further cooling in the labour market, underscoring the Fed's intention to protect jobs, raising the possibility of a larger rate cut if upcoming employment data shows further weakening. The US government's jobs report for August, scheduled for release on September 6th, will be a critical indicator in this regard. Recent data revealing much weaker job growth than anticipated might be another driving factor and is covered in detail in the following articles.

However, despite markets treating Powell’s statements as a risk-on event which manifested in a dramatic price increase, as discussed in the on-chain section, this new policy path isn't without risks. The upcoming US presidential election could dramatically alter fiscal policy, potentially creating new inflationary pressures that might force the Fed to rethink its approach. Add to that the broader global changes—like shifting supply chains, industrial policies, and rising geopolitical tensions.


***Figure 8. US dollar Index (Source: Tradingview)***

In response to Powell's speech, the dollar weakened, while the British pound reached its highest level in over two years. The euro also saw gains, hitting a 13-month high, and the US dollar marked a 17-day low against the yen. Expectations of lower rates often drive investors to seek higher returns elsewhere, causing the dollar to decline in value relative to other currencies. Market traders now see a 65 percent likelihood of a quarter-point rate cut at the Fed's September 17-18 meeting, with the odds of a more substantial 50-basis point cut increasing.




| TARGET RATE (BPS) | PROBABILITY(%) | | | |
|---|---|---|---|---|
| | NOW * | 1 DAY 22 AUG 2024 | 1 WEEK 16 AUG 2024 | 1 MONTH 23 JUL 2024 |
| 475-500 | 36.5% | 24.0% | 25.0% | 3.8% |
| 500-525 | 63.5% | 76.0% | 75.0% | 92.3% |
| 525-550 (Current) | 0.0% | 0.0% | 0.0% | 3.8% |

* Data as of 23 Aug 2024 06:49:02 CT

1/1/2027 and forward are projected meeting dates

***Figure 9. Target Rate Probabilities for September 18 FOMC Meeting***

Given these developments, the Federal Reserve's upcoming policy review will need to account for both domestic and global economic changes. This may include revising the inflation target and implementing a clear framework to communicate these adjustments to the public, policymakers, and investors effectively.

# US Job Growth Slower Than Previously Reported, Raising Concerns for the Fed

| | Benchmark revision (in thousands) | Percent benchmark revision |
|---|---|---|
| Total nonfarm | -818 | -0.5 |
| Total private | -819 | -0.6 |
| Mining and logging | -11 | -1.7 |
| Construction | -45 | -0.6 |
| Manufacturing | -115 | -0.9 |
| Trade, transportation, and utilities | -104 | -0.4 |
| Wholesale trade (1) | -33.6 | -0.6 |
| Retail trade (1) | -129 | -0.8 |
| Transportation and warehousing (1) | 56.4 | 0.9 |
| Utilities (1) | 1.7 | 0.3 |
| Information | -68 | -2.3 |
| Financial activities | -76 | -0.8 |
| Professional and business services | -358 | -1.6 |
| Private education and health services | 87 | 0.3 |
| Leisure and hospitality | -150 | -0.9 |
| Other services | 21 | 0.4 |
| Government | 1 | (2) |

***Figure 10. CES Preliminary Benchmark Revisions by Major Industry Sector (Source: Department of Labor)***

**The US labour market added significantly fewer jobs than initially reported in the year leading up to March 2024, according to the Labor Department's latest Current Employment Statistics (CES) revision. This revised data has heightened concerns at the Federal Reserve as it prepares to potentially cut interest rates in September.**

The Labor Department has reduced its estimate for total payroll employment between April 2023 and March 2024 by 818,000 jobs. This downward revision, about 0.5 percent, suggests that the average monthly job gains were closer to 174,000, much lower than the previously reported average of 242,000.

This adjustment marks the first of two annual "benchmark" revisions by the department, which become more accurate as additional data is collected after the initial monthly reports. If this revision holds through the final update in February, it would be the largest downward correction since March 2009, when 902,000 jobs were removed from the count. This larger-than-usual revision could lead the Fed to reconsider its labour market assessment, potentially influencing its upcoming decisions.

The central bank has kept its benchmark interest rate in the range of 5.25 to 5.50 percent for over a year, following significant rate hikes in 2022 and 2023 aimed at curbing high inflation. With inflation approaching the Fed's two percent target, attention is shifting toward ensuring that the impact of prolonged high borrowing costs does not further weaken the labour market, which was already showing signs of slowing down.

# Labour Market Stability Despite Job Growth Revisions

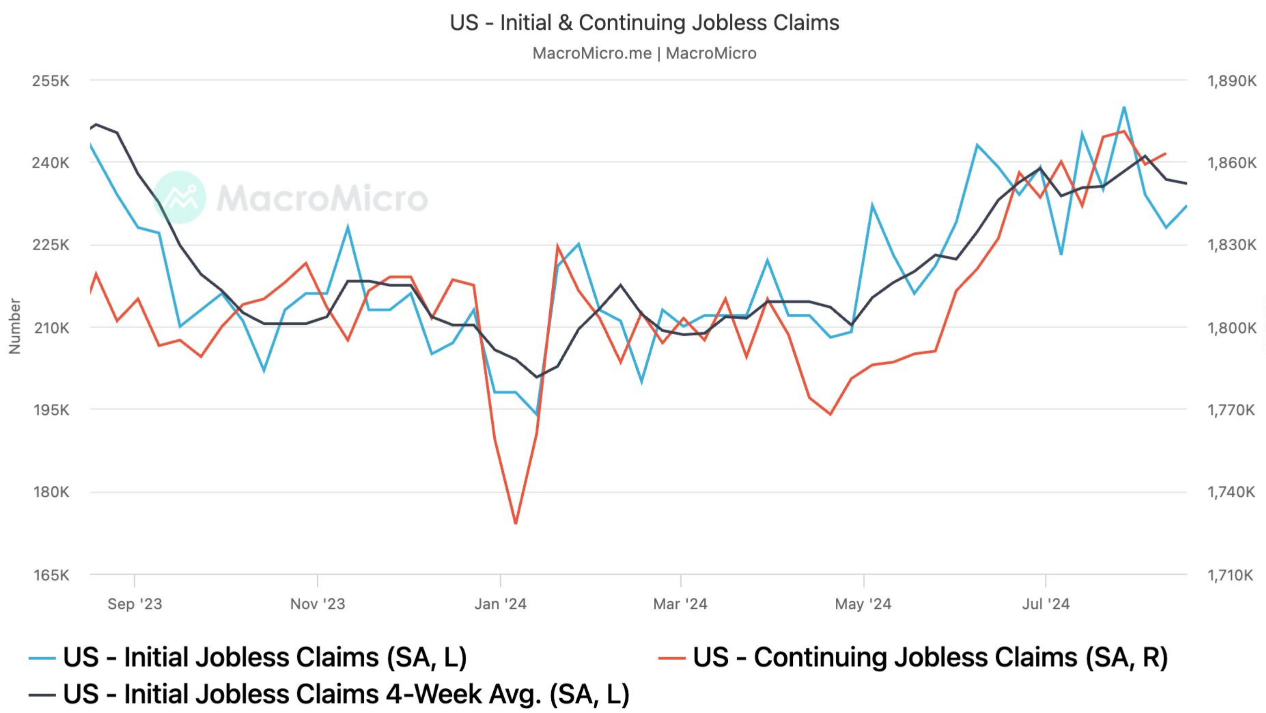



***Figure 11. Initial Jobless Claims and Continuing Jobless Claims (Source: US Department of Labor, Macromicro)***

**Following weaker-than-expected payrolls data for July, and a downward revision to job growth for last year, concerns have mounted that the Federal Reserve may have delayed too long in reducing interest rates. Unemployment reached a post-pandemic high of 4.3 percent, raising alarms about the health of the labour market. However, more recent data, including weekly jobless claims, suggest that the labour market is experiencing a more controlled slowdown.**

The Department of Labor's Unemployment Insurance Weekly Claims report shows that initial claims for unemployment benefits in the week ending August 17th rose by just 4,000 last week, bringing the total to 232,000 on a seasonally adjusted basis. Continuing claims also saw a modest increase of 4,000, reaching 1.863 million for the week ending August 8. These figures suggest that despite the rise in unemployment, the labour market may be stabilising.

This relatively positive outlook comes on the heels of a significant downward revision to job gains through March, as highlighted in the previous chapter. While this revision sparked concerns, it also indicated that the economy still managed to add a solid number of jobs over the past year.

With the latest jobless claims data pointing to a stronger labour market performance in August compared to July, concerns about a potential recession may be alleviated. Importantly, this stability is unlikely to contribute significantly to inflationary pressures, a key consideration for the Fed.

The modest increases in jobless claims and the revised job growth figures indicate that while the economy is still adding jobs, it is doing so at a pace that is not likely to create excessive wage pressures. This controlled growth helps keep inflation in check because it suggests that the demand for labour isn't outstripping supply to a degree that would lead to significant wage hikes. Moreover, while the labour market may not be as robust as previously thought, it is not on the brink of collapse either—providing some relief to policymakers and investors alike.

# US Economy Shows Signs of Slowing, Inflation Continues Downward Trend

**In August, US business activity hit its lowest point in four months, as companies continued to face challenges in passing higher costs on to consumers. This development increases the likelihood that inflation will continue its downward trajectory in the months ahead.**

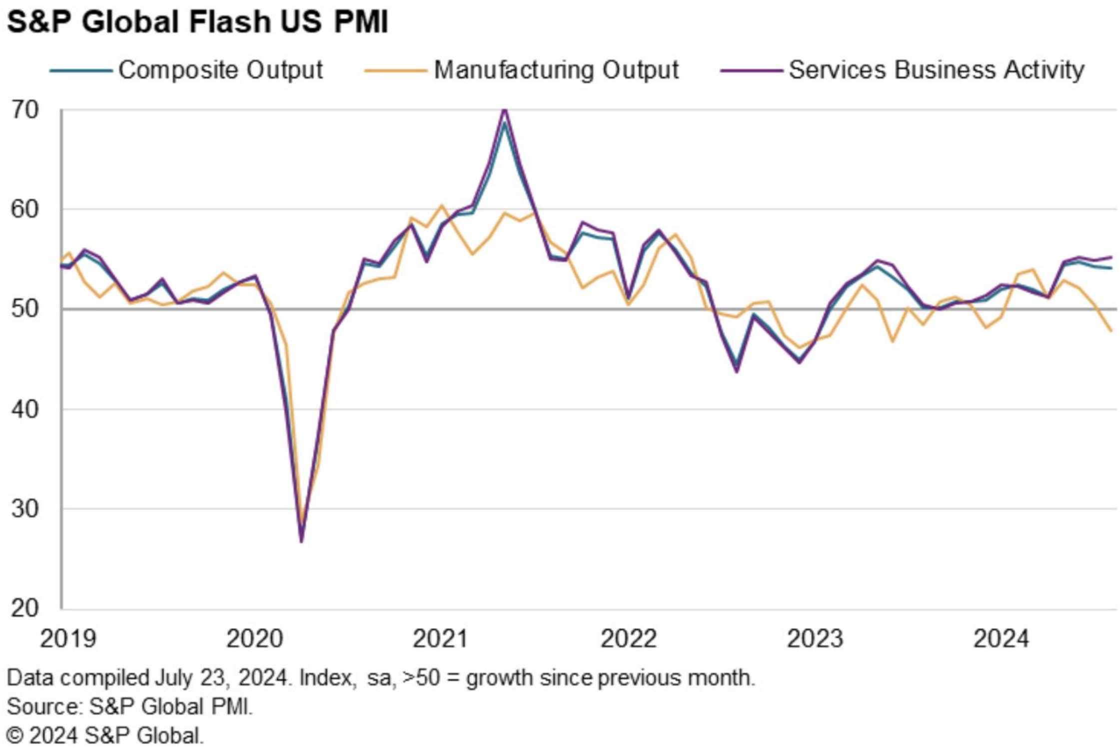



***Figure 12. S&P Global Flash US PMI (Source: S&P Global)***

According to the US Composite [Purchasing Managers Index (PMI) report] released by S&P Global last Thursday, the flash US Composite PMI Output Index, which measures performance across both the manufacturing and services sectors, slightly declined to 54.1 in August, compared to 54.3 in July. While this still reflects growth—any reading above 50 indicates expansion—the drop suggests a slight easing in economic momentum. The services sector experienced modest growth, but this was offset by a decline in manufacturing activity.

Additionally, the report highlighted that the average price increases for goods and services have slowed to their lowest rate since January. This trend is now aligning with the Federal Reserve's two percent inflation target, indicating progress in stabilising prices.

Despite the small dip in the composite PMI, the US economy remains resilient as the third quarter continues. Gross domestic product (GDP) expanded at an annual rate of 2.8 percent in the second quarter, a notable improvement from the 1.4 percent growth rate recorded in the first quarter of the year. Furthermore, inflation in July dropped below three percent for the first time in over three years, signalling a return to more normal pre-pandemic levels. This decrease in inflation further supports the case for interest rate cuts this year.

# NEWS FROM THE CRYPTO-SPHERE

# China Extradites Suspect in $14 Billion Cryptocurrency Pyramid Scheme from Thailand


***Figure 13. China Extradites Suspect in $14 Billion Cryptocurrency Pyramid Scheme from Thailand (Photo Source: Bangkok Post)***

- **China has extradited Zhang, the first financial crime suspect under the China-Thailand treaty, for allegedly leading a $14 billion cryptocurrency pyramid scheme known as "MBI Group"**
- **The scheme lured over 10 million members with promises of high returns, leading to Zhang's arrest in Thailand in 2022**

In a significant move, China has successfully extradited from Thailand a man suspected of leading a crypto pyramid scheme. Identified by the surname Zhang, he is accused of orchestrating a $14 billion fraud, marking the first financial crime suspect extradited under the China-Thailand extradition treaty since its implementation in 1999. The Ministry of Public Security in China announced last Friday that Chinese and Thai authorities collaborated to form a special task force, named "Hunting Fox," which facilitated Zhang's extradition on Wednesday.

Zhang's alleged scheme, known as "MBI Group," reportedly began in 2012. The group attracted millions of investors by offering memberships through cryptocurrency purchases, with fees ranging from 700 yuan (approximately $98) to 245,000 yuan (around $34,300). The scheme promised high returns and managed to lure over 10 million members, resulting in total funds exceeding 100 billion yuan ($14 billion).

The investigation into Zhang's activities was initiated by police in Chongqing, a major city in Southwestern China, in November 2020. Following the investigation, Interpol's Chinese branch issued a red notice for Zhang in March 2021. Zhang was subsequently arrested by Thai authorities in July 2022. In May of this year, a Thai court ruled in favour of his extradition to China.

This case underscores the continuing international cooperation in tackling financial crimes, and the successful extradition of Zhang highlights the ongoing efforts to combat cross-border financial crime.

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# Franklin Templeton Expands On-Chain Money Market Fund to Avalanche Network

*Figure 14. Franklin Templeton Expands On-Chain Money Market Fund to Avalanche Network*

- **Franklin Templeton is expanding its on-chain money market fund (FOBXX) to the Avalanche network, allowing investors to purchase tokenized shares using USDC**
- **The fund, which invests in low-risk US government securities, is already available on Stellar and Polygon and now aims to leverage Avalanche's blockchain technology for further growth**

Asset management giant Franklin Templeton is broadening its on-chain money market fund by bringing it to the Avalanche network, according to a blogpost posted last Thursday, August 22nd. Known as the Franklin OnChain US Government Money Fund (ticker: FOBXX), this fund was launched in 2021 and made history as the first US-registered mutual fund to utilise a public blockchain for recording transactions and managing ownership.

The BENJI token, which represents shares in the $420 million fund, is currently traded on the Stellar and Polygon blockchains. Available through Franklin Templeton's proprietary investment app, the fund is designed for both institutional and retail investors. These investors can purchase tokenised shares using the USDC stablecoin.

The FOBXX fund primarily invests in low-risk US government securities, including fixed, floating, and variable rate securities, as well as repurchase agreements fully backed by US government securities or cash. Similar to most crypto tokens, BENJI can be traded around the clock and exchanged peer-to-peer with minimal restrictions.

With $420 million under management, FOBXX ranks as the second-largest tokenised fund, trailing only BlackRock's BUIDL project, which also focuses on U.S. government securities. According to Dune Analytics, there are currently $1.8 billion in tokenised government securities under management, including offerings from crypto-native platforms like Ondo Finance and OpenEden.

Franklin Templeton has shown increasing interest in blockchain technology since launching its digital assets division in 2018. This year, the firm introduced exchange-traded funds (ETFs) that track bitcoin (EZBC) and ether (EZET).

# BlackRock's iShares Ethereum Trust Sets Milestone with Over $1 Billion in Net Inflows

| Daily Total Net Inflow | Cumulative Total Net Inflow | Total Value Traded |
|---|---|---|
| -$6.49M | -$440.11M | $194.66M |
| As of Aug 20<br>Update completed | As of Aug 20<br>Update completed | As of Aug 20<br>Update completed |

**Market Data** Eastern Standard Time

| # | Ticker | Exchange | Sponsor | Prem./Dsc. As of 08/20 | 1DNetInflow As of 08/20 | CumNetInflow As of 08/20 | NetAssets As of 08/20 | ETH Share As of 08/20 | Fee |
|---|---|---|---|---|---|---|---|---|---|
| 1 | ETHA | NASDAQ | BlackR... | +0.22% | $26.77M | $1.00B | $864.67M | 0.28% | 0.25% |
| 2 | FETH | CBOE | Fidelity | +0.11% | $0.00 | $367.50M | $308.54M | 0.10% | 0.25% |
| 3 | ETHW | NYSE | Bitwise | +0.08% | $3.73M | $310.79M | $244.43M | 0.08% | 0.20% |
| 4 | ETH | NYSE | Graysc... | +0.32% | $0.00 | $227.83M | $948.68M | 0.30% | 0.15% |
| 5 | ETHV | CBOE | VanEck | +0.03% | $0.00 | $60.10M | $58.04M | 0.02% | 0.20% |
| 6 | EZET | CBOE | Franklin | +0.10% | $0.00 | $35.33M | $30.61M | 0.01% | 0.19% |
| 7 | QETH | CBOE | Invesco | -0.08% | $0.00 | $15.12M | $12.96M | 0.00% | 0.25% |
| 8 | CETH | CBOE | 21Shar... | +0.05% | $0.00 | $10.76M | $9.88M | 0.00% | 0.21% |
| 9 | ETHE | NYSE | Graysc... | -0.04% | -$36.99M | -$2.47B | $4.79B | 1.54% | 2.50% |

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***Figure 15. BlackRock's iShares Ethereum Trust Sets Milestone with Over $1 Billion in Net Inflows***

- **BlackRock's iShares Ethereum Trust (ETHA) became the first Ethereum ETF to surpass $1 billion in net inflows, outperforming other Ethereum funds launched in July**
- **Ethereum ETFs have generally seen lower inflows compared to bitcoin ETFs, with Grayscale's ETHE experiencing significant outflows since its conversion to a public product**

BlackRock's iShares Ethereum Trust (ETHA) has become the first among 11 issuers to surpass the $1 billion mark in net inflows, according to recent data. ETHA currently manages over $860 million in net assets, trailing only behind Grayscale's mini ether trust (ETH) and its larger Ethereum trust (ETHE).

ETHA's net inflows exceed the combined totals of the next three highest Ethereum ETFs. Fidelity's FETH has attracted $367 million since these funds launched on July 23, while Bitwise's ETHW and Grayscale's ETH have brought in $310 million and $227 million, respectively.

In contrast, other ETFs have seen much smaller net inflows, with figures below $60 million. Grayscale's ETHE, which was converted from a trust product exclusive to institutional investors, has experienced significant net outflows, amounting to $2.7 billion since its public launch.

Overall, Ethereum ETFs have underperformed compared to their Bitcoin counterparts. Ethereum ETF’s have faced more than $464 million in cumulative net outflows as of August 23rd. In comparison, during the first month of spot Bitcoin ETFs, daily net inflows averaged around $125 million, eventually surpassing $11 billion in total, excluding outflows from Grayscale’s GBTC conversion.

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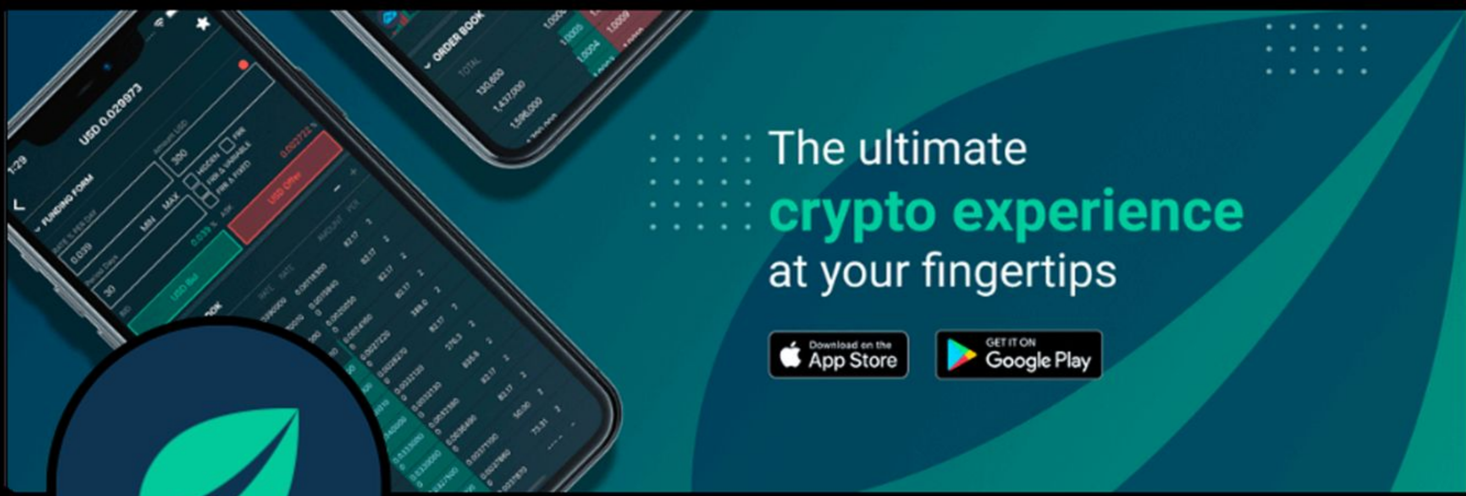


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