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EXECUTIVE SUMMARY

Bitcoin has rallied since the Fed's rate cut decision, rising over 22 percent to reach a new local high of $64,200 on Friday, September 20th, marking its highest point since September 6th. Despite this strong move, BTC remains just shy of the critical August 25th top at $65,200. This is significant because, if BTC does not breach this level, it will confirm a pattern we have seen since the all-time high of $73,666 in March, with Bitcoin failing to surpass any prior high before forming a new local bottom, maintaining a downtrend. In other words, zoom out, and BTC has been trending downwards since March. In addition, while near-term price gains have been positive, it is of some concern that BTC open interest has outpaced the price gains of BTC itself, indicating that it is the futures and perpetual markets, rather than the spot market that may have been behind much of the move last week.

Meanwhile, we have seen some altcoins surging, with some notable coins posting more than 100 percent gains from their lows in August and September. However, similar caution is warranted here too, as altcoin OI has also reached a new high without the corresponding price breakout in the broader underlying altcoin market. The OTHERS index (which measures the performance of alts excluding the top 10 coins by market cap) has continued to trend downwards in the last month.

With Bitcoin spot market buying slowing, evidenced by spot Cumulative Volume Delta flattening when the price reached $63,500, we foresee BTC moving in a range in the near-term.

All that being said, a significant counter-argument to this thesis is that sustained ETF inflows could buoy the BTC price. In the last week, renewed inflows were recorded into spot Bitcoin ETFs, with $397.2 million added. This suggests that further upside is possible, particularly if traditional finance markets like the S&P 500 continue to rally. Should Bitcoin breach the key resistance levels from late August, this could propel the asset towards new highs, coinciding with the end of summer's low liquidity. However, without sustained spot buying, consolidation or a partial correction seems the most likely scenario.

In the broader economy, the Fed's decision to cut interest rates by 50 basis points, is seen as the first in a series of reductions, and reflects a shift in the central bank's priorities from controlling inflation to focusing on the labour market.

Indeed, inflation is showing signs of softening as indicated by August retail sales data, which grew by only 0.1 percent, and was concentrated only in a limited number of categories. As employment stabilises and grows, household spending is expected to follow, but uncertainties linger over whether the current trajectory of consumer demand can be maintained.

On the industrial front, the economy received a much-needed boost with a sharp rebound in industrial production in August. Similarly, the housing market experienced a boost in single-family home construction during August, signalling short-term optimism. Still, it remains unclear whether this momentum will be sustained. The Fed's actions will be crucial in shaping how housing and broader markets adapt to these shifting conditions.

The cryptocurrency landscape continues to evolve rapidly, marked by significant institutional moves and regulatory crackdowns. In a major step for Bitcoin's integration into traditional finance, the SEC has fast-tracked approval for BlackRock to list options for its iShares Bitcoin Trust on Nasdaq ISE, and further ETF issuers have also filed applications to list options.

Meanwhile, MicroStrategy has expanded its already significant Bitcoin holdings with the acquisition of 7,420 more BTC for $458.2 million, bringing its total to 252,220 BTC, worth $15.8 billion.

As these institutional advances are made, law enforcement efforts are also intensifying to remove bad actors. German authorities, including the Central Office for Combating Cybercrime and the Federal Criminal Police Office , have dismantled 47 exchange platforms allegedly used for large-scale money laundering.

Have a great trading week!

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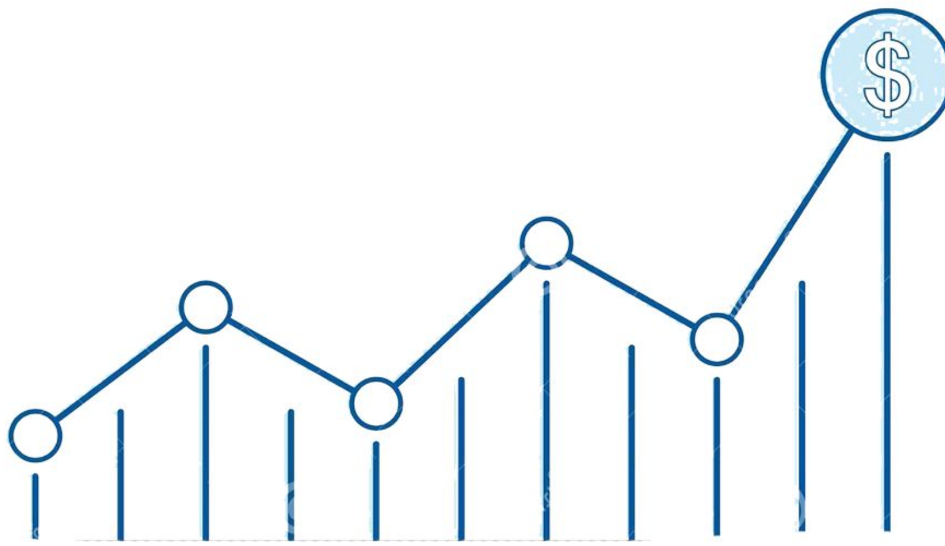


WHAT'S ON-CHAIN THIS WEEK?

Bitcoin Continues Rally To Breach $64,000.. But Stalls

BTC reached a new local high of $64,200 last week, the highest since we called the local bottom of $52,756 on September 6th. The price is up over 22 percent in the past 16 days while some altcoins have moved up multiples.

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

[BTC] is now within touching distance of the August 25th top of $65,200. The reason this level is important is because since the all-time high of $73,666 was reached on March 14th, BTC has still not managed to eclipse a single high before a local/new bottom was formed. This qualifies for the technical definition of a downtrend.

The aforementioned pattern can be observed by the lower highs and lower lows seen on the daily Bitcoin chart above. The March 14th $73,666 high followed by the March 20th $60,780 low and all the subsequent lows and highs form an observable pattern. This implies that the August 25th local high at $65,200 before our September 6th local bottom holds a lot of significance from a higher time frame perspective. Perhaps an even more concerning development recently is that global open interest (OI) has made a higher high even as the price fails to do so.

Figure 2. BTC/USD Aggregate Hourly Chart With Global Open Interest. (Source: Coinalyze)

As seen in the figure above, relative to the OI value on August 25th at $18.93 billion, OI has reached $19.43 billion now while the price is still about $1000 short of the local high. This could potentially hint that a lot of the current move in the BTC price is being led by perpetuals and futures BTC trading, rather than spot market activity. This is in contrast to the market activity we noted earlier this month when the move to $61-62,000 was significantly dominated by concerted spot market buying.

It is important to note however, that this might not be a clearly bearish signal as OI is not a direct indicator of how much leverage there might be in the system. It is not possible to predict how much margin/collateral is backing the aforementioned increase in speculation on the futures markets. It could just be a return of speculative interest to risk assets like Bitcoin, post the rate cut and as traders return to their desks as Summer comes to an end. However, until we see further evidence, it is important to treat this as a cautionary sign and as a potential leverage proxy for BTC futures trading pairs.

Altcoin Speculation is also Rising

During this 22 percent move up for BTC, multiple altcoins have moved up multiples and we believe this is because of the extreme depression in altcoin valuations and open interest that has been observed since March 2024.

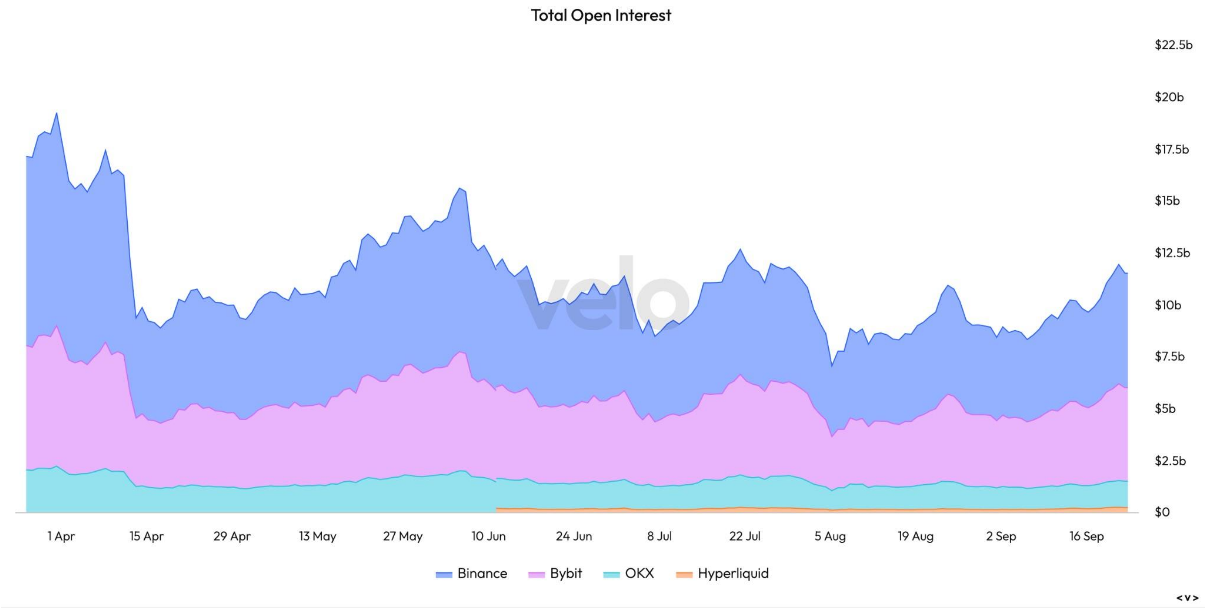


Figure 3. Total Market Open Interest Excluding BTC and Ether. (Source: Velo)

On August 5th and again in early September, altcoin open interest (for the pairs tracked by *VeloData*) was down around 58.5 percent from its March highs of $19.6 billion. We believe that a risk-on sentiment and the ability to move altcoins quite easily due to the reduction in altcoin OI is partly responsible for altcoins like SUI and AAVE being up 100 percent since their respective lows in August and September.

The concerning development in the altcoin market however is that OI has made a higher high to $11.48 billion relative to the August 19th high of $10.74 billion. This comes despite the fact that the OTHERS index (which excludes the top 10 coins by market capitalisation) has not made higher highs.

Figure 4. OTHERS Daily Chart. (Source: CryptoCap)

We advocate taking a cautionary approach after the 22 percent rally we have seen in BTC. It is now entirely possible that the price could form a new range near current prices and consolidate for a period, as we have seen following similar previous price rallies which have been initially prompted by spot buying, but then is followed by perpetual and futures markets activity. Another cause for caution is that spot market buying has slowed. This is evident in the Figure below where we can see the spot cumulative volume delta indicator flattening out once the price moved past $63,500.

Figure 5. BTC/USD Hourly Chart With Spot Cumulative Volume Delta. (Source: Coinalyze)

We believe that after the sharp moves up we have seen, especially for altcoins, the market is most likely form a new lower timeframe range or a partial correction.

One counter-argument is the renewed interest in Spot Bitcoin ETFs after a long streak of outflows was recorded from August 24th to September 6th. Last week, we saw $397.2 million in net inflows across all ETF providers.

	Blackrock	Fidelity	Bitwise	Ark	Invesco	Franklin	Valkyrie	VanEck	WTree	Grayscale	Grayscale	Total
	IBIT	FBTC	BITB	ARKB	BTCO	EZBC	BRRR	HODL	BTCW	GBTC	BTC	
Fee	0.25%	0.25%	0.20%	0.21%	0.25%	0.19%	0.25%	0.20%	0.25%	1.50%	0.15%	
03 Sep 2024	0.0	(162.3)	(25.0)	(33.6)	(2.3)	(8.4)	(2.5)	(3.3)	0.0	(50.4)	0.0	(287.8)
04 Sep 2024	0.0	(7.6)	9.5	0.0	0.0	0.0	-	(4.9)	0.0	(34.2)	0.0	(37.2)
05 Sep 2024	0.0	(149.5)	(30.0)	0.0	0.0	0.0	0.0	0.0	0.0	(23.2)	(8.4)	(211.1)
06 Sep 2024	0.0	(85.5)	(14.3)	(7.2)	0.0	0.0	(4.6)	0.0	0.0	(52.9)	(5.5)	(170.0)
09 Sep 2024	(9.1)	28.6	22.0	6.8	3.1	0.0	0.0	0.0	0.0	(22.8)	0.0	28.6
10 Sep 2024	0.0	63.2	0.0	12.7	0.0	0.0	0.0	0.0	0.0	0.0	41.1	117.0
11 Sep 2024	0.0	12.6	0.0	(54.0)	2.6	0.0	0.0	0.0	0.0	(4.6)	(0.5)	(43.9)
12 Sep 2024	0.0	11.5	2.2	18.3	0.0	3.4	0.0	4.9	0.0	(6.5)	5.2	39.0
13 Sep 2024	0.0	102.1	43.1	99.3	0.0	5.2	1.7	5.1	0.0	6.7	0.0	263.2
16 Sep 2024	15.8	5.1	0.0	0.0	0.0	5.0	0.0	4.9	0.0	(20.8)	2.8	12.8
17 Sep 2024	0.0	56.6	45.4	42.2	10.2	8.7	0.0	20.5	3.2	0.0	0.0	186.8
18 Sep 2024	0.0	0.0	(3.9)	(43.4)	0.0	0.0	0.0	0.0	0.0	(8.1)	2.7	(52.7)
19 Sep 2024	0.0	49.9	10.4	81.1	0.0	7.4	0.0	0.0	0.0	0.0	9.5	158.3
20 Sep 2024	0.0	26.1	15.1	22.0	3.1	0.0	5.2	7.1	0.0	0.0	13.4	92.0

Figure 6. Spot Bitcoin ETF Flows Over The Past Week Across All ETF Providers. (Source: FarsideUK)

A scenario where we would not get a lower time frame pullback would be if the S&P500 continues to rally beyond all-time highs and BTC follows. Typically, risk appetite for BTC from traditional finance has been manifested in the form of spot ETF inflows, and this has contributed to a greater correlation between BTC and the SPX.

If the altcoin index and BTC price continues to breach past the resistance levels from late August and sustain these levels, this could suggest that our current move up could continue towards new highs for BTC, right as summer weakness and illiquidity comes to an end.

GENERAL MACRO UPDATE

Federal Reserve Initiates Larger Rate Cuts as Inflation Stabilises, with Employment Now Becoming the Focus

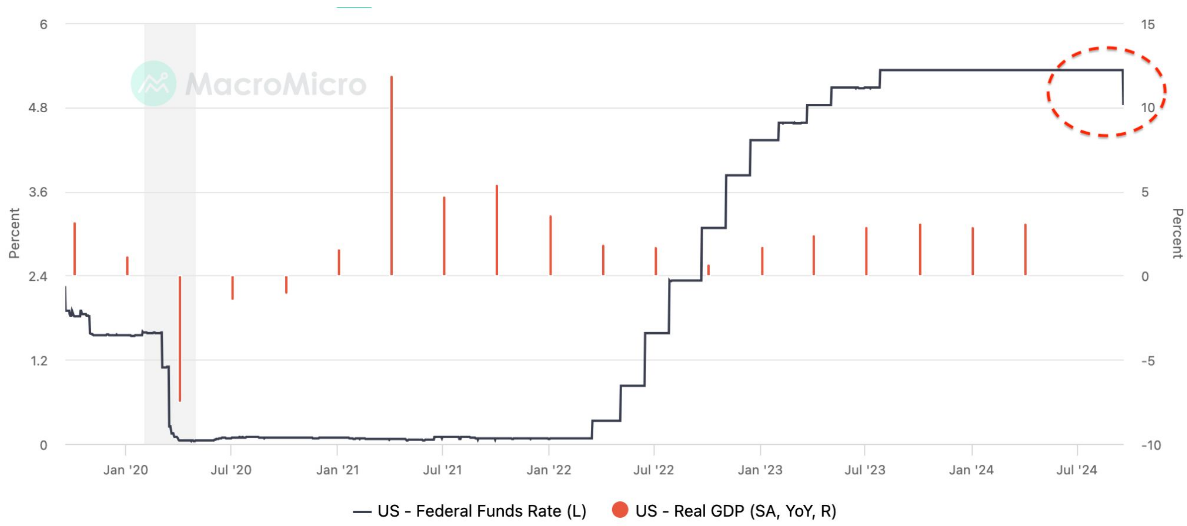


Figure 7. Federal Funds Rate in the last 5 years (Source:Macromicro)

The US Federal Reserve cut interest rates by a relatively large 50 basis points last week, with indications from policymakers that this was the start of a series of reductions to stabilise the economy. The Fed's decision is intended to signal the central bank's commitment to switch its primary focus from inflation to the labour market, and ensure a smooth economic recovery following the unprecedented disruption caused by the pandemic.

"We made a good, strong start, and I am very pleased we did," Fed Chair Jerome Powell remarked during a press conference last Wednesday, September 18th. Benchmark interest rates are now at a range of 4.75 to 5 percent, reflecting increased confidence that the inflationary pressures experienced in recent years are now under control. Powell emphasised that "both from an economic standpoint and from a risk management standpoint", such a reduction is warranted.

A Broader Plan for Continued Rate Cuts

Policymakers now project that the benchmark rate will drop by an additional half-percentage point by the end of this year, followed by a full percentage point reduction in 2025, with another half-point decrease by 2026 (See Figure below). The trajectory of these cuts will largely depend on employment trends, and further large cuts could be on the horizon if the labour market continues to soften.

The central bank's decision underscores its growing comfort with inflation returning to target levels. Currently, inflation is hovering just above the Fed's 2 percent goal, and the current projections suggest that rates could fall to 2.9 percent in the near future. We expect this reduction to unlock significant cash flows, boosting consumer and business confidence, which in turn should stimulate investments and growth across the US economy over the next two years.

Impact on Inflation and Economic Growth

Percent

Variable	Median[1]				
	2024	2025	2026	2027	Longer run
Change in real GDP	2.0	2.0	2.0	2.0	1.8
June projection	2.1	2.0	2.0		1.8
Unemployment rate	4.4	4.4	4.3	4.2	4.2
June projection	4.0	4.2	4.1		4.2
PCE inflation	2.3	2.1	2.0	2.0	2.0
June projection	2.6	2.3	2.0		2.0
Core PCE inflation[4]	2.6	2.2	2.0	2.0	
June projection	2.8	2.3	2.0		
Memo: Projected appropriate policy path					
Federal funds rate	4.4	3.4	2.9	2.9	2.9
June projection	5.1	4.1	3.1		2.8

Figure 8. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, September 2024 (Source: Federal Reserve's Summary of Economic Projections)

A key takeaway from the Fed's Summary of Economic Projections (SEP) is the optimism surrounding inflation. The Fed anticipates inflation, as measured by the Personal Consumption Expenditures (PCE) index, will decline to 2.3 percent by the end of this year, 2.1 percent next year, and 2 percent by 2026. The core PCE, which excludes volatile food and energy prices, is expected to fall to 2.6 percent by the end of this year and gradually reach 2 percent by 2026.

This forecast signals the Fed's confidence in having restored price stability, allowing it to pivot toward addressing employment. Unemployment, on the other hand, is expected to rise to 4.4 percent this year and next, before only slightly decreasing to 4.3 percent in 2026.

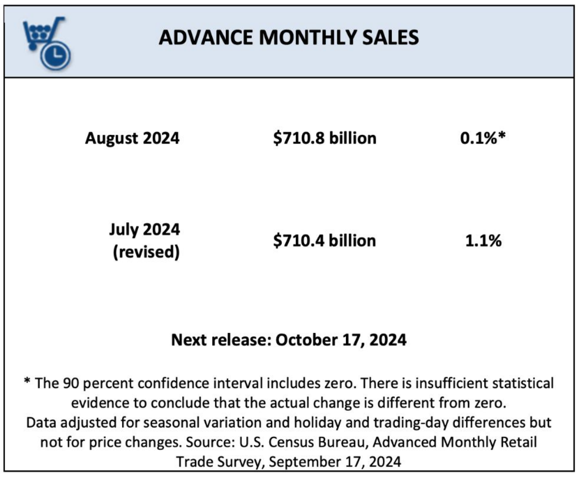
Balancing Growth and Employment

While inflationary concerns have eased, the Fed's focus is now on maximising employment while sustaining growth. The US economy expanded by 3.1 percent last year and has continued on a similar trajectory, with the second quarter estimated to have grown by 3 percent. In the current quarter, the Federal Reserve Bank of Atlanta estimates the economy is also growing at an annual rate of 3 percent, despite a cooling labour market. The robust economic performance amid a slowing pace of hiring hints at increased productivity as a driving force behind growth.

As interest rates decline, businesses and households are expected to regain confidence, unleashing pent-up demand and investment. The projected interest rate cut to 2.9 percent will likely fuel this trend, promoting economic expansion over the next two years.

The Fed's latest actions represent a pivotal moment in US monetary policy. With inflation easing and the economy showing signs of resilience, the central bank is shifting its attention toward sustaining employment. The rate cuts are set to lower financing costs, providing a much-needed boost to American households and businesses.

Retail Sales Hold Steady Amid Consumer Caution, While Industrial Production Rebounds



ADVANCE MONTHLY SALES

August 2024	$710.8 billion	0.1%*
July 2024 (revised)	$710.4 billion	1.1%

Next release: October 17, 2024

* The 90 percent confidence interval includes zero. There is insufficient statistical evidence to conclude that the actual change is different from zero.
Data adjusted for seasonal variation and holiday and trading-day differences but not for price changes. Source: U.S. Census Bureau, Advanced Monthly Retail Trade Survey, September 17, 2024

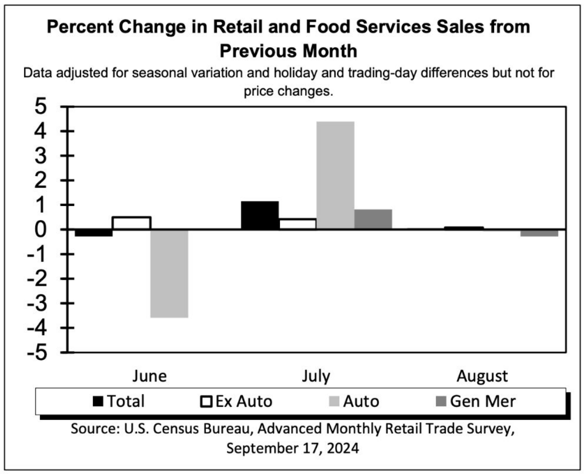


Figure 9. Advanced Monthly Sales for Food and Retail Services, AUGUST 2024 (Source: US Census Bureau)

Retail sales in the US saw a slight increase of 0.1 percent in August, following an upwardly revised 1.1 percent rise in July, according to the US Census Bureau's Advance Monthly Sales for Retail and Food Services report.

This small gain surpassed the consensus forecast of a 0.2 percent decline. On an annual basis, retail sales were up 2.1 percent, signalling ongoing, but cautious consumer activity.

Despite this growth, certain sectors showed signs of weakness. Sales at motor vehicle and parts dealers slipped 0.1 percent, while gas stations saw a 1.2 percent drop. Other categories, such as food and beverage stores, furniture, and clothing outlets, also reported declines. The data indicates a shift in consumer behaviour, with spending moving away - in some part - from discretionary goods toward essentials, a possible indicator of household financial stress.

The modest retail gains were concentrated in a few categories, raising concerns about the sustainability of consumer spending. Whether consumer activity remains robust will largely depend on the health of the labour market, as employment plays a critical role in supporting aggregate demand.

Meanwhile, the broader economic picture received a boost from a sharp rebound in industrial production during August, according to the Fed's Industrial Production and Capacity Utilisation report. The figure was, however, partially offset by a downward revision of July's output. Manufacturing, which contributes 10.3 percent to the economy, continues to face challenges from higher borrowing costs, but the recent production recovery is a positive sign. We expect there will be more relief, as the Fed's rate cuts come into effect.

The combination of steady retail sales and a strong rebound in industrial production suggests that the US economy remains resilient, despite challenges in consumer spending patterns and short-term manufacturing headwinds. While the shift toward essential goods and pressure on discretionary spending signal caution, the manufacturing recovery offers optimism for continued economic stability.

US Single-Family Homebuilding Surges in August, but Future Growth Faces Challenges

The US housing market saw a sharp recovery in single-family home construction in August, according to data from the New Residential Construction report, released by the Census Bureau, last Wednesday, September 18th.

Single-family housing starts, which form the majority of homebuilding activities, increased by 15.8 percent to a seasonally adjusted annual rate of 992,000 units. This marked a 5.2 percent rise compared to the same period last year. However, a modest 2.8 percent rise in building permits to 967,000 units signals that the pace of growth may slow in the near future, especially given the rising supply of homes already available on the market.

Building Permits and Market Dynamics

Building permits for future single-family homes are considered a reliable indicator of upcoming construction activities. While the 2.8 percent rise in permits is a positive sign, it is still 0.5 percent lower than the levels seen a year ago. This suggests that while builders are gaining some confidence, they remain cautious, likely in response to the housing market's mixed signals.

Earlier in 2023, single-family home construction had declined for five consecutive months, largely due to rising mortgage rates in the spring. These higher rates suppressed home sales and left builders dealing with an oversupply of newly constructed houses. The sudden rebound in August likely reflects the market's recovery from disruptions caused by Hurricane Beryl, which had previously slowed construction activity in the southern US

Challenges Ahead for Homebuilders

While the jump in housing starts is promising, several factors may challenge sustained growth. One issue is the increasing inventory of existing homes. Many homeowners have mortgage rates below 4 percent, and higher interest rates had discouraged them from listing their properties (as they were unwilling to be committed to higher rates on their next purchase) . This phenomenon, known as "rate lock," restricted the supply of homes on the market, benefiting homebuilders by reducing competition.

However, with the Federal Reserve lowering interest rates by 50 basis points, this "rate lock" effect may begin to ease, allowing more previously owned homes to enter the market. As a result, builders could face stiffer competition in the coming months. A recent survey from the National Association of Home Builders reflected this cautious outlook, with sentiment improving slightly in September after four months of declines. Still, the survey highlighted that builders would likely face increased competition from existing homes as mortgage rates continue to drop.

The Impact of Lower Mortgage Rates

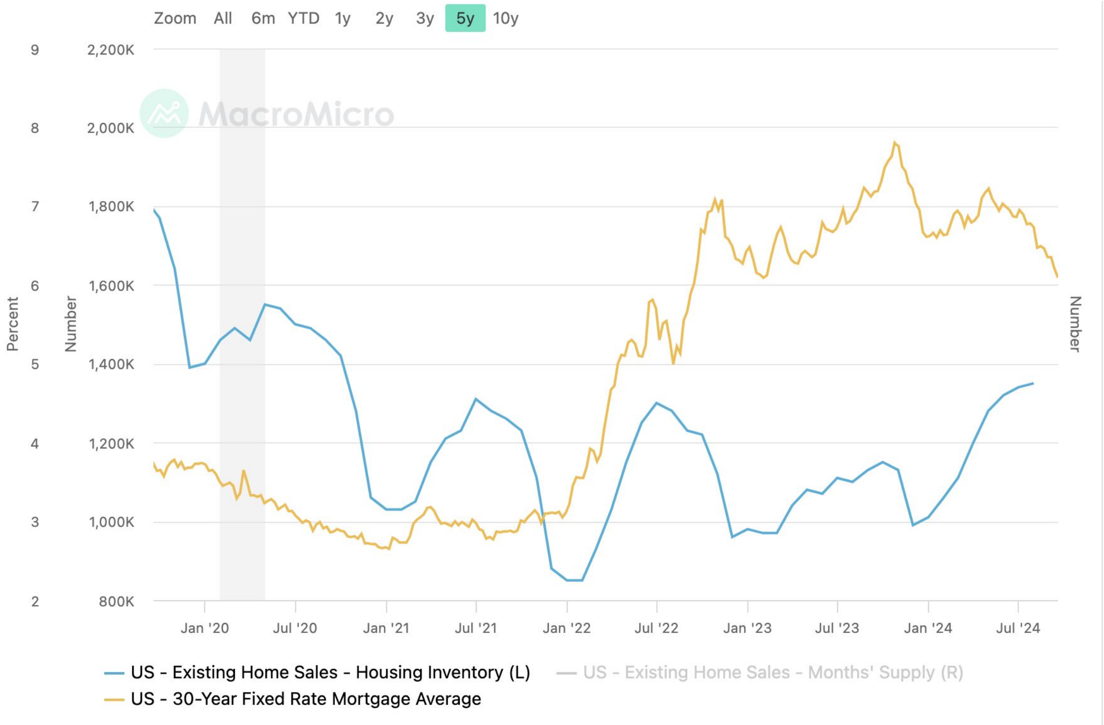


Figure 10. Existing Home Sales Inventory & 30-Year Fixed Rate Mortgage Average (Source: Micromacro)

With the anticipation of easing inflation, mortgage rates have fallen to their lowest level in over two years, with 30-year fixed-rate mortgages now averaging around 6.09 percent. While this decline should, in theory, make homeownership more affordable, the reality is more complex. The drop in rates is expected to attract more buyers back into the market, which could further drive up competition for the limited supply of homes, potentially pushing prices even higher.

Home prices have remained at record highs, and the inventory of available houses is still below pre-pandemic levels. This tight supply, coupled with high demand, suggests that affordability will remain a significant challenge for prospective buyers. Lower mortgage rates may help some buyers, but the overall market conditions are likely to keep homeownership out of reach for many.

A Market in Transition

The surge in single-family housing starts in August signals a short-term recovery in homebuilding, but the overall outlook remains uncertain. Rising competition from existing homes and limited housing inventory will likely temper further growth in the construction sector. While lower mortgage rates may offer some relief, affordability constraints and record-high home prices will continue to pose challenges for both buyers and builders in the near future.

This delicate balance between supply, demand, and interest rates will define the trajectory of the US housing market for the remainder of the year, making it a critical area to watch for both industry stakeholders and prospective homeowners alike.

NEWS FROM THE CRYPTO-SPHERE

SEC Approves BlackRock's Spot Bitcoin ETF Options for Trading on Nasdaq ISE

Figure 11. SEC Approves BlackRock's Spot Bitcoin ETF Options for Trading on Nasdaq ISE

- **The SEC has fast-tracked approval for BlackRock to list options for its iShares Bitcoin Trust (IBIT) on Nasdaq ISE**

The US Securities and Exchange Commission (SEC) has granted approval for BlackRock to offer options on its spot Bitcoin exchange-traded fund (ETF). The SEC's decision, posted last Friday, September 20th, allows the world's largest asset manager to list these options on the iShares Bitcoin Trust (IBIT) through Nasdaq ISE, LLC.

The SEC stated that it is approving the proposal on an "accelerated basis" while also inviting public comments.

This development follows the SEC's approval in January of several spot Bitcoin ETFs in January, and other ETF issuers including Grayscale and Bitwise, are also aiming to list options for their spot Bitcoin ETFs.

Commenting on the approval, ETF Store President Nate Geraci posted on X, that while the decision came over eight months after spot Bitcoin ETFs launched, it was "Better late than never."

MicroStrategy Expands Bitcoin Holdings with $458.2 Million Purchase

Figure 12. MicroStrategy Expands Bitcoin Holdings with $458.2 Million Purchase

- **MicroStrategy acquired 7,420 additional Bitcoin for $458.2 million, bringing its total holdings to 252,220 BTC, valued at $15.8 billion.**
- **The acquisition follows the company's announcement of a $1.01 billion convertible notes offering, using proceeds to redeem $500 million in senior secured notes and purchase more Bitcoin**

MicroStrategy, the business intelligence firm and corporate Bitcoin investor, has added another 7,420 BTC to its holdings. The purchase, made between September 13 and 19 for approximately $458.2 million, came at an average price of $61,750 per Bitcoin, according to a recent SEC filing last Friday, September 20th.

With this acquisition, MicroStrategy now possesses a total of 252,220 BTC, valued at around $15.8 billion. The company's overall Bitcoin holdings were bought at an average price of $39,266 per Bitcoin, with a total investment of roughly $9.9 billion, including associated fees and expenses, according to Microstrategy founder and executive chairman Michael Saylor.

The announcement of the latest Bitcoin acquisition follows MicroStrategy's completion of a $1.01 billion convertible senior notes offering, which includes $135 million from an additional purchase option. The company plans to use the net proceeds of $997.4 million to redeem $500 million in senior secured notes due in 2028 and allocate the remainder toward acquiring more Bitcoin and general corporate purposes.

This recent acquisition follows MicroStrategy's purchase of 18,300 BTC for $1.1 billion between August 6 and September 12, reaffirming its commitment to Bitcoin as its primary treasury reserve asset.

German Authorities Shut Down 47 Crypto Exchange Services Used for Criminal Activities

Figure 13. German Authorities Shut Down 47 Crypto Exchange Services Used for Criminal Activities

- **The German Central Office for Combating Cybercrime (ZIT) and the Federal Criminal Police Office (BKA) have deactivated 47 exchange platforms used for large-scale money laundering**
- **Although extensive user and transaction data were secured, authorities face challenges in prosecuting many of the involved parties, as they operate from countries where they are often protected or tolerated**

The German Central Office for Combating Cybercrime (ZIT) – in collaboration with the Federal Criminal Police Office (BKA), has successfully shut down 47 exchange services hosted in Germany that were allegedly being used for criminal purposes, according to a September 19th statement. These platforms offered trading of both traditional currencies and cryptocurrencies.

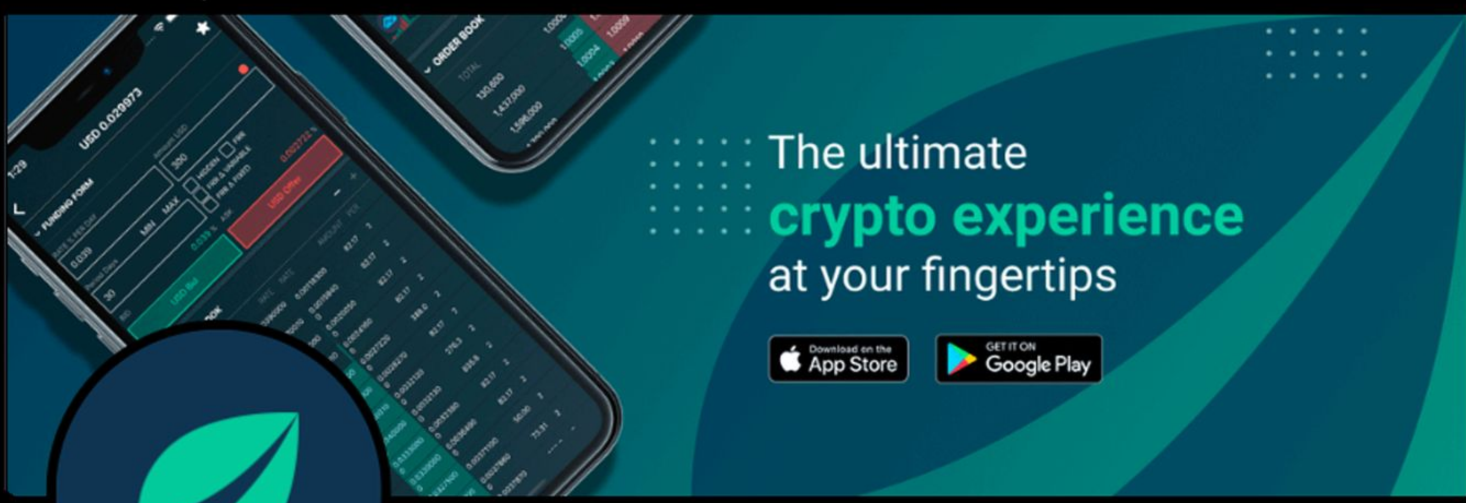
The operators of these exchange services are accused of facilitating large-scale money laundering by deliberately neglecting the implementation of legal requirements designed to combat money laundering, specifically the Know-Your-Customer (KYC) principle. This helped conceal the origins of funds obtained through illegal activities, violating sections 127 and 261 (1) (2) and (4) of the German Penal Code (StGB).

Such anonymous financial transactions, the agencies said, were facilitated by these exchanges, and users of these platforms included ransomware groups, darknet vendors, and botnet operators. They said the exchanges were used to launder extorted ransom payments or other illicit earnings into the regular financial system.

Through this operation, the BKA and ZIT secured extensive user and transaction data, which will provide valuable leads in the ongoing fight against cybercrime.

The German authorities indicated however that it would be challenging to prosecute many of these individuals, because a large number of them operate from other countries.

Until recently, the German government ranked among the largest Bitcoin holders in the world. However, over the course of June and July, it sold nearly 50,000 Bitcoin, valued at $3.15 billion at today's prices, through a series of transactions. The funds were seized by the government from the piracy site Movie2k.to in 2020.



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