BITFINEX Alpha

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EXECUTIVE SUMMARY

Bitcoin has continued its upward momentum in the past week, reaching a high of $69,586 in early trading on 21 October. As it approaches the $70,000 mark, we will see the first real resistance test for BTC, a level last seen during the Nashville Bitcoin Conference in July. A strong correlation between Bitcoin's price action and Donald Trump's election odds has been observed, with the cryptocurrency market showing increased sensitivity to political developments as investors gauge the potential impact of a Republican win on future crypto regulations.

Open interest (OI) in Bitcoin perpetual and futures contracts surged to an all-time high of over $40 billion, reflecting heightened speculative activity. While this increase in OI can indicate strong market participation, there has been some concern about the disparity between rising OI and Bitcoin's lower highs, suggesting that much of the current price movement is driven by leveraged futures positions rather than spot market demand. What is different this time however is that funding rates remain neutral, indicating that perpetual market longs are not excessively out of balance.

While a pullback to reset OI may be possible, the broader outlook remains bullish, supported by macroeconomic factors such as potential Federal Reserve rate cuts, increased liquidity, and the potential for improved regulatory conditions for crypto in the US. As a result, Bitcoin could continue its upward trajectory, and if it convincingly passes the $70,000 resistance level, and break out of its eight-month consolidation range, it could be on track to mirror the strong performance seen in October 2023, when BTC did not look back after passing $30,000.

Supporting this view point is the latest US consumer spending data, which was buoyed by lower gas prices, wage growth, and steady incomes, resulting in a 0.4 percent increase in retail sales in September. Despite inflation and a cooling job market, consumer spending remains robust, supported by low layoffs. This has led to an upward revision in Q3 GDP growth to 3.4 percent. We expect the Fed to lower interest rates by 25 basis points next month to support continued growth.

Meanwhile, the housing market cooled in September, with housing starts and building permits declining slightly after a strong August. Rising mortgage rates have dampened market activity, though builders remain cautiously optimistic.

While the Federal Reserve’s recent rate cuts have eased mortgage costs, the recovery in the housing sector is expected to be gradual, with challenges like affordability and housing shortages likely to persist. A moderate rebound is anticipated as interest rates stabilise, but further rate reductions will be key to boosting market momentum.

The cryptocurrency industry is experiencing both growth and challenges, with key developments shaping its landscape. Plasma Network has successfully raised $3.5 million, with Bitfinex leading the round, to enhance access to stablecoins like USDt on the Bitcoin network. By integrating compatibility with Ethereum smart contracts, the network aims to broaden Bitcoin’s utility, particularly for decentralised applications (dApps). This expansion marks a significant step in enhancing Bitcoin's role in decentralised finance (DeFi) ecosystems.

In regulatory developments, the SEC has approved NYSE and Cboe to list and trade options on multiple spot Bitcoin ETFs. This move ensures that these financial products meet regulatory standards to prevent fraud and protect investors, further legitimising and expanding the range of Bitcoin-related offerings in traditional financial markets.

Meanwhile, the crypto industry has faced a setback with Radiant Capital's loss of over $50 million in a cyberattack. An attacker gained control of three private keys, allowing them to exploit blockchain contracts and drain user funds. In response, Radiant has paused its operations on both Base and Mainnet.

Have a great trading week!

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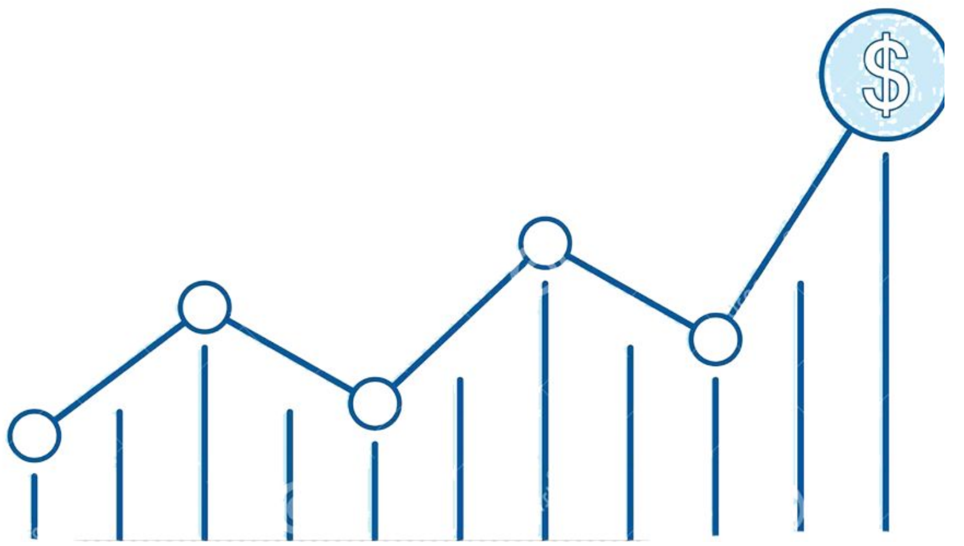


WHAT'S ON-CHAIN THIS WEEK?

Bitcoin Continues the Upward Move Nearing Nashville Conference Highs

BTC continued to sustain its upward momentum last week. Hitting a high of $69,586 in early trading on 21 October, it has surpassed the highs seen just before the Nashville Bitcoin Conference ($68560 on July 22), which was held July 25-27. At that time BTC peaked at $70,162, as Bitcoin-friendly addresses by US presidential candidates Donald Trump and Robert F. Kennedy were anticipated. This level will be the first real resistance test as open interest globally has also increased to reach All-Time High levels.

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

There has been increasing speculation that there is correlation between Bitcoin's price action and Donald Trump's election odds. Risk assets have geared up to price in the uncertainty (or certainty) tied to the US elections, as well as the respective beta assets tied to each individual candidate's winning odds.

Figure 2. BTC/USD Price and Trump vs Harris Election Odds. (Source: Polymarket)

Trump's odds of winning the presidential election appear to have shown a strong correlation with Bitcoin's price appreciation, suggesting that much of the recent price increase may be driven by speculation surrounding his potential victory. The market reactions observed over the past few months reinforce this sentiment, highlighting a distinct bias in investor behaviour.

Equities in contrast, have displayed uncertain flows amid a closely contested race between Republican and Democrat candidates, while the cryptocurrency market, particularly Bitcoin, has maintained a notable correlation with the likelihood of a Republican win. This connection has intensified since Donald Trump has made public statements regarding potential reforms within the SEC and the broader outlook for the crypto market, including taxation policies that would impact crypto participants.

As such, an interplay between political dynamics and cryptocurrency pricing is increasingly evident, with market participants closely monitoring developments in the electoral landscape as they assess future price movements in Bitcoin and other digital assets.

As prices approach a peak last seen during Bitcoin Nashville, where Trump’s appearance also saw some ‘sell-the-news’ trading, we believe that the $70,000 level is important. Sustained spot market interest and the price pushing above this level could confirm the final breakout from Bitcoin’s eight month consolidation range, while a failure to do so will lead to another rejection of range highs.

It is worth noting that speculation in the futures market has surged considerably since the early September dip to $52,756, with the pace of this increase accelerating over the past couple of weeks. On October 19th, global open interest (OI) for Bitcoin perpetual and futures trading pairs reached a new all-time high of $40.38 billion. This surge in OI could have implications for Bitcoin's price dynamics as traders position themselves ahead of potential market movements. The growing interest also reflects a bullish sentiment among traders, suggesting their increasing expectations for further price appreciation in the near term.

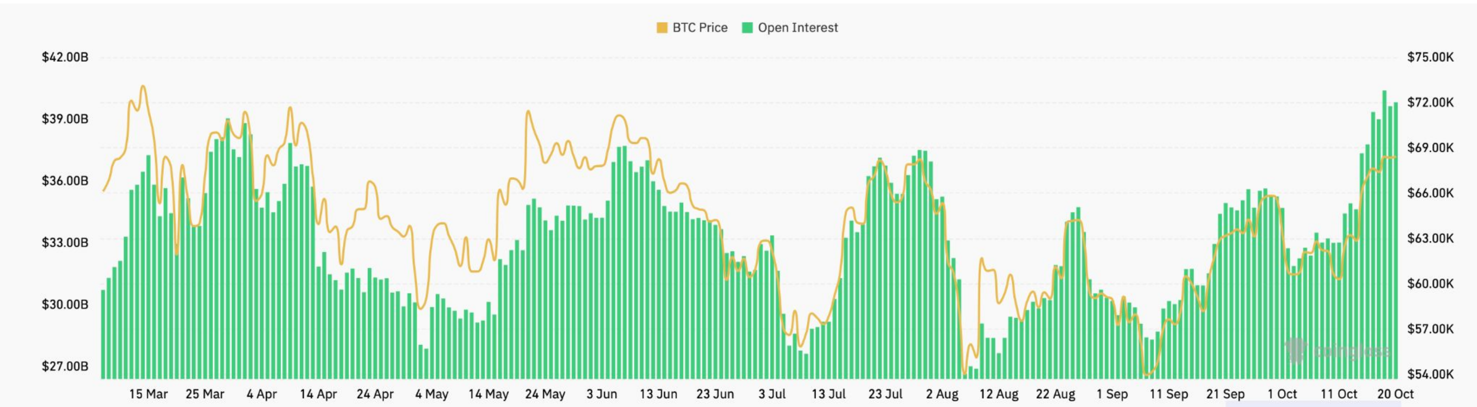


Figure 3. BTC price vs Global Open Interest. (Source: Coinglass)

The OI during our July peak, was similarly accompanied by a strong political and fundamental narrative, often referred to as the "Trump trade." Currently, Bitcoin's price remains below its all-time high of $73,666 reached in March and the July peak of $70,162, which coincided with the previous record for open interest.

As we have observed previously however, this trend of witnessing higher highs in open interest values, while Bitcoin forms lower highs can be a cause for concern , as it indicates a growing level of speculation in the futures market in contrast to a more stable demand in the spot market. Such a dynamic can be potentially unhealthy for the market, as it may lead to increased volatility and sharp corrections if the speculative positions do not align with underlying market fundamentals.

That said, it is a simplistic assumption to conclude that increasing open interest is always detrimental. Much like price movements, OI can experience impulses followed by periods of consolidation. For instance, the breakout in October 2023, when Bitcoin surged above the $30,000 level (refer to the figure below), was accompanied by a significant rise in open interest. Following this breakout, both Bitcoin's price and OI doubled, highlighting that an increase in OI can also signal robust market participation and a positive trend.

This underscores the importance of analysing OI within the broader context of market dynamics, as rising open interest can indicate growing speculative interest in the market as well.

Figure 4. BTC/USD Daily Chart With Open Interest in 2023. (Source: Coinalyze)

Furthermore, funding rates across Bitcoin and altcoin market pairs remain relatively neutral. In previous attempts to surpass our current range highs near $70,000, there was both increasing open interest and notably high funding rates. Such conditions typically indicate an excess of perpetual market longs, coupled with insufficient spot market follow-through and a lack of short interest to balance the scales.

Such a scenario suggests that the market may be susceptible to corrections, as the imbalance between long positions and the absence of corresponding short interest can create vulnerability in price movements. A more stable market dynamic would ideally involve balanced participation from both long and short positions, alongside supportive spot market activity, to facilitate sustainable price increases.

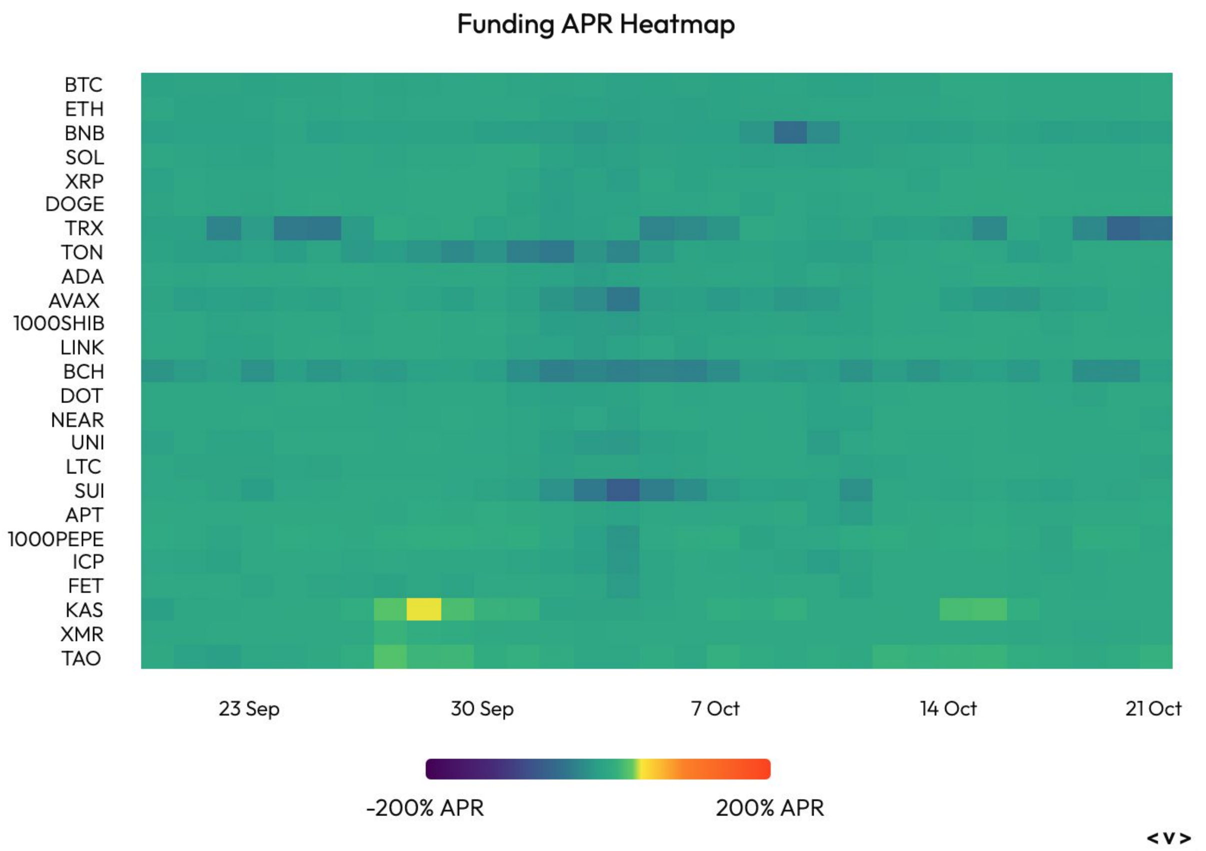


Figure 5. Aggregate Funding Rates for Crypto Large Caps. (Source: VeloData)

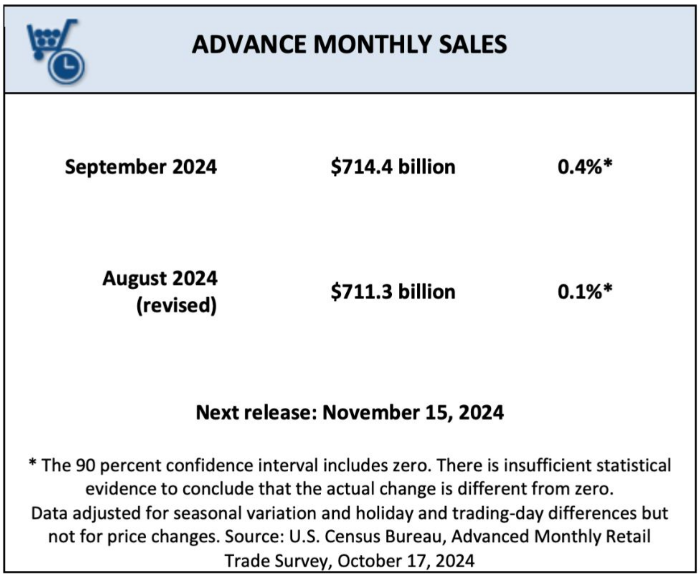
Therefore, it is reasonable to consider that while a pullback to reset open interest in the short term is possible, the bear case appears to be limited in time. This outlook is particularly pertinent given the macroeconomic tailwinds, including a potential economic soft landing, decreasing interest rates, increasing global liquidity, and a favourable regulatory environment for crypto assets in the US.

Although open interest may seem slightly overheated in the short term, there is a significant amount of short interest available to help balance the funding rates, even when accounting for current delta-neutral strategies.

While we can anticipate pullbacks and volatility in the lead-up to or shortly after the elections, we believe that the current nature of the open interest in the market does not signal a cause for concern on higher time frames. Instead, Bitcoin appears to be following a trajectory similar to that observed in October 2023, which could ultimately pave the way for price appreciation on higher time frames.

GENERAL MACRO UPDATE

US Retail Sales See Strong Growth in September as Lower Gas Prices Boost Spending



ADVANCE MONTHLY SALES

September 2024	$714.4 billion	0.4%*
August 2024 (revised)	$711.3 billion	0.1%*

Next release: November 15, 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, October 17, 2024

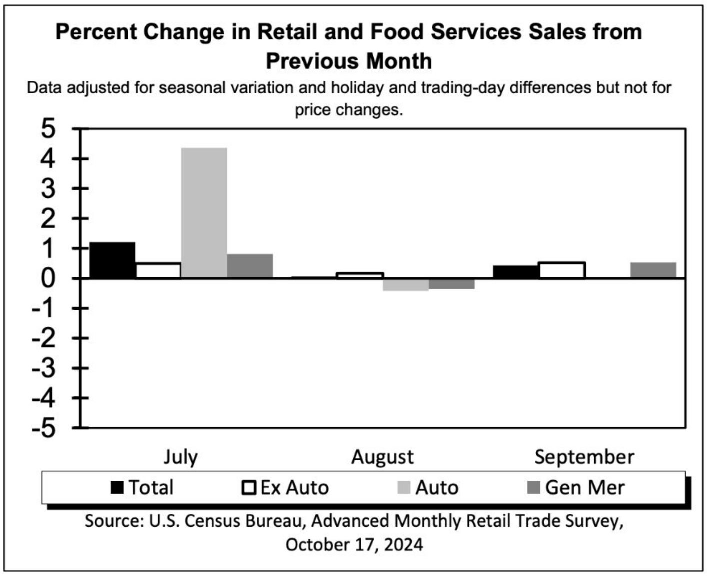


Figure 6. Advanced Monthly Sales ; Percent Change in Retail and Food Services Sales from Previous Month (Source: US Census Bureau)

Retail sales in the US showed solid growth in September, with lower gasoline prices giving consumers more disposable income to spend at restaurants, bars, and other outlets. This contributed to a stronger than expected boost in the economy during the third quarter.

According to the US Census Bureau's Advance Monthly Sales for Retail and Food Services report, issued last Thursday, October 17th, retail sales increased by 0.4 percent in September, surpassing the consensus forecast of a 0.3 percent rise. Additionally, the key control group measure, which excludes certain volatile categories like autos and gas, saw an even stronger increase of 0.7 percent.

The rise in consumer spending was driven by several factors. Notably, clothing store sales saw significant growth, alongside a surge in online shopping and purchases at health and personal care stores. While energy prices dropped, the increase in food and clothing costs balanced the overall effect of inflation, keeping sales steady.

Despite the slight slowdown in job market momentum reported earlier this month, stronger inflation-adjusted wage growth in the economy is supporting consumer spending. Layoffs remain at historically low levels, which has helped sustain incomes and spending power.

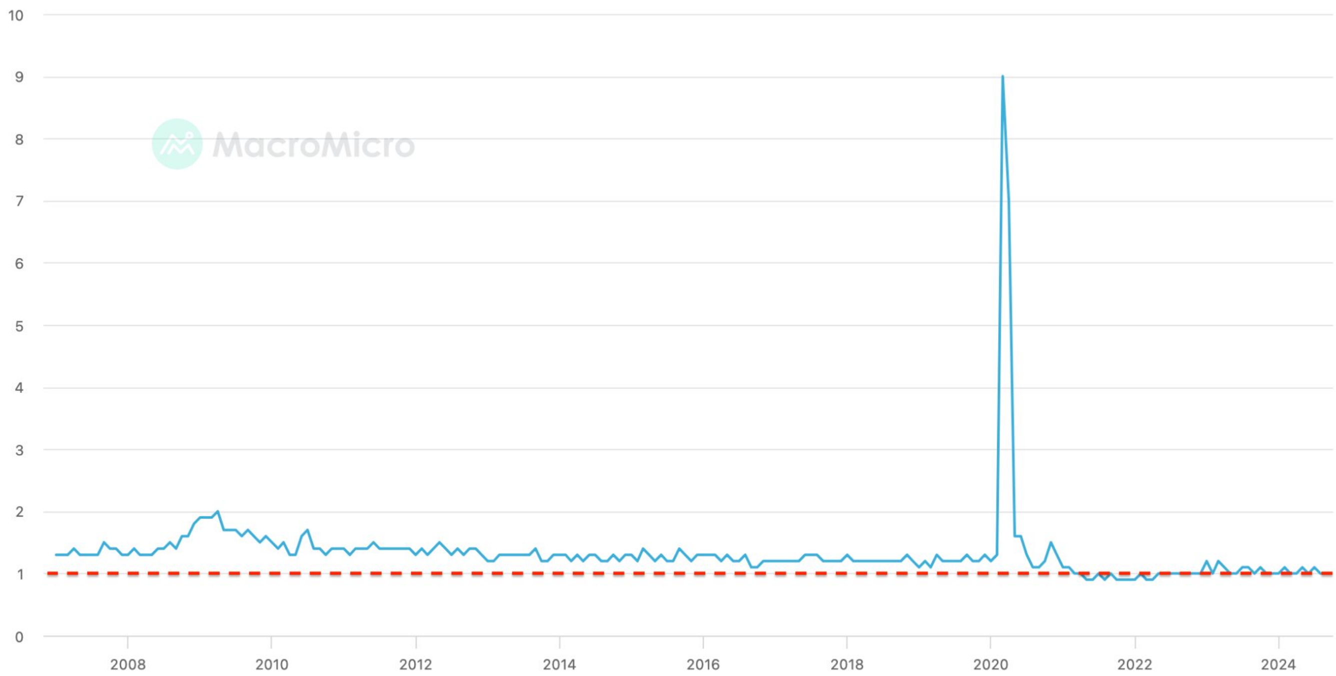


Figure 7. Total Nonfarm Layoff Rates (US Bureau of Labor Statistics)

We believe this economic strength however, will not prevent the Federal Reserve from reducing interest rates in the coming month. The central bank will likely opt for a cut of 25 basis points, considering the steady pace of economic growth.

The Atlanta Federal Reserve recently revised its estimate for third-quarter GDP growth, raising it to an annualised 3.4 percent, up from the earlier forecast of 3.2 percent. This builds on the 3 percent growth seen in the second quarter, highlighting the resilience of the US economy despite challenges like inflation and global uncertainties.

Housing Market Slows in September, but Rebound Expected as Interest Rates Ease

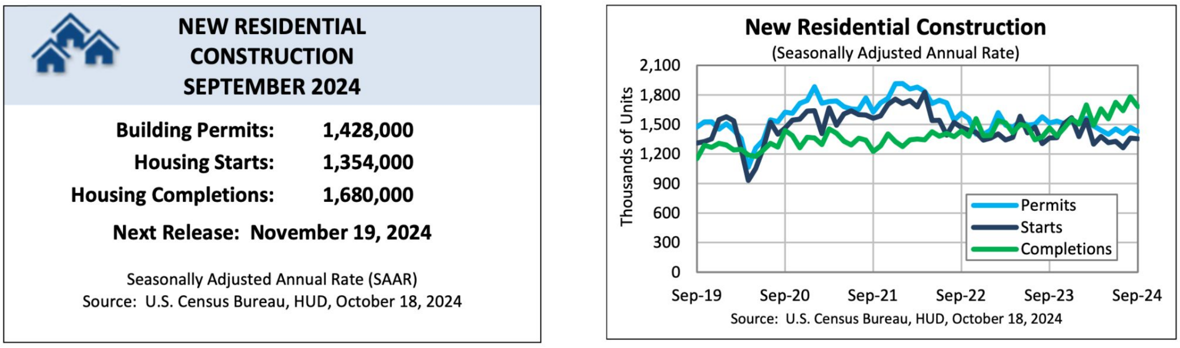


Figure 8. New Residential Construction (Source: US Census Bureau)

In September, the US housing market showed signs of cooling after a strong surge in August. Both housing starts and building permits, a key indicator of future construction projects, declined, signalling that the path to a full recovery in the housing market could be bumpy, even as interest rates start to decline.

According to the Census Bureau's Monthly New Residential Construction Report for September, housing starts, which measure the number of new homes being built, fell slightly by 0.5 percent in September to 1.35 million. Meanwhile, building permits, which predict future home construction, saw a more noticeable drop of 2.9 percent, bringing the total to 1.4 million. These decreases come after a period of high activity in August, driven in part by lower mortgage rates. However, rising mortgage rates in the past few weeks have cooled the momentum.

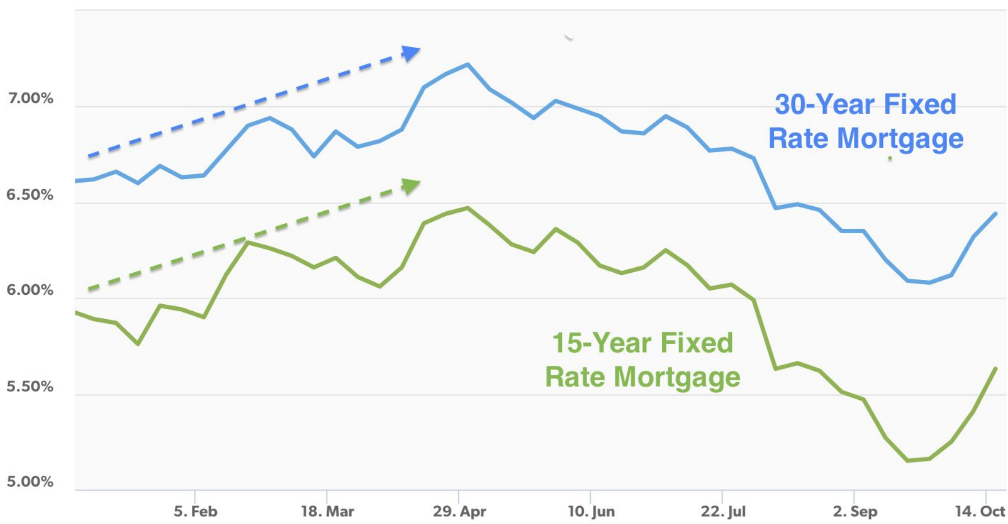
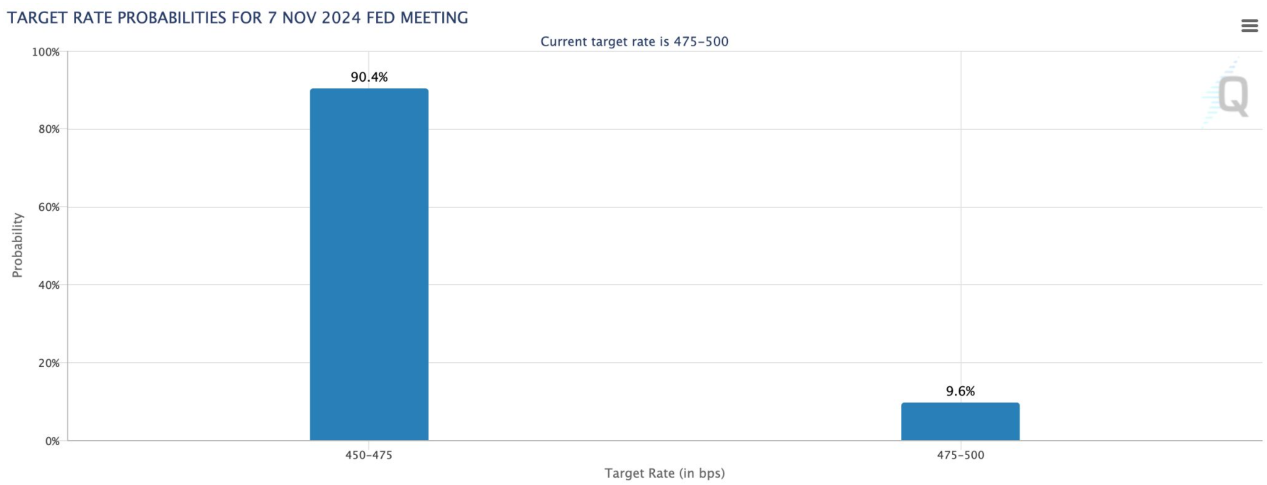


Figure 9. US 30-Year & 15-Year Fixed Rate Mortgage Rate (Source: Freddie Mac)

Earlier this year, mortgage rates spiked, putting pressure on homebuilders and potential buyers. While the Federal Reserve started cutting interest rates last month, which initially brought down mortgage costs, stronger-than-expected economic data—including solid retail sales—has dampened hopes for further large rate cuts. As a result, homebuyer expectations that there might be another large cut in interest rates have lessened, which may cause further hesitation in the housing market.



TARGET RATE (BPS)	PROBABILITY(%)			
	NOW *	1 DAY 18 OCT 2024	1 WEEK 11 OCT 2024	1 MONTH 20 SEP 2024
425-450	0.0%	0.0%	0.0%	50.4%
450-475	90.4%	90.4%	89.5%	49.6%
475-500 (Current)	9.6%	9.6%	10.5%	0.0%

* Data as of 20 Oct 2024 04:26:13 CT

Figure 10. Target Probabilities for November Fed Meeting (CME FedWatch Tool)

One key factor affecting both builders and buyers is the difference between falling interest rates and low interest rates. Though rates have been dropping, they haven't been low for long enough to spur a significant shift in buyer and builder behaviour. Many are delaying their decisions, hoping for further rate cuts in the near future. Additionally, the limited availability of previously owned homes has contributed to increased demand for new construction, but this year's increase in mortgage rates discouraged buyers from entering the market.

A recent survey by the National Association of Home Builders last Thursday, October 17th, showed a moderate improvement in builder confidence in October, with some builders offering price incentives to attract cautious buyers. However, the recent devastation caused by Hurricanes Helene and Milton in the South-e\East US may temporarily slow down new home construction, although reconstruction efforts are likely to boost activity in those regions in the coming months.

Looking ahead, there are signs that the worst may be behind us and that the housing market is on a path towards a gradual recovery, fueled by the Federal Reserve's efforts to lower interest rates. However, this rebound is expected to be more modest than the rapid growth seen during the pandemic, when interest rates were at near-zero levels. As the Fed aims for a long-term interest rate of around 2.9 percent, housing growth is expected to pick up, but challenges such as the ongoing housing shortage and affordability issues will likely persist into next year.

NEWS FROM THE CRYPTO-SPHERE

Plasma Network Secures $3.5 Million to Expand Stablecoin Access on Bitcoin

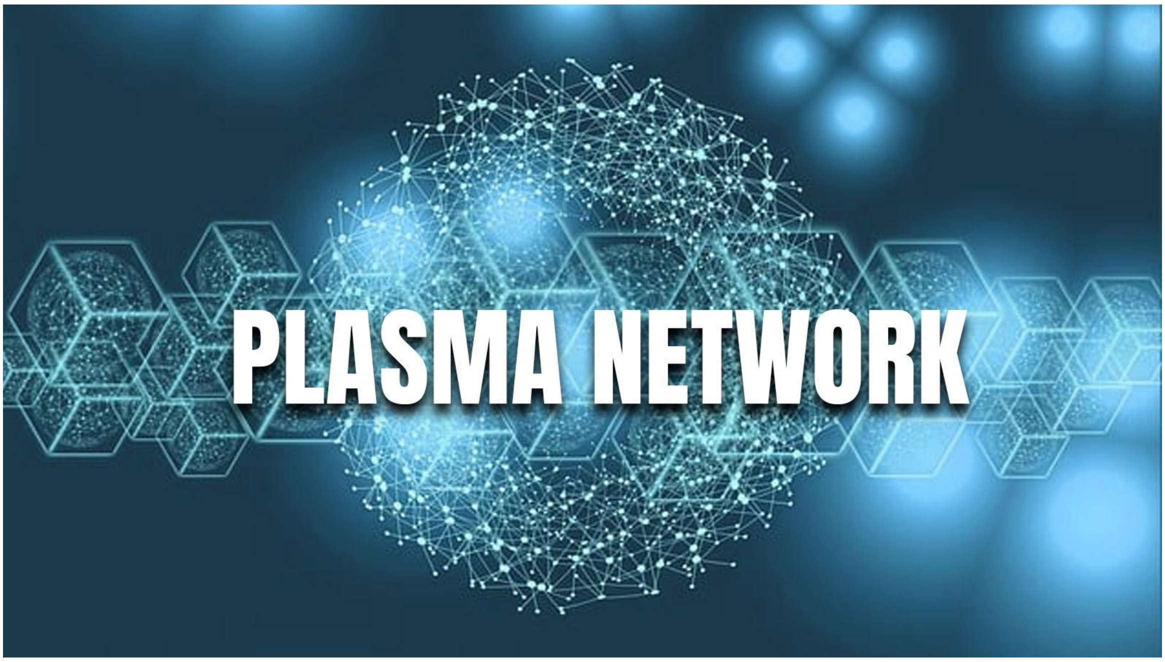


Figure 11. Plasma Network Secures $3.5 Million to Expand Stablecoin Access on Bitcoin

- **Plasma Network raised $3.5 million, led by Bitfinex, to improve access to stablecoins like USDt on the Bitcoin network**
- **The network will be compatible with Ethereum smart contracts, expanding Bitcoin's functionality for decentralised applications (DApps)**

Plasma Network has raised $3.5 million in a funding round led by Bitfinex, aiming to expand the availability of stablecoins on the Bitcoin network. In a blog post published last Friday, October 18th, Plasma has also received backing from prominent investors, including Christian Angermayer and venture firms like Split Capital, Anthos Capital, Karatage, and Manifold Trading.

This initiative is particularly important because USDt has not been widely accessible on Bitcoin since 2023, when access through the Bitcoin-based Omni Layer was discontinued. Plasma Network plans to change that by enabling stablecoin transactions on Bitcoin, while also being fully compatible with Ethereum Virtual Machine (EVM) applications. This EVM compatibility means that Plasma can also support any Ethereum-based smart contract, enhancing the functionality of the Bitcoin network and offering new possibilities for DApps.

Plasma is a sophisticated blockchain network designed to handle Ethereum-compatible decentralised applications (DApps), but it specifically targets the payments industry by offering zero-fee payments for USDt transactions. It is a unique sidechain with its own consensus mechanism, differing from traditional Layer 2 networks. Plasma integrates Bitcoin's UTXO system with Ethereum’s account-based model, allowing for gas fees to be paid in Bitcoin and enabling features like staking BTC to earn yield.

SEC Approves Listing and Trading of Options on Multiple Spot Bitcoin ETFs

Figure 12. SEC Approves Listing and Trading of Options on Multiple Spot Bitcoin ETFs

- **The SEC has granted approval for NYSE and Cboe to list and trade options on multiple spot Bitcoin ETFs**
- **The approval ensures compliance with regulatory standards to prevent fraud and protect investors, expanding the availability of Bitcoin-related financial products**

The US Securities and Exchange Commission (SEC) has given approval for both the NYSE and Cboe Exchange, Inc. to list and trade options on a range of spot Bitcoin exchange-traded funds (ETFs). This approval paves the way for more sophisticated financial products tied to Bitcoin.

The SEC granted "accelerated approval" to allow the trading of options on popular Bitcoin ETFs such as the Fidelity Wise Origin Bitcoin Fund, ARK21Shares Bitcoin ETF, Invesco Galaxy Bitcoin ETF, and others, according to NYSE's filing, made last Friday, October 18th. The list also includes the Franklin Bitcoin ETF, VanEck Bitcoin Trust, WisdomTree Bitcoin Fund, Grayscale Bitcoin Trust, and the Bitwise Bitcoin ETF.

Similarly, Cboe received approval to offer options on many of these same funds. The SEC stated that the decision aligns with regulatory standards under Section 6(b)(5) of the Securities Exchange Act, which focuses on preventing fraud and ensuring a fair and open market that protects investors.

The SEC's approval of spot Bitcoin ETFs was given in January, and in September, it approved options trading on the iShares Bitcoin Trust on Nasdaq ISE, LLC.

Radiant Capital Loses Over $50 Million in Cyber Attack, Pauses Operations

Figure 13. Radiant Capital Loses Over $50 Million in Cyber Attack, Pauses Operations

- **Radiant Capital lost over $50 million in a cyberattack after an attacker gained control of three private keys, allowing them to exploit blockchain contracts and drain users' funds**
- **Radiant paused its markets on Base and Mainnet following the attack and is working with security firms to address the issue**

Radiant Capital, a blockchain lending platform, experienced a significant cyberattack, leading to losses exceeding $50 million. This breach was made possible when an attacker gained access to three critical "private keys" that control the protocol, according to blockchain data that was published last Wednesday, October 16th.

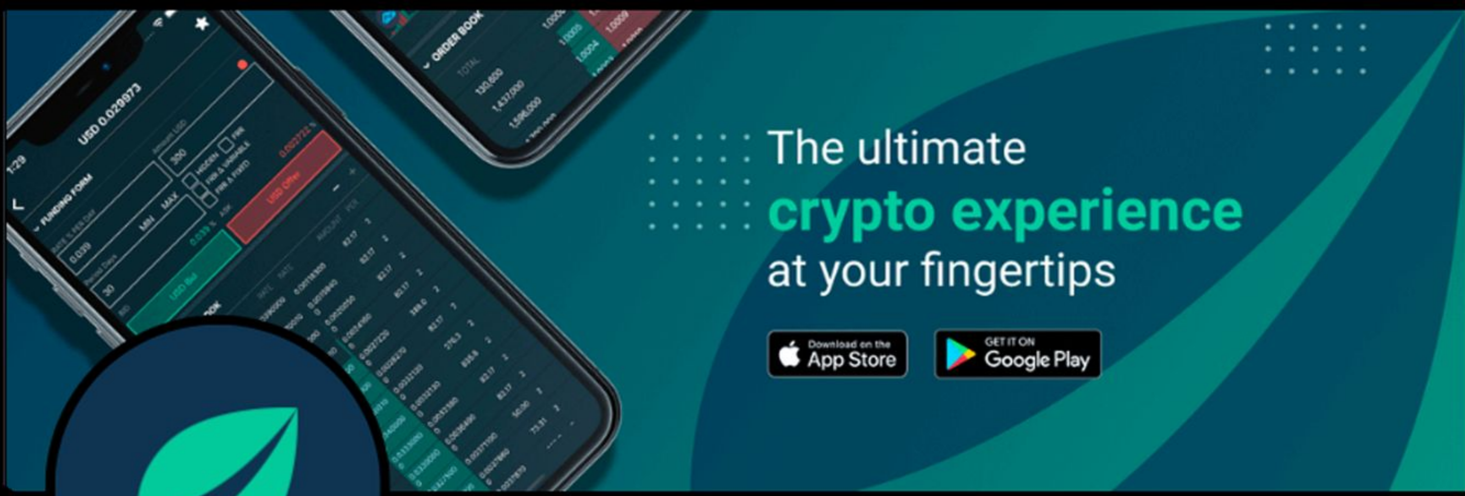
According to Web3 security firm De.Fi, the attacker used the "transferFrom" function to exploit Radiant's contracts on the Binance Smart Chain (BSC) and Arbitrum (ARB) networks. De.Fi stated that the exploit allowed the attacker to "drain users' funds, namely USDC, WBNB, ETH, and others."

Radiant Capital operates a multi-signature (multisig) wallet, with 11 signers responsible for authorising transactions. The hacker was able to acquire three of these signers' private keys, which was sufficient to modify the platform's smart contracts.

Radiant offers a variety of tools enabling users to borrow, lend, and bridge assets across multiple blockchains. Unfortunately, this is not the first time the platform has been targeted. Earlier this year, in January, Radiant suffered a $4.5 million loss due to an unrelated exploit involving a smart contract bug.

Acknowledging the latest breach, Radiant posted on X: "We are aware of an issue with the Radiant Lending markets on Binance Chain and Arbitrum. We are working with SEAL911, Hypernative, ZeroShadow & Chainalysis and will provide an update as soon as possible. Markets on Base and Mainnet are paused until further notice."

The platform, governed by a Decentralised Autonomous Organisation, has a mission to "unify the billions in fragmented liquidity across Web3 money markets under one safe, user-friendly, capital-efficient omnichain," according to its website.



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