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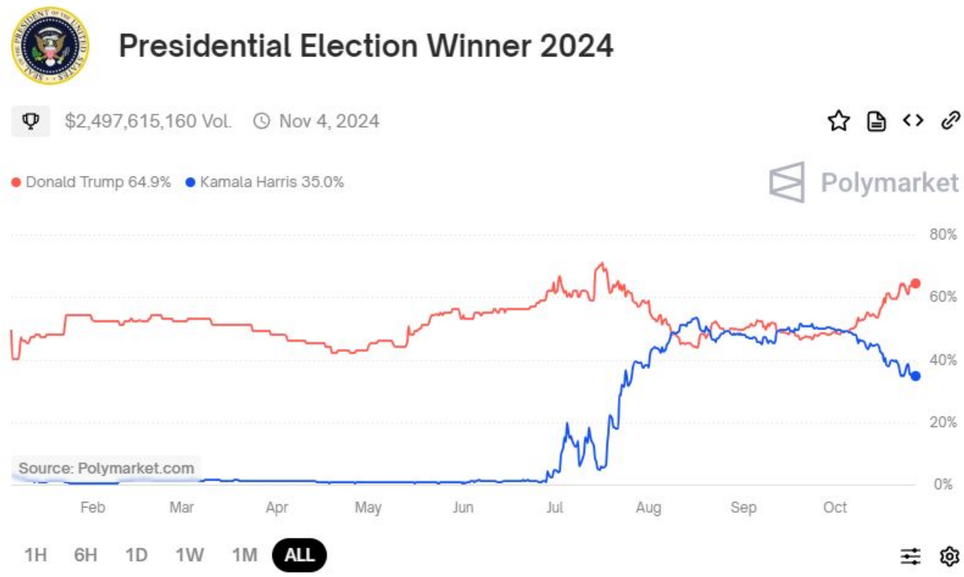
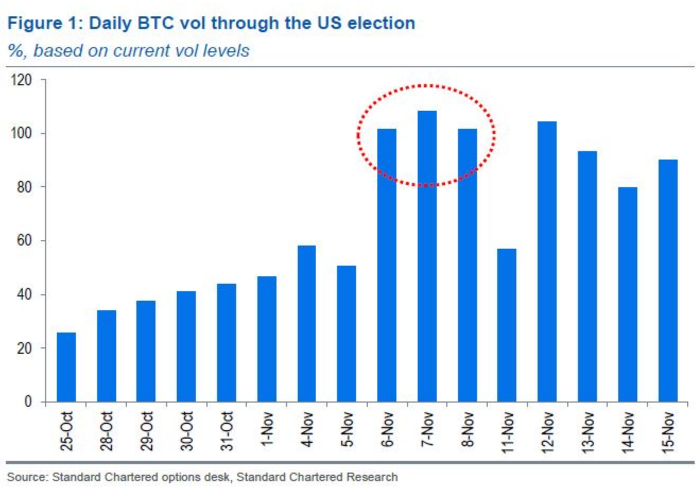
EXECUTIVE SUMMARY

Volatility Incoming

Driven by a potent mix of geopolitical uncertainty, macroeconomic factors, and the intensifying "Trump trade" narrative, BTC volatility has intensified, seeing a sharp 6.2 percent intra-week correction last week before rebounding. This pullback highlights the growing influence of the impending US presidential election on near-term prices, where a Republican victory is widely seen as bullish for risk assets like Bitcoin. The correlation between Trump's election odds and Bitcoin's upward trajectory has increased.



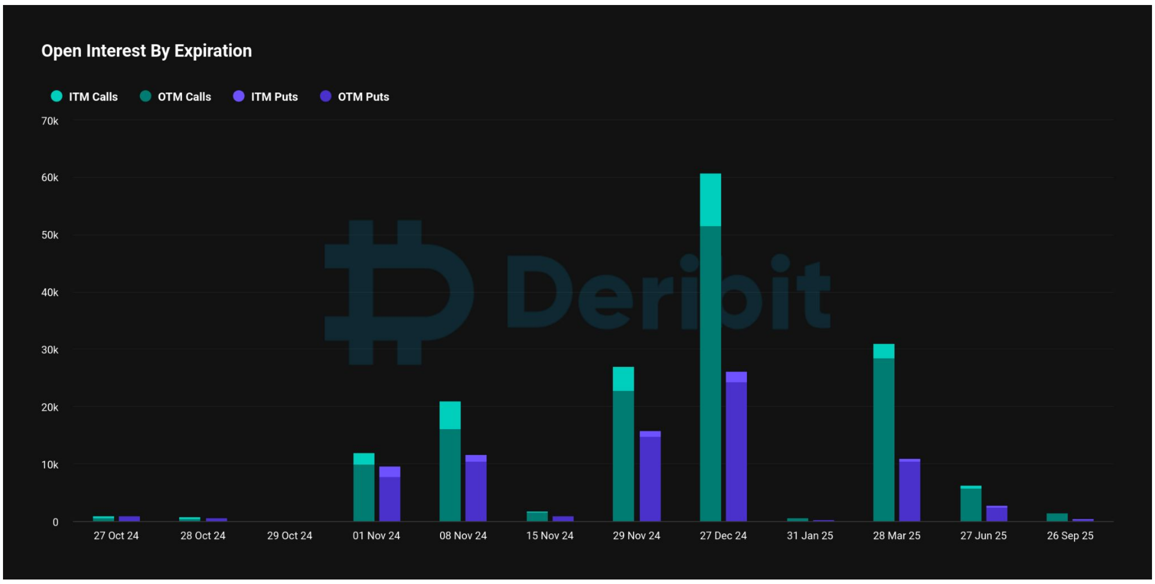
The anticipation around the election has fuelled a surge in options activity. Options expiring on key dates around the election are commanding higher premiums, with implied volatility expected to peak at 100 daily vol on November 8th, just after Election Day - indicating that the market is bracing for potential turbulence. Regardless of the election outcome, short-term volatility is expected to be higher than usual though we remain confident in longer-term price appreciation.



Despite recent corrections, Bitcoin has demonstrated remarkable resilience since its September dip to $52,756, rallying 30 percent through October. Seasonality is also on Bitcoin's side: Q4 has been consistently bullish in halving years, with a median quarterly return of 31.34 percent. This strong seasonality effect, combined with record-breaking open interest in Bitcoin options and futures, underscores the optimism among market participants heading into the final stretch of the year.

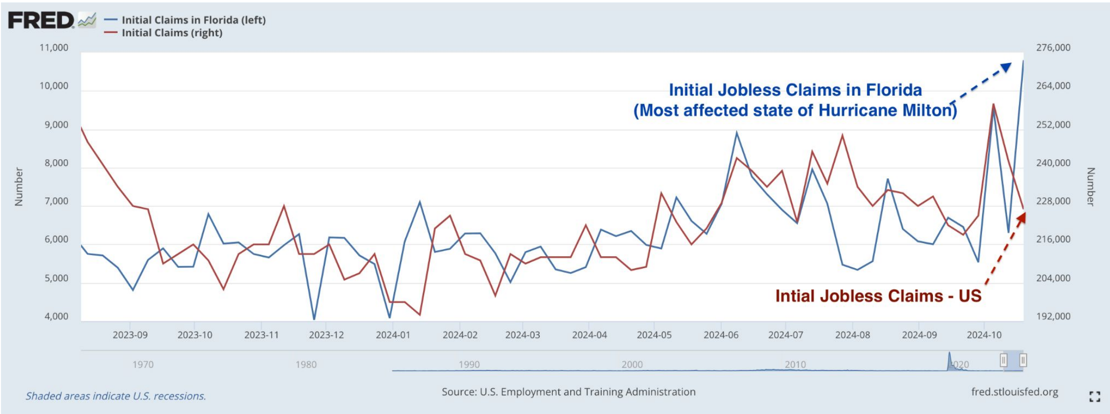
Time	January	February	March	April	May	June	July	August	September	October	November	December
2024	+0.62%	+43.55%	+16.81%	-14.76%	+11.07%	-6.96%	+2.95%	-8.6%	+7.29%	+5.79%		
2023	+39.63%	+0.03%	+22.96%	+2.81%	-6.98%	+11.98%	-4.02%	-11.29%	+3.91%	+28.52%	+8.81%	+12.18%
2022	-16.68%	+12.21%	+5.39%	-17.3%	-15.6%	-37.28%	+16.8%	-13.88%	-3.12%	+5.56%	-16.23%	-3.59%
2021	+14.51%	+36.78%	+29.84%	-1.98%	-35.31%	-5.95%	+18.19%	+13.8%	-7.03%	+39.93%	-7.11%	-18.9%
2020	+29.95%	-8.6%	-24.92%	+34.26%	+9.51%	-3.18%	+24.03%	+2.83%	-7.51%	+27.7%	+42.95%	+46.92%
2019	-8.58%	+11.14%	+7.05%	+34.36%	+52.38%	+26.67%	-6.59%	-4.6%	-13.38%	+10.17%	-17.27%	-5.15%
2018	-25.41%	+0.47%	-32.85%	+33.43%	-18.99%	-14.62%	+20.96%	-9.27%	-5.58%	-3.83%	-36.57%	-5.15%
2017	-0.04%	+23.07%	-9.05%	+32.71%	+52.71%	+10.45%	+17.92%	+65.32%	-7.44%	+47.81%	+53.48%	+38.89%
2016	-14.83%	+20.08%	-5.35%	+7.27%	+18.78%	+27.14%	-7.67%	-7.49%	+6.04%	+14.71%	+5.42%	+30.8%
2015	-33.05%	+18.43%	-4.38%	-3.46%	-3.17%	+15.19%	+8.2%	-18.67%	+2.35%	+33.49%	+19.27%	+13.83%
2014	+10.03%	-31.03%	-17.25%	-1.6%	+39.46%	+2.2%	-9.69%	-17.55%	-19.01%	-12.95%	+12.82%	-15.11%
2013	+44.05%	+61.77%	+172.76%	+50.01%	-8.56%	-29.89%	+9.6%	+30.42%	-1.76%	+60.79%	+449.35%	-34.81%
Average	+3.35%	+15.66%	+13.42%	+12.98%	+7.94%	-0.35%	+7.56%	+1.75%	-3.77%	+21.47%	+46.81%	+5.45%
Median	+0.29%	+15.32%	+0.50%	+5.04%	+3.17%	-0.49%	+8.90%	-8.04%	-4.35%	+21.20%	+8.81%	-3.59%

Supporting this optimism is the steady build-up in call options for December 27th expiries, with a particular focus on $80,000 strikes. As options open interest climbs to new highs, the market is showing signs of positioning for a post-election surge, potentially propelling Bitcoin towards—and beyond—its all-time high of $73,666.



In summary, the convergence of election uncertainty, the "Trump trade" narrative, and favourable Q4 seasonality create a perfect storm for Bitcoin, promising an exciting period ahead regardless of noisy price movements heading into the election in two weeks time.

In the broader US economy, the labour market has demonstrated notable resilience in the face of recent natural and industrial disruptions. Initial jobless claims fell to 227,000 last week, despite the challenges posed by Hurricane Milton and an extended strike at aircraft manufacturer, Boeing. Importantly, hurricane-related layoffs in Florida were counterbalanced by declines in jobless claims in other states, highlighting a robust labour environment outside the affected regions. The Federal Reserve's Beige Book also characterised employment as "stable," with minimal layoffs reported across various sectors.



In the housing sector, the US market is currently experiencing a divergence. New home sales surged in September, driven by a temporary decline in mortgage rates. Conversely, existing home sales plummeted to their lowest levels since 2010, largely due to the "lock-in effect," where homeowners with low-rate mortgages are reluctant to sell and face higher rates on new purchases. Affordability remains a significant hurdle for many first-time buyers as prices continue to remain elevated. While the recent rate relief has stimulated new home sales, a sustained recovery in the housing market will depend on broader mortgage rate stabilisation or potential intervention from the Federal Reserve.

Emory University's recent investment in digital assets marks a shift toward institutional adoption of crypto. The university disclosed holdings in Grayscale Bitcoin Mini Trust and Coinbase shares, totalling approximately $15.9 million, signalling an emerging acceptance of digital assets among traditional institutions.

Microsoft's upcoming shareholder meeting is set to vote on a proposal to explore Bitcoin as a treasury asset. While the board opposes the proposal, citing volatility and regulatory concerns, even a minor allocation from Microsoft's $76 billion cash reserves would have a profound impact on legitimising BTC as a corporate asset.

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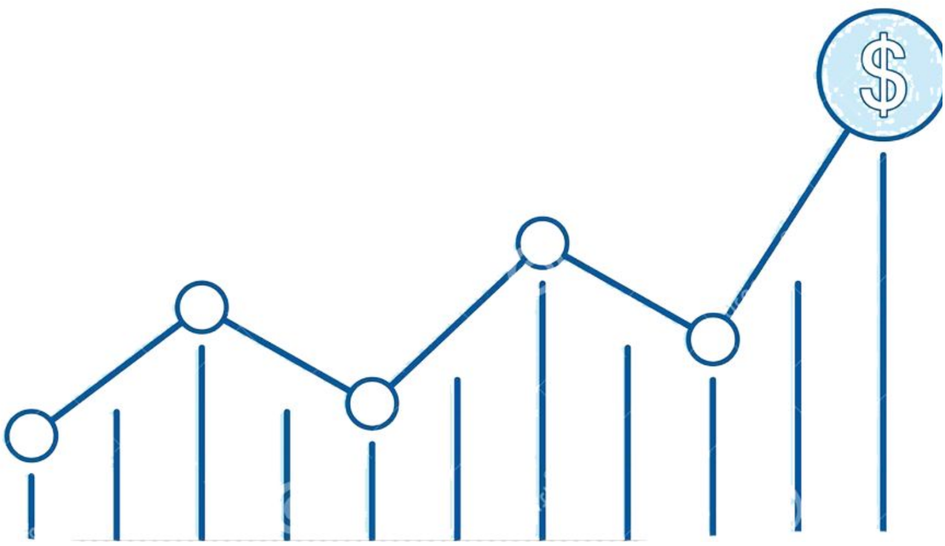

MARKET SIGNALS

Bitcoin Corrects After Approaching Nashville Highs

Bitcoin's price movements are increasingly being influenced by global macroeconomic trends and specific geopolitical events, in particular the US presidential elections. As BTC approached the $70,000 level early last week, and looked poised to breach the highs formed when former President Donald Trump spoke at the Bitcoin Nashville conference, the market became increasingly vulnerable to a correction, given the ongoing uncertainty on the outcome of the election. BTC eventually pulled back 6.2 percent on a peak-to-trough basis, reaching a low of $65,265 before rebounding. (refer to the Figure below)

Figure 1. BTC/USD 12H Chart. (Source: Bitfinex)

We believe that last week marked what could be the first of several "whipsaw" price movements, as we move closer to the US election. The general consensus across risk assets is that a Republican victory would be bullish for the markets, while it is less certain that a Democrat win is immediately positive for markets. As a result, speculation—and consequently volatility—has increased in the lead-up to the election.

Options volatility increases

Notably, option premiums and estimated daily volatility for both the US stock market and Bitcoin are projected to rise significantly around 6-8 November, when the results of the elections are expected to be delivered. Bitcoin, in particular, may experience even greater volatility than other risk assets, largely due to its perception as the "Trump Trade." This term, which has gained considerable traction in recent weeks, serves to reflect the market's view of how BTC will fare dependent on the outcome of the election.

The implied volatility curve which shows expected volatility levels for each strike price across various options expirations shows the highest implied volatility is for the November 8th strike price reaching up to over 100 vol for strike prices over $100,000 for BTC. (refer Figure below)

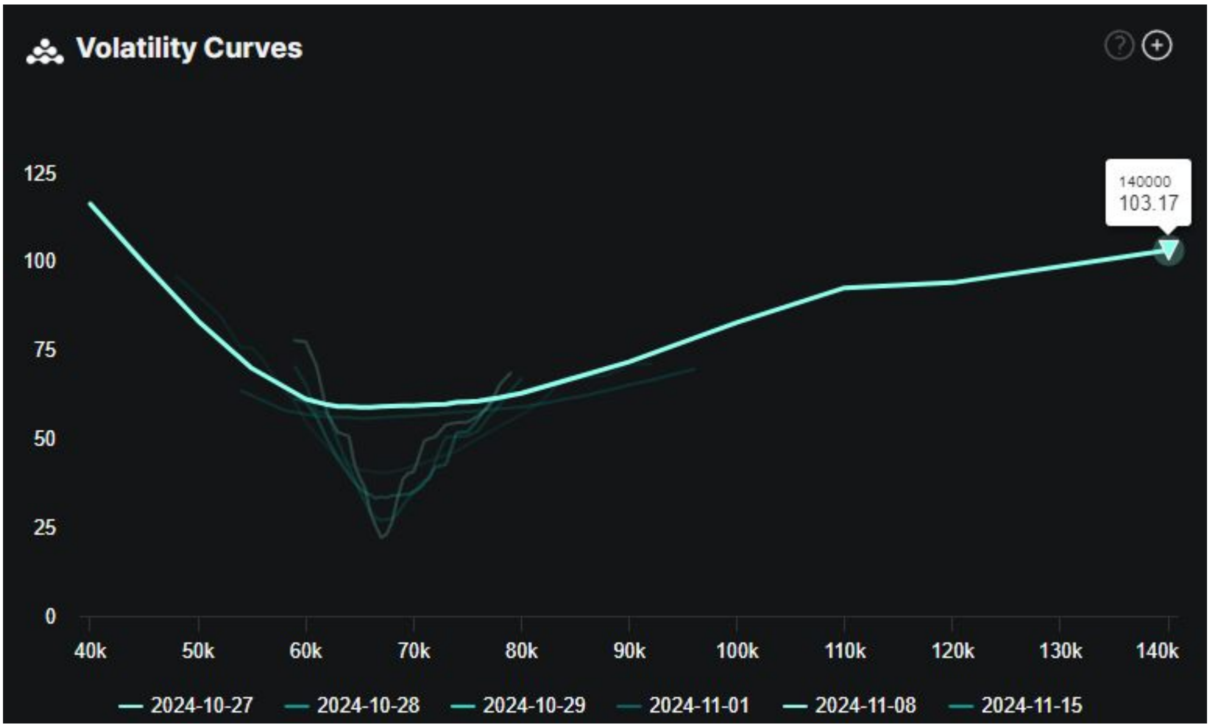

Figure 2. Volatility Curves For Bitcoin Options Across Various Expiries. (Source: Deribit)

High implied volatility (IV) indicates that the market anticipates a significant price movement in the underlying asset, either upward or downward, by the expiry date. While it does not specify the direction of the movement, high IV suggests that traders expect increased volatility, often in response to forthcoming events such as earnings announcements, economic reports, or as we believe in this case, geopolitical developments.

When IV rises, option prices typically increase as sellers demand a higher premium to account for the additional risk associated with potential large price swings. Consequently, options exhibiting high IV become more expensive, reflecting the perceived risk of substantial movement in the underlying asset. This heightened cost underscores the market's cautious sentiment and the expectation of fluctuating prices ahead.

Bitcoin remains relatively resilient

Despite last week's correction, the Bitcoin price has remained resilient, and is still up significantly from the September low of $52,756. BTC is up 30 percent, and September's 7.29 percent increase for the month is the highest on record (refer Figure below) — in what has previously been a challenging month for the asset. We anticipate that the October close may be less impressive due to pre-election jitters and volatility, though the traditional seasonality in Q4 still favours the bulls.

Median Q4 returns for BTC are 31.34 percent and the asset has never experienced a bearish Q4 in a halving year. Our view is that both BTC and the wider crypto market market cap will continue to appreciate towards the end of the year.

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2024	+0.62%	+43.55%	+16.81%	-14.76%	+11.07%	-6.96%	+2.95%	-8.6%	+7.29%	+5.79%		
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2021	+14.51%	+36.78%	+29.84%	-1.98%	-35.31%	-5.95%	+18.19%	+13.8%	-7.03%	+39.93%	-7.11%	-18.9%
2020	+29.95%	-8.6%	-24.92%	+34.26%	+9.51%	-3.18%	+24.03%	+2.83%	-7.51%	+27.7%	+42.95%	+46.92%
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2016	-14.83%	+20.08%	-5.35%	+7.27%	+18.78%	+27.14%	-7.67%	-7.49%	+6.04%	+14.71%	+5.42%	+30.8%
2015	-33.05%	+18.43%	-4.38%	-3.46%	-3.17%	+15.19%	+8.2%	-18.67%	+2.35%	+33.49%	+19.27%	+13.83%
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Figure 3. BTC Monthly Returns Since 2013. (Source: Coinglass)

Current BTC weakness can be attributed to the increasing influence of macro factors, particularly the "Trump trade" narrative. Such a pattern of short-term weakness has also been exhibited in equity markets, with the S&P 500 rising by approximately 0.9 percent in October (refer Figure below); though during election years, it averages around 0.2 percent (excluding October 2008 when the index declined 16.94 percent in one of the largest single month declines in history). The relative weakness being seen in Bitcoin suggests a correlation with these macro influences.

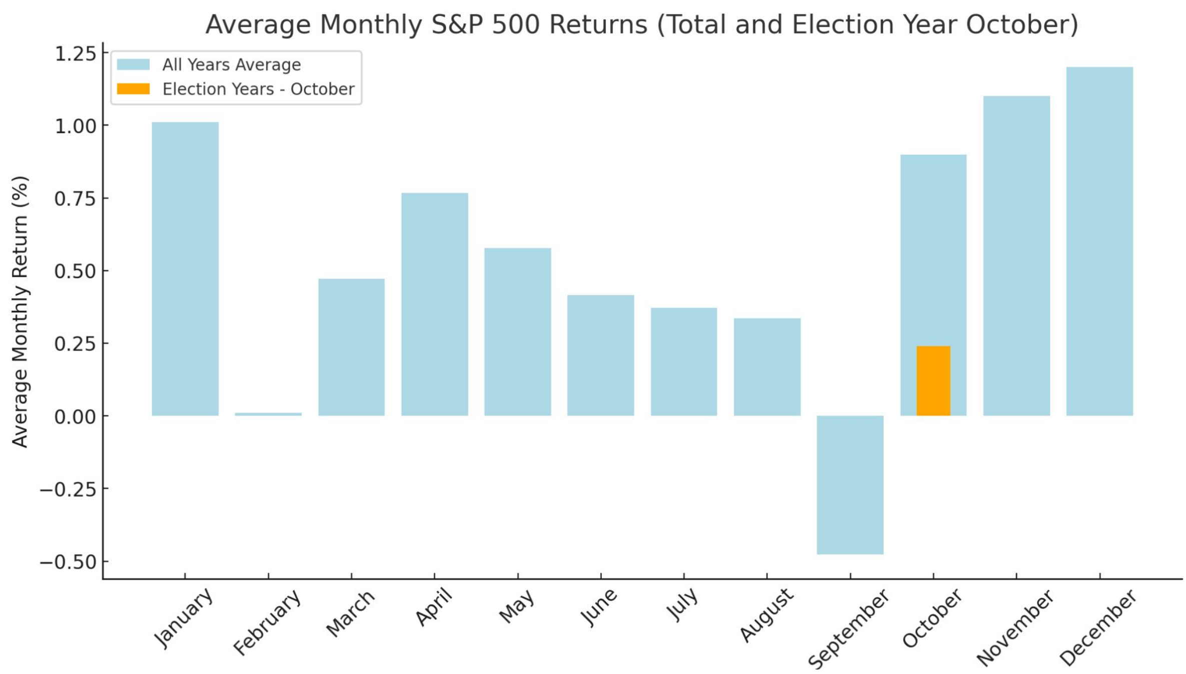


Figure 4. S&P500 Monthly Performance Since 1945.

Average betting odds for a Trump victory stand at 59 percent, according to RealClearPolitics and 64.9 percent according to Polymarket (refer Figure below).

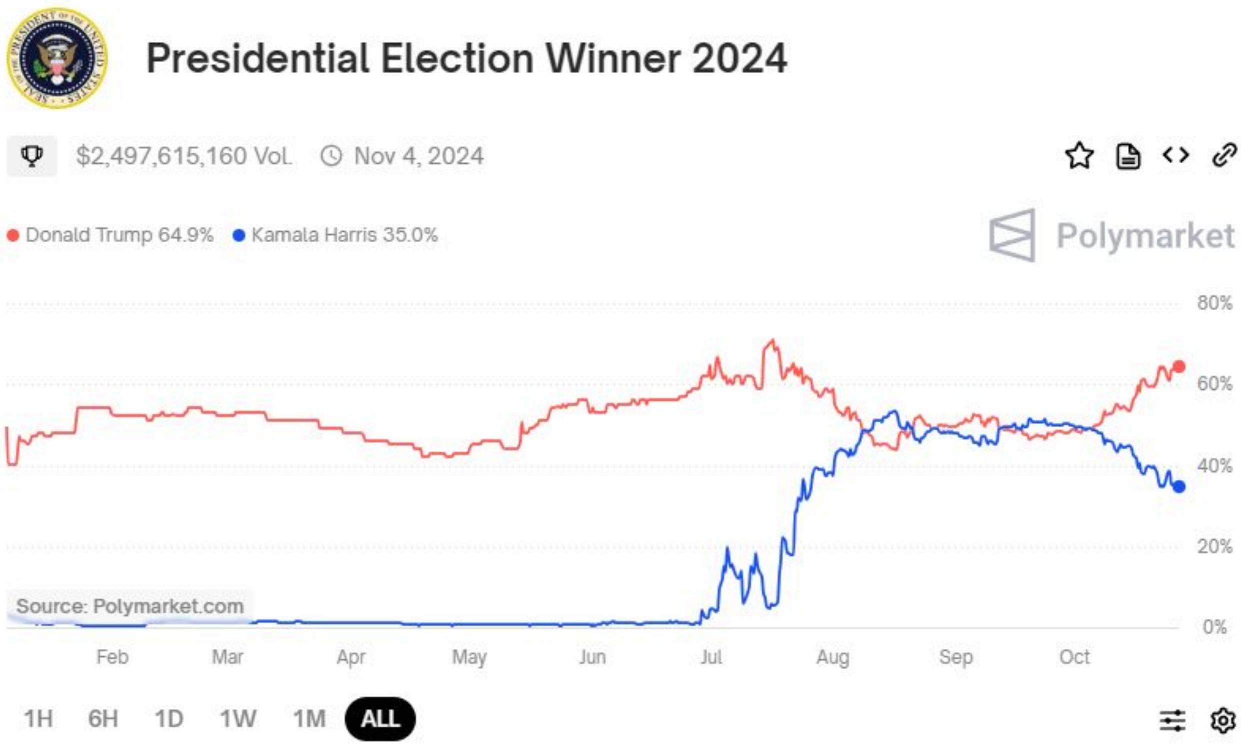


Figure 5. US Presidential Election Winning Odds. (Source: Polymarket)

Our base case is that Bitcoin will continue to experience higher-than-average volatility, and potentially see deep corrections. This aligns with the rising probabilities being forecast in betting markets for a Trump win, but struggling to break past key levels below the March all-time high of $73,666.

What are the options markets indicating?

Bitcoin options volatility indicates a possible rise to around $70,000 and higher once the presidential outcome is announced and uncertainty surrounding the "Trump trade" begins to dissipate. This expectation is supported by the daily estimated average volatility—after aggregating all strike prices—projected to exceed 100 just after election day. Such conditions could pave the way for significant price movements in the aftermath of the election results.

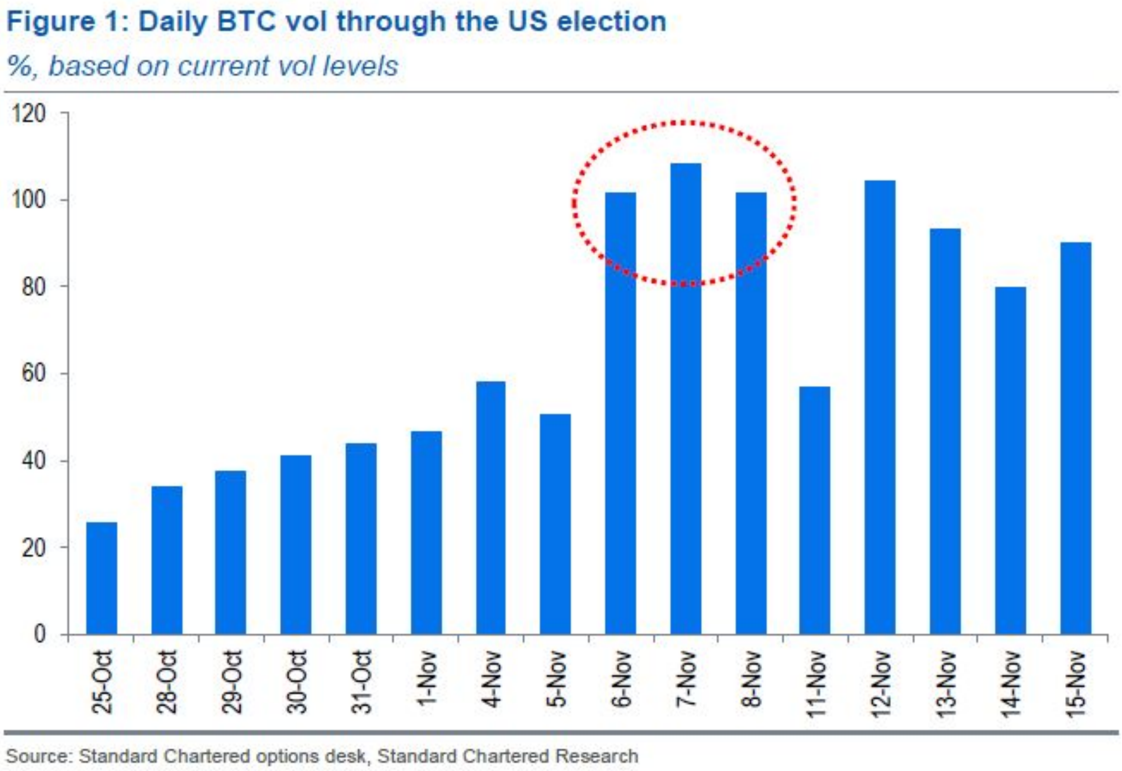
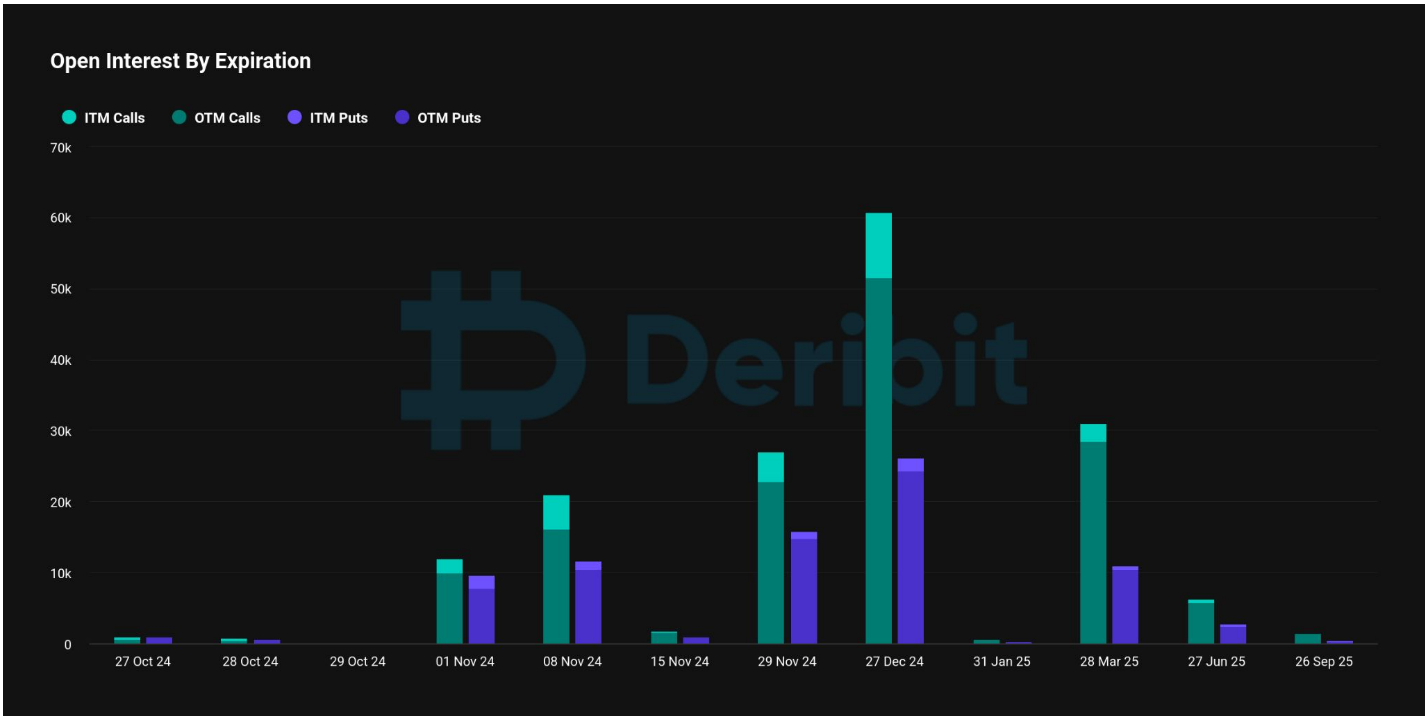


Figure 6. Daily BTC Volatility Before and After US Election Day. (Source: Standard Chartered)

Moreover, options market positioning indicates that over the past few weeks, end-of-year options have seen a significant rise in call open interest. The December 27th expiry and calls with an $80,000 strike price have been the primary areas of interest.



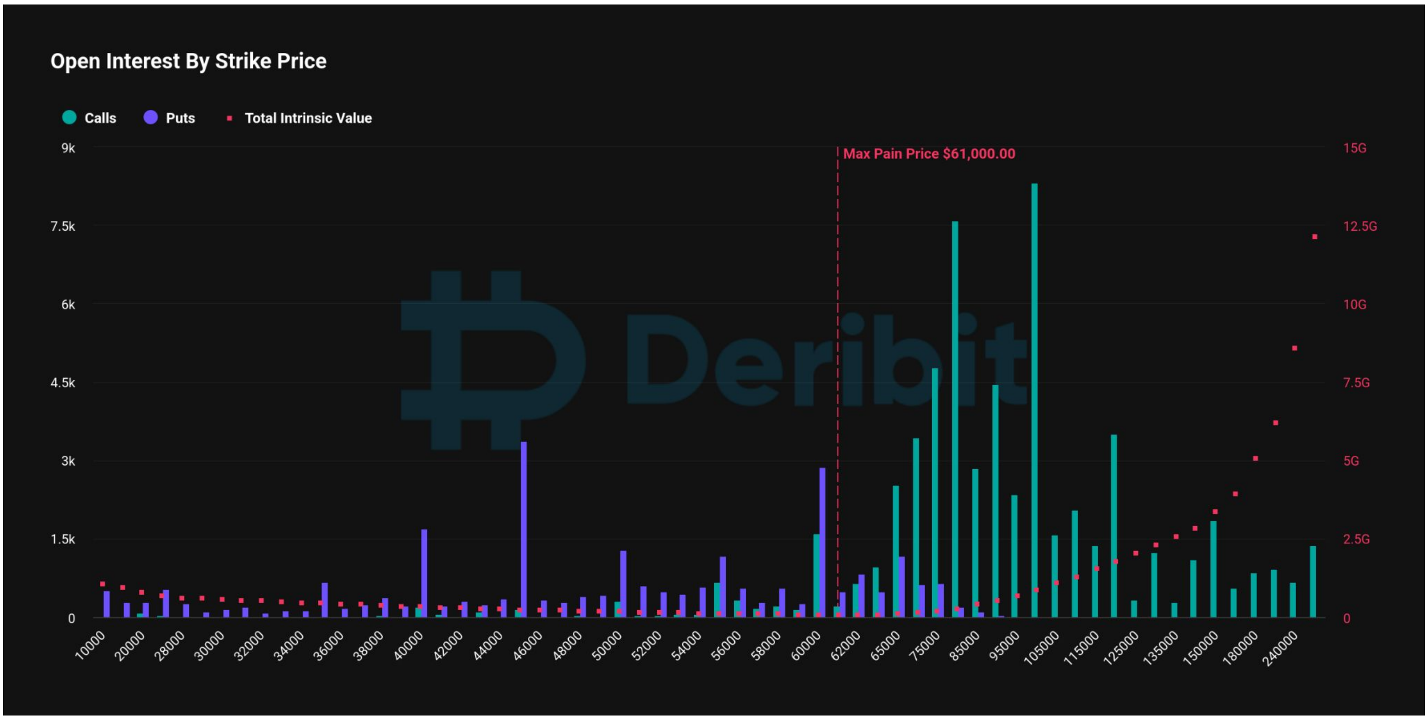


Figure 7. Open Interest By Strike Price For Options Expiring On December 27th. (Source: Deribit Metrics)

GENERAL MACRO UPDATE

Labour Market Holds Strong Amid Natural Disruptions and Industrial Strikes

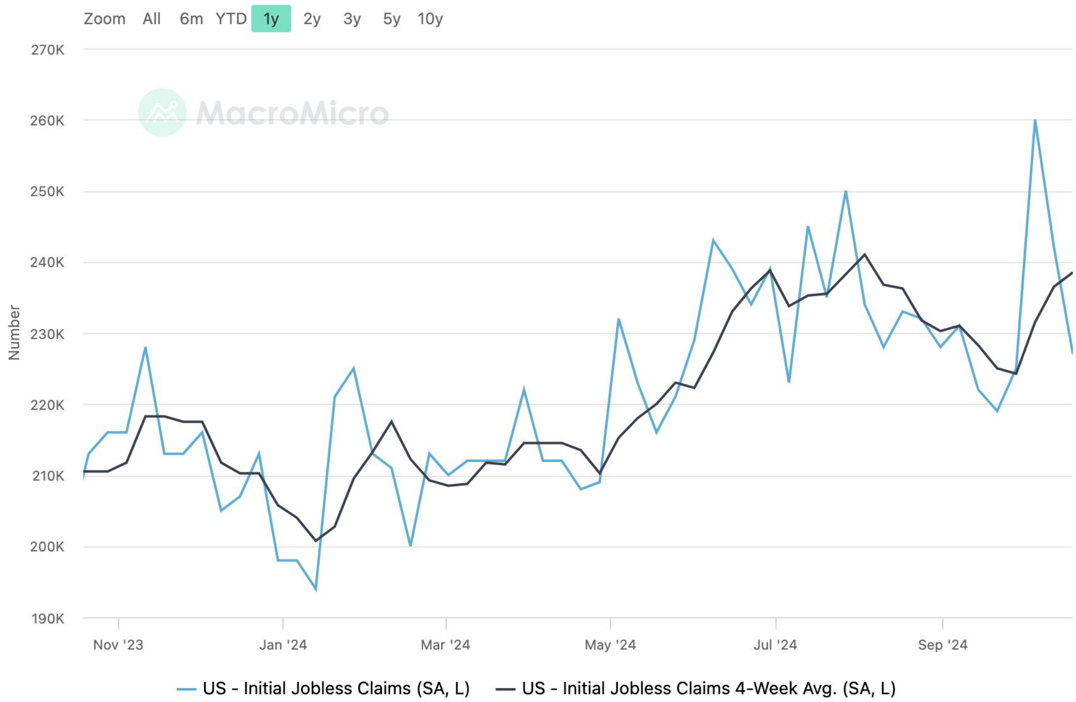


Figure 8. Initial Jobless Claims (Source: Department of Labor)

Recent labour data indicates a robust US jobs market, despite the disruptive effects of Hurricane Milton and ongoing strikes at the aircraft manufacturer, Boeing. Initial jobless claims, a measure of new unemployment applications, dropped from 242,000 to 227,000 for the week ending October 18th, according to the Labor Department's latest Unemployment Insurance Weekly Claims Report. The decline demonstrates overall labour market stability even amidst regional disruptions.

The hurricane's impact was most evident in Florida, where new claims surged to 10,600 in the week ending October 19th from 6,300 from the prior week, driven by storm-related economic slowdown. Yet, other states saw significant enough declines in new claims to balance the spike seen in Florida, signalling resilience in labour markets outside the affected areas.

We expect possible fluctuations in the jobless claims numbers over the remaining weeks of October due to the residual effects of the storm and the Boeing strike, which has entered its second month. The Boeing labour action, involving around 33,000 workers demanding wage increases and improved benefits, has halted production of key aircraft models, impacting not only Boeing but also its suppliers and related industries. Next week's payroll report will shed more light on the labour marke, but any dip in job gains is unlikely an indicator of fundamental weakness. It may simply reflect the immediate effects of these significant yet temporary events.

The Federal Reserve's Beige Book report, issued last Wednesday, October 23rd, has reinforced this view, describing US employment as having "increased slightly" in early October. Over half of the districts covered by the report indicated either slight or modest job growth, while the others noted stable conditions. "Many districts reported low worker turnover, and layoffs reportedly remained limited," the report noted. It further observed that "demand for workers eased somewhat, with hiring focused primarily on replacement rather than expansion."

Supporting these findings, an S&P Global survey announced last Thursday revealed employment stability in the manufacturing and services sectors. Notably, a decline in service jobs was "often linked to the non-replacement of leavers rather than layoffs," according to S&P Global, highlighting a trend where businesses are not expanding aggressively but maintaining current workforce levels.

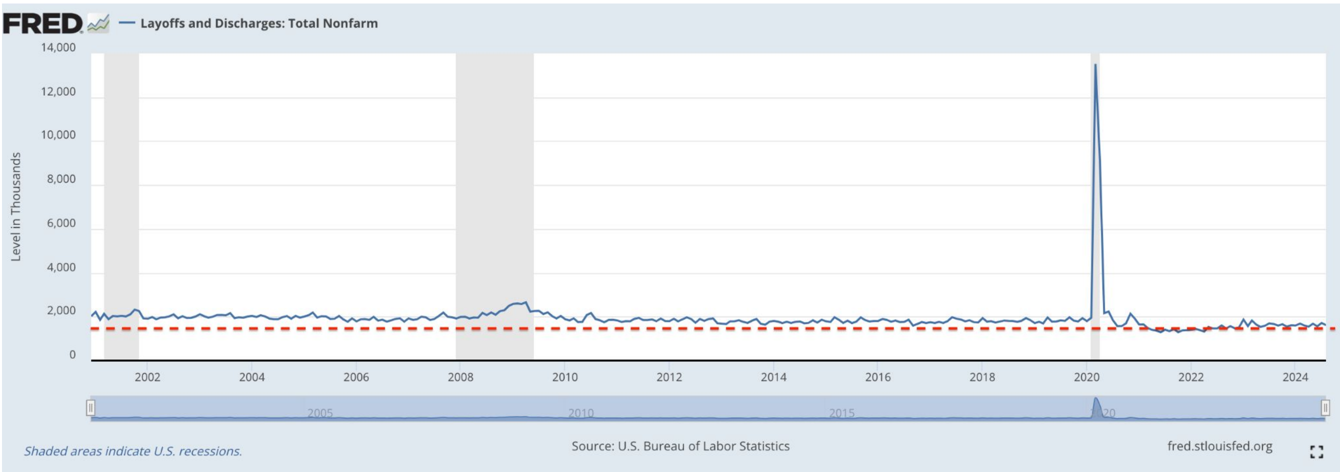


Figure 9. Layoffs and Discharges Since 2002: Current Layoffs Remaining Historically Low (Source: Bureau of Labor Statistics)

In summary, while hiring may have slowed, historically low layoffs are sustaining a steady labour market. Given that the October jobs report will be the final one before the upcoming election, it is critical to frame it in the appropriate context. Temporary disruptions from strikes and natural disasters may influence the numbers, but they do not necessarily reflect broader labour market weaknesses. As additional data becomes available, the resilience shown thus far indicates that the labour market remains strong, a promising sign for the overall economy even amid recent challenges.

US Housing Market Faces Divergent Trends Amidst High Interest Rates and Inflation

Recent housing data reveals a surge in new home sales even as existing home transactions reach historic lows, underscoring the complex dynamics driven by fluctuating mortgage rates and persistent housing affordability issues.

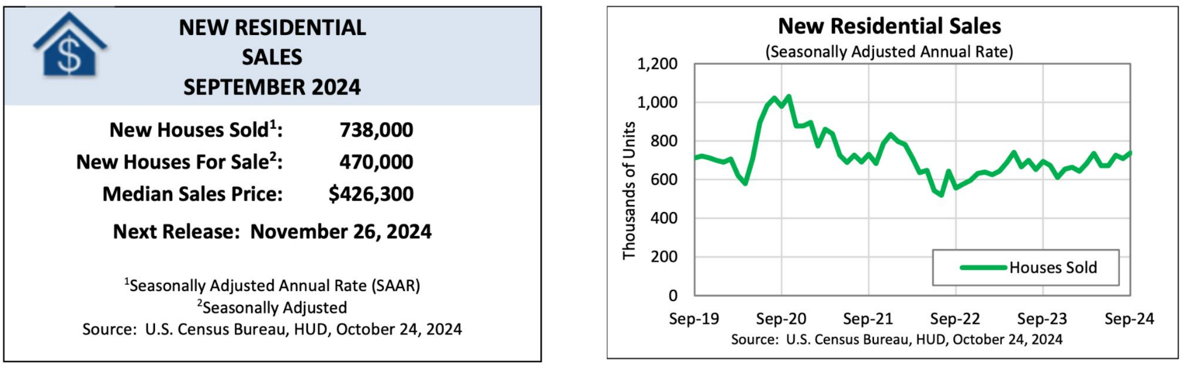


Figure 10. New Residential Sales, September 2024

In September, new single-family home sales reached a seasonally adjusted annual rate of 738,000 units, marking the highest level since May 2023, according to the latest [Census Bureau's Monthly New Residential Sales]() report. This 4.1 percent increase from August indicates a strong demand surge, fueled largely by a temporary drop in mortgage rates. As rates eased, many prospective buyers saw a window of opportunity to secure financing at a more favourable rate, leading to a spike in new home purchases.

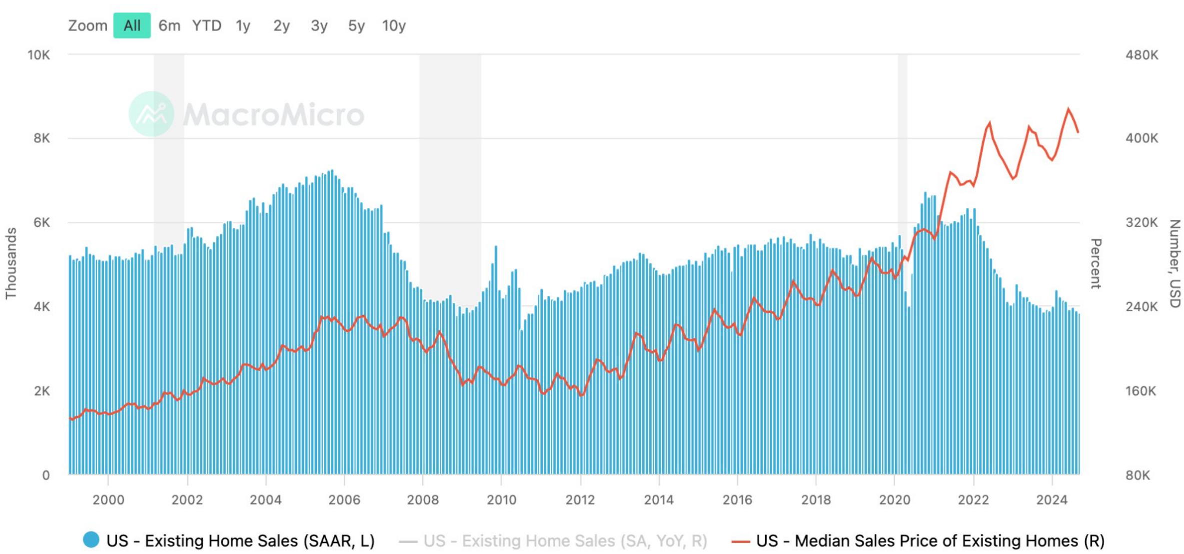


Figure 11. Existing Home Sales ; Median Sales Price of Existing Homes (Source: Macromicro)

While new home sales soared, the existing home market struggled, with sales plummeting to the lowest levels seen since October 2010. In September, existing home sales fell to a seasonally adjusted annual rate of 3.84 million units, marking a second consecutive month of decline. This trend reflects the larger challenges facing potential homebuyers, primarily the burden of persistently high mortgage rates and elevated home prices. Many homeowners with low-rate mortgages hesitate to sell and move, knowing they will have to pay significantly higher interest rates on a new mortgage, resulting in a phenomenon known as the "lock-in effect."

The “lock-in effect” creates a substantial barrier for mobility, with homeowners reluctant to move and face higher interest payments. According to data from Freddie Mac, the popular 30-year fixed mortgage rate rose to 6.44 percent last week, a stark increase from the approximate four percent average rate many homeowners currently pay. This has left many current homeowners “locked in” to their existing properties, shrinking the pool of available homes and curbing the overall supply of entry-level properties.

Affordability remains a central issue, particularly for first-time buyers. Even as the overall inventory of homes increased by 1.5 percent in September, with 1.39 million units on the market, prices remain high. September's median price for existing homes was $404,500—a record high for that month. The supply is also still below pre-pandemic levels, keeping prices elevated and affordability out of reach for many buyers.

The US housing market is undergoing a phase marked by high interest rates, affordability challenges, and fluctuating supply and demand dynamics. New home sales are currently bolstered by opportunistic buyers responding to temporary rate relief, but a sustained recovery in the housing sector remains uncertain. If inflation continues to stabilise and mortgage rates experience significant easing, the market may eventually see a more balanced recovery. However, without substantial Federal Reserve intervention to bring rates down, high-interest mortgages will likely keep many existing homeowners "locked in" and continue limiting the supply of affordable housing.

NEWS FROM THE CRYPTO-SPHERE

Emory University Reports Major Investment in Bitcoin Trust and Coinbase

Figure 12. Emory University Reports Major Investment in Bitcoin Trust and Coinbase

- **Emory University disclosed holdings of nearly 2.7 million shares in the Grayscale Bitcoin Mini Trust, valued at around $15.1 million**
- **Emory also holds 4,312 shares in Coinbase, worth approximately $768,000**

Emory University, a private research institution based in Atlanta, recently disclosed it had made investments in assets with exposure to crypto. In an October 25th filing with the US Securities and Exchange Commission, Emory disclosed holdings of nearly 2.7 million shares of the Grayscale Bitcoin Mini Trust, currently valued at approximately $15.1 million.

The Grayscale Bitcoin Mini Trust, is a spin-off of the Grayscale Bitcoin Trust (GBTC), the company's main Bitcoin-focused product. Unlike the larger GBTC, the Mini Trust operates with a lower per-share price, making it more accessible to those wanting smaller or more precise investments in Bitcoin.

Emory's filing also revealed a position in Coinbase, with 4,312 shares valued at around $768,000. The holdings are as of September 30.

Emory's decision to invest in crypto assets reflects a cautious but growing acceptance of digital assets within traditional institutions. The fact that it has bought into crypto via two equity related investments, also demonstrates its preference for using established financial infrastructure to increase exposure, rather than investing directly in the underlying asset, which may pose custodial challenges.

Microsoft to Consider Bitcoin Investment Proposal at Upcoming Shareholder Meeting

Figure 13. Microsoft to Consider Bitcoin Investment Proposal at Upcoming Shareholder Meeting

- **Microsoft's December shareholder meeting will include a proposal to assess Bitcoin as an investment, though the board advises against it, citing volatility and regulatory concerns**
- **If Microsoft allocated even a small percentage of its $76 billion cash reserves to Bitcoin, it would send a strong signal into the market of the acceptance of Bitcoin as a treasury asset**

Microsoft Corporation (MSFT) disclosed an item proposed for its December 10 annual shareholder meeting to assess Bitcoin as a potential investment. Filed on October 24th, the proposal by the National Center for Public Policy Research, argues that corporations should "consider diversifying their balance sheets with assets that appreciate more than bonds, even if those assets are more volatile short-term." It says that "Bitcoin is an excellent, if not the best, hedge against inflation and [as] corporate bond yields are less than the true inflation rate, companies should also not risk shareholder value by ignoring Bitcoin altogether. At minimum, companies should evaluate the benefits of holding some, even just 1%, of its assets in Bitcoin." Interestingly, Microsoft's board has advised shareholders to vote against it.

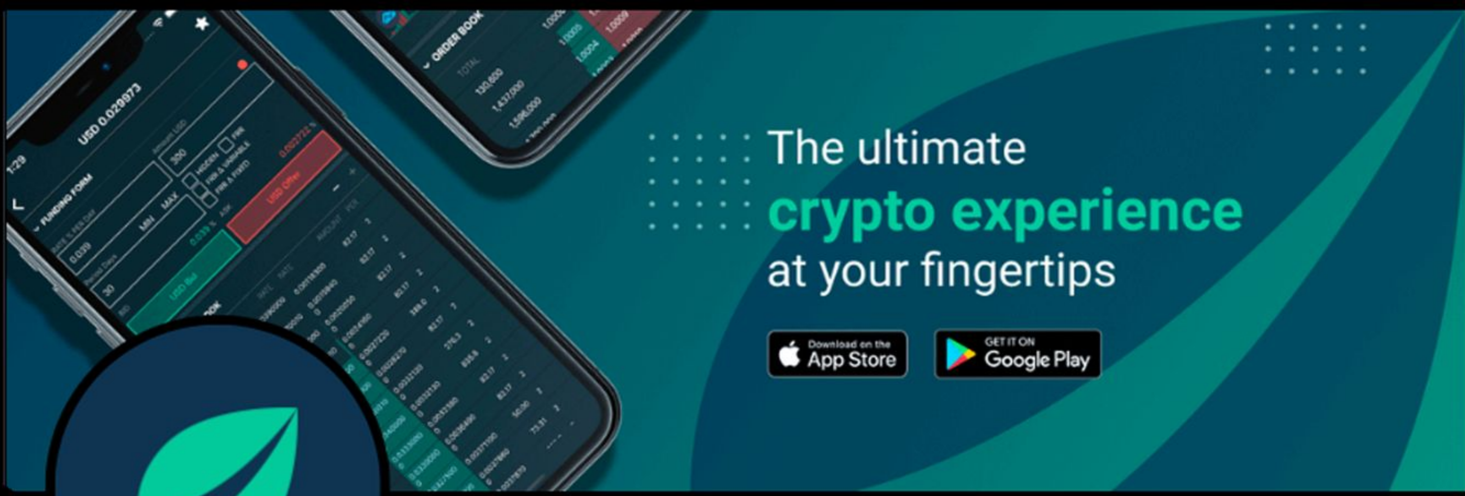
As of its Q2 2024 financial report, Microsoft has $76 billion in cash reserves. A 1 percent investment would represent a $760 million investment. At an estimated Bitcoin price of $73,000, this would equate to 10,411 BTC.

Such an acquisition would still be considerably smaller than the holdings of MicroStrategy. However, its Bitcoin investments are cited in the proposal as the reason why its “stock [has] outperform[ed] Microsoft stock this year by 313% despite doing only a fraction of the business that Microsoft has.”

A Microsoft buy-in would send a very strong signal that Bitcoin remains a legitimate treasury asset for corporations.

In public companies like Microsoft, shareholders vote on key issues at annual meetings. While the Bitcoin investment proposal is non-binding, it allows shareholders to express their preferences, potentially influencing the company’s actions. Major shareholders can also request company-wide votes on specific issues, as SEC regulations permit. While the board’s recommendation against any Bitcoin investment reflects concerns over volatility and regulatory risks, the interest from institutional investors underscores the growing demand for Bitcoin in corporate circles.

As the third-largest tech company in the US with a market cap of $3.157 trillion, Microsoft would become the largest public company to invest in Bitcoin if the proposal passes.



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