BITFINEX Alpha

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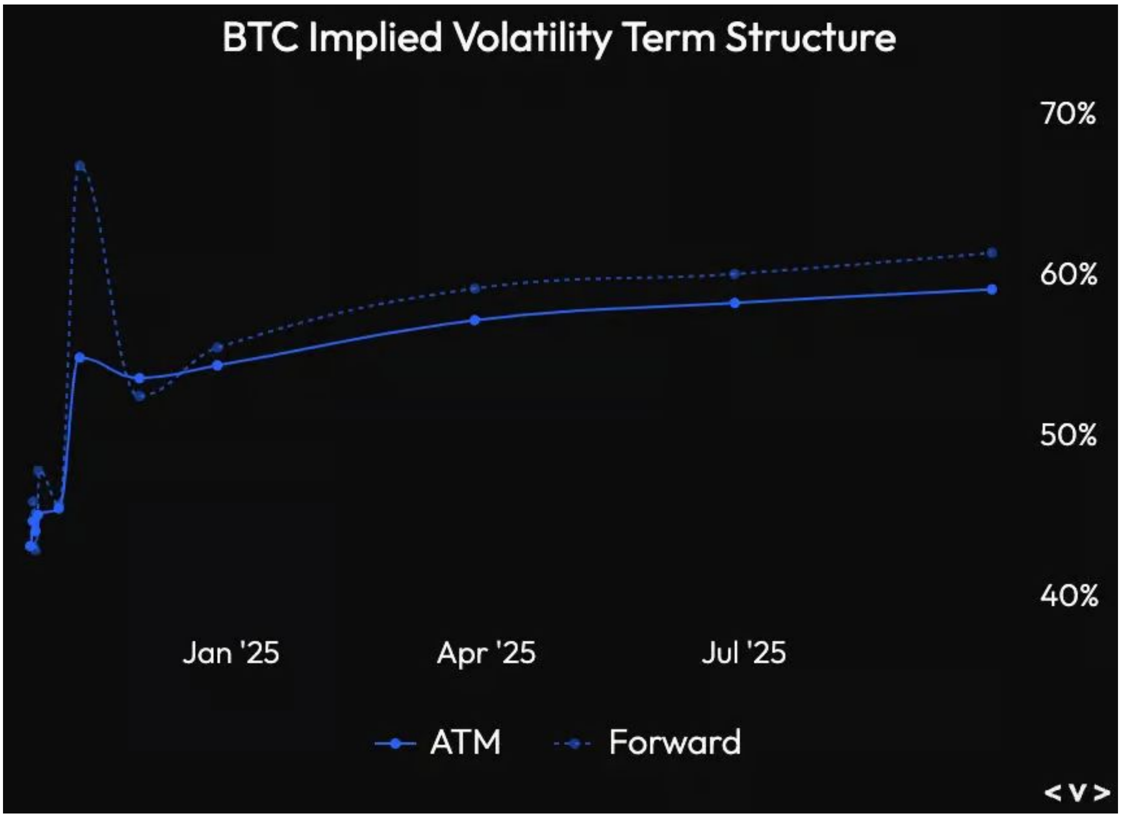
EXECUTIVE SUMMARY

Calm Before the Storm?

After oscillating within an 8-month range, Bitcoin last week almost breached its all-time high before suffering a sharp correction. We believe this rally was initially caused by the "Trump Trade" narrative, which then gave way to continued uncertainty over the outcome of tomorrow's US presidential election. This lack of confidence is also being reflected in the Bitcoin options market.

On the eve of election day, markets see a Republican victory as favourable for BTC, while a Democrat win leaves the outlook more ambiguous. Average betting odds for a Trump win have fallen from 64.9 percent to 56 percent. In the options markets, front-end implied volatility for contracts with the earliest expiry is unusually subdued up to election day (November 5th). This muted volatility suggests investors are holding back, waiting for the dust to settle. A spike in volatility is still expected, however, around November 5th to 8th, which could either fuel big moves or, if it fails to materialise, signal a deeper market caution.



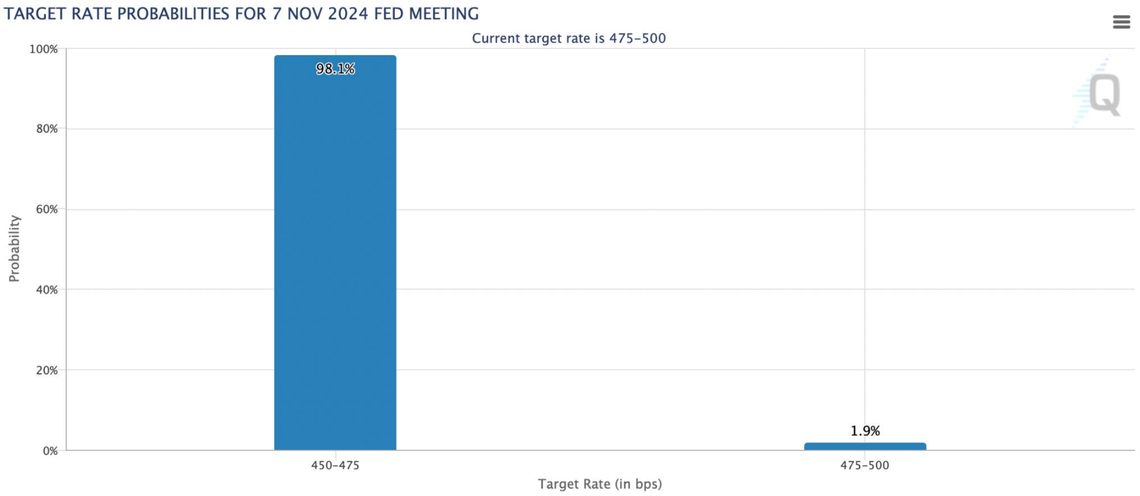
There is also apathy in the altcoin markets, with Bitcoin dominance reaching over 60 percent—a new cycle high. Altcoins are now seeing severe drawdowns whenever BTC pullbacks. Ethereum and Solana have both dropped around 12 percent from their recent highs, and ETH is now 40 percent down from its initial ETF rally. The speculative interest that once supported altcoins seems to have vanished, reflected in stable funding rates and muted overall market sentiment. With BTC absorbing most of the capital flow into crypto assets, altcoins are struggling to keep up, and without a fresh catalyst, their prospects for a comeback in the near-term appear slim.

Even with last week's pullback, Bitcoin's overall resilience since its September low is noteworthy. In a nutshell, the current market dynamics point to an electrifying week ahead. Whether you're a trader, investor, or casual observer, the road to election day promises to be anything but dull for the crypto market.

The elections also come as the US economy continues to demonstrate resilience despite recent disruptions caused by two hurricanes and ongoing industrial strikes. While there have been modest job losses and downward revisions to jobs market data, underlying labour market strength appears steady with a stable unemployment rate of 4.1 percent and wage growth at 4 percent year-on-year. Consumer spending and personal income also continues to rise, with real spending up and inflation pressures mainly contained within the service sector, suggesting stable demand as the holiday season approaches.

Job openings have declined, reflecting reduced labour demand, but consumer confidence has surged, indicating optimism about job stability.

GDP growth in the third quarter was strong at 2.8 percent, driven by robust consumer spending, though high interest rates have constrained residential investment. As inflation remains controlled, the Federal Reserve is expected to proceed cautiously with rate cuts, focusing on sustaining growth. With the labour market, wage growth, and consumer spending holding firm, the economy shows resilience heading into a pivotal election season, balancing steady expansion with moderated expectations.



Recent developments in the cryptocurrency industry reveal both regulatory challenges and notable growth. Immutable, a blockchain gaming platform, announced potential legal action from the SEC concerning its IMX token, as the agency intensifies its scrutiny of crypto assets. Immutable maintains that IMX is not a security and intends to defend its position.

Meanwhile, Tether reported record Q3 profits of $2.5 billion, with over $120 billion USDt in circulation and $102.5 billion in US Treasuries, highlighting its financial stability and extensive reserves. CEO Paolo Ardoino underscored Tether's strategic investments and commitment to liquidity.

In Florida, the CFO of the state pension fund, Jimmy Patronis has said he supports expanding the state's $800 million crypto portfolio as a hedge against federal control, suggesting this could increase if former President Trump is re-elected. It is further evidence of the evolving role of cryptocurrency in financial systems and policy debates, emphasising its growing influence on economic stability.

Happy Trading!

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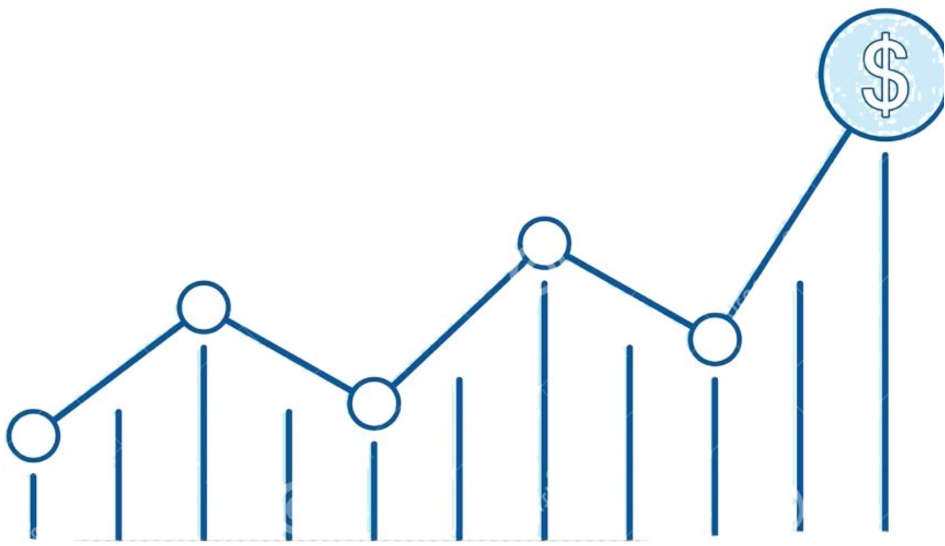


MARKET SIGNALS

Bitcoin Almost Breaches ATH

Bitcoin's price movements continue to be swayed by macro and geopolitical events, and in particular this week's US presidential election. BTC surged past the $70,000 level early last week, hitting a high of $73,525 - just $141 short of hitting the current all-time high, before it experienced a sharp correction. The last time it breach the $70,000 level, was just prior to former President Donald Trump's address at the Bitcoin Nashville conference. Ultimately, BTC closed the week at breakeven, having risen as much as 8.7 percent from the weekly open.

Figure 1. BTC/USD 6H Chart. (Source: Bitfinex)

Late last week's price action represents one of the several "whipsaw" movements we have been expecting in the run up and post the elections, that we discussed in last week's *Bitfinex Alpha*.

The continuing consensus across risk assets is that a Republican victory would be bullish for the markets, whereas the immediate impact of a Democrat win remains uncertain. Consequently, speculation—and, in turn, volatility—has surged in the lead-up to the election.

Our view that BTC could experience a correction near the October close of $70,299 has already materialised, following a decline in Trump's polling performance, with betting odds likely playing a significant role in this dynamic.

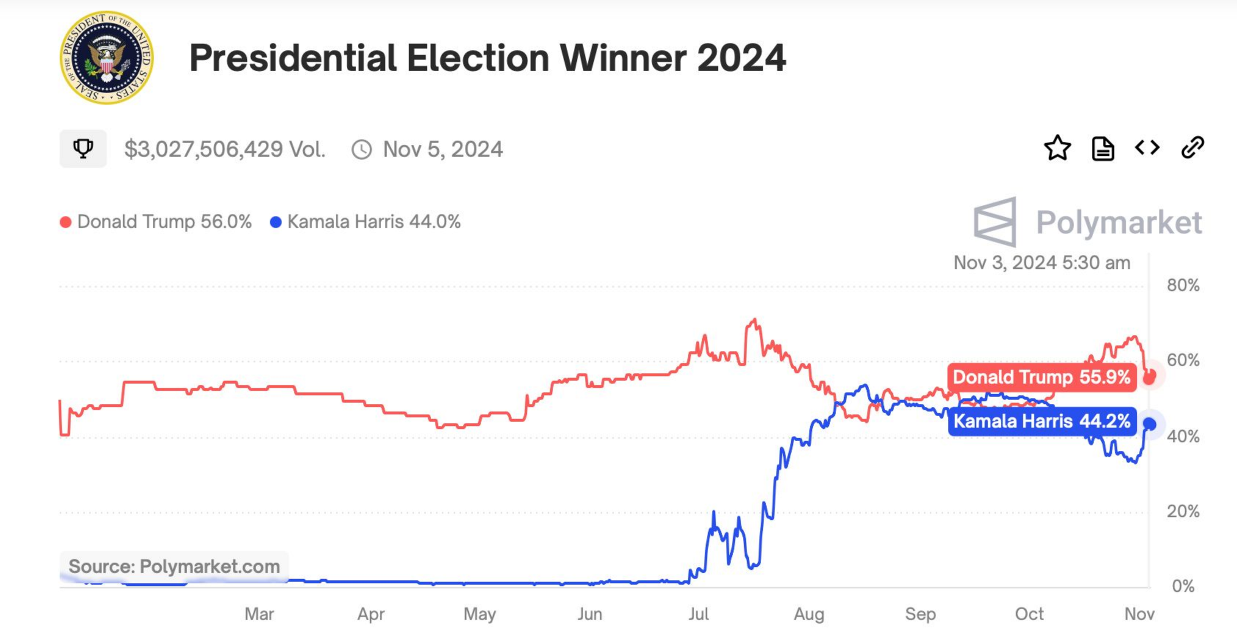


Figure 2. Trump vs Harris Election Odds. (Source: Polymarket)

Average betting odds for a Trump victory have decreased from 64.9 percent two weeks ago, to 56 percent as of November 3rd, according to data from Polymarket (refer to Figure above).

In addition, national polling averages over the past week have shown a shift in favour of Harris over Trump, as illustrated in Figure below.

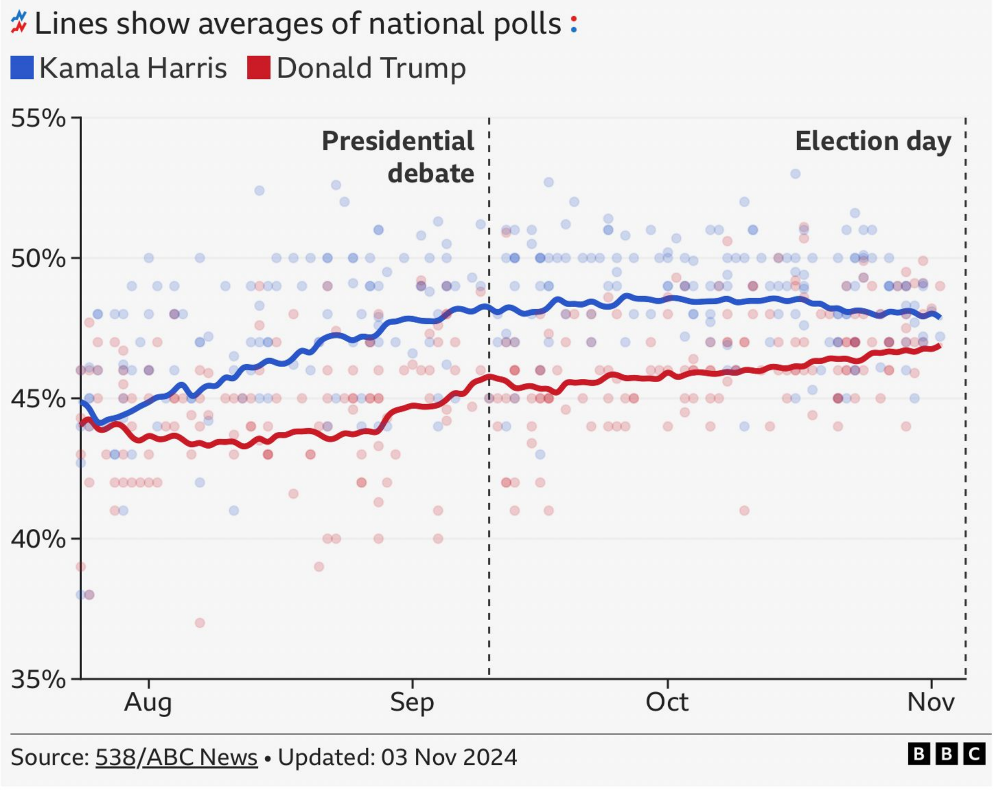


Figure 3. National Polling Averages Aggregated. (Source: BBC)

The front end of the options market is currently facing significant pressure, with implied volatility remaining notably suppressed. "Front volatility" refers to the implied volatility of option contracts that are closest to their expiration date. This metric is crucial as it reflects the market's expectations for near-term price fluctuations.

Despite a general expectation for heightened volatility leading up to the day of the US elections on 5th November, many market participants seem hesitant to take action, adopting a wait-and-see approach. At the front end of the options market, Bitcoin options are trading in the low 40s for implied volatility. Typically, such low volatility levels suggest a lack of market confidence in significant price movements. In contrast, the volatility structure completely changes between November 5th to 8th. This adds confluence to our expectation of significant whipsaw price action during election week without a strong directional move in either direction.

Another possible interpretation of current low front-end volatility ahead of election day is that it could signal a more profound concern for Bitcoin and altcoins as is shown in both BTC's current correction and the more significant corrections being seen in altcoins. Moreover, with options approval pending for Bitcoin spot ETFs, any shifts in sentiment surrounding these developments could further influence volatility and trading activity.

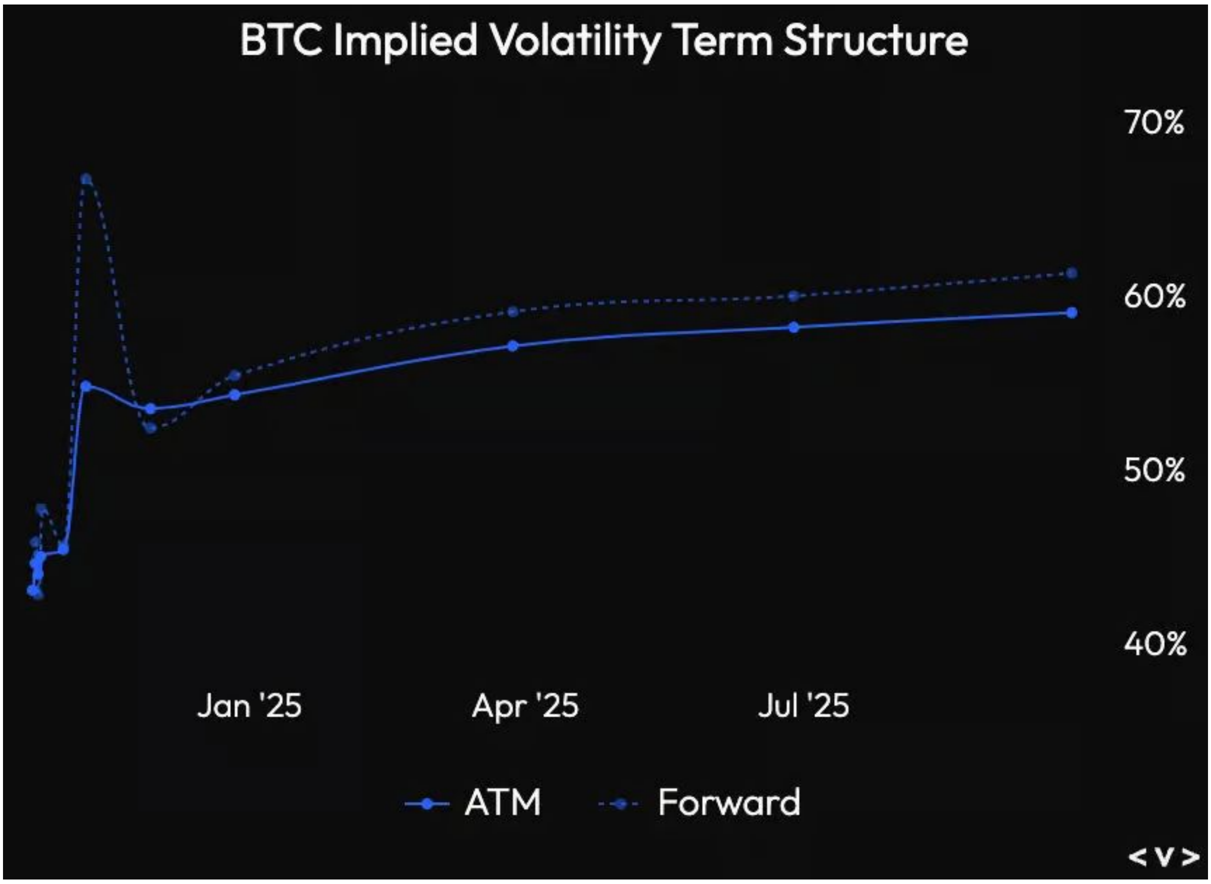


Figure 4. BTC Implied Volatility Term Structure For At-The-Money And Forward Options. (Source: VeloData)

In summary, the current low volatility levels at the front end indicate a cautious market, and as we near the election, a lift in volatility would be desirable to reflect heightened market dynamics. If the expected volatility fails to materialise, it may indicate a more substantial issue at play and a much deeper correction for BTC on the lower timeframes. In terms of the options market, apathy to price movements often reflects a more bearish sentiment than strong put buying.

Bitcoin Dominance Continues to Make New Cycle Highs as Altcoins Suffer

The correction last week was more severe for altcoins than Bitcoin and as a result Bitcoin Dominance hit yet another cycle high reaching 60.62 percent as we go to press. Despite some altcoins outperforming BTC since the September lows, the general trend continues to be Bitcoin outperforming the vast majority of altcoins since the bear market began in late 2021/early 2022. Given the performance of both BTC and Ethereum ETFs - with the latter attracting considerably smaller flows than the former - we believe that aside from brief periods where altcoins may see jumps in their market cap, Bitcoin will continue to outperform.

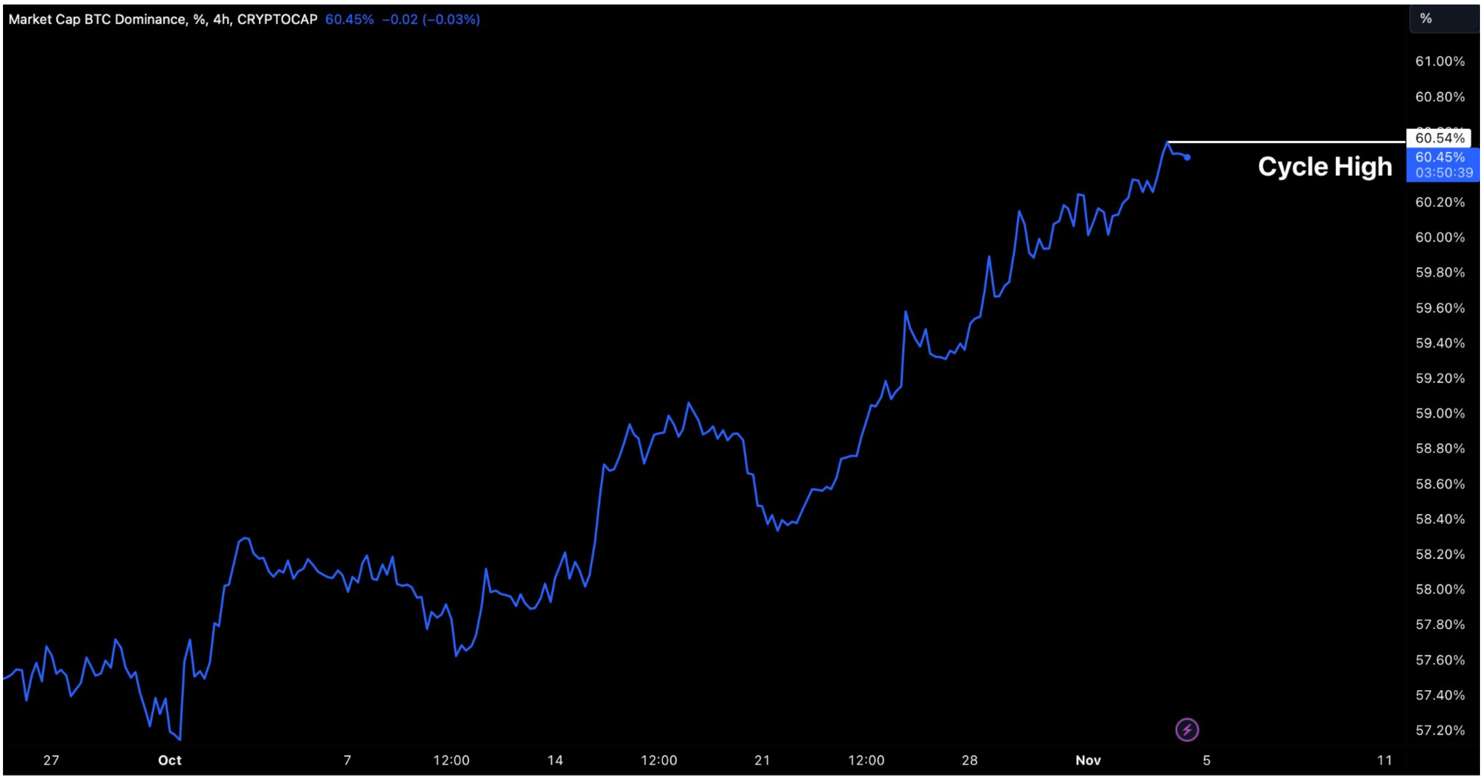


Figure 5. Bitcoin Dominance (Bitcoin Market Capitalisation As Percentage of Total Crypto Market Capitalisation Including Stablecoins)

The crypto markets have experienced a slight cooling since October 31st, with BTC declining over 8 percent to about $67,530 on 3 November. Both Ethereum and Solana have also seen drops of around 12 percent since their highs on October 29th. Notably, ETH is now down 40 percent from its initial pump following the ETF hype, while Bitcoin dominance has continued to rise, reaching new highs of 60.62 percent.

The altcoin market is expected to remain subdued as traders await the results of the US elections early next week. Our base case has remained that the “Trump Trade” only pertains to Bitcoin as far as pre-election speculation is concerned. Meanwhile, altcoins—particularly those outside the top 10—have shown persistent weakness since the March highs, with a significant decline of about 45 percent to date to reach $200B market cap, while BTC is almost back to levels close to its all-time high. (refer Figure below)

Figure 6. Crypto Total Market Cap Excluding Top 10.

The lack of speculation on altcoins is also seen in current funding rates. While global open interest for Bitcoin is still hovering near all-time highs, funding rates are near 10 percent APR, which we believe is due to a multitude of delta neutral strategies at play, which has put funding rates at a “new normal” of 5-12 percent. The same is not true for altcoins where funding rates continue to remain stable. Despite the recent rise in the BTC price, there is a lack of speculation on crypto tail risk assets, namely altcoins.

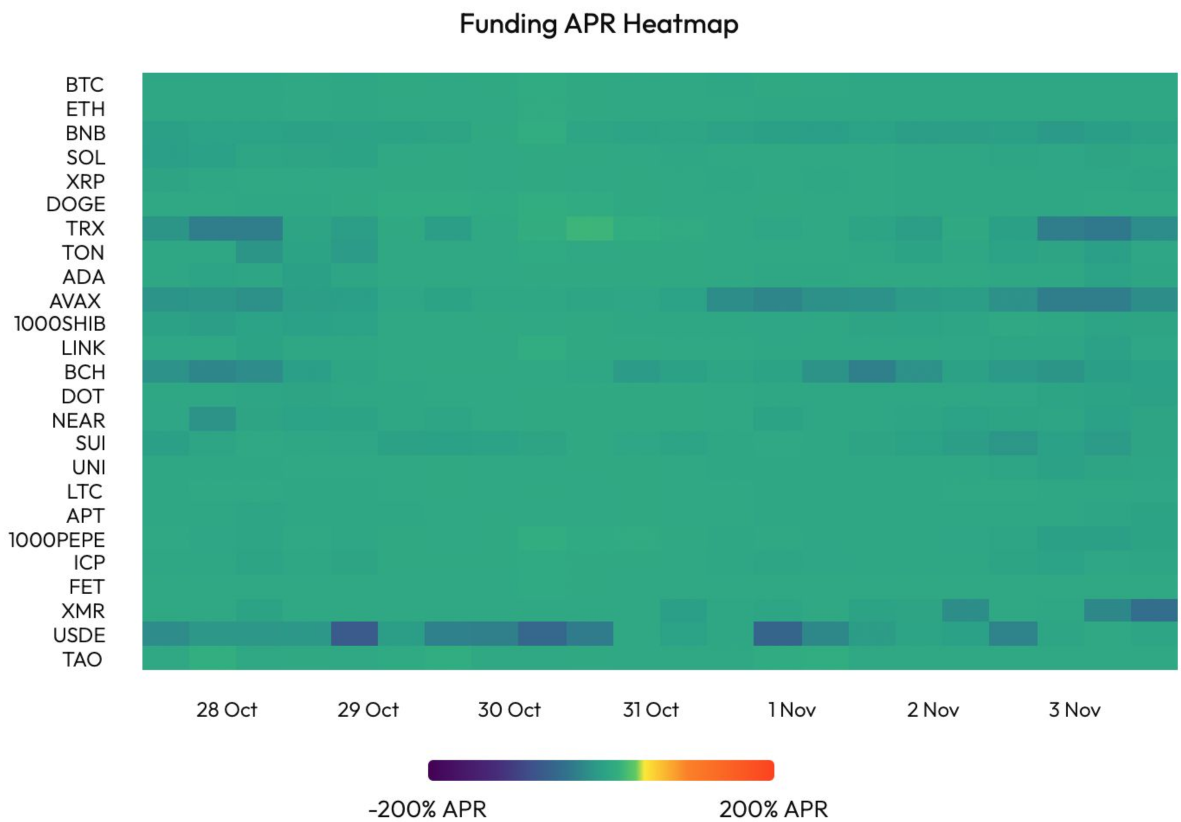


Figure 7. Funding Heatmap In APR Terms for Large Cap Crypto Assets. (Data Source: VeloData)

The chart above reflects one-month funding rates across large market cap coins, and indicates a stagnant market environment. Activity has been lacklustre, with no significant movements sustained for any considerable duration. We believe that the altcoin market may experience further declines relative to Bitcoin in the mid-term, primarily due to the apathy of speculators. This general disinterest among investors suggests that upward momentum in altcoins is unlikely without a significant catalyst.

GENERAL MACRO UPDATE

October Jobs Report Distorted by Hurricanes and Strikes, True Labour Market Strength Remains Steady

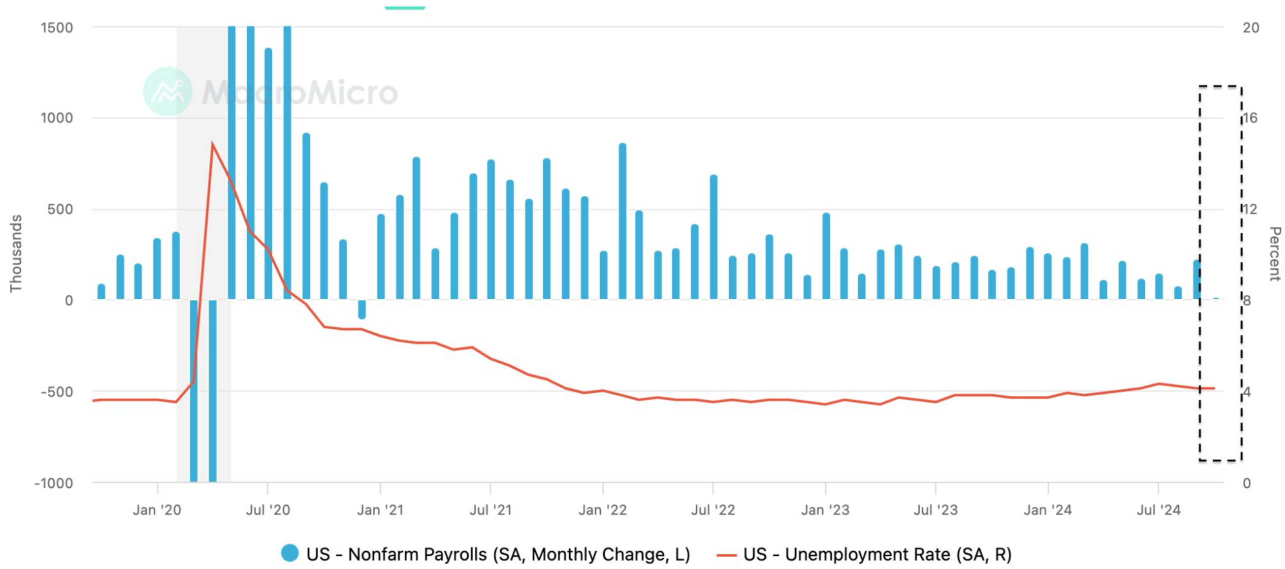


Figure 8. US Nonfarm Payrolls, Unemployment Rate (Source: Micromacro, US Labor Department)

The October Employment Situation report released last Friday, November 1st, provides a snapshot of how the US labour market has been impacted by temporary factors, including two hurricanes and a major industrial strike. While the data is noteworthy, we caution against interpreting it as a sign of labour market weakness.

Temporary disruptions were significant in October. The strike by aircraft manufacturer Boeing accounted for a reduction of 40,000 jobs, while Hurricanes Helene and Milton contributed to further job losses, though the exact number remains unspecified. In addition, the Bureau of Labor Statistics revised August and September data downward by 112,000 jobs, and while October saw a slight gain of 12,000 positions, it resulted in a net loss of 100,000 jobs over this period.

These figures however, should be viewed as noise rather than signs of a downturn. Similar disruptions may appear in November's data too, and it will only be sometime early next year that we will have a clearer view of the underlying job market conditions. In our view, if you clear away these recent disruptions, the labour market shows signs of stabilising at a more sustainable pace.

Notably, the unemployment rate has remained steady at 4.1 percent in October, with wages increasing by 0.4 percent month-on-month and 4.0 percent year-on-year, indicating steady job growth. Although the hurricanes caused a temporary dip in manufacturing hours to 39.9 hours per week, total private sector hours held steady at 34.3, showing resilience in workforce productivity. The aggregate weekly hours worked, a key predictor of consumer spending, remained stable at 116.7, suggesting solid economic activity as the holiday season approached.

Labour force participation has also increased slightly, with 150,000 new entrants, even though the employment-to-population ratio eased from 60.2 percent to 60 percent. The median duration of unemployment rose to 10 weeks, meaning workers who lose their jobs may expect a three- to four-month job search before reemployment.

Given the temporary factors affecting October's top-line figures, it's expected that the Federal Reserve will look past this data and proceed with a 25-basis-point interest rate cut during its meeting this week. Financial markets have already anticipated this cut, viewing it as a response to a stable economy rather than a reaction to October's distorted data.

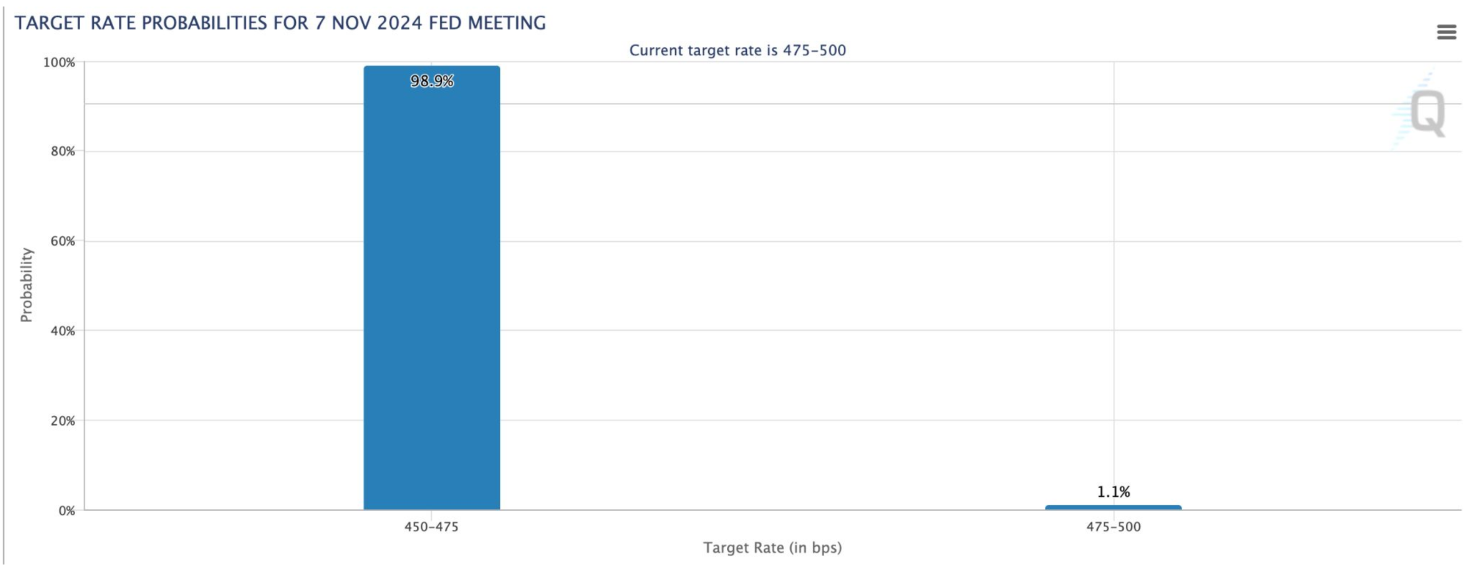


Figure 9. Target Rate Probabilities for November 2024 FED Meeting (Source: CME FedWatch Tool)

So, despite weather-induced disruptions, the underlying strength of the labour market remains intact, with robust levels of employment, stable wage growth and steady consumer spending.

Strong Consumer Spending and Income Growth Fuel US Economic Momentum

	2024				
	May	June	July	Aug.	Sept.
	Percent change from preceding month				
Personal income:					
Current dollars	0.5	0.3	0.3	0.2	0.3
Disposable personal income:					
Current dollars	0.4	0.2	0.3	0.2	0.3
Chained (2017) dollars	0.4	0.1	0.1	0.1	0.1
Personal consumption expenditures (PCE):					
Current dollars	0.5	0.3	0.6	0.3	0.5
Chained (2017) dollars	0.5	0.1	0.4	0.2	0.4
Price indexes:					
PCE	0.0	0.1	0.2	0.1	0.2
PCE, excluding food and energy	0.1	0.2	0.2	0.2	0.3
Price indexes:	Percent change from month one year ago				
PCE	2.6	2.4	2.5	2.3	2.1
PCE, excluding food and energy	2.7	2.6	2.7	2.7	2.7

Figure 10. New Residential Sales, September 2024

The US economy shows signs of solid growth as robust consumer spending, rising incomes, and steady price stability shape a promising outlook for the final months of the year.

According to the September Bureau of Economic Analysis' Personal Income and Outlays report released last Thursday, October 31st, Personal spending climbed by 0.5 percent, driven by a 0.4 percent increase in inflation-adjusted (real) spending and a 0.3 percent boost in personal income. The Personal Consumption Expenditures (PCE) price index, which is a key measure of inflation, ticked up by 0.2 percent over the month and by 2.1 percent on a year-on-year basis. The "core" PCE, which excludes food and energy prices, offers an even clearer view of underlying inflation trends, rising 0.3 percent for the month and 2.7 percent year-on-year.

A closer look reveals that inflation pressures are mainly concentrated in the service sector, where prices rose by 3.7 percent, while goods prices actually declined. Durable goods (long-lasting items like appliances and cars) saw a 1.9 percent price drop, and nondurable goods (such as clothing and food items) fell by 0.8 percent. Energy costs saw a steep decrease of 8.1 percent, while food prices increased moderately by 1.2 percent.

Data from the Bureau of Labor Statistics' Employment Cost Index highlighted continued growth in wages and benefits, at a steady pace. In the third quarter, total compensation rose by 0.8 percent, with private industry compensation up 0.7 percent. Wages and salaries across sectors increased by 0.8 percent, while benefits rose 1.2 percent. Government employees saw a compensation increase of 1.1 percent during the quarter.

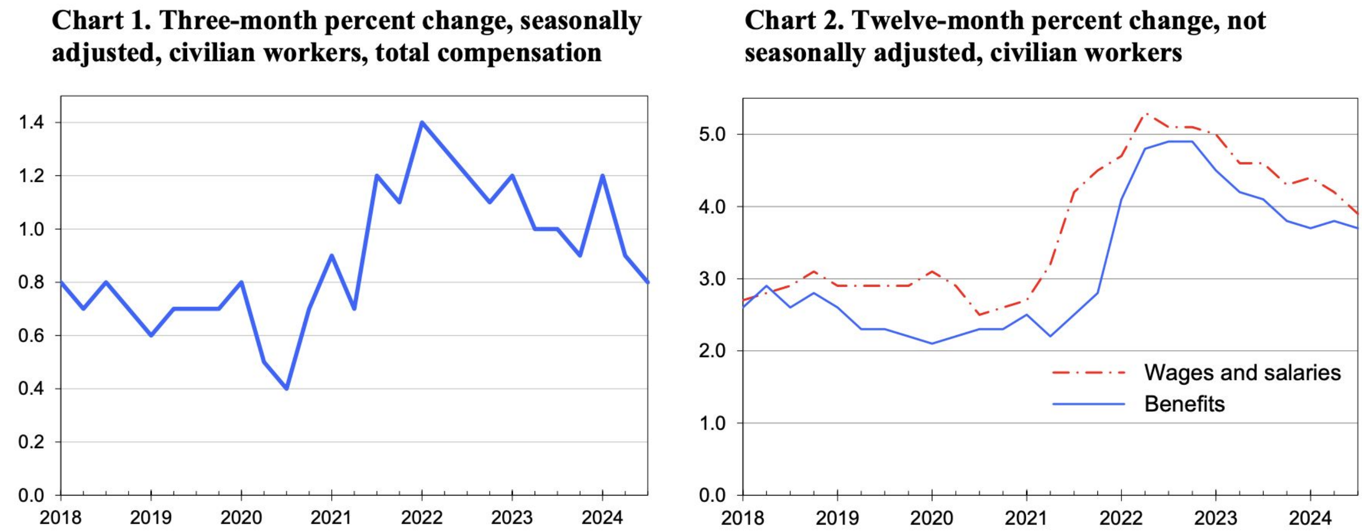


Figure 11. Compensation, Wages and Salaries, Benefits (Source: Bureau of Labor Statistics)

Overall, total compensation rose by 3.9 percent, with private sector compensation growing by 3.6 percent, suggesting moderate but consistent wage growth.

These factors,steady income growth, contained inflation, and resilient spending,underscore a stable economic environment that bodes well for continued growth, even as inflationary pressures remain in check. With stable consumer demand, the economy appears well-positioned for sustained expansion heading into the new year.

More Signs of a Soft Landing as Job Openings Drop and Consumer Confidence Rebounds

Recent economic indicators suggest a smooth economic slowdown, often called a "soft landing". Even as job openings declined, consumer confidence is rising, hinting at a steadier economic environment.

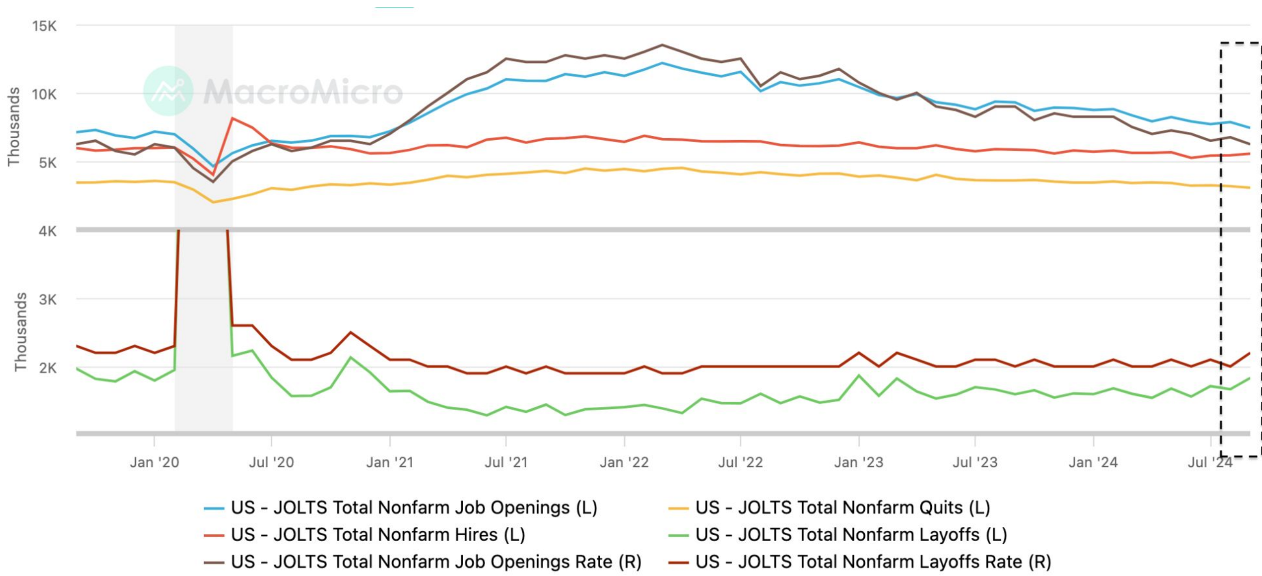


Figure 12. Job Openings and Labor Turnover Survey (Source: Macromicro, Bureau of Labor Statistics)

According to the latest Labor Department's Bureau of Labor Statistics' Job Openings and Labor Turnover Survey (JOLTS) released last Tuesday, October 29th, job openings fell by 418,000 in September, bringing the total number of openings to 7.4 million, the lowest level since early 2021. The drop points to reduced demand for labour and implies pressure in the hiring market is slowing. However, alongside this decline, the number of hires saw a slight improvement, and the rate of workers voluntarily leaving jobs stabilised, indicating a labour market that, while cooling, remains stable and is gradually normalising.

Revised data for August reduced the initial count of unfilled jobs from 8.04 million to 7.86 million; the consensus forecast was 8 million openings. Hiring rose by 123,000, reaching 5.56 million, while layoffs also increased by 165,000, totalling 1.833 million. Factors like the recent hurricanes and ongoing labour strikes may briefly impact job growth data, with a notable slowdown in job gains anticipated for October.

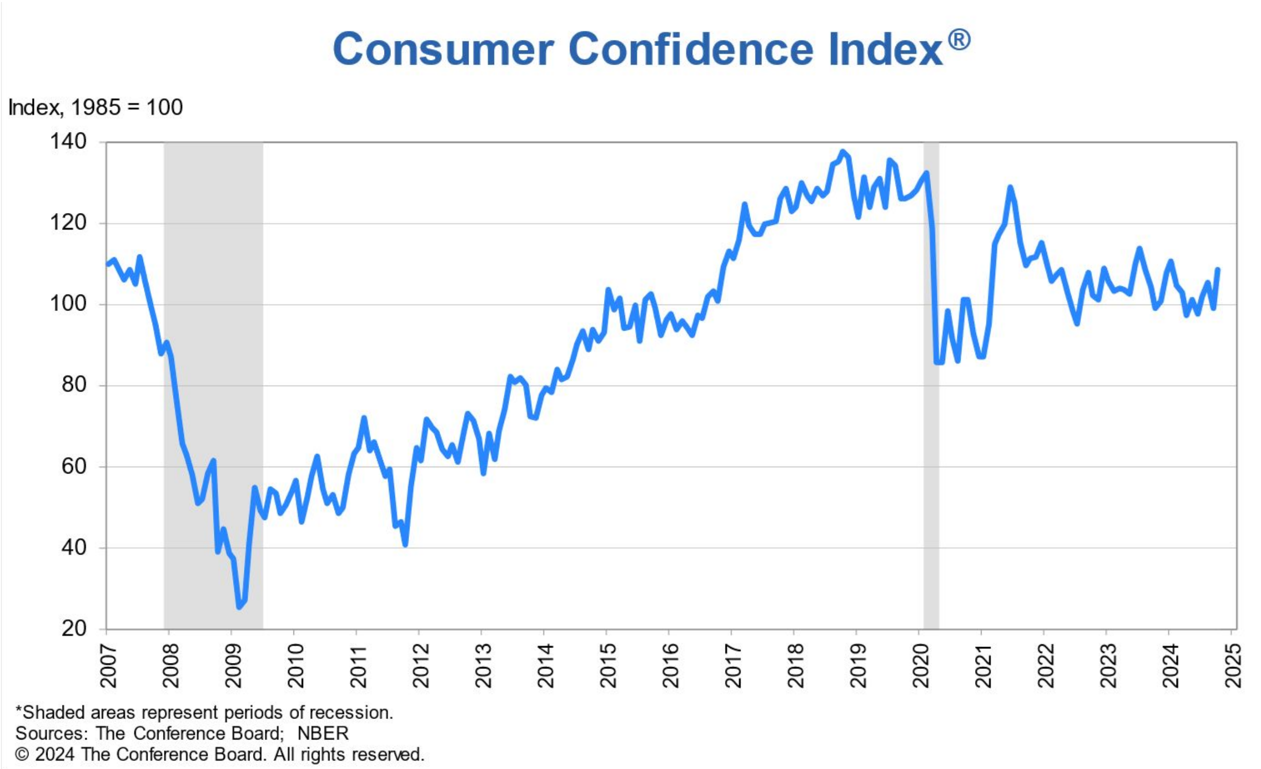


Figure 13. Consumer Confidence (Source: The US Conference Board)

Despite some market cooling, consumer confidence saw a significant boost in October, fueled by a sense of job security. The Conference Board's consumer confidence index jumped to 108.7 from 99.2, suggesting that Americans generally feel optimistic about the stability of their employment.

Inflation expectations have edged up slightly, but these minor increases are not yet a cause for the Federal Reserve to take action, as inflation remains fairly stable. With consumer spending healthy, and the labour market strong, there's potential for the economy to perform even better than anticipated. However, the Fed retains the flexibility to guide economic policy based on developments in the coming months.

US Economic Growth Stays Strong in Third Quarter, Driven by Consumer Spending and Wage Gains

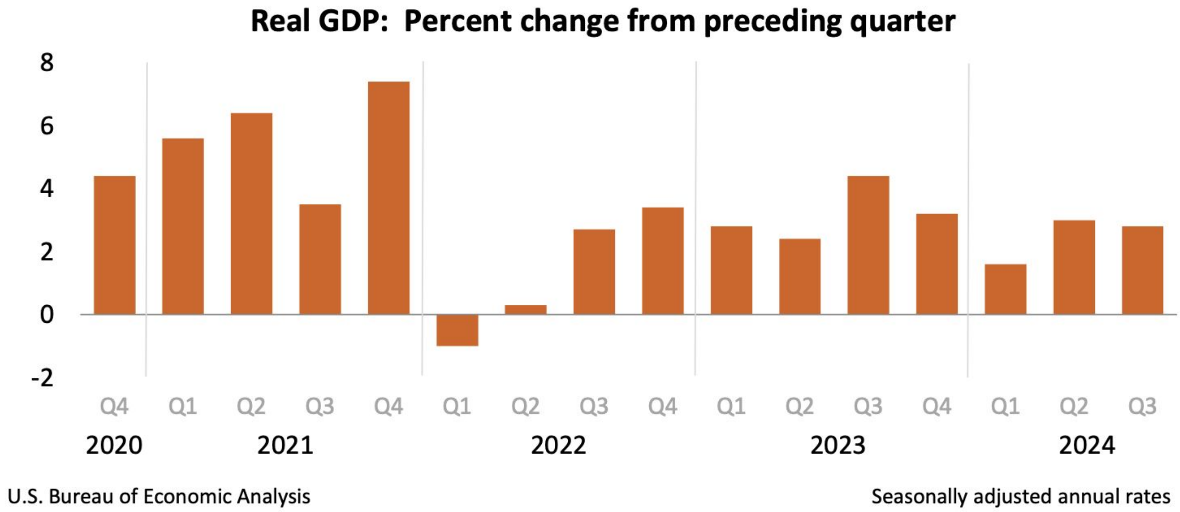


Figure 14. Gross Domestic Product (Source: Bureau of Labor Statistics)

The US economy has grown steadily in the third quarter, with inflation cooling and wages rising, supporting consumer spending ahead of a pivotal presidential election.

The Bureau of Labor Statistics' Gross Domestic Product (GDP) report for the third quarter released last Wednesday, October 30th, has shown that the economy grew at 2.8 percent, down slightly from 3.0 percent in the second quarter. Even at 2.8 percent, this growth rate significantly surpasses the Federal Reserve's non-inflationary target of 1.8 percent, reflecting a strong US economy.

Over the last three quarters, the US economy has maintained an average growth rate of 2.5 per cent. This growth has been largely due to full employment and wage increases that outpaced inflation over the past year and a half. For example, household spending remained solid, with a notable 6 percent rise in spending on goods, 8.1 percent in durable goods, and a 4.9 percent increase in nondurables. Services also saw growth at 2.6 percent.

Investment patterns present a mixed story. Gross private investment edged up by 0.3 percent, with nonresidential investment jumping 3.3 percent, including an 11.1 percent surge in equipment spending and slight gains in intellectual property. However, residential investment dropped by 5.1 percent, reflecting the lingering impact of high-interest rates on the housing sector. As rates eventually decrease, this segment is expected to recover, possibly revitalising the housing market by spring or summer next year.

Looking to the final quarter of the year, growth is anticipated to be moderate. Yet, with the unemployment rate at 4.1 percent and wage increases consistently outpacing inflation, consumer spending will likely remain robust, keeping the economy resilient. Should the labour market maintain its strength, the Federal Reserve may find less need to implement steep rate cuts as initially projected.

As voters head to the polls in an election centred on economic issues, the current data underscores a stable economic backdrop, even with some cooling signs in specific areas. This resilience could allow the economy to remain strong into the coming months.

NEWS FROM THE CRYPTO-SPHERE

Blockchain Gaming Firm Immutable Faces Potential SEC Action over Alleged Securities Violations

Figure 15. Blockchain Gaming Firm Immutable Faces Potential SEC Action over Alleged Securities Violations

- **Immutable may face SEC enforcement action over alleged securities law violations linked to its IMX token**
- **The company plans to defend its position, asserting that IMX is not a security and expressing confidence in the value of blockchain technology**

Blockchain gaming company Immutable has revealed that it may face legal action from the US Securities and Exchange Commission (SEC) over allegations that it violated securities laws. The company received a Wells notice shortly after its initial meeting with the agency, according to a statement issued last Friday, November 1st. This notice is a formal letter used by SEC staff to inform a company that it may recommend an enforcement action against it.

Immutable disclosed, “Prior to the issuance of a Wells notice, there are often multiple months of interviews and conversations between company counsel and the SEC, so the SEC can fully understand the situation.” Instead, the company said, “ in our very first interaction with the SEC, we were told a Wells notice would be issued to the company within the week. We then received it within hours. What’s more, the notice simply cited statutory provisions and contained limited meaningful detail about the nature of the investigation - we counted fewer than 20 words of material explanation.”

According to Immutable, the SEC's inquiry appears to relate to the listing and private sale of its IMX token in 2021, though it says the notice provided minimal details. Immutable also mentioned its awareness of related probes from the Department of Justice, though no legal action has been taken or proposed.

The SEC has increasingly targeted the cryptocurrency industry, issuing Wells notices to several firms over the past year, including Robinhood Crypto, Crypto.com, and OpenSea. The regulatory body has pursued enforcement actions against other notable companies like Coinbase and Kraken. SEC Chair Gary Gensler has frequently asserted the need for crypto entities to register and abide by agency regulations, underscoring the importance of investor protection.

However, many within the crypto sector argue that current registration processes are tailored to traditional financial firms, creating challenges for digital asset companies to comply. Immutable maintains that its IMX token is not a security, and the company is prepared to defend its position if necessary.

The company affirmed, “We are confident in our position, in the value digital ownership can bring to 3.1 billion gamers across the world, and in the power of blockchain to create a better internet.” Immutable added, “If required, we will fight for these rights, and those of our industry, vigorously.”

Tether Reports Record Q3 Profits and Increases US Treasury Holdings, Reinforcing Stability

Figure 16. Tether Reports Record Q3 Profits and Increases US Treasury Holdings, Reinforcing Stability

- **Tether reported a record Q3 2024 profit of $2.5 billion, with total assets reaching $134.4 billion and nearly $120 billion USDt in circulation, highlighting its financial growth and market demand**
- **Holding over $105 billion in reserves, including $102.5 billion in US Treasuries, Tether reinforced its commitment to liquidity and stability while expanding strategic investments in various industries**

Last Thursday, October 31st, Tether Holdings Limited announced robust financial results for the third quarter of 2024, validated by an assurance opinion from BDO, a prominent independent accounting firm. The attestation confirms the accuracy of Tether's Consolidated Financial Figures and Reserves Report (CFFRR), highlighting the company's strong financial position and its commitment to transparency.

For Q3 2024, Tether reported a record-breaking net profit of $2.5 billion, pushing its nine-month profit for the year to $7.7 billion. The group's equity rose to $14.2 billion, and total consolidated assets reached $134.4 billion, both at all-time highs. Tether's USDt stablecoin also saw significant growth, with nearly $120 billion now in circulation, reflecting a 30 percent increase year-to-date, driven by rising global demand.

Tether’s reserves remain substantial, with over $105 billion in cash and cash equivalents, including $102.5 billion in US Treasuries,a level that places Tether among the top 18 global holders of US Treasuries, above countries like Germany and Australia. This liquidity underscores Tether’s commitment to stability and security for its users. The reserve buffer also grew to over $6 billion, supported by strong performance in the company's gold holdings, which added $1.1 billion in unrealized gains for the quarter.

In alignment with its long-term strategy, Tether’s investment arm has diversified into key sectors such as renewable energy, Bitcoin mining, AI, telecommunications, and education, with proprietary investments totaling $7.7 billion and an additional 7,100 Bitcoin. Tether’s CEO, Paolo Ardoino, remarked, “Tether’s performance in Q3 2024 showcases our relentless commitment to transparency, liquidity, and responsible risk management. Reaching the $120 billion USDt milestone and reporting $102.5 billion in US Treasury exposure highlights the company’s unparalleled financial strength.”

With these impressive financial achievements and strategic investments, Tether continues to set high standards for stability and innovation in the digital asset space.

Florida State Pension Fund CFO Pushes for Greater Cryptocurrency Investments as Hedge Against Federal Control

Figure 17. Florida State Pension Fund CFO Pushes for Greater Cryptocurrency Investments as Hedge Against Federal Control

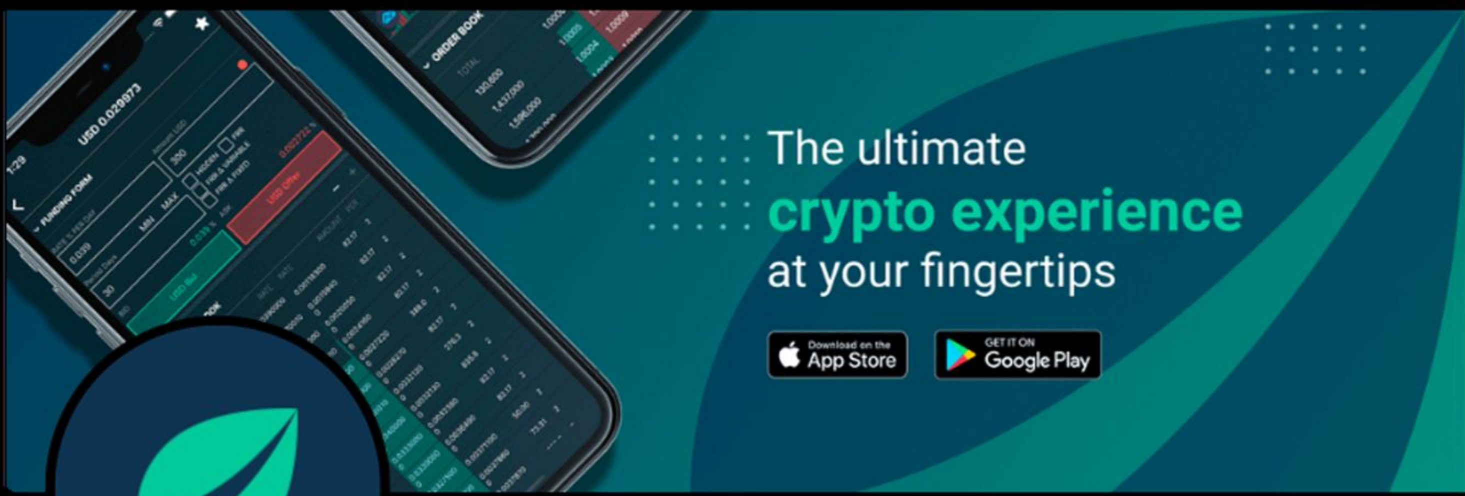
- **Florida State Pension Fund CFO Jimmy Patronis revealed that the state holds $800 million in crypto-related investments and suggested the amount may increase if Trump is reelected**
- **Patronis advocates for using cryptocurrency as a hedge against federal overreach, noting the need for Florida to safeguard its financial independence**

In an interview last Thursday, Florida State Pension Fund Chief Financial Officer Jimmy Patronis revealed that the state currently holds around $800 million in "crypto-related" investments within its portfolio. Patronis suggested that this amount could increase if former President Donald Trump secures reelection next month. Earlier this week, Patronis advocated for allocating a portion of Florida's state retirement funds into cryptocurrency.

Florida joins other US governmental bodies in investing in crypto. The State of Wisconsin Investment Board disclosed in a May report that it held $163 million in spot Bitcoin ETFs, while Jersey City, New Jersey has also made similar investments.

In a recent letter, Patronis also expressed his concerns that China was increasing its influence in the cryptocurrency sector. “This comes as the Communist Party of China makes inroads every day into the crypto world to grab control over this emerging currency," he stated. He highlighted Trump’s plans to create a “crypto presidential advisory council” and a national “stockpile” of bitcoin with cryptocurrency assets currently held by the US government.

Additionally, Patronis voiced his belief that Florida needs a safeguard against potential federal overreach through centralised currency control, positioning cryptocurrency investments as a hedge against such risks.



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