BITFINEX Alpha

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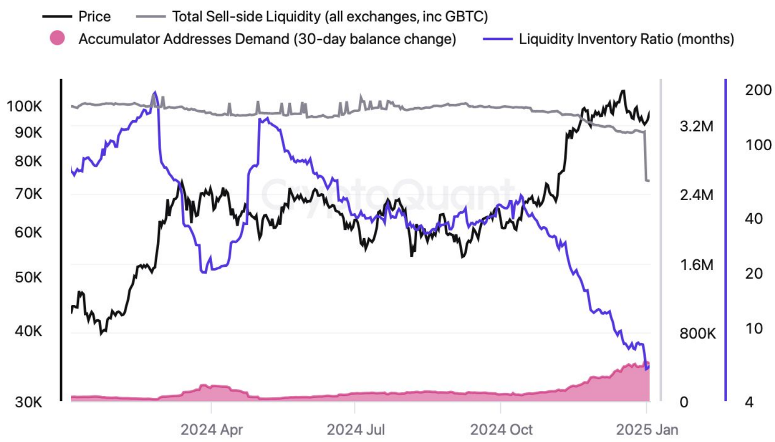
EXECUTIVE SUMMARY

BTC Sell-Side Liquidity Drying Up

Welcome to the first edition of *Bitfinex Alpha* 2025. With a recent Bitcoin All-Time High of over $108,000, we see a market that continues to look robust. While a deeper Q1 2025 pullback remains a possibility, the broader tightening of supply and bullish sentiment among miners indicate that Bitcoin is well-positioned for further gains in the medium term.



Bitcoin Price vs Sell-Side Liquidity and Accumulator Addresses Demand Based On 30-Day Balance Change

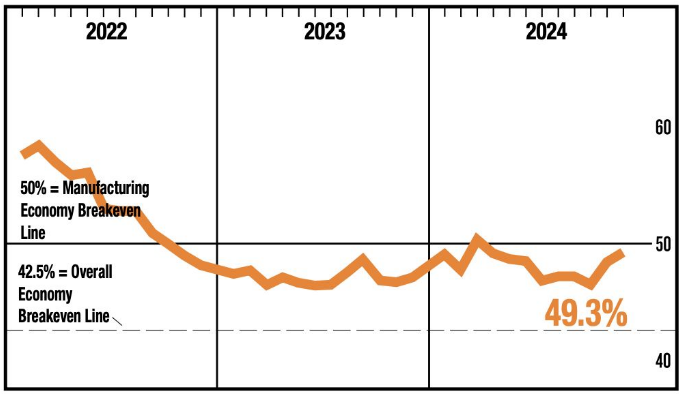
The Liquidity Inventory Ratio, which tracks how long existing supply can meet demand, has plummeted from 41 months in October to just 6.6 months. This indicates a rapid tightening of available Bitcoin liquidity, and has been particularly evident during the strong rallies seen in Q1 and Q4 of 2024.

Bitcoin miners, historically significant sellers during halving years, have also slowed their BTC flows to exchanges since April 2024. Miner-to-exchange flows are at multi-year lows, as miners operate with strong unrealized profits, and hold their BTC rather than sell.

The overall selling pressure across miners, long-term holders, and other cohorts has eased significantly. The reduction in supply entering the market has tempered the impact of the recent correction.

The US economy closed 2024 with continued evidence of economic resilience, however, this is also mixed with some lingering uncertainty across some key sectors. The labour market remained robust, as jobless claims fell to an eight-month low of 211,000 in late December, defying expectations and reinforcing confidence in the economy's strength. This unexpected decline, coupled with a drop in continuing claims, suggests that the labour market is cooling at a measured pace without signalling a broader downturn. The positive labour data bolstered market sentiment, strengthening the dollar and prompting modest gains on Wall Street.

In contrast, however, the construction sector presented a more subdued picture, with spending stagnating in November after modest growth in October. Gains in single-family homebuilding were offset by declines in multi-family housing and public investment. Elevated mortgage rates, driven by market anticipation of fiscal policy changes under the incoming administration, are weighing on housing demand and new projects. The construction sector faces additional headwinds, including potential tariffs, labour shortages, and trade uncertainties, which could hinder sustained growth despite possible boosts from future infrastructure spending.



Institute for Supply Management Manufacturing Purchasing Managers' Index

Meanwhile, the manufacturing sector showed signs of recovery but remained under pressure. The Purchasing Managers Index (PMI) rose to 49.3 in December, its highest level since March, yet still below the growth threshold of 50. Although production and new orders improved, manufacturing has struggled to fully rebound from a prolonged contraction exacerbated by higher borrowing costs from earlier Federal Reserve rate hikes. Recent rate cuts and the prospect of fiscal stimulus under the incoming administration offer a glimmer of hope, but concerns over trade policies and fluctuating global demand continue to cloud the sector's outlook.

In cryptocurrency news last week: US Congressman Mike Collins disclosed investments in the cryptocurrency Ski Mask Dog (SKI), with purchases totalling between $1,001 and $15,000. His filing, one of the first for 2025, underscores the growing intersection of digital assets and politics, raising questions about transparency and regulatory oversight. Meanwhile, the defunct crypto exchange FTX has initiated its reorganisation plan to repay former users affected by its 2022 collapse. Customers who filed claims can expect repayments within 60 days, with smaller claims receiving priority. MicroStrategy has also announced plans to raise up to $2 billion through perpetual preferred stock offerings. This initiative is part of its ambitious "21/21 Plan" to secure $42 billion over three years for Bitcoin acquisitions. Already the largest corporate holder of Bitcoin, with over 145,000 BTC, the company continues to solidify its position in the digital asset market.

Have a great trading week!

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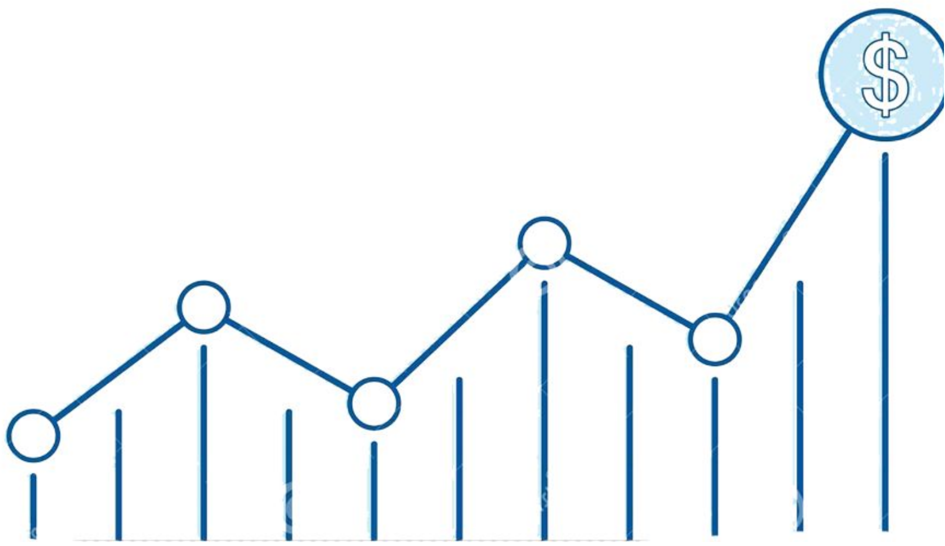

MARKET SIGNALS

Bitcoin Experiences Correction to End 2024, But Liquidity is Drying Up

In our first edition of 2025, we start the new year with a look at conditions in the Bitcoin market now and provide our view for the longer-term outlook. After reaching its current All-Time High (ATH) of $108,100 on 17 December 2024, BTC saw a 15 percent correction. This came after an impressive 61 percent rally triggered by the US election results on November 5th. While a deeper pullback was predicted for Q1 2025 and could still materialise, several key metrics suggest that much of the downside pressure may have already abated.

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

Bitcoin's sell-side liquidity is shrinking at a rapid pace (grey metric in figure below). The Liquidity Inventory Ratio (represented by the violet line), which measures how long the current supply can meet demand, has dropped sharply from 41 months in October to just 6.6 months. This significant decline aligns with the rallies observed in both Q1 and Q4 of 2024, indicating a tightening of available liquidity during periods of strong market activity.

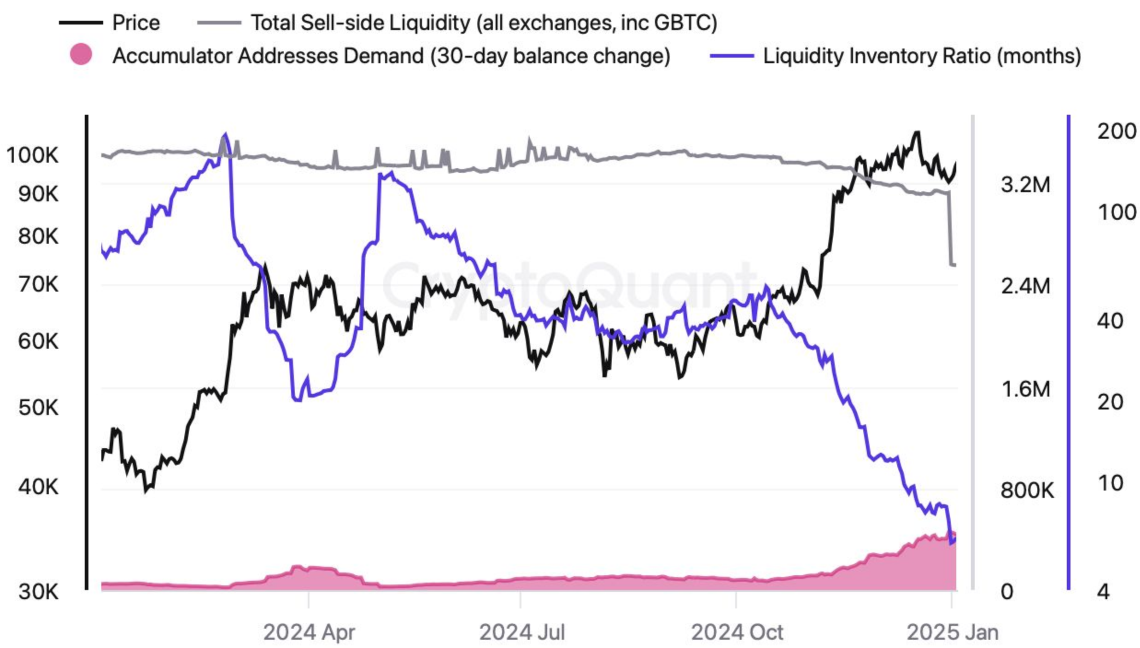

Figure 2. Bitcoin Price vs Sell-Side Liquidity And Accumulator Addresses Demand Based On 30-Day Balance Change. (Source: CryptoQuant)

This tightening aligns with data we see from Bitcoin miner activity. Coming off the back of a Halving year in 2024, during which the mining reward is halved, a significant source of spot selling pressure is from miners who need to sell their reserves / spot holdings to raise capital and upgrade machinery. Such selling tends to come out of necessity, rather than profit taking, in order to maintain profitable operations. However, as we start 2025, BTC flows from miners to exchanges, are declining at a rapid pace.

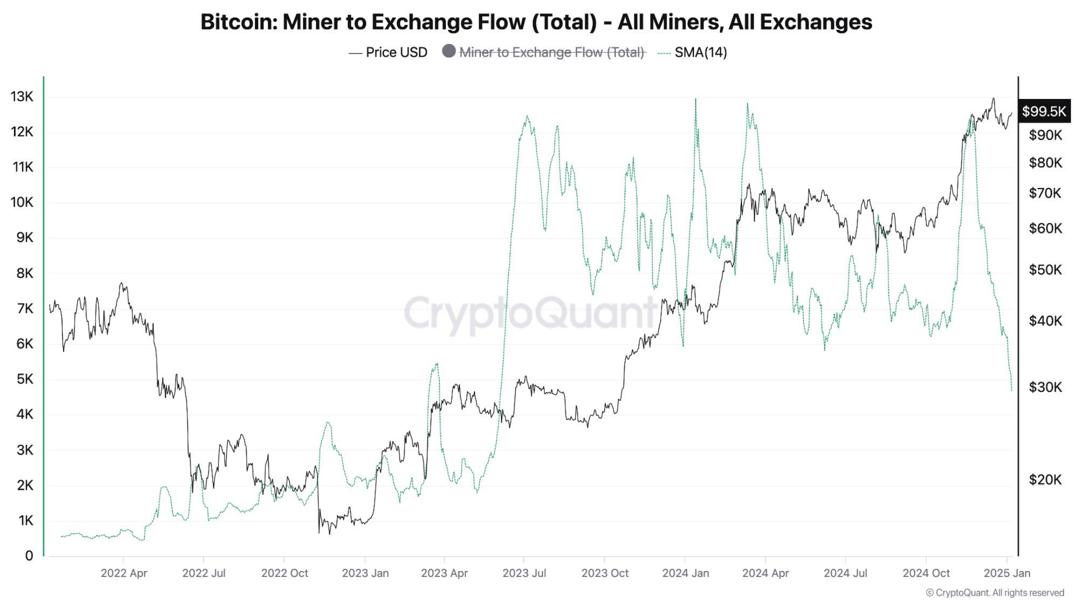

Figure 3. Bitcoin Miner to Exchange BTC Flows. (Source: CryptoQuant)

The primary reason miners send their Bitcoin to exchanges is typically to sell it. However, since April 2024, there has been a noticeable lack of significant or peak-level flows of BTC being sent to exchanges by miners.

Although November 2024 saw a slightly lower high in miner flows to exchanges, the pace of profit-taking by miners has slowed considerably since then, as highlighted in the chart above.

In conclusion, miners are currently in profit, and the prevailing bullish market trend allows them to operate with greater ease. As a result, they have largely chosen to hold onto their BTC rather than sell. Additionally, the Net Unrealized Profit and Loss (NUPL) for miners remains very positive, hovering around 0.5, suggesting that miners are still in a strong position, with substantial unrealized profits and a preference to hold onto their BTC at this stage.

GENERAL MACRO UPDATE

US Labour Market Ends 2024 Strong as Jobless Claims Hit an Eight-Month Low

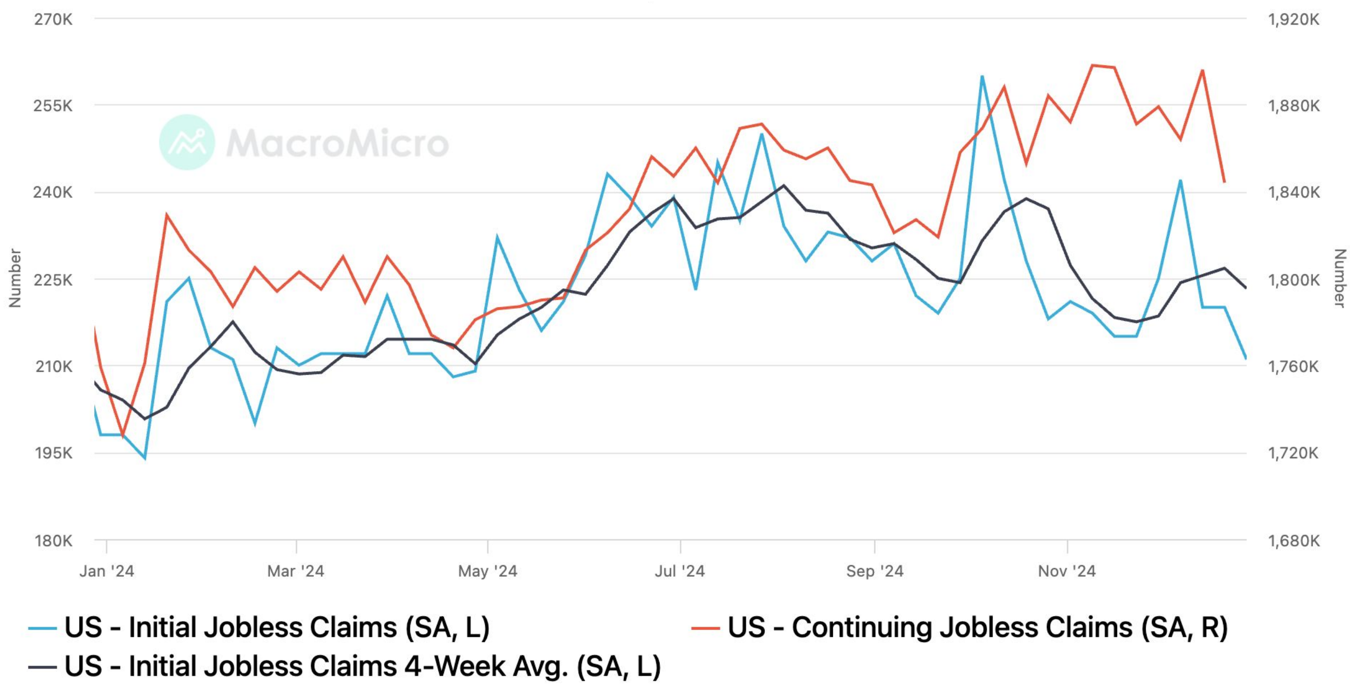

Figure 4. Initial and Continuing Jobless Claims (Source: US Department of Labor)

The US labour market closed out 2024 on a strong note, with initial jobless claims unexpectedly dropping by 9000 to 211,000 during the final week of December, according to data released by the Labor Department last Thursday, January 2nd. This marks the lowest level since April, highlighting resilience despite seasonal volatility.

Initial claims for state unemployment benefits fell from the prior week, reversing a summer spike that had been attributed to seasonal factors rather than broader economic challenges. The consensus forecast was for a higher 222,000 claims.

Unadjusted claims saw sharp declines in key states like California and Texas, while increases were reported in states like Michigan, New Jersey, and Pennsylvania. Despite regional variations and the potential for year-end volatility, the data consistently reflects a labour market that is cooling at a measured pace without signalling an economic downturn.

The four-week moving average of claims, which smooths seasonal fluctuations, fell by 3,500 to 223,250. Meanwhile, continuing jobless claims for the week ending December 21st also declined, reaching their lowest level since September. This decline bucks the broader trend of rising continuing claims seen since 2022, underscoring the labour market's gradual adjustment over time to a tighter market overall.

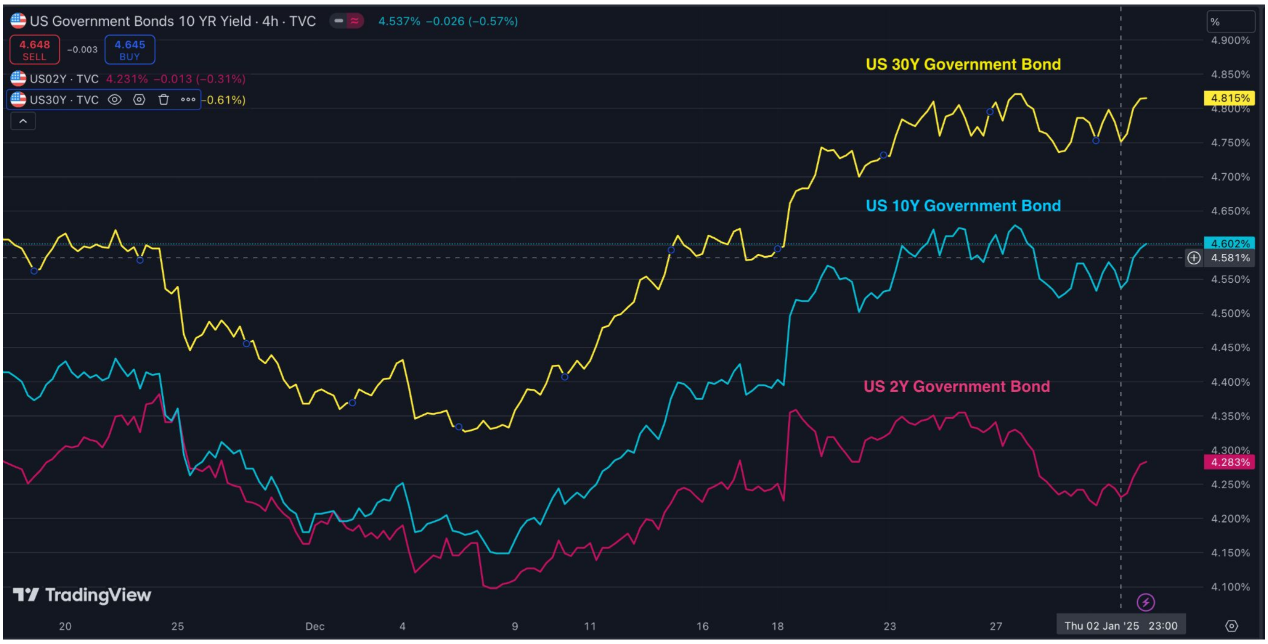

Figure 5. US Government Bonds Edged Higher Last Thursday

The unexpected drop in jobless claims bolstered market confidence, with the dollar climbing to a two-year high against a basket of currencies and US Treasury yields edging higher. Stocks on Wall Street also saw modest gains in response to the positive labour market news.

With the December jobs report set for release on January 10th, further insights into employment trends will likely provide additional clarity on the labour market's trajectory.

Mixed Signals in US Construction Spending as Single-Family Projects Rise

US construction spending remained flat in November, as gains in single-family homebuilding were counterbalanced by declines in multi-family housing investments and stagnation in other key sectors.

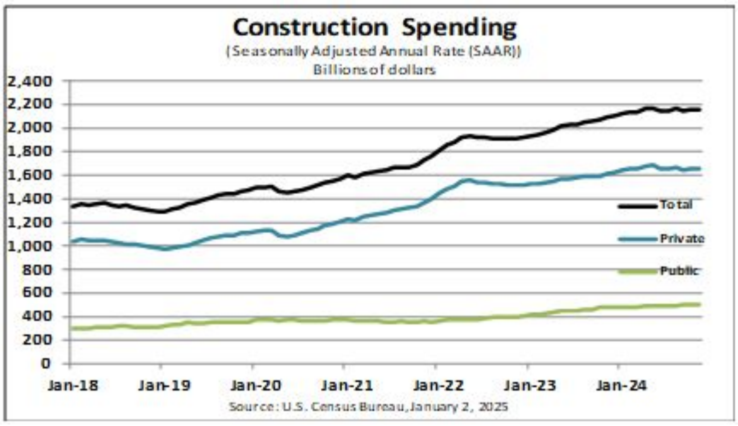

Figure 6. Construction Spending (Source: US Census Bureau)

According to the Commerce Department's Census Bureau's Monthly Construction Spending for November, total construction spending showed no change in November following a modest 0.5 percent gain in October. This plateau defied the consensus forecast of a 0.3 percent increase. On an annual basis, construction spending still remains resilient however, which increased by three percent.

For the month of November, spending on private construction projects rose slightly by 0.1 percent, with residential construction nudging up by the same margin. The moderate growth was driven by a 0.3 percent increase in single-family housing projects. However, outlays for multi-family housing units dropped sharply by 1.3 percent, offsetting the broader residential sector's gains.

Non-residential construction, encompassing sectors such as offices and factories, remained stagnant in November, highlighting a lack of momentum in business-related infrastructure investment. Meanwhile, spending on home renovations continued to trend upward.

Public construction spending dipped by 0.1 percent for the second consecutive month, with declines at both state and federal levels. Federal government project spending fell 0.5 percent, while state and local government outlays edged down by 0.1 percent.

Higher mortgage rates have started to weigh on housing demand and new construction projects. These elevated rates, driven in part by market anticipation of tax cuts under President-elect Donald Trump’s incoming administration, are creating headwinds for homebuyers and developers alike. Furthermore, potential tariffs on imports and labour shortages stemming from the administration's proposed immigration policies could exacerbate challenges for the construction sector in the coming months.

While public sector investment also remains tepid, it could potentially rebound if fiscal policies under the new administration prioritise infrastructure spending. However, lingering uncertainties around trade, labour availability, and the trajectory of interest rates pose significant risks to sustained growth.

US Manufacturing on the Edge of Recovery

US manufacturing saw a slight improvement in December, with increased production and rising new orders, but the sector remains under pressure from a prolonged contraction and concerns over higher tariffs on imported materials.

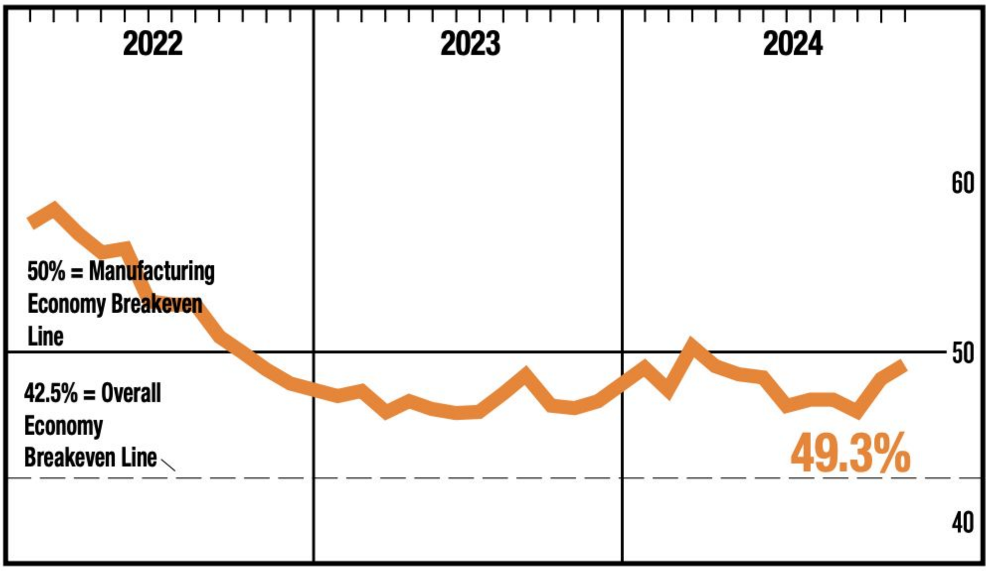

Figure 7. Manufacturing PMI (Source: Institute for Supply Management)

In December, the US manufacturing sector took steps toward recovery, as shown by the Institute for Supply Management's (ISM) Purchasing Managers Index (PMI), which rose to 49.3. This is the highest PMI level since March, up from 48.4 in November. However, a PMI below 50 indicates contraction, meaning the sector has not yet returned to full growth. December marked the ninth straight month of contraction in the manufacturing sector, which makes up about 10.3 percent of the economy.

The PMI measures the health of the manufacturing industry by surveying factors like new orders, production, employment, and supplier deliveries. A reading above 50 suggests growth.

Manufacturing has faced significant hurdles to growth due to the Federal Reserve's efforts to control inflation through its aggressive interest rate hiking regime in 2022 and 2023. Higher interest rates make borrowing more expensive, which can reduce investment in factory production and other capital-intensive activities.

That policy has since reversed, with December seeing the third consecutive cut in interest rates by 25 basis points to a range of 4.25 percent-4.50 percent, in an attempt to assist economic activity.

Index	Series Index Dec	Series Index Nov	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
Manufacturing PMI®	49.3	48.4	+0.9	Contracting	Slower	9
New Orders	52.5	50.4	+2.1	Growing	Faster	2
Production	50.3	46.8	+3.5	Growing	From Contracting	1
Employment	45.3	48.1	-2.8	Contracting	Faster	7
Supplier Deliveries	50.1	48.7	+1.4	Slowing	From Faster	1
Inventories	48.4	48.1	+0.3	Contracting	Slower	4
Customers' Inventories	46.7	48.4	-1.7	Too Low	Faster	3
Prices	52.5	50.3	+2.2	Increasing	Faster	3
Backlog of Orders	45.9	41.8	+4.1	Contracting	Slower	27
New Export Orders	50.0	48.7	+1.3	Unchanged	From Contracting	1
Imports	49.7	47.6	+2.1	Contracting	Slower	7
OVERALL ECONOMY				Growing	Faster	56
Manufacturing Sector				Contracting	Slower	9

Figure 8. US Manufacturing at a Glance (Institute for Supply Management)

While there are signs of improvement, the sector faces lingering uncertainties. One significant concern is the potential for higher tariffs under the incoming administration of President-elect Donald Trump. Increased tariffs on imported raw materials could lead to higher production costs, squeezing profit margins and potentially discouraging growth.

Although the current data suggests manufacturing is stabilising, the road to sustained recovery is far from guaranteed. The Federal Reserve's recent rate cuts and the promise of tax cuts under the new administration could provide the needed boost to propel the sector forward. However, external risks such as trade policies and fluctuating global demand will continue to weigh on its performance.

NEWS FROM THE CRYPTO-SPHERE

US Congressman Discloses Cryptocurrency Investments as New Congress Session Begins

Filing ID #20026489

PERIODIC TRANSACTION REPORT

Clerk of the House of Representatives • Legislative Resource Center • B81 Cannon Building • Washington, DC 20515

FILER INFORMATION

Name: Hon. Michael A. Collins
Status: Member
State/District: GA10

TRANSACTIONS

ID	Owner	Asset	Transaction Type	Date	Notification Date	Amount	Cap. Gains > $200?
		Ski Mask Dog [CT] FILING STATUS: New	P	12/03/2024	12/03/2024	$1,001 - $15,000	☐

* For the complete list of asset type abbreviations, please visit https://fd.house.gov/reference/asset-type-codes.aspx.

Figure 9.US Congressman Discloses Cryptocurrency Investments as New Congress Session Begins

- **Representative Mike Collins disclosed investments in the cryptocurrency Ski Mask Dog (SKI).**
- **Collins highlights the growing intersection of cryptocurrency and politics, raising questions about transparency and regulatory oversight**

On January 1st, US Representative Mike Collins Of Georgia filed a financial disclosure report with the US House of Representatives, revealing an investment in the cryptocurrency Ski Mask Dog (SKI). The token, launched in May 2024, saw Collins purchase amounts ranging between $1,001 and $15,000 in three transactions conducted from December 1st to 3rd, during rising cryptocurrency prices.

Collins, a Republican representing Georgia's 10th congressional district, won his race against Democratic candidate Lexy Doherty with over 63 percent of the vote.

Collins' latest filing is not his first foray into the digital asset market. Previous disclosures indicate he has also invested in prominent cryptocurrencies such as Ether (ETH), as well as smaller tokens like Velodrome (VELO), Aerodrome Finance (AERO), and The Graph (GRT).

Under the Stop Trading on Congressional Knowledge (STOCK) Act, US lawmakers must report financial transactions involving stocks and digital assets. Collins' filing marks one of the first such disclosures for 2025.

The disclosure underscores the increasing intersection of cryptocurrency and politics. While it remains unclear whether Collins' investments are tied to his election victory, his financial activity reflects broader trends of growing cryptocurrency adoption, even among lawmakers.

FTX Starts Repayment

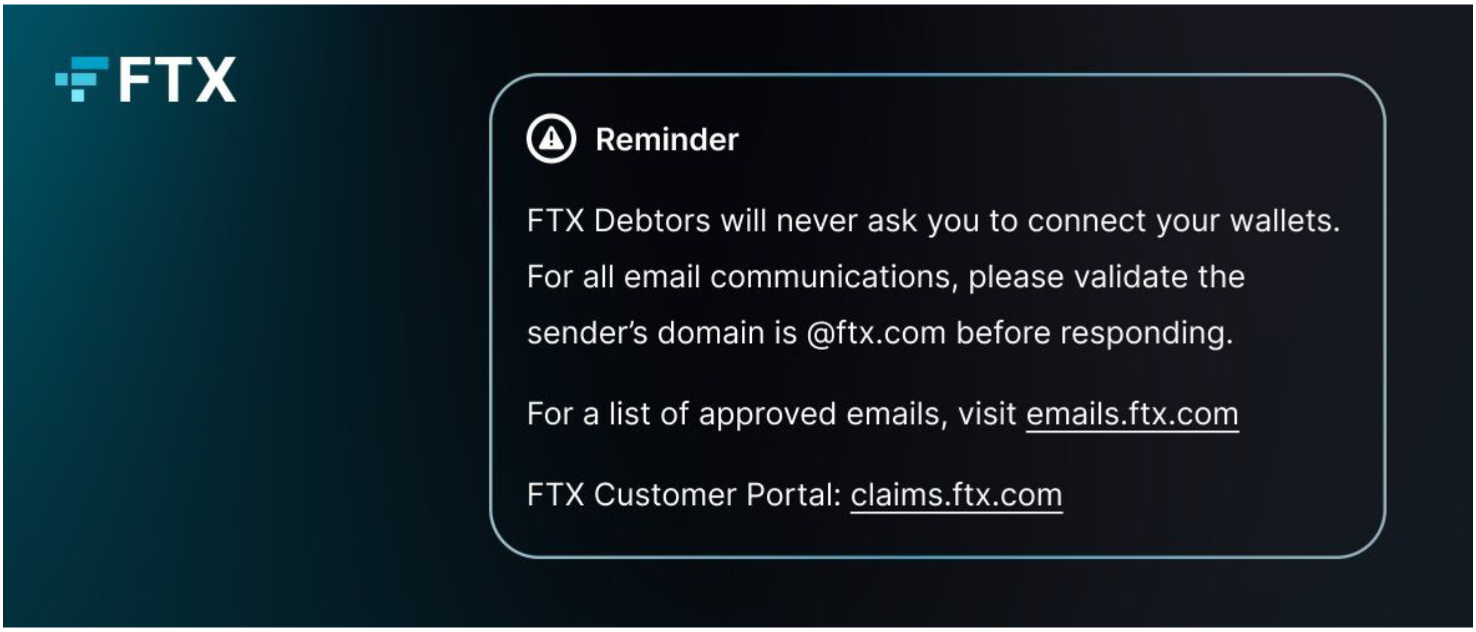

Figure 10. FTX Tweet

- **FTX has activated its reorganisation plan, effective January 3rd, to begin reimbursing former users as part of its bankruptcy proceedings**
- **Approximately 98 percent of FTX users are expected to receive 119 percent of their declared funds, marking a significant milestone in the bankruptcy saga**

The defunct cryptocurrency exchange FTX has officially activated its reorganisation plan as part of its ongoing bankruptcy proceedings, paving the way for former users to begin receiving repayments. The plan, which was first announced in November, took effect on January 3rd.

FTX and its associated debtors have reassured customers that the implementation of the Chapter 11 Plan is on schedule. However, former users are being advised to take precautions against phishing attempts.

To qualify for reimbursements, customers needed to file a claim through the official FTX claims portal. For those who meet this requirement, the first round of repayments is expected to occur within 60 days. This group will include former users with more minor claims, categorised as "convenience classes," claiming $50,000 or less.

The approved reorganisation plan outlines that approximately 98 percent of former FTX customers could receive 119 percent of the declared value of their funds. Many former users will not only recover their original funds but may also receive additional compensation.

The repayment process marks a significant milestone in FTX’s bankruptcy saga. The collapse of the exchange in November 2022 sent shockwaves through the cryptocurrency industry as it revealed major financial mismanagement and fraud. Several FTX executives have since been held accountable, with some facing prison sentences for their roles in the scandal.

This repayment plan is likely one of the final steps in resolving FTX’s bankruptcy case. While the repayment process is a positive development, users should remain vigilant against scams and ensure they are following the official guidelines for reimbursement.

MicroStrategy's Bold Move: Raising $2 Billion to Expand Bitcoin Holdings

Figure 11. MicroStrategy's Bold Move: Raising $2 Billion to Expand Bitcoin Holdings

- **MicroStrategy plans to raise up to $2 billion through preferred stock offerings as part of its "21/21 Plan" to secure $42 billion over three years, strengthening its position as the largest corporate Bitcoin holder**
- **The offering, expected in Q1 2025 may include features such as convertibility to Class A shares and dividend payments**

MicroStrategy, a software company now widely recognised for its substantial investments in Bitcoin, is planning to raise up to $2 billion by issuing preferred stock. This move aligns with its broader strategy, the "21/21 Plan," to raise $21 billion from equity and $21 billion from fixed-income instruments over the next three years to further expand its Bitcoin holdings.

Last Friday, January 3rd, the company announced its intention to conduct one or more public offerings of perpetual preferred stock, a type of equity that takes precedence over its common Class A shares in the event of payouts. The offering will be registered via a Form S-3 filing with the US Securities and Exchange Commission. This effort represents another step in MicroStrategy's commitment to its long-term Bitcoin acquisition strategy.

Founded by Executive Chairman Michael Saylor, MicroStrategy is the largest corporate Bitcoin investor. Since initiating its cryptocurrency purchases during the market surge caused by the pandemic, the company has accumulated over 145,000 Bitcoin, valued at approximately $14 billion at current market rates. This extensive investment reflects its belief in Bitcoin as a primary reserve asset.

The upcoming offering, anticipated in the first quarter of 2025, remains contingent on market conditions. If pursued, the preferred stock could potentially be convertible into Class A shares, may include dividend payments, and could feature provisions for share redemption. However, the number of shares, final terms, and pricing for the offering have not yet been determined.

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