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EXECUTIVE SUMMARY

With another 25 basis point rate hike under our belts, the Fed reinforced its message last week that despite the recent bank failures, it still remains focused on combating inflation.

Fed Chairman Jerome Powell also warned that there were unlikely to be any rate cuts in 2023 - but both the bond market and even Fed participants themselves, indicated that a rate cut could still be on the cards this year.

Powell was also bullish on the US banking sector, claiming that it remains strong. However, while the recent collapse of banks in the US has been characterised as the result of poor risk management and a sudden bank run, we reveal data that demonstrate that a flight of deposits from several banks has been taking place since last year.

The collapse of Silicon Valley Bank (SVB) is expected to tighten banks' lending standards. More importantly, the planned resolution of the SVB indirectly increases moral hazard in the banking sector as the Fed still appears willing to backstop failing banks, with other US banks bearing the direct cost of making all depositors whole (through higher FDIC fees). This will eventually slow down the economy and may trigger a recession.

This has all been good for Bitcoin. Despite a momentary sharp pullback and long liquidations ($60.2 million in two hours alone), following the Fed’s rate hike, the market has interpreted Fed action as positive.

The BTC spot market has recorded its highest weekly volumes, while derivatives volumes are having a greater influence on Bitcoin prices, with derivatives trading increasing at a faster pace than spot volume, which in turn is increasing volatility. Options volumes are also peaking, signalling that institutional investors are increasingly participating in the market.

This increase in new market participants indicates that we may be in the early stages of a bull market, although we would still advocate caution as we are also seeing volatility increase.

On-chain metrics indicate that long-term Bitcoin holders are selling their coins at a profit, and we interpret this as a positive for the market, as it feeds into the demand from the newer entrants, amid a still limited liquid supply.

In the crypto world last week, there was, as usual, some good news and less good news. The world's largest stablecoin, Tether, estimated that it would earn a $700 million profit in Q1 2023, bringing its total excess reserves to over $1.6 billion for the first time.

Telegram also announced support for Tether's TRC-20 stablecoin, USDt-TRON, allowing users to buy, swap, and make peer-to-peer trades with USDt (TRC-20) without transaction fees.

Terraform Labs co-founder Do Kwon has been charged by US prosecutors with orchestrating a cryptocurrency fraud that resulted in the loss of at least $40 billion in market value.

Meanwhile, Binance experienced technical issues with its spot trading on March 24th, resulting in the suspension of deposits and withdrawals.

Coinbase received a "Wells notice" from the SEC for possible violations of securities laws; and Justin Sun and his companies have been charged by the SEC for securities law violations and fraud.

Kraken also announced that it had suspended ACH deposits and withdrawals due to its banking partner, Silvergate Bank, failing.

The much anticipated launch of Arbitrum's ARB token caused the project's homepage to crash, resulting in unexpected errors during the claiming process, leading early claimants to sell their holdings and causing a sharp price drop.

Lastly, Celsius has been approved to pay up to 72.5 percent of holdings to custody account holders, who must sign an opt-in form by April 24, 2023. The payment will be divided into two settlements and will be paid out by June 11 and December 31, 2023.

Happy Trading!

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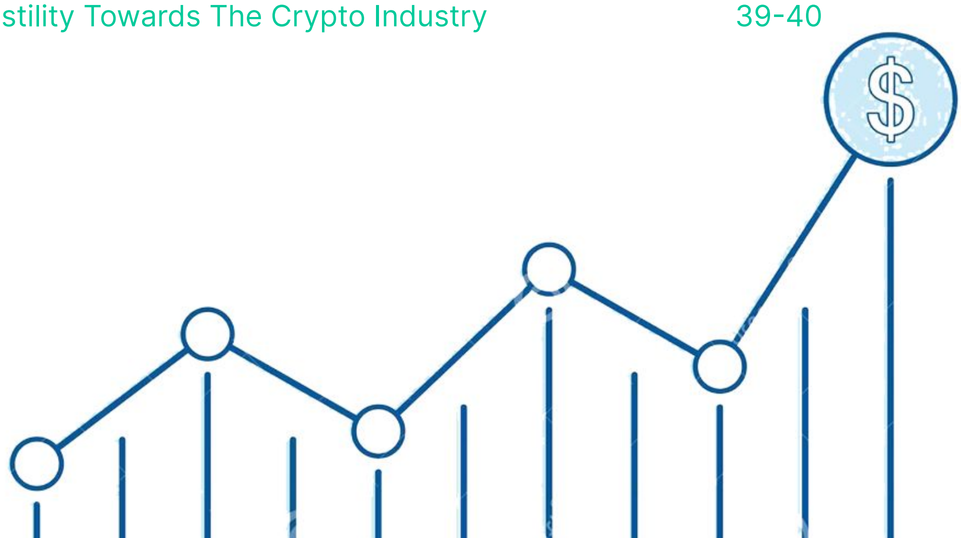


GENERAL MARKET UPDATE

Fed Hikes 25 BPS amid Ongoing Risk to Financial Stability

On Wednesday, March 22nd, the US Federal Reserve (Fed) increased interest rates by 25 basis points and hinted at the possibility of at least one additional hike in 2023.

However, the current banking crisis has intensified the central bank's challenge to balance three competing objectives: managing inflation, ensuring financial stability, and minimising the negative impact on employment and wages. This predicament is often referred to as the central banker's "trilemma."

Persistently high inflation and the labour market's resilience in the first quarter of 2023 (Q1, 2023) have persuaded the Fed to continue raising interest rates. Moreover, the Fed's swift intervention to safeguard banks through its lending programs has calmed the turbulence in the financial system following the collapse of Silicon Valley Bank.

Prior to the failure of Silicon Valley Bank (SVB) and Signature Bank (SBNY), the general sentiment was that further sizable rate hikes were on the horizon. However, as concerns about the vulnerability of the banking sector became widespread, the possibility of smaller hikes, or even no hikes, became a more realistic scenario. Despite these concerns, the Federal Reserve (the Fed) identified resilience in the overall banking system, possibly due to its lending programs, and decided to proceed with a 25 basis point increase in interest rates.

Although multiple interest rate hikes are necessary for combating inflation, they can be very discouraging for investors as it dampens consumer spending and discourages investment in businesses. Fortunately, the Fed's dot plot, as we discuss in the following section, suggests that we could actually see a rate cut towards the end of the year. The bond market also appears to agree, as we explain in the next chapter of the report.

As it delivered its ninth rate increase since March 2022, the rate-setting Federal Open Market Committee (FOMC) emphasised that further hikes are not guaranteed and will largely depend on incoming data.

“The Committee will closely monitor incoming information and assess the implications for monetary policy,” the FOMC’s post-meeting statement said. “The Committee anticipates that some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to two percent over time.“

This is a shift from previous statements which indicated that "continuing increases" in interest rates would be necessary to reduce inflation.

Although Fed Chair Jerome Powell's recent remarks might be perceived as dovish, he emphasized that the battle against inflation is far from over.

The Federal Reserve publishes its "[Summary of Economic Projections]"(SEP) four times a year, at the end of each quarter. This report features the Fed's closely-followed "dot plot", a chart that visualises Federal Reserve policymakers' projections for the federal funds rate.

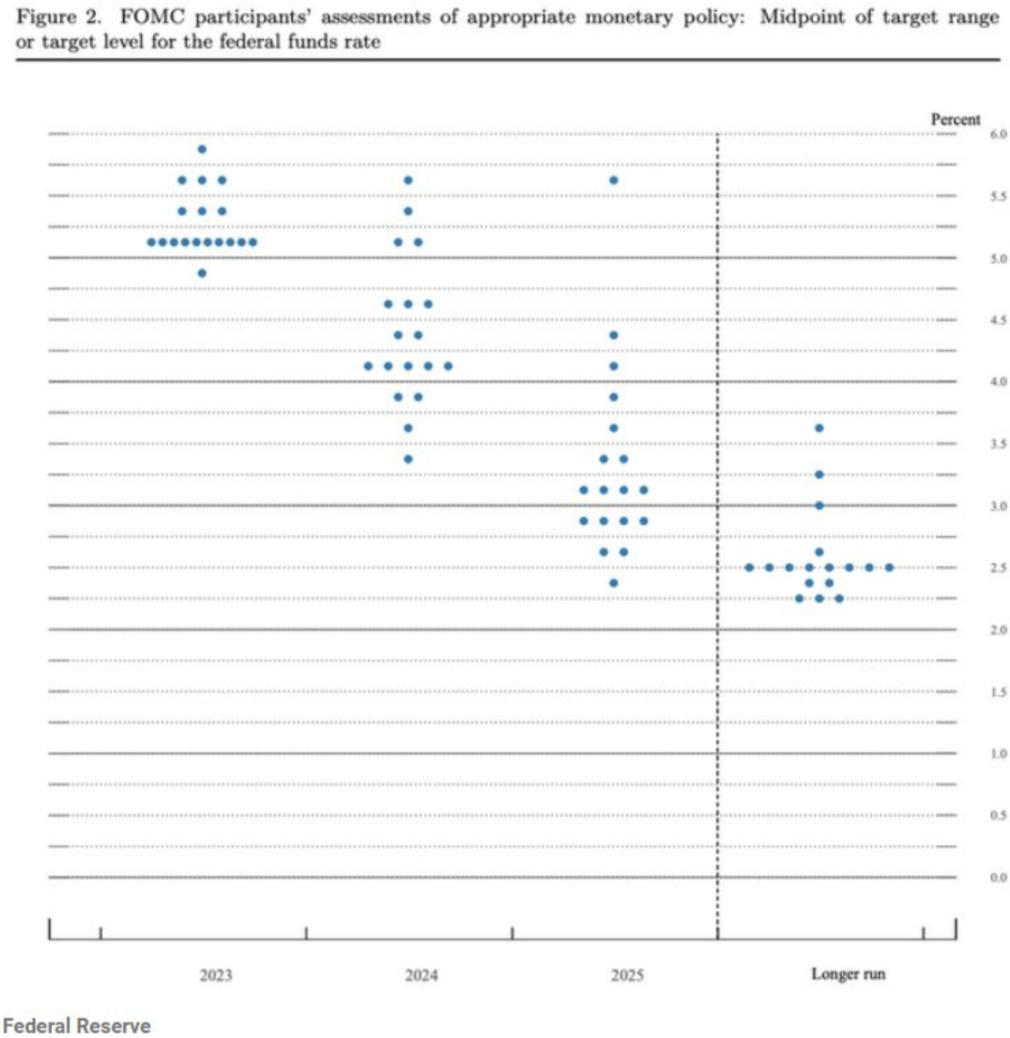


Figure 1. Federal Reserve's Dot Plot (Source: US Federal Reserve)

Variable	Median[1]			
	2023	2024	2025	Longer run
Change in real GDP	0.4	1.2	1.9	1.8
December projection	0.5	1.6	1.8	1.8
Unemployment rate	4.5	4.6	4.6	4.0
December projection	4.6	4.6	4.5	4.0
PCE inflation	3.3	2.5	2.1	2.0
December projection	3.1	2.5	2.1	2.0
Core PCE inflation[4]	3.6	2.6	2.1	
December projection	3.5	2.5	2.1	
Memo: Projected appropriate policy path				
Federal funds rate	5.1	4.3	3.1	2.5
December projection	5.1	4.1	3.1	2.5

Figure 2. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, March 2023 - Median Values (Source: US Federal Reserve)

According to the latest dot plot, it is possible that interest rates will continue to rise gradually during the second quarter of 2023. However, the plot suggests that there may be rate cuts later on in the year with a projected peak benchmark interest rate of 5.1 percent this year (refer box 4 on Figure 2). Some officials anticipate that rates may even reach six percent or more (Figure 1).

The Fed’s dot plot suggests however we could be near the end of the hiking regime and that the Fed will continue to hike at least through the second quarter of 2023. The 5.1 percent median rate implied by the Fed's dot-plot prediction of interest rates through 2023 suggests the Fed's intention to achieve price stability.

The current Fed funds rate stands at five percent, and it is anticipated to rise to, or potentially surpass, a range of 5.1-6 percent. The increase to the potential peak is expected to occur before the end of the second quarter of 2023, as a result of the upcoming FOMC meetings.

However, there is significant disagreement among members regarding the projections for the next two years, which is reflected in a wide dispersion among the "dots." Despite this, the median of the estimates indicates a potential reduction in rates by 0.8 percentage points by 2024 and a further 1.2 percentage points worth of cuts in 2025. These projections suggest a decent likelihood of future rate cuts by the end of 2023.

According to the Summary of Economic Projections (SEP), the Fed forecasts that core inflation will peak at 3.6 percent this year, which is an increase from the 3.5 percent estimate given in December 2022 (as illustrated in box 3, Figure 2).

Additionally, the SEP indicates that Fed officials predict a slight decrease in the unemployment rate, from 4.6 percent to 4.5 percent this year. It is expected to increase slightly to 4.6 percent in the following year and remain at that level until 2025. (refer box 2, figure 2)

The Federal Reserve forecasts below-average economic growth over the next few years, with an expansion of 0.4 percent, down from December's 0.5 percent projection, then picking up slightly to 1.2 percent in 2024 and 1.9 percent in 2025. (Box1, figure 2)

As long as the banking crisis does not worsen and the liquidity provided by the Fed and Treasury proves sufficient, the Fed can continue to focus on its price stability mandate for the next FOMC meeting. However, another bout of turbulence in the domestic banking environment or further churning of systemically important financial institutions may require at least a pause on the rate hikes and focus on the monetary tools needed to achieve financial stability.

Fed in No Rush to Cut Lending Rates but Bond Market Optimistic

On March 21st, Fed Chairman Jerome Powell stated that the bankruptcy of several regional banks in the US would lead to tighter credit conditions. However, he also warned against anticipating any rate cuts by the Fed in 2023.

According to Powell, more arduous loan conditions might hurt households and the economy. He also reiterated that "rate cuts are not in our (the Fed's) base case."

However, not everyone in the bond market agrees.

The 10-Year Treasury Yield fell to about 3.376 percent on Friday, March 24th, from a 4.2 percent high in October 2022, which suggests expectations of slower growth and less inflation down the road. The policy-sensitive 2-year Treasury rate fell from five percent on March 8th to 3.776 percent on March 24th.

When investors anticipate a rate cut, they shift their investments towards government bonds, which are safe-haven assets. Investors may prefer short-term bonds during periods of economic uncertainty, as they offer greater liquidity, and lower credit risk than long-term bonds.

When interest rates decrease during a rate cut, the yield on the bonds already in the market becomes relatively higher, making them more attractive to investors. This is because the yield on a bond is fixed at the time of issuance. Hence, increased demand for short-term government bonds led to a decline in the two-year Treasury yield. (Figure 3)

The spread between the two-year and 10-year Treasury yield, one of the most reliable indicators of impending recessions, is still below zero — which tells us that economic slowdown is still on the horizon. However, the rate with which the two-year yield has been dropping signals that the Fed should be close to cutting rates because the economy is slowing at a rapid rate.

The recent moves in the bond market feel like a whiplash for investors. On March 7, Fed Chair Jerome Powell gave hawkish congressional testimony that pushed the 2-year Treasury yield above five percent for the first time since June 2007. At that time, market participants were focused on stronger-than-expected economic data indicating a resilient economy.

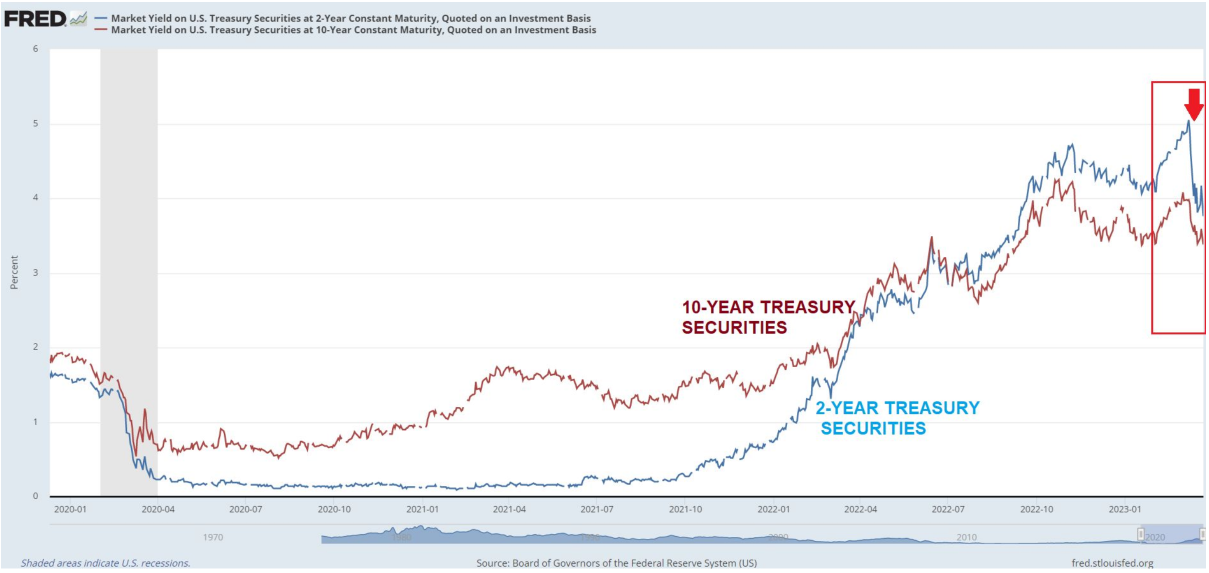


Figure 3. 10-year and 2-year Treasury Yields (Source: Board of Governors of the Federal Reserve System)

Trading in Fed-fund futures as of Friday, March 24th, pointed to a 54 percent chance of a rate cut to a 4.50 to 4.75 percent target range in late June, and a 34 percent chance of a policy range of 3.75 - 4.00 percent in December (See Figure 4).

MEETING PROBABILITIES														
MEETING DATE	175-200	200-225	225-250	250-275	275-300	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525
5/3/2023								0.0%	0.0%	0.0%	0.0%	0.0%	88.2%	11.8%
6/14/2023			0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	18.4%	72.2%	9.4%
7/26/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.3%	34.0%	54.0%	6.6%	0.0%
9/20/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.7%	25.4%	48.0%	20.9%	2.0%	0.0%
11/1/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.5%	18.0%	40.3%	30.1%	8.4%	0.7%	0.0%
12/13/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.8%	13.6%	34.0%	33.0%	14.5%	2.9%	0.2%	0.0%
1/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%	10.1%	28.0%	33.3%	20.0%	6.3%	1.0%	0.1%	0.0%
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.9%	7.8%	23.3%	31.9%	23.5%	9.9%	2.4%	0.3%	0.0%	0.0%
5/1/2024	0.0%	0.0%	0.0%	1.0%	8.0%	23.4%	31.8%	23.3%	9.8%	2.3%	0.3%	0.0%	0.0%	0.0%
6/19/2024	0.0%	0.0%	0.4%	3.6%	13.6%	26.5%	28.7%	18.4%	7.1%	1.6%	0.2%	0.0%	0.0%	0.0%
7/31/2024	0.0%	0.3%	2.7%	10.8%	22.9%	28.1%	21.2%	10.2%	3.1%	0.6%	0.1%	0.0%	0.0%	0.0%
9/25/2024	0.1%	1.5%	6.8%	16.9%	25.5%	24.7%	15.7%	6.7%	1.9%	0.3%	0.0%	0.0%	0.0%	0.0%

Figure 4. Meeting Probabilities (Source: CMEgroup.com)

The Banking Crisis - Months in the Making

Despite Powell's statement that the US banking sector remains strong, there are some significant signs of weakness. Some of these have been developing for several months. As illustrated in last week's *Bitfinex Alpha*, the crisis in the banking sector, particularly in the case of Silicon Valley Bank (SVB), was in part caused by some banks being overexposed to industries that are vulnerable to funding shortfalls, such as technology start-ups. Raising funds for these companies became increasingly difficult during the Fed's hiking cycle. These businesses required constant liquidity infusions to maintain their operations, and many had been operating at a loss for years. This subsequently resulted in a drawdown of bank deposits, as seen in figure 5.

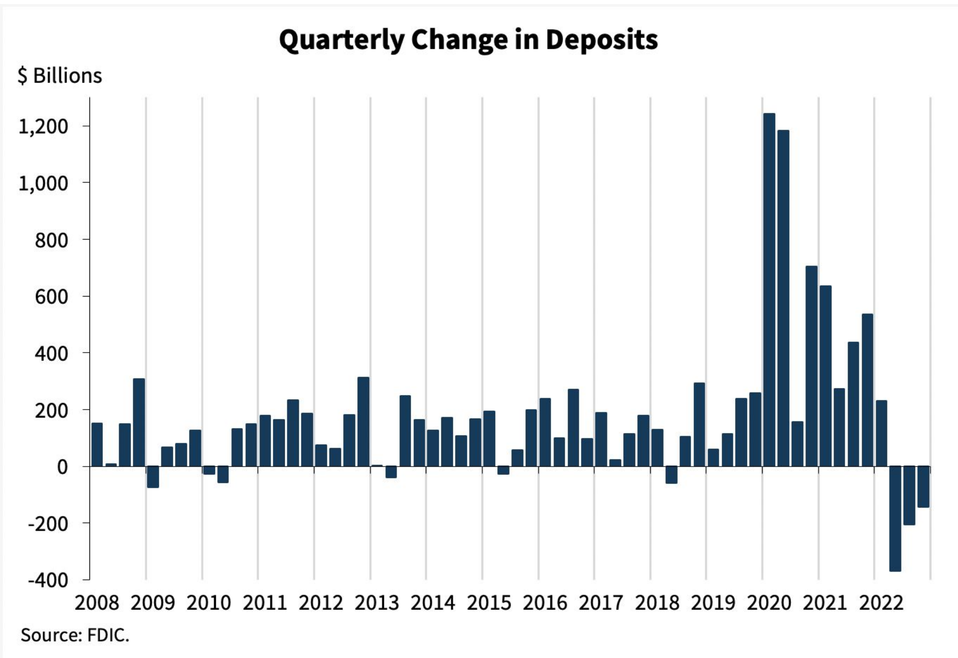


Figure 5. Quarterly Change in Deposits (Source: FDIC)

While many people believe that the bank runs occurred suddenly, a closer examination of the data reveals that they had been developing for several months. Throughout the second to fourth quarters of last year, deposits in the banking sector steadily decreased, which contradicts the notion of a sudden panic that triggered a massive outflow of capital from accounts. Figure 5 illustrates the drop in deposits during this period. Although a considerable portion of the decline was driven by the tech industry, ordinary depositors seeking higher returns also played a significant role.

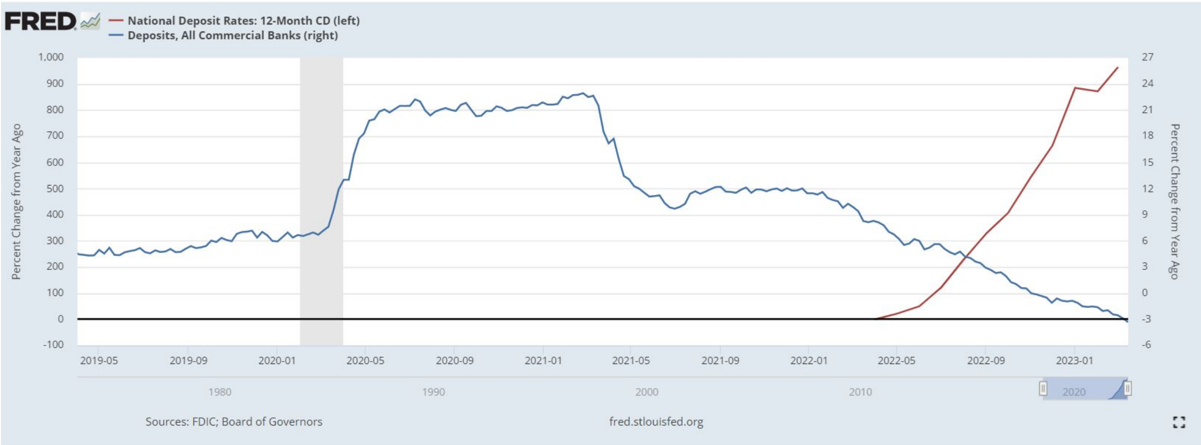


Figure 6. All Deposits, Commercial Banks (Blue) and Deposit Rates on 12-Month CD (Red). (source: FRED)

The pursuit of attractive yields by investors began soon after the rise in interest rates. Investors withdrew money from their savings accounts and invested it in other securities, such as treasury notes. As a result, community banks, which had been hit harder by the recent financial crisis and are less financially stable than their larger counterparts, responded by offering higher interest rates to customers to keep their money with the bank. Consequently, the demand for bank products such as Certificates of Deposit (CDs) increased, even as deposits fell by [$278 billion] in 2022 (see figure 6). CDs are a type of savings account that offers a fixed interest rate over a specific period, typically with penalties for early withdrawal before the end of the term.

Over a twelve-month period, the total amount invested in CDs increased by $210 billion to $1.7 trillion. The banking industry now offers numerous opportunities for depositors to receive yields of four or five percent, which were previously almost nonexistent.

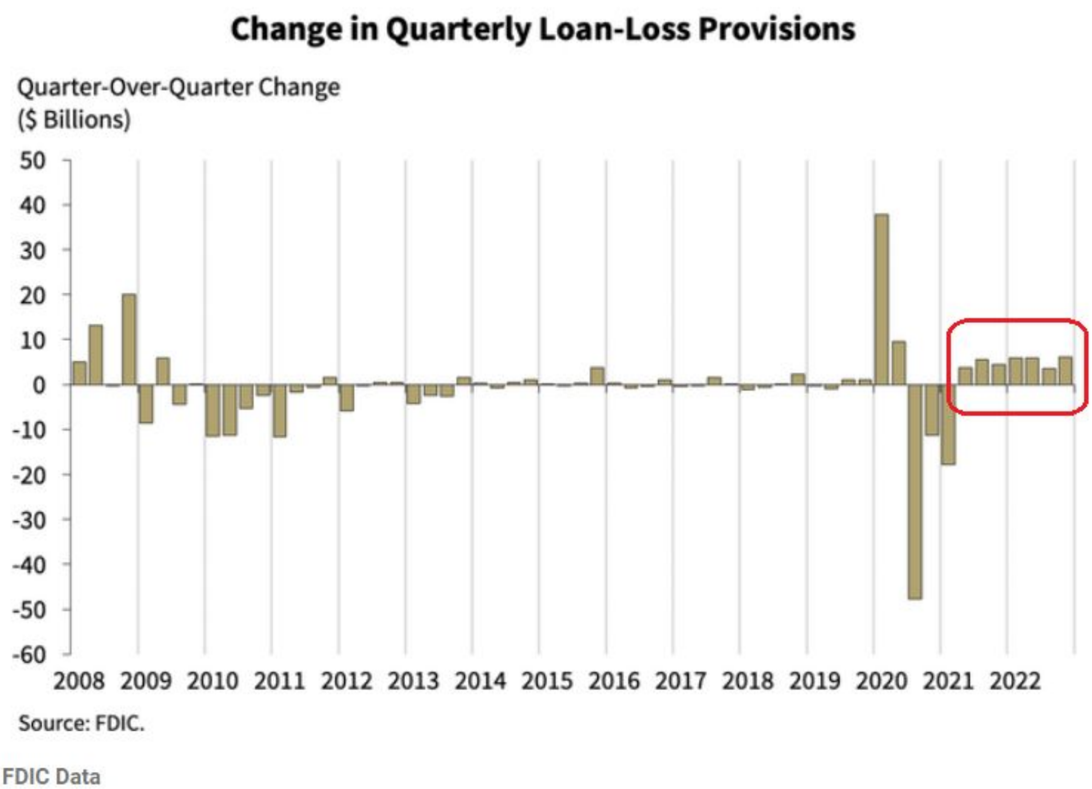


Figure 7. Change in Quarterly Loan-Loss Provisions

Financial institutions also became riskier in their pursuit of higher returns. For instance, debt balances increased dramatically in 2022. There have also been some adverse outcomes. For one thing, loan loss provisions have been creeping upwards (Figure 7). Loan loss provisions are funds set aside by a bank to cover bad loans.

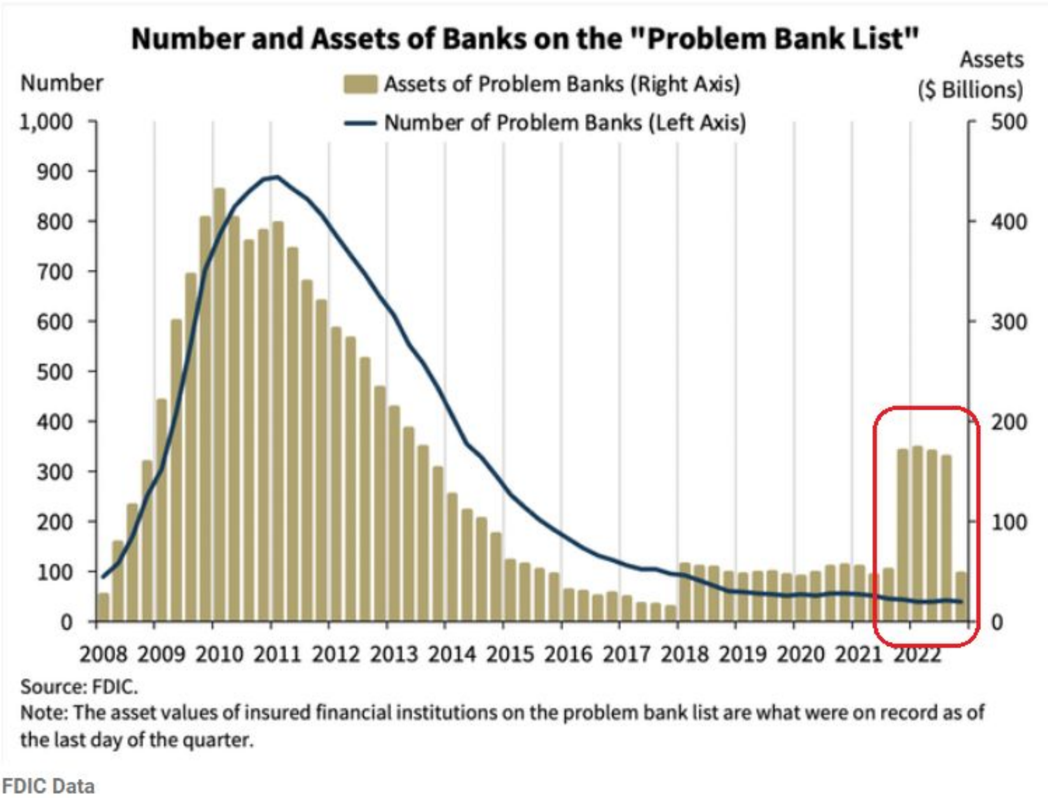


Figure 8. Number of Assets of Banks on the "Problem Bank List" (Source: FDIC)

While the FDIC has reported a relatively small number of "problem banks" (banks on the brink of financial insolvency), the number of "problem assets" held at these institutions remain elevated (Refer to the right axis in figure 8). It is generally undesirable for problem banks to hold a large amount of assets because of the increased exposure and hence vulnerability to financial instability. This is particularly true if the bank's assets are of poor quality or if they are concentrated in areas that are more susceptible to economic downturns.

Although the asset value in these problem banks did decline in the final quarter of last year, Q4 2022, it is now apparent that the collapse of the most exposed banks may have been inevitable.

Conclusion:

Based on the data, it appears that further rate hikes could have a negative impact on the banking industry. The increase in interest rates during the previous year has already led to a decline in bank deposits, a rise in bank loans as institutions sought out new business prospects, an increase in loan loss provisions, and a rise in the value of assets held by problem banks. This trend will accelerate, and the banking industry is more likely to experience further hardship if interest rates continue to rise. There is an increased chance that this will have repercussions throughout the broader economy.

Banking Crisis: What's Next?

The Fed appears to be in a tough spot, torn between ensuring financial stability and maintaining price stability. The latest Consumer Price Index report for February showed that monthly rises in core prices are not slowing (+0.5 percent month-over-month), indicating that price pressures remain persistently strong.

The possibility of an additional liquidity injection by the Fed (through its new bank term funding program and the existing reverse repo facility) and falling bond yields may help calm financial markets. However, easier financial conditions may cause greater volatility and higher inflation expectations, which can make it harder for the Fed to achieve its goal of bringing inflation back to target.

The collapse of SVB is expected to decrease the availability of credit, leading to a decrease in demand and possibly helping the Fed's efforts to lower inflation. This is supported by the Senior Loan Officer Opinion Survey conducted in Q4 of 2022, which showed a significant tightening of credit standards (as depicted in Figure 10).

As new mortgage lending slows down, there is likely to be a continued decline in the growth of real property prices, which could have an adverse effect on household consumption. Real property, such as homes, are often significant assets that many households own. A decline in property prices reduces the net worth of households, leading to negative wealth effects. This reduction in wealth can lead to decreased consumer confidence and hence a decline in household consumption.

A decrease in the prices of real estate can have the adverse effect of limiting household access to credit, as the value of the collateral offered by households for loans will have decreased. As a result, US banks may need to implement stricter lending conditions to mitigate potential risks. (See Figure 9)

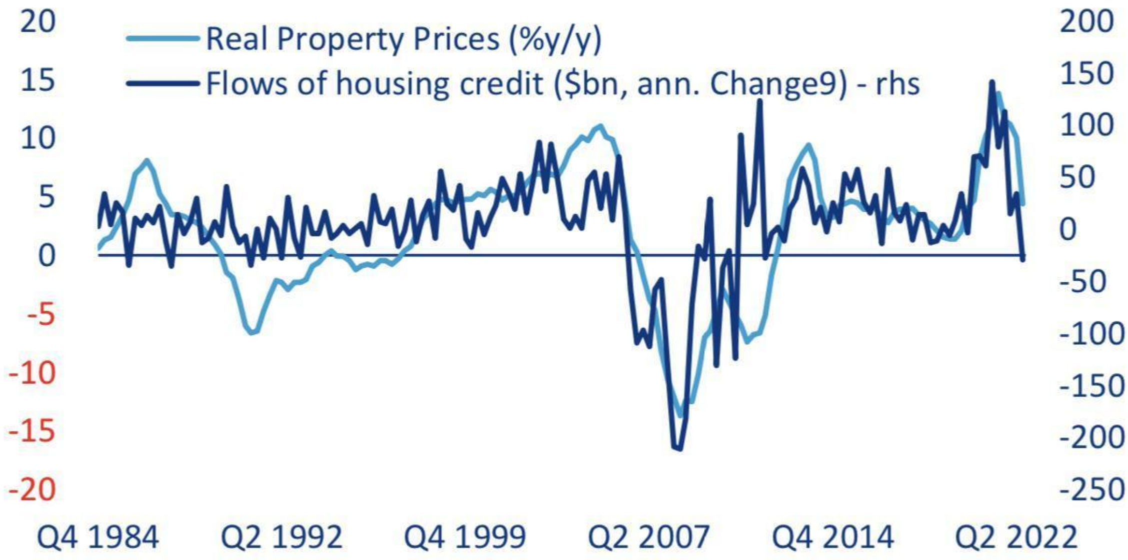


Figure 9. US lending and housing Market

Sources: Refinitiv Datastream, Allianz Research

Figure 10. Tightening Lending Standards in Banks

We expect banks will tighten their lending standards after the collapse of SVB. More importantly, the planned resolution of the SVB has an indirect effect of increasing moral hazard in the banking sector as the Fed still appears willing to backstop failing banks, with other US banks bearing the direct cost of making all depositors whole (through higher FDIC fees). As banks tighten lending standards and carefully guard their liquidity positions, credit is expected to tighten even more in the near future in the United States. This will eventually slow down the economy and, consequently, may trigger a recession.

In general, the Fed is more likely to cut interest rates when it sees signs of economic weakness, such as slowing growth, rising unemployment, or declining inflation. This weakness will be intensified by banks’ tightened lending standards, which may strengthen the base case of a potential rate cut this year.

The FOMC's decision on whether to increase the pace of rate hikes will depend on a variety of factors, including inflationary pressures, economic growth, and financial stability. While the SVB failure could be a signal for a turning point in the monetary cycle, it is important to monitor the situation and consider all relevant factors before drawing conclusions about the future direction of interest rates and the overall economy. We believe that increasing the pace of rate hikes would be a desperate measure by the Fed, only if inflation remains resilient for the next several months.

WHAT'S ON-CHAIN THIS WEEK?

BTC Long Liquidation Spike

Bitcoin recorded the largest amount of single-day long liquidations in three weeks on March 22nd after the FOMC announcement.

Despite the fact that most market participants interpreted the latest Fed policy announcement as more dovish than expected, Bitcoin markets saw a “sell the news” reaction, with the BTC price pulling back sharply and long liquidations spiking.

Figure 11: BTC/USD 15m chart. (source: Bitfinex)

BTC immediately fell 7.8 percent within two hours of the announcement, as seen in figure 11 above; this is perhaps a testament to the actual number of investors expecting a zero bps hike being much higher than Fed probability rates would have us believe. However, the market did recover to the mid $28,000 levels.

Figure 12: BTC Total Liquidations. (source: coinglass)

According to *coinglass data*, around $60.2 million worth of long positions were liquidated for Bitcoin alone in the first two hours (figure 12) after the Fed's policy announcement. Long liquidations for the day were around $90 million, the highest this metric has been since March 8th.

Figure 13. BTC aggregated Futures Open Interest 15m. (source: coinalyze)

The entire move served to clear out the leverage that had built up in the Bitcoin derivatives market prior to the FOMC announcement. According to Figure 13, there was a reduction of more than $1.2 billion in aggregated open interest after the FOMC announcement. While this may not be the largest open interest wipeout in terms of the number of contracts in the Bitcoin futures market, it still accounted for a 12 percent reduction in OI in terms of US dollars, making it the fourth largest open interest wipeout after an FOMC announcement.

This indicates the growing influence of the derivatives market on Bitcoin prices, as it gradually converges with the surge in spot volume that occurred towards the end of 2022 and earlier this year. Despite both markets experiencing historically significant levels of trading activity, derivatives volume is now growing at a faster pace than spot volume. This has contributed to increased volatility in Bitcoin price.

Bitcoin Spot and Derivatives Volume Continue to Surge

Weekly Bitcoin spot trading volumes recorded their highest ever reading last week (refer figure 15). The 7-day Moving Average of Bitcoin trading volumes on exchanges rose to around $24 billion last week, its highest level since mid-2021. (figure 14)

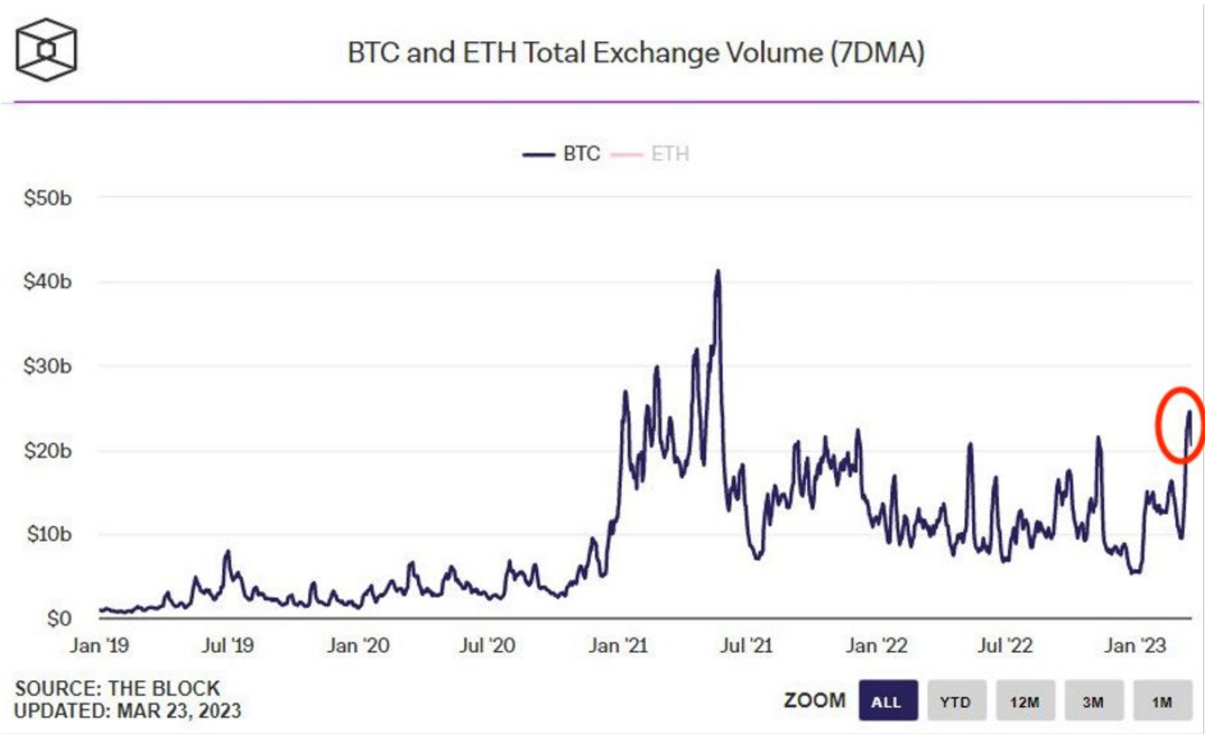


Figure 14: BTC and ETH Weekly Total Exchange Volume. (source: TheBlock)

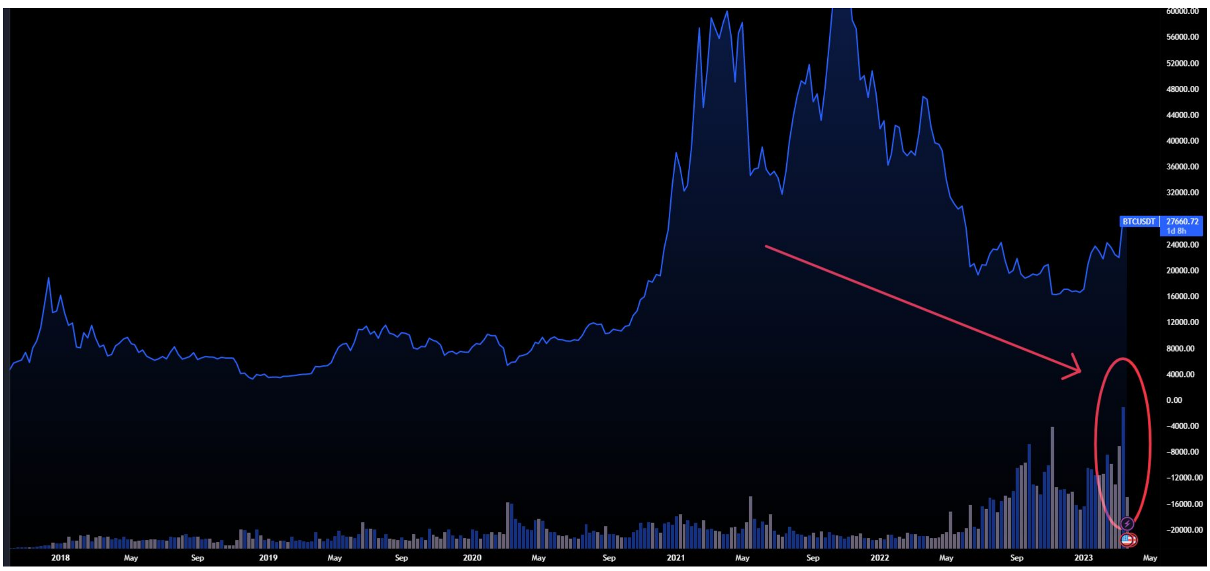


Figure 15. BTC aggregated weekly spot volume is the highest ever.

As of now, with March not yet concluded, the trading volume of Bitcoin futures across various exchanges has already reached close to $1 trillion, the highest since September last year (refer figure 16). It is highly probable that by the end of the month, the trading volume in dollar terms could surpass that of last July or June.

The futures market acts as a tool to speculate on the price of the underlying asset. This increase represents an increasing amount of speculation on BTC price.

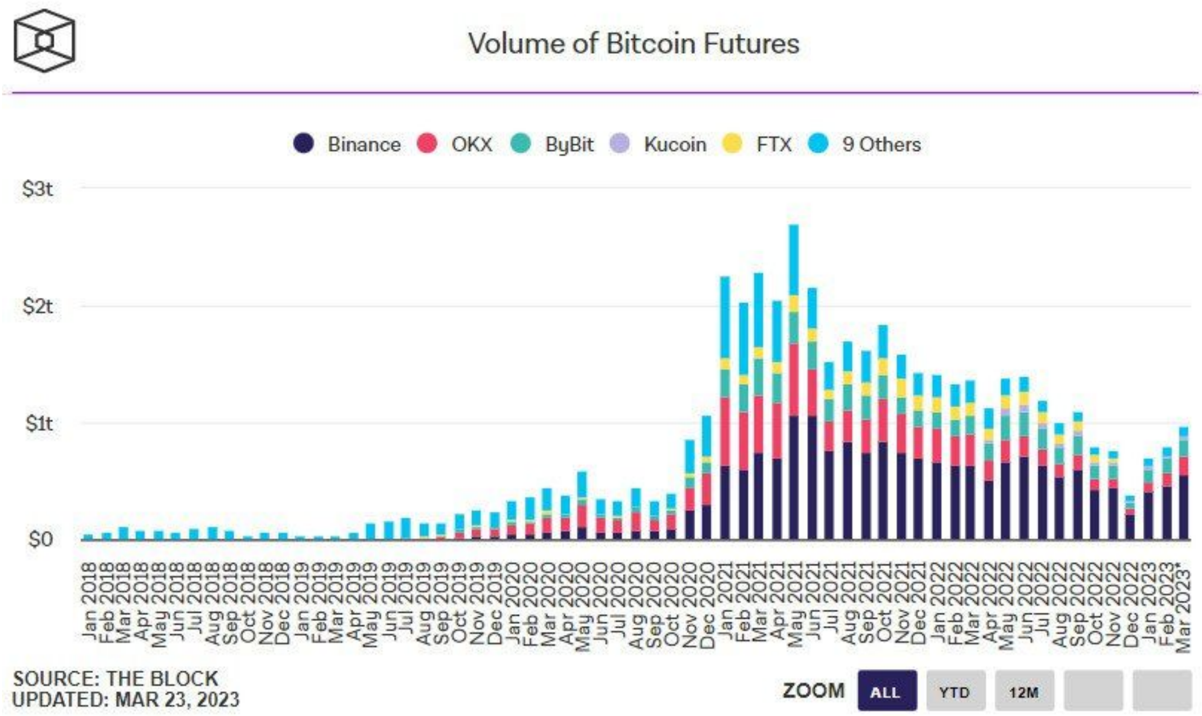


Figure 16. BTC aggregated futures volume. (source: The Block)

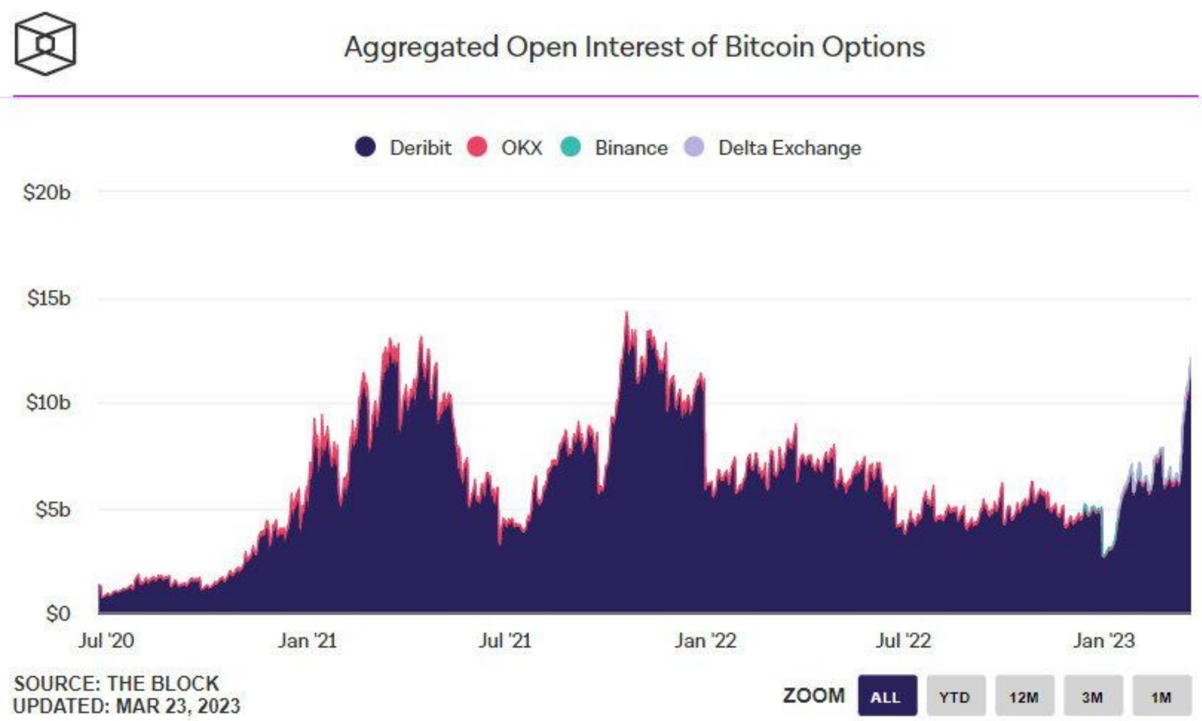


Figure 17. Aggregated Bitcoin Options Open Interest. (source: The Block)

Investors use Bitcoin options to bet on or hedge against price swings. Given that Bitcoin options are a more sophisticated asset class to understand and trade, institutions and professional trading desks make up a greater proportion of overall trading volumes. Surging Bitcoin options volumes and Open Interest could thus signify that institutional trading activity is on the rise.

On March 22, BTC options open interest rose to $12.14 billion, as seen in Figure 17, its highest level since November 2021, when Bitcoin reached its previous all-time high. This suggests that institutional investors are increasingly participating in the market.

When we couple this information with the increase in the number of new market participants, as covered in last week's *Bitfinex Alpha*, we can speculate that we may be in the early stages of a bull market. Historically, increasing speculation and new market entrants have coincided during the last stage of the bear market.

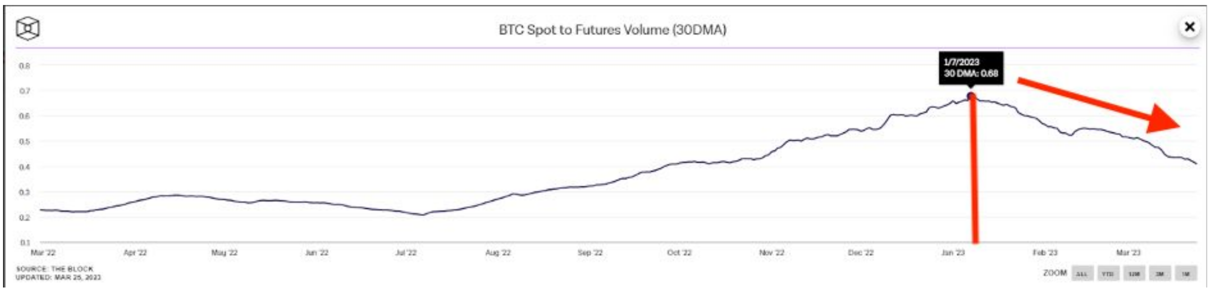


Figure 18. BTC spot to futures volume 30-day moving average. (source: The Block)

Spot volume had been increasing at a faster pace than derivatives volume. However, the spot-to-futures ratio shown in Figure 18 above shows how this ratio peaked in January. For the past week, derivatives market volume is even increasing at a faster rate than the spot market.

Even though the beginning of a bull market might be enticing for investors, this is also followed by increasing volatility.

Long-Term Holders Moving Coins in Profit

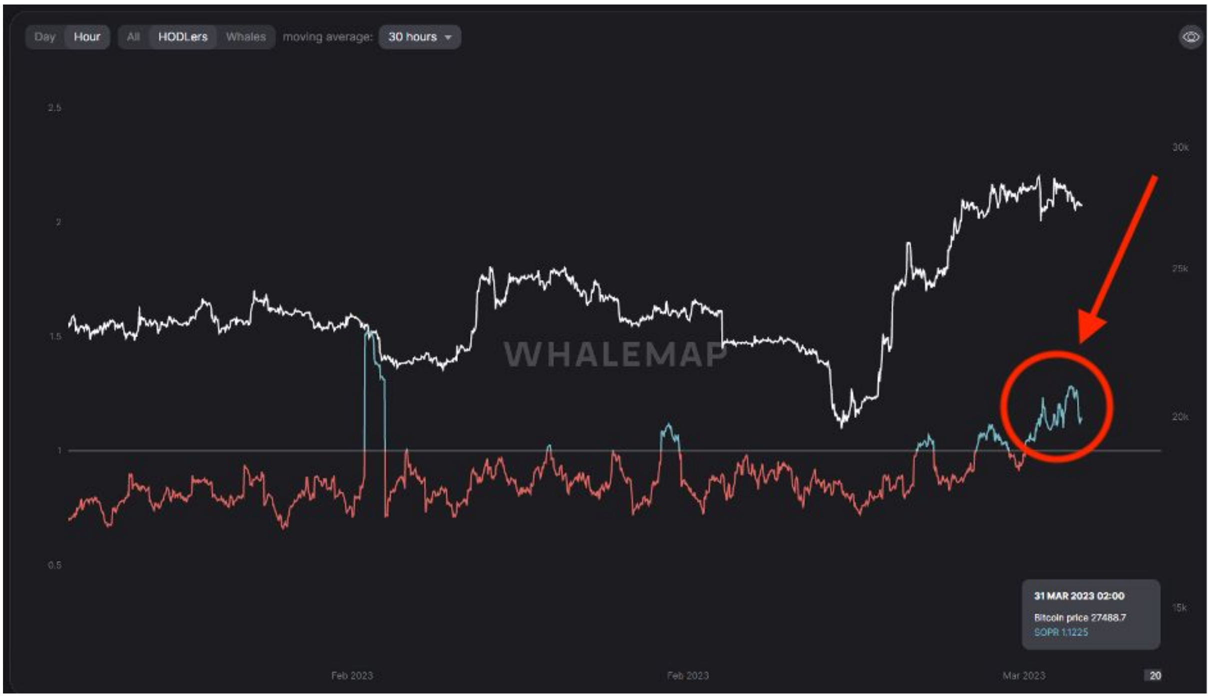


Figure 19. BTC Long-term holder SOPR Hourly chart. (source: Whalemaps)

BTC's Long-Term Holder (LTH) SOPR suggests that whales and HODLers are moving coins at a profit.

As seen in figure 19, the BTC Long-term Holder (LTH) Spent Output Profit Ratio (SOPR) is now returning to a level greater than one, on multiple timeframes. Any reading greater than one indicates that coins are being moved at a profit.

The behaviour of long-term Bitcoin holders selling their coins during the current market conditions is consistent with previous bear market trends, which is a positive signal for the market. However, some may question whether long-term holders' focus on fiat profits means that they are preparing to sell their BTC and flood the market. This is not necessarily the case.

A long-term holder is defined as anyone who has held BTC for 155 days or longer. This means that entities who acquired BTC between June 2022, after the Terra/Luna and Celsius implosions, and October 20th, 2022, are considered long-term holders and are likely the ones selling for profit.

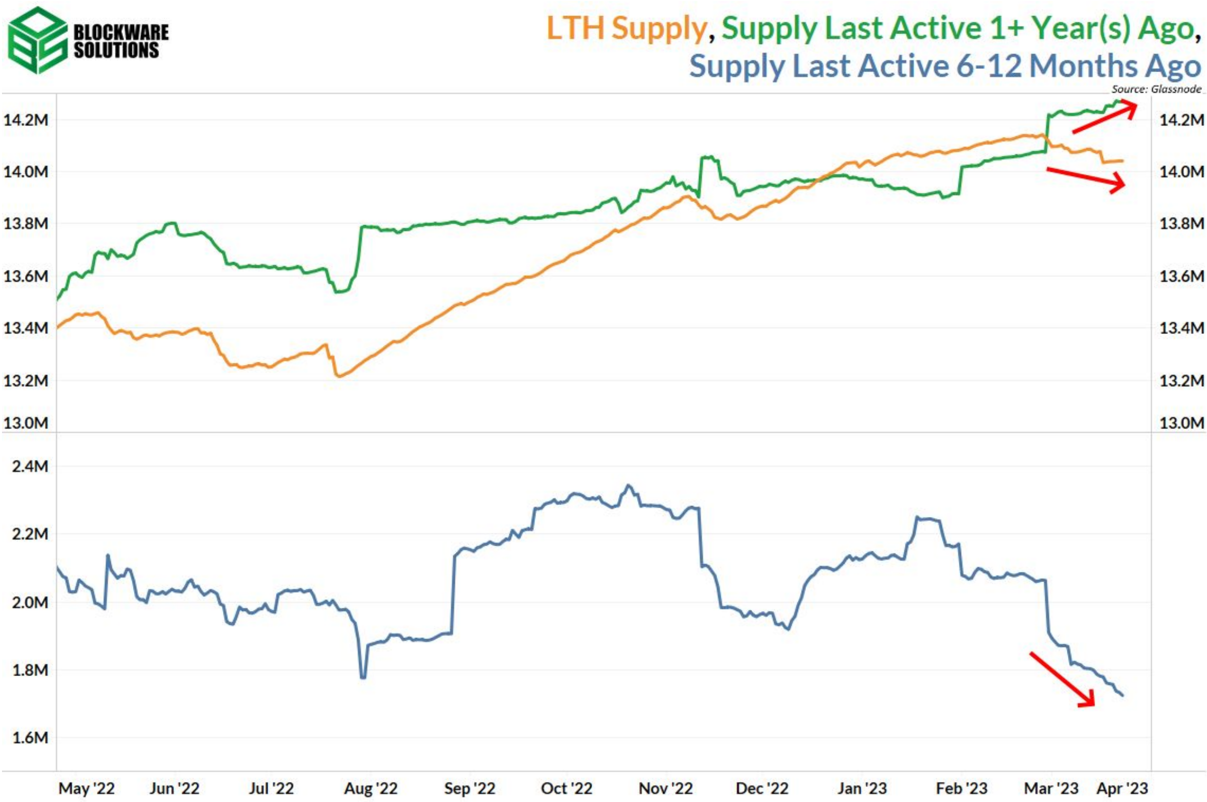


Figure 20. LTH supply last active one year ago vs supply active six months ago. (source: Blockware Intelligence)

When comparing the supply held by long-term holders (LTH) to the supply last active one year ago or longer, it is clear that the former is declining while the latter is steadily increasing. As a result, the liquid supply of Bitcoin remains limited and is becoming even more so as this latter group continues to buy and hold. This is also healthier for the market as this represents supply distribution rather than HODLers losing conviction.

The outgoing supply from LTHs is much smaller than any of the other two metrics. Meanwhile, the incoming demand from smaller and newer investors is increasing.

Large Selling Pressure for BTC around $28,000

BTC price has increasing selling pressure above the $28,000 level. Most of this is from short-term holders.

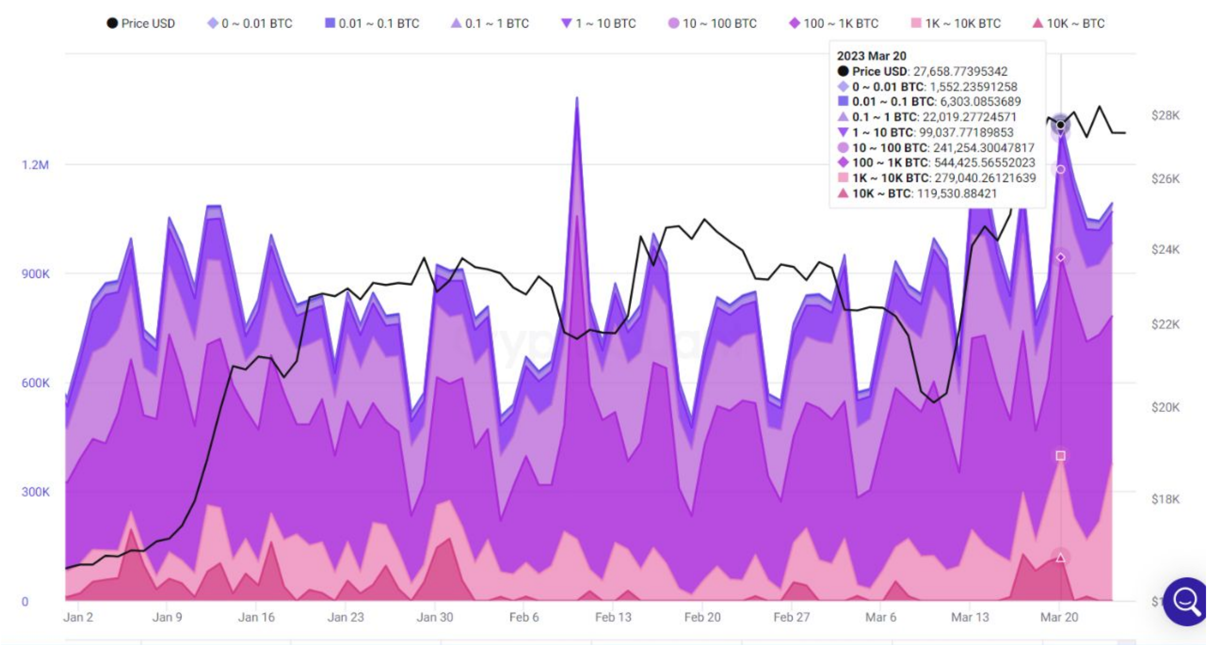


Figure 21. Bitcoin Spent Output Age Bands. (source: CryptoQuant)

We see the selling pressure in the markets as having characteristics to similar instances this year, with the majority of sales are being executed by short-term holders who have been holding for a time frame of 1-6 months.

As per *CryptoQuant* data, sales predominantly originate from the bands of 100-1k BTC holders. As seen in Figure 21 above, the majority of the Bitcoin selling near $28,000 is by BTC entities holding 100 to 1,000 BTC. Sales of around 544,425 BTC have taken place. This accounts for more than half of any other segment of holders. Furthermore, in addition to the selling pressure exerted by short-term holders, nearly 2,400 bitcoins have been observed to be moved by the five to seven-year-band Bitcoin holders. The difference in this figure and the short-term holder selling pressure in tandem with the increase in LTH SOPR in Figure 19 shows that the percentage of whales taking profit is dwarfed in comparison to the short-term smaller BTC entities taking profit or moving BTC in profit.

NEWS FROM THE CRYPTO-SPHERE

Tether Estimates It Will Make a $700 Million Profit in the March Quarter

Figure 22. Tether CTO Paolo Ardoino

Tether, the cryptocurrency firm that issues the USDt stablecoin, estimates it will earn a $700 million profit in the first quarter of 2023, according to the company's chief technology officer, Paolo Ardoino, who shared the figures with *CNBC*.

This would bring Tether's total excess reserves to over $1.6 billion for the first time.

In addition, the total value of USDt in circulation has grown significantly this month as its rival, Circle, which issues the USD Coin (USDC) stablecoin, has experienced instability due to the collapse of Silicon Valley Bank.

In an interview with CNBC, when questioned about Tether's ability to back up its reserves while numerous banks failed, Ardoino highlighted the company's track record during difficult times by stating that despite the ongoing banking crisis, Tether remains profitable. He argued that this makes Tether a viable option for individuals seeking alternatives to traditional banks for storing their wealth.

It is also worth adding that Tether's report for the last quarter of 2022 showed that its assets exceeded its liabilities and that the company earned a profit of $700 million in the same quarter.

Telegram Launches Tether (USDt) Payments

Figure 23. USDT Stablecoin Payments Launch on Telegram

Telegram, the popular messaging app, has announced support for Tether's TRC-20 stablecoin, USDt-TRON, allowing users to send the stablecoin to their contacts on the platform.

TRC-20 is currently the only blockchain that Telegram supports for USDt.

Users can now buy, swap, and make P2P trades with USDt (TRC-20) without transaction fees, according to an app notification on Wednesday, March 22nd.

Telegram also allows users to buy Bitcoin via its app and send it to other users or wallets, but it cannot be cashed out, only exchanged for TON, the layer-one blockchain designed by telegram.

Terra Founder Do Kwon Arrested and Charged with Fraud

Figure 24. Terra founder Do Kwon arrested in Montenegro

On March 23rd, it was reported that Do Kwon, co-founder of Terraform Labs, has been charged by US prosecutors with orchestrating a cryptocurrency fraud that resulted in the loss of at least $40 billion in market value.

The charges come after Kwon was arrested in Montenegro, where he was found attempting to fly to Dubai with falsified Costa Rican travel documents. It is unclear whether his arrest was at the request of the U.S. authorities, but federal prosecutors have stated their intention to seek his extradition to New York. Kwon is already a fugitive from charges in South Korea, and the country's police force has requested his extradition.

The collapse of Terraform's TerraUSD stablecoin last spring shook the crypto world and played a role in the failure of several high profile crypto firms in a domino effect which ultimately led to the collapse of FTX. Kwon is accused of deceiving investors about critical aspects of the Terra blockchain and issuing false and misleading statements.

Prosecutors also allege that Kwon engaged in market manipulation with an unidentified US trading firm to alter the market price of TerraUSD. Kwon faces an eight-count indictment, including securities fraud, commodities fraud, and conspiracy.

If Kwon is extradited to New York, he will be facing prosecution by the same office overseeing a criminal case against another major figure in the crypto world, FTX co-founder Sam Bankman-Fried, who was himself extradited from the Bahamas.

Binance Temporarily Suspends Spot Trading

Figure 25. Binance CEO Changpeng Zhao apologised to customers for any inconvenience and clarified that the issue was a matching engine-related bug.

Binance, the world's largest cryptocurrency exchange, experienced technical issues with its spot trading on Friday, March 24th, resulting in the suspension of deposits and withdrawals.

Binance CEO Changpeng Zhao (CZ) revealed in a tweet that the matching engine had encountered a bug related to the trailing stop order feature. Trading on spot markets was suspended for two hours as a result.

Binance has since completed a temporary system maintenance and resumed all trading activity, except for trailing stop orders, which have been temporarily suspended until further notice.

Binance has also apologised for the inconvenience and advised its users to reassess their collateral balances before engaging in futures and margin trading to mitigate against potential price fluctuations.

Prior to this incident, Binance decided on Wednesday, March 22nd, to remove its main no-fee trading feature for all BTC pairs, except BTC/TUSD.

Market intelligence firm *Kaiko* provided data indicating that this decision caused the liquidity on Binance for BTC-USDt and BTC-BUSD trading pairs to decrease significantly by nearly 70 percent and 60 percent, respectively. Meanwhile, liquidity for the BTC-TUSD trading pair was up by over 250 percent.

Coinbase Receives a Wells Notice from the SEC

Figure 26. Coinbase CEO and Co-founder, Brian Armstrong.

Coinbase announced that it has received a "Wells notice" from the US Securities and Exchange Commission (SEC) for an undefined portion of its listed digital assets.

The notice also includes Coinbase's staking service, Coinbase Earn, Coinbase Prime, and Coinbase Wallet.

A Wells notice informs a company that the SEC is planning an enforcement action against them for possible violation of the securities laws.

Coinbase stated that it is confident in the legality of its assets and services, and if needed, welcomes a legal process to provide clarity, adding that the company has spent months developing proposals for registration paths for the SEC to review but received no feedback from the agency.

Furthermore, Coinbase believes that the regulatory uncertainty in the crypto industry is getting worse and that the SEC is continuing to regulate by enforcement only.

Finally, Coinbase stated that its products and services continue to operate as usual, and that the Wells notice does not require any changes to its current products or services.

Tron Founder Justin Sun Sued by the SEC

Figure 27. The founder of Tron, Justin Sun

The Securities and Exchange Commission (SEC) has charged crypto entrepreneur Justin Sun and his companies for securities law violations and fraud.

Sun and his wholly-owned companies, Tron Foundation, BitTorrent Foundation, and Rainberry, have been charged for offering and selling crypto asset securities, Tronix (TRX) and BitTorrent (BTT), without registration.

Sun and his companies have also been accused of manipulating the secondary market for TRX through extensive wash trading, which means the purchase and sale of an asset by the same entity in order to manipulate the market and create the illusion of demand for the asset.

Furthermore, the SEC alleged that Sun and his companies have orchestrated a scheme to pay celebrities to promote TRX and BTT without disclosing their compensation.

Eight celebrities, including Lindsay Lohan, Jake Paul and Ne-Yo were also charged for illegally promoting TRX and BTT.

Kraken to Suspend ACH Deposits and Withdrawals

Figure 28. Kraken is now looking for new ACH funding options.

Kraken, a major cryptocurrency exchange, has notified its users that it will suspend automated clearinghouse (ACH) deposits and withdrawals from March 27th due to the failure of its banking partner, Silvergate Bank.

ACH transfers are the primary system for electronic payments made to and from banks, and Kraken is reportedly looking for a new banking partner to resume ACH deposits and withdrawals.

Kraken has stated that no other services will be affected by this change, and the exchange plans to resume ACH deposits and withdrawals as soon as it finds alternative funding providers.

The company has also advised users to explore other available funding options to ensure an uninterrupted funding experience, including MVB Bank for Fedwire deposits and withdrawals, and other instant purchase options.

Arbitrum Airdrop Sells off at Listing

Figure 29. The highly-anticipated Arbitrum airdrop has gone wrong

The launch of Arbitrum's highly-anticipated token, ARB, has caused a frenzy among users, leading to the project's homepage crashing.

The ARB token was made available to eligible users through the Arbitrum homepage, which experienced a 429-error due to overwhelming user traffic.

Arbiscan, a data platform that collects various Arbitrum metrics, including gas fees and transaction numbers, also went down.

Once Arbiscan came back online, users were able to claim the token as an alternative to the Arbitrum homepage. However, the claiming process resulted in more unexpected errors, with some users experiencing gas fees as if they were making a $5.8 billion transaction. (See figure below)

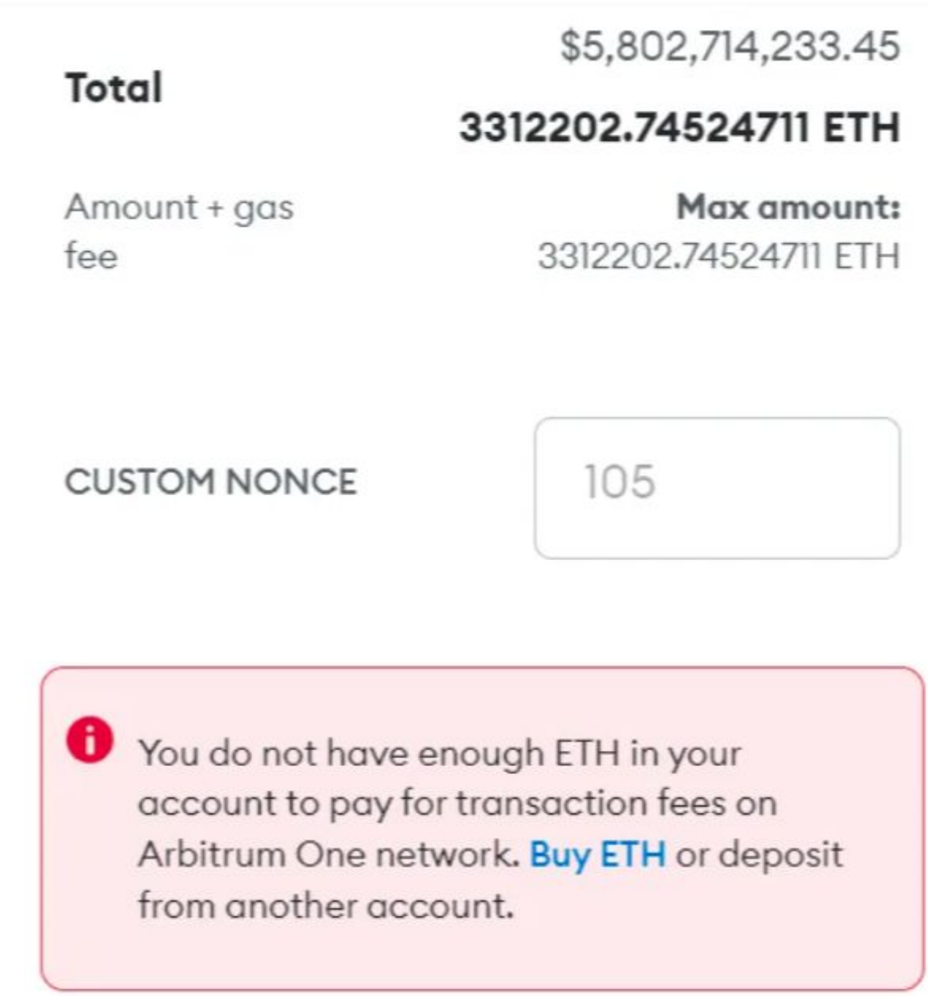


Figure 30. Estimated gas fees while purchasing ARB tokens through Arbiscan (Source: Metamask)

Early claimants have also sold their holdings on the market, causing the price of ARB to fall from a high of $8.67 to $1.4 in the first 30 minutes after the claims began.

Celsius to Return 72.5 percent of Crypto to Custody Account Holders

Figure 31. Celsius receives approval to settle its custody account holders' claims.

On March 21st, it was reported that cryptocurrency lender, Celsius, has been granted formal approval by a US bankruptcy judge, Martin Glenn, to allow custody account holders to receive up to 72.5 percent of their holdings.

Custody account holders represent all individuals who essentially entrusted Celsius with the custody of their funds before the crypto lender filed for bankruptcy.

Custody account holders can claim up to 72.5 percent of their assets, which will be divided into two settlements of 36.25 percent each.

The first settlement should be paid out by June 11, while the second will be paid by December 31, 2023. The account holders must sign an opt-in form by April 24, 2023, to receive the settlement payment.

The SEC/US Regulatory Hostility Towards The Crypto Industry

May 3, 2022

The SEC nearly doubled the size of its "Enforcement's Crypto Assets and Cyber" Unit.

Jan. 4, 2023

The NYDFS (New York State Department of Financial Services) charged Coinbase with a $50 Million Penalty and an obligation to invest an additional $50 Million in its Compliance Program.

Jan. 19, 2023

The SEC charged Nexo with $45 Million in Penalties and Ceased the Unregistered Offering of its Crypto Asset Lending Product.

Feb. 3, 2023

The SEC issued a Wells notice to Paxos, claiming BUSD is a security and required registration under federal securities laws. US regulators also halted BUSD issuance.

Feb. 9, 2023

The SEC issued a charge against Kraken, directing the company to pay a fine of $30 million and cease offering its staking services within the United States due to potential violations of securities regulations by the company.

Feb. 27, 2023

Robinhood's 10-k annual report stated that it has received an investigative subpoena from the SEC.

March 9, 2023

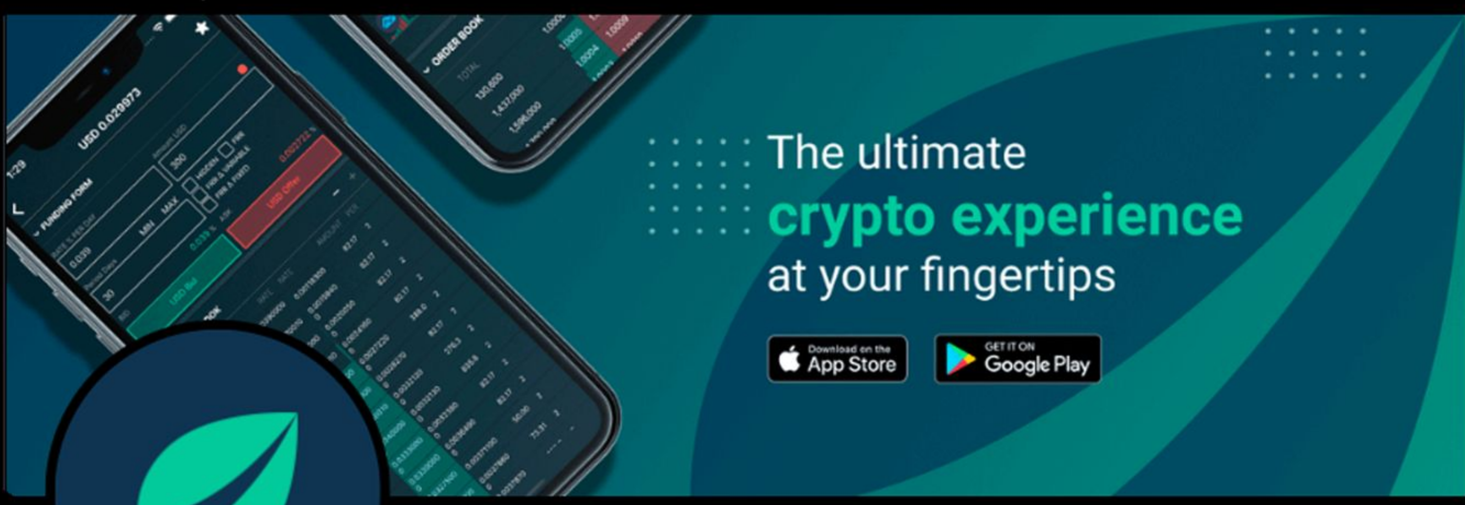
The Attorney General of New York State sued KuCoin for operating in New York State without proper registration and falsely representing itself as an exchange.

March 22, 2023

Coinbase received a Wells Notice from the SEC for an undefined portion of its listed digital assets.

March 22, 2023

The SEC Charges Crypto Entrepreneur Justin Sun and his Companies for Fraud and Other Securities Law Violations.



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