BITFINEX Alpha

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EXECUTIVE SUMMARY

The fight against inflation is not over, according to New York Federal Reserve President John Williams. On an absolute basis, it is still too high and way above the Fed's two percent target. But progress is being made.

Consumer Price Index (CPI) inflation for April revealed a 0.4 percent month-on-month increase, driven primarily by gasoline and energy commodities, but on a year-on-year basis, showed a slight decline to 4.9 percent, from five percent in the previous month. This is a trend that we see continuing.

There are risks, though. The US is facing an increasingly fraught debt ceiling crisis, and if Congress fails to raise the debt limit, the US government could default by June, according to Treasury Secretary Janet Yellen. Any weakening in market confidence could lead to even higher interest rates, and we analyse three key indicators that suggest that not only urgent attention is required to address the situation but that there is potentially only seven days to do so.

To add to the ongoing political standoff on the country's debt ceiling is also evidence that banks are making it more difficult for borrowers to receive credit. The Federal Reserve's Senior Loan Officer Opinion Survey shows that credit conditions for both businesses and households in the US are continuing to tighten and that this, combined with reduced credit demand, could prolong restrictions on overall credit availability.

Historically, a credit-constrained environment negatively affects the employment rate. While the job market is currently quite robust, if there are difficulties for companies who want to borrow to fuel growth, then this will lower hiring and gradually slow economic activity.

Against this backdrop, Bitcoin prices have slipped from recent highs, despite the fact that network activity continues to be elevated. Fuelled by BRC-20-related activity (see our BRC-20 special edition here), transaction fees remain high. Indeed, in what is potentially a new chapter for Bitcoin, the last week saw the advent for the first time of Bitcoin-based smart contracts. A newly formed Bitcoin-based decentralised exchange, dubbed Trustless Market, enables users to swap Smart BRC-20 tokens, provide liquidity, earn a two percent transaction fee, and issue new Smart BRC-20 tokens!

This uptick in transaction activity and the higher transaction fees are, however, exerting strain on other network activity indicators. Active and new addresses interacting with the network are approaching historical lows, indicating that higher transaction fees might be dissuading other Bitcoin network users.

Bitcoin miners, on the other hand, should be delighted. The Bitcoin Fee Ratio Multiple (FRM), the ratio of miner income from new Bitcoin issuance to that from transaction fees, has witnessed a dramatic descent. This is also good for the health of the Bitcoin network and increases security as well as indicating a shift in miner revenue sources from Bitcoin issuance to transaction fees.

Long-term Bitcoin metrics suggest we could be on the cusp of an early bull market. *Glassnode's* "Recovering from a Bitcoin Bear" dashboard displays all eight indicators flashing green, historically a potent bullish signal for the Bitcoin market. Despite some short-term metrics suggesting a retracement, Bitcoin is trading comfortably above key pricing models, and the Bitcoin Realised HODL Multiple has been on an upward trajectory.

Market and on-chain movements indicate that investors have primarily been exchanging into stablecoins and Ether derivatives over the week. We expect that this could provide a signal for a short-term pullback, but we note that long-term on-chain indicators remain bullish and resemble the early stages of previous bull markets.

Such fascinating market dynamics take place against an equally eventful news agenda last week.

The highlight was the remarkable net profit announced by Tether, the world's largest stablecoin, of $1.48 billion for Q1 2023, more than twice its profit in Q4 2022. The company also reinforced its commitment to transparency and compliance, registering with FinCEN, submitting Suspicious Activity Reports, and collaborating with the FBI and DOJ.

Liechtenstein's government also announced it intends to accept Bitcoin as a payment method for state services and expressed interest in investing state reserves in crypto assets in the future.

PayPal disclosed in a 10-Q filing that it holds nearly $1 billion in cryptocurrencies as of end-March 2023, a significant increase in customer crypto assets, while Xapo Bank, a Gibraltar-based institution, said it would allow customers to deposit and withdraw Tether by end-May, following its recent successful introduction of USD Coin deposits and withdrawals.

Less positive was also news that the Bittrex exchange filed for Chapter 11 bankruptcy protection after regulatory scrutiny forced it to cease US operations.

A judge also handed down a two-year prison sentence to Ishan Wahi, a former Coinbase manager, after he was found guilty of insider trading, enabling his brother and a friend to earn $1.5 million by sharing confidential information about new token listings.

Jane Street Group and Jump Crypto, two major market-making firms, also scaled back their digital assets trading in the US due to regulatory uncertainty and a recent crackdown on the crypto industry.

And finally, Su Zhu, co-founder of the notorious Three Arrows Capital, has obtained a Singapore court restraining order against Arthur Hayes, co-founder of BitMEX, who demanded $6 million from Zhu and his partner via Twitter.

It is never boring in crypto. Happy Trading!

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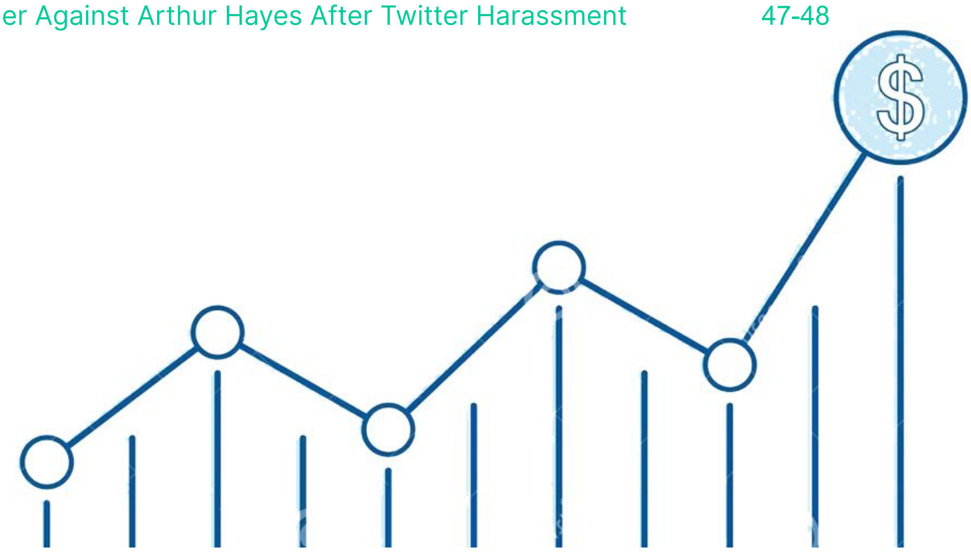


GENERAL MARKET UPDATE

Fed New York President Warns That It’s Early for Fed to End Hikes

Figure 1. John Williams, President of the New York Federal Reserve (Source: Federal Reserve New York)

John Williams, President of the New York Federal Reserve, in a recent speech at the Economic Club of New York, reaffirmed his confidence that the Federal Reserve (the Fed) is making substantial progress towards restoring low and stable inflation in the US economy. In his speech last Tuesday, May 9, Williams said that he anticipates inflation to fall to roughly 3.25 percent by the end of 2023 and then decline to the Fed's two percent target over the following two years. However, he also noted that inflation is currently “too high,” with the Fed's preferred indicator, the personal consumption expenditure index, having moderated to only 4.2 percent in March. While this represents an improvement from the seven percent rate last summer, it remains double the Fed's goal of two percent.

Some economists have suggested that the Fed should increase its inflation target. Still, Williams underscored that the Fed's two percent inflation target serves as a "North Star" for policy decisions and an effective communication tool for the Fed's goals to the public. He indicated that any decisions on raising short-term interest rates are yet to be made but emphasised that additional policy firming would be implemented if necessary.

The Fed's strategy, involving ten consecutive interest rate hikes over the past year, is expected to result in modest growth in 2023. Williams also warned of a possible increase in the unemployment rate to a range of 4-4.5 percent over the next year from the 3.4 percent rate recorded in April. Despite some moderation in rent inflation, Williams expressed concerns over core services, excluding housing, which have been running at around 4.5 percent since last August. These are projected to take the longest to reduce.

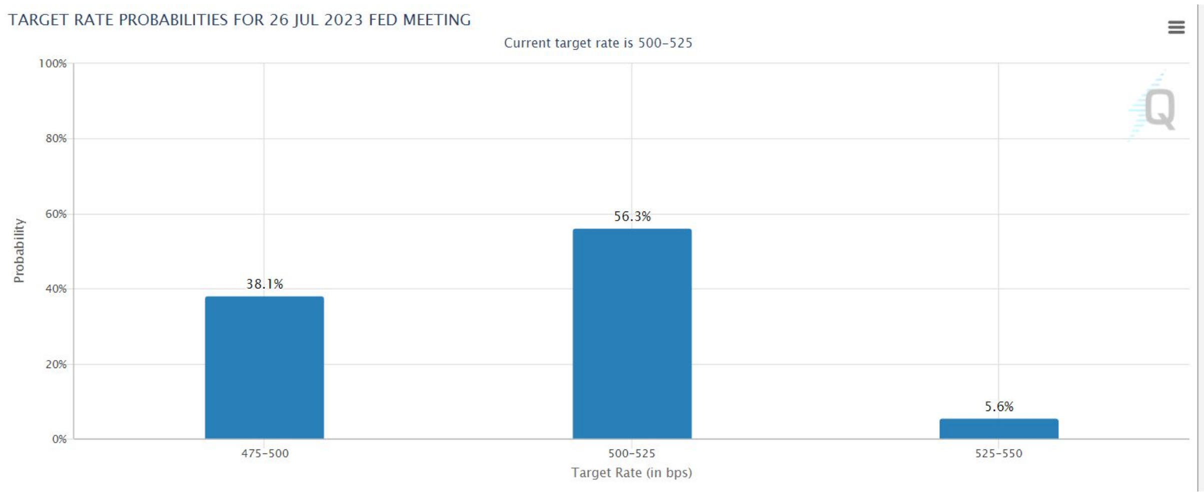


Figure 2. Target Rate Probabilities For July 26th Fed Meeting. (source: CME FedWatch Tool)

Market participants anticipate the Fed to pause its rate hikes at its June 13-14th policy meeting and are pricing in a high probability of a rate cut as early as July this year(refer Figure 2). Williams expressed his belief that a "restrictive stance of policy" would need to be maintained for some time to bring inflation down from four percent to two percent and stated that he did not anticipate any rate cuts in 2023.

Inflation Cools but Remains Sticky

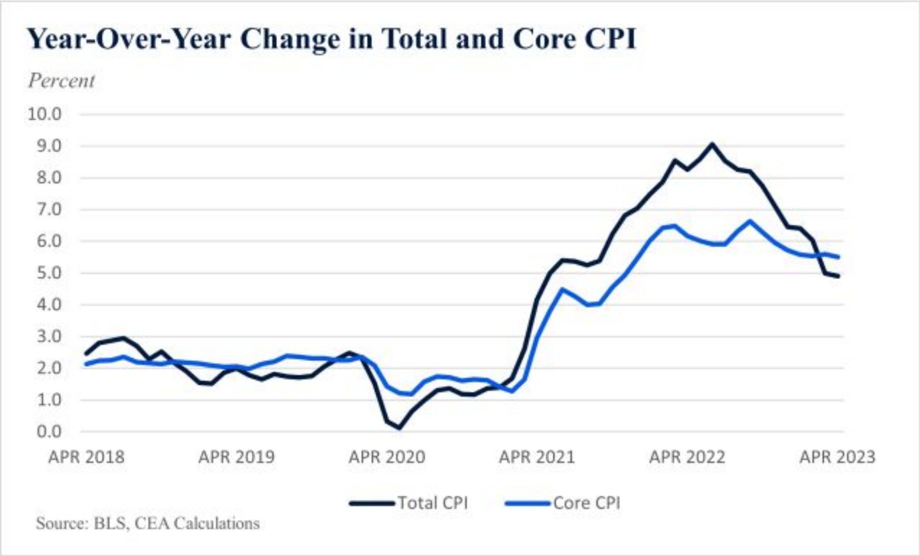


Figure 3. Year-over-Year Change in Total and Core CPI (Source: Bureau of Labor Statistics, Whitehouse.gov)

New data for April shows that the Consumer Price Index (CPI) increased by 0.4 percent compared to the previous month and by 4.9 percent year-over-year, according to a report by [the US Bureau of Labor Statistics]() issued last Wednesday, May 10. The core reading, which excludes food and gasoline, is also up 0.4 percent month-over-month (MoM) and 5.5 percent year-over-year (YoY). The CPI's super core inflation, which focuses on services excluding housing, grew by 0.2 percent MoM and 5.1 percent on a three-month annualised basis.

The consensus forecast was roughly in line with CPI predicted to see a 0.4 percent increase MoM and advancing five percent over YoY.

Inflation	**Actual, April**	**Forecast, April**	**Previous, March**
CPI, month-over-month	0.4%	0.4%	0.1%
Core CPI, month-over-month	0.4%	0.4%	0.4%
CPI, year-over-year	4.9%	5%	5%
Core CPI, year-over-year	5.5%	5.5%	5.6%

Figure 4. Consumer Price Index for April (Source: US Bureau of Labor Statistics)

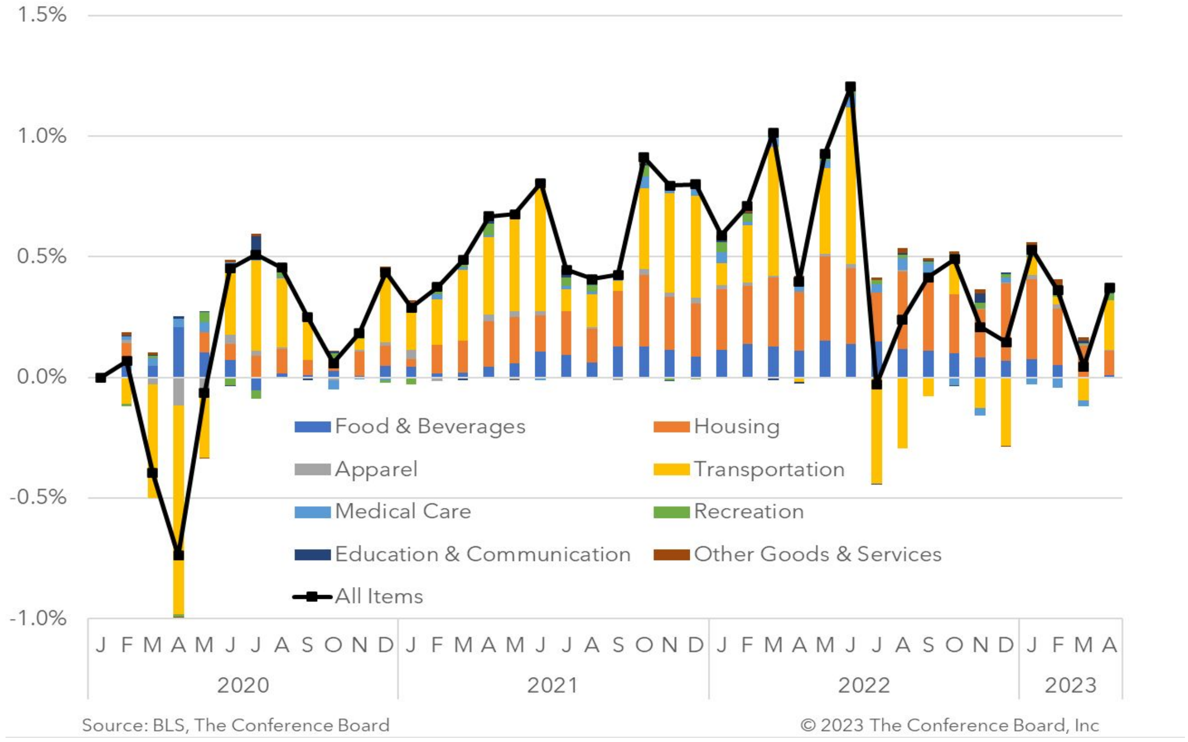


Figure 5. Contributions to Month-over-Month CPI Inflation (%)
(Source: Bureau of Labor Statistics, The Conference Board)

Housing costs climbed by 0.2 percent in April and increased by 7.5 percent on a year-over-year(YoY) basis. Shelter costs, which are the largest services component of the overall CPI index, rose 0.4 percent last month, the smallest increase in over a year, and was up 8.1 percent, YoY. Shelter costs measure the cost of housing services such as rent and utilities, and is a subset of housing cost. Housing cost captures shelter cost and includes the cost of owning a house.

Although service sector prices increased by 0.2 percent and 6.8 percent on a year-on-year basis, the rise in service prices slowed to 3.3 percent from 4.6 percent on a three-month average, which is a desirable development from a sector that makes up the largest component of the CPI.

In April, the main contributors to inflation were the three percent increase in gasoline, a 2.7 percent increase in energy commodities, and a 0.6 percent increase in overall energy costs on a month-ago basis. Strong demand for transportation and gasoline in April, fueled by rising incomes and excess savings, indicated that inflation will be sticky in the coming months, despite falling to 4.9 percent in April from 9.1 percent last June.

Looking forward, it is expected that inflation will continue to ease in a year-ago basis due to the favourable comparison with last year's high oil and energy prices and moderating shelter cost. The Federal Reserve's commitment to restoring low and stable inflation, coupled with economic dynamics, will significantly influence the trajectory of inflation in the forthcoming period.

Debt Ceiling Crisis Escalates: Rising Default Risk or the US Economy

The United States is on the brink of a debt ceiling crisis, and the consequences of policy brinkmanship over this issue could be detrimental to the US economy.

The debt ceiling, as we discussed in *Bitfinex Alpha 42,* is the maximum amount that the United States government can borrow and is used to settle bills that have already been incurred. According to Treasury Secretary Janet Yellen, if Congress fails to raise the debt limit, the US government could default on its debt by June. This warning has brought heightened attention to the "X-Date", the date identified by the Congressional Budget Office and the US Department of Treasury when the US can no longer meet its financial obligations. On May 1, Secretary Yellen cautioned that without an agreement to increase what the federal government can borrow, the X-date would fall in early June.

The current debt-ceiling impasse is a situation caused by a disagreement between political leaders that is proving challenging to contain. Market participants are watching closely how the current administration handles the situation.

President Joe Biden hosted discussions with House Speaker Kevin McCarthy and congressional leaders on May 9th to resolve the impasse over the debt ceiling crisis and avert a potential technical default. However, these discussions got off to a rocky start, with Democrats advocating for an increase in the debt limit, while Republicans insisted on rolling back federal programs' expansion and reducing federal spending.

Investors' concerns over the debt ceiling crisis are deepening, and three key indicators suggest urgent attention is required to address the situation.

1. **The Bill Curve**

The Bills Curve refers to the yield curve of US Treasury bills issued by the US government with maturities of one year or less. The curve represents the relationship between the yield on these bills and their time to maturity.

Investors watch the bill curve closely because it provides important information about the outlook for interest rates and the economy as a whole. In times of economic uncertainty or political instability, such as the risk of a US default, the bill curve can flatten or even invert, meaning that yields on shorter-term bills are higher than those on longer-term bills. If there is a risk of default, investors may be less willing to buy longer-term bonds, as they are riskier and have a longer duration. This could cause a shift in demand towards shorter-term bills, increasing the demand for short-term bills.

The increased risk will also result in investors demanding a higher yield on short-term bills to compensate them for the higher risk they are taking on.

As illustrated in the figure below, the potential X-Date window encompasses a relatively broad short-term maturity window. Investors are demanding a higher yield premium to hold securities maturing just after the anticipated X-Date.

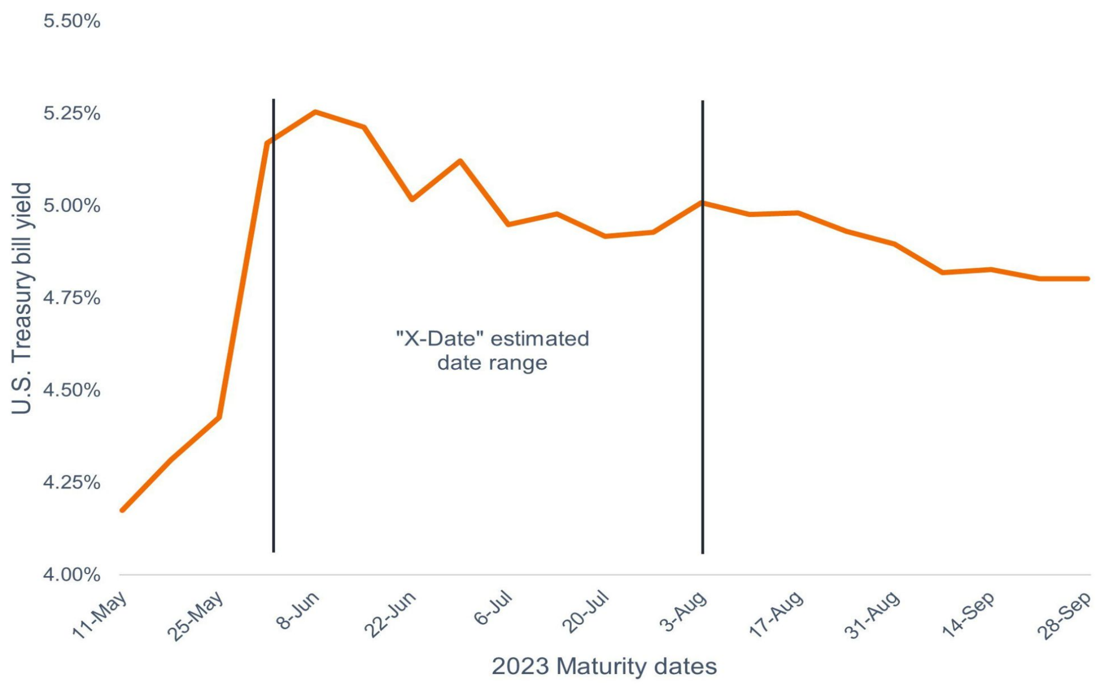


Figure 6. Treasury Bill Yield Curve as of 3 May 2023 (Source: Janus Henderson Investors)

2. Credit Default Swap: The Cost of Insuring Against a Default

The cost of insuring against default can be measured by the cost of credit default swaps (CDS) for US Treasuries. CDS instruments allow investors to protect themselves against the risk of default by a borrower. When the U.S. faces a default risk, the cost of buying CDS protection on US Treasuries may increase. This increase in cost can be an indicator that the market perceives the risk of default to be rising. Investors may also watch CDS spreads (refer to Figure 7), which are the difference in yields between a CDS contract and a comparable Treasury bond. If CDS spreads widen, it can indicate that the market perceives the risk of default to be increasing.

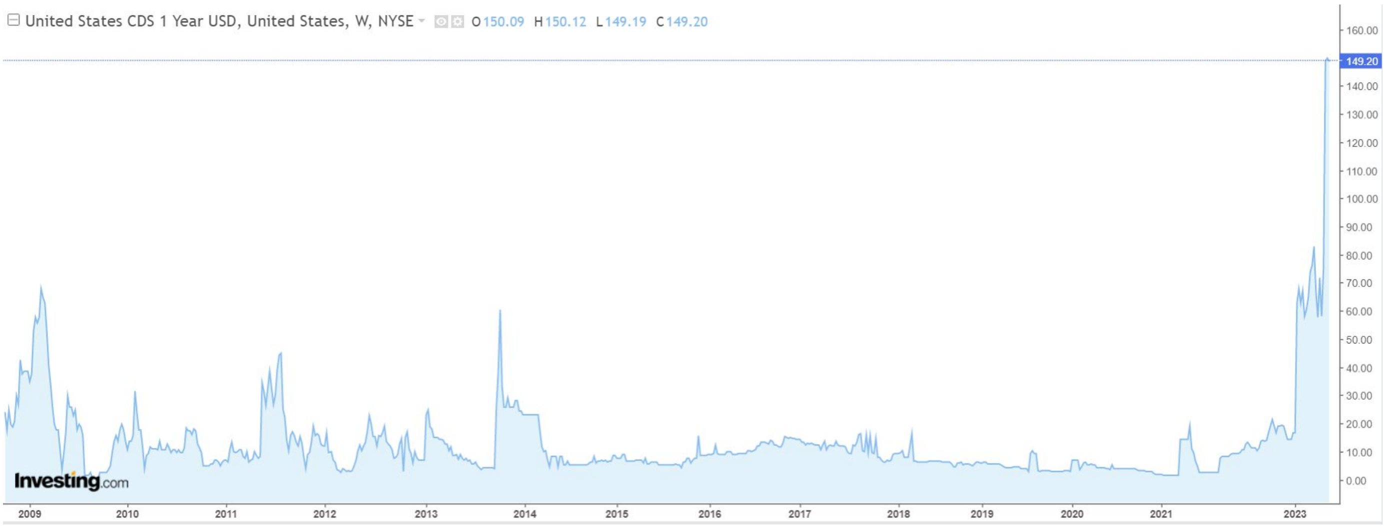


Figure 7. US 1-Year Credit Default Swaps (Source: Investing.com)

As seen in the figure above, Credit Default Swaps on US sovereign debt (Figure 7) have surged in recent weeks, surpassing levels seen during the 2011 debt ceiling crisis.

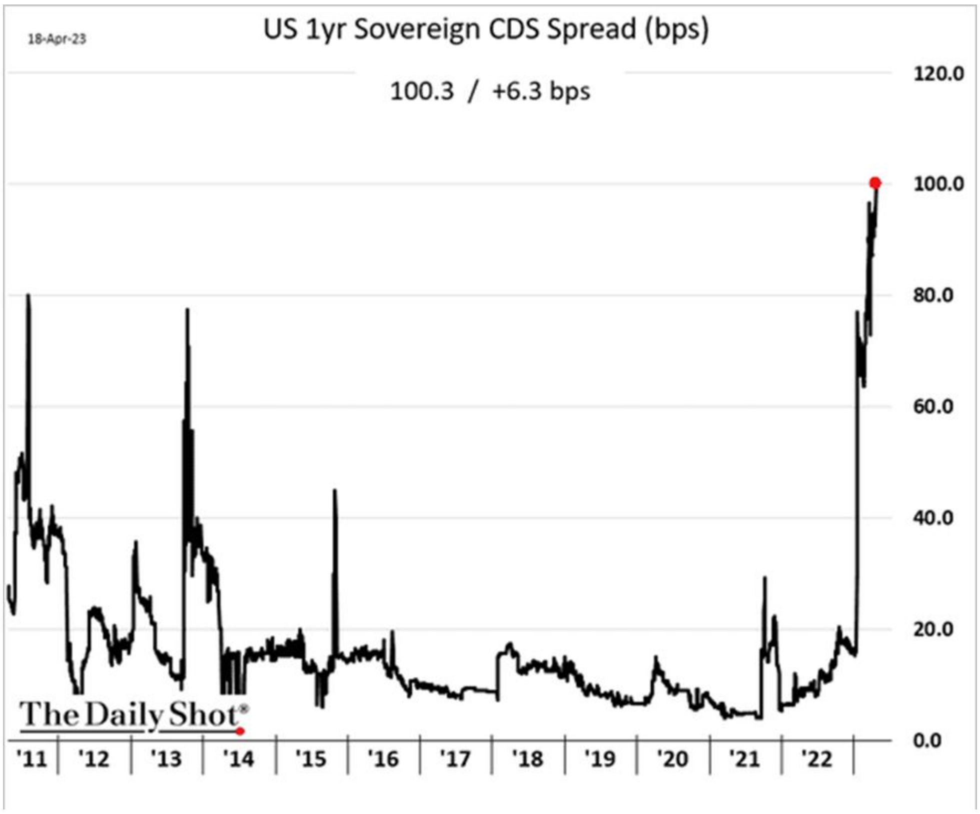


Figure 8. The US 1 year Sovereign CDS Spread (Source: The Daily Shot)

3. Cash Available

The Treasury's total operating balance is the amount of money that the government has on hand to pay its bills and meet its financial obligations, such as paying interest on the national debt and funding government programs.

By monitoring the total operating balance, investors can get a sense of how close the government is to running out of money and defaulting on its obligations. This number fluctuates daily based on expenditure, tax receipts, debt repayments, and the proceeds from new borrowing. The number is gradually decreasing, as seen in the figure below, and if it gets too close to zero for the US Treasury Department's comfort, that could pose a significant danger to the economy.

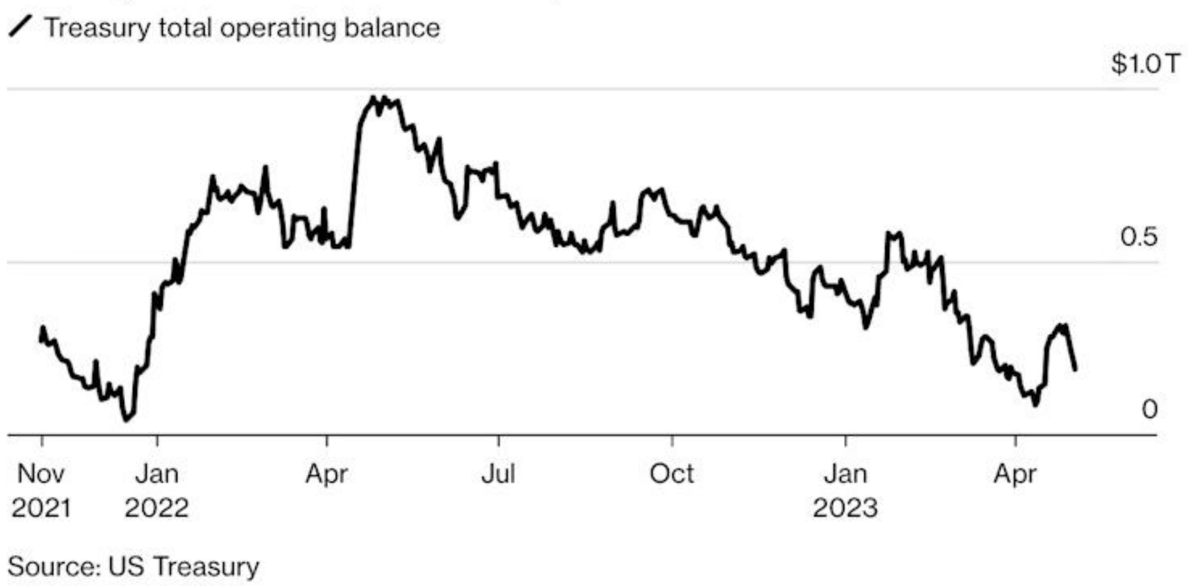


Figure 9. US Treasury Total Operating Balance (Source: US Treasury)

The potential consequences of a default could be severe, and the urgency of the matter is heightened by the limited window in which the President, members of the House, and the Senate can achieve a political fix. We are now in a seven-day period during which the schedules of the President, the House and the Senate align, and when all three parties can dedicate sufficient time to deal with this issue before we hit the X date, expected in early June.

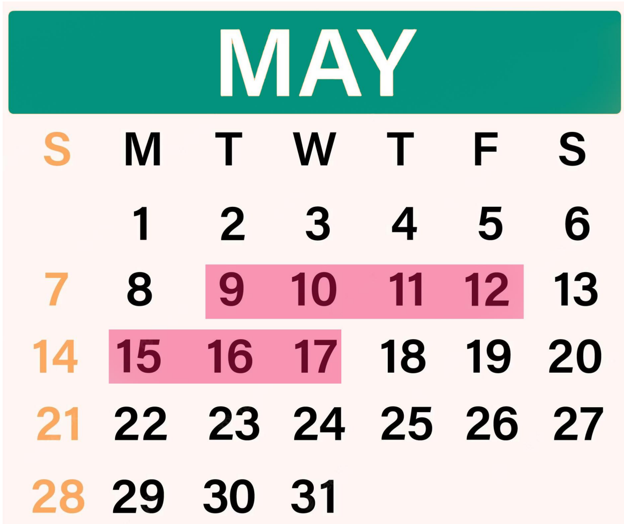


Figure 10. The Narrow 7-day Period that the House, Senate and White House Schedules Align in May

Consequences of a Default

A potential US default could trigger a significant increase in interest rates, because investors would demand a higher yield to compensate for the increased risk of lending to the US government. The loss of confidence in the US dollars could also lead to a sell-off and even devaluation. It would negatively affect the country's creditworthiness, leading to increased interest rates on mortgages, car loans, and credit cards. Moreover, the government may face a significant reduction in spending since it would no longer be able to borrow money to finance its operations. Retirement savings accounts such as 401(k)s and Individual Retirement Accounts would be impacted, and funding for government assistance programs such as Social Security, Medicare, and Medicaid could be reduced.

The ramifications of a default would not be confined to the US alone. As the world's reserve currency, the US dollar is integral to international trade and financial transactions. A US default may undermine the confidence of other nations in the US dollar, leading to a global financial crisis.

The debt ceiling standoff is already raising the cost of issuing debt by public and private actors. A failure to produce a compromise would have a significant impact on overall output, inflation, and employment. Businesses that lack the resources to survive such a crisis are especially vulnerable to insolvency risks under such conditions. Ultimately, households will bear most of the burden not only because of higher borrowing costs but also a reduction in Americans' purchasing power.

Tightening Credit Conditions Will Continue Throughout 2023

A Federal Reserve survey of bank loan officers shows that banks are likely to continue to tighten credit standards which may weaken the so-far largely resilient US labour market, and heighten the risk of a recession.

In the last 15 months, the Federal Reserve has raised interest rates by five percent, which is the fastest and most extreme tightening of monetary policy in more than 40 years. Some economists believe that aggressive rate hikes partially contributed to the recent failures of Silicon Valley Bank and Signature Bank, which put stress on the financial system and led banks to tighten their lending conditions.

The current fiat system in the US relies heavily on credit to function effectively. Fiat money is a currency that is not backed by a physical commodity like gold or silver, but rather its value is based on the trust and confidence people have in the currency and the government that issues it.

In the pursuit of cyclical growth, the availability of cheap credit to the private sector has a remarkable effect. This can be observed as individuals raise their bids for properties through cheap and readily accessible mortgages, and businesses take advantage of cheap borrowing rates to finance their operations and boost their sales volume. Thus, cheap credit stimulates economic activity and earnings, creates strong hiring trends, and increases wages. The opposite occurs when the credit supply becomes scarce, and lending conditions tighten: stop the flow of credit, and a recession happens. This has been consistent in previous recessions. Figure 11 below shows that recession follows when the flow of credit is restricted, as seen in the sharp increase in lending standards by domestic banks, both in 2001 and 2008, following which, the US fell into a recession.

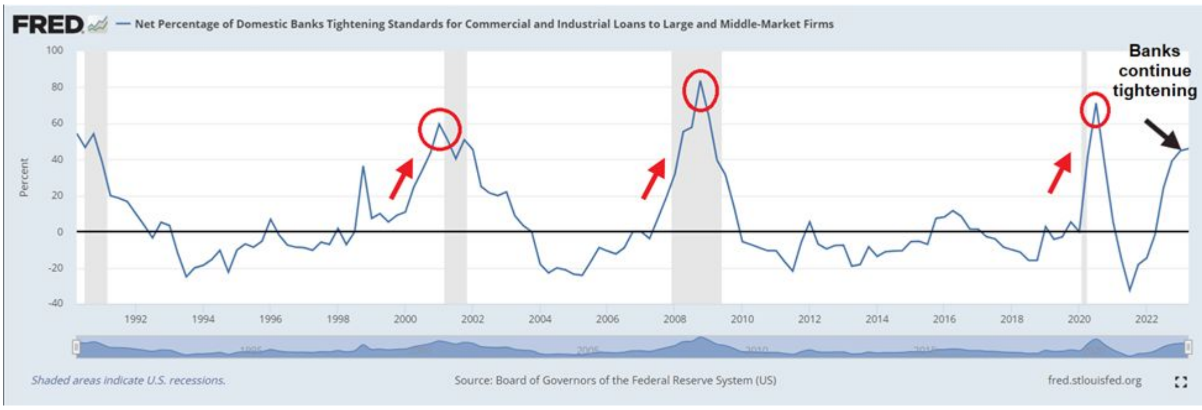


Figure 11. Net Percentage of Domestic Banks Tightening Standards for Commercial and Industrial Loans (Source: Board of Governors of the Federal Reserve System, US)

A Federal Reserve survey of bank loan officers, released last Monday, May 8th, has revealed that credit conditions for both businesses and households in the US are continuing to tighten in the first few months of 2023. [The Senior Loan Officer Opinion Survey (SLOOS)], which is conducted quarterly, showed an increase in credit tightening for medium and large businesses, with a net 46.0 percent of banks reporting tighter terms for these loans compared to 44.8 percent in January's survey.

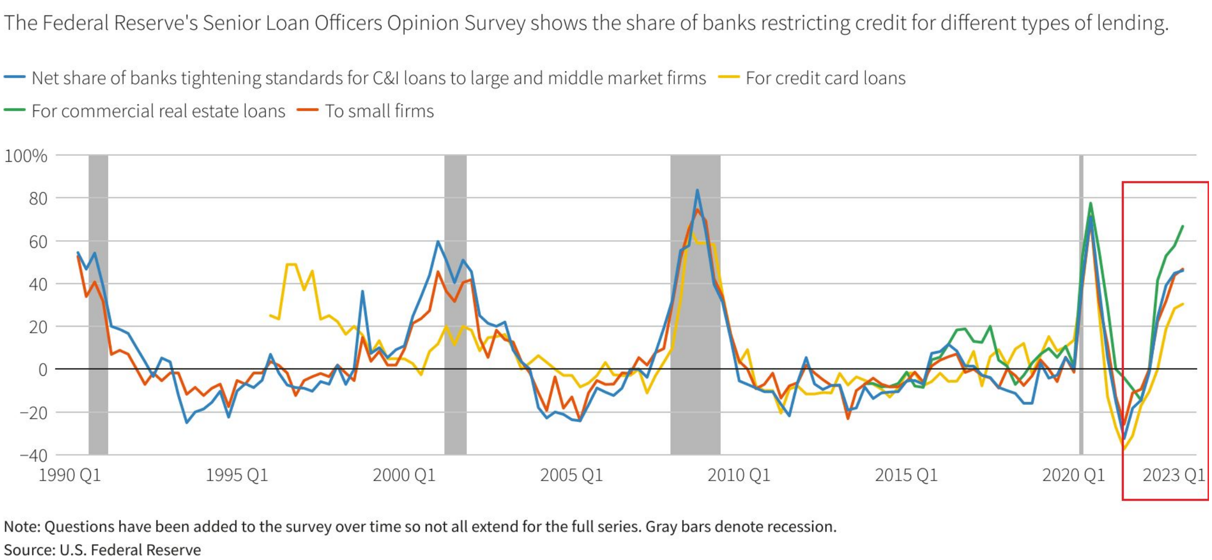


Figure 12. Federal Reserve's Senior Loan Officers Opinion Survey shows the share of banks restricting credit for different types of Lending. (Source: US Federal Reserve)

For small firms, credit conditions were slightly more stringent, with a net 46.7 percent of banks reporting tighter credit terms compared to 43.8 percent in the previous survey. The banks surveyed also admitted that they are likely to continue tightening their credit standards through 2023.

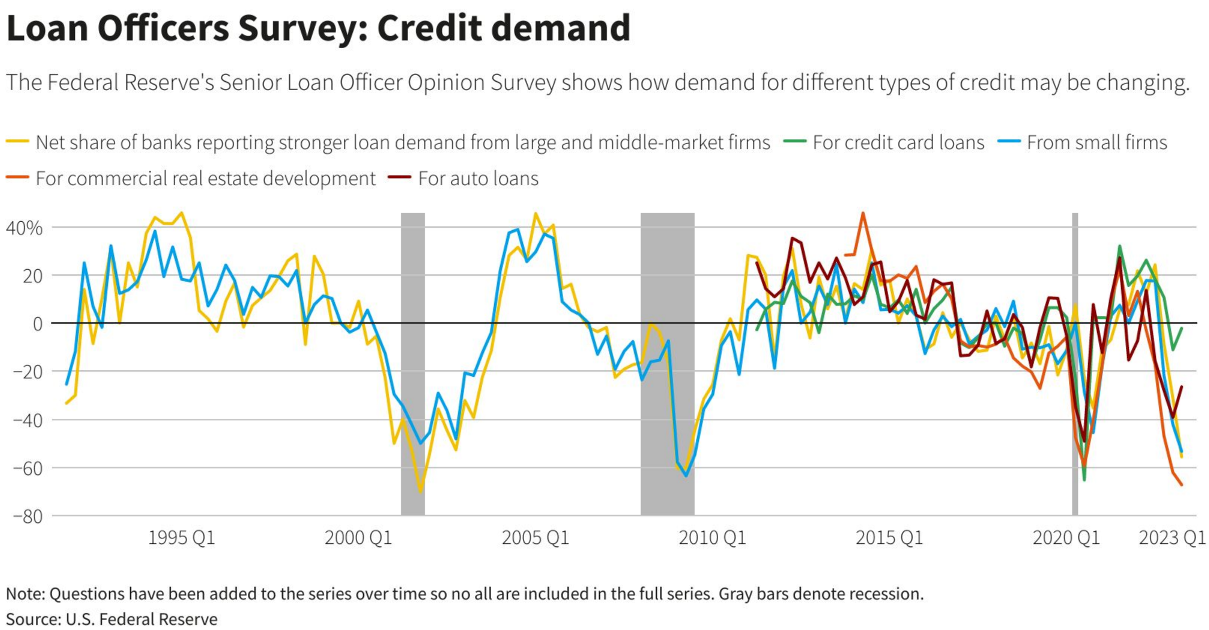


Figure 13. Federal Reserve's Senior Loan Officer Opinion Survey Showing Demand for Different Types of Credit (Source: US Federal Reserve)

Banks also revealed that demand for credit from firms of all sizes had decreased compared to three months ago. This suggests that the tightening of credit conditions, combined with the reduced demand for credit from the private sector, could lead to a prolonged restriction in the flow of credit through 2023.

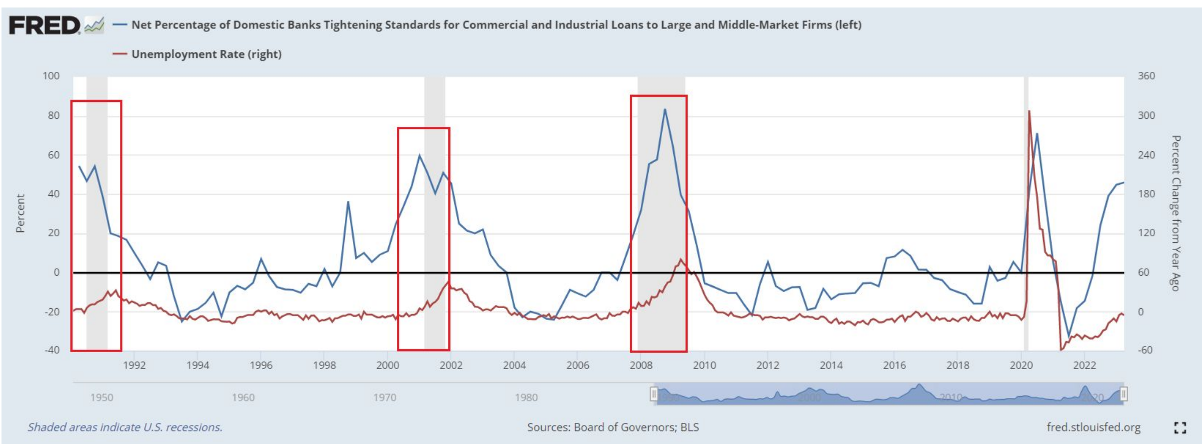


Figure 14. Net Percent of Domestic Banks Tightening Standards for Commercial and Industrial Loans, Unemployment Rate (Source: US Board of Governors, Bureau of Labor Statistics)

Historical data shows that whenever more than 30 percent of banks in the US consistently report tightening their lending standards for two to three consecutive quarters, there has been a noticeable negative impact on employment in the US, indicating a downturn in the job market. It is worth noting that the still-resilient job market in the US is a crucial factor that keeps the country from slipping into a recession. However, the outlook for the job market appears bleak as banks continue to tighten their credit standards.

WHAT'S ON-CHAIN THIS WEEK?

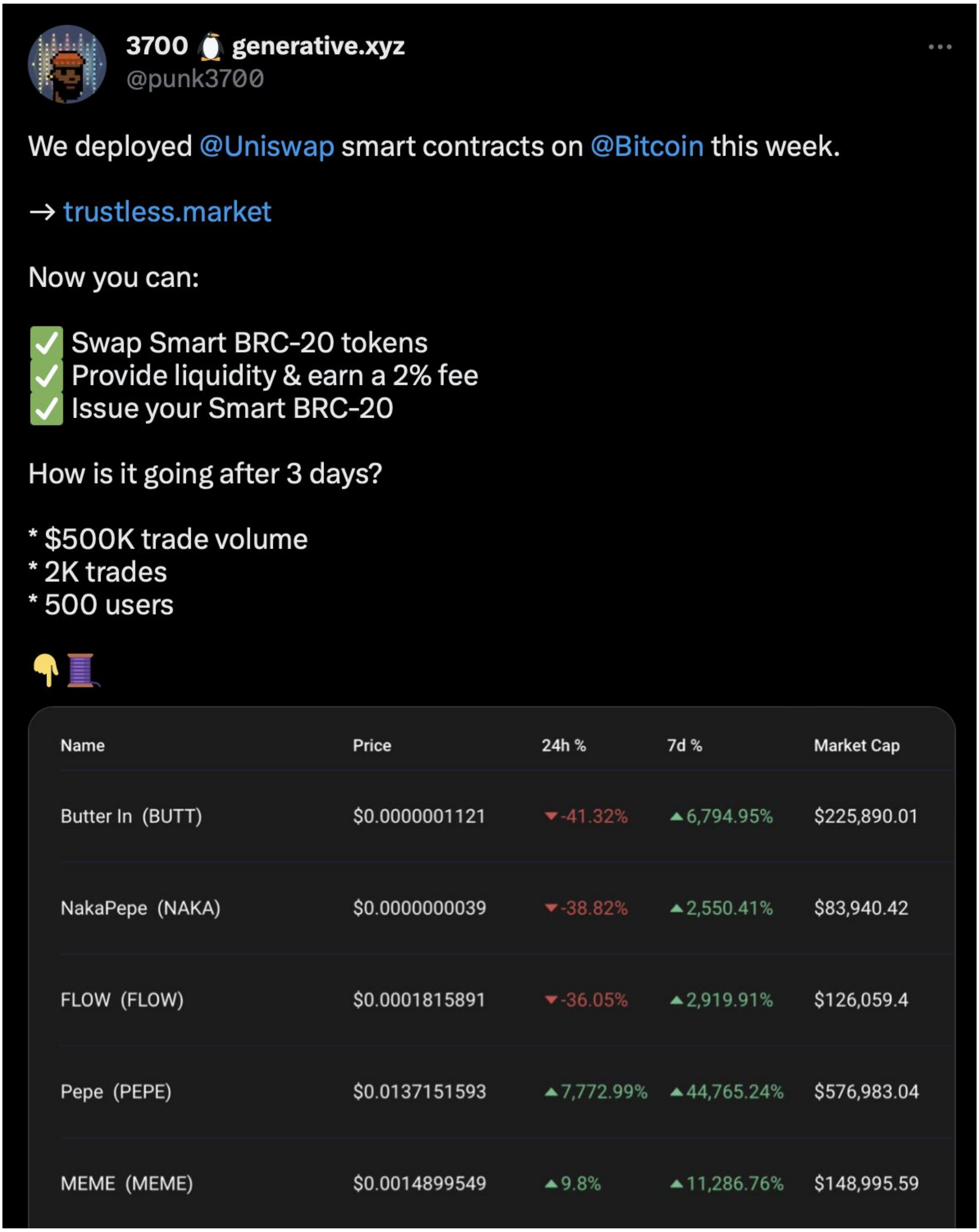
BTC Transaction Fees Skyrocket amidst BRC-20 Frenzy and Emergence of Bitcoin Smart Contracts

The Bitcoin network is experiencing a significant surge in transaction fees, driven by an escalating interest in BRC-20 tokens and the advent of Bitcoin-based smart contracts. This shift in network activity is having a dramatic impact on the Bitcoin blockchain.

The BRC-20 token standard, a fresh Bitcoin blockchain-based fungible token standard inspired by Ethereum's ERC-20 tokens, was launched a month ago by a pseudonymous Twitter user named Domo. Utilising the Bitcoin-based Ordinals protocol and inscriptions, BRC-20 administers token contracts, minting, and transfers.

In a landmark development last week, a suite of Uniswap smart contracts was deployed directly onto the Bitcoin blockchain by a group of developers, inaugurating a potential new chapter for the network. A newly formed Bitcoin-based decentralised exchange (DEX), dubbed Trustless Market, enables users to swap Smart BRC-20 tokens, provide liquidity, earn a two percent transaction fee, and issue new Smart BRC-20 tokens. A detailed breakdown about smart Bitcoin tokens were provided by @punk3700 on twitter, a developer for the new Bitcoin-based DEX Trustless Market.

The inception of BRC-20 and Bitcoin-based smart contracts is transforming the Bitcoin blockchain, traditionally regarded as a straightforward digital currency ledger, transforming it into a more dynamic, smart-contract-enabled chain. BRC-20 tokens constituted over 60 percent of all transaction activity on the Bitcoin blockchain on Tuesday, contributing to 42.8 percent of all fees, according to data from *Dune*. (refer Figure below)



3700 🐧 generative.xyz
@punk3700

We deployed @Uniswap smart contracts on @Bitcoin this week.

→ trustless.market

Now you can:

✅ Swap Smart BRC-20 tokens
✅ Provide liquidity & earn a 2% fee
✅ Issue your Smart BRC-20

How is it going after 3 days?

* $500K trade volume
* 2K trades
* 500 users

👇🧵

Name	Price	24h %	7d %	Market Cap
Butter In (BUTT)	$0.0000001121	▼-41.32%	▲6,794.95%	$225,890.01
NakaPepe (NAKA)	$0.0000000039	▼-38.82%	▲2,550.41%	$83,940.42
FLOW (FLOW)	$0.0001815891	▼-36.05%	▲2,919.91%	$126,059.4
Pepe (PEPE)	$0.0137151593	▲7,772.99%	▲44,765.24%	$576,983.04
MEME (MEME)	$0.0014899549	▲9.8%	▲11,286.76%	$148,995.59

Figure 15. Update on the trustless market. (source: @punk3700)

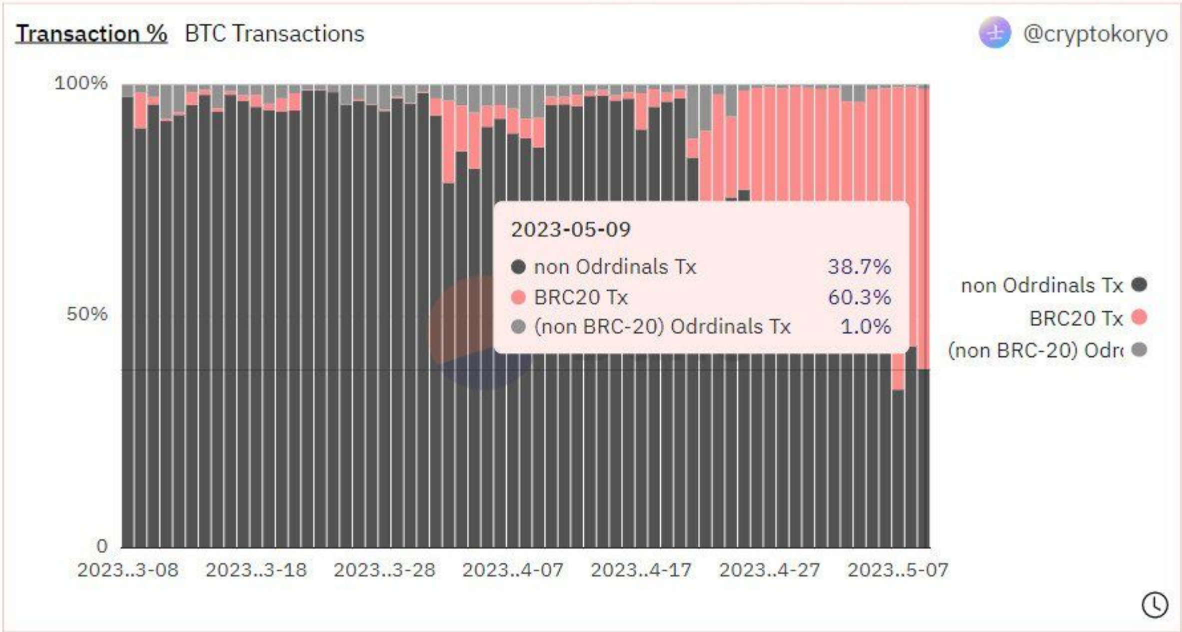


Figure 16. BTC Transaction Fees split-up. (source: Dune Analytics)

This surge in BRC-20-related activities coincides with an overall rise in Bitcoin transactions and an unprecedented leap in Bitcoin transaction fees. Data revealed a record peak of over 543,000 daily transactions on the Bitcoin network on Monday.

The average transaction fee, denominated in BTC, neared a three-year paak of just above 0.0011 BTC, translating to approximately $30 per Bitcoin transaction. (refer Figure 17 below)

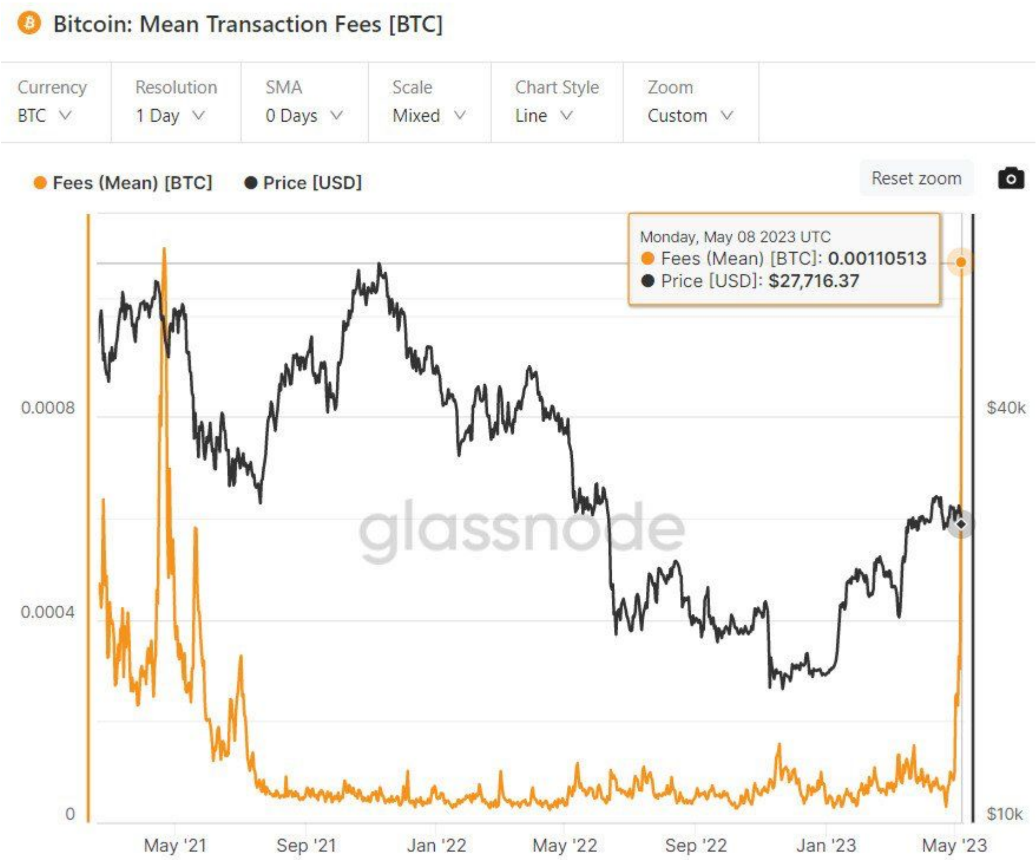


Figure 17. Mean Bitcoin Transaction Fees. (source: Glassnode)

However, this burgeoning BRC-20 popularity and consequent fee surge come at a cost. Other network activity indicators are showing signs of strain.

Active and new addresses interacting with the network are nearing two-year and annual lows respectively, suggesting higher transaction fees are likely deterring new and existing Bitcoin network users. (refer Figure 18 below)

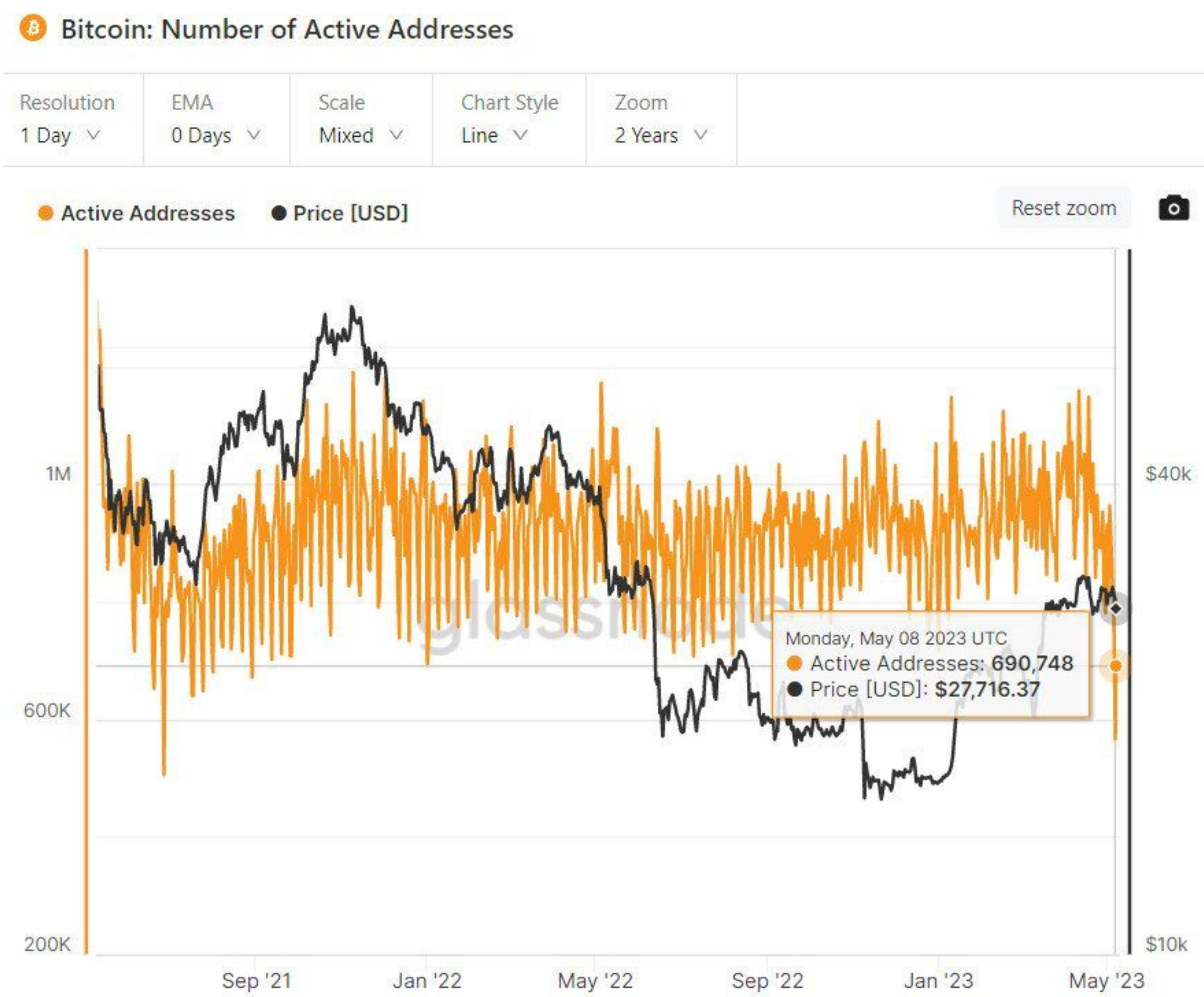


Figure 18. Number of Active Addresses On The Bitcoin Network is approaching a two year low. (source: Glassnode)

Bitcoin Miners Benefit from Increased Transaction Fees

Bitcoin miners are benefiting from these increased transaction fees. The Bitcoin Fee Ratio Multiple (FRM), representing the ratio of miner income from new Bitcoin issuance to that from transaction fees, has plummeted dramatically from above 68 in mid-April to around 2.33 on Monday, 8th May (refer to the figure 19 below).

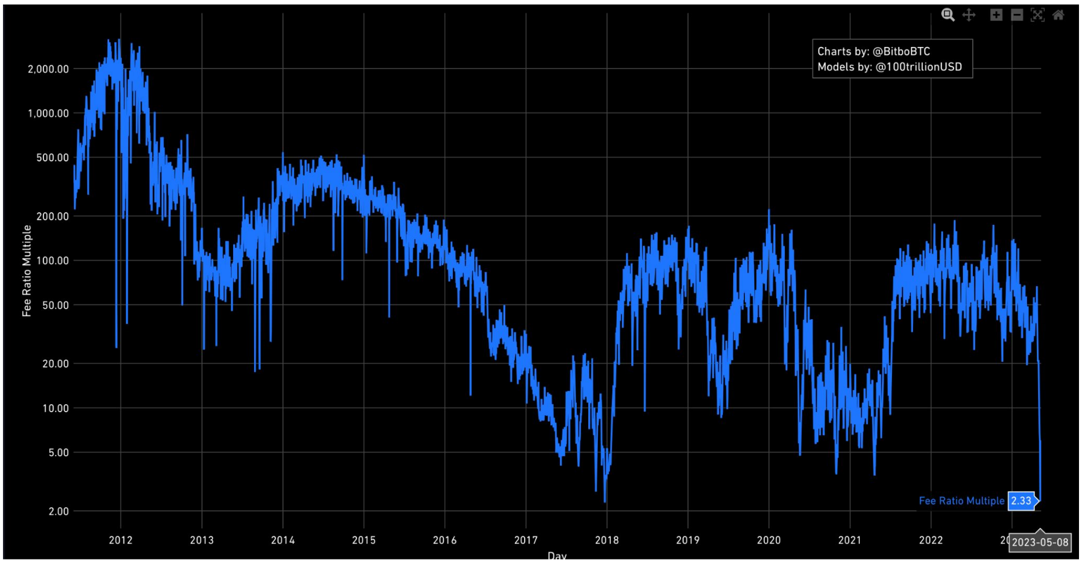


Figure 19. Fee Ratio Multiple. (source: charts.bitbo.io)

Traditionally, transaction fees had contributed a tiny portion of miner income, with most revenue coming from the issuance of new Bitcoin.

Nonetheless, the current FRM trend suggests that this might not be the case for longer. While higher transaction fees has likely deterred new Bitcoin addresses from increasing, it has promoted network health.

Since the block rewards in Bitcoin approximately halves every four years, the network will progressively depend on transaction fees to cover the cost of network security. The Fee Ratio Multiple precisely conveys the current cost and is therefore a superior metric for network health than potentially misleading market capitalisation metrics.

The long-term implications of these recent innovations on Bitcoin's value proposition, traditionally viewed as "digital gold", are yet to be seen. In the short term, the surging transaction fees and associated events, such as Binance's recent double halt of Bitcoin withdrawals, appear to be impacting Bitcoin sentiment negatively.

Long-Term Bitcoin Metrics Suggest Early Bull Market

***Glassnode's* "Recovering from a Bitcoin Bear" dashboard employs eight indicators which are all currently flashing green. However, some short-term metrics still indicate a possible pullback.**

The dashboard helps to determine whether Bitcoin is trading above crucial pricing models, whether network utilisation momentum is escalating, whether market profitability is rebounding, and whether the balance of USD-denominated Bitcoin wealth is in favour of long-term HODLers.

Historically, when all eight indicators are flashing green, it has been a potent bullish sign for the Bitcoin market. Currently, all eight indicators are flashing green. We discuss the most important ones here.

The first two indicators show that Bitcoin is trading comfortably above its 200 Day Moving Average as well as its Realised Price. (refer Figure 20 below)

Figure 20. Realised price and 200 Day Moving Average with BTC price. (source: glassnode)

A break above these key levels is viewed by many as an indicator that near-term price momentum is shifting in a positive direction. This was noticed earlier in the year, however, sustaining the price above this level is also bullish for price in the long-term.

The Bitcoin Realised HODL Multiple has also been on an upward trajectory over the last 90 days, a bullish sign as per the metric documentation. (refer Figure 21 below)

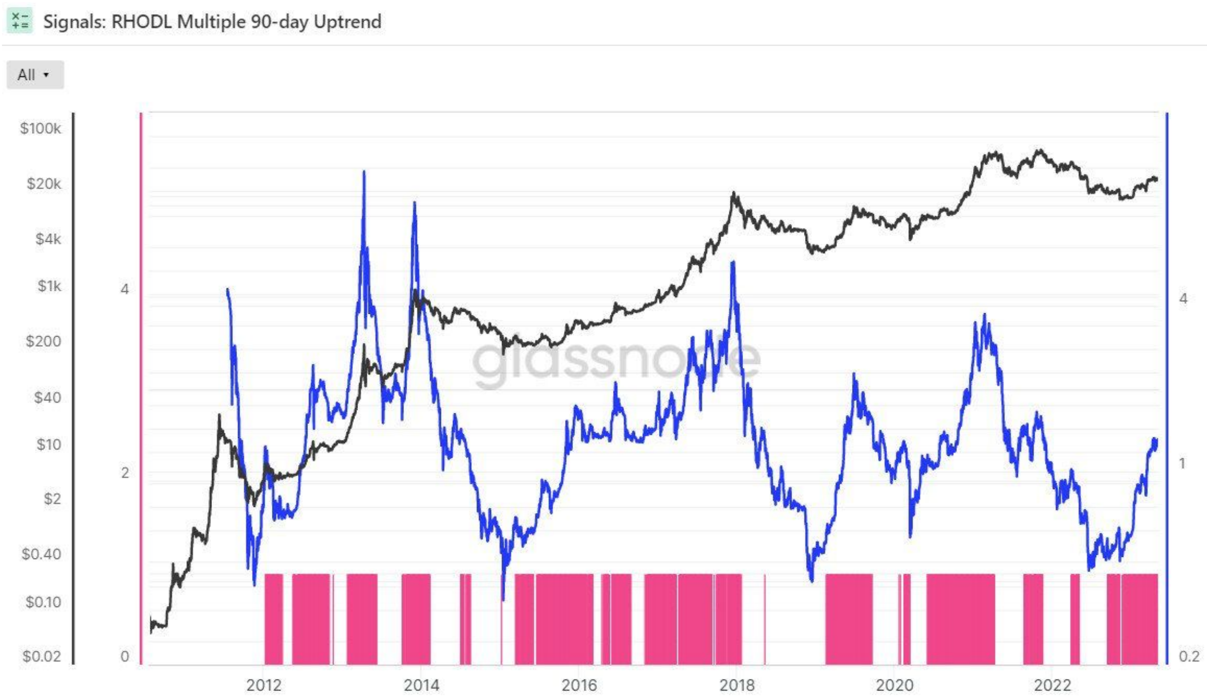


Figure 21. RHODL Multiple 90-day Uptrend

An upward trend for the Realised HODL Multiple over 90-days suggests that USD-denominated wealth is moving back towards new demand inflows; indicating that even when profits are being realised, the market is capable of absorbing them.

Another takeaway from this indicator is that longer-term holders are starting to expand into other coins. 'Memecoins' have been attracting the majority of attention and liquidity in recent weeks, diverting attention from other altcoins, even as the Ether price saw a slight decline from its peak of $2,100. Under normal market conditions, it is very rare for small caps to rally without Ether showing at least stable price action. This has resulted in rather harsh selling pressure across most projects, especially early in the week.

The smart-money investors have been primarily exchanging into stablecoins and Ether derivatives over the week. Smart money stablecoin holdings have also been on the rise per *Nansen* data (up 500bps), bottoming at ~15 percent on April 15th. (refer Figure 22 below)

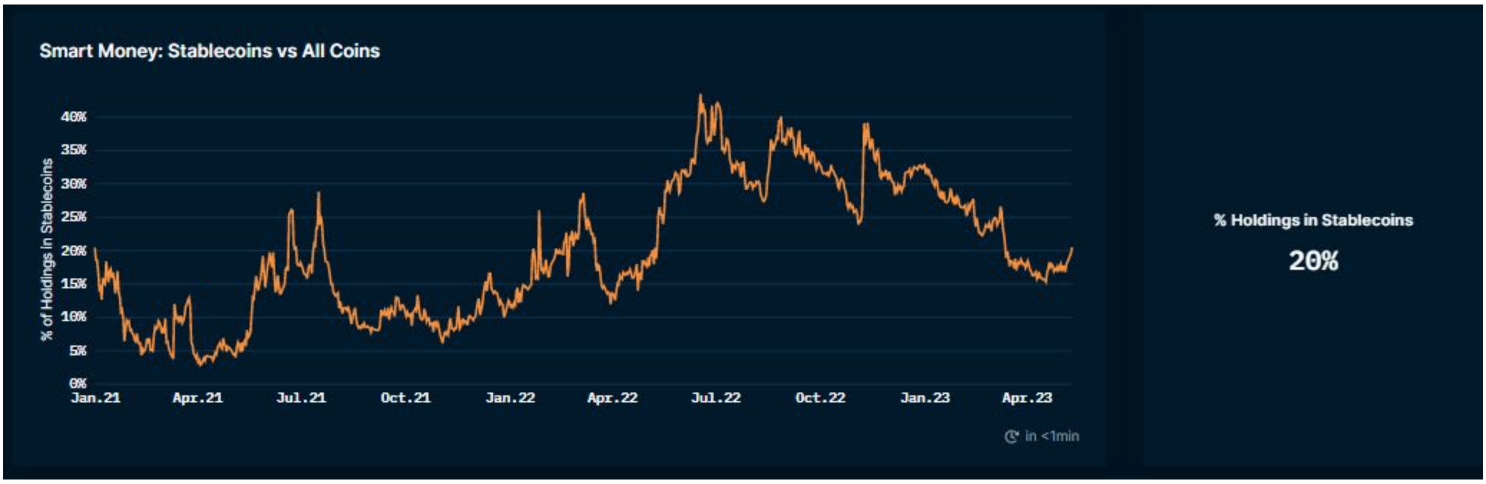


Figure 22. Smart Money Stablecoin vs Other Holdings Trend. (source: Nansen)

Smart money allocating more of their portfolio into stables has historically occurred before pullbacks in BTC price. Thus, long-term on-chain indicators remain bullish and resemble early stages from the previous bull markets but short-term metrics suggest an upcoming pull-back.

NEWS FROM THE CRYPTO-SPHERE

Tether Reports $1.5 Billion Net Profit for Q1 2023 and All-Time High Excess Reserves

Figure 23. The CTO of Tether, Paolo Ardoino

- **Tether's Q1 2023 net profit was $1.48 billion, more than double its Q4 2022 net profit.**
- **Tether reported an all-time high of excess reserves of $2.44 billion, significantly higher than its Q4 2022 excess reserves.**
- **Tether's consolidated total assets were recorded to be at least $81.8 billion, while its consolidated total liabilities amounted to $79.4 billion, reflecting excess reserves of at least $2.44 billion.**
- **Tether included additional categories in its reserves reporting, including Bitcoin, physical gold, overnight Repo, and corporate bond allocations.**
- **The majority of Tether's investments, approximately 85 percent, are being held in cash, cash equivalents, and other short-term deposits.**
- **Tether's commitment to compliance and transparency is evident in its registration with FinCEN, submitting SARs, working with the FBI and DOJ, and participating in conferences and meetings with regulators and lawmakers worldwide.**

Tether, the stablecoin issuer, has reported impressive financial results for Q1 2023 in its latest attestation report. The report states that Tether's net profit for the first quarter amounted to $1.48 billion, which is more than double its Q4 2022 net profit. Additionally, Tether reported an all-time high of $2.44 billion in excess reserves, which is significantly higher than its Q4 2022 excess reserves of $960 million.

Paolo Ardoino, CTO of Tether, commented that the company is "thrilled with the tremendous success Tether has achieved in Q1 2023, with our reserves' surplus reaching an all-time high of $2.44 billion," adding that "our net profits for the quarter were $1.48 billion, a testament to the strength and stability of our platform."

Tether's consolidated total assets were recorded to be at least $81.8 billion, while its consolidated total liabilities amounted to $79.4 billion, reflecting excess reserves of at least $2.44 billion.

For the first time, Tether included additional categories in its reserves reporting, including Bitcoin, physical gold, overnight repo, and corporate bond allocations. An overnight repo, or repurchase agreement, is a short-term agreement to sell securities in order to buy them back at a slightly higher price. They are commonly used to raise short-term cash or as a tool to manage the money supply and maintain stability in financial markets.

The report states that Tether holds $1.5 billion worth of Bitcoin and $3.3 billion worth of precious metals. However, Tether revealed that the majority of its investments, approximately 85 percent, are being held in cash, cash equivalents, and other short-term deposits. Gold and Bitcoin represent around four percent and two percent of the total reserves, respectively.

Ardoino added: "We continue to monitor the risk-adjusted return on all assets within our portfolio on an ongoing basis and expect to make further changes as the overall economic environment changes and the market cycle progresses as a part of our normal, ongoing risk management processes."

Looking ahead to Q2, Ardoino expressed an "extremely positive outlook" and confirmed the company's commitment to transparency, and the reason why they introduced new categories in the reserves' breakdown in their quarterly report, to provide even greater transparency to their users.

In another piece of news related to Tether, Ardoino tweeted Tether's latest attestation report in response to concerns raised by the former head of the SEC's Office of Internet enforcement, about the stablecoin's stability and transparency.

Ardoino provided a detailed response in which he emphasised Tether's commitment to compliance and transparency. This is evident in Tether's registration with the Financial Crimes Enforcement Network (FinCEN), which is responsible for detecting and prosecuting financial crimes, such as money laundering. Ardoino also mentioned that Tether takes further measures to ensure compliance by submitting Suspicious Activity Reports (SARs) to both FinCEN and the British Virgin Islands Financial Investigation Agency (BVI FIA).

In addition, Tether regularly works with the Federal Bureau of Investigation (FBI) and the Department of Justice (DOJ) on various cases, participates in conferences, and meets with regulators and lawmakers worldwide to discuss approaches to foster sustainable growth.

In conclusion, Tether's impressive financial results for Q1 2023 demonstrate the strength and stability of its platform, and the company's commitment to transparency is a positive sign for investors and users alike. With an optimistic outlook for Q2, it will be interesting to see how Tether's investments and reserves evolve throughout the year.

Bittrex Files for Bankruptcy as US Operations Shut Down Amid Regulatory Scrutiny

Figure 24. Bittrex has filed for Chapter 11 bankruptcy protection.

- **Bittrex has filed for Chapter 11 bankruptcy protection after shutting down its US operations due to regulatory scrutiny.**
- **Bittrex estimates it has more than 100,000 creditors.**
- **They list total assets and liabilities of as much as $1 billion.**
- **Bittrex intends to ask the court to activate accounts for customers who meet regulatory requirements, so that they are able to withdraw their assets.**

Bittrex has filed for Chapter 11 bankruptcy protection following the shutdown of its US operations at the end of April, in response to regulatory scrutiny.

The bankruptcy comes after the US Securities and Exchange Commission (SEC) accused Bittrex of flouting securities rules for years, bringing in at least $1.3 billion in revenue. The SEC alleged that Bittrex acted as a brokerage, exchange, and clearing agency, but failed to register with the regulator.

Bittrex disputed the allegations, but this was not the first regulatory issue the company had faced. In an earlier settlement, Bittrex had agreed to pay $24 million to the US Treasury's Office of Foreign Asset Control for failing to prevent customers in sanctioned nations from using its platform.

In its bankruptcy filing, Bittrex estimated it had more than 100,000 creditors. The company has total listed assets and liabilities of as much as $1 billion. Related entities, including Bittrex Malta Holdings Ltd., and Bittrex Malta Ltd., also entered bankruptcy.

For users who did not withdraw their assets before the shutdown, Bittrex intends to ask the court to activate those accounts as soon as possible so that customers meeting the necessary regulatory requirements will be able to withdraw them.

The bankruptcy filing underscores the challenges faced by cryptocurrency exchanges in navigating a rapidly-evolving regulatory landscape. As cryptocurrencies gain mainstream acceptance, regulators around the world are stepping up scrutiny of the sector. Cryptocurrency exchanges must ensure they comply with regulations to avoid costly fines and legal action, and this can prove challenging in an industry that is still largely unregulated.

Former Coinbase Manager Sentenced to Two Years in Prison for Insider Trading

Figure 25. Former Coinbase manager, Ishan Wahi, sentenced to two years in prison for insider trading.

- **Ishan Wahi, a former Coinbase manager, was sentenced to two years in federal prison for trading on confidential information.**
- **Wahi passed tips about new token listings on the exchange to his brother and a friend, who made $1.5 million in profits.**

Former Coinbase manager, Ishan Wahi, has been sentenced to two years in federal prison for trading on confidential information about when the cryptocurrency exchange was going to list new tokens.

US District Judge Loretta Preska sentenced Wahi in Manhattan and pointed out that it was "a massive abuse of Mr. Wahi's employer's trust." Wahi pleaded guilty to two counts of conspiracy to commit wire fraud in February, admitting that he passed tips about new offerings to his brother Nikhil and a friend, Sameer Ramani, who used the information to buy cryptocurrencies, before Coinbase announced they would be listed, and made about $1.5 million in profits. Wahi's prison term will be followed by two years of supervised release, and he is likely to be deported to India.

Wahi, a native of India who went to college in Texas and earned a master's degree at Carnegie Mellon University, asked the judge to impose a 10-month sentence, the same punishment his brother Nikhil was given, saying his conduct was an "anomaly" that would never happen again. However, prosecutors argued that giving him just 10 months would send the wrong message.

The case highlights the need for strict adherence to the laws on insider trading, even in the rapidly evolving cryptocurrency market. The judgement sends a strong message that the use of confidential information to profit from trading cryptocurrency is illegal and will be punished severely.

Liechtenstein's Government Plans to Accept Bitcoin for Payments

Figure 26. Prime Minister of Liechtenstein, Daniel Risch.

- **Liechtenstein has announced that it will accept Bitcoin as payment for state services.**
- **The cryptocurrency received by the government will be immediately swapped for Swiss francs to avoid exchange rate risks.**
- **The prime minister has also expressed interest in potentially investing state reserves in crypto assets in the future.**

The small European country of Liechtenstein made headlines with its announcement that it will start accepting Bitcoin as payment for state services. Prime Minister Daniel Risch revealed the plans in an interview with German newspaper *Handelsblatt.* This marks a significant step forward for the cryptocurrency, which has been viewed with scepticism by some governments and financial institutions.

Under the proposal, any Bitcoin received by the government will be immediately swapped for Swiss francs. This is to avoid the risks associated with fluctuating exchange rates, according to Risch. The Swiss franc is Liechtenstein's official currency, and Bitcoin will not be granted equal status. However, the move is still significant as it represents a willingness by the government to embrace new technologies and explore the potential benefits of cryptocurrencies.

Risch, who also serves as finance minister, has also signalled a potential interest in investing state reserves in crypto assets in the future. The country is debt-free and saves up to three times its annual budget of 900 million Swiss francs ($1 billion) by investing in securities. While Risch acknowledges that crypto assets like Bitcoin are currently too risky for investment, he acknowledges that this assessment could change in the future.

Overall, Liechtenstein's decision to accept Bitcoin as payment for state services represents a significant step forward for the cryptocurrency. While it is still viewed by some as a speculative asset with significant risks, the move by Liechtenstein's government represents a significant vote of confidence in its potential. It remains to be seen whether other countries will follow Liechtenstein's lead, but this announcement is certainly a positive development for the future of cryptocurrencies.

Former OpenSea Manager Convicted of Insider Trading in First NFT Trial

Figure 27. Former OpenSea Manager, Nathaniel Chastain, convicted of insider trading

- **Nathaniel Chastain, a former OpenSea product manager, has been found guilty of wire fraud and money laundering.**
- **He allegedly used insider knowledge to buy and sell NFTs, making over $50,000 in illegal profit.**
- **Chastain faces up to 20 years in prison for each count, but will likely receive a lesser sentence.**

Nathaniel Chastain, a former product manager at OpenSea, was found guilty by a jury in federal court in Manhattan of wire fraud and money laundering following a week-long trial and two days of deliberations.

Chastain was accused of using his insider knowledge of which assets would be featured on the OpenSea website to trade NFTs. He allegedly bought NFTs that he had decided to feature on the site and sold them shortly afterwards, making over $50,000 in illegal profit.

Chastain was asked to resign from OpenSea in September 2021, and he was subsequently arrested in June 2022. Sentencing is set for August 22nd, 2023, and he could face as much as 20 years in prison on each count of his conviction. However, it is likely that he will receive far less than that.

Prosecutors argued that Chastain abused his status at OpenSea to line his own pockets and lied to cover his tracks. The defence countered that OpenSea did not treat knowledge of what NFTs would be featured on its home page as confidential information when Chastain worked at the company.

Chastain's lawyers argued that nobody told him he couldn't use or share the information. However, prosecutors claimed that Chastain used anonymous OpenSea accounts to make the illegal trades, indicating that he knew what he was doing was wrong.

In conclusion, Nathaniel Chastain's conviction serves as a warning to those who might consider exploiting their positions of influence to make illegal gains in the NFT market. It also highlights the need for greater clarity and regulation around NFT trading to prevent similar cases from occurring in the future.

PayPal Discloses Nearly $1B of Crypto Assets on Balance Sheet

Figure 28. PayPal discloses nearly $1B of crypto assets on balance sheet

- **PayPal holds nearly $1 billion in cryptocurrencies on its balance sheet.**
- **PayPal reported an increase of $339 million in customer crypto assets from the end of last year.**
- **PayPal maintains the internal recordkeeping of its customers' crypto assets and takes measures to protect them.**

PayPal has disclosed that as of end-March 2023, it holds nearly $1 billion in cryptocurrencies on its balance sheet, according to a [10-Q filing](#) with the Securities and Exchange Commission (SEC). The 10-Q filing is a quarterly financial performance report that is mandated by the SEC to disclose financial information.

The company has indicated that it holds $943 million worth of customer assets in Bitcoin (BTC), Ether (ETH), Bitcoin Cash (BCH), and Litecoin (LTC). This is a significant increase in customer crypto assets, and comes as PayPal has been steadily increasing its crypto offerings.

In the filing, PayPal reported an increase of $339 million in customer crypto assets from the end of last year. PayPal also indicated that it maintains the internal recordkeeping of its customers' crypto assets, which includes the type and amount of crypto assets owned by each customer.

Notably, PayPal has also taken measures to protect its customers' crypto assets. In its cryptocurrency terms and conditions, PayPal promises to protect its customers from unauthorised purchase or sale activity. Additionally, it will reimburse customers for unauthorised transfers, with a lifetime cap of $50,000.

PayPal's increased presence in the crypto space is a clear indication of the growing mainstream acceptance of cryptocurrencies. As more companies like PayPal continue to offer crypto-related services, it is likely that cryptocurrencies will become more widely adopted and integrated into everyday life.

Xapo Bank Expands Stablecoin Offerings, Enables Tether Deposits and Withdrawals

Figure 29. Xapo Bank enables Tether deposits and withdrawals

- **Xapo Bank to allow customers to deposit and withdraw tether (USDt) by end of May.**
- **Xapo Bank introduced support for USD Coin (USDC) earlier this year, and received $48 million in deposits and processed $4.5 million in withdrawals.**

Xapo Bank, a crypto-friendly institution based in Gibraltar, has announced its decision to allow customers to deposit and withdraw Tether (USDt) by the end of May.

Earlier this year, the bank introduced support for USD Coin (USDC), and has already received $48 million in deposits and processed $4.5 million in withdrawals, according to a statement shared with *CoinDesk*.

The new Tether service will enable customers to make transactions without incurring any fees, Xapo Bank said in the statement. The bank's decision to expand its stablecoin offerings comes as a response to a growing demand from its customers, particularly those in emerging markets, who value the efficiency of stablecoin deposits and withdrawals, the bank said.

Xapo Bank's 10-year-old banking platform has attracted a significant number of crypto investors who want to earn decent returns on their holdings. In addition to its stablecoin services, the bank offers a highly competitive 4.1 percent annual interest rate on deposits.

Xapo Bank's decision to enable tether deposits and withdrawals is a significant step forward for the bank and its customers. By expanding its stablecoin offerings, Xapo Bank is providing its customers with more options and solidifying its position as a leading player in the crypto banking space.

Jane Street and Jump Crypto Pull Back Crypto Trading Over US Regulatory Uncertainty

Figure 30. Jane Street and Jump Crypto Pull Back Crypto Trading Over US Regulatory Uncertainty

- **Jane Street Group and Jump Crypto have scaled back their trading of digital assets in the US due to regulatory uncertainty and recent regulatory crackdowns on the crypto industry.**
- **Both firms are still trading but on a smaller scale.**
- **Many companies in the crypto industry are looking towards financial hubs overseas, including Dubai, Singapore, and Hong Kong, in response to the recent surge of crypto probes in the US.**

Jane Street Group and Jump Crypto, two of the world's leading market-making firms, have scaled back their trading of digital assets in the US, citing regulatory uncertainty and the recent regulatory crackdown on the crypto industry. Although both firms are still trading, they are doing so on a smaller scale.

According to media outlets, Jane Street is going further by scaling back its crypto ambitions globally, as regulatory uncertainty has made it difficult for the firm to operate the business in a way that meets internal standards. Similarly, Jump Crypto, the digital-assets unit of Jump Trading, is pulling back from the US market for the same reason, though it is expanding internationally.

The trading firms' decision to scale back their crypto operations is not uncommon, as the recent surge of crypto probes in the US has prompted companies to look towards financial hubs overseas, including Dubai, Singapore, and Hong Kong. For example, Coinbase is considering setting up an international hub in the United Arab Emirates, while Galaxy Digital is moving more of its operations offshore, according to CEO Michael Novogratz.

While both Jane Street and Jump Crypto are still making markets, they are doing so on a smaller scale and not abandoning crypto entirely.

Su Zhu Obtains Restraining Order against Arthur Hayes After Twitter Harassment

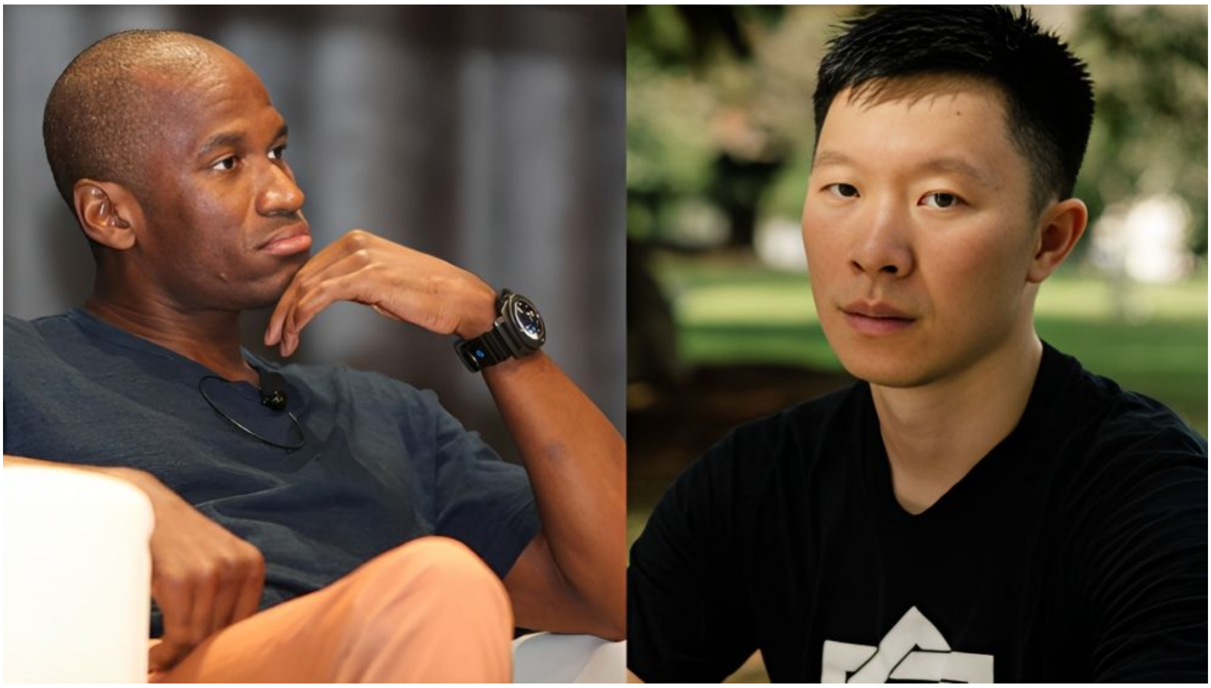


Figure 31. Arthur Hayes (Left), Su Zhu (Right)

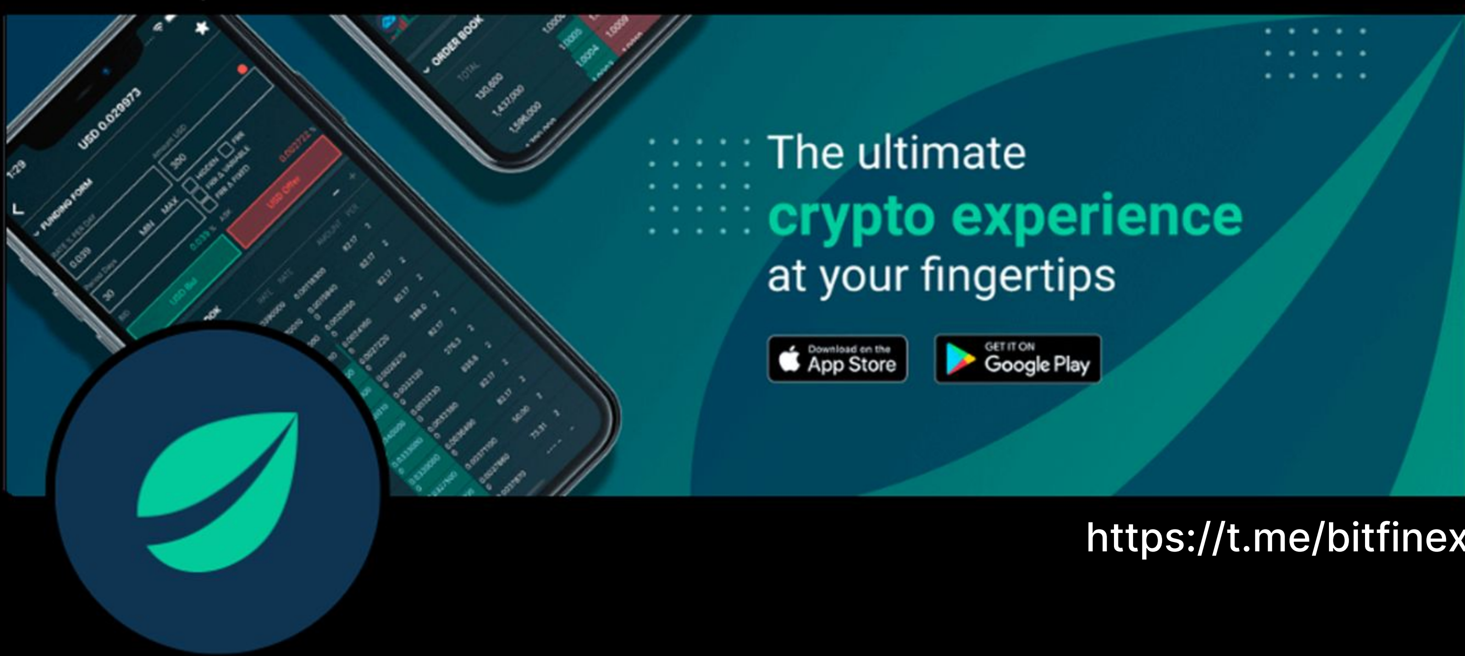
- **Su Zhu has obtained a restraining order against Arthur Hayes, co-founder of BitMEX, from a Singapore court on May 10, 2023.**
- **Hayes repeatedly demanded $6 million from Zhu and his 3AC partner, following the collapse of 3AC in July 2022.**
- **The restraining order forbids Hayes from initiating any communication with Zhu, publishing any of Zhu's identity information, or using abusive or insulting language in his messages, highlighting the importance of professional conduct and responsible use of social media platforms in the business world.**

Su Zhu, the co-founder of Three Arrows Capital (3AC), has obtained a restraining order against Arthur Hayes, the co-founder of BitMEX. The order was granted by a Singapore court on May 10, 2023.

The order comes after Hayes repeatedly tweeted at Zhu and his 3AC partner, Kyle Davies, asking for $6 million he claims is owed to him following the collapse of 3AC last year.

The order issued by Judge Sandra Looi Ai Lin forbids Hayes from initiating any communication with Zhu and prohibits him from publishing any of Zhu's identity information. Furthermore, Hayes must not use any abusive or insulting language in his messages or make any threats or insults that could be considered harassment.

The court's decision to grant the restraining order highlights the importance of maintaining professional conduct in the business world and demonstrates that inappropriate behaviour will not be tolerated. The ruling also serves as a reminder that while social media platforms offer a powerful tool for communication, they must be used responsibly and with respect for others.



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