

BITFINEX Alpha



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EXECUTIVE SUMMARY

The dynamics affecting Bitcoin markets are looking increasingly bullish. Bitcoin supply continues to be constrained, with balances on exchanges [retracing to early 2018 levels](#). Balances have declined by about 32 percent, with only 11 percent of the total circulating supply of the world's largest cryptocurrency now left on exchanges.

At the same time, institutional and retail demand is rising, with [the largest consecutive inflow into crypto-backed investment funds seen since 2021](#). Bitcoin-backed funds, in particular, are outperforming, with an astonishing net inflow of \$137 million last week.

It appears to be a perfect storm as the decrease in balances is indicative of longer-term holders moving coins to cold storage, while the rise in fund flows [is evidence of increased demand from traditional fund investors](#).

Within this bullish backdrop, we have also seen some unusual activity among whale traders. In a 72-hour period, the [Whale Ratio metric](#), which measures the activity of the largest active addresses as a proportion of the total market, [saw a significant surge with Bitcoin being placed onto exchanges](#). While this may have hinted at potential new selling pressure, on-chain analytics attribute the surge in part to the US Department of Justice apparently moving its seized cache of [Silk Road Bitcoins](#), which were then further re-distributed.

Simultaneously, trends within the DeFi sector, which is seeing a noticeable decrease in the total value locked in DeFi protocols, also look to have contributed to the surge in the Whale Ratio. It's a nuanced picture as this reduction could indicate investors moving their assets out of DeFi protocols, perhaps due to perceived risks or superior opportunities elsewhere. We note that certain protocols such as Synthetix, Alpaca finance, stUSDT and multi-chain wBTC [continue to attract inflows](#).

In the meantime, across the broader market, the duel between bears and bulls that has kept Bitcoin within a tight range of between \$29,500 and \$31,500 [has been dominated by derivatives market activity](#). Interestingly, the number of [over-aggressive market participants](#) is dwindling, and the volume of over-leveraged liquidations at the edge of the current trading range is waning.

This mixed bag of Bitcoin supply constraints, shifts in whale activities and DeFi trends, underpin the ongoing stalemate between bears and bulls.

The broader economy is also giving off conflicting signals. On one hand, monthly [retail sales were up](#) indicating consumer confidence, however, industrial production witnessed [another sharp drop](#), which raises concerns about the current stability of the economy.

Home builders who have been consistently optimistic, have also now [encountered some setbacks](#) as housing starts and permits declined following a notable surge in May. The long progression of interest rate increases seems to be playing a greater role in limiting the growth of new housing projects.

The Leading Economic Index too, considered the primary economic indicator in the US, [fell for the 15th consecutive month](#), hinting that a recession is potentially close.

That said, Ripple, emerging from its recent partial legal victory against the SEC, [announced a series of moves that aim to strengthen its position in the crypto and remittance markets](#). It has bolstered its workforce in the UK and Europe by approximately 75 percent over the past year and confirmed new license applications. Further, a [potentially favourable resolution awaits Celsius Network](#). The beleaguered crypto lender, mired in bankruptcy, is moving towards settlements that could bring closure to its customers and pave the way for the company's revival under new leadership.

On the other hand, [Nasdaq announced a postponement of its plans to develop a crypto custodian service](#) as it waits for more regulatory clarity, while proposals for new legislation emerged as the [CANSEE Act](#) began to be debated by US senators to strengthen KYC and AML regulations for DeFi platforms and crypto ATMs. [SEC Chair Gary Gensler also called for an additional \\$109 million in funding](#) to enhance the agency's enforcement capabilities and tackle emerging challenges in the crypto industry.

We see a continued constructive picture emerging for Bitcoin and the crypto industry, albeit one where long-term market performance will ultimately reflect sentiment on the economy and regulatory clarity.

Happy trading!

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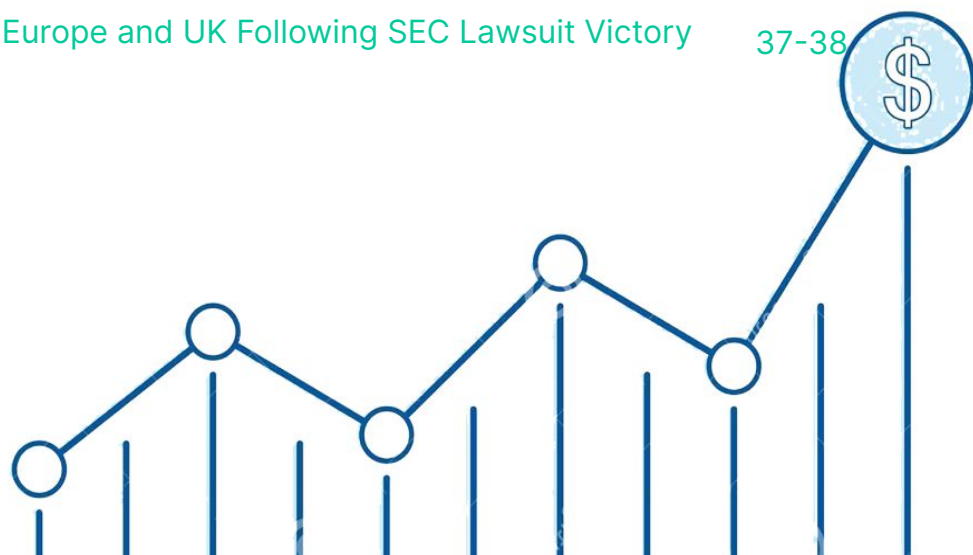
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WHAT'S ON-CHAIN THIS WEEK?



Bitcoin Balances on Exchanges Down to Early 2018 Levels

Bitcoin exchange balances have seen a substantial decline, reaching levels last seen around January/February 2018. Concurrently, traditional fund investors have demonstrated a renewed interest in Bitcoin, contributing to the largest consecutive inflows into crypto-backed investment funds since the final quarter of 2021.

From its peak in March 2020, exchange balances have declined by about 32 percent, dropping from 3.1 million to 2.1 million BTC. Currently, only 11 percent of the circulating supply is on exchanges, a significant decrease from the 17 percent observed on March 13, 2020 (refer Figure 1 below).

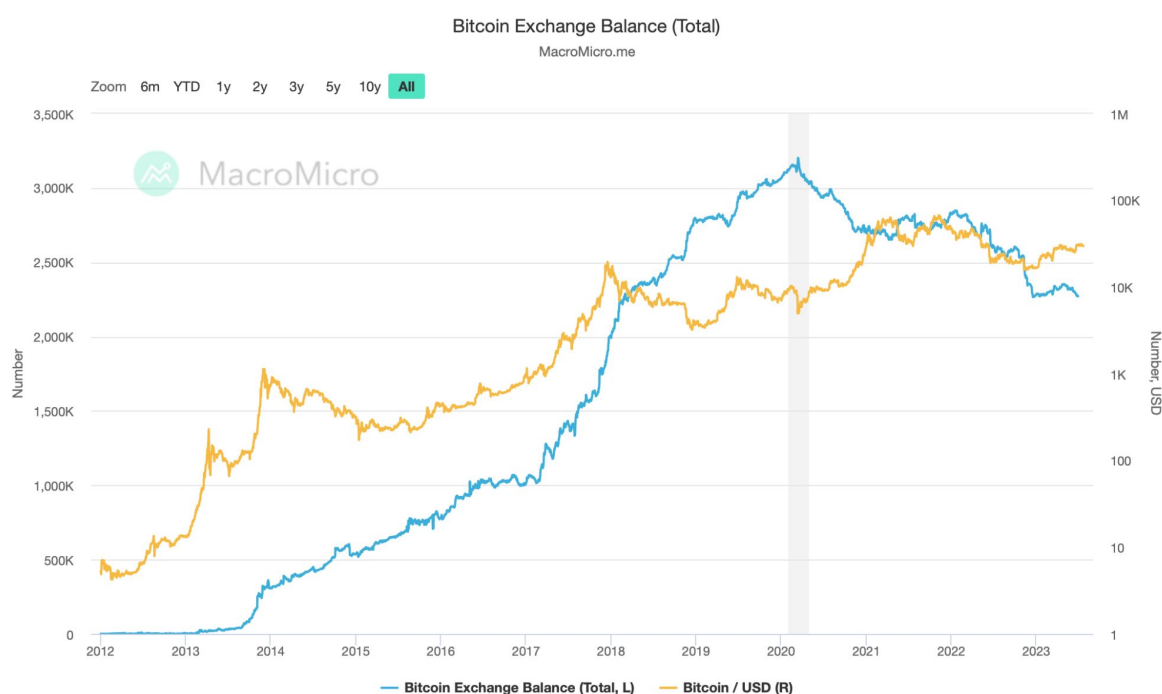


Figure 1. Bitcoin Exchange Balance vs BTC price. (source: macromicro)

This unprecedented trend of declining Bitcoin exchange balances continues unabated. While some of this decline may be attributed to the usage of alternatives such as Decentralised Exchanges (DEXs) and funds not covered in the data, the overarching trend appears to be a widespread movement of people withdrawing their Bitcoin from exchanges. This is also a testament of how longer-term holders are moving coins to cold storage. We see this as a positive for the price as more investors indicate the desire to accumulate rather than trade. Furthermore, we see derivatives market participation continuing to increase, which has historically preceded a break to the upside, as spot prices keep decreasing.

According to recent *CoinShares* data, crypto-backed investment funds saw a net inflow of \$137 million last week, with a staggering 99 percent of this sum directed towards Bitcoin-backed funds (refer Figure 2 below).

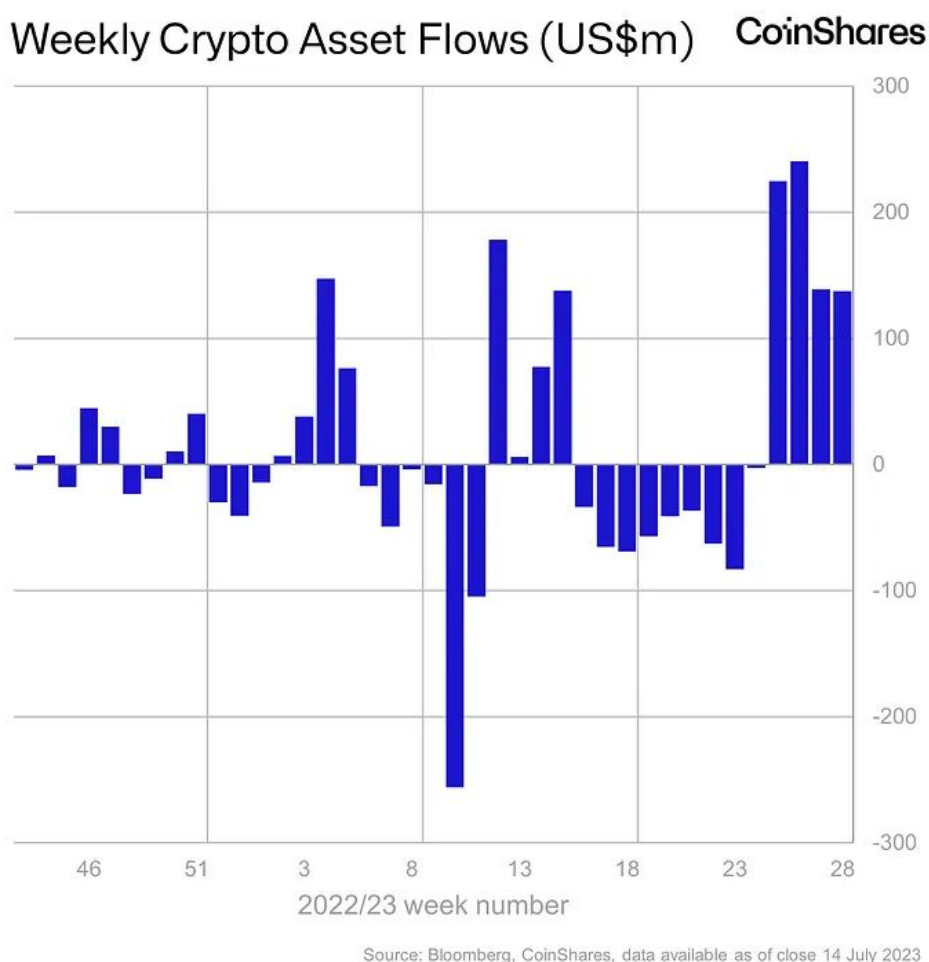


Figure 2. Weekly Crypto Asset Flows. (source: CoinShares)

This marks the fourth consecutive week of gross inflows into crypto funds, amassing a total of \$742 million over the period. This represents the "largest run of inflows since the final quarter of 2021".

Bitcoin's dominance is further underscored by the outflows from short-Bitcoin funds, which rise in value as the price of BTC falls. These funds experienced \$3.2 million in outflows for the week (refer Figure below), reinforcing the bullish sentiment for the BTC price among investors, which has now been in a tight range for months. The aforementioned data can thus be used as a proxy for institutional investor bias that the price will break out of this range towards the upside.

Flows by Asset (US\$m)				
CoinShares	Week flows	MTD flows	YTD flows	AUM
Bitcoin	139.8	277.0	571	25,296
Ethereum	-1.6	-0.3	-74	8,240
Multi-asset	0.6	0.8	-34	1,630
Binance	-	-	-1	262
Litecoin	0.3	0.7	3	153
Short Bitcoin	-3.2	-5.0	55	107
Solana	0.5	1.7	14	92
XRP	0.1	1.0	7	84
Cardano	0.1	-1.2	5	32
Polygon	0.5	1.3	5	29
Other	0.3	0.3	-51	131
Total	137.4	276.4	499	36,058

Figure 3. Crypto Asset-Wise Weekly Flows. (source: CoinShares)

Meanwhile, Ethereum (ETH) funds were the only other category to see outflows last week, losing \$1.6 million on a net basis (refer Figure above). Altcoin funds, on the other hand, recorded slight inflows, with the largest going to multi-asset funds, followed by funds backed by Solana's SOL token and Polygon's MATIC.

This data paints a clear picture of Bitcoin's continued dominance in the crypto market, even as altcoins make their presence felt. The sustained inflows into Bitcoin-backed funds indicate a strong investor confidence in the asset, despite the volatility inherent in the crypto market.

However, the outflows from Ethereum funds suggest a more cautious approach towards the second-largest cryptocurrency. The slight inflows into altcoin funds also indicate a growing interest in these assets, although they still lag far behind Bitcoin in terms of investor preference.

Deciphering the On-Chain Seascape: A Deep Dive into the Whale Ratio and DeFi Trends

During an intra-week 72-hour period from Tuesday, July 18th to Thursday, July 20th, the Whale Ratio metric suggested that certain whale investors might be deciding the current market momentum within the tight trading range we are seeing at the moment. The Whale Ratio metric in this small window of time saw a significant surge, indicating potential selling pressure. Coupled with what we are also seeing in the DeFi sector, we have undertaken a comprehensive analysis to understand better what these movements are telling us.

The Whale Ratio: A Barometer of Market Momentum

The Whale Ratio is defined as the proportion of the top 10 inflow transactions to total inflows on an exchange. This ratio serves as a key barometer of market momentum, providing insights into the activities of large-scale investors, or 'whales', who can significantly influence market trends.

Recent data reveals that the 72-hour Whale Ratio reached unprecedented levels from July 18th to 20th. In a bullish market, this ratio often hovers below the 85 percent mark of top 10 inflows to total exchange inflows. However, in the clutches of a bear market or an outlier event of mass-dumping of spot positions in BTC, it tends to linger above 85 percent. The chart below reveals that the Whale Ratio has again risen above 85 percent, indicating a potential increase in selling pressure.



Figure 4. Whale Ratio For Spot Exchanges. (source: Kripto Mevsimi, CryptoQuant)

The above range shows that the Whale Ratio metric declined during the June rally from \$25,000 to \$30,000 and then subsequently rose above the 85 percent threshold for the metric (green circle in Figure 4). Interestingly, this phenomena occurs at a time when the BTC price has retested the bottom of our trading range between \$29,500 and \$31,800 multiple times, which we cover in detail below.

This surge in the Whale Ratio during this short period suggests that large-scale investors are moving their assets onto exchanges, potentially preparing for a sell-off. This could lead to increased market volatility and downward pressure on prices. However, the dynamics of this activity indicate that this selling pressure eased quickly and as we indicated in the previous section, the net inflows into exchanges are far outpaced by the net outflows.

Attributing the surge in whale wallet inflows may be traced back to a combination of diverse sources. We discuss a few potential ones here.

Firstly, a whale who had accumulated over 20,000 BTC in the preceding eight months recently transferred 4,451 BTC (equivalent to \$133 million) to Binance. This address currently maintains a reserve of 15,000 BTC (worth approximately \$468 million).

The address of the whale is: 31pCdKyF6Ep8UkzpkWpv3SMbY3C5s7VhXL.

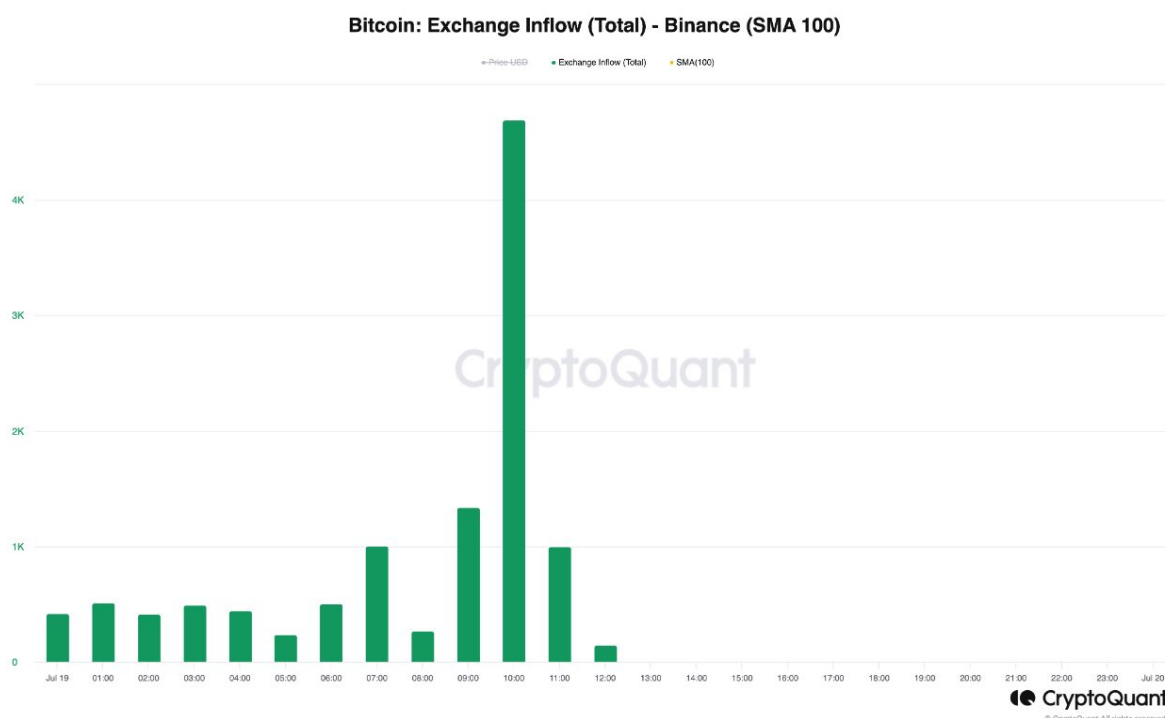



Figure 5. Exchange inflows for the particular whale wallet. (source: CryptoQuant)



Secondly, it is also possible that the increased exchange inflow for Bitcoin and the selling pressure is because of the distribution of 9,852 BTC seized by the US Department of Justice from Silk Road.

On July 12th, the [U.S. DOJ was observed moving 9,825 BTC to exchanges](#), marking the start of a carefully orchestrated distribution strategy which involved multiple wallets with smaller balances and multiple exchanges. This move was followed by a local high of \$31,800 for BTC on July 13th, triggering a sell-off of \$35 million via market orders on Binance, as per *Firecharts* data.

From July 14th to 21st, multiple analysts observed how an entity had been steadily TWAPing (Time-Weighted Average Pricing), so far roughly \$40 million on Binance.

The distribution of such a large amount of BTC into the market without causing a crash is a delicate operation. A TWAP strategy using small orders on multiple exchanges is an effective way of distributing volume without creating too much volatility. The brokers executing the DOJ's distribution strategy have a strong incentive to keep the distribution range elevated.

However, the question remains: what will happen once the entire 9,825 coins are distributed across multiple exchanges? Will the price go up due to the reduction in sell pressure, or will it drop because the brokers doing the distribution for DOJ will no longer be incentivised to place plunge protection at the bottom of the local range?

The answer to this question is not straightforward and will likely depend on a variety of factors, including market sentiment, global economic conditions, and regulatory developments. However, one thing is clear: the distribution of the seized Silk Road Bitcoins is a significant event that is likely to have a substantial impact on the Bitcoin market.

DeFi Trends: A Shift in Investor Sentiment?

The movement of coins onto exchanges is further corroborated by the decrease in the total value locked (TVL) in DeFi protocols (refer Figure 6 below). The TVL in DeFi protocols is a crucial metric, as it reflects the total amount of assets locked in the smart contracts of these protocols.

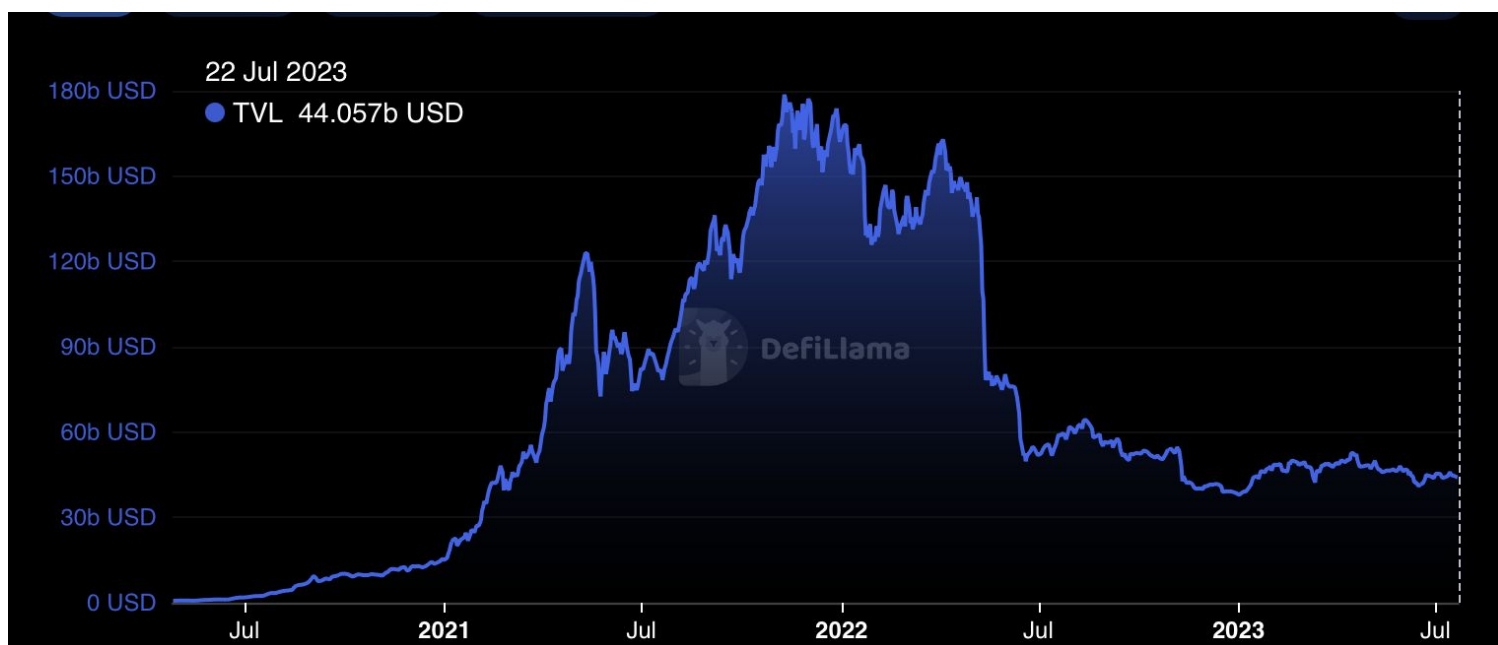


Figure 6. Total Value Locked in DeFi protocols.(source: DefiLlama)

A decrease in TVL could suggest that investors are moving their assets out of DeFi protocols, possibly due to perceived risks or better opportunities elsewhere. However, it must be noted that TVL for many protocols like Synthetix, Alpaca finance, stUSDT and multi chain wBTC have increased recently. This shift could be indicative of a broader change in investor sentiment, with potential implications for the overall market. This could also be a sign of an exodus from older layer-1 protocols as investors flock towards the “safe-haven” crypto asset Bitcoin and newer, more exciting protocols.

In conclusion, the current cryptocurrency landscape presents a complex picture, with the Whale Ratio and DeFi trends suggesting potential shifts in market momentum and investor sentiment. As we continue to navigate these turbulent waters, these metrics will serve as valuable navigational tools, helping us chart a course through the market's ebbs and flows.

OrderFlow Data Reveals Bears and Bulls continue to Battle It Out after a Month in Range

Bitcoin has been ranging between \$29,500 and \$31,500 for over 33 days now (refer Figure 7 below). In the meantime, the derivatives market has been increasing its influence over price. Options volatility metrics have reached historic lows while the price continues to ping-pong between range extremes which are only 6.5 percent apart.



Figure 7. BTC/USDT 4H chart. (source: Bitfinex)

On July 18th, the BTC price retested range lows after an open interest flush. In line with the recent trend of increased derivatives market participation, there was an increase of over \$400 million in aggregated open interest (refer Figure 8 below) in the Bitcoin futures market with minimal market impact.

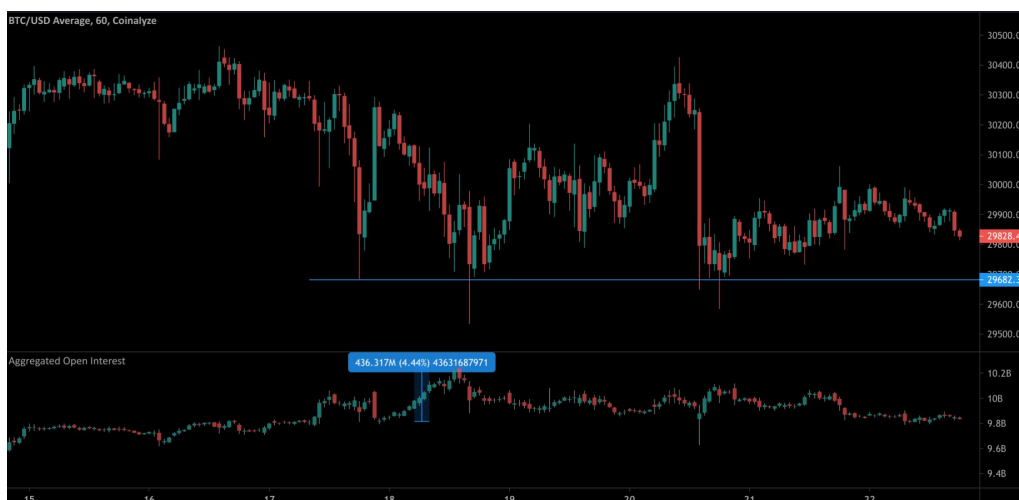


Figure 8. BTC/USD aggregate futures open interest vs price. (source: coinalyze)

Net shorts and longs both increased heavily during this period before the price finally swept below the \$29,500 range low level with negative delta (refer blue box in Figure 9 below). There was a stacked negative imbalance as the price breached through range lows momentarily. Spot bids there absorbed this heavy market selling below \$29,500 and once the price reclaimed the range low on the lower time frames, the open interest increase worth over \$400 million was quickly retraced and the price rallied from the lows shortly after as shorts started closing.

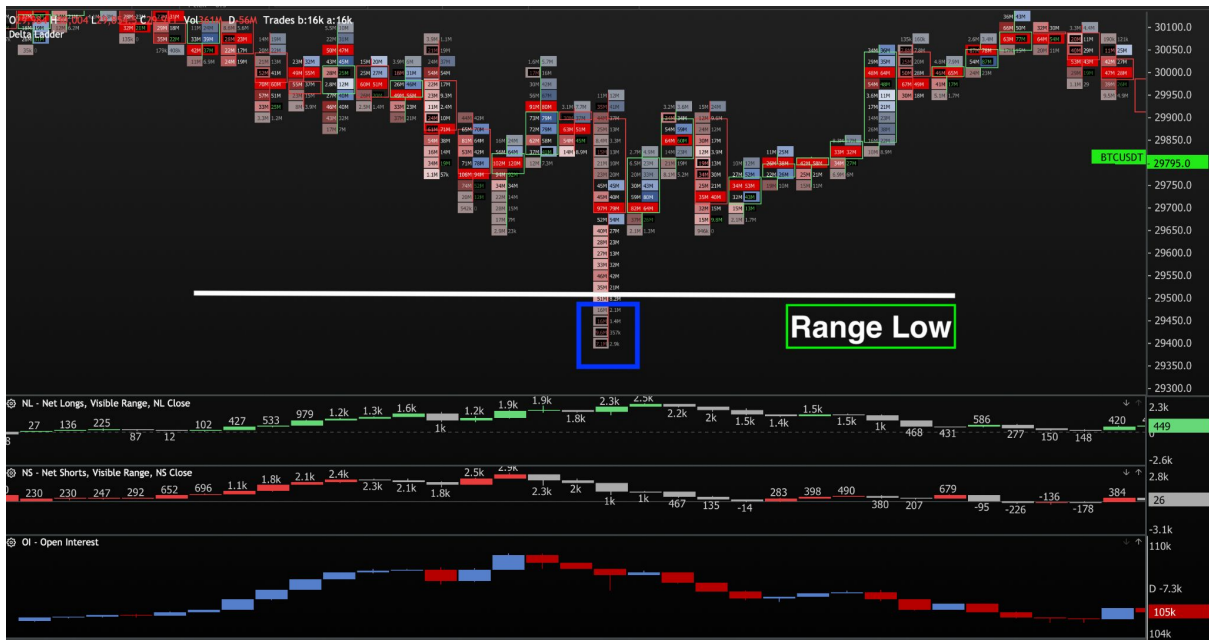


Figure 10. BTC/USDT chart 1H timeframe. (source: exocharts)

One noticeable fact is the decreasing number of aggressive market participants. Aggressive market participants (aggressors or market takers) are categorised as traders who enter at market, while passive market participants are categorised as traders who enter positions via limit orders (market makers). Aggressive participants at the extremes of the current range has been characteristic. We saw a lot of market shorts at the range lows expecting the price to break down which were then absorbed, while longs from earlier got stopped out as price breached \$29,500. However, the amount of liquidations which can be assumed to represent over-aggressive market participants (market takers) who enter highly leveraged positions and get liquidated at range extremes, has decreased when the price breached range extremes last week. (refer blue box in Figure below)



Figure 11. Total Liquidations across crypto derivatives. (source: coinglass)

The price moved up significantly towards range highs after the range lows was reclaimed. Most of the lower timeframe move up was fueled by shorts closing as the price reached the weekly open. There was increased derivatives market positioning throughout the week as discussed, however, the realised volatility calculated across multiple different methods continues to make lows.



Figure 12: BTC/USD average 15 minutes chart. (source: coinalyze)

After the price reached the weekly open, it experienced a decent amount of spot selling which can be observed by the significant skew in spot Cumulative Volume Delta versus derivatives, while bids held up price momentarily (refer Figure 12 above). But as limit orders below the weekly open closed, there was no absorption of spot selling anymore and it resulted in a flush below that level.

The cascade down was borne of the event when open interest and CVD decreased simultaneously implying how spot bids were pulled and longs closed resulting in the price declining.

This resulted in price falling to range lows again before sideways consolidation for the rest of the week.



GENERAL MARKET UPDATE



Mixed Economic Signals: Retail Sales Show Increase, Industrial Production Declines



Figure 13. Retail Sales Show Increase, Industrial Production Declines

More data coming in for June shows that the U.S. economy continues to give off mixed signals. While underlying retail sales experienced a strong increase, industrial production recorded another sharp drop. These contrasting trends will affect rate hike decisions as the country enters a pivotal period.

ADVANCE MONTHLY SALES		
June 2023	\$689.5 billion	0.2%*
May 2023 (revised)	\$688.2 billion	0.5%
Next release: August 15, 2023		
* The 90 percent confidence interval includes zero. There is insufficient statistical evidence to conclude that the actual change is different from zero. Data adjusted for seasonal variation and holiday and trading-day differences but not for price changes. Source: U.S. Census Bureau, Advanced Monthly Retail Trade Survey, July 18, 2023		

Figure 14. Retail Sales for June and May, 2023 (Source: US Census Bureau)

Retail sales, a significant factor in second-quarter GDP estimates, rose by a modest 0.2 percent in June, according to the report by the Census Bureau issued last Tuesday, July 18th (refer to Figure 14) . This growth fell short of the consensus forecast of 0.5 percent increase expected, due to decreased spending at gas stations. Gas station spending appears to have decreased because of increasing online purchases instead of in-store consumer spending, as well as lesser travel based spending from the US public. The easing of inflation concerns, especially regarding energy prices, has given American consumers more room to spend on non-discretionary items.

Online sales surged 1.9 percent, the highest in six months. Furniture stores increased by 1.4 percent, electronics and appliances advanced by 1.1 percent and clothing rose 0.6 percent in June.

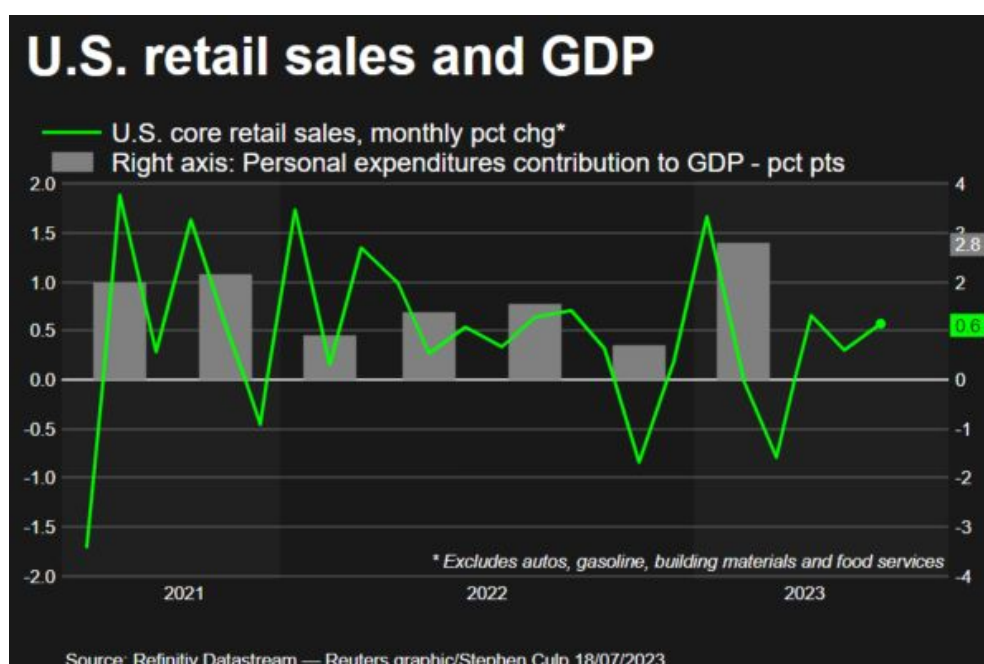



Figure 15. US Retail Sales and GDP (Source: Refinitiv Datastream, Reuters)

When excluding sales of automobiles, gasoline, building materials, and food services, retail sales in June demonstrated a 0.6 percent increase (refer to Figure 15). Moreover, May's data was revised, indicating that these core retail sales grew by 0.3 percent instead of the previously reported 0.2 percent.

Despite the overall increase in retail sales, there were notable weak spots in the sector. Though still increasing, the slowdown was primarily driven by volatile categories such as automobiles, gasoline, and building materials, which saw significant price declines in recent months. Spending on food and beverage services dropped by 0.7 percent in June, marking the third drop in the past four months, likely due to consistently increasing dining-out prices. Department store sales also experienced a sharp decline of 2.4 percent in June and 5.7 percent compared to the same period last year.



It's worth reiterating that retail sales, as we have observed in previous editions of *Bitfinex Alpha*, has shifted, with Americans now spending more on services than on goods. This is attributed to reduced purchases of consumer goods, such as computers and cell phones, which surged during 2021 and 2022. Instead, households are now focusing on activities they had previously avoided during the pandemic, including travel, dining out, and recreation.

Industrial production

In contrast, industrial production faced challenges in June, falling by 0.5 percent, according to the Federal Reserve's (the Fed) report, issued last Tuesday, July 18th. Industrial production was lower than the consensus forecast of a flat reading.

Capacity utilisation also declined to 78.9 percent, down from last September's high of 80.8 percent. Capacity utilisation refers to the extent to which a nation's factories, mines, and utilities are being used or operated in comparison to their maximum potential output. A decline in capacity utilisation means that industries operate at a lower percentage of their maximum capacity. In other words, they are not using their resources or capabilities to their full potential. The drop in manufacturing, particularly in motor vehicles and parts output, contributed to the overall decline in industrial production. Notably, the capacity utilisation rate matched the level seen in December, reaching its lowest point since October 2021.

The industrial sector's struggles are attributed to slowing demand for manufactured goods, rising customer inventories, and heightened uncertainty over the economic outlook. Manufacturers are exercising caution and reducing production as a result.

These contrasting trends in retail sales and industrial production are vital considerations for policymakers as they determine whether to implement rate hikes in response to the current economy. While retail sales are a crucial indicator of economic strength, their significance as a bellwether has diminished due to the shift in consumer spending patterns toward services. On the other hand, industrial production presents concerns about economic stress and its potential impact on future economic growth, making it a critical factor for policymakers to monitor closely.

Home Builders Optimistic Despite Challenges in US Housing Market



Figure 16. Home Builders Optimistic Despite Challenges in US Housing Market

US home builders' optimism reached a 13-month high in July, fueled by a persistent shortage of previously owned homes for sale, said the National Association of Home Builders (NAHB) in its report last Tuesday, July 18th.

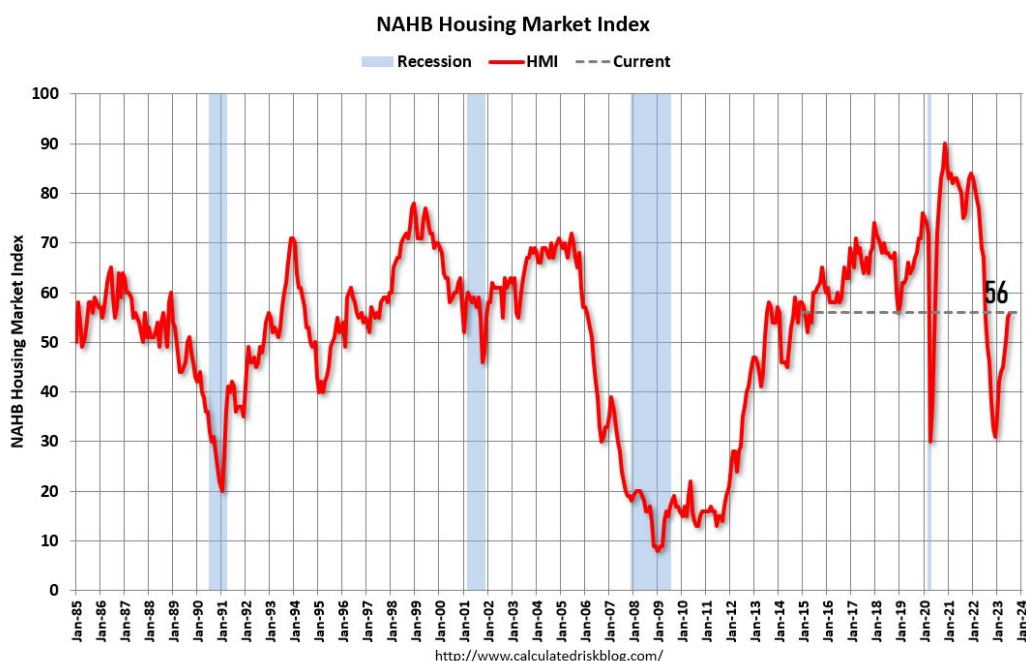


Figure 17. NAHB Housing Builder Confidence Index

Builders' confidence remained steadfast, as the NAHB's monthly confidence index rose for the seventh consecutive month to 56 (refer to Figure 17), the highest level since June 2022. The limited housing inventory has led to a surge in demand for new homes, with mortgage rates nearing seven percent, dissuading many homeowners from selling their properties. Consequently, new listings were down by 27 percent compared to the previous year, according to Realtors.com.

Despite this optimism, builders are also facing challenges in the market. The share of builders offering sales incentives has dropped to 22 percent in July, from a peak of 36 percent in November 2022, indicating strong interest from potential home buyers. However, they expressed concerns about future sales and foreseeing possible hurdles in construction due to a shortage of available lots and electrical-transformer equipment.

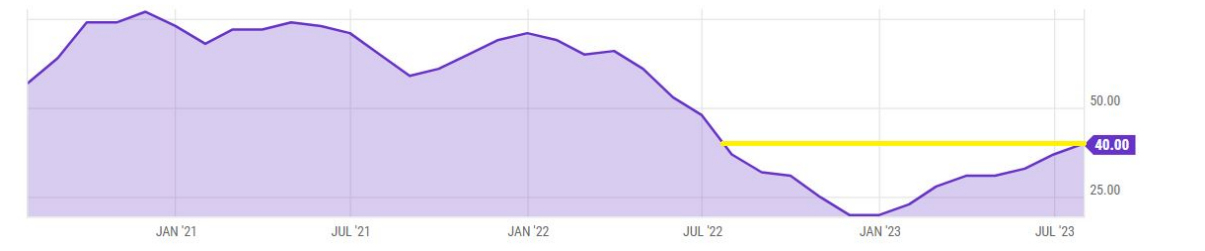


Figure 18. NAHB/Wells Fargo Traffic of Prospective Buyers Index
(Source: NAHB/Wells Fargo)

The demand for new homes remains resilient, as reflected in the prospective buyer traffic index reaching its highest level since June 2022 at 40 (refer Figure 18 above). The current market dynamics, and existing homeowners' reluctance to sell, bolstered interest in new constructions.

While the Fed's monetary policy tightening campaign, aimed at curbing inflation, has kept mortgage rates high, it has not dampened the appetite for new homes. However, we still believe that tightening credit conditions may pose challenges in the months to come.

Despite the overall increase in builder confidence, the growth rate slowed slightly in July, with a single point increase in the index, following two consecutive months of five-point increases. The deceleration is attributed to mounting concerns about the availability of construction financing.

Chief economist Robert Dietz from NAHB acknowledged that builders remained cautiously optimistic about market conditions. Nevertheless, the quarter-point rise in mortgage rates over the past month served as a reminder of the market's stop-and-start nature.

Despite the challenges, the housing market has been a bright spot for builders in recent months, providing a much-needed outlet for home-buying demand amidst the scarcity of previously owned home listings. However, concerns remain regarding how long this trend can be sustained amid potential obstacles in the housing industry.

Housing Starts and Permits Drop Amid High-Interest Rates



Figure 19. Housing Starts and Permits Drop Amid High-Interest Rates

The US housing market experienced mixed fortunes in the recent months. While builders remain cautiously optimistic, housing starts and permits declined in June after a surge in May. This can mainly be attributed to market volatility caused by interest rate increases. The US Census Bureau reported an eight percent drop in new residential starts and a 3.7 percent decline in permits for new buildings last Wednesday, July 19th. The rise in mortgage rates further contributed to the slowdown, raising concerns for future construction activity.

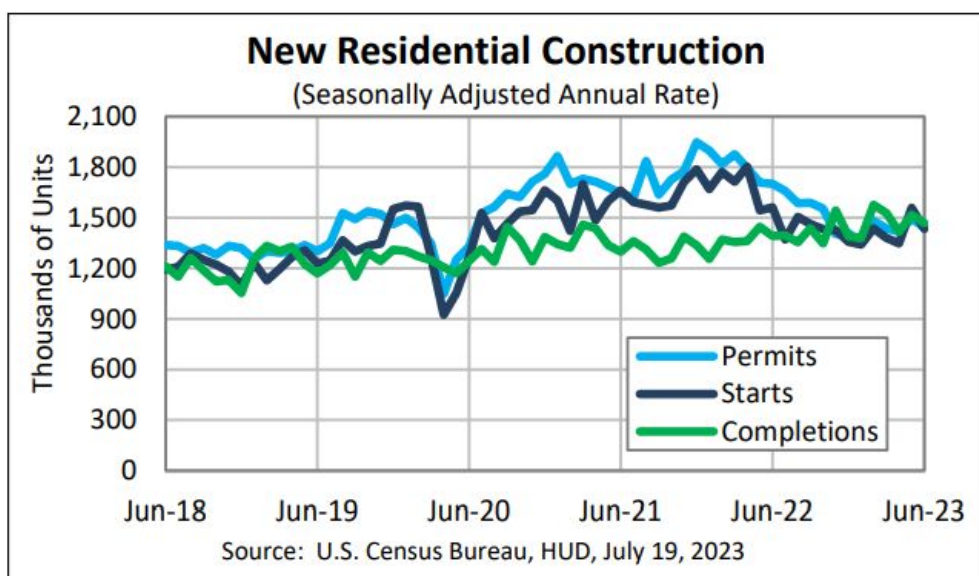



Figure 20. New Residential Construction Source: US Census Bureau, HUD)



Despite the recent setbacks, a longer-term view shows housing starts maintaining an upward trajectory since April on a six-month average basis, reaching 1.42 million in June. Similarly, building permits showed improvement on a three-month moving average, rising to 1.45 million from a bottom point in January.

Looking into the details of the housing market, single-family homebuilding faced a seven percent decline, reaching a seasonally adjusted annual rate of 935,000 units in June. On the other hand, the multi-family housing segment showed signs of slowing down, primarily driven by rising apartment vacancy rates and an increasing stock of multi-family housing under construction. This trend may discourage further construction in this sector.

Overall, the housing market's stability indicates that it may have reached a bottom after the impact of the Fed's aggressive monetary policy tightening. Despite optimism among builders, the average rate on the popular 30-year fixed mortgage approaching seven percent poses a challenge to the anticipated housing market rebound, potentially affecting residential investment.

The recent data on housing starts is crucial in calculating the gross domestic product (GDP) for the second quarter, set to be released by the end of the month. Although June's numbers fell slightly below expectations, a significant downward revision of May's figure from 21.7 percent to 15.7 percent adds downside risks to the GDP.

While home builders remain optimistic, the path to recovery may be hindered by continued uncertainties surrounding interest rates. A 25-basis-point hike is anticipated in the upcoming weeks, with lingering doubts about whether this will be the final tightening move by the Fed.

The housing sector's future trajectory remains uncertain as the market navigates through ongoing uncertainties and potential interest rate fluctuations. Builders' confidence, coupled with changes in mortgage rates, will play a critical role in determining the market's resilience and potential for growth in the coming months.

US Leading Economic Indicator Signals Potential Recession Amidst Growing Concerns

The US economy faces increasing uncertainty as the nation's leading economic indicator, the **Leading Economic Index (LEI)**, continues its decline for the 15th consecutive month, according to the latest report from the **Conference Board**, issued last Thursday, July 20th. This worrying trend, reminiscent of the lead-up to the 2007-2009 recession, is being driven by a weaker consumer outlook and a surge in unemployment claims.

The Leading Economic Indicator (LEI) is a composite index designed to predict the future direction of the economy. It provides valuable insights into potential economic turning points, such as expansions or contractions, before they occur. By analysing various economic metrics, the LEI aims to gauge the overall health and stability of the economy and offer early signals of potential recessions or economic growth.

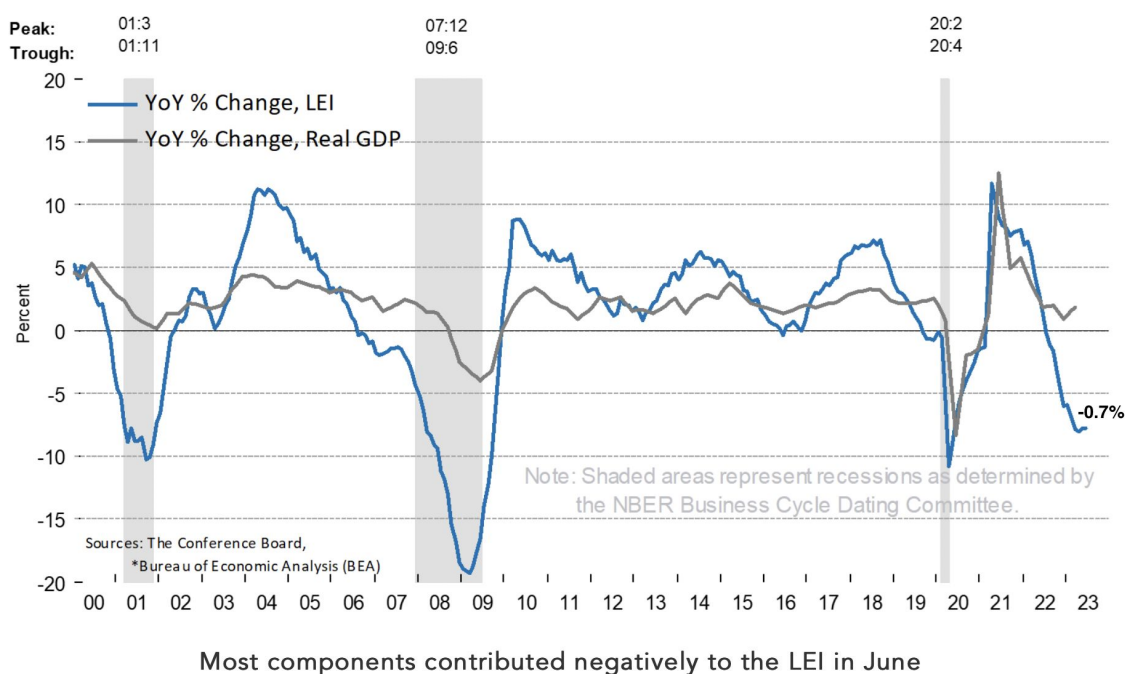


Figure 21. Leading Economic Indicator (YoY Change) and Real GDP (YoY Change), (Source: US Conference Board)

The LEI dropped by 0.7 percent in June (refer Figure 21 above), following a 0.6 percent decrease in May. The decline was slightly more substantial than what economists had predicted. The index currently stands at 106.1, and continues to raise concerns about the economy's future direction.

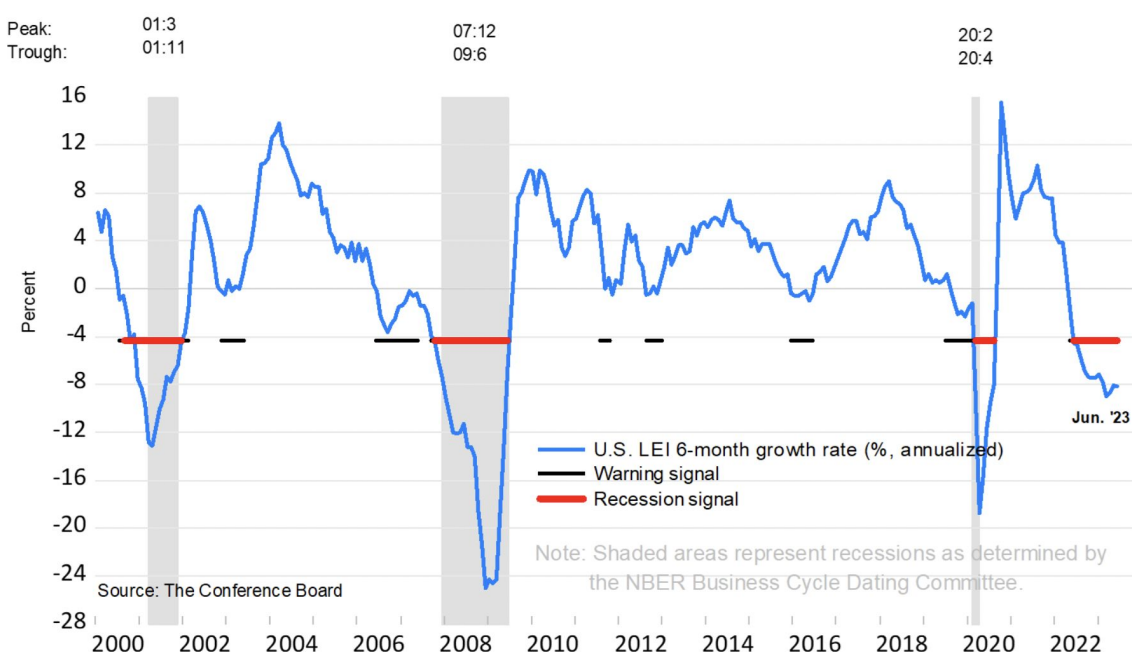


Figure 22. US LEI 6-month growth rate (Source: The Conference Board)

Note: The chart illustrates the so-called 3D's rule which is a reliable rule of thumb to interpret the **duration, depth, and diffusion – the 3D's** – of a downward movement in the LEI. Duration refers to how long-lasting a decline in the index is, and depth denotes how large the decline is. Duration and depth are measured by the rate of change of the index over the last six months. Diffusion is a measure of how widespread the decline is (i.e., the diffusion index of the LEI ranges from 0 to 100 and numbers below 50 indicate most of the components are weakening). The 3D's rule provides signals of impending recessions 1) when the diffusion index falls below the threshold of 50 (denoted by the black dotted line in the chart), and simultaneously 2) when the decline in the index over the most recent six months falls below the threshold of -4.2 percent. The red dotted line is drawn at the threshold value (measured by the median, -4.2 percent) on the months when both criteria are met simultaneously. Thus, the red dots signal a recession. (Source: The Conference Board)

The prolonged decline in the LEI over the last six months, indicates a 4.2 percent contraction compared to the 3.8 percent drop recorded between June and December 2022. This accelerated decline has historically been a harbinger of an impending recession.

The Conference Board has [expressed concern](#) over the economic outlook, stating that the current data suggests a continued deceleration of economic activity in the months ahead. It forecasts that the US economy may likely enter a recession from the third quarter of 2023 to the first quarter of 2024.



The LEI comprises ten different economic components, and these are:

1. Average weekly hours in manufacturing
2. Average weekly initial claims for unemployment insurance
3. Manufacturers' new orders for consumer goods and materials
4. ISM (Institute for Supply Management) Index of New Orders
5. Manufacturers' new orders for nondefense capital goods excluding aircraft orders
6. Building permits for new private housing units
7. S&P 500 Index of Stock Prices
8. Leading Credit Index
9. Interest rate spread (10-year Treasury bonds less federal funds rate)
10. Average consumer expectations for business conditions

Factors contributing to the index's decline include elevated prices, tighter monetary policy, reduced government spending, and difficulties in accessing credit. These elements are projected to further hinder economic growth.

Contrary to some positive economic indicators, the LEI's continuous slide raises concerns, because despite the labour market's strength and ongoing economic growth, the LEI's predictive abilities warrant serious attention.

The Conference Board, a reputable non-profit, non-partisan think tank with a long history, monitors and analyses economic trends and is widely regarded for its research.



NEWS FROM THE CRYPTO-SPHERE



Nasdaq Halts Plans for Crypto Custodian Service Amid Regulatory Environment Challenges




Figure 23. Nasdaq Halts Plans for Crypto Custodian Service Amid Regulatory Environment Challenges

- **Nasdaq has decided to halt its plans to launch a digital assets custodian service in the United States due what it says is a challenging regulatory environment in the crypto industry.**
- **Nasdaq says it remains committed to supporting the digital asset ecosystem through its technology solutions and partnerships with potential ETF issuers, however concerns grow that the U.S. may lose its crypto edge to more crypto-friendly jurisdictions.**

Nasdaq, a leading exchange operator, announced last Wednesday, July 19th, that it has decided to suspend its plans to launch a digital assets custodian service due to the challenging regulatory environment in the United States. The decision was disclosed during the company's second-quarter earnings call by Nasdaq CEO Adena Friedman, who emphasised that they would remain committed to supporting the evolution of the digital asset ecosystem.

Last year, Nasdaq [unveiled its intentions](#) to introduce a crypto custody service, primarily targeting institutional investors. However, since then, there has been an intensified crackdown by American regulators on the cryptocurrency industry, with several major crypto brands facing legal action.



During the earnings call, Friedman explained, "This quarter, considering the shifting business and regulatory environment in the US., we've made the decision to halt our launch of the US digital assets custodian business and our related efforts to pursue a relevant licence."

The regulatory environment in the United States has proven to be a significant challenge for the crypto industry. US Securities and Exchange Commission Chairman, Gary Gensler, has been particularly assertive in his actions against crypto exchanges, alleging that they have been involved in the sale of unregistered securities. Gensler has even expressed scepticism towards the industry, stating, "We don't need more digital currency."

Nevertheless, there remains institutional interest in the crypto space. BlackRock, alongside other major asset managers, has filed applications for a Bitcoin exchange-traded fund product.

Despite the pause in its custodian service, Nasdaq said it will continue engaging with regulators and collaborating with exchange-traded fund issuers in their efforts to release crypto products. The company also continues to support recent Bitcoin exchange-traded fund applications from BlackRock and other firms.

Friedman asserted, "More broadly, we remain committed to supporting the evolution of the digital asset ecosystem in a variety of ways, among them through our ongoing engagement with regulators, the delivery of comprehensive technology solutions across the trade life cycle, and through our partnerships with potential ETF issuers to support tradable exchange-listed products."

The Nasdaq's decision to halt its crypto custodian service comes as a minor disappointment to those encouraged by the momentum surrounding spot Bitcoin ETF filings from BlackRock and other institutions. Additionally, the [recent court ruling in the SEC's lawsuit](#) against Ripple has raised hopes of reducing regulatory pressure and increasing clarity for the industry.

US Senators Introduce Bipartisan Bill to Tighten Regulations for DeFi and Crypto Kiosks




Figure 24. US Senators Introduce Bipartisan Bill to Tighten Regulations for DeFi and Crypto Kiosks

- A bipartisan group of US senators, led by Sen. Jack Reed, introduced the Crypto-Asset National Security Enhancement and Enforcement (CANSEE) Act to tighten Know Your Customer (KYC) and Anti-Money Laundering (AML) regulations for DeFi platforms.
- The proposed bill would hold those who control DeFi projects liable for violations of regulations, similar to traditional financial firms, and set new requirements for crypto kiosks (ATMs) to prevent money laundering. However, DeFi advocates argue that the bill could hinder DeFi development and may not effectively address illicit crypto activities.

A group of bipartisan senators, led by Sen. Jack Reed, introduced the Crypto-Asset National Security Enhancement and Enforcement (CANSEE) Act in the Senate on July 18th. The bill aims to strengthen Know Your Customer (KYC) and Anti-Money Laundering (AML) regulations and sanctions requirements for decentralised finance (DeFi) platforms.

Under the proposed legislation, DeFi operations would be subject to the same regulatory requirements as traditional financial companies, including centralised crypto trading platforms, casinos, and pawn shops. Those who control a DeFi project would be held liable for using the service by sanctioned individuals. Additionally, if no single entity controls the DeFi project, anyone investing over \$25 million in its development would assume responsibility for regulatory obligations, under the provisions of the bill.



The CANSEE Act also seeks to modernise the Treasury Department's AML powers by extending them beyond the traditional financial system, ensuring illicit financial activity involving cryptocurrencies is addressed effectively.

Furthermore, the bill sets new requirements for operators of crypto kiosks (ATMs) to combat money laundering. Kiosk operators would be mandated to verify the identities of both parties engaged in a transaction.

Sen. Reed, along with Sens. Mark Warner, Mitt Romney, and Mike Rounds, sponsored the bill, emphasising the need to protect national and economic security by preventing entities like drug cartels and sex traffickers from using DeFi platforms to evade justice.

However, the proposed legislation has faced pushback from DeFi advocates. Miller Whitehouse-Levine, CEO of the DeFi Education Fund, criticised the bill, claiming it would effectively ban DeFi development in the United States and could undermine law enforcement's existing insight into peer-to-peer crypto activities. Similarly, Yaya Fanusie, director of anti-money laundering and cyber at the Crypto Council for Innovation, deemed the bill arbitrary and ill-defined, as it applies traditional financial rules to anyone controlling a DeFi protocol or developing applications for its use.

The introduction of the CANSEE Act reflects the ongoing efforts by US lawmakers to tighten AML rules and enhance regulatory oversight in the rapidly evolving crypto and DeFi sectors.

SEC Chair Urges Congress to Provide Increased Funding Amid Calls for Tougher Crypto Regulation




Figure 25. SEC Chair Urges Congress to provide Increased Funding Amid Calls for Tougher Crypto Regulation

- **SEC Chair Gary Gensler requested an additional \$109 million in funding to address misconduct in the crypto space and enhance the agency's enforcement capabilities**
- **Senators from both parties urge Gensler to take a more aggressive approach in regulating crypto companies and highlight concerns about the industry's influence on Congress through lobbying efforts.**

SEC Chair Gary Gensler appealed to senators for an additional \$109 million for the agency's enforcement budget, aiming to address misconduct in the crypto space, which he referred to as "the Wild West." The proposed funding increase, if approved by Congress, would bring the SEC's enforcement budget to \$1.4 billion. Gensler emphasised the need for new tools, expertise, and resources to tackle emerging challenges in rapidly evolving markets and to counter potential illicit activities.

Senators from both parties pressed Gensler to take a more aggressive stance against crypto companies. Sen. Dick Durbin criticised the crypto industry, highlighting allegations against FTX and Binance, and expressed concern over the industry's attempts to influence Congress through lobbying efforts. He urged Gensler to prioritise consumer protection in dealing with cryptocurrencies.



Gensler defended the underlying technology behind crypto assets while acknowledging the presence of bad actors in the field. He emphasised the importance of separating different market functions at trading platforms to prevent potential conflicts of interest.

During the hearing, Sen. John Kennedy questioned Gensler about the SEC's handling of FTX before its collapse and urged the agency to seek injunctions more promptly. Gensler explained that investigations require time to follow proper procedures and obtain necessary evidence.

However, Sen. Bill Hagerty raised concerns about the impact of regulatory uncertainty on the US crypto industry. He noted that a lack of clear rules has led to a decrease in US. blockchain developer jobs and stablecoin volume, prompting some industry players to seek clearer regulatory environments overseas. Gensler acknowledged that the industry's migration might be attributed to seeking "regulatory arbitrage" in jurisdictions with lighter financial regulation.

The SEC chair likened most tokens to venture capital investments, pointing out that many startups fail statistically. He stressed the importance of full and truthful disclosures to protect the investing public's interests.

Celsius Network Reaches Settlements to Return Assets and End Bankruptcy Proceedings




Figure 26. Celsius Network Reaches Settlements to Return Assets and End Bankruptcy Proceedings

- Bankrupted crypto lender Celsius Network reaches settlements to return assets and end bankruptcy proceedings. One settlement addresses \$78.2 billion in claims, providing a five percent increase in customer recoveries, and gives options to borrowers to receive crypto assets and shares in the new company emerging from bankruptcy.

In a significant development for the crypto community, Celsius Network, the once-bankrupted crypto lender, has made substantial progress in its bankruptcy proceedings. The company has reached two settlements that will enable it to return assets to customers and potentially end its bankruptcy status. These agreements are set to be examined by Judge Martin Glenn during a hearing scheduled for August 10th, as stated in [court filings](#) made on July 20.

The first settlement aims to address \$78.2 billion in unsecured claims and focuses on allegations of fraud and misrepresentation by Celsius management. Under the terms of this agreement, customers' recoveries will see an increase of five percent. Importantly, account holders who choose not to opt out of the settlement will be entitled to receive a claim amounting to 105 percent of their scheduled claim, effectively replacing any related Proofs of Claim they may have previously filed.



The second settlement addresses the concerns of customers who had funds in Celsius' interest-bearing Earn feature. Borrowers of crypto funds will be given the opportunity to receive a portion of their funds in crypto assets. Additionally, they will be compensated with shares in the new company emerging from the bankruptcy proceedings.

Celsius Network filed for [Chapter 11 bankruptcy](#) in July 2022 after announcing a suspension of all withdrawals due to market turbulence linked to the collapse of the Terra ecosystem. The situation worsened when, a year later on July 13th, 2023, the company's former CEO, Alex Mashinsky, was arrested on [charges](#) of fraud and market manipulation, to which he pleaded not guilty.

On the same day, the Securities and Exchange Commission (SEC) [filed a lawsuit](#) against him and other Celsius executives for allegedly raising funds through unregistered and fraudulent offers and selling "crypto asset securities." The Federal Trade Commission (FTC) also took action, issuing civil cases against the former CEO and imposing a staggering \$4.7 billion in fines on the lending platform for alleged mismanagement of user deposits.

Now, with these settlements, there is a glimmer of hope for Celsius users who have been waiting for over a year to reclaim their assets.

If the settlements receive the green light from the court, Celsius will return a portion of the deposited crypto assets to users, and the remaining compensation will be fulfilled in the form of shares in the new entity. The reorganised company, under the leadership of Michael Arrington, co-founder of TechCrunch, will manage Celsius' illiquid assets and mining business.

The upcoming hearing on August 10 will be closely watched as it represents a crucial step towards closure for the affected Celsius customers and potentially paves the way for the company's revival under new management.

Ripple Seeks Expansion in Europe and UK Following SEC Lawsuit Victory




Figure 27. Ripple Seeks Expansion in Europe and UK Following SEC Lawsuit Victory

- **Ripple plans to expand its operations in Europe and the UK following a partial win in its lawsuit against the SEC**
- **As part of its European expansion strategy, Ripple has increased its workforce in the UK and Europe by about 75 percent over the last eighteen months, solidifying its position in the region's crypto and remittance industries.**

In light of its recent partial legal victory against the US Securities and Exchange Commission (SEC), Ripple, the cross-border remittance firm, is pushing forward with its expansion plans in Europe and the United Kingdom. The company is taking significant steps to establish itself as a major player in the region, including applying for registration as a crypto asset firm with the UK's Financial Conduct Authority (FCA) and seeking a payments licence in Ireland.

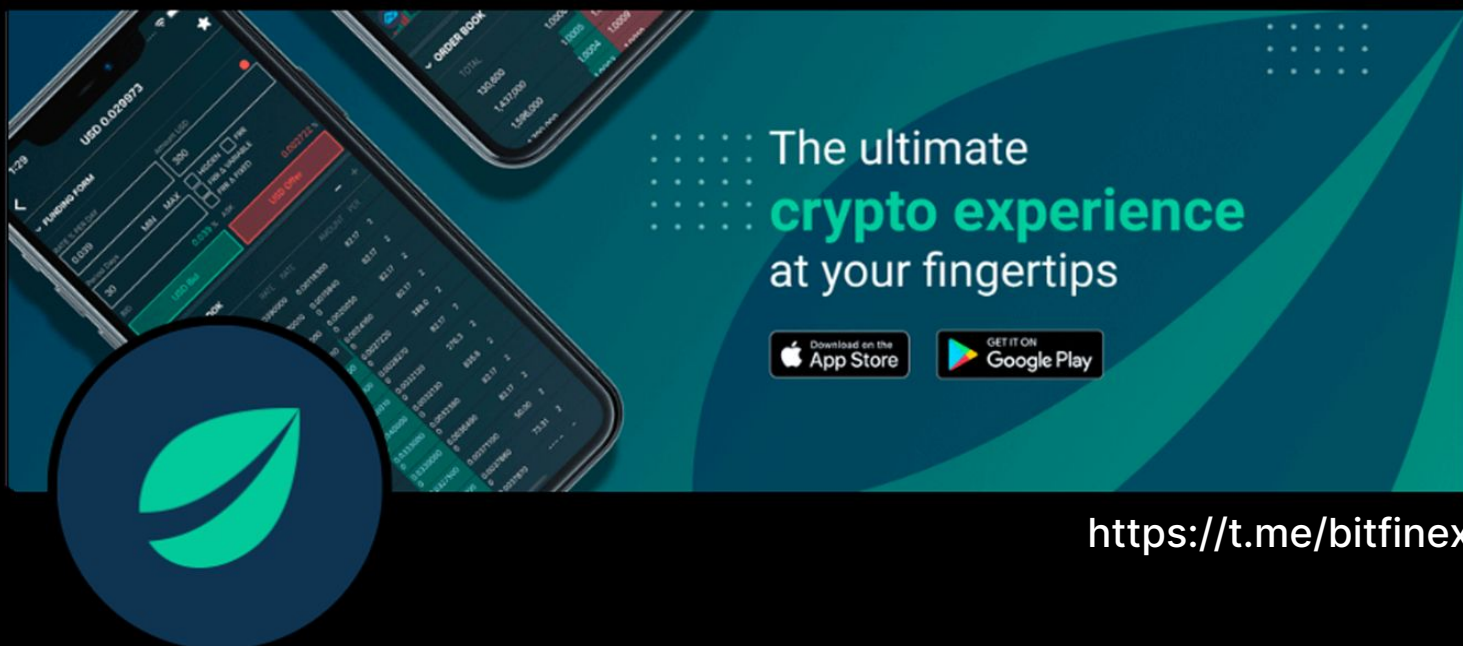
Sendi Young, Managing Director of Ripple Europe, confirmed the company's recent applications in both the UK and Ireland.

Ripple has increased its headcount by approximately 75 percent over the past eighteen months, hiring not only for mission-critical roles but also to support its growth initiatives.



Its expansion into the UK in particular comes at a time when the country is actively working to establish a crypto-regulated environment. Several bills have been introduced to the British parliament, with a recent one seeking to bring cryptocurrencies under the same regulatory rules as traditional assets. This new law grants authorities, including the Treasury, FCA, Bank of England, and Payments Systems Regulator, the power to introduce and enforce regulations on crypto businesses.

Ripple's aim is to position itself as a prominent player in the crypto and remittance industries within Europe and the UK. As its expansion plans take shape, it remains to be seen how the regulatory landscape and market dynamics will evolve in response to the growing presence of crypto asset firms in the region.



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