BITFINEX Alpha

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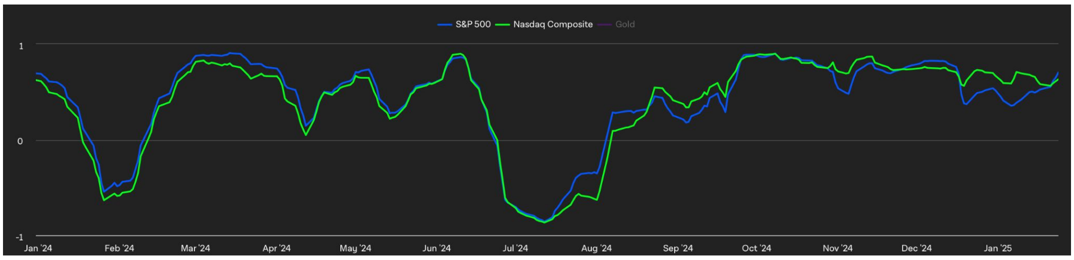
EXECUTIVE SUMMARY

BTC to consolidate as volatility drops

Bitcoin reached a new ATH of $109,590 on January 20th, driven by optimism over President Donald Trump's inauguration and the expected advent of more crypto-friendly policies in the US. Anticipation of initiatives like a strategic Bitcoin reserve and expanded regulatory clarity boosted speculative buying. However, Bitcoin struggled to maintain momentum, retreating to trade below the previous ATH of $108,100, and now trading below $100,000, as concerns rise over China competition in AI and the ongoing threat of tariff hikes by the new US administration.

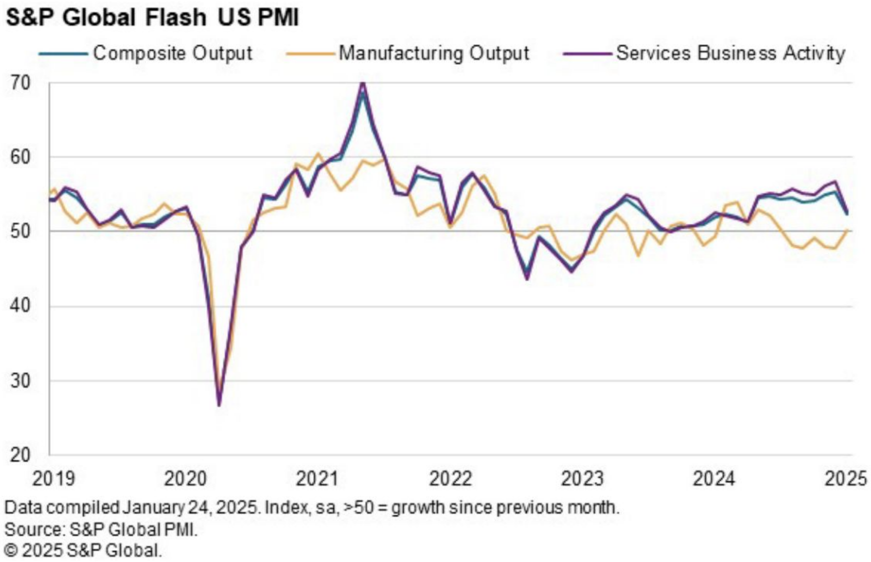
Bitcoin's correlation with the S&P 500 and NASDAQ has reached new year-to-date highs, highlighting Bitcoin's evolving status as a major risk-on asset. But while the S&P 500 rallied to new highs last week—Bitcoin continues to be vulnerable to the news agenda, liquidity and speculation.



Bitcoin, S&P500 and NASDAQ 30-Day Rolling Pearson Correlation.

Similar to some other equity markets, BTC reacted with caution following last week's Bank of Japan rate hike and it continues to correlate closely with equities, falling sharply on 27th January as jitters increase about China's ability to produce cheaper AI models through Deepseek and the threat of tariffs being imposed on Colombia. Bitcoin options implied volatility declined 13 percent over the course of the week, suggesting traders are not expecting to see elevated price action.

In the macro economy, labour market conditions remain steady despite a slight rise in unemployment claims, with continued claims reaching their highest level in over three years. Meanwhile, consumer sentiment has declined, after six-months of continuous improvement. Concerns over rising unemployment and inflation, influenced by expectations of high import tariffs and regulatory changes under President Trump, weigh heavily on household confidence. Inflation expectations have risen, reflecting broader apprehension about the impact on prices from new policies.



S&P Global US Flash PMI (Purchasing Managers' Index)

Economic activity, while continuing to grow, has also moderated. The S&P Global Flash US PMI reported services growth decelerating even as manufacturing saw its first expansion in months. Inflationary pressures remain a focal point for businesses, compounded by uncertainties over trade and immigration policies.

Across the cryptocurrency industry, we are seeing significant developments, including a surge in ETF filings for Litecoin, XRP, and Solana, reflecting growing institutional interest. Simultaneously, the US House Oversight Committee has launched an investigation into claims of unfair debanking practices targeting crypto-linked entities. On a different front however, FINTRAC issued an alert on the role that crypto still seems to be playing in money laundering - in this case the proceeds of synthetic opioid sales. It has called on financial institutions to implement stronger anti-money laundering measures.

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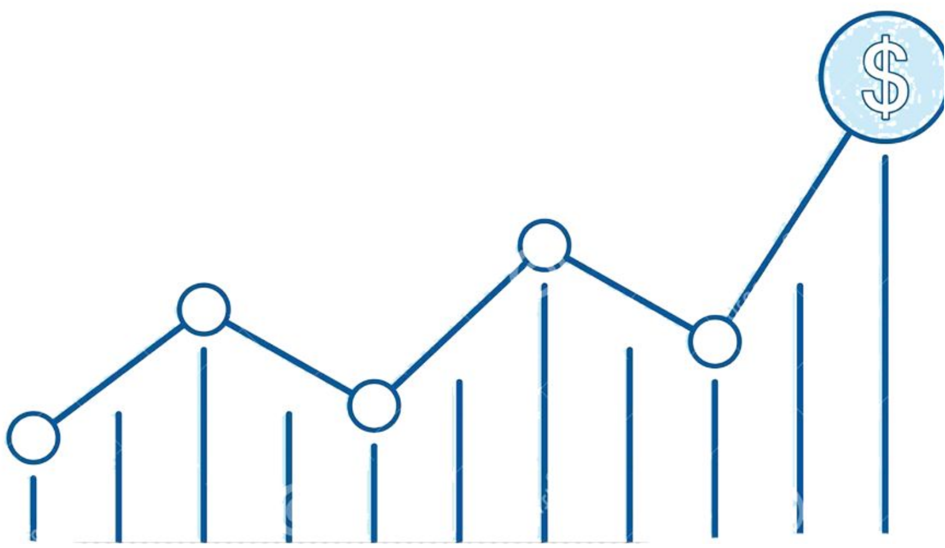

MARKET SIGNALS

Bitcoin Breaks ATH On Inauguration Day But Struggles To Sustain Highs

Bitcoin hit a new all-time high (ATH) of $109,590 on January 20th, propelled by momentum and speculative buying as President Donald Trump was sworn into office amid a widespread perception that he will be the "Crypto President." There is significant market optimism that several crypto-friendly government initiatives will be implemented by the new administration, including the establishment of a strategic Bitcoin reserve, greater regulatory clarity over the status of other crypto assets, beyond Bitcoin and Ethereum, and the launch of additional crypto ETFs.

Figure 1. BTC/USD 4H Chart. (Source: Bitfinex)

In terms of price movement, as we have observed previously, the strong correlation between Bitcoin and equities, especially in the current quarter, remains one of the most reliable market dynamics. The 30-day rolling Pearson correlation between Bitcoin, the S&P 500, and the NASDAQ has now reached 0.7 (refer Figure below) highlighting a trend that isn't just coincidental but indicative of how Bitcoin is increasingly treated like a risk-on major asset class, moving in lockstep with traditional equities.

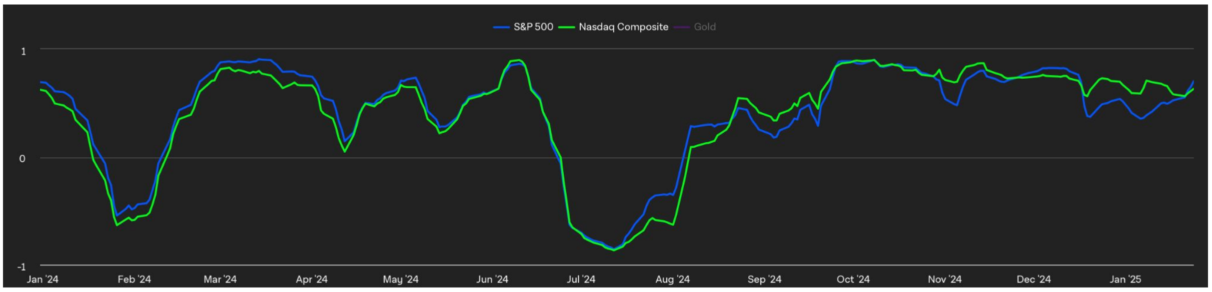

Figure 2. Bitcoin, S&P500 and NASDAQ 30-Day Rolling Pearson Correlation. (Source: TheBlock)

This correlation suggests that Bitcoin's price is less a standalone reflection of its market fundamentals and more tied to broader macroeconomic shifts, particularly in risk sentiment. When equity markets are rallying, especially in the current post-election period or amidst favorable economic news, Bitcoin benefits from that momentum. Conversely, any shift in equities could easily trigger a domino effect on Bitcoin, amplifying volatility. We saw a taste of this on 27th January when concerns over surging popularity of a Chinese discount artificial intelligence model wobbled investors' faith in the profitability of AI and sent equities falling.

The ongoing alignment between these markets underscores the evolving relationship between crypto and traditional finance. In our view Bitcoin is no longer just a digital asset playing by its own rules—but is now firmly tethered to the broader risk asset landscape, which could pose both opportunities and risks depending on the direction of equity markets. If the correlation holds, Bitcoin's movement in the coming months will be largely determined by the trajectory of equities, particularly in response to macroeconomic news.

Last week Bitcoin struggled to maintain its price, even above the previous all-time high of $108,100. Meanwhile, the S&P 500 (SPX) has experienced a strong rally, reaching a new all-time high of 6120 on January 24th. In this case, Bitcoin lagging price appreciation is more in line with the rest of the equity market which declined following a rate hike by the Bank of Japan, indicative of differences in sentiment, even within the risk-on asset class.

Figure 3. SPX 4H Chart. (Source: SP)

Bitcoin remains highly sensitive to liquidity and speculative demand and saw some pullback last week, whereas the S&P 500 continued to benefit from stronger macroeconomic data.

Factors Driving the S&P 500 Rally:

1. **Investor Optimism Toward the New Administration:** Investor sentiment has been notably buoyed by President Trump’s return to office, with many expecting policies that prioritize deregulation and foster economic growth. This optimism has propelled the S&P 500 to a 1.7 percent increase over the week, marking its first record close of 2025. The anticipation of pro-business, pro-growth initiatives under the new administration has driven a surge in market confidence, with the SPX benefiting from the renewed outlook.
2. **Strong Corporate Earnings:** Earnings season has been a major catalyst for the S&P 500’s rally, as approximately 80 percent of the companies within the index have exceeded Wall Street expectations, with an average earnings surprise of 10 percent.
3. **AI Infrastructure Investment:** President Trump’s announcement of up to $500 billion in private-sector investments aimed at positioning the United States as the global leader in AI innovation has further fuelled market optimism. This initiative spurred significant movement in AI-related stocks and crypto assets, with companies like Nvidia (NVDA) seeing strong price appreciation by the end of last week. The prospect of such a massive investment in AI infrastructure has provided a further tailwind for the broader tech sector, contributing to the market's rally.
4. **VIX Index Decline:** The **CBOE Volatility Index (VIX)**, often referred to as Wall Street's "fear gauge," has dropped significantly, reflecting reduced investor anxiety and increased risk appetite. Lower volatility levels typically correlate with equity market strength. The metric has gone from 25.2 on January 13th to under 14 which is close to a 52-week low.

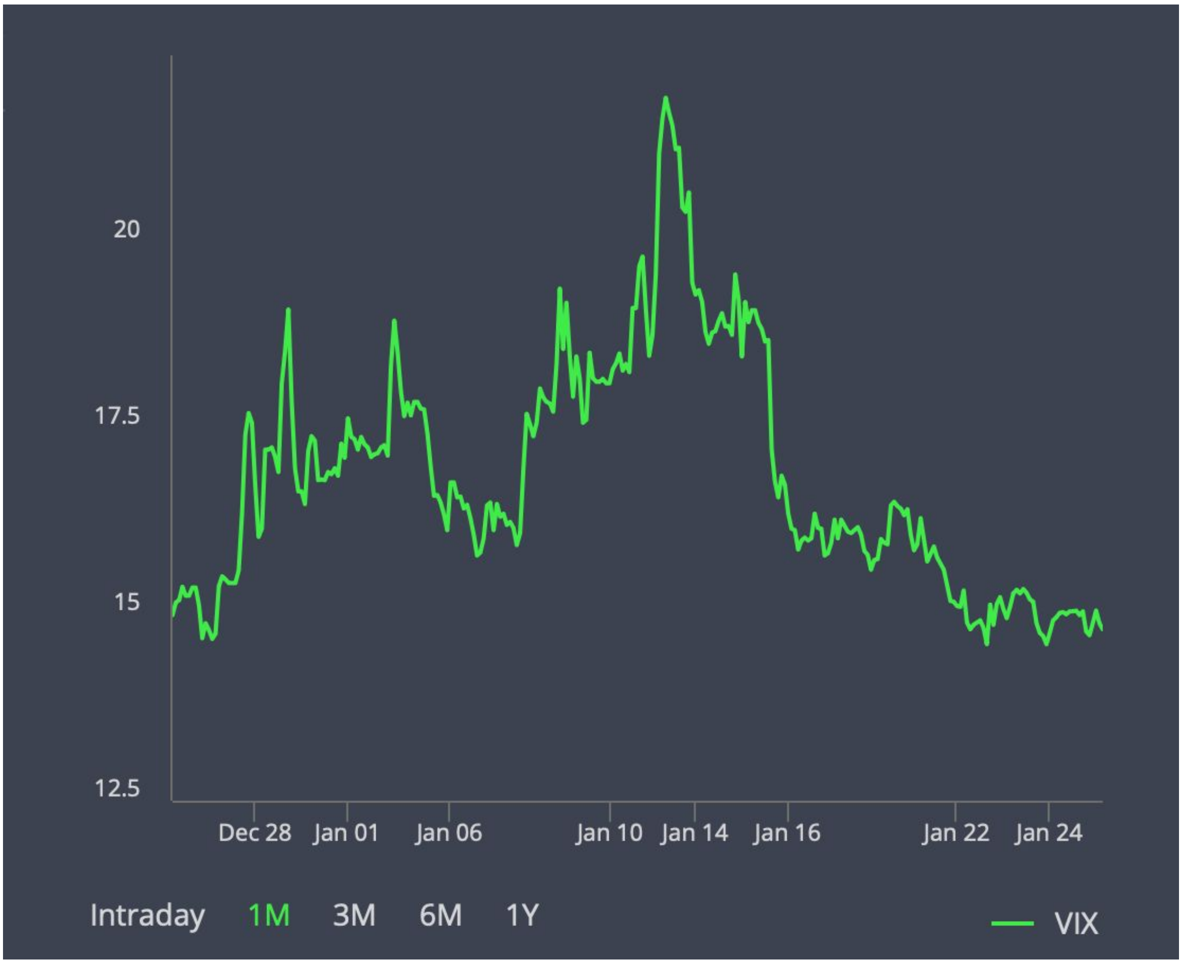

Figure 4. Volatility Index Over The Past Month. (Source: CBOE)

Overall, these factors have combined to create a positive market environment, characterised by investor optimism, solid corporate earnings, and strong policy signals.

Bitcoin Near-Term Price Consolidation

In tandem with the VIX, Bitcoin implied volatility has gone down over 13 percent after it reached a peak on January 20th, following speculation over potential inauguration day announcements, and subsequent crypto related executive orders announced by the President. A decrease in implied volatility (IV) alongside stable or appreciating Bitcoin prices often signals a shift in market sentiment. When IV falls, it typically indicates that traders perceive lower risk and uncertainty, suggesting that they believe current price levels are sustainable. This reduced demand for options as hedging tools is indicative of a market that expects fewer significant price movements in the near term. A lower IV can also point to a potential consolidation phase, with Bitcoin trading in a tighter range until new catalysts—such as macroeconomic data, regulatory developments, or market events—emerge to trigger a breakout or breakdown. In essence, the market appears to be entering a period of stability, with traders adopting a wait-and-see approach.

When Bitcoin breached the $100,000 mark for the first time last month, we saw a significant surge in net capital inflows, however these have since started to taper off as the market consolidates and adjusts to the new price level. This slowdown in momentum can largely be attributed to continued uncertainty surrounding a potential Strategic Bitcoin Reserve (SBR) and its impact, coupled with some profit-taking activity. While the pace of profit-taking has slowed, it suggests a reduction in sell-side pressure, which in turn reduces the need for new capital to sustain prices within the current trading range.

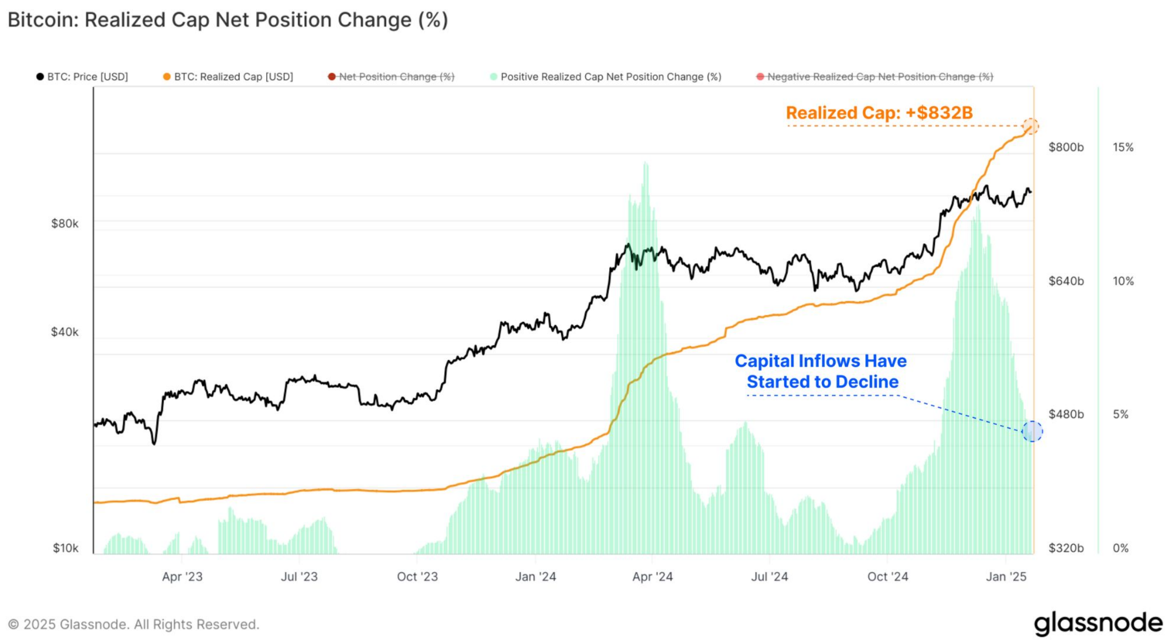

Figure 5. Bitcoin Realised Capitalisation And Total Capital Inflows. (Source: Glassnode)

The Realized Cap, which is currently at an all-time high of $832 billion, continues to grow at a rate of $38.6 billion per month. This growth, although positive, signals that the market is beginning to stabilise as capital inflows level off and profit-taking decelerates. With sell-side pressure diminishing, the market may find itself in a more neutral position, requiring fewer fresh capital flows to maintain the current price levels.

GENERAL MACRO UPDATE

Labour Dynamics in a Changing Economy

The number of Americans filing new applications for unemployment benefits rose marginally last week, suggesting no significant deterioration in labour market conditions and reinforcing expectations that the Federal Reserve will not cut interest rates this week.

Though layoffs are still low, new opportunities for workers who lose their jobs are dwindling as employers remain cautious about increasing headcount. The Labor Department's Unemployment Insurance Weekly Claims report from Thursday, January 23rd, showed joblessness rising to its highest level in just over three years.

Initial claims for state unemployment benefits increased 6,000 to a seasonally adjusted 223,000 for the week ended January 18th. The consensus forecast was 221,000 claims for the latest week. Claims increased because of the wildfire in Los Angeles, with unadjusted applications increasing in California, but otherwise falling in most states.

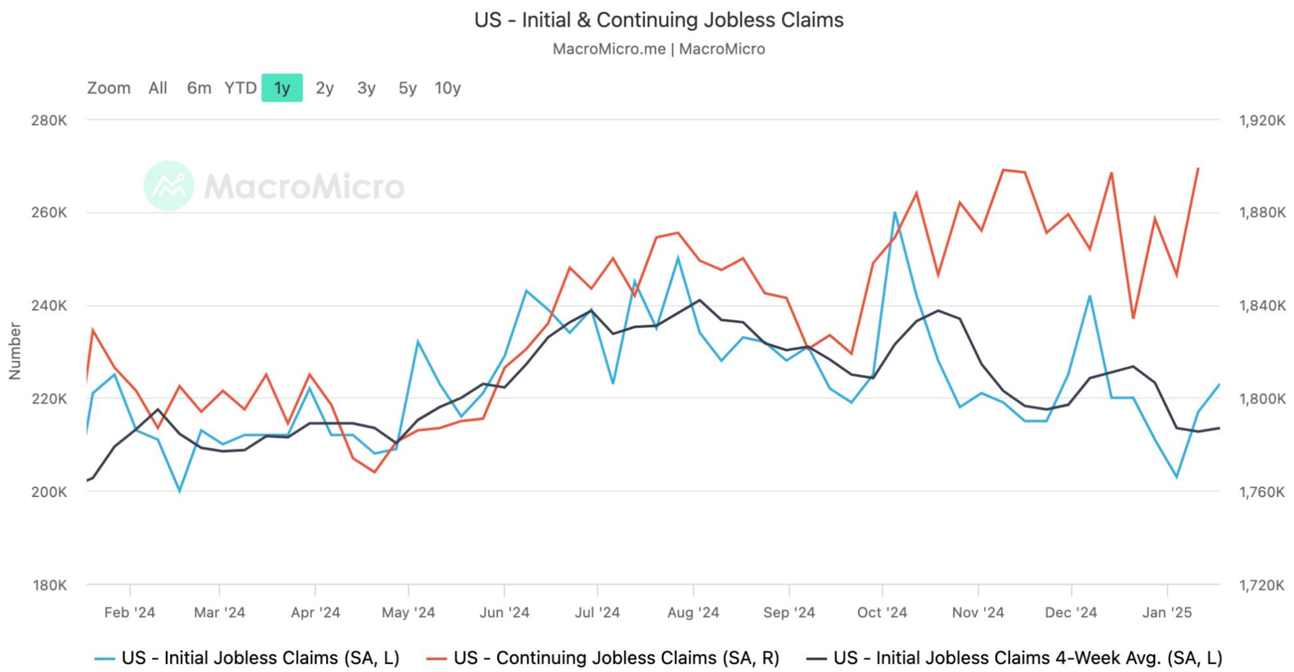

Figure 6. US Initial & Continuing Jobless Claims

Continuing claims, despite low layoffs, is consistent with other labour market metrics, such as a low pace of hiring, and shows that it is difficult for those who do lose their jobs to find new work.

Labour market resilience was among the factors that prompted the Fed last month to dial back its projected interest rate cuts for this year to only two from the four it estimated in September when it launched its policy easing cycle.

Tighter immigration policies by President Donald Trump's new administration and a labour market nearing full employment present new challenges. A restricted labour supply could lower unemployment rates and upward wage pressure. In such scenarios, employers may pass higher labour costs onto consumers, potentially triggering a wage-price spiral—a cycle where rising wages fuel inflation, leading to further wage increases.

With inflationary risks heightened due to tighter immigration and mass deportation, the Federal Reserve may respond by raising interest rates to cool demand. However, this could slow job creation and dampen economic growth, underscoring the delicate balance policymakers must maintain.

US Consumer Sentiment Declines Amid Economic Uncertainty

Final Results for January 2025

	Jan 2025	Dec 2024	Jan 2024	M-M Change	Y-Y Change
Index of Consumer Sentiment	**71.1**	74.0	79.0	-3.9%	-10.0%
Current Economic Conditions	**74.0**	75.1	81.9	-1.5%	-9.6%
Index of Consumer Expectations	**69.3**	73.3	77.1	-5.5%	-10.1%

Figure 7. US Consumer Sentiment (University of Michigan)

US consumer sentiment took a downturn in January, breaking a six-month streak of consistent increases. Concerns over potential job losses and the prospect of rising prices, fuelled by expectations of higher tariffs under President Donald Trump's administration, were key contributors to this decline.

Figure 8. University of Michigan Consumer Sentiment

The University of Michigan's Consumer Sentiment Index revealed last Friday, January 24th, a drop to 71.1 for the month, down from a preliminary estimate of 73.2 and December's figure of 74.0. The final data was collected just before President Donald Trump's inauguration for his second presidential term.

The decline in sentiment was reported across diverse demographic groups, including different income levels, wealth brackets, and age categories. Despite reporting stronger incomes this month, concerns about unemployment rose. About 47 percent of consumers foresee higher unemployment in the coming year, the most since the pandemic.

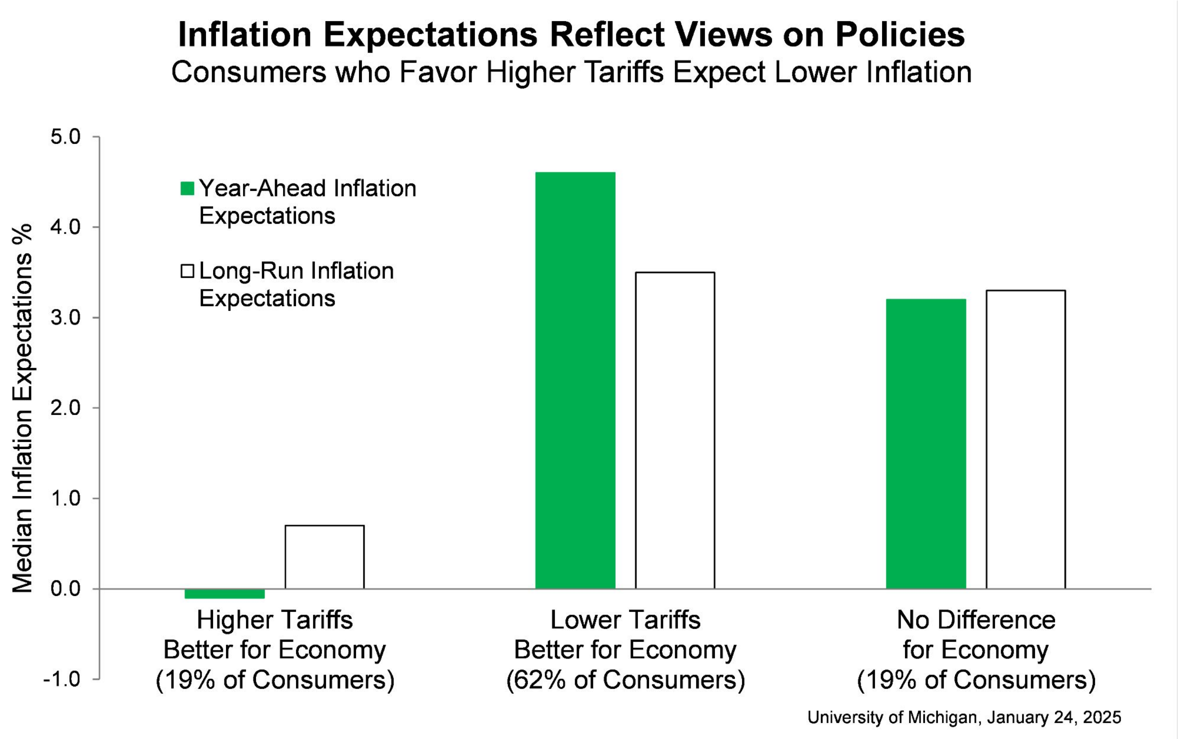

Figure 9. Inflation Expectations Reflect Views on Policies

Inflation expectations over the next year rose to 3.3 percent, an increase from December's 2.8 percent. Expectations have now exceeded the 2.3 to 3.0 percent range observed in the two years preceding the COVID-19 pandemic. Long-run inflation expectations were at 3.2 percent, revised down from a preliminary reading of 3.3 percent and higher than three percent in December. Concerns over the future trajectory of inflation were visible throughout the interviews and were tied to beliefs about anticipated policies like tariffs.

US Economic Activity Moderates

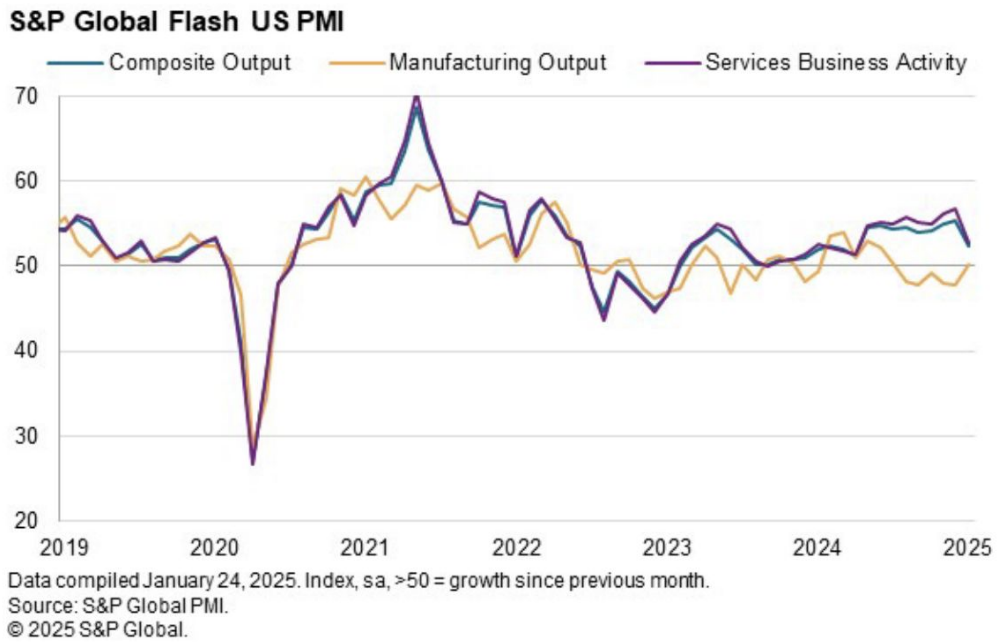

Figure 10. Advanced Monthly Sales, Retail (Source: US Census Bureau

The latest indicators of US economic activity reveal a continued expansion, albeit slower, with inflationary pressures casting a shadow over the optimistic outlook. While business leaders remain confident about the year ahead, concerns over rising costs and potential policy impacts have tempered enthusiasm.

According to S&P Global's flash US Composite PMI (Purchasing Managers' Index) Report —which monitors manufacturing and services— the Output Index dropped to 52.4 in January, marking its lowest level since April. This decline follows December's reading of 55.4, indicating that growth is slowing. The services sector primarily drove the slowdown, though manufacturing showed its first expansion in seven months, driven by expectations of regulatory easing and tax reductions under President Donald Trump's administration.

However, uncertainties surrounding potential tariffs, supply chain disruptions, and inflation risks remain significant. Businesses expressed concerns about how trade and immigration policies could affect operations and pricing strategies. Trump, inaugurated for his second term last Monday, has vowed to implement broad import tariffs, cut taxes, and address illegal immigration, adding to the mix of optimism and apprehension.

Inflationary trends intensified in January. The rate of inflation for average selling prices increased for two successive months.

While inflation fears and employment uncertainties have shaken consumer sentiment, the PMI figures underscore an ongoing but moderated economic expansion, with inflationary pressures becoming a critical focus for businesses. Together, these trends signal a mixed yet cautiously optimistic outlook for the US economy under evolving conditions.

BoJ Raises Rates to Highest Level in 17 Years

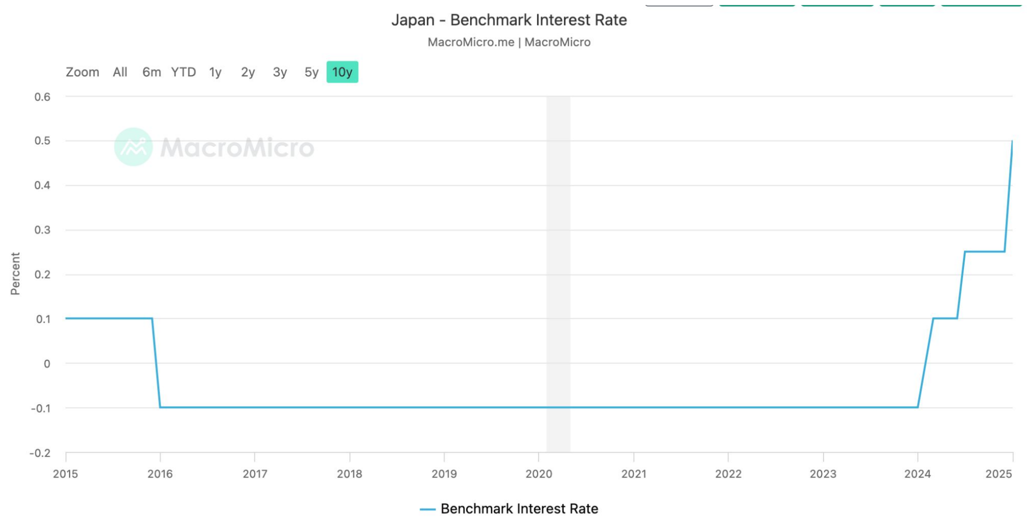

Figure 11. Bank of Japan's Benchmark Interest Rate

Last Friday, January 24th, the Bank of Japan (BoJ) raised its short-term policy interest rate by 25 basis points (bps), to 0.5 percent—its highest level since the 2008 global financial crisis. This significant move came with an upward revision of its inflation forecast, signalling confidence in stable inflation around its 2 percent target, driven by rising wages.

The hike marks the BoJ's first since July 2024 and aligns with market expectations, resulting in minimal turbulence across global financial markets. Bitcoin and US equity indices exhibited resilience, with Bitcoin trading above $106,000 and US stock indices maintaining positions near record highs, poised for a second consecutive week of gains.

The measured market response contrasts sharply with the market chaos following the BoJ's unexpected rate hike last July. That move saw Bitcoin's price drop sharply from $66,000 to $55,000 within a week as traders unwound yen carry trades to adjust to rising borrowing costs. The sell-off also reverberated through global equity markets, amplifying the fallout. (The yen carry trade sees investors borrow in yen to trade other assets taking advantage of low Japanese borrowing costs).

The subdued market reaction this time reflects both improved preparedness among investors and a gradual policy approach by the BoJ. This rate hike was likely expected and already priced into markets. Nevertheless, Japan still offers the lowest interest rate among industrialised economies and the gap in particular between rates in Japan and the US remains attractive for the ongoing yen carry trade.

Bitcoin's stability at $105,000- $106,000 following news of the interest rate increase underscores growing confidence in the digital asset market, supported by expectations of a favourable regulatory environment under the Trump administration.

NEWS FROM THE CRYPTO-SPHERE

Wave of ETF Filings Sparks Optimism in the Crypto Industry

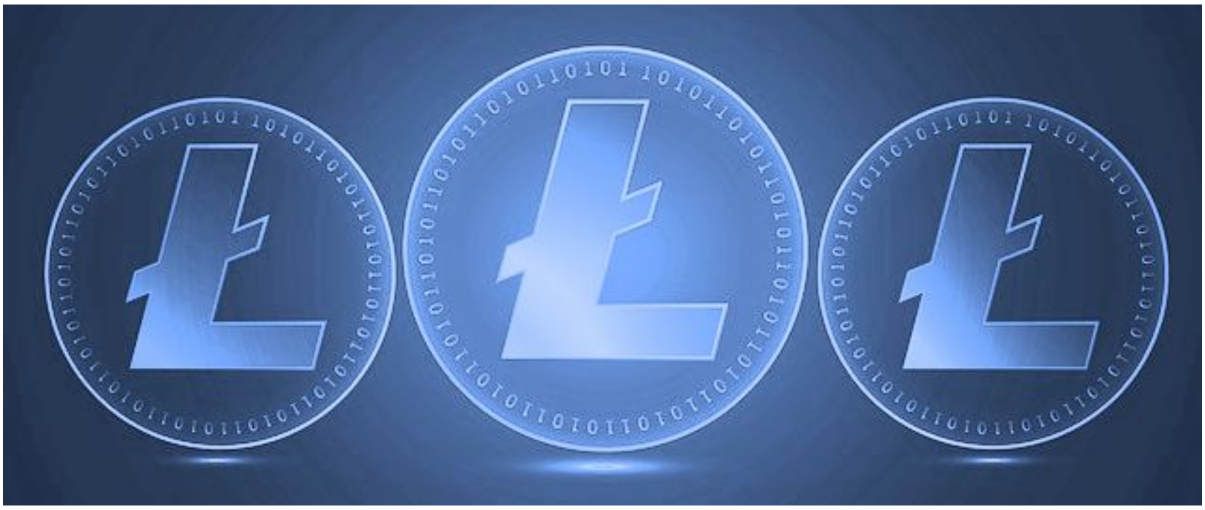

Figure 12. Wave of Litecoin ETF Filings Sparks Optimism in the Crypto Industry

- **Multiple spot cryptocurrency ETF applications were submitted on January 24, including proposals for Litecoin, XRP, and Solana**
- **Leadership changes in the US, including Gary Gensler's departure as SEC Chair and President Trump's pro-crypto administration, have raised expectations for a more favourable regulatory environment for cryptocurrencies**

Last Friday, January 24th, multiple spot cryptocurrency exchange-traded fund (ETF) applications were submitted to track prices in Litecoin. Among the most notable filings were CoinShares' proposal for the CoinShares Litecoin ETF as well as a Grayscale Litecoin Trust from Grayscale. CoinShares also filed for a CoinShares XRP ETF, and filings were also made for a Grayscale Solana Trust.

These filings came shortly after the resignation of US Securities and Exchange Commission Chairman Gary Gensler, which occurred on the same day that President Donald Trump was officially sworn in. Trump's appointment of Paul Atkins, a crypto-friendly former regulator, to lead the SEC has reinforced expectations of more crypto friendly policies under the new administration.

Last year, the SEC approved spot Bitcoin and Ethereum ETFs, marking a pivotal development for institutional investment in cryptocurrencies. The recent wave of filings suggests a growing appetite among fund managers to expand this trend to other cryptocurrencies, as seen with the Litecoin, XRP, and Solana filings.

If approved, these ETFs could attract significant institutional capital and enhance liquidity in the crypto market.

US House Committee Investigates Crypto Industry Debanking Claims

JAMES COMER, KENTUCKY
CHAIRMAN

ONE HUNDRED NINETEENTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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MINORITY (202) 225-5051

https://oversight.house.gov

GERALD E. CONNOLLY, VIRGINIA
RANKING MINORITY MEMBER

Figure 13. US House Committee Launches Investigation Into Crypto Industry Debanking Claims

- **The US House Oversight Committee launched an investigation on January 24, 2025, into allegations of debanking targeting the cryptocurrency industry. It is investigating claims of unfair practices by financial institutions and government regulators against crypto-linked individuals and entities**

The US House Committee on Oversight and Government Reform, led by Republican lawmakers, announced an investigation into allegations that individuals and entities tied to the cryptocurrency industry have been unfairly debanked. In a letter dated January 24, Committee Chair James Comer addressed six crypto industry leaders, stating the inquiry would also examine claims that financial institutions or government representatives targeted individuals for their connections to digital assets.

The investigation will draw on statements from prominent industry figures, including Uniswap Labs founder Hayden Adams, Coinbase CEO Brian Armstrong, Kraken founder Jesse Powell, and Lightspark CEO David Marcus. The Blockchain Association and other industry leaders have been asked to provide information to assist in this effort. Comer emphasised the need to protect entrepreneurs from unfair targeting and ensure all Americans can access US markets without fear of undue interference by regulators or financial institutions.

Meanwhile, Democratic lawmakers on the committee have called for a separate investigation into former President Donald Trump's potential conflicts of interest following the launch of his $TRUMP memecoin on January 17th, citing national security concerns related to possible foreign financial ties.

This investigation into debanking practices marks one of the Republicans’ early policy initiatives since the 119th US Congress began on January 3rd. Although no related hearings have been scheduled yet, the inquiry aims to address concerns over politically motivated actions within the financial sector.

For the crypto industry, the inquiry may pave the way for stronger protections and clearer regulations, fostering a more inclusive and equitable financial environment.

FINTRAC Alerts on Cryptocurrency Laundering of Synthetic Opioid Proceeds

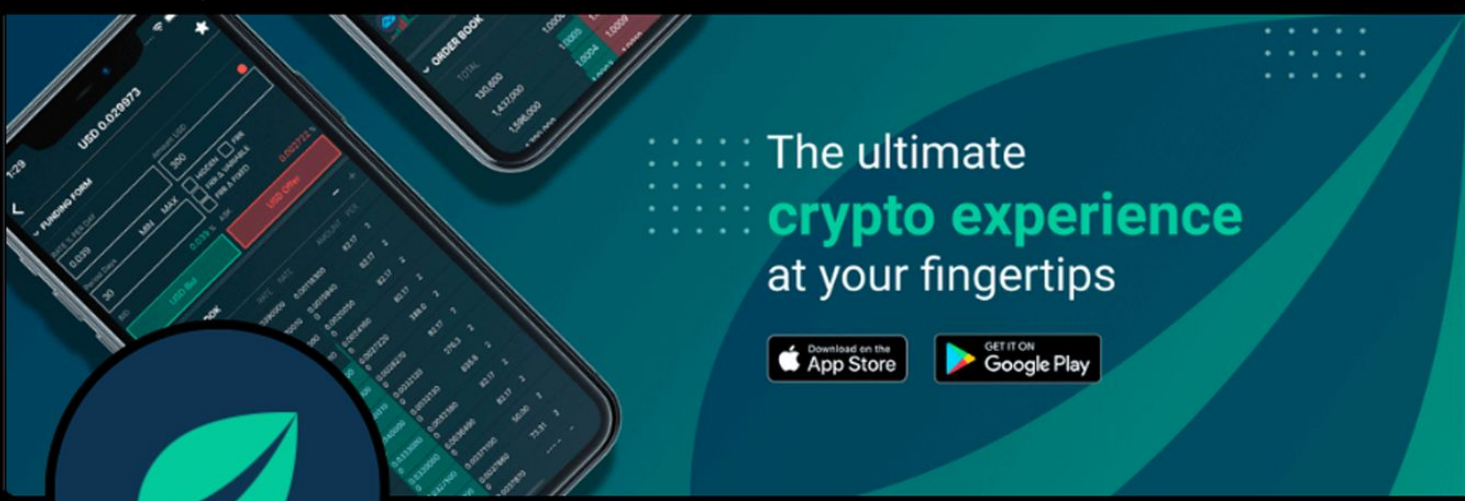
Figure 13. FINTRAC Issues Alert on Cryptocurrency's Role in Laundering Synthetic Opioid Proceeds

- **FINTRAC released an updated alert highlighting an increasing use of cryptocurrencies to launder proceeds from synthetic opioid trafficking, identifying key red flags like crypto-to-fiat conversions and the use of multiple wallets to obscure transactions**
- **The alert aims to strengthen anti-money laundering efforts, urging vigilance within the crypto sector to combat illicit activities and enhance regulatory compliance**

The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) released a new alert addressing the growing usage of cryptocurrencies in laundering proceeds from synthetic fentanyl and opioid trafficking. In an updated alert issued last Thursday, January 23rd, titled "Laundering the Proceeds of Illicit Synthetic Opioids," it builds on an initial 2018 report but incorporates new risk factors based on recent financial intelligence, transaction data, and law enforcement reports.

The alert outlined key red flags for law enforcement and financial institutions, including large crypto-to-fiat conversions via newly created accounts, the use of multiple virtual wallets to obscure transaction origins, and international fund transfers. FINTRAC also urged vigilance for deposits made to cryptocurrency exchanges from accounts associated with high-risk regions or flagged for suspicious activity.

FINTRAC's advisory emphasises the need for more substantial anti-money laundering measures and heightened scrutiny within the cryptocurrency sector. By highlighting specific risks, the alert aims to equip law enforcement and financial institutions with tools to combat illicit activities, reinforcing the importance of transparency and regulatory compliance to maintain trust and legitimacy in the crypto industry.



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