2023 ~ Year in Review

K33 RESEARCH

2023 – A healthy recovery

A solid year of healthy gains, improved ETF prospects, and stabilizing macro conditions sets a strong foundation for 2024.

Throughout 2023, rallies in BTC have either been initiated by structural marked conditions causing squeezes or increased institutional activity. Retail presence, on the other hand, has been apathetic and low. These factors have contributed to modest BTC volatility throughout the year and shallow trading volumes. The orderly journey higher has not attracted mass attention, with traditional media coverage of the crypto market laying low, further softening retail presence in the market. At a certain point in time, this is due to change. Higher prices attract attention, attracting higher prices, attracting more eyes. This vicious cycle of greed is likely to commence, regardless of the cost of living crisis, and could very well hit us in 2024.

Sales pressure in 2023 has been enormously subdued. Everyone who wanted to sell, needed to sell, or were forced to sell, sold in 2022. Likewise, buy-side pressure has been moderate at best. In an environment where "no one" sells and hardly anyone buys one subgroup generates a drift and changes momentum - the dollar cost averagers, the fanatics. Consistent accumulation, regardless of price, creates a drift. These investors typically accumulate BTC in drawdowns and move funds to private wallets, in which the funds build over time. As prices push higher, a distribution phase ignites. These buyers start selling once prices near former all-time highs and beyond. We are not in such an environment yet; 70% of the BTC supply remains idle, and accumulation remains a key theme. This behavioral pattern from bitcoin owners creates fruitful conditions for the year ahead.

Past periods have been deemed the era of the institutionalization of Bitcoin. However, none have been anywhere near resembling 2023's changes. 2020-2021 was the "professionalization" era, inheriting aspects from the past Wild West era with soft compliance and high leverage. Fund managers and endowments temporarily sought BTC due to correct assumptions of a changing inflation regime and left once their thesis proved right in 2021. In 2023, the who's who of asset managers push toward Bitcoin to offer ETFs. Banks across the globe obtained licenses for digital asset trading or custody.

Traditional exchanges and brokerages launched crypto trading platforms, emulating the CCP models of traditional markets. Regulatory frameworks in the E.U. and U.K., in addition to the SEC's litigation spree against crypto companies, have constrained the wild west.

Institutions care about one thing: profits. Applying for licenses, building digital asset infrastructure, or filing for ETFs is costly. It follows that these costly decisions are carried out as the involved institutions are aligned in their thesis that crypto is here to stay and that the costs associated with 2023's processes will bear fruits as products go live. Apart from the immediate to medium-term price effects of institutional launches, we should appreciate the signaling impact of BlackRock, Fidelity, Deutsche Bank, and Citadel, aiming to provide Bitcoin infrastructure and investment vehicles. These are all highly pragmatic institutions seeking to service client needs in industries where they expect long-term traction. This signals longevity, giving solid reasons to be optimistic about Bitcoin's price path as we enter 2024.

Last year, I complained that there were no adults in the room. From here on out, I might start complaining about the exact opposite. It's important to dwell on the movement that caused Bitcoin and, later, the vibrant crypto ecosystem. Bitcoin is a bearer asset that you can send to anyone, anywhere in the world, which also happens to be scarce, making it an appealing investment. It is the perfect recipe for a giant casino - proper freedom money!

Consistent regulatory crackdowns throughout 2023 and new frameworks naturally lead the industry to adjust, gravitating more towards traditional finance requirements. Compliance costs balloon, enhancing barriers to entry for new infrastructure startups. The recent crackdowns also illuminate the U.S. reach over crypto and, to some extent, cement the crypto industry to mirror U.S. interests. This has implications; everyday people, unfortunate in their birth lottery, live under draconian and sanctioned regimes. Sanctions and compliance limit their access to Bitcoin, a form of collective punishment, restricting the OG Bitcoin ethos as censorship/resistant money.

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The headlines that defined 2023

Q1
Banking crisis, regulatory sharpening

03/01/2023	Gemini Takes Spat With DCG Public in Open Letter
07/01/2023	DCG Faces US Investigation Over Internal Transfers
18/01/2023	Bitzlato founder arrested for allegedly processing $700 million in illicit funds
19/01/2023	DCGs Genesis Global files for bankruptcy protection
26/01/2023	SEC bats down ARK's and 21Shares' second bitcoin ETF proposal
06/02/2023	Crypto Exchange Binance to Suspend US Dollar Bank Transfers
09/02/2023	Kraken to Shut US Staking Service, Pay $30M Fine in SEC Settlement
13/02/2023	The NYDFS ordered Paxos to stop issuing Binance USD.
16/02/2023	SEC Sues Terraform Labs
20/02/2023	Hong Kong plans to lift ban on retail crypto trading
07/03/2023	Oral hearing, Grayscale vs. SEC
08/03/2023	Silvergate to Shut Down
09/03/2023	U.S. Government's $1B Bitcoin Transfer Spooks Investors
10/03/2023	Silicon Valley Bank shut down by US banking regulators
12/03/2023	Federal Reserve Board announces it BTFP, aiding with liquidity to meet the needs of depositors
13/03/2023	Biden Assures Americans: 'Our Banking System Is Safe'
22/03/2023	Tron Founder Justin Sun Sued by U.S. SEC
23/03/2023	Do Kwon Arrested in Montenegro
22/03/2023	U.S. SEC threatens to sue Coinbase
27/03/2023	CFTC sues Binance and its CEO 'CZ' for allegedly violating US laws
31/03/2023	U.S. Government Sold $216M of Seized Silk Road Bitcoin This Month

Q2
SEC lawsuits, BlackRock's ETF filing

07/04/2023	Mt Gox repayment window has opened, but repayments 'will take some time'
13/04/2022	London Stock Exchange Group Unit to Clear BTC Index Futures, Options
13/04/2022	Ethereum's Completes Shanghai Upgrade, Staking withdrawals live
17/04/2023	Bittrex sued by SEC
25/04/2023	EU Parliament Passes MiCA
24/04/2023	Coinbase sues the SEC for answer on rule specific to digital assets
02/05/2023	Coinbase launches international perps exchange
04/05/2023	U.S. Court Orders SEC to Respond to Coinbase Allegations Within 10 Days
17/05/2023	Tether Purchase Bitcoin with Realized Net Operating Profits
18/05/2023	A Bitcoin-Spot ETF Is Unlikely in US in the Near Future, VanEck CEO Says
23/05/2023	Hong Kong Lets Retail Investors Trade Crypto in New Rules
06/06/2023	SEC sues Coinbase for breaking US securities rules
06/06/2023	SEC Sues Crypto Exchange Binance and CEO Changpeng Zhao, Alleging Multiple Securities Violations
16/06/2023	BlackRock files for bitcoin ETF in push into crypto
20/06/2023	Crypto Exchange Backed by Citadel Securities, Fidelity, Schwab Starts Operations
20/06/2023	Deutsche Bank Applies for Digital Asset License
22/06/2023	Credit Agricole's CACEIS registers in France as crypto custody services provider
26/06/2023	HSBC Hong Kong now lets customers easily trade bitcoin and ether ETFs

Q3
Grayscale court win

03/07/2023	Nasdaq refiles for BlackRock spot bitcoin ETF, names Coinbase as surveillance partner
07/07/2023	Gemini sues Digital Currency Group, Barry Silbert over alleged fraud
13/07/2023	Ripple scores partial win in SEC court fight over XRP
14/07/2023	SEC acknowledges bitcoin ETF filings from BlackRock, Bitwise and others
13/07/2023	Celsius Network's Alex Mashinsky Is Arrested as SEC, CFTC, FTC Sue Bankrupt Crypto Lender
19/07/2023	Nasdaq Halts Plan for Crypto Custody Service Due to U.S. Regulatory Conditions
31/07/2023	SEC sues Richard Heart of Hex and Pulsechain for allegedly selling unregistered securities
02/08/2023	Ethereum futures become latest ETF craze as applications tumble in
07/08/2023	PayPal launches stablecoin on Ethereum, citing 'shift toward digital currencies'
23/08/2023	Tornado Cash Devs Charged With Helping Hackers Launder $1B
29/08/2023	Grayscale's Court Win Over SEC Lifts Hopes for Bitcoin ETF Approval
03/09/2023	Spot bitcoin ETF approval is 'inevitable,' says former SEC chairman
06/09/2023	21Shares and Cathie Wood's ARK File for First US Spot-Ether ETF
07/09/2023	CFTC settles charges against DeFi protocols Opyn, ZeroEx and Deridex
14/09/2023	Deutsche Bank to Delve Into Crypto Custody, Tokenization With Taurus
18/09/2023	Citi expands digital asset services with bond custody, tokenized deposits
25/09/2023	MicroStrategy buys 5,445 additional bitcoins for $147 million

Q4
Binance plea deal, ETF hype

02/10/2023	Futures-based ETH ETFs launches in the U.S.
11/10/2022	Crypto Exchange FTX US Under Investigation by Texas Regulator Over Securities Allegations
13/10/2023	SEC does not plan to appeal court decision on Grayscale bitcoin ETF
16/10/2023	BlackRock's Larry Fink says bitcoin rumor rally shows 'pent up interest in crypto'
19/10/2023	Gemini, Genesis, DCG Sued by New York AG for Allegedly Defrauding Investors of $1B
16/10/2023	Bitcoin Jumped to $30k on a False CoinTelegraph Tweet
23/10/2023	US Court confirms Grayscale ruling, says SEC must re-review bid for spot bitcoin ETF
30/10/2023	Thai banking giant KBank acquires Satang exchange to grow crypto business
02/11/2023	Sam Bankman-Fried Is Found Guilty of 7 Counts of Fraud and Conspiracy
09/11/2023	Nasdaq files for BlackRock's proposed iShares Ethereum Trust ETF
13/11/2023	Cboe is launching margined bitcoin and ether futures in January
20/11/2023	SEC files new lawsuit against Kraken for allegedly operating online trading platform without registering
21/11/2023	Justice Department announces $4.3bn settlement with Binance, CZ steps down as part of plea deal with DOJ

Summary: Solid upside, soft volumes

2023 was a solid year. Bitcoin has seen YTD gains of 163%, compared to Nasdaq's 44%, S&P 500's 18% and gold's 12%. However, the growth throughout the year has been peculiar – it has occurred in a low-volatility environment, with shallow trading volumes and a low degree of retail participation.

Price fluctuations typically originated from news in 2023. Massive volatility emerged from the U.S. banking crisis, at first pushing markets lower, partly due to uncertainty regarding Circle's $3bn deposit stuck at Silicon Valley Bank. After the initial scare, prices surged as Bitcoin's bearer asset properties grew traction amid bank deposit uncertainty fueled with new bank funding programs from the FED. Then, since the summer, ETF prospects have been the leading force pushing prices higher, with surges in volatility often stemming from ETF-related headlines.

Throughout the year, retail participation was low. The year saw declining website traffic to crypto exchanges and retail volumes pushing to multi-year lows on Coinbase. We ascribe the reduced activity levels to the challenging macro backdrop, with higher costs of living and a subdued ability to invest in crypto. Nonetheless, we note that Bitcoin's correlation to equities and gold has pushed to zero throughout the year. The declining correlations are driven by a combination of positive idiosyncratic news related to bitcoin and long-term holders accumulating throughout the year.

2023 performance
+163%

Least volatile year
since 2016

Retail volume
3-year low

Summary: Altcoins underperforming vs. BTC

Ether underperformed significantly versus BTC in 2023, while seeing 89% gains in USD. There have been many forces at play leading to this underperformance. First, bitcoin's strength has predominantly been caused by Bitcoin-specific news pushing prices higher. Second, on-chain activity on Ethereum has been shallow throughout the year, leading to reduced demand for gas. Surprisingly, the Ethereum blockchain faced competition from Bitcoin this year, as Ordinals emerged, periodically seeing higher weekly trading volumes than Ethereum NFTs.

Ether was far from alone in underperforming BTC in 2023. Only 24% of the coins within the top 50 outperformed BTC. A few outperformed BTC significantly, namely the most pressured coins from 2022's FTX collapse, with Solana shining as the strongest performer with a massive YTD return of 567% as of December 7. While some yearly performances have been strong, several of the largest altcoins still trade at a drawdown of 70% or more from their all-time highs, and we anticipate that multiple altcoins will never see new all-time highs again.

CME became the new top dog in BTC derivatives. Within derivatives, 2023 has seen CME surge to become the largest derivatives exchange for BTC after pushing new all-time highs in 2023. The former leader, Binance, saw declining activity alongside a murky and challenging regulatory backdrop. In addition to CME's rise in 2023, options saw growing adoption throughout the year, with options OI pushing to all-time highs in a year where options flows primarily have been structured around upside exposure.

2023 performance
+89% vs USD
-26% vs BTC

2023 performance
+567% USD
Drawdown from ATH
-74%

Exchange	Open Interest (1.1.2023)	Open Interest (Dec 11)	Change
Binance	151k BTC	99k BTC	**-34%**
CME	78k BTC	119k BTC	**51%**

Summary: Constructive conditions for bulls as we enter 2024

We predict that BTC will reach new all-time highs by the end of 2024 while also anticipating that the current rally will peak in January alongside ETF launches. Three factors primarily cause our constructive 2024 thesis.

1. **Stubborn holders**
Supply is deeply concentrated in the hands of fanatics. Historically, long-term holders tend to sell and realize profits after prices break past all-time highs.

2. **The halving**
Miners sell their miner rewards. We expect the annual decline in sell-side liquidity of 164,250 BTC to lead to a positive drift in BTC prices.

3. **ETF approvals**
ETFs further simplify access to BTC, in addition to incentivizing Wall Street's most influential asset managers to argue in favor of BTC exposure.

We expect diversification to be one of the core arguments for building BTC exposure, as correlations have trended towards its pre-Covid norm.

2024 prediction
ATH

Long-term holder supply
70%

Halving BTC rewards
164,250 BTC (yearly)

Nasdaq correlation
0.01 (30-day)

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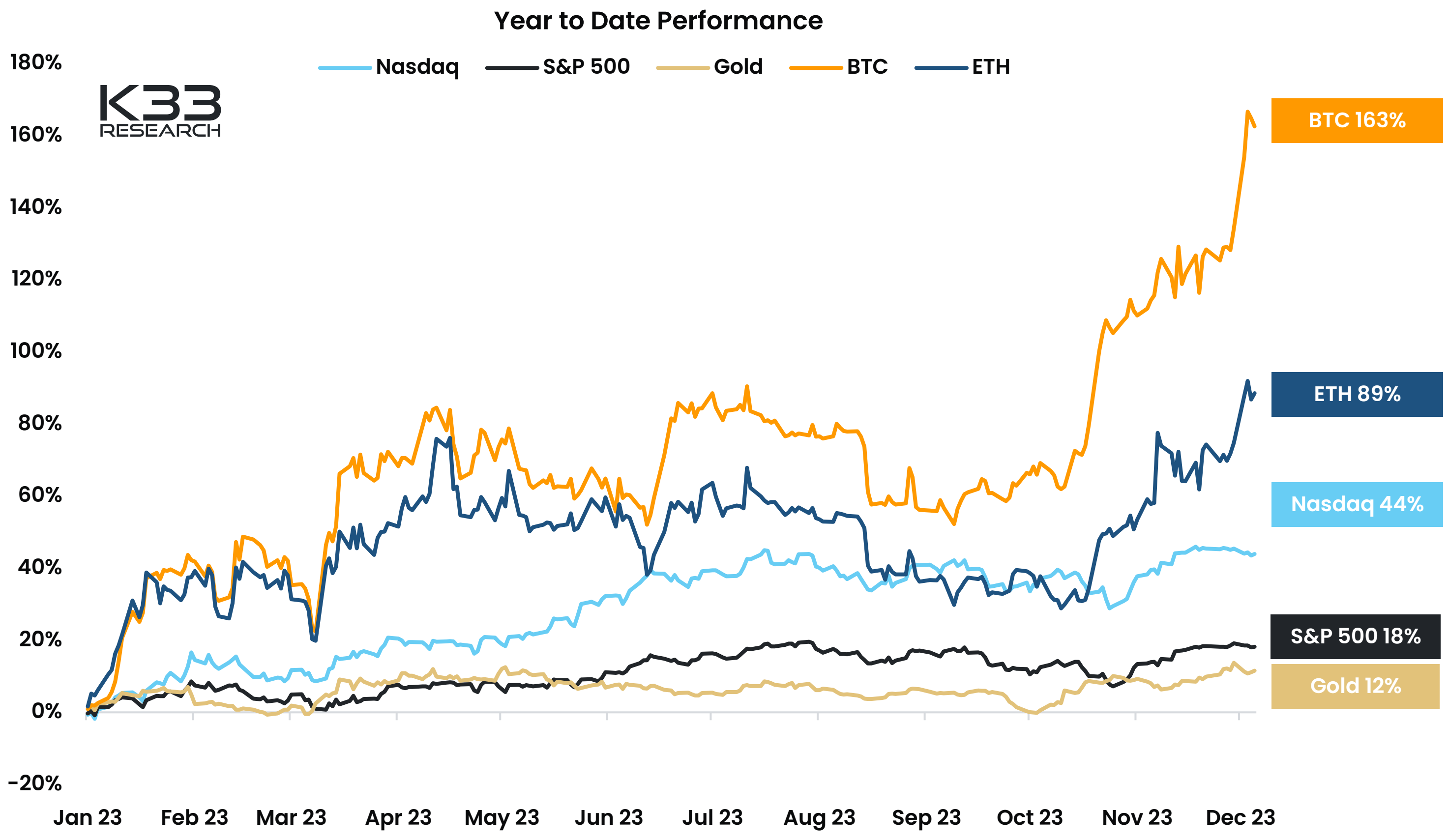
2023

2023: No sellers, some buyers - News pushing markets higher

The great 163% recovery.

- 2023 has, by all accounts, been a very solid year for Bitcoin. Bitcoin has seen YTD gains of 163%, compared to Nasdaq's 44%, S&P 500's 18% and gold's 12%.
- Amidst the great recovery, correlations to the aforementioned assets have plunged toward zero, increasing Bitcoin's attributes as a portfolio diversifier.
- Nonetheless, while the upside has been solid, volatility has been shallow, only comparable to 2016. Retail participation has declined throughout the year and by our measures, remains in apathy despite BTC's stellar October and November.
- It's been a year of liquidity or, rather, lack thereof. The sell side, either willingly or unwillingly, sold off enormous chunks throughout 2022. Once we entered 2023, the sell side reached exhaustion, causing a violent short squeeze pushing markets higher in January.
- The long side has also been subdued. Global savings rates are at pre financial crisis lows, and the market has been prone to trade news throughout the year.
- While regulatory crackdowns have been plentiful, news has generally been favorable throughout the year. Banking turmoil in March highlighted early vulnerabilities in the banking system, initiating the FEDs BTFP program. Promising ETF prospects later pushed us higher.



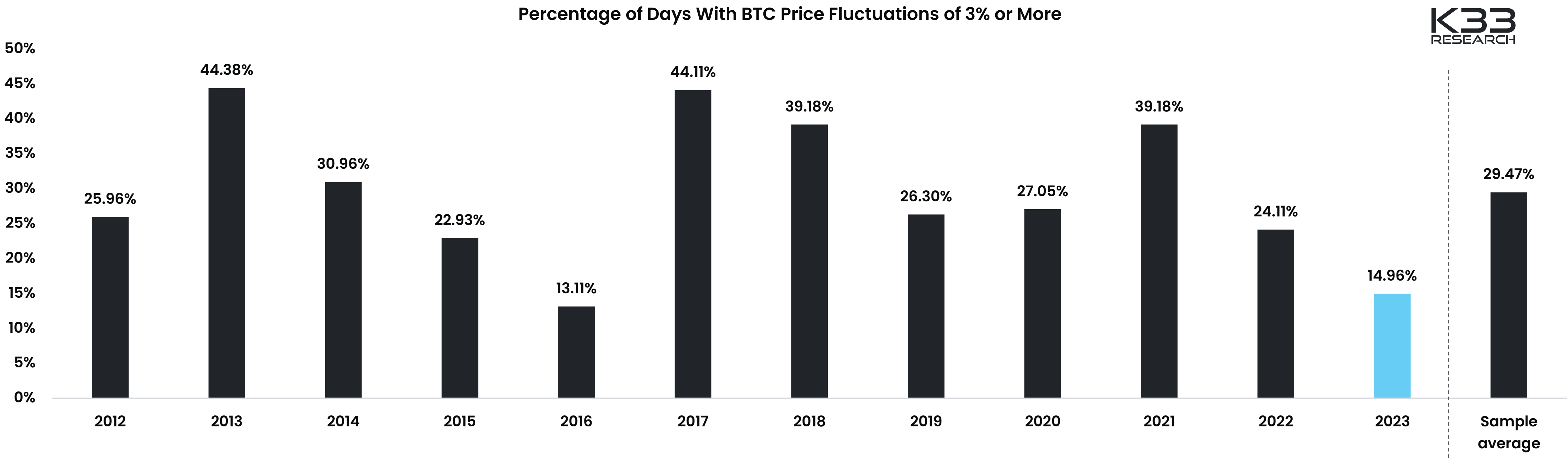
Source: Tradingview

2024 prediction: Bitcoin's current rally to peak mid-January. Momentum to halt, prices to trend lower before ramping higher towards the end of the year, culminating in a new all-time high by year end.

A year of low volatility: Least volatile year since 2016

Low volatility has been a defining theme throughout the year for Bitcoin. Despite its solid gains, Bitcoin spent most of the year consolidating, with gains originating from a few significant bursts higher followed by limited drawdowns.

Less than 15% of BTC's trading days in 2023 saw daily price fluctuations of 3% or more, making 2023 the least volatile year for BTC since 2016 and its second least volatile year ever.



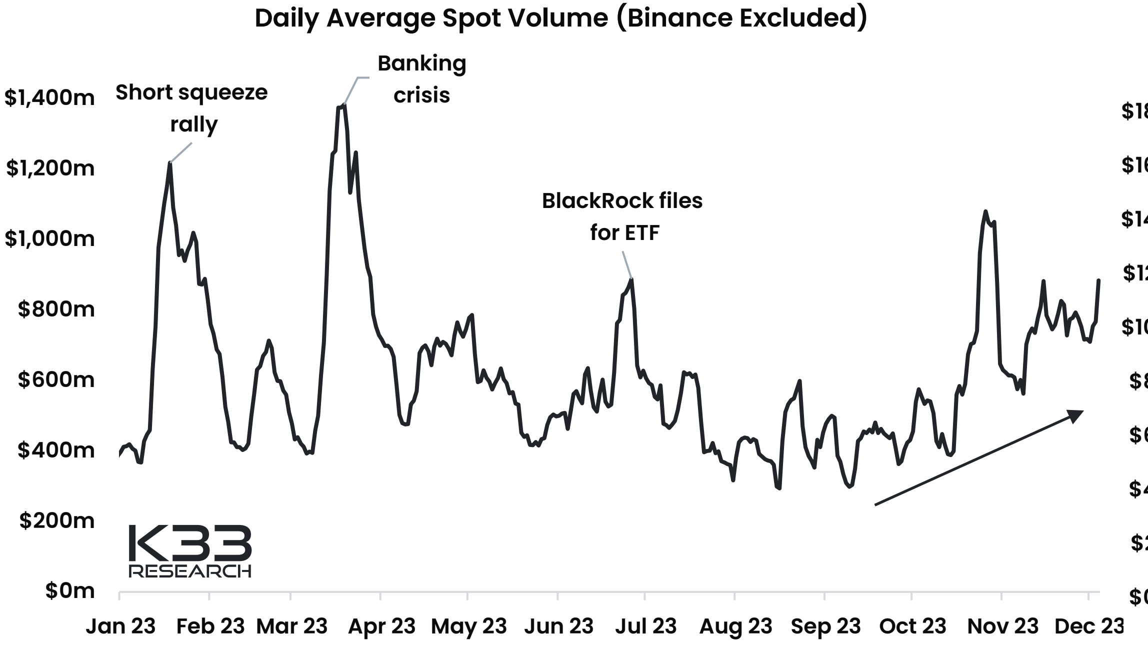
Source: Tradingview

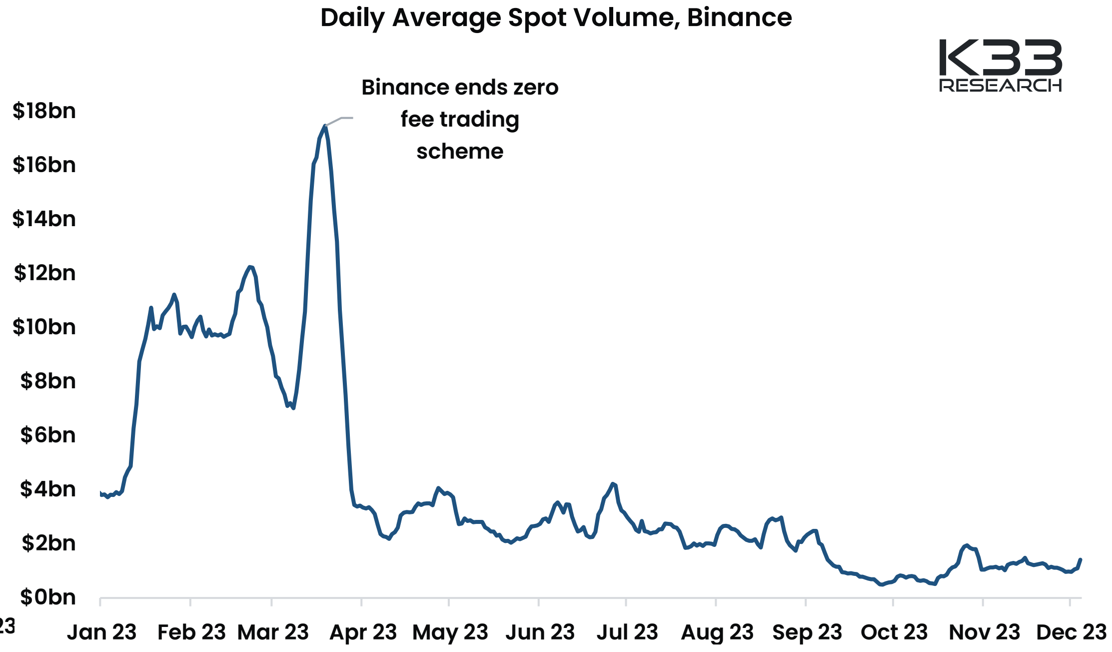
2024 prediction: Volatility will be significantly higher in 2024, with January and April poised to be hectic months due to ETF approvals and the halving.

A year of shallow volumes: Trading activity concentrated to news

Spot volumes in BTC were somewhat muted but erratic throughout the majority of 2023, with spiking trading activity being tightly connected to news or volatility. The first half of 2023 saw particularly volatile trading activity in spot markets, with volumes mostly surging following major news events, such as the brief U.S. banking crisis and BlackRock's ETF filing, or during the short squeeze rally of January. Activity plummeted over the summer, but volumes have since seen a steady uptrend in tandem with growing ETF enthusiasm and increasing demand for BTC exposure, a positive signal as we wrap up the year.

Binance volumes peaked in late March, coinciding with Binance re-introducing trading fees to the most commonly traded BTC pairs.





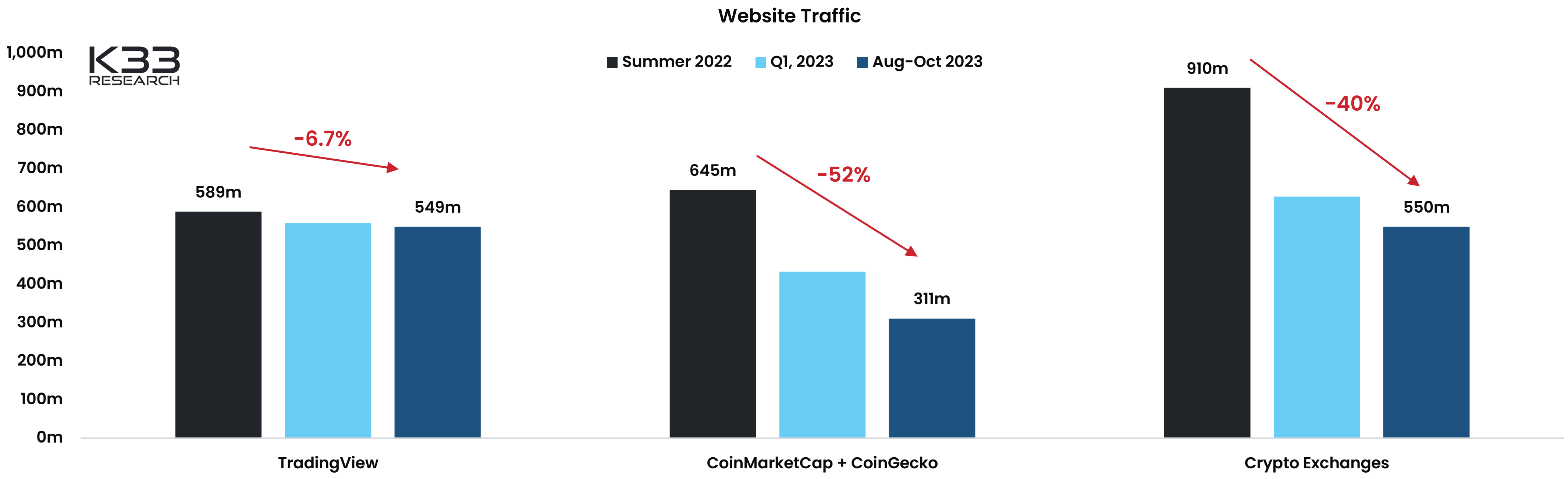
Source: Tradingview, Bitcoinity

2024 prediction: Volumes to push significantly higher in 2024 due to positive narratives related to both ETFs and the halving.

Retail apathy throughout 2023

Retail presence in the crypto market has declined throughout 2023. Website traffic for August to October 2023 is down 52% compared to 90-day data obtained in August 2022; crypto exchange website traffic has also seen a significant decline of 40% compared to last year's summer. The general decline in website traffic seems to be a crypto-specific observation, with charting platform Tradingview seeing a comparatively shallow decline of 6.7%.

Per Coinbase's quarterly reports, Coinbase's three quarter retail trading volume sat at $46bn as of October 2023, representing Coinbase's lowest three quarter retail volume since Q3 2020, down a staggering 88% from its Q4 2021 peak of $462bn. Retail has largely been inactive in the market amidst BTC's 2023 recovery.



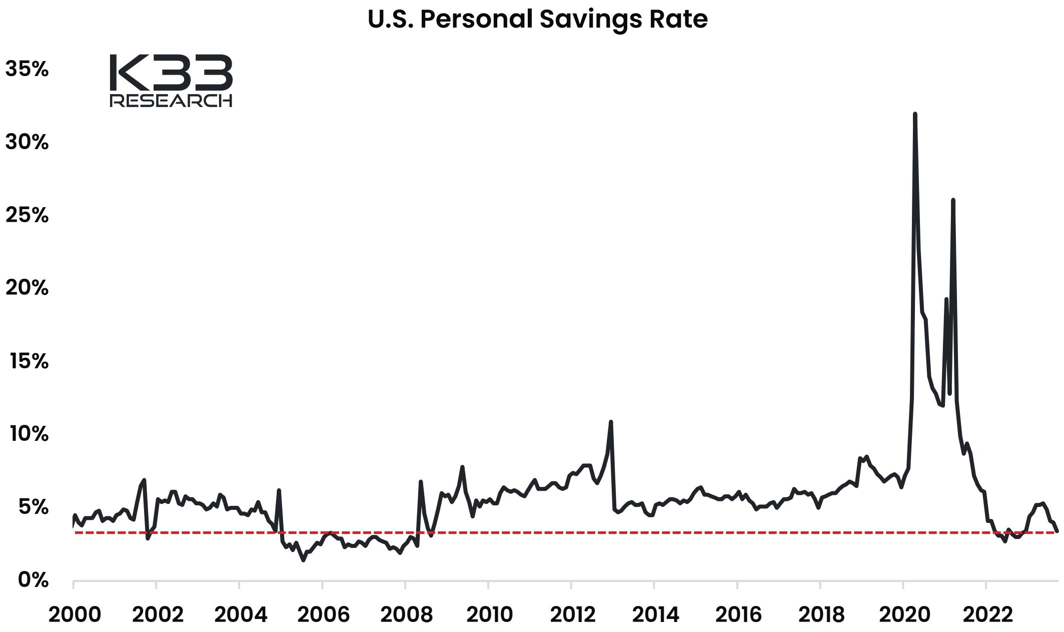
Source: Similarweb

2024 prediction: Retail participation will increase in 2024 due to market strength and increased coverage of crypto in traditional media.

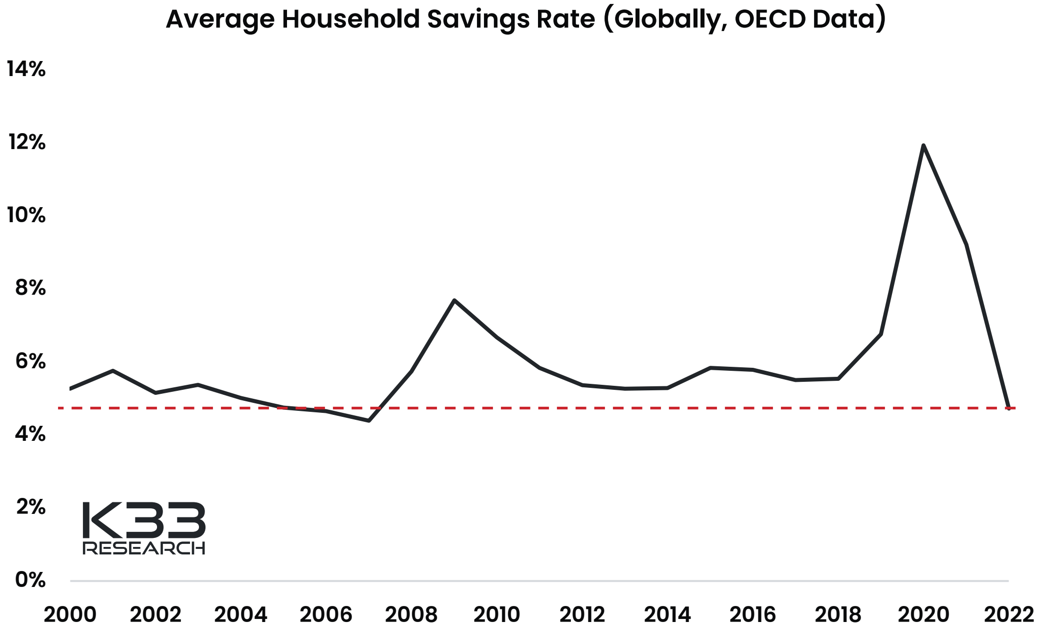
Cost of living crisis: Limiting retail participation

The Covid pandemic triggered an era of unchecked money printing, resulting in unprecedented abundance and a seemingly cost-free capital environment. However, this unleashed inflation, prompting central banks to swiftly alter their strategies by increasing interest rates. For many, this abrupt shift contributed to a "cost of living crisis." The era of easily accessible money came to an end, as rising rates elevated the expense of debt, and inflation heightened the cost of everyday essentials.

This global phenomenon significantly impacted savings rates, evident by both the U.S. personal savings rate, and the savings rate of a 40-nation sample from the OECD, plummeting to their lowest levels since 2007, predating the existence of Bitcoin. The diminished savings rates have naturally constrained the ability of the general public to allocate capital to investments, leading to a substantial reduction in retail participation in crypto markets.



Source: St. Louis Fed



Source: OECD

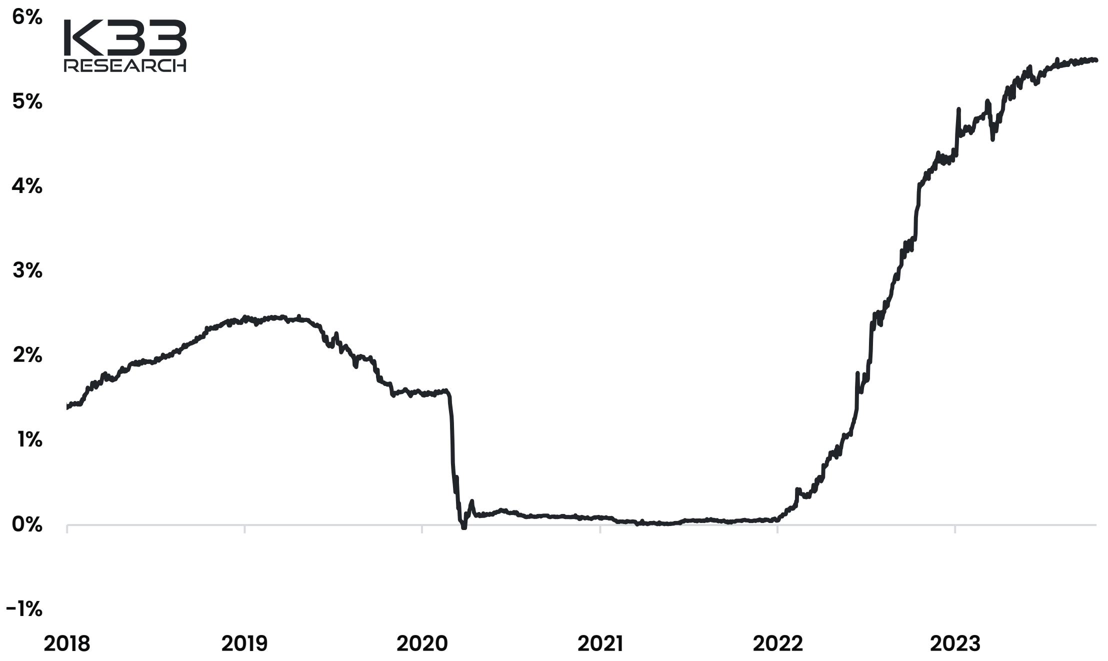
2024 prediction: While increasing, retail participation will be subdued as rates remains high.

Cost of capital: Burdensome for the institutional side of the market

The average Joes and Josephines are not alone in grappling with the challenges posed by escalating interest rates and an elevated cost of capital. The U.S. interest payment to GDP ratio currently sits at 3.5%, the highest level in this millennium. March 2023's banking crisis, caused by duration mismatches, led to a bank run followed by FED intervention. In 2023, we witnessed early shakiness in the financial markets due to the FED's hiking spree. Due to massive debt overhang, interest payments are on a path to becoming the biggest federal outlay in the U.S.

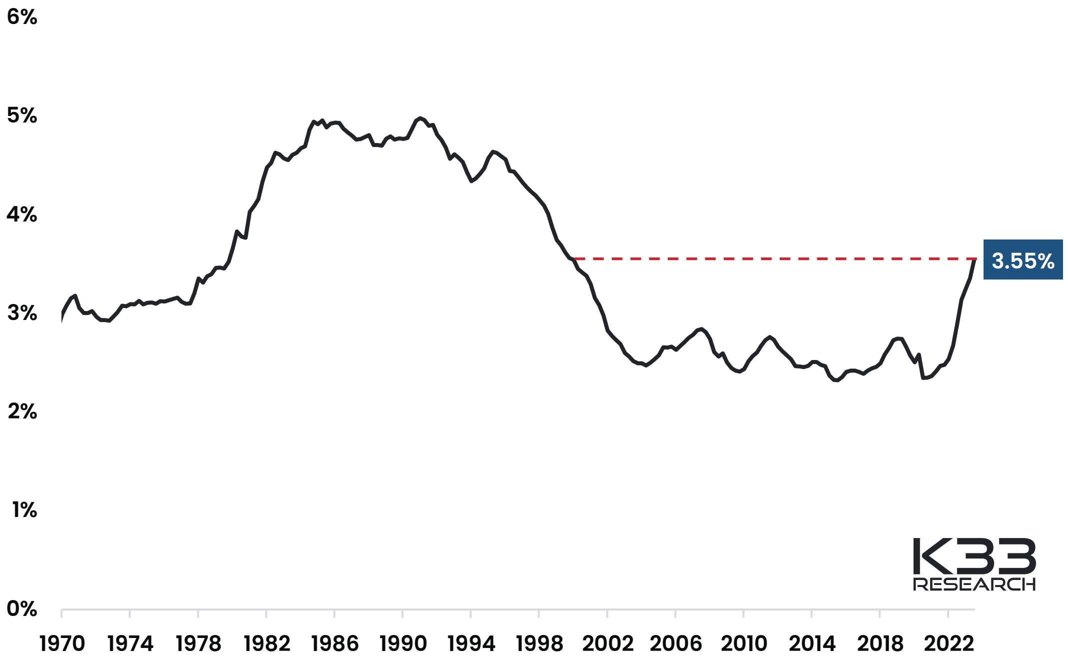
The narrative of higher for longer gradually moderates as CPI trails lower. Consensus is forming that 2024 will see a more dovish FED and multiple rate cuts. This could potentially alleviate some pressure from the cost of capital and living crisis, enhancing investor appetite for bitcoin.

US Treasury, 3 month government bond yield



Source: St. Louis Fed

U.S. Federal government Interest payments to GDP



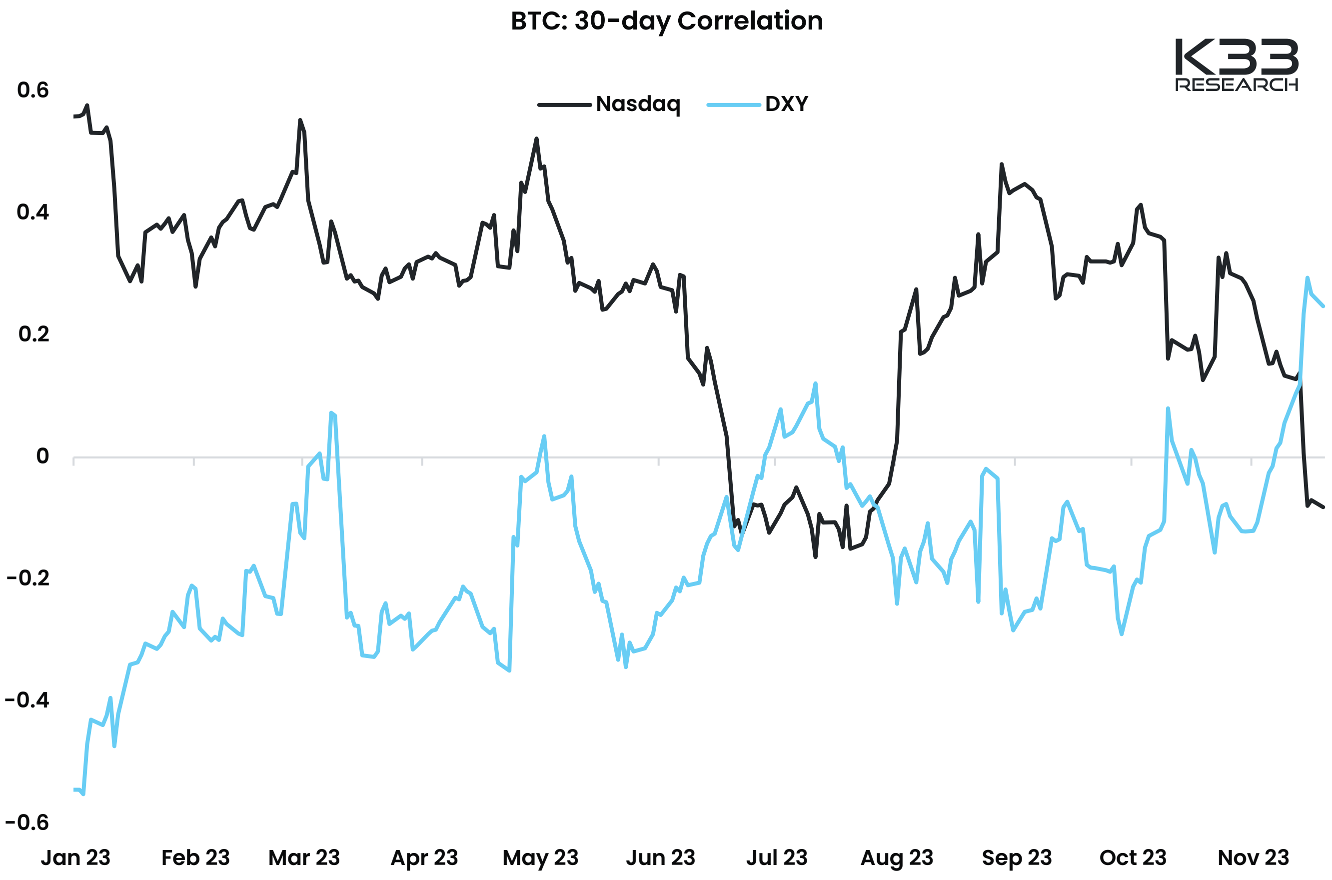
2024 prediction: We expect the Feds target rate to end 2024 below 4%.

Nonetheless, macro has faded towards irrelevancy for bitcoin - again

Bitcoin's correlation to U.S. equities has declined towards 0, increasing the appeal of BTC as a portfolio diversifier.

- Throughout 2023, correlations have fallen. The crypto industry was the fastest to crumble under the hiking cycle and had its clean-up of unsustainable hyper-growth-oriented companies in 2022. The collapse occurred in a near 1-1 correlation with U.S. equities.
- Now, correlations between BTC and equities sit at 0. It makes sense. The clean-up moderated the indirect relationship between BTC and U.S. interest rates. Companies pressured to sell due to higher cost burdens already sold. Bitcoin has no direct relationship to interest rates, but it may indirectly experience correlations due to industry exposure.
- There are no imminent reasons to expect correlations to reappear in 2024. Structurally, Bitcoin and the crypto market remain in a healthy state, and the industry has largely readjusted to changing market dynamics.
- Further, various entities in the crypto economy benefit from the current interest rate regime, particularly Tether and Circle. Their vast reserves carry solid interest rate returns. Tether, by allocating 15% of net operating profits, further alleviates the negative relationship between rates and BTC (slide 28)

2024 prediction: Bitcoin to reign uncorrelated with equities, and remain a quality diversifier



Source: Tradingview

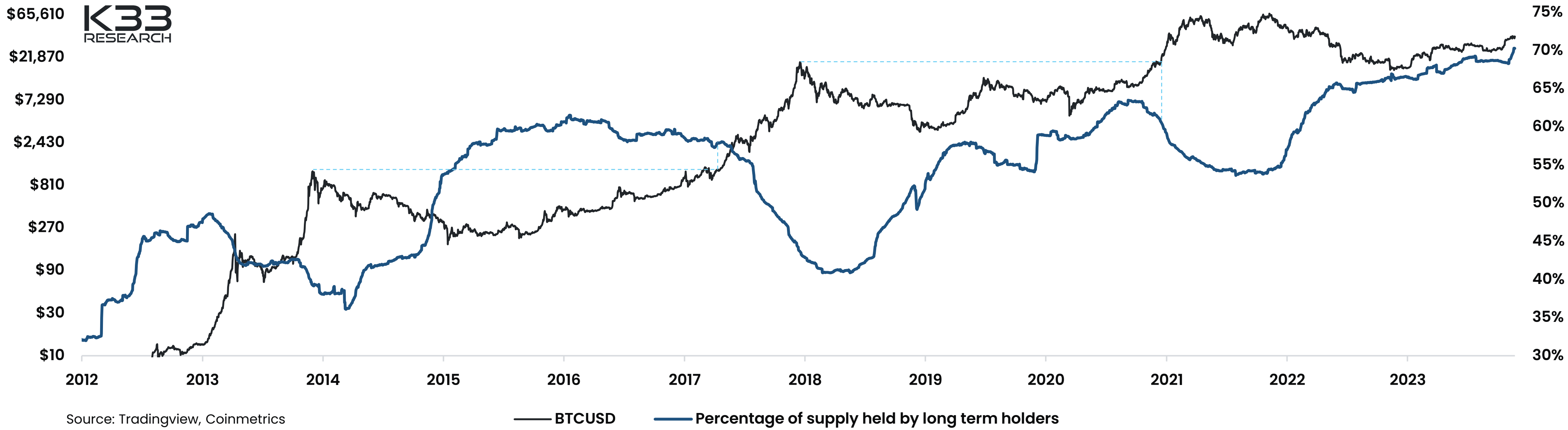
Long-term holders don't care about the cost of capital

A fundamentally important aspect of Bitcoin's stellar performance this year may be ascribed to long-term hodlers and their determination to accumulate during drawdowns. Once selling reaches exhaustion, these bids cause a positive drift in prices, and the strategy is somewhat relentless. A non-negligible share of bitcoin investors apply a buy-and-hold strategy to bitcoin in a Saylor-esque fashion, albeit with a more moderate size.

Bitcoiners' tendency to buy for the long term has been one of the key dynamics attracting investors to BTC. In 2021, Stanley Druckenmiller referenced holders as a key reason to build exposure. *"So here's something with a finite supply, and 86% of the owners are religious zealots. I mean, who the hell holds something through $17,000 to $3,000? And it turns out none of the — the 86% — sold it."*

These long-term holders buy regardless of underlying macro conditions. Their modus operandi is to stack sats and realize profits once BTC pushes beyond former all-time highs. Jump to 2023, and we see the same pattern re-appear on the backdrop of a bloody bear market filled with bankruptcies, as zealots remain stubbornly determined to buy BTC for the long term – evident by 70% of the circulating BTC supply staying idle over the past year.

BTCUSD (Log) vs Percentage of BTC Supply not Moved in the Last Year



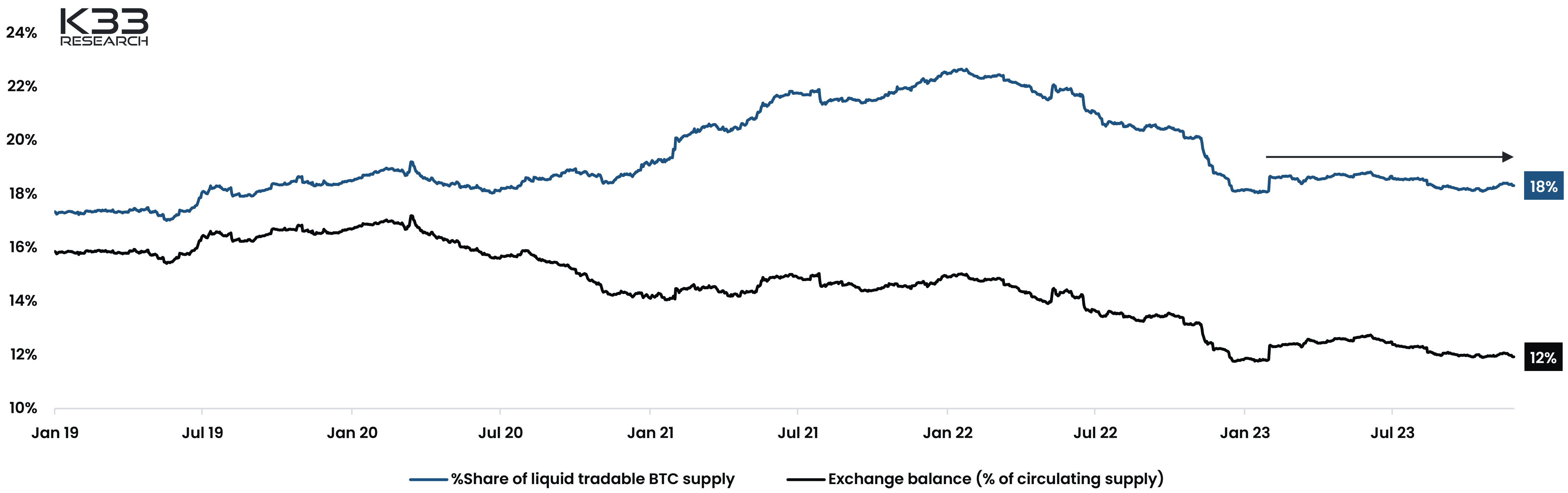
Source: Tradingview, Coinmetrics

Stable liquid supply throughout the year

Ever since the collapse of FTX, exchange balances and our extended "Liquid Tradeable BTC" proxy have flatlined completely. 12% of the circulating BTC supply currently sits at crypto exchanges, whereas 18% of the circulating supply sits at exchanges, various exchange-traded vehicles, or other chains. Both these figures are unchanged from December 2022, illuminating the steady and slow state of the market over the last year.

With the launch of BTC ETFs, the importance of assessing BTC's liquid supply through expanded lenses apart from exchange balances grows. We expect that ETFs will attract a substantial market share over time and will pay close attention to this metric from then on to assess the state of BTC's liquidity.

Bitcoin Liquidity: Exchange Balance vs "Liquid Tradeable BTC" Proxy

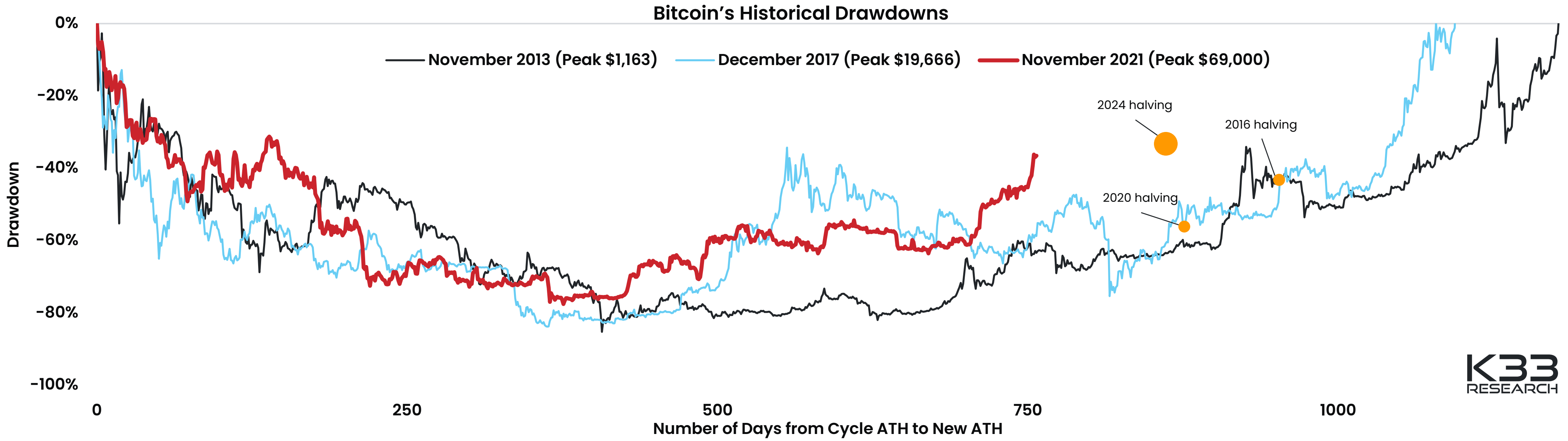


Source: Glassnode, Skew, Dune, MicroStrategy, Tesla, Square, Meitu, Aker, Bytetree, VanEck, Proshares, Hashdex, StatusInvest

Bitcoin's current recovery is ahead of past recovery cycles

Bitcoin is currently trading at a 39% drawdown from its November 2021 all-time high, approaching Bitcoin's drawdown recovery during the 2018-19 bear market. However, there are considerable differences between the recoveries and underlying factors pushing BTC higher now compared to then. The current run-up is caused by a real and compelling narrative. Prospects for U.S. ETF launches are solid, and the Q4 buoyancy in the market has been fueled by massive activity on CME, significant ETP inflows, and shallow leverage offshore. In contrast, the 2019 recovery was propelled by huge flows towards the infamous Plus Token scheme, leading to a temporary surge in BTC demand.

Neither of the past cycles saw institutional demand comparable to the current, with major financial institutions both participating in the space and vocally vouching for BTC in public. In 36 days, U.S. ETFs will receive their final verdict, with solid demand to accumulate exposure ahead of anticipated launches.



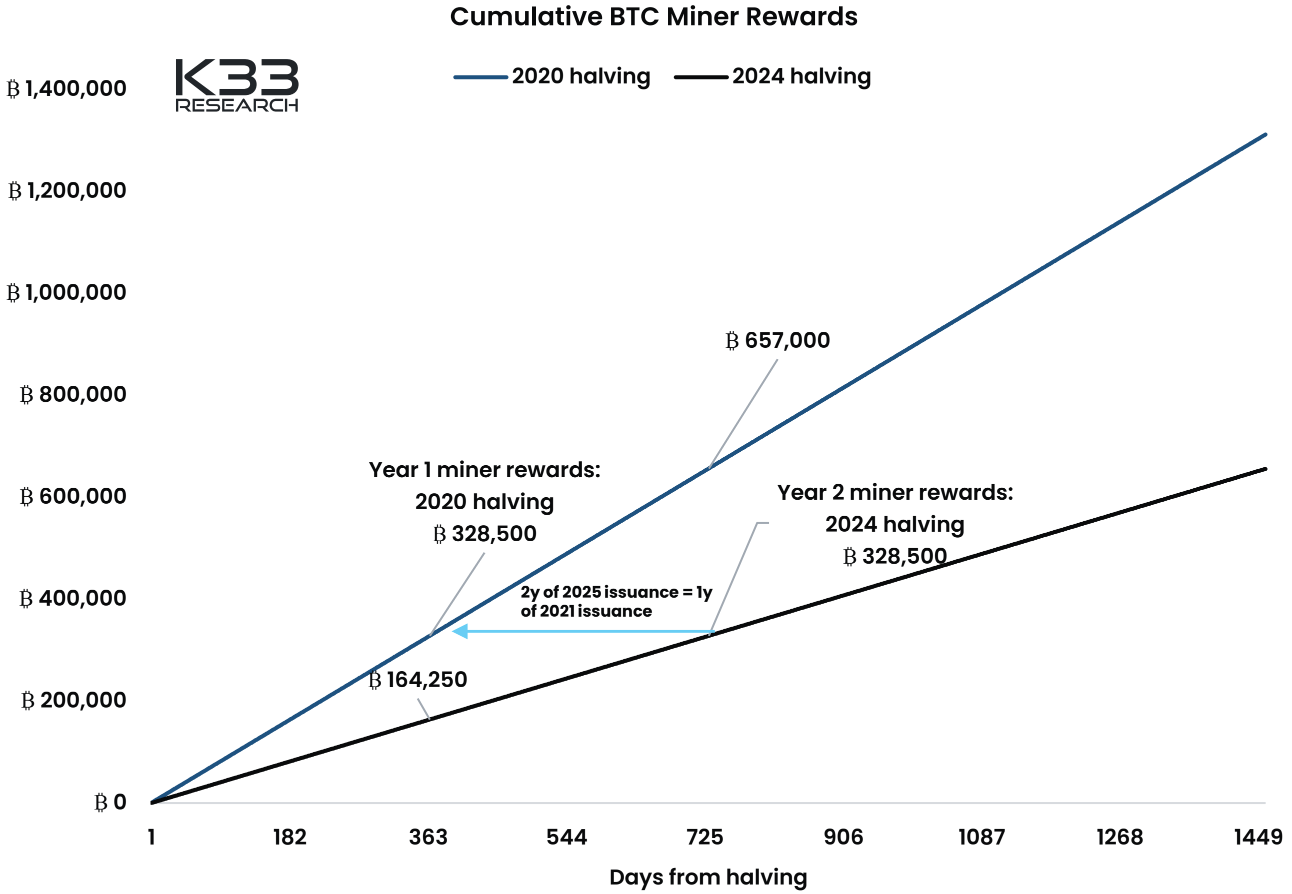
Source: Tradingview (Bitstamp)

2024 prediction: Bitcoin will breach its former all-time faster than in the past two cycles

The halving matters, despite being a known event

The halving is an important underlying driver for positive price momentum in BTC.

- The halving is a known event; per the efficient market hypothesis, it follows that this effect should already be fully priced in. However, this view neglects the practical criticality of liquidity in crypto markets, and the way miners sell block rewards directly into the market.
- With some exceptions, miners immediately sell block rewards. When the daily block subsidies fall from 900 BTC to 450 BTC, this means a daily net reduction of 450 BTC in sell side pressure from the miners.
- The daily reduction compounds. Two years' worth of miner rewards after the 2024 halving reflects one year's worth of miner rewards in 2023. The halving in and of itself will reduce sell-side pressure in the market by 164,250 BTC annually.
- In a market with thin liquidity, determined buyers, and a subdued sell-side, bitcoin's halving compounds in impact.
- Yes, the efficient market hypothesis should hold in theory. But with Bitcoin in practice, it doesn't because the liquidity effects are so hard to pin down precisely in advance.



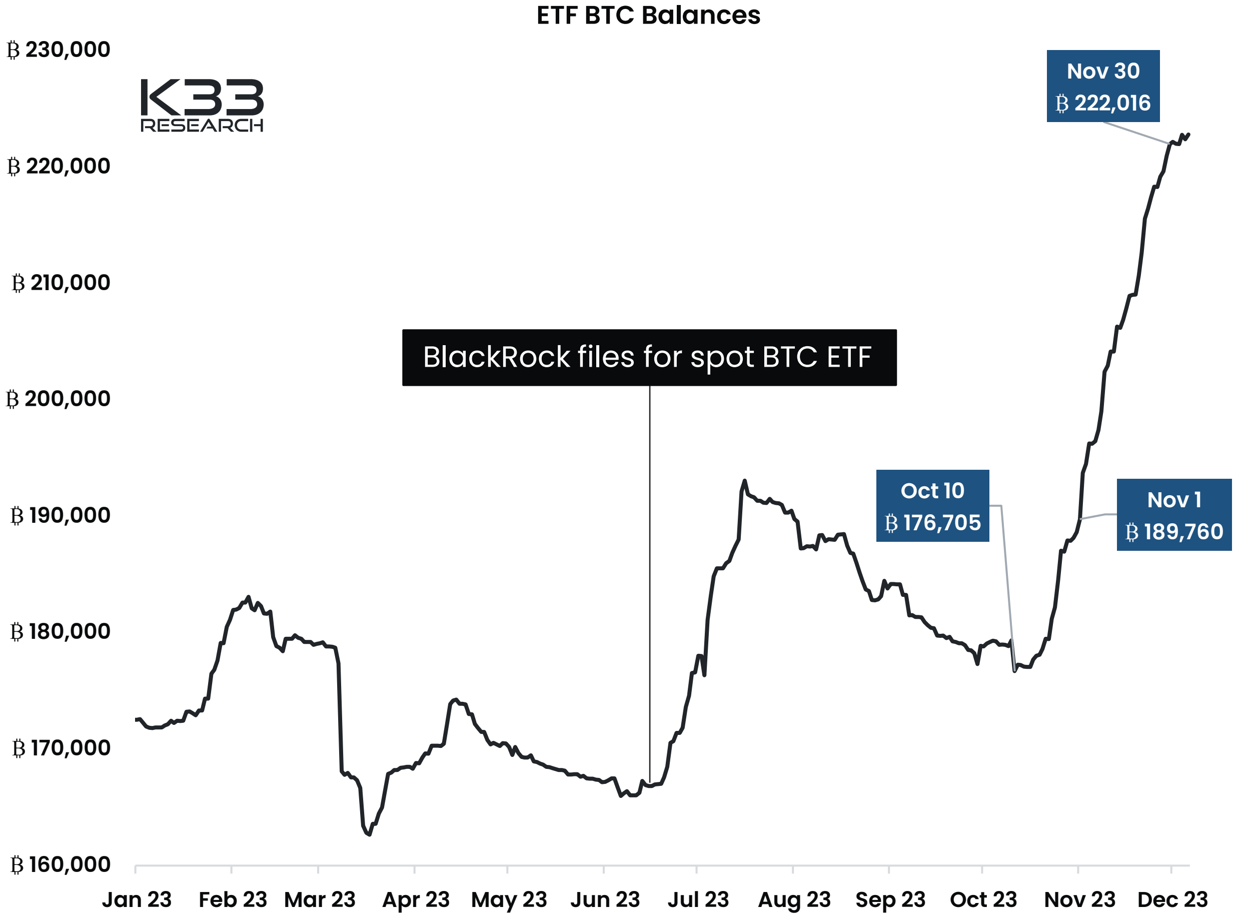
Source: K33 Research

All eyes on January 10

The second half of 2023 saw one force attracting investors back into Bitcoin: BlackRock's ETF filing and the perceived likelihood of SEC approval to spot ETFs after 10.5 years of attempts.

- BlackRock filed in mid-June 2023, leading the whose who of asset managers to follow.
- On August 31, Grayscale won its lawsuit against the SEC, with the court concluding that the SEC had acted arbitrarily and capriciously in denying spot ETFs while approving 33-act futures-based ETFs, greatly enhancing the odds of approval.
- The most important date of 2024 comes early for Bitcoin. January 10 will be the final deadline for the SEC to rule on ARK 21Shares ETF filing. The market expects the SEC to approve ETF filings in a fair and equitable manner, i.e., all at the same time.
- If the SEC were to disapprove the ARK 21Shares filing on January 10, every other ETF applicant would likely face the same verdict. This decisive date has been the center of attention for Bitcoin investors since October and will be an extremely important date to watch.
- From October 10 till November 30, BTC ETPs globally saw 46,000 BTC worth of inflows, as market participants frantically sought to front run U.S. ETF launches.

2024 prediction: The ETF filings will be approved.

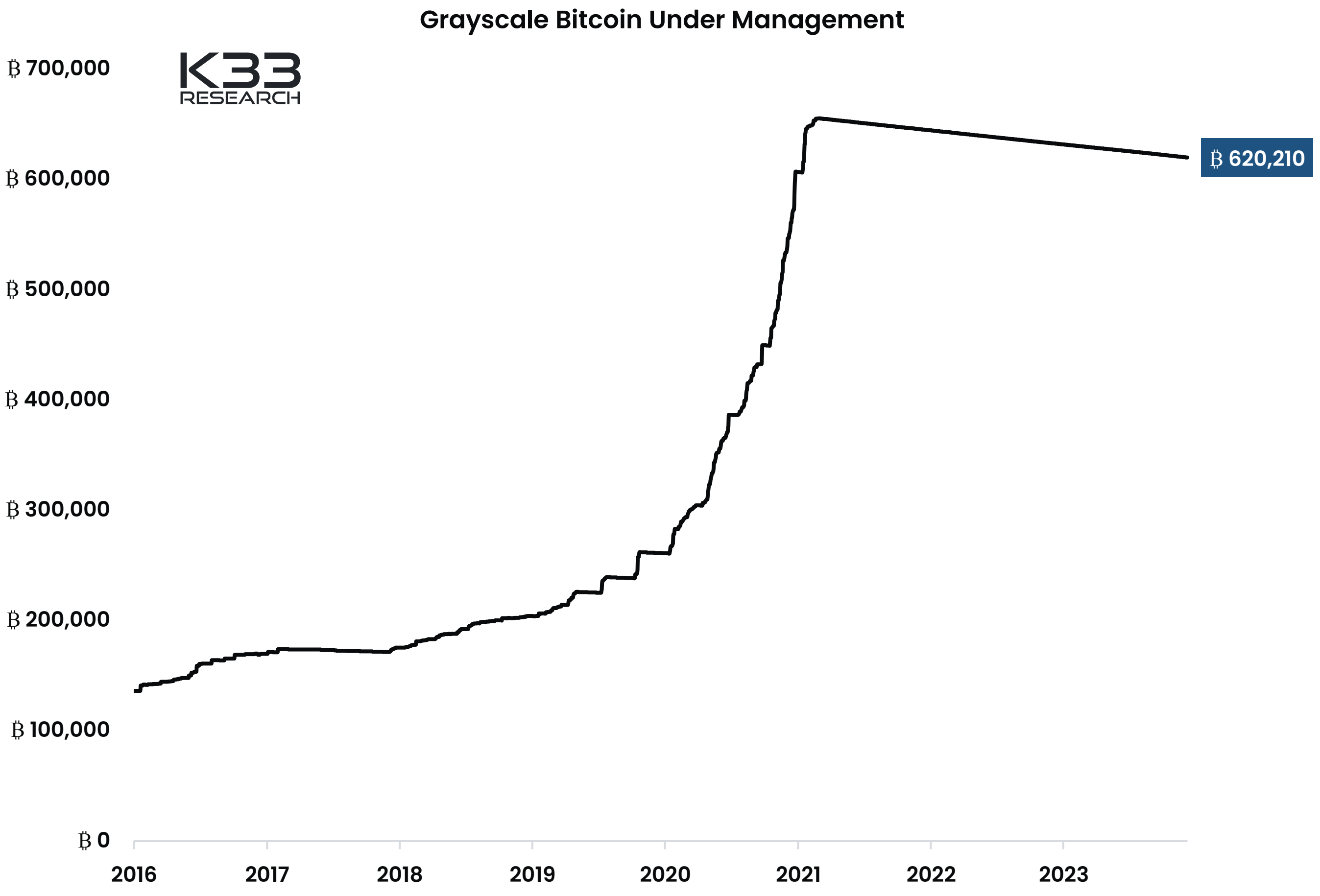


Source: K33 Research

Will the market react positively to BTC ETFs?

An ETF approval could be a short-term negative for Bitcoin due to opening the doors of Grayscale's hotel California. Nonetheless, approval would be very positive in the long-term.

- Grayscale's BTC trust holds 620,000 BTC. GBTC owners have not been able to convert shares for the underlying asset, BTC, leading GBTC to periodically trade at huge deviations from its NAV. Since the wave of inflows in 2020, GBTC has traded at massive discounts.
- It's fair to assume that some investors who attempted the GBTC premium trade in 2020 may be incentivized to sell. Further, it's fair to think that some investors in 2023 have bought GBTC, expecting the share price to push towards its NAV upon an ETF conversion.
- Both the aforementioned investors may seek to sell upon conversion. Nonetheless, per futures premiums, there are few indications of traders hedging a GBTC bet through BTC futures, potentially indicating that the GBTC conversion trade is less crowded.
- In addition to an unclear chain of events with GBTC, futures-based ETFs could face significant outflows due to their inefficiencies and cost burden compared to spot ETFs. In the short run, this could lead to outflows from these products to spot products to net each other out.
- Nonetheless, after the initial rotations and potential profit-taking, ETFs will be a positive development for prices. Increased accessibility provided by the most important financial institutions globally is a huge positive for adoption through longer lenses.



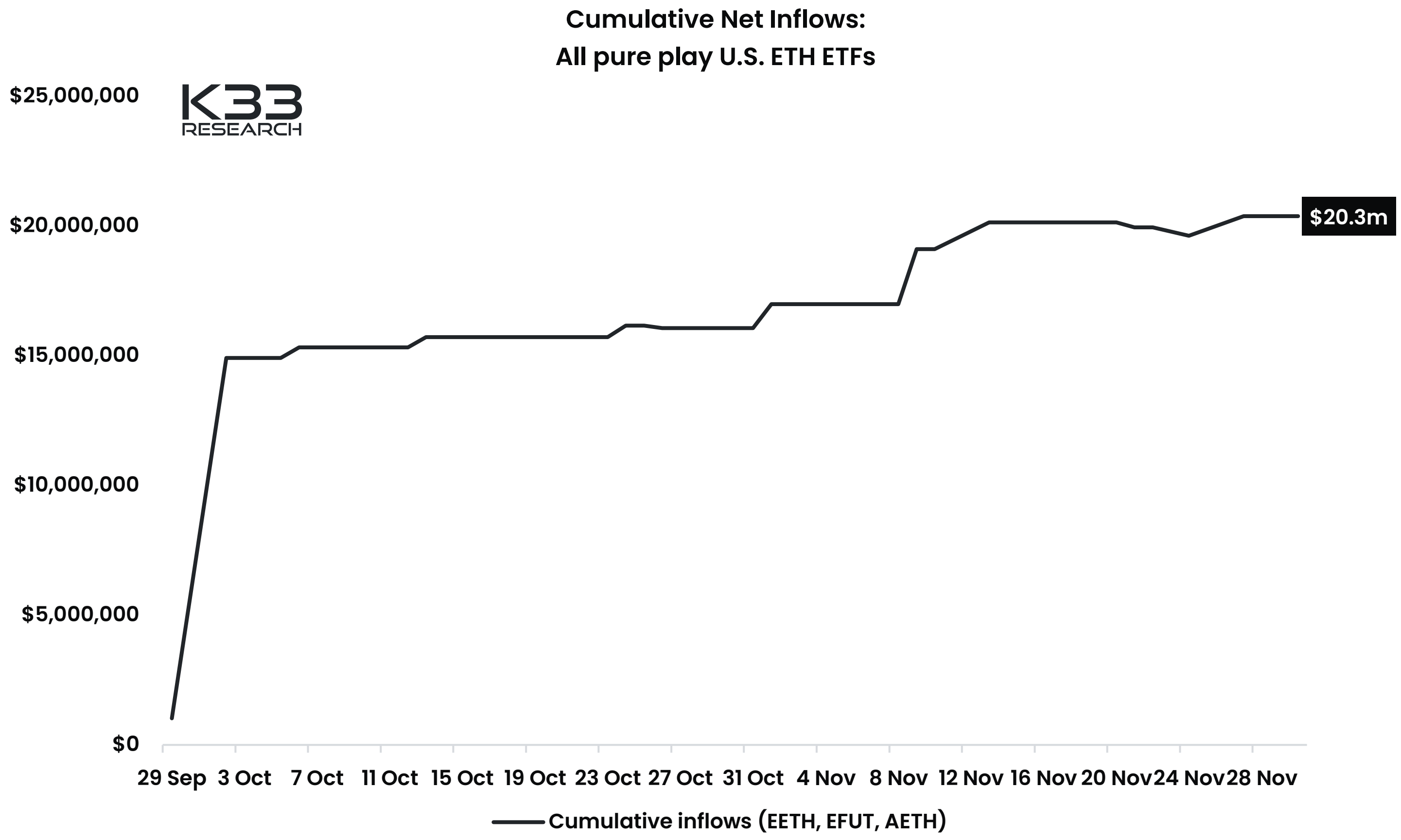
Source: Grayscale

2024 prediction: In the very short run, we expect markets to push lower on the ETF launch.

The disappointing futures-based ETH ETF launch

Pure play ETH ETFs in the U.S. launched in October but have seen very poor interest.

- Futures-based ETH ETFs were granted approvals and launched after seeding on October 2.
- However, interest in ETH exposure has remained shallow. ETH's continued underperformance vs. BTC may have rotated investor attention towards BTC, in addition to perceived risks associated with cryptocurrencies apart from BTC.
- After seeding, ETH ETFs have seen net inflows of a meagre $5.3m, seeing its inflows since October being beaten by a factor of 10 to the 2x leveraged BTC ETF provided by VolatilityShares.
- BlackRock and others have filed for launching spot-based ETH ETFs this fall. However, ETH ETFs have more hurdles to overcome than BTC ETFs, as there have been zero 33-act ETH ETFs approved to this date.



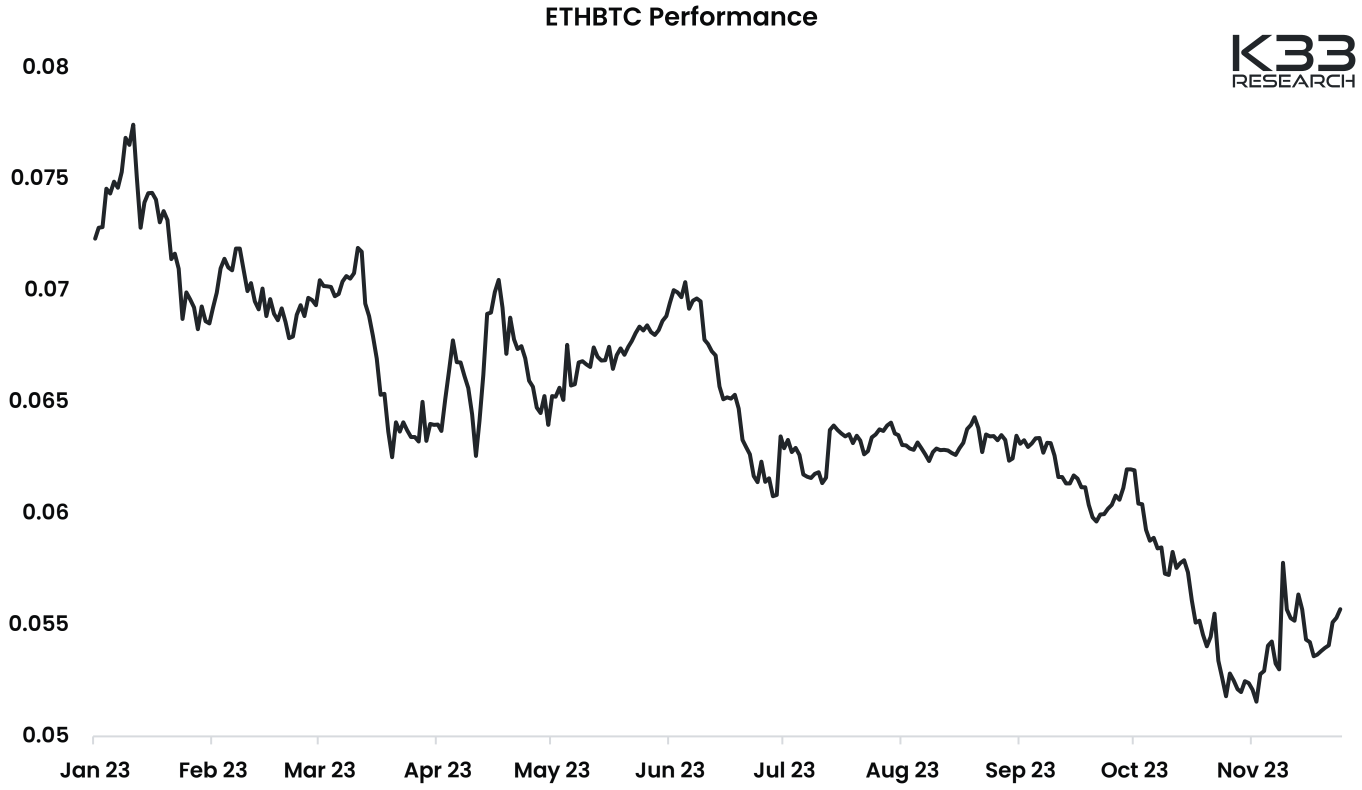
Source: VolatilityShares, ProShares, VanEck, Bitwise

2024 prediction: The ETH ETF filings will be disapproved, but ETH will rally vs. BTC as we approach VanEck's May 23, 2024 deadline.

Down only for ETH (in relatives)

In dollar terms, ETH is up 89% in 2023 – hardly a bad year for ETH. In bitcoin terms, however, ETH has suffered throughout the year, falling from 0.072 to 0.054.

- Altcoins are strongly correlated to bitcoin. Rising bitcoin prices tend to be accompanied by increased altcoin prices.
- Nonetheless, ETH's performance versus bitcoin has been weak throughout the year. The downtrend started in September 2022 as proof of stake was introduced and continued in a steady manner after Ethereum introduced the Shanghai upgrade on April 12, 2023, allowing stakers to unstake funds.
- Contrary to some expectations, the upgrade did not result in mass unstaking. Since its launch, staked ETH has grown from 18m to 28m as on-chain yields continue to attract capital.
- Regardless, staking, particularly staking as a service, has been a factor limiting ETH's ability to thrive in 2023. The SEC settled with Kraken related to their staking offering to U.S. customers and is also in an ongoing fight with Coinbase related to the same issue.
- In addition to regulatory restrictive forces, Ethereum has seen a very slow year on-chain. TVL has been flat throughout the year, with low activity on-chain. Further, Ethereum has faced unexpected competition from Bitcoin within the NFT landscape.



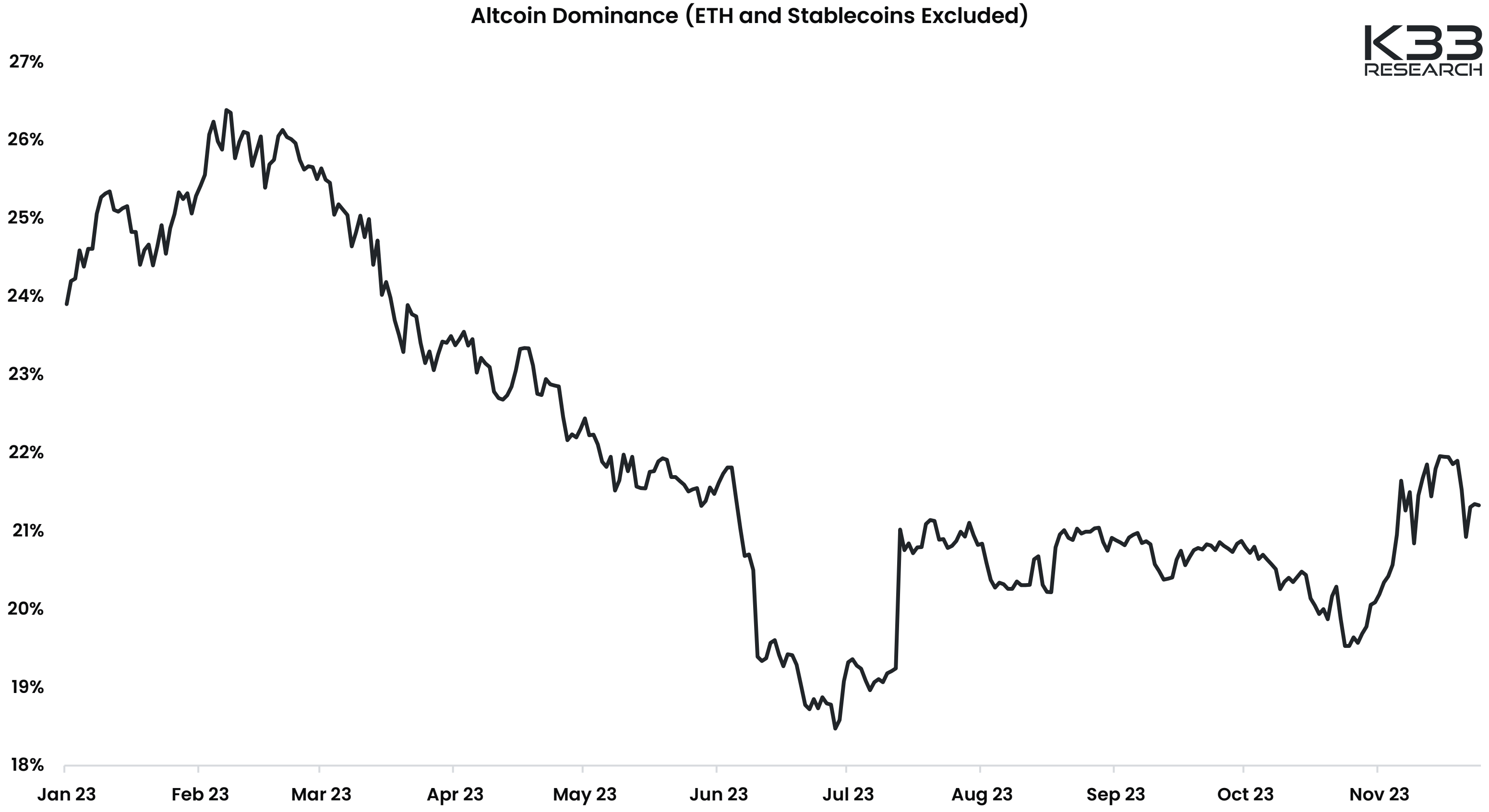
Source: Tradingview

2024 prediction: ETH will strengthen relative to BTC and close 2024 at higher levels than its current ETHBTC price of 0.054.

… but that's Bitcoin's fault

Ether has been far from alone in underperforming vis-à-vis BTC in 2023.

- Altcoin dominance, excluding ETH and stablecoins, fell from highs of 26% to lows of 19% and has barely recovered to levels of 21%.
- Bitcoin benefitted from in-rotation from stablecoins amidst the U.S. banking crisis and correspondingly increased awareness of BTC as properties as a bearer asset without counterparty risk.
- Similarly, BTC ETF expectations have been a narrative purely benefitting Bitcoin since June, spilling over slightly towards ETH in November, with ETFs for any other cryptocurrency in the U.S. likely being years in the future.



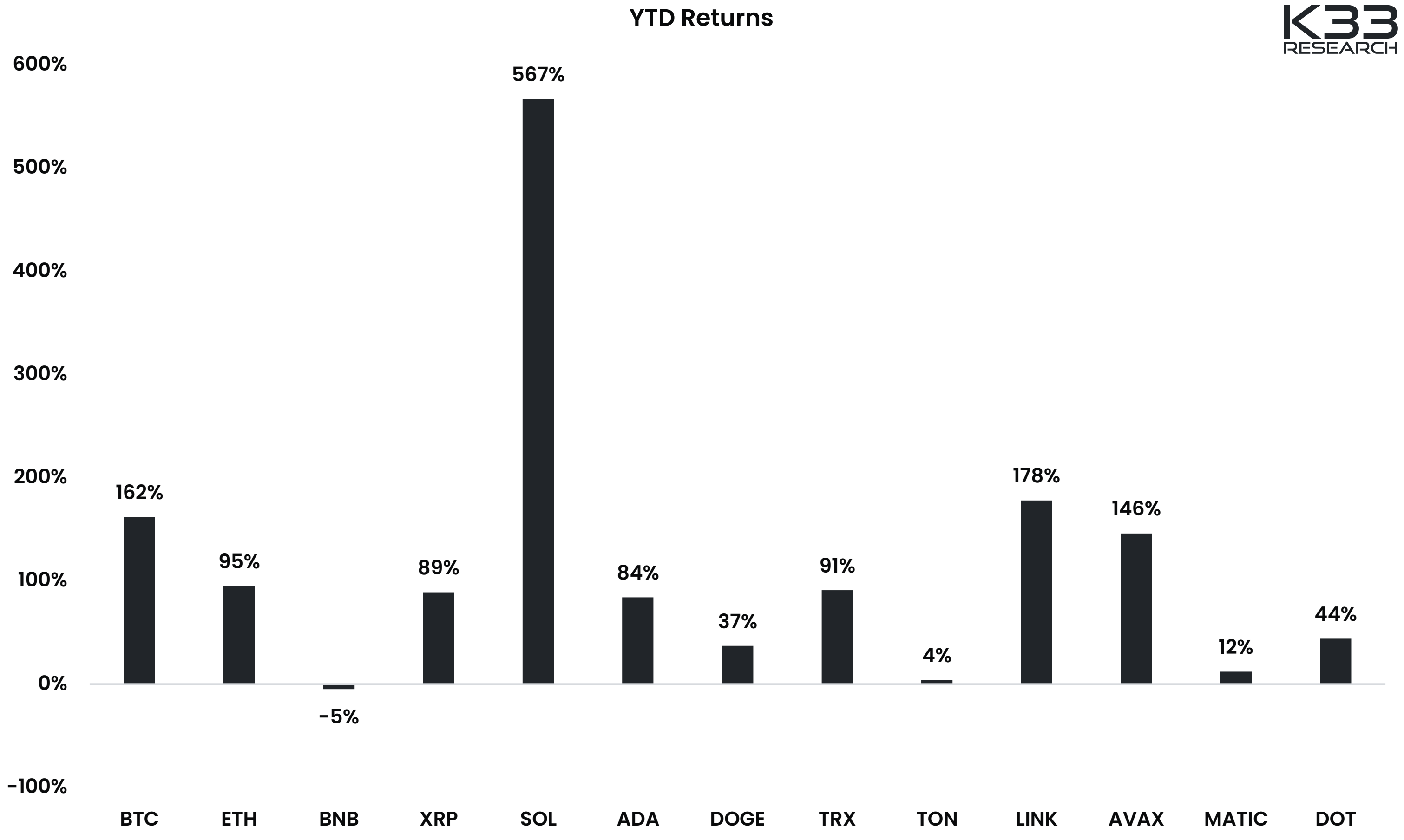
Source: Tradingview

2024 prediction: Altcoin dominance (ETH and stablecoins excluded) will surpass 25% in 2024.

Still, 2023 has not been bad for all altcoin holders

Only 24% of all altcoins in the top 50 outperformed BTC in 2023, but some of 2022s worst performers saw the most impressive gains.

- Among the 13 largest non-stablecoin cryptocurrencies, only two outperformed BTC – Solana and Link.
- LINK gained traction due to the growing popularity of the RWA narrative, in a moderate essence mirroring LINK's 2019 outperformance of BTC.
- SOL has been the definite outlier in terms of positive returns in 2023, seeing a massive 567% gain year to date.
- SOL's price collapsed to extreme lows after the FTX collapse due to strong FTX concentration on the network. The coin started the year as one of the most shorted coins in the crypto space, setting the stage ripe for the biggest face ripper short squeeze once the tide moved in January. SOL has since consistently outperformed, coincidentally followed by increased expectations of payouts from the FTX bankruptcy estate.

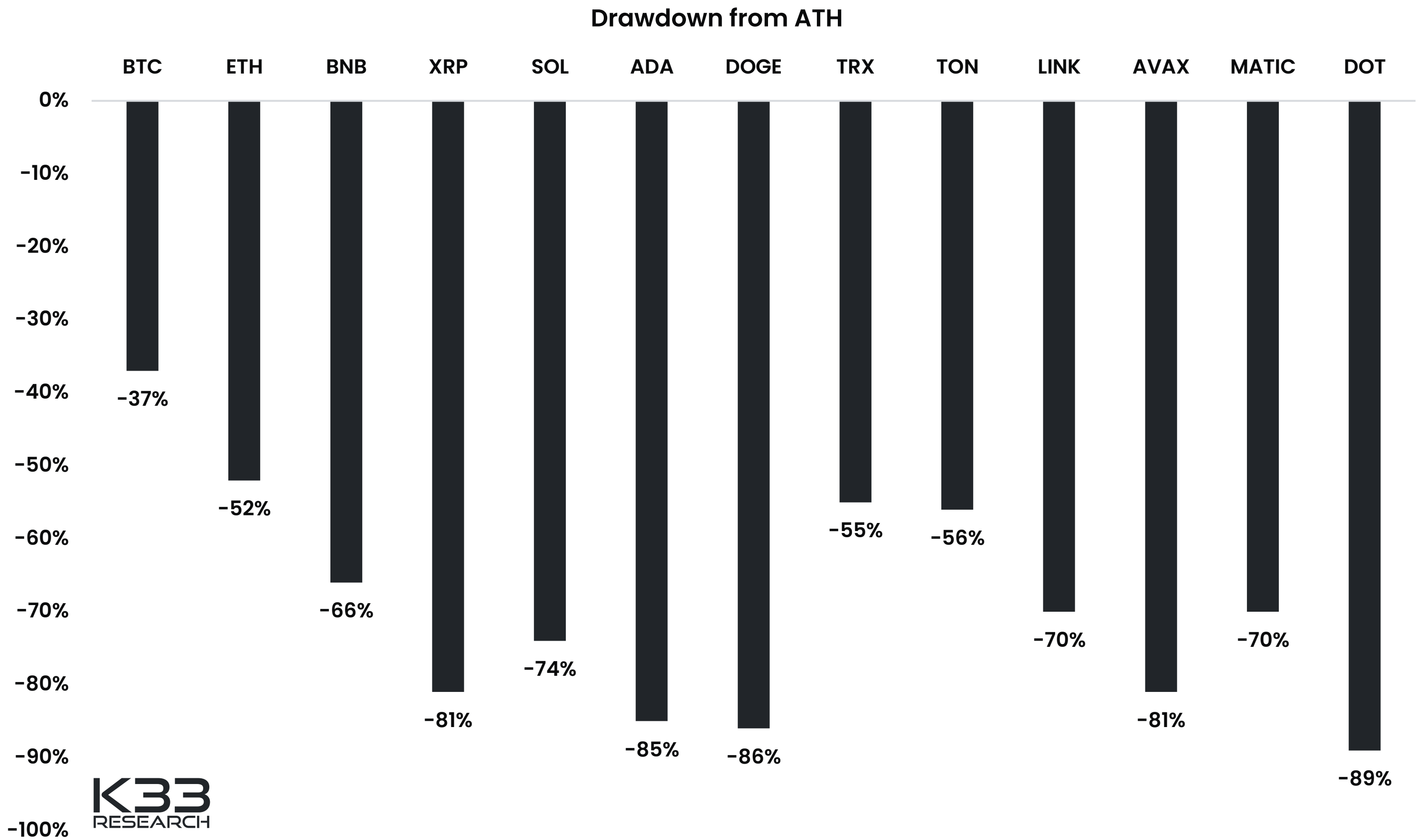


Source: Tradingview

Still long to go: And far from all are gonna make it

Five out of the biggest cryptocurrencies could 4x and still trade lower than its past ATHs.

- Despite SOL's strong rally in 2023, SOL remains at a 74% drawdown from its past all-time high.
- SOL is far from alone in trading at such substantial lows. ADA, DOGE, AVAX, and DOT all trade at drawdowns larger than 80% from their 2021 peaks.
- XRP, on the other hand, trades at an 82% drawdown – **from its 2018 peak**. This observation should be noted by new crypto market participants; far from all coins will ever be able to reclaim their past all-time highs.

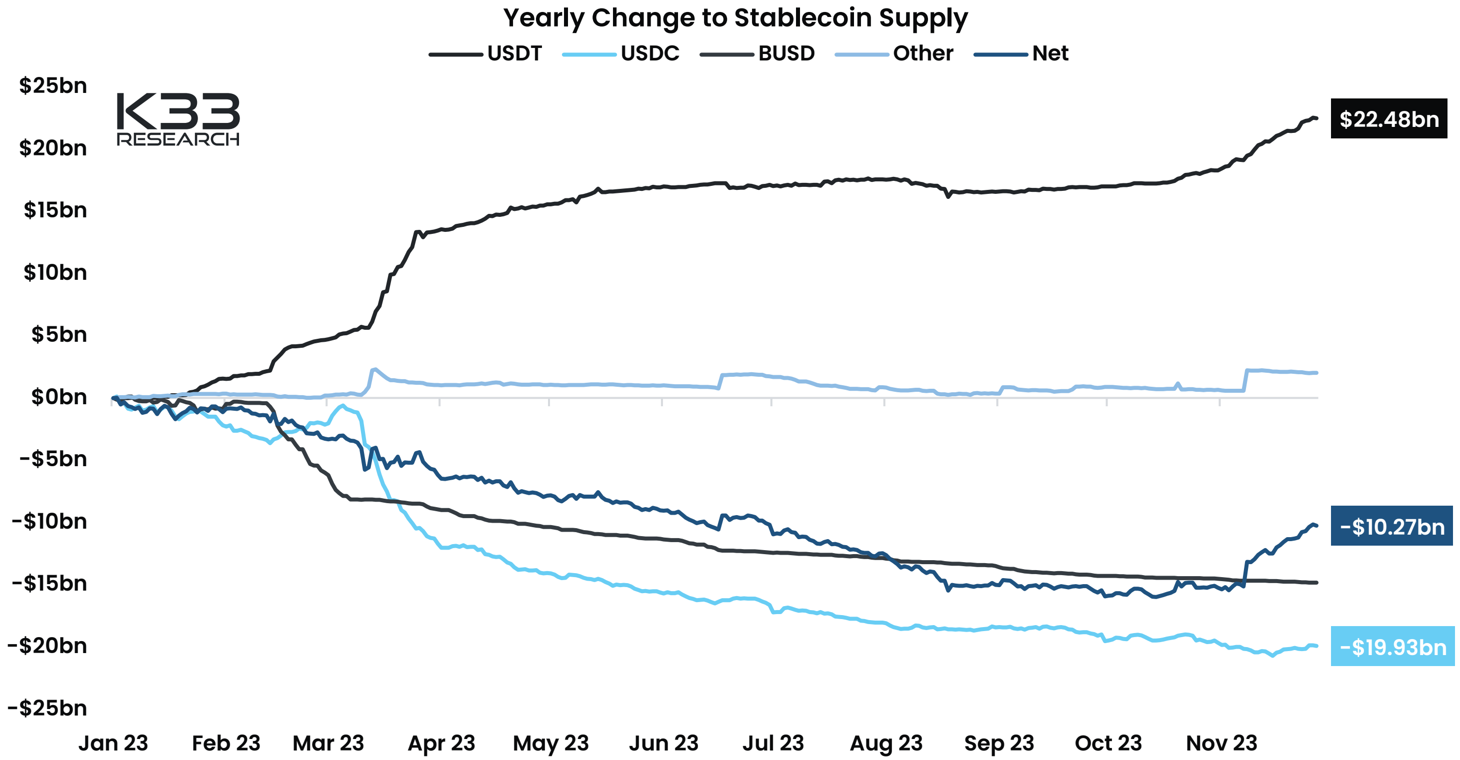


Source: Tradingview

Stablecoin dominance: Tether gaining market share

Stablecoins have seen a net supply reduction of $10.2bn in 2023, despite Tether seeing creations of $22.5bn USDT.

- The total circulating supply of stablecoins in crypto fell by $10.2 billion this year due to BUSD's SEC-enforced shutdown and continuous outflows from USDC following the U.S. banking crisis where USDC depegged shortly after Circle announced a $3.3bn exposure to Silicon Valley Bank.
- Stablecoin outflows in 2023 have been entirely rational. With U.S. treasuries yielding 5% and more throughout the year, the alternative cost of holding onto stablecoin exposure grows dramatically. Circle, in its more regulatory compliant setup, has likely been more exposed to this tendency compared to its counterpart, Tether, which operates offshore.
- For Tether, the yield accompanied by consistent creations has created an extremely profitable environment. An assumed yield of 6% on Tether's $89bn circulating supply yields Tether an incredible $5bn on a yearly basis.



Source: Coingecko

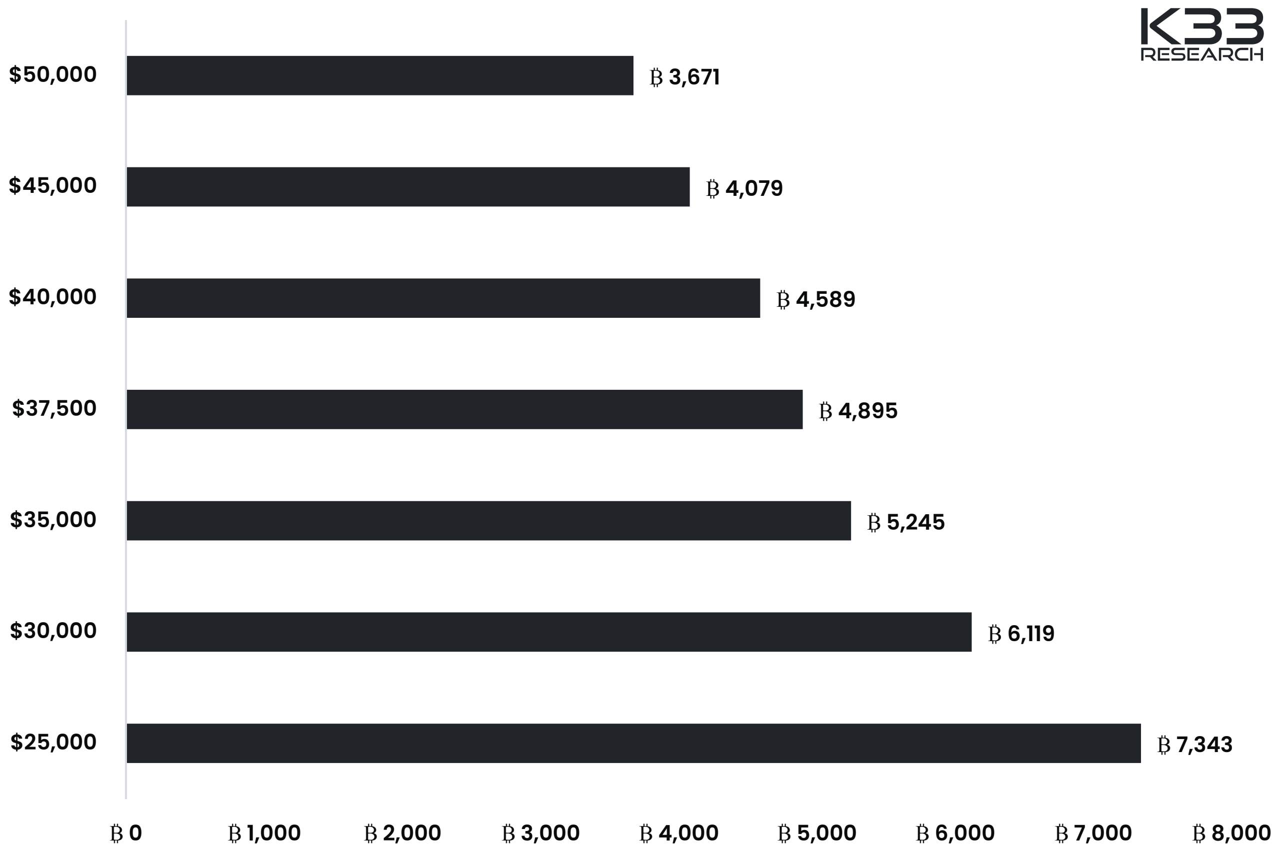
2024 prediction: Stablecoins will see a net supply increase throughout 2024, increasing stablecoin market cap from $130bn to $150bn.

Tether **countering** BTC's negative interest rate relationship

Tether's strategy to dedicate profits towards BTC exposure makes a higher for longer scenario more feasible for BTC.

- On May 17, 2023, Tether announced its intention to spend 15% of its net realized operating profits to accumulate Bitcoin.
- In 2022, higher rates were a key factor in pressuring BTC lower, while 2023 has been a robust and low-correlated environment for BTC.
- In the current high-rate environment, Tether pockets nearly $5bn in profits from treasury exposure, enabling Tether to dedicate $750m annually towards acquiring BTC.
- Tether bought 6,624 BTC in Q3 2023, in line with their announced purchasing rate. Under the assumption of steady BTC prices at $35,000, Tether may acquire nearly 20,000 BTC yearly.
- This contributes to structurally softening BTC's negative relationship to rate hikes. If rates increase, at least one significant bidder will direct more capital towards BTC.
- Further, this strategy makes Tether a countercyclical market force. If bitcoin's price falls, Tether will be able to buy more, and if prices increase, Tether's impact will soften.

Quarterly BTC Buying Pressure From Tether (Various Price Assumptions)



Source: Tether.to, K33 Research

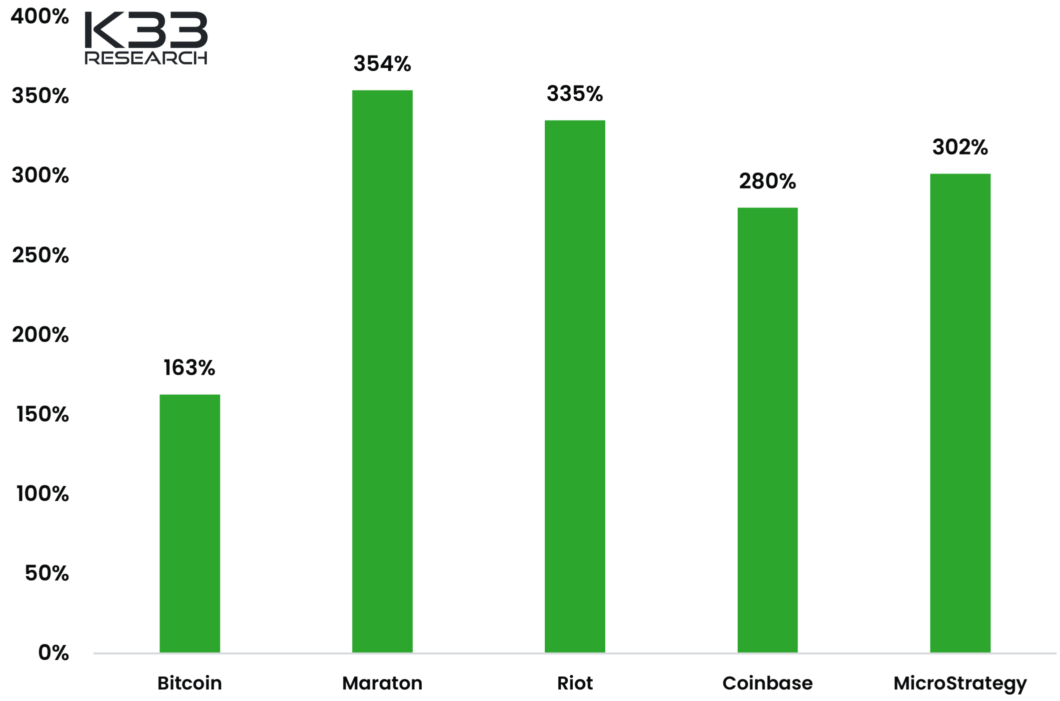
A strong year for public crypto companies

… but, similar to altcoins, the path to former highs remains long

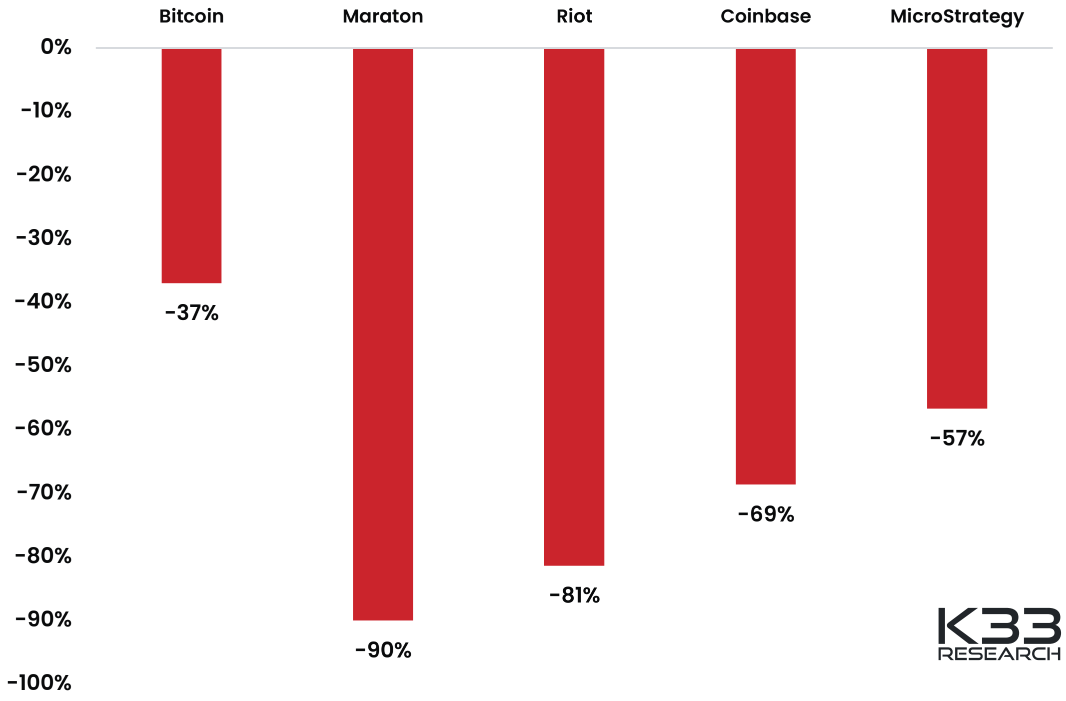
Returns were massive for most public crypto companies in 2023, with Coinbase, MicroStrategy, Riot, and Maraton all outperforming BTC by more than 100%. Still, these public companies share similar traits to altcoins, as their drawdowns from past all-time highs remain far deeper than in BTC.

Overall, crypto equities and altcoins alike behave like high beta alternatives to BTC exposure, seeing stronger volatility than BTC in both bull and bear markets, with BTC remaining the least risky crypto exposure.

Yearly Returns



Drawdown from ATH



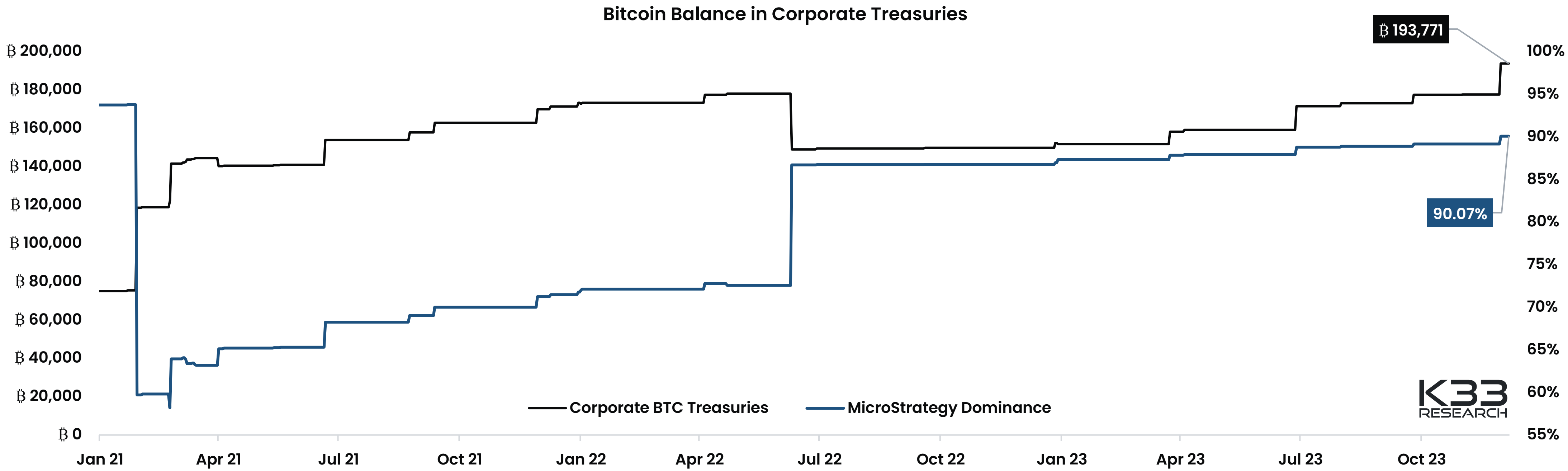
Source: Tradingview

Bitcoin as a corporate treasury strategy

Saylor "the only" bull in town

MicroStrategy's bitcoin treasuries account for 90% of the BTC held by publicly listed companies after increasing its holdings by 42,030 BTC in 2023.

- MicroStrategy increased its BTC treasury by 42,030 BTC in 2023 (compared to 8,110 BTC in 2022), currently holding 174,530 BTC, aiming to accumulate more BTC through issuing $700m worth of Class A MicroStrategy stocks. The strategy of building a BTC treasury has paid off as MicroStrategy's average BTC acquisition cost sits at $30,252, leading its current unrealized BTC profits to sit at a massive $2.3bn.
- MicroStrategy was the only company to increase its BTC balances this year, pushing the amount of BTC held by public crypto companies to 193,771 BTC, with MicroStrategy representing 90% of the exposure.



Source: MicroStrategy, Square, Tesla*, Meitu, Aker

*Assumption based on VWAP price. Period: Jan 4th-29th

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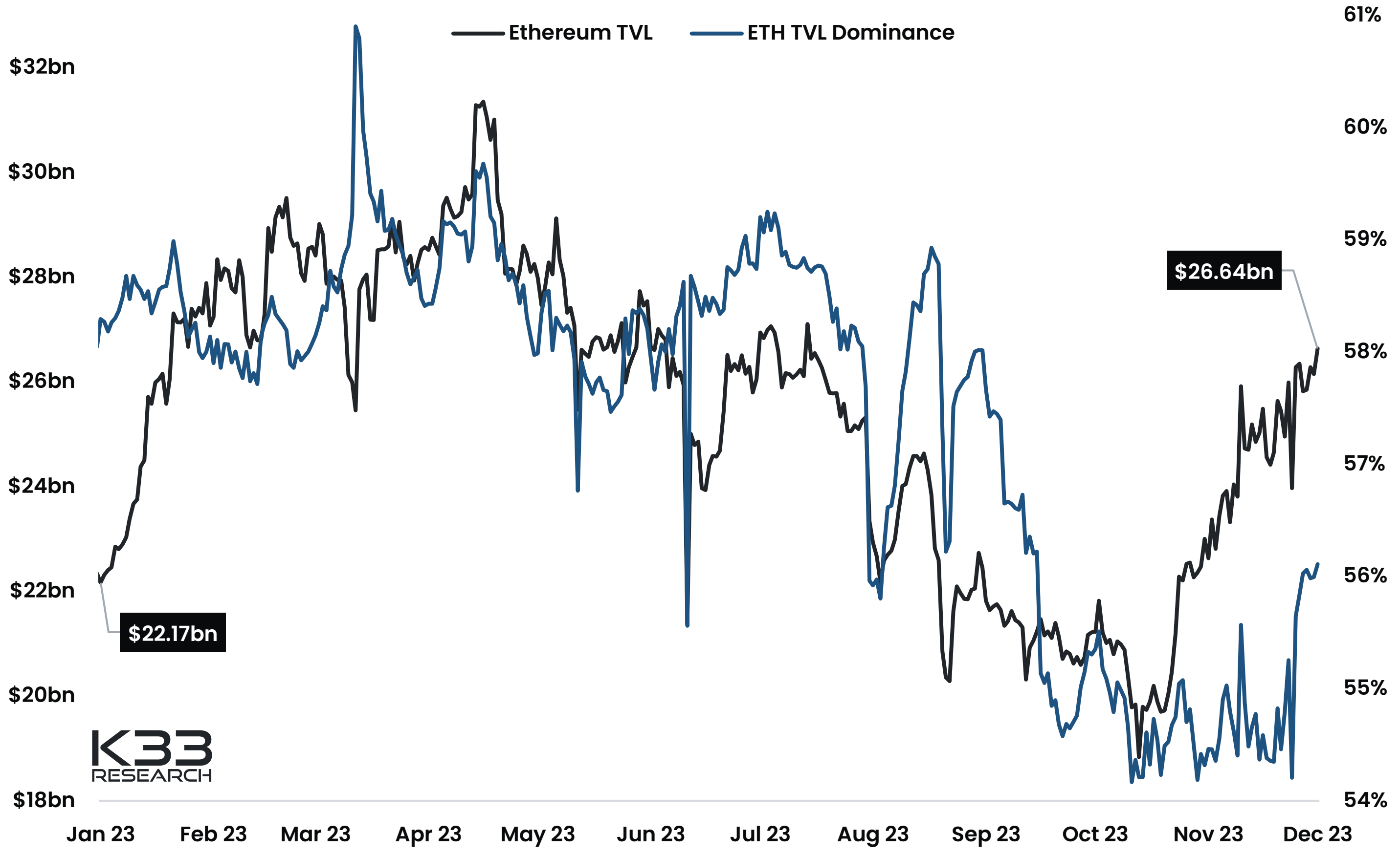
On-chain

A stagnant year on chain for Ethereum

Ethereum has faced a slow year on-chain, with moderate growth in TVL as DeFi reigns stagnant.

- The total value locked in Ethereum DeFi grew by a modest 19% in 2023, by far outpaced by ETH's 89% gain in the market.
- Total value locked on Ethereum currently sits 72% below the 2021 yearly close of $95.4bn and has failed to recover its 2022 losses meaningfully.
- 2023 has been a very slow year for DeFi. Stagnant DeFi flows have reduced gas fees on Ethereum, potentially contributing to ETH's poor performance vs. BTC, with layer 2s further restricting gas demand on Ethereum.

DeFi: ETH TVL + ETH Dominance vs. Alternative Layer 1 Chains

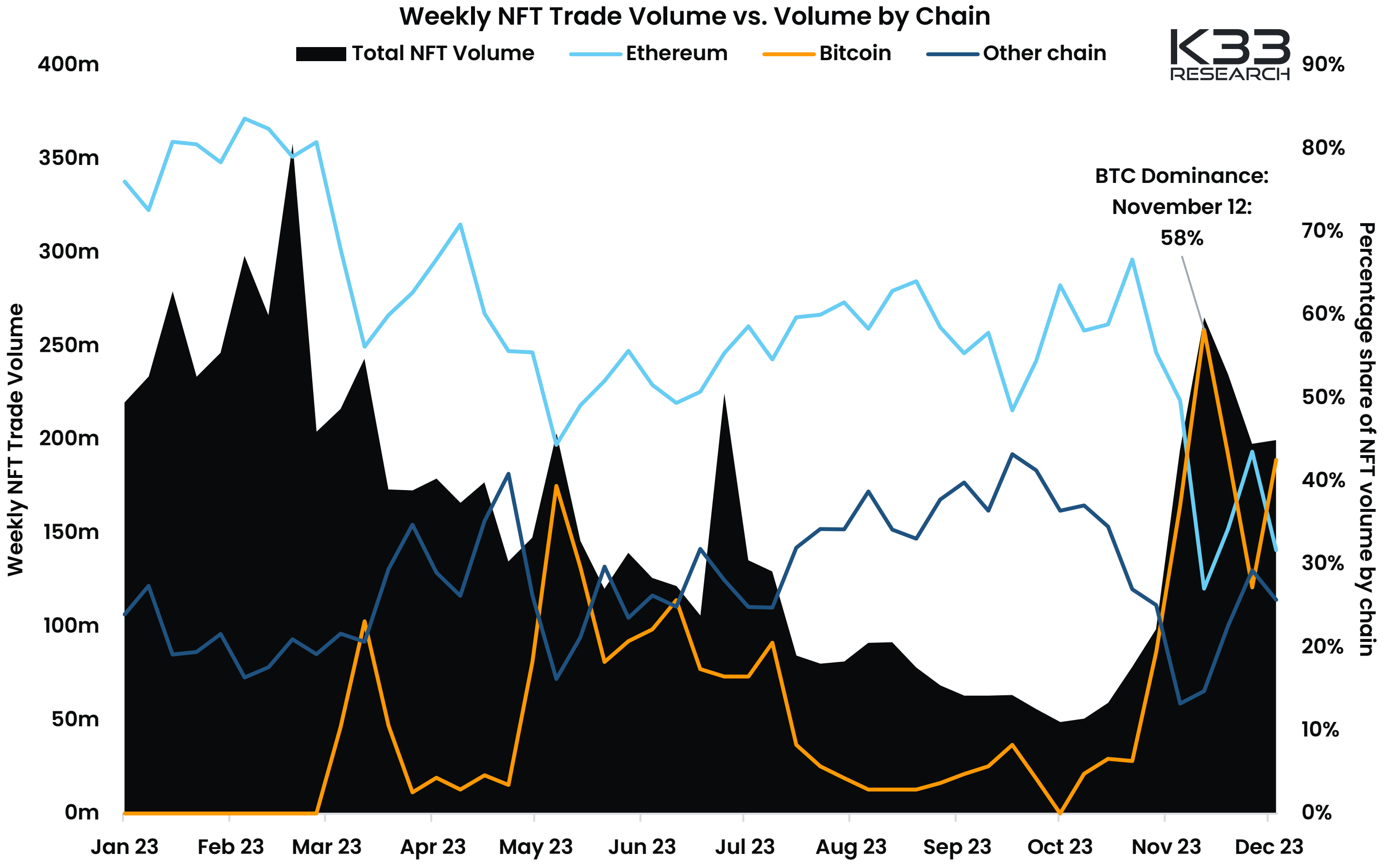


Source: DefiLlama

Ethereum facing competition from the most unexpected of places

In 2023, NFTs on Bitcoin became a reality, leading Bitcoin to eat off Ethereum's plate.

- In 2023, Ordinals were launched on Bitcoin. Ordinals carry similar traits to NFTs on other chains but use inscriptions to store data on the blockchain.
- This technical nuance has implications. Traditional NFTs point to an URL off-chain, while ordinals store content on the actual Bitcoin blockchain, making it more decentralized and censorship-resistant – but also more likely to clog the mempool.
- Ordinals have seen waves of popularity, and in November, weekly trading volumes in Ordinals surpassed weekly NFT trading volumes on Ethereum.
- The launch and usage of Ordinals has been a hotly debated topic throughout the year. Nay-sayers want to limit usage, as Ordinals increase the cost of regular transactions due to mempool congestion.
- Proponents of ordinals view Ordinals and, by extension, "gambling" and DeFi via the Bitcoin blockchain as the most feasible solution to Bitcoin's long-term survival multiple halvings down the road when BTC's daily miner rewards shrinks lower.

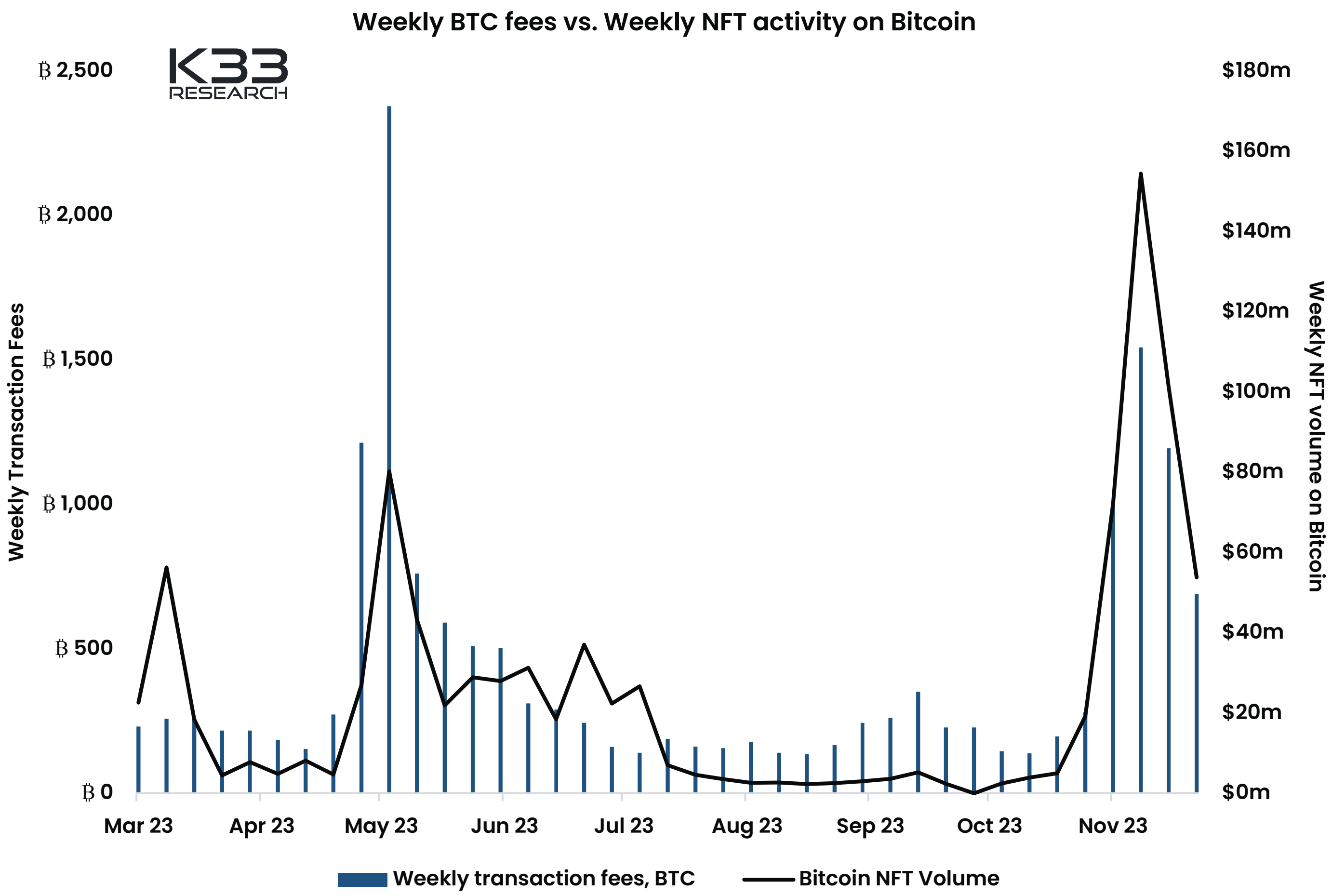


Source: Cryptoslam

A definitive relationship between Ordinals usage and Bitcoin fees

Bitcoin transaction fees have spiked alongside spikes in Ordinal transactions

- Bitcoin transaction fees spiked on three occasions this year, in March, May, and November.
- All spikes coincide with surging Ordinal activity, solid evidence of Ordinals contributing to increasing transaction fees on the Bitcoin network.
- The November spike got particularly ferocious as spiking BTC prices incentivized traders to move funds more actively, with Ordinals and regular transactions competing for block space.
- Growing transaction fees are welcome news for miners, particularly as we are headed towards yet another halving in 2024, which will reduce the daily miner rewards from 900 to 450 BTC.

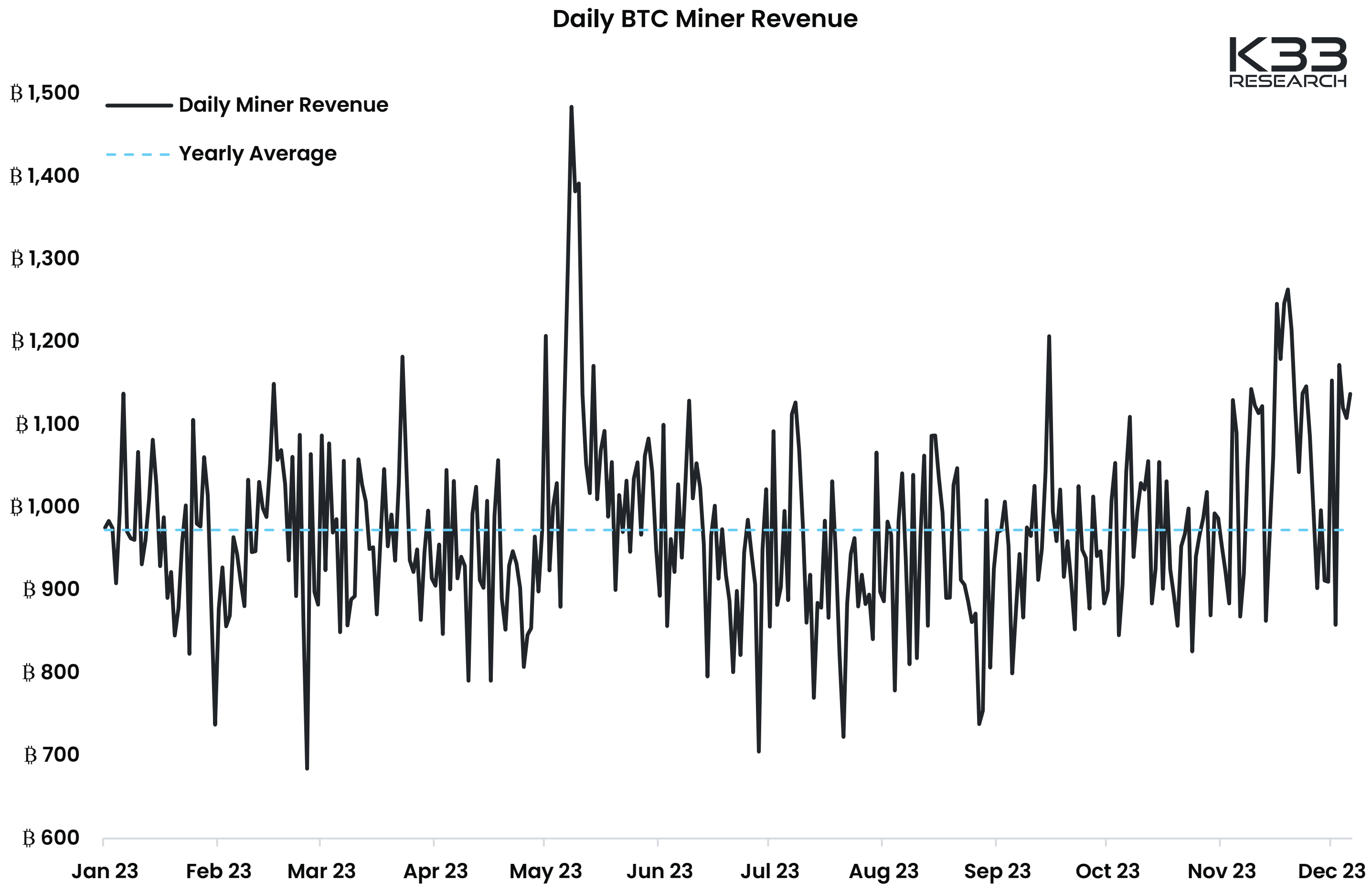


Source: Coinmetrics

Ordinals lifted miner revenues in 2023

Growing hashrate accompanied by Ordinals activity helped lift miner revenues in 2023.

- On average, Bitcoin miners received 973 BTC in daily revenues in 2023, well above the expected reward of 900 BTC per day.
- Growing daily miner rewards may be attributed to a surging hashrate (next slide) and periods of surging transaction fees caused by Ordinals.

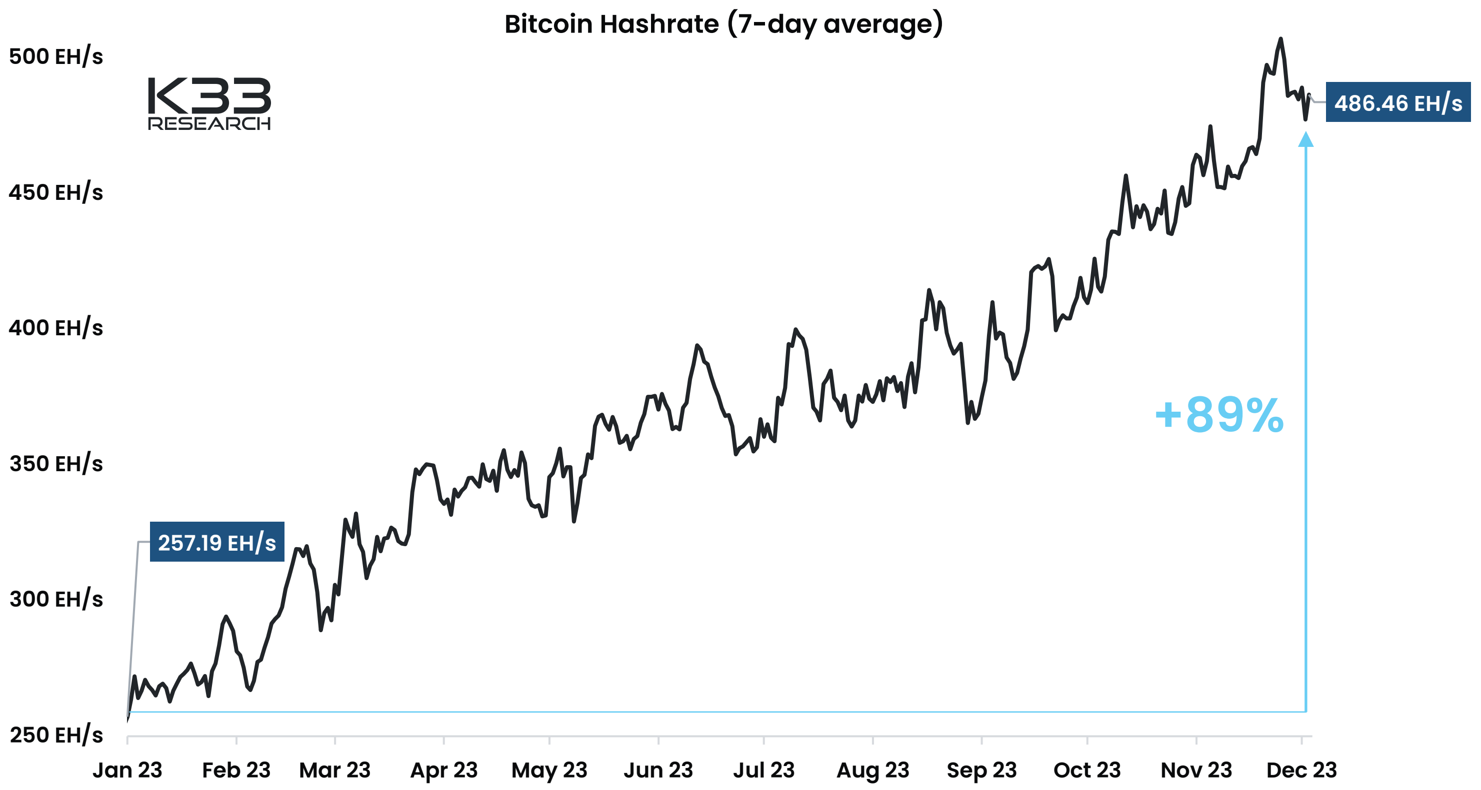


Source: Coinmetrics

Linear growth in hashrate throughout the year

Bitcoin's hashrate grew by 89% in 2023. We look to 2020 to see how miners may adjust to 2024's halving.

- Increased BTC prices, increased revenue from fees, and delivery of new equipment all helped push hashrate 89% higher in 2023.
- In April 2024, daily miner rewards will be halved, which could impact the bitcoin block production rate – while also swaying talking heads to rally around a "miner death spiral".
- In 2020, miners adjusted to the halving by briefly mining BCH and BSV directly after the halving, with some miners halting production.
- Hashrate fell temporarily, leading to two continuous sizeable difficulty readjustments of -6% and -9.25%. This caused a temporary slowdown in Bitcoin's block production rate, falling below 9 minutes prior to the second difficulty adjustment.
- After two continuous negative adjustments, the hashrate started growing, and a 15% difficulty adjustment occurred. In 2020, it took two difficulty adjustments to adjust to the changing reward conditions.
- The halving takes no miner by surprise. In 2020, miners offloaded inventory after the halving, selling BTC mined prior to halving to balance reduced rewards.
- We expect the 2024 halving to mirror the 2020 halving.



Source: Coinmetrics

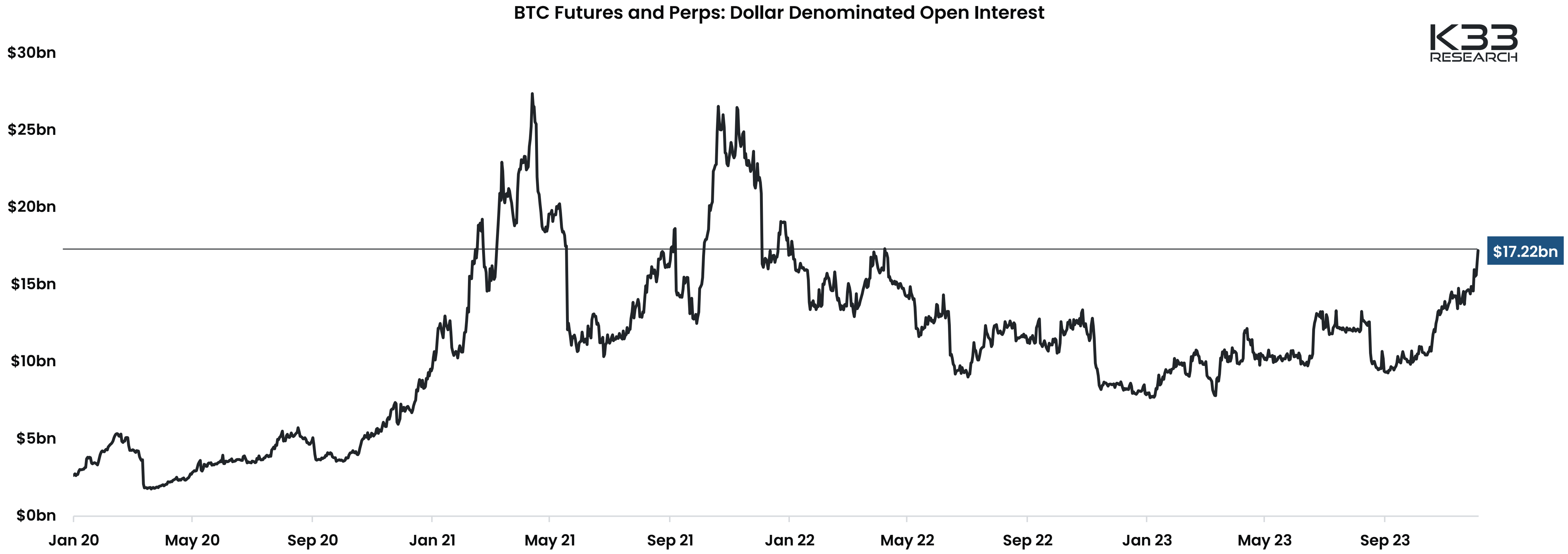
2024 prediction: Hashrate will grow in 2024, despite the halving

Derivatives

Dollar denominated OI back at 2021 levels

Open interest in Bitcoin perps and futures has grown alongside BTC's strength throughout the year, currently sitting at highs not seen since before the collapse of Luna in May 2022 at $17.2bn.

We prefer gauging open interest in notional sizes, as it provides a clearer view of the relative leverage in the market compared to the underlying asset.

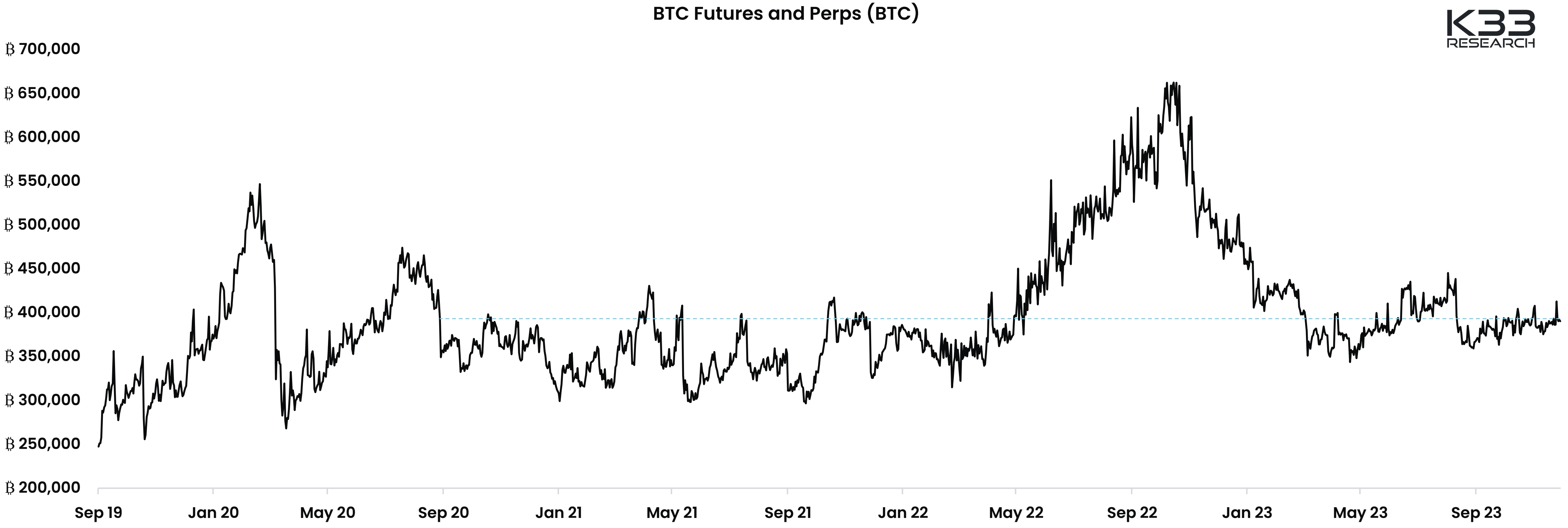


Source: Laevitas, CME Group, Skew

In BTC denominated terms, OI has fallen by 18%

Bitcoin-denominated open interest provides a clearer picture of the state of the market, with OI having fallen by 18% in 2023. Most of the decline may be assigned to specific events: 1) the January short squeeze, which propelled BTC on its path from $16k to $24k, and 2) the August long squeeze pushing BTC from $29k to $25k.

Apart from these two incidents, open interest has been stable throughout the year, currently sitting at 390,000 BTC, in line with the September 2020 to December 2021 peaks in open interest. Thus, open interest reigns high in BTC, with significant leverage built up in the system.



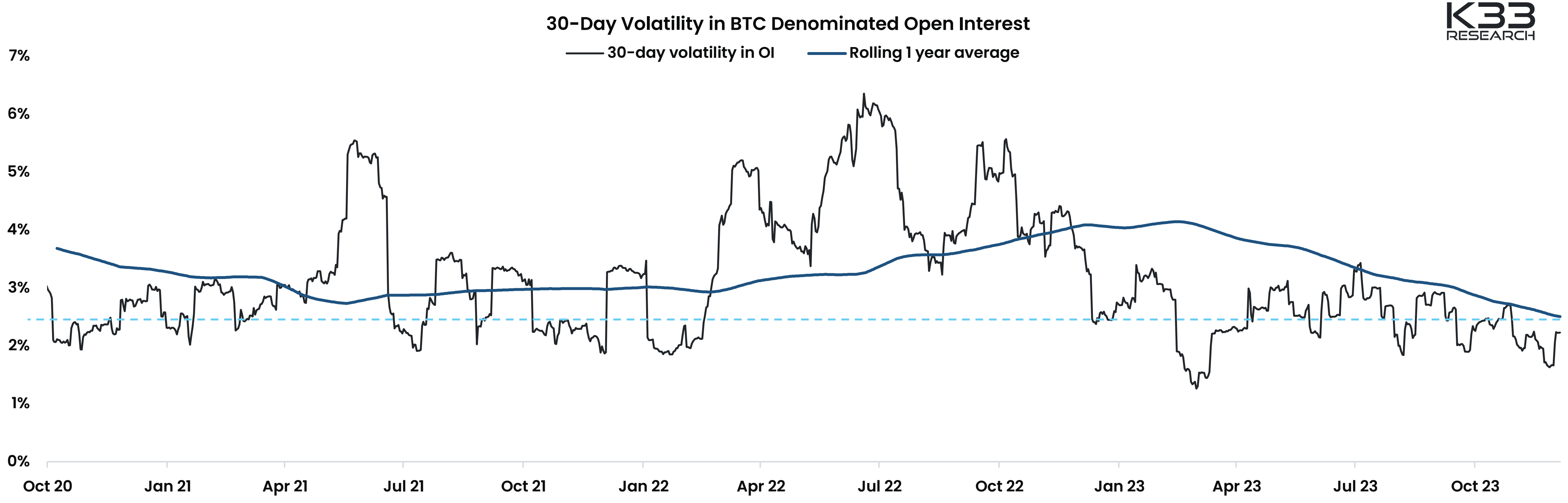
Source: Laevitas, CME Group, Skew

2024 prediction: We will experience more frequent liquidation squeezes in 2024

Open Interest has been stable throughout 2023

While elevated, it's worth noting that open interest has been remarkably stable in 2023. We measure open interest stability through a rolling 30-day standard deviation of the daily changes to open interest. In 2023, 30-day volatility in open interest has averaged 2.5%, currently sitting at all-time lows.

This points towards an orderly derivatives market throughout the year, with few liquidations, and somewhat conservative usage of leverage. Such structural patterns may quickly change, with BTC strength comes leveraged longs, and we expect derivatives markets to liven up in 2024 through more frequent squeezes.



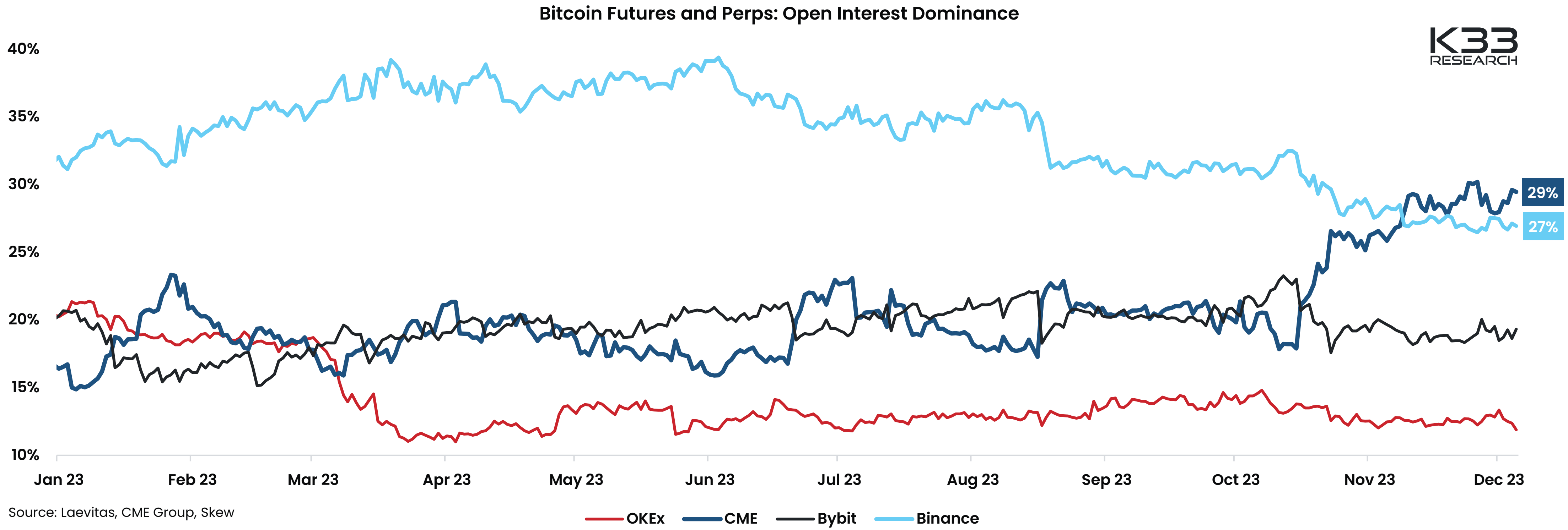
Source: Laevitas, CME Group, Skew

2024 prediction: Open interest will behave more erratically in 2024

Institutional surge: CME taking #1 spot

The orderly BTC derivatives market of 2023 may be explained by CME's growing dominance. Starting the year, CME held a market share of 17%, making it the fourth largest futures exchange in BTC. Since BlackRock's ETF filing in June, CME has seen growing activity, accelerating in pace as we entered October, as CME traders were the dominating source behind BTC's journey higher. Since early November, CME has been the largest derivatives exchange in BTC, holding a 29% market share.

Alongside CME's stellar year, Binance faced significant regulatory headwinds, contributing to reducing Binance's BTC derivatives dominance from a peak of 39% to 27%.



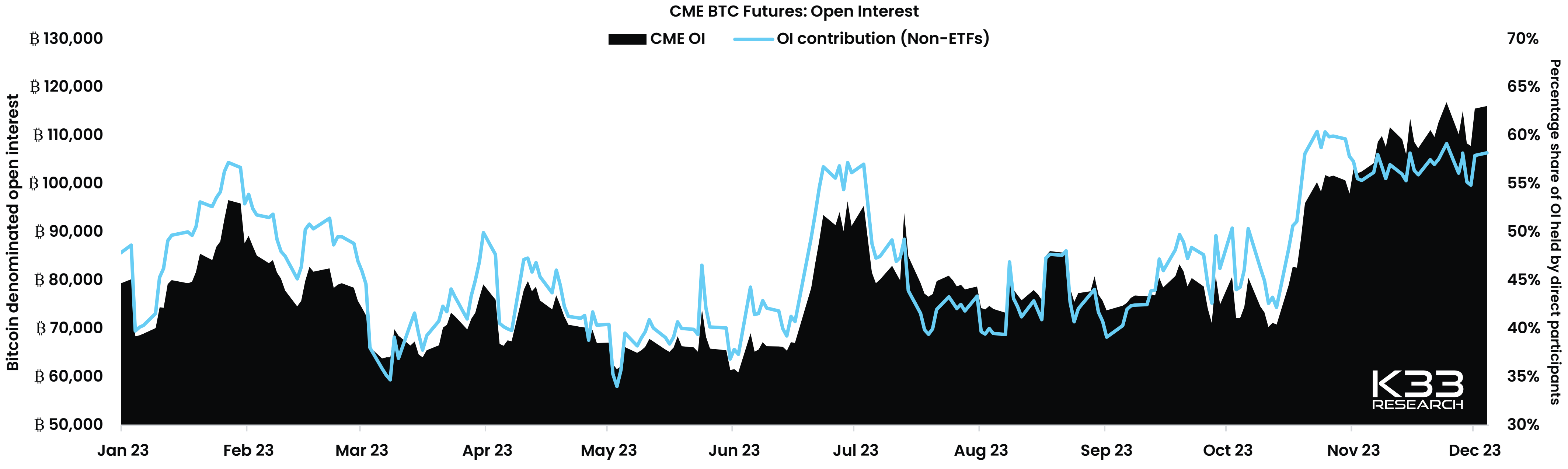
Source: Laevitas, CME Group, Skew

2024 prediction: CME will lose its top position after the ETF verdict, as active traders realizes profits and futures-based ETFs face outflows to the less costly spot ETFs

CME OI up 77% since June

BlackRock's ETF filing and favorable odds for an ETF approval attracted the institutions back to longing BTC. Open interest on CME surpassed 100,000 BTC in November as CME surpassed Binance and became the largest BTC derivatives exchange. CME's open interest currently sits at 115,000 BTC, increasing by 77% from 65,000 BTC in early June.

All current U.S. BTC ETFs maintain their exposure through CME's BTC futures, currently representing 42% of CME's open interest, down from 63% in late May. ETF exposure tends to be more stagnant than the active market participation rate, as ETF investors gladly maintain exposure over multiple costly rolling intervals. Increased directional determination from active participants offers a potent directional signal from BTC, as stints in activity tend to be relatively short-lived. However, in the past two months, active market participants have maintained an OI contribution of 55% or more, illustrating a long-lasting demand to maintain long exposure in BTC ahead of the ETF verdict.



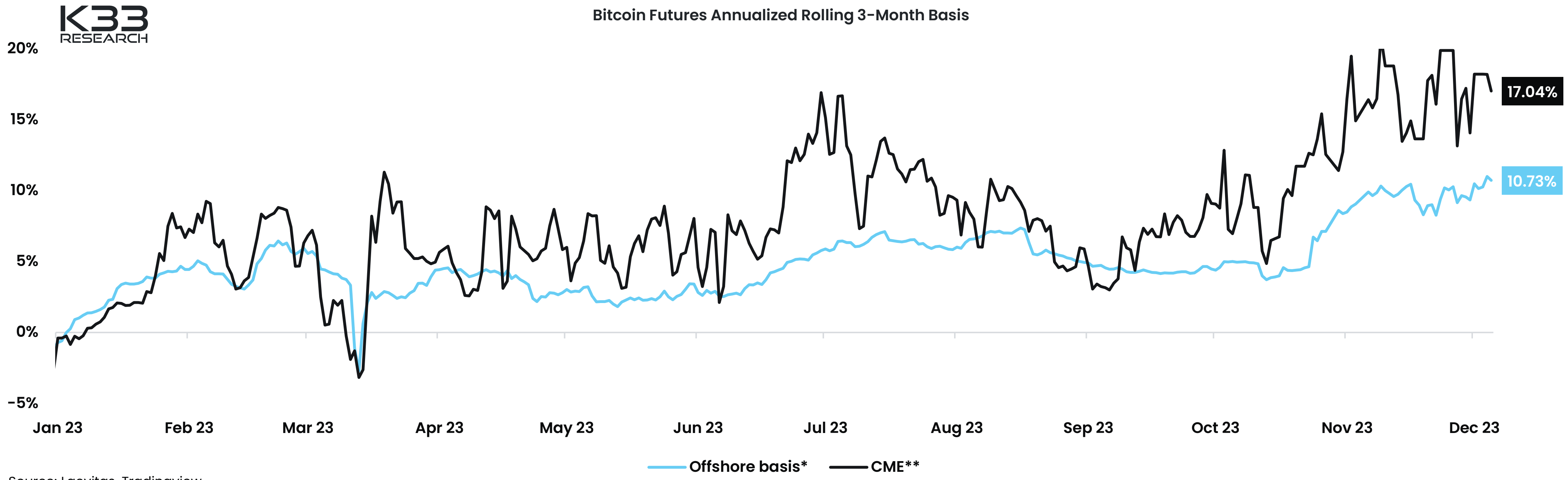
Source: CME, ProShares, Valkyrie, VanEck, Bitwise, CSOP, Samsung, VolatilityShares

2024 prediction: CME OI will make its 2024 peak in January

CME premiums have been consistently high throughout BTC's rally

The growing activity on CME has been directly accompanied by widening futures premiums. CME futures premiums has pushed to highs not seen since January 2021, whereas the offshore side of the market remains far more cautious. CME's massive futures premiums are caused by an enormous demand to add long exposure ahead of the SECs BTC ETF verdict, and indicates that professional risk-takers view the odds of approval as favorable.

Historically, CME traders have navigated bull runs efficiently. CME premiums widened a month ahead of the futures-based ETF approval before contracting in the weeks after its launch. Similarly, CME saw heightened activity in the first stages of the 2020-21 bull run, quickly declining in March and April 2021 as retail froth fueled in full force.



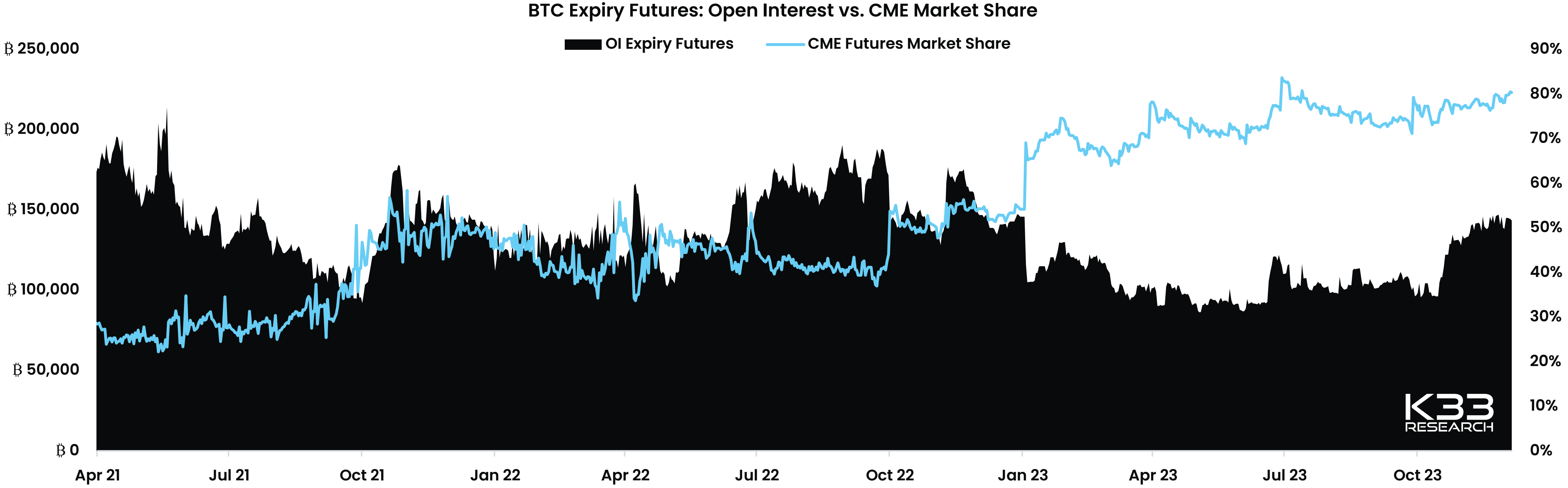
Source: Laevitas, Tradingview
*OI weighted basis average (Binance, OKX, Deribit) **Closed Sat-Sun

2024 prediction: CME's basis will remain one of the strongest market signals throughout 2024

The "entirety" of the exposure in expiry futures market sits at CME

CME's market dominance is far more significant when strictly focusing on expiry futures, with CME holding an 80% market share. On offshore exchanges, open interest has gravitated more and more towards perpetual swaps throughout the past year, making CME the last bastion of conventional expiry futures for Bitcoin.

As a result of CME's massive dominance, offshore futures premiums have become a somewhat nonsensical market signal, with the 50% APY peak in liquid offshore BTC futures from April 2021 representing an old relic, as everything points towards offshore traders focusing on perps and options onwards.

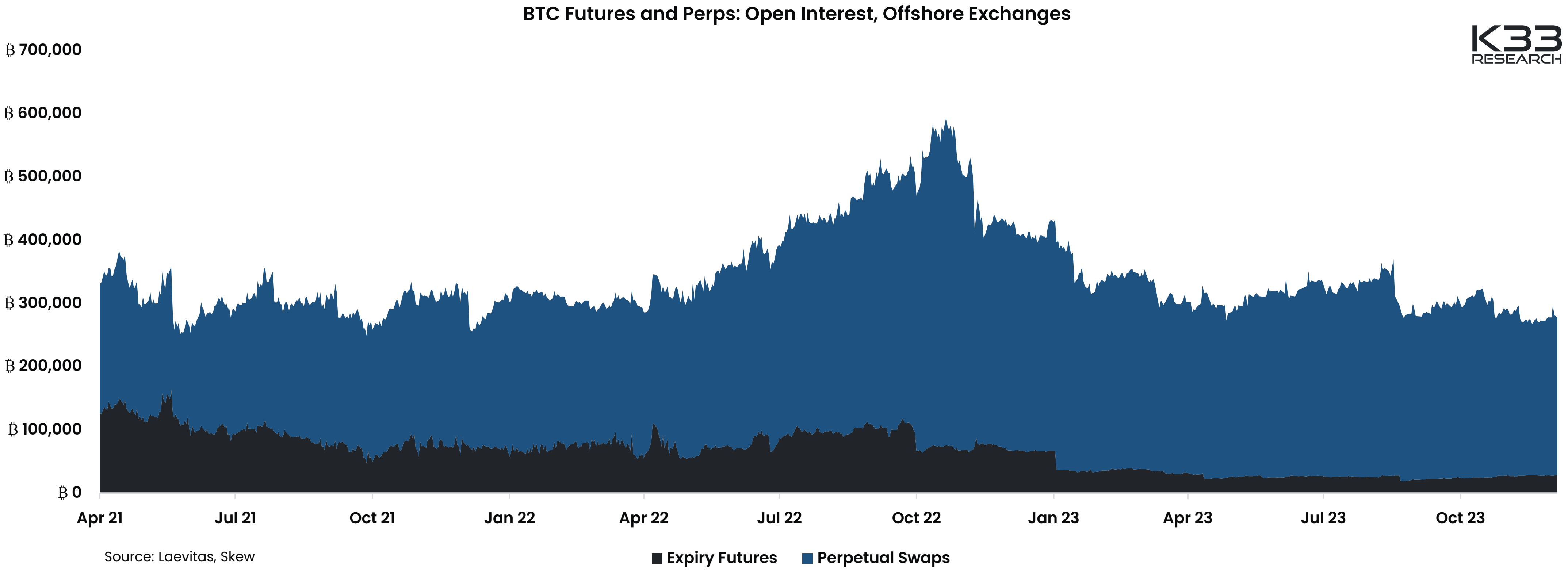


Source: Laevitas, CME Group, Skew

2024 prediction: CME will remain the only large market for expiry BTC futures

Expiry futures went out of fashion offshore

Crypto-natives and retail traders prefer the “straightforwardness” of perps over futures, as offshore expiry futures currently hold an open interest of 28,200 BTC, vs. perps 250,000 BTC. In April 2021, the OI distribution sat at 126,000 BTC in futures and 206,000 BTC in perps, telling of the changing market structure.

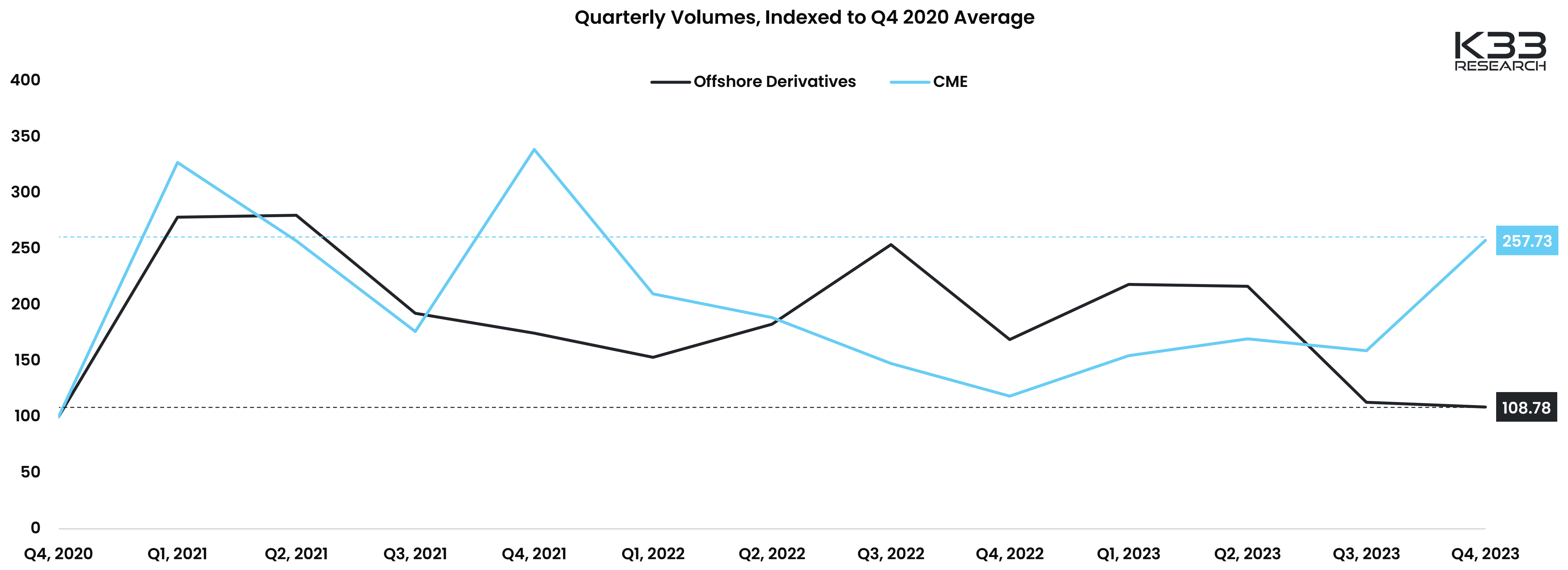


2024 prediction: Perps will further solidify itself as the preferred offshore derivatives product

Institutional traders behind BTC's Q4 surge

The October-November rally in BTC has been fueled by institutional activity, while offshore activity has remained comparatively low. This is evident by contrasting average daily trading volumes on CME to those of the offshore derivatives market to Q4 2020 volumes.

By indexing quarterly trading volumes of CME and offshore futures and perps, the change of pace on CME compared to the offshore market becomes clear. The first two months of Q4 2023 have seen an average daily trading volume on CME of $1.5bn, on par with Q2 2021 levels and only surpassed by Q1 2021 and Q4 2021. This starkly contrasts the observed trading volume in offshore derivatives, which in the same period saw its lowest average daily trading volume since Q4 2020.



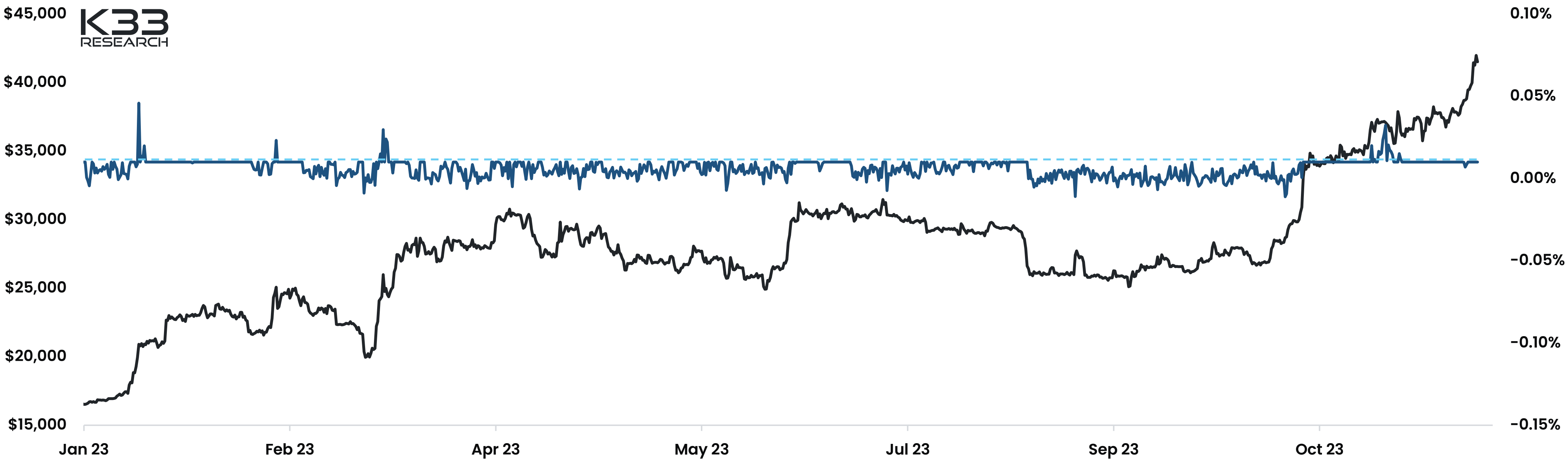
Source: Laevitas, Skew, CME Group

60% of 2023 saw funding rates below neutral levels

Sentiment in perps has been neutral to bearish throughout the majority of 2023. 60% of all funding intervals in Binance's BTCUSDT perp in 2023 sat below the neutral funding rate threshold of 0.01% per 8hr, 38% of all funding intervals sat at neutral levels, whereas only 2% of all funding rate intervals in 2023 saw funding rates push above the neutral funding rate of 0.01%.

This illustrates an overall conservative sentiment among crypto-natives and retail traders throughout 2023.

Bitcoin Perpetuals: Binance Funding Rates vs BTC Price



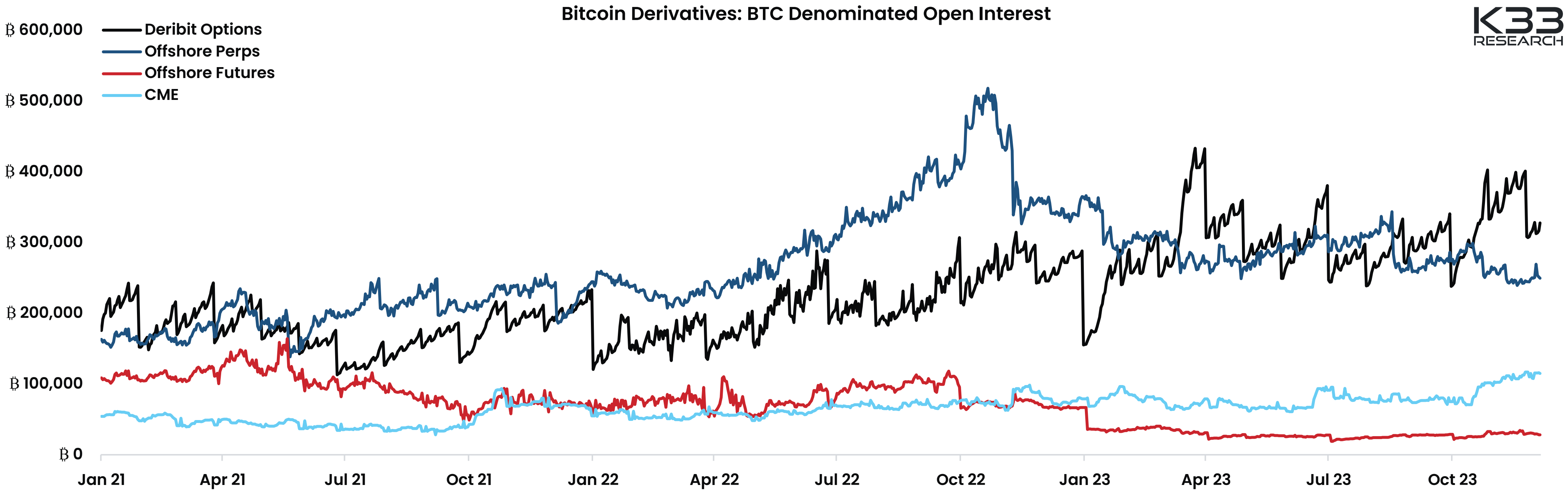
Source: Laevitas, Tradingview

2024 prediction: Funding rates will be above neutral for a larger portion of 2024 than below.

Options relevancy growing throughout 2023

The relevancy of BTC options has never been more significant in the BTC derivatives market. BTC options saw all-time high volumes in 2023 and OI pushing to ATHs. Open interest in options has been on an uptrend throughout 2023, in contrast to other offshore derivatives, with perps and offshore expiry futures having seen YTD declines of 27% and 56% in OI, respectively.

This sheds light on an important structural shift in the market, where we emphasize that options are becoming a more material component in BTC's price discovery.



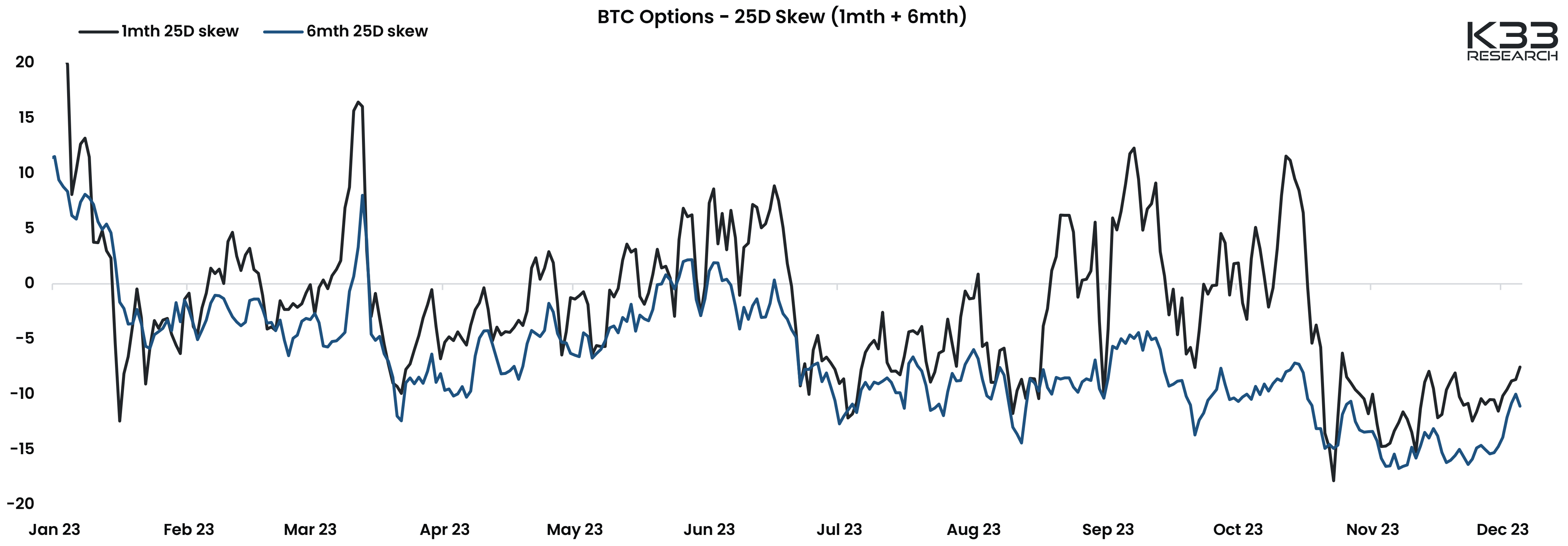
Source: Laevitas, CME Group

2024 prediction: Usage of BTC options will remain high throughout 2024, and gradually gain more material importance in BTC's price discovery

Options traders have leaned bullish since BlackRock's filing

The growing activity in options has, similar to CME, been affiliated with a growing demand to add upside exposure throughout the latter part of 2023, evidenced by 25d skews trailing at negative levels throughout the majority of the year. Throughout the majority of 2022, skews were positive before flipping negative following BTC's January short squeeze.

Options traders have thus had a decent track record at pricing in directional momentum throughout the past year, indicating that options flows are a useful tool to monitor when forming market opinions for the short to medium term.



Source: Laevitas

2024 Outlook

A YEAR FAVORING THE BULLS

The times they are a-changin'

Correlations are down, massively.
Implication -> Fund managers <u>seeking to strengthen risk-adjusted returns</u> adds BTC exposure.

Credit has already been crunched, severely.
Implication -> Forced selling occurred in 2022, limited overhang as we enter 2024.

The halving is near.
Implication -> Sell side pressure from miners to fall 50%.

ETFs are coming.
Implication -> The impact of institutions and Wall Street legitimizing BTC as a sound investible asset cannot be overstated.

October 2017

"Bitcoin just shows you how much demand for money laundering there is in the world"

Larry Fink,
BlackRock CEO

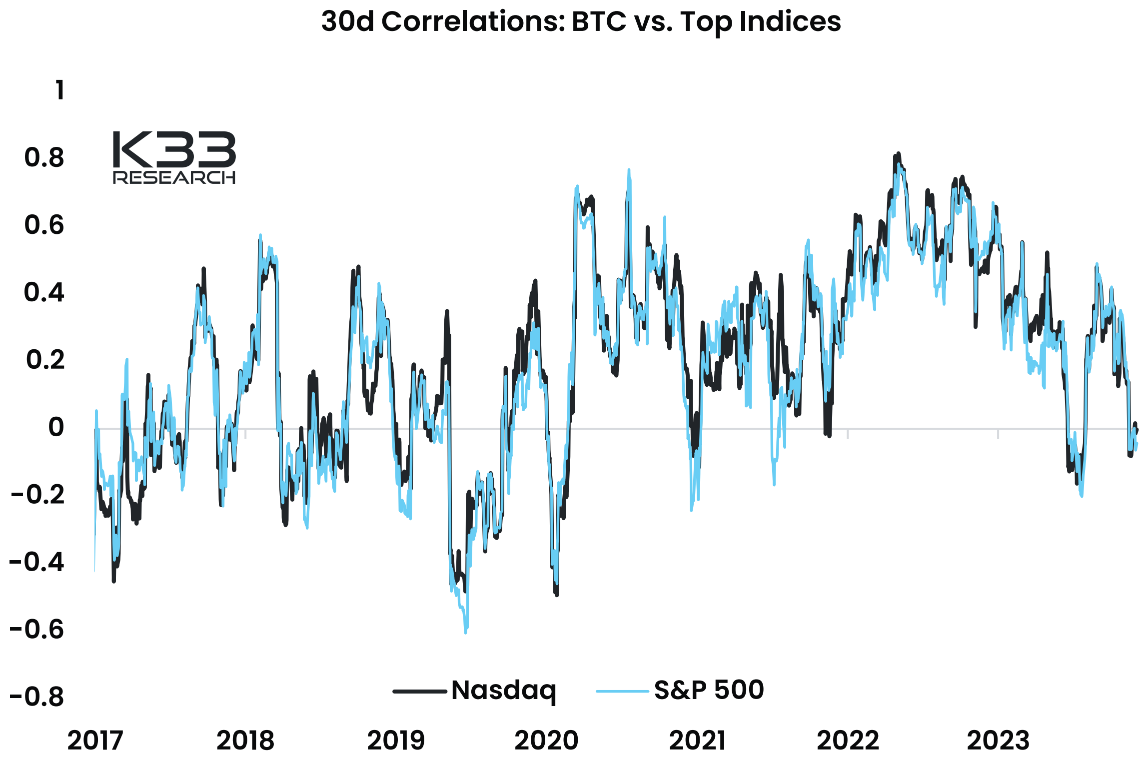
October 2023

"I think the rally today is about a flight to quality. With all the issues around the Israeli war. I think there are more people running into a flight to quality, whether that's in gold, treasuries ***or crypto,*** *depending on how you think about it.*

And I believe crypto will play that type of role, as a flight to quality.*"*

Larry Fink,
BlackRock CEO

Correlations are mean reverting



Source: Tradingview

Bitcoin's correlation to U.S. equities is declining, increasing diversification benefits of BTC.

Factors behind the 2021-2022 outlier regime:

1. Interest rates.
    1. Growth, growth and growth.
2. Hedging – macro play
3. Bitcoin exposure in public companies

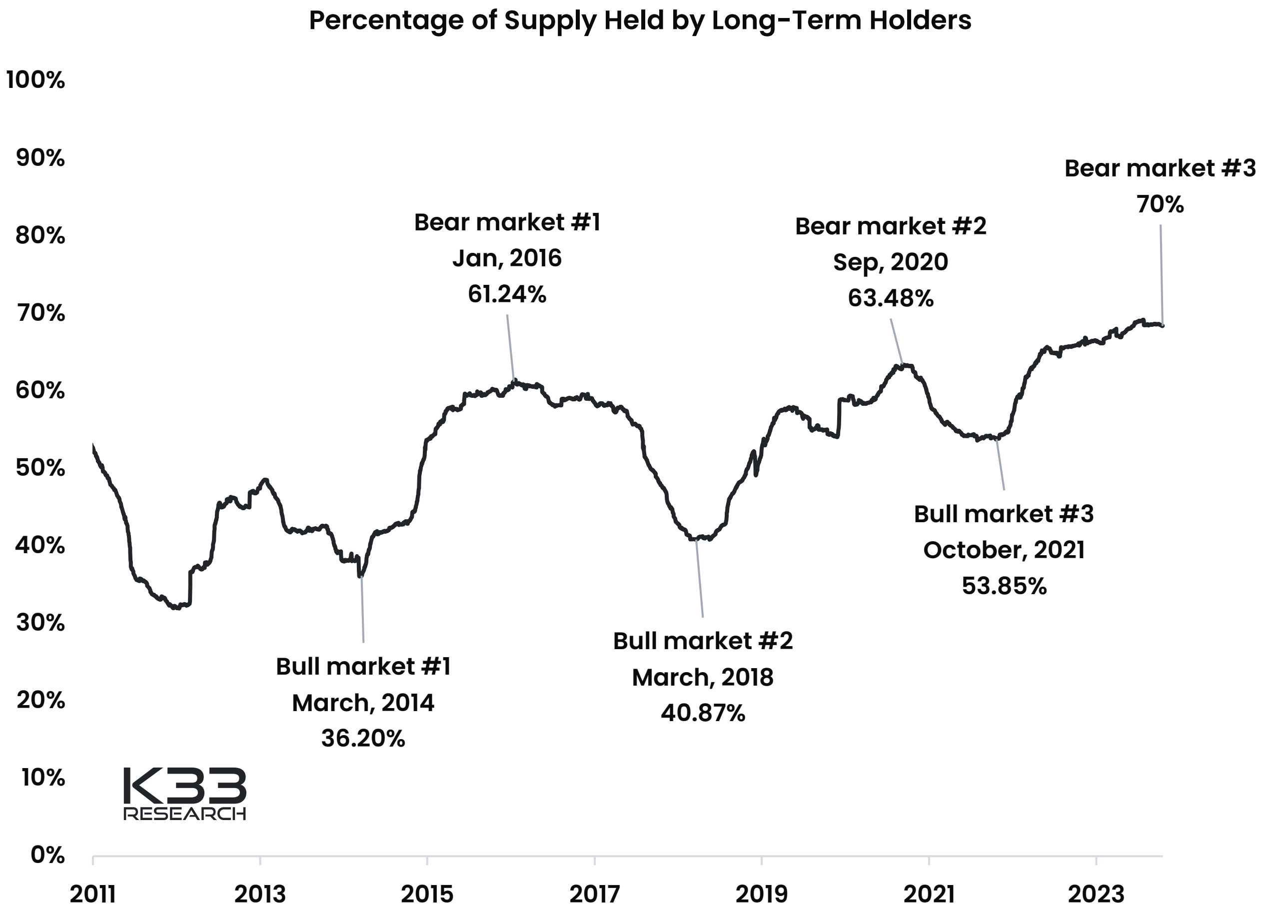
Now?

1. "Stable" cost of capital.
2. No direct relationship between crypto assets and yields, in contrast to public companies.
3. Hyper-growth-oriented companies already buckled under the pressure, forced into selling.

Structural correlation? **DOWN.**

Implication:
Increased ability to achieve diversification through crypto.

Hodling at all-time highs



Source: Coinmetrics

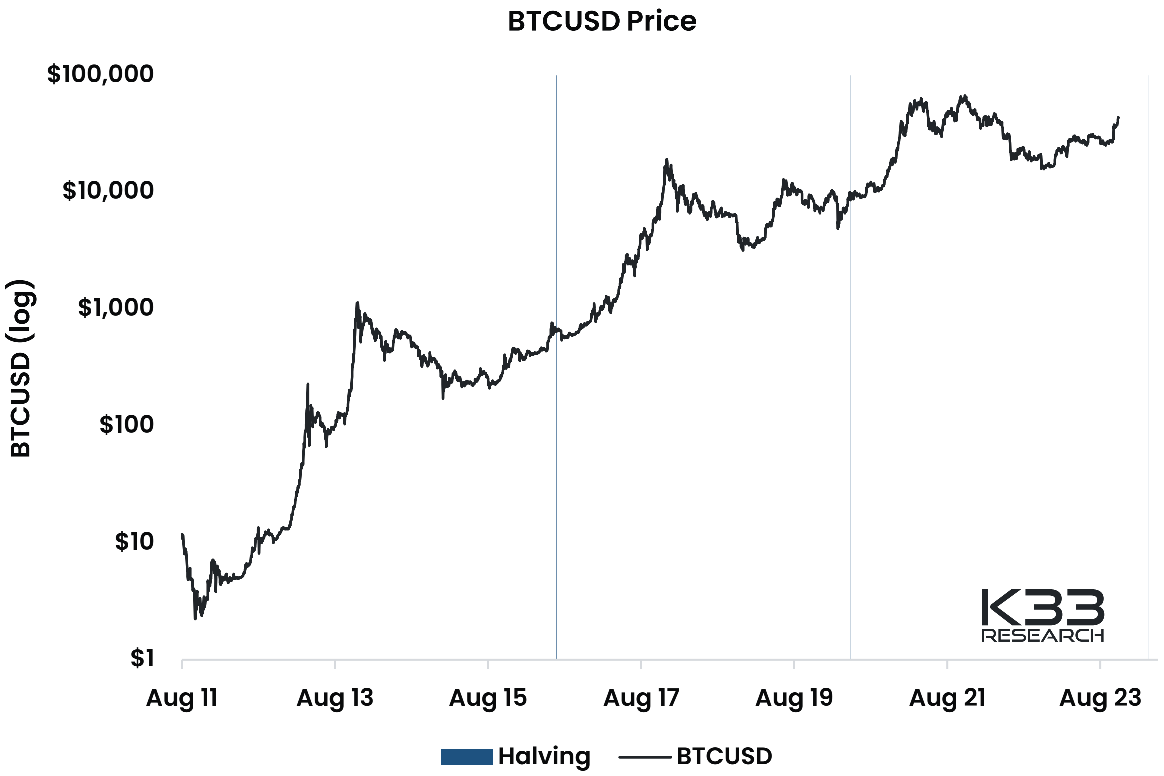
Bitcoin owners prefer hoarding bitcoin.

As prices rise, even the strongest fanatics sell. As prices fall, fanatics accumulate, and they don't sell in deep drawdowns.

Currently, 70% of BTC's supply is held by fanatics.

Implication
Sell side pressure is currently very subdued.

Halving – 164,250 less BTC to be sold yearly



Source: Tradingview

Bitcoin's daily issuance will be reduced by 50% in Q2, 2024.

A known event. Per efficient market hypothesis, it should already be priced in.

But, lets have a look at the consequences:

Mining BTC is very expensive. More than 90% of BTC mined is sold immediately.

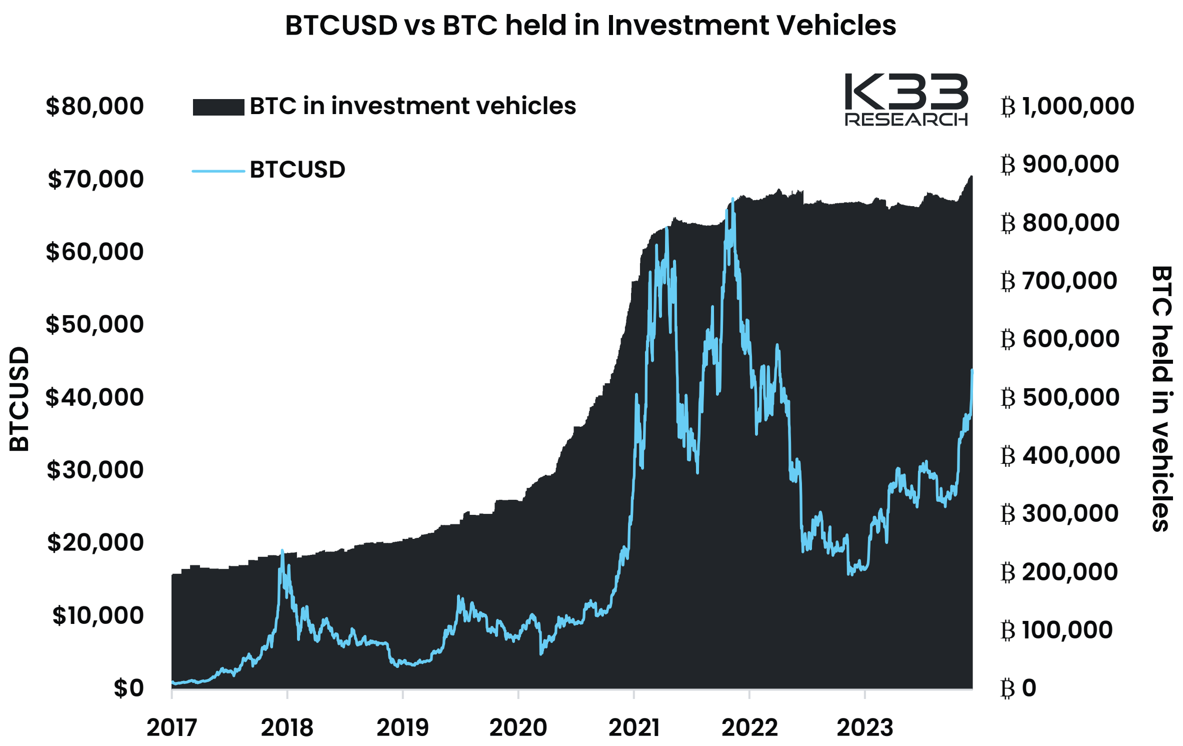
Today, 900 BTC are mined a day. 328,500 BTC a year.

Sell pressure to be reduced by 164,250 BTC.

Implication?
In a market with thin liquidity, determined buyers, and a subdued sell-side, bitcoin's halving compounds in impact.

Yes, the efficient market hypothesis should hold in theory. But with Bitcoin in practice, it doesn't because the liquidity effects are so hard to pin down precisely in advance.

Positives on the horizon – U.S. ETFs are coming



Source: Grayscale, Bloomberg, ProShares, Bytetree, Statusinvest, Valkyrie, VanEck, Bitwise, CSOP, Samsung, VolatilityShares

Promising ETF outlook in the U.S.

10 U.S. BTC ETFs applications have been filed with the SEC. A response to the filings is expected by January 10, 2024.

(Some) filers:

BlackRock. Fidelity Investments Invesco VanEck

Would never launch under the assumption that crypto carries reputational risk. Launching under the assumption that BTC ETFs will enhance company profits expects longevity of crypto markets.

Implication?
Increased access to crypto through regulated trustworthy institutions.

Overall, constructive conditions for bulls as we enter 2024

Stubborn holders
Supply is deeply concentrated in the hands of the fanatics.

They won't sell at current prices.

The halving

BTC issuance slashed in half in April 2024. In time, this causes reduced sell-side liquidity from the single biggest structural seller in crypto markets, the miners.

Increased access to regulated products
ETFs likely to launch. This increases access to crypto markets.

In an environment where chasing alpha is hard, diversifying in an uncorrelated asset (BTC) through accessible products could cause strong tail winds.

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