



Trade Ideas

Three Reasons Why Parabolic Run Lies Ahead

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Peter Chung | Head of Research

peterchung@prestolabs.io

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Figure 1 : Stack It



Source: Nevermind by Nirvana, Presto Research

Summary

- Our bullish thesis rests on global liquidity, regulatory friendliness, and low expectations. Considering the three factors, the current risk-reward tradeoff favors upside potential in our view.
 - The U.S., China, and the EU – three economies that account for 75% of the global money supply – currently share a bias toward liquidity expansion. The U.S. is allowing organic liquidity growth and may ease policies if necessary, while China and the EU face no constraints to follow suit.
 - Whether it's Trump or Harris, the regulatory environment for crypto in the US is likely to improve compared to that under the Biden Administration, though the degree of improvement may vary. The upcoming U.S. election presents a positive expected value event for the industry.
 - After over six months of range-bound trading, investor psychology remains subdued and expectations are low, as indicated by various sentiment indicators.
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1. Introduction

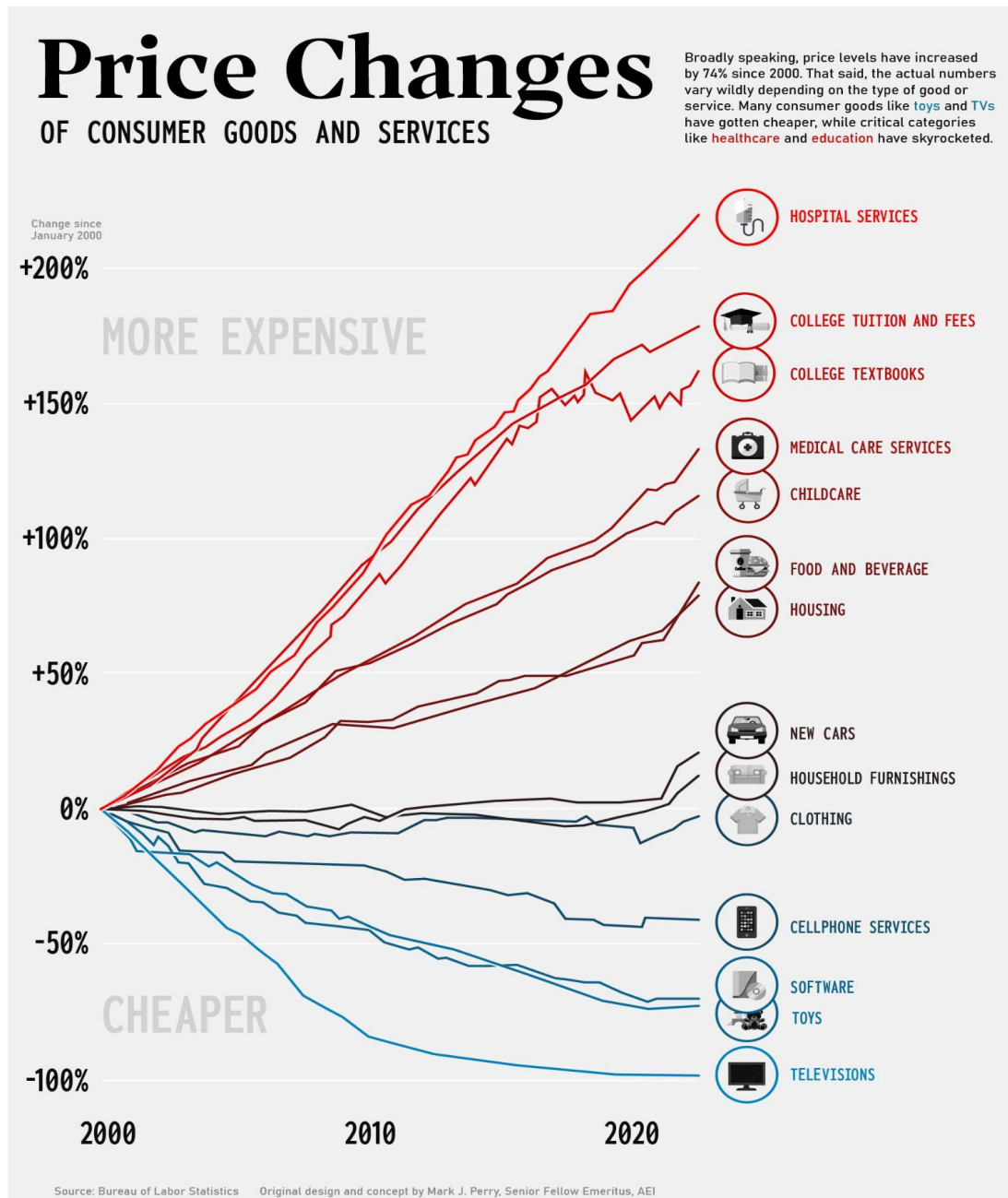
Since we have summarized our bullish view on the broad crypto market on October 11th X post "[Smells Like Bull Spirit](#)," BTC price is +12%. The purpose of this report is to reiterate the bull thesis with added depth and detail on each point from the 24-part thread. To recap, our thesis rests on three main factors: 1) global liquidity, 2) regulatory friendliness, 3) low expectations.

2. Global Liquidity

The "price" of goods is essentially an exchange ratio between the goods and a unit of account. In today's world, where fiat currency serves as the unit of account and its supply fluctuates, changes in the fiat supply become the most influential drivers of prices. When the fiat supply increases, its value relative to goods decreases. This phenomenon is called 'inflation,' and we often reciprocate the concept by describing it as 'rising prices,' while obscuring the changes happening to the denominator (the value of the currency) in the process.

One caveat is that the prices of goods and services move at different rates, driven by factors such as credit flow and value perception. In sectors where technological advancements boost output faster than the increase in fiat supply, the prices of goods and services may even decline (Figure 2).

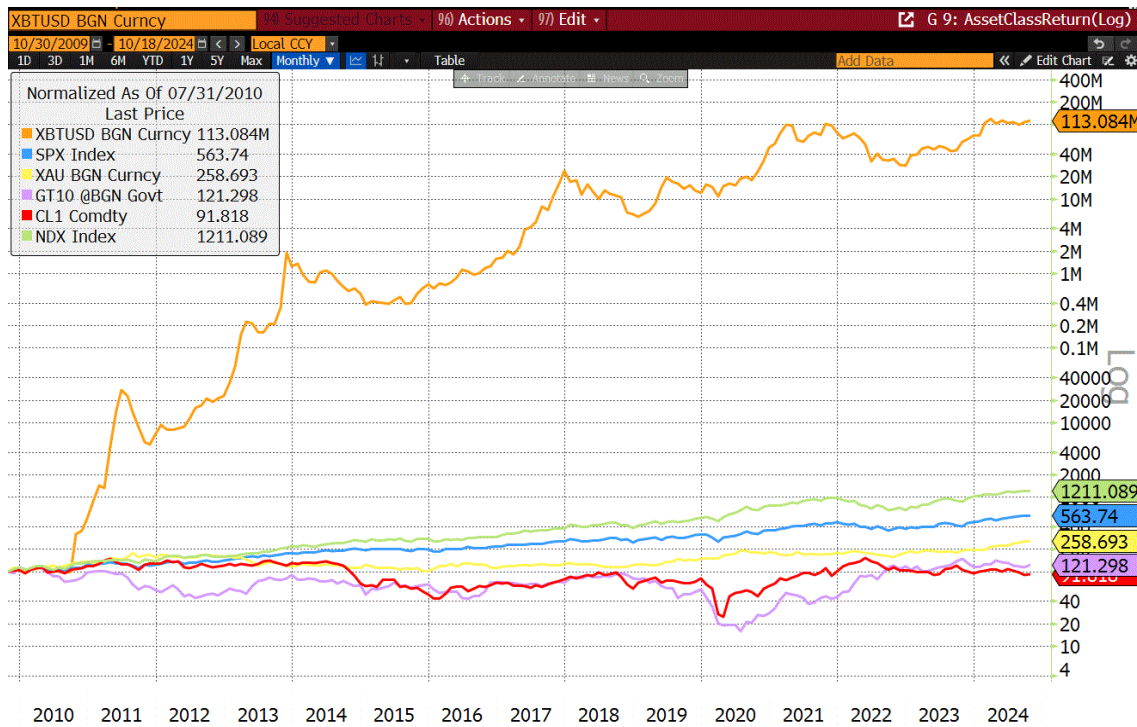
Figure 2 : Some Down, Mostly Up



Source: Visual Capitalist

Assets transacted on credit tend to respond more sensitively to changes in fiat supply (or expectations of it). As such, stocks, bonds, commodities, and real estate have all risen over the years, but none has come close to matching Bitcoin's performance since its debut (Figure 3).

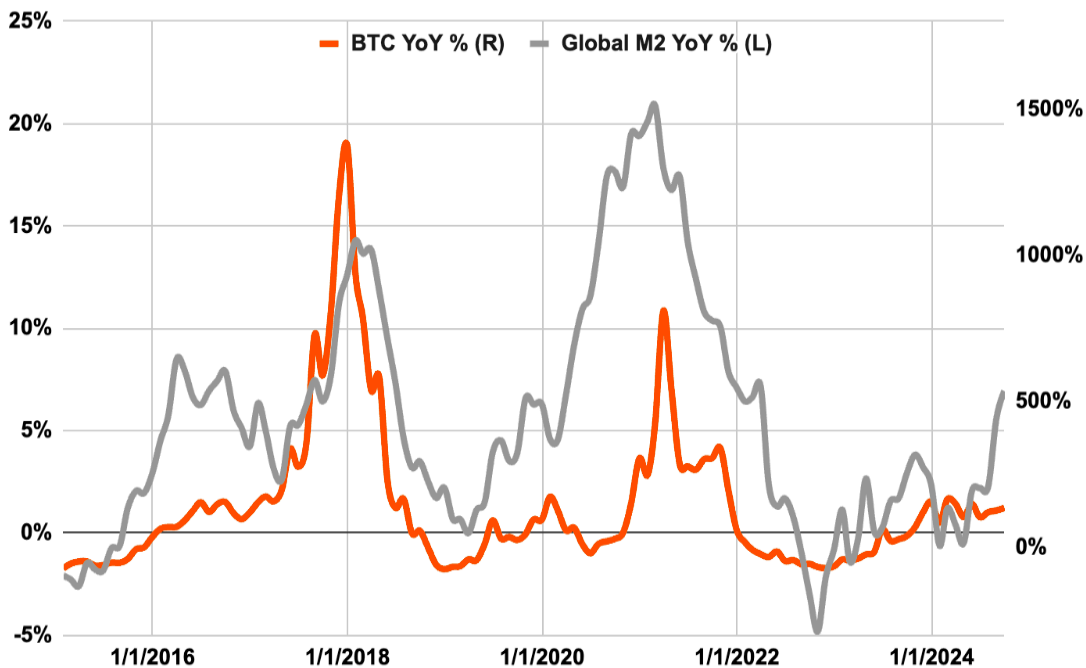
Figure 3 : Lonely At The Top



Source: Bloomberg

Sure enough, global money supply (M2 aggregated from US, EU, China, Japan, UK, Canada, Australia, Russia) shows strong correlation with BTC-USD (Figure 4).

Figure 4 : High Correlation Between Global M2 vs BTC Price

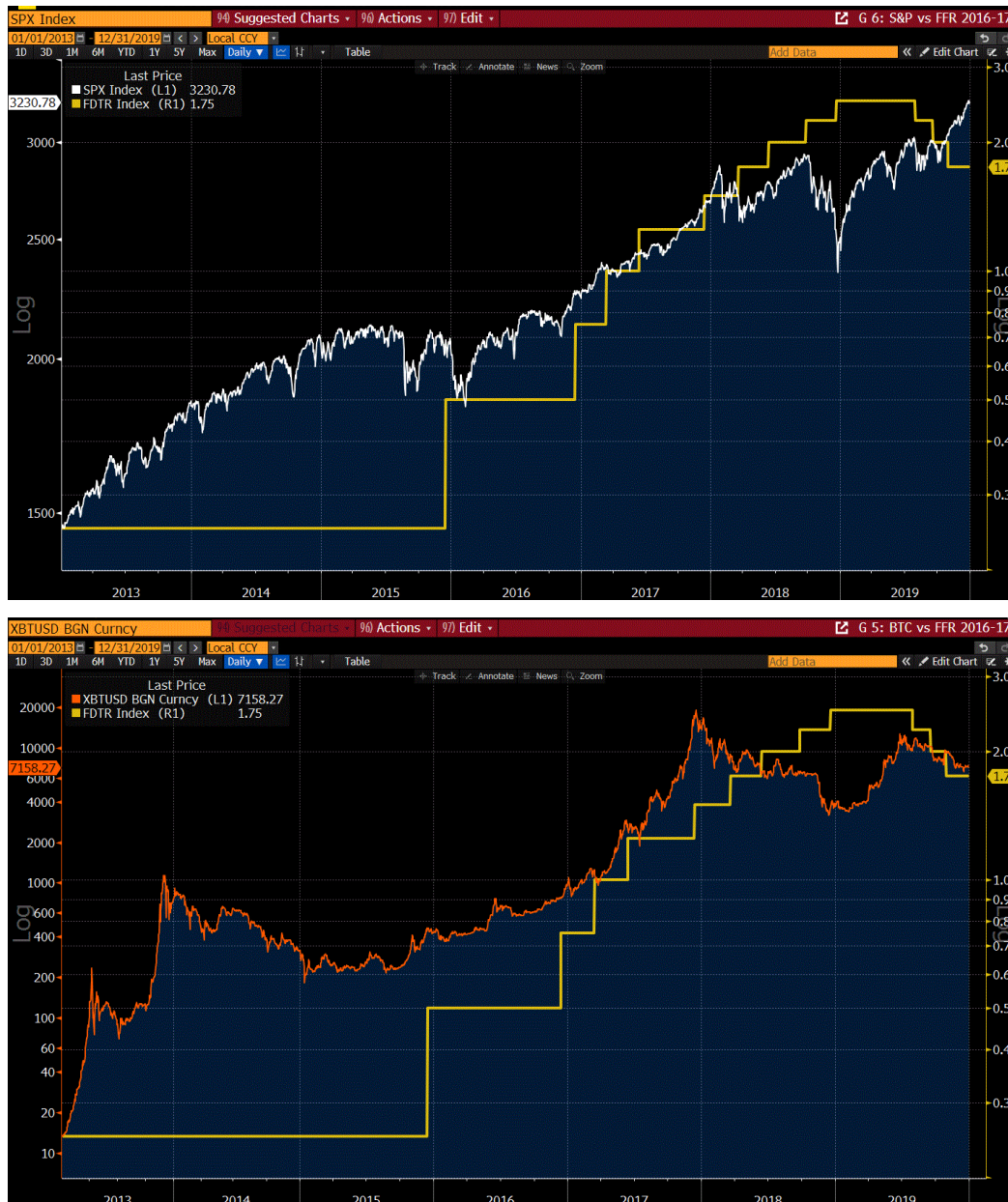


Source: Bloomberg, Presto Research

2.1 USD Supply

One common misconception is that the Fed has omnipotent control over the USD supply, able to turn it on and off like tap water at will. In reality, the USD supply is driven by organic economic activities (credit creation, money velocity, etc), while the Fed attempts to influence it via monetary policy with varying degrees of success. Therefore, it's too simplistic to assume a binary relationship, such as "rate cut = market up, rate hike = market down." A sufficiently strong economy can generate USD supply growth organically and drive up asset prices even against a series of rate hikes. '16-'17 bull market is the prime example (Figure 5).

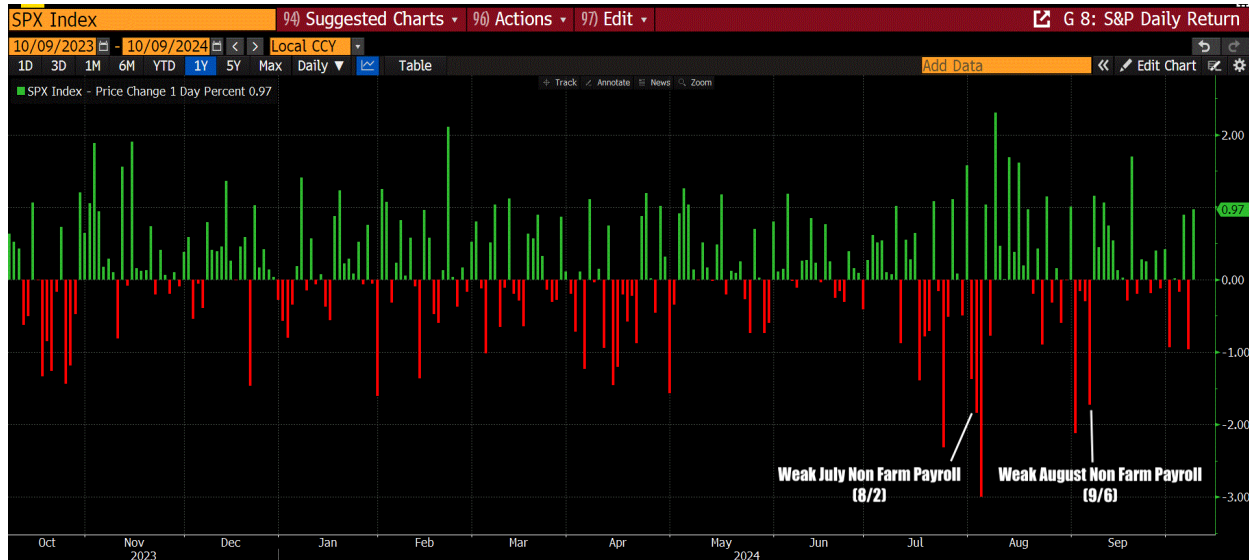
Figure 5 : S&P500 +34%, BTC +405% During 2016-2017 Rate Hike Cycle



Source: Bloomberg

Similar dynamic is playing out in the current cycle. Since the so-called ‘Growth Scare’ of summer ‘24, the strong growth data have driven asset prices up, not down (Figure 6, 7). This indicates that, with the recession risk in the front seat now, we’ve moved away from ‘good news is bad news’ territory of the last few years to ‘good news is good news’ territory.

Figure 6 : Market Alerted To Recession Risk Since Weak Non-Farm Payrolls in August...



Source: Bloomberg

Figure 7 : ...While Falling Jobless Claims Saving The Day



Source: Bloomberg

Is the Fed overreacting to the recession risk? The views from the likes of Larry Summers and Peter Oppenheimer¹ that “the Fed’s 50bp cut was a mistake” has gained traction recently. Their concern is a resurgence of inflation, reminiscent of the 1973-74 inflation spike that followed the Fed’s premature dovish pivot. Indeed, the latest FOMC minutes show that the 50bp cut decision was not unanimous, a notable departure from the usual solidarity seen in FOMC decisions.

¹ Chief Global Equity Strategist, Goldman Sachs

In our view, the risks of both inflation returning and a recession are real. However, the market has so far indicated that it is more concerned with growth risks than inflation risks. Until the market stops responding positively to strong growth data, we don't see a need to change this assessment.

2.2 CNY, EUR, JPY Supply

The PBoC in China announced a series of stimulus measures to address the 3-year economic downturn. The timing – just one week after the Fed's 50bp rate cut – suggests that high US interest rates had previously limited China's ability to implement its own monetary stimulus, likely due to capital flight concerns. With the Fed now appearing to start a rate-cutting cycle, the PBoC is freed from shackles and is ready to launch more stimulus. The PBoC's follow-up rate cut this week further validates this view. The market has already recognized the shift, as evidenced in the red-hot reactions in HK/China bourses since the stimulus announcement (Figure 8).

Figure 8 : China Shares Mooning Like Memecoin...



Source: Bloomberg

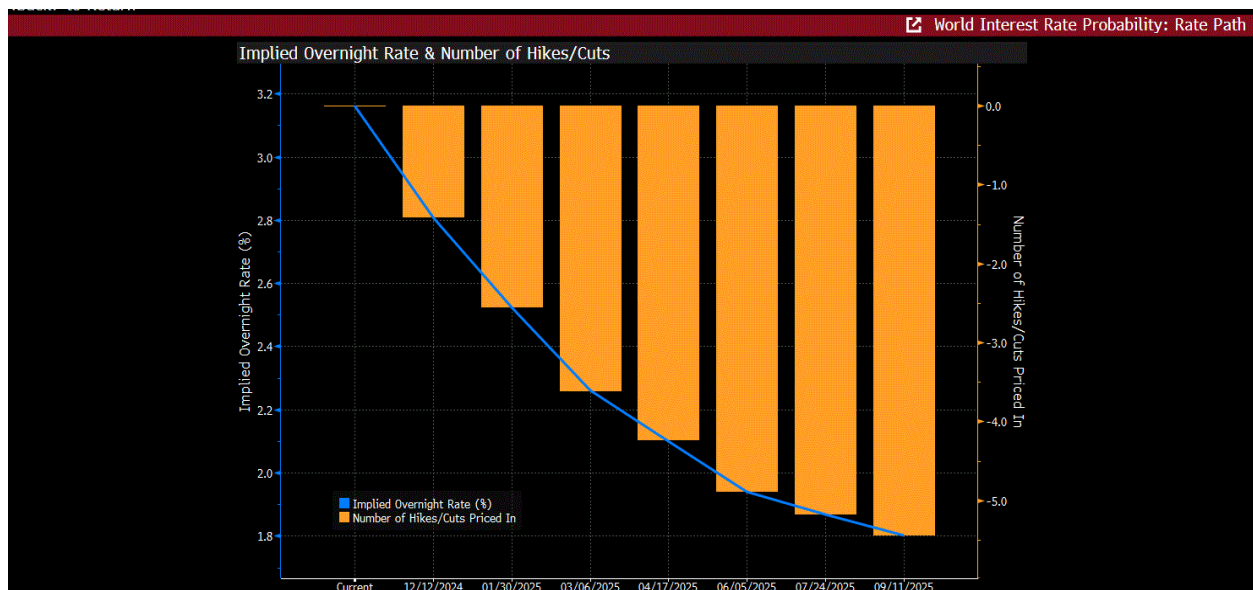
Over in the EU land, monetary conditions have also begun to loosen. The ECB has already cut its policy rates (ECB Deposit Facility Announcement Rate) three times this year, while the futures market implies that the rate-cutting cycle could extend well into 2025 (Figure 9, 10).

Figure 9 : Monetary Conditions Also Easing in the EU...



Source: Bloomberg

Figure 10 : ...While Market Expects The Trend To Continue



Source: Bloomberg

As illustrated, US, China & the EU (75% of the aggregated M2) have loosening bias, suggesting synchronized liquidity expansion is on the way (Figure 11). Japan, the 4th largest contributor to global liquidity, is the wild card due to the BOJ's current hawkish stance. The saving grace is that on his first day in office, new Prime Minister Ishiba urged the BOJ to take a "cautious approach."

Figure 11 : Breaking Down Global Liquidity



Source: NumberStory, Reddit

Figure 12 : BOJ To Slow Down Rate Hikes?

thejapantimes

Further BOJ rate hike this year in doubt after Ishiba's surprise warning

Prime Minister Shigeru Ishiba meets with Bank of Japan Gov. Kazuo Ueda at the Prime Minister's Office on Wednesday. | JUI

BY TORU FUJIOKA
BLOOMBERG

SHARE Oct 3, 2024

Source: The Japan Times

3. Regulatory Friendliness

Whether it's Trump or Harris, the regulatory environment for crypto is likely to improve compared to that under the Biden Administration, though the degree of improvement may vary. Therefore, the upcoming U.S. election presents a positive expected value event for crypto. This section explains why.

3.1 Crypto Policies Under Trump vs Harris

The table below summarizes the two candidates' stance on the crypto industry as reported by the media and their respective party's disclosures (Figure 13).

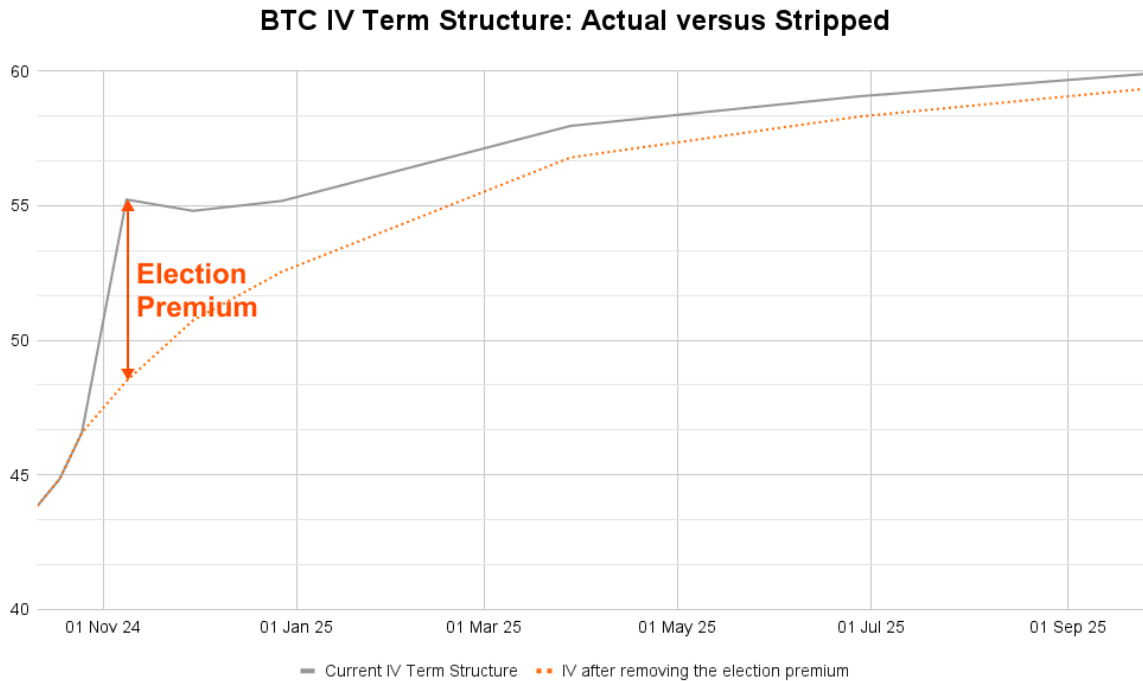
Figure 13 : Trump vs Harris on Crypto Industry

	Trump	Harris
Public Remarks	<p>"We should be mining all the remaining Bitcoin right here in the US." (May, Mar-a-Lago)</p> <p>"If you're in favor of crypto you'd better vote for Trump." (May, Mar-a-Lago)</p> <p>"...[will] ensure that the US will be the crypto capital of the planet and the Bitcoin superpower of the world" (July, Nashville)</p> <p>"I will fire Gary Gensler." (July, Nashville)</p> <p>"...set up Crypto Presidential Advisory Council" (July, Nashville)</p> <p>"...end Operation Choke Point 2.0" (July, Nashville)</p> <p>"...the US should stop selling bitcoin...will create a national Bitcoin strategic stockpile" (July, Nashville)</p> <p>Made his first public BTC transaction to buy a burger (Sept., NYC)</p>	<p>"We will encourage innovative technologies like AI and digital assets, while protecting our consumers and investors." (Sept., NY)</p> <p>"...will make sure owners of and investors in digital assets benefit from a regulatory framework so that Black men and others who participate in this market are protected." (Oct, Erie)</p>
2024 Party Platform	<p>"Republicans will end Democrats' unlawful and unAmerican Crypto crackdown and oppose the creation of a CBCD. We will defend the right to mine Bitcoin, and ensure every American has the right to self-custody of their Digital Assets, and transact free from Government Surveillance and Control."</p>	No Mention
Other Likely Changes	<p>Repeal SAB121 Support for various crypto bills in Congress</p>	Gensler may still be replaced

Source: Coindesk, Cointelegraph, 2024 Republican/Democratic Party Platforms, Presto Research

One thing to note is that the BTC options market is signaling potential "big moves" post-election, as indicated by an 8% "election premium" in the implied volatility curve for contracts after November (Figure 14). This could be due to several factors. Regardless of the election outcome, the removal of political uncertainty may trigger a near-term relief rally. In the event that the election result is contentious, it could lead to heightened volatility, similar to what happened during the Bush vs. Gore vote recounts in 2000 (Figure 15).

Figure 14 : BTC Options Market Pricing in 8% Election Premium



Source: Deribit via Laevitas, Presto Research, data as of 10/5/24

Figure 15 : VIX During Bush vs Gore Vote Recount

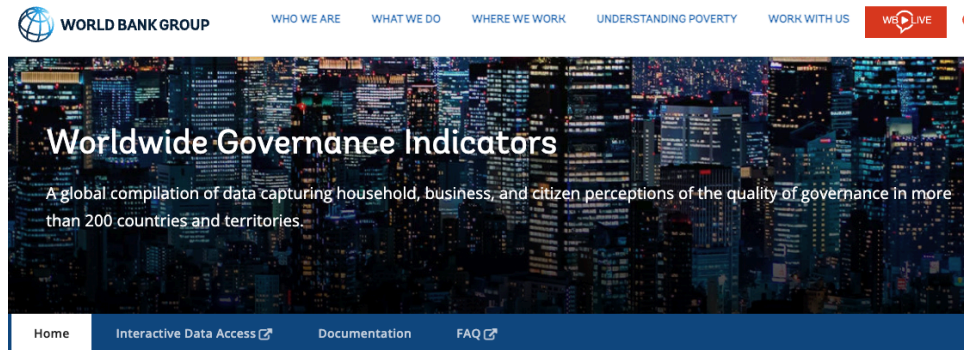


Source: Bloomberg

3.2 Estimating Regulatory Friendliness

Is there a way to quantify regulatory friendliness? The Worldwide Governance Indicators, a metric developed by the World Bank to measure the quality of government policies, can serve as a useful reference for this (Figure 16). A similar approach could be applied to quantify the U.S. government's crypto policy friendliness under the Trump or Harris administrations.

Figure 16 : Borrowing a Page From World Bank



The 2024 update of the Worldwide Governance Indicators, with data through 2023, will be published here on **October 18, 2024**.

Overview

Good governance is essential for development. It helps countries improve economic growth, build human capital, and strengthen social cohesion. The Worldwide Governance Indicators (WGI) are designed to help researchers and analysts assess broad patterns in perceptions of governance across countries and over time.

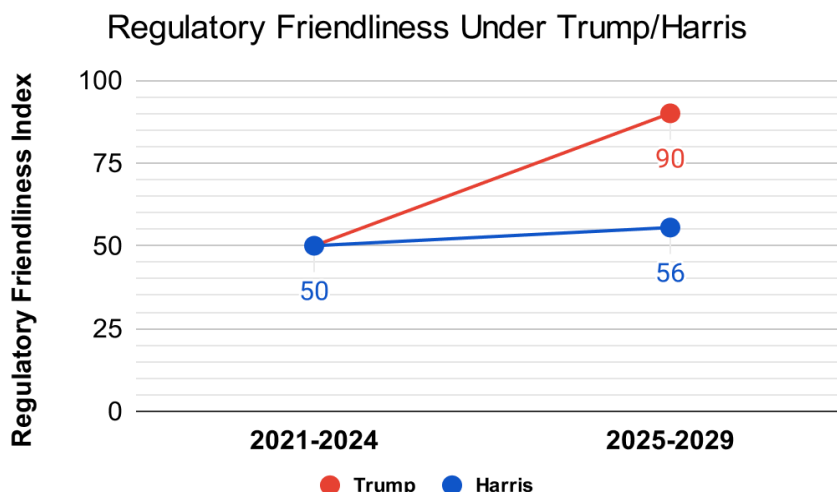
The WGI aggregate data from [more than 30 think tanks, international organizations, nongovernmental organizations, and private firms](#) across the world selected on the basis of three key criteria: 1) they are produced by credible organizations; 2) they provide comparable cross-country data; and 3) they are regularly updated. The data reflect the diverse views on governance of many stakeholders worldwide, including tens of thousands of survey respondents and experts.

We welcome feedback from users – including suggestions for additional data sources. Please email feedback to wgi@worldbank.org.

Source: World Bank

For instance, we can make a crude estimate of the U.S. government's crypto regulatory friendliness under different administrations as follows, where a higher index represents a more favorable regulatory environment (Figure 17).

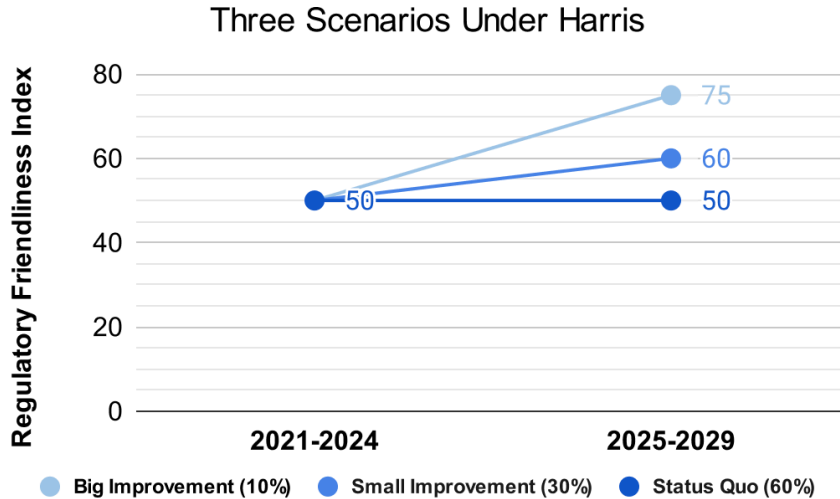
Figure 17 : Regulatory Friendliness Under Biden, Trump and Harris



Source: Presto Research

Harris's 56 is the probability-weighted average of three different scenarios shown in Figure 18. The numbers in the parentheses are the probabilities for each scenario.

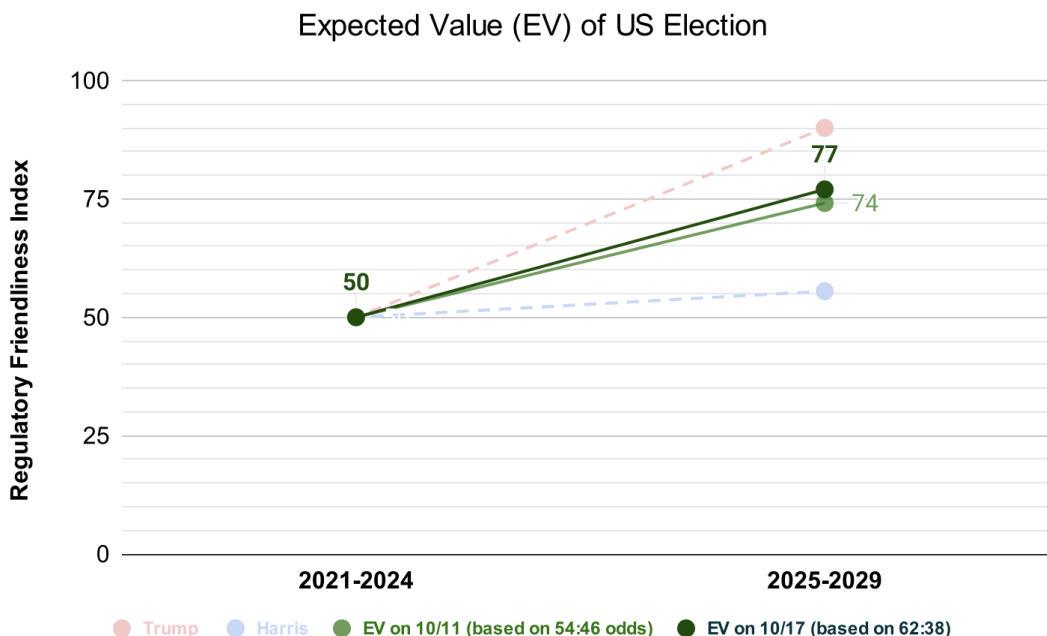
Figure 18 : Three Different Scenarios Under Harris



Source: Presto Research

Using Polymarket's betting odds, we can also calculate the probability-weighted average of the Regulatory Friendliness Index (RFI) post-election. Based on our assumptions, the US election is thus a positive expected value event (77 RFI vs. 50 RFI now). Note the expected value has moved up recently driven by rising betting odds for Trump (Figure 19). You can plug in your own assumptions to arrive at your own conclusion.

Figure 19 : Expected Value (EV) of US Election



Source: Presto Research

4. Low Expectation

Expectation is a key driver of asset prices. A good way to minimize investment risk is by entering a position when expectations are low. This is the situation today, as there is little evidence of market froth, as illustrated by the following five charts (Figure 20-24).

Figure 20 : Altcoin Dominance² at The FTX-Bankruptcy Level...



Source: TradingView

Figure 21 : Coinbase App Ranking at 430th...



Coinbase App ranking on the apple iOS store

- Green line = daily ranking
- Black line = 7 day moving average
- Horizontal dashed Red line = no. 50
- Horizontal Black line = no. 1

*The app reached no.1 in December 2017, April 2021, and November 2021

Added the 2017 cycle for comparison. Also sell trigger (vertical red shading) when the 7 day moving average is 50 or above. Currently this is at 430.

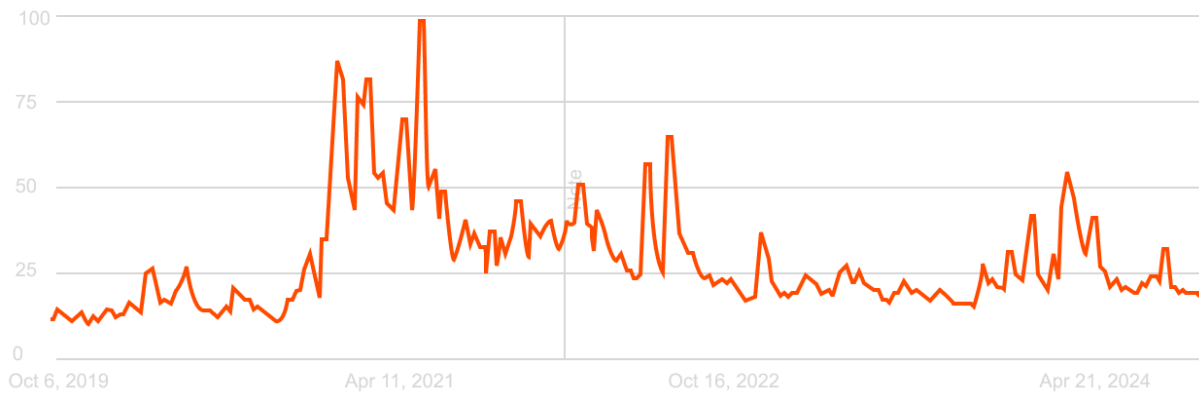


10:07 PM · Oct 4, 2024 · 1,464 Views

Source: <https://x.com/bitcoindata21/status/1842204868049506360>

² Excluding top 10 market cap assets

Figure 22 : Google search trend for bitcoin also down at post-FTX abyss level...

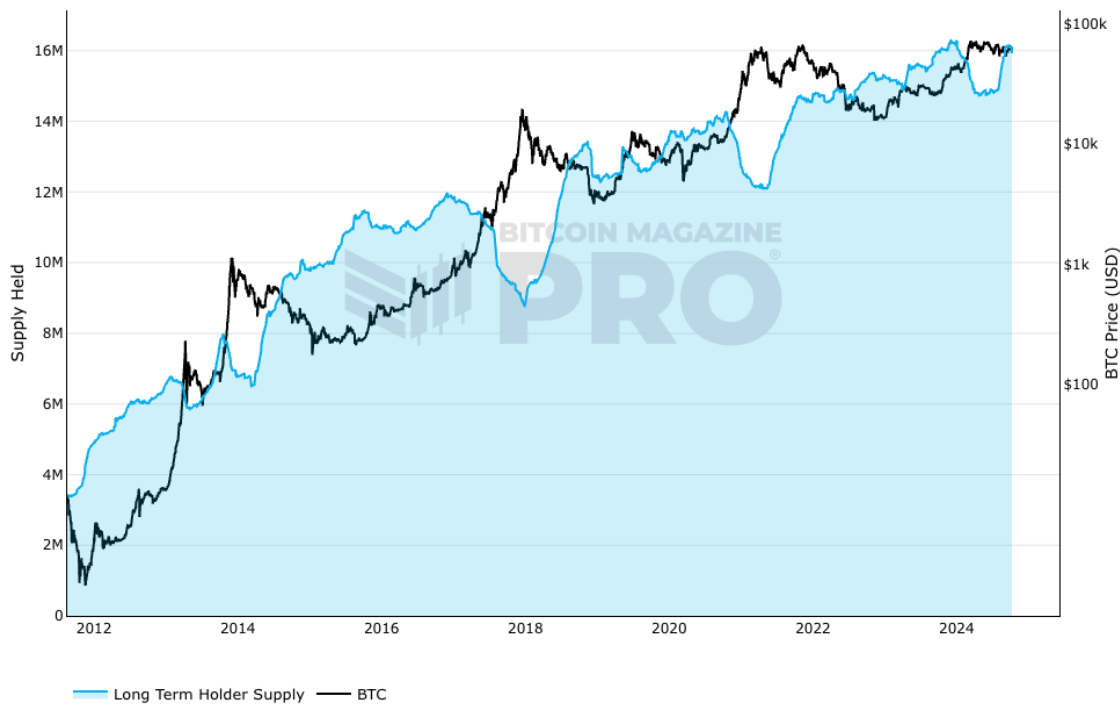


Source: Google

Overheated markets often entice hodlers to take profit en masse, as in 4Q13, 3Q17, 1Q21. This occurred in 1Q24 to some extent in the midst of the ETF-driven euphoria, but stabilized since April (Figure 23).

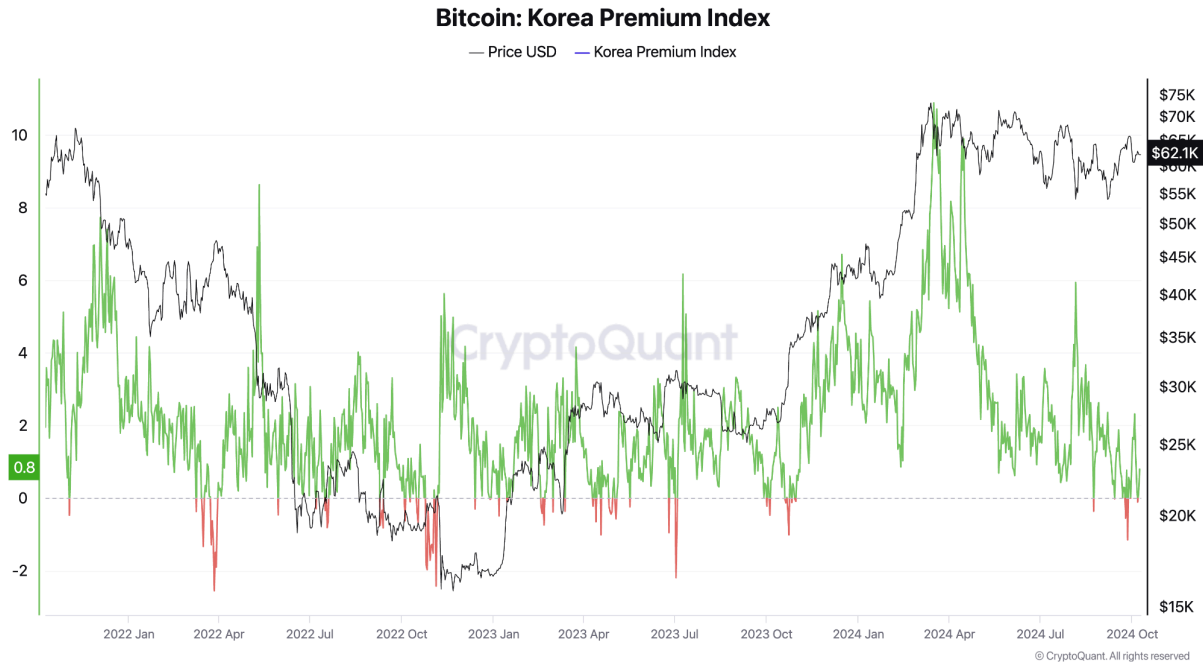
Figure 23 : Hodlers Not Rushing To Sell...

Bitcoin: Long Term Holder Supply



Source: Bitcoin Magazine Pro

Figure 24 : Practically No Kimchi Premium...



Source: CryptoQuant

5. Final Words

We are at a juncture where three major economies that account for 75% of the global money supply simultaneously have a bias towards liquidity expansion. The U.S. is allowing organic liquidity growth or may ease policies if needed, while China and the EU face no constraints to follow suit. The upcoming U.S. election represents a positive expected-value event regardless of the outcome. After over six months of range-bound trading, investor psychology remains subdued and expectations are low, as indicated by sentiment indicators. Considering these, the current risk-reward tradeoff favors upside potential in our view.

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Authors

Peter Chung, Head of Research

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