Rivemont - Weekly Update #184

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Rivemont is the portfolio manager responsible for the investment decisions of the Rivemont Crypto Fund.

Possibly not a single year has gone by since bitcoin's inception without fears emanating from China creating turbulence in the markets. Right now, it is once again that dynamic that is bringing uncertainty, with restrictive measures against Chinese miners creating selling pressure on the markets. Historically, this wave of fear has always passed without a hitch. Is this time different? Let's dig deeper.

First of all, what's going on? In the current month, crypto miners located in China have been asked to close store, while the country's central bank has issued an edict to payment platforms and banks to cease their cryptocurrency-

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related activities. Institutions have also been asked to stop providing services to cryptocurrency exchanges and over-the-counter (OTC) platforms.

As a result, the majority of mining operations in the country's largest provinces have ceased operations, resulting in a 17% drop in global hash rate overnight on Saturday. It must be said that until recently, nearly 65% of all bitcoin blockchain mining activity was located in China. The operations of the biggest players are migrating out of China's borders at a rapid pace. In short, the country is serious in its attack on cryptocurrency mining.

The reasons behind these policies are obvious. China is an authoritarian regime where state control is central to all spheres of activity. Bitcoin is everything China is trying to avoid. As a decentralized currency that trades across borders without third-party oversight, it is seen as a real threat by Xi Jinping's regime. As a result, while China has not banned the ownership of cryptocurrencies, stricter enforcement could also dampen the interest of individual speculators by increasing the risk, or perceived risk, of individual sanctions. Beyond a temporary disruption of the players undermining the network, Chinese speculators are suddenly pressured to divest themselves of their crypto assets.

So, is the situation in China serious? Absolutely. Does the future of the industry there seem in jeopardy? Possibly. Is it a vital threat to Bitcoin? Certainly not.

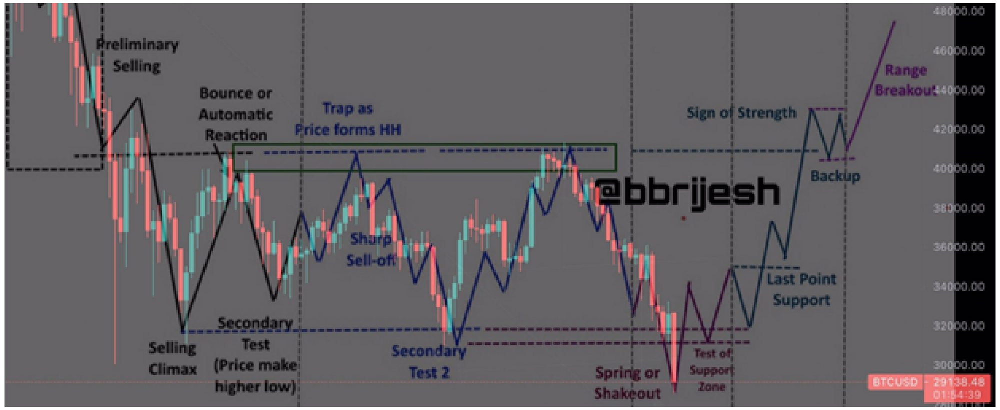
The threat, in truth, was possibly the concentration of the industry in a country that is anything but open to it. These upheavals for some will necessarily translate into opportunities for others. In this regard, we must remember the balance programmed into the network between the level of difficulty of mining a block and the hash rate pointed at the chain. In short, a decrease in the overall hash rate will lead to a decrease in difficulty, creating a financial opportunity and an incentive for other miners to mine more, including new ones. The network will rebalance itself out of China. Certainly, history shows us a correlation between the price of a bitcoin and the total hash rate. This is one of the reasons why we are seeing such a correction in the markets and why there is so much uncertainty. What is important to understand here is that this is a temporary disruption and not a threat to bitcoin itself. Ultimately, it may well be better off.

We mentioned last week that the markets were positioning themselves for the MicroStrategy's upcoming purchase of $500M in bitcoins following the issuance of bonds. That purchase was confirmed on Monday, with the company saying it had added 13,005 bitcoins to its books for $489M, at an average price of $37,617 apiece. MicroStrategy now has 105,085 BTC purchased at an average price of $26,080. The drop in the price of bitcoin this week has dragged the firm's stock down, with many speculators worried that this massive investment could go into the red. Nevertheless, knowing CEO Michael Saylor, it would be surprising if this scenario led him to liquidate a single bitcoin from his treasury.

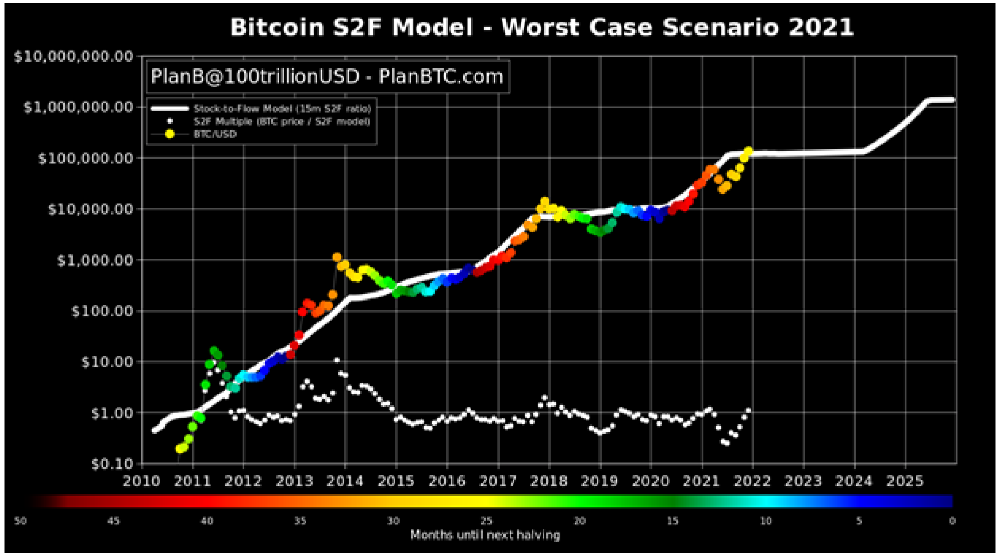
In other news of note this week, the SEC has once again delayed its decision on the fate of a U.S. bitcoin-backed ETF. This time, it was the Texas-based fund Valkyrie Digital Assets that was the subject. The original application was filed in January of this year. The SEC said it was extending the review period for the ETF by 45 days and that a decision would be made on August 10th. The new regulatory delay comes shortly after the SEC delayed approval of another major ETF, extending the review period for VanEck's Bitcoin Trust last week for the second time this year. The regulator said the SEC was seeking additional public comment over a 45-day period.

What about the technical picture, finally? Opinions are more polarized than ever as to whether we are in a mid-cycle correction or officially in a bear market after what would have been a short bull market compared to previous ones for bitcoin. For example, Ki Young Ju, CEO of CryptoQuant, tweeted that bitcoin's bear market was confirmed because big investors were sending their investments onto exchanges. On the contrary, an institutional report from Stack Funds indicates that the bottom has been reached or is very close to being reached. In a paper published just today, it says that despite the current correction, there was no reason to become bearish. It says that the turmoil in China explains the drop, but that "The digital asset has since regained some ground after a short squeeze in prices yesterday and is currently trading around the $34,000 handle."

We also recently told you about Wyckoff's accumulation phases and how the current bitcoin price action was sticking incredibly well with them. One analyst shared the following overlay when raising the question of whether the bottom price had finally been hit. While it's very early to confirm this, the action since then is still following the pattern to the letter.



If you want an extra dose of encouragement, how could you not look at the most recent predictions from PlanB and its popular Stock-to-Flow model. While these may seem optimistic in the current environment, it is impossible to simply dismiss them with its past success rate. According to the most recent analysis, even the "worst case scenario" for bitcoin would still see it trading at $47,000 in August. A slight reversal in September puts the minimum target at $43,000 for that month, followed by $63,000 in October - close to current historical highs. Things then accelerate, with $98,000 in November and a whopping $135,000 by the end of the year. And at best? "Wait until you see my base case scenarios and the optimists! OK, hint: best case Dec $450K," he added in his comments about what bitcoin might be able to do in 2021.



Future price direction may be better defined in the near term as the 2nd quarter bitcoin price options expire in the last week of June. That's $2.3 billion worth of options expiring this Friday. This could obviously create a lot of short-term volatility, but also lead to a clearer period of consolidation thereafter.

Rivemont Investments, manager of the Rivemont Crypto Fund.

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