RIVEMONT

# Rivemont - Weekly Update #266

*January 18th, 2023*

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

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It was the price action in the markets that caught the eye over the past week. Unlike the many times this has been the case in 2022 however, it is fortunately for the right reasons! The cryptocurrency market has had a promising start to the year by reaching a market capitalization of $1 trillion for the first time since November of the previous year. It is currently sailing on either side of this key level.

The price of bitcoin has stabilized above $21,000 in recent days, allowing the currency to return to its level prior to the announcement of the FTX exchange's collapse. It took a little over two months to put this crisis behind us, at least on

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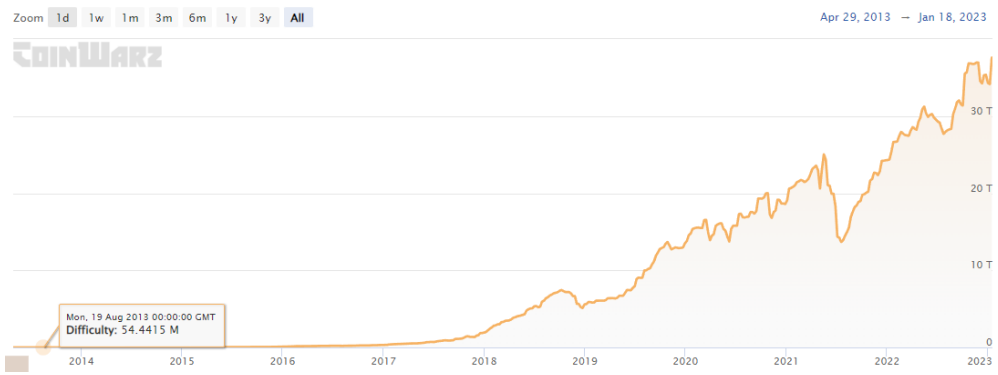
the bitcoin valuation side. Nearly $500 million in short positions have been liquidated since Friday, which is the highest level since October 2022. This recent price fluctuation also comes as bitcoin's mining difficulty rose more than 10% to a new record high of 37.59T, up from 34.09T last Sunday. Recall that the mining difficulty measures the difficulty of solving the cryptographic puzzle required to create a block on the Bitcoin network. The difficulty is adjusted every two weeks and the next adjustment is scheduled for January 28th. An increase in mining difficulty is generally considered a sign of a network's strength and growth, indicating a boost in confidence in the overall market. However, this comes at a cost to miners who must spend more resources to generate the same amount of coins as before.



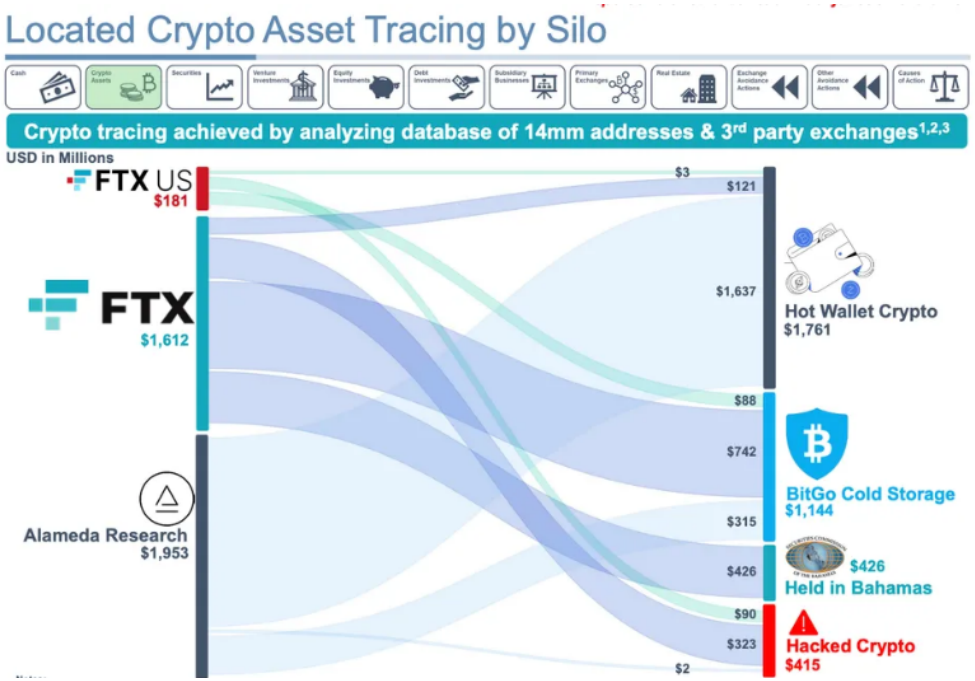

The current price zone also has an important meaning on the sentiment of network actors. According to Glassnode's data, the current cost to mine one bitcoin is about $18,800. Given that bitcoin is currently trading above $20,000, this means that the average mining company can once again operate at a profit. This rise also allows more than 50% of the current supply of bitcoins to be at a profit.

“Many of these models tend to act as significant psychological resistance levels during bear markets, which makes this particular event noteworthy,” Glassnode analysts wrote. The rally – which began last week and accelerated over the weekend – could be attributed to signs of cooling U.S. inflation. With the price

above $19,000, Glassnode estimates miners could now earn more mining bitcoin than it costs to run their energy-intensive machines. Further, the average holder bought into BTC at a lower price – meaning they could sell for a profit.

Cryptocurrency conglomerate Digital Currency Group, owner of Genesis and the Grayscale Bitcoin Trust, informed its shareholders that the company was suspending dividends until further notice. "In response to the current market environment, DCG has focused on strengthening our balance sheet by reducing operating expenses and preserving cash. As a result, we have made the decision to suspend DCG's quarterly dividend distribution until further notice," DCG said in a letter to shareholders sent Tuesday. Other than this decision, there has been no significant progress regarding Genesis' liquidity issues.

On the FTX side, it was learned, according to a presentation to FTX's creditors' committee on Tuesday, that a significant portion of the $181 million in assets held by FTX US, the U.S. subsidiary of the bankrupt crypto company, was subject to "unauthorized transfers made by third parties" after the bankruptcy filing. Unauthorized transfers made on FTX.com's main platform made headlines as hundreds of millions of dollars were moved the day after the company filed for Chapter 11 bankruptcy protection on November 11. However, the $90 million that was moved from FTX US has not been disclosed by the company until now. According to FTX's presentation, $88 million of FTX US's remaining assets have been transferred to a cold wallet, and another $3 million is pending transfer to the same wallet. The following infographic was shared:



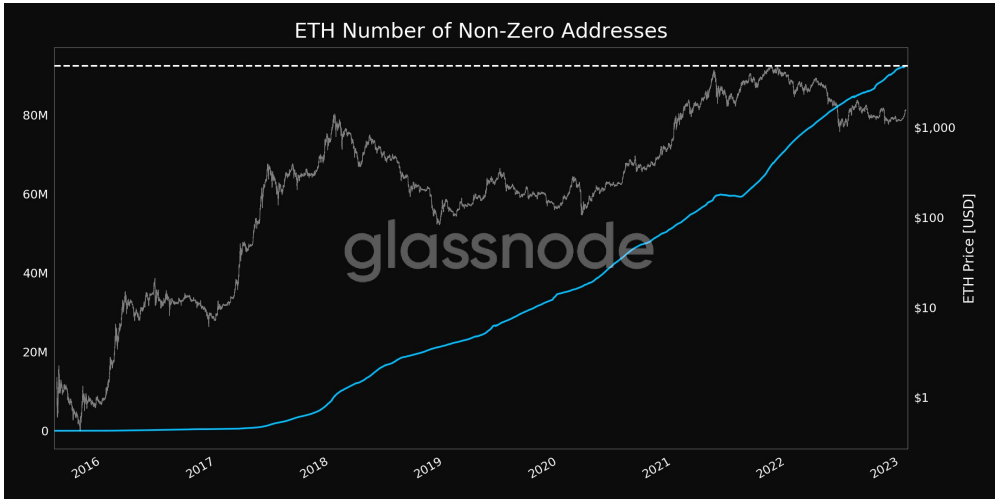

Coinbase today confirmed that it will be shutting down its operations in Japan within the next few weeks, citing the current difficult market conditions. "Due to market conditions, our company has made the difficult decision to cease operations in Japan and conduct a comprehensive review of our operations in the country," the San Francisco-based company said. "However, we are committed to making this transition as smooth as possible for our valued customers." Of note, Kraken Exchange made the same announcement. For its part, Binance is instead trying to re-enter the market, as the company left it in 2018.

After a fierce debate by members of the community, Polygon finally decided to go ahead with its Hard Fork. The latter was implemented without technical problems yesterday. It seeks to increase the speed of transactions and decrease the spikes if fees that occur in times of congestion.

Portfolios holding Ether are well on their way to exceeding the 100,000,000 mark. On Monday, that threshold passed 92.5M for the first time ever. Since

2019, that number has grown by about 20 million per year. If this pace continues, it's likely that non-zero ETH holdings could reach 100 million by the second quarter of 2023.

More than 16 million ethers have been deposited into the Ethereum staking contract. This 16 million ETH figure constitutes more than 13.28 percent of the total ether supply and represents nearly $22.38 billion at current prices. It comes nearly two years after Ethereum's 2020 staking contract went live. It will be impossible to withdraw the $22.38 billion of ETH placed in this contract until the next major upgrade of Ethereum. While the growing number of ETH pledged can be interpreted as a promising sign for Ethereum's security and adoption, it may increase pressure on the network's developers to speed up work to allow withdrawals.




The spike in bitcoin's price has been accompanied by massive growth in trading volume. In the past week, BTC volume has more than doubled to $10.8 billion, a 114 percent increase over seven days. Increased volume is usually correlated with increased volatility. However, this has not really been the case so far. On-chain analysis also points to positive signs that a bitcoin recovery is potentially underway. The more the market is able to absorb selling pressure without prices capitulating, the more the overall market fear and possible

macroeconomic change is reduced.

Finally, it should be noted that bitcoin's 30-day correlation with NASDAQ reached 0.29 on Jan 17th, the largest divergence of BTC from the stock index since December 2021. Equity markets may continue to fluctuate due to the resilience of high inflation, but bitcoin's divergence from the stock market could help BTC become the future many predict for it, a safe haven rather than an exclusively risk-on asset.

The fund's assets are of course fully invested, mostly in BTC and ETH.

Rivemont Investments, manager of the Rivemont Crypto Fund.

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