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Rivemont - Weekly Update #272

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

February ended on a very neutral note for bitcoin, with the asset closing the month very slightly up. This is still positive after an explosive January, especially as the NASDAQ index closed the month slightly down. The trend looked fairly positive for the markets as a whole, but more worrisome than expected inflation data on Friday pulled the markets down. Overnight, impressive Chinese manufacturing data eased global growth concerns and improved risk appetite in global financial markets. Recent favorable developments from China, which is considered the world's factory as well as the largest trading partner of the U.S. and Germany, have put downward pressure on the U.S. dollar against the major currencies. This trend has encouraged an increase in demand for risky assets such as bitcoin.

It's the regulatory framework around the world that has received the most attention in recent days. Members of the French legislature have endorsed a set of stricter rules for companies operating in the cryptocurrency space, which are currently awaiting President Emmanuel Macron's approval before being signed into law. Members of the country's National Assembly voted in favor of passing a package of European Union laws, by a 109-71 vote, which includes an amendment imposing stricter requirements on new players seeking to enter the French cryptocurrency market. France's initiatives to become the cryptocurrency hub of Europe have attracted companies such as Binance and Crypto.com to its territory. However, the arrival of MiCA, which will harmonize the rules governing cryptocurrencies across the European bloc, could call into question the country's strong commitment to the industry.

The IMF, meanwhile, continues to take a particularly negative and polarized stance towards cryptocurrencies. According to the Managing Director of the International Monetary Fund, Kristalina Georgieva, a ban on cryptocurrencies should not be completely ruled out if they start to pose higher risks to financial stability. “We are very much in favor of regulating the world of digital money,” said Georgieva in an interview with Bloomberg, adding that this is a top priority for the Financial Stability Board (FSB), the IMF, and the Bank for International Settlements. However, “if the regulation is slow to come and crypto assets become a higher risk for consumers and potentially for financial stability,” the option of banning cryptocurrencies “should not be taken off the table,” said Georgieva, citing countries like India that explored such a possibility in the past. Unsurprisingly, she added that state-backed stablecoins have "reliability" and a "reasonably good space for the economy," while unbacked cryptoassets "are speculative and high-risk investments, not money." It's easy to see where this is going, at least if we stick to the IMF's guns...

In the United States, the launch of such a national stable currency, called CBDC, certainly doesn't seem to be a done deal. U.S. Congressman Tom Emmer has introduced a bill that would prohibit the Federal Reserve from issuing a

CBDC directly to anyone. The bill, titled the "CBDC Anti-Surveillance State Act," states that "except as specifically authorized under this Act, a Federal Reserve Bank may not offer products or services directly to an individual, maintain an account on behalf of an individual, or issue central bank digital currency directly to an individual." He goes on to further detail that "the Board of Governors of the Federal Reserve System and the Federal Open Market Committee may not use any central bank digital currency to implement monetary policy." Representative Emmer explained in his tweet announcing the bill that "Any digital version of the dollar must respect our American values of privacy, individual sovereignty, and free market competitiveness. Anything less than that opens the door to the development of a dangerous surveillance tool."

However, there is no unanimity on the subject. For his part, Yaya Fanusie, a cryptocurrency researcher and former CIA analyst, believes that the U.S. government's relatively slow start in developing the central bank digital currency (CBDC) could cause it to lose its grip on the global financial system. In a Bloomberg interview yesterday, he explained that sanctioned states are seeking to transact on financial infrastructures that are not controlled or heavily influenced by the U.S., in order to move funds more freely across borders. Fanusie explained that state-issued CBDCs could become an integral part of the globally adopted financial infrastructure. If they fail to influence the new standards, it will impact U.S. economic policy. Fanusie warned that if the U.S. continues to lag behind in adopting CBDCs, it could cause problems" and unforeseen "geopolitical repercussions" in the long run. He noted that the central position of the United States in the global financial infrastructure is the source of its sanctioning power. If that position were to change, it could lead to problems if sanctioned actors find a new way to trade. He said this does not mean that China will take over or that the yuan will replace the dollar, but rather that the emergence of a viable new system will have consequences.

Private companies, on the other hand, are in no way losing faith in the emerging cryptocurrency industry. Payments company Visa said it is not slowing down its cryptocurrency plans, despite rumors suggesting otherwise amid the brutal 2022 bear market. The U.S. company's head of crypto Cuy

Sheffield said in a series of tweets on Tuesday that a Reuters article claiming Visa and MasterCard were slowing down their crypto development campaign was inaccurate as far as Visa was concerned. He added that despite the challenges and uncertainty in the crypto ecosystem, Visa sees digital currencies backed by currencies and running on public blockchains as having the potential to play an important role in the payments ecosystem.

Exchange Coinbase revealed last week that it was launching its own Ethereum layer 2 network. It seems that this news was particularly well received by investors, with the stock price rising nearly 10 percent on Tuesday to $64.83 per share. The proposed solution, named Base, can improve transaction processing time and lead to lower gas fees than when interacting directly with the underlying mainframe. Coinbase said Base can reduce transaction costs by up to 10 times compared to direct interaction with Ethereum. The launch of Base would position Coinbase as the only publicly traded company with its own Layer 2 infrastructure, as the company seeks to diversify its revenue streams beyond transaction fees from primarily traders on its platform.

Also in relation to Ethereum, let's note that another technical milestone bringing the Shanghai update closer - allowing the withdrawal of staked Ether on the new proof-of-stake network - was achieved this week. Shapella was activated at 4:04 AM UTC as planned and finalized at 4:17 AM UTC on February 28. The next simulation will take place on the Goerli test network, after which the Shanghai upgrade will be deployed on the main Ethereum network, marking the next major milestone after the network's transition from the Proof-of-Work consensus algorithm to the Proof-of-Stake algorithm in September 2022. Since Ethereum launched its Beacon chain in 2020 and began to become a Proof-of-Stake (PoS) network, more than 17 million ETH have been staked on the network. However, users have not been able to withdraw these assets so far. The Shanghai upgrade, scheduled for March, will finally unlock this functionality.

According to a Bank of America survey, those aged 21 to 42 with at least $3 million in assets have only 25% of their portfolio invested in stocks. For affluent investors over 43, the allocation to equities is much higher, at 55%. The same survey found that 29% of the younger group said crypto offers great growth opportunities, while only 7% of the older group agreed. Unsurprisingly, younger Millennials also have much more exposure to cryptocurrencies (an average allocation of 15% of their portfolio) than the older generation (an average allocation of 2% of their portfolio). Millennials with deep portfolios are also inclined toward real estate investing and private equity.

It's the Lebanese pound's turn to remind us, once again, how bitcoin is meant to be a hedge against national currencies when they go off the rails. The small Mediterranean country, facing one of the worst economic crises in modern history, is on the verge of collapse. "The Lebanese pound is on life support. It's over," said Mike Azar, a former economics professor at Johns Hopkins University. "It's just a conduit between people and [U.S.] dollars." The Lebanese currency has lost more than 98 percent of its value against the dollar since the country's financial collapse began in 2019. Lebanese life has come to revolve around the fluctuation of the pound and money exchangers, while economists say the currency could be beyond rescue. "It's not a currency you can store value in," Azar told The National. "You can't do transactions with it. You have to change prices every hour. How is it a currency?"

The beginning of March appears crucial for bitcoin, as it begins almost exactly where the 50-month moving average stands. The latter has been rising since the asset's birth and has always served as an important support. Successfully trading above it and turning it back into support would certainly be a bullish scenario. A rejection of it, however, could bring us back to testing the supports created in recent months.

The next major macroeconomic event will be the Fed's announcement of the next interest rate hike on March 22.

Rivemont Investments, manager of the Rivemont Crypto Fund.

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