Rivemont - Week 283

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

It wasn't the regulations around cryptocurrencies that got the ink flowing this week, but rather a controversy regarding Ledger's cold hardware wallet. A controversial new feature has been added to all Ledger hardware wallet devices. This announcement caused quite a stir in the crypto communities yesterday.

Although it was announced several weeks ago in a Wired article, it was really yesterday that the controversy started. It's called Ledger Recovery, an ID-based private key recovery service that allows users to directly save their recovery phrase to their personal identity through three different custodians. The service will cost $9.99 per month. A recovery phrase is a list of words that store all the information needed to recover cryptocurrencies from your hardware wallet in case of loss or theft. Remembering the 12-word phrase, usually made up of random words, can be difficult. Most people write it down or store it on a flash drive or other storage media.

Despite the company's emphatic statements that this is an optional service and that users can continue to save their recovery phrase themselves, Ledger wallet owners are still concerned about what this means for the security of the hardware wallet company. Is there really a backdoor in Ledger now? The company says no, and that it's a completely optional service. That means that if users don't enable it, it will have no effect on their Ledger devices. Yet there has been a lot of debate on Twitter about whether simply enabling this service poses a security risk. "The code path to send private key material over the internet will be on your device whether you enable it or not," one user wrote. "Hackers can take advantage of this, and software bugs are more likely to leak information. Ledger's business trajectory is characterized by a brazen disregard for customer security." Will Ledger flip-flop on this controversial decision? This one will surely be interesting.

The U.S. SEC's motion to seal records related to a speech by former Commission Director William Hinman was denied by U.S. District Court Judge Analisa Torres. In that speech, Hinman stated that Ether was not a financial security. The SEC argued that these documents were not relevant to the court's decision, but Judge Torres ruled that they were court documents and subject to public access. Ripple sees the speech as crucial evidence in its ongoing legal battle with the SEC, which accuses Ripple's XRP sales of violating securities laws. The price of XRP rose slightly by 2.6% following the news.

The battle between Coinbase and the SEC continues. The latest twist came on Monday, when the SEC asked a court to deny Coinbase's request for clarification from the agency on the regulation of cryptocurrencies. Coinbase had publicly voiced its grievances against the U.S. financial watchdog on April 27, also revealing that it had filed a lawsuit. Coinbase's central argument was the SEC's lack of response to a petition filed in July 2022, in which the platform asked the SEC to clarify whether existing regulatory frameworks for financial securities should apply to the cryptocurrency industry. Coinbase asked a federal judge to compel the regulator to respond. The SEC finally responded on Monday by flatly rejecting Coinbase's request. In reaction to the SEC's statement, Coinbase's legal head, Paul Grewal, commented that this was the first time the SEC had transparently communicated its position on rulemaking for the cryptocurrency industry. He also expressed disappointment with the SEC's timeline for implementing the rules and its apparent lack of urgency. Grewal also said that the SEC's response "reinforces Coinbase's longstanding concern that our industry lacks clarity on what the SEC may or may not consider to be within its jurisdiction at any given time, and that it is likely to change its mind along the way." He concluded by announcing that Coinbase plans to formally respond to the SEC the following week.

Major financial firms such as Deloitte, S&P Global and Moody's have joined forces to support the launch of the Canton Network, a blockchain based on Web3 technology. The network aims to provide companies with a decentralized infrastructure for more efficient transactions and better risk management. It uses a smart contract language called Daml and already has participants such as Paxos, Goldman Sachs, BNP Paribas, Cboe Global Markets and Microsoft. The Canton network solves common Web3 technology barriers and participants plan to test the network's interoperability starting in July. The initiative is seen as a major step forward for traditional finance, as it paves the way for tokenization of assets, offering instant settlement and reduced fees.

The Bank of Canada is conducting consultations to gauge citizens' views on the potential creation of a national digital currency. Unlike cryptocurrencies, a national digital currency would have a paper equivalent and could be withdrawn in cash from banks. Of course, unlike bitcoin and decentralized cryptocurrencies that have programmed, known and predictable monetary policies, a digital Canadian dollar would be entirely subject to the monetary decisions of the central bank. In short, only the medium would change.

Florida Governor Ron DeSantis has made his opinion clear on the matter. He has signed a law banning the use of a centralized digital currency in the state. DeSantis called such a currency a progressive policy that he wants to fight. The law in Florida now explicitly defines money by excluding CBDCs. DeSantis spoke at a press conference about the President Joe Biden administration's consideration of CBDCs, saying it seeks to eliminate other digital assets such as cryptocurrencies. He raised concerns about the hypothetical possibility of using CBDCs to restrict gasoline purchases to combat global warming or to track gun purchases. DeSantis believes this poses a threat to Americans' financial independence and privacy in transactions.

Terraform Labs co-founder Do Kwon is expected to be released from detention in Montenegro after the court in Podgorica agreed to a bail of 400,000 euros, according to the official announcement. The court also agreed to release Terraform's former CFO Chang-joon Han under the same conditions. Both men will be placed under house arrest. The collapse of the Terra ecosystem in May 2022 was one of the key factors contributing to the prolonged fall of the cryptocurrency industry.

Earlier this week, the number of individual wallets holding at least one bitcoin crossed a significant milestone, indicating that long-term sentiment toward tokens remains intact despite fluctuations in bitcoin prices in the broader markets. According to data from on-chain analytics tool Glassnode, bitcoin wallets holding more than one token surpassed one million on Monday. This represents a 20% increase since February of last year. The data shows that bitcoin wallets holding a single token increased by 79,000 between November and January, during the collapse of the FTX crypto exchange platform, while prices fell from over $22,000 to just under $16,000. Recall that there will never be more than 21 million bitcoins in circulation.

Over one million individual wallets now hold bitcoin, data shows. (Glassnode)

Bitcoin continued to consolidate slightly lower this week as investors closely followed the debt ceiling negotiations in Washington. With Treasury Secretary Janet Yellen warning that the U.S. could exceed the debt limit as soon as June 1 and saying that a default "could lead to a recession," several analysts believe that a resolution to the debt ceiling issue could potentially support bitcoin. Lucas Outumuro, head of research at blockchain analytics firm IntoTheBlock, believes that bitcoin could benefit from this crisis whether or not there is a debt ceiling deal. Outumuro sees the impact of these negotiations and the current banking crisis as similar: "They both highlight weaknesses in the system and raise doubts about its long-term sustainability, creating demand for potential alternatives such as cryptocurrencies."

The positive correlation between bitcoin and ether has weakened this year, signaling a regime change in the market. The 30-day moving correlation between bitcoin and ether price changes fell to 77 percent on Monday, its lowest level since 2021 and significantly lower than the 96 percent seen two months ago.

Technically speaking, bitcoin as expected found support on its 200-week moving average before rebounding to $27,700. Now, that indicator, currently pointing to $26,000, seems at risk of being tested again. If this average were to be breached downwards, we would expect to find buying volume around $25,000. Instead, it is the $28,000 area that needs to be retested and represents resistance to the upside.

Rivemont Investments, manager of the Rivemont Crypto Fund.

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