

RIVEMONT

Rivemont - Week 320

January 31st, 2024

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

This week is crucial for cryptocurrency and stock markets, especially due to the anticipation of decisions by the U.S. Federal Reserve on interest rates. Bitcoin experienced a notable increase, surpassing the \$43,000 mark before a slight retreat during the most recent night. This rise follows a drop the previous week, where its value briefly fell below \$39,000. This increase seems to be part of the waning outflows from GBTC as inflows into spot bitcoin exchange-traded funds (ETFs) nearly exceed the outflows from Grayscale's similar product, albeit at much higher fees. The profit-taking by investors who were trapped in this fund is clearly slowing down.

In 2022, the Fed aggressively raised interest rates to control inflation, reaching

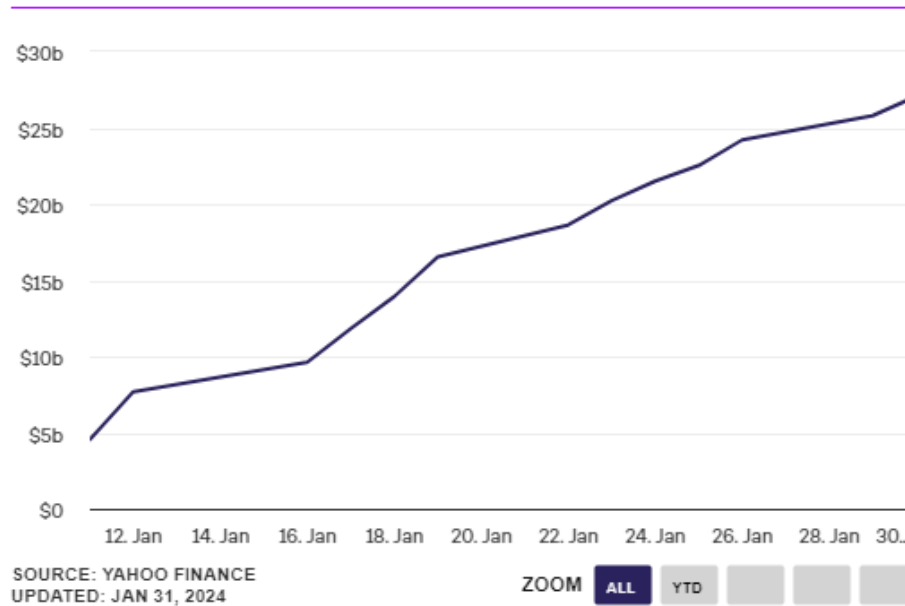
40-year highs. These hikes initially negatively impacted the value of stocks and cryptocurrencies. Bitcoin, like U.S. stocks, especially those of tech companies listed on the Nasdaq, are considered "risky assets," with their prices being more volatile than other investments. Although inflation in the U.S. has been somewhat controlled over the past year, it is unlikely that the Fed will reduce interest rates this week. However, if Fed Chairman Jerome Powell hints at a possible rate cut at the Federal Open Market Committee's March meeting, the price of Bitcoin could continue to rise. Meanwhile, the U.S. stock markets have had an exceptional month, with the S&P 500 setting records last week.

On Tuesday, Bitcoin ETFs offered by BlackRock and Fidelity were close to surpassing Grayscale's converted fund in daily trading volume. Grayscale's fund, converted from its flagship GBTC, has lost billions of dollars in asset management, although it started with more than \$25 billion under management. In terms of total trading volume, BlackRock and Fidelity's new Bitcoin ETFs ranked second and third, just behind Grayscale. At the market close on Tuesday, BlackRock and Fidelity had generated trading volumes of \$383 million and \$288 million, respectively, while Grayscale again ranked first with \$396 million. At one point during the day, BlackRock and Fidelity even surpassed Grayscale in daily volume. Since trading began this month, these three issuers have dominated the total trading volume, sometimes accounting for about 90% of all buying and selling activity. Other Bitcoin ETFs, such as those offered by Invesco, Galaxy, Franklin Templeton, and Ark Invest, are far behind these three leaders.

Grayscale's ETF has lost more than \$5 billion in asset management, while BlackRock and Fidelity's products have seen a net increase of over \$2 billion each. The total trading volume for all active Bitcoin ETFs is approaching \$27 billion. Invesco and Galaxy Asset Management recently announced their intention to reduce their fund's fees from 0.39% to 0.25%, aligning with most of their competitors.



Cumulative Spot Bitcoin ETF Volumes



The accumulation rate in these new bitcoin ETFs remains impressive. The daily average of Blackrock's ETF is \$200M, or 4,700 BTC. Fidelity's product averages \$175M, or 4,200 BTC. It's worth noting that only 900 BTC are created each day, and this total will be halved in just a few months. Although mining isn't the only source of supply on the market, it's hard not to imagine that these ETFs will soon become very large holders of BTC, potentially causing a supply shock that drives prices to levels where the market will find new sellers.

A market report from Glassnode indicates that most Bitcoin holders seem calm in the face of market fluctuations. The report highlights that the majority of bitcoins in circulation are held over multi-year time horizons, and these holders remain steadfast, with the percentage of held supply in various age bands residing just below all-time highs. This suggests that the majority of the supply is tightly held, with investors likely waiting for higher spot prices or increased volatility as a motivator to sell. However, analysts note selling pressure among one to two-year holders, many of whom are associated with GBTC, indicating that significant volumes of older supply have been moving in recent weeks.

Tuesday's K33 market research report emphasizes that Bitcoin's spot trading volume has seen higher activity following the ETF approvals. Although a significant portion of ETF flows is likely offset by other over-the-counter orders without affecting spot market order books, this increase in trading volume is partially attributed to spot bitcoin ETF flows. Finally, the monthly on-chain trading volume of Bitcoin for January reached a multi-month high, with a volume of \$1.11 trillion, indicating a steady increase since September 2023.

In an international anti-piracy operation, German authorities, assisted by the U.S. Federal Bureau of Investigation, recovered 50,000 bitcoins, worth approximately \$2.1 billion. Described as the largest seizure of its kind in Germany, the operation targeted German and Polish nationals accused of running piracy websites and money laundering. Saxony police in Germany announced that the bitcoins were confiscated after the accused voluntarily transferred them to official wallets

provided by the Federal Criminal Police Office (BKA). This operation involved several German agencies, including the Dresden General Prosecutor's Office, Leipzig tax investigators, and a Munich-based forensic IT company, as well as collaboration with the FBI. The seized bitcoins are currently held provisionally pending further investigation, and a final decision regarding their fate will be made later.

The U.S. SEC has postponed its decision regarding Grayscale's proposal to convert its Ethereum fund into a cryptocurrency exchange-traded fund. Grayscale submitted a request to the SEC for this conversion in October. If approved, the Ethereum fund's shares would be listed on the New York Stock Exchange and could be directly exchanged for the underlying ETH. This postponement is part of the SEC's trend of regularly delaying its decisions regarding ETFs. Recently, the agency also postponed its decision on the Ethereum ETF proposed by BlackRock. If approved, these ETFs would allow investors to access the second-largest cryptocurrency by market capitalization without having to buy and store it themselves.

Standard Chartered Bank anticipates that the SEC will approve spot Ethereum exchange-traded funds on May 23. Geoffrey Kendrick, from Standard Chartered, bases this forecast on the fact that the SEC has not classified ether as a security and the existence of regulated futures contracts on ETH at the Chicago Mercantile Exchange. Kendrick suggests that the approval of Ethereum ETFs could lead to a significant increase in the price of ETH, potentially up to \$4,000, similar to the performance of BTC before its ETF approval. He also observes that Grayscale's Ethereum fund, which seeks to convert into an ETF, has a smaller market share than GBTC for bitcoin, making ETH less susceptible to a massive sell-off after approval. Kendrick expects the approval of simple Ethereum ETFs on May 23, while those including staking rewards may follow later. He is also optimistic about the impact of Ethereum's upcoming update, Dencun or Proto-Danksharding, on the price of ether. Overall, the approval of Ethereum ETFs is met with a mix of optimism and pessimism by cryptocurrency experts.

In the short term, it's again the 30-day exponential moving average that draws our attention. This average, which has been acting as support since the rise that began in spring 2023, was broken downwards after the approval of bitcoin ETFs. It was temporarily converted into resistance, before heading north again this week. Can it become support again and assist the price in a new push?



The fund remains fully exposed to bitcoin, and this week has also seen a notable increase in the dominance index of the largest cryptocurrency.

We currently remain entirely exposed to bitcoin.

The presented information is as of January 31st, 2024, unless otherwise indicated and is provided for information purposes only. The information comes from sources that we believe are reliable, but not guaranteed. This statement does not provide financial, legal or tax advice. Rivemont Investments are not responsible for any errors or omissions in the information or for any loss or damage suffered.

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