

RIVEMONT

Rivemont - Week 355

October 2nd, 2024

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

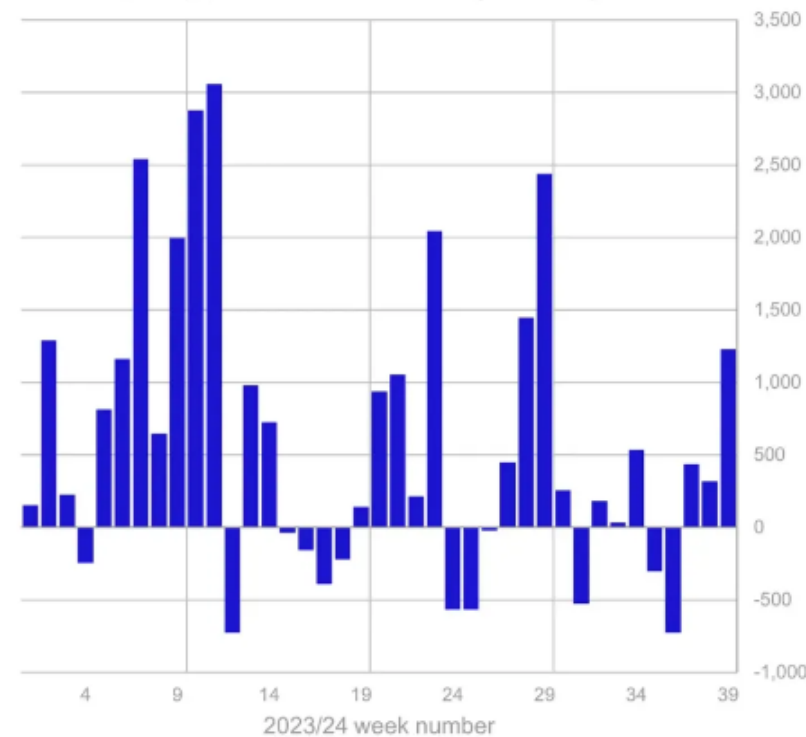
After a particularly positive week for Bitcoin last week, prices dropped yesterday following Iran's missile attack on Israel and the resulting general tensions in the Middle East. This was not the expected start for the month nicknamed "Uptober," known for market increases during this period. September, on the other hand, is often a bearish month. However, 2024 was the opposite, a situation mainly explained by the interest rate cuts in the United States.

The cryptocurrency market underwent a significant correction on Tuesday, leading to massive liquidations totaling more than \$526 million in 24 hours, of which \$453 million came from long positions. Bitcoin's price fell by more than

5%, while Ethereum lost over 6%, dropping to \$2,480. Analysts consider this correction to be temporary, not a sign of a prolonged bear market. They believe factors like China's stimulus measures, U.S. employment data, and the conclusion of the U.S. elections could boost the market in the coming months.

Despite this shaky start to the month, Bitcoin ETFs attracted over \$1 billion in investments last week, marking the largest net inflow since July. This reflects growing institutional interest in digital assets. Ethereum ETFs also attracted attention, particularly those from BlackRock and Fidelity, despite Grayscale experiencing withdrawals. Experts believe this positive trend demonstrates renewed confidence in cryptocurrencies, driven in part by the Federal Reserve's interest rate cuts.

Weekly Crypto Asset Flows (US\$m) CoinShares



Source: Bloomberg, CoinShares, data available as of close 27 September 2024

This influx of capital into cryptocurrency-related financial products is further supported by macroeconomic developments, such as Japan's upcoming review of cryptocurrency regulations, which could reduce taxes and encourage new investment funds. Meanwhile, Ethereum saw a rebound with \$87 million in inflows, ending five weeks of outflows, while other altcoins like Litecoin saw moderate inflows. The overall optimism surrounding cryptocurrencies is attributed to expectations of accommodative monetary policies and positive price momentum.

On Monday, U.S.-based Bitcoin ETFs recorded a net daily inflow of \$61.3 million, marking eight consecutive days of capital inflows. BlackRock's IBIT ETF led the trend, attracting \$72.15 million, solidifying its role as a leader in this movement. However, the situation reversed completely yesterday. Fidelity and ARKB ETFs recorded significant outflows of \$144 million and \$84.3 million, respectively, despite a slight inflow of \$40.8 million for BlackRock's ETF. Ethereum ETFs faced similar pressure, with net outflows of \$48.5 million, particularly affecting Grayscale and Fidelity funds.

BlackRock's Ethereum ETF surpassed \$1 billion in asset value for the first time, just two months after its launch. After several weeks of net outflows, U.S.-based Ethereum ETFs posted a positive week, marking renewed interest in the cryptocurrency. Last Friday, these ETFs accumulated \$58.7 million in inflows, bringing total net positive flows to around \$84.5 million for the week. Fidelity's FETH fund led the inflows with \$42.5 million, followed by BlackRock's ETHA fund, which added \$11.5 million. Despite more modest inflows that day, BlackRock's fund reached an important milestone, surpassing \$1 billion in net asset value, placing it among the top 20% of ETFs on the U.S. market. Other funds, such as those from Bitwise and Invesco, also recorded positive inflows, while Grayscale's fund experienced significant outflows of \$10.7 million. These results mark the second positive week for Ethereum ETFs since their launch at the end of July.

BlackRock's Bitcoin holdings reached nearly \$24 billion after a recent acquisition, representing approximately 1.70% of all available Bitcoin. In less

than a year of trading its Bitcoin ETF, BlackRock increased its reserves with an additional purchase of \$35 million in Bitcoin and \$6.4 million in Ethereum. The company currently owns 350,000 ETH, valued at nearly \$989 million. BlackRock's iShares Bitcoin Trust ETF, aimed at institutional investors, recorded a large capital inflow, with \$184.4 million in a single day at the end of September, following the Federal Reserve's interest rate cut. This massive acquisition sets BlackRock apart from other asset managers, such as Grayscale, which holds 258,671 BTC but significantly more Ethereum than BlackRock. However, concerns have emerged regarding the physical custody of these assets, with some suggesting that Coinbase, responsible for holding Bitcoin for BlackRock, may be issuing "paper Bitcoin." Coinbase's CEO quickly refuted these rumors, stating that all transactions are indeed settled on the blockchain, a point confirmed by analyst Eric Balchunas, who noted that BlackRock verifies and consolidates its Bitcoin balances nightly.

While the recent half-point rate cut clearly stimulated the cryptocurrency market, a repeat is unlikely this year. Federal Reserve Chairman Jerome Powell indicated that the U.S. central bank expects two small rate cuts by the end of the year, tempering expectations for another significant reduction. At a National Association for Business Economics conference, Powell emphasized that while the labor market remains strong and inflation is decreasing, officials are not planning to reduce rates quickly at upcoming meetings. Powell clarified that if the economy performs as expected, rates should drop by another 50 basis points by year-end, although the Fed remains attentive to incoming economic data. Traders now anticipate a 25-basis-point reduction at the October meeting, with a target rate of 4.00% to 4.25% after the December meeting, amounting to a total cut of 75 basis points. Powell also reiterated that rate reductions would be a gradual process, aiming for a "soft landing" where inflation falls without a significant rise in unemployment. The Fed remains prepared to adjust its decisions based on economic developments, cutting rates faster if the economy slows more than expected or slower if it remains stronger than anticipated.

The FIT21 cryptocurrency bill, currently stalled, could become law by the end of the year, according to Representative Tom Emmer. This bill aims to establish a federal regulatory framework for digital assets, jointly overseen by the

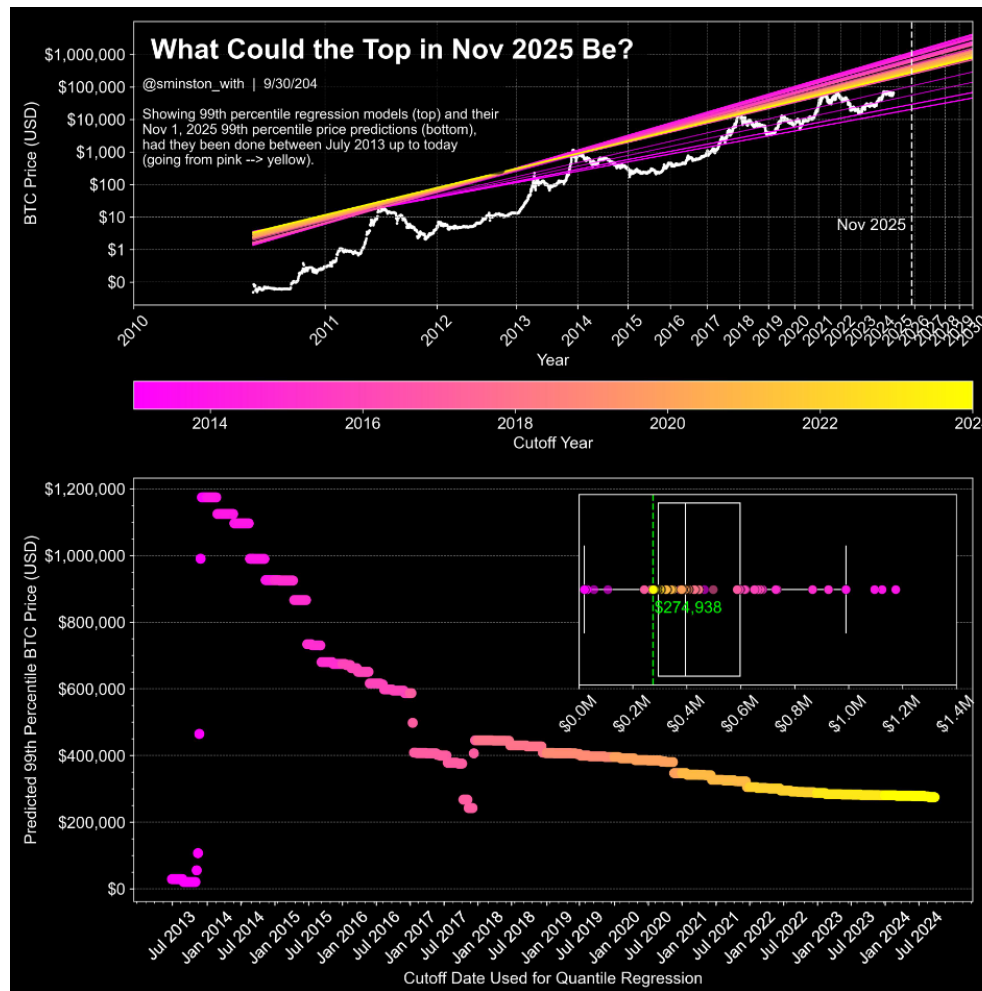
Commodity Futures Trading Commission (CFTC) and the Securities and Exchange Commission (SEC). Although the bill was passed by the House of Representatives with bipartisan support, it has not yet been voted on in the Senate. However, Emmer hopes that some provisions of the bill could be included in a year-end budget deal, which would speed up its adoption. Integrating FIT21 into a comprehensive funding bill would simplify the process, as President Biden would be less likely to block the entire budget over a few pro-crypto elements. The deadline to avoid a government shutdown is set for December 20, after Congress passed a three-month extension to prevent a shutdown. Budget deals at that time often devolve into high-stakes negotiations, with concessions made for various interests to pass the bill. Even if FIT21 does not become law by the end of the year, Emmer remains optimistic about its future, noting the growing bipartisan support for cryptocurrency regulation.

In a speech last Wednesday, Kamala Harris stated that under her leadership, the United States would recommit to global leadership in the technologies that will shape the next century, specifically mentioning blockchain. She emphasized that the U.S. must remain dominant in emerging sectors such as artificial intelligence, quantum computing, and blockchain. Although she had been quiet on cryptocurrencies during her campaign, Harris expressed her commitment to supporting innovative technologies while protecting consumers and investors, notably at a New York fundraiser. In her 80-page economic plan, Harris reaffirms her ambition to create a favorable business environment with clear and transparent rules to encourage innovation in sectors like AI and digital assets. This approach contrasts with that of Donald Trump, who has been more vocal about cryptocurrencies throughout the year, particularly with Bitcoin-related projects. VanEck analysts noted that while both candidates have positive views on Bitcoin, a Harris presidency could accelerate the conditions favoring its adoption.

The bullish sentiment on Bitcoin is clearly reflected on the Deribit platform, where traders have accumulated nearly \$1 billion in call options for a target price of \$100,000. These options offer buyers asymmetric upside potential if Bitcoin's price exceeds this level by the expiration date. Currently, the total

value of active options contracts at this price exceeds \$993 million, making it the most popular option among those available on Deribit. The second most popular option is the \$70,000 call, with open interest exceeding \$800 million. These call options account for more than 50% of the total Bitcoin options interest on the platform, which amounts to \$14.15 billion. This shows strong trader optimism about Bitcoin's potential price increase in the coming months. However, forecasts remain mixed. On Polymarket, for example, traders estimate only a 15% probability that Bitcoin's price will reach \$100,000 by year-end. This highlights the uncertainty surrounding short-term predictions, even though the market remains broadly optimistic.

Zach Bradford, CEO of CleanSpark, has stated that Bitcoin's price could reach nearly \$200,000 within the next 18 months, particularly after the U.S. presidential elections. According to him, it's not so much the winner that matters, but rather the end of the election, which could bring market stability and boost Bitcoin. He expects the post-election period to create an environment conducive to significant Bitcoin price growth. Bradford also emphasized that Bitcoin mining infrastructure offers quick returns on investment, making it an immediate opportunity compared to other emerging technologies like AI. CleanSpark is focusing on expanding in the mining sector, consolidating its operations and securing efficient energy contracts to maximize its profits in this anticipated market surge.



A quantile regression model suggests that Bitcoin's price could reach \$275,000 by November 2025, or even up to \$300,000, according to some projections. Smithson With, a Bitcoin researcher, uses this model to analyze Bitcoin's cumulative data, such as supply, volatility, and survival in various risk environments. Unlike traditional linear regression, quantile regression focuses on extremes, such as the 99th percentile, to predict future Bitcoin price trends.

With's model shows a quasi-exponential decay trend, where deviations from the actual trend either shrink or grow over time. He predicts that Bitcoin's potential cycle top will occur around November 2025, with a price estimate ranging

between \$250,000 and \$300,000. This forecast is based on historical data dating back to 2013, and the model continues to refine its predictions as new data is incorporated.

The presented information is as of October 2nd, 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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