

RIVEMONT

Rivemont - Weekly Update #277

April 5th, 2023

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

Despite all the regulatory tumult surrounding many cryptocurrency exchanges in the United States, the market has continued to do well over the past week. While bitcoin is trading virtually at the same level as when we last reported, it's Ether that has enjoyed a significant boost. We mentioned at the end of our letter seven days ago that we did not want to give up our position in ETH in view of such price action. This will have certainly helped to beat the bitcoin index this week for the strategy.

March will have seen the correlation between bitcoin and gold strengthen. This is certainly good news, not only because this is the value proposition that many

see in bitcoin, but also because the precious metal is now flirting with its all-time high price. This correlation has undoubtedly been spurred by the crisis of confidence hitting the global banking sector. The correlation between bitcoin and gold is currently about 50%, according to blockchain analytics firm Kaiko. This is the strongest link between the two assets in over a year. The firm's analyst Dessislava Aubert adds, "This is a significant change, because during 2022, bitcoin and gold were generally uncorrelated. So it was not a safe haven [asset] at all." Meanwhile, the correlation between bitcoin and the S&P 500, once extremely strong, dropped significantly in March to 20 percent, reinforcing a trend that has been developing for months. "The correlation between bitcoin and stocks has been steadily declining since December and is now very low," she said, adding that 20% is essentially negligible.

Faced with current regulatory pressures in the U.S., the Bittrex exchange announced it was pulling out of the U.S. market. The American exchange said it was not "economically viable" to continue operating in the United States. In a statement released on Friday, the company said that customer funds are safe and must be withdrawn by April 30, while transactions will continue for customers until April 14. The statement added that it will continue to operate its Bittrex Global platform, which caters to traders outside the United States. The exchange's CEO was quick to throw a direct jab at U.S. regulators: "Regulatory requirements often lack clarity and are applied without proper discussion and input, resulting in an uneven competitive landscape," he said.

Yet, who is making the most money from cryptocurrencies right now? Quite possibly the U.S. government. Indeed, according to court documents released last week, the federal government sold \$215 million worth of bitcoin. The cryptocurrency in question came from the Silk Road marketplace. Hacker James Zhong confessed to stealing it, and then police seized it in a historic operation last November. The Feds are in the process of selling that seizure. They still have 41,490 bitcoins (\$1.1 billion) to get rid of, according to the filing. "With respect to the 51,351.89785803 bitcoins forfeited in the Ulbricht case before Judge Schofield, the government has begun to liquidate them," Friday's filing reads. "On March 14, 2023, the government sold 9,861.1707894 BTC (of

the 51,351.89785803 BTC) for a total of \$215,738,154.98. After \$215,738.15 in transaction costs, the net proceeds to the government were \$215,522,416.83." Interestingly, this selling pressure did not affect prices on the market.

We mentioned last week that the founder of Terra Do Kwon was arrested with false papers in Montenegro. His identity has since been confirmed. Since then, both the US and South Korea have requested his extradition. Extradition proceedings will begin once local courts rule on charges against Kwon and his partner Joon for allegedly using fake passports, which they were attempting to use to board a Dubai-bound plane when they were arrested.

On our side of the border, Canadian crypto companies WonderFi, Coinsquare and CoinSmart have announced their merger. In doing so, they are looking to create what they say will be the largest regulated crypto asset exchange platform in Canada. Under the agreement, WonderFi will issue approximately 269.7 million common shares to Coinsquare shareholders and approximately 119.1 million common shares to CoinSmart shareholders. If the transaction completes, WonderFi shareholders will own approximately 38% of the new company, while Coinsquare shareholders will own approximately 43%. CoinSmart shareholders will own about 19%. For users especially, this could provide an attractive national platform with enough volume to trade on under adequate market conditions.

Elon Musk isn't shy about breaking the crypto headlines and raising doubts of market manipulation in the process. On April 3, social media giant Twitter replaced its icon with the Dogecoin token symbol. Shortly after the icon change, the CEO of Twitter and Tesla tweeted the following meme, which seems to imply that the change will last for some time:



Elon Musk ✓
@elonmusk · Follow



2:50 PM · Apr 3, 2023



The move appears to be in the vein of a legal request by Musk. Two days earlier, he asked a U.S. judge to dismiss a \$258 billion lawsuit filed by investors alleging the existence of a pyramid scheme to promote Dogecoin. Musk's lawyers reportedly argued that "funny pictures" and "supportive words on Twitter" do not amount to a fraud claim. DOGE surged 20% on the news. However, the cryptocurrency remains down sharply on a year-over-year basis.

Could the launch of central bank digital cryptocurrencies (CBDCs) prove

beneficial to the crypto market as a whole? At least, that's what analysts at Citi think. In a symposium organized by Citi on digital money, it was argued that the sector is finally "close to an inflection point" and that blockchain technology will soon see "billions of users and trillions of dollars in value." In its latest report, "Money, Tokens, and Games: Blockchain's Next Billion Users and Trillions in Value," Citi analysts suggest that the next influx of cryptocurrency adoption will be driven primarily by the rise of CBDCs and the tokenization of real world assets. Citi said this could be the largest use case for blockchain technologies, estimating that tokenization could "increase 80-fold in private markets and reach a value of nearly \$4 trillion by 2030." Efficiencies cited include disintermediation within financial markets, composability with cryptocurrencies, and ultimately a shared infrastructure on which different asset classes could exist on the same network.

The total market capitalization of all cryptocurrencies recently reached its highest level since June, primarily driven by bitcoin's dramatic 70% increase earlier this year. This increase in overall cryptocurrency wealth is all the more remarkable as it comes against a backdrop of some of the strictest regulation of the industry in its history. Despite this challenging regulatory environment, the market capitalization of digital assets has climbed to \$1.19 trillion from around \$800 billion at the start of 2023.

Ether, meanwhile, has jumped 5% in the past 24 hours, making it one of the best-performing tokens, surpassing \$1,920 on Wednesday morning. This is the highest price level for the token since August 2022. The interest in ETH precedes Shapella, a name born from the pairing of Shanghai and Capella, two major upgrades to the Ethereum network that are scheduled to take place simultaneously on April 12. Shapella will allow investors to withdraw their ether staked on the Ethereum blockchain. "ETH looks to regain ground against BTC as part of a broader capital rotation play with crypto likely benefiting off broader equity rallies heading into a historically bullish month," Decentral Park Capital's portfolio manager Lewis Harland said in a weekly note published Monday.

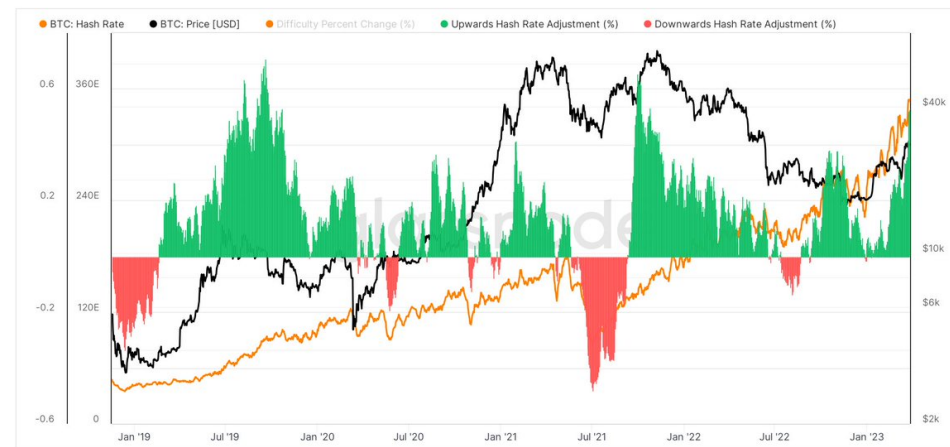
The bitcoin network is in excellent health. As analyst James V. Straten stated, on a 3-month rolling basis of bitcoin's hash rate (removing noise), this is the third most aggressive upward adjustment in the last 5 years. There are only two occasions when the growth has been more substantial:

May 2021 - 70% (after the China mining ban).

After the 2019 bear market - 65%.

The hash rate has increased by 52% since the beginning of the year.

Bitcoin: Hash Rate Adjustment Percent Change - 3M



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Technically speaking, bitcoin is at the same level as last week, but with an additional close above the 200-week moving average in the books. BTC is consistently finding buyers on its temporary declines and is trading in an increasingly narrow triangle. Such a triangle traditionally breaks on the side of the previous trend, which would mean up. However, it is a bullish push with volume and a clear one-day close above the \$30,000 mark that would act as a real confirmation of a bull market's return in our minds.

Rivemont Investments, manager of the Rivemont Crypto Fund.

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Valérie Marquis

19 rue Le Royer Ouest, suite 300
Montreal, Québec, H2Y 1W4
Tel: 819-246-8800
valerie.marquis@rivemont.ca

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www.rivemont.ca

Martin Lalonde

160, boul. de l'Hôpital, suite 202
Gatineau, Quebec, J8T 8J1
Tel: 819-246-8800
martin.lalonde@rivemont.ca

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