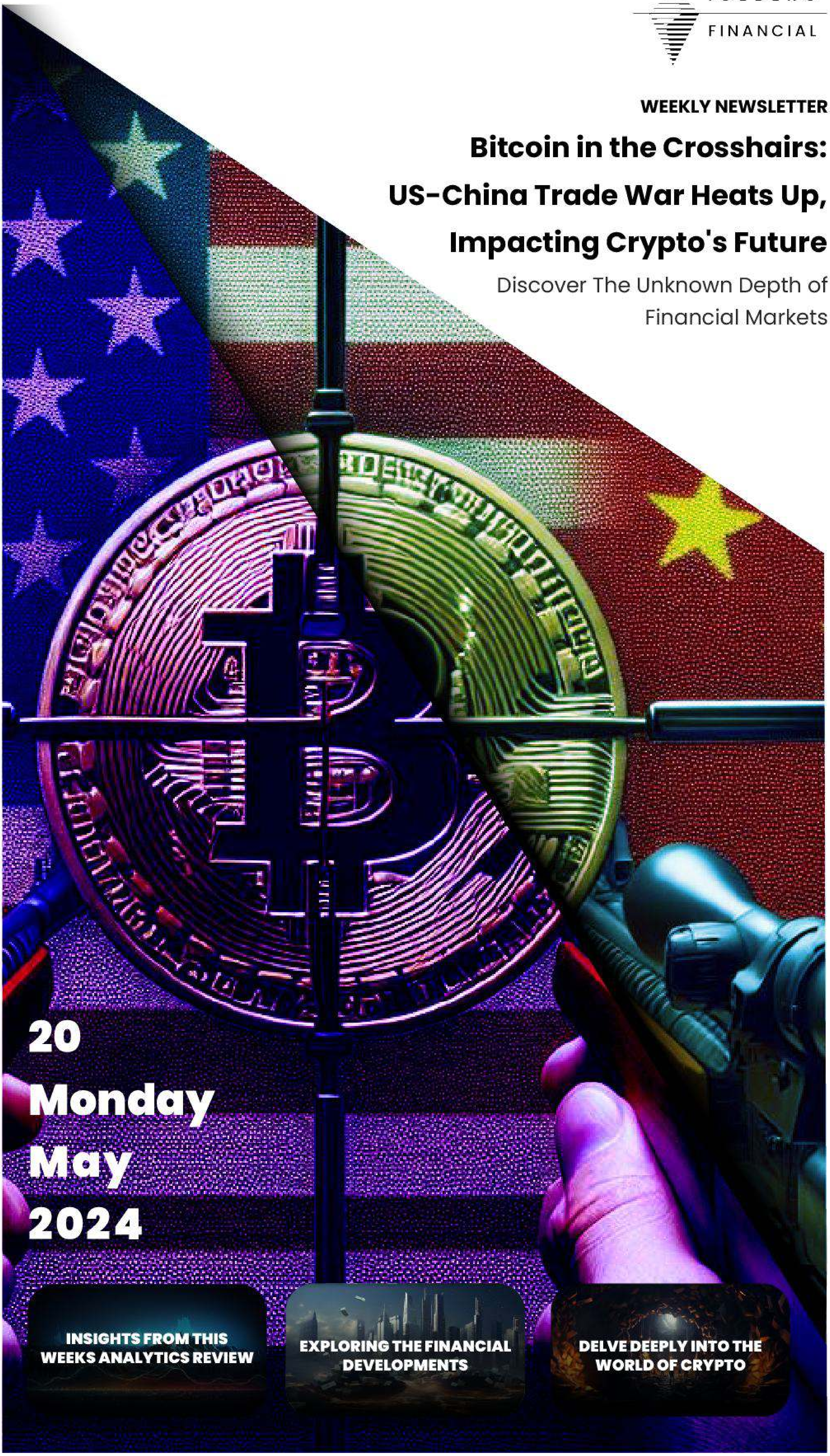
ICEBERG FINANCIAL

WEEKLY NEWSLETTER

Bitcoin in the Crosshairs: US-China Trade War Heats Up, Impacting Crypto's Future

Discover The Unknown Depth of Financial Markets



20 Monday May 2024

This NEWSLETTER is targeted towards institutional. professinal. and qualified investores. as well as qualified clients.

Context

ICEBERG ANALYTICA

- Middle East Turns to AI with Silicon Valley
- Europe Regulates Big Tech: Innovation at Risk?
- AI's Power Crunch: Can Decentralization Help?
- TikTok Takeover: Bid, Algorithm, and Social Fight

ICEBERG FINANCIAL

- Post-WWII Economic Order Crumbling
- China's Recovery on Shaky Ground
- Bonds Hot Again: High Yields in Volatile Market
- ECB: High Debt Risk in Slowing Europe
- Inflation Eases, Markets Wary

ICELAB

- Bitcoin Caught in Trade War: Crypto's Future at Risk
- Stablecoin Boom Fueled by Bots (Data Issues Ignored)
- Hong Kong Crypto ETFs: Flop or Future?
- Bitcoin Price Slump: Winter or Buying Chance?

CHARTS

- Global economic recovery gains momentum as financial conditions ease
- Bullish trends emerge in Hang Seng and CSI 300 as golden crosses appear
- Global central banks' rate expectations diverge

USD vs. Major Currencies

Name	Change %	1 Month	YTD	1 Year	3 Years	Da	
Australian Dollar	-0.16%	-3.85%	1.82%	-0.51%	16.13%	1.49249	1.503
British Pound	-0.23%	-1.95%	0.35%	-1.70%	11.37%	0.7867	0.790
Canadian Dollar	-0.02%	-1.01%	2.77%	1.10%	12.81%	1.36011	1.364
Chinese Renminbi ("Yuan")	0.12%	-0.17%	1.50%	3.02%	12.29%	7.21966	7.236
Euro	-0.01%	-1.82%	1.57%	-0.30%	11.85%	0.91937	0.922
Japanese Yen	0.14%	0.89%	10.31%	13.10%	42.54%	155.248	155.9
Swiss Franc	0.33%	-0.07%	8.03%	1.18%	0.66%	0.90596	0.909

- The US Dollar (USD) experienced a challenging week, with the USD Index (DXY) falling to five-week lows around the 104.00 mark before regaining some stability towards the end of the week. This decline was primarily driven by the release of April's Consumer Price Index (CPI) data, which indicated a continuing disinflationary trend in the US economy. Despite earlier positive signals from the Producer Price Index (PPI), investors grew more convinced that the Federal Reserve (Fed) would cut interest rates soon, with September being a likely target according to the CME Group's FedWatch Tool.

- Fed officials, however, exhibited caution regarding the potential start of an easing cycle. Vice-Chair Phillip Jefferson emphasized the need to maintain current monetary policy until inflation clearly moderates towards the 2% target. Fed Chair Jerome Powell and other officials, including Neel Kashkari, John Williams, and Loretta Mester, echoed similar sentiments, suggesting that while recent inflation data were encouraging, they were not yet sufficient to warrant a rate cut. This prudent stance highlights the Fed's focus on sustained inflation reduction before altering its policy trajectory.

- In the broader context, US yields showed a tendency towards lower rates, aligning with the USD's performance and reflecting market expectations of minimal rate cuts by the Fed for the remainder of the year. Comparatively, other G10 central banks, like the European Central Bank (ECB) and the Bank of England (BoE), might cut rates sooner. The upcoming week will be crucial, with the release of the FOMC Minutes and preliminary May PMIs, along with additional comments from Fed officials, which could further shape market expectations and the USD's outlook.

Energy

Name	1 Month	YTD	1 Year	3 Years	Day Range		
Oil	-2.46%	15.48%	19.15%	69.57%	76.16	77.11	60.02
Brent Oil	-2.83%	14.43%	20.89%	76.65%	30.96	31.28	24.19
Natural Gas	32.82%	-5.82%	-30.80%	-57.21%	18.58	19.19	13.87
Gasoline	-4.32%	12.62%	14.95%	97.61%	67.51	68.50	56.91

- Oil prices ended the week on a positive note, with Brent oil futures rising to $83.92 a barrel and West Texas Intermediate crude futures reaching $79.57 a barrel. This upward movement was fueled by signs of slowing U.S. inflation, which bolstered hopes for Federal Reserve rate cuts, and additional stimulus measures from China that are expected to boost demand. The softer-than-expected U.S. consumer inflation readings weakened the dollar and increased speculation that the Fed might begin lowering rates as early as September. Despite some Fed officials expressing caution about cutting rates without more evidence of sustained lower inflation, the overall sentiment supported oil prices, contributing to weekly gains of around 1%.

- The positive market sentiment was further supported by Baker Hughes reporting an increase in the U.S. rig count to 497, suggesting a potential rise in future oil production. However, the market was also dealing with mixed signals about demand. On one hand, a larger-than-expected draw in U.S. oil inventories ahead of the summer travel season sparked optimism about rising demand. On the other hand, the International Energy Agency slightly reduced its annual demand forecast due to ongoing global economic uncertainties and persistent inflation. Contrarily, OPEC maintained its demand forecast for 2024, anticipating economic recovery in China and potentially lower interest rates later in the year. OPEC is expected to continue its production cuts beyond June, indicating a tighter supply outlook.

- China's economic activities provided additional cues, with the government announcing a substantial $1 trillion bond issuance to stimulate its economy. Despite stronger-than-expected industrial production in April, indicating resilience in the manufacturing sector, concerns remained over weak domestic consumption. Retail sales growth in China missed expectations, and new home prices experienced the fastest monthly decline in over nine years. These mixed signals from China underscored the complexities in global oil demand dynamics, influencing market sentiment and the outlook for oil prices.

Metals

Name	1 Month	YTD	1 Year	3 Years	Day Range		
Palladium	-1.73%	-7.99%	-32.45%	-65.68%	90.75	93.30	78.50
Gold	1.85%	17.00%	21.40%	28.03%	221.67	223.85	168.30
Platinum	15.04%	9.48%	0.19%	-14.15%	97.63	100.00	77.68
Silver	11.37%	32.19%	31.94%	9.93%	27.55	28.84	18.97

- Gold (XAU/USD) experienced notable gains this week, surpassing $2,400 on Friday and achieving nearly a 2% increase for the week. The precious metal initially struggled for direction, trading within the range of $2,300 to $2,330. However, a significant shift occurred on Thursday due to renewed speculation about Federal Reserve (Fed) rate cuts, prompting investors to move away from the US Dollar (USD) and favor safe-haven assets like gold.
- Economic data played a crucial role in gold's performance. The US Bureau of Labor Statistics (BLS) reported a 2.2% year-on-year rise in the Producer Price Index (PPI) for April, matching expectations but indicating persistent inflationary pressures. The Consumer Price Index (CPI) edged lower to 3.4% annually, while core CPI inflation was steady at 3.6%, both supporting the case for sustained inflation. These data releases, coupled with a decline in US Treasury bond yields, helped gold prices surge mid-week. Despite some Fed officials' cautious remarks on the timing of rate cuts, gold maintained its upward momentum.
- Looking ahead, market participants will closely watch upcoming US economic data and Fed officials' speeches. The minutes from the April 30-May 1 Fed meeting and S&P Global's preliminary Manufacturing and Services PMI data for May are expected to be significant drivers. If the data suggest economic contraction or if Fed officials express concerns over inflation and economic growth, the USD could weaken, providing further support for gold prices. Conversely, positive economic indicators could strengthen the USD and limit gold's upside potentia

Analytica

• Beyond Oil: The Middle East Bets Big on AI with Silicon Valley's Help

- The Middle East is pouring money into AI, partnering with Silicon Valley to diversify its economy and become a tech leader, but human rights concerns linger.

- Andrew Feldman, an AI entrepreneur from Silicon Valley, has found new opportunities in the Middle East, particularly in Abu Dhabi, UAE. Like many tech leaders, he has been attracted by the financial backing available in the region. On visits to Abu Dhabi, Feldman has observed the burgeoning tech scene, encountering fellow tech founders and experiencing the city's attractions. His company, Cerebras, is using funds from the UAE to build advanced supercomputer data centers in various locations, including the Emirati desert city. This move is part of a broader trend where tech founders and investors are increasingly seeking partnerships with sovereign wealth funds in the Persian Gulf states.

- Middle Eastern investments in tech have surged, exemplified by Microsoft's $1.5 billion investment in G42, a leading tech firm in the UAE. Prominent venture capital firms are also engaging with Gulf states, such as Andreessen Horowitz's discussions to raise $40 billion from Saudi Arabia for an AI fund. This influx of capital is reshaping the tech landscape, with many Silicon Valley entrepreneurs and investors now frequenting the UAE and Saudi Arabia. The geopolitical dynamics are also at play, with the U.S. encouraging these partnerships to counter China's influence in the region. This strategic realignment is evident in high-level meetings between U.S. tech executives and UAE officials.

- Historically, tech firms were wary of Middle Eastern funding due to concerns over human rights abuses and associations with authoritarian regimes. The murder of journalist Jamal Khashoggi in 2018 intensified these concerns, leading some firms to distance themselves from Saudi money. However, the allure of substantial investments has led many to reassess their stance. Middle Eastern funds, once considered "dumb money," are now viewed as critical sources of capital in the competitive and costly AI arms race. This shift is driving Silicon Valley to engage more deeply with the Gulf states, despite the potential ethical and security concerns.

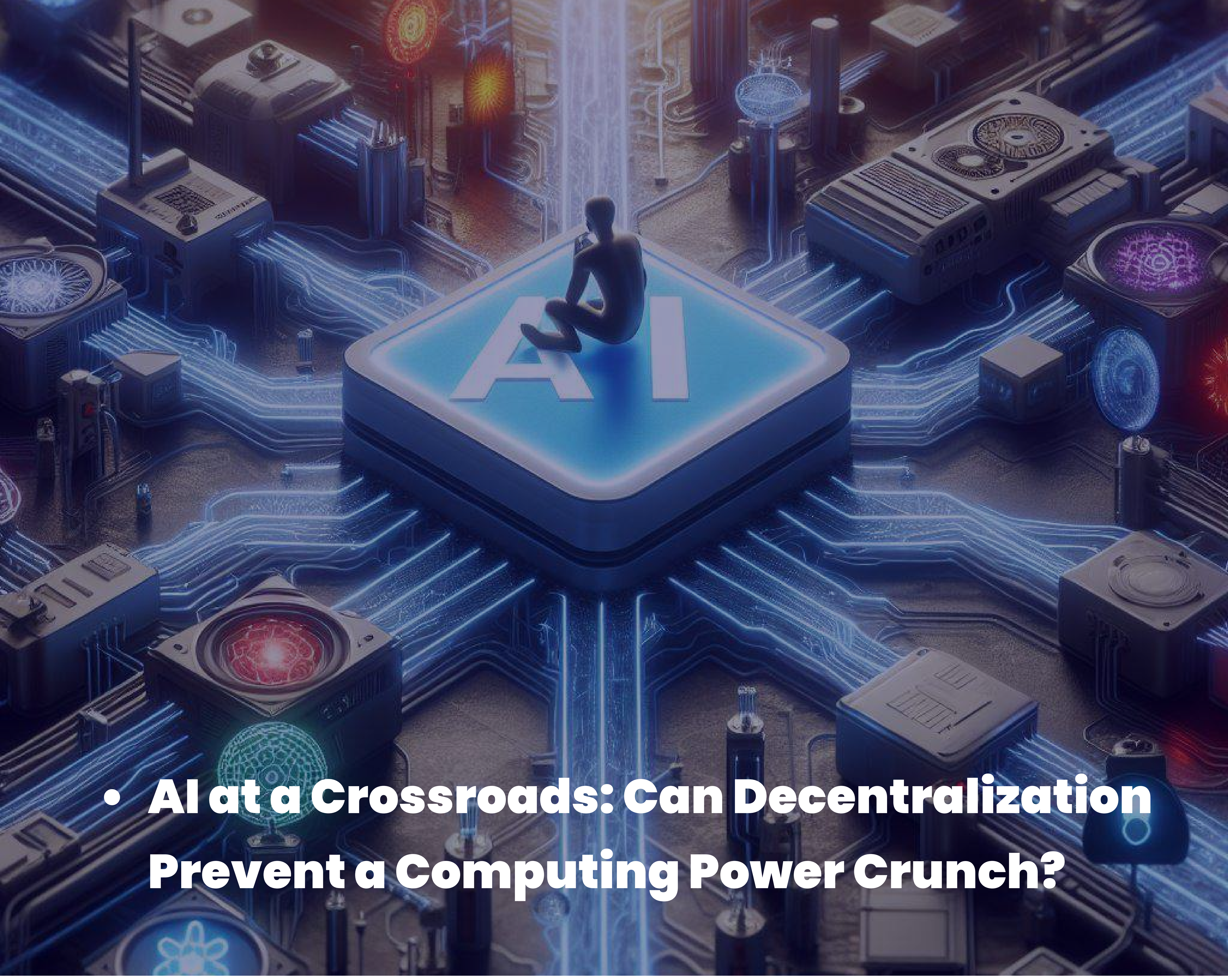
- The Middle East is leveraging these tech partnerships to reduce its economic dependence on oil and become a hub for AI innovation. The UAE and Saudi Arabia have ambitious plans to integrate advanced technologies into their economies. However, this collaboration raises questions about the use of AI and other technologies by regimes with poor human rights records. Critics warn about the potential misuse of American technologies for surveillance and repression. Despite these concerns, the drive for AI supremacy and the need for funding are pushing Silicon Valley closer to the Gulf states, with significant geopolitical and economic implications.

• Balancing Act: Europe's Tightened Grip on Big Tech and Its Impact on Innovation

- As Europe intensifies its regulatory control over Big Tech with stringent measures under the Digital Markets Act, debates arise over the potential impact on tech innovation, highlighting the contrast with the US's supportive environment driven by flexible immigration policies.
- Europe is increasingly tightening its control over Big Tech, recently adding Booking.com to its list of "gatekeepers" subject to stringent regulations under the Digital Markets Act (DMA). Critics argue that such regulations hinder Europe's ability to nurture successful startups, contrasting with the US where tech companies, such as Amazon, have lobbied against these regulations, fearing they stifle innovation. A paper by Anu Bradford from Columbia Law School, however, challenges these criticisms, suggesting that the key factors for tech success are not primarily regulatory.
- Success in tech innovation is more influenced by factors like flexible immigration policies, which attract top talent, and lenient bankruptcy laws, which encourage entrepreneurial risk-taking. The US excels in these areas, alongside robust capital markets that provide ample venture capital funding, especially in later-stage funding rounds. Although European venture capital is growing, it still pales in comparison to the US. Additionally, substantial state investment, as seen in the US Chips Act, significantly boosts private investment in tech.

- Geography poses a major challenge for Europe. Unlike the US, with its large, homogenous market, Europe consists of 27 countries with diverse languages, cultures, and legal systems, complicating the business environment for tech companies. Despite these hurdles, some European tech firms, like Spotify, have managed to thrive, demonstrating that overcoming these obstacles is possible.

- In conclusion, while regulatory frameworks play a role, factors like immigration policies, capital markets, state investment, and geographical challenges are more critical in determining the success of tech innovation in Europe versus the US.



AI at a Crossroads: Can Decentralization Prevent a Computing Power Crunch?

- Soaring AI demands threaten to choke progress. Decentralization with projects like io.net and HyperCycle could be the key to keeping the future of AI bright.

- The rapid advancement of artificial intelligence (AI), particularly through the frequent updates of OpenAI's GPT models, has led to an assumption that the technology will continue to progress linearly, similar to the internet's evolution. However, several factors could disrupt this trajectory, potentially hindering AI development and limiting access. A significant challenge is the escalating demand for computing power needed for AI algorithms, which may soon exceed available supply. This increasing demand raises concerns about whether the supply of GPUs will be sufficient, even with technological advancements like Moore's Law.

- Another pressing issue is the capability and availability of hardware. While using multiple GPUs in parallel can help address the need for more computing power, there are limits due to increasing costs and diminishing returns. The demand for microchips began to surpass supply during the COVID-19 pandemic, and geopolitical tensions have further strained the AI supply chain. Taiwan, which produces over two-thirds of the world's semiconductors, faces geopolitical challenges that could disrupt supply, especially with US-imposed controls on Chinese imports affecting Taiwanese operators.

- These geopolitical risks underscore the need for decentralizing AI development. Concentrating AI resources within a single jurisdiction or making them a geopolitical bargaining chip poses significant risks. Decentralization can address these issues by distributing AI computing resources more broadly. Projects like io.net, which aggregate underutilized GPUs from various sources, offer a cost-efficient, on-demand computing solution. By using distributed computing libraries, these resources can efficiently handle and parallelize AI training tasks across multiple devices, enhancing scalability and reducing dependency on centralized data centers.

- Another initiative, HyperCycle, addresses the limitations of existing compute solutions through decentralized AI-to-AI communication using cryptographic proofs. This approach enables more efficient learning algorithms with quicker access to compute resources. HyperCycle's network of nearly 350,000 nodes supports numerous AI agents, facilitating rapid communication and interaction. Decentralizing AI compute resources ensures that AI development is not monopolized by any single entity or jurisdiction, fostering shared opportunities and overcoming the challenges posed by centralized systems struggling to meet growing demands.

TikTok Tango: A "People's Bid," Algorithmic Angst, and the Fight for Your Social Graph

- US-China tug-of-war over TikTok intensifies as rival bids emerge, raising questions about data control, national security, and the future of social media.

- The unfolding saga around TikTok and its potential sale by ByteDance under US pressure is becoming increasingly complex and intriguing. President Joe Biden’s recent mandate for ByteDance to divest TikTok’s US operations by January 2025 adds a significant twist to an already tangled situation, especially as ByteDance is challenging this directive in court.

- Notably, the reactions from various stakeholders are diverse and sometimes contradictory. Former President Donald Trump, who initially threatened to ban TikTok, now seems to oppose such a ban, influenced by key supporters like Jeff Yass, a major US investor in ByteDance. At the same time, some of Trump’s allies remain staunchly opposed to Chinese influence over TikTok.

- One of the more curious developments is the emergence of a "people’s bid" for TikTok led by Frank McCourt, supported by notable figures such as Tim Berners-Lee and Jonathan Haidt. McCourt's approach is unconventional, as he proposes to acquire TikTok without its recommendation algorithm, which he believes is crucial for addressing national security concerns and fostering a healthier platform. However, this bid appears speculative, lacking both a clear dialogue with Beijing and secured funding.

- The underlying issue involves control over the “social graph” — users’ online data and digital footprints — which critics argue is being manipulated by opaque algorithms, including those used by TikTok. The shift in trust from traditional authority figures to peer networks and AI bots, especially among younger generations, underscores the broader implications of this debate. These trends are leading to online tribalism and increased susceptibility to manipulation, a concern amplified by the White House’s fears about TikTok's potential influence.

- McCourt’s vision, supported by his $500 million investment in the “Liberty” platform, aims to provide individuals with greater control over their social graph using open-source protocols, hoping to mitigate manipulation. Tim Berners-Lee’s similar effort with the Solid platform reflects a shared ambition to reform how personal data is managed online.

- Despite the ambitious and somewhat idealistic nature of these initiatives, the rapidly evolving digital landscape suggests that dramatic changes are possible. The current situation with TikTok, marked by geopolitical, political, and technological complexities, serves as a reminder that what seems improbable today could become the norm tomorrow. Therefore, tech investors and observers should remain open to unexpected developments as the debate over TikTok and digital data control continues to evolve.

Financial

• Cracks in the Facade: Post-WWII Economic Order Nears Collapse

- Despite surface-level resilience, the global economic system established after World War II is eroding, potentially leading to chaos and a reversal

- At first glance, the world economy appears robust despite numerous challenges. The U.S. economy has thrived despite its trade war with China, and Germany has managed without Russian gas supplies. The Middle East conflict has not triggered an oil shock, and trade has rebounded from the pandemic, showing healthy growth projections for the year.

- However, this surface resilience conceals significant vulnerabilities. The post-World War II economic order is eroding, nearing collapse. Numerous potential triggers could lead to chaos, where power dictates outcomes and conflicts arise among major powers. Even without war, the breakdown of economic norms could have swift and severe consequences.

- The erosion of the old order is evident. The use of sanctions has quadrupled since the 1990s, with America imposing secondary sanctions on entities aiding Russia. A subsidy war is ongoing as countries emulate China and America's state-backed green manufacturing. Despite the dollar's dominance and resilient emerging markets, global capital flows are fragmenting.

- Institutions that once upheld the global system are losing their effectiveness. The World Trade Organization has been stagnant due to American neglect. The IMF faces an identity crisis between green agendas and financial stability. The UN Security Council is paralyzed, and supranational courts are becoming tools for conflict. Recently, U.S. politicians threatened the International Criminal Court with sanctions over potential warrants against Israeli leaders.

- Fragmentation has imposed a subtle but noticeable tax on the global economy. Historical precedents show that deeper collapses can happen suddenly. The First World War ended a golden age of globalization, and the Great Depression led to a collapse in American imports. Nixon's suspension of gold convertibility in 1971 rapidly dismantled the Bretton Woods system. Similar disruptions seem plausible today, potentially triggered by geopolitical conflicts or shifts in trade policies.

- The potential collapse of the current system threatens to reverse progress made during globalization's peak in the 1990s and 2000s, which saw significant poverty reduction and improved health outcomes worldwide. The era of liberal capitalism brought unprecedented benefits, such as lower infant mortality rates and reduced conflict-related deaths. Replacing the current system with new rules seems unlikely; instead, global affairs may revert to a state of anarchy, favoring violence and instability.

- The decline of the global order will hinder cooperative efforts to address 21st-century challenges, from AI arms races to space collaboration. Without trust and institutional frameworks, countries will form alliances based on coercion and resentment, leading to less stable international relations. Nations like China and Russia, viewing the liberal order as American dominance, may find the shift unsurprising but still damaging.

7

• China's Recovery Relies on Shaky Ground: Exports Boom, Domestic Demand Falters

- China's economic rebound hinges on boosting domestic spending as its export-driven model faces trade tensions and a sluggish consumer market.

- China's economic recovery has increasingly leaned towards manufacturing, making it more susceptible to trade barriers and underscoring the necessity to bolster domestic demand. In April, consumer spending growth slowed to 2.3%, the lowest since 2022, while industrial output increased by 6.7%, exceeding expectations. This unbalanced recovery, driven by exports and manufacturing, faces challenges from rising trade tensions with the US and Europe.

- The property sector in China has continued to decline, prompting the government to introduce new measures to support it, including easing borrowing rules and pledging public funds for home purchases. Ding Shuang, Standard Chartered's chief economist for Greater China and North Asia, highlighted the unsustainability of an export-driven recovery amid trade frictions, emphasizing the need to boost domestic demand. In response to new mortgage and down payment rules, Chinese property shares saw a rally, indicating some market optimism.

- China's focus on expanding its new energy sectors has led to complaints from the US and EU about the impact of cheap Chinese goods on their domestic job markets. The Biden administration's imposition of a 100% tariff on electric vehicles and other key exports reflects these tensions. President Xi Jinping's government has signaled increased support to stimulate demand amidst a prolonged housing crisis.

- The central bank has removed the floor on mortgage rates and lowered minimum down payment ratios for homebuyers. The government is considering allowing local authorities to purchase unsold homes to reduce inventory. Additionally, China has started selling 1 trillion yuan ($138 billion) in ultra-long special sovereign bonds to fund infrastructure projects, sparking expectations of further monetary easing.

- China's manufacturing sector, driven by strong foreign demand and favorable government policies, has led the country's recovery, with exports growing in April. However, consumer prices have remained low, and credit levels have fallen for the first time since 2005. Larry Hu of Macquarie Group observed a "two-speed recovery" in China, suggesting that while the government may increase marginal support, no major policy shifts are expected.

- The National Bureau of Statistics (NBS) noted that the mixed economic indicators could be attributed to base and seasonal effects. Spokeswoman Liu Aihua pointed out that new growth drivers are still growing rapidly, and the economy is continuing its recovery. However, the NBS also warned of an "increasingly complex, grim and uncertain" external environment, necessitating the early implementation of existing macroeconomic policies.

- The slow consumption growth might prompt Beijing to expedite plans encouraging upgrades of consumer goods. Modest subsidies were introduced last month to help fund purchases, particularly in the automotive sector. Bruce Pang of Jones Lang LaSalle Inc. noted that the economic outlook's uncertainty might deter spending, with consumer expectations yet to improve significantly.

-

• Bonds Back in the Spotlight: Locking in High Yields in a Volatile Market

- Rising interest rates and market uncertainty make high-quality fixed income a compelling option for investors seeking attractive returns with lower risk.

- The current divergence in global market conditions, characterized by varying central bank policies, has created a complex environment for managing fixed income portfolios. However, with bond yields at their highest levels since the global financial crisis, the prospects for returns have brightened significantly. Here are the key points to consider for investors in this environment:

- Given the uncertainty surrounding US monetary policy and the potential for continued elevated cost of capital, investors should consider increasing allocations to higher quality fixed income assets in the more liquid parts of their portfolios. Active management remains crucial to navigate the fluctuating economic conditions and potential interest rate changes.

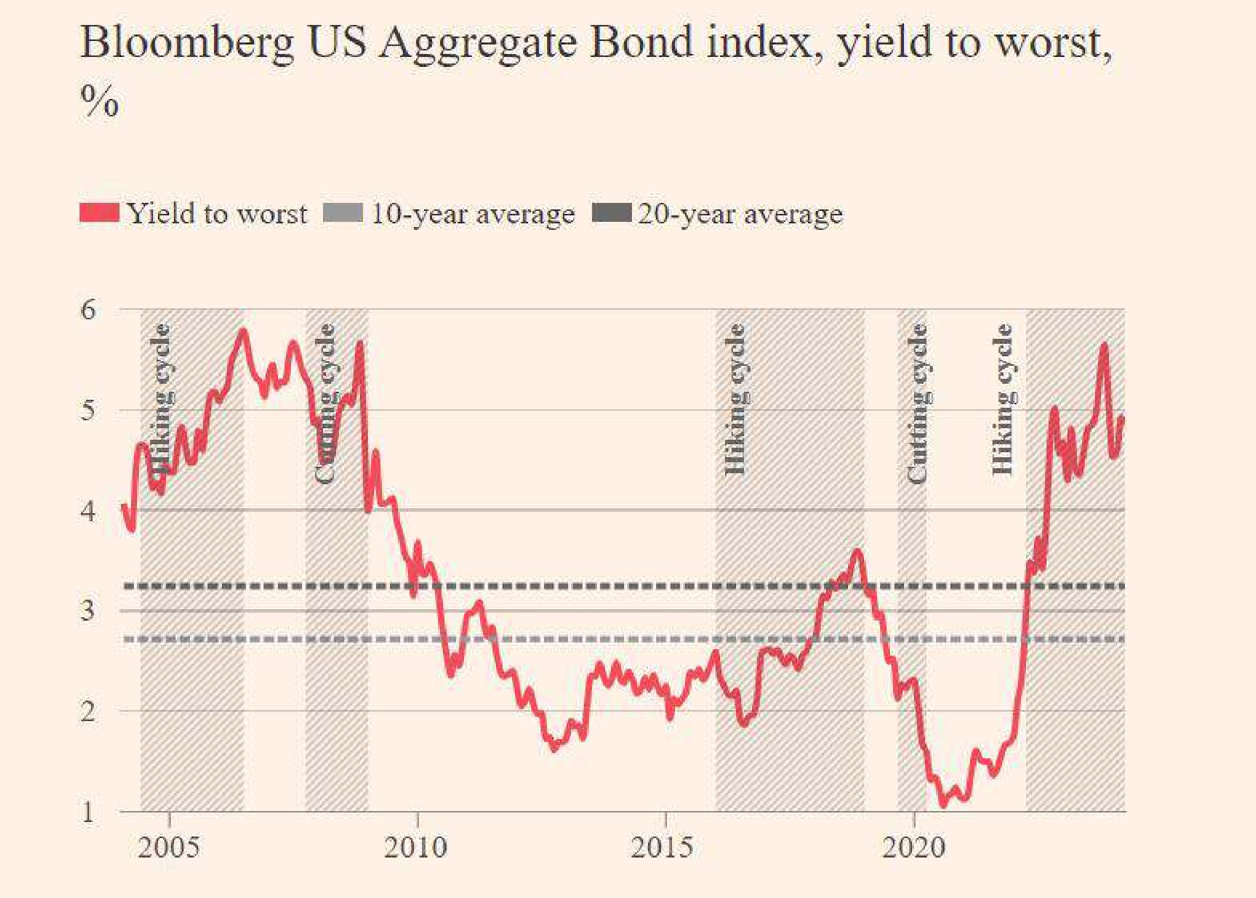
- At the beginning of the year, markets anticipated significant Fed rate cuts, expecting inflation to decelerate. However, despite some signs of a soft landing for the US economy, inflation remains above the Fed’s 2 percent target, leading investors to price in more modest rate cuts. This suggests a "higher for longer" environment, where the cost of capital remains elevated, and any rate cuts might be less aggressive and come later than initially expected.

- In light of higher interest rates potentially impacting corporate profitability, many investors with sizeable equity holdings are reevaluating their positions and shifting allocations to fixed income. This trend is particularly evident among pension funds, which are taking advantage of strong equity performances to rebalance towards fixed income, locking in gains and benefiting from higher yields.

- Investors should focus on high-quality bonds to benefit from the current yield environment. The Bloomberg US Aggregate index, a proxy for investment grade bonds, offers a yield of 5.1 percent, significantly higher than its historical averages. This provides a compelling opportunity for investors to secure attractive yields without taking excessive risks.

- While there are opportunities in higher-quality fixed income, investors should be cautious about taking on too much risk. Leveraged structures, companies, and countries requiring refinancing present heightened risks in the current high-cost capital environment. Structured products, bank loans, and emerging markets offer potential for enhanced returns but require careful evaluation to protect investor capital.

- In a "higher hold" world, fixed income assets are likely to gain favor. Investors should consider moving up in quality and capturing the carry — the spread over risk-free interest rates. For those willing to take on additional risk, selectively investing in structured products and high-quality corporates can provide enhanced returns. However, caution is warranted to navigate potential dislocations in credit markets and protect capital.



ECB Warns of High Debt Risks Amid Europe's Slow Economic Recovery

- The European Central Bank's latest financial stability review highlights the persistent high levels of public debt across Europe, warning that this vulnerability, coupled with geopolitical tensions and high interest rates, poses significant risks to financial stability.

- The European Central Bank (ECB) has expressed concerns about the ongoing high levels of public debt in European countries, highlighting that this makes them "vulnerable to adverse shocks" from geopolitical tensions and persistently high interest rates. Despite improvements in household and corporate debt levels, many European governments have not fully reversed the economic support measures implemented during the COVID-19 pandemic and the energy price shocks from Russia's invasion of Ukraine. This has led to continued high sovereign debt levels, which the ECB sees as a primary risk to financial stability.

- In its latest financial stability review, the ECB warned that any reassessment of sovereign risk by market participants due to these high debt levels and lenient fiscal policies could raise borrowing costs and negatively impact financial stability. This would have spillover effects on private borrowers and sovereign bondholders. Although the ECB expects economic activity to pick up in the coming years, supported by resilient labor markets, lower inflation, and anticipated interest rate cuts, it identified structural challenges as ongoing drags on productivity and growth.

- One significant concern is the potential for increased losses in the commercial property sector, where the ECB has noted a sharp downturn, particularly in office buildings and retail sites. The ECB suggested that prices could fall further due to structurally lower demand. This downturn in commercial property markets poses additional risks, particularly for real estate investment funds that may face forced asset sales if their cash buffers are insufficient.

- The ECB's warning comes in the context of the European Union's (EU) updated economic forecasts, which show that while net borrowing by Eurozone governments is expected to decline, overall government debt remains above pre-pandemic levels. The EU projects government debt to be 90 percent of GDP in 2024, with a slight increase expected the following year. Despite slightly improved growth forecasts, many EU countries, including France and Italy, are likely to be reprimanded for exceeding the 3 percent budget deficit limit under the reintroduced fiscal rules.

- Investors have become more optimistic, anticipating that the ECB will start cutting interest rates as inflation approaches its 2 percent target. This optimism has resulted in lower borrowing costs for European governments. However, the ECB cautioned that the risks of fiscal slippage, particularly given the busy electoral agenda in 2024-25 and uncertainties around the implementation of the new EU fiscal framework, could lead to a repricing of sovereign risk by market participants.

April Inflation Data Shows Improvement, But Markets Remain Cautious

- April's consumer price index (CPI) data reveals a significant drop in core inflation, offering a positive sign for the economy, yet the market's response remains measured as investors weigh the Fed's ongoing battle with inflation and central banks' increasing gold purchases.

- The latest consumer price index (CPI) inflation data shows a noticeable improvement, particularly in April 2024. The month-over-month change in core inflation dropped to 0.3%, translating to an annualized rate of 3.6%, down from over 4% in the preceding months. This is a positive development, yet the market's reaction has been relatively muted.

- Two-year Treasury yields fell by 9 basis points, and equities rose slightly more than 1%. However, market expectations for interest rate cuts have only shifted marginally. Futures markets now anticipate a 52 basis point cut by December, up from 43 basis points expected previously. This tepid response indicates a difference between market relief and genuine surprise. Investors had anticipated an improvement for April, but past disappointments in February and March tempered enthusiasm.

- The Federal Reserve remains focused on curbing services inflation. April's improvements were largely driven by declining car prices, both new and used, which is expected to continue. There were also slight positive trends in service prices, including falling airfares and slower increases in car insurance costs. Most notably, rent and owners’ equivalent rent saw modest declines. Although CPI rent numbers still appear sticky compared to private measures, indicators from the Cleveland Fed suggest further declines in the coming months.

- Despite these improvements, the inflation rate remains above the Fed’s 2% target. While April's data is promising, it is only one month of data, and sustained improvement is necessary to meet the target. Multi-month averages are still well above the target, indicating that the path to achieving the Fed’s goal will be challenging and uneven.

- Gold has seen a significant rally, which some attribute to increased central bank purchases. Central banks have been buying around 400 tonnes of gold annually since 2010, with this figure doubling in 2021 and 2022. Last year, purchases remained high at about 750 tonnes. This trend reflects a shift towards diversifying reserves, especially among "China block" countries, which have increased their gold holdings to approximately 7% of total reserves.

- China, in particular, has been increasing its gold reserves, potentially as a long-term strategy to diversify away from the dollar. This shift is part of a broader trend among central banks to seek alternatives to traditional reserve currencies like the euro, pound, and yen, which are currently less appealing. Gold offers a diversification option that allows central banks to hedge against currency risks and economic uncertainties.

- Rising trade tensions between US and China threaten to disrupt Bitcoin's price, raising questions about mining costs, regulations, and its role in a volatile global landscape.

- President Biden's recent announcement of tariffs on Chinese imports, including a 100% tariff on Chinese electric vehicles (EVs), signals a potential revival of the US-China trade war. This trade tension might escalate further, especially if former President Trump were to return to power, with measures like ordering the closure of a Chinese-owned Bitcoin mining facility near a military base and congressional moves to ban TikTok unless it becomes American-owned.

- Chinese state actions and investors continue to play a crucial role in Bitcoin's price. As US-China tensions rise, several knock-on effects, including on Bitcoin, are expected. If tariffs cause inflation, Bitcoin might suffer in the short term but could be bullish in the long term as the dollar depreciates. Tariffs increase consumer prices, complicating the Fed's rate decisions and affecting Bitcoin's status as a risk-on asset.

- Bitcoin miners could face higher costs due to increased tariffs on Chinese semiconductors, impacting the competitiveness of American miners who rely on Chinese-sourced equipment. The Biden Administration's tariffs could further strain miners already facing post-halving challenges, influencing mining stock prices and overall industry dynamics.

- A "battle of jurisdictions" is emerging in Bitcoin custody, with Hong Kong promoting Bitcoin ETFs that are competitive in terms of redemptions and tax treatment compared to American spot ETFs. This could boost Bitcoin prices but might compromise its privacy and self-sovereignty aspects, as Hong Kong moves towards regulated custodial solutions.

- In the unlikely event of a kinetic conflict between the US and China, Bitcoin could experience significant price volatility. Historical precedents, such as the Iran crisis, suggest substantial short-term drops in Bitcoin prices during geopolitical crises. Long-term, Bitcoin's principles of self-custody and independence from state control could make it a preferred store of value amidst global instability and rising debt from warfare.

- A renewed US-China trade war, particularly during an election year, could preview future economic dynamics. While Bitcoin faces challenges in the short term due to high-rate environments, it has shown resilience and growth over time. Long-term holders, focusing on self-custody, may find Bitcoin a robust asset capable of withstanding economic and geopolitical tensions between the two largest global economies.

• Stablecoins: Bots Rule, But Boom Continues (Despite Flawed Data)

- A new report reveals 90% of stablecoin trades are by bots, raising concerns, but the market is thriving with human users and institutional interest, despite limitations in the study.

- The rise of stablecoins has sparked intense discussions and debates, particularly with the introduction of the Lummis-Gillibrand Payment Stablecoin Act and Tether's record profits in Q1 2024. A recent report by Visa and Allium Labs has revealed that 90% of stablecoin transactions are executed by bots and algorithms, leaving only 10% for human activities. This finding has reignited debates about the role and potential risks of stablecoins in the crypto asset space. Such statistics have added fuel to the ongoing scrutiny and dialogue regarding the stability and systemic impact of these digital currencies.

- Despite the dominance of algorithmic transactions, the stablecoin market is experiencing significant growth, with around 27.5 million active users. The report notes that human-driven transaction volumes are robust, amounting to approximately $150 billion, highlighting the growing appeal of stablecoins. Traditional financial firms like PayPal and Stripe are showing increased interest in stablecoins, indicating a broader acceptance and integration of these assets into the financial system. This trend underscores the positive sentiment driving the crypto market forward in 2024, despite regulatory uncertainties.

- The methodology used in the Visa and Allium report has been a point of contention. By excluding high-frequency and institutional trading, the report overlooks significant segments of the stablecoin market. The criteria used to distinguish organic from inorganic transactions—wallets with fewer than 1,000 transactions totaling less than $10 million—may present a skewed perspective. Additionally, the exclusion of wallets from centralized exchanges that issue prepaid cards suggests that the report may not fully capture the stablecoin market's complexity. These methodological choices, while reasonable for focusing on small business and merchant transactions, might narrow the overall view.

- Algorithmic trading's prevalence in the stablecoin market is not an anomaly but rather a continuation of a trend seen across all financial markets. Automated trading strategies dominate U.S. financial markets, and their significant presence in crypto assets is unsurprising. With AI driving further advancements in trading strategies, the integration of algorithmic trading in crypto is set to expand. The Visa and Allium report, while highlighting the current landscape, prompts necessary discussions about the evolving role of stablecoins. As the market matures, deeper analyses and ongoing debates will be crucial for understanding and managing the implications of these digital assets.

• Hong Kong's Crypto ETFs: A Fizzle or Future Boom?

- Hong Kong's first crypto ETFs see muted launch, raising questions about competition with US and China's stance on crypto.

- The recent launch of Hong Kong's first exchange-traded funds (ETFs) investing directly in cryptocurrencies has not generated the anticipated excitement, contrasting with the successful debut of similar products in the US. The six Bitcoin and Ether ETFs in Hong Kong have seen their total assets decrease by about $25 million from an initial $293 million, indicating some investor outflows.

- In the US, spot-Bitcoin ETFs from companies like BlackRock Inc. and Fidelity Investments have seen significant success since their January launch, with $12.1 billion in net inflows and nearly $55 billion in assets, although demand has recently slowed. The relatively modest reception of the Hong Kong ETFs needs to be contextualized within the smaller scale of Hong Kong's financial sector compared to the US.

- Hong Kong officials are hopeful that these ETFs will boost trading volumes and attract market makers as the city expands its licensed digital-asset exchanges. This initiative is part of Hong Kong's strategy to position itself as a leading digital-asset hub, competing with cities like Singapore and Dubai, following a period of political crackdowns that affected its financial appeal. This pivot seems to have the implicit approval of Beijing, despite the ban on crypto trading on the mainland.

- Le Shi, head of trading at Auros, attributes the lukewarm response to Hong Kong's ETFs to being overshadowed by the earlier US launches and uncertainties regarding China's stance on cryptocurrencies, which make potential investors cautious about the Hong Kong market. Harvest Global Investments Ltd. and a partnership between HashKey Capital Ltd. and Bosera Asset Management (International) Co. launched Bitcoin and Ether ETFs in Hong Kong on April 30. However, these funds are not part of a program allowing mainland Chinese investors to access certain Hong Kong ETFs, and it remains unclear if this will change.

- Despite the modest start, Bloomberg Intelligence ETF Analyst Rebecca Sin highlights some positives, noting that the total assets of over $250 million are encouraging. Sin predicts that more issuers will enter the market as the ecosystem matures, potentially driving the portfolios to accumulate $1 billion in assets over the next two years. The enthusiasm for US Bitcoin ETFs previously propelled Bitcoin to a record high of $73,798 in March. While the price has since dropped by about $8,000, a renewed crypto bull run could potentially boost ETF inflows.

Crypto Winter or Buying Opportunity? Decoding Bitcoin's Post-Halving Price Action

- Bitcoin price drop follows halving, sparking debate on future trends. Analysts weigh in, pointing to historical patterns, institutional interest, and regulatory developments.

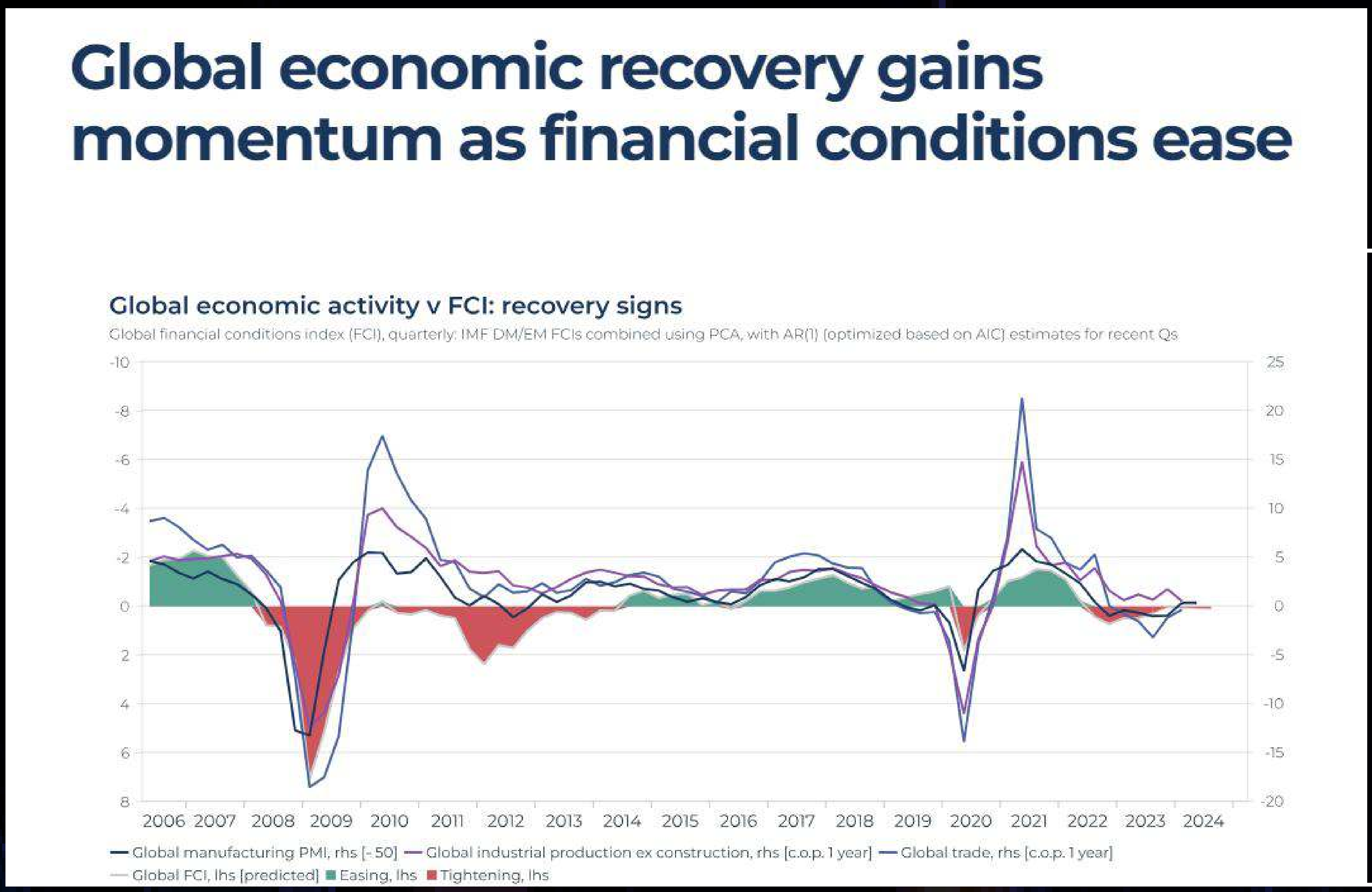
- Bitcoin's price has seen a significant drop since April's halving, but Analysts remain optimistic about its future. The halving event, which cut the new bitcoin issuance rate to 3.125 BTC every ten minutes, generated substantial interest and speculation. Although Bitcoin's value has declined since then, Marino sees this as a temporary setback influenced by macroeconomic factors, and he anticipates a positive trajectory for BTC and crypto in the coming months.

- The rapid rise of Bitcoin to a new high of $73,750 in March, just before the halving, led to a significant selloff. Investors, particularly those looking for quick profits from the "halving trade," cashed out due to the sharp increase in price. Additionally, hawkish comments from the Federal Reserve created a "risk-off" mentality, making an interest rate hike more likely, which contributed to the market's decline. However, as economic data has underperformed, the possibility of a rate hike has diminished, restoring confidence in risk assets like Bitcoin. As a result, BTC has recovered to over $60,000, indicating a shift back to favorable supply and demand dynamics.

- The Analysts outline several reasons for a bullish outlook on Bitcoin. Historical trends from past halvings show that Bitcoin typically reaches new all-time highs in the months following such events. As institutional investors increasingly incorporate BTC into their portfolios, the limited supply will further tighten, driving prices up. Additionally, the launch of spot Bitcoin ETFs in January 2024 will make Bitcoin more accessible to retail investors and financial advisors, enhancing demand. Major financial firms are conducting due diligence to include these ETFs on their platforms, which is expected to simplify the investment process and attract more investors.

- Regulatory developments are also set to play a significant role in Bitcoin's future. The potential passage of a U.S. regulatory framework for cryptocurrencies, along with Europe's Markets in Crypto-Assets (MiCA) regulation, will provide much-needed clarity and legitimacy to the crypto market. These regulations will help dispel the notion that Bitcoin and other cryptocurrencies are merely speculative assets, recognizing them as valuable stores of wealth and technological utilities. This shift in perception could transform Bitcoin into a strategic investment and a potential safe haven, reinforcing Marino's bullish stance on BTC and crypto as the market evolves post-halving.

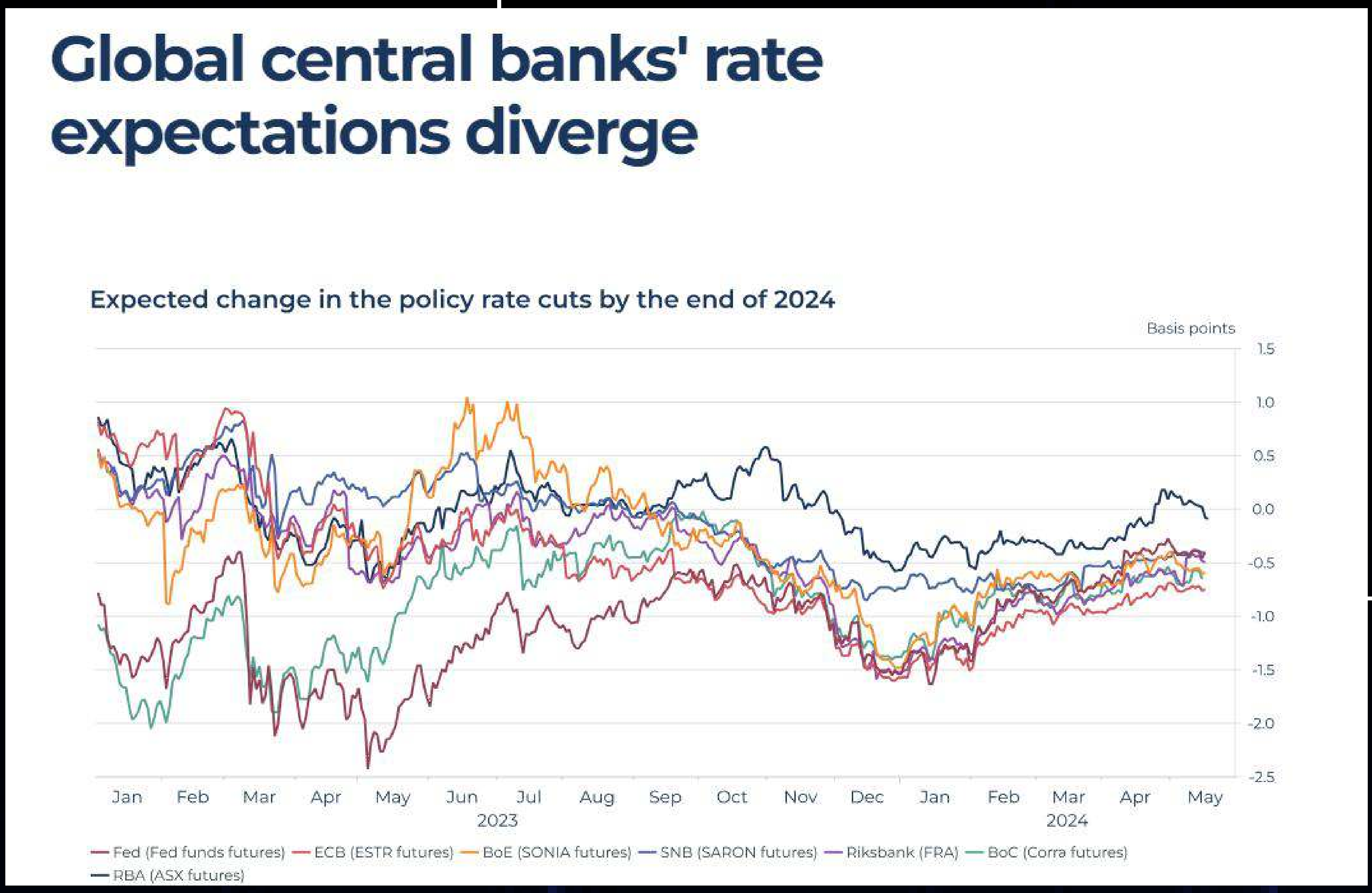
CHARTS



- The US economy in particular has been functioning better than anticipated overall, according to recent OECD data. This graph examines the Global Financial Conditions Index (FCI) in conjunction with a number of economic activity indices. Using Principal Component Analysis (PCA), we integrated the IMF's Developed Markets (DM) and Emerging Markets (EM) FCIs to construct this composite. In order to anticipate third-quarter trends, this strategy included an Autoregressive (AR) model that was optimized by choosing the optimal lag length.

- The worldwide Manufacturing Purchasing Managers' Index (PMI), industrial production, and trade data, all of which have recently shown indications of revival, were all represented on the graph as positive trends. These results are supported by the global FCI, which is moving toward an easing position that promotes a positive macroeconomic climate.

- The CSI 300 and Hang Seng indexes are rising, indicating optimism in China's and Hong Kong's equities markets due to favorable valuations and the country's accommodating economic policies. From a technical perspective, both indexes have already achieved a "golden cross," meaning that their 200-day and 50-day moving averages have crossed over. This technical level usually suggests that the markets are about to move higher.
- The golden crosses for each index are indicated by green triangles in the chart above, which clearly shows these moves. Notwithstanding these encouraging technical signs, investors should nevertheless proceed with care because of the persistent economic uncertainty in China, especially with regard to the real estate market. The enduring nature of these patterns will be crucial in ascertaining whether the current optimism portends a sustained upswing or a transitory surge.



- Globally, central banks are delivering conflicting messages regarding their monetary policies. Based on futures contracts that expire this December, the image, updated with data from one of our partners, Oxford Economics, illustrates the anticipated changes in policy rates by several central banks by the end of 2024. It shows what the market anticipates will happen to rates when the world economy changes.

- Recent events indicate that the Bank of England decided to keep its rate unchanged as of last week, while Sweden's Riksbank and the Swiss National Bank have matched their strategies and elected to implement the first policy rate decreases. Notably, rate cuts are anticipated by the majority of central banks by the end of 2024, including the Federal Reserve, European Central Bank, and Bank of Japan.

Provided to you by:

Team Analytica, Team Financial, Team Icelab

Stay informed about the latest Iceberg events and access the weekly newsletter by simply scan the QR code below:

@ibf_news

Discover
the Unknown Depth of
Financial Markets

WWW.ICEBERG.FINANCIAL