

Context

ICEBERG ANALYTICA

- Al Parity, Chip Bottleneck: China's Reality
- Blockchain: Trade Finance's Digital Future
- Al Training: From Data Center to Office Network
- Big Tech's Al Payoff: Investors Now Confident in Returns
- Is Al Making Us Less Smart?

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- Tariffs: Why Consumers Bear the Brunt of the Cost
- The UK's Economic Puzzle: Stagflation vs. Tech
- US Market Overvalued? Signs Emerge
- From Direct Loans to Securities: How Banking Transformed
- Green Aluminum: Carbon Challenge, Eco Solutions

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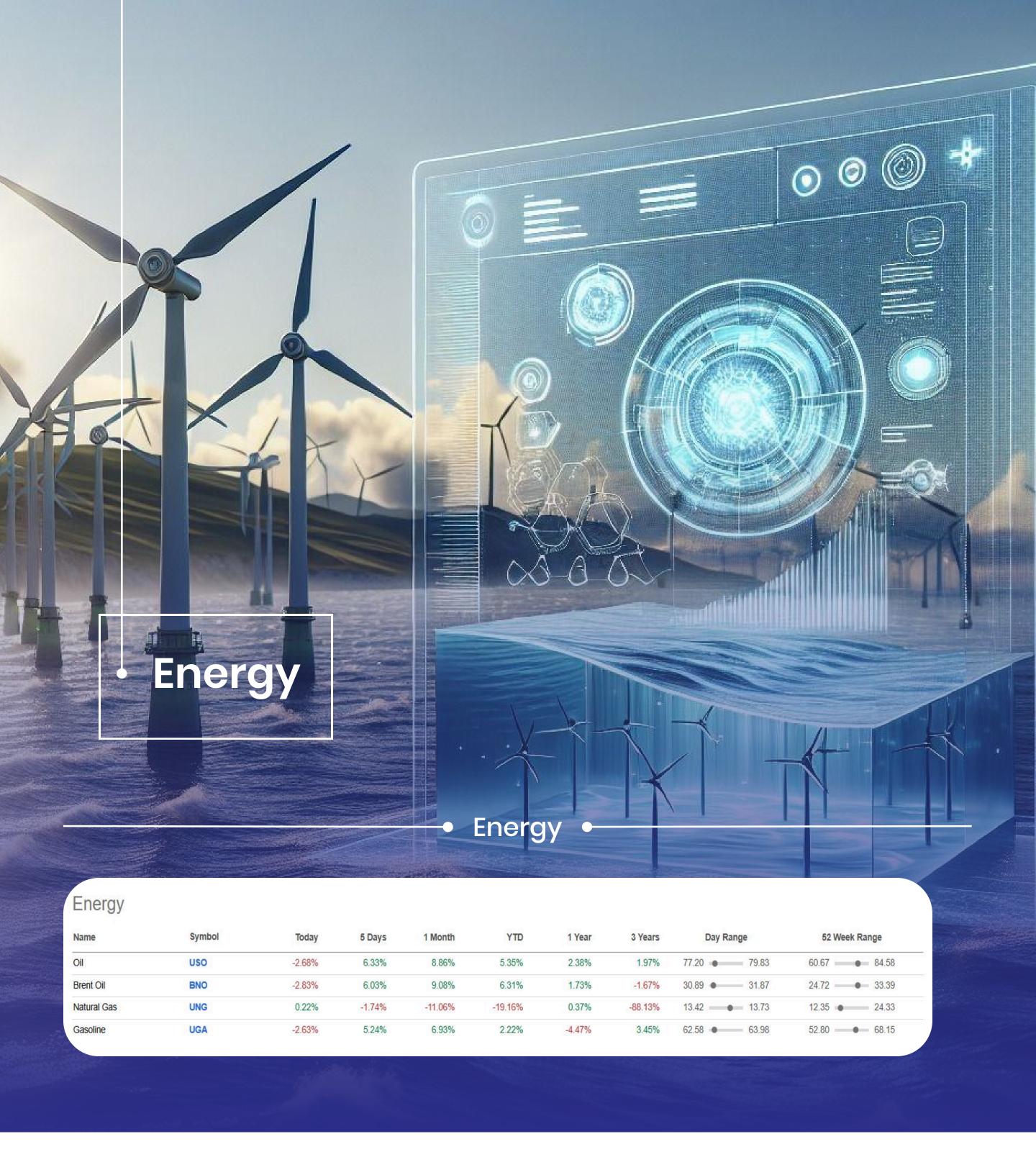
- Digital Payments: Dollar Dominance in Peril
- Tokenized Treasuries: Crypto's Yield Boom
- Unlocking Crypto for Millions: Chase Rewards Pave the Way
- Stablecoin Race: Europe Falls Behind?
- Crypto's Rise: Echoes of 2008 Financial Crisis?

CHARTS

- Trade tectonics
- Poorest Countries and Fragile States Are Increasingly Falling Behind
- Are Valuations Expensive?



• The EUR/USD pair dropped to a one-month low of 1.1391 early August before closing near 1.1550 after a week marked by renewed trade tensions and a strong US Dollar. A contentious US-EU trade deal imposed tariffs of 15% on many exports and 50% on steel, aluminum, and copper, drawing criticism from Europe, while the US also slapped high tariffs on Brazilian and Canadian imports, causing stock market declines amid global growth concerns. The Federal Reserve held rates steady at 4.25%-4.5%, though two members favored a cut due to tariff uncertainties, with Chair Powell emphasizing persistent inflation and a cautious approach that frustrated President Trump. European data showed mixed signals, with Germany's slight GDP contraction but stronger overall EU growth. US data painted a complex picture: strong Q2 GDP growth contrasted with softer job openings and a July Nonfarm Payrolls report adding only 73,000 jobs, boosting expectations of a Fed rate cut in September. By week's end, the US Dollar weakened on poor employment data, while markets awaited key US and EU economic reports. Despite some labor market easing, inflation risks persist, suggesting the Fed may maintain rates amid ongoing trade tensions and policy uncertainty.



Oil prices fell by about \$2 a barrel on Friday, driven by concerns over a potential OPEC+ output increase and weaker demand after disappointing US jobs data. Brent crude closed at \$69.67, down 2.83%, and US West Texas Intermediate settled at \$67.33, down 2.79%, though both benchmarks still gained over 6% for the week. Sources indicated OPEC+ might agree to raise production by around 548,000 barrels per day in September, though details remain under discussion. Meanwhile, the US Labor Department reported only 73,000 new jobs in July, pushing unemployment up to 4.2% and fueling demand concerns. Analysts criticized President Trump's aggressive tariffs and the Fed's decision to keep rates unchanged, citing policy-driven uncertainty. Earlier in the week, oil was supported by Trump's trade deals with the EU, South Korea, Japan, and the UK, and by threats of 100% secondary sanctions on Russian crude buyers. Analysts warned such sanctions could disrupt up to 2.75 million barrels per day of Russian exports, especially to China and India, adding bullish pressure before Friday's decline.



• Gold (XAU/USD) faced pressure for much of the week, initially dropping below \$3,300 as a US-EU trade deal boosted risk appetite and reduced safe-haven demand. Mixed US economic data on Tuesday helped gold recover slightly, but strong GDP numbers and rising Treasury yields on Wednesday pushed it to a new monthly low under \$3,270. Although the Fed kept rates unchanged, Chair Powell's cautious remarks limited gold's rebound despite brief gains on Thursday. On Friday, sentiment shifted dramatically after the US July Nonfarm Payrolls report showed a weak gain of just 73,000 jobs and downward revisions for prior months, pushing the unemployment rate up to 4.2%. This fueled speculation of a September rate cut, sending FedWatch probabilities from 30% to nearly 70%, weakening the US Dollar and lowering Treasury yields. As a result, gold surged back above \$3,350. Looking ahead, investors will watch the ISM Services PMI and Fed officials' speeches closely. Dovish comments could lift gold further, while hawkish tones may cap its momentum as markets balance cooling labor data against lingering inflation concerns.



Despite US chip restrictions, Chinese firms like DeepSeek and Moonshot AI have developed models rivaling Silicon Valley's best, though performance issues highlight a persistent struggle with chip scarcity.

China's Breakthrough in Al Models

Six months ago, DeepSeek stunned the AI world by launching the v3 model, proving that even under US chip restrictions, Chinese firms could match Silicon Valley. Moonshot AI's Kimi K2 soon followed, outperforming OpenAI's ChatGPT 4.1 in coding and surpassing Claude 4 Opus in science knowledge. These open-source models showed China's growing technical prowess, despite being cut off from top-end chips.

Chip Shortages Undermine Progress

Yet building great models isn't enough—they must also run smoothly. US export controls have made data centre chips scarce, slowing service and causing connection drops. Moonshot openly admitted Kimi K2 was "SLOOOOOOOOOOOW," and DeepSeek postponed its new release to avoid similar issues. Relief came recently when the White House reversed some restrictions, letting Nvidia sell H20 chips to China again, potentially easing these bottlenecks.

The Advantages and Limits of Workarounds

China has millions of engineers, state support, and access to vast datasets, making it fertile ground for Al growth. Domestic efforts include Huawei's homegrown chips and importing banned ones worth \$1bn. A focus on open-source releases—like DeepSeek v3 and Kimi K2 being hosted on platforms like Hugging Face—allows wider distribution even without domestic infrastructure. But these creative solutions still can't fully replace steady access to high-performance chips.

Chinese Al firms have created models rivaling the West, despite US chip restrictions.

Rising Efficiency and New Releases

Some Chinese firms, such as Alibaba, are less affected thanks to strong cloud infrastructure. Alibaba's new model, Qwen3-235B-A22B-Thinking-2507, performs at the top tier while being smaller and requiring fewer resources. Labs like Z.ai also emphasize speed and efficiency with releases like GLM-4.5 and 4.5 Air, showing the sector's pivot toward models that work well even on limited hardware.

The Real Bottleneck: Inference

Training AI models is resource-heavy but can be recouped over time. Running them—known as inference—is harder to sustain when chip access is limited. Inference requires chips that balance speed, efficiency, and data transfer, making Nvidia's H20 chips critical. Without them, growth stalls, as companies lose money every time a model is used.

Geopolitical Shifts and the Road Ahead

The Trump administration's policy has sent mixed signals: while tightening some chip controls for national security, it lifted the ban on H20 chips, reasoning it's better for Chinese AI to depend on US hardware than develop domestic alternatives. Yet Nvidia's limited supply means shortages will likely persist until late 2025. As a result, China's AI will keep prioritizing models that can run efficiently on smaller devices until US exports catch up—possibly freeing the sector by early 2026.

Smoother performance still depends heavily on renewed access to inference chips like Nvidia's H20.



Global shipping giants and leading banks are embracing blockchain to digitize trade finance, promising to unlock trillions in capital and revolutionize international commerce by 2030.

While policy debates around cryptoassets dominate U.S. headlines, institutional adoption of blockchain technology is progressing steadily behind the scenes. A recent milestone occurred when U.S. Bank executed its first fully digital trade finance transaction using WaveBL, a blockchain-based platform for secure document exchange. This marks a significant step away from traditional, paper-based trade finance and hints at broader transformation in global finance.

The Digital Container Shipping Association (DCSA), which includes nine of the ten largest global shipping lines, has committed to issuing 100% of bills of lading electronically by 2030. This shift toward blockchain-based trade documentation could help unlock \$1.5 trillion in untapped trade finance, particularly for small and medium enterprises. Speed, security, and transparency offered by blockchain systems make them ideal for modernizing global commerce.

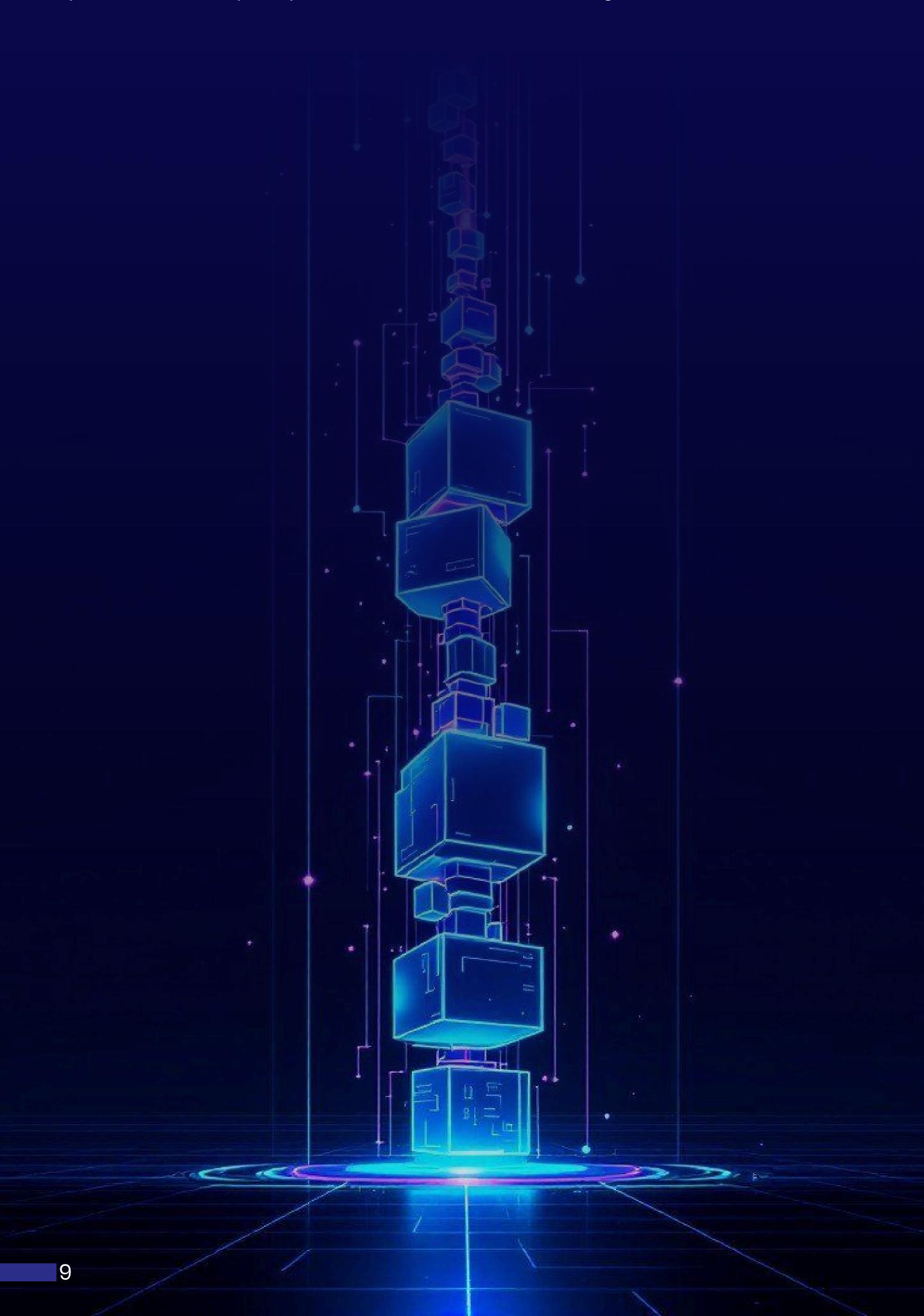
U.S. Bank and global shippers are embracing blockchain to digitize trade finance.

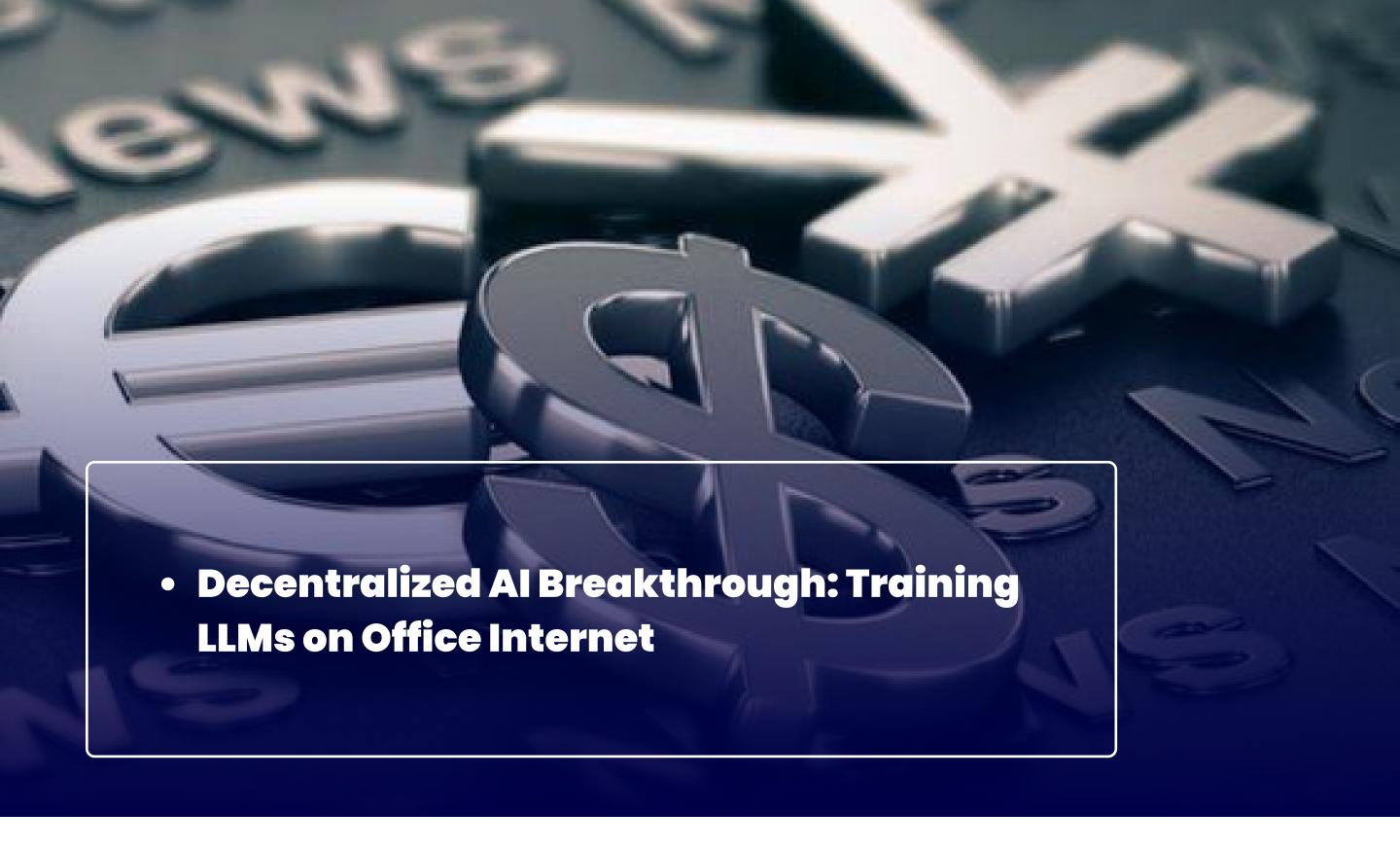
Digitizing trade finance doesn't just benefit shippers—it has ripple effects across banking, logistics, insurance, and international commerce. Moving documents securely and instantly helps reduce fraud, delays, and administrative overhead. These changes, driven by blockchain, can enhance global economic efficiency and inclusion, particularly for underserved businesses.

Despite stagnation in the retail crypto market, institutional interest is booming. Major firms like PayPal, Visa, Mastercard, and J.P. Morgan are expanding their crypto capabilities. These developments signal a shift in how value is transferred and stored, as large-scale financial players recognize the utility of crypto for improving transaction speed, transparency, and cost-efficiency.

Stablecoins and tokenized assets point to a future where dollars move on-chain.

Regulatory clarity around stablecoins—digital tokens backed by fiat currencies like the U.S. dollar—has further catalyzed adoption. Stablecoins marry the benefits of blockchain with the reliability of the dollar, and are now being explored for use in tokenizing U.S. Treasuries. This movement will likely reshape the reserve banking system and solidify the presence of on-chain dollars in global finance.





0G Labs and China Mobile have achieved a remarkable 10x efficiency leap with DiLoCoX, a new framework enabling the training of massive AI models without needing high-speed networks or centralized data centers.

Decentralized AI Breakthrough

0G Labs, in partnership with China Mobile, has developed DiLoCoX, a framework that trains massive AI models (over 100 billion parameters) without relying on ultra-fast networks or centralized data centers. Instead, it links smaller, distributed machines and compresses communication, achieving a record 10x improvement over previous benchmarks—even on typical office internet speeds.

Why This Matters for Business

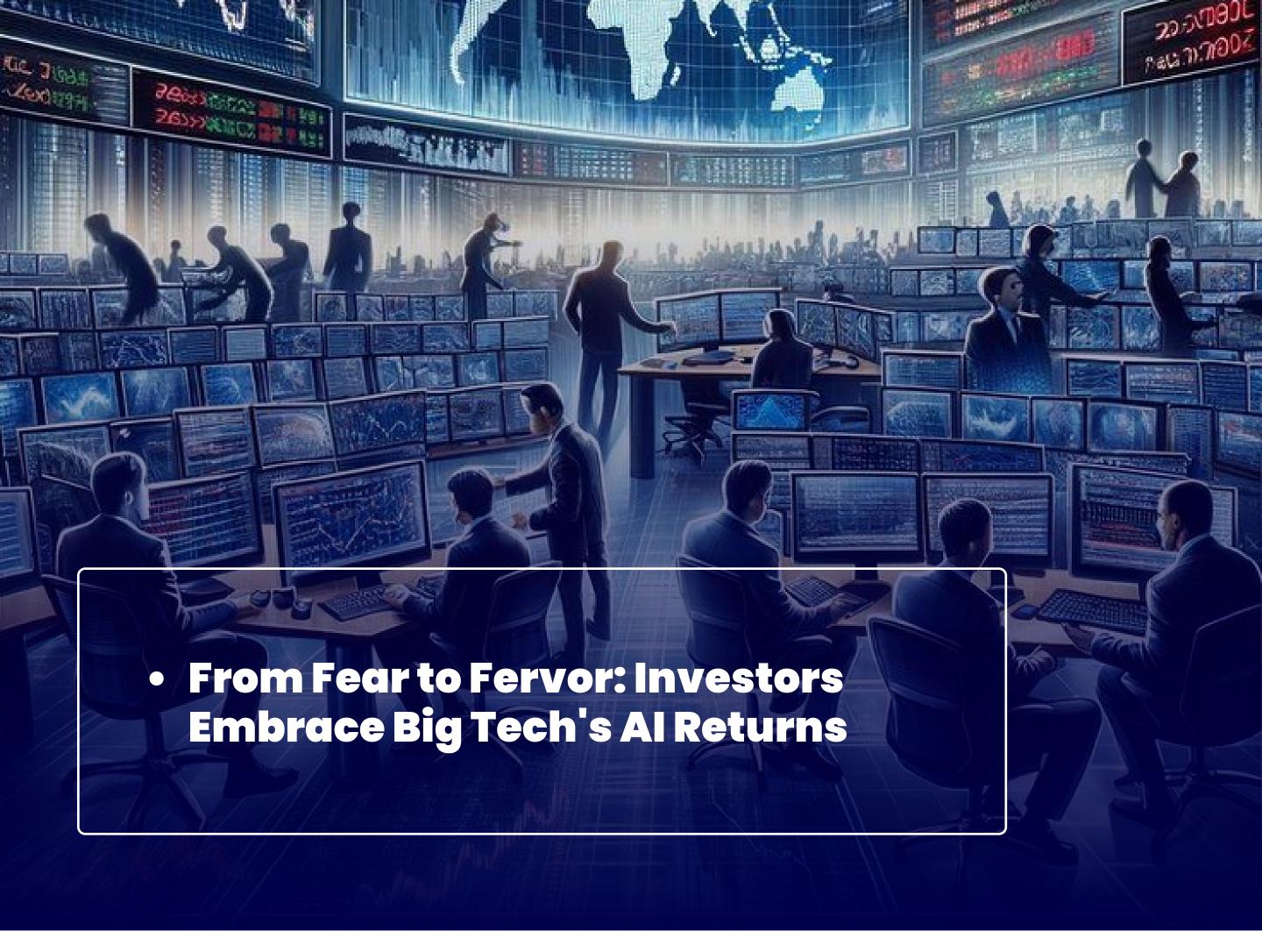
The breakthrough drastically reduces the cost and infrastructure needed for large language model (LLM) training—potentially lowering barriers by up to 95%. This offers startups, mid-sized enterprises, and research institutions the chance to build and fine-tune large models in-house, without depending entirely on expensive hyperscale clouds like AWS or Azure.

Beyond Cost: Strategic Autonomy and Compliance

DiLoCoX enables organizations to keep data local, meeting strict data privacy and sovereignty requirements. It also helps businesses reduce vendor lock-in, gain independence from dominant cloud providers, and mitigate geopolitical or regulatory risks—particularly relevant given China Mobile's involvement, although the decentralized, trustless architecture ensures sensitive data never leaves local control.

A Shift in Al's Economic Model

If widely adopted, decentralized training could pressure current cloud revenue models, encourage hybrid deployments, and broaden AI access to underserved markets. It aligns with the larger trend toward open, modular AI systems, potentially transforming AI from a centralized, capital-intensive industry into a more flexible, distributed ecosystem.



A clear shift in investor sentiment has occurred as Big Tech companies demonstrate tangible returns from their AI investments, driving share prices higher and fueling optimism in the market.

Al Spending Pays Off — For Now

Big Tech giants — Alphabet, Meta and Microsoft — have reassured investors that their huge AI investments are starting to pay off, posting better-than-expected quarterly results. Together, they added over \$350bn in market value, with Microsoft briefly becoming the second \$4tn company after Nvidia, and Meta climbing near a \$2tn valuation.

Cloud, Ads and Capex Boom

Robust growth in Microsoft's and Google's cloud computing divisions, combined with higher ad margins at Meta, helped justify an ongoing surge in capital spending. Microsoft plans to invest \$120bn over the next year, and Meta expects to spend \$105bn in 2025, including a massive data center in Louisiana. The biggest tech firms, including Amazon, are on track to collectively spend over \$350bn on Al-related infrastructure this year, rising to more than \$400bn by 2026.

Changing Investor Sentiment

In previous quarters, investors worried these massive AI bets would not translate into higher earnings. Now, rising revenue and clearer signs of demand — like customer backlogs for AI services — have shifted the narrative. As Jim Tierney of AllianceBernstein put it, Big Tech is finally showing tangible returns, driving share price gains.

Figma IPO Fuels Hype

Investor excitement was further boosted by design software maker Figma, whose IPO surged 250% to a valuation of over \$60bn — three times what Adobe offered in 2022. Drew Dickson of Albert Bridge Capital noted that markets may be entering a "fervour stage," where optimism dominates despite the reality that not all AI bets will succeed.

Amazon and Apple Lag

Amazon disappointed despite beating earnings estimates, as growth at its AWS cloud division lagged rivals. Its shares fell 7%, highlighting how AI enthusiasm can quickly fade if revenue momentum stalls. Apple surprised with a 10% revenue jump driven by iPhone sales and pledged to spend more on AI, but its stock barely moved, partly due to risks from new US tariffs on China and India.

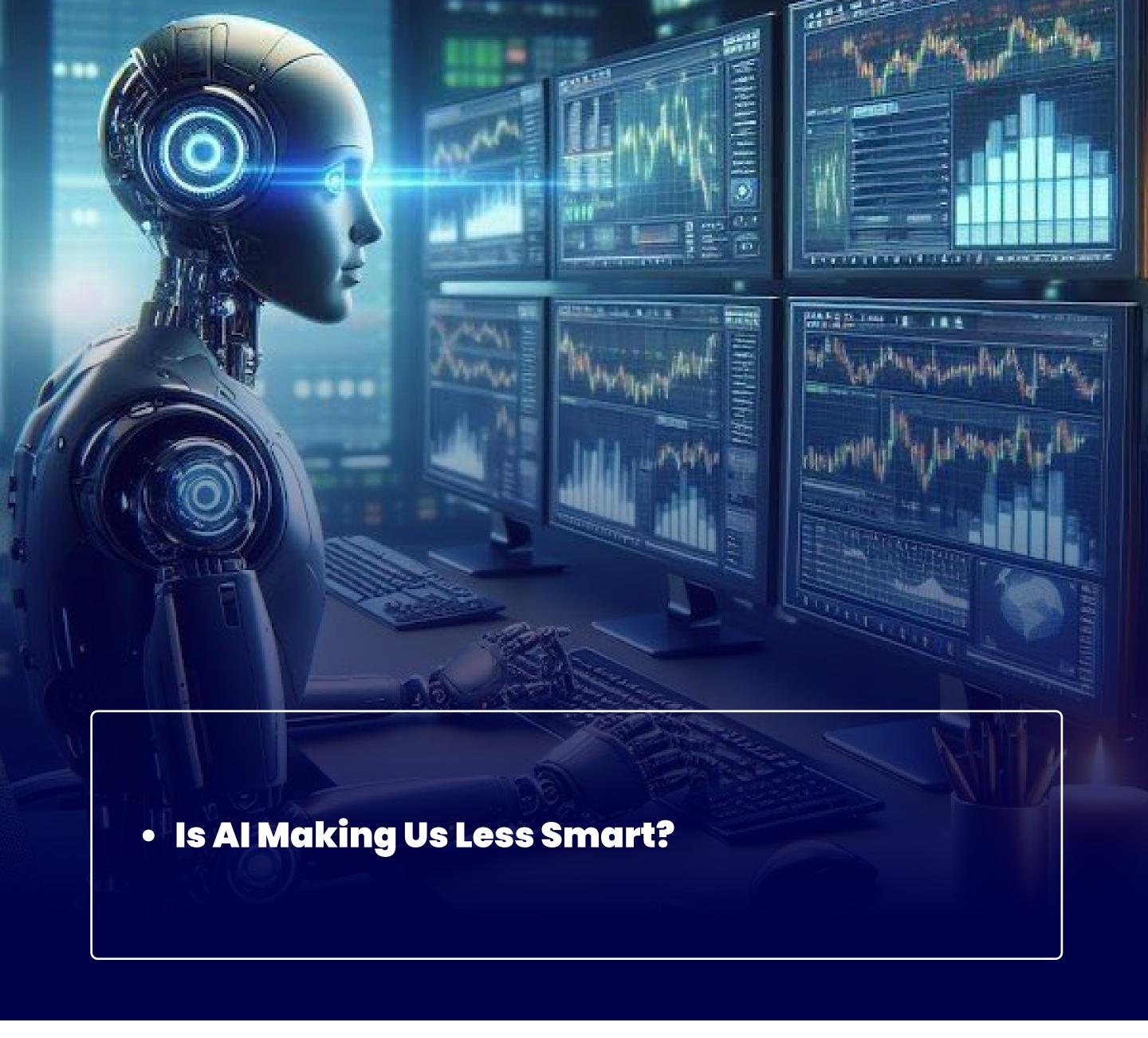
Regulatory Storm Clouds

Multiple antitrust lawsuits threaten Big Tech's dominance. The US FTC is pushing Meta to divest WhatsApp and Instagram, probing Microsoft's cloud practices, and suing Amazon over price manipulation. Apple faces litigation over its "closed ecosystem," while Alphabet may have to sell Chrome and share search data after losing three consecutive cases. These threats could break up or weaken tech giants over time.

Nvidia's Turn Next

The final earnings highlight will come from Nvidia in late August. As the leading supplier of GPUs critical for Al, Nvidia expects quarterly revenue of around \$45bn — up 50% year-on-year — reflecting the surge in demand as Big Tech races to expand Al capacity.





New studies from MIT and other institutions suggest that while generative AI boosts productivity, it may be dampening our creativity, critical thinking, and even memory.

Al Lightens the Load—But Dulls the Mind?

A recent MIT study has raised concerns about the cognitive costs of using generative AI tools like ChatGPT. When students wrote essays with AI assistance, EEG scans showed reduced brain activity in regions related to creativity and attention. Additionally, those students struggled to recall what they had just written. These findings contribute to growing fears that while AI boosts short-term productivity, it might impair deeper thinking and learning in the long run.

Critical Thinking in Decline

Other studies echo these concerns. A Microsoft Research survey of knowledge workers found that most tasks done with AI required minimal critical thinking. Another study from the UK linked higher AI usage with lower critical-thinking scores. Though these studies are not yet conclusive, they align with widespread concerns among educators about students becoming overly dependent on AI. The implication is that frequent use of generative AI may correlate with diminished mental effort and critical engagement.

Offloading or Undermining?

The broader issue may lie in what psychologists call "cognitive offloading"—the act of transferring mental tasks to external tools. While this is nothing new (think calculators or GPS apps), experts worry that Al allows offloading of far more complex thinking processes, such as writing and creative problem-solving. This may lead to a feedback loop of "cognitive miserliness," where users become increasingly reliant on Al and less capable of independent thought.

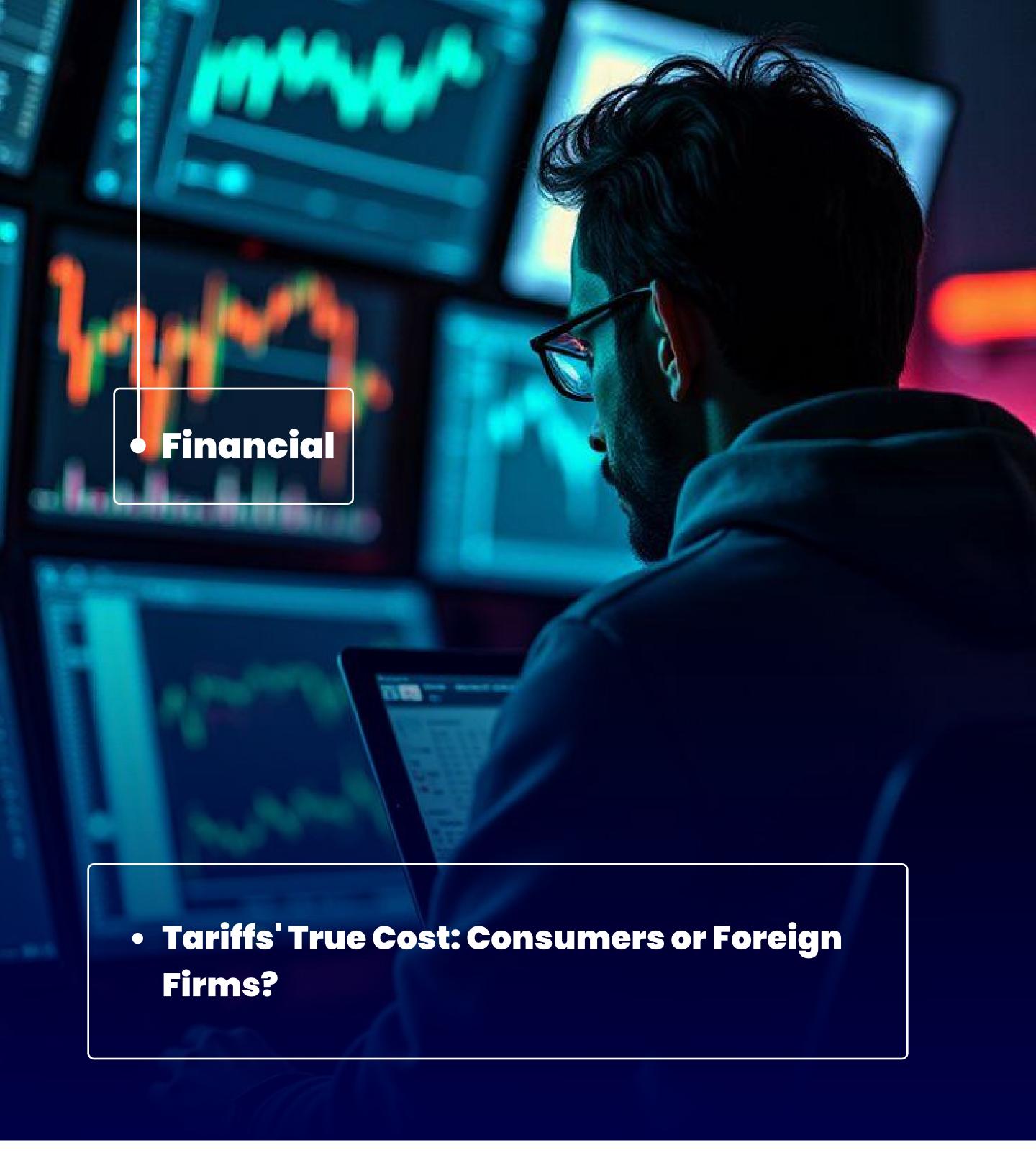
Creativity Takes a Hit

The impact on creativity is also concerning. A University of Toronto study found that people exposed to Al-generated ideas offered less original suggestions in a creativity test than those who worked unaided. This suggests that Al might not only dull critical thinking but also stifle imagination. The risk is that people begin to adopt Al-generated content passively, without expanding or challenging it.

Can Al Use Be Smarter?

Experts propose several strategies to keep the human brain engaged. These include using AI as a step-by-step assistant rather than a solution machine, or designing AI to prompt users with challenging questions. However, these approaches may be unpopular or even counterproductive. Some users prefer speed and simplicity, and nearly half surveyed said they would use AI even if banned by employers. In the end, both users and regulators will need to weigh AI's efficiency gains against its potential cognitive costs.





While economists argue US consumers ultimately bear the cost of rising tariffs, early evidence suggests foreign suppliers and domestic firms are absorbing much of the impact to protect shoppers.

Rising Tariffs in a New Trade War

In 2024, America's average tariff on imports was just 2%, but by mid-2025 it has surged above 16%—the highest since the 1930s. On July 31st, President Trump signed an order to further increase tariffs effective August 7th: 15% on goods from the EU and South Korea, 25% on India, 30% on South Africa, and 35% on Canada. While there's a truce with China for now, Chinese exports to the US still face about 40% tariffs.

Who Really Pays the Price?

Economists argue that US consumers usually pay, as foreign sellers keep their prices steady and tariffs simply raise final retail costs. This pattern held true during Trump's first term, supported by studies showing "complete pass-through" of tariffs into domestic prices. Yet Trump and his allies claim that foreign firms will absorb the cost instead.

Early Signs and Limited Inflation Impact

Some foreign firms, like Ferrari and Canon, have raised US prices. But overall inflation has been milder than expected. In June, core consumer prices rose only 0.2%, below forecasts. While there have been isolated price hikes, especially in car parts, economists have struggled to find broader inflationary effects linked to the tariffs.

So far, foreign suppliers and firms have absorbed much of the cost, but this may not last.

Firms Absorb Costs to Protect Consumers

Evidence suggests US firms may be protecting shoppers by accepting lower profits, helped by stockpiling goods before tariffs hit. Some foreign suppliers have also chosen to keep US prices stable. Nintendo, Chinese manufacturers like Fuling, and South Korean brands like TIRTIR have absorbed tariffs to remain competitive in America.

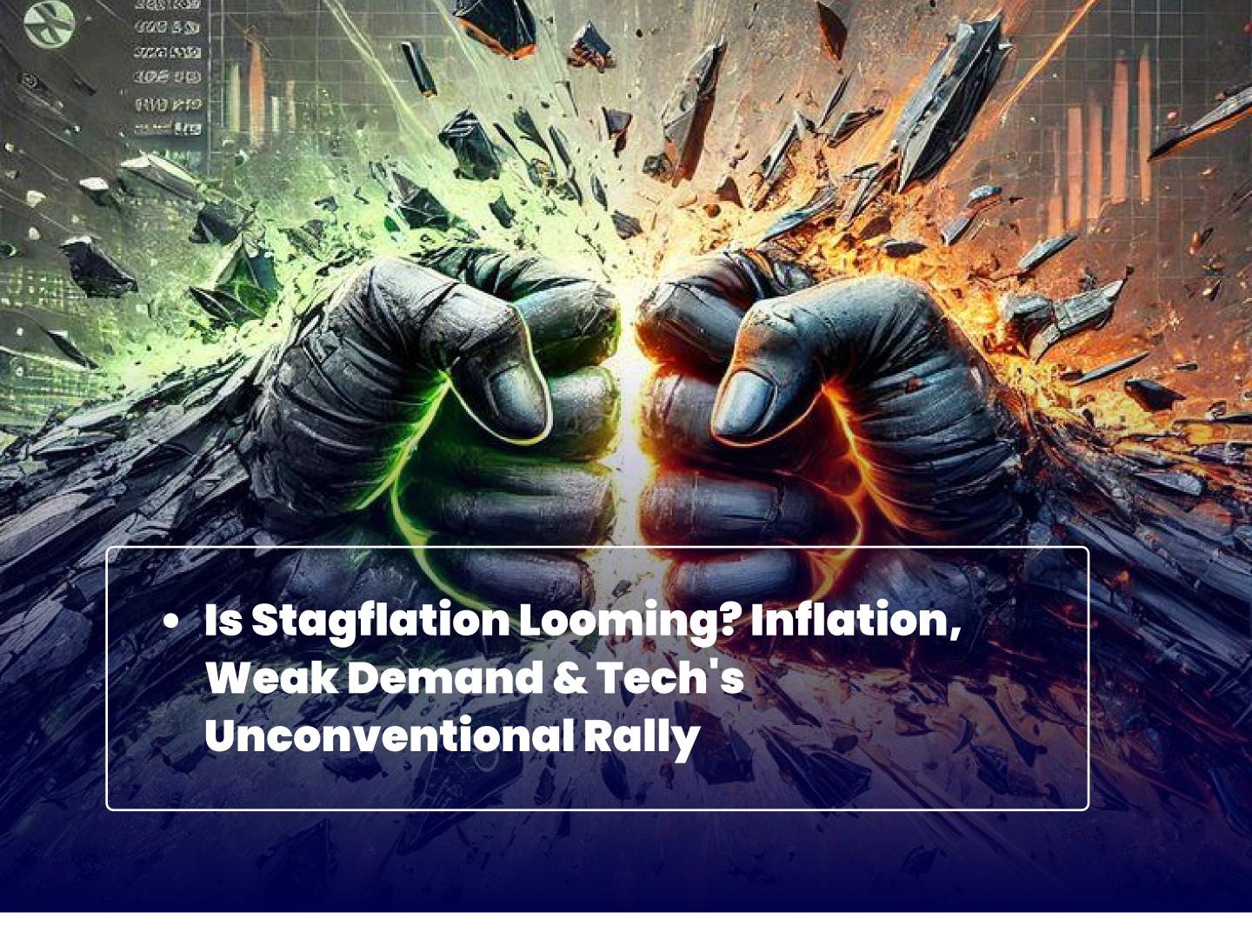
Exporters Lower Prices Abroad

Export data reveal that exporters from countries like Japan, Canada, and Germany have recently cut local-currency prices by around 3.6%, a reversal from their willingness to raise prices during the inflationary boom of 2021–22. In Japan, for instance, car export prices in yen have dropped 26% over a year, partly due to exchange rates.

Future Strains and Limitations

Despite current resilience, foreign firms may not be able to absorb rising tariffs forever, especially if rates keep climbing. Although many have healthy profit margins, further increases could force price hikes in America. Analysts warn that the US economy might soon feel more pain as foreign suppliers reach their limits, and Trump's tariff strategy risks backfiring.





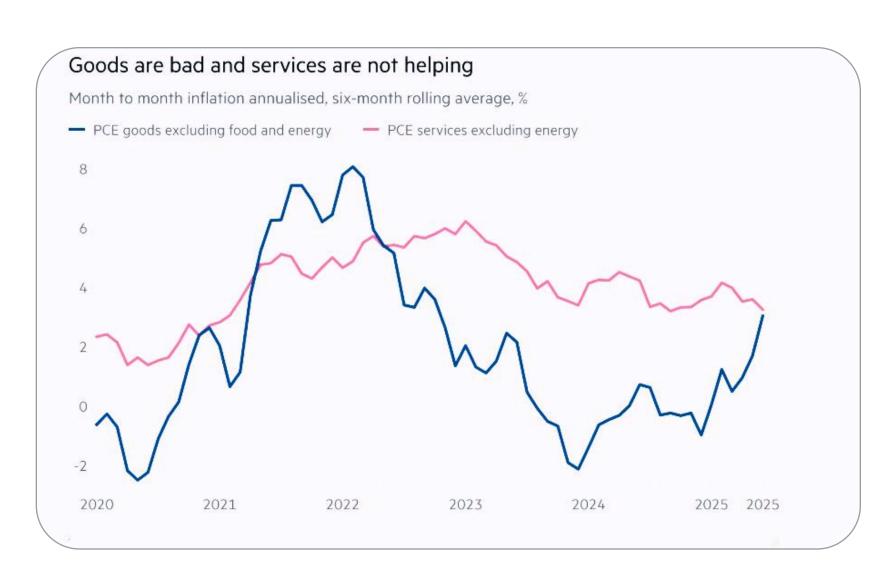
As inflation stubbornly climbs and consumer demand shows cracks, the US economy faces a complex outlook, with the "Magnificent Seven" tech stocks defying traditional fundamentals, raising questions about market stability.

Inflation Is Clearly Rising

Recent data shows that inflation, measured by the Personal Consumption Expenditures (PCE) price index on a six-month rolling basis, has been climbing steadily over the past six to eight months. This trend isn't a statistical illusion or the result of volatile components. Even market-based core inflation and trimmed mean PCE inflation have started rising again after previous progress stalled.

Goods Prices Lead the Surge

The main factor driving this renewed inflation is rising goods prices, which had been declining at the end of 2024 but began increasing before the impact of new tariffs. While services inflation has edged down recently, it has only returned to 2024 lows, and most of that decline is driven by financial services, which may not last. This suggests inflation pressures are broader and deeper than temporary tariff effects.



Tariffs Aren't the Whole Story

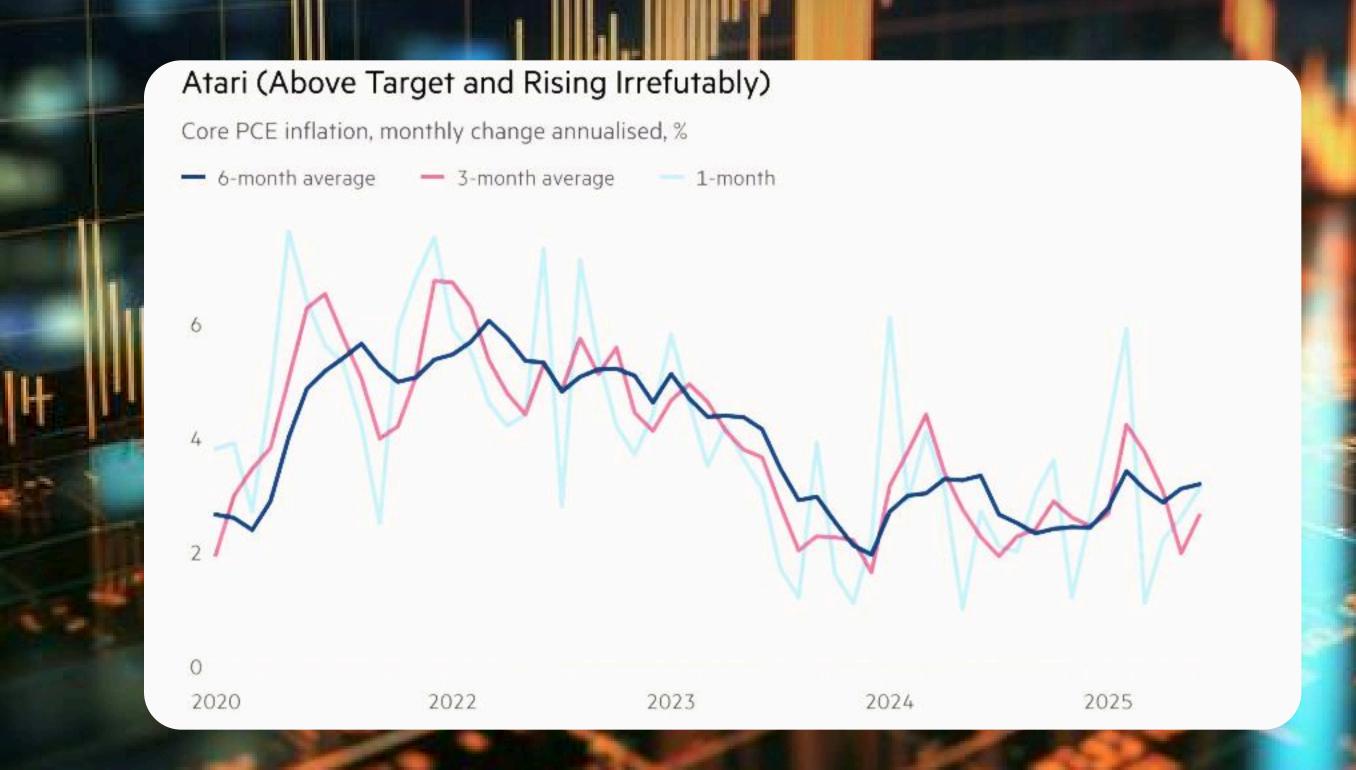
Experts like Jason Furman and Omair Sharif point out that tariffs have contributed only modestly to overall inflation — adding tenths of a percent rather than full percentage points. Wage growth trends align more closely with an underlying inflation rate around 2.75–3%, meaning that even without tariffs, inflation is running above the Federal Reserve's target. This supports the idea that the problem is structural rather than purely policy-driven.

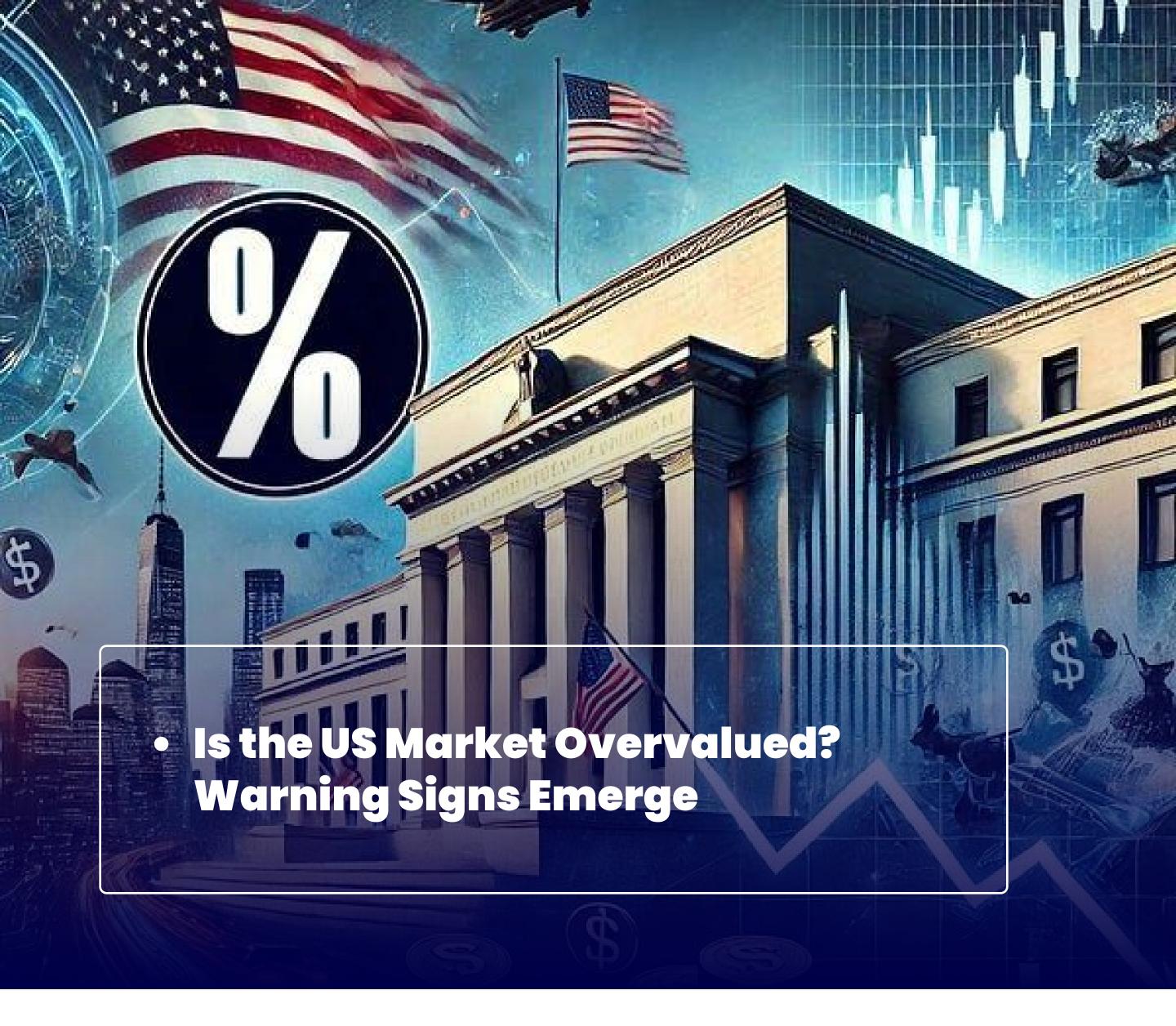
Rate Cuts Would Be Risky

Although the worst inflationary period of 2022 isn't likely to repeat, it's clear inflation isn't fully under control and is heading the wrong way. Cutting interest rates now could worsen the situation. Meanwhile, consumer demand is showing signs of weakening, adding complexity to the economic outlook and making investors wary of potential stagflation.

The Magnificent Seven: Growth Over Fundamentals

Among the top tech giants (the "Magnificent Seven"), market performance since late 2022 shows that sales growth drives stock success more than financial fundamentals. Nvidia leads due to extraordinary sales growth, followed by Meta. Apple and Tesla, with weaker growth, have underperformed. This highlights that, at least in this cycle, markets reward clear top-line growth over other metrics.





While the S&P 500 reaches new records, traditional valuation metrics like the Shiller CAPE Ratio and Warren Buffett's market cap-to-GDP ratio are flashing red, signaling potentially stretched valuations.

The American stock market has surged impressively, fueled by strong corporate earnings and optimism about future productivity. This week, the S&P 500 reached its 15th record high of the year, recovering rapidly from recent corrections. While big tech firms have driven much of the momentum, broader sectors have also seen healthy gains.



A significant flow of capital into US equities reflects confidence in corporate America, even as gold — a classic "risk-off" asset — also hits new highs. Investors place trust in the strong earnings, funding access, and innovative capacity of tech giants to shield the market from external risks like trade tariffs, despite valuations reaching historically high levels.

Traditional valuation metrics now signal caution. The Shiller CAPE Ratio approaches levels last seen during the dotcom bubble, while price-to-earnings and price-to-sales ratios also exceed long-term averages. Warren Buffett's market cap-to-GDP ratio is at a record high, and dividend yields have fallen to around 1%, all pointing to stretched valuations.

Those dismissing these warning signs rely on two beliefs: that current trends will keep driving the market higher, and that transformative tech innovation will justify lofty valuations. Yet, the wider economy tells a different story, marked by inequality, uneven sector performance, and limited benefits for smaller businesses compared to large corporations.

Equity investors should stay vigilant, as several forces will take time to unfold. Positive momentum could come from spreading existing technological gains throughout the economy. However, high public debt and potential trade conflicts pose significant risks. Whether innovation will broadly benefit society remains uncertain amid persistent policy-driven volatility.

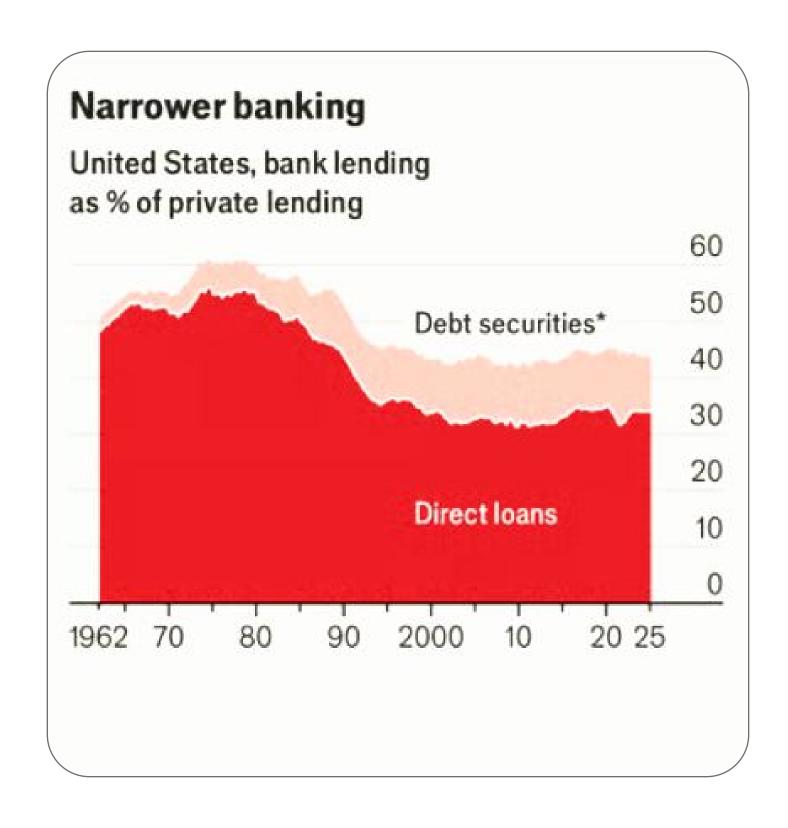




The traditional banking model of direct lending has faded, replaced by a system where banks originate loans only to sell or securitize them, fundamentally altering their role in the financial ecosystem.

In an earnings call on July 15th, JPMorgan's Jamie Dimon blamed overlapping regulations—like SLR, G-SIFI, and Basel III—for throttling bank lending and liquidity. Many agree, arguing that red tape since the 2007–09 crisis has forced big banks to scale back, allowing fintechs and private credit to fill the gap. But this view overlooks a deeper, decades—long decline in banks' share of direct lending that predates modern regulation.

Traditionally, banks directly lent deposits to households and firms—embodied in the old joke of borrowing at 3%, lending at 6%, and golfing by 3pm. In 1974, over half of private lending in America sat on banks' balance sheets. By the early 2000s, that share had dropped below 35%, where it remains today. The new model has banks originating loans but quickly selling or securitizing them, investing instead in mortgage-backed securities, corporate bonds, or other debt instruments.



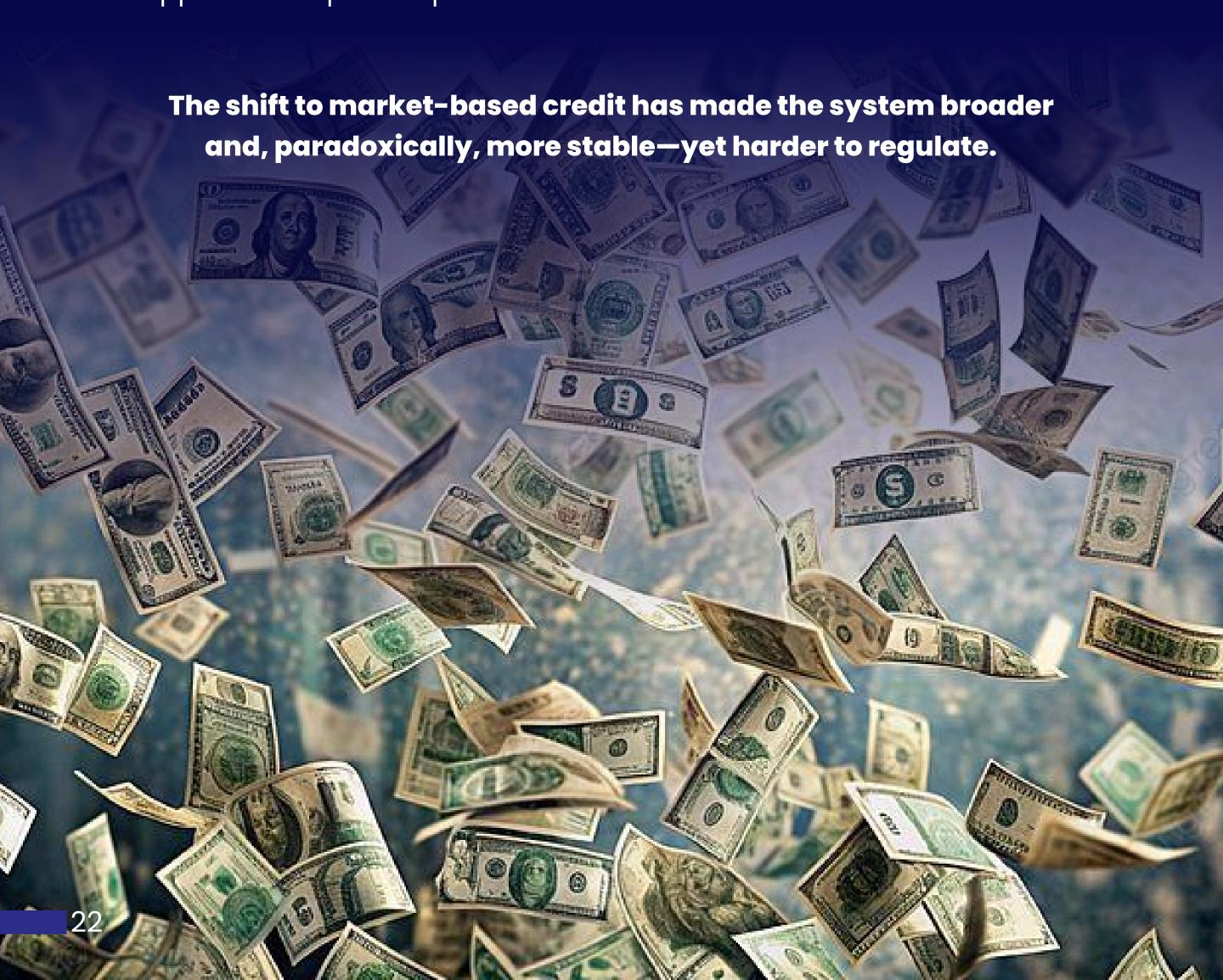
Banks lend less directly, but thrive by cheaply collecting deposits and investing in diverse debt markets.

Regulatory pressures after the financial crisis accelerated the shift—e.g., capital rules made direct loans costlier than buying similar securities. Yet the broader trend began well before. Advances like securitization technology, FICO scores, and the rise of government-backed agencies (like Fannie Mae) enabled firms to bypass banks. At the same time, savers moved money from deposit accounts to pensions and money-market funds that feed directly into credit markets.

Today, large corporations tap public bond markets; small businesses turn to fintech lenders; and buyout firms increasingly borrow from private credit funds. Even household mortgages, though often originated by banks, are bundled and resold, often guaranteed by government agencies. Banks' assets have grown relative to GDP (from 60% in 1960 to 94% today), but their direct role in lending has stagnated at around half.

For regulators, banks' retreat complicates oversight: rather than supervising a few big institutions, they must now track complex chains of non-bank lenders and securitizers. But the shift has also reduced systemic risk. Banks now mostly hold safer senior tranches of securitized debt, pushing riskier slices to investors better able to absorb losses. Research suggests credit booms driven by non-banks are less likely to trigger severe GDP crashes than traditional bank-led booms.

Despite lending less directly, banks remain large and profitable because of their enduring advantage on the deposit side: cheap, stable funding. The asset side—originating and holding risky loans—has become less central. The modern "3-6-3 rule" still applies in spirit: banks can raise deposits paying around 0.5%, invest in debt yielding between 1% and 10%, and figuratively still make the midweek golf round—though Stanford researchers say the tee time has slipped from 3pm to 4pm.





A critical material for the green economy, aluminium production is highly carbon-intensive, but a combination of technological innovation and increased recycling offers a path to sustainability.

Aluminium's crucial role and climate challenge

Aluminium is vital to modern industries and the green transition, from electric vehicles to solar panels and wind turbines. Global production reached 73 million tonnes in 2024, with China responsible for 60%. Yet the production process is highly carbon-intensive, emitting around 1.1 gigatons of CO₂ annually — about 3% of the world's direct industrial CO₂ emissions. Compared to other materials, aluminium production has much higher emissions: ~4.8 tonnes of CO₂ per tonne in Europe/US, and ~15 tonnes in China due to coal-fired power.

Technologies to green primary aluminium

Several innovations offer pathways to reduce emissions. Switching from carbon to inert anodes can cut about 1.5 tonnes of CO₂ per tonne of aluminium, while also lowering maintenance costs and energy use. However, this technology is still in pilot stages and faces challenges in durability under extreme heat. Changing heating sources to renewable-powered plasma or induction heating can halve emissions, though costs rise by about 10%. Hydrogen could cut up to 60% of emissions, but limited supply and higher costs constrain large-scale use.

Role of CCS and renewable electricity

Carbon capture and storage (CCS) could reduce emissions by up to 75%, but comes with a 25% cost increase and technical difficulties, especially because aluminium smelter off-gases have low CO₂ concentrations. Shifting power supply from coal to renewable sources like hydro, wind, and solar remains the most impactful step, particularly for regions like China.

Combining renewables, inert anodes, and green heating could cut emissions by around 93%, but full net zero will still require offsetting the remaining CO₂.

Strong business case for recycling

Recycling aluminium saves up to 95% of the energy used in primary production and reduces emissions to around 0.4 tonnes of CO₂ per tonne. It also lowers production costs by 25–30% and preserves aluminium's quality far better than recycled plastic or steel. However, global recycling rates remain low: only 32% of aluminium input comes from recycled scrap. Increased use of advanced sorting technologies could help improve quality and expand recycling capacity.

Market, policy, and future outlook

Achieving meaningful decarbonisation depends on scaling these technologies, aluminium buyers' willingness to pay a "green premium," and government support to close the price gap. Despite production growth, sector-wide emissions have levelled off thanks to more renewable power, but absolute reductions are still needed. A dual strategy — greener primary production and higher recycling rates — offers the clearest path toward sustainability.





President Trump's focus on stablecoins highlights a larger battle for global financial control, as digital innovations reshape cross-border payments and challenge the US dollar's long-held leverage.

US President Donald Trump's focus on stablecoins has sparked renewed interest in digital payment innovation, but while stablecoins are mostly used for retail transactions today, the real transformative action is happening behind the scenes in wholesale cross-border payments. These complex payments, which occur between institutions and central banks, remain inefficient and expensive due to outdated systems like the correspondent banking network. The broader implications are geopolitical, as current infrastructure gives the US and its allies significant leverage over adversaries via control of transaction systems and the dominance of the US dollar.

Cross-border transactions rely on a patchwork of bilateral banking relationships, leading to slow settlements, multiple currency conversions, high fees, and regulatory delays.

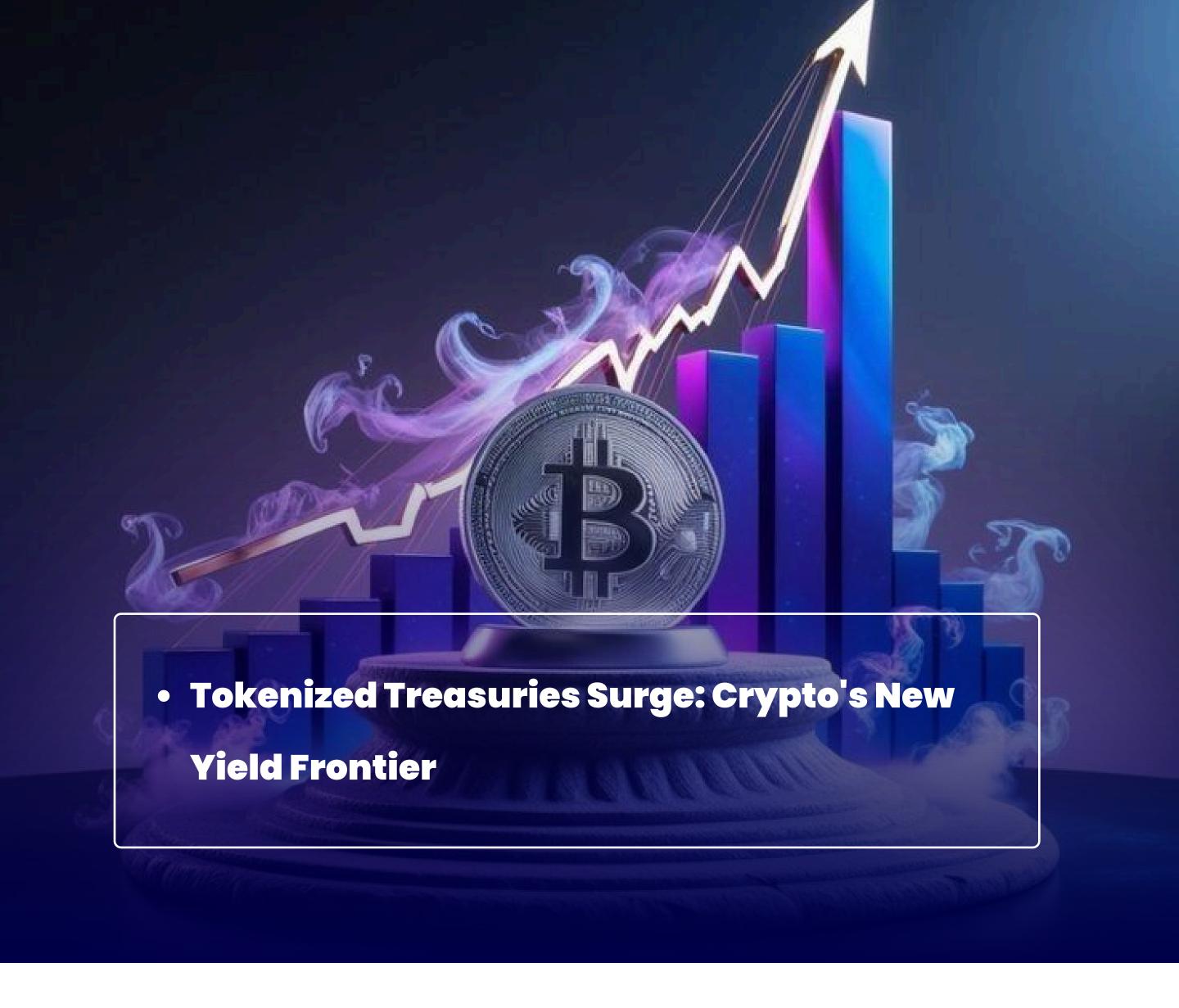
This outdated system also acts as a powerful tool of economic statecraft, enabling countries like the US to isolate adversaries such as Iran and Russia from the global financial system. Although incremental improvements are underway—like the G20-mandated Financial Stability Board's plan from 2020—more fundamental change is being driven by emerging technologies like distributed ledgers and tokenisation.

Two major experimental projects aim to overhaul cross-border payments: mBridge and Project Agorá. mBridge, originally supported by the Bank for International Settlements (BIS) and central banks from Asia and the Middle East, seeks to bypass SWIFT and the dollar using central bank digital currencies. However, BIS exited the project in 2024, possibly due to its perceived alignment with anti-sanctions efforts like Russia's "Brics Bridge." Now, BIS backs Agorá, a Western-led initiative involving major central banks, including the Fed and ECB, which aims to enhance—not replace—correspondent banking by using tokenised money on a shared ledger to synchronize messaging and settlement.

Despite its promise, Agorá faces structural challenges. Western financial systems are more legally and technically complex, slowing coordination and implementation. mBridge, by contrast, has already executed real transactions. Still, Agorá benefits from including the US dollar, a critical advantage in attracting participation from non-aligned nations. The US government views Agorá as a strategic counterbalance to Chinese and BRICS-led alternatives, aiming to preserve the geopolitical power embedded in the dollar-based financial system.

For US policymakers, the stakes are clear. Supporting Agorá aligns with geopolitical goals and helps ensure the existing financial system remains relevant amid rising competition. While decentralized alternatives like mBridge pose a potential long-term challenge, America's status as issuer of the world's reserve currency remains a key asset. The US must leverage this network effect while avoiding actions that could weaken its dominant position in global finance.





Assets in tokenized money market and Treasury funds have soared 80% this year to \$7.4 billion, as crypto traders and companies seek yield and efficient collateral beyond traditional stablecoins.

Surge in demand for tokenised Treasuries

Crypto traders and companies are increasingly shifting billions into tokenised versions of money market and Treasury mutual funds to gain yield and flexibility beyond stablecoins. Assets in these tokenised Treasury products have surged 80% this year to \$7.4bn, driven by funds run by BlackRock, Franklin Templeton, and Janus Henderson Anemoy whose combined assets have tripled. Tokenised funds offer traders a new way to park excess cash while also serving as easy-to-trade collateral.

Beyond stablecoins: yield and efficiency

Unlike stablecoins — which are pegged to fiat currency but do not offer returns — tokenised money market funds provide yield, more security, and can be traded more easily. Analysts argue that tokenisation brings down costs and settlement times, while boosting liquidity. Settlements on blockchains take minutes rather than days, reducing capital requirements and administrative expenses.

Institutional adoption and growing ecosystem

Traditional financial giants are entering the space. Stablecoin issuers themselves are now backing tokens with high-quality, yield-bearing assets. For example, Janus Henderson Anemoy's \$409mn fund is primarily supported by Sky Money, a large stablecoin issuer. Meanwhile, Wall Street's interest is rising: DRW Trading, Goldman Sachs, BNP Paribas, and others recently invested \$135mn in Digital Asset's Canton Network to enhance tokenised collateral and payments infrastructure.

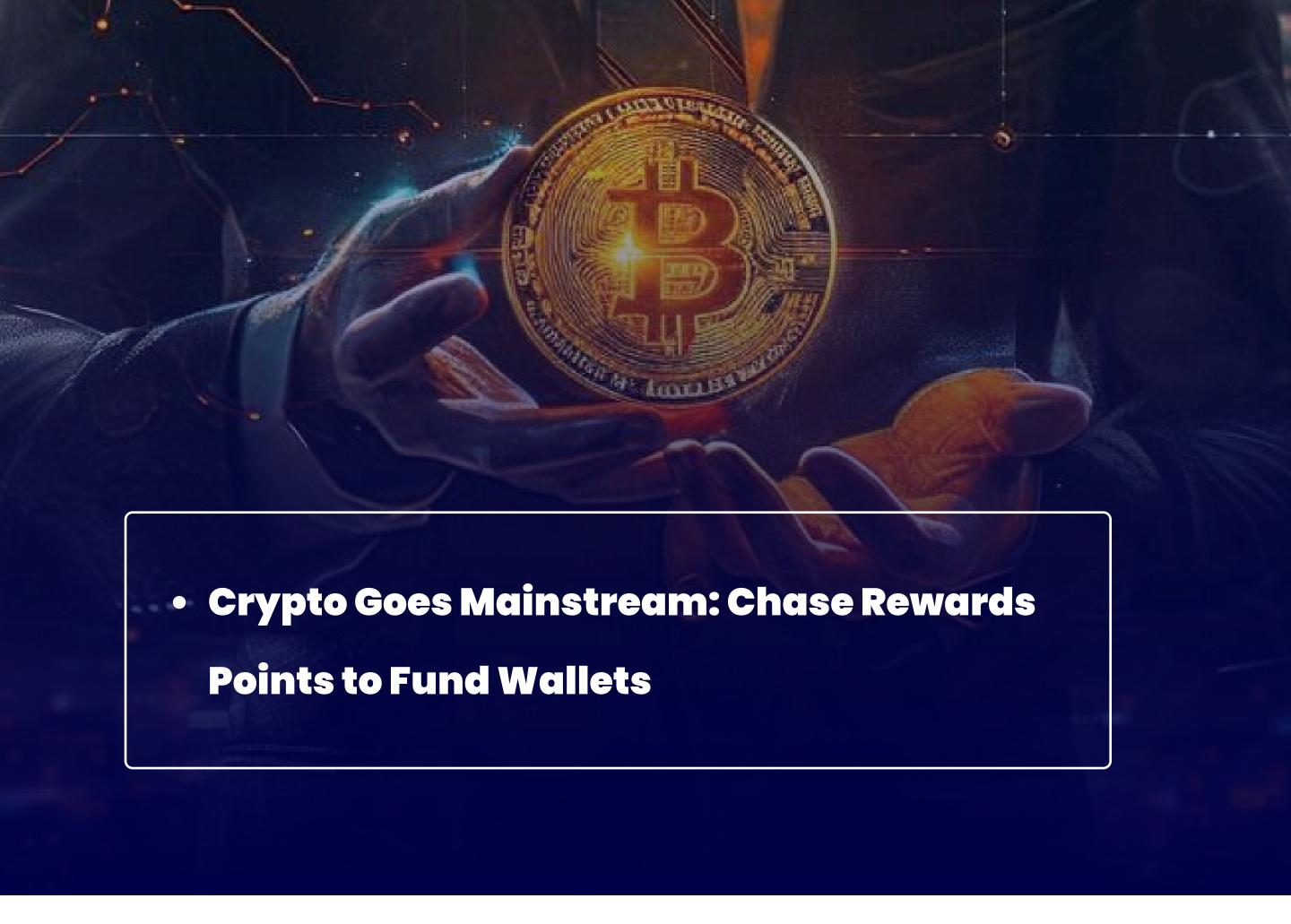
Tokenised assets as collateral in derivatives

Investors have begun using tokenised Treasury products as collateral in overthe-counter derivative trades, freeing them from bank operating hours and speeding up settlement. JPMorgan tested this idea in 2023 by using a tokenised money market fund as swaps collateral, and later issued a tokenised municipal bond. Regulators and market participants see collateral management as the most promising application of tokenisation, potentially bringing "dramatic" efficiencies.

Early days and liquidity challenges

Despite the promise, mainstream adoption remains slow. Liquidity for tokenised bonds is still limited, especially outside regular market hours, and few clearing houses accept them as collateral for futures. Market leaders acknowledge the potential but admit it is still the beginning phase, as liquidity and broader acceptance need to grow before tokenised products function as seamlessly as traditional assets.





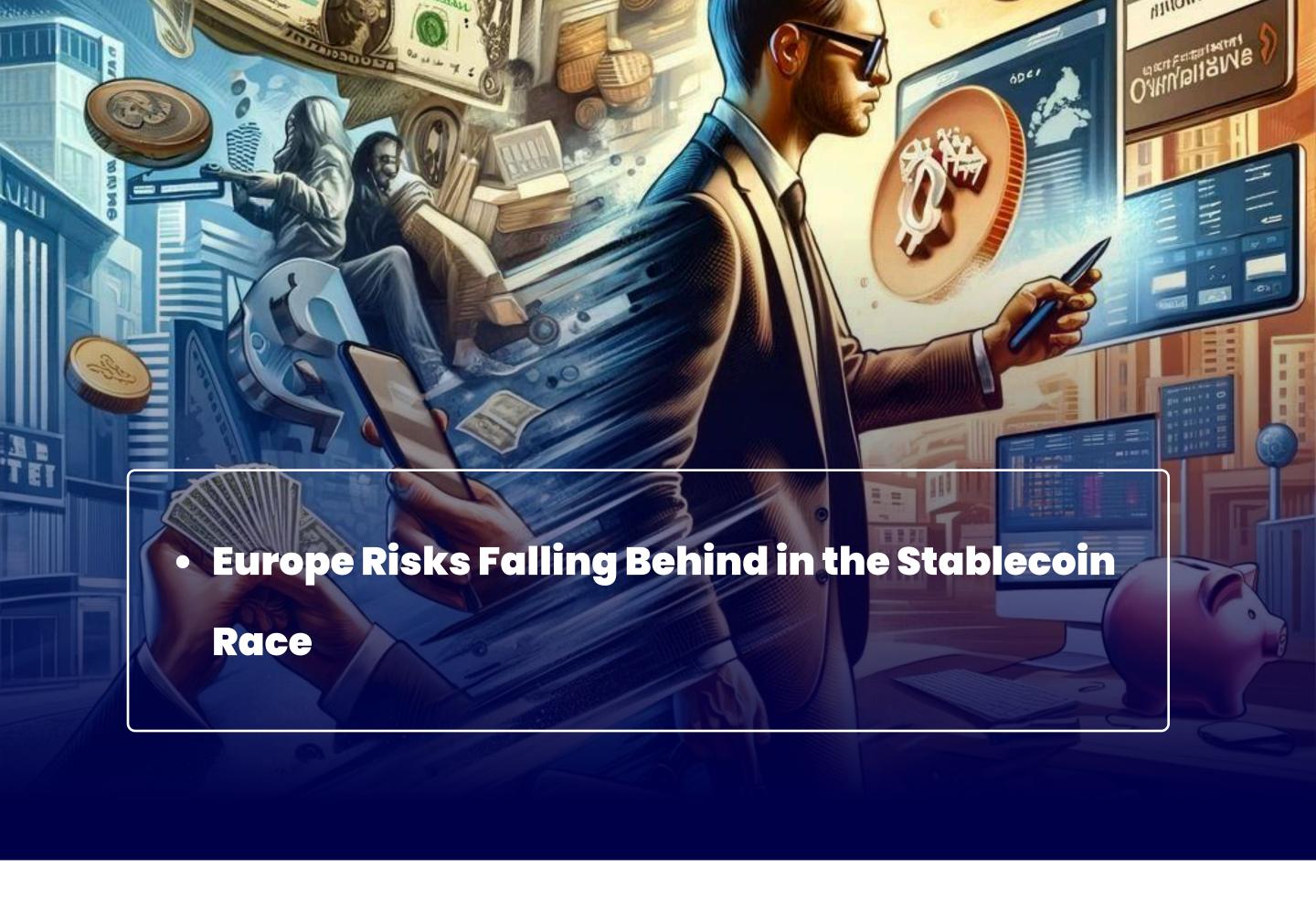
Starting next year, JPMorgan Chase customers can convert credit card reward points directly into crypto via Coinbase, marking a significant new entry point for retail investors into digital assets.

From next year, JPMorgan Chase customers will be able to directly connect their bank accounts to their Coinbase wallets, enabling them to seamlessly buy, sell, and trade cryptocurrencies. This partnership illustrates the growing integration between traditional banking and the crypto sector, giving users more entry points into digital assets.

Starting this autumn, Chase customers will be able to use their credit cards to buy crypto through Coinbase. By next year, credit card reward points will also be transferable to Coinbase accounts, with 100 points equal to \$1 for purchasing digital assets. This marks the first time a major credit card rewards programme can directly fund a crypto wallet.

This deepening relationship between banks and crypto companies comes as Donald Trump's administration adopts a friendlier stance toward digital assets, appointing supportive regulators and advancing laws that ease Wall Street's participation in crypto. Trump's family has also been involved in backing crypto businesses, signaling political alignment.

While Coinbase remains heavily dependent on trading fees, it has expanded into banking services, payments, and lobbying in Washington to shape policy. Analysts note that partnerships like this let Coinbase tap directly into customer savings, moving beyond simply acquiring new users to embedding itself deeper into mainstream finance.



While stablecoins rapidly transform global finance, Europe's cultural risk aversion and coordination failures are hindering its adoption, jeopardizing the euro's future stability and financial sovereignty.

Stablecoins: A Growing Disruptive Force

Stablecoins have emerged as a powerful innovation in global finance, enabling fast, low-cost, peer-to-peer cross-border transactions. Yet central banks are increasingly concerned that a loss of confidence in issuers could cause stablecoins to drift from parity, threatening monetary stability if reserves become illiquid or lose value.

Beyond Bans: Embracing Innovation

Banning stablecoins would be neither practical nor beneficial. Instead, they should be recognized as a technological breakthrough with potential to modernize capital markets, boost efficiency, and help finance public debt through reserve requirements linked to government bonds. Regulatory frameworks like the US Genius Act have already fostered significant private-sector innovation.

Europe's Regulatory Efforts and Lag

The EU has also made strides, introducing MiCA regulation that requires stablecoin issuers to hold high-quality liquid reserves and creating pilot regimes for distributed ledger technology. However, nearly all stablecoins remain US-issued and dollar-denominated, with the euro barely present in this emerging digital ecosystem.

Europe must overcome cultural inertia and lead on stablecoins to protect monetary sovereignty.

Cultural Barriers and Coordination Failures

Europe's lag is driven less by regulation and more by cultural risk aversion and banks' fear of losing revenue from payments and transactions. High costs of adapting systems and human resources worsen this hesitation, while first movers worry about carrying the burden alone. The result is a coordination failure, stalling progress and innovation.

Without decisive action, Europe risks marginalisation in the future of global finance.

The Need for Leadership and Strategic Vision

European monetary authorities risk underestimating the strategic advantages of tokenisation for capital market integration and euro stability. They mistakenly believe European entities can remain insulated from global stablecoin adoption. Without proactive measures, euro deposits could shift to foreign platforms, weakening Europe's financial sovereignty. Yet, unlike the US, Europe's central bank still has the capacity to lead by regulating, coordinating, and managing systemic risk.





Bolstered by heavy lobbying and new legislation like the Genius Act, crypto's growing influence in Washington raises concerns that unchecked volatility and deregulation could pave the way for a future financial crisis, mirroring the lead-up to 2008.

Crypto, volatility and political backing

Bitcoin remains notoriously volatile — about four times more so than major stock indices since 2020 — and has been linked to illicit activity. Yet, its image in Washington has been burnished thanks to heavy spending by crypto political action committees, donating tens of millions to both Republicans and Democrats. This effort recently helped pass the Genius Act, the first of several crypto-friendly laws expected this year, which some fear could pave the way for a future financial crisis.

Echoes of past deregulation

The current moment feels strikingly similar to the late 1990s and early 2000s, when advocates of over-the-counter derivatives successfully lobbied for "light-touch" regulation. That deregulation led to a surge in risky products like credit default swaps, ultimately triggering the 2008 financial crisis. Now, with the US Treasury secretary forecasting the stablecoin market to grow tenfold to \$2tn, some politicians worry history may repeat itself.

Money wins bipartisan support

Despite warnings from figures like Senator Elizabeth Warren, who compared today's crypto lobbying to past Wall Street deregulation efforts, money has again proved persuasive. The crypto lobby spent around \$40mn to unseat critics and win bipartisan support for the Genius Act. Although most Senate Democrats opposed it, influential figures like Mark Warner and Kirsten Gillibrand backed the bill, securing its passage.

Risks of volatile assets in an uncertain market

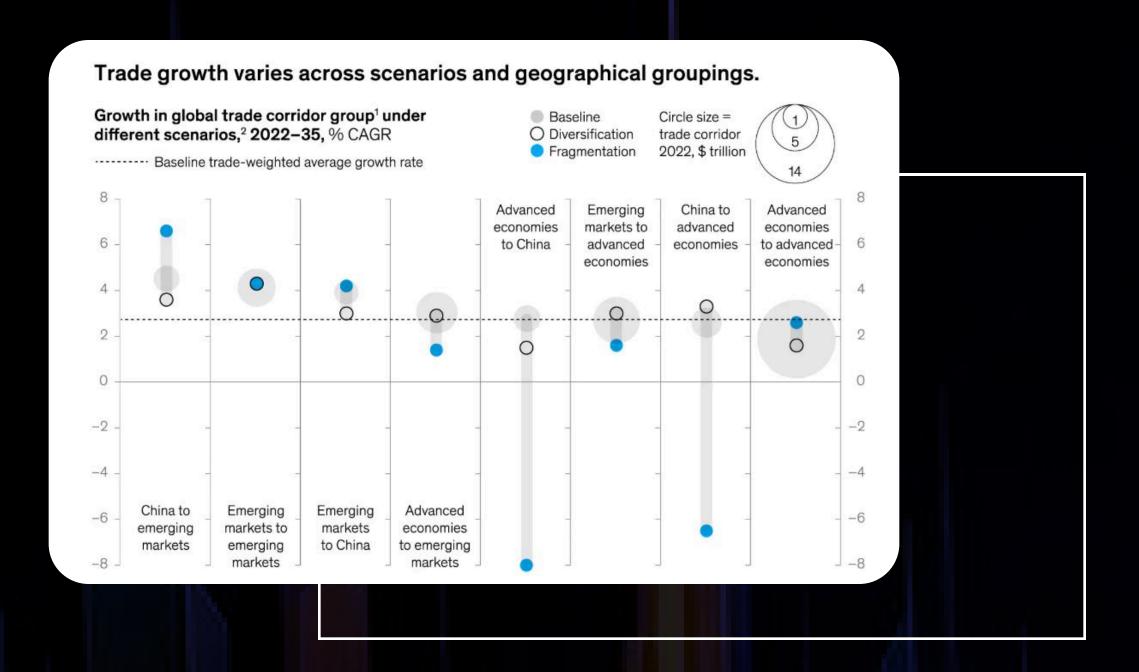
The Genius Act is marketed as making crypto safer by requiring stablecoins to be backed one-to-one by dollars. But this does not address the volatility of assets like bitcoin, whose beta to the S&P 500 is about 2.6 — meaning it swings more wildly than the stock market itself. In a downturn or if interest rates rise sharply, crypto prices could collapse, harming institutions exposed to these assets and freezing credit markets, much like what happened in 2008.

Populism and political fallout

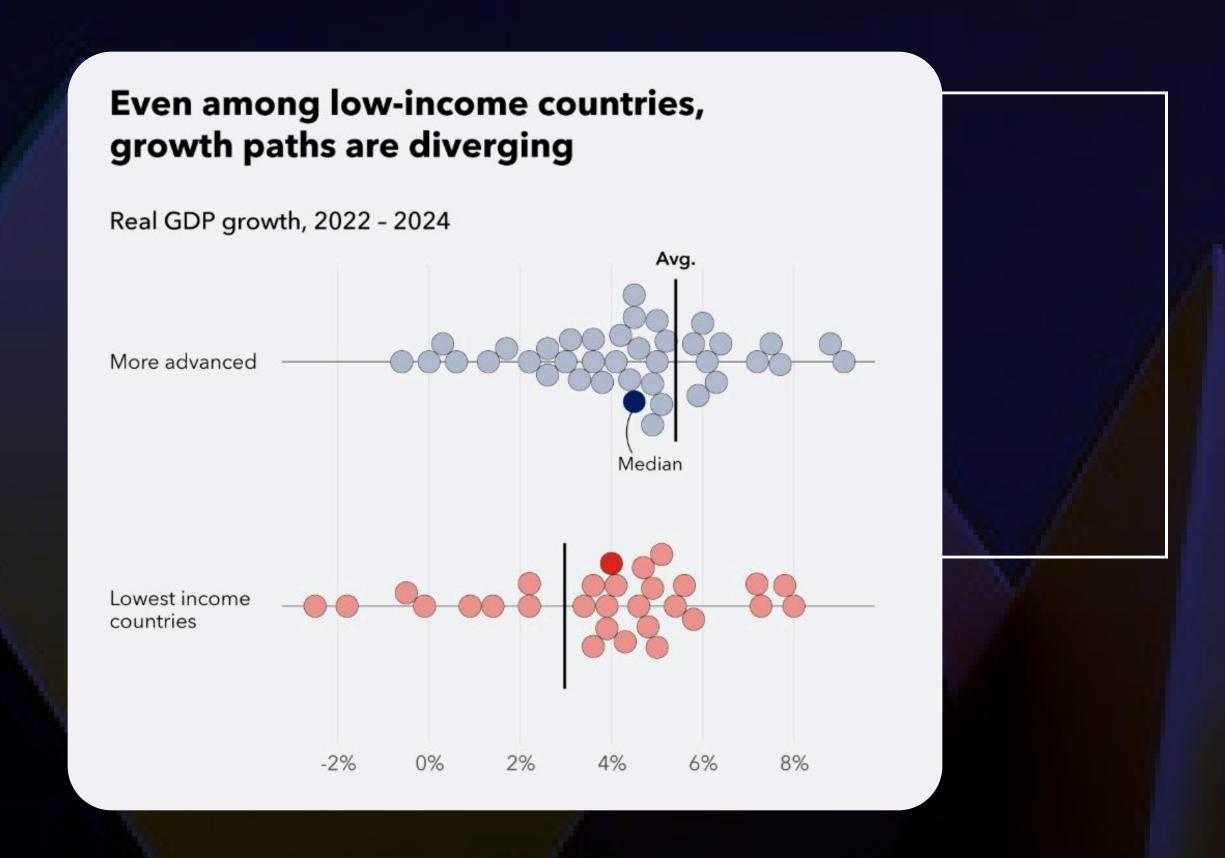
Finally, there's a larger political risk. Past deregulation fed public distrust, contributing to Trump's rise. Now, Trump's support for crypto, combined with a potential new financial crisis, could further deepen voter cynicism and instability. If financial chaos erupts while the government is less able or willing to step in, the damage could be more severe than before, eroding faith in both markets and mainstream politics.



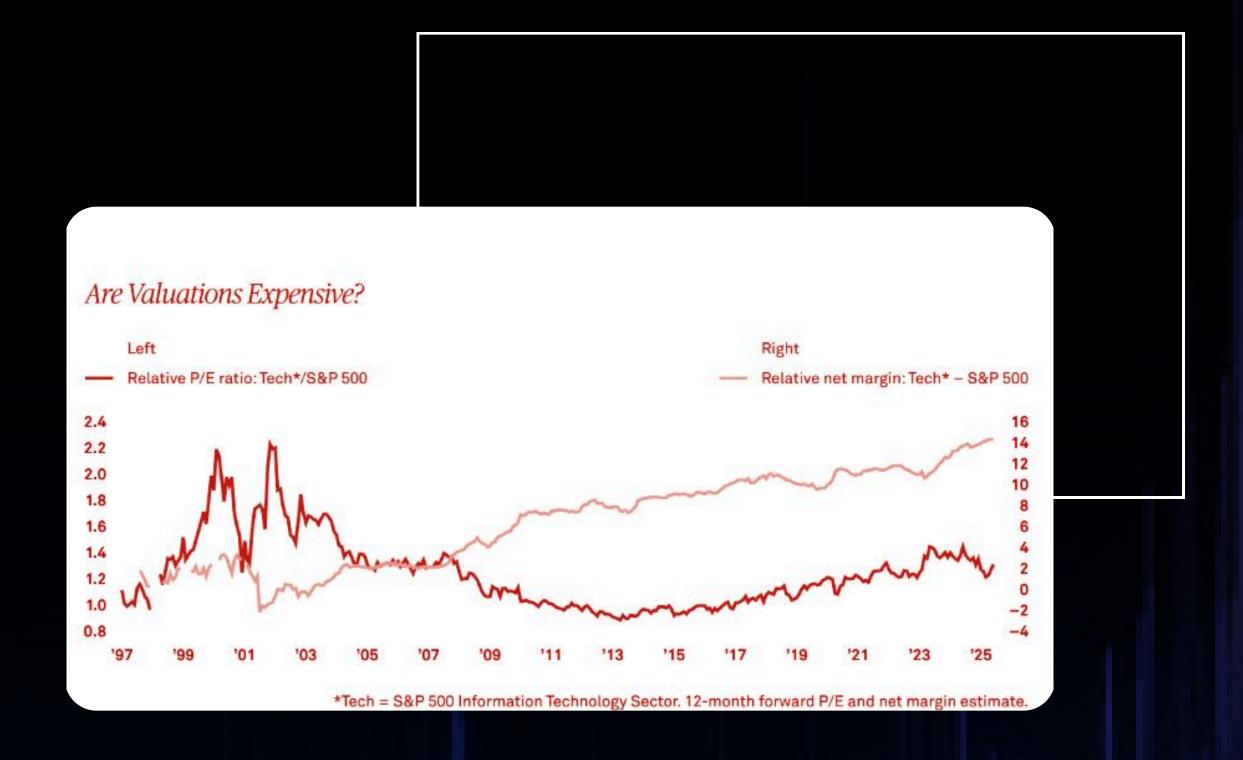
CHARTS



• Though trends vary greatly between scenarios, the global trading system is about to undergo significant transformation. According to the baseline scenario, trade routes involving advanced economies might develop at a rate of 2 percent per year by 2035, while those linking emerging nations and China could grow at a rate of 4 to 5 percent per year. According to Analysts, in a fragmentation scenario, trade within advanced economies would increase but trade between China and advanced economies might decline dramatically. Additionally, relative to the baseline, trade between China and emerging markets would increase more quickly under fragmentation but more slowly under diversification.



- Low-income nations and weak, war-torn governments have been hardest hit by the major shocks that have rocked the world economy during the last five years.
- Low-income nations' post-pandemic recovery has trailed behind emerging market economies, which started to recover in 2021, albeit with notable distinctions.
- 38 of the more developed low-income nations—those with greater incomes, a variety of exports, and access to international financial markets—grew by an average of 5.3% between 2022 and 2024. These nations are among the 70 eligible for IMF concessional lending (the Poverty Reduction and Growth Trust). According to the Chart, that is equivalent to 3.3 percent for the group's lowest 32. For fragile and war states, it was only 2.6%.



- The S&P 500 hit yet another record high last week. The index has risen more than 8% so far this year after nearly plunging 20% in April. In contrast to the about 17x average set since 1996, its price-to-earnings (PE) ratio, which shows how much investors are prepared to pay for earnings anticipated over the next 12 months, is currently 22x.
 Some investors are concerned that the equities market has become excessively costly as a result of the significant disparity.
- Analysis suggests that the technology sector has been a primary driver of the above average PE ratios. Although this may imply that technology is costly, the technology sector's net margins—a measure of how well businesses turn sales into real profits—are 14.4% greater than those of the S&P 500. The largest difference in history is this one.
 Technology equities now have greater margins and are valued far lower than they were during the dotcom bubble when compared to the S&P 500.
- It is probable that technology and the market as a whole are not overpriced, given improved margins and lower relative valuations. Despite the fact that present values are historically high, technology is driving a greater margin regime. This implies that the market is more adept at converting sales into profits, which contributes to the explanation of present valuation levels and raises the possibility that we live in a higher PE world. Even though It expect that some volatility during the traditionally difficult months of August and September, we continue to be optimistic about stocks and keep our overweight position in U.S. large caps.

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