

BITFINEX Alpha



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EXECUTIVE SUMMARY

A few dovish words from Fed chair Jerome Powell last week, and [we are back to the races again](#). 'Risk on' trades have certainly crept back into the markets, with equities and Bitcoin looking and feeling more positive over the last seven days.

But as we dig into the slew of economic data that has been released over the past week, it is clear that in the battle against inflation, some elements are structurally built-in. The fact that we have seen a decline in population growth, an increase in retirement and a decline in immigration over many years means that wage inflation - a key driver of overall prices - [will not be disappearing fast anytime soon](#).

That said: overall personal consumption did decline in October on an annual basis, and even though spending was robust for the month, [savings are now at a low of 2.3 percent](#). At that level sustained, higher levels of spending are unlikely to be sustained, which means [inflation will subside](#). And that's enough to give markets hope.

Unfortunately, we still believe that such confidence is misguided. The decline in personal consumption is accompanied by a decline in consumer confidence and manufacturing demand too. Recessionary forces are only gathering pace, and the [Fed shows no sign of wanting to halt monetary policy tightening](#).

On-chain, there are some also [bearish indicators evident](#), too, as miners appear to be moving a large amount of BTC out of their wallets, in what could be a precursor to selling.

[Investors are also selling BTC at a loss](#), as measured by the Spent Output Profit Ratio indicator. However, the 'shrimps' (wallets with less than one BTC), and the 'crabs', (who have up to 10 BTC), have been buying. It seems that [despite the reduced participation of retail in the bear market, it has not evaporated completely](#).

In our news section, we round up the [latest SBF/FTX news](#); we report on [Huobi working with Dominica](#) to develop a new digital currency, and we summarise [Telegram's plans to launch a crypto wallet and exchange](#).

We also bring back our *Learning Section* this week with a [deep dive into the meaning of a recession](#) - no longer just two quarters of negative GDP growth.

Happy trading!

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GENERAL MARKET UPDATE



Stocks Soared as Doves Fly

Investors, and economic analysts had to digest a range of different economic data last week. On Wednesday, November 30, Markets soared in prices after Federal Reserve (Fed) Chairman Jerome Powell indicated that the central bank may decide to raise the interest rates at a slower pace for the next policy meeting. Expectations among bulls are centred around a 50 basis points (bps) hike on December 14. After four consecutive 75 bps rate hikes this year, 50 bps is now considered dovish, in the most aggressive rate hiking cycle since 1988.

Time Period	Duration, months	Total Change in Effective Funds Rate (Percent points)
March 1988- May 1989	14	3.23
Feb 1994-Feb 1995	12	2.68
June 1999 – May 2000	11	1.51
June 2004 – June 2006	24	3.96
Dec 2015 – Dec 2018	36	2.03
March 2022 – Nov 2022	6	3.58

A rate hike is to be any time period when Fed raised rates at two or more consecutive meetings. The 2022 data is ongoing.

Figure 1. Change in Effective Fund Rates in Notable Rate Hikes in History since 1988

The Fed chairman’s speech triggered sharp stock gains following pre-speech jitters that had brought three consecutive declines. The Dow Jones Industrial Average (DJI) rose by 2.18 percent to 34,589.77 on Wednesday, the S&P 500 (SPX) gained three percent to 4080 and Nasdaq Composite rose by 4.41 percent to 11,468.

Powell made two hawkish remarks to balance the dovishness of his message, though. He warned that the final interest rate target would have to be higher than expected and did his best to quash rumours of rate cuts. Powell stressed how pivoting too soon historically takes its toll on the economy.

It's all about Wage Inflation

According to Powell, breaking core inflation into its three constituent parts allows one to accurately gauge what it takes to get inflation under control: (1) core goods inflation, (2) housing services inflation, and (3) inflation in core services other than housing. While he stated that the first two would resolve by themselves as demand diminishes, he has a different tone about core services inflation.

Core services inflation constitutes more than half of the core Personal Consumption Expenditure (PCE) index. This category is therefore crucial for predicting the course of core inflation. Since wages are a significant driver for the cost of these services, examining the labour market sheds light on what keeps the upward pressure on core services inflation. Powell identified several factors driving core services inflation: Declining population growth, Low labour participation rate due to high rates of retirement, and the decline in immigration and rise in deaths brought by the pandemic.

According to Powell, the labour market only shows tentative signs of rebalancing. We know that wage inflation can be very sticky and hard to bring down once it starts rising. Let us take a look at the demographic and secular trends mentioned by Powell:

1. Population growth is slowing down.

The declining population growth is brought about by a lesser amount of immigrants and individuals preferring to have less children or not to have children at all. This trend is not only in the US but most European nations, China, and Japan.

Developed countries are already dealing with a declining population. The chart below shows a rapid decline in population growth for working-aged people, meaning less labour supply.

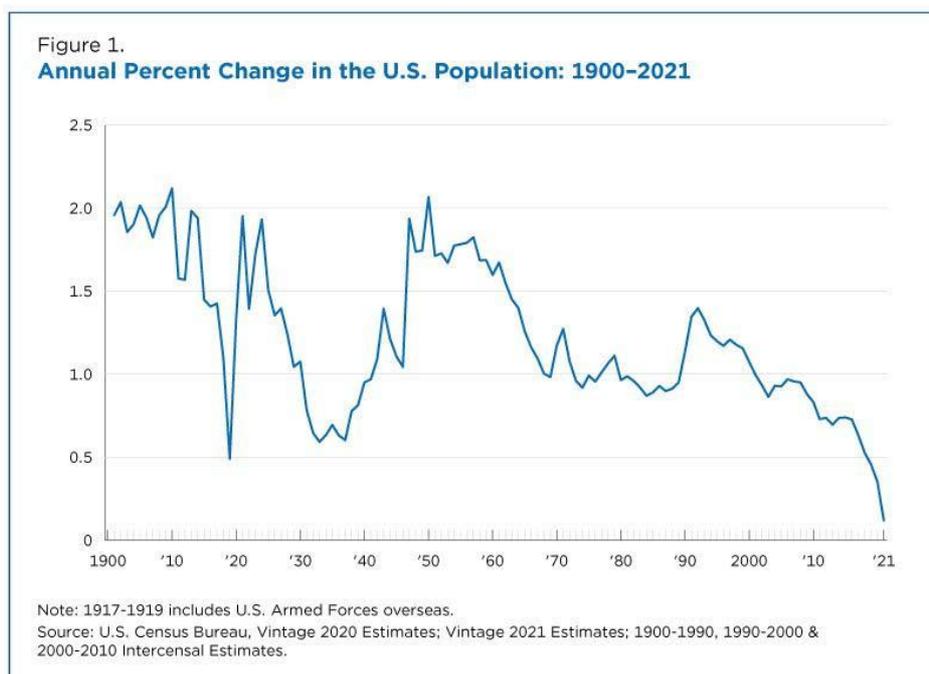


Figure 2. Annual Percent Change in the US Population: 1900-2021

2. Early Retirement

Aging Baby Boomers are making it harder to tame inflation. According to Powell, excess retirement might account for more than two million of the 3.5 million shortfall in the labour force. That wouldn't be a problem, per se, if there were enough younger workers to replace the growing number of retirees among the Baby Boomer generation. Most of the younger and working generation are unemployed or still at school. As a result of this shortfall, demand for workers increases, leading many businesses to raise wages to attract and retain employees.

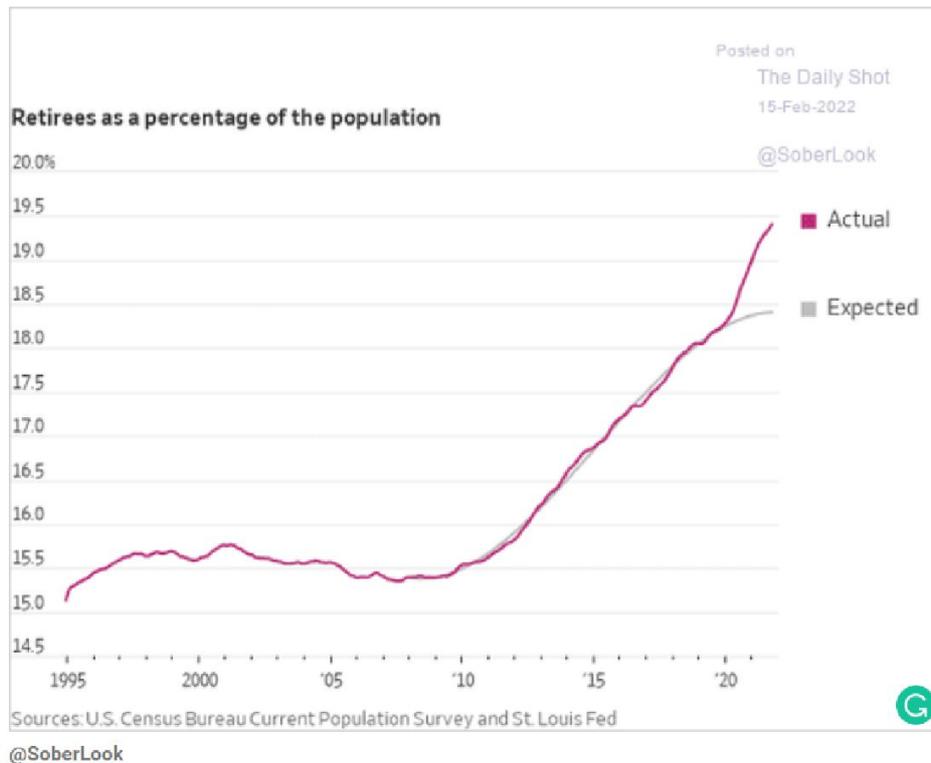


Figure 3. Retirees as a Percentage of the Population (Source: US Census Bureau Current Population Survey and St. Louis Fed)

3. Decline in immigration

Immigration has been significantly reduced in the US due to Covid-19 restrictions and some restrictions introduced by the former president Donald Trump.

4. Death caused by Covid-19

According to Statista, between the beginning of January 2020 and November 23, 2022, of the 1,072,281 deaths caused by COVID-19 in the United States, about 20 percent of the deaths come from within the working age, which also affected the labour participation rate in the US.

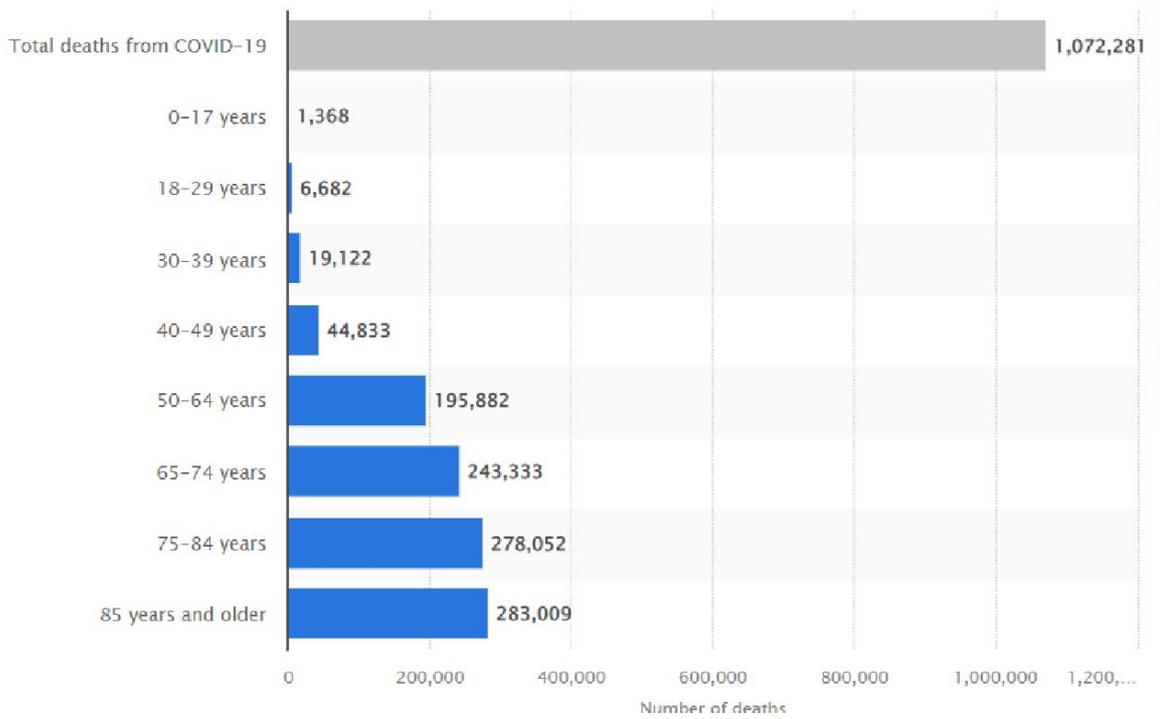
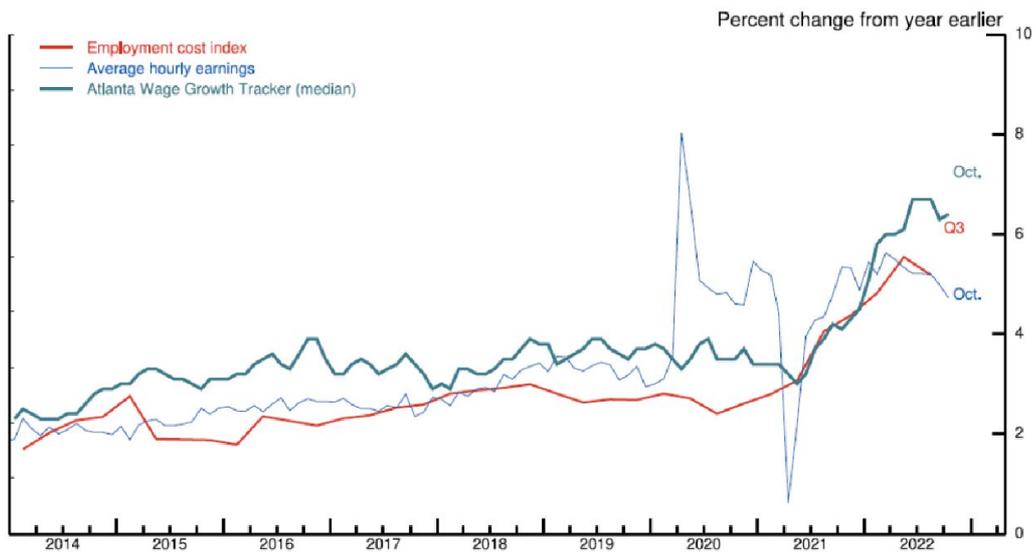


Figure 4. Number of Deaths reported to be caused by Covid-19 by Age (Source: Statista)

Some wage growth metrics have recently declined (figure 6). However, the declines have been relatively modest, leaving wage growth far above levels consistent with the initial target of two percent inflation over time. Strong wage growth is desirable, but it shouldn't be way above the target for it to be sustainable.



Source: Bureau of Labor Statistics; Federal Reserve Bank of Atlanta.

Figure 5. Employment Cost Index, Average Hour Earnings (Source: Bureau of Labor Statistics)



The shortage of workers and an overheated labour market persist. The demand for labour inside a shrinking workforce bolsters wage gains and feeds persistent inflation across the economy.

From the demographic trends shown above, it is apparent that the labour market is undergoing a structural change that will result in a tight labour market for the foreseeable future. The shortage of workers will keep upward pressure on wage inflation.

Inflation is Moderate While Spending Remains Strong

The Fed's preferred gauge of inflation, the PCE price index, came in better than expected, according to data released by the Bureau of Economic Analysis released on Thursday, December 1. The overall PCE rose a modest 0.3 percent in October, gradually easing price pressures. The yearly inflation rate slowed to 6 percent in October from 6.2 percent in the prior month. The core inflation was also down to five percent from 5.1 percent a year ago.

Changes in core PCE components, annualized
3-month moving average; in percentage

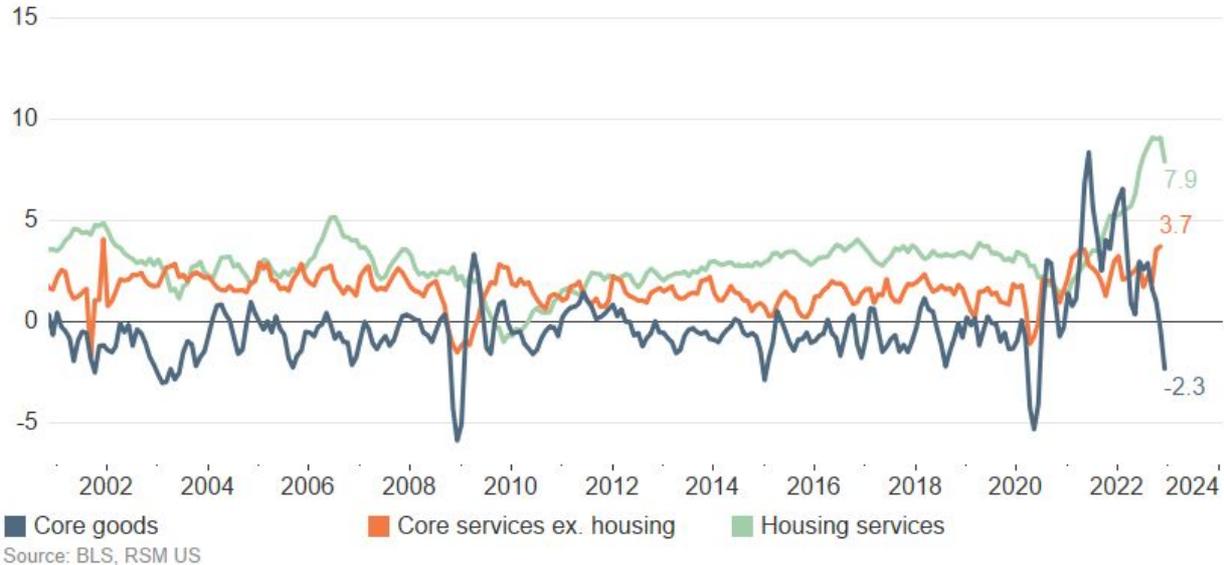


Figure 6. Changes in Core PCE Components, Annualized (Source: BLS, RSM US)

The inflation rate appears to be declining, albeit slowly.

The Federal Reserve, as expressed by Powell's speech, is concerned that inflation will become entrenched in the economy if inflation doesn't decline more quickly.

Nevertheless, it should be good news for the Fed as it aims to continue its interest rate hikes without crashing the economy. The recent data supports the expected rate hike of 50 basis points in next week's Federal Open Market Committee meeting.

Spending was robust in October, and it appears holiday shopping started early among American consumers. Despite elevated prices and rising borrowing rates, consumers have spent heavily in recent months, making up for lost time in travel and experiences during the pandemic. However, there are warning signals that spending will slow down. In August and September, household spending grew faster than incomes, indicating that more people are drawing from savings or relying on credit card debt to keep up with consumption in the face of extreme inflation. Recently, the percentage of disposable income that individuals save has dropped to levels not seen since 2008. For the third month, the savings rate fell, landing at 2.3 percent.

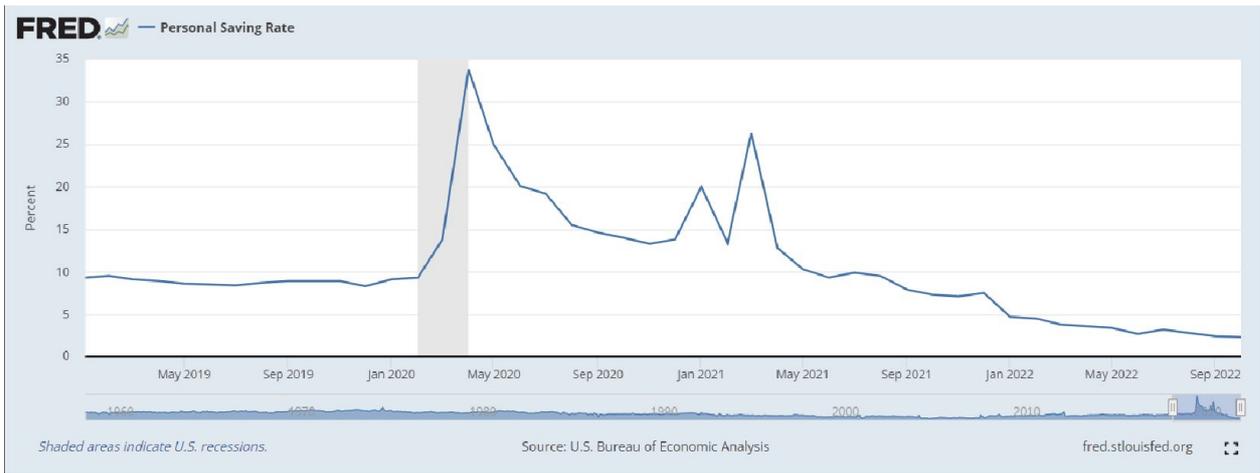


Figure 7. Personal Savings among Americans
(Source: US Bureau of Economic Analysis)

Consumers can't rely on their savings to bolster spending for too long. This holiday season will likely be the last strong spending push, and it should cool down by next year as consumers continue to feel the impact of higher interest rates amidst elevated prices.

Consumer Confidence Darkens

The Conference Board's confidence index dropped to 100.2 in November from 102.2 in October, which is way below the pre-pandemic level of 130, according to data released Tuesday, November 29.

For many consumers, a recession seems inevitable. The subindexes for buying plans for big-ticket items like houses, vehicles, and major appliances declined in November.

As opposed to the University of Michigan's Consumer Sentiment index, which is strongly correlated with gas prices, the Conference Board's confidence index is linked to the labour market's health.

Therefore, there is reason to anticipate more room for the index to fall further as the labour market continues to loosen and the risk of unemployment increases as we are nearing a recession.



Figure 8. Consumer Confidence Index (Source: Conference Board, RSM US)

Despite the PCE showing signs of easing, the tightened monetary policy is still beginning to affect the economy. This will continue to be apparent via consumer confidence and consumer sentiment indices. The interest rate hikes move at a lag, and the tightening since March this year is still beginning to impact consumers as new financing and refinancing needs arise.

The Fed is aware of the multi-month lag of monetary policy; hence, it knows that it needs to slow down on the rate hikes, but this doesn't mean that the Fed has softened its stance in the fight against inflation.

US Economy Grew by 2.9 Percent

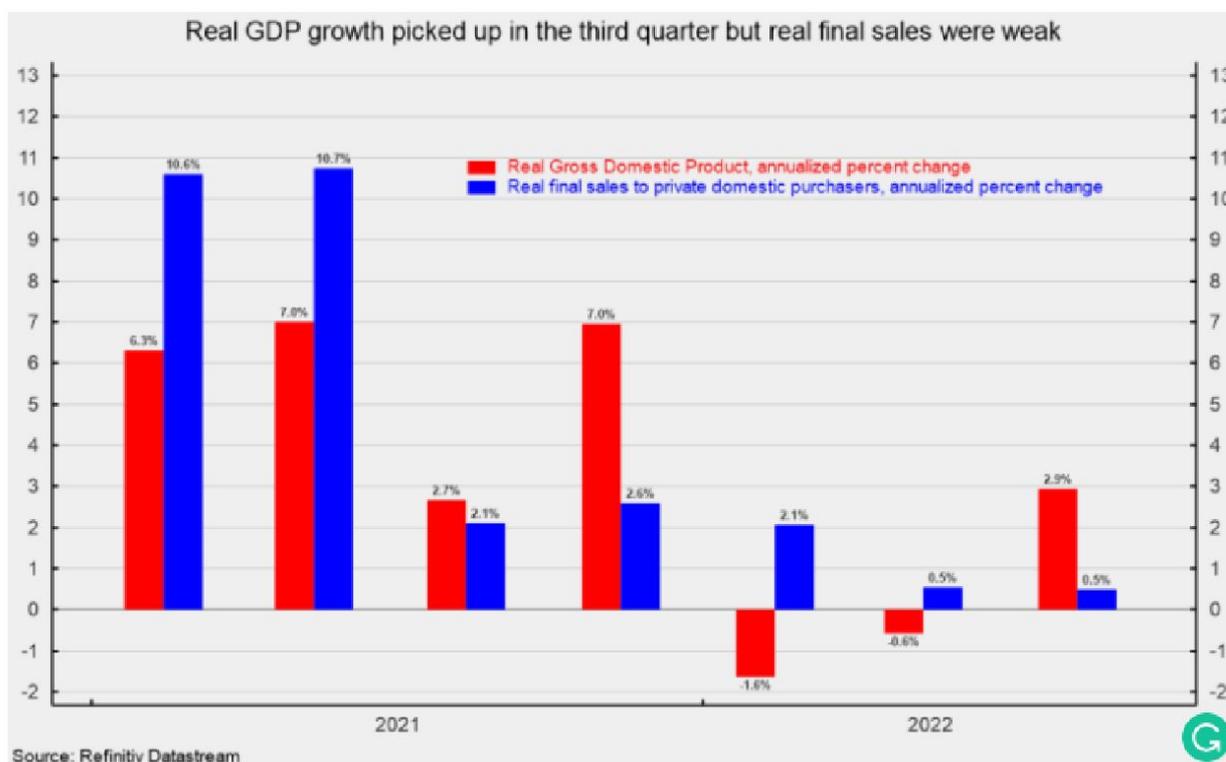


Figure 9. Real Gross Domestic Product and Real Final Sales to Private Domestic Purchasers (Source: Refinitive Datastream, Bureau of Economic Analysis)

American's robust spending appears to be the central engine that drives the economy's growth. According to data released by the Bureau of Economic Analysis on Wednesday, November 30, the economy grew at 2.9 percent in the third quarter, in contrast to a decrease of 0.6 percent in the second quarter, as measured by its Gross Domestic Product, or GDP.

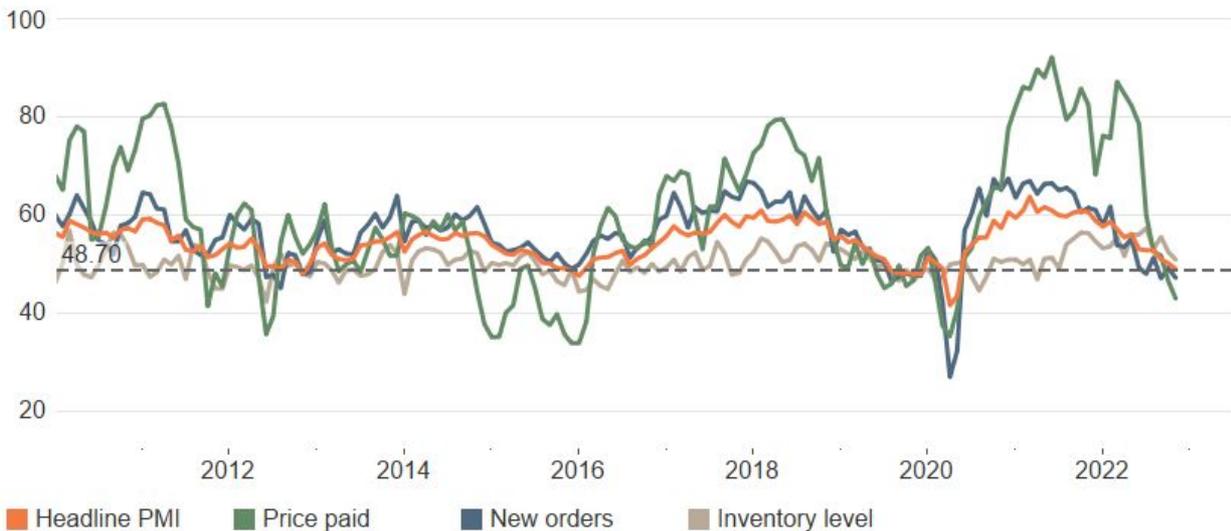
Real final sales to private domestic purchasers, which account for around 88 percent of real GDP and are a crucial indicator of private domestic demand, have demonstrated better resilience, with growth remaining positive despite falls in real GDP.

However, looking at the bigger picture, relative to a year ago, growth has still dropped significantly from 2.6 percent in the fourth quarter of 2021 to 2.1 percent in the first quarter of 2022, 0.5 percent in the second quarter, and a revised 0.5 percent in the third quarter.

Manufacturing Contraction

ISM manufacturing index

PMI above 48.7 indicates overall expansion of the economy



Source: ISM, RSM US

Figure 10. Institute for Supply Management Index (Source: ISM, RSM US)

According to figures released on Thursday, December 1, by the Institute for Supply Management (ISM), the manufacturing sector rose for the 30th month in a row in November - but only just! The overall ISM index slipped to 49 percent, just above the contraction threshold of 48.7 percent. It was the third consecutive drop as demand for manufactured items slowed. The slowdown was widespread, with monthly decreases in output, inventories, new orders, prices paid, and employment. The sector's overall decline indicates that a goods and manufacturing recession will come ahead of an economic recession, if it should happen.

This slowdown is expected as the Fed continues to raise interest rates to battle inflation.

Along with housing, the manufacturing sector is frequently one of the most rate-sensitive sectors. We should expect the manufacturing sector to contract even further, as the majority of the impact of rate hikes has yet to be felt.



Market Struggles to Continue rising after Labour Reports

The Bureau of Labor Statistics' latest monthly payrolls data, released on Friday, December 2, showed stronger than expected employment growth, with the US economy adding 263,000 jobs in November, much-exceeding predictions of 200,000. According to all accounts, the data print was "hot," with average hourly wages increasing by 0.6 percent from October, compared to a 0.3 percent estimate.

That clearly injected some caution into the markets and by Friday, December 2, The Dow Jones Industrial Average declined 0.6 percent to 34,395, and the S&P 500 Index was down by 0.1 percent to 4,077, while the Nasdaq Composite advanced 0.1 percent to 11,482.



WHAT'S ON-CHAIN THIS WEEK?



Bitcoin miners under pressure

On-chain data by CryptoQuant shows that Bitcoin miners are moving a large amount of Bitcoin out of their wallets. This is a potentially bearish signal for Bitcoin as these miners might be planning to liquidate all assets, be it their Bitcoin reserve or their mining machinery that they might have listed as collateral.

The “miner reserve” indicator measures the total amount of BTC that is currently stored in all miners’ wallets.

When the value of this indicator increases, it means that a specific number of coins is being sent to miners’ wallets. On the other hand, when the value of the indicator decreases, this indicates that miners are withdrawing coins from their wallets. Such a trend could be bearish for Bitcoin since the miners could be transferring their coins out of their wallets in order to sell them on exchanges. BTC exchange inflows have also increased slightly over the past week after declining significantly over the few weeks prior to that.

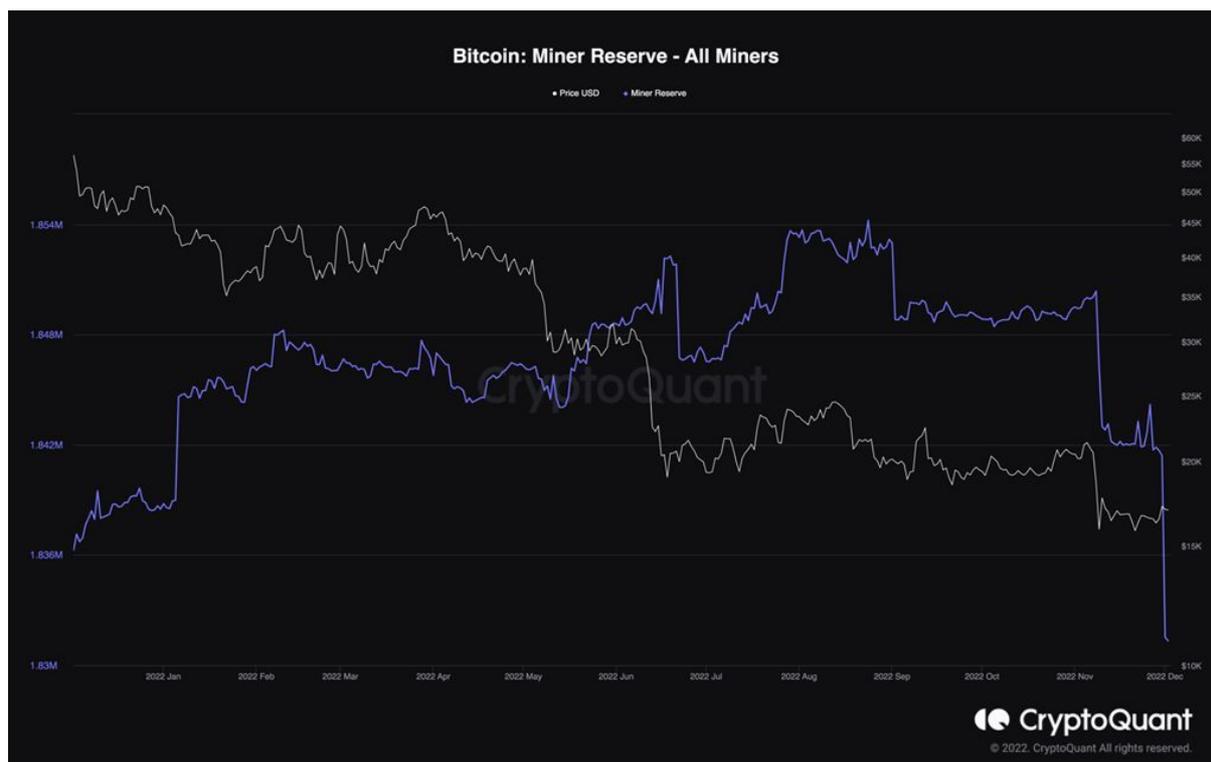


Figure 11. All miners reserve (Source CryptoQuant)

The beginning of December hasn't brought any good news to miners, since the chart shows a very sharp decline of 10k BTC in one day. The total miners' wallet reserve is down about 19k BTC since the small peak at the beginning of November.

Bitcoin mining difficulty is not showing any signs of slowing down either, on the contrary, it keeps making higher highs.



Figure 12. Bitcoin mining difficulty (Source CryptoQuant)

Clearly, all miners are struggling in the current environment. Inflation, living costs, Bitcoin price depreciation, and mining costs are all challenges miners have to deal with daily. It seems like we are on the verge of witnessing a secondary wave of Bitcoin miners running out of business.

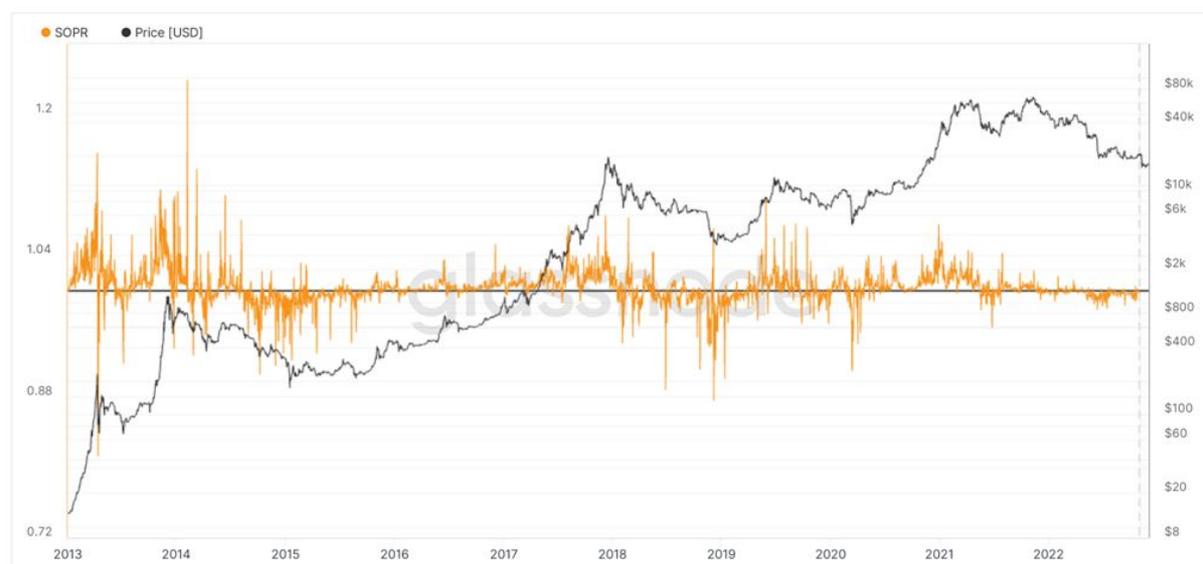
Investors continue to sell Bitcoin at a loss

On-chain data from Glassnode shows continuous Bitcoin selling at a loss. Using the Spent Output Profit Ratio (SOPR) indicator, we can have an insight into the current macro market sentiment.

When the SOPR value is greater than one, this implies that the net amount of coin sold for the day is sold at a profit, which means that the price sold is greater than the price paid.

On the other hand, if the SOPR value is less than one, this implies that the coin is selling at a loss, which means that the price sold is less than the price paid.

Bitcoin: Spent Output Profit Ratio (SOPR)



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Figure 13. Spent Output Profit Ratio (SOPR) for Bitcoin. (source: glassnode)

Although we've seen a continuous selling of Bitcoin at a loss, it seems like one person's problem is another's opportunity.

Bitcoin investors are classified and distinguished depending on their wallet balance. Bitcoin "shrimps" or smaller "retail" investors are increasing in numbers.

Bitcoin: Shrimp Net Position Change [Entities < 1 BTC]



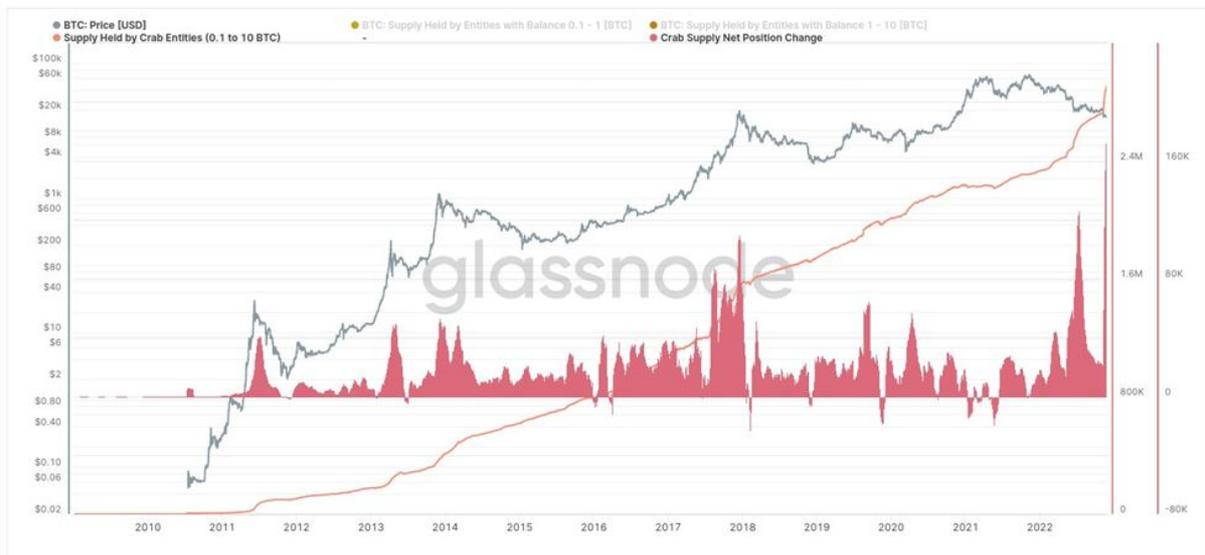
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Figure 14. Shrimp Net Position change (Source Glassnode)

Shrimps (people who own less than one BTC) have added 96.2k BTC to their holdings since FTX collapsed, an all-time high balance increase. This cohort now holds over 1.21M BTC, equivalent to 6.3 percent of the circulating supply.

Bitcoin: Crab Net Position Change [Entities 0.1 - 10 BTC]



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Figure 15. Crab Net Position Change (Source Glassnode)



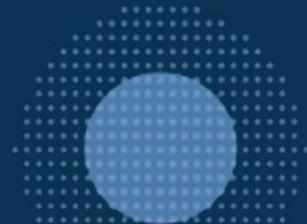
Glassnode added that Crabs (people who own up to ten BTC) have also seen an aggressive balance increase of 191.6k BTC over the last 30 days.

This is a convincing all-time high, eclipsing the July 2022 peak of 126k BTC/month.

The takeaway from this surge validates the theory of a new surge of retail investors in the middle of a devastating bear market. This could potentially be a second 'echo' wave for price appreciation of BTC and indicates that retail investors are resilient in the face of price a drawdown, in contrast to behaviour seen from this cohort in previous bear cycles.



NEWS FROM THE CRYPTO-SPHERE



BlockFi Declares Bankruptcy



Figure 16. *BlockFi Declared Bankruptcy*

On Monday, November 28, crypto lender BlockFi said in a Twitter statement that the company has filed for Chapter 11 bankruptcy protection. In other words, BlockFi is declaring bankruptcy.

Founded in 2017 by Zac Prince and Flori Marquez, BlockFi made profits by giving loans to customers willing to use crypto as their collateral.

According to the [petition](#) filed in the district of New Jersey, BlockFi's estimated assets and liabilities are between one and ten billion each, with over 100,000 creditors.

In the petition, BlockFi has listed Ankura Trust, a company that represents creditors in stressed situations, as its first largest creditor, with about \$729 million owed. FTX US is listed second with a \$275 million loan. The SEC is also listed as one of BlockFi's top creditors, as the company was fined \$100 million by the SEC in February for failing to register its crypto lending product properly.

Valar Ventures, a US-based venture capital fund, was mentioned in the petition as BlockFi's largest shareholder, with a 19 percent stake.

In a [press release](#) by BusinessWire, BlockFi said that it has around \$257 million of cash in hand and is starting an "internal plan to reduce expenses, including labour costs, considerably."

On the same day, November 28, the [Financial Times reported](#) that BlockFi sued SBF holding company, Emergent Fidelity Technologies, over Robinhood Shares held by Sam's company and pledged to BlockFi as collateral for a loan.

Back in July 2022, when BlockFi experienced \$80 million in losses due to the Three Arrows Capital collapse earlier this year, FTX saved BlockFi from bankruptcy. The deal had two parts:

- A \$400 million line of credit and
- An option for FTX to buy BlockFi for up to \$240 million.



Figure 17. Tweet from Zac Prince , [BlockFi CEO](#)

However, the deal was not worth \$240 million at the time; that was just the highest it could be if FTX exercised its option, CNBC [reported](#) the deal was worth closer to \$25 million at the time.

[According](#) to former money manager Genevieve Roch-Decter: "BlockFi thought it was being rescued, but it just hitched itself to a different shaky creditor."

On Tuesday, November 29, BlockFi [stated](#) that its next hearing is scheduled for January 9, 2023. Information regarding cases, including court documents and claim information on an ongoing basis, will be available at [this link](#).

Half a year ago, BlockFi's main competitors were Voyager Digital and Celsius Network. Today, all three of them have filed for bankruptcy, with billions of everyone else's money.

FTX update:

Sam Bankman-Fried's interview with Tiffany Fong



Figure 18. Sam Bankman-Fried's Interview with Tiffany Fong

On November 29, crypto enthusiast and YouTuber Tiffany Fong, uploaded an interview phone call she had with SBF.

The call was from November 16, but wasn't posted to the public until November 29, in the form of two parts audio interview. Here are the key takeaways from this interview:

- Sam donated to republicans as well as democrats:
Up until now, everyone knew SBF was the second-largest donor to Democrats prior to the 2022 election. He donated around the same amount to Republicans but kept these donations "in the dark" to avoid media outrage. "All my Republican donations were dark, and the reason was not for regulatory reasons. It's just that reporters freak the f**k out if you donated to a republican." Sam said.
- SBF said that he intentionally made his donations to Democrats public because the media has a liberal bias and would be more favourable to him. At the same time, he made donations to Republicans to gain influence on both sides.
- When Tiffany Fong asked about the "back door" that allowed Sam to take money out of FTX without alerting anyone else in the company, SBF said that's completely untrue and that he doesn't know how to code or even open the code for any of FTX.

- SBF said FTX's accounting systems were "poorly labelled", which caused him to be wrong on FTX's liabilities and assets by an "embarrassingly large number".
- SBF told Tiffany that the "accounting error" was caused by customer wire transfers into FTX that went by default to Alameda since FTX didn't have its bank account when it first started.
- SBF said that filing for bankruptcy was a mistake: "I honest to God believe that if I hadn't filed for bankruptcy, all users would be whole and withdrawals would be on." Because \$4 billion in liquidity "appeared" just "eight f**king minutes" after FTX filed for bankruptcy. Then SBF claims he was trying to hand the \$4 billion over, but the estate trustees would instead "burn it all to the ground out of shame" than try to fix the situation.
- When asked about the FTT token, Sam said: "I think it had real value. That being said, there are a few problems. This was f**king embarrassing, given my background. I think it was more legit than many tokens in some ways. It was more economically underpinned than the average token was."
- SBF said that "the recovery looks pretty slim" for international customers. However, for FTX customers in the US, it is "a hundred percent" possible.

Sam Bankman-Fried's interview with Andrew Ross Sorkin

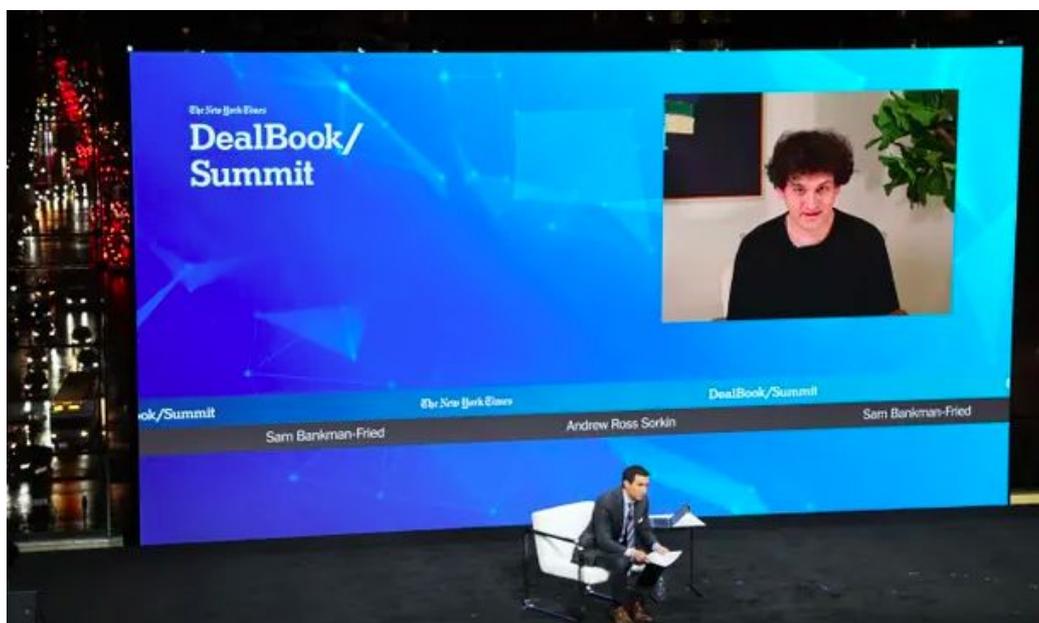


Figure 19. SBF's Interview with Andrew Ross Sorkin

On November 30, SBF made a public appearance at the New York Times DealBook Summit. Interviewed by the journalist Andrew Ross Sorkin, SBF appeared via video conference from the Bahamas.

Here are the key takeaways from the almost one-hour-and-a-half interview:

- SBF presented himself as someone with good intentions: "I didn't ever try to commit fraud on anyone," he began, "I made a lot of mistakes, never tried to commit fraud."
- SBF said that FTX US "could be opened up today and every customer could be made whole" however FTX International is a different story.
- When Sorkin asked about FTX commingling funds with Alameda, SBF answered: "I didn't knowingly commingle funds.", "I wasn't running Alameda, I didn't know exactly what was going on."
- SBF said that he moved out of the penthouse and no longer lives there.
- When Sorkin keeps asking SBF specific questions about the amount of commingling of funds, when it started and who did it, SBF did not answer directly and just said that he didn't give proper oversight.

- Sam was first nervous for Alameda and not FTX: "I could see a run on the bank starting...I was nervous", and "I was nervous that it would lead to massive losses for Alameda". But by November 6th to 7th, SBF said he realized that FTX might also be in trouble as the comingling of funds became clearer.
- When Sorkin asked him about risk management at FTX, SBF said: "I think that there is something maybe even deeper wrong there, which was I wasn't even trying, like, I wasn't spending any time or effort trying to manage risk on FTX," "If I had been spending an hour a day thinking about risk management on FTX I don't think that would have happened. I think I stopped working as hard for a bit, and honestly, if I look back on myself, I think I got a little cocky, I mean more than a little bit, and I think part of me felt like we'd made it." SBF added.
- When asked about what his lawyers are telling him now, and do they think this is a good idea to speak, SBF answers: "No, they are not...But I do have a duty to help customers out"
- Sorkin asked if SBF is worried about going to jail, SBF said: "There are a lot of things that are worrying me right now. As best as possible, I'm trying to focus on what I can do, going forward, to be helpful, and, you know, let whatever regulatory and legal processes are happening play out as they will."
- Sorkin asked if hundreds of millions were stolen from the exchange as FTX collapsed. SBF said that he had already been cut off from systems by then and couldn't have done it, and doesn't know who did.
- Sorkin asked about his donations to the Democrats, his meeting with SEC Chairman Gary Gensler, and whether or not he felt he needed to buy his way into those meetings. SBF said it's not about "buying" or "donating", but it's more about influence and navigating bureaucracy.
- When asked about the real estate purchases, SBF said that his parent's property was "intended to be the company's property" and they just happened to stay there while they worked with the company.
- When asked about drugs, SBF said he had his first sip of alcohol after his 21st birthday, and he has "half a glass of alcohol a year".
- He said there were no "wild" parties or drug use at FTX.
- SBF said he felt like he had spent too much time and energy getting licenses for FTX. "I spent hundreds of hours, probably thousands of hours in DC, trying to get to the point

- 
- where I could even have meetings,” He also added that many regulated companies focused too much on their public image rather than actually helping people.
 - "I don't know what my future is...A lot of it's not in my hands at this point. I want to be helpful to regulators to help FTX customers." SBF said when asked about where he sees his own future.
 - SBF also said that his wealth is now down to one credit card and \$100,000 in the bank. "no hidden funds or anything like that.", "I put everything in the company", SBF added.

Huobi will help the nation of Dominica develop a digital currency

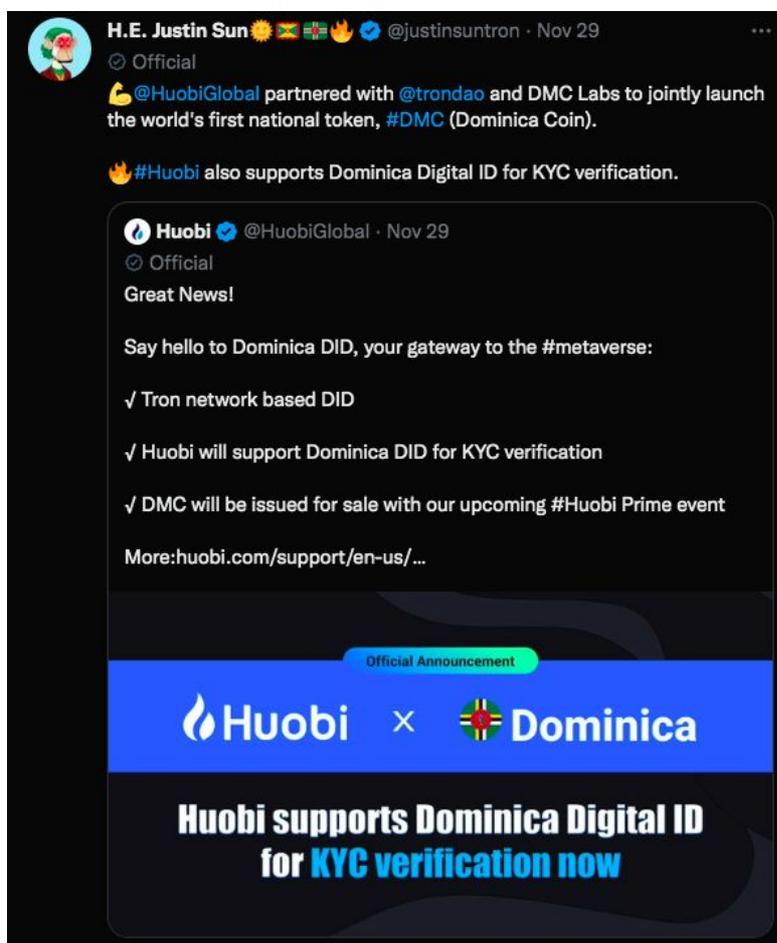


Figure 20. Huobi will help Dominica develop a digital currency

On November 29, cryptocurrency exchange Huobi [announced](#) a partnership with Tron Network and DMC Labs to launch the world's first national token Dominica Coin (DMC) and Digital Identity (DID) under the authorization of the government of the Commonwealth of Dominica.

According to the [press release](#), DID and DMC will be based on the TRON network and launched on Huobi Prime.

All token holders will receive a digital citizenship of Dominica in the metaverse as well as a physical certificate issued by the Dominica government after a certain fee payment. The DID will also allow people to open bank accounts in the country, apply for loans or register digital businesses.

Telegram plans to launch a crypto wallet and a Crypto Exchange



Figure 21. Telegram plans to launch a crypto wallet and a crypto exchange

On Wednesday, November 30, Pavel Durov, the founder of the messaging app Telegram, [revealed](#) on his Telegram channel as well as his [Twitter](#) account, that he is building a set of decentralized tools, including non-custodial wallets and decentralized exchanges (DEX).

“The blockchain sector was built on the promise of decentralization. But ended up centralized in the hands of a few who began to abuse their power.” Durov [said](#).

The Telegram CEO [continues](#) to say that it took only 5 weeks and 5 people to put together Fragment, a fully decentralized auction platform based on The Open Network’s decentralized layer1 blockchain (TON).

[According](#) to Durov, Fragment has been an amazing success, with 50 million USD worth of usernames sold in less than a month. “This week, Fragment will expand beyond usernames,” Durov added.



LEARNING SECTION



What is a Recession?

RECESSION



The recession alarms have been sounding lately. In our last issue, we discussed the likelihood of the US economy entering a recession by 2023. In today's issue, we presented the declining output in US manufacturing, more interest rate hikes, and the worsening condition in the housing market – all these data accompany a looming recession amongst economists and chief executives. In July of this year, the US economy entered two consecutive negative growth in GDP, a technical definition of a recession. The White House debunked this definition, saying that it is a misconception to base recession exclusively on GDP.

So what is a Recession?

As of the time of writing, there is no unified, precise definition of a recession. The National Bureau of Economic Research (NBER), a non-profit academic organization, identifies recessions. According to NBER, a recession is "a significant decline in economic activity that is spread out across the economy and that lasts longer than a few months." The NBER can't assess whether the economy is in a recession in real time. Instead, it uses historical data to pinpoint the start and end of economic booms and busts after they've already occurred. The committee looks at several economic indicators, such as GDP, employment, household income, consumer spending, and industrial production.

Recessions hurt people's finances. During a recession, people lose their jobs, have trouble making ends meet, and sometimes have to foreclose on their houses. In a recession, less money is available for necessities like food and healthcare, and less spending on extras like vacations and nights out. Though recession carries fear and uncertainty, it is a recurring economic phenomenon. No economy can sustain a continuous bull market.

A decline in manufacturing employment levels will be one of the critical early indicators of a recession. Those who have lost their jobs decrease their spending, which has a ripple effect on other parts of the economy and consequently destroys demand.

When consumer demand drops, firms cut down on hiring, unemployment rates rise, and people spend less. Companies are beginning to declare bankruptcy, and homeowners are missing mortgage payments. When the economy slumps, it's hard for fresh graduates to find work.

When did recessions happen in the US?

Recession	GDP Contraction	Duration	Time until next recession
August 1929-March 1933	-26.70%	3 years 7 months	4 years 2 months
May 1937-June 1938	-18.20%	1 year 1 month	6 years 8 months
February 1945 - October 1945	-12.70%	8 months	3 years 1 months
November 1948 - October 1949	-1.70%	11 months	3 years 9 months
July 1953 - May 1954	-2.60%	10 months	3 years 3 months
August 1957 - April 1958	-3.70%	8 months	2 years
April 1960 - February 1961	-1.60%	10 months	8 years 10 months
December 1969-November 1970	-0.60%	11 months	3 years
November 1973 - March 1975	-3.20%	1 year 4 months	4 years 10 months
January 1980 - July 1980	-2.20%	6 months	1 year
July 1981 - November 1982	-2.70%	1 year 4 months	7 years 8 months
July 1990 - March 1991	-1.40%	8 months	10 years
March 2001 - November 2001	-0.30%	8 months	6 years 1 months
December 2007 - June 2009	-4.30%	1 year 6 months	10 years 6 months
February 2020 - April 2020	-3.50%	2 months	??
MEDIAN	-2.70%	10 months	4 years 6 months

Figure 22 . US Recessions in History

Table X shows the timeline of the US recessions in the past, as identified by NBER. The following are a few of the notable ones:

1. Pandemic of 2020

The economic recession in the United States brought on by Covid-19 was the greatest since the Great Depression of August 1929 to March 1933. The unemployment rate hit 14.7 percent in April 2020, and US citizens lost 20.8 million jobs during that month alone. At the end of August 2020, the unemployment rate stayed above 10 percent.

As a response to the abrupt and severe economic weakness, The Fed funds rate was cut to zero, and \$3.8 trillion in stimulus spending was authorized by Congress as the United States struggled to recover from a severe economic downturn. As a result of these policies, GDP expanded by 33.1 percent in the third quarter of 2020. According to official data, the recession was one of the briefest ever.

2. 2008 Great Recession

It all started in December 2007 and lasted until June 2009. The subprime mortgage crisis precipitated by bank credit crises and massive derivatives use, which eventually spread to the global economy.

3. 2001 Dotcom Bubble

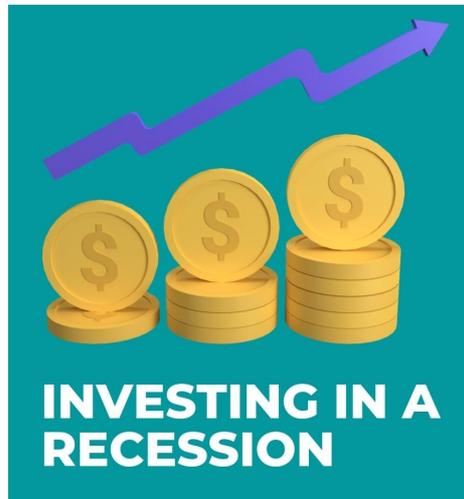
During the bull market of the late 1990s, investments in internet-based enterprises led to a sharp increase in the valuation of U.S. stocks known as the "dotcom bubble." The Nasdaq Composite stock market index increased by 400 percent between 1995 and its peak in March 2000, before falling 78 percent from its peak by October 2002, marking the 2001 Dotcom Bubble.

4. 1973 Opec Embargo Recession

This recession began in November 1973 and lasted until March 1975, sparked by the OPEC oil embargo, which led to a fourfold increase in oil prices. The wage and price control enacted by then-president Richard Nixon kept prices unreasonably high, which lowered demand. Because of the wage controls, salaries were held high, and companies had to lay off people to cut costs.

Also contributing to inflation was President Nixon's decision to take the United States off the gold standard, which drove up the price of gold while reducing the dollar's value. GDP declined by 2.1 percent in Q3 1973, 3.4 percent in Q1 1974, 1.5 percent in Q4 1973 and 4.8 percent in Q1 1975.

Investing In a Recession



While a recession can be frightening for investors, it can still present many opportunities.

Be Cautious: Highly Leveraged Companies

These businesses are already struggling to make their loan payments, and the revenue drop that the recession delivers will only worsen things. Such firms have a greater risk of going bankrupt or suffering a significant decline in shareholder value than other companies with fewer debts.

Be Cautious: Cyclical Stocks

Cyclical stocks are vulnerable during a recession since they are generally connected to employment and consumer confidence. Automotive, aviation, furniture, textile, hospitality, and food service companies have cyclical stock.

Cyclical stocks only tend to do well when the economy is booming and people can afford to buy new cars and homes, travel, shop and eat out. However, the opposite is true during a recession.

Be Cautious: Speculative Stocks & Cryptocurrency

During a recession, it's best to be cautious, especially with speculative stocks. Speculative stocks may include penny stocks, emerging markets, rare materials, and pharmaceutical stocks. Speculative stocks are investment options with a high risk/reward ratio due to their low price and the (ambiguous) prospect of significant future gains. In this section, we also include cryptocurrencies and NFTs in this sector.

Keep an eye on Non Cyclical Stocks or Defensive Stocks.

Companies that deal with necessities like food, petrol, and water, tend to have non cyclical stock prices, and an example is Walmart. The consumer staples sector includes these stocks, as these are the types of products and services that consumers will continue to buy in both prosperous and challenging economic times.

Keep an eye on Companies with Solid Balance Sheets.

Asset and cash flow levels at a healthy level are what you should be looking for in investing during a recession. They show that the business can handle its debts and is less restrained by tighter loan terms during a recession, depending on the liquid nature of the assets. Companies in the utility sector and the production of necessities tend to have a healthy balance sheet.

While cash flow slows during a recession, it's still possible to plant fruitful seeds for the future. Understanding a company's financial statements and prioritizing stability over short-term gains is the best action.

Consider: Dollar Cost Averaging

Dollar-cost averaging means purchasing a predetermined quantity of a security regularly, irrespective of its price. If you practice dollar-cost averaging to buy shares during a recession, you can take advantage of the downturn and gradually increase your holdings in the market.

What Else Can You Do?

If you own a business, it's imperative to reevaluate significant purchases. In a slow market, when cash flow is expected to be lower, large-scale capital purchases may be best put off. You don't want to have your business on the hook with large debt repayment. The same is valid for household purchases of expensive appliances and furniture.

You may be subject to a company's workforce assessment if you are an employee. To "do more with less" would be a company goal during a recession. Now more than ever, flexibility and adaptability in one's skill set are crucial competitive advantages. It makes sense for businesses to reevaluate their spending and hold on to the employees that can keep the wheels turning while cutting back on other resources. Make yourself indispensable.

Reducing your monthly spending might have a significant impact on your financial situation. Finding a more cost-effective mobile phone or internet plan, cutting back on the number of streaming services you subscribe to, brewing your coffee, and packing your lunch instead of buying them on a daily basis can add significant savings over time.

Conclusion

Recessions are a natural part of the economy's life cycle, but it doesn't make them any easier to endure. If you know the warning signals of an impending recession and how to prepare for it, you can take measures to protect yourself from its harshest effects.



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