

Matrix on Target

Regulating Bankless Liquidity

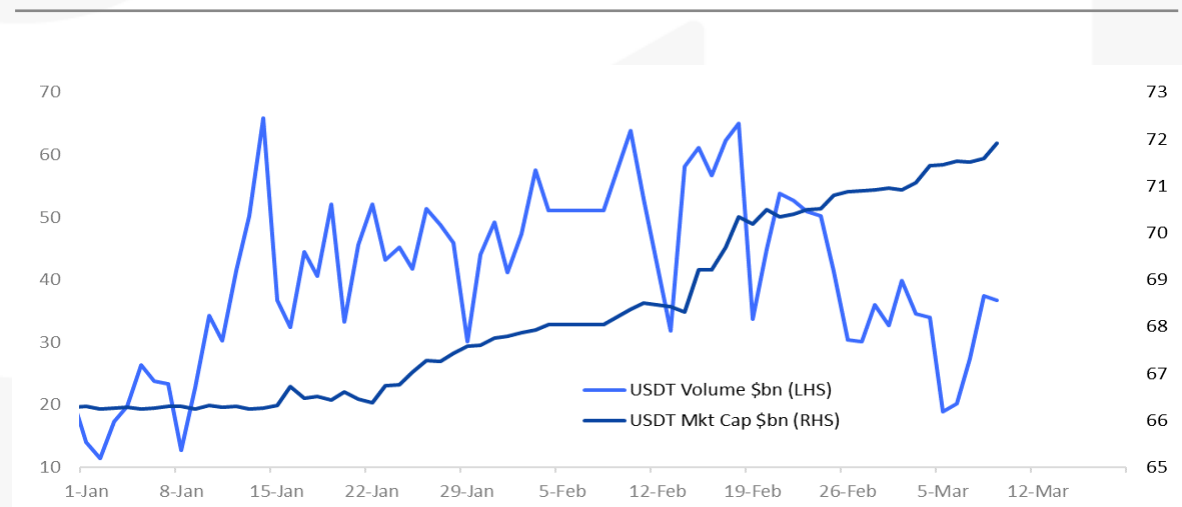
Executive Summary

After having been bullish since mid-December, two weeks ago, ‘Matrix on Target’ started warning investors that we could see a deeper decline if Bitcoin prices fall back below \$24,000. Indeed, Bitcoin has now dropped by 10% from the February highs and could even fall further — potentially falling back to \$20,000. While monetary policy was the driving force for the crypto market in 2022, this year, regulation could be the key differentiator between firms that win market share and those that lose out.

The reasons for this have been continued tightening liquidity, combined with the suspension of USD bank transfers (notably by Binance on February 8, and Bybit on March 10) as well as the closure of Silvergate’s Exchange Network (SEN) on March 4. Related to Binance’s USD suspension, Signature Bank, another bank close to the crypto sector, had informed their crypto exchange customers that SWIFT payment transfers of less than \$100,000 would no longer be supported as of February 1, 2023. As we have argued, all three are interrelated; this is a big deal!

There is a deliberate attempt to reevaluate the links between the traditional banking system and the crypto economy. The founding concept of Bitcoin was to create an alternative financial system. Some have even argued that crypto does not need banks; crypto should be “bankless”. As a result of this year’s regulatory enforcement, offshore stablecoins, such as Tether’s USDT are seeing strong demand while at the same time, their trading volume has declined markedly.

Exhibit 1: Tether USDT trading volume (light blue) has declined significantly



Source: Matrixport Technologies

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But without the ability to channel fiat currency into the crypto world, crypto looks more like a quiet pond than a sparkling fountain of innovation. Silvergate has not only been the most important link between investors who wanted to channel money into crypto exchanges, crypto hedge funds, crypto venture capital funds, and crypto projects, but the bank also offered to settle balances between Silvergate bank clients at any time of the day, including weekends and public holidays. Twenty-four-hour settlement is important to take advantage of arbitrage opportunities in the crypto markets and for the seamless exchange of collateral which is managed through smart contracts.

While nobody is surprised that the regulatory walls are being raised, it is important to understand the implications this might have on the crypto ecosystem. According to Coindesk, 196 out of 535 senators (36%) and representatives have received campaign support from FTX executives.¹ Those who received campaign funding might rather oppose any progress on crypto regulation than be associated with a crypto exchange that undeniably misappropriated user funds.

On January 3, the Federal Reserve, FDIC, and the Office of the Comptroller of the Currency issued a joint statement on crypto-asset risk to the banking organisations.² While politicians and regulators had previously warned about the volatility of crypto currencies, the latest warnings include the financial stability of the banking system. This change of warning, which seems to be spearheaded by the White House administration³, is indeed a big deal creating quite the domino effect.

On January 13, the SEC accused crypto exchange Gemini and crypto firm Genesis Trading to have failed to register a crypto lending scheme as a securities offering.

On January 27, Custodia Bank, a bank that was formed three years ago to be the “bridge between digital assets and the U.S. dollar payments system”, was denied membership of the Fed supervisory system and the bank was also denied a master account.

On February 1, Signature Bank stopped SWIFT transfers of crypto related firms that were less than \$100,000.

On February 9, crypto exchange Kraken agreed to pay \$30 million to settle SEC charges that it offered unregistered securities through its staking program which explicitly offered a yield that did not appear to depend on the actual staking return.

¹ [Congress' FTX Problem: 1 in 3 Members Got Cash From Crypto Exchange's Bosses](#)

² [Joint Statement on Crypto-Asset Risks to Banking Organizations](#)

³ [White House Outlines Plan To Regulate Cryptocurrencies—Here's What You Should Know](#)

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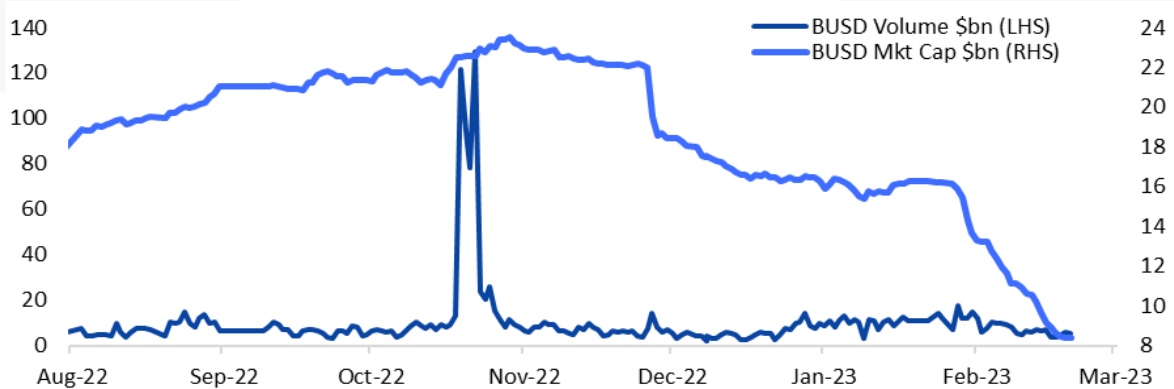
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On February 13, crypto firm Paxos was ordered to stop minting the Binance branded BUSD stablecoin as Paxos might have been negligible in its oversight of the usage of this stablecoin. Subsequently, the BUSD market capitalization declined from \$16bn to now \$8 billion.

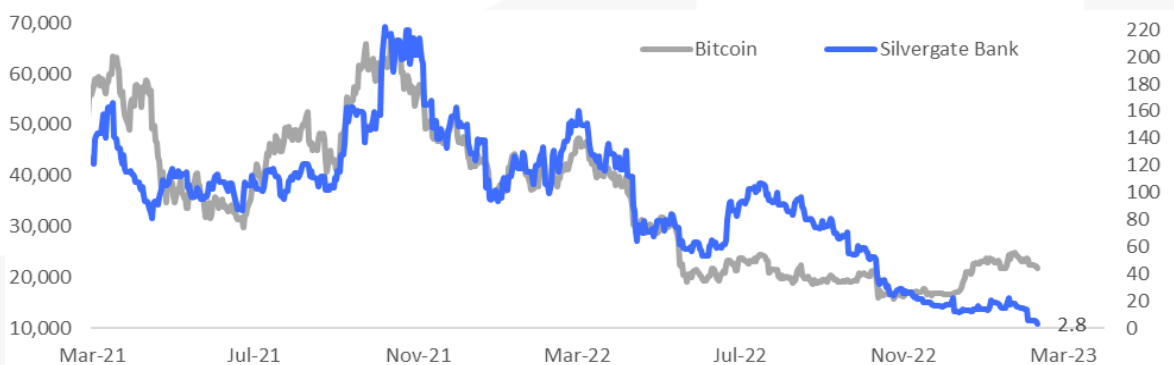
Exhibit 2: Paxos-Binance BUSD market cap has materially declined since the announcement



Source: Matrixport Technologies

On March 4, Silvergate Bank halted the Silvergate’s Exchange Network (SEN) which was subsequently closed and as a result Circle, Crypto (dot com) and Coinbase cut their relationship with the bank. Potentially another implication was that crypto exchange Bybit also halted USD transfers due the SEN closure. Silvergate has been closely linked with the crypto exchange FTX fraud case as the bank’s internal compliance and anti-money laundering departments appear to have overlooked several red flags.

Exhibit 3: Silvergate Bank share price vs. Bitcoin



Source: Matrixport Technologies

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On March 8, Silvergate bank announced that they were shutting operations and liquidating the firm as the bank has seen most of their deposits leaving the balance sheet, which has now impaired the financial stability ratios.

Obviously, these have all been wins for the current US administration which is also trying to change the tax treatment of crypto currency transactions. Investors can sell losing positions to offset gains before the end of the tax year. But while stock and bond investors have to wait thirty days before they can buy the same securities to take advantage of this rule, crypto investors can buy them back immediately. The change of this tax law could have implications and raise \$24 billion for the tax collector.

But crypto is not going down without a fight. Contrary to the Kraken staking defeat, Coinbase CEO Brian Armstrong has defended the firm's staking service and would even defend its product "in court if necessary". Well funded firms such as Coinbase and Ripple might have the financial means to take on the SEC. Ripple's CEO Brad Garlinghouse, has already warned that the SEC regulation through enforcement could result in the U.S. becoming a less attractive location for crypto firms.

Not all ground is lost though. While the SEC had opposed Binance.US being allowed to buy crypto broker Voyager Digital — which had filed for bankruptcy after Three Arrows Capital defaulted on a \$670 million loan provided by the crypto broker — a bankruptcy judge has now allowed the deal to go through. While there are still details to be hammered out such as regulatory hurdles, the judge appears to lean favourably. The Voyager VGX tokens are up +16% during the 24 hours after this announcement, which 'could' result in Voyager creditors receiving 73% of their funds back.

In another case that the SEC opposed, judges are questioning how Bitcoin spot markets can be manipulated but NOT Bitcoin futures markets, which have been approved to be traded on U.S. soil and also be allowed to trade through ETFs. The SEC claimed that "99% correlation does not equate to causation". The SEC thinks that Bitcoin spot markets are fragmented while Bitcoin futures only trade on the CME in Chicago.

As a result, the Grayscale GBTC discount has now narrowed to -36% from an all time low of -48% as speculation that the Trust could be converted into an ETF has increased. The spread has now likely found a floor and with -10% downside from here, there could also be +33% upside... not a bad risk reward — as we have argued in December 2022 in [our 2023 outlook report](#). Obviously, a Bitcoin ETF issued in the U.S. could have been a big deal two years ago but now, many interested investors have set up other accounts to buy their Bitcoins.

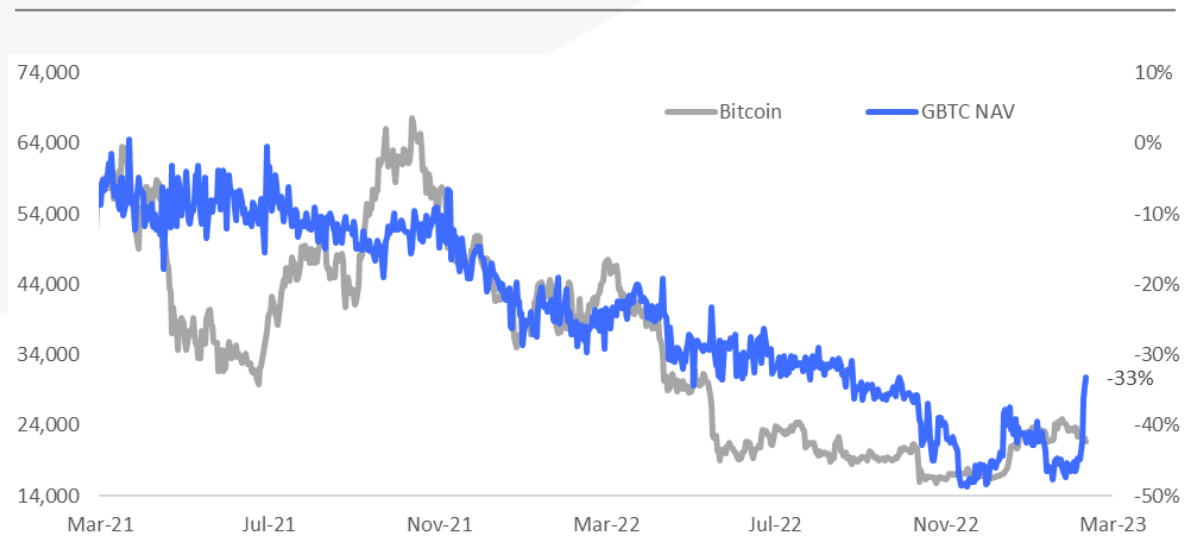
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Exhibit 4: Bitcoin prices vs. the GBTC NAV - currently trading at -33% relative to the Trust's NAV



Source: Matrixport Technologies

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- Mar 7: [Ether Call Options Look Attractive Relative to Bitcoin as Volatility Spread Dwindles](#)
- Mar 6: [Crypto Exchange Bybit Suspends USD Deposits](#)
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- Mar 3: [Bitcoin price slides 5% in 60 minutes amid Silvergate uncertainty](#)
- Mar 3: [Why Bitcoin, Ethereum, and Shiba Inu Are Falling Today](#)
- Mar 3: [Investors Shore Up Stablecoins as Silvergate Exodus Worsens](#)
- Mar 3: [Ethereum core developers push Shanghai upgrade to early April](#)
- Feb 27: [Stacks near \\$1 after 24% rise after crypto investment fund apes in](#)
- Feb 25: [This New Crypto Hype Could Be A 'Multi-Billion Dollar' Opportunity](#)
- Feb 22: [Ordinals NFTs Can Make Stacks' STX a Multibillion-Dollar Token: Matrixport](#)
- Feb 22: [Cryptoverse: Tether tightens grip on wobbling world of stablecoins](#)
- Feb 18: [Reason Behind The Sudden \\$100 Billion Bitcoin, Ethereum And Crypto Price Boom?](#)
- Feb 14: [Stablecoins not the target in BUSD crackdown: Matrixport head of research](#)
- Feb 14: [Traders turn to USDT as BUSD dominates heavily imbalanced Curve liquidity pool](#)
- Feb 10: [Crypto Market Sheds \\$40B as Bitcoin, Ethereum Prices Sink](#)
- Feb 10: ['Buy the dip' say analysts while SEC-inspired downturn](#)
- Feb 1: [Bitcoin Price Could Reach \\$45K by Christmas: Matrixport](#)
- Jan 31: [Stablecoins Seem Unattractive as the Gap Between 3pool's APY and Treasury Yields Widens](#)
- Jan 28: [Bitcoin is headed for its best start to the year since 2013](#)
- Jan 28: [Aptos Surge Triggers Flashbacks of Ripple's 2017 Bull Run](#)
- Jan 27: [US institutions account for 85% of Bitcoin buying in 'very positive sign'](#)
- Jan 25: [You think scandal and bankruptcy are hitting bitcoin?](#)
- Jan 24: [Chinese New Year Bitcoin Trade Is Guaranteed Profit, Researchers Say](#)
- Jan 21: [Bitcoin Reaches Highest Since August Amid Second Weekend Surge](#)
- Jan 16: [Binance Will Allow Institutional Investors to Keep Collateral Off the Crypto Exchange](#)
- Jan 12: [Ether Hits 2-Month High Ahead of US CPI, Market Breadth Remains Weak](#)
- Jan 11: [Gala Games Deletes Tweet Announcing Partnership With Hollywood Star The Rock](#)

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- Jan 11: [Cryptocurrency industry has to 'move on' from FTX collapse, analyst says](#)
- Jan 5: [First Mover Americas: A Win for Celsius in Courtapse, analyst says](#)
- Jan 5: [First Mover Americas: A Win for Celsius in Court](#)
- Dec 20: [Bitcoin Gains 2%, Stocks Drop as Bank of Japan Allows Benchmark Bond Yields to Rise](#)
- Dec 16: [NFTs may see evolved applications, but recovery to previous highs is unlikely](#)
- Dec 16: [Bitcoin, Ether Slip as Audit Firm Mazars Pauses Work for Crypto Clients](#)
- Dec 15: [Perplexing Tranquility? Bitcoin's Implied Volatility Hits Lowest Since October 2020](#)
- Dec 15: [Telegram's No-SIM Signup Feature Helps Toncoin Rally, Bitcoin Also Higher](#)
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- Nov 29: [Cryptoverse: Messi takes on Ronaldo in fan coin world cup](#)
- Nov 28: [Bitcoin Drops as Tremors From China Unrest Spook Global Markets](#)
- Nov 28: [Crypto Twitter calls for calm after wETH insolvency joke goes viral](#)
- Nov 25: [Matrixport Favors 'Systematic Bitcoin Call Overwriting' Strategy for 2023](#)
- Nov 24: [Curve's CRV Token Turns Volatile as Exchange's Balance Hits Record High](#)
- Nov 16: [Institutions Take Berish Stance on Bitcoin, Create Arbitrage Opportunity](#)
- Nov 10: [Ether, Solana trade at a premium on FTX, here is probably why](#)
- Nov 7: [Open Interest in FTT Futures Doubles as Binance Moves to Liquidate FTX Token Holdings](#)
- Nov 4: [MATIC Rally Gathers Speed as Meta Announces Polygon-Powered NFTs](#)
- Nov 2: [Experts Recommend Ether and Bitcoin Options 'Straddles' to Capture Post-Fed Price Swings](#)
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Oct 3: [Range-Bound Bitcoin Reminds Crypto Twitter of 2018 Lull That Ended With 50% Crash](#)

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