

## **In this edition of Laser Focus:**

- The \$100,000 question: how much higher can Bitcoin go?
- Bitcoin as a US reserve currency
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## **The \$100,000 question: how much higher can Bitcoin go?**

Bitcoin continues to make new all-time highs on the back of US election momentum and Trump support. \$99,728.36 is the new high as the \$100,000 psychological level is looking likely to be broken before the end of the year. The net result of the recent moves has driven the crypto currency valuation to around \$1.92 trillion in market capitalisation. The whole crypto market has gained \$1 trillion since Trump's election win and has a total market value around \$3.4 trillion.

Trump's transition team have been discussing the idea of a "bitcoin strategic reserve", after a pledge he made in July to create a national stockpile of bitcoin. The anticipation by crypto bulls on this has in part added to the bullish momentum of late.

### **What would a bitcoin reserve do?**

Just after Trump pledged to create a national stockpile, Cynthia Lummis (Wyoming Senator) put out the leading blueprint for what form it could take. **Under a "BITCOIN Act", the US would accumulate 1 million bitcoins over 20 years, with the goal of owning approximately 5% of the total supply.** Lummis said "bitcoin has been appreciating since inception. This would be an asset that could help shore up the US dollar as the world reserve currency and serve as a reserve that could be used to reduce the national debt significantly" (\$35.4 trillion of debt). Assuming that the token's finite supply (21 million bitcoin) leads to a higher price, amassing a portion of bitcoin today could allow the US to offset rising debt issues in the coming years.

It is also presumed that bitcoin's appreciating value will counterbalance the weakening of the dollar in the event of another bout of inflation. Interestingly some crypto bulls are even talking about increasing the US money supply to print money to buy bitcoin – which may not make sense when you consider the inflationary impact, but it has been discussed. Ananya Kumar, deputy director for the future of money at the Atlantic Council's GeoEconomics Center, is uncertain about bitcoin's role as an inflation hedge. Unlike gold, she said that the currency still tends to track the stock market. If the US invests in a volatile asset, it risks downstream effects on the economy. Under Senator Lummis's proposal, the US would convert gold certificates held by the Federal Reserve to today's fair market value before selling them and using the proceeds to buy bitcoin.

**Whatever the obstacles may be, investors are largely optimistic that a reserve is coming in the next year. According to the betting market Kalshi, there's a 64% chance it will happen before 2026.**

This will all depend on Congress, where support appears to be lacking right now. For those hoping that the incoming administration could create the reserve through executive action, it will require guardrails that may be too big for a presidential order to deal with near term.

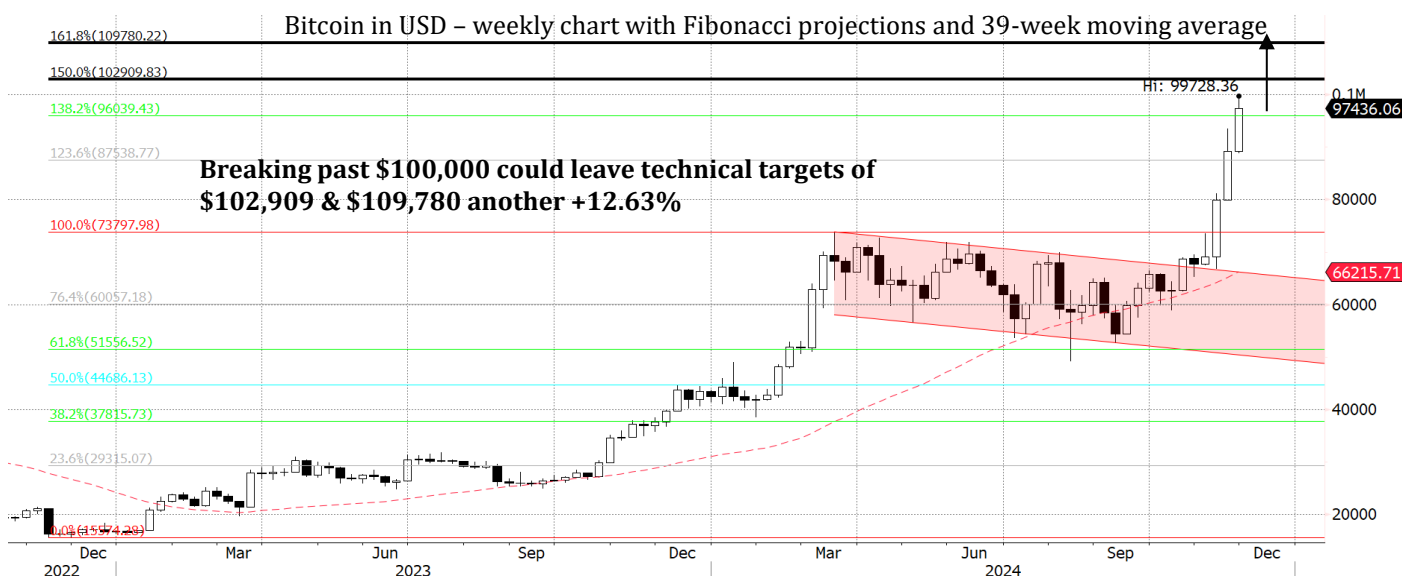
## **Who controls the balance? Who controls the ability to buy and sell?**

Congress will ultimately have to collaborate with the Federal Reserve and the Treasury, and it could take a while for that to happen. Congress has a lot of other bills on its plate to prioritise before the reserve.

### What would happen to bitcoin?

**If the US seriously pursued the strategic reserve agenda, the event would amount to such a paradigm shift that it might send bitcoin to \$500,000.** Other countries would feel pressured to follow suit and establish their own bitcoin reserves, and in such a scenario, the market cap of bitcoin would surpass Gold.

There is a lot of bullish news flow at present in the US crypto arena, including SEC Chairman Gary Gensler’s announcement that he will step down by the time Trump is inaugurated Jan 20<sup>th</sup>, something we suggested he would do in Laser Focus 7.



Source: Bloomberg

Psychologically \$100,000 is a resistance barrier. But once cleared, it leaves scope to technical targets of \$102,909 (favoured) and \$109,780 both marking respective Fibonacci projections off the weekly chart using the 2022-2024 March impulse rise as the primary wave to project from, and where we would expect a period of price consolidation before any further significant move higher. Below \$73,797 the old March highs would be needed to trigger a potential topping signal, and whilst this would be a big move to get down there, it looks unlikely considering the current FOMO momentum trade higher.

Something worth considering is that the surge in Bitcoin and other crypto currencies has reflected expectations of a favourable policy to the asset class under a Trump presidency. But **Fed expectations are also important for crypto.**

**A more cautious central bank might surface** in response to the risk of tariffs and a tax policy that might fuel inflation, in turn leading to less cuts. The September 50bps cut from the Fed helped spur the crypto rally, as did the approval by the SEC of Bitcoin ETFs at the start of 2024. But think back to August 5<sup>th</sup> 2024, when declining market enthusiasm weighed on bitcoin following weaker than expected labour market data and fears of a recession. It was only 2 ½ years ago that on June 13<sup>th</sup> 2022, monetary policy accounted for a good part of the massive drop in Bitcoin, consistent with trades betting on a more aggressive pace of Fed tightening. Crypto-specific factors weighed on Bitcoin amid rising concerns of systemic risk in the crypto ecosystem.

Donald Trump bought a few dozen burgers last week and paid for the meal with Bitcoin at Pubkey. Whilst this was a publicity stunt, he paid using an app called Strike which uses the Lightning Network. The bar used the Zaprite app to receive Bitcoin

payment. Trump said, "Bitcoin is really happening". Although this was a planned stunt it does highlight the intention to push the crypto agenda to be more generally accepted as a currency.

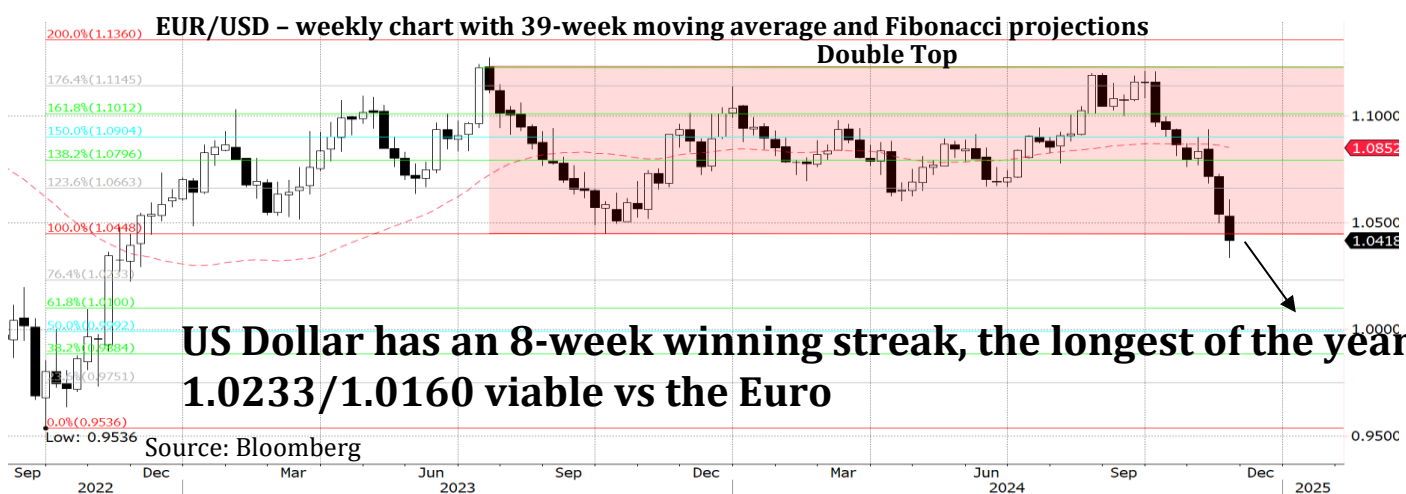
### Cboe to launch new cash-settled bitcoin options

As of Dec 2, just after the U.S. Thanksgiving holiday, the Cboe Global Markets plans to launch the first cash-settled index options on bitcoin. Instead of tracking the spot price it will be based on the Cboe Bitcoin U.S.ETF index. Because they are based on an index rather than an ETF, they will be cash settled. Existing alternatives only allow delivery of shares of an ETF or a stock such as Microstrategy Inc. (MSTR), used as a bitcoin proxy by traders. In addition to the full-sized contracts, Cboe is also launching smaller options tied to a mini version of its spot bitcoin ETF index. They will cover 1/10<sup>th</sup> of the notional value of their larger options. Similar contracts tied to the iShares Bitcoin Trust ETF IBIT launched last week had big trading volume. Data from LSEG showed traders heavily favoured bullish call options.

### Different reactions to Geopolitical risk

The focus on the Ukraine v Russia war has intensified since Donald Trump won the US presidential election, as expectations of some kind of plan to bring hostilities to an end might emerge when he takes office. According to media accounts, the fighting in the region has intensified, and the headline that Putin has changed Russia's nuclear doctrine in response to long range missiles being used against them has caused a reaction. Putin said on Thursday that the conflict in Ukraine had characteristics of a "global" war, criticising Ukraine's allies for granting permission for Kyiv to use Western-supplied weapons to strike targets on Russian territory. It moved gold to recover from its 5% bear correction post Trump's election win, while some currencies such as Sterling are now rebounding, making new all-time highs on Friday. At least Gold is pricing in some geopolitical risk, whilst crypto markets are excited about a more crypto-friendly US regime, taking spot Bitcoin around the \$100,000 psychological marker.

For currencies, the US Dollar continues to strengthen, driven by widening interest rate differentials impacting various currency pairs and tightening financial conditions. The EURO is at its lowest levels vs USD since 2022 breaking sub-1.0400. There are calls for a test of parity, but it needs to hold below 1.0350 to take that seriously, playing out a double top scenario since peaking above 1.1200 earlier this year. 1.0233/1.0160 are viable as technical targets before year-end on continued weakness as many woes weigh on the Euro including a slowdown in China, US tariff prospects, EU political uncertainties and the Russia-Ukraine war.



Oil witnessed the largest weekly gain in over a month for WTI crude., roughly 5% higher near \$71 a barrel. Brent touched \$75. Whilst the Russia-Ukraine narrative is dominant, Iran said it will increase its nuclear fuel-making capacity after being censored by the UN's International Atomic Energy agency. **The factor that players may not be pricing in, is if things calm down** in January, then asset classes might see sizeable moves, especially if there's a perception that the fundamentals in Europe are improving. **Peace in Ukraine could be a real boost for European stocks and the Euro.** The US stock market rally would go even further up to new record highs. **S&P target of 6,400 could be achievable in such a scenario.**

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