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In this edition of Laser Focus we look at:

- The risk of dilution to crypto assets under the Trump presidency
- The technical outlook for spot bitcoin, after hitting fresh all-time highs in January
- **MACRO FOCUS** – a deeper look at tariffs and the FX effect for those under threat; CAD/JPY as an interesting play as a net importer vs net exporter of oil on differing interest rate paths

Trump's influence causing crypto dilution?

A crypto-friendly president with his own memecoin creates a problem, not a solution

It's been 3 months since the election result, and just a couple of weeks in the oval office, but enough time for President Trump to create some problems with his foray into crypto. Last month, Trump dropped the "only official Trump meme coin" $Trump. According to Chainalysis, nearly half of those who bought the token – or the Melania memecoin released the next day – were likely new investors who created their first crypto wallets that same day.

But as much as investors like a bull market capital injection, the industry is ultimately trying to mature and distance itself from its volatile gambling-style reputation. The allocation of ***new*** capital to projects with long-term utility and value is far more important. The memecoin frenzy may result in losses, discourage new investors in crypto, and hold back more valuable companies and developments. $Trump became the hottest digital memecoin from nothing, but it's worth remembering that **memecoins aren't an important part of a serious investable theme.** Instead, the opportunities come from coins' ability to help people use blockchain technology in new ways. Examples include staking, stablecoin utilisation, integration with payments, Web3, the use of digital wallets and the tokenisation of traditional financial assets (an area we are bullish on as a long-term theme for growth). In a further challenge to the space, last week Trump Media announced its latest push into crypto: TruthFi. It's a financial services division that will invest up to $250 million in ETFs, cryptocurrencies and other assets, and launch products and services, including its own investment vehicles later this year, thus introducing more products.

In recent months Trump's companies have brought out two NFTs, while a DeFi platform called World Liberty Financial has also been launched on Ethereum. That company has since made major purchases of wrapped bitcoin (wBTC), Ether, Tron's TRX, AAVE, Ethena's ENA and Chainlink's LINK. All of these moves have shown how Trump's influence is affecting trading and investing trends. Last week, the Coinbase CEO posted on X that the company is having to rethink its listing process "given there are ~1 million tokens a week being created now and growing." Bitwise Asset Management has filed to launch an ETF tracking the price of the longest reigning memecoin, Dogecoin, and Grayscale has introduced a Dogecoin trust. There's also a Trump memecoin ETF in the making.

All of this is not helping… Crypto had some experience of these crazes back in 2017 and 2021, but then recovered to fresh highs. The challenge for the industry now is proving to the wider world that blockchain technology is useful on a mass scale for purposes other than speculative trading. Crypto-denominated ETFs with strong institutional participation suggests growing acceptance of crypto products. But this narrative is being undermined through **"crypto dilution"** – the proliferation of meme projects whose only value is that of network effects, rather than any real technological advancement. This is having an impact on credibility and ultimately the value of the whole ecosystem.

With too many new coins being launched, it makes it more difficult for crypto projects to maintain their value. This trend is creating a void between bitcoin and everything else digital. Historically, when bitcoin hit new records, it lifted the rest of the crypto market, amid the concept that a rising tide lifts all boats. But altcoins have been struggling for months, even after the post-election bitcoin rally.

Bitcoin might be a better place to sit than altcoins in coming months due to dilution, with new products being pumped into the market regularly, and traders and investors rotating fast. As markets get more volatile in light of this frenzy, Bitcoin may benefit over other cryptocurrencies.

Trump’s executive order

President Trump’s latest executive order banning Central Bank Digital Currencies (CBDCs) signals a reliance on the existing crypto ecosystem, which in turn may bolster institutional cryptocurrency adoption. Signed on January 23, the order prohibits the establishment, issuance, circulation or use of CBDCs, citing concerns over their potential to threaten financial system stability, individual privacy and national sovereignty. The CBDC ban might be a “game-changer” for the crypto industry in the US, as it could influence institutional adoption of cryptocurrencies by highlighting the existing crypto ecosystem as an alternative.

In contrast, at last week’s ECB meeting, President Christine Lagarde rejected the idea of incorporating Bitcoin into European reserves, citing its volatility and association with money laundering. But she hasn’t ruled out the creation of a CBDC. The ECB has been transparent for a long time that a key motivation for the digital euro is European monetary and payment sovereignty: currently digital payments in Europe are heavily reliant on US firms such as Visa, Mastercard and PayPal.

Trump’s new crypto task force signals a clearer, “more structured” crypto regulatory landscape, with David Atkins now SEC chairman. The Trump administration has also committed to exploring the potential for a “national digital asset stockpile” but said it would likely come from asset seizures rather than buying bitcoin. At least two states, Utah and Texas are considering including bitcoin as part of their state treasury holdings. A Utah house committee voted in favor last week (8 to 1), and Texas appears to have two bills pending. The new regime in the US will be pushing digital assets, and as we mentioned in the last report there are 12 ETF filings that we know of flagged for approval this year, one of which is a joint Bitcoin-Ethereum ETF.

Tariff talk sends bitcoin lower after new all-time highs in January

Trumps move to slap tariffs on Canada, Mexico and China, and the subsequent increased risk of a trade war hit cryptocurrency prices. Bitcoin slid to a 3-week low of $91,441.89. The spot price at the time of writing was around $95,178- a substantial discount to the new all-time highs hit between Jan 19th-20th of $109,398. Market volatility can be also blamed on the Deepseek narrative, which triggered a sell-off in tech and energy stocks in the US. In the last issue we put out a technical target for bitcoin of $109,780, the 161.8% Fibonacci projection of the 2023 low to March 2024 high. This level worked well as a resistance for now, but we look to revisit it in coming weeks with a view to break higher to $118,280 as a further Fibonacci projection level making it +19.45% from current levels. Bitcoin has been the best performing asset class in 11 out of the past 14 years, so, although past performance does not guarantee future results, we may have another good year ahead (albeit a volatile one).

Bitcoin in US dollars – weekly chart with Fibonacci projections and 39 week-moving average

Source: Bloomberg

The monthly close for spot Bitcoin in January was the highest ever being above $102,000, so a close below the Dec 2024 close of $93,714 is needed if you want to consider a correction might build.

The Bloomberg Galaxy Defi Index of digital coins involved in decentralised finance was -3.1% last week and is off to a very bad start this week! The Defi Index tracks the prices of cryptocurrencies and associated apps involved in financial activity such as automated market-making and lending. In contrast Bitcoin held up well.

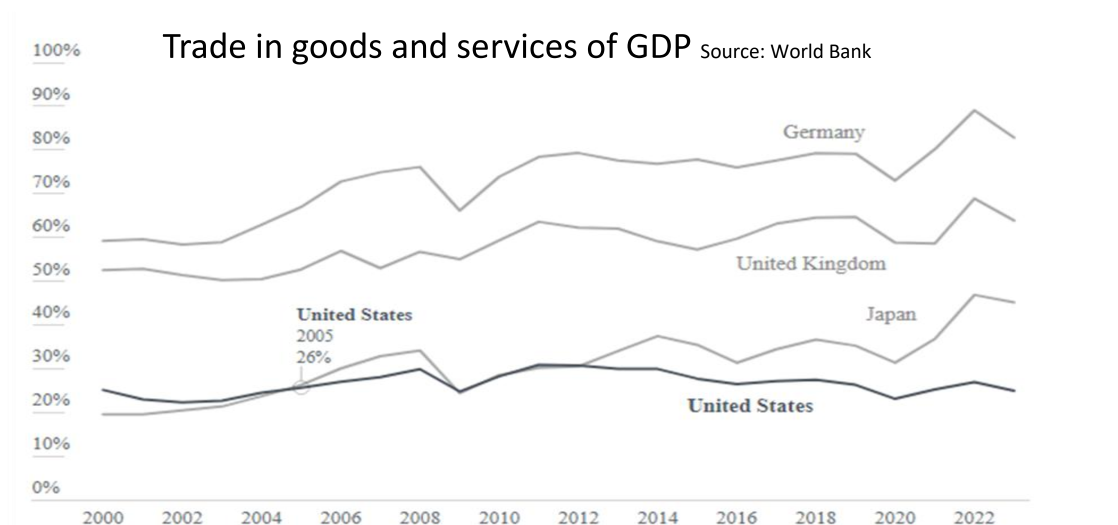
MACRO FOCUS

Tariffs on China, Mexico & Canada: what does it all mean?

Over the weekend, President Trump imposed 25% tariffs on imports from the US's 2 largest trading partners, Mexico and Canada. He claims it's an attempt to make both countries curb migration and drug trafficking into the US. Meanwhile a 10% tariff on goods from China is a bid to force the country to halt the smuggling of fentanyl precursor chemicals to Canada and Mexico, where they are made into U.S.-bound fentanyl. Mexico, China and Canada account for 50% of all US imports ($1.3trn)

The Washington D.C.-based Tax Foundation estimates the tariffs could generate $100 billion a year in extra Fed tax revenue, but also warned of potential downside risks to the economy. These include increased unemployment, higher consumer prices and an impact on supplies. Sectors most at risk are energy, food and automotive. In the automative space for example Canada accounts for $35bn of imports and Mexico $45bn, and a rise in production costs for US automakers could add $3,000 to the cost of the average car in the US. According to Bloomberg economics, the new tariffs might reduce overall US imports by 15%.

Food could rise as Mexico supplies 60% of vegetables and 50% of all fruit imports into the US.



The US is less dependent on trade than many other industrialised countries, including Germany, Japan, and the UK. Imports and exports make up just 25% of U.S. GDP, and the United States sources what it does import from a wide range of countries.

78% of Canadian exports go to the US, while Mexico exports 80% of its goods to the US, including 70% of its refined oil. So tariffs could really hit their GDP. Canada responded by slapping 25% tariffs on $106 billion of US goods, while Mexico also vowed to retaliate.

China, however, is now less dependent on the US, with only 15% of its exports heading stateside. China has also increased its share of global trade by 4% since 2016, as past tariffs encouraged it to ramp up trade elsewhere with the EU, Vietnam and Mexico. Imports and exports now account for about 37% of GDP vs 60% in early 2000s for China. If the currency weakens in CNY this also lessens the impact of tariffs.

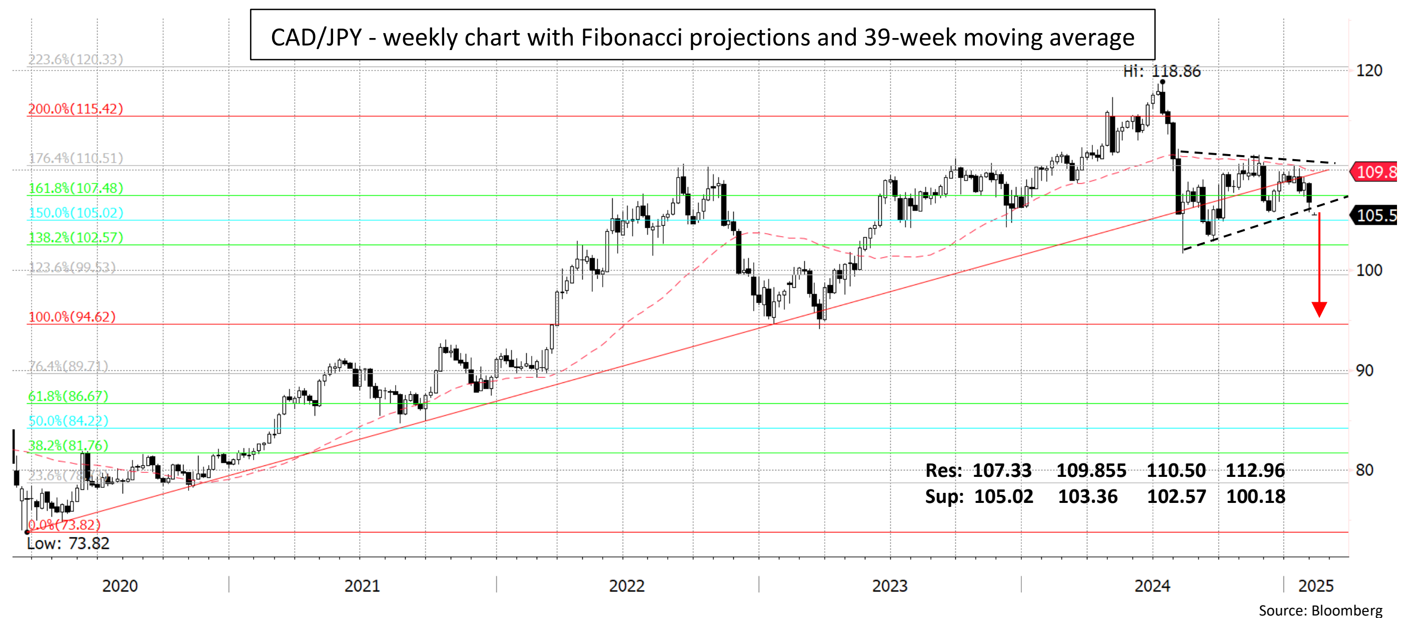
Last week Columbia managed to avert its own trade war with the US. The country's president yielded to all of Trump's demands, including unrestricted acceptance of immigrants who have illegally gained access to the US. Even the Columbian presidential plane was being used to help in deportations. This probably emboldened Trump and his theory that tariffs can exert pressure, but it may be a different challenge with bigger countries.

The FX effect of tariffs

A weaker CNY has already softened the blow for Chinese producers, helping their exports remain competitive around the world. Mexico's peso is down-30% since last April and the Canadian dollar is down -8% since September, lessening the potential impact on those 2 countries. Markets could potentially drive the peso and the CAD further down if tariffs are in full play.
The chart below shows how sensitive currency is to tariff threats, with 1 week volatility in the USD/CAD at the highest levels since the Covid Pandemic.

Source: Bloomberg

A good currency pair to follow would be the CAD/JPY cross currency pair. A net importer vs a net exporter of oil, and both countries are on differing rate paths, with the Bank of Canada cutting rates last week and the Bank of Japan raising rates in January. The Canadian dollar (CAD) has fallen to the lowest level since 2003 vs the USD for example. The Fed also did not cut rates last week and seems set to hold in March as well, with a cut most likely now to surface in summer. The US dollar rose by nearly 1% last week its best gain since mid-November. CAD/JPY could drop as low as 94.75 on a triangle bear pattern lower if CAD continues weakening in a trade war with the US.



Source: Bloomberg

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