Dispatch #8 -2021

March 12th, 2021

The top story this week is Norway's Aker Group investing in bitcoin. Equity markets this week showed that they can absorb a gradual rise in yields. The 10-year yield rose modestly from 1.6% to 1.63% yet the NASDAQ rallied ~ 5% this week. So, what could change from here? We now know for certain the stimulus bill will require $1.9tn additional spending, funded by borrowing money. I continue to believe deficit funding over the rest of the year will be a challenge as the US also has $7.7tn of old treasury bonds maturing in 2021. That's $9.6trillion of new issuance from the United States Treasury but the Fed is only committed to buying just $1.44tn. That's a large gap, and I don't think we are out of the woods on rates rising further. We know liquidity is abundant, and it's not unusual for wild swing in asset markets when valuations are extended.

This letter also looks at the following issues:

- Aker ASA, makes a significant investment in bitcoin via new company Seetee. The Chairman's letter is a great read.
- Bitcoin's energy usage – read the Aker Chairman's letter for a favorable take.
- Have you heard of NFT? NFT stands for non-fungible token (mostly used for art/collectibles). It is exploding in value, Gamestop fashion.
- Sneakers as an asset class! That's how far along we are in this cycle.
- Repo funding and bank balance sheet? An expert's view.
- Bitcoin School – all transactions are visible on blockchain and can be analyzed.

Norwegian conglomerate Aker invests in Bitcoin

> Bitcoin is our treasury asset. Our first purchase was 1,170 BTC and our strategy is to hodl.

The above snippet is from Aker ASA, the $6bn Norwegian industrial conglomerate, that is making a notable commitment and investment in Bitcoin. Aker is setting up a new entity named Seetee to invest in Bitcoin, which includes venture investments in the Bitcoin ecosystem, bitcoin mining and holding bitcoin as a reserve asset. The Chairman's annual letter to shareholders was dedicated to the Bitcoin investment. Seetee, the new company, will **keep its reserves (around $58m today) in bitcoin**. This is another significant **data point for accelerating**

institutional adoption, as this is NOT a company making a small bet. This Business Insider article provides details. However, what you really need to read is the provocative and well researched **letter** from Chairman Kjell Inge Røkke.

Bitcoin's energy usage

This first paragraph from the Aker shareholder letter below hints at the tone of the Chairman's message.

> Before I proceed with our story, I want to state upfront that I am aware that Bitcoin is often criticised for a number of perceived challenges, including its electricity consumption, its inability to scale with respect to transactions, and its potential to facilitate anonymous illegitimate payments. We believe that Bitcoin can be a *solution* rather than a *problem* for each of those, but we will get to the arguments for that later.

If you have heard concerns about Bitcoin's energy usage and its impact on environment, I recommend reading the Aker letter. It provides a well-researched view of the **subtleties of Bitcoin's energy usage and how Bitcoin's energy demand can be used to accelerate renewables capacity.** The idea is that renewable energy - like solar or wind - which has intermittent supply, will benefit from Bitcoin miners who will purchase energy during periods of slack demand/low prices. This could make project return higher (vs having low prices during slack periods) leading to greater renewable energy projects. With ESG issues (environmental, social & governance) being a greater focus in Europe, Aker is well placed to delve into the subject as it's already in the energy sector. I happen to agree with Mr Rokke's view and find the paragraph below priceless, because many of the energy accusations come from naysayers!

> If you subscribe to the bubble narrative, you can rest safely knowing that the electricity consumption of Bitcoin will return to zero in the near future. Miners will not expend energy if their bitcoin rewards are rendered worthless. If that's your view, the discussion is moot.

Have you heard of NFT?

I'd like to highlight another sign of financial froth, which is the boom in NFTs, which stands for Non-Fungible Token. A bitcoin or ether (coin from Ethereum protocol) is a fungible token (every coin is identical and therefore fungible). NFTs are unique token to prove ownership of digital art or collectibles. NFTs of artwork and pictures of NBA shots have become highly valued collectibles in the past six months. This NPR article is a good primer and this Zerohedge report brings a positive lens to the subject.

I do get the idea of digital art and I even like some of the work. https://opensea.io/ is one of the larger NFT marketplaces, if you have time to browse. What I really want to highlight is the sudden expansion of this market and how it's gone from almost nothing six months ago to 100s of millions now. Opensea's CEO told Coindesk that "growth was insane; going from $1 million in volume as of August to $8 million in January and $50 million already in February." The tweet below adds more color to the many facets of this market.

Source: Kris Sidial https://twitter.com/Ksidiii/status/1368683344062451713?s=20

Maybe breeding CryptoKitties is the next big thing!! This is where you go to discover more. https://www.cryptokitties.co/.

CryptoKitties

Collect and breed furrever friends!

Sneakers as an asset class!

Staying on the theme of excesses, this recent Bloomberg Businessweek cover caught my attention. I know some limited-edition shoes can hold value, but seeing **sneakers make a magazine cover is something else**.

This goes to reinforce a line you will hear often in the Dispatch: Use a less inflationary asset like gold as your measuring stick because many items are going up in US$ value, as this article shows.

Repo market stress…here's an expert's opinion

Last week's Dispatch #7 flagged the unusual and worrying signs of overnight repo market stress. If you want a deep dive into the bank balance sheets, funding markets and Treasury yields, this note from Zoltan Pozsar of Credit Suisse is excellent. Be warned: it's full of strange acronyms only finance nerds will know. He believes that we will see further pressure on yields in the coming months.

Bitcoin School

I am adding this new section to educate readers on some of the unique aspects of the Bitcoin network.

Today's topic: All blockchain transaction are publicly visible and analyzable. This is a unique feature of open-source software blockchains. We don't know the transaction by someone's name but, in bitcoin's case, we can track each coin (or fractions of a coin) forwards and backwards to its creation.

We can see the transactions via any number of block explorer sites. Here's one such site https://live.blockcypher.com/btc/. The open block chain allows us many analytical tools and one such measure is flagged below. We can see how many coins moved (e.i changed hands) at what price.

Willy Woo is one of the top analysts of blockchain data and his analysis shows areas of large coin accumulation provide strong price support. The rationale is possibly that those who purchased large numbers at ~ $45K as he shows below, are likely to start buying again if the price dips back to that level. He's proved this point by analyzing price action since bitcoin's creation in 2010. This is clearly unique to blockchain analysis because the dominance of high frequency trading makes the volume at price in traditional markets somewhat useless.

In crypto, final ownership change can be seen on the blockchain, which removes much of the noise from trading activity.

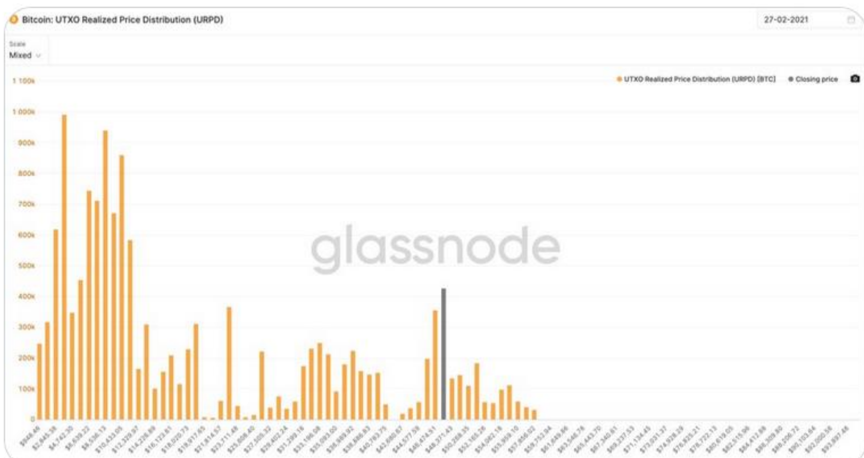
Willy Woo @woonomic · 19h

UTXO Realized Price Distribution. This is the on-chain, more precise version of volume profile. The peaks represent the price where most coins changed hands.

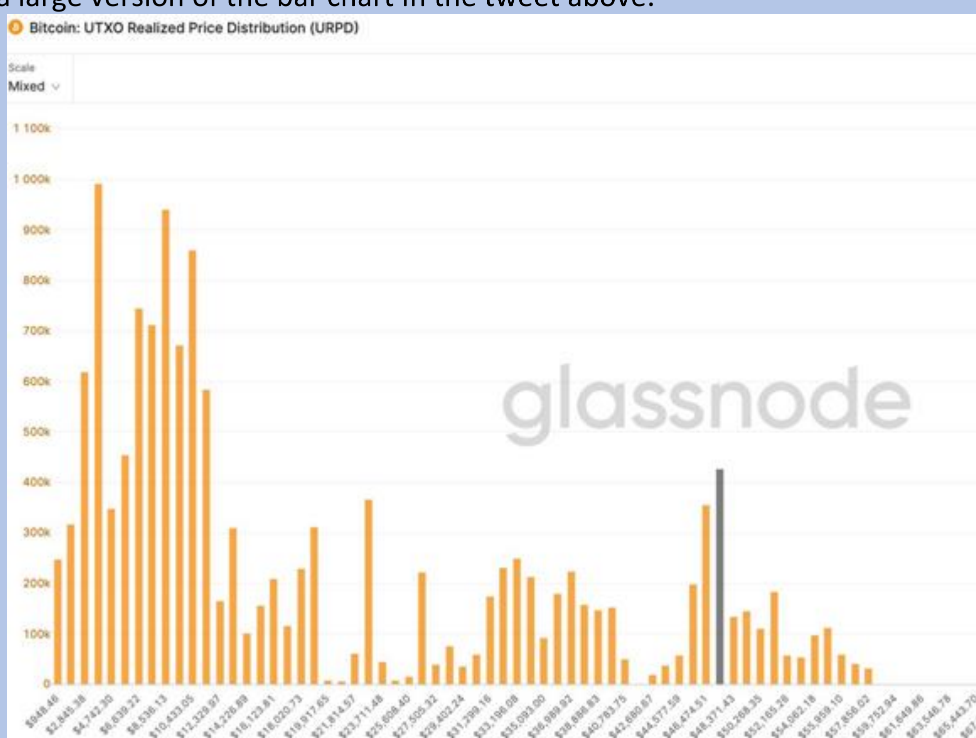
$45k upwards is very strong support.

Any dip (if you're are lucky) into $39k is a no-brainer BTFD.

Data: @glassnode



This is a large version of the bar chart in the tweet above.



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