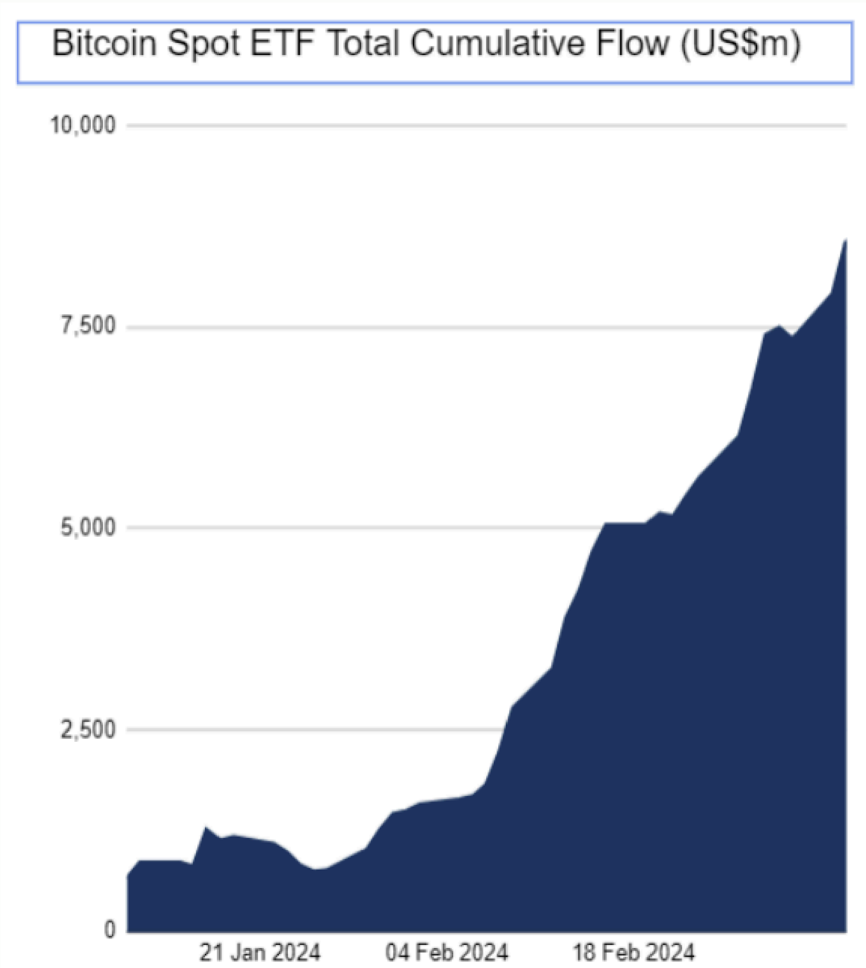
Bitcoin's Trajectory: A Macro outlook for Q2 2024

As Bitcoin soared to new heights but then faced a setback, you may be wondering what's next for the market until June. This report aims to provide clear insights into the potential market trends, highlighting key data points and upcoming events to keep an eye on.

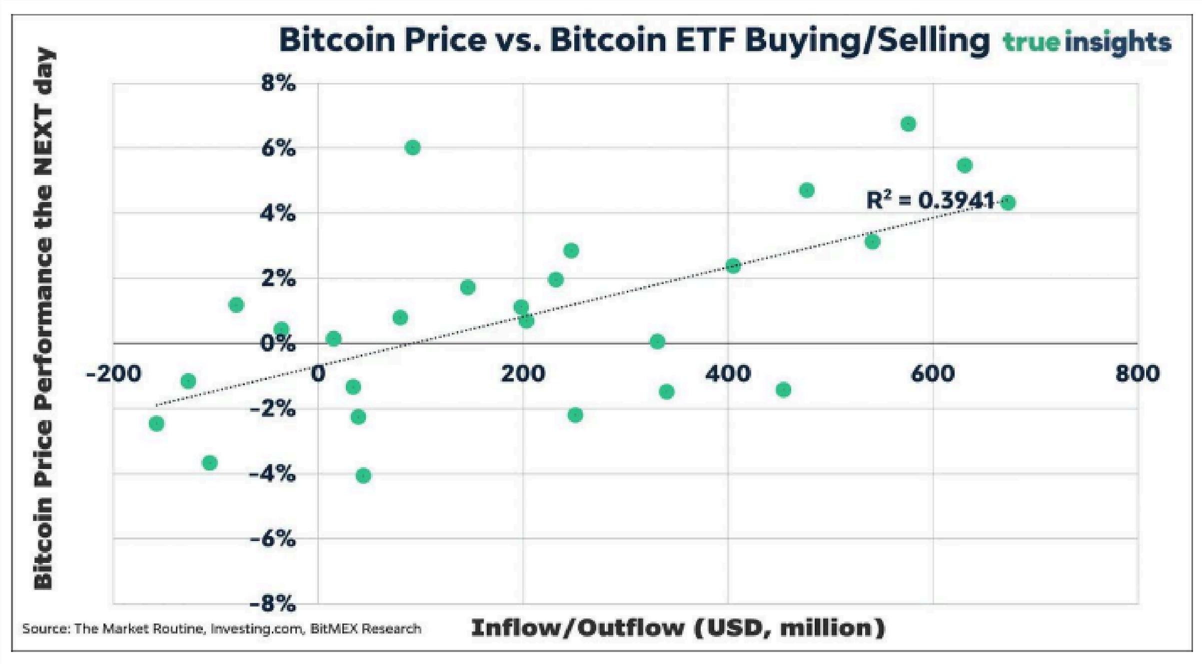
Additionally, we'll discuss the crucial levels Bitcoin needs to maintain to continue its path towards new all-time highs.

Bitcoin ETF Inflows The most important indicator to watch

One of the major drivers behind Bitcoin's recent price surge has been the massive capital inflows into Bitcoin, particularly from institutional investors through vehicles like US-listed Bitcoin ETFs, which saw $1.84 billion in inflows in just the past week. These ETFs have been purchasing large quantities of Bitcoin to satisfy the demand from investors seeking exposure to the crypto asset.



When we look at the correlation between the ETF inflows on a given day and Bitcoin's price movement the following day, a clear pattern emerges. As showcased by True Insights' chart, higher inflows on one day tend to precede larger price increases for Bitcoin the next day.



The R-squared value of 0.3941 indicates a moderate positive correlation between these two variables. This means that on days with larger net buying or inflows into Bitcoin ETFs, Bitcoin's price is more likely to experience a stronger upward movement the following day.

Essentially, the daily inflow data has become one of the most important indicators for traders, investors, and speculators in the Bitcoin market. Market participants closely monitor whether the inflow numbers remain positive or turn negative, as this helps them decide if it's an opportune time to continue holding or investing in BTC. The level of speculation surrounding Bitcoin is also significantly driven by these inflow numbers.

Understanding the price decline from ATH despite positive inflows

You might be wondering, then, why BTC experienced a crash from its all-time high of $69K, suddenly plummeting to a low of $59K after the event, especially considering all the inflows were positive

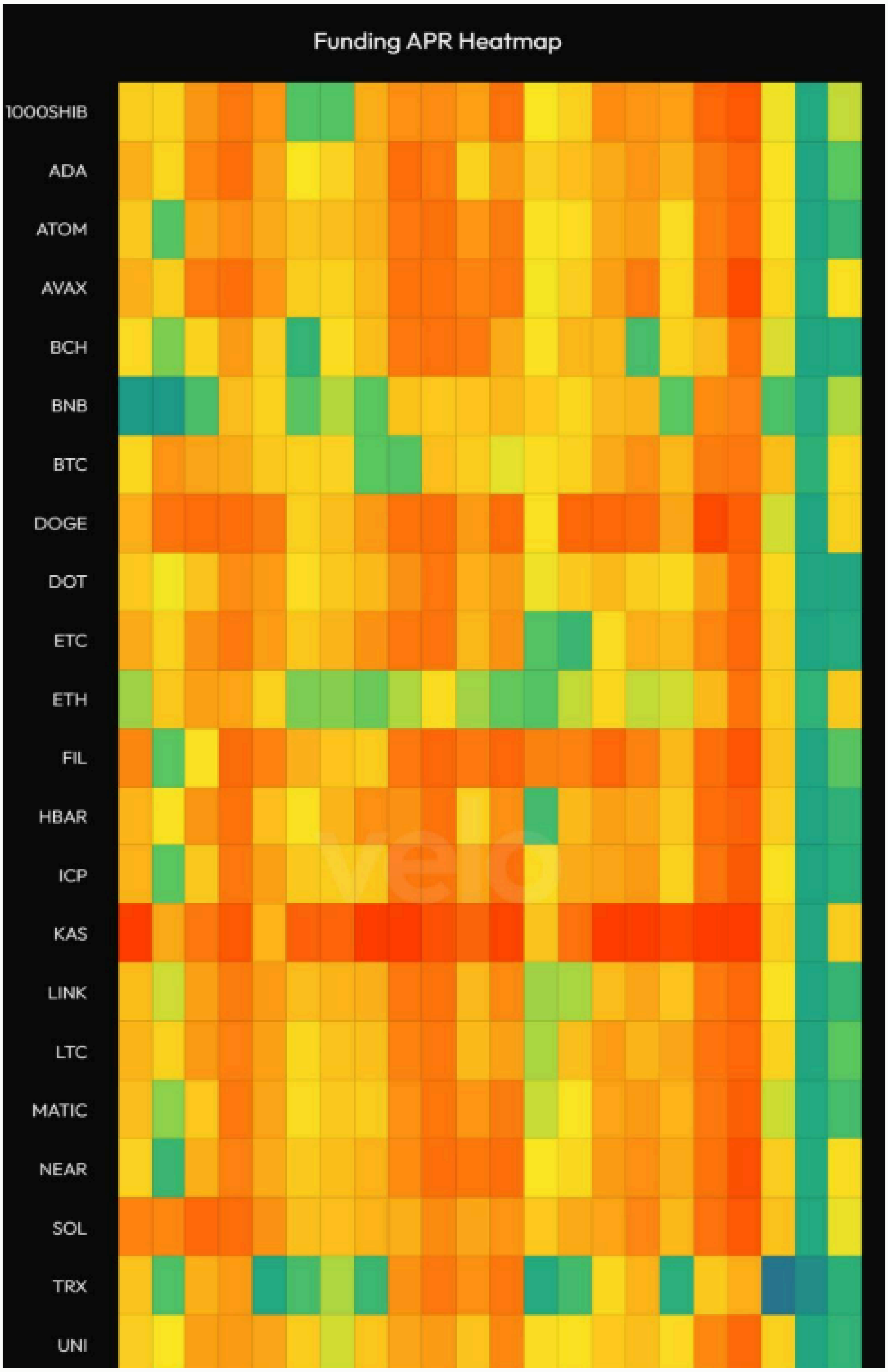
I want to explain why this happened with an analogy.

Imagine a poker game where there is one key player (the ETF inflows) that everyone at the table is closely watching. However, there is also a large audience observing this particular player's actions.

This audience is essentially betting vast sums of money on whether the ETF player will win or lose their next hand. The total amount they are wagering far exceeds the stakes that the ETF player themselves is playing with.

So, while the ETF player may be playing with a modest amount (e.g., $500 million in inflows), the audience (the perpetual traders) is betting billions on the outcome of that same hand.

This creates a situation where the speculation and side bets on the event (the ETF inflows) greatly outweigh the original event itself, and you can see this in the funding rate, which became dark orange yesterday



This excessive speculation on the ETF inflows is analogous to what drove Bitcoin's price to all-time highs. However, because the entire system was overleveraged, it also meant that a small pullback would result in a cascade of liquidations to the downside. That is why we saw that aggressive wick down to $59K, which allowed the market to reset and cool off a bit. As you can see, funding has become much greener again for current market circumstances, especially on the larger caps.

Since the BTC inflows also remained positive, with a reported $648.3 million inflow into BTC after this crash, the market swiftly recovered as the signal itself did not change.

Date	IBIT	FBTC	BITB	ARKB	BTCO	EZBC	BRRR	HODL	BTCW	GBTC	Total
16 Feb 2024	191.4	116.7	20.9	140.0	1.0	0.0	7.9	0.0	2.8	(150.4)	330.3
19 Feb 2024	-	-	-	-	-	-	-	-	-	-	0.0
20 Feb 2024	154.3	71.7	11.1	27.4	0.0	0.0	0.0	5.9	2.2	(137.0)	135.6
21 Feb 2024	96.5	52.5	0.0	10.7	1.0	3.0	0.0	0.0	0.0	(199.3)	(35.6)
22 Feb 2024	125.1	158.9	7.9	6.7	0.0	0.0	1.2	2.9	4.4	(55.7)	251.4
23 Feb 2024	167.5	52.5	12.0	34.5	0.0	1.5	0.0	8.7	0.0	(44.2)	232.5
26 Feb 2024	111.8	243.3	37.2	130.6	4.4	7.9	0.0	6.2	0.9	(22.4)	519.9
27 Feb 2024	520.2	126.0	18.4	5.4	2.6	16.6	0.0	9.7	3.6	(125.6)	576.9
28 Feb 2024	612.1	245.2	9.9	23.8	0.0	0.0	0.0	(3.4)	2.2	(216.4)	673.4
29 Feb 2024	603.9	44.8	21.7	9.9	(1.5)	5.4	0.0	7.0	0.0	(598.9)	92.3
01 Mar 2024	202.5	49.3	42.3	55.1	0.0	5.4	0.0	(1.8)	0.0	(492.4)	(139.6)
04 Mar 2024	420.1	404.6	90.9	38.2	(25.7)	7.8	3.7	(5.7)	(3.2)	(368.0)	562.7
05 Mar 2024	788.3	125.6	3.7	63.7	(14.2)	3.6	0.0	3.5	6.6	(332.5)	648.3
Total	9,167.2	5,345.3	1,273.3	1,734.8	209.0	134.2	140.3	122.6	39.6	(9,599.1)	8,567.2

To us, crashes like these represent buying opportunities. Our concern would arise if BTC were to drop below $58K in the weekly or monthly timeframe, especially if coupled with sustained negative inflows. In such a scenario, we would advise avoiding trading and instead focusing on your spot positions. However, in the current state, it is more likely that BTC will attempt to break its all-time high once again rather than fall below $58K.

We are in a bullish market structure. Even if we do not break $69K this week and remain below it, you would not want to panic and sell. With the positive inflows continuing for now, there isn't a clear signal for further downside at the moment.

Anticipating what lies ahead: What can we expect?

ETF data

For now, our most important indicator to follow will remain the BTC ETF inflow data. As long as this data remains positive, there is no reason not to be positive yourself; there is no point in fighting the trend. One negative day on the inflows does not mean you should immediately become a bear.

However, if we see a change in trend here, and inflows remain negative or heavily stagnate, that should make you more cautious about this uptrend continuing. Just as the inflows are driving this rally upwards, they could also be the leading indicator for a pullback.

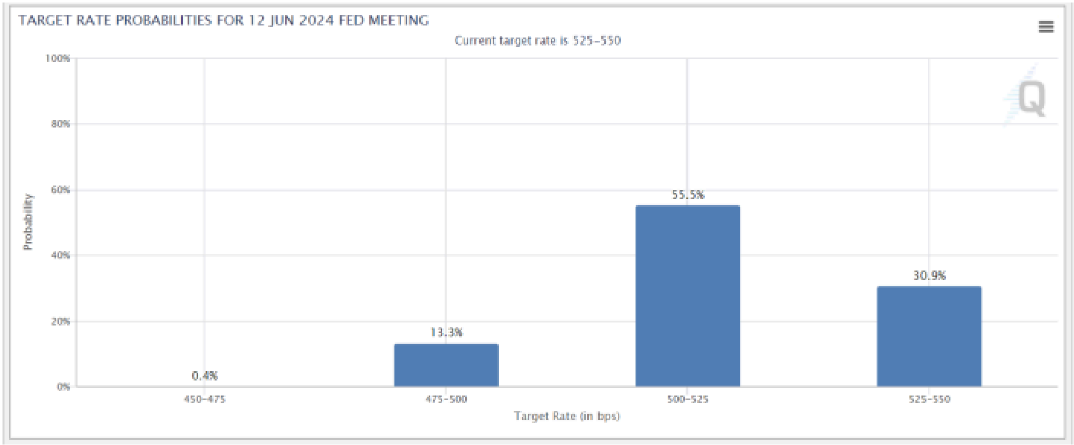
So, make sure to track the data here, as usually, the data from the day before has a high correlation with the direction in which the market goes the next day.

FOMC meeting

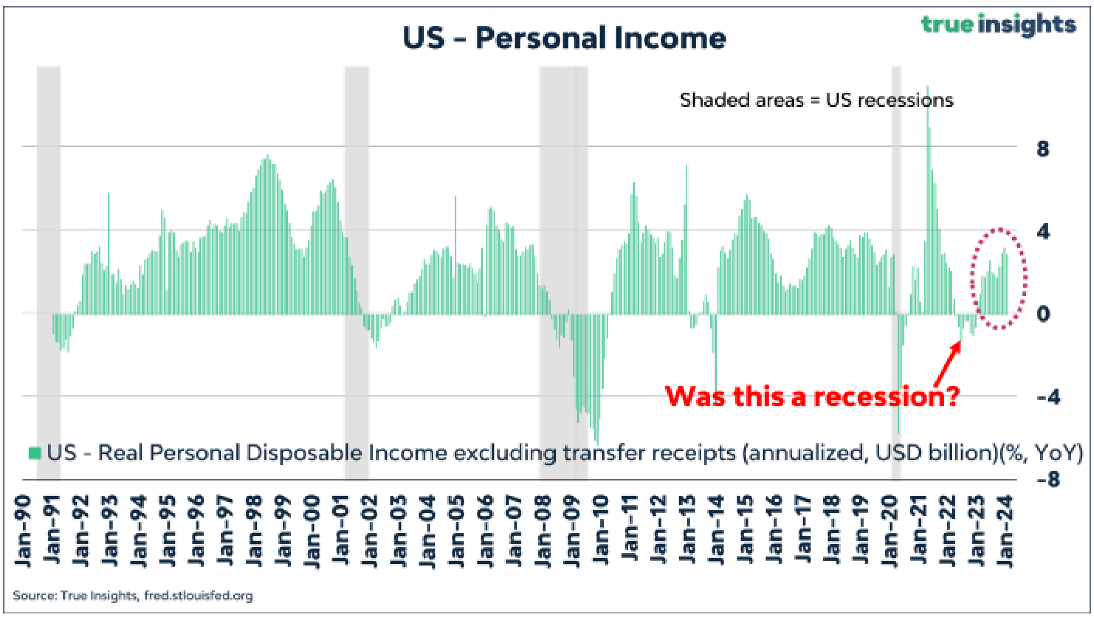
The next big macro event for global markets, including BTC, will be on March 19-20, with the FOMC meeting taking place. You can track the exact timing of the meeting here.

Currently, there is a 97% expectation of no change, with rates remaining the same, which would enable BTC to remain stable and continue its trend driven by the ETF inflows rather than getting impacted by macroeconomic factors.

If the Fed decides to hike rates, this could slow the rally, which is highly unlikely for now. The market is anticipating rate cuts, expected to occur in June with a 55% probability, with rates remaining the same until then.



For those worried about a potential recession impacting BTC negatively in Q2, there is no current evidence to back up these concerns. The chart from True Insights below strongly counters the idea of a recession spurred by consumer behaviour. Specifically, real disposable income, with government transfers excluded, has demonstrated improvement in recent months. This indicates a continued strength in the economy.



We will closely monitor this data, aware that situations can quickly shift in either direction. However, currently, the outlook for BTC is not unfavourable, and as long as this status is maintained, we do not foresee macroeconomic factors greatly eroding confidence in BTC as we move into Q2. The market is still eagerly awaiting rate cuts and is fine with a delay, provided there is no significant change in direction.

The Bitcoin halving

The upcoming Bitcoin halving event will reduce the mining reward from 6.25 BTC to 3.125 BTC per block. This significant reduction is expected to impact miners' profitability by increasing the production cost per bitcoin. Halving events are typically associated with Bitcoin reaching new all-time highs. However, this cycle represents a departure from the norm, as Bitcoin reached an all-time high before halving for the first time ever.

The current production cost for miners is around $26,500. Post-halving, this cost is expected to essentially double to $53,000. Therefore, for miners to maintain profitability, the market price of Bitcoin needs to be above this new production cost. Given that the market price has already surpassed this threshold, the halving poses less of a concern for Bitcoin's value than it would if the price were below it.

For this reason, we don't believe the halving will be as significant an event for miners as it usually is, but it will still exert considerable pressure on their profitability. The key aspect we will monitor at the halving is the hash rate.

A decline in the hash rate post-halving could be a bearish signal for BTC, indicating that miners are exiting the market. This could potentially lead to a sell-off after the halving. However, if the hash rate remains stable or increases, this is likely a bullish signal for investors, suggesting that miners are capable of weathering the storm. In such a scenario, we could view the halving as having a more positive impact on price.

You can track the countdown to the halving here. It is currently 42 days away, and we will keep you updated on this event going forward, offering our opinions and sharing any changes in our view on how it could impact the price.

Our perspective

Yesterday's market activities highlighted a typical market flush, driven by an intense focus on the Bitcoin ETF narrative, which overlooked the excessive leverage within the derivatives market. This oversight, however, didn't detract from BTC's inherently bullish market structure.

The pivotal indicator, as highlighted in our report, is BTC ETF inflows. Their continued positivity aligns with the market's resilience, explaining the swift recovery observed. Positive ETF inflows persisted despite the excessive leverage. By moderating leverage levels and cooling off market fervour, coupled with ongoing positive inflows, we are positioned to potentially challenge and even surpass the all-time high (ATH) in the upcoming weeks.

Should BTC fall short of setting new ATHs, it must stay above the $58K threshold on the weekly timeframe to maintain a bullish outlook. This level acts as a critical support, signifying strength and the likelihood of future gains. A drop below $58K, accompanied by a shift to negative inflows, would signal cause for concern. Nevertheless, absent such events, the pathway to new ATHs seems increasingly likely. Therefore, monitoring the $58K mark is crucial; as long as BTC remains above this, optimism for achieving new ATHs is warranted.

Additionally, the forthcoming FOMC meeting on March 19-20 warrants attention. Despite expectations against a rate hike, any unexpected decisions could sway the Bitcoin rally. Yet, prevailing economic indicators suggest a recession is not imminent, which favours Bitcoin's outlook.

Looking ahead, the Bitcoin halving event, now just 42 days away, is on the horizon. Although it's not anticipated to drastically affect the market price, the hash rate deserves scrutiny. Post-halving, a stable or ascending hash rate signals bullish prospects, whereas a decline would suggest bearish implications.