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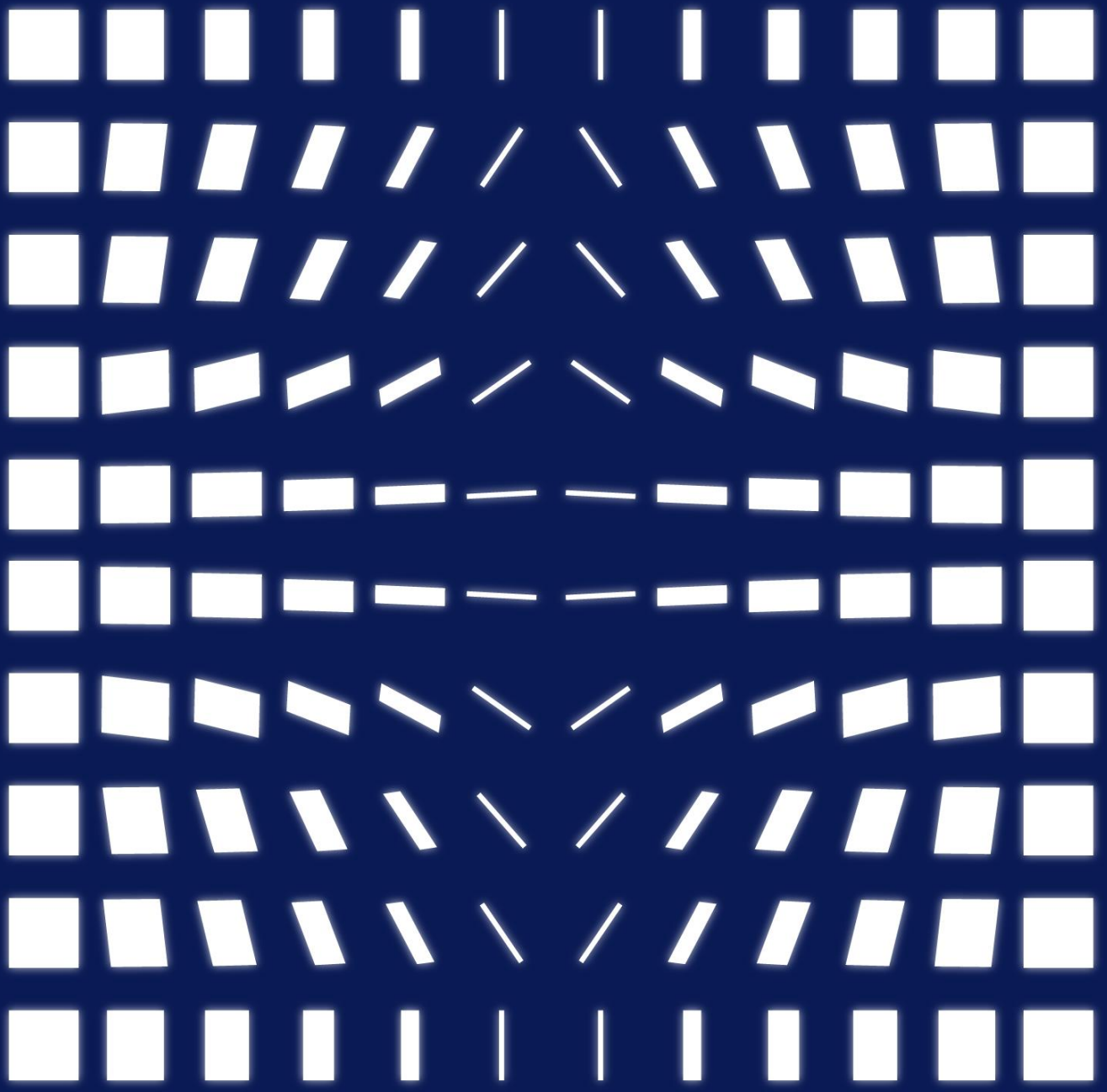
Bitcoin is at a critical juncture



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Bitcoin is at a critical juncture

The price of bitcoin has been falling since April and now stands below $40,000. Many investors are wondering if the cryptocurrency bull market that began in early March is over.. Indeed, the market is at a critical point, and this will determine the future price direction.

From a macro perspective, it is the Russia-Ukraine war that indirectly pushed Bitcoin's price up in March--- due to the effect of Currency Substitution, many people exchanged their Russian Ruble for BTC to avoid the effects of the Ruble's devaluation and the sanctions from the United States (US) and European Union (UN).

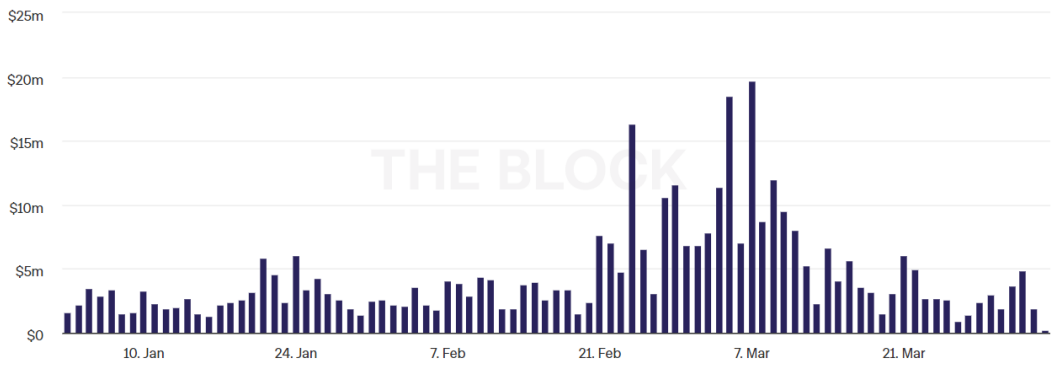

Figure 1. BTC/RUB volumes surged during the Russia – Ukraine war

Source: The Block

Now, things have changed.

First, **both the EU and the US have tightened sanctions against Russia in the crypto space since April.** On April 6, the United States imposed sanctions on Russia's dark net market Hydra and the cryptocurrency exchange Garantex. On April 11, the European Union announced that it would ban crypto service providers from accepting cryptocurrency worth more than €10,000 from Russia, and this rule applies to all individuals and businesses in Russia.

More important, the global financial market will enter a new era. Since the second half of 2021, the US CPI has repeatedly hit record highs, the labor market has gradually recovered, and **the shift in monetary policy is inevitable.**

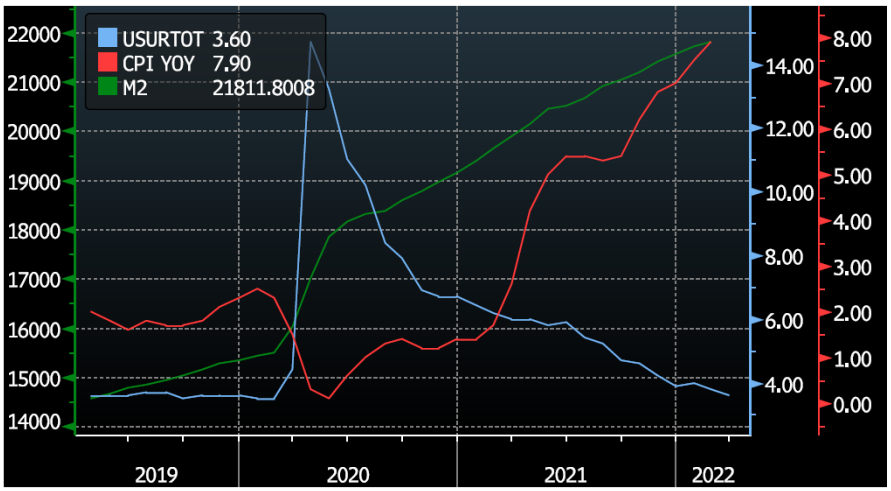

Figure 2. Changes in U.S M2 supply, CPI and unemployment rate

Source: Bloomberg

In March, the Fed announced that it would raise interest rates by 25 basis points and taper its balance sheet as soon as possible. On April 6, the Fed released the new FOMC minutes, revealing that the Fed might start decreasing its balance sheet as early as May. According to historical data of the last Fed interest rate hike cycle, **balance sheet runoff had a greater impact on the cryptocurrency market than the interest rate hike.** After the Fed started raising interest rates in December 2015, cryptocurrency still enjoyed a great bull market in 2017. However, when the Federal Reserve started shrinking its balance sheet in November 2017, the cryptocurrency market quickly went into recession.



Figure 3. Bitcoin price during the last rate hike cycle

Source: Bloomberg

.From a technical analysis point of view, we can observe that ever since Bitcoin started its third bull market run in the second half of 2020, it has gone through two peaks; hence **Bitcoin is currently in the position of developing into a third peak of the Triple Peak Format.** According to the Wave Theory, the third wave crest of the triple peak is also known as the "wave B" in the category of adjustment waves. The B wave is upward. From the macro and industry fundamentals, the current B wave is mainly caused by the war between Russia and Ukraine. However, wave B has also been nicknamed by the market as the last "escape wave". That is, if the price continues to develop and form the third peak, the market would usher in a sharp drop after the price changes from wave B to wave C.



Figure 4. The Three Triples of the BTC and RSI indicator

On the other hand, at present, the price of Bitcoin is still in the rising channel despite the price having fallen (blue line in the figure), which means the market has not formed an effective breakthrough to the lower line. From the RSI index, the current RSI index has been below 50, indicating that the market is weak; however, the RSI index has yet to fall below 30, indicating that the market is not yet in an oversold zone. This means it is not a good time to buy Bitcoin at its bottom.

Above all, the cryptocurrency market is currently at a critical juncture. If the price continues in the channel, then the B wave will continue; otherwise, the market will fall even more sharply.

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Huobi Blockchain Application Research Institute (referred to as "Huobi Research Institute") was established in April 2016. Since March 2018, it has been committed to comprehensively expanding the research and exploration of various fields of blockchain. As the research object, the research goal is to accelerate the research and development of blockchain technology, promote the application of blockchain industry, and promote the ecological optimization of the blockchain industry. The main research content includes industry trends, technology paths, application innovations in the blockchain field, Model exploration, etc. Based on the principles of public welfare, rigor and innovation, Huobi Research Institute will carry out extensive and in-depth cooperation with governments, enterprises, universities and other institutions through various forms to build a research platform covering the complete industrial chain of the blockchain. Industry professionals provide a solid theoretical basis and trend judgments to promote the healthy and sustainable development of the entire blockchain industry.

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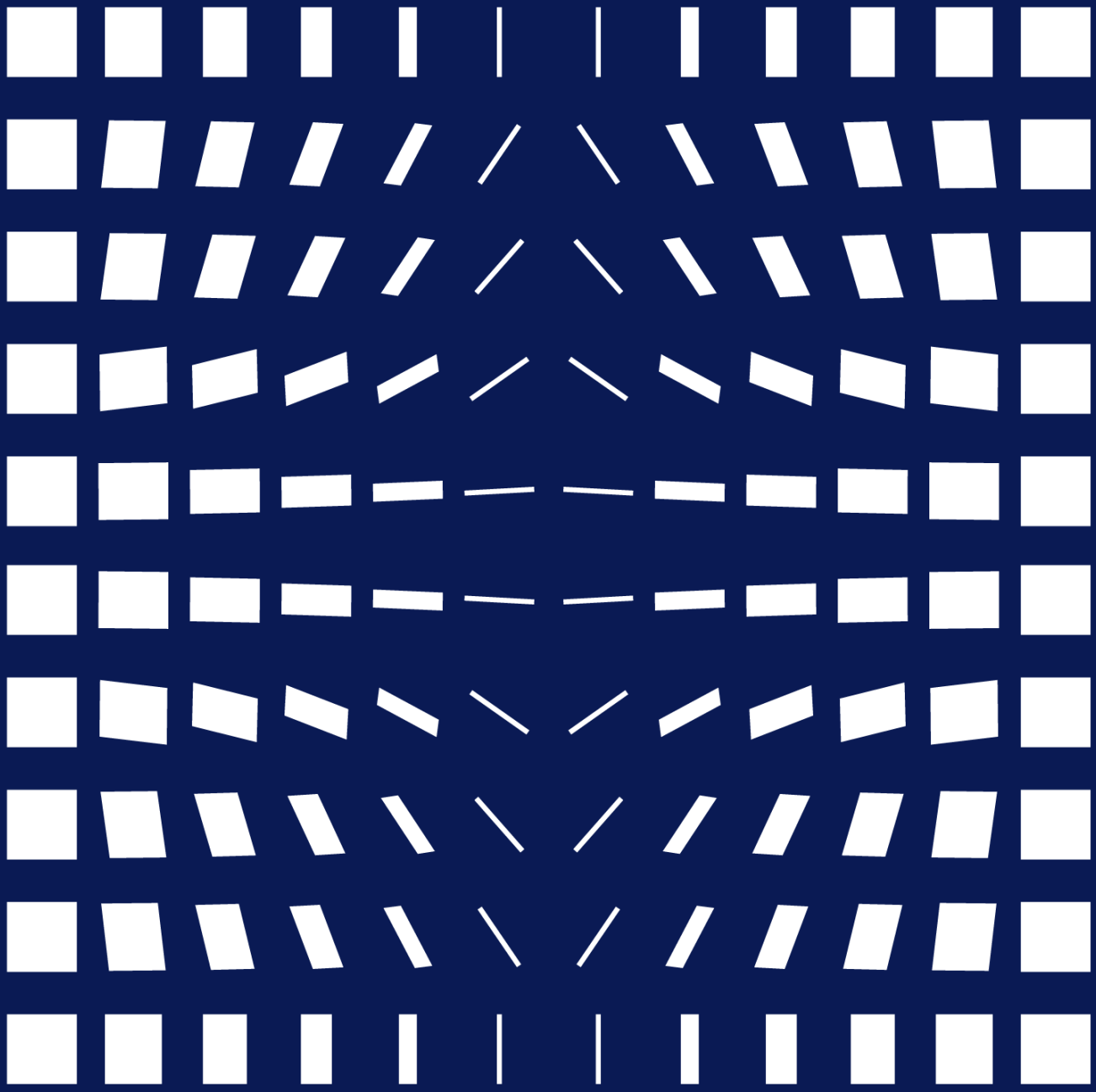

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