Digital Assets - Comments

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TREASURY DOUBLES DOWN ON YCC-LITE SIGNAL, SPOT FLOWS APPEAR TO BE SUPPORTING THE RALLY POST-SQUEEZE, SOL HAS AN OVERLOOKED WEEKEND CATALYST

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Treasury Doubles Down on Yesterday's Signal

Crypto continued to rally today despite a more challenging backdrop across traditional markets. Equities traded lower and yields retraced much of yesterday's decline, while crypto broadly continued to push higher.

Treasury Secretary Bessent's comments today reinforced the main takeaway from yesterday. As discussed, the mechanical impact of increasing long-end buybacks from roughly $2B to $4B per operation is relatively marginal. What mattered more was the SIGNAL that Treasury is willing to respond to pressure in the long end.

Bessent effectively doubled down on that message today, noting that buybacks could ultimately exceed $4B and, when asked what else Treasury could do to bring yields lower, emphasized that the government has a "big toolkit."

The administration is increasingly signaling that it believes long-term yields are inconsistent with underlying fundamentals and that it has tools available if the selloff continues. This is increasingly consistent with the YCC-lite / financial repression framework discussed yesterday.

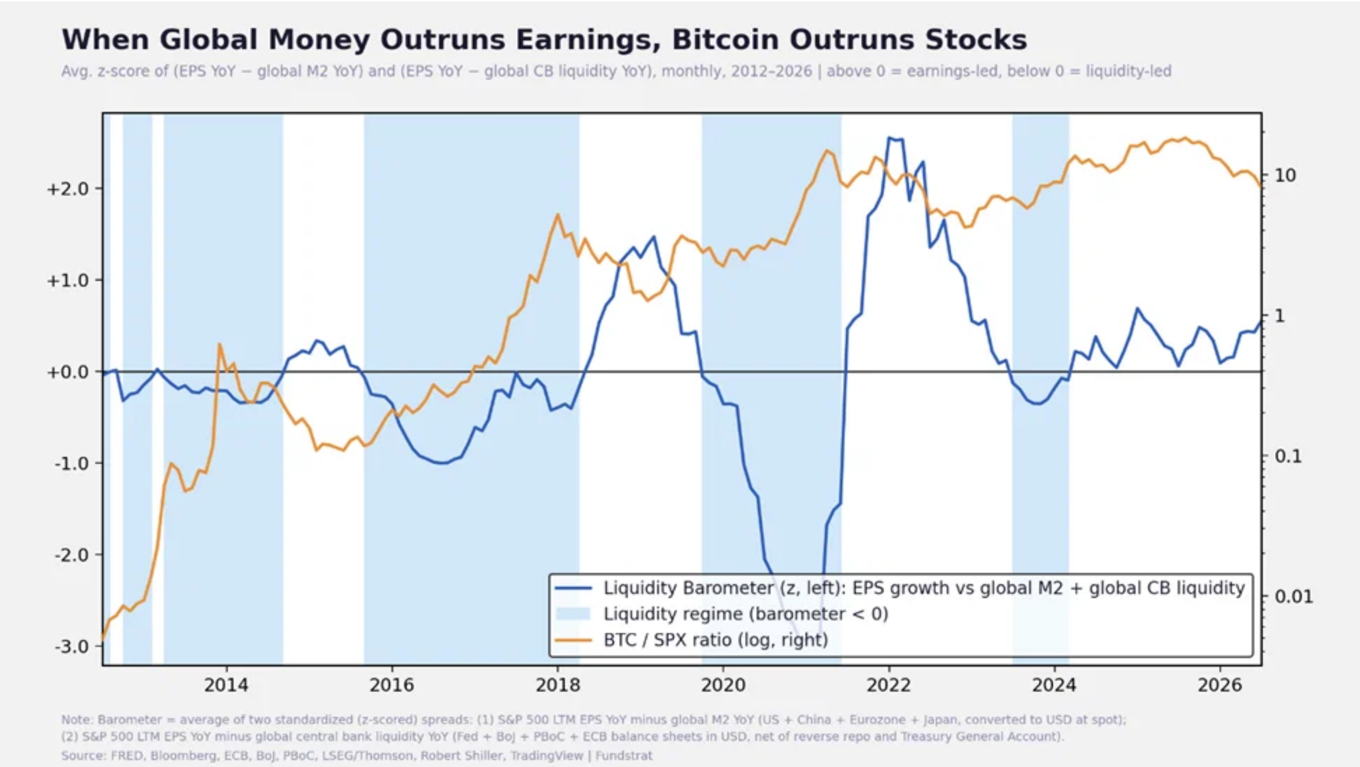
There is one caveat worth monitoring. Bessent also suggested the administration could announce a renewed focus on "fiscal consolidation" in the coming days. Given that persistent fiscal deficits are one of the structural forces pushing long-term yields higher, credible consolidation could certainly help the bond market.

However, meaningful spending cuts would also represent a tightening of fiscal conditions and could partially offset the liquidity tailwind we are discussing. We will need to see what is actually proposed. In either case, as we know well by now, any efforts of austerity are a major "fade" over any time horizon beyond a month or two.

Could This Mark a Regime Change for BTC?

The bigger question is whether yesterday's announcement represents the beginning of a broader shift in the liquidity regime.

One framework I have discussed previously compares global liquidity growth, defined using central bank balance sheets and M2, with earnings growth. Historically, BTC has tended to outperform equities when liquidity growth begins outrunning earnings growth. Conversely, when earnings are driving the expansion while liquidity remains relatively scarce, equities have generally been the better place to be.

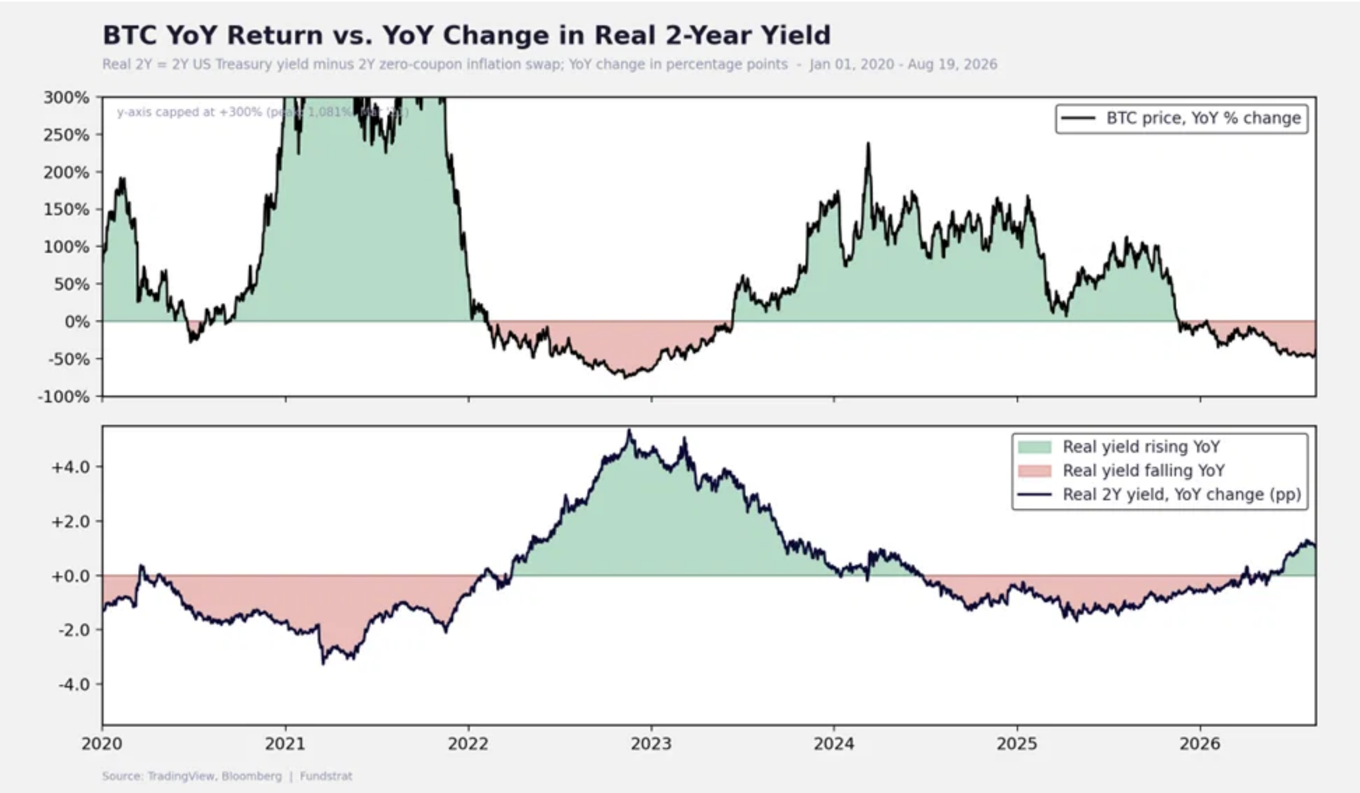


That latter environment has largely characterized this cycle. AI-driven earnings growth has been strong, but there has not been the broad liquidity expansion that historically generated the strongest periods of BTC outperformance.

If policymakers are now becoming increasingly willing to suppress real yields by removing duration from the market, that relationship could begin shifting.

The same dynamic is visible when comparing BTC with real yields. BTC has historically responded well when real yields decline, particularly across the front end and belly of the curve. Treasury is currently focused on the long end, but if financial repression successfully caps longer-term yields, I would expect some of that easing impulse to eventually transmit further down the curve.

That would be a materially different liquidity backdrop for BTC and could provide a more durable tailwind than the crypto market has enjoyed for much of this cycle.



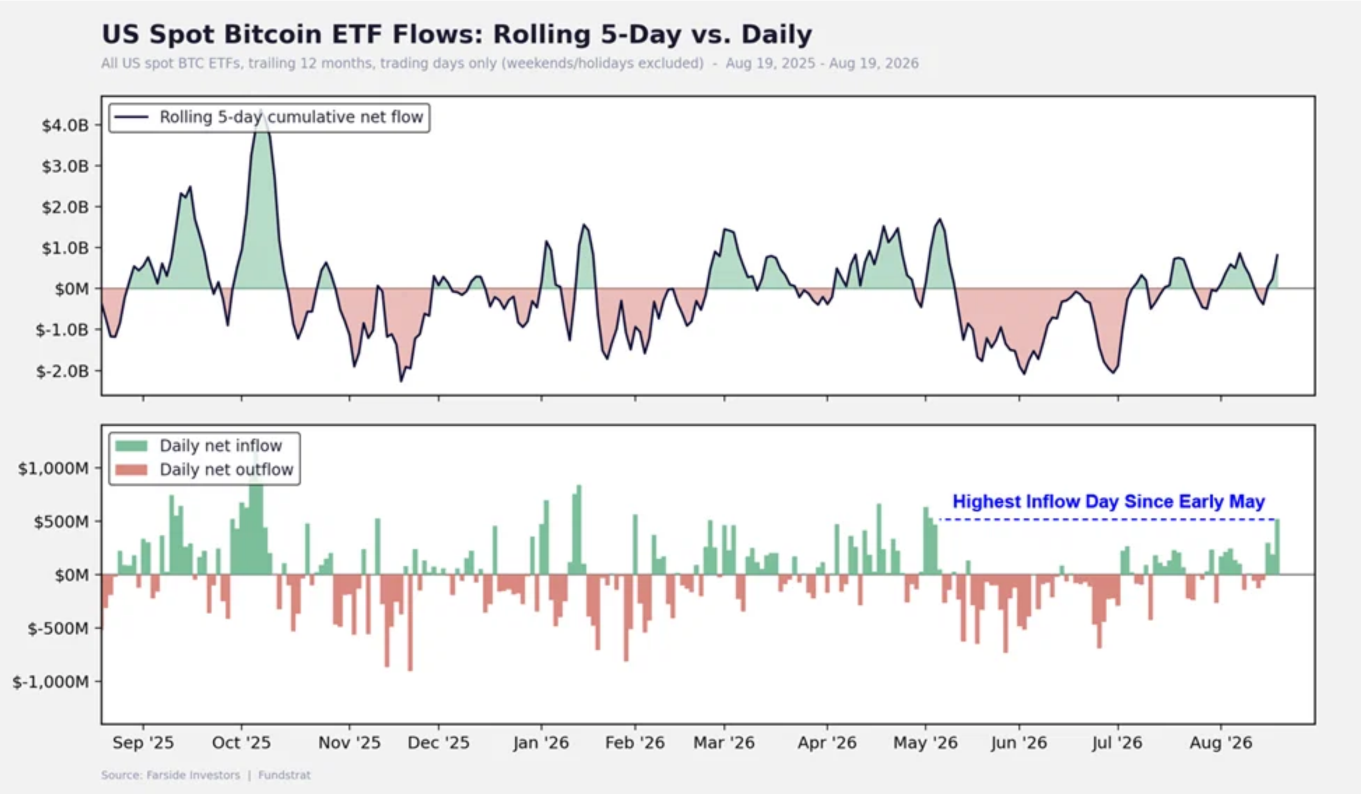
Importantly, This Rally Looks Increasingly Spot-Led

Zooming into today's price action, I think the composition of the rally is encouraging thus far.

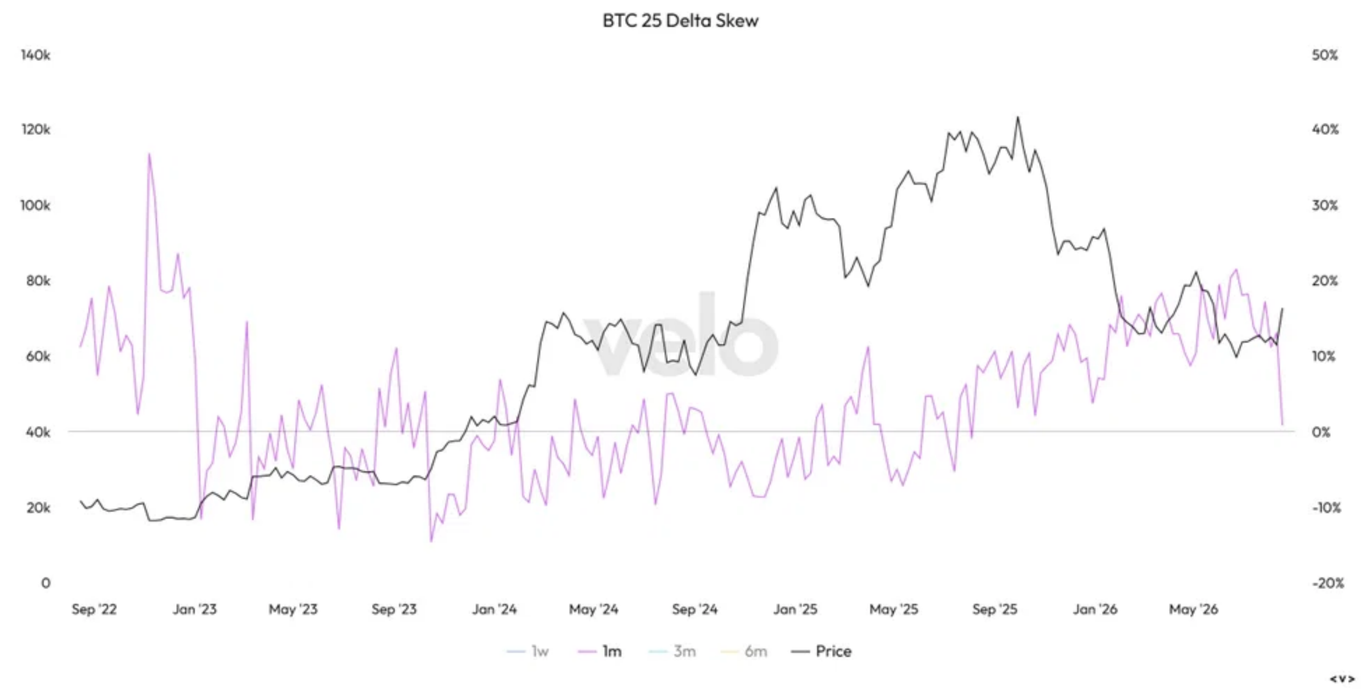
BTC continued higher even as perpetual futures open interest declined. We saw another round of short covering/liquidations, while funding rates actually moved negative toward the close. In other words, leverage is not aggressively chasing the move higher.

Source: velo.xyz

At the same time, spot demand appears to be emerging. Bitcoin ETFs posted their strongest daily inflows in some time yesterday, and a decent Coinbase premium suggests another solid day of U.S. spot demand today.



Options markets are also becoming more constructive. BTC 25-delta skew has shifted meaningfully toward calls across multiple tenors, suggesting traders are increasingly willing to pay for upside exposure. We have not seen this type of bullish shift in options positioning in quite some time.



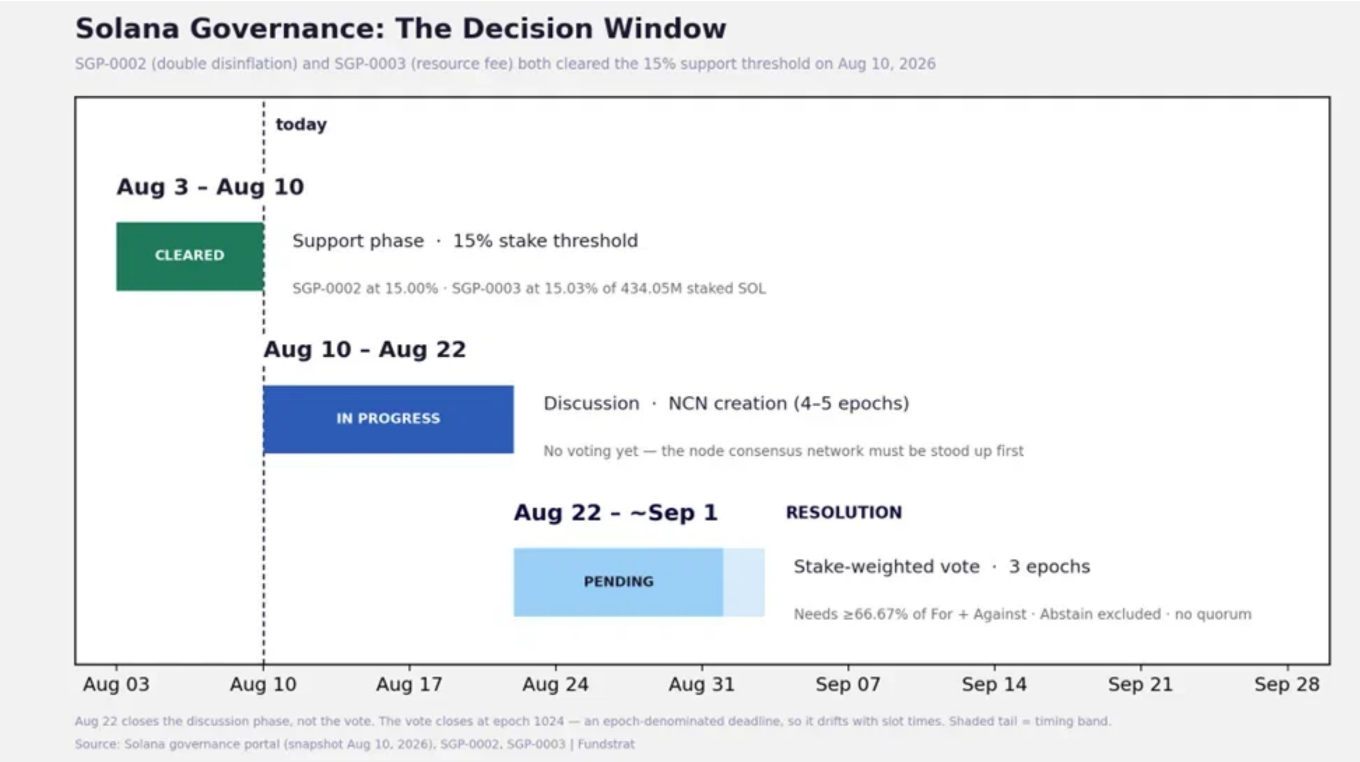
Source: velo.xyz

Taken together, I think that is a healthier setup than a rally being driven primarily by a short squeeze, followed by leveraged perpetual futures chasing the move.

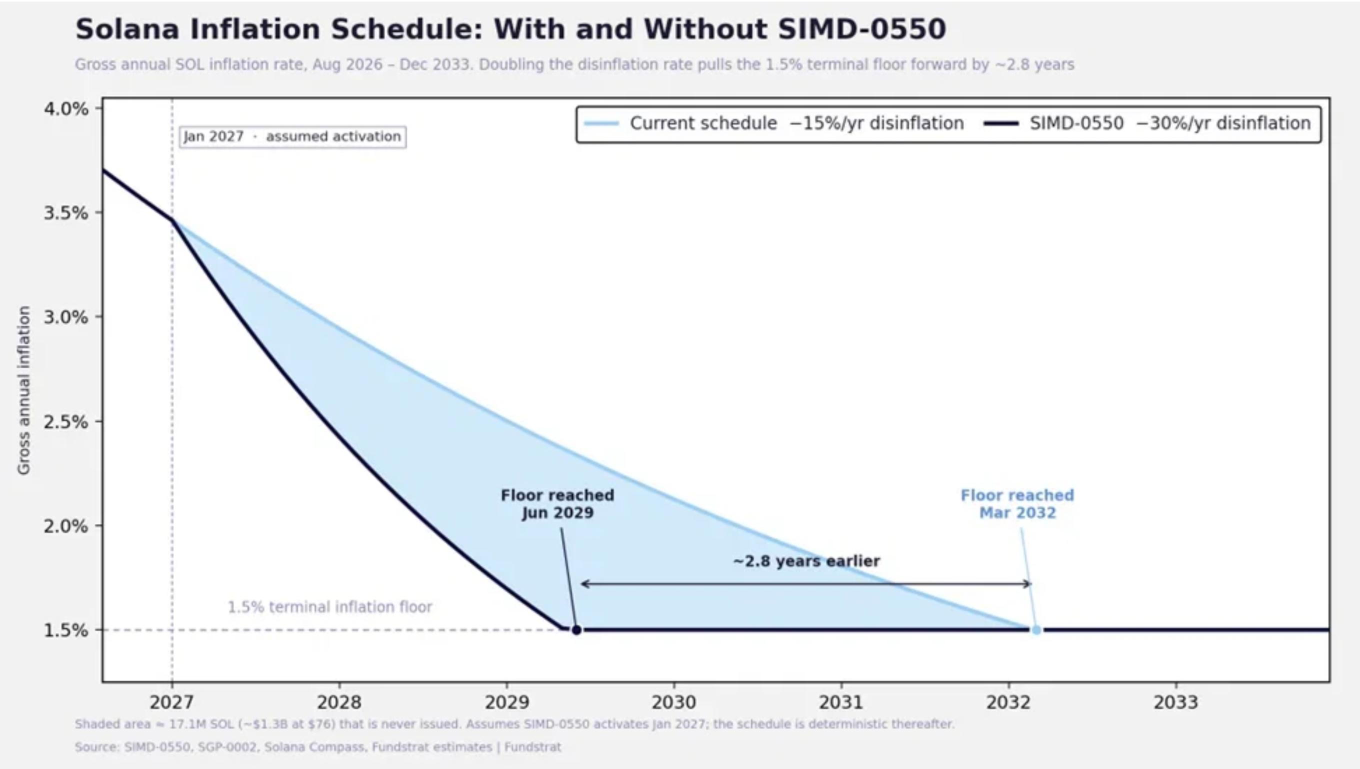
SOL Has an Overlooked Weekend Catalyst

Finally, I think SOL is worth watching as a potential catch-up trade.

Two Solana SIMD proposals we discussed several weeks ago are approaching the voting stage, with voting potentially beginning this weekend. The first would move base fees away from a flat structure toward a more resource-sensitive model, potentially increasing fee burn as network demand grows.



The more important proposal is on the supply side. It would alter SOL’s disinflation schedule and meaningfully reduce future issuance. At current prices, the reduction in future issuance could be substantial (~$1.5B at current prices).



Pair that potential supply-side improvement with signs that Solana's on-chain environment is beginning to heat up again, and I think the setup is interesting. SOL has lagged its counterparts over the past couple of days, so successful passage of these proposals could provide an idiosyncratic catalyst for a catch-up move, particularly if the broader crypto tape remains constructive.

Tickers in this video: #BTC #SOL

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