

What Is Bitcoin Telling Us?

Are Investors Approaching a 2027 Upturn in the Liquidity Cycle?

We often describe Bitcoin as **the most liquidity-sensitive major asset on the planet**. If that proposition is even approximately right, its recent behaviour deserves attention. Bitcoin's latest stabilization and rally may be telling us something important about the direction of Western monetary policy and, in particular, about what the Fed is doing with liquidity.

To put this in context, consider two other observations.

First, policymakers are constrained in how aggressively they can tighten financial conditions by the enormous debt burden hanging over World markets. Second, gold bullion prices appear increasingly sensitive to Chinese monetary conditions and People's Bank of China policy, rather than solely to Western monetary policy.

That potentially leaves Bitcoin as an unusually clean barometer of **US and Western liquidity conditions**.

And if policymakers really are constrained by their outstanding debts, we should be particularly alert to evidence that the tightening phase is beginning to moderate.

Bitcoin's trend and trading ranges are shown in the chart below. **Should we read something into the latest apparent trend reversal?**



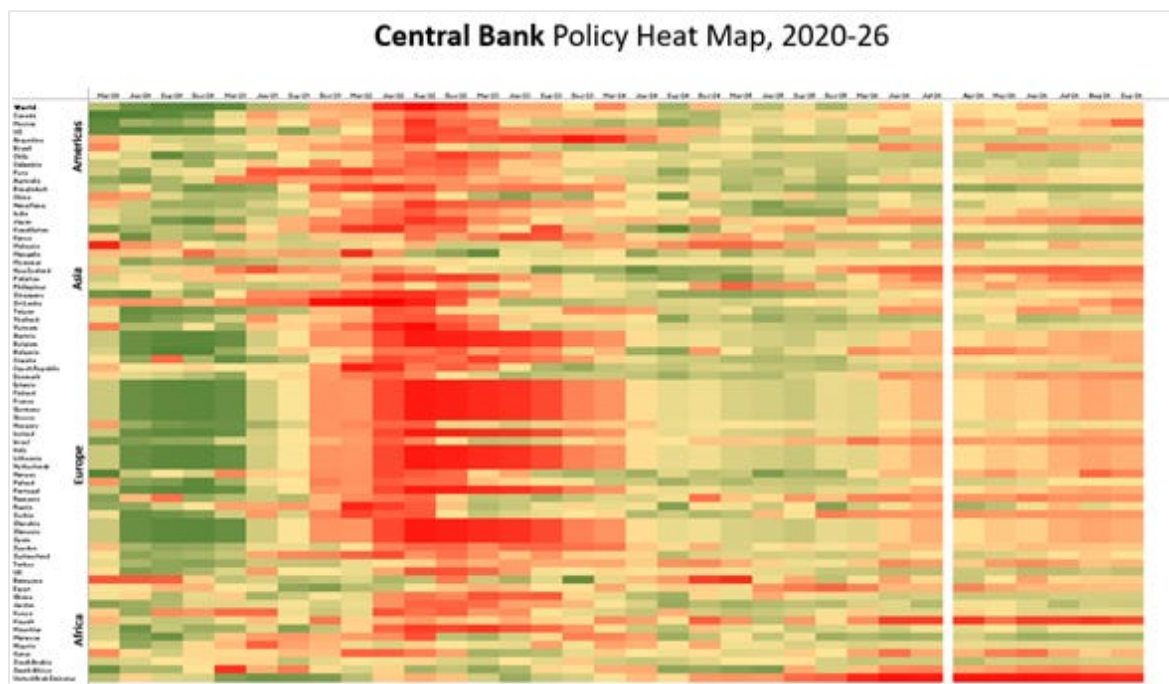
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Central Banks Are Braking, But Gently

The Fed remains the key actor. Other major central banks typically move in the same broad direction, albeit with different timing and intensity.

Our heat map below suggests that most central banks are currently applying only modest monetary restraint. Read the chart tiles as red = **tight liquidity** and green = **loose liquidity**. The predominance of pink and orange tiles therefore points to a moderately restrictive, rather than aggressively tight, Global Liquidity backdrop.

The two data blocks show quarterly conditions since 2020 and the latest six months through end-September.



The Warsh/Bessent Fed

The US policy framework deserves closer examination.

In our view, **three dimensions of monetary policy are increasingly being shared, implicitly, between the Fed and the US Treasury:**

- **Interest-rate policy:** The Fed moves away from heavy reliance on *forward guidance* and pays greater attention to signals coming from the bond market, potentially including movements in term premia.
- **Money-market liquidity:** The Fed seeks to maintain an “adequate” level of bank reserves, sufficient to keep repo and collateral markets functioning smoothly.
- **Collateral volatility:** The Treasury uses its issuance mix and buyback operations to influence market functioning and help contain excessive Treasury-market volatility, reflected in measures such as MOVE.

Together, these three dimensions help determine **overall US monetary conditions**.

The important point is that liquidity is no longer simply about the policy rate. **The Fed funds rate is the speed limit, liquidity is the gas pedal and the MOVE index indicates the flow of traffic.**

But MOVE is more than an indicator. Lower collateral volatility can increase the effective usefulness of Treasury collateral, supporting balance-sheet capacity and the collateral multiplier. Adequate money-market liquidity, meanwhile, provides the funding that allows this collateral to be leveraged.

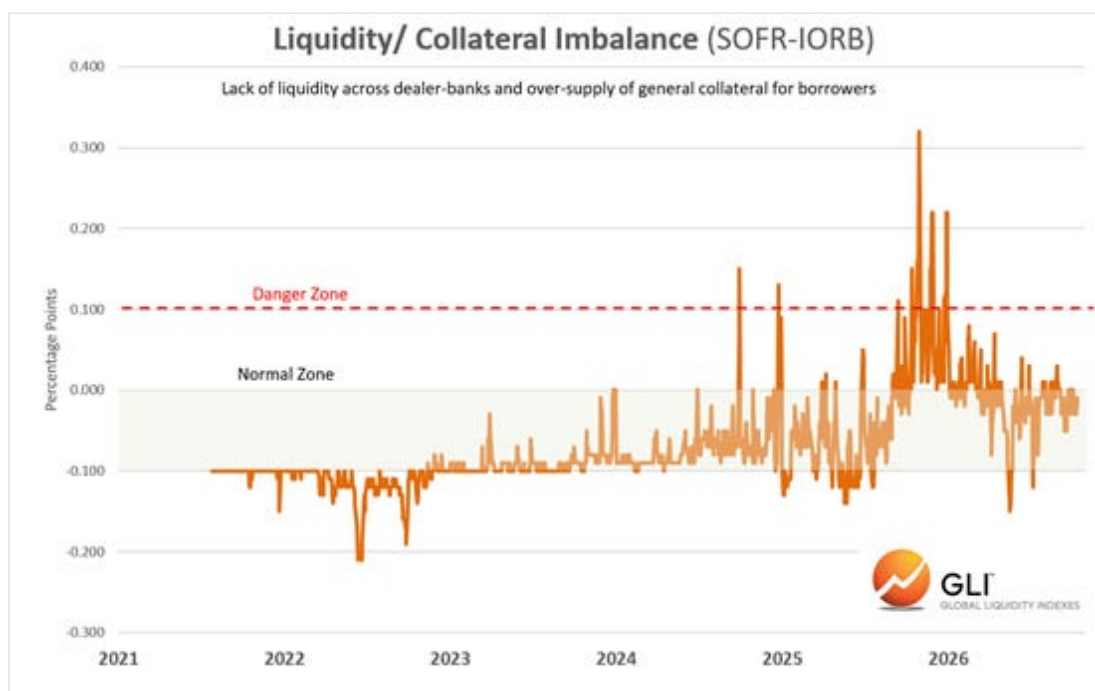
In other words, **reserves provide the fuel, while collateral volatility helps determine how efficiently that fuel can be used.**

That combination matters enormously for financial stability and for avoiding the funding stresses that can ultimately develop into systemic crises.

Repo Markets Provide the Clue

Recent stability in repo markets is visible in the repo-IORB spread shown below.

The sharp widening in late 2025 has subsequently been contained, with the spread returning towards its more normal trading corridor.



The late-2025 episode is important because it illustrates the mechanism.

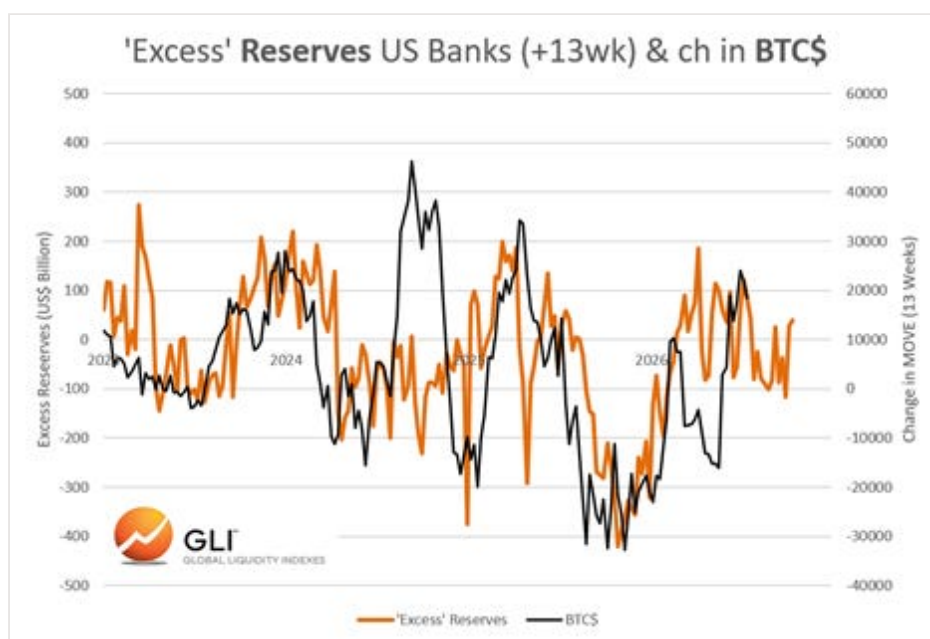
As the Fed attempted to shrink its balance sheet, bank reserves fell and money-market liquidity tightened. Once reserves approached levels banks considered inadequate, demand for marginal liquidity increased sharply and repo rates came under pressure.

The Fed responded with **Reserve Management Purchases (RMPs)**. These are QE (quantitative easing) in all but name. Whatever label is attached to them, the economic effect is straightforward: asset purchases add reserves to the banking system, support money-market liquidity and expand the Fed's balance sheet.

This matters enormously for Bitcoin.

If Bitcoin really is exceptionally sensitive to marginal liquidity, changes in **excess reserves**, meaning actual reserves relative to our estimate of banks' "adequate" reserve requirement, should eventually be reflected in Bitcoin prices.

The following chart tests precisely that proposition, comparing excess reserves, advanced by three months, with future changes in Bitcoin prices. The relationship looks decent.



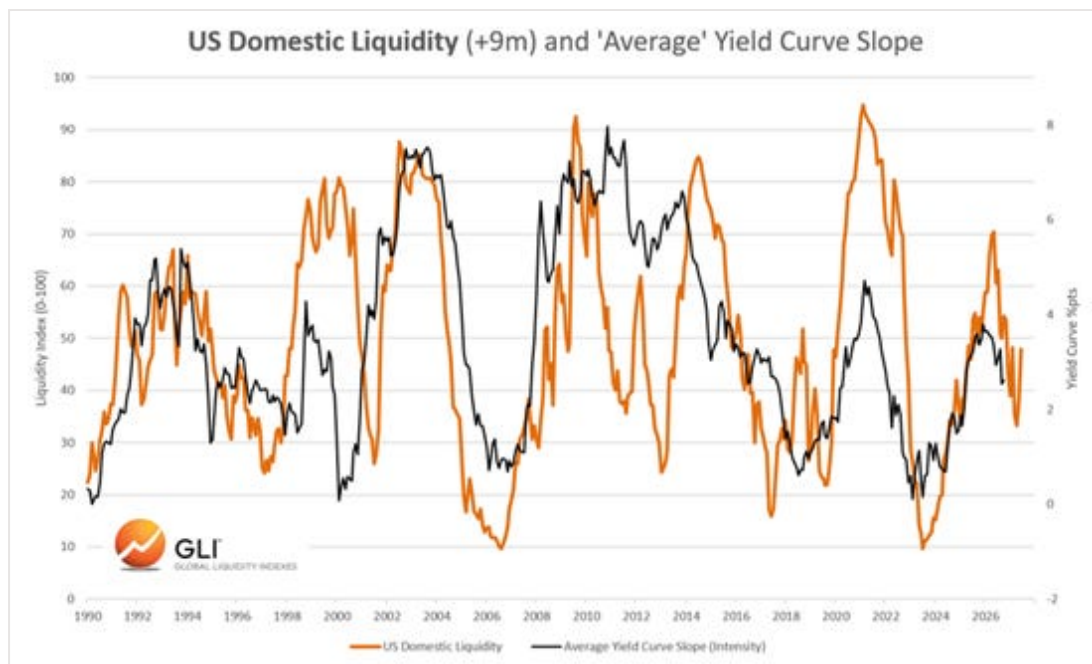
The implication is intriguing. **Bitcoin may not be telling us where liquidity is today, but its stabilization could provide a clue to where marginal liquidity conditions are heading.**

Looking Ahead: Listen to the Bond Market

Bond markets are often where monetary stresses first become visible, so their message deserves close attention.

The chart below compares our broader monthly measure of US liquidity, advanced by nine months, with the slope of the US Treasury yield curve.

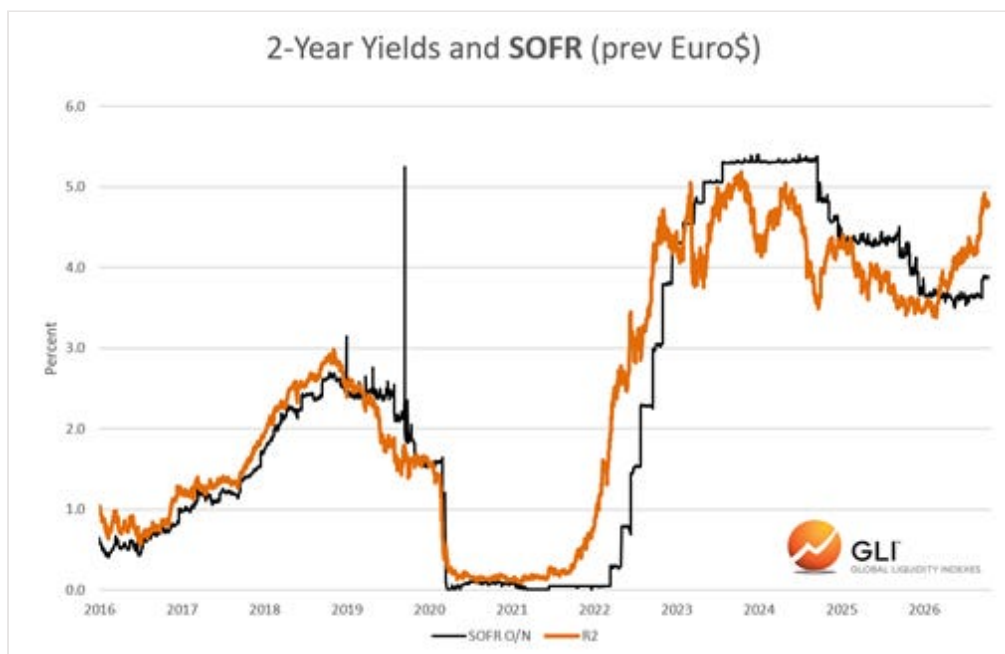
The recent flattening of the yield curve is consistent with the on-going downswing in US liquidity.



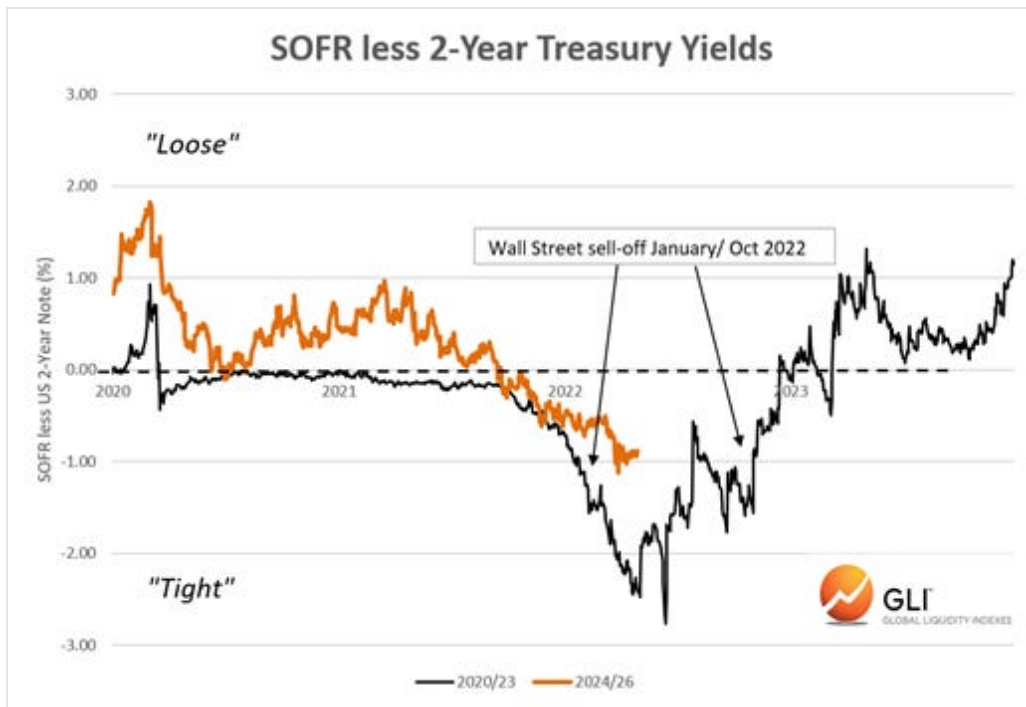
But something may have started to change.

The latest volatility in the September liquidity data reflects an improvement in Fed-sourced liquidity. Could the Fed be deliberately **tightening more slowly than markets suppose**?

Supporting evidence comes from the spread between SOFR, the key repo-market financing rate, and the yield on two-year Treasury notes.



Two-year yields often contain prescient information about expected Fed policy. On our reading, the latest SOFR/2-year spread suggests that the new Warsh Fed may be tightening monetary conditions at **roughly half the pace seen under Powell during the 2021-22 episode**. See the following chart:



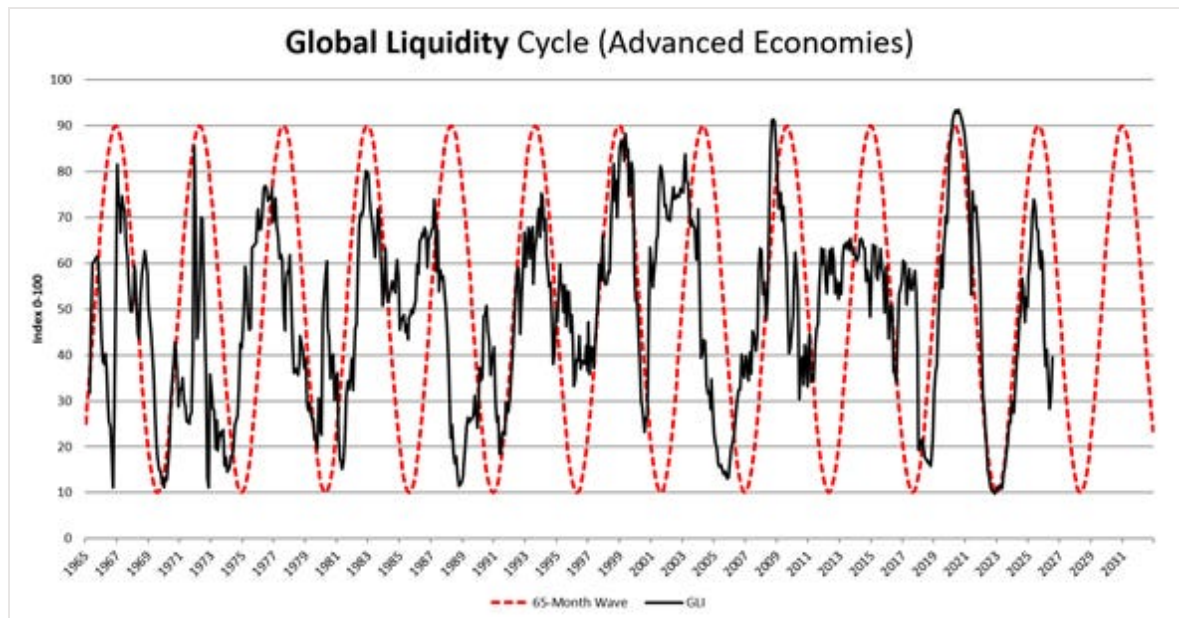
That would make sense.

The US authorities face two powerful constraints. First, the scale of the debt burden makes a severe and prolonged monetary tightening increasingly dangerous. Second, with the US engaged in an intensifying **Capital War with China**, policymakers have little incentive to manufacture an unnecessary domestic recession or destabilise Treasury funding markets.

The implication is important.

The Liquidity Downswing May Be Nearing Its Inflection Point

The evidence does **not yet demonstrate that a new liquidity upswing has begun**. But it increasingly suggests that the pace of tightening may be slowing. We originally expected the bottom of the Global Liquidity cycle to be in the second half of 2027: we may need to re-think this date, possibly bringing it forward several months.



Evidence how repo markets have stabilised. Reserve liquidity has improved. Bond-market signals point towards a less aggressive tightening trajectory. And Bitcoin, after its recent weakness, appears to be stabilising.

Individually, none of these signals is conclusive.

Together, they raise a more interesting possibility: the US liquidity cycle may be closer to its next upward inflection than investors currently assume.

And that brings us back to Bitcoin.

If Bitcoin is indeed the world's most liquidity-sensitive major asset, its recent stability may not simply be noise.

It may be an early warning that the liquidity tide is beginning to turn. A key test will be upcoming Bitcoin price performance: it needs to hold above US\$70k. Let's watch and see.