

The background features a dark, stylized world map. Overlaid on the map are several Bitcoin symbols (the letter 'B' with two vertical bars) and a network of interconnected nodes and lines, suggesting a global digital network. The overall aesthetic is professional and tech-oriented.

Bitcoin vs Global Liquidity

The Macro Framework Reshaping Digital Asset Valuation in the Quantitative Easing Era

Institutional Research Report · December 2025

Executive Summary: The Liquidity Imperative

Bitcoin is not primarily a currency or a store of value—it is the ultimate expression of global liquidity cycles. The correlation between Bitcoin's price and global M2 money supply has strengthened to 0.94 ($r^2 \approx 0.89$) over the 2013–2024 period, sitting above most traditional macro frameworks. When central banks expand liquidity, Bitcoin rallies—often within 60–70 days of the initial monetary impulse. When liquidity contracts, Bitcoin collapses, and no amount of narrative holds the price up.

This relationship represents one of the most powerful predictive frameworks in modern markets. Understanding central bank policy cycles means understanding the primary driver of Bitcoin valuation. Ignoring liquidity dynamics will result in repeated blindsides from large drawdowns and upside overshoots. The current market environment presents a critical inflection point where this framework will be tested and likely validated once again.

0.94

Correlation Coefficient

Bitcoin vs Global M2 (2013–2024)

\$112T

Global M2

All-time high September 2025

65

Month Cycle

Global liquidity rhythm

60-70

Day Lag

M2 surge to BTC rally

Current State: December 2025 Positioning

1

Global M2 at Record Highs

Approximately \$112 trillion as of September 2025, representing a new all-time high as central banks globally ease into slowing growth. This expansion occurred despite tightening rhetoric, demonstrating the structural imperative for liquidity maintenance.

2

Federal Reserve Policy Pivot

QT officially ended on 1st December, halting balance sheet runoff and signalling a decisive shift away from contraction. The Fed cited reserves reaching "ample" threshold, prioritising funding market stability over further tightening.

3

Bitcoin Drawdown Phase

Trading around \$86,700—down approximately 30% from the October 2025 all-time high near \$124,000. This represents a visible decoupling from historical M2 correlation patterns, creating a timing disconnect rather than fundamental breakdown.

4

Critical Inflection Window

The 65-month global liquidity cycle approaches an inflection point. December 2025–March 2026 represents a critical liquidity repricing window where historical patterns suggest powerful mean reversion potential.

The headline correlation masks deeper fragility. If global liquidity peaks in spring 2026 before institutional adoption fully completes its deployment cycle, Bitcoin could face a 25–35% correction. However, the more probable scenario involves a delayed catch-up rally as the 60–70 day lag reasserts itself and institutional capital deploys into a more supportive macro environment. The current weakness is not a fundamental breakdown but rather a timing disconnect between liquidity injection and price response.

The Three Variables Defining 2026

Duration and Depth of Fed Easing

The path forward hinges critically on whether the Federal Reserve delivers 3–4 cuts as markets currently price, or whether inflation persistence forces a slower, more measured approach. Real yields moving decisively negative would create powerful tailwinds for non-yielding scarce assets.

- Market pricing: 3–4 cuts through 2026
- Inflation trajectory remains key constraint
- Balance sheet policy complementing rate decisions

Global Debt Refinancing Flows

The debt maturity profile of the global financial system forces policymakers to refinance approximately 75% of outstanding obligations on a rolling basis every 5–6 years. As these refinancing windows approach, liquidity expansion becomes structurally necessary to prevent credit events.

- \$30+ trillion in sovereign debt matures 2025–2027
- Corporate refinancing wall in developed markets
- Emerging market dollar debt pressures

Institutional Capital Deployment

Infrastructure is largely complete: regulated custodians, spot ETFs, clearer accounting rules, and deep stablecoin rails. What remains is time. Large allocators operate on 12–18 month cycles from strategic approval to full deployment, pointing to Q2–Q4 2026 as the core window.

- \$200–500B cumulative flows potential by end-2026
- Pension and insurance capital beginning pilot allocations
- 1–3% portfolio weights becoming institutional standard

The Forgotten Relationship: Central Banks Drive Bitcoin

The crypto industry has built its narrative around decentralisation, scarcity, and revolt against fiat systems. The data tells a simpler story: Bitcoin is a high-beta proxy on global central bank balance sheets.

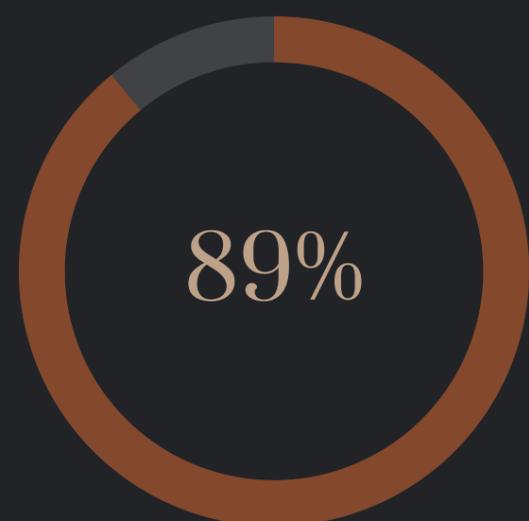
This is not controversial amongst serious macro analysts. Academic correlation studies show Bitcoin and global M2 demonstrated a ~0.94 correlation from May 2013 to July 2024—one of the strongest macro relationships in modern markets. The causal mechanism is straightforward: when the Fed, ECB, BOJ, and PBoC expand money supply, capital flows into risk assets seeking yield. Bitcoin, as the most liquid, most accessible, and highest-volatility risk asset available 24/7, captures the earliest and most aggressive wave of this capital.

Reverse causation operates in contractions. When liquidity drains through quantitative tightening, rate rises, or credit tightening, Bitcoin does not act as a safe haven. It sells off faster than equities because leverage is higher, collateral quality is lower, and the market never closes. Understanding this dynamic separates systematic macro investors from those repeatedly blindsided by volatility.



M2 Correlation

2013–2024 period



R-Squared

Explanatory power



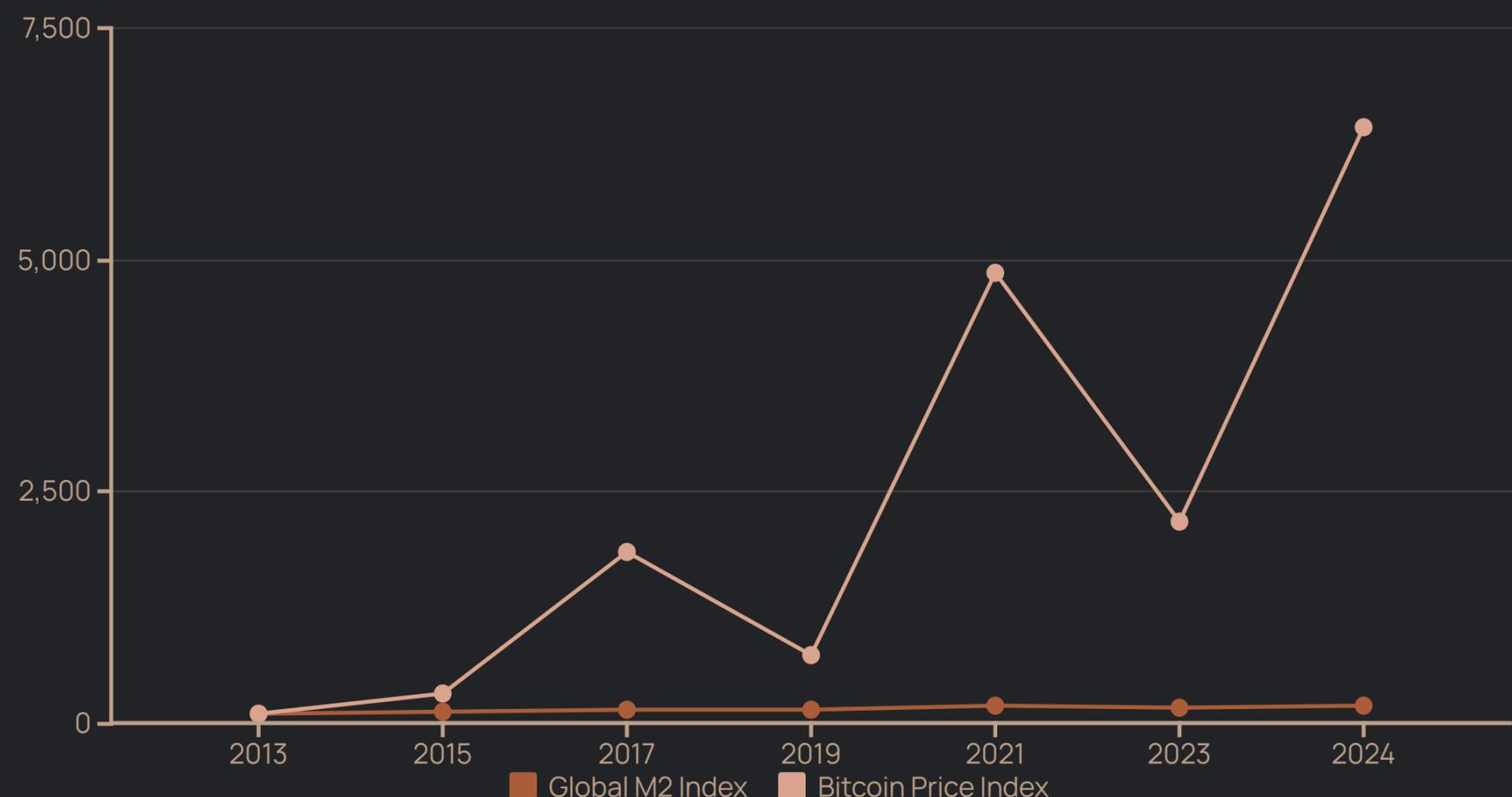
Market Access

Continuous liquidity

The Transmission Mechanism: Five Steps from Policy to Price



This five-step transmission channel has operated with remarkable consistency since Bitcoin achieved sufficient liquidity depth in 2013. Whilst the magnitude and exact timing vary with market conditions, the fundamental pattern repeats: liquidity expansion drives Bitcoin rallies with a predictable lag, and liquidity contraction triggers disproportionate Bitcoin weakness. The mechanism is not mystical—it is simply the natural behaviour of the highest-beta liquid risk asset in a globally connected financial system responding to the primary driver of risk appetite.

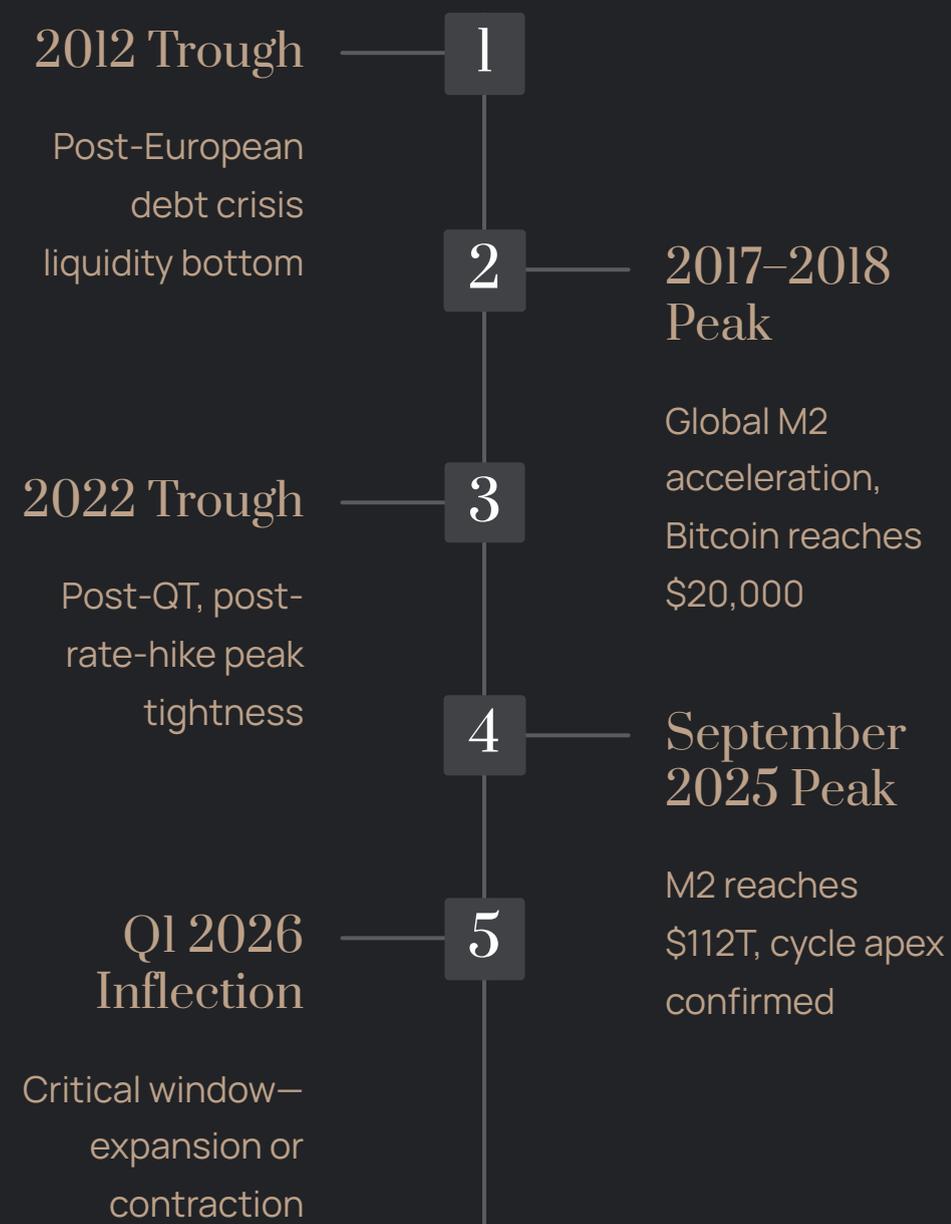


The 65-Month Liquidity Cycle: A Structural Discovery

For years, traders focused on Bitcoin's 4-year halving cycle as the primary price driver. That framework is increasingly insufficient. A more powerful structure is emerging: **the 65-month (5.4-year) global liquidity cycle**.

This cycle is not mystical—it is structural. The debt maturity profile of the global financial system forces policymakers to refinance approximately 75% of outstanding obligations on a rolling basis every 5–6 years. As these refinancing windows approach, policymakers expand liquidity to prevent credit events. When the cycle peaks and refinancing risks ease temporarily, they begin tightening. This rhythm repeats approximately every 65 months, and Bitcoin price cycles align with this liquidity rhythm more tightly than with mining halvings.

Historical Cycle Markers



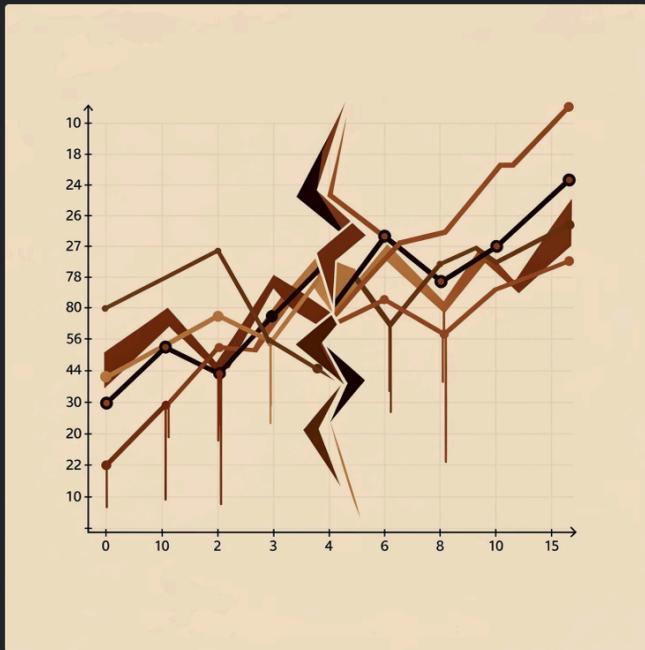
Current Position Analysis

Using Fourier analysis and extrapolated models, we can identify our current position with reasonable confidence. December 2022 marked the global liquidity cycle trough in the post-QT environment. September 2025 represented the cycle peak as central banks eased into slowing growth, with M2 data and policy tone confirming the apex.

Late Q4 2025 through Q1 2026 represents the critical inflection zone—the cycle begins to roll over, yet policy guidance remains dovish and balance sheet language softens. Spring 2026 presents two potential paths: a secondary peak driven by geopolitical shock, fiscal stimulus, or accelerated Fed pivot, or alternatively an earlier tightening if inflation resurges above comfort bands.

📌 **Critical Insight:** The system now sits at the hinge between expansion and contraction. The cycle peaked around September 2025, Bitcoin has not yet fully caught up (typical 60–70 day lag), and the next 8–12 weeks will determine whether we see a final speculative flush or an institutional-led catch-up rally.

The 2025 Decoupling: Temporary Dislocation, Not Regime Change



One of the most significant macro developments of 2025 went largely unnoticed outside specialist circles: Bitcoin decoupled from global M2. For a decade, Bitcoin tracked M2 with a consistent 60–70 day lag. When M2 accelerated, you could predict a Bitcoin rally within 2–3 months with high confidence. This relationship broke in mid-2025.

As of December 2025, global M2 expanded to roughly \$112 trillion (September 2025 all-time high), yet Bitcoin trades sideways around \$87,000, down approximately 30% from the October 2025 peak, showing almost no response to the M2 surge. Several overlapping forces contributed to this anomaly.

30%

BTC Drawdown

From October 2025 peak

112%

M2 All-Time High

September 2025 level

0%

Historical Precedent

For sustained decoupling

Regulatory Pressure

The 2025 crypto regulatory crackdown—enhanced SEC enforcement, sanctions on key exchanges and stablecoin issuers—created persistent sentiment headwinds despite liquidity tailwinds.

Macro Fragmentation

Liquidity distribution became uneven. U.S. liquidity tightened via Treasury issuance and reserve pressures, whilst Chinese and Japanese liquidity expanded unevenly, creating a noisy, regionally fragmented global liquidity map.

Leverage Overshoot

The 2025 liquidity crisis in crypto exposed over-leveraged positions. As margin calls cascaded, price action decoupled from macro data and became dominated by forced selling and risk reduction.

Institutional Hesitation

Infrastructure improved significantly, but institutions did not deploy at scale. Retail, prop desks, and crypto-native funds filled the vacuum—then panicked during drawdowns, amplifying volatility.

Most importantly, **this decoupling is likely temporary**. Historical precedent suggests that Bitcoin tends to catch up to M2 in waves rather than in a clean, linear fashion. If the 60–70 day lag reasserts itself with M2 peaking around September 2025, the expected Bitcoin rally window extends from November–December 2025 through January–February 2026. We are inside that window now, yet Bitcoin has not fully rallied, suggesting the lag may extend to 90–100 days due to macro noise and regulatory overhang. This sets up a delayed Q1 2026 rally as policy easing and institutional flows finally align. The correlation has not broken—it has merely been obscured by temporary cross-currents that are now beginning to clear.

Federal Reserve Pivot: The 1st December 2025 Turning Point

On 1st December 2025, the Federal Reserve ended quantitative tightening. Chair Jerome Powell signalled that reserves had reached the "ample" threshold and that additional balance sheet runoff risked destabilising funding markets. This announcement represents one of the most constructive macro signals for risk assets in 2025.

01

QT Officially Concluded

From 2022 to 2025, the Fed reduced its balance sheet from approximately \$9 trillion to roughly \$7.4 trillion, draining liquidity. That drain has now stopped, removing a structural headwind that persisted for three years.

03

Implicit Liquidity Return

Even without a formal QE programme, the shift from active contraction to balance sheet stabilisation represents a meaningful easing of financial conditions and implicit liquidity support.

Immediate Market Reactions

- **U.S. Equities:** Rallied on the announcement, interpreting it as a renewed version of the Fed "put" and pricing in extended policy support
- **Crypto:** Spiked initially, then traded choppy as macro concerns (yen carry risks, positioning imbalances) diluted the headline impact
- **Treasuries:** Yields declined as markets priced in higher probability of 2026 rate cuts and sustained accommodative stance
- **Dollar:** Softened as easing expectations rose and relative yield advantage diminished versus other developed market currencies

02

Stability Becomes Priority

Instead of aggressive runoff, the Fed will hold the line, allowing some maturing securities to roll off whilst keeping reserves "ample." This shift prioritises financial system stability over pure inflation-fighting.

04

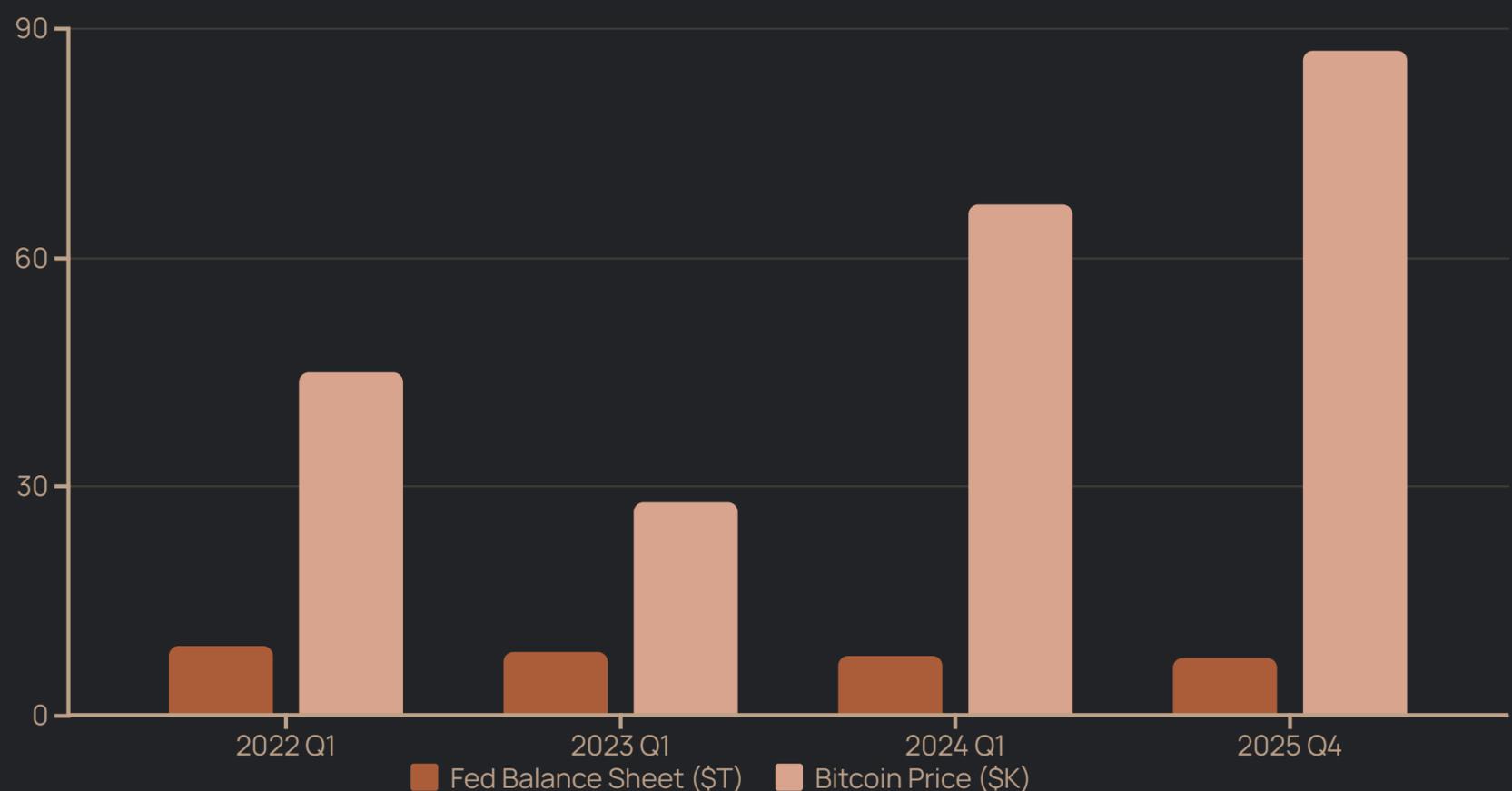
Forward Guidance Shift

Rate rises are effectively finished. Markets now price 3–4 cuts in 2026. The bias is shifting towards supporting growth and managing debt sustainability rather than purely fighting inflation.

Bitcoin Implications

For Bitcoin and digital assets, the Fed's pivot implies several powerful tailwinds. Liquidity is no longer a structural headwind—at worst neutral, at best turning supportive. Real yields are likely to fall or move negative again if policy rates are cut into an environment with still-positive inflation, favouring scarce, non-yielding assets like Bitcoin.

Global carry trades become attractive again, pulling capital into higher-beta assets as volatility stabilises. Institutional allocation cycles can begin in earnest; many allocators needed clear proof that the tightening cycle was truly finished. That signal has now been delivered decisively.



2026 Scenarios: Navigating the Inflection Point

The forward path for Bitcoin is a function of how global liquidity evolves over the next 12–24 months. Three distinct scenarios capture the range of probable outcomes, each with materially different implications for positioning and risk management.



Scenario A: Soft Easing (Base Case – 50% Probability)

Assumptions: Fed cuts 3–4 times through 2026, growth slows but avoids hard recession, inflation stabilises around 2.5–3.5%, no major systemic credit event.

Macro Outcome: Real yields drift mildly negative, global risk sentiment gradually improves, liquidity growth moderates but remains positive.

Bitcoin Path: Q1 2026 recoupling rally pushes BTC towards \$150K–\$180K range. Q2 2026 consolidation as institutions build positions and volatility compresses. Q3–Q4 2026 gradual grind higher towards \$200K as adoption and liquidity deepen progressively.



Scenario B: Aggressive Easing (Very Bullish – 30% Probability)

Assumptions: Growth scare or geopolitical shock forces faster and deeper Fed cuts, fiscal deficits expand significantly, inflation expectations rise but remain politically tolerable.

Macro Outcome: Real yields plunge decisively negative, currency debasement narratives re-emerge strongly, capital rotates from fiat into hard assets at speed.

Bitcoin Path: Q1 2026 violent upside towards \$180K–\$220K. Q2 2026 potential blow-off phase above \$200K. Q3–Q4 2026 subsequent 25–35% corrective phase, then stabilisation at a higher base reflecting permanent repricing.



Scenario C: Surprise Tightening (Bearish – 20% Probability)

Assumptions: Inflation proves stickier than expected (exceeding 3.5–4%), central banks slow or pause cuts and re-introduce hawkish guidance, global liquidity peaks in early 2026 then stalls or contracts.

Macro Outcome: Real yields rise, risk appetite fades, leverage in crypto and other high-beta assets is forced out through margin pressure and position liquidations.

Bitcoin Path: Q1 2026 rally towards \$120K–\$140K on initial easing momentum. Q2 2026 sudden 25–35% drawdown to \$85K–\$105K zone on policy shift. Q3–Q4 2026 range-bound or grinding bear market between \$70K–\$90K as markets reprice risk premia higher.

Institutional Deployment: The Real Q2 2026 Catalyst

The infrastructure for institutional adoption is now broadly in place: regulated custodians with multi-party computation and insurance, spot Bitcoin and Ethereum ETFs in major jurisdictions, clearer accounting and custody rules for banks and corporates, growing tokenisation of Treasuries and high-grade credit, and deep, liquid stablecoin rails for settlement and collateral. What is missing is not technology—it is time.



2024–Early 2025: Early Movers

Hedge funds and family offices execute tactical trades via ETFs, futures, and options, testing infrastructure and building conviction in the new regulatory environment.



Mid 2025: Endowments & Foundations

Pilot allocations of 0.5–1% of portfolio begin as governance frameworks are established and risk committees approve digital asset exposure.



Late 2025–Q1 2026: Smaller Pensions & RIAs

Begin building strategic 1–2% BTC/ETH sleeves as regulatory clarity improves and peer institutions validate the asset class through actual deployment.



Q2–Q4 2026: Large Institutions

Large pensions, insurers, and mega asset managers deploy 1–3% core allocations, with some "offence" portfolios moving towards 5% in digital assets. This represents the primary catalyst.

Cumulative flows into digital assets in a supportive macro environment could plausibly reach \$200–500 billion by end-2026. With Bitcoin as the anchor asset, a significant share of that capital directly impacts BTC's free-float and pricing power. Institutions move on committee cycles, risk frameworks, and reporting calendars. Historically, large allocators take 12–18 months from "strategic green light" to full deployment. Infrastructure for institutional access was largely present by late 2024 and refined through 2025. That timing points to late 2025 through 2026 as the core deployment window—and we are now entering that phase.

"Bitcoin no longer sits at the fringe of the financial system. It is now wired into the global liquidity grid. The question for 2026 is not whether liquidity will matter for Bitcoin—it will. The question is how cleanly, and for how long, Bitcoin can ride the next liquidity wave before the next tightening cycle begins."

For allocators and traders who understand this dynamic and position intelligently around it, the coming 12–24 months may represent one of the most attractive asymmetric opportunities in macro-crypto history. The convergence of ending quantitative tightening, global easing cycles, institutional infrastructure completion, and the 65-month liquidity cycle inflection creates a configuration that has historically preceded the most powerful bull markets in digital asset history. Positioning appropriately—with proper risk management, sizing discipline, and respect for tail risks—could prove decisive for portfolio outcomes over the next two years.

Since this represents a sample analytical framework, it necessarily lacks the customisation, deeper quantitative modelling, and scenario-specific playbooks that institutional clients require for implementation. Paid subscribers receive fully tailored macro simulations, real-time liquidity stress monitoring, institutional risk frameworks calibrated to specific portfolio characteristics, and actionable trade structures with defined entry points, position sizing, and risk management parameters. The difference between understanding a risk and successfully navigating it lies in that level of operational detail.