ENIGMA SECURITIES

De-Coding Crypto

Weekly Analysis

2017 and 2019: what can we learn?

February 12, 2020

In this week's issue, we take a look back at price action during the 2017 and 2019 rallies, and assess the potential for velocity as we enter a new one. We also look at the US government's latest attempts to define cryptocurrency.

Written by Joseph Edwards, Head of Research at Enigma Securities.

Our Market View

May you live in interesting times. Another significant week, with BTC once again gaining heavily and most assets not named XRP finding themselves up further still against BTC.

Our tendency is to think that we are a long, long, long way yet from any significant drawdown on basically any organically-traded asset; we could see a possible cooling-off period for some alts in the next few days, but it would absolutely not be something that we would count on necessarily, with most coins having ample room to run.

Please direct all enquiries about this week's research to jedwards@enigma-securities.io.

Major

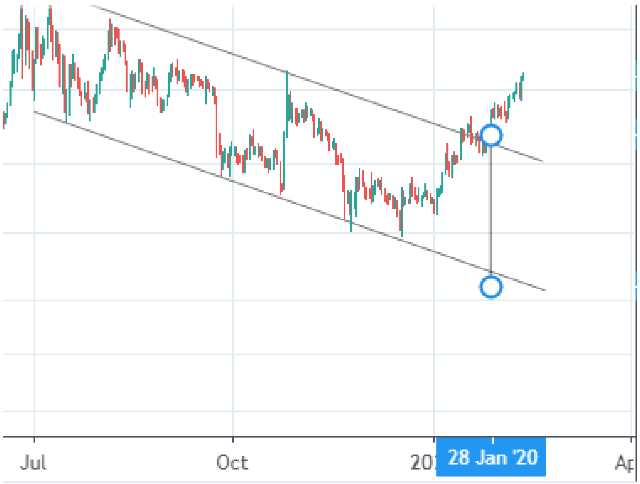
Ticker	Price	7D	1M	6M	12M	Cap
BTC	10340.4	9.46%	27.34%	1.08%	189.40%	188.3B
ETH	254.968	29.04%	77.44%	37.18%	111.00%	27.96B
XRP	0.297867	7.86%	41.52%	12.11%	-0.42%	13.02B
BCH	472.798	11.25%	78.03%	54.02%	293.30%	8.64B
LTC	79.2282	11.07%	59.50%	8.90%	87.99%	5.08B
EOS	5.33278	20.00%	70.81%	49.53%	92.59%	5.08B

Selected

Ticker	Price	7D	1M	6M	12M	Cap
XTZ	3.32557	52.77%	161.20%	179.30%	632.10%	2.31B
LINK	4.11124	44.45%	88.01%	70.29%	76.70%	1.44B

2017 and 2019: what can we learn?

At this point, there cannot really be much in the way of remaining doubt that we are back in a bull market. This seems like something of a fatuous statement when YTD gains are pushing 50%, and perhaps it is, but there was still the odd sceptic ready to point out that there were still ways to draw the descending channel over the past few months in a way where it remained unbroken right up until the last week of January:



Credit: Tradingview. BTCUSD, Coinbase.

In any case, here we are. The question now would seem to be this: how far, and how quick? Crypto and financial media will be full of prognostications on both topics in the coming weeks, particularly the former, and likely with very aggressive targets being set.

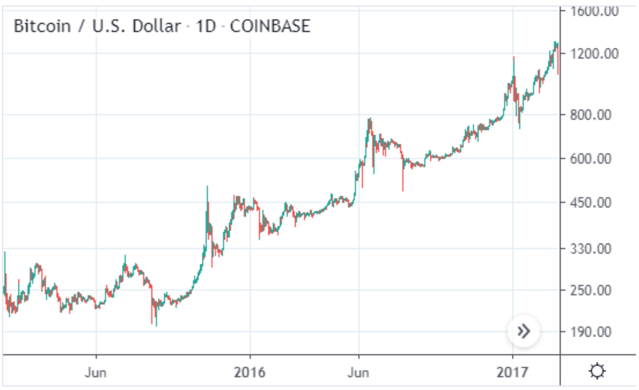
Some of these will clearly be outlandish; we will write about stock-to-flow and similar 'fundamental' models in more details another time, but the short version is that BTC and crypto are demand-driven markets, and even if there may be something to them in terms of where crypto prices may converge to 5 or 10 years down the line, demand cannot and will not possibly be high enough to get them there on the sort of pace that they propose.

We are going to take a slightly different approach here. In essence, we are going to take a brief, high-level look at the two big 'modern-era' rallies (i.e. Q4 2017 and Q2 2019), with a mind to establishing a framework for how far and how quickly BTC has moved in the past, and what that may tell us as we once again move back into uncharted waters

This is not going to be a particularly fancy piece; we are not going to the wall with complicated metrics or statistics here. We are dealing in charts and candles – and charts and candles that a lot of readers saw printed in real-time, at that. However, three years is a long time in crypto; the 2017 rally in particular was just long enough ago now that some of the details are starting to smudge in the mind, and we hence hope our readers may find a reminder to be useful.

2017

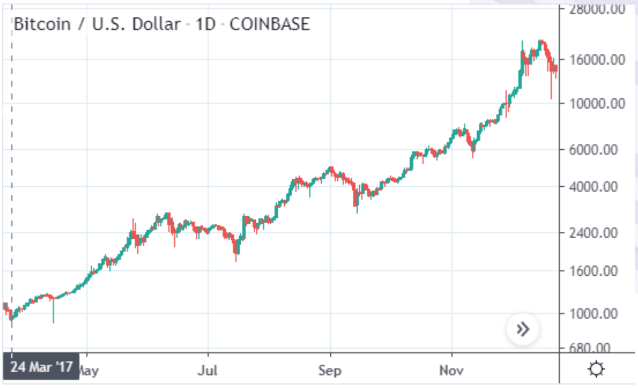
Maybe the trickiest thing about charting the 2017 run is this: where do you put the starting pin in? The collapse of the 2013/14 bubble was short and sharp, and while there was room to run on the downside (bottom at the $200 level from the roughly $1000 peak), from there, there were very few true 'bear markets':



Credit: Tradingview. BTCUSD, Coinbase.

Drawdowns were short and sharp for the most part, and did not break an overall upwards trend.

For the sake of argument, we will use March 24th-25th, 2017. This marked the first close in a few months below the psychologically-important $1000 (a shorthand for the 2013/14 high), and a peak-to-trough correction of 35% from the intra-day high on March 11th. From there, the rest is history:



Credit: Tradingview. BTCUSD, Coinbase.

The rally can broadly be broken down into a few different stages:

Rally

Dates	Phase	Days	Low	High	Gain
25/03-11/06	1	79	890.05	2998.98	237%
16/07-01/09	2	48	1758.20	4948.00	181%
15/09-08/11	3	54	2975.01	7898.00	165%
12/11-17/12	4	36	5511.11	19891.99	261%

Drawdown

Dates	Phase	Days	High	Low	Loss
12/06-16/07	1	35	2998.98	1758.20	41%
02/09-15/09	2	14	4948.00	2975.01	40%
08/11-12/11	3	5	7898.00	5511.11	30%
17/12-06/02	*4*	*52*	*19891.99*	*5873.00*	*70%*

These distinctions are slightly arbitrary (there were a couple of drawdowns on intraday highs and lows of over 30%), but they give a good idea of just how the 2017 run operated - in essence, we cycled through bullish and bearish periods in a timeframe better counted in days rather than months, gaining around 150-250% each time before correcting somewhere between the 50% and 61.8% levels commonly cited in technical analyses:

Drawdown

Dates	Phase	High	50%	61.8%	Low
12/06-16/07	1	2998.98	1944.52	1695.66	1758.20
02/09-15/09	2	4948.00	3353.10	2976.70	2975.01
08/11-12/11	3	7898.00	5436.51	4855.59	5511.11

We also note, in each stage of the cycle, the number of days with a gain versus a loss:

Rally

Dates	Phase	Days	Gain	Loss	% Gain
25/03-11/06	1	79	58	21	73%
16/07-01/09	2	48	29	19	60%
15/09-08/11	3	54	21	24	39%
12/11-17/12	4	36	25	11	69%

Drawdown

Dates	Phase	Days	Gain	Loss	% Gain
12/06-16/07	1	35	14	21	40%
02/09-15/09	2	14	3	11	21%
08/11-12/11	3	5	1	4	20%
17/12-06/02	*4*	*52*	*22*	*30*	*42%*

To point out that BTC does not tend to simply move in one direction feels, at this point, exceptionally facile; it is one of those truisms that has been beaten into everyone's head. However, it's worth getting a sense of just how pronounced this actually is. The only real runs of constant day-on-day growth in these terms were at the very beginning and the very end of the cycle:

Credit: Tradingview. BTCUSD, Coinbase.

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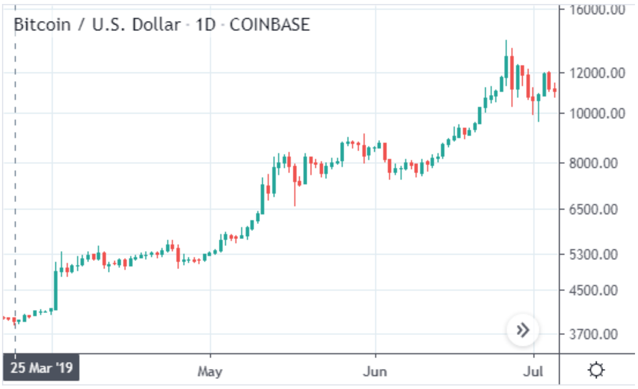
2019

The 2019 run was of course much briefer, and of much small overall magnitude, than 2017:



Credit: Tradingview. BTCUSD, Coinbase.

We could attempt to break it down into phases similarly to 2017, but there doesn't seem to be much point to it; the big thing to note is that there was no significant drawdown on the way (the closest being the 21% flash crash from the 16th May high to the 17th May low, which was substantially not sustained even through to the daily close).

For sake of comparison to the 2017 figures, **the 2019 run lasted 94 days, and saw a 259% gain**; in this regard, it was roughly comparable to a single phase of the 2017 rally, albeit on a slightly longer timescale.

Rather, the theme of 2017 was short cycles - the perfect storm of an instrument so liquid, yet so immature structurally, that it was able to conclude multiple mini-bull cycles into the span of a few months.

2020

How does this fit into a mental framework for approaching the 2020 market?

The single biggest thing we would say is this: it is easy to write off 2017 entirely as a guide to pacing in the next bull market, and also probably not wise. Yes, the market was structurally immature in 2017, and yes, we will never see a year like it in crypto again - but the reason for that is not simply because 2017 was just a time of completely uncontrolled euphoria.

Rather, the theme of 2017 was short cycles - the perfect storm of an instrument so liquid, yet so immature structurally, that it was able to conclude multiple mini-bull cycles into the span of a few months.

We are no longer really there. Markets have matured, and while retail investors continue to dominate numerically, there are enough bigger players with longer views out there that cycles are generally slowing; the full year in 2019 marked the sort of movements that we were seeing every 60-90 days in 2017.

The crucial thing to understand is this: the structure of the 2019 run makes us think that the potential magnitude of any given run has not particularly dimmed. The five previous bull cycles have seen gains of between 165% and 261%.

If we designate the final low before the uptrend at January 3rd, at $6855, and extrapolate from there, we get a range of figures between $18,000 and $24,000. Curiously, if we exclude the 261% from 2019, and only use the 2017 numbers, the mean comes out t a shade over $19,900 – just about an all-time high, but below that psychologically important level of $20,000, and very similar in that regard to all four of the peaks in the 2017 run.

Using $19,900 as a baseline, and extrapolating out from the final low before the start of the trend shift ($6855 on January 3rd), we get the following levels going forward:

n=	90	120	150	180	210
15/02/2020	13088	11529	10595	9971	9526
01/03/2020	15117	13051	11812	10986	10396
15/03/2020	17146	14573	13030	12001	11265
01/04/2020	19610	16421	14508	13233	12321
15/04/2020		17943	15726	14247	13191
01/05/2020		19683	17117	15407	14185
15/05/2020			18335	16421	15055
01/06/2020			19813	17653	16111
15/06/2020				18668	16980
01/07/2020				19828	17974

Data represents simple forecasts from $6855 on January 3rd to $19900 on a date n days later (e.g. for n=90, $19900 on April 3rd).

We believe that, at the least, this gives a good overview of some of the levels worth watching as we move into less charted territory once more.

Crypto and the US budget: the legal perspective

By Alina Kisilevich

The U.S. government has started 2020 with a certain interest in defining and regulating cryptocurrency: first, the Congress' Acts aimed at regulatory framework of cryptocurrency, now President's Trump budget proposal for fiscal year 2020, issued this Monday, February 10.

In the 106-page document that can be found on the website of the White House, the word "cryptocurrency" is only mentioned twice, and each of them is connected to crimes, whether it is terrorism financing or money laundering.

It was only a matter of time for the White House to start some kind of repression of the growing technology, since Donald Trump shared his critical opinion on Bitcoin and crypto in general in his tweet in July of last year, because of their possible involvement in illegal activity.

Following this, the Budget proposes legislation to return the U.S. Secret Service to Treasury to create new efficiencies in the investigation of these crimes, therefore making it top priority for the nation in fintech of the future.

The effects of the possible future for investments might be blended, as it could prevent new clients from entering the business sectors because of the potential effects of the up and coming crackdown, while additionally conceivably driving the space to see some uncommon development.

What we're reading

JPMorgan May Merge Its Blockchain Project With Ethereum Studio ConsenSys: Report (Coindesk): Undoubtedly the most bullish news for ETH in a long time. ConsenSys has been struggling for a while now, announcing last week that they were laying off 14% of their workforce (some estimates have put the true figure at 30% or more); the mere promise that they're going to have JP's backing no matter what as an absolutely huge boon.

Litecoin Foundation Partners With Cred to Let Holders Earn Interest (Cointelegraph): The rare partnership that's actually somewhat interesting. As we talked about last week, LTC is in an odd place in the 2020 landscape, with its payment processing niche no longer relevant. The one thing it does have in its arsenal? The fact that anyone who bought into crypto before the 2017 run likely still has some.

Until next week – thank you for reading.