



ENIGMA
SECURITIES



MAKOR

De-Coding Crypto



Enigma Weekly

21st April 2021

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

Our Market View

May you live in interesting times. Something of a disappointing week on the BTC end – down 12% in all, as brakes were slammed on the ATH break by unfortunate rumours over the course of the weekend with regards to tighter US regulation (nothing further has popped up to support that so far it should be emphasised). Holding well at support at the moment, and risk/reward overall does still paint a positive picture for now, but alts are beginning to steal the show somewhat.

Big gainer this week is DOGE, and we discuss it in this issue at some length, but the bottom line is: stay away from DOGE, but understand that it does mean something with regards to market structure and level of retail participation in particular.

Markets do look to be building up into the early stages of a frenzy; hard to pre-call targets with regards to many specific assets in that environment, but expect to see slightly more palatable momentum trades than DOGE on mid-caps revealing themselves in the next few days, and also keep an eye on the likes of UNI and SOL (both up significantly today, both with good yarns to spin with regards to blue-chip status in their respective niches, and hence both with a lot to potentially gain from retail inflows).

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

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	56280	-11.8%	0.6%	326.6%	641.9%	1.052T
ETH	2456.01	2.4%	39.5%	489.5%	1150.0%	283.8B
LTC	276.65	0.7%	41.0%	359.2%	513.0%	18.47B
BCH	986.04	18.4%	86.1%	254.2%	310.1%	18.45B
EOS	6.787	-11.3%	59.4%	152.9%	149.0%	6.48B

Selected

Ticker	Price	7D	1M	6M	12M	Cap
ADA	1.267	-13.5%	9.6%	1068.0%	2892.0%	40.54B
DOT	36.28	-15.5%	-2.4%	714.9%	1122.0%	33.79B
LINK	38.86	-0.1%	33.4%	200.4%	908.2%	16.31B

A brief history of DOGE

What even is Dogecoin?

This does seem like a necessary starting point for this whole discussion, even allowing for the fact that the majority of people reading this are active within the crypto industry in one form or another anyway.

Dogecoin is a joke cryptocurrency. We don't mean this in a value judgement sense, we mean this in terms of it literally being formulated and launched as a joke. Essentially, back in 2013 (during Bitcoin's second bull market), we saw a trend that we are now very familiar with indeed - as Bitcoin took off, a huge number of crypto assets, with varying levels of self-importance around themselves, were launched in the span of months.

This was, of course, before Ethereum, and before the creation of a myriad ways to create your own coin, so most of these new coins were just slightly-tweaked versions of Bitcoin's basic architecture (albeit not exclusively); Dogecoin was one of those coins. (The proper pronunciation of Doge/DOGE is 'doughj' or 'dohj'; the name, and the coin's entire branding, come from a contemporaneous internet meme based around a photo of a Shiba Inu dog).

The entire genesis of Dogecoin was "what if there was a version of Bitcoin but about this funny meme". That's it. That's the whole thing. No unique value proposition, no bleating about being the world computer or the future of finance. Just a quick copy-and-go taking advantage of a popular internet meme of the time.

Dogecoin pre-2020

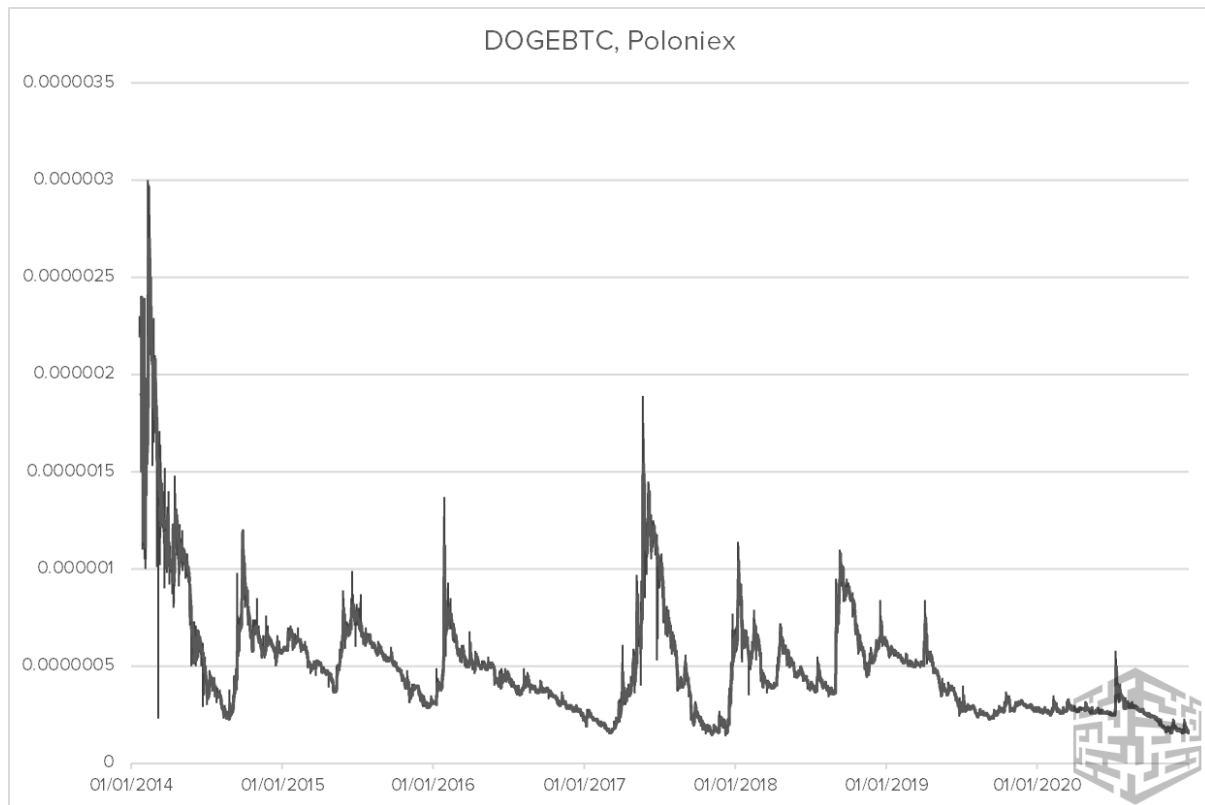
Now, the first thing to say: this isn't the first time we've seen DOGE in the limelight. In fact, in February 2014, it was for a time the #5 crypto asset by market cap.

		Market cap (16/02/2014)	Market cap (21/04/2021)
Bitcoin	BTC	\$7,650,358,897	\$1,048,526,357,725
Litecoin	LTC	\$391,928,398	\$18,295,121,108
XRP	XRP	\$119,913,225	\$63,371,842,133
Peercoin	PPC	\$83,374,178	\$25,432,180
Dogecoin	DOGE	\$71,890,532	\$39,374,943,037
Nxt	NXT	\$57,427,542	\$79,101,441
Omnium	OMNI	\$41,102,057	\$5,902,082
Namecoin	NMC	\$29,679,609	\$35,035,798
Counterparty	XCP	\$24,517,503	\$8,813,050
Quark	QRK	\$16,952,553	\$2,262,834

Data via Coinmarketcap.

Of course, this was in the context of a much smaller crypto market than we have today, and even the figures there would not last for long; Mt. Gox would finally declare bankruptcy at the end of the month, and DOGE, like everything else, would suffer a significant drawdown. Over the years to come, it would continue to fall away in terms of market share, dropping to the 9th-biggest asset by the start of 2016, and the 14th-biggest by 2017.

However, the interesting thing about DOGE was this: unlike almost everything else in the top 10 in that February 2014 snapshot, it never quite went away fully.



Data via Tradingview.

This is DOGE's price, over time, in terms of BTC. Across years and years, throughout successive bull and bear markets, it always seemed to retain a fairly steady baseline value against BTC (this is unusual, especially for a mid-cap – most generally set all-time low after all-time low as their default state of being), and always periodically popped up again every so often - and, when it did pop up, it would pop up with some vigour, marking up hundreds of percent in BTC terms across days or weeks before slowly settling back down.

Why? It should first be noted that there is an interesting technical quirk here, which was that DOGE throughout most of these cycles was dropping to points where it became difficult drop further from. The smallest on-chain unit for BTC is one in 100,000,000 BTC, known as a "sat" (after Satoshi); DOGE at its floor was typically trading at 15-20 sats, and most exchanges literally could not (and often still cannot) support orders specifying a fraction of a sat, creating an artificially wide bid/offer and heavily disincentivising further selling as a result.

This was helpful to maintaining said baseline value. What was also helpful was the fact that it was on the aforementioned exchanges in the first place. If you were starting up an exchange in 2013 or 2014, chances are, you were going to list DOGE, and chances are, you never found any reason to delist it; for an asset of its market cap and unit price, it has remarkable reach in terms of the potential audience able to buy it at any given time. More on that later.

This all came together into this: from its inception, every few months, DOGE would pump massively. Every time it did, it was, to put it bluntly, a pure speculative frenzy. Of course, this is broadly true of most crypto pumps; but in the case of DOGE, for the most part, there were no pretensions about mass adoption, no exciting new technical developments, none of the usual fluff around it. Every time, it was "you should buy DOGE because it's going up; it's going up because it's going up". And every time, it went up a few hundred percent against BTC before settling back down.

It's hard to trace the exact provenance on a lot of those pumps, but let's give one example - the short-lived April 2019 pump. What happened there? The Dogecoin Twitter account, as an April Fool's joke, announced that they were going to appoint a CEO, and held a poll for it. Elon Musk (post-SEC investigation, pre-richest man in the world status) won the poll, proceeded to tell the world that "Dogecoin might be my fav cryptocurrency. It's pretty cool", and posted a number of Dogecoin memes to his Twitter account.

That was it. No rumours about Tesla payments in Dogecoins, no grand schemes, nothing beyond a reminder that "hey, Dogecoin exists", and DOGE went from 51 sats (it had held up relatively well in BTC terms during crypto winter) to 84 sats in 4 days (a 64% increase) because people had been reminded that it existed. (It then proceeded to give up all of those gains in very quick order as BTC's price skyrocketed in April and May).

Dogecoin in 2020 and 2021

Nothing has fundamentally changed in the last eight years about DOGE as an asset, or about the general character of DOGE's periodic ups and downs; it's very much SSDD for the most part. There are no pretensions behind it. Billy Markus - one of the two creators of Dogecoin - had this to say on Twitter on Tuesday:

I'm not a crypto shill. There are cool things happening in this space, but the valuations aren't related to that. They are just people speculating. Always have been...Perhaps someday people will buy crypto for the utility and we will see the true impact of it. Since 2009 though, it has been an unregulated financial playground of psychology and sentiment. Confirmation bias, hindsight bias, anchoring bias, optimism bias, etc. all rule the space.

Markus is still involved in the Dogecoin community. Jackson Palmer, the other creator, is not - both in the sense of the community, and in the sense of not being on social media. In fact, Palmer penned an article for Vice in 2018 - "My Joke Cryptocurrency Hit \$2 Billion and Something Is Very Wrong" - excoriating the whole shebang. It's difficult to find just one pull-quote from it, but let's settle on this:

Dogecoin's valuation is the result of market mania that has resulted in inexperienced investors buying up low-priced assets on a whim, hoping that they will follow Bitcoin's meteoric trajectory. This irrational enthusiasm, coupled with large players manipulating largely unregulated markets, has resulted in a weekly cycle of rallies and crashes across just about every crypto asset. While the Dogecoin community on Reddit has seen a recent uptick in participation, the majority of new discussion seems to fixate on the USD price and speculation as to when it will rally once again.

Sounds somewhat familiar!

In any case: what's happened in the last 18 months?

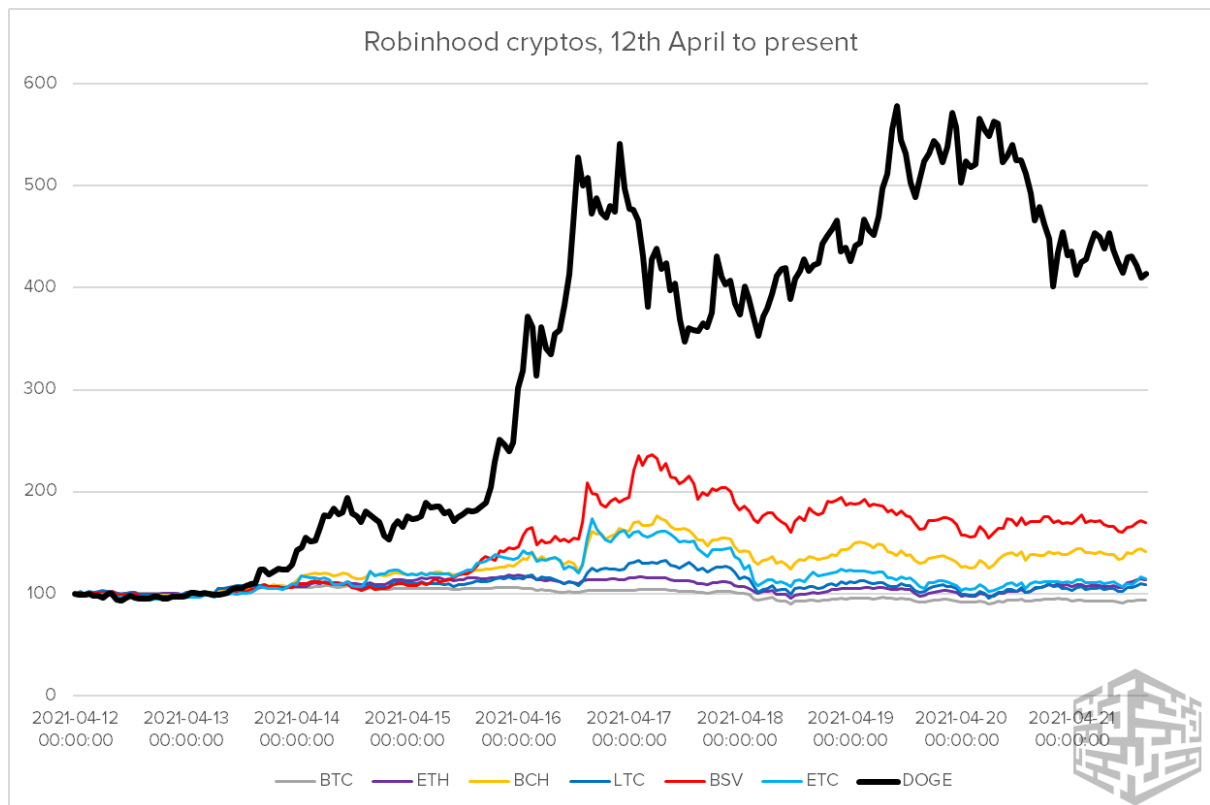


2020 was quiet for DOGE for the most part, though we did see one spike over the summer (barely perceptible on account of recent moves, but still significant in historical terms). The driving force behind that one? Well, Elon Musk has done his part over the last couple of years since that April 2019 moment with regards to a steady stream of "hey, Dogecoin exists!"-purpose memes, but with regards to the moment itself, it was...a campaign on Gen Z social media platform TikTok. The campaign's message literally consisted of: "let's get DOGE to \$1 because it'd be cool".

That's it. That was the whole thing; an open, brazen, collective pump-and-dump. (DOGE of course didn't get anywhere near \$1, but did spike from 27 to 58 sats, and went significantly higher on certain exchanges with poor liquidity).

That pattern has not only been repeated in 2021, but it's found far, far more fertile ground. While it spiked a little at the start of the month, DOGE's mind-blowing rally - 24 sats to 123 sats in two days, and then all the way to 226 a week later - used basically the same messaging as the July 2020 spike, but found a much wider reach in the aftermath of the GameStop short squeeze drama. GameStop price peaked on January 27th; the search for the "next GameStop" saw simultaneous rallies in a bizarre basket of assets over the latter half of the week including AMC Entertainment Holdings stock, DOGE, and silver, to name just three.

Also note, incidentally, that Robinhood - the huge online brokerage platform that was the center of the GameStop squeeze - has a crypto offering. Robinhood only offers seven coins on its platform - four fairly ubiquitous offerings (BTC, ETH, BCH, LTC), and three slightly less usual ones. Those are BSV, the much-maligned BCH fork; ETC, the less-maligned but hardly popular ETH fork; and DOGE. All six non-BTC assets, and in particular BSV and ETC, saw significant bids around the time of the first DOGE spike in particular; it does seem to have been a case of Robinhood traders looking to buy anything crypto regardless of fundamentals:

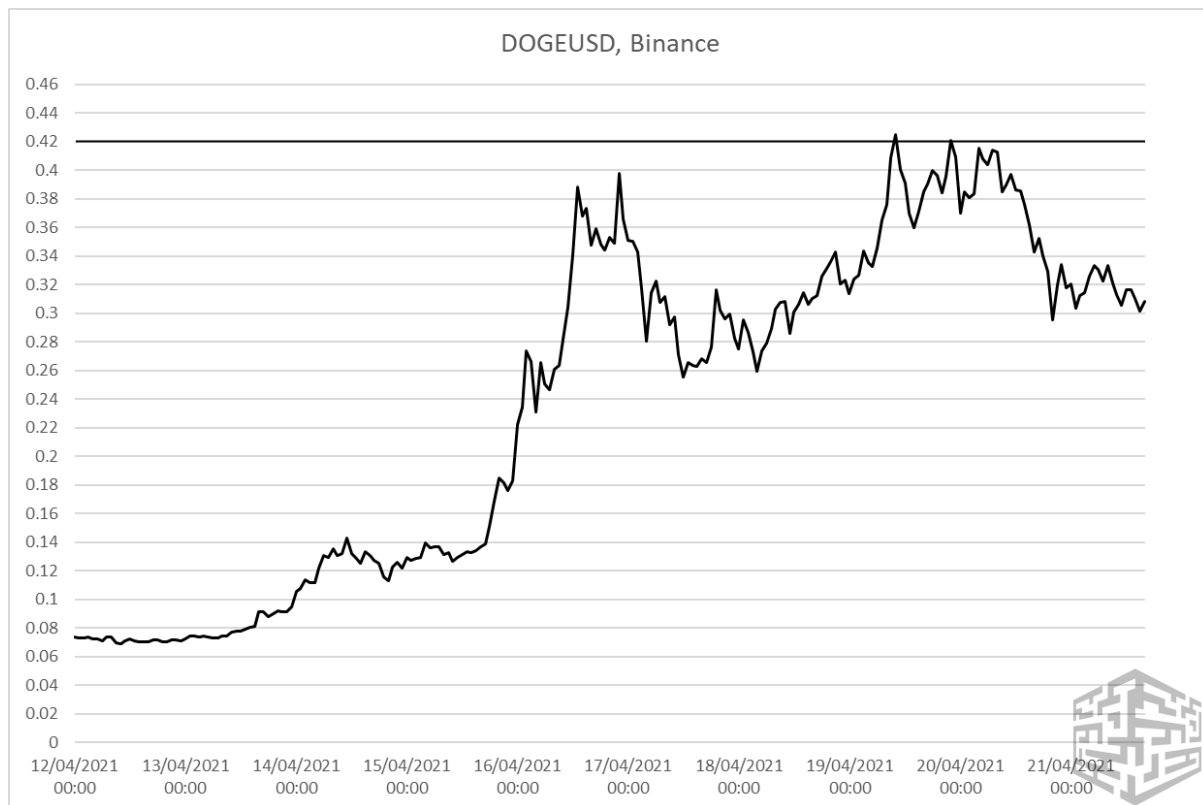


Data via Tradingview. Indexed. All prices USD and Binance except BSV (USD and Bitfinex).

The first surge was within the bounds of what we've seen again and again historically; yes, it made DOGE a \$10bn asset overnight, but that's yet another reason that we as standard denominate alts against BTC (current BTC price has ascribed a nominal market cap to plenty of projects that is by any reasonable measurement completely beyond the pale). It's the action over the last few days that has been out of scale with anything else we've seen.

To answer the big question you're holding in: there is literally nothing to this beyond particularly ridiculous speculative fervor. It's all the same things as in previous rounds - social media campaigning, celebrity endorsements, and a market environment that's ultimately particularly receptive to it all for one reason or another - but turned up 10-fold.

To press the point home here, here is the hourly graph for DOGEUSD over the past week:



Data via Tradingview.

Note that price never manages to hold above \$0.42. There is a reason for that. Yesterday was April 20th, or 4/20 by US date notation; it is an international holiday in cannabis culture that has also been adopted by the Dogecoin community.

The rallying call going out on social media platforms over the weekend and into the day was: 4/20 is #DogeDay. Let's get DOGE to \$1 for 4/20, because it would be cool. That's it.

Why did that push fail? It should be noted that a significant amount of liquidity does shift into any crypto asset in the ascendancy; DOGE volumes were over \$12bn over the last 24 hours, after all, which does blunt the ability for buyers to bid it up rapidly. But the more important point is: while getting DOGE to \$1 was a nice dream, it was far, far more feasible to get it back to \$0.420, and to sell there. Which is precisely what happened - millions and millions in sell orders at \$0.420 or equivalent, which ultimately made a significant contribution with regards to not allowing price to rip even higher.

What does this all mean?

As the disclaimer notes on every weekly, this is not financial advice. When we are talking about DOGE, we want to make double-clear that this is not financial advice. We do not recommend that one deals with DOGE in any way, because while it may be a \$40bn lottery, it is a complete lottery nonetheless. Anybody sensible should have shorted it at 220 sats, and anybody sensible would hence likely be broke around now.

That said: apart from understanding it for its own sake, it is important to understand what it represents. To put it simply, it represents the starting points of a crypto mania. It represents retail waking up to what's been going on in the crypto space over the last couple of years and finally starting to throw both attention and money in.

This seems like an insane statement to make given what's happened to the price of BTC, ETH, and other major assets over the last year or so. It is not. As we've continuously said, while there have been upticks in retail interest at points, we have seen absolutely nothing that even compares to 2017, particularly when we factor in how much bigger literally every facet of the crypto space is compared to back then. Markets have largely been driven by institutional money; we only really got our first taste of retail hype in the latter stages of DeFi summer, and even then, it's only been over the last couple of months or so that we've really started seeing said money take the wheel once again.

So, is the end nigh? Define nigh. These sorts of retail manias almost never end well, and we are seeing very concerning signs indeed with regards to bad actors essentially exploiting that mania (e.g. certain currently prominent Binance Smart Chain projects); we are, to be quite frank, deeply concerned about the overall health of the ecosystem right now.

That being said: more often than not in the past, markets have tended to have found several weeks' more room to run after similar cases of DOGE-move-as-proxy-for-sentiment (with the notable exception of the 2018 top), and surprisingly, it's more often been a mid-cycle move than a late one:

DOGE spikes since 2016		BTC price change			
Date	High (sats)	7d	14d	30d	60d
28/01/2016	136	2.21%	-0.36%	14.10%	11.43%
22/05/2017	189	7.36%	27.07%	24.49%	25.16%
07/01/2018	114	-15.57%	-28.79%	-52.46%	-42.47%
11/09/2018	109	0.85%	2.46%	-2.03%	1.03%
04/04/2019	84	2.75%	7.62%	17.60%	65.25%
08/07/2020	58	-2.60%	1.07%	23.01%	8.72%

Data via Tradingview

For the time being, we still lean positively at current levels on most quality assets; as much as we may frown on this sort of action as being unhealthy in the long term, "markets can stay irrational longer than you can stay solvent" has never been a truer maxim in terms of both crypto and non-crypto markets than it is now.

However: risk is growing, and tend to think that even in the best case, chance is growing that we see a significant cooling off later in May and into June. Trends over the next week or two should be interesting with regards to figuring out exactly how close we are to the cycle top (weeks vs. months).

Until next week – thank you for reading.



ABOUT US

Enigma Securities is a leading, regulated liquidity provider, offering its clients bespoke liquidity solutions through the use of a proprietary electronic trading platform and API access.

The firm was founded in 2017 as a subsidiary of Makor Partners Limited (UK), amid growing institutional demand for digital asset trading. Looking to seize the new, exciting opportunities presented by cryptocurrencies and blockchain technology, Enigma became one of the first regulated brokerage firms to set up banking relationships and custody solutions to meet institutional standards.

Since its launch, the firm has expanded its capabilities to the broader Fintech arena, leading innovation while working to bridge the gap between the traditional financial services industry and cryptocurrency markets.

DISCLAIMER:

The information contained in this report issued by Enigma Securities Limited is not intended to be advice nor a recommendation concerning cryptocurrency investment nor an offer or solicitation to buy or sell any cryptocurrency or related financial instrument. While we provide this information in good faith it is not intended to be relied upon by you and we accept no liability nor assume any responsibility for the consequences of any reliance that may be placed upon this report. Enigma Securities Limited is an Appointment Representative of Makor Securities London Ltd which is authorized and regulated by the Financial Conduct Authority (625054)