



ENIGMA  
SECURITIES



MAKOR

# De-Coding Crypto

---

Enigma Weekly

16<sup>th</sup> September 2020

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

## Our Market View

**May you live in interesting times.** A mixed week – very positive for BTC, but unusually, not so much for broader markets. On BTC, we do now look to be showing solidly above the support/resistance level at \$10,500 that we previously identified as crucial, which is an extremely reassuring sign with regards to further short-term upside; doubts will remain about upside against the current macro picture, but for now, things look bullish once again.

ETH is still up this week, but less than BTC (having previously led it by a large margin); we discuss ETH in more detail in this issue, but the short version is that it isn't driving markets like it was in August, and we tend to expect a period of relatively limited upside (by recent standards) and underperformance in BTC terms going forward. Smaller-caps were for once the biggest strugglers overall, largely as victims of uncertainty in DeFi markets.

Please direct all enquiries about this week's research to [jedwards@enigma-securities.io](mailto:jedwards@enigma-securities.io).

### Major

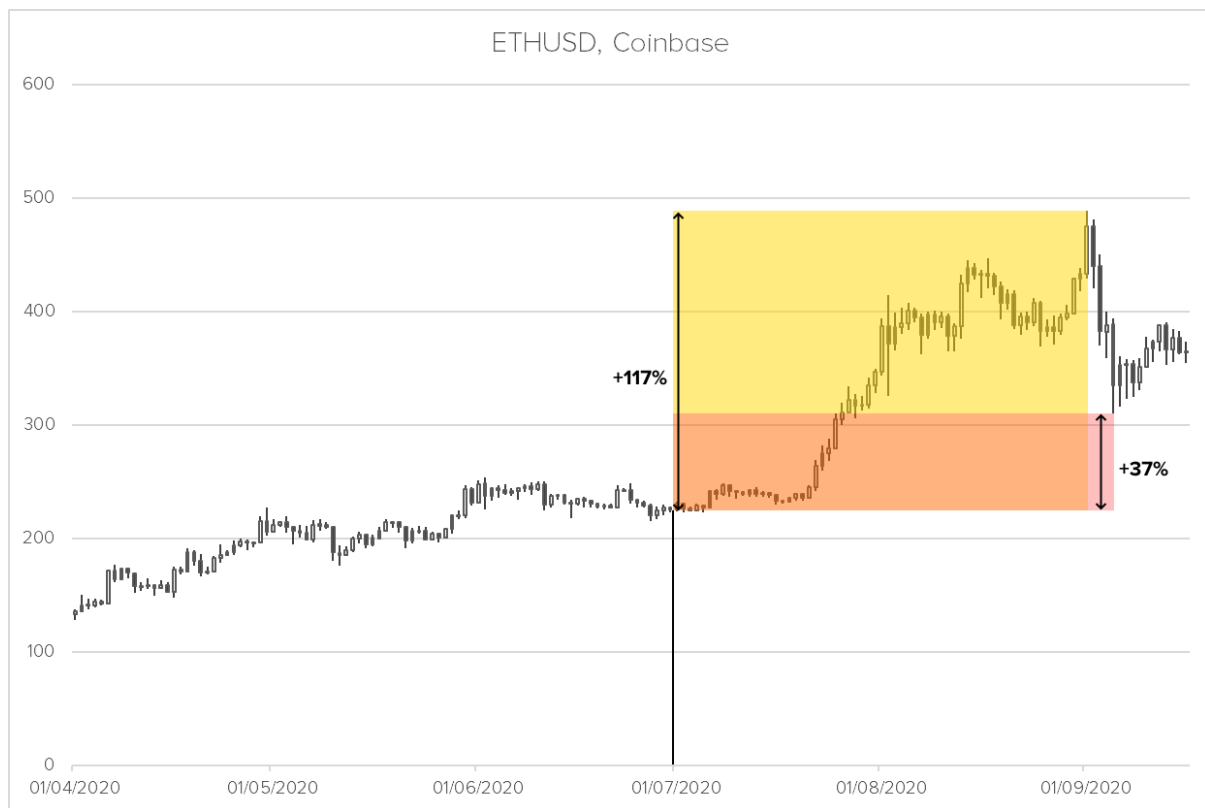
Ticker	Price	7D	1M	6M	12M	Cap
BTC	10932	6.78%	-11.37%	76.67%	6.54%	202.1B
ETH	367.79	4.77%	-15.80%	177.90%	66.98%	41.4B
XRP	0.24421	1.70%	-24.06%	54.46%	-18.94%	11.0B
BCH	232.38	2.93%	-27.71%	5.73%	-28.10%	4.30B
LTC	47.98	-0.98%	-28.85%	25.00%	-37.55%	3.14B
EOS	2.694	-3.39%	-29.44%	18.39%	-32.05%	2.53B
Selected						
Ticker	Price	7D	1M	6M	12M	Cap
LINK	10.96	-0.98%	-28.85%	25.00%	-37.55%	3.84B
ADA	0.09037	-3.62%	-36.35%	206.40%	72.55%	2.81B
XTZ	2.520	-1.56%	-38.66%	52.46%	131.10%	1.85B

# Alts in review: ETH and traditional large-caps

## ETH

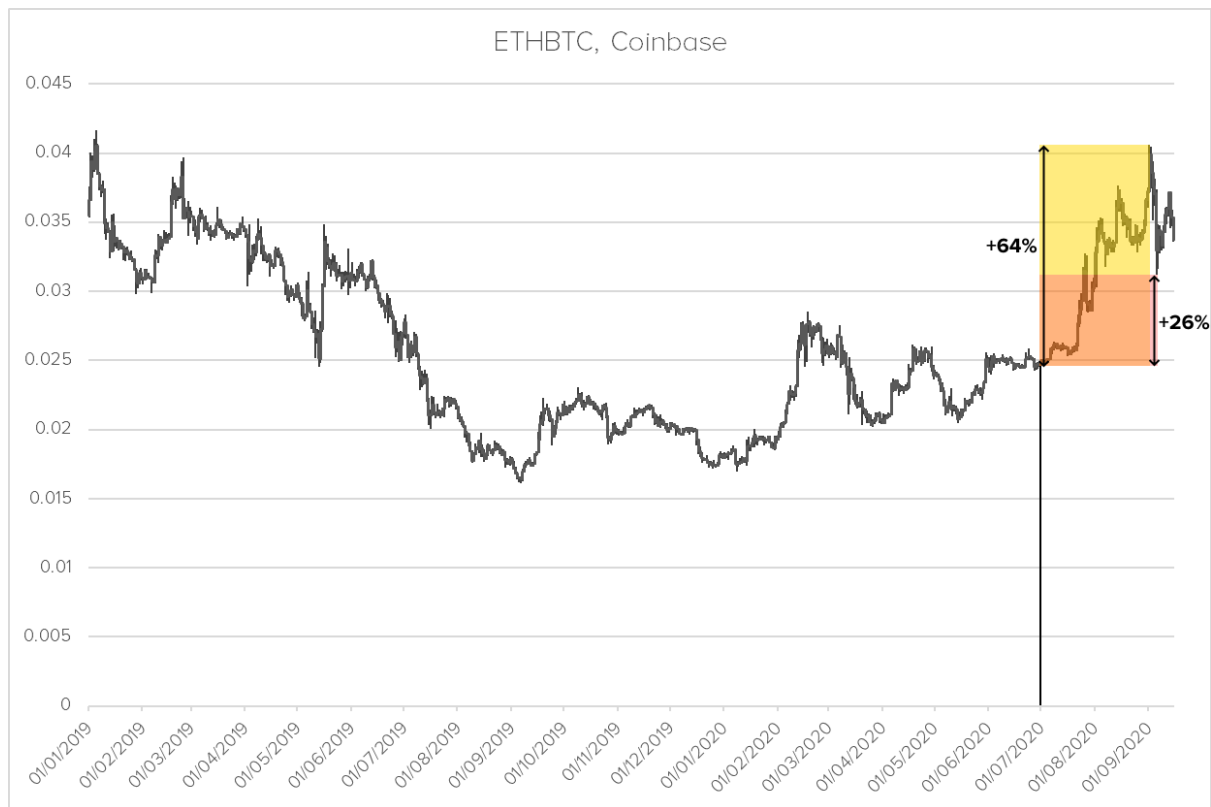
This is what we said in our last alts issue on July 1st:

As much as there are elements of the DeFi boom that may not be sustainable, it's still clearly here to stay, and most things DeFi-related are being built in one way or another on the Ethereum network. In addition: while it continues to be pushed back, and at the moment there's no set date even to speculate upon, the proof-of-stake upgrade remains somewhere in view, and as we have said repeatedly, it's extremely difficult to see the move to PoS as anything other than a significant bullish influence; it continues to feed into dominant narratives about ESG investing and the like, it continues to offer major incentive for accumulation by institutional actors, and it's hard not to be bullish.



*Data via Tradingview.*

Even at current levels, we are up over 60% since that issue, and peaked at well over 100%; a respectable enough performance for a single quarter. However, in some sense, we even underestimated it; while we absolutely expected healthy growth in BTC terms, we did not expect quite the magnitude, with performance surpassing the highs from the 2019 uptrend (and challenging those from the start of the Q1 breakdown):



Data via Tradingview.

The short answer as to what happened here is that DeFi happened; this doesn't seem the place or time for a full-scale discussion of the DeFi phenomenon, but the short version is that DEXes and related projects have brought a ton of usage to the ETH network, as can be seen simply by looking at the list of the top apps from that July 1st issue:

Rank	Project	Ethereum spent	USD spent	Ponzi?	Notes
1	Tether USD	11.5K	\$2.71M		
2	0xe87fda...98c30	10.7K	\$2.60M	Maybe	Allegedly connected to a hack on Korean Ponzi Good Cycle
3	0x12d801...74e84	10.7K	\$2.60M	Maybe	Allegedly connected to a hack on Korean Ponzi Good Cycle
4	SmartWay Forsage	5.52K	\$1.29M	Yes	
5	MMM	2.45K	\$583K	Yes	
6	0xe386e3...a5149	2.31K	\$568K	Maybe	Unclear providence but connected to previous exchange hacks
7	Easy Club	2.11K	\$494K	Yes	
8	Uniswap V2	1.97K	\$462K		
9	Nest Protocol	1.25K	\$295K		
10	Kyber Network	892	\$211K		
<b>Total, top-10</b>		<b>49.4K</b>	<b>\$11.81M</b>		
<b>Total without Ponzis</b>		<b>15.6K</b>	<b>\$3.68M</b>		

Data via ethgasstation.info, July 1st.

Compare and contrast with a current list:

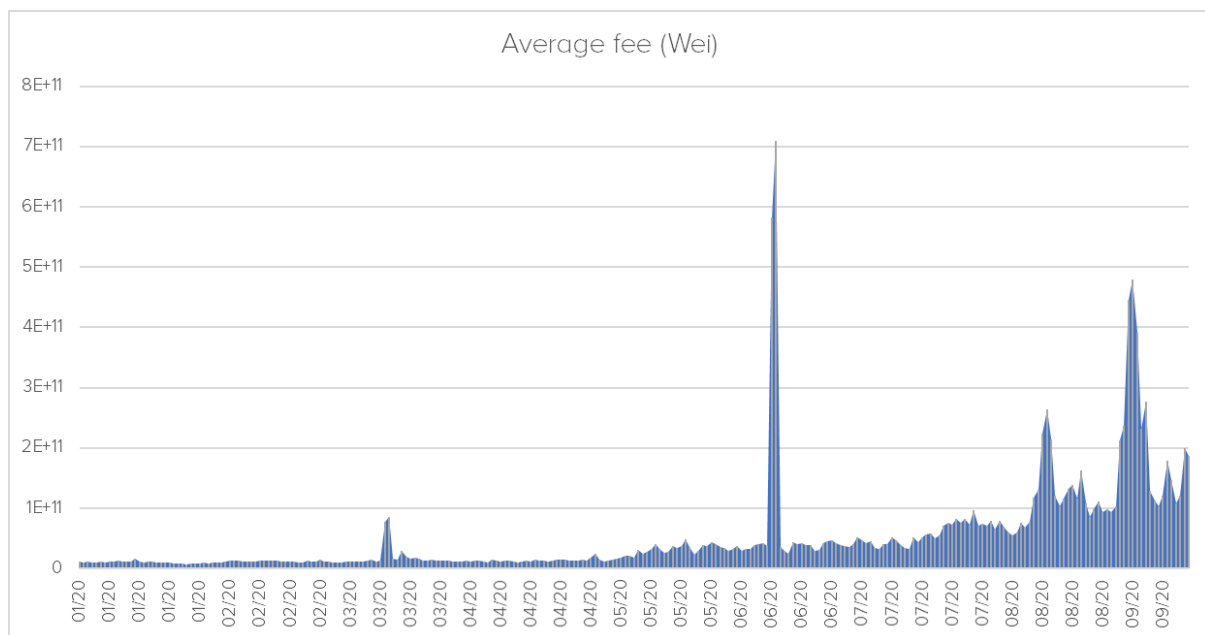
Rank	Project	Ethereum spent	USD spent	Ponzi?	Notes
1	Uniswap V2	31.7K	\$12.7M		
2	Tether USD	26.2K	\$10.5M		
3	SmartWay Forsage	8.63K	\$3.45M	Yes	
4	0x693c188e40f76...bc43e	4.48K	\$1.79M		0x
5	Nest Protocol	3.87K	\$1.55M		
6	1inch Exchange	3.72K	\$1.49M		
7	ChainLink	2.33K	\$937K		
8	0x52a03d5d2bb8a...3a56e	2.37K	\$922K		Yam
9	0x73282a63f0e3d...3c86a	2.18K	\$880K		Bounce
10	CHI Token	2.10K	\$852K		
Change	<b>Total, top-10</b>	<b>87.6K</b>	<b>\$35.07M</b>	117%	197%
Change	<b>Total without Ponzis</b>	<b>79.0K</b>	<b>\$31.62M</b>	406%	759%

*Data via ethgasstation.info, September 16th.*

It has clearly been a successful few months for ETH. The question now is where we go next. Top-to-tail, the move in the first week of September saw losses of nearly 35% at points, and while we have recovered somewhat since then, we remain stubbornly below even th levels that we held for much of August.

Our general view right now is, for once on ETH, bearish in BTC terms at least. First, while we tend to think that we've barely scratched the surface in terms of what can be built on the basis of innovations in the Defi space, we absolutely expect a cooling-off in the short term now (which is already well underway); the 'yield farming' craze is quite literally running out of fuel, and in short, the potential for new products that can be quickly theorised and quickly actualised looks to have largely been tapped; the next wave will not be 'tested in production', to use the common joke.

Second, congestion on the ETH network has become an increasingly significant issue. Average transaction cost on September 1st was 38 times that of January 1st, and while that's begun to settle, it does seem like this hike is effectively here to stay:



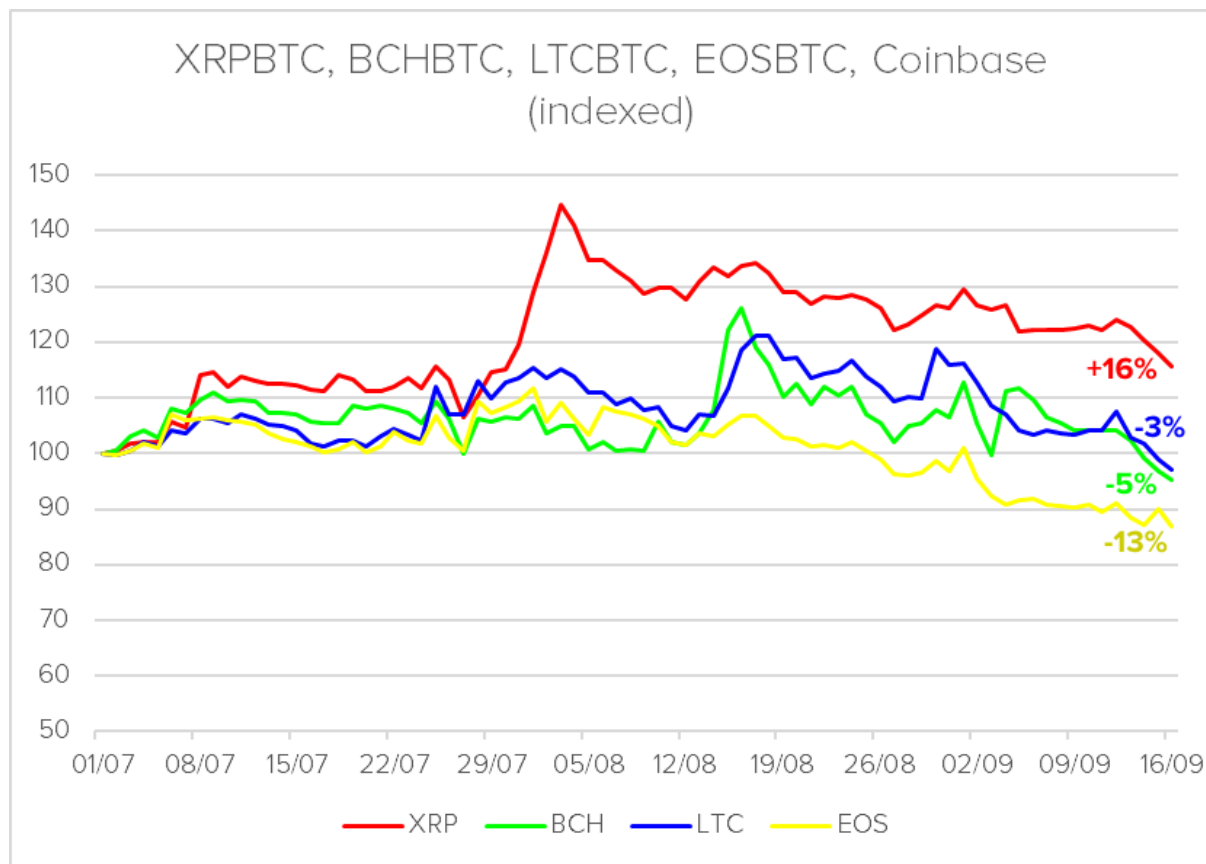
*Data via etherscan.io.*

With horror stories of \$50 transactions to use DeFi protocols abound, there has been overflow into non-ETH chains; TRX saw a nearly 100% run in a matter of days (now largely retraced) after the launch of various projects that cloned or otherwise resembled ETH DeFi projects (the JustSwap exchange, the SUN DeFi token, and chainswaps of large amounts of Tether to the TRX chain among others), and BNB saw a move of similar magnitude following the launch of its nominally decentralised Binance Smart Chain.

The longer-term view of ETH remains hyper-bullish, if anything moreso than ever with the potential that the DeFi craze appears to be unleashing; however, looking through Q4 at least (and it should be noted that, while ETH 2.0 draws closer, problems with the July testnet among other things will likely put back launch until 2021 proper), it does seem right now that probabilities favour the \$480 high as ending up being a 2021 top.

### Traditional large-caps

In USD terms, quarterly performance has been respectable, even good, with all four of the usual suspects (XRP, BCH, LTC, EOS) currently up between 6% and 40% on the quarter. However, as always, we care about BTC performance, and there the picture is quite different:

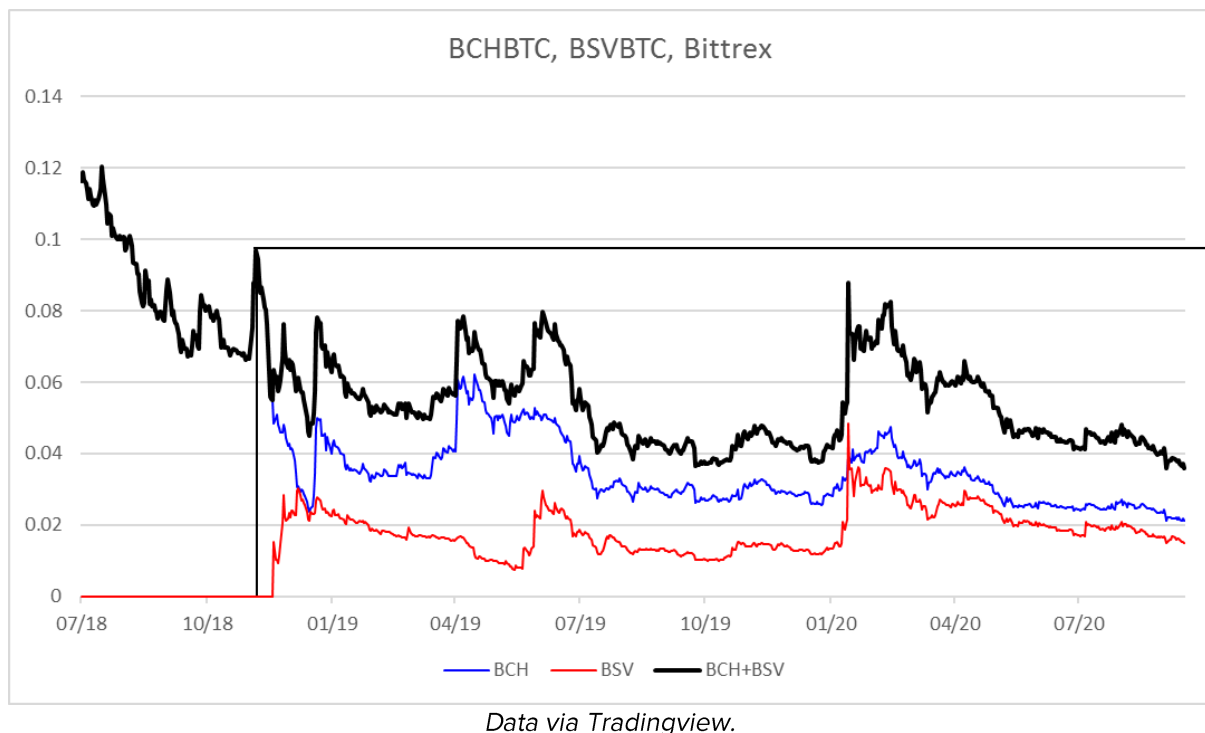


Currently, three of the four find themselves down in BTC terms (and all four seem likely to drop even further over the next week or two), and we continue to hold that in all four cases, this will continue to be the long-term trend; the use-case profiles for at least three of the four (excepting maybe EOS) looks more antiquated than ever with the direction that the DeFi trend is taking markets.

## BCH

BCH has been the laggard even among the four, and we tend to think represents the most potential downside from here. The protocol faces a chain split - of the same nature of the BTC-BCH fork in 2017 and the BCH-BSV fork in 2018 - over a dispute between BCH developers and backers (most prominently represented by Amaury Séchet and Roger Ver respectively) over a proposed development fund.

While it intuitively makes sense, since this is crypto, we should emphasise it anyway: this is unlikely to end well for either side, as the 2018 split demonstrates. There actually was a run in BTC terms (of 45% off the local lows) prior to the split, but ultimately the effect for both coins was catastrophic:



The BCH-BSV combined market cap, in BTC terms, has almost never come close to that 2018 high, even in the midst of certain manic periods over the last year or two. We would tend to expect the same here. It's hard to say how successful the Amaury Sechet spinoff will be, although the base case is probably worse than BSV (which closed its first day at 31% of BCH's price); one exchange that has listed futures on BCHABC, Coinflex, has them trading at around 12% of BCH's current price, albeit on a near-empty orderbook. Nonetheless, while we wouldn't be entirely surprised to see short-term spikes from current levels in the run-up to the fork on November 15th, we absolutely think that the prognosis through to the end of Q4 and later is heavily, heavily bearish.

## LTC

We have the least to say here about LTC, because it continues to be roughly the same story as ever - clearly antiquated, enough adoption and trust to never quite go away, but not really going anywhere positively either.

There have been some minor spots of good news, such as integration of Mimblewimble (an optional privacy protocol) scheduled for early Q4, but we still tend to take a basically, fundamentally bearish view on it (albeit with perhaps a reduced downside compared to even some other majors).

## EOS

Of the four, EOS is probably the most interesting, because in theory, it's the one where the fundamentals are probably the least bearish; it was always intended to essentially be a better ETH, and while "ETH-like" is now the watchword rather than "ETH-killer", in theory, it fits perfectly into that. In theory, it should be as best-placed as anyone to carve out a space for itself in the DeFi trend. Indeed, its one shining moment in the last few months - a 30% up-move in USD terms on 12th-16th August - came in the midst of a blitz of publicity around a declaration from EOS figurehead Dan Larimer: "I created the first #DeFi platform in 2014, and DeFi was the necessity that inspired DPOS, TAPOS, and high performance databases and account structure. #EOS was designed for DEFI."

The problem practically - and the reason that EOS's brief rally has not only faded but is now seeing it set post-2017 lows against BTC - is simply that very little DeFi-based is being built on the EOS network, and what has been built now looks late to the party; the two leading EOS DeFi apps, DeFis Network and Defibox, only saw their first daily volumes above \$1m on 5th September and 28th August respectively, and on most metrics lag behind even DeFi TRX projects.

There is simply not interest in using EOS as a platform. Why? The leading reasons in our view are:

- 1) Deprioritisation of interoperability. This is also something that ADA in particular has suffered with; the genesis of EOS was explicitly as a hostile force against ETH and other smart-contract platforms, and while Larimer has made more positive noises about encouraging interoperability between ETH, EOS, and other platforms as of late, distrust still remains on that point.
- 2) Geography of userbase. EOS remains overwhelmingly a Chinese-based protocol on most levels, and DeFi interest so far has remained (especially by modern crypto standards) moreso of a Western phenomenon (and NEO looks like a sounder bet to benefit from any Chinese DeFi boom).
- 3) Distrust of Block.one and EOS in certain quarters. Decentralisation makes up approximately 50% of the term "DeFi", and while the EOS network claims to be decentralised, it both is not and is perceived as such; complaints along these lines have made headlines multiple times in the past 12 months (most notably in November 2019 and April 2020); it absolutely constitutes something of a black cloud over the entire project.

We hence tend to learn bearish on EOS, but this is probably the case where there's the most potential for reversing the trend medium-term.

## XRP

XRP has actually been the standout performer to some extent over the quarter (at least among the non-ETH large-caps), keeping pace with ETH throughout the late July and early August run, and nearly reaching its February highs at \$0.35, but has outpaced to the downside since, and it should be noted here that the context here is that the July 1st close coincidentally happened to represent essentially an all-time low for XRP in BTC terms.

XRP remains fundamentally weak, has the fewest avenues of approach re: finding an useful place with current ecosystem trends (towards decentralisation of liquidity etc.) and in general we tend to expect it to decline. However, we will note that the firm does appear to have significantly increased its public presence recently (with the Financial Times running a long analytical piece on it on August 13th), and we hence would not be shocked to see another period of outperformance leading into and through October's Q3 markets report from the company.

***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)