



ENIGMA
SECURITIES



MAKOR

De-Coding Crypto



Enigma Weekly

20th May 2020

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

Our Market View

May you live in interesting times. An encouraging week - in spite of last week's correction, we didn't sit for too long in the \$8600 support range - an initial breakout on Thursday nearly saw us run through straight to \$10,000 before falling back towards \$9100, and we went on to open this week with a solid reclaim of the \$9600 support level (which has so far held up well).

Bias hence currently remains broadly bullish, and important levels are still \$9600 and \$8600, but at this point, moreso \$8600. As we keep saying, the general bull thesis for BTC over the next two quarters or so relies on maintaining strength at that level; a (non-intrahour/intraday) move below it is where we start worrying again about the possibility of a broader correction back into the \$6000s or low \$7000s.

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

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	9772.76	7.43%	37.95%	33.40%	21.15%	179.6B
ETH	213.54	11.48%	18.60%	40.17%	-15.35%	23.70B
XRP	0.2052	2.23%	8.20%	-12.56%	-47.08%	9.05B
BCH	246.21	4.40%	7.01%	14.20%	-39.46%	4.53B
LTC	45.50	6.73%	8.56%	-5.76%	-55.88%	2.95B
EOS	2.643	7.20%	-0.35%	-1.64%	-58.70%	2.47B

Selected

Ticker	Price	7D	1M	6M	12M	Cap
XTZ	2.866	11.82%	26.64%	106.60%	82.03%	2.04B
ADA	0.0571	12.13%	58.33%	50.16%	-29.04%	1.48B
LINK	4.075	9.04%	11.27%	67.96%	75.83%	1.43B

Alts in review: the outlook for Q3

We last wrote about alts in some detail back in March, looking towards the broad outlook for Q2. At that time, our main conclusion was grim:

To gain as a class, then, alts not only need a significant BTC-run...but it needs to be a run of a type closer to 2017 than 2019 - in other words, a run that had speculative undertones to it and was part of a major resurgence in public interest over cryptocurrencies and cryptoassets as a group. In the current macro situation, it is nearly impossible to see a situation where this can play out; either we end up falling with everything else, or we rise on a basis that only really prioritises BTC (think narratives about 'sound money', store-of-value, etc.).

With the majority of Q2 now gone, the BTC halving passed, and BTC itself having moved up significantly, it's worth looking at performance of a few different alts since that last issue.

Ethereum (ETH)

ETH has been, by some distance, the best-performing major alt in Q2.



Credit: Tradingview. ETHUSD, Coinbase.

After only making a very modest recovery in March post-Black Thursday, it has since taken off; having opened Q2 at \$133, it has generally been consistently trading somewhere north of \$190 in the last few weeks - reclaiming almost the exact level it was trading at coming into Black Thursday (it opened the Asian session at \$189 on that day, and had been at \$209 on Monday 9th March). As of Tuesday's close, it was trading at \$214 – a 61% gain.

However, as always with alts, we have to compare to BTC; and, when we denominate ETH in BTC, the picture we get suddenly becomes quite different:



Credit: Tradingview. ETHBTC, Coinbase.

Since April 1st, ETH is up against BTC, and has never actually closed negative; however, with BTC's own significant appreciation in late April and early May, we see that what was briefly a disproportionately BTC-favoured surge has since faded significantly, and ETH finds itself at basically the same level as it entered the quarter at in that regard (albeit still at similar levels in USD).

We have frequently mentioned ETH as probably the best long-term alt to hold, and we would still stand by that; it remains the only non-BTC blockchain network where enough has substantively been built on it that it's hard to see it going away five years down the line, and ETH 2.0 phase 0 (the change to a staking system for new issuance) is still likely to be a boon for demand and price when it finally does come. However, as we have also mentioned: in BTC terms, the trajectory of ETH has been consistently downwards for a long time now. ETH is currently down about 40% in BTC terms since the start of 2019:



Credit: Tradingview. ETHBTC, Coinbase.

Hence, the failure to make pace even towards those previous February highs is a tad troubling; yes, we are up on the absolute lows in December, but it doesn't really suggest resumption of maintenance of that earlier trend break, which is a source of concern.

Still: in terms of large-cap and mid-cap alts, this is probably the situation that we feel by far the best about as it stands, and there seems to be a very real possibility of short-term outperformance right now. The coin looks to have found a double-bottom just above the psychologically-important 0.02 mark (moves below that point in August and late December last year triggered severe medium-term downtrends), and conditions look modestly positive for it; social media metrics are showing increased interest, transaction volumes are increasing (in stark contrast to most similar projects), and while ETH 2.0 will probably be delayed again, it does seem that we're getting closer to a real release date each time.

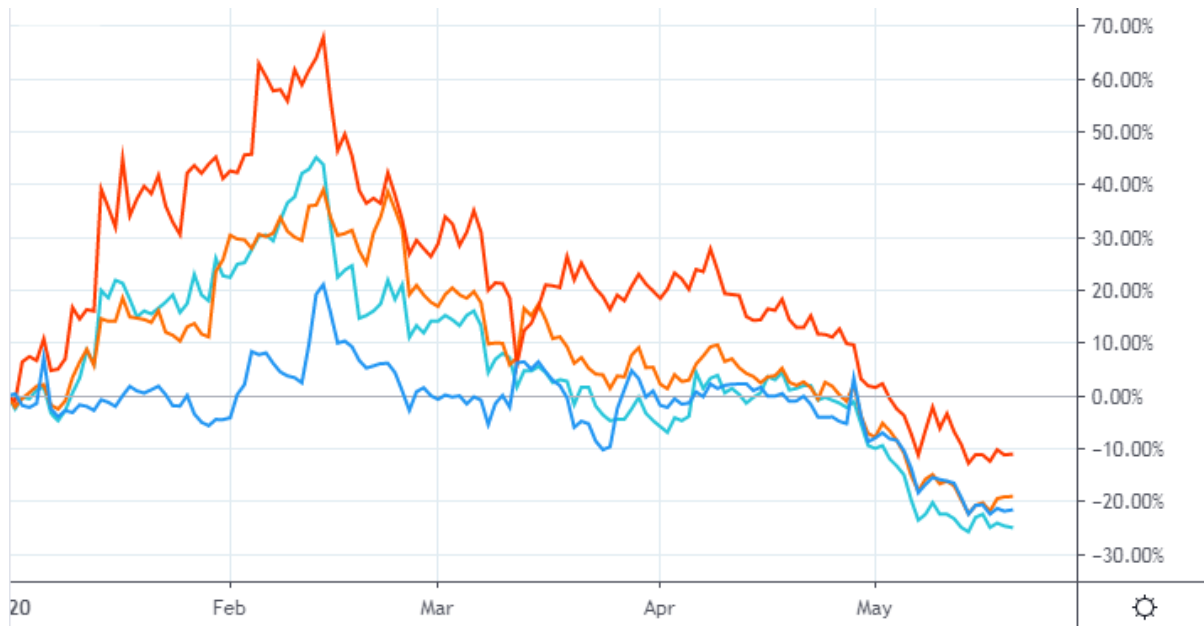
We still need to see much more to feel genuinely confident in its ability to get beyond the 0.25-0.30 range pre-ETH 2.0, but there is upside here.

Other majors (XRP, BCH, LTC, EOS)



Credit: Tradingview. XRPBTC in blue, BCHBTC in red, LTCBTC in gold, EOSBTC in cyan (all Coinbase).

Yes: all are still up in Q2 in USD terms. However, in BTC terms, it's been...not quite a bloodbath, but certainly not positive. All have followed extremely similar trajectories (BCH lagging a bit after its halving, EOS outperforming for a while in late April), and all are ultimately down 20-25% compared to where they were entering the quarter:



Credit: Tradingview. XRPBTC in blue, BCHBTC in red, LTCBTC in gold, EOSBTC in cyan (all Coinbase).

Looking at the year to date, the picture is relatively similar – all four alts are down on the year (after being up significantly), and have lost ground since the start of May as BTC has pumped. BCH is up on the pack, but most of that is the lingering effects of the BCH-BSV pump (see January 15th issue for more details); the situation on the whole has been ugly.

Our repeated argument with all four of the non-BTC/ETH large caps, to a greater or lesser degree, has been simple:

- Their effective business models are at best limited (BCH and LTC as alternative retail payment processors, which looks effectively obsolete in the modern internet landscape; XRP as an enterprise-level payment processor, which isn't much better; EOS as an Ethereum-type network which has ultimately failed to gain any real traction outside of China, and even then to a limited degree).
- Downtrend over the last couple of years hasn't quite been as consistent as ETH, but still most find themselves down significantly in BTC terms (only BCH has bucked the trend slightly), and price action during said periods has rarely been meaningfully differentiated from one another in any case.
- There hence isn't a good upside case for these assets. BTC-driven bull markets (i.e. our expected scenario for Q2/Q3 anyway) will see them lose ground vs. BTC, and in alt-driven bull markets, they're unlikely to outperform ETH long-term (and the real potential for explosive gains will be, as always, in small/mid-caps), and anyone who can hold exposure to any of them directly can likely hold exposure to BTC or ETH directly anyway.

We still think this largely holds. We did have eyes on BCH and EOS during March and April - both in themselves, and because they have tended in the past to gain disproportionately from increased retail demand in Asian markets - but performance in both cases has shown little signs of life since for the most part.

Small-caps (XTZ, LINK, ADA, ZEC)

We attach our usual disclaimer here: we generally urge caution when dealing with small-caps, these are volatile and in some cases outright untrustworthy markets, and most small-cap projects do end up trading close to in lockstep with the broader market anyway outside of one or two (near-unpredictable without insider knowledge) sudden surges up or down.

Nevertheless, we will again mention XTZ and LINK, which we have talked about ad nauseam before; the short version is that both started moving up during the overall bear trend in 2019, neither are wholly new projects but both only really rose to prominence in the last year (i.e. not the same aura of stagnancy that dogs a lot of the mid-cap projects), and both have attracted significant retail interest during that time for varying reasons. Both outperformed ETH (and almost all other alts) in early 2020 after having already recorded significant gains in 2019:



Credit: Tradingview. ETHBTC in blue, XTZBTC in red, LINKBTC in gold (all Binance).

There was a case being made in January and February that XTZ and LINK might actually be assets worth holding as diversification as much as anything else, given their strong performances in Q4. We tend to think that Black Thursday and the aftermath took a lot of wind out of those specific sails; in case of another such market panic, they seem likely to be a victim as much as anyone else. Still, their recovery has been impressive, and while they remain heavily speculative as assets, there is probably a lot further potential to run over the coming months, particularly for XTZ (which has been the more active of the two projects in terms of finding the right large corporate and institutional partners going forward).

Outside of these two, nothing particularly stands out. If pushed, we would mention that both ADA and ZEC are both up decently in BTC terms since the start of the quarter, and both are at least showing signs of life on the governance and development level (ADA, like ETH, is moving forward with major network upgrades in the near future, while ZEC's organisational structure recently passed a policy change to significantly increase funding of new community development).

Conclusion

Our position has been fairly consistent over the last few quarters: alts usually represent an inferior short-term and long-term investment compared to BTC, because they still ultimately represent a not-meaningfully-differentiated asset from BTC with a far higher downside risk than BTC.

As a class, this remains our stance. The last couple of months have confirmed our fears about their performance in a downtrend, and current levels do not seem to represent good value with regards to betting on alts outperformance in an uptrend (and we will say again: the current medium and long-term bull case rests more on supply dynamics and institutional money rather than another retail bubble, which weakens the case for a truly aggressive 2017-style alts market).

However, for ETH, and for a few small-caps, it is worth at least paying attention. While we ultimately see the upside on BTC as higher, it would not be surprising to see ETH outpace BTC on the way up in a broadly similar fashion to the mid-2017 portion of the boom; a lot does depend on ETH 2.0 actually hitting long-delayed deadlines, but as it stands, a number of positive narratives are likely to hit at the right time (in late Q3 and Q4) to allow it to get something of a jump-start. On the small-cap side, while a full 2019-style frenzy (where every project seemed to attract a \$1bn cap overnight) isn't likely, there should be at least a couple of projects that will benefit disproportionately.

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)