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MAKOR

De-Coding Crypto

Enigma Weekly

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Our Market View

May you live in interesting times. ETH continues to set all-time high after all-time high; corrections on both Sunday and Monday barely seem to have registered with regards to slowing down the overall momentum, and as of yesterday, ETH had closed green on 14 of the last 17 days. Our issue this week discusses the picture on ETH in more detail, but our general view is this: we do feel that ETH probably has a little more room to run on the basis of what we're seeing on extreme low time frames, but we are absolutely overdue for a correction, and while that correction isn't going to take us back to \$2000, it's probably worth adjusting risk accordingly.

More broadly: alts markets generally lagging ETH, with active pullbacks on a lot of the bigger beneficiaries of the recent retail frenzy (DOGE at \$0.47, ETC/XRP/BSV among others significantly off their highs and down week-to-date overall). One interesting one to point out is EOS, which spiked massively on Tuesday on the news that parent company Block.one was launching an exchange (Bullish Global) with approximately \$10bn of cash and digital assets for liquidity provision; while the initial reaction of +50% was probably over the top, we could see a genuine uptrend building there over coming weeks and months.

On BTC: same as ever, BTC is a passenger, and not a particularly mobile one. The fact that it is largely maintaining at around that \$56,000 level is absolutely a good sign with regards to its potential to see higher in the supercycle as a whole (and a good sign that the supercycle itself is not yet exhausted); still, little reason to buy it or speculate on it directionally until momentum turns.

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

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	55020	-4.1%	-8.1%	242.0%	486.1%	1.029T
ETH	4135.15	23.6%	96.7%	812.3%	1998.0%	479.0B
LTC	354.85	3.2%	47.3%	463.6%	732.6%	23.69B
BCH	1398.72	11.2%	110.9%	454.5%	499.0%	26.21B
EOS	12.145	47.9%	87.3%	376.8%	359.3%	11.60B

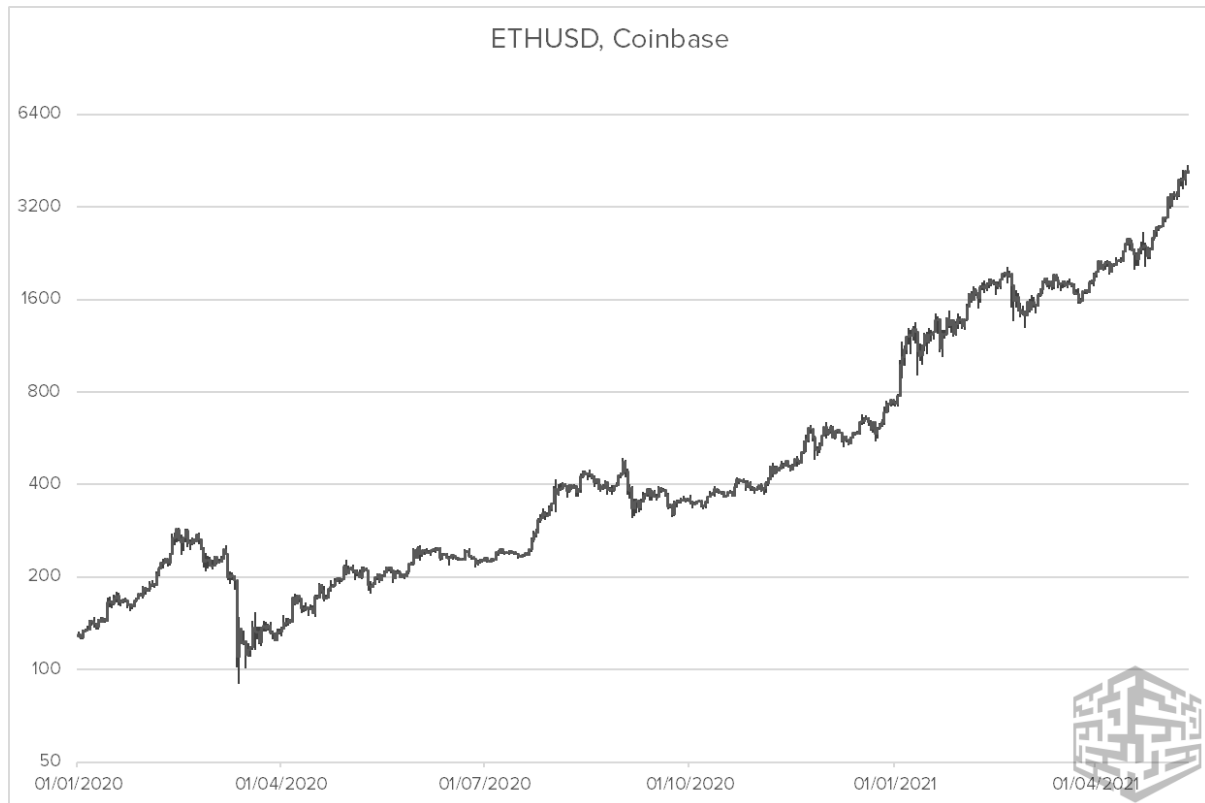
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Ticker	Price	7D	1M	6M	12M	Cap
ADA	1.693	19.1%	28.3%	1516.0%	3211.0%	54.18B
DOT	39.45	0.7%	-2.7%	780.5%	1253.0%	36.97B
LINK	46.16	-2.3%	40.7%	271.0%	1140.0%	19.62B

Alts latest: ETH, mid-caps, and what's next

Ethereum

ETH over the last few weeks has clearly had the momentum of a runaway freight train, to the point that we barely need to belabour the point; but, to belabour it anyway, here's a log graph of it since the start of 2020.



Data via Tradingview.

Not only has it been seeing parabolic gains, but it has been gaining at a % rate that only has a handful of parallels in the last 18 months with respect to the sheer velocity and consistency contained therein. (We used a log graph here in order to be able to compare those percentage gains evenly). It does still remain slightly off the December/January surge (wherein it benefited from the double whammy of an ascendant BTC market and an uptick in ETH-specific interest on the institutional end), but it has actually now passed the parabolic phase of DeFi summer back in July.

This sort of action is clearly rare. It's particularly rare given that there's been no drawdown of 20%+ throughout that run; we did see a couple of such corrections in April, but since the \$2040 low print on April 23rd, it's been nothing but blue sky upwards, with even the post-SNL action last weekend only amounting to a quickly-erased -6% (and choppy waters on Monday technically seeing -13% but nonetheless ending the day green).

This does bring up the question of a correction; because, even in crypto markets, this sort of unbridled positive action is absolutely not normal. Throughout 2018, 2019, and 2020, on ETH, we saw a few instances where one of the two managed to continually rally towards or beyond current gains without sustaining a 20% or more correction, but they were rare:



From	To	Low	High	Gain
13/03/2020	30/04/2020	90.00	227.50	152.78%
11/05/2020	02/08/2020	176.43	415.00	135.22%
26/11/2020	10/01/2021	480.08	1350.88	181.39%
23/04/2021	?	2040.00	4384.43	114.92%

Data via Tradingview. Criteria: gain of at least 100% from the local low without a drawdown of 20% from the local high.

With respects to surpassing current gains since the drawdown trough on April 23rd: ETH did it in March 2020, both ETH and BTC just about did it in December/January's run, in both cases hitting around the +150% mark before correcting. (ETH also did manage it in DeFi summer technically, but a decent portion of those gains came in the two months before price really started moving on July 21st). It hasn't happened often, and even in 2017, it was unusual; BTC did +166% in September and October, drew down 30%, and then did +260% on what would of course be the final leg of the run. (ETH, for reference, saw +121% and +123% respectively).

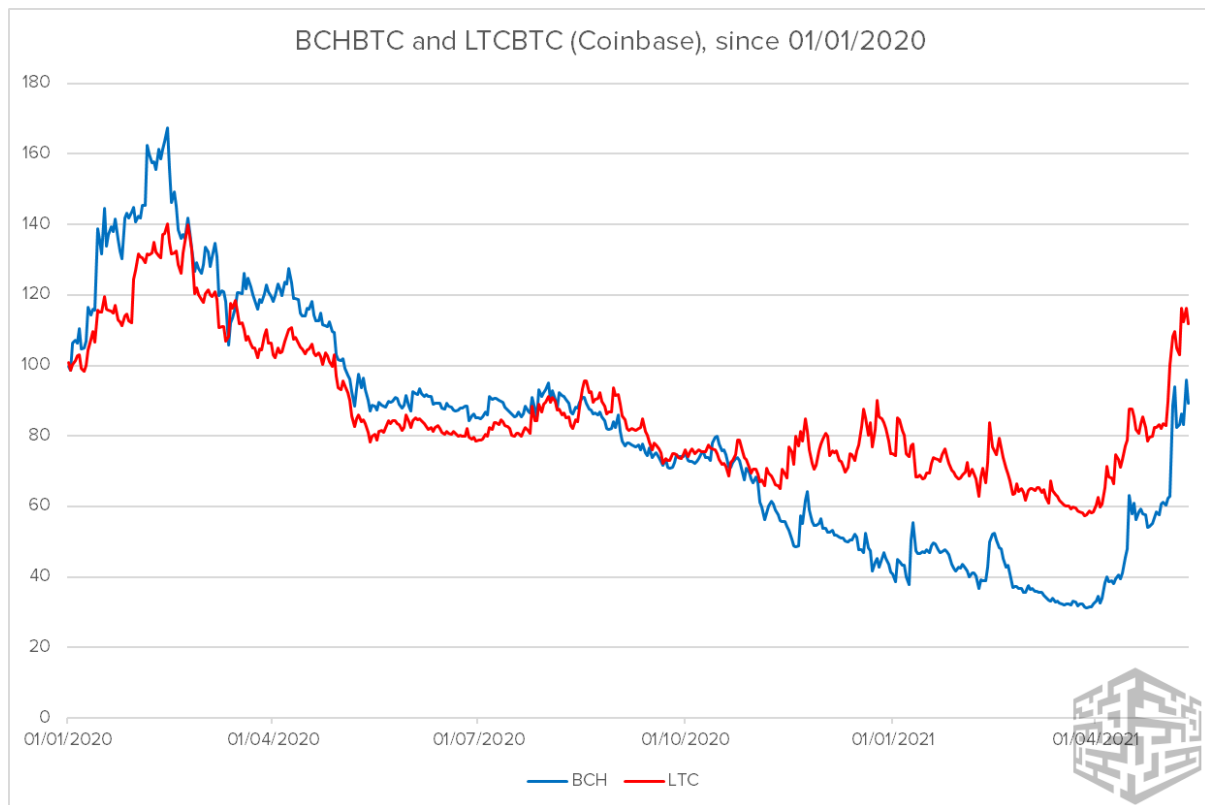
Unless we are in the absolute final throes of the overall crypto run, even parabolic action eventually has to come up for air, and we do think that on ETH, we are absolutely getting to levels now where it's worth being cognizant of that. The first level at which we were really looking in that regard was \$4000; it does appear that we are seeing healthy consolidation above that at the time of writing, and we see little potential resistance from there until we get close to \$5000, so that hence becomes the interesting mark in that regard.

Of course: 20% at this point would mark us down to something as little as \$3,400; we're not talking about catastrophe here. However, it is a time to start being wary, especially if dealing in leverage of any sort. The fundamental factors propelling ETH up the charts recently are as they have been, and if anything, are strengthening; we are finally starting to see new developments within and adjacent to the ETH DeFi ecosystem after a long period of inactivity (Uniswap 3.0, oSushi), and there are signs here and there that despite continuing issues with fees etc., ETH platforms are winning back some market share vs. similar BSC comments (e.g. the latest retail craze, SHIB, being an ETH-based ERC20 rather than being BSC-based).

However, on the basis of history, even by bull market standards, ETH does look to be getting to the point of being overbought; and, while we do think there's more short-term upside to come (at least while it remains above \$4000), we are at the point where we at least would start to urge caution.

Traditional mid-caps (BCH, LTC)

A question that we've been fielding a lot lately is what's going on with the likes of LTC, BCH, and other assets that we tend to put in the basket of traditionally being that sort of unremarkable mid-cap that for the most part just loses value. The reason for this enquiry is clear:



Data via Tradingview.

Even in BTC terms (which is still ultimately the yardstick that we measure by; an ETH benchmark would of course be very different here), several have surged massively in the last month or so. Of course, context matters here; BTC itself has hardly had the most positive of quarters to date, and if one were to pick pretty much any alt in the top 50 regardless of any other factors, it would probably have gained against BTC to some degree.

Still, it is a notable uptick. The key thing to understand about projects like LTC and BCH is that our general negativity on them is based on the fact that, in the long term, they don't really bring anything new to the table, and that while they will occasionally see upticks from their long-term decline, and they will tend to be beneficiaries in big moments of retail hype due to their sheer accessibility (which has been in large part the recent for their recent spike - ETC's +600% spike was the poster child for that, given that it was almost entirely a product of the coin being the lowest unit price crypto asset outside of DOGE that was available on the Robinhood system), long-term, they are likely to continually bleed value.

Nothing has changed in that regard for the most part, and hence, our general view remains the same - if not actively making use of them, we don't really see a case for holding them over either BTC or ETH as it stands.

The next wave (DeFi, interoperability, NFTs)

For alts markets in general, we expect most to keep moving up and down pretty closely with ETH, if not necessarily with BTC (which has been seeing 90-day correlation against ETH and broader markets falling to historically low levels as of late).

This raises the question of where alpha, or at least beta, is to be found within these markets over coming months. In general, we're looking along three broad themes:

1) DeFi. This one seems obvious, but in a sense, it isn't; DeFi coins have actually been significant underperformers for the most part over the course of the last few weeks, and as we mentioned earlier, in general, there hasn't been a huge amount of focus on the DeFi space from buyers as retail money and attention has largely been collected by straightforwardly 2017-like ICOs than lending and staking and all of that jazz.

2) Interoperability. We said coming into the year that interoperability would be the theme of 2021; and, while it may be doing so quietly compared to some other things, we still think it's been at the core of many of the big success stories of the last few months, and will continue to be so.

3) NFTs. Volumes and prices on NFT products have quietly dropped off a lot since the initial February/March spike, but we do still expect a second wind coming in here at some point, and hence in particular layer-1s and layer-2s that are able to make good use of NFTs conceptually still have potential.

With that in mind, in terms of established assets, we would hence keep an eye in particular on SOL (and SOL-based projects like SRM), FTT, ALGO, SUSHI, and the classic blue-chip DeFi projects like UNI, AAVE, SNX, etc. To go one-by-one in brief:

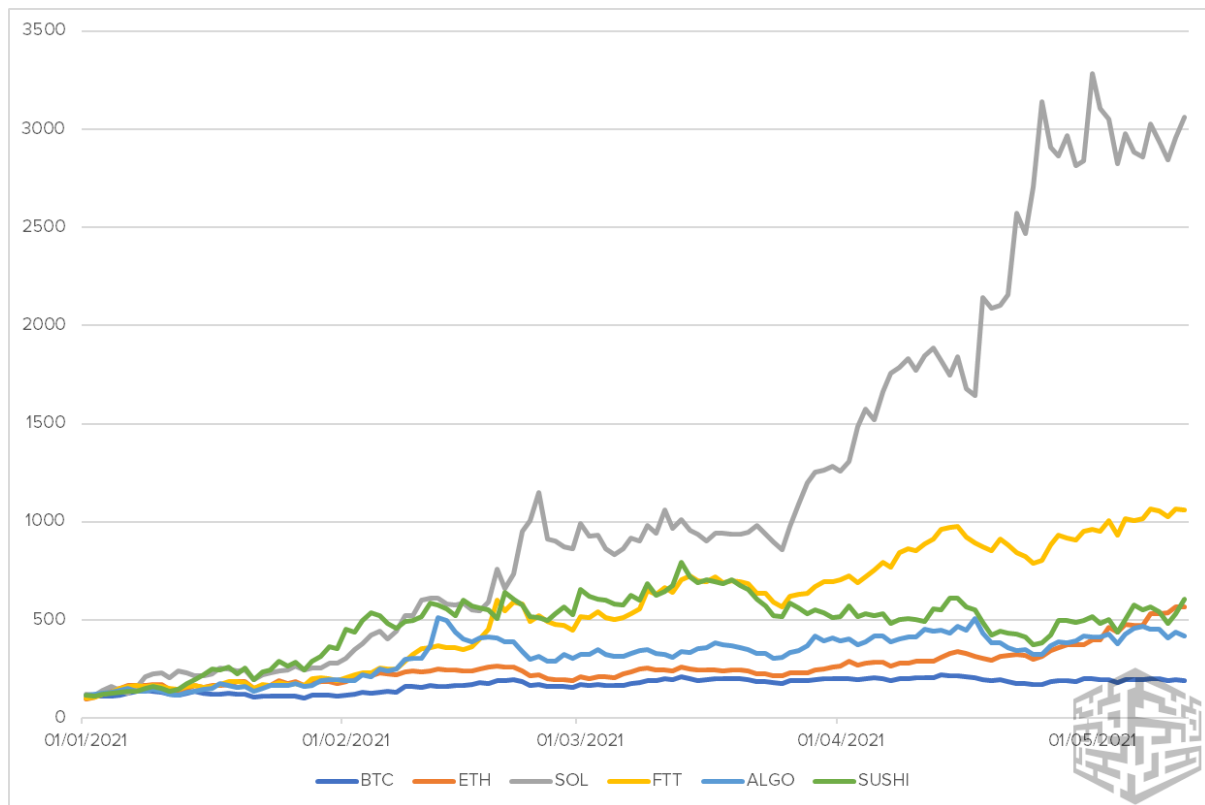
SOL: Solana, an Ethereum-like blockchain built for extreme high performance. Already a \$12bn market cap asset, and does appear to be getting significant traction in the form of essentially serving as a partner chain to Ethereum for HFT-like use cases. (AVAX, Avalanche, is also of some interest for similar use-case reasons, though it lacks the degree of capital backing that SOL has been attracting).

FTT: Exchange token of FTX; FTX and its associated companies (Alameda) and persons (Sam Bankman-Fried) are significant backers of a large cross-section of the DeFi ecosystem, and while FTX has historically not made significant inroads into the true retail market (its user base has historically been professional traders and corporates), it has been making a large push on that basis recently, and we could hence see a BNB-type appreciation if it can continue to attract attention.

ALGO: Algorand - a proof-of-stake chain that has been around since 2017, ALGO generally has been one of those assets that's stuck itself at a valuation in the low billions but has never really seemed to find an actual useful niche for itself. However, it does seem to be carving out something of a spot for itself in the NFT and tokenisation space, and we do see potential upside (as well as an asset that may turn out to be less correlated with general market trends than more direct DeFi etc. plays for those who are concerned about that)

SUSHI: Sushiswap - formed as a cross-chain competitor to Uniswap last year, backed by FTX/Sam Bankman-Fried among others. The reason that we single it out here as interesting above the other blue-chip DeFis is because it does play heavily towards interoperability; that has been to its slight detriment short-term as markets have shifted towards Binance Smart Chain/PancakeSwap rather than looking for better solutions towards dealing with ERC-20s and the like, but we tend to think it will help it going forward.

For reference, this is the performance of all four assets in USD terms since the start of the year, compared with BTC and ETH:



Data via Tradingview.

SOL is already up to an extent that almost makes the rest of the chart seem foolish, of course; we do nonetheless see the potential for higher, bearing in mind that its \$12bn market cap is less than a third of all three of DOT, ICP, and ADA. FTT has also done fairly well, while ALGO and SUSHI have been underperformers.

Of course, ultimately, it's still in a sense hard to argue against mostly focusing on BTC and ETH; there are few magic bullets in crypto, especially not when we're talking about assets that are already large enough and sound enough to be generally investment-grade. However, even if one was to pursue smaller assets at a presale etc. level, the same general principles apply; despite ETH's recent successes, DeFi as a whole feels underbought in relative terms right now, and is likely to present opportunities particularly in the wake of any ETH correction late in the month.

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.

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