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De-Coding Crypto



Enigma Weekly

1st July 2020

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Our Market View

May you live in interesting times. Another frustratingly flat week, but make no mistake here: all signs are continuing to point towards a breakout in the near-term, and the prognosis is still weighted towards the downside. We do appear to have found some degree of support (again) at the \$9100 level, and hence have been playing the upper end of the broader range technically, but there still seems to be relatively little appetite for a move upwards, and we hence tend not see this level holding on a more serious test. We continue to look towards either \$8600 or \$9600 for stronger trend confirmation.

Alts are slightly down as a class this week, with a handful taking a relatively severe step back; this week's issue discusses our views on alts in more detail.

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

Major

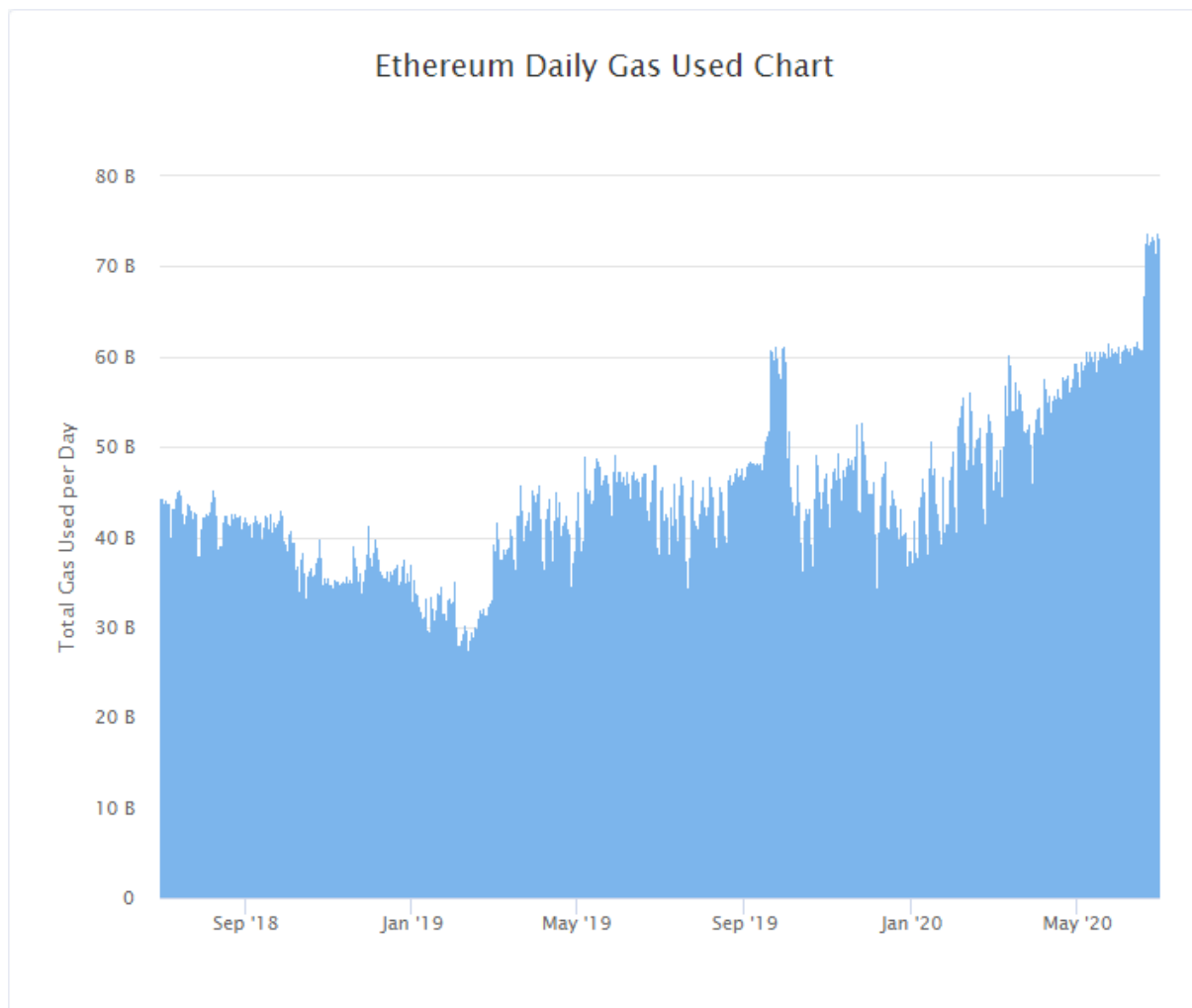
Ticker	Price	7D	1M	6M	12M	Cap
BTC	9212	-0.68%	-3.71%	25.48%	-17.97%	169.7B
ETH	228.44	-2.90%	-3.96%	70.39%	-20.57%	25.49B
XRP	0.17659	-3.27%	-13.85%	-8.33%	-54.63%	7.84B
BCH	224.85	-3.14%	-7.57%	0.39%	-44.55%	4.15B
LTC	41.69	-2.15%	-11.09%	-2.45%	-64.74%	2.71B
EOS	2.392	-3.59%	-11.56%	-9.64%	-58.48%	2.24B
Selected						
Ticker	Price	7D	1M	6M	12M	Cap
ADA	0.08844	8.39%	12.31%	158.20%	15.33%	2.29B
XTZ	2.41724	-8.05%	-16.62%	93.28%	97.21%	1.75B
LINK	4.6287	0.25%	6.38%	153.40%	32.70%	1.62B

Alts, latest trends: ETH, ADA, LINK, ZEC

ETH

Among the large-cap alts, ETH continues to be the one prospect that shows promise on a non-transient basis. We have discussed this at some length in previous issues, but to reiterate on this point, our general view here revolves around the fact that, among said large-cap projects, it is the only one that not only does not appear to be plagued by stagnancy on a fundamental or near-fundamental level (more on that below), but in fact actively seems geared for both long-term survival and for growth.

Why? For one, it does continue to be the only major network which seems to be seeing continual real growth and utilisation. This is always something that's a little difficult to measure in crypto, but there's little reason to doubt that activity, as reflected by metrics such as gas usage (i.e. the total amount being spent on transaction and smart contract fees):



Credit: Etherscan.io.

What, precisely, are we seeing here? The Ethereum network has a soft limit per-block on gas usage, which has been relatively rarely adjusted in the last couple of years: in fact, only twice since 2017 (in September of last year, and in June of this). Hence, the spike towards the present day does not mean some overnight surge in activity. However, combined with the incline since the start of 2020, it does demonstrate a network that, after an extended period mostly spent under-capacity, is now back above it.

It should always be noted with regards to ETH that such utilisation metrics have their issues; looking at a snapshot of the top ten gas users over the last thirty days, for instance, we should still note that at least six of the top ten gas users are either Ponzi schemes or connected to Ponzi schemes:

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		
Total, top-10		49.4K	\$11.81M		
Total without Ponzis		15.6K	\$3.68M		

Data via ethgasstation.info.

Still, there are clearly signs of (more palatable, more sustainable) growth. 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.

With regards to shorter-term perspectives; looking at ETH since our last alts issue:



Credit: Tradingview. ETHUSD, Coinbase.



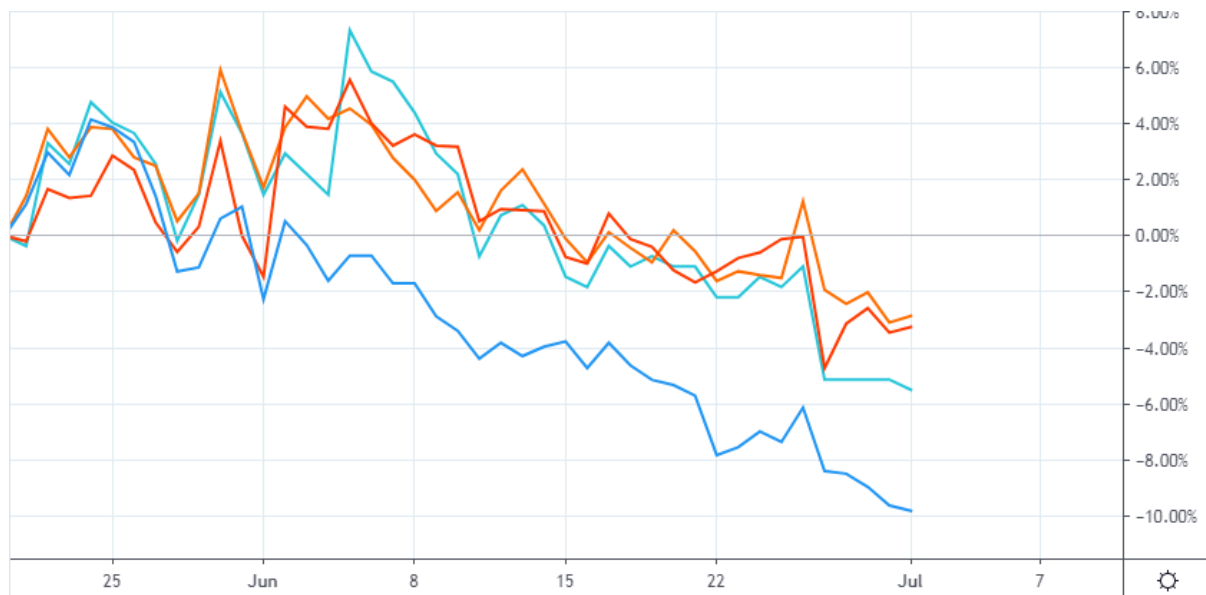
Credit: Tradingview. ETHBTC, Coinbase.

After an initial surge, we have essentially come somewhere close to flatlining in both USD and BTC terms; we have, however, fairly consistently remained above the point at which we moved up from, which is encouraging. The inability to sustain above the 0.025 level on ETHBTC - historically something that has tended to be a bit of an ill augur - is slightly worrying, but we tend to learn towards outlook being at worst neutral in ETHBTC terms over the next month or so. (ETHUSD potentially leans slightly bearish because of the possibility of a downturn for BTC - correlation between the two assets remains extremely high, as with most non-BTC assets against BTC, and while we tend to believe that there's a possibility here for it to decouple in a way that

we generally haven't seen in years as we approach ETH 2.0, we aren't quite there yet).

Other large-caps (XRP, BCH, LTC, EOS)

The picture here, as a class, continues to be extremely poor, with all four of the assets that we tend to class as 'large-caps' registering reasonable drawdowns over the last month:



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

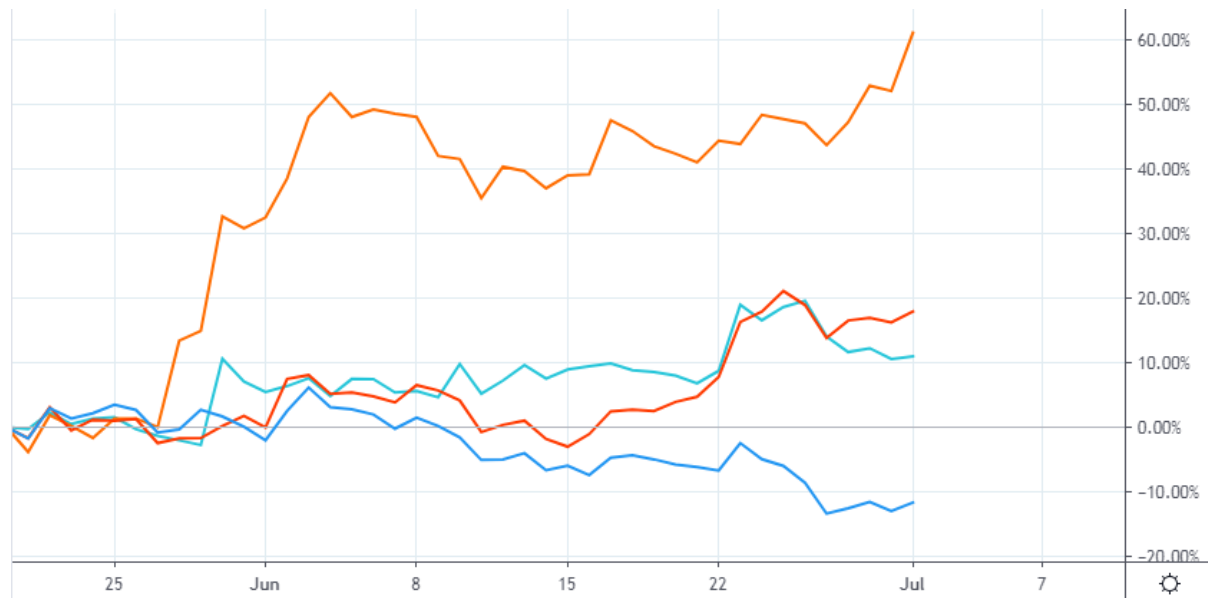
BCH has held up among the strongest of the pack overall - we tend to think that it was somewhat oversold post-halving, even if the halving itself was not a long-term positive impetus in the same way that BTC's will tend to be. Still, though: there's very little to like about any of these assets.

We spoke in some detail in our May issue on the broader issues regarding our longer-term bearishness on these assets, with the watchword being 'stagnancy'. To summarise, as we said then:

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).

Mid-caps (ADA, LINK, ZEC)

The four mid-caps that we expressed interest in during that last issue were XTZ, LINK, ADA, and ZEC. How have returns been since that issue? On the whole, positive:



Credit: Tradingview. XTZBTC in blue, LINKBTC in red, ADABTC in orange, ZECBTC in cyan (all Binance).

The laggard of the bunch has been XTZ, which started out well, but pulled back down somewhat from early June. We still tend to think that there's a lot to like with it as a longer-term play, but we are seeing signs of it being caught in something of a difficult situation mid-term; it rose initially last year on a rush of interest on the basis of its staking rollout, and it has made strong strides in terms of laying a foundation to grow longer-term.

However, such developments have hit a bit of a lull in terms of what can be put out publicly, and it seems that XTZ is becoming a bit of a victim of no longer being the top dog in terms of staking and similar narratives; the interaction between DeFi and passive income has taken some of the air out of that for the time being.

The other three assets find themselves significantly up in BTC terms, with the standout by far being ADA. ADA is one of the few older projects (launched October 2017) that has, at least to some degree, avoided the aura of stagnancy and managed to break out of longer-term downtrends. We should say, as is always the case: of course, even with these gains, it remains still far below where it was even a couple of years ago in BTC terms, down around 75% from even May 2018 highs (let alone December 2017):



Credit: Tradingview. ADABTC, Binance.

Still, this is an impressive reversal, and there's not a huge amount of precedent for a project managing this post-2017; the closest would be something like LTC at the start of this year, but even that only represented a 48% increase from all-time lows (before crashing back through it):



Credit: Tradingview. LTCBTC, Coinbase.

Why has ADA being able to do this? Like XTZ, and to some extent potentially like ETH, it's something of a case of being in the right place at the right time, with regards to network upgrades that both open the door to public proof-of-stake and address concerns over network centralisation (something that has been an ongoing public relations disaster for EOS and TRX among others).

Our tendency is to think that ADA still has some room to run from here in the short and medium-term; the key areas to watch will largely be those where price reached some level of stability during late 2018 and early 2019 at around 1050-1200 sats, with further reaction to be seen from there (we were trading at ~900 sats as of Wednesday's open); it seems unlikely that we've quite reached the peak yet of what interest based primarily on its staking elements (combined with whispers of its longer-term potential) are able to support.

There does seem to be at least a partial risk of a XTZ-like fallow period sometime in Q3, but not quite yet; if we move down, it's unlikely to be a BCH/BSV-like post-halving crash. Expectations for the most part seem firmly in check here; we are not convinced that recent price action represents a bubble, at least not in the short-term.

Outside of ADA, we continue to lean somewhat bullish at current levels on both LINK and ZEC; LINK has benefited massively from being so closely joined to the ETH ecosystem and will probably continue to do so, while ZEC has been less steady but still profiles out positively going forward (as one of the only payment processing-oriented coins that a) has any sort of unique use-case and b) is making positive moves on the governance level).

For the time being, we lean neutral to bearish on most other mid-caps; and, while there are projects lower down that are worth monitoring (IOTA, BAT, KNC), we continue to urge caution as a rule on smaller cryptoassets for the most part.

Until next week – thank you for reading.



ABOUT US

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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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