ENIGMA SECURITIES

De-Coding Crypto

Weekly Analysis

Bitcoin in December: freeze or thaw?

December 4, 2019

In this week's issue, we take a look at the outlook for BTC in December, and discuss whether the historically volatile month will prove to be so once again. We also discuss the Telegram/GRAM situation going forward.

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Our Market View

May you live in interesting times. On the quieter side of things this week for the most part, and we end almost exactly where we started. Our research for this week tackles the question of price action over the next month in more detail, but the bottom line is that we lean bullish (more as a consequence of seeing relatively limited downside risk rather than spectacular upside) but are expecting a quiet month overall by BTC standards.

This does create an interesting situation for altcoins as a class, given the recent tendency for rallies in low-volatility situations. ETH remains the default here, but currently presents unusual downside risk; while our general view on LTC is and will remain bearish, there may be short-term opportunities there.

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

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	7208.15	-0.46%	-22.59%	-9.21%	111.80%	130.3B
ETH	145.809	-1.10%	-21.83%	-40.32%	62.07%	15.86B
XRP	0.213611	-2.81%	-27.84%	-47.75%	-29.08%	9.25B
BCH	206.646	-2.96%	-28.71%	-47.51%	107.10%	3.75B
LTC	44.8256	-4.30%	-27.37%	-62.19%	85.31%	2.86B
EOS	2.63075	0.15%	-23.79%	-58.71%	46.27%	2.51B

Selected

Ticker	Price	7D	1M	6M	12M	Cap
TRX	0.0145324	-6.49%	-27.37%	-54.61%	3.92%	0.97B
VET	0.0073989	2.09%	51.15%	-10.40%	73.27%	0.41B

Bitcoin in December: freeze or thaw?

Throughout BTC's history, December has tended to be, to put it politely, an eventful month:

Y	O	H	L	C	TtP
2018	$3,976	$4,275	$3,130	$3,692	36.6%
2017	$9,903	$19,892	$9,517	$13,863	109.0%
2016	$743	$989	$742	$949	33.3%
2015	$378	$469	$350	$430	34.3%

Data: Coinbase via Cryptodatadownload. TtP: trough-to-peak.

In recent memory, BTC's all-time high to date was achieved when it peaked just barely below $20,000 on December 17th, 2017; just under a year later, on December 15th, 2018, it bottomed at just over $3100. Even in the premodern era, it tended towards unusually significant movement. Hence, the question must be asked: what will December 2019 bring?

There is, unfortunately, no easy narrative here. Movement on the month is likely to cut both ways, and we would not be surprised to see a $3000 or more range across its entirety. However, our view can generally be summed up as such:

1) We have likely already seen the macro floor; if moves below $7000 happen, they should be brief.

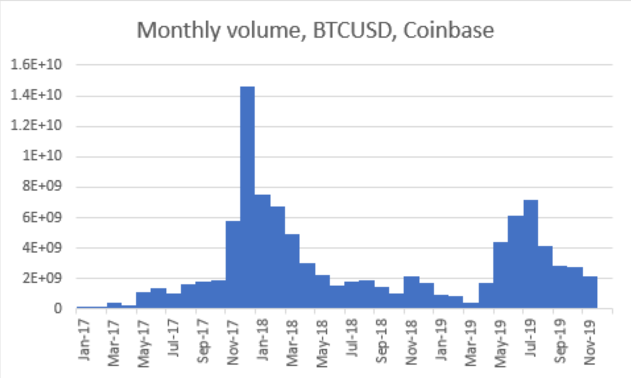
2) Signs on the horizon in terms of news-related catalysts look to be generally positive at the moment.

3) Upside potential is generally being underestimated, but will still be difficult to exceed October highs.

Let us go through each of these points.

We have likely already seen the macro floor; if moves below $7000 happen, they should be brief.

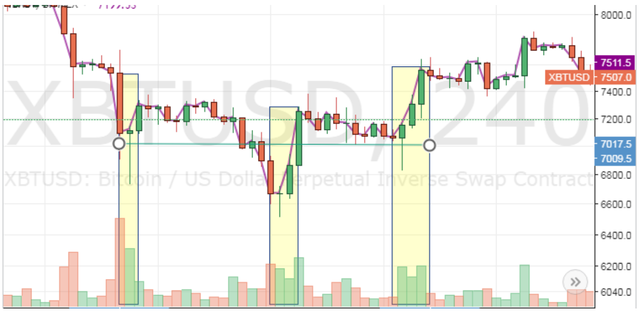
The quiet story of 2019 has been that while crypto remains a retail-dominated market, exchange volumes have suffered and in general there is definitely less interest on the retail side than there was in 2018 or 2017. This was to be expected for the first few months of the year for fairly obvious reasons; however, even the boom over the summer did not capture interest or activity in anywhere near the same way as previously:



Data: Coinbase, via Cryptodatadownload.

Once bitten, twice shy, perhaps. Derivatives markets appear to have made up a large part of the difference (though the nature of leveraging on most makes it hard to ascertain or compare volume to traditional exchange numbers), but certainly, it seems that interest overall has been lower.

For us, November has been an interesting month - in part because of raw price action (as we discussed last week), but also in terms of what has happened with both price and volumes last week:



Credit: BitMEX. 4-hour chart.

On three occasions, big movements took us significantly below $7000, generally briefly threatening $6500 and beyond. On all three occasions, not only was the move rejected quite emphatically, but we saw a notable uptick in volume on the response.

Of course, volume on a significant move is entirely to be expected; but the amount of volume compared to the overall magnitude of the moves, and the way that volume and price tended to 'pool' around the rejections, means our tendency is to see a sustained violation of $7000 in the near-term as, at best, difficult.

Put simply, our thesis is that moves to $7000 and below are psychologically important in terms of retail interest, and buying pressure emergent at those levels for now is enough to buoy prices there. We could offer a number of different explanations for why this may be (61.8% retraces from June/July peaks, collective memory of the long Q3/Q4 2018 range of $6200-$6700 and feeling that it may represent 'fair' baseline value, increasing prevalence of models like stock-to-flow that put 'expected' prices currently in the $7500-$8500 range), but we are concerned with observed behaviour more than anything else, and as it stands, $7000 appears to be forming a soft medium-term floor.

Is it possible to go lower? Absolutely, and we would be more surprised than not to go into January without at least one big retest below $7000; but we tend to think that the risk of a cascade downwards, and a medium or long-term range that contains levels below $6000, is no longer particularly likely, and that we are hence unlikely to hence leave December at that level.

Signs on the horizon in terms of news-related catalysts look to be generally positive at the moment.

The first thing we will point out here is this: the Bakkt options launch is on December 9th. On balance, we would probably say that this is more likely than not to not move the needle; day-1 activity will certainly be higher than on the futures product (and it may also benefit from the publicity from the expected announcement on Wednesday of Bakkt CEO Kelly Loeffler as an interim US Senator) but it's hard to gauge exact magnitude at this point.

The crucial part here, however, is that it seems very unlikely that it can be a negative catalyst; unlike September, it has absolutely not been overbought. In general, 'not overbought' very much feels like the theme of the medium-term news cycle. With regards to China and Asian markets more generally, we have once again made it through the classic cycle of euphoria, followed by doubt, followed by panic, and again followed by relative calm.

There is very little on the immediate horizon for once in terms of technologies, platforms, 'innovations', and so on that will radically change the face of crypto and open the door for investors (or so it has been sold in the past). The Bakkt options launch (and build-up of the Bakkt 'hub' in general) is significant, but again, immediate expectations are not high.

In general there seems to be a realisation across the crypto space that 2020 will be a year of moving slowly and breaking as little as possible as regulatory interest - and activity - steps up enormously.

That is not to say that nothing will happen in 2020, of course, and both the BTC halvening and ETH 2.0 still promise to be market-shaking, to put it mildly. But these are some time off still, and looking to the remainder of Q4 2019, there is relatively little in terms of these sorts of short-term, news and expectation-driven narratives to prop things up. Few are buying rumours, and few are selling the news. In such an environment, where the news cycle does weigh on price, it is likely to be for the better.

The one foreseeable news item that could conceivably dent prices would be concerns over hash rate and miner confidence. We are due for another difficulty change around midnight on Friday (and then again around 20th December); hash rate has not noticeably dipped, but is essentially flat, and projections right now are for about little under a 2% drop. We discussed the difficulty issue in more detail in the 13th November issue; in brief, drops of over 1% have been rare (this will only be the second one in 10 months), but not unheard of.

That being said, perception is the dominant factor here, as hash rate and difficulty is more significant in terms of the image it gives of miner confidence than anything else; our read right now, however, is that it is unlikely to weigh down sentiment any further than it already has. Adjustment on the 20th could be different, but there are no signs of that being the case so far.

Upside potential is generally being underestimated, but will still be difficult to exceed October highs.

With BTC at the time of writing trading barely above $7000, our general view is that it currently represents a value proposition going into Q1 2020. However, does it then represent a value proposition across December alone?

On the whole, we would lean towards yes; there is always further downside risk in crypto assets, but chances of a cascade are low, and chances that we at least regain a range around the $8200 median of late September and October at some point seem favourable.

However, by the same tack, this is unlikely to be a historic month. The same factors that are tapering downside risk - the retail baseline, slow news cycles - will also naturally serve to taper upside, and while we are bullish going into Q1, we would be very surprised to see it above 15% month-on-month for December (which would map roughly to $8600).

GRAM in 2020: the legal perspective

By Alina Kisilevich

The legal case of Telegram vs U.S. Securities and Exchange Commission began in October when the SEC won a restraining order against Telegram's ICO after arguing that the token was an unregistered security (while Telegram argued they will constitute a currency and/or commodity), they also issued a court hearing where the founder of Telegram, Pavel Durov, will depose before the authorities in January 2020.

Gram token purchase agreements mention that if the Telegram Open Network will not be launched in April, the investors can file a refund claim after undertaking a vote. It seems like the worst case scenario, but, in reality, Telegram is already prepared for that, because earlier they gave the investors a choice between postponing the TON launch or a refund, and the investors ruled to delay.

The main legal precedent is future classification of stablecoins as securities, if Grams are not distributed. Before Durov's deposition, it is impossible to predict if this will take place, but it seems that constant rescheduling of court hearings and the said deposition is a positive development towards sorting out of the regulatory issues, moreover the deposition will clarify most of the arising questions. It is high time to finally settle the legal part of such arguments because they are important to apply to the regulatory framework for stablecoins, especially now that mainstream institutions are offering them to consumers. Another possible precedent is, the SEC will stop utilizing the Howey Test as the standard for classifying investment instruments as securities, and create another standard specifically for crypto.

Telegram sold 2.9 billion Grams for $1.7 billion between January and March of 2018, the SEC filed the legal complaint only in October 2019, because only then Telegram entered into committed to deliver Grams to the Initial Purchasers in conjunction with the launch of the TON Blockchain by the end of October.

It is possible to compare this filing to Kik's Kin stablecoin and Facebook's Libra and the pattern is definitely there. But because there is yet no relief to such complaints, it is impossible to predict the outcome, because such legal processes aren't dependant only on regulatory agencies such as the SEC, it is a work in progress in conjunction with lawmakers (e.g. the Congress).

What we're reading

Bitrefill & Bitfinex bring shopping to traders with 2000+ gift cards & refills (Bitrefill): …utilizing Bitfinex integration with the Lightning Network as announced Monday. Very, very significant. Layer 2 integration has been a frustratingly slow process over the last couple of years, and having this sort of capability directly hooked to an exchange is going to be a huge boon for many in terms of making BTC feel like a working investment in a way that a lot of software wallets seem to struggle with.

Block.One Joins EOS Elections as One Entity Allegedly Controls 6 Block Producers (Cointelegraph): Where, exactly, is EOS's place in the ecosystem long-term? It seems increasingly clear to us that EOS should probably be viewed almost exclusively in terms of the niche that it can carve out in the Chinese markets. Admittedly, this is a large potential niche, but it is a niche nonetheless.

SoFi Obtains BitLicense to Offer Crypto Trading Services in New York (Cointelegraph): Always worth noting - intriguingly, no support for XRP here.

Huobi Says It's Joining a Chinese Government-Led Blockchain Alliance (Coindesk): Chinese situation is going to be important to watch over the next few months, as we could be seeing a significant shift in the overall exchange landscape. Both Huobi and OKEx have received news item after new item essentially serving to reiterate a single message: the Chinese government is behind them, and will support them. Does this means that they will eclipse Binance? Not necessarily, since Binance clearly has a counter-strategy (as evidenced by the continual procession of acquisitions and partnerships, most recently the acquisition of DAppReview), but it's hard to see the fortunes of one side not turning up at the expense of the other at some point.

Upbit Is the Seventh Major Crypto Exchange Hack of 2019 (Coindesk): Always going to be an occupational hazard, but important to note how few of these hacks actually caused long-term operational problems for the exchanges in questions; it's a risk that the industry has been going a generally good job at managing.

Until next week – thank you for reading.

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