



ENIGMA
SECURITIES



De-Coding Crypto

Enigma Weekly

13th January 2021

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Our Market View

May you live in interesting times. Despite everything, BTC currently level over the last 7 days - surged all the way to \$42,000 towards the end of last week, before falling back dramatically on Sunday and Monday to lows just over \$30,000. The usual point of perspective applies here - we are still trading at never-seen-before levels, above the yearly open, etc. - but 28% isn't a shock that can be totally ignored.

We discuss in more detail in this issue, but on the whole, we remain unperturbed as it stands; while technically thrusting us into a bear market by the traditional definition, this was a correction that was within bounds by crypto standards, and while we may see a period of consolidation over coming weeks, it does seem likely that the short-term bottom is already in. Closes at or below \$29,000 would be cause for concern with regards to an actual trend break, but it seems unlikely at the moment.

As tends to be the case, alts markets on the whole losing ground against BTC, particularly over the last couple of days. ETH continues to be the one to watch, particularly as it approaches an interesting point (0.030) on the ETHBTC pairing. The bulk of gains this week were in privacy coins (ZEC, XMR, DASH all up); already off their highs for the most part, but may still be a case for continuation across the class due to how said coins inherently play to concerns with regards to tech regulation and 'deplatforming' (as put into focus this week with the Trump social media situation), especially given that all three have arguably been laggards in BTC terms throughout much of December.

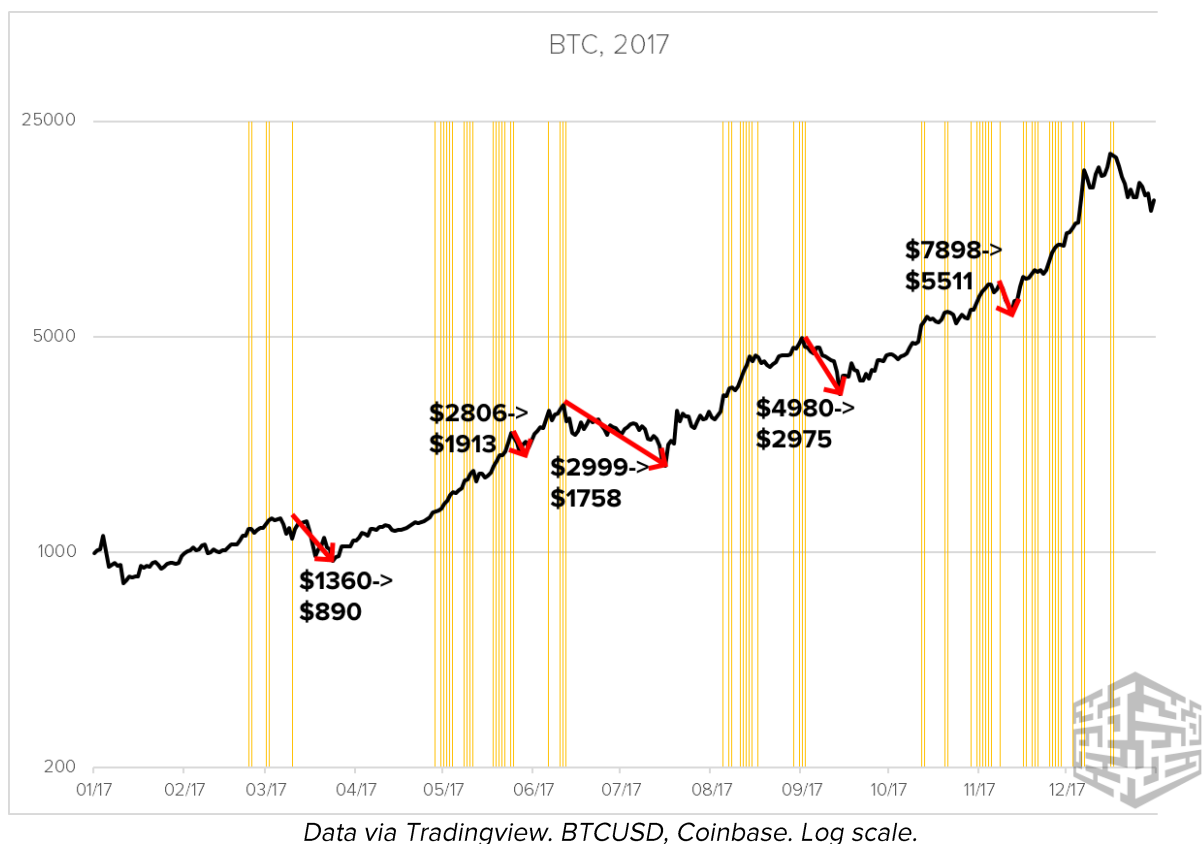
Please direct all enquiries about this week's research to jedwards@enigma-securities.io.

Ticker	Price	7D	1M	6M	12M	Cap
BTC	34731	0.0%	80.9%	277.9%	289.7%	646.0B
ETH	1074.41	-9.6%	81.7%	350.6%	526.4%	122.7B
XRP	0.30039	24.1%	-39.3%	49.6%	25.3%	24.22B
BCH	480.75	6.8%	76.2%	112.4%	29.9%	8.95B
LTC	139.11	-16.8%	68.9%	224.1%	125.8%	9.22B
EOS	2.704	-18.7%	-5.6%	7.3%	-31.1%	2.56B
Selected						
Ticker	Price	7D	1M	6M	12M	Cap
LINK	15.23	-10.0%	17.6%	88.8%	459.1%	6.10B
ADA	0.29184	-3.6%	86.7%	135.9%	544.1%	9.08B
XTZ	2.390	-8.1%	6.3%	-21.3%	60.9%	1.81B

BTC and ETH: gauging current sentiment

We have to confess here: we have shot ourselves in the foot to some extent. In light of the crash on Monday, and the move to within touching distance of \$30,000, a great topic for this week would surely be to discuss trend and drawdown in crypto bull markets - what to expect, when exactly to be concerned, that sort of thing.

Unfortunately, we already covered that - at substantial length - last week. So, an odd situation there. That report can be found [here](#), but the short version is: while teetering on the edge, this week's drawdown has to date just about fallen within normal bounds for a correction in an ongoing trend, and while it may take some time to consolidate (see graph below from 2017 for some reference in that regard), we tend to see the medium-term trend as most likely being intact for the time being.

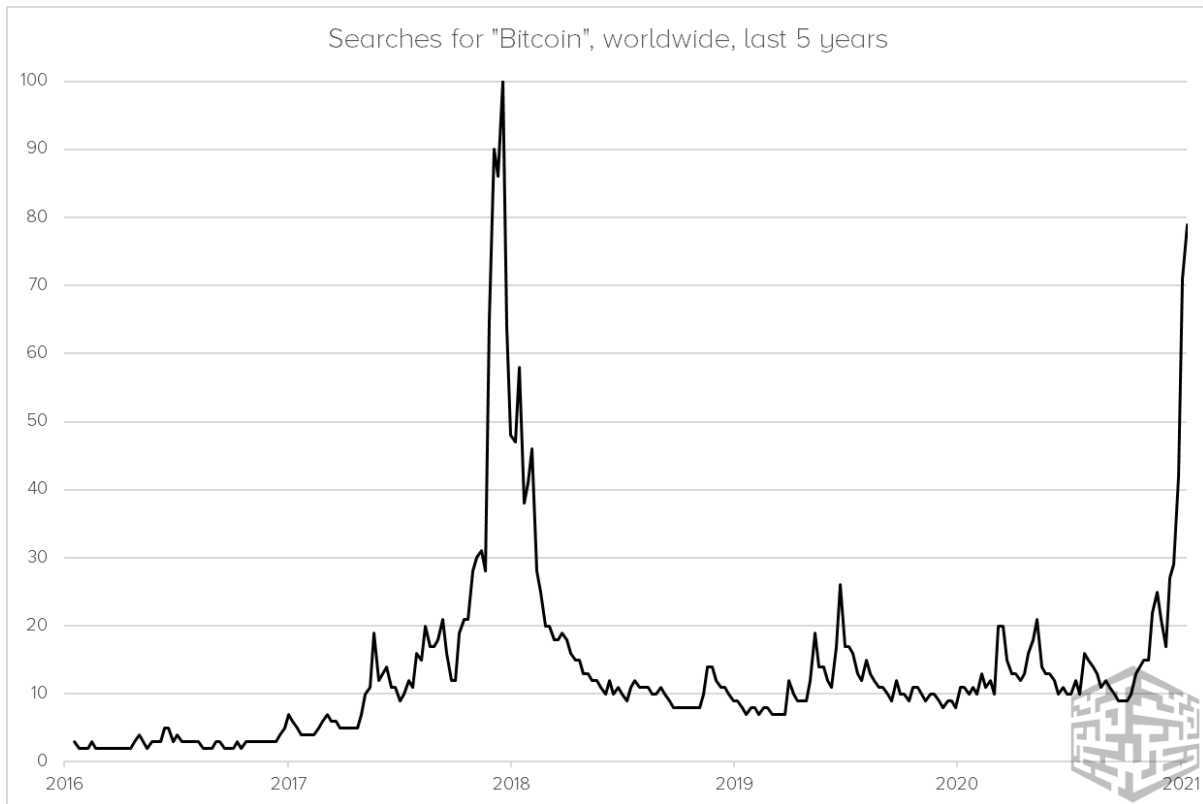


With that said: our long-standing position on BTC in general has been that this trend will run as far as demand lets it. As we said before Christmas:

BTC's value is, and always has been, extrinsic. It is worth what people will pay for it...that absolutely is the esteem that anything one sees in terms of price 'predictions' should be held: as capacity to grow towards, not as oracle-like prediction.

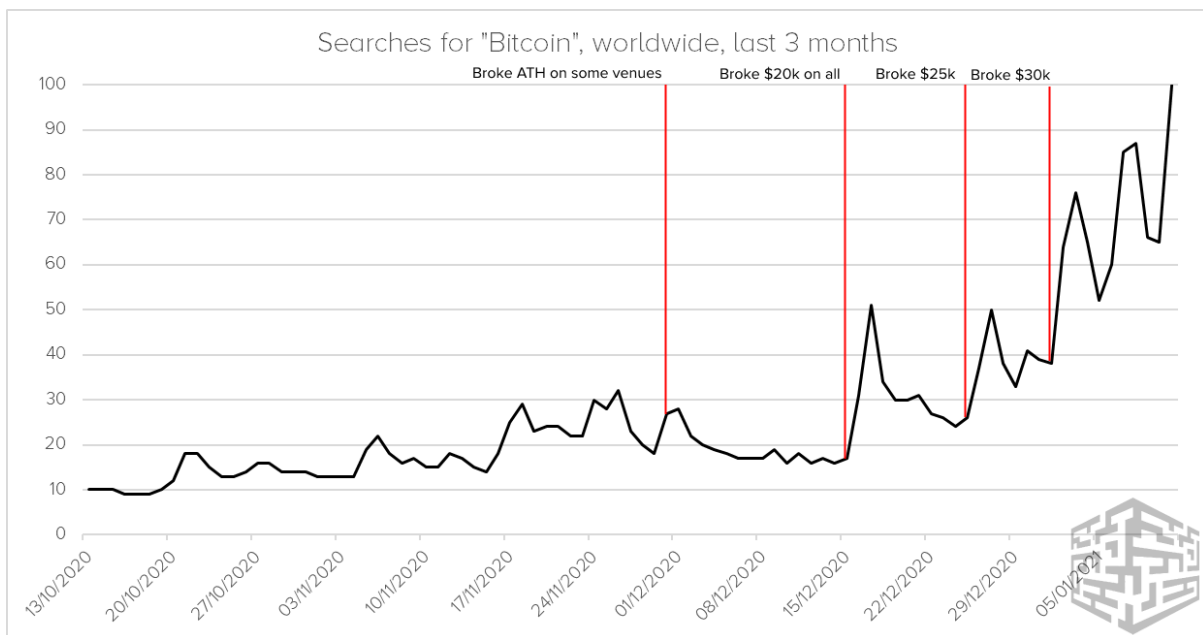
As much as \$40,000 is monumental, it remains on the lower side with regards to capacity (note how easily the JP Morgans of the world are currently willing to throw around ceilings on the \$100,000-\$150,000 range); the question is whether demand will end up meeting that. In that regard, it seems a good time to assess where we are in terms of sentiment (and hence demand going forward), or to put it another way: how do we compare to 2017 etc. as it stands?

To start with, let's take one of the simplest, but most telling, measurements - web searches for Bitcoin.



Data via Google Trends. Calculated as proportion of maximum interest in selected timeframe.

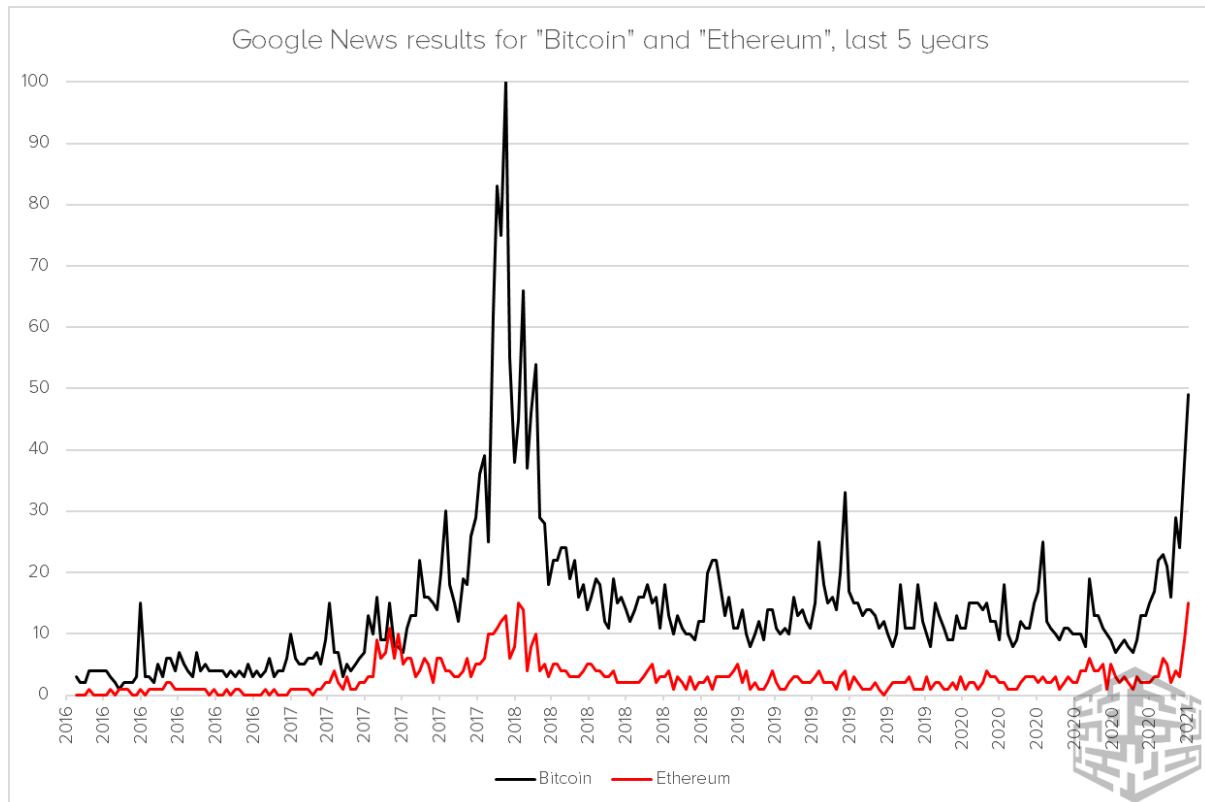
There has been a genuinely significant spike since the new year, to an extent that dwarfed all uptrends outside of 2017; while not quite to the level of 2017, searches for Bitcoin are at higher than any point since the first week of December 2017, and were at 68% of the peak previously recorded (the peak of the 2019 run, for reference, was at 26%). Zooming in somewhat:



Data via Google Trends. Calculated as proportion of maximum interest in selected timeframe.

Of some note is how little interest was really sustained until after the new year; the initial touch just shy of \$20,000 did very little, and things settled very quickly even after an initial rush on the \$20,000 break.

On the other hand, curiously, media attention (as measured by headlines etc.) has also spiked, but until Monday's crash at least (data is incomplete for the past few days but does suggest higher), did not get anywhere near as close to its 2017 highs. ETH, on the other hand, has far surpassed its own previous peak:



Data via Google Trends. Calculated as proportion of maximum interest in selected timeframe.

This does point to a couple of things. First: while the surge in ETH can probably mostly be attributed to a parabolic rise that dwarfed BTC's own gains last week (albeit one that mainly saw it catch back up to BTC after falling heavily against it in December), there seems to be a good chance that ETH-native demand is what starts things rolling again post-consolidation (i.e. we get back into the situation we've seen many times before where ETH leads BTC rather than the other way around).

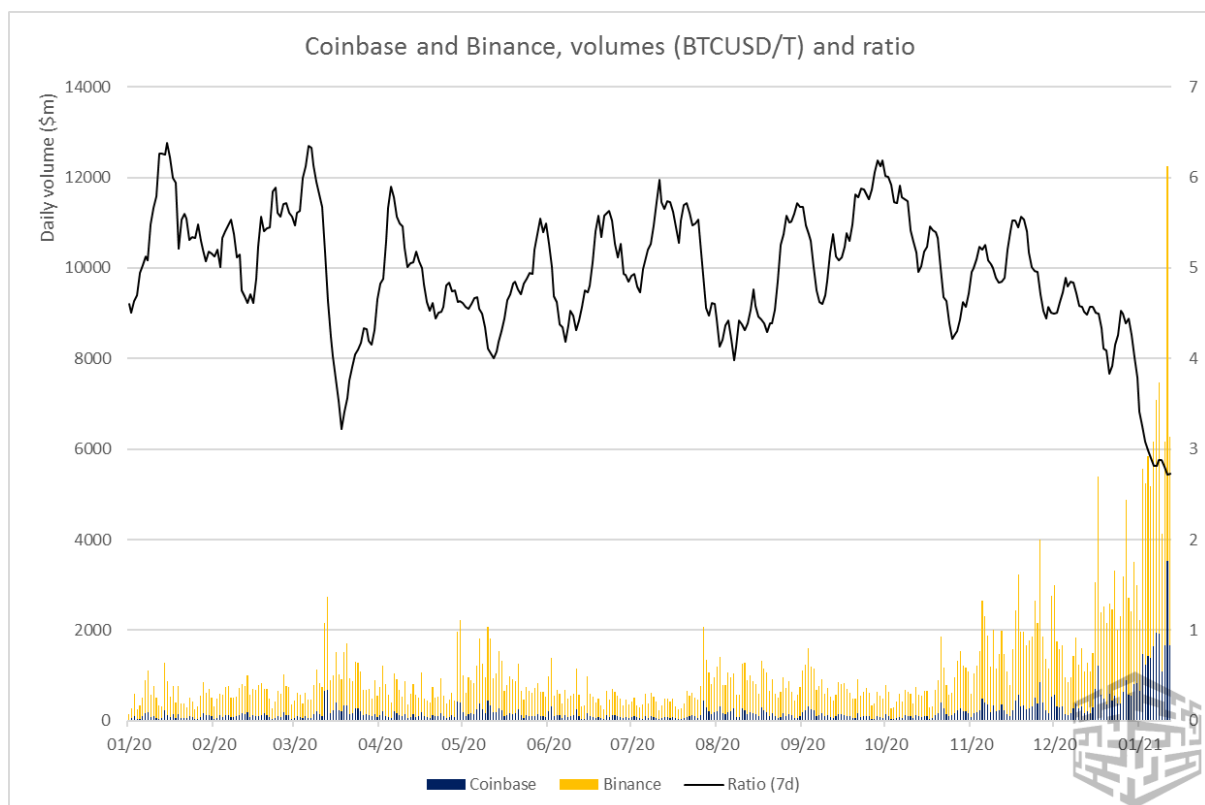
ETH is moving rapidly on the road to becoming a genuinely institutional-investable asset, particularly as we move into the first months of live ETH 2.0 staking, and into a potential new wave of DeFi developments in Q1 and Q2 after a quiet Q4. The upcoming February 8th launch of the CME ETH futures market could be cause for concern in the short term; recall CFTC head Christopher Giancarlo's comment in 2019:

One of the untold stories of the past few years is that the CFTC, the Treasury, the SEC and the [National Economic Council] director at the time, Gary Cohn, believed that the launch of bitcoin futures would have the impact of popping the bitcoin bubble. And it worked.

While a gross, gross exaggeration of the futures market and the CFTC's role in that collapse, there is an element to truth with regards to markets like these helping to pump the brakes on an asset somewhat in the short-term and the extreme long-term.

In the medium-term, however - the addition of this sort of infrastructure to a market that still remains at a fraction of the market cap of BTC (and with a proportionately greater retail component) is a contributor to the bull side, not the bear, and an ETH break upwards past the current range and back towards the all-time high seems like a potential go signal for the market as a whole and hence should be monitored carefully.

The second big point is this: as we've said all along, as it stands, this still feels different to 2017 for now. Has there been an extremely significant uptick in retail interest over the last couple of weeks? Yes. Is this a retail bubble? One of the more interesting things to look at in that regard is the ratios of volume on Coinbase (traditionally retail but the centre of institutional spot buying as of late) against Binance (an almost purely retail venue):



Data via Tradingview.

Binance volumes in 2020 tended to jump at moments of essential outlook disconnect - at points where retail buyers were at their most enthusiastic, and institutional buyers at their least (and vice versa); a number of big breakdowns and breakouts came shortly after this sort of retail euphoria and exhaustion respectively (to give one such example – the moving average for the ratio locally topped on 6th March and bottomed on 18th March). While not an enormously strong indicator, it has provided some insight into overall sentiment in that regard over the past year in particular.

Despite an absolutely torrid couple of weeks for Coinbase from a technical perspective (multiple significant outages in high-volatility periods), Coinbase volumes are historically high against Binance (albeit with both smashing through previous records). While the sheer scale seen on both venues does cause some issues with regards to back comparison, it still is an interesting point with regards to both the character of spot buying/selling right now and potential fluctuations in sentiment going forward.

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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