



ENIGMA
SECURITIES



De-Coding Crypto

Enigma Weekly

20th January 2021

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

Our Market View

May you live in interesting times. Flat on the week for BTC, as we continue to broadly just consolidate between the most recent all-time high (\$42,000) and last Monday's lows (technically \$30,500, though we haven't seen much below \$34,000 as of yet; generally expecting that consolidation to continue into an eventual challenge higher, with medium-term positive trend remaining intact as it stands.

ETH was the big story of the week, recovering with gusto from the overall alts retrace, and for multiple hours on Tuesday, finding itself at levels above its previous all-time high on most venues (peaking at \$1440). Slipped during the day as overall crypto markets overall took a slight bump on headline impetus (the Janet Yeller comments about "I think many [cryptocurrencies] are used, at least in transactions sense, mainly for illicit financing and I think we really need to examine ways in which we can curtail their use and make sure that anti-money laundering doesn't occur through those channels"), and waiting to see what happens now; working theory has been for the ATH being a potential pivot point into higher as it was with BTC, and initial action above \$1420 gave some credence to that, but need to see general market momentum build up more again to be confident in that.

Most alts flat or up on this week just about, with DOT (+48%) and DeFi sector seeing many of the biggest bounces; we do take an overall perspective on the alts market in this week's issues, including with regards to the question of where opportunities are likely to be found in the first half of this year.

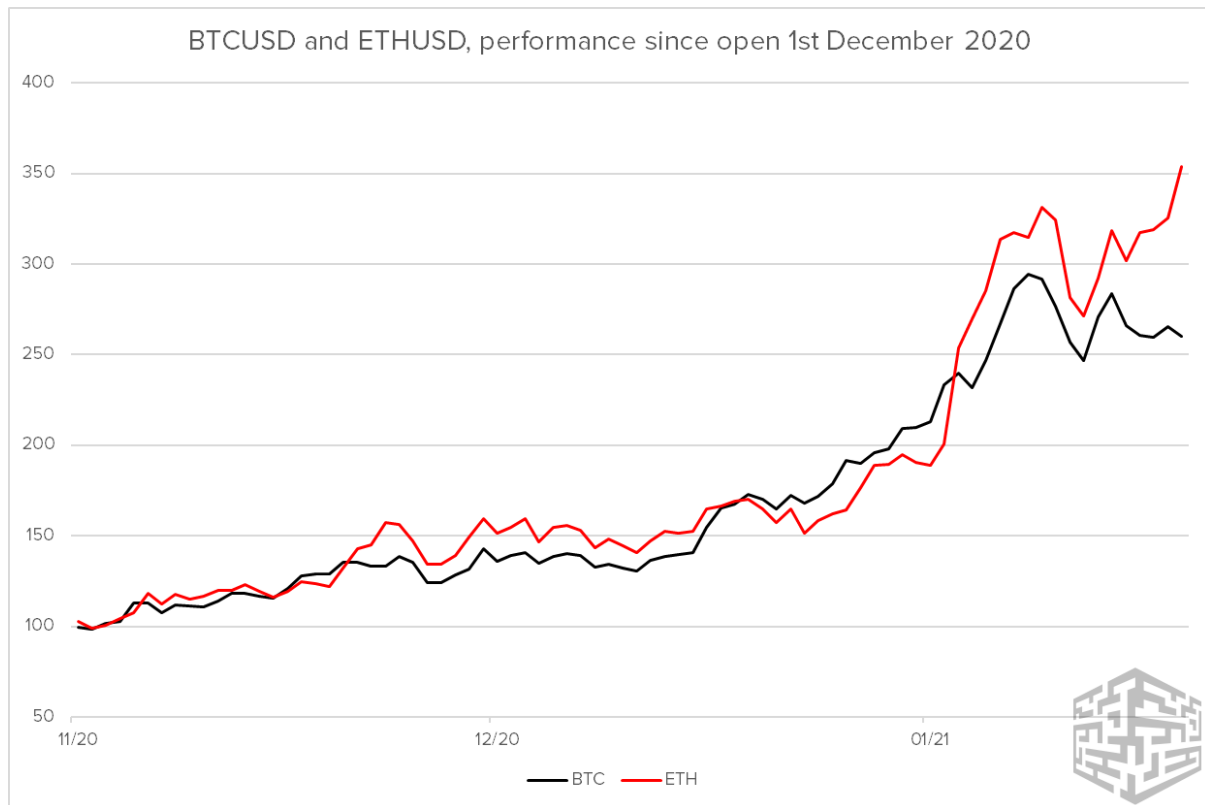
Please direct all enquiries about this week's research to jedwards@enigma-securities.io.

Ticker	Price	7D	1M	6M	12M	Cap
BTC	34196	-0.7%	51.3%	255.4%	311.6%	636.2B
ETH	1273.60	20.2%	110.7%	321.2%	692.8%	145.6B
LTC	141.35	2.9%	37.6%	190.5%	162.6%	9.38B
BCH	478.50	1.7%	54.2%	92.5%	48.9%	8.95B
EOS	2.703	0.4%	-7.0%	-0.4%	-23.7%	2.56B
Selected						
Ticker	Price	7D	1M	6M	12M	Cap
DOT	15.02	47.3%	204.9%	387.1%	420.8%	13.55B
ADA	0.34257	19.5%	127.3%	141.3%	701.1%	10.66B
LINK	19.65	26.8%	60.0%	158.5%	704.2%	7.89B

Alts in review: finding the fastest horse

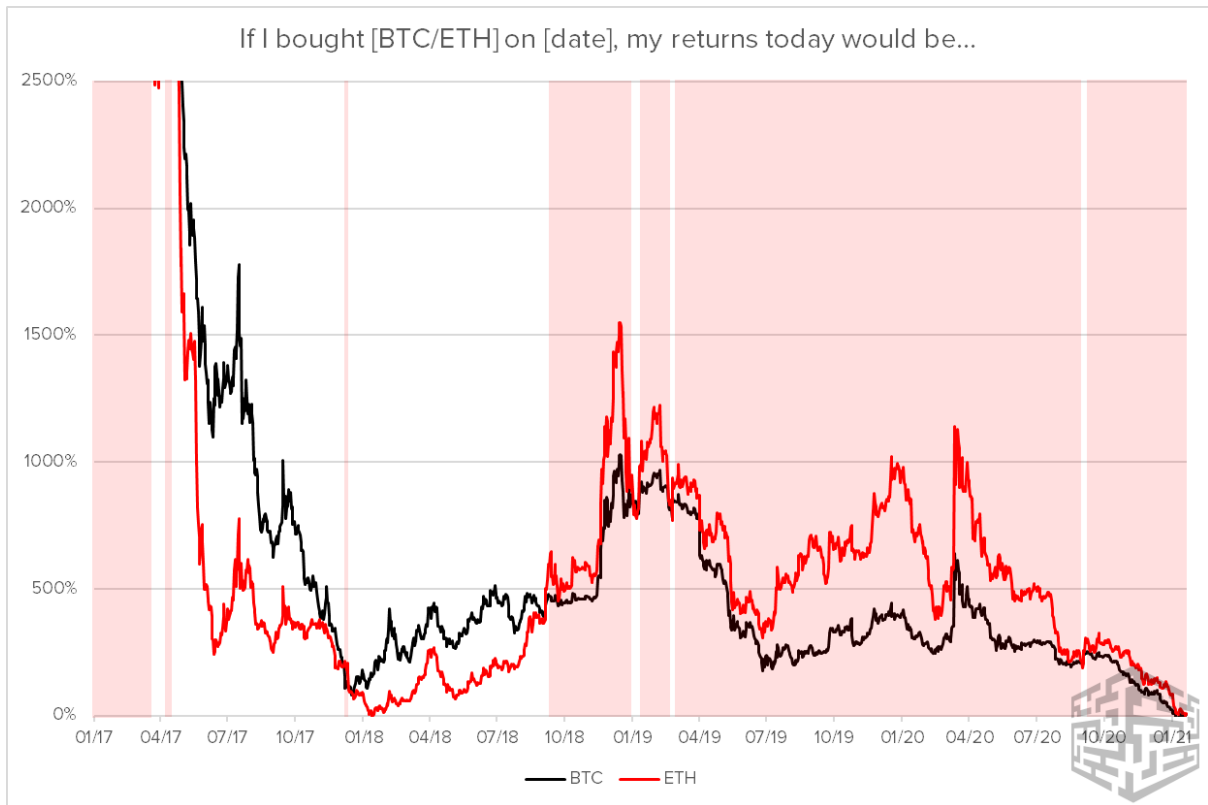
BTC vs. ETH

ETH now finds itself at a curious point; it is now in a very similar boat to where BTC was at the end of November, skirting with its all-time high (it just about broke it on most venues on Tuesday afternoon), seemingly on the precipice of an even greater run. Of course, its performance since BTC started breaking out has hardly been poor:



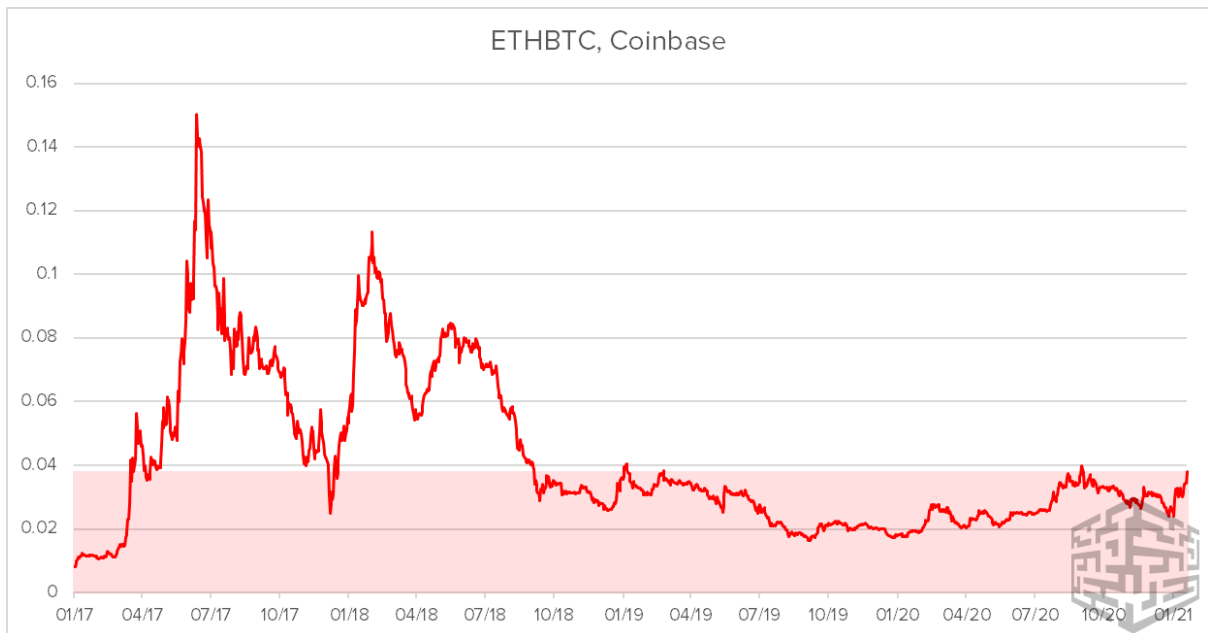
Data via Tradingview. BTCUSD and ETHUSD, Coinbase.

ETH and BTC have rarely pulled in anything but the same direction, and while ETH underperformed in the last couple of weeks of December compared to BTC, it recovered to almost exactly break-even in January, before having opened up a gap between the two in the last couple of days. In fact, it is now the case that, the starting point of purchase, raw returns on a theoretical buy-and-hold long-term ETH position have outstripped returns on BTC on all but 8 possible days of purchase since September 4th, 2018:



Data via Tradingview. BTCUSD and ETHUSD, Coinbase.

What's going on there? Well, the ETHBTC chart tells the story much more simply in that regard:



Data via Tradingview. ETHBTC, Coinbase.

Since the late-2018 crash, ETH, like most alts, has been a shadow of itself in relation to BTC in pure price terms; it has never even come close to regaining where it was in either the mid-2017 bubble or in the briefly divergent market in January 2018 (where alts continued to soar after the BTC top), and has fallen into a long-term range below the 0.040 mark from which it completed its last leg down in

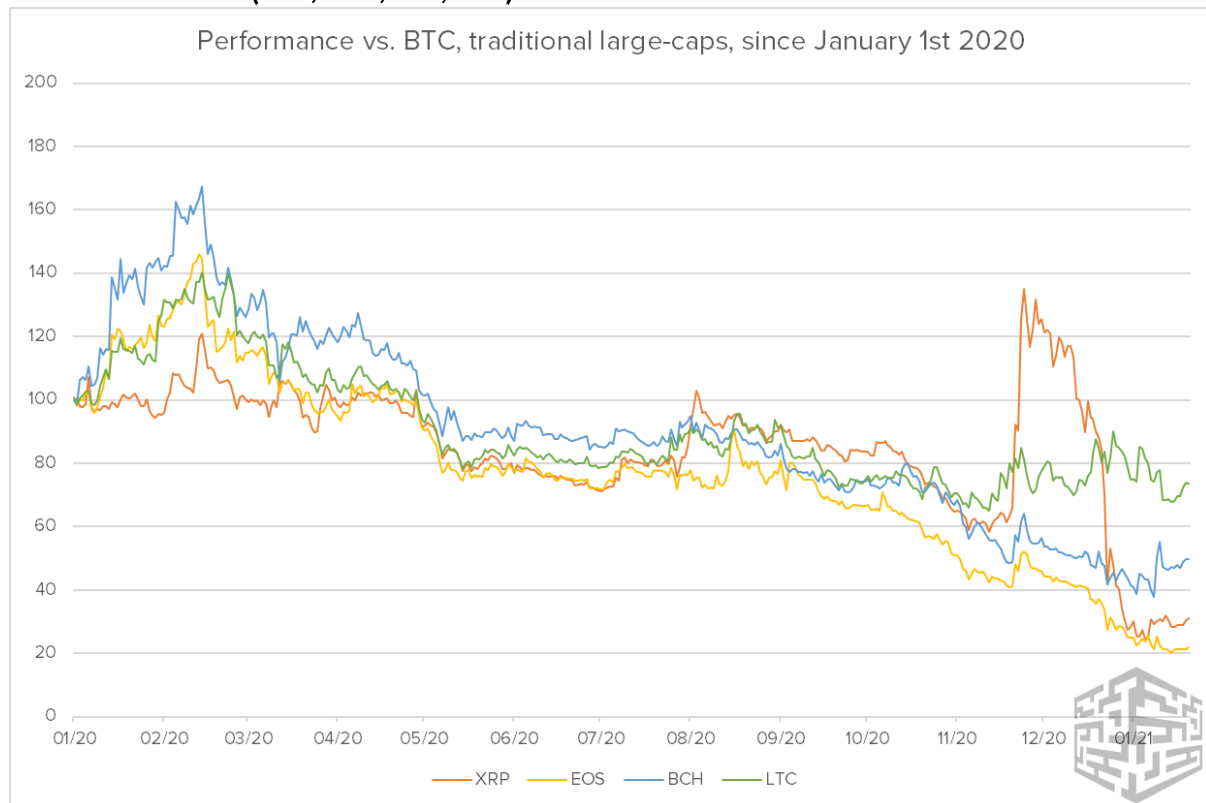
September of that year. So, that does need to be understood in the first place - we are not only at extreme levels for ETHBTC, but we are at something that should serve as a point of resistance.

In practical terms, the idea of ETH as a higher-beta version of BTC has been, if not an entirely accurate one, at least an useful one; and, in truth, it probably will continue to be so. The last year or so has done a lot to dispel what one would term the structural risks with regards to ETH; most of its competitors (especially EOS and XTZ) have floundered in terms of both price and usage, the initial wave of DeFi development finally gave the network its real 'killer app'(s), and while nothing compared to the developments in BTC still, there has been a definite sea-change with regards to institutional openness to ETH, with the launch of CME ETH futures next month very much paying testament to that.

Given all of that, and given how ETH has very consistently pegged closely to BTC on all but the shortest time frames, it is nearly impossible to see a situation in which we don't continue to trend upwards on it in both USD and BTC terms, and there is a case to be made now that it is both a) investable (if not invested in as of yet) on an institutional level as of this year, b) likely to be the 'faster horse' going forward. However, of course, the short-term picture does matter in crypto markets (arguably, especially in crypto markets); and it should be said that, in the short term, the picture is rather more muddled.

We are currently in the process of retesting after the initial break on \$1420 (intraday low of \$1234 at the time of writing), and while we should bounce and should end up seeing higher across the market as a whole, we are very much mindful of that aforementioned ETH futures listing date (February 8th to be specific); while of course a significant (and necessary) step for medium- and long-term growth on ETH, the introduction of sophistication to markets like these has in the past tended to mark tops rather than bottoms (while it's probably untrue that CME/Cboe listing in December 2017 caused the top, there was nonetheless a precedent and hence a reason for ex-CFTC head Christopher Giancarlo feeling comfortable asserting as such in a talk a couple of years ago).

BTC vs. traditionals (XRP, BCH, LTC, EOS)



Data via Tradingview. BTC pairs via Coinbase and Binance.

The picture, in the long term, is very different for most long-standing non-ETH alts, particularly with regards to what we have generally classified as the traditional majors (XRP, BCH, LTC, EOS).

We have consistently been bearish on non-BTC/ETH large-caps outside of short time-frames throughout 2020, and it's ultimately for one very simple reason: they are, as a group, pointless, because they are minority networks who need to not be non-minority networks to truly succeed, and have at this point clearly missed their opportunity to be non-minority networks, and therefore are probably not coming back; just as scarcity only matters when paired with demand, longevity only ultimately matters when paired with usage and reach dominance. This is how we presented it in our alts issue on 25th November (just after XRP ripped upwards):

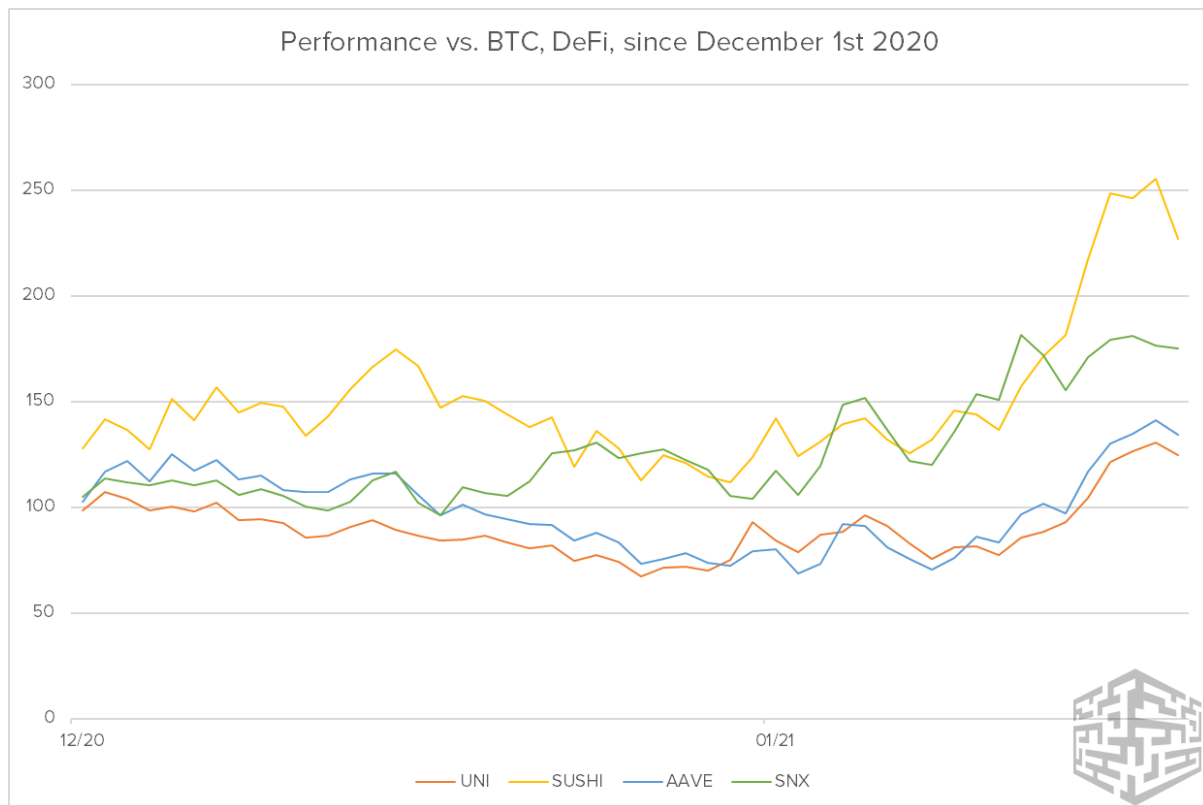
In XRP, we have one of the most inexplicable - and meteoric - rises that we've seen in a while. At first, second, and probably third glance, this one is extremely confusing. We have made absolutely no secret of our long-term bearishness on XRP; it is a fundamentally weak asset, with use cases that are only one step above the minority layer-1 payment coins like LTC/BCH in terms of how outdated they are in the modern crypto industry.

Unlike ETH, these are mostly assets that are continuously setting new lows in BTC terms; the strongest by far of the four has been LTC (which has tended to follow more closely than almost any other comparable asset with BTC's own movements in recent weeks), but even it still finds itself far below its year-open price and below its mark at the start of the BTC breakout. There is no reason to expect any long-term recovery in them as currently constituted.

This is a simple point, and long-time readers may feel their eyes glazing over, but it does bear reiterating, because the nature of crypto markets does mean that there's always potential for breakouts along the way (as happened with XRP); however, said breakouts do nothing to change the fundamental problems present throughout said assets, and it's important to remember that long-term trend in each case (and hence how high the bar realistically would have to be on said surges to even consider a revision of that position).

BTC vs. emergent assets

There are currently-existent assets that do at least have the potential of outperforming BTC. The ones (with enough market cap to be halfway significant) that have held their head close to or above water since the November breakout have all essentially fallen somewhere into the DeFi basket:



UNI and SUSHI are native tokens for the Uniswap and SushiSwap exchanges, while AAVE and SNX (Aave and Synthetix) are loan and derivatives protocols for DeFi trading respectively. At least three of the four (excluding SUSHI) seem to have potential both in the abstract and especially with regards to a resurgence of DeFi markets in general at some point in 1H 2021. On the larger side, we would note DOT (Polkadot), which went from \$9.29 to a high of \$20.06 in January, and is still up over 40% on the year in BTC terms as it stands.

As tends to be the case with crypto assets, there is a lot of mumbo-jumbo around DOT - "provides unprecedented economic scalability by enabling a common set of validators to secure multiple blockchains" - but to give a very simple explanation, DOT is a project that has been quietly in development for a few years (securing an ICO in 2017, but only actually allowing its tokens to be traded on the open market in 2020) that is being positioned as a 'layer 0' solution to the problems presented by helping with the framework necessary for a system to work with multiple blockchains (i.e. Bitcoin, Ethereum, ETH competitors like Cardano, enterprise chains...) - the key value proposition here is interoperability.

That key word of interoperability is, above all else, likely to be the key to identifying opportunities for these more speculative investments in 2021. It's hard to even conceptualise now, but remember that in the 2017 run, the thought with regards to projects like Ethereum was not "how will it work with Bitcoin", but rather, "when will it replace/'flip' Bitcoin - Bitcoin's market cap dropped to just 36% of the total crypto market cap at its low (it's currently at 66%), and everything was either a 'Bitcoin killer' or an 'Ethereum killer'.

It is now beyond a shadow of a doubt that BTC and ETH are entrenched and going nowhere with regards to the fundamental niches that they have carved out within the crypto ecosystem. With that realisation also comes the dispelling of that longest-standing of illusions - that the remedy to any flaw with said networks is simply to change it on a technical level (be that through changing the base network, or through the propagation of another universal network). It comes back to the fundamental

proposition that underpins both networks - the 'technology' is what may initially catch the ear, but it's ultimately the resilience and longevity of said networks that actually makes it then stick in the brain.

As is often the case in the financial world: the safest opportunities are going to be those who position themselves as the middle-men in a broader market trend. That being said: we use 'safest' very, very relatively here. Remember: outside of DOT and LINK (and there are valid concerns to be made about both DOT and LINK too with regards to present and future levels of utilisation respectively), these are sub-billion dollar market cap assets, 99% concentrated in retail wallets, and with little to no track record of either value or usage - it's difficult to have even a tiny fraction of the confidence that one can reasonably have at this point with BTC and ETH, and downside risk may be too much for even the personal investor's appetite, let alone the institutional one. From an investment perspective, it's hence difficult to make the case for any as anything other than a very small allocation; still, it's something to be cognisant of (especially for the implications it may have on the BTC-ETH discussion).

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)