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# De-Coding Crypto

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Enigma Weekly

21<sup>st</sup> October 2020

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

## Our Market View

**May you live in interesting times.** An extremely eventful few days, and as we put this out, we find ourselves in the middle of one of the biggest single-day rallies for BTC in months. Our research this week discusses what's going on right now in more detail, but the short version is that market structure was already leaning positively (after the break to upside on \$11,500), and today's PayPal announcement provided the fuel to finally break August's highs and press on higher (PayPal will be supporting buying/selling/holding of cryptocurrency going forward; this isn't quite as ground-breaking as it seems as first glance, given that it is materially similar to Revolut's existing offering right down to the same inability to withdraw from the service and the same back-end operations via Paxos, but given PayPal's stature it's nonetheless significant indeed).

Tend to think that there's still resistance to be found at and around 2019 highs at \$13,500, but still, trend clearly looks positive for now, and would be surprised to see a quick loss of this level a la previous August/September breakout attempts (which was absolutely the concern earlier in the day when we were hovering around \$12,200.

Alts markets mostly lagging BTC significantly; announcement today did give fuel to a few large-caps (ETH, BCH, LTC are all included in the PayPal news), but returns for the most part have been weak; ETH is probably the one to keep an eye on with regards to any sudden spring of activity with how close it is towards technical resistance off the back of the BTC move.

Please direct all enquiries about this week's research to [jedwards@enigma-securities.io](mailto:jedwards@enigma-securities.io).

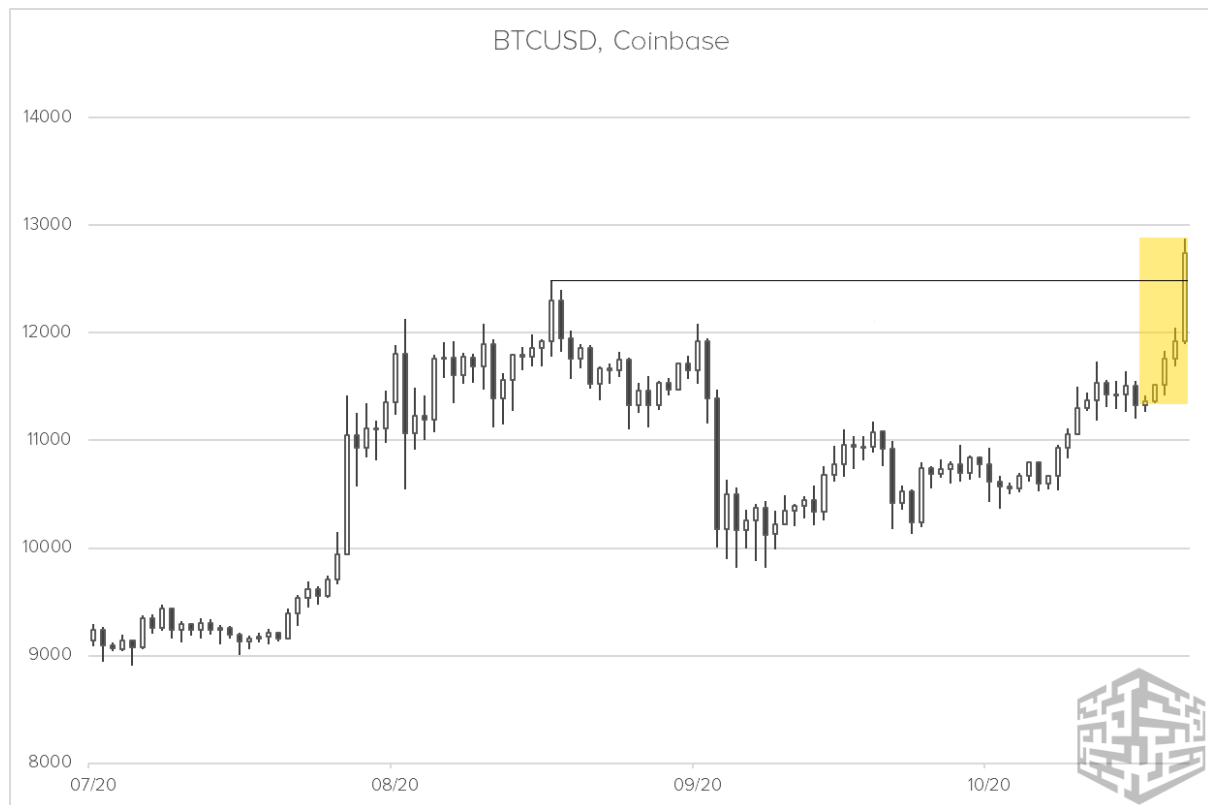
Major						
Ticker	Price	7D	1M	6M	12M	Cap
BTC	12755	12.19%	21.29%	68.64%	46.92%	236.3B
ETH	393.18	3.58%	12.79%	100.20%	114.20%	44.47B
XRP	0.25257	1.80%	8.67%	29.81%	-15.47%	11.43B
BCH	260.31	1.47%	20.73%	8.83%	0.26%	4.83B
LTC	52.78	5.33%	20.53%	17.97%	-7.99%	3.47B
EOS	2.637	0.88%	3.55%	-30.20%	-17.55%	2.48B
Selected						
Ticker	Price	7D	1M	6M	12M	Cap
LINK	10.85	-1.31%	21.34%	183.80%	279.20%	4.22B
ADA	0.10734	-0.36%	32.80%	153.60%	159.80%	3.34B
XTZ	2.172	-4.92%	6.88%	-24.39%	158.80%	1.60B

# BTC at \$12,500: why and where?

No point slinking around it, so let's face it head-on. Our view over the last few weeks has generally leaned bearish on BTC; as we said in our October 8th issue:

With no further boost from DeFi, and probably not much from ETH in the short-term (ETH 2.0 still remains firmly planted on the horizon), we hence tend to think that it likely has to be BTC driving the market, if said market is there to be driven. While that's not impossible going into the very end of Q4 and beyond, we find it hard to see a scenario where that happens over the next couple of months in the current macro climate, and hence continue to lean bearish on the quarter as it stands.

Now, there is still, of course, a lot of time left in the quarter in that regard. Still, though, we find ourselves now in a very interesting moment. After nearly a month of struggling, BTC ripped upwards to resistance at \$11,400 last week, and as of the time of publication, had taken out – at least on a transient basis – the \$12,480 high from Q3:



There are a couple of questions here, one big, one medium-sized. On the latter – put plainly, the ‘why?’ – there’s not an immediately obvious or straightforward answer, although ‘proof of resilience’ seems to be the operative point here. Crypto markets tend to be headline-driven in the short-term, and the last few weeks have seen a number of absolutely catastrophic headline events for crypto - the KuCoin hack on September 26th, the BitMEX CFTC enforcement and arrests on October 1st, the OKEx withdrawal halt on October 16th (which we should point out remains an ongoing issue). Markets have visibly shuddered at such headlines, at least on the BitMEX and OKEx stories:

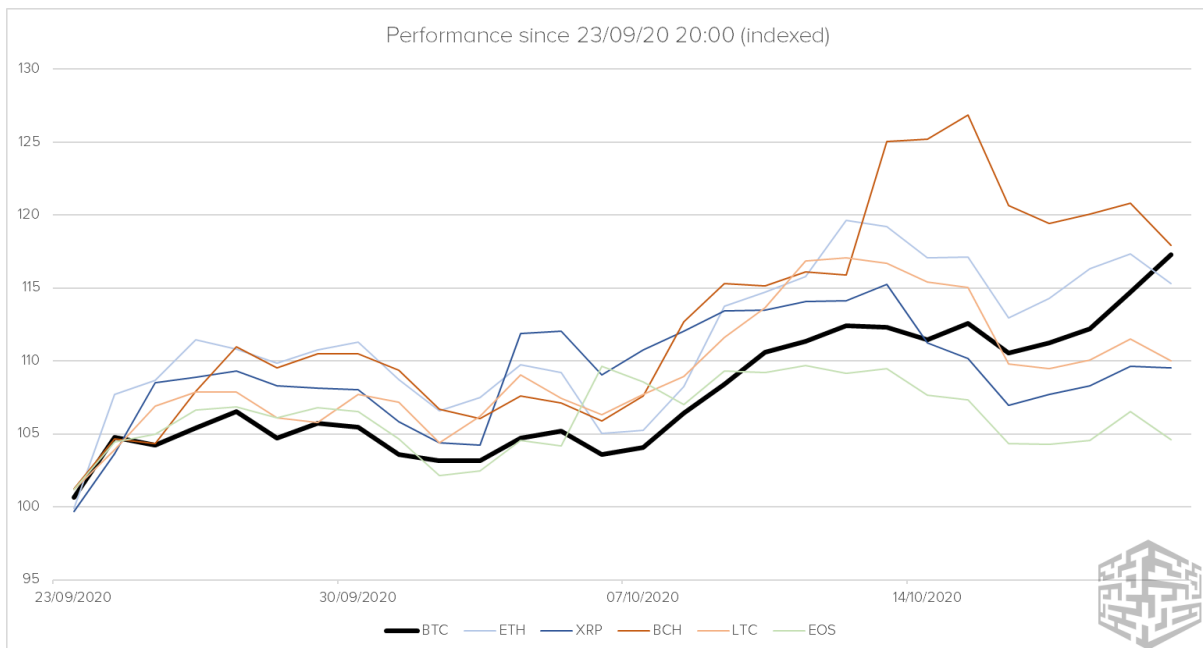
Event	Date	Open-to-low (\$)	1d change	3d change
KuCoin hack	26-Sep	-36	0.37%	0.05%
BitMEX CFTC	01-Oct	-352	-1.50%	-2.12%
OKEx halt	16-Oct	-308	-1.57%	0.04%

Reference prices: BTCUSD, Coinbase.

However: in material terms, the short-term fallout has been unusually limited, with the only really aggressive down days coming on days that were relatively quiet for BTC, but eventful for correlated markets (primarily referring to US equities markets in this regard, and even more specifically to September 21st and 23rd). Given that the starting point of the institutional thesis on Bitcoin has always been based more than anything else on its resilience (to quote GMI CEO Raoul Pal just this Monday: "Bitcoin is a cockroach in finance; something you can never kill"), its strong recent performance in this regard does seem to have positively shifted sentiment among large retail and institutional clients to some degree.

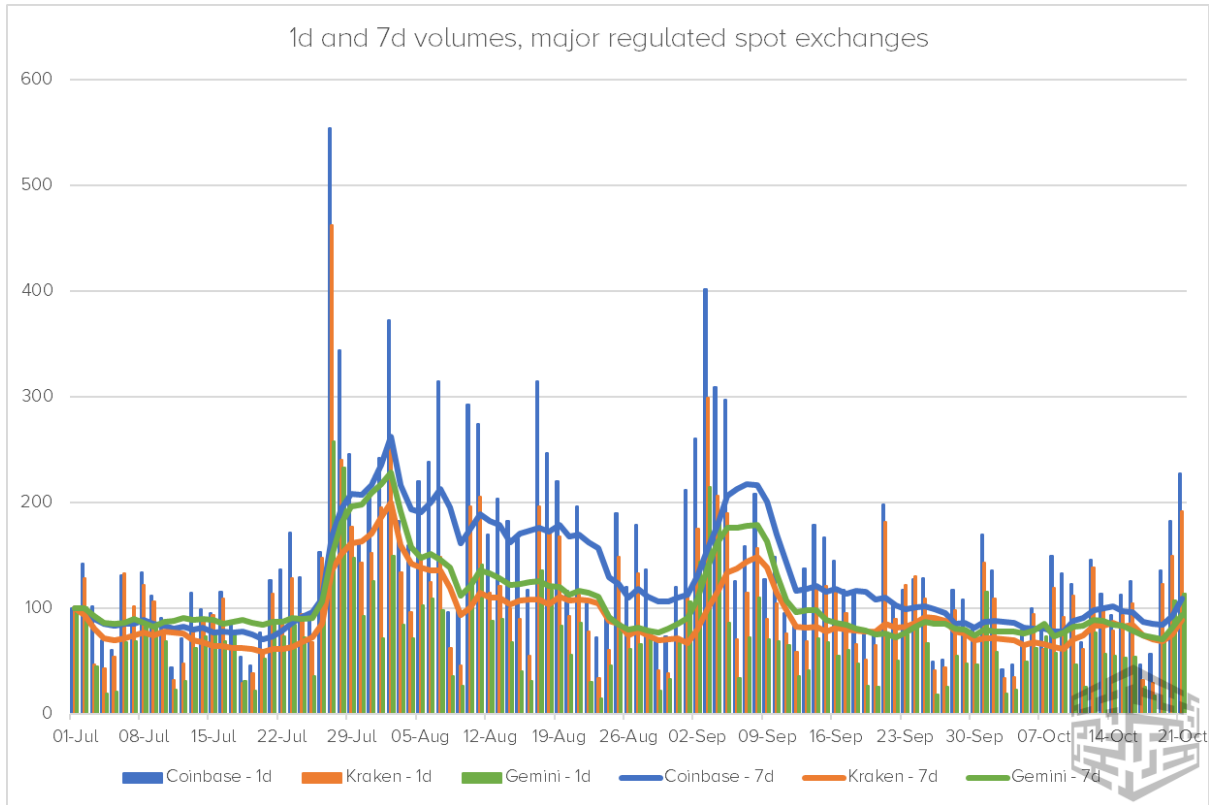
For the record, going the other way, those headline events that have been positive for BTC (the Square treasury announcement on October 8th and the PayPal announcement on October 21st) have been more significant as positive drivers; BTC gained 2.7% on the day on the former (and has kept climbing from there), while the PayPal announcement at the time of writing has been good for something in the region of 6-7% (albeit with having the extra fuel there from breaking the previous high mark in the process).

Before continuing, we should also note that one of the important things here is that, in terms of the crypto market in general, the move over the last few days has been BTC-driven. Even comparing to the nadir of the September 23<sup>rd</sup> move (which flatters alts given that they sold off far harder than BTC on said move), BTC as of yesterday's close had moved into a position of outperformance against all except BCH (and gained further against most outside of BCH and LTC today).



Data via TradingView. Coinbase USD pairs.

This all brings us on to the second, bigger question: is this sustainable, and where do we go from here? The first thing we should say that, rather oddly, despite everything so far, we're still not seeing a huge uptick in terms of enthusiasm. Spot volumes have increased in places recently, but remain on the lower side in daily and 7-day terms:



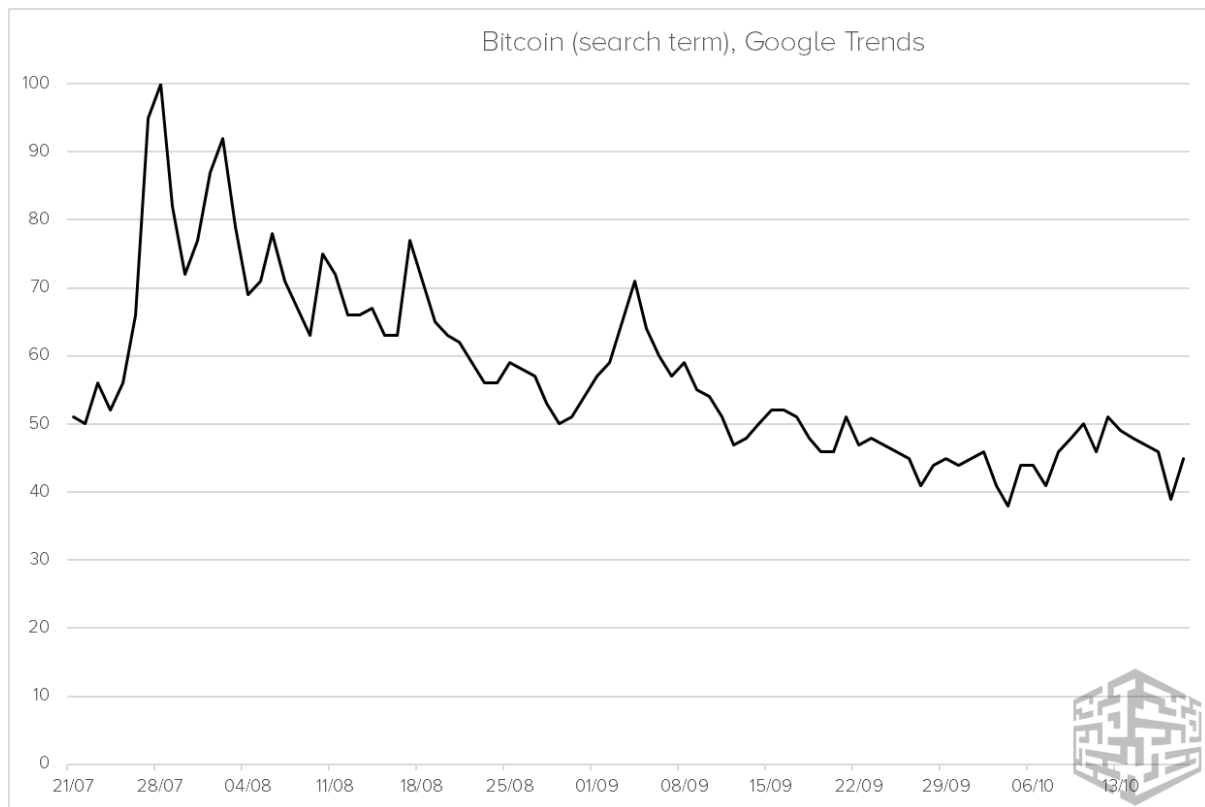
*Data via Tradingview. Indexed, July 1<sup>st</sup> volume = 100.*

The CFTC numbers from last week were a little interesting; we discussed how we had faded to lows in terms of long positioning on trader count among other things over the last few weeks, and while not up to August's levels just yet, we actually did see a significant increase in that regard on the most recent report (concerning positions as of October 13th):

	06-Oct	13-Oct	Change
Total traders	76	84	8
Longs, leveraged traders	20	28	8
Shorts, leveraged traders	23	19	-4
Spread, leveraged traders	12	12	0

*Data via CFTC.*

However, for the most part: so far, not so good. Overall enthusiasm still seems fairly muted for the most part, even down to datapoints like Google metrics:



*Data via Google. Indexed, highest search interest in period of enquiry (90d) = 100.*

Having said that, there's always the possibility that the current run creates a wider feedback loop in that regard, and even asides from that, we do tend to think that, unless we lose this level almost immediately, we will probably see consolidation and some degree of further upside in the ensuing range towards the 2019 highs (i.e. anywhere up to around \$14,000); the fact that we were able to move swiftly through what had been a problem level in the past is certainly encouraging in that regard.

Developments in that regard over coming days and weeks will need to be watched carefully, and there are still plenty of concerns macro-wise; one thing that we have to re-emphasise here is that the really surprising part of this move is that it has come as equities markets have on the whole struggled, which is diametrically opposite to the behaviour that we've seen for most of 2020 (see September 24th issue for more on that).

Still, these are encouraging steps, especially with regards to building a stronger foundation for the late-Q4 and early-Q1 2020 picture.

***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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