De-Coding Crypto

Enigma Weekly

28th October 2020

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

Our Market View

May you live in interesting times. An overall positive week, and in truth, the numbers below rather belie how positive it actually was; as discussed in this week's research, we peaked at or near the 2019 peak on most venues, and while we slid today on a cross-market move, we've still been operating consistently in a higher range than we did last week.

For near-term outlook: we still do see $13,500 as providing significant resistance, and tend to think that it's a believe-it-when-it-happens with regards to a break, but market structure overall looks very positive, and while macro risks over the course of the next couple of weeks in particular remain a significant worry, we still see plenty of challenges higher on the horizon.

Alts did see some slight gains in the aggregate against BTC this week, but ETH among other lost ground (slipping back below $395 once again), and our medium-term view continues to be bearish on them as a class against BTC with very few exceptions.

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

Ticker	Price	7D	1M	6M	12M	Cap
BTC	13132	2.42%	22.40%	45.71%	43.03%	243.3B
ETH	385.09	-2.87%	8.49%	79.34%	110.50%	43.59B
XRP	0.24602	-2.66%	1.95%	9.74%	-16.64%	11.14B
BCH	275.06	4.94%	20.99%	4.58%	-3.58%	5.10B
LTC	56.12	6.16%	23.06%	12.98%	-4.70%	3.69B
EOS	2.662	1.11%	3.55%	-9.78%	-18.55%	2.51B
Selected						
Ticker	Price	7D	1M	6M	12M	Cap
LINK	11.38	3.11%	10.08%	195.80%	314.40%	4.43B
ADA	0.09818	-10.26%	-3.80%	89.64%	134.10%	3.06B
XTZ	2.011	-6.91%	-10.49%	-29.23%	126.10%	1.50B

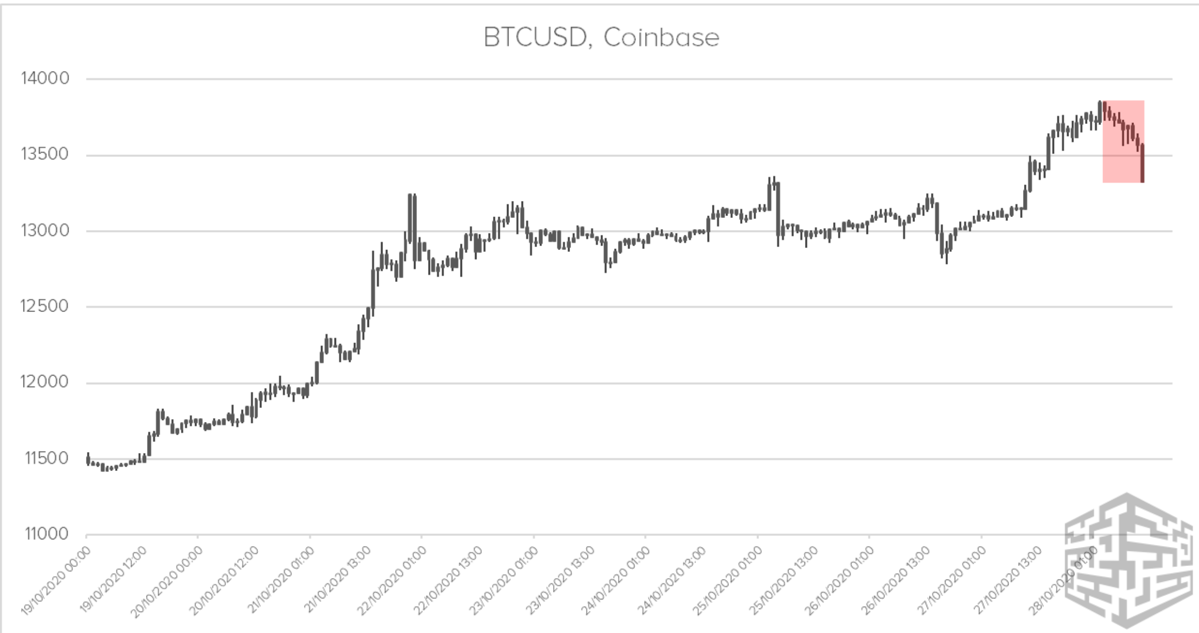
BTC at $13,500: why and where?

Do not adjust your television set; this is not last week's piece. After eclipsing $12,500, as broadly expected, we did indeed see further upside towards the 2020 highs, albeit in even shorter order than we may have expected. After some consolidation over the last week, price on some major venues came up to the point of essential parity with the 2019 high overnight on Tuesday, and few were off by far:

Venue	Product	Pair	2019 high	2020 high	Distance from high
Coinbase	Spot	USD	13868	13864	**4.57**
Kraken	Spot	USD	13876	13852	**24.10**
Gemini	Spot	USD	13858	13860	**-1.63**
Binance	Spot	USDT	13970	13859	**110.52**
OKEx	Spot	USDT	13971	13789	**182.80**
Huobi	Spot	USDT	13969	13854	**114.44**
BitMEX	Futures	Perp	13920	13855	**65.50**
Deribit	Futures	Perp	13915	13869	**45.50**

Data via TradingView.

We did fall back below $13,500 this morning as almost all markets in terms of both geography and sector (including, notably, gold) slipped on the rumours of an incoming March-level national lockdown in France, and at the time of writing, that situation has not yet finished playing out entirely:



Data via Tradingview.

Still: overall, a very positive few days for BTC, and it feels like a good time to address a few pertinent points about recent moves and market structure.

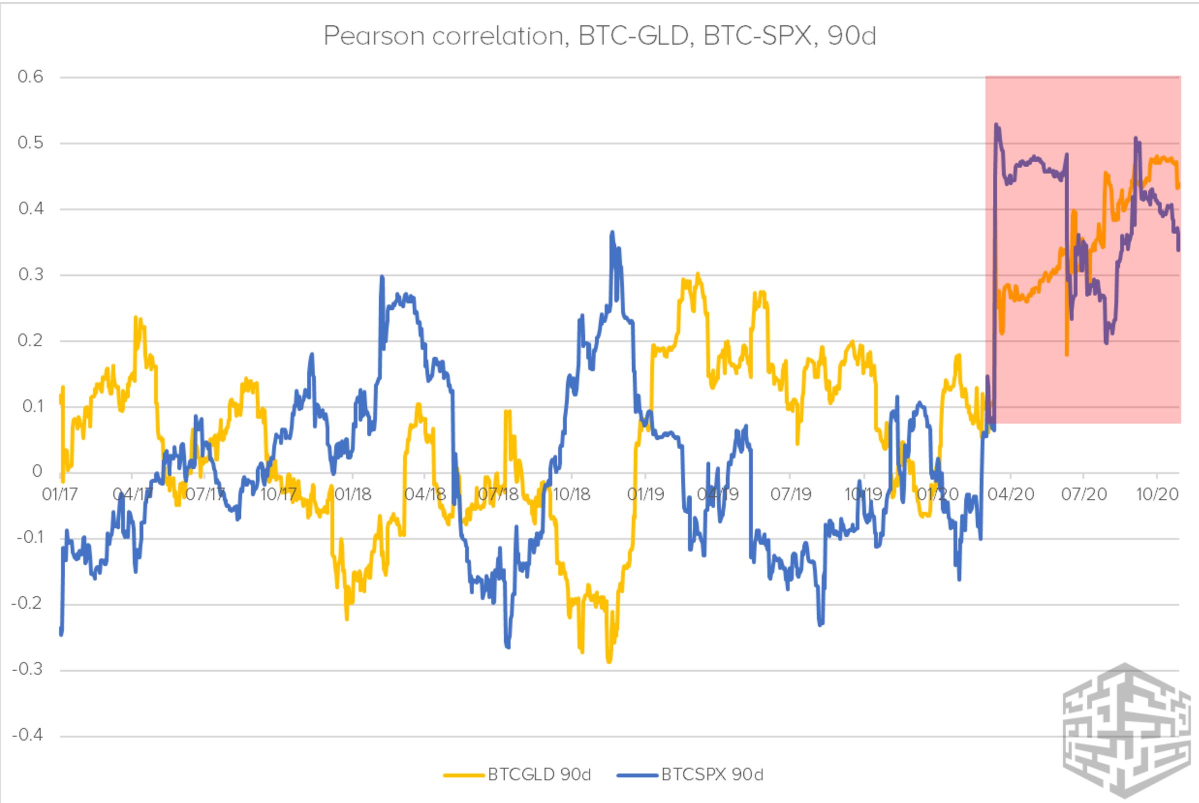
Firstly: why have we move upwards in general terms? One of the more interesting moves about this move in general - and why, for instance, we are seeing situations on exchanges where upper-end liquidity is skewing thinner than it historically tends to - is that this has been a move with (compared to previous rallies) relatively few impetus points. The PayPal news was the big one; as we told Reuters last week:

> Cryptocurrency market players said the size of PayPal meant the move would be a plus for bitcoin prices. "The price impact will be positive overall," Joseph Edwards of Enigma Securities, a cryptocurrency brokerage in London, said. "There's no comparison with regards to the potential exposure between the upside of PayPal offering this, and the upside of any similar previous offering."

In spite of that, it should be said that this move hasn't been headline-driven for the most part. There has been some success with regards to BTC re-finding its place in the overarching narrative, with specific reference to the 'digital gold' thesis.

It's actually been a few months now since that term has come up in our research, so as a refresher, this essentially refers to the idea of BTC specifically as a store-of-value in a very similar way to gold as a composite of its moneyed properties (durability, portability, divisibility, uniformity, limited supply, and acceptability), its proven resilience on both a market and a network security level, and its collective perception as a store-of-value (since there is always a self-fulfilling element to SoVs) and ongoing demand to that end.

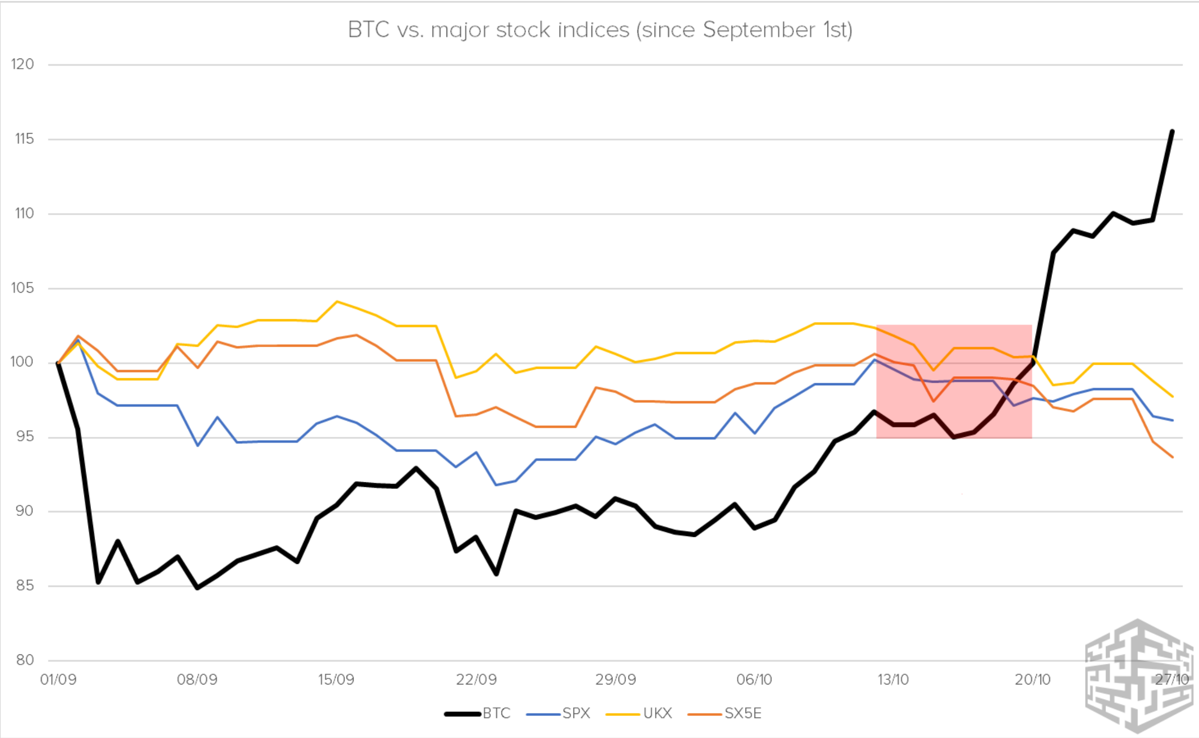
The 'digital gold' narrative has had something of an odd year overall. On the one hand, raw correlation between BTC and gold movements overall jumped out to new highs. On the other, a large part of that correlation came as a result of it swinging up and down along with everything else during the crash and recovery that measured across much of Q1 and Q2, and the stronger - even actively, solely tradeable at points - correlation was with risk assets, as epitomised by US equities markets:



Data via Tradingview. 90-day rolling correlation.

If anything, the effective correlation has been even more aggressive than a daily return-based model can imply; BTC has been trading as a macro asset, and equities rather than gold has been its benchmark. However, gold correlation has been building again, and digital gold narrative with it. There have been a few headline impetuses to that front, most notably the purchase by business intelligence firm MicroStrategy of 38,250 BTC (around $425m at purchase price) as a treasury asset, and (perhaps more importantly) the ongoing media tour by CEO Michael J. Saylor promoting the buy.

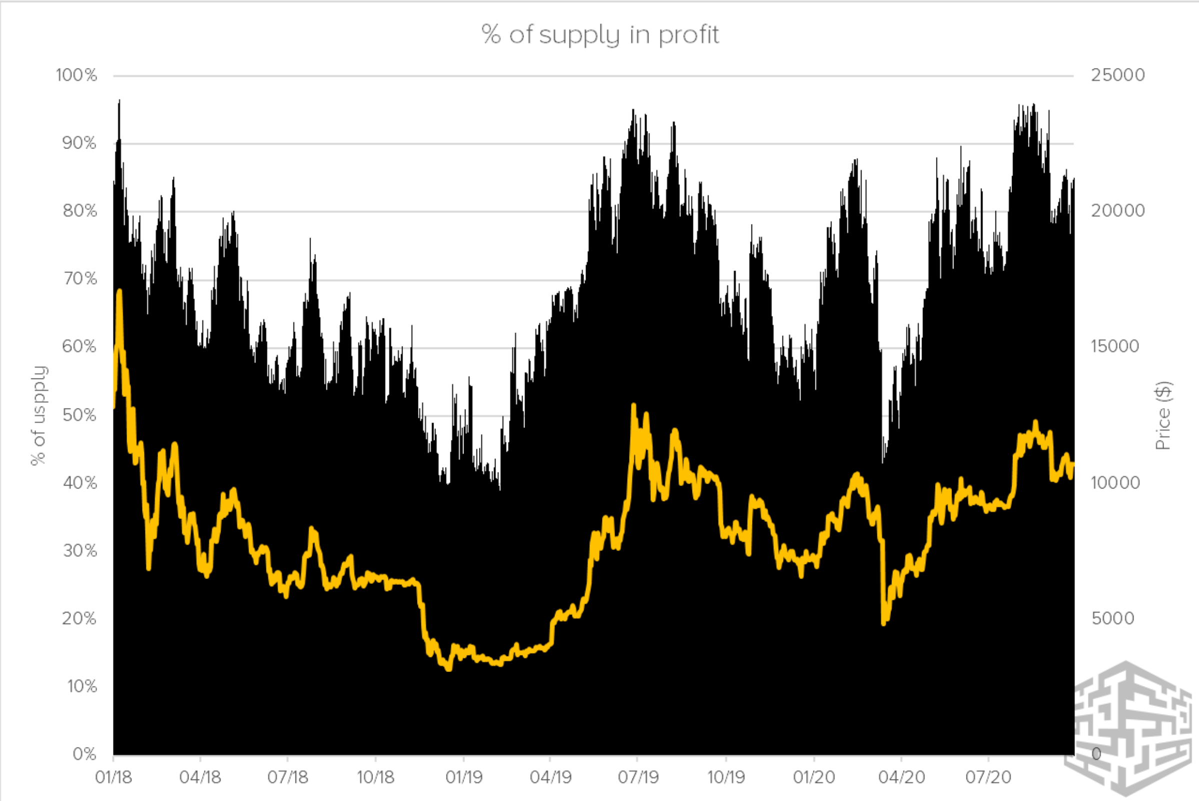
The last month has seen something of a divergence, with US and European equities tracking downwards, and BTC holding up; we tend to think that outperformance in those critical days has been crucial for market confidence:



Data via Tradingview. Indexed, September 1st close = 100.

Still, even allowing for positive development in those regards, this has been an exceptional few weeks for BTC, and the second big question is: why has it been so easy? As can be the case sometimes, we tend to think the answer is relatively simple. In total, we spent 40 days, nearly entirely consecutively, nominally above $14,000 in 2017-18. The state of that market in terms of immature infrastructure, network congestion, etc. means that the number of people who got to either buy or sell the top of that bubble is far more limited than we tend to psychologically give credit for.

Looking at the % supply in profit (e.g. the proportion of the supply that was last moved at a lower index price than currently available) long-range is telling in that regard:



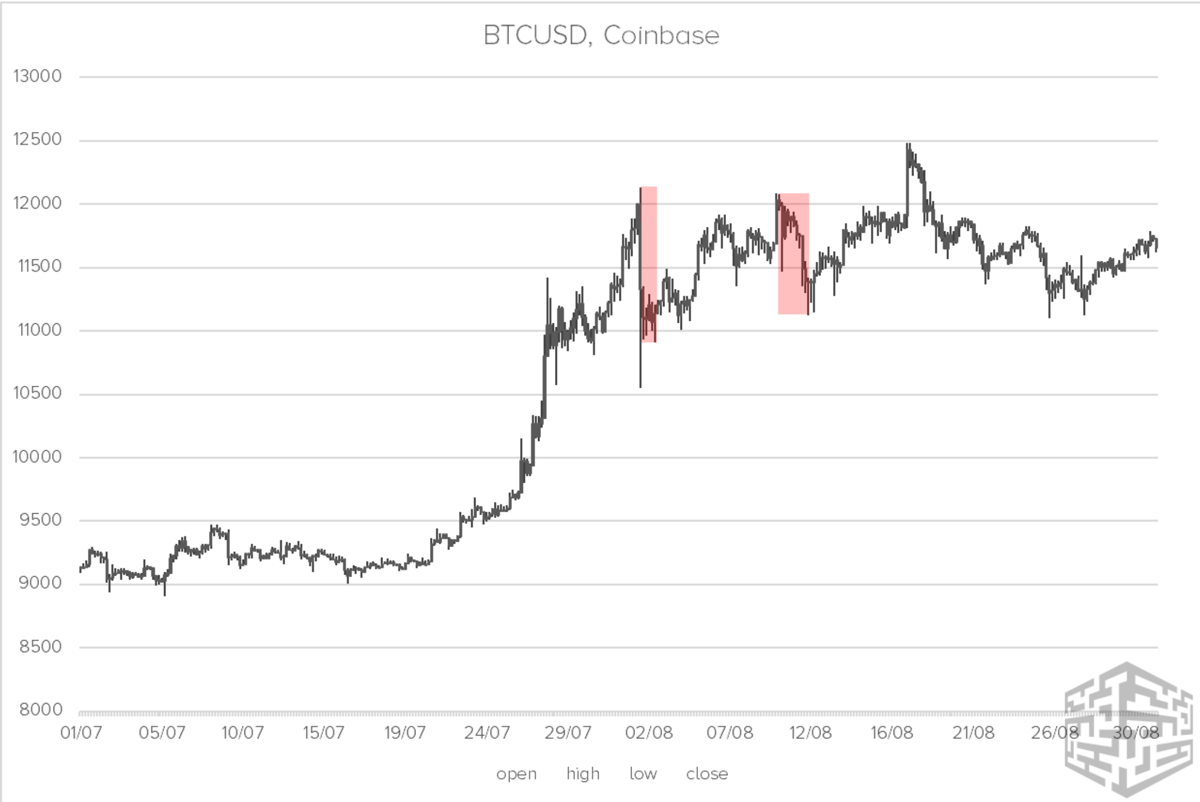
Data via Glassnode.

Just 5% of supply was out-of-profit by the apex of the 2019 run (and that was with prices that, while peaking at $13,500, were more commonly found south of $12,000 for the most part); the break on $11,000 in Q3 2020 got things to a similar place, and the figure is likely much higher today. Yes, there are points of potential distortion in this regard with regards to exchange wallet movements and the like; still, the broader point stands.

The $20,000 mark, while significant, is somewhat illusionary in that regard, particularly with regards to points like what levels at which potential selling pressure (the basic impulse towards break-even and the like) becomes a concern.

The upshot here is: the levels that matter with regards to providing expected upside resistances run thin above around $10,000, and extremely thin at current levels. This is why we saw a similar break upwards as soon as we re-broke $10,000 and broke $10,500 in July (just 7 days between that move and the first move over $12,000), and it's why we ultimately saw what we did with regards to accelerating out so quickly from $12,200.

This hence brings us to the final question: where next? In the abstract, it seems like there's a decent probability of at least a small correction into relatively high-end consolidation, akin to the initial reflex after the first two breaks in August:



Data via Tradingview.

We will note that, at the time of writing, BTC had yet to reclaim $13,500 after the market-wide sell-off (risk-on, risk-off, gold, equities, commodities, you name it) on Wednesday, which seems to support that possibility, and we do tend to think that the brief spike above $13,500 doesn't invalidate it as resistance (given similar action and results around $12,200 back in August).

In addition, the concerns that influenced our bearish leaning at points previously (with regards principally to markets not pricing in the possibility of a contested US election or of the economic remifications of a potential second wave of lockdowns in Europe in particular) do still linger; while BTC has managed to move in counter to that for the most part over the last few weeks (today excepted), we are still not yet convinced that such a thing will necessarily hold true if the situation were to intensify.

In spite of that, our mid-term outlook does now lean bullish, mainly on the basis of the magnitude of the potential upside case on a full break and claim of $13,500. Our tendency is to think that, with selling pressure so weak, institutional buying so strong, and retail buying still not really on the board as of yet, there is (for the first time really since the return to $7,000 or so) far more expected velocity on a continued break upwards than on a reversal downwards.

Still: the coming week or so will be crucial, and probably will ultimately define the remainder of the quarter.

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.