



ENIGMA
SECURITIES



De-Coding Crypto



Enigma Weekly

30th September 2020

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Our Market View

May you live in interesting times. Something of a strange week – most assets are up at a relatively decent clip in percentage terms, but with most non-BTC assets still down substantially on their August close, and even BTC itself struggling to get back above \$11,000, things in some sense feel worse than the raw figures would imply in that regard.

The BTC picture remains more muddled than ever, with some success in consolidating above \$10,500, but very weak upside momentum beyond that, failing dramatically on a brief attempt to test above \$11,000 on Monday. As we lay out in more detail in this week's issue, tendency is towards a bearish bias currently; if we are to see an upwards move (and a potential trend shift), we would want and expect to see it within the next few days at this point.

Some recovery for alts in both USD and BTC terms this week, but still tend to think that outlook is negative on both fronts for most assets in that regard, mainly predicated on the continuing struggles for ETH (DeFi continues to experience bad headline day after bad headline day, ETH 2.0 launch remains undated, price remains well below technically important levels from July and August).

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

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	10776	2.67%	-8.29%	56.48%	31.95%	199.4B
ETH	357.14	4.86%	-18.50%	146.50%	102.30%	40.3B
XRP	0.24163	4.08%	-14.63%	32.81%	-4.69%	10.9B
BCH	227.87	5.47%	-17.96%	-4.76%	2.44%	4.22B
LTC	46.22	3.40%	-24.92%	12.78%	-18.50%	3.03B
EOS	2.579	0.91%	-20.86%	8.97%	-14.50%	2.43B

Selected

Ticker	Price	7D	1M	6M	12M	Cap
LINK	9.959	18.60%	-39.46%	327.70%	402.90%	3.49B
ADA	0.10107	24.10%	-20.38%	208.10%	154.30%	3.15B
XTZ	2.208	9.25%	-33.28%	29.29%	137.80%	1.62B

BTC: seasonality and Q4 outlook

We should start with one of the usual disclaimers when we talk about seasonal trends in BTC: while we may now be talking about an asset that could be said in many ways to be mature (with regards to the infrastructure around it, and to some extent the perception of it), we are still talking about an asset that has, at most, maybe 4-5 years of price data that can be in any sense trusted, and realistically less than that for a lot of purposes.

With that being said, the numbers over the last few years for BTC in the latter half of the year have been fairly interesting:

	Q1	Q2	Q3	Q4
2016	-9.43%	51.56%	-9.55%	59.36%
2017	8.48%	132.43%	70.64%	247.61%
2018	-51.39%	-14.57%	7.70%	-45.77%
2019	3.19%	172.78%	-34.79%	-12.20%
2020	-6.70%	45.05%	17.31%	

Reference price: BTCUSD, Coinbase.

Note here that, in all cases, we are using the date of expiry for quarterly contracts rather than the calendar date.

2016 and 2017 both saw extremely significant moves up over the course of Q4, while 2018 and 2019 saw the opposite (and, in truth, the Q4 2019 figure is somewhat buoyed by the fact that markets crashed days before expiry in Q3). Certainly, Q4 has in the past seen some extreme moments for BTC price.

When diving a little deeper into measures of volatility over the course of these quarters, however, we start to get a slightly different picture. In terms of volatility on the basis of daily closes, Q4 has not only been unremarkable, but with regards to adjoining quarters, has outside of 2018, actually been less volatile than in either the preceding or following quarter (including in the 2017 bubble):

	Q1	Q2	Q3	Q4
2016	62.1%	55.7%	42.9%	36.2%
2017	80.3%	71.3%	107.7%	104.6%
2018	119.7%	71.9%	56.0%	78.0%
2019	47.2%	83.1%	80.2%	61.0%
2020	125.3%	68.5%	49.6%	

Reference price: BTCUSD, Coinbase. Annualised volatility.

So, to start out with: we would tend to, in isolation, not expect any tendency towards increased volatility in Q4, and if anything, we would expect a decrease in that regard over Q3 (which was itself a relatively staid quarter all things considered).

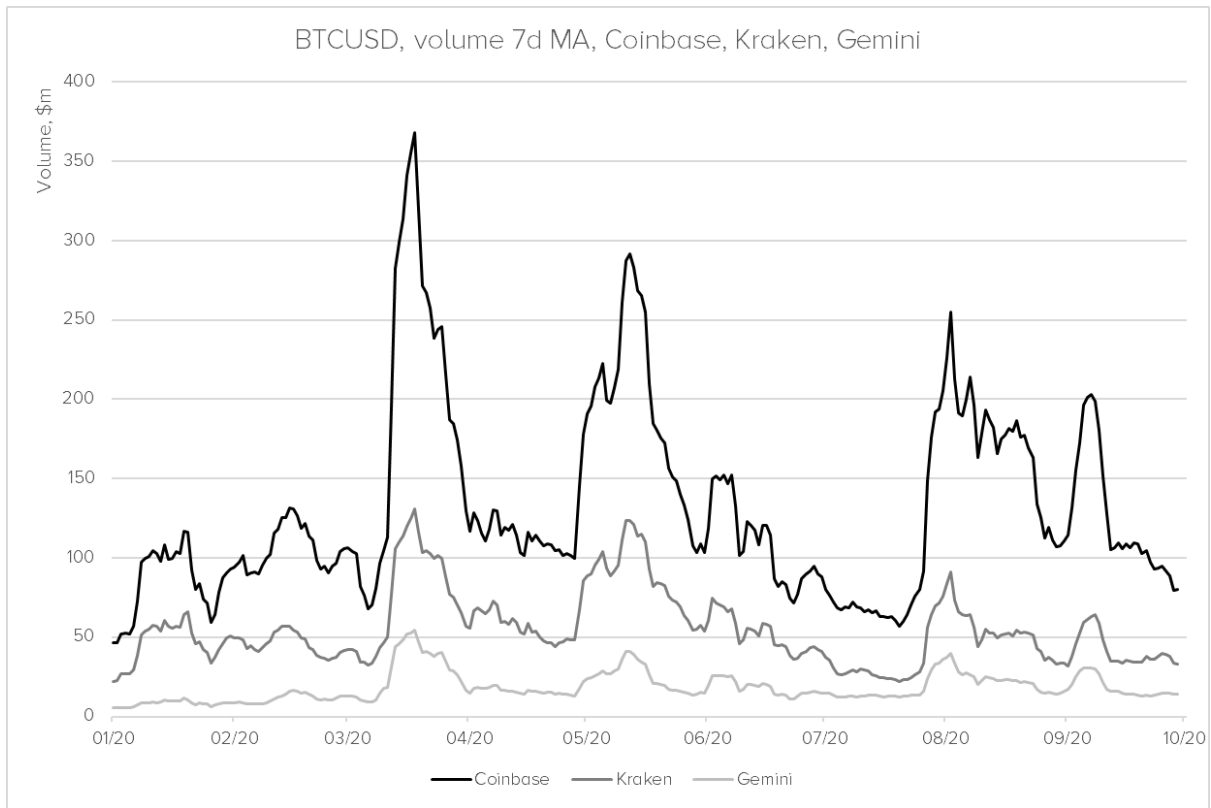
The next questions, then, are on trend and directionality. We have noted in the past that there has been a tendency on a number of occasions for the quarterly mark in BTC to end up close to medium-term bottoms or tops leading in, and for price directionality to shift significantly going in and afterwards, as can be seen quite pointedly by simply comparing price in the immediate term before and after said points:

30d	14d	7d	Date	0d	7d	14d	30d
424	419	410	25/03/2016	416	418	419	464
451	580	752	24/06/2016	670	678	667	661
573	608	603	30/09/2016	609	618	638	697
743	781	917	30/12/2016	961	896	831	917
1230	1070	935	31/03/2017	1089	1194	1174	1385
2303	2480	2691	30/06/2017	2455	2501	2217	2724
4582	3740	3619	29/09/2017	4157	4363	5625	6140
9936	17739	14211	29/12/2017	14565	16960	13820	11536
10307	8275	8927	30/03/2018	6848	6619	7893	9389
7380	6391	6060	29/06/2018	6202	6600	6216	8216
7031	6478	6750	28/09/2018	6620	6594	6188	6404
4225	3196	3839	28/12/2018	3888	3820	3636	3531
3800	3903	3984	29/03/2019	4091	5041	5078	5155
8662	8697	10236	28/06/2019	12360	11005	11802	9533
9714	10366	10169	27/09/2019	8194	8157	8267	9549
7524	7250	7190	27/12/2019	7246	7334	8198	8595
8778	5638	6206	27/03/2020	6372	6742	6872	7706
9209	9464	9302	26/06/2020	9155	9064	9291	9941
11463	10394	10938	25/09/2020	10691			

Reference price: BTCUSD, Coinbase.

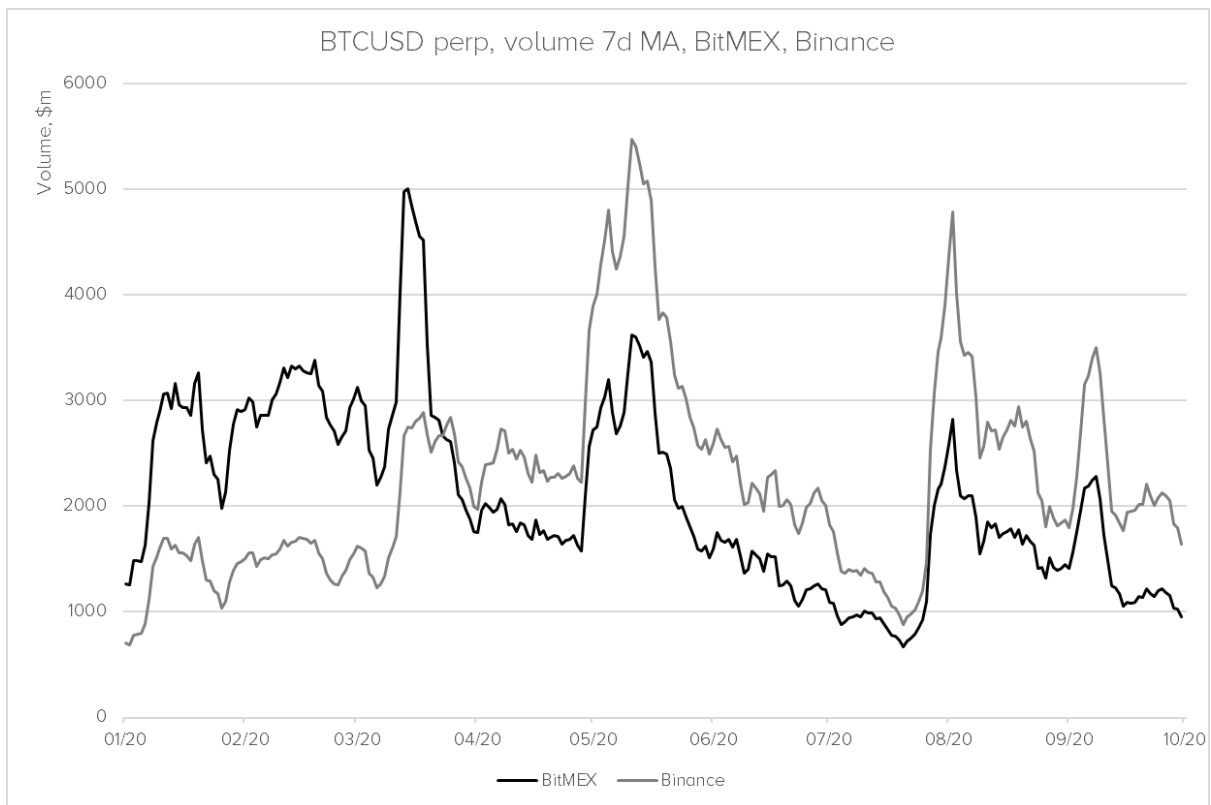
The trend over the past month or so has been broadly negative, and it should be said that there is some precedent for a near-term trend shift to upside coming into Q4; we experienced such shifts to some degree in 2016, 2017, and 2019, and hence price action over the next couple of weeks or so should be watched closely in that regard.

However, overall, our tendency right now is to think of things in terms of - in a word - exhaustion. While still above their absolute nadirs from the summer, spot and derivatives volumes across the board have been dropping off over the past few weeks; spot volumes on Coinbase/Kraken/Gemini are all at or close to said lows for instance:



Data via Tradingview.

Major perpetual swap derivatives show similar trends, albeit slightly further off the July lows (for product-specific reasons more than anything else):



Data via Tradingview.



While longer-term views remain bullish, and a near-term breakout can't be ruled out entirely (though we would still see it as unlikely), apropos of all else, we currently think it best to approach Q4 with a moderately bearish bias overall, and with low expectations for volatility. As we have discussed in previous issues, we tend to think that macro considerations would merit such a bias anyway; however, what we've seen to date this year, and what we've seen in previous years, do not paint a picture of a market that's now likely to jump back out to new highs at this point, and a 2019-esque fading of momentum seems like the most plausible scenario currently.

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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