ENIGMA SECURITIES

De-Coding Crypto

Weekly Analysis

BTC seasonality and the Q2 outlook

April 16, 2020

In this week's issue, we examine whether there is a seasonality effect for BTC in Q2, what may be driving that effect, and to what degree we might see similar results in 2020's landscape.

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Our Market View

May you live in interesting times. Overall a quiet week for BTC – trend overall has been slowly downwards since Friday's collapse from near resistance at $7500, but a late surge on Thursday morning means that we currently stand at a mere -2% change. Upcoming week seems unlikely to be so quiet; the downtrend has seen us challenging support at $6600 again, and the big risk is that from there, it's a very short way towards $6200 and a potential cascade down from there (less severe than Black Thursday, but still potentially retracing almost the entire run from those lows).

The big story of the week on the alts side has been losses for both BCH and BSV post-halving, with both down around 9% over the last week (and BCH down further since the halving itself, down around 17% from the local high). The bad news is that both networks look to still be losing processing power (as their halvings made mining both temporarily unprofitable compared to mining BTC); the good news is that price action both has quickly steadied, and BCH in particular seems reasonably likely to have set a local low in BTC terms.

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Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	6974.54	-3.33%	29.07%	-15.62%	31.39%	128B
ETH	168.378	-0.24%	41.93%	-4.48%	-3.47%	19B
XRP	0.18826	-5.46%	26.82%	-36.02%	-43.22%	8.3B
BCH	227.351	-11.51%	23.01%	0.63%	-26.19%	4.2B
LTC	42.0977	-7.43%	19.89%	-23.51%	-49.08%	2.7B
EOS	2.62692	-3.08%	31.07%	-10.53%	-52.25%	2.4B

Selected

Ticker	Price	7D	1M	6M	12M	Cap
BSV	190.071	-11.31%	58.99%	99.13%	220.30%	3.5B

BTC seasonality and the Q2 outlook

If nothing else, the coming months are likely to see an all-time high in terms of attempts to establish unambiguously bullish narratives for BTC. The halving is just about a month away now, the digital gold narrative is likely to come roaring back with gold likely itself reaching all-time highs, the myriad forms of bailout necessitated (or at least demanded) by the coronavirus crisis have already allowed 'money printer go brrr' to reach memetic status in popular (online) culture at large (with all its quiet implications for the solidity of fiat), and so on.

This sort of narrative production is, of course, part-and-parcel of the business of cryptoassets in general at this stage of their life, and should be viewed through the lens of marketing as much as anything else; nonetheless, it's often worth examining these narratives as they come, because they usually contain at least some kernel of truth.

For this week, we will avoid the likes of halving talk, and instead focus on one that we've seen quietly gathering some steam in the form of seasonality. This ends up starting from a very simple place: even allowing for market immaturity, BTC has done extremely and markedly well in Q2 of most years:

	2015	2016	2017	2018	2019	2020
January	-36%	-14%	0%	-27%	-8%	30%
February	17%	18%	23%	2%	11%	-9%
March	-4%	-5%	-9%	-33%	8%	-25%
April	-4%	9%	27%	33%	29%	
May	-3%	17%	66%	-19%	62%	
June	15%	27%	7%	-15%	26%	
July	7%	-7%	16%	21%	-6%	
August	-19%	-8%	66%	-9%	-5%	
September	3%	6%	-9%	-6%	-13%	
October	33%	15%	49%	-5%	10%	
November	20%	6%	54%	-37%	-18%	
December	14%	31%	40%	-7%	-5%	

Reference prices: BTCUSD, Coinbase.

A few explanations have been proffered in the past for this situation, and it's worth going through them. The most convincing one for us has tended to come back to that repeated maxim about cryptoassets being an overwhelmingly retail-dominated market. Most tend to be aware that consumer spending and personal consumption in general drops off in Q1 after the holiday season in Q4, and then pick up later, but the numbers for quarter-on-quarter growth are probably starker than you think:

Personal consumption (all sectors, $bn), US, 2000-2019

Quarter	Average	QoQ Avg.
Q1	2475	-4.16%
Q2	2572	3.83%
Q3	2588	0.68%
Q4	2962	4.06%

Personal consumption (all sectors, $bn), US, 2010-2019

Year	Q	Total	QoQ	Year	Q	Total	QoQ
2010	Q1	2450	-4.00%	2015	Q1	2937	-5.04%
2010	Q2	2538	3.63%	2015	Q2	3068	4.47%
2010	Q3	2550	0.45%	2015	Q3	3085	0.58%
2010	Q4	2648	3.85%	2015	Q4	3194	3.53%
2011	Q1	2555	-3.53%	2016	Q1	3046	-4.63%
2011	Q2	2664	4.27%	2016	Q2	3176	4.24%
2011	Q3	2671	0.30%	2016	Q3	3197	0.66%
2011	Q4	2752	3.00%	2016	Q4	3330	4.17%
2012	Q1	2672	-2.91%	2017	Q1	3174	-4.68%
2012	Q2	2750	2.92%	2017	Q2	3315	4.43%
2012	Q3	2741	-0.30%	2017	Q3	3331	0.49%
2012	Q4	2844	3.74%	2017	Q4	3492	4.85%
2013	Q1	2724	-4.22%	2018	Q1	3335	-4.52%
2013	Q2	2816	3.36%	2018	Q2	3494	4.79%
2013	Q3	2828	0.43%	2018	Q3	3516	0.63%
2013	Q4	2950	4.31%	2018	Q4	3654	3.90%
2014	Q1	2817	-4.50%	2019	Q1	3459	-5.32%
2014	Q2	2944	4.53%	2019	Q2	3642	5.30%
2014	Q3	2969	0.83%	2019	Q3	3668	0.70%
2014	Q4	3093	4.16%	2019	Q4	3815	4.00%

Data via St. Louis Fed Research.

Official growth figures for personal consumption (which, as with most such unweighted economic indicators, are almost always in a state on YoY growth) are usually almost flat for Q3 compared to Q2; this time of year tends to be one of the most fruitful with regards to consumers feeling comfortable in making major discretionary purposes, and for all we can say quite validly about BTC being the safe haven of the 21st century and so on, we must constantly remind ourselves: it is still viewed as a pure speculative instrument first and foremost, even by the vast majority of people putting money into it.

This of course is an extremely difficult paradigm to assess with regards to implications for this year's particular Q2 conditions. We actually discussed this a little way back in our coronavirus discussion all the way back on January 29th, where we considered the possibility that there may be a negative demand shock for cryptocurrencies due to the economic implications of lockdowns and contractions in discretionary spending. At the time, we said this:

> In general, though, we tend to think even this comes out at least neutral, and in likelihood positively, for BTC, at least in the short term; the number of people across both China and East Asia as a whole who are going to be caught up in situations that put significant personal economic pressure on them (e.g. city lockdowns) are going to be a fairly small proportion of the overall market even in worst-case scenarios, especially compared to the number that will instead see themselves with unexpected discretionary surpluses from lockdowns on travel and similar.

While we tend to think this largely played out in the aforementioned region (city/regional lockdowns were contained to very specific areas, areas such as South Korea, Singapore, Hong Kong, etc. have at the least minimised lockdown-related economic disruption and in places avoided it entirely so far, though Singapore in particular now looks to be running into difficulties, and while the official figures on just how well it's been contained in China are absolutely not to be trusted, there clearly has been a return to activity in most places outside of Wuhan and surrounding areas), it has been abundantly clear for anywhere between weeks and months that such a scenario was not going to be true for Europe and North America. Lockdowns here are going to last longer, and even with the efforts at personal stimulus, effects on discretionary budgets are inevitably going to be more severe.

This, then, doesn't paint the prettiest of pictures with regards to current conditions. Our argument has been that a BTC and crypto bull run needs to have a truly global demand profile in order to start driving above 2019 highs; we need to see new demand from both Western and Asian markets.

We haven't seen much on the Western side since the peak in February, and while there are still conditions where we could see it arise, the natural upwards pressure that has tended to be there in past years is unlikely to manifest itself this time around.

Asides from this, there are a couple of other points that we think are worth highlighting. One is with regards to futures expiry. While the most popular (and most liquid) futures instruments for BTC across the entire market are perpetual contracts, quarterly futures were the main instrument used prior to their emergence, and are still more popular with many traders and other market participants for various reasons; for instance, here is a snapshot of proportionate 24h volumes across five of the largest futures exchanges:

Exchange	Perp%	Quar%	Oth%	Other?
Binance	100.0%	0.0%	0.0%	Binance futures have high volume but are a recent addition, no non-perps
Huobi	18.5%	69.9%	11.6%	Other = weekly and bi-weekly contracts
OKEx	30.8%	53.0%	16.2%	Other = weekly, bi-weekly, September contracts
BitMEX	96.3%	1.7%	1.9%	Other = September contract
Deribit	85.5%	10.6%	3.9%	Other = September contract

There has been a tendency in the past for futures expiry to end up forming a meaningful 'pivot' point to some degree, trending flat or down into expiry and then rocketing upwards post-expiry. This happened dramatically on March expiry in both 2019 and 2018, and to a limited extent in 2017 too:

	-28d	-14d	-7d	0d	7d	14d	28d
03/20	8709	5638	6206	**6372**	6742	6872	
12/19	7760	7250	7190	**7246**	7334	8198	8427
09/19	9582	10366	10169	**8194**	8157	8267	8668
06/19	8554	8697	10236	**12360**	11005	11802	9843
03/19	3806	3903	3984	**4091**	5041	5078	5160
12/18	3975	3196	3839	**3888**	3820	3636	3562
09/18	7015	6478	6750	**6620**	6594	6188	6405
06/18	7514	6391	6060	**6202**	6600	6216	8184
03/18	11000	8275	8927	**6848**	6619	7893	8923
12/17	10870	17739	14211	**14565**	16960	13820	11087
09/18	7191	6519	6707	**6582**	6552	6196	6409
06/17	2479	2480	2691	**2455**	2501	2217	2786
03/17	1293	1070	935	**1089**	1194	1174	1353

Reference price: BTCUSD, Coinbase.

Of course, as we can see, this doesn't point to peculiar Q2 seasonality in itself (though the effect has been most pronounced entering Q2), but may help to explain why we see such dramatic shifts in trend going into new quarters in general, and is particularly interesting with regards to the nature of action this year (moving down into quarter's end, albeit in very unusual circumstances, and now looking to recover at important levels just after it).

The other point worth considering: luck. As most of the people who professionally push these narratives will jump to tell us, BTC has recorded massive returns since its inception, and its drawdowns have been heavily concentrated into short periods of time - Mt. Gox in late 2013/early 2014, the Bitstamp hack in early 2015, and then never a drawdown of more than 10% in a quarter (and many 60%+ quarterly gains) until the aftermath of the late 2017 bubble. The latter half of 2019 was in a sense exceptional because it was the closest thing that BTC has seen to a structural bear trend (rather than sudden drawdowns in relation to severe but ultimately short-term shocks) in reality since its inception.

It just so happens that none of those shocks (at least since crypto markets became halfway-developed) have happened in Q2, and indeed that Q2 has often been a beneficiary in the sense of coming after major Q1 losses on the back of said shocks (as in 2014, 2015, 2018, and to a lesser extent 2016). There are always limitations with extrapolating out anyway - "past performance is no guarantee of future results" and so on - but crypto markets throw up some unique issues in that regard (because of how immature market structure was pre-2017, and because of how underexposed to broader trends crypto markets were until arguably more recently)

The bottom line with regards to Q2 seasonality: it's not entirely irrelevant, but at best, it seems likely to be a fairly modest contributor, and even more modest than usual in the current global economic climate. We said in our 11th March piece (pre-crash) that our Q2 perspective was broadly that "the most likely scenario now is a fading of directional volatility, and that we will go on to maintain the levels that we enter Q2 at for the majority of the quarter".

The former part of that is clearly less certain under current conditions, but overall, presuming that traditional markets continue to find ways to kick the can down the road and avoid facing up to reality until the summer or autumn, we would be very unsurprised to see BTC at roughly the same place exiting in June as it entered in April; we do not have a huge amount of confidence right now in a demand-side Q2 bump playing out as it has in previous years.

Until next week – thank you for reading.

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