ENIGMA SECURITIES

De-Coding Crypto

Weekly Analysis

CFTC latest: is institutional money returning?

April 29th, 2020

In this week's issue, we look at the latest CFTC figures for March and April and examine whether institutional traders are now returning to the space in the aftermath of Black Thursday.

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Our Market View

May you live in interesting times. Quietly a very positive week across crypto markets; BTC in fact saw its first seven-day streak of consecutive gains since August 2019 from the 21st to the 27th, and after finishing barely red on Tuesday, is up again today. Our mid-term thesis has been that we see a local high somewhere slightly above $8000, and we are now there and running head-first into resistance; reaction between about $8300 and $8600 will be crucial, but our default expectation would be that we see a correction around here.

Alts markets have been showing occasional flourishes, but nothing too substantial compared to BTC; ETH and XRP both kept pace, with other mid-caps falling behind somewhat. ADA and XLM were the big gainers of the week among the smaller-caps.

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

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	8148.44	16.9%	28.1%	-12.5%	41.1%	150B
ETH	209.009	18.7%	57.7%	14.0%	28.9%	23.1B
XRP	0.218613	17.1%	26.0%	-26.3%	-27.4%	9.64B
BCH	253.22	11.4%	15.1%	-13.5%	-12.7%	4.66B
LTC	46.788	13.4%	20.2%	-20.1%	-39.4%	3.03B
EOS	2.86737	12.4%	30.0%	-13.7%	-41.4%	2.64B

Selected

Ticker	Price	7D	1M	6M	12M	Cap
XLM	0.0703253	30.8%	74.3%	-1.9%	-28.2%	1.43B
ADA	0.0497962	40.9%	67.0%	17.1%	-24.8%	1.29B

CFTC latest: is institutional money returning?

A subject that we tend to come back to every few months are the CFTC's Commitment of Traders Reports. The reports, which give details of open positions on a number of futures and options markets traded on US exchanges (principally, but not exclusively, on the CME), tend to give some insights on the status of BTC, particularly from the perspective of larger, institutionally-connected market participants. Our last report was on February 19th, and at that time, our key notes were:

1) There had been a huge inflow of money into the market right at the start of the new year, which led us to the thesis that the January and February pumps owed a lot to institutional money. (we tend to think that evidence is strengthening for this as time goes on)
2) In support of 1), in addition to raw volumes, the CFTC reports showed a significant number of new traders (concentrated on the long side); in other words, new money, large organisations, relatively small positions (for now). More on that further down.
3) There was a massive turn short from leveraged funds in particular in early February (that ended up reaching apotheosis on March 3rd, with over 80% of leveraged fund positions being short at that point), which was notable; such positions had been a counter-signal through 2018 and most of the first three quarters of 2019, albeit not so much in Q4, but the sheer magnitude was in any case worrying. (we were right to be worried, and wrong to think to be hesitant about whether it was a negative sign).

Now would seem to be a good time to revisit. Why? Apart from the general point of there simply having been enough time for dust to settle from the immediate Black Thursday fallout (CFTC figures are published once a week on Friday and correct for the previous Tuesday, and hence are not exactly the most dynamic of indicators), there is something that drew our eye back towards them a couple of weeks ago - the trader count.

A condensed recap from February 19th:

> The interesting wrinkle here comes in the form of trader numbers. The CFTC figures report the raw number of reporting parties on all sides; since we are talking about, at most, a two-digit total quantity across all categories here (steadily around 50 total for most of the past 18 months, with the majority being leveraged funds)...However, this changed in the new year, and not in the way one would expect.

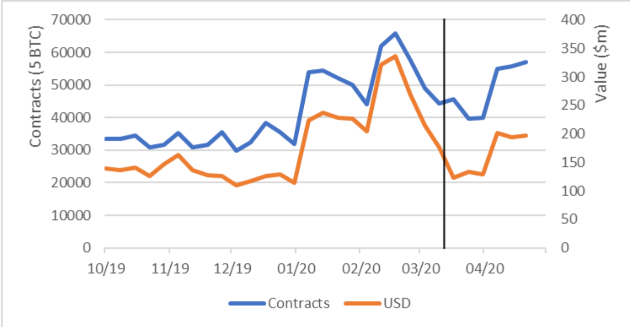
We then went on to note that trader count had risen from 47 to 58 at the new year (and stayed in the high 50s since - 59 at the last report before that issue on February 11th). What has happened since? As we have mentioned in recent weekly and daily updates (including in reasonable depth in our March 11th issue), there was a notable withdrawal in March as the cracks in global markets started to show (and as BTC lost its upwards momentum and slipped back below $10,000). This has reversed stunningly quickly:

Date	Traders (Total)	Traders (LF, Long)	Traders (LF, Short)	Traders (LF, Spr)
avg. 12/19	***44***	*10*	*14*	*4*
avg. 01/19	***57***	*20*	*13*	*9*
avg. 02/19	***56***	*20*	*12*	*7*
03/03/2020	**40**	12	11	6
10/03/2020	**42**	11	14	3
17/03/2020	**44**	9	18	4
24/03/2020	**41**	12	13	5
31/03/2020	**44**	13	12	3
07/04/2020	**55**	16	17	7
14/04/2020	**62**	16	21	7
21/04/2020	**60**	17	20	7

Based on CFTC figures. In order: total traders, leveraged fund longs, leveraged fund shorts, leveraged fund spread.

While the long/short balance has shifted slightly (the fact that so many traders were long was notable given that leveraged funds are – and were at that time – net short as a class, indicating a number of small entries on the long side), it seems overwhelmingly likely that this sudden influx of traders represent a return from those who briefly pulled out of BTC markets in March. The April 14th figure, for reference, is an all-time high; the previous record was 61 on February 18th, while the 2019 high was 56 on July 9th, and the 2018 high was 46 on December 24th.

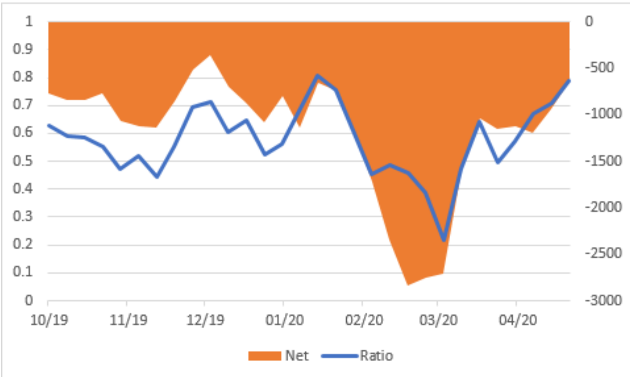
Of course, this trader figure - while interesting - isn't the most granular, and doesn't tell us about volumes; so, let's look at those. First, open interest over the last few months:



Based on CFTC figures. Contracts left axis, USD value right axis. USD value based on close of trading day.

Funnily enough, Black Thursday itself didn't cause much of a contraction in OI in terms of the numbers of contracts being held, but there was a clear downward trend after the market peak in both pure BTC and dollar terms; this shifted dramatically too in April, and we are nearly back to the levels we initially spiked to in January.

Another figure we have tended to look at is net and ratio long/short positioning for leveraged funds (firms under that designation make up the majority of CME volume and are somewhat more flexible in their positioning than non-reportables or other categories):

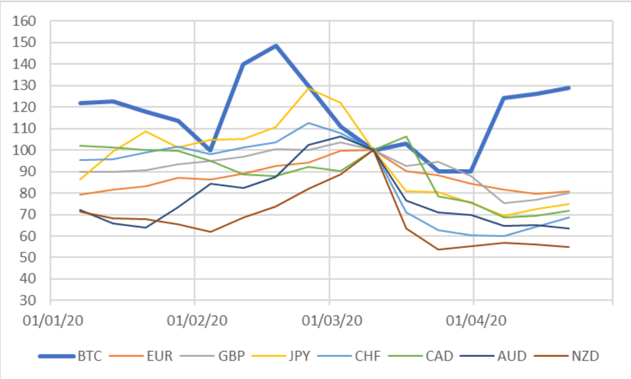


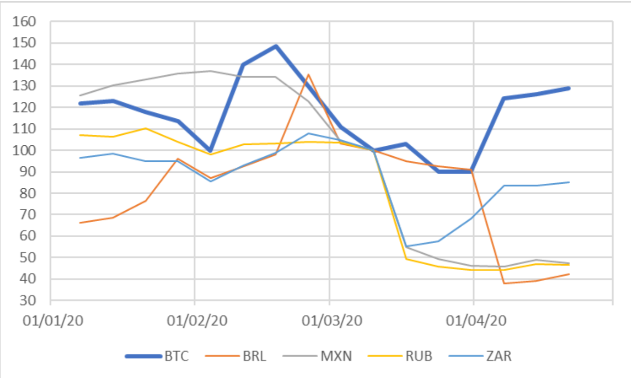
Based on CFTC figures. Net = contracts, ratio = longs/shorts. This figure has historically almost always been net short; it was last net long in February 2019.

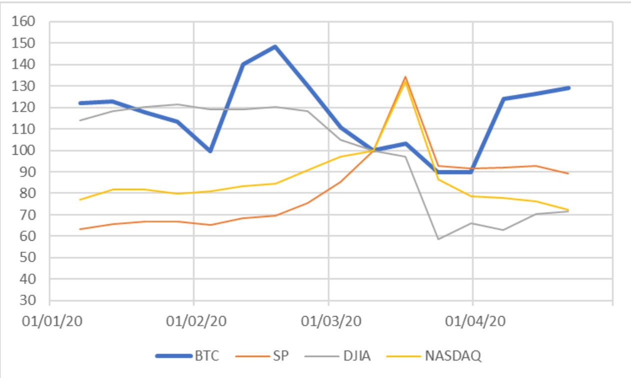
As noted earlier, this isn't close to a hard-and-fast indicator in either direction, but given that the downside risk on BTC at current levels is overwhelmingly concentrated on the basis of macro factors rather than crypto-specific factors (which would explain why so much money went short all the way back in early February), this again should reassure somewhat.

Of course, one of the big questions with all of this is: is it just BTC that's returning to form here? After all, 'Black Thursday' was not just a crypto phenomenon by any possible means; is this just a case of investors withdrawing temporarily from all markets, and then returning to said markets once the worst is over?

If this was the case, it would still probably be a good sign; however, it actually appears that BTC has been somewhat unique in just how much interest and trading volume it's been able to reclaim (on CME specifically). Using the CFTC figures, we indexed open interest (with base being set at March 10th) on three different categories of product: major currencies, EM currencies, and equities indices, which gave us as follows:

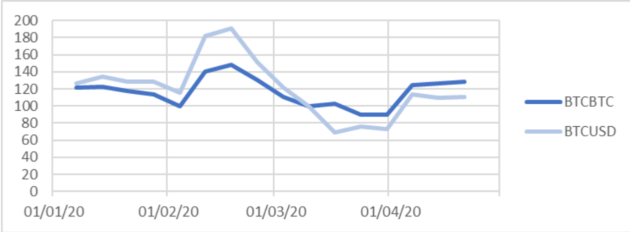






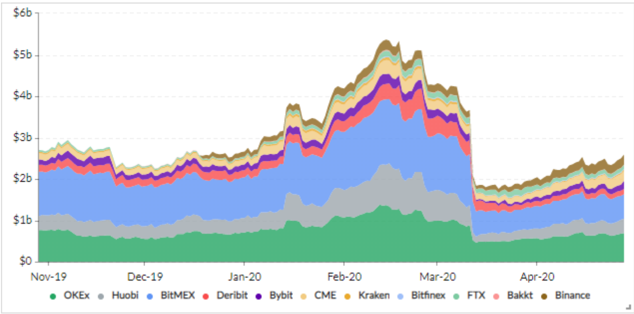
Based on CFTC figures. Indexed, 10th March 2020 = 100. OI based on no. of contracts.

One thing we should note here is that these figures are based on contract numbers (with contracts of course being based on fixed quantities of underlying) rather than being adjusted against USD; a dollar-based index for BTC is less favourable, but still shows a return to levels over 100:



It should also be noted that the baseline OI for BTC compared to most of these products is at least an order of magnitude lower; to pick one of the smaller ones, OI on the Brazilian real was over $1b equivalent on March 10th, as opposed to just $177m equivalent on BTC. Still, the general point holds: with the possible exception of SPX futures (slightly down on March 10th, but up on the year), BTC OI has returned in a way that hasn't been true of similar instruments.

We should again emphasise: we don't think 'bullish' is an epitaph that does the information or the situation too much justice. Yes, OI has returned on CME, but the same is largely untrue of other major public-facing exchanges:



Credit: Skew.

We are at a testing point right now for whether we do end up getting a true breakthrough; our inclination is that we are still probably in the vicinity of the local high, but things like the CFTC indicators clearly do play a part in signaling that the capacity is still there to break further upwards.

However, the bigger takeaway is this: the downside risk, short and medium-term, appears to be fading. We wrote after Black Thursday that the tale of late Q1 (and looking into Q2) would be that of BTC demonstrating that it could find long-term support again at levels it had collapsed through on the way down. We were at the time not terrifically optimistic, but performance has been impressive; there have been buyers all the way up, and even if we do draw down somewhat again from here (which we still think is likely at some point), the levels at which we think any drop or cascade will stop have been inching higher and higher. Clearly, the fact that those market participants who were willing to bid so heavily on a $7000 BTC in the very, very near-past are back is just further reassurance on that front.

Until next week – thank you for reading.

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