De-Coding
Crypto

Enigma Weekly

5th May 2021

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Our Market View

May you live in interesting times. A lively but relatively sane week until the last 24 hours or so, where DOGE first broke through its resistance at $0.420 and went straight to the next memetic resistance at $0.69, followed by a massive run on a grab-bag of assets, chiefly those that fall into the category of “anything that retail can get their hands on easily” (Robinhood cryptos like ETC (+231%) and BSV (+42%) being the biggest beneficiaries so far, with BCH also gaining massively). Expect that frenzy to continue over the next couple of days, with volatility peaking coming into Elon Musk’s SNL appearance on May 8th; this does feel like it has to be a “buy the rumour, sell the news” situation, so de-risk accordingly going into the weekend.

Outside of that, ETH did see a fairly big breakout this week, touching $3500 on Tuesday before slipping back slightly; $3500 and $4000 should provide resistance with how much is being piled into calls at both points on options markets, but we remain bullish overall (albeit wary given the aforementioned market climate).

BTC also up, albeit with most of its gains coming in the last 24 hours; we discuss it in more detail in this week’s issue, but our general view here is “buy momentum, don’t try to anticipate said momentum” – the macro case for BTC remains strong, the general market climate around it remains weak, but we do ultimately still see an ATH break probably translating into another significant move far and beyond said mark.

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

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	57460	4.7%	-2.7%	287.4%	558.6%	1.075T
ETH	3454.44	25.8%	62.4%	683.8%	1717.0%	399.9B
LTC	355.19	38.6%	59.4%	497.2%	735.2%	23.71B
BCH	1279.31	42.3%	95.0%	396.5%	440.8%	23.96B
EOS	8.341	41.8%	24.6%	233.2%	241.0%	7.97B
Selected						
Ticker	Price	7D	1M	6M	12M	Cap
ADA	1.426	8.2%	17.2%	1302.0%	2875.0%	45.65B
DOT	39.45	16.1%	-14.7%	820.7%	1242.0%	36.89B
LINK	48.62	35.8%	50.5%	314.2%	1193.0%	20.48B

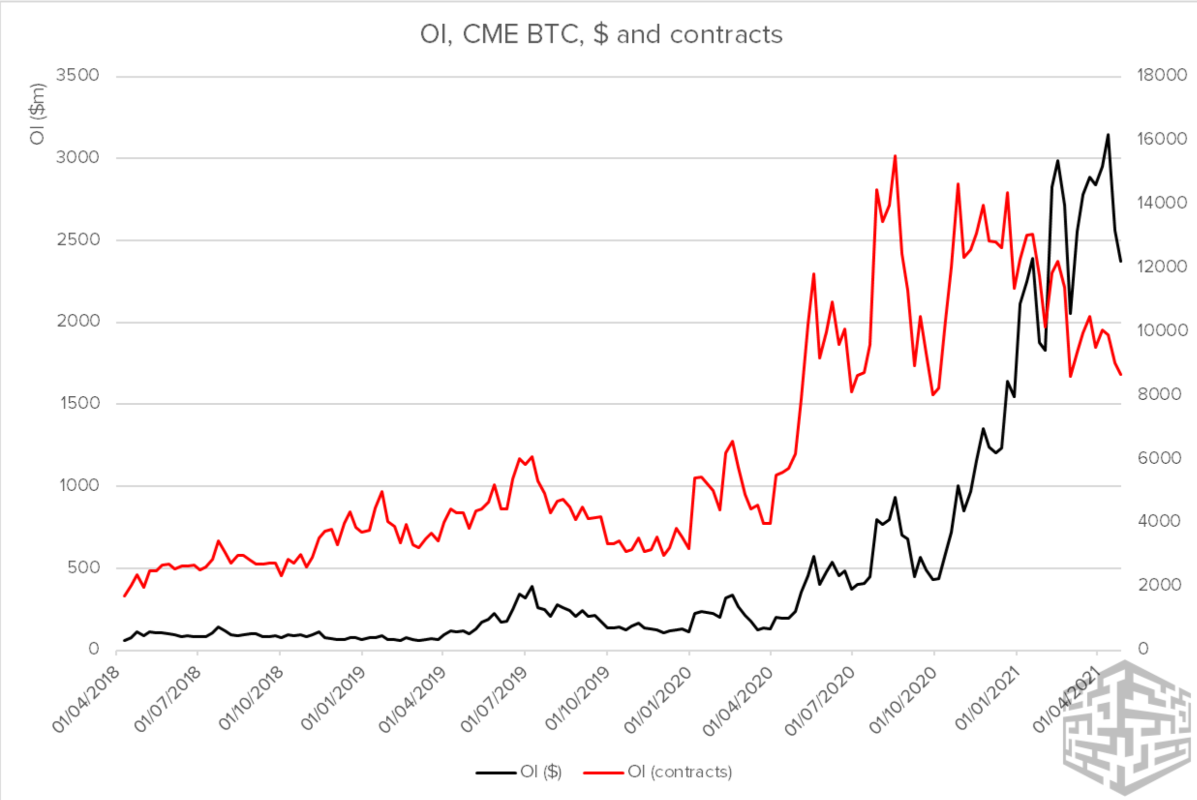
CME BTC and ETH latest: on dry powder

Bitcoin futures

To start with, our usual refresher on CME futures and CFTC data. One of the unusual features of CME markets is that, because they fall under the aegis of the CFTC (Commodity Futures Trading Commission), they get included in the Commitments of Traders reports - essentially an (anonymised) breakdown of how many significant paarties are trading on a given futures instrument, and their positioning in the net.

This is an useful tool for understanding the general state of institutional BTC markets - while CME markets aren't quite the hub for institutional exposure that they used to be, they remain very relevant, and are a good place to look with respects to sentiment and overall position in the market cycle.

Let's start simple with open interest:



Data via CFTC.

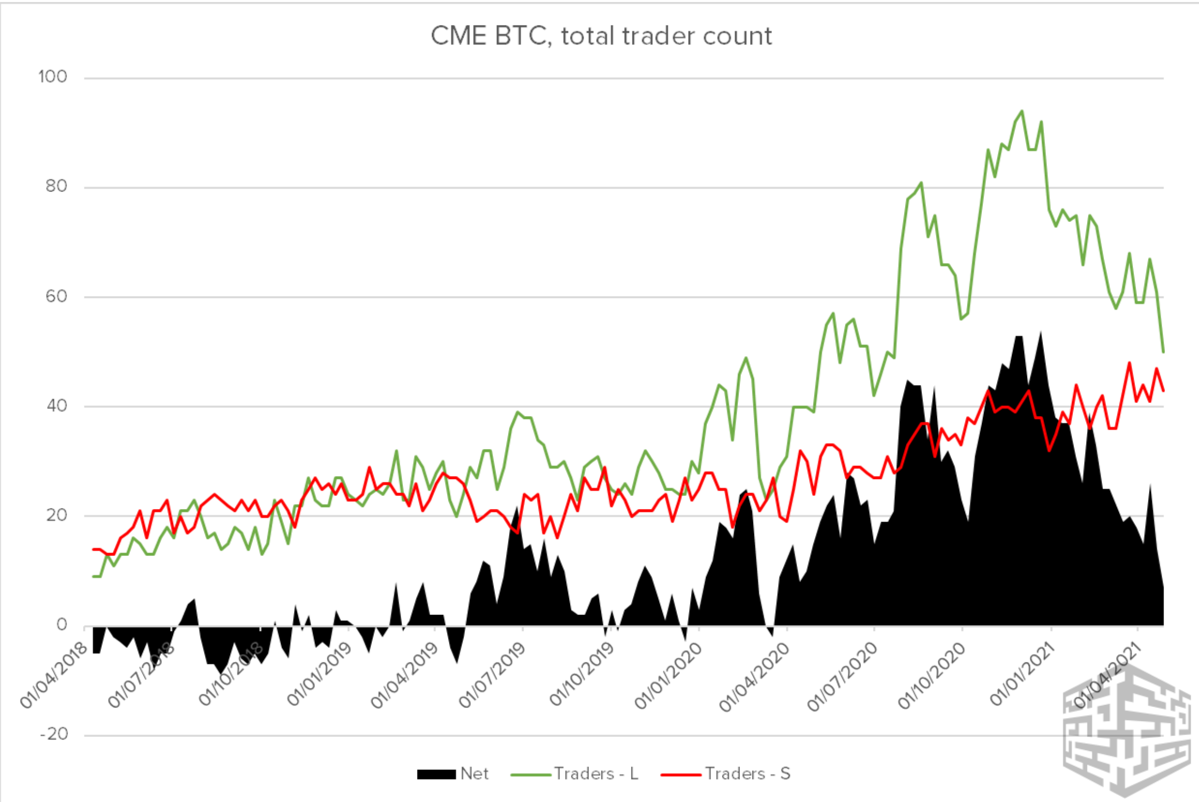
OI is down in BTC terms to the point that it finds itself at its lowest mark since last October, and not far off marking a post-halving low below 8000 contracts (40,000 BTC); it's also trending downwards in dollar terms. This is hardly all that surprising in isolation; BTC's performance over much of Q2, and even back to late Q1, has been extremely disappointing, and as we've discussed in the past, while there clearly is an enduring market with respects to market participants effectively looking to gain directional long-term exposure to BTC through naked longs and the like, it nonetheless fundamentally makes very little sense for anyone treating BTC as a long-term asset to look to gain that exposure through a succession of monthly contract buys.

Trader count tells us a similar story:

Date	Total	Lev. L	Lev. S	Lev. Sp
avg 12/20	*102.2*	*38.2*	*17.2*	*13.6*
avg 01/21	*92*	*33.75*	*16.5*	*12.5*
avg 02/21	*88.5*	*33.5*	*17.75*	*14.75*
02/03/2021	79	29	16	13
09/03/2021	76	25	18	13
16/03/2021	80	26	21	15
23/03/2021	87	33	19	17
30/03/2021	81	25	23	14
06/04/2021	84	25	27	14
13/04/2021	89	33	25	14
20/04/2021	90	31	25	13
27/04/2021	73	23	21	12

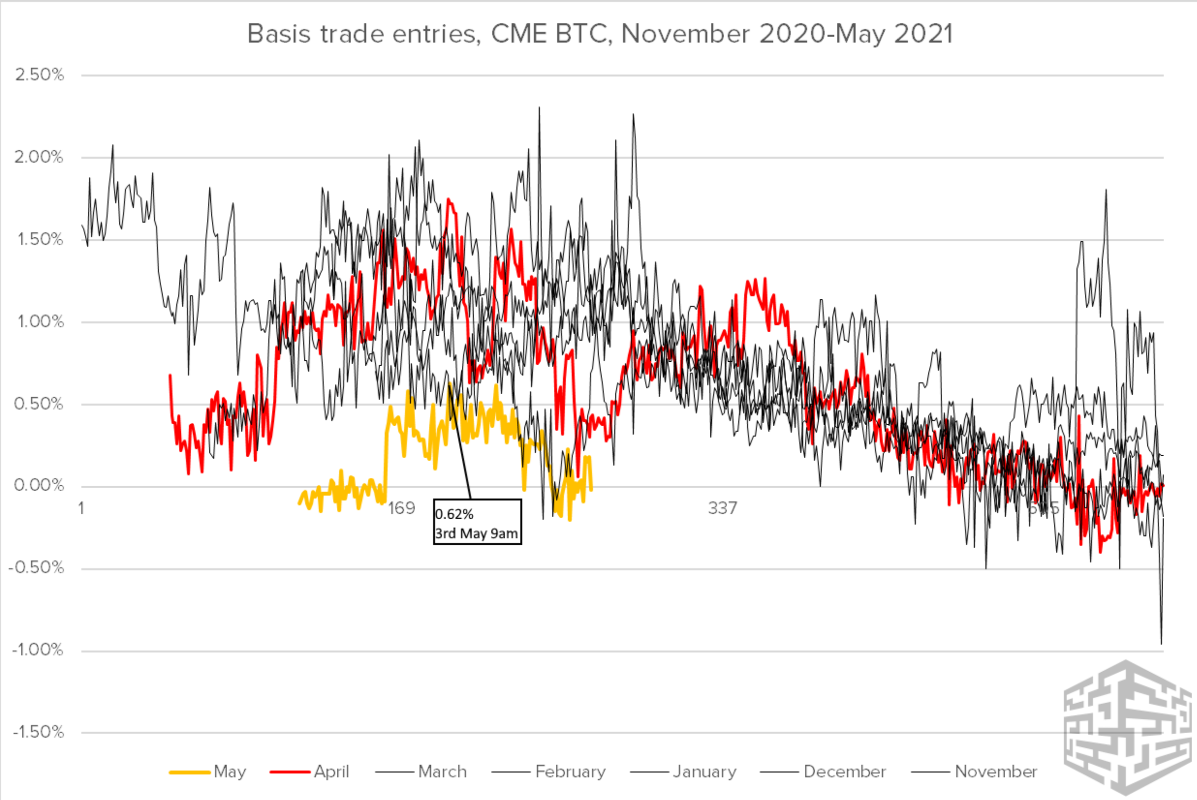
Data via CFTC. Note that totals are for all categories of trader, and therefore leveraged funds do not add up to said total.

The rush of long-positioned leveraged fund participants from the new year has now dried up almost entirely; the 23 mark there is the lowest since October 6th (a couple of weeks before BTC finally broke upwards towards and through its 2019 highs). Indeed, in terms of raw total reportable count (i.e. longs-shorts, and not just including leveraged funds), we have (at +7) the lowest differential since Black Thursday last year:



Data via CFTC.

One thing we will note is that while short participants have moved up in count (very slightly), they have taken a hit in OI, and there is something of an ongoing situation in that regard with respects to the basis trade (i.e. short CME BTC futures, long underlying, liquidate at settlement). While the basis trade has generally been one of those things where it is more difficult to execute than it seems on paper anyway, there weren't as many good obvious early entries as there usually are last month, and this month has been one of the worst on record for it; remains to be seen what effect that will have, but it does speak further to a lack of liquidity on that long side to absorb said trades (since the underlying leg absolutely isn't the problem here).



Data via Tradingview.

In any case: very few people on the institutional level are speculatively long on Bitcoin right now. That is not necessarily a terrible thing. Note the dates on some of those previous lows on both the OI and trader count: early March 2021, early October 2020, early July 2020. There has absolutely been a tendency throughout this supercycle for markets to not so much crash (although of course there was a large nominal drawdown in March), but to stagnate - weeks and months of low volatility and rangebound action, all life being sucked out of the market, and eventual compression to a breakout (which, given the nature of the supercycle, has almost always been to the upside).

We have been quite vocal over the last couple of weeks in particular re: being bearish Bitcoin in the short-term in relative terms, and we tend to hold to that general stance; there isn't a huge amount of speculative demand for it, there are issues like the Grayscale backlog that continue to hang heavy re: further depressing that demand, and so on. Of course, with all that being said: the fundamental investment thesis for Bitcoin not only holds strong, but is arguably strengthening in the face of everything we're seeing macro-wise; and, while we aren't and have never been the people calling for a $200k BTC in 2021, we to tend to think there's room to run upwards in this cycle compared to current levels.

Even in the midst of the Grayscale problems and the like, there's no rush to the exit just yet. Price is stagnant because the money that has tended to speculatively back it is either sitting on the sidelines or chasing other assets in the crypto space. As loathe as we are to talk about it: why do you think DOGE is sitting at a $90bn market cap right now? It's because retail demanded it, and market makers and the like started moving liquidity around to support it. That second part is what people tend to miss; the degree to which crypto is a zero-sum game does get overstated somewhat (we're not quite of that market size yet), but there are clearly areas where that's true, and liquidity is one of them. (It's why ETH moved up so slowly on such low volumes over much of the past week, incidentally).

BTC will eventually gain back momentum. We still tend to take a stance of believing it when we see it, which in practice means that we would need to see a substantial all-time high break (and probably for ETH to run into its own brick wall), but it will happen at some point. What we're seeing in CME markets is making us feel more confident, not less, that said break has the potential to be substantial.

Ether futures

We passed the three-month mark since CME ETH futures launched a couple of days ago, but we don't have CFTC data for that entire time - there is a minimum threshold that's required for it to start showing up there, and ETH (like BTC) did take a while for trader count to get to reportable levels (generally 20+ traders with reportable positions are required).

Still, some points of interest are there, chiefly with relation to early positioning:

Date	Pos. - Lev. L	Pos. - Lev. S	Net	Ratio
06/04/2021	794	1414	-620	0.562
13/04/2021	757	1495	-738	0.506
20/04/2021	790	1536	-746	0.514
27/04/2021	1011	1945	-934	0.520

Data via CFTC.

Like BTC, CME ETH begins its life with leveraged funds, in the aggregate, short, and making up the bulk of OI. Our tendency would be to think that this is ultimately from funds pursuing the cash-and-carry trade from the get-go rather than anything particularly sentimentally negative about ETH as an asset; unlike BTC, there was and is a reasonably substantial premium still going on futures (around 1-1.5% at the time of writing), and even with the relatively lower liquidity on ETH and its large contract size (one contract being 50 ETH), it does seem easier to enter an ETH cash-and-carry than a BTC one at the moment.

These figures were taken before ETH surged in earnest over the last week, so it will be interesting to see if there is some speculative rush incoming, as represented either by positioning or by raw OI (at $352m last week, it was just under 15% of BTC's $2373m, for fans of flippening in all its forms); there has been a significant surge in volumes starting on 13th April, but it seems far from played out just yet.

Micro Bitcoin futures

Finally, no data as such for this one yet given that it launched just a day or two ago, but something to mention. As we have mentioned previously, the CME BTC contract in its current state is not fit for a lot of purposes; it was designed when Bitcoin was in the four digits, it was launched at the 2017 top, and no matter how you slice it, it was clearly not intended for a world where the value of a single contract was in the area of $300,000.

To remedy this, the CME have introduced a new product - same specifications broadly as the main contract, but with an unit size of 0.1 BTC (i.e. below $6000 at today's prices).

On the whole, we tend to think that this will be a fairly unambiguously positive influence; smaller lot sizes in finance almost always lead to more activity, and more activity on all but the lowest-quality assets lead to higher prices in the aggregate; the question will be how positive (i.e. does it present a sufficiently attractive speculative instrument to lure stakeholders back into the market on its merits).

For reference, as of yesterday (the second day of trading), MBT volume was 22,425 (approximately 4.9% of main contrtact volume on the same today), and OI was 2,965 (0.71%). As seen with the ETH rollout, it'll probably take a while for it to catch on; still, it is another contributor to our general thesis re: seeing any short-term Bitcoin play in the lense of essentially a momentum trade for now.

Until next week – thank you for reading.

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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.