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De-Coding Crypto



Enigma Weekly

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Our Market View

May you live in interesting times. Another week where small-caps completely stole the show; as we mentioned in past weeklies and dailies, ADA (while still up) now finds itself at something of a plateau point, but one of our other much-talked-about alts – LINK – jumped over 40% in a week, blowing past previous highs and cementing its status as one of the best performers in crypto in 2020 to date.

All three of ADA, LINK, and XTZ are now at or approaching market caps in the \$3bn range, so next couple of weeks will be very interesting – the tendency post-2017 is that all projects meet resistance around this area of capitalisation, but it should be said that XTZ and LINK in particular are the two projects that have the most potential in crypto to blow through that barrier, so very important to monitor now with regards to not only themselves but the potential for a paradigm shift in the crypto market in general.

For BTC...at its basic level, the same as ever. Resistance at \$9600, soft support at \$9100, real support at \$8600. We will spare everyone another lecture on these lows volatility-wise not likely being sustainable, but in any case: when it moves, it's more likely than ever to move dramatically, so be ready.

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

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	9222	-2.19%	-2.09%	3.52%	-13.37%	170.0B
ETH	239.44	-2.60%	3.04%	37.51%	5.79%	26.76B
XRP	0.19803	-0.24%	3.80%	-18.44%	-38.23%	8.82B
BCH	228.49	-6.54%	-2.85%	-32.66%	-27.42%	4.22B
LTC	43.39	-3.88%	-0.65%	-26.76%	-57.15%	2.82B
EOS	2.536	-5.17%	0.32%	-33.29%	-38.46%	2.38B

Selected

Ticker	Price	7D	1M	6M	12M	Cap
ADA	0.13114	3.96%	69.26%	191.70%	122.90%	3.40B
LINK	8.67150	41.79%	119.00%	211.60%	222.80%	3.04B
XTZ	3.0882	18.28%	16.60%	109.20%	218.80%	2.25B

CME latest trends: OI, trader count, options

Open interest

When we last wrote in depth about CME futures at the end of May, we noted that we were approaching all-time highs in terms of interest in both USD and BTC terms:

Looking more conventionally, open interest has also absolutely skyrocketed post-halving, with there being a good chance of it having out-and-out doubled (in BTC terms) at month's end in May, and in any case is up from a low of \$122m post-Black Thursday to \$577m as of last Friday. Mid-week data does suggest that this has peeled back somewhat this week, but remains significantly above previous highs.

Where have we gone since?

As it turned out, that reading (on May 19th) would represent the high to date for OI in both BTC and USD terms (not that the two have needed particularly differentiation since that date):

Date	OI (contracts)	OI (BTC)	OI (\$m)
05/05/2020	7909	39545	357.0
12/05/2020	10231	51155	451.3
19/05/2020	11802	59010	577.3
26/05/2020	9170	45850	405.5
02/06/2020	9999	49995	476.1
09/06/2020	10924	54620	534.2
16/06/2020	9605	48025	457.5
23/06/2020	10091	50455	485.6
30/06/2020	8123	40615	371.1
07/07/2020	8635	43175	399.5

CFTC data.

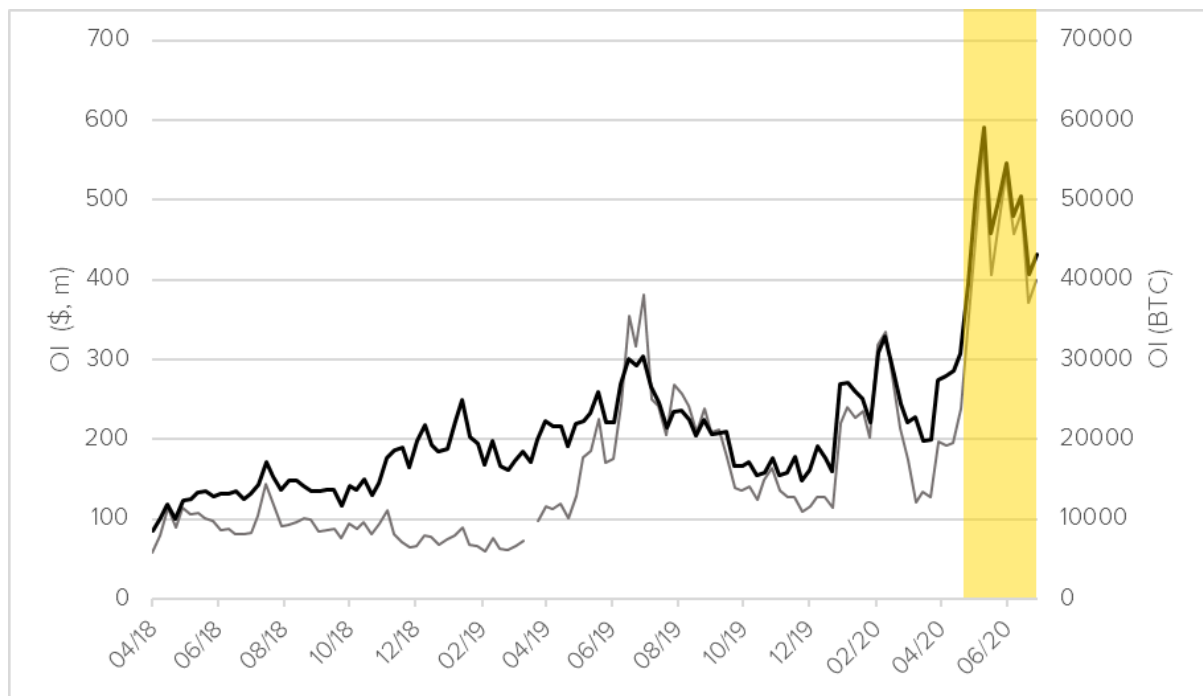
OI drew down by nearly 25% as we approached expiry on May contracts (as it tends to do to some extent), and while it picked up modestly over the course of June, it was unable to come close at any CFTC reporting point to touching May's highs. Expiry this week saw a smaller proportional drop, but still lower figures than we'd seen since the start of May.

A couple of things should be said here. Firstly: as mentioned, the periods where we see drop-offs correlate with futures expiry on the monthly contracts, and that's, on the whole normal. The May dropoff was a little earlier than most have been as it happens, and it hence meant that the bounce back post-expiry was technically one of the strongest we've seen in the past year, but June then saw one of the largest drops:

Pre-expiry	Date	Post-expiry	Post-expiry %
4928	26/07/2019	4302	-12.7%
4091	30/08/2019	4493	9.8%
4178	27/09/2019	3348	-19.9%
3093	25/10/2019	3155	2.0%
3554	29/11/2019	2983	-16.1%
3541	27/12/2019	3186	-10.0%
5016	31/01/2020	4412	-12.0%
5754	28/02/2020	4897	-14.9%
3976	27/03/2020	3982	0.2%
5702	24/04/2020	6154	7.9%
9170	29/05/2020	9999	9.0%
10091	26/06/2020	8123	-19.5%

CFTC data. OI measured in contracts.

Still: no cause for alarm, and in the historical context, OI remains far, far higher than it achieved at any other time since CME BTC futures started reporting data in April 2018:



CFTC data.

While the contraction in OI isn't the best of signs, it does seem to use to bode well overall; that it's remained relatively stable through these monthly expiry periods (in % terms) does suggest that there is little appetite for getting out of positions in the BTC market in general, and that interested parties are looking to be involved for the longer-term (practically-speaking, through Q3 and Q4 2020 at least); while there clearly was some uptick in activity connected to the immediate pre- and post-halving period, and a lot of positions probably do essentially represent bets on post-halving appreciation, at the very least, it does suggest to us that these are positions being taken with said longer-term perspective.

Trader count and positioning

Again, going back to our May issue:

To recap: one of the unusual quirks with CME futures is that, via the CFTC Commitments of Traders report (published Friday, accurate as of that Tuesday), we get a snapshot of not only the balance of positions, but the number of entities holding said positions, and this has over the last few months been of particular interest as an indicator of new money coming (and going) from the market.

Trader count had increased significantly at the new year, fallen back on Black Thursday, but returned again with some aplomb afterwards, hitting a high of 75 on 19th May. Since then:

Date	Total	LFL	LFSH	LFSp
avg. 12/19	44	10	14	4
avg. 01/20	57	20	13	9
avg. 02/20	56	20	12	7
avg. 03/20	42	11	14	4
avg. 04/20	58	16	19	7
05/05/2020	66	16	20	9
12/05/2020	71	19	23	11
19/05/2020	75	23	21	12
26/05/2020	65	17	19	13
02/06/2020	68	20	17	10
09/06/2020	70	23	16	10
16/06/2020	66	18	18	10
23/06/2020	65	19	19	9
30/06/2020	60	13	20	7
07/07/2020	64	16	19	7

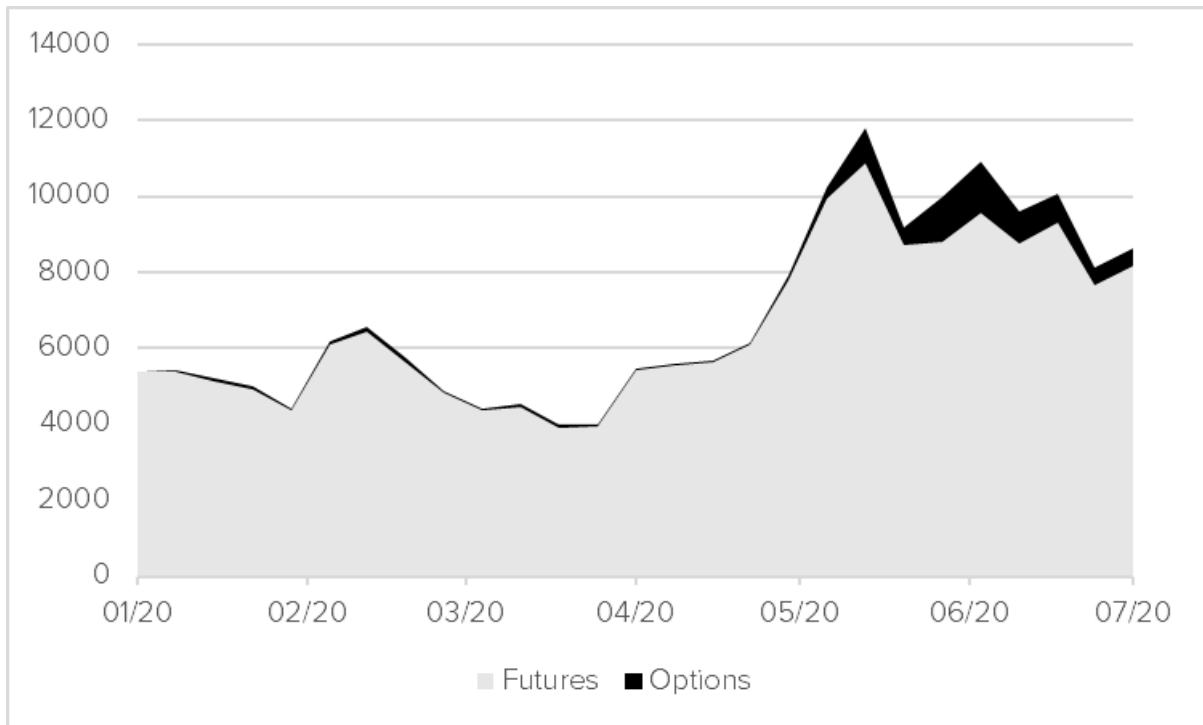
CFTC data. LFL = leveraged longs, LFSH = leveraged shorts, LFSp = leveraged spread.

Numbers have dropped slightly, but overall remain healthy; there was a slight and measurable uptick in long positioning in the early months of June that was largely unwound, but overall, things remain healthy.

The one thing that is a little interesting is that long positions were disproportionately among those unwound on the last expiry (from a peak of 23 in early June to 13 at the end of the month); this was something of a leading indicator in February (positions were unwound mostly between 25th February and 3rd March, predating both the overall equities crash and Black Thursday), so while not disastrous in and of itself (particularly given that the LFL/LFSH ratio stands at 0.56 as of 9th May – the lowest since March 31st, i.e. leveraged funds are shorter now than at any other point, but nowhere near the sort of historic lows seen in March or throughout much of last year), it's something to be aware of.

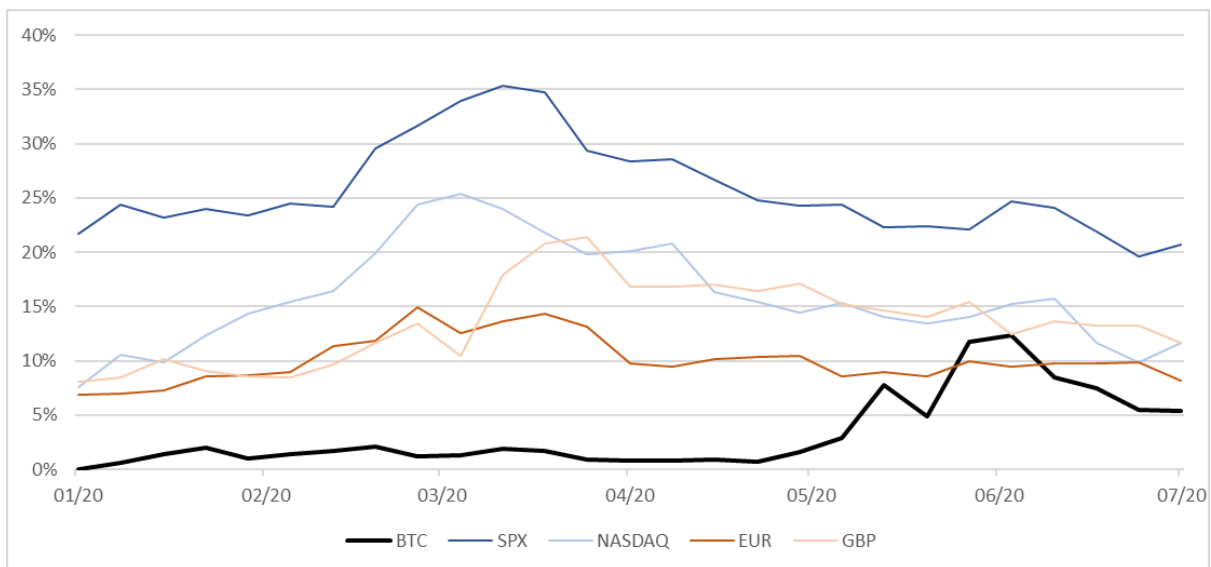
Future/options ratio

CME launched their options offerings in January of this year, and while thinly traded to a point of being essentially a novelty at first, we started to see them gather some speed around the halving; having started at around 1% of total OI (futures plus options) in Q1, it rapidly increased to nearly 8% at the time of our May issue, and would peak at 12% in May:



CFTC data.

While never more than a relatively small proportion of total OI, it should be said that this is relatively normal; most comparable products besides from SPX futures tend to mostly land somewhere in the 10-15% range outside of times of extreme stress:



CFTC data.

In any case, though – it has to be said that there has been a definite downtrend in this regard post-halving, and it accounts for a good proportion of lost OI since May. This again seems to mostly lean on the reassuring side – these kinds of bets (which were overwhelmingly calls looking for upside over the \$8k-\$9k levels sustained over the last few months) were at best naïve, and that they’ve come and gone probably does not bode ill in any sense for potential price action going forward.

Conclusion

The CME figures reflect something similar to what we've been seeing over the last few weeks in retail markets – volumes dropping substantially as volatility compresses to the sort of extent not really seen since Q1 2019 (and very rarely even before that), and with some accompanying decline in open interest, but not to a huge extent.

Our outlook has not particularly changed over the last few weeks – things remained skewed towards the downside in the short- and medium-term. However, what we're seeing with trends in numbers like OI and trader count still seems encouraging taking the longer view.

As we've said in past issues, the run upwards at the start of the year was driven by an influx of institutional money, and that retail enthusiasm has for the most part remained muted. That will unavoidably need to change with regards to a bull run in the future, but for the time being, that we've so readily found buyers on the institutional side at or near current levels has been of extreme benefit with regards to buoying price, and recovering as quickly as we did from Black Thursday.

What we're seeing with these numbers, insofar as they are relatively stable, is hence reassuring. The fear in the back of all minds involved with regards to the worst-case scenario around halving was that we'd see something similar to what happened with LTC in 2019 or BCH and BSV in 2020, where gains were driven by an audience (overwhelmingly retail compared even to BTC) who were investing on an essentially impatient basis.

As it stands, money is staying in the market for BTC, particularly with regards to involved institutional-level entities. Again: we are not bullish short-term right now, and one can never be entirely sure until market reaction is tested at lower levels. Still, what we're seeing augurs well with regards to maintaining well above anything we saw in March going forward, and for the foundations being set as price is fundamentally pressured upwards in a post-halving issuance world through the end of the year and into 2021.

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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