

De-Coding Crypto

Weekly Analysis

Coronavirus and cryptocurrency

January 29, 2020

In this week's issue, we look at ramifications arising from the intensifying coronavirus crisis in China, and offer theory on how crypto prices may act when the asset is once again thrust into uncharted waters.

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Our Market View

May you live in interesting times. Another positive week across the board, as BTC approaches psychologically and technically important levels - we are not far off the peak November close at \$9550, and from there, \$10,000. Some slowdown is likely over the next few days, but it is becoming more and more difficult to see this as anything other than full confirmation that the expected Q1 bull trend is now here.

With regards to alts, BCH has continued its incline, and a couple of small and micro-caps have gained again (ADA, which we talked about a few weeks ago, being a standout), but most have been positive but on the quieter side. For us, the biggest one to watch over the next few weeks will be ETH; recent gains have been good but not good enough to break the ETH-BTC downtrend, but there have been some odd movements on options markets as of late that could augur well for it.

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

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	9284.74	7.32%	28.15%	-14.24%	171.50%	168.9B
ETH	175.908	4.94%	35.10%	-20.79%	65.90%	19.26B
XRP	0.236789	0.44%	22.91%	-25.16%	-20.75%	10.34B
BCH	382.968	11.06%	85.51%	14.16%	226.50%	6.99B
LTC	60.3768	4.03%	43.75%	-35.76%	83.70%	3.85B
EOS	4.03831	9.72%	53.81%	-6.12%	71.54%	3.89B

Selected

Ticker	Price	7D	1M	6M	12M	Cap
BSV	283.943	-9.90%	204.10%	87.92%	348.30%	5.18B
ADA	0.555996	20.83%	66.86%	-3.49%	47.21%	1.44B
TRX	0.0188679	8.85%	40.36%	-14.43%	-24.27%	1.25B

Coronavirus and cryptocurrency

To start, a mercy from us to you: we are not going to pretend to be epidemiologists, and we are not going to offer a grand dissection of the coronavirus situation along those lines. Instead, we will simply note that, taking everything into account, these are the precepts that we are currently operating on with regards to the following discussion:

- 1) The coronavirus outbreak is almost certainly going to be on a sufficient scale to be classed as a pandemic.
- 2) The economic impact, both in raw terms and in terms of broader market reactions, seems likely in the very best case to be comparable to SARS in 2002, and almost certainly will be worse.

How, then, does this affect BTC and other cryptocurrencies?

As tends to be the case with BTC, we are in somewhat uncharted waters here; to our mind, however, there are clearly two major considerations here that can be back-tested to some extent.

The first is 'safe haven' theory. This is the part that you will likely hear about in some form from every other crypto-adjacent source in the next week, and probably already heard from those same sources over Q3 and Q4 2019.

To recap, the theory is basically this: with how BTC has matured as a financial instrument, and with how the narrative around it and perception of it has shifted from 'payment processor' to 'digital gold/store of value', BTC price should act similarly to commodities and currencies that are traditionally considered to be safer investments in the face of political and economic uncertainty.

This has been fueled in particular by similarities in price action between gold and BTC in several runs both up and down over the last few months:



Credit: Tradingview. BTC in blue and right axis, GOLD in orange and left axis.

Correlations with other such assets like silver and JPYUSD can also be seen:



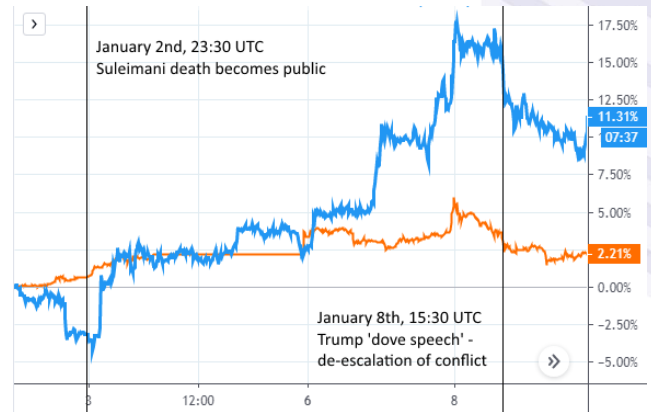
Credit: Tradingview. BTC in blue and right axis, SILVER in turquoise and left axis.



Credit: Tradingview. BTC in blue and right axis, JPYUSD in yellow and left axis.

We are not as convinced as some on the BTC safe haven theory; while we absolutely believe that store-of-value is ultimately the defining feature of BTC long-term, and that we absolutely believe that it can now be credibly argued from a professional financial perspective that BTC has a proven non-zero baseline value, we remain mindful that BTC is still a highly speculative asset both in real terms and in terms of public perception.

A reasonable level of cointegration with other safe havens over a period of roughly less than a year seems indicative rather than confirmatory. Indeed, the strongest evidence has only come in the last month, with BTC reacting with limited-to-no lag compared to gold (and other macro assets) during the Iran crisis:



Credit: Tradingview. BTC in blue, GOLD in orange.

If we do agree that BTC may trade as a safe haven, coronavirus serves as a bullish contributor to any near-term BTC thesis. The question of just how bullish is a little more complicated. The two most comparable cases in recent times were the SARS outbreak in 2003 and the swine flu pandemic in 2009:



Credit: Tradingview. GOLD in blue, SPX in turquoise, DEU30 in gold, UKX in purple.

In both cases, gold performed well in the early months of the crisis (less so in SARS but this was in the context of fairly recent local highs during the Iraq war run-up); it did still lag slightly against equity indices, but expected returns in gold are going to tend to be lower as a baseline, and it should be pointed out that in both cases, equity markets were at best barely removed from global cycle bottoms (for reference, the only vaguely similar crises that were definitively at least mid-cycle – the main one being zika in 2014 – were realistically far too localised to compare).

SARS (12/03/03)			
Index	Bot	Days	Top
SPX	09/10/02	154	09/10/07
DAX	12/03/03	0	16/07/07
FTSE	12/03/03	0	09/10/07
Swine flu (23/04/09)			
Index	Bot	Days	Top
SPX	09/03/09	45	20/01/20
DAX	09/03/09	45	24/01/20
FTSE	03/03/09	51	17/01/20

An event as destabilising as the coronavirus crisis will almost certainly drive money into safe haven assets, and hence if BTC can be considered one, then this adds significantly to the bull case for an asset that was already profiling out extremely bullishly across 2020. Again, we are not 100% sold on this being the case, but we have to concede that recent market activity does force at least a partial acknowledgement of safe haven as a near-term framework for BTC in particular.

The major complicating factor for this case would be the second consideration here: Asian market demand. This is a topic we have talked about in almost every issue so far this year, and we will reiterate one of our theses from our 8th January issue here:

Demand in general is going to dictate BTC price direction above all else, but our tendency is to think that there is likely not a catalyst large enough to spark an ATH-type rally if that catalyst ends up primarily serving to increase demand in only one of the Western and Eastern markets (2017 largely being the former and 2019 largely being the latter); it will have to be on both ends this time.

Demand pressure from Asian markets was higher than supply pressure in 1H 2019, which fueled much of the run up, and supply pressure was higher than demand in 2H, which fueled much of the run down.

Agnostic of coronavirus, 2020 was likely to see a resumption of a demand-positive situation.; the single biggest cause of the late-year imbalance, the gradual liquidation of hundreds of thousands of BTC from the PlusToken Ponzi scheme, has for all intents and purposes been fully worked through, and we tend to think the default state here is encouraging.

This, then, is the complicating point: how do the specific details of an event like the coronavirus outbreak augur for demand? Much of the received wisdom of crypto markets would immediately draw one to worry; after all, one of the big seasonality truisms (which isn't really true or effective in practice, but that's another discussion) is that the Chinese New Year is a bad time for crypto, because with BTC and crypto being speculative investments that are also very easy to cash out, retail not only stops buying BTC during those windows but starts selling it to pay for presents and the like.

This is at least a valid enough point to be a concern, and the augurs of said demand will need to be read closely over the coming weeks. 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

All told, we tend to think that the coronavirus situation profiles out bullishly for BTC and crypto, adding to what was already a bullish profile for crypto-assets throughout much of 2020. Unambiguously so? Not quite, but overall, things look promising, and the next few weeks could prove to be a very important test with regards to how aggressively crypto will perform as a macro asset going forward, or whether it will go back to acting largely out of correlation.

What we're reading

[British Court Freezes \\$860,000 in Bitcoin Linked to Ransomware Payout](#) (CoinDesk): Presented without comment: "Some of these funds were converted into fiat and are not traceable".

[Cardano Inches Toward Smart Contract Implementation with New Paper](#) (Cointelegraph): ADA continues to be one of the most interesting mid-caps. As the article notes, there is a tendency with Cardano to promise a lot and take a long time to implement, but it does seem that gears are in motion over there.

[Ripple's XRP sales declined by 80% in Q4](#) (The Block): This refers specifically to sales by Ripple to exchanges and OTC desks; volumes on said exchanges paint a better picture. Still, not good.

Until next week – thank you for reading.



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