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De-Coding Crypto



Enigma Weekly

3rd June 2020

Written by Joseph Edwards, Head of Research at Enigma Securities.

Our Market View

May you live in interesting times. Our research this week dedicates significant space to what unfolded in the last couple of days, but in summary: a very odd week, as we briefly threatened to take out February's highs, before falling back just as quickly. Next few days are likely to prove crucial with regards to being a testing point for what happens next; at the time of writing, we are consolidating just below a major resistance level, and would hope to see a breakthrough soon.

Alts have done alright this week, with a few breaking out significantly. As a reminder, our research on 20th May highlighted five in particular that were worth watching – ETH, XTZ, LINK, ADA, and ZEC – and this has borne out relatively well this week = ETH leads the large-caps by a long way, ADA jumped an incredible 47% on the week, and LINK isn't far behind (with the other two seeing modest appreciation against BTC and fiat).

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

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	9596.9	4.73%	8.21%	27.71%	22.78%	176.5B
ETH	240.089	16.07%	16.15%	62.58%	-3.91%	26.70B
XRP	0.204198	2.75%	-6.53%	-10.18%	-51.35%	9.01B
BCH	250.418	7.18%	1.45%	18.30%	-36.93%	4.61B
LTC	46.7114	7.09%	-1.25%	3.28%	-58.10%	3.04B
EOS	2.683	5.07%	-3.62%	-1.56%	-57.97%	2.50B
Selected						
Ticker	Price	7D	1M	6M	12M	Cap
ADA	0.0815918	47.41%	63.16%	111.00%	-2.19%	2.12B
XTZ	2.9097	6.71%	2.39%	101.80%	119.30%	2.07B
LINK	4.44789	14.16%	17.68%	117.30%	91.74%	1.56B

Doing the Bartman: June 2nd in perspective

It may only be Wednesday, but we can fairly safely say at this point: no matter what happens over the next few days, this will still go in the books as a fairly lively week for BTC. Why? Well, a picture tells a thousand words:



Credit: Tradingview. BTCUSD, Coinbase.

On Tuesday, at midnight BST precisely, we saw a sudden move up that, in a matter of minutes, took us from an open at \$9750 to highs over \$10,400 (before settling around \$10,100 or so). On the same day, at 15:45 BST, we snapped back down, reaching lows of around \$9200 on most spot venues (and lower on some derivatives venues - BitMEX, which is still the most liquid retail derivatives platform even as its volumes and open interest have been slipping, ran all the way down to \$8600 on the dot).

There is a term here that long-time crypto endemic traders will be familiar with - a 'Bart'. Let's discuss.

A 'Bart' is, in its essence, a trading pattern that while not technically specific to crypto, for all intents and purposes, is. The 'Bart' here, as alluded to in the title of this research, refers to cartoon character Bart Simpson, and is named for his rectangular head and spiky hairline. In a 'Bart', we see a sudden rush (either upwards or downwards) in a very short space of time, a period of what is known (by crypto traders and traders in traditional markets alike) of consolidation, and then just as suddenly as it sprung up or down, a reversal to take it back to the starting point.

There was a period in crypto where 'Barts' were exceedingly common; nowadays, they are not. To be entirely clear here, they're not unheard of, as can be seen looking at, for instance, February 18th of this year:



Credit: Tradingview. BTCUSD, Coinbase.

Still, this was unusual, particularly with the magnitude, and particularly with how it fit the strict definition of a 'Bart'; a lot of other major recent moves that have seen cliff-edge rises or drops have generally been surrounded by more gradual action.

So, what happened here? We should first start by ruling out something that likely wasn't a major contributor - liquidity, at least in terms of there being a lack thereof. Historically, there has been a very strongly implied connection between 'Barts' and what can generously be described as the actions of major holders and market players, and less generously as 'market manipulation' - the idea being that participants with reasonably significant holdings were able to take advantage of a relatively nascent and relatively illiquid market structure and drive prices up and down through that.

Simply put, though, this is no longer something that rings particularly true in the current landscape, at least for moves of this magnitude. Measuring exact liquidity is always difficult because of the nature of market making algorithms in cryptos, but it's pretty clear that it's significantly greater than it was in 2017 and 2018.

As something of a point of reference, nominal liquidity on BitMEX tends to be in the region of \$75m on either side on a 5% spread. Yes, this can be pulled, and yes, liquidity on other venues (especially spot) can be far, far poorer than that; still, this is no longer a market where a few million dollars moves price in a meaningful way on its own.

Indeed, one of the bigger things to note here is actually the candle peaks and troughs here - that being, the highest and lowest recorded prices on each side of the move, particularly with reference to BitMEX (and other derivatives platforms) vs. spot:

Venue	Spot		Futures	
	Peak (0h 02/06)	Trough (15h 02/06)	Peak (0h 02/06)	Trough (15h 02/06)
BitMEX	N/A	N/A	10473	8600
Deribit	N/A	N/A	10424	9232
Binance	10380	9266	10497	9264
Huobi	10299	9300	10437	9257
OKEx	10189	9281	10428	9245

In both cases, BitMEX was out near the front of the pack in terms of providing the most extreme swings on each move, but particularly on the downside; this is not particularly surprising (there are exceptions, but as a) a derivatives platform and b) the biggest derivatives platform, it does tend to reach higher highs and lower lows compared to spot in moments of market volatility), but it does seem to rather put paid to the idea that this was simply a small number of large players forcing things up and down.

What, then? Firstly, this was primarily a macro move. The initial move up being timed as it was was not a coincidence, and there are two main aspects to remember here:

- 1) It came at the peak of escalation in terms of the response by President Trump to the ongoing civil unrest in the US. The President gave a statement from 6:43 PM EDT to 6:50 PM EDT, announcing a heightened military response to the situation; as he spoke, police nearby were dispersing protestors outside the White House with tear gas and rubber bullets. Markets started moving in earnest at 7:00 PM EDT, and on BitMEX at least, peaked at 7:05 PM.
- 2) It came during what are, primarily, Asian trading hours - midnight or later across Europe, 7PM on the East Coast, 4PM on the West Coast, but 7AM in China and 8AM in Japan.

It seems impossible to get away from the conclusion that the move upwards was essentially to do with the reaction by Asian traders and consumers - large and small alike - to seeing events unfolding there, and to moving assets into BTC as a hedge against potential incoming instability on other markets.

Presuming this was the case, what said traders did not account for, however, is this:



Credit: Tradingview. BTCUSD (Coinbase) in candles, SPX500USD in orange.

The broader debate over this is a topic for absolutely another time and absolutely another place, but at least for now, US markets in general (as represented by the essential benchmark provided by the S&P) do not seem at all worried about the current situation there, and hence, this developed into a classic 'buy the rumour, sell the news' scenario - the SPX did open slightly lower, but rallied to close up 0.82% on the day at the end, and as that became clear, enthusiasm dried up, leading to the drop we saw here.

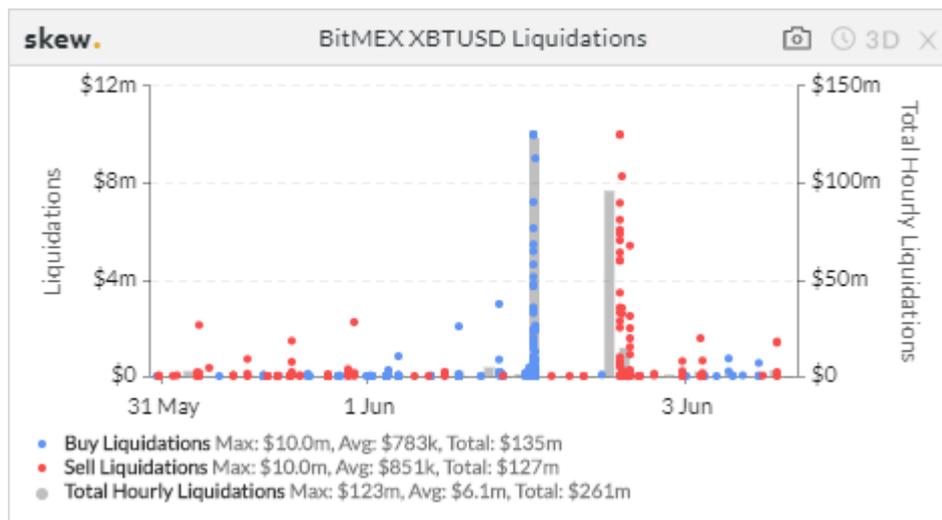
That being said, there was also a technical element to this collapse, but it appears to have been in terms of leverage, not liquidity. One of the best ways to see this, as it happens, is in terms of how open interest changed over the course of the last few days on the major derivative exchanges:

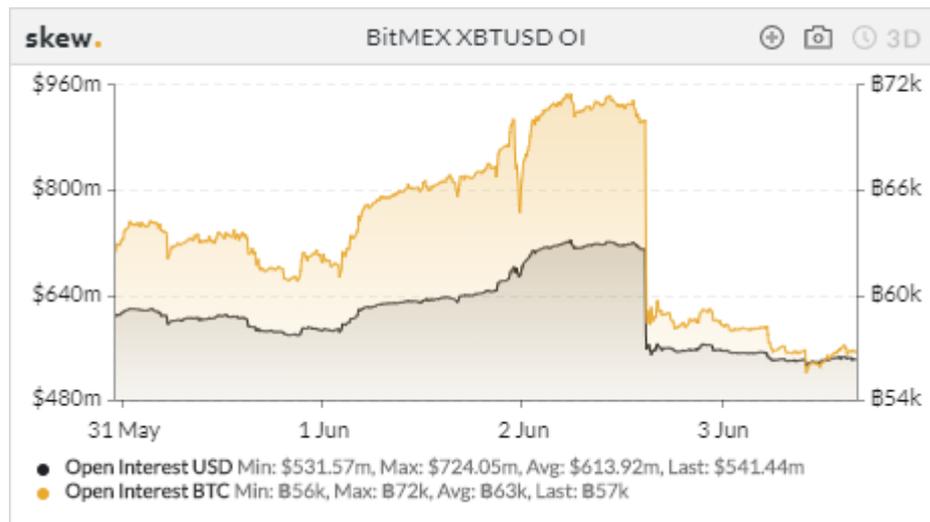
Venue	OI, close, 31/05	OI, close, 01/06	OI, close, 02/06	Change 31/05-02/06	Change 01/06-02/06
OKEx	828	1001	818	-1.2%	-18.3%
BitMEX	796	903	770	-3.3%	-14.7%
Huobi	537	534	450	-16.2%	-15.7%
ByBit	251	306	289	15.1%	-5.6%
Binance	327	332	243	-25.7%	-26.8%
Deribit	164	186	173	5.5%	-7.0%
FTX	133	145	170	27.8%	17.2%
Kraken	47	45	48	2.1%	6.7%
CME	421	473	420	-0.2%	-11.2%

Data via Skew.

Certain exchanges saw far greater contraction in open interest than others, with larger ones being hit worst. Binance, quite clearly, took by far the greatest hit proportionally. Why would that be? The answer is found in the degree of available leverage on these exchanges. Binance, rather infamously, is the market leader in this regard, and offers up to 125x leverage. Most of the other major derivatives exchanges cap at 100x, which is still ridiculous, with the end result being an offering closer to pure gambling than anything else; for reference, if I enter a long at \$10,000 with 100x leverage, I will be liquidated at a mark price of \$9951.

While this sort of leverage is hence clearly unappealing to a trader or investor of any sort of sophistication, it does have an appeal to a certain class of small retail trader - think the type of trader that would likely be trading naked binary options in the 2000s. It's difficult to know just how numerous this sort of trader is, or how much volume they make up, but Binance indicated back in December that 21% of its users traded on 125x leverage, and 60% or more use 20x or higher; clearly, it is not a insignificant part of the equation. Hence, the move back down was likely exacerbated by this issue - a liquidation cascade as it's generally known, with positions using 10x or greater leverage almost universally wiped out. Indeed, on BitMEX's side, we can see just how large the wipeout was in terms of liquidations:





Credit: Skew.

BitMEX OI dropped in the order of \$160m in the minutes following the move down; liquidations in that time came to \$114m (\$96m immediately, \$14m shortly afterwards). Not many positions were being closed out here in an orderly fashion; the liquidation engine bore the brunt of it. So: as is often the case in crypto, particularly on the way down, leverage did help to very quickly make a bad situation worse.

To conclude: the fear around a move like this is always going to be whether it indicates something in terms of the health of the market and of potential trend shifts; regardless of any concerns around manipulation, it does indisputably indicate that the markets found significant numbers of sellers at the level achieved, and not lost on many will be the fact that we appear to have stopped at essentially the same level that we started falling from in February.

As much as we would like to take a stronger line here, right now, we think this has to be a case of waiting and seeing. There are enough small signs that are flashing in a worrying way (OI, exchange volumes, sentiment, etc.) that we do think the move features as part of a broader developing short-term bearish tapestry; however, given how things have looked over the last few weeks, and given the continuing health of our mid-term and long-term outlooks, we would need far stronger confirmation than seen so far to be confident in changing tack there.

For the record, the next few days are likely to be crucial. At the time of writing, BTC is holding steady at around \$9500-\$9600, right around the presumptive support/resistance level of \$9600; it hence seems likely that we will get a stronger idea of where we're going in one direction or the other soon, and the situation can be better evaluated from there. Regaining \$9600 clearly sets us up for higher; losing it is still unlikely to be catastrophic, but will at least force a rethink.

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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