

# De-Coding Crypto

## Weekly Analysis

### Ethereum in the era of accumulation

November 6, 2019

In this week's issue, we take a look at Ethereum's close – but uneasy – relationship with Bitcoin in price terms, and examine whether their points of divergence create any opportunities. We also explore the SEC's no-action relief agreement with Paxos and its implications.

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

#### Our Market View

May you live in interesting times. Overall, a quiet week, but the timer has just about started in earnest for the next BTC breakout as the range being traded over rapidly narrows; we would be surprised to have not seen it by the next newsletter, and very surprised to have not seen it much past that. We continue to lean bullish on said breakout.

Elsewhere, most alts are up on the week, but with only a couple of drastic swings – notably, EOS is back in the \$3.60 range after strong growth on Monday and Tuesday, bringing some possibility of a reclamation of \$4.00; we do not have an uniformly positive outlook here but we certainly see it profiling as one of the more interesting assets outside of BTC/ETH if eyes turn to China in 2020.

Please direct all queries about this week's research to [jedwards@enigma-securities.io](mailto:jedwards@enigma-securities.io).

#### Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	9371.48	3.82%	14.14%	30.06%	47.62%	169.0B
ETH	190.922	5.44%	5.91%	-0.58%	-8.89%	20.70B
XRP	0.301548	3.21%	9.17%	-6.50%	-39.91%	13.04B
BCH	300.297	4.96%	28.22%	-15.13%	-43.07%	5.43B
LTC	63.3833	10.19%	9.47%	-28.10%	24.91%	4.01B
EOS	3.597	11.80%	13.57%	-34.97%	-33.42%	3.69B

#### Selected

Ticker	Price	7D	1M	6M	12M	Cap
XLM	0.0807655	27.76%	30.41%	-22.70%	-70.51%	1.62B
NEO	11.2621	6.11%	51.07%	-40.68%	-30.70%	0.79B
ALGO	0.291923	38.53%	31.58%	-58.71%	-57.21%	0.13B

#### Ethereum in the era of accumulation

On October 11th, [Binance Research put out their Q3 report](#), with a significant focus on assessing correlation in price movement. This has, of course, been a topic of significant discussion in general over the last few months; with the end of the ICO era, as well as an extended period of (relatively) low overall market volatility, the easy alphas for 'altcoin selection' no longer exist, and in that context, eyes moved towards the fact that both individually and as a class, BTC and alts move in parallel far more often than not.

The single most correlated alt in that study was, in both Q3 and Q2, ETH. Is this surprising? Our view continues to be that ETH is the single non-BTC asset in the crypto space that, as we see it, has had enough built on it already that it is overwhelmingly likely to be non-dispensable in the long-term. This would seem to imply that if any coin should be able to decouple price from BTC, it should be ETH.

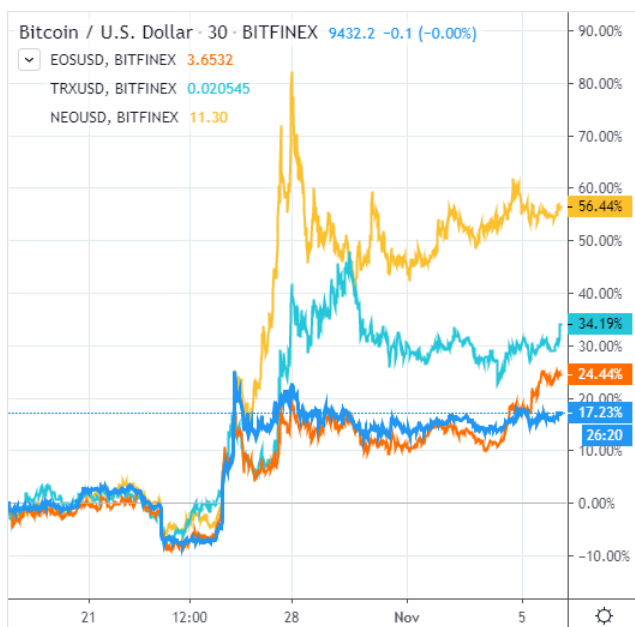
On the other hand, ETH's market cap and daily volumes also dwarf every other alt even at the best of times for said alts; it perhaps is not as susceptible to the same sort of short-term pressures that the raft of coins with sub-\$100M daily volumes are. In any case, ETH has moved largely in conjunction with BTC. This continued throughout most of October, but the late-October rally has in turn created a certain 'gap' in the charts:



Credit: Tradingview.com. ETHUSD in blue, BTCUSD in teal.

ETH tracked downwards extremely closely with BTC, but while the rally still brought it up somewhat, it did not follow all of the way (although at the time of writing, it has made up some of the distance over the last 24-48 hours) This brings into focus a very simple question: was this local to that weekend's pump, or is it something that we can expect more of going forward?

An important point about that pump that should be noted is that it was China-centric, and that while BTC certainly came out ahead, the bigger winners by far were what have been (semi-pejoratively) classed as 'China coins' - that being, coins with either governance or userbase largely centred in China. The three standouts in this category were TRX, NEO, and to a lesser extent EOS:



Credit: tradingview.com. BTC in blue, TRX in teal, EOS in orange, NEO in yellow.

NEO far outpaced BTC from the start of the rally, while TRX soon followed; EOS did not pump in the same way, but never fell too far off the pace and is currently positive after a run upwards in recent days. To a greater or lesser degree, all three coins operate in competition to significant existing ETH use-cases (EOS and TRON in DApps, and NEO in smart contracts). It does hence seem natural that price-moving events for crypto that naturally favour EOS/TRON - which, in practice, is likely to mean any news from China that finds itself capable of moving markets - may accentuate the extension of a BTC-ETH short-term gap.

This is not to say that the growth of the Chinese market, the promotion of blockchain in China, and so on, are inherently bad for ETH; Ethereum has plenty of miners, users, developers, and so on in China. In the long run, it may even be better. ETH as an asset, however, may not be as well-positioned to capture price in the short-term as well as BTC or more China-centric projects.

Looking at BTC's top 10 single-day rises in 2019 to date, ETH tracked reasonably closely in early months, but has struggled to keep pace from June onwards:

Date	BTCCL	ETHCL	BTCOD	ETHOD	GAPOD
02/04/2019	4903.30	164.67	18.54%	16.85%	-1.69%
11/05/2019	7227.75	192.54	13.32%	10.66%	-2.66%
13/05/2019	7822.67	196.20	12.13%	4.44%	-7.69%
19/05/2019	8192.44	260.73	12.80%	10.93%	-1.88%
26/05/2019	8750.01	268.22	8.36%	6.36%	-2.00%
26/06/2019	12936.5	334.21	10.00%	5.66%	-4.35%
28/06/2019	12388.2	309.74	11.17%	5.51%	-5.66%
03/07/2019	11987.3	302.53	10.65%	4.08%	-6.56%
18/07/2019	10647.9	226.33	9.73%	6.96%	-2.77%
25/10/2019	8670.24	181.65	16.25%	12.65%	-3.59%

Data via cryptodatadownload.com, Gemini exchange.

ETH always ended the day on lower growth than BTC, although it did always grow; we have to go down to the 15<sup>th</sup>-best day for BTC (which was in fact 26<sup>th</sup> October) to find ETH actively losing ground, with no others in the top 40.

Date	BTCCL	ETHCL	BTCOD	ETHOD	GAPOD
10/01/2019	3626.76	126.43	-9.35%	-15.39%	-6.04%
24/02/2019	3732.48	131.82	-9.21%	-16.40%	-7.19%
03/06/2019	8110.99	249.63	-7.26%	-7.34%	-0.08%
27/06/2019	11143.7	293.56	-13.86%	-12.16%	1.69%
30/06/2019	10746	289.50	-9.59%	-8.96%	0.63%
04/07/2019	11144.9	283.86	-7.03%	-6.17%	0.86%
14/07/2019	10200.8	226.33	-10.32%	-16.02%	-5.70%
16/07/2019	9429.05	198.71	-13.10%	-12.83%	0.27%
14/08/2019	10016.9	186.21	-7.74%	-10.57%	-2.82%
24/09/2019	8543.36	166.15	-11.86%	-17.21%	-5.34%

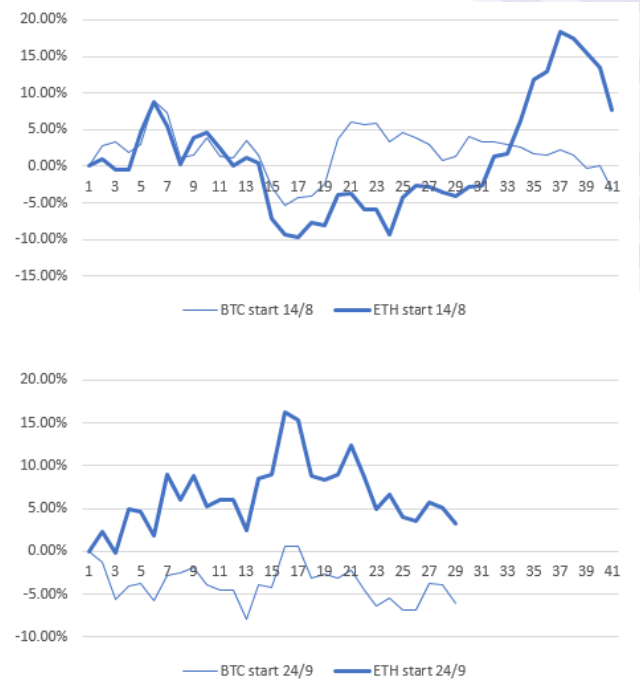
ETH tracked extremely closely to declines across the summer, and actually 'outperformed' in races to the bottom during crypto winter and the last couple of months.

We should make clear here: of course there were days where ETH would outperform BTC. Across the 300 days we examined (January 1<sup>st</sup> through to October 27<sup>th</sup>), 127 of them saw a better performance for ETH than for BTC:

01/01/2019	3.08%	01/02/2019	-0.55%	01/03/2019	-0.23%	01/04/2019	-1.33%	01/05/2019	-2.32%	01/06/2019	0.31%	
02/01/2019	8.25%	02/02/2019	2.20%	02/03/2019	-2.03%	02/04/2019	-1.68%	02/05/2019	-1.07%	02/06/2019	-0.46%	
03/01/2019	-1.57%	03/02/2019	-1.37%	03/03/2019	-1.41%	03/04/2019	-2.75%	03/05/2019	-1.80%	03/06/2019	-0.08%	
04/01/2019	2.50%	04/02/2019	0.21%	04/03/2019	-0.96%	04/04/2019	-0.55%	04/05/2019	-3.44%	04/06/2019	1.70%	
05/01/2019	0.17%	05/02/2019	-0.42%	05/03/2019	4.81%	05/04/2019	2.51%	05/05/2019	0.37%	05/06/2019	0.79%	
06/01/2019	-5.11%	06/02/2019	-0.51%	06/03/2019	0.40%	06/04/2019	-0.20%	06/05/2019	6.51%	06/06/2019	1.02%	
07/01/2019	-1.74%	07/02/2019	-0.10%	07/03/2019	-16.71%	07/04/2019	2.57%	07/05/2019	-5.51%	07/06/2019	-2.41%	
08/01/2019	-0.51%	08/02/2019	6.17%	08/03/2019	-2.09%	08/04/2019	1.92%	08/05/2019	-1.59%	08/06/2019	-1.21%	
09/01/2019	0.79%	09/02/2019	-0.21%	09/03/2019	0.52%	09/04/2019	-1.30%	09/05/2019	-2.24%	09/06/2019	-1.47%	
10/01/2019	-1.44%	10/02/2019	4.27%	10/03/2019	-0.71%	10/04/2019	-1.40%	10/05/2019	-1.44%	10/06/2019	1.03%	
11/01/2019	-0.11%	11/02/2019	-0.98%	11/03/2019	-0.81%	11/04/2019	-2.40%	11/05/2019	-2.65%	11/06/2019	0.44%	
12/01/2019	-0.53%	12/02/2019	1.19%	12/03/2019	0.38%	12/04/2019	-0.48%	12/05/2019	1.05%	12/06/2019	4.29%	
13/01/2019	-4.40%	13/02/2019	0.13%	13/03/2019	-0.96%	13/04/2019	-0.33%	13/05/2019	-1.84%	13/06/2019	-3.84%	
14/01/2019	7.07%	14/02/2019	-0.75%	14/03/2019	0.14%	14/04/2019	0.79%	14/05/2019	0.50%	14/06/2019	-2.35%	
15/01/2019	-4.37%	15/02/2019	0.64%	15/03/2019	2.02%	15/04/2019	-2.21%	15/05/2019	12.53%	15/06/2019	0.20%	
16/01/2019	1.09%	16/02/2019	0.83%	16/03/2019	1.33%	16/04/2019	0.59%	16/05/2019	9.89%	16/06/2019	-1.74%	
17/01/2019	-0.43%	17/02/2019	7.47%	17/03/2019	-1.17%	17/04/2019	-0.33%	17/05/2019	-0.99%	17/06/2019	-1.84%	
18/01/2019	-0.23%	18/02/2019	2.53%	18/03/2019	-0.92%	18/04/2019	3.53%	18/05/2019	-2.41%	18/06/2019	-0.83%	
19/01/2019	-0.07%	19/02/2019	-1.89%	19/03/2019	0.00%	19/04/2019	0.25%	19/05/2019	-1.81%	19/06/2019	-0.29%	
20/01/2019	-0.15%	20/02/2019	2.39%	20/03/2019	-0.34%	20/04/2019	-0.95%	20/05/2019	-0.61%	20/06/2019	-1.59%	
21/01/2019	-1.15%	21/02/2019	-1.42%	21/03/2019	-1.84%	21/04/2019	-1.69%	21/05/2019	-1.44%	21/06/2019	1.75%	
22/01/2019	0.47%	22/02/2019	0.31%	22/03/2019	0.77%	22/04/2019	-0.92%	22/05/2019	-0.22%	22/06/2019	-0.21%	
23/01/2019	-1.44%	23/02/2019	2.31%	23/03/2019	0.56%	23/04/2019	-3.94%	23/05/2019	-2.53%	23/06/2019	-2.22%	
24/01/2019	-1.11%	24/02/2019	-2.18%	24/03/2019	15.51%	24/04/2019	-1.37%	24/05/2019	0.12%	24/06/2019	-0.41%	
25/01/2019	-0.22%	25/02/2019	2.10%	25/03/2019	-0.11%	25/04/2019	-2.40%	25/05/2019	-0.38%	25/06/2019	-4.37%	
26/01/2019	0.11%	26/02/2019	-0.73%	26/03/2019	-0.23%	26/04/2019	0.17%	26/05/2019	-2.00%	26/06/2019	-4.25%	
27/01/2019	-2.49%	27/02/2019	-0.99%	27/03/2019	1.74%	27/04/2019	1.25%	27/05/2019	0.92%	27/06/2019	1.69%	
28/01/2019	-2.15%	28/02/2019	0.32%	28/03/2019	-0.83%	28/04/2019	-1.30%	28/05/2019	0.57%	28/06/2019	-5.64%	
29/01/2019	-0.27%			0.83%	29/02/2019	0.83%	29/03/2019	-0.37%	29/04/2019	-0.04%	29/05/2019	6.72%
30/01/2019	2.24%			30/02/2019	0.47%	30/03/2019	3.06%	30/04/2019	-1.10%	30/05/2019	0.62%	
31/01/2019	-1.69%			31/02/2019	-0.51%			31/03/2019	0.32%			
01/07/2019	2.51%	01/08/2019	-2.74%	01/09/2019	-2.19%	01/10/2019	-3.00%					
02/07/2019	-3.09%	02/08/2019	-1.10%	02/09/2019	-1.90%	02/10/2019	2.04%					
03/07/2019	-4.54%	03/08/2019	-0.83%	03/09/2019	-2.04%	03/10/2019	-1.07%					
04/07/2019	0.64%	04/08/2019	-0.89%	04/09/2019	-1.87%	04/10/2019	1.24%					
05/07/2019	2.80%	05/08/2019	-2.20%	05/09/2019	0.00%	05/10/2019	0.11%					
06/07/2019	-2.29%	06/08/2019	0.00%	06/09/2019	-2.21%	06/10/2019	0.10%					
07/07/2019	4.43%	07/08/2019	-4.23%	07/09/2019	4.31%	07/10/2019	1.47%					
08/07/2019	-4.95%	08/08/2019	-1.50%	08/09/2019	2.45%	08/10/2019	0.57%					
09/07/2019	-3.15%	09/08/2019	-4.29%	09/09/2019	0.63%	09/10/2019	1.35%					
10/07/2019	-2.89%	10/08/2019	2.98%	10/09/2019	1.23%	10/10/2019	-0.79%					
11/07/2019	-0.15%	11/08/2019	2.44%	11/09/2019	-1.24%	11/10/2019	-2.01%					
12/07/2019	-1.10%	12/08/2019	-1.01%	12/09/2019	-1.32%	12/10/2019	-0.91%					
13/07/2019	1.21%	13/08/2019	3.21%	13/09/2019	1.01%	13/10/2019	1.04%					
14/07/2019	-5.70%	14/08/2019	-2.12%	14/09/2019	0.97%	14/10/2019	2.15%					
15/07/2019	-5.15%	15/08/2019	-1.85%	15/09/2019	0.79%	15/10/2019	-0.91%					
16/07/2019	0.27%	16/08/2019	-2.04%	16/09/2019	4.81%	16/10/2019	-1.53%					
17/07/2019	3.59%	17/08/2019	1.67%	17/09/2019	6.00%	17/10/2019	0.79%					
18/07/2019	-2.77%	18/08/2019	3.79%	18/09/2019	1.37%	18/10/2019	-1.15%					
19/07/2019	-1.07%	19/08/2019	-1.79%	19/09/2019	3.94%	19/10/2019	-0.43%					
20/07/2019	1.08%	20/08/2019	-1.40%	20/09/2019	-0.09%	20/10/2019	-1.30%					
21/07/2019	0.23%	21/08/2019	0.75%	21/09/2019	0.29%	21/10/2019	-0.21%					
22/07/2019	-1.35%	22/08/2019	3.24%	22/09/2019	-1.27%	22/10/2019	0.49%					
23/07/2019	2.49%	23/08/2019	-1.76%	23/09/2019	-1.51%	23/10/2019	1.99%					
24/07/2019	2.49%	24/08/2019	0.41%	24/09/2019	-5.24%	24/10/2019	-0.35%					
25/07/2019	0.12%	25/08/2019	-2.19%	25/09/2019	3.54%	25/10/2019	-3.99%					
26/07/2019	0.45%	26/08/2019	-0.20%	26/09/2019	1.92%	26/10/2019	-7.70%					
27/07/2019	-1.91%	27/08/2019	1.17%	27/09/2019	3.50%	27/10/2019	-0.73%					
28/07/2019	1.33%	28/08/2019	-2.23%	28/09/2019	-0.42%							
29/07/2019	0.21%	29/08/2019	0.11%	29/09/2019	-0.60%							
30/07/2019	-1.59%	30/08/2019	-1.37%	30/09/2019	3.89%							
31/07/2019	-0.14%	31/08/2019	2.01%									

However, cryptocurrencies often center on big trading days, and in the current landscape, those days are inevitably defined by BTC. It does seem like the default position has to be that ETH tracks BTC far better in its declines than in its inclines, which creates some issues for ETH as a long-term value proposition unless one can reconcile a view wherein they do not see BTC as a value proposition across the next 1-2 years, while simultaneously seeing ETH as having enough value to move back ahead if it falls with BTC. This is not an intellectually impossible position to hold, but it is not the position that we tend towards.

The question, then, is this: are there opportunities to use ETH as an asset in that context? We note ETH's performance against BTC in the extended periods of accumulation in September and October; while the September pattern in particular was not enough to convince, we still believe it is worth watching.



While still leaning long overall on ETH, we cannot see a reversal in the overall trend relative to BTC; ETHUSD has room to grow, but the best case for ETHBTC seems to be flat rather than a reversal:



Credit:tradingview.com

However, looking in the short-term, we see significant potential value in holding ETH during periods where BTC accumulation is ongoing and volatility is low.

While we tend to think that we are due another BTC breakout in a short enough timespan that we are not practically-speaking in one at the time of writing (at the time of writing, ETHBTC is up around 4% from 26<sup>th</sup> October, though it has never threatened to seriously close that gap), it seems very unlikely to us that we will not see other such periods manifest throughout late November and December; when they do, there may be opportunities to take advantage.

## Paxos, the SEC, and no-action: the legal perspective

*By Alina Kiselevich*

Paxos – a digital assets custody and mobility firm perhaps most famous for its PAX (Paxos Standard) stablecoin and PAXG (Pax Gold) Ethereum token – [announced last week](#) that it would be launching a blockchain-based settlement platform for equities, and more importantly given its status in the crypto-space, had obtained a no-action relief letter from the SEC.

This is not the first no-action letter issued by the U.S. Securities and Exchange Commission, but probably one of the most discussed lately. It is so because initially, such letters mean that the Commission will not take any enforcement action and will allow the company to proceed with its intended activity. The more precedents of such nature, the more “welcoming” the SEC seems to blockchain.

It is not a legal precedent, though, so in no way it is binding to the SEC, but it is still quite persuasive, meaning that for the future cases the Paxos’ no-action letter will be looked at as a reference. This is exactly why the Paxos situation is so talked about as of lately, the more precedents or no-action letters, the easier it is to somehow feel the relief in the actions of the Commission.

Moreover, it also matters because this solution is believed to bring substantial back-office efficiencies: being a fintech innovation and settling U.S. equities outside the traditional settlement system for the first time in nearly half a century, it will not only help clients reduce fees and gain access to capital captured in the legacy settlement system, but also simplify integration by allowing the simultaneous exchange of cash and securities and being compatible with current systems.

Of course, yet it is not completely clear if such case might be considered a little step forward from conservative financial regulations to a more efficient future, but it is definitely the first step and important one not only for Paxos as a company and their service, but it also has the potential of starting a modern financial infrastructure.

## What we’re reading

[Arrangement to freeze US user accounts on 13 November 2019 \(GMT+8\)](#) (Huobi Global): Unlikely to have a significant short-term impact on anything; just another part of the trend of exchanges making sure to create a hard separation between their North American and Asian businesses, which is something that will please regulators on both continents.

[BitMEX on User Info Leak: No Data Was Disclosed Beyond Emails](#) (CoinTelegraph): A very easy, but very silly mistake; it happens. Volumes remain strong on the platform and overall it seems to have done little to dissuade traders.

[Bitcoin Mining Power Sees Short-Term Drop as Rainy Season Ends in China](#) (Coindesk): This was a modest decline on the 7-day MA, and came in the context of a single-day estimated ATH on the 23rd followed by an aberrantly poor day on the 27th that very visibly was not trend-forming. In terms of watching for a loss of miner confidence, these are not the dips we’re looking for.

[China Scraps Plan to Categorize Bitcoin Mining as Industry to Be Eliminated](#) (Coindesk): An ‘end’ to the long-running ‘saga’ we talked about in the China discussion last week. It being on the list in the first place didn’t mean much, it coming off the list in real terms shouldn’t mean much either. Note that cryptocurrency isn’t mentioned anywhere in the revised document, including in a positive sense; again, China is transitioning from a grey-market situation to a grey-market situation re: cryptocurrency.

[Stellar Burns Over 55 Billion Tokens Worth \\$4.7 Billion USD](#) (CoinTelegraph): At this point, we see governance burns as a significant bearish weight to bear for any coin long-term, even if it’s price-positive in the short-term. XLM was already a dead asset, and this changes very little; the only interesting thing would be if it influenced Ripple to try some description of special burn to force XRP above the \$0.30 level it has been seemingly stuck at or under since mid-August.

[Turkey ‘to finish testing’ digital lira in 2020](#) (Asia Times): As announced in July, the only surprise here is that it’s been slated to release this late (trials are expected to be finished by the end of 2020, meaning a 2021 release at the earliest) given the public timescales for the digital yuan and - theoretically, at least - for Libra.

*Until next week – thank you for reading.*



 <http://www.Enigma-Securities.io>



**DISCLAIMER:**

The information contained in this note issued by Enigma Securities Limited is not intended to be advice nor a recommendation concerning cryptocurrency investment nor an offer or solicitation to buy or sell any cryptocurrency or related financial instrument. While we provide this information in good faith it is not intended to be relied upon by you and we accept no liability nor assume any responsibility for the consequences of any reliance that may be placed upon this note. Enigma Securities Limited is an Appointed Representative of Makor Securities London Ltd which is authorized and regulated by the Financial Conduct Authority (625054).