De-Coding Crypto
Weekly Analysis

Halving and retail demand: a late bubble?

May 6th, 2020

In this week's issue, we look at the sudden recent movement on BTC up above $9000, and ask: how far does this represent new demand?

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Our Market View

May you live in interesting times. BTC up significantly on the week, with almost the entire rise essentially concentrated into a single short period on the 29th-30th which saw us jump from the low $8000s all the way to just shy of $9500 at one point. Since then, we've been largely rangebound, with support at $8600 (tested) and resistance at $9500 (mostly untested). While not expecting miracles ($9500 and $10500 have both been very solid resistance in the past), the trend right now remains positive until a break on $8600.

Alts, meanwhile, are flat on the week pretty much across the board; they broke less aggressively up than BTC did, and have given back those gains as BTC has fluctuated. A couple have slipped slightly – notably BCH and EOS – but overall, not too much to be read either way from their performances.

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

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	9251	11.8%	29.1%	4.9%	45.6%	169.8B
ETH	209.57	-0.6%	29.5%	13.1%	21.5%	23.21B
XRP	0.221165	-1.0%	15.4%	-21.2%	-25.8%	9.76B
BCH	250.644	-2.1%	0.9%	-11.7%	-12.6%	4.61B
LTC	47.2138	-0.9%	9.3%	-24.0%	-38.6%	3.06B
EOS	2.79876	-3.6%	9.0%	-19.8%	-41.6%	2.58B

Selected

Ticker	Price	7D	1M	6M	12M	Cap
XTZ	2.79454	-1.9%	55.5%	121.3%	150.1%	1.98B
LINK	3.75747	-0.8%	53.9%	33.8%	61.7%	1.32B

Halving and retail demand: a late bubble?

Barring an absolutely catastrophic meltdown of the BTC network in the next few days (and it would probably need to be a literal meltdown - talking in terms of mining farms worldwide all suddenly combusting), today will be our last pre-halving Weekly release. We should have just under 800 blocks to go by the time you read this; the exact time will ultimately depend on mining pace, but it will be in the afternoon or evening of Monday 11th April, perhaps creeping just past midnight into Tuesday 12th (2PM UTC by pace over the last few days, around 1AM UTC on the 12th if pace reverts back to expected for this difficulty epoch).

In any case: this is it. We have already given our general macro-oriented halving roundup back on the 22nd; our emphasis there was that its importance was moreso was a supply-side, long-term factor, and less important for any effect it has on short-term price action.

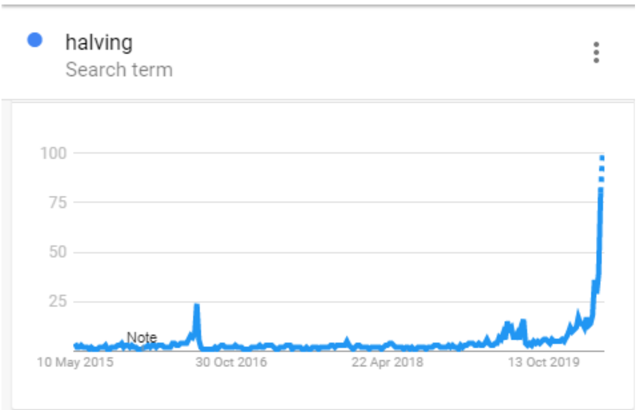
Of course, that was around $2000 in price ago. While it hasn't exactly been a steady uptrend - movement was concentrated heavily into two small periods, first a break on resistance at $7500 on April 23rd, and then over 20% trough-to-peak from $7800 up on April 29th-30th - it is clearly nonetheless worth noting that we have made significant gains, in a small amount of time, and in the run-up to the halving.

Given this confluence of events, it is very easy to jump to attribution here, and to assume that recent price action represents an accession of new demand (the term 'FOMO' has been used) as the halving starts bringing in renewed retail interest (for better or for worse). This was a topic that was much-discussed through the latter half of 2019 in particular - "is the halving priced in?" was a very common topic in crypto circles, and the question of demand effects or an outright pre-halving bubble was a common point of contention in those arguments.

It is hence worth looking at a few indicators to get a better idea of where demand has come over the past couple of weeks, and whether it does represent a true groundswell of new interest.

Sentiment trends

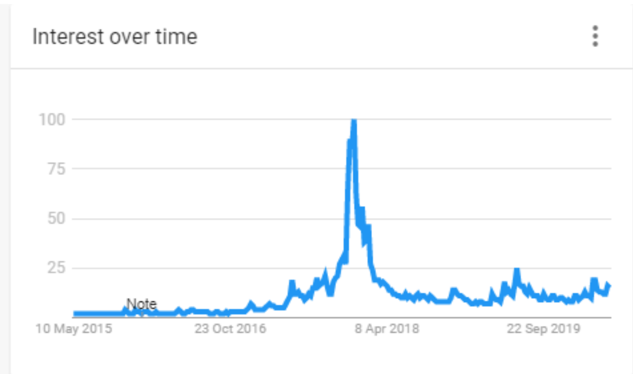
Chances are, you've seen a graph like this recently:



Credit: Google Trends.

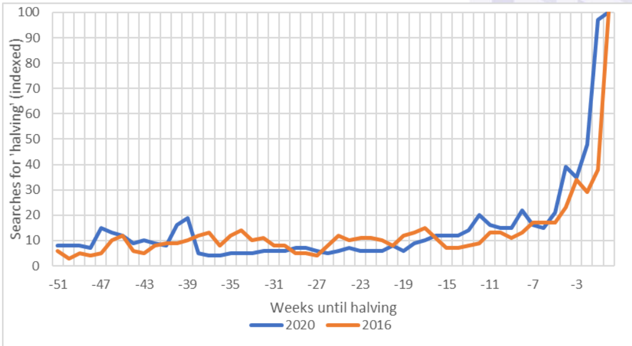
This particular graph is the worldwide Google trend data for 'halving' over the past 5 years. You can see the uptick for the second halving in July 2016 (which then fades entirely), you can see another couple of upticks last summer, and then you see the massive, outsized surge as we get to today.

So, let's deal with that. First things first: yes, the halving this year is undoubtedly attracting more interest than for previous events. That was never seriously in doubt. As a reminder for context, BTC was trading at $659 at the close of July 9th, 2016; it was a tiny asset with a nominal market cap of a shade over $10bn and daily volumes on exchanges and other platforms that were (even if we believe said volumes unquestionably) in the $100m range. The halving should be attracting more attention this time. As a comparison for a similarly long-ranged graph, here's 'bitcoin' over the same time period:



Credit: Google Trends.

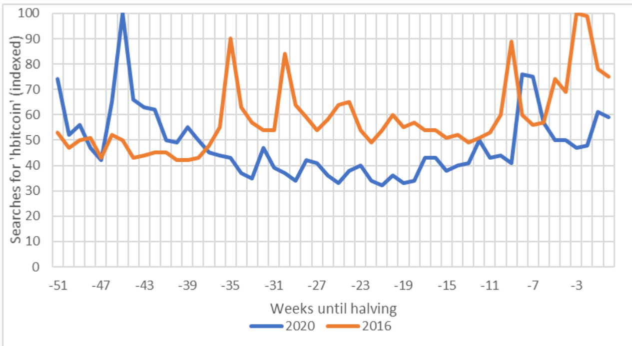
Google Trends data isn't the most granular and hence can be difficult to compare over long periods, but by looking at the period preceding each halving and going into the halving itself, we can establish something resembling an expected 'baseline' load for a given term, and therefore see how interest has then accelerated leading into a certain event. Here is trend data leading up to 2016 and 2020:



Data via Google Trends; both data sets indexed to 100 at their individual peak across the selected period.

As it turns out, both patterns are fairly similar in relative terms; while the raw number of searches for 'halving' is far higher this time, the rate at which it's increased over the past weeks and months has been similar to 2019 (around 10-15x of the baseline).

Doing the same for 'bitcoin' itself:



Data via Google Trends; both data sets indexed to 100 at their individual peak across the selected period.

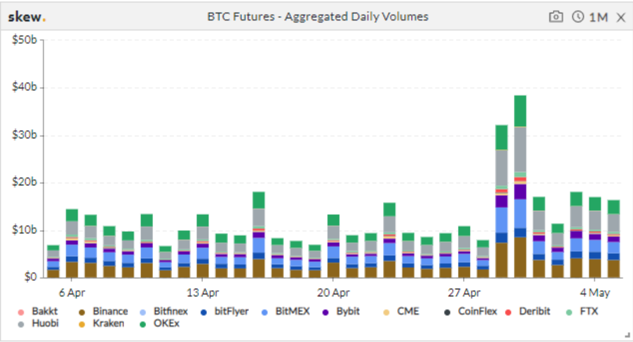
The 2019-20 figures are distorted somewhat by the summer 2019 bubble, but even so, at the very best, any uptick in interest has been similar to 2016, and (in growth terms) not exceeded it.

Granted, this does still mean that overall interest is much higher than then (because apart from anything else, we are talking about an asset that now has well over 15x the nominal market cap), but it doesn't suggest that there's a rush coming.

Again, remember: BTC's price was lower 1 month and 3 months out from the halving in 2016, only really picking up going into 2017. Expectations of a retail-led surge in Q2 or early Q3 rely on exceeding 2016 dramatically in that regard.

Exchange data

A feature of the April 29th/30th pump – one that was largely absent even as we have steadily moved back up post-Black Thursday – was an absolutely huge surge in daily volume on both days. The question is where that volume came from.



Credit: Skew.

On futures markets, volumes on (reputable) venues across those two days were in the range of a combined $70bn – by far the highest marks since Black Thursday, and either individual day saw more volume than any other day in the year-to-date. As can be seen, this has been sustained since; after a dip on Saturday, every other day has topped the $15bn mark, getting us back to the volume levels we were seeing at the height of action in February (the absolute peak there was $23bn on February 26th).

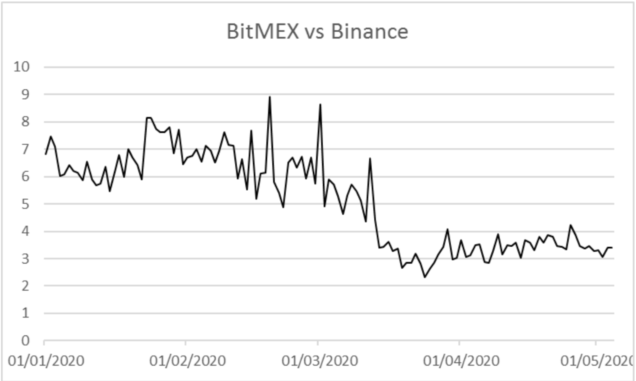
The picture with spot, however, is somewhat murkier. Yes, spot volumes also went up compared to the last few weeks. For instance, these were the volumes on the BTCUSD pair on Binance compared to recent weeks:

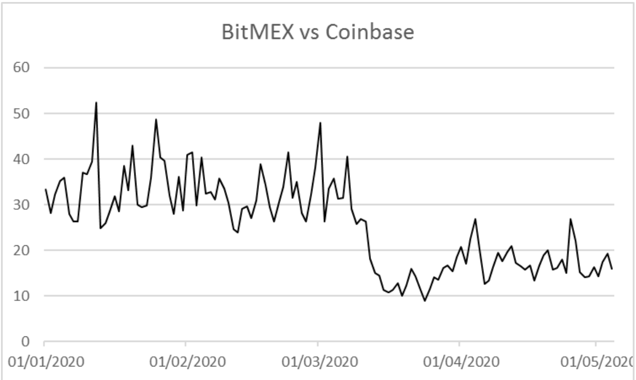
Date	Vol (m)	% -1W	% -2W	% -3W	% -4W
05/05/2020	683	91%	66%	44%	-10%
04/05/2020	738	46%	17%	14%	-12%
03/05/2020	808	110%	148%	57%	140%
02/05/2020	524	58%	48%	68%	8%
01/05/2020	806	78%	111%	11%	14%
30/04/2020	1839	143%	113%	313%	81%
29/04/2020	1536	256%	268%	177%	148%

Data via Cryptodatadownload. Figures represent change on the first given date compared to the same day X weeks before. For instance, the first box compares 05/05 to 28/04, and indicates that volume on 05/05 was 91% higher than on 28/04.

Notice that, while volumes both on the 29th/30th and since have mostly been higher than over the last month, in the days following the run, they have found themselves actually down slightly compared to early April (when BTC was in the mid to high $6000 range).

The question at play here is how far price action at current levels (above $8600) is a product of derivatives markets rather than spot demand pressure. One yardstick we tend to like is to check volume ratios between BitMEX and spot exchanges; since BitMEX is a BTC-denominated exchange (and therefore any BTC being traded on BitMEX has had to be on-ramped elsewhere), comparing its volumes with major exchanges that do act largely as fiat-BTC onramps can be revealing.

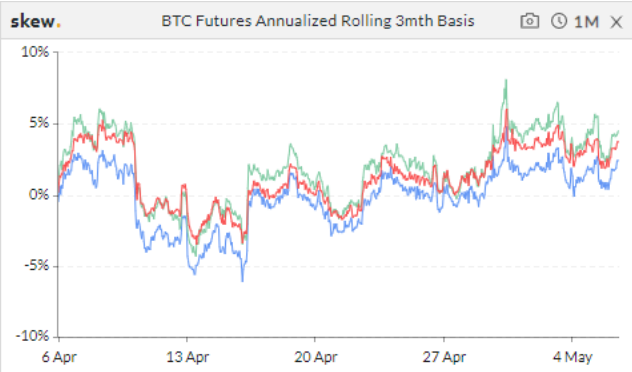




Data via BitMEX and Cryptodatadownload. Ratio of daily volume on BitMEX vs. Binance and BitMEX vs Coinbase respectively (e.g. a higher ratio indicates a higher volume on BitMEX).

So far: inconclusive. The ratio has been climbing after bottoming in late March (we should note that BitMEX had a significant number of technical issues during Black Thursday and after, which have damaged its position as the market leader somewhat) but was on the low side on the 29th and 30th; the small spikes were actually on the weekend of the 25th-26th (i.e. when volumes are traditionally lower on all venues and hence more susceptible to variation in terms of ratio).

We will finish off with a quick look at some trends in the derivatives markets themselves. First, annualised basis for quarterly futures:

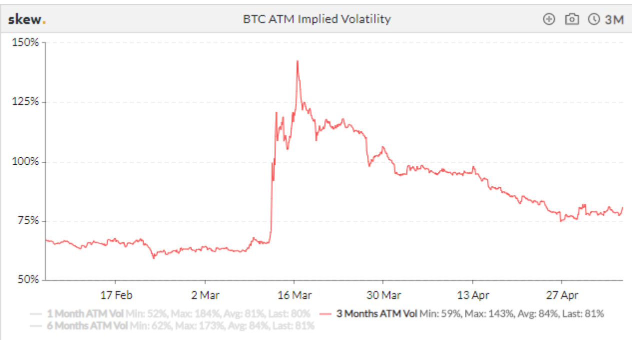


Credit: Skew.

We have talked about these *ad nauseam* in previous weeklies and dailies; futures have typically been fairly aggressively in contango for BTC, not dropping below 0% even in relatively lean periods in Q3 and Q4 and reaching as high as 20% or more annualised this year. We mostly talk about these in terms of general market confidence from more sophisticated participants. These have picked up in the last few weeks after trailing sub-0% through much of April; they've been somewhere between 0% and 5% outside of brief spikes on some venues at the height of the run on the 30th.

Bear in mind: the current contracts are the first post-halving contracts, expiring on June 26th. Being in that 2-4% area represents maybe a $50 premium on spot. It's not the most unhealthy of positions, but clearly, it doesn't represent confidence about further room to move upwards short-term.

On the options side, implied volatility on quarterly at-the-money calls is fading:



Credit: Skew

While still higher than it was in February and March (and we will note that implied volatility on monthly options has risen slightly, from 66% last Monday to 80% today), it remains largely in a downtrend.

Conclusions

Our tendency overall is to think that price action last week did not point to a huge swell of spot demand. Taking that to be the case, there are both bullish and bearish sides to that. The bearish side is that, having reached a little higher than initially seemed likely, this should be where we slow down. Resistance at $9500 has tended to be very strong in the past, and while there will be plenty of attempts to hype things up in certain quarters, it's hard to see new demand being enough to drive things beyond that point short-term (and the door is very much open now to a correction).

The bullish side to it is that, again, this seems to be something of a demonstration: the $7000-$8500 or so level is extremely sustainable in terms of both low-level and high-level demand in that area. Concerns over longer-term consumer trust after the collapse below $4k now seem a lifetime away, and while said levels shouldn't be seen as inviolable (as plenty of leveraged traders have hopefully now learned), the potential severity of any coming corrections is steadily being reduced as we go.

Until next time – thank you for reading.

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