De-Coding
Crypto

Enigma Weekly

3rd March 2021

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Our Market View

May you live in interesting times. Not as quiet a week as it may appear on first glance – as we said last week, expiry did indeed bode ill for the markets, with the brief weekend breakout above $56,000 crushed entirely as we drifted to lows below $43,000. Have seem something of a recovery today, reaching back above $50,000 and hence seeing us flat on the week; tend to expect positive things from here, but do need to see consolidation at above $52,000 to be totally confident in that.

A familiar story with alts – crashed with BTC, lower-quality ones generally have not bounced as hard, DOT and ADA among others leading the pack. Big question right now is what happens with ETH: did find support at 0.030 on the ETHBTC pair, but have flatlined somewhat since. Tend to still think that we are likely to see outperformance over coming weeks of it, but would urge caution for the time being; we saw on the BTC surge in December that this is hardly an inviolable peg if BTC starts moving, and it does seem that there's a good chance of that happening before any ETH-specific surge takes place.

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

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	51243	2.3%	52.7%	403.7%	537.2%	955.4B
ETH	1618.33	-2.9%	17.5%	381.5%	708.6%	185.9B
LTC	192.22	4.5%	45.5%	302.4%	275.7%	12.80B
BCH	536.41	0.0%	29.3%	137.7%	95.8%	10.01B
EOS	3.926	-1.3%	28.1%	33.3%	28.7%	3.74B

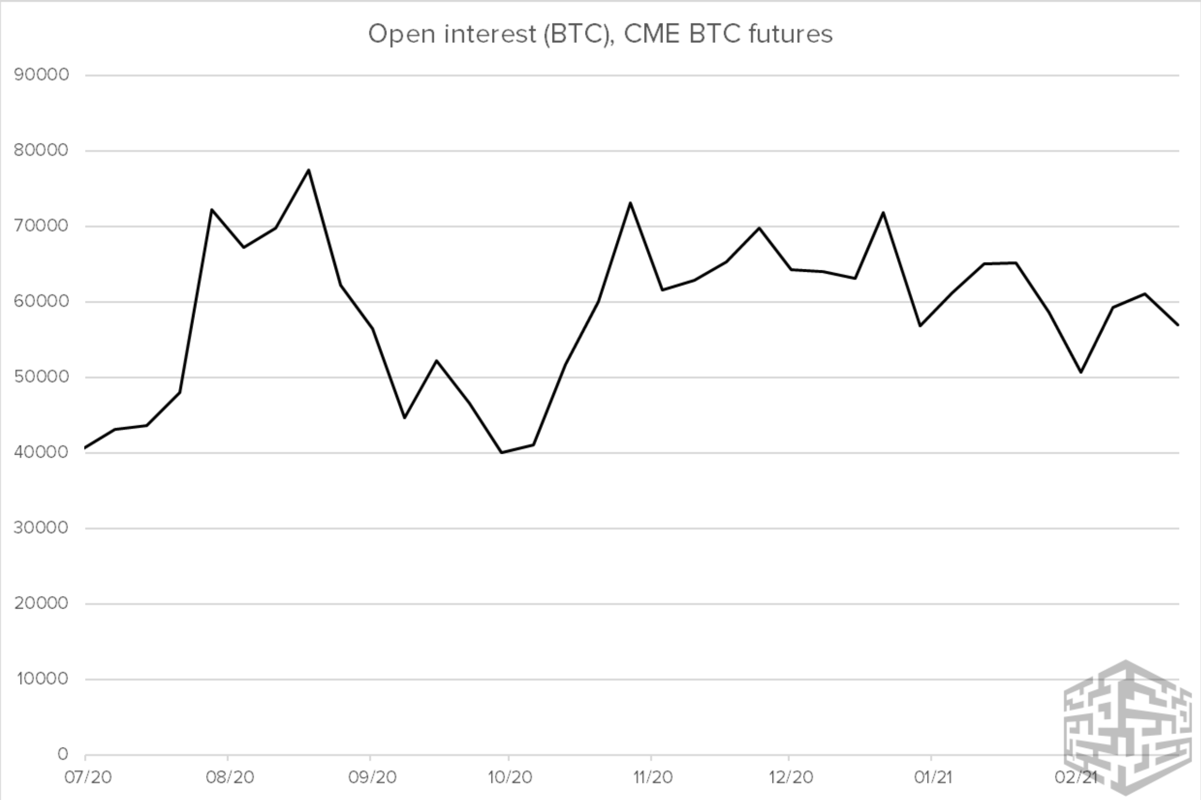
Selected

Ticker	Price	7D	1M	6M	12M	Cap
DOT	37.66	10.1%	128.2%	808.5%	11190.0%	34.45B
ADA	1.238	16.0%	202.7%	1270.0%	2781.0%	39.55B
LINK	31.14	6.1%	35.2%	191.9%	664.0%	12.77B

Institutional latest: CME and spot

Derivatives - BTC

Let us start with a very surprising graph:



Data via CFTC.

In BTC terms, CME open interest has plateaued - it remains below levels achieved in early October (i.e. prior to the $20k break), and actually below levels from back in August, having grown fairly consistently since 2019.

What's going on? Well, to start with, this is of course something of a misleading measurement. CME futures, being cash-settled as they are, are one of the least useful metrics to price in BTC in the industry; while there's an argument that a market increasing only at or below pace of underlying is concerning with regards to what it means for new money in said market, this clearly doesn't apply in quite the same way to a market where physical BTC ownership is itself entirely optional.

Still: it's not entirely unworthy of note. One of the nice features about the CFTC report is that it includes details of trader count - that is, the raw number of market participants active at any given time (with certain delimiters), and a rough breakdown of their primary business - asset managers, dealers, leveraged funds, and everyone else.

Date	Total	Lev. L	Lev. Sh
avg 11/20	105	40	19
avg 12/20	102	38	17
05/01/2021	90	30	18
12/01/2021	94	34	19
19/01/2021	91	33	16
26/01/2021	93	38	13
02/02/2021	86	32	19
09/02/2021	91	36	17
16/02/2021	90	34	18
23/02/2021	87	32	17

Data via CFTC.

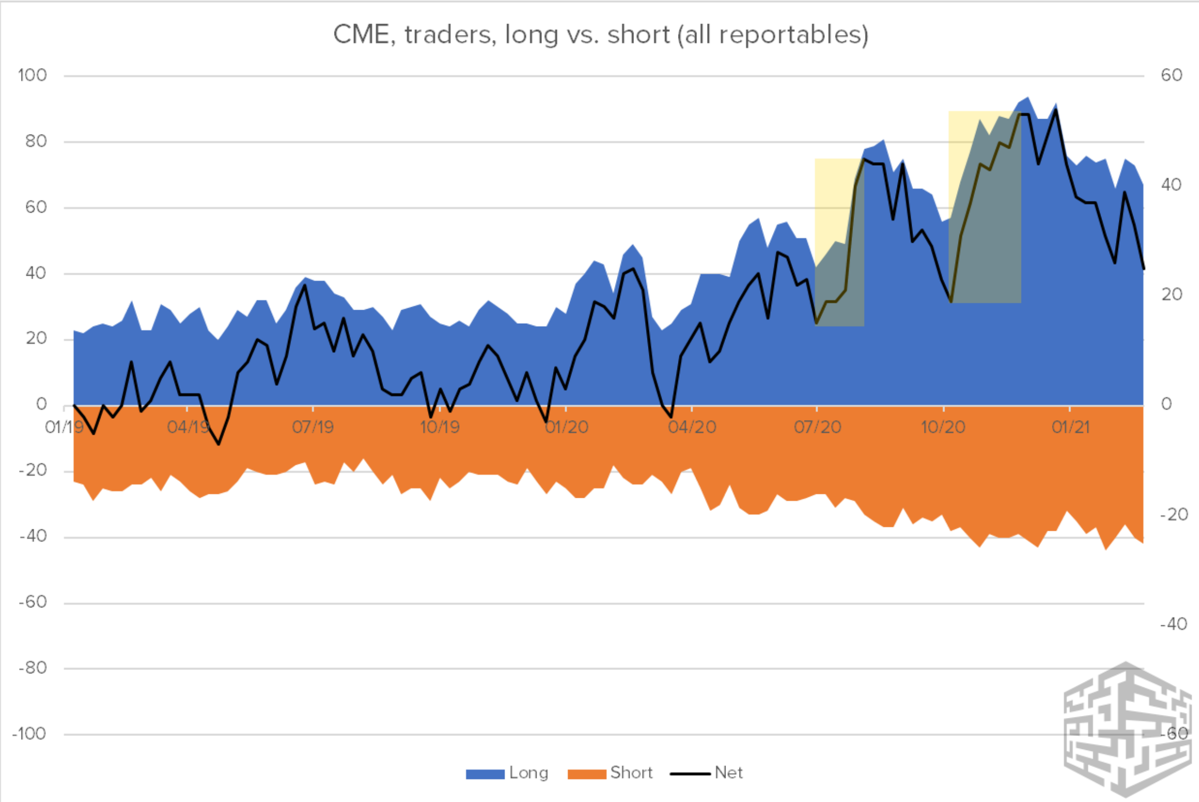
Total trader count peaked in December, and has fallen back very slightly in the last few weeks, with leverage funds continuing to make up the bulk of said traders. Of course, context is important here; the list of CME products in general that get close to 100 traders on a regular basis is small, and the bleed off has been relatively modest in that regard.

Nonetheless, there has been some bleed. Looking at totals for long/short here (this sums up to above the total count because of participants holding bidirectional positioning), we get a better idea of what has happened:

Date	Total L	Total Sh
avg 11/20	87	40
avg 12/20	87	38
05/01/2021	73	35
12/01/2021	76	39
19/01/2021	74	37
26/01/2021	75	44
02/02/2021	66	40
09/02/2021	75	36
16/02/2021	73	40
23/02/2021	67	42

Data via CFTC.

There are roughly 25 less participants on the long side compared to before the new year (spread between leveraged funds and other reportables), with no change on the short side. It's worth noting that we saw somewhat similar swings towards and away again along said lines last year in May (going into the halving) and August (during DeFi summer):



Data via CFTC.

Remember: while we tend to think of them more in terms of arbitrage (cash-and-carry trade) at this point, CME markets, by their nature, can be useful vectors for pure speculative activity (presuming that one's balance sheet is big enough), given their cash-settled status and monthly expiry, and it does seem likely that there was simply a proliferation of short-term bets taking place at points where BTC was perceived as relatively undervalued (unrealistic expectations re: immediate impact post-halving in May, ETHBTC climbing to its highest market post-2019 and perception that BTC was due to follow ETH in August).

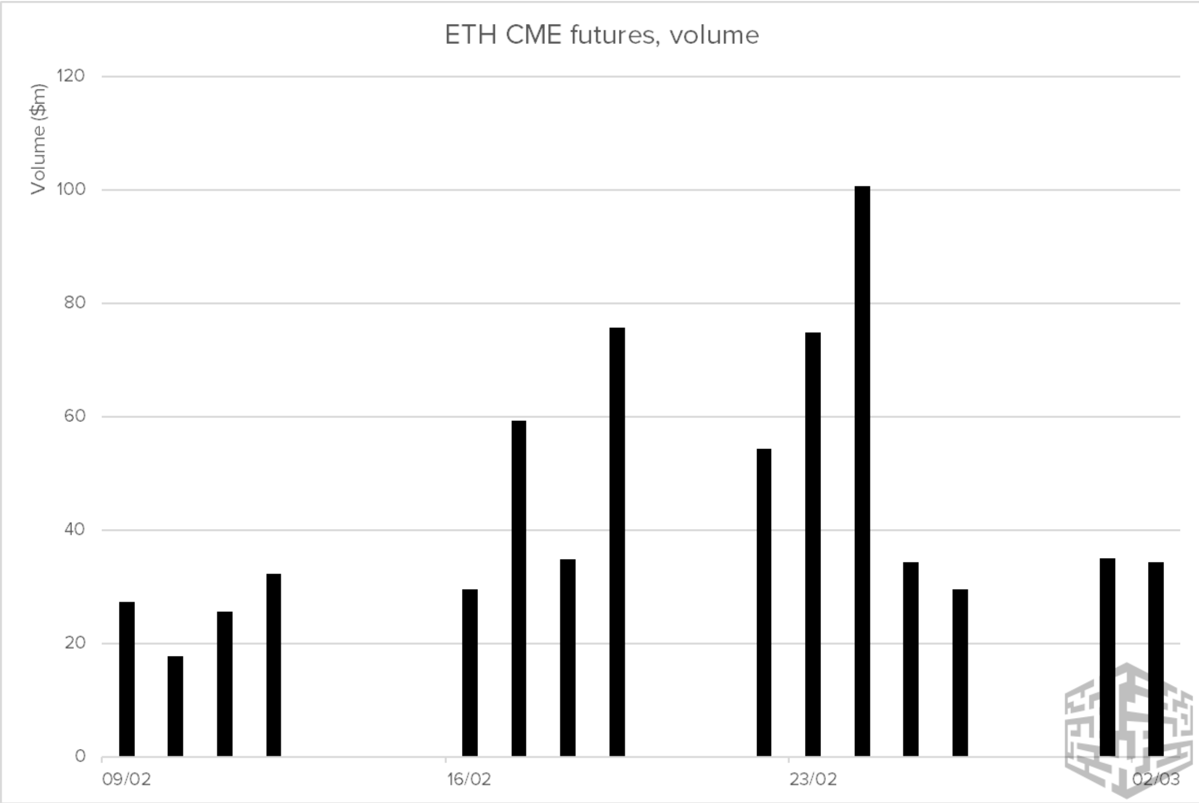
In some respects, this tells us something that we already generally knew - that few serious market participants are expecting a $1m BTC any time soon, and that while there's still upside to be had from here, returns will shrink into the latter stages of this run, and there will be a top and a trend reversal, but it likely won't be the same sort of violent retail-driven bubble that we saw in 2017. Or, in short: BTC as a pure, speculative, ultra-high-upside bet does not make sense, at least now right now.

Still: it serves as further evidence, and it is something that we will continue to keep an eye on going forward with regards to that sort of speculative sentiment growing - while we again aren't expecting a 2017-level bubble, markets will eventually turn euphoric in this run, and that euphoria will likely be a very strong signal indeed to reduce exposure or sell up entirely.

Derivatives - ETH

Despite the launch of ETH futures at the start of the month, there are no CFTC figures as of yet. Why? Simply put, there are not enough reportable traders (i.e. traders with positions above the reporting amount, which in practice means all traders generally reportable and with open positions) on the market currently - the lower bound for a product to start showing up on CFTC reports is 20 traders, which for Bitcoin took until April 2018 to materialise (after the initial December start).

We do have volume figures over the first few weeks:



Data via Tradingview.

There has been a steady flow of around $30m a day; this is of course a miniscule fraction of what we see in the same markets for BTC (very rarely less than $1bn a day at this point), but it does at least establish a steady baseline (something that was an issue with e.g. the Bakkt launch - there were trades of decent size coming down in the early days, but there were also days with essentially nil volume, which did a lot to damage perception of the platform coming in.

However, it does underline the point: ETH institutional flows are still a tiny, tiny portion of the overall ETH market. On the same day as it registered its high point to date (24th February), Deribit's ETH perpetual swap market alone had volume of $867m. ETH is not an institutional asset in the same way as BTC is; it is at the stage that BTC was at in early 2017 or so. It is on institutional radars, and the developments in market infrastructure make it at least feasible mechnically-speaking for firms of that ilk to gain direct exposure to it, but it does remain a near-impossible sell for all those parts of said firm that have any inherent degree of risk aversion.

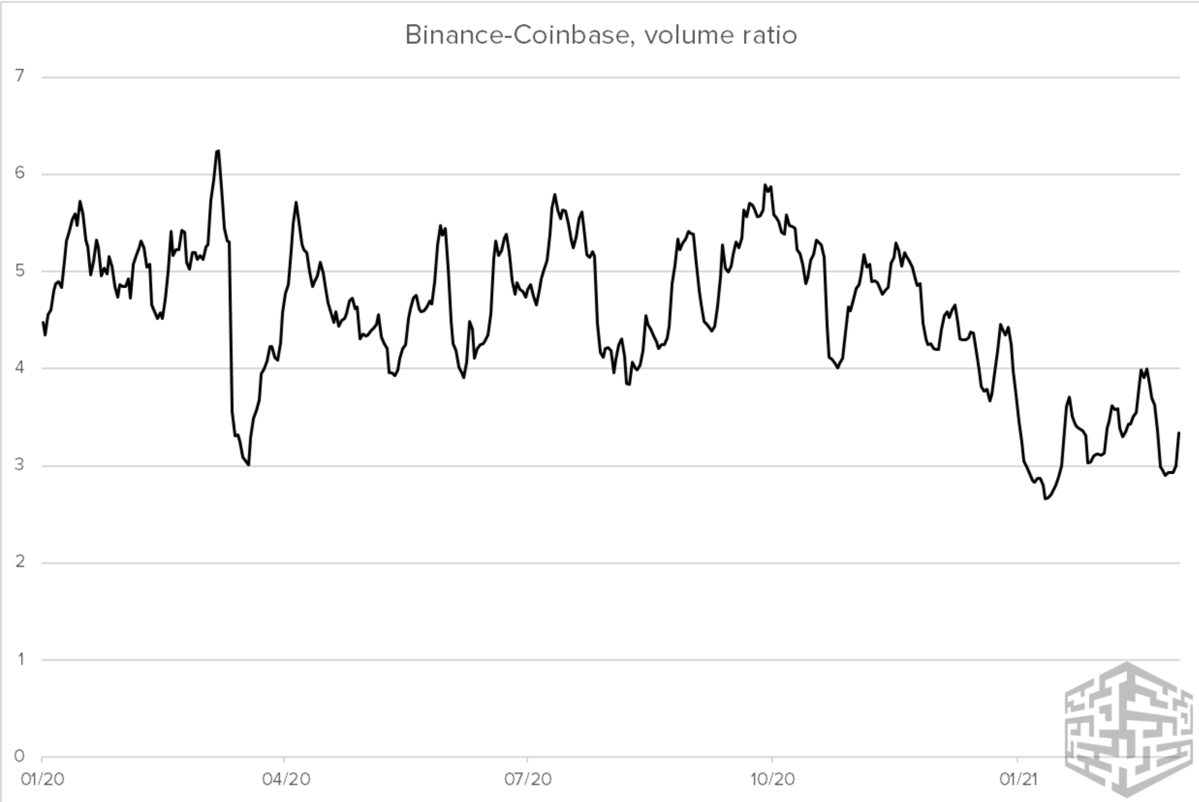
Spot

As a reminder, the issue with assessing situations with institutional buyers in spot markets has always been that there is no clear delineation of flows on a structural level as in derivatives markets, and no true way to separate them. The small amounts of spot flow that could be described as 'institutional' in any sense before 2019 or so was almost exclusively being channelled through OTC desks.

In the present day, while there are a growing number of spot exchanges that lay claim to being largely or wholly institutional; however, most buying is still going through retail exchanges and/or OTC. Both the Microstrategy and Tesla buys were reportedly executed by Coinbase's institutional desk (and then from there at least in part through OTC).

A metric we have used a few times before is the Coinbase-Binance ratio; Coinbase has a mixed clientele (i.e. still, in the majority, retail clients), but the major regulated exchanges (Coinbase, Kraken, and to an extent Gemini) do at least attract some such flow, whereas offshore exchanges (particularly with refernce to the trio of Binance, OKEx, and Huobi) are for all intents and purposes 100% retail.

That figure has taken some interesting turns over the past few months in particular:



Data via Tradingview. 7-day MA for volumes.

The ratio - which has generally been in the 4-6:1 range for most of the last couple of years - dropped below 3 at points in January, and after a small spike in February, has been heading back lower again. It's worth emphasising here that exchange-specific dynamics, if anything, would suggest that the ratio should be increasing, not dropping (with Binance receiving a new lease of life via its involvement in Binance Smart Chain, an Ethereum clone that has attracted some volume in the wake of Ethereum's recent fees issues). This does present something of a ray of light re: continued institutional buying, although it does also suggest that we've likely already seen something of a peak in that regard.

Until next week – thank you for reading.

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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.