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De-Coding Crypto



Enigma Weekly

2nd December 2020

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Our Market View

May you live in interesting times. Slightly down on the week as it stands, but in reality, BTC, ETH, LTC, and one or two other assets stand in basically the same position as they did last week – consolidating around \$19,000, occasional pushes higher, occasional dips lower, and seemingly constantly poised for another challenge higher. We discuss some of the things we’re seeing around BTC in terms of the institutional marketplace in this issue, but to pre-conclude: we still generally see things in constructive terms, but the short-term picture (by which we mainly mean to the end of the month) is a little unclear at the moment. If we get towards \$20,000 again, we would expect to break it, but there is the odd indicator emerging here and there that we might now be seeing some temporary slowdown and may have to wait to get to that point. Next few days should be illuminating, both in terms of market reaction at these levels and in terms of how said indicators develop.

Most of the alts that spiked in affinity with the brief moment of mania last week are down 10-15% on the week, although we will admit to being surprised at how well some (particularly XRP) have held up so far. Broadly speaking, we still tend to take a negative perspective on most of the class (with reference to outperformance against BTC), and see eventual downside from here, but we concede that it might be worth paying attention to them on a short-term basis going forward if we see similar moments again for BTC and crypto markets in general over the next few months.

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

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	18883	-1.15%	38.86%	94.80%	149.70%	350.5B
ETH	586.22	-0.94%	52.79%	141.90%	293.80%	66.63B
XRP	0.60575	-10.98%	156.70%	196.70%	167.60%	27.46B
BCH	288.79	-14.69%	11.67%	13.61%	34.99%	5.37B
LTC	85.52	-1.99%	57.90%	81.96%	87.58%	5.64B
EOS	3.000	-18.92%	22.83%	6.97%	9.54%	2.83B

Selected						
Ticker	Price	7D	1M	6M	12M	Cap
LINK	13.61	-11.16%	25.59%	211.30%	548.30%	5.37B
ADA	0.15362	-10.82%	65.24%	77.34%	298.30%	4.78B
XTZ	2.368	-17.32%	24.11%	-19.38%	71.56%	1.78B

Institutional latest: GBTC, CME, CFTC

1) GBTC and ETHE: premiums expanding, inflows mounting

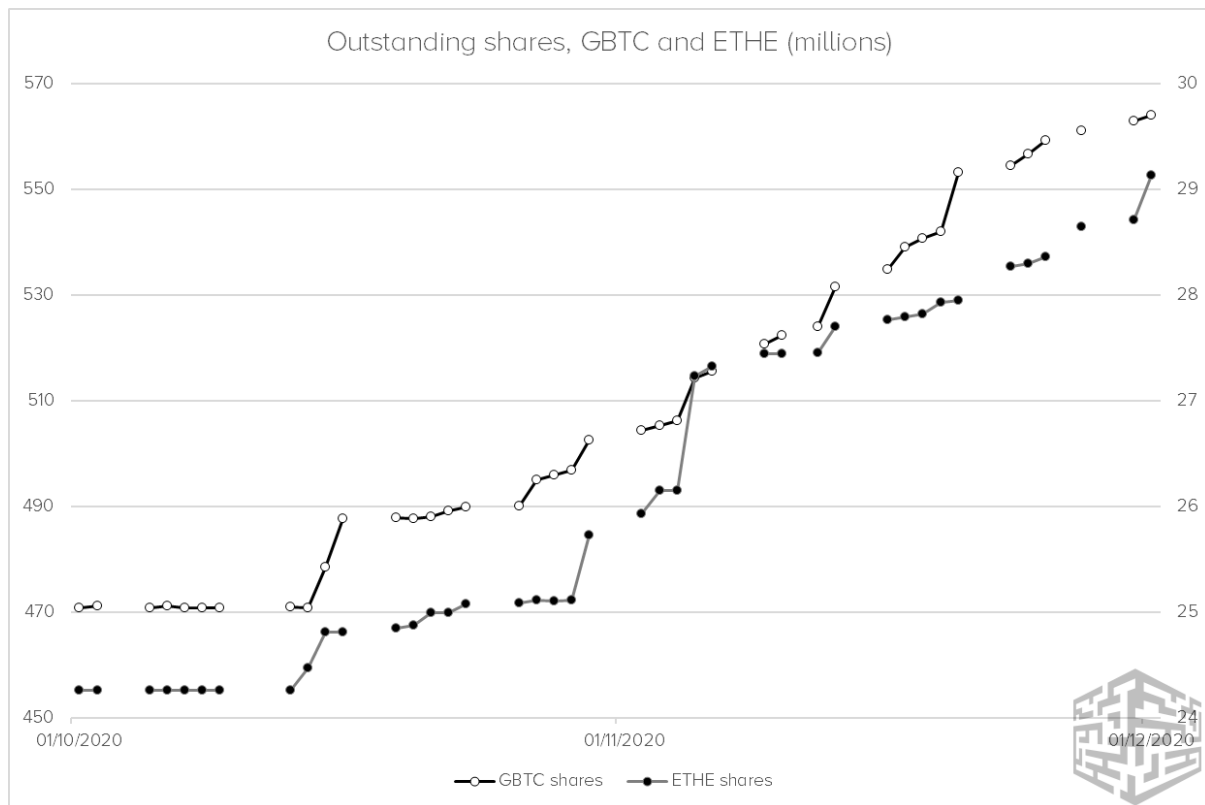
It surprisingly doesn't seem to have made too much in the way of specific headlines yet, but GBTC raw AUM passed the \$10bn mark for the first time last week, and after a brief drop on the Thanksgiving crash, has roared above it again this week:

	AUM (\$m)		Growth since 28/09	
	GBTC	ETHE	GBTC	ETHE
28/09/2020	4893	817	0.0%	0.0%
05/10/2020	4812	797	-1.7%	-2.4%
13/10/2020	5157	868	5.4%	6.3%
19/10/2020	5407	877	10.5%	7.4%
26/10/2020	6098	928	24.6%	13.7%
02/11/2020	6523	945	33.3%	15.7%
09/11/2020	7618	1146	55.7%	40.3%
16/11/2020	8355	1175	70.8%	43.9%
23/11/2020	9736	1536	99.0%	88.1%
24/11/2020	10015	1599	104.7%	95.8%
25/11/2020	10164	1565	107.7%	91.6%
27/11/2020	9050	1366	85.0%	67.3%
30/11/2020	10224	1582	109.0%	93.7%
01/12/2020	10289	1626	110.3%	99.1%

Data via Grayscale.

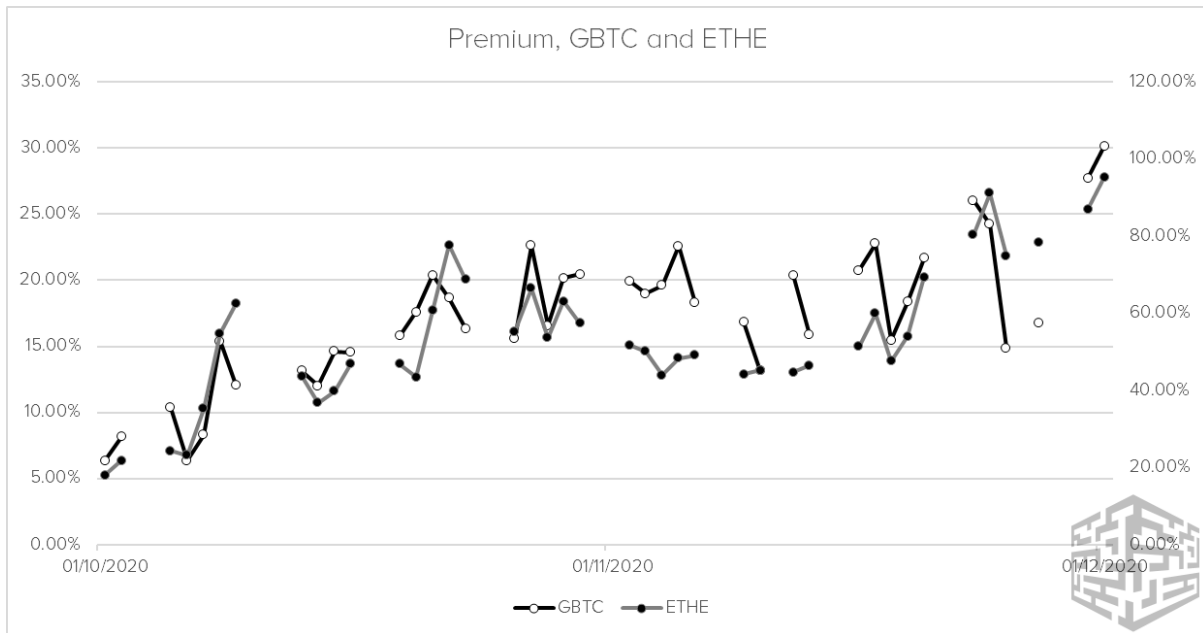
This has been something of an incredible year for both GBTC and the crypto ETP market in general. After steady growth in terms of BTC inventory over the last few years (between 23% and 28% a year for three of the past four years), GBTC has grown from around 257,000 BTC in inventory at the end of last year to, as of Tuesday's close, a hair under 537,000; it has been one of the biggest success stories of the 2020 bull run (and its success is at a point where it is now pushing up the broader ETP market, with products like the Toronto-listed QBTC.U going from a \$10m launch to \$170m+ in a matter of months).

While some of that AUM growth is due to growth in BTC/ETH price, in Q4 alone, we have seen just under a 20% increase in share count, and therefore native unit holdings, on both GBTC and ETHE (i.e. similar as a percentage increase to previous annual increases, and far above them in raw terms):



The fact of such in-kind inflows and associated creations does of course tell us where this rush of interest in GBTC is largely coming from, insofar that it is coming from institutionals and family offices more than anything else; while the creation requirements on GBTC have in theory gotten somewhat less onerous with the SEC's change in accredited investor guidelines in September (removing the stricter income/net worth requirements for individual investors if they can demonstrate financial competence through some other means like professional experience), retail GBTC buying is still generally done on secondary markets rather than through creation.

The measurement for retail enthusiasm tends to be the premium, as in how far GBTC trades over its NAV - the combination of it being the only available vehicle for direct BTC exposure for certain classes of investor and the restriction on redemptions (i.e. there are no direct redemptions) means that this is almost always a decent amount above zero. This has tended to hover in the 20-30% range for the most part over the last few years, and was actually near historic lows in October, but has trended up significantly over the last couple of days in particular:

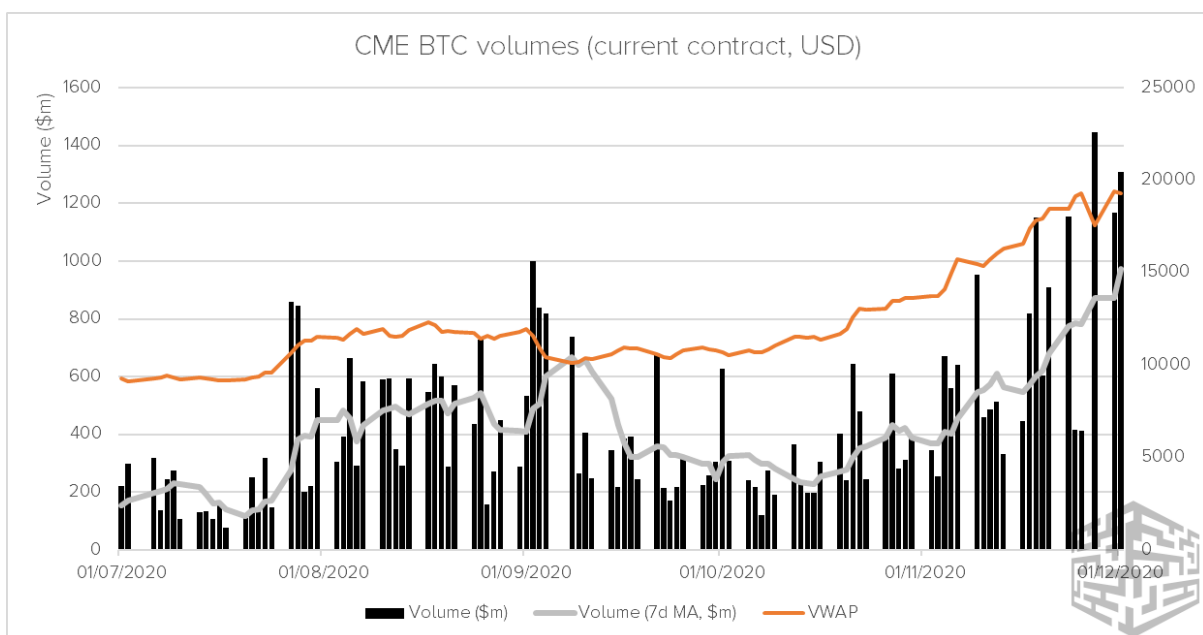


Data via Grayscale.

In both cases, we should note that the current levels that we are seeing are far from uncharted waters; ETHE's premium rose to over 1000% (not a typo) at one point this year before contracting dramatically, and BTC's topped 40% earlier in the year. Still, it does suggest that retail money is beginning to play a bigger and bigger role, which is generally positive (particularly with regards to the implications of a break on \$20,000), though does bring up some points of concern too (the continuation of the increased intraday/intrahour volatility we've seen over the last few weeks is a direct result of increased retail presence in derivatives markets).

2) CME futures: steady, but not explosive

By contrast, CME volume growth in USD terms has been healthy, but hasn't exactly taken off at any point in this run:



Data via Tradingview.

It should be said that the flatline in recent days is mostly due to the run-up to Thanksgiving (even factoring out the lack of trading on Thanksgiving itself, numbers were notably low on both the Tuesday and Wednesday prior); the trend overall with regards to volume does still seem to lean positive, just not overwhelmingly so (especially when the increase in price over the same period is taken into account).

This isn't that surprising in some ways; as we've noted in previous issues, we tend to think that this rally needs to be seen in terms of spot, and while CME market participants share an institutional steeping with those who have been driving buying over the past couple of months, clearly, a futures contract that expires monthly is not the sort of product that appeals to a buyer who is looking to get potential longer-term exposure to BTC. (We should note, for reference, that this doesn't seem to be a case of Bakkt taking over either, with Bakkt volumes having collapsed almost entirely since September and basically back at their Q2 levels; Monday volumes were 1300 BTC compared to 136,255 on CME).

CME BTC markets are still overall in a healthy place (and, depending on how you measure it, may now be the single-largest venue in the world for BTC futures, institutional or otherwise, thanks to OKEx and BitMEX's troubles and slippage in Binance's position); it just needs to be emphasised that, while there are points of interest within, they are not really at, or near, the epicentre of this run in that regard.

3) CFTC data: trader count at record levels, leveraged fund shorts rapidly expanding

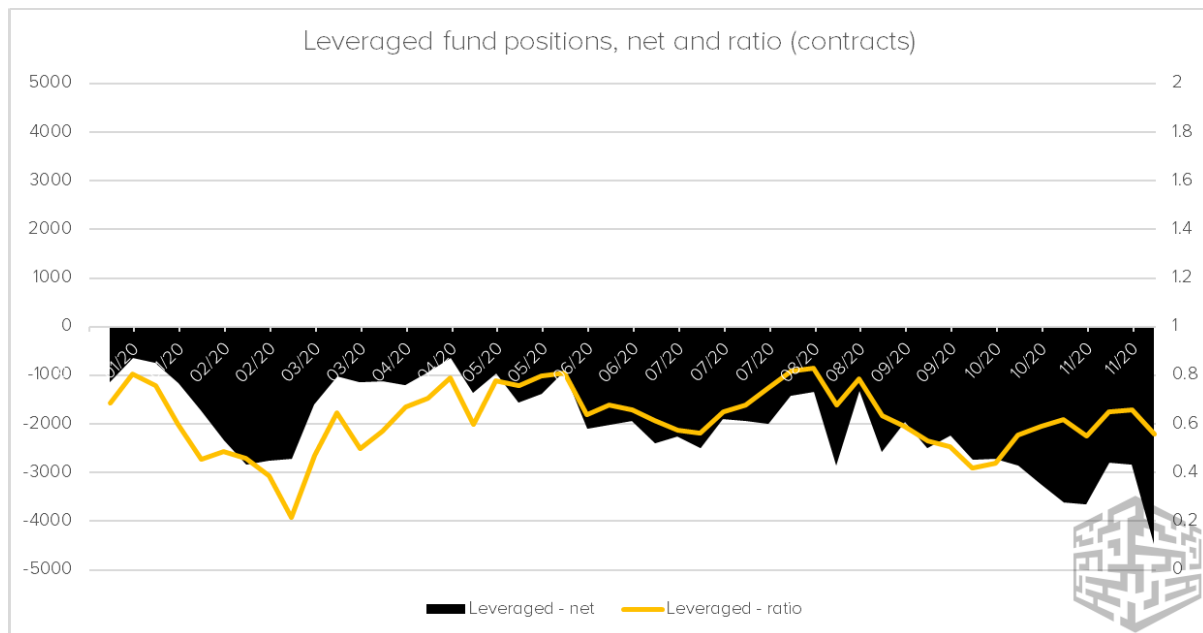
Trader count - which, to refer back to past issues ad nauseam, has tended to be a very good sign in 2020 with regards to medium-term trend shifts in the positive direction - increased enormously in the last couple of weeks of October, with said growth coming overwhelmingly on the long side, similarly to the January and August breakouts.

Date	Total	Lev. Long	Lev. Short	Lev. Spread
Avg 7/20	72	22	19	8
Avg 8/20	92	33	17	13
Avg 9/20	80	24	19	12
06/10/2020	76	20	23	12
13/10/2020	84	28	19	12
20/10/2020	95	33	22	12
27/10/2020	105	36	19	16
03/11/2020	101	33	21	11
10/11/2020	104	41	19	14
17/11/2020	103	42	16	14
24/11/2020	110	42	20	12

Data via CFTC. Highlighted entries = new 2020 high for the category.

While stagnant for a few weeks, it has started to move up again as of late, and the next couple of reports may be very interesting indeed; we would not necessarily expect any further rush at this time of year (given how close we are to year's end, and given the tendency to focus on year's start as a starting point for trading for institutional market participants, as happened quite dramatically in 2020), so further growth in that regard would be very, very interesting indeed.

On the slightly more negative side, while open interest has been on the increase in USD terms at least (we still haven't touched the August peak in BTC terms), the raw and net aggregation of short positions on the leveraged side has increased, topping 10,000 contracts raw and 4,000 contracts net for the first time last week:



As usual, we should note here that funds have been net short since January 2019, and there is a very simple and non-bearish inbuilt reason for that short positioning; the cash-and-carry trade, which is pure arbitrage, works on the basis of a short on CME futures (which have retained and even expanded their higher valuation over spot as we have moved up) and a spot long, and while new market entrants seem to be more likely to take positive directional views, those arbitrage trades still make up a very large portion of CME BTC activity.

Still, the scale is worth noting (particularly with how we've picked up over the last week), and we're interested to see the first numbers coming out of expiry on Friday; we would tend to expect total OI to contract slightly as it tends to do towards the end of most months, so any further increase in that positioning genuinely might be a cause for concern.
 as or more aggressively.

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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