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MAKOR

De-Coding Crypto

Enigma Weekly

27th January 2021

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

Our Market View

May you live in interesting times. BTC down this week, as we continue to mark out lower highs on each successive bounce; we talk at some length about near-term prospects for BTC in this issue, but in short, there is more call for pessimism here than there has been in a while, with a large futures and options expiry coming up and potential fresh short pressure on CME markets and the like from arbitrage traders in its wake.

BCH and LCH leading the pack on the way down among majors; ETH also red on the week, but to a far lesser degree, with ETHBTC beginning to stabilise above the 0.040 mark that has served as an extreme long-term resistance point, and DeFi experiencing a fresh wave of gains with UNI and AAVE (two of our identified prospects in last week's publication) up 77% and 51% in USD terms respectively. There is a very strong case for further significant ETH outperformance against BTC in the near term as it stands; we still do have worries about the effect of the ETH futures launch on February 8th, but for at least the next couple of weeks or so, expecting to see continued gains in BTC terms.

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

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	30729	-11.7%	13.8%	160.5%	228.1%	571.9B
ETH	1279.58	-1.9%	76.5%	232.3%	601.8%	146.4B
LTC	124.33	-14.8%	-3.7%	102.2%	76.5%	8.25B
BCH	384.29	-21.3%	6.9%	20.3%	1.3%	7.16B
EOS	2.530	-7.9%	-8.6%	-23.7%	-39.2%	2.39B

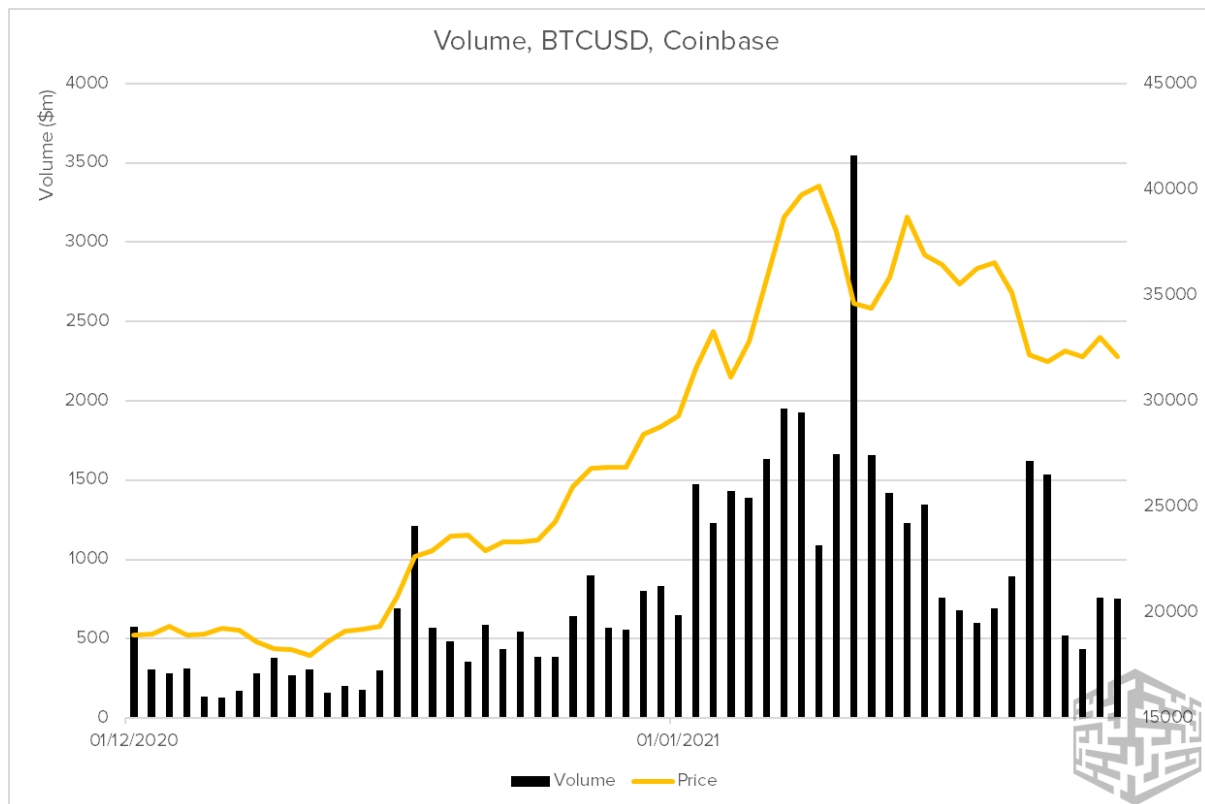
Selected

Ticker	Price	7D	1M	6M	12M	Cap
DOT	15.59	-4.0%	137.8%	403.4%	438.2%	14.10B
ADA	0.31868	-10.2%	80.3%	119.3%	466.4%	9.92B
LINK	21.22	3.7%	68.9%	155.6%	649.8%	8.54B

Latest trends: retail spot, institutional derivatives

Spot

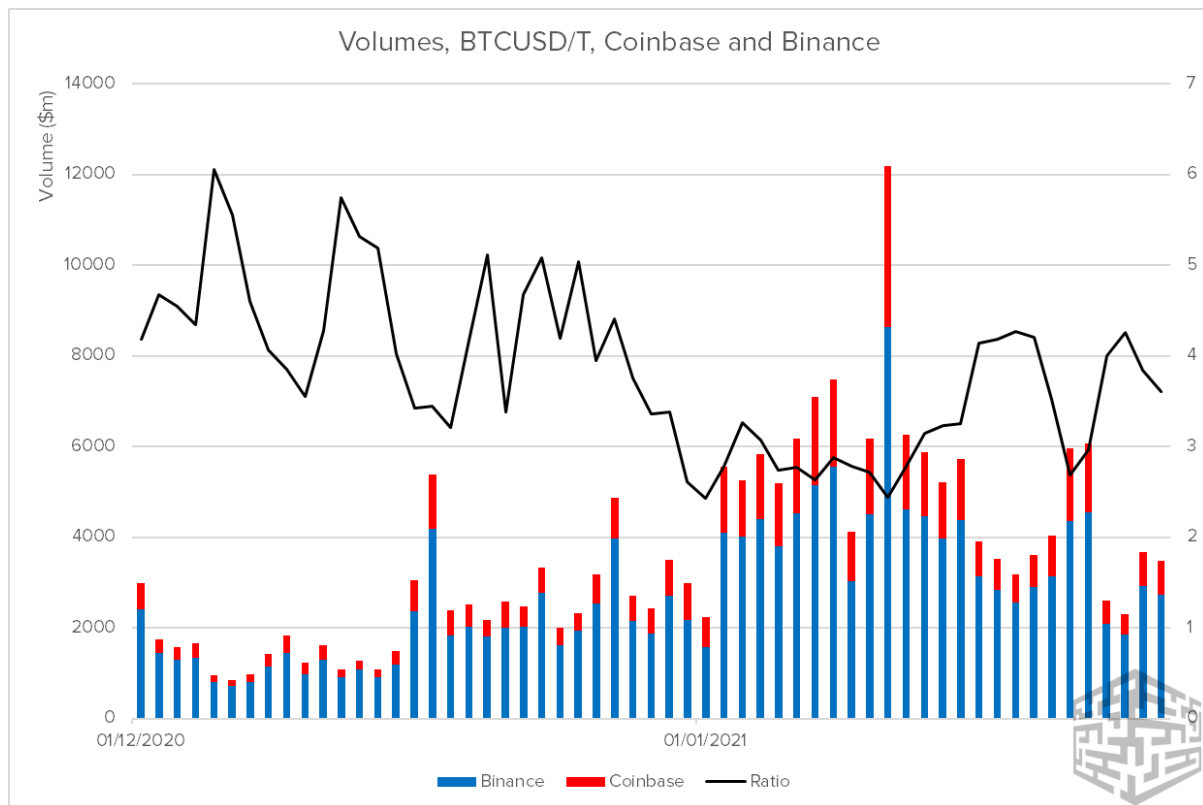
As mentioned in previous issues, we saw an extreme upsurge with regards to volumes on most spot venues - particularly those with higher segments with regards to HNWI/family office/institutional client bases - over the course of December and into January. We did initially remain at a fairly healthy mark after the short-term top (on 8th January), but we have definitely seen something of a fading as of the last couple of weeks:



Data via Tradingview.

Volumes in both BTC and USD terms still remain significantly above where they were pre-December (and going much further back in USD terms) but there has been a definite decline, with only Thursday and Friday of last week (Thursday seeing the decisive loss of support at \$36,000, and Friday briefly seeing new lows followed by a healthy bounce back. This is of course fairly natural in raw terms - with regards to spot buyers (and it is buyers rather than sellers who matter on these markets), two-way volatility is a big rather than a feature, and this is naturally not price action that tends to inspire the utmost of confidence.

An interesting quirk that we've noticed has been with regards to the Coinbase-Binance ratio, which as we noted earlier in the month was at something close to record lows (i.e. serving as a proxy for the fact that while the majority of nominal volume was as always coming on unregulated venues, regulated venues made up a higher chunk of the pie than ever before). This has come down dramatically over the past few days:

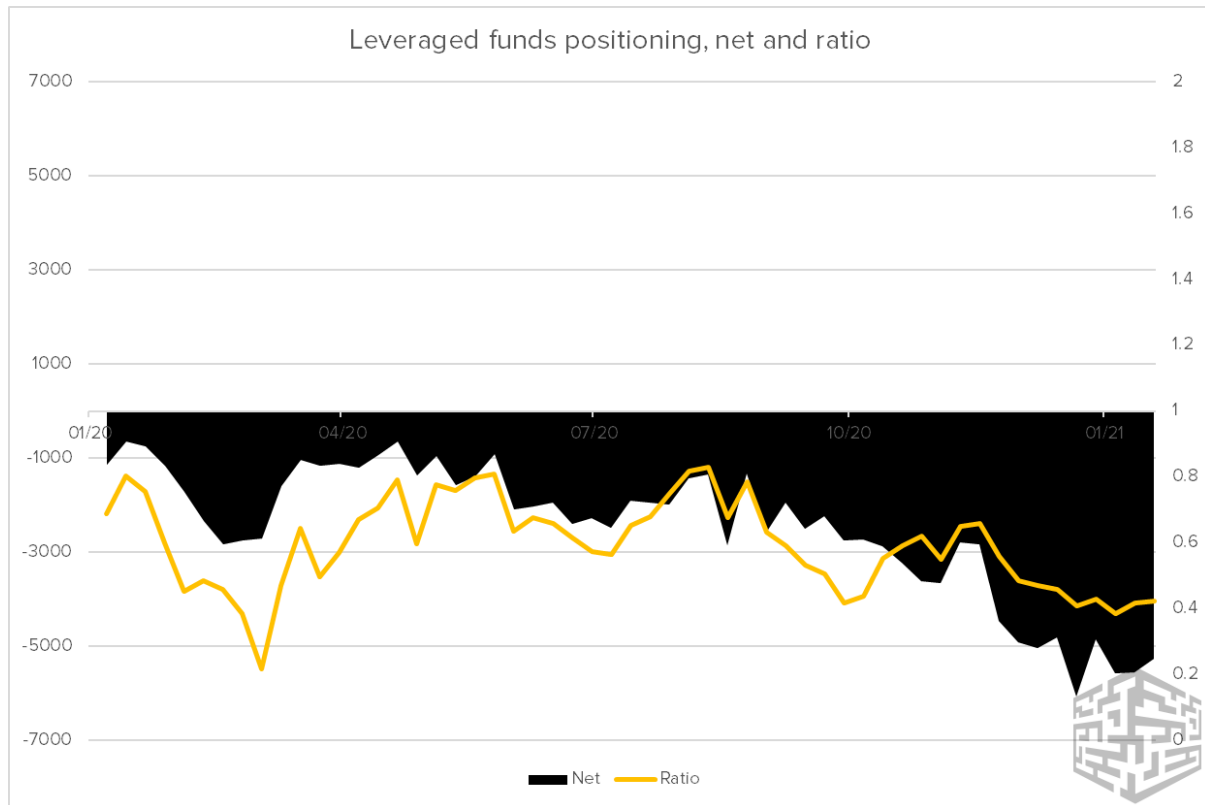


This is somewhat surprising, as - while raw volumes are down in general - it does imply that retail buyers are showing some interest in 'buying the dip' as it were. The issue with that is that, in the past, this has generally not been the best of signs with regards to immediate market health; said ratio has tended to increase after market tops (as it did in February most notably), and while we are still holding up as it stands, it should contribute to concerns with regards to the solidity of that \$30,000 mark and the potential for a medium term trend-breaking lurch to the downside; it should be emphasised that this is ultimately a somewhat noisy measurement, and there may be mitigating factors with regards to specific confidence in Coinbase's own operations (with services seeing repeated disruption during early January), but it is something at least worth noting.

Derivatives

It has now been a while since we looked at things on the strictly institutional side, specifically with regards to derivatives markets, which continue to overwhelmingly be dominated by CME products; Bakkt volumes, having briefly gained some measure of market share in September, are back to being essentially a non-entity. In terms of raw OI, interestingly, we do seem to have stalled somewhat in BTC terms, sitting at 13,055 contracts as of last week (we peaked on 27th October at 14,645). +

Given that CME futures are cash-settled, the need to take into account both BTC and USD measures is of course less important compared to other crypto markets; still, it is certainly a point of interest, especially given that short positioning since the new year has been trending higher; net and ratio are both towards record positioning for the year:



Data via CFTC. Net measured in number of contracts (1 contract = 5 BTC).

Trader count is also worth noting here; as we mentioned back in November and December, we were seeing record highs in terms of both raw trader count and in terms of number of longs, and while we still remain heavily above previous levels, we have seen at least a slight pullback in that regard as of the new year:

Report	Total	LF Long	LF Short	LF Spread
avg 10/20	90	29	21	13
avg 11/20	105	40	19	13
01/12/2020	112	37	22	14
08/12/2020	105	38	18	14
15/12/2020	101	41	17	15
21/12/2020	104	39	17	14
29/12/2020	89	36	12	11
05/01/2021	90	30	18	10
12/01/2021	94	34	19	13
19/01/2021	91	33	16	14

Data via CFTC. LF = leveraged funds.

The general conclusion to be taken for this is that we are in all likelihood moving towards a sudden and significant juncture. As has been noted in places, this month's futures expiry will have one of the highest nominal values of any in history; this is partially due to the fact that barring an unprecedented (even for Bitcoin) collapse in the next two days, we will expire at a higher BTC price than ever before in history, of course, but even so, it's something worthy of note. Monthly expiries have generally in the past not been a significant event for BTC - many of the large retail derivatives venues have traditionally done the overwhelming majority of their business on the basis of quarterly contracts rather than

monthly - but with the increased relevance of CME products (which have very low volume beyond the most recent monthly) and the decreased relevance of some of those quarterly-only venues (primarily BitMEX), it is a credible notion that we may see those explosions in volatility - and potential trend shifts - happening more often after monthly expiries than they historically have.

It has to be said that the outlook probably does profile more negatively than positively; we have progressively marked out lower highs and unsteady lows over the last few weeks, and in general, history tends to favour a formation like that breaking towards the downside (which, depending on its severity, could spell ill for the medium term). Right now, we do remain unbroken in that regard (especially when taking into account, for instance, the context of losses over the last couple of days, coinciding with something of a broader crisis of confidence in equities markets etc.), and as usual, volatility can always cut both ways in crypto markets; but we will ultimately have to see what happens after expiry on the 29th and then on Monday 1st.

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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