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De-Coding Crypto



Enigma Weekly

19th May 2021

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Our Market View

May you live in interesting times. What is there really to say? Research this week covers the events of the last 24 hours or so in more detail, but we've been calling for a correction consistently over the last week or two, and that is exactly what we have gotten, just in more severe fashion than even the most ardent bears could have expected.

The short version is this: we tend to think there's two broad scenarios here, one where \$64k BTC and \$4k ETH was the cycle top, and one where this despite all its severity is still a mid-cycle move. Even in the former case, we do tend to think there's value at this point on most quality assets; it's hard to not see at least some upside from current levels even if it's in the form of a relief/complacency bounce, and the downside ultimately is selling at-cost or selling on a lower low (roughly below \$30,000 on BTC, below \$2000 on ETH), both of which seem acceptable when the upside case is significant.

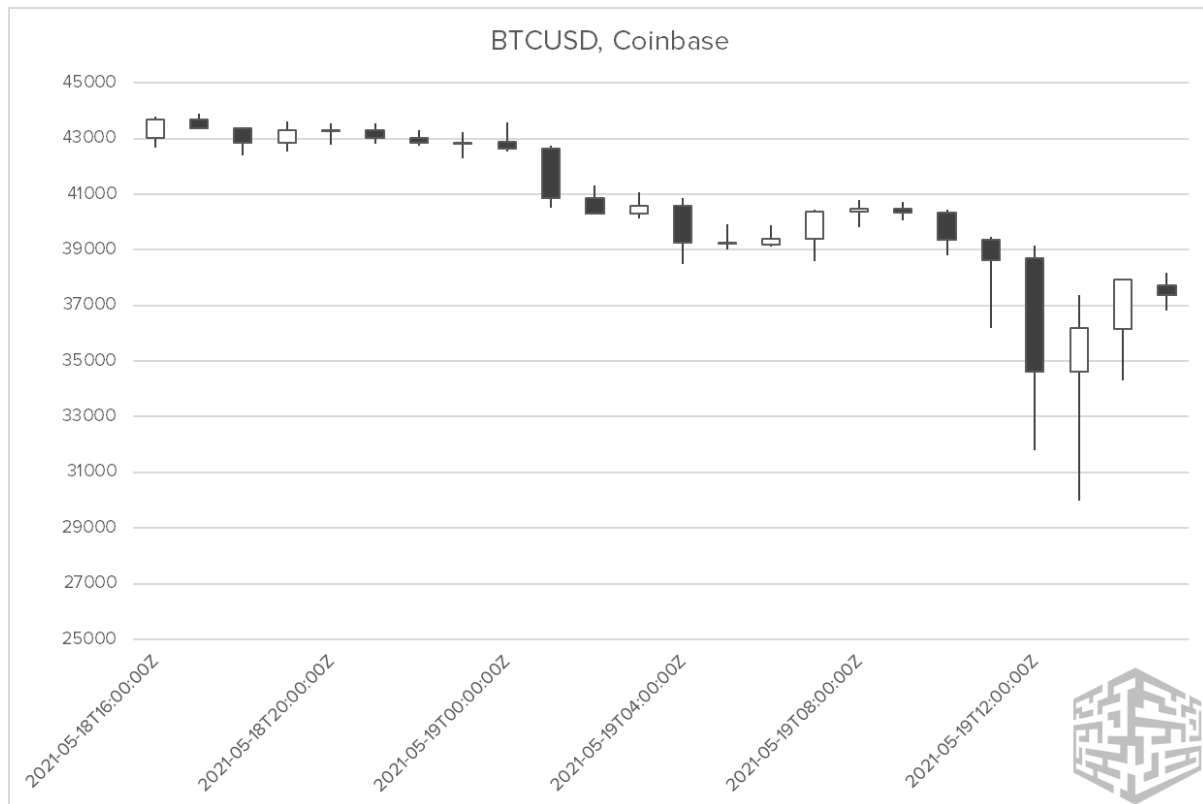
We still lean towards it being the latter case. If that does turn out to be the case, don't expect miracles immediately; there is some precedent for it being possible, but e.g. the March 2020 crash (which took place in the context of a black swan equities crash) recovered into the \$6000s after about two weeks, but didn't even challenge the breakdown point at \$7800 for another month after that, and ultimately wouldn't set new highs until July.

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

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	38340	-32.7%	-33.7%	97.4%	303.0%	717.5B
ETH	2752.47	-34.5%	25.7%	391.0%	1209.0%	319.1B
LTC	211.94	-42.2%	-22.0%	133.9%	361.0%	14.15B
BCH	819.23	-44.1%	-11.8%	158.1%	235.6%	15.35B
EOS	6.463	-48.9%	-6.5%	90.8%	138.1%	6.18B
Selected						
Ticker	Price	7D	1M	6M	12M	Cap
ADA	1.715	-3.5%	38.3%	1133.0%	2854.0%	54.90B
DOT	27.50	-31.2%	-22.4%	366.8%	828.5%	25.83B
LINK	31.03	-35.0%	-16.2%	95.2%	643.8%	13.23B

May 19th, 2021: a primer



What happened?

All in all, an accumulation of factors:

- 1) As we said repeatedly in recent weeklies, markets at this point were materially overbought (principally with reference to ETH, but markets were always likely to follow where ETH initially went). Last week's research talked at length about this, but the short version is that the idea that crypto bull markets are unallayed periods of up-only action is rose-tinted to put it mildly, and most sustain heavy corrections on the way up.
- 2) Elon Musk. Anyone particularly surprised by Musk's actions over the last few weeks is either naive or else unfamiliar with the history to date of Tesla and many other Musk-spearheaded disruptions; his about-face comes as a surprise, but not as a shock, to put it bluntly. While we are absolutely not in the camp of the whole rally from 35k+ being "Elon-fueled", clearly he has succeeded in putting himself at the forefront of all things crypto over the last few weeks in particular, and his aggressive turn against BTC and other assets (on an ESG justification) has been manna from heaven for crypto critics.
- 3) When crypto markets get rolling in either direction, it can be difficult to stop them, and suddenly headline impetuses that would not have mattered a few months ago provide shock after shock. To give a recent example at the time of writing - the breakdown overnight was at least in part sparked off by headlines about a government edict in China prohibiting institutionals and corporates from providing crypto-related services. This isn't new in any sense, and simply affirms the established state of play in China re: crypto being a largely-tolerated grey market; still, it was good for a few percent down, and another few percent this morning.

4) When crypto markets REALLY get rolling, they end up falling out of the hands of humans. Spot exchanges and even data platforms have been seeing outages all day, while derivatives platforms have generally managed to stay operational; this is a problem, because as we saw memorably in March 2020, this usually ends up leading to markets spiralling down on themselves as leveraged positions are liquidated over and over. BTC doesn't go to \$3900 in March if spot is the only thing guiding price; the same was likely true today.

Where we are now

This is very much a story that's still being written, but at the time of writing, top-to-tail, this is going to work out as at least a -32% move on the day. This is not the fastest collapse in crypto history, but it's certainly in the discussion; taking Bitfinex data (which goes back to April 2013), and removing a handful of clear outlier prints, it comes in as the 11th-worst, and the 5th-worst post-2013.

Date	O	H	L	C	H-L	Close	
19/11/2013		796	909	360	500	60.40%	-37.18%
18/12/2013		651	668	382	527	42.84%	-19.05%
12/03/2020	7974	8002	4608	4873	42.42%		-38.89%
18/11/2013	495	789	492	779	37.63%		57.37%
18/08/2015	259	259	162	195	37.33%		-24.75%
02/10/2013	127	129	83	105	35.21%		-17.08%
07/12/2013	815	830	538	695	35.18%		-14.73%
13/04/2013	113	124	81	98	34.52%		-13.61%
13/03/2020	4886	5973	4000	5626	33.04%		15.14%
22/12/2017	15645	15842	10700	13173	32.46%		-15.80%
19/05/2021	42898	43600	29563	35308	32.19%		-17.69%
15/04/2013	95	104	71	78	31.25%		-17.89%
03/04/2013	117	147	102	135	30.89%		15.76%
01/12/2013	1120	1126	780	999	30.73%		-10.77%
19/08/2015	195	255	178	226	30.17%		16.35%
19/12/2013	520	700	491	650	29.86%		25.00%
17/04/2013	70	99	70	92	29.13%		30.57%
25/04/2013	154	169	120	136	29.03%		-11.45%
02/05/2013	114	127	90	104	28.91%		-8.01%
20/11/2013	500	630	450	602	28.57%		20.40%

Data via Tradingview and Bitfinex.

Both legs of the 2020 collapse worked out to a slightly greater % volatility on the daily timeframe (the latter did actually end the day positively - we aren't filtering specifically for up days here), while one day after the BTC peak in December 2017 also worked out worse, as well as August 18th and 19th, 2015 (after the launch of the Bitcoin XT client, a precursor to the BCH hard fork - 37% intraday on the 18th, recovered entirely on the 19th). Other than that, nothing else has come all that close to the high-low volatility that we've seen today.

Make no mistake here - this is a historic crash, no matter what happens next; and, even though we have repeatedly said that we thought a significant correction was due, the degree to which we've plunged today is still quite shocking (i.e. going this deep into the low-30s on BTC).

Where we go next

This all ultimately comes back to the question that we've been rhetorically asking repeatedly in weekly and daily publications: right now, as it stands, are we in June 2017 or December 2017, in terms of the overall cycle? To give context on this, here is what happened over the course of June and July 2017:



Data via Tradingview.

After a steady rally up from around \$1200, BTC hit \$3000 for the first time, and immediately saw a drawdown over the next month, bottoming out in the second full week of July as price dropped 33% (42% off the overall top) in the span of a week, bottoming at \$1900.

It would, of course, go on from there in the next 6 months to reach \$20,000. There were three drawdowns between March 2017 and November 2017 that passed 30%, although only the June/July drawdown passed 40%:



Rally

Dates	Phase	Days	Low	High	Gain
25/03-11/06	1	79	890.05	2998.98	237%
16/07-01/09	2	48	1758.20	4948.00	181%
15/09-08/11	3	54	2975.01	7898.00	165%
12/11-17/12	4	36	5511.11	19891.99	261%

Drawdown

Dates	Phase	Days	High	Low	Loss
12/06-16/07	1	35	2998.98	1758.20	41%
02/09-15/09	2	14	4948.00	2975.01	40%
08/11-12/11	3	5	7898.00	5511.11	30%
17/12-06/02	4	52	19891.99	5873.00	70%

Data via Tradingview.

Our general view all along has been that it is June 2017 - there was absolutely going to be a drawdown at some point, it was probably going to be BTC-driven (albeit affecting all markets), but that ultimately the cycle was unlikely to find a top at \$60k (especially on the strength of the price action that we saw in March/April/May) and that we have higher to go from here (albeit probably not seeing the same degree of gains on BTC etc. that we did in the final stages of the 2017 bubble).

We still tend to think that broadly holds. Today's action did take us roughly to the same place as June (a little bit over in fact), and hence to the absolute limits of what could be considered a normal crypto correction. We are absolutely on the tipping point right now of what has historically delineated a cycle end from a 'regular' move.

However, the macro landscape, the pace of development on DeFi, and measures of sentiment in the space do still ultimately suggest to us that this is still a mid-cycle move, and not the end of days; and, with that in mind, the risk/reward probably does favour holding or re-entry in the next day or two on assets that otherwise had strong bull cases prior to the last week's development (ETH does fall into that basket after the washout); lower lows probably only come through if we are about to transition into a full-on bear market, and at that point we are talking about relatively small haircuts on most assets compared to the upside of resumption.

We still wouldn't expect a quick bounce, at least insofar as going on and above the breakdown point (i.e. \$50,000 or thereabouts on BTC); expect a slow recovery even if a recovery is to come through. However, if this is indeed a mid-cycle move, the next day or two will probably present as good of an entry on most assets as we've seen since the November/December breakouts

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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