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De-Coding Crypto

Enigma Weekly

10th September 2020

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

Our Market View

May you live in interesting times. A very bumpy week overall; after the failed test above $12,000 again (and ETH hitting new post-bubble highs) at the start of the month, we were due for a correction, but confluence of said correction with a correction in tech and other US equities markets drove us far deeper than expected with BTC dropping through all levels of post-breakout support and repeatedly dipping below $10,000 over the course of the last few days.

We have reached some degree of stability now, but consolidation below $10,500 (previous support) is not at all encouraging, and short-term picture currently leans bearish; there is absolutely always the possibility for this to quickly flip on a break through that level, but probabilities right now do lean towards further downside at least for now (with reaction at $9500 crucial as to whether this constitutes a correction or a full trend break).

As mentioned, ETH has largely been leading markets on the way up, and led them again on the way down, bottoming just over $300 before bouncing considerably. At the time of writing, currently looking for it to confirm strength at the previous long-term support at $365 (similarly to BTC); picture overall is less bearish on ETH than BTC, but as we discuss in the weekly, we do have some concerns about potential market exhaustion.

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

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	10274	-8.48%	-10.65%	91.97%	-0.96%	214.5B
ETH	364.08	-14.16%	-4.94%	194.30%	100.30%	40.98B
XRP	0.24318	-8.89%	-15.48%	59.09%	-4.98%	10.95B
BCH	225.10	-11.81%	-20.73%	25.42%	-24.76%	4.17B
LTC	48.21	-14.27%	-12.52%	32.75%	-30.26%	3.15B
EOS	2.747	-6.33%	-9.57%	34.98%	-26.18%	2.58B
Ticker	Price	7D	1M	6M	12M	Cap
LINK	12.623	-8.00%	-0.27%	505.60%	695.80%	4.42B
ADA	0.95448	-13.69%	-30.61%	254.10%	107.80%	2.48B
XTZ	2.549	-13.31%	-36.47%	65.43%	159.70%	1.87B

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Price action and regional markets: is the momentum there yet?

It has been a while since we talked about different trading sessions in BTC; in fact, for full retail, you have to go all the way back to our January 8th issue. We opened that issue with the following:

> One of the less talked-about, and yet probably most important, factors in crypto markets going into 2020 is regionality and trading sessions. This is, in a sense, understandable; paradoxically, since crypto trading is open 24 hours a day, and regional restrictions are limited, there can be a tendency tend to underplay how much can be read from movements at certain times. Nonetheless, it has proven significant insight into market behaviour over the last year; and, as we enter into a presumptive but far from confirmed bull market in 2020, understanding regionalised demand and its implications for price momentum become more important than ever.

With much of the year now past, and with BTC markets clearly approaching an inflection point with regards to trend, it now seems opportunite to revisit this question and see how the last couple of quarters have played out.

1) Asian markets have largely remained off the train in 2020

One of the things that we noted on that 8th January issue:

> In any case, the downwards pressure on the Asian markets [from PlusToken-related sales] is no longer clearly apparent. Asian markets still registered an overall decline in December, but gained across the latter two-thirds of the month; in addition, the first seven days of 2020 have looked like this:

Date	EU	NA	AS
01-Jan	-3.07	12.15	-94.39
02-Jan	-7.75	-153.63	242.94
03-Jan	127.87	-66.67	63.01
04-Jan	-40.98	47	107.79
05-Jan	-27.35	-63.54	165.23
06-Jan	-4.26	49.83	290.87
07-Jan	-21.3	168.44	318.33
Sum	23.16	-6.42	1093.78

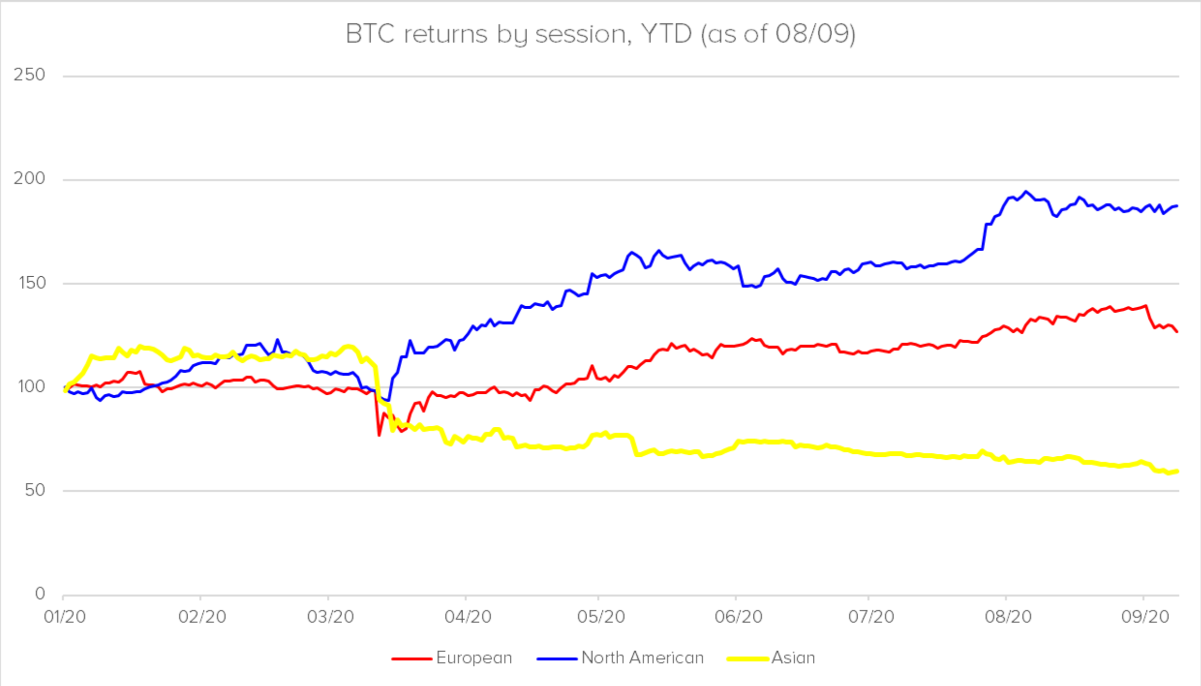
Data via Binance.

As it turns out, however, that rise would end up being somewhat short-lived. Asian sessions led performance overall in January and February, but have drastically underperformed almost every single month since the crash, with only September (so far) even showing nominal gains:

Date	European	North American	Asian
Qtr1	***317***	***-100***	***219***
Qtr2	***867***	***2062***	***3963***
Qtr3	***-1118***	***1528***	***-2918***
Qtr4	***-1129***	***1794***	***-1880***
2019	***-1063***	***5284***	***-616***
Jan	78	1010	1124
Feb	-386	-322	-76
Mar	-142	524	-2642
Qtr1	**-450**	**1211**	**-1594**
Apr	443	1589	478
May	1250	260	-795
Jun	-268	171	-303
Qtr2	**1424**	**2020**	**-620**
Jul	1053	1651	-240
Aug	776	-143	-437
Sep	-976	171	-827
Qtr3	852	1678	-1504
2020	**1827**	**4909**	**-3717**

Data via Tradingview. BTCUSD, Coinbase.

This doesn't seem to simply be a question of a handful of large moves skewing figures (although clearly that doesn't help, particularly with regards to the second stage of the meltdown in March), at least not with regards to Asian downside; if we index by percentage change in a given session over the course of the year, we get this:



Data via Tradingview; BTCUSD, Coinbase.

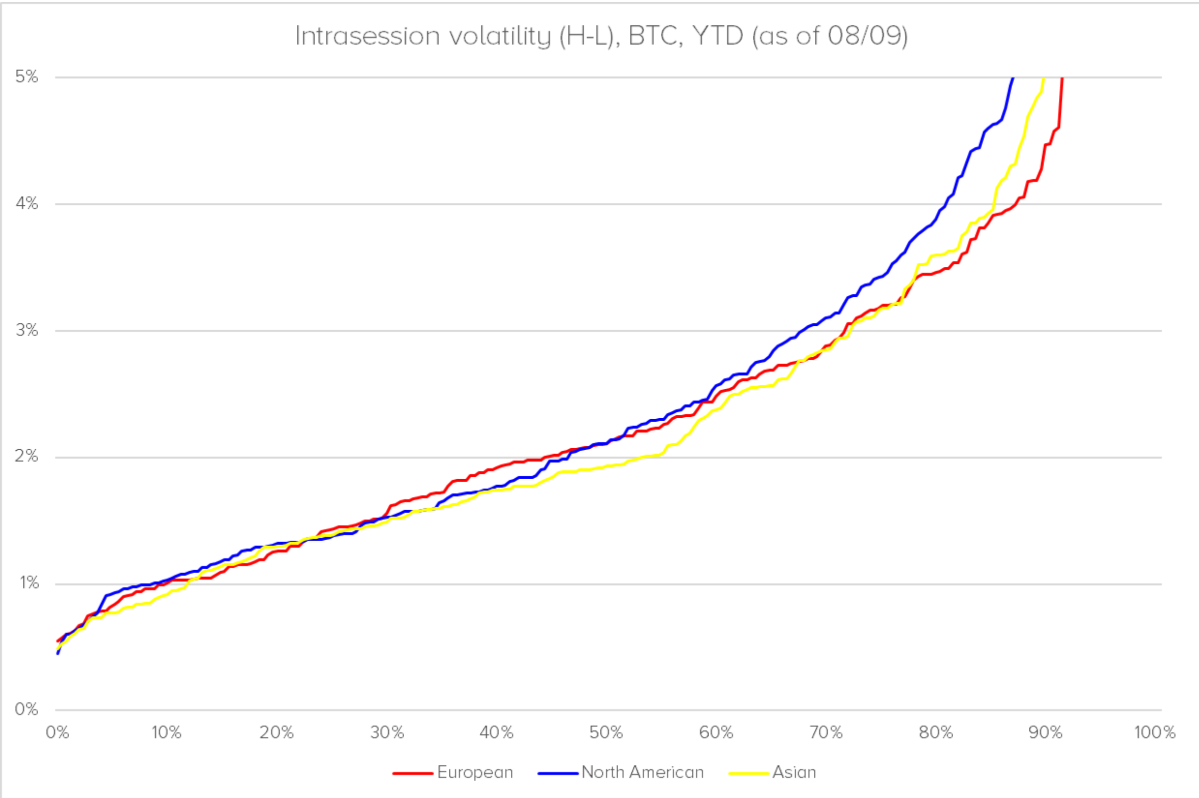
We have, with some consistency, seen BTC bleed downwards during Asian trading hours this year (-40% YTD), and with little to make up for it on the other end (NA +88%, EU +27%).

What's going on here? One of the big things, as we have mentioned repeatedly from February onwards, is that this run has ultimately taken place largely without a significant swell of new retail buyers; institutional money has made up a far larger share of 'new money' than ever before, and that money for now remains primarily North American-domiciled. After that rush in the new year (a rush, it should be said, that was driven as much by headlines over the Soleimani crisis as anything else), we have seen little coming out of those markets.

These figures are, coupled with other metrics, not altogether surprising, but they are definitely worth noting.

2) Volatility: NA leads, but watch out for EU in high-stress

Looking at intra-session volatility (as defined by session highs and lows rather than opens and closes), we don't find anywhere near as much of interest as in terms of raw returns, but we do find a couple of points. Firstly, the North American session does tend to lead in terms of that volatility overall, and especially from the 60th percentile upwards, albeit relatively slightly:



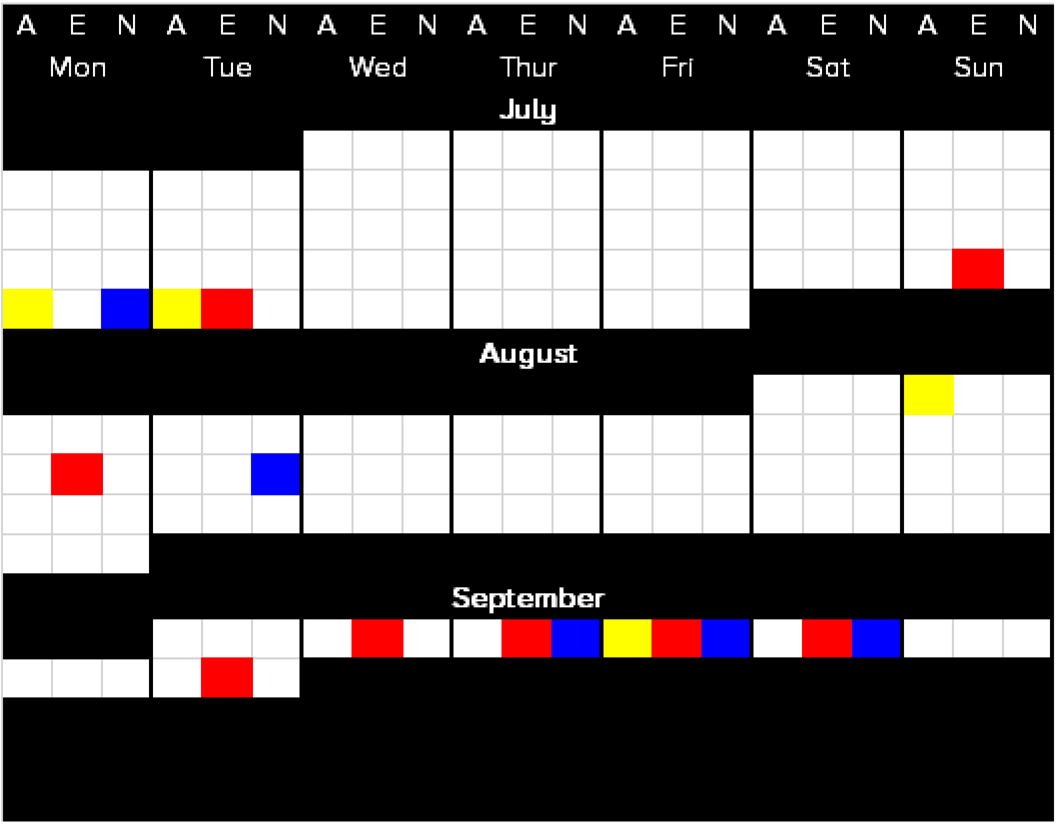
Data via Tradingview. BTCUSD, Coinbase. Only showing H-L volatility of 5% or less.

However, the more interesting part here is with regards to high-stress situations. Unsurprisingly, if we take a full-year profile, the vast majority of such high-stress sessions came in March - 21 out of the 36 in the top 5%:

Date	European	North American	Asian
Jan	1		
Feb		1	
Mar	9	6	6
Apr	2	2	2
May	1	1	1
Jun		1	1
Jul		1	
Aug			1
Sep			

Data via Tradingview. BTCUSD, Coinbase. Showing top 5% of sessions in terms of volatility (7.03% and above).

One thing we would note there: despite the lower overall volatility, the European sessions are well-represented in the very top group. This has largely been true too in Q3 too:



Data via Tradingview. BTCUSD, Coinbase. Europe in red, North America in blue, Asia in yellow.

Why? These sessions are of course very tightly-clustered in general, and there is certainly at least an extent to which it simply speaks to a tendency of volatility to come in these multi-day bursts; however, we do tend to think that it is something to be aware of.

The basic explanation overall is fairly simple, particularly looking at when it's happened (including the bursts recently); it tends to essentially be in the context of anticipation of moves at the North American open (i.e. US equities), as said moves are frontrun more and more aggressively. With potential for volatility in said markets remaining extremely high over coming weeks and months, it hence bears consideration.

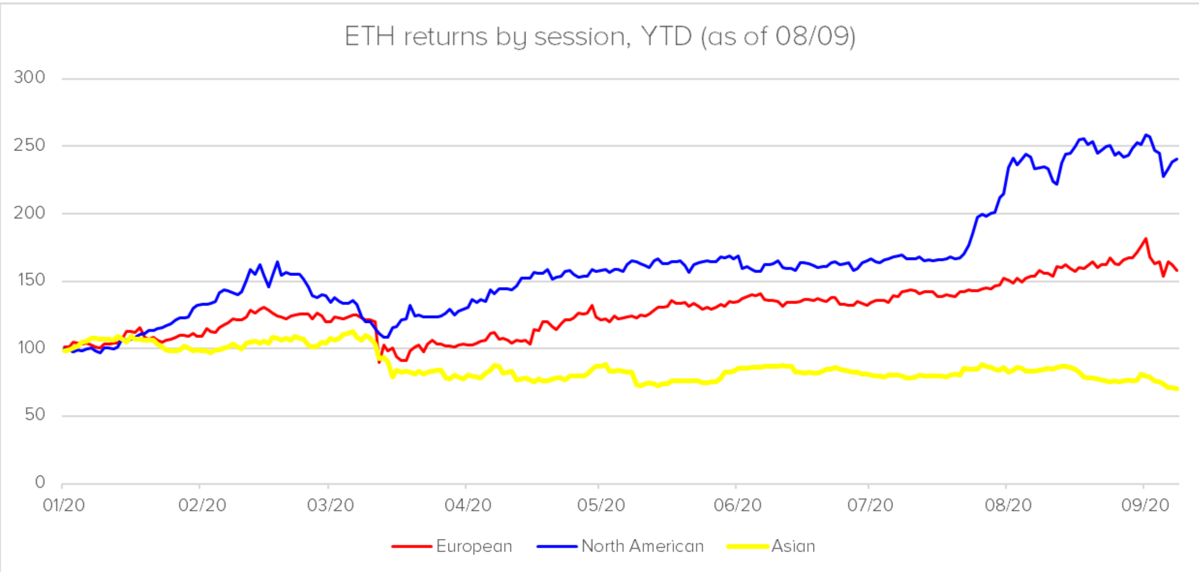
3) ETH: similar profile to BTC, but strengthening in NA hours

With ETH itself maturing as an asset, and taking something of a driving role with regards to the overall crypto markets over the last couple of months (not for the first time, but certainly for the first time in a while), where does it now stand?

Date	European	North American	Asian
Qtr1	*17*	*-29*	*21*
Qtr2	*-6*	*43*	*111*
Qtr3	*-73*	*39*	*-77*
Qtr4	*-24*	*11*	*-38*
2019	*-86*	*64*	*17*
Jan	12	47	-4
Feb	19	8	13
Mar	-26	-26	-38
Qtr1	**5**	**30**	**-28**
Apr	28	31	23
May	16	13	-6
Jun	-4	-3	-5
Qtr2	**40**	**41**	**12**
Jul	38	77	16
Aug	59	64	-23
Sep	-47	-14	-53
Qtr3	50	126	-61
2020	**96**	**197**	**-77**

Data via Tradingview. BTCUSD, Coinbase.

Overall, relatively similar (as we'd tend to expect from an asset that shows such tight correlation in terms of daily returns anyway); some underperformance (albeit less severe or consistent) in Asian hours, overperformance in elsewhere. For the returns graph:



Data via Tradingview. BTCUSD, Coinbase.

Again, similar to BTC; however, note the consistent underperformance in Asian hours (down 30% YTD), and how the surge was concentrated heavily into North American hours (NA up 140% YTD).

ETH definitely has seen some more success with regards to bringing in new retail money, but again, Asia so far largely hasn't been a part of that, and has been actively trending downwards for much of Q3 even as price has skyrocketed (particularly in North American hours).

Conclusions

The main question in the context of the current run is one of sustainability of upwards momentum. We outlined our thesis with regards to the magnitude of a 2020 bull run in that January 8th piece:

> With that in mind, the supply/demand dynamic in Q1 should be at worst neutral and on balance of probabilities a moderately bullish influence. Anything beyond that remains to be seen, though early signs from Asia are encouraging. Demand in general is going to dictate BTC price direction above all else, but our tendency is to think that there is likely not a catalyst large enough to spark an ATH-type rally if that catalyst ends up primarily serving to increase demand in only one of the Western and Eastern markets (2017 largely being the former and 2019 largely being the latter); it will have to be on both ends this time.

So far, things have not catalysed in that manner; demand remains very limited, and even on non-BTC products, catalysing events and trends (notably DeFi) have largely only done so in very limited markets geographically-speaking.

Of course, this hasn't entirely stopped growth, and hasn't even entirely stopped us from marking new local highs and the like. Still, from a growth perspective, it remains concerning as we look through year end and into early 2021; while the long-term picture remains healthy, we are becoming increasingly inclined to see resistance on the way up as proving far stronger than expected.

Until next week – thank you for reading.

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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.