



ENIGMA
SECURITIES



De-Coding Crypto

Enigma Weekly

29th July 2020

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Our Market View

May you live in interesting times. As we've said over and over: when we were to finally move, it would be hard and fast. Broke \$9600 resistance at long last on Thursday, consolidated above it strongly moving into the weekend, and have been skyrocketing since, breaking right through long-term resistance at \$10,500 at the Asian open on Monday and now setting higher low after higher low as we look to break up further.

These are, to say the least, not particularly well-charted waters. We expect that \$10,500 level will serve as support, but as for how quickly we now move upwards, and where we find resistance, it's hard to say; first impulse stopped at around \$11,400, setting a similar range in dollar and % terms to the last couple, so would tend to take that seriously until proven otherwise. More broadly, however, that should be the only real sticking point before \$13,000. Expect a lot of velocity over coming weeks as we move into open space.

The BTC move was so significant that it would be easy to forget about ETH, which outpaced BTC early on but has stuck a little over the last few days. We remain bullish on ETH; there are a few landmines ahead over the next couple of weeks (struggling just below technical resistance at \$325, certain DeFi projects being overhyped and overbought), but nothing has fundamentally changed with regards to its bull case, and it would be very surprising to see it cap out here for any serious length of time.

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

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	11060	18.16%	21.16%	17.83%	4.95%	204.0B
ETH	323.33	32.51%	44.41%	76.30%	48.53%	36.20B
XRP	0.24084	20.91%	35.51%	-0.61%	-23.12%	10.80B
BCH	290.07	25.52%	30.73%	-23.72%	-11.69%	5.36B
LTC	55.68	27.48%	34.11%	-21.39%	-41.36%	3.63B
EOS	3.102	19.39%	31.74%	-25.26%	-25.93%	2.91B
Selected						
Ticker	Price	7D	1M	6M	12M	Cap
ADA	0.14428	17.72%	74.47%	157.10%	150.70%	3.74B
LINK	7.2145	-1.69%	59.77%	154.00%	197.80%	2.53B
XTZ	2.8907	-4.07%	20.96%	64.81%	102.20%	2.11B

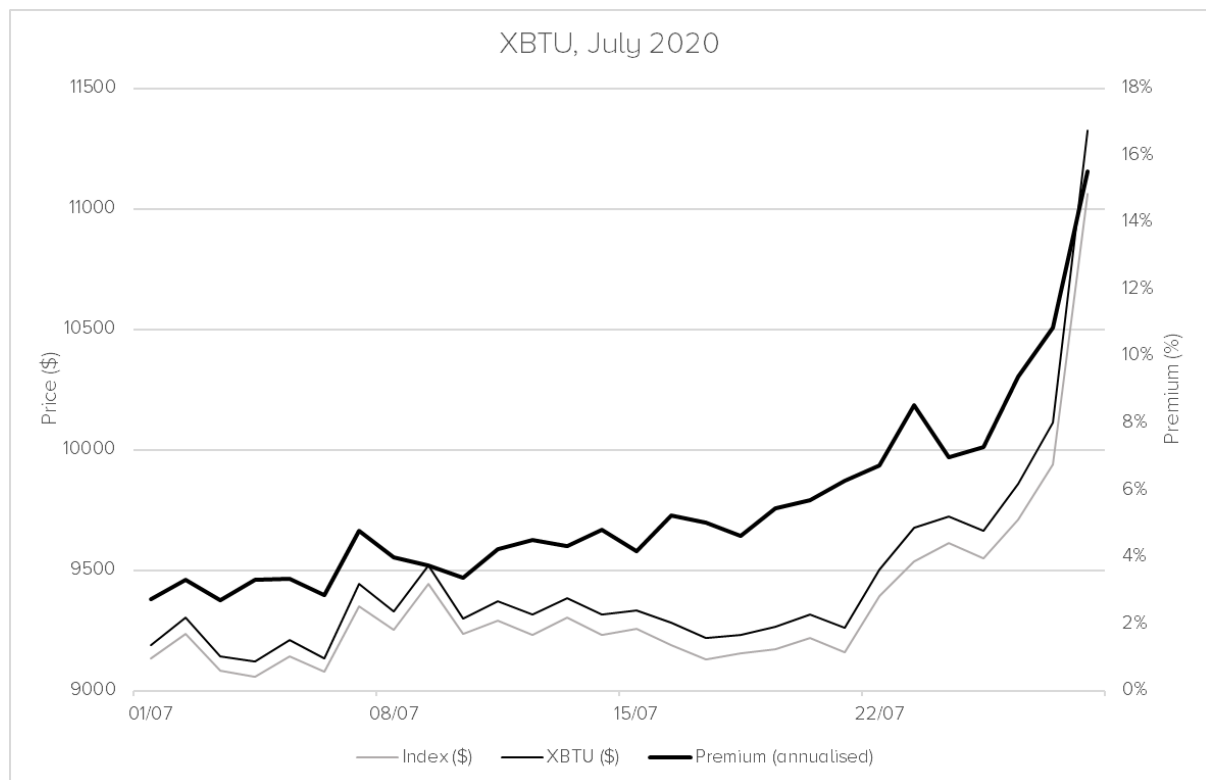
Quarterly premiums: watching for euphoria

We have referred to quarterly premiums a number of times in passing before, but now seems like an appropriate time to dig a little deeper into them. In crypto terms, when we talk about quarterly premiums, we are simply referring to the following:

- In terms of expiring futures contracts, quarterly contracts are by far the most-traded in crypto.
- These contracts trade (normally) at a premium to spot or perpetual futures prices.
- With relatively little in the way of outside factors forcing them into a state of contango or backwardation, the strength of the premium hence tends to be something of a good gauge for broader market sentiment.

While there are a number of exchanges with sufficiently liquid quarterly and perpetual/spot products, the general tendency here is to use BitMEX, given that they have been among the most consistently liquid on both ends (and, while they have seen a loss of market share, are still close to on-par with any other retail futures exchange); for the purposes of this weekly, we will be doing the same.

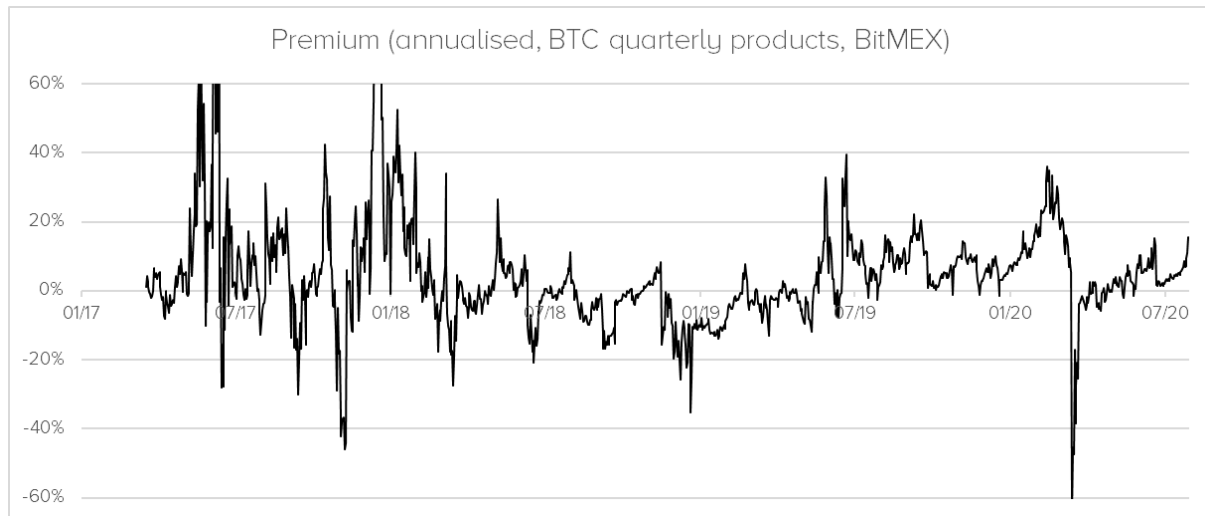
Let's start out by looking at recent movement, as represented purely by the most recent quarterly contract (XBTU20) since the start of July:



Data via BitMEX. Premium on annualised basis.

We did see a bump (albeit very small) prior to breaking resistance at \$9600 (though it should be borne in mind that every \$10 here is about 1% - while instruments like these are as good as it gets in terms of granularity in crypto markets, they still aren't perfectly responsive), and have skyrocketed since, reaching annualised rates of 15% yesterday (which have only fallen back slightly over the course of Wednesday).

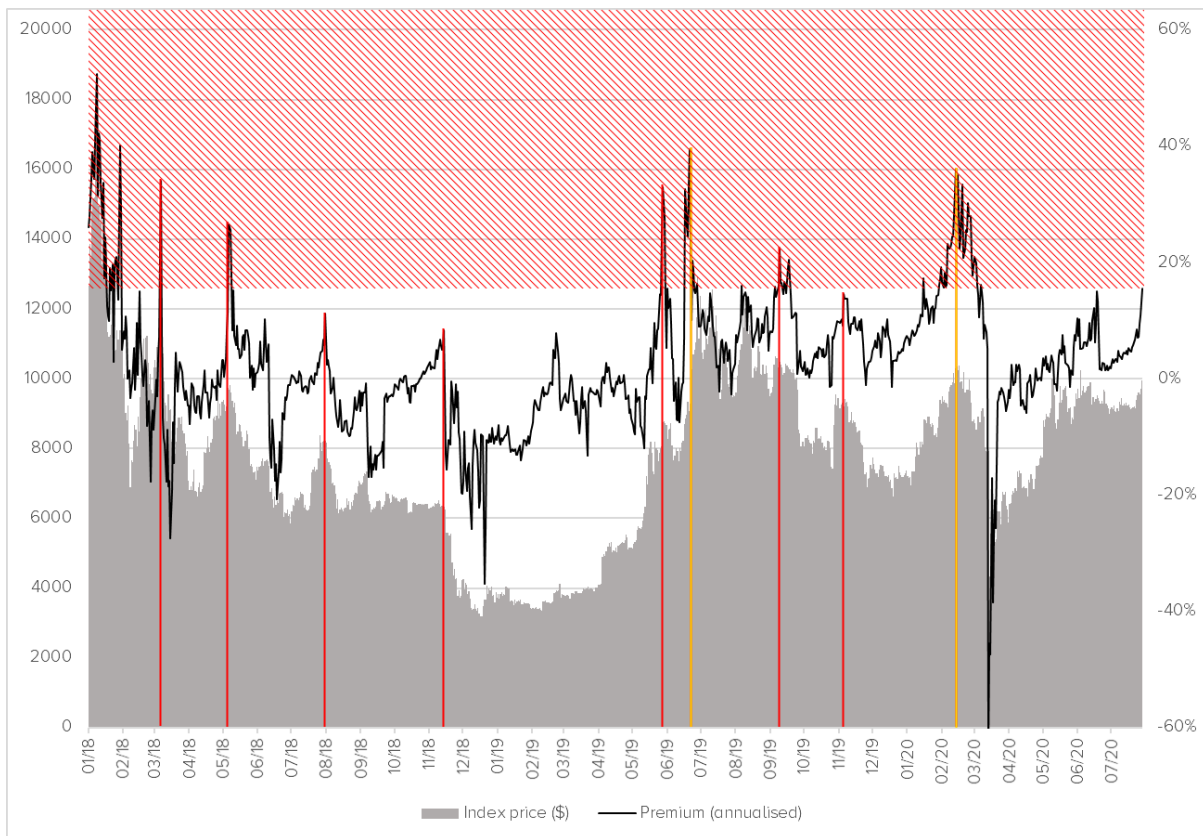
While this is a very high rate, it should be said: in the historical context, it's still not that large:



Data via BitMEX. Premium on annualised basis. Based on most recent quarterly contract excluding those with >7 days left to expiry (e.g. the Q2 2020 contract – XBTM20 – expired on 26th June, so we switched from XBTM20 to XBTU20 on 19th June).

Note that we have cut off the tops and bottoms of the graph here because, as usual, of 2017; for reference, we reached a peak of 180% annualised in June, and 433% in December. We should say that even with adjusting out the obvious outliers, proximity to expiry and the annualisation formula inflated figures on both cases; these quarterly markets tend to be responsive enough towards expiry that examining on an annualised basis still gives us a better picture, but even with our methodology removing extreme cases, there is still some degree of inflation here. Nonetheless, when we have seen such peaks, they have a) been extreme and b) tended to lead to trouble in their wake.

Why is this of interest? The tendency in the past has frequently been for this figure to be perhaps the best possible indicator of local tops. While an upswing in this figure is positive with regards to general market sentiment, it has served too many times as a marker of maximum, unsustainable euphoria. Mapping it against BTC price from 2018 onwards:



Data via BitMEX. Premium on annualised basis.

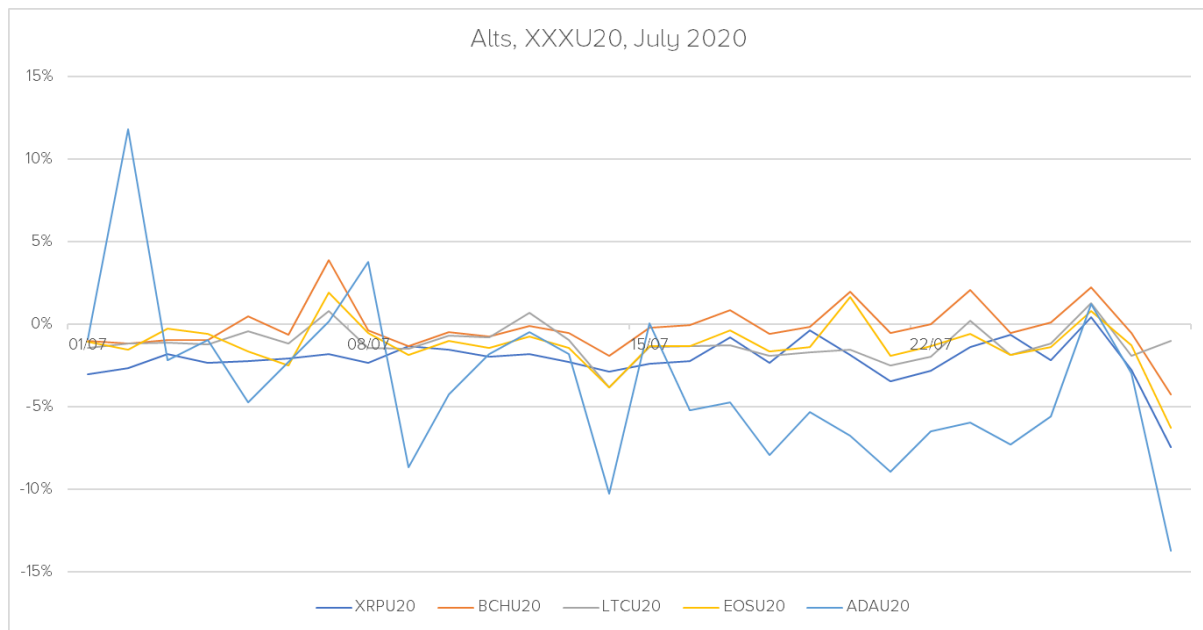
Should we be concerned? Our tendency for now is to say 'not yet'. Yesterday's 15% reading was higher than peaks in November, but still far below any other high preceding a significant correction or drawdown in 2019 or 2020 (and not in the same stratosphere as 2017):

	Instrument	Index price	Premium
28/05/2019	XBTM19	8779.5	32.96%
21/06/2019	XBTM19	9532	39.55%
09/09/2019	XBTU19	10402	22.26%
13/02/2020	XBTH20	10363	36.02%
28/07/2020	XBTU20	11063.5	15.53%

Data via BitMEX.

Our tendency, based on past performances and the current state of things like crypto lending markets (with cost of capital trending notably higher over the past week or two), would be to start worrying on readings more in the 25-30% range and above; as it stands, we think it strengthens the case with regards to us being nowhere near that point as of yet.

We can carry out a similar process for BitMEX-listed alts to some degree (most don't have perpetual markets, so we instead use spot index price here for our comparison), and there has also been something of a trend there over the comparable period, albeit in a very different direction; most of the large-cap alts listed on the platform have spent some or all of the past month in some degree of backwardation:



Data via BitMEX. Non-annualised premiums.

The immediate concern there is of course with regards to ADA. We have opined a number of times recently that we have concerns over the prospects of ADA in the immediate term (despite having been bullish on the way up, and still leaning bullish over a longer view); it still finds itself at a level of overall capitalisation that has proven extremely difficult for projects to maintain or surpass post-crypto winter, and was running into (in the 1200-1500 sat range) levels in BTC terms that were always likely to provide significant resistance (sitting at the levels that the project maintained in early 2019 before seeing a ~70% drawdown in BTC terms in the span of a few months).

The ADA trend of backwardation has lasted far longer than its contemporaries, with the first big negative reading (-8.65% raw) recorded on the day spot markets broke through that 1200 sat mark on 9th July; while it has ebbed and flowed since then, it still at the time of writing is firmly negative, which is a potential concern with regards to performance going forward.

Outside of ADA, trips into backwardation have been smaller and briefer (and numbers are recovering from yesterday's close already), but still aren't the most encouraging thing, especially on XRP and EOS. A couple of things should be emphasised:

- 1) These are BTC-denominated contracts, and this is as a result all speaking with regards to performance against BTC; hence, this shouldn't be seen as a judge of sentiment across the total crypto market in the way that BTC backwardation can be.
- 2) Despite that, while it isn't unheard of to see these markets slip into backwardation (our database of the aforementioned assets, which for most goes back to mid- or late-2017, saw a negative reading in that regard on 37% of recorded closes), it is unusual, particularly with the consistency and magnitude we've seen in some cases recently.

Hence, we think performance in this regard going forward is worth watching for anyone who holds non-BTC/ETH large-caps going forward; in a lot of cases, recent price action has been somewhat mystifying in parts on some of these assets (most are technically trading positively, but with gains restricted to one or two sudden spikes), and with BTC looking to be back in motion, sentiment on their ability to outperform will be crucial to monitor.

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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