De-Coding Crypto

Enigma Weekly

10th March 2021

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Our Market View

May you live in interesting times. A positive week overall – at press time, we have just reclaimed the $1 trillion mark with regards to BTC nominal market cap, and are in touching distance of the most recent all-time high at $58,000. Currently expecting higher still for the most part – there are some risks on the horizon with regards to the traditional issues with seasonality in late March (something that we touch upon in this week's issue), but some confidence that we see higher before lower at current levels.

Market as a whole mostly green this week, with a couple of exceptions (most prominently ADA, which we had highlighted as overbought in daily updates last week), but few cases of outperformance among mid and large-caps – ETH finds itself slightly up, most others are flat in USD and down in BTC.

As usual: we still do see upside on ETH (though its performance in BTC terms has been disappointing this week after a strong weekend), but most alts will underperform on every round of BTC volatility (and an ATH break, while likely to provoke a softer reaction than we generally associate with "ATH break", does open the door as such).

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

Major

Ticker	Price	7D	1M	6M	12M	Cap
BTC	56992	10.7%	22.5%	444.4%	1000.0%	1.063T
ETH	1847.84	12.9%	4.8%	373.3%	1401.0%	212.5B
LTC	204.83	5.5%	21.3%	299.9%	491.2%	13.65B
BCH	551.09	1.6%	13.0%	138.1%	228.1%	10.29B
EOS	4.072	3.5%	12.7%	44.6%	107.2%	3.88B

Selected

Ticker	Price	7D	1M	6M	12M	Cap
ADA	1.166	-6.4%	71.8%	1091.0%	4418.0%	37.25B
DOT	38.75	2.6%	67.6%	647.4%	1225.0%	35.59B
LINK	30.73	-1.3%	20.2%	140.6%	1328.0%	12.65B

Regional markets and the Asian session

One of our better-received research issues was way back in January 2020, when we discussed market regionality, with specific reference to Asian markets - at the time, we broke down the numbers for 2019, and found an interesting phenomenon wherein the year could very cleanly be split into halves:

Month	AS	EU	NA	Grand Total
Jan	-6	-210	-14	-230
Feb	294	150	-65	379
Mar	49	292	-58	283
Apr	996	-205	421	1212
May	431	651	2134	3216
Jun	2733	313	-217	2829
Jul	-596	-2119	1417	-1299
Aug	-482	460	-374	-395
Sep	-1831	-67	436	-1462
Oct	288	-704	1302	886
Nov	-1490	-844	749	-1585
Dec	-314	521	-561	-355
Grand Total	72	-1762	5169	3480

Data: Binance via Cryptodatadownload.

Asian session = 10pm-6am UTC; European session = 6am-2pm UTC; North American session = 2pm-10pm UTC; these definitions will be used throughout the article.

While gains had largely been concentrated at times where Asian traders were naturally most active in the first half of the year (i.e. up to the local top at the end of June), that gave way to significant losses in the second half of the year, with North America (which had itself seen a decent amount of buying, albeit almost exclusively in May) picking up the pieces.

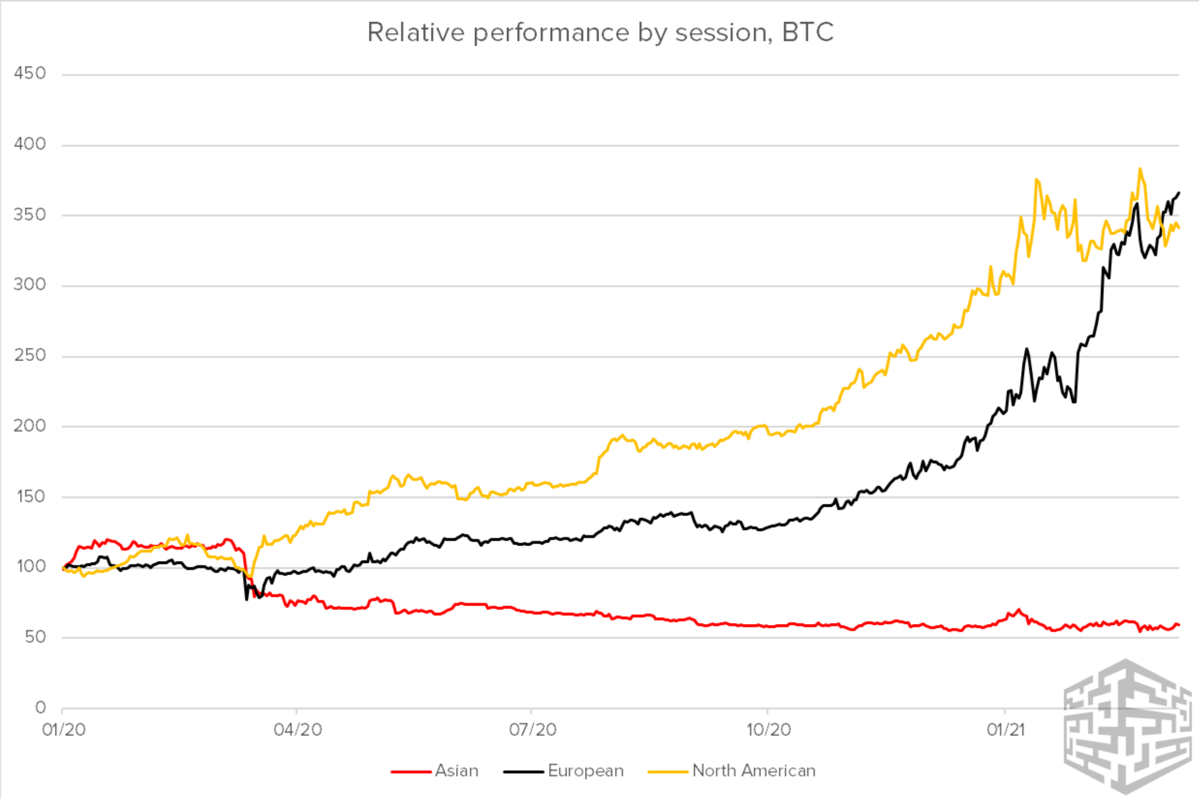
To start with, let's look at how things have proceeded in that same regard across 2020 and 2021 to date:

Quarter	Asian	European	North American
2020 Q1	-1594	-450	1207
2020 Q2	-620	1424	2020
2020 Q3	-1657	954	2385
2020 Q4	1957	8591	7857
2021 Q1	-2807	23705	3437
	-4721	**+34225**	**+16905**

Data via Tradingview. Coinbase reference price.

The first thing to say: the sort of buying pressure that we had seen in previous years from Asian traders has, in spite of a roaring bull market and a 15x gain off the March lows, never, ever, ever come back. It of course hasn't been all downhill, but the Asian session has seen a net loss for BTC holders in 10 of the last 14 months, with its only outperformance against both Europe and North America coming in January 2020 (largely driven by very specific circumstances relating to the Qasem Soleimani assassination and a headline-driven surge on risk-off assets, which BTC at the time was trading largely in concert with).

To put it in even starker context, assuming one could without fees etc. transact in and out of BTC for the duration of a given session, this would be their return for each one currently:



There is of course an element there of the fact that a 50% loss followed by a 50% gain does not bring you to break even; losses in March (which now seem almost quaint in dollar terms but represented a huge loss in % terms) don't help. Still, though, the fact of the matter stands: since the start of 2020, and indeed since pretty much any date one could come up with post-July 2019, the Asian session has registered a net loss in terms of BTC price to the tune of nearly 40%, while BTC is up over 200% otherwise (and hence up even more cumulatively).

What's happened there? First off, while we have overall registered losses, we should say that we do tend to see some degree of difference here to what happened in the second half of 2019. As a reminder, this was one of our key points from that aforementioned January 2020 issue:

> Excess supply pressure on BTC from PlusToken is no longer a serious concern, and should lead to an improvement in performance in Asian trading hours. Whether this translates to a true surplus of demand over supply in that market will remain to be seen; spot volumes on Chinese exchanges have not recovered from the summer (which suggests that PlusToken also drove demand on the way up in those markets), and Chinese authorities seem very focused on shutting down new crypto-linked ponzis, but the rollout of derivatives and futures markets are encouraging on that front.

To further elaborate here: PlusToken was a crypto-denominated Ponzi scheme that was extremely popular in Chinese markets in particular and collected in the order of 200,000 BTC ($12bn in today's prices, and still around $2.5bn at the 2019 top) before it was shut down by the Chinese government. Over the course of the second half of 2019, in conjunction with a number of crypto OTC desks, on-chain data suggests that the vast majority of that 200,000 BTC sum was sold off at exchanges for USD and/or Tether; given that PlusToken's leadership were in Chinese custody at this point, and that a significant portion of the flows that can be traced lead back to desks/exchanges with significant Chinese government ties (most notably in the form of Huobi's OTC desk), it is generally presumed that this selling was conducted for and at the behest of the Chinese government in one form or another.

There has not been another PlusToken-like supply-altering event since (most new similar Ponzis incidentally are now primarily or totally ETH-denominated rather than BTC); that's not to say that one can't happen (the amount of BTC currently being held in cold wallets of certain Chinese exchanges, and the relationship between the Chinese government, said exchanges, and Chinese big tech in general, all does add up to a not-insignificant degree of risk long-term), but we aren't seeing much to suggest oversupply at this point (especially post-halving).

Rather, what we have seen is a lack of new demand. To give one very simple example, look at YoY relative volumes on a selection of the major exchanges for January 2020 and 2021:

Exchange	Volume, 01/20	Volume, 01/21	Change
Coinbase	331160	1135098	242.8%
Kraken	182026	357642	96.5%
Bitstamp	202835	456987	125.3%
Binance	1694137	3444245	103.3%
Oakes	764968	714917	-6.5%
Huobi	1204921	1642314	36.3%

Data via Tradingview. BTCUSD or BTCUSDT pairs.

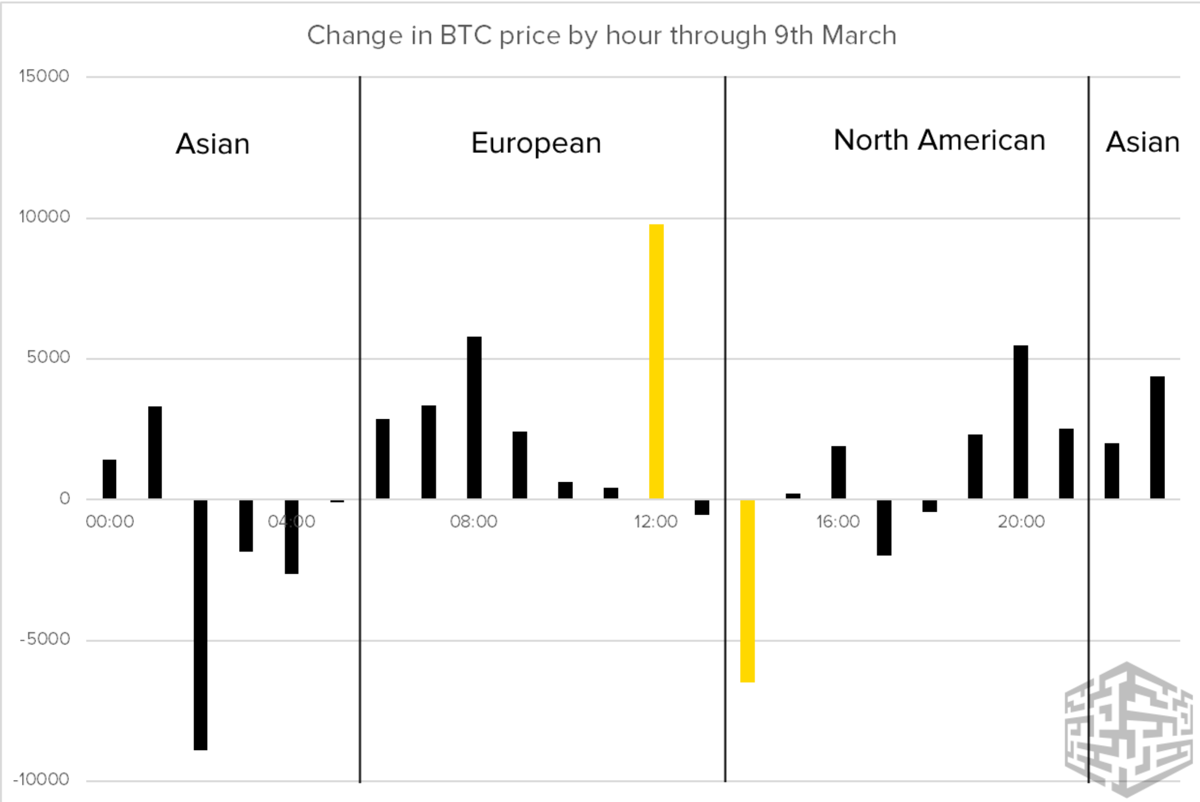
These are in BTC terms, so overall volumes in USD are still up even in OKEx's case; still, it does reflect a market with very different loci for demand to 2019 and earlier. Asian retail has in the end never returned in earnest (at least not to BTC); the differnce has been ably made up by both institutional and retail money, primarily from North America.

This brings us to our second point with regards to what's next. It's still early, but 2021 also seems to be showcasing something of a shift:

Month	Asian	European	North American
Oct-20	-360	1593	1647
Nov-20	584	3081	2111
Dec-20	1733	3917	4098
Jan-21	-4011	8407	138
Feb-21	-983	8941	4418
Mar-21	2187	6357	-1119

Data via Tradingview. Coinbase reference price.

Buying has been concentrated now during European hours, with North America lagging far behind, and actually seeing a loss over the course of the first few days of March. What's going on? Well, we can break it down further to an hourly level:

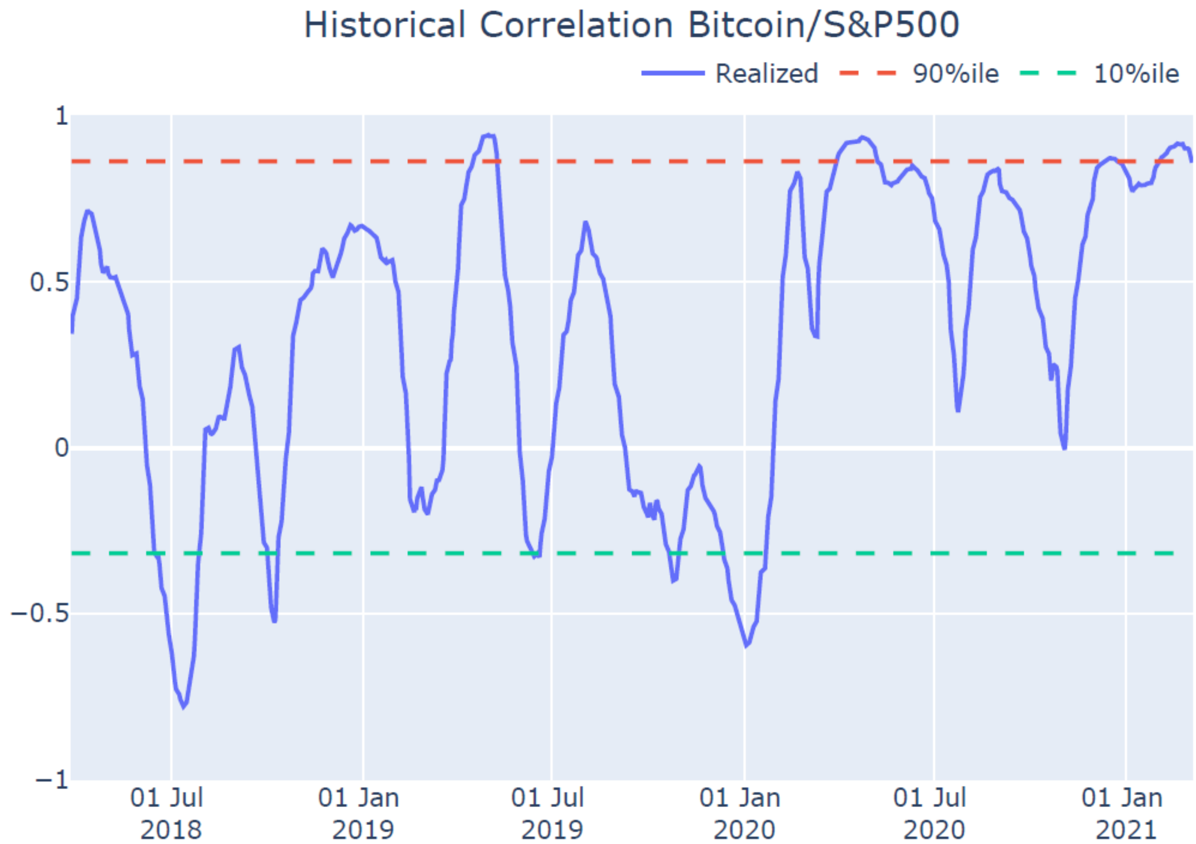


Data via Tradingview. Coinbase reference price.

Generally, it's what we'd expect - some significant losses in the early hours of the morning, relatively steady buying during the Western workday. But two points in particular stand out as aberrant: 12PM and 2PM. Why?

The 12PM point is the less interesting of the two, since while the magnitude is significantly, it's still largely running with the general trend; we tend to think that there may be some additional volatility at that time as it happens to line up with changes in funding rate on certain derivatives platforms, and hence represents a starting/stopping point for some derivatives traders. The 2PM one, however, is more interesting.

What's going on there? Eagle-eyed readers will perhaps have noticed that 2PM, being in reality the 2PM-3PM window, encompasses the open for most markets in the US (2:30PM), including, of course, equities markets. As readers of Enigma's chartbook will know, BTC-SPX correlation has been at all-time highs over the last few weeks:



Source: EnigmaX Derivatives Chartbook.

It is almost certainly not coincidental that these losses have come in a period of relative weakness for equities (at least compared to post-March performance); we have observed a significant amount of clear algorithmic trading on that correlation (with micro-fluctuations between the SPX and BTC derivatives markets down to the tick level), and at this point, it does seem to hence have become something of a self-fulfilling prophecy - a trade that worked in March because of macro ('everything goes to 1 in a crisis' followed by a strong risk-on recovery) now works because of micro (plenty of money deployed, all tracking the same thing).

We tend to think that generally still is a positive sign going forward (the most ardent equities bears are now forecasting hyperinflation instead of a market collapse which says it all re: expectations for the equities markets), but it is going to lead to odd results like these on the micro scale, which do somewhat skew results compared to what we tend to expect.

Overall: we are continuing to see the playing-out of the trend that we first saw emerge in the early months of 2020. While retail may, by pure market share, still make up the majority of crypto inflows, it has been institutional money that has guided price action for well over a year now, and that shows no sign of slowing up; the next few weeks will be a very interesting test in that regard, with US tax filing approaching (we traditionally have seen negative PA in March due to US retail traders needing to sell to cover liabilities) and price still sitting relatively high at the moment.

Until next week – thank you for reading.

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