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# De-Coding Crypto

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Enigma Weekly

28<sup>th</sup> April 2021

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

## Our Market View

**May you live in interesting times.** Bitcoin flat on the week, but as often the case, something of a misleading final figure – spent the vast majority of the week below that mark, sliding down to \$47,000 at one point and for now failing to break back above that crucial \$56,000 level. Things can always change quickly, but right now, short-term prospects for BTC don't look particularly encouraging; demand is relatively low (as we outline in this week's issue) and the Grayscale unwinding should continue to depress markets for some time yet.

The question for us more so now is whether ETH and other assets that have been recently successful (UNI, AAVE, DeFi assets in general, and supplemental/alternative chains like BNB and SOL) will be able to sustain that medium-term in a relatively poor BTC market. Our research this week discusses that, but in short, it's a case of "yes, but"; we do tend to think that the market is well set up to sustain such a divergence for the time being, but the factors underpinning growth on ETH and BNB in particular are not exactly the most palatable ones, and we are braced for significant volatility whenever things begin to unwind.

Please direct all enquiries about this week's research to [jedwards@enigma-securities.io](mailto:jedwards@enigma-securities.io).

### Major

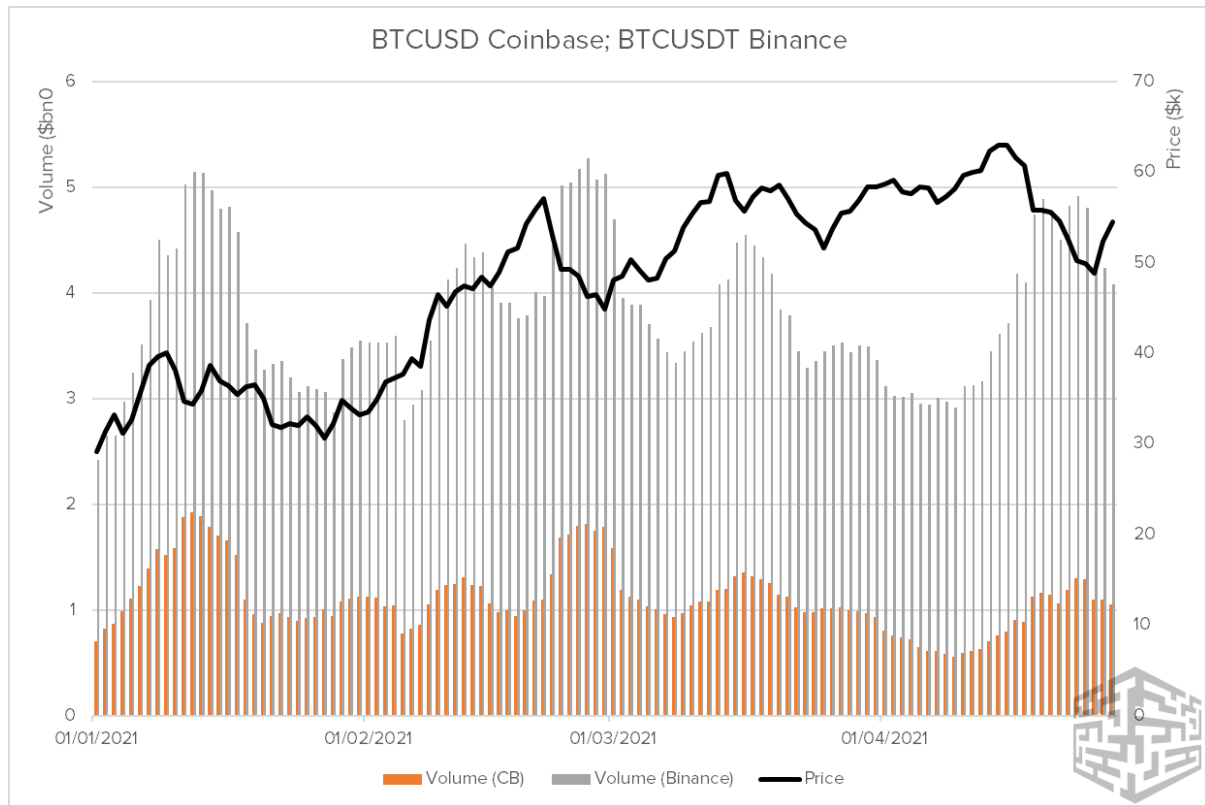
Ticker	Price	7D	1M	6M	12M	Cap
BTC	54865	-0.8%	-4.7%	297.8%	522.2%	1.026T
ETH	2718.36	12.9%	49.8%	603.2%	1183.0%	314.4B
LTC	253.95	-4.9%	31.3%	355.7%	440.0%	16.95B
BCH	885.66	-6.7%	71.3%	238.5%	248.3%	16.58B
EOS	5.877	-10.8%	37.4%	132.5%	104.7%	5.61B

### Selected

Ticker	Price	7D	1M	6M	12M	Cap
ADA	1.313	5.4%	9.3%	1311.0%	2479.0%	42.03B
DOT	33.70	-5.2%	-1.9%	705.7%	1059.0%	31.45B
LINK	35.86	-4.8%	28.3%	220.1%	856.5%	15.08B

# Retail sentiment and the BTC/ETH divergence

To start with, let's take our usual basic reference points - volumes on Coinbase for the BTCUSD pair, and on Binance for the BTCUSDT pair.

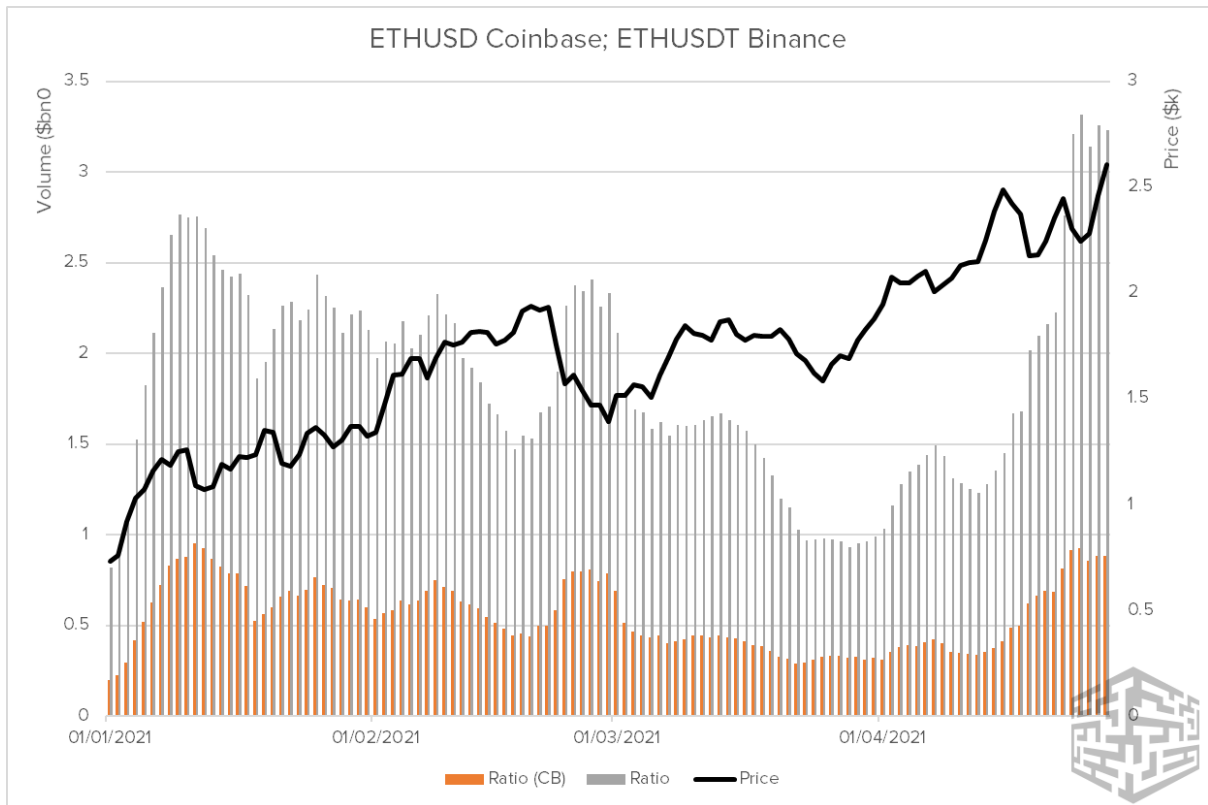


*Data via Tradingview. 7-day average volume.*

While we are not quite at a nadir (note how Coinbase volumes dropped significantly under \$1bn a day for a sustained period in late March/early April for the first time since January), action lately has been lower than most of January and February (and is turning downwards), with most significant volume coming on significant down days (the flash crash on April 18th, which was not caused by but nonetheless did provoke some spot selling, and the dip below \$50,000 for the first time since early March on April 23rd).

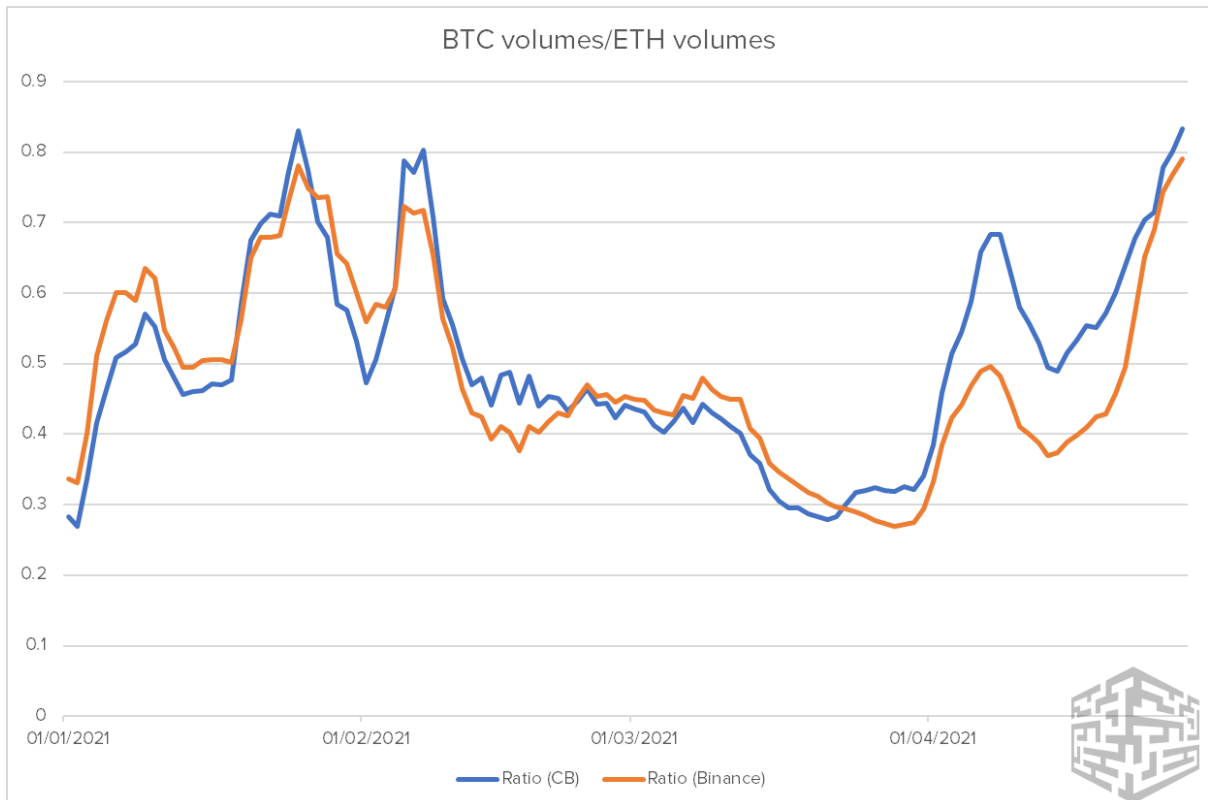
Binance volumes (which, as always, are higher than than CB) have held up somewhat better - Binance wasn't really part of the institutional/HNWI rush in January, which does help with regards to that comparison. Nonetheless: not exactly the fullest picture of health with regards to the demand side of things - there's no continued rush to get out, sure, but there's also no stampede to get in, which isn't the most comforting of sides with regards to the short-term outlook.

However, here's the thing: the picture isn't the same on every crypto asset that these exchanges offer. For instance, let's look at ETH on both.



Data via Tradingview. 7-day average volume.

Here, we see a very different picture. To put it in starker contrast, let's look at the simple ratio of volumes on BTC vs. ETH in both cases:

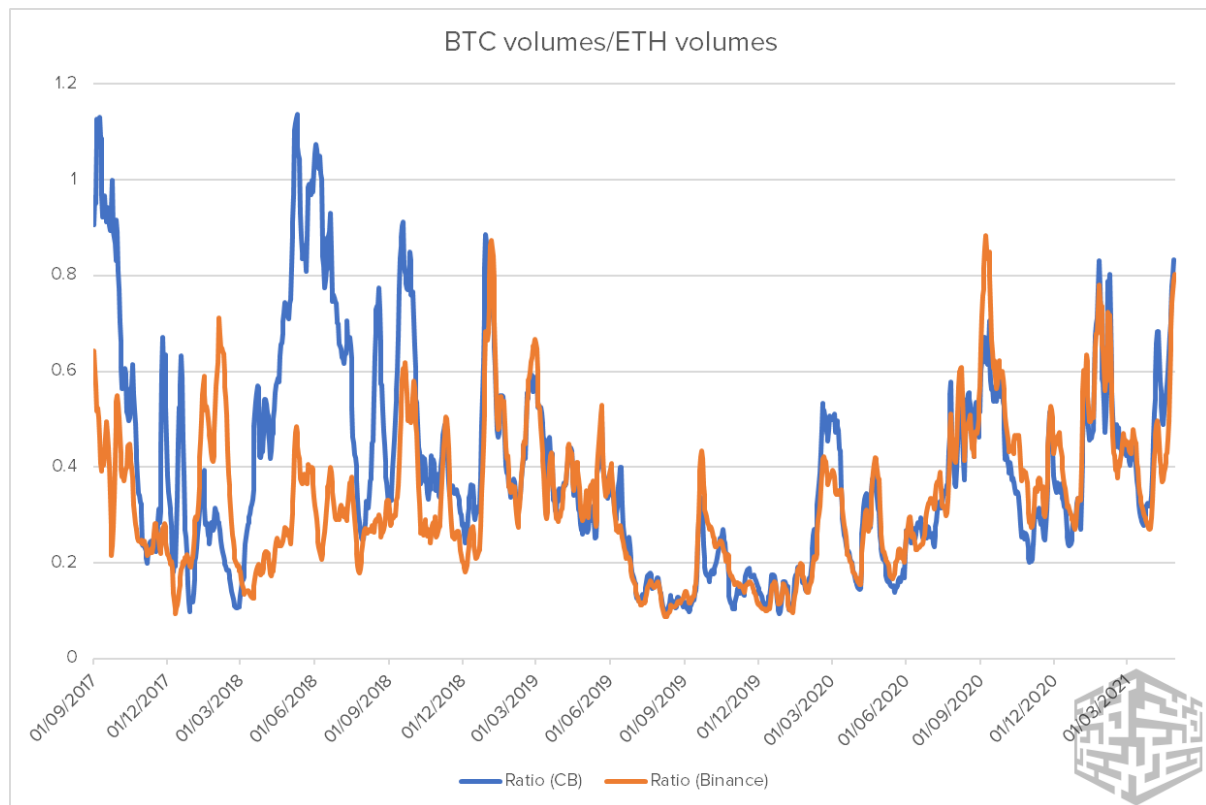


*Data via Tradingview. 7-day average volume.*

There's an old term in crypto - 'flipping'. It's a portmanteau of 'flip' and 'happening', and it initially started popping up in 2017, as Ethereum started to put in substantial gains against Bitcoin, and the possibility that Ethereum could overtake Bitcoin to the point of a) replacing it as the dominant cryptocurrency, b) effectively obsoleting Bitcoin in the process.

The term was back then principally used in reference to the comparative market caps of the two assets; ETH reached 61% of BTC's market cap in July 2017 (before falling back), and 72% in February 2018. (It's today at 31%). Over the last few years, its meaning has generally expanded to the point that it can be used in reference to anything, in terms of any metric, overtaking anything else, in terms of the same metric, in the crypto space.

We say all of that just to make clear what everyone means when we say: as it stands, in terms of volumes, ETH is very, very close to flipping BTC on the major retail exchanges (on a 7-day basis). It has never done this on Binance, and the last time that it did so on Coinbase was September 2017 (back when Coinbase was one of the only halfway-reputable exchanges to offer actual liquid fiat markets for ETH purchases, as opposed to forcing one to buy BTC first). Graphing out that relative ratio since September 2017 makes it clear just how big that recent surge has been; while not unprecedented (we saw similar figures on the Binance side in particular during DeFi summer), it is notable:

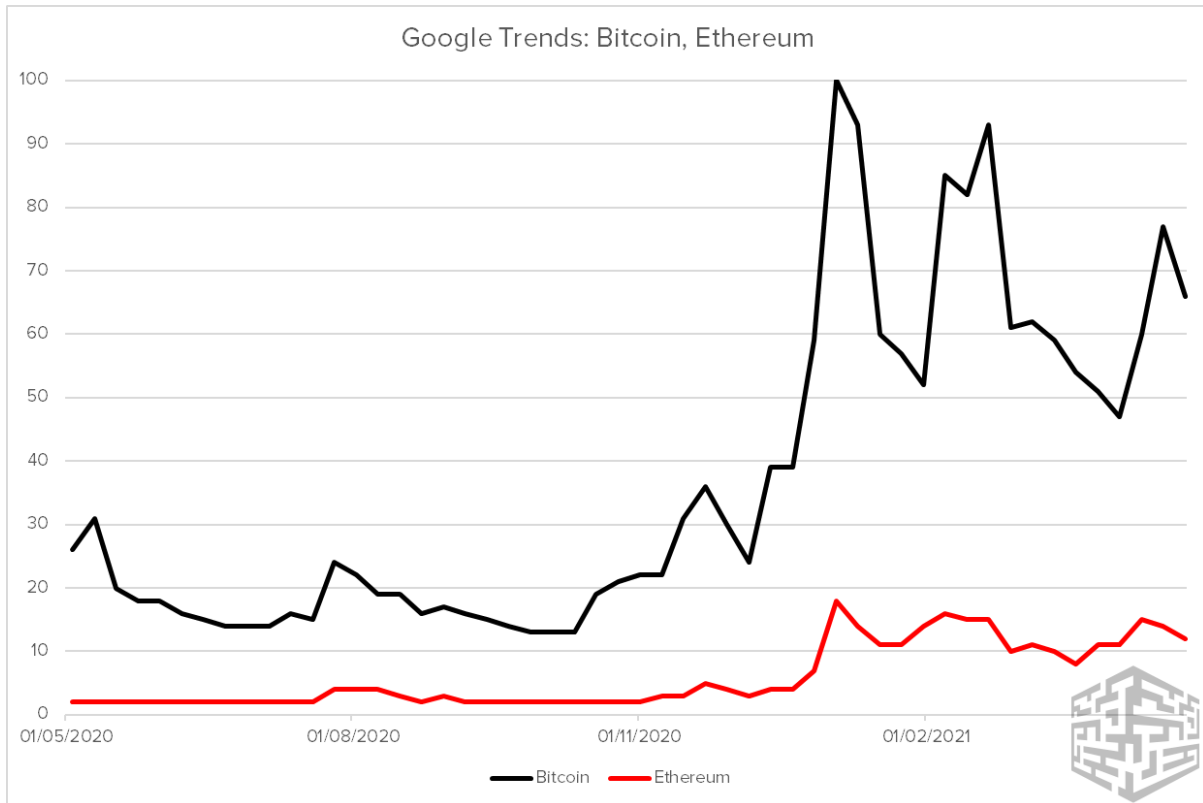


*Data via Tradingview. 7-day average volume.*

Now, we should make clear here: nobody is talking about ETH 'flipping' BTC in absolute terms anymore. Apart from anything else, the general perception in the space back in 2017 was that the two were fairly direct competitors - there would be one grand network, one coin to rule them all, and everything else would fall away. It's now more generally understood that, in reality, the two fulfill very different niches, mainly because we've generally moved beyond extremely crude ideas about either BTC or ETH becoming a monopolistic global currency and instead now see how an incredibly reliable

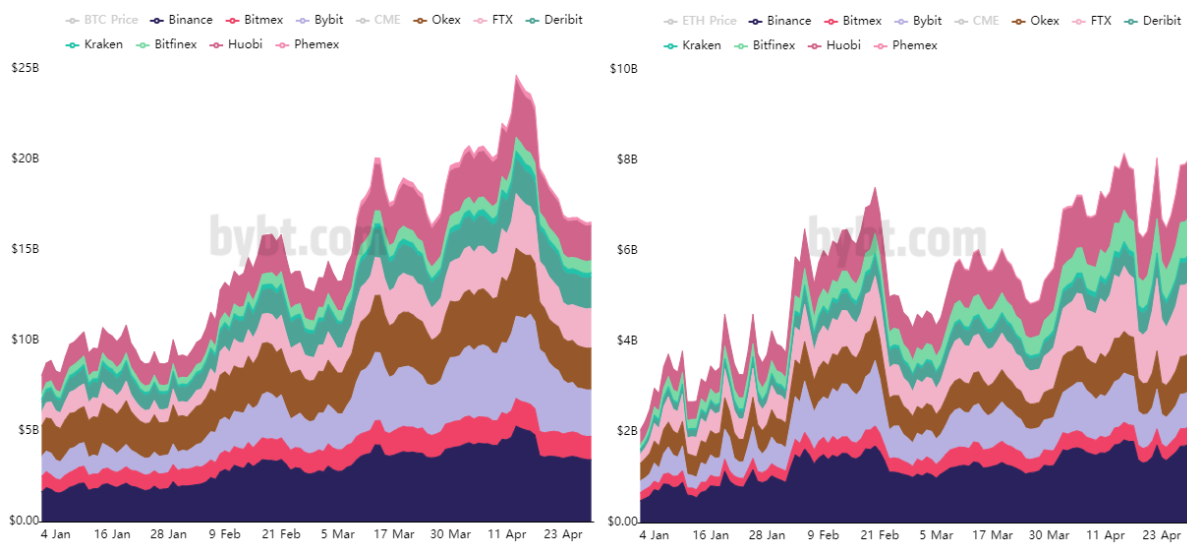
(but slow and immutable) asset might have a different use case to the world-computer-cum-future-of-finance asset.

The interesting part here is that interest for ETH specifically, as measured by Google trends data, has increased, but remains significantly below BTC (and below both's year-open mark)



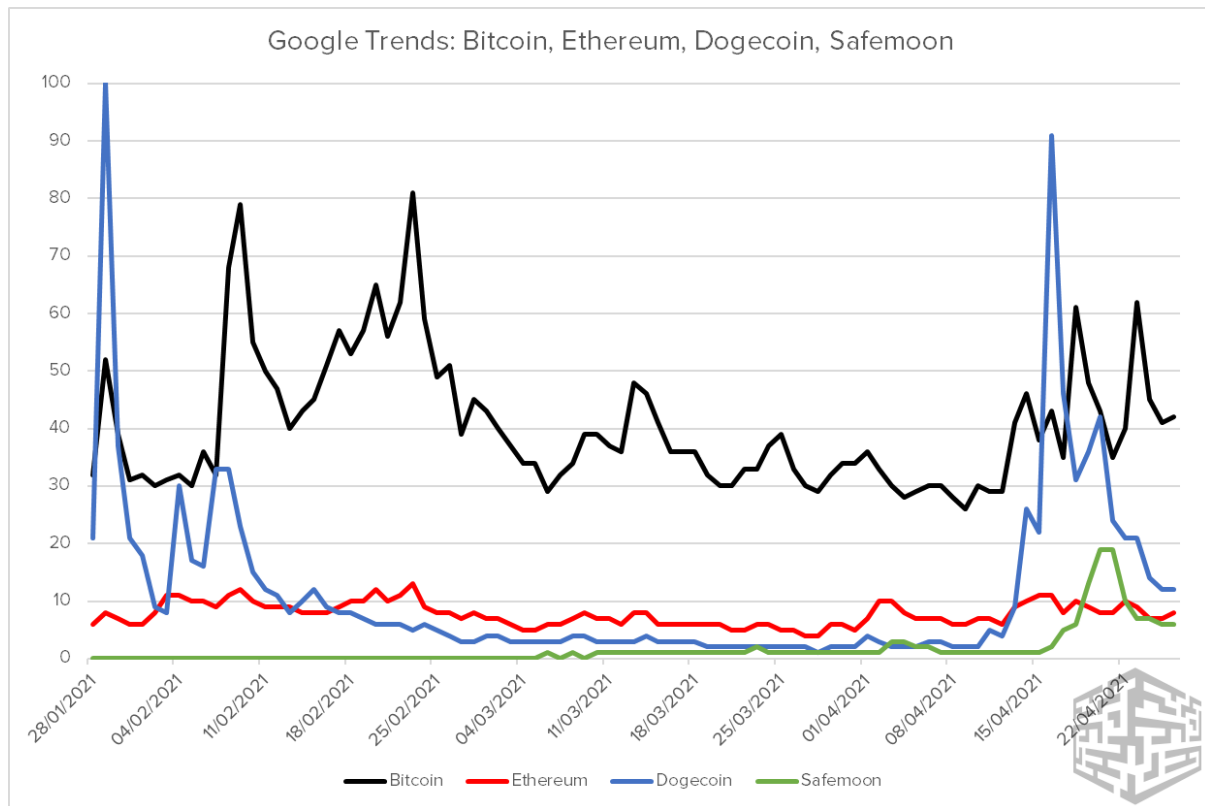
Data via Google Trends.

Derivatives open interest similarly has held up better on ETH than on BTC recently (the action over the last two weeks has wiped around \$8bn off retail BTC markets), but hasn't quite taken off like spot volumes have:



Credit: bybt.com

What's explaining the discrepancy? Well, let's add another couple of 'assets' to our trends check:

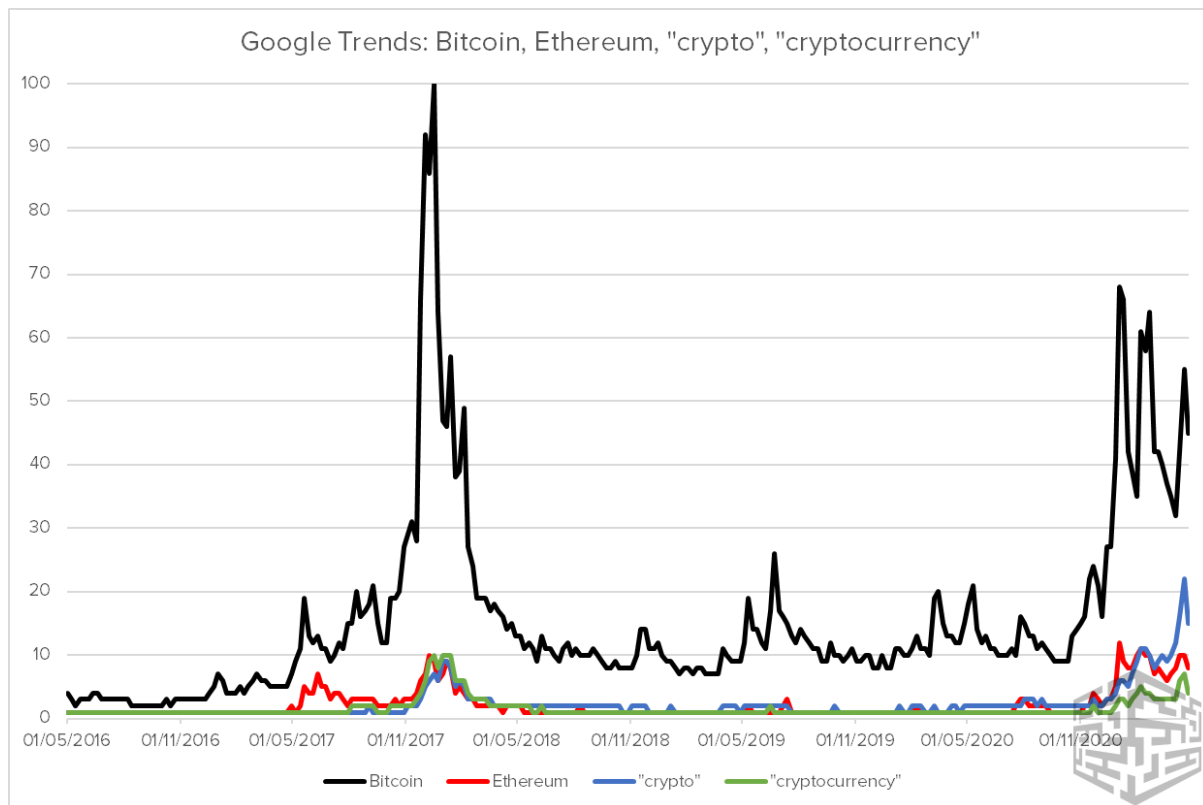


Data via Google Trends.

Dogecoin is Dogecoin, and I refuse to explain it any further; read last week's issue for that. Safemoon is an out-and-out Ponzi scheme that has received alarmingly existent coverage from the UK press in particular over the last few weeks, rode off the Dogecoin hype to reach 1500% nominal gains in the week leading up to April 20th, and proceeded to drop 70% in the next three days.

For a time, Safemoon 'flipped' Ethereum in terms of Google trends, which brings us all through to our general view of what's going on right now - something of a good news, bad news, ugly news scenario.

The good news: interest in crypto, in general terms, is increasing. In fact, to go back to that trends data again, terms like 'crypto' and 'cryptocurrency' are at far, far higher peaks right now than they ever saw in 2020; it's still a fraction of searches for 'bitcoin', of course, but it's noticeable (and larger than 2017's peak):



Data via Google Trends.

It all feels very similar to both 2017 and 2019 in a lot of senses. Remember: in both cycles, a large part of the BTC boom was conducted on the basis not of particular excitement in BTC itself (especially in 2019), but in the simple necessity of acquiring BTC to interact with other things within the crypto ecosystem (and let's have no romanticism about that - there were your Ethernets and Ripples within that definition, but there were also your Bitconnects and PlusTokens).

ETH and BNB are currently in the same situation as BTC was back then. Ultimately, there's good and bad to that. It does of course tend to paint a picture of retail sentiment slowly, but inexorably, building up positively, and does create a scenario where we could see a very rare scenario playing out wherein ETH/BNB/etc. are able to maintain a positive trajectory in spite of BTC's relative underperformance. (for some perspective, ETH has only made gains in a down month for BTC on 7 out of 25 occasions since 2016, and only 4 out of 19 times since February 2018; the outright divergence in April is one of the largest such gaps within that short record).

The ugly news - and it's news that we in truth largely already know - is this: this cycle is not going to be different from the rest. We have seen a growing trend in recent weeks and months of people asserting that this time, things are different; with institutional participation, the beast has been tamed, and we aren't going to see the characteristic highs and lows of previous crypto cycles.

There is a slight case to be made on that for Bitcoin, at least with regards to not seeing a \$20,000->\$30,000 move again. (The fact that MicroStrategy would theoretically go bankrupt at a Bitcoin valuation of a little under \$20,000 is worth bearing in mind). However, it is not true of broader crypto markets, at all. What we're seeing in terms of every facet of these markets is substantially the same as what we saw in every single previous run - a little cleaner in places, a little more complex in others, but the same impulses, the same trends, the same basic principles at play.

For now: all is well, and the fact that there does appear to be a road for ETH to continue its outperformance in the context of what we tend to think will be a weak BTC market short-term is





encouraging. Just don't get fooled; cycle-wise, nothing is different this time, and all that has come before will come again.

***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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