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De-Coding Crypto

Enigma Weekly

19th August 2020

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Our Market View

May you live in interesting times. Not the most lively of weeks; we did appear to break resistance on Monday at $12,200 (topping out just under $12,500), but ultimately fell back into range above $11,400. Our research this week discusses the question of retail sentiment and momentum in more detail, but the short version is that while we're not actively betting against higher even in the short-term, it does seem that we've stalled out somewhat and that resistance here is going to prove to be stronger functionally than expected.

Similarly, ETH is technically up on the week, but has also disappointed, reaching over $440 before struggling somewhat. We tend to be more optimistic than with BTC - it has had, and will continue to have, an easier time moving upwards with its DeFi links and lower base - but we still are tempering expectations in the extreme short-term somewhat, and would be concerned if a break back below $400 were to manifest. We should still say that medium and long-term views on both assets remain hyper-bullish; we are talking about horizons of weeks here, not months.

Alts mostly quiet. LTC and EOS both saw short-term bumps; EOS rose along with several other coins generally in the ETH-alternative space, while LTC's was connected to progress on MimbleWimble integration (on track for a September launch); there's potential for some further short-term upside in both over coming weeks, although we remain sceptical on longer-term prospects in both cases (and EOS finds itself down significantly on the initial breakout already).

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

Major

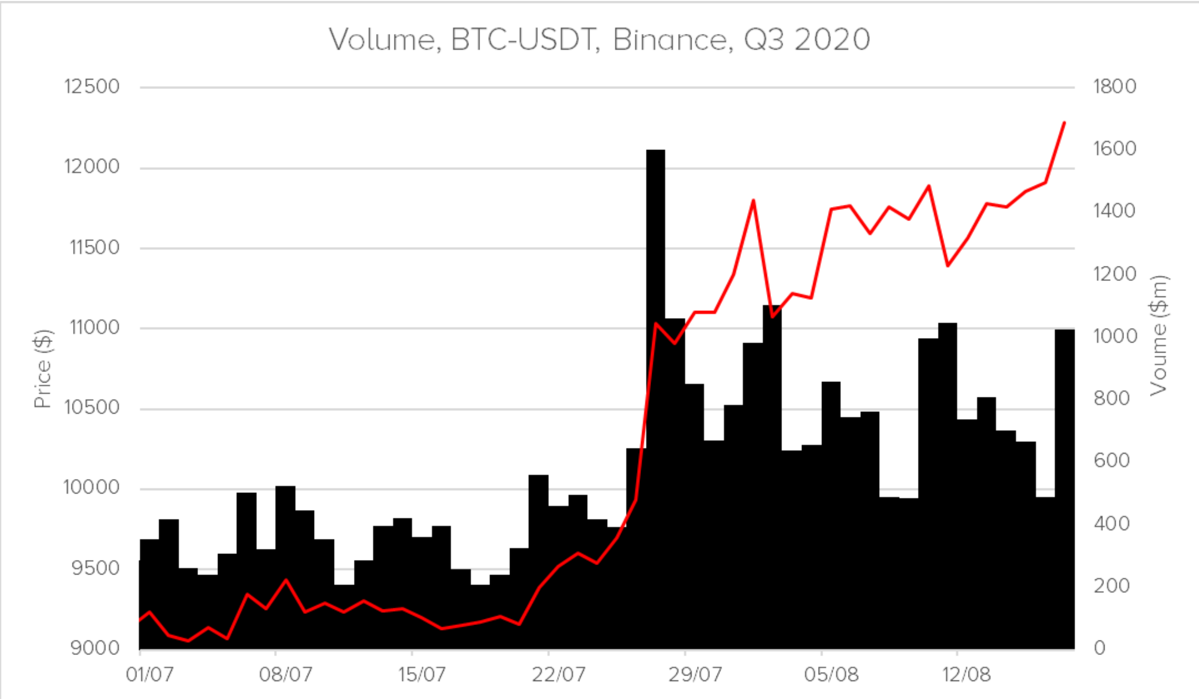
Ticker	Price	7D	1M	6M	12M	Cap
BTC	11786	2.15%	28.50%	21.77%	13.14%	217.6B
ETH	408.39	6.28%	72.79%	55.56%	109.70%	45.84B
XRP	0.29165	3.94%	49.82%	6.01%	5.16%	13.11B
BCH	293.15	4.22%	31.69%	-21.56%	-7.26%	5.42B
LTC	61.24	12.86%	45.91%	-18.26%	-18.88%	4.00B
EOS	3.3990	13.30%	32.32%	-17.49%	-7.68%	3.19B
Selected						
Ticker	Price	7D	1M	6M	12M	Cap
LINK	16.8956	10.29%	134.00%	311.50%	654.90%	5.91B
ADA	0.13149	-1.10%	11.64%	125.00%	163.30%	3.41B
XTZ	3.7443	-11.57%	35.32%	13.09%	219.00%	2.74B

Retail spot and derivatives latest: ‘higher than Dec 2017’?

Last Monday, Binance made a somewhat extraordinary claim. In the words of CEO Changpeng Zhao: "We are seeing ATH in terms of system traffic. Higher than Dec 2017. Should be interesting to see what happens next."

As tends to be the case with exchange CEOs and such claims, it was taken with a pinch of salt almost universally; after well, web traffic is near-unverifiable as a measurement anyway. It does, however, prompt some examination on what has been happening recently with spot volumes, and in particular, on the question of whether retail interest is now; we've long held that both 2020 rallies have owed a lot more to institutional inflows than retail, and that a retail boom is an essential precondition as we move into territory where, for all intents and purposes, we are effectively challenging all-time highs at around $14,000.

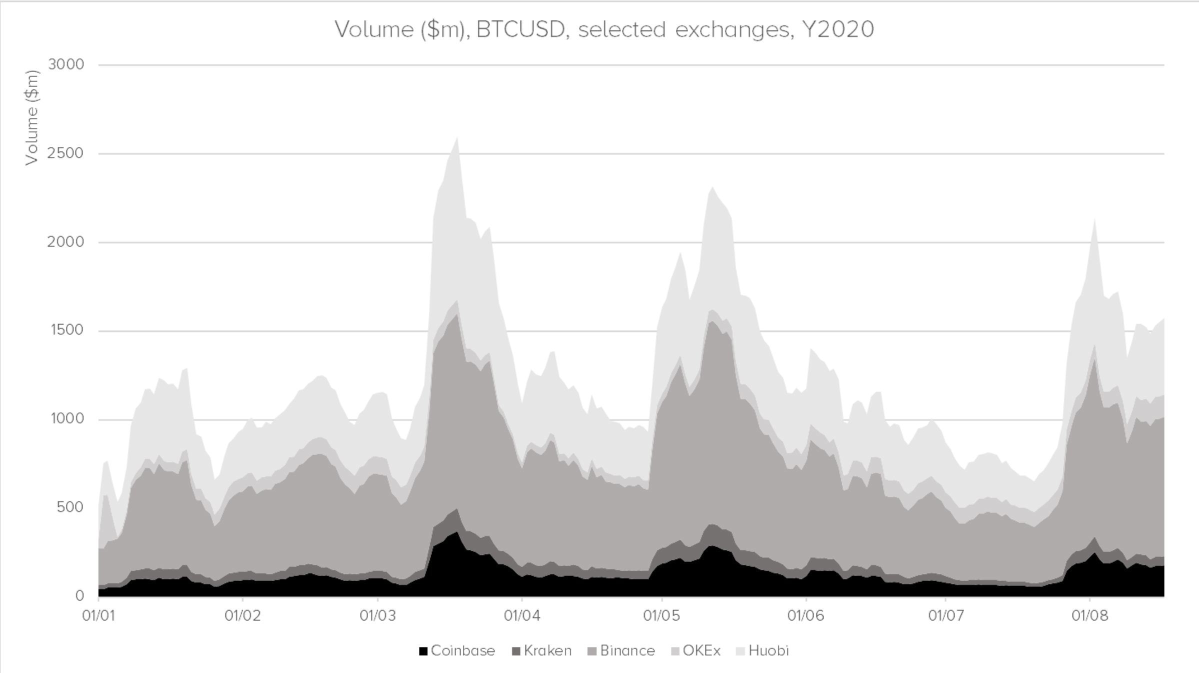
Let's start with Binance itself:



Data: BTCUSDT, Binance.

Monday was indeed a significant day for Binance, with just over $1 billion in volume on the BTCUSDT pair; however, it was far from a paradigm break, being the fifth-such day in Q3 2020, the 22nd in 2020 as a whole, and the 31st overall since the exchange’s inception in July 2017 (this does mean that volumes were in the end higher than December 2017, but bear in mind that it was a relative minnow for much of that run; they are lower by comparison than June 2019). In more general terms, volumes have been on the higher side since the breakout, and are above what we saw at the peak in February (and more than double that of those seen in the doldrums of June and July), but remain below both March and May's peaks.

This pattern tends to hold across the major retail spot exchanges:



Data: BTCUSD or equivalent pairs with highest volume for selected exchanges.

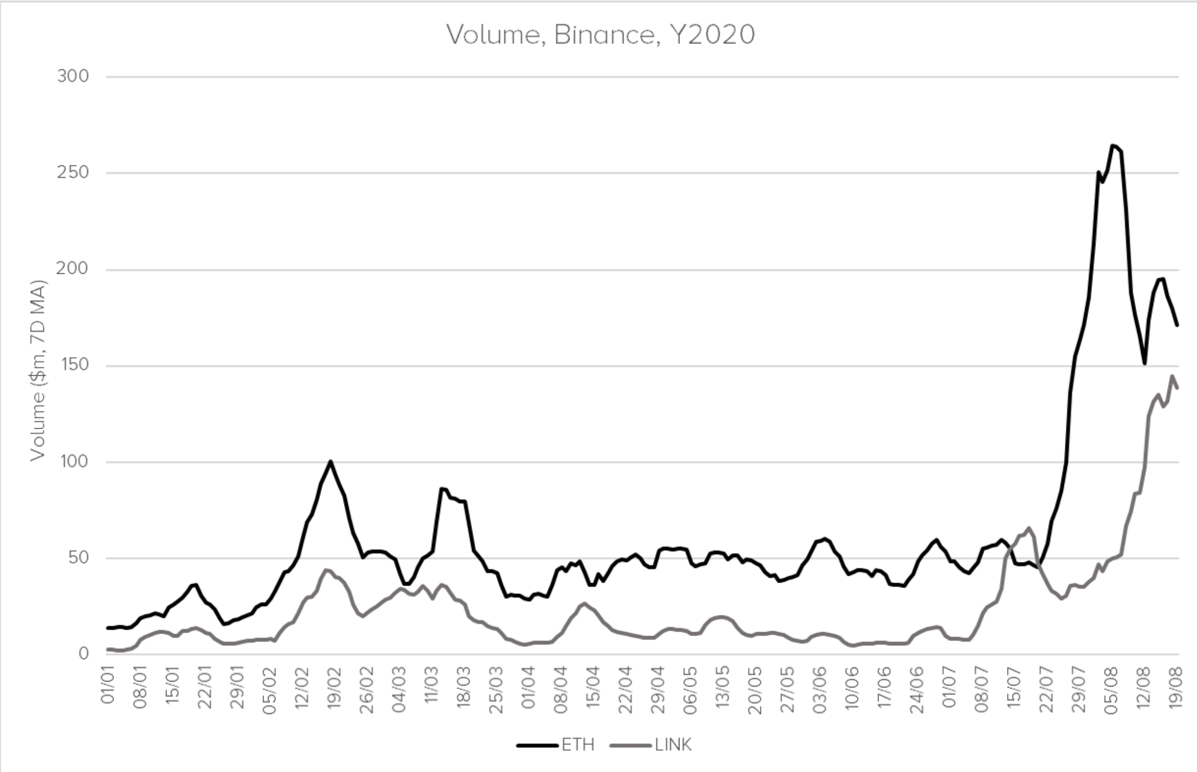
While there was a definite rush to market on the breaks of $10,000 and $10,500, this hasn't been fully sustained. For some idea of comparison, the following are all the times since February 2018 where price has increased by 20%+ in a week, and the change in volume over the ensuing week:

Date	Close ($)	Price change, -7d to 0d	Volume change, 0d to +7d
12/02/18	8872	28.49%	24.10%
24/04/18	9645	22.21%	38.26%
20/12/18	4075	24.82%	-2.59%
02/04/19	4902	24.97%	79.93%
11/05/19	7220	25.13%	135.11%
22/06/19	10667	20.45%	112.27%
05/08/19	11819	24.43%	21.77%
30/10/19	9164	22.59%	-50.09%
19/03/20	6186	27.37%	-12.35%
29/04/20	8794	23.22%	47.64%
27/07/20	**11049**	**20.61%**	**33.18%**
01/08/20	**11810**	**21.61%**	**-20.31%**

Data: BTCUSDT, Binance. Based on earliest day in sequence.

The situation of course is by no means horrible, and certain venues have held up better than others (particularly Binance), but peak volumes so far have been lower than March and May (but better than February), and in general we've seen weaker volume growth than we have on similar previous breakouts, with things seemingly going in the wrong direction over the last couple of weeks.

Of course, the general elephant in the room here is that, as we mentioned last week, BTC has so far been the passenger in this run; have we seen something different, then, in terms of assets such as ETH or LINK?



Data: Tradingview, ETHBTC and LINKBTC, derived USD.

The answer: yes and no. Yes, in terms of there having been a surge that has far more substantially been sustained (even if we converted back into the native token's volumes), but also no, in terms of us mostly slipping back from a local peak despite recent activity, especially on ETH (and we should note here, for reference: despite the hype, ETH's very best periods in terms of volume remain below BTC's worst in 2020).

What about derivatives? As we've said in the past, one of the big points of interest with regards to BTC going forward, and its place in retail derivatives markets, was the question of open interest. The run in January and February was fueled at least in a secondary role by a significant uptick in those markets as represented by a surge in open interest, and Black Thursday saw around $1bn of positions wiped out in a single day (overwhelmingly due to liquidations rather than positions being closed 'normally'), and even as price itself recovered, OI was on the low side.

Where, then, do we stand today? First of all, comparing to the absolute peak of February's run (price topped either side of it, but Valentine's Day itself marked the absolute peak for OI itself):

	$ (m)		BTC		Change	
	14-Feb	18-Aug	14-Feb	18-Aug	$	BTC
BitMEX	1684	1019	162399	85226	-39.5%	-47.5%
OKEx	1467	1227	141473	102622	-16.4%	-27.5%
Huobi	972	716	93736	59884	-26.3%	-36.1%
Deribit	372	279	35874	23335	-25.0%	-35.0%
Binance	248	508	23916	42487	104.8%	77.7%
Bybit	241	464	23241	38807	92.5%	67.0%
FTX	139	219	13405	18316	57.6%	36.6%
Total	**5123**	**4432**	**494045**	**370677**	**-13.5%**	**-25.0%**

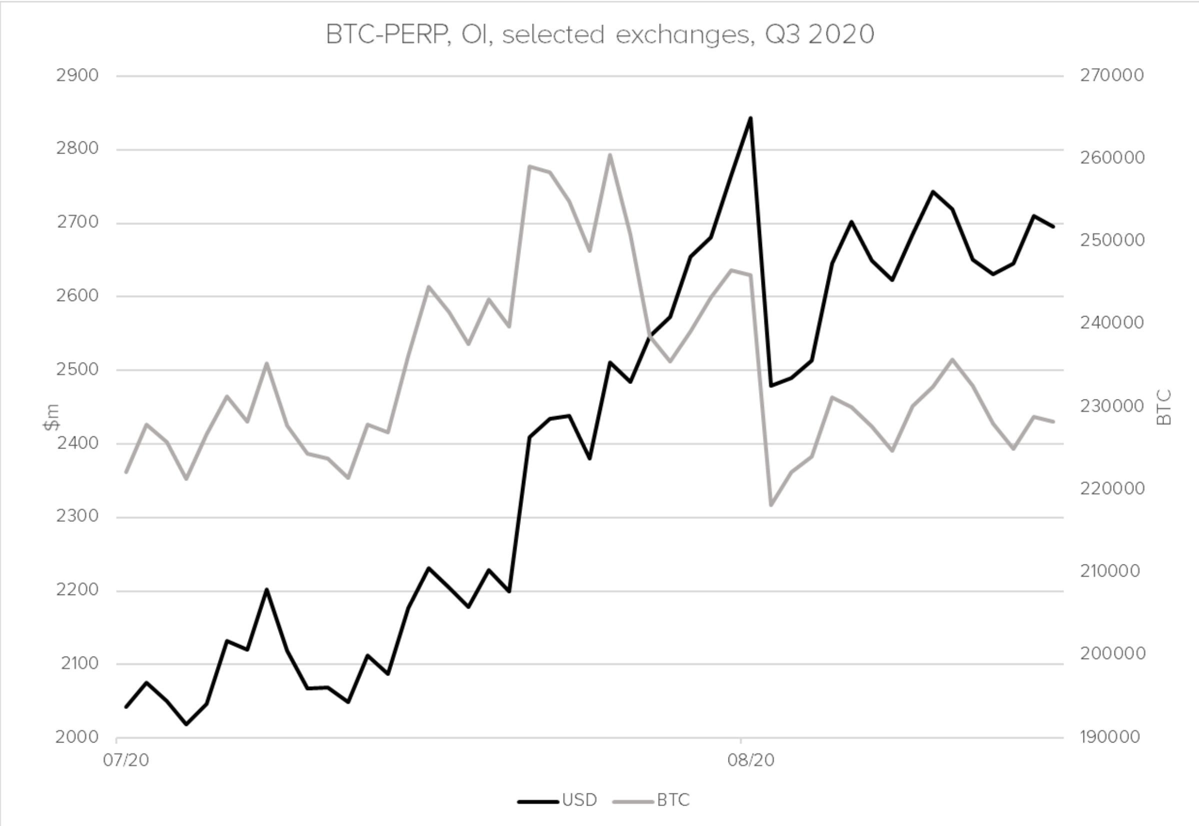
Data via Skew.

In terms of an aggregate of major venues, we are now at very similar levels, but we are still slightly below the previous peak in both USD and BTC terms. Note, however, how a number of major venues have failed to attract OI back since February and March.

In BitMEX's case, we can chalk a lot of it towards a specific acquired distaste for the venue itself; failures in its liquidation engine were nearly single-handedly responsible for much of the second leg of the Black Thursday crash (from $5900 to $3900), and that combined with unpopular administrative moves (a long-rumoured introduction of KYC verification was finally announced last week, and parent company HDR Global Trading rebranded and restructured in July - to 100x Group - as part of an apparent exploration of possibilities outside of crypto), have driven retail traders elsewhere.

OKEx, Huobi, and Deribit all being so far below their previous peaks, however, are somewhat more surprising. We would tend to say that this suggests that there is still a significant degree to which essentially 'endemic' money, particularly in Asian regions, has simply not returned to BTC since Black Thursday.

In terms of recent movements:



Data via Glassnode. Aggregate OI for BTC perpetual swaps on Binance, BitMEX, Deribit, FTX, Huobi.

Interestingly, in BTC terms, the local high for OI was on July 21st (the day before ETH broke resistance at $250, and several days before BTC started moving); since then, we have been up in USD terms, but even post-break have only seen relatively modest increases in BTC terms. Again, this doesn't seem the best sign with regards to how quickly we might end up gathering momentum upwards in the short-term.

There are a few conclusions we take from all of this:

1) Despite everything that's happened recently, retail interest in BTC and broader crypto markets remains relatively low at this point compared to both 2017 and 2019.
2) Shorter-term, this may tend towards a bearish influence; the successive failures at $12,000 are becoming a concern, (i.e. rejections won't be too violent), we may be in for another extended period of low volatility with $12,500 as a temporary top.
3) That being said, we're unlikely to see a retrace below the breakout point (institutional buyers are continuing to move in at these levels), and medium and long-term pictures continue to be bullish, perhaps even moreso (in simple terms: a lot of money remains on the table)
4) Both BTC and ETH have been trending towards important support levels over the last few days ($11,400 for BTC, $400 for ETH); reaction on further tests at those levels will be important. While we tend to take the bearish interpretation of these numbers to probably be more accurate, it has to be noted that volumes reached their absolute peak in dollar terms at BTC's absolute worst moment of the year in March; a complete lack of negative reaction on tests downward could flip things rather quickly.

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.